

## Sector: Consumer Goods

## Result Update

	Change
Reco: <b>Buy</b>	↔
CMP: <b>Rs. 692</b>	
Price Target: <b>Rs. 810</b>	↔
↑ Upgrade ↔ No change ↓ Downgrade	

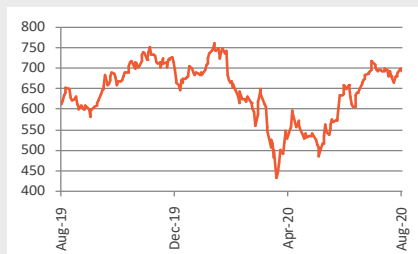
## Company details

Market cap:	Rs. 70,770 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	26.8
DII	3.2
Others	6.8

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	2.2	34.6	8.1	15.4
Relative to Sensex	-1.1	15.8	15.7	12.7

Sharekhan Research, Bloomberg

Godrej Consumer Products (GCPL) clocked resilient performance with revenues stood flat, largely driven by 5% growth in India and Indonesia each (these together contribute ~75% of consolidated revenue) while OPM expanded by 77 bps to 20.3% (largely led by lower ad spends). Domestic volume grew by 3% with rural growth staying ahead of urban growth. Around 85% of global portfolio consisting of household insecticide (HI), hygiene and value-for-money products saw 9% growth. In India, HI and hygiene products registered strong growth of 27% and 15%, respectively, led by strong demand. The management expects HI segment to keep growing strongly in coming quarters as new products gain good traction and competitive intensity from illegal incense sticks eases in the current environment. Domestic soaps category is expected to recover while hair colour products will take time to bounce back. Globally, Indonesia will continue to perform well while a new leadership for Africa business is likely to improve performance in the coming quarters with new growth strategies. Though an unfavourable mix and higher input prices affected gross margins in Q1, the management is confident of sequential improvement in gross margins through calibrated price hikes and improved mix. Ad spends are expected to be selective and hence, would support OPM in the near term.

## Key positives

- Around 85% of global product portfolio grew by 9%.
- Domestic HI and hygiene products clocked 27% and 15% growth, respectively.
- Working capital days reduced by 6 days; Net debt reduced by Rs. 500 crore q-o-q.

## Key negatives

- Domestic hair colour business declined by 18% as demand fell.
- Africa business continues to underperform as revenues slumped 22% and margins fell.

## Our Call

**View - Maintain Buy with unchanged price target of Rs. 810:** We have fine-tuned our earnings estimates to factor in slightly higher-than-earlier expected growth in domestic HI category. A new Managing Director - Ms. Nisaba Godrej's - clear focus is on improving growth prospects of the Indian and Indonesian businesses and aim for a recovery in the Africa business by expanding penetration and cross pollination strategy. The management targets a steady improvement in profitability and RoCE, to ~23-25% in the near to medium term. The stock is currently trading at 36.8x its FY2022E EPS, which is at discount to some of its peers. We maintain our Buy recommendation on the stock with an unchanged target price of Rs. 810.

## Key Risks

Any slowdown in the growth of HI business and a slow recovery in Africa would act as key risks to our earnings estimates.

## Valuation

Particulars	FY18	FY19	FY20	FY21E	FY22E	Rs cr
Revenue	9,937	10,314	9,911	10,531	11,639	
OPM (%)	21.1	20.7	21.6	21.7	22.3	
Adjusted PAT	1,493	1,479	1,462	1,639	1,921	
Adjusted EPS (Rs.)	14.6	14.5	14.3	16.0	18.8	
P/E (x)	47.4	47.9	48.4	43.2	36.8	
P/B (x)	7.5	9.7	9.0	8.3	7.5	
EV/EBIDTA (x)	24.7	35.0	34.7	32.5	28.5	
RoNW (%)	25.8	21.9	19.3	19.9	21.3	
RoCE (%)	17.4	17.5	16.6	17.1	18.8	

Source: Company; Sharekhan estimates

**Volumes declined by 3%; efficiencies drive up margins:** Q1FY2021 consolidated revenue was flat at Rs. 2,327.3 crore. India business grew by 5% y-o-y to Rs. 1,358 crore with sales volumes growing by 3%, largely slightly missing ours as well as the street's expectation. Nearly 85% of the global portfolio comprising HI, hygiene and value-for-money products grew by ~9% driven by a ~20% growth in the combined HI and hygiene portfolio (HI grew by 27% and hygiene grew by 15%). India business OPM expanded by ~400 bps to 27.3%. ~76% of GCPL's portfolio comprises of India and Indonesia, which delivered a ~5% growth each. Consolidated gross margins fell by 286 bps to 54.3% due to an unfavourable revenue mix. However, lower ad spends drove up OPM by 77 bps to 20.3%. Operating profit was up by 3% y-o-y to Rs. 472.7 crore. Lower interest costs resulted in ~6% growth in profit before tax to Rs. 396.8 crore. Slightly higher tax incidence led to adjusted PAT growing by 5.6% y-o-y to Rs. 305.4 crore (better than our expectation of Rs. 281.5 crore) in Q1FY2021 from Rs. 289.3 crore in Q1FY2020. Reported PAT came in at Rs. 394.9 crore.

### **Strong performance by HI and hygiene products; hair colour segment fails to shine**

- ◆ **Soaps – Revenue almost flat:** Revenue of the domestic soaps category declined by just 2% y-o-y to Rs. 545 crore mainly affected by lockdown in the initial part of the quarter, impacting demand. New launches such as Godrej Protekt health soap and Cinthol Health+ range under the health and hygiene categories are scaling up fast and gaining good traction. A continued focus on health and hygiene categories, scale-up of the Protekt brand, widening of distribution reach and micro-marketing initiatives will help to gain market share and drive growth in the medium term.
- ◆ **Hair colour – Affected by slowdown in discretionary spends:** Revenue from hair colour products declined by 18% y-o-y, as this category is discretionary in nature and faced the brunt of the lockdown in the initial part of the quarter. However, the category witnessed sequential improvement with recovery in July. Godrej Expert Easy 5 minute shampoo hair colour is performing well post the national scale-up. Godrej Expert Rich Crème clocked continues to perform well by leveraging Do-It-Yourself (DIY) trends through influencers. Given its discretionary nature, the category would take some time to recover.
- ◆ **HI – Exceptionally good quarter:** The HI category saw strong resurgence registering a strong growth of 27% y-o-y in revenue to Rs. 540 crore, driven by strong underlying consumer demand in electrics and burning formats. Supply chain challenges were seen in the non-mosquito portfolio, which has now recovered. The threat from illegal incense sticks has been gradually receding due to supply chain disruptions, liquidity issues, higher duty on bamboo sticks (up from 10% to 25%) and as the government is taking stringent regulatory measures to control them. This will help GCPL gain market share going ahead. The recently launched Good Knight Gold Flash liquid vaporiser continues to receive an excellent response after its national scale-up. This will help reduce value and volume growth gap in the coming quarters. The company is pivoting its advertising focus for the category more towards disease prevention, which will help the company drive growth in the current scenario. The overall HI category is expected to deliver sustainable growth once the pandemic situation normalises. HI penetration is lower in rural geographies, especially in the liquid vapouriser format. Increased penetration, especially in rural, penetration in other formats, innovation, market share gains and distribution expansion will help drive growth in HI segment in the medium to long term.
- ◆ **Hygiene portfolio – Registered strong growth:** The company scaled up its Godrej Protekt brand to a complete hygiene portfolio which comprises of kitchen protection (dish wash, fruit & veggie wash), personal protection (hand wash, body wash, hand sanitiser, health soaps) and home protection (disinfectant liquids and sprays, surface wipes). The company also added health and hygiene variants in other categories such as air fresheners and sanitisers, fabric sanitisers and bathroom and floor cleaners to make the category more relevant. GCPL registered a strong 15% growth in hygiene products, driven by innovation as the company launched 45 products in this portfolio, across geographies. The hygiene portfolio along with HI delivered a robust 20% growth in Q1FY2021.

## Indonesia performed well, subdued quarter for GAUM region

International business revenue declined by 9% y-o-y to Rs. 968 crore (was flat in CC terms). Indonesia revenue grew by 9% y-o-y to Rs. 405 crore (5% growth in CC terms) driven by good growth in HI, whereas adjusted EBITDA margin stood almost flat at 23.6%. The company gained market share in HI in Indonesia. The newly-launched Saniter range of health and hygiene products are gaining strong traction. Business in the GAUM region was subdued, with revenue declining by 22% y-o-y to Rs. 437 crore (23% decline in CC terms) largely due to disruption across countries amid COVID-19. However, strong recovery was witnessed from mid-May post the easing of the lockdown. South Africa performed well whereas the US and Kenya declined significantly. The company continued to drive scale-up of wet hair-care products. GAUM region posted an EBITDA loss due to lower operating leverage. Latin America (LatAM) and SAARC revenue fell by 4% y-o-y to Rs. 126 crore (23% growth in CC terms). SAARC continues to deliver steady performance and LatAM saw sharp improvement in EBITDA margins. Adjusted EBITDA margin for LatAM and SAARC improved significantly from 2.3% to 11.3% in Q1FY2021.

### Key conference call highlights:

- ◆ GCPL has started operating at a ~90% capacity utilisation. On-ground sales team availability has improved and ~90% of them are now actively taking orders. The factories are operating smoothly in Africa, the US and the Middle East. The company is ensuring adequate stocks to meet channel and consumer demand. GCPL is scaling up alternate channels as well as enhancing its focus on the strongly growing chemist and e-commerce channels.
- ◆ Primary sales were in line with secondary sales in Q1FY2021. Rural (~30% of total business) is growing faster than urban areas. Moreover, value-for-money product sales, which declined by 13% has now seen an improvement. The company will continue to see pricing-led growth along with stable volume growth in the coming quarters.
- ◆ Gross margins fell by 286 bps in Q1FY2021 largely due to decline in the hair colour portfolio (adverse mix) and higher costs of input such as palm oil. The company expects to undertake certain pricing actions in the coming quarters, which will aid in gross margin expansion going ahead. With improving revenue mix, we expect gross margins to improve in the near term. The company expects step-up in ad spends in the coming quarters post normalisation of business environment. However, expansion in gross margins along with other efficiencies will help OPM expansion to sustain in the near term.
- ◆ Ms. Nisaba Godrej has recently taken over as GCPL's MD - Her sole focus is to improve growth driven by increased focus on the India and Indonesia business where growth prospects are better. Moreover, Mr. Dharnesh Gordhon has been appointed as the new CEO of the GAUM region who, with his experience will help turnaround the Africa business going ahead.
- ◆ GCPL intends to turnaround its Africa business by taking advantage of the current situation of lower competitive intensity in multiple markets (competitors are facing issues as they largely import), scale up of its wet hair care portfolio, scale-up of HI category, enhanced distribution and innovation. This along with the expertise of the new management will help drive sustainable growth. Tight cost-control will help drive profitability of the Africa business.
- ◆ The new product development (NPD) cycle has reduced significantly from months to weeks. The working capital cycle has also reduced by 6 days y-o-y to 8 days as of June 2020. Total debt reduced by Rs. 190 crore and thus, debt to equity ratio came down to 0.17x in June 2020 from 0.32x in March 2020. RoCE is almost flat y-o-y at 16.5% and the company's focus is to attain RoCE of close to 25% in the near to medium term.

**Results (Consolidated)**

Particulars	Rs cr				
	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	q-o-q (%)
Total revenue	2327.3	2348.8	-0.9	2153.8	8.1
Raw material costs	1064.5	1007.0	5.7	910.5	16.9
Employee costs	261.8	265.3	-1.3	223.7	17.0
Advertisement & Promotion costs	104.7	192.9	-45.7	126.6	-17.3
Other expenses	423.7	424.7	-0.2	416.5	1.7
Total operating expenses	1854.6	1889.9	-1.9	1677.3	10.6
Operating profit	472.7	458.9	3.0	476.5	-0.8
Other income	21.8	21.4	1.8	49.2	-55.7
Interest expenses	48.3	55.1	-12.2	61.5	-21.4
Forex gain / (loss)	0.0	-3.3	-	0.0	-
Depreciation	49.3	47.3	4.2	53.2	-7.2
Profit before tax	396.8	374.6	5.9	411.0	-3.5
Tax	91.4	85.3	7.2	112.8	-19.0
Adjusted PAT (before MI)	305.4	289.3	5.6	298.2	2.4
Minority interest (MI)	-0.4	0.2	-	-0.2	-
Extraordinary items	89.9	118.1	-23.9	-68.1	-
Reported PAT	394.9	407.6	-3.1	229.9	71.8
EPS (Rs.)	3.0	2.8	5.6	2.9	2.4
			<b>bps</b>		<b>bps</b>
GPM (%)	54.3	57.1	-286	57.7	-346
OPM(%)	20.3	19.5	77	22.1	-181

Source: Company; Sharekhan Research

**Result (Standalone)**

Particulars	Rs cr				
	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	q-o-q (%)
Total revenue	1380.7	1315.4	5.0	1113.9	23.9
Operating Profit	376.7	308.5	22.1	304.2	23.8
Adjusted Net profit	271.7	240.1	13.2	240.4	13.0
			<b>bps</b>		<b>bps</b>
GPM (%)	56.3	58.6	-234	58.9	-264
OPM (%)	27.3	23.5	382	27.3	-

Source: Company; Sharekhan Research

**Category wise performance**

Particulars	Rs cr				
	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	q-o-q (%)
Soap	545	556	-2.0	313	74.1
Hair Colour	149	181	-17.7	131	13.7
Liquid Detergents	129	146	-11.6	169	-23.7
Household Insecticides (HI)	540	427	26.5	463	16.6

Source: Company; Sharekhan Research

**International business performance**

Particulars	Rs cr				
	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	q-o-q (%)
<b>Revenue</b>					
Indonesia	405	372	9	449	-10
GAUM	437	562	-22	484	-36
Latin America & SAARC	126	131	-4	136	-22
<b>EBITDA Margins (%)</b>			<b>bps</b>		<b>bps</b>
Indonesia	23.6	23.7	-10	24.6	-100
GAUM	-	11.9	-	12.2	-
Latin America & SAARC	11.3	2.3	900	3.5	780

Source: Company; Sharekhan Research

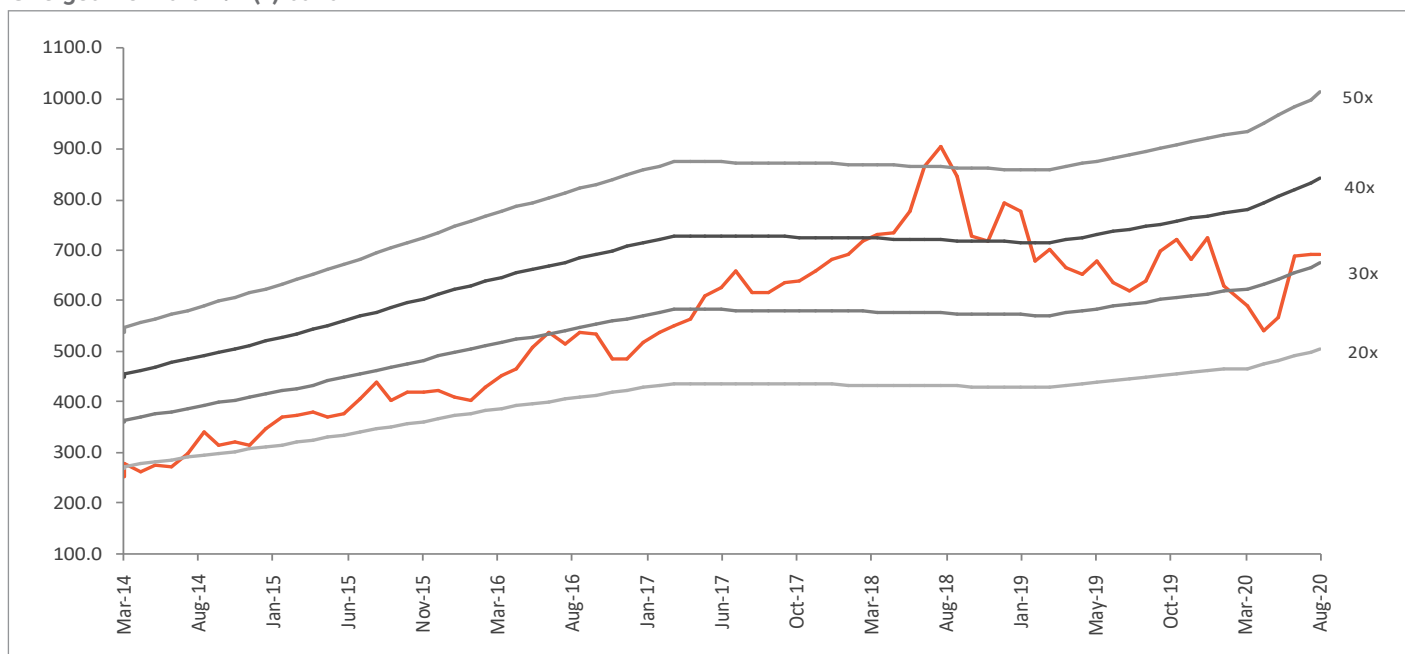
## Outlook

**Recovery in HI and strong traction to hygiene products would drive performance in FY2021:** Q1FY2021 performance was mixed, with flat revenues and a 77 bps expansion in OPM. GCPL's domestic factories and supply chains are operating at 90% utilisation levels. In Indonesia, the focus is more on back-end and front-end supply chain running smoothly. The management expects the strong growth momentum in HI to sustain in the coming quarters with new products gaining good traction and easing competitive intensity from illegal incense sticks in the current environment. Domestic soaps category is expected to recover while hair colour will take time to bounce back. Globally, Indonesia will continue to perform well, while a new leadership for the Africa business is likely to improve performance in the coming quarters with new growth strategies. Though an unfavourable mix and higher input prices affected the gross margins in Q1, the management is confident of a sequential improvement in gross margins through calibrated price hikes and improved mix. Ad spends are expected to be selective and hence would support OPM in the near term.

## Valuation

**Maintain Buy with an unchanged price target of Rs. 810:** We have fine-tuned our earnings estimates to factor in slightly higher-than-earlier expected growth in domestic HI category. A new Managing Director - Ms. Nisaba Godrej's - clear focus is on improving growth prospects of the Indian and Indonesian businesses and aim for a recovery in the Africa business by expanding penetration and cross pollination strategy. The management targets a steady improvement in profitability and RoCE, to ~23-25% in the near to medium term. The stock is currently trading at 36.8x its FY2022E EPS, which is at discount to some of its peers. We maintain our Buy recommendation on the stock with an unchanged target price of Rs. 810.

### 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
Hindustan Unilever	69.7	60.9	48.7	49.4	42.9	36.7	105.2	39.7	28.5
Dabur India	58.7	54.5	43.3	49.1	44.2	34.8	27.0	26.5	29.5
Marico India	44.4	41.6	35.1	32.2	29.8	25.2	41.3	41.8	43.5
Godrej Consumer Products	48.4	43.2	36.8	34.7	32.5	28.5	16.6	17.1	18.8

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

Nisaba Godrej	Chairperson & Managing Director
Adi Godrej	Chairman
V Srinivasan	CFO and Company Secretary

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	First State Investments ICVC	2.7
2	Temasek Holdings Pte Ltd	2.5
3	First State Global Umbrella Fund	2.1
4	Capital Group Cos Inc	1.4
5	Vanguard Group Inc	1.3
6	Arisaig India Fund Limited	1.0
7	Republic of Singapore	1.0
8	BlackRock Inc	1.0
9	Mitsubishi UFJ Financial Group Inc	0.7
10	Kotak Mahindra Asset Management Co	0.7

Source: Bloomberg

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