

BUY

TP: Rs 1,159 | ▲ 17%

GODREJ CONSUMER PRODUCTS

Consumer Staples

03 November 2023

Strong, sustained volume-led growth in India business

- Volume-led growth continues in India business at 11% YoY in Q2; margin expands despite elevated media spend
- Household insecticides and personal care had a seasonally soft quarter; integration of Raymond's acquired business complete
- Emphasis on volume-led growth backed by increased media spend yielding results; maintain BUY, TP Rs 1,159

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Sustained volume-led growth: GCPL reported consolidated Q2FY24 revenue of Rs 36bn (+6% YoY, +16% CC), with volumes up 10% YoY. India business grew 9% YoY led by 11% volume growth despite a tough operating environment. The board announced a dividend of Rs 5/sh during the quarter.

Improved performance in international markets: Indonesia business registered strong revenue growth of 16% YoY in rupee terms (+14% CC) backed by increased advertising spends. A pickup in general trade distribution and portfolio renovation also aided sales in Indonesia. Revenue from Africa, the US, and the Middle East region (GUAM) increased 17% YoY CC, though rupee revenue was lower due to the devaluation of the naira.

Segmental performance impacted by seasonality: GCPL registered muted 5% YoY growth in the home care business owing to flattish growth in the household insecticides (HI) segment due to the poor monsoons. Air fresheners maintained a strong performance and reported double-digit volume and value growth. Personal care declined 1% YoY and registered low-single-digit volume growth. Within this segment, *Magic* handwash continued to deliver a strong double-digit uptick in volumes.

Margins on upward trajectory: The company reported a 54.9% gross margin (+700bps YoY, +120bps QoQ) while EBITDA margin expanded to 19.5% (+350bps YoY, +90bps QoQ) despite a 33% YoY rise in working media investment. EBITDA margin for the Indonesia business stood at 17.9% YoY (+80bps YoY), whereas GUAM was at 8.5% (+310bps YoY).

Maintain BUY: GCPL has reported strong volume growth in the domestic market and seen an improvement in the quality of profits. We expect the company's emphasis on category development, brand investment, market penetration and business reorganisation to support profitable growth. The stock is trading at 49x/38.5x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at a P/E multiple of 45x on FY25E EPS – in line with the long-term mean – for an unchanged TP of Rs 1,159.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	GCPL IN/Rs 991
Market cap	US\$ 12.3bn
Free float	37%
3M ADV	US\$ 9.9mn
52wk high/low	Rs 1,102/Rs 794
Promoter/FPI/DII	63%/24%/13%

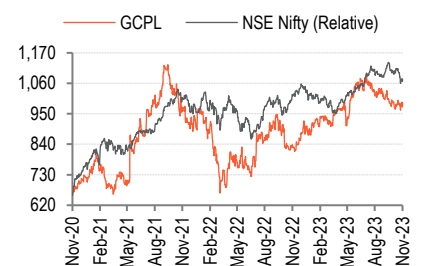
Source: NSE | Price as of 2 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	133,160	148,458	168,366
EBITDA (Rs mn)	24,304	29,995	36,445
Adj. net profit (Rs mn)	17,566	20,696	26,329
Adj. EPS (Rs)	17.2	20.2	25.8
Consensus EPS (Rs)	17.2	20.5	24.7
Adj. ROAE (%)	12.3	12.5	14.3
Adj. P/E (x)	57.7	49.0	38.5
EV/EBITDA (x)	41.7	33.8	27.8
Adj. EPS growth (%)	(4.5)	16.0	33.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

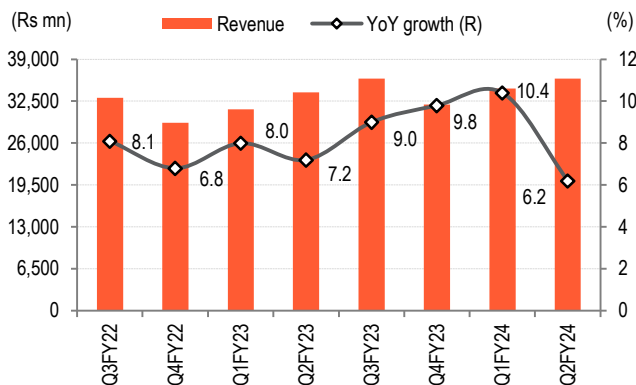


Fig 1 – Financial performance

(Rs mn)	Q2FY24	Q1FY24	Q2FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	36,020	34,489	33,919	4.4	6.2	35,833	0.5
EBITDA	7,042	6,428	5,421	9.5	29.9	6,844	2.9
Adj. PAT	4,453	4,006	3,815	11.2	16.7	4,755	-6.4
Gross Margin (%)	54.9	53.7	47.9	120bps	700bps	54.0	90bps
EBITDA Margin (%)	19.5	18.6	16.0	90bps	350bps	19.1	40bps
Adj. PAT Margin (%)	12.4	11.6	11.2	80bps	120bps	13.3	-90bps

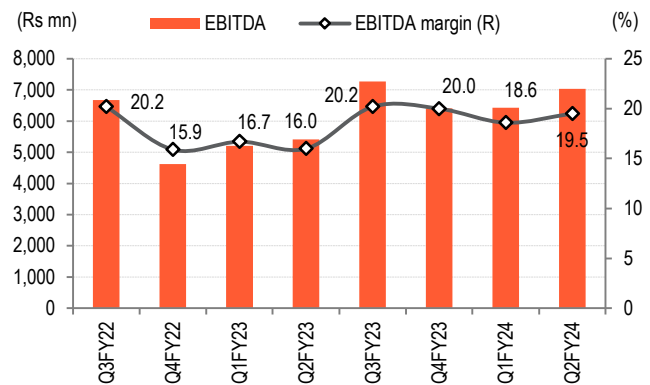
Source: Company, BOBCAPS Research

Fig 2 – Revenue and growth



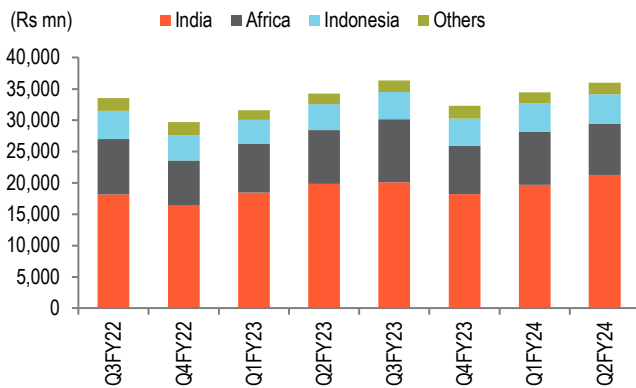
Source: Company, BOBCAPS Research

Fig 3 – EBITDA and margin



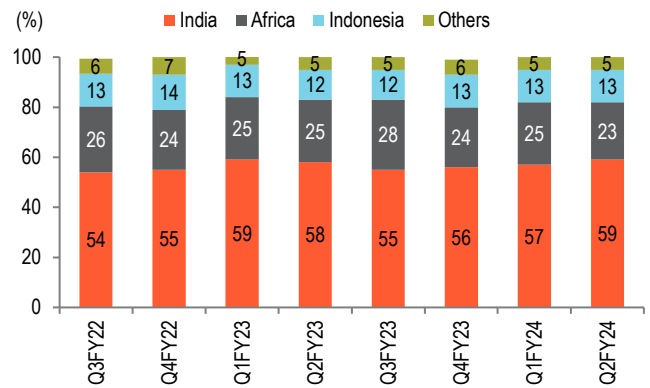
Source: Company, BOBCAPS Research

Fig 4 – Revenue by geography



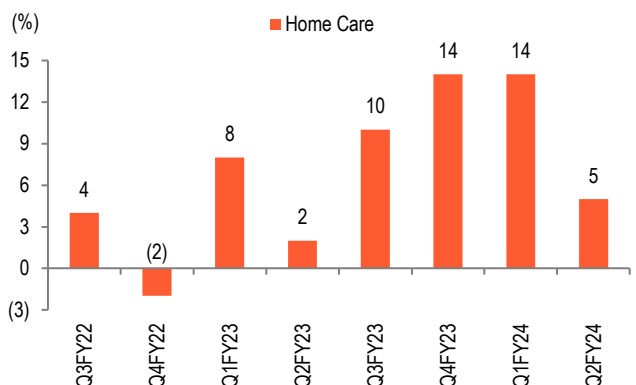
Source: Company, BOBCAPS Research

Fig 5 – Revenue share by geography



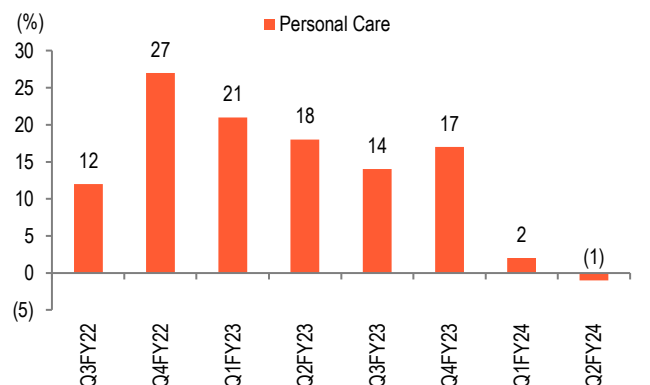
Source: Company, BOBCAPS Research

Fig 6 – Category growth YoY – Home care



Source: Company, BOBCAPS Research

Fig 7 – Category growth YoY – Personal care



Source: Company, BOBCAPS Research

Earnings call highlights

- GCPL posted consolidated revenue growth of 6% YoY (16% CC) during Q2FY24, with reported underlying volume growth (UVG) of 10%. EBITDA for the quarter increased 30% YoY and adj. PAT grew 17%. Organic volumes and revenue grew 6% and 2% YoY respectively.
- Volumes for the India business were below estimates as the HI segment performed poorly due to the erratic monsoon and hair colour sales saw a seasonal drop. Net profit, however, was ahead of expectations due to structural savings, faster integration of Raymond's consumer business than anticipated and lower palm oil prices.
- Revenue growth lagged volumes largely due to lower prices in personal wash, a currency translation impact in Nigeria and hyperinflation accounting in Argentina.
- Indonesia business had another strong quarter with 11% YoY volume growth, 16% revenue growth and 21% EBITDA growth. The HI business here continues to show significant improvement.
- GUAM volumes grew 3% YoY but revenue declined 5% as non-cash translation impacted both revenue and EBITDA. LATAM had a strong quarter with 28% underlying volume growth. LATAM and SAARC revenue collectively grew 5% YoY in INR terms and 99% in CC terms.
- GCPL is reorganising the hair fashion business in smaller countries of East Africa to an asset-light royalty model. These countries contribute ~Rs 5bn in revenue but near-zero profit. After reorganising the portfolio, the company expects zero sales but ~Rs 500mn in profits in FY25.
- During Q2FY24, media spending increased 33% YoY, taking A&P to ~10% of the turnover, an increase of 200bps YoY.
- In India, the integration of Raymond's consumer care business is now complete, and the company indicated record September sales. GCPL is operating with ~30% of erstwhile overheads and is confident of achieving the business case behind the acquisition.
- India HC business grew 5% YoY for the quarter. While HI was flattish, the non-mosquito portfolio continues to do well. GCPL's volume market share increased during Q2, supported by category development activities.
- Air fresheners sustained strong double-digit volume and value growth. *Aer* (bathroom freshener) continues to gain share and enjoy market leadership. The new *Aer O* (car freshener) is also receiving an encouraging response.
- The personal care business in India declined by 1% YoY as the personal wash category clocked low-single-digit volume growth. Even so, GCPL's market share increased during the quarter, led by effective media campaigns and micro-marketing initiatives.
- *Magic* handwash sustained its strong double-digit volume growth. The Rs 15 pack of *Godrej Expert Rich Crème* hair colour continues to perform well and drive format penetration.

- *Park Avenue* and *KamaSutra* witnessed a sharp improvement in sequential sales run-rate to Rs 1.4bn. The integration of these brands has largely been completed, with cost synergies expected to flow from H2FY24.
- The company expects the acquired portfolio to be EBITDA-positive, despite the scaling up of media investments.
- GCPL remains focused on driving volume-led growth along with healthy investments in brands and improvement in profitability.
- The company has announced a dividend of Rs 5/sh which will result in a total outlay of Rs 5.1bn. It expects an average annual dividend payout ratio of 50%.

Valuation methodology

GCPL continues to deliver strong volume growth in the domestic market and is seeing an improvement in the quality of profits. Indonesia business maintained healthy growth momentum during Q2FY24 with margin expansion and GUAM also reported an upbeat performance backed by the FMCG segment. We expect the company's emphasis on category development in India and reorganisation of the international business together with brand investment and market penetration to spur profitable growth.

The stock is trading at 49x/38.5x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at a P/E multiple of 45x on FY25E EPS – in line with the long-term mean – for an unchanged TP of Rs 1,159.

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	13.3	4,527	5,844	BUY
Dabur India	DABUR IN	11.4	530	669	BUY
Godrej Consumer Products	GCPL IN	12.3	991	1,159	BUY
Hindustan Unilever	HUVR IN	71.1	2,487	3,069	BUY
ITC	ITC IN	65.2	431	523	BUY
Marico	MRCO IN	8.4	534	646	BUY
Nestle India	NEST IN	28.3	24,112	28,260	BUY
Tata Consumer Products	TATACONS IN	10.3	911	1,038	BUY
Zydus Wellness	ZYWL IN	1.2	1,548	1,556	HOLD

Source: BOBCAPS Research, NSE | Price as of 2 Nov 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	110,286	122,765	133,160	148,458	168,366
EBITDA	23,883	23,951	24,304	29,995	36,445
Depreciation	2,039	2,099	2,363	2,493	2,556
EBIT	21,844	21,852	21,941	27,503	33,888
Net interest inc./(exp.)	(1,266)	(1,102)	(1,757)	(2,121)	(834)
Other inc./(exp.)	671	897	1,685	2,243	2,050
Exceptional items	445	98	541	943	0
EBT	20,804	21,553	21,327	26,681	35,105
Income taxes	3,595	3,719	4,303	6,928	8,776
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	17,208	17,834	17,025	19,753	26,329
Adjustments	445	98	541	943	0
Adjusted net profit	17,653	17,931	17,566	20,696	26,329

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	20,124	21,630	18,232	17,214	18,082
Other current liabilities	2,262	2,238	2,290	2,553	2,896
Provisions	1,871	1,832	1,786	1,991	2,258
Debt funds	17,965	16,399	10,720	8,040	4,824
Other liabilities	6,217	3,681	4,018	4,427	4,848
Equity capital	1,023	1,023	1,023	1,023	1,023
Reserves & surplus	93,367	114,537	136,920	156,673	183,002
Shareholders' fund	94,389	115,559	137,942	157,695	184,024
Total liab. and equities	142,828	161,340	174,988	191,921	216,931
Cash and cash eq.	6,722	11,078	3,907	9,196	17,849
Accounts receivables	10,045	11,163	12,453	13,883	15,745
Inventories	17,163	21,299	15,372	18,337	24,251
Other current assets	4,223	4,890	4,432	4,941	5,603
Investments	6,791	10,154	30,290	34,669	39,924
Net fixed assets	12,102	12,749	14,374	16,353	18,545
CWIP	530	1,148	416	416	416
Intangible assets	76,034	78,459	83,996	84,377	84,848
Deferred tax assets, net	6,768	7,315	7,028	7,028	7,028
Other assets	2,451	3,086	2,721	2,721	2,721
Total assets	142,828	161,341	174,988	191,921	216,931

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	20,296	14,506	21,506	16,551	20,552
Capital expenditures	(1,639)	(2,765)	(2,274)	(4,853)	(5,219)
Change in investments	(108)	(4,096)	(16,629)	(4,379)	(5,256)
Other investing cash flows	(1,409)	(1,781)	1,320	2,243	2,050
Cash flow from investing	(3,155)	(8,642)	(17,583)	(6,989)	(8,425)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(13,720)	(2,198)	(6,344)	0	0
Interest expenses	(1,589)	(1,123)	(1,116)	(2,121)	(834)
Dividends paid	0	0	0	0	0
Other financing cash flows	(2,853)	(474)	(483)	(2,152)	(2,641)
Cash flow from financing	(18,162)	(3,795)	(7,943)	(4,273)	(3,475)
Chg in cash & cash eq.	(1,021)	2,068	(4,020)	5,289	8,653
Closing cash & cash eq.	5,241	7,509	3,576	8,865	17,518

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	16.8	17.4	16.7	19.3	25.8
Adjusted EPS	17.3	17.5	17.2	20.2	25.8
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	92.3	113.1	135.0	154.3	180.0

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	9.2	8.3	7.6	6.8	6.0
EV/EBITDA	42.4	42.3	41.7	33.8	27.8
Adjusted P/E	57.4	56.5	57.7	49.0	38.5
P/BV	10.7	8.8	7.3	6.4	5.5

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	82.7	82.7	79.8	74.0	75.0
Interest burden (PBT/EBIT)	95.2	98.6	97.2	97.0	103.6
EBIT margin (EBIT/Revenue)	19.8	17.8	16.5	18.5	20.1
Asset turnover (Rev./Avg TA)	77.2	76.1	76.1	77.4	77.6
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.3	1.2	1.2
Adjusted ROAE	18.2	15.4	12.3	12.5	14.3

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	11.3	11.3	8.5	11.5	13.4
EBITDA	11.4	0.3	1.5	23.4	21.5
Adjusted EPS	9.6	3.6	(4.5)	16.0	33.3
Profitability & Return ratios (%)					
EBITDA margin	21.7	19.5	18.3	20.2	21.6
EBIT margin	19.8	17.8	16.5	18.5	20.1
Adjusted profit margin	16.0	14.6	13.2	13.9	15.6
Adjusted ROAE	18.2	15.4	12.3	12.5	14.3
ROCE	21.5	18.0	15.4	17.0	18.1
Working capital days (days)					
Receivables	33	33	34	34	34
Inventory	127	128	84	98	114
Payables	149	130	99	92	85
Ratios (x)					
Gross asset turnover	0.7	0.7	0.7	0.7	0.7
Current ratio	1.1	1.4	1.8	2.4	3.2
Net interest coverage ratio	17.3	19.8	12.5	13.0	40.7
Adjusted debt/equity	0.2	0.1	0.1	0.1	0.0

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

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BUY – Expected return >+15%

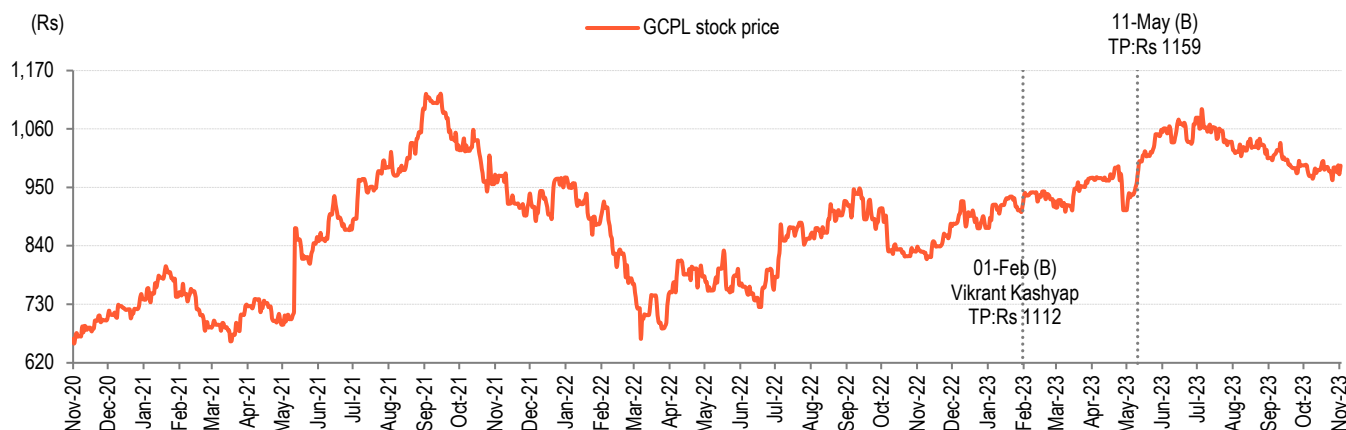
HOLD – Expected return from -6% to +15%

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 (GCPL IN)



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

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