

RATING	NEUTRAL
CMP	757
Price Target	792
Potential Upside	5%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	771/738
Mkt Capital (Rs Cr)	77409
Free float (%)	37%
Avg. Vol 1M (,000)	723
No. of Shares (Cr)	102
Promoters Pledged %	NA

Research Analyst

RAJEEV ANAND

rajeev.anand@narnolia.com

+91-22-62701229

Q3FY19 Result update

- ❑ GODREJCP's result for 3QFY19 remained below our expectations; Sales grew by 3% to Rs 2722 Cr (Vs Expect. of Rs 2867 Cr) with domestic volume and value growth of 1% and 6% while International business posted a growth of 1% YoY.
- ❑ The Company's Domestic business grew by 6% YoY with 1% volume growth led by 26% YoY growth in Other Brands while Soap and Hair colour posted a flat growth on account of higher base whereas Home insecticide (HI) category was impacted by seasonality and higher competitive intensity from illegal incense sticks.
- ❑ In International front, Indonesia delivered a sales growth of 7% in cc terms while witnessed mixed performance in GAUM cluster up by 4% YoY with gradual recovery in Kenya, satisfactory performance from ex-South cluster but South Africa remained Subdued.
- ❑ The Company's Gross margin declined by 93 bps to 56.2% YoY (Vs Expect. of 56.4% YoY) due to increase in crude oil prices and currency depreciation while the Company managed its EBITDA margin to 22.4% YoY driven by cost saving initiative taken by the company.
- ❑ To counter competition in domestic market, the company has launched naturals neem incense stick in Andhra Pradesh and Telangana.
- ❑ PAT stood at Rs 423.5 Cr posting a de growth of 1% (Vs Expect. of Rs 478 Cr) mainly on account of subdued sales.

View and Valuation

GCPL's numbers for Q3FY19 remained below than our expectations, sales were up by 3% YoY to Rs 2722 cr while PAT declined by a percent to Rs 424 cr. Domestic volume grew by 1% (expec. 6%) on the back of largely flat growth in Hair color, soaps and Home Insecticide business although on a higher base of ~18%. GAUM cluster maintained its slower pace and grew by 4% in cc terms. Going forward, we do not see South African business stabilizing soon on the back of macroeconomic headwinds and rising competitive intensity although company is launching LUP's. Volatility in crude and currency depreciation in Latin America will remain overhang on overall margin. On domestic front, continued stress in Home Insecticide business (for last two years) with increase in competitive intensity from incense stick makes us little optimistic about this business albeit management is taking corrective measures. Considering all, we continue to maintain neutral stance on GCPL with previous target price of Rs 792.

Key Risks to our rating and target

- ❑ Sharp improvement in International business margins
- ❑ Quick turnaround in South African market

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	8424	9268	9843	10651	11958
EBITDA	1636	1898	2067	2198	2553
EBIT	1535	1756	1911	2026	2380
PAT	1086	1308	1494	1662	1794
EPS (Rs)	11	13	15	16	18
EPS growth (%)	18%	20%	14%	11%	8%
ROE (%)	19%	25%	26%	26%	23%
ROCE (%)	22%	20%	22%	21%	25%
BV	42	52	61	70	78
P/B (X)	12	11	12	11	10
P/E (x)	46	43	48	47	43

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Narnolia Financial Advisors Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

**3Q FY 19 Results
Below Expectation**

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	2,630	2,529	2,476	2,659	2,722	3.5%	2.4%	808	812	0.4%
Other Income	36	29	31	26	23	-37%	-12.8%	0	1	203.2%
COGS	1,126	1,038	1,095	1,256	1,191	5.7%	-5.2%	533	539	1.1%
Gross Margin	57%	59%	56%	53%	56%	-0.9%	3.5%	34%	34%	-0.5%
Employee Cost	226	182	209	256	217	-4.1%	-15.2%	51	54	6.5%
A&P expenses	280	275	296	257	279	-0.3%	8.8%	-	-	-
Other Exp.	399	438	432	404	418	4.9%	3.5%	164	153	-6.6%
EBITDA	589	597	444	487	609	3.3%	25.0%	61	66	8.0%
EBITDA Mar.	22%	24%	18%	18%	22%	0.0%	4.1%	8%	8%	0.6%
Depreciation	40	40	42	43	43	7.8%	0.3%	17	18	8.7%
EBIT	549	557	402	444	566	3.0%	27.4%	45	48	7.8%
Interest	39	42	48	61	58	50%	-6%	4	0	-94.4%
PBT	547	543	385	409	531	-2.9%	29.8%	40	49	21%
Exceptional	2	(194)	6	(260)	(6)	-397.5%	-97.7%	(4)	-	-100%
Tax	115	120	(26)	91	113	-1.3%	24.3%	17	17	1%
PAT	430	617	405	578	424	-1.5%	-26.7%	28	32	14%
PAT Margin	16%	24%	16%	22%	16%	-0.8%	-6.2%	3%	4%	0.5%

Erratic monsoon in Southern and Eastern India impacted domestic HI business

Erratic monsoon in Southern and Eastern India impacted company's domestic sales in 3QFY19 wherein GODREJCP posted a flat sales growth in Home insecticide business. The Company witnessed soft quarter on account of 44% less rainfall during (Oct- Nov period) below normal condition wherein Southern region which contributes 30% to the HI business witnessed a deficient rainfall to the extent of 47%, 57%, 65% and 22% in the states of Karnataka, Andhra Pradesh, Telangana and Tamil Nadu. Moreover, the Company also faced competitive intensity from illegal incense stick which in-turn led to flat sales growth in HI. Thus to overcome the competitive scenario the Company launched naturals neem incense stick in Andhra Pradesh and Telangana. However, the Non HI Portfolio which consist of Soaps and other brands posted a growth of 2% and 26% YoY while, Hair colour posted a flat growth on account of Higher base in previous quarter.

Weak International business margin impacted the company's Overall margin

The Gross margin of the company deteriorated by 93bps to 56.2% YoY on account of decline in International business margin. Adjusted EBITDA margin of Indonesia contracted by 160 bps led by impact of crude oil and upfront marketing and trade promotion investments. For GAUM and others business adj. EBITDA margin contracted by 80 bps and 1520 bps which deteriorated the overall Gross margin of the company. The Overall EBITDA margin was maintained on account of cost saving initiative and performance of Domestic business.

Concall Highlights

- ❑ The Company expects profitable growth on the back of new launches, distribution expansion and cost saving initiatives.
- ❑ The management is optimistic on improvement on gross margin sequentially going ahead.
- ❑ The company continues to improve market share in soap segment in domestic market on the back of effective micro-marketing initiatives, focus on new states and strong on-ground execution.
- ❑ Illegal Incense stick impacted about 4-5% of the growth of home Insecticide (HI) category.
- ❑ The Company witnessed 5% price led growth in the quarter which is expected to go down in coming quarters.
- ❑ The Company's Indonesia business is expected to deliver double digit growth with margin expansion backed by 4 new launches in 4QFY19.
- ❑ In Indonesia, the company has cross pollinated HIT anti roach spray from India to expand the HI portfolio.
- ❑ In GAUM cluster the Company expects positive result from Africa from 4QFY19 onwards. FY20e is expected to be much better on the back of benign base and new launches.
- ❑ In order to overcome the competitive intensity in Africa the company launched LUPs at lower price points under Darling brand with different Sub brand.
- ❑ The company's next strategy will be to have both lower priced and higher priced range (premiumization) of products under its Darling brand.
- ❑ LATAM witnessed sharp currency depreciation and is expected to continue for few more quarters and then stabilize.

Exhibit: Domestic Soap Business growth

Domestic Soap business remained subdued on account of higher base in previous corresponding quarter.

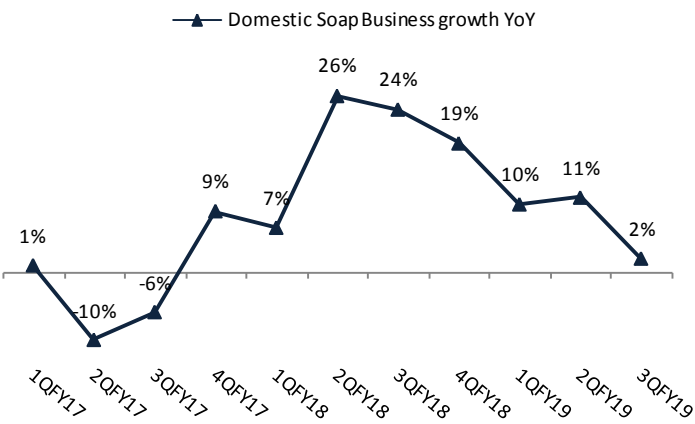


Exhibit: Domestic HI Business growth

Remained subdued on account of less rainfall in South India and competition from illegal incense stick.

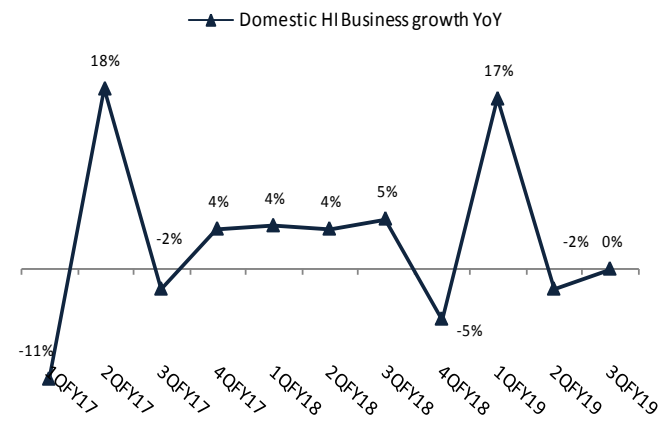


Exhibit: Domestic Hair colour Business growth

Domestic Hair colour business remained subdued on account of higher base in previous corresponding quarter.

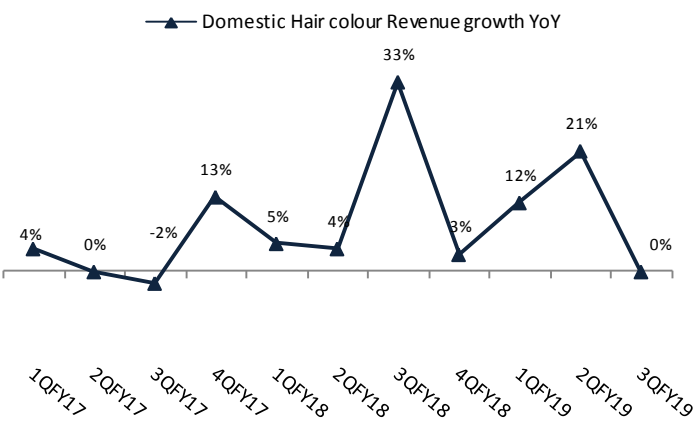


Exhibit: Indonesia Market CC Growth

Indonesia business growth was led by improvement in Household Insecticide.



Exhibit: Sales and Sales Growth

The Company witnessed 1% vol. growth in Domestic market while International business grew by 1% YoY(2% in cc terms).

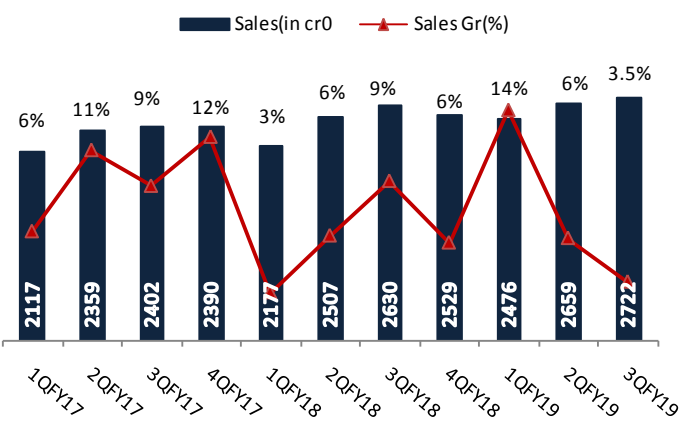
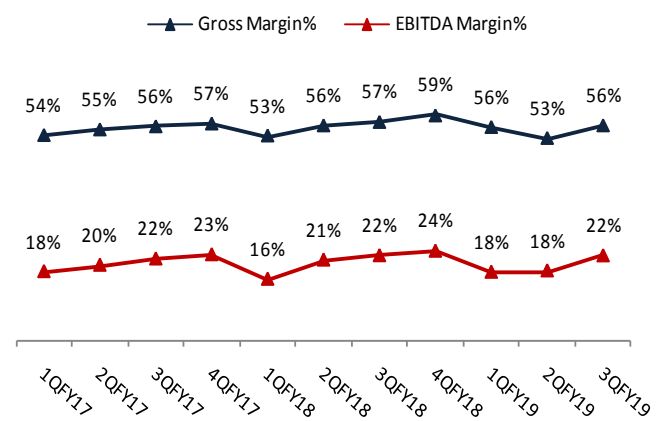


Exhibit: Gross margin and EBITDA margin

Gross margin remained under pressure on account of impact of crude oil and currency depreciation.



Financial Details
Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	34	34	34	34	34	68	102	102
Reserves	3,279	3,741	4,277	4,233	5,268	6,190	7,021	7,846
Networth	3,313	3,775	4,311	4,267	5,302	6,258	7,123	7,948
Debt	1,949	1,702	2,170	2,631	3,341	2,521	2,421	1,721
Other Non Current Liab	33	34	34	313	1,238	1,159	1,159	1,159
Total Capital Employed	5,262	5,477	6,480	6,898	8,643	8,779	9,544	9,669
Net Fixed Assets (incl CWIP)	1,728	1,736	1,732	1,831	3,524	3,680	3,700	3,677
Non Current Investments	-	34	34	-	-	-	-	-
Other Non Current Assets	3,124	3,736	4,287	4,339	4,969	4,884	4,884	4,884
Non Current Assets	4,853	5,506	6,052	6,259	8,814	8,795	8,815	8,792
Inventory	1,047	1,082	1,072	1,307	1,413	1,578	1,707	1,917
Debtors	729	711	805	1,118	1,029	1,246	1,348	1,513
Cash & Bank	748	705	894	613	895	898	1,316	1,354
Other Current Assets	325	320	319	305	830	1,182	1,653	1,897
Current Assets	2,848	2,818	3,090	3,494	4,217	5,168	6,243	6,925
Creditors	1,035	1,234	1,087	1,485	1,724	2,357	2,550	2,863
Provisions	57	56	98	70	90	48	52	58
Other Current Liabilities	1,104	1,298	1,281	315	307	311	337	378
Curr Liabilities	2,197	2,588	2,466	2,533	3,150	4,024	4,354	4,889
Net Current Assets	652	230	624	962	1,067	1,143	1,888	2,037
Total Assets	7,701	8,325	9,142	9,754	13,031	13,963	15,057	15,717

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	6,416	7,602	8,276	8,424	9,268	9,843	10,651	11,958
Change (%)		18%	9%	2%	10%	6%	8%	12%
EBITDA	982	1,150	1,365	1,636	1,898	2,067	2,198	2,553
Change (%)		17%	19%	20%	16%	9%	6%	16%
Margin (%)	15%	15%	16%	19%	20%	21%	21%	21%
Depr & Amor.	77	82	91	101	142	156	172	173
EBIT	905	1,068	1,275	1,535	1,756	1,911	2,026	2,380
Int. & other fin. Cost	77	107	100	119	145	161	219	158
Other Income	68	63	92	84	75	108	120	128
EBT	896	1,024	1,266	1,500	1,686	1,858	1,926	2,350
Exp Item	129	6	(17)	(334)	0	180	259	-
Tax	179	210	272	336	379	405	307	557
Minority Int & P/L share of Ass.	49	60	69	3	1	1	1	1
Reported PAT	796	760	907	828	1,308	1,634	1,880	1,794
Adjusted PAT	693	755	921	1,086	1,308	1,494	1,662	1,794
Change (%)		9%	22%	18%	20%	14%	11%	8%
Margin(%)	11%	10%	11%	13%	14%	15%	16%	15%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	24%	20%	21%	19%	25%	26%	26%	23%
ROCE	17%	20%	20%	22%	20%	22%	21%	25%
Asset Turnover	1	1	1	1	1	1	1	1
Debtor Days	41	34	35	48	41	46	46	46
Inv Days	60	52	47	57	56	59	59	59
Payable Days	59	59	48	64	68	87	87	87
Int Coverage	12	10	13	13	12	12	9	15
P/E	38	38	30	46	43	48	47	43
Price / Book Value	8	8	6	12	11	12	11	10
EV/EBITDA	28	26	21	31	31	36	36	30
FCF per Share	5	10	8	6	16	14	21	20
Div Yield	2%	1%	1%	1%	1%	1%	1%	1%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	896	1,024	1,266	1,500	1,687	1,859	2,187	2,351
(inc)/Dec in Working Capital	(70)	199	(113)	(486)	301	(16)	55	89
Non Cash Op Exp	71	59	63	116	140	196	172	173
Int Paid (+)	77	107	100	119	145	161	219	158
Tax Paid	(207)	(238)	(257)	(336)	(407)	(393)	(307)	(557)
others	53	(23)	(54)	(66)	(61)	(84)	-	-
CF from Op. Activities	820	1,129	1,005	847	1,805	1,723	2,326	2,214
(inc)/Dec in FA & CWIP	(264)	(133)	(190)	(208)	(180)	(311)	(191)	(150)
Free Cashflow	557	996	814	639	1,625	1,412	2,135	2,064
(Pur)/Sale of Inv	16	74	(450)	210	(393)	214	(444)	(200)
others	(618)	(436)	(574)	(605)	(1,597)	(146)	-	-
CF from Inv. Activities	(865)	(495)	(1,214)	(602)	(2,170)	(340)	(636)	(350)
inc/(dec) in NW	-	0	-	0	0	0	-	-
inc/(dec) in Debt	557	(321)	300	142	1,024	(488)	(100)	(700)
Int. Paid	(84)	(113)	(119)	(119)	(124)	(158)	(219)	(158)
Div Paid (inc tax)	(162)	(170)	(179)	(187)	(196)	(613)	(846)	(807)
others	(30)	(29)	(14)	(38)	(40)	(125)	(169)	(161)
CF from Fin. Activities	282	(633)	(12)	(202)	665	(1,384)	(1,334)	(1,827)
Inc(Dec) in Cash	237	1	(221)	43	300	(0)	356	38
Add: Opening Balance	388	624	625	570	595	898	960	1,316
Closing Balance	624	625	404	613	895	898	1,316	1,354

Narnolia Financial Advisors Ltd. is a SEBI registered Research Analyst having SEBI Registration No. INH300006500. The Company/Analyst (s) does/do not have any holding in the stocks discussed but these stocks may have been recommended to clients in the past. Clients of Narnolia Financial Advisors Ltd. may be holding aforesaid stocks.

The stocks recommended are based on our analysis which is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed.

Disclosures: Narnolia Financial Advisors Ltd. (NFAL) (Formerly Microsec Capital Ltd.) is a SEBI Registered Research Analyst having registration no. INH300006500. NFAL is engaged in the business of providing Stock Broking, Depository Participant, Merchant Banking, Portfolio Management & distribution of various financial products. Details of associate entities of NFAL is available on the website at www.narnolia.com

No penalties have been levied on NFAL by any Regulatory/Statutory authority. NFAL, its associates, Research Analyst or their relative may have financial interest in the subject company. NFAL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. NFAL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of NFAL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. NFAL and/or its associates may have received compensation from the subject company in the past 12 months. In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, NFAL or any of its associates may have: a) managed or co-managed public offering of securities from subject company of this research report, b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report, c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report. d) Subject Company may have been a client of NFAL or its associates during 12 months preceding the date of distribution of the research report. NFAL and its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. NFAL and / or its affiliates may do and seek to do business including Investment Banking with companies covered in the research reports. As a result, the recipients of this report should be aware that NFAL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific Merchant Banking, Investment Banking or Brokerage service transactions. Research Analyst's views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of NFAL or its associates maintains arm's length distance with Research Team as all the activities are segregated from NFAL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Analyst Certification The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
---	-----

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

Disclaimer:

This report has been prepared by Narnolia Financial Advisors Ltd. (NFAL) and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of NFAL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NFAL will not treat recipients as customers by virtue of their receiving this report. Neither the Company, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL & its group companies to registration or licensing requirements within such jurisdictions.