



#### 3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

#### What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

#### Reco/View

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 1,038	
Price Target: Rs. 1,249	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

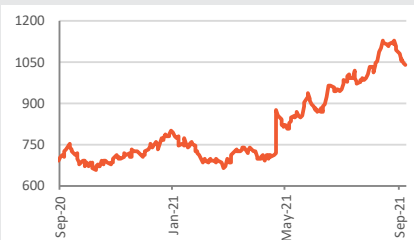
#### Company details

Market cap:	Rs. 1,06,032 cr
52-week high/low:	Rs. 1,138 / 644
NSE volume: (No of shares)	17.3 lakh
BSE code:	532424
NSE code:	GODREJCP
Free float: (No of shares)	37.6 cr

#### Shareholding (%)

Promoters	63.2
FII	27.0
DII	1.2
Others	8.6

#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	-1.6	18.1	42.7	45.4
Relative to Sensex	-8.7	3.8	22.9	-12.8

Sharekhan Research, Bloomberg

#### Summary

- We maintain Buy on Godrej Consumer Products Limited (GCPL) with the revised PT of Rs. 1,249. The stock is currently trading at 44x/39x its FY2023E/FY2024E EPS, discount to some of the large peers.
- The company is focusing on growth levers such as 1) improving penetration of aerosols/liquid vapourisers in household insecticide (HI); 2) regaining lost market share in wet-wipes through competitive pricing; and 3) gaining scale in hygiene to drive double-digit revenue growth in Indonesia.
- India business is expected to grow in double digits with all key categories (including soaps and HI) expected to report double-digit revenue growth in FY2022.
- Raw-material inflation will continue to put pressure on margins in the near term. Calibrated price hikes and operating efficiencies would help in mitigating cost pressures.

**Analyst Conference call with Mr. Akhil Chandra (business head of Godrej Consumer Products Limited (GCPL) – Indonesia business) gave a broader view on business recovery and growth plans in the Indonesian market. Indonesia business is gradually recovering from the significant impact of the second wave of COVID-19. The company has undertaken several initiatives to achieve sustainable double-digit revenue and earnings growth in Indonesia. On the other hand, demand environment is resilient in India business, which will help in maintaining good volume growth momentum in India business. Raw-material inflation will continue to put pressure on margins in the near term. However, better mix, premiumisation and efficiencies through various cost programmes would drive margins in the medium term.**

- Focus on achieving sustainable double-digit growth in Indonesia business: Indonesia business has been growing moderately for the past few quarters, affected by macro headwinds, pandemic-led impact on sales, and higher competitive intensity in the wet-wipe category. The company is focusing on growth levers such as 1) improving penetration of aerosols/liquid vapourisers in household insecticide (HI); 2) regaining lost market share in wet-wipes through competitive pricing; and 3) gaining scale in the hygiene business to drive sustainable growth in the medium term. It is focusing on expanding distribution by increasing direct reach and improving penetration through various channels such as pharmacy and e-commerce.
- Domestic business to grow in double digits in FY2022: Demand environment in the domestic market is resilient with rural demand remaining steady, while urban demand recovering faster. Personal wash and hygiene products (including hand wash) will continue to do well, while strong recovery is anticipated in the hair colour category. The company is scouting for sustained good growth in the domestic HI category. Overall, GCPL expects revenue of the domestic business to grow in double digits in FY2022.
- Raw-material inflation remains a risk on margins in the near term: Inflated input prices would continue to put pressure on gross margins in the near term. However, calibrated price hike (7-8% price increase since April 2021) and operating efficiencies through various cost-cutting initiatives would reduce stress on margins. Improving mix, premiumisation, and efficiencies would help consolidated operating profit margin (OPM) to gradually improve in the medium term.

#### Our Call

**View: Maintain Buy with a revised PT of Rs. 1,249:** Focus on scaling up rural penetration in key categories in domestic markets, new product launches, distribution expansion, and market share gains are key catalysts of sustainable and profitable growth in the medium to long term. The change in leadership would further focus on improving the growth prospects in key markets through revamped strategies. The stock is currently available at attractive valuations of 43.8x/38.5x its FY2023/FY2024E earnings, which is at a discount to some of the large consumer goods companies. We maintain Buy recommendation on the stock with a revised PT of Rs. 1,249.

#### Key Risks

Any sustained slowdown in the demand environment of key markets or inflation in raw-material prices would act as key risks to our earnings estimates in the medium to long term.

#### Valuation (Consolidated)

Particulars	Rs cr			
	FY21	FY22E	FY23E	FY24E
Revenue	11,029	12,760	14,174	15,869
OPM (%)	22.2	21.6	22.8	23.0
Adjusted PAT	1,765	1,999	2,419	2,753
Adjusted EPS (Rs.)	17.3	19.5	23.7	26.9
P/E (x)	60.1	53.0	43.8	38.5
P/B (x)	11.2	10.0	8.7	7.5
EV/EBIDTA (x)	44.1	39.0	33.0	29.1
RoNW (%)	20.4	19.9	21.2	20.9
RoCE (%)	18.3	20.9	23.0	23.4

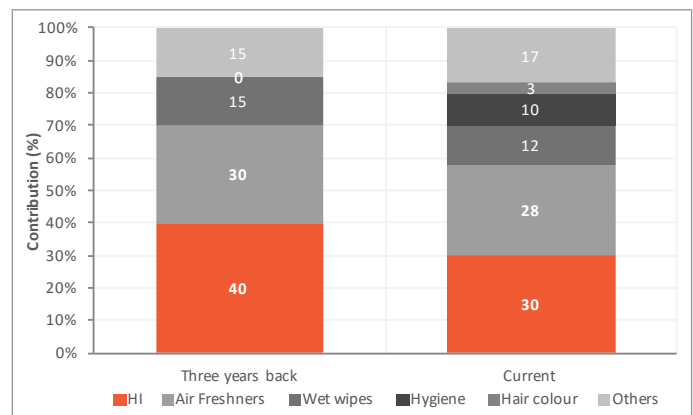
Source: Company; Sharekhan estimates

**Key highlights of conference call with Mr Akhil Chandra, business head of Indonesia business**

- ◆ **Focus on achieving sustainable double-digit growth in Indonesia business:** Indonesia business has been growing moderately for the past few quarters, affected by macro headwinds, pandemic-led impact on sales, and higher competitive intensity in the wet wipe category. Indonesian government has undertaken various initiatives to improve the macro environment with increased number of jobs and standard of living in the medium term. GCPL is focusing on growth levers such as 1) improving penetration of aerosols/liquid vaporisers in HI; 2) regaining lost market share in wet-wipes through competitive pricing; and 3) gaining scale in the hygiene business to drive sustainable growth in the medium term. It is focusing on expanding distribution by increasing direct reach and improving penetration through various channels such as pharmacy and e-commerce.

- ◆ **Scaling up of the hygiene category aiding in achieving better performance ahead of the industry:** GCPL entered the hygiene space with the launch of Saniter brand in FY2021. The brand gained good acceptance in the domestic market and within the launch of one year contributed ~10% to overall revenues of the Indonesian business in Q1FY2022. About 50% of Saniter’s portfolio is in the aerosol category, which gained strong acceptance in the pandemic environment. It recorded market share of 60%, ahead of prominent brands in the Indonesian market. The company is also present in the hand-sanitising gels/sprays, fabric disinfectants, wipes and recently entered soaps and powder hand wash categories. Need for sanitisation products in-house and for external use will continue to drive growth for the hygiene category in the medium term.

**Increased salience of hygiene category**



Source: Company, Sharekhan Research

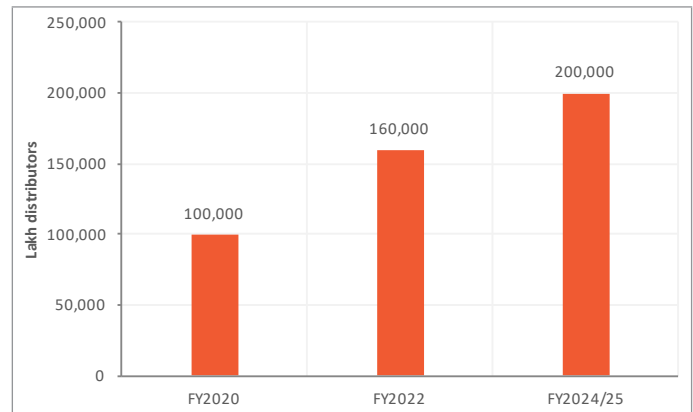
- ◆ **Focus on improving penetration of aerosols and electrical in the HI category:** With a strong brand portfolio, GCPL is the number one player in Indonesia’s HI category. The company has gained market share by 50-100 bps per year in the past three years. It is a dominant player in the aerosol category with ~50% market share. The category contributes around 85% to the overall HI business in Indonesia. Electricals (liquid vaporiser) salience is around 9-10%. GCPL holds 50% market share in the category. The penetration of coils is around 30% and the company is focusing on converting most of the coil users to aerosols/liquid vapourisers in the medium term. Further, it is focusing on users of cards/mats upgrading to liquid vapouriser in the medium term. GCPL is banking on the non-mosquito HI category to drive sustainable growth in the long run.

- ◆ **Air fresheners category to achieve gradual recovery:** Air fresheners (contributes 27-28% to the Indonesia business revenue) was badly affected by the slowdown in the discretionary category in the past few years. With expected improvement in the economy, the air fresheners category is expected to see gradual recovery in the coming years. It is banking on two pronged strategies of premiumisation in the core air freshener products and upgradation in bathroom fresheners category. The company is focusing on mid-market consumers upgrading to products such as air pockets for bathroom fresheners compared to products such as naphthalene balls.

- ◆ **Focus on regaining lost market share in wet wipes:** Intensifying competition and significant price war between the competitors led to loss in the market share of GCPL in the category. The contribution of wet-wipes category has reduced to 12-13% from 15% earlier. The company has undertaken corrective pricing steps in key channels and enhanced market activities to regain the lost ground in the wet-wipes categories.

- ◆ **Distribution to scale up significantly:** GCPL's Indonesian business is banking on project Rise to scale-up its distribution in the Indonesia market. Its direct distribution increased to 1,60,000 outlets from 1,00,000 outlets two years back. The company is targeting to reach direct distribution of 2,00,000 outlets over the next two years. Further, it has coverage of 40,000-50,000 outlets through spreaders. The company is banking on wholesalers, spreaders and dealers to further expand its distribution reach in the domestic market. GCPL has tied up with national pharmacy distributors to improve its product penetration through the pharmacy channel.

Increase in direct distribution reach

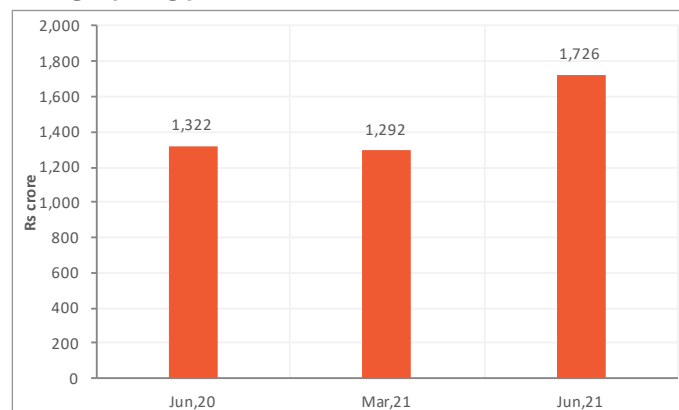


Source: Company, Sharekhan Research

### Other business highlights

- ◆ **Domestic demand remains resilient; to report double-digit growth in FY2022:** Demand environment in the domestic market is resilient with rural demand remaining steady, while urban demand is recovering faster. Personal wash and hygiene products (including hand wash) will continue to do well, while strong recovery is anticipated in the hair colour category. The company is scouting for sustained good growth in the domestic HI category. Discretionary products have started coming back very strong, with the festive season not getting disrupted by any external factors such as a third wave; and with the vaccination in full swing, the company expects discretionary categories to fuel further growth in the coming six months. GCPL expects double-digit growth in the current fiscal with expansion across all segments.
- ◆ **Raw-material inflation remains a risk on margins in the near term:** Inflated input prices would continue to put pressure on the gross margins in the near term. Some of the key input prices continued to remain at inflated levels. Management had expected that there may be some cooling off from July and August, but that trend right now is not visible. So, now it is expected that current inflationary levels may hold for another six months or so. However, calibrated price (7-8% price increase since April 2021) and operating efficiencies through various cost-cutting initiatives would reduce stress on margins. Improving mix, premiumisation, and efficiencies would help consolidated OPM to gradually improve in the medium term.
- ◆ **Strong liquidity position:** GCPL's liquidity position is strong, supported by cash and bank balances and liquid investments of over Rs. 1,700 crore in Q1FY2022. Stable working capital and improving business outlook across key geographies would help the company to generate healthy cash flows in the coming years. With limited capital expenditure plans in the coming years, we expect a large part of cash generation to be utilised for organic and inorganic initiatives coupled with reduction in debt in the coming years.

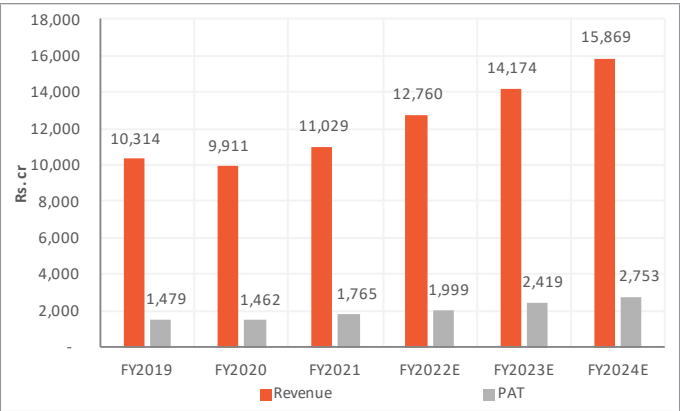
Strong liquidity position



Source: Company, Sharekhan Research

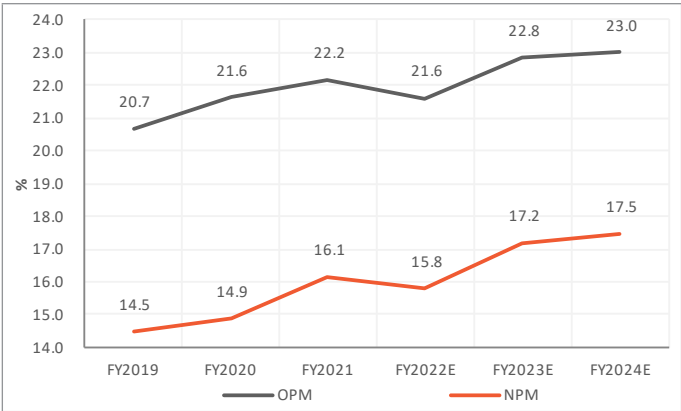
**Financials in charts**

**Revenue & PAT to grow at 12 & 17% CAGR**



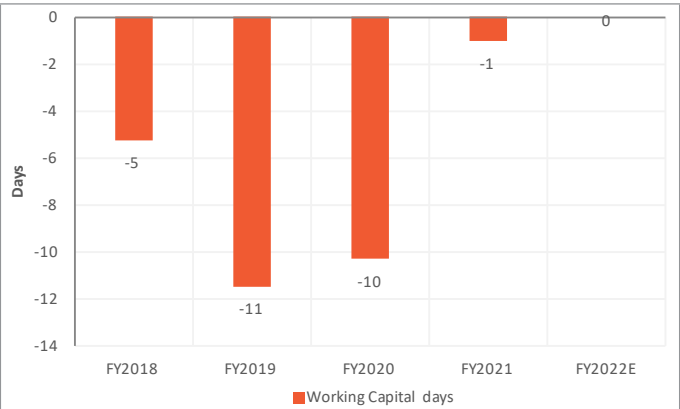
Source: Company, Sharekhan Research

**Margins to improve from current level**



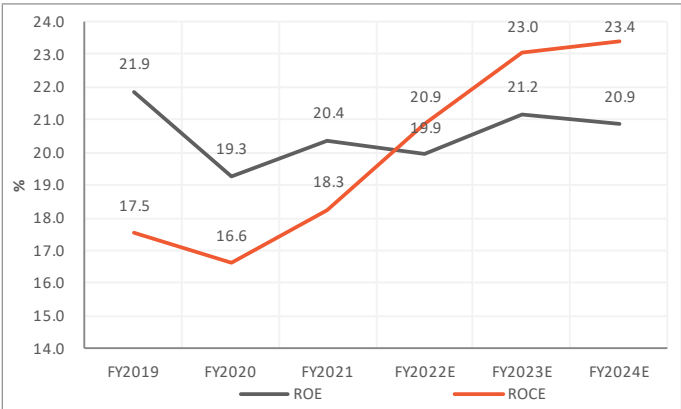
Source: Company, Sharekhan Research

**Negative working capital days**



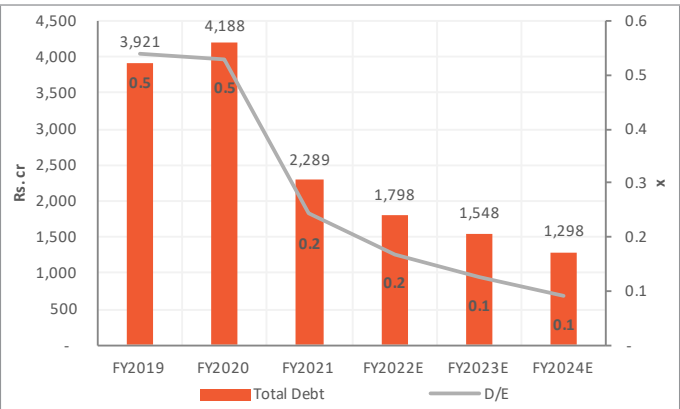
Source: Company, Sharekhan Research

**Return ratios to rise going ahead**



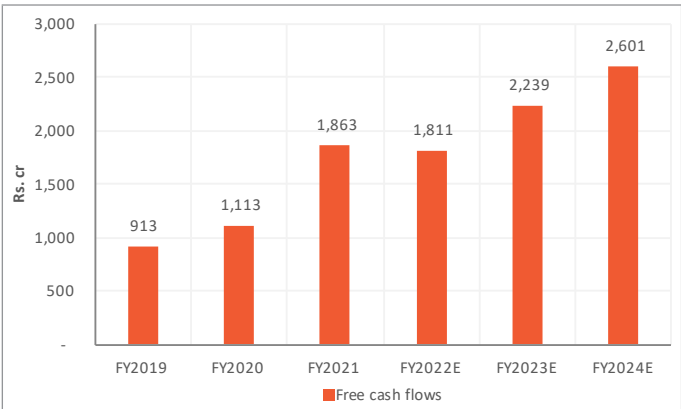
Source: Company, Sharekhan Research

**Improvement in debt position**



Source: Company, Sharekhan Research

**Significant free cash flow generation**



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector outlook – Demand remains resilient; Margins to improve sequentially

Pre-quarter commentary of most consumer goods companies indicated strong sales recovery from June 2021 with easing of lockdown restrictions in most parts of India. Demand, which started recovering from Q3FY2021, remained resilient in Q1FY2022. With a normal monsoon expected for the third consecutive year, agricultural production is predicted to be better in Kharif season 2021. This will give further boost to rural demand in the coming quarters. We believe the shift in demand for branded products, rural demand staying ahead of urban demand, gradual recovery in out-of-home categories, and product launches remain key catalysts for revenue growth in the near to medium term. On the other hand, prices of key raw materials (including palm oil, copra, and raw tea) have started correcting from their high. The substance of same along with calibrated price hikes would enable consumer goods companies to post better OPM on a sequential basis. Profitability is likely to be better off in H2FY2022. Improving revenue mix and better operational efficiencies remain key margin drivers in the medium term.

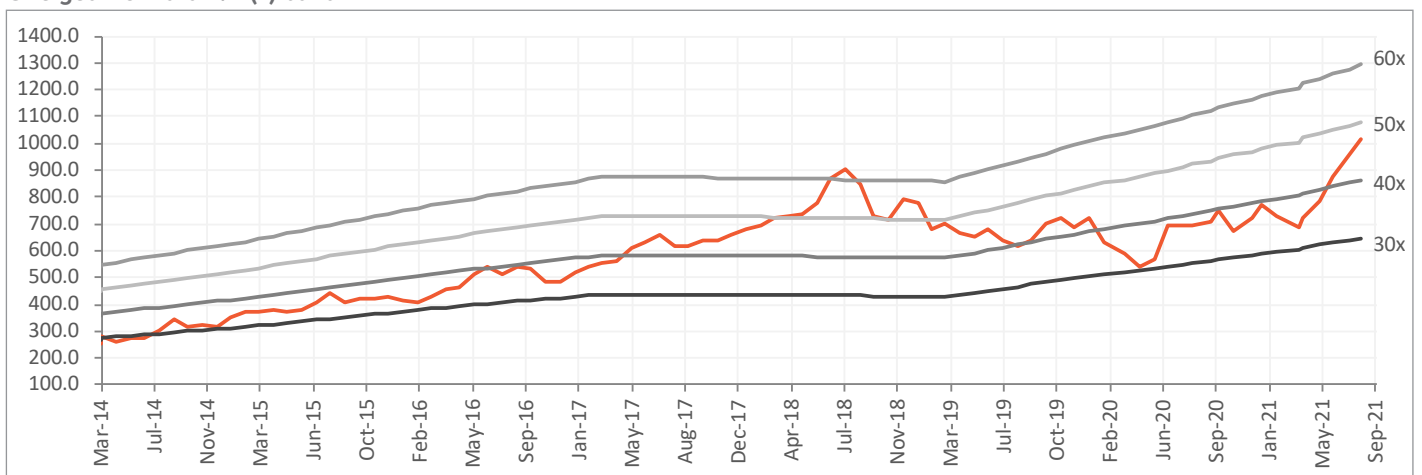
### ■ Company outlook – Change in leadership likely to drive consistent growth ahead

Under the new leadership of Mr. Sudhir Sitapati, the company will focus on achieving consistent double-digit revenue growth in the medium term. Improvement in penetration of HI in rural markets, scale up in performance of new categories such as hygiene (including hand wash/surface cleaners), sustained double-digit growth in Africa business, and recovery in Indonesia business are key medium-term revenue growth drivers for the company. Indonesia will take time to get back on the growth path. The company expects to mitigate input cost pressures by improving revenue mix, better cost-saving initiatives in key geographies, and prudent price hikes in key SKUs.

### ■ Valuation – Maintain Buy with revised PT of Rs. 1,249

Focus on scaling-up rural penetration in key categories in domestic markets, new product launches, distribution expansion, and market share gains are key catalysts sustainable and profitable growth in the medium to long term. The change in leadership would further focus on improving growth prospects in key markets through revamped strategies. The stock is currently available at attractive valuations of 43.8x/38.5x its FY2023E/ FY2024E earnings, which is at a discount to some of the large consumer goods companies. We maintain our Buy recommendation on the stock with a revised PT of Rs. 1,249.

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



Source: Sharekhan Research

#### Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Hindustan Unilever	78.3	66.5	55.4	55.8	48.2	40.4	36.5	26.4	31.3
Dabur India	66.0	56.6	45.4	53.8	44.3	35.3	26.4	29.1	32.6
Godrej Consumer Products	60.1	53.0	43.8	44.1	39.0	33.0	18.3	20.9	23.0

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 HI. 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 saw good 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	2.97
2	Temasek Holdings Pte. Ltd.	2.46
3	Capital Group Cos Inc.	1.76
4	St James Place Asia Pacific	1.18
5	Vanguard Group Inc.	1.17
6	BlackRock Inc.	1.09
7	Republic of Singapore	1.07
8	Kotak Mahindra Asset Management Co.	0.48
9	DSP Investment Managers Pvt Ltd	0.42
10	Veritas Asset Management LLP	0.33

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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