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Q4FY21 result review and ratings change

Consumer Staples & Discretionary

Target price Rs850

Earnings revision

(%)	FY22E	FY23E
Sales	↑ 0.2	↑ 0.2
EBITDA	↑ 0.6	↑ 0.3
PAT	↑ 2.2	↑ 1.6

Target price revision

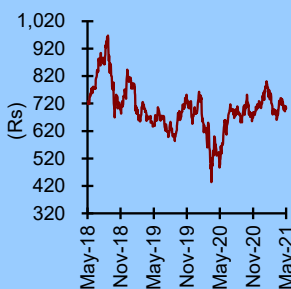
Rs850 from Rs800

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	63.2	63.2	63.2
Institutional investors	29.9	29.9	29.7
MFs and other	1.7	2.3	2.3
Banks, FI's, Insurance co	1.4	0.8	0.8
FII's	26.8	26.8	26.6
Others	6.9	6.9	7.1

Source: BSE

Price chart



Godrej Consumer Products

BUY

Upgrade from ADD

Jigsaw falling in place; retain top pick status

Rs716

Q4FY21 performance was impressive with 24% domestic revenue growth in Jan-Feb'21, continued profitable recovery in Africa while Indonesia stabilised. India growth was driven by soaps (gaining market shares in an inflationary environment) and HI (broad based across formats) while Hair Colour continued recovery (with category uptick). Africa sales grew 36% (CC terms) and margins expanded (to 11%; +710bps) driven by scale and cost saving initiatives. Indonesia grew just 4% (CC terms) due to weak macros and price competition in wipes category. We believe strong growth momentum is likely to continue driven by (1) acceleration in India HI (through innovations in burning formats to recruit consumer and upgrade to premium formats) and (2) improvement in Indonesia (increasing presence in GT), (3) profitable turnaround in Africa under the new leadership. Further, appointment of Sudhir Sitapati (ex-HUL) as MD & CEO (effective 18th Oct'21) is a likely a re-rating event (See report [Leadership matters](#)). Our stock rating moves up a notch to BUY (from ADD); revised TP of Rs850.

- Double-digit revenue growth continued:** Consolidated revenue / EBITDA / PAT grew 27%/ 15% / 42%. India business sales grew 35% (24% in Jan-Feb'21) with 29% domestic volume growth (2-year CAGR of 5%). Soaps grew 41% driven by continued market share gains due to micro marketing initiatives and new launches. Household Insecticides grew just 34% (28% globally) driven by broad based performance in burning as well as premium formats. Hair Colours grew by 25% driven by an uptick in overall category growth. HI, Hygiene and VFM portfolio (81% of consolidated business) grew in double-digits. Hygiene category (including soaps) continued its strong momentum with 38% growth, VFM grew 27% and others grew by 17%. Domestic EBITDA margins decline by 470bps to 22.5% due to input cost pressure (+320bps), higher employee cost (+400bps) due to reversal of one-time variable pay and higher ad-spends (+70bps).
- International – Strong performance in Africa and LatAm recovered while Indonesia maintained its momentum:** International business sales grew 18% with 22% EBITDA growth; EBITDA margin expanded 50bps YoY to 17.2%. Indonesia business grew 4% in CC terms impacted by adverse macroeconomic factors and higher competitive intensity in wet wipes. Indonesia EBITDA margin expanded 230bps to 35.4% driven by cost saving initiatives. On the other hand, robust recovery continued in GAUM (Africa, USA, and Middle East) with revenue growth of 36% (CC terms), EBITDA margin expansion of 710bps YoY to 10.9% driven by scale leverage and cost saving initiatives. LatAm and SAARC business grew 54% (CC terms) while EBITDA margin declined by 430bps due to upfront marketing investments.

Market Cap	Rs732bn/US\$10bn	Year to March	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	GOCP.BO/GCPL IN	Net Revenue (Rs mn)	99,108	1,10,286	1,19,793	1,32,585
Shares Outstanding (mn)	1,022.5	Net Profit (Rs mn)	15,776	17,653	19,219	22,365
52-week Range (Rs)	801/517	Dil. EPS (Rs)	15.4	17.3	18.8	21.9
Free Float (%)	36.8	% Chg YoY	11.5	11.9	8.9	16.4
FII (%)	26.6	P/E (x)	46.4	41.5	38.1	32.7
Daily Volume (US\$'000)	15,492	CEPS (Rs)	17.4	19.3	21.0	24.2
Absolute Return 3m (%)	(5.6)	EV/EBITDA (x)	35.4	31.8	28.8	25.3
Absolute Return 12m (%)	38.6	Dividend Yield (%)	1.1	-	1.5	1.7
Sensex Return 3m (%)	(4.5)	RoCE (%)	16.4	18.1	18.5	19.6
Sensex Return 12m (%)	57.5	RoE (%)	20.8	20.4	19.5	20.9

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- **Other highlights:** 1) OCF / FCF grew by 23% / 40% YoY to Rs25bn / Rs23bn respectively, 2) Working capital days is flat at 11 days, 3) Net Debt decreased by 73% to Rs0.7bn with Net Debt / Equity ratio reducing from 0.32 to 0.07 in FY21, 3) Management stated that they are better prepared to tackle the second wave of covid - has ramped up production and have optimal level of inventory across the supply chain, however, localised lockdowns could impact frontline servicing and replenishment of outlets, 4) second wave of covid is a likely tailwind for hygiene (including soaps) category and headwind for discretionary categories, 5) innovation rate was in high-teens in FY21, and 6) E-commerce contributed ~4% of business in FY21.
- **Valuation and risks:** We increase our earnings estimates by ~2%; modelling revenue / EBITDA / PAT CAGR of 10% / 12% / 13% over FY21-23E. Upgrade to **BUY** (from **ADD**) with a SoTP-based revised target price of Rs850 (Rs800 earlier). At our target price, the stock will trade at 39x P/E multiple Mar-23E. Key downside risk is structural deceleration in India household insecticides and steep input cost pressure.

Table 1: Q4FY21 results review (standalone)*(Rs mn)*

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Revenue	14,997	11,139	35	16,948	(12)	62,543	54,745	14
COGS	(6,632)	(4,575)	45	(7,235)	(8)	(27,094)	(22,460)	21
Gross profit	8,365	6,564	27	9,713	(14)	35,449	32,285	10
Staff cost	(1,196)	(444)	169	(984)	22	(4,171)	(3,192)	31
A&SP	(1,359)	(937)	45	(1,731)	(22)	(5,435)	(5,566)	(2)
Other opex	(2,439)	(2,156)	13	(2,279)	7	(9,322)	(9,050)	3
Total opex	(4,993)	(3,536)	41	(4,994)	(0)	(18,928)	(17,808)	6
EBITDA	3,372	3,028	11	4,718	(29)	16,521	14,477	14
Other income	121	241	(50)	117	3	654	913	(28)
Finance cost	(16)	(202)	(92)	(44)	(64)	(248)	(580)	(57)
D&A	(216)	(208)	4	(206)	5	(834)	(814)	2
PBT	3,261	2,859	14	4,585	(29)	16,093	13,996	15
Tax	(754)	(455)	66	(1,072)	(30)	(3,696)	(2,427)	52
Recurring PAT	2,507	2,404	4	3,514	(29)	12,397	11,569	7
Extraordinary items	-	-	-	-	-	(154)	230	-
Net profit (reported)	2,507	2,404	4	3,514	(29)	12,243	11,799	4
EPS	2.5	2.4	4	3.4	(29)	12.1	11.3	7
Costs as a % of sales								
COGS	44.2	41.1	314 bps	42.7	153 bps	43.3	41.0	229 bps
Gross margin (%)	55.8	58.9	-315 bps	57.3	-154 bps	56.7	59.0	-230 bps
Staff cost	8.0	4.0	398 bps	5.8	216 bps	6.7	5.8	83 bps
A&SP	9.1	8.4	65 bps	10.2	-116 bps	8.7	10.2	-148 bps
Other opex	16.3	19.4	-310 bps	13.4	281 bps	14.9	16.5	-163 bps
EBITDA margin (%)	22.5	27.2	-470 bps	27.8	-536 bps	26.4	26.4	-3 bps
Income tax rate (%)	23.1	15.9	719 bps	23.4	-25 bps	23.0	17.3	562 bps
India Business								
HI	6,200	4,630	34	6,620	(6)	25,340	21,900	16
Soaps	4,420	3,130	41	4,780	(8)	20,470	17,760	15
Hair colours	1,640	1,310	25	1,770	(7)	6,420	6,270	2
Others	2,070	1,690	22	3,250	(36)	8,610	7,890	9
Unbranded	1,130	840	35	940	20	3,310	2,920	13
Total	15,460	11,600	33	17,360	(11)	64,150	56,740	13

Source: Company data, I-Sec research

Table 2: Q4FY21 results review (consolidated)

(Rs mn)

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Revenue	27,307	21,538	27	30,554	(11)	1,10,286	99,108	11
COGS	(12,084)	(9,105)	33	(13,733)	(12)	(49,294)	(42,617)	16
Gross profit	15,223	12,433	22	16,822	(10)	60,992	56,491	8
Staff cost	(3,084)	(2,237)	38	(2,865)	8	(11,233)	(10,188)	10
A&SP	(1,909)	(1,266)	51	(2,291)	(17)	(7,332)	(7,391)	(1)
Other opex	(4,741)	(4,165)	14	(4,732)	0	(18,546)	(17,565)	6
Total opex	(9,733)	(7,668)	27	(9,887)	(2)	(37,112)	(35,144)	6
EBITDA	5,490	4,765	15	6,935	(21)	23,880	21,347	12
Other income	166	492	(66)	150	10	673	1,206	(44)
Finance cost	(229)	(615)	(63)	(241)	(5)	(1,266)	(2,174)	(42)
D&A	(545)	(532)	2	(491)	11	(2,039)	(1,973)	3
PBT	4,882	4,110	19	6,353	(23)	21,248	18,406	15
Tax	(586)	(1,075)	(46)	(1,400)	(58)	(4,411)	(3,802)	16
PAT	4,296	3,035	42	4,954	(13)	16,838	14,605	15
Minority Interest	0	(2)		2		(0)	8	
PAT after MI	4,297	3,033	42	4,956	(13)	16,837	14,613	15
Extraordinary items	(638)	(734)		65		371	356	
Net profit (reported)	3,658	2,299	59	5,021	(27)	17,208	14,968	15
EPS	4.2	3.0	42	4.8	(13)	16.5	14.3	15
Costs as a % of sales								
COGS	44.3	42.3	197 bps	44.9	-70 bps	44.7	43.0	169 bps
Gross margin (%)	55.7	57.7	-198 bps	55.1	69 bps	55.3	57.0	-170 bps
Staff cost	11.3	10.4	90 bps	9.4	191 bps	10.2	10.3	-10 bps
A&SP	7.0	5.9	111 bps	7.5	-51 bps	6.6	7.5	-81 bps
Other opex	17.4	19.3	-198 bps	15.5	187 bps	16.8	17.7	-91 bps
EBITDA margin (%)	20.1	22.1	-203 bps	22.7	-260 bps	21.7	21.5	11 bps
Income tax rate (%)	12.0	26.2	-1416 bps	22.0	-1004 bps	20.8	20.7	10 bps

Source: Company data, I-Sec research

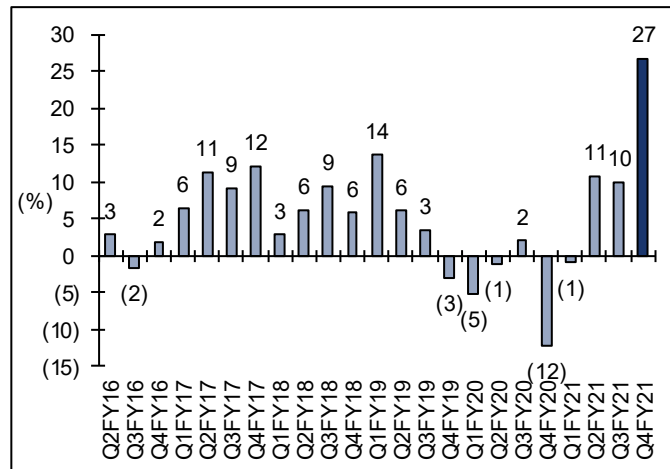
Table 3: Q4FY21 International performance

(Rs mn)

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
International Segment Revenues								
Indonesia	4,711	4,494	5	4,473	5	17,700	16,958	4
GAUM (Africa, USA, ME)	6,304	4,840	30	7,788	(19)	24,985	23,159	8
LatAm and SAARC	1,787	1,359	31	1,800	(1)	6,673	5,557	20
International Segment EBITDA								
Indonesia	1,668	1,487	12	1,132	47	4,907	4,516	9
GAUM (Africa, USA, ME)	687	184	274	1,098	(37)	2,522	2,420	4
LatAm and SAARC	64	107	(40)	225	(71)	527	260	103
International Segment EBITDA margins (%)								
Indonesia	35.4	33.1	230 bps	25.3	1010 bps	27.7	26.6	109 bps
GAUM (Africa, USA, ME)	10.9	3.8	710 bps	14.1	-320 bps	10.1	10.4	-36 bps
LatAm and SAARC	3.6	7.9	-430 bps	12.5	-890 bps	7.9	4.7	322 bps

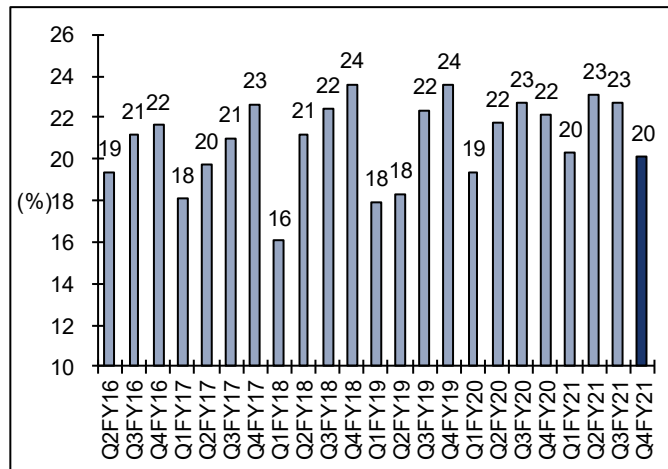
Source: Company data, I-Sec research

Chart 1: Revenue growth (consolidated)



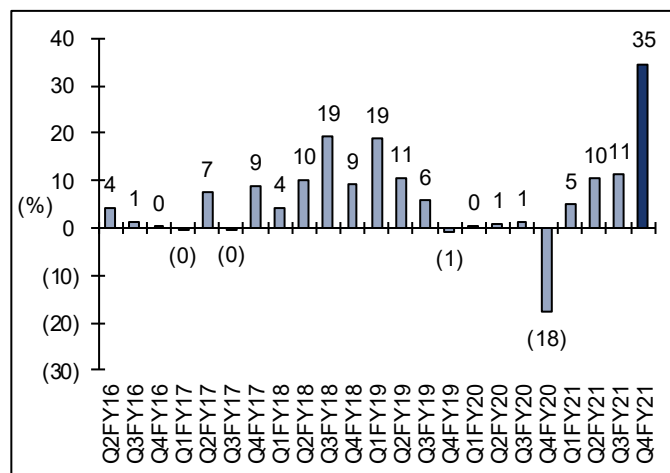
Source: Company data, I-Sec research

Chart 2: EBITDA margin (consolidated)



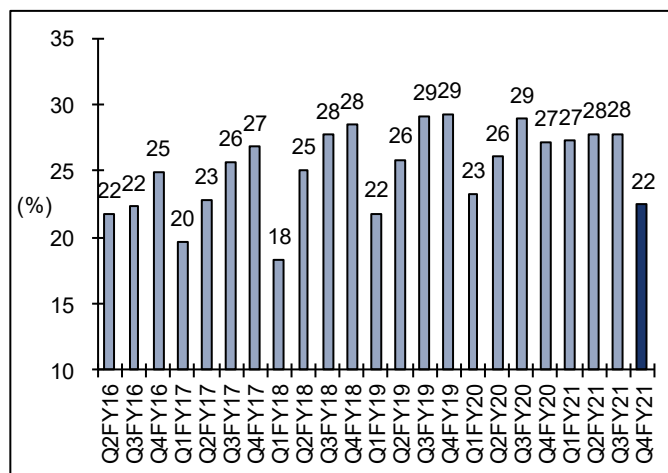
Source: Company data, I-Sec research

Chart 3: Revenue growth (standalone)



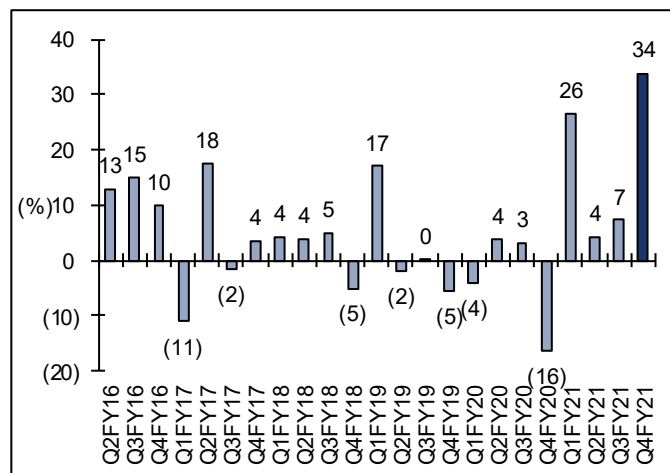
Source: Company data, I-Sec research

Chart 4: EBITDA margin (standalone)



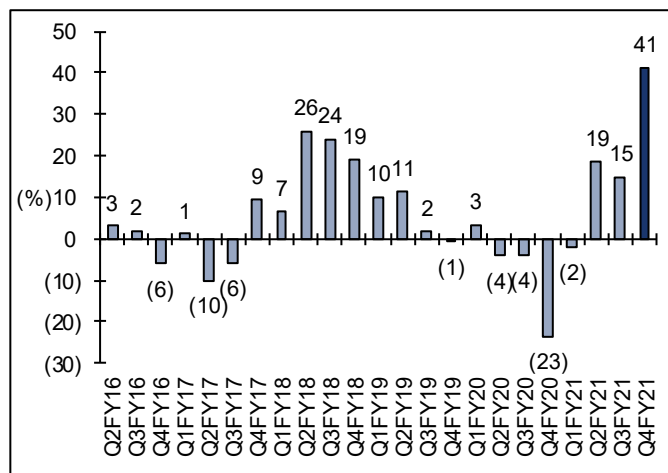
Source: Company data, I-Sec research

Chart 5: Household Insecticides revenue growth



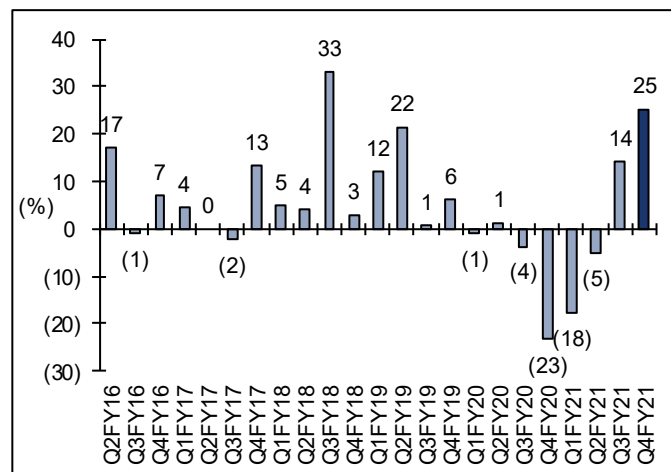
Source: Company data, I-Sec research

Chart 6: Soaps revenue growth



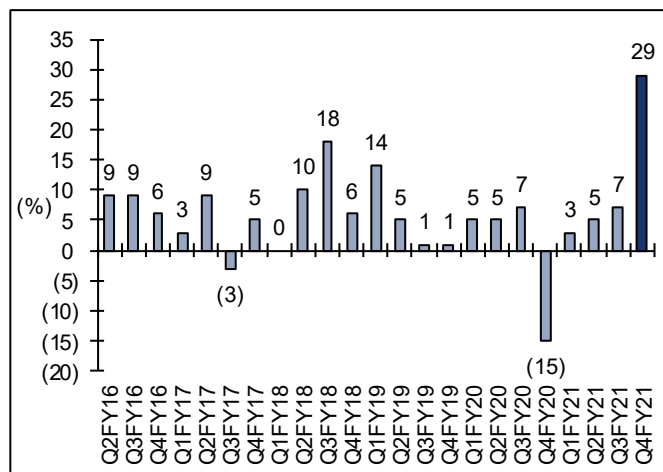
Source: Company data, I-Sec research

Chart 7: Hair Colors revenue growth



Source: Company data, I-Sec research

Chart 8: Branded volume growth



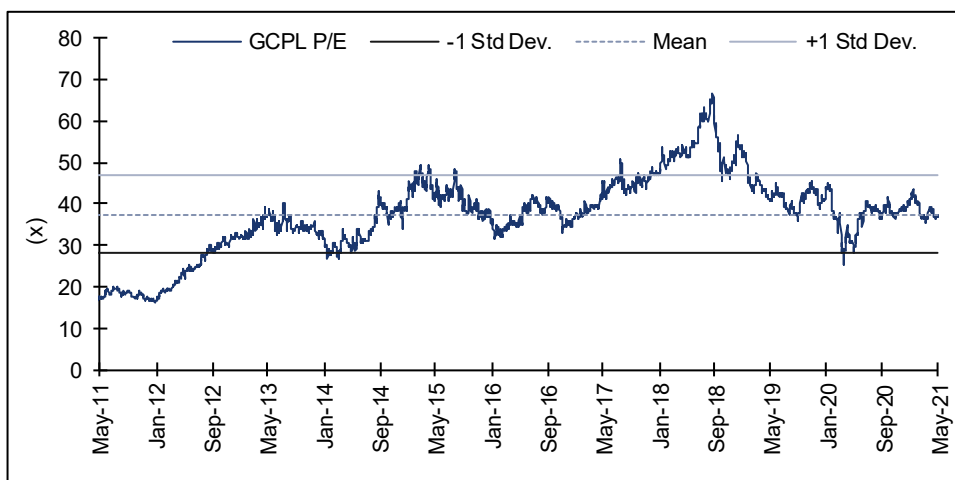
Source: Company data, I-Sec research

Table 4: SoTP valuation of GCPL

Geography	EBITDA (Rs mn) Mar-23E	EBITDA multiple (x) Mar-23E	EV (Rs mn)	Comments
Domestic (India)	20,312	32	6,46,334	
Africa	3,197	22	71,217	30% discount to Indian business
Indonesia	3,725	22	82,965	30% discount to Indian business
Latin America	1,114	19	21,268	40% discount to Indian business
US/Africa (SON)	1,668	19	31,841	40% discount to Indian business
EV (Rs mn)			8,53,625	
Less: Net debt (Rs mn)			(14,059)	
Equity value (Rs mn)			8,67,683	
Price per share (Rs)			850	

Source: Company data, I-Sec research

Chart 9: Mean P/E and standard deviations



Source: Company data, I-Sec research

Financial summary

Table 5: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Net Sales	99,108	110,286	119,793	132,585
Operating Expenses	77,678	86,404	93,487	102,564
EBITDA	21,430	23,883	26,306	30,021
% margins	21.6	21.7	22.0	22.6
Depreciation & Amortisation	1,973	2,039	2,204	2,407
Gross Interest	2,174	1,266	540	497
Other Income	1,123	671	1,108	1,573
Recurring PBT	18,406	21,248	24,669	28,690
Less: Taxes	2,638	3,595	5,449	6,325
Less: Minority Interest	8	-0	-0	-0
Net Income (Reported)	14,966	17,208	19,219	22,365
Extraordinaries (Net)	-811	-445	0	0
Recurring Net Income	15,776	17,653	19,219	22,365

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Assets				
Total Current Assets	48,825	45,417	60,016	72,951
of which cash & cash eqv.	7,702	6,722	18,798	28,304
Total Current Liabilities & Provisions	40,054	38,281	44,482	47,754
Net Current Assets	8,771	7,136	15,534	25,197
Investments	1,393	1,021	1,090	1,183
Net Fixed Assets	92,328	89,092	87,986	87,239
Capital Work-in-Progress	557	530	530	530
Total Assets	103,048	97,779	105,140	114,148
Liabilities				
Borrowings	29,765	9,768	9,172	8,613
Deferred Tax Liability	(5,701)	(6,378)	(6,378)	(6,378)
Minority Interest	-	-	-	-
Equity Share Capital	1,022	1,023	1,023	1,023
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	77,961	93,367	1,01,322	1,10,890
Less: Misc. Exp. n.w.o.				
Net Worth	78,984	94,389	102,345	111,912
Total Liabilities	103,048	97,779	105,140	114,148

Source: Company data, I-Sec research

Table 7: Quarterly trends

(Rs mn, year ending March 31)

	Jun 20	Sep 20	Dec 20	Mar 21
Net Revenues	23,273	29,151	30,554	27,307
% growth (YoY)	(0.9)	10.8	10.0	26.8
EBITDA	4,727	6,729	6,935	5,490
Margin (%)	20.3	23.1	22.7	20.1
Other income	218	139	150	166
Extraordinaries (Net)	948	(3)	65	(638)
Adjusted Net profit	3,002	4,584	4,956	4,297

Source: Company data, I-Sec research

Table 8: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Cashflow	18,494	20,748	21,182	24,056
Working Capital Changes	(2,613)	(452)	3,714	(108)
Capital Commitments	(3,377)	(3,615)	(1,625)	(2,188)
Free Cashflow	12,504	16,681	23,270	21,760
Cashflow from Investing Activities	(5,333)	(3,155)	(843)	(974)
Issue of Share Capital	0	0	-	-
Inc (Dec) in Borrowings	(3,094)	(18,162)	(1,240)	(1,197)
Dividend paid	(9,859)	-	(10,736)	(12,270)
Change in Deferred Tax Liability	(2,405)	(1,021)	12,076	9,507
Chg. in Cash & Bank balance	6,029	5,241	17,317	26,824

Source: Company data, I-Sec research

Table 9: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (Rs)				
EPS	15.4	17.3	18.8	21.9
Cash EPS	17.4	19.3	21.0	24.2
Dividend per share (DPS)	8.0	-	10.5	12.0
Book Value per share (BV)	77.3	92.3	100.1	109.4
Growth (%)				
Net Sales	(3.9)	11.3	8.6	10.7
EBITDA	1.2	11.4	10.1	14.1
PAT	11.5	11.9	8.9	16.4
DPS	(32.4)	(100.0)	-	14.3
Valuation Ratios (x)				
P/E	46.4	41.5	38.1	32.7
P/CEPS	41.3	37.2	34.2	29.6
P/BV	9.3	7.8	7.2	6.5
EV / EBITDA	35.4	31.8	28.8	25.3
EV / Sales	7.7	6.9	6.4	5.8
Operating Ratios				
Raw Material / Sales (%)	43.0	44.7	44.6	44.1
Employee cost / Sales (%)	10.3	10.2	9.7	9.6
Other exps / Sales (%)	25.1	23.5	23.8	23.7
Other Income / PBT (%)	6.1	3.2	4.5	5.5
Effective Tax Rate (%)	14.3	16.9	22.1	22.0
Working Capital (days)	29.2	26.9	13.3	12.3
Inventory Turnover (days)	63.3	57.3	56.8	56.3
Receivables (days)	43.0	33.5	33.3	33.0
Payables (days)	92.1	72.1	72.3	72.6
Net D/E (x)	0.3	0.1	(0.0)	(0.1)
Profitability Ratios (%)				
Net Income Margins	15.9	16.0	16.0	16.9
RoACE	16.4	18.1	18.5	19.6
RoAE	20.8	20.4	19.5	20.9
Dividend Payout	65.9	-	55.9	54.9
Dividend Yield	1.1	-	1.5	1.7
EBITDA Margins	21.6	21.7	22.0	22.6

Source: Company data, I-Sec research

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BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return*

ANALYST CERTIFICATION

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