



Godrej Consumer Products Ltd

Sector: FMCG

Q4FY16 Result Update

CMP: ₹ 1,366

"Encouraging International Sales; Margin expansion continues"

Recommendation: HOLD

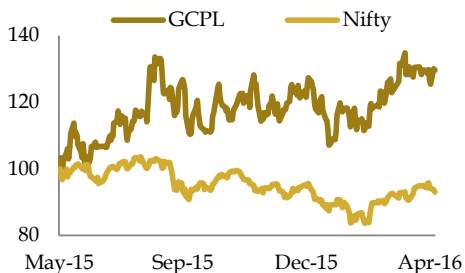
Market Statistics

Current stock price (₹)	1,366
Shares O/S (cr.)	34.1
Mcap (₹ cr)	46,529
52W H/L (₹)	1,459
6m avg. volume	279,797
Bloomberg	GCPL IN

Shareholding pattern

Promoters	63.28
Domestic Institution	1.87
Foreign Institution	28.56
Non-institution	6.29
of which more than 1%	
National Westminster Bank PLC as Depository of First State Asia Pacific Leaders Fund	2.51
Baytree Investments (Mauritius) Pte Limited	2.46

GCPL vs Nifty



Capital efficiency & valuations

Particulars	FY16P	FY17E	FY18E
ROE (%)	30.4	30.9	29.5
ROCE (%)	20.1	20.7	21.6
P/B(x)	8.6	7.3	6.1
P/E (x)	39.4	33.5	28.6
EPS (₹)	33.5	40.9	48.0
EV/OCF (x)	69.4	26.9	23.9

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GCPL reported consolidated net sales growth of 8.8% to ₹22.7bn slightly lower than our expectation of ₹22.9bn (+10% YoY). India business (54% of total) saw a slow sales growth of 6.5% while India branded business has increased by 6% driven by 9% volume growth. HI, Soaps & Hair Colors segments grew by 10%, -6% & 7% YoY, respectively. International business (46% of total) grew by 12% while organic constant currency growth was 18%. Constant currency growth for Indonesia, Africa, LATAM & Europe were 13%, 26%, 31% & 15%, respectively.

Consolidated Gross Margin increased by 140bps YoY (our expectation 142bps) to 56.9%. GCPL's A&P spend has contracted by 6% YoY and stood at 9.5% of sales - down by 154bps. Hence, EBITDA Margin expanded by 106bps to 19.5%, ahead of our expectation of 19%. EBITDA grew by healthy 14.7% YoY. India EBITDA grew by 14.5% YoY while International EBITDA grew by 14%. APAT (excluding exceptional item net of taxes) has increased by 17.6% to ₹3,122mn (our expectation ₹3,061mn).

Slow Domestic Biz Growth, Market Share Gain Continues

Domestic sales growth remained challenging and posted slow growth of 6.5% YoY. The branded business (~90% of domestic) grew by 6% led by 9% volume growth. HI reported 10% sales growth driven by high single digit volume growth. GCPL achieved highest ever market share in HI on full year basis. Soaps posted another muted quarter by sales contracted by 6% while volume growth was low single digit. Hair Color slightly bounced back with 7% growth post a temporary decline in Hair Color by 1% due to channel de-stocking during Q3FY16. It is expected to stabilize from next quarter. New product launches, urban market pickup and distribution expansion should accelerate domestic growth in the medium term.

International Sales Encouraging; Indonesia recovered

International registered healthy 12% sales growth with 18% organic constant currency growth. Recovery in Indonesia business is highly positive on the back on weak performance in the last 4-5 qtrs. FMCG Industry growth in Indonesia still remains under pressure due to macro-economic slowdown. Africa business showed robust 26% growth led by Darling business. Acquisition of SON would further accelerate growth in Africa. LATAM growth was led by Argentina & successful new launches.

Low A&P spend improves Operational Margin

GCPL's consolidated gross margin has improved by 140bps YoY was due to softening of input prices, cost rationalization initiatives and benefits from Project PIE. Employee expenses rose by 29.7%. Advertisement spends declined by 6% as the company emphasized more on promotion activities. Therefore, EBITDA Margin was up by 106bps despite the high base of last year. Domestic EBITDA Margin increased by 164bps while International EBITDA Margin was up by 85bps due to margin expansion of 170bps & 180bps in Indonesia & Africa region. Gross & EBITDA Margin can still expand in the H1FY17 owing to favorable input cost, while H2FY17 would require several tailwinds. Overall EBITDA Margin can sustain at ~18%-18.5% during FY17-18.

Outlook and Valuation

GCPL's business is well diversified between domestic & international market where later is more acquisition driven business. In domestic business, GCPL has leadership in HI & Hair Care and further innovation led launches would sustain the growth momentum. Soaps having price deflation pressure but strong regional hold would continue to drive the business ahead of the category growth. Besides, GCPL's international business is well guided by 3x3 strategy of focusing on three core categories and in emerging geographies in Asia, Africa and Latin America. GCPL's international business is well balanced through geographies, segment diversification and market leadership. GCPL trades at 33.5x and 28.6x of FY17 & FY18 our estimated EPS - 12-month forward P/E is ~35% higher than the past 3 years' average. **We maintain our HOLD rating on the stock.**



Conference Call Highlight

- ❖ **Domestic biz to pick up in FY17; Expects gross margin expansion in H1FY17.** Management anticipates demand pick up in H2FY17 on back of good monsoon scenario. They also mentioned that urban is started to pick up while growth in rural areas is still challenging. They also stated that benefit of lower crude prices would continue till 1-2 qtrs and they are covered for PALM Oil inventory for 3-4 months.
- ❖ **Healthy 11% Domestic Volume growth in Q4FY16.** As per the management, India business volume grew strongly by 11%. Out of which, 2% is offer led volume growth.
- ❖ **Household Insecticide's maintains double digit growth:** HI segment showed double digit growth of 10% driven by high single digit volume growth. Continue to gain market share. HIT is doing very well on back of awareness and activations. Lower crude prices continue to boost gross margins.
- ❖ **Price deflation continues to hamper Soaps category:** Soaps declined by 6% during the quarter and volume growth without offers in low single digit and including offers in double digit. Management mentioned that offers in Soaps are more of tactical strategy and it will settle in the coming quarters. Cinthol continue to deliver good growth while seeing pressure in Godrej No.1 Soap. There is not much impact of Patanjali Soaps.
- ❖ **Hair Colors segment revived:** Hair colors segment bounced back with 7% growth. This growth is led by powder hair colors and double digit volume growth in cream. Management mentioned that their focus would to grow cream market.
- ❖ **B-Blunt & Protekt products distribution expanded:** B-Blunt products have been launched in modern trade and premium general trade earlier been salon product. Management is quite optimistic for Blunt products growth. Protekt hand is getting good response and its performance is in line with management targets.
- ❖ **Encouraging response in AER pocket Bathroom fresheners.** Management mentioned that recently launched Bathroom fresheners are getting good traction. They have gained share in home air fresheners and become No.1 Player in home spray segment.
- ❖ **International business driven by LATAM & Indonesia**
 - **Indonesia** - Indonesia's FMCG sector growth continues to remain flat. GCPL has performed ahead of the market growth and displayed constant currency growth of 13%. Strong EBITDA margins expansion of 170bps in Q4FY16 is due to lower commodity prices & price hikes and optimization of marketing investments. Management guided that margin sustainability in Indonesia is challenging and focus would be launching low units packs, more product variants in FY17.
 - **Africa** business continues to deliver strong growth led by robust growth in Darling. Margins declined by 180bps due to price increase in hair extensions and cost control. Acquisition of Strength of Nature Company would help to build hair care platform in Africa.
 - **LATAM** - Strong constant currency sales growth of 31% was driven strong performance in Argentina. Margins declined by 190bps YoY due to higher marketing costs in Argentina and Chile.
 - **Europe:** Constant currency sales growth of 15% led by strong growth on its own and distributed brands portfolio.. EBITDA margins remain steady.



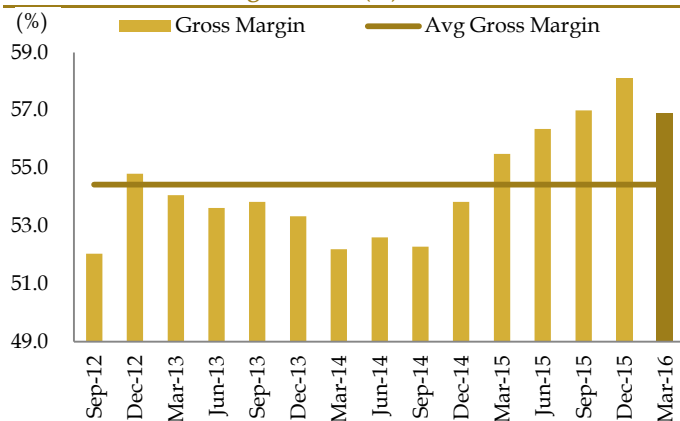
Exhibit 1: Quarter Overview

Particulars (₹ mn)	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Net Sales	19,240	18,863	20,475	22,258	20,826	20,952	22,424	23,535	22,661
YoY Gr (%)	12.2	9.5	4.6	12.5	8.2	11.1	9.5	5.7	8.8
Total income	19,315	18,885	20,601	22,357	20,920	20,977	22,449	23,561	22,691
YoY Gr (%)	12.3	9.4	5.0	12.8	8.3	11.1	9.0	5.4	8.5
Gross profit	10,083	9,935	10,770	12,035	11,609	11,823	12,796	13,697	12,908
YoY Gr (%)	8.5	7.3	2.0	13.8	15.1	19.0	18.8	13.8	11.2
Gross margin (%)	52.2	52.6	52.3	53.8	55.5	56.4	57.0	58.1	56.9
Gross margin expansion (YoY)	-187bps	-102bps	-155bps	49bps	329bps	375bps	472bps	430bps	140bps
EBITDA	3,414	2,417	3,415	3,986	3,869	3,153	4,073	4,580	4,436
YoY Gr (%)	22.4	7.3	13.9	28.3	13.3	30.4	19.2	14.9	14.7
EBITDA margin (%)	17.7	12.8	16.6	17.8	18.5	15.0	18.1	19.4	19.5
Change (YoY)	145bps	-25bps	130bps	216bps	82bps	223bps	156bps	161bps	106bps
Reported PAT	2,363	1,435	2,345	2,638	2,656	1,992	2,872	3,230	3,101
YoY Gr (%)	(29.3)	8.0	20.3	34.9	12.4	38.9	22.5	22.4	16.8
Adjusted PAT	2,353	1,590	2,370	2,639	2,655	2,110	2,941	3,234	3,122
YoY Gr (%)	3.6	10.8	18.4	33.4	12.8	32.7	24.1	22.6	17.6

Exhibit 2: Business Breakup

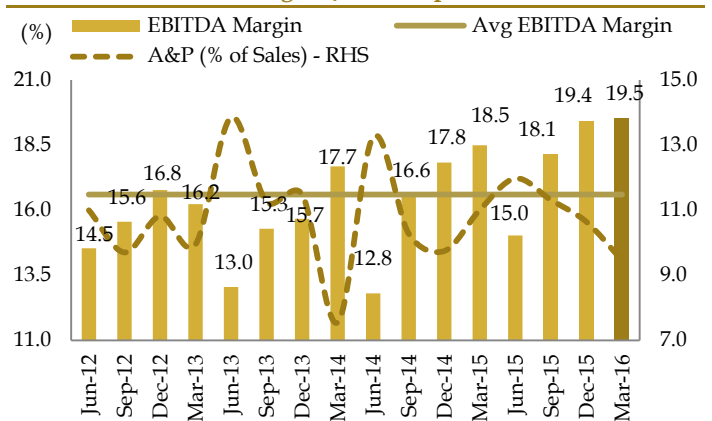
Particulars	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Sales Mix (%)									
India	54	52	53	52	54	52	53	54	53
International	46	48	47	48	46	48	47	46	47
Gross Profit Mix (%)									
India	53	51	53	54	56	54	54	55	53
International	47	49	47	46	44	46	46	45	47
EBITDA Mix (%)									
India	64	60	64	57	64	57	61	59	64
International	36	40	36	43	36	43	39	41	36
A&P Mix (%)									
India	42	51	49	56	58	52	52	56	49
International	58	49	51	44	42	48	48	44	51
PAT Mix (%)									
India	71	84	73	65	71	68	66	63	68
International	29	16	27	35	29	32	34	37	32

Exhibit 3: Gross Margin Trend (%)



Source: Company, Trust

Exhibit 4: EBITDA Margin v/s A&P Spend



Source: Company, Trust

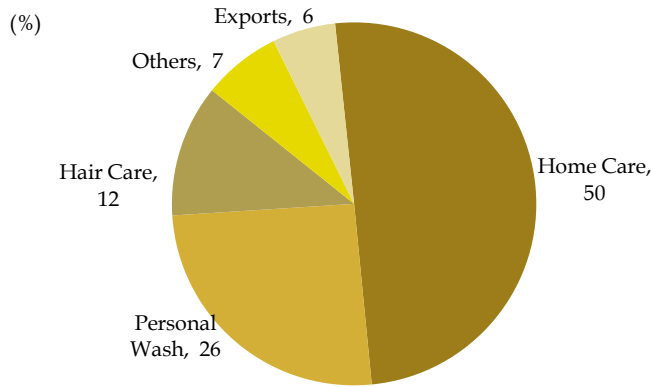


Domestic Performance

Exhibit 5: Domestic Performance

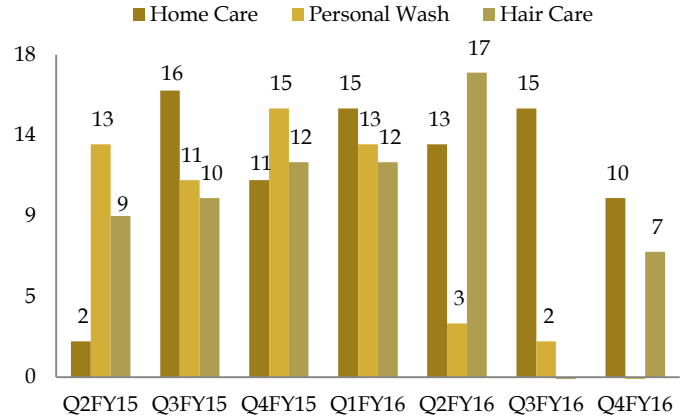
Particulars (%)	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Household Insecticides Value	17	9	2	16	11	15	13	15	10
Soaps Value	1	2	13	11	15	13	3	2	(6)
Soaps Volume	(4)	(5)	-	~8	~8	-	~4-5	-	-
Hair Color Value	16	15	9	10	12	12	17	(1)	7

Exhibit 6: Domestic Sales Mix (%) - Q4FY16



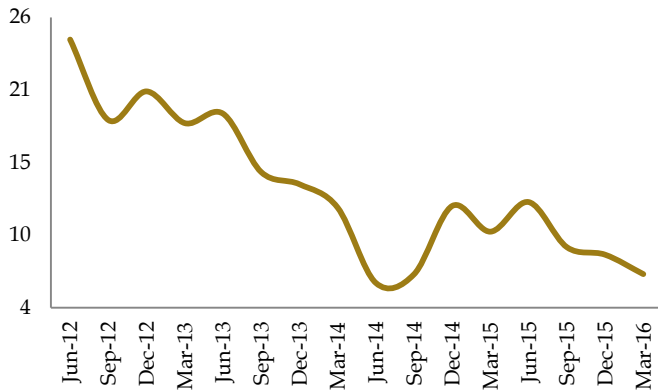
Source: Company, Trust

Exhibit 7: Category-wise Sales Growth (%)



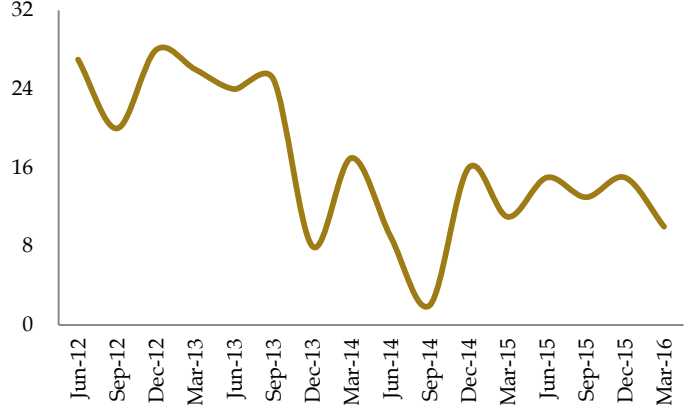
Source: Company, Trust

Exhibit 8: Domestic Business Growth (%)



Source: Company, Trust

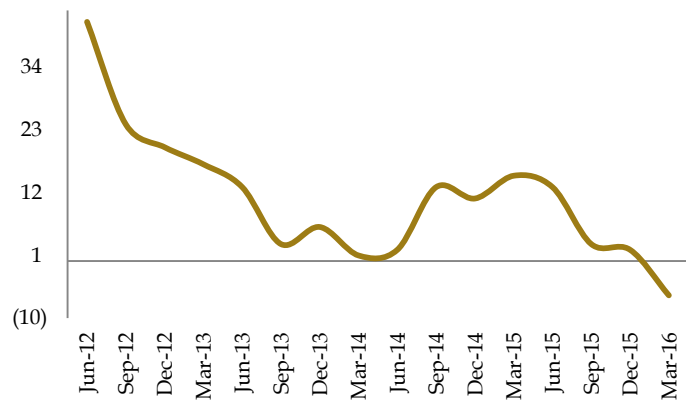
Exhibit 9: HI Business Growth (%)



Source: Company, Trust

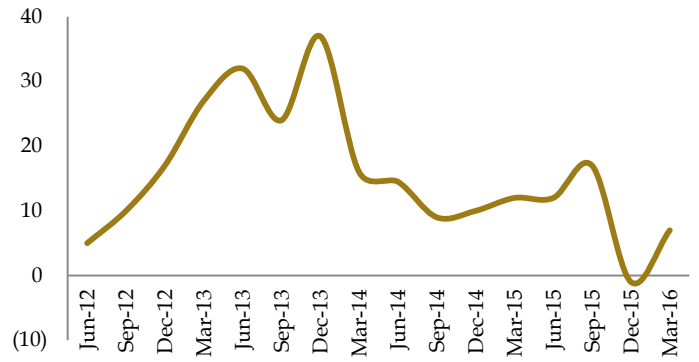


Exhibit 10: Soaps Business Growth (%)



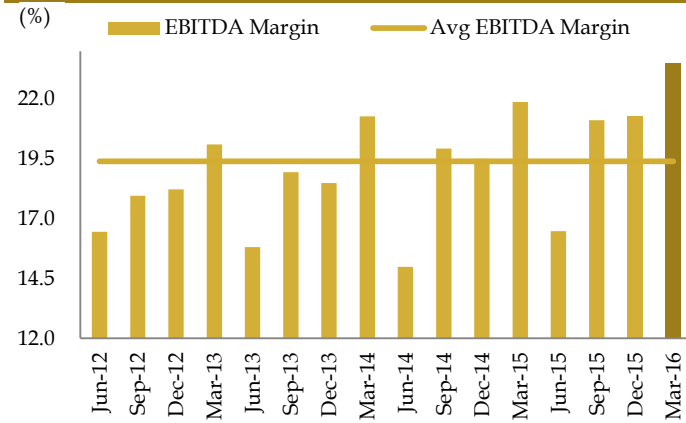
Source: Company, Trust

Exhibit 11: Hair Care Business Growth



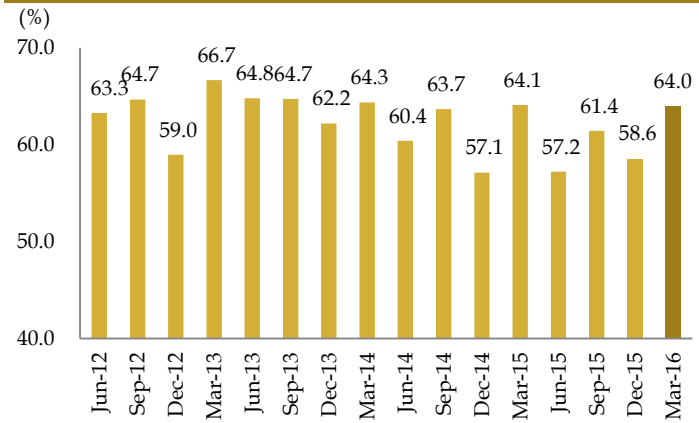
Source: Company, Trust

Exhibit 12: Domestic EBITDA Margin (%)



Source: Company, Trust

Exhibit 13: Domestic EBITDA Contribution (%)



Source: Company, Trust



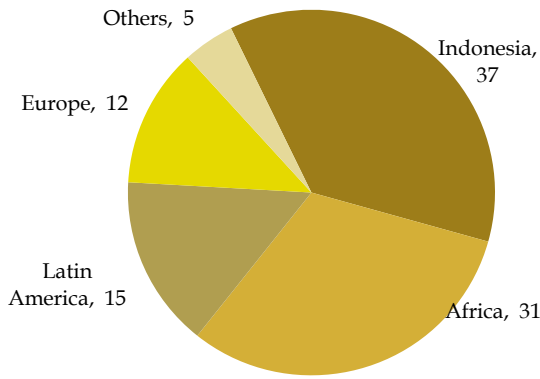
International Performance

Exhibit 14: International Quarterly Performance

Particulars	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Sales (₹ mn)									
Indonesia	3,440	3,490	3,660	3,900	3,400	3,530	3,570	3,790	3,940
Africa	2,460	2,500	2,740	3,790	2,820	3,140	3,360	4,040	3,380
Latin America	1,510	1,260	1,470	1,690	1,750	1,560	1,730	1,960	1,640
Europe	1,150	1,640	1,330	910	1,130	1,550	1,490	1,040	1,330
Others	490	198	363	297	391	350	570	240	490
Total	9,050	9,088	9,563	10,587	9,491	10,130	10,720	11,070	10,780
Sales Gr. (%)									
Indonesia	1	10	1	14	(1)	1	(2)	(3)	16
Africa	39	17	10	30	14	26	23	7	20
Latin America	5	(4)	(4)	1	15	23	18	16	(6)
Europe	16	42	(4)	(18)	(2)	(6)	12	14	18
Others	4	(21)	(4)	(10)	(20)	31	26	(42)	(12)
Total	12	13	2	12	5	11	11	3	12
Sales Mix (%)									
Indonesia	38	38	38	37	36	35	33	34	37
Africa	27	28	29	36	30	31	31	36	31
Latin America	17	14	15	16	18	15	16	18	15
Europe	13	18	14	9	12	15	14	9	12
Others	5	2	4	3	4	3	5	2	5
Total	100	100	100	100	100	100	100	100	100
Constant Currency Sales Gr. (%)									
Indonesia	8	21	15	19	6	8	7	3	13
Africa	33	12	15	36	23	32	33	16	26
Latin America	28	26	31	25	27	29	24	28	31
Europe	(4)	21	(9)	(13)	7	(2)	13	10	15
EBITDA Margins (%)									
Indonesia	18.0	15.0	18.0	19.0	19.0	21.0	24.0	24.0	21.0
Africa	15.0	14.0	14.6	18.0	12.0	13.0	15.0	18.0	15.0
Latin America	20.0	4.0	13.0	13.0	21.0	9.0	9.0	20.0	19.0
Europe	9.0	9.0	9.0	8.0	8.0	9.0	9.2	8.0	8.0
Total	14.3	10.6	13.0	15.2	14.2	12.9	14.7	17.1	14.8
EBITDA Margin Mix (%)									
Indonesia	47.9	54.5	53.1	46.0	47.9	56.6	54.5	47.9	51.9
Africa	28.5	36.5	32.2	42.4	25.1	31.2	32.1	38.3	31.8
Latin America	23.4	5.3	15.4	13.6	27.2	10.7	9.9	20.7	19.5
Europe	8.0	15.4	9.6	4.5	6.7	10.6	8.7	4.4	6.7
Others	(7.8)	(11.6)	(10.4)	(6.6)	(6.8)	(9.1)	(5.3)	(11.3)	(9.8)
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

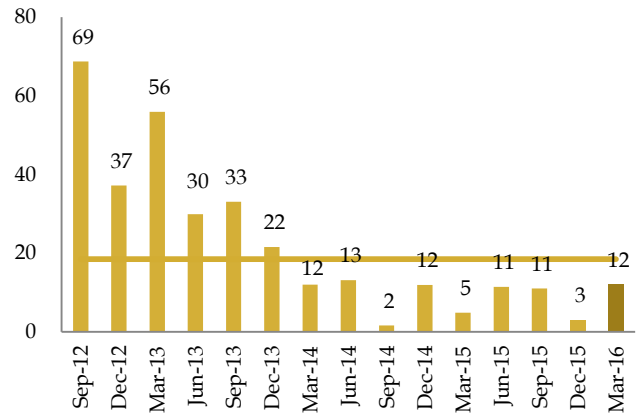


Exhibit 15: International Sales Mix (%)



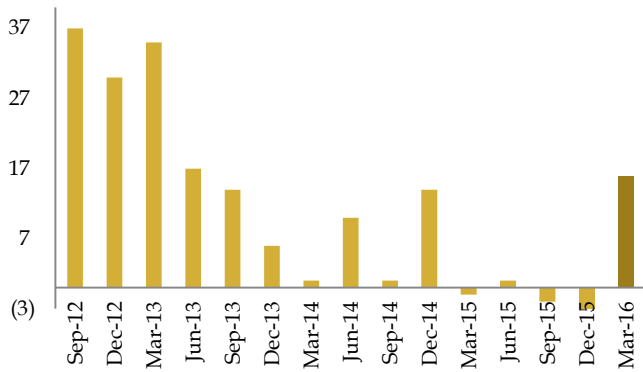
Source: Company, Trust

Exhibit 16: International Sales Growth (%)



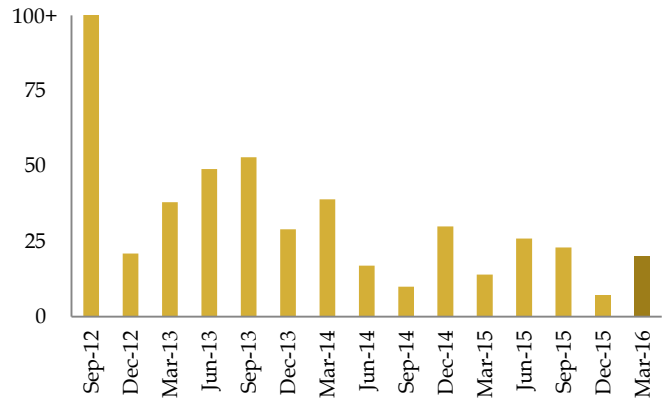
Source: Company, Trust

Exhibit 17: Indonesia Sales Growth (%)



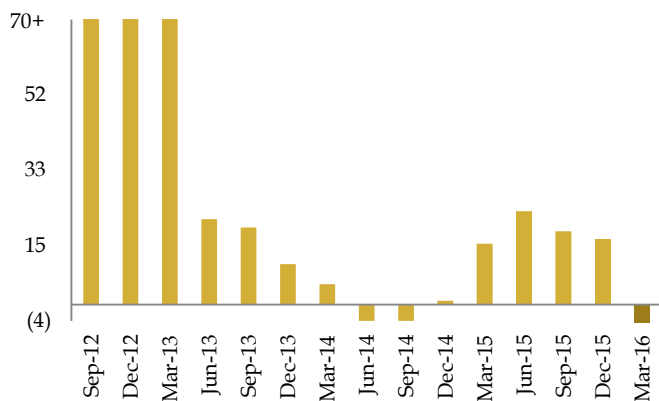
Source: Company, Trust

Exhibit 18: Africa Sales Growth (%)



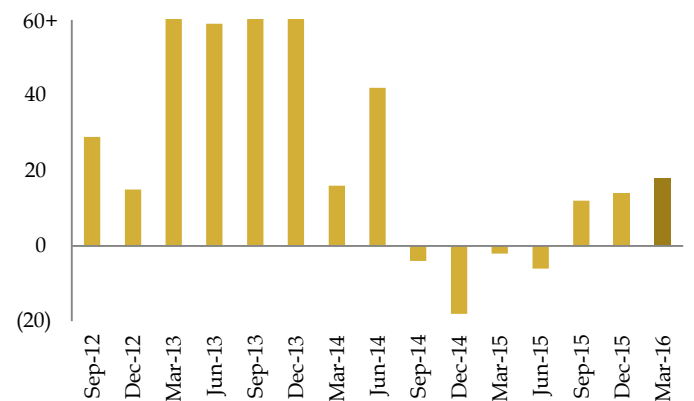
Source: Company, Trust

Exhibit 19: Latin America Sales Growth (%)



Source: Company, Trust

Exhibit 20: Europe Sales Growth (%)



Source: Company, Trust



Consolidated Financials

Income Statement

Y/E Mar (₹ mn)	FY14	FY15	FY16P	FY17E	FY18E
Net Revenues	76,024	82,764	89,678	108,465	123,610
% Growth	18.6	8.9	8.4	20.9	14.0
Raw Material	35,547	38,415	38,455	46,612	52,483
Staff	7,424	7,770	8,419	10,182	11,604
Selling and Distribution Expenses	14,985	16,131	17,814	21,445	24,454
Other Expenses	6,501	6,794	8,749	10,289	12,210
Total Expenditures	64,457	69,110	73,437	88,528	100,750
EBITDA	11,568	13,654	16,242	19,937	22,859
% Growth	16.6	18.0	19.0	22.8	14.7
EBITDA Margins (%)	15.2	16.5	18.1	18.4	18.5
Other Income	627	915	669	861	1,146
Interest	1,074	1,002	1,002	957	807
Depreciation	819	908	1,031	1,184	1,304
Profit Before Tax	10,297	12,488	14,760	18,645	21,894
Provision for tax	2,104	2,723	3,171	4,291	5,036
Effective tax rate (%)	20.4	21.8	21.5	23.0	23.0
Reported PAT	7,597	9,071	11,195	13,900	16,577
% Growth	(4.6)	19.4	23.4	24.2	19.3
Adjusted Net Profit	7,602	9,252	11,407	13,912	16,337
% Growth	10.2	21.7	23.3	22.0	17.4

Balance Sheet

Y/E Mar (₹ mn)	FY14	FY15	FY16P	FY17E	FY18E
Equity Share Capital	340	340	341	341	341
Reserves & surplus	37,414	42,766	51,892	63,225	76,586
Shareholders' funds	37,754	43,107	52,232	63,566	76,927
Minorities interests	2,251	1,620	2,015	2,468	2,750
Total Debt	15,959	20,272	24,772	28,772	25,772
Capital Employed	55,964	64,999	79,019	94,805	105,448
Net Fixed Assets	52,884	57,756	63,725	80,040	92,011
Long Term Loans & Advances	1,574	2,081	3,081	4,081	5,081
Other Non-Current Assets	357	344	344	344	344
Cash & Cash Eq.	7,048	8,942	8,869	6,156	3,589
Net Other current assets	(7,123)	(5,995)	1,074	(242)	(1,503)
Investments	1,020	1,514	1,514	4,014	5,514
Net Deferred tax Assets	203	312	413	413	413
Total Assets	55,964	64,999	79,019	94,805	105,448



Cash Flow Statement

Y/E Mar (₹ mn)	FY14	FY15	FY16P	FY17E	FY18E
Pre-tax profit	10,302	12,659	14,760	18,645	21,894
Depreciation	819	908	1,031	1,184	1,304
Total Tax Paid	(2,378)	(2,573)	(3,171)	(4,291)	(5,036)
Chg in working capital	1,565	(975)	(7,069)	1,316	1,261
Other operating activities	355	(151)	(212)	-	-
Cash flow from oper (a)	11,223	10,303	6,735	18,264	20,512
Capital Expenditure	(1,329)	(1,904)	(5,969)	(16,316)	(11,971)
Chg in investments	739	(4,495)	-	-	-
Other investing activities	-	-	(1,000)	(1,000)	(1,000)
Cash flow from inv.(b)	(4,948)	(12,138)	(8,919)	(21,766)	(16,421)
Free cash flow (a+b)	6,275	(1,835)	(2,184)	(3,502)	4,091
Equity raised/(repaid)	-	-	0	-	(0)
Debt raised/(repaid)	(2,713)	2,995	4,500	4,000	(3,000)
Interest paid	(1,004)	(1,189)	(1,002)	(957)	(807)
Dividend (incl. Tax)	(1,991)	(2,111)	(2,282)	(2,579)	(2,976)
Other financing activities	(62)	(73)	-	-	-
Cash flow from fin. (c)	(6,269)	(378)	1,217	464	(6,782)
Net chg in cash (a+b+c)	6	(2,213)	(967)	(3,037)	(2,691)

Key Ratios

Y/E Mar	FY14	FY15	FY16P	FY17E	FY18E
Raw Material Cost/Sales (%)	46.8	46.4	42.9	43.0	42.5
Manpower Cost/Sales (%)	9.8	9.4	9.4	9.4	9.4
Operating & Other Cost/Sales (%)	2.4	2.5	2.5	2.5	2.5
Revenue Growth (%)	18.6	8.9	8.4	20.9	14.0
EBITDA Margins (%)	15.2	16.5	18.1	18.4	18.5
Net Income Margins (%)	10.0	11.0	12.5	12.8	13.4
ROCE (%)	20.3	21.0	20.1	20.7	21.6
ROE (%)	30.1	31.7	30.4	30.9	29.5

Valuations

Y/E Mar	FY14	FY15	FY16P	FY17E	FY18E
EPS (₹.)	22.3	27.2	33.5	40.9	48.0
P/E (x)	38.5	36.8	39.4	33.5	28.6
BV (₹)	110.9	126.6	153.4	186.7	225.9
P/BV (x)	7.7	7.9	8.6	7.3	6.1
EV/EBITDA (x)	26.2	25.9	28.8	24.6	21.5
Fixed assets turnover ratio (x)	1.4	1.4	1.4	1.4	1.3
Net Debt/Equity (x)	0.3	0.3	0.3	0.4	0.3
EV/Sales (x)	4.0	4.3	5.2	4.5	4.0



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