

## Retail Equity Research

# Godrej Consumer Products Limited

FMCG

BSE CODE: 532424

NSE CODE: GODREJCP

Bloomberg CODE: GCPL:IN

SENSEX: 50,193

**BUY**

12M Investment period

Rating as per Large Cap

CMP Rs. 816

TARGET Rs. 930

RETURN 14% ↑

(Closing: 18-05-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

## Growth momentum continued; Outlook positive

Godrej Consumer Products Ltd (GCPL) is one of India's leading home-grown household & personal-care company. It also has presence in other countries like Indonesia, Africa, US, Middle East, among others.

- Revenue rose 26.8% YoY to Rs. 2,731cr, led by double digit growth in Household insecticides, Hygiene and Value-for-Money products.
- EBITDA grew 20.6% YoY on higher sales and improved product mix. EBITDA margins however contracted 110bps due to higher input costs. Adj. PAT grew 19.9% YoY helped by lower interest and tax outgo.
- We remain positive on the stock with strong demand in hygiene business and resurgence in household insecticides. We expect margins to improve gradually in coming quarters and reiterate our BUY rating on the stock with a rolled forward TP of Rs. 930 based on 43x FY23E EPS.

### Topline grows on sustained demand

Q4FY21 revenue increased by 26.8% YoY to Rs. 2,731cr, aided by continued demand for company's products across all the geographies. Domestic business saw impressive growth of 34.6% YoY, led by strong growth momentum in soaps (~41% YoY) and household insecticides business. Africa business grew 30.2% YoY to Rs. 630cr (+36% YoY CC), backed by good traction for Good Knight power shots aerosol and new go-to-market initiatives in key regions of Africa. Indonesian business experienced recovery with 5% YoY growth to Rs. 471cr (~4 YoY CC) on strong performance of Hygiene products and recovery in Household insecticides and Air fresheners products. With current COVID scenario, we expect strong demand for Hygiene segment in the near-term. The Company looks to scale up the Hygiene business and is focusing on strong innovation growth in this business.

### Gross margins impacted, but improvements expected from hereon

EBITDA rose 20.6% YoY to Rs. 575cr in Q4FY21, on higher volumes, improved sales realizations and expansion of market share across geographies. However, EBITDA margin shrank 110bps to 21.0% owing to pressure on gross margins in India, LATAM & SAARC regions, impacted by lag between increase in raw material costs and price hikes on products. Adjusted for one-off items, PAT increased 19.9% YoY to Rs. 379cr, benefitting from lower interest costs (-62.8% YoY) and taxes (-45.5% YoY).

### Key highlights

- GCPL appointed Sudhir Sitapati to be its new MD and CEO effective 18<sup>th</sup> Oct, 2021. Mr. Sitapati came from HUL where he spent 22+ years leading teams across functions within India, Europe, SE Asia & Africa regions.
- Management is working on scaling up its rapidly growing ecommerce channel, with rural growth at 1.4x that in urban areas.
- Company recently launched Godrej ProClean, a floor cleaning product, with a focus on strengthening Hygiene business portfolio amidst the pandemic.

### Valuation

GCPL posted double digit growth despite lockdown restrictions imposed in some parts of the country. With COVID acting as a tailwind, company has seen rapid growth in its Hygiene business, while there's strong revival seen in its insecticide offerings. Despite ongoing margin pressures, we expect GCPL's growth momentum to continue in the months ahead, driven by strong demand for its existing products coupled with new launches and change in leadership. Hence, we reiterate our BUY rating on the stock with a rolled forward target price of Rs. 930 based on 43x FY23E EPS.

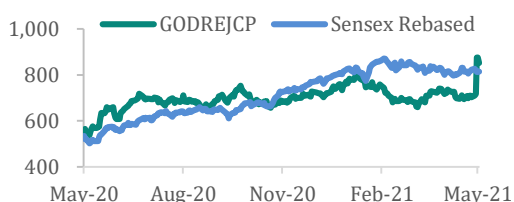
### Company Data

Market Cap (cr)	Rs. 87,075
Enterprise Value (cr)	Rs. 86,745
Outstanding Shares (cr)	102.1
Free Float	37.0%
Dividend Yield	0.0%
52 week high	Rs. 895
52 week low	Rs. 535
6m average volume (lacs)	0.7
Beta	0.6
Face value	Rs. 1

Shareholding %	Q2FY21	Q3FY21	Q4FY21
Promoters	63.2	63.2	63.2
FII's	26.8	29.9	29.7
MFs/Insti	3.1	0.0	0.0
Public	5.6	5.5	5.6
Others	1.4	1.4	1.5
Total	100.0	100.0	100.0
Promoters' pledge	0.7	0.7	0.7

Price Performance	3 Month	6 Month	1 Year
Absolute Return	12.9%	24.3%	50.9%
Absolute Sensex	-5.5%	11.7%	56.6%
Relative Return*	18.3%	12.6%	-5.7%

\*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	11,029	12,118	13,318
Growth (%)	11.3	9.9	9.9
EBITDA	2,443	2,721	3,068
EBITDA Margin (%)	22.2	22.5	23.0
Adj. PAT	1,633	1,976	2,221
Growth (%)	15.5	21.0	12.4
Adj. EPS	16.0	19.3	21.7
Growth (%)	15.5	21.0	12.4
P/E	45.6	44.1	39.2
P/B	7.9	8.2	7.4
EV/EBITDA	30.5	31.9	28.1
ROE (%)	18.2	18.7	18.9
D/E	0.1	0.1	0.1

## Quarterly Financials (Consolidated)

### Profit & Loss Account

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY21	FY20	YoY Growth %
Revenue	2,731	2,154	26.8	3,055	(10.6)	11,029	9,911	11.3
<b>EBITDA</b>	<b>575</b>	<b>477</b>	<b>20.6</b>	<b>711</b>	<b>(19.2)</b>	<b>2,443</b>	<b>2,143</b>	<b>14.0</b>
EBITDA margins	21.0	22.1	(110bps)	23.3	(230bps)	22.2	21.6	60bps
Depreciation	54	53	2.5	49	11.0	204	197	3.3
<b>EBIT</b>	<b>520</b>	<b>423</b>	<b>22.9</b>	<b>662</b>	<b>(21.4)</b>	<b>2,239</b>	<b>1,946</b>	<b>15.1</b>
Interest	23	62	(62.8)	24	(4.8)	127	217	(41.8)
Other Income	(9)	49	n.m.	(3)	(242.0)	12	112	(89.1)
Exceptional Items	(64)	(73)	13.1	7	n.m.	(44)	(81)	45.1
<b>PBT</b>	<b>424</b>	<b>337</b>	<b>25.8</b>	<b>642</b>	<b>(33.9)</b>	<b>2,080</b>	<b>1,760</b>	<b>18.2</b>
Tax	59	107	(45.5)	140	(58.1)	360	264	36.3
Sh. of profit from Associate	0	(0)	n.m.	0	n.m.	(0)	1	n.m.
Minority Interest	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>366</b>	<b>230</b>	<b>59.1</b>	<b>502</b>	<b>(27.1)</b>	<b>1,721</b>	<b>1,497</b>	<b>15.0</b>
Adjustments	13	86	n.m.	(7)	n.m.	(88)	(83)	6.0
<b>Adj. PAT</b>	<b>379</b>	<b>316</b>	<b>19.9</b>	<b>496</b>	<b>(23.6)</b>	<b>1,633</b>	<b>1,414</b>	<b>15.5</b>
No. of shares	102.1	102.3	(0.1)	102.2	(0.1)	102.1	102.3	(0.1)
<b>Adj. EPS (Rs.)</b>	<b>3.7</b>	<b>3.1</b>	<b>19.4</b>	<b>4.9</b>	<b>(24.5)</b>	<b>16.0</b>	<b>13.8</b>	<b>15.9</b>

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	11,641	-	12,118	13,318	4.1	-
EBITDA	2,694	-	2,721	3,068	1.0	-
Margins (%)	23.1	-	22.5	23.0	(60bps)	-
Adj. PAT	1,936	-	1,976	2,221	2.1	-
Adj. EPS	18.9	-	19.3	21.7	2.1	-

## PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	<b>10,314</b>	<b>9,911</b>	<b>11,029</b>	<b>12,118</b>	<b>13,318</b>
% change	3.8	(3.9)	11.3	9.9	9.9
<b>EBITDA</b>	<b>2,131</b>	<b>2,143</b>	<b>2,443</b>	<b>2,721</b>	<b>3,068</b>
% change	2.4	1.2	15.5	11.7	13.1
Depreciation	170	197	204	211	203
<b>EBIT</b>	<b>1,961</b>	<b>1,946</b>	<b>2,239</b>	<b>2,510</b>	<b>2,865</b>
Interest	224	217	127	82	54
Other Income	348	32	(32)	74	(0)
<b>PBT</b>	<b>2,085</b>	<b>1,760</b>	<b>2,080</b>	<b>2,502</b>	<b>2,811</b>
% change	2.3	(15.6)	18.2	20.2	12.4
Tax	(256)	264	360	525	590
Tax Rate (%)	(12.3)	15.0	17.3	21.0	21.0
<b>Reported PAT</b>	<b>2,342</b>	<b>1,497</b>	<b>1,721</b>	<b>1,976</b>	<b>2,221</b>
Adj*	(857)	(83)	(88)	-	-
<b>Adj PAT</b>	<b>1,485</b>	<b>1,414</b>	<b>1,633</b>	<b>1,976</b>	<b>2,221</b>
% change	3.0	(4.8)	15.5	21.0	12.4
No. of shares (cr)	102.2	102.2	102.2	102.2	102.2
<b>Adj EPS (Rs.)</b>	<b>14.5</b>	<b>13.8</b>	<b>16.0</b>	<b>19.3</b>	<b>21.7</b>
% change	3.0	(4.8)	15.5	21.0	12.4
DPS (Rs.)	10.0	8.0	-	8.0	10.0
CEPS (Rs.)	16.2	15.8	18.0	21.4	23.7

## CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Net inc. + Depn.</b>	<b>2,512</b>	<b>1,694</b>	<b>1,925</b>	<b>2,187</b>	<b>2,424</b>
Non-cash adj.	(863)	36	420	(139)	(140)
Changes in W.C	80	(142)	(315)	(181)	(153)
<b>C.F. Operation</b>	<b>1,729</b>	<b>1,588</b>	<b>2,030</b>	<b>1,868</b>	<b>2,131</b>
Capital exp.	(208)	(152)	(164)	(188)	(200)
Change in inv.	514	(262)	(13)	(401)	(501)
Other invest.CF	(55)	(119)	(138)	39	42
<b>C.F - Investment</b>	<b>252</b>	<b>(533)</b>	<b>(316)</b>	<b>(551)</b>	<b>(659)</b>
Issue of equity	0	0	-	-	-
Issue/repay debt	(345)	(128)	(1,619)	(62)	(56)
Dividends paid	(1,227)	(818)	-	(818)	(1,022)
Other finance.CF	(468)	(350)	(197)	(82)	(54)
<b>C.F - Finance</b>	<b>(2,039)</b>	<b>(1,295)</b>	<b>(1,816)</b>	<b>(962)</b>	<b>(1,133)</b>
Chg. in cash	(58)	(240)	(102)	355	339
Closing cash	895	770	672	1,027	1,366

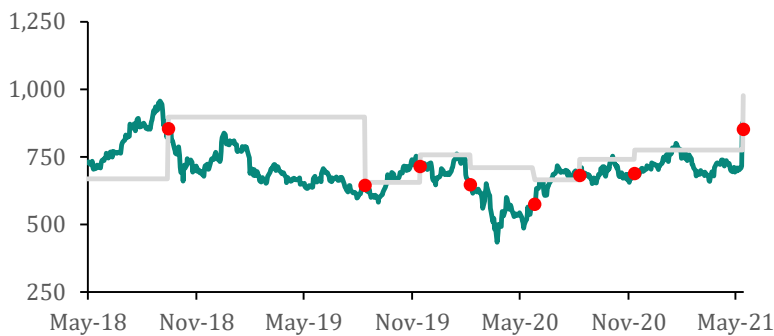
## BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	895	770	672	1,027	1,366
Accounts Receivable	1,293	1,157	1,005	1,212	1,398
Inventories	1,559	1,703	1,716	1,894	2,058
Other Cur. Assets	942	1,178	1,079	1,353	1,701
Investments	35	35	22	226	471
Gross Fixed Assets	1,448	1,600	1,763	1,951	2,151
Net Fixed Assets	1,192	1,205	1,210	1,183	1,175
CWIP	51	56	53	57	62
Intangible Assets	7,479	8,028	7,699	7,687	7,684
Def. Tax (Net)	549	647	677	657	590
Other Assets	175	179	149	159	165
<b>Total Assets</b>	<b>14,170</b>	<b>14,957</b>	<b>14,283</b>	<b>15,455</b>	<b>16,671</b>
Current Liabilities	3,621	4,028	3,856	3,922	3,997
Provisions	108	117	115	120	126
Debt Funds	3,093	2,796	760	698	641
Other Liabilities	81	118	113	131	138
Equity Capital	102	102	102	102	102
Reserves & Surplus	7,165	7,796	9,337	10,481	11,665
Shareholder's Fund	7,267	7,898	9,439	10,583	11,767
Minority Interest	-	-	-	-	-
<b>Total Liabilities</b>	<b>14,170</b>	<b>14,957</b>	<b>14,283</b>	<b>15,455</b>	<b>16,671</b>
<b>BVPS (Rs.)</b>	<b>71</b>	<b>77</b>	<b>92</b>	<b>104</b>	<b>115</b>

## RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	20.7	21.6	22.2	22.5	23.0
EBIT margin (%)	19.0	19.6	20.3	20.7	21.5
Net profit mgn.(%)	22.7	15.1	15.6	16.3	16.7
ROE (%)	32.2	18.9	18.2	18.7	18.9
ROCE (%)	18.9	18.2	22.0	22.3	23.1
<b>W.C &amp; Liquidity</b>					
Receivables (days)	45.8	42.6	33.2	36.5	38.3
Inventory (days)	124.9	145.9	127.1	129.6	131.4
Payables (days)	203.6	212.4	159.9	161.7	163.6
Current ratio (x)	1.2	1.1	1.1	1.3	1.5
Quick ratio (x)	0.7	0.6	0.6	0.7	0.9
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	7.7	6.5	6.6	6.5	6.5
Total asset T.O (x)	0.7	0.7	0.8	0.8	0.8
Int. coverage ratio (x)	8.7	9.0	17.7	30.5	53.0
Adj. debt/equity (x)	0.4	0.4	0.1	0.1	0.1
<b>Valuation</b>					
EV/Sales (x)	7.0	7.0	6.8	7.2	6.5
EV/EBITDA (x)	33.8	32.2	30.5	31.9	28.1
P/E (x)	47.1	47.3	45.6	44.1	39.2
P/BV (x)	9.6	8.5	7.9	8.2	7.4

## Recommendation Summary



Dates	Rating	Target
14-Sep-18	HOLD	898
13-Aug-19	HOLD	656
14-Nov-19	HOLD	758
7-Feb-20	HOLD	710
26-May-20	BUY	665
10-Aug-20	HOLD	741
11-Nov-20	BUY	776
18-May-21	BUY	930

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside. The stock may still be a quality stock.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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