

# GODREJ CONSUMER PRODUCTS LTD

## ACCUMULATE

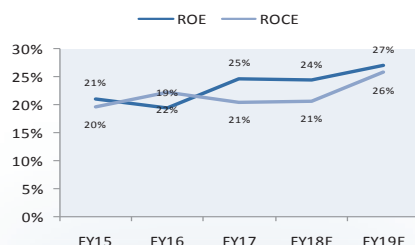
03-Nov-17

INDUSTRY - Con. Staples  
Bloomberg Code- GCPL IN  
BSE Code - 532424  
NSE Code - GODREJCP  
NIFTY - 10424

### Company Data

CMP	978
<b>Target Price</b>	<b>1050</b>
Previous Target	1050
<b>Upside</b>	<b>7%</b>
52wk Range H/L	1084/643
Mkt Capital (Rs Cr)	66,634
Av. Volume (,000)	528

Expect ROE to improve by 245 bps in FY19.

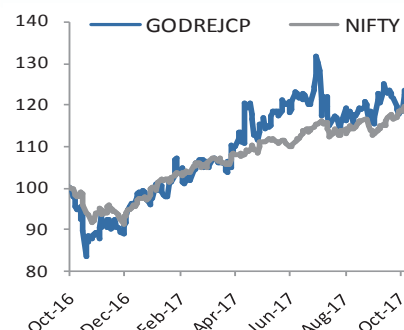


### Shareholding pattern %

	2QFY18	1QFY18	4QFY17
Promoters	63	63	63
Public	37	37	37
Others	--	--	--
Total	100	100	100

### Stock Performance %

	1Mn	3Mn	1Yr
Absolute	7.7	(9.0)	21.8
Rel.to Nifty	0.7	(13.0)	1.1



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### Key Highlights of the Report:

- ✓ GODREJCP has posted a sales growth of 3% YoY (On Comparable basis 10% YoY) and PAT growth of 13% YoY in Q2FY18.
- ✓ Domestic business volume grew by 10% YoY led by Soaps.
- ✓ Gross margin expanded by ~180 bps YoY (comparable basis) due existing cover on palm oil, price hike taken in past, lower consumer offers and cost saving program project PI.
- ✓ International business revenue grew by 9% YoY in Constant currency (CC) terms while EBITDA grew by 10% YoY.
- ✓ We believe that new launches and recovery in domestic market after GST will ensure volume growth while cost saving initiatives like project PI and better product mix will help in maintaining margin going ahead. Presently GODREJCP is trading at 37 times of FY19 expected EPS. We value it at 40x of 19's EPS and maintain our target price of Rs 1050.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	8,276	8,753	9,609	10,153	11,606
EBITDA	1,365	1,636	1,913	2,061	2,480
EBIT	1,275	1,535	1,772	1,911	2,338
PAT	907	828	1,304	1,442	1,791
EPS (Rs)	13	12	19	21	26
EPS growth (%)	19%	-9%	58%	11%	24%
ROE (%)	21%	19%	25%	24%	27%
ROCE (%)	20%	22%	21%	21%	26%
BV	63	63	78	87	97
P/B (X)	6	12	11	11	10
P/E (x)	30	60	43	46	37

### International business highlights:

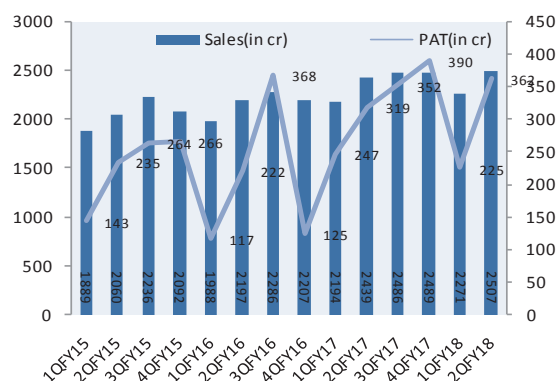
- ✓ International business revenue grew by 9% YoY in Constant currency (CC) terms driven by Africa (up by 13% in CC terms), Latin America (up by 30%) and Europe (up by 15%).
- ✓ Sales from Indonesian business, which accounts for ~13% of overall revenue, declined by 1% in CC terms impacted by higher sales promotion spends in Household Insecticides (HI). EBITDA margin improved by 150 bps led by rationalization A&P spend, Project PI and lower overheads.
- ✓ Sales from Africa, USA & Middle East (~22% of total revenue) grew by 13% YoY CC terms while Hair extensions continue to deliver growth in high-teens in CC terms. EBITDA margin declined by 140 bps YoY backed by A&P investments in scaling up wet hair care portfolio.
- ✓ Latin America and European business grew by 30% and 15% in CC terms respectively.

## Quarterly Performance

Financials	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	2,439	2,486	2,489	2,271	2,507	3%	10%	8,753	9,609	10%
Other Income	17	19	26	24	19	14%	-20%	84	60	-29%
COGS	1,059	1,057	1,034	1,013	1,097	4%	8%	3,867	4,133	7%
Ad & P Expenses	203	192	155	191	212	4%	11%			
Employee Cost	240	256	247	240	262	9%	9%	944	988	5%
Other Expenses	390	381	403	383	393	1%	3%	1,977	2,234	13%
EBITDA	468	517	551	349	532	14%	52%	1,636	1,913	17%
Depreciation	36	36	37	37	39	8%	3%	101	142	41%
Interest	35	40	38	40	40	15%	1%	119	145	22%
PBT	414	447	497	296	472	14%	59%	1,500	1,686	12%
Tax	91	99	115	63	106	16%	67%	336	379	13%
PAT	319	352	390	225	362	13%	61%	828	1,304	58%

## Q2FY18 Result Update:

- ✓ GODREJCP has reported a sales growth of 3% YoY(on Comparable basis 10%) to Rs 2507 cr led by 26%YoY growth in soap segment.
- ✓ Growth for domestic HI and Hair Colours segments remained 4% each for this quarter. HI and Hair Colours segment were affected due to decline in sales of coil and powder hair colour respectively which have higher salience in wholesale channel.
- ✓ Gross margin expanded by ~180 bps YoY(comparable basis) due existing cover on palm oil, price hike taken in past, lower consumer offers and cost saving program project PI.
- ✓ EBITDA margin improved by 204 bps YoY led by lower COGS and other expenses.
- ✓ International business revenue grew by 9% YoY in Constant currency(CC) terms driven by Africa (up by 13% in CC terms), Latin America (up by 30%) and Europe (up by 15%).
- ✓ Sales from Indonesian business declined by 1% in CC terms impacted by higher sales promotion spends in Household Insecticides (HI).
- ✓ PAT margin improved by 135 bps YoY and PAT remained Rs 362 cr for this quarter. Tax provisioning increased by 35 bps YoY to 22.5% in Q2FY18.

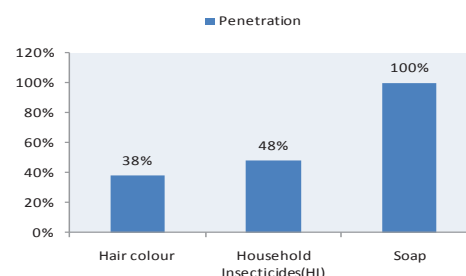
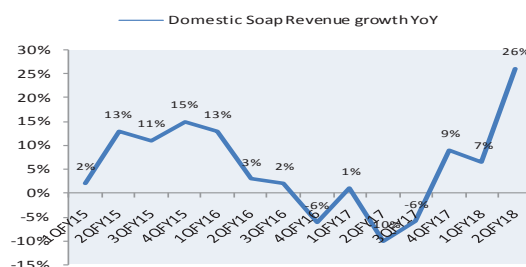


Margin %	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	53.3%	54.1%	54.5%	51.2%	56.2%	2.9%	5.0%	55.8%	57.0%	1.2%
EBITDA Margin	19.2%	20.8%	22.1%	15.4%	21.2%	2.0%	5.8%	18.7%	19.9%	1.2%
PAT Margin	13.1%	14.2%	15.7%	9.9%	14.4%	1.4%	4.5%	9.5%	13.6%	4.1%

- ✓ Gross margin expanded by ~180 bps YoY(comparable basis) due existing cover on palm oil, price hike taken in past, lower consumer offers and cost saving program project PI.
- ✓ EBITDA margin improved by 204 bps YoY led by lower COGS and other expenses. On the comparable basis, India business EBITDA margin improved by 260 bps YoY while International business margin improved by 10 bps led by margin expansion in Indonesia, Latam and Europe.
- ✓ PAT margin improved by 135 bps YoY and PAT remained Rs 362 cr for this quarter. Tax provisioning increased by 35 bps YoY to 22.5% in Q2FY18.

## Smart recovery in Domestic Soap Revenue, grew by 26% YoY.

## Segments Penetration



## Concall Highlights(Q2FY18):

- ✓ Post GST, trade channels are getting back to normal, Consumer offtake has improved.
- ✓ International business grew by 9% YoY in spite of political turmoil in Kenya and South Africa.
- ✓ The company is planning to launch several new products in coming few quarters.
- ✓ HI (Home Insecticide) growth came at 4% in this quarter on the previous year base of 18%.
- ✓ Management sees early sign of recovery from Indonesian business. Regain some lost market share in home insecticide.
- ✓ Management expects stronger growth from African business in H2FY18.
- ✓ Indonesian business: Promotional intensity has declined in last few months and Home Insecticide category growth has also become positive. Going forward, management sees gradual improvement.
- ✓ Soap: the company has gained market share in Godrej No.1 and Cinthol. Management is confident of similar performance in coming quarters.
- ✓ Coil business has de grown in this quarter due to higher saliency of wholesale.
- ✓ Hair color segment: Powder business also declined in this quarter. Management expects recovery owing to new launches.

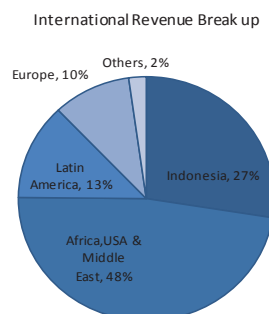
## Investment Arguments:

- ✓ **Innovation and new product launches:** The company's thrust on innovation and launching new products gives us confidence of better volume growth going ahead. The Company gets approx. 25% to 40% of sales growth from the launch of new products historically. In Q2FY18 concall, management has hinted for several new launches in coming few quarters which may improve company's volume growth in times to come.
- ✓ **Lower penetration gives opportunity:** GODREJCP is present in less penetrated segment as compared to other FMCG players like Hair Colour(38%) and HI(48%). It will give it enough room to grow further.
- ✓ **Relatively less impacted by Patanjali:** If we see our FMCG basket, GODREJCP has minimum overlap of products with Patanjali than any other players. Hence we expect very less impact on the volume of GODREJCP due to expansion of Patanjali.
- ✓ **Expectation of better revenue from Indonesian market from later part of FY18:** Indonesian market contributes approx. 13% of company's revenue. We expect it to improve going forward as company has plans to launch several hair care and personal care products in Indonesian market in next 6-12 months which will improve company's volume going forward. Secondly company is planning to ramp up its distribution reach to double in next 3-5 year which will translate into better volume growth from Indonesia going forward. New team will also help in turn around of the business.
- ✓ **African business (Potential growth driver):** Sales from Africa, USA & Middle East (~22% of total revenue) grew by 13% YoY CC terms while Hair extensions continue to deliver growth in high-teens in CC terms. Management hinted better growth from H2FY18 considering better traction from wet hair portfolio. Although African business is facing some currency headwinds but by localizing production facility and increasing prices company is expected to counter it.

## Early signs of recovery in Indonesian Market



## International business revenue break up (Q2FY18):



## View & Valuation

GODREJCP has reported sales growth of 3% YoY (on Comparable basis 10%) to Rs 2507 cr led by 26%YoY growth in soap business. Domestic volume has shown smart recovery, grew by 10% YoY led by refilling of channels and improvement in offtake. International business revenue grew by 9% YoY in Constant currency (CC) terms driven by Africa (up by 13% in CC terms), Latin America (up by 30%) and Europe (up by 15%). Company's resilient performance in spite of tough demand scenario and company's thrust on innovation gives us confidence of better growth going ahead. We believe that new launches and recovery in domestic market after GST will ensure volume growth while cost saving initiatives like project PI and better product mix will help in maintaining margin going ahead. Presently GODREJCP is trading at 37 times of FY19 expected EPS. We value it at 40x of 19's EPS and maintain our target price of Rs 1050.

## Financials Snap Shot

### Income Statement

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	8,753	9,609	10,153	11,606
Change (%)	6%	10%	6%	14%
Other Operating Income				
EBITDA	1,636	1,913	2,061	2,480
Change (%)	20%	17%	8%	20%
Margin (%)	19%	20%	20%	21%
Dep & Amortization	101	142	151	143
EBIT	1,535	1,772	1,911	2,338
Interest & other finance cost	119	145	145	115
Other Income	84	60	98	92
EBT	1,500	1,686	1,864	2,314
Exceptional Item	(334)	0	-	-
Tax	336	379	419	520
Minority Int & P/L share of Ass.	3	5	5	5
Reported PAT	828	1,304	1,442	1,791
Adjusted PAT	1,086	1,304	1,442	1,791
Change (%)	18%	20%	11%	24%
Margin(%)	12%	14%	14%	15%

### Balance Sheet

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	34	34	68	68
Reserves	4,233	5,268	5,846	6,553
Networth	4,267	5,302	5,914	6,621
Debt	2631	3341	3341	2441
Other Non Current Liab	313	1,238	1,238	1,238
Total Capital Employed	6,898	8,643	9,255	9,062
Net Fixed Assets (incl CWIP)	1,831	3,524	3,395	3,323
Non Current Investments	-	-	-	-
Other Non Current Assets	4,339	4,969	4,969	4,969
Non Current Assets	6,259	8,814	8,685	8,613
Inventory	1,307	1,413	1,492	1,706
Debtors	1,118	1,029	1,087	1,243
Cash & Bank	613	895	1,859	1,667
Other Current Assets	305	830	607	630
Current Assets	3,494	4,217	5,078	5,278
Creditors	1,485	1,724	1,821	2,082
Provisions	70	90	96	109
Other Current Liabilities	315	307	324	371
Curr Liabilities	2,533	3,150	3,270	3,591
Net Current Assets	962	1,067	1,808	1,687
Total Assets	9,754	13,031	13,763	13,891

### Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
ROE	19%	25%	24%	27%
ROCE	22%	21%	21%	26%
Asset Turnover	0.9	0.7	0.7	0.8
Debtor Days	47	39	39	39
Inventory Days	55	54	54	54
Payable Days	62	65	65	65
Interest Coverage	12.90	12.20	13.16	20.24
P/E	60	43	46	37
Price / Book Value	11.6	10.5	11.3	10.1
EV/EBITDA	31	30	33	27
FCF per Share	9	24	25	27
Dividend Yield	0.8%	2.3%	1.1%	1.3%

### Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
Volume Growth(domestic)	10%	4%	7%	9%
Realization Growth(domestic)	-1%	1%	2%	4%

### Cash Flow Statement

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
PBT	1,500	1,687	1,864	2,314
(inc)/Dec in Working Capital	(486)	301	(27)	(71)
Non Cash Op Exp	112	156	151	143
Interest Paid (+)	119	145	145	115
Tax Paid	(336)	(407)	(419)	(520)
others	(28)	(35)	-	-
CF from Op. Activities	847	1,805	1,714	1,942
(inc)/Dec in FA & CWIP	(208)	(180)	(21)	(71)
Free Cashflow	639	1,625	1,693	1,871
(Pur)/Sale of Investment	(636)	(1,947)	232	-
others	43	41	-	-
CF from Inv. Activities	(602)	(2,170)	210	(71)
inc/(dec) in NW	0	0	-	-
inc/(dec) in Debt	(278)	-	-	(900)
Interest Paid	(119)	(124)	(145)	(115)
Dividend Paid (inc tax)	(225)	(236)	(843)	(1,048)
others	-	-	-	-
CF from Fin. Activities	(202)	665	(989)	(2,063)
Inc(Dec) in Cash	43	300	936	(192)
Add: Opening Balance	555	613	913	1,859
Closing Balance	613	895	1,849	1,667