

HOLD
 TP: Rs 1,415 | ▲ 7%

GODREJ CONSUMER PRODUCTS

Consumer Staples

10 May 2024

Strong volume-led growth across markets

- India business remains on strong footing; international markets too registered strong volume growth with improvement in margins
- Indonesia business maintains volume growth trajectory along with 360bps EBITDA margin expansion
- Focus remains on category development, increasing penetration and innovation; maintain HOLD with revised TP of Rs 1,415

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Strong volume growth in domestic markets: GCPL reported consolidated Q4FY24 revenue of Rs 33.8bn (+5.8% YoY, +30% CC), with volumes up 12% YoY. India business grew 12% YoY led by a 15% rise in volumes despite a challenging macro environment in domestic markets. Home Care grew by 6% YoY, air fresheners continue to deliver double-digit volume growth. Personal Care grew by 4% on the back of volume-led growth. Gross margin improved by 320bps YoY and EBITDA margin expanded by 230bps YoY in Q4.

Consistent volume-led growth in international markets: The Indonesia business registered strong volume growth of 12% YoY and revenue growth of 15% YoY in rupee terms (+17% CC), backed by strong performances in the Household Insecticides (HI) and Hair Colour businesses. Revenue from Africa and the Middle East region declined 23% in rupee terms (+16% YoY CC) due to the Naira's devaluation. Latin America and SAARC sales grew 41% in rupee terms.

New product launches are on strong footing: During Q3, GCPL entered the Rs 12bn market for anti-mosquito incense sticks (agarbatti) and winning market share that is dominated by unorganised players. GCPL launched Cinthol foam body wash in select markets in April in India at a price point of Rs 120. The segment is currently valued at Rs 7bn and growing at 20%+ per annum. GCPL will be launching Stella electric diffuser in Indonesia at a price point of IDR 35,000 which is aimed at expanding the penetration of the air freshener category.

Maintain HOLD: GCPL has reported strong volume growth in the domestic and international markets and seen the quality of profits improve in international markets as well. We expect the company's emphasis on category development, rural expansion through project Vistaar 2.0, brand investment, expanding total addressable market and market penetration to support profitable growth. The stock is trading at 52.9x/45.7x FY25E/FY26E EPS. We increase our FY25/FY26 EPS estimates by 3-4% and maintain HOLD rating with revised TP of Rs 1,415 (vs. Rs 1,363), based on an unchanged P/E of 49x which is in line with the long-term mean.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	GCPL IN/Rs 1,321
Market cap	US\$ 16.4bn
Free float	37%
3M ADV	US\$ 16.0mn
52wk high/low	Rs 1,373/Rs 960
Promoter/FPI/DII	63%/23%/14%

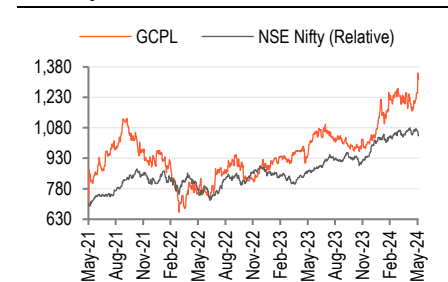
Source: NSE | Price as of 10 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	140,961	159,916	182,265
EBITDA (Rs mn)	29,435	35,422	40,735
Adj. net profit (Rs mn)	19,763	25,540	29,525
Adj. EPS (Rs)	19.3	25.0	28.9
Consensus EPS (Rs)	19.3	23.7	28.4
Adj. ROAE (%)	15.7	18.4	19.2
Adj. P/E (x)	68.3	52.9	45.7
EV/EBITDA (x)	45.9	38.1	33.1
Adj. EPS growth (%)	12.5	29.2	15.6

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

Stock performance



Source: NSE

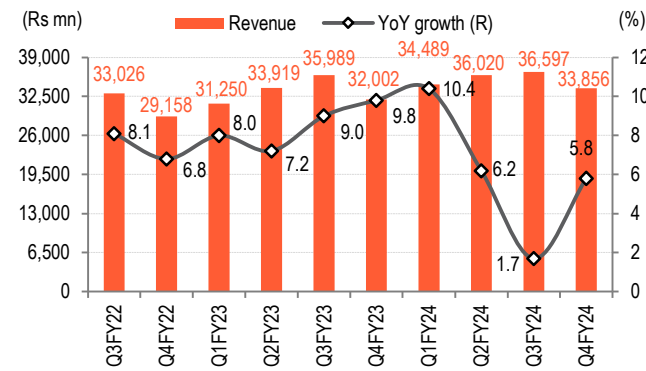


Fig 1 – Financial performance

(Rs mn)	Q4FY24	Q3FY24	Q4FY23	QoQ (%)	YoY (%)	FY24	FY23	YoY (%)
Revenue	33,856	36,596	32,002	(7.5)	5.8	140,961	133,160	5.9
EBITDA	7,557	8,407	6,409	(10.1)	17.9	29,435	24,304	21.1
Adj. PAT	5,707	5,880	4,743	(17.9)	20.3	19,763	17,566	12.5
Gross Margin (%)	56.1	55.9	52.9	20bps	320bps	55.2	49.7	550bps
EBITDA Margin (%)	22.3	23.0	20.0	(70bps)	230bps	20.9	18.3	260bps
Adj. PAT Margin (%)	16.8	16.1	14.8	70bps	200bps	14.0	13.2	80bps

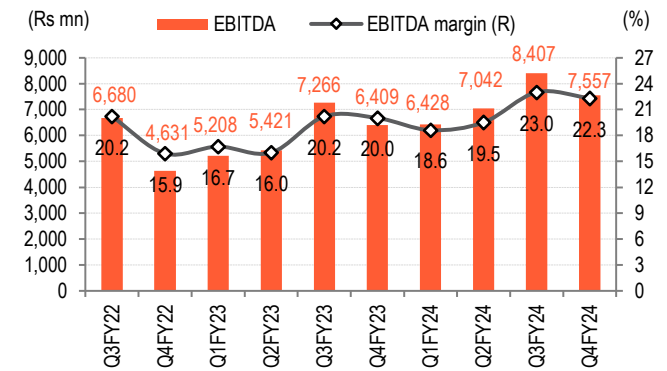
Source: Company, BOBCAPS Research

Fig 2 – Revenue and growth



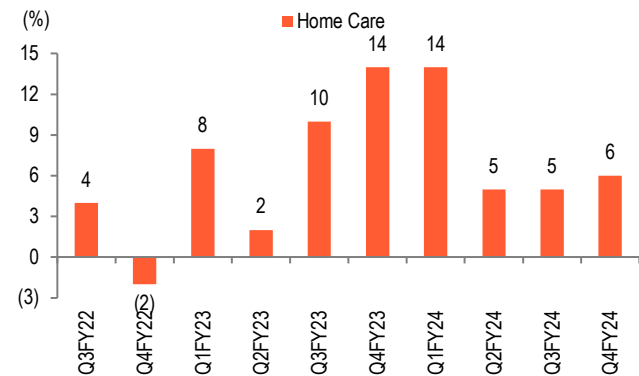
Source: Company, BOBCAPS Research

Fig 3 – EBITDA and margin



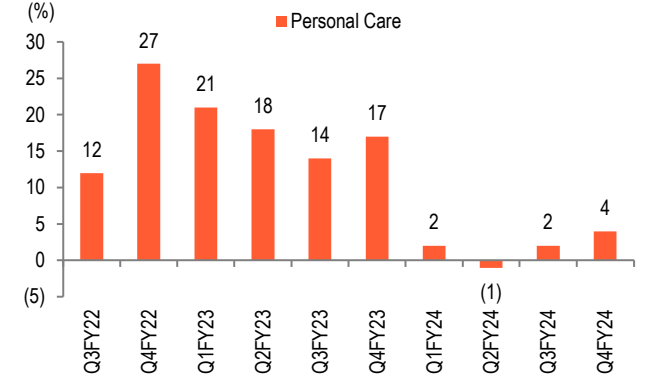
Source: Company, BOBCAPS Research

Fig 4 – Category growth YoY – Home Care



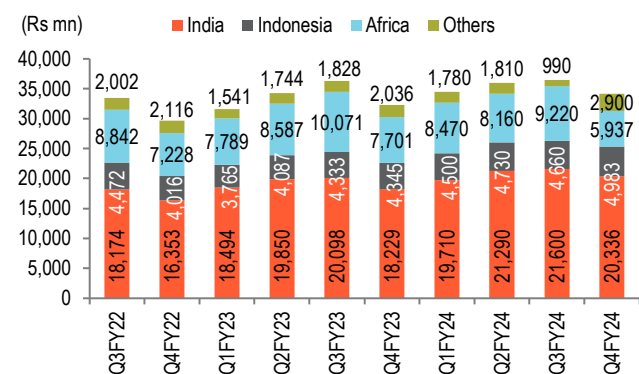
Source: Company, BOBCAPS Research

Fig 5 – Category growth YoY – Personal Care



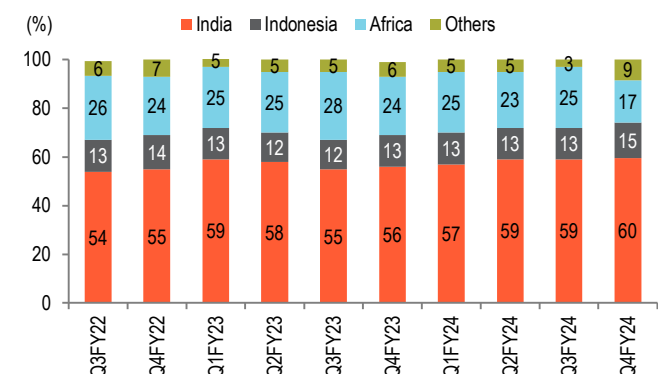
Source: Company, BOBCAPS Research

Fig 6 – Revenue by geography



Source: Company, BOBCAPS Research

Fig 7 – Revenue share by geography



Source: Company, BOBCAPS Research

Earnings call highlights

- GCPL's consolidated volumes for Q4FY24 grew 12%; revenue increased 5.8% YoY in rupee terms impacted by currency devaluation. India business volume grew by 15% YoY and revenue by 12% YoY in Q4. Consolidated EBITDA grew by 17.9% YoY.
- Indonesia volume grew by 12% YoY, sales up 15% in rupee terms (17% CC growth). Africa, USA, and Middle East revenue grew 16% in CC terms, however, declined by 23% in rupee terms YoY.
- Consolidated gross margin improved by 320bps YoY in Q4; EBITDA margin improved by 230bps despite 50% YoY increase in media investments.
- Raymond Consumer Care (RCCL) business reported sales growth of 22% to Rs 1.4bn. Going ahead, the company expects high double-digit volume growth and EPS neutral in H2FY25.
- Management expects high single-digit volume growth and EBITDA growth in mid-teens for the consolidated business. In India management expects high-single digit volume growth in the near term and double-digit volume growth in the long term with EBITDA margin in mid 20s.
- In Indonesia, the company expects high-single digit volume growth with EBITDA margins in mid 20s, while in RoW the focus remains on improving profitability and cash flow.
- Management has guided for capital expenditure of ~Rs 9bn over the next 18-24 months for setting up new plants in India.
- In Indonesia the company shifted from deep discounting to everyday low promotion which reduced price gaps between different trade channels. GCPL shifted to a distributor-led model in general trade (GT) to increase reach and improved to 1.1x outlets from FY22 to FY24. Media spend improved to 6% from 3% in FY21.
- In RoW, the company is managing volatility by taking agile pricing actions, reducing factories to 19 and reducing fixed overheads by ~300bps and has taken a huge reduction in SKUs. GCPL expects EBITDA margin improvement of ~300bps over the next 4 years.
- In the Godrej US, Africa and Middle East (GUAM) business, the focus remains on continuous simplification of business and plans to reach double-digit ROCE in the next 3-4 years.
- Through the launch of project Vistaar 2.0, the company plans to increase its penetration in rural areas by doubling outlet coverage and tripling village coverage.
- The company launched Cinthol foam bodywash in April at a price point of Rs 120. The segment is currently valued at Rs 7bn and growing at 20%+ per annum.
- GCPL is expecting to launch Stella electric diffuser in Indonesia at a price point of IDR 35,000 which is aimed at expanding the penetration of the air freshener category.

- The company has completed the reorganisation of the East-Africa business which will have a positive impact on PAT of ~Rs 500mn per annum despite a negative impact of Rs 4.7bn per annum on revenue.
- During the year there were exceptional items in the consolidated financials which include the loss on the sale of the investment in Godrej East Africa Holdings of Rs 7.9bn; impairment provision for diminution in value of investment in Godrej Mauritius Africa Holdings of R 2.7bn pursuant to changes in business model and long-term strategy refresh for Africa; stamp duty payment and other costs of Rs 878mn for the acquisition of RCCL business and Rs 8mn for restructuring costs; and gain of Rs 230mn on account of the sale of its long-term investments.

Valuation methodology

GCPL has reported strong volume growth in the domestic and international markets and seen improvement in the quality of profits in international markets as well.

Reorganisation of the East Africa business is now complete and will have a positive impact of Rs 500mn per annum on PAT. We expect the company's emphasis on category development, rural expansion through project Vistaar 2.0, brand investment, expanding total addressable market and market penetration to support profitable growth.

The stock is trading at 52.9x/45.7x FY25E/FY26E EPS. We increased our FY25/FY26 EPS estimates by 3-4% and maintained HOLD rating with revised TP of Rs 1,415 (vs. Rs 1,363), based on an unchanged P/E of 49x which is in line with the long-term mean.

Fig 8 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	159,916	182,265	159,471	180,706	0.3	0.9
EBITDA	35,422	40,735	34,373	39,219	3.1	3.9
Adj. PAT	25,540	29,525	24,794	28,429	3.0	3.9

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

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

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	14.8	5,067	5,980	BUY
Dabur India	DABUR IN	11.9	551	673	BUY
Godrej Consumer Products	GCPL IN	16.4	1,321	1,415	HOLD
Hindustan Unilever	HUVR IN	67.6	2,363	2,617	BUY
ITC	ITC IN	65.8	433	532	BUY
Marico	MRCO IN	9.2	587	668	BUY
Nestle India	NEST IN	29.7	2,533	2,826	HOLD
Tata Consumer Products	TATACONS IN	12.7	1,091	1,330	BUY
Zydus Wellness	ZYWL IN	1.3	1,712	1,531	HOLD

Source: BOBCAPS Research, NSE | Price as of 10 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	122,765	133,160	140,961	159,916	182,265
EBITDA	23,951	24,304	29,435	35,422	40,735
Depreciation	2,099	2,363	2,410	2,526	2,526
EBIT	21,852	21,941	27,025	32,895	38,209
Net interest inc./(exp.)	(1,102)	(1,757)	(2,964)	(1,784)	(1,784)
Other inc./(exp.)	897	1,685	2,690	2,943	2,943
Exceptional items	98	541	24,769	0	0
EBT	21,553	21,327	1,982	34,054	39,367
Income taxes	3,719	4,303	7,588	8,513	9,842
Extraordinary items	0	0	0	0	1
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	17,834	17,025	(5,606)	25,540	29,525
Adjustments	98	541	24,769	0	0
Adjusted net profit	17,931	17,566	19,763	25,540	29,525

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	21,630	18,232	16,755	19,331	21,936
Other current liabilities	2,238	2,290	2,350	2,666	3,039
Provisions	1,832	1,786	2,576	2,922	3,331
Debt funds	16,399	10,720	31,864	19,118	11,471
Other liabilities	3,681	4,018	5,428	6,274	6,912
Equity capital	1,023	1,023	1,023	1,023	1,023
Reserves & surplus	114,537	136,920	124,963	137,733	152,496
Shareholders' fund	115,559	137,942	125,986	138,756	153,518
Total liab. and equities	161,340	174,988	184,959	189,068	200,207
Cash and cash eq.	11,078	3,907	5,469	9,127	8,174
Accounts receivables	11,163	12,453	15,354	17,418	19,853
Inventories	21,299	15,372	12,709	14,664	16,639
Other current assets	4,890	4,432	4,918	5,579	6,359
Investments	10,154	30,290	35,037	38,469	42,588
Net fixed assets	12,749	14,374	12,813	18,173	20,425
CWIP	1,148	416	782	782	782
Intangible assets	78,459	83,996	89,833	76,811	77,342
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	189,068	200,207

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	14,506	21,506	20,699	25,243	28,825
Capital expenditures	(2,765)	(2,274)	(3,072)	5,135	(5,310)
Change in investments	(4,096)	(16,629)	(6,595)	(3,432)	(4,119)
Other investing cash flows	(1,781)	1,320	(23,964)	2,943	2,943
Cash flow from investing	(8,642)	(17,583)	(33,630)	4,645	(6,486)
Equities issued/Others	0	0	0	0	1
Debt raised/repaid	(2,198)	(6,344)	22,652	0	0
Interest expenses	(1,123)	(1,116)	(2,620)	(1,784)	(1,784)
Dividends paid	0	0	(5,114)	(12,770)	(14,763)
Other financing cash flows	(474)	(483)	(854)	(11,676)	(6,745)
Cash flow from financing	(3,795)	(7,943)	14,063	(26,230)	(23,292)
Chg in cash & cash eq.	2,068	(4,020)	1,133	3,658	(953)
Closing cash & cash eq.	7,509	3,576	4,028	7,686	6,733

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	17.4	16.7	(5.5)	25.0	28.9
Adjusted EPS	17.5	17.2	19.3	25.0	28.9
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	113.1	135.0	123.3	135.7	150.2

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	11.0	10.1	9.6	8.4	7.4
EV/EBITDA	56.4	55.5	45.9	38.1	33.1
Adjusted P/E	75.3	76.9	68.3	52.9	45.7
P/BV	11.7	9.8	10.7	9.7	8.8

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	82.7	79.8	73.9	75.0	75.0
Interest burden (PBT/EBIT)	98.6	97.2	99.0	103.5	103.0
EBIT margin (EBIT/Revenue)	17.8	16.5	19.2	20.6	21.0
Asset turnover (Rev./Avg TA)	76.1	76.1	76.2	84.6	91.0
Leverage (Avg TA/Avg Equity)	1.4	1.3	1.5	1.4	1.3
Adjusted ROAE	15.4	12.3	15.7	18.4	19.2

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	11.3	8.5	5.9	13.4	14.0
EBITDA	0.3	1.5	21.1	20.3	15.0
Adjusted EPS	3.6	(4.5)	12.5	29.2	15.6
Profitability & Return ratios (%)					
EBITDA margin	19.5	18.3	20.9	22.2	22.3
EBIT margin	17.8	16.5	19.2	20.6	21.0
Adjusted profit margin	14.6	13.2	14.0	16.0	16.2
Adjusted ROAE	15.4	12.3	15.7	18.4	19.2
ROCE	18.0	15.4	20.9	23.1	24.3
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	1.4	1.8
Net interest coverage ratio	19.8	12.5	9.1	18.4	21.4
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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BUY – Expected return >+15%

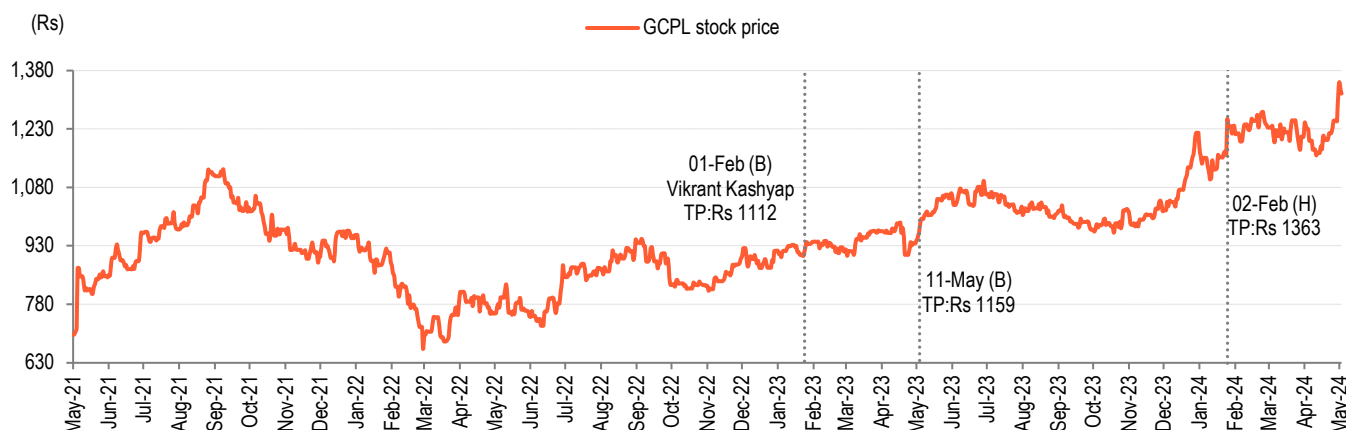
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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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