

Stock Update

Road to recovery will take time

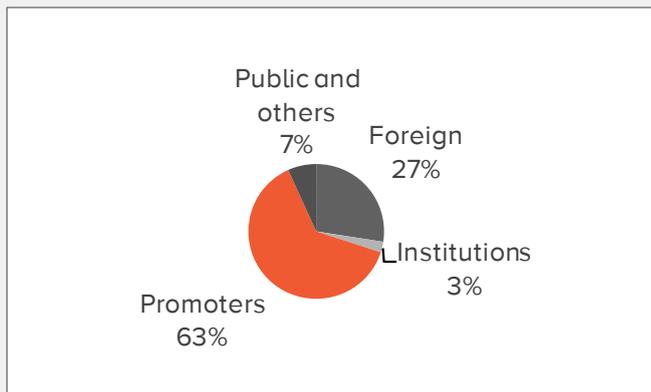
Godrej Consumer Products

Reco: Hold | CMP: Rs642

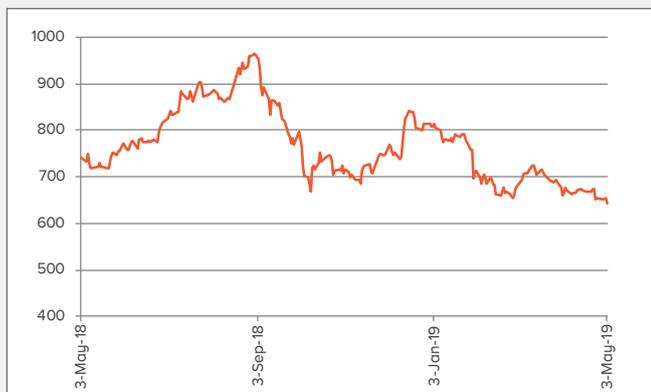
Company details

Price target:	Rs734
Market cap:	Rs65,623 cr
52-week high/low:	Rs979/628
NSE volume: (No of shares)	11.7 lakh
BSE code:	532424
NSE code:	GODREJCP
Sharekhan code:	GODREJCP
Free float: (No of shares)	37.6 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.4	-7.7	-7.6	-10.8
Relative to Sensex	-0.2	-13.8	-17.3	-20.5

Key points

Godrej Consumer Products (GCPL) Q4FY2019 financial performance is not strictly comparable on a y-o-y basis due to the sale of its European business during the quarter.

- Revenue grew by 2%; domestic business disappoints:** Q4FY19 revenue grew by just 2% y-o-y (on a comparable basis) to Rs. 2,452.6 crore affected by flat sales in the domestic business and a mere 1% volume growth. The international business (on a comparable basis) grew by just 5% in Q4FY2019. Gross margins and OPM stood flat at 58.7% and 23.6%, respectively. Operating profit declined by 4.2% y-o-y to Rs. 579.6 crore. Interest expenses increased by 36.1% y-o-y to Rs. 57.5 crore. Profit before tax declined by 6.7%. In Q4FY19, the company had a minimum alternate tax (MAT) credit of Rs. 546 crore. Adjusting for same and an exceptional item of Rs. 6crore the adjusted PAT declined by 12.4% to Rs. 408.2 crore, below our expectation of Rs. 433.4 crore).
- Household insecticide disappoints; soap registered flat performance:** GCPL's revenue from the domestic soaps category declined by 1% as sales growth was affected by a delayed summer. The hair colour category revenues grew by 7% with volume growth staying ahead of value growth. The household insecticide (HI) category continues to bear brunt of heightened competition from low-price incense sticks. This along with extended winters in northern and central India led to a 6% decline in the revenues of the HI category. Revenue from international business grew by 5% y-o-y (on comparable basis) to Rs. 1,123 crore with the Indonesian and GAUM businesses registering double-digit revenue growth of ~20% and 11%, respectively in Q4FY2019. The others (including LatAm) recording a 35% decline in revenue to Rs. 134 crore mainly on account of currency devaluation in LatAm. Operating margin of the India business improved by 85 bps y-o-y to 30.2%, while the margin of the international business fell by 230 bps y-o-y to 16.9% in Q4FY2019.
- Steps undertaken to revive growth in India and international business:** GCPL has taken several steps to revive performance in the domestic and key international markets such as Africa and LatAm. In India, the company is

focusing on growing ahead of category growth in core categories such as soaps, hair colors and HI. This will be done through relevant new launches and enhancing the distribution reach by penetrating deep into the rural markets (by dividing existing markets into small micro-markets). In Indonesia, the company is focusing on fast-tracking the growth in emerging categories such as hair care, fabric care and car cleaners through a cross-pollination strategy. The company is investing in neighbouring South East Asian markets to scale up the exports growth. Darlings re-launch and scale of wet haircare portfolio (new products launch in Nigeria and Kenya and wet hair launch in South Africa) would help in achieving a profitable growth in the FY2020. Further in LatAm, the company is focusing on driving growth through innovation, distribution expansion and scale up growth in export markets (Peru, Uruguay). On the other hand large emphasis will be given on

various cost savings projects such as Project PI (India), Project Cermat (Indonesia) and Project Spring (Latam) to improve margin prospects in near to medium term.

- ◆ **Road to recovery will take time, maintain Hold:** The steps undertaken by GCPL to revive the growth of key categories (HI in India and haircare in Africa) will take time to show desired results. We expect revival in performance from H2FY2020 as the slowdown in the rural market will continue to affect the performance in the near term in the domestic market. We have reduced our earnings estimates for FY2020 and FY2021 by 6.6% and 7.2% respectively to factor in lower than expected growth in the key categories. The stock is currently trading at 31.5x its FY2021E earnings. We maintain our Hold recommendation on the stock with revised PT of Rs. 734 (valuing the stock at 36x its FY2021E earnings).

Valuations (consolidated)

Particulars	Rs cr				
	FY2017	FY2018	FY2019	FY2020E	FY2021E
Net Sales (Rs cr)	9608.8	9937.0	10314.3	11424.7	13081.8
Adjusted PAT (Rs cr)	1307.1	1493.1	1478.5	1747.2	2084.1
EPS (Rs)	12.8	14.6	14.5	17.1	20.4
PER (x)	50.3	43.9	44.4	37.6	31.5
OPM(%)	19.9	21.1	20.7	21.2	21.5
EV/EBIDTA (x)	25.6	23.0	32.6	28.4	24.0
RoE(%)	27.3	25.8	21.9	21.9	21.9
RoCE(%)	18.9	17.4	17.5	19.4	21.6

Results (consolidated)

Particulars	Rs cr				
	Q4FY19	Q4FY18	YoY %	Q3FY19	QoQ %
Total revenues	2452.6	2528.9	-3.0	2721.9	-9.9
Raw material cost	1013.1	1037.6	-2.4	1190.9	-14.9
Employee cost	270.2	274.8	-1.7	279.4	-3.3
Advertisement & Publicity	157.4	181.6	-13.3	217.0	-27.5
Other expenses	432.3	429.9	0.5	418.4	3.3
Total operating expenses	1873.0	1923.9	-2.6	2105.7	-11.0
Operating profit	579.6	605.0	-4.2	616.2	-6.0
Other income	29.1	29.0	0.5	22.7	28.5
Interest expense	57.5	42.2	36.1	57.8	-0.6
Profit before tax	507.0	543.5	-6.7	530.9	-4.5
Tax	98.8	77.8	27.0	111.4	-11.3
Adjusted PAT (before MI)	408.2	465.7	-12.4	419.5	-2.7
Minority interest (MI)	0.2	0.3	-17.2	0.1	380.0
Extraordinary item	526.8	151.2	-	4.0	-
Reported PAT	935.2	617.2	51.5	423.5	120.8
EPS (Rs.)	9.2	6.0	51.5	4.1	120.8
			BPS		BPS
GPM (%)	58.7	59.0	-28	56.2	244
OPM(%)	23.6	23.9	-29	22.6	99

Standalone business – Muted growth for the quarter

GCPL's Q4FY2019 standalone revenue was flat at Rs. 1,325.2 crore with a volume growth of 1% y-o-y. The soap and HI declined by 1% and 6%, y-o-y respectively, hair colour segment increased by 7% y-o-y and other brands and exports grew by 21% and 10% y-o-y. Gross margins contracted by 137 bps y-o-y. Operating profit grew by ~30% y-o-y to Rs. 400.5 crore due to a decline in employee cost and advertisement expenditure. Thus, OPM grew by 103 BPS y-o-y to ~29.5%. The adjusted PAT stood at Rs. 906.9 crore as against Rs. 295.1 crore; the huge hike was attributed deferred tax write-back of ~Rs. 603 crore.

Standalone result snapshot			Rs cr
Particulars	Q4FY19	Q4FY18	YoY %
Total revenues	1325.2	1329.3	-0.3
Operating Profit	400.5	390.4	2.6
Adjusted Net profit	906.9	295.1	-
			BPS
GPM(%)	59.5	60.8	-136.5
OPM(%)	29.5	28.5	103

- Soap – flat performance due to delayed summer:** Soaps declined by 1% y-o-y due to the effect of delayed summers (2-year sales CAGR stands at 9%). However, GCPL has continued to increase its market share during the quarter with a gain of more than 70 bps. This was led by effective micro-marketing initiatives and impactful consumer offers.
- HI continues to disappoint:** HI delivered yet another soft quarter with negative sales growth of 6% y-o-y. Weak performance was mainly driven by extended winter in North and Central India, where consumer offer (price off) on liquid vapouriser was rolled out and share of growth getting diverted to low-cost incense sticks being sold by unorganised players. However, premium formats like Aerosols and Personal Repellents have sustained their high single digit growth momentum. Natural's neem incense stick is scaling up well in Andhra Pradesh and Telangana (reached high single-digit market share) and GCPL Plans to launch the same in few other states in quick time. Availability of the product and repeat sales are some of the key drivers for gaining shares in the incense stick category.
- Hair colour– growth led by crème format:** Hair colour delivered a good performance of 7% y-o-y growth in revenue, led by volume growth,

which remained ahead of value growth. Godrej Expert Rich Crème has continued its robust growth momentum and has gained market share. The recently launched Godrej Nupur Herbal Based Powder hair colour is scaling up well. GCPL recently launched Godrej Expert Easy 5 minute shampoo hair color in South India. In order to acquire new customers into the category, the company is focusing on activations, media campaigns and price-offs.

International business – Mixed performance with growth in revenue but impact on margins

International business revenue grew by 5% y-o-y to Rs. 1,123 crore in Q4FY19. International business generated constant currency sales growth of 10%. Indonesia reported 19% y-o-y growth in revenue, GAUM (includes Africa, USA and Middle East) saw an 11% y-o-y revenue growth while others (includes Latin America and SAARC) declined by 35% y-o-y with constant currency growth of 16% (adjusted for divestment of Europe business with effect of September 2018). The international business EBITDA de-grew by 7% y-o-y to Rs 193 crore and adjusted EBITDA margin decreased by 203 bps y-o-y to 17.2%. EBITDA margin for Indonesia stood at 31% (increased by 360 bps), GAUM stood at 11% (down by 230 bps) and others stood at 1% (down by 2010 bps).

International business revenue			Rs cr
Particulars	Q4FY19	Q4FY18	YoY %
Indonesia	413	345	19.7
GAUM	576	517	11.4
Others	134	211	-36.5
Total revenues	1123	1073	4.7

International business EBITDA (%)			
Particulars	Q4FY19	Q4FY18	YoY %
Indonesia	31	27.4	360
GAUM	11	13.3	-230
Others	1	21.1	-2010

Indonesia – Strong and profitable double-digit sales growth

The Indonesian business sustained its strong growth momentum and delivered constant currency (CC) sales growth of 14%. The growth was led by improvement in household insecticides and air fresheners. GCPL has accelerated the innovation momentum by cross pollinating Aer Twist from India under the Stella brand and launching Proclin stain remover. GCPL maintained its market leadership position in Household Insecticides during the quarter and gained market share on a

y-o-y basis. Adjusted EBITDA margin expanded by 360 BPS led by scale leverage and Project Cermat (cost-saving program).

GAUM (Africa, USA and Middle East) – mixed performance

The GAUM cluster had a soft quarter with sales growing by a mere 5% in CC terms. Performance of the Nigerian business was affected by 2-3 weeks of

shutdown due to elections whereas performance in South Africa is stabilising. Business excluding the South cluster grew in high single-digits in CC terms. Adjusted EBITDA margin decreased by 230 bps y-o-y due to upfront marketing and partially due to scale de-leverage. The re-launch of Darling brand and scale up of Wet hair care in the East and West cluster is progressing well.

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