

HOLD
 TP: Rs 1,163 | ▲ 2%

GODREJ CONSUMER PRODUCTS

Consumer Staples

12 December 2024

Headwinds: Inflation, innovation from competition, and weather

- Extreme weather patterns impacted sales of Household Insecticides (HI). Soap volumes were soft on destocking due to price rises
- GCPL expects soap volumes to recover in the “next few months” as inventory and consumption align
- Soap volume recovery may require aggressive pricing resulting in margin pressure until savings initiatives come through in FY26. HOLD

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Domestic headwinds: GCPL indicated flat domestic underlying volume growth (UVG) due to weather-driven weakness in Household Insecticides and destocking leading to volume weakness in soaps. Domestic margins are below the normal 24%-27% range. International is in line with expectations as margin focus has continued. We cut EBITDA forecasts for FY25-FY27 by 4%-8%.

Palm oil, inflation, competition impacting soap sales and margins: Palm oil and derivative prices are up ~30% YoY. We estimate a 180bps impact on group gross margins. While GCPL has taken pricing, HUVR has a 7-10% pricing edge due to the partial substitution of palm oil with Stratos. HUVR’s cost advantage is more meaningful during inflationary periods such as the current. We assume GCPL is prioritising market share over margins – the impact on our margin forecasts is higher vs sales. We estimate 9% required pricing to offset absolute palm inflation, and forecast 50%-60% recovery in soap margins in FY26.

Unfavourable weather impacting HI: HIs account for a third of the India business. 3QFY25 demand was adversely impacted on (1) extreme weather patterns impacting insect breeding; and (2) government interference at a larger-than-usual scale in insecticides control due to floods in Southern India, which restricted individual household consumption.

FY25-FY27 earnings revisions: We lower our forecasts for sales by 4-5% and EBITDA by 4-8%. Volume elasticity due to inflation-driven pricing and a rise in the relative price index due to HUVR’s reduced palm exposure is likely impacting GCPL’s soap sales. GCPL expects to offset this disadvantage with cost-saving programs over FY26.

Our view: Margin risk in 2HFY25 has eventuated with weaker soap sales and insufficient pricing. GCPL soap margins and sales likely to remain under pressure until savings initiatives come through starting FY26. We value GCPL at 51x 12M to Sep’26 EPS with a TP of Rs 1,163 (down from Rs 1,299). Maintain HOLD.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	GCPL IN/Rs 1,135
Market cap	US\$ 13.7bn
Free float	37%
3M ADV	US\$ 23.1mn
52wk high/low	Rs 1,542/Rs 1,020
Promoter/FPI/DII	63%/23%/14%

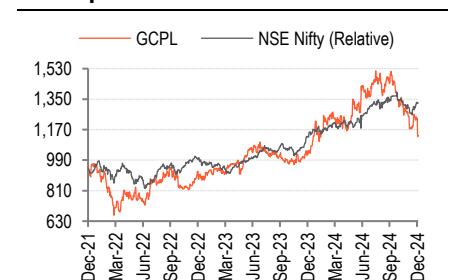
Source: NSE | Price as of 11 Dec 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	140,961	143,188	159,747
EBITDA (Rs mn)	29,435	31,546	38,095
Adj. net profit (Rs mn)	19,763	21,064	26,275
Adj. EPS (Rs)	19.3	20.6	25.7
Consensus EPS (Rs)	19.3	20.0	26.0
Adj. ROAE (%)	15.7	15.3	17.6
Adj. P/E (x)	58.7	55.1	44.2
EV/EBITDA (x)	39.4	36.8	30.5
Adj. EPS growth (%)	12.5	6.6	24.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



3QFY25 business update

Earnings revisions

We lower our sales forecasts by 4% to 5% and EBITDA forecasts by 4% to 8%. Volume elasticity due to inflation-driven pricing and an increase in the relative price index vs HUVR is impacting GCPL soap sales. HUVR's cost advantage will likely require continued aggressive pricing from GCPL. The combination of weaker sales and a higher cost structure is driving our assumption of a lower margin for GCPL. We expect offsets in FY27 as cost control initiatives come through with supply chain savings.

Fig 1 – Godrej consumer earnings revisions

(Rs mn)	Actual	New			Old			Change (%)		
	FY24	FY25	FY26	FY27	FY25	FY26	FY27	FY25	FY26	FY27
Sales	140,961	143,188	159,747	176,667	148,495	167,524	184,277	(4)	(5)	(4)
EBITDA	29,435	31,546	38,095	41,583	33,171	41,346	43,134	(5)	(8)	(4)
% of Revenue	20.9	22.0	23.8	23.5	22.3	24.7	23.4	(31bps)	(83bps)	13bps
Adjusted NPAT	19,763	21,064	26,275	28,768	22,214	28,594	29,872	(5)	(8)	(4)
Adjusted EPS (Rs)	19.32	20.59	25.69	28.13	21.72	27.96	29.21	(5)	(8)	(4)

Source: Company, BOBCAPS Research

Valuation summary

The stock is currently trading at 55x FY25E EPS. GCPL has historically traded at 2.3x vs the NSE NIFTY 50 1-year forward EPS. We value GCPL at 51x 12M to Sep'26 EPS. We apply a 10% premium to its historical average vs NIFTY 50 to derive the TP of Rs 1,163 down from Rs 1,299. Maintain HOLD.

Key risks

Key downside risks to our estimates are:

- intense headwinds in international markets, and
- structural slowdown in household insecticides consumption in India.

Key upside risks to our estimates are:

- Easier-than-expected competitive environment in international markets, and
- High growth in household insecticides in India.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	133,160	140,961	143,188	159,747	176,667
EBITDA	24,304	29,435	31,546	38,095	41,583
Depreciation	2,363	2,410	2,245	2,499	2,499
EBIT	21,941	27,025	29,302	35,597	39,084
Net interest inc./(exp.)	(1,757)	(2,964)	(2,601)	(1,784)	(1,784)
Other inc./(exp.)	1,685	2,690	3,099	2,936	2,936
Exceptional items	541	24,769	261	0	0
EBT	21,327	1,982	29,539	36,748	40,236
Income taxes	4,303	7,588	8,736	10,473	11,467
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	17,025	(5,606)	20,803	26,275	28,768
Adjustments	541	24,769	261	0	0
Adjusted net profit	17,566	19,763	21,064	26,275	28,768

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	18,232	16,755	16,984	18,597	20,477
Other current liabilities	2,290	2,350	2,388	2,664	2,946
Provisions	1,786	2,576	2,617	2,919	3,229
Debt funds	10,720	31,864	19,118	11,471	6,883
Other liabilities	4,018	5,428	5,796	6,269	6,752
Equity capital	1,023	1,023	1,023	1,023	1,023
Reserves & surplus	136,920	124,963	135,364	148,502	162,886
Shareholders' fund	137,942	125,986	136,387	149,524	163,909
Total liab. and equities	174,988	184,959	183,289	191,444	204,194
Cash and cash eq.	3,907	5,469	(5,128)	(6,595)	(4,629)
Accounts receivables	12,453	15,354	15,596	17,400	19,243
Inventories	15,372	12,709	12,883	14,106	15,532
Other current assets	4,432	4,918	4,996	5,573	6,164
Investments	30,290	35,037	38,469	42,588	47,531
Net fixed assets	14,374	12,813	17,814	19,712	21,695
CWIP	416	782	782	782	782
Intangible assets	83,996	89,833	89,833	89,833	89,833
Deferred tax assets, net	7,028	3,842	3,842	3,842	3,842
Other assets	2,721	4,203	4,203	4,203	4,203
Total assets	174,988	184,959	183,289	191,444	204,194

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	21,506	20,699	22,336	26,013	28,528
Capital expenditures	(2,274)	(3,072)	(7,247)	(4,396)	(4,481)
Change in investments	(16,629)	(6,595)	(3,432)	(4,119)	(4,943)
Other investing cash flows	1,320	(23,964)	3,099	2,936	2,936
Cash flow from investing	(17,583)	(33,630)	(7,580)	(5,579)	(6,488)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(6,344)	22,652	0	0	0
Interest expenses	(1,116)	(2,620)	(2,601)	(1,784)	(1,784)
Dividends paid	0	(5,114)	(10,401)	(13,137)	(14,384)
Other financing cash flows	(483)	(854)	(12,351)	(6,979)	(3,905)
Cash flow from financing	(7,943)	14,063	(25,353)	(21,900)	(20,074)
Chg in cash & cash eq.	(4,020)	1,133	(10,598)	(1,467)	1,966
Closing cash & cash eq.	3,576	4,028	(6,570)	(8,036)	(6,071)

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	16.7	(5.5)	20.4	25.7	28.1
Adjusted EPS	17.2	19.3	20.6	25.7	28.1
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	135.0	123.3	133.4	146.3	160.4

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	8.7	8.2	8.1	7.3	6.6
EV/EBITDA	47.7	39.4	36.8	30.5	27.9
Adjusted P/E	66.1	58.7	55.1	44.2	40.3
P/BV	8.4	9.2	8.5	7.8	7.1

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	79.8	73.9	70.4	71.5	71.5
Interest burden (PBT/EBIT)	97.2	99.0	100.8	103.2	102.9
EBIT margin (EBIT/Revenue)	16.5	19.2	20.5	22.3	22.1
Asset turnover (Rev./Avg TA)	76.1	76.2	78.1	83.4	86.5
Leverage (Avg TA/Avg Equity)	1.3	1.5	1.3	1.3	1.2
Adjusted ROAE	12.3	15.7	15.3	17.6	17.6

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	8.5	5.9	1.6	11.6	10.6
EBITDA	(2.5)	21.1	7.2	20.8	9.2
Adjusted EPS	(9.4)	12.5	6.6	24.7	9.5
Profitability & Return ratios (%)					
EBITDA margin	18.3	20.9	22.0	23.8	23.5
EBIT margin	16.5	19.2	20.5	22.3	22.1
Adjusted profit margin	13.2	14.0	14.7	16.4	16.3
Adjusted ROAE	12.3	15.7	15.3	17.6	17.6
ROCE	15.4	20.9	21.0	23.2	23.3
Working capital days (days)					
Receivables	34	40	40	40	40
Inventory	84	73	73	73	73
Payables	99	97	97	97	97
Ratios (x)					
Gross asset turnover	0.7	0.7	0.7	0.8	0.8
Current ratio	1.8	1.0	1.1	1.4	1.8
Net interest coverage ratio	12.5	9.1	11.3	19.9	21.9
Adjusted debt/equity	0.1	0.3	0.1	0.1	0.0

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

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BUY – Expected return >+15%

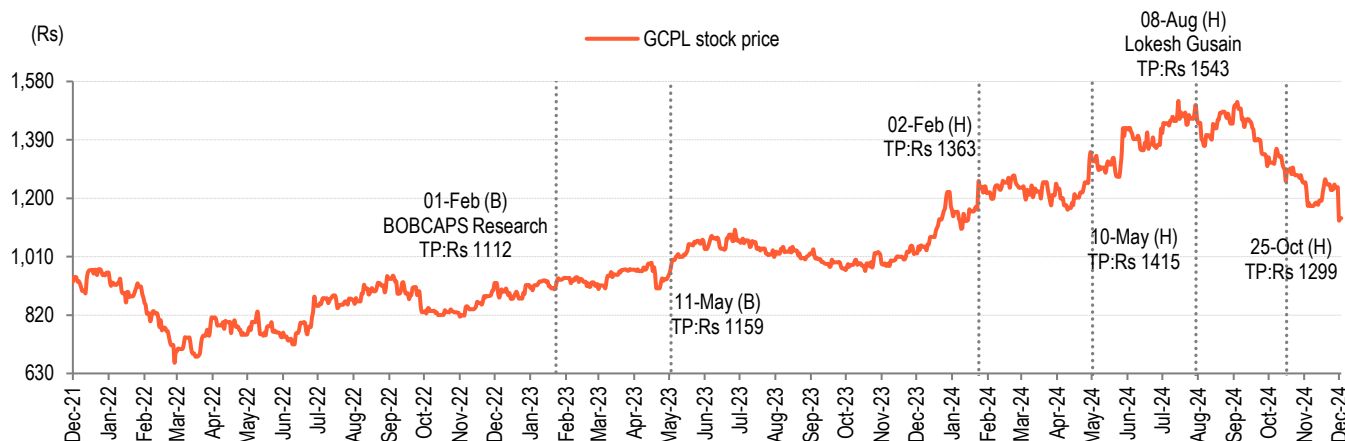
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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 (GCP IN)



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

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