



Godrej Consumer Products Limited

Volume growth momentum sustains

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. 736	
Price Target: Rs. 850	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

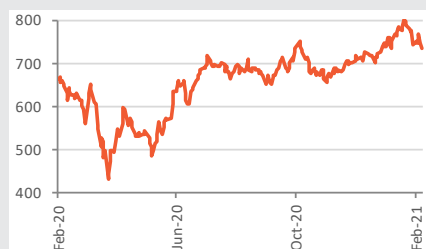
Company details

Market cap:	Rs. 75,255 cr
52-week high/low:	Rs. 772 / 425
NSE volume: (No of shares)	15,5 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	-1.9	9.8	6.9	13.8
Relative to Sensex	-6.6	-12.9	-27.8	-9.5

Sharekhan Research, Bloomberg

Summary

- Godrej Consumer Products (GCPL) revenues grew by ~10% with India and international business growing by 11% and 10%, respectively in Q3FY2021. OPM improved by 55 bps to 23.3%.
- Domestic soaps and hair colour categories grew in mid-teens; household insecticide segment rose by 7%. Globally, Africa and LatAm markets posted double digit growth of 17% and 12% respectively.
- Domestic soaps and hair colour to maintain double-digit growth; Africa will continue to grow in double digits in the coming quarters. Margins to be broadly maintained through price hikes and stringent cost-saving measures
- We maintain earnings estimates for FY2021/22/23 as results matched expectations. We retain a Buy on the stock with unchanged PT of Rs. 850.

Godrej Consumer Products (GCPL) revenues grew by ~10% to Rs. 3,055.4 crore; in-line with our expectations of Rs. 3,080.6 crore. Domestic business grew by 11% (led by a 7% rise in volumes) and the international business by 10 led by good growth in the key geographies (except Indonesia). Around 81% of the global portfolio comprising household insecticides (HI), hygiene and value-for-money products registered a growth of 14%. The domestic HI, hair colour and soaps grew by ~7%, 14% and 15%, respectively. Globally, Indonesia sales stood flat (due to macroeconomic headwinds, while the Africa business registered a strong growth of 17% due to improved performance in regions such as West Africa and South Africa. As anticipated gross margins declined by 167 bps to 55.1% mainly on account of higher palm oil prices. Lower other expenses led to a 55 bps improvement in the OPM to 23.3%; operating profit grew by ~13% to Rs. 711.2 crore. We expect soaps to maintain the double digit growth momentum due to heightened demand for hygiene products and higher realisations due to price hikes. The hair colour category recovered to positive growth in Q3 and will maintain the double digit growth as outdoor mobility in domestic improving. Further, the company is planning to launch low-priced HI products for the rural markets, which will help it to improve HI penetration in the rural market. Overall, the company is confident of achieving 8-12% revenue growth in its domestic HI business in the near to medium term. Globally, Africa would maintain double-digit growth led by improving penetration in West Africa and South Africa. Indonesia will take time to revert to a positive growth momentum. The company expects to mitigate the input cost pressure by improving the revenue mix, cost-saving initiatives in key geographies and prudent price hikes in the key SKUs. The company managed to reduce its consolidated debt by Rs. 1,529 crore to Rs. 1,997 crore as compared to December, 2019 on account of better working capital management. Net debt/equity stood at 0.14x in Q3FY2021.

Key positives

- Soaps & hair colour registered strong double digit growth of 15% and 14%, respectively.
- Africa business registered second consecutive quarter of double digit growth.
- Consolidated debt reduced by ~Rs. 1500 crore y-o-y; interest costs fell by 33.4% in 9MFY2021

Key negatives

- Gross margins decreased by 167 bps mainly on account of higher input prices.
- Indonesian business registered flat performance due macro headwinds and heightened competition in key categories.

Our Call

View - Retained Buy with unchanged price target of Rs. 850: GCPL's Q3FY2021 performance was exactly in-line with our expectation. Hence we maintain our earnings estimates for FY2021/22/23. Market share gains in 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 as it provides an opportunity to scout for inorganic initiatives in focus markets. GCPL's revenues and PAT are expected to clock a CAGR of 10% and 17% respectively over FY2020-23E. The stock is currently trading at 32.3x which is at discount to its historical average. We maintain a Buy recommendation on the stock with an unchanged price target of Rs. 850.

Key Risks

Any slowdown in the growth of domestic or Indonesian HI business or slowdown in the performance of Africa business coupled would act as key risks to our earnings estimates.

Valuations (Consolidated)

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	10,314	9,911	10,838	11,884	13,132
OPM (%)	20.7	21.6	22.5	22.8	23.3
Adjusted PAT	1,479	1,462	1,765	2,020	2,327
Adjusted EPS (Rs.)	14.5	14.3	17.3	19.8	22.8
P/E (x)	50.9	51.4	42.6	37.3	32.3
P/B (x)	10.4	9.5	8.7	7.7	6.8
EV/EBIDTA (x)	37.1	36.8	32.2	28.8	25.5
RoNW (%)	21.9	19.3	21.3	22.0	22.4
RoCE (%)	17.5	16.6	18.3	19.6	20.7

Source: Company; Sharekhan estimates

Volumes grew by 7%; efficiencies drive up margins:

Q3FY2021 consolidated revenue grew by 10% y-o-y to Rs. 3055.4crore. India business grew by 11.2% y-o-y to Rs. 1,658.3crore with sales volumes growing by 7%. Nearly 81% of the global product portfolio comprising HI, hygiene and value-for-money products grew by 14% driven by a 7% growth in HI category, 19% growth in the hygiene portfolio and 22% growth in the value-for-money portfolio. India business OPM reduced by ~117bps to 27.8%. Consolidated gross margins fell by 167 bps to 55.1% due to higher input prices. However, lower manufacturing and other expenses drove up OPM by 55 bps to 23.3%. Operating profit rose by 12.6% y-o-y to Rs. 711.2crore. In spite of lower other income, lower interest costs resulted in 14% growth in profit before tax to Rs. 635.3crore. Adjusted PAT growing by 17.6% y-o-y to Rs. 495.4 crore in Q3FY2021 from Rs. 421.2 crore in Q3FY2020. Reported PAT came in at Rs. 502.1 crore..

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

- ♦ **Soaps – maintained double digit growth momentum:** Revenue of the domestic soaps category registered a robust growth of 15% y-o-y to Rs. 478 crore largely driven by market share gains. Around two-thirds of growth is volume-led while the rest is price-led. The company continued to focus on micro-marketing Initiatives to drive growth. New launches in the health & hygiene segment are scaling up. New launches such as Godrej Protekt health soap and CintholHealth+ range under the health & hygiene category are scaling-up fast and gaining good traction. A 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 – Back on track:** Revenue from hair colour products grew by 14% y-o-y to Rs. 177 crore, led by pick-up in the overall category. The category witnessed improvement in market share. Godrej Expert Rich Crème continues to perform well by leveraging Do-It-Yourself (DIY) trends through influencers. Godrej Expert Easy 5 Minute Shampoo Hair Colour performing well post national scale up and thus, the company expects the decent growth momentum to continue in Q4FY2021.
- ♦ **HI – Steady quarter:** The HI category saw a reported growth of 7% y-o-y in revenue to Rs. 662 crore, driven by strong growth in aerosols, electric formats and non-mosquito portfolio. The company witnessed a soft performance in burning formats and personal repellents. Further, growth is driving by premiumisation and innovation-led growth with the launch of Good Knight Gold Flash, Good Knight Smart Spray and Good Knight Natural Neem products. The company has planned for new launches for the medium term. The company has planned to continue to build on strategic pivots and taking the category beyond mosquitoes, scaling up personal repellents portfolio as well.

Indonesia reported soft growth, strong recovery in the GAUM region

The international business reported revenue grew by 10% to Rs. 1,405 crore. Indonesia revenue was flat to Rs. 447 crore (2% decline in CC terms) due to adverse macroeconomic factors. However witnessing a gradual recovery in air fresheners and wet wipes. EBITDA margin at 25.3% increased by 70 bps y-o-y. The company gained market share in HI in Indonesia. The company is targeting bottom-end of the pyramid with the launch of HIT Expert Piramida 4 hour revolutionary paper based mosquito repellent (4x less smoke and up to 10 hours of overnight protection). Gradual recovery witnessed in Air fresheners and in higher competitive intensity in wipes. Further, strong traction was also witnessed in hygiene continues. Company launched Saniter Health Soap that provides 99.9% protection from germs and viruses. Business in the GAUM region witnessed strong recovery, with revenue growing by 14% y-o-y to Rs. 779 crore (17% growth in CC terms as well) driven by robust growth in South and West Africa with strong performance of dry hair care. EBITDA margin in the GAUM region expanded by 190 bps to 14.1% driven by scale leverage and cost saving programme. Company is seeding new go to market initiatives and Test piloting Good knight Power Shots in Lagos, Nigeria. The company launched the Darling range of hair extensions in the USA with Walmart. Latin America (LatAM) and SAARC revenue rose by 11.2% y-o-y to Rs. 179 crore (35% growth in CC terms). SAARC continues to deliver steady performance. EBITDA margin for LatAM and SAARC improved significantly from 7.4% to 12.5% in Q3FY2021.

Results (Consolidated)

					Rs cr
Particulars	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %
Total revenue	3055.4	2778.1	10.0	2915.1	4.8
Raw material cost	1373.3	1202.3	14.2	1283.3	7.0
Employee cost	286.5	268.7	6.6	266.7	7.4
Advertisement & Publicity	229.1	206.3	11.0	208.6	9.8
Other expenses	455.5	469.4	-3.0	472.1	-3.5
Total operating expenses	2344.3	2146.7	9.2	2230.7	5.1
Operating profit	711.2	631.3	12.6	684.4	3.9
Other income	15.0	23.5	-36.1	13.9	7.8
Interest expense	24.1	47.7	-49.6	31.3	-23.3
Forex gain / (loss)	-17.7	-0.7	2584.8	-11.6	52.9
Depreciation	49.1	49.0	0.1	50.9	-3.6
Profit before tax	635.3	557.4	14.0	604.5	5.1
Tax	140.0	136.2	2.7	146.3	-4.3
Adjusted PAT (before MI)	495.4	421.2	17.6	458.2	8.1
Minority interest (MI)	0.2	0.6	-68.4	0.2	20.0
Extraordinary item	6.5	23.4	-72.2	-0.3	-2014.7
Reported PAT	502.1	445.2	12.8	458.0	9.6
EPS (Rs.)	4.8	4.1	17.6	4.5	8.1
			BPS		BPS
GPM (%)	55.1	56.7	-167	56.0	-92
OPM (%)	23.3	22.7	55	23.5	-20

Source: Company; Sharekhan Research

Result snapshot (Standalone)

					Rs cr
Particulars	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %
Total revenue	1694.8	1523.9	11.2	1679.2	0.9
Operating Profit	471.8	442.1	6.7	466.9	1.1
Adjusted Net profit	351.4	364.9	-3.7	350.6	0.2
			BPS		BPS
GPM (%)	57.3	60.0	-271	57.2	14
OPM (%)	27.8	29.0	-117	27.8	-

Source: Company; Sharekhan Research

Category wise performance

					Rs cr
Particulars	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %
Soap	478	416	15.0	582	-17.8
Hair Colour	177	155	14.2	152	16.4
Liquid Detergents & Others	325	295	10.2	200	62.5
Household Insecticides (HI)	662	617	7.3	712	-7.0

Source: Company; Sharekhan Research

International business performance

					Rs cr
Particulars	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %
Revenue					
Indonesia	447	447	0.0	445	0.4
GAUM	779	679	14.7	652	19.5
Others (including LATAM)	179	161	11.2	180	-0.6
EBITDA Margins (%)			BPS		BPS
Indonesia	25.3	24.6	70	25.8	-50
GAUM	14.1	12.2	190	11.4	270
Others (including LATAM)	12.5	3.5	900	19.6	-

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector outlook - Steady revenue growth momentum to sustain; margin pressure to firm up

Domestic FMCG market growth recovered to 5% in Q3FY2021 from 1% in Q2FY2021. We believe that shift in demand for branded products, rural demand staying ahead of urban demand, gradual recovery in out-of-home categories and new product launches remain key catalysts for revenue growth in the near to medium term. Raw material prices have been rising in the recent past and sustenance of this trend will pressurise gross margins in FY2021. Consumer goods companies ability to pass on the input price increase, sustained benefits of cost-saving initiatives and judicious media spends would determine level the profitability growth in the coming quarters. Structural growth story of domestic consumer goods market is intact with lower per capita consumption of products compared with other international countries, lower penetration in the rural markets and opportunities to launch new differentiated products and gaining market share from small players.

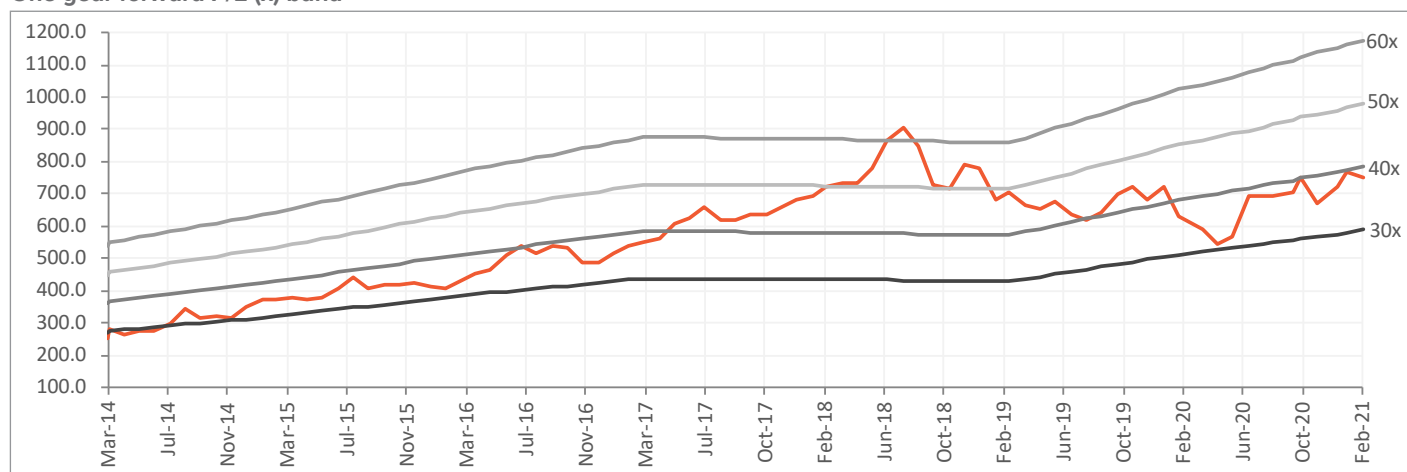
■ Company outlook - Growth momentum to sustain

GCPL registered a 7% revenue growth and OPM improvement of 104BPS to 22.7% in 9MFY021. Q4 growth will be higher on low base of Q4FY2020. We expect soaps category growth to maintain the double-digit growth momentum due to heightened demand for hygiene products and higher realisation growth due to price hike. Hair colour category reverted to growth in Q3 and will maintain the double-digit rise as outdoor mobility in domestic improving. Further, the company is planning to come out with low-priced HI products for the rural market, which will help it to improve HI penetration in the rural market. Overall, the company is confident of achieving 8-12% revenue growth in its domestic HI business in the near to medium term. On international front Africa would maintain the double digit growth on back of improving penetration in West Africa and South African region. 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 the key geographies and prudent price hikes in the key SKUs.

■ Valuations - retained Buy with unchanged TP of Rs. 850

GCPL's Q3FY2021 performance was exactly in-line with our expectation. Hence we maintain our earnings estimates for FY2021/22/23. Market share gains in 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 as it provides an opportunity to scout for inorganic initiatives in focus markets. We expect GCPL's revenues and PAT are expected to grow at clock a CAGR of 10% and 17% respectively over FY2020-23E. The stock is currently trading at 32.3x which is at discount to its historical average. We maintain our a 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	FY23E
Hindustan Unilever	66.2	50.2	43.8	44.9	36.3	31.5	37.1	28.3	30.7
Dabur India	53.5	44.4	38.3	43.4	35.7	30.4	27.4	29.3	28.9
Godrej Consumer Products	42.6	37.3	32.3	32.2	28.8	25.5	18.3	19.6	20.7

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 household insecticides. 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 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 (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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