

Godrej Consumer Products

BUY

New management; new strategies; promising outlook

Summary

We present Godrej Consumer Products (GCPL) FY22 annual report key highlights in this report. Appointment of new leaderships; Mr. Sitapati in India and Mr. Sethuraman in Indonesia, shall be helpful to drive muted HI and Indonesia business. Over next 3-5 years GCPL aims to achieve double digit volume growth driven by penetration, market share gains, radical simplifications (reducing SKUs, centralizing category development etc) and disruptive innovations. Access packs, media spends and focus on general trade should aid recovery in HI and Indonesia. E-com now contributes 5% of India revenue. Driven by success of last 2 online-only products; launch of Goodnight Mosquito Net is positive. Retail expansion to be driven by micro-segmentation in urban India and B2B JV in rural India. We maintain BUY with TP of Rs 1,017.

Key Highlights and Investment Rationale

- Double digit volume growth:** GCPL aims to achieve double digit volume growth driven by (i) penetration (top 4 GCPL products which contributes c. 60% of profit are <20% penetrated) (ii) market share gains (by higher media spends and launch of access packs) (iii) simplifying focus (reducing SKUs, centralizing category development).
- Different strategy for retail expansion in urban and rural:** GCPL aims to reach 7 mn outlets during FY22-23 driven by penetration in general trade. In urban India store expansion will be based on opportunity based micro-segmentations while in rural India; GCPL aims to reach villages with <3,000 population through B2B JV.
- Maintain BUY:** We maintain GCPL as one of our high conviction idea. Recovery in HI segment and Indonesia under new management shall be key triggers. We value GCPL at 45x FY23E EPS.

TP **Rs 1,017**

CMP **Rs875**

Potential upside/downside **+16%**

Previous Rating **BUY**

Price Performance (%)

	-1m	-3m	-12m
Absolute	18.8	11.2	(6.9)
Rel to Sensex	17.4	19.7	(7.9)

V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	19.6	22.6
Consensus	19.2	22.9
% difference	2.2	(1.1)

Key Stock Data

Bloomberg/Reuters	GCPL IN / GOCP.BO
Sector	FMCG
Shares o/s (mn)	1,023
Market cap. (Rs mn)	894,452
3-m daily average value (Rs mn)	57.8
52-week high / low	Rs 1,139 / 660
Sensex / Nifty	53,416 / 15,939

Shareholding Pattern (%)

Promoters	63.2
FII	24.2
DII	5.8
Public	6.8

Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	99,108	1,10,286	1,22,765	1,33,449	1,47,495
Change (yoy, %)	(4)	11	11	9	11
EBITDA	21,430	23,880	23,951	27,576	31,582
Change (yoy, %)	1	11	0	15	15
EBITDA Margin(%)	21.6	21.7	19.5	20.7	21.4
Adj.PAT	14,966	17,208	17,831	19,998	23,111
EPS (Rs)	14.6	16.8	17.4	19.6	22.6
Change (yoy, %)	(36.1)	15.0	3.6	12.2	15.6
PE(x)	59.8	52.0	50.2	44.7	38.7
Dividend Yield (%)	0.9	-	-	1.3	1.6
EV/EBITDA (x)	42.6	37.5	37.6	32.2	27.9
RoE (%)	19.7	19.9	17.0	16.7	18.0
RoCE (%)	18.1	20.5	18.4	19.2	20.7

Source: IDBI Capital Research

Appointment of Mr. Sudhir Sitapati has been most eventful for GCPL. The share price rose by c. 15% on the day of announcement.

Followed by Mr. Sitapati, Mr. Rajesh Sethuraman has been inducted as CEO for ASEAN and Mrs. Peters as CFO for Africa, USA and Middle East business.

Exhibit 1: Key appointments in FY22

Particulars	Designations	Brief profile
Sudhir Sitapati	MD & CEO	Worked with Unilever for over 23 years
Rajesh Sethuraman	CEO of ASEAN	Worked at HUL & Unilever, (c. 21 years) leading teams across categories/divisions in South Asia and Sub-Saharan Africa
Vijay Kannan	Head of Business Transformation and Digital	Has been associated with Hindustan Unilever (Chief IT Officer) and Shell (Global Chief Information and Digital Officer)
Adesola Sotande Peters	CFO of Africa, USA and Middle East business	Worked at Diageo (c. 8 years) and Unilever (c.7 years)

Source: LinkedIn, Company; IDBI Capital Research

Exhibit 2: Strategy for next 3-5 years for GCPL; double digit underlying volume growth (UVG)

Strategy for next 3-5 years; double digit volume growth led by category development through radical simplifications.

*Using “less is more” principle GCPL will be aiming for fewer, bigger and better innovations while **smaller brands are likely to be discontinued** to drive superior value realization potential.*

The Growth Plan

Driver	Contribution
Penetration gains on 50% of portfolio	50%
Moderate share gain on 50% of portfolio	15%
Consumption led market growth	25%
Disruptive innovation	10%
Total	100%



Fuel for Growth

Save	Invest
Gross Margins	Media and Sampling
Discounts	Salaries
Overheads	Digital and Automation
Non Media ATL	Distribution
▲ 150-200 bps expansion	
Inventory	CAPEX

Source: Company; IDBI Capital Research

4 countries; India, Indonesia, Nigeria and Bangladesh accounts for 80% of GCPL's revenuetogether, these countries comprise a 3rd of world's population and have consistently grown at twice the GDP growth of the world

4 products; Good Knight (LV and Aerosol, Rs 1000cr+ brand), Hair Care (Hair Colors, Dry Hair products etc) and Air Care contribute 60% to profit pool. These products are c. 20% penetrated and hence presents big runway for volume driven growth through category development.

Exhibit 3: GCPL's strength



Source: Company; IDBI Capital Research

Exhibit 4: Category penetration at c. 20%

Category penetration	FY21
Air Fresheners (Indonesia)	28%
Household Insecticide Aerosols (Indonesia)	23%
Liquid Vapourisers (India)	28%
Hair Colour Crème (India)	13%

Source: Company; IDBI Capital Research

Exhibit 5: Revenue contribution %

Country	FY22	Category	FY22
India	56%	Personal Care	58%
Indonesia	14%	Home Care	39%
Africa, USA & Middle East	25%	Others	3%
Others	5%		
Total	100%		100%

In personal care; Soap and Hair Color contributes c; 33% and 10% to total revenue

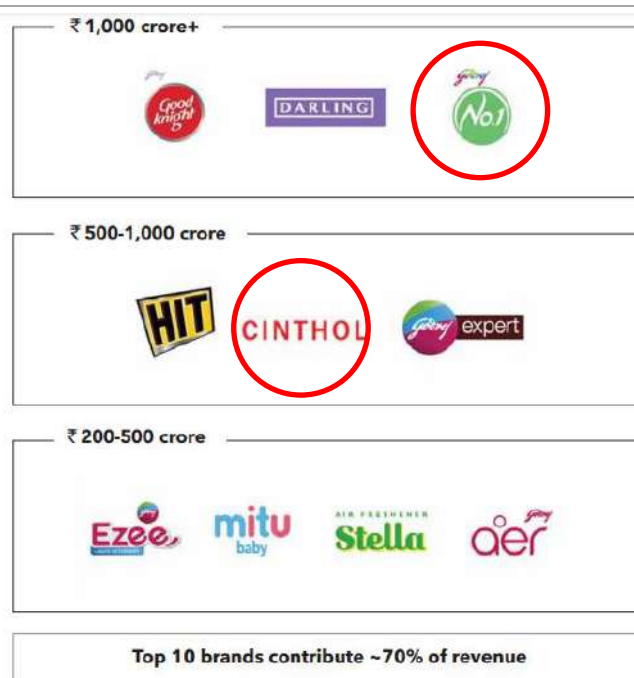
Source: Company; IDBI Capital Research

In soaps; GCPL continues to be no. 2 player with Godrej No. 1 (Rs 1000cr+ brand) and Cinthol (Rs 500-1000cr brand) as flagship brands.

In Household Insecticide; Good Knight (Rs 1000cr + brand) and HIT (Rs 500-1000cr brand) continues to dominate the market with No. 1 position.

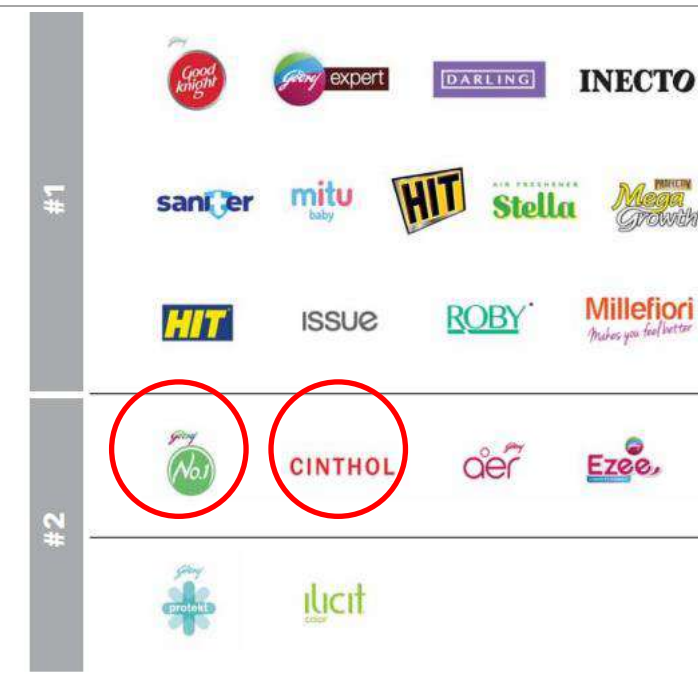
In Hair Care; Godrej Expert (Rs 500-1000cr hair color brand in India) and Darling (Rs 1000cr+ brand in Africa and USA) continues to dominate as no. 1 player in respective hair care category.

Exhibit 6: Market size of power brand (FY22)



Source: Company; IDBI Capital Research

Exhibit 7: Brand positions across key markets (FY22)



Source: Company; IDBI Capital Research

Exhibit 8: New operating philosophy

1. Less is more; much less is much more	2. Consumer first, Business second	3. Think local, Act global	4. Tomorrow before today	5. Better from within, Different from outside
<ul style="list-style-type: none"> • Aim to narrow focus and improve return on investments • Currently in India; GCPL produces 500 SKUs but each store keeps only 12...hence compared to best in class Indian peers; GCPL's inventory days are 1.7x higher (high inventory cost). 	<ul style="list-style-type: none"> • GCPL will delink media investments from short term business performance (media is an investment in future). Hence, media investment will be same, regardless of gross margins in the short term. 	<ul style="list-style-type: none"> • Act Global; in India GCPL has setup centralized global category team which shall look-into product development, innovation and brand communication • Think Local; market/category development, advertising, brand building will be done locally in respective markets • In category development initiatives; Soaps in India and Dry Hair in Africa are not likely to be globalized as they are local businesses operating in one geography. 	<ul style="list-style-type: none"> • Decoupling ambitions from forecasting; this is to be achieved by making real-forecasts instead of forecasting-ambitions and thereby holding senior management responsible for delivering on the goals. 	<ul style="list-style-type: none"> • By promoting inside talent; pls refer Exhibit no. 9


Source: Company; IDBI Capital Research

Exhibit 9: Better from within, Different from outside

Promoting inside talent; employees who have worked for 8-18 years have been given preference for higher responsibilities. This helps in retaining talents.

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Better from within, Different from outside

 <p>Robert Menzies</p> <p>8 years at GCPL</p> <p>Appointed Global Head of Categories on 18 October</p>	 <p>Somasree Bose</p> <p>18 years at GCPL</p> <p>Appointed Chief Marketing Officer (India) on 18 October</p>	 <p>Tom Dawes</p> <p>10 years at GCPL</p> <p>Appointed Global Head of Equity and Communication on 25 November</p>
 <p>Amit Jain</p> <p>10 years at GCPL</p> <p>Added responsibility of Sales Development to Customer Marketing in India</p>	 <p>Adesola Sotande-Peters</p> <p>Appointed Chief Financial Officer of Africa, USA and Middle East (15 years of experience working at large MNCs across Africa)</p>	

Source: Company; IDBI Capital Research

An example of think local and act global through brand cross-pollination; Magic – GCPL’s revolutionary powder to liquid handwash (available at 1/4th the cost of other hand washes in the market) – has been launched in all global key markets (India, Africa, Indonesia and Latin America)thereby, making Magic as first ever global product of GCPL.

Next big priority is building Goodknight Gold Flash Liquid Vaporiser into a global product too similar to Magic!

Exhibit 10: Magic sold under Godrej Protekt brand in India, SAARC and South Africa



India & SAARC



South Africa

Source: Company; IDBI Capital Research

Exhibit 11: Magic sold under Bidex brand in Chile and Villeneuve brand in Argentina



Chile



Argentina

Source: Company; IDBI Capital Research

In ecommerce space; online only launches performed well despite COVID19 disruptions;

In FY20 launched; HIT Anti Mosquito Racquet and Godrej Aer Matic ...the Racquet has been notable success (with 80% market share and revenue of Rs 40cr as on FY22) while Aer Matic has received encouraging response (Rs 5cr revenue)

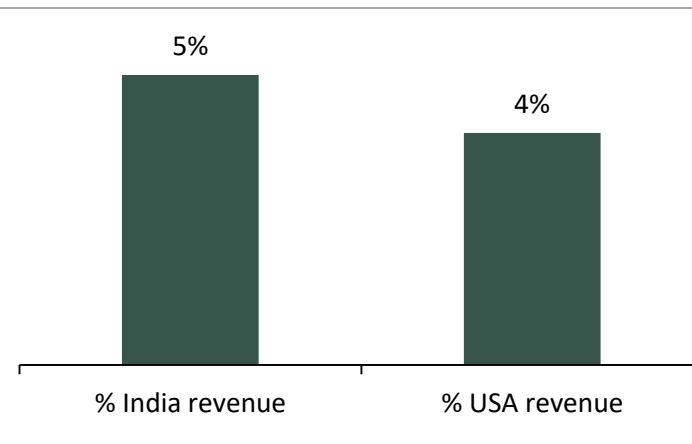
Looking at these successes; GCPL has launched Goodknight Mosquito Net in FY22

Exhibit 12: Online only products launches and revenue (FY22)



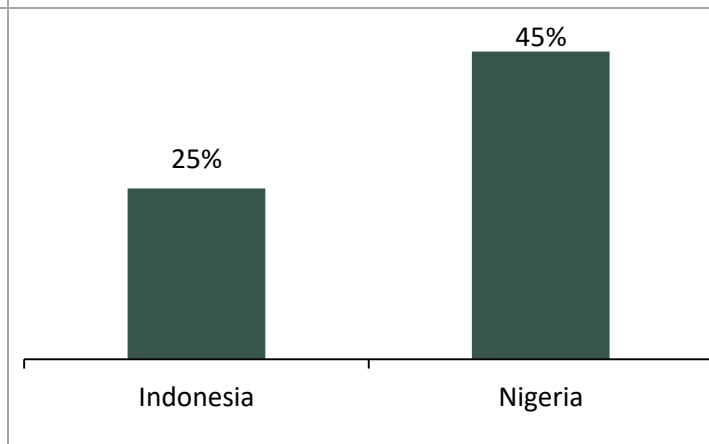
Source: Company; IDBI Capital Research

Exhibit 13: E-com now contributes c. 4-5% of revenue from USA and India respectively



Source: Company; IDBI Capital Research

Exhibit 14: Revenue growth in Indonesia and Nigeria growing at high double digit rate



Source: Company; IDBI Capital Research

On distribution; focus in India, Indonesia and Bangladesh business will be to deepen penetration in traditional trade.

In urban India; store expansion will be based on opportunity based micro-segmentation.

In rural India; GCPL has done JV with a B2B partner (in FY21) which shall help the company to reach rural villages with population below 3,000 (where GCPL is not being able to reach directly through existing sub-stockist network which grew 5% in FY22). This **B2B initiative has now been extended to 15 states in FY22.**

Frontline sales force now moved to third-party payroll. This shall improve productivity of sales-staff. Pilot has been successfully tested in Mumbai and will now be scaled up to towns with >1 mn population.

Exhibit 15: Key highlights on distribution channels

Geography (80% revenue contribution)	Retail footprint	Key highlight
India	Increase reach from 6 mn to 7 mn outlets during FY22-23E	To focus on improving distribution in traditional kirana and neighbourhood convenience stores which has gained more prominence post COVID
Indonesia	Direct distribution to reach c. 1,75,000 outlets	Laying emphasis on expanding chemist channel (baby care and hair care portfolio sells well here). Modern trade accounts for 70% of Indonesia business.
Nigeria		In Nigeria; trade is largely unorganized and wholesale led. Hence; scaling up van models , sub-distributor models and salon advocacy
Bangladesh	Direct distribution to reach c. 1,00,000 outlets	Modern trade are restricted only to urban centres. Hence, focus is to improve distribution in traditional kiranas

Source: Company; IDBI Capital Research

Exhibit 16: Darling brand now available in USA in Target stores. Darling was launched in Walmart in FY20



Source: Company; IDBI Capital Research

Indonesia; overall business declined 4% in INR (5% in CC) during FY22 and 0% CAGR during FY21-22. This was due to (i) muted growth in HI due to category slowdown (ii) competitive headwinds in baby wipes

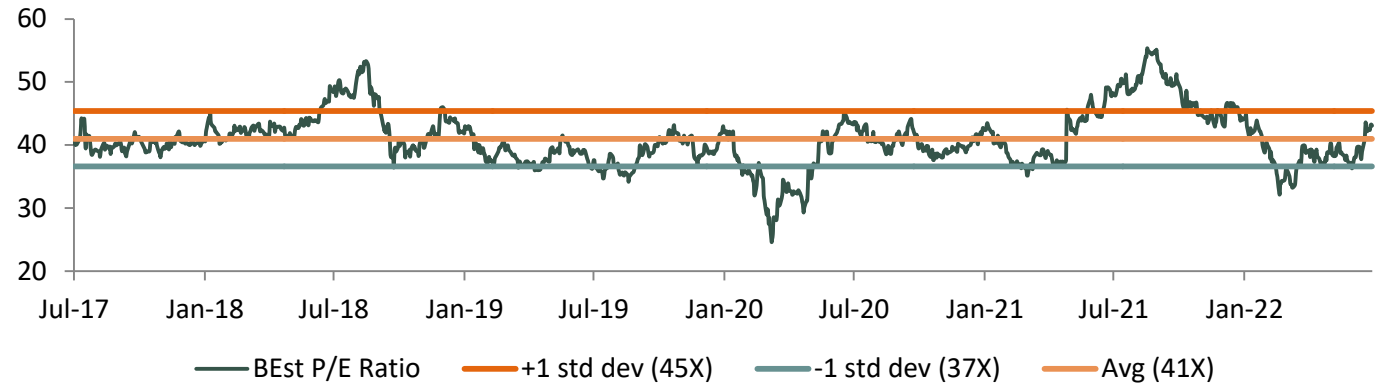
Africa; revenue grew 22% in CC terms driven by (i) braid premiumization in South Africa (ii) strong growth in newly launched HI (Goodnight Aerosol) (iii) improved traction in hair fashion in USA by distribution strength of Target and Walmart as channel partners (iv) encouraging response of using Vans as distribution channel in Nigeria

Exhibit 17: Geography wise revenue growth of last 4 years

Revenue %	India	Indonesia	Africa	Others
Q1FY19	10%	9%	10%	7%
Q2FY19	11%	13%	13%	-34%
Q3FY19	6%	9%	14%	-37%
Q4FY19	-1%	19%	14%	-58%
Q1FY20	0%	5%	-1%	-53%
Q2FY20	1%	17%	-6%	-33%
Q3FY20	1%	13%	-1%	-3%
Q4FY20	-18%	9%	-18%	-1%
Q1FY21	5%	9%	-22%	-3%
Q2FY21	10%	5%	10%	42%
Q3FY21	11%	0%	15%	12%
Q4FY21	35%	5%	30%	31%
Q1FY22	20%	1%	59%	25%
Q2FY22	9%	0%	15%	-4%
Q3FY22	7%	0%	14%	11%
Q4FY22	9%	-15%	15%	18%

Source: Company; IDBI Capital Research

Exhibit 18: Last five year; one year forward Price to Earnings



Source: Bloomberg; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	1,03,143	99,108	1,10,286	1,22,765	1,33,449	1,47,495
<i>Change (yoy, %)</i>	3.8	(3.9)	11.3	11.3	8.7	10.5
Operating expenses	(81,967)	(77,678)	(86,406)	(98,814)	(1,05,873)	(1,15,913)
EBITDA	21,176	21,430	23,880	23,951	27,576	31,582
<i>Change (yoy, %)</i>	2.4	1.2	11.4	0.3	15.1	14.5
<i>Margin (%)</i>	20.5	21.6	21.7	19.5	20.7	21.4
Depreciation	(1,700)	(1,973)	(2,039)	(2,099)	(1,165)	(1,279)
EBIT	19,476	19,458	21,842	21,852	26,412	30,304
Interest paid	(2,243)	(2,174)	(1,266)	(1,102)	(1,447)	(1,447)
Other income	1,088	1,123	673	897	1,006	1,157
Pre-tax profit	18,321	18,406	21,248	21,647	25,971	30,014
Tax	2,562	(2,638)	(3,595)	(3,719)	(5,973)	(6,903)
<i>Effective tax rate (%)</i>	(14.0)	14.3	16.9	17.2	23.0	23.0
Minority Interest	6.3	8.1	(0.1)	(0.1)	(0.1)	(0.1)
Net profit	20,890	15,776	17,653	17,928	19,998	23,111
Exceptional items	(2,526)	811	445	98	-	-
Adjusted net profit	23,415	14,966	17,208	17,831	19,998	23,111
<i>Change (yoy, %)</i>	43.2	(36.1)	15.0	3.6	12.2	15.6
EPS	22.9	14.6	16.8	17.4	19.6	22.6
Dividend per sh	12.0	8.0	-	-	11.7	13.6
<i>Dividend Payout (%)</i>	52.4	54.6	-	-	60.0	60.0

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Shareholders' funds	72,669	78,984	94,389	1,15,559	1,23,558	1,32,803
Share capital	1,022	1,022	1,023	1,023	1,023	1,023
Reserves & surplus	71,647	77,961	93,367	1,14,537	1,22,536	1,31,780
Total Debt	28,757	26,637	7,595	16,077	16,077	16,077
Other liabilities	4,066	3,671	2,277	2,253	2,253	2,253
Curr Liab & prov	36,208	40,279	38,563	27,448	31,950	34,700
Current liabilities	35,700	39,719	37,839	26,686	31,187	33,938
Provisions	509	560	724	762	762	762
Total liabilities	69,032	70,587	48,435	45,777	50,279	53,029
Total equity & liabilities	1,41,701	1,49,570	1,42,825	1,61,341	1,73,837	1,85,832
Net fixed assets	87,223	92,884	89,622	93,357	94,399	95,647
Investments	347	348	216	1,711	1,711	1,711
Other non-curr assets	7,247	8,254	8,263	9,399	8,212	8,212
Current assets	46,884	48,083	44,724	56,873	69,320	80,067
Inventories	15,586	17,031	17,163	21,299	20,767	22,953
Sundry Debtors	12,929	11,573	10,045	11,163	12,155	13,434
Cash and Bank	8,947	7,702	6,722	11,078	23,065	30,346
Loans and advances	-	-	-	-	-	-
Total assets	1,41,701	1,49,570	1,42,825	1,61,341	1,73,837	1,85,832

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	18,328	18,515	20,804	21,550	25,971	30,014
Depreciation	1,700	1,973	2,039	2,099	1,165	1,279
Tax paid	(4,351)	(3,441)	(3,972)	(4,475)	(5,973)	(6,903)
Chg in working capital	(384)	(1,456)	(3,153)	(3,916)	4,042	(715)
Other operating activities	1,996	290	4,578	(6)	1,447	1,447
Cash flow from operations (a)	17,289	15,881	20,296	15,253	26,651	25,122
Capital expenditure	(2,077)	(1,520)	(1,639)	(2,765)	(2,206)	(2,527)
Chg in investments	3,672	(4,382)	(1,516)	(5,877)	1,187	(0)
Other investing activities	921	570	-	-	-	-
Cash flow from investing (b)	2,516	(5,333)	(3,155)	(8,642)	(1,019)	(2,527)
Equity raised/(repaid)	(7)	0	0	0	-	-
Debt raised/(repaid)	-	2,473	(2,473)	(2,198)	-	-
Dividend (incl. tax)	(12,265)	(8,178)	-	-	(11,999)	(13,866)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(8,115)	(7,249)	(15,689)	(1,597)	(1,447)	(1,447)
Cash flow from financing (c)	(20,387)	(12,953)	(18,162)	(3,795)	(13,445)	(15,313)
Net chg in cash (a+b+c)	(583)	(2,405)	(1,021)	2,815	12,187	7,282

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	71	77	92	113	121	130
Adj EPS (Rs)	22.9	14.6	16.8	17.4	19.6	22.6
Adj EPS growth (%)	43.2	(36.1)	15.0	3.6	12.2	15.6
EBITDA margin (%)	20.5	21.6	21.7	19.5	20.7	21.4
Pre-tax margin (%)	17.8	18.6	19.3	17.6	19.5	20.3
Net Debt/Equity (x)	0.3	0.2	0.0	0.0	(0.1)	(0.1)
ROCE (%)	19.0	18.1	20.5	18.4	19.2	20.7
ROE (%)	34.6	19.7	19.9	17.0	16.7	18.0

DuPont Analysis

Asset turnover (x)	0.7	0.7	0.8	0.8	0.8	0.8
Leverage factor (x)	2.1	1.9	1.7	1.4	1.4	1.4
Net margin (%)	22.7	15.1	15.6	14.5	15.0	15.7

Working Capital & Liquidity ratio

Inventory days	55	63	57	63	57	57
Receivable days	46	43	33	33	33	33
Payable days	113	117	91	80	90	91

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	38.2	59.8	52.0	50.2	44.7	38.7
Price/Book value (x)	12.3	11.3	9.5	7.7	7.2	6.7
EV/Net sales (x)	8.9	9.2	8.1	7.3	6.7	6.0
EV/EBITDA (x)	43.2	42.6	37.5	37.6	32.2	27.9
Dividend Yield (%)	1.4	0.9	0.0	0.0	1.3	1.6

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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