

Retail Equity Research

Godrej Consumer Products Limited

FMCG

BSE CODE: 532424

NSE CODE: GODREJCP

Bloomberg CODE: GCPL:IN

SENSEX: 54,053

BUY

12 Months Investment period Rating as per Large Cap

 CMP Rs. 763 TARGET Rs. 878 RETURN 15% ↑
 (Closing: 24-05-22)

KEY CHANGES:
TARGET ↓
RATING ↑
EARNINGS ↓

Price hike to counter inflation and margin pressure

Godrej Consumer Products Ltd (GCPL) is one of India's leading home-grown household & personal care company. It also has presence in other countries like Indonesia, Africa, US, Middle East, among others

- Revenue grew 6.8% YoY to Rs. 2,916cr in Q4FY22 driven entirely by pricing.
- EBITDA margin declined -380bps YoY to 17.2% due to higher commodity inflation and weak performance in Indonesia. GCPL posted Q4FY22 PAT of Rs. 384cr (-10.7% YoY).
- We expect the business to continue its growth momentum with improvement in the margins as the company has taken measured price hikes to counter inflation. Hence, we upgrade our rating to BUY on the stock with a revised target price of Rs. 878 based on 39x FY24E adj. EPS.

Sales growth driven entirely by pricing

Revenue grew by 6.8% YoY to Rs. 2,916cr in Q4FY22. The growth within the quarter was driven entirely by pricing. Home Care declines by 7% (2-year CAGR 8%). Strong growth momentum continues in Personal Care with 18% growth (2-year CAGR 22%). Geographically, Domestic revenue grew by 9%, with a two-year CAGR of 21%. Sales was largely driven by pricing. Indonesia delivered a particularly weak performance with sales declining at 15%, driven by tough market conditions. LATAM and Africa witnessed strong growth with LATAM growing upwards of 30% and Africa growing in the mid-teens.

Margins shrink due to inflation

EBITDA decreased to Rs. 502cr in Q4FY22 (-12.6% YoY) as EBITDA margin was down by 380bps YoY to 17.2% due to higher commodity inflation and weak performance in Indonesia. The silver lining in India however has been that EBITDA grew by 14% with EBITDA margins expanding by 100bps to 23.6%, while gross margins declined by ~410 bps, again due to higher commodity inflation. Indonesia EBITDA margin declined to 21.6% with operating EBITDA at a loss of Rs. 48cr. Africa, however, had very poor margins due to an unfortunate theft of inventory in South Africa. Overall EBITDA margins in international business decreased by ~820 bps YoY to 10.7% owing to weak performance in Indonesia

Key concall highlights

- In April, Co. launched Godrej Expert Rich Cream at INR15 to drive penetration of the creme format by recruiting the early grey consumer moving in middle in rural India and accelerating new trials with first time users.
- Company has dropped Good knight Jumbo Fast Card price from INR15 to INR10 to drive recruitment in the category as nearly a third of new trials are entering the category through incense stick.
- GCPL expects the recent inflation brought about by the Ukraine crisis to hit P&L majorly only in Q1 and expect a relatively sharp drop for this quarter.

Valuation

We expect Company to grow steadily in domestic market as there are early signs of the Indonesian market recovery. Inflation in commodity prices remains a concern, however company has taken measured price hikes to counter inflation. We expect the business to continue its growth momentum with margin expected to improve in future. We expect earnings to grow at healthy 15% CAGR over FY22-24E. We upgrade our rating to BUY on the stock with a revised target price of Rs. 878 based on 39x FY24E adj. EPS.

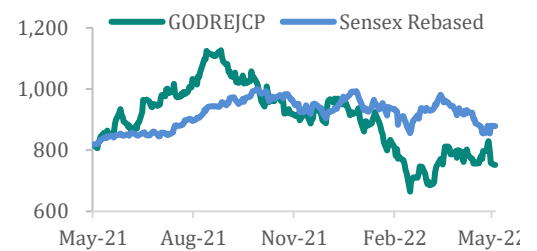
Company Data

Market Cap (cr)	Rs. 76,419
Enterprise Value (cr)	Rs. 77,119
Outstanding Shares (cr)	102.3
Free Float	37.0%
Dividend Yield	0.0%
52 week high	Rs. 1,139
52 week low	Rs. 660
6m average volume	0.5
Beta	0.8
Face value	Rs. 1

Shareholding %	Q2FY22	Q3FY22	Q4FY22
Promoters	63.2	63.2	63.2
FII's	26.2	25.6	24.2
MFs/Insti	4.6	5.0	5.9
Public	4.4	4.5	4.9
Others	1.6	1.6	1.8
Total	100.0	100.0	100.0
Promoters' pledge	0.7	0.7	0.7

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-6.4%	-17.6%	-8.1%
Absolute Sensex	-5.1%	-7.5%	7.4%
Relative Return*	-1.3%	-10.2%	-15.5%

*over or under performance to benchmark index



Consolidated (cr)	FY22A	FY23E	FY24E
Sales	12,277	13,432	14,812
Growth (%)	11.3	9.4	10.3
EBITDA	2,492	2,805	3,166
EBITDA Margin (%)	20.3	20.9	21.4
Adj. PAT	1,748	1,996	2,303
Growth (%)	7.0	14.2	15.4
Adj. EPS	17.1	19.5	22.5
Growth (%)	7.0	14.2	15.4
P/E	43.7	38.5	33.4
P/B	6.6	6.2	5.7
EV/EBITDA	30.9	27.5	24.4
ROE (%)	15.4	16.0	17.1
D/E	0.1	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q4FY22	Q4FY21	YoY Growth %	Q3FY22	QoQ Growth %	FY22	FY21	YoY Growth %
Revenue	2,916	2,731	6.8	3,303	(11.7)	12,277	11,029	11.3
EBITDA	502	575	(12.6)	699	(28.1)	2,492	2,443	2.0
EBITDA margins	17.2	21.0	(380bps)	21.2	(400bps)	20.3	22.2	(190bps)
Depreciation	54	54	(0.9)	54	(0.3)	210	204	3.0
EBIT	448	520	(13.8)	645	(30.5)	2,282	2,239	1.9
Interest	33	23	43.3	26	28.4	110	127	(13.0)
Other Income	(11)	(9)	(20.5)	(9)	(27.9)	(7)	12	(156.6)
Exceptional Items	(21)	(64)	67.8	14	(249.1)	(10)	(44)	78.1
PBT	384	424	(9.5)	625	(38.5)	2,155	2,080	3.6
Tax	21	59	(64.6)	97	(78.6)	372	360	3.4
Share of profit from Associate	0	0	(75.0)	0	(96.8)	0	(0)	2,900.0
Minority Interest	-	-	n.m.	-	n.m.	-	-	n.m.
Reported PAT	363	366	(0.7)	528	(31.2)	1,783	1,721	3.6
Adjustments	21	64	(67.8)	(14)	249.1	10	44	(78.1)
Adj. PAT	384	430	(10.7)	514	(25.3)	1,793	1,765	1.6
No. of shares	102.3	102.2	0.0	102.3	-	102.3	102.2	0.0
Adj. EPS (Rs.)	3.8	4.2	(10.7)	5.0	(25.3)	17.5	17.3	1.6

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	13,748	15,127	13,432	14,812	(2.3)	(2.1)
EBITDA	3,119	3,537	2,805	3,166	(10.1)	(10.5)
Margins (%)	22.7	23.4	20.9	21.4	(180bps)	(200bps)
Adj. PAT	2,205	2,449	1,996	2,303	(9.5)	(5.9)
Adj. EPS	21.6	23.9	19.5	22.5	(9.5)	(5.9)

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	9,911	11,029	12,277	13,432	14,812
% change	(3.9)	11.3	11.3	9.4	10.3
EBITDA	2,143	2,443	2,492	2,805	3,166
% change	1.2	15.5	2.3	12.8	13.2
Depreciation	197	204	210	218	220
EBIT	1,946	2,239	2,282	2,587	2,946
Interest	217	127	110	66	37
Other Income	32	(32)	(16)	0	0
PBT	1,760	2,080	2,155	2,521	2,909
% change	(15.6)	18.2	3.6	17.0	15.4
Tax	264	360	372	525	606
Tax Rate (%)	15.0	17.3	17.3	20.8	20.8
Reported PAT	1,497	1,721	1,783	1,996	2,303
Adj*	(83)	(88)	(35)	-	-
Adj PAT	1,414	1,633	1,748	1,996	2,303
% change	(4.8)	15.5	7.0	14.2	15.4
No. of shares (cr)	102.2	102.2	102.3	102.3	102.3
Adj EPS (Rs.)	13.8	16.0	17.1	19.5	22.5
% change	(4.8)	15.5	7.0	14.2	15.4
DPS (Rs.)	8.0	-	-	10.7	12.0
CEPS (Rs.)	15.8	18.0	19.1	21.7	24.7

CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Net inc. + Depn.	1,694	1,925	1,993	2,214	2,523
Non-cash adj.	36	420	(153)	115	(210)
Changes in W.C	(142)	(315)	(390)	(119)	(381)
C.F. Operation	1,588	2,030	1,451	2,210	1,932
Capital exp.	(152)	(164)	(277)	(228)	(252)
Change in inv.	(262)	(13)	(474)	(544)	(678)
Other invest.CF	(119)	(138)	(113)	66	72
C.F - Investment	(533)	(316)	(864)	(707)	(858)
Issue of equity	0	-	-	-	-
Issue/repay debt	(128)	(1,619)	(220)	(103)	(93)
Dividends paid	(818)	-	-	(1,098)	(1,227)
Other finance.CF	(350)	(197)	(160)	(66)	(37)
C.F - Finance	(1,295)	(1,816)	(380)	(1,267)	(1,357)
Chg. in cash	(240)	(102)	207	237	(282)
Closing cash	770	672	1,108	1,345	1,062

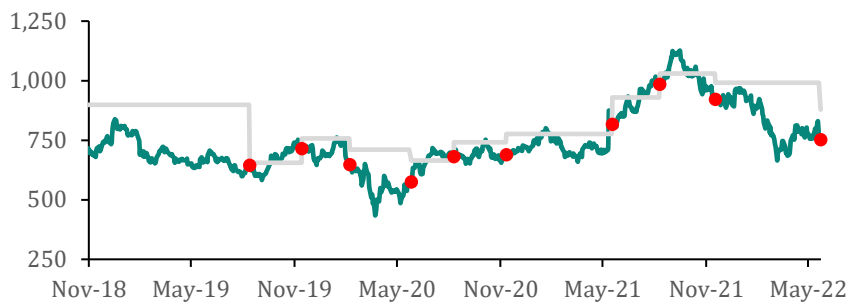
BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash	770	672	1,108	1,345	1,062
Accounts Receivable	1,157	1,005	1,116	1,209	1,555
Inventories	1,703	1,716	2,130	2,394	2,541
Other Cur. Assets	1,178	1,079	1,333	1,687	2,129
Investments	35	22	171	462	811
Gross Fixed Assets	1,600	1,763	2,040	2,268	2,520
Net Fixed Assets	1,205	1,210	1,275	1,280	1,302
CWIP	56	53	115	120	130
Intangible Assets	8,028	7,699	7,946	7,971	7,963
Def. Tax (Net)	647	677	732	472	545
Other Assets	179	149	208	211	214
Total Assets	14,957	14,283	16,134	17,150	18,253
Current Liabilities	4,028	2,847	2,745	2,981	3,098
Provisions	117	115	107	112	118
Debt Funds	2,796	1,768	1,608	1,508	1,416
Other Liabilities	118	113	119	106	112
Equity Capital	102	102	102	102	102
Reserves & Surplus	7,796	9,337	11,454	12,341	13,407
Shareholder's Fund	7,898	9,439	11,556	12,443	13,509
Minority Interest	-	-	-	-	-
Total Liabilities	14,957	14,283	16,134	17,150	18,253
BVPS (Rs.)	77	92	113	122	132

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23E	FY24E
Profitab. & Return					
EBITDA margin (%)	21.6	22.2	20.3	20.9	21.4
EBIT margin (%)	19.6	20.3	18.6	19.3	19.9
Net profit mgn.(%)	15.1	15.6	14.5	14.9	15.6
ROE (%)	18.9	18.2	15.4	16.0	17.1
ROCE (%)	18.2	20.0	17.3	18.5	19.7
W.C & Liquidity					
Receivables (days)	42.6	33.2	33.2	32.9	38.3
Inventory (days)	145.9	127.1	128.0	131.4	133.2
Payables (days)	212.4	159.9	130.0	131.8	131.8
Current ratio (x)	1.1	1.1	1.4	1.6	1.7
Quick ratio (x)	0.6	0.6	0.8	0.9	1.0
Turnover & Leverage					
Gross asset T.O (x)	6.5	6.6	6.5	6.2	6.2
Total asset T.O (x)	0.7	0.8	0.8	0.8	0.8
Int. coverage ratio (x)	9.0	17.7	20.7	39.3	79.8
Adj. debt/equity (x)	0.4	0.2	0.1	0.1	0.1
Valuation					
EV/Sales (x)	7.0	6.9	6.3	5.7	5.2
EV/EBITDA (x)	32.2	30.9	30.9	27.5	24.4
P/E (x)	47.3	45.6	43.7	38.5	33.4
P/BV (x)	8.5	7.9	6.6	6.2	5.7

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
7-Feb-20	HOLD	710
26-May-20	BUY	665
10-Aug-20	HOLD	741
11-Nov-20	BUY	776
18-May-21	BUY	930
10-Aug-21	HOLD	1,030
17-Nov-21	HOLD	992
25-May-22	BUY	878

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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