

Godrej Consumer Products

BUY

Above expected; maintain BUY

Summary

Godrej Consumer Products (GCPL) result was better than our estimates. Africa continues to positively surprise with strong double digit revenue growth. India business also remained on strong footing driven by continued double digit revenue growth momentum in soap portfolio and strong recovery in hair color (grew 14% YoY vs -5%YoY growth in 2QFY21). Revenue growth in House Hold Insecticide segment remained healthy at 7%YoY. Overall, GCPL continues to benefit from health and hygiene tailwind. Gross margins contracted due to inflationary raw material prices, however strict cost control led to EBITDA Margins being flat YoY. We revise our FY21-23 EPS estimates upwards led by better than expected recovery in India and Africa business and strong traction in hygiene portfolio. We maintain our BUY rating on the stock with a revised TP of Rs 908 (45x FY23E EPS).

Key Highlights and Investment Rationale

India and Africa business drives double digit revenue growth

Consolidated revenue grew 10% (2nd consecutive quarter of double digit growth) led by strong recovery in India (revenue grew 11%YoY), Africa, USA & Middle East (+17%YoY in CC terms) and Latin America & SAARC (+35%YoY in CC terms). Business in Indonesia declined by 2% YoY CC due (i) adverse macroeconomic factors, (ii) high competitive intensity in wet wipes and (iii) gradual recovery in air freshener. Domestic volumes grew by 7%YoY. Revenue from Soap and HI grew by 15% and 7% YoY while hair color grew by 14% (after 4 quarters of decline).

Cost rationalization offsets inflationary raw material impact

Gross margin contracted 167bp YoY to 55.1% due to significant inflation in Palm oil prices. EBITDA margin remained flat YoY due to strong control on other expenses (+1%YoY, -143bp YoY as % of revenue) and employee expenses (+7%YoY, -30bp YoY as % of revenue). PBT grew 14%YoY while EPS recorded lower growth of 12%yoY due to higher effective tax rate in current quarter at 22% (vs 20% in 3QFY20).

Strong growth momentum to continue; Maintain BUY

We upgrade our EPS estimates upwards for FY21-23E by 3-5% as we expect double digit growth momentum in India and Africa business to continue. We maintain our BUY rating on the stock with TP of Rs 908 (prev Rs881).

Q3FY21 Result Review

TP	Rs908
CMP	Rs736
Potential upside / downside	+23%
Previous Rating	BUY

V/s Consensus

	EPS (Rs)	FY21E	FY22E	FY23E
IDBI Capital	17.2	18.7	20.2	
Consensus	16.7	18.7	21.0	
% difference	3.0	(0.1)	(3.8)	

Shareholding Pattern (%)

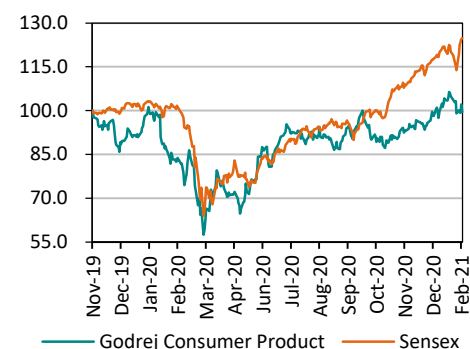
Promoters	63.2
FII	26.8
DII	3.1
Public	6.9

Price Performance (%)

	-1m	-3m	-12m
Absolute	(1.9)	9.8	13.8
Rel to Sensex	(7.1)	(12.7)	(11.0)

Key Stock Data	
Bloomberg / Reuters	GCPL IN /GOCP.BO
Sector	FMCG
Shares o/s (mn)	1,022
Market cap. (Rs mn)	7,52,857
Market cap. (US\$ mn)	10,318
3-m daily average value (Rs mn)	396.3
52-week high / low	Rs808 / 425
Sensex / Nifty	51,349 / 15,116

Relative to Sensex (%)



Financial snapshot

Year	FY2019	FY2020	FY2021E	FY2022E	FY2023E
Revenue	1,03,143	99,108	1,09,808	1,21,053	1,30,542
EBITDA	21,176	21,430	24,450	28,576	30,573
EBITDA (%)	20.5	21.6	22.3	23.6	23.4
Adj. PAT	23,415	14,966	17,533	19,117	20,616
EPS (Rs)	22.9	14.6	17.2	18.7	20.2
EPS Growth (%)	43.2	(36.1)	17.2	11.5	7.8
PE (x)	32.1	50.3	42.9	39.4	36.5
Dividend Yield (%)	1.6	1.1	1.5	1.5	1.6
EV/EBITDA (x)	36.5	36.0	31.3	26.5	24.6
RoE (%)	34.6	19.7	21.3	21.4	21.2
RoCE (%)	19.0	18.1	19.9	22.1	22.1

Source: Company; IDBI Capital Research

Conference Call Highlights

Business Performance:

- GCPL reported second consecutive quarter of double digit growth led by strong performance in India (11%YoY), Africa, USA & Middle East (+17% in CC) and Latin America and SAARC (+35% YoY in cc). Indonesia business declined by 2%YoY in cc terms.
- 81% of global portfolio comprising of Household insecticide, hygiene, and value for money grew at 14%. The remaining part of the portfolio declined by 3%.

International business:

- Indonesia business was impacted by (i) adverse macroeconomic factors and (ii) high competitive intensity in wet wipes and (iii) gradual recovery in air freshener.
- We wipes (14-15% of overall business in Indonesia) was impacted by entry of a new player in the market, who is aggressive on pricing. Growth in the segment would be 300 to 400bps higher in case of lesser competitive intensity.
- GCPL launched Saniter soap in Indonesia given the high demand for health soaps.
- Distribution reach of GCPL in Indonesia has increased from 85,000 outlets to 1, 20,000 outlets in the last 2-3 years.
- Growth in Africa was led by distribution led gains, market share gains and entry in new categories in West Africa.
- GCPL has launched Darling range of hair extension in US in partnership with Walmart. Hair extension is a billion dollar category in US.
- Latin America and SAARC sales grew by 35% YoY in cc terms. The profitability in these geographies is volatile led by high inflationary macroeconomic environment.

Household insecticide

- Premium formats (electric and aerosol) and non-mosquito portfolio have grown at double digit while burning format has dragged the category growth down.
- Illegal incense sticks faced supply chain issues in Q1 due to lockdown but now have come back to the market. GCPL's natural incense stick has not been able to tackle the incense stick players.
- Globally, personal repellent contributes 25-30% of HI category whereas in India it contributes 2-3%. The segment was impacted by limited mobility. Management expects this segment to revive when schools start.
- GCPL has more than 50% market share in HI business and even higher share in premium categories.

Hygiene segment

- Hygiene reported a strong growth of 19% led by robust performance in soaps (+15% YoY) in domestic business and good traction on NPDs.
- There was significant inflation in Palm oil prices during the quarter and the company took pricing increase. Out of 15% growth in soaps category, two-third was volume led and remaining was pricing growth.
- GCPL's micro-marketing initiatives have helped soap portfolio gain market share over the last 18-20 months.
- During high commodity inflation cycles many unorganized players come under pressure. Therefore management believes the growth is driven by market share gains.

Exhibit 1: Consolidated Quarterly Snapshot

(INR m)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	YTD FY21	YTD FY20	YoY (%)
Revenues	30,554	27,781	10.0	29,151	4.8	82,979	77,570	7.0
COGS	13,733	12,023	14.2	12,833	7.0	37,210	33,512	11.0
Gross profit	16,822	15,757	6.8	16,318	3.1	45,769	44,058	3.9
<i>Gross Margin (%)</i>	<i>55.1</i>	<i>56.7</i>	<i>-167 bps</i>	<i>56.0</i>	<i>-92 bps</i>	<i>55.2</i>	<i>56.8</i>	<i>-164 bps</i>
Employee expenses	2,865	2,687	6.6	2,667	7.4	8,150	8,005	1.8
<i>% of net sales</i>	<i>9.4</i>	<i>9.7</i>	<i>-30 bps</i>	<i>9.1</i>	<i>23 bps</i>	<i>9.8</i>	<i>10.3</i>	<i>-50 bps</i>
Advertisement expenses	2,291	2,063	11.0	2,086	9.8	5,424	6,126	-11.5
<i>% of net sales</i>	<i>7.5</i>	<i>7.4</i>	<i>7 bps</i>	<i>7.2</i>	<i>34 bps</i>	<i>6.5</i>	<i>7.9</i>	<i>-136 bps</i>
Other Expenses	4,732	4,700	0.7	4,837	-2.2	13,805	13,346	3.4
<i>% of net sales</i>	<i>15.5</i>	<i>16.9</i>	<i>-143 bps</i>	<i>16.6</i>	<i>-111 bps</i>	<i>16.6</i>	<i>17.2</i>	<i>-57 bps</i>
EBITDA	6,935	6,307	10.0	6,729	3.1	18,390	16,582	10.9
<i>EBITDA Margin (%)</i>	<i>22.7</i>	<i>22.7</i>	<i>-1 bps</i>	<i>23.1</i>	<i>-39 bps</i>	<i>22.2</i>	<i>21.4</i>	<i>79 bps</i>
Depreciation	491	490	0.1	509	-3.6	1,494	1,441	3.6
EBIT	6,444	5,816	10.8	6,219	3.61	16,896	15,141	11.6
Other Income	150	235	-36.1	139	7.8	507	715	-29.0
Interest Expenses	241	477	-49.6	313	-23.3	1,037	1,559	-33.5
PBT	6,353	5,574	14.0	6,045	5.1	16,367	14,296	14.5
Taxes	1,400	1,084		1,463		3,010	1,563	
Adjusted PAT	4,954	4,490	10.3	4,582	8.1	13,357	12,733	4.9
Extra-ordinary items	65	-44	-249.3	-3	-2,015	194	-76	
Share in Profit/loss of associate	2	6	-68.4	2	20	-2	10	
Reported PAT	5,021	4,452	12.8	4,580	9.6	13,548	12,667	7.0
EPS	4.9	4.4	12.8	4.5	9.6	13.3	12.4	7.0

Source: Company; IDBI Capital Research

Exhibit 2: Segmental revenue break-up

Segmental Revenue	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	YTD FY21	YTD FY20	YoY (%)
India	16,948	15238.7	11.2%	16791.9	0.9%	47546	43,605	9.0%
Indonesia	4,473	4482.2	-0.2%	4459.7	0.3%	12989	12,465	4.2%
Africa	7,788	6787	14.8%	6520	19.5%	18682	18,322	2.0%
Others	1,800	1612.2	11.7%	1813.2	-0.7%	4886	4,198	16.4%
Segmental EBIT								
India	4629.4	4426	4.6%	4653.3	-0.5%	13064.3	11514.8	13.5%
Indonesia	1083.6	1123.7	-3.6%	1101.1	-1.6%	3168.2	3057.3	3.6%
Africa	724	599.9	20.7%	415	74.6%	844.8	1,570	-46.2%
Others	211	7	2833.3%	330	-36.0%	669.3	28	2325.0%
EBIT Margin (%)								
India	27.3%	29.0%	-173bps	27.7%	-40bps	27.5%	26.4%	107bps
Indonesia	6.4%	7.4%	-98bps	6.6%	-16bps	6.7%	7.0%	-35bps
Africa	9.3%	8.8%	46bps	6.4%	294bps	4.5%	8.6%	-405bps
Others	11.7%	0.4%	1129bps	18.2%	-646bps	13.7%	0.7%	1304bps

Source: Company; IDBI Capital Research

Exhibit 3: Standalone Quarterly Snapshot

(INR m)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	YTD FY21	YTD FY20	YoY (%)
Revenues	16,948	15,239	11.2	16,792	0.9	47,546	43,605	9.0
COGS	7,235	6,092	18.8	7,192	0.6	20,462	17,884	14.4
Gross profit	9,713	9,147	6.2	9,600	1.2	27,084	25,721	5.3
<i>Gross Margin (%)</i>	<i>57.3</i>	<i>60.0</i>	<i>-271 bps</i>	<i>57.2</i>	<i>14 bps</i>	<i>57.0</i>	<i>59.0</i>	<i>-202 bps</i>
Employee expenses	984	844	16.6	931	5.7	2,975	2,749	8.2
<i>% of net sales</i>	<i>5.8</i>	<i>5.5</i>	<i>27 bps</i>	<i>5.5</i>	<i>26 bps</i>	<i>6.3</i>	<i>6.3</i>	<i>-5 bps</i>
Advertisement expenses	1,731	1,554	11.4	1,609	7.6	4,077	4,629	-11.9
<i>% of net sales</i>	<i>10.2</i>	<i>10.2</i>	<i>2 bps</i>	<i>9.6</i>	<i>63 bps</i>	<i>8.6</i>	<i>10.6</i>	<i>-204 bps</i>
Other Expenses	2,278	2,339	-2.6	2,391	-4.7	6,882	6,894	-0.2
<i>% of net sales</i>	<i>13.4</i>	<i>15.3</i>	<i>-191 bps</i>	<i>14.2</i>	<i>-80 bps</i>	<i>14.5</i>	<i>15.8</i>	<i>-134 bps</i>
EBITDA	4,720	4,411	7.0	4,669	1.1	13,151	11,449	14.9
<i>EBITDA Margin (%)</i>	<i>27.8</i>	<i>28.9</i>	<i>-110 bps</i>	<i>27.8</i>	<i>4 bps</i>	<i>27.7</i>	<i>26.3</i>	<i>140 bps</i>
Depreciation	206	213	-3.1	210	-1.7	618	606	2.0
EBIT	4,514	4,198	7.5	4,459	1.22	12,533	10,843	15.6
Other Income	117	228	-48.6	194	-39.6	533	672	-20.6
Interest Expenses	44	130	-66.1	67	-33.9	232	377	-38.4
PBT	4,587	4,296	6.8	4,587	0.0	12,833	11,137	15.2
Taxes	1,072	647		1,081		2,942	1,742	
Adjusted PAT	3,515	3,649	-3.7	3,506	0.3	9,892	9,395	5.3
Extra-ordinary items	0	0		0		-154	0	
Reported PAT	3,515	3,649	-3.7	3,506	0.3	9,738	9,395	3.6
EPS	3.4	3.6	-3.7	3.43	0.3	9.5	9.2	3.6

Source: Company; IDBI Capital Research

Exhibit 4: Actual vs. Estimates

(Rs mn)

Particulars	Actual	IDBI Estimate	% variation IDBI
Revenue	30,554	30,612	(0.2)
EBITDA	6,935	6,735	3.0
Margin (%)	22.7	22.0	
PAT	4,954	4599	7.7

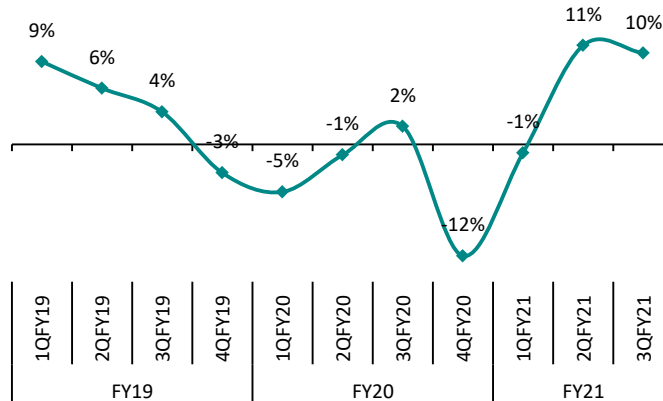
Source: Company; IDBI Capital Research

Exhibit 5: Change in estimates

	FY21E			FY22E			FY23E		
	Old	New	(%) Chg	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	1,04,560	1,09,808	5.0	1,17,341	1,21,053	3.2	1,25,279	1,30,542	4.2
EBITDA (Rs mn)	24,284	24,450	0.7	27,621	28,576	3.5	29,561	30,573	3.4
EBITDA margin (%)	23.2	22.3		23.5	23.6		24.0	23.4	
Net profit (Rs mn)	16,021	17,533	9.4	18,561	19,117	3.0	20,017	20,616	3.0
EPS (Rs)	15.7	17.2	9.4	18.2	18.7	3.0	19.6	20.2	3.0

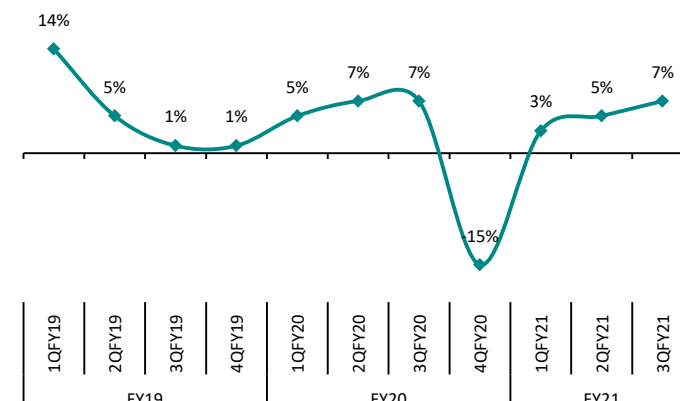
Source: Company; IDBI Capital Research

Exhibit 6: Revenue growth trend (% YoY)



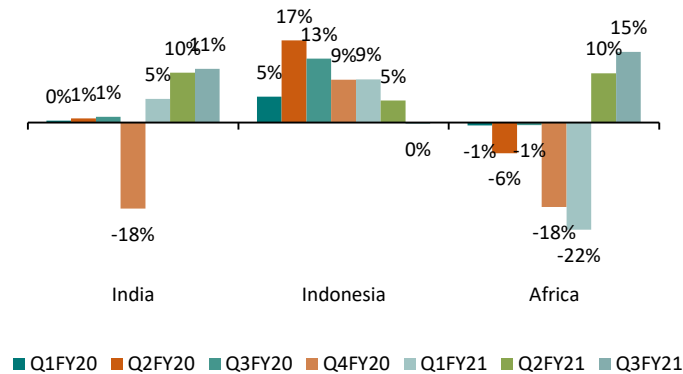
Source: Company; IDBI Capital Research

Exhibit 7: Domestic volume growth (%)



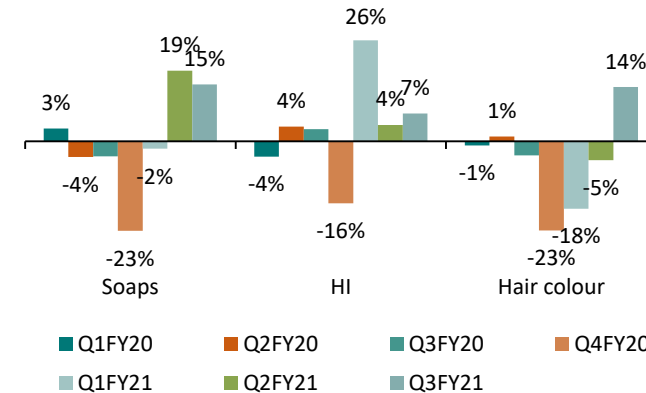
Source: Company; IDBI Capital Research

Exhibit 8: International business growth trends

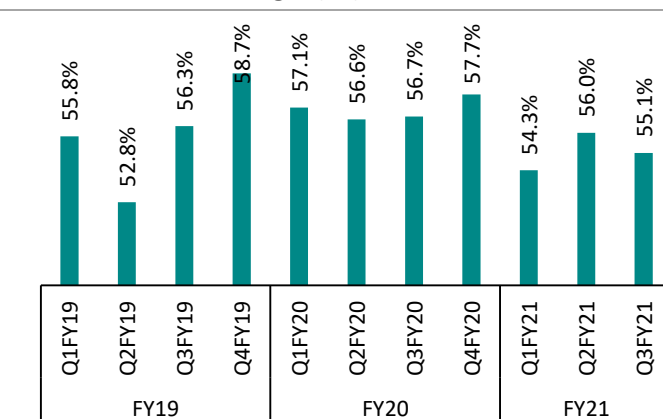


Source: Company; IDBI Capital Research

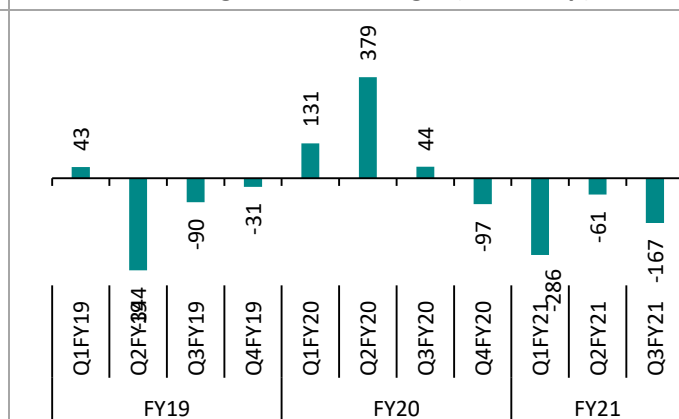
Exhibit 9: Segment growth trends



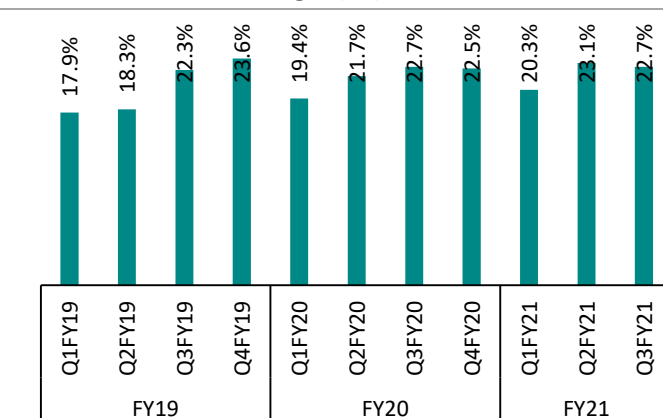
Source: Company; IDBI Capital Research

Exhibit 10: Gross Margin (%)


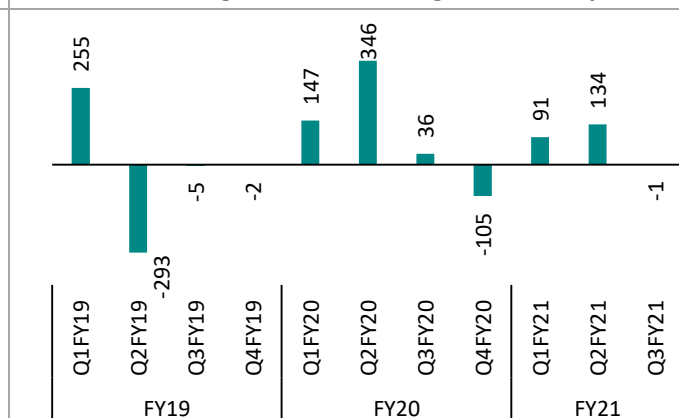
Source: Company; IDBI Capital Research

Exhibit 11: Change in Gross Margin (YoY in bp)


Source: Company; IDBI Capital Research

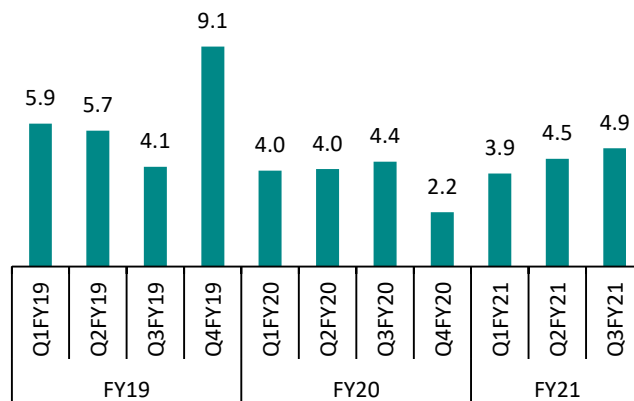
Exhibit 12: EBITDA Margin (%)


Source: Company; IDBI Capital Research

Exhibit 13: Change in EBITDA Margin (YoY in bp)


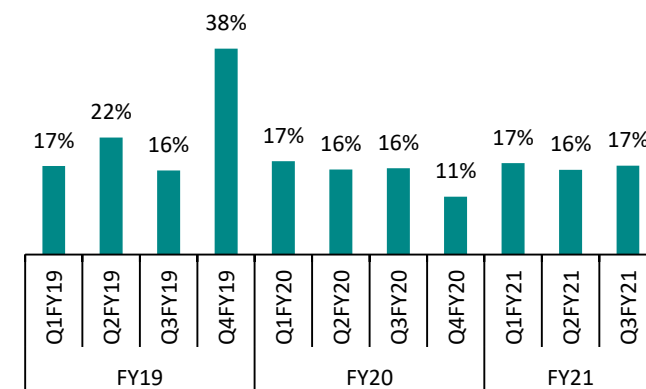
Source: Company; IDBI Capital Research

Exhibit 14: EPS trend



Source: Company; IDBI Capital Research

Exhibit 15: Net profit Margin (%)



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net sales	99,108	1,09,808	1,21,053	1,30,542
<i>Growth (%)</i>	<i>(3.9)</i>	<i>10.8</i>	<i>10.2</i>	<i>7.8</i>
Operating expenses	(77,678)	(85,358)	(92,477)	(99,969)
EBITDA	21,430	24,450	28,576	30,573
<i>Growth (%)</i>	<i>1.2</i>	<i>14.1</i>	<i>16.9</i>	<i>7.0</i>
Depreciation	(1,973)	(2,077)	(2,206)	(2,316)
EBIT	19,458	22,372	26,370	28,257
Interest paid	(2,174)	(1,332)	(1,598)	(1,598)
Other income	1,123	674	775	891
Pre-tax profit	18,406	21,714	25,547	27,550
Tax	(2,638)	(4,382)	(6,438)	(6,943)
<i>Effective tax rate (%)</i>	<i>14.3</i>	<i>20.2</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	8.1	6.6	7.7	8.3
Net profit	15,776	17,339	19,117	20,616
Exceptional items	811	194	-	-
Adjusted net profit	14,966	17,533	19,117	20,616
<i>Growth (%)</i>	<i>(36.1)</i>	<i>17.2</i>	<i>11.5</i>	<i>7.8</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	FY21E	FY22E	FY23E
Pre-tax profit	18,515	21,908	25,547	27,550
Depreciation	1,973	2,077	2,206	2,316
Tax paid	(3,441)	(4,382)	(6,438)	(6,943)
Chg in working capital	(1,456)	(714)	(462)	(390)
Other operating activities	290	1,332	1,598	1,598
Cash flow from operations (a)	15,881	20,221	22,451	24,132
Capital expenditure	(1,520)	(1,956)	(2,858)	(2,446)
Chg in investments	(4,382)	7	826	8
Other investing activities	570	-	-	-
Cash flow from investing (b)	(5,333)	(1,949)	(2,031)	(2,438)
Equity raised/(repaid)	0	-	-	-
Debt raised/(repaid)	2,473	-	-	-
Dividend (incl. tax)	(8,178)	(11,244)	(11,244)	(12,369)
Chg in minorities	-	-	-	-
Other financing activities	(7,249)	(1,332)	(1,598)	(1,598)
Cash flow from financing (c)	(12,953)	(12,576)	(12,842)	(13,968)
Net chg in cash (a+b+c)	(2,405)	5,696	7,577	7,727

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net fixed assets	92,884	92,763	93,415	93,544
Investments	348	348	348	348
Other non-curr assets	8,254	8,254	7,436	7,436
Current assets	48,083	57,065	67,908	78,390
Inventories	17,031	18,953	20,894	22,532
Sundry Debtors	11,573	12,936	14,261	15,379
Cash and Bank	7,702	13,398	20,975	28,701
Marketable Securities	-	-	-	-
Loans and advances	-	-	-	-
Total assets	1,49,570	1,58,430	1,69,106	1,79,718
Shareholders' funds	78,984	85,272	93,144	1,01,391
Share capital	1,022	1,022	1,022	1,022
Reserves & surplus	77,961	84,250	92,122	1,00,368
Total Debt	26,637	26,637	26,637	26,637
Secured loans	26,637	26,637	26,637	26,637
Unsecured loans	-	-	-	-
Other liabilities	3,671	3,671	3,671	3,671
Curr Liab & prov	40,279	42,850	45,654	48,020
Current liabilities	39,719	42,291	45,094	47,460
Provisions	560	560	560	560
Total liabilities	70,587	73,158	75,962	78,328
Total equity & liabilities	1,49,570	1,58,430	1,69,106	1,79,718
Book Value (Rs)	77	83	91	99

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21E	FY22E	FY23E
Adj. EPS (Rs)	14.6	17.2	18.7	20.2
Adj. EPS growth (%)	(36.1)	17.2	9.0	7.8
EBITDA margin (%)	21.6	22.3	23.6	23.4
Pre-tax margin (%)	18.6	19.8	21.1	21.1
ROE (%)	19.7	21.3	21.4	21.2
ROCE (%)	18.1	19.9	22.1	22.1
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.7	0.7	0.7	0.7
Leverage factor (x)	1.9	1.9	1.8	1.8
Net margin (%)	15.1	16.0	15.8	15.8
Net Debt/Equity (x)	0.2	0.2	0.1	(0.0)
Working Capital & Liquidity ratio				
Inventory days	63	63	63	63
Receivable days	43	43	43	43
Payable days	117	117	119	119

Valuation

Year-end: March	FY20	FY21E	FY22E	FY23E
P/E (x)	51.9	45.3	40.6	37.7
Price / Book value (x)	9.8	9.1	8.3	7.7
PCE (x)	45.9	40.4	36.4	33.9
EV / Net sales (x)	8.0	7.2	6.5	5.9
EV / EBITDA (x)	37.1	32.3	27.4	25.3
Dividend Yield (%)	1.1	1.4	1.4	1.6



Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

IDBI Capital Markets & Securities Ltd.
Equity Research Desk

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

Compliance Officer: Christina D’souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

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