

Godrej Consumer Products

BUY

In line result; maintain BUY

Summary

Godrej Consumer Products (GCPL) result was in-line with our estimates. India business performance has been resilient (10%YoY revenue growth on a base of 10%). Home care and personal care grew at high single digit and double digit rate led by market share gains in soap and hair color. Positively; GCPL has launched Goodknight Jumbo Fast Card nationally while Godrej Expert Easy 5 minute shampoo is scaling up well. In international business; South Africa performed well while other markets remained soft. Indonesia continues to underperform for 5th consecutive quarter largely due to macro-economic uncertainties. Gross margin contraction has been steep primarily due to inflation in palm oil. Management expects operating margin to normalize by 4QFY22. Accordingly we have trimmed our EPS estimate by 6% in FY22E. We have introduced FY24E. We maintain our BUY rating and positive view on GCPL. Our revised TP stands at Rs 1,252 (vs previous TP of Rs 1,171) valued at 50x FY24E EPS.

Key Highlights and Investment Rationale

Domestic business resilient; international market soft

Consolidated revenue grew 9%YoY driven by 10%YoY growth in India business (on a base of 10%YoY) while international business grew 7% (on a base of 11%YoY). Revenue from home care grew 5%YoY (India business +7%YoY) while from Personal Care grew 10%YoY (India business 12%YoY). GCPL gained market share in soaps. In international market revenue from; Africa, USA & Middle East grew 15% YoY (16% CC), Latin America & SAARC decline 3% YoY (+11% CC), Indonesia remained flat YoY (-2% CC). Indonesia business continues to be impacted for 5th consecutive quarter primarily due to macro-economic headwinds.

Inflation in palm oil impacts operating profit margins

Gross margin contracted sharply by 616bp YoY to 50% largely due to inflation in palm oil price. However, EBITDA margin contracted only 223bp YoY to 21% due to cost savings (lower ad-spends, employee cost, other expenses). Adjusted PAT grew 5%YoY to Rs 5bn.

TP	Rs1,252		
CMP	Rs953		
Potential upside / downside	+31%		
Previous Rating	BUY		

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	17.7	21.6	25.0
Consensus	19.0	22.1	25.1
% difference	(7.1)	(2.2)	(0.3)

Shareholding Pattern (%)

Promoters	63.2
FII	26.2
DII	4.6
Public	6.0

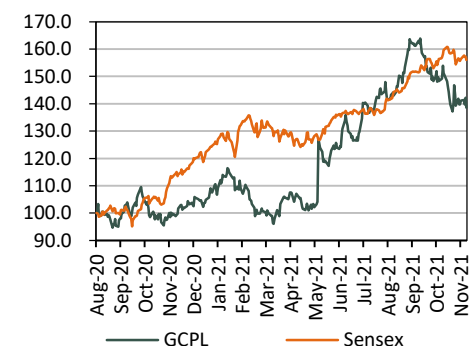
Price Performance (%)

	-1m	-3m	-12m
Absolute	(7.0)	(2.8)	38.3
Rel to Sensex	(6.6)	(12.7)	0.8

Key Stock Data

Bloomberg / Reuters	GCPL IN /GOCP.BO
Sector	FMCG
Shares o/s (mn)	1,023
Market cap. (Rs mn)	974,162
Market cap. (US\$ mn)	13,138
3-m daily average value (Rs mn)	55.7
52-week high / low	Rs1,139 / 644
Sensex / Nifty	59,920 / 17,874

Relative to Sensex (%)



Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	99,108	1,10,286	1,23,991	1,33,797	1,46,291
EBITDA	21,430	23,880	25,821	30,630	35,240
EBITDA (%)	21.6	21.7	20.8	22.9	24.1
Adj. PAT	14,966	17,208	18,088	22,031	25,587
EPS (Rs)	14.6	16.8	17.7	21.6	25.0
EPS Growth (%)	(36.1)	15.0	5.1	21.8	16.1
PE (x)	67.3	58.5	55.7	45.7	39.4
Dividend Yield (%)	0.8	-	1.1	1.3	1.5
EV/EBITDA (x)	47.9	42.2	38.8	32.4	27.9
RoE (%)	19.7	19.9	18.5	20.9	22.2
RoCE (%)	18.1	20.5	22.0	24.6	26.3

Source: IDBI Capital Research;

Conference call highlights

- Currently revenue contribution from rural is less than 30%. GCPL expects strong growth in hair color and HI portfolio in rural India driven by improvement in distribution.
- Revenue growth (2 year CAGR) in hair color is back to pre-covid levels
- Recovery in revenue from Air Freshner segment is still below pre-covid
- On 2 year CAGR basis; revenue growth in rural is tracking well compared to urban at industry level
- Non-soap portfolio continues to growth at healthy rate in India; GCPL expects growth momentum to continue in this category driven by suitable allocation of resources.
- Tough macro-economic condition continues to persist in Indonesia and therefore has cascading impact on overall business.
- Advertisement spends are likely to rise in 2 HYFY22
- 3/4th of the dip in gross margin has been due to increase in palm oil prices (+50-55% in 2021). The rest (1/4th) has been due to increase in the cost of chemicals, metals and other crude linked derivatives. GCPL expects operating profit margins to normalized by 4QFY22
- GCPL expects margins in soap to improve from 3QFY22 onwards
- Innovation rate for GCPL's products stood ~20-25% for 2QFY22
- Company launched Goodknight Jumbo fast card nationally to drive penetration and growth in burning formats
- Godrej Expert Easy 5 Minute Shampoo Hair Colour is scaling up well.
- Company expects strong penetration-led growth in Saniter and Godrej Protekt Mr magic brands
- Saniter witnessed growth in mid-teens in Indonesia for 2QFY22

Exhibit 1: Consolidated Quarterly Snapshot

(INR m)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	YTD FY22	YTD FY21	YoY (%)
Revenues	31,637	29,151	8.5	28,945	9.3	60,581	52,425	15.6
COGS	15,876	12,833	23.7	13,847	14.7	29,723	23,478	26.6
Gross profit	15,760	16,318	-3.4	15,098	4.4	30,858	28,947	6.6
<i>Gross Margin (%)</i>	<i>49.8</i>	<i>56.0</i>	<i>-616bps</i>	<i>52.2</i>	<i>-234bps</i>	<i>50.9</i>	<i>55.2</i>	<i>-428bps</i>
Employee expenses	2,578	2,667	-3.4	2,904	-11.2	5,481	5,285	3.7
<i>% of net sales</i>	<i>8.1</i>	<i>9.1</i>	<i>-100bps</i>	<i>10.0</i>	<i>-188bps</i>	<i>9.0</i>	<i>10.1</i>	<i>-103bps</i>
Advertisement expenses	1,899	2,086	-8.9	1,472	29.0	3,371	3,133	7.6
<i>% of net sales</i>	<i>6.0</i>	<i>7.2</i>	<i>-115bps</i>	<i>5.1</i>	<i>92bps</i>	<i>5.6</i>	<i>6.0</i>	<i>-41bps</i>
Other Expenses	4,688	4,837	-3.1	4,722	-0.7	9,410	9,074	3.7
<i>% of net sales</i>	<i>14.8</i>	<i>16.6</i>	<i>-178bps</i>	<i>16.3</i>	<i>-150bps</i>	<i>15.5</i>	<i>17.3</i>	<i>-178bps</i>
EBITDA	6,596	6,729	-2.0	6,000	9.9	12,596	11,456	10.0
<i>EBITDA Margin (%)</i>	<i>20.8</i>	<i>23.1</i>	<i>-223bps</i>	<i>20.7</i>	<i>12bps</i>	<i>20.8</i>	<i>21.9</i>	<i>-106bps</i>
Depreciation	509	509	-0.1	509	0.0	1,018	1,003	1.5
EBIT	6,087	6,219	-2.1	5,491	10.86	11,578	10,453	10.8
Other Income	226	139	62.4	209	8.3	435	357	21.9
Interest Expenses	245	313	-21.8	273	-10.2	518	797	-35
PBT	6,068	6,045	0.4	5,427	11.8	11,495	10,013	14.8
Taxes	1,267	1,463	-13.4	1,272	-0.4	2,540	1,610	57.7
Adjusted PAT	4,801	4,582	4.8	4,155	15.6	8,956	8,403	6.6
Extra-ordinary items	-14	-3		-16		-30	128	
Share in Profit/loss of associate	2	2	40.0	-3	NA	0	-2	NA
Reported PAT	4,789	4,580	4.6	4,137	15.8	8,926	8,529	4.6
EPS	4.7	4.5	4.5	4.0	15.7	8.7	8.3	4.6

Source: Company; IDBI Capital Research

Exhibit 2: Segmental revenue break-up

Segmental Revenue	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	YTD FY22	YTD FY21	YoY (%)
India	18,381	16,792	9.5%	16,607	10.7%	34,988	30,598	14.3%
Indonesia	4,449	4,460	-0.2%	4,115	8.1%	8,564	8,516	0.6%
Africa	7,485	6,520	14.8%	6,942	7.8%	14,428	10,893	32.4%
Others	1,737	1,813	-4.2%	1,597	8.8%	3,334	3,086	8.0%
Segmental EBIT								
India	4,485	4,653	-3.6%	4,271	5.0%	8,756	8,435	3.8%
Indonesia	1,148	1,101	4.2%	930	23.4%	2,078	2,085	-0.3%
Africa	462	415	11.4%	324	42.7%	786	121	551.1%
Others	277	330	-16.0%	214	29.7%	491	458	7.1%
EBIT Margin (%)								
India	24.4%	27.7%	-331bps	25.7%	-132bps	25.0%	27.6%	-254bps
Indonesia	6.2%	6.6%	-31bps	5.6%	64bps	5.9%	6.8%	-87bps
Africa	6.2%	6.4%	-19bps	4.7%	151bps	5.4%	1.1%	434bps
Others	15.9%	18.2%	-225bps	13.4%	257bps	14.7%	14.8%	-13bps

Source: Company; IDBI Capital Research

Exhibit 3: Standalone Quarterly Snapshot

(INR m)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	YTD FY22	YTD FY21	YoY (%)
Revenues	18,381	16,792	9.5	16,607	10.7	34,988	30,598	14.3
COGS	9,386	7,192	30.5	7,852	19.5	17,237	13,227	30.3
Gross profit	8,996	9,600	-6.3	8,755	2.8	17,751	17,371	2.2
<i>Gross Margin (%)</i>	<i>48.9</i>	<i>57.2</i>	<i>-823bps</i>	<i>52.7</i>	<i>-378bps</i>	<i>50.7</i>	<i>56.8</i>	<i>-604bps</i>
Employee expenses	728	931	-21.8	1,082	-32.7	1,810	1,991	-9.1
<i>% of net sales</i>	<i>4.0</i>	<i>5.5</i>	<i>-158bps</i>	<i>6.5</i>	<i>-256bps</i>	<i>5.2</i>	<i>6.5</i>	<i>-133bps</i>
Advertisement expenses	1,306	1,609	-18.8	880	48.4	2,186	2,345	-6.8
<i>% of net sales</i>	<i>7.1</i>	<i>9.6</i>	<i>-247bps</i>	<i>5.3</i>	<i>181bps</i>	<i>6.2</i>	<i>7.7</i>	<i>-142bps</i>
Other Expenses	2,438	2,391	2.0	2,474	-1.4	4,912	4,604	6.7
<i>% of net sales</i>	<i>13.3</i>	<i>14.2</i>	<i>-98bps</i>	<i>14.9</i>	<i>-163bps</i>	<i>14.0</i>	<i>15.0</i>	<i>-101bps</i>
EBITDA	4,523	4,669	-3.1	4,319	4.7	8,842	8,431	4.9
<i>EBITDA Margin (%)</i>	<i>24.6</i>	<i>27.8</i>	<i>-320bps</i>	<i>26.0</i>	<i>-140bps</i>	<i>25.3</i>	<i>27.6</i>	<i>-228bps</i>
Depreciation	214	210	2.1	210	2.0	424	412	3.0
EBIT	4,309	4,459	-3.4	4,109	4.88	8,418	8,019	5.0
Other Income	183	194	-5.8	162	12.6	345	416	-17.0
Interest Expenses	32	67	-52.2	19	72.4	50	188	-73.2
PBT	4,460	4,587	-2.8	4,252	4.9	8,712	8,247	5.6
Taxes	890	1,081	-17.6	999	-10.8	1,889	1,870	1.0
Adjusted PAT	3,570	3,506	1.8	3,254	9.7	6,823	6,376	7.0
Extra-ordinary items	0	0		0		0	-154	
Reported PAT	3,570	3,506	1.8	3,254	9.7	6,823	6,223	9.7
EPS	3.5	3.4	1.8	3.18	9.7	6.7	6.1	9.6

Source: Company; IDBI Capital Research

Exhibit 4: Actual vs. Estimates

(Rs mn)

Particulars	Actual	IDBI Estimate	% variation IDBI
Revenue	31,637	31629	0.0
EBITDA	6,596	6800	-3.0
Margin (%)	20.8	21.5	
PAT	4,801	4649	3.3

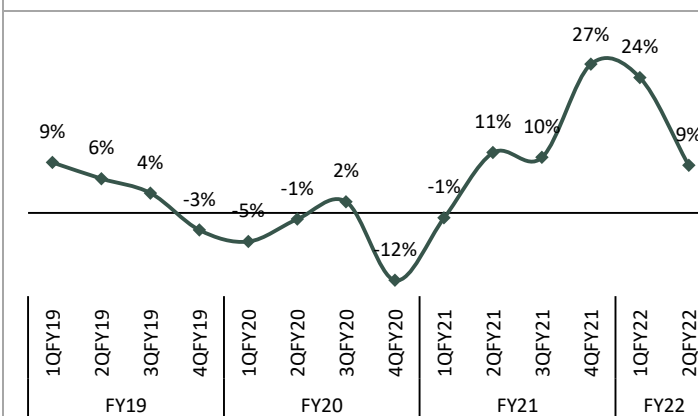
Source: Company; IDBI Capital Research

Exhibit 5: Change in estimates

	FY22E			FY23E			FY24E
	Old	New	(%) Chg	Old	New	(%) Chg	New
Revenue (Rs mn)	1,22,061	1,23,991	1.6%	1,31,621	1,33,797	1.7%	1,46,291
EBITDA (Rs mn)	28,008	25,821	-7.8%	31,135	30,630	-1.6%	35,240
EBITDA margin (%)	22.9%	20.8%		23.7%	22.9%		24.1%
Net profit (Rs mn)	19,201	18,088	-5.8%	21,771	22,031	1.2%	25,587
EPS (Rs)	18.8	17.7	-5.8%	21.3	21.6	1.2%	25.0

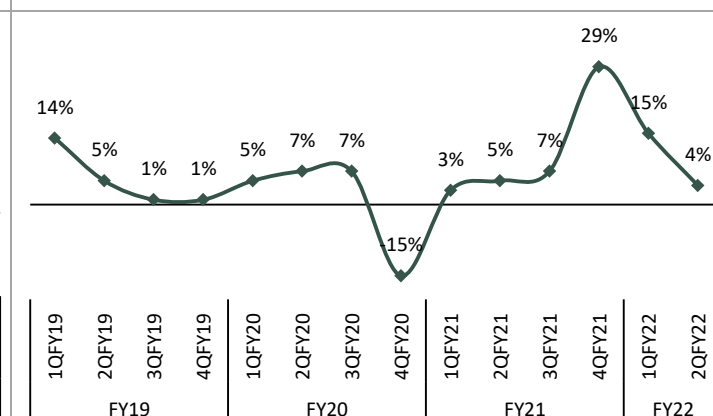
Source: Company; IDBI Capital Research

Exhibit 6: Revenue growth trend (% YoY)



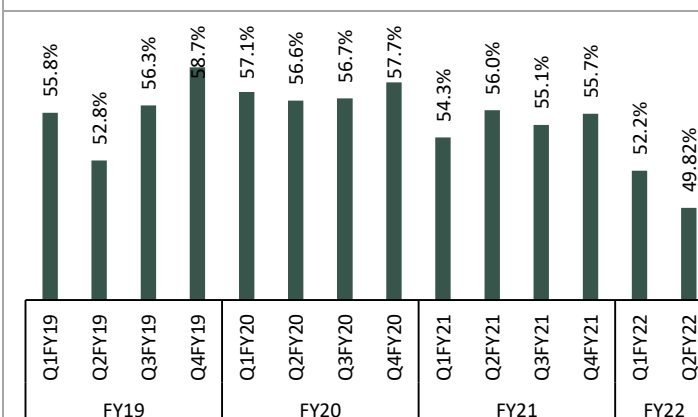
Source: Company; IDBI Capital Research

Exhibit 7: Domestic volume growth (%)



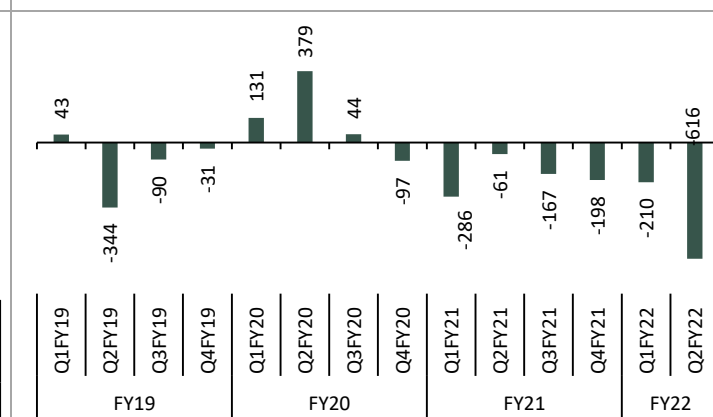
Source: Company; IDBI Capital Research

Exhibit 8: Gross Margin (%)



Source: Company; IDBI Capital Research

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



Source: Company; IDBI Capital Research

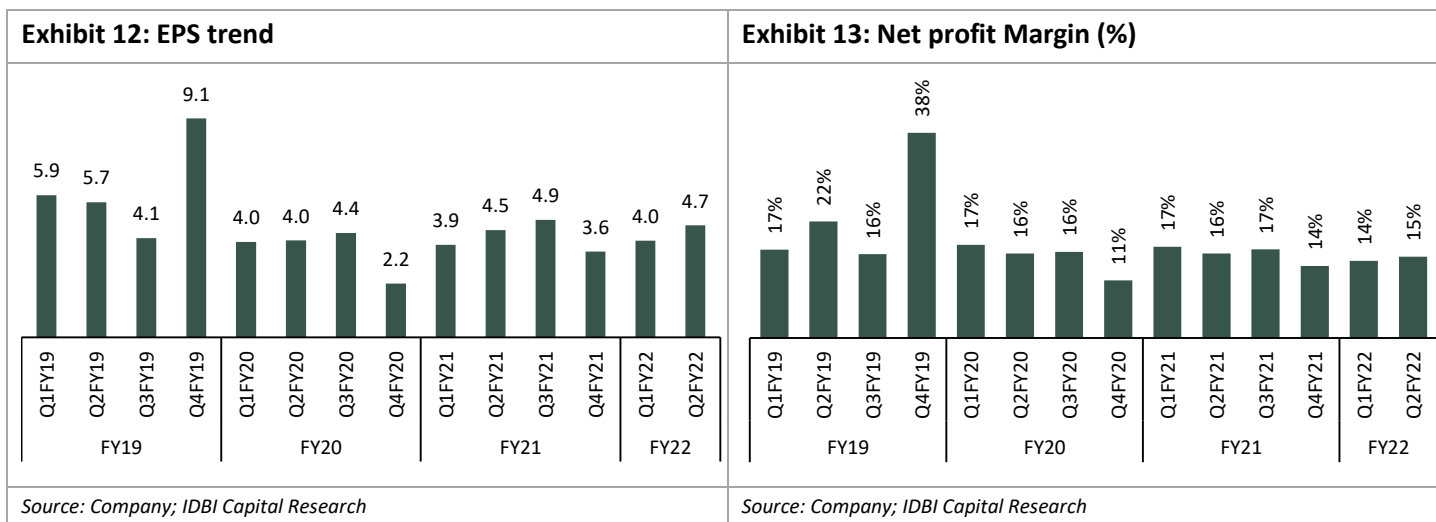
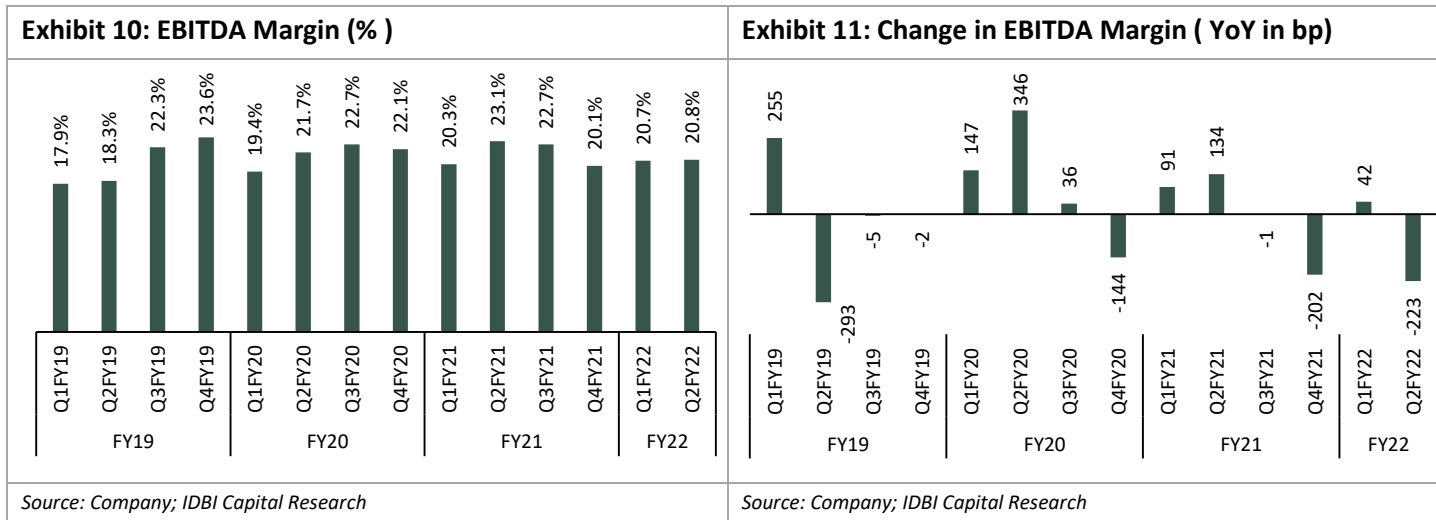
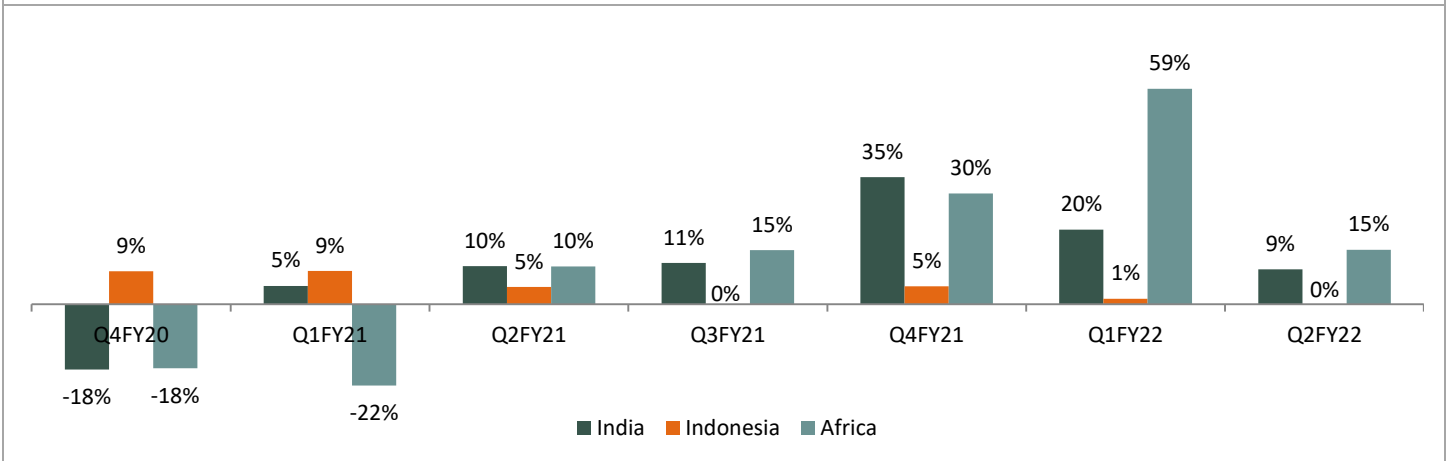


Exhibit 14: International business growth trends



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net sales	1,10,286	1,23,991	1,33,797	1,46,291
<i>Growth (%)</i>	<i>11.3</i>	<i>12.4</i>	<i>7.9</i>	<i>9.3</i>
Operating expenses	(86,406)	(98,170)	(1,03,168)	(1,11,051)
EBITDA	23,880	25,821	30,630	35,240
<i>Growth (%)</i>	<i>11.4</i>	<i>8.1</i>	<i>18.6</i>	<i>15.1</i>
Depreciation	(2,039)	(2,127)	(2,237)	(2,364)
EBIT	21,842	23,694	28,392	32,876
Interest paid	(1,266)	(987)	(684)	(684)
Other income	673	775	891	1,025
Pre-tax profit	21,248	23,482	28,600	33,217
Tax	(3,595)	(5,401)	(6,578)	(7,640)
<i>Effective tax rate (%)</i>	<i>16.9</i>	<i>23.0</i>	<i>23.0</i>	<i>23.0</i>
Minority Interest	(0.1)	7.1	8.6	10.0
Net profit	17,653	18,088	22,031	25,587
Exceptional items	445	-	-	-
Adjusted net profit	17,208	18,088	22,031	25,587
<i>Growth (%)</i>	<i>15.0</i>	<i>5.1</i>	<i>21.8</i>	<i>16.1</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	FY21	FY22E	FY23E	FY24E
Pre-tax profit	20,804	23,482	28,600	33,217
Depreciation	2,039	2,127	2,237	2,364
Tax paid	(3,972)	(5,401)	(6,578)	(7,640)
Chg in working capital	(3,153)	(697)	(499)	(636)
Other operating activities	4,578	987	684	684
Cash flow from operations (a)	20,296	20,498	24,444	27,989
Capital expenditure	(1,639)	(2,582)	(2,450)	(2,819)
Chg in investments	(1,516)	591	9	10
Other investing activities	-	-	-	-
Cash flow from investing (b)	(3,155)	(1,991)	(2,442)	(2,809)
Equity raised/(repaid)	0	-	-	-
Debt raised/(repaid)	(2,473)	-	-	-
Dividend (incl. tax)	-	(11,244)	(13,218)	(15,352)
Chg in minorities	-	-	-	-
Other financing activities	(15,689)	(987)	(684)	(684)
Cash flow from financing (c)	(18,162)	(12,232)	(13,902)	(16,036)
Net chg in cash (a+b+c)	(1,021)	6,275	8,100	9,144

Balance Sheet (Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net fixed assets	89,622	90,077	90,290	90,745
Investments	216	216	216	216
Other non-curr assets	8,263	7,679	7,679	7,679
Current assets	44,724	54,380	64,900	77,126
Inventories	17,163	19,295	20,821	22,766
Sundry Debtors	10,045	11,293	12,186	13,324
Cash and Bank	6,722	12,997	21,098	30,242
Marketable Securities	-	-	-	-
Loans and advances	-	-	-	-
Total assets	1,42,825	1,52,352	1,63,085	1,75,766
Shareholders' funds	94,389	1,01,233	1,10,045	1,20,280
Share capital	1,023	1,023	1,023	1,023
Reserves & surplus	93,367	1,00,210	1,09,023	1,19,257
Total Debt	7,595	7,595	7,595	7,595
Secured loans	7,595	7,595	7,595	7,595
Unsecured loans	-	-	-	-
Other liabilities	2,277	2,277	2,277	2,277
Curr Liab & prov	38,563	41,247	43,167	45,613
Current liabilities	37,839	40,523	42,443	44,889
Provisions	724	724	724	724
Total liabilities	48,435	51,119	53,039	55,486
Total equity & liabilities	1,42,825	1,52,352	1,63,085	1,75,766
Book Value (Rs)	92	99	108	118

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY21	FY22E	FY23E	FY24E
Adj. EPS (Rs)	16.8	17.7	21.6	25.0
Adj. EPS growth (%)	15.0	5.1	21.8	16.1
EBITDA margin (%)	21.7	20.8	22.9	24.1
Pre-tax margin (%)	19.3	18.9	21.4	22.7
ROE (%)	19.9	18.5	20.9	22.2
ROCE (%)	20.5	22.0	24.6	26.3
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.8	0.8	0.8	0.9
Leverage factor (x)	1.7	1.5	1.5	1.5
Net margin (%)	15.6	14.6	16.5	17.5
Net Debt/Equity (x)	0.0	(0.1)	(0.1)	(0.2)
Working Capital & Liquidity ratio				
Inventory days	57	57	57	57
Receivable days	33	33	33	33
Payable days	91	90	93	94

Valuation

Year-end: March	FY21	FY22E	FY23E	FY24E
P/E (x)	58.5	55.7	45.7	39.4
Price / Book value (x)	10.7	9.9	9.2	8.4
PCE (x)	52.3	49.8	41.5	36.0
EV / Net sales (x)	9.1	8.1	7.4	6.7
EV / EBITDA (x)	42.2	38.8	32.4	27.9
Dividend Yield (%)	0.0	1.1	1.3	1.5



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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