

**BUY** Godrej Consumer Products

ASIAMONEY BROKERS POLL - 2023

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## Getting the basics right; initiate with BUY

Consumer Goods ▶ Initiating Coverage ▶ June 30, 2023

TARGET PRICE (Rs) : 1,225

We initiate coverage on Godrej Consumer Products (GCPL) with a BUY and Jun-24E TP of Rs1,225/sh (on 46x its Jun-25E EPS; ~10% premium to its historical 5-year average forward P/E). With a revamped management team, GCPL targets resolving business issues and make businesses structurally sound. While domestically Company's thrust is on demand generation, its focus on the international front is to enhance supplies. We see efficiency benefits being redeployed for higher growth, given GCPL's improved margin profile. Company has set medium-term aspirations of low double-digit volume growth which, in our view, require a conducive setting. We build-in 12% sales CAGR and 21% EPS CAGR over FY23-26E. Key risks to our call: weakness in HI, heightened competition, raw-material inflation, and weak global macros.

## Godrej Consumer Products: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	122,765	133,160	152,498	170,175	187,410
EBITDA	23,951	24,305	30,914	36,775	42,532
Adj. PAT	17,915	17,459	21,344	25,943	30,667
Adj. EPS (Rs)	17.5	17.1	20.9	25.4	30.0
EBITDA margin (%)	19.5	18.3	20.3	21.6	22.7
EBITDA growth (%)	0.3	1.5	27.2	19.0	15.7
Adj. EPS growth (%)	1.9	(2.6)	22.2	21.6	18.2
RoE (%)	17.1	13.9	14.3	15.4	16.1
RoIC (%)	18.1	14.2	14.1	15.2	17.4
P/E (x)	61.0	62.6	51.2	42.1	35.7
EV/EBITDA (x)	45.3	44.8	35.1	29.4	24.9
P/B (x)	9.5	7.9	7.0	6.2	5.4
FCFF yield (%)	1.1	1.8	(0.3)	2.5	3.1

Source: Company, Emkay Research

## India: Addressing volatility in HI pivotal; actions under way

In its India operations, GCPL is among the top two across segments, with a healthy margin profile. While volatility in HI (38% of the branded business) remains the key concern, the remaining businesses are well placed to drive the category's growth and share. We believe category relevance will require sustained innovation, particularly in HI. Personal Wash is the second-biggest segment, where GCPL is gradually accumulating market share, buoyed by micro-marketing initiatives. The company's enhanced thrust on making the categories relevant and accessible will pave the way for double-digit growth in the medium term (GCPL is aiming at high single-digit volume growth).

## International: Thrust on simplicity and distribution to aid growth

Market opportunity for GCPL remains strong, with in-place category demand in respective markets; but the company is seeing a miss on distribution due to the high concentration in modern trade. In Indonesia, under the leadership of Rajesh Sethuraman (on-boarded in Jul-22), GCPL is addressing the go-to-market strategy (shift from branch model to India-like distribution) and is looking at enhanced focus on branding (for demand pull). In Africa, under the leadership of Dharnesh Gordhon, the company has been able to address the go-to-market approach, and incremental thrust is on FMCG operations, SKU rationalization and creating demand-pull with spends on brands (push-driven market).

## Risk-reward favorable; initiate coverage with BUY

What makes GCPL attractive is its healthy margin profile, despite business issues. Incrementally, on the back of actions by the new management, we see low-hanging fruit in cost-savings, which in turn will be redeployed to drive growth. We estimate topline growth at ~12% over FY23-26E, while earnings CAGR would be ~21% because of margin recovery (OPM expansion, from ~18.3% in FY23 to ~22.7% in FY26E). We initiate coverage on GCPL with a BUY recommendation and Jun-24E TP of Rs1,225/share, based on 46x P/E, which is at a ~10%/~20% premium to its last 5-/10-year historical average forward P/E, given the better earnings visibility.

Target Price – 12M	Jun-24
Change in TP (%)	NA
Current Reco.	BUY
Previous Reco.	-
Upside/(Downside) (%)	15
CMP (28-Jun-23) (Rs)	1,069.1

Stock Data	Ticker
52-week High (Rs)	1,085
52-week Low (Rs)	749
Shares outstanding (mn)	1,022.7
Market-cap (Rs bn)	1,093
Market-cap (USD mn)	13,324
Net-debt, FY22E (Rs mn)	-4,144

ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	1,149.2
ADTV-3M (USD mn)	14.0
Free float (%)	-
Nifty-50	18,986
INR/USD	82.1

## Shareholding, Mar-23

Promoters (%)	63.2
FPIs/MFs (%)	23.7/7.1

## Price Performance

(%)	1M	3M	12M
Absolute	1.8	11.5	34.6
Rel. to Nifty	(0.8)	(0.4)	12.4

## 1-Year share price trend (Rs)



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## Strategic actions to help valuation

**Stock valuation at 42x its FY25E PER is in line with its 5-year historical average forward P/E**

**We value GCPL at 46x its Jun-25E EPS, which is at a ~10%/20% premium to its historical 5-/10-year average P/E**

**We believe the strategic actions undertaken by the leadership have the potential to strengthen GCPL's fundamentals**

**70% of the business offers healthy profitability, while 25% of the business in Africa, USA and the Middle East is poised for mid-teen margin expansion**

- We favor GCPL encouraged by its strategic actions under the new leadership which are set to enhance its business fundamentals. We see current valuations at 42x for Mar-25E (in line with its last five-year historical average forward P/E) to gradually factor-in its long-term structural potential.
- We see sales/earnings CAGR at ~12%/21% over FY23-26E. In the long term, we see a runway of double-digit growth, as most of the company's core categories will benefit from penetration expansion.
- We initiate coverage on GCPL with a BUY recommendation and Jun-24E TP of Rs1,225/share, based on 46x P/E (~10%/~20% premium to its last 5-/10-year average historical forward P/E).

## We initiate with BUY, with Jun-24E TP of Rs1,225/share

Stock valuation at 42x its FY25E PER is in line with its five-year historical average forward PER. Given strategic actions in place under the new leadership team, we expect a valuation re-rating, propelled by business turnaround. As Management is revamping business fundamentals, GCPL is well placed given its healthy business margin. We expect efficiency gains to be redeployed in the business, where the company would expand A&P spends and micro-marketing initiatives.

We expect GCPL to trade at a premium to its historical P/E on account of enhancement in execution. Most of GCPL's categories have low penetration as well as low per-capita consumption. With economic growth, we expect a long runway of growth.

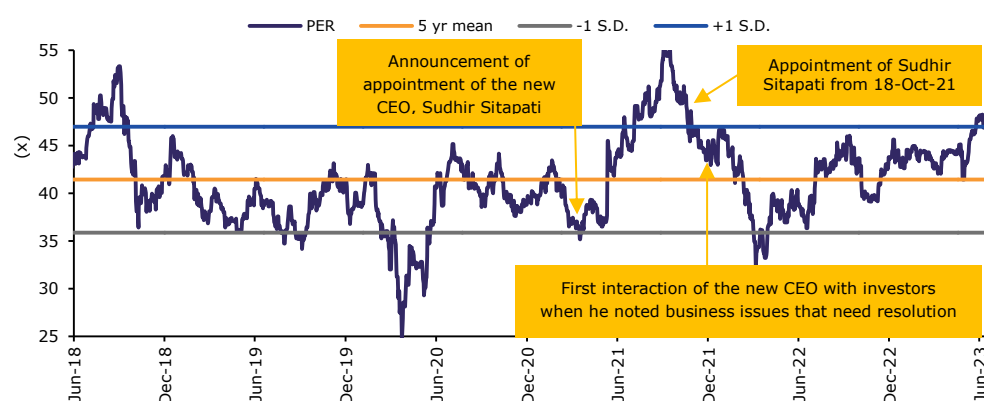
We value GCPL at 46x its Jun-25E EPS, which is at a ~10%/20% premium to its historical 5-/10-year average P/E. With Jun-24E TP of Rs1,225/share, we initiate coverage on the stock with a BUY recommendation.

## Decoding GCPL's valuation trail

Announcement of the appointment of the new CEO (from Unilever, effective Oct-21) helped in the stock re-rating, from -1x SD in May-21 to +2x SD in Sep-21. With the appointment date approaching, the stock witnessed some profit booking. The valuation gradually de-rated from Dec-21, when the new CEO had his first investor interaction and noted issues in the business along with highlighting medium-term fixes. The stock de-rated to below -1x SD in Mar-22. Post this, the stock has seen a gradual re-rating, as the new management has been highlighting an evolved strategy across geographies, though it is not reflected in its quarterly performance.

We believe strategic actions undertaken by the leadership have the potential to strengthen GCPL's fundamentals. On the positive front, 70% of the business offers healthy profitability and >25% EBITDA margin, while 25% of the business in Africa, USA and the Middle East is poised for mid-teen margin expansion. We believe any incremental savings will help the company double down on category development and market-share gains, implying healthy growth ahead.

**Exhibit 1: GCPL — One-year forward historical P/E**

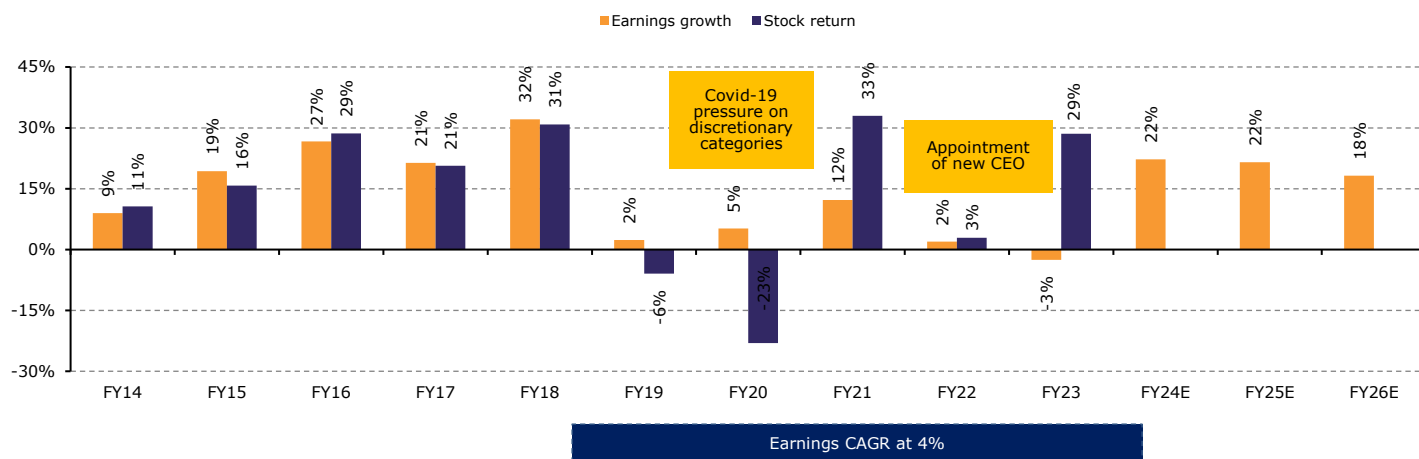


Source: Bloomberg, Emkay Research

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## Exhibit 2: GCPL's annual stock performance and earnings growth delivery

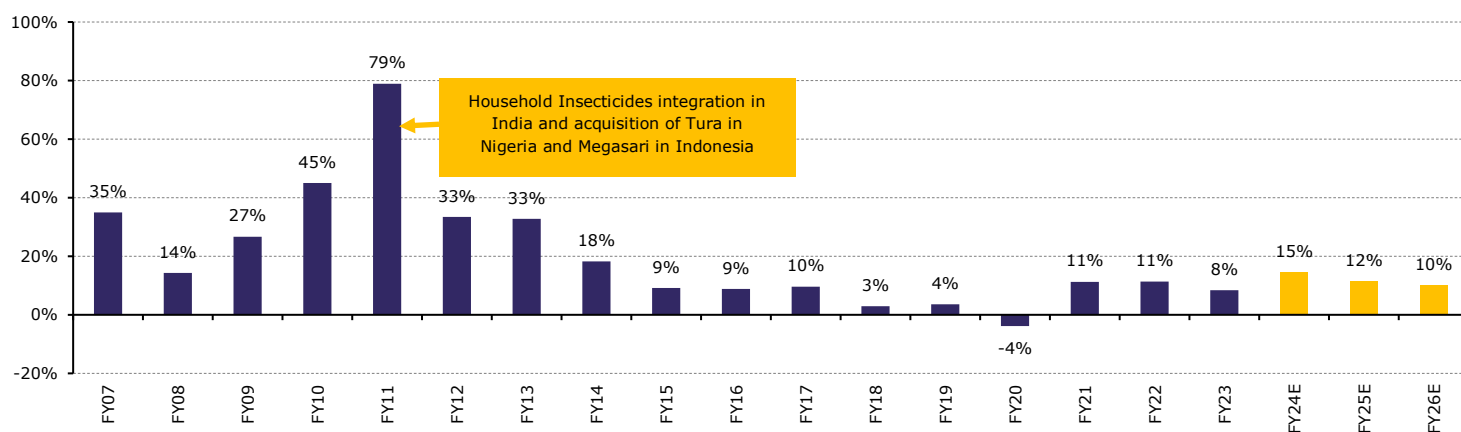


Source: Company, Bloomberg, Emkay Research

## Revenue/earnings CAGR at 12%/21% over FY23-26E

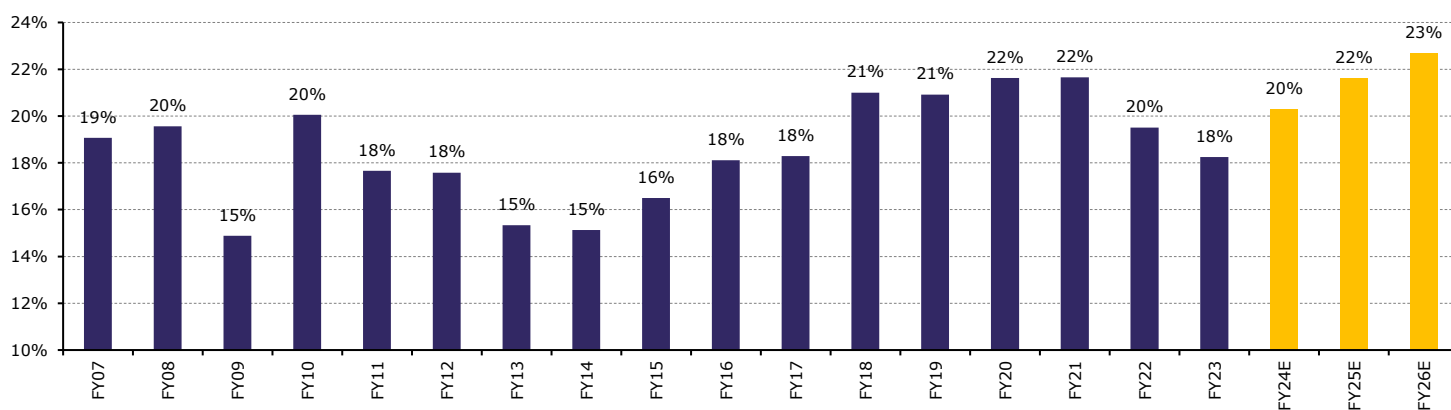
Over the next two years, we see low double-digit top-line growth which, in our view, will accelerate over coming 3-5 years, given multiple initiatives being in place. Over FY23-26E, we see margins recovering to ~23%, beyond which the thrust would be to deploy any expansion aimed at driving the topline.

## Exhibit 3: Consolidated revenue growth



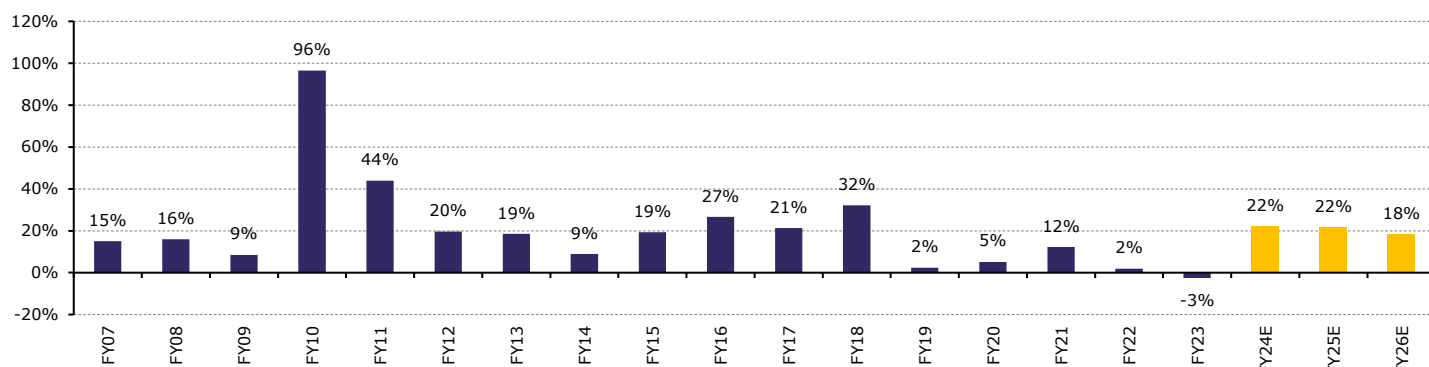
Source: Company, Emkay Research

## Exhibit 4: Consolidated EBITDA margin



Source: Company, Emkay Research

## Exhibit 5: Consolidated earnings growth



Source: Company, Emkay Research

## Actions in place to improve the balance sheet and cash flow

### Actions to diversify GTM and reduce number of SKUs to aid working capital

GCPL, backed by its international operations, has a relatively high working-capital requirement in the business. Management being attentive has a strategy in place to reduce inventory days as well as receivable days, going ahead.

### Exhibit 6: Accessing the working capital position

(Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23
<b>Consolidated</b>							
Revenue	92,428	97,722	1,02,211	98,265	1,09,360	1,21,742	131,987
Inventory	14,125	15,777	15,586	17,031	17,163	21,299	15,372
Receivables	10,287	12,455	12,929	11,573	10,045	11,163	12,453
Payables	17,239	23,531	25,399	24,805	21,596	21,631	18,232
Inventory days (no. of)	56	59	56	63	57	64	43
Receivable days (no. of)	41	47	46	43	34	33	34
Payable days	68	88	91	92	72	65	50
<b>Net working capital (no. of days)</b>	<b>28</b>	<b>18</b>	<b>11</b>	<b>14</b>	<b>19</b>	<b>32</b>	<b>27</b>
<b>Standalone (India business + Exports)</b>							
Revenue	46,728	51,626	55,568	53,620	61,340	68,127	75,308
Contribution	51%	53%	54%	55%	56%	56%	57%
Inventory	5,619	5,763	6,151	6,577	7,028	7,908	5,916
Receivables	2,093	2,486	3,532	3,055	2,475	3,369	3,208
Payables	11,204	14,529	14,576	12,431	8,024	6,253	7,111
Inventory days (no. of)	44	41	40	45	42	42	29
Receivable days (no. of)	16	18	23	21	15	18	16
Payable days (no. of)	88	103	96	85	48	34	34
<b>Net working capital (no. of days)</b>	<b>-27</b>	<b>-44</b>	<b>-32</b>	<b>-19</b>	<b>9</b>	<b>27</b>	<b>10</b>
<b>Subsidiaries</b>							
Revenue	45,700	46,096	46,643	44,645	48,020	53,615	56,679
Contribution	49%	47%	46%	45%	44%	44%	43%
Inventory	8,506	10,014	9,435	10,454	10,135	13,391	9,456
Receivables	8,194	9,969	9,397	8,518	7,570	7,794	9,245
Payables	6,035	9,002	10,823	12,374	13,572	15,378	11,121
Inventory days (no. of)	68	79	74	85	77	91	61
Receivable days (no. of)	65	79	74	70	58	53	60
Payable days (no. of)	48	71	85	101	103	105	72
<b>Net working capital (no. of days)</b>	<b>85</b>	<b>87</b>	<b>63</b>	<b>54</b>	<b>31</b>	<b>40</b>	<b>49</b>

Source: Company, Emkay Research

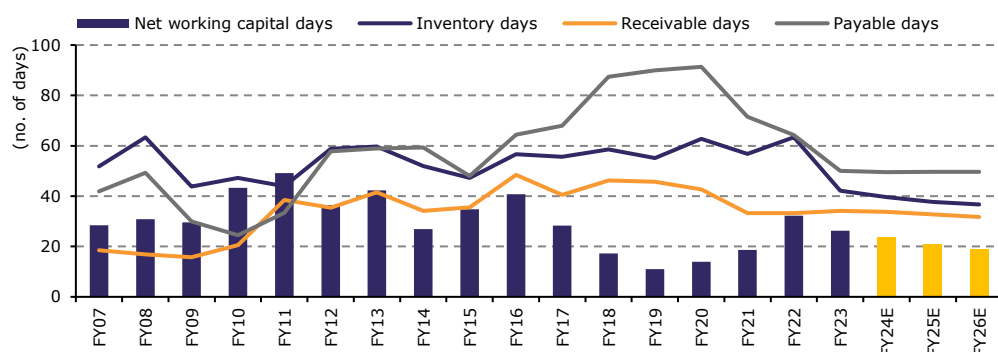
**Lower payable days in India – A factor of the shift from structured financing to borrowings. As interest costs have declined, the company has raised working-capital loans to pair payables**

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From subsidiary working capital situation perspective, as the company diversifies, from modern trade to general trade, receivable days will decrease. Similarly, inventory holding will ease, albeit staying stretched in select cases. For instance, in Africa, fiber is sourced from Japan, which takes three months to ship.

**Exhibit 7: GCPL's consolidated working capital trends**



Source: Company, Emkay Research

Note: Calculations based on net sales

**Strategic focus on reducing working capital requirement in the business**

**Adjusted for intangibles, the RoCE profile for FY22 is healthy in India at ~75% and in Indonesia at ~41%. However, the GAUM cluster has sub-par RoCE**

**High intangibles remain a drag on the return profile; healthy adjusted returns**

On account of its past acquisition spree, the company has high accumulated intangibles in its balance sheet, with ~37% of the network blocked in goodwill. This has a bearing on the company's return profile, but if we adjust for intangibles, the FY22 return profile looks healthy, at ~75% in India and at ~41% for Indonesia. We see the Africa cluster turnaround as business-critical, as the business offers sub-par returns at ~6% for FY22, even post adjusting the goodwill.

**Exhibit 8: Inorganic forays have led to high intangibles**

(Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
<b>Goodwill</b>	<b>41,424</b>	<b>46,626</b>	<b>47,189</b>	<b>49,180</b>	<b>53,393</b>	<b>51,344</b>	<b>51,344</b>	<b>51,344</b>
% of net worth	97%	88%	75%	68%	68%	54%	44%	37%
- India	25	25	25	25	25	25	25	25
- Indonesia	12,986	13,454	13,527	14,525	16,014	15,284	15,284	15,284
- Africa (Including SON)	22,482	27,663	27,854	29,655	32,334	31,062	31,062	31,062
- Argentina	3,051	2,988	2,994	3,186	3,172	3,025	3,025	3,025
- Others	2,880	2,496	2,788	1,789	1,849	1,949	1,949	1,949
<b>Brand</b>								
- India		7,914	7,914	7,913	7,913	7,913	7,913	
- Africa		13,014	13,392	14,492	15,387	14,138	14,264	

Source: Company, Emkay Research

## Exhibit 9: Return on capital employed

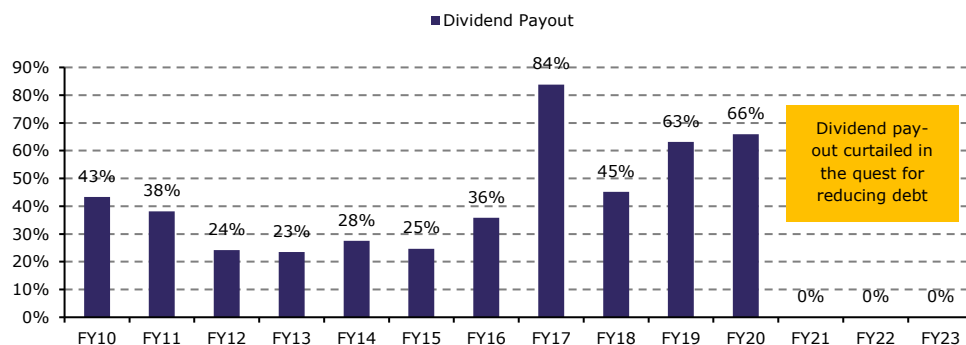
(Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
<b>India</b>								
Capital Employed	13,528	17,714	17,263	20,004	25,276	24,956	34,830	43,630
Capital Employed (adj. for Brand and Goodwill)		9,775	9,324	12,067	17,339	17,019	26,893	
RoCE	66%	69%	72%	77%	60%	62%	55%	45%
RoCE (adj. for Brand and Goodwill)			133%	135%	93%	91%	75%	
<b>Indonesia</b>								
Capital Employed	21,876	19,981	21,962	22,808	23,347	21,942	26,343	30,680
Capital Employed (adj. for Brand and Goodwill)		6,527	8,435	8,283	7,333	6,658	11,059	
RoCE	13%	14%	14%	17%	18%	20%	15%	10%
RoCE (adj. for Brand and Goodwill)			41%	44%	54%	66%	41%	
<b>Africa, USA and the Middle East</b>								
Capital Employed	35,675	57,492	57,603	58,507	62,071	60,101	63,315	66,593
Capital Employed (adj. for Brand and Goodwill)		16,815	16,356	14,359	14,351	14,901	17,989	
RoCE	6%	6%	4%	2%	3%	2%	2%	4%
RoCE (adj. for Brand and Goodwill)			13%	9%	11%	7%	6%	

Source: Company, Emkay Research

## Operating cash helps capex needs

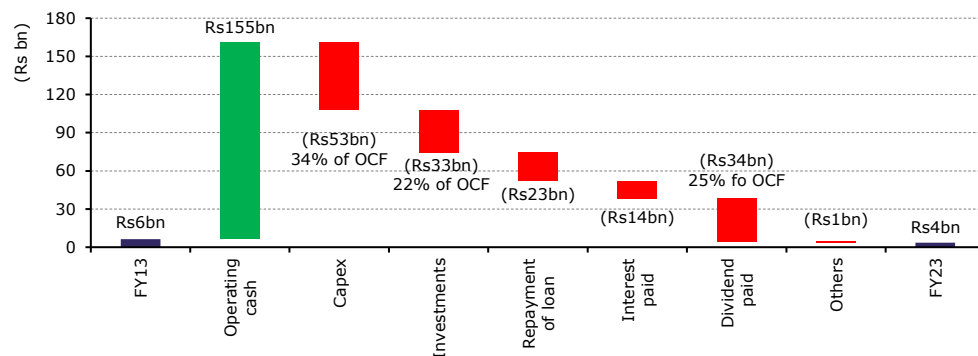
Our assessment of last decade's cash flows suggests that the company has used 34% of the funds for capex needs, while 22% was returned to shareholders in the form of dividend.

## Exhibit 10: Dividend payout



Source: Company, Emkay Research

## Exhibit 11: GCPL's cumulative operating cash generation and utilization in the last decade



Source: Company, Emkay Research

**The company has prioritized debt repayment over FY21-23 which is why dividend was nil**

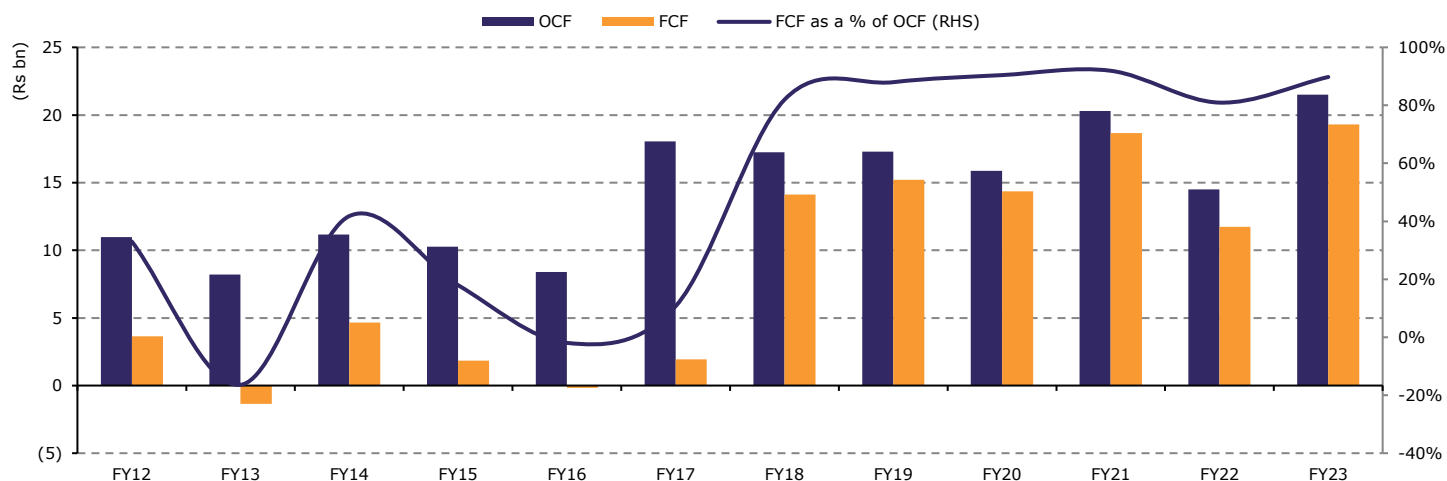
**In FY24, the company plans to pay the debt for Raymond FMCG's acquisition in H1; and, with surplus cash from H2, it may look at a dividend payout**

Exhibit 12: GCPL's debt position

(Rs mn)	Interest rate	FY17	FY18	FY19	FY20	FY21	FY22	FY23
<b>Secured</b>								
Term loans from banks (USD)	6%			3	3	2	2	
Loan payable on demand from bank	9-10.5%	8	34	58	19	4	1	
<b>Unsecured</b>								
Term loans from banks (USD)	1.7-3.5%	37,553	33,479	31,080	29,965	14,887	7,688	
Term loans from bank	13.4-60%	118	53	28	29	0	-	
Loan payable on demand from bank	2.5-60%	82	192	962	969	720	3,977	
USD overdraft from banks	2.5-7%	541	341	509	245	-		
Overdrafts from bank	7.5-60%	204	976	1,181	1,481	2,070	4,409	
Commercial paper	5.40%	1,490			2,473	-		
Others		13						
<b>Gross debt</b>		<b>40,009</b>	<b>35,075</b>	<b>33,821</b>	<b>35,184</b>	<b>17,683</b>	<b>16,077</b>	<b>10,340</b>
- Short term		8,926	11,272	7,773	13,733	12,882	12,268	8,448
- Long term		31,083	23,803	26,048	21,450	4,801	3,809	1,891
Cash (including liquid investments)		18,110	19,212	13,760	14,073	8,099	19,521	25,804
<b>Net debt</b>		<b>21,899</b>	<b>15,863</b>	<b>20,060</b>	<b>21,110</b>	<b>9,584</b>	<b>-3,444</b>	<b>-15,464</b>
EBIT		15,534	19,114	19,876	19,458	21,844	21,852	21,942
Equity		53,020	62,583	72,669	78,984	94,389	1,15,559	1,36,920
<b>Net Debt-to-Equity (x)</b>		<b>0.4</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.1</b>	<b>(0.0)</b>	<b>(0.1)</b>
<b>Net Debt-to-EBIT (x)</b>		<b>1.4</b>	<b>0.8</b>	<b>1.0</b>	<b>1.1</b>	<b>0.4</b>	<b>(0.2)</b>	<b>(0.7)</b>
Interest cost		1,131	1,058	1,553	1,426	856	657	
Effective interest rate		2.80%	2.80%	4.50%	4.10%	3.20%	3.90%	

Source: Company, Emkay Research

Exhibit 13: Operating cash flow and free cash flow generation



Source: Company, Emkay Research

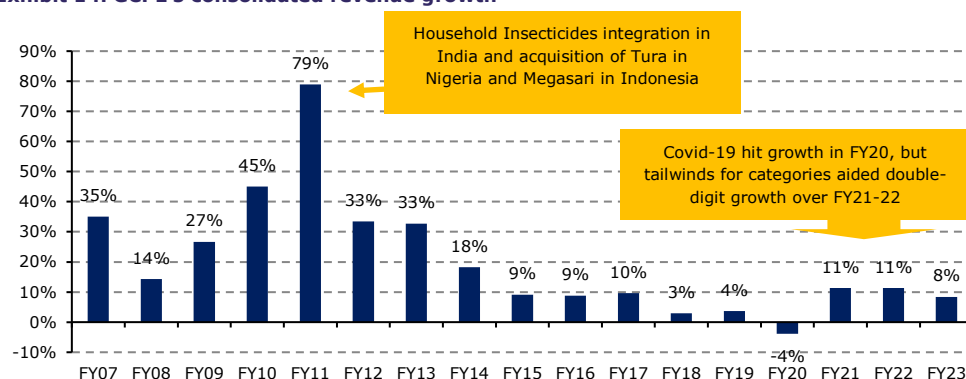


## Transformation under way

*Healthy margin profile in 70% of the business is positive, where management needs to focus on topline acceleration*

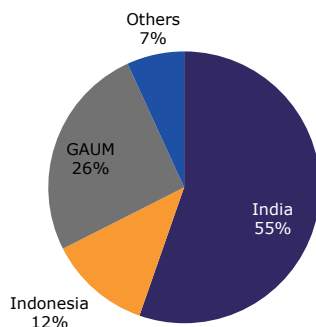
- GCPL aspires for double-digit volume growth over the medium term, on the back of multiple initiatives undertaken by the company to revive growth in businesses and regain margin profile strength.
- Under the leadership of CEO Sudhir Sitapati, the company is focusing on access, relevance and simplicity in the business. In India, it concentrates on making categories relevant and driving penetration, while its attention is on distribution and brand appeal in the international market.
- Adjusted for the GAUM cluster (~25% of revenue), businesses have a healthy margin profile, which is positive for Management. Addressing the loose ends, the company is looking to cut unwanted costs; Company will also benefit from the reduction in business complexities.

**Exhibit 14: GCPL's consolidated revenue growth**



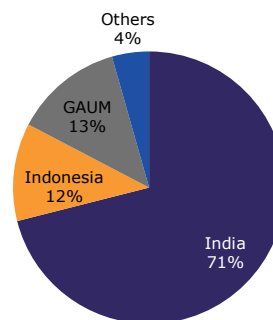
Source: Company, Emkay Research

**Exhibit 15: Geographical revenue contribution for FY23**



Source: Company, Emkay Research

**Exhibit 16: Geographical EBITDA contribution for FY23**



Source: Company, Emkay Research

**Exhibit 17: Key leadership appointments**

Name	Designation	Appointment	Past experience
Sudhir Sitapati	MD & CEO, GCPL	Oct-21	Unilever (23 years)
Dharnesh Gordon	Head GAUM Cluster	Apr-20	Nestlé (16 years)
Vijay Kanan	Head - Business Transformation, and CDO	Jun-22	Shell (4 years), Unilever (14 years)
Robert Menzies (with company since Mar'14)	Head of category development	Dec-21	GCPL (9 years), Bain (11 years)
Rajesh Sethuraman	Head ASEAN	Jul-22	Unilever (15 years); Heinz (3 years)
Aasif Malbar	CFO, GCPL	Aug-23	Unilever (18 years); Tata Motors (5 years)

Source: Company

*In the last three years, management team has been revamped*



**Going ahead, GCPL's strategy is to drive category relevance with access packs and effective brand communication**

**In India, focus is on making categories relevant with accessible SKUs and simplification**

**In Indonesia, emphasis is on expanding GT salience and have a, India-like distribution for GT. Additionally, focus is to shift spend from BTL to ATL**

**In the Africa cluster, thrust is on category development and creating brand pull**

## Medium-term emphasis on strengthening play in core

GCPL has an established position in each core offering, but requires making added efforts towards market development. Going ahead, GCPL's strategy is to drive category relevance with access packs and effective brand communication. Additionally, it is looking to reduce complexities in the business, with the reduction of tail SKUs. The company's key thrust areas across markets are listed below (Exhibit 18).

### Exhibit 18: Strategy across geographies

Geography	Comment
India	With distribution in place, Company focus is to make categories relevant with apt marketing actions, drive product accessibility with access packs, and make processes simple.
	■ <b>Household Insecticides (HI)</b> : The focus is to drive penetration levels and encourage up-trading of products by consumers.
	■ <b>Soap</b> : Micro-market activations to help gain share. Incremental thrust is to position Godrej No. 1 in the South and West.
	■ <b>Hair color</b> : Enhanced thrust on the cream format. The Rs15 pack launched to drive category trials.
Indonesia	■ <b>Air care</b> : Is seeing healthy growth; the company is focusing on two key formats — pockets and matic.
	Overall, thrust is on setting up an India-like distribution for general trade. Moreover, the market has high BTL dependence; the company is focusing on the shift to ATL.
	■ <b>Household Insecticides</b> : The focus is to drive penetration and position the liquid vaporizer offering in the mid-segment.
	■ <b>Air care</b> : Like India, the thrust is on the consumer up-trading to matic. In-home market penetration is low, and the company sees an opportunity here.
Africa, the Middle East, and USA	■ <b>Wet wipes</b> : With limited play in baby care, Company is looking to maintain its position.
	As the company is now following a 'go to market' approach, incremental thrust is on category development and creating brand positioning.
	■ <b>Dry hair</b> : Bulk of the business is from hair extension products, where differentiation is tough; as such, the company will limit ATL spends.
	■ <b>Wet hair care</b> : Given the higher margin profile, incremental thrust is on creating a brand pull in the segment.
	■ <b>Other FMCG</b> : The Company is looking to scale-up core product offerings like household insecticides, soap and hair color.

Source: Company, Emkay Research

## Exhibit 19: Key brands and size

Size	FY18	FY19	FY20	FY21	FY22
More than Rs10bn	Good Knight	Good Knight	Good Knight	Good Knight	Good Knight
	Darling	Darling	Darling	Darling	Darling
	Godrej No.1	Godrej No 1	Godrej No 1	Godrej No 1	Godrej No 1
Rs5-10bn	HIT	HIT	HIT	HIT	HIT
	Cinthol	Cinthol	Cinthol	Cinthol	Cinthol
	Godrej Expert	Godrej Expert	Godrej Expert	Godrej Expert	Godrej Expert
Rs2.5-5bn	Issue	Issue	Mitu	Mitu	Ezee
	Mitu	Mitu	Stella	Stella	Mitu
	Stella	Stella	Godrej aer	Godrej aer	Stella
	HIT expert	Godrej Protekt			Godrej aer
	Godrej Aer				
Top-10 brands - Contribution	70%	70%	70%	66%	70%

Source: Company

**Top-10 brands entail ~70% contribution to revenue**

## Exhibit 20: GCPL's category thrust across markets

	India	Indonesia	Africa	USA	Sri Lanka	Bangladesh	LatAm
Revenue salience	55%	12%	22%	5%	2%	2%	2%
Household Insecticides	✓	✓	✓		✓	✓	
Soap	✓		✓				
Air freshener	✓	✓			✓		
Hair color	✓	✓	✓		✓	✓	✓
Liquid detergents	✓						
Hand wash	✓						
Body wash	✓	✓					
Baby wipes							
Dry hair care			✓				
Wet hair care			✓	✓			
Aluminum foil			✓				
Cling wrap			✓				
Glues for flies and mice			✓				
Depilatory products							✓
Hair styling products							✓

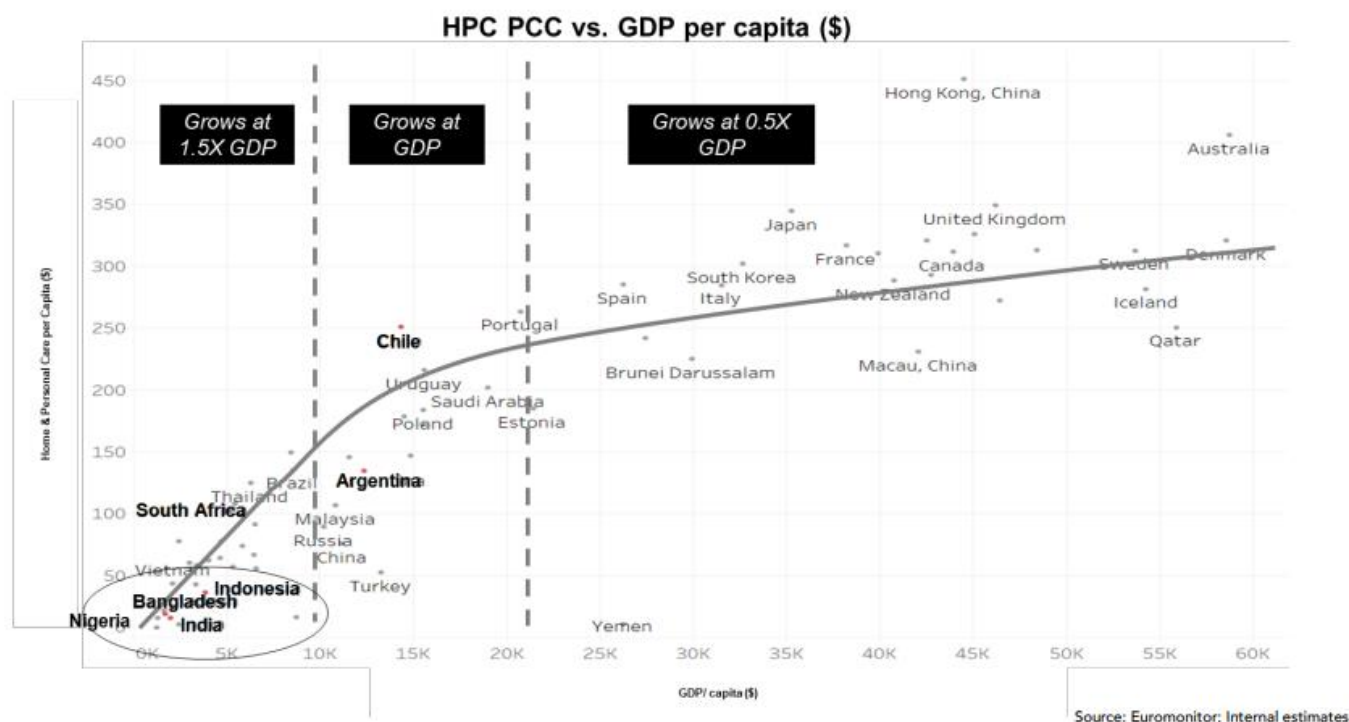
Source: Company, Emkay Research

## Long-term focus is on double-digit growth

**GCPL's focus market is largely segmented in the <USD10k GDP per capita, where HPC segment growth is likely to be 1.5x of GDP growth**

Management sees a significantly strong market opportunity for its portfolio across geographies. A closer look at the GDP per capita and GDP growth trends for countries reveals that the growth trajectory of HPC categories is different, depending on a country's positioning — for example, for up to USD10K GDP/capita, HPC growth is faster at 1.5x of the GDP growth; at USD10-20K GDP/capita, HPC growth is aligned with the GDP growth; beyond USD20K GDP/capita, HPC growth slows to 0.5x of GDP growth (Exhibit 21).

Exhibit 21: Home and personal care growth related to GDP trends



Source: Company

## Simplification is important to drive structural growth

GCPL has swiftly evolved with inorganic forays, but has created complex business processes, which are somewhat slowing down its execution prowess. Under the new management, the company is working on simplifying operations across businesses and levels.

- **Reduction of tail SKUs:** Particularly in international markets, the company has a higher number of SKUs, which not only require efficient sourcing but also make placement difficult. The company has identified SKUs that do not contribute much to revenue or profitability but absorb capital employed. Additionally, operating with lesser number of SKUs will make sales on the street effective.
- **Hybrid structure:** The company is looking to adopt a hybrid structure, for which execution will be local, but the focus central. Given that each category has a comparably similar relevance across markets, the company is fostering akin marketing communications across regions, albeit in the local language. Liquid vaporizer and air care communication is now global.
- **Management KRAs have been reduced to 3 from 12 earlier;** these three critical areas are volume growth (category development and penetration to aid growth), margin performance (including marketing), and working capital. In terms of management reporting, Sudhir Sitapati heads consolidated operations, with cluster heads reporting to him. Additionally, the R&D, HR and digital-transformation teams report directly to him.

**As a part of its simplification strategy, three key pillars are: a) SKU rationalization, b) hybrid structure, and c) focused KRAs in the business**

**Exhibit 22: GCPL will manage three core categories centrally**

**Set up Global Category Team on 18 October, 2021 to manage 3 global categories**

*The company has identified global categories, where focus would be central, but execution local*

**Central**

Global category strategy, Product development and innovation, Brand communication

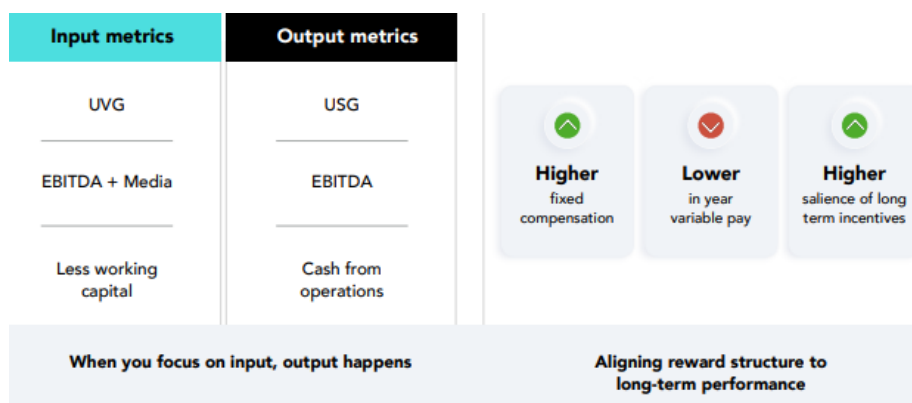
**Local**

Market development and Brand building

Source: Company

**Exhibit 23: KRAs are being aligned on the input front, not on the outcome**

*Management KRAs have been reduced to 3 from 12 earlier*



Source: Company

**Aspiring for double-digit volume growth**

With strategic actions in place, the company is looking at double-digit volume growth over the medium term. This would be on the back of volume growth of 9-10% in India, of 5-6% in Indonesia, in the mid-teens in the Africa cluster, and in a low-single-digit in the remaining business.

**Exhibit 24: Path to double-digit volume growth**

	Sales mix	Volume growth	Comment
India	55%	9-10%	Category development will aid 1.5-2x economic growth
Indonesia	15%	5-6%	In line with macro growth
Africa	25%	15%	Focus on category development, GTM enhancement and branding
The balance	5%		Low single-digit volume growth possible
<b>Overall</b>	<b>100%</b>	<b>10%</b>	

Source: Company, Emkay Research

Further, management believes that 50% of the growth will be driven by penetration gains in 50% of the portfolio, while market-share gains in half of the portfolio would contribute 15% to the growth. Consumption-led market growth would contribute 25% to growth. Innovation, which is not a key focus now, will contribute another 10% to the growth target (Exhibit 25).

Given the healthy margin profile, Management will be utilizing cost savings towards fortifying the structural prospects of categories. GCPL's overall promotional spends (BTL) in the sector are on the higher side, while structural advertisement spends (ATL) are at the lower end. Going ahead, the company targets shifting spends from BTL to ATL. The company aims to create a brand pull in international markets, where sales are largely push-based (promotions play a critical role).

*Double digit underlying value growth to be driven from penetration gains in categories, market share gains, consumption growth and innovation*

**Exhibit 25: Strategy behind double-digit volume growth and key drivers****The Growth Plan**

Driver	Contribution
Penetration gains on 50% of portfolio	50%
Moderate share gain on 50% of portfolio	15%
Consumption led market growth	25%
Disruptive innovation	10%
<b>Total</b>	<b>100%</b>

**Fuel for Growth**

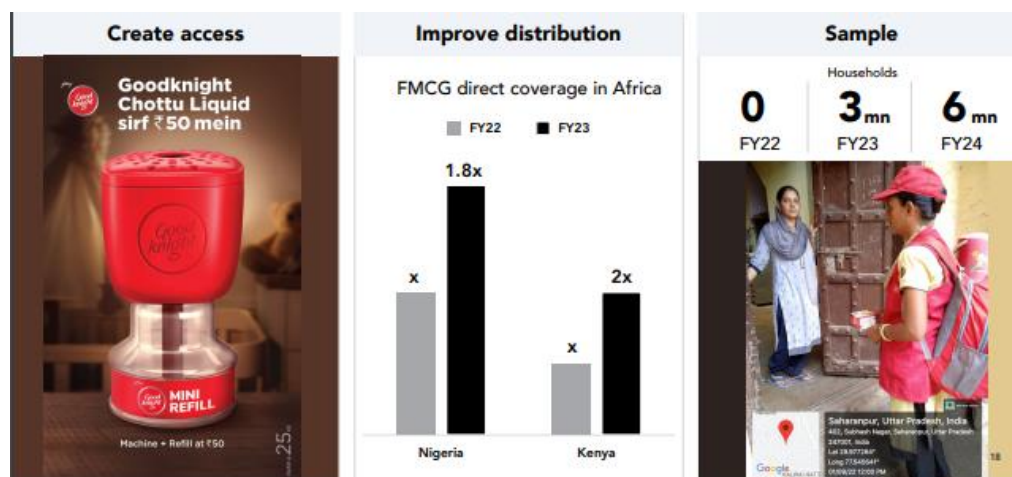
Save	Invest
Gross Margins	Media and Sampling
Discounts	Salaries
Overheads	Digital and Automation
Non Media ATL	Distribution
▲ 150-200 bps expansion	
Inventory	CAPEX

Source: Company

**Category development – Key thrust area**

GCPL has taken the responsibility of category development under the new CEO. While some of the actions set down are in progress (media spending to aid growth), the outcome is clearly visible in growth recovery in the Africa cluster.

- **Driving relevance is critical**, where the thrust is to educate consumers. In the revamped marketing communication, the company's focus favors category over brand. The company is likely to gain share in segments in which it is a dominant player; e.g. in air care, relevance is created by driving occasions, like guests coming home ("if rooms could indeed talk" ad campaign ran in India and Indonesia). Similarly, pockets are positioned for their effectiveness over 30 days.
- **Access** is the most vital aspect, further to which the company is looking to make products affordable in lower SKUs. Cream sachets priced at Rs15 have accelerated the powder (60% penetration) to cream (20% penetration) shift in North India. In HI, the thrust on mini liquid vaporizer and aerosol is likely to help in the penetration of premium formats.
- **Distribution**: In international markets, GCPL is looking to expand supply. The company has enhanced its direct coverage in the Africa cluster under the new CEO. As a reflection of its go-to-market transformation in Africa, the company saw direct coverage expansion of 100% in Kenya and distribution expanded by 80% YoY in FY23, in Nigeria. Distribution is also a focus area in Indonesia. Distribution aids in accelerated growth, which is reflected in the sustained double-digit growth in Africa; such high growth is expected in Indonesia too, post corrective actions.
- **Sampling**: The idea of product sampling is important from the perspective of highlighting use-case of products for the relevant population. Notably, product sampling is at a discount and not for free; this makes the consumer use the product. In India, for HI sampling, the company has reached 3mn households and is looking to double this reach by FY24. This drive has also been complemented with wall paintings in rural markets. In Indonesia, the company has adopted a similar sampling procedure.

**Exhibit 26: Category development initiatives**

Source: Company

**Door to door sampling is for households with persons who are aged above 5 years and less than 60 years. Representatives carry iPads/tablets to show the video (for education) and sell liquid vaporizer at a discount**

- **Identified global categories with common communications:** Case in point is the communication with respect to *Good Knight Liquid Vaporizer*, for which a good night's sleep is identified as the key proposition. In media communication, while local people from each region — India, Africa and Indonesia — were used in the advertisements, the core message has been the same. The central idea was that mothers fear children catching diseases from mosquito bites, yet at same time, are scared of the harmful effects of coil usage. Liquid vaporizer is an apt solution, offering protection. In Indonesia, liquid vaporizer is sold under the *HIT* brand name.



## India: Push to make categories relevant

- GCPL has been registering accelerated growth in the personal wash, air fresheners and hair color portfolios, while Household Insecticides (HI) continues to be volatile and remains impacted by external factors.
- Going ahead, Management thrust is on driving category accessibility for HI and hair color, with the launch of affordable packs. Additionally, the company is addressing market development needs in air care and hair color with marketing communications and innovations.
- As raw-material prices ease, we see GCPL retracing the historical margin threshold. Any incremental margin realizations will be deployed towards growth initiatives.

## Key focus: Accessibility, relevance and simplicity

Unlike in international markets, where the company is working on improving its distribution reach, GCPL has a strong presence in India via ~6mn general trade outlets reach (of the overall ~11.3mn outlets), with direct coverage for ~1mn outlets. In India, we see the focus is on making the category accessible (with LUP launches), creating category relevance (enhanced marketing communications) and simplifying operations.

- **Accessible:** We see the need for making categories accessible. To this end, the company has recently launched three LUP initiatives in HI namely: 1) *Jumbo card* at reduced price (Rs10), 2) a liquid vaporizer mini machine (Rs50 for combo and Rs35 for refill vs. the Rs76/45ml SKU), and 3) a mini aerosol (*HIT* no gas spray; Rs50, 1/5th the price of the normal aerosol). In hair color, it has made products more accessible with the launch of the Rs15 SKU.

**GCPL is looking to up-trade the powder user in North India to the cream format, which is accessible at Rs15. For South India, it targets shifting consumers to shampoo hair color (launched the Rs15 SKU in Q4FY23)**

Exhibit 27: Driving accessibility in the HI category



Source: Company

Exhibit 28: Single-serve packs in hair color



Source: Company

Exhibit 29: Shampoo hair color single-serve pack



Source: Company



- **Relevance:** GCPL is now focusing on category relevance, with sharp and impactful marketing communications. For HI, it has started with door-to-door sampling of liquid vaporizers to create awareness about the product and the harms of using unbranded/unorganized products (started in the western and southern markets of India). Additionally, liquid vaporizers are being re-positioned, from communicating efficacy of the product (adopted in Covid-19) to a product that helps to get good night sleep.
- **Simplification:** GCPL is also strategizing to simplify operations, further to which it has reduced its SKUs by 25% in the last six months. Such SKUs have low share of revenue and profit, but absorb higher capital. On the operations front, the company is looking to keep centralized support like human resources, research & development, finance, digital transformation and category management. Additionally, the focus is to consolidate work; e.g. Sudhir Sitapati took over the India responsibility, even as the erstwhile head (Sunil Kataria) exited the organization.

We see healthy growth in evolving categories like hair color and air fresheners. With increased investments, both categories are seeing a sustained, strong growth. Post Covid-19, the soaps offtake has improved and endured many challenges. We see its micro-market initiatives to result in gaining share in the category. For HI, products are perceived to be not efficacious, given the regulatory restrictions; as such, there has been a continued need for innovation in the category.

## Seeks to attain high single-to-low double-digit volume growth

On account of multiple actions already in place, the company is aiming at achieving volume growth of 9-10% in the India business. Of its volume target, ~50% of the business will see penetration-led growth; for the balance 50%, the company will see benefits from share gains, consumption growth and innovation.

Additionally, we see growth in the business via drivers like:

- Improving gross margins from premiumization thrust, reduced complexity and SKU rationalization
- Reducing sales promotions and discounts (below-the-line activities)
- Cutting down on overheads
- Rationalization in current advertisement spends (like common marketing communication for all markets ('Think Local Act Global'))
- Digital, automation and distribution simplification

**Exhibit 30: Assessing the total addressable market for GCPL in India**

	FY22 market size (Rs bn)	Organized share (%)	Organized market size (Rs bn)
Soap	386	70	270
Home insecticides	100	60	60
Hair color	80	75	60
Liquid detergents	10	100	10
Air fresheners	24	90	22
Deodorants	50	100	50
Commercial condom	12	100	12
<b>Total addressable market</b>	<b>662</b>	<b>73</b>	<b>484</b>

Source: Emkay Research

*Of its volume target, ~50% of the business will see penetration-led growth; for the balance 50%, the company will see benefits from share gains*

**Premiumization is essential for the category, where the trend has stalled since FY16. GCPL's efforts to drive penetration of liquid vaporizer and aerosol would help consolidate its position and drive premiumization in the industry**

## Household Insecticides: Focus on arresting volatility

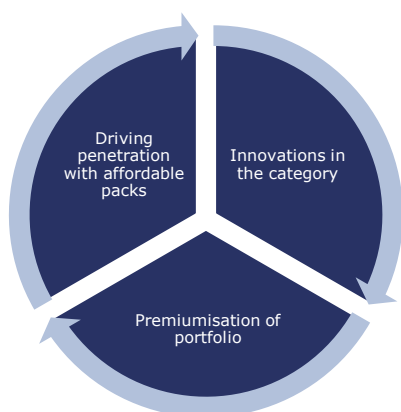
Given the regulatory setting, consumer perception of HI category offerings is that they are not efficacious. While aerosol gives freedom to the consumer to kill mosquitos, the product is not affordable by many, resulting in only 10% penetration. On the other hand, formats like liquid vaporizers and coil claim to repel mosquitos (vs killing them) which, in turn, make the products inefficacious in the consumer's mind. This is the reason behind need for frequent innovations in the segments.

**Exhibit 31: GCPL's strategy across sub-segments of HI**

Category	Strategy
Liquid vaporizer	Focus to expand penetration to 40%, with affordable launches like that of the recent mini refill priced at Rs50 for a combo and at Rs35 for a refill
Aerosol	Looking to expand penetration with affordable packs, like the recent launch of the Rs50 SKU. Aerosol is the most effective product and offers better margins.
Burning format	Focus is to push fast cards. Recently, the company reduced the price of the Jumbo fast card, from Rs15 to Rs10. Also, lower thrust on coils and incense sticks.

Source: Company, Emkay Research

**Exhibit 32: Key thrust in HI**



Source: Emkay Research

**Exhibit 33: GCPL's key diagnosis**



Source: Emkay Research

**Exhibit 34: GCPL – India's HI business overview**

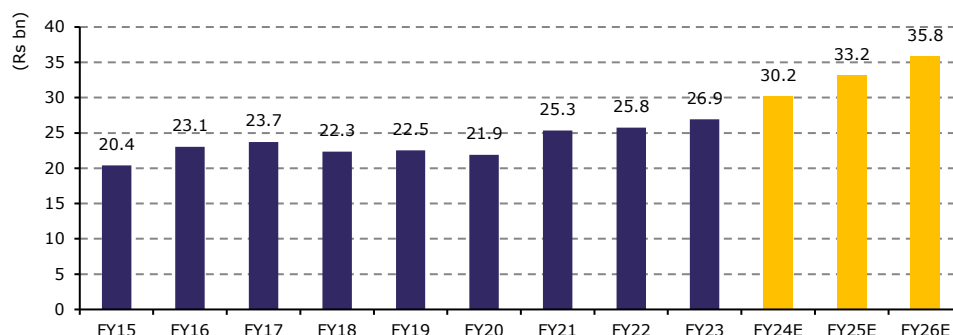
	No. of Households (mn)	Penetration (%)	Category size (Rs bn)	Leader	Share (%)	Challenger 1	Share (%)	Challenger 2	Share (%)	HHI (points)
<b>Overall</b>	<b>300</b>	<b>65%</b>	<b>60</b>							
Users of Burning (Coil)	110	37%	24	Godrej Consumer	50	Reckitt Benckiser	25	Jyothy Labs	23	3,654
Users of non-burning formats	85	28%	27	Godrej Consumer	65	S C Johnson	14	Reckitt Benckiser	10	4,524
- Electric	85	28%	21	Godrej Consumer	65	S C Johnson	15	Reckitt Benckiser	10	4,550
- Aerosol	30	10%	6	Godrej Consumer	70	S C Johnson	12	Reckitt Benckiser	9	5,125
Others (incl. Incense sticks)			9							
Non-users	105									

Source: Company, Emkay Research

Note: 'Out of home' is <1% of the category, largely linked to schools and play areas

Note: Organised category size considered

Exhibit 35: India — HI revenue trend



Source: Company, Emkay Research

## Soaps/personal wash: Continues to strengthen GCPL's position

In the soaps category, which is worth Rs270bn (organized), GCPL is the third-largest player after HUL (3x bigger) and Wipro Consumer (close gap), given that it has 99% penetration. GCPL has two brand offerings — *Cinthol*, which is a value play, and *Godrej No. 1*, which is a volume play. In volume terms, *Godrej No. 1* is the second-largest brand. The market is largely organized now, as Patanjali has gained some share from regional players, who incrementally have remained impacted by recurring headwinds like demonetization, followed by GST implementation, then Covid-19 and now inflationary pressures.

Exhibit 36: Soap brands with pricing

Category	SKU	MRP (Rs)	(Rs/100gm)	Effective selling price (Rs)	Promotion	(Rs/100gm)
Godrej No. 1	500g	115	23	106	-8%	21
Lifebuoy Total10	125g	36	29	33	-8%	26
Margo	100g	35	35	32	-9%	32
Hamam	100g	36	36	33	-8%	33
Lux Rose and Vitamin E	100g	37	37	34	-8%	34
Lifebuoy germ protection	100g	38	38	35	-8%	35
Santoor	500g	222	44	177	-20%	35
Medimix	75g	32	43	29	-9%	39
Cinthol original	100g	46	46	42	-9%	42
Rexona	150g	77	51	71	-8%	47
Dettol	75g	40	53	37	-8%	49
Pears	100g	54	54	50	-7%	50
Dove	100g	64	64	59	-8%	59

Source: Emkay Research

Note: Promotion via modern trade channels

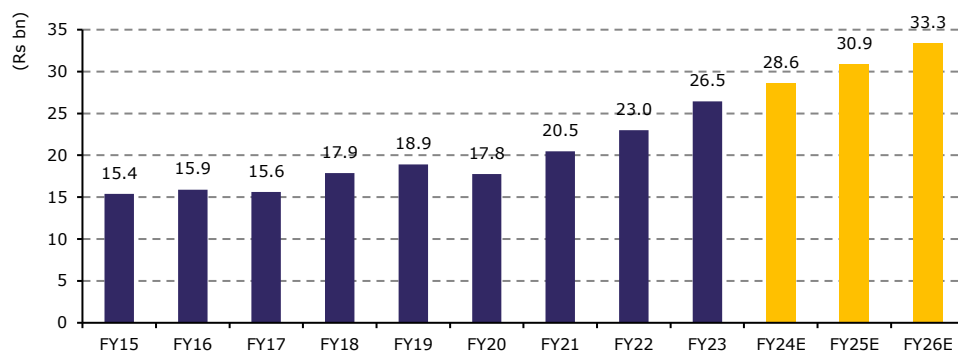
## Micro marketing initiatives aiding steady share gains

Backed by strong backend and micro-marketing initiatives, GCPL reports 50-60bps share gains annually. Godrej No. 1 is a strong brand in North and East India, and is looking to position the brand in the West and South as well, with selective launches supported by local campaigns. The key metric followed by the company is a relative price index, which has helped it consolidate market share.

*The central government's cleanliness drive is unlikely to have any bearing on the category. The need for a category expands as a country grows, e.g. Singapore, one of the cleanest countries, has a high spending record in the category*

*The soaps category is docile, with no new innovation recently. It was only in FY15 when Patanjali aggressively created positioning through Naturals that GCPL was quick to adapt through its Godrej No. 1 brand offerings*

*Godrej No. 1 is a strong brand in North and East India, and is looking to position the brand in the West and South as well, with selective launches supported by local campaigns.*

**Exhibit 37: India — Soaps' revenue trend**

Source: Company, Emkay Research

**Assessing growth in the soaps category**

Going ahead, we expect category growth to be in a high single digit, similar to its record in the last decade when the category grew ~8.5%. Category volume growth at 4.5% over the next five years will be a factor of per-capita consumption expansion of ~2%, followed by expected formalization of the category, from ~70% now to ~80% and normative population growth at ~1.5%. With mix improvement of 1% and price growth at 2%, we expect category growth to be ~8.5%.

**Exhibit 38: Assessing per-capita consumption of soaps**

	FY22		FY27	
	Usage per capita (kg)	Users	Usage per capita	Users
<b>Urban (bathing frequency)</b>	<b>1.05</b>	<b>40%</b>	<b>1.05</b>	<b>42%</b>
- Daily	1.5	55%	1.50	57%
- 3x a week	0.64	30%	0.64	25%
- 1x a week	0.21	14%	0.21	18%
- Non user	0.00	1%	0.00	0%
<b>Rural (bathing frequency)</b>	<b>0.87</b>	<b>60%</b>	<b>0.94</b>	<b>58%</b>
- Daily	1.50	45%	1.50	50%
- 3x a week	0.64	25%	0.64	25%
- 1x a week	0.21	15%	0.21	15%
- Non user	0.00	15%	0.00	10%
<b>Overall India (bathing frequency)</b>	<b>0.94</b>		<b>0.99</b>	

Source: Emkay Research

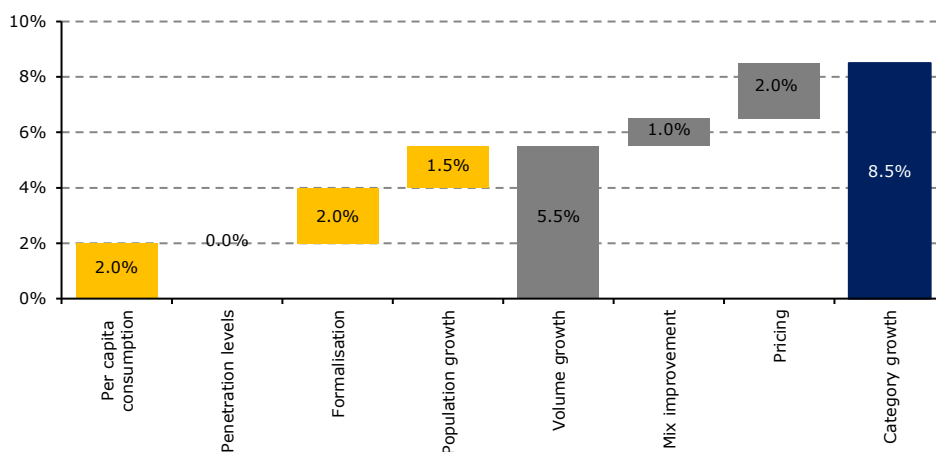
**Exhibit 39: Assessing the size of the soaps category**

	FY22	FY27	CAGR
<b>Per-capita consumption (kg)</b>	<b>0.94</b>	<b>0.99</b>	<b>1.0%</b>
Relevant population (mn)	1,365	1,471	1.5%
Volume (mn kg)	1,283	1,456	2.6%
MRP (Rs/kg)	300	348	3.0%
<b>Total market size (Rs mn)</b>	<b>384,839</b>	<b>506,260</b>	<b>5.6%</b>
Organized share (%)	70%	80%	
<b>Organized size (Rs mn)</b>	<b>269,387</b>	<b>405,008</b>	<b>8.5%</b>

Source: Emkay Research

*Category volume growth at 4.5% over the next five years will be driven by a 2% expansion in per-capita consumption, followed by expected formalization of the category, and normative population growth at ~1.5%*

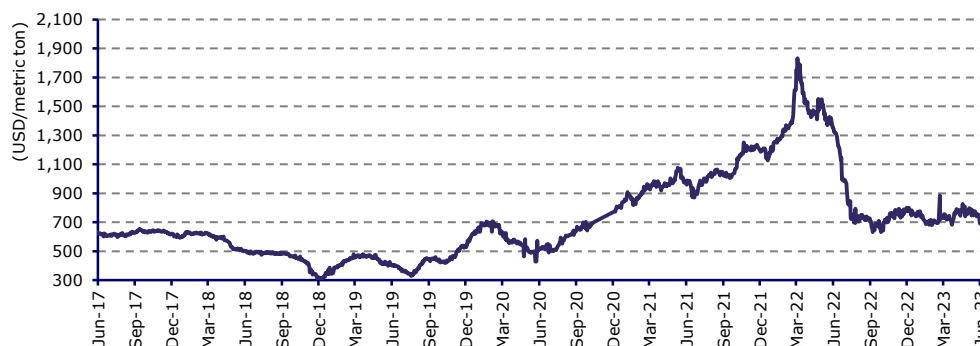
*The company expects to grow soaps volume in line with GDP growth, given wider category penetration*

**Exhibit 40: Soaps category – Growth expectations for the next five years**

Source: Emkay Research

**Raw-material volatility key to watch**

GCPL has a relative edge in the sourcing of palm fatty acid (key raw material for soaps), which constitutes 40-60% of the raw material, depending on the soap quality. Here, GCPL sources raw material from Godrej Industries, which has expertise on the agri front. The company also sources from other vendors like Adani. Given the volatility in raw-material prices, GCPL maintains inventory for two months and an additional cover for 1-1½ months.

**Exhibit 41: Palm fatty acid distillate price (Malaysia; USD/metric ton)**

Source: Bloomberg, Emkay Research

**Case Study: GCPL has been cornering share in the soaps category**

Godrej Consumer Products (GCPL) has been seeding share in the Indian soaps category with annual share expansion of ~50bps. The company has two key brand offerings: 1) Godrej No. 1, which is a mass-end play, and where thrust is on volume; 2) Cinthol, which is a value play.

**Exhibit 42: Godrej No. 1 offerings**

Source: Wipro Consumer care

**Godrej No. 1 cornering share with its micro-market initiative**

Godrej No. 1 is a leading player in northern and central India. The company has incrementally positioned its brand in the West and South, where it is relatively under-indexed. With its micro-market initiative, the company is looking to corner share. The brand campaign is more focused on calling users 'No. 1' and is positioned as a beauty soap.

**Godrej Consumer, under brands Godrej No 1 and Cinthol, is the #2 player in the category**

*Like Wipro Enterprise, Godrej Consumer has been gaining share in the soaps category on the back of its micro market initiatives*

We attribute market-share gains for GCPL to:

- **Strategic sourcing, which aids in a relative price index:** Strategic sourcing of raw material, which makes GCPL better placed on raw-material volatility. With its product-price mix architecture, the company addresses the relative price index.
- **Micro-market initiatives:** The company has adopted micro-market initiatives for Godrej No. 1. As part of this initiative, the company covers one state at a time; and with local execution, it gains market share. The company makes detailed assessment of the state and devises a price-pack strategy. Then, it focuses on on-ground execution with initiatives like onboarding local partners, wall paintings, hoardings, etc.

#### **Cinthol repositioned for the youth**

Cinthol has historically been positioned as a masculine brand that GCPL wanted to leverage with its male grooming category extension in 2018. However, post Covid, GCPL is leveraging the brand for all genders and establishing a connect with the youth.

#### **Exhibit 43: Cinthol's positioning**



Source: Godrej Consumer Products



## Hair color: Category expansion initiatives to aid growth

In the Rs60bn hair color market (13% penetration), GCPL is leading in the value segment, while its overall positioning is second after L'Oreal. The company has been aggressively present in the mass-end with *Nupur* (priced at Rs10), which is a natural offering. In the popular segment, the company has positioned its *Godrej Expert* range, where its shampoo hair color (outcome in 10 minutes) innovation has helped the company consolidate its market share. In the premium-end category, the company has offerings under *Godrej Professional*, for which salons offer the key distribution channel.

### Propelling the cream market, where GCPL has *Godrej Expert Rich Cream* offerings

Incremental push by the company is on *Godrej Expert Rich Crème* offerings, in which the company enjoys >25% market share currently. The category is a high-growth and high-margin category for GCPL; as such, management is looking to drive the category's penetration with the launch of access packs and has been advocating category relevance with sharp marketing and an influencer program.

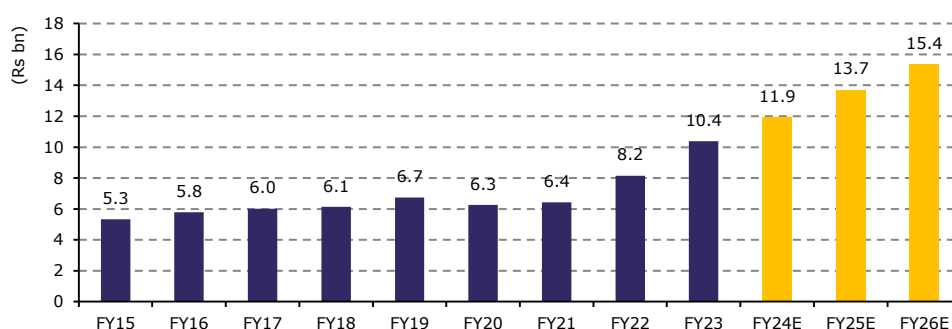
While the base offering is worth Rs35, GCPL has launched a single-serve pack at Rs15 (in Q4FY22) to drive penetration and expand usage. Management sees single-serve packs opening up opportunities in the category. Access packs are receiving a good response in the market, thus aiding in category penetration and consumer up-trading. Additionally, the company has been aggressive on supporting the brand, with strong marketing and influencer campaigns.

**Exhibit 44: GCPL's hair color portfolio in India**



Source: Company

**Exhibit 45: India— Hair color revenue trend**



Source: Company, Emkay Research

**In the hair color market, powder has wide penetration at ~60%, while premium format cream has 20% penetration. Management sees healthy profitable growth as consumers shift from powder to cream**

**As the transition from powder to cream scales up, the company will look to drive its Godrej Professional portfolio, which is positioned at the premium end**



**Key category formats are blocks, pocket, aerosol and matic**

## Air fresheners: Premiumization strategy bodes well

India's air freshener market is fairly nascent, with the category size at Rs25bn and 90% market concentrated with organized participants. Key category formats are blocks, pocket, aerosol and matic. Blocks, the mass-end offering, has ~30% penetration; but for the premium formats, penetration is at a single digit. GCPL's thrust is on the pocket and matic ranges. Covid-19 acted like a tailwind for the category, leading to increased in-home consumption. Overall, Dabur is the category leader, GCPL emerged as a leader in premium formats with its thrust on premium offerings.

The pocket adoption has intensified, as has the super-premium air matic range offerings. Of the four identified 'hero' products (i.e., its star products) in the portfolio, the pocket format is at the #1 position. The company supported the category's development with marketing initiatives. Interestingly, the company has a wide market presence in Indonesia; as such, it has a strong cross-pollination opportunity. As part of its 'think local, act global' strategy, the company has adopted single communication for all markets. Overall, the company's revenue stood at Rs3.5bn in FY22.

**Exhibit 46: GCPL's 'hero' products (~40% of revenue, ~60% of profit pool, <20% penetration)**



Source: Company

**Exhibit 47: Air care portfolio in India**



Source: Company

## Mix of organic and inorganic actions to enter under-penetrated categories

**For categories that have been active for decades and are under-developed (category is small, but market is big), it is more judicious to acquire leading brands and thus drive market development, as per Management**

For the new categories, after the acquisition of Raymond's FMCG business, Management noted that organic brand creation needs differentiated products, like hand wash and body wash. Certain categories are under-cooked (i.e. both, category and market are small), and so it is prudent to enter with organic brands. However, in categories that have been active for decades and are under-developed (category is small, but market is big), it is more judicious to acquire leading brands and thus drive market development. Case in point is deodorant, where category penetration is <5%.

### Hand wash and body wash — Organic incubations

Hand washing gained prominence during Covid-19 where multiple brands with similar offerings with no material value addition have emerged. Given the need for masses, the company has launched innovative and disruptive powder-to-liquid hand wash in this segment. GCPL has not only cornered a share in the category, but also helped in driving penetration.

On similar lines, the company has launched powder-to-liquid body wash. However, the success so far is limited, as the category caters to premium consumers, who are brand loyal. Given that its appeal is restricted to a select consumer base, the offering is unlikely to see similar success as seen in the disruptive powder-to-liquid hand wash.

The company is currently piloting power to liquid floor cleaner in Maharashtra.

#### Exhibit 48: Powder-to-liquid hand wash



Source: Company

#### Exhibit 49: Powder-to-liquid body wash

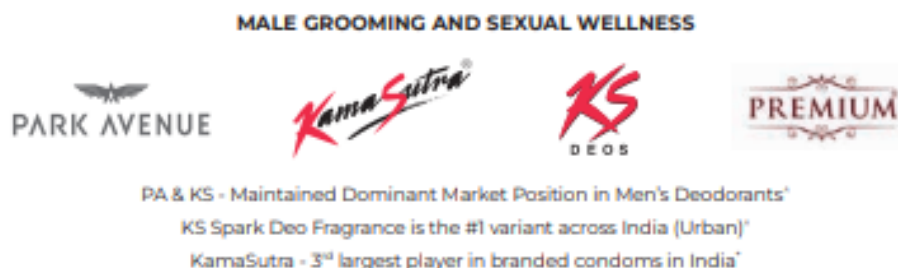


Source: Company

### Entry into deodorant and condoms with the acquisition of Raymond's FMCG business

GCPL entered into the emerging categories like deodorant and sexual wellness, via its access to Raymond's FMCG portfolio, where key brands like *Park Avenue* (in Deodorant) is the #2 brand in men's deodorant (75% of the market targets men) and *Kamasutra* is the #4 player in the condom category. The company has acquired both brands at a cash consideration of Rs28.25bn. The deal is valued at 3.75x its EV/Sales, based on sales worth Rs6.22bn for FY23 and net consideration of Rs23.25bn (adjustment for the Rs1bn cash in the business and the Rs4bn worth expected tax savings from brand amortization).

#### Exhibit 50: Raymond's FMCG brand portfolio



Source: Company

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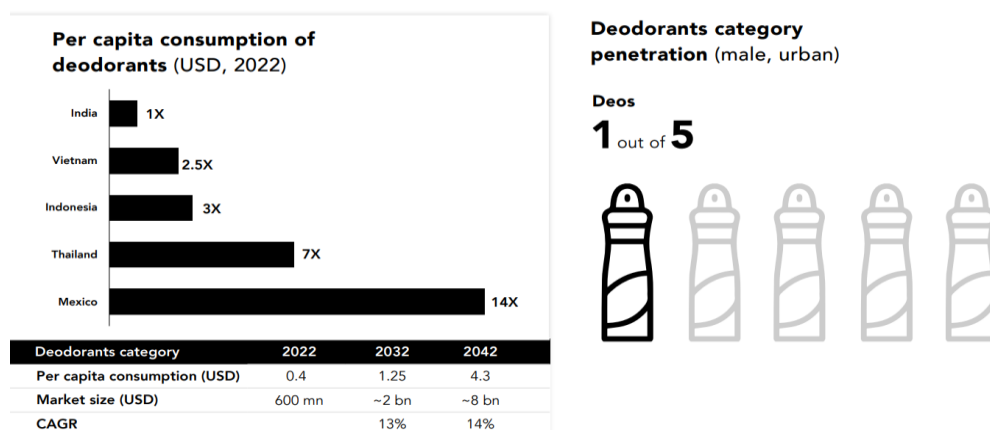
**While the company has the liquid hand wash offering under its Protekt brand, it has been pushing its Powder to Liquid differentiated offering.**

**The deodorant category globally is consolidated, unlike the fragmented fragrance market. In India, both categories are fragmented**

**Looking to drive share in the deodorant category:** The deodorant category size is ~Rs50bn, where Vinni Cosmetics has a leadership position with 19% share, followed by ITC at 13% and Beiersdorf at 8.5%. Of the 75% of the deodorant market, *Park Avenue* is the #2 player in men's deodorants, as per the management. Prior to Covid-19, *Park Avenue* held strong share and was seeing double-digit growth. Management interaction has revealed:

- As per Management, deodorants is a "super exciting" category globally. Management believes the category can be developed like oral care. If the incumbents create a habit of category usage, it has a runway of double-digit growth for many decades to come. Three key points: Fast Growth + High Gross Margin + Stable Market Share.
- In India, per-capita consumption of deodorants is USD0.4, while that in Indonesia it is 3x of this, in Thailand 7x and in Mexico 14x India's. For GDP per capita of >USD10,000-35,000, deodorants is the largest HPC category.
- In India, the market is fragmented, with a long tail, given under-investment in the category.

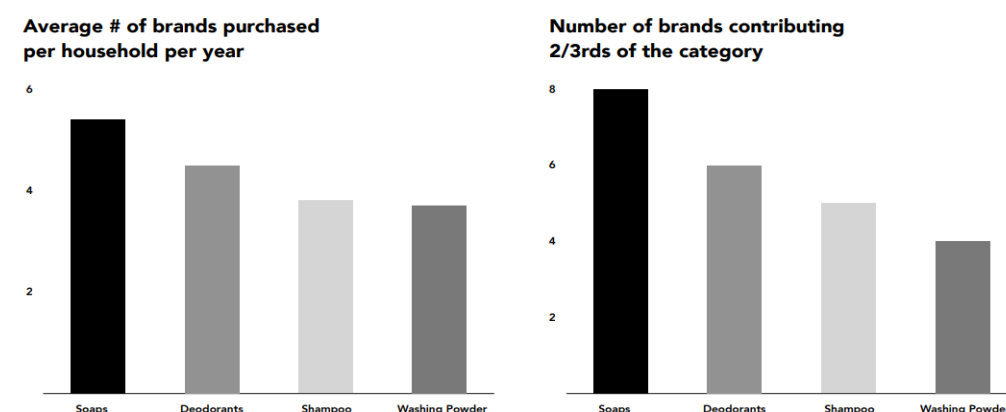
**Exhibit 51: The deodorants category has potential to deliver double-digit, multi-decade growth**



Source: Company (quoting from Euromonitor, Nielsen and internal estimates)

- The number of brands purchased in the category (4 brands) is lower than that of soaps (5.5 brands). The number of brands contributing to two-thirds of the category is ~60%.

**Exhibit 52: Consumer brand perception across categories**

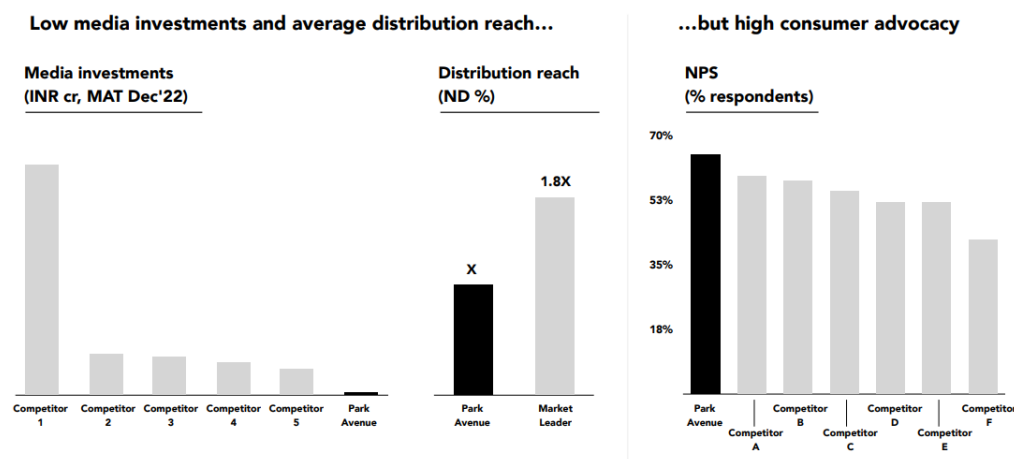


Source: Company (sourced from Bain consumer survey)

- *Park Avenue* has been maintaining its share in the category, despite multiple product disruptions and with limited/no media spends.

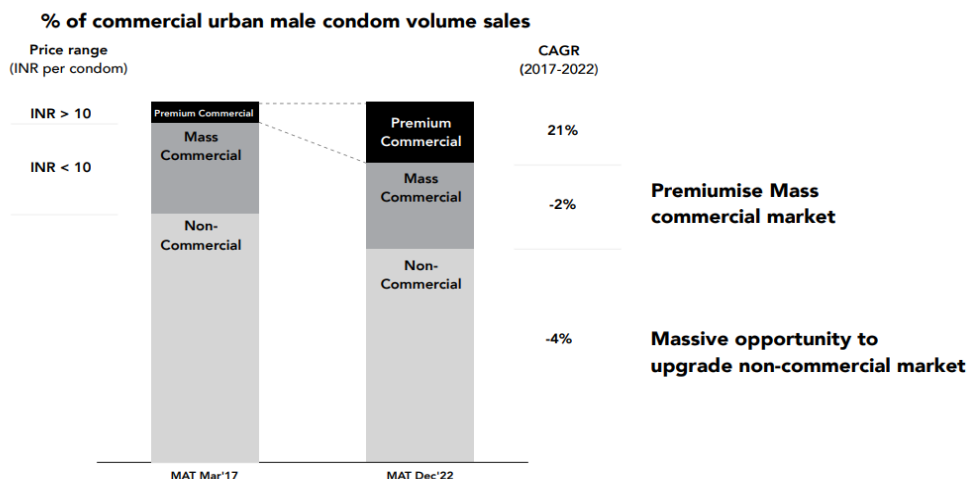
**Gross margin for the portfolio is 50%, while the deodorant category leader reported 60-65% gross margin**

**Deodorants penetration stands at 20%**

**Exhibit 53: Park avenue brand is under leveraged, but has strong brand equity**

Source: Company (sourced from Bain Consumer Survey, Nielsen, Madison Agency, Internal analysis)

- **Looking to re-position its *Kamasutra* sexual wellness brand in premium commercials:** The condom category is worth ~Rs15bn in India, as of FY22 (as per IQVIA), have registered ~5% CAGR over FY18-22. As per GCPL Management, the commercial condom market size is Rs12bn (3.2bn pieces sold in India). *Manforce*, from Mankind Pharma, is the category leader with 30% share, followed by brand *Moods* (from HLL Lifecare) at ~13%. In India, two-thirds volume of the condom market is non-commercial (i.e. distributed free-of-charge by the government). Premium commercials have seen considerable action and registered 20% CAGR over the last five years. *Kamasutra* is present at the lower end of the premium category. In the premium high-end category, there is an opportunity for a second player.

**Exhibit 54: The condom market is fast moving towards premiumization**

Source: Company (sourced from Nielsen and Bain)

**Key insights on Raymond's FMCG acquisition**

- **Key rationale for the Raymond Consumer Care (RCCL) FMCG deal:** 1) The categories have a strong growth runway. 2) Strong, but under-leveraged brands. 3) Significant cost synergies. The company is looking to increase the total addressable market in the home and personal care segments. Both categories have double-digit, multi-decade growth potential (given low per-capita consumption), where GCPL will further leverage its distribution. It is an asset-light deal. The company has no royalty arrangement with Raymond. GCPL has acquired the trademarks of the acquired brands and can hence take the brands to any FMCG categories.

- **Significant cost synergies considered are:** 1) Trade promotion and distribution (MRP to NSV leakage will be reduced over 3-4 years; now, leakage is higher vs. benchmark. The 50-60% gap (for RCCL) is unlikely to immediately narrow to 30% (for GCPL), but the company plans to reduce it as much as possible. 2) Reduction in distribution margin (savings of 150-200bps). 3) Rural sales is ~10% of business for distributors which is likely to expand. 4) Fixed overheads and other expenses will be optimized. 5) The soaps category is expected

**GCPL has acquired the trademarks of the acquired brands and can hence take the brands to any FMCG category**

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to benefit from palm oil derivative purchase. 6) Aerosol procurement synergy. 7) Looks to simplify the Indian business; number of SKUs reduced by 50% in the last one year.

- **RCCL's P&L is up for value creation:** Of the Rs6.22bn revenue in FY23, ~60% is from deodorants (where the share of *Park Avenue* is ~2/3rds of this), 20% from condoms, 6-7% from soaps & shampoos, and the balance from other offerings. Business gross margin is in line with GCPL's gross margin, despite the MRP to NSP gap of ~50% vs. that for GCPL at ~20%. Deodorants category has better gross margins vs. sexual wellness. The gap will be bridged as brand equity strengthens. A&P is at a mid-single digit vs. 10% for GCPL. Employee and other expenses are in the late 30% vs. 18% for GCPL. EBITDA is in a high single digit vs. mid-20% for GCPL.

- **Management's financial guidance for the business:**

- FY24 expects revenue to be similar to that in FY23 (category growth will be offset with business actions initially), as it looks to offload non-core SKUs from the beginning. Inventory position is higher for RCCL at 30 days (likely to correct ahead post acquisition) vs. 10 days for GCPL now. Distribution gain will come with time. Margins are expected to be better vs. FY23. Overall EPS is likely to see dilution.
- Management expects mid-teen growth in FY25; EBITDA margin is expected to move to mid-20%. The gross to NSV gap reduction and overhead expenses normalization are expected to aid EBITDA margin expansion. High-single to mid-double digit reduction is possible which will aid EBITDA margin moving from a mid-high single digit to mid-20%. EPS will be neutral in FY25E.

*As part of the corrective measures, the company is looking to cut the tail, reduce irrelevant SKUs, lower inventory days from 50 days now, etc*

#### Exhibit 55: Raymond Consumer Care's limited acquisition

Valuation	Funding
Gross valuation of INR 2,825 crore including ~ INR 100 crore of cash	Acquisition to be funded via short-term financing
Slump Sale structuring will result in availing tax depreciation on brands, thus reducing cash tax. The NPV of cash tax savings will be ~ INR 400 crore.	Expect to be in net cash position by mid FY24
Net valuation of ~ INR 2,325 crore implying ~3.75x FY23 sales	
Investing one year cash flow to roughly get 10% India sales	

Source: Company



## International: Focus on supply and demand pull

- GCPL forayed into the international market in 2005 and was on an acquisition spree till 2016. The company's international portfolio contributes ~45% to its revenue.
- Indonesia: Under its new leadership, GCPL is looking to revamp its 'go to market' approach, develop the category and create demand pull with higher ATL spends.
- GAUM cluster: GCPL has been able to transform the 'go to market' strategy; now incremental thrust is on demand pull, particularly in the non-dry hair segments.

GCPL's journey in the international market began in 2005, when it acquired the *Keyline* brand (it was later disposed in 2018) in the United Kingdom. Entry into a developed market was aimed at gaining insight into modern trade formats that were gaining a foothold in Indian markets. Gradually, the company went on an acquisition spree, further to which it eventually entered emerging markets like Indonesia, LatAm and Africa. Performance since the acquisition has seen significant improvement in Indonesia, given the company's expertise. However, in the Africa cluster, the company had to initially struggle, given unknown product categories and as the market itself was 2-3 decades behind India's.

Under the new professional management that minutely assesses the business and market, GCPL plans to turn around its business fundamentals. Dharnesh Gordon, heading the Africa cluster since Apr-20, has been instrumental in revamping the 'go to market' strategy, which is assisting in double-digit revenue growth. Rajesh Sethuraman, Head of ASEAN since Jul-22, is entrusted with the responsibility of driving business recovery in Indonesia.

### Emphasis on a lighter global market structure

The company has opted to split its international business into two segments. In one segment, it will have flagship operations, where it will have five business clusters: a) LatAm, b) USA, c) Africa and the Middle East, d) India, and e) Indonesia. In the second segment, it is looking to consolidate all other countries (presence in >120 countries) under the 'Godrej International.'. Management expects this action to simplify the business structure and smoothen its actions.

#### Exhibit 56: GCPL's international business strategy



Source: Emkay Research

The idea of creating the 'Godrej International' structure (no legal entity, more internal strategic entity) is to avoid duplication of cost and to address demand more efficiently. Management noticed huge cost savings in shared services and a significant amount of duplication in servicing costs. The company sees synergy in its product portfolio, capex, margin, growth, etc. Under this structure, services and marketing will be central, while sales and distribution will remain local. Overall outcome of this structure will be seen in better growth and improved margins.

### Distribution revamp important for improving supply

In the international market, there is scope for distribution expansion.

- In **Indonesia**, reliance on modern trade is higher compared with general trade. The company's main focus is on expanding general trade reach. Additionally, the company has a branch model for general trade distribution, where it incurs all distribution-related expenses. In a lighter version, the company has been shifting distribution to an India-like model, where distributors will be paid via commission, and the responsibility of distribution shifts to the distributors. The company expects cost-efficiency benefits.

**With multiple actions in place, the company is looking to accelerate growth potential in international markets**

**The company is also on a path to reduce subsidiaries in the business. In the next 12-18 months, the company will look to reduce the >60 subsidiary-count to 25-30**

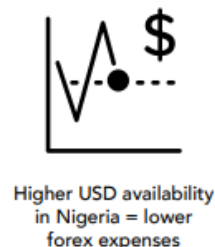
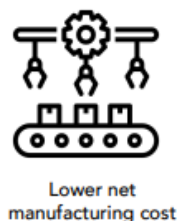
**In Indonesia, Company thrust is to expand share of GT and replicate an India-like distribution model for GT**

**Exhibit 57: Sales and distribution shift in Indonesia**

Source: Company

***In Nigeria and West Africa, the company is shifting to a single distribution partner vs. direct sales to wholesalers.***

- Given its high reliance on the wholesale network in the **Africa cluster**, the company is trying to double its reach by partnering with industry experts. In Nigeria and West Africa, the company is shifting to a single distribution partner vs. direct sales to wholesalers. The company has a partnership with FMCL ([link](#)), which is being acquired by DB World. Under the new arrangement, the company sees distribution to double. FMCL has 23 warehouses vs. 1 warehouse with GCPL. This will help reduce the lead time by 4x, as per the management. Management also see better working capital management with this arrangement. Simplification in the Africa cluster will consolidate manufacturing in Nigeria for part of the US business, lower net manufacturing costs, simplify its US business to a marketing & distribution-focused play, and will lower forex expense in Nigeria.

**Exhibit 58: Simplification in the supply chain in the GAUM cluster**

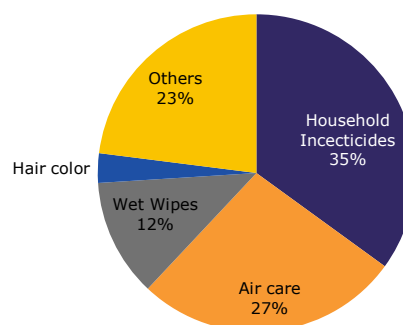
Source: Company



## Indonesia: Category expansion and distribution thrust

GCPL forayed into Indonesia in Apr-2010, with the acquisition of Megasari Makmur, which was mainly active in HI and air fresheners. Its category focus now includes HI, air fresheners, baby wipes and hygiene offerings.

**Exhibit 59: Indonesia business split – FY22**



Source: Company

**GCPL's Indonesian business is ~13% of its consolidated business**

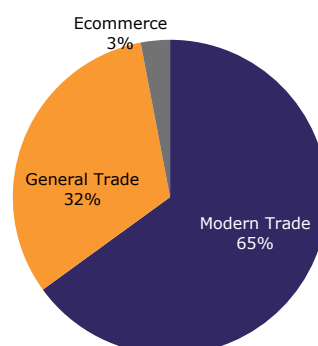
GCPL's Indonesian business is ~13% of its consolidated business for FY23. The company is looking at 5-6% volume growth in the market, which will be in line with economic growth. In the past, the business reported a healthy margin, at ~26% (with select quarters seeing margins at ~30%, on account of lower ATL spends), but its margin profile eroded to ~20% owing to business initiatives. Going ahead, over the medium term (in the next 3-4 years, the thrust would be on building blocks), the company expects margins to clock in at early-20%. Management believes the need for higher ATL spends can be met by cost savings in the business and, hence, have no material impact on the business margin.

### Distribution thrust: Looking to diversify from the modern trade heavy supply chain

While prospects remain similar in India and Indonesia, the Indonesian economy is relatively ahead, with better GDP per capita. Indonesia's cash-and-carry penetration is higher compared with India. The company inherited the business with high modern trade salience, given that the portfolio appeals more to the channel. There are 400K-450K relevant retail outlets for GCPL, with the company reaching 160K outlets (vs. 80K-85K three years ago) presently.

Management believes that ~200K outlets through direct reach would be manageable; anything above this would lead to a dramatic cost-economics equation imbalance.

**Exhibit 60: Distribution mix for GCPL**

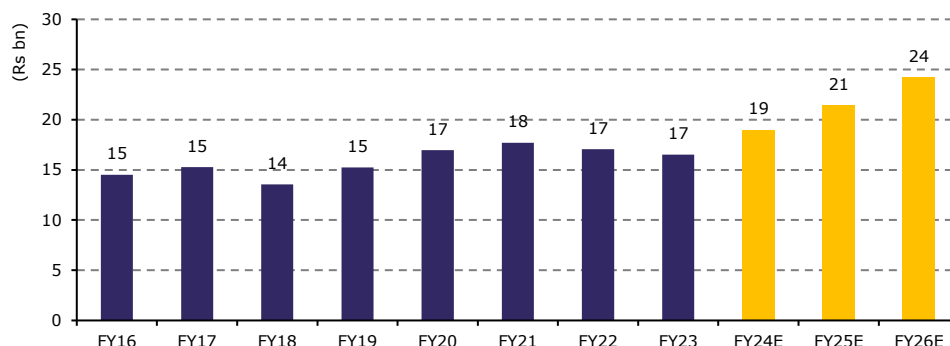


Source: Company, Emkay Research

Overall, the company remains dominant in modern trade at ~65% vs. 40% for the market (Unilever Indonesia has ~50% salience). With focus on expanding its general trade presence, modern trade salience has reduced from ~70% three years ago. Its general trade sales contribution is at ~32% vs. 60% in the country. In the last three years, sales contribution from general trade expanded by 400bps. The balance 3% of sales is driven by e-commerce.

**There are 400K-450K relevant retail outlets for GCPL, with the company reaching 160K outlets (vs. 80K-85K three years ago) presently**

**In terms of distribution thrust, focus is more on general trade.**

**Exhibit 61: Indonesia — Revenue trend**

Source: Company, Emkay Research

**Actions in place to revive business growth**

During Covid-19, GCPL's Indonesia performance was robust on account of faster scale-up of the *Saniter* brand and reduced ATL spends (which helped margins). However, post Covid-19, the company has realized that the hygiene thrust is fading and the core business is being impacted by higher BTL needs and lower ATL spends in the past.

As part of its strategy to revive business and structural growth, the company has re-strategized under the leadership of Sudhir Sitapati. Effective July 1, 2022, the business has a new head — Rajesh Sethuraman. Based on management interaction, we gauge the company has come up with the following initiatives to make the business robust:

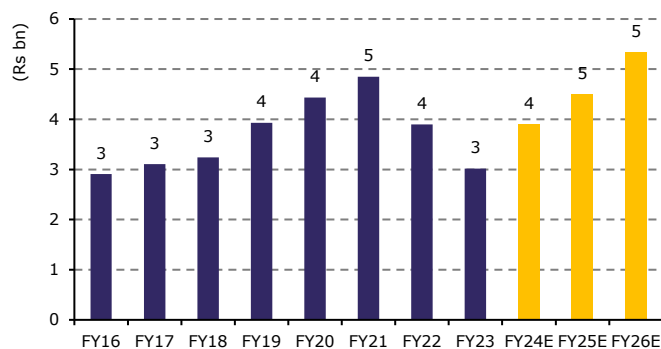
- **Household Insecticides, looking to widen contribution of liquid vaporizers:** In the HI market, aerosol has high salience of ~60%, followed by coil at ~30% and personnel repellent at ~10%. The company sees gap in the market and is looking at the mid-market with liquid vaporizer, positioned on protection. Management sees mid-single to double-digit growth in liquid vaporizers. The company is looking to invest in the offering. Additionally, aerosol penetration is at ~30%, which it is looking to expand with the launch of access packs.
- **Air care thrust on driving in-home consumption:** GCPL aims to drive in-home consumption of the category and develop the premium-end with its matic offerings.
- **Thrust on increasing ATL spending over BTL spending.** The company considers BTL activities as tactical, while ATL helps with long-term benefits. Unlike the historical thrust of demand push, the company aims to create demand pull.
- **Enhanced thrust on general trade:** The company is incrementally looking to expand the share of general trade sales. Under Project RISE, the company targets widening its outlet reach. Additionally, it is shifting from a branch model (distributor to branch to retail) to a distributor-led model (distributor to redistributor to retail), similar to what it has in India effective Oct-22. This may have a bearing on margins in the near term, but it will help the business and margins in the long term.
- **Shifting to everyday low price from promo offer of the week:** Historically, to drive sales, the company had a 'promo offer of the week,' which entailed steep discounts on specific days of the week. This is in addition to channel add-on discounts. This practice has disrupted channel hygiene, which led to concentrated sales periods. Now the company has restricted volatility in demand with an everyday low price. This shift does not affect P&L but helps in channel hygiene as well as expand general trade reach for the company.
- **Working capital optimization:** With changes to its distribution model and focus on reducing BTL, GCPL is looking to reduce its inventory position and receivable days. The company's inventory stood at ~90 days, which is gradually reducing. As part of its initiative to reduce complexities, the company is working on channel-wise SKUs. With the share of modern trade and mini-mart sales reducing, its receivable days also see recovery.

**Effective July 1, 2022, the business has a new head — Rajesh Sethuraman**

**Under Project RISE, the company targets widening its general trade outlet reach.**

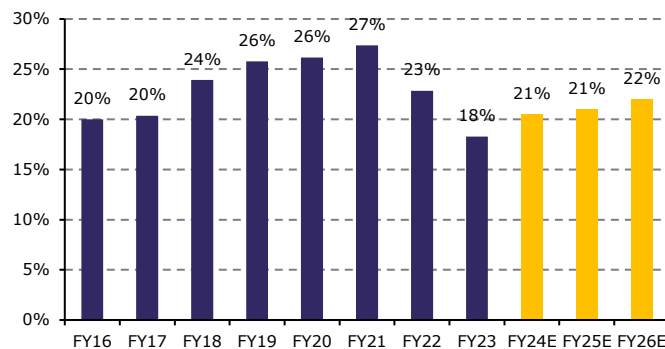
**With changes to its distribution model and focus on reducing BTL, GCPL is looking to reduce its inventory position and receivable days**

Exhibit 62: Indonesia — EBITDA trend



Source: Company, Emkay Research

Exhibit 63: Indonesia — EBITDA margin trend

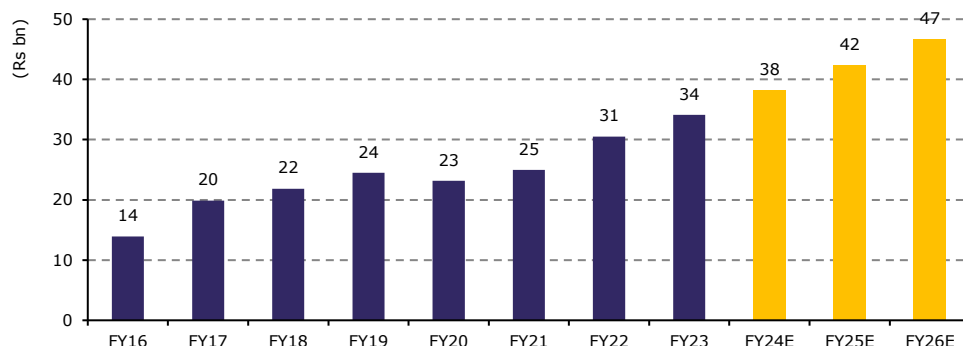


Source: Company, Emkay Research

## GAUM cluster: Focus on supply and demand pull

GCPL has a large dry hair care business (mainly through *Darling*) and sizable presence in wet hair care (through *SON*); additionally, it is looking at seeding FMCG products in the market. While the company has a wider presence, key countries like Nigeria, Kenya, South Africa, Ghana and Mozambique represent its revenue. Given the unorganized supply chain, the company has been leveraging the wholesale network since long. However, incremental thrust is to have a distribution system in place and directly cover retail outlets.

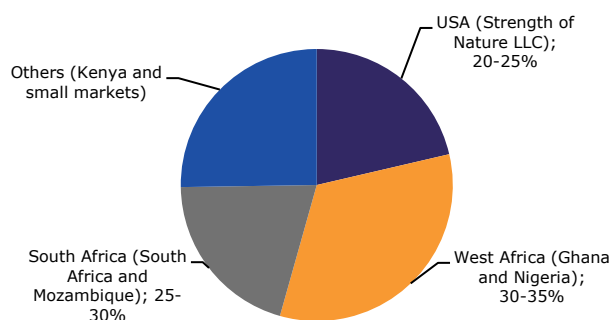
Exhibit 64: Africa, USA and Middle East — Revenue trend



Source: Company, Emkay Research

Since his taking over the Africa cluster, Dharnesh Gordhon has been focusing on the 'playbook', which has now evolved to transform 'go to market' across the market (focus on local execution), create a centralized category management structure (to cross-pollinate learnings and create consumer-relevant offerings), and deploy resources towards large markets like Nigeria and Kenya, which will help it sustain double-digit growth momentum. Overall, the thrust is on improving availability, replenishment, asset turn and building a customer base.

Exhibit 65: The Africa, USA and Middle East cluster — Revenue contribution



Source: Company, Emkay Research

**Dharnesh Gordhon has been focusing on the 'playbook', which has now evolved to transform 'go to market' across the market, create a centralized category management structure, and deploy resources towards large markets**

Exhibit 66: Key issues in the Africa, USA and Middle East cluster



Source: Company, Emkay Research

**With wider business presence now, West Africa is not only a dominant business for GCPL but is also high on profitability**

- **West Africa (30-35% of cluster revenue; mainly into Nigeria and Ghana):** With wider business presence now, West Africa is not only a dominant business for GCPL but is also high on profitability. Its West Africa business is largely represented by Nigeria and Ghana, where ~70% of the business is concentrated in dry hair care. Wet hair care also has a higher revenue in West Africa, which makes the business profitable.

**Distribution:** Nigeria has a high count of retail outlets and super markets. Trade is largely unorganized and wholesale-led. The distribution structure is similar to what it was in India 20 years ago. In the last couple of years, the company has set up a retail network, which it is looking to replicate in other parts of Africa as well. In Nigeria and West Africa, the company is shifting to a single distribution partner vs. direct sales to wholesalers. The company has a partnership with FMCL. Under the new arrangement, the company sees distribution to double.

- **South Africa (25-30% of cluster revenue; mainly into South Africa and Mozambique)** business contribution is now almost 1/5th, with South Africa and Mozambique being the leading markets. Dry hair care has a dominant share with ~80% contribution to revenue, in our view.

**Distribution:** The region is highly wholesale-based, as the crime rate is high (no online sales and retail are impacted by shoplifting incidents). GCPL has piloted a 'Perfect Stores' program (rolled out in the top-40 stores, contributing ~80% to the revenue) to increase sales by enhancing the shopper experience and maximizing shopper conversion opportunities.

- **Strength of Nature** business, is active in wet hair care and contributes about 1/5th to the cluster's revenue.
- **Other regions** (one-fourth of sales), largely comprise Kenya (East Africa), smaller markets in Africa and the Middle East. Others businesses have three-fourths share of dry hair care (bulk of business in Kenya is dry hair care). In Kenya, the company is also present in the candles and dish washer categories.

**Distribution:** In Kenya, the company is focusing on scaling up distribution through a combination of models (sub-distributor, van sales, and wholesale-assist). Focus has significantly shifted from primary sales to secondary sales, through strong partnerships with distributors and by monitoring the distributor ERP system.

#### Focus to sustain double-digit growth and improve margin

Under the new leadership at the cluster and organization levels, distribution and organization simplicity is the near-term focus. The company is looking to sustain double-digit growth (mid-teen volume growth aspiration in the next 3-4 years) and drive mid-teen margins (in the coming 3-4 years). Growth over the medium term will be a factor of the 'go to market' transformation (largely in place) and focused branding of categories. Over the next couple of years, management sees meaningful margin expansion owing to: i) softening raw-material prices; ii) mix improvement; and iii) efficiency gains. Some initiatives being undertaken by the company to drive growth and margin agendas are:

*There is no large player, but the unorganized share has always been high, where the country sees cheap product imports from China*

- **Reduced focus on dry hair care**, where the company sees low margins and high illicit competition. Going ahead, dry hair care will be a cash cow and investments will pour into non-dry businesses (high-margin) to build scale and demand pull.
- **Demand pull is crucial**: In a market that largely involves push-based sales, GCPL is attempting to create a demand pull with branding. As highlighted in the aforementioned section, Company focus is on creating branding in the market and gaining leadership (overall, market is fragmented, with no leader).
- **Simplicity — SKU rationalization**: While focusing on distribution, the company has understood that multiple products with a vast array of SKUs are complicating sales, largely owing to its inability to drive the topline. The company has engaged with McKinsey to simplify the SKU structure. In South Africa, the company has already reduced the overall SKU count of 1,500 to 650 now and aims to further pull this down to 250 SKUs. In Kenya, it had >2,000 SKUs, which now stand reduced by 50%, and the company is looking to cut these to 400-450 SKUs. Such simplification not only aids distribution and makes sales feet effective, but also helps cut costs and improve back-end functions. Management sees lower SKUs aiding margin by 300-400bps, as it reduces production costs and 'go to market' spends.
- **Focus on pull-based sales over historical push**: As regards competition, there is no large player, but the unorganized share has always been high, where the country sees cheap product imports from China, particularly in South Africa. Given the nature of the market, BTL activity is high. But going ahead, the company is looking to create brand recall with higher ATL spends.
- **Focus on controlling employee costs**: Compared with its earlier strategy of operating with expats, the company is now focusing on training a local team that is more accustomed to local business practices. This will help the company in reducing the unusually high employee spends in the sector. Overall, management will be central.
- **Working capital position optimization with strategic actions**: Given the high thrust on modern trade and mini marts, its receivable days are high. As the share of retail goes up, receivable days are likely to see a reduction. On the inventory front, high days are a factor of: a) key raw material, fiber, and imports from Japan, where products remain in transit for 3-4 months; b) presence in fashion categories (fashion needs higher inventory vs. FMCG categories); and c) a large SKU base.

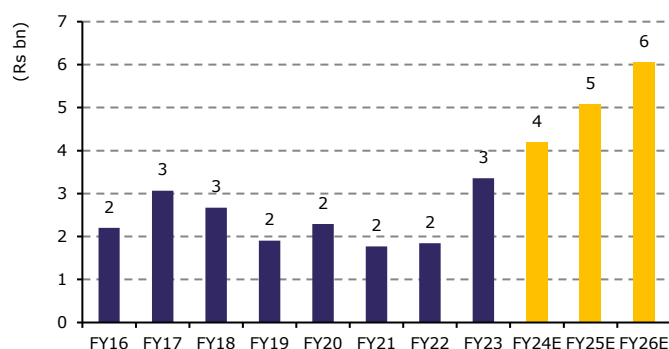
**Exhibit 67: Mid-teen margin possibility in the Africa, USA and Middle East cluster**

	Current	Gross margin	Overheads	EBITDA margin
Dry Hair	60%	35-40%	25-30%	10%
Wet Hair	30%	60-70%	30-45%	25-30%
Other FMCG	10%	50%	35%	15%
Overall		45-50%		15-16%

Source: Emkay Research

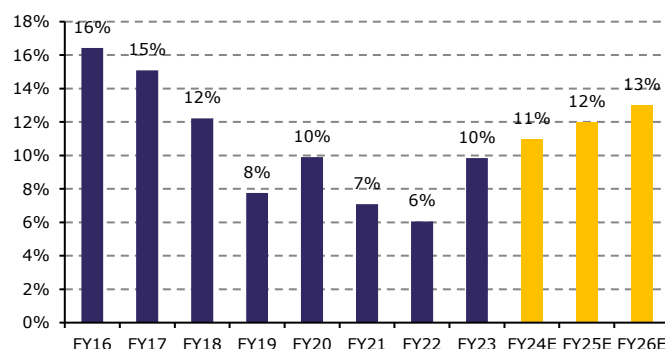
*Given the high thrust on modern trade and mini marts, its receivable days are high*

**Exhibit 68: Africa, USA and Middle East — EBITDA trend**



Source: Company, Emkay Research

**Exhibit 69: Africa, USA and Middle East — EBITDA margin trend**



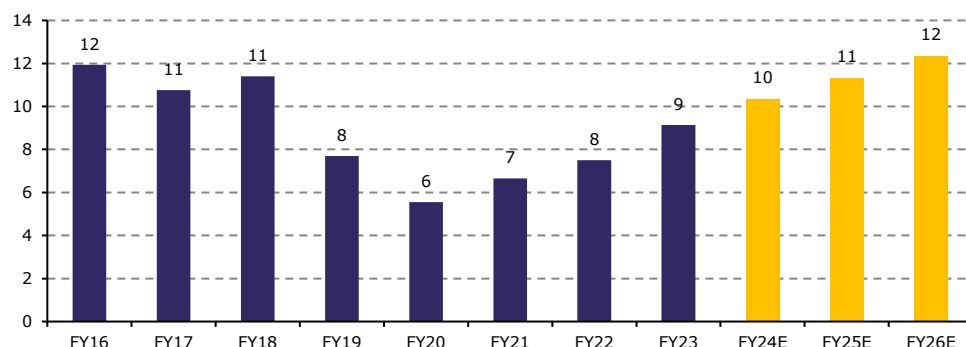
Source: Company, Emkay Research

## Other regions: Currency headwinds affect LatAm

GCPL generates ~5% of revenue from the LatAm market and SAARC countries. GCPL's key markets in the LatAm region are Argentina and Chile, where it holds the top two positions across categories: Hair color, Hair fixing spray, Depilatory products and hair styling products. Its key brand offerings are: *Issue*, *Roby*, *Ilicit*, *Millefiori* and *Pamela Grant*. Performance in Argentina has been robust, but currency devaluation weakens the strong show in currency translation, while Chile is facing headwinds from a weak macro.

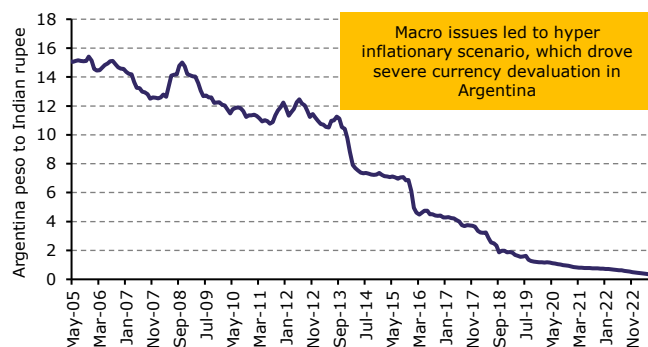
In SAARC, the key focus is on Bangladesh and Sri Lanka. In Sri Lanka, GCPL is active in the coil, hair color and air freshener categories, where growth is impacted by macro issues. In Bangladesh, coils and hair colors are the focus segments. Management's incremental thrust will be on only core businesses.

**Exhibit 70: Other international — Revenue trends**



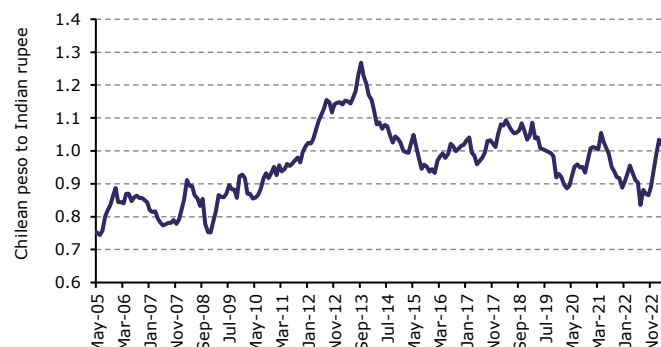
Source: Company, Emkay Research

**Exhibit 71: Argentina's economy saw sharp erosion**



Source: Bloomberg, Emkay Research

**Exhibit 72: Chile's Peso vs. the Indian Rupee**



Source: Bloomberg, Emkay Research

**Exhibit 73: Key subsidiaries' performance**

	Shareholding	Turnover (Rs mn)					PAT (Rs mn)				
		FY18	FY19	FY20	FY21	FY22	FY18	FY19	FY20	FY21	FY22
PT Godrej Distribution Indonesia (Trading arm in Indonesia)	100%	14,496	16,196	16,812	18,630	18,814	95	126	108	375	337
PT Megasari Makmur (Manufacturing arm in Indonesia)	100%	11,651	13,535	13,799	14,750	14,646	1,738	2,354	2,644	2,831	2,404
Cosmetica Nacional (Hair color and cosmetic company in Chile)	100%	2,037	1,676	1,443	1,954	2,030	295	58	-9	104	189
Canon Chemicals (Kenya-based household & personal care)	100%	924	981	951	751.8	968	-32	15	28	0	18
Strength of Nature (Makes hair care products targeting women of African descent, based in USA)	100%	5,504	5,718	5,892	5,372	6,001	630	400	163	87	86
Kinky Group (South Africa-based hair-care company)	100%	551	720	866	216	19	-2	91	98	11	14
Godrej Household Products (Bangladesh)	100%	553	619	860	943	961	-177	-129	-72	1	-40
Godrej Household Products (Sri Lanka)	100%	385	434	510	638	510	-95	-52	-6	41	9

Source: Company, Emkay Research

Emkay Research is also available on [www.emkayglobal.com](http://www.emkayglobal.com) and Bloomberg EMKAY<GO>. Please refer to the last page of the report on Restrictions on Distribution. In Singapore, this research report or research analyses may only be distributed to Institutional Investors, Expert Investors or Accredited Investors as defined in the Securities and Futures Act, Chapter 289 of Singapore.

## Appendix 1: Mergers and Acquisitions

### Exhibit 74: International inorganic business expansion

Date	Company name	Geographical presence	Products	Deal value (Rs mn)	Sales (Rs mn)^	Other financials/valuations^
<b>Acquisitions – International</b>						
Oct-05	Keyline Brands	Europe	Cosmetics and Toiletries	1,200-1,400	1,320	Acquired at 1x sales
Jul-05	Rapidol	South Africa and various other African nations	Ethnic hair color	~500	330	NA
Jan-08	Kinky	South Africa and various other African nations	Hair extensions	~1,500	~500	NA
Mar-10	Tura	Nigeria, West Africa	Soaps, moisturizing lotion and skin cream	1,500-2,000	525	NA
Apr-10	Megasari Makmur	Indonesia	Household Insecticide, Air care	11,000-13,000	5,500	EBITDA margin of 20%; Acquired at 10-12x EBITDA
May-10	Issue Group	Argentina, Peru, Uruguay, Paraguay, Brazil	Hair Color	1,700	1,518	EBITDA margin of 14%; Acquired at EBITDA of 8x
Jun-10	Argencos	Argentina	Hair Styling Spray	~550	552	EBITDA margin of 14%; Acquired at EBITDA of 7x
Jun-11	Darling Group (51%)	Sub-Saharan Africa(14 countries)	Hair Extension products	13,000-15,000	9,000	Deal value is cumulative for 51% of the company by FY14E
Jan-12	Cosmetica Nacional (60%)	Chile. Exports to nearby African countries	Hair color, color cosmetics	1,900	1,800	EBITDA margin of 20%; Acquired at EBITDA of 9x
Jan-13	Soft and Gentle	UK	Female deodorant	~950	1,880	Likely to be acquired at 0.5x EV/sales
Jan-15	Frika Hair	South Africa	Hair extension products	400	NA	NA
Feb-15	Darling South Africa and Mozambique (stake increase to 90%)	Sub-Saharan Africa (14 countries)	Hair Extension products	NA	NA	NA
Feb-16	Canon Chemicals (75%)	Kenya	Personal and home care categories	NA	761	NA
Apr-16	Strength of Nature	US (60% revenue), Africa (15-20% revenue), Caribbean, Middle East and Europe	Wet hair care products	10,000	~6,100	EBITDA margin of 22%; Acquired at EBITDA of 7-8x and Sales of 1.5x
<b>Divestments – International</b>						
Aug-18	UK operations (Keyline brands + Soft & Genteel)	Europe	Cosmetics and Toiletries	3,100	4,600	Divested at EBITDA of 5x and Sales of 0.7x

Source: Company, Emkay Research

Note: ^ Sales, other financials, valuation based on financial year prior to announcement date



**Exhibit 75: India inorganic business expansion**

Date	Company name	Geographical presence	Products	Deal value (Rs mn)	Sales (Rs mn)^	Other financials/valuations^
Jun-09	Godrej ConsumerBiz (29% stake in Godrej Sara Lee JV)	India	Household Insecticides	2,727	7,550	Acquired at EV/sales of 1.25x and P/E of 9x
Jun-09	Godrej Hygiene Care (20% stake in Godrej Sara Lee JV)	India	Household Insecticides	1,885		
May-10	Sara Lee stake (51% stake in Godrej Sara Lee JV)	India	Household Insecticides	9,650	10,500	Acquired at EV/sales of 1.1x and P/E of 7x
Dec-10	Naturesse Consumer Care products (Swastik brand)	India	Soaps	<500	NA	NA
	Essence Consumer Care Products (Genteel brand )		Liquid detergent		NA	NA
Apr-23	Raymond Consumer Products	India	Deodorant Sexual Wellness	28,250	6220	3.75x on net basis taking benefit of tax savings of Rs4bn

Source: Company, Emkay Research

## Appendix 2: Financial statements

Exhibit 76: Consolidated profit and loss statement

(Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Net sales</b>	<b>102,211</b>	<b>98,265</b>	<b>109,360</b>	<b>121,742</b>	<b>131,987</b>	<b>151,208</b>	<b>168,756</b>	<b>185,848</b>
Growth	4.6%	-3.9%	11.3%	11.3%	8.4%	14.6%	11.6%	10.1%
Other operating income	933	843	926	1,023	1,173	1,290	1,419	1,561
<b>Total Revenue</b>	<b>103,143</b>	<b>99,108</b>	<b>110,286</b>	<b>122,765</b>	<b>133,160</b>	<b>152,498</b>	<b>170,175</b>	<b>187,410</b>
Growth	4.8%	-3.9%	11.3%	11.3%	8.5%	14.5%	11.6%	10.1%
<b>Gross Profit</b>	<b>57,980</b>	<b>56,491</b>	<b>60,992</b>	<b>62,014</b>	<b>66,132</b>	79,869	90,117	100,303
as a percentage of net sale	56.2%	57.0%	55.3%	50.5%	49.7%	52.4%	53.0%	53.5%
Employee Benefits	10,909	10,188	11,233	11,041	11,115	12,820	13,824	14,515
As a percentage of net sales	10.6%	10.3%	10.2%	9.0%	8.3%	8.4%	8.1%	7.7%
Advertisement & Sales Promotion	8,393	7,391	7,332	7,508	9,855	12,218	13,365	14,769
As a percentage of net sales	8.1%	7.5%	6.6%	6.1%	7.4%	8.0%	7.9%	7.9%
Other Expenses	17,102	17,481	18,544	19,514	20,857	23,917	26,152	28,487
As a percentage of net sales	16.6%	17.6%	16.8%	15.9%	15.7%	15.7%	15.4%	15.2%
<b>EBITDA</b>	<b>21,576</b>	<b>21,430</b>	<b>23,883</b>	<b>23,951</b>	<b>24,305</b>	<b>30,914</b>	<b>36,775</b>	<b>42,532</b>
Growth	4.4%	-0.7%	11.4%	0.3%	1.5%	27.2%	19.0%	15.7%
As a percentage of net sales	20.9%	21.6%	21.7%	19.5%	18.3%	20.3%	21.6%	22.7%
Depreciation and Amortization	1,700	1,973	2,039	2,099	2,363	2,813	2,963	3,063
<b>EBIT</b>	<b>19,876</b>	<b>19,458</b>	<b>21,844</b>	<b>21,852</b>	<b>21,942</b>	<b>28,101</b>	<b>33,812</b>	<b>39,469</b>
Growth	4.0%	-2.1%	12.3%	0.0%	0.4%	28.1%	20.3%	16.7%
as a percentage of net sale	19.3%	19.6%	19.8%	17.8%	16.5%	18.4%	19.9%	21.1%
Finance Cost	2,243	2,174	1,266	1,102	1,757	1,680	1,400	800
Other Income	1,088	1,123	671	897	1,684	1,300	1,400	1,700
<b>Profit Before Tax</b>	<b>18,721</b>	<b>18,406</b>	<b>21,248</b>	<b>21,647</b>	<b>21,868</b>	<b>27,721</b>	<b>33,812</b>	<b>40,369</b>
Growth	0.7%	-1.7%	15.4%	1.9%	1.0%	26.8%	22.0%	19.4%
as a percentage of net sale	18.2%	18.6%	19.3%	17.6%	16.4%	18.2%	19.9%	21.5%
Tax	3,836	2,638	3,595	3,719	4,303	6,653	8,115	9,890
Effective tax rate	20.5%	14.3%	16.9%	17.2%	19.7%	24.0%	24.0%	24.5%
Extraordinary gains/(losses)	8,524	(811)	(445)	(98)	(541)	1,148	1,025	769
MI	6	8	0	3	-	-	-	-
<b>Reported PAT</b>	<b>23,415</b>	<b>14,966</b>	<b>17,208</b>	<b>17,834</b>	<b>17,025</b>	<b>22,217</b>	<b>26,723</b>	<b>31,248</b>
Growth	43.3%	-36.1%	15.0%	3.6%	-4.5%	30.5%	20.3%	16.9%
As a percentage of net sale	22.7%	15.1%	15.6%	14.5%	12.8%	14.6%	15.7%	16.7%
<b>Adjusted Profit</b>	<b>14,892</b>	<b>15,660</b>	<b>17,576</b>	<b>17,915</b>	<b>17,457</b>	<b>21,344</b>	<b>25,943</b>	<b>30,667</b>
Growth	2.4%	5.2%	12.2%	1.9%	-2.6%	22.3%	21.6%	18.2%
Weighted avg. no. of shares	1,022	1,022	1,023	1,023	1,023	1,023	1,023	1,023
Earnings Per Share	22.9	14.6	16.8	17.4	16.6	21.7	26.1	30.6
Growth	43%	-36%	15%	4%	-5%	30%	20%	17%
<b>Adjusted Earnings Per Share</b>	<b>14.6</b>	<b>15.3</b>	<b>17.2</b>	<b>17.5</b>	<b>17.1</b>	<b>20.9</b>	<b>25.4</b>	<b>30.0</b>
Growth	2%	5%	12%	2%	-3%	22%	22%	18%
Recurring Cash Earnings per share (CEPS)	16.2	17.2	19.2	19.6	19.4	23.6	28.3	33.0
Growth	3%	6%	11%	2%	-1%	22%	20%	17%

Source: Company, Emkay Research

## Exhibit 77: Godrej Consumer revenue split and expectations

	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Home care (a)</b>	<b>26,670</b>	<b>29,850</b>	<b>31,740</b>	<b>33,580</b>	<b>37,730</b>	<b>41,735</b>	<b>45,287</b>
Growth		12%	6%	6%	12%	11%	9%
- Household insecticides	21,900	25,340	25,750	26,940	30,173	33,190	35,845
- Growth		16%	2%	5%	12%	10%	8%
<b>Personal care (b)</b>	<b>24,200</b>	<b>28,260</b>	<b>32,440</b>	<b>38,520</b>	<b>46,584</b>	<b>52,598</b>	<b>58,187</b>
Growth		17%	15%	19%	21%	13%	11%
- Organic business	24,200	28,260	32,440	38,520	41,686	45,880	50,126
- Growth		17%	15%	19%	8%	10%	9%
- Inorganic business					4,898	6,718	8,061
- Growth						37%	20%
<b>India branded business (c) = (a+b)</b>	<b>50,870</b>	<b>58,110</b>	<b>64,180</b>	<b>72,100</b>	<b>84,315</b>	<b>94,333</b>	<b>103,473</b>
Growth		14%	10%	12%	17%	12%	10%
Others incl. Exports (d)	2,750	3,230	4,010	3,210	3,531	3,884	4,253
Growth		17%	24%	-20%	10%	10%	10%
<b>India revenue (e) = (c+d)</b>	<b>53,620</b>	<b>61,340</b>	<b>68,190</b>	<b>75,310</b>	<b>87,846</b>	<b>98,217</b>	<b>107,726</b>
Growth		14%	11%	10%	17%	12%	10%
as a % of consolidated revenue	55%	56%	56%	57%	58%	58%	58%
Indonesia	16,940	17,670	17,040	16,510	18,987	21,455	24,244
Growth		4%	-4%	-3%	15%	13%	13%
as a % of consolidated revenue	17%	16%	14%	13%	13%	13%	13%
GAUM Cluster	23,160	24,980	30,500	34,120	37,532	41,661	45,827
Growth		8%	22%	12%	10%	11%	10%
as a % of consolidated revenue	24%	23%	25%	26%	25%	25%	25%
LATAM and SAARC	4,545	5,370	6,012	6,047	6,844	7,424	8,052
Growth		18%	12%	1%	13%	8%	8%
as a % of consolidated revenue	5%	5%	5%	5%	5%	4%	4%
<b>International revenue (f)</b>	<b>44,645</b>	<b>48,020</b>	<b>53,552</b>	<b>56,677</b>	<b>63,363</b>	<b>70,539</b>	<b>78,122</b>
Growth		8%	12%	6%	12%	11%	11%
as a % of consolidated revenue	45%	44%	44%	43%	42%	42%	42%
<b>Consolidated revenue (e+f)</b>	<b>98,265</b>	<b>109,360</b>	<b>121,742</b>	<b>131,987</b>	<b>151,208</b>	<b>168,756</b>	<b>185,848</b>
Growth		11%	11%	8%	15%	12%	10%

Source: Company, Emkay Research

## Exhibit 78: Godrej Consumer EBITDA by region

	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>India business EBITDA</b>	<b>14,484</b>	<b>16,497</b>	<b>17,293</b>	<b>18,450</b>	<b>22,840</b>	<b>26,027</b>	<b>28,547</b>
<i>Growth</i>	-4%	14%	5%	7%	24%	14%	10%
<i>as a % of consolidated EBITDA</i>	68%	69%	72%	71%	71%	70%	69%
<i>Margin</i>	27%	27%	25%	24%	26%	27%	27%
 Indonesia	 4,436	 4,847	 3,895	 3,019	 3,892	 4,505	 5,334
<i>Growth</i>	13%	9%	-20%	-22%	29%	16%	18%
<i>as a % of consolidated EBITDA</i>	21%	20%	16%	12%	12%	12%	13%
<i>Margin</i>	26%	27%	23%	18%	21%	21%	22%
 GAUM Cluster	 2,294	 1,772	 1,845	 3,358	 4,129	 4,999	 5,957
<i>Growth</i>	20%	-23%	4%	82%	23%	21%	19%
<i>as a % of consolidated EBITDA</i>	11%	7%	8%	13%	13%	13%	14%
<i>Margin</i>	10%	7%	6%	10%	11%	12%	13%
 LATAM and SAARC	 217	 767	 918	 1,143	 1,348	 1,587	 1,730
<i>Growth</i>	6%	254%	20%	25%	18%	18%	9%
<i>as a % of consolidated EBITDA</i>	1%	3%	4%	4%	4%	4%	4%
<i>Margin</i>	5%	14%	15%	19%	20%	21%	21%
<b>International EBITDA</b>	<b>6,946</b>	<b>7,385</b>	<b>6,658</b>	<b>7,520</b>	<b>9,369</b>	<b>11,092</b>	<b>13,021</b>
<i>Growth</i>		6%	-10%	13%	25%	18%	17%
<i>as a % of consolidated EBITDA</i>	32%	31%	28%	29%	29%	30%	31%
<i>Margin</i>	16%	15%	12%	13%	15%	16%	17%
 <b>Consolidated EBITDA</b>	 <b>21,430</b>	 <b>23,883</b>	 <b>23,951</b>	 <b>25,971</b>	 <b>32,208</b>	 <b>37,120</b>	 <b>41,569</b>
<i>Growth</i>	1%	9%	10%	11%	12%	13%	13%
<i>Margin</i>	22%	22%	20%	20%	21%	22%	22%

Source: Company, Emkay Research

## Exhibit 79: Consolidated Balance Sheet

(Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	1,022	1,022	1,023	1,023	1,023	1,023	1,023	1,023
Reserves and Surplus	71,647	77,961	93,367	114,537	136,920	156,068	176,655	199,721
<b>Total Shareholders' Funds</b>	<b>72,669</b>	<b>78,984</b>	<b>94,389</b>	<b>115,559</b>	<b>137,942</b>	<b>157,091</b>	<b>177,677</b>	<b>200,743</b>
Minority Interest	-	-	-	-	-	-	-	-
Long-Term Borrowings	26,048	21,450	4,801	3,809	1,891	4,000	4,000	-
Short-Term Borrowings	2,709	5,187	2,794	12,268	8,448	23,448	11,000	11,000
Current Maturities of long term loans	-	566	957	967	956	1,033	1,115	1,205
<b>Total borrowings</b>	<b>28,757</b>	<b>27,204</b>	<b>8,552</b>	<b>17,043</b>	<b>11,296</b>	<b>28,481</b>	<b>16,115</b>	<b>12,205</b>
Deferred Tax Liabilities (Net)	(4,728)	(5,701)	(6,378)	(6,796)	(6,412)	(6,412)	(6,412)	(6,412)
Other Long-Term Liabilities	2,218	1,392	69	23	16	16	17	18
Long-Term Provisions	1,083	1,170	1,147	1,070	1,034	1,084	1,134	1,184
Total Non-Current Liabilities	(1,427)	(3,139)	(5,162)	(5,703)	(5,363)	(5,312)	(5,261)	(5,210)
<b>EQUITY AND LIABILITIES</b>	<b>99,999</b>	<b>103,048</b>	<b>97,779</b>	<b>126,900</b>	<b>143,876</b>	<b>180,260</b>	<b>188,532</b>	<b>207,738</b>
Gross Block	42,091	44,710	45,391	48,399	53,468	80,968	83,968	86,968
Accumulated Depreciation (net)	4,569	6,308	8,553	10,958	13,321	16,134	19,097	22,160
<b>Closing Block</b>	<b>37,522</b>	<b>38,402</b>	<b>36,838</b>	<b>37,441</b>	<b>40,147</b>	<b>64,835</b>	<b>64,872</b>	<b>64,809</b>
CWIP	521	570	574	1,164	454	1,000	1,000	1,000
Goodwill	49,180	53,393	51,299	53,768	58,223	58,223	58,223	58,223
<b>Net Fixed Assets</b>	<b>87,223</b>	<b>92,366</b>	<b>88,711</b>	<b>92,373</b>	<b>98,824</b>	<b>124,057</b>	<b>124,094</b>	<b>124,031</b>
Investments	347	348	194	-	-	-	-	-
Long-Term Loans and Advances	711	656	678	928	928	975	1,023	1,074
Other Non-Current Assets	1,043	1,649	1,728	2,141	1,755	1,843	1,935	2,032
<b>Total Non-Current Assets</b>	<b>89,324</b>	<b>95,019</b>	<b>91,311</b>	<b>95,442</b>	<b>101,507</b>	<b>126,874</b>	<b>127,052</b>	<b>127,137</b>
Current Investments	4,813	6,372	6,597	10,154	30,290	35,290	40,290	40,290
Inventories	15,586	17,031	17,163	21,299	15,372	16,571	17,569	18,839
Trade Receivables	12,929	11,573	10,045	11,163	12,453	14,085	15,257	16,294
Cash and Cash Equivalents	8,947	7,702	6,722	11,078	3,907	9,648	13,053	32,295
Short-Term Loans and Advances	4,168	4,998	3,933	4,646	4,105	4,310	4,525	4,752
Other Current Assets	441	409	290	244	327	343	361	379
<b>Total Current Assets</b>	<b>46,884</b>	<b>48,083</b>	<b>44,749</b>	<b>58,584</b>	<b>66,453</b>	<b>80,247</b>	<b>91,056</b>	<b>112,848</b>
Trade Payables	25,399	24,805	21,596	21,631	18,232	20,713	23,117	25,459
Other Current Liabilities	10,301	14,690	15,961	4,733	5,101	5,356	5,624	5,905
Short-Term Provisions	509	560	724	762	752	791	835	883
<b>Total Current Liabilities</b>	<b>36,208</b>	<b>40,054</b>	<b>38,281</b>	<b>27,126</b>	<b>24,085</b>	<b>26,861</b>	<b>29,576</b>	<b>32,247</b>
<b>Net Current Assets</b>	<b>10,676</b>	<b>8,029</b>	<b>6,468</b>	<b>31,458</b>	<b>42,368</b>	<b>53,386</b>	<b>61,480</b>	<b>80,601</b>
<b>ASSETS</b>	<b>99,999</b>	<b>103,048</b>	<b>97,779</b>	<b>126,900</b>	<b>143,876</b>	<b>180,260</b>	<b>188,532</b>	<b>207,738</b>

Source: Company, Emkay Research

## Exhibit 80: Consolidated cash flow statement

(Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net PBT and Extraordinary Items	18,328	18,415	20,804	21,553	21,327	27,721	33,812	40,369
Depreciation & Amortization	1,700	1,973	2,039	2,099	2,363	2,813	2,963	3,063
Interest	1,375	1,412	916	506	802	1,300	1,400	1,700
Loss / (Profit) on sale of Investments	(75)	(4)	(64)	(89)	(494)	-	-	-
Investment written off	62	70	36	33	43	-	-	-
Provision for Doubtful Debts	69	(31)	198	23	171	-	-	-
Foreign Exchange Fluctuations	138	3	98	(102)	(103)	-	-	-
Others	217	223	695	321	648	28	32	-
<b>Operating Profit Before Working Capital Changes</b>	<b>21,814</b>	<b>22,060</b>	<b>24,720</b>	<b>24,343</b>	<b>24,758</b>	<b>31,862</b>	<b>38,207</b>	<b>45,132</b>
Trade & Other Payables	2,566	(1,344)	(2,104)	82	(3,660)	2,738	2,672	2,624
Inventories	(200)	(1,775)	(704)	(3,842)	5,550	(1,199)	(998)	(1,270)
Trade & Other Receivables	(1,182)	76	2,201	(1,569)	(920)	(1,940)	(1,495)	(1,375)
Provision for Employee Benefits	(1,178)	430	154	(34)	(36)	89	94	98
<b>Total Decrease / (Increase) in Working Capital</b>	<b>6</b>	<b>(2,613)</b>	<b>(452)</b>	<b>(5,362)</b>	<b>933</b>	<b>(312)</b>	<b>273</b>	<b>77</b>
<b>Cash Generated from Operations</b>	<b>21,820</b>	<b>19,447</b>	<b>24,268</b>	<b>18,981</b>	<b>25,691</b>	<b>31,550</b>	<b>38,480</b>	<b>45,208</b>
Direct Taxes Paid	(4,351)	(3,441)	(3,972)	(4,475)	(4,185)	(6,653)	(8,115)	(9,890)
Exceptional Items	(180)	(126)	-	-	-	-	-	-
<b>Cash Flow from Operating Activities</b>	<b>17,289</b>	<b>15,881</b>	<b>20,296</b>	<b>14,506</b>	<b>21,507</b>	<b>24,897</b>	<b>30,365</b>	<b>35,318</b>
Purchase of Fixed Assets	(2,077)	(1,520)	(1,639)	(2,765)	(2,197)	(28,046)	(3,000)	(3,000)
Purchase of Investments	3,672	(4,382)	(2,110)	(6,467)	(16,495)	(5,000)	(5,000)	-
Interest Received	921	570	593	590	1,109	-	-	-
<b>Cash Used in Investing Activities</b>	<b>2,516</b>	<b>(5,333)</b>	<b>(3,155)</b>	<b>(8,642)</b>	<b>(17,583)</b>	<b>(33,046)</b>	<b>(8,000)</b>	<b>(3,000)</b>
Repayment of Loans (Net)	(3,447)	(1,280)	(16,194)	(2,198)	(6,344)	17,109	(12,448)	(4,000)
Interest Paid	(2,147)	(1,519)	(1,589)	(1,123)	(1,116)	(1,300)	(1,400)	(1,700)
Dividend Paid	(12,265)	(8,178)	-	-	-	(3,068)	(6,136)	(8,182)
Corporate Dividend Tax	(2,521)	(1,681)	-	-	-	-	-	-
Others	16	(334)	(396)	(477)	(436)	-	-	-
<b>Net Cash Used in Financing Activities</b>	<b>(20,364)</b>	<b>(12,992)</b>	<b>(18,178)</b>	<b>(3,798)</b>	<b>(7,896)</b>	<b>12,741</b>	<b>(19,985)</b>	<b>(13,882)</b>
Extraordinary Items	202	(150)	249	203	39	-	-	-
<b>Net Changes in Cash &amp; Cash Equivalents</b>	<b>(358)</b>	<b>(2,593)</b>	<b>(787)</b>	<b>2,268</b>	<b>(3,933)</b>	<b>4,592</b>	<b>2,380</b>	<b>18,436</b>
Cash & Cash Equivalents-Opening Balance	8,980	8,622	6,029	5,241	7,509	3,907	8,499	10,880
<b>Cash &amp; Cash Equivalents-Closing Balance</b>	<b>8,622</b>	<b>6,029</b>	<b>5,241</b>	<b>7,509</b>	<b>3,576</b>	<b>8,499</b>	<b>10,880</b>	<b>29,316</b>

Source: Company, Emkay Research



**Exhibit 81: Key financial ratios based on consolidated financials**

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth Ratios (YoY)</b>								
Net sales growth	4.8%	-3.9%	11.3%	11.3%	8.5%	14.5%	11.6%	10.1%
EBITDA growth	4.4%	-3.5%	12.0%	-0.6%	1.5%	27.2%	19.0%	15.7%
EBIT growth	4.0%	-5.0%	12.8%	-0.9%	0.4%	28.1%	20.3%	16.7%
PBT growth	1.1%	-4.8%	15.8%	0.8%	1.0%	26.8%	22.0%	19.4%
Adjusted PAT growth	2.4%	5.2%	12.2%	1.9%	-2.6%	22.3%	21.6%	18.2%
EPS growth	2.3%	5.2%	12.2%	1.9%	-2.6%	22.3%	21.6%	18.2%
<b>Operating Ratios</b>								
Gross margin	56.2%	57.0%	55.3%	50.5%	49.7%	52.4%	53.0%	53.5%
Employee costs to sales	10.6%	10.3%	10.2%	9.0%	8.3%	8.4%	8.1%	7.7%
A&P to sales	8.1%	7.5%	6.6%	6.1%	7.4%	8.0%	7.9%	7.9%
Other expenses to sales	14.6%	16.2%	15.3%	14.7%	15.7%	15.7%	15.4%	15.2%
EBITDA margin	22.9%	23.0%	23.2%	20.7%	18.3%	20.3%	21.6%	22.7%
EBIT margin	21.3%	21.0%	21.3%	19.0%	16.5%	18.4%	19.9%	21.1%
Other income / PBT	5.2%	5.7%	2.9%	3.9%	7.7%	4.7%	4.1%	4.2%
PBT margin	20.2%	20.0%	20.8%	18.8%	16.4%	18.2%	19.9%	21.5%
Effective tax rate	18.4%	13.3%	15.7%	16.1%	19.7%	24.0%	24.0%	24.5%
Adj PAT margin	16.4%	17.3%	17.5%	15.8%	13.2%	13.8%	15.1%	16.3%
<b>Per Share Data (Rs)</b>								
Recurring Earning per share (EPS)	14.6	15.3	17.2	17.5	17.1	20.9	25.4	30.0
Reported Earnings per share	22.9	14.6	16.8	17.4	16.6	21.7	26.1	30.6
Dividend per share	12.0	8.0	0.0	0.0	0.0	3.0	6.0	8.0
Recurring Cash Earnings per share (CEPS)	16.2	17.2	19.2	19.6	19.4	23.6	28.3	33.0
Reported Book Value (BV)	71.1	77.3	92.3	113.0	134.9	153.6	173.7	196.3
Operating cash flow per share	16.9	15.5	19.8	14.2	21.0	24.3	29.7	34.5
Free Cashflow per share (FCPS-post capex)	14.9	14.0	18.2	11.5	18.9	-3.1	26.8	31.6
<b>Return Ratios</b>								
Avg ROE	22%	21%	20%	17%	14%	14%	15%	16%
Avg ROCE	22%	20%	22%	20%	16%	17%	18%	19%
Avg ROIC	22%	20%	22%	19%	16%	17%	18%	21%
<b>Solvency Ratios / Liquidity Ratios</b>								
Debt Equity Ratio (D/E) (%)	0.2	0.2	(0.1)	(0.0)	(0.2)	(0.1)	(0.2)	(0.3)
Long Term Debt / Total Debt	91%	79%	56%	22%	17%	14%	25%	0%
Net Working Capital / Total Assets	2%	0%	0%	16%	27%	24%	26%	23%
Interest Coverage Ratio-based on EBIT (x)	9.8	9.6	18.6	21.2	12.5	16.7	24.2	49.3
Debt Servicing Capacity Ratio (DSCR; x)	1.9	1.9	5.0	2.4	4.3	1.9	3.5	4.5
Current Ratio (x)	1.0	1.0	1.0	1.8	2.6	2.6	2.6	2.5
Cash and cash equivalents / Total Assets (x)	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.2
<b>Turnover (No. of days)</b>								
Inventory	55.2	62.7	56.8	63.3	42.1	39.7	37.7	36.7
Receivable	45.8	42.6	33.2	33.2	34.1	33.7	32.7	31.7
Payable	89.9	91.4	71.5	64.3	50.0	49.6	49.6	49.6
Cash conversion cycle	11.0	14.0	18.6	32.2	26.3	23.8	20.8	18.8
Fixed Assets Turnover Ratio (x)	2.5	2.3	2.4	2.6	2.6	2.3	2.1	2.2

Source: Company, Emkay Research

## Godrej Consumer Products : Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>122,765</b>	<b>133,160</b>	<b>152,498</b>	<b>170,175</b>	<b>187,410</b>
Revenue growth (%)	11.3	8.5	14.5	11.6	10.1
<b>EBITDA</b>	<b>23,951</b>	<b>24,305</b>	<b>30,914</b>	<b>36,775</b>	<b>42,532</b>
EBITDA growth (%)	0.3	1.5	27.2	19.0	15.7
Depreciation & Amortization	2,099	2,363	2,813	2,963	3,063
<b>EBIT</b>	<b>21,852</b>	<b>21,942</b>	<b>28,101</b>	<b>33,812</b>	<b>39,469</b>
EBIT growth (%)	0.0	0.4	28.1	20.3	16.7
Other operating income	1,023	1,173	1,290	1,419	1,561
Other income	897	1,684	1,300	1,400	1,700
Financial expense	1,102	1,757	1,680	1,400	800
<b>PBT</b>	<b>21,647</b>	<b>21,868</b>	<b>27,721</b>	<b>33,812</b>	<b>40,369</b>
Extraordinary items	0	0	0	0	0
Taxes	3,719	4,303	6,653	8,115	9,890
Minority interest	(3)	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>17,834</b>	<b>17,025</b>	<b>22,217</b>	<b>26,723</b>	<b>31,248</b>
PAT growth (%)	3.6	(4.5)	30.5	20.3	16.9
<b>Adjusted PAT</b>	<b>17,915</b>	<b>17,459</b>	<b>21,344</b>	<b>25,943</b>	<b>30,667</b>
<b>Diluted EPS (Rs)</b>	<b>17.5</b>	<b>17.1</b>	<b>20.9</b>	<b>25.4</b>	<b>30.0</b>
Diluted EPS growth (%)	1.9	(2.6)	22.2	21.6	18.2
<b>DPS (Rs)</b>	<b>0.0</b>	<b>0.0</b>	<b>3.0</b>	<b>6.0</b>	<b>8.0</b>
<b>Dividend payout (%)</b>	<b>0.0</b>	<b>0.0</b>	<b>13.8</b>	<b>23.0</b>	<b>26.2</b>
EBITDA margin (%)	19.5	18.3	20.3	21.6	22.7
EBIT margin (%)	17.8	16.5	18.4	19.9	21.1
Effective tax rate (%)	17.2	19.7	24.0	24.0	24.5
<b>NOPLAT (pre-IndAS)</b>	<b>18,098</b>	<b>17,625</b>	<b>21,357</b>	<b>25,697</b>	<b>29,799</b>
Shares outstanding (mn)	1,022.6	1,022.7	1,022.7	1,022.7	1,022.7

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	21,647	21,868	27,721	33,812	40,369
Others (non-cash items)	0	0	0	0	0
Taxes paid	(4,475)	(4,185)	(6,653)	(8,115)	(9,890)
Change in NWC	(5,362)	933	(312)	273	77
<b>Operating cash flow</b>	<b>14,506</b>	<b>21,507</b>	<b>24,897</b>	<b>30,365</b>	<b>35,318</b>
Capital expenditure	(2,765)	(2,197)	(28,046)	(3,000)	(3,000)
Acquisition of business	0	0	0	0	0
Interest & dividend income	590	1,109	0	0	0
<b>Investing cash flow</b>	<b>(8,642)</b>	<b>(17,583)</b>	<b>(33,046)</b>	<b>(8,000)</b>	<b>(3,000)</b>
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(2,198)	(6,344)	17,109	(12,448)	(4,000)
Payment of lease liabilities	474	0	0	0	0
Interest paid	(1,123)	(1,116)	(1,300)	(1,400)	(1,700)
Dividend paid (incl tax)	0	0	(3,068)	(6,136)	(8,182)
Others	(477)	(436)	0	0	0
<b>Financing cash flow</b>	<b>(3,798)</b>	<b>(7,896)</b>	<b>12,741</b>	<b>(19,985)</b>	<b>(13,882)</b>
Net chg in Cash	2,065	(3,972)	4,592	2,380	18,436
OCF	14,506	21,507	24,897	30,365	35,318
Adj. OCF (w/o NWC chg.)	19,867	20,573	25,209	30,092	35,241
FCFF	11,741	19,309	(3,149)	27,365	32,318
FCFE	11,229	18,661	(4,829)	25,965	31,518
OCF/EBITDA (%)	60.6	88.5	80.5	82.6	83.0
FCFE/PAT (%)	62.7	106.9	(22.6)	100.1	102.8
<b>FCFF/NOPLAT (%)</b>	<b>64.9</b>	<b>109.6</b>	<b>(14.7)</b>	<b>106.5</b>	<b>108.5</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	1,023	1,023	1,023	1,023	1,023
Reserves & Surplus	114,537	136,920	156,068	176,655	199,721
<b>Net worth</b>	<b>115,559</b>	<b>137,942</b>	<b>157,091</b>	<b>177,677</b>	<b>200,743</b>
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(6,796)	(6,412)	(6,412)	(6,412)	(6,412)
<b>Total debt</b>	<b>18,136</b>	<b>12,346</b>	<b>29,582</b>	<b>17,267</b>	<b>13,407</b>
<b>Total liabilities &amp; equity</b>	<b>126,900</b>	<b>143,876</b>	<b>180,260</b>	<b>188,532</b>	<b>207,738</b>
Net tangible fixed assets	37,441	40,147	64,835	64,872	64,809
Net intangible assets	53,768	58,223	58,223	58,223	58,223
Net ROU assets	985	967	1,015	1,066	1,119
Capital WIP	1,164	454	1,000	1,000	1,000
Goodwill	53,768	58,223	58,223	58,223	58,223
Investments [JV/Associates]	0	0	0	0	0
<b>Cash &amp; equivalents</b>	<b>14,146</b>	<b>6,590</b>	<b>12,465</b>	<b>16,011</b>	<b>35,401</b>
Current assets (ex-cash)	47,506	62,546	70,599	78,002	80,553
Current Liab. & Prov.	27,126	24,085	26,861	29,576	32,247
<b>NWC (ex-cash)</b>	<b>20,381</b>	<b>38,461</b>	<b>43,738</b>	<b>48,426</b>	<b>48,306</b>
<b>Total assets</b>	<b>126,900</b>	<b>143,876</b>	<b>180,260</b>	<b>188,532</b>	<b>207,738</b>
Net debt	(9,245)	(3,649)	(7,364)	(10,860)	(34,198)
Capital employed	113,665	134,471	155,779	176,416	195,533
<b>Invested capital</b>	<b>111,589</b>	<b>136,831</b>	<b>166,795</b>	<b>171,520</b>	<b>171,337</b>
BVPS (Rs)	113.0	134.9	153.6	173.7	196.3
Net Debt/Equity (x)	(0.1)	0.0	0.0	(0.1)	(0.2)
Net Debt/EBITDA (x)	(0.4)	(0.2)	(0.2)	(0.3)	(0.8)
Interest coverage (x)	0.0	0.1	0.1	0.0	0.0
<b>RoCE (%)</b>	<b>21.9</b>	<b>19.0</b>	<b>20.3</b>	<b>21.2</b>	<b>22.1</b>

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	61.0	62.6	51.2	42.1	35.7
P/CE(x)	54.6	54.9	45.8	38.1	32.6
P/B (x)	9.5	7.9	7.0	6.2	5.4
EV/Sales (x)	8.9	8.3	7.2	6.4	5.7
EV/EBITDA (x)	45.3	44.8	35.1	29.4	24.9
EV/EBIT(x)	49.6	49.7	38.6	32.0	26.8
EV/IC (x)	9.7	8.0	6.5	6.3	6.2
FCFF yield (%)	1.1	1.8	(0.3)	2.5	3.1
FCFE yield (%)	1.0	1.7	(0.4)	2.4	2.9
Dividend yield (%)	0.0	0.0	0.3	0.6	0.7
<b>DuPont-RoE split</b>					
Net profit margin (%)	14.6	13.2	13.8	15.1	16.3
Total asset turnover (x)	1.2	1.1	1.1	1.0	1.0
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
<b>RoE (%)</b>	<b>17.1</b>	<b>13.9</b>	<b>14.3</b>	<b>15.4</b>	<b>16.1</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	14.7	13.2	14.0	15.1	15.9
IC turnover (x)	1.2	1.1	1.0	1.0	1.1
<b>RoIC (%)</b>	<b>18.1</b>	<b>14.2</b>	<b>14.1</b>	<b>15.2</b>	<b>17.4</b>
<b>Operating metrics</b>					
Core NWC days	(19.9)	(13.3)	(11.6)	(13.0)	(14.2)
<b>Total NWC days</b>	<b>60.6</b>	<b>105.4</b>	<b>104.7</b>	<b>103.9</b>	<b>94.1</b>
Fixed asset turnover	1.2	1.2	1.2	1.2	1.3
Opex-to-revenue (%)	31.0	31.4	32.1	31.3	30.8

Source: Company, Emkay Research

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