

# Retail Equity Research

## Godrej Consumer Products Limited

FMCG

BSE CODE: 532424

NSE CODE: GODREJCP

Bloomberg CODE: GCPL:IN

SENSEX: 43,278

**BUY**

12M Investment period

Rating as per Large Cap

CMP Rs. 677

TARGET Rs. 776

RETURN 15% ↑

(Closing: 10-11-20)

**KEY CHANGES:**

**TARGET** ↑

**RATING** ↑

**EARNINGS** ↑

### Strong performance; Positive outlook

Godrej Consumer Products Ltd (GCPL) is one of India's leading home-grown household & personal-care company. It also has presence in other countries like Indonesia, Africa, US, Middle East, among others

- Revenue grew 10.8% YoY to Rs. 2,915cr, led by strong growth in domestic (+10.4% YoY), and overseas business (+11.7% YoY).
- Gross margins dropped 61bps YoY to 56.0% impacted by higher operating cost. However, EBITDA rose 18.7% YoY, with EBITDA margins expanding 160bps YoY to 23.5%, supported by strong growth across the segments and lower selling and general expenses. Resultantly, adjusted PAT improved 19.3% YoY to Rs. 458cr.
- We remain positive on the stock on the back of strong quarter and robust growth across the segments. Also, margin expansion on cost control should support performance further. Therefore, we upgrade our rating to BUY with a revised TP of Rs. 776 based on 41x FY22E P/E.

### Top-line growth led by strong performance across the regions

Company recorded revenue growth of 10.8% YoY to Rs. 2,915cr, largely driven by strong growth across the segments. India business grew 10.4% YoY (~11% YoY on constant currency CC basis) to Rs. 1,679cr, led by strong growth in Soaps (~18% YoY to Rs. 582cr) and steady recovery in household insecticides (~4% YoY to Rs. 712cr), partially offset by decline in Hair Colours (5% YoY to Rs. 152cr). Africa business rose 10.3% YoY (~10% YoY CC) to Rs. 652cr, backed by strong performance in dry hair. Indonesia business was up 4.6% YoY (~3% YoY CC) to Rs. 446cr, impacted by social restriction in late September, whereas Latin America & SAARC registered growth of 41.7% YoY (~46% YoY CC) to Rs. 181cr. Growth momentum continues across the product portfolio, with Hygiene including soaps witnessing ~27% YoY increase, and Value-for-money range showing growth of ~22% YoY.

### Margin expansion continues

Despite the decline in gross margin 61bps to 56.0%, owing to higher cost of sales, EBITDA grew 18.7% YoY to Rs. 684cr, with EBITDA margin improving 160bps YoY to 23.5% aided by lower employee benefit and SG&A expenses. Employee benefit and SG&A costs were 9.2% and 7.2% as a percentage of sales vs. 10.1% and 8.1% respectively in Q2FY20. As a result, reported PAT increased 10.6% YoY to Rs. 458cr in Q2FY21, benefitted by lower interest expenses partially offset by higher tax.

### Roadmap ahead

Going forward, management remains confident on margin expansion across the region aided by cost savings and new launches. South Africa margin should rise on account of gradual shift in the format saliency and stringent cost control measures. Besides, company's operations continued to be resilient, as it maintained its ~90% production capacity in domestic business. The Company continues to focus on e-commerce and digitalization efforts. E-commerce India sales witness ~4-4.5% YoY increase in Q2FY21. Additionally, Balance Sheet remained solid on the back of improvement in working capital cycle (receivable days reduced by 22 days).

### Valuation

GCPL posted double digit growth across the regions and performed better-than-expected during the quarter. We believe growth momentum should continue on scale up in different products categories along with the new products launches and margin expansion on reduced cost. Given current upside potential, we upgrade our rating to BUY on the stock with a revised TP of Rs. 776 based on 41x FY22E P/E.

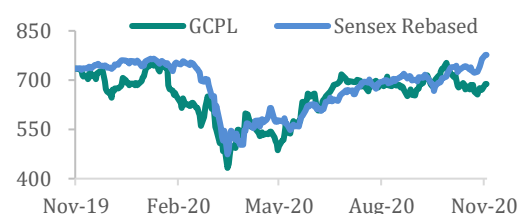
### Company Data

Market Cap (cr)	Rs. 70,378
Enterprise Value (cr)	Rs. 71,520
Outstanding Shares (cr)	102.3
Free Float	37.0%
Dividend Yield	1.2%
52 week high	Rs. 772
52 week low	Rs. 425
6m average volume	63,532
Beta	0.7
Face value	Rs. 1

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	63.2	63.2	63.2
FII's	26.3	26.8	26.8
MFs/Insti	3.1	3.2	3.1
Public	5.8	5.6	5.6
Others	1.5	1.2	1.4
Total	100.0	100.0	100.0
Promoters' pledge	0.7	0.7	0.7

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-0.1%	37.8%	-6.4%
Absolute Sensex	12.0%	34.6%	5.6%
Relative Return*	-12.1%	3.2%	-12.1%

\*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	9,911	10,630	11,641
Growth (%)	(3.9)	7.3	9.5
EBITDA	2,143	2,416	2,694
EBITDA Margin (%)	21.6	22.7	23.1
Adj. PAT	1,414	1,601	1,936
Growth (%)	(4.8)	13.2	20.9
Adj. EPS	13.8	15.7	18.9
Growth (%)	(4.8)	13.2	20.9
P/E	47.3	43.9	36.3
P/B	8.5	7.8	7.0
EV/EBITDA	32.2	29.6	26.2
ROE (%)	18.9	18.9	19.2
D/E	0.4	0.3	0.2

## Quarterly Financials (Consolidated)

### Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Revenue	2,915	2,630	10.8	2,327	25.3	5,242	4,979	5.3
<b>EBITDA</b>	<b>684</b>	<b>577</b>	<b>18.7</b>	<b>473</b>	<b>44.8</b>	<b>1,157</b>	<b>1,035</b>	<b>11.8</b>
EBITDA margins	23.5	21.9	160bps	20.3	320bps	22.1	20.8	130bps
Depreciation	51	48	6.7	49	3.2	100	95	5.5
<b>EBIT</b>	<b>634</b>	<b>529</b>	<b>19.8</b>	<b>423</b>	<b>49.6</b>	<b>1,057</b>	<b>940</b>	<b>12.4</b>
Interest	31	53	(41.0)	48	(35.2)	80	108	(26.3)
Other Income	2	22	(88.7)	21	(88.3)	24	40	(41.0)
Exceptional Items	(0)	(4)	90.4	13	(102.6)	13	(3)	493.9
<b>PBT</b>	<b>604</b>	<b>494</b>	<b>22.2</b>	<b>410</b>	<b>47.5</b>	<b>1,014</b>	<b>869</b>	<b>16.6</b>
Tax	146	80	81.8	15	893.9	161	48	236.1
Sh. of profit from Associate	0	0	(46.4)	(0)	139.5	(0)	0	(151.1)
Minority Interest	0	-	-	-	-	0	-	-
<b>Reported PAT</b>	<b>458</b>	<b>414</b>	<b>10.6</b>	<b>395</b>	<b>16.0</b>	<b>853</b>	<b>821</b>	<b>3.8</b>
Adjustments	0	(30)	n.m.	(95)	n.m.	(95)	146	n.m.
<b>Adj. PAT</b>	<b>458</b>	<b>384</b>	<b>19.3</b>	<b>300</b>	<b>52.7</b>	<b>758</b>	<b>675</b>	<b>12.3</b>
No. of shares	102.3	102.2	0.1	102.3	-	102.3	102.2	0.1
<b>Adj. EPS (Rs.)</b>	<b>4.5</b>	<b>3.8</b>	<b>19.2</b>	<b>2.9</b>	<b>52.7</b>	<b>7.4</b>	<b>6.6</b>	<b>12.2</b>

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	10,388	11,306	10,630	11,641	2.3	3.0
EBITDA	2,318	2,558	2,416	2,694	4.2	5.3
Margins (%)	22.3	22.6	22.7	23.1	42bps	54bps
Adj. PAT	1,522	1,843	1,601	1,936	5.2	5.0
Adj. EPS	14.9	18.0	15.7	18.9	5.2	5.2

## PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>9,937</b>	<b>10,314</b>	<b>9,911</b>	<b>10,630</b>	<b>11,641</b>
% change	3.4	3.8	(3.9)	7.3	9.5
<b>EBITDA</b>	<b>2,096</b>	<b>2,131</b>	<b>2,143</b>	<b>2,416</b>	<b>2,694</b>
% change	11.8	2.4	1.2	14.2	11.9
Depreciation	156	170	197	205	200
<b>EBIT</b>	<b>1,940</b>	<b>1,961</b>	<b>1,946</b>	<b>2,211</b>	<b>2,494</b>
Interest	161	224	217	200	118
Other Income	259	348	32	96	106
<b>PBT</b>	<b>2,039</b>	<b>2,085</b>	<b>1,760</b>	<b>2,107</b>	<b>2,481</b>
% change	20.9	2.3	(15.6)	19.7	17.8
Tax	405	(256)	264	411	546
Tax Rate (%)	19.8	(12.3)	15.0	19.5	22.0
<b>Reported PAT</b>	<b>1,634</b>	<b>2,342</b>	<b>1,497</b>	<b>1,696</b>	<b>1,936</b>
Adj*	(192)	(857)	(83)	(95)	-
<b>Adj PAT</b>	<b>1,442</b>	<b>1,485</b>	<b>1,414</b>	<b>1,601</b>	<b>1,936</b>
% change	10.7	3.0	(4.8)	13.2	20.9
No. of shares (cr)	102.2	102.2	102.2	102.2	102.2
<b>Adj EPS (Rs.)</b>	<b>14.1</b>	<b>14.5</b>	<b>13.8</b>	<b>15.7</b>	<b>18.9</b>
% change	10.7	3.0	(4.8)	13.2	20.9
DPS (Rs.)	6.7	10.0	8.0	6.0	8.0
CEPS (Rs.)	15.6	16.2	15.8	17.7	20.9

## CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Net inc. + Depn.</b>	<b>1,790</b>	<b>2,512</b>	<b>1,694</b>	<b>1,901</b>	<b>2,136</b>
Non-cash adj.	(269)	(863)	36	(207)	(271)
Changes in W.C	203	80	(142)	38	4
<b>C.F. Operation</b>	<b>1,723</b>	<b>1,729</b>	<b>1,588</b>	<b>1,732</b>	<b>1,870</b>
Capital exp.	(311)	(208)	(152)	(163)	(179)
Change in inv.	(95)	514	(262)	(5)	(7)
Other invest.CF	66	(55)	(119)	82	87
<b>C.F - Investment</b>	<b>(340)</b>	<b>252</b>	<b>(533)</b>	<b>(86)</b>	<b>(98)</b>
Issue of equity	0	0	0	-	-
Issue/repay debt	(488)	(345)	(128)	(536)	(598)
Dividends paid	(613)	(1,227)	(818)	(613)	(818)
Other finance.CF	(283)	(468)	(350)	(200)	(118)
<b>C.F - Finance</b>	<b>(1,384)</b>	<b>(2,039)</b>	<b>(1,295)</b>	<b>(1,350)</b>	<b>(1,534)</b>
Chg. in cash	(0)	(58)	(240)	296	237
Closing cash	960	895	770	1,066	1,304

## BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	960	895	770	1,066	1,304
Accounts Receivable	1,246	1,293	1,157	1,188	1,243
Inventories	1,578	1,559	1,703	1,878	2,034
Other Cur. Assets	1,384	942	1,178	1,190	1,207
Investments	142	35	35	40	47
Gross Fixed Assets	1,225	1,448	1,600	1,763	1,941
Net Fixed Assets	1,066	1,192	1,205	1,105	971
CWIP	82	51	56	60	65
Intangible Assets	7,250	7,479	8,028	8,081	8,189
Def. Tax (Net)	100	549	647	1,007	1,338
Other Assets	155	175	179	184	191
<b>Total Assets</b>	<b>13,963</b>	<b>14,170</b>	<b>14,957</b>	<b>15,800</b>	<b>16,589</b>
Current Liabilities	4,024	3,621	4,028	4,278	4,502
Provisions	98	108	117	120	127
Debt Funds	3,275	3,093	2,796	2,260	1,662
Other Liabilities	307	81	118	161	200
Equity Capital	68	102	102	102	102
Reserves & Surplus	6,190	7,165	7,796	8,879	9,996
Shareholder's Fund	6,258	7,267	7,898	8,981	10,099
Minority Interest	-	-	-	-	-
<b>Total Liabilities</b>	<b>13,963</b>	<b>14,170</b>	<b>14,957</b>	<b>15,800</b>	<b>16,589</b>
<b>BVPS (Rs.)</b>	<b>61</b>	<b>71</b>	<b>77</b>	<b>88</b>	<b>99</b>

## RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	21.1	20.7	21.6	22.7	23.1
EBIT margin (%)	19.5	19.0	19.6	20.8	21.4
Net profit mgn.(%)	16.4	22.7	15.1	16.0	16.6
ROE (%)	26.1	32.2	18.9	18.9	19.2
ROCE (%)	20.4	18.9	18.2	19.7	21.2
<b>W.C &amp; Liquidity</b>					
Receivables (days)	45.7	45.8	42.6	40.8	39.0
Inventory (days)	131.8	124.9	145.9	147.7	149.5
Payables (days)	196.9	203.6	212.4	214.3	216.1
Current ratio (x)	1.2	1.2	1.1	1.1	1.2
Quick ratio (x)	0.7	0.7	0.6	0.6	0.6
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	8.9	7.7	6.5	6.3	6.3
Total asset T.O (x)	0.7	0.7	0.7	0.7	0.7
Int. coverage ratio (x)	12.1	8.7	9.0	11.0	21.1
Adj. debt/equity (x)	0.5	0.4	0.4	0.3	0.2
<b>Valuation</b>					
EV/Sales (x)	7.6	7.0	7.0	6.7	6.1
EV/EBITDA (x)	36.0	33.8	32.2	29.6	26.2
P/E (x)	50.7	47.1	47.3	43.9	36.3
P/BV (x)	11.7	9.6	8.5	7.8	7.0

## Recommendation Summary



Dates	Rating	Target
31-Oct-17	HOLD	669
14-Sep-18	HOLD	898
13-Aug-19	HOLD	656
14-Nov-19	HOLD	758
7-Feb-20	HOLD	710
26-May-20	BUY	665
10-Aug-20	HOLD	741
11-Nov-20	BUY	776

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside. The stock may still be a quality stock.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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