

10 December 2024

Godrej Consumer Products

Temporary headwinds, but long-term outlook intact; retaining a Buy

Rating: **Buy**

Target Price (12-mth): Rs.1,485

Share Price: Rs.1,134

Godrej Consumer Products' Q3 business update highlighted temporary headwinds. Flat Q3 volumes (vs. average ~7% y/y organic growth in H1 FY25 and in the last six quarters) are expected due to challenges in soaps and home insecticides (HI), which account for nearly two-thirds of domestic revenue. While 20-30% y/y higher palm oil prices drove price hikes, grammage cuts and reduced trade schemes led to lower volume growth (destocking) in soaps; the HI segment was hurt by the adverse weather (delayed winter in north India and a cyclone in the south). Further, on the high base of Q3FY24 standalone EBITDA margin, a sharp inflation in input cost could drag operating profits. Factoring in the above, we lower our FY25e-27e revenue ~5% and earnings 7-9%. However, we are optimistic about growth prospects, owing to the company's industry-leading volume growth (as seen over the last six quarters), led by distribution initiatives and innovations. We maintain our Buy rating, with a lower 12-mth TP of Rs1,485 (Rs1,670 earlier), 50x FY27e EPS (52x FY27e EPS).

Mid-single-digit revenue growth is expected for Q3, driven by flattish domestic volumes, with pressure in soaps and home insecticides (HI). However, Indonesia business is likely to deliver steady mid-single digit volume growth and high-single digit sales growth, while GAUM (Africa, the US and the Middle East) may see volume decline due to trade stock adjustments and portfolio simplification. We project a ~9% revenue CAGR over FY24-27.

The Q3 EBITDA margin may temporarily dip below the normative 24-27% range due to (a) palm oil prices rising 20-30% y/y and (b) continued strategic investments in brands and rural distribution. For FY25, we build in only a 40bp y/y rise in the consolidated EBITDA margin to 21.4%, largely due to the increase in international business margins.

Valuation. At the CMP, the stock trades at 56x/45x/38x FY25e/26e/27e EPS of Rs20.2/25.1/29.7. **Key risks:** Failed launches, pricey/unwarranted bolt-on acquisitions, geopolitical turbulence shrinking the international business.

Key financials (YE Mar)	FY23	FY24	FY25e	FY26e	FY27e
Sales (Rs m)	1,33,160	1,40,961	1,47,927	1,64,413	1,81,348
Net profit (Rs m)	17,566	19,163	20,699	25,659	30,354
EPS (Rs)	17.2	18.7	20.2	25.1	29.7
P/E (x)	66.0	60.5	56.0	45.2	38.2
EV / EBITDA (x)	46.8	39.5	36.5	31.3	27.2
P / BV (x)	8.4	9.2	8.4	7.6	6.9
RoE (%)	12.7	15.2	15.0	16.8	18.0
RoCE (%)	14.3	14.4	14.8	17.0	18.5
Dividend yield (%)	-	0.4	0.7	1.0	1.2
Net debt / equity (x)	0.0	0.2	0.1	-0.0	-0.1

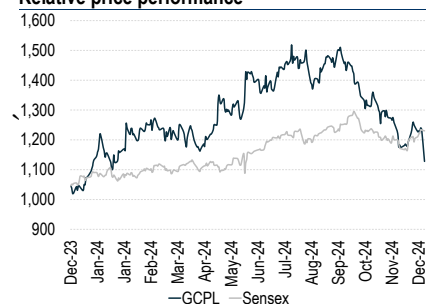
Source: Company, Anand Rathi Research

Key data	GCPL IN
52-week high / low	Rs1,541/1,018
Sensex / Nifty	80293 / 24287
3-m average volume	\$24.8m
Market cap	Rs.1,154bn / \$13,582m
Shares outstanding	1,023m

Shareholding pattern (%)	Sep'24	Jun'24	Mar'24
Promoters	63.0	63.0	63.2
- of which, Pledged	0.7	0.7	0.7
Free Float	37.0	37.0	36.8
- Foreign Institutions	22.0	22.4	22.6
- Domestic Institutions	9.6	9.3	8.9
- Public	5.4	5.4	5.3

Estimates revision (%)	FY25e	FY26e	FY27e
Sales	-4.7	-4.6	-4.8
EBITDA	-8.9	-7.3	-6.8
PAT	-9.4	-8.1	-7.4

Relative price performance



Source: Bloomberg

Ajay Thakur
Research Analyst

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Net revenues	1,33,160	1,40,961	1,47,927	1,64,413	1,81,348
Growth (%)	8	6	5	11	10
Direct costs	67,028	63,203	66,373	73,154	79,969
Gross profit	66,132	77,758	81,554	91,259	1,01,378
Gross margins %	49.7	55.2	55.1	55.5	55.9
Other expenses	41,700	48,191	49,908	54,804	59,999
EBITDA	24,432	29,567	31,646	36,455	41,379
EBITDA margins (%)	18.3	21.0	21.4	22.2	22.8
- Depreciation	2,363	2,410	2,092	2,272	2,353
Other income	1,684	2,690	3,000	3,500	4,000
Interest expenses	1,885	3,096	3,193	2,046	1,446
PBT	21,868	26,751	29,361	35,637	41,581
Effective tax rates (%)	19.7	28.4	29.5	28.0	27.0
+ Associates / (Minorities)	-	-	-	-	-
Net Income	17,566	19,163	20,699	25,659	30,354
WANS	1,022	1,022	1,022	1,022	1,022
FDEPS (Rs)	17.2	18.7	20.2	25.1	29.7

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
PBT	21,327	1,982	29,361	35,637	41,581
+ Non-cash items	-3,430	-27,016	-2,286	-818	202
Operating profit before WC	24,758	28,998	31,646	36,455	41,379
- Incr. / (decr.) in WC	933	-4,559	1,949	462	-703
Others including taxes	4,185	3,739	8,661	9,978	11,227
Operating cash-flow	21,507	20,700	24,934	26,939	29,449
- Capex (tangible + intangible)	77	-2,766	-2,761	-3,000	-3,300
Free cash-flow	21,583	17,934	22,173	23,939	26,149
Acquisitions	-	-	-	-	-
- Div (incl. buyback & taxes)	-	5,114	8,182	11,251	14,319
+ Equity raised	0	0	-	-	-
+ Debt raised	-6,344	22,652	-12,000	-5,000	-5,000
- Fin Investments	18,769	5,871	-	-	-
- Misc. Items (CFI + CFF)	491	28,209	273	-1,366	-2,459
Net cash-flow	-4,020	1,392	1,718	9,054	9,290

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	1,023	1,023	1,023	1,023	1,023
Net worth	1,37,942	1,25,986	1,38,423	1,52,742	1,68,682
Debt	10,340	31,546	19,546	14,546	9,546
Minority interest	-	-	-	-	-
TL / (Assets)	-6,412	-2,804	-2,804	-2,804	-2,804
Lease liabilities	-	-	-	-	-
Capital employed	1,41,870	1,54,729	1,55,166	1,64,485	1,75,425
Net tangible assets	15,341	14,464	15,371	16,099	17,246
Net intangible assets	25,773	39,569	39,569	39,569	39,569
Goodwill	58,223	50,264	50,264	50,264	50,264
CWIP (tang. & intang.)	454	939	700	700	500
Investments (strategic)	8,393	17,875	17,875	17,875	17,875
Investments (financial)	21,897	17,162	17,162	17,162	17,162
Current assets (excl. cash)	33,972	35,375	35,236	38,174	41,614
Cash	3,907	5,469	7,187	16,241	25,531
Current liabilities	26,091	26,389	28,199	31,599	34,337
Working capital	7,882	8,986	7,037	6,575	7,278
Capital deployed	1,41,870	1,54,729	1,55,166	1,64,485	1,75,425

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
P/E (x)	66.0	60.5	56.0	45.2	38.2
EV / EBITDA (x)	46.8	39.5	36.5	31.3	27.2
EV / Sales (x)	8.6	8.3	7.8	6.9	6.2
P/B (x)	8.4	9.2	8.4	7.6	6.9
RoE (%)	12.7	15.2	15.0	16.8	18.0
RoCE (%) - after tax	14.3	14.4	14.8	17.0	18.5
RoIC (%) - after tax	17.2	17.2	17.5	20.7	23.8
DPS (Rs)	-	5.0	8.0	11.0	14.0
Dividend yield (%)	-	0.4	0.7	1.0	1.2
Dividend payout (%) - incl. DDT	-	26.7	39.5	43.8	47.1
Net debt / equity (x)	0.0	0.2	0.1	-0.0	-0.1
Receivables (days)	34.1	39.8	38.1	36.2	35.5
Inventory (days)	42.1	32.9	32.4	32.1	31.8
Payables (days)	50.0	43.4	48.1	49.0	48.6
CFO : PAT (%)	122.4	108.0	120.5	105.0	97.0

Source: Company, Anand Rathi Research

Fig 6 – Revenue-growth trend

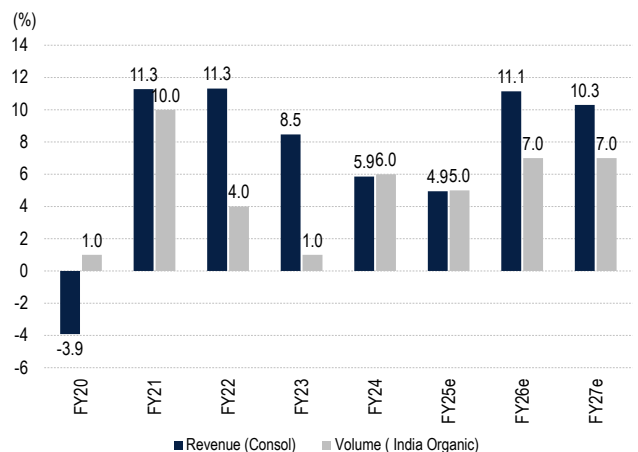
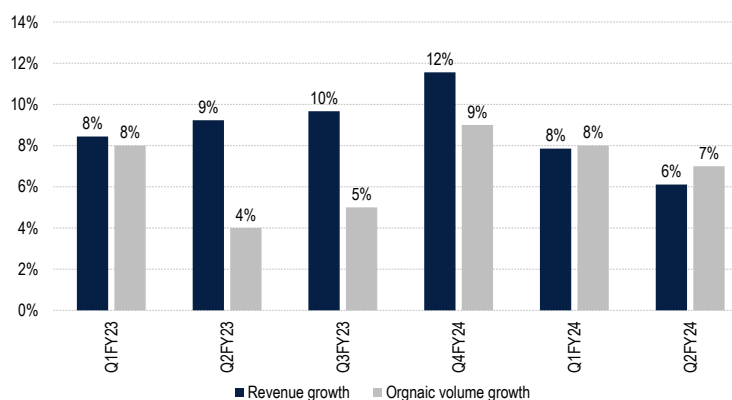


Fig 7 – Palm oil prices has risen 20-30% in last 6 months

Source: Bloomberg, Anand Rath Research

Fig 8 – Domestic quarterly revenue and volume growth trend

Source: Company, Anand Rath Research

Valuation

The stock fell ~25% in the past three months, driven by (a) weakness in consumer stocks due to delayed demand recovery and (b) poor Q3 business update shared by the management. However, we remain optimistic in the long term, given the company's (a) rural distribution initiatives, (b) innovation-led growth, (c) efforts to simplify its international business and (d) better mix driving improved margins. The company's innovations and launches (an affordable liquid detergent and a new molecule-based [RNF] home insecticide) would further bolster domestic growth. Also, divestment of its east African operations would boost profits (Rs500m annual accretion from royalties vs. losses/low profits earlier).

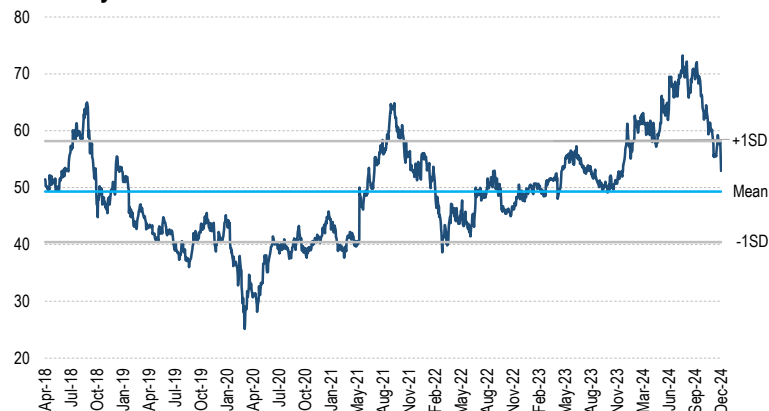
Factoring in the Q3 business update, we lower our FY25e-27e revenue ~5% and earnings 7-9%. We maintain a Buy rating, with a lower 12-mth Rs1,485 TP, 50x FY27e EPS (Rs1,670, 52x FY27e EPS earlier). At the CMP, the stock trades at 56x/45x/38x FY25e/26e/27e EPS of Rs20.2/25.1/29.7.

Fig 9 – Change in estimates

(Rs m)	Old estimates			Revised estimates			Change (%)		
	FY25e	FY26e	FY27e	FY25e	FY26e	FY27e	FY25e	FY26e	FY27e
Sales	1,55,174	1,72,313	1,90,406	1,47,927	1,64,413	1,81,348	-4.7	-4.6	-4.8
EBITDA	34,735	39,317	44,390	31,646	36,455	41,379	-8.9	-7.3	-6.8
PAT	22,839	27,913	32,776	20,699	25,659	30,354	-9.4	-8.1	-7.4

Source: Anand Rath Research

Fig 10 – One-year-forward PE



Source: Bloomberg, Anand Rath Research

Key risks

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

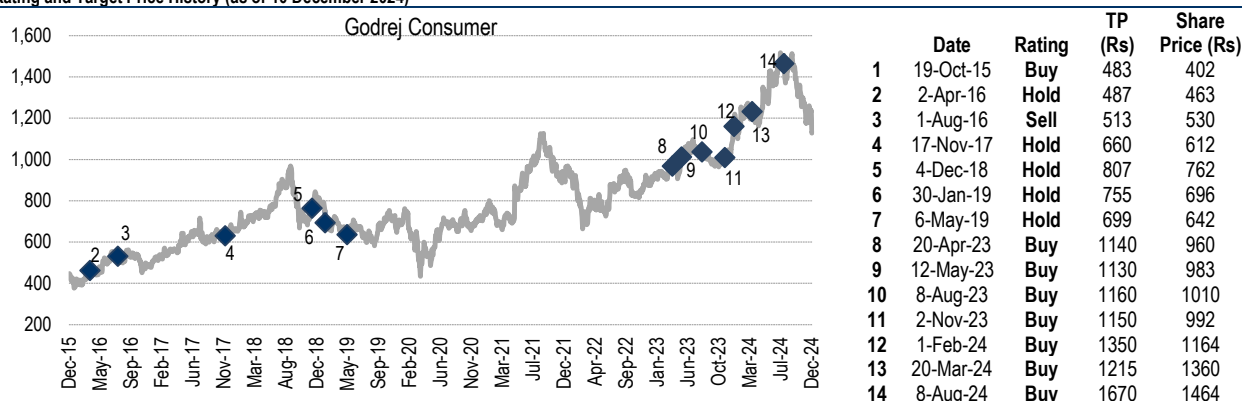
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