

Industry
Bloomberg
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Cons. Staples
GCPL IN
532424

Better domestic volume growth supported by consumer offers and innovation.

RATING	HOLD
CMP	742
Price Target	756
Potential Upside	2%

Rating Change	↓
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	772/577
Mkt Capital (Rs Cr)	75866
Free float (%)	37%
Avg. Vol 1M (,000)	723
No. of Shares (Cr.)	102
Promoters Pledged %	NA

3QFY20 Result Update

- GODREJCP's 3QFY20 result remained in line with our estimates. Sales grew by 2% YoY to Rs 2778 cr (vs our expectation of Rs 2785 cr) on the back of better growth from international business and domestic volume growth.
- Domestic volume grew by 7% YoY led by gradual recovery in the Home Insecticide sales which is grew by 3% YoY to Rs 617 cr. The company's Soap and Hair colour business declined by 4% each to 416 cr and 155 cr respectively.
- International business registered a growth of 11% YoY in cc terms on the back of 9% cc growth from Indonesia business led by Household Insecticides and Baby wipes. The company's GAUM business posted 6% cc growth backed by Africa sales which grew by 9%.
- Gross margin expanded by 44 bps YoY to 56.7% while EBITDA margin improvement remained 36 bps YoY to 22.7% led by improvement in the International business margin by 80 bps YoY.
- PAT for this quarter grew by 5% YoY to Rs 445 cr (vs our expectation of Rs 449 cr) while PAT margin improved by 48 bps YoY to 16%. Provisioning of taxes in 3QFY20, declined by 189 bps to 19.5%.

View and Valuation

Godrejcp has reported numbers in line with our expectations. New product launches, consumer offers and micro marketing initiatives boosted domestic volume growth in this quarter with market share gain. The company has clocked 7% domestic volume growth in last two consecutive quarters despite tapering rural and urban demand. On International business front, growth was supported by Indonesia business which grew by 9% in cc terms. We expect International business to do better going ahead supported by Indonesia business. Waning of illegal incense stick competition and gradual recovery in International business makes us positive on this stock. Presently, considering inline number and no major positive surprises, we kept our sales and PAT estimates for FY20e & FY21e largely same with the previous target price of Rs756. Limited upside made us change our rating from ACCUMULATE to HOLD.

Key Risks to our rating and target

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

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Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20	FY21E
Net Sales	9268	9843	10314	10264	11404
EBITDA	1898	2067	2118	2250	2529
EBIT	1756	1911	1948	2063	2330
PAT	1307	1633	2341	1651	1756
EPS (Rs)	38	24	23	16	17
EPS growth (%)	58%	-38%	-5%	-29%	6%
ROE (%)	25%	26%	32%	21%	21%
ROCE (%)	21%	22%	20%	21%	23%
BV	156	92	71	77	83
P/B (X)	11	12	9	10	9
P/E (x)	43	48	32	46	43

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3QFY20 Results Below Expectation

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY%	QoQ%	FY18	FY19	YoY%
Net Sales	2,724	2,453	2,349	2,630	2,778	2.0%	5.6%	9,768	10,221	4.6%
Other Income	23	29	21	27	24	4%	-11.4%	108	109	1.1%
COGS	1,191	1,013	1,007	1,142	1,202	1.0%	5.3%	4,274	4,554	6.5%
Gross Margin	56%	59%	57%	57%	57%	0.4%	0.1%	57%	56%	-0.7%
Empl. Cost	217	157	193	213	206	-4.9%	-3.3%	1,057	1,091	3.2%
A&P expenses	279	270	265	267	269	-3.8%	0.8%			-
Other Exp.	420	432	425	432	469	11.6%	8.6%	2,444	2,552	4.4%
EBITDA	609	578	456	572	631	3.6%	10.3%	2,067	2,118	2.4%
EBITDA Mar.	22%	24%	19%	22%	23%	0.4%	1.0%	21%	21%	-0.5%
Depreciation	43	43	47	48	49	14.9%	2.7%	156	170	9.2%
EBIT	566	535	408	524	582	2.8%	11.0%	1,911	1,948	1.9%
Interest	58	57	55	53	48	-17%	-10%	161	224	39.5%
PBT	531	507	375	498	557	5.0%	12.0%	1,858	1,832	-1%
Exceptional Item	(6)	7	(0)	4	4	-173.6%	23.2%	180	253	41%
Tax	113	(435)	(33)	80	108	-4.3%	34.7%	405	(256)	-163%
PAT	424	935	408	414	445	5.1%	7.6%	1,633	2,341	43%
PAT Margin	16%	38%	17%	16%	16%	0.5%	0.3%	17%	23%	6.1%

Concall Highlights

- Domestic volume grew by 7% with market share gain. Volume growth was driven by effective marketing campaign, new product launches and consumer offers.
- Improvement in gross margin witnessed in both international and domestic market despite inflation in some of commodity. International business margin improvement remained 80 bps led by 50 bps improvement in gross margin.
- Soap business: the company delivered mid single digit volume growth led by price offs and consumer offers resulting in sales decline of 4%. 40 bps value market share gain witnessed.
- Domestic HI business: The Company posted higher than mid single digit volume growth with sequential market share gain in overall category including incense sticks.
- Response of recently launched Good Knight Gold Flash Liquid Vaporiser in South has remained encouraging and plans to scale it up nationally in 4QFY20.
- The company has strong product pipeline and plans to launch couple of products in the month's time.
- Hair colour business: General demand slowed down impacted the Hair colour business.
- Indonesia business: Margin improved by 120 bps YoY on the back of improvement in gross margin and cost saving program. The company is stepping up the innovation momentum across category and working upon gradual expansion of general trade distribution.
- Africa business: remained mixed. West and South cluster witnessed low double digit growth while East cluster continued to witness decline led by liquidity challenges. The company continues to scale up wet hair business. Re launch of the Darling brand is taken positively. Adj. EBITDA margin contracted by 130 bps due to change in regulation of waste water management in Georgia (US).
- India business: Business is steady. Going forward, the company is expected to see better volume growth in India led by new launches and enhancement of go to market model.
- International business: Management continue to drive profitable sales growth in Indonesia while focusing profitability in Africa and ensuring strong turn around in Latin America business going ahead.
- Domestic business: Company took 10% price off in liquid vaporizer in North, central and west India. In next 3-6 months the value and volume will converge as company will ramp up Goodknight Gold Flash Liquid nationally.
- Domestic business: Rural slow down started in 2QFY20 and persisted in 3QFY20. Rural growth remained 3% ahead of urban for Godrejcp 3QFY20. While sharper deceleration is witnessed in Urban market in 3QFY20 (West and North region witnessed sharper slow down).
- Blip in Kenya business is temporary due to demonetization, as situation improves margin improvement will kick start.
- Domestic business: The company is making tailor made products for different channels to take the problem of price disparity across the channel.
- Tax rate for full year(FY20): 21-23%.

Exhibit: Domestic Soap Business growth

Domestic Soap business impacted by price offs and consumer offers.

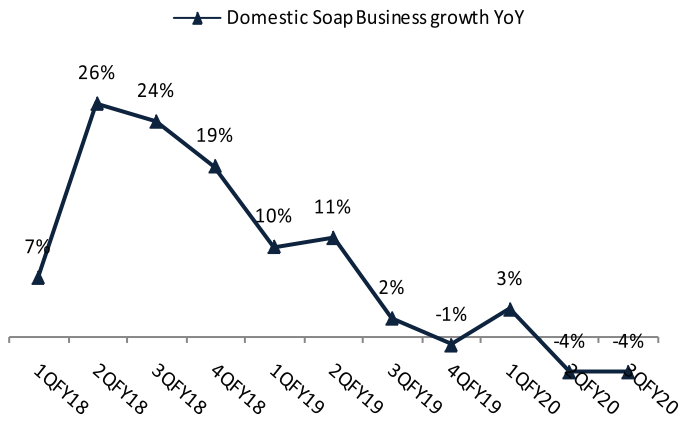


Exhibit: Domestic HI Business growth

Posted mid single digit plus volume growth with market share gain at overall category level.

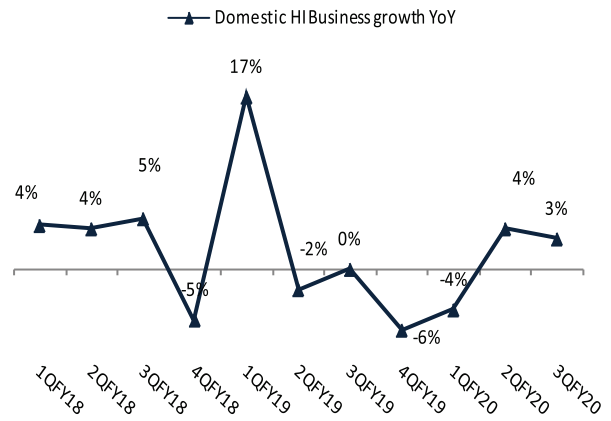


Exhibit: Domestic Hair colour Business growth

General slowdown impacted the sales growth of Domestic Hair colour Business.

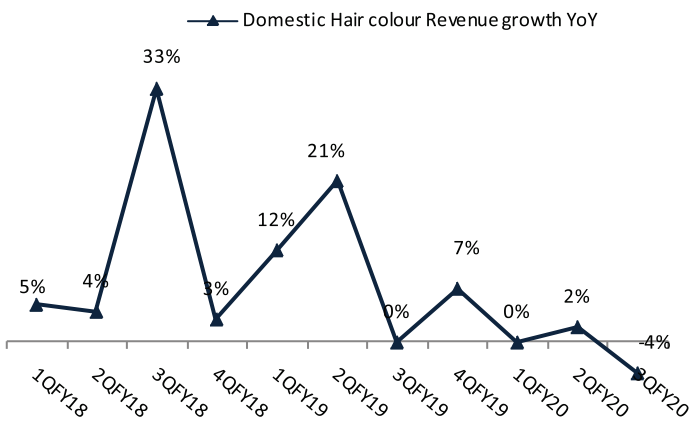


Exhibit: Indonesia Market CC Growth

Indonesia business growth was led by improvement in Household Insecticide business with market share gain.



Exhibit: Sales and Sales Growth

Domestic volume growth and sustenance in Indonesian business growth helped overall growth.

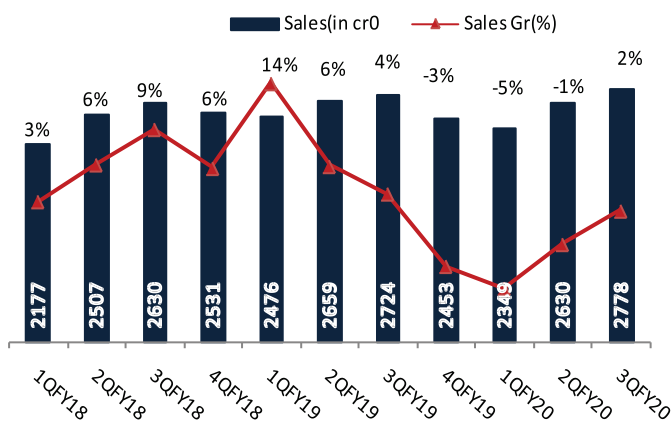
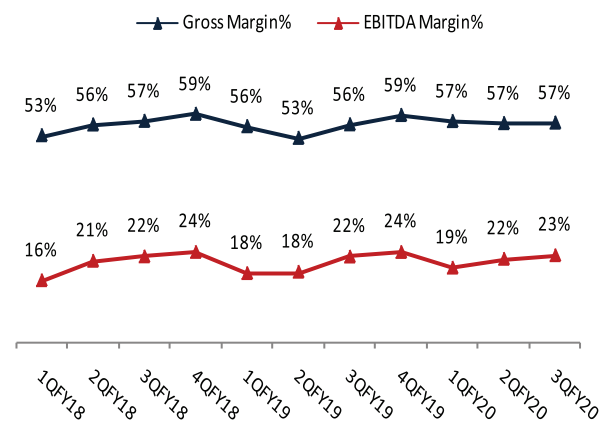


Exhibit: Gross margin and EBITDA margin

Margin expanded on the back of Improvement in the International business margin.



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	34	34	34	34	68	102	102	102
Reserves	3,741	4,277	4,233	5,268	6,190	7,165	7,778	8,430
Networth	3,775	4,311	4,267	5,302	6,258	7,267	7,880	8,532
Debt	1,702	2,170	2,631	3,341	2,521	2,876	2,276	1,676
Other Non Current Liab	34	34	313	1,238	1,159	407	407	407
Total Capital Employed	5,477	6,480	6,898	8,643	8,779	10,143	10,156	10,208
Net Fixed Assets (incl CWIP)	1,736	1,732	1,831	3,524	3,680	3,804	3,939	3,935
Non Current Investments	34	34	-	-	-	-	-	-
Other Non Current Assets	3,736	4,287	4,339	4,969	4,884	5,521	5,521	5,521
Non Current Assets	5,506	6,052	6,259	8,814	8,795	9,482	9,616	9,613
Inventory	1,082	1,072	1,307	1,413	1,578	1,559	1,551	1,723
Debtors	711	805	1,118	1,029	1,246	1,293	1,287	1,429
Cash & Bank	705	894	613	895	898	862	772	861
Other Current Assets	320	319	305	830	1,182	784	782	815
Current Assets	2,818	3,090	3,494	4,217	5,168	4,688	4,549	5,005
Creditors	1,234	1,087	1,485	1,724	2,357	2,540	2,527	2,808
Provisions	56	98	70	90	48	51	51	56
Other Current Liabilities	1,298	1,281	315	307	311	167	166	184
Curr Liabilities	2,588	2,466	2,533	3,150	4,024	3,621	3,603	4,003
Net Current Assets	230	624	962	1,067	1,143	1,068	946	1,001
Total Assets	8,325	9,142	9,754	13,031	13,963	14,170	14,166	14,617

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	7,602	8,276	8,424	9,268	9,843	10,314	10,264	11,404
Change (%)	18%	9%	2%	10%	6%	5%	0%	11%
EBITDA	1,150	1,365	1,636	1,898	2,067	2,118	2,250	2,529
Change (%)	17%	19%	20%	16%	9%	2%	6%	12%
Margin (%)	15%	16%	19%	20%	21%	21%	22%	22%
Depr & Amor.	82	91	101	142	156	170	187	199
EBIT	1,068	1,275	1,535	1,756	1,911	1,948	2,063	2,330
Int. & other fin. Cost	107	100	119	145	161	224	215	172
Other Income	63	92	84	75	108	109	89	109
EBT	1,024	1,266	1,500	1,686	1,858	1,832	1,937	2,266
Exp Item	6	(17)	(334)	0	180	253	(8)	-
Tax	210	272	336	379	405	(256)	278	510
Minority Int & P/L share of Ass.	60	69	3	1	1	-	-	-
Reported PAT	760	907	828	1,308	1,634	2,341	1,651	1,756
Adjusted PAT	755	921	1,086	1,308	1,494	2,053	1,658	1,756
Change (%)	9%	22%	18%	20%	14%	37%	-19%	6%
Margin(%)	10%	11%	13%	14%	15%	20%	16%	15%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	20%	21%	19%	25%	26%	32%	21%	21%
ROCE	20%	20%	23%	21%	22%	20%	21%	23%
Asset Turnover	1	1	1	1	1	1	1	1
Debtor Days	34	35	48	41	46	46	46	46
Inv Days	52	47	57	56	59	55	55	55
Payable Days	59	48	64	68	87	90	90	90
Int Coverage	10	13	13	12	12	9	10	14
P/E	38	30	46	43	48	32	46	43
Price / Book Value	8	6	12	11	12	9	10	9
EV/EBITDA	26	21	31	31	36	32	34	30
FCF per Share	10	8	6	16	14	15	17	19
Div Yield	1%	1%	1%	1%	1%	2%	1%	1%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
PBT	1,024	1,266	1,500	1,687	1,859	1,833	1,930	2,266
(inc)/Dec in Working Capital	199	(113)	(486)	301	(16)	1	(2)	34
Non Cash Op Exp	59	63	116	140	196	199	187	199
Int Paid (+)	107	100	119	145	161	224	215	172
Tax Paid	(238)	(257)	(336)	(407)	(393)	(435)	(278)	(510)
others	(23)	(54)	(66)	(61)	(84)	(105)	-	-
CF from Op. Activities	1,129	1,005	847	1,805	1,723	1,729	2,052	2,161
(inc)/Dec in FA & CWIP	(133)	(190)	(208)	(180)	(311)	(208)	(322)	(195)
Free Cashflow	996	814	639	1,625	1,412	1,521	1,730	1,966
(Pur)/Sale of Inv	74	(450)	210	(393)	214	329	0	-
others	(436)	(574)	(605)	(1,597)	(146)	178	-	-
CF from Inv. Activities	(495)	(1,214)	(602)	(2,170)	(340)	252	(322)	(195)
inc/(dec) in NW	0	-	0	0	0	0	(0)	-
inc/(dec) in Debt	(321)	300	142	1,024	(488)	(345)	(600)	(600)
Int. Paid	(113)	(119)	(119)	(124)	(158)	(215)	(215)	(172)
Div Paid (inc tax)	(170)	(179)	(187)	(196)	(613)	(1,227)	(865)	(920)
others	(29)	(14)	(38)	(40)	(125)	(252)	(173)	(184)
CF from Fin. Activities	(633)	(12)	(202)	665	(1,384)	(2,039)	(1,853)	(1,876)
Inc(Dec) in Cash	1	(221)	43	300	(0)	(58)	(123)	89
Add: Opening Balance	624	625	570	595	898	895	895	772
Closing Balance	625	404	613	895	898	862	772	861

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