

Godrej Consumer

BSE SENSEX

39,452

S&P CNX

11,823

CMP: INR663

TP: INR700 (+6%)

Neutral

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Stock Info

Bloomberg	GCPL IN
Equity Shares (m)	1,022
M.Cap.(INRb)/(USD\$b)	678.1 / 9.7
52-Week Range (INR)	979 / 628
1, 6, 12 Rel. Per (%)	-3/-29/-26
12M Avg Val (INR M)	891
Free float (%)	36.8

Financials Snapshot (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	103.1	113.3	127.9
EBITDA	21.2	23.9	27.3
PAT	15.4	16.6	19.5
EPS (INR)	15.1	16.2	19.1
Gr. (%)	7.2	7.5	17.6
BV/Sh (INR)	71.1	75.6	79.1
RoE (%)	22.8	22.1	24.7
RoCE (%)	17.7	17.9	19.7
Payout (%)	44.2	61.6	69.9

Valuation

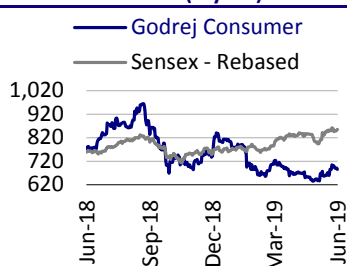
P/E (x)	43.9	40.9	34.7
P/BV (x)	9.3	8.8	8.4
EV/EBITDA (x)	32.9	28.8	25.1
Div. Yield (%)	1.0	1.5	2.0

Shareholding pattern (%)

As On	Mar-19	Dec-18	Mar-18
Promoter	63.3	63.2	63.3
DII	2.5	2.3	2.2
FII	27.5	27.7	28.0
Others	6.8	6.8	6.5

FII Includes depository receipts

Stock Performance (1-year)



Balance sheet improving, earnings revival awaited

We met the management of GCPL and had a detailed look at the company's segmental and balance sheet performance in recent years. Key takeaways:

- The worst seems to be over on the domestic volume growth front, but strong revival will take time.
- Despite muted growth of the past three years, we believe GCPL's domestic business is of high quality with attractive long-term growth prospects. It should grow faster on expected recovery in demand environment, traction on new products (also significantly margin accretive), and better utilization of expanded distribution (now at ~6m outlets, direct reach of ~1.3m outlets).
- Balance sheet performance — a key concern area in the past — has been fairly good in recent years, particularly on the cash conversion cycle front, which declined from 47 days to 14 days in the past three years (on average basis) and from 60 days to 11 days on year-end basis. If not for earnings slowdown of the past three years (PBT growth of 7% CAGR), ROCE improvement (from 16.5% in FY16 to 17.7% in FY19) would have been more impressive.
- Nevertheless, while the stock price is down nearly 30% from its peak, there are no clear indications that earnings slowdown (7% PBT growth in the past three years) will turn around materially in FY20 to anywhere close to earlier levels. Between FY08-16, the company reported over 20% CAGR growth on all fronts — Sales, EBITDA, PAT and EPS.
- The other factor is that majority of the CCC cycle improvement has come in from higher creditor days. GCPL's efforts to reduce inventory days, particularly in the African business are yet to make a substantial impact at the consol. level. Valuations of 34.7x FY21, while cheaper than peer average, offers limited upside on considering weaker than best of breed peer earnings visibility and less than peer ROCE levels (at least currently). Maintain Neutral.

Recent performance subdued

- One of GCPL's biggest concerns is the persistent deterioration in ROCE (over 50% until FY08). Interestingly, Sales, EBITDA and PAT CAGR were robust during FY08-19 — all three metrics grew at near identical pace of ~23% CAGR. But, the last three years saw slowdown in growth with Sales/EBITDA/PBT growing at 7%/9%/9%.

Growth revival expected in domestic business, off a low base

- We believe that GCPL's international business should do better in the coming days. Also, fundamentally, we don't find anything wrong with the growth prospects of its domestic business. Further, recent meeting with management confirmed our belief that GCPL is set to grow faster now compared to the last few years led by (a) expected recovery in demand environment, (b) resumption in healthy pace of new launches (NPD), and (c) benefits of healthy distribution expansion. Besides, all its NPDs are significantly gross margin accretive; as it picks up scale, it should make a sizeable contribution to both incremental sales growth and operating margins. Nevertheless, recovery in earnings to earlier strong levels still appears some time away.

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Growth along with balance sheet improvement to drive re-rating

- Balance sheet performance has been quite creditable. If not for earnings slowdown of the past three years, ROCE would have improved at a healthy pace. In fact, ROCE has improved from 16.5% in FY16 to 17.7% in FY19, with a large part of the improvement coming in FY19. ROE has stayed at ~23% despite low numerator growth in recent years. But, return ratios will improve at a faster pace, if GCPL continues with its self-imposed moratorium on big ticket acquisitions.
- Consolidated cash conversion cycle (CCC) has seen marked improvement over the last four years, largely led by remarkable growth in payable days. Thus, potential improvement in inventory and debtor days, both in domestic and international business, should lead to further improvement in CCC days.

Valuation & View

- While the stock price is down nearly 30% from its peak, there is yet no clear indication that earnings slowdown (7% PBT growth in the past three years) will turn around materially in FY20 to anywhere close to earlier levels. During FY08-16, the company reported over 20% CAGR growth on all fronts — Sales, EBITDA, PAT and EPS. The other factor is that majority of the CCC cycle improvement has come in from higher creditor days. GCPL's efforts to reduce inventory days, particularly in the African business is yet to make a substantial impact on the consolidated level. This offers an opportunity for significant improvement if plans for further reduction in inventory days in Africa pan out as targeted, and particularly, if topline growth revives as well. Valuations of 34.7x FY21, while cheaper than peer average, offers limited upside on considering weaker than best of breed peer earnings visibility and less than peer ROCE levels (at least currently). Maintain **Neutral**.

Management meet takeaways

Key highlights from our recent meeting with GCPL management:

Recent developments

- **Demand recovering sequentially:** On a sequential basis, demand is improving. Summer is seasonally a good quarter for soaps. Household Insecticides (HI) segment had a poor 4QFY19 (particularly, Feb-Mar 2019), but demand in 1QFY20 seems better.
- **Volume growth outlook improving over 4QFY19 levels:** In 4QFY19, India business volume growth was a mere 1% YoY with flat sales YoY. Given the above factors, 1QFY20 is likely to be better; albeit recovery is not expected to see the earlier healthy levels. The need to reduce channel inventory, however, will weigh on primary sales in 1QFY20.
- **Reducing promotions in hair care, increasing in soaps:** Compared to 4QFY19 where intensity of promotions was high in both soaps and hair care, promotions in brands like *Expert Rich Crème* (priced at INR25) in hair care was discontinued sometime in April. Because of low material costs, promotions in soaps continued to be high, particularly for '*Godrej No.1*'.
- **GCPL is supporting channel partners:** Besides the rural slowdown, a major problem affecting the sector in 4QFY19 was the liquidity crunch faced by channel partners who were earlier dependent on lending from NBFCs. Incremental lending has reduced significantly due to (a) problems that NBFCs faced in recent quarters, and (b) more stringent measures being adopted on lending. Also, there was an issue at the distributor level of other investments going sour and unwillingness to invest before election results.
- **Steps taken by GCPL to address distributor level liquidity issues:** GCPL has tied up with banks to offer working capital loans to the liquidity constrained channel partners via electronic Dealer Finance Scheme (eDFS). These loans do not have recourse back and are at no cost to GCPL, but provide loans to distributors at lower rates (at least 150bp lower). The company is also seeking to reduce inventory days at the distributor level from 12-13 days to 10 days. Further, distributors now get credit extension of up to 2-3 days, compared to the earlier 0-1 days.
- **Canteen Stores (CSD channel) remain a painful area:** While Canteen Stores constitute only 1-2% of domestic sales for GCPL (and thus less than 1% of consolidated sales), there has literally been no orders from Canteen Stores in the past two months. But, this will have implications on sales for peers in 1QFY20.

Pace of innovation was lower than expected in FY19, but likely to pick up steam

- At the beginning of FY19, the company guided for 10 new product launches (early-FY19, company had 12 in the pipeline ready for launch), but eventually, only eight products were launched in FY19. However, considering that 10 launches were an unprecedented high for GCPL, launch pipeline was still healthy. Nevertheless, lower-than-budgeted launches were seen as (a) some of these products were disruptive and more time consuming to launch, (b) demand environment was not as favorable as expected, and (c) the core businesses took higher priority due to lower-than-expected growth.

Exhibit 1: Launched eight new products in the domestic business in FY19

Launch quarter	Launch month	Product	Type of launch	Category
1QFY19	April	Goodknight Power chip	New launch	Household insecticide
	May	Godrej Professional	New launch	Hair care
2QFY19	August	Protekt Mr. Magic	New launch	Liquid handwash
	September	Godrej Nupur natural henna based hair colour	New launch	Hair colour
	September	Cinthol men's grooming range	New launch	Men's grooming
3QFY19	October	Godrej Aer matic automatic fragrance diffuser	New launch	Home freshener
	November	Kala HIT lime fresh	Variant	Household insecticide
	December	Goodknight naturals neem agarbatti	New launch	Household insecticide

Source: Company, MOFSL

- Performance of new products introduced in FY19 was also mixed. Response to *Aer Pocket* has been very good. *Protekt powder to liquid hand wash* took off well. Male grooming products, earlier launched in e-commerce, have now been introduced in modern trade and premium GT. Herbal incense sticks have received good initial response. *Good Knight Power Chip* was withdrawn because of a product glitch and has been re-launched in 1QFY20.
- Good Knight Power Chip*, viewed as the next big penetration-led growth driver in the HI category, had some glitches after launch in FY19. The glitches were caused by consumers inadvertently peeling off the active ingredient portion along with the wrapper. This bug has now been addressed, the product is back on shelves over the past few weeks and a new ad campaign is starting shortly.
- Meanwhile, the company launched its product in the incense stick category in 2HFY19. The unorganized (and in many cases illegal) incense stick segment was a threat, contributing 10% to category sales. GCPL's product in this category is effective, healthy and herbal-based, leading to strong value proposition. Within a short span of time, GCPL's incense sticks have attained 7-8% market share in Andhra Pradesh and Telangana. It is soon likely to be launched in other states, where the spread of incense sticks is prevalent.
- Notably, the share of new products to sales has declined in recent years. Since *Godrej Expert Crème* and *Good Knight Fast card*, the company has not had a blockbuster success. The company defines New Product Development (NPD) sales as third year revenue of new products to sales, which slipped from ~15% in earlier years to around 10-12% of sales in FY19.
- Recovery in environment, resumption in healthy pace of new launches and the fact that all of these new products are significantly gross margin accretive

means that as NPDs pick up scale, it will contribute significantly to incremental sales growth, operating margins as well as gross margins.

- It is pertinent to note that even at 10-12% of domestic sales, GCPL's share of NPDs to total sales is higher than peers.
- Management states that doubling of NPDs to sales in the near term appears difficult; sharp increase from FY19 levels is likely over the next 2-3 years.

Distribution expansion healthy, rural wholesale trade recovery is a positive

- Distribution reach has now increased to ~6m outlets from around 5.5m outlets two years ago with direct reach now at 1.3m outlets.

Exhibit 2: GCPL has an overall reach of 6m outlets (2.3m direct), only behind HUVR and DABUR

m outlets	HUVR	DABUR	CLGT	GCPL	BRIT	HMN	MRCO	NEST	Jyothy	P&G	TGBL	SKB
Total reach (m outlets)	8.0	6.4	6.0	6.0	5.2	5.2	4.9	4.5	2.8	2.0	2.0	1.8
Direct	3.4	1.0	2.0	1.3	2.0	0.9	0.9	1.5	0.9	0.6	0.7	0.8
Indirect	4.6	5.4	4.0	4.7	3.2	4.3	4.0	3.0	1.9	1.4	1.3	1.0

Source: Company, MOFSL

- This means that GCPL is among the top companies in terms of overall reach, having a fairly healthy direct reach v/s peers.
- Distribution has expanded with soaps reaching majority of the outlets. But, the scope to grow reach for categories within the existing distribution reach is very high — this will be the GCPL's focus area along with increasing store productivity.
- Rural wholesale trade recovery, particularly after the problems that the channel had post demonetization and GST, has been encouraging and obviates the need to expand direct distribution very sharply. GCPL's direct reach is superior to many peers. Wholesale contributes 30-35% to domestic sales for GCPL. Nevertheless, direct reach is likely to be expanded by 8-10% every year.
- The company is targeting large wholesalers, particularly in rural, to increase reach in categories other than soaps.
- Other channels: Modern trade constitutes ~11% of domestic sales and e-commerce is likely to pick up from 1.5% of sales in FY19 to 2.5% of sales in FY20. Historically, company had shied away from the cash-and-carry channel, but has now become aggressive on it as well.

Other points on the domestic business and overall financials

- Target for Project Pi (cost savings program) is 2% of sales in FY20.
- Recent sharp Increase in trade payable days is due to better bargaining power and structure financing.
- The moratorium on big ticket acquisitions will continue as the first focus is to improve ROCEs and revive growth.

Indonesia business

- Indonesia business is likely to achieve low double-digit constant currency growth in FY20.
- Project Cermat is likely to contribute to cost savings of 2.5-3% of sales in Indonesia this year.
- Working capital in Indonesia has already improved to zero net working capital days.
- As they ramp up growth, margins may take a near-term hit.

Africa business

- Outlook on sales is good and around 100bp operating margin improvement is possible in FY20, with potentially 300-400bp improvement in 3-4 years in this geography.
- Net working capital days in Africa have declined from 120 days to 85 days; it is likely to come down further.
- Lower inventory days is the key factor for the reduced working capital in Africa.

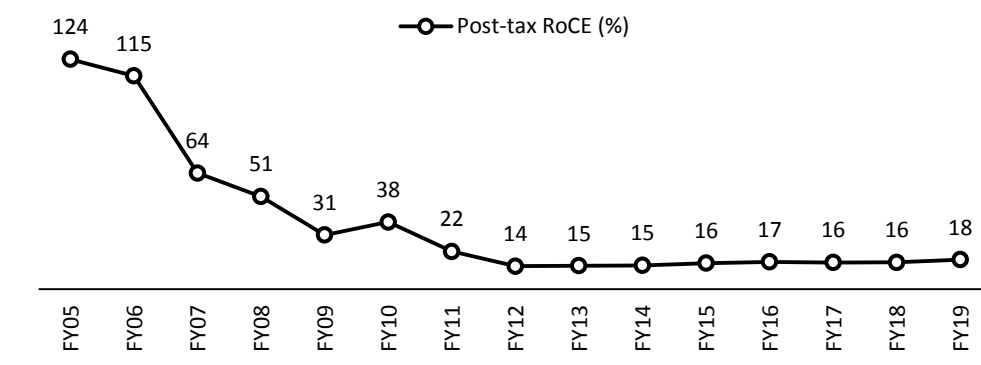
GCPL's performance and what's changing?

Growth revival, Balance sheet improvement to drive re-rating

1) FY08-19: A period of decline in return ratios

One of the biggest concerns for GCPL in the past has been the persistent deterioration in RoCE, which was earlier well over 50% until FY08.

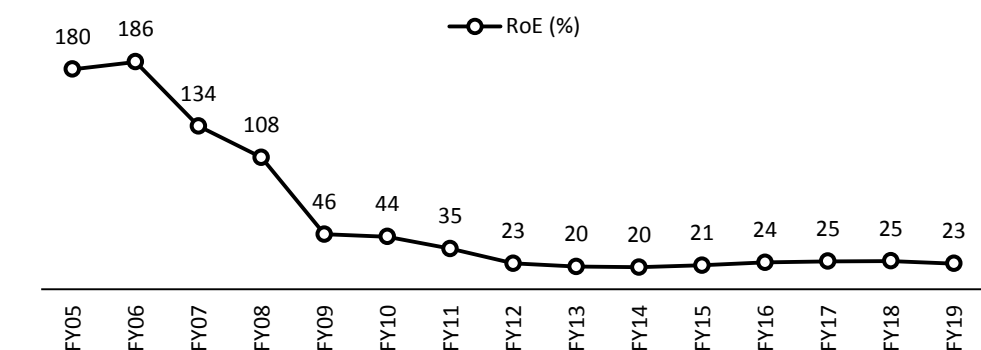
Exhibit 3: RoCE seems to have now stabilized and has actually improved in FY19



Source: Company, MOFSL

- Before FY08, RoE was above 100% and has slipped since then.

Exhibit 4: Slight deterioration in RoE was seen in FY19



** Calculated on Group Adjusted PAT

Source: Company, MOFSL

Key causes

- The company embarked on a phase of international expansion (led mainly by acquisition) over the latter part of the previous decade. International business comprised ~45% of consolidated revenues and ~30% of consolidated EBITDA in FY19. Factors that resulted in declining return ratios were (a) the acquisitive nature of expansion (resulting in goodwill on books), (b) the inherently weaker balance sheet metrics in the international business (particularly on working capital), and (c) growth hiccups in the international business in recent years.

Exhibit 5: Timeline of acquisitions

Date	Name of acquisition	Focus region
FY08		
1st October 2007	Global Mid East FZE	Middle East & GCC
	Touch of Silver' and 'Henara'	United Kingdom
FY09		
1st April 2008	Kinky Hair	Africa
	SCA Hygiene Products	
FY10		
1st April 2009	SCA Hygiene Products	
	Godrej Sara Lee renamed as Godrej Household Products Limited (GHPL)	India
FY11		
28th May 2010	Godrej Sara Lee renamed as Godrej Household Products Limited (GHPL)	India
17th May 2010	PT. Megasari Makmu	Indonesia
1st June 2010	Issue Group	Latin America
8th July 2010	Argencos	Latin America
16th July 2010	Tura	Africa
3rd December 2010	Naturesse Consumer Care Products Limited and Essence Consumer Care Products Limited	India
14th March 2011	Godrej Mauritius Africa Holdings	
FY12		
	Darling Group	Africa
FY13		
Apr-12	Cosmetica Nacional	Latin America
	Darling Group	Africa
FY15		
1st October 2014	Ghana	Africa
24th February 2015	Darling Group	Africa
1st March 2015	Frika Ply Ltd	Africa
FY16		
	Cosmetica Nacional	Latin America
FY17		
28th April 2016	Strength of Nature (SON)	Africa
5th May 2016	Canon Chemicals Ltd. (Canon)	Sub Saharan Africa
2nd August 2016	Hair Credentials Zambia	Africa
20th December 2016	Charm Industries Limited	Africa
14th March 2017	Weave Senegal Limited	Africa

Source: Company, MOFSL

Sales/EBITDA/PAT growth robust over the period of decline in return ratios

- Interestingly, Sales/EBITDA/PAT CAGR during FY08-19 has been robust with all three metrics growing at near identical pace of ~23% CAGR. There has been some equity dilution over this period (mainly to finance the acquisitions), but even after that, EPS CAGR of 18.4% over this period has been very strong over an elongated period of time.

Exhibit 6: Growth has been healthy over the last 11 years

	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	CAGR % (FY08-19)
Sales (INR b)	11.0	13.9	20.4	36.4	48.7	64.2	75.8	82.8	84.2	92.7	98.4	103.1	23
Sales growth (%)	15.9	26.3	46.5	78.5	33.6	31.9	18.2	9.1	1.8	10.0	6.2	4.8	
EBITDA (INR b)	2.1	2.0	4.1	6.5	8.6	9.8	11.6	13.7	16.4	19.0	20.7	21.2	23
EBITDA growth (%)	19.4	(5.0)	100.4	58.2	32.4	14.8	17.7	18.0	19.8	16.0	8.9	2.4	
Adj. PAT (INR b)	1.6	1.7	3.4	4.8	5.7	7.2	8.2	9.9	11.6	13.1	14.5	15.4	23
Adj. PAT growth (%)	18.6	8.4	96.8	41.8	19.0	25.0	14.4	21.2	17.2	12.3	11.2	6.1	
Adj. EPS (INR)	2.4	2.2	3.7	4.8	5.2	6.4	7.3	8.9	11.2	12.6	14.1	15.1	18
EPS growth (%)	18.6	(5.1)	64.7	30.7	8.2	22.7	14.3	22.0	26.0	12.8	11.4	7.2	

Source: Company, MOFSL

Nevertheless, it is clear that P&L performance has faltered in recent years

- During FY08-16, Sales/EBITDA/PAT/EPS CAGR was spectacular at 29%/29%/28%/22%.

Exhibit 7: Spectacular growth over FY08-16

	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	CAGR % (FY08-16)
Sales (INR m)	11.0	13.9	20.4	36.4	48.7	64.2	75.8	82.8	84.2	29
Sales growth (%)	15.9	26.3	46.5	78.5	33.6	31.9	18.2	9.1	1.8	
EBITDA (INR m)	2.1	2.0	4.1	6.5	8.6	9.8	11.6	13.7	16.4	29
EBITDA growth (%)	19.4	(5.0)	100.4	58.2	32.4	14.8	17.7	18.0	19.8	
Adj. PAT (INR m)	1.6	1.7	3.4	4.8	5.7	7.2	8.2	9.9	11.6	28
Adj. PAT growth (%)	18.6	8.4	96.8	41.8	19.0	25.0	14.4	21.2	17.2	
Adj. EPS (INR)	2.4	2.2	3.7	4.8	5.2	6.4	7.3	8.9	11.2	22
EPS growth (%)	18.6	(5.1)	64.7	30.7	8.2	22.7	14.3	22.0	26.0	

Source: Company, MOFSL

- However, the subsequent three years beginning FY17-19, saw Sales/EBITDA/PAT/EPS growth at only around 7%/9%/10%/10%. While Sales growth CAGR adjusted for Ind-AS and GST accounting would be higher than 7%, PAT CAGR (and thus, EPS CAGR) of the past three years was boosted by unusually low tax rate of ~16% in FY19 (compared to 20-23% tax rate in the preceding years and ~23% likely rate going forward). PBT growth over this period was only around 7% YoY.

Exhibit 8: Subdued growth over last three years

	FY16	FY17	FY18	FY19	CAGR % (FY16-19)
Sales (INR m)	84.2	92.7	98.4	103.1	7
Sales growth (%)	1.8	10.0	6.2	4.8	
EBITDA (INR m)	16.4	19.0	20.7	21.2	9
EBITDA growth (%)	19.8	16.0	8.9	2.4	
Adj. PAT (INR m)	11.6	13.1	14.5	15.4	10
Adj. PAT growth (%)	17.2	12.3	11.2	6.1	
Adj. EPS (INR)	11.2	12.6	14.1	15.1	10
EPS growth (%)	26.0	12.8	11.4	7.2	

Source: Company, MOFSL

What components have slowed down in the P&L?

- Standalone (domestic) business growth has slowed. All the three key segments have reported slowdown in sales in recent years.

Exhibit 9: Segmental growth from FY11-16

Sales growth (%)	FY11	FY12	FY13	FY14	FY15	FY16
Indian Subcontinent	43	25	18	14	9	9
International	225	57	52	25	5	14
Africa	25	140	68	41	18	17
Latin America	-	44	85	15	2	12
Megasari (Indonesia)	7,151	43	35	9	6	3
Keyline	0	21	37	65	5	8
Middle East	-	738	150	60	-	-
Others	-	-	-	-	-	-
Total	134	36	31	19	7	11

Source: Company, MOFSL

Exhibit 10: India business has seen growth slowdown over the last three years

Sales growth (%)	FY17	FY18	FY19
India	4	5	6
Household Insecticides	1	(3)	(0)
Soaps	(3)	16	5
Hair Colors	3	5	8
Other brands	35	24	24
Unbranded and Exports	2	20	12
Sales and trade promotions and Excise duty	(22)	24	2
Indonesia	5	(11)	13
Africa (including SON)	52	8	12
Others	(10)	6	(32)
Less: Intersegment eliminations	(0)	(16)	20
Gross sales (inclgd. OOI)	10	3	4

Source: Company, MOFSL

- However, we believe there is nothing fundamentally wrong with the growth prospects of GCPL's domestic business.
 - A) **Household Insecticides (40% of domestic sales in FY19)** – Medium-to-long term growth opportunity is high in Household Insecticides with penetration in the mid-30s and where the company is the market leader. The company has been unfortunate with weak seasons in recent years and the rapid growth in the illegal incense stick market in recent years was a surprise. The seasons will eventually move in their favor. The company appears to be back on track with their incense stick product launch as well as re-launch of *Good Knight power chip* (after initial hiccup last year). Both are expected to drive category penetration, which had plateaued since the spurt witnessed from 30% to 35% after the introduction of *Good Knight Fast card* by the company.
 - B) **Hair Colour (12% of domestic sales in FY19)** - Opportunity is also high in the underpenetrated hair color market where *Godrej* remains the market leader across India and controls the bulk of the mass-end market. But, in terms of value (according to Nielsen), L'Oréal SA has emerged as the largest hair color marketer in urban India ahead of GCPL, riding on its mass brand *Garnier Black Naturals*, which is now the French personal care firm's highest selling hair color brand globally.
 - C) **Soaps (33% of domestic sales in FY19)** - With nearly 100% penetration and lesser premiumization being witnessed (vs other large categories like detergents), soaps are not as attractive in terms of growth. It also ranks lowest in terms of operating margins v/s the other two large domestic businesses of GCPL. However, despite high penetration of the category, GCPL's sales growth in the category has been healthy at ~9% CAGR in the past decade. Company has steadily gained market share in this category and is the second largest player after HUVR, with the category providing scope for premiumization in the longer term.
 - D) **Other businesses (13% of domestic sales in FY19)** - Growth of the other businesses has been extremely healthy led, by the Air Care segment. GCPL dominates the car fragrance market with *Aer* and has emerged as a strong contender in the Home Freshener market in recent years. These brands, while small relative to the other domestic brands, have become fairly

significant at INR7.4b (around 13% of domestic sales), and in fact, even larger than the hair color business. Growth in the 'Others' segment has been consistently strong at a highly impressive 27% CAGR even when overall domestic sales growth had slowed. Share of this segment to domestic revenues has increased from around 7% to 13% in a short span of three years. Management believes that the business can grow 4-5x of the current size in the future.

- E) With high growth opportunities, decent size of the business (INR56.5b in FY19), EBITDA margins of ~25%, ROCE of 30%, negative net working capital of over 30 days, the standalone GCPL business is one of the most attractive in the Indian consumer space.
- F) Innovation efforts have been best of breed in the domestic business, particularly with the desire to be truly disruptive and with an eye for longer-term growth. As all these innovations are significantly gross margin accretive and largely in the non-soaps category, once these products scale up to absorb the initially high marketing spends, they are likely to be strongly EBITDA margin accretive as well.
- While the next couple of quarters are challenging for the domestic business, there are imminent signs of revival as well. As indicated in our management meet notes, a combination of consumption revival, new launches, management's efforts to revive growth bearing fruit, cost savings efforts, gradual decrease in intensity of promotion efforts, will result in healthy sales growth in the medium term.

Balance sheet performance has been quite credible; if not for the earnings slowdown in the past three years, ROCE would have improved at a healthy pace

- While we highlighted the deterioration of ROCE and ROE, note that despite single-digit sales, EBITDA and PAT growth in the last three years, ROCE has actually improved from 16.5% in FY16 to 17.7% in FY19, with large part of the improvement coming in FY19. ROE has been maintained at ~23%, despite low growth in the numerator in recent years.

What is driving (as yet moderate) the Balance sheet improvement at consolidated level?

- Cash conversion cycle (on average basis) has improved from 47 days in FY16 to 14 days in FY19.
- Cash conversion cycle (on year-end basis) has improved from 60 days in FY16 to 11 days in FY19.

Exhibit 11: Consolidated cash conversion cycle has improved considerably over the last four years

Cash conversion cycle	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Days (on avg basis)										
Inventory days	39	35	46	52	51	47	52	54	55	55
Debtor days	16	25	32	34	35	34	42	42	42	45
Creditor days	22	24	41	51	54	51	46	54	76	87
Cash conversion cycle	32	37	37	35	32	30	47	41	22	14
Days (on year end basis)										
Inventory days	47	44	59	60	52	47	57	56	59	55
Debtor days	21	38	35	41	35	35	48	41	46	46
Creditor days	25	33	58	59	59	48	45	68	87	90
Cash conversion cycle	43	49	36	42	28	35	60	28	17	11

Source: Company, MOFSL

- Moratorium on big ticket acquisitions (last big acquisition was Strength of Nature in Apr'16).
- On the other hand, fixed Asset turns have deteriorated in recent years taking some sheen off the excellent performance in the working capital front.

Exhibit 12: Consolidated asset turns have actually been maintained even post subdued growth over the last three years

Turnover ratio (x)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Gross fixed asset turnover	2.4	3.0	3.4	3.6	3.2	2.6	2.5	2.4
Gross fixed asset + CWIP turnover	2.3	2.8	3.1	3.3	3.1	2.5	2.4	2.4
Gross fixed asset + CWIP + Goodwill turnover	1.2	1.2	1.3	1.3	1.2	1.1	1.1	1.1
Net fixed asset turnover	3.1	4.0	4.8	5.5	4.9	2.7	2.7	2.7
Net fixed asset + CWIP turnover	3.1	3.7	4.4	4.8	4.7	2.6	2.7	2.7
Net fixed asset + CWIP + Goodwill turnover	1.3	1.4	1.4	1.4	1.3	1.1	1.2	1.2
Asset turnover (excluding cash and Equiv.) -Avg	1.3	1.4	1.4	1.4	1.3	1.2	1.2	1.3

Source: Company, MOFSL

- Thus, total Asset turns have been maintained in the past three years despite weak earnings growth.

What was the standalone business contribution to the balance sheet improvement?

- Standalone cash conversion cycle (on average basis) has improved from 1 day in FY16 to an all-time high of 36 days in FY19.
- Standalone cash conversion cycle (on year end basis) has improved from 15 days in FY16 to negative 32 days in FY19. While positive NWC days in FY16 was a bit of an aberration both on average as well as year-end basis, NWC days are at an all-time best number on an average basis.

Exhibit 13: Standalone Cash conversion cycle (on year-end basis) has improved

Cash conversion cycle	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Days (on avg basis)								
Inventory days	45	49	46	41	40	43	39	38
Debtor days	12	11	12	12	16	19	16	19
Creditor days	48	61	65	67	55	68	89	94
Cash conversion cycle	9	(1)	(8)	(14)	1	(6)	(34)	(36)
Days (on year end basis)								
Inventory days	53	55	44	41	42	43	40	40
Debtor days	12	12	12	12	21	16	17	23
Creditor days	65	68	71	67	48	86	101	94
Cash conversion cycle	(0)	(1)	(15)	(14)	15	(27)	(44)	(32)

Source: Company, MOFSL

- Fixed asset turns have improved over the past three years.
- Nevertheless, total asset turns have remained constant between 1.4x-1.5x over this period.

Exhibit 14: Total asset turns have largely been stable in the last 7-8 years on a standalone basis

Turnover ratio (x)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Gross fixed asset turnover	2.0	2.3	2.6	2.7	2.6	3.4	3.6	3.6
Gross fixed asset + CWIP turnover	2.0	2.2	2.4	2.4	2.6	3.3	3.4	3.5
Gross fixed asset + CWIP + Goodwill turnover	2.0	2.2	2.4	2.4	2.6	3.3	3.4	3.5
Net fixed asset turnover	2.5	3.1	3.7	4.1	3.9	3.7	4.0	4.2
Net fixed asset + CWIP turnover	2.5	2.8	3.3	3.5	3.9	3.6	3.9	4.1
Net fixed asset + CWIP + Goodwill turnover	2.5	2.8	3.3	3.5	3.9	3.6	3.9	4.1
Asset turnover (excluding cash and Equiv.) - Avg.	1.4	1.4	1.5	1.5	1.5	1.3	1.4	1.4

Source: Company, MOFSL

What was the Subsidiary (Imputed) business contribution to the balance sheet improvement?

- Imputed subsidiary cash conversion cycle (on average basis) has improved from 109 days in FY16 to 74 days in FY19.
- Imputed subsidiary cash conversion cycle (on year end basis) has improved from 121 days in FY16 to nearly half at 63 days in FY19.

Exhibit 15: Imputed subsidiary cash conversion cycle has seen sharp improvement in last three years

Cash conversion cycle	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Days (on avg basis)								
Inventory days	47	55	57	55	67	65	74	76
Debtor days	64	63	62	59	76	67	72	76
Creditor days	30	39	42	34	34	40	60	78
Cash conversion cycle	80	80	77	80	109	91	86	74
Days (on year end basis)								
Inventory days	68	66	61	55	76	69	80	74
Debtor days	73	78	61	62	85	66	79	74
Creditor days	46	47	45	27	40	49	72	85
Cash conversion cycle	95	96	77	90	121	86	87	63

Source: Company, MOFSL

- Imputed subsidiary fixed asset turns have deteriorated over the past three years despite moratorium on big ticket acquisitions. In fact, the deterioration has been very sharp and solely responsible for deterioration in FATR at the consolidated business in the past three years.

- Despite this, imputed subsidiary total asset turns have remained constant between 1.1x-1.2x over this period, mainly due to strong improvement in net working capital.

Exhibit 16: Imputed subsidiary total asset turns have declined from 1.4x in FY15 to 1.1x in FY19

Turnover ratio (x)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Gross fixed asset turnover	3.4	4.5	5.2	5.8	4.6	2.0	1.8	1.7
Gross fixed asset + CWIP turnover	3.2	4.4	5.0	5.4	4.5	2.0	1.8	1.7
Gross fixed asset + CWIP + Goodwill turnover	0.7	0.8	0.8	0.8	0.7	0.6	0.6	0.6
Net fixed asset turnover	5.2	6.4	7.6	8.7	7.1	2.1	2.0	1.9
Net fixed asset + CWIP turnover	4.8	6.1	7.3	7.9	6.7	2.1	2.0	1.9
Net fixed asset + CWIP + Goodwill turnover	0.7	0.8	0.9	0.9	0.7	0.7	0.7	0.6
Asset turnover (excluding cash and Equiv.) - Avg.	1.1	1.3	1.4	1.4	1.1	1.2	1.1	1.1

Source: Company, MOFSL

Now what is the component that is leading to sharp improvement in Net Working Capital in the past three years?

- Surprisingly, despite the company's best efforts to reduce inventory in the international business, the consolidated business has not (yet) reported strong decline in inventory days. In fact, inventory days have increased at consolidated levels from 52 days to 55 days on an average basis, declining from 57 to 55 days on year-end basis.
- The standalone inventory days are driving whatever little improvement seen in inventory days on consolidated level. Both on average inventory as well as year-end inventory, there has been an improvement of ~2 days over this period.
- At imputed subsidiary level based on average inventory days, in the past three years there has been an increase of 9 days in inventory days; and on year-end basis, there has been an improvement of 2 days over this period.
- Similarly, debtor days have either been maintained or have deteriorated in the past three years on consolidated average, consolidated year-end, standalone average, standalone year-end, subsidiary average and subsidiary year-end.
- In fact, creditor days have led to sharp improvement in working capital on consolidated, standalone and subsidiary levels.
- On consolidated basis, creditor days have increased from 46 days to 87 days in the past three years on average creditors and from 45 days to 90 days on year-end creditor levels.
- Domestic level creditors have increased from 55 days to 94 days on average creditor basis and 48 days to 94 days on year-end creditor basis.
- Subsidiary creditor days have increased sharply from 34 days to 78 days on average creditor basis and 40 days to 85 days on year-end creditor basis.
- We acknowledge management's argument of better bargaining power and structured financing as causes for improvement in creditor days, which may be sustainable going forward. But, we are slightly disappointed that there isn't much improvement in inventory days. In fact, there has been a marked deterioration in debtor days.

Valuation and view

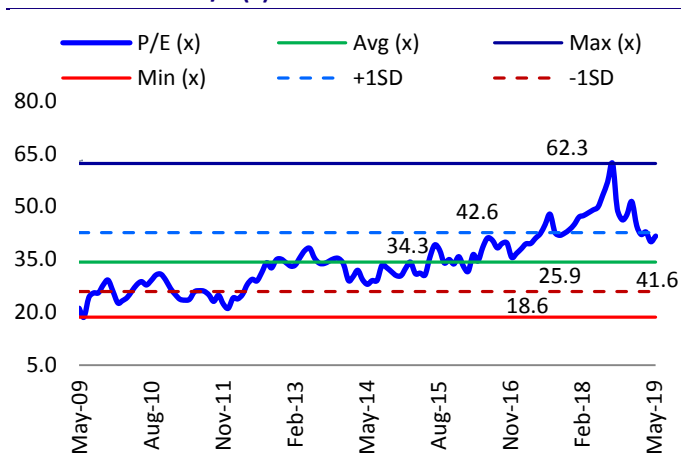
- While the stock price is down nearly 30% from its peak, there is yet no clear indication that earnings slowdown (7% PBT growth in the past three years) will turn around materially in FY20 to anywhere close to earlier levels. During FY08-16, the company reported over 20% CAGR growth on all fronts — Sales, EBITDA, PAT and EPS.
- The other factor is that majority of the CCC cycle improvement has come in from higher creditor days. GCPL’s efforts to reduce inventory days, particularly in the African business is yet to make a substantial impact on the consolidated level. This offers an opportunity for significant improvement if plans for further reduction in inventory days in Africa pan out as targeted, and particularly, if topline growth revives as well.
- Valuations of 34.7x FY21, while cheaper than peer average, offers limited upside on considering weaker than best of breed peer earnings visibility and less than peer ROCE levels (at least currently). Maintain **Neutral**.

Exhibit 17: Changes in model have led to an increase in EPS of 1.1%/3.3% in FY20/21

INR M	Old		New		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Sales	112,244	124,268	113,343	127,929	1.0	2.9
EBITDA	23,717	26,561	23,880	27,327	0.7	2.9
PAT	16,412	18,888	16,590	19,509	1.1	3.3

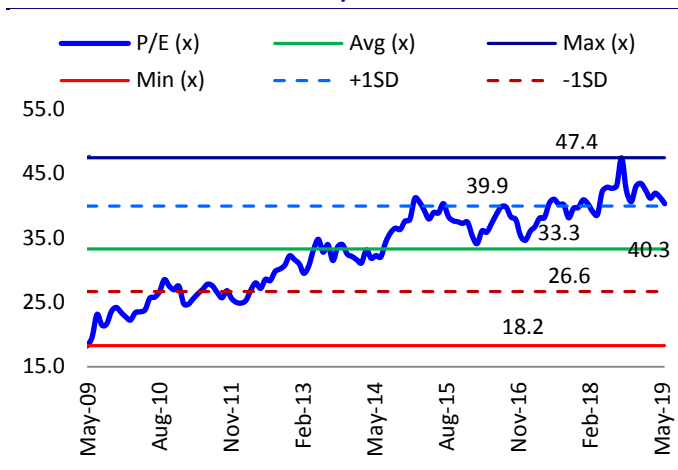
Source: Company, MOFSL

Exhibit 18: GCPL P/E (x)



Source: Company, MOFSL

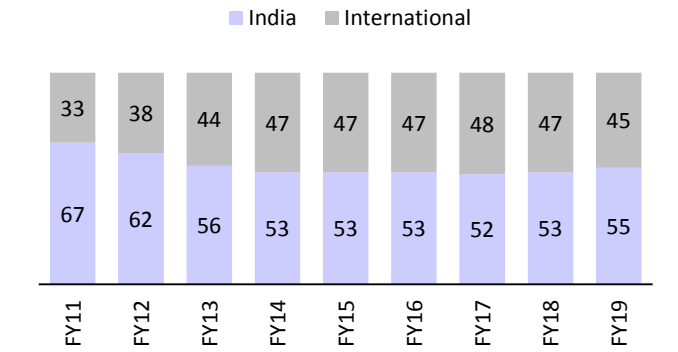
Exhibit 19: Consumer sector P/E



Source: Company, MOFSL

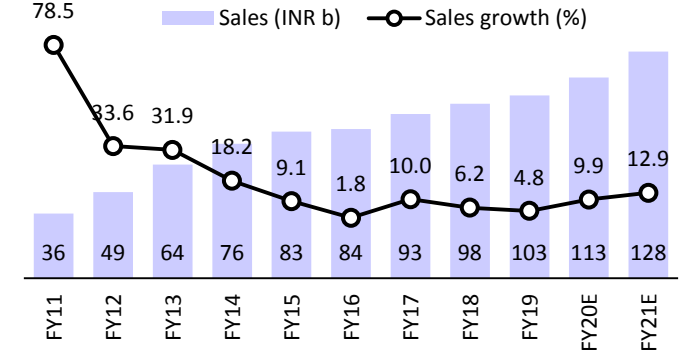
Story in charts

Exhibit 20: International business contributes 45% to the topline



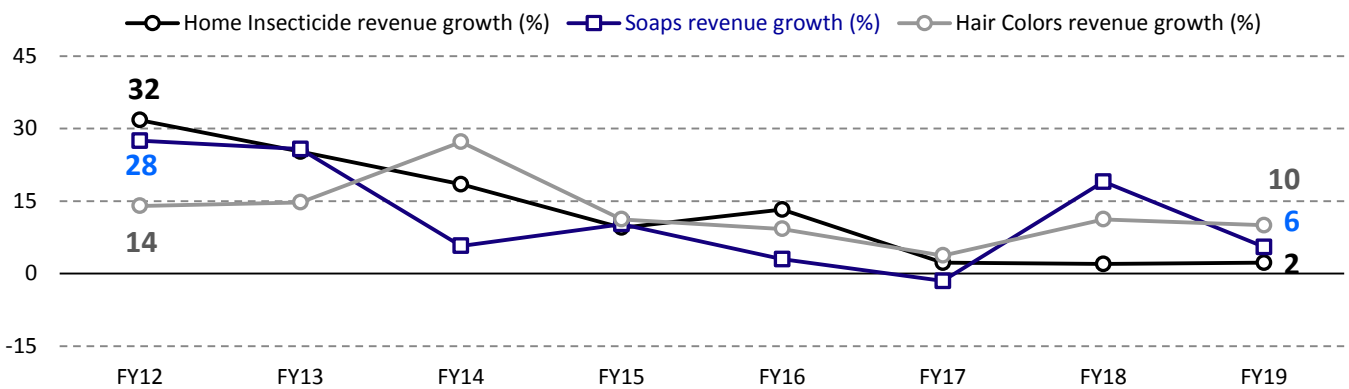
Source: Company, MOFSL

Exhibit 21: Consol. sales to grow at 11.4% CAGR over FY19-21



Source: Company, MOFSL

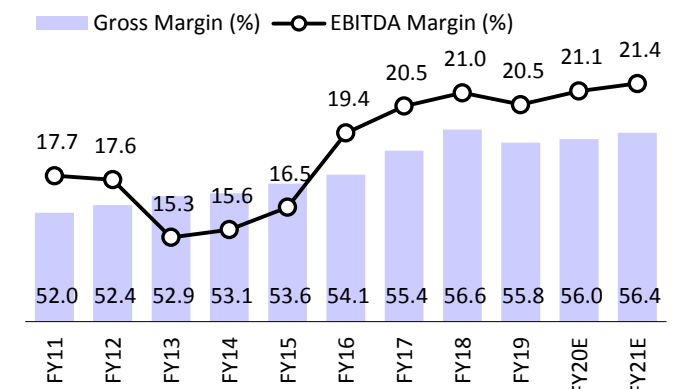
Exhibit 22: Domestic business segmental growth has witnessed slowdown in recent years



*Comparable growth taken in FY18 & FY19 assuming GST in the base quarter sales

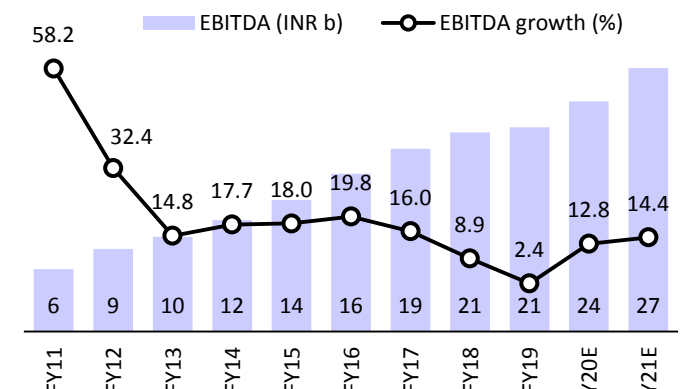
Source: Company, MOFSL

Exhibit 23: Gross/ EBITDA margin to expand 60bp/80bp over FY19-21



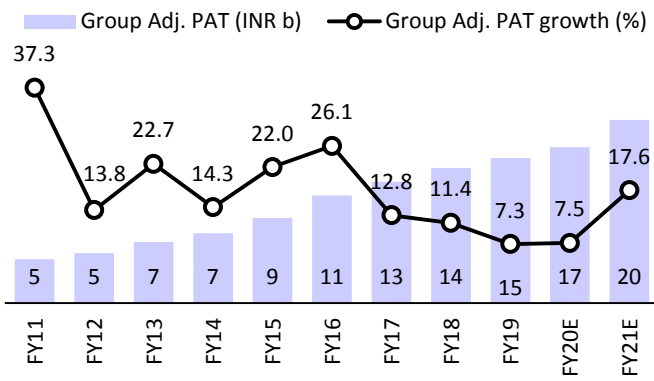
Source: Company, MOFSL

Exhibit 24: Consol. EBITDA to grow at 13.6% CAGR over FY19-21



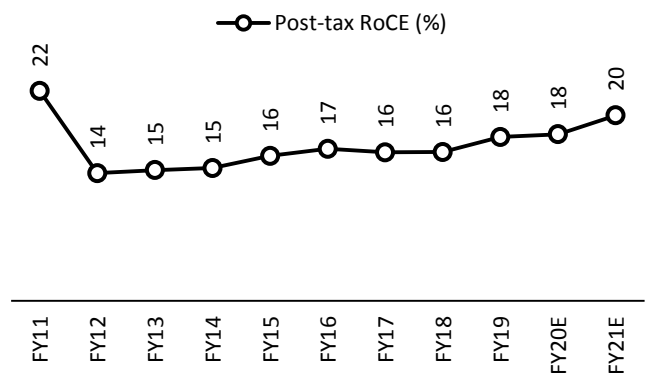
Source: Company, MOFSL

Exhibit 25: PAT to grow at CAGR of 12.4% over FY19-21



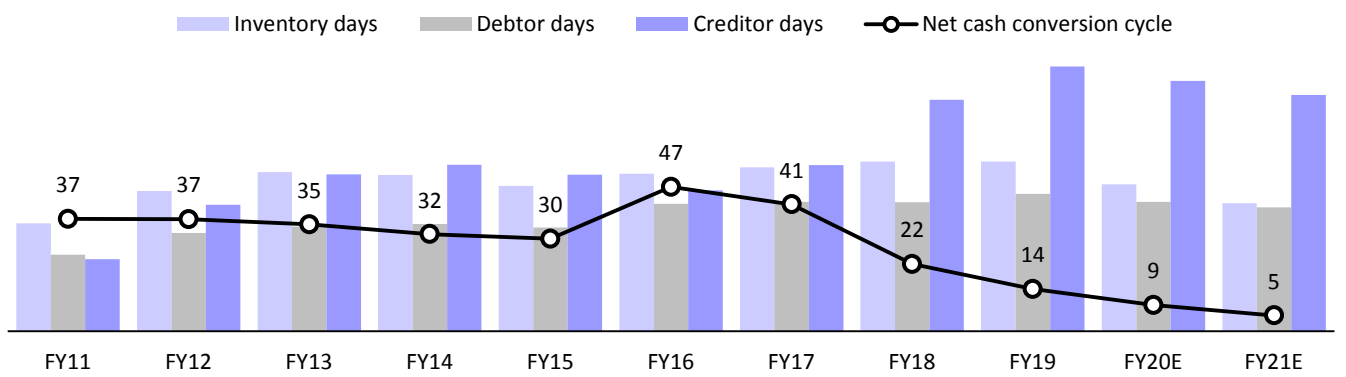
Source: Company, MOFSL

Exhibit 26: Return ratios to improve with no expectation of an acquisition for at least next two years



Source: Company, MOFSL

Exhibit 27: FY18 saw a huge dip in net cash conversion cycle on account of high creditor days



Source: Company, MOFSL

Financials and valuations

Income Statement						(INR m)	
Y/E March	2015	2016	2017	2018	2019	2020E	2021E
Net Sales	82,764	84,239	92,679	98,433	103,143	113,343	127,929
Change (%)	8.9	1.8	10.0	6.2	4.8	9.9	12.9
Gross Profit	44,348	45,566	51,354	55,689	57,600	63,518	72,157
Margin (%)	53.6	54.1	55.4	56.6	55.8	56.0	56.4
Total Expenditure	69,111	67,881	73,702	77,762	81,967	89,463	100,602
EBITDA	13,653	16,358	18,977	20,671	21,176	23,880	27,327
Change (%)	18.0	19.8	16.0	8.9	2.4	12.8	14.4
Margin (%)	16.5	19.4	20.5	21.0	20.5	21.1	21.4
Depreciation	908	1,006	1,416	1,557	1,700	1,843	1,973
Int. and Fin. Charges	1,002	1,190	1,452	1,607	2,243	1,858	1,765
Interest Income	284	448	408	685	670	900	1,218
Other Income-rec.	632	391	345	391	417	470	529
PBT	12,659	15,001	16,862	18,582	18,321	21,549	25,336
Change (%)	22.9	18.5	12.4	10.2	-1.4	17.6	17.6
Margin (%)	15.3	17.8	18.2	18.9	17.8	19.0	19.8
Tax	2,861	3,271	3,692	3,925	4,179	4,784	5,625
Deferred Tax	138	-89	-100	-122	1,282	-175	-203
Tax Rate (%)	21.5	22.4	22.5	21.8	15.8	23.0	23.0
PAT before MI	9,936	11,640	13,071	14,535	15,424	16,590	19,509
Minority interest	693	29	-8	-11	-6	0	0
Group Adjusted PAT	9,079	11,447	12,915	14,382	15,431	16,590	19,509
Change (%)	22.0	26.1	12.8	11.4	7.3	7.5	17.6
Margin (%)	11.0	13.6	13.9	14.6	15.0	14.6	15.2
Non-rec. (Exp.)/Income	-172	-3,335	1	1,796	7,984	0	0
Reported PAT	9,071	8,276	13,080	16,342	23,414	16,590	19,509

Balance Sheet						(INR m)	
Y/E March	2015	2016	2017	2018	2019	2020E	2021E
Share Capital	1,021	1,022	1,022	1,022	1,022	1,022	1,022
Reserves	42,086	49,955	51,998	61,561	71,647	76,279	79,842
Minority Int	1,620	842	0	0	0	0	0
Networth	44,727	51,819	53,020	62,583	72,669	77,301	80,864
Loans	27,172	28,911	40,009	34,938	28,757	27,319	25,953
Deferred Liability	-312	-413	1,898	2,047	-5,139	0	0
Capital Employed	71,587	80,317	94,927	99,567	96,287	104,621	106,817
Gross Block	22,890	26,383	36,308	39,567	42,821	46,071	49,321
Less: Accum. Depn.	7,821	9,020	2,081	3,588	5,287	7,130	9,103
Net Fixed Assets	15,069	17,363	34,227	35,979	37,534	38,941	40,218
Capital WIP	2,246	437	951	821	509	509	509
Goodwill	40,441	45,741	46,626	47,189	49,180	49,180	49,180
Non Curr Investments	343	344	2,518	1,415	347	312	281
Current Investments	1,514	1,529	6,818	8,558	4,813	6,257	7,508
Currents Assets	31,464	35,684	38,264	44,665	43,146	50,112	54,611
Inventory	10,717	13,070	14,125	15,777	15,586	14,284	15,071
Account Receivables	8,046	11,180	10,287	12,455	12,929	13,353	15,071
Cash and Bank Balance	8,942	7,459	9,127	9,602	8,947	16,112	18,106
Loans and Advances	3,682	3,857	4,536	6,768	5,684	6,363	6,363
Other Current Assets	76	118	189	63	0	0	0
Curr. Liab. & Prov.	19,489	20,780	34,475	39,059	39,242	40,691	45,490
Account Payables	10,869	10,372	17,239	23,569	25,399	25,463	28,740
Other Liabilities	7,886	10,064	17,161	15,262	13,843	15,227	16,750
Net Current Assets	11,974	14,904	3,789	5,606	3,904	9,421	9,120
Net Assets	71,587	80,318	94,927	99,567	96,287	104,620	106,817

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2015	2016	2017	2018	2019	2020E	2021E
Basic (INR)							
EPS	8.9	11.2	12.6	14.1	15.1	16.2	19.1
Cash EPS	9.8	12.2	14.0	15.6	16.8	18.0	21.0
BV/Share	43.8	50.7	51.9	61.2	71.1	75.6	79.1
DPS	1.8	1.9	4.0	4.7	6.7	10.0	13.3
Payout (%)	20.6	17.1	31.6	33.2	44.2	61.6	69.9
Valuation (x)							
P/E	76.6	60.8	52.5	47.1	43.9	40.9	34.7
Cash P/E	69.6	55.9	47.3	42.5	39.6	36.8	31.5
EV/Sales	8.6	8.5	7.6	7.1	6.8	6.1	5.4
EV/EBITDA	52.2	43.8	37.2	33.9	32.9	28.8	25.1
P/BV	15.5	13.4	12.8	10.8	9.3	8.8	8.4
Dividend Yield	0.3	0.3	0.6	0.7	1.0	1.5	2.0
Return Ratios (%)							
RoE	21.4	23.7	24.6	24.9	22.8	22.1	24.7
RoCE (Post-tax)	15.9	16.5	16.2	16.2	17.7	17.9	19.7
RoIC	17.9	18.5	18.6	19.3	20.4	20.8	24.1
Working Capital Ratios							
Debtor (Days)	35	48	41	46	46	43	43
Asset Turnover (x)	4.8	4.7	2.6	2.7	2.7	2.9	3.1
Leverage Ratio							
Debt/Equity (x)	0.6	0.6	0.8	0.6	0.4	0.4	0.3

Cash Flow Statement

(INR m)

Y/E March	2015	2016	2017	2018	2019	2020E	2021E
OP/(Loss) before Tax	12,994	15,737	18,426	20,548	19,604	22,923	26,780
Net interest	718	743	1,044	922	1,572	958	546
Direct Taxes Paid	-2,573	-3,360	-4,274	-4,082	-4,179	-4,784	-5,625
(Inc)/Dec in WC	-871	-4,645	3,406	-155	1,276	1,648	2,294
CF from Operations	10,267	8,474	18,602	17,234	18,273	20,744	23,997
Inc in FA	-2,126	-2,081	-1,803	-3,115	-2,943	-3,250	-3,250
Free Cash Flow	8,141	6,392	16,799	14,119	15,330	17,494	20,747
Pur of Investments	-395	916	-5,736	399	4,813	-1,409	-1,220
Others	-5,732	-6,767	-16,043	-202	-4,820	5,865	1,016
CF from Investments	-8,253	-7,932	-23,581	-2,918	-2,949	1,206	-3,454
Inc in Debt	3,180	-2,779	0	0	-6,180	-1,438	-1,366
Dividend Paid	-1,787	-1,873	-1,958	-6,131	-7,973	-11,960	-15,946
Interest Paid	-1,189	-1,188	-1,241	-1,578	-2,243	-1,858	-1,765
Other Item	-324	3,815	9,845	-6,131	417	470	529
CF from Fin. Activity	-120	-2,025	6,647	-13,840	-15,978	-14,786	-18,548
Inc/Dec of Cash	1,894	-1,483	1,667	476	-655	7,164	1,995
Add: Beginning Balance	7,048	8,942	7,459	9,127	9,602	8,947	16,112
Closing Balance	8,942	7,459	9,127	9,602	8,947	16,112	18,107

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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