

Godrej Consumer Products | BUY



Revenue miss offset by healthy delivery on International profitability

GCPL's 1QFY25 earnings print was mixed bag – revenue growth was below expectations though operating performance was largely inline. Topline declined for the first time in sixteen quarters –due to weakness in International revenue (Africa business declined by 25% due to shipping crisis affecting South Africa, destocking in Nigeria and depreciating Naira). On the positive side, India organic volume growth (8%) was healthy despite cutting trade schemes on Soaps and an unusually hot summer for HI. Overall operating profits were largely inline led by strong GPM expansion and impressive costs management especially in the International business (margin expansion seen across geographies). Going ahead, focus remains on driving volume-led growth (expects high-single-digit volume growth); pricing should turn positive which along with steady International profitability will aid overall earnings growth. Foray into Pet Care (targeting entry by late FY26) provides a new growth opportunity for the company. Going ahead, uptick in HI (led by recent new launches), Soaps and recovery in Africa sales will be key monitorables for further rerating. The benefit of execution machinery put in place was seen in its FY24 performance; hence, confidence level on CEO's plan remains high & intact. Sharp corrections should be used as opportunity to add.

- Revenue below estimate, operating profitability largely inline:** GCPL's 1QFY25 sales declined 3.1% (organic -1%) to INR 33.1bn while EBITDA and adjusted net profit both grew 12.7% to INR 7.2bn and INR 4.7bn respectively. India sales grew 6.1% (8.5% incl M&A) with underlying volume growth of 8%. International sales fell 19% on reported basis – Africa sales were down 23% (cc: -10%). While South Africa was hit by the Red Sea and shipping crisis, Nigeria suffered due to destocking by retailers on account of currency appreciation. Consol GM was up 226bps yoy to 55.6% vs JMFe: 55.2%. The business continued healthy investments in brands (10% of sales - c.2% above JMFe). However, overheads were managed well, hence operating margin expanded 307bps to 21.9% (vs JMFe 21.2%). India EBITDA grew just c.7% with margin of 25% vs 25.2% LY while International EBITDA growth was c.35% led by GPM and mix improvement.
- India' revenue inline; International profitability surprises profitability despite weak revenues:**
 - India** - Home-care grew 8% yoy (on a high base) with low-single-digit volumes in HI as category was impacted by intense summer, while Fabric-care and Air-freshener reported double-digit volumes. Personal-care grew 6% yoy, despite weak operating environment. Hair Colour performance remains soft (flat volumes) due to lower wedding dates while impact of price-reversals in Soaps was restricted by driving body wash (launched Cinthol Foam Body wash).
 - Raymond** business reported revenue of INR 1.53bn, was impacted due to challenges faced in urban general trade (especially the cosmetic channel).
 - Indonesia** clocked CC growth of 11% yoy and UVG of 7% yoy led by Stella air freshener, HI and Shampoo Hair-colour. The management targets to sustain EBITDA margins at 25%.
 - Africa's** volume growth (-21% yoy) remains under pressure after supply chain lapses, high interest rate and down stocking by retailers in Nigerian markets (due to currency appreciation). Regardless of poor revenue growth (-25% yoy), EBITDA margins expanded by 756bps to 14.4%.

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,580
Upside/(Downside)	5.3%
Previous Price Target	1,420
Change	11.3%

Key Data – GCPL IN

Current Market Price	INR1,501
Market cap (bn)	INR1,535.4/US\$18.3
Free Float	36%
Shares in issue (mn)	1,022.5
Diluted share (mn)	1,022.8
3-mon avg daily val (mn)	INR1,923.5/US\$22.9
52-week range	1,525/960
Sensex/Nifty	79,468/24,298
INR/US\$	84.0

Price Performance

%	1M	6M	12M
Absolute	9.3	21.3	45.6
Relative*	9.9	9.0	20.7

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

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	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	1,21,742	1,31,987	1,39,741	1,47,141	1,63,942
Sales Growth (%)	11.3	8.4	5.9	5.3	11.4
EBITDA	24,917	25,392	30,705	34,439	39,187
EBITDA Margin (%)	20.5	19.2	22.0	23.4	23.9
Adjusted Net Profit	17,493	17,831	19,809	23,050	28,853
Diluted EPS (INR)	17.1	17.4	19.4	22.5	28.2
Diluted EPS Growth (%)	6.9	1.9	11.1	16.4	25.2
ROIC (%)	18.1	16.4	-69.2	19.2	22.7
ROE (%)	16.7	14.1	15.0	17.1	19.0
P/E (x)	87.7	86.1	77.5	66.6	53.2
P/B (x)	13.3	11.1	12.2	10.7	9.6
EV/EBITDA (x)	61.4	59.5	49.7	43.9	38.2
Dividend Yield (%)	0.0%	0.0%	0.3%	0.6%	0.9%

Source: Company data, JM Financial. Note: Valuations as of 07/Aug/2024

Formation of Godrej Pet Care (GPC), a subsidiary of GCPL

Key guardrails

- Godrej Pet Care will be a subsidiary of GCPL.
- Cash requirement limited to c.INR 500cr. (likely positive cash flow thereafter).
- Godrej Pet Care to have a manufacturing agreement with GAVL.
- Targeting entry by late FY26: already appointed the COO.

Strong industry opportunity

- Pet Care is already an INR 500cr. category. It is expected to grow at a CAGR of c.15% over FY24-35E.
- It is a highly underpenetrated category. Only approximately 10% of Indians own a pet (vs. c.20% in China and c.50% in Brazil), while calorie conversion by pets from packaged food in India is <5% (China: 25-30%, Brazil: 40-45%).
- Globally, Pet Care has reasonably high margins.
- Currently, there are only a few players in the market which presents a good opportunity to enter.

Company's right to win

- GAVL, GCPL's group company, is the market leader in animal feeds and has a good understanding of pet foods, R&D and competitive advantages in supply chain.
- GAVL is one of the largest buyers of raw materials required in Pet Care (chicken, corn, etc.) and has a good understanding of costs and commodities. GAVL will be the manufacturing and R&D partner.
- Mr. Nitin Jain, who has an extensive experience in Pet Care, is appointed as COO for the business.

Exhibit 1. Segment and region-wise growth and profitability snapshot (INR mn)

	1QFY25	1QFY24	yoy	1QFY25E	% variance
Revenue					
Home Care	8,150	7,520	8%	7,746	5%
Personal Care	12,480	11,570	7.9%	13,220	-6%
Exports / Unbranded	770	620	24%	608	27%
Domestic Revenue	21,400	19,710	9%	21,573	-1%
Indonesia	4,650	4,500	3%	4,970	-6%
Africa	5,430	8,470	-36%	6,035	-10%
Latam	1,910	1,780	7%	2,307	-17%
International Revenue	11,990	14,750	-19%	13,312	-10%
Consolidated; Revenue	33,316	34,489	-3%	34,920	-5%
EBITDA					
India	5,343	4,974	7%	5,477	-2%
Indonesia	1083	861	26%	1044	4%
Africa	782	579	35%	785	0%
Latam	92	14	544%	46	99%
Consolidated EBITDA	7,244	6,428	12.7%	7,351	-1%
Depreciation	495	763		554	
Interest	878	740		800	
Other Income	771	691		692	
PBT before exceptional items	6,643	5,617	18%	6,690	-1%
Exceptional Exp & Forex	203	818		0	
PBT	6,440	4,799		6,690	
Tax	1,933	1,611		1,672	
PAT	4,507	3,188		5,017	
Adj PAT	4,657	4,133	13%	5,017	-7%
Margin %					
India	25.0%	25.2%	-27 bps	25.4%	-42 bps
Indonesia	23.3%	19.1%	416 bps	21.0%	230 bps
Africa	14.4%	6.8%	756 bps	13.0%	140 bps
Latam	4.8%	0.8%	400 bps	2.0%	280 bps
Consolidated margin %	21.7%	18.6%	311 bps	21.1%	69 bps

Source: Company, JM Financial

Exhibit 2. 1QFY25 P&L snapshot: Consolidated vs Standalone

(INR mn)

	CONSOLIDATED					PARENT			
	1QFY25	1QFY24	YoY growth	1QFY25E	% Var	1QFY25	1QFY24	YoY growth	
Net Sales	33,108	34,179	-3.1%	34,600	-4.3%	21,395	19,711	8.5%	
Other Operating Income	208	311	-33.0%	320	-35.0%	234	344	-31.9%	
Total Revenue	33,316	34,489	-3.4%	34,920	-4.6%	21,629	20,055	7.9%	
Gross Profit	18,400	18,224	1.0%	19,097	-3.6%	11,973	11,099	7.9%	
Gross Profit Margin %	55.6%	53.3%	226 bps	55.2%	38 bps	56.0%	56.3%	-35 bps	
Staff Cost	2,796	3,140	-11.0%	3,252	-14.0%	1,229	1,178	4.3%	
Advertisement & Publicity	3,308	3,204	3.3%	3,252	1.7%	2,575	2,467	4.4%	
Other Expenses	5,260	5,762	-8.7%	5,560	-5.4%	3,060	2,824	8.4%	
EBITDA	7,244	6,428	12.7%	7,351	-1.5%	5,343	4,974	7.4%	
EBITDA margin %	21.9%	18.8%	307 bps	21.2%	63 bps	25.0%	25.2%	-26 bps	
Depreciation	495	763	-35.2%	554	-10.7%	273	453	-39.7%	
EBIT	6,750	5,666	19.1%	6,798	-0.7%	5,070	4,521	12.1%	
Interest Expense	878	740	18.6%	800	9.7%	425	247	72.2%	
Financial Other Income	771	691	11.6%	692	11.4%	638	1,828	-65.1%	
PBT pre-exceptionals / forex impact	6,643	5,617	18.3%	6,690	-0.7%	5,282	6,101	-13.4%	
PBT post exceptionals / forex impact	6,440	4,799	34.2%	6,690	-3.7%	5,262	5,310	-0.9%	
Taxes	1,933	1,611	20.0%	1,672	15.6%	1,584	1,406	12.7%	
Reported Net Profit	4,507	3,188	41.4%	5,017	-10.2%	3,678	3,905	-5.8%	
Adjusted Net Profit	4,657	4,133	12.7%	5,017	-7.2%	3,692	4,477	-17.5%	

Source: Company, JM Financial

Exhibit 3. 1QFY25 costs breakdown

% of net sales	CONSOLIDATED			PARENT		
	1QFY25	1QFY24	1QFY25E	1QFY25	1QFY24	
Cost of Goods Sold	44.4%	46.7%	44.8%	44.0%	43.7%	
Staff Cost	8.4%	9.2%	9.4%	5.7%	6.0%	
Advertisement & Publicity	10.0%	9.4%	9.4%	12.0%	12.5%	
Other Expenses	15.9%	16.9%	16.1%	14.3%	14.3%	

Source: Company, JM Financial

Exhibit 4. Trends in geo-wise revenue and profitability

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
<u>YOY Growth</u>									
India - Home Care	-3.5%	1.6%	10.1%	14.1%	13.4%	5.1%	4.7%	6.0%	8.4%
India - Personal Care	25.3%	17.7%	13.9%	17.2%	1.9%*	-1.4%*	2.4%*	4.0%*	7.9%*
Indonesia	-12.0%	-11.0%	-3.0%	5.0%	15.0%	14.0%	7.0%	17.0%	11.0%
Africa	12.0%	13.0%	23.0%	8.0%	16.0%	17.0%	14.0%	16.0%	-23.0%
Others	15.0%	34.0%	47.0%	64.0%	79.0%	99.0%	181.0%	262.0%	147.0%
<u>EBITDA margin</u>									
India	22.9%	21.9%	27.6%	26.9%	25.2%	26.2%	30.0%	27.0%	25.0%
Indonesia	15.1%	16.8%	19.7%	21.3%	19.1%	17.5%	20.5%	24.8%	23.3%
Africa	5.8%	4.9%	8.5%	6.5%	6.8%	8.1%	10.9%	13.6%	14.4%
Others	1.0%	1.8%	5.0%	8.1%	0.8%	-0.8%	-3.6%	4.1%	4.8%

Source: Company, JM Financial. Note: International growth stated above are on constant currency basis, *Organic growth

Exhibit 5. Interesting launches in the Home-care category expected to structurally improve the segment's growth rates going forward

Launched Goodknight Liquid Vaporiser with an exclusive RNF molecule across India

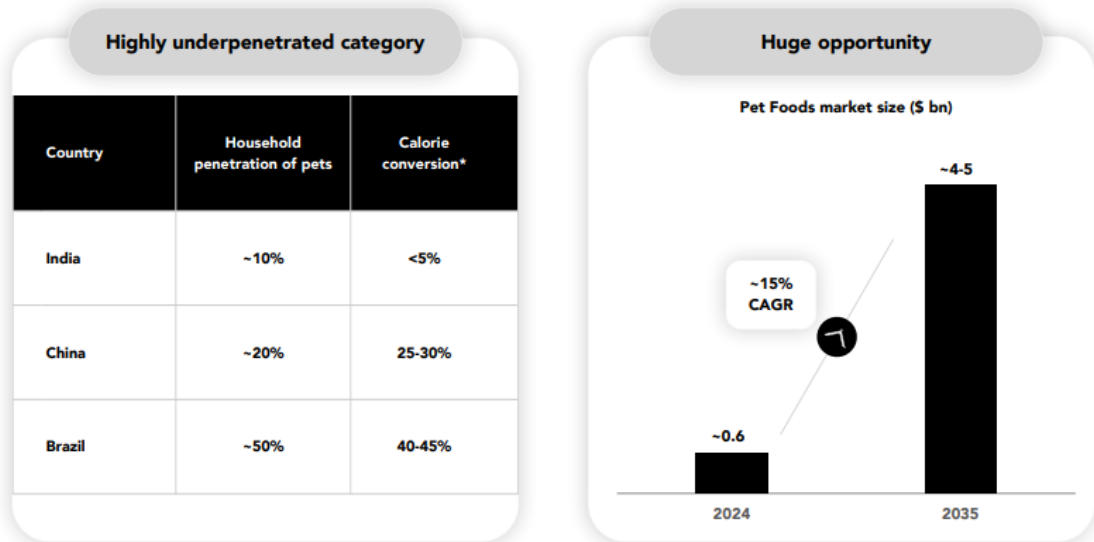


Launched the all-new HIT Spray Matic



Source: Company PPT, JM Financial

Exhibit 6. Pet Care category has a huge headroom of growth in India

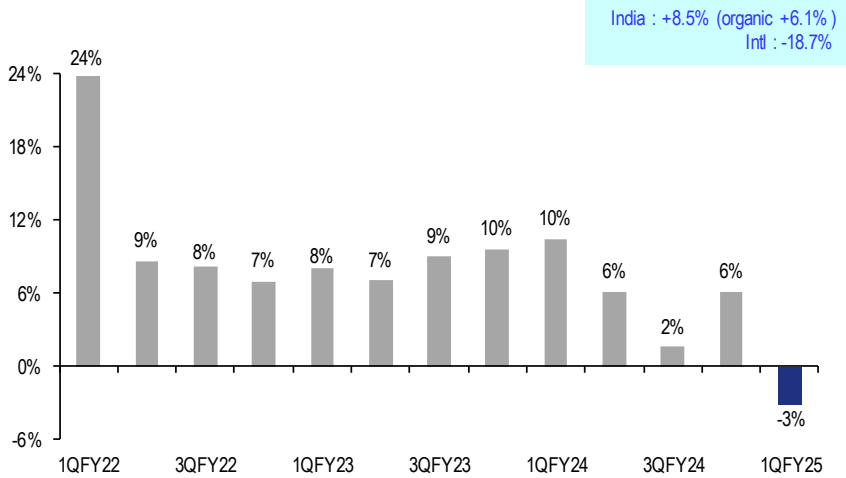


*Calorie conversion = Calories consumed by a Pet from packaged food out of the total calories consumed by a Pet

Source: Company PPT, JM Financial

Exhibit 7. Consolidated sales declined 3% (incl inorganic) during Jun-Q

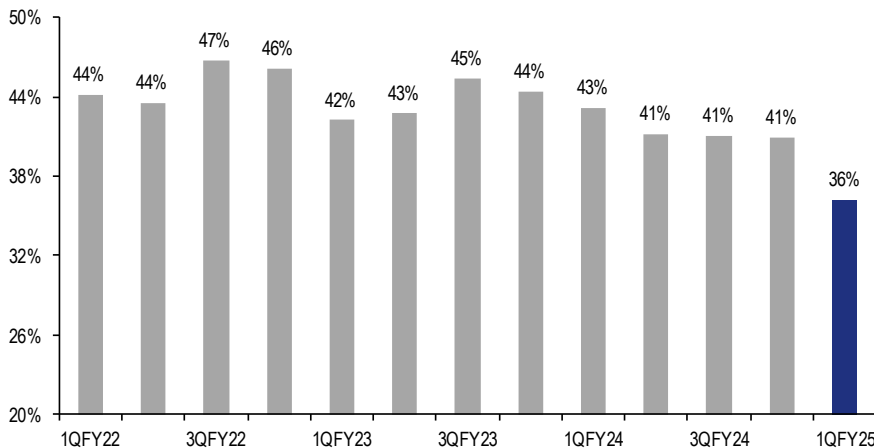
YoY Net Sales Growth %



Source: Company, JM Financial

Exhibit 8. Share of International revenue down to 36% now

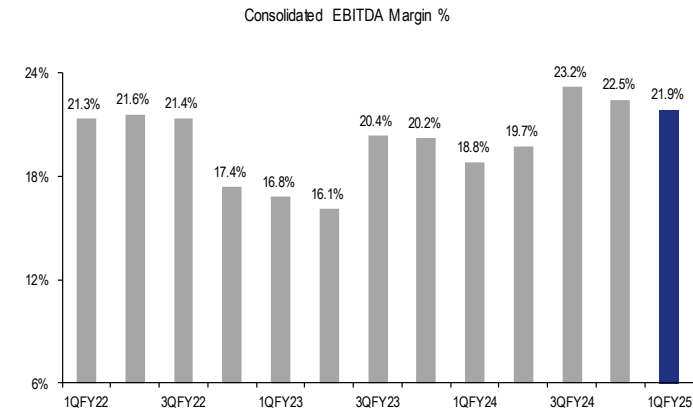
International Revenue - % of Total



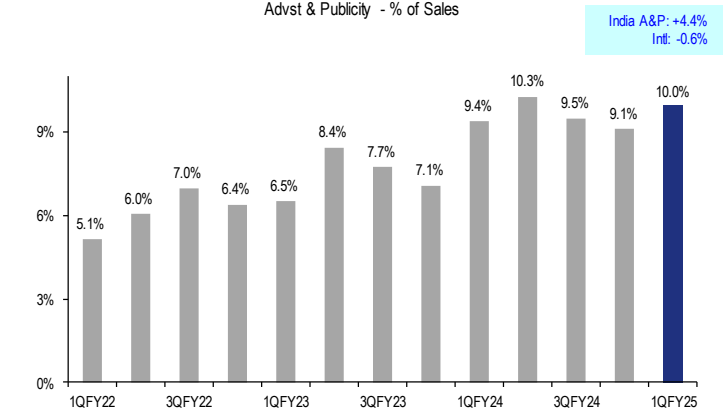
Source: Company, JM Financial

Exhibit 9. Consolidated EBITDA margin up 307bps yoy but down 58bps qoq

Exhibit 10. A&P spends were well-controlled this time round



Source: Company, JM Financial



Source: Company, JM Financial

Exhibit 11. GCPL one year forward PE band



Source: Company, Bloomberg, JM Financial

Financial Tables (Consolidated)

Profit & Loss Statement						Balance Sheet					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Sales excl Excise	1,21,742	1,31,987	1,39,741	1,47,141	1,63,942	Shareholders' Fund	1,15,559	1,37,942	1,25,986	1,43,503	1,60,013
Sales Growth	11.3%	8.4%	5.9%	5.3%	11.4%	Share capital	1,023	1,023	1,023	1,023	1,023
Other Operating Income	1,023	1,173	1,221	1,165	1,282	Reserves & Surplus	1,14,537	1,36,920	1,24,963	1,42,481	1,58,990
Total Revenue	1,22,765	1,33,160	1,40,961	1,48,306	1,65,223	Preference Share Capital					
Cost of Goods Sold/Op. Exp.	60,751	67,028	63,203	64,552	71,632	Minority Interest	0	0	0	0	0
Personnel cost	11,041	11,115	12,493	12,948	14,345	Total Loans	16,077	10,340	31,546	25,237	20,190
Other expenses	26,055	29,625	34,560	36,367	40,059	Def. Tax Liab / Assets (-)	-6,796	-6,412	-2,804	-1,928	-1,928
EBITDA	24,917	25,392	30,705	34,439	39,187	Total - Equity & Liab	1,24,840	1,41,870	1,54,729	1,66,813	1,78,275
EBITDA (%)	20.5%	19.2%	22.0%	23.4%	23.9%	Net Fixed Assets	92,391	98,835	1,04,560	1,06,877	1,09,079
EBITDA Growth (%)	2.0%	1.9%	20.9%	12.2%	13.8%	Gross Fixed Assets	48,399	52,953	73,723	78,223	82,723
Depn & Amort	2,099	2,363	2,410	2,203	2,318	Intangible Assets	53,768	58,223	50,264	50,264	50,264
EBIT	22,818	23,029	28,295	32,236	36,870	Less: Depn. & Amort.	10,958	12,805	21,236	23,439	25,756
Other Income	897	1,684	2,690	3,105	3,674	Capital WIP	1,182	465	1,809	1,829	1,849
Finance Cost	1,102	1,757	2,964	2,479	1,970	Investments	10,154	30,290	35,037	42,044	50,453
PBT before Excep & Forex	22,614	22,955	28,021	32,862	38,574	Current Assets	50,514	37,880	40,845	43,978	46,866
Excep & forex Inc/Loss(-)	-1,064	-1,628	-26,039	-177	0	Inventories	21,299	15,372	12,709	12,979	14,012
PBT	21,550	21,327	1,982	32,685	38,574	Sundry Debtors	11,163	12,453	15,354	16,167	17,564
Taxes	3,719	4,303	7,588	9,636	9,721	Cash & Bank Balances	11,078	3,907	5,469	6,789	6,443
Extraordinary Inc/Loss(-)	0	0	0	0	0	Loans & Advances	1,566	1,653	2,300	2,530	2,783
Assoc. Profit/Min. Int.(-)	-3	0	0	0	0	Other Current Assets	5,408	4,495	5,012	5,513	6,064
Reported Net profit	17,834	17,025	-5,605	23,050	28,853	Current Liab. & Prov.	28,219	25,135	25,713	26,086	28,123
Adjusted Net Profit	17,493	17,831	19,809	23,050	28,853	Current Liabilities	26,164	23,202	22,553	23,291	25,089
Net Margin (%)	14.4%	13.5%	14.2%	15.7%	17.6%	Provisions & Others	2,054	1,933	3,161	2,795	3,034
Diluted share capital (mn)	1,023	1,023	1,023	1,023	1,023	Net Current Assets	22,295	12,745	15,131	17,892	18,743
Diluted EPS (INR)	17.1	17.4	19.4	22.5	28.2	Application of Funds	1,24,840	1,41,870	1,54,729	1,66,813	1,78,275
Diluted EPS Growth	6.9%	1.9%	11.1%	16.4%	25.2%	Source: Company, JM Financial					
Total Dividend + Tax	0	0	5,114	9,220	14,427						
Dividend Per Share (Rs)	0.0	0.0	5.0	9.0	14.1						

Source: Company, JM Financial

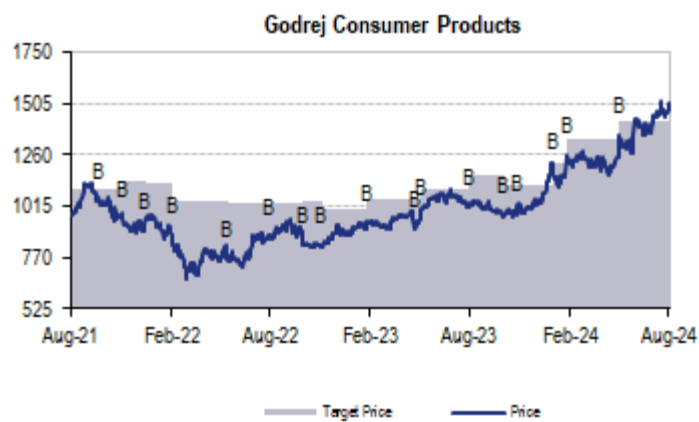
Cash Flow Statement						Dupont Analysis					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profit before Tax	21,550	21,327	1,982	32,685	38,574	Net Margin	14.4%	13.5%	14.2%	15.7%	17.6%
Depn. & Amort.	2,099	2,363	2,410	2,203	2,318	Asset Turnover (x)	1.1	1.0	0.9	0.9	1.0
Net Interest Exp. / Inc. (-)	205	73	274	-626	-1,705	Leverage Factor (x)	1.1	1.1	1.1	1.2	1.1
Inc (-) / Dec in WCcap.	-5,362	933	-4,559	-857	-1,197	RoE	16.7%	14.1%	15.0%	17.1%	19.0%
Others	489	994	24,332	1,053	0	Key Ratios					
Taxes Paid	-4,475	-4,185	-3,739	-10,220	-9,721	Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Operating Cash Flow	14,506	21,507	20,700	24,238	28,270	BV/Share (INR)	113.0	134.9	123.2	140.3	156.4
Capex	-2,765	77	306	-4,500	-4,500	ROIC (%)	18.1%	16.4%	-69.2%	19.2%	22.7%
Free Cash Flow	11,741	21,583	21,006	19,738	23,770	ROE (%)	16.7%	14.1%	15.0%	17.1%	19.0%
-Inc/dec in investments	-6,467	-18,769	-9,085	-7,007	-8,409	Net Debt-equity ratio (x)	0.0	-0.2	-0.1	-0.2	-0.2
Other current assets	590	1,109	-24,851	2,928	3,674	PER	87.7	86.1	77.5	66.6	53.2
Investing Cash Flow	-8,642	-17,583	-33,630	-8,579	-9,234	PBV	13.3	11.1	12.2	10.7	9.6
Inc(dec) in capital	0	0	0	0	0	EV/EBITDA	61.4	59.5	49.7	43.9	38.2
Dividend+Tax Thereon	0	0	-5,114	-5,532	-12,344	EV/Net Sales	12.6	11.4	10.9	10.3	9.1
Inc/dec in loans	-2,198	-6,344	22,652	-6,309	-5,047	Debtor days	33	34	40	40	39
Other assets	-1,597	-1,600	-3,474	-2,498	-1,990	Inventory days	64	43	33	32	31
Financing Cash Flow	-3,795	-7,943	14,063	-14,339	-19,381	Creditor days	98	79	75	75	73
Inc / Dec (-) in Cash	2,068	-4,020	1,133	1,319	-346	Source: Company, JM Financial					
Opening cash balance	9,010	7,927	4,337	5,469	6,789						
Closing cash balance	11,078	3,907	5,469	6,789	6,443						

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
25-Mar-21	Buy	870	
11-May-21	Buy	915	5.2
5-Aug-21	Buy	1,095	19.7
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

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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