

BSE Code: 500877

NSE Code: GODREJCP

Reuters Code: GOCP.NS

Bloomberg Code: GCPL: IN

Godrej Consumer Products Ltd (GCPL) is one of India's leading home-grown household and personal care company. It has presence in countries like Indonesia, Africa, Latin America, UK, among others. Its portfolio is spread across Home Care (39%), Personal Wash (26%), Hair Care (24%) & Other categories (11%).

### Investment Rationale

**Lower penetration to drive growth:** GCPL commands leadership position in the Indian household insecticides (HI) and hair color (HC) market. It holds a market share of nearly 50% and 30% in the HI and HC segment respectively. Growth opportunities galore in these two segments as there are a scope to increase penetration levels. While, the penetration level of HI segment stands at 44%, it is estimated at 37% for the hair color segment.

**Innovation and cross pollination initiatives to drive premiumisation:** Both these strategies would bode well for GCPL. While, almost 40% of GCPL's incremental growth is being driven by the innovative launches, cross pollination initiatives is expected to exploit product technology strengths. In FY15, the company launched 5 innovative products and it plans to launch 10 new products in FY16 in the premium categories. We expect that both these strategies would help GCPL in capturing higher value growth going forward.

**Banking on international growth:** The international segment of GCPL contributes ~47% to GCPL's top-line and has witnessed a 28% CAGR over the last five years. This is a result of the company's leadership status in most of the geographies. The most profitable being the Indonesian air freshener and wet tissues market and hair color segment across various countries in Africa and Latin America. Further, it is a leader in hair extensions in Africa and the second largest player in the household insecticides in Indonesia. The company has been driving its growth via acquisitions in past and has a strategy of growing inorganically in future as well.

**Targeting rural growth:** GCPL plans to increase its revenue contribution from the rural market from current 30% to 35% in the next three years. It recently launched OneRural programme wherein it is looking to enhance coverage by ~15% in the top 20,000 villages out of the 60,000 villages it caters.

**Valuation:** Driven by its leadership status in its core areas coupled with innovation, cross pollination and enhanced rural reach, GCPL is expected to drive growth in the domestic business in the coming years. Moreover, its strategy of expanding overseas horizon also augurs well for the company. We expect the top-line and bottom-line to grow at a CAGR of 14% and 25% over FY15-FY17E. At the CMP of Rs. 1,233, GCPL is attractively placed at a P/E of 36.1x and 29.6x for FY16E and FY17E. Considering the above aspects, we rate the stock as 'BUY' assigning a forward P/E of 34x with a target price of Rs. 1,416 which implies a potential upside of ~15% for the coming 12 months.

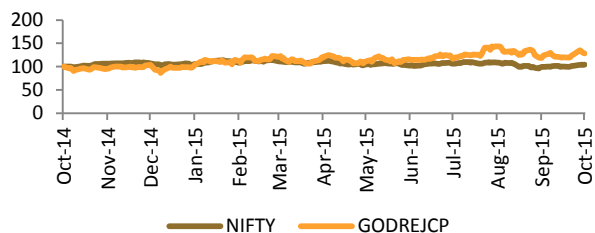
### Market Data

Rating	BUY
CMP (Rs.)	1233
Target (Rs.)	1416
Potential Upside	15%
Duration	Long Term
Face Value (Rs.)	1
52 week H/L (Rs.)	1,459/835
Adj. all time High (Rs.)	1,459
Decline from 52WH (%)	15.8
Rise from 52WL (%)	47.2
Beta	0.9
Mkt. Cap (Rs.Cr)	36,525

### Fiscal Year Ended

Y/E	FY14	FY15	FY16E	FY17E
Revenue (Rs.Cr)	7,602	8,276	9,362	10,745
Net profit (Rs.Cr)	760	907	1,161	1,418
EPS (Rs.)	22.3	26.6	34.1	41.6
P/E (x)	36.9	40.3	36.1	29.6
EV/EBITDA (x)	25.1	27.7	24.6	20.1
ROE (%)	23.1	24.5	25.9	25.9
DPS (Rs.)	14.7	15.4	15.4	15.4

### One year Price Chart



Shareholding Pattern	Sep-15	Jun-15	Chg.
Promoters (%)	63.3	63.3	(0.0)
FII (%)	28.7	28.7	0.0
DII (%)	1.7	2	(0.3)
Others (%)	6.3	6.0	0.3

**Godrej Consumer Products Ltd (GCPL) is one of India's leading home-grown household and personal care company.**

### Company profile

Godrej Consumer Products Ltd (GCPL) is one of India's leading home-grown household and personal care company. It has presence in countries like Indonesia, Africa, Latin America, UK, among others. Its domestic operations contribute ~53% to the top-line. The company is driven by a 3x3 strategy which focuses on three business categories (personal care, hair care and home care) across three geographies (Asia, Africa and Latin America). Its portfolio is spread across Home Care (39%), Personal Wash (26%), Hair Care (24%) & other categories (11%). It is the market leader in hair colors, household insecticides and liquid detergents, while, in soaps segment it is the second largest player in India.

GCPL has grown its international business through acquisitions with share of international revenues contributing 47% to the consolidated revenues. Geographies like Indonesia, Africa, LATAM, UK and Middle East are contributing 45%, 24%, 18%, 12% and 1% respectively to the international operations. Further, the company has leadership position in most geographies viz; hair colors in Sri Lanka, Bangladesh, Argentina, Uruguay, Paraguay, Bolivia, and Chile among others. Moreover, it is a dominant player in air fresheners and wet tissues segment in Indonesia and in stretch marks skin treatment cream in UK.

#### Scores leading position in most geographies and categories

Geography	Market Position in 2014
<b>India</b>	
Hair Colors	1
Insecticides	1
Liquid Detergents	1
Soaps	2
<b>Indonesia</b>	
Air Freshners	1
Wet Tissues	1
Insecticides	2
<b>South Asia (Excluding India)</b>	
Hair Colors	1
Insecticides	3
<b>UK</b>	
Skin Care	1
Sanitisers	2
Deodorants	4
<b>Latin America</b>	
Hair Colors	1
Hair Extensions	2
<b>Sub Saharan Africa</b>	
Ethnic hair colors	1
Caucasian hair colors	3
Hair Extensions	2



Leading brands across geographies/categories

Source: Company, In house research

### FY15 performance

For the year ended Mar'15, net sales of the company stood at Rs. 8,276 Crores reporting a growth of ~9% over last year. The increase was led by high volume growth in the core categories. The HI, HC and soaps segment witnessed 9%, 11% and 10% growth over FY14. Hence, Godrej surpassed the overall growth of 6% registered in Indian home and personal care segment. However, with regards to the international operations, the company's sales growth disappointed with just 9% sales growth as compared to 24% growth in FY14.

EBITDA for FY15 stood at Rs. 1,156 Crores reporting a growth of 18% aided by declining raw material costs. EBITDA margin expanded by 128 bps to 16.5%.

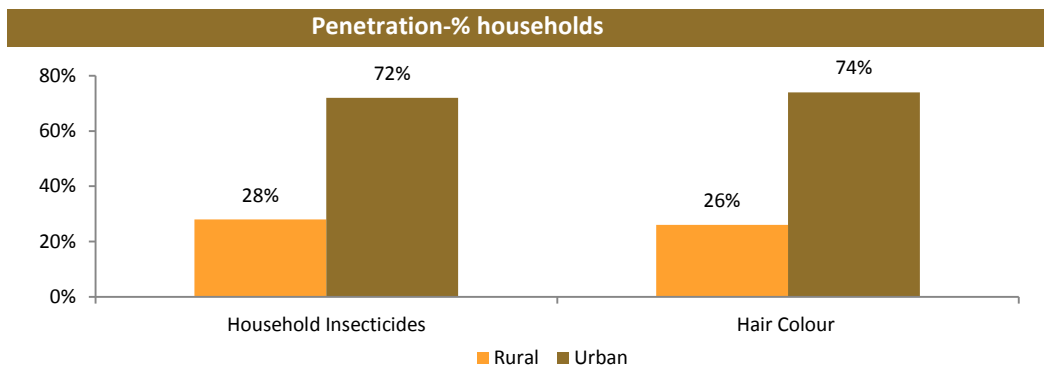
PAT was reported at Rs. 907.1 crores, a growth of 19.4% over FY14. PAT Margin expanded by 97 bps over FY14 and stood at 11%.

### Lower penetration to drive growth in core categories

GCPL commands leadership position in the Indian household insecticides and hair color market. As per the Indian Home & Personal Care Industry Association (IHPCIA), the Indian household insecticides (HI) market is valued at Rs. 3,800 Crores and is expected to grow at double digit growth rate of 15% in the coming years. Further, HI category is underpenetrated with an overall level of ~44% which provides scope for huge growth opportunities. Interestingly, GCPL is a market leader in the HI category with more than 50% of the market share. This category has grown at an average of ~13.5% over the last two years. During FY15-17E, HI category is expected to grow at a CAGR of ~16%.

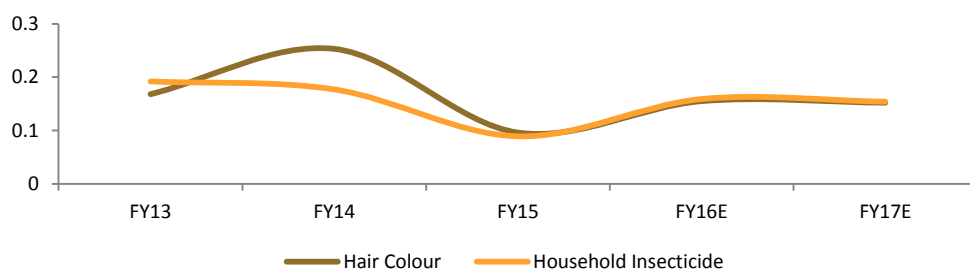
Going forward, it continues to focus on expanding its presence in the segment by combining innovation and superior execution capabilities. This would support the company in further widening the market share gap versus its competitors and sustain its double digit growth momentum in the HI category. Its products like Good knight Fast Card, Good knight Xpress liquid vaporizer and Neem Low Smoke Coil, continue to be well received by consumers driving penetration. Good night fast card, India's first paper-based mosquito repellent, became a Rs.100 Crores brand in just 11 months – among the highest run ups for a new FMCG brand.

*Focus on expanding its presence in the HI segment by combining innovation and superior execution to further widen the market share gap versus its competitors and sustain its double digit growth momentum.*



Likewise, in the hair color segment the penetration level in India stands at merely 37%. Being the market leader with a focus on 'value for money' offerings at attractive price points, GCPL continues to yield higher volume growth in the segment. Its recent launch Godrej Expert Rich Crème at just Rs.30 has gained one-third of the total hair color market in India. Further, this category has posted an average growth of nearly 17% in the last two years. During FY15-17E, HI category is expected to grow at a CAGR of ~15.5%.

### HI & Hair Care categories to grow at a CAGR of 16% & 15.5% respectively over FY15-17E



### Innovation and cross pollination initiatives to drive premiumisation

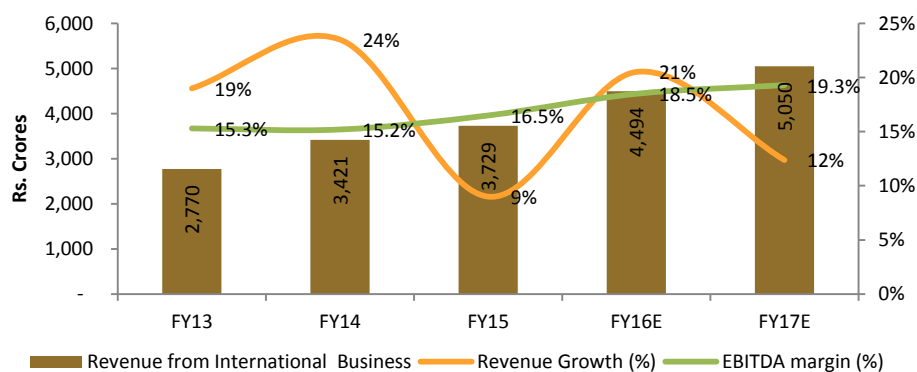
Innovation has been a key strategy of growth for GCPL. It launched five innovative products in the market during FY15 and plans to increase the number to 10 in FY16. The idea of innovation is largely to drive growth in the premium category of the Household and Personal care segment of the company. Currently, almost 40% of GCPL's incremental growth is being driven by these new launches which are sold at 20% premium to the average prices of its other products. Likewise, GCPL has opted for the cross pollination exercise to take products from one country to another. The unique hair colour cream in sachet which was the product based out of Argentina got launched in India in 2012. Further, the company has launched air freshener products based out of Indonesia under the brand 'aer'. Similarly, Good knight coils and aerosols from India have been launched in Nigeria. Interestingly, all these products have got superb response in the respective geographies. Going forward, we expect both these strategies would drive value growth for the company.

### Capitalising on international growth potential

GCPL's 3x3 strategy, focused on growth of its three core categories across three key emerging markets (Asia, Africa and LATAM) has aided the company to attain a leadership position in most of the geographies. The company is the number one player in the Indonesian air freshener, wet tissues market. Further, it is a leader in hair extensions in Africa. Moreover, it is the second largest player in the household insecticides in Indonesia. The international operations have grown at a CAGR of 28% over last five years. In order to capitalise its leadership position and high growth in the overseas market, the company has undertaken various high profile acquisitions in the past. It recently completed acquisition of remaining 40% stake in the Latin American company Cosmetica Nacional. It is a market leader in the hair color and cosmetics segment in Chile.

**GCPL's 3x3 strategy, focused on growth of its three core categories across three key emerging markets Asia, Africa and LATAM has aided the company to attain a leadership position in most of the geographies.**

### International operations to grow at a CAGR of 13.5% over FY15-17E



*GCPL intends to increase its revenue contribution from the rural segment from the 30% to 35% over next three years under its recently launched OneRural programme.*

It has also signed an agreement with African hair-care company Darling Group Holdings to raise its stake in its two entities, in South Africa and Mozambique, to 90%. Going forward, the management of the company has indicated that they are open to further acquisitions as a part of their business strategy. We expect that the company's overseas expansion will drive its innovation strategy thereby aiding incremental revenue growth.

### OneRural: to target progressive growth

GCPL intends to increase its revenue contribution from the rural segment to 35% from the 30% over next three years under its recently launched OneRural programme. The company caters to ~60,000 villages wherein it is looking to enhance coverage in the top 20,000 villages by ~15%. It is trying to drive almost 20% improvement in productivity of its sales force through basic usage of technology, training and also higher employment. The company is also experimenting with things like splitting lines at the distribution level on the ground and has implemented a new zonal structure as well. This will make GCPL far more agile which will be an important growth driver for over the next 2-3 years.

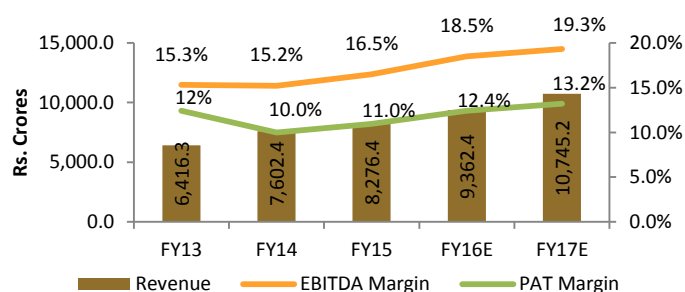
### Falling input prices to aid EBITDA margins

In the quarter ended June 2015, the palm oil prices that constitute a major chunk of the total raw material costs for the company declined by 27%. The company gained from falling palm oil prices and has used those gains to invest in growth through discounts and advertising. This was reflected in Q1 results, with domestic soap sales growing 13% in volume terms. Further, the input cost (crude and agri related) is expected to remain benign in the near term. Besides, pricing power and mix is expected to drive EBITDA margins to 19.3% in FY17E.

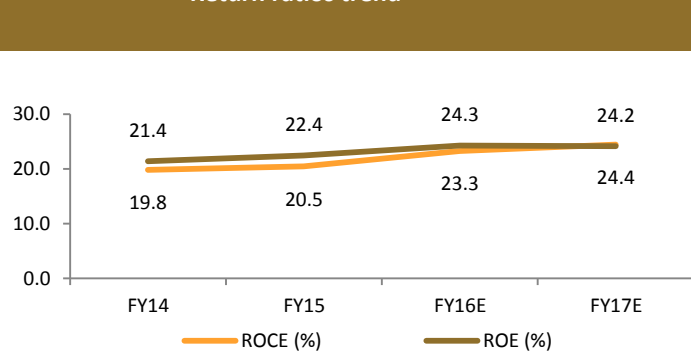
### Revenue and PAT to grow at a CAGR of 14% and 25% over FY15-17E

During FY15-FY17E, we expect the top-line of the company to grow at a CAGR of 14%. This growth is expected to be driven by estimated growth of 14.7% and 13.5% to be witnessed in the domestic and international business division respectively. The bottom-line is expected to grow at a CAGR of 25% over the same period. The RoE and RoCE is expected to improve to 24.2% and 24.4% by FY17E respectively.

**Revenue & PAT to grow at a CAGR of 14% & 25% respectively over FY15-FY17E**



**Return ratios trend**



### Key risks

- Rural consumer demand has remained lower for GCPL. If the estimated revenue traction from rural economy remains lower it will impact the future revenue assessments adversely.
- If rebranding efforts to transition to premium section in HPC segment aren't successful, margins could come under pressure.

### Profit & Loss Account (Consolidated)

Y/E (Rs.Cr)	FY14	FY15	FY16E	FY17E
<b>Net Sales</b>	<b>7,602</b>	<b>8,276</b>	<b>9,362</b>	<b>10,745</b>
Raw Material cost	3,555	3,842	4,344	4,943
Employee cost	742	777	880	1,010
Other operating expenses	2,149	2,293	2,406	2,719
<b>Total operating expenses</b>	<b>6,446</b>	<b>6,911</b>	<b>7,630</b>	<b>8,671</b>
<b>EBITDA</b>	<b>1,157</b>	<b>1,365</b>	<b>1,732</b>	<b>2,074</b>
Other Income	63	92	80	88
Depreciation	82	91	112	129
<b>EBIT</b>	<b>1,138</b>	<b>1,366</b>	<b>1,700</b>	<b>2,033</b>
Net Interest cost	107	100	108	89
<b>Profit Before Tax</b>	<b>1,030</b>	<b>1,266</b>	<b>1,592</b>	<b>1,944</b>
Exceptional Item	-1	-17	0	0
Tax	210	272	350	428
<b>PAT</b>	<b>819</b>	<b>977</b>	<b>1,242</b>	<b>1,516</b>
Minority interest	60	69	81	99
Share of associates	(0.1)	0	0	0
<b>Net Profit</b>	<b>760</b>	<b>907</b>	<b>1,161</b>	<b>1,418</b>

### Balance Sheet (Consolidated)

Y/E (Rs.Cr)	FY14	FY15	FY16E	FY17E
<b>Share Capital</b>	<b>34</b>	<b>34</b>	<b>34</b>	<b>34</b>
Reserve and surplus	3,741	4,277	5,227	6,434
<b>Net Worth</b>	<b>3,775</b>	<b>4,311</b>	<b>5,261</b>	<b>6,468</b>
M.I	225	162	243	341
Total Debt	1,702	2,170	1,770	1,470
Other non-current liabilities	29	31	34	37
<b>Total Equity and Liabilities</b>	<b>5,732</b>	<b>6,673</b>	<b>7,307</b>	<b>8,315</b>
Total Fixed Assets	5,288	5,776	6,144	6,395
Investments	136	186	186	186
Net Current Assets	128	472	713	1,444
Deferred tax assets	20	31	35	38
Other no-current assets	159	208	230	253
<b>Total Assets</b>	<b>5,732</b>	<b>6,673</b>	<b>7,307</b>	<b>8,315</b>

### Cash Flow Statement (Consolidated)

Y/E (Rs.Cr)	FY14	FY15	FY16E	FY17E
<b>Pre tax profit</b>	<b>1,030.2</b>	<b>1,265.9</b>	<b>1,592.0</b>	<b>1,943.8</b>
Depreciation	81.9	90.8	111.7	128.9
Interest (Net)	78.9	71.8	108.3	89.1
Other income and provisions	6.2	(69.1)	(80.0)	(88.0)
Chg in Working Capital	156.5	(97.5)	(139.2)	(145.3)
Tax paid	(237.8)	(257.3)	(350.2)	(427.6)
<b>Cash flow from operating activities</b>	<b>1,115.9</b>	<b>1,004.6</b>	<b>1,242.7</b>	<b>1,500.9</b>
Capital expenditure	(132.9)	(190.4)	(480.0)	(380.0)
Chg in investments	73.9	(449.5)	0.0	0.0
Misc items	(435.8)	(573.9)	58.8	64.7
<b>Cash flow from investing activities</b>	<b>(494.8)</b>	<b>(1,213.8)</b>	<b>(421.2)</b>	<b>(315.3)</b>
Interest paid	(100.4)	(118.9)	(108.3)	(89.1)
Debt repaid/proceeds	(321.0)	318.0	(400.0)	(300.0)
Dividend paid	(170.2)	(178.7)	(178.7)	(178.7)
Others	(28.9)	(32.4)	(32.2)	(32.2)
<b>Cash flow from financing activities</b>	<b>(620.5)</b>	<b>(12.0)</b>	<b>(719.2)</b>	<b>(600.0)</b>
Net chg in cash	0.6	(221.3)	102.2	585.6

### Key Ratios (Consolidated)

Y/E	FY14	FY15	FY16E	FY17E
<b>Growth (%)</b>				
Net Sales	18.5	8.9	13.1	14.8
EBITDA	17.7	18.0	26.9	19.7
Net Profit	(4.6)	19.4	28.0	22.1
<b>Margin (%)</b>				
EBITDA	15.2	16.5	18.5	19.3
EBIT	15.0	16.5	18.2	18.9
NPM	10.0	11.0	12.4	13.2
<b>Return Ratios (%)</b>				
ROA	14.6	15.9	17.8	19.4
ROE	21.4	22.4	24.3	24.2
ROCE	19.8	20.5	23.3	24.4
<b>Per share data (Rs.)</b>				
EPS	22.3	26.6	34.1	41.6
DPS	14.7	15.4	15.4	15.4
<b>Valuation (x)</b>				
P/E	36.9	40.3	36.1	29.6
EV/EBITDA	25.1	27.7	24.6	20.1
EV/Net Sales	3.8	4.6	4.6	3.9
P/B	7.4	8.5	8.0	6.5
<b>Turnover Ratios (x)</b>				
Net Sales/GFA (x)	3.4	3.6	3.4	3.3
Sales/Total Assets (x)	1.3	1.2	1.3	1.3

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