

GODREJ CONSUMER PRODUCTS

HI and Indonesia revives; Africa performance monitorable

India Equity Research | Consumer Goods



Godrej Consumer Products (GCPL) reported Q1FY19 revenue growth of 13.7% YoY, in line with expectation, whereas EBITDA/adjusted PAT growth of 27.1%/76.8% YoY came in ahead of our estimate. Domestic volume growth of 14% YoY came off a flat base. The key takeaway for us is the company's broad-based growth—while domestic revenue grew 7.8% YoY, IB, after four quarters of <2% YoY revenue growth, logged 8.9% YoY growth. This is largely driven by GCPL's tactical steps, be it in the HI segment (through the Powerchip launch), personal care (deepening penetration) or the Indonesian market (NPD and sales promotion). Going ahead, we believe the building blocks are in place in terms of innovation and the launch pipeline (refer note: [Well-fortified to scale the growth curve](#)), which will bolster positioning and spur market share gains. All in all, we are raising the target multiple to 50x (from 45x) that yields a revised TP of INR1,540 (earlier INR1,435). Maintain 'BUY'.

Improving revenue trajectory

Key positives: 1) a strong uptick in HI—revenue growth of 17% YoY against sub-5% growth over the last six quarters driven by NPDs and a better season; 2) volume-driven sales growth of 10% YoY in soaps led by marketing and penetration in new states led to market share gains; 3) after a blip, hair color registered 12% YoY sales growth; and 4) after four quarters of decline, Indonesia posted 10% CCY growth, albeit on a soft base of -11%. **Key negatives:** 5% YoY growth in Africa is lower than expected owing to weakness in the South Africa geography; Kenya is, however, recovering.

Q1FY19 conference call highlights

Urban markets grew at 13% YoY and rural grew 17% YoY. Management is targeting to take some price hikes in coming quarters. No down trading seen post launch of Power Chip. Over 3/4 years, expect EBITDA margins of Africa business to reach high-teens.

Outlook and valuations: Positive; maintain 'BUY'

We like GCPL's sharp focus on innovation and cost efficiency. Performance of the domestic business and growth in Africa and Indonesia are the structural growth levers. We are raising the target multiple to 50x (from 45x) FY20E EPS that results in the new TP of INR1,540. At CMP, the stock is trading at 42.6x FY20E EPS. Maintain 'BUY/SO'.

Financials						(INR mn)		
Year to March	Q1FY19	Q1FY18	% Change	Q4FY18	% Change	FY18	FY19E	FY20E
Net rev.	24,760	21,773	13.7	25,289	(2.1)	98,433	111,539	127,779
EBITDA	4,442	3,494	27.1	5,969	(25.6)	20,671	24,427	28,750
Adjusted profit	4,115	2,327	76.8	4,234	(2.8)	14,546	17,473	20,964
Dil. EPS (INR)	6.0	3.4		6.2		21.4	25.7	30.8
Diluted P/E (x)						61.4	51.1	42.6
EV/EBITDA (x)						43.5	36.6	30.7
ROAE (%)						25.2	25.6	26.1

EDELWEISS 4D RATINGS	
Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	High
Sector Relative to Market	Underweight

MARKET DATA (R: GOCP.BO, B: GCPL IN)	
CMP	: INR 1,311
Target Price	: INR 1,540
52-week range (INR)	: 1,380 / 859
Share in issue (mn)	: 681.3
M cap (INR bn/USD mn)	: 893 / 13,004
Avg. Daily Vol.BSE/NSE('000)	: 619.1

SHARE HOLDING PATTERN (%)			
	Current	Q4FY18	Q3FY18
Promoters *	63.3	63.3	63.3
MF's, FI's & BK's	2.2	2.2	2.3
FII's	28.0	28.0	27.7
Others	6.5	6.5	6.7
* Promoters pledged shares (% of share in issue)			2.0

PRICE PERFORMANCE (%)			
	Stock	Nifty	EW FMCG Index
1 month	12.5	2.3	1.6
3 months	17.5	3.7	2.2
12 months	36.7	10.7	11.6

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Table 1: Trends across segments at a glance (international growth in reported currency, not in constant currency terms)

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Domestic volume growth	3.0	9.0	(3.0)	5.0	0.1	10.0	18.0	6.0	14.0
Net sales - domestic	-	7.5	-	9.6	4.2	10.1	17.0	7.0	7.8
- Soaps	1.0	(10.0)	(6.0)	9.0	7.0	26.0	24.0	19.0	10.0
- Hair colors	4.0	-	(2.0)	13.0	5.0	4.0	33.0	3.0	12.0
- Household Insecticides	(11.0)	18.0	(2.0)	4.0	4.0	4.0	5.0	(5.0)	17.0
- Others	37.4	34.5	20.0	23.2	17.9	25.3	36.1	29.4	13.5
Net sales - consol	6.8	11.4	9.2	8.1	2.9	6.2	9.5	5.8	5.8
International	14.0	16.0	19.0	18.6	1.1	2.0	0.2	1.0	8.9
Indonesia (Megasari)	8.0	6.0	7.0	1.0	(14.0)	(12.0)	(8.0)	(11.0)	9.0
Africa (Tura, Rapidol, Kinky, DGH)	46.0	60.0	41.0	47.0	13.0	8.0	6.0	5.0	10.0
Others (LATAM + Europe + SAARC)	NA	NA	NA	NA	NA	NA	NA	NA	6.0
Advertisement as % of sales	7.9	8.6	8.0	6.5	8.8	8.5	8.6	7.2	8.4

Source: Company, Edelweiss research

Growth rate for international operations are reported growth rates

Q1FY19 conference call | Key takeaways

Overall macro scenario

- Urban markets grew at 13% YoY and rural grew 17% YoY. Management continues to believe that rural will outgrow urban.
- Management intends to accelerate launches. FY19 will be the most active with 3–4 launches planned for the next few months.
- Management is targeting some price-led growth for the India portfolio.

Household insecticides (HI) segment

- Growth returning to healthy levels driven by better season and product launches
- Double-digit volume led sales growth of 17% YoY (two-year CAGR of 11% YoY)
- Goodknight Power Chip and Goodknight Activ+ Liquid Vaporiser with 50% more power continues to scale up
- Continued focus on driving penetration with the launch of affordable solutions and trial generation SKUs
- Ongoing investments in brand for future growth
- Launches – Differentiated coil and lower unit pack (LUP) priced at INR10. Good knight Fabric Roll-On launched at INR20 to accelerate trials. Goodknight Cool Gel LUP priced at INR10.
- Marginal increase in market share seen in the HI segment
- Advertisement spends of powerchip suggest coil has power of 100 coils. Management claims it has so far not seen any downtrading from vaporizer products.
- New Liquid vapouriser's price of INR72 has existed for a long time.
- Overall HI market is showing a decline, but GCPL's sales have been improving. Management believes it will take one or two quarters for pantries to be exhausted. After this, HI should grow well.

Hair Colour

- Sales growth of 12% YoY led by strong double-digit volume growth
- Godrej Expert Rich Crème continues to consistently deliver robust performance with double-digit volume led growth
- Godrej Expert Rich Crème continues to expand distribution, penetration reach and gain market share
- Expanded portfolio with entry in herbal-based powder hair colour segment under the Godrej Nupur brand.
- Marginal increase in market share seen in the hair colour segment.
- Management took some price increase in hair colour and is looking at increasing pricing in Crème as well.
- Management believes there is substantial opportunity to expand crème distribution. Looking at launching promo/activation.

Personal care

- Sales growth of 10% YoY led by double-digit volume growth
- Healthy growth in both Godrej No.1 and Cinthol
- Performance led by effective micro-marketing initiatives, focus on new states and strong on-ground execution
- Continues to gain market share

Others

- Air freshner continues to fuel larger part of growth in the others category.

International business

- International business delivers constant currency sales growth of 7% YoY driven by Indonesia.
- Adjusted EBITDA margin of 14.3% is down 50bps YoY.

Indonesia:

- Sales growth of 10% YoY in constant currency led by improvement in HI.
- Product launches and effective sales promotion investments driving GCPL ahead of market growth
- Regained market leadership position and continues to gain market share YoY as well as QoQ in HI
- Adjusted EBITDA margin rose by 220bps led by cost-savings initiatives, lower overheads and sales promotion spends.
- Hair color is still small; looking at an additional plant in FY19.

Africa:

- Africa, USA & Middle East constant currency sales increase by 5% YoY led entirely by volume.
- Q1FY19 sales were impacted by weakness in South Africa (transporters strike, increase in VAT, etc) while Kenya is seeing early signs recovery; business ex-South Africa grew in double-digits in constant currency terms.
- Adjusted EBITDA margin decreases by 250bps YoY driven by the lag between the increase in input costs and price hikes and upfront marketing investments to scale up the wet hair care business.
- Africa EBITDA margins have been behind management's internal estimates. Upon gaining scale and favourable product mix, the EBITDA should improve.
- Over the next three–four-year basis, margins of the Africa business should reach high-teens.
- There are one–two targets, but that is not a priority. The focus is on organic growth.

Margins

- For all launches and existing products, the company believes it is making the required investments.

Annual Report | Key takeaways

In Conversation with Vivek Gambhir:

- Stepping up the pace of organic growth across their geographies and to strengthen their go-to-market approach and they will also continue to make investments in digital marketing and analytics.
- They have forayed into the professional hair care space in India with the launch of Godrej Professional. In Goodknight, they introduced Power Chip, an electric solution infused with unique gel technology, and a higher efficacy liquid vapouriser.
- African market is the priority for GCPL. Their largest investment as a company, of INR 4,000 crore, is in Africa and it contributes to 21% of their total revenue.
- In December 2017, they inaugurated a new state-of-the-art factory in Maputo.
- Their Indonesia business had a tough year but market shares for their HIT brand, the leader in household insecticides, return to 50 per cent levels.
- The new products launched in the last 5 years account for approximately 20 per cent of their global growth and 35 per cent of India growth.
- They bring their innovation efforts together through a RIDE (Research & Development + Innovation + Design + Expertise) platform, an integrated space for key functions involved in new product development.
- The Black Box, their new Digital Command Centre in Mumbai, is a dedicated facility to evaluate real-time brand performance.
- They are mapping cutting-edge replenishment practices to the Advanced Planning and Optimisation module of SAP.

- Key priorities : stepping up the pace of organic growth across their geographies and to strengthen their go-to-market approach.
- They will continue to make investments in digital marketing and analytics.
- In 2016, It launched Project EMBED (Elimination of Mosquito Borne Endemic Diseases) to improve the knowledge and awareness of communities through behaviour change campaigns and empower them to take charge of their own protection. In its second phase, EMBED has reached 3,000 villages, 700,000 households and 3.5 million people across 9 districts in Madhya Pradesh. It currently addresses ~36 per cent of the malaria burden in Madhya Pradesh

India Portfolio

Cinthol:

- Strong multi-local 360 degree media campaigns with web content in regional languages
- Building long-term digital assets; launches the blog www.awesomemen.com
- It is driven through a digital-only strategy; online campaign #TestedForAwesome receives over 7 million views.

Godrej No.1:

- Leading Grade 1 quality soap in India (simply put, more soap in each soap).
- Launches a new campaign, 'De No.1 nikhaar'
- Strong multi-local 360 degree media campaigns across states; 'Punjab di beauty No.1' wins awards at the Indian Marketing Awards 2017, Prime Time Awards 2017, and CMS Asia Awards 2017

Hand wash:

- Range comprises 3 hand washes, a hand sanitiser, and a personal mosquito repellent spray

Godrej Expert Hair Colour

- India's largest selling hair colour, used by over 40 million consumers
- Hosts successful integrated marketing campaigns, extensive engagement with salons, barber training, innovative approaches to media and communication.

B'Blunt

- Massive television influencer outreach campaigns with 37 actresses, leading to a cumulative reach of 8 million
- Continues building the brand on digital; focus on search and influencer marketing brings over 600,000 annual visitors to the BLUNT website
- Content on Bollywood linkage and salon expertise, created with leading partners, wins awards at the Indian Marketing Awards 2017, Prime Time Awards 2017, and Maddies 2018

Good Knight

- Goodknight, the highest penetrated brand in the category in India, reaches 78 million households
- Adds to the category-leading Goodknight liquid vapouriser portfolio, a new Power Activ+ with 50% more efficacy
- Innovative personal repellent range — Fabric Roll-On, Cool Gel and Patches — continues to rapidly scale up
- Launches Goodknight Power Chip, a revolutionary electric solution, and opens up a new format; unique gel technology offers the power of 100 coils

Aer Godrej

- Hosts successful integrated marketing campaigns, extensive engagement through innovative media; special focus on e-commerce

Ezee

- As part of the 'Ezee Hugs' initiative this winter, their team donated woollens washed with Ezee, to over 160,000 underprivileged school-going children in Delhi and the NCR.
- The Ezee Hugs campaign wins a Media Gold for 'Best Integrated Campaign in Consumer Products' at Emvies 2017.
- Ranks #8 in Fabric Care in the Economic Times – Brand Equity Most Trusted Brands Survey 2017.

International Business:

- SRILANKA BANGLADESH AND NEPAL: Goodknight and HIT, leaders in household.insecticides in Nepal Expert and Abha, leaders in their respective hair care segments in Bangladesh and Sri Lanka. Cross-pollinating brands like aer (from India), across SAARC.
- INDONESIA: HIT, the leader in household. Insecticides Stella, the leader in air fresheners Mitu, a leading range of wet wipes and baby toiletries. NYU ranks among the top 3 brands in hair colour in modern trade.
- AFRICA : Darling, the leader in hair extensions across sub- Saharan Africa .TCB continues to scale up across East Africa. MegaGrowth a market leader in relaxers across West Africa .Renew, a leading player in the Caucasian hair colour market in South Africa .Inecto, a market leader in ethnic hair care.
- ARGENTINA: Issue, an iconic leading hair colour, offers a fun and stylish range of hair treatments. Roby, a market leader in hair styling.
- CHILE: Ilicit, the leader in hair colour .Millefiori, the leader in depilatory products. Pamela Grant, their range of intense, long-lasting hair colours.
- USA: Their African Pride range leaves hair softer, silkier, and beautifully straight with a radiant shine. Their Dr. Miracle's range is an award-winning line of ethnic hair care products.
- UK: Pro:Voke Touch of Silver, a unique range of salon-inspired products, for cool platinum, white, and silver hair. Pro:Voke Liquid Blonde, their proposition to boost

colour for warm, caramel, and honey blondes. Cuticura, a leading range of anti-bacterial products for the whole family Inecto, their natural hair and skin care range.

Innovations and Renovations

- Innovation-led growth across categories
- New products launched in the last 5 years account for ~20% of global growth and ~35% of India growth.
- Two-pronged approach to innovation
- Building on and extending leadership positions in current categories through new formats and democratisation
- Pursuing attractive adjacencies and creating new vectors of growth to broaden their portfolio.
- Innovation led through RIDE (Research & Development + Innovation + Design + Expertise)
- Integrated platform to combine efforts of key functions involved in new product development
- Streamlines and expedites innovation delivery
- Ensures agile execution
- Investments in technology and skills
- State-of-the-art Research & Development centre at their headquarters in Mumbai
- In-house Design Lab is a strategic advantage; designed innovation approach to transform product capabilities
- Strategic global partnerships to leverage cutting-edge technology and processes

Digital operations

- A team of digital marketers, from across geographies, share ideas and learning.
- Experimenting and reach: Multiple digital experiments, resulting in a 4x increase in consumer reach worldwide.
- Move from seasonal campaigns to strong brand platforms and always-on content. Geo-analytics to drive hyperlocal activations.

Outlook and valuations: Positive; maintain 'BUY'

GCPL continues to surpass category growth while garnering market shares across segments. It is one of the few FMCG companies to report resilient performance in spite of a challenging domestic business. The company's strategy of launching innovative products at disruptive price points are bolstering growth despite tough macroeconomic conditions – few examples are the company's recent entry into outdoor HI, *Power Chip*, *Goodnight Cool Gel*, the relaunch of *B Blunt Crème* hair colour and Herbal-based powder hair colour.

Domestic margins are expected to gain from supply chain efficiencies emanating from *Project PI*. The company also holds lower cost inventory, which amid price hikes, will help sustain margins in the short term. The international business has started improving led by

cost-saving initiatives (*Project Iceberg* in Argentina, which has now been extended to Indonesia; *Project Symphony* in Chile, etc) and share gains.

While entry into HI will be a key growth driver for the Africa business, localisation of manufacturing will bolster the supply chain. The *SON* acquisition aided entry into wet hair care, and now the company has started local manufacturing as well. Distribution measures, launch of crème hair colour in Indonesia and cost-saving initiatives in Indonesia will help drive growth and improve margins. Besides, the company's focus on improving distribution productivity and reach (by deploying more feet on ground), among other steps, will lend impetus to profitability. Challenges in Indonesia seem to be receding, but will remain a variable.

We also like GCPL's aggression in developing categories via launches (*Godrej Expert Rich Crème* in a multi-application pack, *aer pocket*, *Godrej No1 Nature Soft*, *Germ Protection*, *Cinthol Dio Stick*, *Cinthol Confidence+*, etc) and cross pollination of products across geographies. The company is expected to sustain strong double-digit growth led by entry into less-penetrated categories, product launches, pricing growth in the personal wash category and sustaining double-digit growth in the hair colour segment.

With the building blocks in place along with market share gains, we are increasing the target multiple to 50x (earlier 45x) that results in our revised TP of INR1,540 (earlier INR1,435). Maintain 'BUY'. At CMP, the stock is trading at 42.6x FY20E EPS. We maintain '**BUY/SO**'.

Chart 1: Sales growth in HI – Domestic business

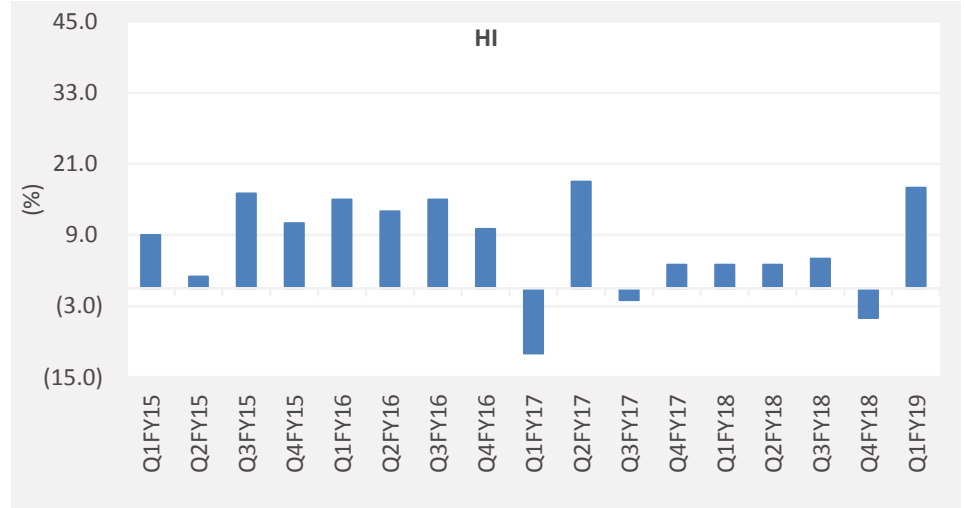


Chart 2: Sales growth in hair color – Domestic business

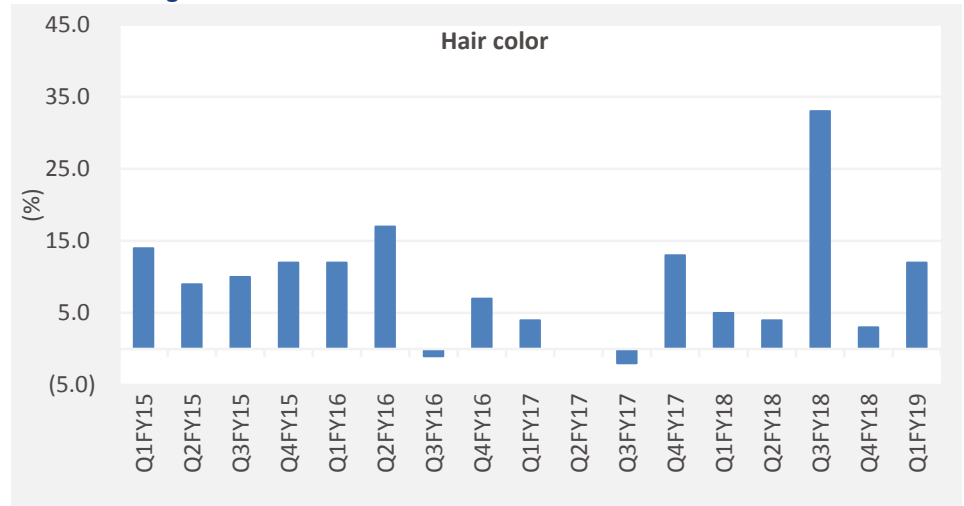
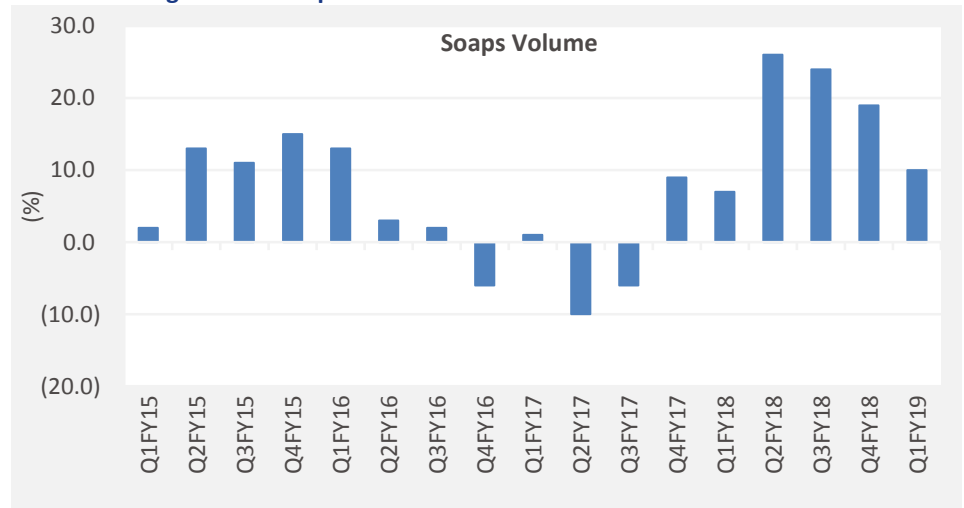


Chart 3: Sales growth in soaps – Domestic business



Source: Company, Edelweiss research

Table 2: Financial snapshot (standalone)

(INR mn)

Year to March	Q1FY19	Q1FY18	% Change	Q4FY18	% change
Net sales	12,785	10,917	17.1	13,293	(3.8)
Other operating income	314	106	197.6	405	(22.3)
Net operating income	13,100	11,022	18.8	13,698	(4.4)
COGS	5,461	5,074	7.6	5,366	1.8
Staff costs	1,138	681	67.2	1,025	11.0
Advt and publicity	1,499	1,430	4.9	1,387	8.1
Other expenditure	2,121	1,817	16.7	2,015	5.3
Total expenditure	10,219	9,002	13.5	9,793	4.3
EBITDA	2,881	2,020	42.6	3,904	(26.2)
Interest	137	133	2.3	126	8.0
Depreciation	169	150	12.6	163	3.6
Other income	246	190	29.6	214	15.1
Forex gain/(loss)	(20)	-	NM	1	NM
PBT	2,801	1,927	45.4	3,830	(26.9)
Tax	597	432	38.3	877	(31.9)
PAT before exceptionals	2,205	1,496	47.4	2,953	(25.3)
Extra ordinary items (net of tax)	-	-	NM	-	NM
Reported profit	2,205	1,496	47.4	2,953	(25.3)
Equity capital (FV INR 1)	681	681		681	
No. of shares (mn)	681	681		681	
EPS (INR)	3.2	2.2	47.3	4.3	(25.4)
As % of sales					
Gross margin	58.3	54.0	435	60.8	(251)
Staff costs	8.7	6.2	251	7.5	120
Advt and publicity	11.4	13.0	(153)	10.1	132
Other expenditure	16.2	16.5	(30)	14.7	148
EBITDA margin	22.0	18.3	366	28.5	(652)
Tax rate	21.3	22.4	(109)	22.9	(158)
PAT	16.8	13.6	326	21.6	(473)

Table 3: International business snapshot

(INR mn)

International revenue	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Indonesia (Megasari)	3940	3762	3670	3950	3890	3230	3220	3640	3450	3530
UK (Keyline)	1330	1280	1040	1150	970	1360	1160	1130	1170	5640
Africa (Tura, Rapidol, Kinky, Darling)	3380	4440	5150	5490	4820	5120	5580	5980	5170	NA
Latin America (Issue Group, Argencos)	1640	1110	1310	1610	1660	1050	1490	1510	1790	NA
Others (LATAM + UK + SAARC)	NA	NA	NA	NA	NA	2,575	NA	NA	NA	2730

International EBITDA	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Indonesia (Megasari)	827	903	807	909	934	646	773	910	932	777
UK (Keyline)	106	166	125	115	146	204	162	124	152	733
Africa (Tura, Rapidol, Kinky, Darling)	507	755	876	988	819	819	893	837	672	NA
Latin America (Issue Group, Argencos)	312	89	183	306	481	21	298	287	483	NA
Others (LATAM + UK + SAARC)	NA	NA	NA	NA	NA	157	NA	NA	NA	164

EBITDA margins	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Indonesia (Megasari)	21.0	24.0	22.0	23.0	24.0	20.0	24.0	25.0	27.0	22.0
UK (Keyline)	8.0	13.0	12.0	10.0	15.0	15.0	14.0	11.0	13.0	13.0
Africa (Tura, Rapidol, Kinky, Darling)	15.0	17.0	17.0	18.0	17.0	16.0	16.0	14.0	13.0	NA
Latin America (Issue Group, Argencos)	19.0	8.0	14.0	19.0	29.0	2.0	20.0	19.0	27.0	NA
Others (LATAM + UK + SAARC)	NA	NA	NA	NA	NA	6.1	NA	NA	NA	6.0

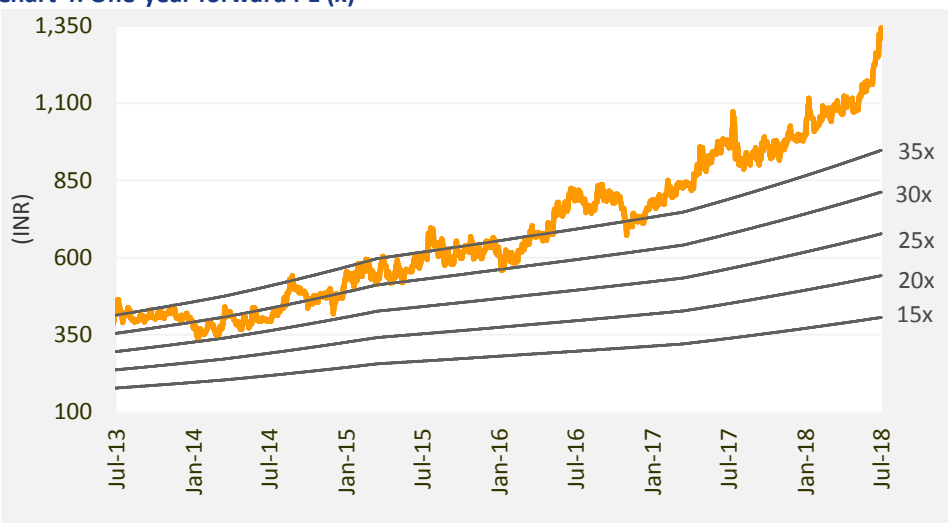
Source: Company, Edelweiss research

Table 4: Sales growth in CC terms (YoY)

	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Reported net sales - consol	11.0	9.0	5.4	8.8	6.8	7.0	8.0	16.0	2.9	6.2	9.5	5.8	13.7
International	13.0	18.0	9.0	18.0	18.0	25.0	28.0	22.0	11.0	9.0	5.0	6.0	8.9
Indonesia (Megasari)	8.0	8.0	3.0	13.0	3.0	(2.0)	13.0	0.5	(11.0)	(4.0)	(2.0)	(6.0)	10.0
Africa (Tura, Rapidol, Kinky, SON, DGH)	32.0	32.0	16.0	26.0	52.0	75.0	54.0	61.0	26.0	13.0	10.0	7.0	5.0
Latin America (Issue Group, Argencos)	29.0	29.0	28.0	31.0	10.0	20.0	24.0	19.0	4.0	30.0	5.0	28.0	NA
UK (Keyline)	(2.0)	(2.0)	10.0	15.0	(3.0)	(2.0)	16.0	(5.0)	24.0	15.0	9.0	11.0	NA
Others (LATAM + UK + SAARC)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	8.0

Source: Company, Edelweiss research

Chart 4: One-year forward PE (x)



Source: Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q1FY19	Q1FY18	% change	Q4FY18	% change	FY18	FY19E	FY20E
Net revenues	24,760	21,773	13.7	25,289	(2.1)	98,433	111,539	127,779
Staff costs	2,962	2,404	23.2	2,748	7.8	10,574	11,823	13,417
Cost of goods sold	10,946	10,133	8.0	10,376	5.5	42,744	48,631	55,584
Advt. sales & promotions	2,090	1,906	9.6	1,816	15.1	8,103	8,923	10,095
Other expenses	4,321	3,836	12.7	4,381	(1.4)	16,341	17,735	19,934
Total expenditure	20,319	18,279	11.2	19,320	5.2	77,762	87,112	99,029
EBITDA	4,442	3,494	27.1	5,969	(25.6)	20,671	24,427	28,750
Depreciation	421	374	12.8	401	5.0	1,557	1,641	1,744
EBIT	4,020	3,121	28.8	5,567	(27.8)	19,114	22,786	27,006
Interest	477	397	20.2	422	13.0	1,607	1,799	2,000
Other income	310	237	30.9	290	6.8	1,076	1,272	2,043
Add: Prior period items								
Add: Exceptional items	(64)	(75)	NA	1,938	NA	1,796	-	-
Profit before tax	3,853	2,960	30.1	5,435	(29.1)	18,582	22,259	27,050
Provision for taxes	(260)	634	NA	1,204	NA	4,047	4,786	6,086
Minority interest	(2)	(1)	NA	(3)	NA	-	-	-
Associate profit share	-	-	-	-	-	11	-	-
Profit- Discontinued Ops								
Reported net profit	4,050	2,252	79.9	6,172	(34.4)	16,342	17,473	20,964
Adjusted Profit	4,115	2,327	76.8	4,234	(2.8)	14,546	17,473	20,964
Diluted shares (mn)	681	681	-	681	-	681	681	681
Adjusted Diluted EPS	6.0	3.4	76.8	6.2	(2.8)	21.4	25.7	30.8
Diluted P/E (x)	-	-	-	-	-	61.4	51.1	42.6
EV/EBITDA (x)	-	-	-	-	-	43.5	36.6	30.7
ROAE (%)	-	-	-	-	-	25.2	25.6	26.1
As % of net revenues								
COGS	44.2	46.5	-	41.0	-	43.4	43.6	43.5
Employee cost	12.0	11.0	-	10.9	-	10.7	10.6	10.5
Adv. & sales promotions	8.4	8.8	-	7.2	-	8.2	8.0	7.9
Other expenditure	17.5	17.6	-	17.3	-	16.6	15.9	15.6
EBITDA	17.9	16.0	-	23.6	-	21.0	21.9	22.5
Adjusted net profit	16.6	10.7	-	16.7	-	14.8	15.7	16.4
Tax rate	(6.7)	21.4	-	22.2	-	21.8	21.5	22.5

Company Description

GCPL is a major player in the toilet soap, household insecticides and hair colour categories in the Indian FMCG market. It is a leader in the hair colour category and has a vast product range across various price points. Major brands include Godrej Expert Rich Hair Crème, Godrej Hair Dye (liquid and powder), Godrej Kesh Kala and Nupur hair dyes in the mass end and Renew and Coloursoft in the mass premium segment. It is the second-largest toilet soap marketer after Hindustan Unilever (HUL) with a ~10-12% market share and primary brands such as Godrej No. 1, Cinthol and FairGlow. GCPL is the leader in the household insecticides category across all the formats.

To expand its geographical presence, GCPL had made few acquisitions in the past few years. In FY06, it acquired Keyline brands in the UK with brands such as Cuticura and Erasmic. In FY07, it took over Rapidol, a South African company with presence across ten countries in Africa. Tura and Megasari are among recent purchases that helped extend its presence in Africa and Indonesia respectively. With acquisition of Darling Group Holding, leader in hair extension in Africa, in Africa GCPL further strengthened its stronghold in the continent. It also entered Chile, with acquisition of 60% stake in Cosmetica Nacional. GCPL acquired 30% stake in B:Blunt salon services.

Investment Theme

GCPL boasts of patented technology that has helped it drive usage of hair colours at the lower end of the market. Recently with disruptive launch of crème based hair color at low price point GCPL has raised competitive intensity in the segment and gained market share from MNCs. In soaps, the company provides high-quality value-for-money soaps with its Godrej No1 which has helped it garner larger market share and plays the premiumisation strategy with its Cinthol range. GCPL is the undisputed leader in the household insecticides space across three categories and continues to expand the market with innovations. GCPL's international acquisitions are driving benefits from cross pollination of products and technology. The company can be expected to benefit from its new ventures, increasing consumer spending and inorganic growth going forward.

Key Risks

A slowdown in rural demand due to lower government spending or a monsoon failure could impact GCPL's revenues significantly.

Depreciating INR, Indonesian rupiah and Argentine Peso can impact profitability.

GCPL's ability to gain market share in its soap segment could be adversely affected by the aggression of HUL, ITC, Wipro, etc.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	7.1	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.3	6.5
USD/INR (Avg)	67.1	64.5	68.0	69.0
Company				
Int rate on debt (%)	4.2	4.9	5.5	5.1
Revenue growth (Y-o-Y %)				
Personal wash gr (dom)	(1.9)	16.3	14.4	15.5
Hair color growth (dom)	4.0	7.1	14.4	17.6
Home care growth (dom)	3.1	6.1	10.3	12.4
International bus growth	18.4	7.0	13.0	14.8
Asia sales growth	13.2	(4.0)	5.0	10.0
Africa sales growth	38.9	15.2	18.7	18.9
Europe sales growth	(14.9)	10.0	15.0	15.0
LatAm sales growth	(9.6)	10.4	15.0	15.0
EBITDA margin assumpn				
COGS as % of sales (Con)	44.6	43.4	43.6	43.5
Oil & Fat as % of COGS	21.0	21.0	21.0	21.0
Chemicals as % of COGS	11.5	11.5	11.5	11.5
Pack Mat (as % of COGS)	12.0	12.0	12.0	12.0
Staff cost (% of sales)	10.7	10.7	10.6	10.5
Con A&P (% of sales)	7.7	8.2	8.0	7.9
Financial assumptions				
Tax rate (Consol)	22.5	21.8	21.5	22.5
Capex (INR mn)	17,467	2,286	3,179	2,500
Debtor days	42	42	41	41
Inventory days	120	128	125	125
Payable days	142	174	150	150
Cash conversion cycle	21	(4)	16	16
Dep. (% gross block)	5.1	4.1	4.1	4.1
Dividend payout	15.0	29.0	35.0	35.0
Yield on cash	3.0	3.8	6.5	5.0

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	92,679	98,433	111,539	127,779
Materials costs	41,325	42,744	48,631	55,584
Employee costs	9,885	10,574	11,823	13,417
Ad. & sales costs	7,181	8,103	8,923	10,095
Other Expenses	15,311	16,341	17,735	19,934
EBITDA	18,977	20,671	24,427	28,750
Depreciation	1,416	1,557	1,641	1,744
EBIT	17,562	19,114	22,786	27,006
Less: Interest Expense	1,452	1,607	1,799	2,000
Add: Other income	753.00	1,075.5	1,272.36	2,043.12
Profit Before Tax	16,862	18,582	22,259	27,050
Less: Provision for Tax	3,792	4,047	4,786	6,086
Associate profit share	8	11	-	-
Reported Profit	13,079	16,342	17,473	20,964
Exceptional Items	-	1,796	-	-
Adjusted Profit	13,079	14,546	17,473	20,964
Shares o /s (mn)	681	681	681	681
Adjusted Basic EPS	19.2	21.4	25.7	30.8
Diluted shares o/s (mn)	681	681	681	681
Adjusted Diluted EPS	19.2	21.4	25.7	30.8
Adjusted Cash EPS	21.3	23.6	28.1	33.3
Dividend per share (DPS)	2.9	7.0	9.0	10.8
Dividend Payout Ratio(%)	14.4	34.9	42.1	42.1

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Materials costs	44.6	43.4	43.6	43.5
Ad. & sales costs	7.7	8.2	8.0	7.9
EBITDA margins	20.5	21.0	21.9	22.5
Net Profit margins	14.1	14.8	15.7	16.4

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	10.0	6.2	13.3	14.6
EBITDA	16.0	8.9	18.2	17.7
Adjusted Profit	12.3	11.2	20.1	20.0
EPS	12.3	11.2	20.1	20.0

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	341	681	681	681	
Reserves & Surplus	52,679	61,902	73,429	85,561	
Shareholders' funds	53,020	62,583	74,110	86,242	
Long term borrowings	31,083	23,803	22,303	20,803	
Short term borrowings	8,927	1,405	17,905	17,405	
Total Borrowings	40,009	25,208	40,208	38,208	
Long Term Liabilities	9,521	8,546	8,546	8,546	
Def. Tax Liability (net)	1,898	3,047	3,047	3,047	
Sources of funds	104,448	99,384	125,911	136,043	
Gross Block	36,284	38,784	41,284	43,784	
Net Block	9,426	10,664	10,689	11,445	
Capital work in progress	1,035	821	1,500	1,500	
Intangible Assets	71,403	72,504	72,504	72,504	
Total Fixed Assets	81,864	83,989	84,694	85,450	
Non current investments	2,518	1,415	1,415	1,415	
Cash and Equivalents	15,945	18,160	39,447	47,475	
Inventories	14,125	15,777	16,654	19,036	
Sundry Debtors	10,287	12,455	12,529	14,353	
Loans & Advances	229	313	313	313	
Other Current Assets	4,383	7,518	7,518	7,518	
Current Assets (ex cash)	29,025	36,063	37,015	41,220	
Trade payable	17,239	23,569	19,985	22,843	
Other Current Liab	7,664	16,674	16,674	16,674	
Total Current Liab	24,903	40,243	36,660	39,517	
Net Curr Assets-ex cash	4,122	(4,180)	355	1,703	
Uses of funds	104,448	99,384	125,911	136,043	
BVPS (INR)	77.9	91.9	108.8	126.6	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	13,079	16,342	17,473	20,964	
Add: Depreciation	1,416	1,557	1,641	1,744	
Interest (Net of Tax)	1,126	1,257	1,412	1,550	
Others	318	(1,456)	387	450	
Less: Changes in WC	(2,226)	(2,510)	4,534	1,348	
Operating cash flow	18,164	20,209	16,379	23,359	
Less: Capex	17,467	2,286	3,179	2,500	
Free Cash Flow	697	17,924	13,200	20,859	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Godrej Consumer	13,004	51.1	42.6	36.6	30.7	25.6	26.1
Dabur	10,120	42.1	36.0	36.7	31.3	26.8	27.2
Emami	3,732	58.6	42.9	29.0	23.6	20.6	24.9
Hindustan Unilever	53,232	58.1	49.2	40.8	35.0	80.6	83.2
ITC	53,562	28.7	25.8	18.9	16.9	23.2	23.7
Marico	6,839	49.6	42.3	33.8	28.7	34.7	34.7
Median	-	50.4	42.4	35.2	29.7	26.2	26.7
AVERAGE	-	48.0	39.8	32.6	27.7	35.2	36.6

Source: Edelweiss research

Cash flow metrics					
Year to March	FY17	FY18	FY19E	FY20E	
Operating cash flow	18,050	20,209	16,379	23,359	
Financing cash flow	6,647	(21,761)	5,840	(12,831)	
Investing cash flow	(21,698)	(2,923)	(3,179)	(2,500)	
Net cash Flow	2,999	(4,475)	19,040	8,028	
Capex	(17,467)	(2,286)	(3,179)	(2,500)	
Dividend paid	(2,357)	(5,704)	(7,361)	(8,832)	

Profitability and efficiency ratios

Year to March	FY17	FY18	FY19E	FY20E
ROAE (%)	27.3	25.2	25.6	26.1
ROACE (%)	22.2	22.3	23.8	24.3
Inventory Days	120	128	125	125
Debtors Days	42	42	41	41
Payable Days	142	174	150	150
Cash Conversion Cycle	21	(4)	16	16
Current Ratio	1.8	1.3	2.1	2.2
Debt/EBITDA (x)	2.1	1.2	1.6	1.3
Debt/Equity (x)	0.8	0.4	0.5	0.4
Adjusted Debt/Equity	0.8	0.4	0.5	0.4
Net Debt/Equity	0.5	0.1	-	(0.1)
Interest Coverage Ratio	12.1	11.9	12.7	13.5

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	1.0	1.0	1.0	1.0
Fixed Asset Turnover	1.3	1.2	1.3	1.5
Equity Turnover	1.9	1.7	1.6	1.6

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	19.2	21.4	25.7	30.8
Y-o-Y growth (%)	12.3	11.2	20.1	20.0
Adjusted Cash EPS (INR)	21.3	23.6	28.1	33.3
Diluted P/E (x)	68.2	61.4	51.1	42.6
P/B (x)	16.8	14.3	12.0	10.3
EV / Sales (x)	9.9	9.1	8.0	6.9
EV / EBITDA (x)	48.3	43.5	36.6	30.7
Dividend Yield (%)	0.2	0.5	0.7	0.8

Additional Data

Directors Data

Mr. Adi Godrej	Chairman	Mr. Vivek Gambhir	Managing Director and CEO
Ms. Nisaba Godrej	Executive Chairperson	Mr. Nadir Godrej	Non Executive Director
Mr. Jamshyd Godrej	Non Executive Director	Ms. Tanya Dubash	Director
Mr. Aman Mehta	Director	Mr. Bharat Doshi	Director
Dr. Omkar Goswami	Director	Ms. Ireena Vittal	Director
Mr. Narendra Ambwani	Director	Mr. Pirojsha Godrej	Director
Ms. Ndidi Nwuneli	Director		

Auditors - B S R & Co, LLP

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Temasek Holdings Pte Ltd	2.5	Capital Group Cos Inc	2.3
Commonwealth Bank of Australia	2.3	Arisaig Partners Asia Pte Ltd	2.0
Life Insurance Corp of India	1.4	RKN ENTERPRISES	1.3
Vanguard Group Inc	1.3	BlackRock Inc	1.2
Standard Life Aberdeen PLC	1.0	FMR LLC	0.8

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Asian Paints	BUY	SO	M	Bajaj Corp	HOLD	SU	H
Berger Paints	BUY	SO	L	Britannia Industries	BUY	SO	L
Colgate	HOLD	SP	M	Dabur	BUY	SO	M
Emami	BUY	SP	H	Future Consumer	BUY	SP	M
GlaxoSmithKline Consumer Healthcare	HOLD	SU	M	Godrej Consumer	BUY	SO	H
Hindustan Unilever	HOLD	SP	L	ITC	HOLD	SP	M
Marico	BUY	SP	M	Nestle Ltd	HOLD	SP	L
Pidilite Industries	BUY	SO	M	United Spirits	BUY	SP	H

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Aditya Narain

Head of Research

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Coverage group(s) of stocks by primary analyst(s): Consumer Goods

Asian Paints, Bajaj Corp, Berger Paints, Britannia Industries, Colgate, Dabur, Future Consumer, Godrej Consumer, Emami, Hindustan Unilever, ITC, Marico, Nestle Ltd, Pidilite Industries, GlaxoSmithKline Consumer Healthcare, United Spirits

Recent Research

Date	Company	Title	Price (INR)	Recos
26-Jul-18	ITC	Cigarette regains volume buzz; other businesses lend support; <i>Result Update</i>	287	Hold
26-Jul-18	Colgate Palmolive	Margin shines; market share loss continues; <i>Result Update</i>	1085	Hold
24-Jul-18	Asian Paints	Volumes add sheen; GST rate cut to add luster; <i>Result Update</i>	1468	Buy

Distribution of Ratings / Market Cap

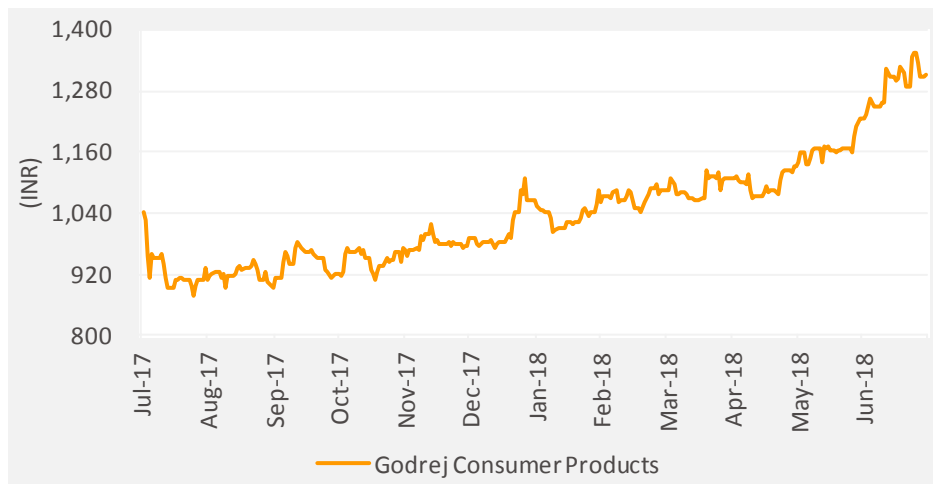
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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