

Sector: Consumer Goods
Company Update

	Change
Reco: Hold	↔
CMP: Rs. 669	
Price Target: Rs. 734	↔

↑ Upgrade ↔ No change ↓ Downgrade

Company details

Market cap:	Rs. 68,383 cr
52-week high/low:	Rs. 979/628
NSE volume: (No of shares)	12.5 lakh
BSE code:	532424
NSE code:	GODREJCP
Sharekhan code:	GODREJCP
Free float: (No of shares)	37.6 cr

Shareholding (%)

Promoters	63.3
FII	27.5
DII	2.5
Others	6.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.6	-3.0	-17.7	-17.8
Relative to Sensex	-3.1	-5.2	-25.1	-26.9

Sharekhan Research, Bloomberg

We interacted with the management of Godrej Consumer Products (GCPL) to understand its current business environment and performance of key categories (including household insecticides [HI] and soaps) in the domestic market and growth in international markets such as Africa and Indonesia. Recent price cut in soaps would help boost sales volumes, while HI will take some time to get back on track. Globally, the African and Indonesian businesses are expected to put up a better show with double-digit growth in revenue and expansion in margins, which could be the only bright spot in the near term.

Price cuts in key soap brand, focus on regaining growth in HI; Africa and Indonesia to drive international business:

GCPL has slashed prices of a key soap brand – Godrej No.1 – by 7% in mid-Q1FY2020 to pass on benefits of lower input prices. Benefits of the price cut would start flowing from Q2FY2020, boosting sales volumes. However, Q1FY2020 value growth will be affected by the price cut in the key soap brand, which contributes more than 70% of revenue from the soaps segment. Naturals Neem incense stick is gaining good response in Andhra Pradesh and Telangana (achieving market share of 7-8% within six months of launch). The price-off in liquid vapouriser will pay dividends in the coming quarters as Q1 is a seasonally weak quarter for the HI category in India. New products, expansion in distribution reach and branding & promotional activities in key products would help the African and Indonesian businesses to achieve double-digit revenue growth and margin expansion in the coming quarters.

Our Call

Valuation - Maintain Hold with an unchanged PT of Rs. 734: GCPL continues to record subdued numbers since the past few quarters as on tepid demand for household insecticides due to increased competition from illegal incense sticks and a rural slowdown in the domestic market. Growth in the international market was also affected by currency headwinds and macro concerns in key geographies. Demand for HI is expected to get back on track led by corrective steps the company has undertaken while recovery in the Indonesian business and double-digit growth in Africa will revive international business growth. However the revival would be gradual as Q1FY2020 is expected to be yet another subdued quarter for GCPL with revenue expected to remain flat and OPM expected to be drop by ~83 bps y-o-y. The stock is trading at a discounted valuation of 34.3x its FY2021E EPS. We maintain our Hold recommendation on the stock with an unchanged price target (PT) of Rs. 734.

Key Risks

Any substantial improvement in the operational performance in the coming quarters would be a key re-rating trigger for the stock.

Valuation (Consolidated)

	Rs cr				
Particulars	FY17	FY18	FY19	FY20E	FY21E
Revenues	9,609	9,937	10,314	11,308	12,955
OPM (%)	19.9	21.1	20.7	20.6	20.8
Adjusted PAT	1,307	1,493	1,479	1,679	1,992
% YoY growth	0.0	0.0	0.0	0.0	0.0
Adjusted EPS (Rs.)	12.8	14.6	14.5	16.4	19.5
P/E (x)	52.4	45.8	46.3	40.7	34.3
P/B (x)	8.6	7.3	9.4	7.9	6.5
EV/EBIDTA (x)	26.6	23.9	33.9	31.2	26.6
RoNW (%)	27.3	25.8	21.9	21.0	20.8
RoCE (%)	18.9	17.4	17.5	18.7	20.6

Source: Company; Sharekhan estimates

Price cuts in Godrej No.1 to boost sales volumes; professional space to drive growth for hair colours

The soaps category was affected by a delayed summer, but the company continued to maintain its dominant market share. Further, the company cut prices of Godrej No. 1 soap brand by 6-7% in mid-Q1FY2020. The brand forms ~70% of the total revenue. The price cut would start lifting sales volumes from Q2FY2020. However, it will affect the value growth of the category in Q1FY2020, which is expected to be in low single digits. Overall, the management is confident of ending FY2020 with a mid-to-high single digit volume growth in the soaps category, led by stable demand. With respect to the hair colour category, Godrej Expert Crème continues to perform well. GCPL is focusing on the professional hair colour segment, which is currently worth Rs. 1,200 crore (growing by 8-10%). Since its launch two years back, GCPL has garnered a small market share and is targeting to achieve a 25% share in the next three years by expanding its distribution reach. GCPL's hair colour products are currently available in 5,800 salons in India and the company is targeting to add another 4,200 salons in the current fiscal (aim is to cover 50,000 salons over next five years).

Recovery in the HI category to be gradual

In FY2019, the household insecticides (HI) category performed dismally, with revenue declining by 3% as performance was lacklustre especially in North and Central India, affected by seasonal vagaries as lower rainfall affected mosquito breeding. The company had a pilot launch of Naturals Neem incense sticks two quarters ago in Andhra Pradesh and Telangana which reached a market share of ~7-8%. GCPL plans to roll out the product in West Bengal and Kerala in the coming quarters and continue the consumer offer on liquid vaporisers (LV). In addition, illegal incense stick players are exiting the market, as the government is taking stringent regulatory measures against them. The company is focusing on innovation to improve the overall category's growth. However, Q1FY2020 is expected to be a soft quarter for the HI category due to high temperature and a gradual recovery expected in the coming quarters.

Indonesia and Africa markets expected to grow in double-digits

International business recovered in Q4FY2019 with both Indonesia and GAUM (includes Africa, USA and Middle East) regions growing in double digits. Indonesia continued to perform well led by constant innovation in the HI and air freshener categories and cost-saving programs. New products and sustained media activities and a focus on cross pollination of products across India and Indonesia will help drive the revenue growth in the near to medium term. On the other hand, the re-launch of Darling products and the scale up of wet hair care portfolio are progressing well in GAUM region. In addition, the newly-launched fast fashion model for innovations will accelerate the pace of inventory and would result in a better portfolio mix, helping the GAUM region to achieve double digit revenue growth and sustained expansion in margins in FY2020. The Latin America (LatAm) region posted poor performance in recent times due to a hyper-inflationary environment and currency devaluation. Going ahead, no major improvement in revenue performance is expected but cost-saving initiatives would help post better margins for LatAm. Overall, we believe better performance by Indonesia and GAUM regions will drive overall performance of the international business in FY2020.

Q1FY2020 to be muted as well

Q1FY2020 is expected to be yet another quarter for GCPL with revenue remaining flat and PAT declining by 7.6%. The domestic business is expected to grow by just 1% mainly on account of flat revenue in the soaps category due to recent price cuts and an expected decline in revenue from HI due to a weak quarter for the business, which was affected by high temperature. Internationally, Africa and Indonesia are expected to post low double-digit revenue growth and Latin America revenues are expected to decline y-o-y due to currency and inflationary headwinds.

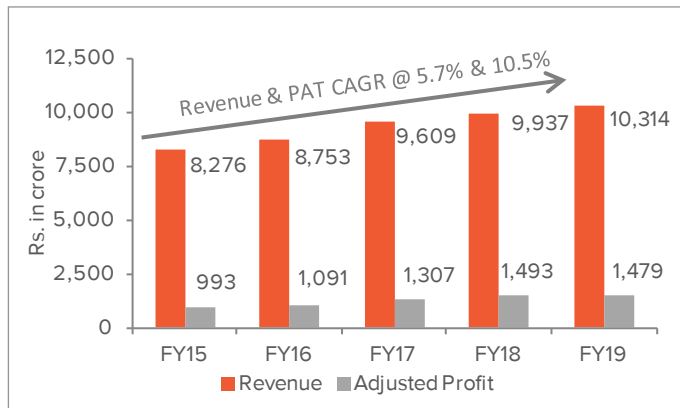
Result expectation

Particulars	Q1FY20E	Q1FY19	Rs cr yoy%
Total revenue	2438.4	2448.5	-0.4
Operating Profit	425.9	449.1	-5.2
Adjusted Net profit	289.4	313.2	-7.6
GPM (%)	56.3	55.8	46
OPM (%)	17.3	18.1	-83

Source: Company; Sharekhan estimates

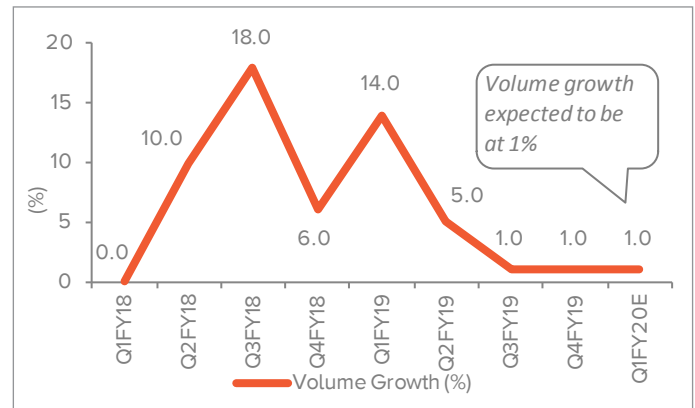
Financials in charts

PAT grew @ 10.5% CAGR over FY2015-FY2019



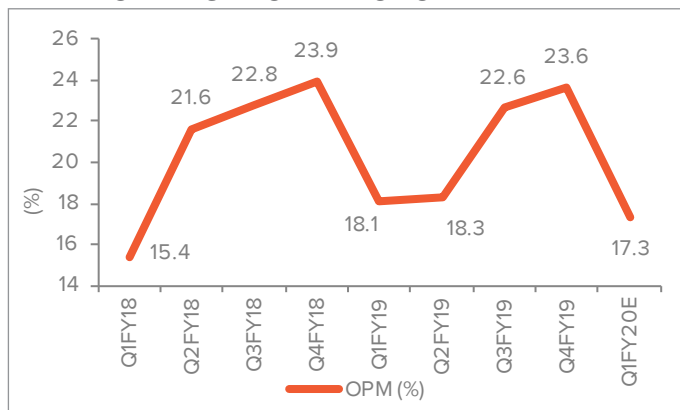
Source: Company, Sharekhan Research

Volume growth likely to remain flat in Q1FY2020



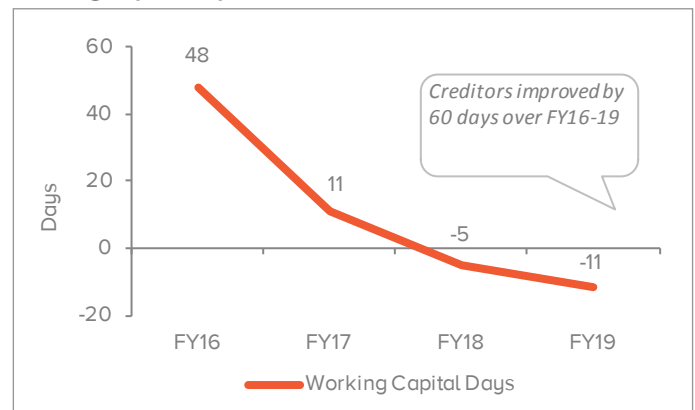
Source: Company, Sharekhan Research

OPM likely to marginally decline y-o-y in Q1FY2020



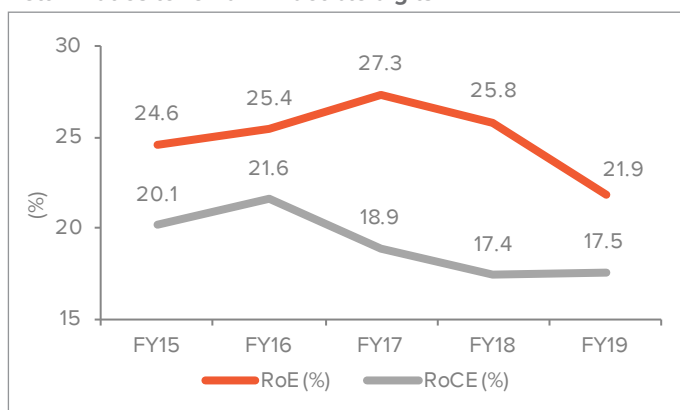
Source: Company, Sharekhan Research

Working capital improved over FY2016-FY2019



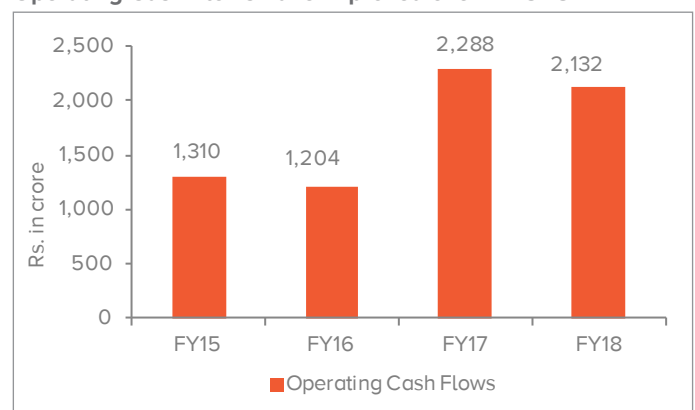
Source: Company, Sharekhan Research

Return ratios to remain in double digits



Source: Company, Sharekhan Research

Operating Cash Flows have improved over FY15-18



Source: Company, Sharekhan Research

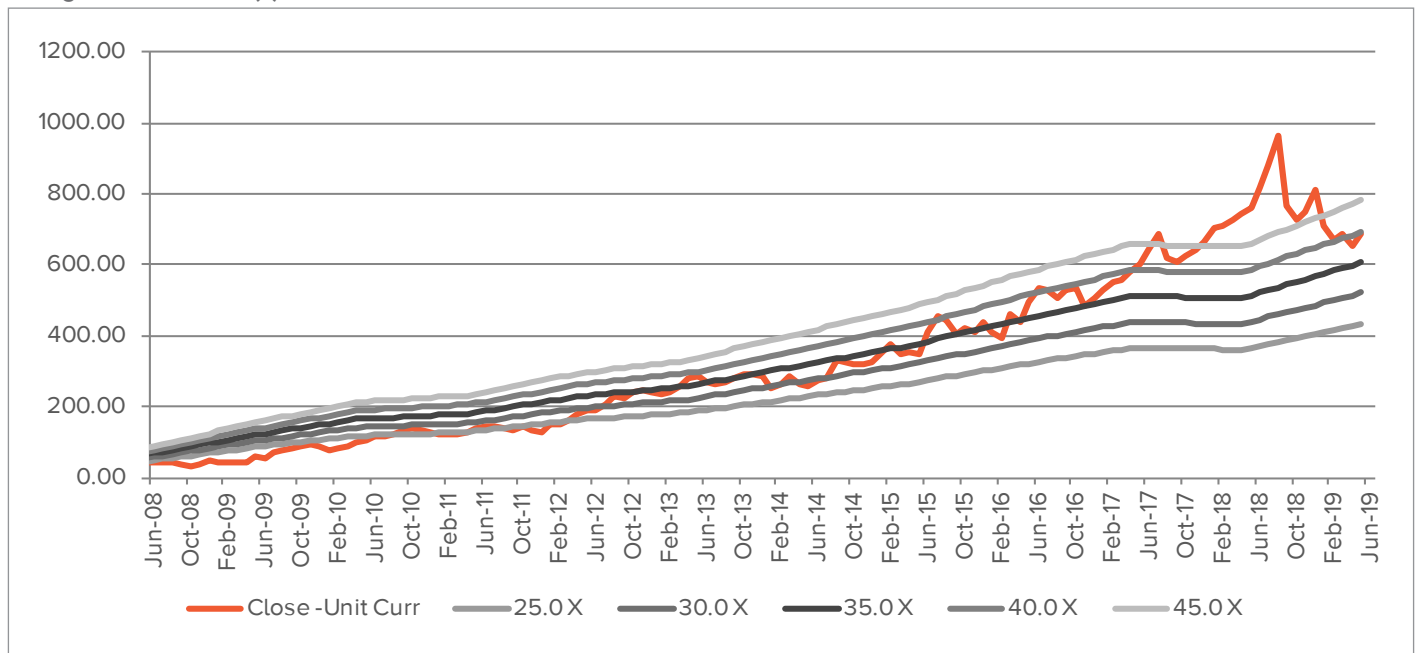
Outlook – Relevant steps undertaken; recovery will take time

GCPL has taken relevant steps to revive growth in key domestic product categories such as soaps and HI. However, the revival will happen with a lag, as a rural slowdown will affect near-term performance. Q1FY2020 is expected to be subdued too with domestic soaps and the HI segments expected to post muted performance. With expectations of a stable monsoon and government likely to provide a stimulus push to rural market, domestic consumer demand is expected to get back on track in H2FY2020. Globally, the Indonesian and African businesses have revived and will post a low-double-digit revenue growth. Latin America, meanwhile, will see revenue decline due to a sustained hyperinflationary environment and currency headwinds. Standalone profitability will improve with an overall recovery in sales growth, while international business margins are expected to remain high led by better profitability of the Indonesian and African businesses. Cost-cutting initiatives would drive margins of the LatAm business y-o-y (despite a decline in revenue).

Valuation - Maintain Hold with an unchanged PT of Rs. 734

GCPL continues to post subdued performance in the past few quarters as its key domestic category – HI – was affected by intense competition from illegal mosquito incense sticks and a rural slowdown. International business was affected by currency headwinds and macro concerns in key geographies. Growth in the domestic HI category is expected to come back on track led by relevant corrective steps while a recovery in Indonesia business and double-digit growth in Africa will revive growth of international business. However, this revival will happen gradually as Q1FY2020 is expected to be yet another subdued quarter with revenue expected to remain flat and OPM expected to drop ~83 bps y-o-y. GCPL is trading at a valuation of 34.3x its FY2021E EPS. We maintain our Hold recommendation on the stock with an unchanged price target (PT) of Rs. 734.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
HUL	62.0	52.2	44.4	43.8	38.1	32.9	113.2	113.5	102.8
Dabur India	47.7	41.5	35.2	39.7	33.1	28.0	28.1	31.4	31.5
Marico India	50.4	40.9	35.0	36.8	29.1	24.9	40.9	44.7	44.6
Godrej Consumer Products	46.3	40.7	34.3	33.9	31.2	26.6	17.5	18.7	20.6

Source: Company, Sharekhan estimates

About company

Godrej Consumer Products (GCPL) is a leading emerging market company with a turnover of more than Rs. 10,000 crore. The group enjoys the patronage of 1.15 billion consumers globally across different businesses. GCPL is present in key product categories such as soaps, hair colours and household insecticides. GCPL's power brands include Godrej No.1 soap, Godrej expert range of hair colour and Good Knight among others. GCPL is operates internationally in Indonesia, Latin America and GAUM (Africa, USA and Middle East) region.

Investment theme

GCPL has a 3 by 3 approach to international expansion by building presence in '3' emerging markets (Asia, Africa and Latin America) across '3' categories (home care, personal wash and hair care products). It has a leadership position in most categories in the domestic and international markets. Sustained innovation, cross pollination, enhanced distribution reach and foray into new categories have remained the key growth pillars for GCPL. However, a slowdown in the HI category and subdued performance in the international market has subdued the performance in the near term.

Key Risks

- ♦ Currency fluctuation: Fluctuation in the currencies of key international markets including Africa and Indonesia will affect the performance of GCPL.
- ♦ Increased input prices: Any significant increase in prices of key raw materials such as palm oil would affect the profitability and earnings growth of the company.
- ♦ Increased competition in highly penetrated categories: Increased competition in the highly penetrated categories such as soaps would threaten revenue growth or any competition from illegal entrant in HI category would affect category performance.

Additional Data

Key management personnel

Adi Gogrej	Chairman
Nisaba Godrej	Executive Chairperson
Vivek Gambhir	Managing Director and CEO
V Srinivasan Vishwanathan	CFO and Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Godrej Seeds & Genetics	27.4
2	Godrej Industries Ltd	23.8
3	Godrej & Boyce Manufacturing Co Lt	7.3
4	Temasek Holdings Pte Ltd	2.5
5	Capital Group companies	2.3
6	Coomonwealth Bank of Australia	2.2
7	Arisaig India Fund	1.5
8	Vanguard Group Inc	1.4
9	LIC of India	1.4
10	Naoroji Rishad	1.3

Source: Bloomberg

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