

BUY

TP: Rs 1,159 | ▲ 18%

GODREJ CONSUMER PRODUCTS

Consumer Staples

11 May 2023

Home and personal care segments perform well

- Robust volume-led growth aided 12% YoY rise in India revenue; Indonesia business saw strong recovery
- Margin expansion continues despite sustained brand investments; cost rationalisation remains in focus
- Category development and business simplification to boost growth; maintain BUY with new TP of Rs 1,159 (vs. Rs 1,112)

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Strong volume-led growth: GCPL reported consolidated Q4FY23 revenue of Rs 32bn (+10% YoY, +6% CC), with volumes up 6% YoY. India business grew 12% YoY led by 11% volume growth. Africa, the US, and the Middle East region (GUAM) was up 8% YoY CC, but Latin America and SAARC declined 3%. Indonesia business saw a strong recovery with revenue growing 8% YoY in rupee terms (+5% CC and 11% CC ex-hygiene). India branded business registered high volume growth of 13% led by a double-digit uptick in both home care and personal care.

Sustained thrust on category development: GCPL registered 14% YoY growth in the home care segment and 17% growth in personal care backed by sustained investments in category development and a focus on penetration-led volume growth. Household insecticides (HI) continued to improve, with YoY growth in the mid-teens. Air fresheners delivered strong double-digit growth once again, as did personal wash and hair colour. In HI, GCPL is scaling up distribution of access packs for its *Goodknight* liquid vaporiser and *HIT* no-gas spray. During the quarter, the company launched *Godrej Selfie* shampoo hair colour at Rs 15, predominantly in South India.

Margin recovery continues: The company reported a 52.9% gross margin (+180bps QoQ, +340bps YoY) in Q4. EBITDA margin expanded 410bps YoY (-20bps QoQ) to 20% despite a 20% YoY rise in working media investment. EBITDA margin for the Indonesia business was flat at 21.5% YoY, whereas GUAM saw 660bps YoY expansion on a low base.

Maintain BUY, TP Rs 1,159: GCPL continues to display double-digit growth in the domestic market with high volume growth across categories along with improvement in the quality of profits. We expect the company's emphasis on category development, brand investment, market penetration and product launches to spur profitable growth. The stock is trading at 46.7x/38.2x FY24E/FY25E EPS. We revise our FY24/FY25 EPS estimates by -1%/+4%, translating to a new TP of Rs 1,159 (earlier Rs 1,112), based on an unchanged P/E multiple of 45x on FY25E EPS – in line with the long-term mean. BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	GCPL IN/Rs 983
Market cap	US\$ 12.2bn
Free float	37%
3M ADV	US\$ 13.9mn
52wk high/low	Rs 992/Rs 709
Promoter/FPI/DII	63%/24%/13%

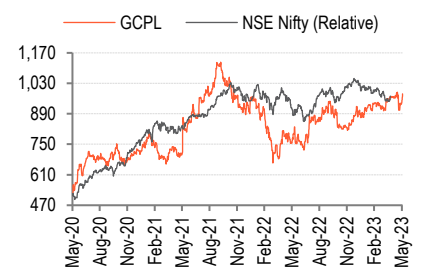
Source: NSE | Price as of 11 May 2023

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)	57.2	46.7	38.2
EV/EBITDA (x)	41.3	33.9	27.2
Adj. EPS growth (%)	(4.5)	26.4	22.3

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

Stock performance



Source: NSE

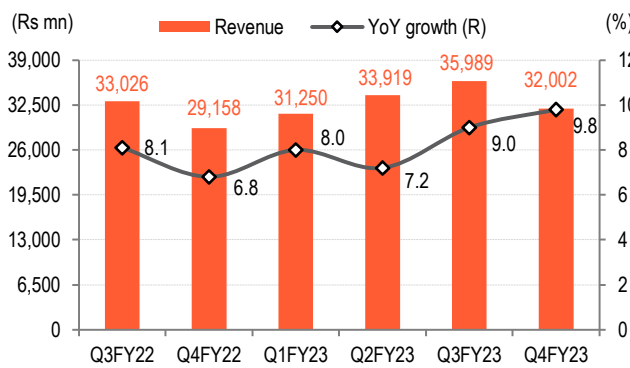


Fig 1 – Quarterly performance

(Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	FY23	FY22	YoY (%)
Revenue	32,002	35,989	29,158	(11.1)	9.8	133,160	122,765	8.5
EBITDA	6,409	7,266	4,631	(11.8)	38.4	24,304	23,917	1.6
Adj. PAT	4,743	5,538	3,838	(14.4)	23.6	17,566	18,895	(7.0)
Gross Margin (%)	52.9	51.1	49.5	180bps	340bps	49.7	50.5	(80bps)
EBIDTA Margin (%)	20	20.2	15.9	(20bps)	410bps	18.3	20.3	(200bps)
Adj. PAT Margin (%)	14.8	15.4	13.2	(60bps)	160bps	13.2	15.4	(220bps)

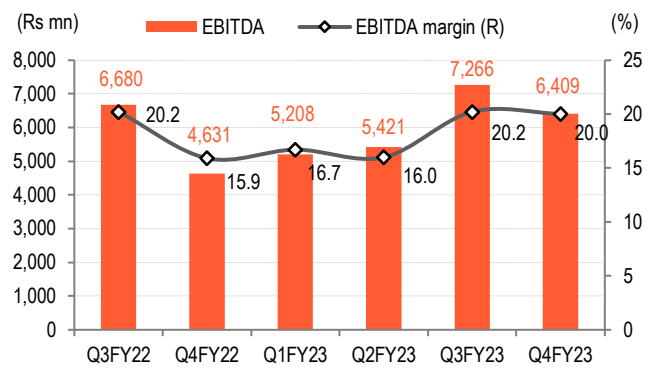
Source: Company, BOBCAPS Research

Fig 2 – Revenue and growth



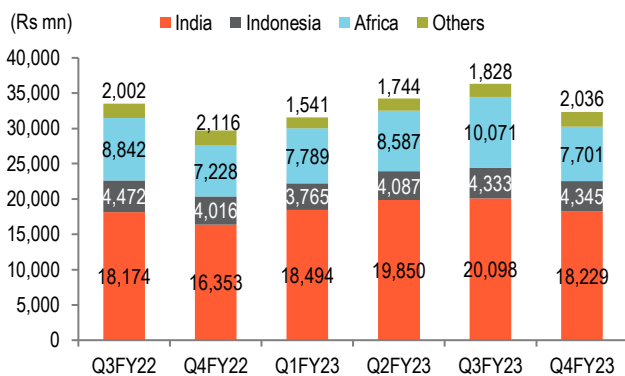
Source: Company, BOBCAPS Research

Fig 3 – EBITDA and margin



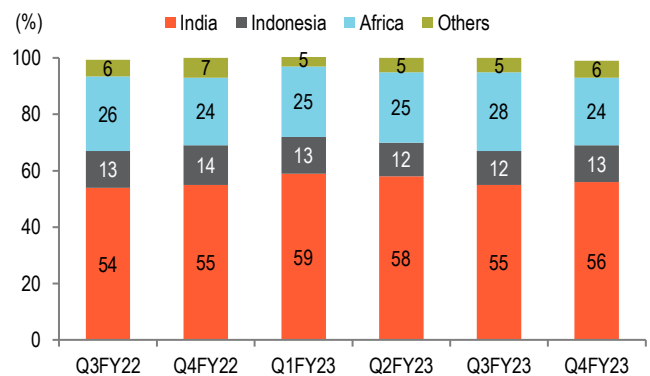
Source: Company, BOBCAPS Research

Fig 4 – Revenue by geography



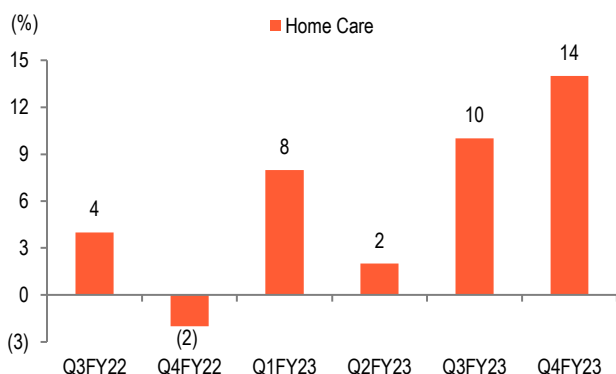
Source: Company, BOBCAPS Research

Fig 5 – Revenue share by geography



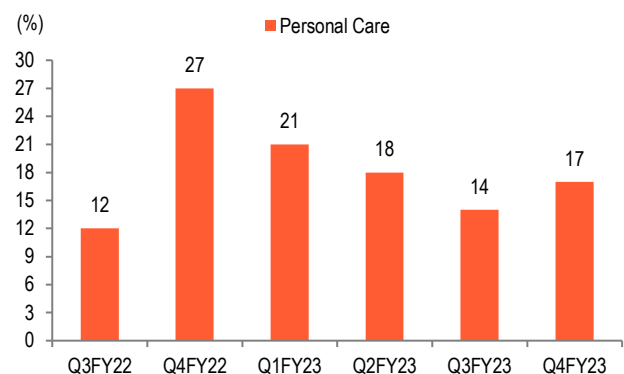
Source: Company, BOBCAPS Research

Fig 6 – Category growth, YoY – Home care



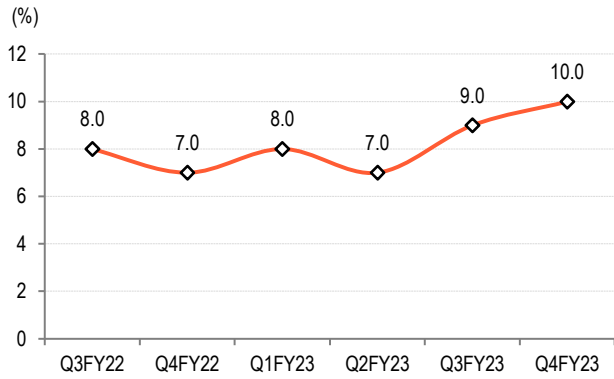
Source: Company, BOBCAPS Research

Fig 7 – Category growth, YoY – Personal care



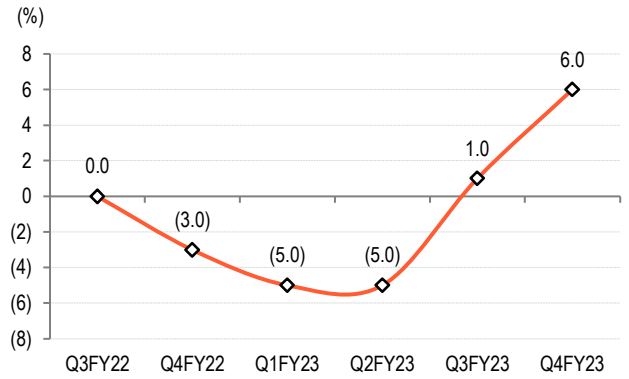
Source: Company, BOBCAPS Research

Fig 8 – Consolidated revenue growth, YoY



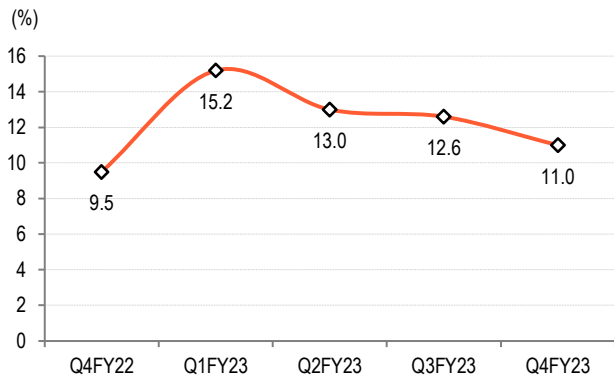
Source: Company, BOBCAPS Research

Fig 9 – Underlying volume growth, YoY



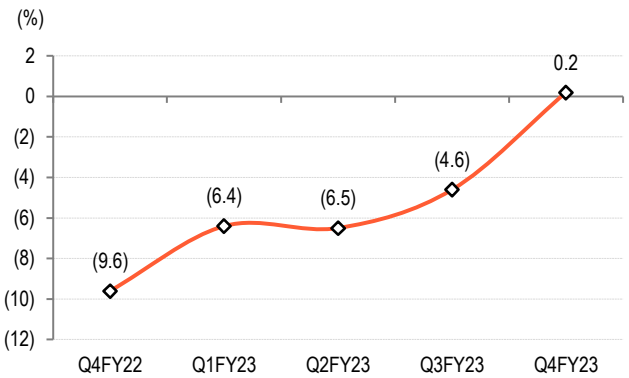
Source: Company, BOBCAPS Research

Fig 10 – Non-food price growth, YoY



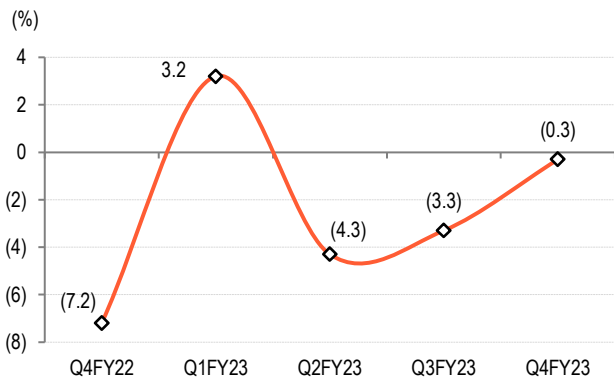
Source: Company, BOBCAPS Research

Fig 11 – Non-food volume growth, YoY



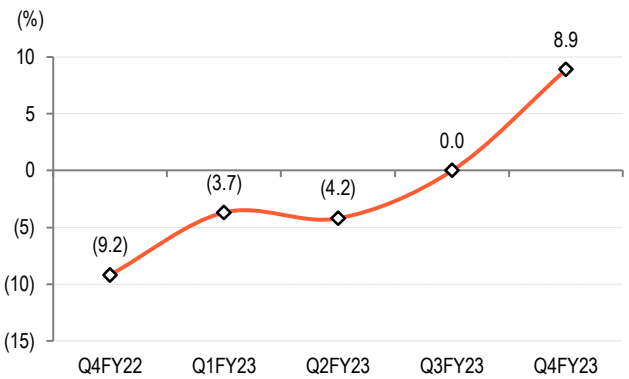
Source: Company, BOBCAPS Research

Fig 12 – Other personal care volume growth, YoY



Source: Company, BOBCAPS Research

Fig 13 – Other home care volume growth, YoY



Source: Company, BOBCAPS Research

Management meet takeaways

- GCPL's consolidated Q4FY23 revenue grew 10% YoY (underlying volume growth of 6%), and gross margin improved 180bps sequentially to 52.9%.
- India branded business posted a stellar performance, climbing 16% YoY as HI grew 14%. Gross margin expanded to 56.2% and EBITDA margin stood at 26.6%.
- Indonesia sales grew 11% YoY CC (ex-hygiene) as core business improved in Q4. EBITDA margin stood at 21.5%. Management remains confident of improvement in Indonesia performance going ahead.
- In Nigeria, the company has opted for a single distributor model and has partnered with a national distributor.
- GUAM recorded 8% YoY CC sales growth in Q4, below expectations largely due to demonetisation in Nigeria. Africa FMCG business posted double-digit sales growth for the quarter.
- Strategic priorities for FY24 include volume-led growth momentum, minimal price growth, scale up of HI in India, continued FMCG momentum in Africa, and restoring gross margin to normative levels.
- Management has guided for high-single-digit underlying volume growth and ~20% EBITDA growth in FY24, despite high media spends. The tax rate is expected at 22-23% for FY24 and 25-26% for FY25.
- GCPL anticipates price-led growth in FY25 along with healthy volume growth. Operating scale benefits are likely to drive EBITDA.
- As per management, the company's key markets are at the cusp of explosive growth in home & personal care (HPC). Historically, HPC grows at 1.5x of GDP in countries where GDP per capita is below US\$ 10,000. The company sees a multi-year growth opportunity across several key markets, including India and Indonesia.
- GCPL expects more premiumisation opportunities in the HI segment in India that will result in market share gains.
- Management remains committed to reducing employee, selling & distribution, and general & administration costs. In FY23, cost savings stood at 150bps.
- The company continues to focus on category development in India business, simplification of international businesses and brand building. It is also working towards consolidation of inventory in India as well as in international markets along with protecting and conserving cash.
- GCPL raised debt to acquire the FMCG business from Raymond and expects to become net debt positive by Sep'23. It is exploring opportunities to reward shareholders as well.
- Management is not scouting for any inorganic opportunities at present.
- The company will continue to focus on improving cash flow from operations through cost optimisation, working capital reduction and lower complexity of operations.

Valuation methodology

GCPL continues to display double-digit growth in the domestic market, backed by high volumes across categories, alongside improvement in the quality of profits. Indonesia business has staged a strong recovery and management expects profitable growth ahead. GUAM delivered a soft quarter, but we believe the change in distribution model for Nigeria and likely pricing action will help revive growth and improve margins.

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 46.7x/38.2x FY24E/FY25E EPS. We revise our FY24/FY25 EPS estimates by -1%/+4%, translating to a new TP of Rs 1,159 (earlier Rs 1,112), based on an unchanged P/E multiple of 45x on FY25E EPS – in line with the long-term mean. Maintain BUY.

Fig 14 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	153,493	172,797	149,048	165,103	3.0	4.7
EBITDA	29,652	36,905	28,858	33,375	3.0	10.6
Adj. PAT	21,527	26,323	21,675	25,262	(1.0)	4.2
EBITDA margin (%)	19.3	21.4	19.4	20.2	(10bps)	120bps
Adj. PAT margin (%)	14.0	15.2	14.5	15.3	(50bps)	(10bps)

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

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

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	13.6	4,635	5,623	BUY
Dabur India	DABUR IN	11.2	520	628	BUY
Godrej Consumer Products	GCPL IN	12.2	983	1,159	BUY
Hindustan Unilever	HUVR IN	83.7	2,592	3,069	BUY
ITC	ITC IN	63.6	420	459	BUY
Nestle India	NEST IN	25.9	22,020	24,670	BUY
Tata Consumer Products	TATACONS IN	8.9	789	924	BUY

Source: BOBCAPS Research, NSE | Price as of 11 May 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	1,10,286	1,22,765	1,33,160	1,53,493	1,72,797
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
Reported net profit	17,208	17,834	17,025	21,527	26,323
Adjustments	445	98	541	0	0
Adjusted net profit	17,653	17,931	17,566	21,527	26,323

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
Total liab. and equities	1,42,828	1,61,341	1,74,988	1,95,382	2,19,517
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
Total assets	1,42,828	1,61,341	1,74,988	1,95,382	2,19,517

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	20,296	14,506	21,506	17,391	20,970
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
Cash flow from investing	(3,155)	(8,642)	(17,583)	(7,783)	(9,253)
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)
Cash flow from financing	(18,162)	(3,795)	(7,943)	(3,222)	(3,492)
Chg in cash & cash eq.	(1,021)	2,068	(4,020)	6,386	8,225
Closing cash & cash eq.	5,241	7,509	3,576	9,962	18,188

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	9.1	8.2	7.5	6.5	5.8
EV/EBITDA	42.0	41.9	41.3	33.9	27.2
Adjusted P/E	56.9	56.0	57.2	46.7	38.2
P/BV	10.6	8.7	7.3	6.3	5.4

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
YoY growth (%)					
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
Profitability & Return ratios (%)					
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
Working capital days (days)					
Receivables	33	33	34	34	34
Inventory	127	128	84	98	114
Payables	149	130	99	92	85
Ratios (x)					
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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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

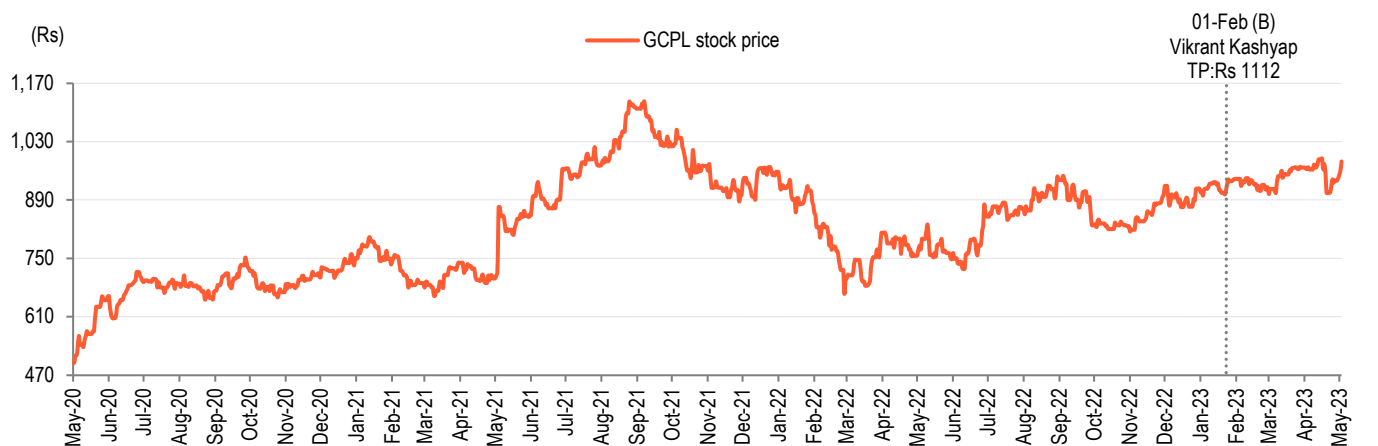
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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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