

BUY

TP: Rs 1,112 | ▲ 22%

GODREJ CONSUMER PRODUCTS

| Consumer Staples

| 01 February 2023

Broad-based growth; strong margin recovery

- Q3 sales grew 9% INR and 15% CC YoY; underlying volume growth stood at 1%
- Gross margin expanded 330bps QoQ and 50bps YoY to 51.1%; EBITDA margin stable at 20.2%
- We assume coverage on GCPL with BUY and a TP of Rs 1,112, set at 45x FY25E EPS

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Double-digit CC growth: GCPL reported consolidated Q3FY23 revenue of Rs 36bn (+9% YoY, 6% QoQ), with volumes up 1% YoY. The company registered double-digit CC sales growth at 15% YoY driven by a strong performance across geographies. India business grew 11% YoY (8% value and 3% volume growth). Africa, the US, and Middle East (GUAM) was up 23% CC, the eleventh consecutive quarter of double-digit growth led by the dry hair and FMCG categories. Indonesia business ex-Saniter grew 2% CC.

Investment in category development to fuel growth: GCPL registered 10% YoY growth in the home and 14% YoY growth in personal care segment backed by consistent investment in category development and an increase in penetration and distribution. Air fresheners continue to grow ahead of category and enjoy market leadership. Household insecticides delivered an improved performance for the third straight quarter led by premium formats of electrics and aerosols. Godrej No. 1 soap became the second largest brand by volume. During the quarter, GCPL launched an anti-mosquito spray solution which it touted as the cheapest in the world.

Strong margin recovery: The company reported a 51.1% gross margin (+330bps QoQ, 50bps YoY). EBITDA margin was stable YoY at 20.2% despite increased spending on advertising and publicity. The India business posted 210bps YoY expansion in operating margin as the quality of profits continued to improve, with gross margin up 250bps YoY (590bps QoQ), despite a 28% YoY increase in working media investment. Indonesia business EBITDA margin dropped 100bps YoY due to higher marketing investment and scale deleverage, whereas GUAM saw a 160bps contraction due to significantly higher working media investment.

BUY, TP Rs 1,112: GCPL continues to display double-digit growth in the domestic market with the quality of profits improving during the quarter. We expect the company's focus on brand investment, market penetration and product launches to spur profitable growth. The stock is trading at 43.7x/37.4x FY24E/FY25E EPS. We assume coverage on GCPL with BUY and value the stock at 45x FY25E EPS, in line with the long-term mean, translating to a TP of Rs 1,112.

Ticker/Price	GCPL IN/Rs 913
Market cap	US\$ 11.4bn
Free float	37%
3M ADV	US\$ 11.3mn
52wk high/low	Rs 956/Rs 660
Promoter/FPI/DII	63%/24%/13%

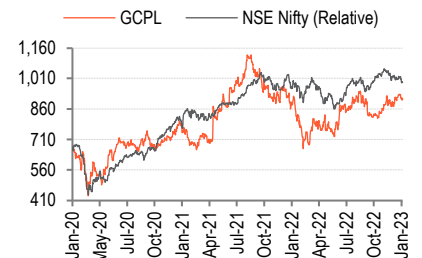
Source: NSE | Price as of 31 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,22,765	1,34,557	1,49,048
EBITDA (Rs mn)	23,951	24,475	28,858
Adj. net profit (Rs mn)	17,931	18,111	21,675
Adj. EPS (Rs)	17.5	17.7	21.2
Consensus EPS (Rs)	17.4	16.9	21.6
Adj. ROAE (%)	15.4	14.5	16.5
Adj. P/E (x)	52.1	51.5	43.1
EV/EBITDA (x)	39.0	38.1	32.3
Adj. EPS growth (%)	3.6	(0.2)	21.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

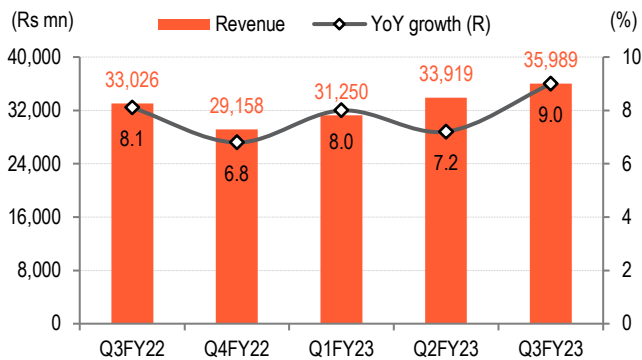


Fig 1 – Quarterly performance

(Rs mn)	Q3FY23	Q2FY23	Q3FY22	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	35,989	33,919	33,026	6.1	9.0	36,506	(1.4)
EBITDA	7,266	5,421	6,680	34.0	8.8	7,155	1.6
PAT	5,463	3,589	4,962	52.2	10.1	5,405	1.1
Gross Margin (%)	51.1	47.9	50.7	330bps	50bps	50.8	30bps
EBITDA Margin (%)	20.2	16.0	20.2	420bps	0bps	19.6	60bps
PAT Margin (%)	15.2	10.6	15.0	460bps	20bps	14.8	40bps

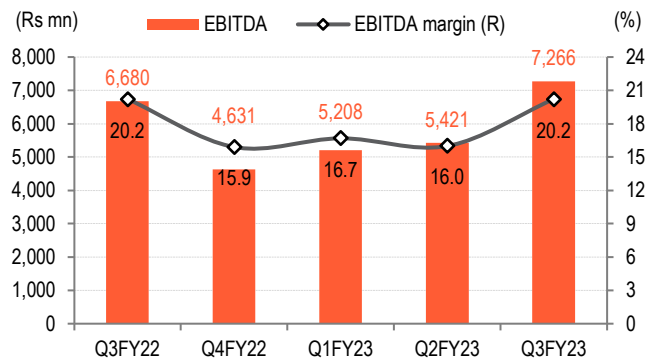
Source: Company, BOBCAPS Research

Fig 2 – Revenue and growth



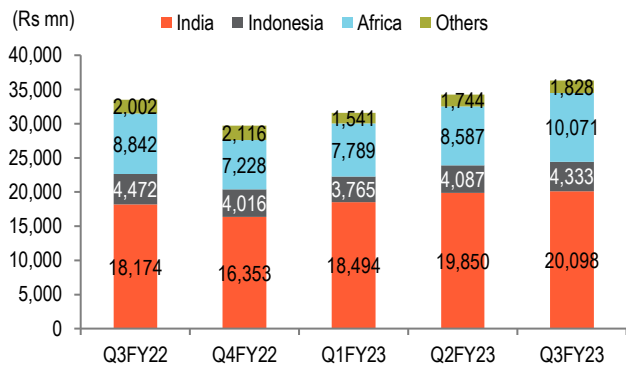
Source: Company, BOBCAPS Research

Fig 3 – EBITDA and margin



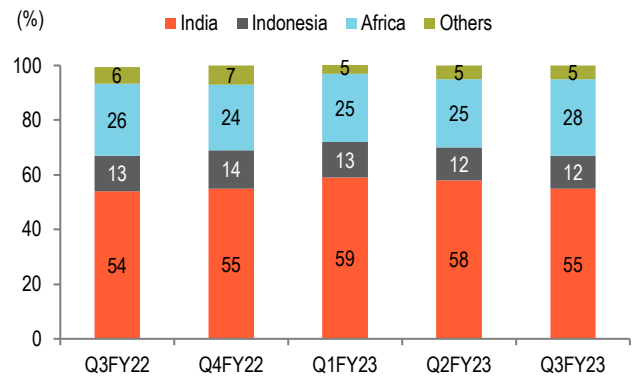
Source: Company, BOBCAPS Research

Fig 4 – Segment-wise revenue



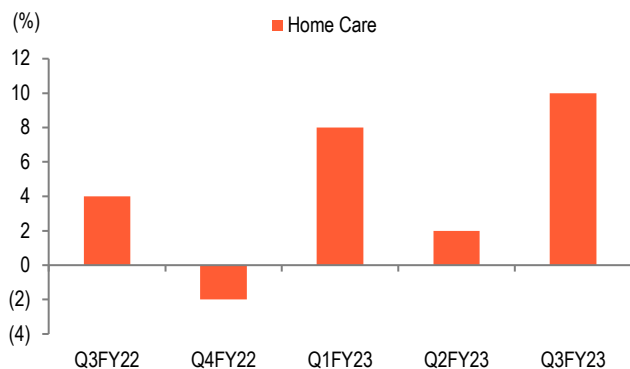
Source: Company, BOBCAPS Research

Fig 5 – Segment-wise revenue share



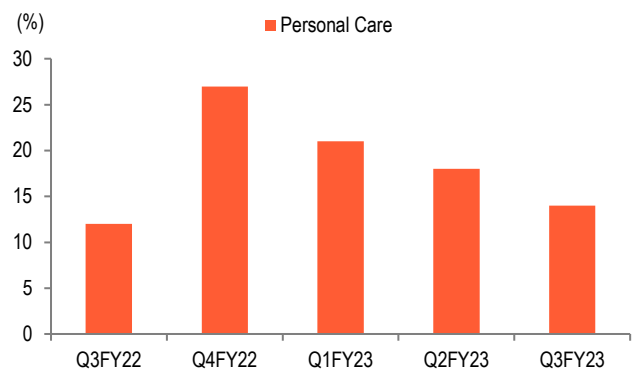
Source: Company, BOBCAPS Research

Fig 6 – Category growth – Home care



Source: Company, BOBCAPS Research

Fig 7 – Category growth – Personal care



Source: Company, BOBCAPS Research

Earnings call highlights

- Consolidated Q3FY23 sales grew 15% YoY in constant currency terms with a sharp sequential uplift in underlying volume growth. GCPL continues to invest in brands and media spends.
- Despite macro headwinds, India business grew 11% YoY with volumes up 3% QoQ against a decline seen in the previous quarter.
- GUAM continued to demonstrate double-digit CC growth for the eleventh consecutive quarter. However, profitability was a tad below the company's expectations.
- In the near term, GCPL expects meaningful margin improvement into the mid-teens in Africa. FMCG growth has been exceptional in this market and the company expects good EBITDA growth going forward.
- Indonesia business is recovering gradually with ex-Saniter sales growth of 2% YoY in Q3 (-3% including Saniter). GCPL expects to see profitable growth in Indonesia in the coming quarters.
- Working capital continues to reduce; 9MFY23 cash has increased by Rs 3bn.
- The company launched two products in the household insecticide category during Q3 – (1) Good Night liquid vapourisers, and (2) HIT anti-mosquito spray solution targeting the burning format and new households.
- GCPL has not seen improvement in rural markets. Also, discretionary spend in urban markets remains soft.
- Management is reasonably confident about business performance in the coming quarters as the macro environment turns around in India.
- The company has a three-fold strategy – to drive category development of the core portfolio, simplify the business, and put people and the planet alongside profit.

Valuation methodology

GCPL continues to post double-digit growth in the domestic market with the quality of profits improving during Q3FY23. In addition, GUAM delivered a strong performance for the eleventh consecutive quarter underpinned by the dry hair and FMCG categories. Indonesia too has shown strong recovery and is expected to witness profitable growth in the coming quarters.

We expect GCPL's focus on brand investment, market penetration and product launches to spur growth. The stock is trading at 43.7x/37.4x FY24E/FY25E EPS. We assume coverage with BUY and value the stock at 45x FY25E EPS, in line with the long-term mean, translating to a TP of Rs 1,112.

Key risks

Key downside risks to our estimates are:

- slowdown in discretionary spending in urban markets,
- continued slowdown in rural markets, and
- sustained input cost inflation.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	1,10,286	1,22,765	1,34,557	1,49,048	1,65,103
EBITDA	23,883	23,951	24,475	28,858	33,375
Depreciation	2,039	2,099	2,269	2,448	2,645
EBIT	21,844	21,852	22,206	26,410	30,730
Net interest inc./(exp.)	(1,266)	(1,102)	(1,722)	(1,722)	(1,722)
Other inc./(exp.)	671	897	1,443	1,448	1,454
Exceptional items	445	98	319	0	0
EBT	20,804	21,553	21,608	26,136	30,461
Income taxes	3,595	3,719	3,816	4,461	5,199
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	17,208	17,834	17,791	21,675	25,262
Adjustments	445	98	319	0	0
Adjusted net profit	17,653	17,931	18,111	21,675	25,262

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	20,124	21,630	24,206	25,281	27,503
Other current liabilities	2,262	2,238	2,453	2,718	3,010
Provisions	1,871	1,832	2,008	2,224	2,464
Debt funds	17,965	16,399	16,399	16,399	16,399
Other liabilities	6,217	3,681	3,939	4,233	4,560
Equity capital	1,023	1,023	1,023	1,023	1,023
Reserves & surplus	93,367	1,14,537	1,21,653	1,30,323	1,40,428
Shareholders' fund	94,389	1,15,559	1,22,676	1,31,346	1,41,451
Total liab. and equities	1,42,828	1,61,340	1,71,682	1,82,202	1,95,386
Cash and cash eq.	6,722	11,078	14,784	21,818	30,059
Accounts receivables	10,045	11,163	12,235	13,553	15,013
Inventories	17,163	21,299	23,835	24,893	27,081
Other current assets	4,223	4,890	5,360	5,937	6,577
Investments	6,791	10,154	10,154	10,154	10,154
Net fixed assets	12,102	12,749	14,177	14,386	14,650
CWIP	530	1,148	1,148	1,148	1,148
Intangible assets	76,034	78,459	79,587	79,912	80,305
Deferred tax assets, net	6,768	7,315	7,315	7,315	7,315
Other assets	2,451	3,085	3,085	3,085	3,085
Total assets	1,42,828	1,61,340	1,71,682	1,82,202	1,95,387

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	20,296	14,506	19,125	22,873	26,503
Capital expenditures	(1,639)	(2,765)	(4,826)	(2,981)	(3,302)
Change in investments	(108)	(4,096)	0	0	0
Other investing cash flows	(1,409)	(1,781)	1,443	1,448	1,454
Cash flow from investing	(3,155)	(8,642)	(3,382)	(1,533)	(1,848)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(13,720)	(2,198)	0	0	0
Interest expenses	(1,589)	(1,123)	(1,722)	(1,722)	(1,722)
Dividends paid	0	0	(10,675)	(13,005)	(15,157)
Other financing cash flows	(2,853)	(474)	361	421	466
Cash flow from financing	(18,162)	(3,795)	(12,036)	(14,306)	(16,413)
Chg in cash & cash eq.	(1,021)	2,068	3,707	7,033	8,241
Closing cash & cash eq.	5,241	7,509	11,216	18,249	26,491

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	16.8	17.4	17.4	21.2	24.7
Adjusted EPS	17.3	17.5	17.7	21.2	24.7
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	92.3	113.1	120.0	128.5	138.4

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	8.5	7.6	6.9	6.3	5.7
EV/EBITDA	39.1	39.0	38.1	32.3	28.0
Adjusted P/E	52.9	52.1	51.5	43.1	37.0
P/BV	9.9	8.1	7.6	7.1	6.6

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	82.7	82.7	82.3	82.9	82.9
Interest burden (PBT/EBIT)	95.2	98.6	97.3	99.0	99.1
EBIT margin (EBIT/Revenue)	19.8	17.8	16.5	17.7	18.6
Asset turnover (Rev./Avg TA)	77.2	76.1	78.4	81.8	84.5
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.4	1.4	1.4
Adjusted ROAE	18.2	15.4	14.5	16.5	17.9

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	11.3	11.3	9.6	10.8	10.8
EBITDA	11.4	0.3	2.2	17.9	15.7
Adjusted EPS	9.6	3.6	(0.2)	21.8	16.5
Profitability & Return ratios (%)					
EBITDA margin	21.7	19.5	18.2	19.4	20.2
EBIT margin	19.8	17.8	16.5	17.7	18.6
Adjusted profit margin	16.0	14.6	13.5	14.5	15.3
Adjusted ROAE	18.2	15.4	14.5	16.5	17.9
ROCE	21.5	18.0	17.2	19.2	20.8
Working capital days (days)					
Receivables	33	33	33	33	33
Inventory	127	128	128	128	128
Payables	149	130	130	130	130
Ratios (x)					
Gross asset turnover	0.7	0.7	0.7	0.8	0.8
Current ratio	1.1	1.4	1.5	1.7	1.8
Net interest coverage ratio	17.3	19.8	12.9	15.3	17.8
Adjusted debt/equity	0.2	0.1	0.1	0.1	0.1

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%

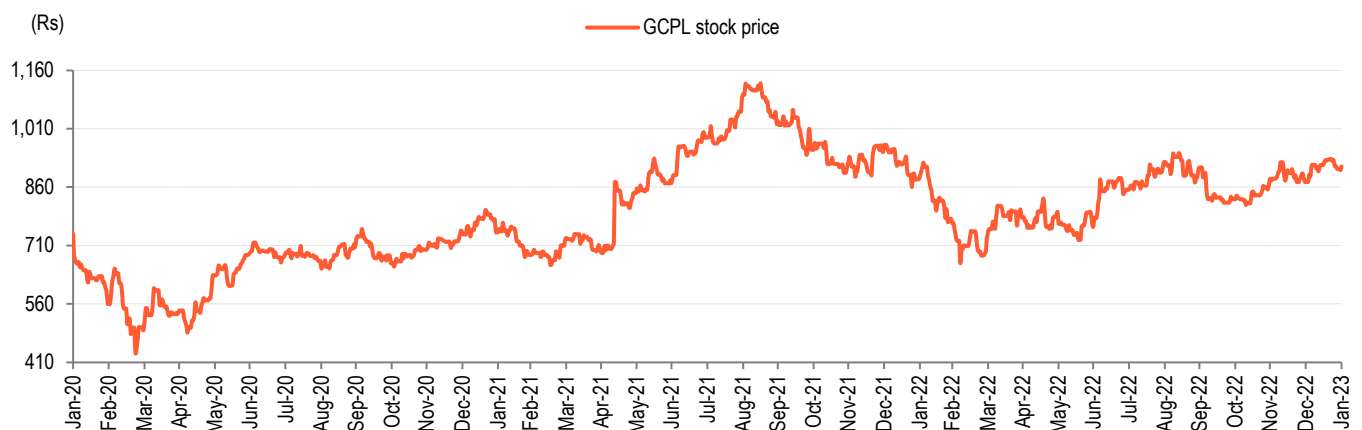
HOLD – Expected return from -6% to +15%

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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