

Godrej Consumer Products ACCUMULATE

Strong result

Summary

Godrej Consumer Products (GCPL) result was better than our estimates. Africa continues to positively surprise with +30% YoY revenue growths while Indonesia grew 5%YoY (on a stable base). India business also posted strong revenue growth led by continued momentum in soap portfolio (+41%YoY) and strong recovery in hair color (+25%) and HI business (+34%). Operating profit margins contracted due to input cost inflation and higher operating costs. Appointment of Mr. Sudhir Sitpati (from HUL) as MD and CEO is very positive as GCPL is likely to be benefited of his category management and marketing skills. We maintain our revenue estimates. Our EPS estimates are revised upwards by c.6% during FY22-23E due to lower interest expense as GCPL has repaid c. Rs3.5bn debt in FY21. Our revised TP and rating stands at Rs 961, ACCUMULATE.

Key Highlights and Investment Rationale

Double-digit growth momentum continues

Consolidated revenue reported 3rd consecutive quarter of double-digit growth of 27%YoY (v/s -12% in Q4FY20) led by strong growth in India (+25%YoY), Africa, USA & Middle East (+36%YoY in CC terms) and Latin America & SAARC (+54%YoY in CC terms), while business in Indonesia grew by 4%YoY (v/s +9%YoY in base quarter). Domestic volumes grew by 29%YoY. Revenue from Soaps, HI and Hair color grew by 41%/ 34% /25%YoY during the quarter.

Cost pressures impact margins; lower tax aids profitability

Gross margin contracted for fifth consecutive quarter by 198bp YoY to 55.7% due to significant inflation in Palm oil prices. EBITDA margin contracted by 241bps to 20.1% due to advertisement expenses (+51%YoY, +111bp YoY as % of revenue) and employee expenses (+38%YoY, +91bp YoY as % of revenue). PBT grew 41%YoY while EPS grew 59%YoY due to lower effective tax rate in current quarter at 14% (vs 32% in 4QFY20).

Maintain revenue and margin estimates

We maintain our revenue and margin estimates for FY22-23E. However, GCPL has positively repaid Rs 3.5bn debt during FY21. Consequently, we have revised our interest expense estimates downwards. This has led to c. 6% upward revised in EPS for FY22-23E. Our revised TP stands at Rs 961 (45x FY23E). Due to rally in the stock price, our revised rating stands at ACCUMULATE.

TP	Rs961
CMP	Rs875
Potential upside / downside	+10%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	19.9	21.3
Consensus	18.8	21.2
% difference	6.1	0.6

Shareholding Pattern (%)

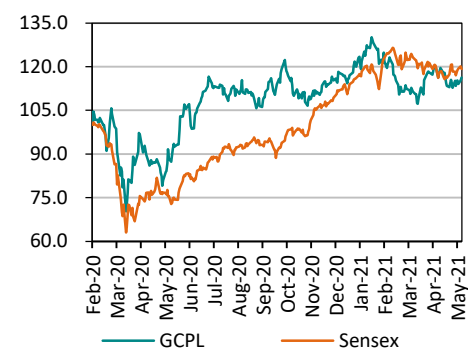
Promoters	63.2
FII	26.6
DII	3.0
Public	7.2

Price Performance (%)

	-1m	-3m	-12m
Absolute	18.4	15.3	69.6
Rel to Sensex	20.2	20.9	15.4

Key Stock Data	
Bloomberg / Reuters	GCPL IN /GOCP.BO
Sector	FMCG
Shares o/s (mn)	1,022
Market cap. (Rs mn)	8,94,471
Market cap. (US\$ mn)	12,182
3-m daily average value (Rs mn)	480.9
52-week high / low	Rs808 / 510
Sensex / Nifty	48,691 / 14,697

Relative to Sensex (%)



Financial snapshot

Year	FY2019	FY2020	FY2021	FY2022E	FY2023E
Revenue	103,143	99,108	110,286	122,061	131,621
EBITDA	21,176	21,430	23,880	29,094	31,135
EBITDA (%)	20.5	21.6	21.7	23.8	23.7
Adj. PAT	23,415	14,966	17,208	20,294	21,824
EPS (Rs)	22.9	14.6	16.8	19.9	21.3
EPS Growth (%)	43.2	(36.1)	15.0	17.9	7.5
PE (x)	38.2	59.8	52.0	44.1	41.0
Dividend Yield (%)	1.4	0.9	-	1.3	1.5
EV/EBITDA (x)	43.2	42.6	37.5	30.5	28.2
RoE (%)	34.6	19.7	19.9	20.5	20.2
RoCE (%)	19.0	18.1	20.5	24.8	24.5

Source: Company; IDBI Capital Research

Conference Call Highlights

Domestic Business performance:

- Growth momentum witnessed in Q4 continued in April, however the situation is dynamic as every state is following a different rule wrt to lockdown.
- The second wave of COVID provides a tailwind to hygiene category and headwind to discretionary portfolio. Hygiene category (Pro-clean, handwash and sanitizer) contributed 4% to overall revenue. Handwash penetration has increased to 35% from 12% levels seen pre-pandemic. Management expects penetration levels to remain at elevated levels as compared to pre-pandemic.
- Rural market in India grew 1.4x of urban. Expect good monsoon and reverse migration to offset the negative impact of increased cases.
- Vegetable prices have gone up by 40-50% over the last one year. GCPL has taken 7-8% price hike in soaps portfolio and will need to take 10-15% additional price hike to completely mitigate raw material inflation. GCPL will take calibrated price increases to gain market share from small players. Currently, GCPL has low teens market share in soaps business
- India margins contracted due to lag between increase in input cost and end consumer price, provision of slow moving inventory and one-time variable manpower remuneration reversal
- Premium formats (electric and aerosol) and non-mosquito portfolio to be key growth drivers for the HI segment; penetration of aerosol/non-mosquito portfolio is c.5%/8-9%. Company has planned 2 new launches in burning format, which are currently in registration process. However, even with the new launches burning format growth will likely be capped at mid-single digit.
- 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.
- GCPL has more than 50% market share in HI business and even higher share in premium categories.
- New product launches contributed mid-single digit to overall revenue.

International business:

- Indonesia business grew by 4% in cc terms during the quarter; HI witnessed steady performance whereas hygiene portfolio scaled up during the year. However, wet wipes business continues to face significant competition and air fresher, being discretionary category is posting gradual recovery. FMCG sector in Indonesia has underperformed during the year.
- New launches in Indonesia like Saniter soap, Mr. magic hand wash, long lasting paper burning format have seen good traction during the year.
- GCPL has no plans of divesting from Indonesia business as they have strong brands, relatively strong market share and are present in low penetrated category. The recent under-performance is largely due to macro-factors.
- In Africa, company is targeting mid to high teens margin over the next 3-4 years.
- The focus in Africa business will be on distribution and marketing as management believes category wise and geography wise it is well placed.

Channel commentary

- Total reach of the company is 6mn outlets whereas direct reach is 1.3mn. Company is targeting to increase direct reach by 6-8% every year
- Chemist channel grew by 20% in FY21 and under its project LEAP will be focusing on increasing chemist reach
- Rural market in India grew 1.4x of urban
- Ecommerce contributes 4% to overall revenue.

CEO appointment:

- GCPL has appointed Mr. Sudhir Sitapati as MD & CEO. He has previously worked at HUL for 22 years and serves as Executive Director-Food & refreshment. Ms. Nisaba Godrej will serve as Executive Chairperson.
- The key focus area for the new MD would be drive double digit organic growth and category management, also he will be able to provide an outsiders perspective to business across categories.

Exhibit 1: Consolidated Quarterly Snapshot

(INR m)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenues	27,307	21,538	26.8	30,554	-10.6	110,286	99,108	11.3
COGS	12,084	9,105	32.7	13,733	-12.0	49,294	42,617	15.7
Gross profit	15,223	12,433	22.4	16,822	-9.5	60,992	56,491	8.0
<i>Gross Margin (%)</i>	<i>55.7</i>	<i>57.7</i>	<i>-198 bps</i>	<i>55.1</i>	<i>69 bps</i>	<i>55.3</i>	<i>57.0</i>	<i>-170 bps</i>
Employee expenses	3,084	2,237	37.9	2,865	7.6	11,233	10,188	10.3
<i>% of net sales</i>	<i>11.3</i>	<i>10.4</i>	<i>91 bps</i>	<i>9.4</i>	<i>192 bps</i>	<i>10.2</i>	<i>10.3</i>	<i>-9 bps</i>
Advertisement expenses	1,909	1,266	50.8	2,291	-16.7	7,332	7,391	-0.8
<i>% of net sales</i>	<i>7.0</i>	<i>5.9</i>	<i>111 bps</i>	<i>7.5</i>	<i>-51 bps</i>	<i>6.6</i>	<i>7.5</i>	<i>-81 bps</i>
Other Expenses	4,741	4,165	13.8	4,732	0.2	18,546	17,481	6.1
<i>% of net sales</i>	<i>17.4</i>	<i>19.3</i>	<i>-198 bps</i>	<i>15.5</i>	<i>187 bps</i>	<i>16.8</i>	<i>17.6</i>	<i>-82 bps</i>
EBITDA	5,490	4,765	15.2	6,935	-20.8	23,880	21,430	11.4
<i>EBITDA Margin (%)</i>	<i>20.1</i>	<i>22.1</i>	<i>-202 bps</i>	<i>22.7</i>	<i>-259 bps</i>	<i>21.7</i>	<i>21.6</i>	<i>3 bps</i>
Depreciation	545	532	2.5	491	11.0	2,039	1,973	3.3
EBIT	4,945	4,234	16.8	6,444	-23.25	21,842	19,458	12.3
Other Income	166	492	-66.3	150	10.2	673	1,123	-40.1
Interest Expenses	229	615	-62.8	241	-4.8	1,266	2,174	-41.8
PBT	4,882	4,110	18.8	6,353	-23.2	21,248	18,406	15.4
Taxes	586	1,075		1,400		3,595	2,638	
Adjusted PAT	4,296	3,035	41.5	4,954	-13.3	17,653	15,768	12.0
Extra-ordinary items	-638	-734	-13.1	65	-1,080	-445	-811	
Share in Profit/loss of associate	0	-2	-119.0	2	-78	-2	8	
Reported PAT	3,658	2,299	59.1	5,021	-27.1	17,206	14,966	15.0
EPS	3.6	2.2	59.1	4.9	-27.1	16.8	14.6	15.0

Source: Company; IDBI Capital Research

Exhibit 2: Segmental revenue break-up

Segmental Revenue	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
India	14,997	11139.4	34.6%	16947.5	-11.5%	62543	54,745	14.2%
Indonesia	4,711	4493.6	4.8%	4472.8	5.3%	17700	16,959	4.4%
Africa	6,304	4840.3	30.2%	7788.3	-19.1%	24985	23,162	7.9%
Others	1,787	1359	31.5%	1800.2	-0.7%	6673	5,557	20.1%
Segmental EBIT								
India	3276.9	3061.2	7.0%	4629.4	-29.2%	16341.2	14576	12.1%
Indonesia	1641	1544	6.3%	1083.6	51.4%	4809.2	4601.3	4.5%
Africa	220	121.5	81.4%	724	-69.6%	1065.2	1,692	-37.0%
Others	47	62	-24.5%	211	-78.0%	715.8	89	702.5%
EBIT Margin (%)								
India	21.8%	27.5%	-563bps	27.3%	-547bps	26.1%	26.6%	-50bps
Indonesia	10.9%	13.9%	-292bps	6.4%	455bps	7.7%	8.4%	-72bps
Africa	3.5%	2.5%	99bps	9.3%	-580bps	4.3%	7.3%	-304bps
Others	2.6%	4.5%	-193bps	11.7%	-913bps	10.7%	1.6%	912bps

Source: Company; IDBI Capital Research

Exhibit 3: Standalone Quarterly Snapshot

(INR m)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenues	14,997	11,139	34.6	16,948	-11.5	62,543	54,745	14.2
COGS	6,632	4,575	45.0	7,235	-8.3	27,094	22,460	20.6
Gross profit	8,365	6,564	27.4	9,713	-13.9	35,449	32,285	9.8
<i>Gross Margin (%)</i>	55.8	58.9	-315 bps	57.3	-153 bps	56.7	59.0	-229 bps
Employee expenses	1,196	444	169.5	984	21.5	4,171	3,192	30.7
<i>% of net sales</i>	8.0	4.0	399 bps	5.8	217 bps	6.7	5.8	84 bps
Advertisement expenses	1,359	937	45.1	1,731	-21.5	5,435	5,566	-2.3
<i>% of net sales</i>	9.1	8.4	65 bps	10.2	-116 bps	8.7	10.2	-148 bps
Other Expenses	2,439	2,156	13.1	2,278	7.1	9,321	9,050	3.0
<i>% of net sales</i>	16.3	19.4	-309 bps	13.4	282 bps	14.9	16.5	-163 bps
EBITDA	3,372	3,028	11.4	4,720	-28.6	16,523	14,477	14.1
<i>EBITDA Margin (%)</i>	22.5	27.2	-470 bps	27.8	-536 bps	26.4	26.4	-3 bps
Depreciation	216	208	3.9	206	4.7	834	814	2.5
EBIT	3,156	2,820	11.9	4,514	-30.07	15,689	13,663	14.8
Other Income	121	241	-50.0	117	2.9	654	913	-28.4
Interest Expenses	16	202	-92.2	44	-64.2	248	580	-57.2
PBT	3,261	2,859	14.1	4,587	-28.9	16,094	13,996	15.0
Taxes	754	455	65.6	1,072	-29.6	3,696	2,197	68.2
Adjusted PAT	2,507	2,404	4.3	3,515	-28.7	12,399	11,799	5.1
Extra-ordinary items	0	0		0		-154	0	
Reported PAT	2,507	2,404	4.3	3,515	-28.7	12,245	11,799	3.8
EPS	2.5	2.4	4.3	3.44	-28.7	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	27,307	26,829	1.8
EBITDA	5,490	6,059	(9.4)
Margin (%)	20.1%	22.6%	
PAT	4,296	3,976	8.1

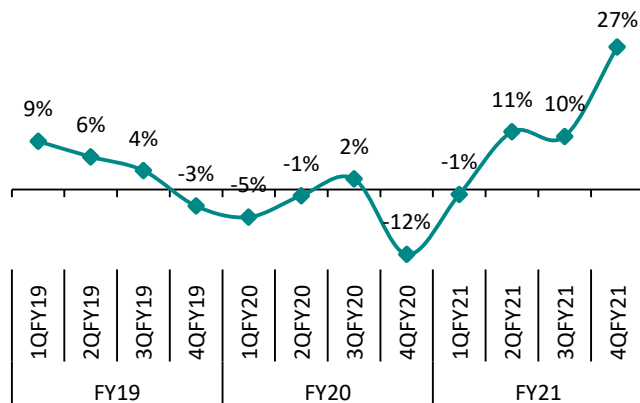
Source: Company; IDBI Capital Research

Exhibit 5: Change in estimates

	FY22E			FY23E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	121,053	122,061	0.8	130,542	131,621	0.8
EBITDA (Rs mn)	28,576	29,094	1.8	30,573	31,135	1.8
EBITDA margin (%)	23.6%	23.8%		23.4%	23.7%	
Net profit (Rs mn)	19,118	20,294	6.2	20,617	21,824	5.9
EPS (Rs)	18.7	19.9	6.2	20.2	21.3	5.9

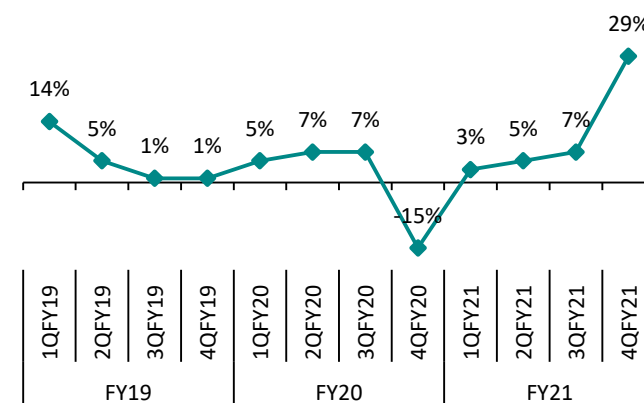
Source: Company; IDBI Capital Research

Exhibit 6: Revenue growth trend (% YoY)



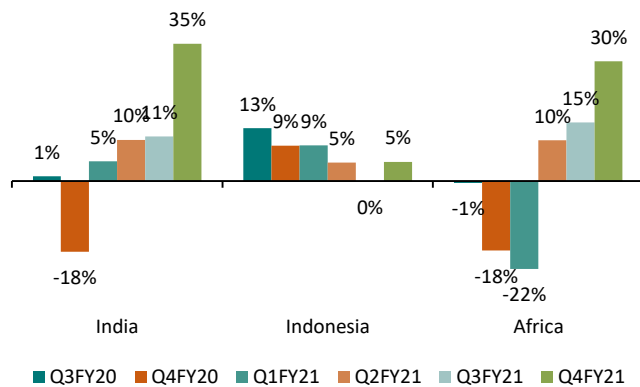
Source: Company; IDBI Capital Research

Exhibit 7: Domestic volume growth (%)



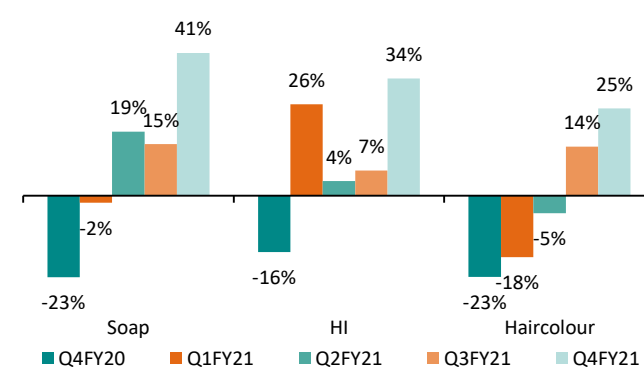
Source: Company; IDBI Capital Research

Exhibit 8: International business growth trends

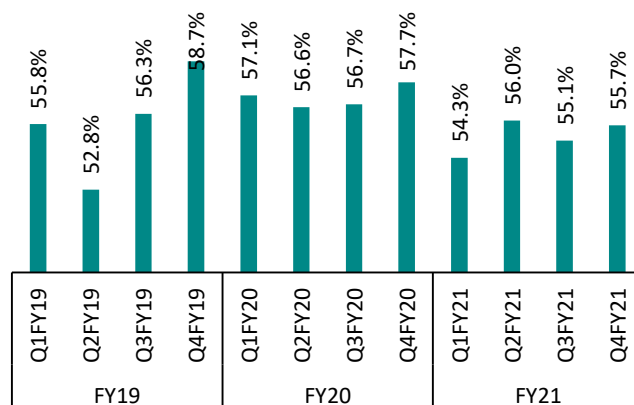


Source: Company; IDBI Capital Research

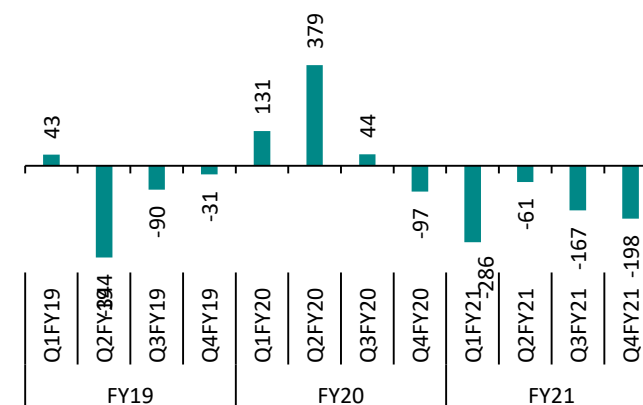
Exhibit 9: Segment growth trends



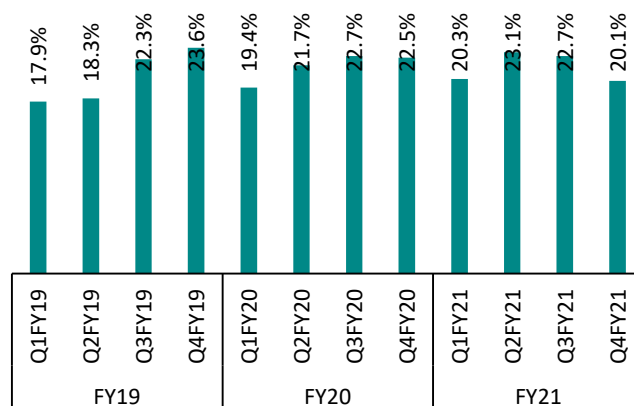
Source: Company; IDBI Capital Research

Exhibit 10: Gross Margin (%)


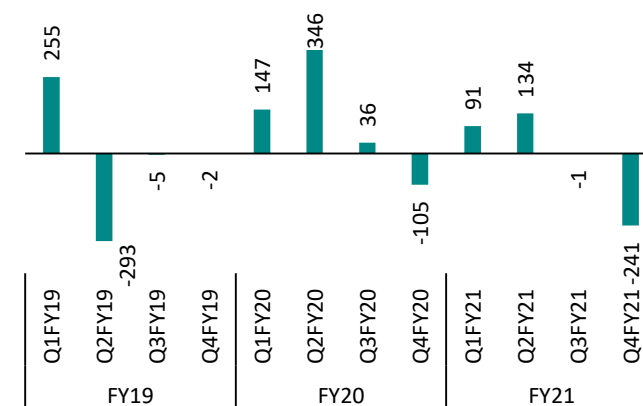
Source: Company; IDBI Capital Research

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


Source: Company; IDBI Capital Research

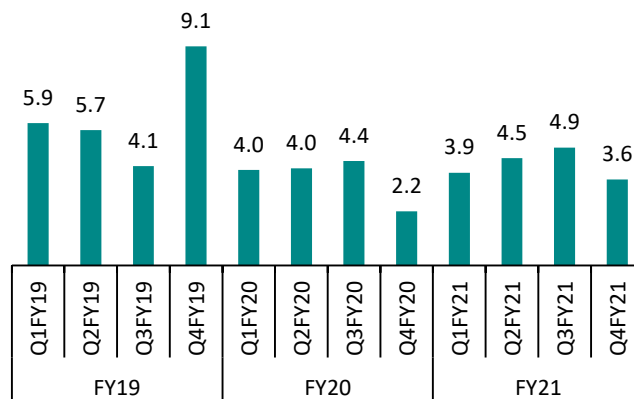
Exhibit 12: EBITDA Margin (%)


Source: Company; IDBI Capital Research

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


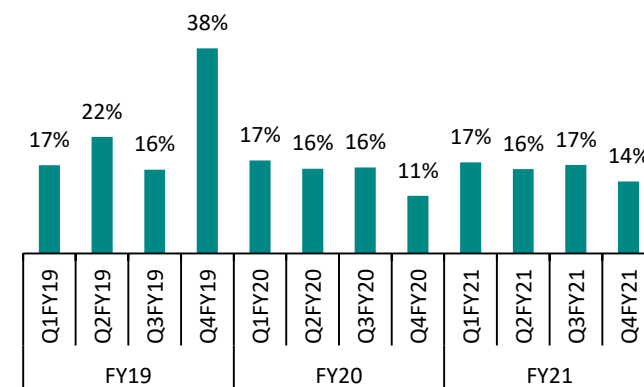
Source: Company; IDBI Capital Research

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	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)	(92,967)	(100,486)
EBITDA	21,430	23,880	29,094	31,135
<i>Growth (%)</i>	<i>1.2</i>	<i>11.4</i>	<i>21.8</i>	<i>7.0</i>
Depreciation	(1,973)	(2,039)	(2,142)	(2,254)
EBIT	19,458	21,842	26,953	28,881
Interest paid	(2,174)	(1,266)	(608)	(608)
Other income	1,123	673	775	891
Pre-tax profit	18,406	21,248	27,120	29,164
Tax	(2,638)	(3,595)	(6,834)	(7,349)
<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)	8.2	8.8
Net profit	15,776	17,653	20,294	21,824
Exceptional items	811	445	-	-
Adjusted net profit	14,966	17,208	20,294	21,824
<i>Growth (%)</i>	<i>(36.1)</i>	<i>15.0</i>	<i>17.9</i>	<i>7.5</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	27,120	29,164
Depreciation	1,973	2,039	2,142	2,254
Tax paid	(3,441)	(3,972)	(6,834)	(7,349)
Chg in working capital	(1,456)	(3,153)	(599)	(486)
Other operating activities	290	4,578	608	608
Cash flow from operations (a)	15,881	20,296	22,436	24,190
Capital expenditure	(1,520)	(1,639)	(2,909)	(2,491)
Chg in investments	(4,382)	(1,516)	592	9
Other investing activities	570	-	-	-
Cash flow from investing (b)	(5,333)	(3,155)	(2,317)	(2,482)
Equity raised/(repaid)	0	0	-	-
Debt raised/(repaid)	2,473	(2,473)	-	-
Dividend (incl. tax)	(8,178)	-	(11,244)	(13,094)
Chg in minorities	-	-	-	-
Other financing activities	(7,249)	(15,689)	(608)	(608)
Cash flow from financing (c)	(12,953)	(18,162)	(11,852)	(13,702)
Net chg in cash (a+b+c)	(2,405)	(1,021)	8,267	8,006

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	92,884	89,622	90,390	90,627
Investments	348	216	216	216
Other non-curr assets	8,254	8,263	7,679	7,679
Current assets	48,083	44,724	55,896	66,260
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	14,989	22,995
Marketable Securities	-	-	-	-
Loans and advances	-	-	-	-
Total assets	149,570	142,825	154,180	164,782
Shareholders' funds	78,984	94,389	103,439	112,168
Share capital	1,022	1,023	1,023	1,023
Reserves & surplus	77,961	93,367	102,416	111,146
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	154,180	164,782
Book Value (Rs)	77	92	101	110

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	14.6	16.8	19.9	21.3
Adj. EPS growth (%)	(36.1)	15.0	17.9	7.5
EBITDA margin (%)	21.6	21.7	23.8	23.7
Pre-tax margin (%)	18.6	19.3	22.2	22.2
ROE (%)	19.7	19.9	20.5	20.2
ROCE (%)	18.1	20.5	24.8	24.5
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	16.6	16.6
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	94	94

Valuation

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	59.8	52.0	44.1	41.0
Price / Book value (x)	11.3	9.5	8.6	8.0
PCE (x)	52.8	46.5	39.9	37.1
EV / Net sales (x)	9.2	8.1	7.3	6.7
EV / EBITDA (x)	42.6	37.5	30.5	28.2
Dividend Yield (%)	0.9	0.0	1.3	1.5



Notes

Dealing (91-22) 6836 1111 dealing@idbicapital.com

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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