

POSITIONAL CALL

GODREJ CONSUMER PRODUCTS LTD



BUY | CMP 649 | TARGET 777 | POTENTIAL UPSIDE 20%

25 APRIL 2019

Stock Data

M.Cap (₹ in cr)	66361
Equity (₹ in cr)	102.22
52 wk H/L ₹	979.8/628.15
Face Value ₹	1.00
Div. Yield	1.00%
NSE Code	GODREJCP
BSE Code	532424

LEAD RATIONALE

GCPL enjoys a market leading position in the domestic household insecticides (HI) and hair colors market and is the second largest player in the domestic soaps market. Furthermore, it also enjoys market leading positions in various categories such as HI, air fresheners and wet wipes in Indonesia and ethnic hair colors and hair extensions (dry hair care) in Sub Saharan Africa. **Coupled with constant innovation and product portfolio refresh, its effective marketing initiatives have helped GCPL to maintain its competitive position across the products categories, and these efforts are expected to drive future organic growth .**

Valuation Data

P/E	41.35
EV/EBITDA	25.77
P/BV	8.96
RONW(%)	22%

Naturals agarbatti launch, tightening regulations to spur HI revival

Rising competition from unorganized players' mosquito repellent incense sticks has taken the wind out of company's HI sales over the past couple of quarters. To counter this challenge, company embarked this segment with the launch of **Good knight Naturals Neem Agarbatti, in December 2018 on pilot basis in Andhra Pradesh and Telangana**, which would revive HI category ahead. Moreover, the government has started cracking the whip on illegal incense stick makers, which will help organized players like GCPL to regain lost ground.

Index Detail

Sensex	38684.07
Nifty	11627.55
Index	S&P BSE 100

Additionally, in Indonesia, company also cross pollinated the **HIT anti roach spray from India to expand presence in the Household Insecticides category** during the quarter. Also, launched a naturals range of wet hair care products in the USA and would likely to continue make healthy brand investments for sustainable future growth. With the scale up of its recent new launches and recovery in consumer demand, expect to deliver much improved, profitable growth in the coming quarters. **Over next 2-3 years, company is looking to garner revenue worth ₹ 100 cr from male grooming segment and is also looking at e-commerce to drive sales further.**

Lower penetration to drive growth in core categories

Company commands leadership position in the Indian household insecticides and hair color market. As per the Indian Home & Personal Care Industry Association (IHPCIA), the Indian household insecticides (HI) market is expected to grow at double digit growth rate of 15-18% in the coming years. Going forward, **it continues to focus on expanding its presence in the segment by combining innovation and superior execution capabilities. This would support the company in further widening the market share gap versus its competitors and sustain its double digit growth.**

Key Highlights

- ⦿ **Aer brand is showing tremendous growth. Godrej is number 1 in Air fresheners in cars.**
- ⦿ **Relaunch of Darling brand in Kenya and Nigeria, and recovery in Indonesia markets will drive international growth.**
- ⦿ **New product launches are lined up therefore Godrej is very well geared for strong growth.**
- ⦿ **Premium formats like Aerosols & Personal Repellents continue to grow in high single digits.**
- ⦿ **International business EBITDA margin adversely impacted by around 70 bps due to adoption of hyperinflation accounting in Argentina.**
- ⦿ **Recent portfolio enrichment in International business is promising and will deliver strong numbers going forward.**
- ⦿ **Innovation segment to contribute around 10% of total sales going forward as compared to 5-6% currently.**
- ⦿ **Godrej Expert Rich Crème continues to deliver robust growth and gain market share**

- **Launched Good Knight Power Chip LV with 50% more power in 3QFY19**
- **The scale-up of the wet hair business in Africa is progressing well.**
- **GCPL will launch 4 new products in 4QFY19 in Indonesia.**
- **Herbal based powder hair color segment under Godrej Nupur Brand continued to perform well in Q3FY19. Herbal based market is a ₹1000 crs opportunity and 25% is Heena based powder hair color.**
- **Seen gradual recovery in demand; should see stronger growth from Rural areas.**
- **Next 1-2 quarters will be the same for the FMCG industry**
- **Plans to launch 6-8 major innovations next year.**

An Eye on Quarterly numbers

Company delivered a mixed performance in Q3 FY19. India business delivered single-digit sales growth on a high base and continued to grow EBITDA ahead of sales. While, in international business, Indonesia continued its growth momentum with improvement in the Household Insecticides business. Africa showed signs of a gradual recovery with profitability improving sequentially. Latin America, however, recorded relatively weaker performance due to adverse macroeconomic conditions.

Company reported comparable constant currency growth of 8 % aided by 10 % international business growth and 6 % domestic growth. India business reported EBITDA margin expansion of 140 basis points Y-o-Y aided by cost-saving initiatives. While, in international business, comparable growth was decent but margins was disappointing. It decreased by 300 bps Y-O-Y to 14.7% weighed by both crude oil and currency depreciation. However, on account of better crude oil pricing, company remains optimistic of margin improvement ahead.

Q3 results were weak on all fronts, with adjusted PAT declining 2 % Y-o-Y; recorded subdued performance in Soaps & hair color segment due to high base, while HI segment continued to see stagnate with 2 year sales CAGR of a mere 3 %, aided by unfavorable season in South India and share of growth shifting towards incense sticks.

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Financial Data

EV	69541.46
Net Worth	7405.27
BV	72.44
EPS(TTM)	15.70

₹ In crores except EPS

Key Financials (₹ in crores)

Particulars	Q3 FY 19	Q3 FY 18	Variation %
Revenue	2696.42	2603.71	3.56
EBITDA	637.34	622.94	2.31
PBT	536.83	544.69	(1.44)
PAT	423.52	429.87	(1.48)
EPS	4.14	4.2	(1.43)

INDIA BUSINESS CONTINUES TO PERFORM WELL ON A HIGH BASE

India Business	Sales ₹ crore	Growth year-on-year	2 year CAGR
Household Insecticides	598	-	3%
Soaps	433	2%	13%
Hair Colours	161	-	17%
Other Brands	275	26%	28%
Unbranded and Exports	87	11%	34%
Total	1,553	5%	12%
Sales and trade promotion spends, etc. to be netted off from Sales as per Ind AS	(81)	(7%)	
Sales	1,472	6%	11%
Branded Volume Growth		1%	10%

DOUBLE DIGIT SALES GROWTH IN INTERNATIONAL BUSINESS

International Business	Sales ₹ crore	Growth year-on-year	Constant Currency Growth year-on-year
Indonesia	395	9%	7%
GAUM	680	14%	4%
Others	166	(3%)*	41%*
Total Net Sales	1,242	9%*	10%*

Outlook and Recommendation

Driven by its leadership status in its core areas coupled with innovation, cross pollination and enhanced rural reach, GCPL is expected to drive growth in the domestic business in the coming years. Moreover, its strategy of expanding overseas horizon also augurs well for the company.

Despite some short term headwinds, company has turned around strongly by reporting sales volume growth during quarter. **Company's domestic business outlook appears to be encouraging with significant acceleration in the pace of innovation planned over next 2 years and transition of business from unorganized sector to organized sector due to implementation of GST.** Company has strong international presence and management is confident about the growth prospects of Africa and has guided for double-digit growth in Indonesia with an expansion in margin. **With thrust on introducing new additions in its product portfolio and improvement in its direct distribution reach to boost its revenue growth in the long run, company has been able to look towards double-digit volume growth in FY20. Further, GCPL is keen on increasing rural sales contribution from 30% to 40% over the next 5-6 years.**

On valuation front, we estimate share price at ₹ 777 in medium term, which corresponds to 37x P/E.

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Share price chart has been taken for a period of past 1 year. There is a strong support at the levels of ₹664 & resistance of ₹738 in medium term. If it will cross this resistance, then reach to next resistance of ₹775-811 in medium term.

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