



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	✓	↔	✓

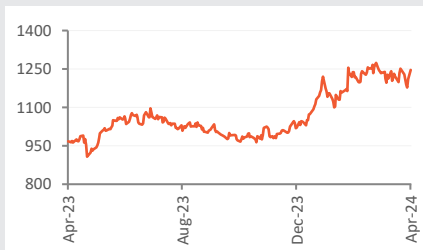
Company details

Market cap:	Rs. 1,27,459 cr
52-week high/low:	Rs. 1,300 / 897
NSE volume: (No of shares)	11.3 lakh
BSE code:	532424
NSE code:	GODREJCP
Free float: (No of shares)	37.6 cr

Shareholding (%)

Promoters	63.2
FII	23.3
DII	8.4
Others	5.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.0	6.0	28.9	28.8
Relative to Sensex	0.1	1.3	14.9	3.9

Sharekhan Research, Bloomberg

Godrej Consumer Products Ltd

Expect good performance in Q4

Consumer Goods

Sharekhan code: GODREJCP

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 1,246

Price Target: Rs. 1,455

Summary

- Godrej Consumer Product (GCPL) is expected to post decent performance in Q4FY2024 at the consolidated level driven by better performance by India and Indonesia business while Africa remained subdued due to currency devaluation.
- India business continued to deliver high-single digit volume growth, which is better than some of the peers who are likely to achieve low to mid-single volume growth.
- Launch of Good Knight Agarbatti in the HI category is gaining good traction. New products will aid growth in the medium to long run.
- The stock trades at 53x and 45x its FY2025E and FY2026E earnings. We maintain our Buy on Godrej Consumer Products (GCPL) with an unchanged PT of Rs. 1,455.

Godrej Consumer Products Limited's (GCPL's) pre-quarter update provides a glimpse of expected good show in Q4FY2024. It is likely to post high-single digit volume growth which is better compared to some of its peers, who are expected to register low to mid-single digit volume growth. The good performance will be driven by high-single digit broad-based volume growth in the India business and double-digit growth in the Indonesia business. Consolidated revenue growth of mid-single digit is on account of currency devaluation in Nigeria. Gross margins and EBITDA margins will remain high on back of steady input prices. Newly launched Good Knight Agarbatti is well-received by consumers.

- To deliver high single-digit volume growth in Q4FY2024:** GCPL's India organic business is likely to deliver strong underlying volume growth of high single-digit with growth being broad based across personal and home care categories. This was better than the organic volume growth of 4-5% achieved in past two quarters. Acquired brands such as Park Avenue and Kamasutra performance was in-line with seasonality. Hence, the reported underlying volume growth would be in double-digits. Good acceptance to new launches and improved penetration will help GCPL achieve high-single digit volume growth in the quarters ahead.
- Simplification of the Africa business to improve margins:** GCPL has decided to divest its stake in its subsidiary, Godrej East Africa Holding Limited, Mauritius, along with step-down subsidiaries having operations in Kenya and Tanzania to HGK Africa Weave for a consideration of Rs. 30 crore. The transaction is almost complete, and it have an impact of Rs. 70 crore in Q4FY2024. The effect of restructuring is likely positive on cash flows. With this, the company will be restructuring Rs. 500 crore of the Africa business into a franchisee model, which will result in the addition of Rs. 50 crore at the PAT level. GCPL expects considerable improvement in profitability in the coming years.
- Revenues to grow by 6%; OPM to improve by in Q4:** We expect GCPL's consolidated revenues to grow by ~6% y-o-y driven by double-digit revenue growth in the domestic business, while international business is likely to witness decline in revenues due to currency devaluation in the Nigerian business. Gross margins to expand by 210 bps y-o-y to 55%, while OPM is expected to expand by 40 bps y-o-y to 21.2%. The operating profit will grow by 8% y-o-y.

Our Call

View – Retain Buy with an unchanged PT of Rs. 1,455: We expect key product launches in the domestic market to help in improving the growth trajectory of the India business going ahead. With strategies in place, management targets to achieve double-digit growth over the next 2-3 years (largely driven by improved sales volume). The company targets a consistent improvement in OPM through premiumisation and operating efficiencies in the medium to long run (especially in the international business). We maintain a Buy on the stock with an unchanged price target (PT) of Rs. 1,455. The stock trades at 53x and 45x its FY2025E and FY2026E earnings, respectively.

Key Risks

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	FY23	FY24E	FY25E	FY26E
Revenue	13,316	14,256	15,797	17,755
OPM (%)	19.1	20.4	21.8	22.0
Adjusted PAT	1,743	2,019	2,261	2,654
Adjusted EPS (Rs.)	17.0	20.1	23.4	27.5
P/E (x)	73.1	62.1	53.2	45.3
P/B (x)	9.2	8.6	7.9	7.1
EV/EBITDA (x)	49.7	44.8	38.7	33.8
RoNW (%)	13.7	14.3	15.5	16.4
RoCE (%)	15.2	14.8	15.6	17.5

Source: Company; Sharekhan estimates;

Consolidated financials include the expected performance of the recently acquired RCC portfolio

Outlook and Valuation

■ Sector View – Volume growth likely to pick up from H2FY2025

Festive cheer and slowing inflation did not bring a substantial boost in demand for consumer goods companies. Rural demand remains weak with the monsoon season remaining lower, thus increasing the risk of lower agri-production. Delayed winters also led to lower offtake of winter care products. We expect rural demand to gradually pick up with expected stimulus coming in the post-election budget. This along with a better monsoon season might help in good recovery in the demand for consumer goods companies (especially in rural markets). Margins are likely to remain high with raw material prices staying benign. Further, mix improvement and operating efficiencies will consistently add to the margins in the coming years. Most companies are optimistic about the medium-term growth outlook of consumer goods sectors with low penetration in most categories, emerging distribution channels, and improving per capita income. We expect smaller consumer goods companies to continue to perform well as compared to large companies with a major focus on market share gains with enhanced penetration and portfolio expansion in the near to medium term.

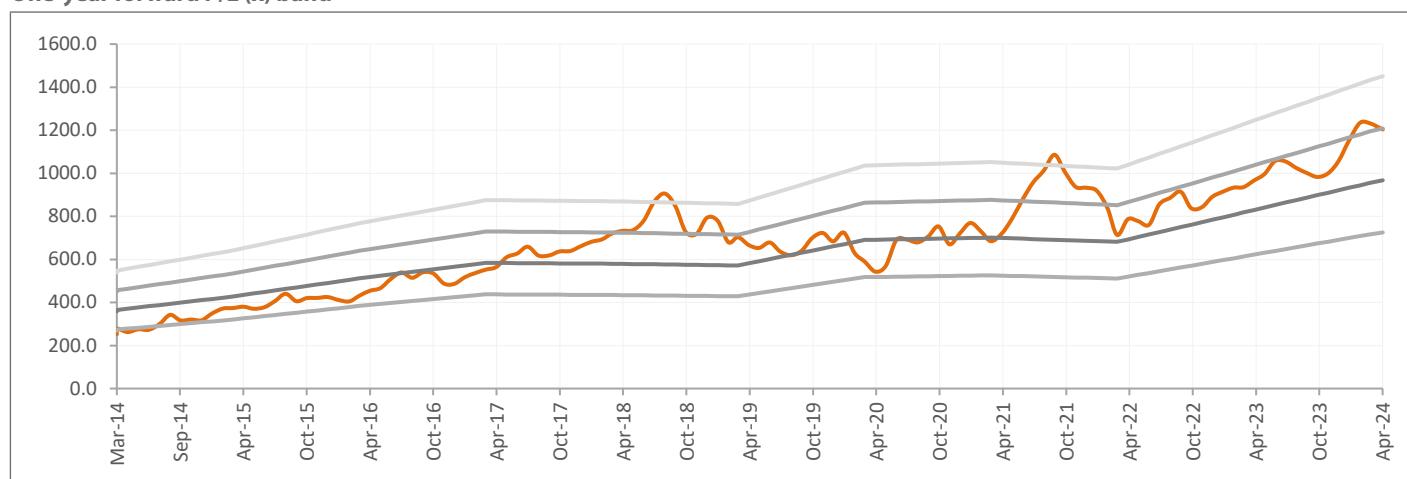
■ Company Outlook – Change in leadership likely to drive consistent growth in the long run

GCPL's earnings grew in double digits, largely driven by strong margin expansion despite muted growth in the domestic business. Recovery in Indonesia business augurs well for the company from the near to medium-term perspective. Under the new leadership of Sudhir Sitapati, the company will focus on achieving consistent double-digit revenue growth in the medium term. Improved penetration of HI in rural markets, sustained double-digit growth in the Africa business, and a recovery in Indonesia business are key medium-term revenue growth drivers. Management expects double-digit growth in FY2024, largely driven by volumes. The company expects to maintain OPM on a y-o-y basis at ~20%.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 1,455

We expect key product launches in the domestic market to help in improving the growth trajectory of the India business going ahead. With strategies in place, management targets to achieve double-digit growth over the next 2-3 years (largely driven by improved sales volume). The company targets a consistent improvement in OPM through premiumisation and operating efficiencies in the medium to long run (especially in the international business). We maintain a Buy on the stock with an unchanged price target (PT) of Rs. 1,455. The stock trades at 53x and 45x its FY2025E and FY2026E earnings, respectively.

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	53.2	51.6	46.8	38.7	36.5	32.8	25.6	27.0	29.1
Dabur India	52.4	41.6	35.9	41.8	34.7	30.2	22.1	25.3	27.1
Godrej Consumer Products	73.1	62.1	53.2	48.3	42.6	36.8	15.2	15.1	15.9

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 1.2 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, U.S., 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 Chief Executive Officer
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 Sentier Investors ICVC	2.85
2	BlackRock Inc.	2.07
3	First Sentier Investors LLC	2.05
4	Vanguard Group Inc.	1.46
5	Republic of Singapore	1.17
6	Capital Group Cos Inc.	1.11
7	SBI Funds Management Ltd.	0.77
8	St. James's Place PLC	0.74
9	Mitsubishi UFJ Financial Group Inc.	0.70
10	Norges Bank	0.69

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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