



Godrej Consumer Products Limited

Eyeing steady growth at home and abroad

Consumer Goods

Sharekhan code: GODREJCP

Company 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

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 683	
Price Target: Rs. 850	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 69,836 cr
52-week high/low:	Rs. 808/439
NSE volume: (No of shares)	16.3 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	-1.8	-6.0	-2.5	36.6
Relative to Sensex	3.3	-8.3	-32.1	-33.2

Sharekhan Research, Bloomberg

Summary

- Demand stayed buoyant in January-February unaffected by local lockdowns and supply disruptions; Q4FY21 will see yet another quarter of double-digit revenue growth; rise in input costs will be mitigated by efficiencies and by leveraging upon higher margins in other geographies.
- Key long term triggers for GCPL's India business 1) Improving penetration of Hand wash and emerging categories such as floor cleaners/toilet cleaners 2) Improving penetration of HI in rural markets through new product launches and rising caution amongst consumer and 3) market share gains in core categories such as soaps and hair colour.
- Globally, Indonesia would recover strongly in FY22; company focusing on achieving profitable growth in LatAm and new leadership is eyeing sustainable revenue growth with margins improving to 17-18% in medium term.
- GCPL is set to achieve CAGR growth of 10% and 17% in revenue and PAT over FY2020-23. Stock trades at 30x its FY2023E EPS, at a discount to historical valuations. We maintain Buy with an unchanged price target of Rs850.

We interacted with Mr. Sameer Shah (Investor Relations Head) of Godrej Consumer Products Ltd (GCPL) to understand the current business environment in India and Indonesia and also attended the conference call to get a clearer perspective on the Africa business from Mr. Dharnesh Gordhon (Business Head - Godrej Africa, Middle East and USA). The India business is well-poised to achieve yet another quarter of strong double digit growth (largely volume-driven) led by buoyancy in the rural market and a strong recovery in the urban market. Soaps, hair colours and household insecticides are expected to post double-digit growth aided by higher demand and low base of Q4FY2020. There is no impact of mini lockdowns on the primary and secondary sales in the domestic market. GCPL has maintained the adequate inventory of raw materials and finished goods. Adequate inventory of finish products has been maintained at plant warehouses and regional warehouses to avoid any supply disruptions. Soaps continued to see higher demand due to increase in consumption led by changing consumer habits and market share gains from smaller players as a differential pricing strategy based on the region/competition/demographics will help the category achieve higher growth as compared to the pre-COVID months. Household insecticides continue to see steady demand due to improving awareness and better penetration in the rural markets, while hair colour category sales are improving due to improvement in overall out-of-home and discretionary category consumption. The company focusing playing big on home & hygiene category by launching new products and leverage on GCPL's domestic distribution. The category is expected to contribute 1/4th to GCPL's India business over the next four to five years. A significant increase in the key input prices (including palm oil) will be mitigated at operating level through efficiencies, cost-saving initiatives and leverage upon better margins in some other geographies. On the international front, Indonesia is expected to come out of macro concerns in the next 6-8 months. New launches and relevant advertisement and promotional activities would help the Indonesia business revert to strong double-digit growth (also aided by a low base of FY2021). With new leadership in place, GCPL is focusing on achieving sustainable double digit revenue growth in the Africa business through better on ground execution through relevant route-to-market strategy, enhancing distribution, new product launches based on the consumer insights and preference and scaling up of operations in focus regions such as Nigeria, South Africa, the US and Kenya and gradually increase base in the neighbouring regions. The scale-up in operation, manufacturing synergies through localise production and cost saving initiatives would help margins of Africa business to improve to 17-18% from current 11-12% over the next 4-5 years.

Our Call

View: Maintain Buy with unchanged PT of Rs. 850: With strong growth prospects in the India business and focus on sustainable growth in Africa with change in leadership, GCPL is well-poised to achieve revenue and PAT CAGR growth of 10% and 17%, respectively, over FY2020-23. Market share gains in HI category (both in India and Indonesia); sustained innovation (hygiene products gaining good traction), cross-pollination (plans to scale-up launch of HI products in Africa soon) and expansion of distribution network are some key growth levers for GCPL in medium to long term. The stock is currently trading at 30x which is at discount to its last five years average of 42x. Sustained growth in the India business and scale-up in key geographies of international business will be key re-rating trigger for the stock. We maintain a Buy recommendation on the stock with unchanged price target of Rs. 850.

Key risk

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	10,838	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)	47.2	47.7	39.6	34.6	30.0
P/B (x)	9.6	8.8	8.0	7.2	6.3
EV/EBIDTA (x)	34.6	34.3	30.0	26.8	23.7
RoNW (%)	21.9	19.3	21.3	22.0	22.4
RoCE (%)	17.5	16.6	18.3	19.6	20.7

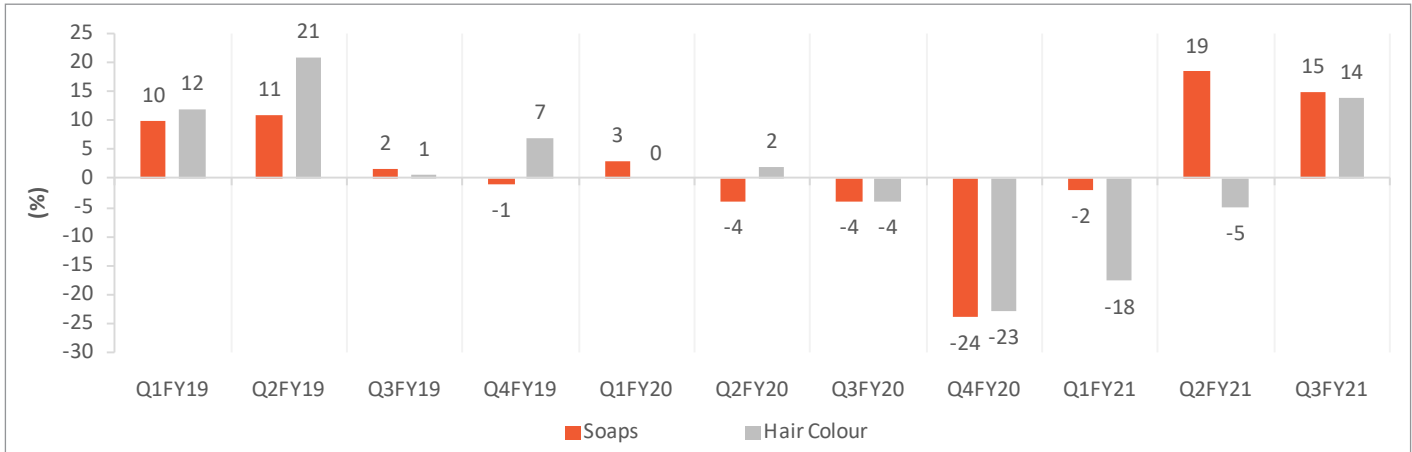
Source: Company; Sharekhan estimates

Key highlights of management interaction

India business - Growth momentum sustains in Q4; home & hygiene to be 1/4th of domestic business over the next four to five years

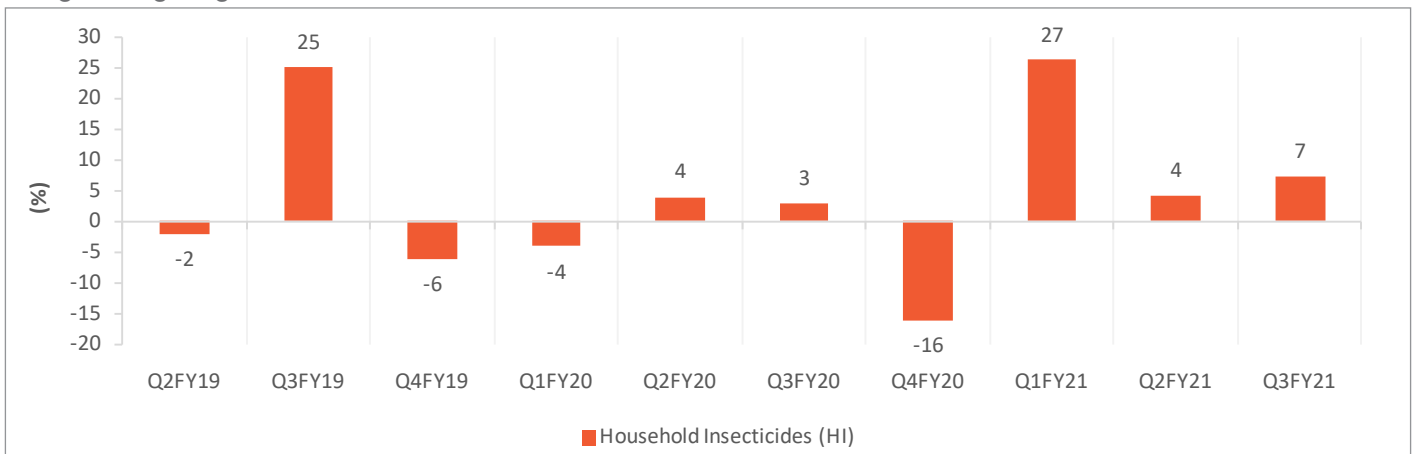
- ◆ **Demand remains strong; Q4 will maintain double-digit growth momentum:** Demand has remained strong in January and February with broad-based growth across all geographies. Rural demand has remained buoyant and urban markets continued to recover m-o-mm. Mini lockdowns have not affected primary and secondary sales in the domestic market.
- ◆ **Well-prepared for any adversity caused by rising COVID-19 cases:** The company and channel partner have prepared themselves to take care of any adversity. GCPL has maintained an adequate inventory of raw materials and finished goods. Adequate inventory has been maintained at the company's plant warehouses and regional warehouses to avoid any supply issues. The company maintains lower inventory with trade partners as a process of improving channel partners' returns. However, if the government plans yet another country-wide lockdown might lead to some disruption in sales (it will be lower as compared to last year).
- ◆ **Soaps & hand wash continues to witness high demand due to improved hygiene habits:** Soaps continue to witness higher demand due to increase consumption amid the pandemic. The management expects this phenomenon to sustain until COVID-19 cases continue to increase in India and globally. Over time, consumers will get habitual towards maintaining better hygiene habits which augurs well for soaps and hand wash segment. Thus strong growth momentum is expected to sustain in the soaps category in the near term.
- ◆ **HI and hair colour would see better growth:** The season has been normal for the HI category and the company witnessing steady demand for HI products. Driving premiumisation and innovation-led growth with the launch of Good Knight Gold Flash, Good Knight Smart Spray and Good Knight Natural Neem products. These new launches are planned from a medium-term perspective. With demand for discretionary products gradually improving, the hair colour category is also expected to maintain double-digit growth in the coming quarters.
- ◆ **Home and hygiene will be one-fourth of domestic business by next 4-5 years:** The new launches in the home care segment such as floor cleaners and toilet cleaners (under the brand ProClean) are gaining good traction. The category penetration for such products is very low in India at around 15% with presence of few branded players provides opportunity for the company to gain good share in these categories. The rising importance for better hygiene would result in higher demand for such products. The company also planning to launch some more products and leverage upon of its distribution to growth in these categories. The company targets home and hygiene (including floor cleaners, toilet cleaner, air care) to be 1/4th of the overall domestic business in the next four years.
- ◆ **Focus on achieving markets share gains and revenue growth over margins:** Key input prices (palm oil & packaging materials) have risen sharply in the past six months. The company took calibrated price hikes in some of its soap brands by using differential pricing strategy for the same SKU in different markets. It has increased prices in some states while keeping them unchanged in some states for same SKU. This strategy helped the company to gain market share from small and regional players. The price hikes undertaken will not cover up the input price hike. However the company is banking on cost saving measures and leverage upon better margins in the other international geographies to reduce the impact on the consolidated operating margins. Having said that the company has indicated of 5-6% price increase in the calibrated manner in the soaps segment every year.

Soaps and hair colour registered double digit growth in Q3



Source: Sharekhan Research

HI registered good growth in FY2021



Source: Sharekhan Research

International business - Indonesia to see strong recovery in FY22, Africa to achieve sustainable revenue growth as margins rise

GUAM to post steady double digit revenue growth; OPM to expand to 17-18%

- ◆ With the change in the leadership with Mr.Dharnesh Gordhan coming on board, the GUAM business (including Africa, USA and the Middle East) is expected to post steady double digit revenue growth and OPM expanding to 17-18% over the next four to five years. Mr. Gordhan can utilise his more than 16 years experience in the African market to scale up the GCPL business in various markets of Africa. Under his regime, the GUAM business has double digit revenue growth in two consecutive quarters.
- ◆ The long term focus is on achieving sustainable double digit revenue growth in the Africa business through better on ground execution through relevant route-to-market strategy, enhancing distribution, new product launches based on the consumer insight and preference and scale up operations in focus regions such as Nigeria, South Africa, USA and Kenya and gradually increase base in the neighbouring regions. A centralised category management structure, cross pollination across regions and stable operational model in each geography remains the core of the growth strategy for the GUAM business.
- ◆ Filling the distribution gap is another key focus area of the company to scale-up business in the various regions of Africa. In last six months distribution in key regions has been increase by 25%. The focus is on

expanding reach from 22% currently to 85% as compared to the overall distribution in Africa in 4-5 years. Scale-up of distribution to 40% in Nigeria and 85% in South Africa In a short span would lead to significant expansion in African business.

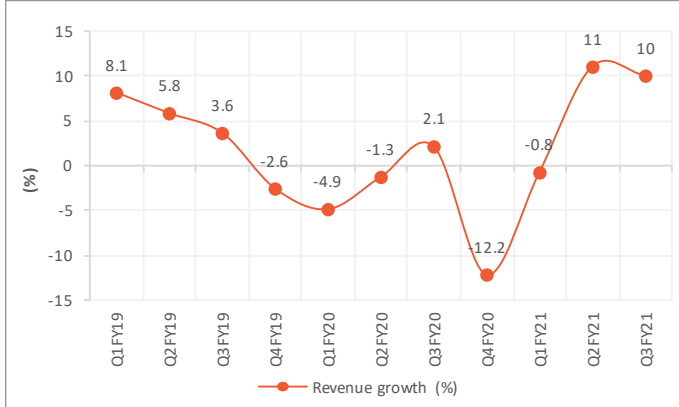
- ◆ GUAM business is currently categorised by hair extension (60% share) and other categories (40%). HI will be one of the key drivers of growth for Africa in the near future. Relevant launches and focus market strategy would help HI category to achieve strong growth in the Africa. On the hand non-mosquito portfolio (including roach gel) has bigger opportunity to grow in the Middle Eastern market near future.
- ◆ With respect to focus markets key strategies are - 1) Distribution for hair extension category will be expanded in Nigeria, focus will be on B2C model and the company go big on HI products. Hair extension products provide a bigger opportunity in the US (Walmart has recently stocked in Darlings hair extension products on its shelves) 3) Unrealised opportunities in South Africa provides great lever to scale up the business and 4) Similar Nigeria, immense prospects are available in Kenya. The scale-up and maturity in these markets will open door to expand into other regions.
- ◆ With scale up in the business in focus regions and better efficiencies through localised production, the GUAM business is well-poised to achieve OPM of 17-18% from the current levels of 11-12% in 4-5 years.

Indonesia expected to see strong recovery in FY2022: GCPL's Indonesia Q3 performance was badly affected by adverse macro environment and higher competitive pressures in wet wipes (~15-16% of Indonesia business revenues). Consumer demand decreased by 9% while the company registered a marginal 2% decline in Q3. The company expects macro environment to get back on track in 6-8 months as current vaccination drive will improve the economic activities. Further the new launches in the HI and hygiene category would help in faster recovery. Recovery in the macro environment and low base would help in strong recovery in FY2022. OPM is expected to remain stable in the near to medium term.

Focus on improving the profitability in LatAm; SAARC continues to perform well: GCPL has maintained its thrust to achieve profitable growth in Latin America by achieving better margins rather focus on improving the revenue growth. The company has undertaken many cost saving initiatives in the past and expect it to help driving margins in the coming quarters. On the other hand SAARC region performing well for GCPL and generates close to Rs200crore of revenues for the company. The company is focusing on improving growth in some of the markets such as Bangladesh, Nepal and Sri Lanka through organic initiatives by launching new products and scaling up distribution in these markets. However, if any acquisition opportunity comes up, the company would like to grow inorganically as well in these markets.

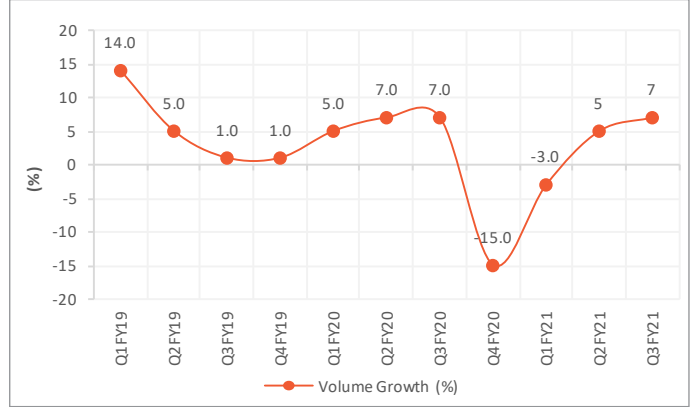
Financials in charts

Trend in revenue growth



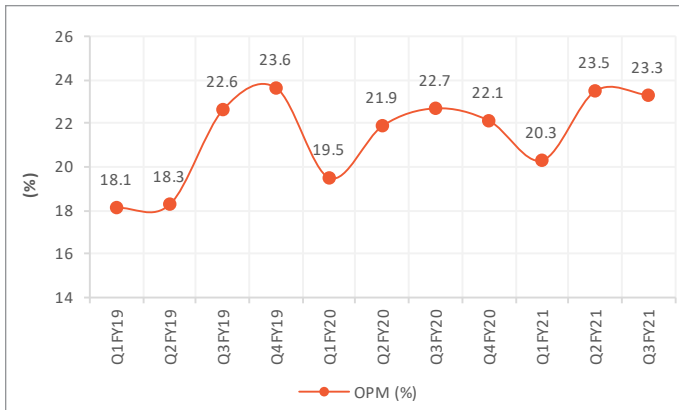
Source: Company, Sharekhan Research

Trend in volume growth



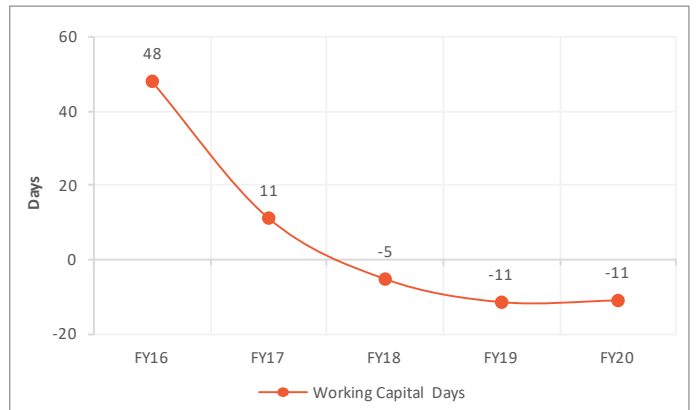
Source: Company, Sharekhan Research

Trend in the OPM



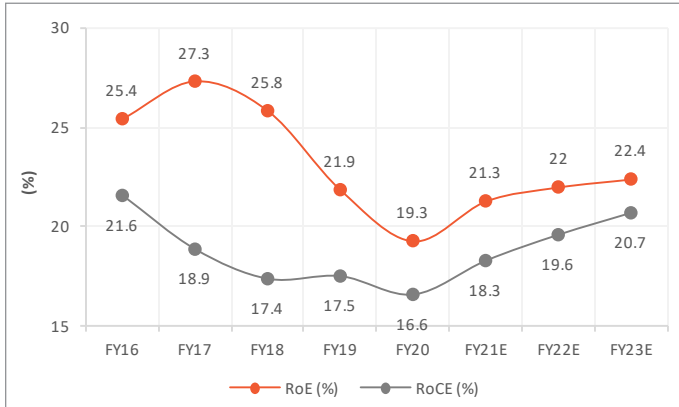
Source: Company, Sharekhan Research

Negative working capital



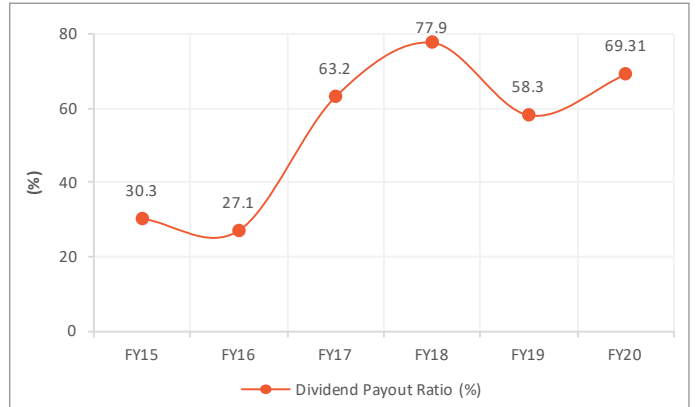
Source: Company, Sharekhan Research

Return ratios to improve in the coming years



Source: Company, Sharekhan Research

Good dividend payout



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Steady revenue growth momentum to sustain; margin pressure to firm up

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

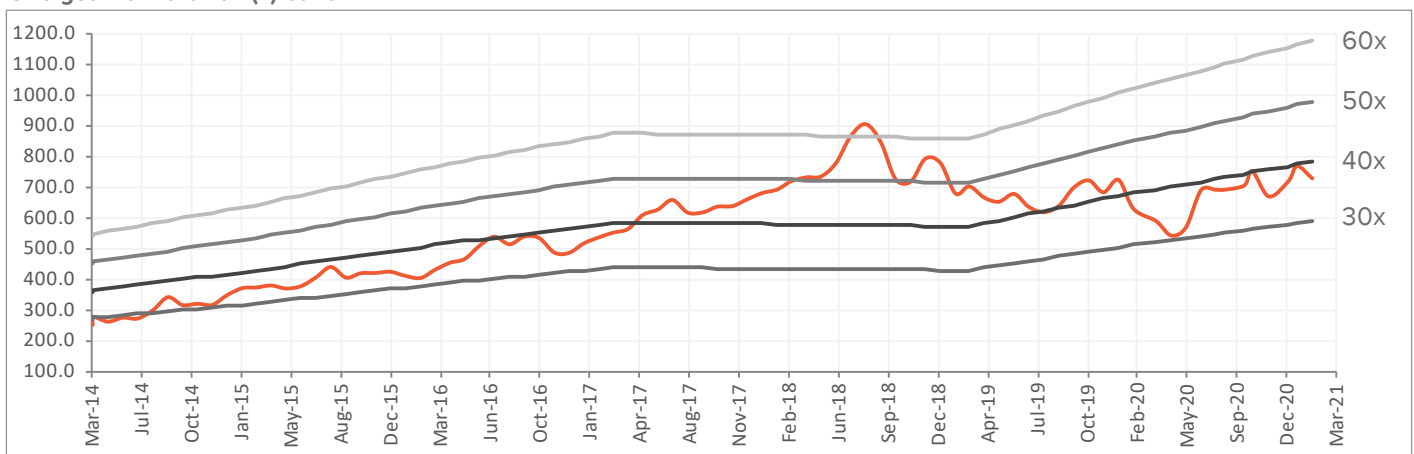
■ Company Outlook – Growth momentum to improve ahead

GCPL registered a 7% rise in revenue and a 104 bps expansion in OPM to 22.7% in 9MFY021. Q4FY21 growth will be higher on the low base of Q4FY2020. We expect the soaps category to maintain its double digit growth momentum due to heightened demand for hygiene products and higher realisation growth due to price hike. The hair colour category recovered to positive growth in Q3 and will maintain the double digit growth as outdoor mobility in domestic markets is improving. Further, the company is planning to come out with low-priced HI products for the rural market, which will help it to improve penetration. Overall, the company is confident of achieving an 8-12% revenue growth in its domestic HI business in the near to medium term. Globally, Africa would maintain double-digit growth on back of improving penetration in West Africa and South African region. Indonesia will take time to get back on positive growth momentum. The company expects to mitigate the input cost pressure by improving the revenue mix, cost-saving initiatives in the key geographies and prudent price hikes in key SKUs.

■ Valuation – Maintain Buy with unchanged PT of Rs. 850

With strong growth prospects in the India business and focus on sustainable growth in Africa with change in leadership, GCPL is well-poised to achieve revenue and PAT CAGR growth of 10% and 17%, respectively, over FY2020-23. Market share gains in HI category (both in India and Indonesia); sustained innovation (hygiene products gaining good traction), cross-pollination (plans to scale-up launch of HI products in Africa soon) and expansion of distribution network are some key growth levers for GCPL in medium to long term. The stock is currently trading at 30x, which is at a discount to its last five years' average of 42x. Sustained growth in the India business and scale-up in key geographies of international business will be key re-rating trigger for the stock. We maintain a Buy recommendation on the stock with 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	68.3	63.1	60.2	45.0	36.4	31.6	37.1	28.3	30.7
Dabur India	53.4	44.3	38.2	45.0	36.4	31.6	27.4	29.3	28.9
Godrej Consumer Products	39.6	34.6	30.0	30.0	26.8	23.7	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
7	Republic of Singapore	1
8	BlackRock Inc	1
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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