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BUY

Godrej Consumer Products

GAUM cluster gets due attention on path to profitable growth

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Consumer Goods ▸ Company Update ▸ **November 17, 2023**

TARGET PRICE (Rs): 1,200

We maintain our positive stance on GCPL, which is addressing the basics under its revamped leadership. We see structural actions strengthening Company's fundamentals and maintain BUY with Sep-24E TP of Rs1,200/sh, on 46x P/E (at 10% premium to the last 5Y average forward P/E of 41x). GCPL's recent actions in the Africa cluster bode well, with its guidance of profitable growth backed by thrust on mid-to-high teen EBITDA margin in the medium term. As we shift its Kenya/Tanzania operations to a profit-sharing model, we see Cluster margin at ~15% by FY26E. While profitability of the GAUM cluster is likely to be strong with 37% EBITDA CAGR, reported topline CAGR would be 4%, in our view. We hoist our growth estimate for Raymonds operations, amid better execution; we also raise tax incidence to ~26%. This leads to a ~1% EPS nip for FY24-25E.

Godrej Consumer Products: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,22,765	1,33,160	1,47,036	1,61,410	1,78,468
EBITDA	23,951	24,305	29,159	35,668	40,402
Adj. PAT	17,915	17,459	19,550	24,505	28,756
Adj. EPS (Rs)	17.5	17.1	19.1	24.0	28.1
EBITDA margin (%)	19.5	18.3	19.8	22.1	22.6
EBITDA growth (%)	0.3	1.5	20.0	22.3	13.3
Adj. EPS growth (%)	1.9	(2.6)	12.0	25.3	17.3
RoE (%)	17.1	13.9	13.5	15.8	17.4
RoIC (%)	19.8	16.9	16.2	18.1	20.5
P/E (x)	56.9	58.4	52.2	41.6	35.5
EV/EBITDA (x)	41.8	40.6	33.9	27.8	24.3
P/B (x)	8.8	7.4	6.9	6.4	6.0
FCFF yield (%)	1.2	2.0	(0.6)	2.5	3.0

Source: Company, Emkay Research

Actions under way across five sub clusters in GAUM

GCPL has divided its GAUM cluster into 5 sub-clusters: a) East Africa (Kenya, Tanzania, Angola, Uganda), b) West Africa (mainly Nigeria, Ghana), c) Southern Africa (South Africa and Mozambique), d) USA (mainly Strength of Nature) and e) the rest (mainly Middle East, Zambia). GCPL sees profitable growth in South Africa, where it maintains focus on improving supply. For East Africa, after shifting its Angola/Uganda operations to the franchisee model, it is now making a similar shift in its Kenya/Tanzania operations. In West Africa, distribution in Nigeria has been shifted to a new partner, with favorable results. In USA, wet hair-care remains key; here GCPL is looking to start imports from Nigeria. Middle East remains an export destination, where focus is on FMCG segments.

Simplification, relevance and supply, vital for GAUM cluster

GCPL's entry into Africa has been quite haphazard, with acquisition of multiple entities. It has brand acquisitions in dry hair, wet hair, hair color, personal wash, home care and skin care, but generates bulk sales from dry hair. We estimate that ~60% of its business is concentrated in dry hair care, followed by 20-25% in wet hair care and the balance in other FMCG segments. Some actions undertaken by the company are reduction in SKUs, defocus on dry hair (to help reduce working capital), creation of branding in a fragmented market (to drive product pull), focus on supply chain, and operating with the local team.

Attending to basics for enhancing fundamental prospects; maintain BUY

We continue to see better business execution under the revamped leadership. Actions undertaken so far have started yielding results and are likely to improve financial delivery ahead. In this note, we effect changes to our model: i) shift Rs5bn revenue from the GAUM cluster in FY25E and consider Rs500mn royalty income; ii) for Raymonds, GCPL has better control now; we revise sales decline to 5% from 15% earlier; iii) given the geographic mix, its tax rate goes up, to 26%. Based on these changes, our earnings estimate gets revised down by 1% over FY24-25E and remains unchanged for FY26E.

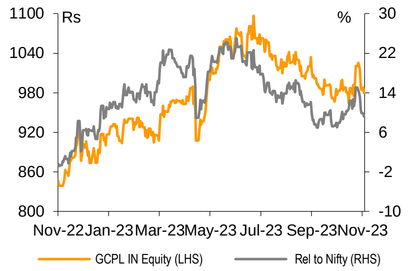
Target Price – 12M	Sep-24
Change in TP (%)	**NA**
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	20.4
CMP (17-Nov-23) (Rs)	997.0

Stock Data	**Ticker**
52-week High (Rs)	1,102
52-week Low (Rs)	822
Shares outstanding (mn)	1,022.8
Market-cap (Rs bn)	1,020
Market-cap (USD mn)	12,246
Net-debt, FY24E (Rs mn)	0
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	798.9
ADTV-3M (USD mn)	9.6
Free float (%)	36.8
Nifty-50	19,732
INR/USD	83.3
Shareholding, Sep-23	
Promoters (%)	63.2
FPIs/MFs (%)	23.5/7.7

Price Performance

(%)	1M	3M	12M
Absolute	-	(2.7)	18.8
Rel. to Nifty	0.4	(4.6)	10.5

1-Year share price trend (Rs)



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GAUM cluster gains perspective

GCPL has a large dry hair care business (mainly through brand *Darling*) and a sizable presence in wet hair care (through *SON*); additionally, it is looking at seeding FMCG products in the market. While the company has a wide international presence, key countries like Nigeria, Kenya, South Africa, Ghana and Mozambique contribute largely to its revenue. Given its unorganized supply chain, GCPL has been leveraging its wholesale network since long. However, incremental thrust is on putting a distribution system in place and directly covering retail outlets.

GCPL's Africa entry has not been harvested well, given unrelated operations and management inability to understand dynamics in the past. Also, mounting intangibles recorded in the book on the back of Africa acquisitions have been treated negatively, as this hurts its return profile. Sustained macro and currency headwinds have been keeping financials muted. Additionally, Company's strategy to operate with expats based on a 'grow and learn' approach is seen to be a drag.

Dharnesh Gordhon has been focusing on the 'playbook', which has now evolved, transforming into 'go to market' across the market, thus creating a centralized category management structure, and deploying resources towards large markets

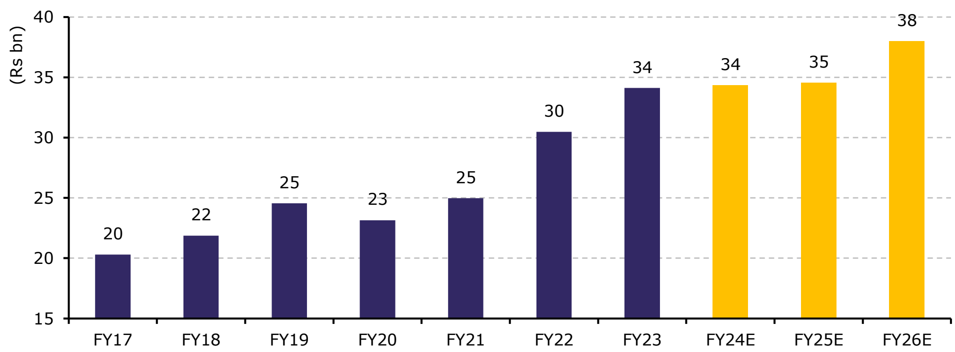
Exhibit 1: Key issues in the Africa, USA and Middle East cluster

Source: Company, Emkay Research

However, the dynamics has quickly changed with induction of Dharnesh Gordon, who has helped businesses gain a go-to-market perspective. In the entire leadership change in the Godrej group, we now see urge to turnaround the business via: a) focus on go-to-market, b) revamp distribution (to cut down working capital needs), c) portfolio priority, d) rationalizing SKUS, and e) driving efficiency in the business. As the company now has a 'go to market' approach, incremental thrust is on category development and creating brand positioning:

- **Dry hair:** Bulk of the business is from hair extension products, where differentiation is tough; as such, the company will limit ATL spends.
- **Wet hair care**: Given the higher margin profile, incremental thrust is on creating a brand pull in the segment.
- **Other FMCG**: The company is looking to scale up core product offerings like household insecticides, soap and hair color.

Exhibit 2: Africa, USA and Middle East — Revenue trend



Source: Company, Emkay Research

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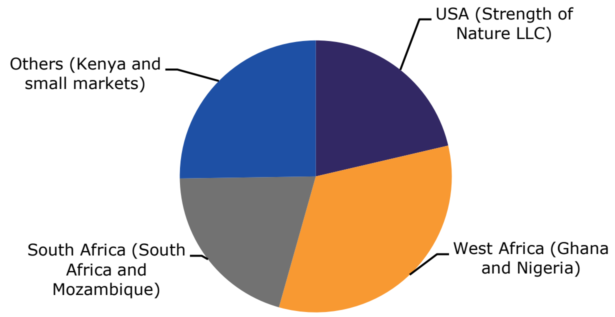
Exhibit 3: The Africa, USA and Middle East cluster — Revenue contribution



Source: Company, Emkay Research

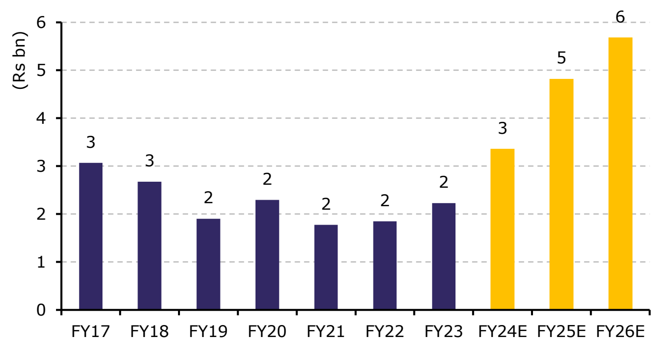
Given the high thrust on modern trade and mini marts, GCPL's receivable days are high

Exhibit 4: Mid-teen margin possibility in the Africa, USA and Middle East cluster

	Current revenue mix	Gross margin	Overheads	EBITDA margin
Dry Hair	50%	35-40%	25-30%	10%
Wet Hair	30%	60-70%	30-45%	25-30%
Other FMCG	20%	50%	35%	15%
Overall		45-50%		15-16%

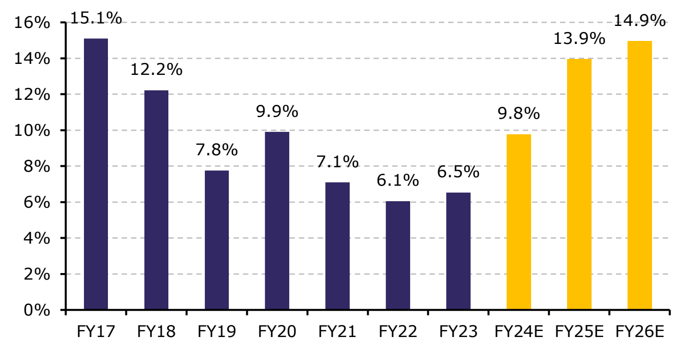
Source: Emkay Research

Exhibit 5: Africa, USA and Middle East — EBITDA trend



Source: Company, Emkay Research

Exhibit 6: Africa, USA and Middle East — EBITDA margin trend



Source: Company, Emkay Research

Exhibit 7: GAUM cluster performance

(Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue from operations	**20,303**	**21,873**	**24,547**	**23,158**	**24,976**	**30,490**	**34,111**	**34,334**	**34,556**	**38,012**
growth	51.5%	7.7%	12.2%	-5.7%	7.8%	22.1%	11.9%	0.7%	0.6%	10.0%
EBITDA	**3,067**	**2,675**	**1,904**	**2,294**	**1,772**	**1,845**	**2,227**	**3,356**	**4,821**	**5,683**
growth	39.2%	-12.8%	-28.8%	20.4%	-22.7%	4.1%	20.7%	50.7%	43.6%	17.9%
EBITDA margin	15.1%	12.2%	7.8%	9.9%	7.1%	6.1%	6.5%	9.8%	13.9%	14.9%
Depreciation and Amortization	-413	-487	-595	-753	-808	-847	-887	-927	-967	-1,007
EBIT	**2,655**	**2,188**	**1,310**	**1,541**	**965**	**998**	**1,340**	**2,429**	**3,853**	**4,676**
EBIT margin	13.1%	10.0%	5.3%	6.7%	3.9%	3.3%	3.9%	7.1%	11.1%	12.3%
Other income	74	137	68	97	33	45	85	91	76	106
Interest income	37	37	41	46	33	14	26	27	23	32
Profit before tax	**2,765**	**2,362**	**1,419**	**1,683**	**1,031**	**1,057**	**1,450**	**2,547**	**3,952**	**4,814**
growth	26%	-15%	-40%	19%	-39%	2%	37%	76%	55%	22%
Assets	61,465	64,032	67,481	72,575	67,994	74,821	75,742			
Liabilities	3,973	6,429	8,974	10,504	7,893	11,506	9,149			
Capital Employed	**57,492**	**57,603**	**58,507**	**62,071**	**60,101**	**63,315**	**66,593**			
Capital Employed (adj for Brand and Goodwill)	**16,815**	**16,356**	**14,359**	**14,351**	**14,901**	**17,989**	**21,267**			
RoCE	6%	4%	2%	3%	2%	2%	2%			
RoCE (adj for brand and goodwill)		13%	9%	11%	7%	6%	7%			

Lower growth in FY24 is owing to depreciation in the Nigerian Naira, and in FY25 due to Rs5bn revenue moving to the franchisee model

Source: Company, Emkay Research

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Dry hair care to be cash cow; thrust on FMCG scale-up

For GCPL, bulk of the business remains concentrated in dry hair care at ~50%, followed by ~30% in wet hair care and the balance ~20% in other FMCG businesses. The company considers dry hair care as its cash cow where investments will be limited. Company's focus area is wet hair care, where it is looking to create branding and drive demand pull.

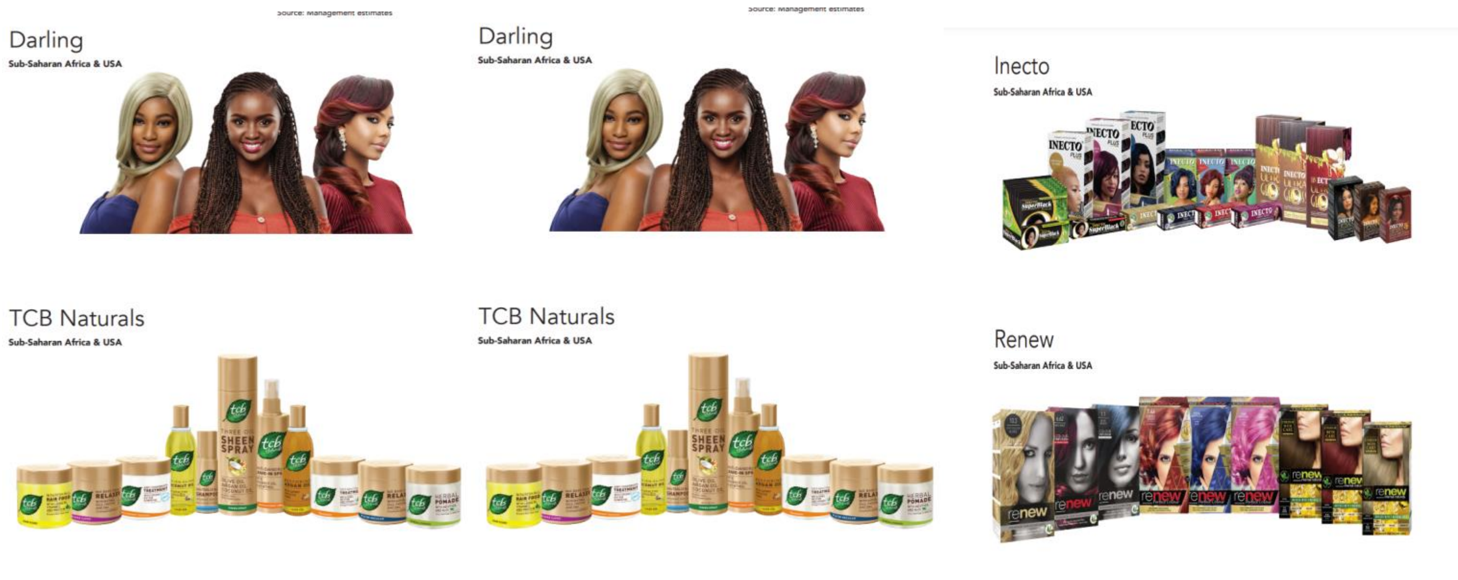
- **Dry hair care:** GCPL's dry hair business size is ~Rs16bn, ~40% of which is in West Africa and the remaining spread equally across South Africa and East Africa.

Key brands: In terms of its brand portfolio, its brand *Frika* is positioned at the top end, *Darling* at the mass-end, and *Brandi* targets specific channels. Compared its 12 inorganic brands, the company is focusing only on select brands.

Key products: Key products in the dry hair care market are: braids (entry level; 2/3rds of dry hair care business revenue), weaves (premium offering), wigs, human hair, curls and value-added offerings. Given that the braids offering entails faster turns (more like an FMCG product), GCPL is looking to focus on this segment.

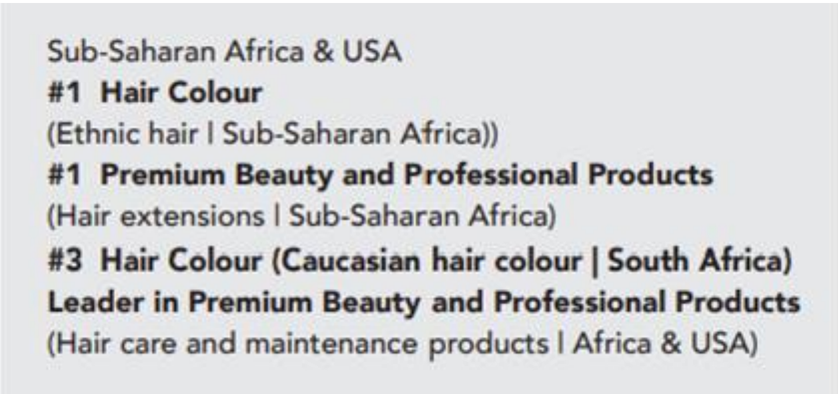
Geographical presence: GCPL is the market leader with more than half its market in South Africa and Kenya; in Nigeria, GCPL is the #2 player with ~30% share (it competes with leading player X-Pression). Braids does not need Salon expertise and is mostly being used as a DIY (do it yourself) product. In weaves (salon expertise needed), product differentiation is critical and where GCPL lack expertise; as such, thrust would be limited.

Exhibit 8: Branded offerings in Africa



Source: Company

Exhibit 9: GCPL's category presence in the GAUM cluster



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- **Wet Hair care**: For GCPL, wet hair care is ~Rs11bn, with 3/5th revenue concentration in its US-based Strength of Nature LLC (*SON*) acquisition. With focus on distribution, the company has seen improvement in availability. Given the wider market opportunity, the company is investing in distribution, sales and communication. Historically, high import duty from the USA and currency headwinds have restricted scale-up. Now the company has set up a manufacturing facility in Nigeria which will drive category focus. In Africa, West Africa has a high share of wet hair care. Incremental management thrust is on creating brand appeal with higher ATL spends.

  Key brand offerings from the company are: *African Pride*, *TCB Natural*, and *Just for Me* brands.

  Key products: The wet hair care category has a mix of relaxers (~50% of wet hair care revenue), styling offerings, maintenance products and shampoo. For GCPL, half of the business is concentrated in Relaxers.

- **Other FMCG:** As part of its thrust on expanding other FMCG operations, the company is focusing on Household Insecticides, Hair Colors, Soaps, Skin care, Petroleum gel and dish wash. The company is gradually rolling out its Household Insecticides (HI) offering in African countries. Commencing with Tanzania (exports from Indonesia) and Mozambique (export from India), it has gradually rolled HI to Nigeria; the company has seen a fair amount of success across these markets.
  - Nigeria is one market, where GCPL has launched its HI offering and is seeing healthy growth. Management believes category development efforts (mainly in liquid vaporizer) will aid the portfolio. Overall Africa is largely an Aerosol market; South Africa in particular entails a large aerosol market with high competition.
  - HI with Soaps, in 'other FMCG', contribute to 1/5th of Company revenue in West Africa.
  - In South Africa, the company has made inroads into hair colors. Management noted that a differentiated approach is needed to scale the business; replicating the India model will not help. In the market, hair color is largely for fashion, as there is limited need for covering grey hair.

Exhibit 10: GAUM cluster overview

	West Africa	South Africa	East Africa	USA	Rest region
Key countries	Nigeria and Ghana	South Africa, Mozambique	Kenya, Tanzania, Angola and Uganda	USA	Middle East, Zambia
Market entry	FY10 (Mar-10)	FY06	FY16	FY17 (Apr-16)	
Portfolio mix	Dry hair (50%); Wet Hair (25%); Soap (15%); Household Insecticides and others (10%)	Dry hair (75%), Hair color (10%), Wet hair (10%), Other FMCG (5%)	Dry Hair (70%), Wet hair (10%), Other FMCG (20%, largely petroleum gel and Dish wash)	Wet hair care (100%)	Hair color, Soap, Household Insecticides, Air fresheners and Wet hair
Dry hair care - Contribution	40%	30%	30%	0%	0%
Dry hair - Market standing	No 2 (30% share)	No 1	No 1	NA	NA
Wet hair care - Contribution	25%	6%	6%	60%	3%
Other FMCG - Contribution	45%	15%	20%	0%	20%
Distribution	General trade and wholesale heavy	Modern trade heavy	Mix of General Trade and Modern Trade	Modern trade heavy	Export destination
Key initiatives	Shifted distribution in Nigeria to FMCL		Shifting business to the franchisee model	Looking to import products from Nigeria	

Source: Emkay Research

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West Africa enriched with opportunities and profitability

West Africa represent ~35% of its revenue, where revenue is concentrated in Nigeria and Ghana

The company entered the Nigeria market in Mar-10 with the acquisition of *Tura* (active in soaps, moisturizing lotion and skin cream). In FY14, the company expanded its coverage with 49% stake in the *Darling* group. This also paved the way for its entry into the Ghana market. The company addressed the 'go to market' approach in FY15, when it enhanced its thrust on the Salon channel. In Nigeria (which is another wholesale-driven market), GCPL adopted an intensive redistribution network and is driving higher, same-store throughputs, with improvement in the range & quality of execution. With on-ground initiatives, the company has strengthened brand *Darling*, which over the years has attained the #2 position in the category with >30% share in the braids segment.

Dry hair still entails bulk business, but wet hair care gains perspective with local manufacturing

Compared with other Africa regions, West Africa has seen lower dry-hair-care concentration, at ~50%. After the SON acquisition, GCPL generates a large part of its wet-hair-care revenue in Nigeria. We estimate ~25% revenue in the West Africa region from wet hair care. With *Tura* active in Personal care, the company has sizable category presence in West Africa (~15% of revenue). On the back of its diversification, the company clocks better margin in the region. In 2020, the company set up a wet-hair-care manufacturing facility, which has aided profitability.

Distribution attains perspective under new CEO Dharnesh Gordon

Nigeria has a high count of retail outlets and super markets. Trade is largely unorganized and wholesale-led. The distribution structure is similar to that in India 20 years ago

West Africa has a mix of organized retail outlets and supermarkets, where the company has had issues with product availability. Under the new leadership, the company has revamped its entire 'go to market' approach, with focus on last mile. Three key focus areas, which have aided growth in the market, are: i) go to market, ii) sharp consumer focus, and iii) increased investments. The company has launched its D2C platform effective Jul-2020.

In 2023, the company revisited its 'go to market' strategy and shifted focus from wholesale-driven sales to distributor-driven sales. Its tie up with FMCL has helped the company double its distribution. Additionally, compared with only one GCPL-owned warehouse earlier, the company now has access to 23 warehouses of FMCL; this has aided reduction in lead time by 4x. This arrangement also helps the company reduce working capital requirements in the business. Backed by this, the company has enhanced its distribution by 80% in FY23.

Currency headwinds to disrupt near-term show

In Jun-23, official Nigerian currency 'Naira' saw devaluation to the parallel rate. The gap in the official (1USD = 450Naira) and parallel (1USD = 750Naira) rates has been fairly wide in the past, but has now been bridged. GCPL believes devaluation of the official currency now grants stability to the currency rate. The management sees a three-pronged impact on the business:

- **Optical revenue from Q2 to be low**: As translation of the P&L will be at a higher parallel rate now (vs official rate earlier, which was lower), it will have an impact on the reported growth in INR terms; albeit, constant currency growth would remain unaffected.
- **Price actions needed to pass on the increase in procurement cost**: Earlier, the company procured raw material partly at the official rate (450Naira) and partly at the parallel rate (750Naira); hence, blended procurement was at 650Naira. Now, with the currency valued at 750Naira per 1USD, procurement cost for the company goes up. The company is mitigating the gross-margin impact by calibrated price hikes.
- **Level playing field vs competition**: Management noted that certain competitors had a cost advantage, given their access to the official rate. Now, with the parallel and official rates converging, the company sees it as a level playing field.

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South Africa thrust on scaling FMCG business

Now the company generates 20% revenue from the southern part of Africa, which includes South Africa and Mozambique

The company made its entry into Africa in FY06, when it acquired ethnic hair color business under Rapidol, which has a wider product offering under brand *Inecto*. Over the subsequent five years, the company built its portfolio with acquisition of the *Kinky*, *Tura*, *Frika* and *Darling* businesses. The *Darling* business took another five years to gain full ownership. The company commissioned a state-of-the-art hair extension facility in Mozambique, in 2018. The business saw a slowdown over FY16-19, amid weak a macro setting; it bounced back in FY20. The company has adopted a perfect store program with beauty advisors in place that offers an enhanced shopper experience and hence leads to maximized shopper conversion with impactful branded 'point of sales' communication.

Focus to drive salience of FMCG products

The company generates ~75% of its revenue from dry hair care products, in our view. GCPL is the market leader in braids with more than 50% share. In South Africa, dry hair care products sell more through China malls, where it faces stiff competition from Chinese players.

East Africa business simplification to aid profitability

East Africa comprises of Kenya and Tanzania, and represents ~1/4th in revenue for the cluster

The company entered the Kenya market in 2016, with the acquisition of 75% stake in Canon Chemicals, which was active in the Personal care and Home care categories. In Personal care, the company offers petroleum gel under brand *Valon*, which is a strong player in the market. Additionally, in Home care, the company has dish wash under brand *Pride*.

After gaining control of *Darling*, the company launched its offering in Kenya, in 2018. Kenya is a fashion-dominant market, where, addressing the local needs, the company has seen quick scale up in dry hair care.

The company launched wet hair care products only in 2020 which is the prime reason for a relatively low share of wet hair care revenue in the region. Under Dharnesh Gordon, Kenya gained prominence and was inducted into its priority market, which includes Nigeria, South Africa and USA. Regarding its high number of SKUs, Company has reduced its SKU-count, from >2000 to 400-450, as a part of its simplification strategy.

Distribution efforts in place, but success has been limited

Historically, the skew has been higher towards modern trade for *Valon*, while dry hair has high dependence on general trade and wholesale. The company has been scaling up distribution through a combination of various models like sub-distributors, van sales, and wholesales, since 2020. The company has significantly shifted focus from primary sales to secondary sales through strong partnerships with distributors and by monitoring the distributor ERP system.

Entering into the royalty arrangement

The company has announced its inability to make the dry hair care business profitable. With near-flat EBIT and PAT loss, we see the company's giving franchise operations to the local partner (who will pay ~10% in royalty) as a prudent move. Effective FY25, the company will see reduction in revenue by Rs5bn, while witnessing an uplift in profitability in the region with royalty income of Rs500mn. The company has, historically, had a similar arrangement in Angola and Uganda.

With this positioning, the company will focus on brand, innovation, and research & development. The rest of its FMCG business (largely petroleum gel and dish wash) as well as its export business, where it has healthy gross margin, will remain under the GCPL umbrella and follow the existing distribution method.

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Strength of Nature has been a source of wet hair care

Looking to tap the wet hair care market in Africa, GCPL in Apr-16 acquired Strength of Nature (SON; with turnover of Rs6bn and 22% EBITDA margin). With this business base, GCPL made its formal entry into the USA. At the time of acquisition, SON had ~60% revenue in USA, 15-20% in Africa, and the balance sales in the Caribbean, Middle East and Europe.

Till FY20, GCPL's business in Africa entailed 100% imports; but with focus on scaling the business and given the high import duty and currency headwinds, the company has now set up manufacturing facilities in the continent (in Nigeria). Incremental supplies from USA decelerated, which helped in arresting currency volatility. Production at SON caters only to its US demand. As the company starts importing products from Nigeria, business profitability is likely to see improvement.

Overall growth is in a mid-to-high single digit, while profitability is relatively better.

Hair relaxer product category under litigation in USA

A 2022 US study (link) found that women who often use hair-straightening chemical products had a 4% risk of uterine cancer by age 70 compared with a 1.6% risk in women who did not use the products. Since this finding, there has been a surge in consumer complaints (in both, the Federal and state courts in the USA and Canada) about the usage of certain chemicals, which leads to ovarian cancer, uterine cancer, and other health issues. Relaxers are creams/lotions that contain chemicals to straighten afro and curly hair. As per media reports (link), the FDA may look to ban hair relaxer products in the USA.

For GCPL, Hair relaxers constitute less than 2% of its consolidated revenue. The consumer claim so far has been from a consumer who used products during the tenure of the erstwhile owner (before its GCPL acquisition). As per the terms of agreement, GCPL does not have any liability towards such consumer product claims.

Middle East has non-hair care opportunity

For GCPL, the Middle East and Zambia comprise 'rest of business' in the GAUM cluster, and represent ~5% of its revenue; a large part of this business is concentrated in Household Insecticides, hair color and wet hair care. Unlike other African markets, here the dry hair opportunity is miniscule. The Middle East has been an export destination for the company.

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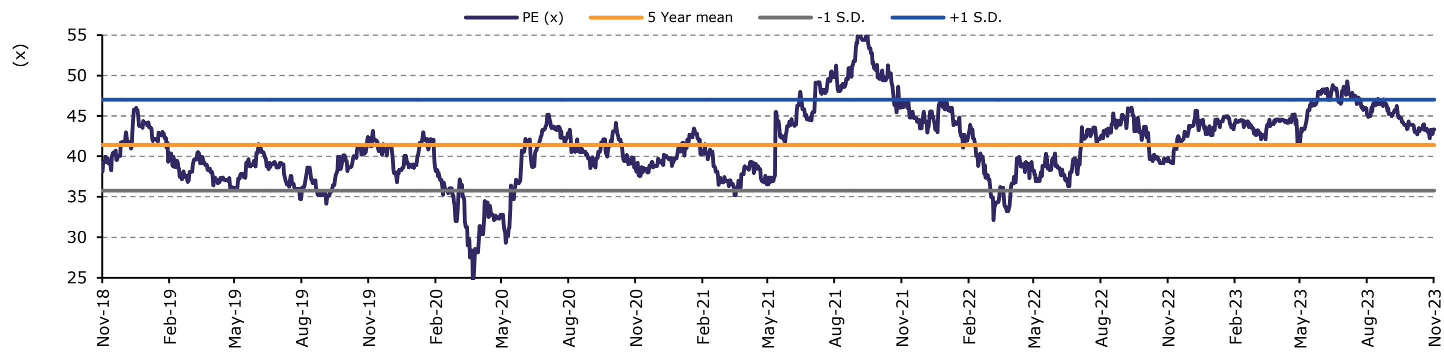
Valuations yet to capture enhanced prospects

Exhibit 11: One-year forward PER (on Consensus)



Source: Company, Emkay Research

Changes to estimate

- As we effect estimate changes to GCPL's Africa operations, we move out ~Rs5bn in revenue for Kenya from the topline; our topline estimate for FY25E/26E reduces by 2%, each. At the same time, we include royalty income at 10% vs flat EBITDA earlier.
- With the Raymonds business moving to a better setting, we boost our expectations for FY24E from a 15% decline in business to a ~5% decline now. EBITDA turned positive in Q2FY24 and GCPL is likely to achieve ~5% EBITDA margin in FY24E. For FY25, the management has guided to ~20% margin in the business, but we build-in a low-teen margin, given the focus on topline acceleration in the initial years.
- Given the changing geographic mix, we increase our tax rate assumption. The India business is likely to see a full tax rate, where the company will use MAT credit, which will keep cash tax outflow limited.

Based on these three changes, our topline increases 1% for FY24E (due to Raymonds) and reduces 2% over FY25-26E (due to the Kenya business shift). Factoring-in the royalty income for FY25-26E and with higher tax rate assumption, our FY24-25E earnings are revised down 1% each, while remaining unchanged for FY26E.

Exhibit 12: Changes to our estimates

(Rs mn)	New estimates			Old estimates			Changes to estimate		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net sales	145,759	159,506	175,824	144,796	163,361	180,018	1%	-2%	-2%
- growth	10.4%	9.8%	10.6%	9.7%	12.8%	10.2%			
EBITDA	29,159	35,668	40,402	28,689	35,111	39,821	2%	2%	1%
- growth	20.0%	22.3%	13.3%	18.0%	22.4%	13.4%			
EBITDA margin	19.8%	22.1%	22.6%	19.6%	21.3%	21.9%	19bps	79bps	71bps
Adj PAT	19,550	24,505	28,756	19,691	24,716	28,733	-1%	-1%	0%
- growth	12.0%	25.3%	17.3%	12.8%	25.5%	16.3%			

Source: Company, Emkay Research

Exhibit 13: Emkay vs Consensus expectations

(Rs mn)	Emkay estimates			Consensus estimates			Emkay vs consensus estimates		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net sales	145,759	159,506	175,824	146,993	163,067	179,331	-1%	-2%	-2%
- growth	10.4%	9.8%	10.6%	11.4%	10.9%	10.0%			
EBITDA	29,159	35,668	40,402	29,747	34,869	39,228	-2%	2%	3%
- growth	20.0%	22.3%	13.3%	22.4%	17.2%	12.5%			
EBITDA margin	19.8%	22.1%	22.6%	20.2%	21.4%	21.9%			
Adj PAT	19,550	24,505	28,756	20,237	24,445	28,112	-3%	0%	2%
- growth	12.0%	25.3%	17.3%	15.9%	20.8%	15.0%			
EPS (Rs)	19.12	23.96	28.12	19.90	23.99	27.50	-4%	0%	2%

Source: Company, Emkay Research

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Exhibit 14: Segment-wise estimates

(Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue							
Home care	26,670	29,850	31,740	33,580	36,653	40,549	44,006
Growth		12%	6%	6%	9%	11%	9%
- Household insecticides	21,900	25,340	25,750	26,940	29,095	32,005	34,565
- Growth		16%	2%	5%	8%	10%	8%
Personal care	24,200	28,260	32,440	38,520	45,019	51,125	56,606
Growth		17%	15%	19%	17%	14%	11%
- Organic	24,200	28,260	32,440	38,520	39,653	43,960	48,366
- Growth		17%	15%	19%	3%	11%	10%
- Inorganic					5,367	7,165	8,240
- Growth						34%	15%
India branded	50,870	58,110	64,180	72,100	81,672	91,675	100,612
Growth		14%	10%	12%	13%	12%	10%
Others incl. Exports	2,750	3,230	4,010	3,210	3,531	3,884	4,253
Growth		17%	24%	-20%	10%	10%	10%
India revenue	**53,620**	**61,340**	**68,190**	**75,310**	**85,203**	**95,559**	**104,865**
Growth		14%	11%	10%	13%	12%	10%
as a % of consolidated revenue	55%	56%	56%	57%	58%	60%	60%
Indonesia	**16,940**	**17,670**	**17,040**	**16,510**	**19,157**	**21,648**	**24,462**
Growth		4%	-4%	-3%	16%	13%	13%
as a % of consolidated revenue	17%	16%	14%	13%	13%	14%	14%
GAUM cluster	**23,160**	**24,980**	**30,500**	**34,120**	**34,343**	**34,565**	**38,021**
Growth		8%	22%	12%	1%	1%	10%
as a % of consolidated revenue	24%	23%	25%	26%	24%	22%	22%
LatAm and SAARC	**4,545**	**5,370**	**6,012**	**6,047**	**7,056**	**7,734**	**8,475**
Growth		18%	12%	1%	17%	10%	10%
as a % of consolidated revenue	5%	5%	5%	5%	5%	5%	5%
International revenue	**44,645**	**48,020**	**53,552**	**56,677**	**60,556**	**63,947**	**70,959**
Growth		8%	12%	6%	7%	6%	11%
as a % of consolidated revenue	45%	44%	44%	43%	42%	40%	40%
Consolidated revenue	**98,265**	**109,360**	**121,742**	**131,987**	**145,759**	**159,506**	**175,824**
Growth		11%	11%	8%	10%	9%	10%
EBITDA							
India	**14,484**	**16,497**	**17,293**	**18,450**	**22,792**	**25,801**	**28,314**
Growth	-4%	14%	5%	7%	24%	13%	10%
as a % of consolidated EBITDA	68%	69%	72%	74%	73%	70%	69%
Margin	27%	27%	25%	24%	27%	27%	27%
Indonesia	**4,436**	**4,847**	**3,895**	**3,033**	**3,789**	**4,546**	**5,382**
Growth	13%	9%	-20%	-22%	25%	20%	18%
as a % of consolidated EBITDA	21%	20%	16%	12%	12%	12%	13%
Margin	26%	27%	23%	18%	20%	21%	22%
GAUM cluster	**2,294**	**1,772**	**1,845**	**2,227**	**3,356**	**4,821**	**5,683**
Growth	20%	-23%	4%	21%	51%	44%	18%
as a % of consolidated EBITDA	11%	7%	8%	9%	11%	13%	14%
Margin	10%	7%	6%	7%	10%	14%	15%
Others	**217**	**767**	**918**	**595**	**-779**	**500**	**1,024**
Growth	6%	254%	20%	25%	20%	24%	14%
as a % of consolidated EBITDA	1%	3%	4%	2%	-3%	1%	3%
Consolidated EBITDA	**21,430**	**23,883**	**23,951**	**24,853**	**29,159**	**35,668**	**40,402**
Growth	1%	9%	10%	11%	12%	13%	13%
Margin	22%	22%	20%	19%	20%	22%	23%

Source: Company, Emkay Research

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Godrej Consumer Products: Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	**1,22,765**	**1,33,160**	**1,47,036**	**1,61,410**	**1,78,468**
Revenue growth (%)	11.3	8.5	10.4	9.8	10.6
EBITDA	**23,951**	**24,305**	**29,159**	**35,668**	**40,402**
EBITDA growth (%)	0.3	1.5	20.0	22.3	13.3
Depreciation & Amortization	2,099	2,363	2,863	3,013	3,113
EBIT	**21,852**	**21,942**	**26,296**	**32,655**	**37,290**
EBIT growth (%)	0.0	0.4	19.8	24.2	14.2
Other operating income	1,023	1,173	1,276	1,904	2,644
Other income	897	1,684	1,800	1,500	2,100
Financial expense	1,102	1,757	2,080	1,400	800
PBT	**21,647**	**21,868**	**26,016**	**32,755**	**38,590**
Extraordinary items	0	0	0	0	0
Taxes	3,719	4,303	6,764	8,516	10,033
Minority interest	(3)	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	**17,834**	**17,025**	**20,400**	**25,264**	**29,325**
PAT growth (%)	3.6	(4.5)	19.8	23.8	16.1
Adjusted PAT	**17,915**	**17,459**	**19,550**	**24,505**	**28,756**
Diluted EPS (Rs)	**17.5**	**17.1**	**19.1**	**24.0**	**28.1**
Diluted EPS growth (%)	1.9	(2.6)	12.0	25.3	17.3
DPS (Rs)	**0.0**	**0.0**	**11.0**	**13.0**	**18.0**
Dividend payout (%)	**0.0**	**0.0**	**55.1**	**52.6**	**62.8**
EBITDA margin (%)	19.5	18.3	19.8	22.1	22.6
EBIT margin (%)	17.8	16.5	17.9	20.2	20.9
Effective tax rate (%)	17.2	19.7	26.0	26.0	26.0
NOPLAT (pre-IndAS)	**18,098**	**17,625**	**19,459**	**24,164**	**27,594**
Shares outstanding (mn)	1,022.6	1,022.7	1,022.7	1,022.7	1,022.7

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	1,023	1,023	1,023	1,023	1,023
Reserves & Surplus	1,14,537	1,36,920	1,46,070	1,58,039	1,68,956
Net worth	**1,15,559**	**1,37,942**	**1,47,093**	**1,59,062**	**1,69,978**
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(6,796)	(6,412)	(6,412)	(6,412)	(6,412)
Total debt	**18,136**	**12,346**	**29,582**	**17,267**	**13,407**
Total liabilities & equity	**1,26,900**	**1,43,876**	**1,70,262**	**1,69,916**	**1,76,973**
Net tangible fixed assets	37,441	40,147	66,785	68,272	69,659
Net intangible assets	53,768	58,223	58,223	58,223	58,223
Net ROU assets	985	967	1,015	1,066	1,119
Capital WIP	1,164	454	1,000	1,000	1,000
Goodwill	53,768	58,223	58,223	58,223	58,223
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	**24,301**	**36,880**	**36,165**	**34,818**	**40,597**
Current assets (ex-cash)	37,352	32,256	34,204	35,913	38,368
Current Liab. & Prov.	27,126	24,085	26,114	28,309	30,874
NWC (ex-cash)	**10,226**	**8,171**	**8,090**	**7,604**	**7,494**
Total assets	**1,26,900**	**1,43,876**	**1,70,262**	**1,69,916**	**1,76,973**
Net debt	(19,399)	(33,939)	(31,064)	(29,666)	(39,395)
Capital employed	1,13,665	1,34,471	1,45,781	1,57,801	1,64,768
Invested capital	**1,01,435**	**1,06,541**	**1,33,097**	**1,34,098**	**1,35,375**
BVPS (Rs)	113.0	134.9	143.8	155.5	166.2
Net Debt/Equity (x)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Net Debt/EBITDA (x)	(0.8)	(1.4)	(1.1)	(0.8)	(1.0)
Interest coverage (x)	0.0	0.1	0.1	0.0	0.0
RoCE (%)	**21.9**	**19.0**	**20.1**	**22.5**	**24.4**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	21,647	21,868	26,016	32,755	38,590
Others (non-cash items)	0	0	0	0	0
Taxes paid	(4,475)	(4,185)	(6,764)	(8,516)	(10,033)
Change in NWC	(5,362)	933	46	447	66
Operating cash flow	**14,506**	**21,507**	**23,989**	**29,230**	**33,835**
Capital expenditure	(2,765)	(2,197)	(30,046)	(4,500)	(4,500)
Acquisition of business	0	0	0	0	0
Interest & dividend income	590	1,109	0	0	0
Investing cash flow	**(8,642)**	**(17,583)**	**(30,046)**	**(4,500)**	**(4,500)**
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(2,198)	(6,344)	17,109	(12,448)	(4,000)
Payment of lease liabilities	474	0	0	0	0
Interest paid	(1,123)	(1,116)	(1,800)	(1,500)	(2,100)
Dividend paid (incl tax)	0	0	(11,250)	(13,295)	(18,409)
Others	(477)	(436)	0	0	0
Financing cash flow	**(3,798)**	**(7,896)**	**4,059**	**(27,244)**	**(24,509)**
Net chg in Cash	2,065	(3,972)	(1,998)	(2,514)	4,827
OCF	14,506	21,507	23,989	29,230	33,835
Adj. OCF (w/o NWC chg.)	19,867	20,573	23,943	28,783	33,769
FCFF	11,741	19,309	(6,057)	24,730	29,335
FCFE	11,229	18,661	(8,137)	23,330	28,535
OCF/EBITDA (%)	60.6	88.5	82.3	82.0	83.7
FCFE/PAT (%)	62.7	106.9	(41.6)	95.2	99.2
FCFF/NOPLAT (%)	**64.9**	**109.6**	**(31.1)**	**102.3**	**106.3**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	56.9	58.4	52.2	41.6	35.5
P/CE(x)	50.4	50.7	45.7	37.1	31.9
P/B (x)	8.8	7.4	6.9	6.4	6.0
EV/Sales (x)	8.2	7.5	6.8	6.2	5.6
EV/EBITDA (x)	41.8	40.6	33.9	27.8	24.3
EV/EBIT(x)	45.3	44.5	37.2	30.0	26.0
EV/IC (x)	9.8	9.2	7.4	7.3	7.2
FCFF yield (%)	1.2	2.0	(0.6)	2.5	3.0
FCFE yield (%)	1.1	1.8	(0.8)	2.3	2.8
Dividend yield (%)	0.0	0.0	1.1	1.3	1.8
DuPont-RoE split					
Net profit margin (%)	14.6	13.2	13.1	15.0	16.0
Total asset turnover (x)	1.2	1.1	1.0	1.1	1.1
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	**17.1**	**13.9**	**13.5**	**15.8**	**17.4**
DuPont-RoIC					
NOPLAT margin (%)	14.7	13.2	13.2	15.0	15.5
IC turnover (x)	1.3	1.3	1.2	1.2	1.3
RoIC (%)	**19.8**	**16.9**	**16.2**	**18.1**	**20.5**
Operating metrics					
Core NWC days	(19.9)	(13.3)	(11.8)	(13.0)	(14.1)
Total NWC days	**30.4**	**22.4**	**20.1**	**17.2**	**15.3**
Fixed asset turnover	1.2	1.2	1.2	1.1	1.2
Opex-to-revenue (%)	31.0	31.4	34.7	33.4	33.0

Source: Company, Emkay Research

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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Nov-23	975	1,200	Buy	Nitin Gupta
20-Oct-23	988	1,200	Buy	Nitin Gupta
03-Oct-23	993	1,200	Buy	Nitin Gupta
28-Aug-23	1,028	1,225	Buy	Nitin Gupta
15-Aug-23	1,036	1,225	Buy	Nitin Gupta
08-Aug-23	1,009	1,225	Buy	Nitin Gupta
30-Jun-23	1,081	1,225	Buy	Nitin Gupta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND

Source: Company, Bloomberg, Emkay Research

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