

Godrej Consumer

BSE SENSEX
26,698

S&P CNX
8,222

CMP: INR1,441 TP: INR1,610 (12%)

Neutral



Stock Info

	GCPL IN
Bloomberg	GCPL IN
Equity Shares (m)	340.5
52-Week Range (INR)	1710 / 1120
1, 6, 12 Rel. Per (%)	0/-3/8
M.Cap. (INR b)	491.7
M.Cap. (USD b)	7.4
12M Avg Val (INR M)	362
Free float (%)	36.7

Financials Snapshot (INR b)

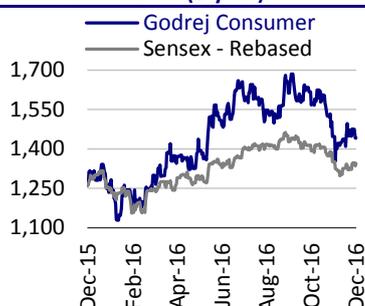
Y/E Mar	2016	2017E	2018E
Net Sales	89.7	94.9	111.4
EBITDA	16.2	17.9	22.8
PAT	11.3	12.5	16.4
EPS (INR)	33.2	36.8	48.2
Gr. (%)	24.4	10.8	31.1
BV/Sh (INR)	152.2	177.0	213.5
RoE (%)	23.4	22.3	24.7
RoCE (%)	16.7	15.3	16.9
P/E (x)	43.5	39.3	30.0
P/BV (x)	9.5	8.2	6.8

Shareholding pattern (%)

As On	Sep-16	Jun-16	Sep-15
Promoter	63.3	63.3	63.3
DII	1.7	1.8	1.7
FII	29.0	28.9	28.7
Others	6.1	6.0	6.3

FII Includes depository receipts

Stock Performance (1-year)



Demonetization brings short-term challenges

Key categories to take share from unorganized players in long term

Godrej Consumer Products (GCPL) hosted a call to update on its India business performance and discuss the impact of demonetization. Following are the key takeaways:

India business highlights

- HPC demand has been subdued over past 18 months due to slowdown in rural consumption. GCPL has been able to beat the market with growth of ~9% v/s ~4.5% for most of the last six quarters.
- In all of GCPL's core categories, market share has either been stable or has grown over this period.
- The company has continued investing for the future. Since January 2016, there have been four big innovations, with two clear disruptions among these.
- The company's cost-saving program – Project Pi – has become part of its culture.
- Palm oil derivatives are up 35% YoY. Consequently, the soaps segment has witnessed withdrawal of offers, leading to an effective price increase. For a rise in crude derivatives, there is usually a 6-8 months lag after crude price increase. The company had taken price hikes in September in anticipation of possible crude price increase.
- Patanjali has had no significant impact on the soaps business, except some small pockets in northern states like Rajasthan. This is anyway not a big region for GCPL.
- **Demonetization: What has happened so far?**
- Demand has not slowed down, but currency liquidity has affected offtake on a pan-India basis.
- Two key observations are: (a) consumers are going for basic products and postponing discretionary consumption, and (b) wholesale business (which is ~40%-50% for most companies, including GCPL) has been affected because it is almost entirely driven by cash.
- On the positive side, modern trade and e-commerce channels are doing very well. Modern trade sales were up 1.5x last month.
- **What has the company been doing to improve distribution?**
- In direct distribution, GCPL is using technology significantly. The company is dividing outlets into three parts – (a) premium retail outlets, (b) general retail outlets and (c) marginal retail outlets – to determine the frequency of servicing based on data received from the MIS system. The company has found out that even if the marginal retail outlets are served four times a month, it does not affect business from these outlets. Productivity is improving because of better reallocation of sales representatives to premium and general outlets.

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- In its indirect coverage, the company has wholesale programs Pragati and Parivar for rural and urban distributors, respectively. Provision of handheld devices to rural distributor sales representatives (earlier only provided to urban sales personnel) is enabling better inventory management.

What is the company doing to limit demonetization impact?

- The company has extended credit/incentives to channel partners to mitigate some of the effects of demonetization. Credit period is now 4-5 days higher than pre-demonetization levels.
- Management is looking to expand and accelerate direct distribution growth. Nevertheless, indirect coverage will also increase from current levels. Rural expansion will not be deferred, despite the prevalent slowdown in rural consumption.
- The company was quick off the blocks (within a week of demonetization) with renegotiating sales targets to be achieved by distributors.
- The company rationalized A&P last month, and will continue doing that this month. A&P lever can be also be used to combat ongoing input cost increase. It did not have new products to be launched in 2HFY17, and there will thus not be any detrimental effect on innovation due to A&P scale down.
- The company is also fast tracking its cost-saving project. Its Project Pi was expected to lead to cost savings of INR1b in FY17, with planned savings of over INR1b in FY18 which will now be fast tracked to reduce the impact of demonetization and higher input costs.

What is management's view on medium-term impact of demonetization?

- GCPL believes that the wholesale channel will need to learn how to adapt to a less-cash environment, and there will thus be some impact on sales in the medium term.
- It, however, stated that there will only be a 25-75bp increase in wholesaler cost to sales in order to become completely compliant.
- There may be aggregation of wholesalers to an extent. Some wholesalers may pull out as they may not find the business very remunerative after compliance. However, demand will recover, which means that the surviving wholesalers will have a larger share of the pie.
- Demonetization could be a big event for modern trade with 14-15% share in FMCG sales on a steady-state basis even after the market stabilizes, compared to 7-8% pre-demonetization.
- Nation-wide branded players may be able to take on local price warriors who go only through wholesale.
- Management opined that 4QFY17 will definitely be better than the last few weeks, but stated that it is still unclear as to how long demand postponement on discretionary categories will last.
- Demonetization will enable greater transparency. Thus, the destocking impact of GST may not be as severe as it would have been if demonetization had not been implemented.

Segmental impact

- Soaps segment will bounce back faster, according to management.
- Hair Color will be most affected in the near term as it is discretionary and powder hair color has more wholesale distribution.
- However, over the medium-to-long term, GCPL's hair color business could actually gain market share, particularly in powder hair color where local and regional players are involved. Soaps segment also has a few regional players.
- In household insecticides, the coils category too has many regional players, and GCPL can gain share from others.

- **Valuation and view:** In our last week's detailed note on demonetization, we had revised down our EPS estimates for GCPL by 5.1%/4.8% for FY17E/FY18E. As the company did not reveal the actual impact of demonetization over the past month in the call, we are not making any changes to our numbers. At 30.0x FY18E EPS, the stock trades at a marginal discount to domestic FMCG peers. However, its exposure to various geographies with associated currency risks, as well as relatively low RoE (mid-20s), does not warrant a higher multiple, in our view. We maintain **Neutral** with a TP of INR1,610 (30x December 2018 EPS).

Exhibit 1: Innovations in Household Insecticides portfolio with *Good knight* *Neem Activ+* range



Source: Company, MOSL

Exhibit 2: Strengthened position in value-added soaps portfolio with two new launches in the current year



Source: Company, MOSL

Exhibit 3: Also entered the personal repellents category



Source: Company, MOSL

Financials and valuations

Income Statement		(INR Million)						
Y/E March	2011	2012	2013	2014	2015	2016	2017E	2018E
Net Sales	36,430	48,662	64,163	76,024	82,764	89,678	94,897	111,389
Change (%)	78.5	33.6	31.9	18.5	8.9	8.4	5.8	17.4
Cost of Goods Sold	17,488	23,156	30,216	35,547	38,415	38,455	42,757	48,833
Gross Profit	18,942	25,506	33,947	40,477	44,348	51,223	52,139	62,556
Margin (%)	52.0	52.4	52.9	53.2	53.6	57.1	54.9	56.2
Total Expenditure	29,970	40,108	54,339	64,457	69,111	73,437	76,965	88,563
EBITDA	6,460	8,554	9,824	11,568	13,653	16,242	17,931	22,826
Change (%)	58.2	32.4	14.8	17.7	18.0	19.0	10.4	27.3
Margin (%)	17.7	17.6	15.3	15.2	16.5	18.1	18.9	20.5
Depreciation	499	644	770	819	908	1,031	1,072	1,151
Int. and Fin. Charges	519	658	775	1,074	1,002	1,002	1,332	1,350
Interest Income	268	398	350	285	284	448	502	740
Other Income-rec.	408	122	328	342	632	372	361	397
PBT	6,118	7,992	8,957	10,302	12,659	15,028	16,391	21,462
Change (%)	45.7	30.6	12.1	15.0	22.9	18.7	9.1	30.9
Margin (%)	16.8	16.4	14.0	13.6	15.3	16.8	17.3	19.3
Tax	1,298	2,279	1,919	2,167	2,861	3,271	3,754	4,893
Tax Rate (%)	21.3	28.3	20.0	20.4	21.5	21.1	23.6	23.5
PAT	4,816	5,732	7,165	8,199	9,936	11,857	12,522	16,412
Change (%)	41.8	19.0	25.0	14.4	21.2	19.3	5.6	31.1
Margin (%)	13.2	11.8	11.2	10.8	12.0	13.2	13.2	14.7
Minority interest	0	245	493	596	693	395	12	12
Group Adjusted PAT	4,661	5,304	6,506	7,439	9,079	11,298	12,510	16,400
Non-rec. (Exp.)/Income	331.1	2,001.7	1,289.0	-5.7	-171.7	-268.3	0.0	0.0
Reported PAT	5,147	7,488	7,961	7,597	9,071	11,194	12,510	16,400

Balance Sheet								
Y/E March	2011	2012	2013	2014	2015	2016	2017E	2018E
Share Capital	324	340	340	340	340	341	340	340
Reserves	16,928	27,699	32,790	37,414	42,767	50,636	58,364	70,066
Minority Int	0	882	2,095	2,251	1,620	842	1,542	2,242
Networth	17,252	28,922	35,226	40,005	44,727	51,819	60,246	72,648
Loans	20,032	18,769	24,563	23,734	27,172	28,911	37,511	37,511
Deferred Liability	86	-5	-140	-203	-312	-413	-529	-685
Capital Employed	37,369	47,686	59,649	63,536	71,587	80,317	97,229	109,474
Gross Block	19,148	20,403	21,575	22,511	22,890	26,383	30,633	34,883
Less: Accum. Depn.	3,775	4,940	5,699	6,821	7,821	9,020	10,092	11,243
Net Fixed Assets	15,373	15,464	15,876	15,689	15,069	17,363	20,541	23,640
Capital WIP	154	376	1,409	1,671	2,246	437	437	437
Goodwill	15,404	21,454	29,085	35,525	40,441	45,741	50,741	50,741
Non Curr Investments	0	0	0	343	343	344	343	343
Current Investments	0	635	1,212	1,020	1,514	1,529	1,529	1,529
Currents Assets	13,774	22,048	29,230	28,751	31,464	35,684	43,121	51,423
Inventory	4,394	7,839	10,471	10,821	10,717	13,070	14,787	17,041
Account Receivables	3,840	4,725	7,288	7,321	8,046	11,180	12,636	12,623
Cash and Bank Balance	2,269	5,764	7,476	7,048	8,942	7,459	11,172	16,602
Loans and Advances	3,149	3,645	3,956	3,536	3,682	3,857	4,384	4,987
Other Current Assets	122	75	39	25	76	118	141	170
Curr. Liab. & Prov.	7,335	12,290	17,162	19,462	19,489	20,780	19,482	18,638
Account Payables	3,331	7,702	10,348	12,344	10,869	10,372	10,000	9,800
Other Liabilities	3,915	4,160	6,388	6,731	7,886	10,064	9,138	8,493
Provisions	89	428	426	387	734	345	345	345
Net Current Assets	6,439	9,757	12,068	9,289	11,974	14,904	23,638	32,785
Net Assets	37,370	47,686	59,649	63,536	71,587	80,317	97,228	109,474

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2011	2012	2013	2014	2015	2016	2017E	2018E
Basic (INR)								
EPS	14.4	15.6	19.1	21.9	26.7	33.2	36.8	48.2
Cash EPS	15.9	17.5	21.4	24.3	29.3	36.2	39.9	51.6
BV/Share	53.3	85.0	103.5	117.5	131.4	152.2	177.0	213.5
DPS	5.0	1.7	5.0	5.3	7.1	9.7	11.8	11.8
Payout (%)	35.0	11.2	26.2	24.0	26.7	29.3	32.1	24.5
Valuation (x)								
P/E				66.1	54.1	43.5	39.3	30.0
Cash P/E				59.5	49.2	39.9	36.2	28.0
EV/Sales				6.7	6.2	5.7	5.5	4.6
EV/EBITDA				43.9	37.3	31.6	28.9	22.4
P/BV				12.3	11.0	9.5	8.2	6.8
Dividend Yield				0.4	0.5	0.7	0.8	0.8
Return Ratios (%)								
RoE	34.8	23.0	20.3	19.8	21.4	23.4	22.3	24.7
RoCE	22.1	14.2	14.5	14.7	15.9	16.7	15.3	16.9
RoIC	22.8	15.0	16.0	16.6	17.9	18.6	16.7	19.0
Working Capital Ratios								
Debtor (Days)	38	35	41	35	35	46	49	41
Asset Turnover (x)	2.3	3.1	3.7	4.4	4.8	5.0	4.5	4.6
Leverage Ratio								
Debt/Equity (x)	1.2	0.6	0.7	0.6	0.6	0.6	0.6	0.5

Cash Flow Statement

(INR Million)

Y/E March	2011	2012	2013	2014	2015	2016	2017E	2018E
OP/(Loss) before Tax	6,617	8,637	9,727	11,121	13,567	16,059	17,463	22,613
Net interest	111	536	447	732	370	630	970	953
Direct Taxes Paid	-1,298	-2,279	-1,919	-2,167	-2,861	-3,271	-3,754	-4,893
(Inc)/Dec in WC	-3,654	176	-598	2,351	-791	-4,413	-5,022	-3,716
CF from Operations	1,776	7,069	7,657	12,036	10,285	9,005	9,658	14,956
Extraordinary Items	331	2,002	1,289	-6	-172	-268	0	0
Inc in FA	-15,144	-1,478	-2,205	-1,197	-955	-1,683	-4,250	-4,250
Free Cash Flow	-13,368	5,592	5,452	10,839	9,330	7,322	5,408	10,706
Pur of Investments	670	0	0	-343	0	-1	2	0
Goodwill	-12,285	-6,050	-7,630	-6,440	-4,916	-5,300	-5,000	0
CF from Investments	-26,429	-5,526	-8,546	-7,986	-6,043	-7,252	-9,249	-4,250
Issue of Shares	15	17	0	0	0	0	0	0
Inc in Debt	19,663	-1,263	5,794	-829	3,437	1,740	8,600	0
Dividend Paid	-1,966	-596	-1,983	-2,091	-2,835	-3,870	-4,698	-4,698
Other Income	676	520	678	627	915	820	864	1,137
Interest Paid	-519	-658	-775	-1,074	-1,002	-1,002	-1,332	-1,350
Other Item	6,001	3,931	-1,113	-1,112	-2,863	-924	-130	-365
CF from Fin. Activity	23,870	1,951	2,602	-4,478	-2,347	-3,236	3,304	-5,276
Inc/Dec of Cash	-783	3,495	1,712	-428	1,894	-1,484	3,714	5,430
Add: Beginning Balance	3,052	2,269	5,764	7,476	7,048	8,942	7,459	11,172
Closing Balance	2,269	5,764	7,476	7,048	8,942	7,459	11,172	16,602

E: MOSL Estimates

NOTES

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- | | |
|--|----|
| Analyst ownership of the stock | No |
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