

HOLD
 TP: Rs 1,299 | ▲ 3%

GODREJ CONSUMER PRODUCTS

Consumer Staples

25 October 2024

Partial pass-through impacting margins near term

- Compared to Bloomberg consensus, sales were 1% higher but EBITDA beat was 4% as margins came in 60bps above expectations
- Margin expansion was strong across the International businesses despite upfront media spend in GAUM which limited margin expansion
- Inflation is mainly from palm oil. Pricing is being put through. Domestic margins will remain subdued in 3Q but largely recover in 4Q

Lokesh Gusain
 research@bobcaps.in

Sales and EBITDA miss: GCPL's 2QFY25 adjusted EBITDA grew 8% YoY on 2% sales growth and 117bps EBITDA margin expansion. Compared to Bloomberg consensus, sales were 1% higher but EBITDA higher by 4% as margins came in 60bps above expectations.

2QFY25 trends and outlook

- **Domestic:** Underlying sales increased 7% driven by volumes. GCPL is taking calibrated pricing to offset the palm oil inflation. Aggregate 2HFY25 pricing will be up in close to double digits. Volume growth will be in the 6%-8% range. Margins will be lower in 3QFY25 due to inflation as inflation is being largely passed through. 4Q will see sequentially improving margins.
- **International:** Indonesia constant currency sales increased 11%. EBITDA margin improved 140bps to 19.4% although the aspiration is mid 20s. Timing of media spend impacted margins so 2H will be in the targeted range. In GUAM (Godrej Africa, US, Middle East), constant currency sales were flat but FX was a 12% drag. Margins increased 590bps to 14.4%. This trend of flat to slightly positive sale will continue with margins approaching high teens in two years. Business simplification, for instance, lower SKUs/improved mix/efficiencies are the main drivers. GCPL will shift focus to top line growth once margins become reasonable. There is no plan to divest or shut businesses in Africa.

Our view & valuation: Domestic volume growth is in mid-single digits with double-digit pricing required to partially offset inflation. International is on track with stable to slightly growing sales but focus on margin expansion. Margin risk in 2HFY25 with HUVR having a cost advantage from lower palm exposure. We value GCPL at 51x 12M to Sep'26 EPS with a TP increase to Rs 1,299 (from Rs 1,543). HOLD.

2QFY25 result summary (Rs mn)	Q2FY24	Q2FY25	YoY (%)	Reported vs (%)	
				BoBCaps	Consensus
Sales	36,020	36,663	2	(1)	1
EBITDA	7,042	7,596	8	4	4
EBITDA margin	19.5	20.7	117bps	97bps	61bps

Sources: Company, Bloomberg, BOBCAPS Research

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	GCPL IN/Rs 1,255
Market cap	US\$ 15.3bn
Free float	37%
3M ADV	US\$ 21.3mn
52wk high/low	Rs 1,542/Rs 960
Promoter/FPI/DII	63%/23%/14%

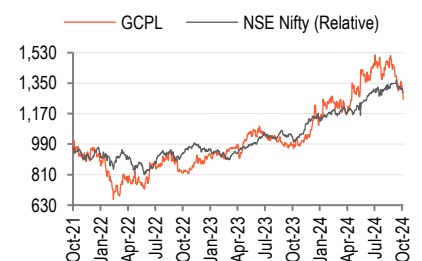
Source: NSE | Price as of 24 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	140,961	148,495	167,524
EBITDA (Rs mn)	29,435	33,171	41,346
Adj. net profit (Rs mn)	19,763	22,214	28,594
Adj. EPS (Rs)	19.3	21.7	28.0
Consensus EPS (Rs)	19.3	23.7	28.4
Adj. ROAE (%)	15.7	16.0	18.9
Adj. P/E (x)	64.9	57.8	44.9
EV/EBITDA (x)	43.6	38.7	31.0
Adj. EPS growth (%)	12.5	12.4	28.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



2QFY25 earnings review

Earnings summary

For FY25, our sales forecasts are 2% lower on slower-than-expected volumes in Domestic and overall slower sales in International as the key focus remains on margins. EBITDA impact is higher at 4% with lower margins due to domestic inflation and subdued margins in 3QFY25 as pricing is being implemented. We adjust our tax rate assumptions to 30% in FY25 and a return to 29% in FY26.

Fig 1 – Earnings revisions

(Rs mn)	Actual	New			Old			Change (%)		
	FY24	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	140,961	148,495	167,524	184,277	152,073	171,514	186,775	(2)	(2)	(1)
EBITDA	29,435	33,171	41,346	43,134	34,694	41,846	43,603	(4)	(1)	(1)
% of Revenue	20.9	22.3	24.7	23.4	22.8	24.4	23.3	(48bps)	28bps	6bps
Adjusted NPAT	19,763	22,214	28,594	29,872	24,532	30,364	31,684	(9)	(6)	(6)
Adjusted EPS	19.32	21.72	27.96	29.21	24.00	29.70	30.98	(10)	(6)	(6)

Source: Company, BOBCAPS Research

Valuation summary

The stock is currently trading at 50x 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 1,299 from Rs 1,543. 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

Key upside risks to our estimates are:

- Easier than expected competitive environment in international markets, and
- Return to high growth in household insecticides in India

Conference call takeaways

Sales

- Household insecticides volumes increased in mid single digits. Consumer response to new products of Liquid Vapouriser (LV) and Goodnight Agarbatti is favourable and distribution is expanding.

- LV distribution will be completed in the Mar'25 quarter while Goodnight Agarbatti is a medium- to long-term volume driver – distribution gains will continue at a fast pace with complete capture of the Modern Trade channel in about six months.
- Air Fresheners and liquid detergent volumes were up in double digits with share gains driven by Aer O, Genteel and Fab.
- Personal Care volumes were flat but market share increased as the category was soft. There was margin erosion due to palm oil inflation but pricing in being put through with partial inflation offset likely in the Mar'25 quarter.
- GCPL claims no impact on its soap business from HUVR's reformulation. The company continues to gain share with volumes improving in the September quarter vs the June quarter.
- Palm oil inflation is likely to help branded players as smaller brands exit due to higher working capital / inventory requirements.

Cost

- Palm oil is up in high double digits since the start of the year. Full cost is not being passed through. This is likely in response to HUVR's reformulation of soap which has reduced the proportion of palm oil in its soap COGS.
- Margin pressure will remain until the March quarter.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	133,160	140,961	148,495	167,524	184,277
EBITDA	24,304	29,435	33,171	41,346	43,134
Depreciation	2,363	2,410	2,250	2,509	2,509
EBIT	21,941	27,025	30,921	38,838	40,625
Net interest inc./(exp.)	(1,757)	(2,964)	(2,601)	(1,784)	(1,784)
Other inc./(exp.)	1,685	2,690	3,100	2,938	2,938
Exceptional items	541	24,769	261	0	0
EBT	21,327	1,982	31,159	39,991	41,779
Income taxes	4,303	7,588	9,206	11,397	11,907
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	17,025	(5,606)	21,953	28,594	29,872
Adjustments	541	24,769	261	0	0
Adjusted net profit	17,566	19,763	22,214	28,594	29,872

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	18,232	16,755	17,510	19,133	21,425
Other current liabilities	2,290	2,350	2,476	2,793	3,073
Provisions	1,786	2,576	2,714	3,061	3,368
Debt funds	10,720	31,864	19,118	11,471	6,883
Other liabilities	4,018	5,428	5,948	6,491	6,969
Equity capital	1,023	1,023	1,023	1,023	1,023
Reserves & surplus	136,920	124,963	135,939	150,236	165,172
Shareholders' fund	137,942	125,986	136,962	151,259	166,195
Total liab. and equities	174,988	184,959	184,728	194,209	207,912
Cash and cash eq.	3,907	5,469	(4,981)	(5,662)	(3,193)
Accounts receivables	12,453	15,354	16,174	18,247	20,072
Inventories	15,372	12,709	13,282	14,513	16,251
Other current assets	4,432	4,918	5,181	5,845	6,429
Investments	30,290	35,037	38,469	42,588	47,531
Net fixed assets	14,374	12,813	17,943	20,019	22,162
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	184,728	194,209	207,912

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	21,506	20,699	22,977	28,044	29,758
Capital expenditures	(2,274)	(3,072)	(7,380)	(4,585)	(4,652)
Change in investments	(16,629)	(6,595)	(3,432)	(4,119)	(4,943)
Other investing cash flows	1,320	(23,964)	3,100	2,938	2,938
Cash flow from investing	(17,583)	(33,630)	(7,713)	(5,766)	(6,656)
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)	(10,977)	(14,297)	(14,936)
Other financing cash flows	(483)	(854)	(12,137)	(6,879)	(3,912)
Cash flow from financing	(7,943)	14,063	(25,714)	(22,960)	(20,632)
Chg in cash & cash eq.	(4,020)	1,133	(10,450)	(682)	2,470
Closing cash & cash eq.	3,576	4,028	(6,422)	(7,104)	(4,634)

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	16.7	(5.5)	21.5	28.0	29.2
Adjusted EPS	17.2	19.3	21.7	28.0	29.2
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	135.0	123.3	134.0	148.0	162.6

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	9.6	9.1	8.6	7.7	7.0
EV/EBITDA	52.8	43.6	38.7	31.0	29.7
Adjusted P/E	73.0	64.9	57.8	44.9	42.9
P/BV	9.3	10.2	9.4	8.5	7.7

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	79.8	73.9	70.5	71.5	71.5
Interest burden (PBT/EBIT)	97.2	99.0	100.8	103.0	102.8
EBIT margin (EBIT/Revenue)	16.5	19.2	20.8	23.2	22.0
Asset turnover (Rev./Avg TA)	76.1	76.2	80.4	86.3	88.6
Leverage (Avg TA/Avg Equity)	1.3	1.5	1.3	1.3	1.3
Adjusted ROAE	12.3	15.7	16.0	18.9	18.0

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	8.5	5.9	5.3	12.8	10.0
EBITDA	(2.5)	21.1	12.7	24.6	4.3
Adjusted EPS	(9.4)	12.5	12.4	28.7	4.5
Profitability & Return ratios (%)					
EBITDA margin	18.3	20.9	22.3	24.7	23.4
EBIT margin	16.5	19.2	20.8	23.2	22.0
Adjusted profit margin	13.2	14.0	15.0	17.1	16.2
Adjusted ROAE	12.3	15.7	16.0	18.9	18.0
ROCE	15.4	20.9	22.0	25.1	23.9
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	0.8	0.8	0.8
Current ratio	1.8	1.0	1.1	1.5	1.8
Net interest coverage ratio	12.5	9.1	11.9	21.8	22.8
Adjusted debt/equity	0.1	0.3	0.1	0.1	0.0

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

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA (“US”) OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**

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**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

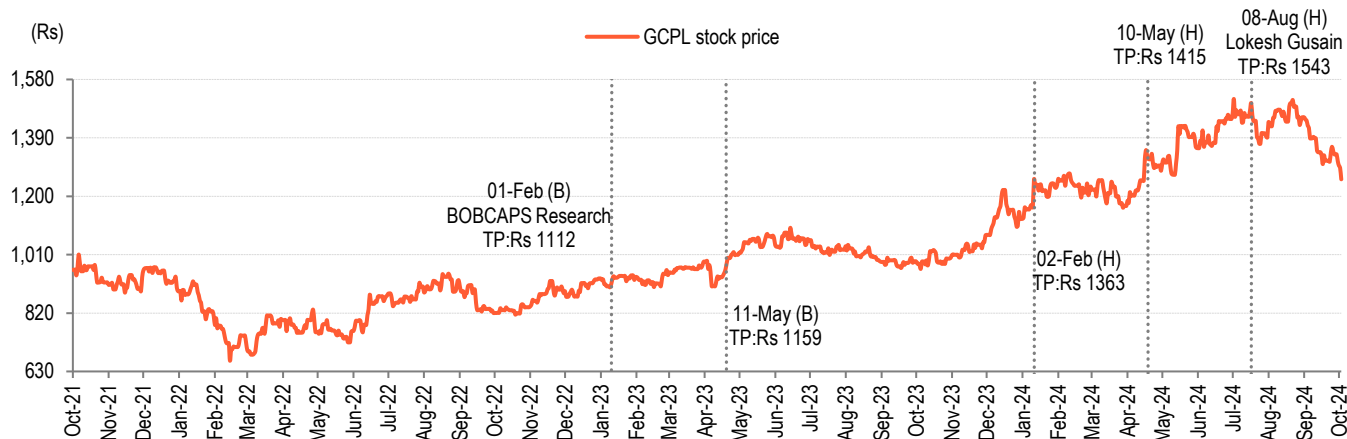
HOLD – Expected return from -6% to +15%

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

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company or third party in the past 12 months in connection with research report/activities. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an “as is” basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the “Losses”) which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom (“UK”):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd (“MSL”) who is authorised and regulated by the Financial Conduct Authority (“FCA”) in the United Kingdom (MSL and its affiliates are collectively referred to as “MAYBANK”). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the “Order”), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as “relevant persons”).

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.