

**BUY**  
 TP: Rs 1,159 | ▲ 15%

**GODREJ CONSUMER PRODUCTS**

Consumer Staples

08 August 2023

**Strong volume-led growth with margin expansion**

- Volume-led growth continues in India business at 12% YoY in Q1; margin expansion seen across geographies
- Household insecticides delivered strong double-digit growth; personal care business muted
- Emphasis on volume-led category development to drive profitable growth; maintain BUY, TP Rs 1,159

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**Sustained volume-led growth:** GCPL reported consolidated Q1FY24 revenue of Rs 34.5bn (+10% YoY, +15% CC), with volumes up 10% YoY. India business grew 9% YoY led by 12% volume growth, in line with the company’s strategy of volume-driven category development. Value growth was lower than volume growth as GCPL passed on the benefits of lower input cost to consumers.

**International markets robust:** Revenue from Africa, the US, and the Middle East region (GUAM) was up 9% YoY (16% CC) due to healthy double-digit growth in FMCG category, and Latin America and SAARC grew 18% YoY (79% CC). Indonesia business registered strong revenue growth of 20% YoY in rupee terms (+15% CC) backed by structural initiatives taken last year.

**Growth across categories:** GCPL registered 14% YoY growth in the home care segment driven by double-digit volume and value growth in the household insecticides (HI) segment. Air fresheners also fared well. In insect repellants, GCPL continues to scale up distribution of access packs of *Goodknight* mini liquid vaporizer and *Hit* no-gas spray. Personal care grew 2% YoY alongside healthy volumes. *Magic* handwash delivered double-digit volume growth, whereas hair colour was muted off a high base.

**Margin recovery continues:** The company reported a 53.7% gross margin (+710bps YoY, +80bps QoQ). EBITDA margin expanded 190bps YoY (-140bps QoQ) to 18.6% despite a 79% YoY rise in working media investment. EBITDA margin for Indonesia business stood at 21.5% YoY (+420bps YoY), whereas GUAM was at 11.8% (+350bps).

**Maintain BUY:** GCPL reported strong volume growth across categories in the domestic market and saw improvement in the quality of profits. We expect the company’s emphasis on category development, brand investment, market penetration and product launches to support profitable growth. The stock is trading at 48.9x/40x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at a P/E multiple of 45x on FY25E EPS – in line with the long-term mean – for an unchanged TP of Rs 1,159.

**Key changes**

Target	Rating
◀▶	◀▶

Ticker/Price	GCPL IN/Rs 1,009
Market cap	US\$ 12.6bn
Free float	37%
3M ADV	US\$ 12.8mn
52wk high/low	Rs 1,102/Rs 794
Promoter/FPI/DII	63%/24%/13%

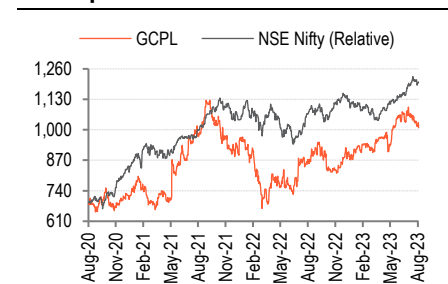
Source: NSE | Price as of 8 Aug 2023

**Key financials**

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,33,160	1,53,493	1,72,797
EBITDA (Rs mn)	24,304	29,652	36,905
Adj. net profit (Rs mn)	17,566	21,527	26,323
Adj. EPS (Rs)	17.2	21.1	25.8
Consensus EPS (Rs)	17.2	21.6	24.7
Adj. ROAE (%)	12.3	13.5	14.2
Adj. P/E (x)	58.7	47.9	39.2
EV/EBITDA (x)	42.4	34.8	28.0
Adj. EPS growth (%)	(4.5)	26.4	22.3

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

**Stock performance**



Source: NSE

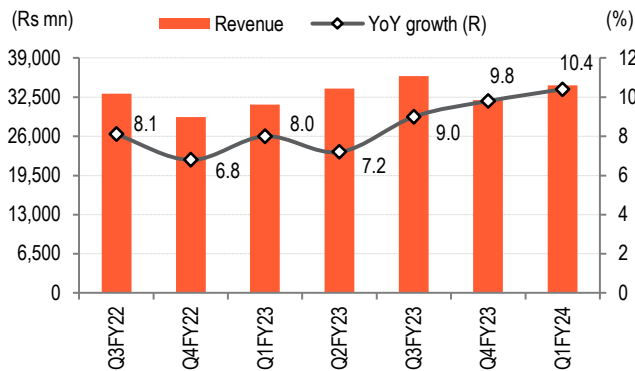


**Fig 1 – Quarterly performance**

(Rs mn)	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	34,489	32,002	31,250	7.8	10.4	34,980	(1.4)
EBITDA	6,428	6,409	5,208	0.3	23.4	6,891	(6.7)
Adj. PAT	4,006	4,743	3,470	(15.5)	15.5	4,507	(11.1)
Gross Margin (%)	53.7	52.9	46.6	80bps	710bps	52.2	150bps
EBITDA Margin (%)	18.6	20.0	16.7	(140bps)	190bps	19.7	(110bps)
Adj. PAT Margin (%)	11.6	14.8	11.1	(320bps)	50bps	12.9	(130bps)

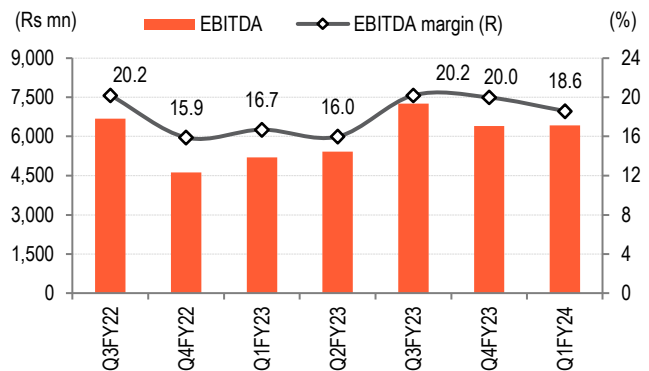
Source: Company, BOBCAPS Research

**Fig 2 – Revenue and growth**



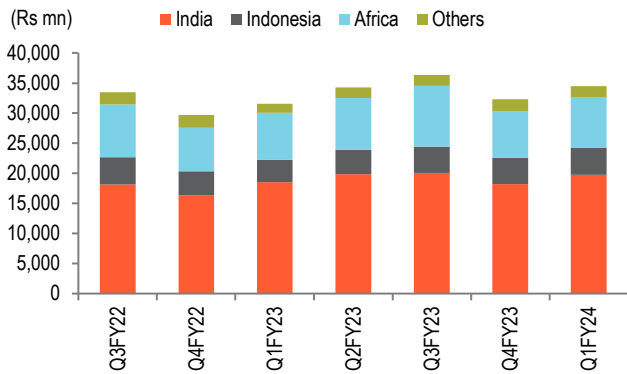
Source: Company, BOBCAPS Research

**Fig 3 – EBITDA and margin**



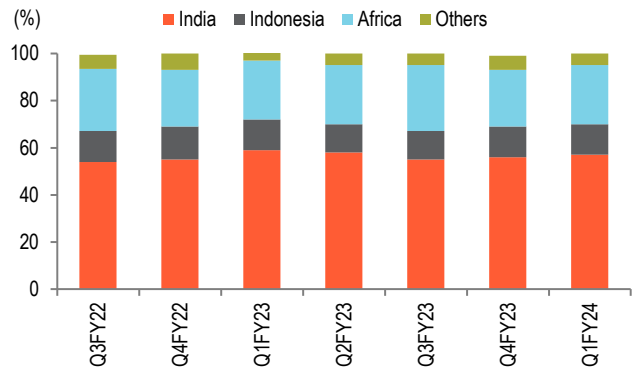
Source: Company, BOBCAPS Research

**Fig 4 – Revenue by geography**



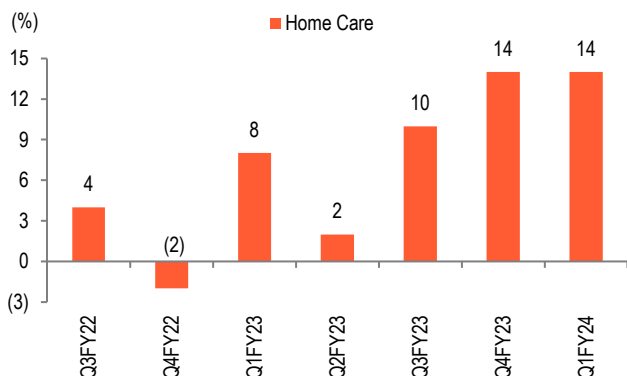
Source: Company, BOBCAPS Research

**Fig 5 – Revenue share by geography**



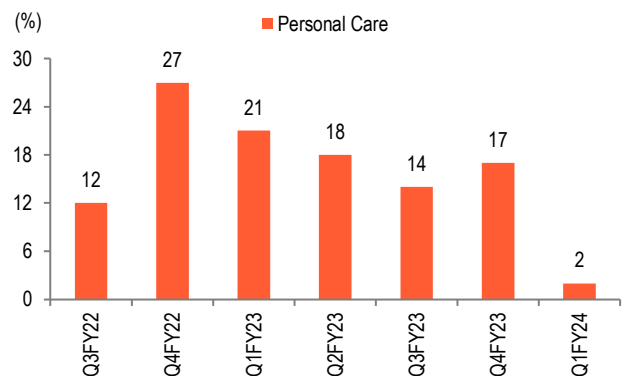
Source: Company, BOBCAPS Research

**Fig 6 – Category growth YoY – Home care**



Source: Company, BOBCAPS Research

**Fig 7 – Category growth YoY – Personal care**



Source: Company, BOBCAPS Research

## Earnings call highlights

- At a consolidated level, GCPL posted constant currency (CC) revenue growth of 15% YoY during Q1FY24, with inorganic underlying volume growth (UVG) of 10%. EBITDA for the quarter was up 28% YoY and PAT without exceptionals grew 19%. Operating cash flow expanded 4.9x YoY, albeit on a weak base, aided by significant working capital reduction across the board.
- In terms of YoY organic growth, UVG was up 8%, CC sales 13%, INR sales 9% and EBITDA 36%.
- Underlying sales growth (USG) was impacted by price deflation in soaps and a currency translation impact in Nigeria. PAT was behind EBITDA due to higher forex losses and MAT credit utilisation.
- Indonesia had a strong quarter despite another round of down stocking in modern trade. Volumes grew 12% YoY (15% CC) and EBITDA increased 53% YoY during Q1. Stocks in modern trade are down from a peak of 95 days to ~58 days. This along with a generally strong macro climate augurs well for the future of the business.
- GUAM also had a good quarter with 3% YoY (16% CC) volume growth and 55% YoY growth in EBITDA. The performance has been marginally impacted by devaluation of currency in Nigeria, which will optically have a significant impact over the next few quarters. The company expects to pass on the impact of currency devaluation to consumers with a lag.
- GCPL's partnership with the national distribution network in Nigeria is progressing well, and the company expects to see the benefits of the initiative as the year progresses.
- Management remains committed to its strategy of category development, simplification, and sustainability. On the category development front, the company has been consistently investing in brands, with media investments in India increasing by 125% YoY.
- During Q1, GCPL launched an innovative membrane-based air freshener called *aer* in the car segment.
- The company recently pilot-launched *Magic* floor cleaner – an environment-friendly powder-to-liquid-based format catering to the large, fast-growing floor cleaning space.
- Shampoo hair colour is a fast-growing segment within the hair colour market. The company launched a Rs 15 shampoo hair colour in the south of India that has been doing well.
- HI performance has been driven by two factors: one, a relatively weaker summer and therefore an extended season and two, market development.
- The *Raymond* consumer care business reported muted sales of Rs 450mn in Q1 on account of 1.5 months of operation, down stocking and returns. However, the company is confident of growing the business.
- GCPL plans to invest ~Rs 9bn in organic manufacturing capex in India over the next 18 to 36 months, largely for volume growth and for logistics reasons. The

company intends to set up new manufacturing units in Tamil Nadu and Madhya Pradesh, and plans to add ~20% capacity in home and personal care funded by internal accruals and debt.

## Valuation methodology

GCPL continues to display double-digit growth in the domestic market, backed by strong sale volumes across categories, alongside improvement in the quality of profits. Indonesia business maintained healthy growth momentum during Q1FY24 with margin expansion. GUAM too reported an upbeat quarterly performance backed by the FMCG segment.

We expect the company's emphasis on category development in India and simplification of international business together with brand investment, focused market penetration and product launches to spur profitable growth.

The stock is trading at 48.9x/40x FY24E/FY25E EPS. We maintain BUY and continue to value GCPL at a P/E multiple of 45x on FY25E EPS – in line with the long-term mean – for an unchanged TP of Rs 1,159.

## Key risks

Key downside risks to our estimates are:

- continued headwinds in international markets, and
- relatively lower growth in household insecticides in India.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	13.5	4,605	5,844	BUY
Dabur India	DABUR IN	12.1	562	669	BUY
Godrej Consumer Products	GCPL IN	12.6	1,009	1,159	BUY
Hindustan Unilever	HUVR IN	73.4	2,566	3,069	BUY
ITC	ITC IN	68.4	452	523	BUY
Marico	MRCO IN	9.1	577	646	BUY
Nestle India	NEST IN	26.1	22,229	26,430	BUY
Tata Consumer Products	TATACONS IN	9.6	847	994	BUY
Zydus Wellness	ZYWL IN	1.2	1,516	1,556	HOLD

Source: BOBCAPS Research, NSE | Price as of 8 Aug 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Total revenue</b>	<b>1,10,286</b>	<b>1,22,765</b>	<b>1,33,160</b>	<b>1,53,493</b>	<b>1,72,797</b>
EBITDA	23,883	23,951	24,304	29,652	36,905
Depreciation	2,039	2,099	2,363	2,623	3,025
EBIT	21,844	21,852	21,941	27,029	33,880
Net interest inc./(exp.)	(1,266)	(1,102)	(1,757)	(1,216)	(834)
Other inc./(exp.)	671	897	1,685	1,785	2,051
Exceptional items	445	98	541	0	0
EBT	20,804	21,553	21,327	27,598	35,098
Income taxes	3,595	3,719	4,303	6,072	8,774
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>17,208</b>	<b>17,834</b>	<b>17,025</b>	<b>21,527</b>	<b>26,323</b>
Adjustments	445	98	541	0	0
<b>Adjusted net profit</b>	<b>17,653</b>	<b>17,931</b>	<b>17,566</b>	<b>21,527</b>	<b>26,323</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	20,124	21,630	18,232	18,641	18,670
Other current liabilities	2,262	2,238	2,290	2,640	2,972
Provisions	1,871	1,832	1,786	2,058	2,317
Debt funds	17,965	16,399	10,720	8,040	4,824
Other liabilities	6,217	3,681	4,018	4,534	4,941
Equity capital	1,023	1,023	1,023	1,023	1,023
Reserves & surplus	93,367	1,14,537	1,36,920	1,58,446	1,84,770
Shareholders' fund	94,389	1,15,559	1,37,942	1,59,469	1,85,792
<b>Total liab. and equities</b>	<b>1,42,828</b>	<b>1,61,341</b>	<b>1,74,988</b>	<b>1,95,382</b>	<b>2,19,517</b>
Cash and cash eq.	6,722	11,078	3,907	10,293	18,519
Accounts receivables	10,045	11,163	12,453	14,354	16,160
Inventories	17,163	21,299	15,372	19,857	25,040
Other current assets	4,223	4,890	4,432	5,108	5,751
Investments	6,791	10,154	30,290	34,669	39,924
Net fixed assets	12,102	12,749	14,374	16,554	19,146
CWIP	530	1,148	416	416	416
Intangible assets	76,034	78,459	83,996	84,382	84,812
Deferred tax assets, net	6,768	7,315	7,028	7,028	7,028
Other assets	2,451	3,086	2,721	2,721	2,721
<b>Total assets</b>	<b>1,42,828</b>	<b>1,61,341</b>	<b>1,74,988</b>	<b>1,95,382</b>	<b>2,19,517</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Cash flow from operations</b>	<b>20,296</b>	<b>14,506</b>	<b>21,506</b>	<b>17,391</b>	<b>20,970</b>
Capital expenditures	(1,639)	(2,765)	(2,274)	(5,189)	(6,048)
Change in investments	(108)	(4,096)	(16,629)	(4,379)	(5,256)
Other investing cash flows	(1,409)	(1,781)	1,320	1,785	2,051
<b>Cash flow from investing</b>	<b>(3,155)</b>	<b>(8,642)</b>	<b>(17,583)</b>	<b>(7,783)</b>	<b>(9,253)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(13,720)	(2,198)	(6,344)	0	0
Interest expenses	(1,589)	(1,123)	(1,116)	(1,216)	(834)
Dividends paid	0	0	0	0	0
Other financing cash flows	(2,853)	(474)	(483)	(2,006)	(2,658)
<b>Cash flow from financing</b>	<b>(18,162)</b>	<b>(3,795)</b>	<b>(7,943)</b>	<b>(3,222)</b>	<b>(3,492)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(1,021)</b>	<b>2,068</b>	<b>(4,020)</b>	<b>6,386</b>	<b>8,225</b>
<b>Closing cash &amp; cash eq.</b>	<b>5,241</b>	<b>7,509</b>	<b>3,576</b>	<b>9,962</b>	<b>18,188</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	16.8	17.4	16.7	21.1	25.8
Adjusted EPS	17.3	17.5	17.2	21.1	25.8
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	92.3	113.1	135.0	156.0	181.8

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	9.4	8.4	7.7	6.7	6.0
EV/EBITDA	43.2	43.1	42.4	34.8	28.0
Adjusted P/E	58.5	57.5	58.7	47.9	39.2
P/BV	10.9	8.9	7.5	6.5	5.6

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	82.7	82.7	79.8	78.0	75.0
Interest burden (PBT/EBIT)	95.2	98.6	97.2	102.1	103.6
EBIT margin (EBIT/Revenue)	19.8	17.8	16.5	17.6	19.6
Asset turnover (Rev./Avg TA)	77.2	76.1	76.1	78.6	78.7
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.3	1.2	1.2
Adjusted ROAE	18.2	15.4	12.3	13.5	14.2

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	11.3	11.3	8.5	15.3	12.6
EBITDA	11.4	0.3	1.5	22.0	24.5
Adjusted EPS	9.6	3.6	(4.5)	26.4	22.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	21.7	19.5	18.3	19.3	21.4
EBIT margin	19.8	17.8	16.5	17.6	19.6
Adjusted profit margin	16.0	14.6	13.2	14.0	15.2
Adjusted ROAE	18.2	15.4	12.3	13.5	14.2
ROCE	21.5	18.0	15.4	16.5	17.9
<b>Working capital days (days)</b>					
Receivables	33	33	34	34	34
Inventory	127	128	84	98	114
Payables	149	130	99	92	85
<b>Ratios (x)</b>					
Gross asset turnover	0.7	0.7	0.7	0.7	0.7
Current ratio	1.1	1.4	1.8	2.4	3.2
Net interest coverage ratio	17.3	19.8	12.5	22.2	40.6
Adjusted debt/equity	0.2	0.1	0.1	0.1	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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### Ratings and Target Price (3-year history): GODREJ CONSUMER PRODUCTS (GCPL IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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