

HOLD
 TP: Rs 1,543 | ▲ 3%

GODREJ CONSUMER PRODUCTS

Consumer Staples

08 August 2024

Sales miss but margin beat

- GCPL missed on sales and EBITDA but business is commoditised and volume growth was in line with high single digits guidance
- 1QFY25 had the negative pricing anniversary. Margins will improve through FY25 with full year pricing up in low single digits
- We assume coverage on GCPL with HOLD. We value GCPL at 52x 12M to Jun'26 EPS and raise TP to Rs 1,543 from Rs 1,415

Lokesh Gusain

research@bobcaps.in

Sales and EBITDA miss: GCPL's 1QFY25 adjusted EPS grew 18% YoY despite 3% sales decline as EBITDA margins expanded 310bps to 21.7%. Compared to Bloomberg consensus, sales were 5% lower while margins were 70bps higher, which resulted in an only 2% lower EBITDA.

Lower sales but higher margins: India organic volumes were +8% with reported sales +10% despite a high year ago comp of 10%. Pricing helped margins as 1Q was the last quarter of negative pricing. In GUAM (Godrej US, North America, Middle East), constant currency sales were down 10% but earnings were up on business simplification (lower SKUs/improved mix/efficiencies). LATAM had similar trends with sales down and margins up.

Foray into pet foods: GCPL will enter the Pet Foods segment with a Rs 500cr outlay over the next five years. Target is to be cash positive and have ~5% market share by the fifth year. We estimate break even EBITDA in FY28 and cash positive status in FY29. The opportunity is huge given low use in India, but there are risks. GCPL has no experience in the vet channel (~60-70% of category) while the top two players, Mars and Drolls, account for ~70% of the market. Even then, materiality is low. We estimate FY31 Pet Food sales at ~Rs 12bn with 18% margins (upper end of industry). On FY24 base, this equates to 9% of sales and 11% of EBITDA.

Raymond update: Raymond will not be EPS accretive by the end of FY25. GCPL is short of the Rs 1.6bn EBITDA target by about Rs 0.2 bn. We estimate EPS accretion in 1QFY26.

Our view and valuation: GCPL continues to grow volumes in the high single digits in India, while improving margins with efficiencies and better mix in overseas markets. HOLD on full valuation. We value GCPL at 52x 12M to Jun'26 EPS and raise TP to Rs 1,543 from Rs 1,415.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	GCPL IN/Rs 1,504
Market cap	US\$ 18.3bn
Free float	37%
3M ADV	US\$ 19.5mn
52wk high/low	Rs 1,525/Rs 960
Promoter/FPI/DII	63%/23%/14%

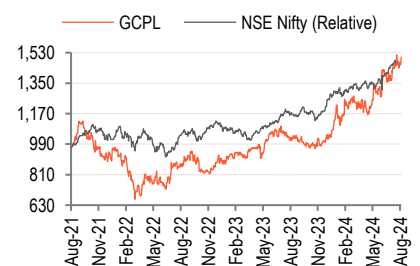
Source: NSE | Price as of 7 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	140,961	152,073	171,514
EBITDA (Rs mn)	29,435	34,694	41,846
Adj. net profit (Rs mn)	19,763	24,532	30,364
Adj. EPS (Rs)	19.3	24.0	29.7
Consensus EPS (Rs)	19.3	23.7	28.4
Adj. ROAE (%)	15.7	17.6	19.8
Adj. P/E (x)	77.8	62.7	50.6
EV/EBITDA (x)	52.2	44.3	36.7
Adj. EPS growth (%)	12.5	24.1	23.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – GCPL financial forecast summary

GCPL 1QFY25 result summary (Rs mn)	Q1FY24	Q1FY25	YoY (%)	Reported vs (%)	
				BOBCAPS	Consensus
Sales	34,489	33,316	(3)	(15)	(5)
EBITDA	6,428	7,244	13	(15)	(2)
EBITDA margin (%)	18.6	21.7	311bps	(16bps)	70bps
Adjusted EPS (Rs)	3.92	4.60	18	(24)	(7)

Sources: Company, BOBCAPS Research

Earnings summary

We forecast volume-driven 8% sales growth, but 18% EBITDA growth on 190bps margin expansion mainly due to anniversary of negative pricing in India and margins gains from business simplification (SKU rationalisation, savings) in International.

Fig 2 – GCPL financial forecast summary

	FY22	FY23	FY24	FY25E	FY26E
Sales	122,765	133,160	140,961	152,073	171,514
...YoY (%)	-	8	6	8	13
EBITDA	24,917	24,304	29,435	34,694	41,846
...YoY (%)	-	(2)	21	18	21
EBITDA margin (%)	20.3	18.3	20.9	22.8	24.4
...YoY (%)	-	(204bps)	263bps	193bps	158bps

Sources: Company, BOBCAPS Research

Valuation summary

The stock is currently trading at 62x FY25E EPS. GCPL has historically traded at 2.3x vs the NSE NIFTY 50 1-year forward EPS. We value GCPL at 52x 12M to Jun'26 EPS. We apply a 10% premium to its historical average vs NIFTY 50 to derive the TP of Rs 1,543 from Rs 1,415. We maintain HOLD.

Key risks

Key downside risks to our estimates are:

- intense headwinds in international markets, and
- low growth in household insecticides in India.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Total revenue	122,765	133,160	140,961	152,073	171,514
EBITDA	24,917	24,304	29,435	34,694	41,846
Depreciation	2,099	2,363	2,410	2,381	2,515
EBIT	22,818	21,941	27,025	32,313	39,331
Net interest inc./(exp.)	(1,102)	(1,757)	(2,964)	(2,216)	(1,784)
Other inc./(exp.)	897	1,685	2,690	2,976	2,939
Exceptional items	98	541	24,769	203	0
EBT	22,519	21,327	1,982	32,870	40,486
Income taxes	3,719	4,303	7,588	8,541	10,121
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	18,800	17,025	(5,606)	24,329	30,364
Adjustments	98	541	24,769	203	0
Adjusted net profit	18,897	17,566	19,763	24,532	30,364

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Accounts payables	21,630	18,232	16,755	17,980	19,719
Other current liabilities	2,238	2,290	2,350	2,536	2,860
Provisions	1,832	1,786	2,576	2,779	3,134
Debt funds	16,399	10,720	31,864	19,118	11,471
Other liabilities	3,681	4,018	5,428	6,050	6,605
Equity capital	1,023	1,023	1,023	1,023	1,023
Reserves & surplus	114,537	136,920	124,963	137,127	152,310
Shareholders' fund	115,559	137,942	125,986	138,150	153,332
Total liab. and equities	161,340	174,988	184,959	186,613	197,121
Cash and cash eq.	11,078	3,907	5,469	(4,053)	(3,945)
Accounts receivables	11,163	12,453	15,354	16,564	18,682
Inventories	21,299	15,372	12,709	13,639	14,957
Other current assets	4,890	4,432	4,918	5,306	5,984
Investments	10,154	30,290	35,037	38,469	42,588
Net fixed assets	12,749	14,374	12,813	18,029	20,195
CWIP	1,148	416	782	782	782
Intangible assets	78,459	83,996	89,833	89,833	89,833
Deferred tax assets, net	7,315	7,028	3,842	3,842	3,842
Other assets	3,086	2,721	4,203	4,203	4,203
Total assets	161,341	174,988	184,959	186,613	197,121

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash flow from operations	14,506	21,506	20,699	24,905	29,798
Capital expenditures	(2,765)	(2,274)	(3,072)	(7,598)	(4,681)
Change in investments	(4,096)	(16,629)	(6,595)	(3,432)	(4,119)
Other investing cash flows	(1,781)	1,320	(23,964)	2,976	2,939
Cash flow from investing	(8,642)	(17,583)	(33,630)	(8,055)	(5,861)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(2,198)	(6,344)	22,652	0	0
Interest expenses	(1,123)	(1,116)	(2,620)	(2,216)	(1,784)
Dividends paid	0	0	(5,114)	(12,165)	(15,182)
Other financing cash flows	(474)	(483)	(854)	(11,992)	(6,862)
Cash flow from financing	(3,795)	(7,943)	14,063	(26,373)	(23,829)
Chg in cash & cash eq.	2,068	(4,020)	1,133	(9,522)	108
Closing cash & cash eq.	7,509	3,576	4,028	(5,495)	(5,386)

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24A	FY25E	FY26E
Reported EPS	18.4	16.7	(5.5)	23.8	29.7
Adjusted EPS	18.5	17.2	19.3	24.0	29.7
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	113.1	135.0	123.3	135.2	150.0

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24A	FY25E	FY26E
EV/Sales	12.5	11.5	10.9	10.1	9.0
EV/EBITDA	61.7	63.2	52.2	44.3	36.7
Adjusted P/E	81.3	87.5	77.8	62.7	50.6
P/BV	13.3	11.1	12.2	11.1	10.0

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24A	FY25E	FY26E
Tax burden (Net profit/PBT)	83.5	79.8	73.9	74.0	75.0
Interest burden (PBT/EBIT)	98.7	97.2	99.0	101.7	102.9
EBIT margin (EBIT/Revenue)	18.6	16.5	19.2	21.2	22.9
Asset turnover (Rev./Avg TA)	76.1	76.1	76.2	81.5	87.0
Leverage (Avg TA/Avg Equity)	1.4	1.3	1.5	1.4	1.3
Adjusted ROAE	16.3	12.3	15.7	17.6	19.8

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24A	FY25E	FY26E
YoY growth (%)					
Revenue	11.3	8.5	5.9	7.9	12.8
EBITDA	4.3	(2.5)	21.1	17.9	20.6
Adjusted EPS	9.2	(9.4)	12.5	24.1	23.8
Profitability & Return ratios (%)					
EBITDA margin	20.3	18.3	20.9	22.8	24.4
EBIT margin	18.6	16.5	19.2	21.2	22.9
Adjusted profit margin	15.4	13.2	14.0	16.1	17.7
Adjusted ROAE	16.3	12.3	15.7	17.6	19.8
ROCE	18.8	15.4	20.9	22.8	25.0
Working capital days (days)					
Receivables	33	34	40	40	40
Inventory	128	84	73	73	73
Payables	130	99	97	97	97
Ratios (x)					
Gross asset turnover	0.7	0.7	0.7	0.8	0.8
Current ratio	1.4	1.8	1.0	1.2	1.5
Net interest coverage ratio	20.7	12.5	9.1	14.6	22.0
Adjusted debt/equity	0.1	0.1	0.3	0.1	0.1

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

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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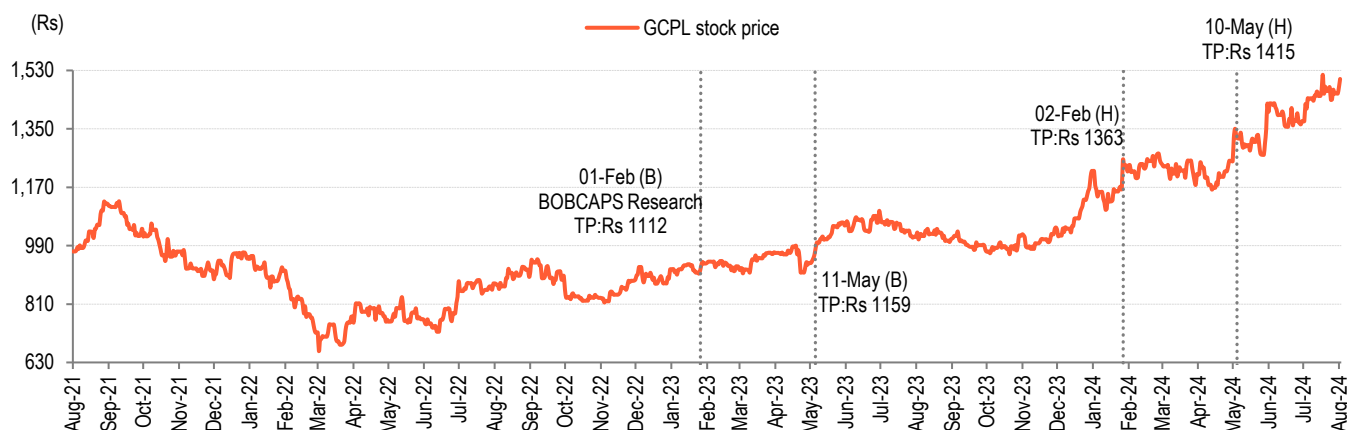
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SELL – Expected return <-6%

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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