

Godrej Consumer Products

BUY

Maintains growth momentum; upgrade to BUY

Summary

Godrej Consumer Products (GCPL) result was in-line with our estimates. India business continues to grow at high double digit on a base of 5%YoY driven by strong growth within categories of home care and personal care. GCPL continues to gain market share in soap and hair colour portfolio. In international market; except Indonesia market, which was impacted (zero revenue growth in CC) due to 2nd wave induced lockdowns, performance of other geographies remained promising (48-60%YoY). Gross margin witnessed sharp contraction despite 4-5% price hike during the quarter due to significant increase in raw material prices. Management expects inflationary pressure to persist. As per revised business outlook; we have trimmed our EPS estimate for FY22E by 5% while maintaining FY23E estimates. Our revised TP stands at Rs 1,171. We upgrade the stock to BUY.

Key Highlights and Investment Rationale

- Double-digit growth momentum continues; hair color, soaps gained market share**
 Consolidated revenue grew 24%YoY driven by 19%YoY (+5%YoY 1QFY21) growth in India business while international business grew 30% (-9% YoY 1QFY21). Revenue from home care grew 14%YoY (India business +21%YoY) while from Personal Care grew 29%YoY (India business 17%YoY). GCPL gained market share in soaps and hair color during the quarter. In international market; Africa, USA & Middle East grew 60% YoY (CC), Latin America & SAARC grew 48% YoY (CC), Indonesia grew 0% YoY (CC). Indonesia business was impacted due to 2nd wave induced lockdowns.
- Cost pressures impact margins; operating leverage supports EBITDA**
 Gross margin contracted sharply by 210bp YoY to 52% (highest over last 4 quarters) due to higher input cost inflation compared to price hikes. EBITDA margin however expanded due to scale benefits (lower other expense and employee expense as % of revenue). EPS grew 5% YoY to Rs 4.
- Upgrade to BUY**
 We have trimmed our EPS estimate for FY22E by 5% thereby incorporating impact of inflation on gross margin. We upgrade our valuation multiple to 55x as we expect GCPL to outperform competition by gaining market share, faster turnaround in Indonesia and South Africa business. Our revised TP stands at Rs 1,171 with a BUY rating.

TP	Rs1,171	
CMP	Rs976	
Potential upside / downside	+20%	

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	18.8	21.3
Consensus	19.0	21.9
% difference	(1.1)	(2.9)

Shareholding Pattern (%)

Promoters	63.2
FII	27.0
DII	1.2
Public	8.6

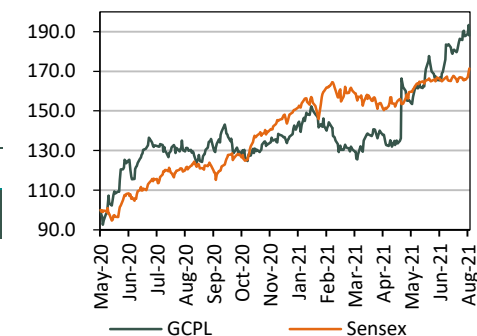
Price Performance (%)

	-1m	-3m	-12m
Absolute	9.5	39.8	41.0
Rel to Sensex	5.7	26.8	(3.6)

Key Stock Data

Bloomberg / Reuters	GCPL IN /GOCP.BO
Sector	FMCG
Shares o/s (mn)	1,023
Market cap. (Rs mn)	997,951
Market cap. (US\$ mn)	13,412
3-m daily average value (Rs mn)	1,307.7
52-week high / low	Rs1,024 / 642
Sensex / Nifty	54,493 / 16,295

Relative to Sensex (%)



Financial snapshot

Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	103,143	99,108	110,286	122,061	131,621
EBITDA	21,176	21,430	23,880	28,008	31,135
EBITDA (%)	20.5	21.6	21.7	22.9	23.7
Adj. PAT	23,415	14,966	17,208	19,201	21,771
EPS (Rs)	22.9	14.6	16.8	18.8	21.3
EPS Growth (%)	43.2	(36.1)	15.0	11.6	13.4
PE (x)	42.1	65.9	57.3	51.3	45.3
Dividend Yield (%)	1.2	0.8	-	1.1	1.3
EV/EBITDA (x)	47.5	46.9	41.3	35.0	31.2
RoE (%)	34.6	19.7	19.9	19.5	20.4
RoCE (%)	19.0	18.1	20.5	23.9	24.8

Source: IDBI Capital Research;

Exhibit 1: Consolidated Quarterly Snapshot

(INR m)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenues	28,945	23,273	24.4	27,307	6.0	110,286	99,108	11.3
COGS	13,847	10,645	30.1	12,084	14.6	49,294	42,617	15.7
Gross profit	15,098	12,629	19.5	15,223	-0.8	60,992	56,491	8.0
<i>Gross Margin (%)</i>	<i>52.2</i>	<i>54.3</i>	<i>-210 bps</i>	<i>55.7</i>	<i>-359 bps</i>	<i>55.3</i>	<i>57.0</i>	<i>-170 bps</i>
Employee expenses	2,904	2,618	10.9	3,084	-5.8	11,233	10,242	9.7
<i>% of net sales</i>	<i>10.0</i>	<i>11.2</i>	<i>-122 bps</i>	<i>11.3</i>	<i>-126 bps</i>	<i>10.2</i>	<i>10.3</i>	<i>-15 bps</i>
Advertisement expenses	1,472	1,047	40.5	1,909	-22.9	7,332	7,391	-0.8
<i>% of net sales</i>	<i>5.1</i>	<i>4.5</i>	<i>59 bps</i>	<i>7.0</i>	<i>-190 bps</i>	<i>6.6</i>	<i>7.5</i>	<i>-81 bps</i>
Other Expenses	4,722	4,237	11.5	4,741	-0.4	18,546	17,511	5.9
<i>% of net sales</i>	<i>16.3</i>	<i>18.2</i>	<i>-189 bps</i>	<i>17.4</i>	<i>-105 bps</i>	<i>16.8</i>	<i>17.7</i>	<i>-85 bps</i>
EBITDA	6,000	4,727	26.9	5,490	9.3	23,880	21,347	11.9
<i>EBITDA Margin (%)</i>	<i>20.7</i>	<i>20.3</i>	<i>42 bps</i>	<i>20.1</i>	<i>62 bps</i>	<i>21.7</i>	<i>21.5</i>	<i>11 bps</i>
Depreciation	509	493	3.1	545	-6.6	2,039	1,973	3.3
EBIT	5,491	4,234	29.7	4,945	11.03	21,842	19,374	12.7
Other Income	209	218	-4.0	166	26.1	673	1,206	-44.2
Interest Expenses	273	483	-43.5	229	19.2	1,266	2,174	-41.8
PBT	5,427	3,968	36.8	4,882	11.2	21,248	18,406	15.4
Taxes	1,272	147	764.4	586	117.2	3,595	2,638	36.3
Adjusted PAT	4,155	3,821	8.7	4,296	-3.3	17,653	15,768	12.0
Extra-ordinary items	-16	132	-111.8	-638	-98	-445	-811	-45.1
Share in Profit/loss of associate	-3	-4	-34.2	0	-725	-2	8	-128.4
Reported PAT	4,137	3,949	4.8	3,658	13.1	17,206	14,966	15.0
EPS	4.0	3.9	4.7	3.6	13.1	16.8	14.6	15.0

Source: Company; IDBI Capital Research

Exhibit 2: Segmental revenue break-up

Segmental Revenue	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
India	16,607	13,807	20.3%	14,997	10.7%	62,543	54,745	14.2%
Indonesia	4,115	4,056	1.4%	4,711	-12.7%	17,700	16,959	4.4%
Africa	6,942	4,373	58.7%	6,304	10.1%	24,985	23,162	7.9%
Others	1,597	1,273	25.5%	1,787	-10.6%	6,673	5,557	20.1%
Segmental EBIT								
India	4,271	3,782	12.9%	3,277	30.3%	16,341	14,576	12.1%
Indonesia	930	984	-5.4%	1,641	-43.3%	4,809	4,601	4.5%
Africa	324	-294	-210.1%	220	46.9%	1,065	1,692	-37.0%
Others	214	128	66.6%	47	359.4%	716	89	702.5%
EBIT Margin (%)								
India	25.7%	27.4%	-167bps	21.8%	387bps	26.1%	26.6%	-50bps
Indonesia	5.6%	7.1%	-152bps	10.9%	-534bps	7.7%	8.4%	-72bps
Africa	4.7%	-6.7%	1139bps	3.5%	117bps	4.3%	7.3%	-304bps
Others	13.4%	10.1%	330bps	2.6%	1077bps	10.7%	1.6%	912bps

Source: Company; IDBI Capital Research

Exhibit 3: Standalone Quarterly Snapshot

(INR m)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenues	16,607	13,807	20.3	14,997	10.7	62,543	54,745	14.2
COGS	7,852	6,035	30.1	6,632	18.4	27,094	22,460	20.6
Gross profit	8,755	7,771	12.7	8,365	4.7	35,449	32,285	9.8
<i>Gross Margin (%)</i>	52.7	56.3	-357 bps	55.8	-306 bps	56.7	59.0	-229 bps
Employee expenses	1,082	1,061	2.0	1,196	-9.5	4,171	3,192	30.7
<i>% of net sales</i>	6.5	7.7	-117 bps	8.0	-146 bps	6.7	5.8	84 bps
Advertisement expenses	880	736	19.5	1,359	-35.2	5,435	5,566	-2.3
<i>% of net sales</i>	5.3	5.3	-3 bps	9.1	-376 bps	8.7	10.2	-148 bps
Other Expenses	2,474	2,213	11.8	2,439	1.4	9,321	9,050	3.0
<i>% of net sales</i>	14.9	16.0	-113 bps	16.3	-136 bps	14.9	16.5	-163 bps
EBITDA	4,319	3,762	14.8	3,372	28.1	16,523	14,477	14.1
<i>EBITDA Margin (%)</i>	26.0	27.2	-124 bps	22.5	352 bps	26.4	26.4	-3 bps
Depreciation	210	202	4.0	216	-2.7	834	814	2.5
EBIT	4,109	3,560	15.4	3,156	30.17	15,689	13,663	14.8
Other Income	162	222	-26.9	121	34.6	654	913	-28.4
Interest Expenses	19	122	-84.8	16	17.1	248	580	-57.2
PBT	4,252	3,660	16.2	3,261	30.4	16,094	13,996	15.0
Taxes	999	790	26.5	754	32.4	3,696	2,197	68.2
Adjusted PAT	3,254	2,870	13.4	2,507	29.8	12,399	11,799	5.1
Extra-ordinary items	0	-154		0		-154	0	
Reported PAT	3,254	2,717	19.8	2,507	29.8	12,245	11,799	3.8
EPS	3.2	2.7	19.8	2.45	29.8	12.0	11.5	3.8

Source: Company; IDBI Capital Research

Exhibit 4: Actual vs. Estimates

(Rs mn)

Particulars	Actual	IDBI Estimate	% variation IDBI
Revenue	28,945	28,898	0.2
EBITDA	6,000	5,866	2.3
Margin (%)	20.7	20.3	
PAT	4,155	4,020	3.3

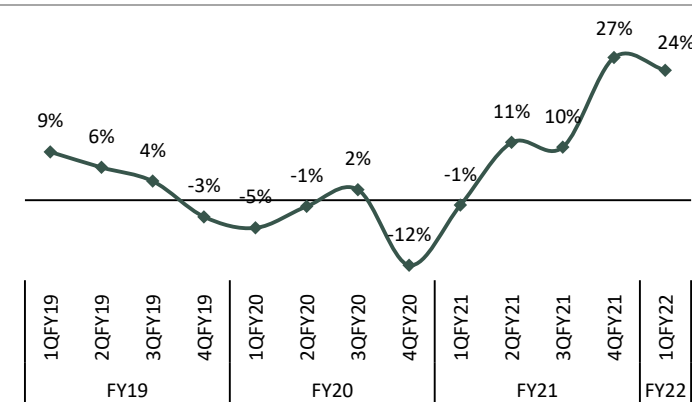
Source: Company; IDBI Capital Research

Exhibit 5: Change in estimates

	FY22E			FY23E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	122,061	122,061	0.0	131,621	131,621	0.0
EBITDA (Rs mn)	29,094	28,008	-3.7	31,135	31,135	0.0
EBITDA margin (%)	23.8	22.9		23.7	23.7	
Net profit (Rs mn)	20,294	19,201	-5.4	21,824	21,771	-0.2
EPS (Rs)	19.9	18.8	-5.4	21.3	21.3	-0.2

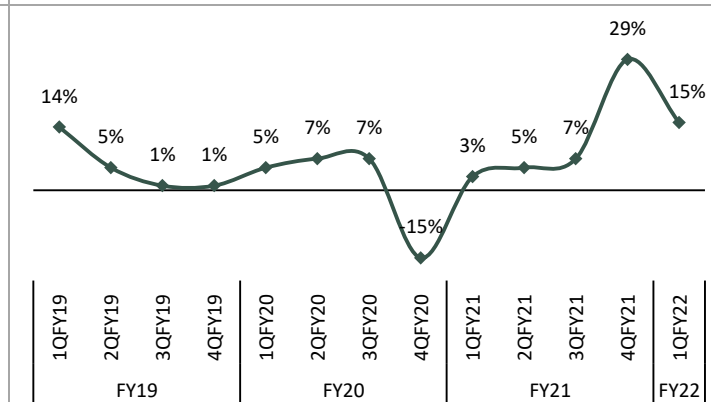
Source: Company; IDBI Capital Research

Exhibit 6: Revenue growth trend (% YoY)



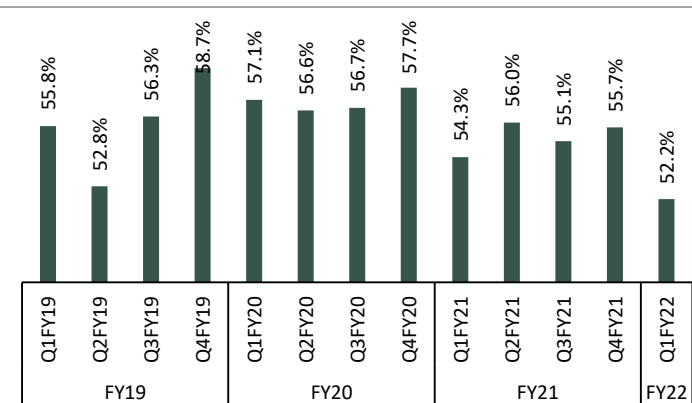
Source: Company; IDBI Capital Research

Exhibit 7: Domestic volume growth (%)



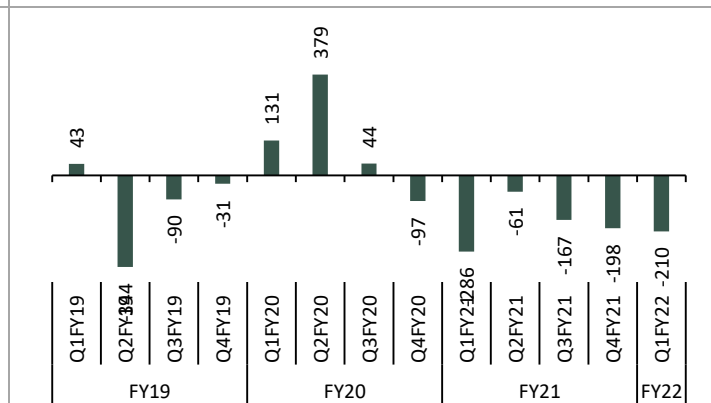
Source: Company; IDBI Capital Research

Exhibit 8: Gross Margin (%)



Source: Company; IDBI Capital Research

Exhibit 9: Change in Gross Margin (YoY in bp)



Source: Company; IDBI Capital Research

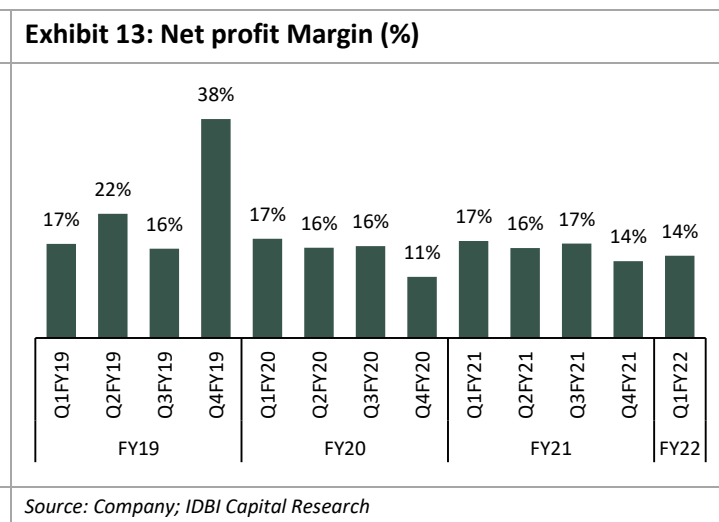
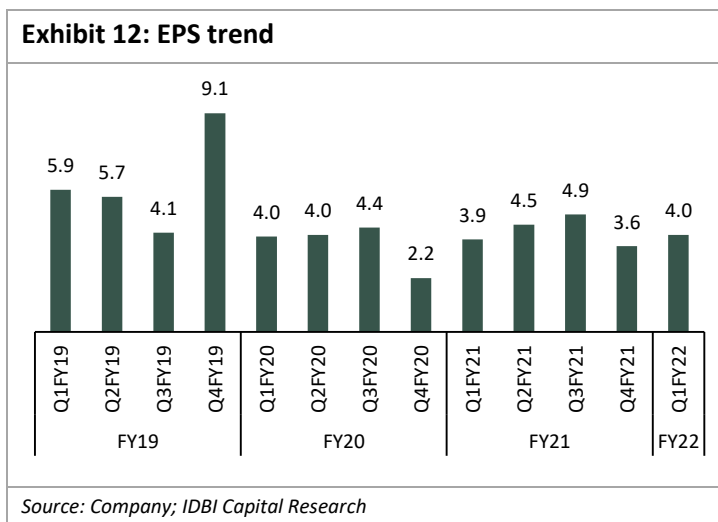
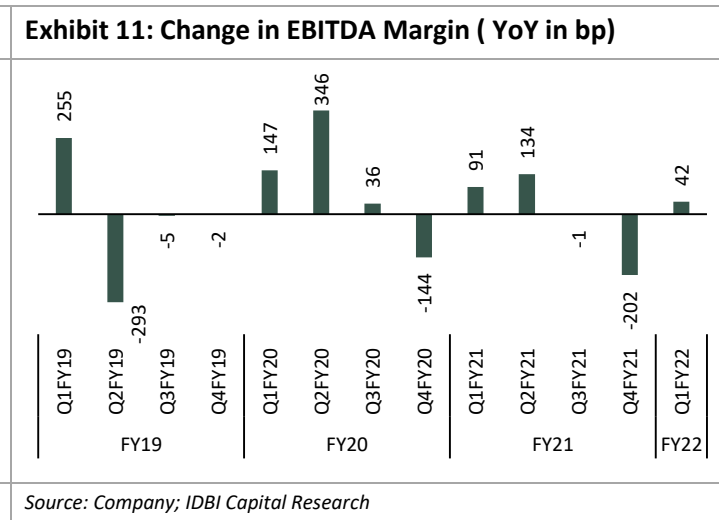
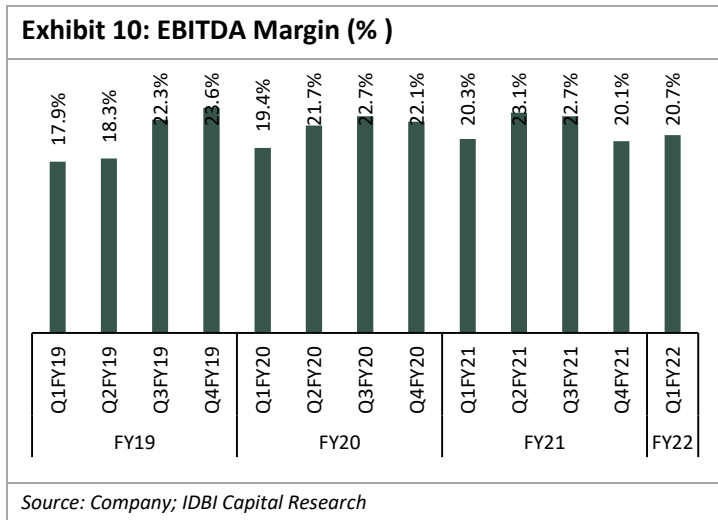
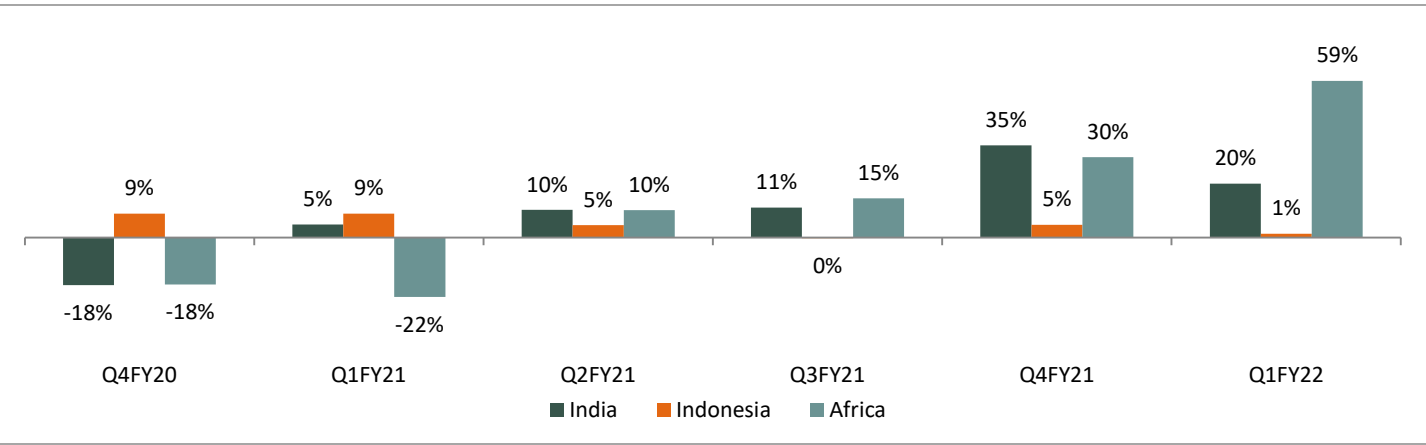


Exhibit 14: International business growth trends



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net sales	99,108	110,286	122,061	131,621
<i>Growth (%)</i>	<i>(3.9)</i>	<i>11.3</i>	<i>10.7</i>	<i>7.8</i>
Operating expenses	(77,678)	(86,406)	(94,052)	(100,486)
EBITDA	21,430	23,880	28,008	31,135
<i>Growth (%)</i>	<i>1.2</i>	<i>11.4</i>	<i>17.3</i>	<i>11.2</i>
Depreciation	(1,973)	(2,039)	(2,137)	(2,249)
EBIT	19,458	21,842	25,872	28,886
Interest paid	(2,174)	(1,266)	(987)	(684)
Other income	1,123	673	775	891
Pre-tax profit	18,406	21,248	25,659	29,093
Tax	(2,638)	(3,595)	(6,466)	(7,332)
<i>Effective tax rate (%)</i>	<i>14.3</i>	<i>16.9</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	8.1	(0.1)	7.8	8.8
Net profit	15,776	17,653	19,201	21,771
Exceptional items	811	445	-	-
Adjusted net profit	14,966	17,208	19,201	21,771
<i>Growth (%)</i>	<i>(36.1)</i>	<i>15.0</i>	<i>11.6</i>	<i>13.4</i>
<i>Shares o/s (mn nos)</i>	<i>1,022</i>	<i>1,022</i>	<i>1,022</i>	<i>1,022</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Pre-tax profit	18,515	20,804	25,659	29,093
Depreciation	1,973	2,039	2,137	2,249
Tax paid	(3,441)	(3,972)	(6,466)	(7,332)
Chg in working capital	(1,456)	(3,153)	(599)	(486)
Other operating activities	290	4,578	987	684
Cash flow from operations (a)	15,881	20,296	21,718	24,208
Capital expenditure	(1,520)	(1,639)	(2,801)	(2,491)
Chg in investments	(4,382)	(1,516)	592	9
Other investing activities	570	-	-	-
Cash flow from investing (b)	(5,333)	(3,155)	(2,209)	(2,482)
Equity raised/(repaid)	0	0	-	-
Debt raised/(repaid)	2,473	(2,473)	-	-
Dividend (incl. tax)	(8,178)	-	(11,244)	(13,062)
Chg in minorities	-	-	-	-
Other financing activities	(7,249)	(15,689)	(987)	(684)
Cash flow from financing (c)	(12,953)	(18,162)	(12,232)	(13,746)
Net chg in cash (a+b+c)	(2,405)	(1,021)	7,277	7,980

Balance Sheet (Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	92,884	89,622	90,286	90,528
Investments	348	216	216	216
Other non-curr assets	8,254	8,263	7,679	7,679
Current assets	48,083	44,724	54,906	65,245
Inventories	17,031	17,163	18,995	20,483
Sundry Debtors	11,573	10,045	11,117	11,988
Cash and Bank	7,702	6,722	13,999	21,979
Marketable Securities	-	-	-	-
Loans and advances	-	-	-	-
Total assets	149,570	142,825	153,087	163,667
Shareholders' funds	78,984	94,389	102,346	111,054
Share capital	1,022	1,023	1,023	1,023
Reserves & surplus	77,961	93,367	101,323	110,031
Total Debt	26,637	7,595	7,595	7,595
Secured loans	26,637	7,595	7,595	7,595
Unsecured loans	-	-	-	-
Other liabilities	3,671	2,277	2,277	2,277
Curr Liab & prov	40,279	38,563	40,869	42,741
Current liabilities	39,719	37,839	40,145	42,017
Provisions	560	724	724	724
Total liabilities	70,587	48,435	50,741	52,613
Total equity & liabilities	149,570	142,825	153,087	163,667
Book Value (Rs)	77	92	100	109

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	14.6	16.8	18.8	21.3
Adj. EPS growth (%)	(36.1)	15.0	11.6	13.4
EBITDA margin (%)	21.6	21.7	22.9	23.7
Pre-tax margin (%)	18.6	19.3	21.0	22.1
ROE (%)	19.7	19.9	19.5	20.4
ROCE (%)	18.1	20.5	23.9	24.8
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.7	0.8	0.8	0.8
Leverage factor (x)	1.9	1.7	1.5	1.5
Net margin (%)	15.1	15.6	15.7	16.5
Net Debt/Equity (x)	0.2	0.0	(0.1)	(0.1)
Working Capital & Liquidity ratio				
Inventory days	63	57	57	57
Receivable days	43	33	33	33
Payable days	117	91	93	94

Valuation

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	65.9	57.3	51.3	45.3
Price / Book value (x)	12.5	10.4	9.6	8.9
PCE (x)	58.2	51.2	46.2	41.0
EV / Net sales (x)	10.1	8.9	8.0	7.4
EV / EBITDA (x)	46.9	41.3	35.0	31.2
Dividend Yield (%)	0.8	0.0	1.1	1.3



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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