

Godrej Consumer

BSE SENSEX
56,125

S&P CNX
16,705

CMP: INR1,087
TP: INR1,250 (+15%)
Buy

CONSUMER PRODUCTS

Stock Info

Bloomberg	GCPL IN
Equity Shares (m)	1,022
M.Cap.(INRb)/(USDb)	1111.7 / 15.2
52-Week Range (INR)	1100 / 642
1, 6, 12 Rel. Per (%)	2/43/18
12M Avg Val (INR M)	1340

Financials Snapshot (INR b)

Y/E March	2021E	2022E	2023E
Sales	110.3	122.0	136.1
Sales Gr. (%)	11.3	10.6	11.5
EBITDA	23.9	26.8	31.1
EBITDA mrg. (%)	21.7	21.9	22.8
Adj. PAT	17.7	19.3	23.2
Adj. EPS (INR)	17.3	18.9	22.7
EPS Gr. (%)	21.9	9.5	20.2
BV/Sh.(INR)	92.3	96.8	102.7

Ratios

RoE (%)	20.4	20.0	22.8
RoCE (%)	18.3	20.5	23.0
Payout (%)	57.9	63.5	61.6

Valuations

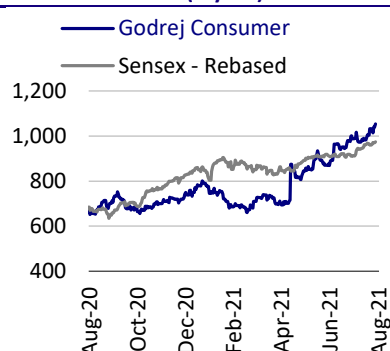
P/E (x)	63.0	57.5	47.9
P/BV (x)	11.8	11.2	10.6
EV/EBITDA (x)	46.6	41.4	35.5
Div. Yield (%)	0.9	1.1	1.3

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	63.2	63.2	63.2
DII	1.2	3.1	3.2
FII	27.0	26.6	26.8
Others	8.6	7.1	6.8

FII Includes depository receipts

Stock Performance (1-year)



Performance trending ahead of expectations; promising outlook

- Even before the new CEO has taken over, likely in Oct'21, GCPL has been performing consistently well in various large categories over the past year. As highlighted in [our 1QFY22 results note](#), both key domestic categories of Household Insecticides (HI) and Soaps posted a double-digit two-year CAGR during the quarter.
- The sales momentum is also leading to increased asset turns. Consequently, ROCE seems poised to cross 20% levels for the first time in a decade, after languishing in the mid-teens for most of this period.
- The outlook remains promising, with the possibility of significant improvements. ROCEs could improve further in case of a) the sales momentum picking up further under the new CEO, b) a further increase in the contribution of the higher margin, higher ROCE domestic business to sales (nearly 2x higher margins in domestic v/s international business), and c) continued efforts to boost margins and ROCEs in the international business.
- Maintain Buy, with TP of INR1,250 (45x Dec'23 EPS).

HI and Soaps continue strong momentum

- After reporting strong sales in the range of 15–16% in FY21, HI and Soaps (together comprising ~74% of domestic sales) reported double-digit sales growth once again in 1QFY22 (actual number not reported).
- HI reported peak sales growth of 0.9% in the four years ended FY20, with three of these years seeing sales decline. Given this performance, the ongoing momentum over the past 15 months is a healthy development.
- Similarly, Soaps reported a disappointing 2.8% CAGR in the four years ended FY20. Accordingly, the current improvement is remarkable.
- There are no COVID-related factors at play now in the case of HI. In the Personal Wash category, even if the COVID impact abates, the habitual behavior to maintain hygiene inculcated due to the fear of COVID is leading to higher usage. The penetration in Hand Wash is likely to be ~2x pre-COVID levels even going forward.
- As highlighted in our [detailed note in Jun'21](#), the longer term track record for both HI and Soaps has been excellent, barring the FY16–20 period – with HI seeing a ~19% revenue CAGR and Soaps a ~11.5% CAGR particularly over FY10–16.

Krishnan Sambamoorthy – Research analyst (Krishnan.Sambamoorthy@MotilalOswal.com)

Research analyst: Dhairya Dhruv (Dhairya.Dhruv@motilaloswal.com) / Kaiwan Jal Olia (Kaiwan.O@MotilalOswal.com)

Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: Domestic sales revival in FY21 after slowdown in FY16–20

Segment revenue (INR m)	FY16	FY17	FY18	FY19	FY20	FY21
Household Insecticides	23,025	23,226	22,630	22,540	21,900	25,340
Soaps	15,922	15,515	18,020	18,920	17,760	20,470
Hair Colors	5,787	5,933	6,220	6,730	6,270	6,420
Other brands	3,585	4,842	5,990	7,400	7,890	8,610
Unbranded and exports	2,216	2,257	2,700	3,030	2,920	3,310
Total	50,534	51,773	55,560	58,620	56,740	64,150
Segment revenue growth (%)						
Household Insecticides	-	0.9	(2.6)	(0.4)	(2.8)	15.7
Soaps	-	(2.6)	16.1	5.0	(6.1)	15.3
Hair Colors	-	2.5	4.8	8.2	(6.8)	2.4
Other brands	-	35.1	23.7	23.5	6.6	9.1
Unbranded and exports	-	1.8	19.6	12.2	(3.6)	13.4
Total	-	2.5	7.3	5.5	(3.2)	13.1
Segment revenue mix (%)						
Household Insecticides	46	45	41	38	39	40
Soaps	32	30	32	32	31	32
Hair Colors	11	11	11	11	11	10
Other brands	7	9	11	13	14	13
Unbranded and exports	4	4	5	5	5	5
Total	100	100	100	100	100	100

Source: Company, MOFSL

Barring Indonesia, overseas performance has been healthy recently

- While the Indonesia business was flat in 1QFY22, Africa reported a strong two-year double-digit CAGR. The Africa performance was driven by initiatives undertaken under the new CEO, discussed in our [Mar'21 analyst meet note](#). The LatAm business performance was also healthy in 1QFY22.
- EBITDA growth in Indonesia has been healthy in recent years, but sales growth has been lower than expected. While the lack of growth in Indonesia is more of a macro issue, we believe GCPL's new CEO, Mr Sudhir Sitapati, who takes over in Oct'21, would have a big role to play in this geography – as he has past experience in Indonesia.

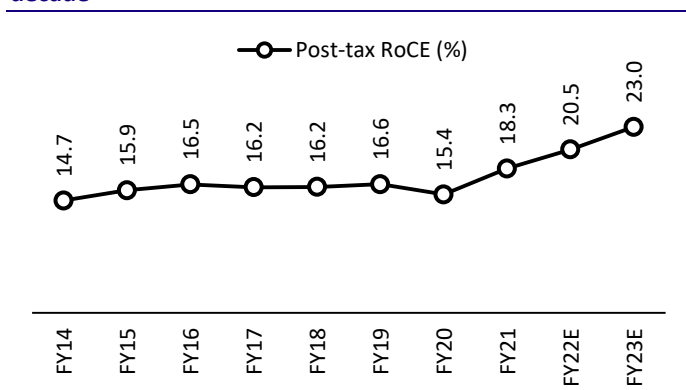
Exhibit 2: International business performance

Revenue (INR m)	FY17	FY18	FY19	FY20	FY21
India	50,890	53,547	56,793	54,745	62,543
Indonesia	15,276	13,545	15,249	16,959	17,700
Africa (including SON)	20,321	21,850	24,560	23,162	24,985
Others	10,760	11,397	7,702	5,556	6,659
Geography-wise revenue growth (%)					
India	4.2	5.2	6.1	(3.6)	14.2
Indonesia	5.3	(11.3)	12.6	11.2	4.4
Africa (including SON)	51.5	7.5	12.4	(5.7)	7.9
Others	(9.8)	5.9	(32.4)	(27.9)	19.9
Geography-wise revenue mix (%)					
India	52.3	53.4	54.4	54.5	55.9
Indonesia	15.7	13.5	14.6	16.9	15.8
Africa (including SON)	20.9	21.8	23.5	23.1	22.3
Others	11.1	11.4	7.4	5.5	6.0
EBIT (INR m)					
India	11,369	13,303	15,126	14,576	16,341
Indonesia	3,109	3,239	3,931	4,601	4,809
Africa (including SON)	3,076	2,677	1,904	1,692	1,065
Others	1,424	1,453	205	89	716
EBIT growth (%)					
India	15.4	17.0	13.7	(3.6)	12.1
Indonesia	7.0	4.2	21.4	17.1	4.5
Africa (including SON)	35.9	(13.0)	(28.8)	(11.2)	(37.0)
Others	(5.6)	2.0	(85.9)	(56.5)	702.5
EBIT margin (%)					
India	22.3	24.8	26.6	26.6	26.1
Indonesia	20.4	23.9	25.8	27.1	27.2
Africa (including SON)	15.1	12.2	7.8	7.3	4.3
Others	13.2	12.7	2.7	1.6	10.7

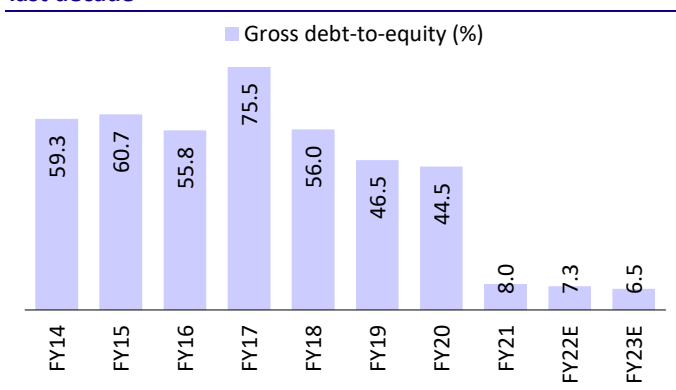
Source: Company, MOFSL

Balance sheet improving

- After nearly a decade of ROCEs in the mid-teens, ROCE is likely to surpass 20% in FY22, led by: a) the recent revival in domestic topline growth, b) an increase in the share of the higher margin, higher ROCE domestic business (57% of consolidated sales in FY21 v/s 55% in FY20), c) the moratorium on big-ticket acquisitions, d) the better utilization of capacity, and e) debt reduction.

Exhibit 3: Consolidated RoCE to cross 20% in FY22E after decade

Source: Company, MOFSL

Exhibit 4: Gross debt-to-equity improves tremendously in last decade

Source: Company, MOFSL

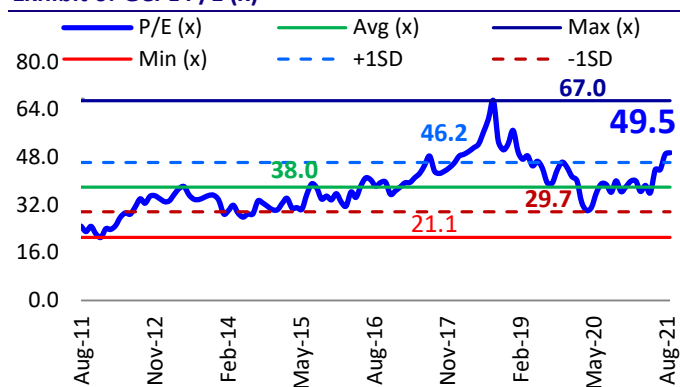
Exhibit 5: Consolidated cash conversion cycle improves considerably in last four years

Cash conversion cycle	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Days (on an average)										
Inventory days	51	47	52	54	55	55	60	57	52	50
Debtor days	35	34	42	42	42	45	45	36	32	31
Creditor days	54	51	46	54	76	87	92	77	68	67
Cash conversion cycle	32	30	47	41	22	14	13	16	16	14
Days (on a year-end basis)										
Inventory days	52	47	57	56	58	55	63	57	53	53
Debtor days	35	35	48	41	46	46	43	33	33	33
Creditor days	59	48	45	68	87	90	91	71	71	71
Cash conversion cycle	28	35	60	28	17	11	14	19	15	15

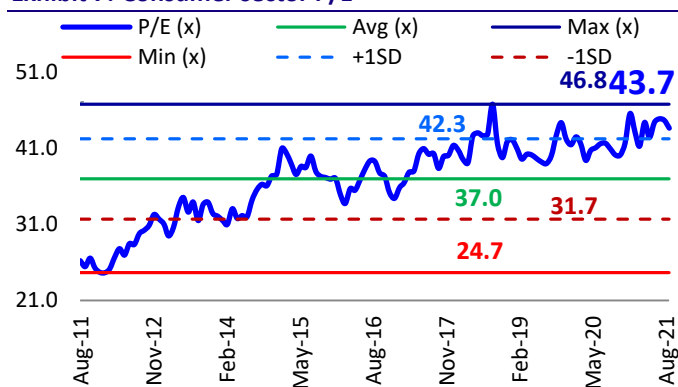
Source: Company, MOFSL

Valuation and view

- Recent trends add to our confidence in the investment case for GCPL.
- As highlighted in our [upgrade note](#), we believe that Mr Sudhir Sitapati's appointment as MD and CEO for a period of five years could have a transformational change on GCPL's fortunes.
- We further highlighted in another [detailed note](#) in Jun'21 that Mr Sitapati's appointment fills an important piece of the puzzle, unlocking the path to strong earnings growth for GCPL. This comes along with a) better capital allocation efforts in recent years, b) the appointment of a new head in the – erstwhile, significantly underperforming – GAUM business (largely Africa), with good initial results in the first year of his tenure in FY21, and c) potential tailwinds in Soaps and Personal Wash products – led by more frequent usage since COVID-19 – and a sharp increase in penetration levels in the Hand Wash category.
- The stock has rallied nearly 50% since the announcement of Mr Sitapati's appointment. However, this spurt is just the first step to what could be the potentially massive revitalization of both earnings and RoCE over the next few years, leading to a sustained re-rating as well. We have seen transformative changes on all these fronts in the past with companies such as BRIT, NEST, JUBI, and HUVR.
- We continue to value GCPL at 45x, but move forward from Sep'23E EPS to Dec'23 EPS, arriving at TP of INR1,250 (INR1,140 earlier), 15% upside to CMP.

Exhibit 6: GCPL P/E (x)

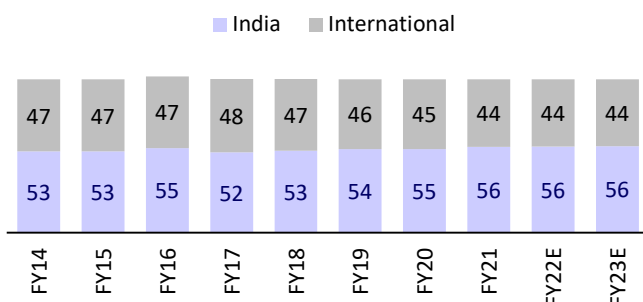
Source: Company, MOFSL

Exhibit 7: Consumer sector P/E

Source: Company, MOFSL

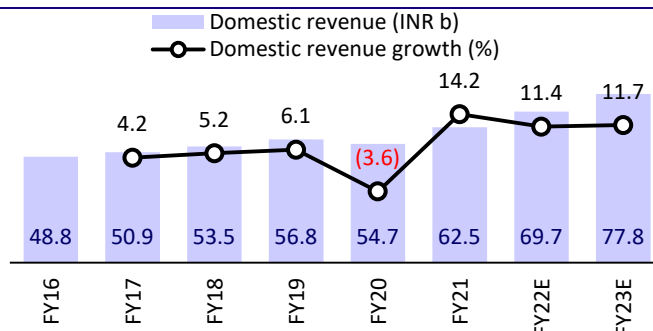
Story in charts

Exhibit 8: India and international revenue breakup



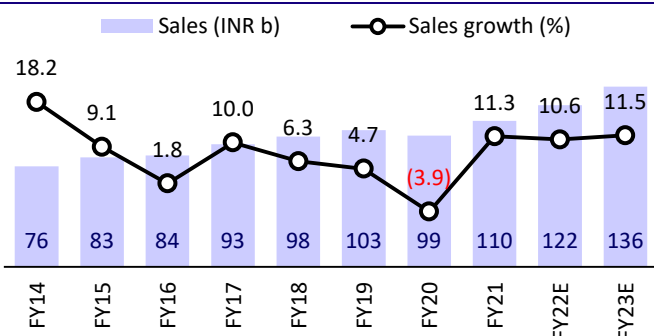
Source: Company, MOFSL

Exhibit 9: Expect GCPL's India business to grow at 11.6% CAGR over FY21–23



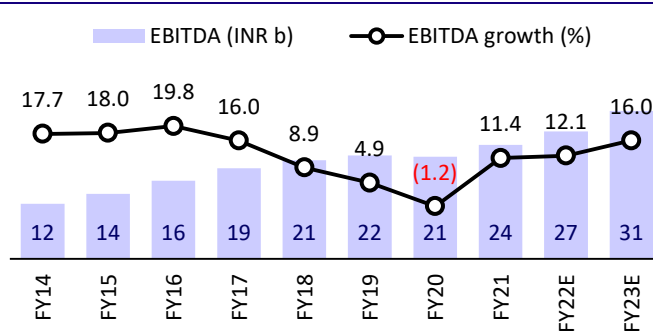
Source: Company, MOFSL

Exhibit 10: Expect 11.1% overall revenue CAGR over FY21–23



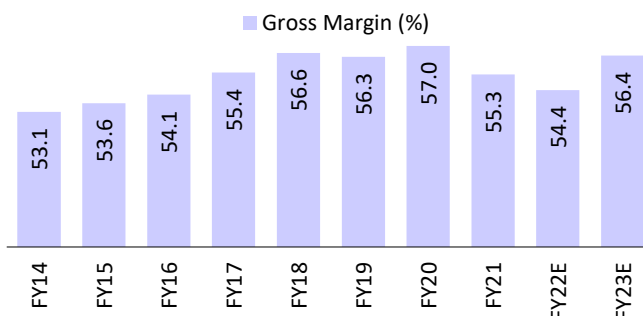
Source: Company, MOFSL

Exhibit 11: Expect 14% EBITDA CAGR over FY21–23



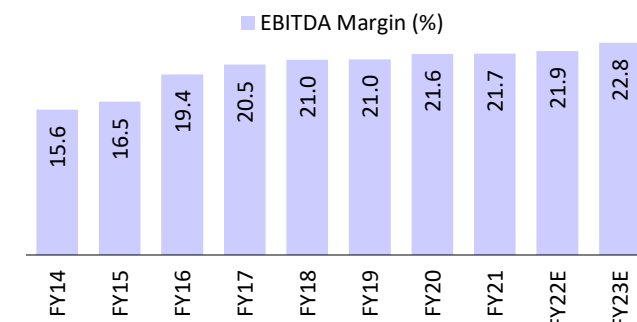
Source: Company, MOFSL

Exhibit 12: Expect improvement in overall gross margin...



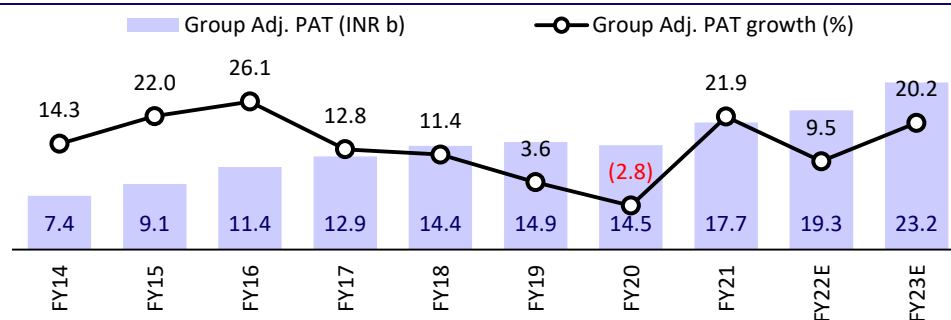
Source: Company, MOFSL

Exhibit 13: ...along with EBITDA margins going ahead



Source: Company, MOFSL

Exhibit 14: Group adjusted PAT to grow 14.7% over FY21–23E



Source: Company, MOFSL

Financials and valuations

Income Statement							(INR b)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E
Net Sales	92.7	98.5	103.1	99.1	110.3	122.0	136.1
Change (%)	10.0	6.3	4.7	-3.9	11.3	10.6	11.5
Gross Profit	51.4	55.7	58.1	56.5	61.0	66.4	76.8
Margin (%)	55.4	56.6	56.3	57.0	55.3	54.4	56.4
Total Expenditure	73.7	77.8	81.5	77.7	86.4	95.3	105.0
EBITDA	19.0	20.7	21.7	21.4	23.9	26.8	31.1
Change (%)	16.0	8.9	4.9	-1.2	11.4	12.1	16.0
Margin (%)	20.5	21.0	21.0	21.6	21.7	21.9	22.8
Depreciation	1.4	1.6	1.7	2.0	2.0	2.1	2.1
Int. and Fin. Charges	1.5	1.6	2.2	2.2	1.3	0.8	0.6
Interest Income	0.4	0.7	0.9	0.8	0.7	0.6	0.9
Other Income-rec.	0.3	0.4	0.2	0.4	0.0	0.4	0.5
PBT	16.9	18.6	18.8	18.4	21.2	24.8	29.7
Change (%)	12.4	10.2	1.4	-2.3	15.4	16.9	19.7
Margin (%)	18.2	18.9	18.3	18.6	19.3	20.3	21.8
Tax	3.7	4.0	4.2	3.8	4.1	5.3	6.3
Deferred Tax	-0.1	0.0	0.2	-0.1	0.5	-0.2	-0.2
Tax Rate (%)	22.5	21.8	20.9	21.4	16.9	22.2	21.9
PAT	13.1	14.5	14.9	14.5	17.7	19.3	23.2
Change (%)	12.3	11.2	2.5	-2.9	22.0	9.5	20.2
Margin (%)	14.1	14.8	14.4	14.6	16.0	15.8	17.1
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Group Adjusted PAT	12.9	14.4	14.9	14.5	17.7	19.3	23.2
Non-rec. (Exp.)/Income	0.0	1.8	8.5	0.5	-0.4	0.0	0.0
Reported PAT	13.1	16.3	23.4	15.0	17.2	19.3	23.2

Balance Sheet							(INR b)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E
Share Capital	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Reserves	52.0	61.6	71.6	78.0	93.4	98.0	104.0
Minority Int	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Networth	53.0	62.6	72.7	79.0	94.4	99.0	105.0
Loans	40.0	35.1	33.8	35.2	7.6	7.2	6.9
Deferred Liability	1.9	1.9	-4.7	-5.7	-6.4	-6.4	-6.4
Capital Employed	94.9	99.6	101.8	108.5	95.6	99.8	105.5
Gross Block	36.3	39.6	42.1	45.2	42.0	45.3	48.5
Less: Accum. Depn.	2.1	3.6	4.6	6.3	4.3	6.4	8.5
Net Fixed Assets	34.2	36.0	37.5	38.9	37.7	38.9	40.0
Capital WIP	1.0	0.8	0.5	0.6	0.6	0.6	0.6
Goodwill	46.6	47.2	49.2	53.4	51.3	51.3	51.3
Non Curr Investments	2.5	1.4	0.3	0.3	0.2	0.2	0.2
Current Investments	6.8	8.6	4.8	6.4	6.6	7.2	6.5
Currents Assets	38.3	44.7	43.8	43.5	39.6	45.2	54.2
Inventory	14.1	15.8	15.6	17.0	17.2	17.7	19.8
Account Receivables	10.3	12.5	12.9	11.6	10.0	11.0	12.3
Cash and Bank Balance	9.1	9.6	8.9	7.7	6.7	10.7	16.4
Loans and Advances	4.5	6.8	6.3	7.1	5.7	5.7	5.7
Other Current Assets	0.2	0.1	0.1	0.1	0.0	0.0	0.0
Curr. Liab. & Prov.	34.5	39.0	34.4	34.6	40.5	43.5	47.2
Account Payables	17.2	23.5	25.4	24.8	21.6	23.7	26.5
Other Liabilities	17.2	15.3	8.7	9.3	18.3	19.2	20.2
Net Current Assets	3.8	5.6	9.4	8.9	-0.8	1.6	7.0
Net Assets	94.9	99.6	101.8	108.5	95.6	99.8	105.5

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2017	2018	2019	2020	2021	2022E	2023E
Basic (INR)							
EPS	12.6	14.1	14.6	14.2	17.3	18.9	22.7
Cash EPS	14.0	15.6	16.2	16.1	19.3	21.0	24.8
BV/Share	51.9	61.2	71.1	77.3	92.3	96.8	102.7
DPS	4.0	4.7	6.7	8.0	10.0	12.0	14.0
Payout (%)	31.6	33.2	45.7	56.5	57.9	63.5	61.6
Valuation (x)							
P/E	86.0	77.2	74.6	76.8	63.0	57.5	47.9
Cash P/E	77.5	69.7	66.9	67.6	56.5	51.9	43.8
EV/Sales	12.3	11.5	11.0	11.5	10.1	9.1	8.1
EV/EBITDA	60.0	54.9	52.4	53.1	46.6	41.4	35.5
P/BV	21.0	17.8	15.3	14.1	11.8	11.2	10.6
Dividend Yield	0.4	0.4	0.6	0.7	0.9	1.1	1.3
Return Ratios (%)							
RoE	24.6	24.9	22.0	19.1	20.4	20.0	22.8
RoCE (Post-tax)	16.2	16.2	16.6	15.4	18.3	20.5	23.0
RoIC	18.6	19.3	19.0	16.9	20.7	23.6	27.7
Working Capital Ratios							
Debtor (Days)	41	46	46	43	33	33	33
Asset Turnover (x)	2.6	2.7	2.7	2.5	2.9	3.1	3.4
Leverage Ratio							
Debt/Equity (x)	0.8	0.6	0.5	0.4	0.1	0.1	0.1

Cash Flow Statement

(INR b)

Y/E March	2017	2018	2019	2020	2021	2022E	2023E
OP/(Loss) before Tax	18.4	20.5	20.4	20.6	23.8	26.5	31.4
Net interest	1.0	0.9	1.4	1.4	0.9	0.1	-0.3
Direct Taxes Paid	-4.3	-4.1	-4.5	-3.6	-4.0	-5.3	-6.3
(Inc)/Dec in WC	3.4	-0.2	0.0	-2.6	-0.5	1.5	0.4
CF from Operations	18.6	17.2	17.3	15.9	20.3	22.8	25.1
Inc in FA	-1.8	-3.1	-2.1	-1.5	-1.6	-3.3	-3.3
Free Cash Flow	16.8	14.1	15.2	14.4	18.7	19.6	21.9
Pur of Investments	-5.7	0.4	2.9	-2.6	-0.1	-0.6	0.7
Others	-16.0	-0.2	1.6	0.0	-1.3	0.5	0.7
CF from Investments	-23.6	-2.9	2.4	-4.2	-3.1	-3.4	-1.8
Inc in Debt	0.0	0.0	0.0	-1.3	-16.2	-0.4	-0.4
Dividend Paid	-2.0	-6.1	-12.3	-8.2	0.0	-14.7	-17.2
Interest Paid	-1.2	-1.6	-2.1	-1.5	-1.6	-0.8	-0.6
Other Item	9.8	-6.1	-6.0	-2.0	-0.4	0.4	0.5
CF from Fin. Activity	6.6	-13.8	-20.4	-13.0	-18.2	-15.4	-17.6
Inc/Dec of Cash	1.7	0.5	-0.7	-1.2	-1.0	4.0	5.7
Add: Beginning Balance	7.5	9.1	9.6	8.9	7.7	6.7	10.7
Closing Balance	9.1	9.6	8.9	7.7	6.7	10.7	16.4

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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