



## 3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey	Red
Right Quality (RQ)	Green	Grey	Red
Right Valuation (RV)	Green	Grey	Red

+ Positive = Neutral - Negative

## What has changed in 3R MATRIX

	Old		New
RS	Green	↓	Grey
RQ	Green	↔	Green
RV	Green	↔	Green

## ESG Disclosure Score NEW

## ESG RISK RATING

Updated Jan 08, 2022

27.05

## Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

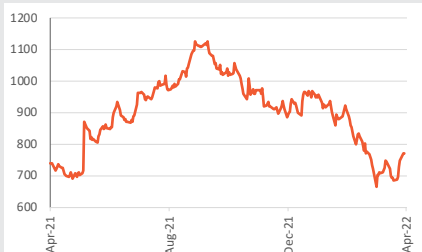
## Company details

Market cap:	Rs. 79,920 cr
52-week high/low:	Rs. 1,139 / 620
NSE volume: (No of shares)	12.2 lakh
BSE code:	532424
NSE code:	GODREJCP
Free float: (No of shares)	37.6 cr

## Shareholding (%)

Promoters	63.2
FII	26.0
DII	5.0
Others	5.8

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	11.5	-18.4	-24.0	5.7
Relative to Sensex	1.0	-17.2	-23.0	-13.2

Sharekhan Research, Bloomberg

## Godrej Consumer Products Ltd

## Weak Q4; Focus on achieving double-digit growth in FY2023

## Consumer Goods

## Sharekhan code: GODREJCP

Reco/View: Buy



CMP: Rs. 782

Price Target: Rs. 959



Upgrade



Maintain



Downgrade

## Summary

- Godrej Consumer Products Limited (GCPL)'s Q4FY2022 performance will be affected by global commodity inflation, slowdown in the domestic market, and sustained subdued performance in the Indonesia business.
- We expect GCPL's consolidated revenue to grow by 6% (led by 7-8% growth in the domestic business, while the international business will remain flat). Higher input cost inflation would lead to a 375 bps decline in the gross margin and a 173 bps decline in OPM.
- Despite near-term headwinds, management is focusing on achieving double-digit revenue growth (mix of volume and value) in FY2023. The product basket is showing strength with 85% of the portfolio gaining market share.
- The stock has corrected by ~18% in past three months (and 24% in last six months) and is trading at discount valuations of 39.4x/33.4x its FY2023E/FY2024E earnings. We maintain Buy with a revised PT of Rs. 959.

Godrej Consumer Products Limited (GCPL) will post yet another quarter of muted performance in Q4FY2022 as business was affected by multiple factors such as 1) global commodity inflation (putting sustained pressure on margins), 2) high inflation affecting domestic consumer demand; and 3) sustained subdued performance in Indonesia business. Q4 will be the third consecutive quarter of single-digit revenue growth (largely price-led growth) at the consolidated level. Significant inflation in palm oil prices and crude derivatives led to a 130 bps decline in OPM in 9MFY2022. We expect a 173 bps decline in OPM in Q4FY2022. However, some of the positives for the company are consistent improvement in the market share (85% of domestic portfolio gain share in Q4) and seventh consecutive quarter of double-digit growth in African business. The company aims to achieve double-digit revenue growth in FY2023 through improved penetration, market share gains, steady consumption environment, and innovation.

- Third consecutive quarter of single-digit revenue growth:** GCPL's consolidated revenue is expected to grow by 6% in Q4FY2022. Domestic revenue is likely to grow by 7-8%, while international business revenue is expected to stay flat during the quarter. Mid-single digit revenue growth will be largely driven by price increases undertaken in the domestic portfolio to mitigate commodity inflation. In India business, personal category registered double-digit revenue growth (largely led by strong price-led growth in the personal wash segment), while the household insecticide category had a muted season. On the international front, Indonesia business registered high-teens decline due to high base of hygiene sales in Q4FY2021. Africa business grew in mid-teens.
- Consolidated OPM to be lower by ~170 bps y-o-y:** With palm oil prices and crude oil prices staying high by 58% and 20% y-o-y, respectively, consolidated gross margin of GCPL is expected to be lower by 375 bps y-o-y to 52.0% (will improve by 134 bps q-o-q due to price hikes undertaken by the company). Lower ad spends would result in OPM declining by 173 bps y-o-y to 19.3% in Q4FY2022. Overall, we expect PAT to fall by 6.7% y-o-y to Rs. 353.6 crore during the quarter.
- Focus on achieving double-digit growth in the medium term:** Under the new leadership, the company is aiming at achieving double-digit volume growth through penetration gains in 50% of the portfolio, moderate share gain in half of the portfolio, consumption-led market growth, and disruptive innovation. In FY2023, the company expects to achieve low double-digit revenue growth, driven by a mix of volume and value. Indonesia's near-term outlook remains bleak. The company is putting building blocks in place to drive category development and general trade distribution to ensure gradual recovery in the region in the medium term. Management expects ex-hygiene growth to sequentially improve for Indonesia business.

## Our Call

**View – Retain Buy with a revised PT of Rs. 959:** GCPL's pre-quarter update gives a glimpse of yet another subdued quarter with single-digit revenue growth and margin decline affecting the bottom line. To factor in lower margins affected by commodity inflation, we have reduced our earnings estimates for FY2023 and FY2024 by 10% and 9%, respectively. The stock has corrected by ~18% in the past three months (and 24% in the past six months) and is trading at discount valuations of 39.4x/33.4x its FY2023E/FY2024E earnings. Success of the revamped strategy under the new leadership with focus on achieving consistent double-digit earnings growth will be key triggers for valuations to improve in the coming years. We maintain our Buy recommendation on the stock with a revised PT of Rs. 959.

## 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.

## Valuations (Consolidated)

Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	11,029	12,251	13,642	15,351
OPM (%)	22.2	21.0	20.2	20.9
Adjusted PAT	1,765	1,940	2,030	2,392
Adjusted EPS (Rs.)	17.3	19.0	19.9	23.4
P/E (x)	45.3	41.2	39.4	33.4
P/B (x)	8.5	7.6	6.8	6.0
EV/EBIDTA (x)	33.5	31.7	29.5	25.3
RoNW (%)	20.4	19.4	18.2	19.0
RoCE (%)	18.3	20.2	19.6	21.1

Source: Company; Sharekhan estimates

## Outlook and Valuation

### ■ Sector view – Near-term weakness; Long-term growth prospects intact

Slowdown in rural demand, consumer inflation, and weakness in consumer sentiments will hamper overall consumption in the coming quarters. Further, easing of the third COVID-19 wave would affect recovery in out-of-home consumption. On the other hand, companies expect raw-material inflation to take another two to three quarters to ease and would continue to put margin pressure. Though near-term headwinds will take a toll on the performance of consumer goods companies, long-term growth prospects are intact. Low penetration levels in key categories (especially in rural India), lower per capita consumption compared to other countries, large shift to branded products, and emergence of new channels such as e-commerce/D2C provide a number of opportunities for consumer goods companies to achieve sustainable growth in the medium to long run.

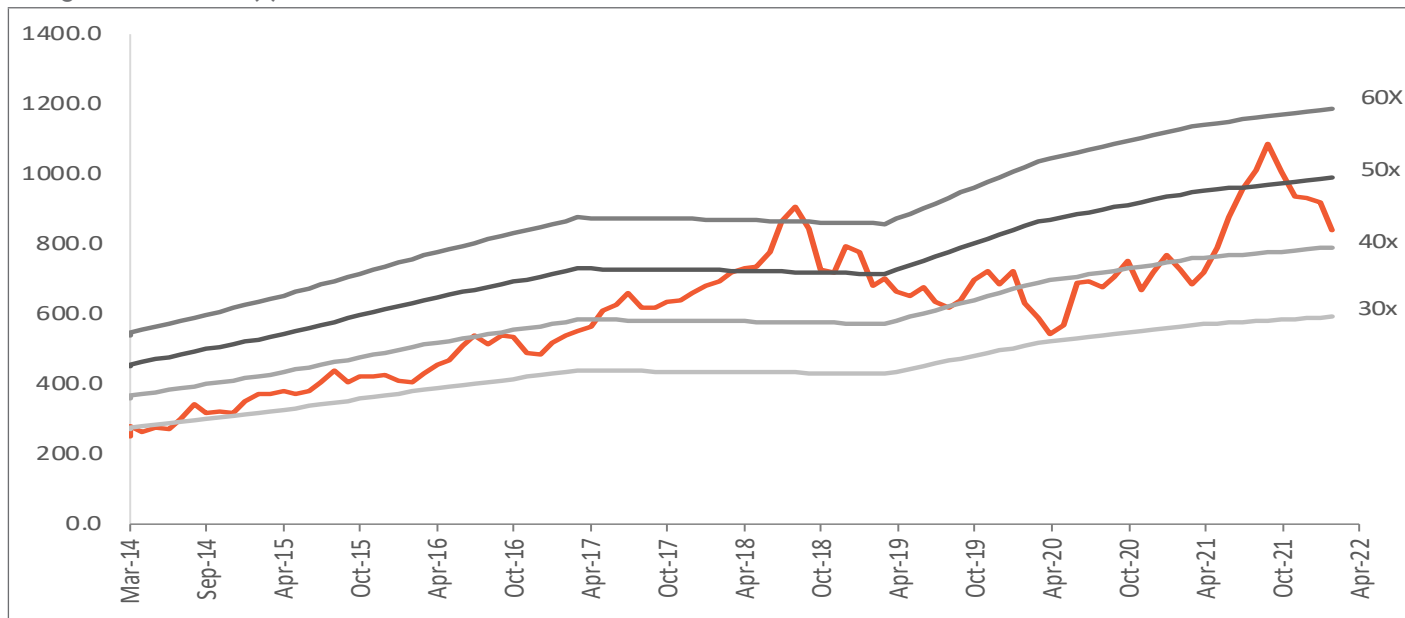
### ■ Company outlook – Change in leadership likely to drive consistent growth ahead

Under the new leadership of Mr. Sudhir Sitapati, the company will focus on achieving consistent double-digit revenue growth in the medium term. Improved penetration of household insecticides (HI) in rural markets, scale up in the 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 – Retain Buy with a revised PT of Rs. 959

GCPL's pre-quarter update gives a glimpse of yet another subdued quarter with single-digit revenue growth and margin decline affecting the bottom line. To factor in lower margins affected by commodity inflation, we have reduced our earnings estimates for FY2023 and FY2024 by 10% and 9%, respectively. The stock has corrected by ~18% in the past three months (and 24% in the past six months) and is trading at discount valuations of 39.4x/33.4x its FY2023/FY2024E earnings. Success of the revamped strategy under the new leadership with focus on achieving consistent double-digit earnings growth will be key triggers for valuations to improve in the coming years. We maintain our Buy recommendation on the stock with a revised PT of Rs. 959.

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



Source: Sharekhan Research

#### Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Hindustan Unilever	62.5	58.8	55.3	44.5	41.4	38.6	36.5	23.9	26.2
Dabur India	57.5	51.7	42.4	46.5	40.6	33.0	26.4	27.9	30.9
Godrej Consumer Products	45.3	41.2	39.4	33.5	31.7	29.5	18.3	20.2	19.6

Source: Company, Sharekhan estimates

## About the 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 AUM (Africa, US, 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

Adi Godrej	Chairman, Godrej Group
Nisaba Godrej	Chairperson
Sudhir Sitapati	Managing Director and CEO
Sameer Shah	Chief Financial Officer
Rahul Botadara	Company Secretary and Compliance Officer

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	First State Investments ICVC	3.0
2	Temasek Holdings Pte. Ltd.	2.5
3	Capital Group Cos Inc.	1.8
4	St James Place Asia Pacific	1.2
5	Vanguard Group Inc.	1.2
6	BlackRock Inc.	1.1
7	Republic of Singapore	1.1
8	Kotak Mahindra Asset Management Co.	0.5
9	DSP Investment Managers Pvt. Ltd.	0.4
10	Veritas Asset Management LLP	0.3

Source: Bloomberg (old data)

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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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