INSTITUTIONAL RESEARCH

Godrej Consumer

All ducks in a row for strong earnings growth

We upgrade GCPL to BUY from ADD with a TP of Rs 1450 (50x FY26 EPS, 20% premium to its 5-year average PE) as it is poised to deliver revenue, EBITDA and PAT CAGRs of 10/18/18% over FY23-26, the highest earnings growth amongst our consumer staples coverage universe. Our confidence in achieving strong earnings growth in the high teens is led by two factors: (1) Expanding Market Presence in India and Indonesia: These two markets, which constitute 70% of our consolidated sales, are poised for high single-digit volume growth. This growth is led by disruptive innovations in existing categories such as Household Insecticides, as well as the expansion into newer categories like air care and hair care. Also, the company is focusing on creating category relevance, increasing distribution reach (particularly in rural India), and implementing high-impact media campaigns to strengthen its brand equity. (2) Profitability Enhancement in the Africa Business: The company's strategy involves improving the profitability of the Africa business, to increase the EBITDA margin from the current 10% to 15% by FY26. We believe it can achieve this through divesting loss-making East Africa operations, rationalizing SKUs, and consolidating distribution in selected geographies. By aligning these initiatives, it ensures all ducks are in a row for robust earnings growth. Clarity on capital allocation (50% annual dividend payout) is a further cherry on the cake (as historically it has acquired a low ROCE assets in politically unstable geographies). Although everyone on the street is convinced with regards to its medium-term prospects, we have the highest visibility on GCPL as earnings delivery is concerned even in the short term due to (a) a sharp uptick in operating margin profile (7% in FY23 to 20% in FY25) of Raymond business, owing to distribution ramp-up, procurement synergies and innovative launches; (b) launch of high margin and efficacious LV (HI forms c40/45% of India sales/profits respectively) for India business in 1QFY25, which can gain significant market share; (c) franchising loss-making East African operations, through which it expects to add c150bps to GAUM margins.

- **India business (60% of sales, 75% of EBITDA) on a strong wicket**: Management guided for high single-digit volume growth (after delivering 6% organic volume growth in FY24) and further improving upon operating margin of 27% in FY25, courtesy a) launching disruptive innovation (efficacious LV, foam body wash and air fresheners); b) accelerating revenue momentum in newer/acquired categories (liquid detergents, sexual wellness and fine fragrances)—management highlighted a lot work needs to be done in the deodorant segment; c) scaling up newer channels (cosmetics and OTC based) and growing faster in premium channels (MT and e-commerce); d) effective media spends (saved 40bps in FY24) via setting up of in-house digital media agency (Lightbox).
- **Indonesia business (14% of sales, 13% of EBITDA) to sustain momentum**: Indonesian business faced a tough time from FY18-23 (4% revenue and 1% EBITDA decline on CAGR basis) owing to pricing disparity amongst different channels (MT and GT), high cost overhead-led in-house model of branch distribution and significant underinvestment in brands (average A&P spends stand at 4% of sales). Management has course-corrected the above challenges over the past few years, which led to a growth revival in FY24 (11% UVG, 14% revenue growth and 28% EBITDA growth). GCPL intends to maintain similar momentum and has guided for high single-digit volume growth and mid-20 EBITDA margin in FY25 as well (from 21% margin achieved in FY24), courtesy a) scaling up differentiated HI products (which have 4x higher active ingredients) available at affordable price points; b) rejuvenating air care portfolio via launching electric based Stella LV, running high decibel media campaign on Stella aerosols, which has capabilities to quickly remove odour and revamping mass market product (Stella Pocket) via price correction; c) scaling up hair colour category as local manufacturing facility comes on stream.

BUY

CMP *(as on 7 May 2024)*	INR 1,322
Target Price	INR 1,450
NIFTY	22,303

KEY CHANGES	OLD	NEW
Rating	ADD	BUY
Price Target	INR 1,150	INR 1,450
EPS %	FY25E	FY26E
	N.A.	N.A.

KEY STOCK DATA	
Bloomberg code	GCPL IN
No. of Shares (mn)	1,023
MCap (INR bn) / ($ mn)	1,353/16,196
6m avg traded value (INR mn)	1,386
52 Week high / low	INR 1,350/932

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	6.8	29.5	41.2
Relative (%)	4.9	16.3	20.8

SHAREHOLDING PATTERN (%)	Dec-23	Mar-24
Promoters	63.21	63.21
FIs & Local MFs	8.39	8.95
FPIs	22.95	22.56
Public & Others	5.45	5.28
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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- **Focus shifts to bottom-line over topline for African geography (23% of sales, 10% of EBITDA)**: Management has guided mid-single-digit underlying volume growth (UVG) and a target EBITDA margin of 15% over the next two years, up from the current 10%. This objective is planned to be achieved through:

  a) Focused efforts will be directed towards achieving double-digit revenue growth in highly profitable geographies such as Southern Africa and Godrej International.

  b) Implementing Structural Changes: Structural changes are planned for middle-tier countries, including the US, Latin America, and West Africa. These changes involve SKU rationalization, increasing the prominence of high-margin FMCG businesses, and enhancing distribution reach.

  c) Re-organizing East African Business

Analyst Meet Takeaways

- Management has decided to invest Rs 9 billion over the next 18-24 months to establish two state-of-the-art facilities, deviating from the recent trend among FMCG companies to outsource. GCPL management clarified that outsourcing makes sense under specific circumstances:

  a) Product Differentiation and Intellectual Property Protection: Outsourcing is preferable only when the product range is commoditized. For differentiated products, it's better to opt for in-house manufacturing to safeguard intellectual property.

  b) Market Share Considerations: Outsourcing becomes advantageous when a particular FMCG company holds a very low market share within its respective category. In such cases, the scale tips in favor of contract manufacturers who typically have a more efficient operating cost structure.

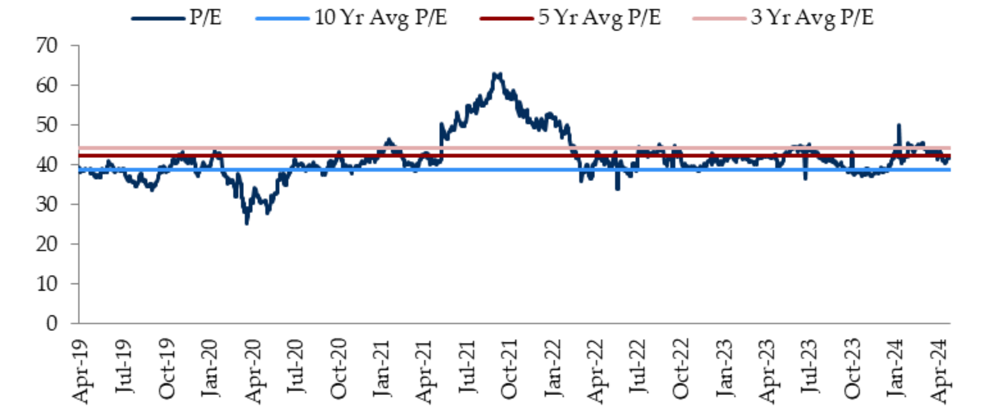
  By adhering to these guidelines, GCPL aims to optimize its manufacturing strategy and ensure competitiveness in the market.

  - Rural Distribution Expansion: GCPL aims to increase its rural outreach by adding 300,000 outlets, bringing the total reach to 700,000 outlets in the medium term. Management has acknowledged that its market share in rural areas (currently at 33%) is constrained by a lower weighted average distribution. To address this, GCPL intends to bolster its distribution network through Project Vistaar, thus rectifying the distribution gap and enhancing its rural market presence.

  - Liquid Detergent Market Perspective: Management provided an illustrative case from the Chinese market, where the detergent industry, traditionally led by powders, has surged from US$4 billion in 2007 to approximately US$8 billion presently, with liquid detergents commanding a 50% share. Despite this, Blue Moon holds a significant portion of the liquid detergent market, indicating potential for new brands to enter and disrupt the market.

- Contribution from NPD stood at 1.5% of sales and the company intends to take it to 3.5% of sales.

GCPL trades at 46x , 10% premium to its 3 year average PE



Quarterly/annual financial summary

(INR mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	33,651	31,722	6.1	36,228	(7.1)	1,21,742	1,31,987	1,39,741	1,55,924	1,75,540
EBITDA	7,604	6,648	14.4	9,047	(16.0)	23,951	24,305	29,435	34,915	40,349
APAT	5,860	4,690	24.9	5,860	-	17,931	17,566	19,163	23,383	29,120
EPS (INR)	5.7	4.6	24.9	5.7	-	17.5	17.2	18.7	22.9	28.5
P/E (x)						75.4	77.0	70.6	57.8	46.4
EV / EBITDA (x)						56.1	55.0	46.0	38.5	33.1
RoCE (%)						19.5	17.3	16.7	17.4	20.9

Source: Company, HSIE Research

Consolidated P&L (INR mn)

Year End	FY22	FY23	FY24	FY25E	FY26E
Net Revenues	**1,21,742**	**1,31,987**	**1,39,741**	**1,55,924**	**1,75,540**
Growth (%)	11.3	8.4	5.9	11.6	12.6
Material Expenses	60,751	67,028	63,203	68,891	76,814
Employee Expense	11,041	11,115	12,493	13,993	15,672
ASP Expense	7,508	9,855	13,359	15,363	17,667
Other expenses	19,514	20,857	22,471	24,592	27,051
EBITDA	**23,951**	**24,305**	**29,435**	**34,915**	**40,349**
EBITDA Growth (%)	**0.3**	**1.5**	**21.1**	**18.6**	**15.6**
EBITDA Margin (%)	**19.7**	**18.4**	**21.1**	**22.4**	**23.0**
Depreciation	2,099	2,363	2,410	2,742	2,886
EBIT	**21,852**	**21,942**	**27,025**	**32,173**	**37,462**
Other Income (Including EO Items)	897	1,684	2,690	3,132	3,602
Interest	1,102	1,757	2,964	2,371	2,134
PBT	**21,647**	**21,868**	**26,751**	**32,934**	**38,930**
Tax	3,719	4,303	7,588	9,551	9,810
RPAT	**17,834**	**17,025**	**19,163**	**23,383**	**29,120**
Adjustment	98	541	-	-	-
Adjusted PAT	**17,931**	**17,566**	**19,163**	**23,383**	**29,120**
APAT Growth (%)	**1.6**	**(2.0)**	**9.1**	**22.0**	**24.5**
Adjusted EPS (Rs)	**17.5**	**17.2**	**18.7**	**22.9**	**28.5**
EPS Growth (%)	**3.6**	**(4.5)**	**12.6**	**22.0**	**24.5**

Source: Company, HSIE Research

Consolidated Balance Sheet (INR mn)

Year End	FY22	FY23	FY24	FY25E	FY26E
SOURCES OF FUNDS					
Share Capital - Equity	1,023	1,023	1,023	1,023	1,023
Reserves	1,14,537	1,36,920	1,46,879	1,58,570	1,73,130
Total Shareholders' Funds	**1,15,559**	**1,37,942**	**1,47,901**	**1,59,593**	**1,74,153**
Minority Interest	-	-	-	-	-
Long Term Debt	3,809	1,891	1,891	1,891	1,891
Short Term Debt	8,387	8,448	8,448	8,448	8,448
Total Debt	**12,196**	**10,340**	**10,340**	**10,340**	**10,340**
Net Deferred Taxes	(6,796)	(6,412)	(6,412)	(6,412)	(6,412)
Long Term Provisions & Others	1,737	1,626	1,626	1,626	1,626
TOTAL SOURCES OF FUNDS	**1,22,696**	**1,43,496**	**1,53,455**	**1,65,146**	**1,79,706**
APPLICATION OF FUNDS					
Net Block	92,193	99,337	1,27,427	1,29,185	1,30,798
CWIP	1,164	454	454	454	454
Other Non-current Assets	3,795	10,110	10,110	10,110	10,110
Total Non-current Assets	**97,153**	**1,09,901**	**1,37,991**	**1,39,748**	**1,41,362**
Inventories	21,299	15,372	17,228	19,224	21,642
Debtors	11,163	12,453	13,184	14,711	16,562
Other Current Assets	4,890	4,432	4,432	4,432	4,432
Cash & Equivalents	19,521	25,804	7,909	16,760	28,393
Total Current Assets	**56,873**	**58,060**	**42,754**	**55,126**	**71,028**
Creditors	21,631	18,232	21,057	23,495	26,451
Other Current Liabilities & Provns	9,699	6,233	6,233	6,233	6,233
Total Current Liabilities	**31,329**	**24,465**	**27,290**	**29,728**	**32,684**
Net Current Assets	**25,544**	**33,595**	**15,464**	**25,398**	**38,344**
TOTAL APPLICATION OF FUNDS	**1,22,696**	**1,43,496**	**1,53,455**	**1,65,146**	**1,79,706**

Source: Company, HSIE Research

Consolidated Cash Flow (INR mn)

Year End	FY22	FY23	FY24	FY25E	FY26E
Reported PBT	21,553	21,327	26,751	32,934	38,930
Non-operating & EO Items	185	266	-	-	-
Interest Expenses	506	802	-	-	-
Depreciation	2,099	2,363	2,410	2,742	2,886
Working Capital Change	(5,362)	933	237	(1,083)	(1,313)
Tax Paid	(4,475)	(4,185)	(7,588)	(9,551)	(9,810)
OPERATING CASH FLOW (a)	**14,506**	**21,507**	**21,810**	**25,042**	**30,693**
Capex	(2,765)	(2,197)	(30,500)	(4,500)	(4,500)
Free Cash Flow (FCF)	11,741	19,309	(8,690)	20,542	26,193
Investments & Acquisition	(7,254)	(16,495)	-	-	-
Non-operating Income	1,377	1,109	-	-	-
INVESTING CASH FLOW (b)	**(8,642)**	**(17,583)**	**(30,500)**	**(4,500)**	**(4,500)**
Debt Issuance/(Repaid)	(2,198)	(6,344)	-	-	-
Interest Expenses	(1,190)	(1,193)	-	-	-
FCFE	*9,252*	*11,460*	*(8,690)*	*20,542*	*26,193*
Share Capital Issuance	0	0	-	-	-
Dividend	-	-	(9,204)	(11,692)	(14,560)
Others	(407)	(406)	-	-	-
FINANCING CASH FLOW (c)	**(3,795)**	**(7,943)**	**(9,204)**	**(11,692)**	**(14,560)**
NET CASH FLOW (a+b+c)	2,068	(4,020)	(17,895)	8,851	11,633
EO Items, Others	5,442	7,549	3,529	(14,366)	(5,515)
Closing Cash & Equivalents	7,510	3,529	(14,366)	(5,515)	6,118

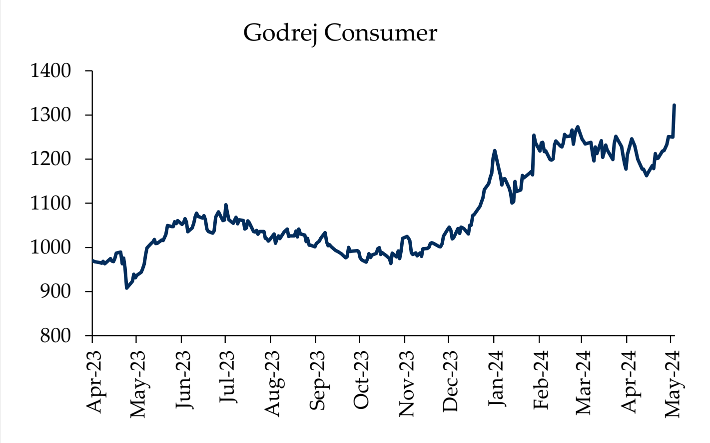
Source: Company, HSIE Research

Ratios

Year End	FY22	FY23	FY24	FY25E	FY26E
PROFITABILITY (%)					
GPM	50.1	49.2	54.8	55.8	56.2
EBITDA Margin	19.7	18.4	21.1	22.4	23.0
EBIT Margin	17.9	16.6	19.3	20.6	21.3
APAT Margin	14.7	13.3	13.7	15.0	16.6
RoE	17.1	13.9	13.4	15.2	17.5
RoIC (or Core RoCE)	19.5	17.3	16.7	17.4	20.9
RoCE	16.1	13.6	13.7	15.1	17.2
EFFICIENCY					
Tax Rate (%)	17.2	19.7	28.4	29.0	25.2
Fixed Asset Turnover (x)	11.1	11.1	10.7	10.9	1.9
Inventory (days)	63.9	42.5	45.0	45.0	45.0
Debtors (days)	33.5	34.4	34.4	34.4	34.4
Other Current Assets (days)	14.7	12.3	11.6	10.4	9.2
Payables (days)	64.9	50.4	55.0	55.0	55.0
Other Current Liab & Provns (days)	29.1	17.2	16.3	14.6	13.0
Cash Conversion Cycle (days)	18.1	21.5	19.7	20.2	20.7
Net D/E (x)	(0.1)	(0.1)	0.0	(0.0)	(0.1)
Interest Coverage(x)	19.8	12.5	9.1	13.6	17.6
PER SHARE DATA (Rs)					
EPS	17.5	17.2	18.7	22.9	28.5
CEPS	19.6	19.5	21.1	25.5	31.3
Dividend	-	-	9.0	11.4	14.2
Book Value	113.0	134.9	144.6	156.1	170.3
VALUATION					
P/E (x)	75	77	71	58	46
P/BV (x)	11.7	9.8	9.1	8.5	7.8
EV/EBITDA (x)	56.1	55.0	46.0	38.5	33.1
EV/Revenues (x)	11.0	10.1	9.7	8.6	7.6
OCF/EV (%)	1.1	1.6	1.6	1.9	2.3
FCF/EV (%)	0.9	1.4	(0.6)	1.5	2.0
FCFE/Mkt Cap (%)	0.9	1.4	(0.6)	1.5	1.9
Dividend Yield (%)	-	-	0.7	0.9	1.1

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

Disclosure:

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