

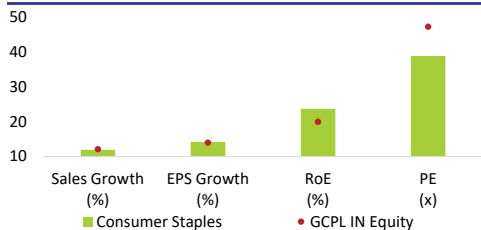
GODREJ CONSUMER

COMPANY UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	891
12 month price target (INR)	1,180
Market cap (INR bn/USD bn)	911/12.0
Free float/Foreign ownership (%)	36.8/26.8
What's Changed	
Target Price	—
Rating/Risk Rating	—

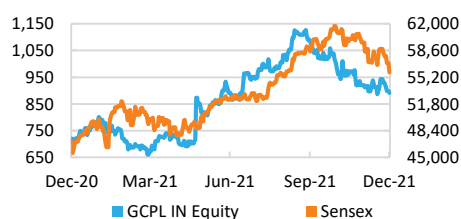
INVESTMENT METRICS



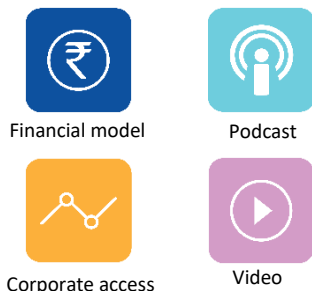
FINANCIALS

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:



Penetration-led volume growth

Godrej Consumer (GCPL) held an analyst meet wherein MD Mr. Sudhir Sitapati made a presentation detailing his strategic vision for the company. The key focus will be to improve penetration in HI and hair care, and drive double-digit volumes. He believes the company already has the right portfolio and needs to do more to drive penetration in these categories rather than thinking about many new launches or categories. Innovations will be few but big going ahead. The company would also delink media investment from short-term goals.

We are very positive on the enthusiasm and rigour of the new MD. Maintain 'BUY' with a TP of INR1,180

Key highlights

- Over long term, the company aspires for consistent double-digit underlying volume growth led by penetration gains in 50% of portfolio and moderate share gain in the rest.
- The company is targeting 150–200bp EBITDA margin expansion in next few years, fuelled by improving gross margins and reducing overheads and non-media ATL.
- The company has set up three global category teams for Hair colour, Hair care and HI. But market development is still localised for the three categories. These three categories tend to be more global; hence the new structure.
- Growth will come from doing well in existing products and markets for the next five year, then the company will look at other categories. Disruptive innovation will drive 10% of growth. R&D continues to be global.
- One weakness of GCPL has been its inability to drive category development. Companies have generally plateaued after reaching 25% population due to fear of downtrading.

Outlook and valuation: Positive signs; maintain 'BUY'

The new MD has been very candid in exploring the weaknesses and charting the areas of focus for the future. We are positive on the ability of the new MD. GCPL has a strong portfolio with quality products in each category that will make it easier to drive penetration. GCPL also 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 portfolio continue to see strong innovations at disruptive price points.

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

Key focus areas

- Over the longer term, aspires for consistent double-digit underlying volume growth led by penetration gains in 50% of portfolio and moderate share gain in the rest.
- The company is aiming for 150–200bp EBITDA margin expansion over the next few years. This will be fuelled by improving gross margins and reducing overheads and non-media ATL.
- Aiming to move into moderate volume growth in FY23, good GM recovery and moderate EBITDA recovery. Will see low volume and high price growth in H2FY22, along with high GM dilution. There will be a slowdown in the rate of upgradation and adoption, if not downtrading, due to inflation.
- The company will focus on fewer but bigger innovation and focus on fewer SKUs. The company has good portfolio and now the focus should be on developing the market for it, rather than launching new products.
- Will choose consumer investment versus margins in the short term. The company will delink media investment from short-term goals.
- Three global category teams have been set up for Hair colour, Hair care and HI. But market development is still localised for the three categories. These three categories tend to be more global, hence the new structure.
- Growth will come from doing well in existing products and markets for the next five years, then the company will look at other categories.
- Awareness is important for driving penetration up to 5%, after which distribution and trial is important till 20%. Between 20% and 60% penetration, the company must focus on relevance to customer and accessibility. The bulk of ad spend is needed at this stage. After 60% penetration, efficiency and remaining top-of-mind is important.
- India HI: Indonesia has 2.5x more HI per capita consumption than India. There is also a lot of opportunity to upgrade HI into aerosols. Non- mosquito, aerosol and electric format in HI have good opportunity to grow. Improving awareness, backing Jumbo Fast Card and developing market for liquid format will help combat illegal incense sticks.
- Disruptive innovation will give 10% of growth. R&D continues to be global.

Areas of improvement

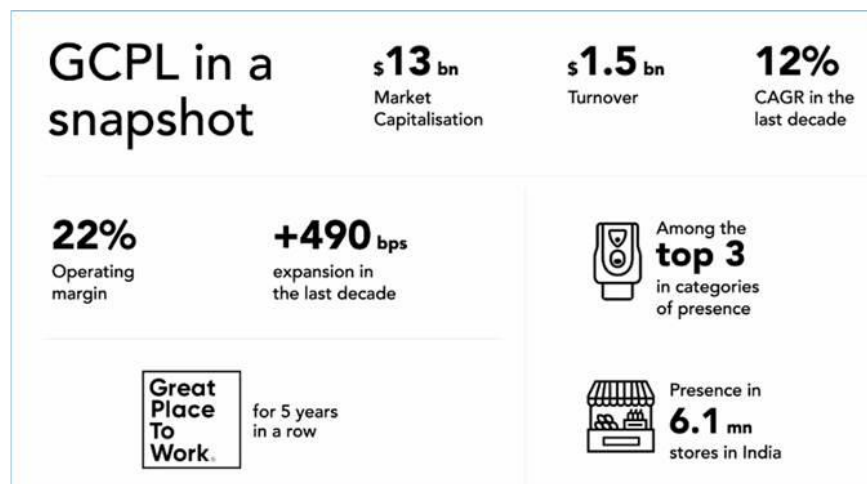
- GCPL could have invested more into the wipes business in Indonesia.
- GCPL fixed costs are 1.7x of top three peers; there is not enough automation and ad spends.
- The company needs to reduce complexity in process such as KPI, doing many new lines etc. This reduces focus on core and increases inventory.
- One weakness has been the inability to drive category development. Companies have generally plateaued after reaching 25% of population due to fear of downtrading.
- The company needs to collaborate better and take learnings to all markets. GCPL needs to be better at moving insights and category development techniques across markets.

- E-commerce business for India is fairly good while rest of world can improve.
- Indonesian economic slowdown will have short-term impact. Sanitiser volumes have been falling with improving mobility.

Others highlights

- Whenever the company has focused, it has succeeded well—like in Soaps in India. There is lot of opportunity to develop hair colour and hair fashion market. All GCPL categories are under penetrated in India, and they will see more than linear growth. GCPL has strong in-market distribution, and is more urban centric. Rural distribution will be driven by improving demand first; hence the focus here is on market development.
- In the short term, inflation across crude, tin and palm oil is a major pressure.
- Africa and LATAM businesses have turned around.
- GCPL has been consistent with strong innovation and commitment to quality.
- GCPL has a frugal cost mindset.
- India, Indonesia, Nigeria and Bangladesh contribute 80% to revenue.
- Four products bring in 40% of revenue and are in low-penetrated categories.
- The company will continue to have modest EBITDA improvement with strong volume growth over longer term. GCPL will continue modest share gains across the portfolio as it develops market.
- The company is open to M&A in existing categories but volume growth via organic remains the main focus
- Forecast will be for reality, and sales team will be held for this. Ambition and forecast will be delinked.

Exhibit 1: GCPL in a snapshot



Source: Company

Exhibit 2: Improving volumes and laggards tuning tide

After a few rough years, business performance is better

	2011-15	2016-20	2021-H1 FY22		2016-20	FY21	H1 FY22
Volume growth	15%	5%	9%	GAUM growth	13%	8%	32%
Revenue growth	20%	5%	13%	Avg. EBITDA	14%	10%	11%
Avg. EBITDA	17%	20%	22%	Lat Am growth	(3%)	19%	11%
				Avg. EBITDA	13%	14%	17%

Volume growth is improving

Some of our old laggards are turning

Source: Company

Exhibit 3: Areas that need improvement

A key one is the inability to drive category development



Category penetration FY21

Air Fresheners (Indonesia)	28%
Household Insecticide Aerosols (Indonesia)	23%
Liquid Vapourisers (India)	28%
Hair Colour Crème (India)	13%



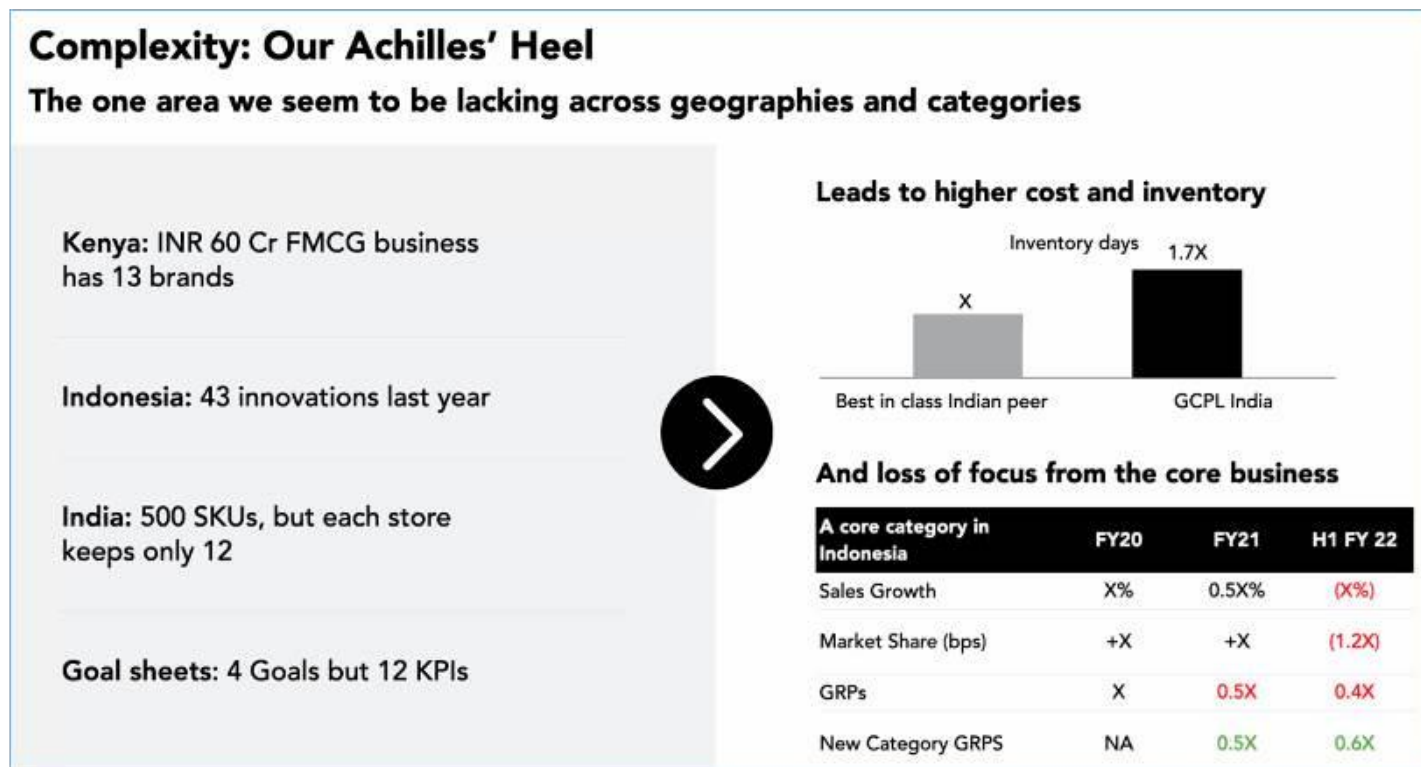
1 We acknowledge it

2 But stop at around a quarter of the population

3 Fear of downgrading

Source: Company

Exhibit 4: Need to reduce complexity



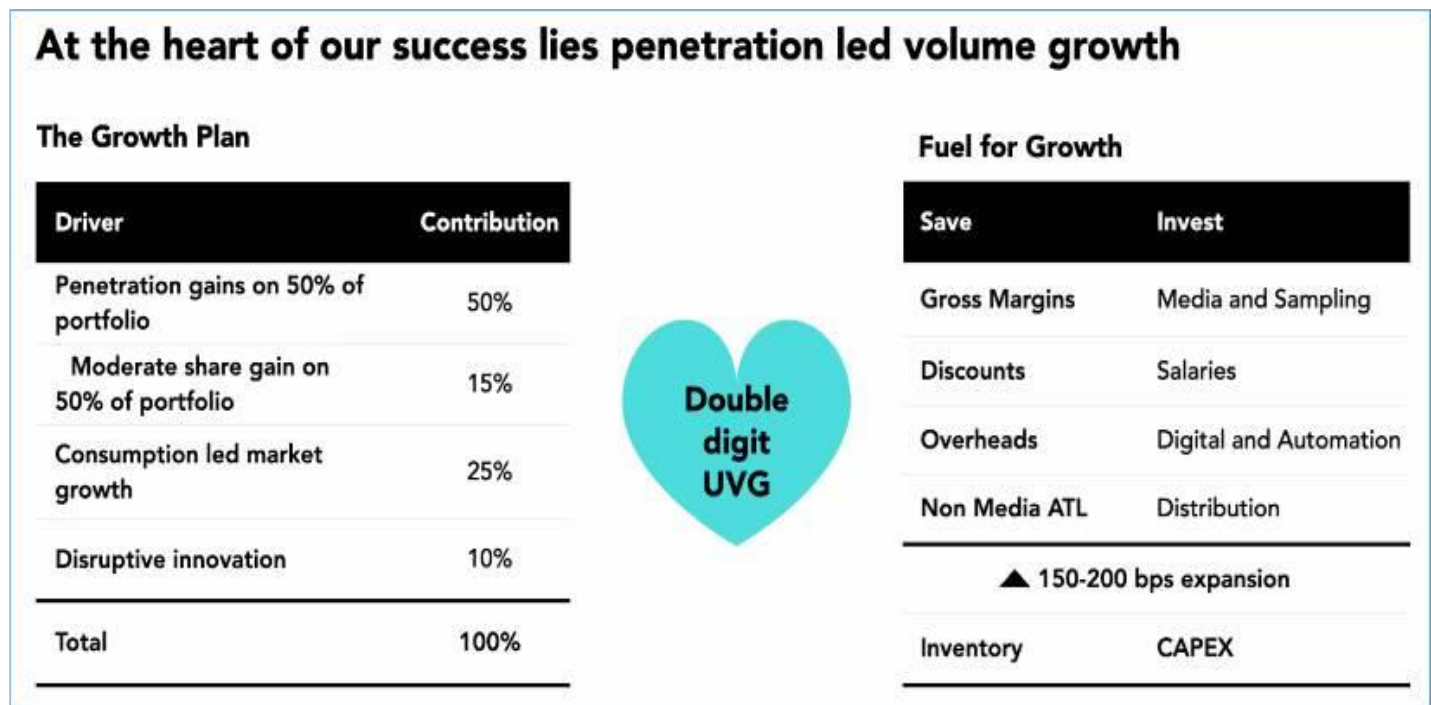
Source: Company

Exhibit 5: GCPL has been frugal yet expensive



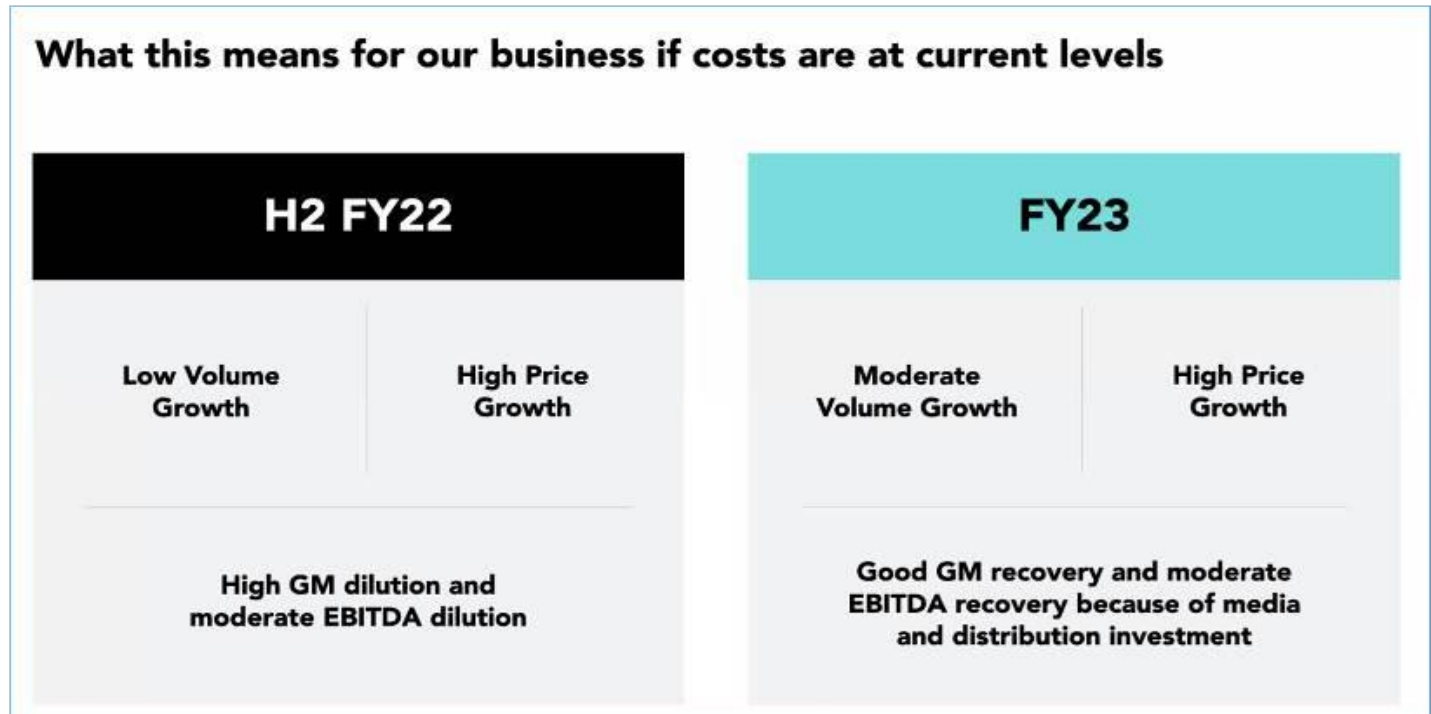
Source: Company

Exhibit 6: GCPL aims to drive volumes led by penetration



Source: Company

Exhibit 7: Near-term outlook for the company



Source: Company

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

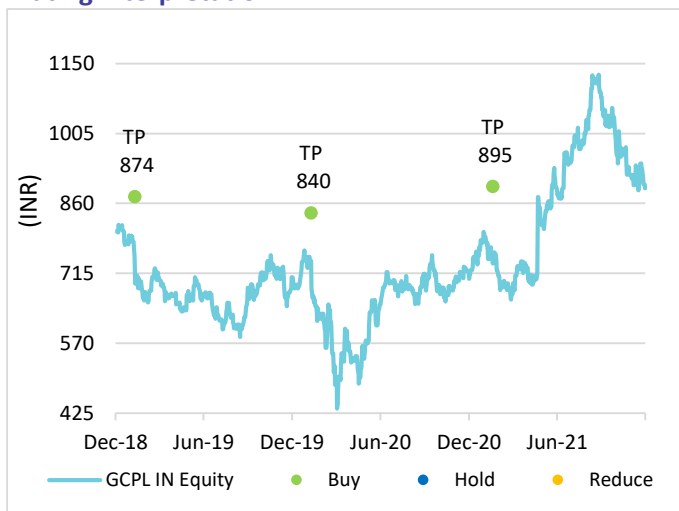
Recent Company Research

Date	Title	Price	Reco
16-Dec-21	Growth drivers in place; <i>Company Update</i>	929	Buy
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

Recent Sector Research

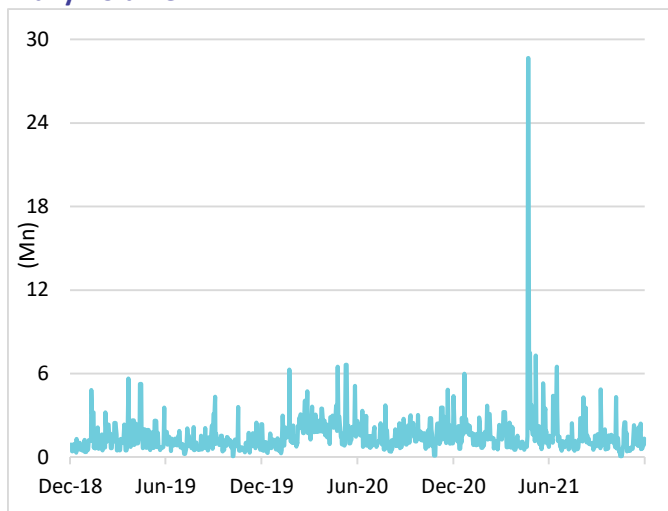
Date	Name of Co./Sector	Title
10-Dec-21	Consumer Staples	Rural staring at near-term slowdown; <i>Sector Update</i>
10-Dec-21	ITC	Turning a new leaf; <i>Edel Flash</i>
08-Dec-21	Consumer Staples	Commodity deflation: Setting in?; <i>Sector Update</i>

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)	231	43	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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Aditya Narain

Head of Research

Aditya.narain@edelweissfin.com
