

Godrej Consumer Products Ltd



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Performance improves in India, Indonesia sees green shoots

CMP INR 939	Target INR 1,110	Potential Upside 18.2%	Market Cap (INR Mn) INR 9,60,669	Recommendation BUY	Sector Consumers
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Q3FY23 Result highlights

- GCPL reported consolidated revenue from operations of INR 35,989 mn (+9.0% YoY/ +6.1% QoQ). The underlying volume growth was 1.0% YoY. For 9MFY23, revenue from operations was INR 1,01,158 mn (+8.1% YoY).
- EBITDA improved by 9.8% YoY/ 33.7% QoQ to INR 7,675 mn. EBITDA margin improved by 16 bps YoY and 440 bps QoQ. For 9MFY23, EBITDA declined by 5.8% YoY to INR 18,743 mn while EBITDA margin contracted by 272 bps YoY to 18.5%.
- Adj. Net profit for the quarter improved by 9.1% YoY/ 43.7% QoQ to INR 5,946 mn. For 9MFY23, Adj. Net Profit declined by 7.1% YoY to INR 13,671 mn.

MARKET DATA

Shares O/S (Mn)	1,023
Mkt Cap (INR Mn)	9,60,669
52 Wk H/L (INR)	956/660
Volume Avg (3m K)	1,083
Face Value (INR)	1
Bloomberg Code	GCPL IN

KEY FINANCIALS

INR Mn	FY21	FY22	FY23E	FY24E	FY25E
Revenue	1,10,286	1,22,765	1,33,763	1,50,166	1,66,034
EBITDA	24,431	24,917	25,199	31,696	37,215
PAT	17,208	17,828	17,265	21,919	26,078
Adj PAT	18,201	18,892	18,432	21,919	26,078
EPS (INR)	16.8	17.4	16.9	21.4	25.5
Adj. EPS (INR)	17.8	18.5	18.0	21.4	25.5
EBITDA Margin (%)	22.2%	20.3%	18.8%	21.1%	22.4%
NPM (%)	16.5%	15.4%	13.8%	14.6%	15.7%

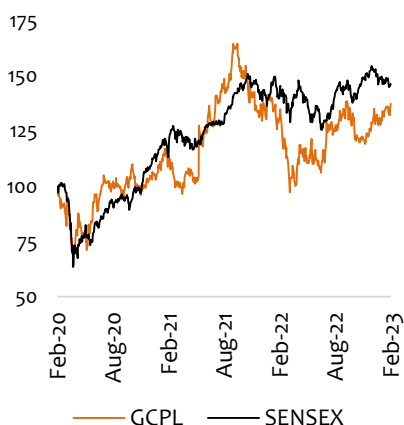
Source: Company, KRChoksey Research

Underlying volume growth turned positive in India, Indonesia YoY revenue decline reduces, and GAUM continues strong revenue growth traction: For Q3FY23, Godrej Consumer Products reported consolidated revenue from operations of INR 35,989 mn (+9.0% YoY/ +6.1% QoQ). The underlying volume growth was 1.0% YoY. Growth in India business was at 10.6% YoY (+1.2% QoQ), with an underlying volume growth of 3.0% YoY vs. volume declines in previous quarters (-5.0%/ -6.0%/ -3.0% YoY in Q2FY23/ Q1FY23/ Q4FY22, respectively). In India, the Home care segment grew by 10.1% YoY while the Personal care segment growth was at 13.9% YoY. In INR terms, Indonesia's revenue declined by 3.1% YoY but improved by 6.0% QoQ. Ex-Hygiene portfolio growth in Indonesia was 2.0% YoY. Africa, USA and Middle East (GAUM) revenue in INR terms grew by 13.9% YoY/ 17.3% QoQ (23.0% YoY growth in constant currency terms), with broad-based double-digit growth in the Dry Hair and FMCG categories.

Gross margin improvement and higher working media investments lead to improved quality of EBITDA margins: Calculated EBITDA for the quarter improved by 9.8% YoY/ 33.7% QoQ to INR 7,675 mn. EBITDA margin improved by 16 bps YoY and saw a sharp sequential improvement of 440 bps QoQ. Quality of profits improved as gross margins improved by 48 bps YoY/ 328 bps QoQ and working media investments increased by 28.0% YoY. For the India business, gross margin improved by 250 bps YoY/ 590 bps QoQ due to better mix, prompt pricing, and softening of input costs. Working media investments grew by 28.0% YoY, and EBITDA margin improved by 210 bps YoY. EBITDA margins for the Indonesia business declined by 100 bps YoY due to upfront higher marketing investments and scale deleverage. In the GAUM cluster, margin declined by 160 bps YoY due to increase in working media investments.

Outlook: Lower commodity pressures should lead to gradual recovery in consumption, gross margin improvement, upfront marketing investments and improvement in profitability in the coming quarters. Management expects to see positive growth in Indonesia in the coming quarters. The issues of high Hygiene base effect, high inventory in modern trade in Indonesia have been largely resolved, while issue of differential promotions in channels is to be resolved completely.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	60,588
NIFTY	17,809

SHARE HOLDING PATTERN (%)

Particulars	Dec-22	Sep-22	Jun-22
Promoters	63.2	63.2	63.2
FIIs	24.0	24.4	24.0
DIIIs	6.7	6.5	6.1
Others	6.0	5.9	6.7
Total	100.0	100	100

10.6%

Revenue CAGR between FY22 and FY25E

11.3%

Adj. PAT CAGR between FY22 and FY25E

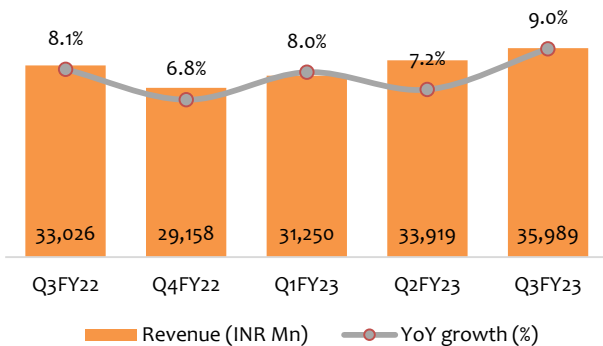
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Key Concall Highlights: (1) GCPL announced 2 disruptive innovations in the Household Insecticide (HI) with a goal to democratize the category- Good Knight Mini liquid vaporizer and Mini Hit Spray. (2) Good Knight Mini liquid vaporizer will be targeted to consumers who want affordable yet powerful all-night solutions. The product simplifies the chip design of the liquid vaporizer and uses much less plastic. The Mini combo is priced at INR 50 versus the regular INR 95 and the refill at INR 35 versus a regular INR 76. (3) the Mini Hit spray is a no-gas spray and priced at INR 50, which is one-fifth the price of a regular spray on a per mg basis of Activ. The pricing is very close to that of illegal incense sticks. (4) Working capital continues to reduce driven by simplification initiatives thus releasing cash. In 9MFY23, cash from operations increased by INR 3,000 mn. Inventory plus receivables have declined from 97 days at the start of FY23 to 79 days at the end of Q3FY23. (5) Another simplification has happened in Indonesia where GCPL has moved to a distributor model vs. earlier when company salesmen were selling to 60,000 stores. (6) For Indonesia, recovery in sales is around the corner. Sustainable margin improvement will be more gradual and happen in the next 3- 4 years. (7) The macro environment in Indonesia has turned around. GCPL is seeing good growth in general trade retail, and this should reflect in the other channels in time. (8) GCPL is also working on the internal channel conflicts so taking longer for recovery in Indonesia. (8) In Q3FY23, GCPL has taken write-offs in Indonesia inventory and has held off the heavy promotions and discounting, which has affected growth. (7) In Africa, the medium-term margin improvement will be meaningful, and margins should be in the mid-teens in 2-3 years. (8) Focus on Africa will be on pricing-led growth, upfront investments in FMCG, and driving profitability. Overall volume growth in Africa was in mid-single digits while the volume growth of FMCG categories was close to double-digits. (9) In India, demand conditions in rural and discretionary demand in urban have remained soft. GCPL has benefitted from the market development focus. (10) The Capex for FY24E will be largely in line with FY23E levels. (11) In FY24E, the cash tax will remain at 17.5% to 18.0% but the reported tax rate will go up. In FY25E, the tax rate will be 25.0% on both reported and cash basis.

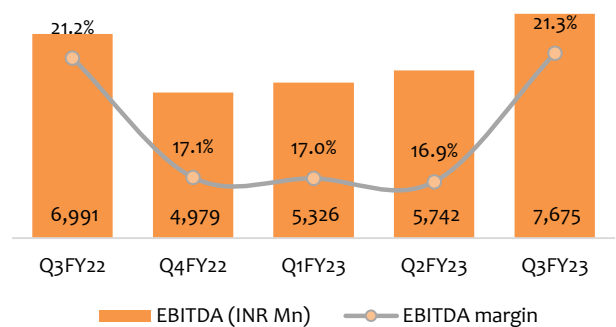
Valuation and view

GCPL has seen volume growth in India business after seeing declines for the last 3 quarters. The market development focus is helping GCPL despite the macro issues affecting demand. With improving gross profits and reducing cost-to-serve, GCPL plans to accelerate media spending which will aid in category development initiatives and further growth. Performance improvement in Indonesia is expected in a few quarters, and green shoots are already visible. GAUM business continues to have strong topline growth, GCPL’s focus on improving profitability will help the overall margins at the consolidated level. Our Revenue/EBITDA estimates for FY24E remain broadly unchanged, but we reduce FY24E EPS estimate by 9.2% due to a higher tax rate guided by management. We introduce FY25E estimates and roll over our valuation based on FY25E EPS. **We expect overall Revenue/EBITDA/Adj. PAT to increase by 10.6%/14.3%/11.3% respectively over FY22-25E. We value the company at a P/E multiple of 43.5x and its FY25E EPS of INR 25.5 and arrive at a target price of INR 1,110 per share (earlier INR 1,056 per share) with an upside of 18.2% over the CMP. Accordingly, we maintain our “BUY” rating on the shares of Godrej Consumer Products Ltd.**

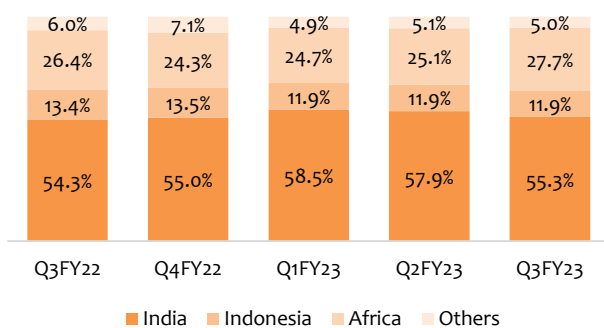
Revenue growth driven by price increases



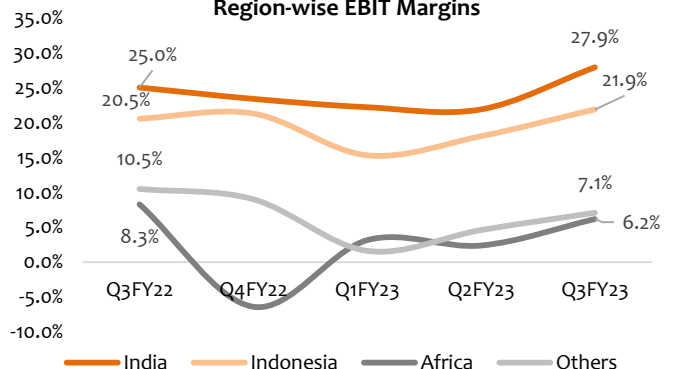
Strong margin uptick



Region-wise Revenue Share



Region-wise EBIT Margins



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Quarterly Profit & Loss Statement

Particulars (INR Mn)	Q3FY23	Q2FY23	Q3FY22	Q-o-Q	Y-o-Y	9MFY23	9MFY22	YoY
Sales	35,989	33,919	33,026	6.1%	9.0%	1,01,158	93,607	8.1%
Total Expenditure	28,314	28,177	26,035	0.5%	8.8%	82,415	73,714	11.8%
Cost of Raw Materials	14,416	17,051	14,289	-15.5%	0.9%	47,759	43,239.40	10.5%
Purchase of Stock-in-trade	806	1,007	874	-19.9%	-7.8%	2,550	2,797.00	-8.8%
Changes in Inventories	2,359	-377	1,130	-726.3%	108.7%	1,646	-19.50	-8539.0%
Employee Cost	2,917	2,593	2,828	12.5%	3.2%	8,107	8,308.90	-2.4%
Other Expenses	7,816	7,902	6,914	-1.1%	13.0%	22,353	19,387.90	15.3%
EBITDA	7,675	5,742	6,991	33.7%	9.8%	18,743	19,893	-5.8%
EBITDA Margins (%)	21.3%	16.9%	21.2%	440bps	16bps	18.5%	21.3%	-272bps
Depreciation	573	533	542	7.5%	5.8%	1,677	1,559	7.6%
EBIT	7,102	5,209	6,449	36.3%	10.1%	17,066	18,334	-6.9%
Interest Expense	399	483	256	-17.3%	56.2%	1,232	770	60.0%
Other Income	432	399	224	8.2%	92.5%	1,105	659.5	67.6%
PBT	7,134	5,125	6,418	39.2%	11.2%	16,940	18,223	-7.0%
Exceptional Items	483	548	173	-11.9%	179.0%	1,167	510	128.9%
Tax	1,188	989	972	20.1%	22.3%	3,269	3,511	-6.9%
Share of profit of equity accounted	0	0	3	NA	-100.0%	0	3	-100%
PAT	5,463	3,589	5,276	52.2%	3.6%	12,503	14,205	-12.0%
PAT Margin	15.2%	10.6%	16.0%	460bps	-79bps	12.4%	15.2%	-282bps
Adj. PAT	5,946	4,137	5,449	43.7%	9.1%	13,671	14,715	-7.1%
Adj. PAT Margin	16.5%	12.2%	16.5%	433bps	2bps	13.5%	15.7%	-221bps
EPS	5.3	3.5	5.2	52.2%	3.5%	12.2	13.9	-12.0%
Adj. EPS	5.8	4.0	5.3	43.7%	9.1%	13.4	14.4	-7.1%

Exhibit 2: Profit & Loss Statement

INR Mn	FY21	FY22	FY23E	FY24E	FY25E
Revenues	1,10,286	1,22,765	1,33,763	1,50,166	1,66,034
COGS	49,294	60,751	67,507	70,121	76,283
Gross profit	60,992	62,014	66,256	80,045	89,750
Employee cost	11,233	11,041	10,878	13,064	14,113
Other expenses	25,328	26,055	30,178	35,284	38,422
EBITDA	24,431	24,917	25,199	31,696	37,215
EBITDA Margin	22.2%	20.3%	18.8%	21.1%	22.4%
Depreciation & amortization	2,039	2,099	2,258	2,427	2,614
EBIT	22,392	22,818	22,941	29,269	34,601
Interest expense	1,266	1,102	1,722	1,669	1,564
Other income	671	897	1,527	1,626	1,733
PBT	20,804	21,547	21,579	29,226	34,770
Tax	3,595	3,719	4,314	7,306	8,693
Exceptional items	993	1,064	1,167	0	0
PAT	17,208	17,828	17,265	21,919	26,078
Adj. PAT	18,201	18,892	18,432	21,919	26,078
EPS (INR)	16.8	17.4	16.9	21.4	25.5
Adj. EPS	17.8	18.5	18.0	21.4	25.5

Exhibit 3: Cash Flow Statement

INR Mn	FY21	FY22	FY2E	FY24E	FY25E
Net Cash Generated from Operations	20,296	14,506	18,585	23,230	26,919
Net Cash Flow from Investing Activities	(3,155)	(8,642)	(2,610)	(627)	(757)
Net Cash Flow from Financing Activities	(18,162)	(3,795)	(11,743)	(15,112)	(17,518)
Net Inc/Dec in cash equivalents	(1,021)	2,068	4,232	7,491	8,644
Opening Balance	6,029	5,238	7,505	11,741	19,232
Closing Balance Cash and Cash Equivalents	5,238	7,505	11,741	19,232	27,876

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

INR Mn	FY21	FY22	FY23E	FY24E	FY25E
Property, plant and equipment	12,102	12,749	14,163	14,388	14,665
Capital work-in-progress	530	1,148	1,148	1,148	1,148
Goodwill	51,299	53,768	53,768	53,768	53,768
Other Intangible assets	24,736	24,692	25,157	24,757	24,357
Intangible assets under development	45	17	17	17	17
Investments in associate	194	0	0	0	0
Financial assets	0	0	0	0	0
Other Investments	25	1,711	1,711	1,711	1,711
Loans	218	0	0	0	0
Other	34	251	251	251	251
Deferred tax assets (net)	6,768	7,315	7,315	7,315	7,315
Other non-current assets	550	937	937	937	937
Right to assets	911	985	985	985	985
Non-Current Tax Assets (net)	693	896	896	896	896
Total non-current assets	98,104	1,04,468	1,06,347	1,06,172	1,06,049
Inventories	17,163	21,299	23,667	24,014	26,124
Financial assets					
Investments	6,572	8,443	9,287	10,216	11,238
Trade receivables	10,045	11,163	12,163	13,655	15,098
Cash and cash equivalents	5,241	7,509	10,897	17,459	25,082
Other Balances with Banks	1,481	3,569	3,569	3,569	3,569
Loans	46	1	1	1	1
Other	706	418	456	512	566
Other current assets	3,470	4,471	4,872	5,469	6,047
Total current assets	44,724	56,873	64,912	74,894	87,724
TOTAL ASSETS	1,42,828	1,61,341	1,71,259	1,81,067	1,93,772
EQUITY AND LIABILITIES					
Equity share capital	1,023	1,023	1,023	1,023	1,023
Other equity	93,367	1,14,537	1,21,443	1,30,210	1,40,642
Total equity	94,389	1,15,559	1,22,465	1,31,233	1,41,664
Financial liabilities					
Borrowings	4,801	3,809	3,809	3,809	3,809
Other financial liabilities	0	0	0	0	0
Provisions	1,147	1,070	1,166	1,309	1,447
Deferred tax liabilities (net)	390	519	519	519	519
Lease liability	675	644	663	663	663
Other non-current liabilities	69	23	23	23	23
Total non-current liabilities	7,082	6,065	6,179	6,322	6,461
Financial liabilities					
Borrowings	13,164	12,591	12,591	11,823	11,055
Trade payables	20,124	21,631	24,036	24,967	27,161
Other financial liabilities	4,550	2,272	2,476	2,779	3,073
Other current liabilities	2,262	2,238	2,439	2,738	3,027
Provisions	724	762	830	932	1,031
Current tax liabilities, (net)	533	222	242	272	301
Total current liabilities	41,357	39,716	42,614	43,511	45,648
Total liabilities	48,439	45,781	48,793	49,834	52,108
TOTAL EQUITY AND LIABILITIES	1,42,828	1,61,341	1,71,259	1,81,067	1,93,772

Exhibit 5: Ratio Analysis

Key Ratio	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin (%)	22.2%	20.3%	18.8%	21.1%	22.4%
Tax rate (%)	17.3%	17.3%	20.0%	25.0%	25.0%
Net Profit Margin (%)	15.6%	14.5%	12.9%	14.6%	15.7%
RoE (%)	18.2%	15.4%	14.1%	16.7%	18.4%
RoCE (%)	22.1%	18.8%	17.7%	21.0%	22.9%
Adj. EPS (INR)	17.8	18.5	18.0	21.4	25.5
PE	52.7x	50.8x	52.1x	43.8x	36.8x

Source: Company, KRChoksey Research

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Godrej Consumer Products Ltd				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
02-Feb 23	939	1,110	BUY	Buy	More than 15%
10-Nov 22	815	1,056	BUY	Accumulate	5% – 15%
05-Aug 22	874	1,056	BUY	Hold	0 – 5%
20-May 22	761	954	BUY	Reduce	-5% – 0
10-Feb-21	853	954	ACCUMULATE	Sell	Less than – 5%
12-Nov-21	920	1,025	ACCUMULATE		

ANALYST CERTIFICATION:

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