

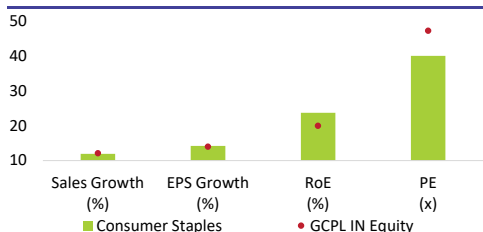
GODREJ CONSUMER

COMPANY UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	923
12 month price target (INR)	1,180
Market cap (INR bn/USD bn)	944/12.4
Free float/Foreign ownership (%)	36.8/26.8
What's Changed	
Target Price	—
Rating/Risk Rating	—

INVESTMENT METRICS

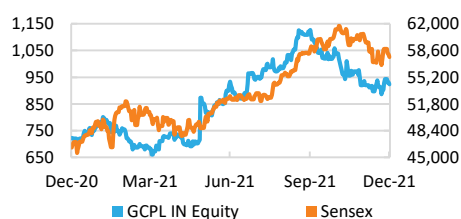


FINANCIALS

(INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Revenue	1,10,286	1,23,573	1,39,271	1,53,398
EBITDA	23,883	26,568	30,918	35,128
Adjusted profit	17,653	20,112	24,139	28,000
Diluted EPS (INR)	17.3	19.7	23.6	27.4
EPS growth (%)	11.9	13.9	20.0	16.0
RoAE (%)	19.9	19.9	20.9	21.2
P/E (x)	53.8	47.2	39.3	33.9
EV/EBITDA (x)	39.5	35.1	29.7	25.7
Dividend yield (%)	0	0.7	0.9	1.0

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

Growth drivers in place

The Godrej Consumer (GCPL) stock has corrected about 17% from its peak. We had earlier highlighted GCPL would have a weak Q2FY22 performance in India HI, Indonesia and margins. However we believe most of these issues are transitory. GCPL will benefit from: i) recovery in demand for personal care led by rising mobility; ii) rising dengue cases, which could drive HI business, but watch out for a harsh winter; and iii) strong performance in the Africa business while corrective actions in Indonesia (aided by soft base) should also help.

We continue to be positive on the impact of the new MD & CEO, Mr. Sudhir Sitapati. Maintain 'BUY' with a TP of INR1,180.

Decoding the correction

Four reasons for the recent correction include i) In Q2FY22, Home care sales delivered muted growth of 5% YoY, due to a soft performance of HI impacted by extreme weather conditions. ii) Dabur entered liquid vaporisers. iii) Indonesia Sales saw a decline of 2% YoY due to company specific, macro-economic challenges. iv) Inflationary raw materials led to gross margin dip of 616bp while EBITDA margin dipped 201bp in Q2FY22.

New Leadership; growth drivers ahead

Mr. Sudhir Sitapati, new MD & CEO, comes with 22 years' experience at Unilever. HUL's systems and processes are a gold standard, and GCPL will benefit from his experience. His top five priorities could, in our view, include: i) Tackle illegal HI players and ramp-up more disruptive innovations in HI. ii) Dial up presence in salons to gain share from L'Oréal in urban India. iii) Close white spaces in health & hygiene. iv) GCPL is still under-indexed in rural. v) Drive more aggression on field, analytics and automation. The focus on bottom-of-pyramid products in HI will help recruit new consumers. New innovations in the HI segment including Jumbo Fast Card will aid revenue growth. Scale up of the personal repellent portfolio is likely too as out-of-home consumption comes back.

Outlook and valuation: Just a blip; maintain 'BUY'

GCPL has the right triggers in place to lead the next leg of growth in spite of a disappointing Q2FY22. Growing demand for personal care and the improving penetration and non-mosquito repellent awareness will help the company. Both home and personal care portfolios continue to see strong innovations at disruptive price points. A few recent examples are Jumbo Fast Card, a slew of launches under the Protekt brand, shampoo hair colour, powder-based hand wash, henna-based hair colour and natural neem incense sticks. Indonesia is likely to gradually recover, whereas Africa continues to perform well.

GCPL's domestic business remains on a good trajectory as management has been taking corrective actions. We retain 'BUY/SO' with a TP of INR1,180.

Financial Statements

Income Statement (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Total operating income	1,10,286	1,23,573	1,39,271	1,53,398
Gross profit	60,992	68,583	77,992	86,516
Employee costs	11,233	12,481	13,927	15,186
Other expenses	18,544	20,637	23,119	25,311
EBITDA	23,883	26,568	30,918	35,128
Depreciation	2,039	2,149	2,259	2,369
Less: Interest expense	1,266	851	792	662
Add: Other income	671	811	1,393	1,843
Profit before tax	20,804	24,379	29,260	33,939
Prov for tax	3,595	4,266	5,120	5,939
Less: Other adj	0	0	0	0
Reported profit	17,208	20,112	24,139	28,000
Less: Excp.item (net)	445	0	0	0
Adjusted profit	17,653	20,112	24,139	28,000
Diluted shares o/s	1,022	1,022	1,022	1,022
Adjusted diluted EPS	17.3	19.7	23.6	27.4
DPS (INR)	0	6.9	8.3	9.6
Tax rate (%)	17.3	17.5	17.5	17.5

Important Ratios (%)

Year to March	FY21A	FY22E	FY23E	FY24E
Other exp (% of rev)	16.8	16.7	16.6	16.5
Con A&P (% of rev)	6.6	7.2	7.2	7.1
Gross margin (%)	55.3	55.5	56.0	56.4
EBITDA margin (%)	21.7	21.5	22.2	22.9
Net profit margin (%)	16.0	16.3	17.3	18.3
Revenue growth (% YoY)	11.3	12.0	12.7	10.1
EBITDA growth (% YoY)	11.4	11.2	16.4	13.6
Adj. profit growth (%)	11.9	13.9	20.0	16.0

Assumptions (%)

Year to March	FY21A	FY22E	FY23E	FY24E
GDP (YoY %)	(8.0)	9.0	7.0	7.0
Repo rate (%)	4.0	4.0	4.3	5.3
USD/INR (average)	75.0	73.0	72.0	71.0
Dom soaps growth	15.3	12.4	11.2	11.2
Dom hair color growth	2.4	10.3	12.2	12.2
Dom home care growth	15.7	24.3	12.2	11.2
Intl business growth	8.0	9.3	9.6	9.6
COGS % of sales (con)	44.7	44.5	44.0	43.6
Staff cost (% of rev)	10.2	10.1	10.0	9.9

Valuation Metrics

Year to March	FY21A	FY22E	FY23E	FY24E
Diluted P/E (x)	53.8	47.2	39.3	33.9
Price/BV (x)	10.1	8.8	7.7	6.7
EV/EBITDA (x)	39.5	35.1	29.7	25.7
Dividend yield (%)	0	0.7	0.9	1.0

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Share capital	1,023	1,023	1,023	1,023
Reserves	93,367	1,06,440	1,22,130	1,40,330
Shareholders funds	94,389	1,07,462	1,23,153	1,41,352
Minority interest	0	0	0	0
Borrowings	7,595	6,595	5,595	4,595
Trade payables	21,596	28,625	31,899	34,815
Other liabs & prov	11,264	11,264	11,264	11,264
Total liabilities	1,36,060	1,55,162	1,73,126	1,93,242
Net block	12,102	13,715	13,956	14,087
Intangible assets	76,946	76,946	76,946	76,946
Capital WIP	574	1,500	1,500	1,500
Total fixed assets	89,622	92,160	92,401	92,532
Non current inv	219	219	219	219
Cash/cash equivalent	13,294	22,997	36,631	52,956
Sundry debtors	10,045	15,235	17,170	18,912
Loans & advances	298	298	298	298
Other assets	21,339	23,009	25,162	27,081
Total assets	1,36,060	1,55,162	1,73,126	1,93,242

Free Cash Flow (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Reported profit	17,208	20,112	24,139	28,000
Add: Depreciation	2,039	2,149	2,259	2,369
Interest (net of tax)	1,266	851	792	662
Others	5,191	4,266	5,120	5,939
Less: Changes in WC	(1,812)	169	(815)	(744)
Operating cash flow	20,296	23,282	26,375	30,287
Less: Capex	(2,500)	(3,000)	(3,426)	(2,500)
Free cash flow	17,796	20,282	22,950	27,787

Key Ratios

Year to March	FY21A	FY22E	FY23E	FY24E
RoE (%)	19.9	19.9	20.9	21.2
RoCE (%)	21.7	23.4	24.8	25.2
Inventory days	127	119	119	120
Receivable days	36	37	42	43
Payable days	172	167	180	182
Working cap (% sales)	5.2	12.4	21.3	30.5
Gross debt/equity (x)	0.1	0.1	0	0
Net debt/equity (x)	(0.1)	(0.2)	(0.3)	(0.3)
Interest coverage (x)	17.3	28.7	36.2	49.5

Valuation Drivers

Year to March	FY21A	FY22E	FY23E	FY24E
EPS growth (%)	11.9	13.9	20.0	16.0
RoE (%)	19.9	19.9	20.9	21.2
EBITDA growth (%)	11.4	11.2	16.4	13.6
Payout ratio (%)	0	35.0	35.0	35.0

Exhibit 1: Trends at a glance

GCPL Trends	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Revenue (INR)	26,082	27,551	21,327	23,112	28,939	30,253	27,057	28,628	31,637
EBITDA (INR)	5,719	6,313	4,765	4,727	6,844	7,112	5,748	6,111	6,792
PAT (INR)	4,139	4,452	2,299	3,949	4,580	5,021	3,658	4,137	4,803
Domestic volume growth %	7.0	7.0	(15.0)	3.0	5.0	7.0	29.0	15.0	4.0
Net sales - domestic %	0.9	0.7	(17.9)	5.0	11.0	11.2	34.6	19.0	10.0
- Soaps*	(4.0)	(3.9)	(23.5)	(2.0)	18.0	14.9	41.2	17.0	12.0
- Hair colors	2.0	(3.7)	(23.4)	(17.7)	(5.0)	14.2	25.2	-	-
- Household Insecticides#	4.0	3.2	(16.3)	26.5	4.0	7.3	33.9	21.0	7.0
- Others	6.9	4.7	(11.0)	(14.6)	14.6	10.6	26.5	-	-
Net sales - consol growth%	(1.2)	2.4	(11.9)	(1.2)	11.1	10.2	26.8	24.4	8.5
International sales growth %	4.0	3.0	(4.8)	(9.1)	11.6	9.1	19.8	30.6	7.2
Indonesia sales growth %	17.1	13.0	8.7	8.9	4.7	(0.2)	4.9	1.5	1.0
GAUM sales growth %	(6.0)	(1.0)	(16.0)	(22.3)	10.3	14.7	30.2	58.8	15.0
Others (LATAM and SAARC) sales growth %	24.0	(3.0)	1.5	(3.7)	40.6	11.2	31.5	26.2	(3.0)
Advertisement as % of sales	8.1	7.4	5.9	4.5	7.2	7.5	7.0	5.1	6.0

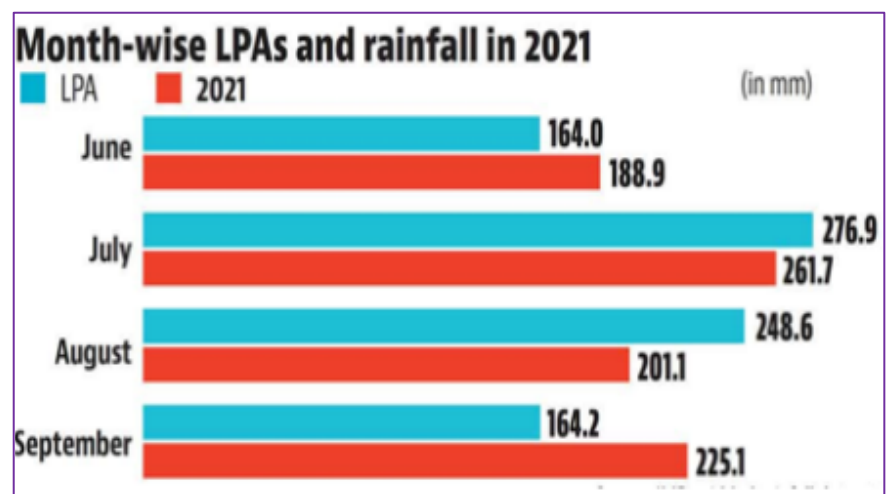
Source: Company

Decoding the correction: Four key reasons in our view

Godrej consumer (GCPL) stock has seen a correction of around 9% from the peak. We had highlighted GCPL would have a weak Q2FY22 performance in India HI business, Indonesia businesses and consolidated margins.

Household Insecticide moderates: In Q2FY22, Home care segment delivered a muted growth of only 5% YoY, due to soft performance of household insecticides and hygiene portfolio. The hygiene portfolio saw a moderation as sentiments improve with the strong vaccination pace. However the company has created strong brands in this space like Saniter. The HI segment was impacted due to extreme rainfalls. August saw very little rainfall in India, whereas September recorded very high rainfall—neither's good for HI as mosquitos don't thrive in such extreme weather conditions.

Exhibit 2: Rainfall LPA data



Source: IMD data

GCPL has seen strong performance in the HI segment over the last five quarters. Q2FY22 is an aberration and is not indicative of a trend. HI, one of the most important products for GCPL, has been a key interest area for investors over the past three years (GCPL's India HI business recorded a YoY sales dip in three out of ten quarters over Q4FY19–Q1FY22). However, since then, the past five quarters (including Q1FY22) have marked a commendable recovery with positive growth in all quarters—Q1 and Q4 of FY21 and Q1FY22 turned in explosive growth. In Q1FY22, GCPL turned in double-digit sales growth of ~21% in the India HI business (on a high base of 26%), which is impressive in a quarter of massive disruption due to the second covid wave. GCPL has, throughout years, come up with good quality products under the Goodknight brand and has been on the forefront of innovation. In spite of being the market leader and 10x the size in HI of Jyothy Labs, GCPL has done well to sustain reasonably high growth.

Dabur becomes more aggressive in HI segment: Odomos market share in the personal application cream market is almost 62% and company has been increasing market share here. Odomos has increased its market share by around 120bps YoY in Q2FY22. **Dabur is also entering into all sub-segments of HI with the same Odomos brand. The company has now gotten into liquid vapouriser and will also enter sprays in the future. Management is determined to roll out the new Odomos products across channels and not just on e-commerce.**

One of the key differentiator for the liquid vaporiser, keeping in line with the Odomos brand, is less chemicals and there will be a natural additive added in the liquid. Dabur is a strong FMCG brand with good brand equity and experience and can put up some level of competition to GCPL. However GCPL continues to have a strong play here with more experience and innovation.

Exhibit 3: A comparison of HI products' pricing

Liquid Vapouriser	Pack of 6		Pack of 3	
	45 ml refill	INR per 100 ml	45ml refill	INR per 100 ml
Odomos	382	145	199	145
Goodknight Active +	432	160	216	160
Goodknight Goldflash	474	176	237	176
Goodknight naturals	534	198	267	198
Fabric roll on	8ml pack	INR per 10 ml	30ml pack	INR per 10 ml
Odomos	75	94		
Goodknight	75	94	300	100

Source: Edelweiss Research

Note: Prices may vary across ecommerce sites and with discount offers in place

Exhibit 4: Dabur forays into liquid format



Source: Company

Indonesia affected due to company-specific and macro-economic issues: Indonesia business continued to be soft with a decline of 2% YoY in revenue in constant currency terms as company specific and macro-economic challenges continued on that region. Indonesia business was impacted due to the macro economic conditions and the pandemic impact rather than any structural issue with the business.

Exhibit 5: Indonesia business trends

Indonesia	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Revenue (INR mn)	3950	4130	3721	4250	4480	4490	4050	4460	4470	4711	4115	4449
Revenue growth %	8.5	19.7	5.4	17.1	13.4	8.7	8.9	4.9	-0.2	4.9	1.6	-0.2
EBITDA (INR mn)	909	1280	882	1020	1102	1482	956	1151	1118	1649	946	1161
EBITDA growth %	-0.2	37.4	13.5	17.1	21.3	15.7	8.4	12.8	1.4	11.3	-1	0.9
EBITDA margin	23	31	23.7	24	24.6	33	23.6	25.8	25	35	23	26.1

Source: Company

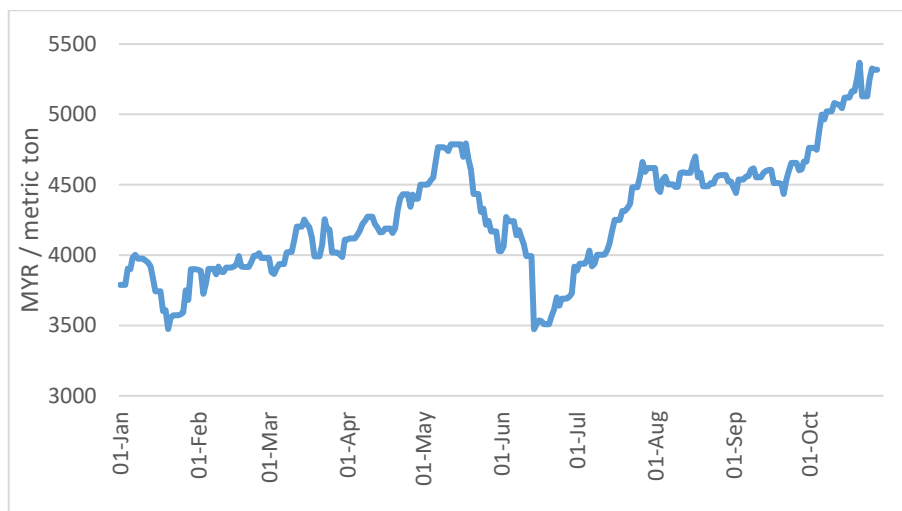
Exhibit 6: GCPL Indonesia major products



Source: Company

Unprecedented inflation: Gross and EBITDA margins dipped 616bps and 201bps respectively in Q2FY22. The quarter saw unprecedented inflation with prices reaching 10-20 year high levels. Every company in the FMCG space has seen margins get impacted and this is not a reflection of the underlying business strength of the company

Exhibit 7: Palm oil has been inflationary since the onset of 2021



Source: Edelweiss Research

Exhibit 8: Margin change at FMCG companies over 1 and 2 years

Margin change (bps)	1 year change		2 year change	
	Gross margin	EBITDA margin	Gross margin	EBITDA margin
Asian Paints	-966	-1090	-769	-616
Bajaj consumer care	-675	-517	-750	-600
Berger Paints	-449	-333	-270	70
Britannia	-485	-428	-310	-60
Colgate	-130	-221	210	320
Dabur	-204	-60	-200	-10
Emami	-150	15	-90	-590
Godrej Consumer	-616	-201	-677	-28
Hindustan Unilever	-153	-42	-300	-14
ITC	-16	10	-440	-280
Marico	-556	-207	-710	-180
Nestle	-239	-86	-185	76
Pidilite	-1054	-634	-800	50
Tata Consumer Products	-194	-74	-210	80
United Spirits	-207	190	-80	-220

Source: Company, Edelweiss Research

Growth drivers



Mr. Sudhir Sitapati, MD, GCPL

A new MD finally. What could be his priorities?

Mr. Sudhir Sitapati has been appointed GCPL's MD & CEO for five years with effect from October 18, 2021). He has a diversified 22-years' experience in Foods, Skin Cleansing and Laundry at Unilever. **We had met him at HUL's analyst meets, and are impressed with his thought process, marketing & sales acumen, and leadership skills.** HUL's systems and processes are a gold standard for the sector and GCPL will benefit from his experience. The GCPL stock has underperformed many other consumer names over the past few years and we expect this to potentially reverse under the leadership of Mr. Sitapati.

His top priorities could include: i) Tackle illegal HI players and ramp up more disruptive innovations in HI. ii) Dial up presence in salons to gain share from L'Oréal in urban India. iii) Close white spaces in health & hygiene. iv) GCPL is still under-indexed in rural. v) Drive more aggression on field, analytics and automation

GCPL is the leader in India's hair colour market. Under the new leadership, the company needs to dial up presence in salons in grey covering and fashion colour segments. L'Oréal has gained market share in urban markets due to its dominance in 70% of urban salon market. But L'Oréal's portfolio is skewed to more premium products. GCPL has the advantage of having presence across price points and as the pioneer of the category in India. GCPL has been upgrading its portfolio over the past few years. It was the first to launch a hair-colour crème in a sachet at a market disruptive price, forcing competitors to try and play catch-up with me-too offerings.

HUL and Reckitt dominate most of the segments in health & hygiene. Although GCPL is a late entrant in some of these segments, it has an opportunity to become a relevant player. The company is sharpening focus on the health & hygiene segment by launching many products. The hygiene trend is very broad based whether it is on hand wash, soap, disinfectants, sprays, and toilet cleaners.

GCPL is relatively under indexed in rural India at 28% vs peers. Also it has 46% of its sales from outside India

Exhibit 9: Rural-Urban split

% of sales	Rural	Urban
Bajaj consumer care	37.0	63.0
Britannia	40.0	60.0
Colgate	40.0	60.0
Dabur	45.0	55.0
Emami	50.0	50.0
GCPL	28.0	72.0
Jyothy Laboratories	40.0	60.0
Marico	31.0	69.0
Nestle	25.0	75.0

Source: Company

Rising dengue cases to create demand for HI segment

As India battles the deadly COVID-19 virus, Dengue cases are also rising in the country rapidly. Several states in India are currently experiencing a steady rise in Dengue cases. Rajasthan, Haryana and Tamil Nadu have been reporting spike in dengue cases recently.

As per PMC's (Pune) Health Department data, dengue cases are rising in Pune, with the city reporting 72 positive dengue cases only in the first 18 days in November. Moreover, Pune reported 27 confirmed chikungunya cases in the same period. PMC official Dr Sanjeev Wavare said, "Unless the temperature drops, it is unlikely that the number of dengue and chikungunya cases might go down."

Karnataka is also seeing spike in cases recently and has left its health department worried and hunting for ways to curb the rise. The state had recorded 2,987 dengue cases till September this year. However, after heavy and untimely rains, a total of 2,516 new cases were recorded till November 17 from September.

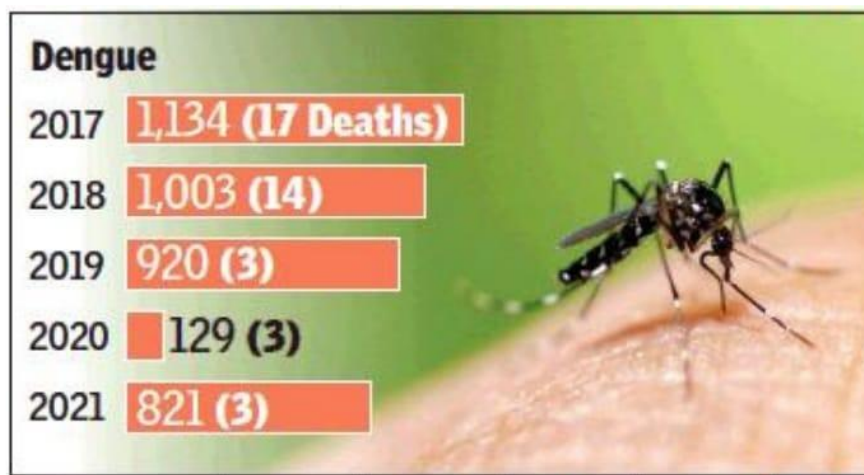
This is bound to cause strong demand for HI products and GCPL is well placed to receive major demand due to its brand name and marketing around mosquito born diseases. The company has ads, social media posts and webpages dedicated to dengue and prevention

Exhibit 10: Goodknight dengue related marketing



Source: Company

Exhibit 11: Dengue cases in Mumbai



Source: News articles

Strong innovations to help drive growth

GCPL has been in the forefront of coming out with strong innovation at disruptive prices. In HI segment, Fast Card saw good response and the new Jumbo Flash also helped gain share from unorganised segment, as it is in the same burning format and is also very effective. GCPL has launched Goodnight Gold Flash in the liquid vaporizer format, Smart spray and Neem spray in the aerosols format. Consumers have begun to prioritize natural and eco-friendly products. According to a McKinsey India consumer survey, 49% of consumers want brands to do more on natural and eco-friendly products. Goodnight Neem can immensely benefit from this trend and push back harmful chemicals-based illegal incense stick players.

In Air fresheners, Aer power pocket continues to perform well post relaunch. Expert Rich Crème continues to perform well driven by strong marketing campaigns and influencer programmes for advocacy. Expert Easy 5 Minute Shampoo Hair Colour is scaling up well and the company launched a digital campaign with Saif Ali Khan.

Apart from these a slew of launches under the Protekt brand, shampoo hair colour, powder-based hand wash, henna-based hair colour and natural neem incense sticks, have all seen good response and helped tackle competition.

Exhibit 12: Innovations in HI segment



Source: Company

Renewed focus on bottom-of-pyramid and high-efficacy HI products

GCPL has an overall market share of ~50% in HI with a much higher market share at the premium-end (electric and almost 90% market share in aerosol) than at lower end (burning format). As the market leader thereof, it is very important for GCPL to be aggressive across market spectrum.

Its natural incense stick, which was a bet against the illegal incense, suffered over the past few years as they proved to be relatively less efficacious and hence GCPL was not able to effectively compete against illegal incense sticks. The company recently launched Jumbo Fast Card in the burning format to tackle incense sticks. The new product has high efficacy with active molecule ingredients. This is well suited to tackle incense sticks market as the consumers here are more concerned about the effectiveness about the product. The delivery is also through burning format which is convenient for this set of consumers. This product will help recruit new set of customers who can be then gradually be moved into electric format.

Exhibit 13: Goodknight Jumbo flash card



Source: Company

Personal care segment to see strong demand

The company has a strong portfolio in the personal care space with brands like Cinthol, Godrej expert and Protekt. Hair colour is largely back to pre-covid levels. Company in Q2FY22 has continued to gain market share in soaps. The improving mobility and pent up demand will help boost sales for personal care portfolio and GCPL with its strong brands and distribution (company is also looking to improve presence in saloons), in the segment will benefit significantly. Personal care in Q2FY22 grew by 10% YoY and will continue to see double digit growth in H2FY22 due to improved mobility and festive season. The company is also looking to improve performance in herbal-based hair care products, as the pandemic has helped demand for more natural based products.

Personal repellent could do well post-pandemic

In other markets, personal repellent tends to be 25% to 30% saliency. In Indonesia, it is ~30% saliency while in India it is ~4% saliency. For the five quarters (Q1FY20 to Q1FY22) in India due to the pandemic, this segment has seen a big adverse impact due to confined living (this demand would come back though once schools and offices open up). In Q2FY22 the company continued to scale up the personal repellent portfolio as mobility improved.

Long-term opportunity in Africa

GCPL recently had a very successful launch in Nigeria in FY21 in household insecticides. With its overall Africa business doing very well, we see a decent probability of long-term success there.

Exhibit 14: Africa business trends

GAUM	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Revenue (INR mn)	6800	5760	5623	5910	6790	4840	4370	6520	7790	6304	6942	7485
Revenue growth %	13.7	11.4	-0.3	-6.0	-0.1	-16.0	-22.3	10.3	14.7	30.2	58.9	14.8
EBITDA (INR mn)	952	634	669	709	828	194	-79	743	1059	637	639	846
EBITDA growth %	13.7	-5.7	-8.7	25.3	-13.0	-69.4	NM	4.8	27.9	228.9	NM	13.8
EBITDA margin	14.0	11.0	11.9	12.0	12.2	4.0	-1.8	11.4	13.6	10.1	9.2	11.3

Source: Company

Indonesia long-term opportunity remains strong

GCPL's structural story remains strong in Indonesia. GCPL's Saniter brand continues to be one of the top in the category for the country. GCPL has a 90% market share in mat vaporizers and 50% market share in liquid vaporizers, in Indonesia, making it the market leader in the HI segment. The company is focused on democratisation and premiumization in this market. It is pushing electrical format and also accelerating the non-mosquito segment, and it gained 50–100bps market share in HI in Q2FY22, in Indonesia.

Hygiene category shows an optimistic growth trend in Indonesia; the Saniter brand contributes close to 10% of category revenue in Indonesia now, and holds almost 50% market share, ahead of Dettol. The country also has huge opportunity in air fresheners which have just 30% penetration. GCPL Hygiene brands will gain consumers' trust as consumers re-evaluate brands with the new launches. Indonesian government has initiated good reforms and it will see much better growth in FMCG once macro issue resolves.

Margins on recovery path

The company will be taking more hikes as needed going ahead to combat inflation. There will also be a seasonal shift in category mix in Q3FY22. Management believes the liquid detergents will help push the gross margins. Company has also been relatively bolder in terms of price hikes for Soaps category as the inflation was heavier here. Management has said in the Q2FY22 conference call that Soaps gross margins will continue to move up. Household insecticides segment saw the least inflation barring metals which impacts aerosol format products. The company has taken price hikes here also to mitigate any inflation impact. Overall the management believes that there will be some pressure on margins in Q3FY22 but Q4FY22 is expected to be much better. The recent fuel price cuts will help to ease freight cost pressures across industry.

Driving sales force and analytics

The company is automating salesforce with handheld devices both domestically and in its international business. The company has come up with the Quest mobile app with an aim to enable rural salesmen in India with technology. The app guides sales force to priority villages. The company has also partnered with emerging players in eB2B space to reach villages with population below 3000. Apart from improving reach, the company has used analytics to segment micro-markets for each brand and thereby prioritize the marketing and distribution efforts better. The company is also updating its supply chain with low cost digital automation and integrating more closely with suppliers.

Outlook and valuation: Ready to take off; maintain 'BUY'

GCPL's strategy of launching innovative products at disruptive price points is set to bolster growth amid tough macroeconomic conditions. A few recent examples are launches in the Jumbo fast card, liquid vaporizer segment, a slew of launches under the Protekt brand, shampoo hair colour, powder-based hand wash, heena-based hair colour and natural neem incense sticks, among others.

Domestic margin, albeit under pressure in the near term on account of inflationary raw materials, is expected to gain from supply-chain efficiencies led by Project PI. GCPL has guided for several cost-saving measures (Project Iceberg in Argentina, Project Cermatin Indonesia, Project Symphony in Chile), which are likely to boost IB margin. Besides, the company's focus on improving distribution productivity and reach (by deploying more sales force, among other steps), will lend impetus to profitability. Recognising the dynamic sales channel mix may also keep GCPL ahead of the curve.

GCPL's domestic business is continuing its robust trajectory as management continues to take corrective actions. Growth in IB coupled with margin expansion will be key going ahead. We retain **'BUY/SO'** with a TP of INR1,180

Company Description

GCPL is a major player in the soap, household insecticides and hair colour categories in the Indian FMCG market. It is a leader in household insecticides range. It is also a leader in the hair colour category and has a vast product range across various price points. It is the second-largest soap marketer after Hindustan Unilever (HUL) and primary brands such as Godrej No. 1 and Cinthol. To expand its geographical presence, GCPL had made few acquisitions in the past few years. With acquisition of Darling Group - leader in hair extension in Africa, in Africa GCPL further strengthened its stronghold in the continent. GCPL also has presence in Indonesia and Latin America.

Investment Theme

GCPL boasts of patented technology that has helped it drive usage of hair colours at the lower end of the market. In soaps, the company provides high-quality value for-money soaps with its Godrej No1 which has helped it garner larger market share and plays the premiumisation strategy with its Cinthol range. GCPL is the undisputed leader in the household insecticides space across three categories and continues to expand the market with innovations. GCPL's international acquisitions are driving benefits from cross pollination of products and technology. The company can be expected to benefit from its new ventures, increasing consumer spending and margin expansion in those ventures.

Key Risks

A slowdown in rural demand due to lower government spending or a monsoon failure could impact GCPL's revenues significantly.

Depreciating INR, Indonesian rupiah and Argentine Peso can impact profitability.

GCPL's ability to gain market share in its soap segment could be adversely affected by the aggression of HUL, ITC, Wipro, etc

Additional Data

Management

MD and Chairperson	Ms. Nisaba Godrej
CFO	Mr. Sameer Shah
Non-Executive Director	Mr. Pirojsha Godrej
Non-Executive Director	Mr. Jamshyd Godrej
Auditor	B S R & Co, LLP

Holdings – Top 10*

	% Holding		% Holding
First State Inv	3.05	St James Place	1.13
Temasek Holding	2.46	Mitsubishi Ufj	0.88
First Seniter G	2.44	Kotak Mahindra	0.80
Blackrock	1.20	Dsp Investment	0.44
Vanguard Group	1.19	T Rowe Price Gr	0.38

*Latest public data

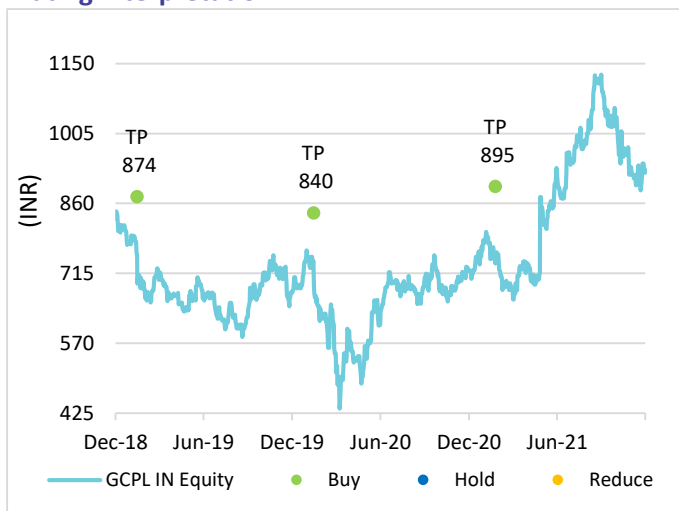
Recent Company Research

Date	Title	Price	Reco
11-Nov-21	Weak showing; over to new MD; <i>Result Update</i>	951	Buy
18-Oct-21	HI: Only a short-term damper; <i>Company Update</i>	1039	Buy
27-Sep-21	Indonesia robust in medium term; <i>Company Update</i>	1042	Buy

Recent Sector Research

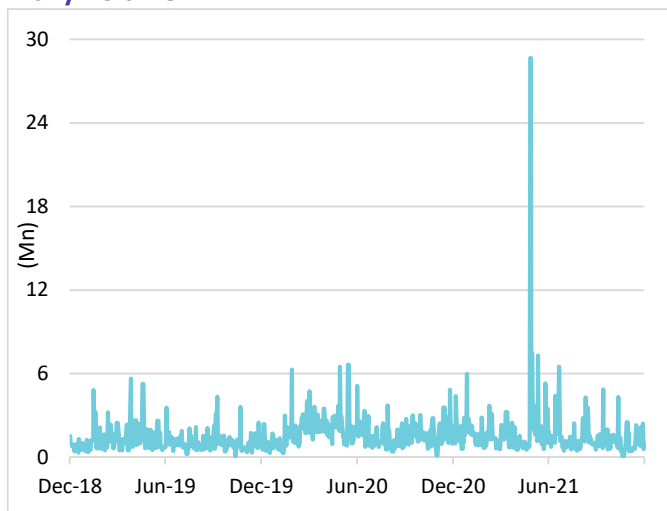
Date	Name of Co./Sector	Title
17-Nov-21	Consumer Staples	Growth metrics: Decoding pecking order; <i>Sector Update</i>
15-Nov-21	Tata Products Consumer	A new feather in its cap; <i>Edel Flash</i>
11-Nov-21	Consumer Staples	Alco-Bev: Decoding the cocktail; <i>Sector Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	187	52	18	258
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	235	39	3	277

*1 stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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