

# GODREJ CONSUMER PRODUCTS LTD.

Industry  
Bloomberg  
BSE Code  
NSE Code

Con. Staples  
GCPL IN  
532424  
GODREJCP

11 May 2018

RATING	ACCUMULATE
CMP	1082
Price Target	1170
Previous Target	1089
Potential Upside	8%

## Stock Info

52wk Range H/L	1158/861
Mkt Capital (Rs Cr)	73720
Free float (%)	37%
Avg. Vol 1M (,000)	591
No. of Shares (Crore)	68
Promoters Pledged %	NA

## Key Highlights

- GCPL has reported mixed set of numbers for Q4FY18. Sales for this quarter grew by 6% to Rs 2529 cr (Vs our expectation of Rs 2648 cr) led by India business volume growth of 6%.
- India branded business volume growth was impacted by subdued performance of Home Insecticide business which declined by 5% in this quarter. Soaps grew by 19% while domestic hair colour business recorded a growth of 3%.
- Positive surprise came from Gross margin, which expanded by 223 bps YoY to 59% led by cost saving programme and low-price palm oil cover whereas EBITDA margin improved by 95 bps YoY to 23.6%.
- International business grew by 1% YoY and 6% on the constant currency terms in Q4FY18. Indonesian business declined by 6% while growth from African business remained 7% on CC terms which was below than our expectations. Latin America and European business grew 28% and 11% on the CC terms respectively.

## 4Q FY18 Result:

GCPL's sales for this quarter grew by 6% to Rs 2529 cr (Vs our expectation of Rs 2648 cr) led by India business volume growth of 6%. Gross margin expanded by 223 bps YoY to 59% led by Cost saving programme and low-price palm oil cover whereas EBITDA margin improved by 95 bps YoY to 23.6%. Employee and A&P expenses went up by 10 and 186 bps in this quarter while other expenses declined by 185 bps. EBITDA grew by 10% YoY to Rs 597 cr. PAT has shown growth of 59% YoY to Rs 617 cr on account of exceptional item of Rs 194 cr. Exceptional Items included an amount of ~ 194.99 cr on account of change in earnout liability of a subsidiary for the quarter and year ended March 31,2018.

## View and Valuation

GCPL's number for Q4FY18 remained mixed. Sales for this quarter grew by 6% to Rs 2529 cr led by India branded business volume growth of 6%. Positive for this quarter, was margin expansion on consolidated level and regain of lost market share in Indonesian business. Going forward, we expect better domestic revenue growth for GCPL led by new products launches and revival of rural economy. Implementation of Project PI and other cost efficiencies will help in maintaining and expanding margin. Indonesian business is also expected to turnaround backed by product launches and distribution expansion in FY19. We value GCPL at 40 times of FY20's EPS and recommend ACCUMULATE with the target price of Rs 1170.

## Key Risks to our rating and target

- Abrupt currency fluctuation.
- Delay in revival of rural demand.
- Delay in the turnaround of Indonesian business.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	8753	9609	9937	10835	12081
EBITDA	1636	1898	2067	2371	2695
EBIT	1535	1756	1911	2195	2523
PAT	828	1308	1634	1698	1995
EPS (Rs)	12	19	24	25	29
EPS growth (%)	-9%	58%	25%	4%	17%
ROE (%)	19%	25%	26%	24%	25%
ROCE (%)	22%	20%	22%	25%	28%
BV	63	78	91	102	116
P/B (X)	13	12	12	17	27
P/E (x)	60	43	44	44	37

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## 4Q FY 18 Results

### Mixed

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	2,390	2,177	2,507	2,630	2,529	5.8%	-3.9%	9,609	9,937	3.4%
Other Income	26	24	19	36	29	12.8%	-19.3%	75	108	42.8%
COGS	1,034	1,013	1,097	1,126	1,038	0.4%	-7.9%	4,473	4,368	-2.4%
Gross Margin	57%	53%	56%	57%	59%	2.2%	1.8%	53%	56%	2.6%
Employee Cost	252	240	262	280	275	9.0%	-1.9%	988	1,057	7.0%
A&P ex.	155	191	212	226	182	17.1%	-19.8%			
Other Expenses	408	383	393	399	438	7.5%	9.9%	2,249	2,444	8.7%
EBITDA	541	349	532	589	597	10.2%	1.3%	1,898	2,067	8.9%
EBITDA Margin	23%	16%	21%	22%	24%	0.9%	1.2%	20%	21%	1.1%
Depreciation	37	37	39	40	40	8.8%	1.3%	142	156	10.0%
EBIT	504	312	493	549	557	10.4%	1.3%	1,756	1,911	8.8%
Interest	38	40	40	39	42	11.4%	9.3%	145	161	10.7%
PBT	492	296	472	547	543	10.4%	-0.6%	1,686	1,858	10.2%
Exceptional	7	(8)	(4)	(2)	194	2573%	9839%	0	180	
Tax	112	63	106	115	120	7.6%	4.9%	379	405	6.7%
PAT	388	225	362	430	617	59.2%	43.5%	1,308	1,634	24.9%
PAT Margin	16%	10%	14%	16%	24%	8.2%	8.1%	14%	16%	2.8%

### Soaps continue to perform well while domestic HI business remained laggard

Sales for this quarter grew by 6% YoY to Rs 2529 cr (Vs our expectation of Rs 2648 cr) led by India branded business volume growth of 6%. Sales was impacted by subdued performance of domestic Home Insecticide(HI) business which declined by 5%YoY in this quarter while domestic soap business continue to show strong traction with the growth of 19%led by strong double-digit volume growth. Soap business continues to gain market share from unorganised as well as organised players. Domestic hair colour business grew by 3%YoY in this quarter.

### Indonesia and Africa business remained drag to the International business

International business grew by 1% YoY and 6% on the constant currency terms in Q4FY18. Indonesian business declined by 6% on the back of inventory reduction with key modern retail channel partners. The company regained all lost market share in Household Insecticides in Indonesia. Africa, USA & Middle East business grew by 7% on the constant currency terms. Sales was impacted by continuing sluggishness in Kenya while Latin America and European business grew 28% and 11% on the CC terms respectively in Q4FY18.

### Positive surprise came from margins, gross margin expanded by 223 bps YoY.

Gross margin for the quarter expanded by 223 bps YoY on account of cost saving programme and low-price palm oil cover while EBITDA margin improved by 95 bps YoY to 23.6%. India business adj. EBITDA improved by 370 bps to 28.8% while International business margin declined by 100 bps YoY to 18.5%. EBITDA margin from Indonesian business expanded by 370 bps in this quarter.

### GCPL's Q4FY18 Result Concall Update:

- ✓ Rural grew faster than urban in this quarter.
- ✓ The company plans 10 new launches in India across the categories in FY19.
- ✓ Management is confident of Sales growth with margin expansion in FY19.
- ✓ Expects Double digit growth from Indian business in FY19 led by improving macroeconomic condition, rural demand revival led by normal monsoon and government initiatives.
- ✓ Worst is over for Indonesian business. The company gained all its lost market share in Home Insecticide(HI). This quarter's growth was impacted by destocking by some of the modern retail partners.
- ✓ The company is planning to relaunch Darling brand.
- ✓ Management envisages significant improvement of Africa business margin going forward.
- ✓ Impact of Project PI will be visible in FY19 for Indonesian business.
- ✓ The management expects a strong turnaround from Africa as well Indonesia business in FY19.

Exhibit: Domestic Soap Growth

Domestic soap business continue to show strong traction with the growth of 19% led by strong double-digit volume growth.

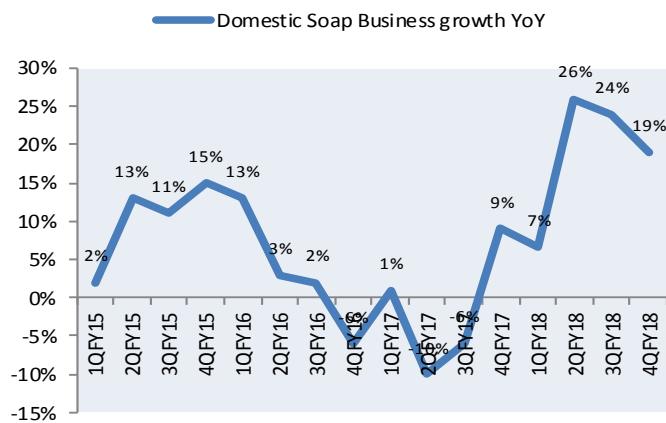


Exhibit: Domestic HI growth

Home Insecticide business declined by 5% in this quarter due to adverse season in January – February 2018.

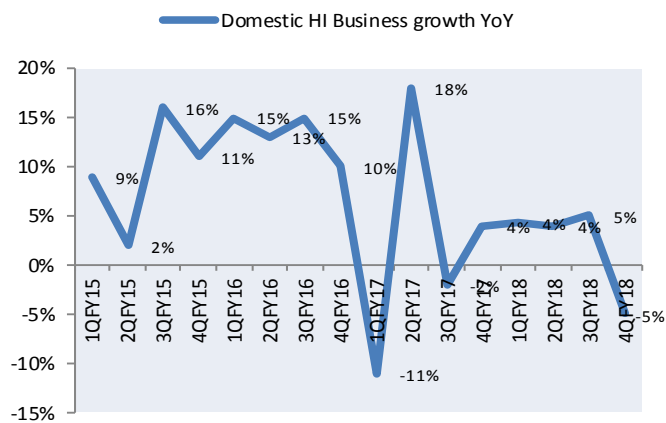


Exhibit: Indonesian business Growth

Indonesian business declined by 6% on the back of inventory reduction with key modern retail channel partners.



Exhibit: Africa,USA & Middle East Business Growth

Africa, USA & Middle East business grew by 7% on the CC terms impacted by continuing sluggishness in Kenya.

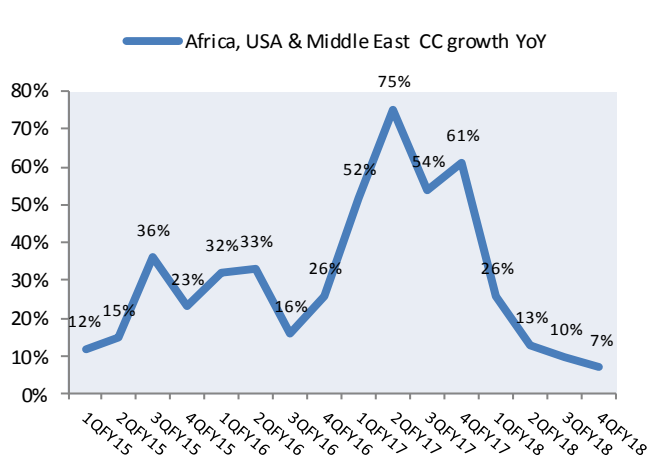


Exhibit: Sales and PAT (in cr)

PAT has shown growth of 59% YoY to Rs 617 cr on account of exceptional item of Rs 194 cr.

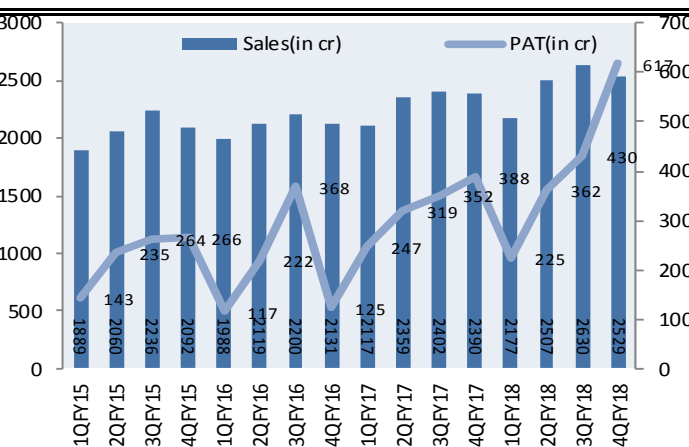
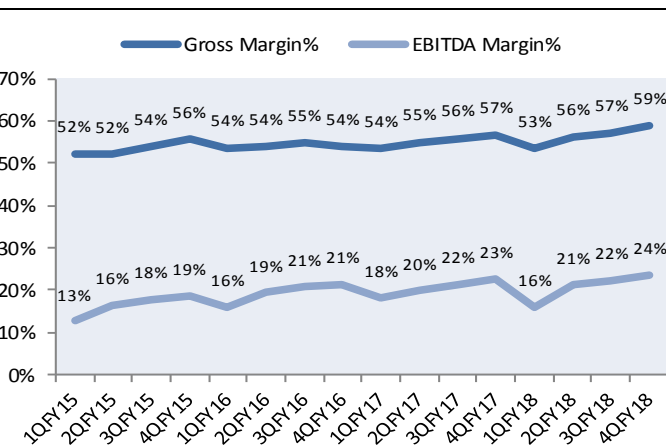


Exhibit: Gross and EBITDA margin

Gross margin expanded by 223 bps YoY to 59% led by Cost saving programme and low-price palm oil cover.



## Financial Details

### Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	34	34	34	34	34	68	68	68
Reserves	3,279	3,741	4,277	4,233	5,268	6,190	6,901	7,819
<b>Networth</b>	<b>3,313</b>	<b>3,775</b>	<b>4,311</b>	<b>4,267</b>	<b>5,302</b>	<b>6,258</b>	<b>6,969</b>	<b>7,887</b>
Debt	1,949	1,702	2,170	2,631	3,341	2,521	1,821	1,121
Other Non Current Liab	33	34	34	313	1,238	1,159	1,159	1,159
<b>Total Capital Employed</b>	<b>5,262</b>	<b>5,477</b>	<b>6,480</b>	<b>6,898</b>	<b>8,643</b>	<b>8,779</b>	<b>8,791</b>	<b>9,008</b>
Net Fixed Assets (incl CWIP)	1,728	1,736	1,732	1,831	3,524	3,680	3,613	3,541
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
<b>Non Current Assets</b>	<b>4,853</b>	<b>5,506</b>	<b>6,052</b>	<b>6,259</b>	<b>8,814</b>	<b>8,795</b>	<b>8,728</b>	<b>8,656</b>
Inventory	1,047	1,082	1,072	1,307	1,413	1,578	1,720	1,918
Debtors	729	711	805	1,118	1,029	1,246	1,358	1,514
Cash & Bank	748	705	894	613	895	898	1,505	1,880
Other Current Assets	325	320	319	305	830	1,182	806	847
<b>Current Assets</b>	<b>2,848</b>	<b>2,818</b>	<b>3,090</b>	<b>3,494</b>	<b>4,217</b>	<b>5,168</b>	<b>5,610</b>	<b>6,404</b>
Creditors	1,035	1,234	1,087	1,485	1,724	2,357	2,570	2,865
Provisions	57	56	98	70	90	48	52	58
Other Current Liabilities	1,104	1,298	1,281	315	307	311	339	379
<b>Curr Liabilities</b>	<b>2,197</b>	<b>2,588</b>	<b>2,466</b>	<b>2,533</b>	<b>3,150</b>	<b>4,024</b>	<b>4,388</b>	<b>4,893</b>
<b>Net Current Assets</b>	<b>652</b>	<b>230</b>	<b>624</b>	<b>962</b>	<b>1,067</b>	<b>1,143</b>	<b>1,222</b>	<b>1,512</b>
<b>Total Assets</b>	<b>7,701</b>	<b>8,325</b>	<b>9,142</b>	<b>9,754</b>	<b>13,031</b>	<b>13,963</b>	<b>14,338</b>	<b>15,060</b>

### Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	6,416	7,602	8,276	8,753	9,609	9,937	10,835	12,081
Change (%)		18%	9%	6%	10%	3%	9%	12%
<b>EBITDA</b>	<b>982</b>	<b>1,150</b>	<b>1,365</b>	<b>1,636</b>	<b>1,898</b>	<b>2,067</b>	<b>2,371</b>	<b>2,695</b>
Change (%)		17%	19%	20%	16%	9%	15%	14%
Margin (%)	15%	15%	16%	19%	20%	21%	22%	22%
Depr & Amor.	77	82	91	101	142	156	176	172
<b>EBIT</b>	<b>905</b>	<b>1,068</b>	<b>1,275</b>	<b>1,535</b>	<b>1,756</b>	<b>1,911</b>	<b>2,195</b>	<b>2,523</b>
Int. & other fin. Cost	77	107	100	119	145	161	130	93
Other Income	68	63	92	84	75	108	119	137
<b>EBT</b>	<b>896</b>	<b>1,024</b>	<b>1,266</b>	<b>1,500</b>	<b>1,686</b>	<b>1,858</b>	<b>2,184</b>	<b>2,567</b>
Exp Item	129	6	(17)	(334)	0	180	-	-
Tax	179	210	272	336	379	405	486	573
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	1,698	1,995
<b>Adjusted PAT</b>	<b>693</b>	<b>755</b>	<b>921</b>	<b>1,086</b>	<b>1,308</b>	<b>1,494</b>	<b>1,698</b>	<b>1,995</b>
Change (%)		9%	22%	18%	20%	14%	14%	17%
Margin(%)	11%	10%	11%	12%	14%	15%	16%	17%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	24%	20%	21%	19%	25%	26%	24%	25%
ROCE	17%	20%	20%	22%	20%	22%	25%	28%
Asset Turnover	0.8	0.9	0.9	0.9	0.7	0.7	0.8	0.8
Debtor Days	41.5	34.1	35.5	46.6	39.1	45.7	45.7	45.7
Inv Days	59.6	52.0	47.3	54.5	53.7	58.0	58.0	58.0
Payable Days	58.9	59.3	47.9	61.9	65.5	86.6	86.6	86.6
Int Coverage	12	10	13	13	12	12	17	27
P/E	33	38	30	60	43	44	44	37
Price / Book Value	8	8	6	12	11	12	11	9
EV/EBITDA	28	26	21	31	31	36	32	27
FCF per Share	8.2	14.6	12.0	9.4	23.8	28.1	27.7	32.9
Div Yield	1%	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	2,039	2,185	2,568
(inc)/Dec in Working Capital	(70)	199	(113)	(486)	301	191	61	84
Non Cash Op Exp	71	59	63	116	140	156	176	172
Int Paid (+)	77	107	100	119	145	161	130	93
Tax Paid	(207)	(238)	(257)	(336)	(407)	(405)	(486)	(573)
others	53	(23)	(54)	(66)	(61)	84	(70)	-
<b>CF from Op. Activities</b>	<b>820</b>	<b>1,129</b>	<b>1,005</b>	<b>847</b>	<b>1,805</b>	<b>2,226</b>	<b>1,996</b>	<b>2,344</b>
(inc)/Dec in FA & CWIP	(264)	(133)	(190)	(208)	(180)	(312)	(109)	(100)
Free Cashflow	557	996	814	639	1,625	1,914	1,887	2,244
(Pur)/Sale of Inv	16	74	(450)	210	(393)	(63)	406	-
others	(618)	(436)	(574)	(605)	(1,597)	(61)	-	-
<b>CF from Inv. Activities</b>	<b>(865)</b>	<b>(495)</b>	<b>(1,214)</b>	<b>(602)</b>	<b>(2,170)</b>	<b>(436)</b>	<b>297</b>	<b>(100)</b>
inc/(dec) in NW	-	0	-	0	0	-	(0)	-
inc/(dec) in Debt	557	(321)	300	142	1,024	(820)	(700)	(700)
Int. Paid	(84)	(113)	(119)	(119)	(124)	(161)	(130)	(93)
Div Paid (inc tax)	(162)	(170)	(179)	(187)	(196)	(686)	(764)	(898)
others	(30)	(29)	(14)	(38)	(40)	(137)	(153)	(180)
<b>CF from Fin. Activities</b>	<b>282</b>	<b>(633)</b>	<b>(12)</b>	<b>(202)</b>	<b>665</b>	<b>(1,804)</b>	<b>(1,747)</b>	<b>(1,870)</b>
Inc(Dec) in Cash	237	1	(221)	43	300	(14)	545	374
<b>Add: Opening Balance</b>	<b>388</b>	<b>624</b>	<b>625</b>	<b>536</b>	<b>594</b>	<b>913</b>	<b>960</b>	<b>1,505</b>
Closing Balance	624	625	404	613	895	898	1,505	1,880

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