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Initiating Coverage

# Godrej Consumer Products Ltd.

18-August-2021

RETAIL RESEARCH

# Godrej Consumer Products Ltd.

| Industry | LTP | Recommendation | Base Case Fair Value | Bull Case Fair Value | Time Horizon |
|---|---|---|---|---|---|
| FMCG | Rs.1,006 | Buy in Rs. 1,002-1,010 band and add on dips to Rs. 879-887 band | Rs. 1,116 | Rs. 1,190 | 2 quarters |

| | |
|---|---|
| HDFC Scrip Code | GODCON |
| BSE Code | 532424 |
| NSE Code | GODREJCP |
| Bloomberg | GCPL:IN |
| CMP Aug 17, 2021 | 1006 |
| Equity Capital (Rs cr) | 102 |
| Face Value (Re) | 1 |
| Equity Share O/S (cr) | 102 |
| Market Cap (Rs cr) | 1,02,882 |
| Book Value (Rs) | 92.3 |
| Avg. 52 Wk Volumes | 1723152 |
| 52 Week High | 1,106.8 |
| 52 Week Low | 641.7 |

| Share holding Pattern % (Jun, 2021) | |
|---|---|
| Promoters | 63.23 |
| Institutions | 28.20 |
| Non Institutions | 8.57 |
| Total | 100.0 |

Retail Research Risk Rating:

| | | |
|---|---|---|
| Green* | | |

*** Refer at the end for explanation on Risk Ratings**


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## Our take

Godrej Consumer Products Ltd (GCPL) is a part of the 124-year-old Godrej Group; it was formed by the de-merger of the consumer products division of the erstwhile Godrej Soaps Ltd in April 2001. Although it was formed in its current form in 2001, it has been operating as Godrej Soaps for over 100 years, in the personal care segment. GCPL, today, has a strong presence in the FMCG industry—across three core categories - personal care, home care and hair care – with focus on three geographies - Asia, Africa and Latin America.

GCPL's inorganic expansion over the past decade plus in Asia, Africa, the US and Latin America has enabled it to enjoy a diversified revenue profile, with international operations driving ~46% of its consolidated revenue in FY21. This expansion has helped the company in extracting synergies in terms of product cross-pollination and stronger distribution network, besides being able to diversify its product portfolio and geographical reach. Also, at a consolidated level, in FY21, GCPL derived 31% of its revenue from the hair care segment, 30% from the household insecticides (HI) segment, 20% from personal care segment, and 6% from the hair care segment, reflective of a diversified segmental presence. Its brands such as Goodknight and Hit in home care, Godrej Expert in the hair colouring segment and Cinthol and Godrej No 1 in the personal care segment enjoy market leading positions in the domestic market. Similarly, in international markets, its brands Darling in the dry hair care segment in Africa and Mitu wet wipes and Stella air fresheners in Indonesia enjoy established market positions in their respective regions.

GCPL has a consistent track record of introducing new products to cater to shifting consumer preferences and expects that, going forward, its revenue growth will be driven by stable demand growth and introduction of new products across geographies. Supported by its portfolio of strong brands, constant innovation, and brand repositioning, the company has managed to maintain its competitive position in these key product categories and geographies. It will continue to benefit from its established position in domestic and international FMCG markets.

## Valuation and recommendation

In the recent past, GCPL's stock has underperformed its FMCG counterparts, which can be attributed to mediocre performance of its key domestic categories as domestic sales witnessed meagre growth at ~3% CAGR over FY16-20. However, it witnessed solid 14% growth in FY21, propped by COVID-led tailwinds for household insecticides (HI - up 16% YoY) and soaps (up 15% YoY). The domestic HI business, which has struggled due to rampant competition from illegal incense sticks (revenue declined 1% on CAGR basis over FY16-20), has seen a strong rebound owing to consumers' increasing preferences for disease prevention products in the wake of COVID-19. Recent innovations (such as Gold Flash LV, Good Knight Smart Spray, etc.) have been gaining encouraging traction. The high-margin hair colour business, which saw a poor year FY21 due to curtailed spends on discretionary products, is likely to make a strong comeback in H2FY22 with increased social outings as lockdown restrictions ease. GCPL commands a leadership position in the Indian HI and hair care market; there are many growth opportunities in these two segments as there is a lot of scope to increase penetration levels. Its focus on premiumisation is margin accretive. The COVID-19 pandemic has been a shot in the arm for the hygiene sector and GCPL has left no stone unturned to make the most of this unusual situation, which is also an opportunity. With 45+ launches in the hygiene category (toilet & floor cleaners, hand-wash and sanitizers) scaled up to 4% of sales, it will continue to grow on the back of penetration gains.

On the international business front, Indonesia, which struggled in the past (~-3% CAGR over FY16-18) due to rising competitive intensity and challenging macroeconomic environment, grew at 12.6%/11.2% in FY19/FY20 while curtailed discretionary spends by consumers in air care and wet wipes led to growth falling to ~4% in FY21 though EBIT margins have witnessed a double-digit growth over past five years. Godrej Africa, the US, and the Middle East (GUAM) businesses had been the biggest pain points for GCPL over past few years; however, the appointment of the new CEO for GUAM, Mr. Dharnesh Gordhon, and right strategic initiatives could help it achieve >10% sales CAGR with margins scaling up to 17-18% over the next 2-3 years.

We believe the hiring of Mr. Sudhir Sitapati (from HUL) as the new CEO & MD would be a total game changer. His addition empowers the growth focus of the company and gives us more confidence on its earnings longevity. We expect consolidated topline and EPS to grow by ~12% and ~16% CAGRs respectively over FY21-24E with healthy expansion in RoCE. Also, sustained good performance could increase DII's ownership (DIIs only hold 3.04% stake vs 14.2% in Nifty 100) and drive the stock's rerating. We believe GCPL's improved execution and new leadership to translate into higher growth**. We think the base case fair value of the stock is Rs 1,116 (45.5x Sept'23E EPS) and the bull case fair value is Rs 1,190 (48.5x Sept'23E EPS) over the next two quarters. Investors can buy the stock in the Rs 1,002-1,010 band (41x Sept'23E EPS) and add more on dips to Rs 879-887 band (36x Sept'23E EPS). At LTP of Rs 1,006, it quotes at 41x Sept'23E EPS.**

# Godrej Consumer Products Ltd.

## Financial Summary

| Particulars (Rs cr) | Q1FY22 | Q1FY21 | YoY-% | Q4FY21 | QoQ-% | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Revenues | 2895 | 2327 | 24.4 | 2731 | 6.0 | 9911 | 11029 | 12782 | 14084 | 15525 |
| EBITDA | 611 | 473 | 29.3 | 575 | 6.3 | 2143 | 2388 | 2774 | 3096 | 3433 |
| APAT | 415 | 317 | 30.7 | 417 | (0.5) | 1473 | 1715 | 2041 | 2360 | 2655 |
| Diluted EPS (Rs) | 4.10 | 3.10 | 30.7 | 4.10 | 0.0 | 14.4 | 16.8 | 20.0 | 23.1 | 26.0 |
| P/E (x) | | | | | | 69.9 | 60.0 | 50.4 | 43.6 | 38.8 |
| EV/EBITDA | | | | | | 49.1 | 48.3 | 42.6 | 36.3 | 32.1 |
| RoCE-% | | | | | | 19.0 | 21.0 | 24.4 | 27.5 | 30.9 |

(Source: Company, HDFC Sec)

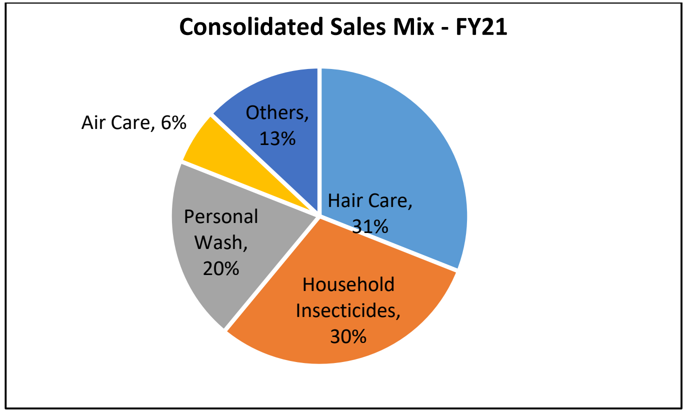
## Q1FY22 result update

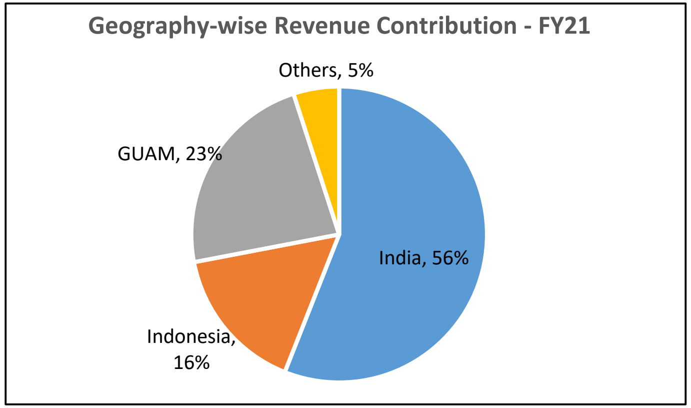
Consolidated revenue grew 24% YoY in Q1FY22 with domestic revenue growing by 19% and international revenue growing by 30%. Domestic revenue posted 12% two-year revenue CAGR. Domestic volume growth was at 15%, two-year CAGR at 9% vs. Britannia’s 13%, Dabur's 10%, Nestle’s 6%, Marico’s 2%, Emami’s 2%, Colgate’s 0% and HUL’s 0%. Indonesia/GUAM/LATAM and SAARC grew its revenue by 1/59/26% YoY (9/-22/-4% in Q1FY21) with constant currency (cc) growth at 0/60/48% YoY. Home care/personal care posted 14/29% YoY revenue growth. Home care sustained broad-based growth across premium formats and burning formats. In personal care, personal wash and hygiene continued momentum with strong double-digit sales growth; 2-year CAGR in double-digits. It continued to gain market share in soaps and hair colour.

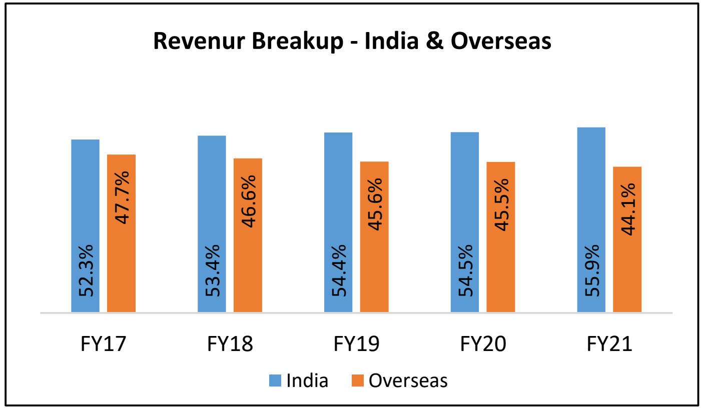
Gross margin contracted by 210/359bps YoY/QoQ to 52.2% (-286bps in Q1FY21 YoY, -198bps in Q4FY21 YoY), mainly on account margin pressure for India business. The company saw input inflation from palm oil and has taken 4-5% price hikes in Q1FY22. EBITDA margin expanded by 80bps YoY (77bps Q1FY21, - 108bps Q4FY21) to 21%. Margin expansion was led by the operating leverage seen in the international business and partially in the India business. Consolidated EBITDA grew by 29% YoY. Operating EBITDA margin for Indonesia/GUAM/Latin America and SAARC came in at 23/10/14% vs 24/-2/11% in Q1FY21.

# Godrej Consumer Products Ltd.

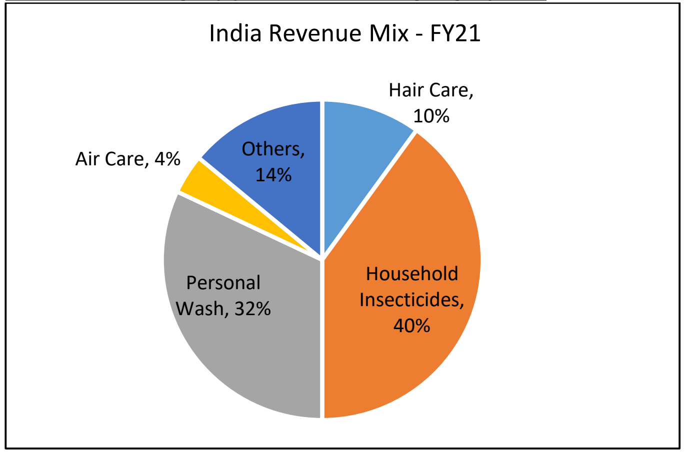
**Overview of GCPL**

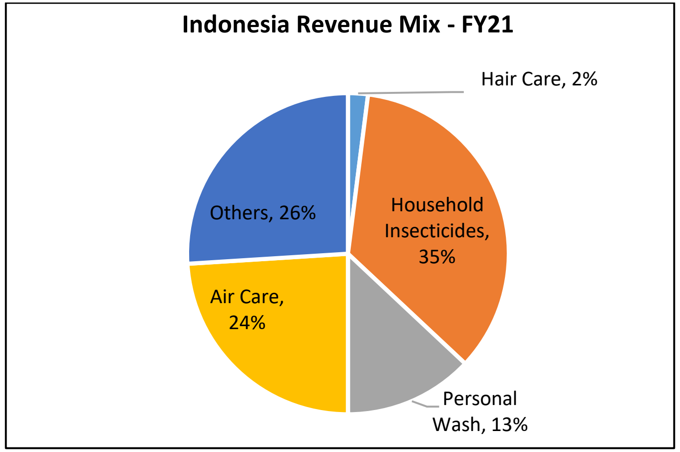


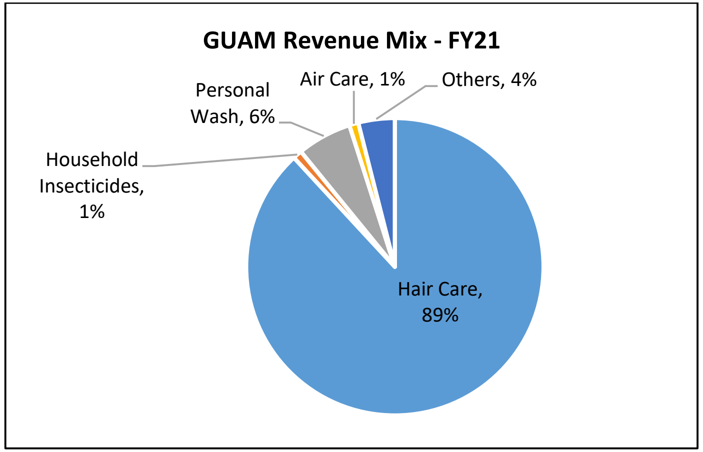




**Diversified category portfolio across geographies**




(Source: Company, HDFC Sec)

**GCPL: Establishing a strong global footprint**

| Particulars | India | Indonesia | Africa | LATAM |
|---|---|---|---|---|
| Household Insecticides | no. 1 in HI | no. 1 in HI | | |
| Personal Wash | no. 2 in Soaps | | | |
| Hair Care | no. 1 in Hair Colour | | no. 1 in Ethnic Hair Colour<br>no. 1 in Hair Extensions<br>no. 3 in Caucasian Hair Colour | no. 1 in Hair Colour and Hair Styling Products (Argentina)<br>no. 1 in Depilatory Products (Chile) |
| Others | no. 2 in Air Fresheners<br>no. 2 in Liquid Detergents | no. 1 in Air Fresheners<br>no. 1 inWet Wipes | | |

(Source: Company, HDFC Sec)

## Long-term triggers

### Health & Hygiene: Buoyed by COVID, momentum to continue

The health & hygiene segment, which earlier predominantly included only soaps, can today be broadly classified into the following:

(1) **Core category** – this forms a bulk of portfolio and includes soaps and handwashes, which have boomed the maximum, given renewed hygiene concerns following the outbreak of the pandemic. GCPL is the second largest toilet soaps player in the country. The two major brands in this category are Godrej No.1 (third largest soap brand by both value and volume) and Cinthol. According to the management, building a sizable market share in health soaps is a three-year journey and the company has doubled its investments in it; (i) Cinthol Health soap (which is at the premium end) and Protekt Health soap. Handwashes have existed in India for ~15 years and their penetration has gone up from zero to 19%, largely led by urban demand. The current pandemic has caused a fundamental disruption in the category, led by change in habits and has increased penetration by 1.7x over the past six months across rural and urban markets (from 19% to 34%), according to the company. The management believes that even if this penetration level of 34% corrects to 30%, there is still a long runway for growth, to the tune of another 30-35%. Its powder handwash (Mr. Magic) is in a sweet spot, as there is no other handwash in the country available at Rs15, directly competing with soaps (which are available at Rs10), thereby enabling consumers to upgrade preferences from soap to handwash.

(2) The **emerging category:** The COVID-19 pandemic has created a new segment includes sanitizers, disinfectant sprays and hygiene-centric room freshener sprays. All these products saw an abnormal spike during the pandemic, despite which, they are still small in the overall FMCG hygiene space. While demand has fallen now, the management expects it to become a meaningful play in the future. GCPL has forayed into the home cleaning products segment with the launch of Godrej ProClean, a brand of surface cleaning and disinfecting solutions. The market size of home cleaning products (branded floor, toilet and bathroom cleaner segment) is pegged at Rs 2,600 cr and is likely to grow in double digits, driven by (a) a huge penetration and headroom to grow, (b) the absence of pan-India players, besides one large branded player and (c) preferences for durable, new-age products against traditionally used cleaners like phenyl.

Additionally, GCPL is pivoting existing categories and products for more relevance. In the air care segment, through Godrej Aer air freshner (GCPL is no. 1 player with ~37% market share), it introduced products with dual benefits of sanitation and air care. Similarly, in fabric care, it launched Godrej Ezee 2-in-1, which combines liquid detergents and fabric sanitizers. This has helped it enlarge its hygiene basket while also giving consumers the benefit of using only one product instead of buying two separate products.

GCPL has made perfect use of a once in a lifetime opportunity by launching an array of health and hygiene products to catch the significant increase in consumer consciousness towards safety, health and hygiene. It is aiming to make Godrej Protekt a Rs. 500 cr brand in the coming two years. COVID-19 is likely to have changed customer habits towards better hygiene, in all probability irreversibly and will therefore increase consumption. With a total reach of 6mn outlets, GCPL is well placed to ride the tailwinds provided by this shift in consumer behaviour and grab a reasonable market share.

**'Godrej No. 1' is 2nd largest selling soap brand in India**

**Targeting men's entire grooming through Cinthol**


**Air-care offerings under 'Godrej Aer'**

# Godrej Consumer Products Ltd.

Godrej Protekt Sanitiser LUP sachet at Re. 1


*Scaled into full hygiene portfolio under Godrej Protekt*


*Pivoting other categories for on hygiene trend for relevance*

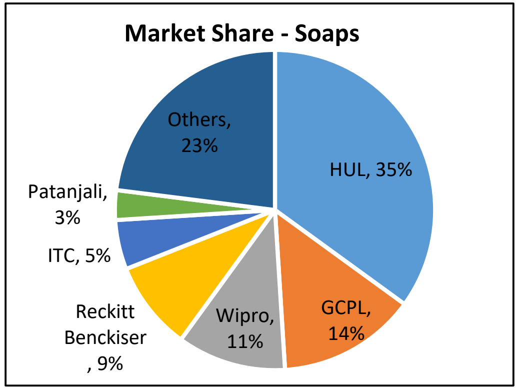

Historically, India's bathing soaps market has seen only 5-6% CAGR, given that it has high penetration (almost 100%) across most of India and is fiercely competitive. India's personal wash industry, which stands at Rs 200-220bn, can be broadly classified into four segments: bar soaps (88%), body/liquid washes (5%), hand washes (5%) and hand sanitizers (3%). Among these, bar soaps are the oldest category, which continues to command a lion's share of the personal wash industry while sanitizers and handwash, although new, are growing fast, especially in the post-COVID era. The split of soap sales is slightly skewed towards urban areas at 60%. Premium soap bars (skin protection), liquid bodywashes, handwashes, and sanitizers are the more urban-centric categories. In rural areas, premium soap bars are sold in low-unit packs of Rs 10, mainly purchased during special occasions such as marriages and festivals.

**Handwashes to grow multi-fold:** Handwash, despite being present in India for many years, has been able to reach a market size of only Rs 1,000 cr, mainly because it remains more of an urban-centric category and is highly underpenetrated– at 10-15% penetration vs. soap at ~100%. In India, most people still use leftover soap for washing hands. However, we believe even the leftover soap users are likely to switch to full-fledged handwashes due to low-cost disruptive innovations (LPUs etc.), increased willingness of customers to adopt better hygiene practices after the pandemic, and gel-based handwashes providing higher efficacy, as they take lesser time and kill more germs. We believe the market size of handwash is likely to triple or quadruple even over the next three years due to the emergence of the handwashing habit, post the outbreak of the pandemic.

# Godrej Consumer Products Ltd.

| Particulars | Value-for-money Soaps | Premium Soaps | Body Wash | Hand Wash | Sanitiser |
|---|---|---|---|---|---|
| MRP | 100 | 100 | 100 | 100 | 100 |
| Less: Distribution Margin | 12 | 12 | 15 | 15 | 15 |
| Realisation for Company | 88 | 88 | 85 | 85 | 85 |
| Less: COGS | 38 | 28 | 20 | 15 | 15 |
| Gross Margins (%) | ~50% | ~50% | ~65% | ~70% | ~70% |

*based on our estimates




*(Source: Industry Estimates, HDFC Sec)*

**Taking on HUL:** Godrej No. 1 has been able to hold its own despite operating in a hyper-competitive industry, and limited advertising support at 1% of sales (amongst lowest) due to its strong value proposition. Godrej No.1 is a Grade 1 soap (TFM => 76%) and its key competitors such as Lux, Santoor, and Vivel fall into Grade 2; thus it provides greater value to its consumers at the same price.

GCPL has undertaken a regionalised approach to garner market share. For instance, in Sep'19, it launched Godrej No 1 Chandan Abhyang Snaan specifically for Maharashtra, just ahead of the Diwali season, in order to compete head on with HUL's Moti soap, which is considered to be a must-have soap for bathing rituals. At the same time, in Punjab, it launched Godrej No.1 Extra Strong Lime as consumers there prefer strong lime variants, which further strengthened its leadership position in that state.

Additionally, Godrej Agrovet is one of India's largest palm oil producers (key raw material for soap) and GCPL, being a part of the same group as the former, might have an advantage in terms of backward integration, which has allowed it to better price its products compared to peers.

HUL is the biggest company in the Indian soaps industry with a commanding market share of 36%; however, it has lost market share in recent times due to the trend of moving towards natural products (naturals) and increased aggression from other large/regional incumbents. On the contrary, GCPL has gained over 350-400 bps market share in the soaps category to early teen levels by the end of FY21 from ~10% at the beginning of the last decade, driven by a lot of micro-marketing initiatives with specific SKUs being launched for specific markets.

**GCPL - the smartest and wisest in ATL/BTL activity:** GCPL has been smart enough to strategically place promotional offers and pioneered the concept of bundled packs. These packs were a win-win for everyone, as the company was able to lock in the customers' interest for longer durations while they got quality products at reasonable prices. For instance, it recently launched a pack of 5 (57gm each) in Gujarat and it is one of the country's fastest moving bundle packs whereas Its 125gm box pack (which enables it to look more appealing and larger) in Kerala helped it compete with strong players who had box size packaging soaps like Medimix and other ayurvedic brands.

**Huge scope in baby care products:** The Indian baby soaps market is quite niche, but it is one of the fastest growing sub-segments within the soaps industry. This market, including soaps, remains highly underpenetrated and offers potential for multi-year growth, given that an estimated ~2.5 cr children are born every year in India and with rising incomes and better family planning, new-generation parents want to give the child the best care. Johnson & Johnson and Himalaya together account for 75-80% market share in baby care products. In FY20, GCPL launched 'goodness.me', an organic baby care products brand. Though the brand is still in nascent stages, we believe there is huge scope when it comes to adoption of baby care products in general, as well as through premiumisation, i.e., making customers upgrade to higher order benefits such as nature- and environment-friendly and safer products.

Godrej No.1 has been a volume driver, whereas Cinthol has been a value driver. We believe there are huge tailwinds for soaps, specifically premium soaps, going ahead. Unlike other FMCG categories where sales growth has been healthy and margin improvement has been strong due to premiumisation, soaps have been a laggard over the past decade though GCPL has been able to increase market share to emerge as the second largest player in this category. In the aftermath to COVID-19, we believe habit formation over a reasonably prolonged period of time is likely to ensure high usage and premiumisation of soaps.

**Household insecticides: on the cusp of a revival**

The HI business of GCPL contributes towards around 40% of the domestic revenues, having higher net contribution than any other segment. In the first half of the previous decade, HI witnessed extremely strong sales growth (19% CAGR) over FY10-16 while growth tapered off in the latter half, falling to just 1.9% CAGR over FY16-21. The category had been under pressure due to exponential growth in the illegal incense sticks market and irregular and poor monsoon, which resulted in low mosquito infestation. However, in last 5 quarters HI has logged solid growth which we believe is likely to sustain.

The management has developed a multi-pronged strategy and expects high single-digit to low double-digit growth in this portfolio, driven by the following:

**Breakthrough innovations:** GCPL continues to focus on driving premiumisation and innovation led growth with launch of Goodknight Gold Flash, Smart Spray and natural neem products. The company plans to introduce new products in the burning format in the coming quarters to compete directly with illegal incense sticks. Recently, it announced the launch of Good Knight Smart Spray (first no gar aerosol solution in India) as a test marketing effort in Andhra Pradesh. The product is touted to have a unique combination of non-gas with SOS, while delivering an eight-hour efficacy, which could be a significant category driver.

1) **Rising penetration:** HI category is still underpenetrated with rural penetration at 50-52% while urban penetration was at 75-78% of pre-COVID, which has now increased by 2-3% and still providing scope for growth opportunities. Per-capita HI consumption is still low compared to neighbouring countries. In HI, 80% of the portfolio is premium and 20% is mid category where growth is high, and penetration is low. Liquid vaporizer penetration, although increased in FY21, is currently 26-27%, offering huge headroom for growth, specifically in rural India with increasing electrification and rising disposable incomes. Additionally, there is tremendous scope for penetration-led growth in out-of-home mosquito repellant market (>5% penetration in India), given it contributes 15-20% of HI's revenues in Indonesia and even higher in other geographies.

2) **Increasing salience of non-mosquito segment**: The non-mosquito space (13% of HI portfolio) also presents a massive opportunity in India and has been outperforming the company's overall HI portfolio in recent times. The management expects the non-mosquito portfolio to grow in double digits in future, given it is highly underpenetrated (<10% penetration). Last year, the company had launched Hit Roach Bomb priced at Rs 25 for the cockroach repellent segment (its anti-roach gel was priced at Rs 249 and had been creating a barrier to its trials/ adoption) in Karnataka initially to check if penetration of anti-roach products can be increased. The only lowest replacement for this product

is chalk, where the company is already present. Although the management has stated that the possibility of portfolio cannibalization exists, it believes that net gain to GCPL would be much higher.

**GCPL has diversified household insecticides portfolio**

| Category | GCPL's Offerings |
|---|---|
| Burning | Goodknight Green Shakti Coil |
| | Goodknight Jumbo/Mini-Jumbo Coil |
| | Goodknight Active+ Coil (Low Smoke) |
| | Goodknight Fast Card |
| Aerosol | KALA Hit (for mosquito) |
| | LAL Hit (for cockroach) |
| | Goodknight Power Shots |
| Electric | Goodknight Gold Flash |
| | Goodknight Power Chip System |
| | Goodknight Power Active+ System |
| | Goodknight Naturals Neem LV |
| | Goodknight Xpress System |
| Naturals | Goodknight Naturals Neem Anti-Mosquito Room Spray |
| | Goodknight Naturals Neem Anti-Mosquito Fly Spray |
| | Goodknight Naturals Neem LV |
| | Goodknight Neem Agarbatti |
| Personal/Out-of-home repellants | Goodknight Mosquito Repellant Cream |
| | Goodknight Fabric Roll-on |
| | Goodknight Patches |
| | Goodknight Cool Gel |
| Others/ Non-mosquito | Hit Anti Raoch Gel |
| | Hit Racquet |
| | Hit Rats (rat killer cakes) |
| | Hit Rat Glue Pad |
| | Goodknight Anti Mosquito Bed Nets |

**GCPL is focusing on innovation and premiumisation led growth through new launches**


**Impact of illegal incense stick market**

Incense sticks used for mosquito repellents represent ~20-25% of lost opportunity for the HI market. A large proportion of incense sticks use banned and illegal chemicals. Regional and imported brands dominate the market and the product is distributed through wholesale channels. The incense stick market size is ~Rs. 700 cr and the lost opportunity to organised players (assuming they have premium products) is ~20-25% of the total HI market. Also, the incense sticks market is growing much faster than the overall HI category growth. Incense stick availability has increased significantly with strong growth in the past two years. Even though most of these incense sticks brands claim a natural proposition, many of them contain banned insecticides. Since these illegal incense sticks are laced with chemicals and pesticides, they kill mosquitoes (vs only repelling them) but their smoke is equally harmful for humans.

Although the government along with the Household Insecticides Industry of India (HICA) has been successful in taking corrective actions against these practices (by hiking import duties on incense sticks, undertaking awareness programs, etc.), we expect this to continue to impact the category in the near term. Recently, GCPL introduced Goodknight Jumbo Fast Card in Maharashtra in addition to natural Agarbatti (Goodknight Naturals Neem Agarbatti) and further plans to add new products in burning format in the coming quarters as a response to illegal incense sticks.

**Hair care segment to make a comeback H2FY22 onwards**

Like HI, the hair care segment witnessed impressive growth of ~14% during the FY10-16 phase, while it fell to ~2% in the latter half. GCPL is no. 1 player in hair colour (~Rs. 35,000 cr market size) with ~26% market share. Low penetration (~35%) along with increasing acceptability among youth, specifically among men (hair colour today is no longer just an anti-aging product but a matter of style), provides a long runway for growth. Further, its penetration is way lower in rural areas (>15-20%). Low priced SKUs and micromarketing activities are likely to improve adoption/trial among people. GCPL's performance here had been impacted in recent years, especially in the urban markets, with stiff competition from L'Oreal, which has a strong presence in salon channel. In FY18, the company had introduced Godrej Professional (products across hair colour, hair treatments, texture and styling), eyeing the professional hair care market. Its products are priced at 60% of Loreal's, Estée Lauder's, Wella's and Schwarzkopf's and the company plans to expand its presence multiple times across the salon chains in India.

The hair care segment was the worst affected with pandemic affecting the mobility of people. However, it witnessed a strong sequential demand recovery, driven by progressive unlocking. The company continued to gain market share on the back of Godrej Expert Rich Crème hair color and good scale-up of shampoo hair colour (Godrej Expert Easy).

**Progression of GCPL's hair colour offerings over the years**

| Year | Particulars |
|---|---|
| 1975 | Godrej Liquid Hair Dye Was Launched (first hair colour brand in India) |
| 1981 | Developed a hair dye in powder form |
| 1995 | Transformation from Powder Dyes in Bottles to Sachets (helped increase reach widely) |
| 2008 | Godrej Powder Hair Dyes Relaunched as 'Godrej Expert' |
| 2011 | Undertook rebranding with 'Godrej Expert Care' and 'Godrej Expert Advanced' |
| 2012 | Introduced crème colour with 'Godrej Expert Rich Crème' |
| 2015 | Introduced Godrej Expert Rich Crème in a new multi-application pack |
| 2019 | Introduced Godrej  Nupur (a natural henna based colour) |
| 2020 | Introduced Godrej Expert Easy 5 Minute Shampoo-based Hair Colour |

**Godrej Expert is India's largest selling hair colour brand**


**Godrej Professional is hair care range targeting salonists**


**<u>Indonesia: Near-term turbulence but long-term smooth flight</u>**

GCPL entered Indonesia in 2010 with the acquisition of PT. Megasari Makmur Group, engaged in manufacturing and distribution of products like household insecticides, wet tissues, air fresheners and baby care products through brands like Hit, Mitu Baby, Stella, etc. Presently, GCPL is the No. 1 player in HI, air freshners and wet wipes. Indonesia, which is regarded as the third largest consumer market in Asia, after China and India and which has a similar demographic profile as India, is an important market.

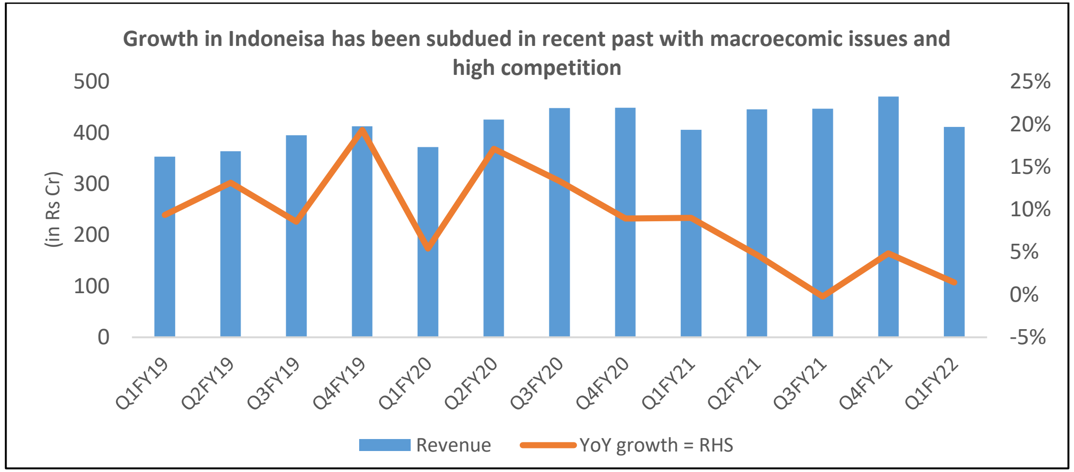
Post a tough phase lasting from FY14-18, where the performance was impacted by adverse macroeconomic environment and high competitive intensity, GCPL has witnessed a recovery albeit slower FY19 onwards on the back of investments in brands, launches and revamping of supply chain. In FY21, the Indonesian business grew 4% YoY on curtailed discretionary spends by consumers in air care and heightened competition in wet wipes.

GCPL continued to gain market share in HI, in which it forayed through the launch of HIT Expert Piramida, a four-hour revolutionary paper-based mosquito repellent. In Hygiene, it managed to scale the new Saniter brand up to Rs 150 cr portfolio in just a year, which is a new growth lever in order to gain competitive advantage. Besides HI, it has also been plugging other gaps in its portfolio in recent years, by cross-pollinating new sub-categories of coils (entered in FY19), hair color (entered in FY17), and pocket air freshener (recently launched Aer Twist under Stella). It has also launched innovative products like Proclin Stain Remover, Stella Fabric Spray.

The Indonesia margin stood at 27-28% in FY21, while the company believes there is yet room to expand it with sustainable sales growth, favourable category mix, and cost management measures. It has also been running cost-saving initiatives such as Project Cermat and Project PI, which we believe will support margin expansion.

**Stella, Mitu and HIT are GCPL's key brands in Indonesia**


**Achieved Rs. 150 Cr+ revenues in just 1year of launch of Saniter brand in Indonesia**




(Source: Company, HDFC Sec)

**GUAM: continues to turn around performance**

GCPL's GUAM operations are central to its aspirations of becoming a global FMCG player where it sees a tremendous opportunity to innovate and grow sustainably both in hair care and household insecticides. Africa in particular is an exciting market, given its young, fast growing and urbanising population whilst there is much to yet start unearthing as infrastructure, industrialisation, and digital leapfrog.

GUAM business has undergone a tough phase from FY17-20 with sales CAGR of 3% YoY and EBITDA CAGR of -11%, largely due to weak macroeconomic conditions and liquidity challenges. However, it has shown a tremendous recovery over the past few quarters, a part of which can be attributed to the appointment of Mr. Dharnesh Gordhon as CEO of GAUM in April 2020. Prior to the appointment at GCPL, he was with Nestle for over 15 years.

The company launched centralized category management teams in replacement of geography-led one. It aims to execute locally, but category understanding is sought to be cross-pollinated across geographies as the consumer profile is similar. It has been hiring good local talent, which is important, as it understands the culture and how business is done in Africa. Management indicated that it is focused on strengthening the employer brand equity in Africa, which is critical in the long-term.

With most of African nations featuring in the list of countries with high risk of malaria and other vector-borne diseases, there is great opportunity for HI category in Africa. There is also big opportunity to increased usage of pest protection products beyond mosquitoes. For instance, in many parts of Africa, mosquitoes are a challenge while, in other parts, and specifically in the Middle East, cockroaches remain a big challenge. It has also launched a new category in the region, cross-pollinating household insecticide products in Africa, and has started test-piloting of aerosol formats in Nigeria with Good Knight Power Shots spray.

In the hair care segment, the growth plans include strengthening of the wet hair portfolio, development of dry hair category in West Africa, and scaling-up of the non-braids portfolio within dry hair. To cater to the fast growing wet hair market, local manufacturing is being done at present as compared to just US-based earlier, while the company is working on localising the product.

In the US, it recently launched its Darling range of hair extensions in exclusive partnership with Walmart. It is the only hair extension and hair care player to cater to the African community in the US. Hair extensions is a USD 1 bn market in the US, and this provides GCPL tremendous opportunity with significant consumer synergies as it can introduce its other offerings and build a steady base.

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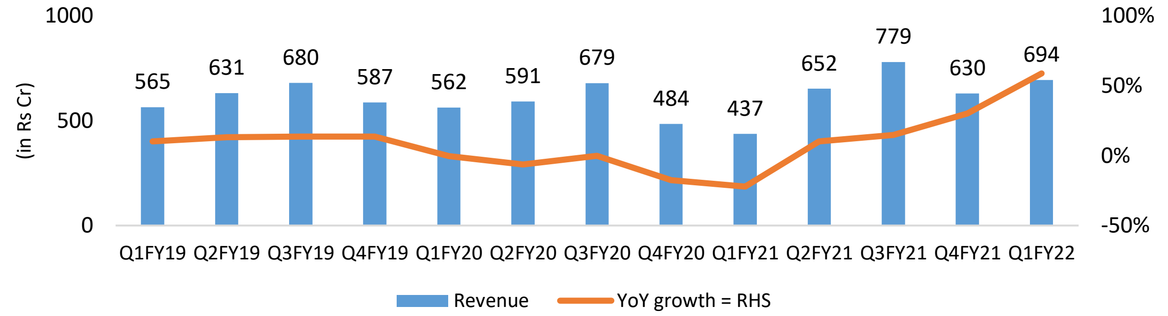
The management feels there is still a lot of work that needs to be done despite significant margin improvement (albeit on a depressed base) in recent quarters. It sees an 18-month turnaround journey even in its core markets. It will then move to the next stage (new markets) in Africa. Mr. Gordhon is targeting double-digit margin (17-18% over the next 4-5 years from <10% at present) through several levers: pricing, operating model, scale, and premiumisation.

**Forayed into HI with launch of Goodknight Power Shots in Africa (a big opportunity)**


**Forayed into hair fashion in USA with an exclusive Darling-Walmart launch**


**Africa business has seen robust growth over past few quarters under new leadership**




(Source: Company, HDFC Sec)

**Leveraging technology and analytics**

Using analytics, GCPL is driving efficiency across the value chain through (a) improving sales productivity by leveraging analytics and technology, (b) improving assortment, (c) reducing sales losses through auto replenishment, and (d) enhancing salesforce effectiveness (suggesting the right assortment to sell in a store).

**Ramping up e-commerce:** GCPL is the only company to not put e-commerce under sales business function as it considers it to be a different business altogether rather than a separate channel. The company has a separate team for e-commerce (including marketing, supply chain, key accounts management and finance), which can take independent calls on products and financials. The contribution from the e-commerce channel to overall revenue increased from 2% in FY20 to 4% in FY21, boosted by the pandemic and the plan is to further increase it up to 10% in the next two years.  While current margins in e-commerce are lower than in general trade, the management believes that over the next three years, margins would be at par with those of general trade. The e-commerce business in Indonesia grew 4X post COVID-19 whereas in the US, it almost contributes to 3% of sales. The company is scaling up investments in the highly underpenetrated Africa and LATAM markets to build a suitable infrastructure.

**Launching and scaling D2C:** In its bid to have an omni-channel presence, GCPL launched D2C channel in India in 2019. Cinthol and Godrej were amongst the first to be introduced on the D2C platform while, in FY21, it added D2C channels for BBLunt, goodness.me and Godrej Professional. The traction has been very encouraging, and the company has also experimented with the exclusive launch of some of the new variants on these platforms to a positive consumer response. In Nigeria, D2C platform is upwards of USD 250,000 in top line sales since launch in July 2020 with an impressive 20% repeat customer rate. The company plans to leverage its learnings from Nigeria to launch the platform in other African countries.

**Doubling up data driven marketing:** GCPL has 10 mn first-party data points from consumers and users with an aim to scale this to over 15mn by March 2022; the data is collected from multiple platforms through in-house database management system (The Black Box initiative). This has allowed it to pilot a few campaigns through the data management platform while also allowing it to measure its effectiveness, enhancing the overall consumer experience

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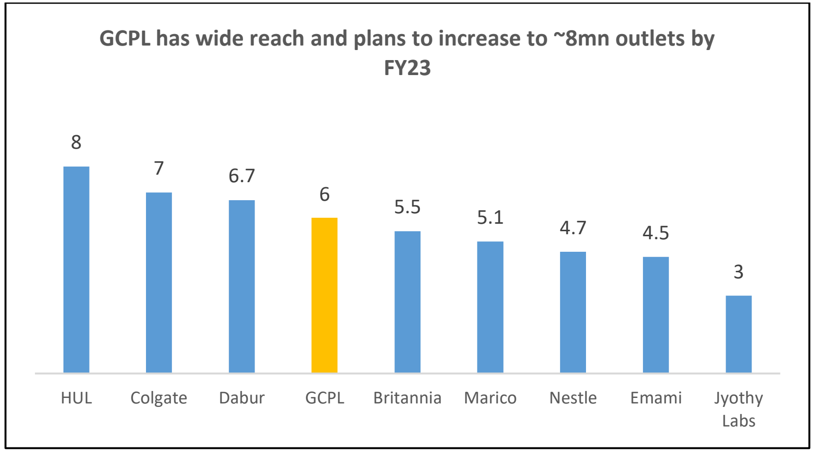
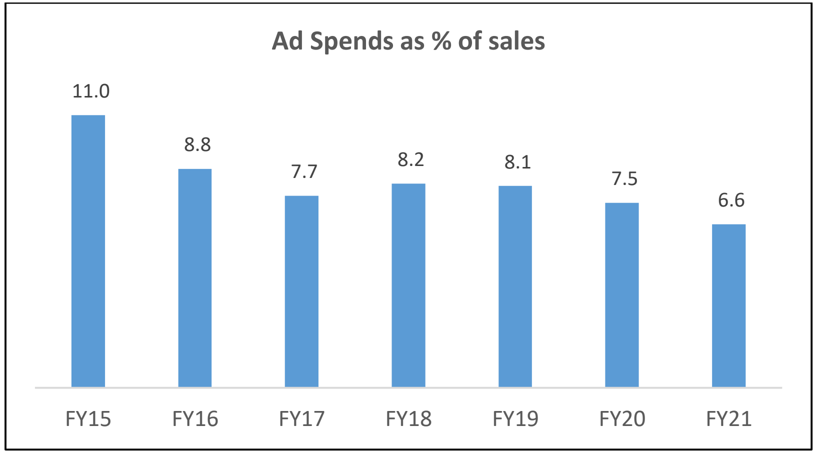
**Widening the distribution reach**

In India, GCPL has deepened penetration in traditional trade. The total reach of the company stands at ~6 mn outlets, of which direct is ~1.3 mn outlets with plans to expand the total reach to 7 mn outlets in two years. The rural sub stockist network in India grew by 30% in FY21 and management has guided on expansion of direct presence to 80,000 villages by FY23, focusing on sub-5,000 population villages in key states. The company aggressively ramped up its rural distribution, which stands at 8mn outlets across 66,000 villages. In Bangladesh, the company is expanding direct reach to 100,000 outlets and driving sales force automation through handheld devices for salespeople while, in Sri Lanka, the company is building its own distribution network, which is backed by a distributor management system and sales force automation. In Indonesia, it has higher concentration of modern trade (~70%) vs. general trade, and hence it was more seriously impacted than its peers during the lockdown. Given it is under-indexed in general trade with distribution network of ~160,000 outlets accounting for only ~30% of sales, it has been undergoing a go-to-market transformation, including increasing the number of salespeople on ground and productivity improvements.




(Source: Company, HDFC Sec)

Through improved collaborations with regional distributor partners, the company has increased focus on general trade and local modern trade channels in Africa. The company has shifted the coverage of key accounts in modern trade to third-party logistics partners. In Nigeria, where trade is largely unorganised and wholesale led, GCPL is scaling up reach through a more intensive redistribution network. The company is driving higher same-store throughputs with improvements in range and quality of execution. Generating demand through new product seeding models will help initial retail penetration. In Kenya, the company is scaling up distribution expansion through a combination of various models (sub-distributor, van sales, and wholesale-assist). GCPL has shifted focus significantly from primary sales to secondary sales, through strong partnerships with distributors and by monitoring the distributor ERP system. For frontline sales in dry hair care, where product knowledge is a key differentiator, it has a ready talent pool from blue collar factory workers. In South Africa, GCPL has piloted a ‘Perfect Stores’ program to increase sales by enhancing shopping experience and maximising shopper conversion opportunities. This was done across the top 40 stores that contribute 80% to the company’s turnover, and it was activated through impactful branded point-of-sale communication and trained beauty advisors. Such initiatives have helped in the past and will continue to do so and help expand the distribution network and gain market share.


*Mr. Magic (a powde-to-liquid-handwash) is GCPL's first global brand world's cheapest handwash*

**Innovation and cross-pollination initiatives to drive premiumisation**

Innovation has been a key strategy of growth for GCPL with new launches driving revenue growth over the past five years. It has continued to focus on innovation across categories and ramping up launches in HI and hygiene. With the outbreak of the pandemic, the company expanded its presence in the hygiene space at a fast pace with development of localised brands (Godrej protect in India, Saniter in Indonesia, Bidex in Chile, and Villeneuve in Argentina). In Q1FY21 itself, the company launched 45 new products in response to the surge in demand for hand sanitizers, handwashes, soaps and other hygiene products. It scaled the Protekt brand across all hygiene products while brands such an Aer and Ezee were also expanded to include sanitizing variants. The products were launched across geographies and in many markets, GCPL was a new entrant in the category, thereby giving the company a lot of bandwidth for future expansion. Riding on trends in health and wellness, the company has incubated premium portfolios in organic baby care and 100% natural household insecticides. The growing significance of e-commerce as a channel has resulted in new products specifically co-created and launched as ecommerce exclusive products. GCPL employs its RIDE (R&D + Innovation + Design + Expertise) approach to develop and bring these product innovations to market; RIDE is an integrated platform that combines key functions involved in new product development. A central innovation team leads the new product development in global categories across India, Indonesia, Africa and US, and GCPL’s global R&D center at Mumbai is supported by local centers in these geographies.

# Godrej Consumer Products Ltd.

**Some of the GCPL's product launches in recent years in India**

| Launch Year | Products | Categories |
|---|---|---|
| FY19 | Godrej  Protekt Mr. Magic | Hygiene |
| | Kala HIT Lime | Household Insecticides |
| | Goodknight Power Chip | Household Insecticides |
| | Godrej Nupur | Hair Care |
| | Godrej Aer Matic (automatic diffuser) | Air Care |
| | Goodknight Naturals Neem Agarbatti | Household Insecticides |
| | Cinthol Mens' (Grooming Products) | Hygiene |
| | Godrej Professional | Hair Care |
| FY20 | Cinthol Charcoal Soap | Hygiene |
| | Goodness.me (New Brand) | Baby Care |
| | Godrej Protekt Health Soap | Hygiene |
| | Chandan Abhyang Snaan | Hygiene |
| | Hit Mosquito Racquet | Household Insecticides |
| | Goodknight Gold Flash LV | Household Insecticides |
| | Godrej Expert Creme | Hair Care |
| | Godrej Ezee 2-in-1 | Air Care |
| | Godrej Proclean | Hygiene |
| | Aer Smart Matic | Hygiene |
| | Goodknight Naturals | Household Insecticides |
| | Godrej Anoop Ayurvedic (Hair Oil) | Hair Care |
| | Godrej Expert Easy 5 minute shampoo | Hair Care |
| FY21 | 45+ hygiene products across categories such as handwash, soaps, floor cleaners, sanitizers etc) through multiple brands (Protekt, Saniter, etc) | Hygiene |
| | Goodknight Smart Spray | Household Insecticides |
| YTD FY22 | Goodknight Jumbo Fast Card | Household Insecticides |
| | Aer Power Pocket | Air Care |
| | Godrej Protekt All-in-1 Dishwasher Tablets | Hygiene |
| | Godrej Ezee Detergent Pods | Hygiene |
| | Goodknight Anti Mosquito Bed Nets | Household Insecticides |

Likewise, GCPL has opted for the cross-pollination exercise to take products from one country to another. For instance, unique hair colour cream in sachet, which was a product based out of Argentina, was launched in India in 2012. Further, the company has launched air freshener products based in Indonesia under the brand Aer. Similarly, Goodknight coils and aerosols from India were launched in Nigeria before being rolled out in the rest of Africa, thereby creating a new category altogether. In Indonesia, it has been cross-pollinating new sub-categories of coils (entered in FY19), hair colour (entered in FY17), pocket air freshener (recently launched Aer Twist under Stella), non-mosquito insecticides (recently launched Hit Anti-Roach Spray) from other geographies. It has also launched innovative products like Proclin Stain Remover, Stella Fabric Spray, Hit Expert Piramida (claimed to emit one-fourth as much smoke as competing products), which can be further introduced in other geographies. Interestingly, all these products have received great response in the respective geographies. Going forward, we expect both these strategies to drive value growth for the company.

**From house of 'The CEO Factory': Ex-HUL stalwart Mr. Sudhir Sitapati is the new captain of GCPL**

GCPL has appointed Mr. Sudhir Sitapati as the new MD and CEO for a period of five years starting 18 October 2021. Prior to joining GCPL, he was the ED of the foods and refreshment business at Hindustan Unilever (HUL). In his 22 years at HUL, he has led teams across several categories and functions in India, Europe, Southeast Asia and Africa to create significant value for the business. Some of his notable achievements include: i) building HUL's foods and refreshments business as one of the largest in India, ii) one of the youngest to be appointed as ED at HUL in 2016, iii) achieving market leadership in tea and soaps business, iv) internationally acclaimed marketing campaigns such as 'Daag Achhe Hai' (Surf Excel), 'Swad Apnepan Ka' (Brooke Bond), 'Lifebuoy se haath dhoye kya?' (Lifebuoy), and v) playing a key role in merger and integration of GlaxoSmithKline Consumer Healthcare with HUL.

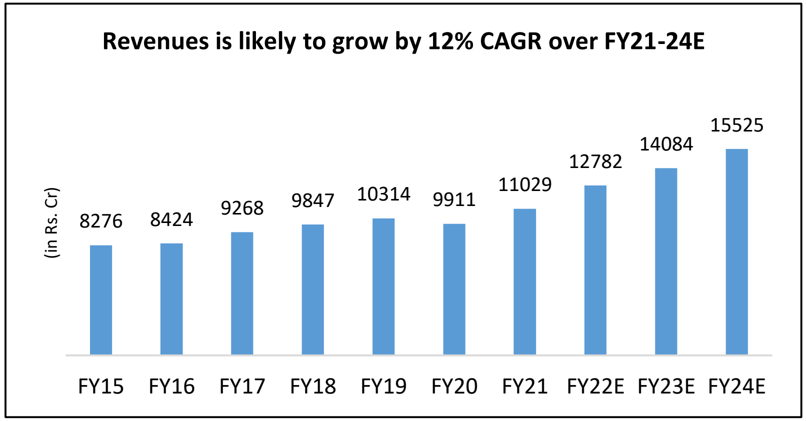
We believe Mr. Sitapati can introduce various required changes in the GCPL management, which are necessary to drive both domestic and international business. Since the past year, the company has renewed its focus on growth and market share. The addition of Mr. Sitapati to the team further empowers this growth focus and gives us more confidence on earnings longevity.

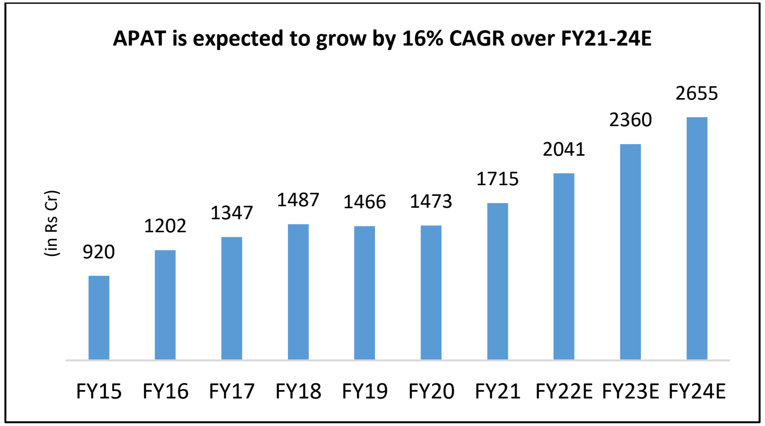
## Financial Triggers

**Expect revenue and APAT growth of ~12% CAGR and ~16% CAGR over FY21-24E**

As discussed above, GCPL's revenue growth over FY16-FY20 had been lackluster owing to poor domestic sales growth (~3% CAGR, FY16-20), predominantly impacted by HI (-1.2% CAGR, FY16-20), which remained under pressure due rampant increase in sales of illegal incense sticks and erratic rainfalls. Even personal wash (2.8% CAGR, FY16-20) and hair care (2% CAGR, FY16-20) remained under pressure, given low rural demand and poor macroeconomic scenario. In FY21, the domestic sales witnessed a whopping 14.2% growth given the tailwinds created by Covid-19 in hygiene and HI sectors. GAUM has remained affected due to weak economic scenario and challenging liquidity conditions (it is easier to sell in Africa, however, difficult to collect cash without having right governance structures) while intensive competition and uncertain economic environment resulted in low single-digit sales growth in Indonesia.

We expect a ~12% CAGR revenue growth over FY21-24E with domestic business expect to clock 11.3% CAGR growth with continued improved performance in hygiene and HI while increasing mobility should revive hair care business. Widening reach and strong pipeline of innovation augurs well for the company. Though Indonesia may remain mildly affected with prevailing macroeconomic instability, we are particularly bullish about growth in Africa which is already witnessing impressive a strong sequential recovery aided by new leadership and revamped marketing initiatives. We expect consolidate PAT to increase by ~16% CAGR over FY21-24E with improving operating margins driven particularly by GUAM where we expect superior margins on the account of better operating leverage and, cost rationalisation.



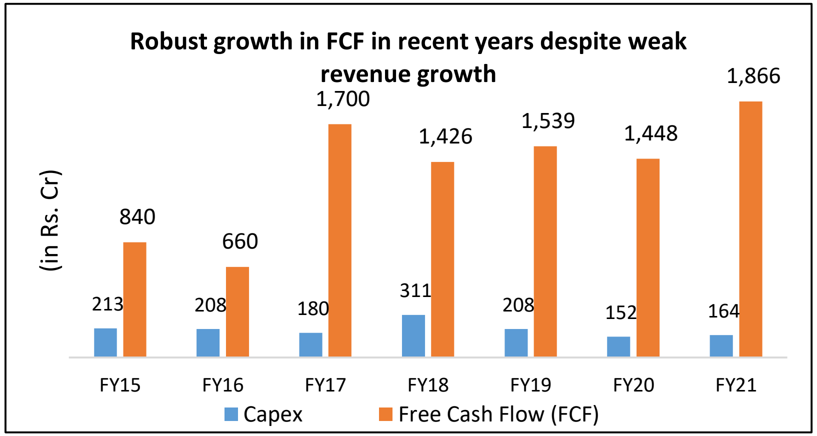



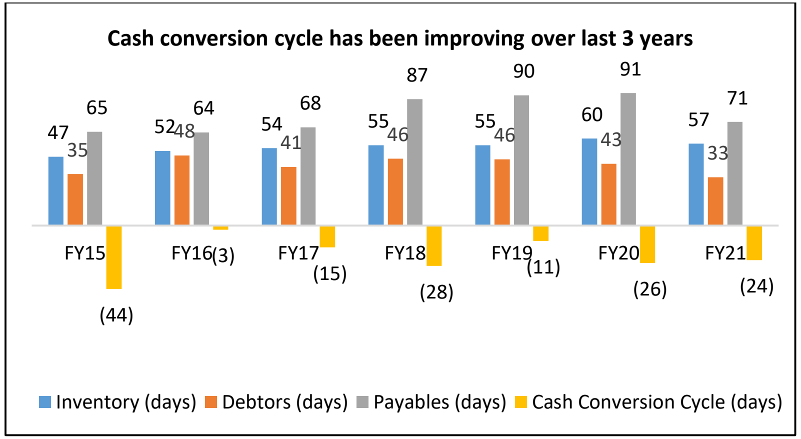

(Source: Company, HDFC Sec)

**Improved capital allocation to drive RoCE expansion**

GCPL's capital allocation track record has been under a scanner for a long time, given its international business comprises over 75% capital deployed but has been earning single-digit RoCE with Africa being the biggest drag. The company's India business is a cash-generating machine, given the leadership status enjoyed by the company in core categories, limited capex requirement, and negative working capital cycle; given these reasons, it earns a far superior RoCE (~71%, average FY17-21), which makes it, in the domestic space, one of the most highly profitable FMCG companies. However, the bulk of cash generated domestically has been invested overseas to dismissal returns, which has led to consolidated RoCE coming down to ~18%, though it is still healthy compared to most Indian businesses.

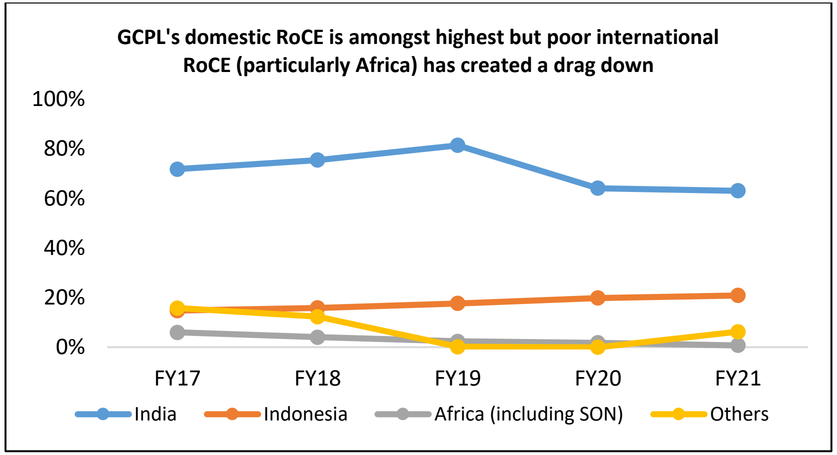
Building an international business is a huge challenge, given it has different demand patterns and buying behaviors from those in domestic markets, complex distribution models, etc. As a result, most companies find it difficult to generate substantial returns. However, we are bullish on Indonesia (the third largest consumer market in Asia) and particularly on Africa, which we believe can be 'the next India' in terms of consumption and, though it has taken time to build business, going ahead, GCPL can leverage its developing brand equity and distribution network to cross-pollinate product categories and launch region-specific products. In recent years, reduced aggression on acquisitions, divestiture of the UK business, improving cash conversion cycle, and limited capex have led to improved cash flows, falling debt levels, and improved RoCEs. Going forward, we expect a meaningful expansion in the RoCE over FY21-23E, along with healthy revenue growth and improving operating metrics.




(Source: Company, HDFC Sec)

# Godrej Consumer Products Ltd.

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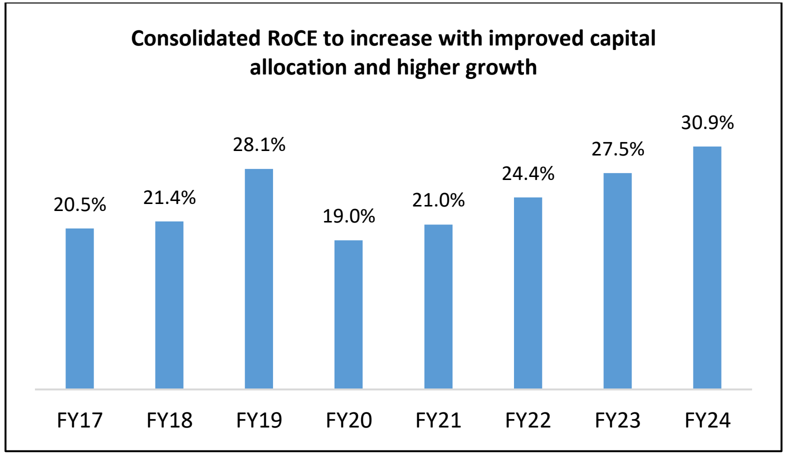



(Source: Company, HDFC Sec)

## Key risks

**Competition risk** can arise in the form of product pricing strategy, aggressive pricing by competitors, entry of new players, emergence of e-com/digital first brands and dependency on a few product categories to drive sales. The likely disruption in the grocery retail market and the growth of the hyper-local formats of Reliance Retail and the new e-commerce hypermarkets pose a risk to the industry dynamics in the medium term.

**The company faces currency risk** as it has over 40% of its revenue from foreign operations and has a presence in five continents. Currency fluctuations in its key international markets, including Africa and Indonesia, will affect its earnings performance.

**Economic risk** exists in the territories GCPL operates in. Extended lockdowns in geographies such as Indonesia and sub-Saharan Africa due to the COVID-19 spread also pose a risk. Also, if employment opportunities don't improve soon, demand for some of GCPL's products might be impacted negatively.

**Commodity risk** exists as volatility in commodity prices (like palm oil, crude oil derivatives etc.) can impact GCPL's revenue and margins.

**Business slowdown** risk exists. GCPL saw muted sales, EBITDA and PAT growth in FY18-20 due to a combination of factors (including consumer spending slowdown/downtrading in various geographies, volatility in raw material prices, geopolitical issues in some countries, nil growth/degrowth in insecticides business for some quarters, heightened competition in some categories, etc.) and, hence, its stock price underperformed. Any resurgence of such a slow-growth scenario could hurt its growth, going forward.

**Foreign markets** risk: The Africa business has been a big pain point for the past few years. GCPL has hired the ex-CEO of Nestle Nigeria as the new head of Africa business. The new regional CEO is well versed with the region for decades and the management expects him to lead a strong turnaround there. Recently, GCPL has seen a sequential improvement in performance.

## About the company

Godrej Consumer Products Ltd (GCPL) is a part of the 124-year-old Godrej Group. The group enjoys a patronage of 1.15 billion consumers globally. GCPL is present in emerging markets of Asia, Africa and Latin America and the company's product portfolio ranges from home care and personal care to hair care, household insecticides, hair colour, soaps, air fresheners, liquid detergents, hair extensions, personal wash, styling in mass and professional markets, skin care, sanitizers, sun care and female deodorants. GCPL is ranked among the largest household insecticide and hair care players in the emerging markets. In household insecticides, GCPL is the leader in India and Indonesia and is expanding its footprint in Africa. GCPL is also the leader in serving the hair care needs of women of African descent and is the number one player in hair colour products in India and sub-Saharan Africa, and among the leading players in Latin America. It ranks No. 2 in soap products in India, first in air freshener products in India and Indonesia, and is the leader in wet tissue products in Indonesia.

### Key global brands of GCPL


| Domestic Segment-wise Revenue Mix (in Rs. Cr) | | | | | | |
|---|---|---|---|---|---|---|
| **Particulars** | **FY16** | **FY17** | **FY18** | **FY19** | **FY20** | **FY21** |
| Household Insecticides | 2305 | 2373 | 2263 | 2254 | 2190 | 2534 |
| Personal wash | 1590 | 1562 | 1802 | 1892 | 1776 | 2047 |
| Hair Care | 578 | 602 | 622 | 673 | 627 | 642 |
| Others | 360 | 494 | 599 | 740 | 789 | 861 |
| Unbranded/Exports | 221 | 226 | 270 | 303 | 292 | 331 |
| **Domestic Segment-wise Revenue Growth (in %)** | | | | | | |
| Particulars | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 |
| Household Insecticides | 13.1 | 3.0 | (4.6) | (0.4) | (2.8) | 15.7 |
| Personal wash | 3.4 | (1.8) | 15.4 | 5.0 | (6.1) | 15.3 |
| Hair Care | 8.5 | 4.2 | 3.3 | 8.2 | (6.8) | 2.4 |
| Others | 16.2 | 37.2 | 21.3 | 23.5 | 6.6 | 9.1 |
| Unbranded/Exports | (3.6) | 2.3 | 19.5 | 12.2 | (3.6) | 13.4 |

(Source: Company, HDFC Sec)

# Godrej Consumer Products Ltd.

**Trend in GCPL's International Business**

| Geography-wise Revenue Mix (in Rs. Cr) | | | | | |
|---|---|---|---|---|---|
| Particulars | FY17 | FY18 | FY19 | FY20 | FY21 |
| India | 5089 | 5355 | 5680 | 5475 | 6254 |
| Indonesia | 1528 | 1355 | 1525 | 1660 | 1770 |
| Africa | 2032 | 2185 | 2456 | 2316 | 2499 |
| Others | 1076 | 1140 | 770 | 556 | 666 |
| Geography-wise EBIT Margin Trend (%) | | | | | |
| India | 22.3 | 24.8 | 26.6 | 26.6 | 26.1 |
| Indonesia | 20.4 | 23.9 | 25.8 | 27.1 | 27.2 |
| Africa | 15.1 | 12.2 | 7.8 | 7.3 | 4.3 |
| Others | 13.2 | 12.7 | 2.7 | 1.6 | 10.7 |

(Source: Company, HDFC Sec)

**Peer Comparison**

| Company | Mcap (Rs. Cr) | Sales | | | | EBITDA Margin | | | | APAT | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | FY20 | FY21 | FY22E | FY23E | FY20 | FY21 | FY22E | FY23E | FY20 | FY21 | FY22E | FY23E |
| Godrej Consumer | 102882 | 9911 | 11029 | 12782 | 14084 | 21.6% | 21.7% | 21.7% | 22.0% | 1473 | 1715 | 1971 | 2252 |
| HUL | 582498 | 39783 | 47028 | 51593 | 55871 | 24.8% | 24.7% | 25.6% | 26.2% | 6860 | 8187 | 9284 | 10445 |
| Dabur | 105452 | 8685 | 9562 | 10721 | 11895 | 17.6% | 17.7% | 18.0% | 18.2% | 1525 | 1693 | 1928 | 2159 |
| Jyothy Labs | 6093 | 1711 | 1909 | 2107 | 2395 | 14.7% | 16.5% | 16.4% | 16.9% | 166 | 214 | 246 | 301 |

| Company | ROCE (%) | | | | P/E (x) | | | |
|---|---|---|---|---|---|---|---|---|
| | FY20 | FY21 | FY22E | FY23E | FY20 | FY21 | FY22E | FY23E |
| Godrej Consumer | 19.0 | 21.5 | 23.8 | 26.9 | 61.9 | 53.0 | 46.2 | 40.5 |
| HUL | 72.2 | 27.5 | 18.5 | 20.0 | 78.2 | 71.3 | 62.8 | 56.5 |
| Dabur | 43.5 | 44.3 | 51.4 | 55.3 | 69.1 | 62.1 | 54.7 | 48.9 |
| Jyothy Labs | 14.6 | 18.5 | 19.9 | 23.2 | 37.1 | 28.8 | 25.1 | 20.5 |

(Source: Company, HDFC Sec)

# Godrej Consumer Products Ltd.

## Financials

### Income Statement

| (Rs Cr) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|
| **Net Revenues** | 9911 | 11029 | 12782 | 14084 | 15525 |
| Growth (%) | -3.9 | 11.3 | 15.9 | 10.2 | 10.2 |
| Operating Expenses | 7768 | 8640 | 10008 | 10987 | 12092 |
| **EBITDA** | 2143 | 2388 | 2774 | 3096 | 3433 |
| **Growth (%)** | **1.2** | **11.4** | **16.1** | **11.6** | **10.9** |
| **EBITDA Margin (%)** | **21.6** | **21.7** | **21.7** | **22.0** | **22.1** |
| Depreciation | 197 | 204 | 214 | 229 | 242 |
| **EBIT** | 1946 | 2184 | 2560 | 2868 | 3191 |
| Other Income | 112 | 67 | 94 | 138 | 181 |
| Interest expenses | 217 | 127 | 92 | 55 | 54 |
| PBT | 1760 | 2080 | 2549 | 2950 | 3318 |
| Tax | 264 | 360 | 510 | 590 | 664 |
| **APAT** | 1473 | 1715 | 2041 | 2360 | 2655 |
| Growth (%) | 0.5 | 16.5 | 19.0 | 15.7 | 12.5 |
| **EPS** | 14.4 | 16.8 | 20.0 | 23.1 | 26.0 |

### Balance Sheet

| As at March | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|
| **SOURCE OF FUNDS** | | | | | |
| Share Capital | 102 | 102 | 102 | 102 | 102 |
| Reserves | 7796 | 9337 | 10355 | 11488 | 12711 |
| **Shareholders' Funds** | 7898 | 9439 | 10457 | 11590 | 12813 |
| Long Term Debt | 2145 | 480 | 430 | 420 | 410 |
| Short Term Debt | 519 | 279 | 279 | 279 | 279 |
| Net Deferred Taxes | -570 | -638 | -638 | -638 | -638 |
| Non-Current Liabilities | 290 | 189 | 189 | 189 | 189 |
| **Total Source of Funds** | **10282** | **9750** | **10718** | **11841** | **13054** |
| **APPLICATION OF FUNDS** | | | | | |
| Net Block | 3893 | 3779 | 3915 | 3987 | 4045 |
| CWIP | 56 | 53 | 53 | 53 | 53 |
| Goodwill | 5339 | 5130 | 5130 | 5130 | 5130 |
| Other Non-Current Assets | 2134 | 1714 | 1714 | 1714 | 1714 |
| **Total Non-Current Assets** | **11423** | **10676** | **10812** | **10884** | **10942** |
| Inventories | 1703 | 1716 | 1981 | 2183 | 2407 |
| Trade Receivables | 1157 | 1005 | 1164 | 1283 | 1414 |
| Cash & Equivalents | 1407 | 1329 | 2283 | 3420 | 4670 |
| Other Current Assets | 541 | 422 | 489 | 538 | 593 |
| **Total Current Assets** | **4808** | **4472** | **5917** | **7424** | **9083** |
| Trade Payables | 2480 | 2160 | 2503 | 2758 | 3040 |
| Other Current Liab & Provisions | 1547 | 1697 | 1966 | 2167 | 2388 |
| **Total Current Liabilities** | **4028** | **3856** | **4469** | **4925** | **5428** |
| Net Current Assets | 780 | 616 | 1448 | 2500 | 3655 |
| **Total Application of Funds** | **10282** | **9750** | **10718** | **11841** | **13054** |

# Godrej Consumer Products Ltd.

### Cash Flow Statement

| (Rs Cr) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|
| Reported PBT | 1841.5 | 2080.4 | 2548.9 | 2950.0 | 3317.9 |
| Non-operating & EO items | -50.1 | 61.2 | -34.1 | -68.8 | -90.5 |
| Interest Expenses | 217.4 | 126.6 | 91.7 | 55.4 | 53.9 |
| Depreciation | 197.3 | 203.9 | 214.0 | 228.5 | 241.9 |
| Working Capital Change | -261.3 | -45.2 | 121.7 | 85.5 | 94.6 |
| Tax Paid | -344.1 | -397.2 | -509.8 | -590.0 | -663.6 |
| **OPERATING CASH FLOW ( a )** | 1600.7 | 2029.6 | 2432.4 | 2660.6 | 2954.2 |
| Capex | -152.0 | -163.9 | -350.0 | -300.0 | -300.0 |
| Free Cash Flow | 1448.7 | 1865.8 | 2082.4 | 2360.6 | 2654.2 |
| Investments | -438.2 | -211.0 | -3.2 | 18.8 | 40.5 |
| Non-operating income | 57.0 | 59.3 | 0.0 | 0.0 | 0.0 |
| **INVESTING CASH FLOW ( b )** | -533.3 | -315.5 | -353.2 | -281.2 | -259.5 |
| Debt Issuance / (Repaid) | -128.0 | -1619.4 | -50.0 | -10.0 | -10.0 |
| Interest Expenses | -151.9 | -158.9 | -91.7 | -55.4 | -53.9 |
| FCFE | 1168.8 | 87.5 | 1940.7 | 2295.2 | 2590.3 |
| Share Capital Issuance | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend | -985.9 | 0.0 | -1022.5 | -1227.0 | -1431.5 |
| Others | -29.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| **FINANCING CASH FLOW ( c )** | **-1295.3** | **-1778.2** | **-1164.2** | **-1292.4** | **-1495.4** |
| **NET CASH FLOW (a+b+c)** | **-227.9** | **-64.1** | **915.0** | **1087.0** | **1199.3** |

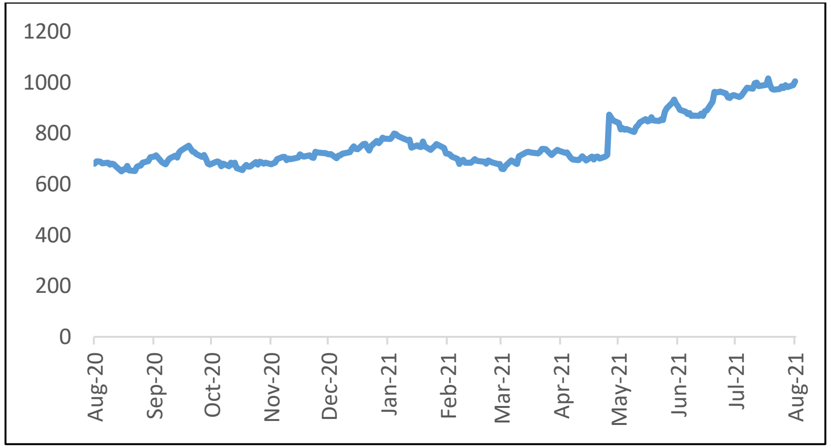
### Key Ratios

| (Rs Cr) | FY20 | FY21 | FY22E | FY23E | FY24E |
|---|---|---|---|---|---|
| EBITDA Margin | 21.6 | 21.7 | 21.7 | 22.0 | 22.1 |
| EBIT Margin | 20.8 | 20.4 | 20.8 | 21.3 | 21.7 |
| APAT Margin | 14.9 | 15.6 | 16.0 | 16.8 | 17.1 |
| RoE | 19.4 | 19.8 | 20.5 | 21.4 | 21.8 |
| RoCE | 19.0 | 21.0 | 24.4 | 27.5 | 30.9 |
| **Solvency Ratio** | | | | | |
| Net Debt/EBITDA (x) | 0.6 | (0.2) | (0.6) | (0.9) | (1.2) |
| Net D/E | 0.2 | (0.1) | (0.2) | (0.2) | (0.3) |
| **PER SHARE DATA** | | | | | |
| EPS | 14.4 | 16.8 | 20.0 | 23.1 | 26.0 |
| CEPS | 16.3 | 18.8 | 22.0 | 25.3 | 28.3 |
| BV | 77.3 | 92.3 | 102.3 | 113.4 | 125.3 |
| Dividend | 6.0 | - | 10.0 | 12.0 | 14.0 |
| Debtor days | 42.6 | 33.2 | 33.2 | 33.2 | 33.2 |
| Inventory days | 60.1 | 56.6 | 56.6 | 56.6 | 56.6 |
| Creditors days | 91.4 | 71.5 | 71.5 | 71.5 | 71.5 |
| Cash Conversion (days) | (25.7) | (23.8) | (23.8) | (23.9) | (23.9) |
| **VALUATION** | | | | | |
| P/E | 69.9 | 60.0 | 50.4 | 43.6 | 38.8 |
| P/BV | 13.0 | 10.9 | 9.8 | 8.9 | 8.0 |
| EV/EBITDA | 49.1 | 48.3 | 42.6 | 36.3 | 32.1 |
| EV / Revenues | 10.4 | 9.2 | 7.9 | 7.1 | 6.3 |
| Dividend Yield (%) | 0.6 | - | 1.0 | 1.2 | 1.4 |

(Source: Company, HDFC Sec)

# Godrej Consumer Products Ltd.

## One Year Price Chart




(Source: Company, HDFC sec)

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This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

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This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

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This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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