Sharekhan by BNP PARIBAS

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Stock Update

Result Update

Godrej Consumer Products Ltd

Good Q2; with India/Indonesia performing well

Consumer Goods	Sharekhan code: GODREJCP

Reco/View: Buy	↔	CMP: Rs. 1,255	Price Target: Rs. 1,545	↓

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

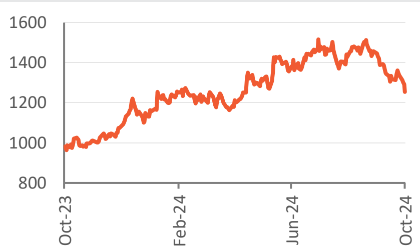
Company details

Market cap:	Rs. 1,28,326 cr
52-week high/low:	Rs. 1,541 / 960
NSE volume: (No of shares)	12.6 lakh
BSE code:	532424
NSE code:	GODREJCP
Free float: (No of shares)	37.8 cr

Shareholding (%)

Promoters	63.0
FII	22.4
DII	9.6
Others	5.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-13.3	-14.0	3.4	27.9
Relative to Sensex	-7.6	-13.9	-5.0	3.9

Sharekhan Research, Bloomberg

Summary

- Godrej Consumer Products Limited's (GCPL's) Q2FY2025 performance was in line with expectations with revenue rising ~2% y-o-y (high single-digit domestic volume growth), OPM rising by 70 bps y-o-y to 20.8% and adjusted PAT growing by 12% y-o-y.
- India business volume growth of 7% is much better as compared with some large FMCG peers in the current muted demand environment. International biz continues see margin expansion supporting overall profitability.
- H2 is expected to post double-digit revenue growth with price-led growth in soaps, while HI to post low double-digit growth, while liquid detergents to register strong scale up in sales. Margins to remain under pressure in the near term.
- The stock has corrected by 19% from its recent high and trades at 59x/47x/41x its FY25E/FY26E/FY27E earnings, respectively. We maintain a Buy with revised PT of Rs. 1,545.

GCPL's Q2FY2025 performance was largely in-line with expectations with volume-led revenue growth in the domestic business and sharp margin expansion in the international business. Consolidated revenue grew by muted 1.8% y-o-y to Rs. 3,332 crore, with both the India and Indonesia business growing by 7% and 9% y-o-y, respectively (volume growth at 7% in both markets), while GAUM fell by 21% y-o-y (organic decline at 10%) and Latin America growing by 36% y-o-y. In the India business, home care segment registered a growth of 12% y-o-y while the personal care segment grew by 3% y-o-y. Gross margins and OPM expanded by 70 bps y-o-y each to 55.6% and 20.8%, respectively. Domestic business witnessed 160 bps y-o-y decline in EBITDA margin, while international business' margins rose 140-660 bps y-o-y across geographies. Operating profit growth of 5.3% y-o-y to Rs. 762 crore and lower depreciation and lower forex losses led to 12.1% y-o-y growth in the adjusted PAT to Rs. 497 crore. Reported PAT stood at Rs. 491 crore. In H1FY2025, revenue stood flat y-o-y at Rs. 6,998 crore, OPM rose by 133 bps y-o-y to 21.3% and adjusted PAT grew by 13.1% y-o-y to Rs. 968 crore. The board has declared an interim dividend of Rs. 5 per share for FY2025.

Key positives

- India and Indonesia business registered a y-o-y volume growth of 7% each.
- Household Insecticides reported mid-single digit volume growth.
- GUAM region's EBITDA margin expanded by 590 bps y-o-y to 14.4%.
- LatAm region posted strong performance registering 36% y-o-y revenue growth and 660 bps y-o-y EBITDA margin expansion.

Key negatives

- Personal care grew by muted 3% y-o-y impacted by flat volume growth in personal wash.
- India business's EBITDA margins fell by 160 bps y-o-y to 24.3% impacted by an increase in palm oil prices.

Management Commentary

- Management has indicated that rural is growing at ~2x of urban for GCPL. Within channels, while urban GT is under pressure, MT and e-commerce are growing at ~20%.
- GCPL has taken price increases in soaps due to sharp increase in the palm oil prices. It expects significant price-led growth in soaps in H2. Liquid detergents to maintain strong growth and will be one of the key pillar of growth in the long run.
- Relaunch of HI products with the RNF molecule is showing clear green shoots in incense sticks and coils which were launched a few quarters earlier. By October-end, entire HI portfolio is likely to be revamped with better formula.
- GCPL has 5% market share in incense sticks. It plans to focus on increasing distribution (2x-3x) to further increase market share. GCPL is aiming for double digit growth in HI business led by high-single digit volume growth. It expects to see 3-4% pricing growth in HI every year.
- Low soap volume growth to be compensated by continued growth of Air Care and the rapid scale-up of product segments such as Laundry, Incense Sticks and Sexual Wellness.
- Economic stability returning in Argentina and new launches led to strong growth in LatAm. Africa to expand margins to high teens in 1-2 years then move to focusing on topline growth.
- Management indicated that inflated palm oil prices coupled with sustained media spends will impact overall margins for the next couple of quarters. However, it will help the company to achieve consistent volume growth in some of the key categories in the long run.
- The company invested 100 bps of margins towards massive rural distribution program. The company is now touching 60,000 more villages and 200,000 outlets.
- Effective tax rate in FY2025 will be ~30% while GCPL will enter into new tax regime in FY2026, which will help effective tax to come down to 26%.

Revision in earnings estimates – Though operating performance was in line with expectation, we are reducing our earnings estimates for FY2025E and FY2026E to factor in lower OPM in H2FY2025 due to inflated palm oil prices and higher tax rate than earlier expected. We have introduced FY2027E earnings through this note.

Our Call

View – Retain Buy with a revised PT of Rs. 1,545: GCPL's Q2FY2025 performance was largely in line with expectation with low single-digit revenue growth and marginal rise in OPM. With strategies in place, the management aims to achieve double-digit growth in the medium to long term (largely volume-led growth). The company targets a consistent rise in OPM through premiumisation and operating efficiencies in the medium to long run (especially in the international business). Thus, the company is well-poised to achieve mid-teens earnings growth over the next two years. The stock has corrected by 19% from its recent high and trades at 59x/47x/41x its FY25E/FY26E/FY27E earnings, respectively. We maintain a Buy with revised PT of Rs. 1,545.

Key Risks

Any 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) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	13,316	14,096	15,153	16,616	18,712
OPM (%)	19.1	21.8	21.1	22.5	22.7
Adjusted PAT	1,743	2,033	2,159	2,713	3,132
Adjusted EPS (Rs.)	17.0	19.9	21.1	26.5	30.6
P/E (x)	73.6	63.1	59.4	47.3	41.0
P/B (x)	9.3	10.2	9.3	8.3	7.3
EV/EBITDA (x)	50.1	42.2	40.4	34.4	29.9
RoNW (%)	13.7	15.4	16.4	18.6	19.0
RoCE (%)	15.2	17.1	17.6	19.2	20.8

Source: Company; Sharekhan estimates

Largely in-line performance

GCPL's consolidated revenue grew by muted 1.8% y-o-y to Rs. 3,332 crore, versus our expectation of Rs. 3,723 crore and street average expectation of Rs. 3,565 crore. Domestic business volume growth stood at 7% y-o-y, in-line with expectation of 6-8% volume growth. India and Indonesia business grew by 7% and 9% y-o-y (reported basis), respectively, while AUM declined by 21% y-o-y (organic decline at 10%) and Latin America grew by 36% y-o-y. In India business, home care segment registered a growth of 12% y-o-y while the personal care segment grew by 3% y-o-y. Gross margins and OPM expanded by 70 bps y-o-y each to 55.6% and 20.8%, respectively. OPM came in largely in line with our expectation of 20.3%. Operating profit grew by 5.3% y-o-y to Rs. 762 crore. This coupled with lower depreciation and lower forex losses led to 12.1% y-o-y growth in the adjusted PAT to Rs. 497 crore, versus our expectation of Rs. 479 crore and street average expectation of Rs. 494 crore. Reported PAT stood at Rs. 491 crore. In H1FY2025, revenue stood flat y-o-y at Rs. 6,998 crore, OPM rose by 133 bps y-o-y to 21.3% and adjusted PAT grew by 13.1% y-o-y to Rs. 968 crore. The company's board has declared an interim dividend of Rs. 5 per share for FY2025.

India business – Another quarter of volume-led revenue growth; margins down y-o-y

- India business' revenue rose 7.1% y-o-y to Rs. 2,278 crore driven by 7% y-o-y volume growth.
- Personal care & home care category grew by 12% and 3% y-o-y respectively.
- India business's EBITDA margins fell by 160 bps y-o-y to 24.3% impacted by an increase in the palm oil prices.

Home care – HI recovering; double-digit volume growth in air fresheners and fabric care

- Revenues grew 12% y-o-y to Rs. 1,016 crore, driven by double-digit volume growth in air fresheners and fabric care and mid-single digit in volume growth in household insecticides.
- Relaunch of Household Insecticides with the RNF molecule is showing clear green shoots in incense sticks and coils, which were launched a few quarters earlier.
- The new Liquid Vaporiser has been well received with positive initial consumer feedback. It will take 1-2 quarters for complete distribution. Goodknight Agarbatti continues to perform well and gain market share from illegal incense sticks players.
- The company will be launching Aerosols with RNF formula in the coming months. It expects availability of entire HI portfolio with RNF formulation by end of the current fiscal.
- Air Fresheners continue to gain market share and enjoy market leadership. Aer O continues to outperform, along with gaining market share.
- Within the fabric care segment, Genteel and Godrej Fab continue to perform very well and gain market share.

Personal care – Soft quarter for personal wash

- Revenue grew by 3% y-o-y to Rs. 1,176 crore with flat volume growth in personal wash, while hair colour and deodorants and sexual wellness delivered double-digit volume growth.
- Personal Wash delivered flat volume growth but continued to gain market share. The category has been witnessing higher-than-anticipated inflation in palm oil prices, leading to margin erosion, which is likely to continue for the remainder of the year. Magic Handwash continues to deliver strong double-digit volume growth and gain market share.

- Prices of Palm Oil and its derivatives' have been rising and have increased in high double-digits since the start of the year. Management has decided not to pass on the entire cost increase to consumers and hence pricing growth will lag increase in input prices. This will result in reduced UVG and increased UPG for the remainder of the year. Margin pressure is likely to remain for the next few quarters before it normalises.
- GCPL has significant know-how and access to this technology but has decided not to adopt it in the past, as it firmly believes in the quality of its product. Furthermore, there is no material impact on GCPL with the change in soap formulations in the market.
- Hair Colours volume grew in double digits. Godrej Expert Rich Crème access packs continue to outperform. Shampoo hair colour continues to grow in strong double-digit in volume terms.
- Both Deodorants and Sexual Wellness delivered strong double-digit volume growth. Sexual Wellness continues its healthy performance and continues to gain market share.

India business's performance

Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Revenue (Rs. Crore)					
Home care	1,016	910	11.6	815	24.7
Personal care	1,176	1,145	2.7	1,248	-5.8
Unbranded & Exports	86	71	21.1	77	11.7
Total India business	**2,278**	**2,126**	**7.1**	**2,140**	**6.4**
India business volume growth			7%		

Source: Company; Sharekhan Research

Performance across regions:

Indonesia – volume-led revenue growth; margins up y-o-y

- Revenue grew by 9% y-o-y (11% in CC terms) to Rs. 513 crore with volume growth at 7%.
- EBITDA margin is at 19.4%, up 140 bps y-o-y.
- Stella posted strong double-digit volume growth led by focused media and marketing interventions. Recently launched Stella Electric Diffuser is well-received by market and is gaining market share.
- Hair Color recorded strong double-digit volume growth, driven by Shampoo Hair Colour.
- HI segment delivered healthy mid-teens volume growth on a 2-year CAGR basis.

Africa, US, and Middle East (GUAM) – Organic revenue flat y-o-y; sharp margin expansion

- GUAM region's revenues decreased by 21% y-o-y to Rs. 643 crore (organic revenues fell by 10%) in rupee terms due to currency volatility.
- EBITDA margin at 14.4% expanded by ~590 bps y-o-y led by gross margin expansion, mix improvement and reduction in controllable costs. EBITDA grew 33% y-o-y to Rs. 93 crore.

Latin America and Others – Strong revenue growth and margin expansion

- Revenue grew by 36% y-o-y to Rs. 246 crore aided by strong performance in Argentina, which was driven by economic stability and new launches.
- EBITDA margin rose by 660 bps y-o-y to 5.7%.

Results (Consolidated) **Rs cr**

Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Net sales	**3,647.1**	**3,568.4**	**2.2**	**3,310.8**	**10.2**
Other operating income	19.2	33.6	-42.8	20.8	-7.6
Total revenue	**3,666.3**	**3,602.0**	**1.8**	**3,331.6**	**10.0**
Raw material cost	1,628.2	1,624.9	0.2	1,470.8	10.7
Employee cost	310.6	335.6	-7.4	279.6	11.1
Advertisement & Publicity	364.0	365.9	-0.5	330.8	10.0
Other expenses	601.9	552.1	9.0	524.2	14.8
Total operating expenses	2,904.7	2,878.6	0.9	2,605.4	11.5
Operating profit	**761.7**	**723.4**	**5.3**	**726.2**	**4.9**
Other income	86.0	65.9	30.4	77.1	11.5
Forex gain / (loss)	-2.0	-19.2	-89.4	-1.8	14.0
Interest expense	83.1	77.3	7.5	87.6	-5.1
Depreciation	50.1	60.9	-17.7	49.5	1.3
Profit before tax	**712.4**	**631.9**	**12.7**	**664.5**	**7.2**
Tax	215.4	188.6	14.2	193.3	11.4
Adjusted PAT (before MI)	**497.1**	**443.3**	**12.1**	**471.2**	**5.5**
Extraordinary item	-5.8	-10.5	-45.2	-20.3	-71.5
Reported PAT	**491.3**	**432.8**	**13.5**	**450.9**	**9.0**
EPS (Rs.)	4.9	4.3	12.1	4.6	5.5
			bps		**bps**
GPM (%)	55.6	54.9	70	55.9	-26
OPM (%)	20.8	20.1	69	21.8	-102
NPM (%)	13.6	12.3	125	14.1	-58
Tax rate (%)	30.2	29.8	38	29.1	113

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – H2FY2025 to be better versus H1

Monsoons were above normal and well spread out, which will help agri production to be better in the current year. This will not only boost rural consumption but will also help agri inflation to stabilise in the near term. Management of some consumer goods companies have indicated double-digit revenue growth in H2FY2025 driven by mix of volume and price-led growth. Global uncertainties will lead to volatility in the raw material prices and currency movement. This will put pressure on the margins of consumer goods companies in the quarters ahead. Companies might opt for a gradual price increase to mitigate the impact of higher raw material prices. We expect operating profit growth to be lower as compared to revenue growth in the near term. On the other hand, an increase in commodity prices will reduce competitive intensity from small/regional players in the quarters ahead. Thus, overall growth trends remain positive for most companies under our coverage.

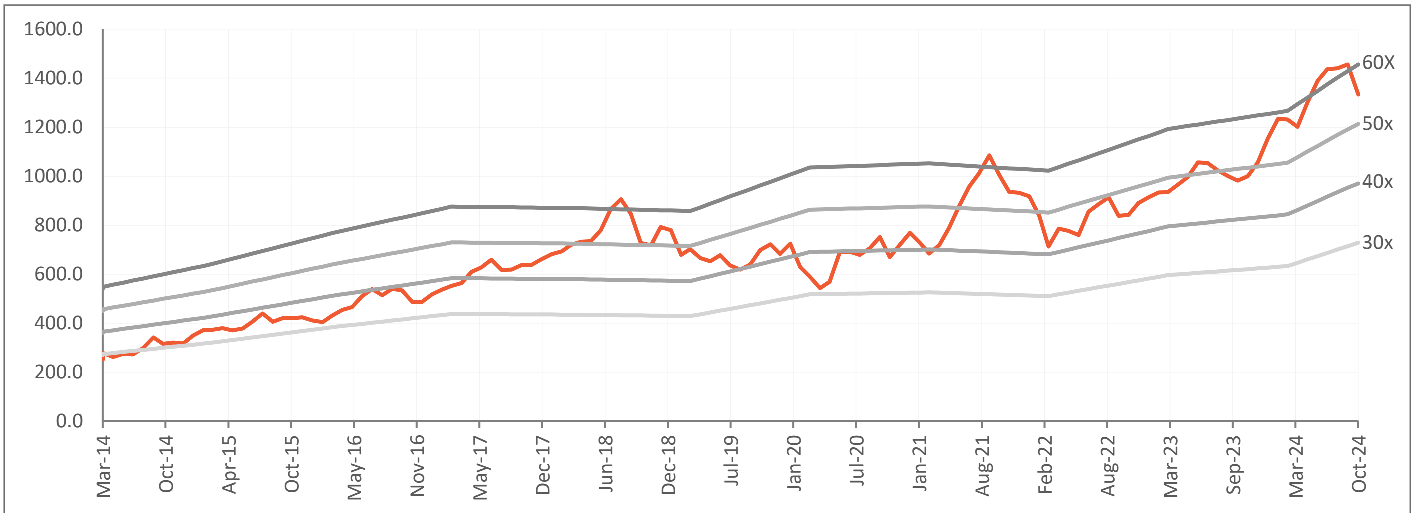
■ Company Outlook – Change in leadership likely to drive consistent growth in the long run

GCPL's Q2FY2025 performance was largely in-line with expectations with volume-led revenue growth in the domestic business and sharp margin expansion in the international business. In line with its strategy, the company targets to achieve high single-digit volume growth and mid-teen EBIDTA growth for FY2025. This will be driven by high single-digit volume growth in the India business and the Indonesia business. However, the company will strive to achieve low double-digit volume growth in the India business. Consolidated EBIDTA margin improved 270 bps to 21.8% in FY2024 on the back of lower input prices and cost efficiencies. EBDITA margins would consistently improve through premiumisation, a fall in SKUs, and cost efficiency at media and manufacturing levels in the coming years.

■ Valuation – Maintain Buy with a revised PT of Rs. 1,545

GCPL's Q2FY2025 performance was largely in line with expectation with low single-digit revenue growth and marginal rise in OPM. With strategies in place, the management aims to achieve double-digit growth in the medium to long term (largely volume-led growth). The company targets a consistent rise in OPM through premiumisation and operating efficiencies in the medium to long run (especially in the international business). Thus, the company is well-poised to achieve mid-teens earnings growth over the next two years. The stock has corrected by 19% from its recent high and trades at 59x/47x/41x its FY25E/FY26E/FY27E earnings, respectively. We maintain a Buy with revised PT of Rs. 1,545.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Hindustan Unilever	59.4	55.8	51.2	41.6	39.8	36.4	25.9	26.9	29.2
Dabur India	53.2	45.4	38.4	40.6	35.2	30.2	21.5	23.1	25.0
Godrej Consumer Products	63.1	59.4	47.3	42.2	40.4	34.4	17.1	17.6	19.2

Source: Company, Sharekhan estimates

About company

GCPL is a leading emerging market company with a turnover of more than Rs. 14,000 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 & Chief Executive Officer
Sameer Shah	Chief Financial Officer
Rahul Botadara	Company Secretary & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	First Sentier Investments ICVC	2.34
2	BlackRock Inc	2.02
3	First Sentier Global Umbrella Fund PLC/Ireland	1.77
4	First Sentier Investors LLC	1.77
5	Vanguard Group Inc	1.46
6	Capital Group Cos Inc/The	1.37
7	Republic of Singapore	1.21
8	Kotak Mahindra AMC	0.86
9	Aditya Birla Sun Life Asset Management Co Ltd	0.76
10	SBI Funds Management Ltd	0.75

Source: Bloomberg (old data)

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 detoriating 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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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022-69920600.