

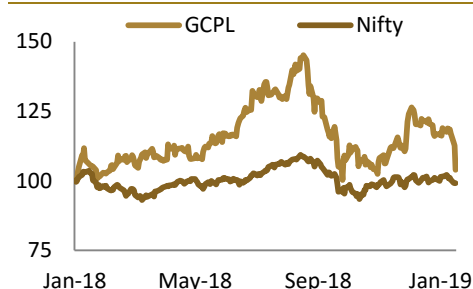
Market Statistics

Current stock price (₹)	694
Shares O/S (cr.)	102.2
Mcap (₹ cr)	76,785
52W H/L (₹)	979/628
6m avg. volume	11,17,292
Bloomberg	GCPL in

Shareholding pattern

Promoters	63.25
Domestic Institution	2.32
Foreign Institution	27.67
Non-institution	6.76
of which more than 1%	
Baytree Investments (Mauritius)	2.46
First State Investments ICVC	1.37

GCPL vs Nifty



Capital efficiency & valuations

Particular	FY18	FY19E	FY20E
ROE (%)	31.3	26.9	26.9
ROCE (%)	18.0	16.6	17.5
P/B(x)	7.6	8.9	7.6
P/E (x)	34.3	41.6	39.6
EPS (₹)	21.3	16.7	17.5

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Godrej Consumer Products' (GCPL) consolidated reported PAT declined 1.5% YoY lower than our est. led by weak performance from international subsidiaries. Domestic FMCG business reported revenue, EBITDA and PAT growth of 5.6%, 12% and 11%, respectively. Revenue growth was muted on high base of 17% growth in 3QFY18. EBITDA margins expanded to a new all-time-high of 30.1%, up 168bps YoY in 3QFY19 despite a 59bps contraction in gross margins. Standalone employee and A&P expenses declined 11% and 3% YoY respectively.

Consolidated Gross Margin declined 93bps YoY to 56.2%. Employee expenses remained flat YoY while A&P spend declined 4% YoY. Other expenses grew by 5% YoY which kept EBITDA margins largely flattish YoY at 22.6%. Management is confident of international margins to improve on the back of innovative product launches, improving product mix and cost saving initiatives. Maintain HOLD.

Domestic demand is gradually improving although it was a flat quarter on high base

Overall demand outlook has improved and a gradual recovery is expected going ahead; pick up in rural demand is observed by the management. Household Insecticides (HI) segment's performance was flat in 3QFY19 impacted by relatively low rainfall levels in October and November Vs long term average. East India was impacted by the recent growth in illicit incense sticks. Management was optimistic on its Goodknight Activ+ liquid vaporizer with 50% more power. They are also seeing good repeat demand of the power chip product. GCPL has several interesting nature-based products in the pipeline with higher efficacy and innovative formats. Hair Colors saw flat growth in 3QFY19 on a high base, up 17% on a 2-year CAGR basis. Soaps delivered 2% YoY growth in revenues and 13% growth on a 2-year CAGR basis. Volume growth this quarter was higher due to price cuts.

International business expected to improve sequentially but continue to remain volatile

The international business improved QoQ but YoY was weak. Revenue grew just 1% YoY while margins decline 252bps YoY to 13.9% on higher raw material prices and currency depreciation. Comparable sales (excluding UK divestment) growth improved by ~9% YoY and 10% in constant currency basis. Indonesia revenue grew 7% in CC, aided by good growth in the HI portfolio. Amid increased number of launches and temporary impact from crude oil, business EBITDA margin contracted 160bps YoY to 23%. GCPL management is confident of sustaining the revived business and expects margin expansion from 4Q as they have launched 4 new products in Indonesia in this quarter. Africa, USA and ME performance remained muted with ~4% CC growth, led by weak economic conditions in South Africa. Business ex-South Africa did better with growth in low double digit digits in CC. Management is confident of margins to improve on the back of innovative product launches, improving product mix and cost saving initiatives. Based on planned initiatives, GCPL expects improved growth trajectory going forward. Ramp-up of Darling in the region is likely to drive growth for the company.

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 still there is scope for distribution expansion for GCPL. 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. Although there has been considerable volatility in international business, management is confident of improving margins and growing business by innovative product launches and cross product pollination. GCPL trades at 39.7x PER of FY20E EPS of Rs17.5. **Maintain HOLD.**

**Exhibit 1: Quarterly Performance**

Particulars (₹ mn)	Q3FY18	Q2FY19	Q3FY19	YoY Change (%)
Total income	26,303	26,592	27,219	3.5
Gross profit	15,040	14,034	15,310	1.8
Gross margin (%)	57.2	52.8	56.2	-93bps
Employee Expenses	2,802	2,569	2,794	-0.3
% of sales	10.7	9.7	10.3	-39bps
Advertisement & Publicity	2,263	2,559	2,170	-4.1
% of sales	8.6	9.6	8.0	-63bps
Other Expenses	3,988	4,042	4,184	4.9
% of sales	15.2	15.2	15.4	21bps
EBITDA	5,987	4,865	6,162	2.9
EBITDA margin (%)	22.8	18.3	22.6	-12bps
Reported PAT	4,299	5,776	4,235	-1.5

Source: Company, Trust.

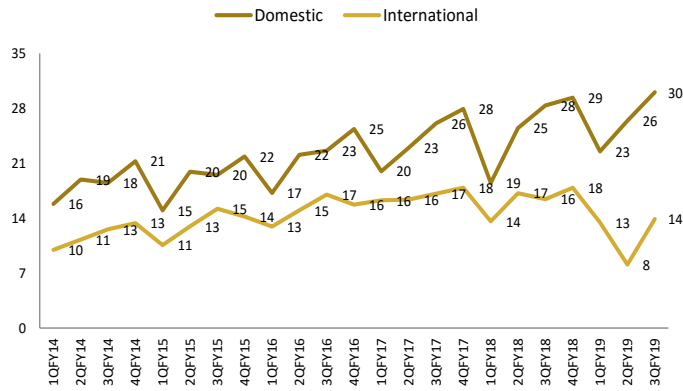
Exhibit 2: Business Breakup

Particulars	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Sales Mix (%)									
India	49	51	50	54	53	53	52	56	54
International	51	49	50	46	47	47	48	44	46
Gross Profit Mix (%)									
India	52	54	51	57	58	57	56	65	60
International	48	46	49	43	42	43	44	35	40
EBITDA Mix (%)									
India	60	62	58	63	66	65	64	80	72
International	40	38	42	37	34	35	36	20	28
A&P Mix (%)									
India	71	73	75	77	74	76	72	81	75
International	29	27	25	23	26	24	28	19	25
PAT Mix (%)									
India	66	65	66	71	70	48	54	51	78
International	34	35	34	29	30	52	46	49	22

Source: Company, Trust

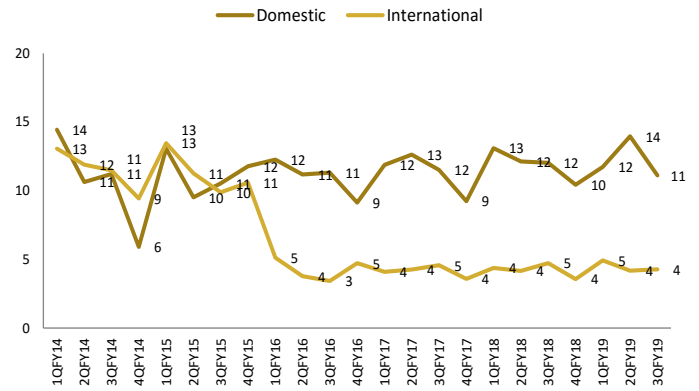


Exhibit 3: EBITDA margin trend (%)



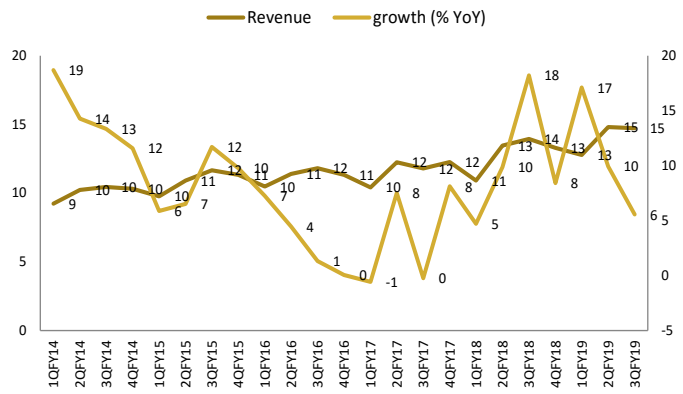
Source: Company, Trust

Exhibit 4: Advertising spend trend (% of revenue)



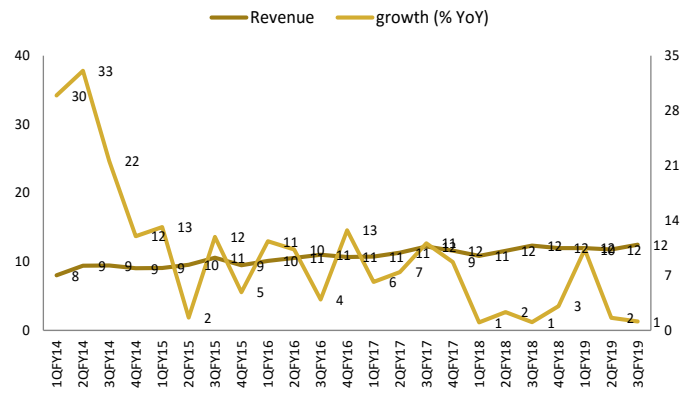
Source: Company, Trust

Exhibit 5: Domestic business revenue (Rs b) and growth



Source: Company, Trust

Exhibit 6: International business revenue (Rs b) and growth



Source: Company, Trust



Consolidated Financials

Income Statement

Y/E Mar (₹ mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Revenues	92,679	98,431	1,08,006	1,23,747	1,37,224
% Growth	10.0	6.2	9.7	14.6	10.9
Raw Material	41,325	42,742	48,070	56,305	62,437
Staff	9,885	10,325	10,809	11,342	11,926
Selling and Distribution Expenses	13,420	16,100	17,670	20,178	22,361
Other Expenses	8,974	8,303	9,530	10,170	11,831
Total Expenditures	73,604	77,469	86,079	97,996	1,08,555
EBITDA	19,075	20,962	21,927	25,752	28,669
% Growth	16.0	9.9	4.6	17.4	11.3
EBITDA Margins (%)	20.6	21.3	20.3	20.8	20.9
Other Income	753	1,076	1,159	1,448	1,810
Interest	1,542	1,607	2,145	2,441	2,778
Depreciation	1,416	1,557	1,727	1,952	2,206
Profit Before Tax	16,880	20,386	20,690	27,034	30,030
Provision for tax	3,792	4,047	3,730	6,835	7,507
Effective tax rate (%)	22.5	19.9	18.0	25.3	25.0
Reported PAT	12,254	16,001	17,777	21,015	23,339
% Growth	61.3	30.6	11.1	18.2	11.1
Adjusted Net Profit	13,100	14,487	17,040	17,925	19,941
% Growth	31.4	10.6	17.6	5.2	11.3

Balance Sheet

Y/E Mar (₹ mn)	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	341	681	1,022	1,022	1,022
Reserves & surplus	52,679	64,810	78,315	92,704	1,09,111
Shareholders' funds	53,020	65,491	79,336	93,726	1,10,133
Minorities interests	-	-	-	-	-
Total Debt	40,205	45,205	46,205	47,205	48,205
Capital Employed	93,225	1,10,696	1,25,542	1,40,932	1,58,338
Net Fixed Assets	81,870	93,244	98,891	98,614	98,083
Long Term Loans & Advances	2,744	3,544	4,344	5,144	5,944
Other Non-Current Assets	2,571	3,591	5,611	7,631	9,651
Cash & Cash Eq.	9,127	13,229	19,470	32,874	48,216
Net Other current assets	(7,043)	(7,769)	(8,431)	(9,789)	(10,813)
Investments	6,818	7,718	8,518	9,318	10,118
Net Deferred tax Assets	(2,861)	(2,861)	(2,861)	(2,861)	(2,861)
Total Assets	93,225	1,10,696	1,25,542	1,40,932	1,58,338

**Cash Flow Statement**

Y/E Mar (₹mn)	FY17	FY18	FY19E	FY20E	FY21E
Pre-tax profit	16,871	18,873	19,213	22,807	25,496
Depreciation	1,452	1,557	1,727	1,952	2,206
Total Tax Paid	(4,073)	(4,047)	(3,730)	(6,835)	(7,507)
Chg in working capital	3,563	675	613	1,307	974
Other operating activities	(209)	1,517	3,673	3,398	3,398
Cash flow from oper (a)	18,042	19,003	19,152	20,855	23,130
Capital Expenditure	(1,803)	(11,373)	(5,648)	277	531
Chg in investments	(5,990)	(20)	(20)	(20)	(20)
Other investing activities	-	(800)	(800)	(800)	(800)
Cash flow from inv.(b)	(21,698)	(16,043)	(11,218)	(5,293)	(5,039)
Free cash flow (a+b)	(3,656)	2,960	7,935	15,563	18,091
Equity raised/(repaid)	0	341	341	-	-
Debt raised/(repaid)	10,243	5,050	1,050	1,050	1,050
Interest paid	(1,241)	(1,607)	(2,145)	(2,441)	(2,778)
Dividend (incl. Tax)	(2,357)	(2,357)	(3,535)	(3,535)	(3,535)
Other financing activities	-	-	-	-	-
Cash flow from fin. (c)	6,647	1,427	(4,289)	(4,926)	(5,262)
Net chg in cash (a+b+c)	2,991	4,386	3,646	10,637	12,828

Key Ratios

Y/E Mar	FY17	FY18	FY19E	FY20E	FY21E
Raw Material Cost/Sales (%)	44.6	43.4	44.5	45.5	45.5
Manpower Cost/Sales (%)	10.7	10.5	10.0	9.2	8.7
Operating & Other Cost/Sales (%)	3.3	3.4	3.4	3.4	3.4
Revenue Growth (%)	10.0	6.2	9.7	14.6	10.9
EBITDA Margins (%)	20.6	21.3	20.3	20.8	20.9
Net Income Margins (%)	13.2	16.3	16.5	17.0	17.0
ROCE (%)	19.1	18.0	16.6	17.5	17.5
ROE (%)	34.7	31.3	26.9	26.9	25.7

Valuations

Y/E Mar	FY17	FY18	FY19E	FY20E	FY21E
EPS (₹.)	19.2	21.3	16.7	17.5	19.5
P/E (x)	49.9	34.3	41.6	39.6	35.6
BV (₹)	77.8	96.1	77.6	91.7	107.8
P/BV (x)	12.3	7.6	8.9	7.6	6.4
EV/EBITDA (x)	36.0	25.4	33.7	28.2	24.9
Fixed assets turnover ratio (x)	1.1	1.1	1.1	1.3	1.4
Net Debt/Equity (x)	0.6	0.5	0.4	0.2	0.0
EV/Sales (x)	7.4	5.4	6.8	5.9	5.2

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