

Retail Equity Research

Godrej Consumer Products Limited

FMCG

BSE CODE: 532424

NSE CODE: GODREJCP

Bloomberg CODE: GCPL:IN

SENSEX: 30,673

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 569

TARGET Rs. 665

RETURN 17% 

(Closing: 22-05-20)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Challenging quarter; Valuation attractive

Godrej Consumer Products Ltd (GCPL) is one of India's leading home-grown household and personal care companies. GCPL also has presence in other countries like Indonesia, Africa, US and the Middle East.

- Q4FY20 revenue dropped 12.2% YoY (-11.0% CC) to Rs. 2,154cr, on lower sales volume in India amidst lockdown (-15.0% YoY).
- EBITDA margin contracted ~150bps to 22.1% on higher raw material and packaging costs. PAT declined 75.4% YoY to Rs. 230cr.
- Management suspended dividend for the quarter to conserve cash.
- We expect next few quarters to remain challenging owing to COVID-19. However, with the rising market share for key products, new partners, channel dynamics, cost optimization efforts and current upside potential, we upgrade our rating to BUY on the stock with a revised target price of Rs. 665 based on 35x FY22E adj. EPS.

Revenue declines on lower volumes

In Q4FY20, revenue slipped 12.2% YoY (-11.0% CC) to Rs. 2,154cr, negatively impacted by the disruption caused by COVID-19. India business was severely impacted and dropped by 17.9% YoY, as volumes fell 15.0% YoY. Secondary sales declined at a slower pace by 11.0%, giving room to fill-in stock levels at channel partners' end. Within Domestic, revenue for Household Insecticides (HI) (39.9% of India revenue) and Soaps (27.0% of India revenue) decreased by 16.0% and 23.0% YoY, respectively, on sluggish volume amidst country-wide lockdown. EBITDA margin contracted ~150bps YoY to 22.1%, owing to higher raw material and packaging costs, partially offset by lower employee costs (-17.2% YoY) on reduced variable pay component.

Indonesia business continues to shine

International business revenue declined 5.3% YoY (-2.0% CC), partially offset by the strong performance by Indonesia business 8.9% YoY (+6.0% CC), led by both HI and Baby Wipes segments. Additionally, the company gained market share in HI. GAUM continued the decline by 16.8% YoY (-13.0% CC), as COVID-19 impact was higher in these regions. International adj. EBITDA margin contracted ~30bps YoY, primarily on weak performance from GAUM (-670bps YoY), whereas Indonesia reported margin expansion (+210bps) on prudent cost measures.

Key concall highlights

- Management suspended the quarterly dividend to conserve cash (historically declared quarterly dividend of Rs. 2/share)
- Company witnessed increase in market share for ~70% of its product portfolio. Management expects market share to improve further with innovation
- Lockdown since mid-March: HI segment lost sales, as it was the beginning of high mosquito infestation in North India. Soaps segment was also impacted
- Low impact of COVID-19 in Indonesia led to robust growth in sales
- Present capacity utilization levels at 70-75% in the factories across country
- In April 2020, there was improvement in supply chain and channel restocking

Valuation

The disruption of production activities and supply chain owing to the lockdown is expected to impact results for next few quarters. However, the company's resilience has led to increase in the market share in key products. Internationally, Indonesia remains the key driver with increasing market share in few segments, however GAUM still faces headwinds. Given current upside potential, we upgrade our rating to BUY on the stock with a revised target price of Rs. 665 based on 35x FY22E adj. EPS.

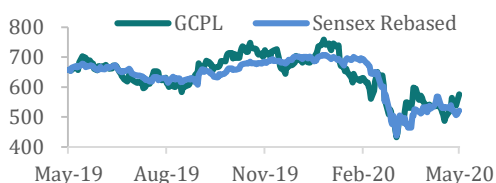
Company Data

Market Cap (cr)	Rs. 58,197
Enterprise Value (cr)	Rs. 59,021
Outstanding Shares (cr)	102.3
Free Float	37.0%
Dividend Yield	1.1%
52 week high	Rs. 772
52 week low	Rs. 425
6m average volume (lacs)	0.8
Beta	0.6
Face value	Rs. 1

Shareholding %	Q2FY20	Q3FY20	Q4FY20
Promoters	63.2	63.2	63.2
FII's	27.8	27.7	26.3
MFs/Insti	2.2	2.2	3.1
Public	5.4	5.4	5.8
Others	1.3	1.4	1.5
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.7

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-9.7%	-19.8%	-13.4%
Absolute Sensex	-25.5%	-24.0%	-21.6%
Relative Return*	15.8%	4.2%	8.2%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	9,911	10,398	11,317
Growth (%)	(3.9)	4.9	8.8
EBITDA	2,143	2,182	2,467
EBITDA Margin (%)	21.6	21.0	21.8
Adj. PAT	1,414	1,573	1,942
Growth (%)	(4.8)	11.2	23.5
Adj. EPS	13.8	15.4	19.0
Growth (%)	(4.8)	11.2	23.5
P/E	47.3	37.0	30.0
P/B	8.5	6.6	5.8
EV/EBITDA	32.2	27.0	23.5
ROE (%)	18.9	17.8	19.5
D/E	0.4	0.3	0.2

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q4FY20	Q4FY19	YoY Growth %	Q3FY20	QoQ Growth %	FY20	FY19	YoY Growth %
Revenue	2,154	2,453	(12.2)	2,778	(22.5)	9,911	10,314	(3.9)
EBITDA	477	580	(17.8)	631	(24.5)	2,143	2,131	0.6
EBITDA margins	22.1	23.6	(150bps)	22.7	(60bps)	21.6	20.7	90bps
Depreciation	53	43	24.8	49	8.4	197	170	16.1
EBIT	423	537	(21.2)	582	(27.3)	1,946	1,961	(0.8)
Interest	62	57	7.0	48	28.8	217	224	(3.1)
Other Income	49	28	76.5	23	108.9	113	96	18.0
Exceptional Items	(73)	(7)	1,002.6	(4)	1,584.2	(81)	253	(132.1)
PBT	337	501	(32.6)	554	(39.1)	1,760	2,085	(15.6)
Tax	107	(435)	n.m.	108	(0.9)	264	(256)	(203.0)
Share of profit from Associate	(0)	0	n.m.	1	n.m.	1	1	28.6
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	230	935	(75.4)	445	(48.4)	1,497	2,342	(36.1)
Adjustments	86	(539)	n.m.	(22)	n.m.	(83)	(857)	n.m.
Adjusted PAT	316	396	(20.2)	423	(25.3)	1,414	1,485	(4.8)
No. of shares	102.3	102.2	0.1	102.2	0.1	102.2	102.2	-
EPS (Rs.)	3.1	3.9	(20.2)	4.1	(25.3)	13.8	14.5	(4.8)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	11,748	12,993	10,398	11,317	(11.5)	(12.9)
EBITDA	2,634	2,924	2,182	2,467	(17.2)	(15.6)
Margins (%)	22.4	22.5	21.0	21.8	(141bps)	(71bps)
Adj. PAT	1,873	2,079	1,573	1,942	(16.0)	(6.6)
EPS	18.3	20.3	15.4	19.0	(15.9)	(6.4)

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	9,937	10,314	9,911	10,398	11,317
% change	3.4	3.8	(3.9)	4.9	8.8
EBITDA	2,096	2,131	2,143	2,182	2,467
% change	11.8	2.4	1.2	3.1	13.4
Depreciation	156	170	197	205	200
EBIT	1,940	1,961	1,946	1,977	2,267
Interest	161	224	217	243	99
Other Income	259	348	32	115	117
PBT	2,039	2,085	1,760	1,850	2,285
% change	20.9	2.3	(15.6)	5.1	23.5
Tax	405	(256)	264	277	342
Tax Rate (%)	19.8	(12.3)	15.0	15.0	15.0
Reported PAT	1,634	2,342	1,497	1,573	1,942
Adj*	(192)	(857)	(83)	-	-
Adj PAT	1,442	1,485	1,414	1,573	1,942
% change	10.7	3.0	(4.8)	11.2	23.5
No. of shares (cr)	102.2	102.2	102.2	102.2	102.2
Adj EPS (Rs.)	14.1	14.5	13.8	15.4	19.0
% change	10.7	3.0	(4.8)	11.2	23.5
DPS (Rs.)	6.7	10.0	8.0	6.0	8.0
CEPS (Rs.)	15.6	16.2	15.8	17.4	21.0

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	1,790	2,512	1,694	1,777	2,142
Non-cash adj.	(269)	(863)	36	127	(138)
Changes in W.C	203	80	(142)	237	22
C.F. Operation	1,723	1,729	1,588	2,141	2,026
Capital exp.	(311)	(208)	(152)	(160)	(174)
Change in inv.	(95)	514	(262)	(5)	(7)
Other invest.CF	66	(55)	(119)	82	87
C.F - Investment	(340)	252	(533)	(83)	(93)
Issue of equity	0	0	0	-	-
Issue/repay debt	(488)	(345)	(128)	(536)	(598)
Dividends paid	(613)	(1,227)	(818)	(613)	(818)
Other finance.CF	(283)	(468)	(350)	(243)	(99)
C.F - Finance	(1,384)	(2,039)	(1,295)	(1,392)	(1,515)
Chg. in cash	(0)	(58)	(240)	666	418
Closing cash	960	895	770	1,436	1,854

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	960	895	770	1,436	1,854
Accounts Receivable	1,246	1,293	1,157	1,300	1,471
Inventories	1,578	1,559	1,703	1,445	1,488
Other Cur. Assets	1,384	942	1,178	1,186	1,202
Investments	142	35	35	40	47
Gross Fixed Assets	1,225	1,448	1,600	1,759	1,933
Net Fixed Assets	1,066	1,192	1,205	1,102	963
CWIP	82	51	56	60	65
Intangible Assets	7,250	7,479	8,028	8,081	8,189
Def. Tax (Net)	100	549	647	680	839
Other Assets	155	175	179	184	191
Total Assets	13,963	14,170	14,957	15,513	16,309
Current Liabilities	4,024	3,621	4,028	4,153	4,398
Provisions	98	108	117	120	127
Debt Funds	3,275	3,093	2,796	2,260	1,662
Other Liabilities	307	81	118	122	141
Equity Capital	68	102	102	102	102
Reserves & Surplus	6,190	7,165	7,796	8,755	9,880
Shareholder's Fund	6,258	7,267	7,898	8,858	9,982
Minority Interest	-	-	-	-	-
Total Liabilities	13,963	14,170	14,957	15,513	16,309
BVPS (Rs.)	61	71	77	87	98

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	21.1	20.7	21.6	21.0	21.8
EBIT margin (%)	19.5	19.0	19.6	19.0	20.0
Net profit mgn.(%)	16.4	22.7	15.1	15.1	17.2
ROE (%)	26.1	32.2	18.9	17.8	19.5
ROCE (%)	20.4	18.9	18.2	17.8	19.5
W.C & Liquidity					
Receivables (days)	45.7	45.8	42.6	45.6	47.5
Inventory (days)	131.8	124.9	145.9	116.8	113.2
Payables (days)	196.9	203.6	212.4	210.4	215.9
Current ratio (x)	1.2	1.2	1.1	1.1	1.2
Quick ratio (x)	0.7	0.7	0.6	0.7	0.8
Turnover & Leverage					
Gross asset T.O (x)	8.9	7.7	6.5	6.2	6.1
Total asset T.O (x)	0.7	0.7	0.7	0.7	0.7
Int. coverage ratio (x)	12.1	8.7	9.0	8.1	22.9
Adj. debt/equity (x)	0.5	0.4	0.4	0.3	0.2
Valuation					
EV/Sales (x)	7.6	7.0	7.0	5.7	5.1
EV/EBITDA (x)	36.0	33.8	32.2	27.0	23.5
P/E (x)	50.7	47.1	47.3	37.0	30.0
P/BV (x)	11.7	9.6	8.5	6.6	5.8

Recommendation Summary



Dates	Rating	Target
9-Feb-17	HOLD	555
29-May-17	HOLD	612
31-Oct-17	HOLD	669
14-Sep-18	HOLD	898
13-Aug-19	HOLD	656
15-Nov-19	HOLD	758
7-Feb-20	HOLD	710
26-May-20	BUY	665

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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