

RETAIL EQUITY RESEARCH

Godrej Consumer Products Ltd

FMCG

BSE CODE: 532424

NSE CODE: GODREJCP

Bloomberg CODE: GCPL.IN

SENSEX: 37,718

HOLD

Rating as per Largcap

12months investment period

CMP Rs. 864 TARGET Rs. 898 RETURN 4% ↑

14th September 2018**Valuations fully price-in positives**

Godrej Consumer Products Ltd (GCPL) is one of India's leading home-grown household & personal care company. It also has presence in other countries like Indonesia, Africa, US, Middle East, among others.

- Consolidated sales grew by 13.7% YoY driven mainly by Indian operations which recorded a strong comparable growth of 14% YoY in Q1FY19.
- Despite strong India performance (up 440 bps YoY), EBITDA margin expanded by just 190 bps YoY to 17.9% in Q1FY19 as international operations (mainly GAUM) pulled down the overall operating results.
- Though reported PAT increased by 80% due to benefit of deferred tax asset, adjusted PAT increased by 36% YoY.
- We expect sales/PAT CAGR of 11.4%/15.3% over FY18-21E given robust volume growth in India, recovery in Indonesia business and aggressive new product launches.
- Hence, we continue to maintain 'HOLD' rating on the stock with a revised target price of Rs. 898 is based on 41x FY21E EPS.

India business drives topline growth

Consolidated sales grew by 13.7% YoY driven mainly by Indian operations which recorded strong comparable growth of 14% YoY in Q1FY19. The entire growth in India business came on the back of volume growth (14%). International business reported comparable growth rate (in CC terms) of 7% YoY mainly led by Indonesia business which grew by 10% YoY in CC terms. Improvement in household insecticides (HI), new product launches and effective sales promotion helped the company grow ahead of the market in Indonesia. GAUM segment (includes Africa, US & Middle East) disappointed with 5% YoY increase in sales in CC terms due to weakness in South Africa business. However, business ex-South Africa grew in double digits. Others (Latin America, Europe & SAARC) reported 8% growth in CC terms.

India business on a strong footing

India business delivered double digit volume growth across segments. HI clocked its highest growth in the last seven quarters with stupendous 17% YoY (comparable) growth in topline during the quarter aided by better season and new product launches. Hair colour segment also witnessed robust 12% YoY (like-to-like) increase supported by consistent performance of Godrej Expert Rich Crème, expanded distribution reach and market share gains. Soaps business led by effective micro marketing initiatives, focus on new states and strong on the ground execution grew by 10% YoY (comparable) during the quarter.

International ops. drags overall operating performance

Indian market delivered solid performance with 460 bps YoY (like-to like) expansion in EBITDA margin to 21.9% (adjusted), although on a low base, led mainly by strong topline growth. However, EBITDA margin declined by 50 bps YoY to 14.3% for international operations as GAUM cluster reported 250 bps YoY decline in margin. The performance was impacted by higher input cost and upfront marketing investments. On the flip side, Indonesia reported robust 220 bps YoY increase in margin led by cost savings initiatives and lower overheads & sales promotion spends. Hence, the blended EBITDA margin was up only 190 bps YoY to 17.9% in Q1FY19. While reported PAT increased by 80% YoY during the quarter mainly due to benefit of deferred tax asset, adjusted PAT was up by 36% YoY. We expect EBITDA margin to improve by 132 bps over FY18-21E led by cost cutting initiatives, improvement of profitability in international markets & operating leverage.

Strong focus on innovation

The company is strongly focussed on launching new and innovative products to drive penetration. During the quarter, it launched Goodnight power chip system with an intent to upgrade the coil users to a more efficacious and affordable format. It also launched Goodknight Activ+ liquid vaporizer (LV) with 50% more efficacy at price of regular LV. To drive trials, it introduced fabric roll-on at an attractive price point of Rs. 20. The company has also forayed into the Rs 1,000 cr. herbal-based powder hair colour segment under our Godrej Nupur brand. The company is planning a couple of more launches over next 3-4 months.

Outlook & Valuation

We expect sales/PAT CAGR of 11.4%/15.3% over FY18-21E given robust volume growth in India, recovery in Indonesia business and aggressive new product launches. Hence, we continue to maintain 'HOLD' rating on the stock with a revised target price of Rs. 898 is based on 41x FY21E EPS.

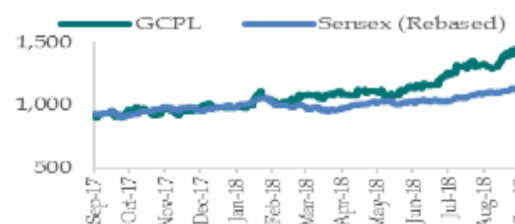
Company Data

Market Cap (Rs cr)	88,286
Enterprise Value (Rs cr)	89,922
Outstanding Shares (cr)	102.2
Free Float	37%
Dividend Yield	0.8%
52 week high	Rs. 980
52 week low	Rs. 593
6m average volume (lacs)	5.6
Beta	0.4
Face value	Rs. 1

Shareholding %	Q3FY18	Q4FY18	Q1FY19
Promoters	63.3	63.3	63.3
FII's	27.7	28.0	28.1
MFs/Insti	2.3	2.2	2.1
Public	5.2	5.1	5.2
Others	1.5	1.4	1.3
Total	100.0	100.0	100.0

Price Performance	3mth	6mth	1 Year
Absolute Return	23%	30%	52%
Absolute Sensex	9%	12%	20%
Relative Return*	14%	18%	32%

*over or under performance to benchmark index



Consolidated (Rs.cr)	FY19E	FY20E	FY21E
Sales	11,007	12,328	13,654
Growth (%)	11.8%	12.0%	10.8%
EBITDA	2,380	2,702	3,047
EBITDA Margin (%)	21.6	21.9	22.3
PAT Adj	1,719	1,970	2,239
Growth (%)	18.2%	14.6%	13.7%
Adj.EPS	16.8	19.3	21.9
Growth (%)	18.2%	14.6%	13.7%
P/E	51.4	44.8	39.4
P/B	13.5	13.0	12.5
EV/EBITDA	38.1	33.6	29.8
RoE (%)	26.9	29.6	32.4
Adj. D/E	0.5	0.5	0.4

Quarterly Financials (Consolidated)

Profit & Loss Account

(Rs cr)	Q1FY19	Q1FY18	YoY Growth %	Q4FY18	QoQ Growth %
Sales	2,476	2,177	13.7	2,529	(2.1)
EBITDA	444	349	27.1	597	(25.6)
EBITDA Margin (%)	17.9	16.0	189bps	23.6	(566bps)
Depreciation	42	37	12.8	40	5.0
EBIT	402	312	28.8	557	(27.8)
Interest	48	40	20.2	42	13.0
Other Income	31	24	30.9	29	6.8
Exceptional Items	(6)	(8)	(14.6)	194	-
PBT	379	288	31.3	737	(48.6)
Tax	(26)	63	-	120	-
PAT	405	225	79.9	617	(34.4)
Minority Interest	(0)	(0)	91.7	(0)	(20.7)
Reported PAT	405	225	79.9	617	(34.4)
Adjustment	6	8	(14.6)	(194)	-
Adj PAT	411	233	76.8	423	(2.8)
No. of shares (cr)*	68.1	68.1	-	68.1	-
EPS (Rs)	6.0	3.4	76.8	6.2	(2.8)

Change in Estimates

Year / Rscr	Old estimates	New estimates	Change %
	FY19E	FY19E	FY19E
Revenue	11,523	11,007	(4.5)
EBITDA	2,403	2,380	(1.0)
Margins (%)	20.9	21.6	70 bps
Adj. PAT	1,708	1,719	0.6
Adj. EPS	16.7	16.8	0.6

Consolidated Financials

Profit & Loss Account

Y.E March (Rs cr)	FY17	FY18	FY19E	FY20E	FY21E
Sales	9,268	9,843	11,007	12,328	13,654
% change	10.0%	6.2%	11.8%	12.0%	10.8%
EBITDA	1,898	2,067	2,380	2,702	3,047
% change	16.0%	8.9%	15.2%	13.5%	12.8%
Depreciation	142	156	171	184	195
EBIT	1,756	1,911	2,209	2,518	2,853
Interest	145	161	153	144	135
Other Income	75	108	118	134	151
PBT	1,686	1,858	2,174	2,508	2,869
% change	12.4%	10.2%	17.0%	15.3%	14.4%
Tax	379	405	457	539	631
Tax Rate (%)	22.5%	21.8%	21.0%	21.5%	22.0%
Reported PAT	1,308	1,634	1,713	1,970	2,239
Adj*	0	180	(6)	-	-
Adj PAT	1,308	1,455	1,719	1,970	2,239
% change	12.6%	11.2%	18.2%	14.6%	13.7%
No. of shares (cr)	34.1	68.1	102.2	102.2	102.2
Adj EPS (Rs)	12.8	14.2	16.8	19.3	21.9
% change	12.6%	11.2%	18.2%	14.6%	13.7%
DPS (Rs)	5.0	6.7	12.0	14.0	16.0

Cash flow

Y.E March (Rs cr)	FY17	FY18	FY19E	FY20E	FY21E
Pre-tax profit	1,687	1,859	2,176	2,509	2,870
Depreciation	142	156	171	184	195
Changes in W.C	341	(16)	(56)	(84)	(94)
Others	98	117	34	10	(16)
Tax paid	(407)	(393)	(457)	(539)	(631)
C.F.O	1,860	1,723	1,869	2,081	2,324
Capital exp.	(1,612)	(409)	(250)	(250)	(250)
Change in inv.	(599)	2	-	(200)	(200)
Other invest.CF	41	66	118	134	151
C.F - investing	(2,170)	(340)	(132)	(316)	(299)
Issue of equity	0	0	34	-	-
Issue/repay debt	1,024	(488)	(200)	(200)	(200)
Dividends paid	(236)	(738)	(1,477)	(1,723)	(1,969)
Other finance.CF	(124)	(159)	(153)	(144)	(135)
C.F - Financing	665	(1,384)	(1,795)	(2,066)	(2,303)
Chg. in cash	355	(0)	(58)	(302)	(278)
Closing cash	913	960	902	600	322

Balance Sheet

Y.E March (Rs cr)	FY17	FY18	FY19E	FY20E	FY21E
Cash	913	960	902	600	322
Accounts Receivable	1,029	1,246	1,380	1,545	1,711
Inventories	1,413	1,578	1,767	1,981	2,205
Other Cur. Assets	342	528	565	605	647
Investments	934	997	997	1,197	1,397
Gross Fixed Assets	3,628	3,955	4,209	4,459	4,709
Net Fixed Assets	3,420	3,596	3,679	3,744	3,800
CWIP	97	84	80	80	80
Intangible Assets	4,663	4,719	4,719	4,719	4,719
Def. Tax (Net)	(190)	(205)	(205)	(205)	(205)
Other Assets	130	155	155	155	155
Total Assets	12,750	13,658	14,039	14,422	14,832
Current Liabilities	2,455	3,051	3,355	3,692	4,030
Provisions	-	-	-	-	-
Debt Funds	4,001	3,494	3,294	3,094	2,894
Other Liabilities	993	855	855	855	855
Equity Capital	34	68	102	102	102
Reserves and Surplus	5,268	6,190	6,433	6,680	6,951
Shareholder's Fund	5,302	6,258	6,535	6,782	7,053
Minority Interest	-	-	-	-	-
Total Liabilities	12,750	13,658	14,039	14,422	14,832
BVPS (Rs)	51.9	61.2	63.9	66.4	69.0

Ratios

Y.E March	FY17	FY18	FY19E	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	20.5	21.0	21.6	21.9	22.3
EBIT margin (%)	18.9	19.4	20.1	20.4	20.9
Net profit mgn.(%)	14.1	14.8	15.6	16.0	16.4
ROE (%)	27.3	25.2	26.9	29.6	32.4
ROCE (%)	22.2	21.2	23.8	26.9	30.3
W.C & Liquidity					
Receivables (days)	39	46	46	46	46
Inventory (days)	89	95	95	96	97
Payables (days)	85	111	111	111	111
Current ratio (x)	1.5	1.4	1.4	1.3	1.2
Quick ratio (x)	0.9	0.9	0.8	0.7	0.7
Turnover & Levq.					
Gross asset T.O (x)	3.4	2.6	2.7	2.8	3.0
Total asset T.O (x)	0.8	0.7	0.8	0.9	0.9
Adj. debt/equity (x)	0.8	0.6	0.5	0.5	0.4
Valuation ratios					
EV/Net Sales (x)	9.9	9.2	8.2	7.4	6.7
EV/EBITDA (x)	48.1	43.9	38.1	33.6	29.8
P/E (x)	67.5	60.7	51.4	44.8	39.4
P/BV (x)	16.7	14.1	13.5	13.0	12.5

Recommendation Summary (last 3 years)



Dates	Rating	Target
31-Jul-15	BUY	467
29-Jan-16	BUY	487
04-Aug-16	HOLD	504
09-Feb-17	HOLD	555
29-May-17	HOLD	612
31-Oct-17	HOLD	669
14-Sep-18	HOLD	898

Source: Bloomberg, Geojit Research

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable.

Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell. The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral - The analyst has no investment opinion on the stock under review.

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