

Sector: Consumer Goods  
Result Update

	Change
Reco: <b>Buy</b>	↔
CMP: <b>Rs. 535</b>	
Price Target: <b>Rs. 630</b>	↓
↑ Upgrade	↔ No change
↓ Downgrade	

## Company details

Market cap:	Rs. 54,694 cr
52-week high/low:	Rs. 772/425
NSE volume: (No of shares)	12.5 lakh
BSE code:	532424
NSE code:	GODREJCP
Sharekhan code:	GODREJCP
Free float: (No of shares)	37.6 cr

## Shareholding (%)

Promoters	63.2
FII	26.3
DII	3.1
Others	7.3

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-3.9	-15.9	-26.6	-16.1
Relative to Sensex	-8.2	6.9	-6.4	-2.4

Sharekhan Research, Bloomberg

Godrej Consumer Products Limited's (GCPL)'s Q4FY2020 performance was affected by supply disruption in the Africa and India businesses owing to the lockdown from March-end till April 2020. GCPL's consolidated business revenues and PAT declined by ~12% and 27% respectively in Q4FY2020. India revenues declined by 18%, while those of the African business declined by 16%. Indonesia didn't have any major impact of COVID-19 and posted constant currency sales growth of 6%. High input prices and lower operating leverage led to 151 bps decline in OPM to 22.3%. There was some recovery in the household insecticide (HI) segment in April-May with sales rising during 40 days of operations amid higher demand. The inventory with company/C&F agents as of March-end and a gradual improvement in production helped GCPL to fulfil HI demand during the season. GCPL's facilities are currently operating at 70-75% utilisation. Nearly 80% of distributors have started operations but product supply to retailers is affected by non-availability of labour /reluctance of entering containment zones. With lockdown norms easing, the company expects operations to normalise by end of Q1FY2021. Indonesia is expected to perform well due to higher demand for HI products while Africa would deliver sluggish performance due to an uncertain macroeconomic environment in FY2021. Gaining market share in core categories, innovations and expanding the distribution reach remains the key growth strategy for the medium term.

## Key positives

- GCPL gained 90 bps in market share in the HI category and 60 bps market share in the soaps category in domestic market.
- Indonesian business registered constant currency growth of 6% due to better performance of HI category.
- April-May saw growth in the domestic HI category as well.

## Key negatives

- Domestic sales volumes decreased by 15% in Q4FY2020.
- India and Africa business witnessed decline of 18% and 16%, respectively.
- Company postponed dividend plans to retain cash in an uncertain macroeconomic environment.

## Our Call

**Valuation - Maintain Buy with revised price target of Rs. 630:** We have lowered our earnings estimates by 17% and 10%, respectively, for FY2021 and FY2022 to factor in the impact of supply disruptions in India and Africa. Value-for-money products in each category and health & hygiene products (forming about 70% of GCPL's product portfolio) is essential in nature and will help in posting recovery in the coming quarters. The resurgence in HI category and market share gains in other categories would help the company to deliver good growth in the medium to long term. The stock has corrected by 16% in the last three months and is trading at a discounted valuation of 31x its FY2022E earnings (discount to its last three years historical average of 46.4x). In view of a favourable risk-reward and strong positioning in key markets, we maintain our Buy recommendation on the stock with revised price target of Rs. 630 (valuing it at 37x its FY2022E earnings).

## Key Risks

Any slowdown in core categories or subdued performance by key geographies would act as a key risk to earnings estimates in the near to medium term.

## Valuation (consolidated)

Particulars	FY18	FY19	FY20	FY21E	FY22E
Revenue	9,937	10,314	9,911	9,486	10,864
OPM (%)	21.1	20.7	21.6	21.0	22.3
Adjusted PAT	1,493	1,479	1,462	1,407	1,785
Adjusted EPS (Rs.)	14.6	14.5	14.3	13.8	17.5
P/E (x)	36.6	37.0	37.4	38.9	30.6
P/B (x)	5.8	7.5	6.9	6.6	6.0
EV/EBIDTA (x)	19.6	27.5	27.2	29.3	24.0
RoNW (%)	25.8	21.9	19.3	17.4	20.5
RoCE (%)	17.4	17.5	16.6	14.8	17.9

Source: Company; Sharekhan estimates

**Volumes declined by 15%; margins remained subdued:** Q4FY2020 consolidated revenue declined by 12.2% y-o-y to Rs. 2,153.8 crore. India business revenue fell by 18% y-o-y with sales volume declining by 15%, largely affected by the lockdown and supply chain disruptions due to the COVID-19 outbreak leading to NIL sales in the last 15 days of March. The company lost ~Rs. 250 crore of revenue in the last 15 days of March. However, it has gained market share in ~70% of its portfolio. Operating margins of India business stood high at ~28%. International business revenue fell by 5% y-o-y, 2% decline in constant currency (CC) terms. Consolidated gross margins fell by 97 bps to 57.7% due to an unfavourable revenue mix. OPM declined by 151 bps to 22.1% and the operating fell by 17.8% to Rs. 476.5 crore. Despite an increase in other income, higher depreciation resulted in ~19% decline in profit before tax to Rs. 411 crore. A higher incidence of tax led to adjusted PAT declining by 27% y-o-y to Rs. 298.2 crore.

### Key categories impacted by lockdowns due to spread of COVID-19

- ♦ **Soaps – Revenue declined, market share gains continue:** Revenue of the domestic soaps category declined by 23% y-o-y mainly due to loss of sales in the last 15 days of March 2020 amid the COVID-19 outbreak; this is usually a high growth period with the onset of summer season. However, the company has been consistently gaining market share, gaining 60 bps in value terms and 100 bps in volume terms in the quarter. The company has been focusing on the health and hygiene categories by launching new products such as Godrej Protekt health soap, Cinthol Health+ range including germ protection soaps and hand washes. A continued focus on health and hygiene categories and micro-marketing initiatives will help scale up growth in the medium term.
- ♦ **Hair colour – Affected by slowdown in discretionary spends:** Revenue from hair colour products declined by 23% y-o-y, affected by discretionary nature of the category and consumers stretching hair colour consumption. GCPL maintained its market share in the category despite a decline in revenues. Godrej Expert Easy 5 minute shampoo hair colour is performing well in southern states and has been scaled up nationally. Godrej Expert Rich Crème clocked its highest ever value market share. The company is focusing on increasing the scale of its natural powder category which is affected by the slowdown in the consumer demand.
- ♦ **HI – Impacted by lockdowns despite peak season:** The HI category registered a decline of 16% y-o-y in revenue due to loss in sales at the fag end of the quarter despite high mosquito infestation in North India. The category continued to gain market share in the overall category including incense sticks which gained 90 bps in value share. The threat of illegal incense sticks has been gradually receding as the government is taking stringent regulatory measures to control them. The recently launched Good Knight Gold Flash liquid vaporiser has been scaled up nationally following encouraging response from South India. This will help reduce value and volume growth gap in the coming quarters. The category pipeline is usually built up in March end before the infestation of the mosquito season. Due to nationwide lockdowns there was no supply this time in March. However, lockdowns easing in April and an increase in supply to distributors resulted in good growth in the first 40 days in April and May. The overall HI category should continue to deliver consistent volume led growth post the normalisation of the pandemic situation.

### Indonesia performed well, GAUM region most affected by COVID-19

Revenue from international business declined by 5% y-o-y to Rs. 1,069 crore (2% decline in CC terms). Indonesia revenue grew by 9% y-o-y to Rs. 449 crore (6% in CC terms) driven by growth in HI and baby wipes, whereas adjusted EBITDA margin expanded by 210 bps led by cost saving initiatives. Business in the GAUM region put up a weak show with revenues declining by 16% y-o-y to Rs. 484 crore largely due to 15% decline in the Africa region (in CC terms) and underperformance across clusters. West African improved marginally whereas South African and East African clusters recorded continued to witness de-growth on account of liquidity challenges. The company continued to drive up scale of wet hair-care products. Adjusted EBITDA margin decreased by 670 bps y-o-y mainly driven by scale deleverage. GCPL launched Saniter range of health and hygiene products in Indonesia and other hygiene products in GAUM region amidst heightened demand. GCPL management is also confident of seeing better growth and higher margins in its LaTAm business.

**Key conference call highlights:**

- ◆ GCPL is focusing on regaining growth through market share gains, new products and category and channel shifts. GCPL has adopted a strategy of Restart, Bounce back and Retool to get business back to normal amid the pandemic situation.
  - In the Restart phase, the focus would be on execution by tightening cost controls, driving higher productivity and focusing on efficient working capital management. The company is working towards flexibility in logistics and reducing supply chain bottlenecks to meet the demand.
  - In the Bounce back phase, the focus would be to drive core as well as new category innovation, especially in the health and hygiene category and ramp up of adaptable supply chain.
  - In the Retool phase, focus would be to adapt changing consumer behaviour, enhance digitalisation and focus on new-age channels such as e-commerce/online channels.
- ◆ Capacity utilisation increased to 70-75% post the relaxation of lockdown, which along with opening up of distributors has enabled the company to supply products to consumers. Higher demand for health and hygiene related products will augur well for the company as ~70% of GCPL's portfolio consists of essential products/value-for-money products. The company is already on track with many new launches done in the category and many in the pipeline for the next 45 days. GCPL expects ~5% of revenue to come from hygiene products in Q1FY2021 as the health and wellness trend is expected to continue.
- ◆ According to the management, the HI category (30% of total portfolio) will witness resurgence in FY2021 as a result of enhanced focus on the health and disease prevention aspect post the pandemic situation. The demand for HI products is expected to increase, not only for mosquito related products such as vapourisers and incense sticks but also other products such as cockroach gels. GCPL's key focus would be to improve market share in the category not only from organised players but also from other illegal players.
- ◆ In terms of international business, Indonesia was least affected by the COVID-19 outbreak. The business is expected to maintain its growth momentum driven by good growth in the HI category. Margin is expected to expand on the back of benign input prices and lower crude oil price benefits. The company is focusing on consistent market share gains in the region.
- ◆ The GAUM business was impacted due to sluggish growth in Africa impacted by lockdowns due to COVID-19, macro headwinds and slower scale up of the wet hair care portfolio. FY2021 is also expected to remain sluggish for the Africa business amid a challenging macroeconomic environment. However, with new leadership in place and reduction in imports from China, growth is expected to revive in the long-term along with market share gains.
- ◆ GCPL has been supporting its partners, distributors and employees by making advance payments, providing support kits and offering insurance schemes.

**Results (Consolidated)**

Particulars	Rs cr				
	Q4FY20	Q4FY19	Y-o-Y (%)	Q3FY20	Q-o-Q (%)
Total revenue	2153.8	2452.6	-12.2	2778.1	-22.5
Raw material cost	910.5	1013.1	-10.1	1202.3	-24.3
Employee cost	223.7	270.2	-17.2	268.7	-16.8
Advertisement & Publicity	126.6	157.4	-19.6	206.3	-38.7
Other expenses	416.5	432.3	-3.7	469.4	-11.3
Total operating expenses	1677.3	1873.0	-10.5	2146.7	-21.9
Operating profit	476.5	579.6	-17.8	631.3	-24.5
Other income	49.2	29.1	68.7	23.5	-
Interest expense	61.5	57.5	7.0	47.7	28.8
Forex gain / (loss)	0.0	-1.6	-	-0.7	-
Depreciation	53.2	42.6	24.8	49.0	8.4
Profit before tax	411.0	507.0	-18.9	557.4	-26.3
Tax	112.8	98.8	14.2	136.2	-17.1
Adjusted PAT (before MI)	298.2	408.2	-27.0	421.2	-29.2
Minority interest (MI)	-0.2	0.2	-	0.6	-
Extraordinary item	-68.1	526.8	-	23.4	-
Reported PAT	229.9	935.2	-75.4	445.2	-48.4
EPS (Rs.)	2.9	4.0	-27.0	4.1	-29.2
			<b>bps</b>		<b>bps</b>
GPM (%)	57.7	58.7	-97	56.7	101
OPM(%)	22.1	23.6	-151	22.7	-60

Source: Company; Sharekhan Research

**Result snapshot (Standalone)**

Particulars	Rs cr				
	Q4FY20	Q4FY19	Y-o-Y (%)	Q3FY20	Q-o-Q (%)
Total revenue	1113.9	1356.1	-17.9	1523.9	-26.9
Operating Profit	304.2	400.5	-24.0	442.1	-31.2
Adjusted Net profit	240.4	906.9	-73.5	364.9	-34.1
GPM(%)	58.9	59.5	-53 bps	60.0	-110 bps
OPM(%)	27.3	29.5	-223 bps	29.0	-170 bps

Source: Company; Sharekhan Research

**Category wise performance**

Particulars	Rs cr				
	Q4FY20	Q4FY19	Y-o-Y (%)	Q3FY20	Q-o-Q (%)
Soap	313	409	-23.5	416	-24.8
Hair Colour	131	171	-23.4	155	-15.5
Liquid Detergents	169	181	-6.6	295	-42.7
Household Insecticides (HI)	463	553	-16.3	617	-25.0

Source: Company; Sharekhan Research

**International business performance**

Particulars	Rs cr				
	Q4FY20	Q4FY19	Y-o-Y (%)	Q3FY20	Q-o-Q (%)
<b>Revenue</b>					
Indonesia	449	412	9.0	448	0.2
GAUM	484	576	-16.0	679	-28.7
Others	136	135	1.0	161	-15.5
<b>EBITDA Margins (%)</b>			<b>bps</b>		<b>bps</b>
Indonesia	33.0	30.9	210	24.6	840
GAUM	4.0	10.7	-670	12.2	-820
Others	8.0	1.3	670	3.5	450

Source: Company; Sharekhan Research

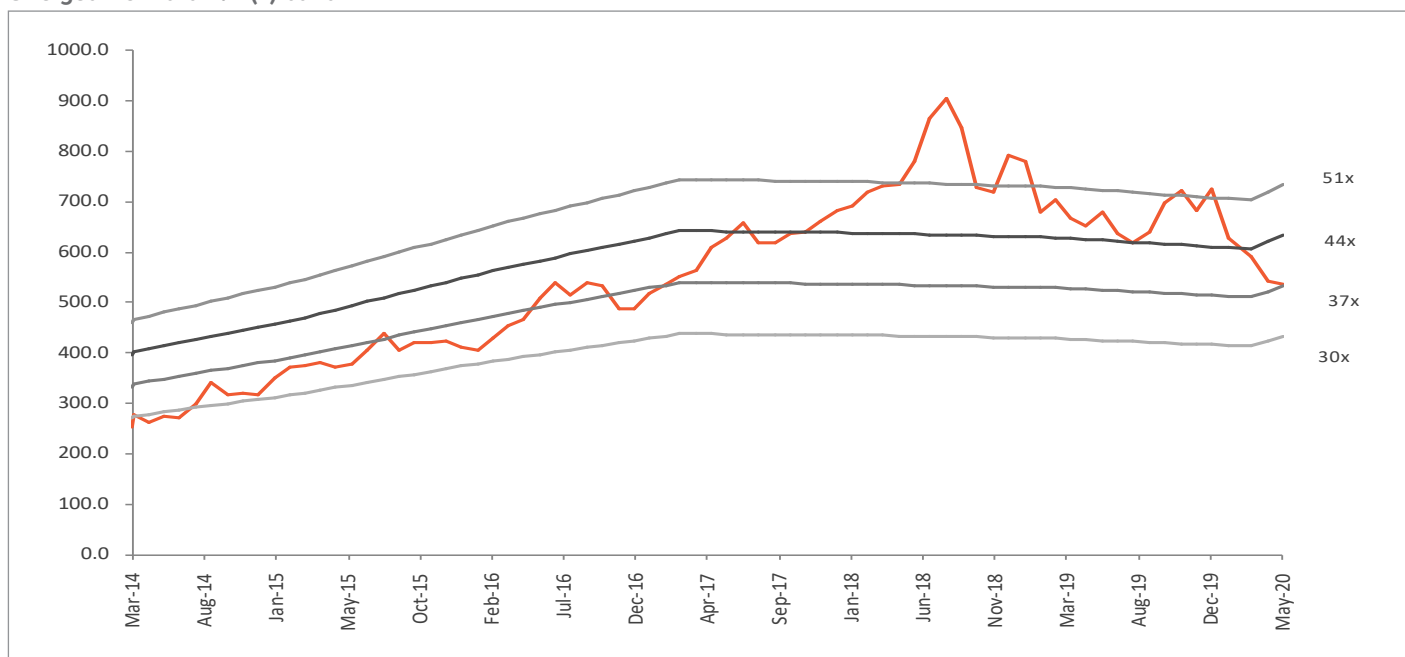
## Outlook

**Africa will take time to recover; India and Indonesia business will perform well:** GCPL's domestic capacity utilisation increased to 70-75% after the lockdown is eased, which along with opening up of distributors has enabled the company to supply products to consumers. Higher demand for health and hygiene related products will augur well for the company as ~70% of GCPL's portfolio consists of essential /value-for-money products. Thus India business is expected to get back on growth trajectory in H2FY2021. Indonesia business is expected to post consistent growth in the coming quarters. Africa business will post subdued performance in FY2021, while a gradual recovery is anticipated in FY2022. The benign crude and palm oil prices would support margins in the near to medium term.

## Valuation

**Maintain Buy with revised price target of Rs. 630:** We have lowered our earnings estimates by 17% and 10%, respectively, for FY2021 and FY2022 to factor in the impact of supply disruptions in India and Africa. Value-for-money products in each category and health & hygiene products (forming about 70% of GCPL's product portfolio) is essential in nature and will help in posting recovery in the coming quarters. The resurgence in HI category and market share gains in other categories would help the company to deliver good growth in the medium to long term. The stock has corrected by 16% in the last three months and is trading at a discounted valuation of 31x its FY2022E earnings (discount to its last three years historical average of 46.4x). In view of a favourable risk-reward and strong positioning in key markets, we maintain our Buy recommendation on the stock with revised price target of Rs. 630 (valuing it at 37x its FY2022E earnings).

### One-year forward P/E (x) band



Source: Sharekhan Research

### Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
HUL	65.5	64.3	48.1	46.4	51.4	40.8	105.2	35.9	27.9
Dabur India	50.0	45.0	37.9	40.7	36.8	30.6	28.3	27.9	29.3
Marico India	37.0	41.4	32.2	26.8	29.3	23.2	41.3	36.2	42.1
Godrej Consumer Products	37.4	38.9	30.6	27.2	29.3	24.0	16.6	14.8	17.9

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

### 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	1.0
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

Shareholding as on March 17, 2020

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# Sharekhan

by BNP PARIBAS

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