

# GODREJ CONSUMER PRODUCTS LTD

**HOLD**

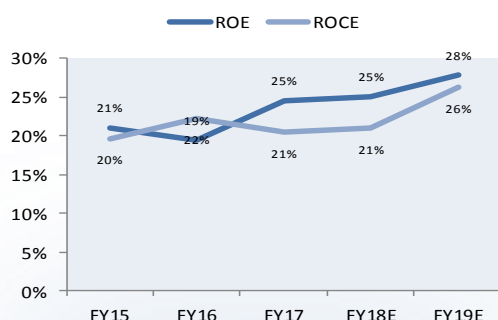
31-Jan-18

INDUSTRY - Con. Staples  
Bloomberg Code- GCPL IN  
BSE Code - 532424  
NSE Code - GODREJCP  
NIFTY - 11050

## Company Data

CMP	1059
Target Price	1089
Previous Target	1050
Upside	3%
52wk Range H/L	1125/770
Mkt Capital (Rs Cr)	72,119
Av. Volume (,000)	513

Expect ROE to improve by 323 bps in FY19E.

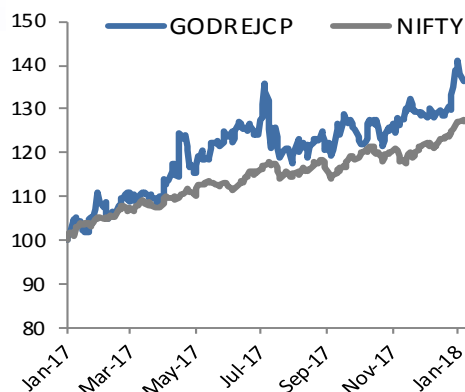


## Shareholding pattern %

	3QFY18	2QFY18	1QFY18
Promoters	63	63	63
Public	37	37	37
Others	--	--	--
Total	100	100	100

## Stock Performance %

	1Mn	3Mn	1Yr
Absolute	8.2	14.5	38.3
Rel.to Nifty	3.3	7.7	8.0



## Key Highlights of the Report:

- ✓ GODREJCP's result for Q3FY18 was better than our expectations. Sales grew by 6% YoY to Rs 2630 cr (Vs our expec. Rs 2553 cr) while PAT growth remained 22% to Rs Rs 430 cr (Vs expec. Rs 406 cr).
- ✓ Positive for this quarter remained domestic volume growth which grew by 18%YoY led by strong soap and hair colour business growth.
- ✓ International business remained flat in this quarter to Rs 1226 cr due to weaker performance of Indonesian and Latin American business.
- ✓ We believe that new launches and recovery in domestic market especially rural will ensure volume growth while cost saving initiatives like project PI and better product mix will help in maintaining margin going ahead. Considering better outlook of the management about international business in FY19, we have increased our PAT estimates for FY19 by 4%, however we still value GODREJCP at 40 times of FY19's EPS and recommend 'HOLD' with target price 1089.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	8,276	8,753	9,609	10,116	11,261
EBITDA	1,365	1,636	1,913	2,097	2,535
EBIT	1,275	1,535	1,772	1,946	2,393
PAT	907	828	1,304	1,491	1,855
EPS (Rs)	13	12	19	22	27
EPS growth (%)	19%	-9%	58%	14%	24%
ROE (%)	21%	19%	25%	25%	28%
ROCE (%)	20%	22%	21%	21%	26%
BV	63	63	78	87	98
P/B (X)	6	12	11	12	11
P/E (x)	30	60	43	48	39

## International business highlights:

- ✓ International business remained flat in this quarter due to declined in Indonesian and Latin America business by 8% and 7% respectively. In terms of constant currency(CC), International business grew by 5%.
- ✓ Indonesian business declined by 2% YoY in CC terms, better the previous two quarters while adjusted EBITDA Margin from Indonesian business improved by 230 bps YoY to 25% led by rationalized A&P spends, project PI and stringent control on overheads.
- ✓ Africa, USA & Middle East business clubbed together posted a 10% of CC growth, lower than previous few quarters. Subdued growth was due to ERP implementation in in the USA and election related disruption in Kenya. Margins also deteriorated by 320 bps YoY mainly due to A&P investments in scaling up wet hair care portfolio.
- ✓ Latin American and Europe business saw a CC growth of 5% and 9% respectively in Q3FY18.

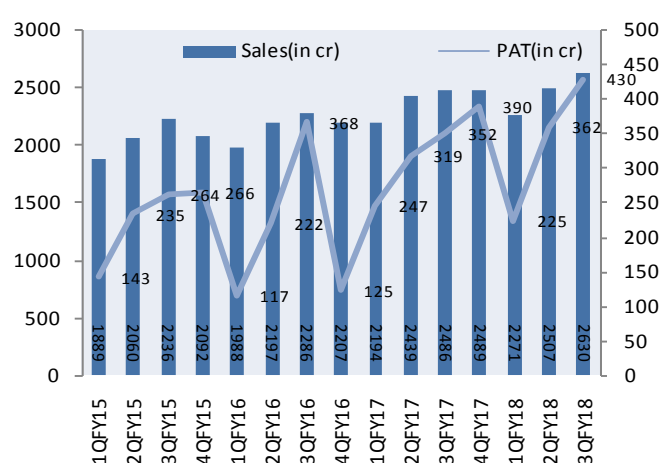
**RAJEEV ANAND**  
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## Quarterly Performance

Financials	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	2,486	2,489	2,271	2,507	2,630	6%	5%	8,753	9,609	10%
Other Income	19	26	24	19	36	90%	89%	84	60	-29%
COGS	1,141	1,133	1,107	1,097	1,126	-1%	3%	3,867	4,133	7%
Ad & P Expenses	192	155	191	212	226	18%	7%			
Employee Cost	256	247	240	262	280	10%	7%	944	988	5%
Other Expenses	381	403	383	393	399	5%	1%	1,977	2,234	13%
EBITDA	517	551	349	532	589	14%	11%	1,636	1,913	17%
Depreciation	36	37	37	39	40	9%	3%	101	142	41%
Interest	40	38	40	40	39	-3%	-4%	119	145	22%
PBT	447	497	296	472	547	22%	16%	1,500	1,686	12%
Tax	99	115	63	106	115	16%	8%	336	379	13%
PAT	352	390	225	362	430	22%	19%	828	1,304	58%

## Stellar recovery in domestic business while International business remained dampener:

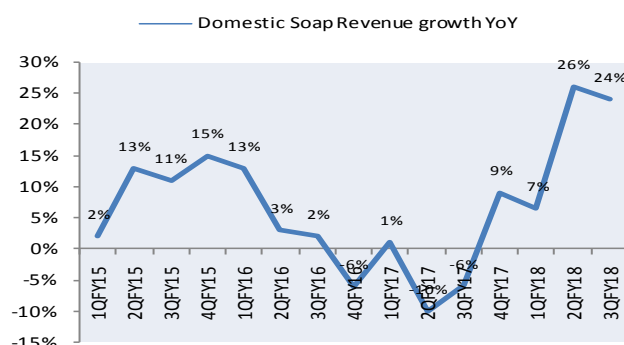
- ✓ GODREJCP's result for this quarter was better than our expectations. Sales grew by 6% YoY to Rs 2630 cr(Vs our expec. Rs 2553 cr) led by strong volume driven growth in the domestic business. Domestic volume growth for this quarter remained 18%.
- ✓ Strong domestic volume growth was driven by soap and hair colour business. Sales of soap and hair colour business grew by 24% and 33% respectively in Q3FY18.
- ✓ Gross margin for this quarter increased by 308 bps YoY to 57.2%,on the other hand EBITDA margin was up by 160 bps YoY to 22.4%. Expansion in margins was mainly due to improvement in the margins of Indian business. Adjusted EBITDA Margin improvement of Indian business was 320 bps While International business margin declined by 100 bps YoY.
- ✓ International business grew by 5% YoY in CC terms driven by Africa (up by 10% CC terms) and Europe (up by 9% in CC terms).
- ✓ GODREJCP has reported strong PAT growth of 22% YoY to Rs 430 cr while PAT margin expanded by 219 bps YoY to 16.3% led by higher other income.



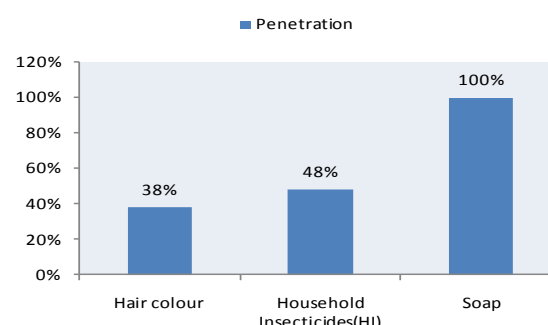
Margin %	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	54.1%	54.5%	51.2%	56.2%	57.2%	3.1%	0.9%	55.8%	57.0%	1.2%
EBITDA Margin	20.8%	22.1%	15.4%	21.2%	22.4%	1.6%	1.2%	18.7%	19.9%	1.2%
PAT Margin	14.2%	15.7%	9.9%	14.4%	16.3%	2.2%	1.9%	9.5%	13.6%	4.1%

- ✓ Gross margin for this quarter increased by 308 bps YoY to 57.2%, on the other hand EBITDA margin was up by 160 bps YoY to 22.4%. Expansion in margins was mainly due to improvement in the margins of Indian business. Adjusted EBITDA Margin improvement of Indian business was 320 bps While International business margin declined by 100 bps YoY.
- ✓ GODREJCP has reported strong PAT growth of 22% YoY to Rs 430 cr while PAT margin expanded by 219 bps YoY to 16.3% led by higher other income.

## Maintained strong growth in domestic Soap business.



## Segments Penetration



## Concall Highlights(Q3FY18):

- ✓ The company will continue to focus on innovation to drive ahead of category growth.
- ✓ The company took price cut in the range of 6-10% in the month of November to pass benefits of GST to consumers.
- ✓ Recovery in rural is much stronger than urban. Sees better traction from rural market going ahead.
- ✓ Growth in Kenya was hampered by election related disruption. Management sees better traction from Kenya business in FY19.
- ✓ No plans of raising prices in the near term.
- ✓ The company is planning for new launches in Home Insecticide(HI) segment in 6-12 months horizon.
- ✓ Secondary sales remained higher than the primary sales in this quarter.
- ✓ Indonesian business: Promotional and competitive intensity is still high but management see gradual improvement in the business. Plans to rejig distribution channels and launch more innovative products to boost growth.
- ✓ Unorganised channels in India are more resilient. Presently doesn't see signs of market share gain from unorganized players.
- ✓ Management still sees room for margin improvement in Indian as well African business.

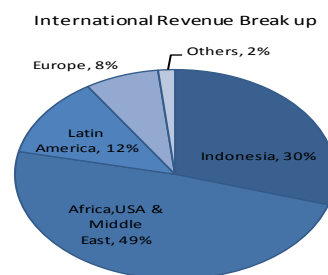
## Investment Arguments:

- ✓ **Innovation and new product launches:** The company's thrust on innovation and launching new product 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 Q3FY18 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 company enough room for penetration led growth going forward.
- ✓ **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 10% YoY CC terms while Hair extensions continue to deliver double-digit growth in CC terms. Management hinted better growth in 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.

## Witnessed gradual recovery in Indonesian business.



## International business revenue break up (Q3FY18):



## View & Valuation

GODREJCP's result for Q3FY18 was better than our expectations. Sales grew by 6% YoY to Rs 2630 cr (Vs our expec. Rs 2553 cr) while PAT growth remained 22% to Rs 430 cr (Vs expec. Rs 406 cr). Positive for this quarter was domestic volume growth which grew by 18% YoY led by strong growth in domestic soap and hair colour business. International business remained flat in this quarter to Rs 1226 cr due to weaker performance of Indonesian (down by 8%) and Latin American (down by 7%) business. Going forward, management sees gradual improvement in Indonesian business led by new product launches and rejig of distribution channel. Management is confident of recovery in the international business in FY19. On domestic business front, we believe that new launches and recovery in domestic market especially rural will ensure volume growth while cost saving initiatives like project PI and better product mix will help in maintaining margin going ahead. Considering better outlook of the management about international business in FY19, we have increased our PAT estimates for FY19 by 4%, however we still value GODREJCP at 40 times of FY19's EPS and recommend 'HOLD' with target price 1089.

Major risk to our estimate will be abrupt rise in Palm oil prices and delay in international business recovery.

## Financials Snap Shot

Income Statement				
Rs in Crores				
Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	8,753	9,609	10,116	11,261
Change (%)	6%	10%	5%	11%
Other Operating Income				
EBITDA	1,636	1,913	2,097	2,535
Change (%)	20%	17%	10%	21%
Margin (%)	19%	20%	21%	23%
Dep & Amortization	101	142	151	143
EBIT	1,535	1,772	1,946	2,393
Interest & other finance cost	119	145	145	115
Other Income	84	60	127	120
EBT	1,500	1,686	1,928	2,397
Exceptional Item	(334)	0	-	-
Tax	336	379	434	539
Minority Int & P/L share of Ass.	3	5	5	5
Reported PAT	828	1,304	1,491	1,855
Adjusted PAT	1,086	1,304	1,491	1,855
Change (%)	18%	20%	14%	24%
Margin(%)	12%	14%	15%	16%

Balance Sheet				
Rs in Crores				
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	34	34	68	68
Reserves	4,233	5,268	5,866	6,600
Networth	4,267	5,302	5,934	6,668
Debt	2631	3341	3341	2441
Other Non Current Liab	313	1,238	1,238	1,238
Total Capital Employed	6,898	8,643	9,275	9,109
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	1,487	1,655
Debtors	1,118	1,029	1,083	1,206
Cash & Bank	613	895	1,882	1,731
Other Current Assets	305	830	606	624
Current Assets	3,494	4,217	5,091	5,249
Creditors	1,485	1,724	1,815	2,020
Provisions	70	90	95	106
Other Current Liabilities	315	307	323	360
Curr Liabilities	2,533	3,150	3,262	3,515
Net Current Assets	962	1,067	1,829	1,734
Total Assets	9,754	13,031	13,776	13,863

Key Ratios				
Y/E March	FY16	FY17	FY18E	FY19E
ROE	19%	25%	25%	28%
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	12.9	12.2	13.4	20.7
P/E	60	43	48	39
Price / Book Value	11.6	10.5	12.1	10.8
EV/EBITDA	31	30	35	29
FCF per Share	9	24	26	29
Dividend Yield	0.8%	2.3%	1.0%	1.3%

## Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
Volume Growth(domestic)	10%	4%	10%	9%
Realization Growth(domestic)	-1%	1%	1%	3%

Cash Flow Statement				
Rs in Crores				
Y/E March	FY16	FY17	FY18E	FY19E
PBT	1,500	1,687	1,928	2,397
(inc)/Dec in Working Capital	(486)	301	(25)	(56)
Non Cash Op Exp	112	156	151	143
Interest Paid (+)	119	145	145	115
Tax Paid	(336)	(407)	(434)	(539)
others	(28)	(35)	-	-
CF from Op. Activities	847	1,805	1,766	2,022
(inc)/Dec in FA & CWIP	(208)	(180)	(21)	(71)
Free Cashflow	639	1,625	1,744	1,951
(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)	(872)	(1,085)
others	-	-	-	-
CF from Fin. Activities	(202)	665	(1,018)	(2,101)
Inc(Dec) in Cash	43	300	958	(150)
Add: Opening Balance	555	613	913	1,882
Closing Balance	613	895	1,871	1,731



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