Godrej Consumer Products

08 August 2023

Transformation delivering good results overall; FY24 earnings to get impacted by some temporary headwinds

RESULT UPDATE

Sector: FMCG	Rating: HOLD
CMP: Rs 1,031	TP: Rs 1,116

Stock Info

Sensex/Nifty	65,953/ 19,597
Bloomberg	GCPL IN
Equity shares (mn)	1023
52-wk High/Low	Rs 1,102/ 794
Face value	Rs 1
M-Cap	Rs 1,054bn/US$ 13bn
3-m Avg volume	US$ 13mn

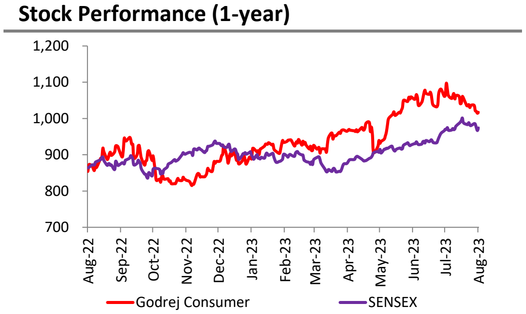
Financial Snapshot (Rs mn)

Y/E Mar	FY23	FY24E	FY25E
Sales	133,160	149,121	166,134
PAT	17,566	21,267	25,373
EPS (Rs)	17.2	20.8	24.8
PE (x)	60.0	49.6	41.6
EV/EBITDA (x)	43.4	35.1	29.6
P/BV (x)	7.6	6.6	5.7
EV/Sales	7.9	7.1	6.3
RoE (%)	13.9	14.3	14.8
RoCE (%)	16.9	18.6	19.0
NWC (days)	26	21	21
Net gearing (x)	0.1	0.1	0.0

Shareholding pattern (%)

	Jun 23	Mar 23	Dec 22
Promoter	63.2	63.2	63.2
–Pledged	-	-	-
FII	23.5	23.7	24.0
DII	7.4	7.1	6.7
Others	5.9	6.0	6.0

Stock Performance (1-year)



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Godrej Consumer Products' (GCPL) 1QFY24 had an operationally strong quarter with 10% organic volume growth in India, double-digit volume growth in HI category for second consecutive quarter and accelerated growth in both Indonesia and Africa. Sharp margin expansion in India was partly offset by losses on account of Nigeria currency devaluation and Raymond Consumer business restructuring.

Key result takeaways: 1) YoY, India revenue grew 9%, with 12% overall and 10% organic volume growth, 2) home care business grew 14% (double digit volumes), given a strong performance in HI from good season (weak summer), strong growth in premium formats of electrics & aerosols and double digit growth in air fresheners, 3) personal care grew 2% (high single digit volumes), with mid-single digit growth in hair color, high single digit volume growth in personal wash & hygiene, 4) Indonesia business grew 15% in constant currency (CC) terms, (5) Africa business grew 16% in CC terms, 5) Gross margin grew 715 bps YoY to 53.7% due to softening raw material inflation 6) Consolidated EBITDA margin expanded 197 bps YoY led by 230 bps increase in India business, 410 bps increase in Indonesia and 370 bps rise in GAUM. 7) Capex of Rs 9 bn to be incurred over a period of 3 years in in India to increase capacity by ~20%.

The company's aggressive category development initiatives seem to be working well in air and hair segments and have started showing better growth in the HI space as well. Business simplification initiatives have also started delivering strong cost savings and cash generation. We see the strong momentum especially in India to drive a high single digit volume growth in FY24 while EBITDA should grow ~20% plus led by better gross margins partially offset by higher media spends. We build in flattish revenue and EBITDA in FY24 for the acquired business of Raymond Consumer which should stabilize from 2H. We now build in a 12%/20% revenue/EPS CAGR over FY23-25E and maintain our HOLD rating with target price of Rs 1,116 (vs earlier TP Rs 1,015) based on 45x FY25E earnings. While the Raymond business and Nigeria currency issues will be an overhang for FY24, we view the better shape of P&L (higher margins despite higher A&P and lower GMs), strong cash generation and improving growth trajectories across geographies and businesses (led by aggressive category development) as key long-term positives.

Strong growth in India business: Consolidated revenue grew 10.4% YoY in 1Q, with consolidated gross margin up 715bps YoY to 53.7% due to softening in RM inflation. On sequential basis gross margin improved by 84bps. EBITDA margin grew 197bps YoY at 18.6%, with 285bps increase in A&P spends. India business revenue grew 8.4% YoY led by volume growth of 12% YoY. Home care division grew 14% YoY led by double digit volume and value growth in HI and growth in premium formats of electrics and aerosols. Air fresheners grew in double digits. Personal care segment grew 2% aided by mid-single growth in hair color on a high base, growth was led by steady performance across formats. Personal wash delivered high-single digit volume growth and value growth in low-single digit as the benefit of lower input cost was passed on to consumers. Magic Handwash delivered strong double digit volume growth. Company is scaling up its distribution of access packs of EBITDA margin in the domestic business grew 230bps YoY to 25.2%. Management focus will be on improving volume for FY24 and pricing led growth along with healthy volume in

Investors are advised to refer disclosures made at the end of the research report.

FY25. HI category will deliver double digit volume growth from low base led by mosquitos, non-mosquitos and Air care category. Management will focus on scaling distribution, up gradation and premiumisation of across all product categories to support growth.

Park Avenue and KS brands: Primary sales were Rs 480 mn while secondary sales were 2x of primary. NSV and profits were lower on account of down stocking at distributor end for withdrawal of slow-moving inventory which was planned to get distributor capital to move faster. Company also invested in ATL to drive business growth due to which company reported loss in this business and reported sales growth which was significantly lower than GSV growth. Going ahead company expects high single digit EBITDA margins and positive PAT on full year basis.

Indonesia business grew 15% in CC terms: Indonesia business witnessed strong growth of 15% CC aided by structural initiatives taken during FY23. EBITDA margin grew 410 bps YoY to 19.1% led by reduction in trade promotions and scale leverage. Indonesia continued to report positive growth and is expected to sustain a decent trajectory with margins gradually recovering back above 20% in FY24 with the problem of hygiene products in the base and high inventory in MT being sorted. General trade expansion and category development initiatives, in addition to inventory and macro environment normalization should help restore this growth.

Africa, USA and Middle East grew 16% in CC terms: Sales growth of 16% CC was led by double digit growth in FMCG categories. Performance in INR terms was impacted by devaluation of NAIRA. EBITDA margin expanded 370 bps YoY to 11.4% led by gross margin expansion. With the company indulging in aggressive category development initiatives and restructuring its distribution, the business is likely to continue its double-digit growth, with margins expected to significantly improve towards low to mid-teens in the next couple of years.

Devaluation of Nigerian currency: This devaluation is expected to continue for next few quarters. During May'23 official market rate was 450 NAIRA to a dollar while the parallel market rate was 750 NAIRA to a dollar. Company was buying dollars at weighted average cost of NAIRA 650 to a dollar; the delta between official rate and parallel market rate reflected in a forex loss. This accounting translation was happening at an official rate of NAIRA 450 to the dollar; while the free float NAIRA is currently at c. 750 NAIRA per dollar and is expected to depreciate further. Company will pass on price increase to end consumers for NAIRA 650 to 750 to a dollar such that profits stay intact. Forex loss is expected to move to material costs from Q2 onwards. Accounting translation impact from NAIRA 450 to NAIRA 750 will be partly offset by the 650 to 750 NAIRA increase while the balance will affect INR sales growth by c. 200 bps at consolidated level; however there will be no impact on volumes or CC growth.

Capex announcement of Rs 9 bn: Company will incur a capex of Rs 9 bn to set up new manufacturing sites in Tamil Nadu and Madhya Pradesh. This additional investment will add 20% to current capacity and is expected to be operational in coming 3 years. The projects will be funded through internal accruals and debt if required. Benefits of this capex - 1) will drive volume growth, 2) money will move from working capital to automation which will increase productivity, 3) will improve logistics being closer to major markets.

Exhibit 1: Quarterly performance

YE March (Rs mn)	Q1FY24	Q1FY23	Q4FY23	y-y (%)	q-q (%)
Net sales	34,179	30,943	31,722		
Excise duty	0	0	0		
Other operating income	311	307	280		
Net Revenues	**34,489**	**31,250**	**32,002**	**10.4**	**7.8**
Cost of materials	14,691	15,955	14,572	(7.9)	0.8
(% of sales)	43.0	51.6	45.9		
Purchase of stock in trade	1,264	737	502	71.6	151.9
(% of sales)	3.7	2.4	1.6		
Gross margin	**18,534**	**14,558**	**16,928**	**27.3**	**9.5**
Gross margin (%)	**53.7**	**46.6**	**52.9**	**7.2**	**0.8**
Employee cost	3,140	2,597	3,008	20.9	4.4
(% of sales)	9.1	8.3	9.4		
Others	8,966	6,753	7,512	32.8	19.4
(% of sales)	26.0	21.6	23.5		
EBITDA	**6,428**	**5,208**	**6,409**	**23.4**	**0.3**
EBITDA margin (%)	**18.64**	**16.67**	**20.03**		
Other income	691	275	579	151.1	19.3
PBIDT	**7,120**	**5,483**	**6,988**	**29.8**	**1.9**
Depreciation	763	571	686	33.7	11.2
Interest	740	351	525	111.1	40.9
PBT	**5,617**	**4,562**	**5,777**	**23.1**	**(2.8)**
Tax	1,226	833	1,083	47.2	13.2
ETR (%)	21.8	18.3	18.7		
Deferred tax	384	259	(49)	48.2	(882.9)
P/L of associate and JV	-	-	-		
Adjusted PAT	**4,006**	**3,470**	**4,743**	**15.5**	**(15.5)**
PATAMI margin	11.6	11.1	14.8		
Exceptional item	(818)	(18)	(222)		
Reported PAT	**3,188**	**3,451**	**4,521**	**(7.6)**	**(29.5)**
No. of shares (mn)	1,022.7	1,022.6	1,022.6		
Adj EPS (Rs)	**3.9**	**3.4**	**4.6**		

Source: Company, Systematix Institutional Research

Exhibit 2: Change in estimates (Rs mn)

	Old estimates		Revised estimates		Variation (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net sales	1,51,192	1,67,445	1,49,121	1,66,134	-1.4%	-0.8%
EBITDA	29,936	34,996	30,197	35,220	0.9%	0.6%
EBITDA margin	20%	21%	20%	21%		
Adj. PAT	21067	25287	21,267	25,373	1.0%	0.3%

Source: Company, Systematix Institutional Research

Conference call takeaways

USG - Impacted due to price deflation in soaps and currency translation impact in Nigeria; however despite tough environment performance was healthy due to better soap volumes, good HI season in the North and company's market development investments.

Complexity and factors to consider for evaluation of performance - Complexity in FY24 performance lies in - 1) Optical devaluation in Nigeria business; 2) Inorganic impact of RCCL acquisition; 3) MAT credit which is to be availed in FY24 and FY25; Metrics for evaluating performance - 1) Organic UVG, 2) Organic CC growth, 3) EBITDA including forex and 4) operating cash flow.

SKU rationalization - Category/ market development requires less number of SKUs; core SKUs get better availability in store shelves as tail SKUs do not block retailer's capital which leads to market share gains; launch of access packs leads to down gradation in first 12 months, post that period up-gradation chips in for a longer period.

HI - HI growth was led by weaker summer and market development; heavy advertising led to sales growth in non-mosquito format.

Acquisition of RCCL's FMCG business - NSV and profits were lower on account of down stocking at distributor end for withdrawal of slow moving inventory which was planned to get distributor capital move faster; company has also started investing in ATL to drive business growth due to which company reported loss in this business and reported sales growth which was significantly lower than GSV growth; going ahead company expects high single digit EBITDA margins and positive EPS on full year basis.

Emergence of regional players - Soaps category is consolidated now vs earlier; company passes on RM deflation benefits to consumers; focus lies in volume growth vs only sales growth.

International business - 1) LATAM - volume growth stood at 12%; 2) Nigeria - Devaluation of currency impacting sales growth; simplification of partnership with national distributor in Nigeria progressing well; benefits to be witnessed during FY24; 3) Indonesia - Stocks in MT are down to 58 days from peak of 95 days.

Devaluation of Nigerian currency - Expected to continue for next few quarters; during May'23 official market rate was 450 NAIRA to a dollar while the parallel market rate was 750 NAIRA to a dollar, company was buying dollars at weighted average cost of NAIRA 650 to a dollar; the delta between official rate and parallel market rate reflected in a forex loss; this accounting translation was happening at an official rate of NAIRA 450 to the dollar; with the free float NAIRA is currently c. 750 NAIRA per dollar and is expected to depreciate further; company will pass on price increase to end consumers for NAIRA 650 to 750 to a dollar such that profits stay intact; forex loss will move to material costs from Q2 onwards; accounting translation impact from NAIRA 450 to NAIRA 750 will be partly offset by the 650 to 750 NAIRA increase, balance will affect INR sales growth by c. 200 bps at consolidated level; however there will be no impact on volumes or CC growth.

In house and outsourcing - Criteria for evaluating insourcing and outsourcing - 1) Scale within the industry (most of the categories where GCPL operates in has high scale), when business has large scale better to do inhouse production while if it’s a small scale business outsourcing is preferred, 2) Differentiated products with high margins, 3) India has high capability which should be utilized, 4) Labor intensive process should be outsourced, automated process should be insourced (coil business is outsourced); company believes majority of the manufacturing will remain insourced.

MT and Ecommerce - Company tracks availability of products on MT and visibility of products in ecommerce; company is particular on maintaining price parity across channels; Ecommerce is currently growing faster than MT and GT.

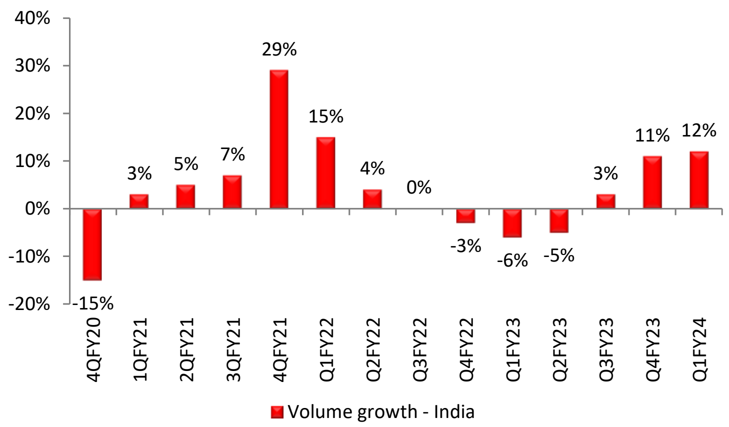
A&P spends - ATL spends grew 100 bps, BTL spends declined 450 bps; company plans to increase A&P spends in Indonesia (currently 4-5% of sales), Africa, GAUM and RCCL's acquired business; A&P spends are in line with expectations.

Capex benefits - 1) will drive volume growth, 2) money will move from working capital to automation which will increase productivity, 3) will improve logistics being closer to major markets.

EBITDA - Volume growth will drive EBITDA; company believes gross margin is an important metrics as it signifies value to consumers.

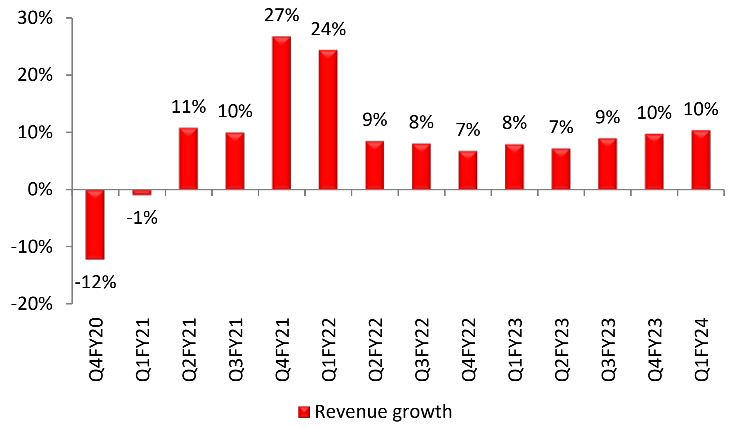
Debt - Company has already become a net cash company after taking on some debt to fund the Raymond Consumer acquisition a quarter ahead of schedule.

Exhibit 3: India volumes grew 12% YoY



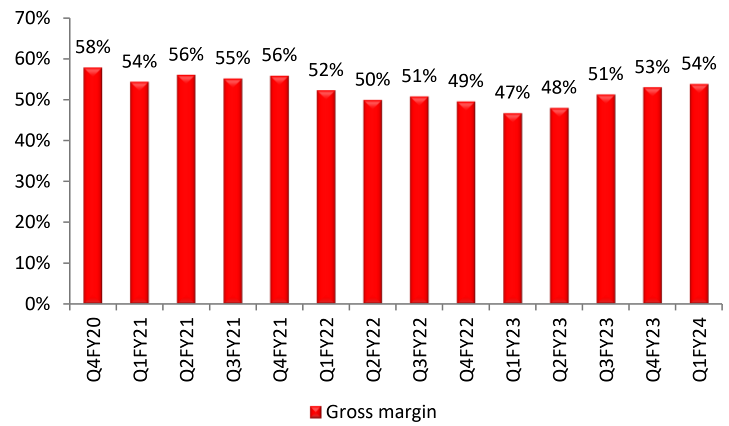
Source: Company, Systematix Institutional Research

Exhibit 4: Consolidated revenue grew 10% YoY



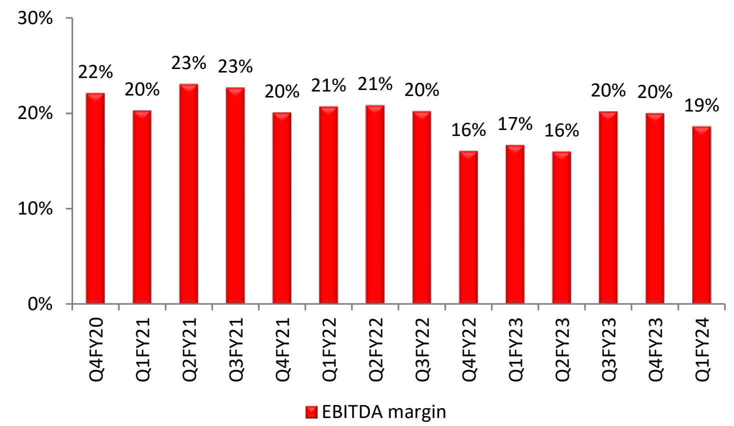
Source: Company, Systematix Institutional Research

Exhibit 5: Gross margin expanded 715bps YoY



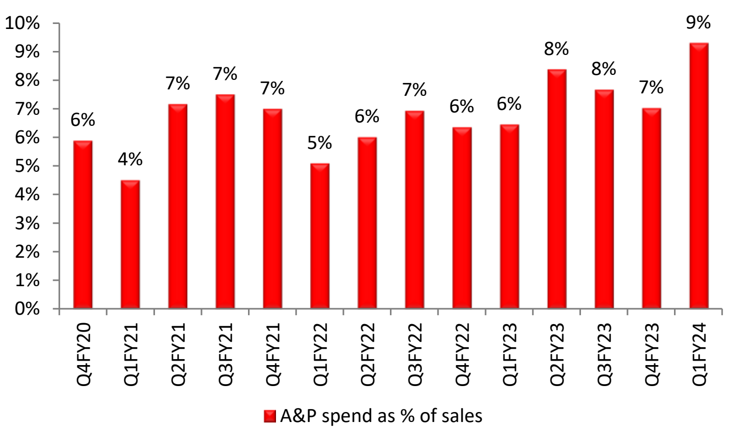
Source: Company, Systematix Institutional Research

Exhibit 6: EBITDA margin expanded 197bps YoY



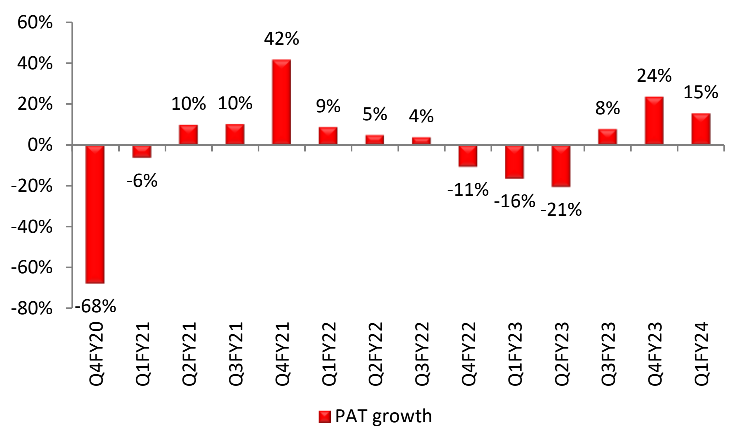
Source: Company, Systematix Institutional Research

Exhibit 7: A&P spends increased 285bps to a new high of 9%



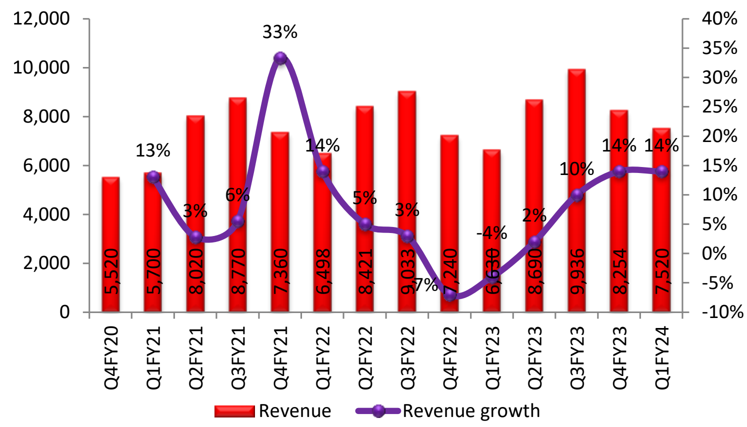
Source: Company, Systematix Institutional Research

Exhibit 8: PAT grew 15% YoY



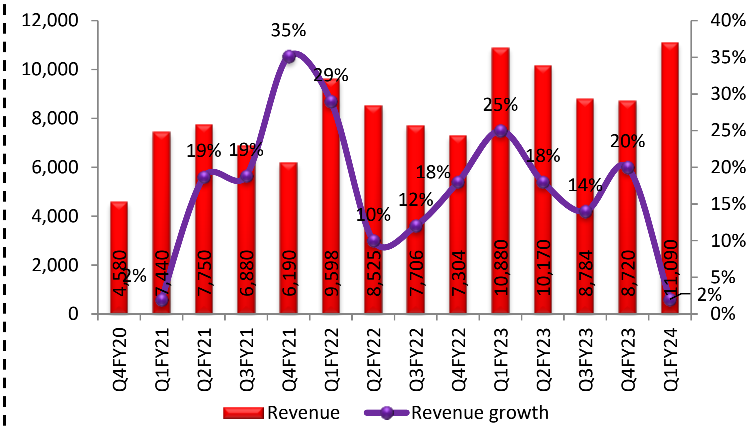
Source: Company, Systematix Institutional Research

Exhibit 9: Home care revenue grew 14% YoY



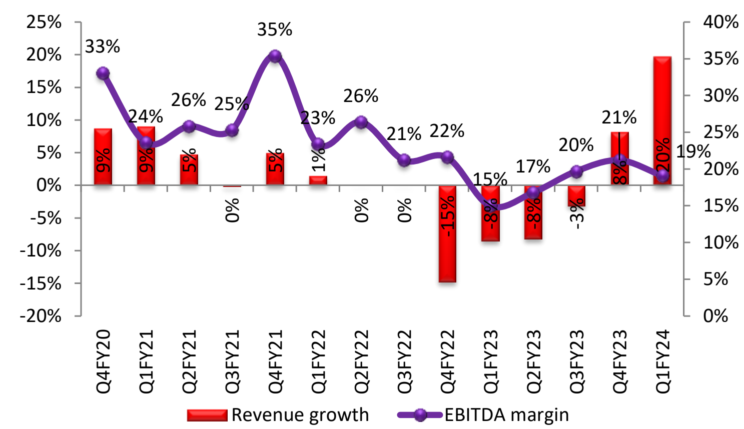
Source: Company, Systematix Institutional Research

Exhibit 10: Personal care revenue grew 2% YoY



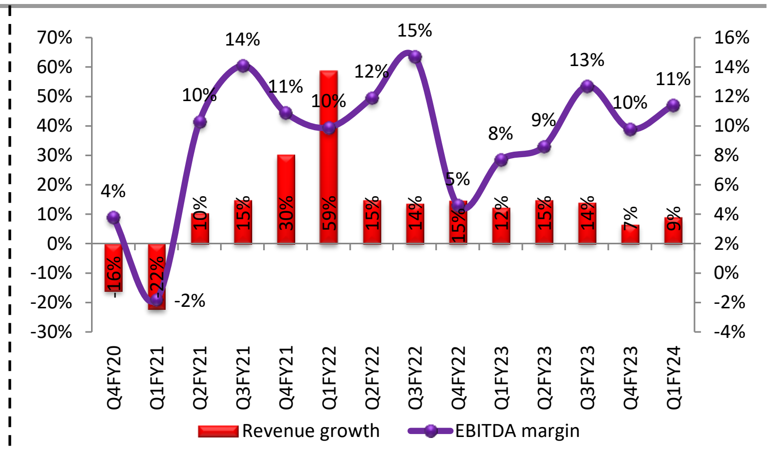
Source: Company, Systematix Institutional Research

Exhibit 11: Indonesia grew 20% YoY



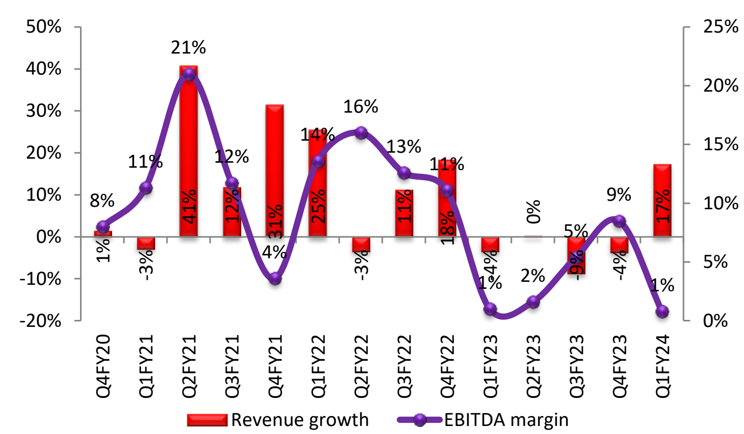
Source: Bloomberg, Company, Systematix Institutional Research

Exhibit 12: GAUM revenue grew 9% YoY



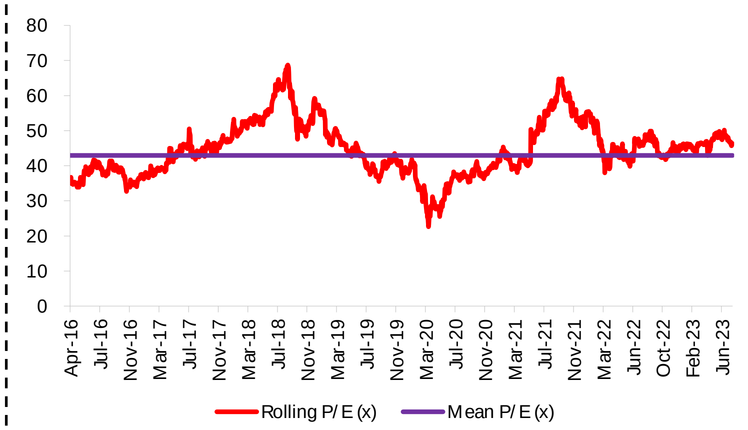
Source: Bloomberg, Company, Systematix Institutional Research

Exhibit 13: Latin America & SAARC grew 17%YoY



Source: Bloomberg, Company, Systematix Institutional Research

Exhibit 14: Currently trades at 46.4x one-year forward earnings



Source: Bloomberg, Company, Systematix Institutional Research

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	**1,10,286**	**1,22,765**	**1,33,160**	**1,49,121**	**1,66,134**
Gross profit	60,992	62,014	66,132	76,052	87,221
GP margin (%)	55.3%	50.5%	49.7%	51.0%	52.5%
Operating profit	**26,404**	**23,951**	**24,305**	**30,197**	**35,220**
OP margin (%)	23.9%	19.5%	18.3%	20.3%	21.2%
Depreciation	2,039	2,099	2,363	2,635	2,885
EBIT	24,366	21,852	21,942	27,562	32,335
Interest expense	1,266	1,102	1,757	2,148	1,418
Other income	671	897	1,684	1,853	2,038
Profit before tax	23,770	21,647	21,868	27,266	32,955
Taxes	4,081	3,719	4,303	5,999	7,582
Tax rate (%)	17.2%	17.2%	19.7%	22.0%	23.0%
Adj. PAT	**19,688**	**17,931**	**17,566**	**21,267**	**25,373**
Exceptional loss	445	98	541	-	-
Net profit	19,730	18,088	16,684	21,267	25,373
EPS	**19.3**	**17.5**	**17.2**	**20.8**	**24.8**

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	1,022	1,023	1,023	1,023	1,023
Reserves	93,367	1,14,537	1,36,920	1,58,187	1,83,572
Debt	7,595	16,077	10,340	9,340	8,340
Deffered tax Liab	390	519	615	615	615
Other non current liabilities	1,891	1,737	1,626	1,789	1,967
Total liabilities	**1,04,265**	**1,33,893**	**1,50,523**	**1,70,953**	**1,95,517**
Fixed Asset	38,324	39,590	35,317	37,682	39,796
Investments	6,791	10,154	30,290	31,804	33,395
Other Non-current Assets	59,561	63,167	66,966	92,500	92,500
Inventories	**17,163**	**21,299**	**15,372**	**15,525**	**17,296**
Sundry debtors	10,045	11,163	12,453	13,482	15,020
Cash & equivalents	**6,722**	**11,078**	**10,158**	**2,468**	**21,277**
Loans and Advances	4,223	4,890	4,432	4,875	5,362
Sundry creditors	21,596	21,631	18,232	20,428	22,758
Other current liabilities	16,966	5,817	6,233	6,955	6,371
Total Assets	**1,04,265**	**1,33,893**	**1,50,523**	**1,70,953**	**1,95,517**

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBIT	25,036	22,749	23,626	29,414	34,373
Depreciation	2,039	2,099	2,363	2,635	2,885
Tax paid	(4,081)	(3,719)	(4,303)	(5,999)	(7,582)
Working capital Δ	864	(17,036)	2,113	1,292	(2,050)
Other operating items	-	-	-	-	-
Operating cashflow	**23,857**	**4,093**	**23,799**	**27,343**	**27,626**
Capital expenditure	(1,390)	(3,365)	1,909	(5,000)	(5,000)
Free cash flow	**22,467**	**728**	**25,708**	**22,343**	**22,626**
Equity raised	(4,325)	3,082	5,699	0	12
Investments	(71)	(3,363)	(20,136)	(1,514)	(1,590)
Debt financing/disposal	(19,042)	8,481	(5,737)	(1,000)	(1,000)
Interest Paid	(1,266)	(1,102)	(1,757)	(2,148)	(1,418)
Dividends paid	-	-	-	-	-
Other items	771	(3,725)	(4,356)	(25,371)	179
Net Δ in cash	**(1,466)**	**4,101**	**(579)**	**(7,690)**	**18,809**

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Revenue growth (%)	11.3	11.3	8.5	12.0	11.4
Op profit growth (%)	23.2	-9.3	1.5	24.2	16.6
Net profit growth (%)	34.6	-8.9	-2.0	21.1	19.3
OPM (%)	23.9	19.5	18.3	20.3	21.2
Net profit margin (%)	17.9	14.6	13.2	14.3	15.3
RoCE (%)	24.1	19.5	16.9	18.6	19.0
RoNW (%)	22.7	17.1	13.9	14.3	14.8
EPS (Rs)	19.3	17.5	17.2	20.8	24.8
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
BVPS (Rs)	92.3	113.0	134.9	155.7	180.5
Debtor days	33	33	34	33	33
Inventory days	57	63	42	38	38
Creditor days	71	64	50	50	50
P/E (x)	53.5	58.8	60.0	49.6	41.6
P/B (x)	11.2	9.1	7.6	6.6	5.7
EV/EBITDA (x)	40.0	44.2	43.4	35.1	29.6

Source: Company, Systematix Institutional Research

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