

Retail Equity Research

Godrej Consumer Products Ltd

FMCG

BSE CODE: 532424 NSE CODE: GODREJCP
Bloomberg CODE: GCPL:IN SENSEX: 40,286

HOLD

12M Investment period Rating as per Large Cap
CMP Rs. 715 TARGET Rs. 758 RETURN 6% 
(Closing: 14-11-19)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Volumes grow at the cost of value

Godrej Consumer Products Ltd (GCPL) is one of India's leading home-grown household and personal care companies. GCPL also has presence in other countries, including Indonesia, Africa, the US, and the Middle East.

- Topline contracted 1.1% YoY to Rs. 2,630cr in Q2FY20 although volumes in domestic business improved ~7.0% YoY indicating low value growth on account of lower prices and consumer offers.
- India business was driven by Household Insecticide (HI) segment which grew ~4.0% YoY while Internationally, Indonesia segment registered 17.1% YoY growth.
- EBITDA margin came in at 21.9% (+360bps YoY) helped by effective cost management and new launches while adj. PAT increased 15.1% YoY to Rs. 417cr in Q2FY20.
- We reiterate our HOLD rating on the stock with a revised target price of Rs. 758 based on 40x FY21E adj. EPS given the strong volume growth, new product pipeline and improving market share.

Recovery in Household Insecticides

Godrej Consumer Products Limited posted Q2FY20 revenue of Rs. 2,630cr (down 1.1% YoY) driven primarily by Indonesia segment which witnessed 13% YoY growth at constant currency (CC; 17.1% YoY reported). Growth in West Africa was hampered by adverse economic conditions causing a fall in GUAM sales by ~6.0% YoY (-2% YoY CC). The company has focused on driving volumes through new product launches, effective marketing and consumer offers. India business grew 1% YoY as HI segment (~43.3% of India revenues) was up ~4.0% YoY offset by soaps (~31.1% of India revenues) which fell ~4.0% YoY albeit strong volume growth, on account of price cuts with an aim to gain market share. EBITDA grew 18.5% YoY to Rs. 577cr in Q2FY20 while EBITDA margin improved by 360bps YoY to 21.9% due to effective cost control.

Key concall highlights

- Price cuts in Liquid Vapourizer driving increase in market share
- Company plans to increase India volumes through innovation and enhancements to its go-to-market model
- Company not affected by tax rates change much as they operate in tax exempt locations and expect effective tax rate to remain unchanged at 20%-22%
- Management not worried if margins fall in the pursuit of volume growth and have changed their sales incentive model from value to volume based
- Management expects a gradual recovery in FMCG industry in the coming quarters

Disruptive new products to reverse consumption slowdown

The company has launched Goodnight Gold Flash in South India which brings down mosquitos with a vapor blast. This disruptive product is expected to be rolled out across India by Q4FY20. HIT Anti-Mosquito racquet is a premium product launched through e-commerce channel. New hair colour products were launched with a new brand ambassador, Anushka Sharma, which is expected to make the brand more relevant and push sales further.

Valuation

We estimate topline to grow at a CAGR of 7.3% and EBITDA margin to improve to 22.6% by FY21E. However, EPS is expected to decline at a CAGR of 4.7% from FY19-21E. We reiterate our HOLD rating with a target price of Rs. 758 based on 40x FY21E adj. EPS, given the company's strong volume growth in a highly competitive sector, improving market share and launch of new disruptive products at competitive price points.

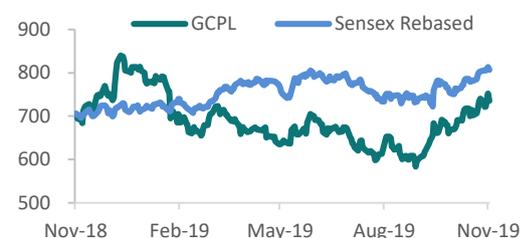
Company Data

Market Cap (cr)	Rs.73,077
Enterprise Value (cr)	Rs.74,292
Outstanding Shares (cr)	102.2
Free Float	37.0%
Dividend Yield	1.2%
52 week high	Rs.848
52 week low	Rs.577
6m average volume (lacs)	0.1
Beta	0.6
Face value	Rs.1

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	63.3	63.3	63.2
FII's	27.5	28.0	27.8
MFs/Insti	2.5	2.2	2.2
Public	5.3	5.5	5.4
Others	1.5	1.2	1.3
Total	100.0	100.0	100.0
Promoters pledge %	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	13.5%	12.0%	0.9%
Absolute Sensex	8.0%	8.0%	14.6%
Relative Return*	5.5%	4.0%	-13.7%

*over or under performance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	10,314	10,749	11,875
Growth (%)	3.8	4.2	10.5
EBITDA	2,131	2,366	2,682
EBITDA Margin (%)	20.7	22.0	22.6
Adj. PAT	2,132	1,643	1,936
Growth (%)	43.5	-22.9	17.8
Adj. EPS	20.9	16.1	18.9
Growth (%)	43.5	-22.9	17.8
P/E	32.8	44.5	37.7
P/B	9.6	9.1	8.2
EV/EBITDA	33.8	31.4	27.4
ROE (%)	32.2	20.5	21.6
D/E	0.4	0.3	0.2

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Revenue	2,630	2,661	(1.1)	2,349	12.0	4,979	5,138	(3.1)
EBITDA	577	487	18.5	459	25.6	1,035	936	10.7
EBITDA margins	21.9	18.3	360bps	19.5	240bps	20.8	18.2	260bps
Depreciation	48	43	12.1	47	0.8	95	85	12.2
EBIT	529	444	19.1	412	28.5	940	851	10.5
Interest	53	61	(13.2)	55	(3.6)	108	109	(0.7)
Other Income	22	26	(15.9)	18	21.7	40	53	(23.2)
Exceptional Items	(4)	260	-	0	-	(3)	253	-
PBT	494	669	(26.1)	375	31.8	869	1,048	(17.0)
Tax	80	91	(11.7)	(33)	-	48	65	(26.5)
Share of profit from Associate	0	0	-	0	-	0	0	-
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	414	578	(28.4)	408	1.5	821	983	(16.4)
Adjustments	3	(216)	-	(0)	-	3	(210)	-
Adjusted PAT	417	362	15.1	407	2.3	824	773	6.7
No. of shares	102.2	102.2	-	102.2	-	102.2	102.2	-
EPS (Rs)	4.1	3.5	15.1	4.0	2.3	8.1	7.6	6.7

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	11,371	12,548	10,749	11,875	(5.5)	(5.4)
EBITDA	2,249	2,502	2,366	2,682	5.2	7.2
Margins (%)	19.8	19.9	22.0	22.6	220bps	270bps
Adj. PAT	1,744	1,971	1,643	1,936	(5.8)	(1.8)
EPS	17.1	19.3	16.1	18.9	(6.0)	(1.9)



PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	9,609	9,937	10,314	10,749	11,875
% change	7.1	3.4	3.8	4.2	10.5
EBITDA	1,913	2,096	2,131	2,366	2,682
% change	17.8	9.6	1.7	11.0	13.4
Depreciation	142	156	170	190	194
EBIT	1,772	1,940	1,961	2,176	2,488
Interest	145	161	224	198	193
Other Income	60	259	348	73	126
PBT	1,686	2,039	2,085	2,051	2,420
% change	14.2	20.9	2.3	(1.7)	18.0
Tax	379	405	(256)	410	484
Tax Rate (%)	22.5	19.8	(12.3)	20.0	20.0
Reported PAT	1,303	1,634	2,342	1,640	1,936
Adj*	-	(149)	(210)	3	-
Adj PAT	1,303	1,485	2,132	1,643	1,936
% change	16.4	14.0	43.5	(22.9)	17.8
No. of shares (cr)	102.2	102.2	102.2	102.2	102.2
Adj EPS (Rs)	12.7	14.5	20.9	16.1	18.9
% change	16.4	14.0	43.5	(22.9)	17.8
DPS (Rs)	5.0	6.7	10.0	9.0	10.0
CEPS (Rs)	14.1	15.8	22.1	17.9	20.8

CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	1,445	1,790	2,512	1,831	2,131
Non-cash adj.	(64)	(269)	(863)	459	92
Changes in W.C	424	203	80	50	19
C.F. Operation	1,805	1,723	1,729	2,340	2,241
Capital exp.	(180)	(311)	(208)	(322)	(356)
Change in inv.	(2,030)	(95)	514	(2)	(5)
Other invest.CF	41	66	(55)	93	99
C.F - Investment	(2,170)	(340)	252	(232)	(262)
Issue of equity	0	0	0	-	-
Issue/repay debt	1,024	(488)	(345)	(410)	(536)
Dividends paid	(196)	(613)	(1,227)	(920)	(1,022)
Other finance.CF	(164)	(283)	(468)	(198)	(193)
C.F - Finance	665	(1,384)	(2,039)	(1,528)	(1,751)
Chg. in cash	300	(0)	(58)	581	228
Closing cash	913	960	895	1,476	1,703

BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	913	960	895	1,476	1,703
Accounts Receivable	1,029	1,246	1,293	1,397	1,603
Inventories	1,413	1,578	1,559	1,570	1,663
Other Cur. Assets	863	1,384	942	949	966
Investments	252	142	35	37	42
Gross Fixed Assets	1,101	1,322	1,576	1,898	2,254
Net Fixed Assets	943	1,066	1,192	1,271	1,379
CWIP	101	82	51	55	59
Intangible Assets	7,143	7,250	7,479	7,528	7,578
Def. Tax (Net)	96	100	549	299	353
Other Assets	280	155	175	182	189
Total Assets	13,031	13,963	14,170	14,765	15,537
Current Liabilities	3,150	4,024	3,621	3,794	4,130
Provisions	40	98	108	111	115
Debt Funds	4,252	3,275	3,093	2,683	2,147
Other Liabilities	287	307	81	168	198
Equity Capital	34	68	102	102	102
Reserves & Surplus	5,268	6,190	7,165	7,905	8,844
Shareholder's Fund	5,302	6,258	7,267	8,007	8,947
Minority Interest	-	-	-	-	-
Total Liabilities	13,031	13,963	14,170	14,765	15,537
BVPS (Rs)	52	61	71	78	88

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	19.9	21.1	20.7	22.0	22.6
EBIT margin (%)	18.4	19.5	19.0	20.2	20.9
Net profit mgn.(%)	13.6	16.4	22.7	15.3	16.3
ROE (%)	24.6	26.1	32.2	20.5	21.6
ROCE (%)	18.5	20.4	18.9	20.4	22.4
W.C & Liquidity					
Receivables (days)	39.1	45.7	45.8	47.5	49.3
Inventory (days)	115.3	131.8	124.9	120.5	116.8
Payables (days)	140.7	196.9	203.6	207.6	212.3
Current ratio (x)	1.2	1.2	1.2	1.3	1.3
Quick ratio (x)	0.8	0.7	0.7	0.8	0.9
Turnover & Leverage					
Gross asset T.O (x)	6.5	8.2	7.1	6.2	5.7
Total asset T.O (x)	0.8	0.7	0.7	0.7	0.8
Int. covge. ratio (x)	12.2	12.1	8.7	11.0	12.9
Adj. debt/equity (x)	0.8	0.5	0.4	0.3	0.2
Valuation					
EV/Sales (x)	6.1	7.6	7.0	6.9	6.2
EV/EBITDA (x)	30.7	36.0	33.8	31.4	27.4
P/E (x)	42.5	49.2	32.8	44.5	37.7
P/BV (x)	10.4	11.7	9.6	9.1	8.2

Recommendation Summary



Dates	Rating	Target
31-Jul-15	BUY	467
29-Jan-16	BUY	487
4-Aug-16	HOLD	504
9-Feb-17	HOLD	555
29-May-17	HOLD	612
31-Oct-17	HOLD	669
14-Sep-18	HOLD	898
13-Aug-19	HOLD	656
15-Nov-19	HOLD	758

Source: Bloomberg, Geojit Research

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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