

# Stock Update

Recent correction provides good entry opportunity; upgraded to Buy

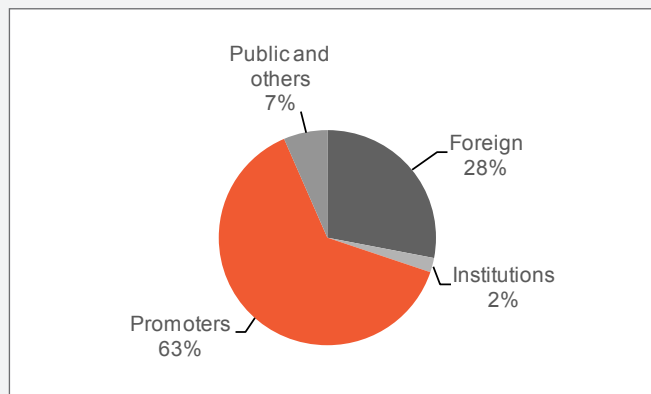
## Godrej Consumer Products

Reco: Buy | CMP: Rs935

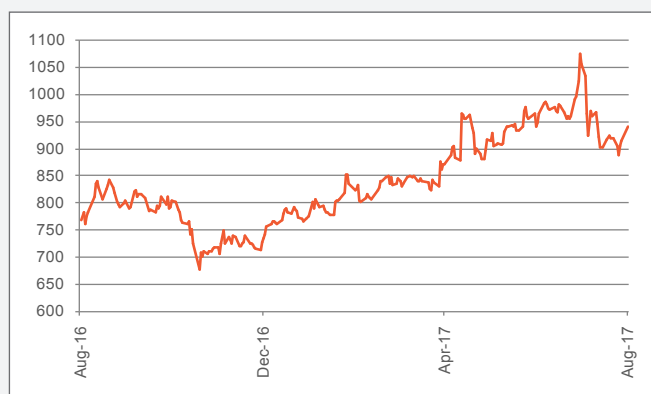
### Company details

Price target:	Rs1,075
Market cap:	Rs63,692 cr
52-week high/low:	Rs1,084/643
NSE volume: (No of shares)	4.9 lakh
BSE code:	532424
NSE code:	GODREJCP
Sharekhan code:	GODREJCP
Free float: (No of shares)	25.0 cr

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	-7.2	4.5	10.9	20.5
Relative to Sensex	-5.4	-0.7	0.4	5.6

### Key points

- Recent correction provides good entry opportunity; Upgraded to Buy:** Godrej Consumer Products Ltd.'s (GCPL) stock price has corrected by 16% from its recent high in the recent past and the stock is currently trading at 35.7x its FY2019E earnings. We believe the current valuations have factored in concerns regarding GST implementation and its impact on sales of the domestic business. Hence, downside risk is limited. The domestic business is coming back to normalcy with most channels back in trade. Thus, we upgrade our rating on the stock from Hold to Buy, sensing it as a better opportunity to re-enter the stock with a decent upside.
- Stable balance sheet with improvement in working capital and comfortable debt levels:** GCPL's working capital days improved to negative 48 days in FY2017 on account of better working capital management. Moreover, the overall debt position is at comfortable levels with debt:equity standing at 1.0x because of steady debt repayment and better working capital management. Return ratios continued to remain in double digits, with RoE and RoCE standing at 18.9% and 27.3% in FY2017, respectively.
- Outlook – Performance to improve in the medium term:** GCPL's domestic business is coming back on track with two-thirds of wholesale trade channel and CSD back in trade. We expect H2FY2018 to be much better as better monsoons will drive rural demand and would help in achieving better revenue growth for the domestic business. On the international front, Africa remains one of the key markets for the company, as it is one of the fastest growing markets due to higher youth population and increased preference for brands. The company wants to scale up its women hair care business in Africa through some of the recent acquisitions. Further, the Latin American market is expected to post stable constant currency revenue growth in the coming years.
- Valuation – Downside risk is limited; Long-term growth prospects intact:** GCPL's strategy of sustained new product additions and enhancing its distribution reach in the domestic market bode well for the company to achieve double-digit revenue growth and stable OPM. The recent correction in the stock price provides limited downside risk. Hence, we upgrade our rating on the stock to Buy (from Hold earlier) with an unchanged price target of Rs.1,075 (providing a decent upside of 15%).

Valuations (Consolidated)				Rs cr
Particulars	FY16	FY17	FY18E	FY19E
Net Sales	8,753.1	9,608.8	10,764.2	12,389.6
Adjusted PAT	1,090.7	1,307.1	1,442.8	1,783.9
EPS (Rs)	16.0	19.1	21.2	26.2
PER (x)	58.5	48.9	44.2	35.7
OPM(%)	18.7	19.9	19.4	20.4
EV/EBIDTA (x)	40.9	36.1	32.6	26.4
RoE(%)	25.4	27.3	24.4	24.6
RoCE(%)	21.6	18.9	17.6	21.1

### Africa on the verge of turn around

Africa has one of the fastest growing consumer markets in the world, with a young population. This provides tremendous opportunities (for the company) to drive in penetration and increase consumption across core categories. Currently, 20% of GCPL's consolidated revenue comes from products offered in the women's hair care category in Africa, which the company intends to double in the next four years. The integration of Strength of Nature (SON) is progressing well and the company plans to scale up the wet hair care portfolio in Sub-Saharan Africa. In addition, certain brand-building exercises are going on for GCPL's Darling brand and will be relaunched in the coming years.

### New vectors of growth to drive in revenue and enhance market leadership

GCPL's innovation approach is two pronged. The company is building on and extending its leadership position in the core categories it has its presence in. At the same time, it is also tapping opportunities in adjacent product categories in which it can create a strong foothold and can broaden its product portfolio. The new products launched in the past five years account for approximately 20% of GCPL's global growth and 35% of India's growth. The company will be scaling up and extending its presence in the hair care category in Indonesia, where last year it forayed in the hair colour category with NYU range of crème hair and colors. In Africa, GCPL's focus will be on building a full hair care portfolio to complement its leadership position in hair extensions. It will also scale up its presence in household insecticides through Good Knight brand. In Latin America, along with hair colours, the company is focusing on makeup and depilatories.

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by BNP PARIBAS

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