India I Equities

FMCG

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

20 March 2024

Godrej Consumer Products

Scaling up domestically, simplifying its international business; Buy

Rating: **Buy**
Target Price (12-mth): Rs.1,360
Share Price: Rs.1,215

Godrej Consumer's efforts to simplify its international business, drive innovation-led growth and better margins are likely to lead to good growth momentum. Its launches (a liquid detergent and new molecule-based [RNF] home insecticide) would aid its domestic growth. Also, divestment of its east Africa operations would boost profits (Rs500m annual accretion from royalties vs. losses/low profits earlier). We are optimistic about its healthy earnings growth (a 22% CAGR over the next two years) and retain a Buy, with a 12-mth TP of Rs1,360 (Rs1,350 earlier), 48x FY26e EPS.

High single-digit volume growth targeted for its India business. Domestic volumes grew to ~11% in the last four quarters (vs. a 3% avg. decline in the preceding four quarters), aided by a revival in household insecticides and the acquisition of Raymond Consumer. For the medium term, it targets high single- to double-digit volume growth in HI aided by new formulations (RNF molecule); the mature soaps category may rise only 3-5% due to a mix of population-led growth and price hikes. Power brand volumes (incl. air fresheners, deodorants, liquid detergents, etc.) may grow >15%. The international business would be dented by currency headwinds in FY25 (the Argentina peso and the Nigerian naira). We forecast an 11% revenue CAGR over FY24-26, aided by a 13% revenue CAGR domestically and 6% internationally.

Simplifying international business to expand margins. The Indonesia business margin (~21-22%; averaging ~25% in the past) could improve. Besides, the simplification exercise includes a) divestment of its east Africa business, which would cut Rs5bn revenue but add Rs500m to EBITDA annually; b) appointing a national distributor in Nigeria with twice the reach and better trade controls; c) shrinking overheads in Chile with the US operations boosting margins. Thus, we build in a 230bp rise in FY24-26 EBITDA margins to 23.3%.

Valuation. At the CMP, the stock trades at 63x/51x/43x FY24e/FY25e/FY26e EPS of Rs19.2/Rs24/Rs28.4. **Key risks:** Failed launches, pricey bolt-on acquisitions, geopolitical turbulence shrinking its international business.

Key financials (YE Mar)	FY22	FY23	FY24e	FY25e	FY26e
Sales (Rs m)	122,765	133,160	141,819	156,568	173,947
Net profit (Rs m)	17,929	17,566	19,647	24,556	29,014
EPS (Rs)	17.5	17.2	19.2	24.0	28.4
P/E (x)	69.3	70.7	63.2	50.6	42.8
EV / EBITDA (x)	51.5	50.2	41.8	34.6	29.8
P / BV (x)	10.7	9.0	8.2	7.5	6.8
RoE (%)	*15.5*	*12.7*	*13.0*	*14.7*	*15.8*
RoCE (%)	*16.4*	*14.3*	*14.0*	*15.2*	*16.8*
Dividend yield (%)	-	-	*0.5*	*0.7*	*1.0*
Net debt / equity (x)	0.0	0.0	0.1	0.0	-0.1

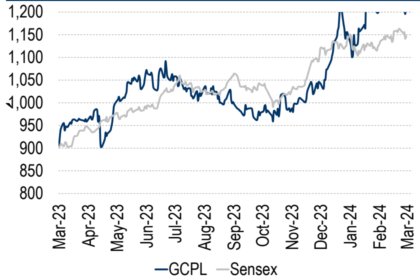
Source: Company, Anand Rathi Research

Key data	GCPL IN
52-week high / low	Rs.1,314 / 897
Sensex / Nifty	72102 / 21839
3-m average volume	$19.9m
Market cap	Rs.1,243bn / $14,944.5m
Shares outstanding	1023m

Shareholding pattern (%)	Dec'23	Sep'23	Jun'23
Promoters	63.2	63.2	63.2
- of which, Pledged	0.7	0.7	0.7
Free Float	36.7	36.8	36.8
- Foreign Institutions	22.9	23.5	23.5
- Domestic Institutions	8.4	7.7	7.4
- Public	5.4	5.6	5.9

Estimates revision (%)	FY24e	FY25e	FY26e
Sales	0.0	-2.9	-2.9
EBITDA	0.0	0.4	0.3
PAT	0.0	0.4	0.8

Relative price performance



Source: Bloomberg

Ajay Thakur
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
Net revenues	122,765	133,160	141,819	156,568	173,947
Growth (%)	*11*	*8*	*7*	*10*	*11*
Direct costs	60,751	67,028	63,618	68,445	75,783
Gross profit	62,014	66,132	78,201	88,123	98,164
Gross margins (%)	*50.5*	*49.7*	*55.1*	*56.3*	*56.4*
Other expenses	37,942	41,700	48,471	52,656	57,637
EBITDA	**24,072**	**24,432**	**29,731**	**35,467**	**40,527**
EBITDA margins (%)	*19.6*	*18.3*	*21.0*	*22.7*	*23.3*
- Depreciation	2,099	2,363	2,612	2,750	2,887
Other income	897	1,684	2,700	3,000	3,500
Interest expenses	1,223	1,885	2,905	1,962	1,121
PBT	21,647	21,868	26,914	33,754	40,019
Effective tax rates (%)	*17.2*	*19.7*	*27.0*	*27.3*	*27.5*
+ Associates / (Minorities)	-3	-	-	-	-
Net Income	17,929	17,566	19,647	24,556	29,014
WANS	1,022	1,022	1,022	1,022	1,022
FDEPS (Rs)	17.5	17.2	19.2	24.0	28.4

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
Share capital	1,023	1,023	1,023	1,023	1,023
Net worth	115,559	137,942	151,374	166,650	183,307
Debt	16,077	10,340	23,840	11,840	6,840
Minority interest	-	-	-	-	-
TL / (Assets)	-6,796	-6,412	-6,412	-6,412	-6,412
Lease liabilities	-	-	-	-	-
Capital employed	**124,840**	**141,870**	**168,801**	**172,077**	**183,734**
Net tangible assets	16,159	23,302	23,691	23,940	24,053
Net intangible assets	24,736	24,736	24,736	24,736	24,736
Goodwill	51,299	51,299	79,549	79,549	79,549
CWIP (tang. & intang.)	1,164	454	600	700	700
Investments (strategic)	1,711	8,393	8,393	8,393	8,393
Investments (financial)	8,443	21,897	21,897	21,897	21,897
Current assets (excl. cash)	39,436	33,972	34,632	36,194	39,205
Cash	11,078	3,907	2,103	6,310	18,743
Current liabilities	29,185	26,091	26,798	29,641	33,541
Working capital	10,251	7,882	7,834	6,553	5,664
Capital deployed	**124,840**	**141,870**	**168,801**	**172,077**	**183,734**

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
PBT	21,553	21,327	26,914	33,754	40,019
+ Non-cash items	-2,342	-3,430	-2,817	-1,713	-508
Operating profit before WC	23,895	24,758	29,731	35,467	40,527
- Incr. / (decr.) in WC	-5,362	933	48	1,281	889
Others including taxes	4,475	4,185	7,267	9,198	11,005
Operating cash-flow	14,058	21,507	22,512	27,550	30,411
- Capex (tangible + intangible)	-2,765	77	-31,396	-3,100	-3,000
Free cash-flow	11,292	21,583	-8,884	24,450	27,411
Acquisitions					
- Div (incl. buyback & taxes)	-	-	6,136	9,204	12,272
+ Equity raised	0	0	-	-	-
+ Debt raised	-2,198	-6,344	13,500	-12,000	-5,000
- Fin Investments	6,467	18,769	-	-	-
- Misc. Items (CFI + CFF)	1,007	491	284	-962	-2,294
Net cash-flow	1,620	-4,020	-1,804	4,207	12,432

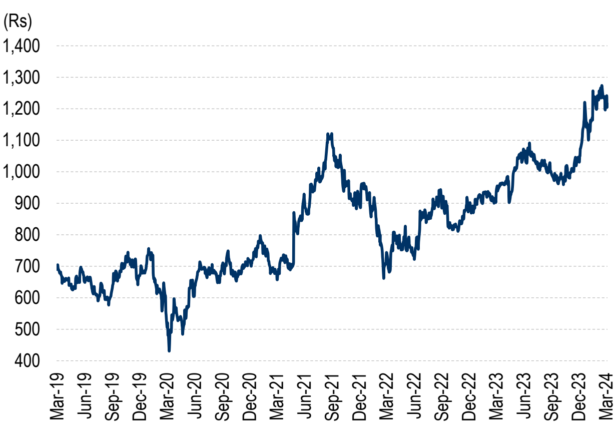
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	69.3	70.7	63.2	50.6	42.8
EV / EBITDA (x)	51.5	50.2	41.8	34.6	29.8
EV / Sales (x)	10.1	9.2	8.8	7.8	6.9
P/B (x)	10.7	9.0	8.2	7.5	6.8
RoE (%)	*15.5*	*12.7*	*13.0*	*14.7*	*15.8*
RoCE (%) - after tax	*16.4*	*14.3*	*14.0*	*15.2*	*16.8*
RoIC (%) - after tax	*19.2*	*17.2*	*16.7*	*18.0*	*20.8*
DPS (Rs)	-	-	6.0	9.0	12.0
Dividend yield (%)	-	-	*0.5*	*0.7*	*1.0*
Dividend payout (%) - incl. DDT	-	-	*31.2*	*37.5*	*42.3*
Net debt / equity (x)	0.0	0.0	0.1	0.0	-0.1
Receivables (days)	33.2	34.1	33.0	31.5	30.2
Inventory (days)	63.3	42.1	37.9	36.3	35.5
Payables (days)	64.3	50.0	49.2	49.5	50.7
CFO : PAT (%)	*78.4*	*122.4*	*114.6*	*112.2*	*104.8*

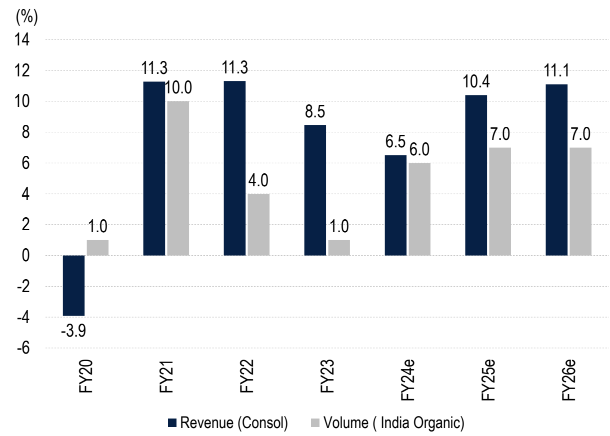
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Revenue-growth trend



Source: Company

India business (~60% of revenue): On a strong growth trajectory

The company's India business has three major verticals. Household insecticides, personal cleansing and power brands (incl. air fresheners, liquid detergents, hair colour, deodorants and male contraceptives) each account for one-third revenue. Rural market growth is just one-fourth of the company's India business.

Personal care

- Soaps is a mature category with 100% penetration; growth being driven by population increase (~2% pa) and inflation. Growth potential exists in body wash, where premiumization is still due, with a shift seen away from the soap-bar format globally.
- The company has gained market share in soaps over the last five years, its share expanding from high single-digits to the mid-teens.
- We expect soap prices cuts, to annualise in Q4 and extend partially into Q1 FY25. Thus, growth could improve from then.

Home care (household insecticides)

- The company's household insecticide category improved, driven by the products' greater efficacy. With the change in the active molecule (from TFT to RNF), we expect faster growth in this category. Generally, a new efficacious molecule boosts volume growth for 5-10 years. Thus, the more efficacious RNF molecule may aid multi-year volume momentum.
- Anti-mosquito incense stick. Good demand for the 'GoodKnight Agarbatti' was seen in south/east India, where it was rolled out. The company is extending this anti-mosquito incense stick to west and north India. It aims to replicate its household insecticides market share to the informal anti-mosquito incense stick market in the medium term. Hence, it is optimising trade investments, setting appropriate consumer prices, improving trade margins and aligning with consumer goals.

  We expect it to launch an RNF-based aerosol and electric range in the next 3-6 months.
- 8-10% volume growth target. Expanding to non-mosquito categories (cockroach and rat repellents) would further aid growth. Thus, the new RNF molecule and expansion to the non-mosquito category should help it to clock 8-10% volume growth in household insecticides.

Power brands

- Products such as liquid deodorants, air-fresheners, hair colour and sexual-wellness products fall in this category.
- Growth potential & high-margin category. All products in its power category have substantial growth potential, with projections of multi-decade double-digit growth. This is a high-margin category for the company, with a strategic focus on the Indian market to markedly

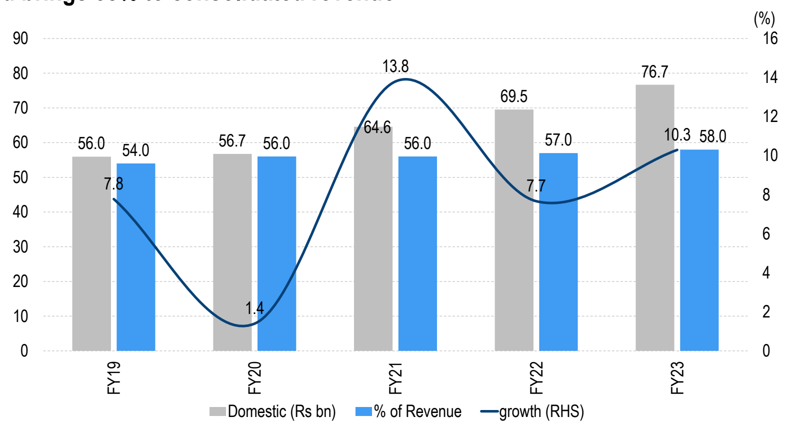
improve its profit mix. Volumes of all brands in this category are expected to grow >15%.

- Air fresheners. Despite low spending (less than 10 percents) on air fresheners in India, the segment grew 50-70%, indicating explosive potential. Godrej Consumer's air-freshener category has grown from <5% of its India portfolio, to ~10% after the Raymond Consumer acquisition.
- Hair dyes. This segment is seeing strong growth, particularly in rural areas where consumers are shifting from lower-priced powder formats (Rs10) to higher-priced (Rs15) hair-dyeing products.
- Liquid detergents. The company commands a mid-to-high-teen market share in the USD 200-250mn liquid detergents market in India. Almost 50% of the liquid detergent market is concentrated in south India. Hence, the company has rolled out its affordable range of liquid detergents, 'Godrej Fab', in south India, and will gradually roll it out in other states. In fact, it doubled sales of its Genteel brand last year.

Raymond Consumer portfolio

- At acquisition, Raymond was clocking Rs6bn annually. The company post-SKU rationalisation (from 550 to 150) and inventory reduction (from 90 days to 10) has been clocking Rs1.5bn a quarter over the last two quarters, which is in line with its annual revenue run rate. Management has reduced 30% fixed cost of the acquired business to just 10% and increased media spends to >10% (just 2% earlier).

Fig 7 – The domestic business has clocked an 8% CAGR over the last five years and brings 58% to consolidated revenue



Source: Company, Anand Rathi Research

International business (~40%): Simplification to yield margin gains

- **Indonesia (one-third of its international business).** The company intends to recoup its market share to 25-26%, while also focusing on better margins. Recently, its Indonesia operations were restructured and shifted to a distributor-led general trade model, resulting in strong volume growth.

  The Indonesian economy is growing 5%, with FMCG expanding 1.2x-1.4x the GDP rate. Thus, we expect the company's Indonesian unit to post 7-8% volume growth in the medium term, aided further by cross-selling products (shampoos, hair colour, etc.) from its India unit to the Indonesian one.

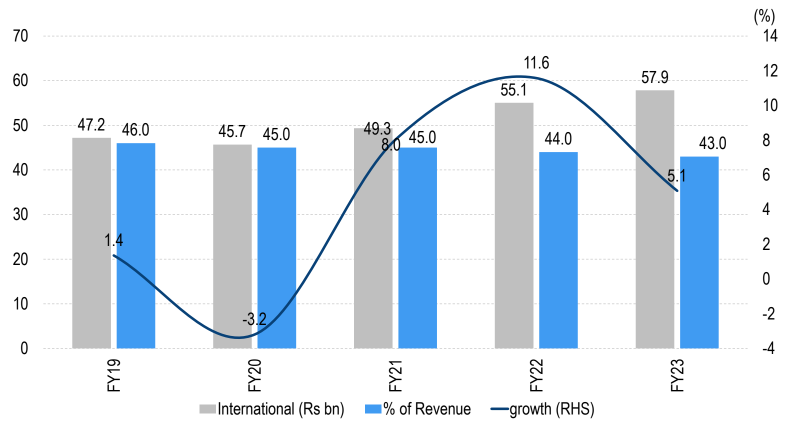
- **GUAM (~60%).** Within GUAM, its South African operations are on a strong footing, volumes growing >10%, with a more than 20% EBITDA margin. Its east and west African operations, however, were weaker in the past. Hence it has divested its east African operations (Kenya, Tanzania), while for Nigeria (west Africa) it appointed a national distributor with twice its present reach and better distribution control.

  The divestment of its east Africa operations would cut revenue by Rs5bn but EBITDA would rise by Rs500m annually due to the shift to the royalty model there. Similarly, the company aims to reduce cost in the US and at its Chile operations through SKU rationalisation and organisational optimisation.

  However, currency headwinds persist in Nigeria (the naira slid further, to 1,600 to the dollar, from 1,300 earlier) and the Argentinian peso continues to be under pressure. The company will focus on driving profit and volume growth despite short-term inflationary issues in these markets.

- **The Rest of the World** (excl. the above ones) has an 8-9% EBITDA margin and the company aims to improve this further to 15% over the next two years.

Fig 8 – The international business recorded a 5% CAGR over the last five years and brings 43% to consolidated revenue



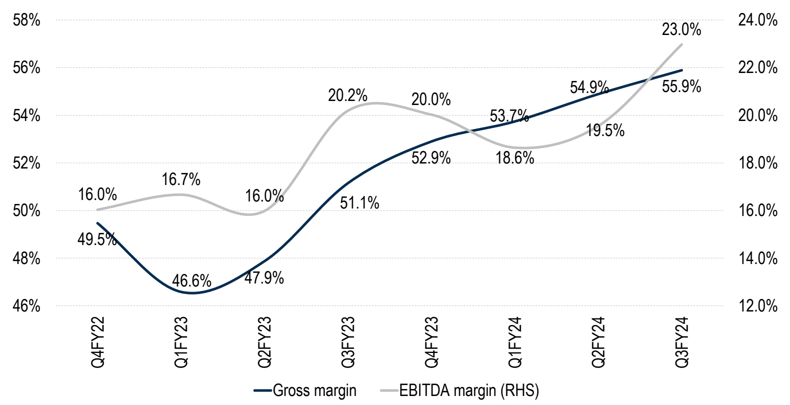
Source: Company, Anand Rathi Research

Margin expansion on the cards

Ad-spends seen plateauing.

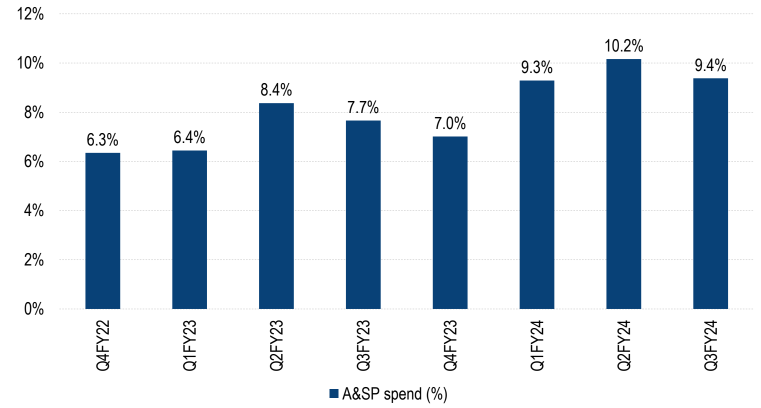
- The standalone gross margin rose to 59% in Q3 (consolidated, 56%) from averaging 50-51% in FY22/FY23 (standalone and consolidated), aided by the sharp fall in input costs. We expect management to maintain its current gross margin or improve it slightly, aided by the better mix.
- The company has raised its (standalone) A&SP spend to ~12% in 9M FY24 (vs. ~7% in FY22, 9% in FY23), and consolidated, ~10% (vs. 6.1% and 7.4% respectively). Given the rise, we expect A&SP spends to be broadly within this range as the company gradually rolls out launches, and competition in soaps ebbs.
- The simplification strategy is boosting is EBITDA margins, signalling a shift toward better profitability of the business overall.

Fig 9 – Consolidated GM improved to 56% in Q3 FY24, from ~47% in Q1 FY23



Source: Company, Anand Rathi Research

Fig 10 – A&SP spends increased to ~9% in Q3 FY24, from ~6% in Q4 FY22



Source: Company, Anand Rathi Research

Valuation

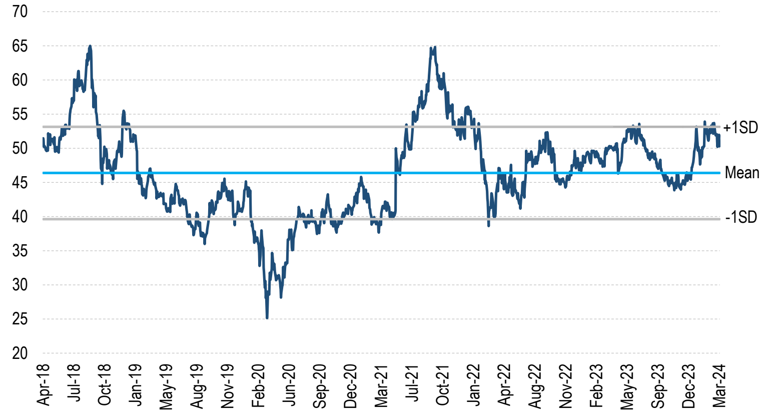
We have slightly tweaked our estimates to factor in the impact on revenue and EBITDA from its divestment of the east Africa operations. We are optimistic regarding healthy earnings growth (a 22% CAGR over the next two years) and have a Buy rating on the stock with a 12-mth TP of Rs1,360 (Rs1,350 earlier), 48x FY26e EPS. At the CMP, the stock trades at 63x/51x/43x FY24e/FY25e/FY26e EPS of Rs19.2/Rs24/Rs28.4.

Fig 11 – Change in estimates

	Old			Revised			Change %		
Rs m	FY24e	FY25e	FY26e	FY24e	FY25e	FY26e	FY24	FY25	FY26
Sales	141,819	161,248	179,147	141,819	156,568	173,947	*0.0*	*-2.9*	*-2.9*
EBITDA	29,731	35,326	40,404	29,731	35,467	40,527	*0.0*	*0.4*	*0.3*
PAT	19,647	24,453	28,780	19,647	24,556	29,014	*0.0*	*0.4*	*0.8*

Source: Anand Rathi Research

Fig 12 – One-year-forward PE



Source: Bloomberg, Anand Rathi Research

Key risks

- Failure of brand launches.
- Sharp rise in prices of key inputs.
- Price-based competition in its key products.
- Adverse geopolitical events affecting its overseas business.

Appendix

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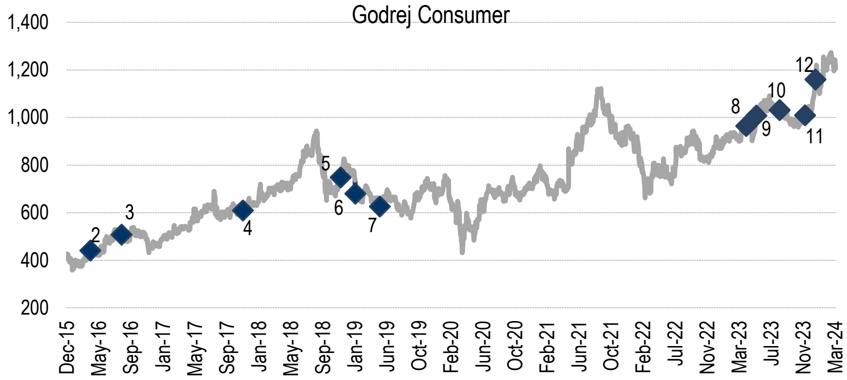

	Date	Rating	TP (Rs)	Share Price (Rs)
1	19-Oct-15	**Buy**	483	402
2	2-Apr-16	**Hold**	487	463
3	1-Aug-16	**Sell**	513	530
4	17-Nov-17	**Hold**	660	612
5	4-Dec-18	**Hold**	807	762
6	30-Jan-19	**Hold**	755	696
7	6-May-19	**Hold**	699	642
8	20-Apr-23	**Buy**	1140	960
9	12-May-23	**Buy**	1130	983
10	8-Aug-23	**Buy**	1160	1010
11	2-Nov-23	**Buy**	1150	992
12	1-Feb-24	**Buy**	1350	1164

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