

# Godrej Consumer Products | BUY



India business seeing headwinds, pace of recovery in volumes will be key

GCPL's business update for Q3FY25 points to weaker than expected performance. India business is expected to report flat volumes (vs +7-8% in 1H) due to likely volume decline in Soaps (pricing actions impacts wholesale/HH inventory) and moderation in volume growth for HI (delayed winter in North/cyclone in South). While mgmt. had called out possible volume impact on Soaps in its Q2FY25 concall, unfavourable weather led impact on HI came as a negative surprise. The impact on India EBITDA margins is also likely to be higher than envisaged (temporary downward breach of normative margin range of 24-27% vs earlier commentary of 24-25% margins in near term). Other India businesses and International business performance remains on expected lines. We cut our FY25-27E earnings by 4-7% to factor in weak (margins) Q3. 4QFY25E will be a key quarter for Soaps (how volumes shape up considering pricing actions & competitive intensity from HUL) and HI (mgmt. hoping to see conclusive results of new molecule based LV from 4Q). In our view, current challenges are more transient in nature. We keep our faith – the execution machinery put in place will yield fruits over the medium-term though stock is likely to be lacklustre till some signs of success start to become visible. Maintain BUY with revised TP of INR 1,415 (50x Sep'26E).

- India volumes likely to be flat impacted by weakness in Soaps & HI:** GCPL has undertaken several measures in Soaps (price hikes, grammage reduction and cut back on trade schemes), to partially offset the impact of inflation in palm oil & derivatives (+20-30% yoy). While it does not impact consumption, it leads to inventory reduction across wholesale and household pantry - GCPL mgmt. did allude to this in its 2QFY25 earnings call & expects normalization over next few months. This apart, HI sales also have been soft as category growth has been impacted by delayed winters in North and cyclone in South India. We believe volumes for soaps have declined in mid-high single digit, while HI volumes are likely to be flattish in Q3. Rest of the business is expected to see double-digit volume growth for the quarter. As a result, India volumes is expected to be flat which along with price hikes should lead to mid-single digit sales growth for the standalone business (c.63% of sales in 1H).
- Impact on India margins higher than earlier expectations:** In 2QFY24, GCPL clocked peak EBITDA margins of c.30%, in its standalone business, much higher vs normative range of 24-27%, benefiting from benign RM. Post sharp inflation in palm oil, in its Q2FY25 earnings call, management had highlighted that it does not intend to pass on entire cost increase to consumers, hence pricing growth will lag RM inflation and progressively increase in Q3/Q4FY25E. Moreover, the strategic investments behind brands have continued, hence, EBITDA margins for the quarter are likely to see temporary downward breach of normative range (vs earlier commentary of 24-25% margins in near term).
- International business performance steady & on expected lines:** International business (c.37% of sales) continues to perform inline with strategic objectives. Indonesia business is expected to outperform with mid-single digit volume growth and high-single digit sales growth. GAUM organic business is expected to see volume decline due to reduction in

## Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,415
Upside/(Downside)	14.5%
Previous Price Target	1,500
Change	-5.7%

## Key Data – GCPL IN

Current Market Price	INR1,235
Market cap (bn)	INR1,263.9/US\$14.9
Free Float	37%
Shares in issue (mn)	1,022.5
Diluted share (mn)	1,022.8
3-mon avg daily val (mn)	INR1,918.1/US\$22.6
52-week range	1,542/1,015
Sensex/Nifty	81,709/24,678
INR/US\$	84.7

## Price Performance

%	1M	6M	12M
Absolute	-1.8	-13.5	21.2
Relative*	-4.5	-18.8	3.6

\* To the BSE Sensex

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

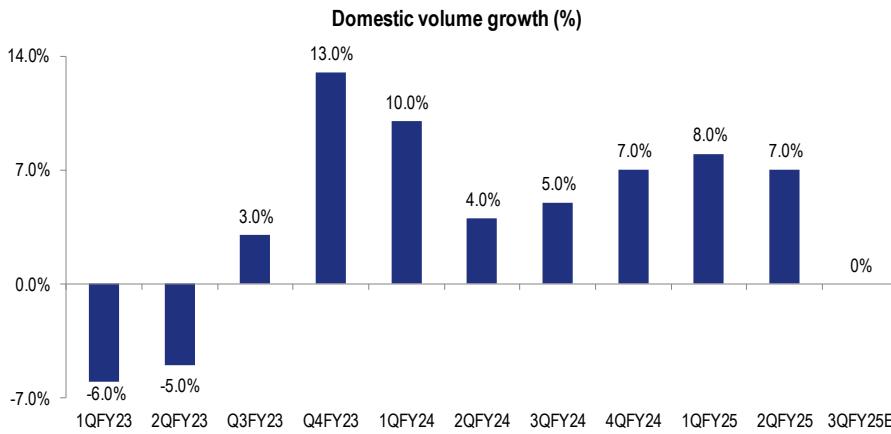
Financial Summary	(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	131,987	139,741	144,284	160,223	177,280
Sales Growth (%)	8.4	5.9	3.3	11.0	10.6
EBITDA	25,392	30,705	30,912	36,238	41,492
EBITDA Margin (%)	19.1	21.8	21.3	22.5	23.3
Adjusted Net Profit	17,831	19,809	20,528	26,693	31,168
Diluted EPS (INR)	17.4	19.4	20.1	26.1	30.5
Diluted EPS Growth (%)	1.9	11.1	3.6	30.0	16.8
ROIC (%)	16.4	-69.2	17.2	21.0	23.6
ROE (%)	14.1	15.0	15.4	17.9	19.0
P/E (x)	70.8	63.8	61.5	47.3	40.5
P/B (x)	9.2	10.0	8.9	8.1	7.4
EV/EBITDA (x)	49.1	41.4	40.9	34.6	30.1
Dividend Yield (%)	0.0	0.4	0.6	1.1	1.5

Source: Company data, JM Financial. Note: Valuations as of 06/Dec/2024

trade stocks and portfolio simplification. The effects of these actions would be largely completed in Q3FY25E & geography is likely to revert to growth from 4QFY25E. Margin trajectory continues to remain healthy for this piece. Delivery on International margins over past three quarters has been a positive surprise led by Africa & Indonesia. We reckon that International GMs (Consol less standalone) are now similar to Consol/India GM vs being c.500/700bps lower in FY24) and continued execution here will be key for consol EBITDA margin expansion over FY25-27E.

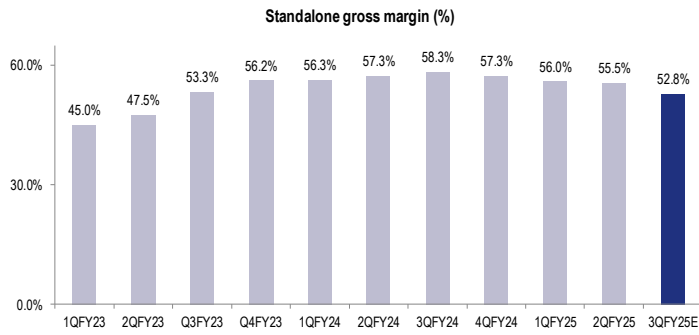
- **GCPL was able to recoup margins once inflation cycle reversed in the past, International business margins in better shape:** GCPL's RM basket saw steep inflation in FY21/22 with sharp uptick in both palm oil as well as crude. As a result we had seen standalone/consol GM compression of c.700-800bps over FY19-23. Once inflation cycle reversed, it recouped majority of the losses in FY24 (standalone/consol GM expansion of c.600-700bps). Currently, palm oil is inflationary while crude prices have been stable to benign. Moreover, International business margins are in much better shape (c.15-16% in 1HFY25E vs c.14%/10% in FY22/23) vs moderation seen over FY21-23, which is a positive.
- **What to watch out in near term:** In our view, RM inflation and adverse weather led challenges are more transient in nature. Having said that, pace of recovery in Soaps volume (especially in context of competitive intensity from HUL) and acceleration in HI sales (mgmt. had highlighted that if the new molecule based LV succeeds, it expects HI category volume growth to accelerate to high-single digit and value growth to low double-digit) will be critical monitorables in the near term.
- **What are we building over medium term:** We are currently building c.10-11% sales growth in FY26/27E led by high-single digit sales growth in Soaps, low double-digit growth in HI along with recovery in Africa. On margins, we are factoring standalone (India) EBITDA margins of c.24.4% for FY25E and expect it to recoup the losses by FY27E (building in EBITDA margins of c.26-27% similar to the average India EBITDA margins over FY19-24 of c.26.5%). This along with steady improvement in International margins will aid mid-teens EBITDA growth in FY26/27E for consolidated business. Stock is likely to remain under pressure in near term, till we see some signs of normalization in Soaps & acceleration in HI. However, we remain positive on new CEOs execution machinery, maintain BUY with revised TP of INR 1,415 (50x Sep'26E, based on its 5 yr average PE).

**Exhibit 1. GCPL's India business expected to report flattish volume growth**



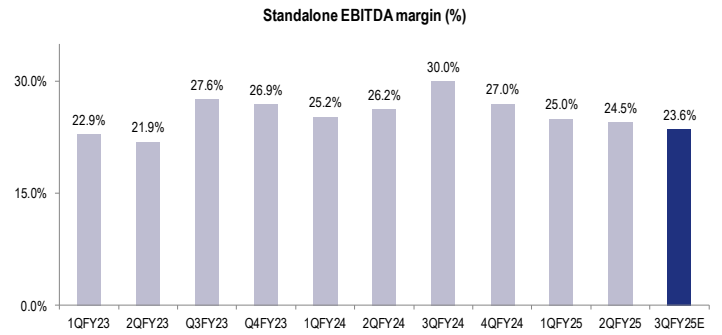
Source: Company, JM Financial

**Exhibit 2. Impact on standalone GM due to high palm oil prices to be partially offset by corrective measures undertaken.....**



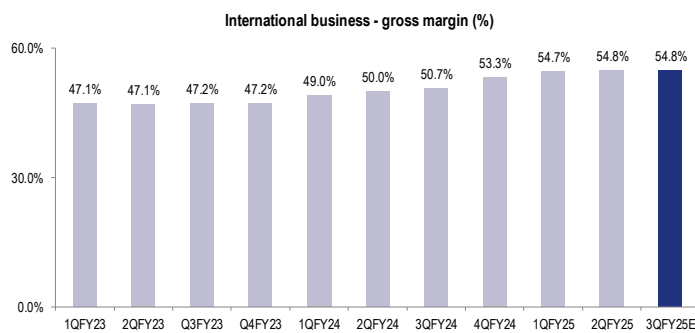
Source: Company, JM Financial

**Exhibit 3. ...with brand investment continuing, temporary downward breach of normative range of EBITDA margin likely in Q3**

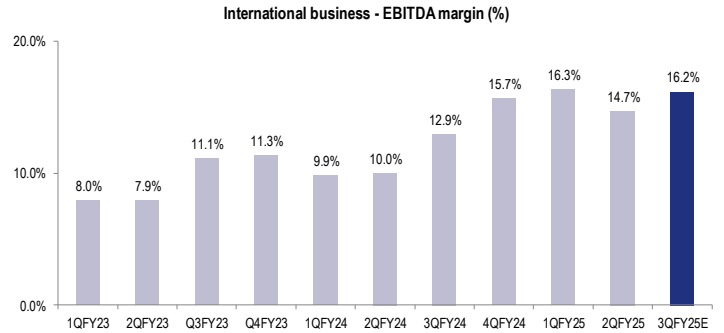


Source: Company, JM Financial

**Exhibit 4. International business to perform inline with expectations**



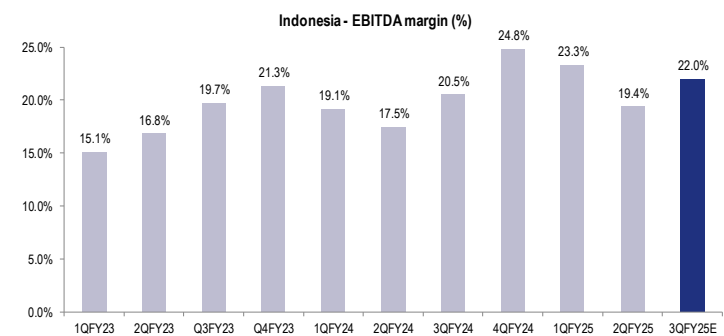
Source: Company, JM Financial



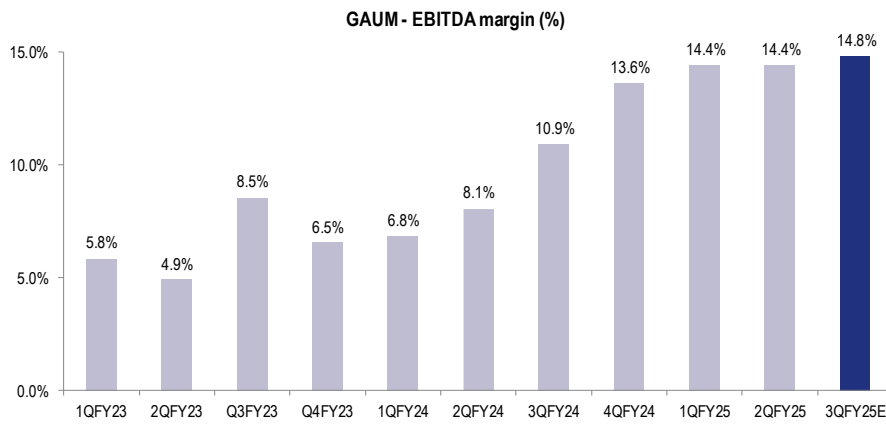
**Exhibit 5. Indonesia business to outperform**



Source: Company, JM Financial

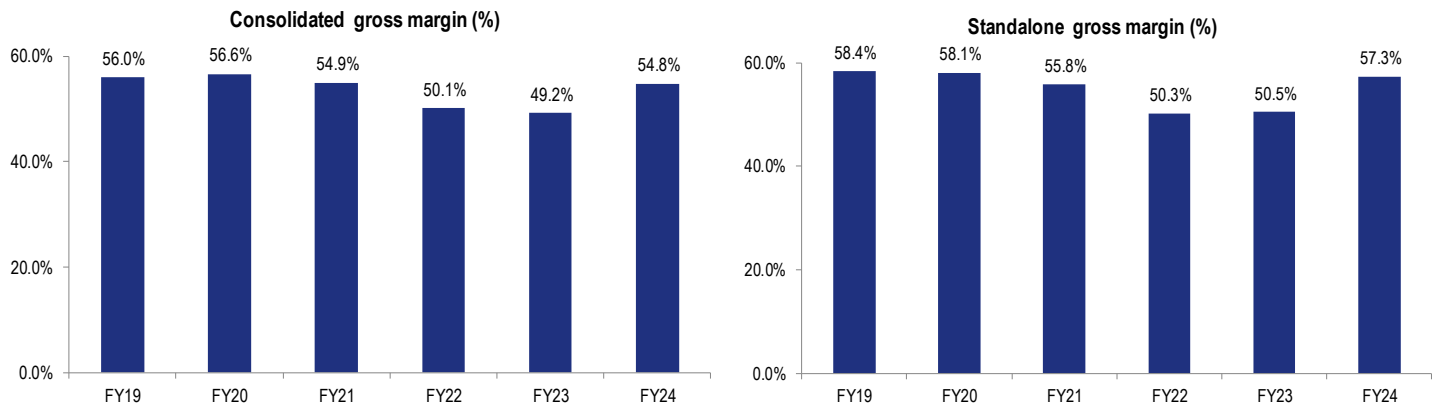


**Exhibit 6. Margin trajectory for GAUM (Africa) remains healthy**



Source: Company, JM Financial

**Exhibit 7. GCPL has been able to recoup lost margins once inflation cycle subsides**



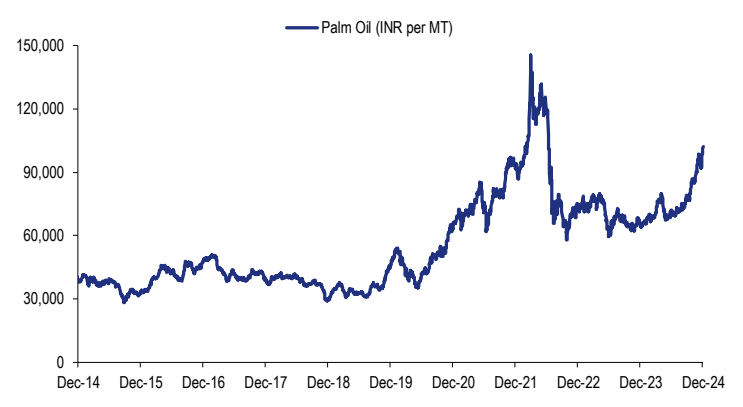
Source: Company, JM Financial

**Exhibit 8. Crude prices are stable to benign...**



Source: Bloomberg, JM Financial

**Exhibit 9. ...while palm oil prices have seen steep inflation**



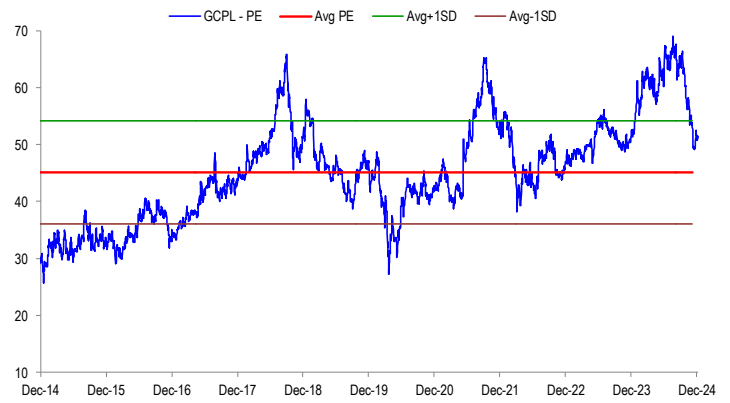
Source: Bloomberg, JM Financial

**Exhibit 10. GCPL's 5-year average PE band**



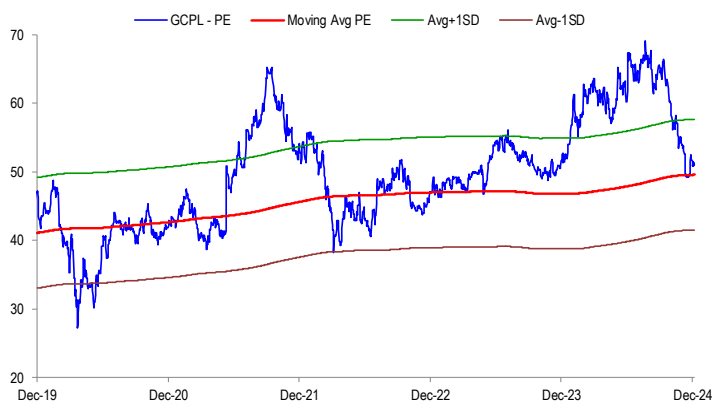
Source: Bloomberg, JM Financial

**Exhibit 11. GCPL's 10-year average PE band**



Source: Bloomberg, JM Financial

**Exhibit 12. GCPL's 5-year average PE band**



Source: Bloomberg, JM Financial

**Exhibit 13. GCPL's 10-year average PE band**



Source: Bloomberg, JM Financial

**Exhibit 14. Revision in estimates**

INR mn	Revised			Earlier			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	144,284	160,223	177,280	146,198	162,335	179,609	-1%	-1%	-1%
EBITDA	30,912	36,238	41,492	33,009	38,044	43,382	-6%	-5%	-4%
PAT	20,528	26,693	31,168	22,016	28,082	32,653	-7%	-5%	-5%
EPS (INR)	20.1	26.1	30.5	21.5	27.5	31.9	-7%	-5%	-5%

Source: Company, JM Financial

## Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	131,987	139,741	144,284	160,223	177,280	
Sales Growth	8.4%	5.9%	3.3%	11.0%	10.6%	
Other Operating Income	1,173	1,221	870	957	1,005	
<b>Total Revenue</b>	<b>133,160</b>	<b>140,961</b>	<b>145,154</b>	<b>161,180</b>	<b>178,285</b>	
Cost of Goods Sold/Op. Exp	67,028	63,203	64,924	70,923	77,644	
Personnel Cost	11,115	12,493	12,408	13,667	15,033	
Other Expenses	29,625	34,560	36,909	40,351	44,115	
<b>EBITDA</b>	<b>25,392</b>	<b>30,705</b>	<b>30,912</b>	<b>36,238</b>	<b>41,492</b>	
EBITDA Margin	19.1%	21.8%	21.3%	22.5%	23.3%	
EBITDA Growth	1.9%	20.9%	0.7%	17.2%	14.5%	
Depn. & Amort.	2,363	2,410	2,112	2,221	2,315	
EBIT	23,029	28,295	28,800	34,017	39,177	
Other Income	1,684	2,690	3,373	4,000	4,483	
Finance Cost	1,757	2,964	3,064	2,331	1,992	
PBT before Excep. & Forex	22,955	28,021	29,109	35,685	41,668	
Excep. & Forex Inc./Loss(-)	-1,628	-26,039	-341	-80	-80	
PBT	21,327	1,982	28,768	35,605	41,588	
Taxes	4,303	7,588	8,481	8,973	10,480	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	17,025	-5,605	20,287	26,633	31,108	
<b>Adjusted Net Profit</b>	<b>17,831</b>	<b>19,809</b>	<b>20,528</b>	<b>26,693</b>	<b>31,168</b>	
Net Margin	13.4%	14.1%	14.1%	16.6%	17.5%	
Diluted Share Cap. (mn)	1,022.7	1,022.8	1,022.8	1,022.8	1,022.8	
<b>Diluted EPS (INR)</b>	<b>17.4</b>	<b>19.4</b>	<b>20.1</b>	<b>26.1</b>	<b>30.5</b>	
Diluted EPS Growth	1.9%	11.1%	3.6%	30.0%	16.8%	
Total Dividend + Tax	0	5,114	8,115	13,316	18,665	
Dividend Per Share (INR)	0.0	5.0	7.9	13.0	18.2	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	137,942	125,986	141,404	156,801	171,384	
Share Capital	1,023	1,023	1,023	1,023	1,023	
Reserves & Surplus	136,920	124,963	140,381	155,778	170,361	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	10,340	31,546	29,963	23,971	19,176	
Def. Tax Liab. / Assets (-)	-6,412	-2,804	-2,033	-2,033	-2,033	
<b>Total - Equity &amp; Liab.</b>	<b>141,870</b>	<b>154,729</b>	<b>169,335</b>	<b>178,739</b>	<b>188,528</b>	
Net Fixed Assets	98,824	103,585	105,973	108,252	109,482	
Gross Fixed Assets	52,953	73,723	78,223	82,723	86,268	
Intangible Assets	58,223	50,264	50,264	50,264	50,264	
Less: Depn. & Amort.	12,805	21,236	23,348	25,569	27,884	
Capital WIP	454	834	834	834	834	
Investments	30,290	35,037	42,044	50,453	60,543	
Current Assets	38,846	42,496	48,170	48,643	49,744	
Inventories	15,372	12,709	12,727	13,694	14,666	
Sundry Debtors	12,453	15,354	15,853	17,165	18,993	
Cash & Bank Balances	3,907	5,469	9,862	7,218	4,601	
Loans & Advances	1,653	2,300	2,530	2,783	3,062	
Other Current Assets	5,462	6,663	7,197	7,782	8,423	
Current Liab. & Prov.	26,091	26,389	26,852	28,608	31,242	
Current Liabilities	24,158	23,228	24,057	25,575	27,948	
Provisions & Others	1,933	3,161	2,795	3,034	3,294	
Net Current Assets	12,756	16,107	21,318	20,035	18,502	
<b>Total - Assets</b>	<b>141,870</b>	<b>154,729</b>	<b>169,335</b>	<b>178,739</b>	<b>188,528</b>	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	21,868	26,751	29,029	35,605	41,588	
Depn. & Amort.	2,363	2,410	2,112	2,221	2,315	
Net Interest Exp. / Inc. (-)	73	274	-309	-1,669	-2,491	
Inc (-) / Dec in WCap.	933	-4,559	-214	-1,341	-1,065	
Others	453	-437	590	80	80	
Taxes Paid	-4,185	-3,739	-9,065	-8,973	-10,480	
<b>Operating Cash Flow</b>	<b>21,507</b>	<b>20,700</b>	<b>22,142</b>	<b>25,924</b>	<b>29,947</b>	
Capex	77	306	-4,500	-4,500	-3,546	
Free Cash Flow	21,583	21,006	17,642	21,424	26,402	
Inc (-) / Dec in Investments	-18,769	-9,085	-7,007	-8,409	-10,091	
Others	1,109	-24,851	3,293	3,920	4,403	
<b>Investing Cash Flow</b>	<b>-17,583</b>	<b>-33,630</b>	<b>-8,214</b>	<b>-8,989</b>	<b>-9,233</b>	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	0	-5,114	-4,869	-11,236	-16,525	
Inc / Dec (-) in Loans	-6,344	22,652	-1,583	-5,993	-4,794	
Others	-1,600	-3,474	-3,083	-2,351	-2,012	
<b>Financing Cash Flow</b>	<b>-7,943</b>	<b>14,063</b>	<b>-9,535</b>	<b>-19,579</b>	<b>-23,331</b>	
<b>Inc / Dec (-) in Cash</b>	<b>-4,020</b>	<b>1,133</b>	<b>4,393</b>	<b>-2,644</b>	<b>-2,617</b>	
Opening Cash Balance	7,927	4,337	5,469	9,862	7,218	
Closing Cash Balance	3,907	5,469	9,862	7,218	4,601	

Source: Company, JM Financial

Dupont Analysis		FY23A	FY24A	FY25E	FY26E	FY27E
Net Margin		13.4%	14.1%	14.1%	16.6%	17.5%
Asset Turnover (x)		0.9	0.9	0.9	0.9	0.9
Leverage Factor (x)		1.1	1.2	1.2	1.2	1.1
RoE		14.1%	15.0%	15.4%	17.9%	19.0%

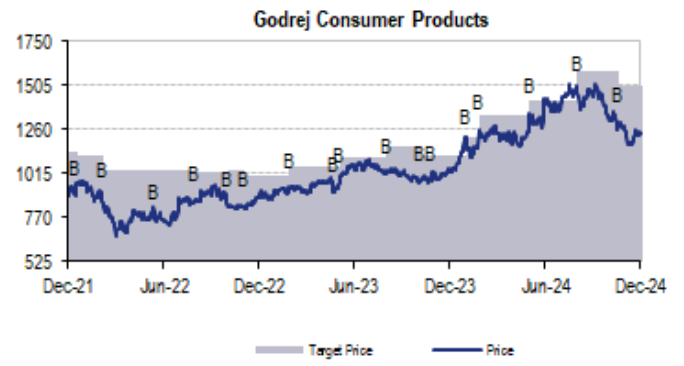
Key Ratios		FY23A	FY24A	FY25E	FY26E	FY27E
BV/Share (INR)		134.9	123.2	138.3	153.3	167.6
ROIC		16.4%	-69.2%	17.2%	21.0%	23.6%
ROE		14.1%	15.0%	15.4%	17.9%	19.0%
Net Debt/Equity (x)		-0.1	0.1	0.0	-0.1	-0.1
P/E (x)		70.8	63.8	61.5	47.3	40.5
P/B (x)		9.2	10.0	8.9	8.1	7.4
EV/EBITDA (x)		49.1	41.4	40.9	34.6	30.1
EV/Sales (x)		9.4	9.0	8.7	7.8	7.0
Debtor days		34	40	40	39	39
Inventory days		42	33	32	31	30
Creditor days		79	75	75	73	73

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
5-Aug-21	Buy	1,095	
27-Sep-21	Buy	1,095	0.0
11-Nov-21	Buy	1,135	3.7
20-Dec-21	Buy	1,120	-1.3
8-Feb-22	Buy	1,035	-7.6
20-May-22	Buy	1,030	-0.5
3-Aug-22	Buy	1,025	-0.5
7-Oct-22	Buy	1,035	1.0
8-Nov-22	Buy	1,000	-3.4
1-Feb-23	Buy	1,050	5.0
28-Apr-23	Buy	1,050	0.0
10-May-23	Buy	1,100	4.8
8-Aug-23	Buy	1,165	5.9
9-Oct-23	Buy	1,110	-4.7
1-Nov-23	Buy	1,115	0.5
8-Jan-24	Buy	1,220	9.4
1-Feb-24	Buy	1,335	9.4
8-May-24	Buy	1,420	6.4
8-Aug-24	Buy	1,580	11.3
25-Oct-24	Buy	1,500	-5.1

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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