Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Godrej Consumer Products Ltd

Strong all-round Q3 with improved profitability

Consumer Goods	Sharekhan code: GODREJCP
Reco/View: Buy ↔	CMP: Rs. 913
	Price Target: Rs. 1,055 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

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	+	↔	+

ESG Disclosure Score NEW

ESG RISK RATING 26.88

Updated Dec 08, 2022

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

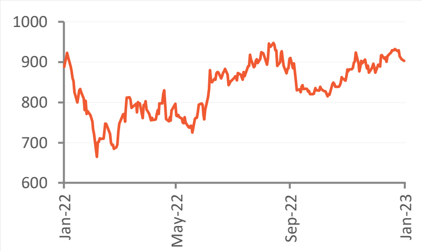
Company details

Market cap:	Rs. 93,372 cr
52-week high/low:	Rs. 956 / 660
NSE volume: (No of shares)	13.9 lakh
BSE code:	532424
NSE code:	GODREJCP
Free float: (No of shares)	47.7 cr

Shareholding (%)

Promoters	53.3
FII	17.1
DII	18.4
Others	11.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.8	11.7	3.1	0.1
Relative to Sensex	-2.6	-2.2	2.4	2.6

Sharekhan Research, Bloomberg

Summary

- Godrej Consumer Products Q3FY2023 performance beat ours as well as the street's expectations led by improved profitability as key input prices fell. Consolidated revenues and PAT grew by 9% and 7% y-o-y respectively with OPM rising by 16 bps y-o-y to 21.3% (increased by 440 bps q-o-q).
- Domestic household insecticide (HI) category clocked better performance for the third consecutive quarter. The company launched low-priced products in liquid vaporiser and aerosols segments to improve penetration and upgrade consumers to LVs/Aerosols in rural markets.
- With raw material prices correcting, OPM is expected to sequentially improve in the coming quarters. It will also help the company to see gradual improvement in sales volumes in the quarters ahead. Indonesia continues to see improvement in the performance.
- The stock continues to trade at an attractive valuation of 41.2x/35.1x its FY2024E/FY2025E EPS. We maintain our Buy recommendation on the stock with a revised PT of Rs. 1,055.

Godrej Consumer Products Limited (GCPL) posted strong numbers in Q3FY2023 with consolidated revenue growth at 9% y-o-y (volume growth of 1%) to Rs. 3,599 crore, while EBITDA and adjusted PAT grew by 10% and 7% y-o-y to Rs. 768 crore and Rs. 553 crore, respectively. The company also registered sequential and y-o-y improvement in both gross margins and OPM. Consolidated gross margin/OPM improved by 48 bps/16 bps y-o-y and 328 bps/440 bps q-o-q to 51.1%/21.3%, respectively. India business posted 11% y-o-y revenue growth, with the personal care segment growing strongly by 14% y-o-y, while the homecare segment grew by 10%. India business EBITDA margin improved by 210 bps y-o-y to 27.3%. Internationally, Africa, U.S., and Middle East (AUM) businesses maintained double-digit growth momentum and grew by 14% y-o-y, while revenue of Indonesia business decreased by 3% y-o-y (Indonesia ex-hygiene grew by 2%). EBITDA margins of AUM and Indonesia businesses registered a decline of 160 bps and 100 bps y-o-y, respectively. In the HI category, GCPL launched low price products in liquid vaporiser and aerosols to improve the penetration in the key markets.

Key positives

- AUM region grew by 14% y-o-y and 17% q-o-q; eleventh consecutive quarter of double-digit sales growth.
- Domestic volume growth stood at 3%, better than negative sales volume in H1FY2023.
- Gross margin/OPM improved by 48 bps/16 bps y-o-y and 328 bps/440 bps q-o-q.
- The company has healthy balance sheet with a net cash positive position (cash from operations increased by Rs. 300 crore in 9MFY2023).

Key negatives

- Indonesia and AUM business' OPM was down by 100 bps and 160 bps y-o-y, respectively.

Management Commentary

- Domestic volume growth stood at low single digits in Q3FY2023. With inflationary environment easing, the company expects domestic sales volumes to further improve and eyes volume-led revenue growth in FY2024.
- With corrective measures in place and improving macro environment, the Indonesia revenue growth is expected to improve in the coming quarters. The margins of the Indonesia business will gradually improve on back of better mix and operating leverage. The Africa business will maintain double-digit revenue growth while EBIDTA margins to reach mid-teens over the next two years.
- The decline in prices of key inputs (including palm oil and packaging material) would help in margin improvement in the coming quarters. In terms of the overall gross margins, the management has guided that margins may or may not go back to historical level of 58-60%, but the company expects the margins to expand from the current level.
- GCPL reduced its inventory and receivable days from 97 days in FY2022 to 71 days in 9MFY2023 aided by reduction in inventory & receivable days in Kenya from 78 days in FY2022 to 36 in 9MFY2023 and change to distributor model from existing retail model in Indonesia. The management has guided that further steps will be taken towards working capital management.

Revision in estimates – We have fine-tuned our earnings estimates for FY2023/24/25 to factor in better than expected operating margins in Q3FY23. Also, Indonesia business continues to witness sequential improvement in the performance which augurs well for the company in the coming years.

Our Call

View – Maintain Buy with a revised PT of Rs. 1,055: GCPL registered good all-round recovery in the performance in Q3FY2023 with key businesses such as domestic HI and Indonesia business registering sequential improvement in the performance. With strategies in place, the management is confident of posting gradual recovery in sales in the coming quarters and targets to achieve double-digit growth over the two to three years (largely driven by improved sales volume). The company targets a consistent improvement in OPM through premiumisation and operating efficiencies in the medium to long run. The stock is currently trading at attractive valuations of 41.2x/35.1x its FY2024E/FY2025E earnings. We maintain our Buy recommendation on the stock with a revised price target of Rs. 1,055 (rolling it over to FY2025E earnings).

Key Risks

Sustained demand slowdown in key markets or inflation in raw-material prices would act as a key risk to our earnings estimates in the medium to long term.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenue	11,029	12,277	13,407	15,038	16,888
OPM (%)	22.2	20.3	18.3	20.2	20.9
Adjusted PAT	1,765	1,793	1,797	2,263	2,657
Adjusted EPS (Rs.)	17.3	17.5	17.6	22.1	26.0
P/E (x)	52.9	52.1	51.9	41.2	35.1
P/B (x)	9.9	8.1	7.4	6.7	5.9
EV/EBITDA (x)	38.9	38.1	38.5	30.9	26.3
RoNW (%)	20.4	17.1	14.9	17.1	17.8
RoCE (%)	18.3	17.3	16.0	18.7	20.1

Source: Company; Sharekhan estimates

Strong all-round show

GCPL's consolidated revenue grew by 9% y-o-y to Rs. 3,599 crore driven by 11% and 14% y-o-y growth in India and Africa business, respectively, while Indonesia business declined marginally by 3% and Latin America by 8%. In India business, home care segment grew by 10% y-o-y, while the personal care segment grew by 14% y-o-y largely driven by price increases with sales volume improving q-o-q. Consolidated volume growth stood at 1% (India business volume grew by 3%). In Q3 quality of profits improved for the company with consolidated gross margins improving by 48 bps y-o-y and 328 bps q-o-q to 51.1% led by a correction in the palm oil prices. Despite higher advertisement spends, the OPM stood almost flat at 21.3%. OPM of India business improved by 210 bps y-o-y while Indonesia and Africa business OPM was down by 100 bps and 160 bps y-o-y, respectively. Operating profit grew by 10% y-o-y to Rs. 768 crore and adjusted PAT grew by 7% y-o-y to Rs. 553 crore. Exceptional items included an amount of ~Rs. 13.4 crore on account of restructuring costs and ~Rs. 18.6 crore because of litigation settlement under VAT amnesty scheme. After accounting for the exceptional items, reported PAT stood at Rs. 546 crore.

Double-digit revenue growth in India business coupled with sharp margin improvement

India business revenue grew by 11% y-o-y to Rs. 1,975 crore, with volume growth at 3% y-o-y, while remaining 7-8% was price-led growth. Growth was broad-based with double-digit growth in both home care and personal care categories. EBITDA margin improved by 210 bps y-o-y to 27.3% aided by gross margin expansion of 250 bps y-o-y, which was partially mitigated by a 28% y-o-y rise in working media investment. India business net profit grew by 21% y-o-y in Q3FY2023. Management has indicated that with easing commodity pressures, GCPL expects gradual recovery in consumption, gross margin expansion, upfront marketing investments and improvement in profitability in the upcoming quarters.

Strong 14% y-o-y growth in personal care

Personal care segment grew by 14% y-o-y to Rs. 875 crore driven by double-digit growth in personal wash and hygiene. GCPL continued to gain market share and deepen its penetration led by category development initiatives. Godrej No. 1 became the second largest brand by volume in Q3FY2023. The Hair Colour segment witnessed growth in teens. Godrej Expert Rich Crème conti.nued to perform well, backed by strong marketing and influencer campaigns. Furthermore, the response to Godrej Expert Rich Crème's at Rs. 15 is encouraging, driving penetration and upgrades from other formats.

Home care category revenue growth at 10% y-o-y

Home care segment's revenue grew by 10% y-o-y to Rs. 1,000 crore driven by steady performance in household insecticides (third consecutive quarter of improvement in HI performance), while air fresheners continued to deliver strong double-digit growth momentum. In the HI portfolio, growth was led by premium formats of electrics and aerosols and the company's non-mosquito portfolio continued to grow ahead of its mosquito portfolio. In terms of the air fresheners portfolio, GCPL continues to beat the category and enjoys market leadership. Aer Matic is scaling up well, backed by category development investments and increased penetration and distribution.

New launches in HI category to drive growth in long term

In the HI category, GCPL reimagined product design to meet consumer needs at a disruptive price point and democratise the premium formats with an aim to build relevance and drive accessibility. As per the management, HI presents an immense long-term potential to increase penetration and up-trade burning format households. Currently, there is low penetration in the HI category due reasons such as lack of awareness and fire hazards and smoke emissions from affordable burning format solutions, while premium solutions are expensive. GCPL has introduced a liquid vaporiser which is affordable (breaks the price barrier of premium formats), safe (smoke-free), effective (all-night protection) and convenient (simple plug- and-play format). This will help the company in up-trading the existing burning-format households and also cover new households. GCPL also launched an anti-mosquito spray solution which is affordable (cheapest spray solution in the world), no-gas spray (concentrated solution that lasts longer), effective (instant protection and knock-down effect) and convenient (easy-to-use format). Through product differentiation and category development, the company aims to achieve strong growth in the HI category in the coming years.

India business performance

Category	Sales (Rs. crore)	y-o-y growth
Homecare	1,000	10%
Personal Care	875	14%
Unbranded and Exports	100	-9%
Total Net Sales	**1,975**	**11%**
Branded Volume Growth	**-**	**3%**

Source: Company, Sharekhan Research

Mixed bag show across regions

Gradual recovery in Indonesia business

The Indonesia business is recovering gradually and registered a lower decline in Q3FY2023 at 3% y-o-y in CC terms to Rs. 433 crore. Sales excluding hygiene (Saniter) saw 2% y-o-y growth in CC terms. GCPL continued to put building blocks in place to drive category development and general trade distribution expansion in Indonesia. Indonesia's EBITDA margin contracted by 100 bps y-o-y to 20.1% due to upfront higher marketing investments and scale deleverage. In Indonesia, the company faced problems such as high base of Saniter, high inventory levels in the modern trade channel, inter-channel conflicts (that the company is trying to solve), inventory write-off for certain products and reduction in promotional offers, which impacted the revenue growth in Q3. With corrective measures already in place and macro environment in Indonesia improving, the management expects Indonesia business performance to gradually revive in the coming quarters. Q4FY2023 expected to be better as compared to Q3. EBITDA margin of the Indonesia business will also improve with reduction in input cost inflation and better operating leverage.

Africa, US, and Middle East (AUM) businesses reported 23% y-o-y CC growth

The AUM regions delivered y-o-y double-digit sales growth of 23% in CC terms to Rs. 1,006 crore (grew by 14% y-o-y in rupee terms), driven by strong sales growth momentum in Southern and West Africa. In terms of categories, the dry hair and FMCG categories both grew in double digits. EBITDA margin for the regions contracted by 160 bps y-o-y to 13% due to significant increase in working media investments. In Africa, the company sees higher contribution from FMCG business (currently 1/3 of Africa business) and good performance in Nigeria & Kenya to be few of the growth drivers for the company. Double-digit revenue growth is expected to sustain in the near term. For Africa business, the company is targeting high teen EBIDTA margin in the next 3-4 years.

Latin America and SAARC y-o-y revenue growth at 47% (CC terms)

Latin America and SAARC regions posted a 47% y-o-y CC revenue growth to Rs. 181 crore, while revenues declined by 10% y-o-y in rupee terms basis due to adverse currency moment. EBITDA margin for the region sharply declined by 760 bps y-o-y to 5% in Q3FY2023.

International business performance

Particulars	Q3FY23	Q3FY22	y-o-y (%)	Q2FY23	q-o-q (%)	y-o-y (%)
Revenue (Rs. Crore)						
Indonesia	433	447	-3.2	409	6.0	-8.2
AUM	1,006	884	13.8	859	17.2	14.7
Latin America & SAARC	181	200	-9.6	174	3.8	0.4
EBITDA Margins (%)			**Bps**		**Bps**	**bps**
Indonesia	20.1	21.2	-110	18.0	207	-807
AUM	13.0	14.7	-170	2.4	-	-951
Latin America & SAARC	5.0	12.6	-760	4.6	40	-

Source: Company, Sharekhan Research

Key Conference call takeaways

- **Gross margins to pick up gradually:** A decline in prices of key inputs (including palm oil and packaging material) would help boost margins in the coming quarters. In terms of the overall gross margins, the management has guided that margins may or may not go back to historical level of 58-60%, but the company expects the margins to expand from the current level.
- **Improving working capital management:** GCPL reduced its inventory and receivable days from 97 days in FY2022 to 71 days in 9MFY2023 aided by reduction in inventory & receivable days in Kenya from 78 days in FY2022 to 36 in 9MFY2023 and change to distributor model from existing retail model in Indonesia. The management has guided that further steps will be taken towards improving the working capital management.
- **Tax rate expected to go up:** Reported tax rate is expected to go up in FY24 to 25% while the cash tax rate is expected to remain lower at ~17%. However, in FY25 both reported & cash tax rate are expected to go up to 25%.

Results (Consolidated) Rs cr

Particular	Q3FY23	Q3FY22	y-o-y (%)	Q2FY23	q-o-q (%)
Total revenue	**3,598.9**	**3,302.6**	**9.0**	**3,391.9**	**6.1**
Raw material cost	1,758.1	1,629.4	7.9	1,768.1	-0.6
Employee cost	291.7	282.8	3.2	259.3	12.5
Advertisement & Publicity	275.8	228.6	20.6	283.9	-2.8
Other expenses	505.8	462.8	9.3	506.4	-0.1
Total operating expenses	2,831.4	2,603.5	8.8	2,817.7	0.5
Operating profit	**767.5**	**699.1**	**9.8**	**574.3**	**33.7**
Other income	43.2	22.4	92.5	39.9	8.2
Forex gain / (loss)	-40.9	-31.1	31.4	-32.1	27.1
Interest expense	39.9	25.6	56.2	48.3	-17.3
Depreciation	57.3	54.2	5.8	53.3	7.5
Profit before tax	**672.5**	**610.7**	**10.1**	**480.4**	**40.0**
Tax	119.6	93.6	27.8	98.9	20.9
Adjusted PAT (before MI)	**553.0**	**517.1**	**6.9**	**381.5**	**44.9**
Minority interest (MI)	-0.3	0.3	-	0.0	-
Extraordinary item	-6.5	10.2	-	-22.7	-
Reported PAT	**546.2**	**527.6**	**3.5**	**358.9**	**52.2**
EPS (Rs.)	5.4	5.1	6.9	3.7	44.9
			bps		Bps
GPM (%)	51.1	50.7	48	47.9	328
OPM (%)	21.3	21.2	16	16.9	440
NPM (%)	15.4	15.7	-29	11.2	412
Tax rate (%)	17.8	15.3	246	20.6	-280

Source: Company, Sharekhan Research

Outlook and Valuation

Sector View – H2FY2023 to be better compared with H1

A sustained slowdown in rural demand will continue to put a toll on sales volume of consumer goods companies in Q3FY2023. However, an uptick in the festive season, sustained demand for premium categories along with stable demand in urban markets will lead to a sequential improvement in sales volumes. Overall, we expect H2FY2023 to be much better compared with H1FY2023, with expected recovery in sales volumes. OPM is also expected to improve from Q4FY2023. Low penetration in key categories (especially in rural India), lower per capita consumption compared with other countries, a large shift to branded products, and emergence of new channels such as e-commerce/D2C provide several opportunities for achieving sustainable growth in the medium to long run.

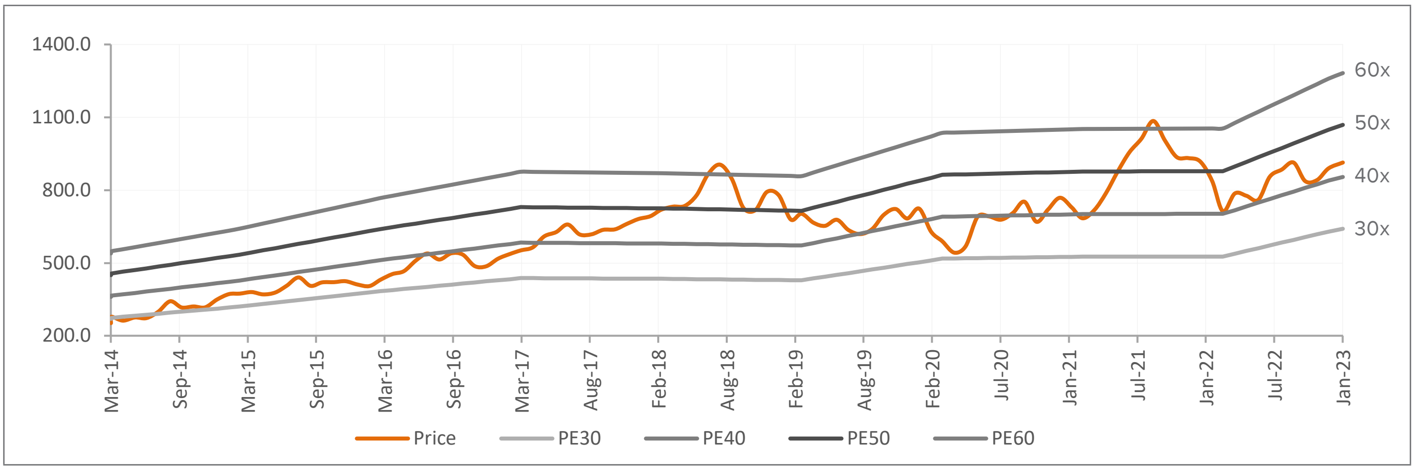
Company Outlook – Change in leadership likely to drive consistent long-term growth

Under the leadership of Mr. Sudhir Sitapati, the company will focus on achieving consistent double-digit revenue growth in the medium term. Improved penetration of HI in rural markets, sustained double-digit growth in Africa business, and recovery in Indonesia business are key medium-term revenue growth drivers. The decline in key input prices (including palm oil and packaging material) aided in margin improvement in Q3FY2023. The company will pass on some benefits to consumers to improve sales volumes. Management expects to maintain OPM at ~20% y-o-y and aims to sustain it at 20-22% in the medium term.

Valuation – Maintain Buy with a revised PT of Rs. 1,055

GCPL registered good all-round recovery in the performance in Q3FY2023 with key businesses such as domestic HI and Indonesia business registering sequential improvement in the performance. With strategies in place, the management is confident of posting gradual recovery in sales in the coming quarters and targets to achieve double-digit growth over the two to three years (largely driven by improved sales volume). The company targets a consistent improvement in OPM through premiumisation and operating efficiencies in the medium to long run. The stock is currently trading at attractive valuations of 41.2x/35.1x its FY2024E/FY2025E earnings. We maintain our Buy recommendation on the stock with a revised price target of Rs. 1,055 (rolling it over to FY2025E earnings).

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Hindustan Unilever	68.5	63.4	53.6	47.9	44.2	37.6	24.1	25.9	30.1
Dabur India	54.0	48.6	38.2	43.7	40.3	31.9	26.3	26.8	31.4
Godrej Consumer Products	52.1	51.9	41.2	38.1	38.5	30.9	17.3	16.0	18.7

Source: Company; Sharekhan Research

About company

GCPL is a leading emerging market company with a turnover of more than Rs. 12,000 crore (FY22). 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 HI. 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 AUM (Africa, US, 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. Under the new leadership, the immediate focus of the company is to fill the gaps to achieve sustainable double-digit revenue growth in the medium term. Increased penetration, cross-pollination, simplifying business in key markets, and surge in distribution are some of the key growth drivers in the medium term. Premiumisation, better revenue mix, and operating efficiencies would drive margins in the long run.

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

Adi Godrej	Chairman, Godrej Group
Nisaba Godrej	Chairperson
Sudhir Sitapati	Managing Director and CEO
Sameer Shah	Chief Financial Officer
Rahul Botadara	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	First State Investments ICVC	2.86
2	First Sentier Investors LLC	2.27
3	BlackRock Inc	1.60
4	Temasek Holdings Pte Ltd	1.33
5	Capital Group Cos	1.22
6	Vanguard Group Inc	1.20
7	St James place PLC	1.18
8	Republic of Singapore	1.07
9	EuroPacific Growth Fund	1.01
10	Mitsubishi UFJ Financial Group Inc	0.97

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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 detoriating 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

Sharekhan

by BNP PARIBAS

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