27 September 2021
Update | Sector: Consumer

Godrej Consumer

BSE SENSEX	S&P CNX
60,078	17,855

CONSUMER PRODUCTS

CMP: INR1,038 **TP: INR1,250 (+20%)** **Buy**

Building blocks in place to capitalize on recovery

The management of Godrej Consumer Products (GCPL) held an Analyst Meet with Mr Akhil Chandra to discuss the progress in its Indonesia business. Here are the takeaways:

Key highlights from the interaction

- The Indonesia business has been seeing gradual recovery in demand post the second COVID wave despite a tough macroeconomic situation.
- Given the recent bold economic reforms implemented by the Indonesian government, Mr Chandra is confident GCPL has the building blocks in place to capitalize on these reforms and deliver double-digit profitable growth over the medium term.
- The management aims to drive growth in its largest segment, Household Insecticides (HI), through democratization and premiumization. Furthermore, it would do so by gradually occupying whitespaces within the category by migrating consumers to aerosols and electrical products, wherein it has a stronger presence.
- Hygiene now accounts for 10% of GCPL Indonesia's sales – fairly impressive given GCPL Indonesia's recent entry into the segment. The management is now leveraging its Saniter brand and moving into personal care categories, such as soaps and personal wash with powder-to-liquid and liquid formats.
- Project RISE seeks to dramatically increase GCPL's direct reach as well as SKU throughput per outlet. GCPL's direct reach now stands at 160,000 outlets (from 100,000 earlier). It also has a distribution strategy in place using agents/distributors that now cover 40,000–50,000 outlets. The management believes a 200,000 outlet direct reach is ideal.
- While there has been an increase in some input costs, the scope for price increases is limited, and the management has focused on cost savings and a better mix to offset inflation.
- There are no changes to our estimates. As highlighted in our recent note, GCPL has been performing consistently well in various large categories in the past year, even before the new CEO has taken over (likely in Oct'21). Mr. Sitapati's appointment is an important piece of the puzzle, unlocking the path to strong earnings growth for GCPL. This comes along with a) better capital allocation efforts in recent years, b) the appointment of a new head in the – erstwhile, significantly underperforming – GAUM business (largely Africa), with good initial results in the first year of his tenure in FY21, and c) potential tailwinds in domestic soap and personal wash products – led by more frequent usage since COVID-19 – and a sharp increase in domestic penetration levels in the Hand Wash category.
- Maintain **BUY**, with TP of INR1,250/share (45x Dec'23E EPS).

Stock Info

Bloomberg	GCPL IN
Equity Shares (m)	1,022
M.Cap.(INRb)/(USDb)	1061 / 14.4
52-Week Range (INR)	1139 / 644
1, 6, 12 Rel. Per (%)	-9/24/-13
12M Avg Val (INR M)	1423

Financials Snapshot (INR b)

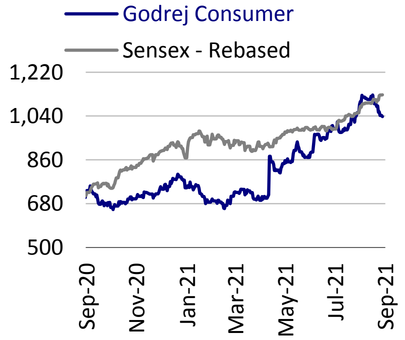
Y/E March	2021	2022E	2023E
Sales	110.3	122.0	136.1
Sales Gr. (%)	11.3	10.6	11.5
EBITDA	23.9	26.8	31.1
EBITDA mrg. (%)	21.7	21.9	22.8
Adj. PAT	17.7	19.3	23.2
Adj. EPS (INR)	17.3	18.9	22.7
EPS Gr. (%)	21.9	9.5	20.2
BV/Sh.(INR)	92.3	96.8	102.7
Ratios			
RoE (%)	20.4	20.0	22.8
RoCE (%)	18.3	20.5	23.0
Payout (%)	57.9	63.5	61.6
Valuations			
P/E (x)	60.1	54.9	45.7
P/BV (x)	11.2	10.7	10.1
EV/EBITDA (x)	44.5	39.5	33.8
Div. Yield (%)	1.0	1.2	1.3

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	63.2	63.2	63.2
DII	1.2	3.1	3.2
FII	27.0	26.6	26.8
Others	8.6	7.1	6.8

FII Includes depository receipts

Stock Performance (1-year)



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Macro environment and demand

- Indonesia has been seeing gradual recovery in demand post the second COVID wave despite a tough macroeconomic situation.
- The Indonesian government has been implementing bold economic reforms.
- GCPL's management has put in place building blocks to drive profitable double-digit sales growth over the medium term to capitalize on these government reforms.
- FMCG growth in Indonesia was in the low single digits, as per Nielsen data, even before the first COVID wave last year.
- The category penetration of GCPL's core categories is much higher in Indonesia than in India. For example, Air Fresheners has 30% penetration levels in Indonesia v/s the high single digits in India.
- Unemployment, diminished tourism activity, and reduced working hours have led to consumers downtrading to either smaller packs or private label brands.

Segmental strategy highlights

- In Indonesia, GCPL is the leader in the four key categories in which it is present.
- **Household Insecticides** (HI)
  - HI is the largest category for GCPL Indonesia, with contribution of ~35% to sales. The management's focus is on democratization and premiumization.
  - GCPL has a presence in 40% of the HI market, which is estimated to be worth IDR5t (USD350m). It plans to gradually occupy whitespaces within the category – wherein the salience of coils / personal repellents in the industry is still 30%/10% – by migrating consumers to aerosols and electrical products, wherein it has a stronger presence.
  - The management would focus on the non-mosquito space, with focus on innovating in the roach and rodent portfolios to drive growth.
  - GCPL has gained market share of 50–100 bps in recent years, while the second best player, Baygon by S. C. Johnson, has seen decline in market share.
- **Hygiene**
  - Hygiene now accounts for 10% of GCPL Indonesia's sales despite its recent entry in this category.
  - The management is now moving its Saniter brand from the Non-Personal Care to Personal Care category (soaps, powder-to-liquid, and liquids).
  - There are no plans to enter the Floor Cleaning and Dishwashing categories over the near term, wherein competitors such as Lizol (Unilever) have a very strong presence.
  - In the niche space of Outside-the-Bathroom Hygiene, GCPL has seen its market share grow to 60% after the second COVID wave (from 45–50% earlier).
  - The management believes the brand's medicinal image has helped give it an edge over peers.
- **Air Fresheners** – While this is a Discretionary category, it has seen gradual demand recovery in 1HFY22.
- **Wet Wipes (Mitu brand)** – There has been an unabated price war in the Wet Wipes business in Indonesia for the last six months. GCPL previously had market

share of 10–12% three years ago, which has now seen 400 bps dilution. The management is using tactical initiatives in terms of pricing and sizing to mitigate the competitive onslaught and is confident of regaining lost market share.

- **Hair Care** – Robust growth is seen in the segment. The management focus is on gaining market share from ammonia-based local players instead of competing with L'Oreal's Garnier. New launches in shampoo and hair color are doing well. The Hair Care portfolio has been static in terms of portfolio salience for the past three years.

Go-to-market strategy

- Project RISE seeks to dramatically increase GCPL's direct reach as well as SKU throughput per outlet.
- GCPL's direct reach is now 160,000 outlets from 100,000 earlier. It has also put in place a distribution strategy using spreaders (agents/distributors), which now cover 40,000–50,000 outlets.
- The management believes a 200,000 outlet direct reach is ideal. While Nestlé covers 250,000 outlets, its sales are 6x that of GCPL Indonesia. While Unilever reaches 900,000 outlets directly, 50% of its outlets make up only 5% of its sales.
- The management would also like to increase its indirect coverage through the use of active wholesalers and sub-dealers. It is also entering pilots with spreaders, as well as dedicated B2B players such as Bukalapa, to work on efficiencies to enhance distribution without going direct.
- GCPL is also expanding its pharmacy reach using national distributors.
- It is further bolstering its e-commerce prominence and targets 3% of revenues from the channel next year as well as 10% contribution over the next three years.
- Three years ago, modern trade (MT) / general trade (GT) accounted for 70%/28%. Currently, GT contributes 30%, with e-commerce contributing 2%. The management targets a further ~200bps annual increase in GT share in revenues.

Costs and margins

- Prices of tin cans have spiked on the back of higher iron ore prices.
- Other material costs, such as LPG and raw materials for wipes, have also increased.
- Cost savings is a key area of focus for the management. A better product mix is another lever to mitigate input cost increases.
- While opportunities for price increases are fairly limited, the management has taken modest increases in categories where the likelihood of downtrading is limited.
- The management aims to broadly maintain the margin profile over the short term.
- It has been able to significantly reduced media costs over the last two years owing to some favorable agreements with media houses.
- GT and e-commerce have better margins v/s MT. GT is 1,000bps more margin-accretive than MT.

Other points

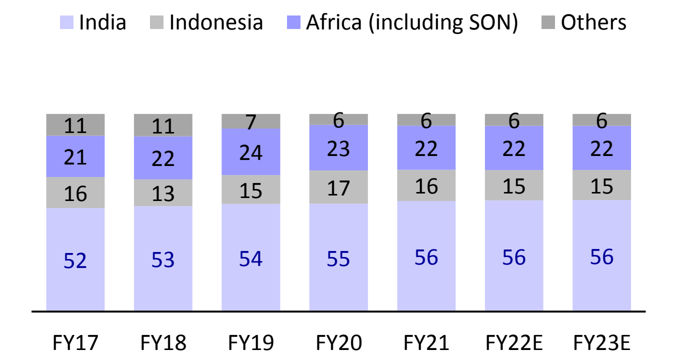
- The management has been looking for a bolt-on acquisition for the past 2–3 years and would consider an opportunity if one was to present itself.

Valuation and view

- As highlighted in our **recent note**, GCPL has been performing consistently well in various large categories for the past year, even before the new CEO takes over (likely in Oct'21).
- We believe Mr Sudhir Sitapati's appointment as MD and CEO for a period of five years could have a transformational change on GCPL's fortunes, as highlighted in our **upgrade note**.
- Mr Sitapati's appointment is an important piece of the puzzle, unlocking the path to strong earnings growth for GCPL. This comes along with a) better capital allocation efforts in recent years, b) the appointment of a new head in the – erstwhile, significantly underperforming – GAUM business (largely Africa), with good initial results in the first year of his tenure in FY21, and c) potential tailwinds in soap and personal wash products – led by more frequent usage since COVID-19 – and a sharp increase in penetration levels in the Hand Wash category.
- The stock has rallied nearly 50% since the announcement of Mr Sitapati's appointment. However, this spurt is just the first step to what could be the potentially massive revitalization of both earnings and RoCE over the next few years, leading to a sustained re-rating as well. We have seen transformative changes on all these fronts in the past with companies such as BRIT, NEST, JUBI, and HUVR.
- We maintain our **BUY** rating on the stock, valuing GCPL at 45x Dec'23E EPS, arriving at TP of INR1,250.

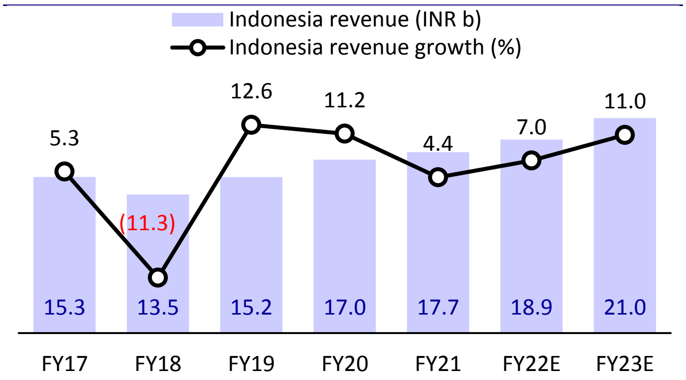
Story in charts

Exhibit 1: Indonesia's contribution to GCPL's consolidated sales to be 15% in FY22/FY23E



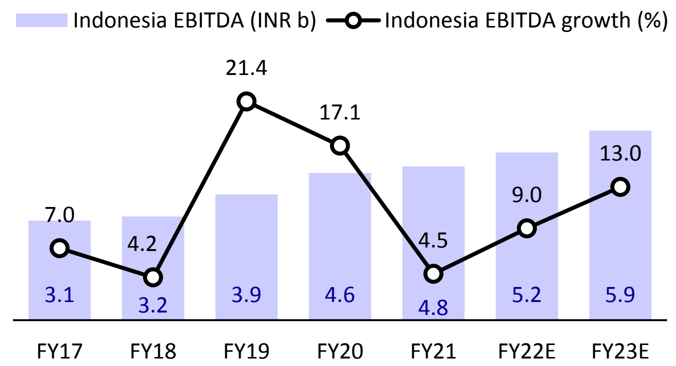
Source: Company, MOFSL

Exhibit 2: Expect GCPL to see 9% CAGR in Indonesia business over FY21–23E…



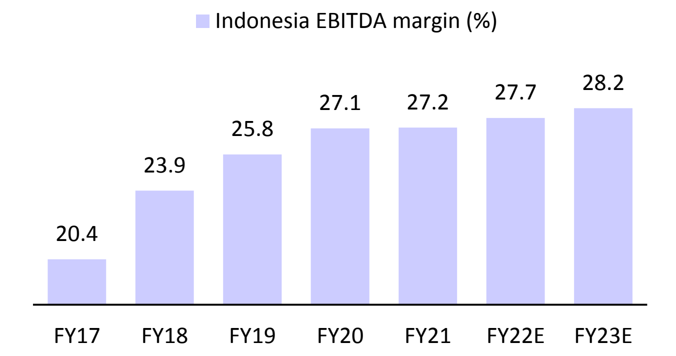
Source: Company, MOFSL

Exhibit 3: …with 11% EBITDA CAGR over the same period…



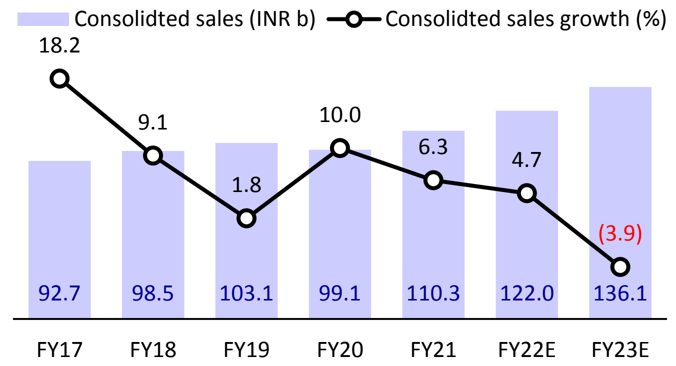
Source: Company, MOFSL

Exhibit 4: …and EBITDA margin expanding 100bps



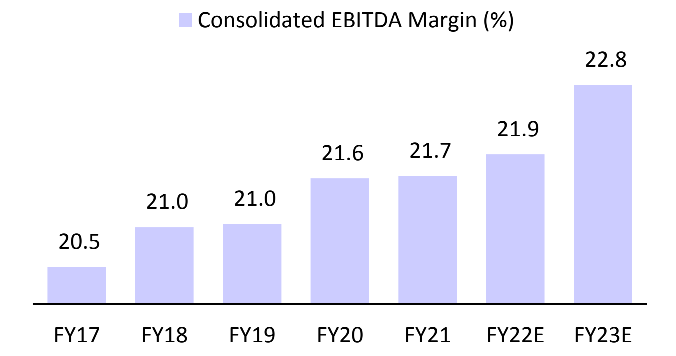
Source: Company, MOFSL

Exhibit 5: Expect 11% consolidated sales CAGR over FY21–23E…



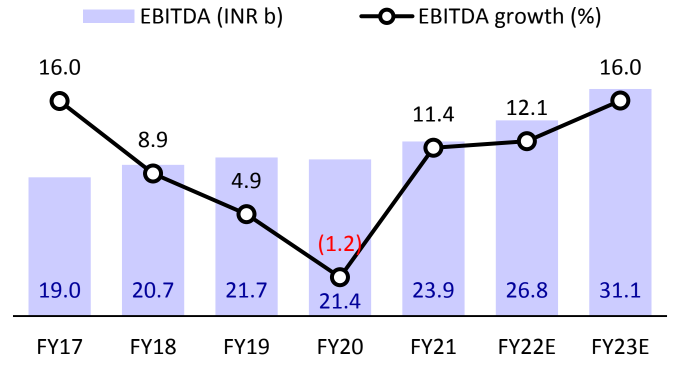
Source: Company, MOFSL

Exhibit 6: …with consolidated EBITDA margin expanding 110bps



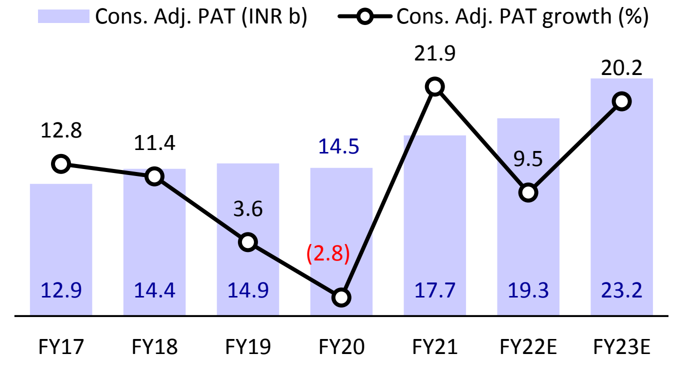
Source: Company, MOFSL

Exhibit 7: GCPL to see 14% consolidated EBITDA CAGR over FY21–23E…



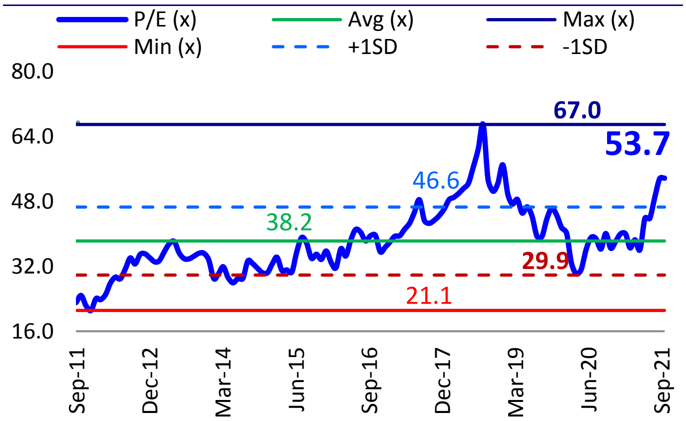
Source: Company, MOFSL

Exhibit 8: …with consolidated adjusted PAT CAGR of 14.7% over the same period



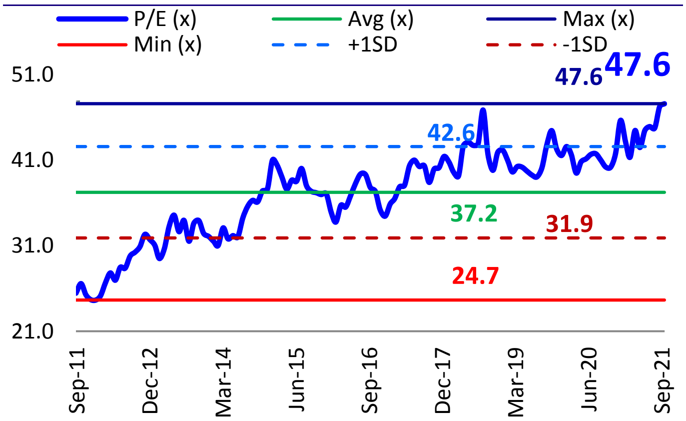
Source: Company, MOFSL

Exhibit 9: GCPL's P/E (x)



Source: Company, MOFSL

Exhibit 10: Consumer sector P/E



Source: Company, MOFSL

Financials and valuations

Income Statement							(INR b)
Y/E March	**2017**	**2018**	**2019**	**2020**	**2021**	**2022E**	**2023E**
Net Sales	**92.7**	**98.5**	**103.1**	**99.1**	**110.3**	**122.0**	**136.1**
Change (%)	10.0	6.3	4.7	-3.9	11.3	10.6	11.5
Gross Profit	**51.4**	**55.7**	**58.1**	**56.5**	**61.0**	**66.4**	**76.8**
Margin (%)	55.4	56.6	56.3	57.0	55.3	54.4	56.4
Total Expenditure	73.7	77.8	81.5	77.7	86.4	95.3	105.0
EBITDA	**19.0**	**20.7**	**21.7**	**21.4**	**23.9**	**26.8**	**31.1**
Change (%)	16.0	8.9	4.9	-1.2	11.4	12.1	16.0
Margin (%)	20.5	21.0	21.0	21.6	21.7	21.9	22.8
Depreciation	1.4	1.6	1.7	2.0	2.0	2.1	2.1
Int. and Fin. Charges	1.5	1.6	2.2	2.2	1.3	0.8	0.6
Interest Income	0.4	0.7	0.9	0.8	0.7	0.6	0.9
Other Income-rec.	0.3	0.4	0.2	0.4	0.0	0.4	0.5
PBT	**16.9**	**18.6**	**18.8**	**18.4**	**21.2**	**24.8**	**29.7**
Change (%)	12.4	10.2	1.4	-2.3	15.4	16.9	19.7
Margin (%)	18.2	18.9	18.3	18.6	19.3	20.3	21.8
Tax	3.7	4.0	4.2	3.8	4.1	5.3	6.3
Deferred Tax	-0.1	0.0	0.2	-0.1	0.5	-0.2	-0.2
Tax Rate (%)	22.5	21.8	20.9	21.4	16.9	22.2	21.9
PAT	**13.1**	**14.5**	**14.9**	**14.5**	**17.7**	**19.3**	**23.2**
Change (%)	12.3	11.2	2.5	-2.9	22.0	9.5	20.2
Margin (%)	14.1	14.8	14.4	14.6	16.0	15.8	17.1
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Group Adjusted PAT	**12.9**	**14.4**	**14.9**	**14.5**	**17.7**	**19.3**	**23.2**
Non-rec. (Exp.)/Income	0.0	1.8	8.5	0.5	-0.4	0.0	0.0
Reported PAT	**13.1**	**16.3**	**23.4**	**15.0**	**17.2**	**19.3**	**23.2**

Balance Sheet							(INR b)
Y/E March	**2017**	**2018**	**2019**	**2020**	**2021**	**2022E**	**2023E**
Share Capital	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Reserves	52.0	61.6	71.6	78.0	93.4	98.0	104.0
Minority Int	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Networth	**53.0**	**62.6**	**72.7**	**79.0**	**94.4**	**99.0**	**105.0**
Loans	40.0	35.1	33.8	35.2	7.6	7.2	6.9
Deferred Liability	1.9	1.9	-4.7	-5.7	-6.4	-6.4	-6.4
Capital Employed	**94.9**	**99.6**	**101.8**	**108.5**	**95.6**	**99.8**	**105.5**
Gross Block	36.3	39.6	42.1	45.2	42.0	45.3	48.5
Less: Accum. Depn.	2.1	3.6	4.6	6.3	4.3	6.4	8.5
Net Fixed Assets	**34.2**	**36.0**	**37.5**	**38.9**	**37.7**	**38.9**	**40.0**
Capital WIP	1.0	0.8	0.5	0.6	0.6	0.6	0.6
Goodwill	46.6	47.2	49.2	53.4	51.3	51.3	51.3
Non Curr Investments	2.5	1.4	0.3	0.3	0.2	0.2	0.2
Current Investments	6.8	8.6	4.8	6.4	6.6	7.2	6.5
Currents Assets	**38.3**	**44.7**	**43.8**	**43.5**	**39.6**	**45.2**	**54.2**
Inventory	14.1	15.8	15.6	17.0	17.2	17.7	19.8
Account Receivables	10.3	12.5	12.9	11.6	10.0	11.0	12.3
Cash and Bank Balance	9.1	9.6	8.9	7.7	6.7	10.7	16.4
Loans and Advances	4.5	6.8	6.3	7.1	5.7	5.7	5.7
Other Current Assets	0.2	0.1	0.1	0.1	0.0	0.0	0.0
Curr. Liab. & Prov.	**34.5**	**39.0**	**34.4**	**34.6**	**40.5**	**43.5**	**47.2**
Account Payables	17.2	23.5	25.4	24.8	21.6	23.7	26.5
Other Liabilities	17.2	15.3	8.7	9.3	18.3	19.2	20.2
Net Current Assets	**3.8**	**5.6**	**9.4**	**8.9**	**-0.8**	**1.6**	**7.0**
Net Assets	**94.9**	**99.6**	**101.8**	**108.5**	**95.6**	**99.8**	**105.5**

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2017	2018	2019	2020	2021	2022E	2023E
Basic (INR)							
EPS	**12.6**	**14.1**	**14.6**	**14.2**	**17.3**	**18.9**	**22.7**
Cash EPS	14.0	15.6	16.2	16.1	19.3	21.0	24.8
BV/Share	51.9	61.2	71.1	77.3	92.3	96.8	102.7
DPS	4.0	4.7	6.7	8.0	10.0	12.0	14.0
Payout (%)	31.6	33.2	45.7	56.5	57.9	63.5	61.6
Valuation (x)							
P/E	82.1	73.7	71.2	73.2	60.1	54.9	45.7
Cash P/E	74.0	66.5	63.9	64.5	53.9	49.5	41.8
EV/Sales	11.7	11.0	10.5	11.0	9.6	8.7	7.7
EV/EBITDA	57.4	52.5	50.0	50.8	44.5	39.5	33.8
P/BV	20.0	16.9	14.6	13.4	11.2	10.7	10.1
Dividend Yield	0.4	0.4	0.6	0.8	1.0	1.2	1.3
Return Ratios (%)							
RoE	24.6	24.9	22.0	19.1	20.4	20.0	22.8
RoCE (Post-tax)	16.2	16.2	16.6	15.4	18.3	20.5	23.0
RoIC	18.6	19.3	19.0	16.9	20.7	23.6	27.7
Working Capital Ratios							
Debtor (Days)	41	46	46	43	33	33	33
Asset Turnover (x)	2.6	2.7	2.7	2.5	2.9	3.1	3.4
Leverage Ratio							
Debt/Equity (x)	0.8	0.6	0.5	0.4	0.1	0.1	0.1

Cash Flow Statement (INR b)

Y/E March	2017	2018	2019	2020	2021	2022E	2023E
OP/(Loss) before Tax	18.4	20.5	20.4	20.6	23.8	26.5	31.4
Net interest	1.0	0.9	1.4	1.4	0.9	0.1	-0.3
Direct Taxes Paid	-4.3	-4.1	-4.5	-3.6	-4.0	-5.3	-6.3
(Inc)/Dec in WC	3.4	-0.2	0.0	-2.6	-0.5	1.5	0.4
CF from Operations	**18.6**	**17.2**	**17.3**	**15.9**	**20.3**	**22.8**	**25.1**
Inc in FA	-1.8	-3.1	-2.1	-1.5	-1.6	-3.3	-3.3
Free Cash Flow	**16.8**	**14.1**	**15.2**	**14.4**	**18.7**	**19.6**	**21.9**
Pur of Investments	-5.7	0.4	2.9	-2.6	-0.1	-0.6	0.7
Others	-16.0	-0.2	1.6	0.0	-1.3	0.5	0.7
CF from Investments	**-23.6**	**-2.9**	**2.4**	**-4.2**	**-3.1**	**-3.4**	**-1.8**
Inc in Debt	0.0	0.0	0.0	-1.3	-16.2	-0.4	-0.4
Dividend Paid	-2.0	-6.1	-12.3	-8.2	0.0	-14.7	-17.2
Interest Paid	-1.2	-1.6	-2.1	-1.5	-1.6	-0.8	-0.6
Other Item	9.8	-6.1	-6.0	-2.0	-0.4	0.4	0.5
CF from Fin. Activity	**6.6**	**-13.8**	**-20.4**	**-13.0**	**-18.2**	**-15.4**	**-17.6**
Inc/Dec of Cash	**1.7**	**0.5**	**-0.7**	**-1.2**	**-1.0**	**4.0**	**5.7**
Add: Beginning Balance	7.5	9.1	9.6	8.9	7.7	6.7	10.7
Closing Balance	**9.1**	**9.6**	**8.9**	**7.7**	**6.7**	**10.7**	**16.4**

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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