



#### 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. 720          |        |
| Price Target: Rs. 850 | ↔      |

↑ Upgrade 
 ↔ Maintain 
 ↓ Downgrade

#### Company details

|                               |               |
|-------------------------------|---------------|
| Market cap:                   | Rs. 73,619 cr |
| 52-week high/low:             | Rs. 772 / 425 |
| NSE volume:<br>(No of shares) | 14.7 lakh     |
| BSE code:                     | 532424        |
| NSE code:                     | GODREJCP      |
| Free float:<br>(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           | 5.4   | 0.8  | 12.1  | 5.8   |
| Relative to Sensex | -12.1 | -7.2 | -39.1 | -19.2 |

Sharekhan Research, Bloomberg

#### Summary

- Godrej Consumer Products Ltd's (GCPL's) management is confident of the India business delivering sustained double-digit revenue growth with its diversified portfolio, new launches and focus on strengthening the core.
- Changing consumer habits amid COVID-19 has been a boost for as soaps and handwash, while household insecticides are gaining good traction as consumers get cautious. Hair colour range saw V-shaped recovery in Q3.
- Key long-term triggers for domestic business 1) rising penetration of handwashes and floor cleaners/toilet cleaners 2) better traction for HI in rural markets through new launches and rising caution among consumers and 3) market share gains in core categories such as soaps and hair colour.
- Rising focus on improving growth prospects of India and the Indonesia business will help the company clock better performance in the coming years. With discounted valuation of 32x FY2023E EPS, we maintain our Buy with a PT of Rs. 850.

We attended the analyst conference call of Godrej Consumer Products Ltd (GCPL) to understand the current business environment and future growth prospects of the India business. In the call, Mr. Sunil Kataria (Business Head - India and SAARC) discussed future strategies to strengthen the India business and achieve sustainable revenue growth by diversifying the domestic product portfolio. In the core personal hygiene space, the penetration of hand-washes has increased by 1.8x to 34% in the past eight months while demand for soaps has gone up with consumers washing hands and taking bath frequently amid the pandemic. Changing category dynamics was well-supported by the product portfolio with the Rs. 15 powder Godrej Protekt hand wash (gaining strong traction in rural areas) and Godrej No.1 and Cinthol Health+ seeing strong growth in the domestic market. The hair colour segment which had posted dismal performance in H1FY2021 saw a V-shaped recovery in Q3 and will be one of the key revenue drivers for the domestic business in Q3FY2021. The household insecticide (HI) business was hit by supply constraints in Q2FY2021 after a strong show in Q1FY2021, due to rising caution amongst the consumers in the backdrop of pandemic environment. However, a consumers' proactive approach towards health aided HI penetration improve in the past 6-8 months, while strong traction to some of the disruptive launches (such as Good Knight Gold Flash) will help the company achieve good growth in the coming quarters. The company is piloting a new formulation - Good Knight spray (no gas spray) which is expected to see good demand due to its features and longer efficacy of eight hours. Further, the company is planning to come out with low-priced HI product for rural areas, which will boost penetration in the rural market. Overall, the company is confident of achieving an 8-12% revenue growth for the domestic HI business in the near to medium term. Further, the company is banking on categories such as floor cleaners/toilet cleaners, which have emerged as key home care categories in the pandemic situation and are likely to see faster penetration growth as consumers will opt for better brands. Overall we are confident of GCPL's domestic business posting low double-digit revenue growth in the coming years.

#### Our Call

**View - Retained Buy with unchanged PT of Rs. 850:** 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 medium to long term. Reduction in debt augurs well for the company from strengthening of balance sheet (company reduced debt ~Rs. 1000 crore on q-o-q basis in Q2). The stock is currently trading at 32x its FY2023E EPS, which is at a discount to some of the mid-cap stocks. We believe stable revenue and earnings growth and strengthening of balance sheet would help valuation multiple to improve in the coming years. We maintain our Buy recommendation on the stock with an unchanged price target of Rs. 850.

#### Key Risks

Any slowdown in the growth of HI business due to seasonal variations and slow recovery in the performance of the Africa business would act as a key risk to our earnings estimates.

#### Valuations (Consolidated)

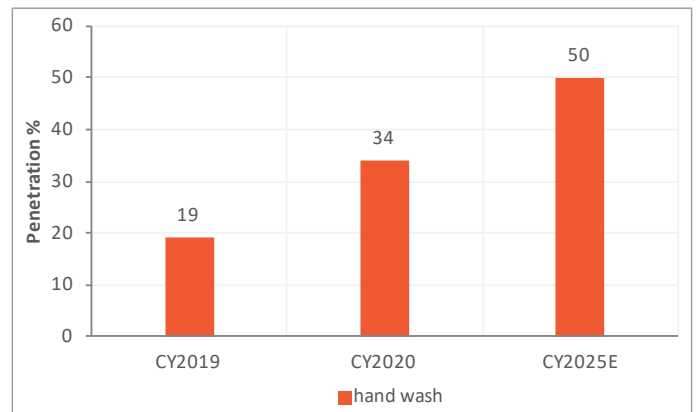
| Particulars        | Rs cr  |       |        |        |        |
|--------------------|--------|-------|--------|--------|--------|
|                    | FY19   | FY20  | FY21E  | FY22E  | FY23E  |
| Revenue            | 10,314 | 9,911 | 10,738 | 11,846 | 13,088 |
| OPM (%)            | 20.7   | 21.6  | 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)            | 49.8   | 50.3  | 42.3   | 36.6   | 31.8   |
| P/B (x)            | 10.1   | 9.3   | 8.5    | 7.6    | 6.7    |
| EV/EBIDTA (x)      | 36.3   | 36.0  | 31.9   | 28.4   | 25.0   |
| 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

## Consumers' focus on hygiene boosting demand for personal wash products

Improving hygiene habits of domestic consumers have given boost to the categories such as soaps and hand wash. Hand wash category penetration improved from 0 to 19% over 15 years. However in the COVID-19 months alone, the penetration grew by 1.8x to 34% in last eight months. Consumption of hand-washes has risen with consumers frequently washing hands during the COVID-19 era. The management expects hand wash penetration in India to improve to 50% over the next 4-5 years. GCPL's Protekt hand wash gained strong traction due to its lower pricing of Rs. 15 (powder gets converted into 200ml of hand wash). The product is gaining strong traction in the rural markets. The strategy is to lead to a shift from the Rs. 10 soap bar (highest penetration in rural market) to a Rs. 15 hand wash refill pack. On the other hand soaps are a 100% penetrated category and one of the matured product categories in India. Despite high penetration the consumption is growing in double digits as consumers are frequently bathing. Godrej No.1 soap brand gained all-time high market shares as compared to pre-COVID levels supported by higher market activities at district levels. Cinthol Healthcare + is also gaining strong traction in last nine months. The Protekt health soap is in the nascent stage and will take another three years to become a recognised brand in the soap category.

Hand wash penetration registered strong improvement in CY2020



Source: Company, Sharekhan Research

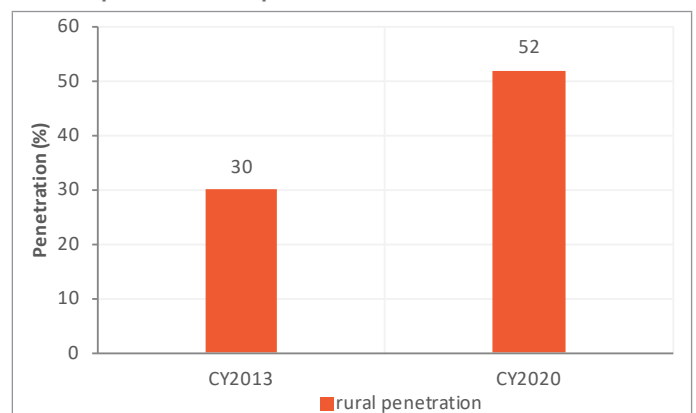
## Hair colour posted V-shaped recovery in Q3

Hair colour category posted dismal performance in H1FY2021 as category was considered as discretionary nature and higher wallet share was given to health & hygiene products. However the category posted strong recovery in Q3 with V-shape recovery in sales as mobility improved in the domestic market after the lockdowns. Further, a steady improvement in the distribution after getting relevant approvals from authorities from April aided the company to gain market share from multinationals. Availability of products on retail shelves coupled with lower prices compared to multinational brands aided the company to post faster recovery in Q3FY2021. Revenue mix between powder and hair crème is 40:60 for the company. Further, products such as shampoo-based hair colour are also gaining a good response after the launch. Overall, we should expect hair colour category to post improved performance in the coming quarters.

## HI - Aim to improve rural penetration in long run

HI products are gaining strong traction as consumers have become more cautious about health and safety. HI category's penetration in rural market has improved to 52% from 28-30% in 2013. Low price formats incense sticks and coils gained strong traction in the rural markets in the recent years. With regulatory restrictions brought in by the government, sale of illegal incense sticks is reducing, which will help GCPL improve its rural market share in the rural market. The company has launched neem based incense sticks which is gaining good traction along with other low price formats. In the next 8-9 months the company is planning to launch highly efficient low-priced format for the rural market to recruit more trials of its products. Thus, the company is focusing on improving the penetration in the rural markets in the coming years. On the other hand, HI penetration in urban markets stood at 78% (improved by 200-300 bps in the last 6-7 months). The company has launched Good Knight spray first of its kind no gas spray with efficacy of 8 hours compared to conventional gas-based sprays of 1.5 hours. The product is being currently

HI rural penetration improves to 50%+



Source: Company, Sharekhan Research

piloted in Telangana, Andhra Pradesh and based on consumer response will be launched in the other markets. The product has been priced at a premium to other available products could see strong traction because of its features in the urban markets. Further the company also wants to play in the non-mosquito category (12-13% of HI category) with new launches. Non-mosquito HI products are also saw higher sales during the pandemic environment. Out-of-home which affected due to closure of schools and children not going out to play during the pandemic is expected to see strong catch-up in the post covid environment. Overall the management expects to achieve high single digit to low double digit revenue growth in the domestic HI category.

#### Products launched for urban markets



#### Floor cleaner/toilet cleaner categories provides scope to diversify portfolio

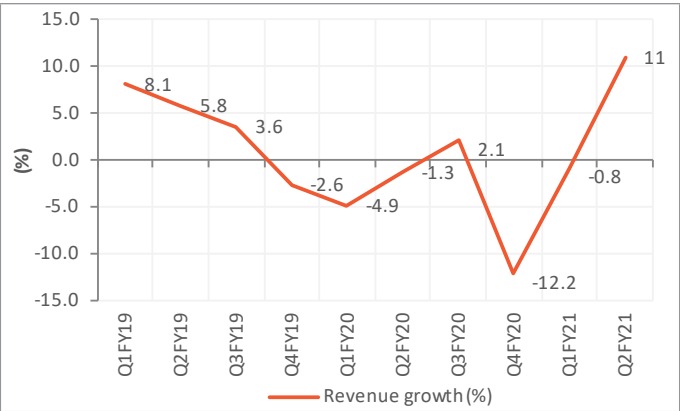
GCPL launched products such as ProClean floor and toilet cleaner during the peak of the pandemic sensing it as big opportunity in long run. Floor cleaner is a Rs. 1,500 crore category with one large brand having a 60% market share and rest of the category is filled with unorganised players. The category penetration is low at 15%. This provides a huge scope for GCPL to gain the market share with launch of good brands supported by brand building at media activities.

#### Other key highlights of the conference call

- ◆ E-Commerce gained strong traction during the pandemic is expected to ~10% of the domestic business in next three years. The company has its separate e-Commerce team in place prior to covid disruption. Focus is on having appropriate product placement on e-Commerce platform and launch new products which will be exclusive sold through e-Commerce platform. The margins of the e-commerce platform is currently lower than general trade but are expected to reach General Trade over the next three years.
- ◆ Like other consumer goods companies, GCPL has also rationalised SKUs in the last six months.
- ◆ Some hygiene products such as hand sanitizers saw a strong spike in sales in H1FY2021. However, the same has saw substantial fall in the recent months. However the company believes the category such Disinfectant sprays will see good traction in the long run and can be one of the important categories for GCPL.
- ◆ Out-of-home HI is the vacant market in Indonesia, which provides scope for GCPL to launch new products in the coming years.
- ◆ Non-mosquito HI category posted strong double-digit growth during last 6-8 months in the domestic market.

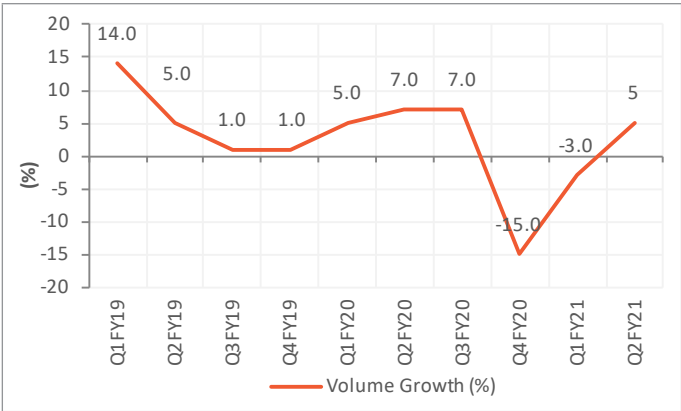
**Financials in charts**

**Revenue growth recovered to 11% in Q2**



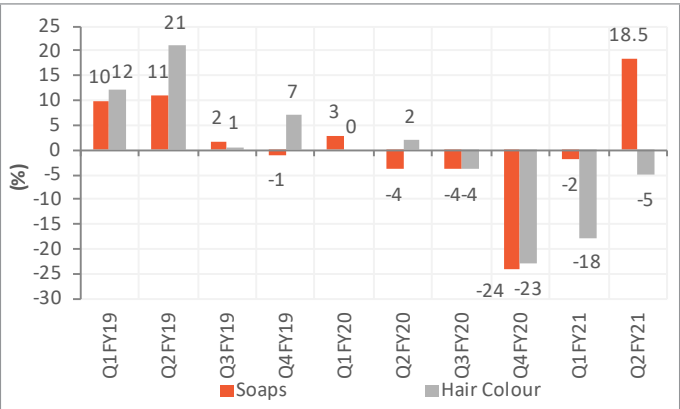
Source: Company, Sharekhan Research

**Volume growth stood at 5% in Q2**



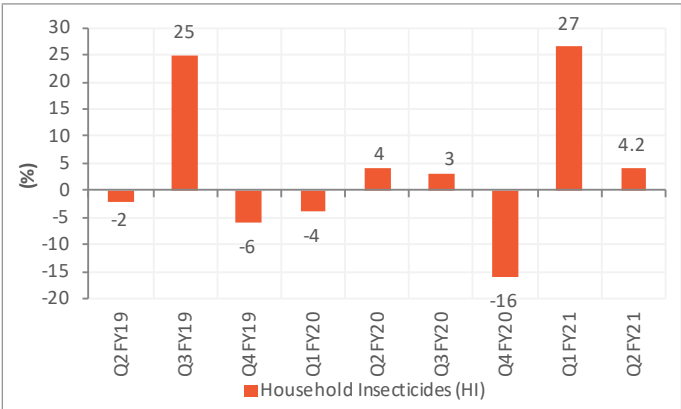
Source: Company, Sharekhan Research

**Soaps delivered strong performance in Q2**



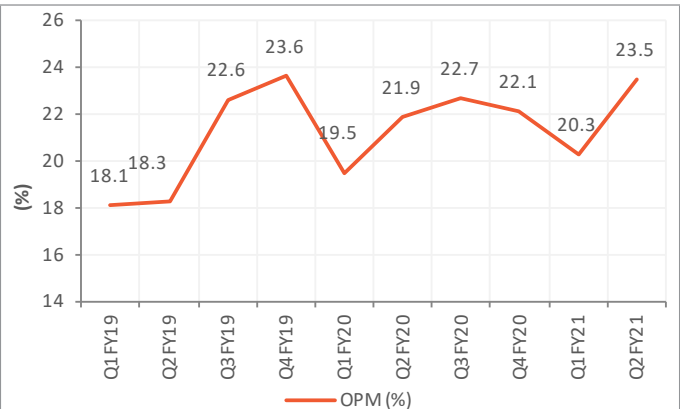
Source: Company, Sharekhan Research

**HI regained momentum**



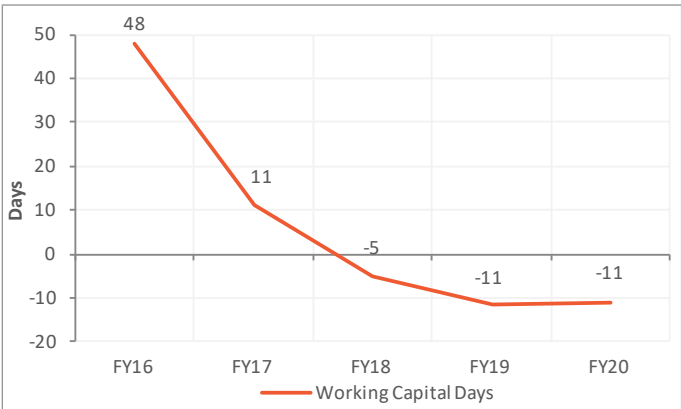
Source: Company, Sharekhan Research

**OPM continues to remain high on y-o-y basis**



Source: Company, Sharekhan Research

**Working capital days improves**



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector outlook - Business return 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 trades 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 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.

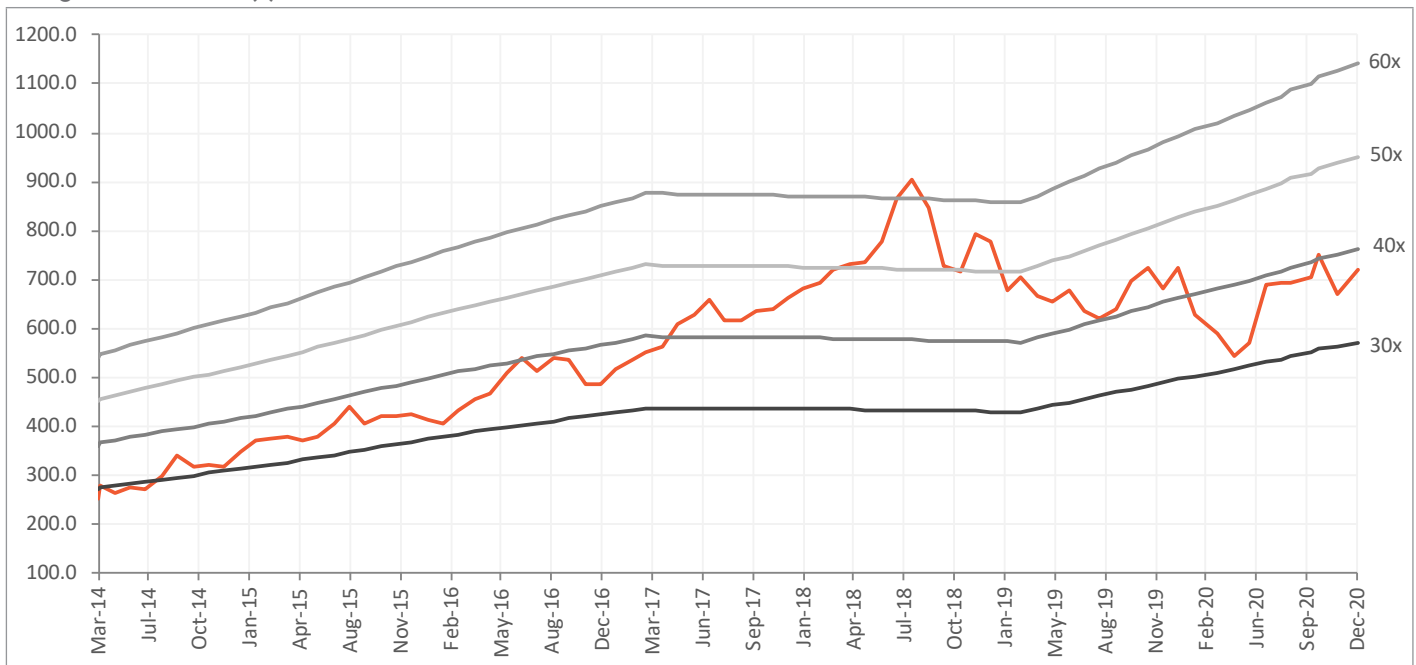
### ■ Company outlook - H2 performance to be ahead of H1

GCPL clocked a 5% revenue growth and OPM improvement of 120 bps to 22.2% in H1FY2021. The management expects the growth in HI business to recover to double digits with supply issues getting resolved and maintain the steady growth momentum in the soaps due to increase in demand for hygiene products. Hair colour saw a V-shaped 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 mid-single digit growth in the coming quarters. Cost-saving initiatives and judicious ad-spends would help OPM to remain high on y-o-y basis despite higher raw material prices. The business fundamentals to get normalised by Q3 and strong recovery is anticipated in FY2022. The better revenue mix would help in the consistent improvement in OPM (likely to reach 23% by FY023). 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. 200-250 crore per annum.

### ■ Valuation - retained Buy with unchanged PT of Rs. 850

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 medium to long term. Reduction in debt augurs well for the company from strengthening of balance sheet (company reduced debt ~Rs. 1000 crore on q-o-q basis in Q2). The stock is currently trading at 32x its FY2023E EPS, which is at a discount to some of the mid-cap stocks. We believe stable revenue and earnings growth and strengthening of balance sheet would help valuation multiple to improve in the coming years. We maintain our Buy recommendation on the stock with an unchanged price target of Rs. 850.

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



Source: Sharekhan Research

### Peer Comparison

| Particulars              | P/E (x) |       |       | EV/EBIDTA (x) |       |       | RoCE (%) |       |       |
|--------------------------|---------|-------|-------|---------------|-------|-------|----------|-------|-------|
|                          | FY21E   | FY22E | FY23E | FY21E         | FY22E | FY23E | FY21E    | FY22E | FY21E |
| Hindustan Unilever       | 64.9    | 51.5  | 45.1  | 45.8          | 38.8  | 33.8  | 39.2     | 28.5  | x     |
| Dabur India              | 53.7    | 44.0  | 37.2  | 43.5          | 35.4  | 29.6  | 26.9     | 29.2  | x     |
| Godrej Consumer Products | 42.3    | 36.6  | 31.8  | 31.9          | 28.4  | 25.0  | 18.0     | 19.5  | x     |

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

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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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