



Godrej Consumer Products Ltd

Q3FY18 Result Update

“Strong Domestic Growth; Outlook positive”

Sector: FMCG

CMP: ₹ 1,058

Recommendation: BUY

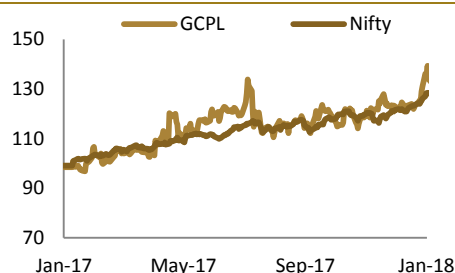
Market Statistics

| | |
|-------------------------|-----------|
| Current stock price (₹) | 1,058 |
| Shares O/S (cr.) | 68.1 |
| Mcap (₹ cr) | 72,064 |
| 52W H/L (₹) | 1,128/768 |
| 6m avg. volume | 681,711 |
| Bloomberg | GCPL in |

Shareholding pattern

| | |
|---------------------------------|-------|
| Promoters | 63.26 |
| Domestic Institution | 2.30 |
| Foreign Institution | 27.74 |
| Non-institution | 6.70 |
| of which more than 1% | |
| Baytree Investments (Mauritius) | 2.46 |
| First State Investments ICVC | 2.01 |

GCPL vs Nifty



Capital efficiency & valuations

| Particulars | FY17 | FY18E | FY19E |
|-------------|------|-------|-------|
| ROE (%) | 34.7 | 31.8 | 31.5 |
| ROCE (%) | 19.1 | 18.3 | 19.6 |
| P/B(x) | 12.3 | 11.0 | 8.9 |
| P/E (x) | 49.9 | 49.8 | 39.7 |
| EPS (₹) | 19.2 | 21.3 | 26.7 |

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GCPL, based on IND AS, reported consolidated net sales growth of 9.5% to ₹26.30bn higher than our expectation of (+8% YoY). India business (53% of total) showed of 18% growth led by 18% volume growth. HI segments (43% of India sales), Soaps (31% of sales) & Hair colors segment grew by 5%, 25% & 33% YoY respectively. International business continued to remain weak and was flat in Q3FY18 while constant currency growth was 5%. Constant currency growth for Indonesia, Africa, LATAM & Europe were -2%, 10%, 5% & 9%, respectively.

Consolidated Gross Margin expanded by 119bps YoY to 57.2%. Employee expenses grew by 9.7%(+2bps YoY). A&P spend and other expenses grew by 17.9% (+62bpsYoY) & 4.8%(-68bps YoY). Hence, EBITDA margin expanded by 123bps to 22.8% and grew by 15.7%YoY. India EBITDA growth was strong by 28.5% with margin expansion of 202bps to 27.8%. APAT, including comprehensive income, has increased by 14.4% to ₹3,524mn.

Soaps Hair care showed strong performance while HI biz grew slow

Domestic sales growth was strong with 18% growth led by 18% volume growth. This volume growth is very encouraging. **Soaps category grew robust by 264%** led by double digit volume growth. Price cuts taken in soaps in last quarter supported the volumes. However, low base -6% in Q2FY17 also supported the soaps category. **Household insecticide biz** reported slow growth of 5% due to weak coils growth. Value Added Personal repellents continue to gain market share and forms 65% of HI category. **Hair colors market also witnessed strong growth of 33% driven by volume growth.** Company initiated price cuts to pass the GST savings to consumers in Godrej Expert Rich crème and Expert Original powder. This helped to sales pick up in this category. We believe 18% volume growth in domestic is highly encouraging and we expect this volume momentum to continue in coming qtrs led by new launches, pick up in rural demand & strong growth in key categories.

International Biz continue to remain weak

International registered flat sales growth with 5% constant currency growth. Indonesia showed -2% growth on CC basis better than -7% in Q2FY18. Management expects Indonesia to improve sales growth from Q1FY19. Africa business showed 6% (+10% CC) growth. Sales in the quarter were impacted to some extent by ERP implementation in the USA and election related disruption in Kenya. Hair extensions delivered double digit growth. Latam's revenue showed -7% (+5% CC) impacted by tough market conditions & macro challenges in Argentina and in Chile. Europe grew by 14%(+9% CC) led by strong growth in own brands. We expect this healthy CC basis growth should start reflecting in actual growth from Q1FY19.

Strong EBITDA growth of 16.1% led by low opex

GCPL's consolidated gross margin expanded by 119bps and stood at 57.2%. Low employee and other expenses further supported EBITDA margin to expand by 123bps to 22.8%. We expect A&P spend to accelerate in coming qtrs on back of new launches. Domestic EBITDA Margin expanded by 202bps to 27.8%. In International Biz, EBITDA margin moved by +230bps, -320bps, -30bps & +70bps in Indonesia, Africa, LATAM region & Europe. EBITDA margin decline of 320bps in Africa is due to high A&P spends in wet hair care. Indonesia's margin improved due to rationalized A&SP investments, Project PI (cost savings initiative) and stringent control on overheads

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. We expect 12-13% volume growth to sustain in coming qtrs. while International Biz too expected 10-12% growth in FY19E. This would help to translate into strong earnings CAGR of 18% from FY17-FY19E. Stock correction from last quarter also give buffer to valuations. Hence, now GCPL trades at 49.8x and 39.7x of FY18 & FY19 EPS. **We maintain BUY.**

**Exhibit 1: Quarterly Performance**

| Particulars (₹ mn) | Q3FY18 | Q2FY18 | Q3FY17 | YoY Change (%) |
|---------------------------|---------------|---------------|---------------|----------------|
| Total income | 26,303 | 25,066 | 24,026 | 9.5 |
| Gross profit | 15,040 | 14,097 | 13,453 | 11.8 |
| Gross margin (%) | 57.2 | 56.2 | 56.0 | 119bps |
| Employee Expenses | 2,802 | 2,621 | 2,555 | 9.7 |
| % of sales | 10.7 | 10.5 | 10.6 | 2bps |
| Advertisement & Publicity | 2,263 | 2,118 | 1,919 | 17.9 |
| % of sales | 8.6 | 8.5 | 8.0 | 62bps |
| Other Expenses | 3,988 | 3,931 | 3,805 | 4.8 |
| % of sales | 15.2 | 15.7 | 15.8 | -68bps |
| EBITDA | 5,987 | 5,427 | 5,173 | 15.7 |
| EBITDA margin (%) | 22.8 | 21.6 | 21.5 | 123bps |
| Reported PAT | 4,299 | 3,619 | 3,522 | 22.0 |
| Adjusted PAT | 3,524 | 3,856 | 3,080 | 14.4 |

Source: Company, Trust.

Exhibit 2: Business Breakup

| Particulars | Dec-15 | Mar-16 | Jun-17 | Sep-16 | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 |
|-----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Sales Mix (%) | | | | | | | | | |
| India | 52 | 51 | 49 | 52 | 49 | 51 | 50 | 54 | 53 |
| International | 48 | 49 | 51 | 48 | 51 | 49 | 50 | 46 | 47 |
| Gross Profit Mix (%) | | | | | | | | | |
| India | 57 | 55 | 51 | 54 | 52 | 54 | 51 | 57 | 58 |
| International | 43 | 45 | 49 | 46 | 48 | 46 | 49 | 43 | 42 |
| EBITDA Mix (%) | | | | | | | | | |
| India | 59 | 63 | 54 | 60 | 60 | 62 | 58 | 63 | 66 |
| International | 41 | 37 | 46 | 40 | 40 | 38 | 42 | 37 | 34 |
| A&P Mix (%) | | | | | | | | | |
| India | 78 | 67 | 74 | 76 | 71 | 73 | 75 | 77 | 74 |
| International | 22 | 33 | 26 | 24 | 29 | 27 | 25 | 23 | 26 |
| PAT Mix (%) | | | | | | | | | |
| India | 53 | 168 | 62 | 66 | 66 | 65 | 66 | 71 | 70 |
| International | 47 | (68) | 38 | 34 | 34 | 35 | 34 | 29 | 30 |

Source: Company, Trust

**Exhibit 3: International Performance**

| Particulars (₹ mn) | Q3FY17 | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 |
|--|---------------|---------------|---------------|---------------|---------------|
| Sales (Rs mn) | | | | | |
| Indonesia | 3,950 | 3,890 | 3,230 | 3,220 | 3,640 |
| Africa (Total) | 5,490 | 4,820 | 5,120 | 5,580 | 5,980 |
| Latin America | 1,610 | 1,660 | 1,050 | 1,490 | 1,510 |
| Europe | 810 | 970 | 1,360 | 1,160 | 920 |
| Others | 340 | 390 | 180 | 260 | 210 |
| Total | 12,200 | 11,730 | 10,940 | 11,710 | 12,260 |
| Sales Gr. (%) | | | | | |
| Indonesia | 4 | 4 | (14) | (12) | (8) |
| Africa | 41 | 47 | 13 | 8 | 6 |
| Latin America | (4) | 17 | (5) | 13 | (7) |
| Europe | (5) | (18) | 6 | 11 | 14 |
| Others | 95 | (4) | 19 | 8 | 1 |
| Total | 19 | 16 | 1 | 2 | Flat |
| Sales Mix (%) | | | | | |
| Indonesia | 32 | 33 | 30 | 27 | 30 |
| Africa | 45 | 41 | 47 | 48 | 49 |
| Latin America | 13 | 14 | 10 | 13 | 12 |
| Europe | 7 | 8 | 12 | 10 | 8 |
| Others | 3 | 3 | 2 | 2 | 2 |
| Total | 100 | 100 | 100 | 100 | 100 |
| Constant Currency Sales Gr. (%) | | | | | |
| Indonesia | flat | flat | (11) | (7) | (2) |
| Africa | 54 | 61 | 26 | 13 | 10 |
| Latin America | 24 | 19 | 4 | 30 | 5 |
| Europe | 16 | (5) | 24 | 15 | 9 |
| EBITDA Margins (%) | | | | | |
| Indonesia | 23 | 24 | 20 | 24 | 25 |
| Africa | 18 | 17 | 16 | 16 | 14 |
| Latin America | 19 | 29 | 2 | 20 | 19 |
| Europe | 10 | 15 | 15 | 14 | 11 |
| EBITDA Mix (%) | | | | | |
| Indonesia | 45 | 42 | 38 | 36 | 43 |
| Africa | 49 | 42 | 49 | 43 | 39 |
| Latin America | 15 | 22 | 1 | 14 | 13 |
| Europe | 4 | 7 | 12 | 8 | 5 |
| Total | 100 | 100 | 100 | 100 | 100 |

Source: Company, Trust



Consolidated Financials

Income Statement

| Y/E Mar (₹ mn) | FY15 | FY16 | FY17 | FY18E | FY19E |
|-----------------------------------|---------------|---------------|---------------|----------------|----------------|
| Net Revenues | 82,764 | 84,239 | 92,679 | 100,126 | 115,684 |
| % Growth | 8.9 | 1.8 | 10.0 | 8.0 | 15.5 |
| Raw Material | 38,415 | 38,672 | 41,325 | 43,968 | 50,831 |
| Staff | 7,770 | 9,441 | 9,885 | 10,325 | 10,809 |
| Selling and Distribution Expenses | 16,131 | 12,062 | 13,420 | 16,354 | 18,822 |
| Other Expenses | 6,764 | 7,613 | 8,974 | 8,206 | 9,221 |
| Total Expenditures | 69,080 | 67,789 | 73,604 | 78,853 | 89,683 |
| EBITDA | 13,684 | 16,450 | 19,075 | 21,272 | 26,001 |
| % Growth | 18.3 | 20.2 | 16.0 | 11.5 | 22.2 |
| EBITDA Margins (%) | 16.5 | 19.5 | 20.6 | 21.2 | 22.5 |
| Other Income | 915 | 839 | 753 | 1,107 | 1,384 |
| Interest | 1,032 | 1,280 | 1,542 | 1,621 | 1,844 |
| Depreciation | 908 | 1,006 | 1,416 | 1,572 | 1,777 |
| Profit Before Tax | 12,487 | 11,668 | 16,880 | 18,915 | 23,498 |
| Provision for tax | 2,723 | 3,361 | 3,792 | 4,147 | 5,239 |
| Effective tax rate (%) | 21.8 | 28.8 | 22.5 | 21.9 | 22.3 |
| Reported PAT | 9,070 | 7,598 | 12,254 | 14,430 | 17,921 |
| % Growth | 19.4 | (16.2) | 61.3 | 17.8 | 24.2 |
| Adjusted Net Profit | 9,205 | 9,972 | 13,100 | 14,483 | 18,177 |
| % Growth | 21.1 | 8.3 | 31.4 | 10.6 | 25.5 |

Balance Sheet

| Y/E Mar (₹ mn) | FY15 | FY16 | FY17P | FY18E | FY19E |
|----------------------------|---------------|---------------|---------------|----------------|----------------|
| Equity Share Capital | 340 | 341 | 341 | 681 | 681 |
| Reserves & surplus | 36,956 | 42,329 | 52,679 | 64,805 | 80,626 |
| Shareholders' funds | 37,296 | 42,670 | 53,020 | 65,486 | 81,307 |
| Minorities interests | 7 | 100 | - | - | - |
| Total Debt | 20,295 | 25,163 | 40,205 | 45,205 | 46,205 |
| Capital Employed | 57,598 | 67,932 | 93,225 | 110,692 | 127,513 |
| Net Fixed Assets | 57,756 | 59,751 | 81,870 | 93,228 | 98,826 |
| Long Term Loans & Advances | 1,943 | 1,702 | 2,744 | 3,544 | 4,344 |
| Other Non-Current Assets | 344 | 407 | 2,571 | 3,591 | 5,611 |
| Cash & Cash Eq. | 8,945 | 7,538 | 9,127 | 13,699 | 21,447 |
| Net Other current assets | (11,099) | (899) | (7,043) | (8,227) | (8,373) |
| Investments | 1,588 | 1,546 | 6,818 | 7,718 | 8,518 |
| Net Deferred tax Assets | (1,878) | (2,112) | (2,861) | (2,861) | (2,861) |
| Total Assets | 57,598 | 67,933 | 93,225 | 110,692 | 127,513 |



Cash Flow Statement

| Y/E Mar (₹mn) | FY15 | FY16 | FY17 | FY18E | FY19E |
|--------------------------------|-----------------|----------------|-----------------|-----------------|-----------------|
| Pre-tax profit | 12,659 | 15,002 | 16,871 | 19,185 | 23,763 |
| Depreciation | 908 | 1,190 | 1,452 | 1,572 | 1,777 |
| Total Tax Paid | (2,573) | (3,360) | (4,073) | (4,147) | (5,239) |
| Chg in working capital | (975) | (4,645) | 3,563 | 1,133 | 96 |
| Other operating activities | (151) | (209) | (209) | (53) | (48) |
| Cash flow from oper (a) | 10,303 | 8,474 | 18,042 | 19,702 | 22,579 |
| Capital Expenditure | (1,904) | (2,081) | (1,803) | (11,358) | (5,598) |
| Chg in investments | (4,495) | 2,104 | (5,990) | (20) | (20) |
| Other investing activities | - | - | - | (800) | (800) |
| Cash flow from inv.(b) | (12,138) | (6,023) | (21,698) | (16,028) | (11,168) |
| Free cash flow (a+b) | (1,835) | 2,451 | (3,656) | 3,675 | 11,411 |
| Equity raised/(repaid) | - | 0 | 0 | 341 | (0) |
| Debt raised/(repaid) | 2,995 | 1,417 | 10,243 | 5,050 | 1,050 |
| Interest paid | (1,189) | (1,188) | (1,241) | (1,621) | (1,844) |
| Dividend (incl. Tax) | (2,111) | (2,254) | (2,357) | (2,357) | (2,357) |
| Other financing activities | (73) | - | - | - | - |
| Cash flow from fin. (c) | (378) | (2,025) | 6,647 | 1,413 | (3,150) |
| Net chg in cash (a+b+c) | (2,213) | 427 | 2,991 | 5,088 | 8,261 |

Key Ratios

| Y/E Mar | FY15 | FY16 | FY17 | FY18E | FY19E |
|----------------------------------|------|------|------|-------|-------|
| Raw Material Cost/Sales (%) | 46.4 | 45.9 | 44.6 | 43.9 | 43.9 |
| Manpower Cost/Sales (%) | 9.4 | 11.2 | 10.7 | 10.3 | 9.3 |
| Operating & Other Cost/Sales (%) | 2.5 | 2.8 | 3.3 | 3.4 | 3.4 |
| Revenue Growth (%) | 8.9 | 1.8 | 10.0 | 8.0 | 15.5 |
| EBITDA Margins (%) | 16.5 | 19.5 | 20.6 | 21.2 | 22.5 |
| Net Income Margins (%) | 11.0 | 9.0 | 13.2 | 14.4 | 15.5 |
| ROCE (%) | 22.9 | 23.1 | 19.1 | 18.3 | 19.6 |
| ROE (%) | 36.7 | 38.2 | 34.7 | 31.8 | 31.5 |

Valuations

| Y/E Mar | FY15 | FY16 | FY17 | FY18E | FY19E |
|---------------------------------|-------|------|------|-------|-------|
| EPS (₹.) | 27.0 | 14.6 | 19.2 | 21.3 | 26.7 |
| P/E (x) | 18.5 | 45.1 | 49.9 | 49.8 | 39.7 |
| BV (₹) | 109.5 | 62.7 | 77.8 | 96.1 | 119.4 |
| P/BV (x) | 4.6 | 10.5 | 12.3 | 11.0 | 8.9 |
| EV/EBITDA (x) | 13.4 | 28.5 | 36.0 | 35.5 | 28.8 |
| Fixed assets turnover ratio (x) | 1.4 | 1.4 | 1.1 | 1.1 | 1.2 |
| Net Debt/Equity (x) | 0.3 | 0.5 | 0.6 | 0.5 | 0.3 |
| EV/Sales (x) | 2.2 | 5.6 | 7.4 | 7.5 | 6.5 |

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