



## 3R MATRIX

|                      | + | = | - |
|----------------------|---|---|---|
| Right Sector (RS)    | ✓ | ✗ | ✗ |
| Right Quality (RQ)   | ✓ | ✗ | ✗ |
| Right Valuation (RV) | ✓ | ✗ | ✗ |

+ Positive = Neutral - Negative

## What has changed in 3R MATRIX

|    | Old |   | New |
|----|-----|---|-----|
| RS | ✗   | ↑ | ✓   |
| RQ | ✓   | ↔ | ✓   |
| RV | ✓   | ↔ | ✓   |

## ESG Disclosure Score

NEW

ESG RISK RATING  
Updated Jun 08, 2023

26.87

## Medium Risk

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

Source: Morningstar

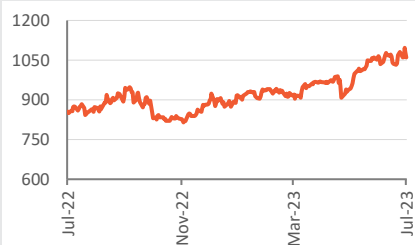
## Company details

|                               |                 |
|-------------------------------|-----------------|
| Market cap:                   | Rs. 1,08,441 cr |
| 52-week high/low:             | Rs. 1,102 / 794 |
| NSE volume:<br>(No of shares) | 11.0 lakh       |
| BSE code:                     | 532424          |
| NSE code:                     | GODREJCP        |
| Free float:<br>(No of shares) | 37.6 cr         |

## Shareholding (%)

|           |      |
|-----------|------|
| Promoters | 63.2 |
| FII       | 24.1 |
| DII       | 7.1  |
| Others    | 5.6  |

## Price chart



## Price performance

| (%)                | 1m   | 3m  | 6m   | 12m  |
|--------------------|------|-----|------|------|
| Absolute           | -0.5 | 9.6 | 15.6 | 24.0 |
| Relative to Sensex | -3.9 | 0.5 | 6.6  | 3.5  |

Sharekhan Research, Bloomberg

## Godrej Consumer Products Ltd

## Eyeing broad-based growth in Q1

## Consumer Goods

Sharekhan code: GODREJCP

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 1,060

Price Target: Rs. 1,250



## Summary

- We retain a Buy rating on Godrej Consumer Product Ltd (GCPL) with a revised PT of Rs. 1,250. Stock trades at 47.9x/40.9x its FY24E/25E EPS. It remains preferred pick in the consumer goods space with an expected recovery in domestic HI and Indonesia business, coupled with margin expansion led by moderation in commodity inflation.
- GCPL's Q1FY2024 performance was largely in line with expectation with expected good recovery in the domestic HI and Indonesia business. Low double digit revenue growth was largely volume-led (high single-digit volume growth in domestic business).
- Gross margins and OPM are expected to improve on y-o-y basis due to lower input prices (palm oil prices are down by 40% y-o-y); PAT is likely to report an over 30% y-o-y growth.
- For FY2024, GCPL aims to continue its volume-led growth momentum and targets high single-digit volume growth and high teens EBITDA growth, while for the medium-long term, the company's strategy is to invest strongly in the India business and simplify the international business. Overall, revenues and PAT expected to post a CAGR of 13% and 23% respectively over FY2023-25E.

Godrej Consumer Products (GCPL) provided a glimpse of its operating performance in its Q1FY2024 pre-quarter update. During the quarter, the domestic household insecticide (HI) and Indonesia business continued to recover, with domestic HI business delivering double-digit volume growth and Indonesia business registering mid-teens constant currency (CC) growth. Consolidated revenue grew in double digits in Q1FY2024, which was largely driven by high-single digit volume growth. Lower input prices (including palm oil prices) would sharply drive up gross margins and OPM during the quarter (we expect gross margin and OPM expansion of ~500 bps and ~360 bps y-o-y, respectively). Double-digit revenue growth coupled with strong margin expansion would lead to an over 30% y-o-y growth in the PAT. With strategies in place, GCPL targets high single-digit volume growth and high teens EBITDA growth in FY2024.

- Largely volume-led revenue growth in Q1:** GCPL posted close to double-digit revenue growth (~10%) in Q1FY2024, driven by high single-digit volume growth. Including inorganic initiatives, the revenue growth stood in double-digits. GCPL's India business delivered high-single digit revenue growth as pricing benefits were offered in personal wash category due to decline in the input prices. In categories, personal care registered slightly higher than mid-single digit volume growth while Home care registered double digit volume growth. On the international front, Indonesia and GUAM (largely Africa) region posted mid-teens CC sales growth during the quarter. However, in rupee terms, GUAM region is expected to post single-digit growth due to adverse currency movement.
- Margin expansion to drive PAT growth of over 30%:** Palm oil prices fell by ~40% y-o-y in Q1FY2024. GCPL's quality of profits has seen sustained improvement, led by robust gross margin expansion and ongoing category development investments, which will translate into strong EBITDA growth. We expect PAT to grow by over 30% y-o-y, led by an OPM expansion of 350-360 bps y-o-y in Q1FY2024.
- Strategies in place for FY2024 and beyond:** GCPL aims to continue its volume-led growth momentum and targets high single-digit volume growth and high teens EBITDA growth in FY2024. It expects gross margins to return to normative levels in FY2024. The company also plans to scale up HI in India and expects a recovery in the Indonesia business in FY2024. Moreover, the company aims to be net cash positive by September 2023 and give back a certain share of profits to shareholders in the latter part of FY2024. For medium-long term, GCPL's strategy is to invest high in India business and simplify international business. Overall, revenues and PAT expected to grow at CAGR of 13% and 23%, respectively over FY2023-25E.

## Our Call

**View – Maintain Buy with a revised PT of Rs. 1,250:** With strategies in place, the management targets to achieve double-digit growth over the next two to three years (largely driven by improved sales volume). The company targets consistent improvement in OPM through premiumisation and operating efficiencies in the medium to long run. The stock is currently trading at attractive valuations of 47.9x/40.9x its FY2024E/FY2025E earnings. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 1,250.

## Key Risks

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

## Valuation (Consolidated)

| Particulars        | FY22   | FY23   | FY24E  | FY25E  |
|--------------------|--------|--------|--------|--------|
| Revenue            | 12,277 | 13,316 | 15,032 | 16,882 |
| OPM (%)            | 20.3   | 19.1   | 20.1   | 20.8   |
| Adjusted PAT       | 1,793  | 1,743  | 2,263  | 2,649  |
| Adjusted EPS (Rs.) | 17.5   | 17.0   | 22.1   | 25.9   |
| P/E (x)            | 60.5   | 62.2   | 47.9   | 40.9   |
| P/B (x)            | 9.4    | 7.9    | 7.1    | 6.4    |
| EV/EBITDA (x)      | 44.1   | 42.2   | 35.8   | 30.5   |
| RoNW (%)           | 17.1   | 13.7   | 15.6   | 16.4   |
| RoCE (%)           | 17.3   | 15.2   | 16.9   | 18.1   |

Source: Company; Sharekhan estimates

## Outlook and Valuation

### ■ Sector Outlook – Rural recovery on cards; margin improvement to sustain

Rural demand bottomed out with sales returning to positive growth in Q4FY2023. With price inflation stabilising and a fall in key input prices, managements of most companies are confident of witnessing gradual pick-up in rural demand in the quarters ahead. Moreover, expectation of well spread-out monsoon and government offering some incentives prior to the budget might provide some boost to rural sentiments in the coming quarters. In FY2024, revenue growth is expected to be volume-led growth with companies focusing on passing on the benefits of the decline in input cost to customers in the coming quarters. A decline in input prices will drive gross margins in the coming quarters. Despite higher media spends, OPM would remain high on a y-o-y basis in the near term.

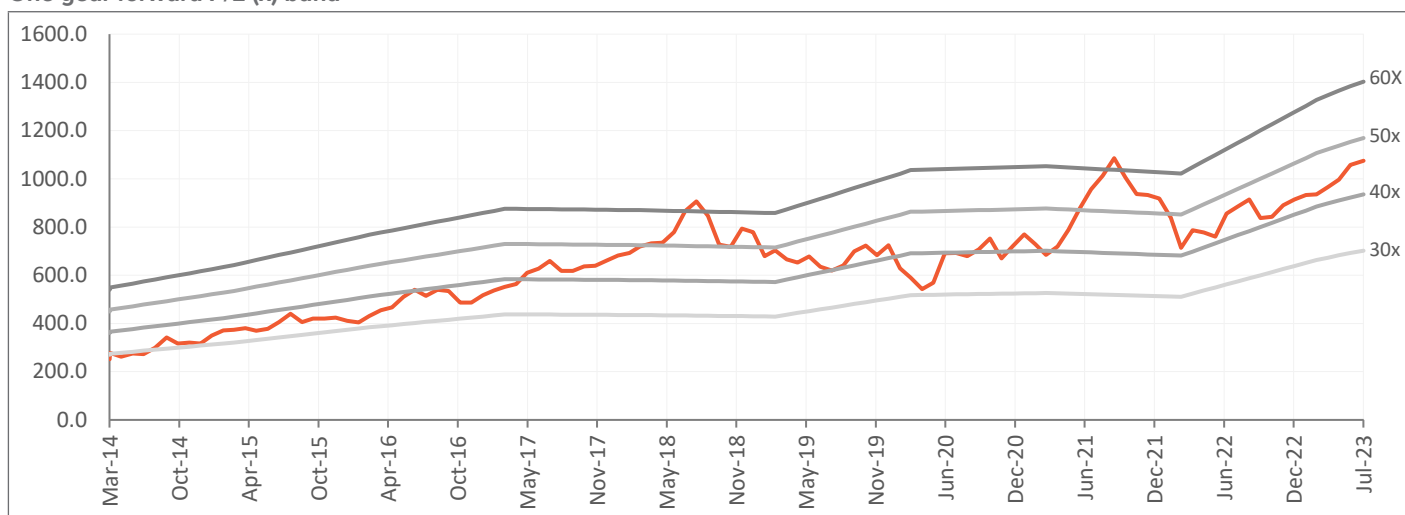
### ■ Company Outlook – Change in leadership likely to drive consistent growth in the long run

GCPL posted muted numbers in FY2023, with consolidated revenue growing by 8%, while OPM declined by 110 bps y-o-y to 19.1%. Under the new leadership of Sudhir Sitapati, the company will focus on achieving consistent double-digit revenue growth in the medium term. Better penetration of HI in rural markets, sustained double-digit growth in Africa business, and recovery in Indonesia business are key medium-term revenue growth drivers for the company. The management expects double-digit growth in FY2024, largely driven by volume-led growth. A decline in key input prices (including palm oil and packaging material) would help in margin improvement in Q4. The company will pass on some benefits to consumers to improve sales volume. The management expects to maintain OPM on a y-o-y basis at around 20%. Management targets OPM to remain at 20-22% in the medium term.

### ■ Valuation – Maintain Buy with a revised PT of Rs. 1,250

With strategies in place, the management targets to achieve double-digit growth over the next two to three years (largely driven by improved sales volume). The company targets consistent improvement in OPM through premiumisation and operating efficiencies in the medium to long run. The stock is currently trading at attractive valuations of 47.9x/40.9x its FY2024E/FY2025E earnings. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 1,250.

#### One-year forward P/E (x) band



Source: Sharekhan Research

#### Peer Comparison

| Particulars              | P/E (x) |       |       | EV/EBITDA (x) |       |       | RoCE (%) |       |       |
|--------------------------|---------|-------|-------|---------------|-------|-------|----------|-------|-------|
|                          | FY23    | FY24E | FY25E | FY23          | FY24E | FY25E | FY23     | FY24E | FY25E |
| Hindustan Unilever       | 63.2    | 58.1  | 50.0  | 46.1          | 41.1  | 35.1  | 25.6     | 28.0  | 31.6  |
| Dabur India              | 59.6    | 43.2  | 35.5  | 47.0          | 35.1  | 28.7  | 22.1     | 27.5  | 30.5  |
| Godrej Consumer Products | 62.2    | 47.9  | 40.9  | 42.2          | 35.8  | 30.5  | 15.2     | 16.9  | 18.1  |

Source: Company, Sharekhan estimates

## About company

GCPL is a leading emerging market company with a turnover of more than Rs. 13,000 crore. The group enjoys the patronage of 1.15 billion consumers globally across businesses. GCPL is present in key product categories such as soaps, hair colour, and HI. The company's power brands include Godrej No. 1 soap, Godrej expert range of hair colours, and Good Knight. GCPL operates internationally in Indonesia, Latin America, and AUM (Africa, US, and Middle East) regions.

## Investment theme

GCPL has a '3 by 3' approach to international expansion by building its presence in '3' emerging markets (Asia, Africa, and Latin America) across '3' categories (home care, personal wash, and hair care products). The company has a leadership position in most categories in the domestic and international markets. Under the new leadership, the immediate focus of the company is to fill the gaps to achieve sustainable double-digit revenue growth in the medium term. Increased penetration, cross-pollination, simplifying business in key markets, and increased distribution are some of the key growth drivers in the medium term. Premiumisation, better revenue mix, and operating efficiencies would drive margins in the long run.

## Key Risks

- ◆ Currency fluctuation in key international markets, including Africa and Indonesia, will affect earnings performance.
- ◆ Increased prices of key raw materials such as palm oil would affect profitability and earnings growth.
- ◆ Increased competition in highly penetrated categories such as soaps would threaten revenue growth or any competition from illegal entrants in the HI category would affect its performance.

## Additional Data

### Key management personnel

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

Source: Company Website

### Top 10 shareholders

| Sr. No. | Holder Name                         | Holding (%) |
|---------|-------------------------------------|-------------|
| 1       | First State Investments ICVC        | 2.90        |
| 2       | BlackRock Inc.                      | 1.80        |
| 3       | Vanguard Group Inc.                 | 1.40        |
| 4       | Temasek Holdings Pte Ltd.           | 1.29        |
| 5       | Republic of Singapore               | 1.10        |
| 6       | Capital Group Cos                   | 1.09        |
| 7       | EuroPacific Growth Fund             | 1.01        |
| 8       | Mitsubishi UFJ Financial Group Inc. | 0.80        |
| 9       | Norges Bank                         | 0.69        |
| 10      | Kotak Mahindra AMC                  | 0.65        |

Source: Bloomberg (Old data)

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## Understanding the Sharekhan 3R Matrix

| Right Sector    |  |
|-----------------|--|
| Positive        | Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies   |
| Neutral         | Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies  |
| Negative        | Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability. |
| Right Quality   |  |
| Positive        | Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.   |
| Neutral         | Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable  |
| Negative        | Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet   |
| Right Valuation |  |
| Positive        | Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.                        |
| Neutral         | Trading at par to historical valuations and having limited scope of expansion in valuation multiples.  |
| Negative        | Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.   |

Source: Sharekhan Research

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