Sharekhan
by BNP PARIBAS

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Godrej Consumer Products

Steady performance driven by good growth in health & hygiene portfolio

Consumer Goods	Sharekhan code: GODREJCP	Result Update

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	Change
Reco: **Buy**	↔
CMP: **Rs. 670**	
Price Target: **Rs. 850**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

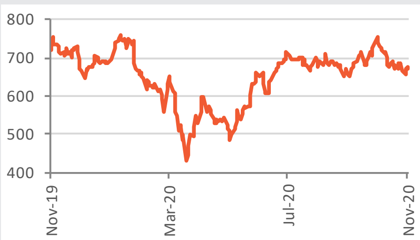
Company details

Market cap:	Rs. 68,501 cr
52-week high/low:	Rs. 772 / 425
NSE volume: (No of shares)	16.2 lakh
BSE code:	532424
NSE code:	GODREJCP
Free float: (No of shares)	37.6 cr

Shareholding (%)

Promoters	63.2
FII	26.8
DII	3.1
Others	6.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-11.0	-1.1	30.2	-7.2
Relative to Sensex	-17.1	-10.8	-1.2	-9.9

Sharekhan Research, Bloomberg

Summary

- Godrej Consumer Products Limited's (GCPL) revenue grew by ~11% to Rs. 2,915.1 crore with India and international business growing by 11% and 12%, respectively.
- Domestic soaps category reported strong double-digit growth; household insecticide growth moderated to 4% due to supply disruption. On the international front, Africa and Indonesia grew by 10% and 5%, respectively, during the quarter.
- HI growth is expected to rebound due to higher consumer demand, while soap will maintain the growth momentum; Africa and Indonesia will maintain the steady performance.
- We broadly maintain our earnings estimates for FY2021/FY2022/FY2023. We retain our Buy rating on the stock with unchanged PT of Rs. 850 in view of better growth prospects and discounted valuation of 29.5x its FY2023 EPS.

GCPL's revenue grew by ~11% to Rs. 2,915.1 crore, in line with our expectation of Rs. 2,932.6 crore with 11% growth in the domestic business (volume growth of 5%) and good growth in other geographies. Around 83% of the global portfolio registered 17% growth. Domestic HI and soaps registered growth of ~4% and 18% during the quarter, respectively. Indonesia, Africa, and Latin America registered growth of 3%, 10%, and 46%, respectively, during the quarter. As anticipated, gross margins declined by 61 bps to 56% mainly on account of higher palm oil prices. Lower ad spends and employee cost led to 156 bps improvement in OPM to 23.5%; operating profit grew by ~19% to Rs. 684.4 crore. Management is confident of getting back to double-digit growth in the domestic HI category due to sustained strong demand in the secondary market due to increasing caution amongst domestic consumers (secondary sales growth for HI stood in low double digits). We expect soaps category's growth to maintain steady growth momentum due to heightened demand for hygiene products. The hair colour category recovered to positive growth in October 2020. On the international front, Indonesia is expected to post mid-to-high single-digit growth, while Africa is expected to maintain steady growth momentum. Cost-saving programme has been pollinated in Africa and the company expects 4-5% of savings from such initiatives. Large portion of these savings will be invested behind growth prospects of brands. Though key input prices (including palm oil) have gone up, the company has taken prudent pricing action at the end of the quarter. Working capital cycle is down by 12 days y-o-y. The company managed to reduce its consolidated debt by Rs. 987 crore to Rs. 2,036 crore compared with Q1 debt. Net debt/equity stood at 0.17x in Q2FY2021.

Key positives

- Soaps registered strong double-digit growth of 18%.
- HI secondary sales growth stood at low double digit, indicating strong demand in the domestic market.
- Consolidated debt reduced by ~Rs. 1,000 crore q-o-q.

Key negatives

- Supply disruption affected growth of domestic HI category, resulting in modest growth of 4% during the quarter.
- Africa business margins declined by 110 bps to 11.4%.

Our Call

View - Retained Buy with unchanged PT of Rs. 850: GCPL's Q2FY2021 performance was largely in-line with our expectation. Market share gains in the HI category (both in India and Indonesia), sustained innovation (hygiene products gaining good traction), cross-pollination (plans to scale up the launch HI products in Africa soon), and expansion in distribution network are some key growth levers for GCPL in the medium to long term. Reduction in debt augurs well for the company as it strengthens the balance sheet. We expect GCPL's revenue and PAT to report a CAGR of 10% and 17%, respectively, over FY2020-23E. The stock is currently trading at ~30x its historical average. In view of new leadership focus on improving growth prospects in all geographies and discounted valuations, we maintain our Buy recommendation on the stock with unchanged PT of Rs. 850.

Key Risks

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

Valuations (Consolidated) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	10,314	9,911	10,738	11,846	13,088
OPM (%)	20.7	21.6	22.5	22.8	23.2
Adjusted PAT	1,479	1,462	1,740	2,010	2,315
Adjusted EPS (Rs.)	14.5	14.3	17.0	19.7	22.6
P/E (x)	46.3	46.8	39.3	34.0	29.5
P/B (x)	9.4	8.7	7.9	7.1	6.2
EV/EBIDTA (x)	33.9	33.6	29.8	26.4	23.3
RoNW (%)	21.9	19.3	21.0	21.9	22.4
RoCE (%)	17.5	16.6	18.0	19.5	20.6

Source: Company; Sharekhan estimates

Volumes grew by 5%; Efficiencies drive up margins: Q2FY2021 consolidated grew by 11% y-o-y to Rs. 2,915.1 crore. India business grew by 11% y-o-y to Rs. 1,650 crore, with sales volumes growing by 5%. Nearly 83% of the global portfolio comprising HI, hygiene, and value-for-money products grew by 17%, driven by 6% growth in HI category, 27% growth in the hygiene portfolio, and 22% growth in the value-for-money portfolio. OPM of the India business expanded by ~160 bps to 27.9%. About 75% of GCPL's portfolio comprises India and Indonesia, which delivered good growth. Consolidated gross margin fell by 61 bps to 56% due to unfavourable revenue mix. However, lower ad spends and employee costs drove up OPM by 156 bps to 23.5%. Operating profit was up by 18.7% y-o-y to Rs. 684.4 crore. Despite lower other income, lower interest costs resulted in 21.5% growth in profit before tax to Rs. 604.5 crore. Higher tax incidence led to adjusted PAT growing by 10% y-o-y to Rs. 458.2 crore in Q2FY2021 from Rs. 416.5 crore in Q2FY2020. Reported PAT came in at Rs. 458 crore.

Strong performance by hygiene products; HI remains stable and sequential recovery seen in hair colour

- **Soaps – Strong bounce back witnessed:** Revenue of the domestic soaps category registered robust 18.5% y-o-y growth to Rs. 582 crore, largely driven by market share gains. Higher palm oil prices affected small local players, which helped branded companies gain market share. Another driving factor for soaps was heightened need for hygiene-related products. The company continued its micro-marketing initiatives to drive growth. 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. 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 – Saw sequential recovery:** Revenue from hair colour products declined by 5% y-o-y to Rs. 152 crore, as this category is discretionary in nature. However, the category witnessed sequential improvement along with market share gains. Godrej Expert Easy 5-minute shampoo hair colour is performing well post the national scale-up. Godrej Expert Rich Crème continues to perform well by leveraging Do-It-Yourself (DIY) trends through influencers. October saw good demand for hair colour products amid the festive season. Thus, the company expects q-o-q recovery momentum to continue in H2FY2021.

- **HI – Steady quarter:** The HI category reported growth of 4.2% y-o-y in revenue to Rs. 712 crore, driven by underlying consumer demand in electrics and burning formats. Growth momentum in HI slowed down as the Guwahati factory remained shut for 21 days in August due to regional lockdowns creating supply issues. However, the underlying consumer demand continues to remain strong. Secondary growth in HI was much better than primary growth, which stood at low double digits. There was also an uptick seen in the non-mosquito portfolio (cockroach solutions grew in lower double digits). GCPL gained share in electrics but lost market share in coils. 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 vapouriser 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. Increased penetration, especially in rural areas, penetration in other formats, innovation, market share gains, and distribution expansion will help drive growth in the 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 kitchen protection (dish wash and fruit and veggie wash), personal protection (hand wash, body wash, hand sanitiser, and health soaps), and home protection (disinfectant liquids and sprays and 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 strong 27% growth in hygiene products, driven by innovation as the company launched various new products in this portfolio, across geographies in H1FY2021.

Indonesia growth stable, strong recovery in GAUM region

International business revenue grew by 11% y-o-y to Rs. 1,277 crore (11% growth in constant currency [CC] terms). Indonesia revenue growth slowed down to 5% y-o-y to Rs. 445 crore (3% growth in CC terms) due to large scale social restrictions in the past 15 days of September and down stocking by modern retailers, whereas adjusted EBITDA margin expanded by 130 bps to 25.8%. The company gained market share in HI in Indonesia. The newly launched Saniter range of health and hygiene products is gaining strong traction, whereas the air fresheners segment is recovering gradually. Business in the GAUM region witnessed strong recovery, with revenue growing by 10% y-o-y to Rs. 652 crore (10% growth in CC terms as well), driven by robust growth in south and west Africa with strong performance of dry hair care. The company continued to scale-up its wet hair-care portfolio. EBITDA margin of the GAUM region contracted by 110 bps to 11.4%, largely because of higher saliency of braids (low-margin product) and general shift towards value formats. However, a shift in format saliency is seen, which, along with cost-saving programme, will help margins improve in the near to medium term. Latin America (LatAm) and SAARC revenue rose by 41% y-o-y to Rs. 180 crore (46% growth in CC terms). SAARC continues to deliver steady performance and LatAm saw sharp improvement in EBITDA margin to 21%. Adjusted EBITDA margin for LatAm and SAARC improved significantly from 5.2% to 19.6% in Q2FY2021.

Key conference call highlights:

- ~83% of GCPL's portfolio, comprising HI, hygiene products, and value-for-money products, grew by 17% y-o-y. Strong growth momentum continues in hygiene (including soaps) and value-for -money portfolios grew by 27% and 22%, respectively.
- Rural growth was much ahead of urban growth. The e-commerce channel grew by 2x and now contributes 4%-4.5% to total revenue.
- Overall category growth in Indonesia has remained soft. Market share gains, increased penetration, and scale-up of the hygiene portfolio will drive performance of the Indonesia business.
- The company expects the growth momentum in the Africa business to sustain by effective management by the new CEO, low-cost of manufacturing, and strong distribution network.
- Exceptional margin expansion in the LatAm business was driven by structural cost savings and scale leverage.
- Working capital days were significantly down by 12 days y-o-y, from 17 days in H1FY2020 to five days in H1FY2021, largely driven by reduction in receivables.
- Total debt on the balance sheet was down Rs. 1,510 crore to Rs. 2,036 crore in H1FY2021. Net debt to equity reduced from 0.35x to 0.17x in H1FY2021.

Results (Consolidated) Rs cr

Particulars	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %
Total revenue	2915.1	2630.2	10.8	2327.3	25.3
Raw-material cost	1283.3	1141.8	12.4	1064.5	20.6
Employee cost	266.7	266.5	0.1	261.8	1.9
Advertisement and Publicity	208.6	213.3	-2.2	104.7	99.1
Other expenses	472.1	432.0	9.3	423.7	11.4
Total operating expenses	2230.7	2053.7	8.6	1854.6	20.3
Operating profit	684.4	576.5	18.7	472.7	44.8
Other income	13.9	26.6	-47.5	21.8	-36.0
Interest expense	31.3	53.1	-41.0	48.3	-35.2
Forex gain / (loss)	-11.6	-4.6	-	0.0	-
Depreciation	50.9	47.7	6.7	49.3	3.2
Profit before tax	604.5	497.6	21.5	396.8	52.3
Tax	146.3	81.1	80.4	91.4	60.0
Adjusted PAT (before MI)	458.2	416.5	10.0	305.4	50.1
Minority interest (MI)	0.2	0.3	-	-0.4	-
Extraordinary item	-0.3	-2.9	-	89.9	-
Reported PAT	458.0	413.9	10.7	394.9	16.0
EPS (Rs.)	4.5	4.1	10.0	3.0	50.1
			bps		bps
GPM (%)	56.0	56.6	-61	54.3	171
OPM (%)	23.5	21.9	156	20.3	317

Source: Company; Sharekhan Research

Result snapshot (Standalone) Rs cr

Particulars	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %
Total Revenue	1679.2	1521.3	10.4	1380.7	21.6
Operating Profit	466.9	400.7	16.5	376.7	24.0
Adjusted Net profit	350.6	334.6	4.8	271.7	29.1
			bps		bps
GPM (%)	57.2	58.3	-109	56.3	88
OPM (%)	27.8	26.3	146	27.3	53

Source: Company; Sharekhan Research

Category wise performance Rs cr

Particulars	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %
Soap	582	491	18.5	545	6.8
Hair Colour	152	160	-5.0	149	2.0
Other categories	200	179	11.7	129	55.0
Household Insecticides (HI)	712	683	4.2	540	31.9

Source: Company; Sharekhan Research

International business performance Rs cr

Particulars	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %
Revenue					
Indonesia	445	424	5.0	405	9.9
GAUM	652	593	10.0	437	49.2
Others	180	128	41.0	126	42.9
EBITDA Margin (%)			bps		bps
Indonesia	25.8	24.5	130	23.6	220
GAUM	11.4	12.5	-110	-	-
Others	19.6	5.2	-	11.3	830

Source: Company; Sharekhan Research

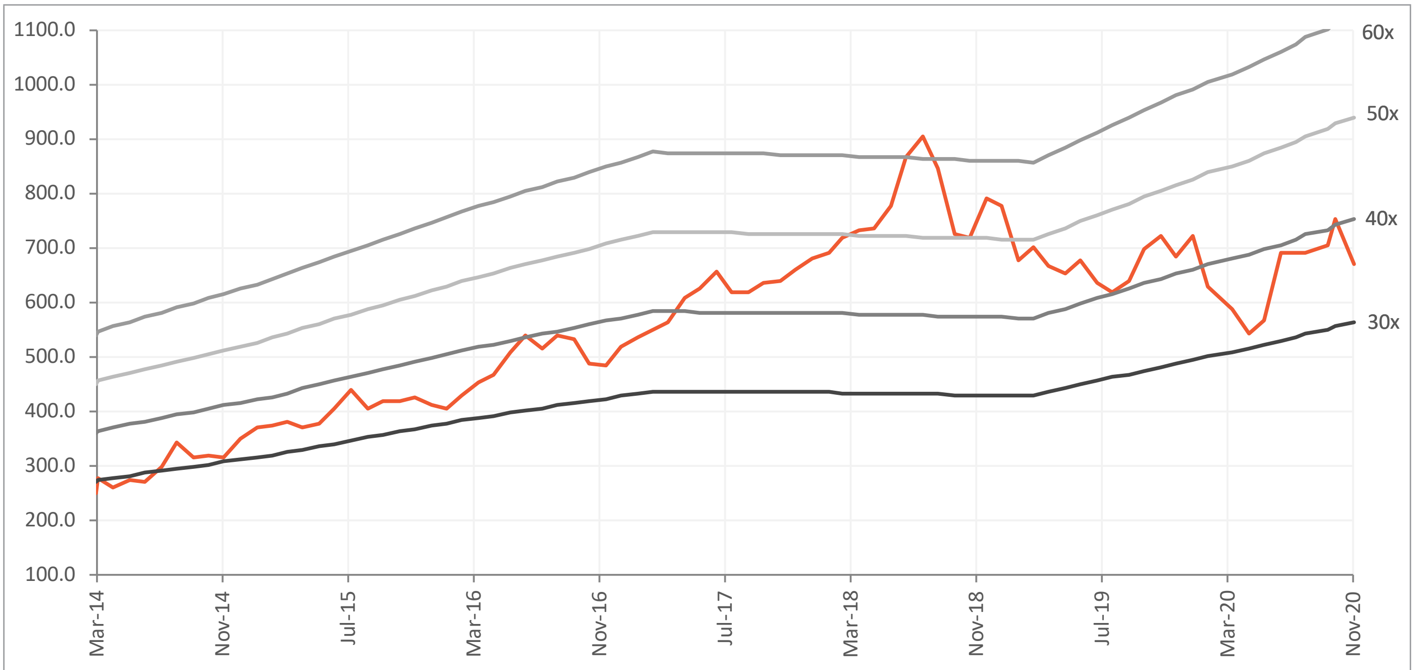
Outlook and Valuation

■ **Sector Outlook - Business returns to normalcy in Q2; HI category seeing strong demand:** Consumer goods companies saw strong revival in Q2FY2021 with production and supply recovering to pre-COVID levels with strong sales happening through distribution channels such as general trade and e-commerce. The domestic HI category is getting more regulated with the government increasing awareness about illegal incense sticks through various media platforms and promoting use of branded products. This will help branded players in the HI category gain market share from illegal players. This will also help the penetration of HI category to improve in the rural market. 1) Sustained demand for branded foods, hygiene, and HI products; 2) pick-up in rural demand; 3) new launches, and 4) focus on expansion of distribution reach are some of the near-term growth catalysts. Most of the key input prices (barring palm oil, raw tea, and coffee) have remained benign. This, along with cost-saving initiatives would help consumer goods companies post better margins in the coming quarters.

■ **Company Outlook: H2 performance to be ahead of H1:** GCPL registered 5% revenue growth and 120 bps improvement in OPM to 22.2% in H1FY2021. Management expects growth in the HI business to recover to double digits, with supply issues resolving and maintaining steady growth momentum in the soaps category due to increased demand for hygiene products. Hair colour saw recovery in performance and improving trend is expected to continue in the coming quarters. Africa will see good low double-digit growth, while Indonesia business would post mid-single digit growth in the coming quarters. Cost-saving initiatives and judicious ad spends would help OPM to remain high on a y-o-y basis despite higher raw-material prices. Business fundamentals are expected to get normalised by Q3 and strong recovery is anticipated in FY2022. Better revenue mix would help in consistent improvement in OPM (likely to reach 23% by FY2023). This along with better working capital management would help cash flows to improve in the coming years. The company targets to reduce debt by Rs. 200 crore-250 crore per annum.

■ **Valuation - Retained Buy with an unchanged PT of Rs. 850:** GCPL's Q2FY2021 performance was largely in-line with our expectation. Market share gains in the HI category (both in India and Indonesia), sustained innovation (hygiene products gaining good traction), cross-pollination (plans to scale up the launch HI products in Africa soon), and expansion in distribution network are some key growth levers for GCPL in the medium to long term. Reduction in debt augurs well for the company as it strengthens the balance sheet. We expect GCPL's revenue and PAT to report a CAGR of 10% and 17%, respectively, over FY2020-23E. The stock is currently trading at ~30x its historical average. In view of new leadership focus on improving growth prospects in all geographies and discounted valuations, we maintain our Buy recommendation on the stock with unchanged PT of Rs. 850.

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	67.3	59.7	47.3	47.7	42.0	35.6	105.2	39.1	28.5
Dabur India	60.2	54.8	44.9	50.4	44.4	36.1	27.0	26.9	29.2
Marico India	45.2	43.4	35.3	32.8	31.1	25.5	41.3	40.9	44.2
Godrej Consumer Products	46.8	39.3	34.0	33.6	29.8	26.4	16.6	18.0	19.5

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, LatAm, and GAUM (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 LatAm) 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

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 detoriating 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

Sharekhan

by BNP PARIBAS

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