

HOLD
 TP: Rs 1,363 | ▲ 10%

GODREJ CONSUMER PRODUCTS

Consumer Staples

02 February 2024

Consistent volume growth; cut to HOLD post rally

- Sustained quarterly performance amid macro headwinds in domestic markets and currency devaluation in select global markets
- New anti-mosquito incense stick launch expected to spur volume growth in household insecticides category
- TP raised to Rs 1,363 (vs. Rs 1,159) on rollover; downgrade from BUY to HOLD due to sharp run-up in stock price

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Sustained volume-led growth in domestic markets: GCPL reported consolidated Q3FY24 revenue of Rs 36.6bn (+1.7% YoY, +19% CC), with volumes up 8% YoY. India business grew 9% YoY led by a 12% rise in volumes despite a challenging macro environment in domestic markets and currency devaluation in select geographies.

Consistent volume growth in international markets: Indonesia business registered strong volume growth of 9% YoY and revenue growth of 8% YoY in rupee terms (+7% CC) backed by a strong performance in the household insecticides (HI) and hair colour businesses. Revenue from Africa and the Middle East region declined 8% in rupee terms (+14% YoY CC) on account of devaluation of the Naira. Latin America and SAARC sales declined 45% in rupee terms (+181% YoY CC) on account of sharp devaluation of the Argentinian peso.

New product launches to improve volume trajectory: During Q3, GCPL entered the Rs 12bn market for anti-mosquito incense sticks (*agarbatti*) which is dominated by unorganised players. *Goodknight* agarbatti is India’s only government-registered active-based anti-mosquito agarbatti. The product uses a new molecule named renofluthrin (RNF) which GCPL states is close to 2x more effective than other molecules used in India and for which it enjoys exclusive use in the medium term. This apart, the company launched *Godrej Fab* liquid detergent in select markets of South India at a category-defining price of Rs 99/litre.

Revise to HOLD: GCPL has reported strong volume growth in the domestic market and seen improvement in the quality of profits. We expect the company’s emphasis on category development, brand investment and market penetration to support profitable growth. The stock is trading at 51x/ 44.4x FY25E/FY26E EPS. We trim FY24/FY25 EPS estimates 4-6% post Q3 and introduce FY26 forecasts. On rolling valuations over to FY26E, we arrive at a higher TP of Rs 1,363 (vs. Rs 1,159), based on an unchanged P/E multiple of 49x which is in line with the long-term mean. However, we see limited upside following the recent run-up in stock price and hence downgrade GCPL from BUY to HOLD.

Key changes

Target	Rating
▲	▼

Ticker/Price	GCPL IN/Rs 1,237
Market cap	US\$ 15.4bn
Free float	37%
3M ADV	US\$ 18.8mn
52wk high/low	Rs 1,314/Rs 894
Promoter/FPI/DII	63%/24%/13%

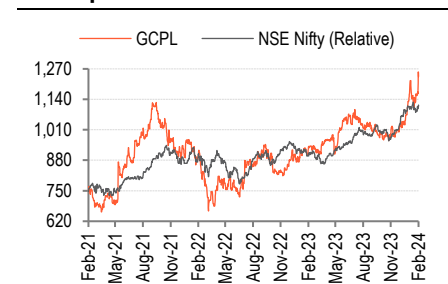
Source: NSE | Price as of 2 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	133,160	142,997	159,471
EBITDA (Rs mn)	24,304	29,486	34,373
Adj. net profit (Rs mn)	17,566	19,949	24,794
Adj. EPS (Rs)	17.2	19.5	24.3
Consensus EPS (Rs)	17.2	19.5	23.7
Adj. ROAE (%)	12.3	12.1	13.6
Adj. P/E (x)	72.0	63.4	51.0
EV/EBITDA (x)	52.0	42.9	36.8
Adj. EPS growth (%)	(4.5)	11.2	30.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

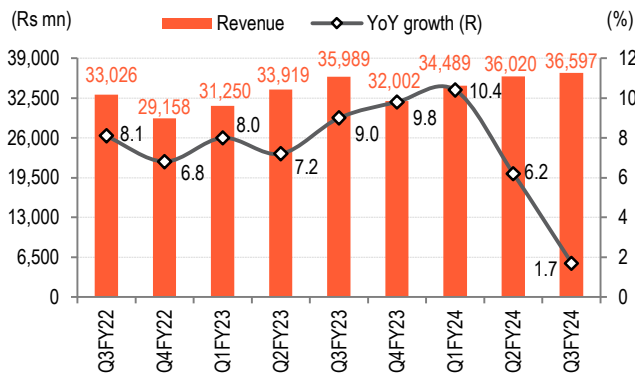


Fig 1 – Financial performance

(Rs mn)	Q3FY24	Q2FY24	Q3FY23	QoQ (%)	YoY (%)	9MFY24	9MFY23	YoY (%)
Revenue	36,596	36,020	35,989	1.6	1.7	107,105	101,158	5.9
EBITDA	8,407	7,042	7,266	19.4	15.7	21,877	17,895	22.3
Adj. PAT	5,879	4,453	5,538	32.0	6.2	14,339	12,823	11.8
Gross Margin (%)	55.9	54.9	51.1	100bps	480bps	54.9	48.6	630bps
EBITDA Margin (%)	23.0	19.5	20.2	350bps	280bps	20.4	17.7	270bps
Adj. PAT Margin (%)	16.1	12.4	15.4	370bps	70bps	13.4	12.7	70bps

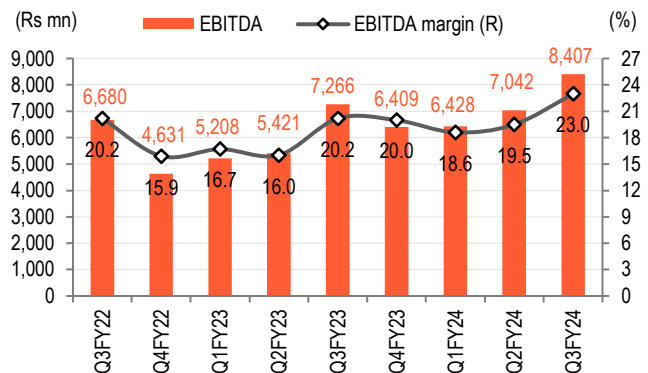
Source: Company, BOBCAPS Research

Fig 2 – Revenue and growth



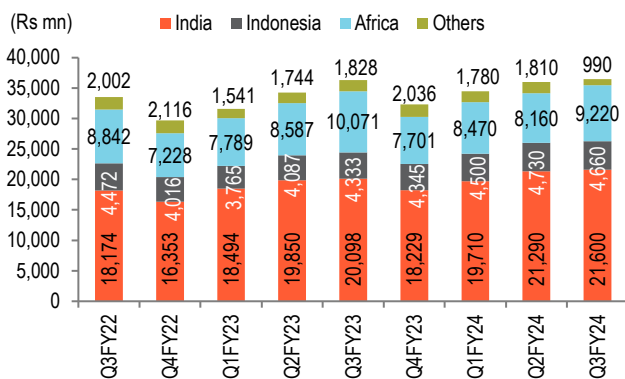
Source: Company, BOBCAPS Research

Fig 3 – EBITDA and margin



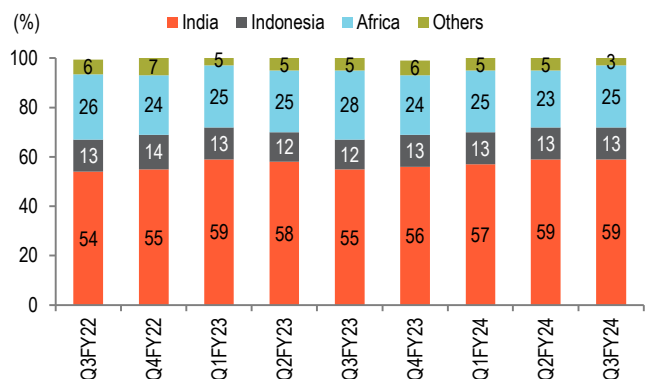
Source: Company, BOBCAPS Research

Fig 4 – Revenue by geography



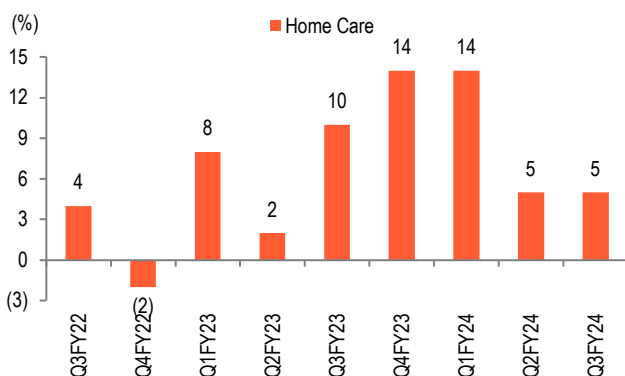
Source: Company, BOBCAPS Research

Fig 5 – Revenue share by geography



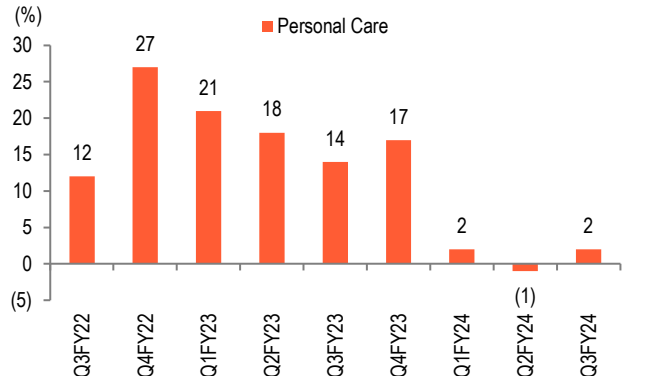
Source: Company, BOBCAPS Research

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's consolidated volumes for Q3FY24 grew 8% and revenue increased 2% YoY. EBITDA (including forex impact) was up 16% and PAT increased 6% YoY.
- Organic underlying volumes grew 5% YoY, in line with expectations. EBITDA margin came in at 23% driven by a better product mix and savings in a benign cost environment.
- PAT lagged PBT due to a higher tax rate, although the cash tax was lower due to MAT credit and a deferred tax charge on brands acquired.
- India volumes grew by 12%, revenue by 9%, and EBITDA (including forex impact) was up 18%.
- The HI segment continues to deliver a steady performance. Hair colour, air freshener, and fabric care are witnessing strong double-digit growth, and the company continues to gain share in these categories. Revenue growth lagged volume growth owing to price declines in the personal wash segment.
- The integration of Raymond's consumer business is now complete, and cost synergies have started to flow. GCPL is now operating with ~30% of its erstwhile overheads and remains confident of achieving the business case for the acquisition.
- Raymond earned Rs 1.4bn in revenue during Q3 despite continued down-stocking. GCPL sees green shoots in many parts of this portfolio, including perfumes and male grooming.
- The Indonesia business continues to deliver a consistent performance, with 9% YoY volume growth, 8% revenue growth, and 12% YoY EBITDA growth (including forex impact). The HI business is seeing the benefits of a significant improvement in product efficacy a few quarters ago. GCPL's hair colour business has started delivering over the last few quarters on account of an impressive performance in shampoo hair colours.
- The GUAM (Africa, US and Middle East) and LATAM businesses saw volatility in rupee sales due to currency devaluation. The Argentine peso devaluated from 361 pesos to 808 pesos against the rupee due to hyperinflation accounting, which impacted nine months of revenue. This had a negative mid-single-digit impact on consolidated sales but a minimal impact on operating profits and cash flows.
- GCPL continues to invest in brands with media investments rising ~200bps YoY.
- Two products were launched during Q3 which the company expects will result in a better volume trajectory ahead. These comprise *Goodknight* Agarbatti and *Fab* liquid detergent, the latter at a category-defining price of Rs 99/litre. GCPL already has two strong brands, *Ezee* and *Genteel*, in the detergent category.
- The company has entered the Rs 12bn market for anti-mosquito incense sticks with the launch of *Goodknight* Agarbatti which uses a novel molecule called RNF indigenously developed in India by GCPL's strategic partner. GCPL has a long strategic partnership with the manufacturer who has been in the HI business for

more than 25 years. The product is priced at Rs 12 in South India and Rs 10 in North India, similar to that of unorganised players.

- Management believes the launch of RNF in the format of incense sticks will change the growth trajectory in the HI category, potentially lifting it to 8-9% levels.

Valuation methodology

GCPL has reported strong volume growth in the domestic market and seen an improvement in the quality of profits. The company's foray into anti-mosquito incense sticks is expected to drive structural growth in the HI category. We further expect the company's emphasis on category development, brand investment, market penetration and business reorganisation to support profitable growth.

The stock is trading at 51x/44.41x FY25E/FY26E EPS. We trim our FY24/FY25 EPS estimates by 4-6% and introduce FY26 forecasts. On rolling valuations over to FY26E, we arrive at a higher TP of Rs 1,363 (vs. Rs 1,159), based on an unchanged P/E multiple of 49x which is in line with the long-term mean. However, we see limited upside following the recent run-up in stock price and hence downgrade GCPL from BUY to HOLD.

Fig 8 – Revised estimates

(Rs mn)	New			Old		Change (%)	
	FY24E	FY25E	FY26E	FY24E	FY25E	FY24E	FY25E
Revenue	142,997	159,471	180,706	148,458	168,366	(3.7)	(5.3)
EBITDA	29,486	34,373	39,219	29,995	36,445	(1.7)	(5.7)
PAT	19,949	24,794	28,429	20,696	26,329	(3.6)	(5.8)
EBITDA margin (%)	20.6	21.6	21.7	20.2	21.6	40bps	0bps
PAT margin (%)	14.0	15.6	15.7	13.9	15.6	10bps	0bps

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	15.1	5,149	5,844	BUY
Dabur India	DABUR IN	11.7	545	673	BUY
Godrej Consumer Products	GCPL IN	15.4	1,237	1,363	HOLD
Hindustan Unilever	HUVR IN	70.1	2,453	2,895	BUY
ITC	ITC IN	66.8	440	532	BUY
Marico	MRCO IN	8.3	530	618	BUY
Nestle India	NEST IN	2.9	2,481	2,826	BUY
Zydus Wellness	ZYWL IN	1.2	1,599	1,556	HOLD

Source: BOBCAPS Research, NSE | Price as of 2 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	122,765	133,160	142,997	159,471	180,706
EBITDA	23,951	24,304	29,486	34,373	39,219
Depreciation	2,099	2,363	2,468	2,529	2,529
EBIT	21,852	21,941	27,018	31,843	36,690
Net interest inc./(exp.)	(1,102)	(1,757)	(2,483)	(834)	(834)
Other inc./(exp.)	897	1,685	2,497	2,049	2,049
Exceptional items	98	541	1,012	0	0
EBT	21,553	21,327	26,020	33,059	37,905
Income taxes	3,719	4,303	7,083	8,265	9,476
Extraordinary items	0	0	0	0	1
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	17,834	17,025	18,937	24,794	28,429
Adjustments	98	541	1,012	0	0
Adjusted net profit	17,931	17,566	19,949	24,794	28,429

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	21,630	18,232	16,375	17,157	19,379
Other current liabilities	2,238	2,290	2,459	2,743	3,108
Provisions	1,832	1,786	1,918	2,139	2,423
Debt funds	16,399	10,720	8,040	4,824	2,894
Other liabilities	3,681	4,018	4,312	4,660	5,108
Equity capital	1,023	1,023	1,023	1,023	1,023
Reserves & surplus	114,537	136,920	155,857	180,651	209,080
Shareholders' fund	115,559	137,942	156,879	181,673	210,103
Total liab. and equities	161,340	174,988	189,983	213,196	243,016
Cash and cash eq.	11,078	3,907	9,004	16,890	31,995
Accounts receivables	11,163	12,453	13,373	14,913	16,899
Inventories	21,299	15,372	17,442	23,011	25,991
Other current assets	4,890	4,432	4,759	5,307	6,014
Investments	10,154	30,290	34,669	39,924	46,230
Net fixed assets	12,749	14,374	16,221	18,207	20,419
CWIP	1,148	416	416	416	416
Intangible assets	78,459	83,996	84,350	84,778	85,301
Deferred tax assets, net	7,315	7,028	7,028	7,028	7,028
Other assets	3,086	2,721	2,721	2,721	2,721
Total assets	161,341	174,988	189,983	213,196	243,016

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	14,506	21,506	16,441	19,610	26,778
Capital expenditures	(2,765)	(2,274)	(4,669)	(4,944)	(5,265)
Change in investments	(4,096)	(16,629)	(4,379)	(5,256)	(6,307)
Other investing cash flows	(1,781)	1,320	2,497	2,049	2,049
Cash flow from investing	(8,642)	(17,583)	(6,552)	(8,150)	(9,522)
Equities issued/Others	0	0	0	0	1
Debt raised/repaid	(2,198)	(6,344)	0	0	0
Interest expenses	(1,123)	(1,116)	(2,483)	(834)	(834)
Dividends paid	0	0	0	0	0
Other financing cash flows	(474)	(483)	(2,309)	(2,740)	(1,316)
Cash flow from financing	(3,795)	(7,943)	(4,792)	(3,574)	(2,150)
Chg in cash & cash eq.	2,068	(4,020)	5,097	7,886	15,105
Closing cash & cash eq.	7,509	3,576	8,673	16,559	31,664

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	17.4	16.7	18.5	24.3	27.8
Adjusted EPS	17.5	17.2	19.5	24.3	27.8
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	113.1	135.0	153.5	177.7	205.5

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	10.3	9.5	8.8	7.9	7.0
EV/EBITDA	52.8	52.0	42.9	36.8	32.2
Adjusted P/E	70.5	72.0	63.4	51.0	44.5
P/BV	10.9	9.2	8.1	7.0	6.0

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	82.7	79.8	72.8	75.0	75.0
Interest burden (PBT/EBIT)	98.6	97.2	96.3	103.8	103.3
EBIT margin (EBIT/Revenue)	17.8	16.5	18.9	20.0	20.3
Asset turnover (Rev./Avg TA)	76.1	76.1	75.3	74.8	74.4
Leverage (Avg TA/Avg Equity)	1.4	1.3	1.2	1.2	1.2
Adjusted ROAE	15.4	12.3	12.1	13.6	13.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	11.3	8.5	7.4	11.5	13.3
EBITDA	0.3	1.5	21.3	16.6	14.1
Adjusted EPS	3.6	(4.5)	11.2	30.9	14.7
Profitability & Return ratios (%)					
EBITDA margin	19.5	18.3	20.6	21.6	21.7
EBIT margin	17.8	16.5	18.9	20.0	20.3
Adjusted profit margin	14.6	13.2	14.0	15.5	15.7
Adjusted ROAE	15.4	12.3	12.1	13.6	13.5
ROCE	18.0	15.4	16.8	17.2	17.2
Working capital days (days)					
Receivables	33	34	34	34	34
Inventory	128	84	98	114	114
Payables	130	99	92	85	85
Ratios (x)					
Gross asset turnover	0.7	0.7	0.7	0.7	0.7
Current ratio	1.4	1.8	2.4	3.3	4.0
Net interest coverage ratio	19.8	12.5	10.9	38.2	44.0
Adjusted debt/equity	0.1	0.1	0.1	0.0	0.0

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

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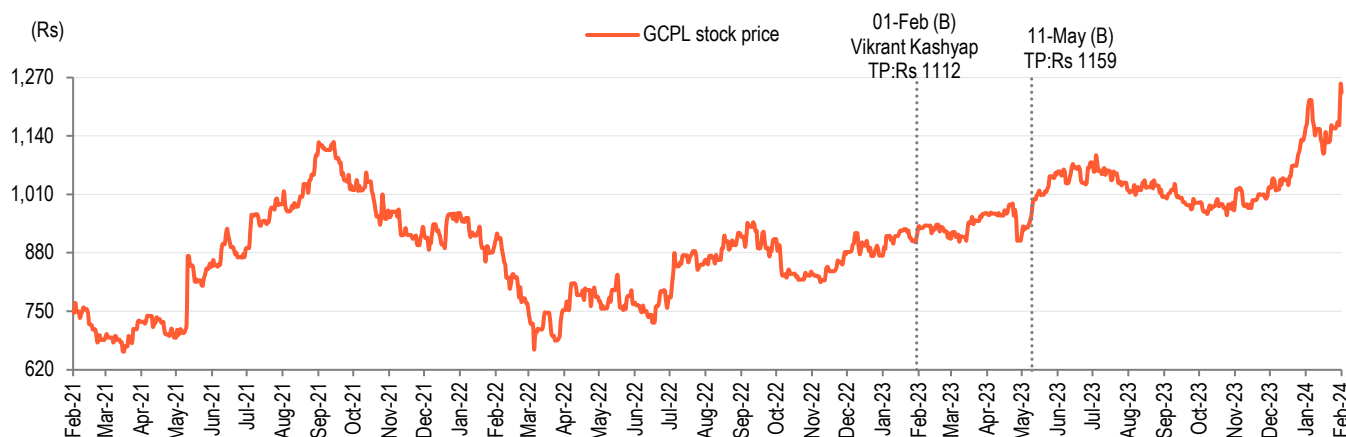
HOLD – Expected return from -6% to +15%

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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