

Sector: Consumer Goods
Company Update

	Change
Reco: Buy	↔
CMP: Rs. 639	
Price Target: Rs. 865	↔
↑ Upgrade ↔ No change ↓ Downgrade	

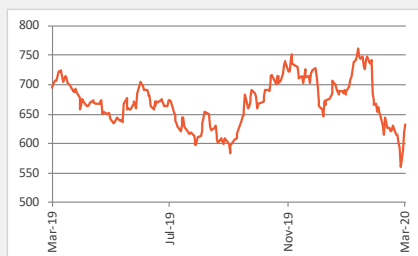
Company details

Market cap:	Rs. 65,326 cr
52-week high/low:	Rs. 772/557
NSE volume: (No of shares)	11.6 lakh
BSE code:	532424
NSE code:	GODREJCP
Sharekhan code:	GODREJCP
Free float: (No of shares)	37.6 cr

Shareholding (%)

Promoters	63.2
FII	27.8
DII	2.2
Others	6.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.2	-8.9	9.0	-5.9
Relative to Sensex	2.7	-3.2	4.0	-12.6

Sharekhan Research, Bloomberg

The global Coronavirus outbreak has resulted in an increased demand for personal care and hygiene products. Godrej Consumer Products Limited's (GCPL's) management witnessed a significant increase in sales of small soaps, hand washes and hand sanitisers in the past two months (hand sanitiser sales surged 10x the normal sales). The company is ramping up its production capacity for sanitisers in own units and through vendor partners. It is also optimising distribution channels to meet rising demand. A surge in demand for hygiene products would result in incremental sales for domestic business in Q4FY2020. Moreover, the company has also hiked soap prices by 5% to pass on an increase in palm oil derivatives, which is expected to drive value growth. Soaps have been gaining market share over the quarters and the company expects the momentum to sustain. Globally, the performance of the Indonesia business has been stable and has not been impacted by the Coronavirus. Small opportunities were witnessed in Africa due to reduced competitive intensity from Chinese players but the overall environment remains soft. With an expected revival in domestic demand in another two quarters and gradual recovery in the HI category, we expect domestic volume growth to sustain at 7-9% in the coming quarters.

Recovery in demand likely by Q1FY2021: As per the management, sector slowdown persists due to slowdown in rural growth (which slowed to 0.5x urban as compared to 1.2x earlier) and liquidity pressure. However, the company has been witnessing a gradual recovery in demand. With a good rabi crop and government efforts to boost rural consumption, it expects demand to start recovering by Q1FY2021. This along with better performance of the international business, good response to new products and the narrowing gap between volume growth and value growth in the domestic market is likely to help the revenue growth trajectory improve in the coming quarters.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 865: GCPL's management has maintained its thrust on delivering consistent volume growth in the domestic market, accelerate growth in key international markets and maintain operating margins at consolidated levels. Thus, we expect the company to report revenue and earnings CAGR of 9.1% and 15.7%, respectively. The stock has corrected by ~19% from its recent high and is currently trading at 33.7x its FY2021E and 28.5x its FY2022E earnings, which is at a discount to its historical average. We maintain our Buy recommendation on the stock with an unchanged PT of Rs. 865.

Key Risks

- ♦ Fluctuation in currencies of key markets, including Africa and Indonesia will affect revenue growth and profitability of the international business.
- ♦ Increased prices of key raw materials such as palm oil would affect profitability and earnings growth.

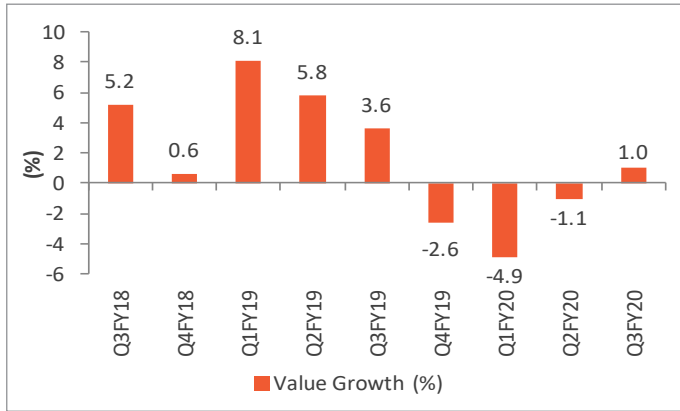
Valuation (Consolidated)

Particulars	FY18	FY19	FY20E	FY21E	FY22E
Revenue	9,937	10,314	10,400	11,815	13,382
OPM (%)	21.1	20.7	21.8	22.4	23.1
Adjusted PAT	1,493	1,479	1,608	1,938	2,288
Adjusted EPS (Rs.)	14.6	14.5	15.7	19.0	22.4
P/E (x)	43.7	44.2	40.6	33.7	28.5
P/B (x)	7.0	9.0	8.3	7.4	6.4
EV/EBIDTA (x)	22.9	32.4	30.5	26.0	22.2
RoNW (%)	25.8	21.9	21.2	23.2	24.1
RoCE (%)	17.4	17.5	17.9	20.2	22.1

Source: Company; Sharekhan estimates

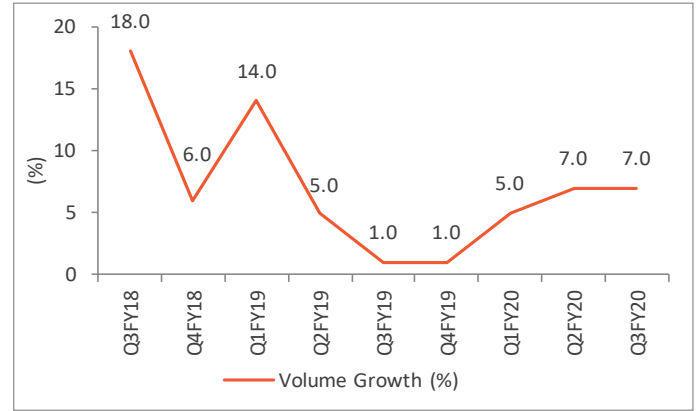
Financials in charts

Revenue was flat in Q3FY2020



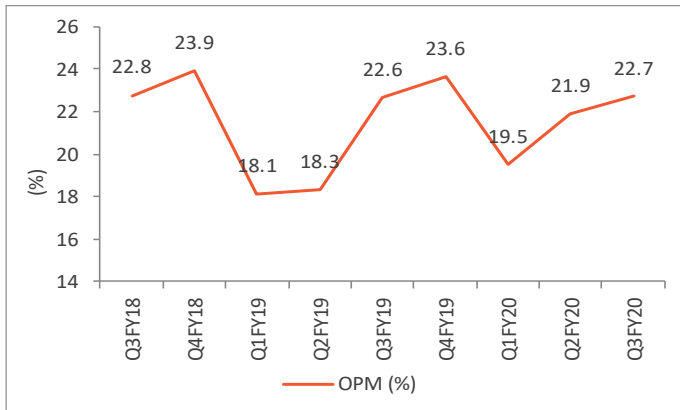
Source: Company, Sharekhan Research

Volume growth sustained at 7% in Q3FY2020



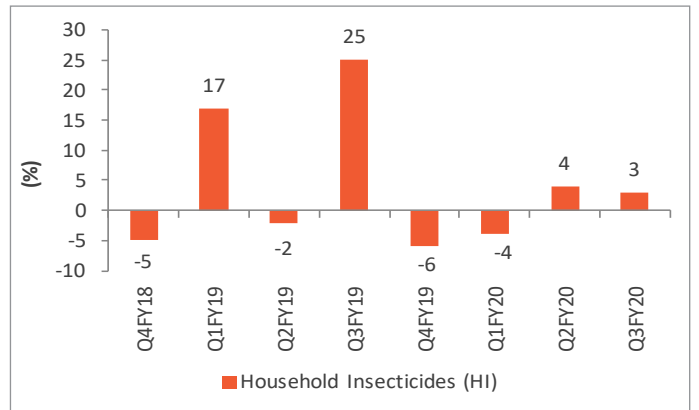
Source: Company, Sharekhan Research

OPM improved to 22.7% in Q3FY2020



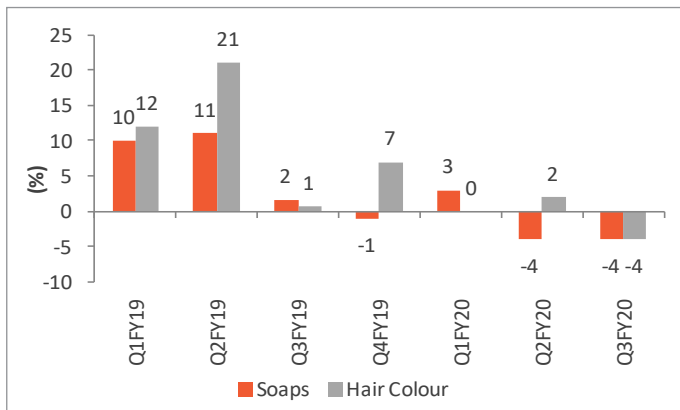
Source: Company, Sharekhan Research

HI category witnessed recovery



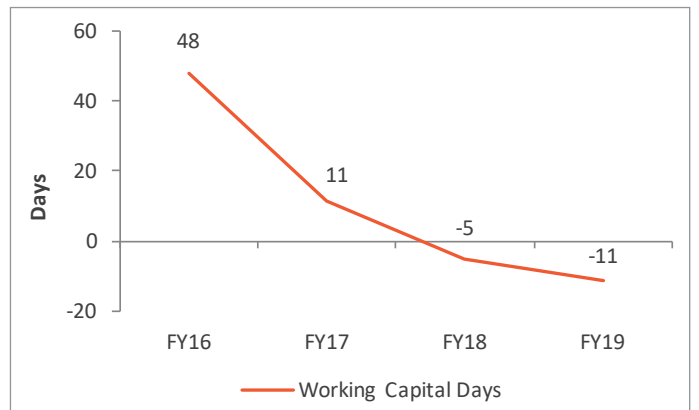
Source: Company, Sharekhan Research

Soaps and Hair colour sales were subdued



Source: Company, Sharekhan Research

Working capital cycle remained stable



Source: Company, Sharekhan Research

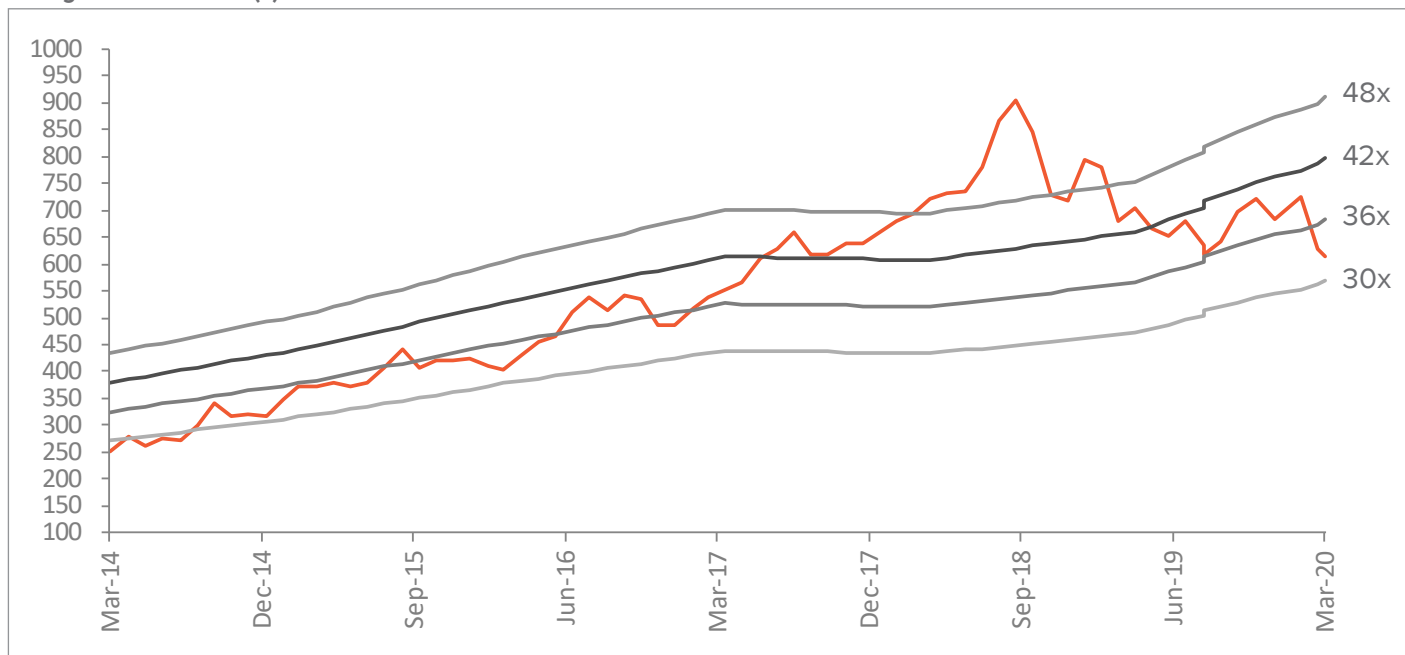
Outlook

Domestic volume growth to remain at 7-9% in the near term: GCPL's domestic volume growth improved to 7% in Q3FY2020. Higher sale of small soaps, hand wash and hand sanitizers due to the virus outbreak will result in incremental sales for the domestic business in Q4FY2020. OPM for 9MFY2020 stood at 21.5% and the company expects the margins to sustain, backed by cost efficiencies. With a good rabi crop and the government's efforts to boost rural consumption, the company expects demand to gradually recover by Q1FY2021. With a good response to new products, expected improvement in the domestic demand environment, likely narrowing of current volume growth and value growth gap in the domestic market, the revenue growth trajectory is likely to improve in the coming quarters. We expect domestic volume growth to sustain at 7-9% in the coming quarters and gradually improve as the scale of the HI and hair colour businesses increases. On the other hand, the Indonesia business will continue to post double-digit revenue growth and the Africa business would see improvement in sales growth by FY2021. We expect consolidated OPM to stand at 22-23% in the near term.

Valuation

Maintain Buy with an unchanged PT of Rs. 865: GCPL's management has maintained its thrust on delivering consistent volume growth in the domestic market, accelerate growth in key international markets and maintain operating margins at consolidated levels. Thus, we expect the company to report revenue and earnings CAGR of 9.1% and 15.7%, respectively. The stock has corrected by ~19% from its recent high and is currently trading at 33.7x its FY2021E and 28.5x its FY2022E earnings, which is at a discount to its historical average. We maintain our Buy recommendation on the stock with an unchanged PT of Rs. 865.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
HUL	75.7	63.1	53.7	53.6	45.3	39.1	113.2	115.3	106.2
Dabur India	59.2	54.4	45.4	49.6	44.4	37.0	28.1	29.2	30.5
Marico India	38.9	34.6	30.8	28.2	24.8	22.4	40.6	40.5	40.0
Godrej Consumer Products	44.2	40.6	33.7	32.4	30.5	26.0	17.5	17.9	20.2

Source: Company, Sharekhan estimates

About company

GCPL is a leading emerging market company with a turnover of more than Rs. 10,000 crore. The group enjoys the patronage of 1.15 billion consumers globally across businesses. GCPL is present in key product categories such as soaps, hair colour and household insecticides. The company's power brands include Godrej No.1 soap, Godrej expert range of hair colours and Good Knight. GCPL operates internationally in Indonesia, Latin America and GAUM (Africa, U.S. and Middle East) regions.

Investment theme

GCPL has a '3 by 3' approach to international expansion by building presence in '3' emerging markets (Asia, Africa and Latin America) across '3' categories (home care, personal wash and hair care products). The company has a leadership position in most categories in the domestic and international markets. Sustained innovation, cross pollination, enhanced distribution reach and foray into new categories have remained the company's key growth pillars. The company has started seeing recovery in key domestic categories such as HI and international markets (including Indonesia and Africa), which will drive earnings growth in the near term.

Key Risks

- ◆ Currency fluctuation in key international markets including Africa and Indonesia will affect earnings performance.
- ◆ Increased prices of key raw materials such as palm oil would affect profitability and earnings growth.
- ◆ Increased competition in highly penetrated categories such as soaps would threaten revenue growth or any competition from illegal entrants in the HI category would affect its performance.

Additional Data

Key management personnel

Adi Godrej	Chairman
Nisaba Godrej	Executive Chairperson
Vivek Gambhir	Managing Director and CEO
V Srinivasan	CFO and Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	First State Investments ICVC	2.5
2	Temasek Holdings Pte Ltd	2.5
3	Arisaig India Fund Limited	1.5
4	Vanguard Group Inc	1.4
5	Republic of Singapore	1.3
6	Capital Group Cos Inc	1.1
7	BlackRock Inc	1.1
8	Kotak Mahindra Asset Management Co	0.6
9	Standard Life Aberdeen PLC	0.6
10	Mitsubishi UFJ Financial Group Inc	0.6

Source: Bloomberg

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