

Godrej Consumer

BSE SENSEX 59,809
S&P CNX 17,594



Stock Info

Bloomberg	GCPL IN
Equity Shares (m)	1022
M.Cap.(INRb)/(USDb)	946.9 / 11.6
52-Week Range (INR)	956 / 660
1, 6, 12 Rel. Per (%)	1/1/20
12M Avg Val (INR M)	1156
Free float (%)	36.8

Financials & Valuations (INR b)

Y/E March	2023E	2024E	2025E
Sales	134.2	150.8	170.0
Sales Gr. (%)	9.3	12.4	12.7
EBITDA	25.2	31.5	38.3
Margins (%)	18.8	20.9	22.6
Adj. PAT	16.8	23.0	27.5
Adj. EPS (INR)	16.4	22.5	26.9
EPS Gr. (%)	-6.2	36.6	19.8
BV/Sh.(INR)	121.4	131.9	139.8

Ratios

RoE (%)	14.0	17.7	19.8
RoCE (%)	15.0	18.1	20.3

Valuation

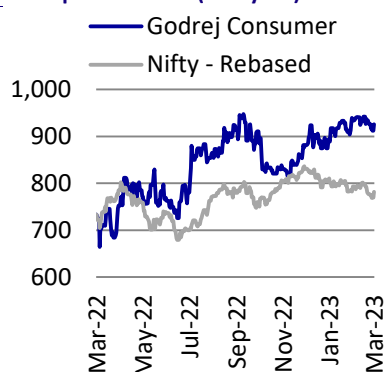
P/E (x)	56.3	41.2	34.4
P/BV (x)	7.6	7.0	6.6
EV/EBITDA (x)	37.3	29.5	24.2
Div. Yield (%)	0.9	1.3	2.1

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	63.2	63.2	63.2
DII	6.7	6.5	5.0
FII	24.0	24.4	25.6
Others	6.0	5.9	6.1

FII Includes depository receipts

Stock's performance (one-year)



CMP: INR926

TP: INR1,080 (+17%)

Buy

Lower RM cost, GAUM turnaround to boost growth

Godrej Consumer (GCPL) is one of our top pick from our Staples Coverage Universe over a one-year horizon. We present here our investment rationale:

- **Increasing traction in the domestic business should improve margins and return ratios.**
- **The focus on profitability improvement in the African region (GCPL's second largest sales contributor) and continued discipline in capital allocation will reduce the historical drag on the overseas businesses.**
- **Among staples, GCPL is the key beneficiary of the recent reduction in material costs. Palm oil prices have come off significantly, and even if a reasonable share of this gain is spent on advertising, it will boost EBITDA growth from 4QFY23 onward.**
- **While the company's target of achieving sustainable double-digit sales growth in Household Insecticides (HI) could be delayed, its other domestic segments are showing signs of promising traction.**
- **The valuation is inexpensive at ~34x FY25E EPS for a business that is expected to report a ~28% earnings CAGR over the next two years and RoCE of over 20% for the first time since FY11. Our SoTP-based valuation gives us a target price of INR1,080, representing a 17% upside on the CMP.**
- **Increasing salience of the profitable and high-ROCE domestic business:** After a few years of lull in the latter half of the last decade, GCPL's domestic business has been reporting a double-digit CAGR over FY20-FY23E. Salience of the domestic business, where margins are more than 2x that of the international business and ROCE is several times higher, has risen significantly from ~52% of sales in FY17 to ~56% of sales in FY22 and is poised to reach close to 60% of sales in the next few years, elevating consolidated margins, earnings growth and return ratios.
- **Better capital allocation overseas:** Even before growth in the domestic business resumed in recent years, there were signs of more disciplined capital allocation towards the end of the last decade, a process that has continued subsequently under the new CEO. Management's focus on improving profitability and working capital in Africa, as stated in the recent analyst meet, is another welcome move.
- **Palm oil cost reduction leading to sharp gains:** Higher palm oil prices materially affected GCPL's earnings in the last few quarters. The prices are now down ~49% from the peak, and GCPL, among staples, will be the key beneficiary of the price reduction in the next few quarters. Even if GCPL spends some of the gains to shore up advertising, the company could see a healthy earnings growth of 25-30% in the next few quarters.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- **Improvement in management bandwidth through external hiring:** In the last few months, GCPL bolstered its management bandwidth by replacing the ASEAN head and appointing a new head of Business Transformation and Digital; both came from the Unilever stable. We believe the key benefits of new appointments are the eventual cost rationalization (a key success area for Unilever in emerging markets) and the reduction in gaps with MNCs on data analytics.
- Mr. Rajesh Sethuraman was appointed as the Business Head of the ASEAN region. He has 26 years of work experience, the majority of which he spent at Unilever, leading teams across categories and divisions in South Asia and Sub-Saharan Africa.
- Mr. Vijay Kannan was appointed as the Head of Business Transformation and Digital. He has over 19 years of work experience in the Consumer Goods and Energy industries. He previously worked as the Global Chief Information and Digital Officer of global lubricants business of Shell, and the IT head of HUVR.
- We believe GCPL is likely to tap more talent from larger peers like Unilever to further improve its management bandwidth.

Valuation and view

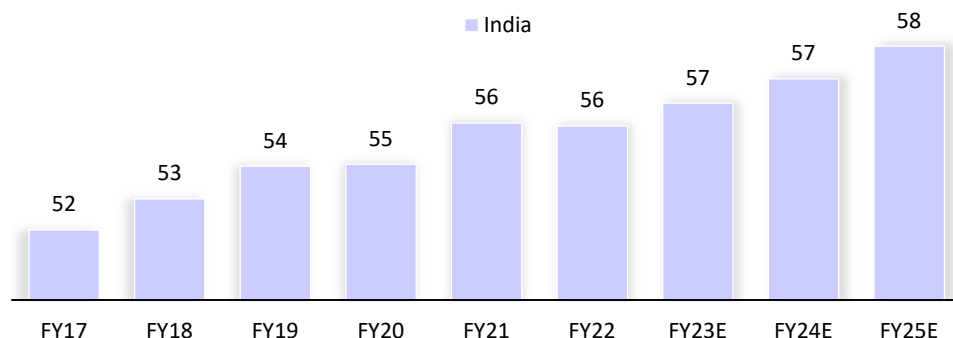
- GCPL's domestic businesses had demonstrated strong sales growth in the first half of the last decade, before losing steam in the second half. Domestic and consolidated sales growth crossed double digits in the last two years and appears to do so in FY23 as well, far better than the 4.1% sales CAGR between FY16 and FY20.
- We expect GCPL to be the key beneficiary of the sharp reduction in raw material costs (especially palm oil) from the peak over the next few quarters.
- With the new CEO focusing on improving growth in the high-margin, high-RoCE domestic business, as highlighted in our recent [CEO meet note](#), GCPL's medium-term earnings growth outlook is strong. The valuation at ~34x FY24E EPS is inexpensive and is at a steep discount to peers. We maintain our BUY rating with a TP of INR1,080 (based on SoTP valuation: 50x domestic business, 20x Indonesia business, 15x GAUM and other business).

Domestic business

After a slowdown in sales in the latter half of the previous decade, GCPL's high-margin and high-ROCE domestic business has now started showing signs of a recovery.

- We estimate the high margin domestic business sales to account for nearly 57% of GCPL's consolidated sales in FY23 and ~58% in FY25, up from 52% in FY17.

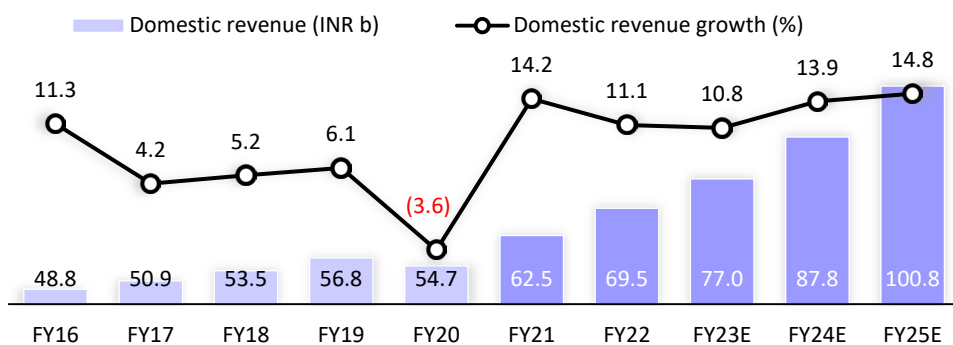
Exhibit 1: Revenue contribution of the domestic business could increase to ~58% by FY25E



Source: MOFSL, Company

- Three/five-year domestic sales CAGR is likely to be ~12%/13% at the end of FY23E/FY25E, significantly higher than the 2.9% CAGR between FY16-FY20.

Exhibit 2: We expect the domestic business to post healthy growth



Source: MOFSL, Company

- There were several external factors behind the slowdown in the latter part of the last decade, including 1) an overall slowdown in demand due to a weak rural environment and GDP growth, 2) disruptions caused by demonetization and GST, and 3) Ind-AS and GST accounting, which led to promotional spends being netted off against sales (instead of being shown as expenses).
- Nevertheless, there were internal factors, too. Poor execution and distraction from the core business toward international expansion between FY17 and FY20 led to a subdued performance in the company's three largest domestic segments.

Exhibit 3: Poor performance of domestic business segments over past five years

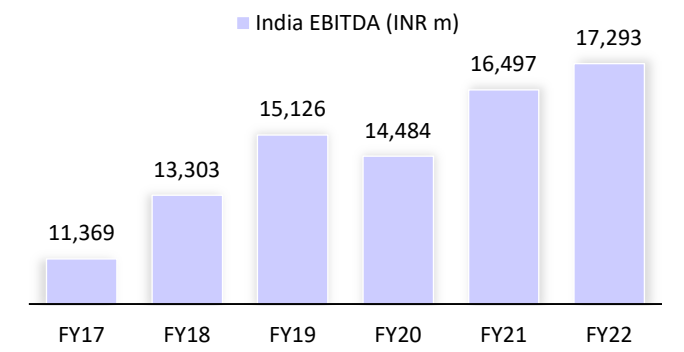
Particulars	FY17	FY18	FY19	FY20	FY21	3-year CAGR	4-year CAGR
Segment Revenue (INR m)							
Household Insecticides	23,226	22,630	22,540	21,900	25,340	3.8%	2.2%
Soaps	15,515	18,020	18,920	17,760	20,470	4.3%	7.2%
Hair Colours	5,933	6,220	6,730	6,270	6,420	1.1%	2.0%
Other brands	4,842	5,990	7,400	7,890	8,610	12.9%	15.5%
Unbranded and Exports	2,257	2,700	3,030	2,920	3,310	7.0%	10.0%
Segment Revenue growth (%)							
Household Insecticides	1	-3	-0	-3	16		
Soaps	-3	16	5	-6	15		
Hair Colours	3	5	8	-7	2		
Other brands	35	24	24	7	9		
Unbranded and Exports	2	20	12	-4	13		
Salience (%)							
Household Insecticides	45	41	38	39	40		
Soaps	30	32	32	31	32		
Hair Colours	11	11	11	11	10		
Other brands	9	11	13	14	13		
Unbranded and Exports	4	5	5	5	5		

Source: MOFSL, Company

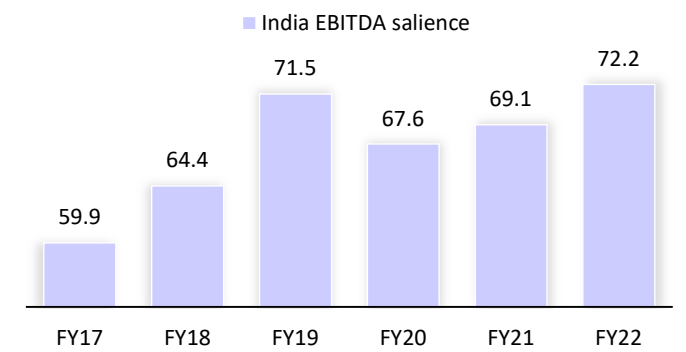
- After double-digit domestic sales growth in FY21 and FY22, which is likely to continue in FY23E as well, we believe an incipient turnaround is evident, which will be boosted in subsequent years by fresh efforts of the new CEO to improve value, access and relevance.

Improving domestic business to be the biggest growth driver

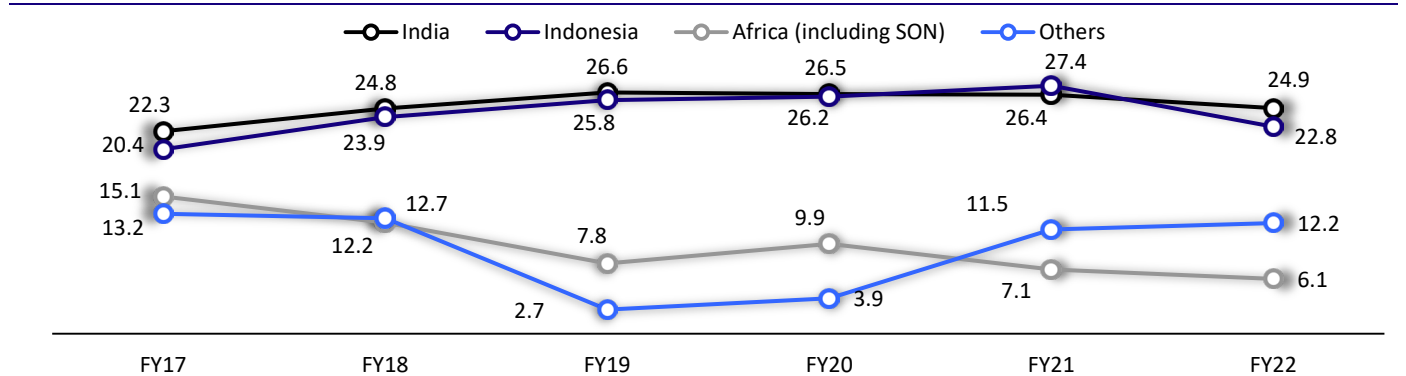
- The domestic business is the highest contributor to consolidated revenue, with higher EBITDA salience at ~68%, ~69%, and ~72% in FY20, FY21 and FY22, respectively. It also has the best operating metric with pre-tax RoCE of ~57% in FY22.
- GCPL's India business is expected to benefit under the stewardship of Mr. Sitapati, who comes on board with rich experience as a part of HUVR's senior management team. During his tenure at HUVR, 1) its detergents business performed well, 2) marketing campaigns had a high value impact, and 3) as the head of the foods business, he led the successful integration of the GSKCH business with HUVR.
- Even if operations in Africa and Indonesia (covered below) were to even remain at current levels, an improvement in the India business could improve the company's overall margins, return ratios, and net working capital.
- The company's overseas businesses look promising and are showing early signs of progress; however, they are more complex and affected by a host of unfavorable macro factors.
- Of the two large components of the overseas business, the emphasis is primarily on improving GAUM's (Godrej Africa, US, and Middle East) profitability and the expansion of its ROCE as indicated in the company's recent [analyst call](#).

Exhibit 4: India business reported a five-year EBITDA CAGR of ~9% at FY22-end

Source: MOFSL, Company

Exhibit 5: India business EBITDA salience rose to ~72% in FY22 from ~60% in FY17

Source: MOFSL, Company

Exhibit 6: GCPL's India business has a superior EBITDA margin

Source: Company, MOFSL

Easing RM cost pressure to aid margin expansion

Biggest beneficiary of declining commodity costs

- We believe that the outlook on the raw material front is also the brightest for GCPL among consumer staples peers.
- Prices of palm oil, the key raw material, rose exponentially in the previous two years. Prices of Malaysian palm oil/palm fatty acid increased by ~136%/~116% from Sep'20 to May'22.
- Since palm oil is one of the primary raw materials for GCPL, the gross margin fall for GCPL was higher than for other staple peers.
- Recently, palm oil prices have corrected sharply, with Malaysian palm oil/palm fatty acid down ~43%/~50% from May'22 to Feb'23 and ~49%/60% correspondingly from the peak.
- GCPL has already begun to benefit from the decline in palm oil prices after normalizing for inventory purchased at elevated price, and we anticipate that the company will continue to benefit for the next four quarters.
- The company indicated that some of these gains have started to come through from the Dec'22 quarter itself. Consolidated EBITDA margins appear to be on the recovery path at around 21% following three successive quarters of ~17% EBITDA margins.
- It is to be noted that, despite the precipitous drop in palm oil costs, we are conservative to not estimate that gross margin would return to its pre-Covid level in FY24 or even FY25.
- The company has already started using the windfall gains from lower palm oil prices to shore up ad spending. Despite higher ad spends, we expect a 25-35% increase in EBITDA from 4QFY23 onward.

Exhibit 7: Malaysian palm oil MoM prices

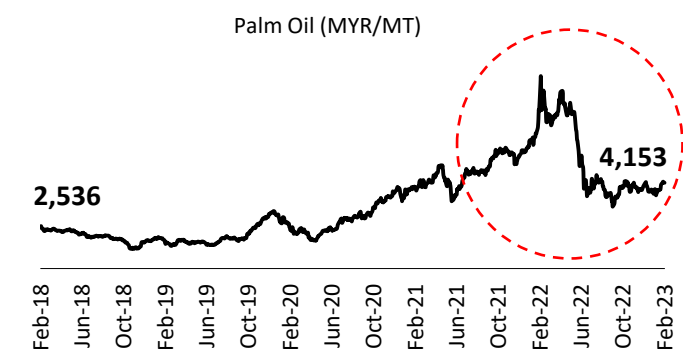
Month	Month Avg.	MoM (%)
Feb'23	3,976.7	1.8%
Jan'23	3,904.5	(1.0%)
Dec'22	3,943.5	(3.1%)
Nov'22	4,071.2	8.5%
Oct'22	3,752.1	2.2%
Sep'22	3,671.8	(12.0%)
Aug'22	4,170.1	2.6%
Jul'22	4,066.1	(30.0%)
Jun'22	5,806.4	(16.0%)
May'22	6,910.4	2.8%
Apr'22	6,719.7	(3.2%)
Mar'22	6,941.4	14.9%
Feb'22	6,039.3	12.1%
Jan'22	5,385.3	5.9%
Dec'21	5,085.0	(4.6%)
Nov'21	5,331.6	4.7%
Oct'21	5,094.4	11.6%
Sep'21	4,563.0	0.3%
Aug'21	4,548.6	8.1%
Jul'21	4,208.0	9.9%
Jun'21	3,828.8	(15.5%)
May'21	4,529.3	6.2%
Apr'21	4,263.1	4.8%
Mar'21	4,067.2	3.9%
Feb'21	3,914.2	3.7%
Jan'21	3,774.7	3.4%
Dec'20	3,651.0	6.1%
Nov'20	3,440.8	13.7%
Oct'20	3,026.0	3.3%
Sep'20	2,928.1	3.9%

Source: MOFSL, Bloomberg

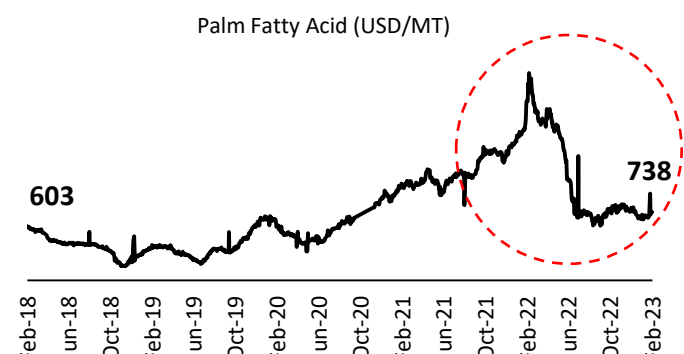
Exhibit 8: Palm fatty acid MoM prices

Month	Month Avg.	MoM (%)
Feb'23	722.7	0.5%
Jan'23	718.9	(6.2%)
Dec'22	766.2	(0.3%)
Nov'22	768.8	6.1%
Oct'22	724.9	8.0%
Sep'22	671.3	(7.8%)
Aug'22	727.9	(10.1%)
Jul'22	809.9	(31.3%)
Jun'22	1,178.8	(18.0%)
May'22	1,436.8	(1.9%)
Apr'22	1,465.0	(10.1%)
Mar'22	1,629.4	15.4%
Feb'22	1,411.5	11.0%
Jan'22	1,271.4	7.6%
Dec'21	1,182.0	(2.4%)
Nov'21	1,211.3	3.8%
Oct'21	1,166.5	13.7%
Sep'21	1,026.3	(0.1%)
Aug'21	1,027.8	4.2%
Jul'21	986.5	5.6%
Jun'21	933.9	(8.7%)
May'21	1,022.8	6.2%
Apr'21	963.0	0.9%
Mar'21	954.7	4.5%
Feb'21	913.5	6.2%
Jan'21	860.3	6.0%
Dec'20	811.3	NA
Nov'20	NA	NA
Oct'20	682.3	2.6%
Sep'20	665.1	8.4%

Source: MOFSL, Bloomberg

Exhibit 9: High volatility witnessed in last two years in Malaysian palm oil prices...

Source: MOFSL, Bloomberg

Exhibit 10: ...so was the case with palm fatty acid

Source: MOFSL, Bloomberg

What went wrong in the last 12 months?

There were two key challenges for GCPL in the past 12 months:

- **Higher input costs:**
 - Over the past 12 months, commodity costs saw a significant jump, which negatively affected all the companies in the staples pack. However, as previously highlighted, the impact was higher for GCPL.
 - In the last few months, we have seen that commodity costs have started declining from the peak levels (as also highlighted in our [detailed note in Nov'22](#)), with palm correcting the most.
 - Hence, we believe, that the issue of elevated commodity costs will ease in the near term.
- **Weak Household Insecticides (HI) season:**
 - The company's performance in this category has been weak for the past 12 months due to a weakness in the entire market and unprecedented rainfall in key markets of GCPL.
 - We are unsure about the recovery yet; however, due to a lower base from 4QFY22 onwards, the growth momentum will improve over the next few months if the season is favorable. Sustainable double-digit growth in this category may be a couple of years away.
 - GCPL continues to hold its market share in this category.

Ex-HI, other categories are doing well

Soaps

- Soaps is the most penetrated category domestically, with nearly 100% penetration. The category development activities by GCPL have helped it deepen the penetration in soaps. High penetration levels, intense competition, and price sensitivity make this category challenging for growth.
- GCPL has done a good job in the Soaps category over the last decade and was able to gain market share in this category, which now stands around the mid-teens from single digits in the last decade. The management also highlighted in 3QFY23 that GCPL continued to gain market share. We expect GCPL to continue to gain share, given strength of Godrej No. 1 and Cinthol brands. Godrej No. 1 is now the second largest brand by volume.
- The recently launched Magic Hand Wash, its first global product, has received a good response and the management intends to expand it into the broader Personal Wash segment as well.
- The penetration level of Liquid Wash is still very low in India v/s other developing countries, which offers scope for growth. The format is also margin-accretive, with liquids estimated to have 1.3-1.4x more margin play. GCPL is now ranked second in terms of market share by volumes in the Liquid Hand Wash category.
- With the palm oil prices correcting, the management has started to pass on the cost benefit to consumers, which should drive volumes for the category.

- A five-year revenue CAGR of the soaps business was 5.2% in FY21, but the trend has been improving for the past few years. The company has rejigged its segments recently, and hence soaps data after FY21 is not available.
- In our view, innovation in Personal Care is an area where Mr. Sitapati could contribute immensely, given his rich experience at HUVR.

Exhibit 11: GCPL's range of premium soap offerings...

Source: Company

Exhibit 12: ...along with strong dominance in value segment

Source: Company

Exhibit 13: GCPL launched 'Magic Hand Wash' (powder to liquid) at appealing price point

India & SAARC

Source: MOFSL, Company

Hair Care/Hair Color

- Within Hair Care in India, GCPL's Hair Color has an overall penetration of little over 50% (mainly the powder format), with the crème format's penetration at sub-20%.
- As per a report by Nielsen, the Colorants category is growing at a 15% rate annually v/s 10% for the overall Hair Care segment in India.
- Crème portfolio: Crème is the fastest growing category and has the highest salience for GCPL. Recently, GCPL introduced an INR15 access pack to cater to the mass market, whereas the earlier access pack is available at INR35. It has received an encouraging response and would help in driving penetration.

- The large Indian millennial population, which would begin greying in the coming decade, would be the addressable market for GCPL substantially.
- In 3QFY23, Hair Color witnessed growth in teens. We expect healthy momentum to continue in this category on the back of increasing penetration led by market development.

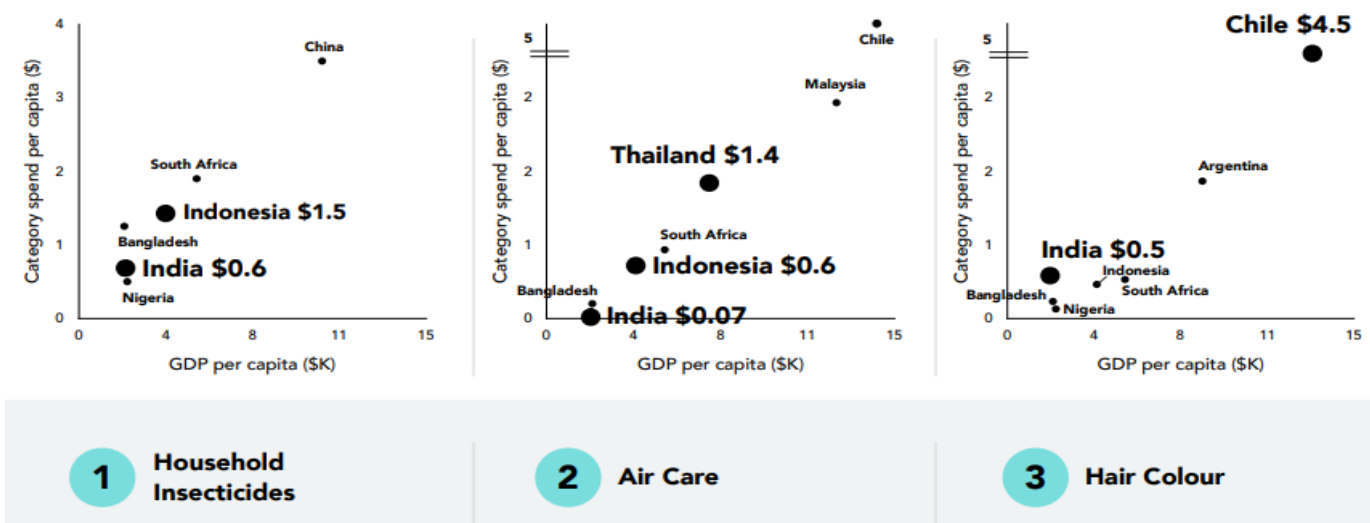
Exhibit 14: Godrej expert's 5-minute shampoo-based hair color



Source: Company

Air Care

- Air Care (part of GCPL's 'Others' business) is a grossly underpenetrated category in India. The management expects Air Care to be a high-growth category.
- The per capita consumption for Air Care in India is just seven cents but it is 7-8x in Indonesia, which has double the per capita income of the former.
- This is a category where GCPL did very well in the later part of the last decade even as the category growth in other domestic businesses tapered off.
- Management is investing in category development initiatives with [effective communication](#). The arrival of guests at home will be GCPL's focus area for creating relevance in this category and is expected to require significant investments in A&P.
- For example, 'Godrej Aer Power Pocket', which is their patented gel technology for air fresheners, did extremely well after the launch but then moderated. However, the management has begun its new campaign, "[If bathrooms could talk](#)," and GCPL is seeing explosive growth in the category after marketing activities.
- In 3QFY23, the management emphasized on strong growth momentum and also stated that Air Fresheners are witnessing market share gains by growing ahead of market.

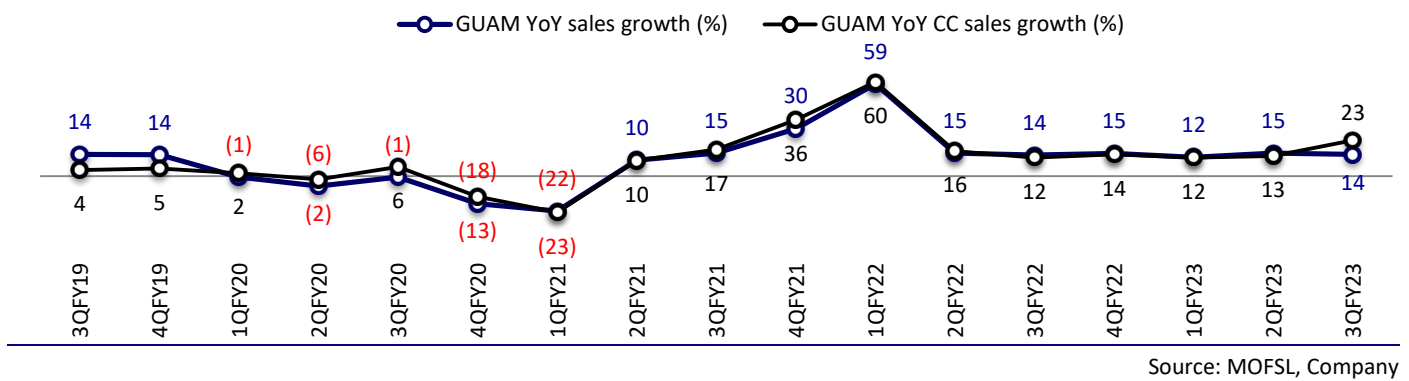
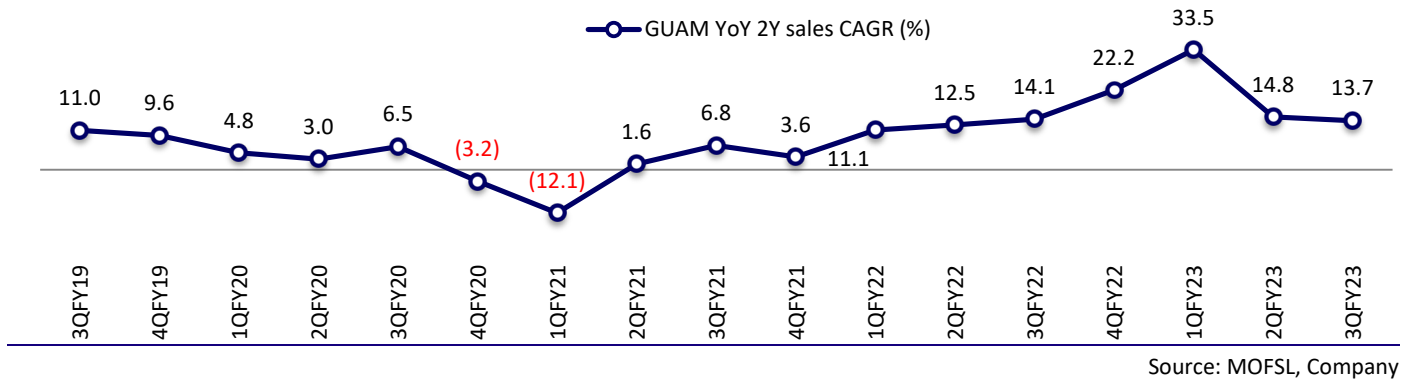
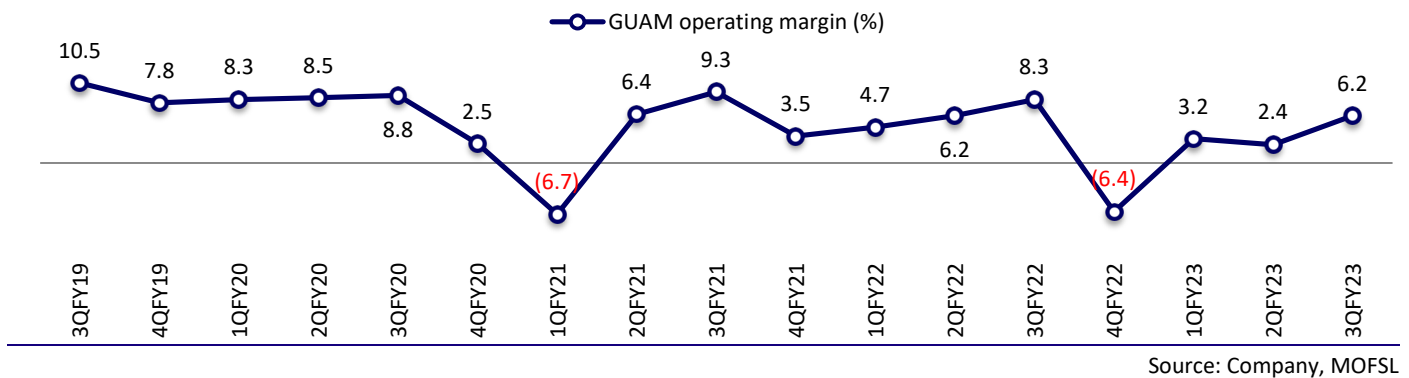
Exhibit 15: India's per capita consumption of HI, Air Care and Hair Color significantly lower v/s other developing countries

Source: Company Presentation, 2021

International business

Godrej Africa, USA, Middle East (GAUM)

- In GAUM, West Africa (i.e., Nigeria and Ghana) accounts for 30-35% of the business, followed by South Africa (at 25-30%), Kenya, and smaller nations. The US constitutes 20-25% of the overall business, primarily caters the Wet Hair category.
- The Africa business was facing challenges earlier but is now turning around.
- The management is working on expanding distribution and product availability. Currently, its coverage has grown by over 2.5x from CY20 levels.
- GCPL recently organized a [conference call](#), led by Mr. Dharnesh Gordhon (Business Head – GAUM), to discuss its business performance and strategy for the GAUM region, highlighting the simplification of business. Given the breadth of GCPL's product portfolio, there is a need to rationalize the number of SKUs to achieve the on-ground simplification. In Kenya, GCPL has already halved the number of SKUs.
- The management is also working on category development with a significant increase in the working media investments across Dry Hair and FMCG verticals.

Exhibit 16: In 9MFY23, GAUM revenue increased 13.6%**Exhibit 17: Two-year sales CAGR remains healthy at 13.7% in 3QFY23****Exhibit 18: Operating margin impacted by one-time pilferage and commodity cost inflation**

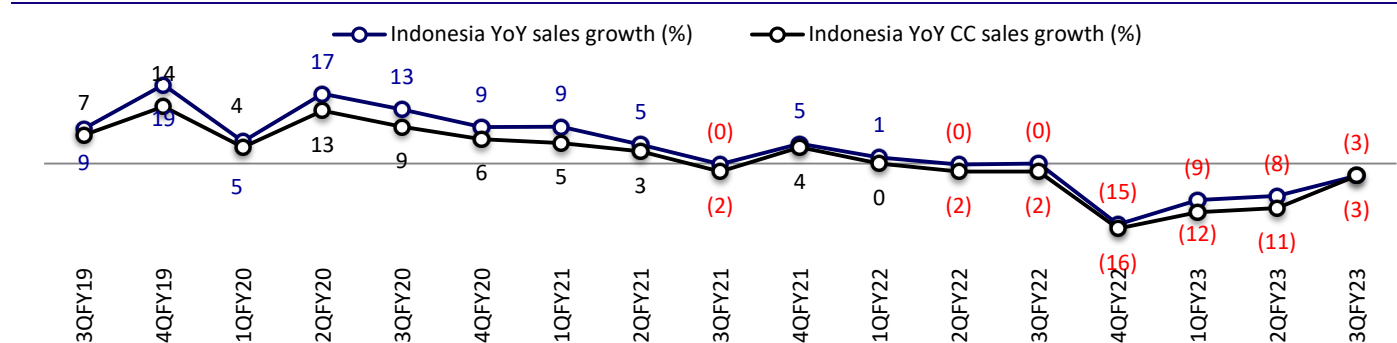
Indonesia business

- GCPL made a key management change in the ASEAN business. It recently appointed a new CEO for the ASEAN business, Mr. Rajesh Sethuraman, from 1st Jul'22. Mr. Sethuraman has 26 years of experience, with 21 years at HUL and Unilever, leading teams across categories and divisions in South Asia and Africa. He has also worked at Crompton Greaves and Heinz India.
- Focus of the management is clearly on marketing and distribution expansion, which, in turn, will increase the penetration levels. The management aims to develop the categories via
 - i) awareness led by advertisement,
 - ii) sampling and;
 - iii) getting accessibility.

Apart from this, the management also aims to significantly expand the general trade footprint in Indonesia.

- The management would also like to increase its indirect coverage through the use of active wholesalers and sub-dealers. It is further expanding its pharmacy reach and bolstering its e-commerce presence.
- The five-year sales CAGR has been weak at 2.2% over FY17-22. However, with the normalization of the saniter base, the performance should improve from 4QFY23. Over FY17-22, the EBITDA CAGR stood at 4.6%.
- Management commentary on the business has been noteworthy, wherein it has acknowledged some shortcomings on the execution front. However, ongoing efforts to increase the distribution reach present a potential for double-digit growth, despite some upfront costs.

Exhibit 19: Indonesia revenue declined by 3% on CC basis; ex-hygiene, it grew 2% YoY



Source: MOFSL, Company

Exhibit 20: Two-year sales CAGR lower due to high base of Saniter business



Source: MOFSL, Company

Exhibit 21: Operating margin started to revive from 2QFY23 onwards



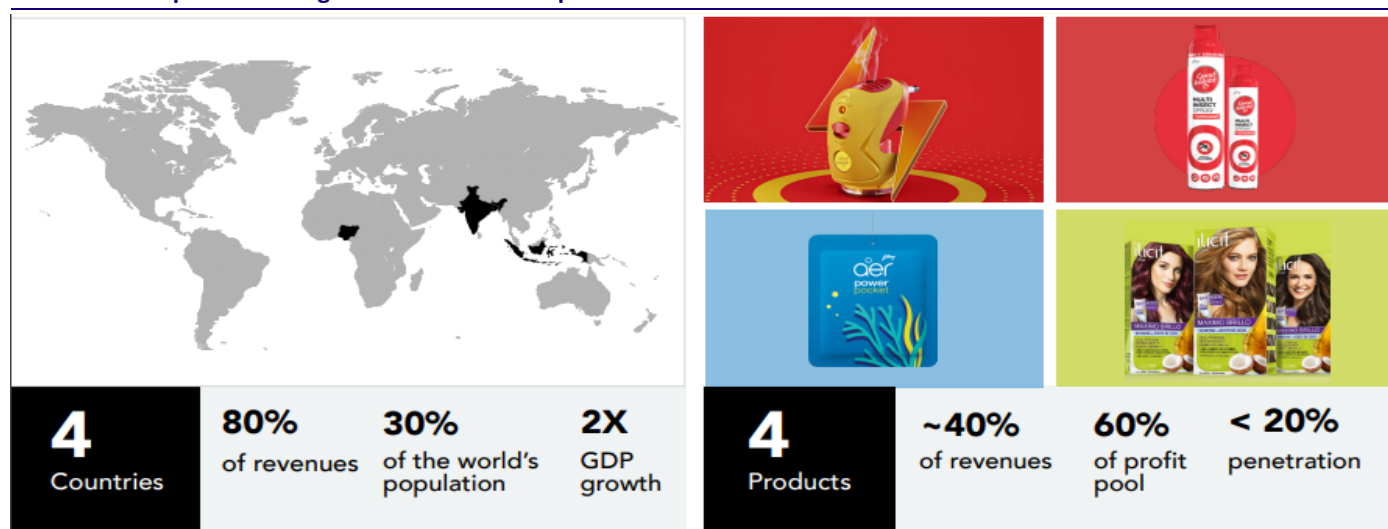
Source: MOFSL, Company

Strategic refresh highlights and updates

GCPL has a strong product portfolio with ample room to grow

- GCPL has four key products, which contribute 40% of sales and 60% of profit and are deeply underpenetrated. There is ample room to grow in liquid vaporizers (LV) and aerosols in HI, grey coverage in Hair Color, and Air Care categories.
- India, Indonesia, Nigeria, and Bangladesh collectively contribute 80% of GCPL's sales. These four countries are home to 30% of the world's population and are growing at a much faster pace than the rest of the world.

Exhibit 22: Ample room for growth in the chosen products and market



Source: Company Presentation, 2021

Complexity was high; simplifying the structure

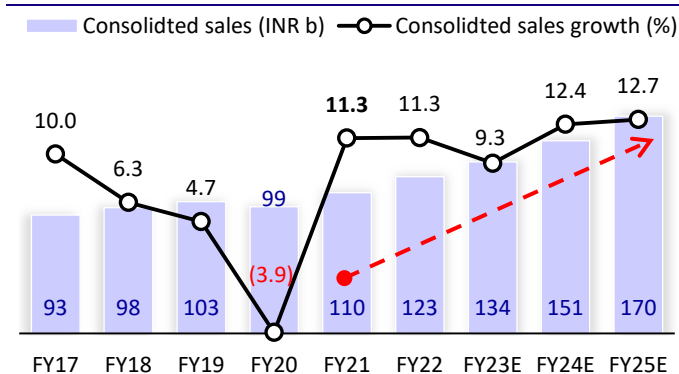
- Since GCPL has many brands, focusing on the core business has become challenging, which affected growth. It also has high inventory, 1.7x of ideal levels. The India business has 500 SKUs, but most stores maintain only 12 SKUs. Mr. Sitapati views the complexity of operations and structure as cumbersome.
- The management has started working on simplifying the structure. GCPL has created a global category management structure, with HI, Hair Care, and Air Care to be managed centrally.
- The management targets to reduce the number of SKUs and to introduce digitally enabled simplification in SKUs. GCPL has achieved a 25% reduction in SKUs in India in the last six months and ~1/3rd in GAUM in the last one year.
- Due to the SKU reduction, inventory days are expected to come down, which will help to release working capital.

Implementation of strategies

Strategy	Actions
❖ Less is more; much less is even more: GCPL will see fewer but bigger innovations. It will reduce the number of SKUs.	■ The management has started reducing the number of SKUs. In India, GCPL has reduced SKUs by ~25% in the last six months and by one-third in GAUM in the last one year.
❖ Think local and act global: The strategy will be centralized, but innovation would be localized.	■ GCPL recently launched the gel-to-liquid body wash 'Magic Body Wash', which follows the successful launch of Magic Hand Wash. These were local innovations and launched globally.
❖ Consumer first, business second: Focus on consumer investments and delink it from a short-term business performance to ensure that consumers get the highest priority.	■ The management emphasized it will invest in category development and educating consumers about new products. GCPL has stepped up A&P spends, and recent TV commercials are pulling consumers.

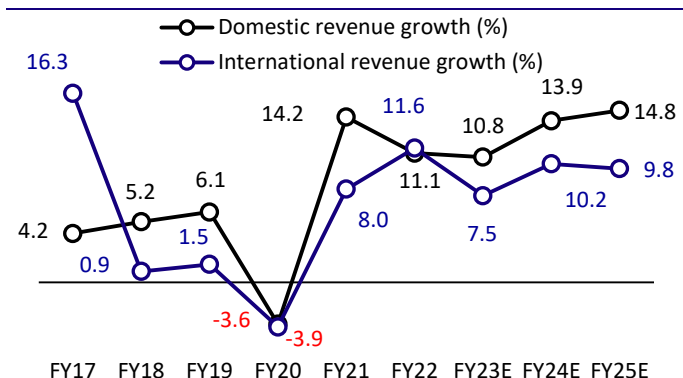
Story in charts

Exhibit 23: Sales momentum revived from FY21 onward...



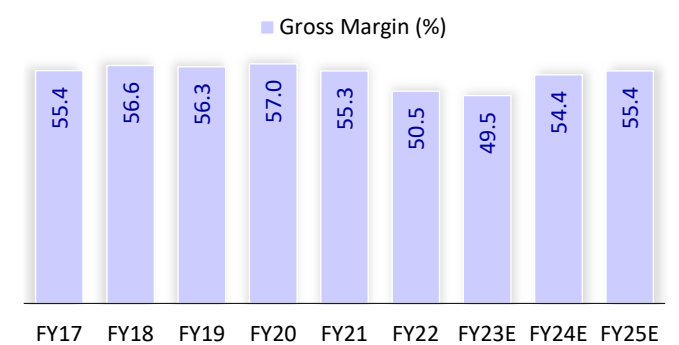
Source: MOFSL, Company

Exhibit 24: ...led by domestic business and we expect it to sustain



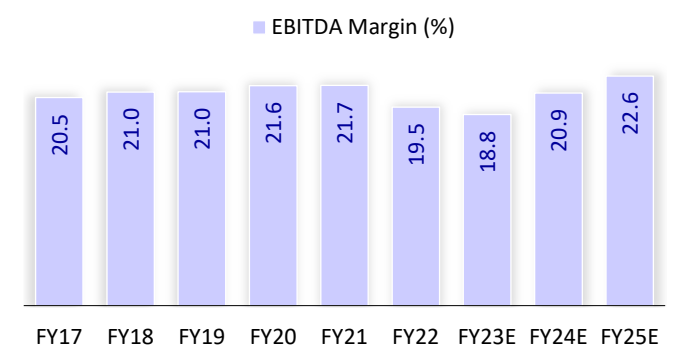
Source: MOFSL, Company

Exhibit 25: As the commodity costs moderates we expect gross margin...



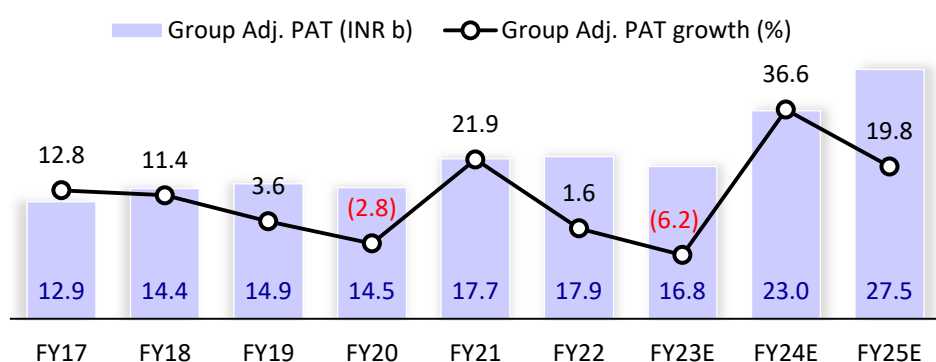
Source: MOFSL, Company

Exhibit 26: ...as well as EBITDA margin to revert back from FY24 onwards...



Source: MOFSL, Company

Exhibit 27: ...which will translate to healthy PAT growth



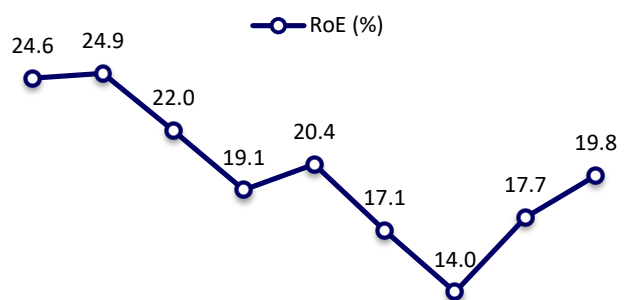
Source: MOFSL, Company

Exhibit 28: We expect cash conversion cycle to revert to its FY19-FY20 levels in the long term; If the international business performs better than expected, it may happen by FY25 or even before

Particulars	Days (on avg. basis)							Days (on closing basis)						
	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Inventory days	55	60	57	57	56	51	52	55	63	57	63	55	53	57
Debtor days	45	45	36	32	32	31	31	46	43	33	33	33	33	33
Creditor days	87	92	77	64	64	66	66	90	91	71	64	70	70	70
CCC days	14	13	16	24	24	16	17	11	14	19	32	18	16	20

Source: MOFSL, Company

Exhibit 29: RoE to improve gradually...



FY17 FY18 FY19 FY20 FY21 FY22 FY23E FY24E FY25E

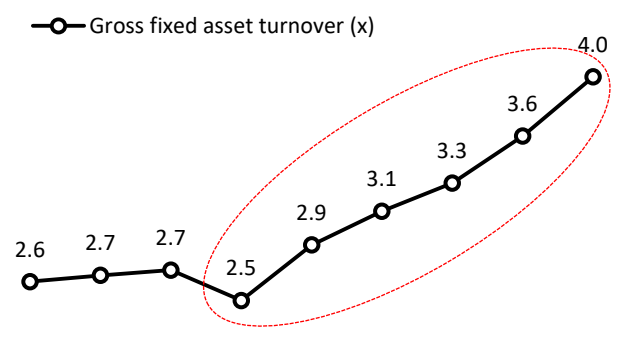
Source: MOFSL, Company

Exhibit 30: ...on the back of higher profitability

DU Pont	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
PAT Margin	13.9	14.6	14.5	14.6	16.0	14.6	12.5	15.2	16.2
Asset T/O	1.1	1.0	1.0	0.9	1.1	1.1	1.1	1.1	1.2
Leverage factor	1.7	1.7	1.5	1.4	1.2	1.1	1.1	1.0	1.0
RoE	24.6	24.9	22.0	19.1	20.4	17.1	14.0	17.7	19.8

Source: MOFSL, Company

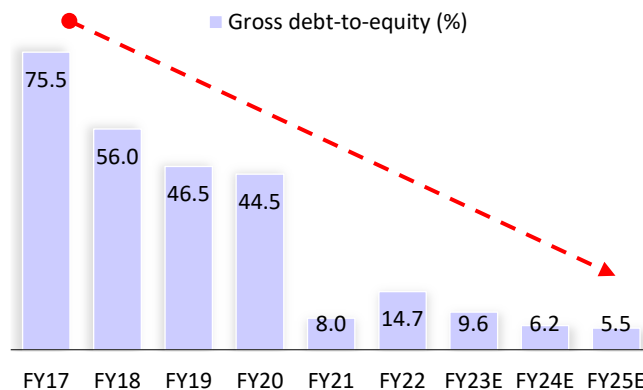
Exhibit 31: Operating efficiency improving gradually



FY17 FY18 FY19 FY20 FY21 FY22 FY23E FY24E FY25E

Source: MOFSL, Company

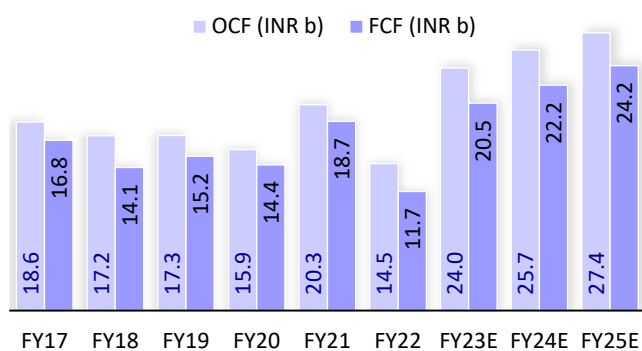
Exhibit 32: Gross debt-to-equity sees sharp improvement



FY17 FY18 FY19 FY20 FY21 FY22 FY23E FY24E FY25E

Source: MOFSL, Company

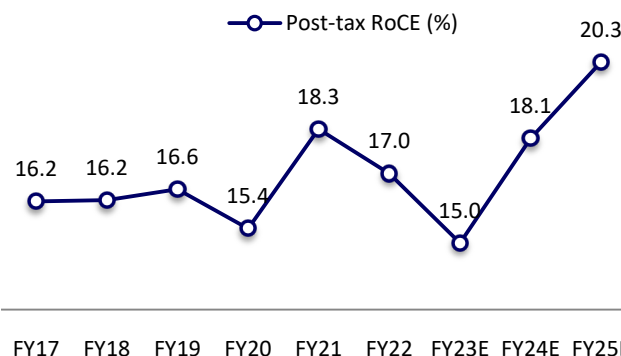
Exhibit 33: Operating cash flows witness good momentum and we expect it to continue...



FY17 FY18 FY19 FY20 FY21 FY22 FY23E FY24E FY25E

Source: MOFSL, Company

Exhibit 34: ...leading to improvement in RoCE



FY17 FY18 FY19 FY20 FY21 FY22 FY23E FY24E FY25E

Source: MOFSL, Company

Valuation and view

- GCPL's domestic businesses had demonstrated a strong sales growth in the first half of the last decade, before losing steam in the second half. Domestic and consolidated sales growth crossed double digits in the last two years and may do so in FY23 as well, far better than the 4.1% sales CAGR between FY16 and FY20.
- The company is also expected to be the biggest beneficiary of the sharp reduction in raw material costs (especially palm oil) from peak for the next few quarters.
- With the new CEO focusing on improving growth in the high- margin, high-RoCE domestic business, as highlighted in our recent [CEO meet note](#), GCPL's medium-term earnings growth outlook is strong. The valuation at ~34x FY24E EPS is inexpensive and is at a steep discount to staples peers. We maintain our **BUY** rating with a TP of INR1,080 (based on SoTP valuation: 50x domestic business, 20x Indonesia business, 15x GAUM and other business).

Exhibit 35: GCPL trades at favorable valuation v/s rest of our Staples Universe

Company	Reco	CMP (INR)	Target Price		Mkt Cap		Mkt Cap (USD B)	EPS (INR)			P/E (x)		
			(INR)	Upside (%)	(INR B)	(INR Cr)		FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
GCPL	Buy	926	1,080	17	932	93,245	11.4	16.4	22.5	26.9	56.3	41.2	34.4
CLGT	Neutral	1,503	1,565	4	407	40,739	5.0	37.5	43.1	47.4	40.1	34.9	31.7
MRCO	Buy	499	580	16	644	64,377	7.9	9.7	11.2	12.6	51.6	44.7	39.5
BRIT	Neutral	4,414	4,600	4	1,055	1,05,540	12.9	80.1	89.0	101.8	55.1	49.6	43.4
DABUR	Buy	535	650	22	934	93,412	11.4	10.5	11.9	14.4	50.8	44.8	37.2
HUVR	Buy	2,470	3,100	26	5,767	5,76,737	70.4	42.7	48.8	56.4	57.9	50.6	43.8
NEST	Neutral	18,458	19,875	8	1,783	1,78,280	21.7	247.9	289.2	348.3	74.4	63.8	53.0
PG	Neutral	14,050	15,180	8	448	44,845	5.5	174.8	269.2	315.1	80.4	52.2	44.6

Source: Bloomberg, MOFSL

Financials and valuations

Income Statement								(INR b)
Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
Net Sales	98.5	103.1	99.1	110.3	122.8	134.2	150.8	170.0
Change (%)	6.3	4.7	-3.9	11.3	11.3	9.3	12.4	12.7
Gross Profit	55.7	58.1	56.5	61.0	62.0	66.4	82.0	94.1
Margin (%)	56.6	56.3	57.0	55.3	50.5	49.5	54.4	55.4
Total Expenditure	77.8	81.5	77.7	86.4	98.8	109.0	119.3	131.6
EBITDA	20.7	21.7	21.4	23.9	24.0	25.2	31.5	38.3
Change (%)	8.9	4.9	-1.2	11.4	0.3	5.2	25.0	21.7
Margin (%)	21.0	21.0	21.6	21.7	19.5	18.8	20.9	22.6
Depreciation	1.6	1.7	2.0	2.0	2.1	2.3	2.4	2.6
Int. and Fin. Charges	1.6	2.2	2.2	1.3	1.1	1.7	1.3	1.3
Interest Income	0.7	0.9	0.8	0.4	0.6	1.1	1.3	1.6
Other Income-rec.	0.4	0.2	0.4	0.3	0.3	0.5	0.6	0.6
PBT	18.6	18.8	18.4	21.2	21.6	21.6	29.6	36.7
Change (%)	10.2	1.4	-2.3	15.4	1.9	-0.4	37.4	23.9
Margin (%)	18.9	18.3	18.6	19.3	17.6	16.1	19.7	21.6
Total tax	4.0	3.9	3.9	3.6	3.7	4.7	6.7	
Tax Rate (%)	21.8	20.9	21.4	16.9	17.2	22.0	22.5	25.0
PAT	14.5	14.9	14.5	17.7	17.9	16.8	23.0	27.5
Change (%)	11.2	2.5	-2.9	22.0	1.6	-6.2	36.6	19.8
Margin (%)	14.8	14.4	14.6	16.0	14.6	12.5	15.2	16.2
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Group Adjusted PAT	14.4	14.9	14.5	17.7	17.9	16.8	23.0	27.5
Non-rec. (Exp.)/Income	1.8	8.5	0.5	-0.4	-0.1	0.0	0.0	0.0
Reported PAT	16.3	23.4	15.0	17.2	17.8	16.8	23.0	27.5

Balance Sheet								(INR b)
Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
Share Capital	0.7	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Reserves	61.9	71.6	78.0	93.4	114.5	123.2	133.9	142.0
Minority Int	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Networth	62.6	72.7	79.0	94.4	115.6	124.2	134.9	143.0
Loans	35.1	33.8	35.2	7.6	17.0	11.9	8.4	7.9
Deferred Liability	1.9	-4.7	-5.7	-6.4	-6.8	-6.8	-6.8	-6.8
Capital Employed	99.6	101.8	108.5	95.6	125.8	129.3	136.4	144.1
Gross Block	39.6	42.1	45.2	46.3	49.4	52.9	56.4	59.6
Less: Accum. Depn.	3.6	4.6	6.3	8.6	11.0	13.2	15.7	18.2
Net Fixed Assets	36.0	37.5	38.9	37.7	38.4	39.7	40.7	41.4
Capital WIP	0.8	0.5	0.6	0.6	1.2	1.2	1.2	1.2
Goodwill	47.2	49.2	53.4	51.3	53.8	53.8	53.8	53.8
Non Curr Investments	1.4	0.3	0.3	0.2	1.7	1.5	1.4	1.2
Current Investments	8.6	4.8	6.4	6.6	8.4	9.3	10.2	11.2
Currents Assets	44.7	43.8	43.5	39.6	50.5	56.6	65.7	76.2
Inventory	15.8	15.6	17.0	17.2	21.3	20.2	21.9	26.5
Account Receivables	12.5	12.9	11.6	10.0	11.2	12.1	13.6	15.4
Cash and Bank Balance	9.6	8.9	7.7	6.7	11.1	17.2	23.1	27.2
Loans and Advances	6.8	6.3	7.1	5.6	6.8	6.8	6.8	6.8
Other Current Assets	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Curr. Liab. & Prov.	39.0	34.4	34.6	40.5	28.2	32.6	36.5	40.9
Account Payables	23.5	25.4	24.8	21.6	21.6	25.7	28.9	32.6
Other Liabilities	15.3	8.7	9.3	18.3	6.4	6.7	7.4	8.1
Net Current Assets	5.6	9.4	8.9	-0.8	22.3	23.9	29.2	35.3
Net Assets	99.6	101.8	108.5	95.6	125.8	129.3	136.4	144.1

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
Basic (INR)								
EPS	14.1	14.6	14.2	17.3	17.5	16.4	22.5	26.9
Cash EPS	23.4	16.2	16.1	19.3	19.6	18.7	24.8	29.4
BV/Share	91.9	71.1	77.3	92.3	113.0	121.4	131.9	139.8
DPS	9.0	12.0	8.0	0.0	0.0	8.0	12.0	19.0
Payout (%)	64.0	82.3	56.5	0.0	0.0	48.7	53.4	70.6
Valuation (x)								
P/E	65.7	63.4	65.3	53.5	52.7	56.2	41.1	34.3
Cash P/E	39.5	56.9	57.4	48.0	47.2	49.5	37.2	31.4
EV/Sales	6.6	9.4	9.8	8.6	7.7	7.0	6.2	5.4
EV/EBITDA	31.6	44.7	45.4	39.6	39.6	37.2	29.5	24.1
P/BV	10.1	13.0	12.0	10.0	8.2	7.6	7.0	6.6
Dividend Yield	1.0	1.3	0.9	0.0	0.0	0.9	1.3	2.1
Return Ratios (%)								
RoE	24.9	22.0	19.1	20.4	17.1	14.0	17.7	19.8
RoCE (Post-tax)	16.2	16.6	15.4	18.3	17.0	15.0	18.1	20.3
RoIC	19.3	19.0	16.9	20.7	19.6	17.6	22.5	26.3
Working Capital Ratios								
Debtor (Days)	46	46	43	33	33	33	33	33
Asset Turnover (x)	2.7	2.7	2.5	2.9	3.1	3.3	3.6	4.0
Leverage Ratio								
Debt/Equity (x)	0.6	0.5	0.4	0.1	0.1	0.1	0.1	0.1

Cash Flow Statement

(INR b)

Y/E March	2018	2019	2020	2021	2022	2023E	2024E	2025E
OP/(Loss) before Tax	20.5	20.4	20.6	23.8	23.8	23.4	31.5	38.6
Net interest	0.9	1.4	1.4	0.9	0.5	0.6	0.0	-0.3
Direct Taxes Paid	-4.1	-4.5	-3.6	-4.0	-4.5	-4.6	-6.4	-8.9
(Inc)/Dec in WC	-0.2	0.0	-2.6	-0.5	-5.4	4.5	0.6	-2.0
CF from Operations	17.2	17.3	15.9	20.3	14.5	24.0	25.7	27.4
Inc in FA	-3.1	-2.1	-1.5	-1.6	-2.8	-3.5	-3.5	-3.3
Free Cash Flow	14.1	15.2	14.4	18.7	11.7	20.5	22.2	24.2
Pur of Investments	0.4	2.9	-2.6	-0.1	-5.5	-0.7	-0.8	-0.9
Others	-0.2	1.6	0.0	-1.3	1.9	0.9	1.1	1.3
CF from Investments	-2.9	2.4	-4.2	-3.1	-6.4	-3.3	-3.2	-2.8
Inc in Debt	0.0	0.0	-1.3	-16.2	-2.2	-5.1	-3.6	-0.4
Dividend Paid	-6.1	-12.3	-8.2	0.0	0.0	-8.2	-12.3	-19.4
Interest Paid	-1.6	-2.1	-1.5	-1.6	-1.1	-1.7	-1.3	-1.3
Other Item	-6.1	-6.0	-2.0	-0.4	-0.5	0.5	0.6	0.6
CF from Fin. Activity	-13.8	-20.4	-13.0	-18.2	-3.8	-14.5	-16.6	-20.5
Inc/Dec of Cash	0.5	-0.7	-1.2	-1.0	4.4	6.1	5.9	4.1
Add: Beginning Balance	9.1	9.6	8.9	7.7	6.7	11.1	17.2	23.1
Closing Balance	9.6	8.9	7.7	6.7	11.1	17.2	23.1	27.2

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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