

GODREJ CONSUMER PRODUCTS LTD.

HOLD

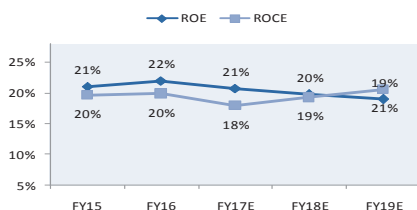
27-Apr-17

INDUSTRY - Con. Staples
 BSE Code - 532424
 NSE Code - GODREJCP
 NIFTY - 9352

Company Data

CMP	1725
Target Price	HOLD
Previous Target Price	
Upside	
52wk Range H/L	1771/1286
Mkt Capital (Rs Cr)	58,766
Av. Volume (,000)	165

RoE & ROCE

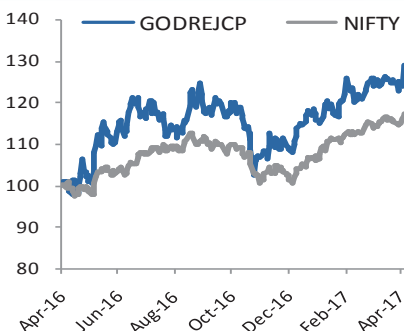


Share Holding patterns %

	3QFY17	2QFY17	1QFY17
Promoters	63.3	63.3	63.3
Public	36.7	36.7	36.7
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	3.6	11.9	26.2
Rel.to Nifty	0.9	3.2	7.8



RAJEEV ANAND
 rajeev.anand@narnolia.com

Key Highlights of the Report:

- ✓ GODREJCP is one of the fastest growing company in our FMCG universe with 28% CAGR revenue growth and 22% PAT growth in last 6 years.
- ✓ GODREJCP is present in less penetrated segment as compared to other FMCG players such as hair color. It will give it enough room to grow.
- ✓ Recent commentary by management is very encouraging which indicates better recovery after demonetization in Q4FY17E.
- ✓ GODREJCP has achieved our price target of Rs 1760 on 26 April 2017. As it is one of the fastest growing company with stable ROE of ~ 20% and now it is recovering after demonetization, Hence before revising our estimates we need to go through Q4FY17 result of it which is due on 9 May, 2017. **At present we recommend 'HOLD' on this stock.**

Financials/Valu	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	8,276	8,968	9,523	10,592	11,853
EBITDA	1,365	1,639	1,857	2,050	2,235
EBIT	1,275	1,536	1,714	1,886	2,075
PAT	907	1,119	1,251	1,413	1,590
EPS (Rs)	27	33	37	41	47
EPS growth (%)	19%	23%	12%	13%	13%
ROE (%)	21%	22%	21%	20%	19%
ROCE (%)	20%	20%	18%	19%	21%
BV	127	150	177	210	246
P/B (X)	6.4	9.7	9.2	7.8	6.7
P/E (x)	30.2	44.3	44.6	39.5	35.1

RESULT PREVIEW:

- ✓ Overall revenue is expected to grow by 9%YoY to Rs 2473 cr whereas PAT will remain to Rs 352.
- ✓ We expect 1% overall volume growth and 3.5% realization growth for GODREJCP in Q4FY17.
- ✓ We expect deterioration in gross margin by 14 bps YoY and 46 bps QoQ in Q4FY17E. Gross margin is expected to remain 57% in Q4FY17E.
- ✓ EBITDA margin will remain 19.9% in Q4FY17E, an improvement of 6 bps YoY led by better cost management.
- ✓ PAT margin is expected to improve by 55 bps YoY to 14.2% on the back of lower Tax out go in Q4FY17E.

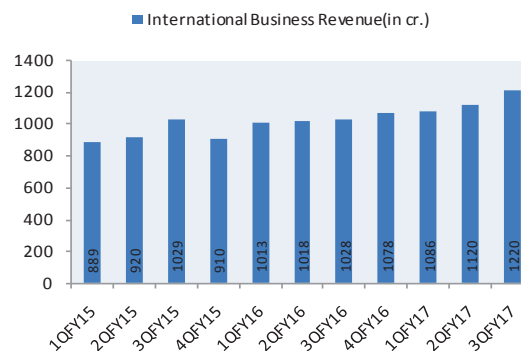
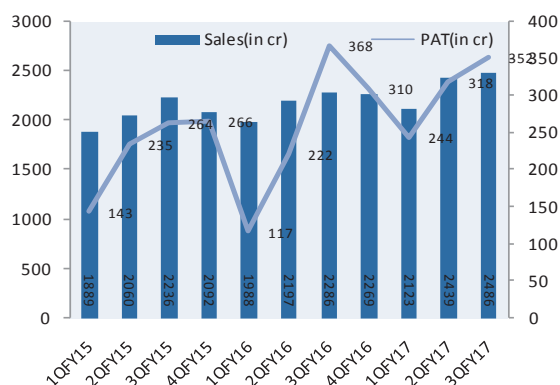
Quarterly Performance

Financials	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	YoY %	QoQ%	FY15	FY16	YoY %
Net Sales	2,286	2,269	2,123	2,439	2,486	9%	2%	8,276	8,968	8%
Other Income	17	14	14	17	19	10%	13%	92	67	-27%
COGS	992	973	982	1,059	1,057	7%	0%	3,842	3,846	0%
Ad & P Expenses	172	215	168	203	192	12%	-6%			
Employee Cost	236	246	249	241	256	8%	6%	777	960	24%
Other Expenses	345	386	343	391	381	10%	-3%	2,293	2,523	10%
EBITDA	455	449	381	466	517	14%	11%	1,365	1,639	20%
Depreciation	26	29	33	36	36	41%	1%	91	103	14%
Interest	30	24	33	35	40	34%	13%	100	100	0%
PBT	427	410	330	412	447	5%	9%	1,266	1,503	19%
Tax	94	98	75	91	99	4%	9%	272	317	16%
PAT	368	310	244	318	352	-4%	11%	907	1,119	23%

International business grew by 19% YoY.

Better revenue growth led by robust international business performance

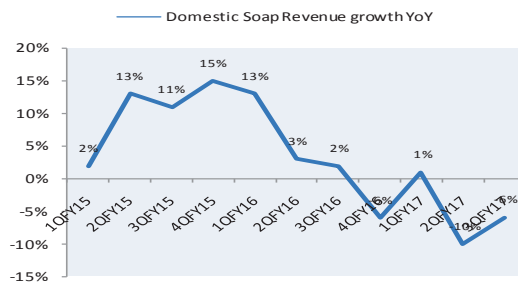
- ✓ Revenue for Q3FY17 grew by 9% YoY to Rs 2486 cr led by 19% YoY growth in the international business.
- ✓ Africa business including Strength of Nature grew by strong 54% in constant currency term. Indonesian business which contributes approx. 17% of total revenue remained flat while Latin America and Europe grew by 24% and 16% in Constant currency terms in this quarter.
- ✓ Domestic sales remained flat YoY due to demonetization and domestic volume declined by 3% YoY.
- ✓ Gross margin improved by 88 bps YoY to 57.5% supported by lower input prices.
- ✓ EBITDA for this quarter grew by 14% YoY to Rs 517 cr. EBITDA margin improved by 91 bps YoY 20.8%.
- ✓ PAT declined by 4% YoY to Rs 352 cr and PAT margin contracted by 194 bps in Q3FY17.



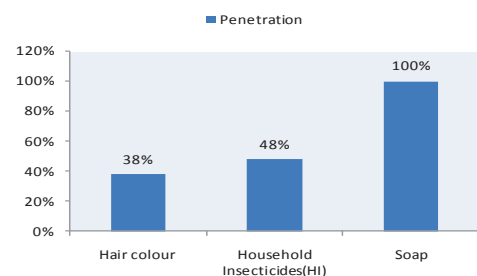
Margin %	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	YoY(+/-)	QoQ(+/-)	FY15	FY16	YoY(+/-)
Gross Margin	56.6%	57.1%	53.8%	56.6%	57.5%	0.9%	0.9%	53.6%	57.1%	3.5%
EBITDA Margin	19.9%	19.8%	17.9%	19.1%	20.8%	0.9%	1.7%	16.5%	18.3%	1.8%
PAT Margin	16.1%	13.7%	11.5%	13.0%	14.2%	-1.9%	1.1%	11.0%	12.5%	1.5%

- ✓ Gross margin improved by 88 bps YoY to 57.5% supported by lower input prices.
- ✓ EBITDA grew by 14% YoY to Rs 517 cr in Q3FY17. EBITDA margin improved by 91 bps YoY to 20.8% on the back of lower COG and employee cost.
- ✓ PAT de-grew by 4% YoY to Rs 352 cr. PAT margin for this quarter remained 14.2% ,declined by 194 bps YoY.

Domestic Soap Revenue growth YoY



Segments Penetration



Concall Highlights(Q3FY17):

- ✓ Indonesian business: Non HI (Home Insecticide) portfolio performed better. Improved market share in HI business. Management is hopeful for better growth from Indonesia next year.
- ✓ The management is Confident to outpace industry growth going forward(domestic market).
- ✓ Management is confident of EBITDA growth ahead of the sales growth.
- ✓ After demonetization, recovery is much faster than what was expected. It will be back to normal in couple of month.
- ✓ Ad&P Expenses will be in the range of 11%.
- ✓ Going forward, the company will maintain innovation, launch new products, intensify introduction on Lower Unit Pack(LUP), expand direct reach and work for brand building.
- ✓ Price hike of 2% taken in the domestic soaps business in 3QFY17. Gained market share in Cinthol.
- ✓ Scope of Margin improvement in International Market: for Indonesia still chance of some margin expansion, LA(Latin America) scope of more margin expansion and for African business potential of significant margin improvement in next 3-5 years.
- ✓ SON supply issue will be short term issue. The company will localize its factory there in CY2017. Capex in Africa will be very low.
- ✓ MT(Modern Trade) grew by 33% in this quarter.
- ✓ Margin expansion: Gross margin will not as good as this quarter going forwards.

Took price hike of 2% in domestic soap business.

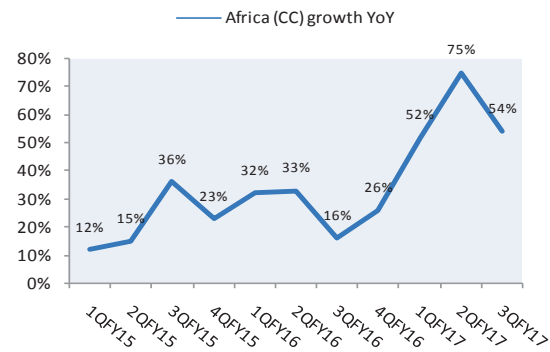
Investment Arguments:

- ✓ **Innovation and new product launches:** The Company gets 25% to 40% of sales growth from launch of new products historically. Going forward, the company will maintain innovation, launch new products, intensify introduction on Lower Unit Pack (LUP) which will deliver better growth going forward.
- ✓ **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:** Indonesian market contributes approx. 17% 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.
- ✓ **African business (Potential growth driver):** African business grew by 19% YoY in constant currency (CC) terms and 54%YoY including Strength of Nature in Q3FY17. We expect similar growth in Q4FY17. Although African business is facing some currency headwinds but by localizing production facility and increasing prices company is expected to counter it. Going forward management sees continuous margin improvement from African business in next 3-5 years.

Indonesian Market Constant Currency(CC) growth



Africa Constant Currency(CC) growth



View & Valuation

Recent commentary by management is very encouraging which indicates better recovery after demonetization in Q4FY17E. GODREJCP is present in less penetrated segment as compared to other FMCG players such as Hair color and Home Insecticide. It will give it enough room to grow further. As far as international business in concern, we expect better revenue growth from Indonesian market going forward as company is expanding its distribution reach and launching new products. GODREJCP has achieved our price target of Rs 1760 on 26 April 2017. As GODREJCP is one of fastest growing company with stable ROE of ~ 20% and now it is recovering after demonetization, Hence before revising our estimates we need to go through Q4FY17 result which is due on 9May, 2017. **At present we recommend 'HOLD' on this stock.**

Financials Snap Shot

Income Statement					Rs in Crores
Y/E March	FY16	FY17E	FY18E	FY19E	
Revenue from Operation	8,968	9,523	10,592	11,853	
Change (%)	8%	6%	11%	12%	
<i>Other Operating Income</i>					
EBITDA	1,639	1,857	2,050	2,235	
Change (%)	20%	13%	10%	9%	
Margin (%)	18%	20%	19%	19%	
Dep & Amortization	103	143	165	160	
EBIT	1,536	1,714	1,886	2,075	
Interest & other finance cost	100	130	106	81	
Other Income	67	52	61	71	
EBT	1,503	1,636	1,841	2,065	
Exceptional Item	(27)	-	-	-	
Tax	317	345	388	436	
Minority Int & P/L share of Ass.	39	39	39	39	
Reported PAT	1,119	1,251	1,413	1,590	
Adjusted PAT	1,140	1,251	1,413	1,590	
Change (%)	24%	10%	13%	13%	
Margin(%)	13%	13%	13%	13%	

Key Ratios				
Y/E March	FY16	FY17E	FY18E	FY19E
ROE	22%	21%	20%	19%
ROCE	20%	18%	19%	21%
Asset Turnover	0.9	0.8	0.8	0.9
Debtor Days	45.50	45.50	45.50	45.50
Inventory Days	53.2	53.2	53.2	53.2
Payable Days	42	42	42	42
Interest Coverage	15.34	13.19	17.85	25.52
P/E	44	45	40	35
Price / Book Value	9.7	9.2	7.8	6.7
EV/EBITDA	31	32	28	25
FCF per Share	19	34	45	48
Dividend Yield	0.4%	0.4%	0.4%	0.5%

Assumptions

Y/E March	FY16	FY17E	FY18E	FY19E
Volume Growth(domestic)	10%	2%	6%	7%
Realization Growth(domestic)	-1%	0%	4%	5%
Capex(Rs crore)	391	262	100	100

Balance Sheet					Rs in Crores
Y/E March	FY16	FY17E	FY18E	FY19E	
Share Capital	34	34	34	34	
Reserves	5,064	6,007	7,137	8,357	
Networth	5,098	6,041	7,171	8,391	
Debt	2631	3517	2617	1717	
Other Non Current Liab	37	37	37	37	
Total Capital Employed	7,729	9,558	9,788	10,108	
Net Fixed Assets (incl CWIP)	1,780	3,495	3,401	3,312	
Non Current Investments	34	34	34	34	
Other Non Current Assets	4,792	4,845	4,845	4,845	
Non Current Assets	6,606	8,375	8,281	8,192	
Inventory	1,307	1,388	1,544	1,727	
Debtors	1,118	1,187	1,320	1,478	
Cash & Bank	746	569	688	812	
Other Current Assets	376	537	714	945	
Current Assets	3,547	3,681	4,266	4,962	
Creditors	1,037	1,101	1,225	1,371	
Provisions	65	69	77	86	
Other Current Liabilities	1,202	1,276	1,419	1,588	
Curr Liabilities	2,303	2,446	2,721	3,044	
Net Current Assets	1,244	1,235	1,546	1,917	
Total Assets	10,153	12,056	12,547	13,154	

Cash Flow Statement					Rs in Crores
Y/E March	FY16	FY17E	FY18E	FY19E	
PBT	1,503	1,557	1,762	1,986	
(inc)/Dec in Working Capital	(482)	(21)	(40)	(47)	
Non Cash Op Exp	116	143	165	160	
Interest Paid (+)	100	130	106	81	
Tax Paid	(336)	(345)	(388)	(436)	
others	(41)	-	-	-	
CF from Op. Activities	839	1,459	1,657	1,748	
(inc)/Dec in FA & CWIP	(208)	(286)	(126)	(127)	
Free Cashflow	631	1,173	1,531	1,622	
(Pur)/Sale of Investment	(330)	(147)	(150)	(200)	
others	43	(61)	(1)	(2)	
CF from Inv. Activities	(495)	(2,059)	(222)	(273)	
inc/(dec) in NW	-	-	-	-	
inc/(dec) in Debt	157	886	(900)	(900)	
Interest Paid	(119)	(130)	(106)	(81)	
Dividend Paid (inc tax)	(225)	(263)	(297)	(334)	
others	-	(70)	-	-	
CF from Fin. Activities	(187)	424	(1,302)	(1,315)	
Inc/Dec) in Cash	157	(177)	133	124	
Add: Opening Balance	404	746	569	688	
Closing Balance	561	569	702	812	