

Godrej Consumer Products Ltd. (GCPL)

Sensex 37071
Nifty 10926

Key Stock Data

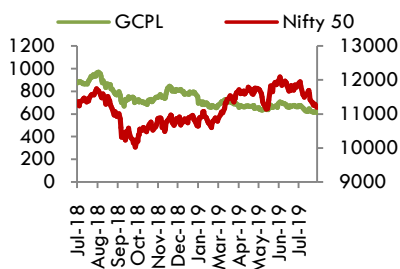
CMP ₹631/-
Market Cap (₹Cr.) ₹64488
52W High/Low 980/586
Shares o/s (crs.) 102.2

Bloomberg GCPL:IN
NSE Code GODREJCP
BSE Code 532424

Shareholding Pattern

Promoters 63.25%
FII & DII 30.14%
Public & Others 06.61%

Comparison Chart



	FY19	FY20E	FY21E
Net Sales	10216	11051	12320
Growth%	4.6%	8.2%	11.5%
EBIDTA	2131	2376	2693
EBIDTA Margin%	20.7%	21.5%	21.9%
PAT	2341	1651	1897
EPS	22.9	16.2	18.6
PE		38.9	33.9

Summary

Godrej Consumer Products Ltd (GCPL) declared its Q1FY20 results recently. Consolidated net sales declined by 5% Y-O-Y to ₹2331 crs. India business sales growth was flat for the quarter to ₹1390 crs. The volume for the quarter grew by 5% vs. 14% in Q1FY19.

Key Result Highlights

➤ **INDIA** – Indian operations growth was flat in Q1FY20 to ₹1290 crs vs ₹1279 crs in Q1FY19. India business volume grew by 5% Y-O-Y, driven by new product launches, effective marketing campaigns, and consumer offers. EBIDTA for India operation grew by 7.1% Y-O-Y to ₹309 crs in Q1FY20. Margins expanded by 150 bps to 23.5% vs. 22%. The contraction in employees and advertisement expenses aided margin expansion. PAT for Q1FY20 grew by 8.9% Y-O-Y to ₹240 crs. led by a tax credit.

Key highlights for the business segments are given below:

- **Household Insecticides** business de-grew by 4% at ₹427 crs on Y-O-Y basis. This was due to extended summer and share of growth getting diverted to incense sticks. Illegal incense impacted 4-5% growth of HI category. The company has strong NPD in the pipeline for H2FY20. Natural neem incense stick has scaled up to six states as of July 2019 backed by marketing investment and accelerated PR efforts on illegal incense sticks. This incense stick in Andhra Pradesh has gained mid-single digit market share. The company remains focused on driving growth with effective brand and trade investments. Liquid vaporizer and scale-up incense sticks to drive HI business growth in the near term.
- **Hair Colors** sales growth was flat to ₹181 crs Y-O-Y due to high base effect but sales have been started to pick up from June onwards. Godrej Expert Rich Crème continued to perform well in Q1FY20. Godrej Expert Easy 5-minute shampoo hair color was launched in Southern states at a price point of ₹25. Wet hair color segment started to grow faster as the base was small.
- **Soaps** sales growth increased by 3% to ₹556 crs in Q1FY20 driven by strong volume growth. This was led by effective micro-marketing initiatives; focus on new states, impactful consumer offers, and strong on-ground execution. Cinthol and Godrej No.1 continued to gain market share.

Sales	Q1FY20	Q1FY19	YOY
Soaps	556	540	3%
Household Insecticides	427	445	-4%
Hair Colours	181	181	Flat
Others	146	122	20%
Unbranded & Exports	62	55	13%

(₹ crs)

International Business Highlights

- Consolidated net sales for Q1FY20 de-grew by 4.9% to ₹2331 crs. Adjusted EBIDTA increased by 2.2% to ₹459 crs. While EBIDTA margins expanded by 140 bps to 19.5% Y-O-Y. The contraction in employees and advertisement expenses and improvement in gross margins aided margin expansion.
- **Indonesia** delivered a sales growth of 5.4% Y-O-Y on a constant currency basis. This was led by improvement in Air Fresheners. However, sales growth was partially impacted due to slow down in the modern retail channel. Adjusted EBIDTA margins expanded by 140bps to 24% Y-O-Y, led by gross margin expansion. The management is positive on Indonesia business going ahead. The company will continue to focus on stepping up innovation momentum across categories and gradual expansion of general trade distribution to drive healthy growth.

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- **Africa, USA, and the Middle East** delivered mixed performance with a constant currency sales growth of 2% Y-O-Y to ₹562crs. Africa grew by 4% in constant currency terms and reported double digit sales growth. Adverse macro condition in the smaller market impacted growth. Both dry and wet hair care segment grew in low single digits. Kenya and South Africa have gained market share in Wet Hair Care. Adjusted EBIDTA margins contracted by 140bps Y-O-Y to 12% due to upfront marketing investments. The company is scaling up Wet hair care and non-braids portfolio within dry hair care to drive sustainable and profitable sales growth in coming quarters.
- **LatAm, Europe, and SAARC** recorded relatively weaker performance due to adverse macroeconomic conditions. Sales grew by 56% Y-O-Y on constant currency terms to ₹131crs in Q1FY20. Adjusted EBIDTA margins expanded by 540 bps Y-O-Y to 3%. The company expects a meaningful turnaround in the Latin American business by FY20.

(₹ Crs)

Gross Sales	Q1FY20	Q1FY19	YOY	Constant Currency Growth
Indonesia	372	354	5%	4%
GAUM	562	568	-1%	2%
Other	131	119	10%	56%

GAUM includes Africa, USA and Middle East

Others include Latin America, Europe and SAARC adjusted for Europe business divestment

	Operating Margins	Expansion (YOY)
Indonesia	24%	140 bps
GAUM	12%	-140 bps
Other	3%	540bps

Advertising and publicity spend decreased by 8% Y-O-Y. Controlled Ad spends along with the cost-saving program will result in a better margin in coming quarters. During the quarter, the company had reported ₹118 crores as a deferred tax on the sale of certain brands within the group's entities that shall derive benefits of future tax deduction. With the scale-up of new launches and recovery in consumer demand from Q3FY20 onwards, GCPL will deliver much improved profitable growth in the coming quarters.

Valuations

The company has delivered a muted growth in Q1FY20. This was due to subdued demand and competitive intensity. Godrej Consumer's international business has been pulling down EBIDTA margins. India business EBIDTA margin stood at 24% but the consolidated margin was lower at 20% in Q1FY20. But on the bright side, Indonesia business is rebounding after reporting revenue decline in FY18 in constant currency terms and delivered 13% & 5% growth in FY19 & Q2FY20. The investments in brand strengthening & increasing market reach will bode well for the company in the long run. We believe the company is on a strong innovation path and expect the new launches along with distribution expansion will drive profitable sales growth and margin expansion. The long-term prospects for the company remain intact. **At the CMP of ₹634/- the stock trades at a PE of 38.9x & 33.9x its FY20E & FY21E estimated EPS of ₹16.2/- & ₹18.6/- respectively. We recommend investors to HOLD the stock.**

Consolidated Financials

	(₹ Crs)					
	Q1FY20	Q1FY19	VAR	Q4FY19	VAR	FY19
Net Sales	2,330.6	2,449.6	-4.9%	2,429.7	-4.1%	10,216.4
Other Operating Income	18.2	27.5	-34.0%	22.9	-20.7%	93.3
Other Income	21.4	31.0	-30.9%	29.1	-26.6%	108.8
TOTAL INCOME	2,370.1	2,508.1	-5.5%	2,481.7	-4.5%	10,418.4
Raw Material Consumed	989.9	974.6	1.6%	886.6	11.7%	4,062.4
Purchase of stock in trade	64.0	145.8	-56.1%	64.9	-1.5%	337.4
Stock Adjustment	(46.9)	(25.8)	-	61.5	-176.2%	154.5
	<i>RMC as a %age of sales</i>	<i>44.2%</i>		<i>41.3%</i>		<i>44.2%</i>
Employee Expenses	265.3	290.3	-8.6%	270.2	-1.8%	1,102.6
	<i>EPC as a %age of sales</i>	<i>11.7%</i>		<i>11.0%</i>		<i>10.7%</i>
Advertisement & Publicity	192.9	209.0	-7.7%	157.4	22.5%	839.3
	<i>Advertisement as a %age of sales</i>	<i>8.4%</i>		<i>6.4%</i>		<i>8.1%</i>
Other Expenses	424.7	434.2	-2.2%	432.3	-1.8%	1,682.1
	<i>Other Expenses as a %age of sales</i>	<i>17.5%</i>		<i>17.6%</i>		<i>16.3%</i>
TOTAL EXPENDITURE	1,889.9	2,028.1	-6.8%	1,873.0	0.9%	8,178.3
EBIDTA	458.9	449.1	2.2%	579.6	-20.8%	2,131.4
	<i>EBITDA Margins %</i>	<i>18.1%</i>		<i>23.6%</i>		<i>20.7%</i>
Interest	58.4	52.6	10.9%	59.1	-1.3%	238.0
Interest	55.1	47.7	15.4%	57.5	-4.2%	224.3
Loss/(Gain) in Forex	3.3	4.9	-32.7%	1.6	101.2%	13.8
PBDT	421.9	427.4	-1.3%	549.6	-23.2%	2,002.1
Depreciation	47.3	42.1	12.4%	42.6	11.2%	170.0
Minority Interest Before NP	0.2	0.2	-26.1%	-	-	0.0
PBT before exceptional items	374.4	385.0	-2.8%	507.0	-26.2%	1,832.1
Exceptional items	0.3	(6.4)	-104.4%	(6.7)	-104.2%	252.6
PBT	374.7	378.6	-1.0%	500.3	-25.1%	2,084.7
Tax	85.3	88.0	-3.0%	98.8	-13.7%	417.9
Fringe Benefit Tax	-	-	-	-	-	0.0
Deferred Tax	(117.9)	(114.0)	3.4%	(533.5)	-77.9%	(674.1)
	<i>Tax Rate</i>	<i>-6.7%</i>		<i>-85.7%</i>		<i>-14.0%</i>
Reported Profit After Tax	407.3	404.6	0.7%	935.0	-56.4%	2,340.9
Minority Interest After NP	-	-	-	0.2	-100.0%	0.2
Profit/Loss of Associate Company	-	-	-	-	-	0.3
Net Profit after Minority Interest & P/L Asso.Co.	407.3	404.6	0.7%	934.8	-56.4%	2,341.1
	<i>PATM %</i>	<i>16.3%</i>		<i>38.1%</i>		<i>22.7%</i>
Extra-ordinary Items	-	-	-	-	-	0.0
Adjusted Profit After Extra-ordinary item	407.3	404.6	0.7%	934.8	-56.4%	2,341.1
Other Comprehensive Income	(45.2)	136.6		(54.5)		138.5
Total Comprehensive Income	362.0	541.2	-33.1%	880.3	-58.9%	2,479.6
Basic:						
EPS	3.98	3.96	0.7%	9.14		22.90
Equity	102.2	102.2		102.2		102.2
Face Value	1.0	1.0		1.0		1.0

Standalone Financials

	Q1FY20	Q1FY19	VAR	Q4FY19	VAR	FY19
	(₹ Crs)					
Net Sales	1,289.8	1,278.5	0.9%	1,325.2	-2.7%	5,556.8
Other Operating Income	25.6	31.4	-18.7%	30.9	-17.2%	122.5
Other Income	19.6	24.6	-20.1%	22.7	-13.6%	94.5
TOTAL INCOME	1,335.0	1,334.6	0.0%	1,378.8	-3.2%	5,773.8
Raw Material Consumed	513.3	497.8	3.1%	458.2	12.0%	2,030.8
Purchase of stock in trade	56.0	62.4	-10.2%	59.0	-5.0%	254.7
Stock Adjustment	(25.0)	(14.2)	76.8%	32.7	-176.6%	27.8
	<i>RMC as a %age of sales</i>	41.4%	41.7%	40.5%		40.7%
Employee Expenses	93.5	113.8	-17.8%	72.3	29.4%	351.5
	<i>EPC as a %age of sales</i>	7.1%	8.7%	5.3%		6.2%
Advertisement & Publicity	146.5	149.9	-2.3%	121.1	20.9%	641.3
	<i>Advertisement as a %age of sales</i>	11.1%	11.4%	8.9%		11.3%
Other Expenses	222.6	212.1	5.0%	212.4	4.8%	851.2
	<i>Other Expenses as a %age of sales</i>	16.9%	16.2%	15.7%		15.0%
TOTAL EXPENDITURE	1,006.8	1,021.9	-1.5%	955.6	5.4%	4,157.3
EBIDTA	308.5	288.1	7.1%	400.5	-23.0%	1,522.0
	<i>EBIDTA Margins %</i>	23.5%	22.0%	29.5%		26.8%
Interest	12.4	15.7	-20.6%	19.7	-37.1%	74.3
Interest	10.6	13.7	-22.5%	16.9	-37.4%	64.9
Loss/Gain in Forex	1.8	2.0	-8.0%	2.8	-34.8%	9.4
PBDT	315.8	297.0	6.3%	403.5	-21.7%	1,542.2
Depreciation	19.0	16.9	12.9%	17.4	9.5%	69.1
Minority Interest Before NP			-		-	0.0
PBT before exceptional items	296.7	280.2	5.9%	386.1	-23.1%	1,473.1
Exceptional items			-		-	0.0
PBT	296.7	280.2	5.9%	386.1	-23.1%	1,473.1
Tax	64.1	62.3	2.9%	82.7	-22.5%	320.7
Fringe Benefit Tax			-		-	0.0
Deferred Tax	(7.4)	(2.6)	184.3%	(603.4)	-98.8%	(602.6)
	<i>Tax Rate</i>	19.1%	21.3%	-134.9%		-19.1%
Reported Profit After Tax	240.1	220.5	8.9%	906.9	-73.5%	1,755.0
Minority Interest After NP			-		-	0.0
Profit/Loss of Associate Company			-		-	0.0
Net Profit after Minority Interest & P/L Asso.Co.	240.1	220.5	8.9%	906.9	-73.5%	1,755.0
PATM %	18.3%	16.8%		66.9%		30.9%
Extra-ordinary Items			-		-	0.0
Adjusted Profit After Extra-ordinary item	240.1	220.5	8.9%	906.9	-73.5%	1,755.0
Other Comprehensive Income	(0.9)	(0.2)		0.5		(0.2)
Total Comprehensive Income	239.2	220.3	8.6%	907.3	-73.6%	1,754.8
Basic:						
EPS	2.3	2.2	8.9%	8.9	-73.5%	17.2
Equity	102.2	102.2		102.2		102.2
Face Value	1.0	1.0		1.0		1.0

Segment wise Revenues (Geographical)

(₹ Crs)

	Q1FY20	Q1FY19	VAR	Q4FY19	VAR	FY19
REVENUES						
Revenue from Operations	2,380.6	2,506.9	-5.0%	2,492.4	-4%	10437.77
India	1,315.4	1,310.0	0.4%	1,356.1	-3%	5679.31
Mix %	55.3%	52.3%		54.4%		54.4%
Indonesia	372.1	353.0	5.4%	412.5	-10%	1524.94
Mix %	15.6%	14.1%		16.5%		14.6%
Africa (including Strength Of Nature)	562.3	565.7	-0.6%	587.1	-4%	2461.53
Mix %	23.6%	22.6%		23.6%		23.6%
Others	130.8	278.2	-53.0%	136.7	-4%	771.99
Mix %	5.5%	11.1%		5.5%		7.4%
Less : Inter Segment Revenues	31.8	29.7	7.0%	39.8	-20%	128.12
Total Segment Revenue	2,348.8	2,477.1	-5.2%	2,452.6	-4%	10309.65
Add : Other Unallocable Income	0.0	0.0	-	0.0	-	0
Net Revenue from Operations	2,348.8	2,477.1	-5.2%	2,452.6	-4%	10309.65
PROFIT						
Profit/Loss Before Interest and Tax	439.9	438.9	0.2%	578.1	-24%	2092.19
Margin %	18.5%	17.5%		23.2%		20.0%
India	307.3	293.8	4.6%	403.0	-24%	1537.94
Margin %	23.4%	22.4%		29.7%		27.1%
Indonesia	87.7	83.8	4.6%	131.9	-34%	396.07
Margin %	23.6%	23.7%		32.0%		26.0%
Africa (including Strength Of Nature)	46.6	53.8	-13.4%	46.0	1%	156.12
Margin %	8.3%	9.5%		7.8%		6.3%
Others	(1.7)	7.5	-122.5%	(2.8)	-39%	2.06
Margin %	-1.3%	2.7%		-2.0%		0.3%
Less : Inter Segment Eliminations	10.3	5.9	74.3%	13.7	-25%	35.8
Less : Interest	55.1	47.7	15.4%	57.5	-4%	224.25
Exceptional Items	0.3	(6.4)	-104.4%	(6.7)	-104%	252.26
Add : Other Income			-		-	0.39
Share of profit of equity accounted investees	0.2	0.2	-26.1%	0.2		0.24
Net Profit/Loss Before Tax	374.7	378.6	-1.0%	500.1	-25%	2084.55

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Disclosure of Interest Statement in Godrej Consumer Products Ltd. as on August 21, 2019

Name of the Security	Godrej Consumer Products Ltd. (GCPL)
Name of the analyst	Ashwini Sonawane
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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