

BUY Godrej Consumer Products**In-line Q2; corrective actions continue to boost prospects**Consumer Goods ▶ Result Update ▶ **November 1, 2023****TARGET PRICE (Rs): 1,200**

We maintain our positive stance on GCPL, based on our expectations of an improved show on the back of multiple initiatives across geographies under the new leadership. Management continues with corrective actions—this time, it took a call to move its East Africa operations to a franchise model, which will lead to a revenue shift of Rs5bn in return for Royalty of ~10%. We see this as an apt move, as the business has been a drag and logging losses. Q2FY24 results are in line with estimates, with net sales/EBITDA/adj PAT growing 6%/30%/18%. Regarding Inorganic, the Raymond portfolio fared better, with 7% India sales contribution, and turned EBITDA-positive. The BOD declared a dividend—of Rs5/sh (with aim to keep Payout at 50% for FY24)—after 3years. We maintain our estimates/BUY rating; Sep-24E TP: Rs1,200/sh (on 46x P/E).

Godrej Consumer Products: Financial Snapshot (Consolidated)

| Y/E Mar (Rs mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---------------------|---------|---------|---------|---------|---------|
| Revenue | 122,765 | 133,160 | 146,086 | 164,780 | 181,579 |
| EBITDA | 23,951 | 24,305 | 28,689 | 35,111 | 39,821 |
| Adj. PAT | 17,915 | 17,459 | 19,691 | 24,716 | 28,733 |
| Adj. EPS (Rs) | 17.5 | 17.1 | 19.3 | 24.2 | 28.1 |
| EBITDA margin (%) | 19.5 | 18.3 | 19.6 | 21.3 | 21.9 |
| EBITDA growth (%) | 0.3 | 1.5 | 18.0 | 22.4 | 13.4 |
| Adj. EPS growth (%) | 1.9 | (2.6) | 12.8 | 25.5 | 16.3 |
| RoE (%) | 17.1 | 13.9 | 13.2 | 14.8 | 15.4 |
| RoIC (%) | 19.8 | 16.9 | 16.4 | 18.2 | 20.5 |
| P/E (x) | 56.6 | 58.1 | 51.5 | 41.0 | 35.3 |
| EV/EBITDA (x) | 41.5 | 40.3 | 34.0 | 27.6 | 23.8 |
| P/B (x) | 8.8 | 7.4 | 6.5 | 5.8 | 5.2 |
| FCFF yield (%) | 1.2 | 2.0 | (0.6) | 2.5 | 3.1 |

Source: Company, Emkay Research

India sales grow 9%; better margin aided the 30% EBITDA growth

India-branded sales saw 9% growth and volume grew ~11%. The Raymonds portfolio (inorganic) contributed ~7% to sales, turning EBITDA-positive (vs. loss in Q1), and came in better than our estimate. Organic sales grew 1.6%, with ~4% volume growth. Q2FY24 growth was impacted by: a) a muted show in HI (August remains a dry month), b) poor show in hair color, and c) price cuts in soap (volume grew by a low single-digit). Revenue from Home Care grew 5% YoY, while that from Personal Care grew ~13% (Organic revenue fell 1% YoY). Organic EBITDA grew 31%, with ~28% EBITDA margin, expanding by 600bps YoY. From a demand outlook, the K-shaped recovery continues, with premium offerings doing well, while mass offerings stay under pressure.

International revenue grows 2%, but better margin aids 8% EBITDA growth

GAUM-cluster reported sales declined 5% (hit by the currency weakness), while constant currency growth stood healthy at 17%. As a part of its initiative to reorganize operations, the company is looking to shift ~Rs5bn in revenue (largely dry hair care) in Q4, from East Africa to a franchise model, and in return collect ~10% Royalty (vs. losses now). GAUM cluster EBITDA grew 50% YoY in Q2, driven by a 310-bps YoY expansion in EBITDA margin to 8.5%. Revenue from Indonesia grew 16% YoY, with 14% constant currency growth. EBITDA grew 21%, with ~70bps expansion in EBITDA margin to 20.6%. Other countries put up a muted show, with growth of 5% and EBITDA margin of -1%. Management remains confident of sustained margin expansion in international business.

Corrective actions reinforce outlook; maintain BUY

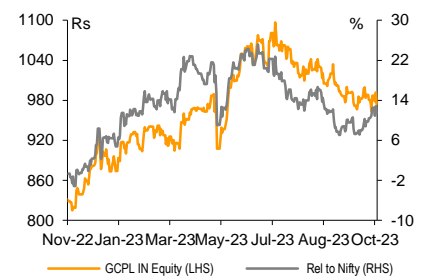
Based on quarterly actions by the new management, we see a clear strategy being framed to enhance not only the structural outlook but also profitability. Adjusted for external factors, we see the company putting up an improved show in a relatively muted demand setting. With in-line Q2 results, we retain our estimates, though we have yet to effect a new arrangement for East Africa. We retain BUY, with Rs1,200 TP (on 46x P/E).

| | |
|-------------------------|--------|
| Target Price – 12M | Sep-24 |
| Change in TP (%) | - |
| Current Reco. | BUY |
| Previous Reco. | BUY |
| Upside/(Downside) (%) | 23.1 |
| CMP (01-Nov-23) (Rs) | 974.7 |

| Stock Data | GCPL IN |
|-----------------------------|----------|
| 52-week High (Rs) | 1,102 |
| 52-week Low (Rs) | 794 |
| Shares outstanding (mn) | 1,022.8 |
| Market-cap (Rs bn) | 997 |
| Market-cap (USD mn) | 11,968 |
| Net-debt, FY24E (Rs mn) | 0 |
| ADTV-3M (mn shares) | 1 |
| ADTV-3M (Rs mn) | 802.7 |
| ADTV-3M (USD mn) | 9.6 |
| Free float (%) | 36.8 |
| Nifty-50 | 18,989 |
| INR/USD | 83.3 |
| Shareholding, Sep-23 | |
| Promoters (%) | 63.2 |
| FPIs/MFs (%) | 23.5/7.7 |

Price Performance

| (%) | 1M | 3M | 12M |
|---------------|-------|-------|------|
| Absolute | (1.7) | (4.5) | 16.3 |
| Rel. to Nifty | 1.7 | (0.7) | 11.1 |

1-Year share price trend (Rs)**Nitin Gupta**nitin.gupta@emkayglobal.com
+91 22 6612 1257

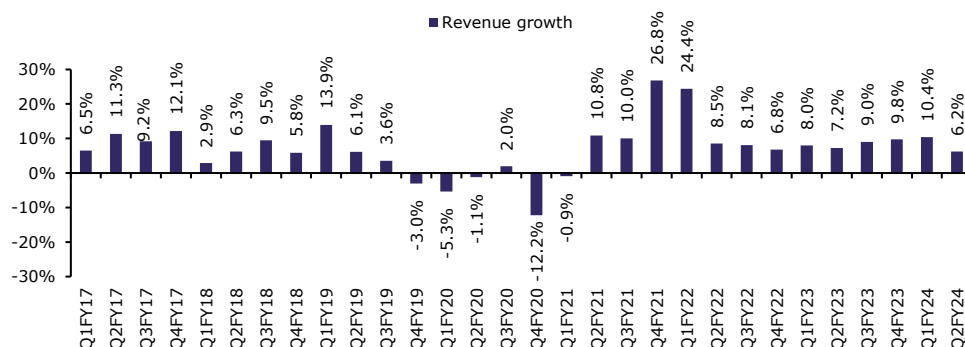
Quarterly performance

Exhibit 1: Assessing GCPL's Q2FY24 performance

| (Rs mn) | 2QFY24 | 2QFY23 | YoY (%) | 1QFY24 | QoQ (%) | 2QFY24E | Var (%) |
|-----------------------|---------------|---------------|-------------|---------------|-------------|---------------|--------------|
| Total income | 36,020 | 33,919 | 6.2 | 34,489 | 4.4 | 35,948 | 0.2 |
| Cost of goods | 16,249 | 17,681 | (8.1) | 15,955 | 1.8 | 17,255 | (5.8) |
| Employee expenses | 3,356 | 2,593 | 29.4 | 3,140 | 6.9 | 2,956 | 13.5 |
| A&P spends | 3,659 | 2,839 | 28.9 | 3,204 | 14.2 | 3,235 | 13.1 |
| Other expenses | 5,714 | 5,385 | 6.1 | 5,762 | (0.8) | 5,824 | (1.9) |
| EBITDA | 7,042 | 5,421 | 29.9 | 6,428 | 9.5 | 6,678 | 5.4 |
| EBITDA Margin (%) | 19.5 | 16.0 | 360bps | 18.6 | 90bps | 18.6 | 100bps |
| Depreciation | 609 | 533 | 14.2 | 763 | (20.2) | 700 | (13.0) |
| EBIT | 6,433 | 4,888 | 31.6 | 5,666 | 13.5 | 5,978 | 7.6 |
| EBIT Margin (%) | 17.9 | 14.4 | 340bps | 16.4 | 140bps | 16.6 | |
| Interest cost | 773 | 483 | 60.2 | 740 | 4.5 | 550 | 40.6 |
| Other income | 659 | 399 | 65.4 | 691 | (4.6) | 400 | 64.8 |
| PBT | 6,319 | 4,804 | 31.5 | 5,617 | 12.5 | 5,828 | 8.4 |
| Tax | 1,886 | 1,034 | 80.5 | 1,484 | 25.7 | 1,399 | 33.4 |
| Tax rate (%) | 29.8 | 21.5 | | 26.4 | | 24.0 | 23.0 |
| Non-recurring items | -105 | -182 | | -944 | | 0 | |
| Minority Interest | 0.0 | 0.0 | | 0.0 | | 0.0 | |
| PAT | 4,328 | 3,589 | 20.6 | 3,188 | 35.7 | 4,429 | (2.3) |
| Adj Profit | 4,433 | 3,770 | 17.6 | 4,132 | 7.3 | 4,429 | 0.1 |
| Net Profit Margin (%) | 12.3 | 11.1 | | 12.0 | | 12.3 | |
| EPS (Rs) | 4.3 | 3.7 | 17.6 | 4.0 | 7.8 | 4.3 | |

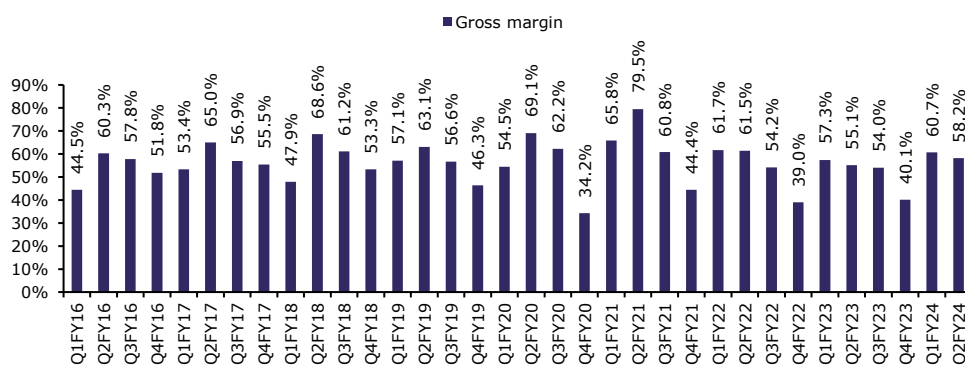
Source: Company, Emkay Research

Exhibit 2: Consolidated revenue growth



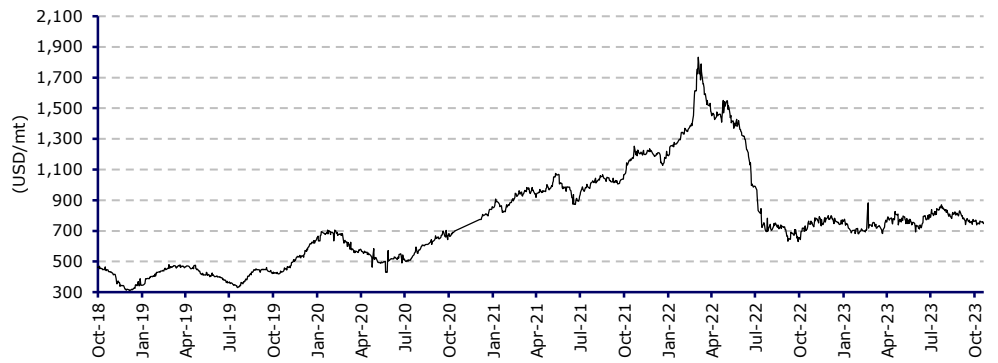
Source: Company, Emkay Research

Exhibit 3: Gross-margin trend



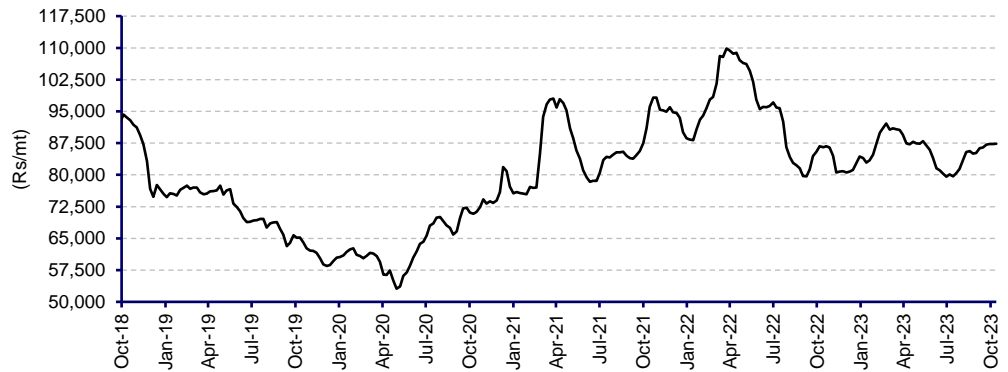
Source: Company, Emkay Research

Exhibit 4: Palm Fatty Acid distillate (PFAD) prices



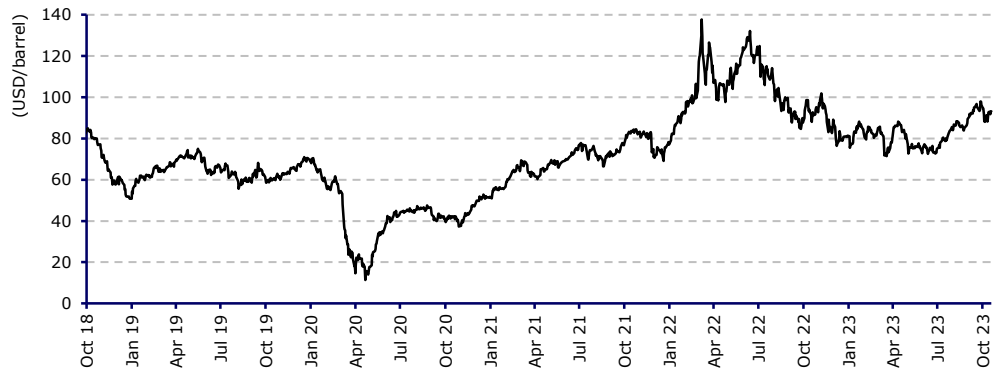
Source: Bloomberg, Emkay Research

Exhibit 5: HDPE prices



Source: Bloomberg, Emkay Research

Exhibit 6: Crude Oil prices



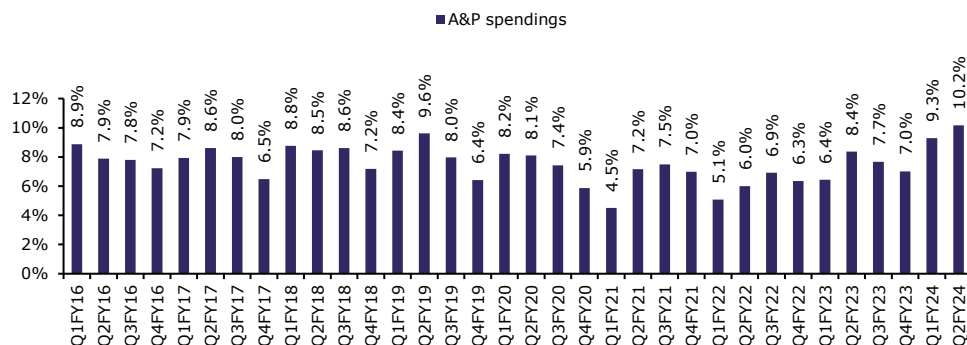
Source: Bloomberg, Emkay Research

Exhibit 7: Crude Palm oil prices



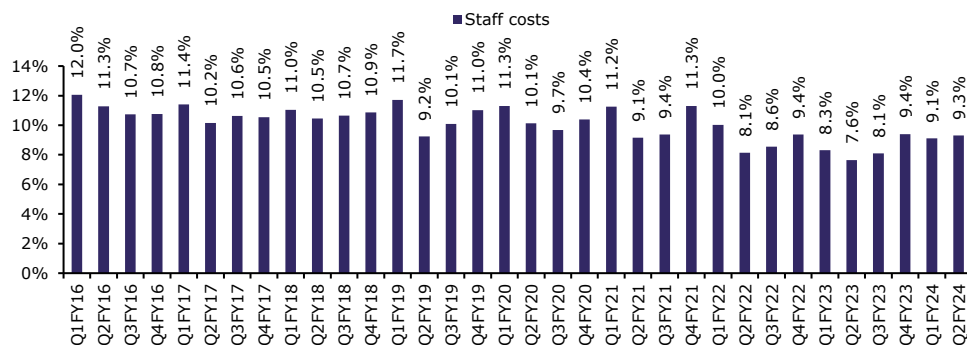
Source: Bloomberg, Emkay Research

Exhibit 8: Advertisement and Promotion spends, as % of sales



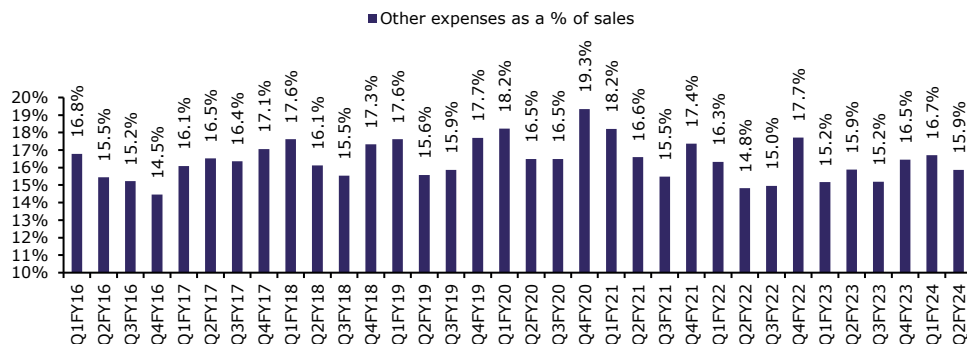
Source: Company, Emkay Research

Exhibit 9: Staff cost, as a % of sales



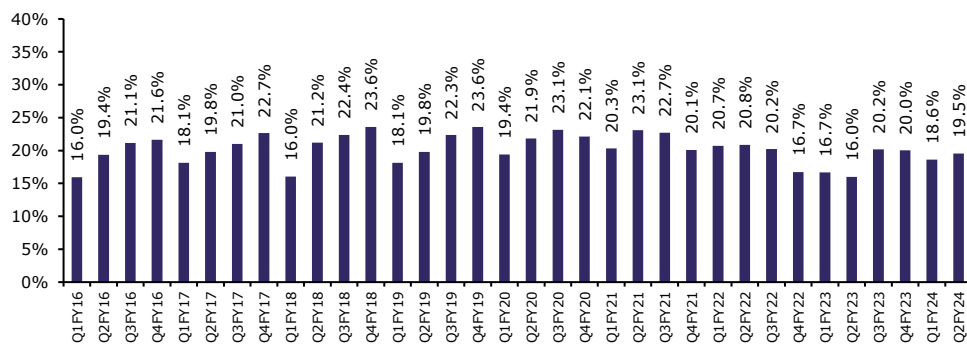
Source: Company, Emkay Research

Exhibit 10: Other expenses, as a % of sales



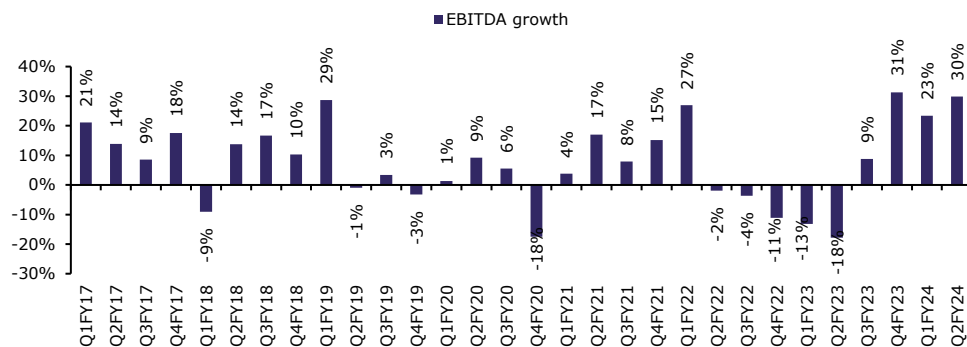
Source: Company, Emkay Research

Exhibit 11: EBITDA margin trend



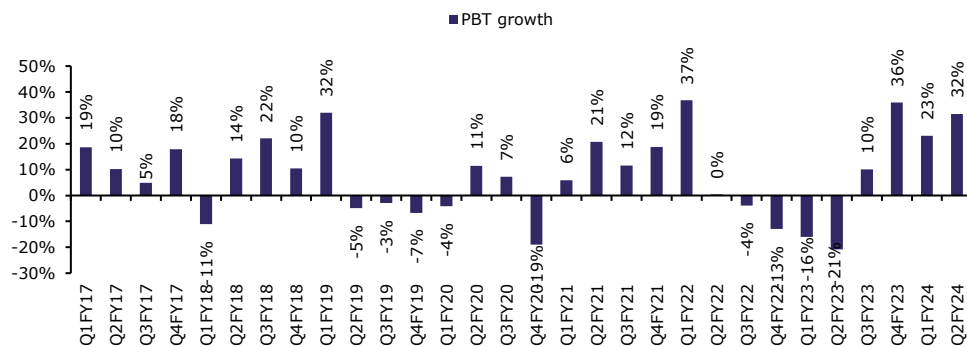
Source: Company, Emkay Research

Exhibit 12: EBITDA growth trend (YoY)



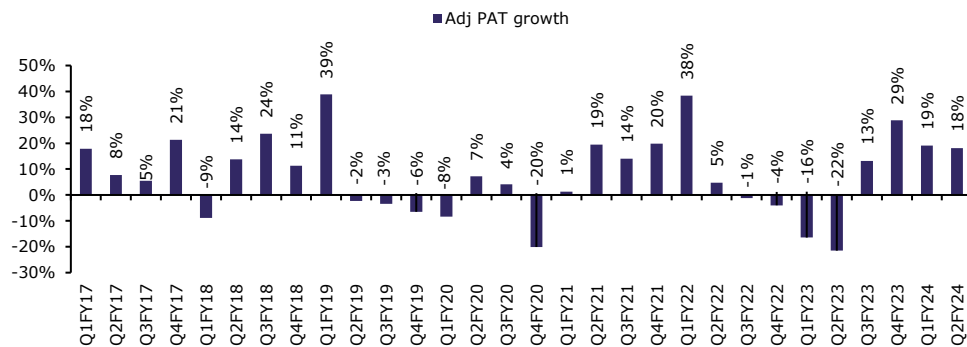
Source: Company, Emkay Research

Exhibit 13: Profit before tax growth (YoY)



Source: Company, Emkay Research

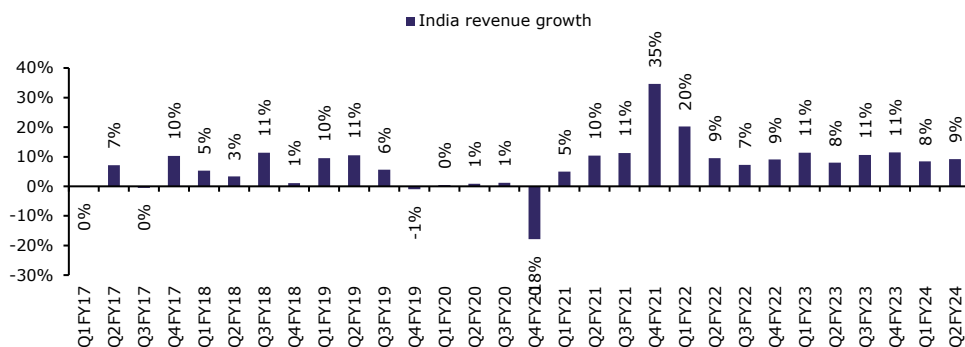
Exhibit 14: Adjusted profit after tax growth (YoY)



Source: Company, Emkay Research

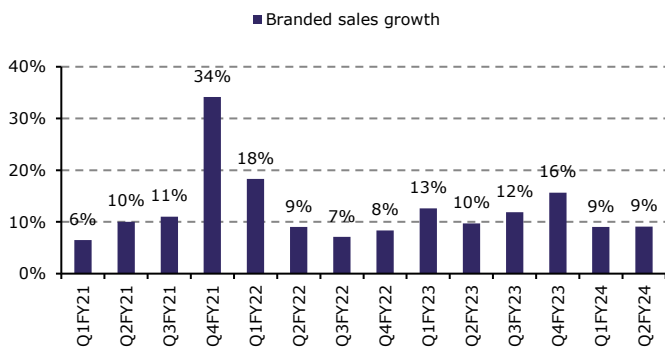
India business performance

Exhibit 15: India revenue growth



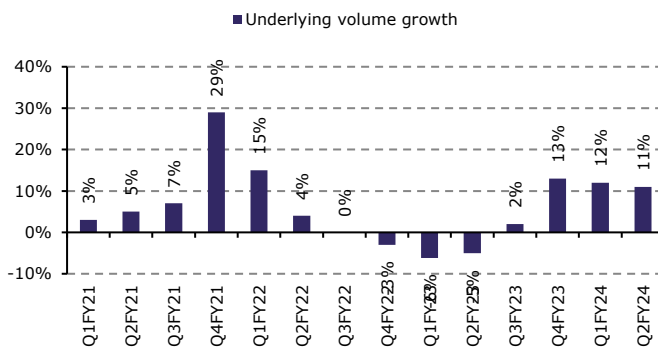
Source: Company, Emkay Research

Exhibit 16: India branded business revenue growth



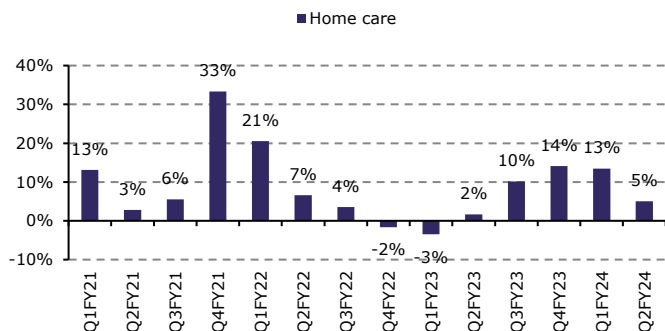
Source: Company, Emkay Research

Exhibit 17: India branded business volume growth



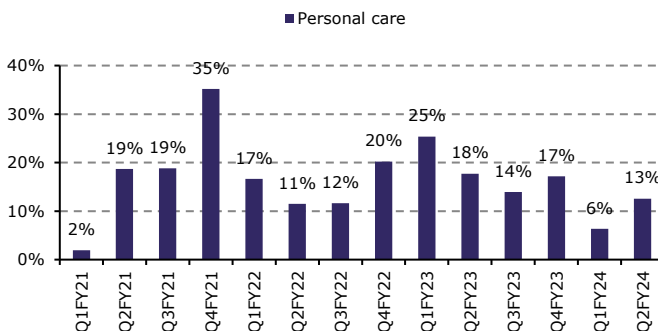
Source: Company, Emkay Research

Exhibit 18: India - Home care segment growth



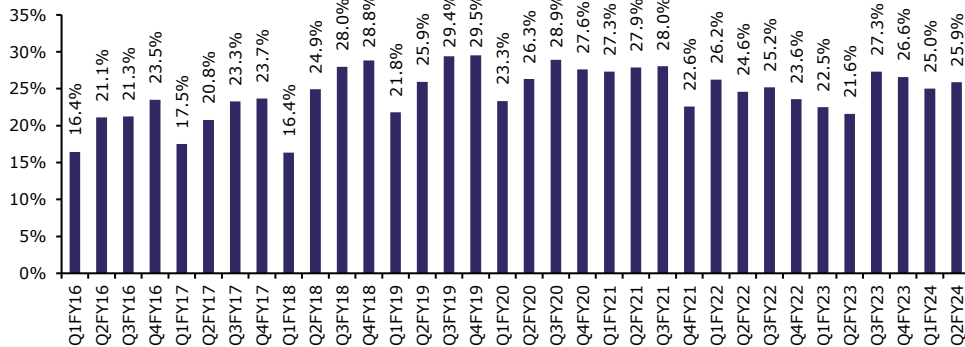
Source: Company, Emkay Research

Exhibit 19: India - Personal care segment growth



Source: Company, Emkay Research

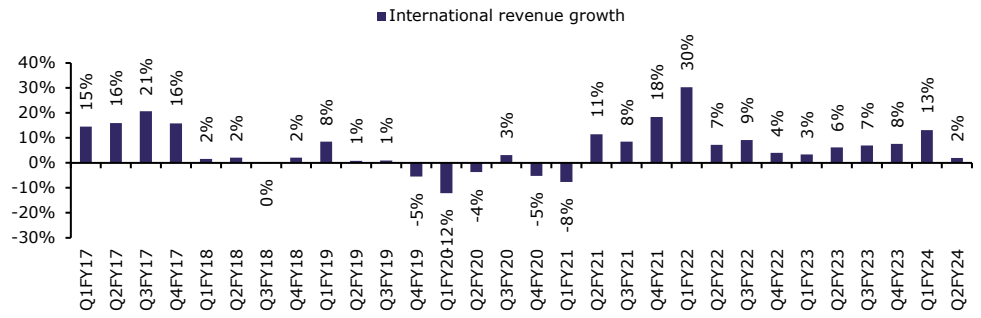
Exhibit 20: India business EBITDA margin



Source: Company, Emkay Research

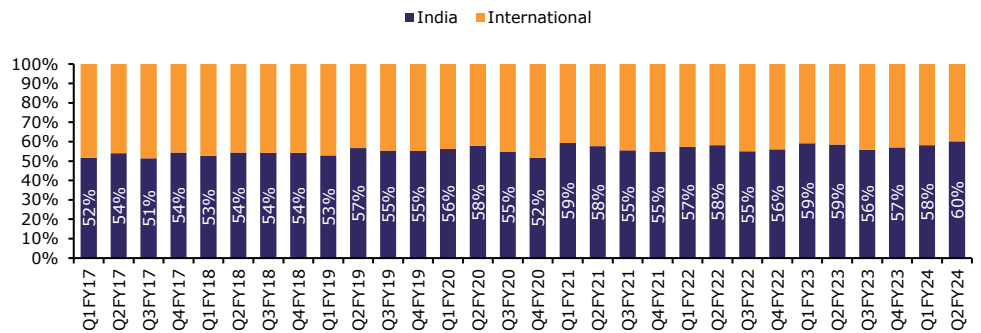
International business performance

Exhibit 21: International revenue growth



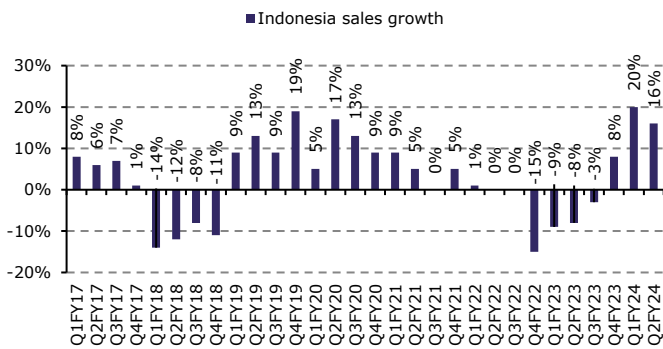
Source: Company, Emkay Research

Exhibit 22: Revenue contribution from the India and International businesses



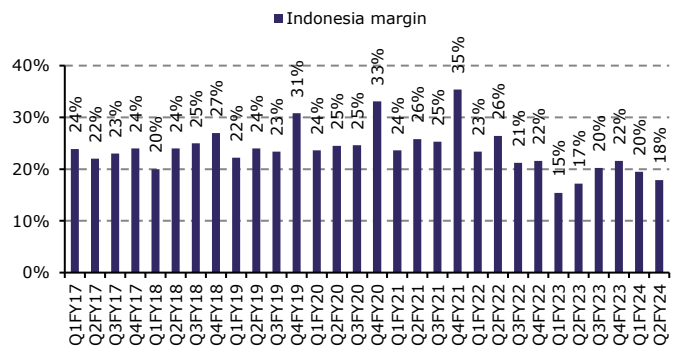
Source: Company, Emkay Research

Exhibit 23: Indonesia sales growth



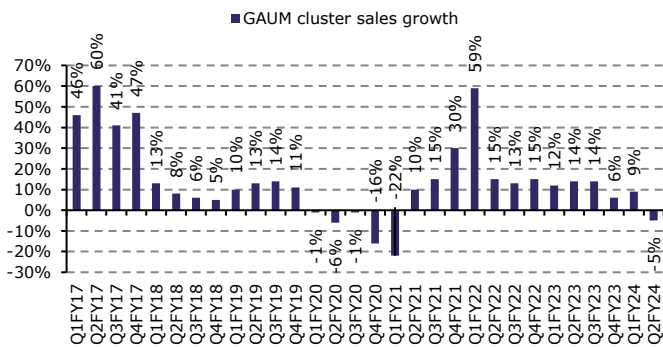
Source: Company, Emkay Research

Exhibit 24: Indonesia margin



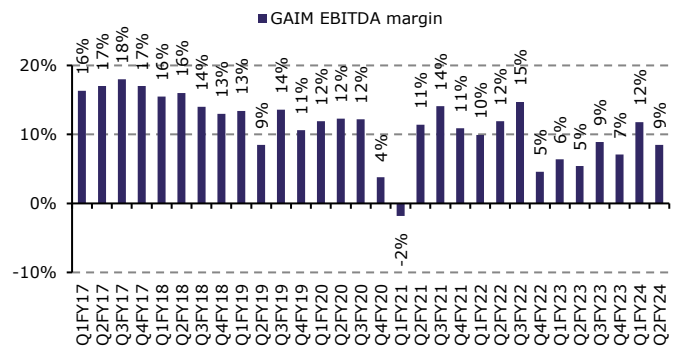
Source: Company, Emkay Research

Exhibit 25: GAUM cluster sales growth



Source: Company, Emkay Research

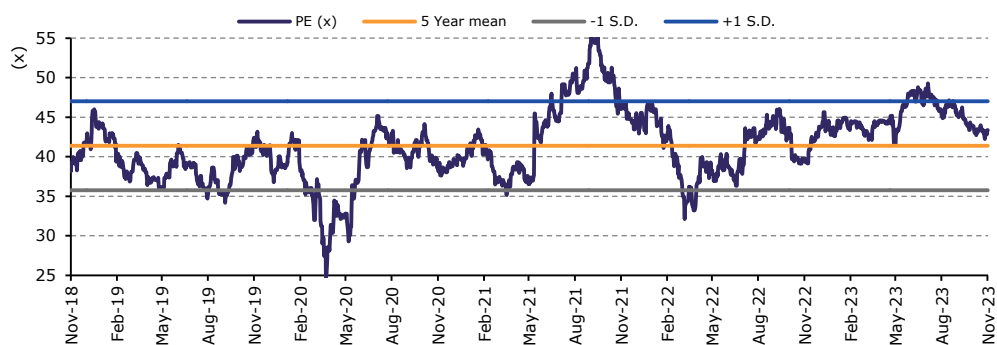
Exhibit 26: GAUM cluster margin



Source: Company, Emkay Research

Valuations

Exhibit 27: One-year forward PER (on consensus)



Source: Company, Bloomberg, Emkay Research

Exhibit 28: Emkay estimates vs Consensus

| (Rs mn) | Emkay estimates | | | Consensus estimates | | | Emkay vs consensus estimates | | |
|-----------------|-----------------|---------|---------|---------------------|---------|---------|------------------------------|-------|-------|
| | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E |
| Net sales | 144,796 | 163,361 | 180,018 | 149,745 | 166,625 | 183,656 | -3% | -2% | -2% |
| growth | 9.7% | 12.8% | 10.2% | 13.5% | 11.3% | 10.2% | | | |
| EBITDA | 28,689 | 35,111 | 39,821 | 30,330 | 35,820 | 40,403 | -5% | -2% | -1% |
| - growth | 18.0% | 22.4% | 13.4% | 24.8% | 18.1% | 12.8% | | | |
| - EBITDA margin | 19.6% | 21.3% | 21.9% | 20.3% | 21.5% | 22.0% | | | |
| Adj PAT | 19,691 | 24,716 | 28,733 | 20,832 | 25,058 | 29,049 | -5% | -1% | -1% |
| - Growth | 12.8% | 25.5% | 16.3% | 19.3% | 20.3% | 15.9% | | | |
| EPS (Rs) | 19.25 | 24.17 | 28.10 | 20.41 | 24.60 | 28.25 | -6% | -2% | -1% |

Source: Bloomberg, Emkay Research

Godrej Consumer Products: Consolidated Financials and Valuations

| Profit & Loss | | | | | |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| Y/E Mar (Rs mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
| Revenue | 122,765 | 133,160 | 146,086 | 164,780 | 181,579 |
| Revenue growth (%) | 11.3 | 8.5 | 9.7 | 12.8 | 10.2 |
| EBITDA | 23,951 | 24,305 | 28,689 | 35,111 | 39,821 |
| EBITDA growth (%) | 0.3 | 1.5 | 18.0 | 22.4 | 13.4 |
| Depreciation & Amortization | 2,099 | 2,363 | 2,863 | 3,013 | 3,113 |
| EBIT | 21,852 | 21,942 | 25,826 | 32,098 | 36,708 |
| EBIT growth (%) | 0.0 | 0.4 | 17.7 | 24.3 | 14.4 |
| Other operating income | 1,023 | 1,173 | 1,290 | 1,419 | 1,561 |
| Other income | 897 | 1,684 | 1,800 | 1,500 | 1,900 |
| Financial expense | 1,102 | 1,757 | 2,080 | 1,400 | 800 |
| PBT | 21,647 | 21,868 | 25,546 | 32,198 | 37,808 |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Taxes | 3,719 | 4,303 | 6,131 | 7,727 | 9,263 |
| Minority interest | (3) | 0 | 0 | 0 | 0 |
| Income from JV/Associates | 0 | 0 | 0 | 0 | 0 |
| Reported PAT | 17,834 | 17,025 | 20,564 | 25,496 | 29,314 |
| PAT growth (%) | 3.6 | (4.5) | 20.8 | 24.0 | 15.0 |
| Adjusted PAT | 17,915 | 17,459 | 19,691 | 24,716 | 28,733 |
| Diluted EPS (Rs) | 17.5 | 17.1 | 19.3 | 24.2 | 28.1 |
| Diluted EPS growth (%) | 1.9 | (2.6) | 12.8 | 25.5 | 16.3 |
| DPS (Rs) | 0.0 | 0.0 | 3.0 | 6.0 | 8.0 |
| Dividend payout (%) | 0.0 | 0.0 | 14.9 | 24.1 | 27.9 |
| EBITDA margin (%) | 19.5 | 18.3 | 19.6 | 21.3 | 21.9 |
| EBIT margin (%) | 17.8 | 16.5 | 17.7 | 19.5 | 20.2 |
| Effective tax rate (%) | 17.2 | 19.7 | 24.0 | 24.0 | 24.5 |
| NOPLAT (pre-IndAS) | 18,098 | 17,625 | 19,628 | 24,394 | 27,714 |
| Shares outstanding (mn) | 1,022.6 | 1,022.7 | 1,022.7 | 1,022.7 | 1,022.7 |

Source: Company, Emkay Research

| Cash flows | | | | | |
|------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|
| Y/E Mar (Rs mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
| PBT | 21,647 | 21,868 | 25,546 | 32,198 | 37,808 |
| Others (non-cash items) | 0 | 0 | 0 | 0 | 0 |
| Taxes paid | (4,475) | (4,185) | (6,131) | (7,727) | (9,263) |
| Change in NWC | (5,362) | 933 | 110 | 162 | 70 |
| Operating cash flow | 14,506 | 21,507 | 24,216 | 29,177 | 33,627 |
| 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) | (35,046) | (9,500) | (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) | (1,900) |
| Dividend paid (incl tax) | 0 | 0 | (3,068) | (6,136) | (8,182) |
| Others | (477) | (436) | 0 | 0 | 0 |
| Financing cash flow | (3,798) | (7,896) | 12,241 | (20,085) | (14,082) |
| Net chg in Cash | 2,065 | (3,972) | 1,411 | (408) | 15,046 |
| OCF | 14,506 | 21,507 | 24,216 | 29,177 | 33,627 |
| Adj. OCF (w/o NWC chg.) | 19,867 | 20,573 | 24,106 | 29,015 | 33,558 |
| FCFF | 11,741 | 19,309 | (5,830) | 24,677 | 29,127 |
| FCFE | 11,229 | 18,661 | (7,910) | 23,277 | 28,327 |
| OCF/EBITDA (%) | 60.6 | 88.5 | 84.4 | 83.1 | 84.4 |
| FCFE/PAT (%) | 62.7 | 106.9 | (40.2) | 94.2 | 98.6 |
| FCFF/NOPLAT (%) | 64.9 | 109.6 | (29.7) | 101.2 | 105.1 |

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 | 114,537 | 136,920 | 154,415 | 173,775 | 194,907 |
| Net worth | 115,559 | 137,942 | 155,438 | 174,797 | 195,930 |
| 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 | 126,900 | 143,876 | 178,607 | 185,652 | 202,924 |
| 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 | 44,573 | 50,332 | 66,330 |
| Current assets (ex-cash) | 37,352 | 32,256 | 34,009 | 36,663 | 39,161 |
| Current Liab. & Prov. | 27,126 | 24,085 | 25,982 | 28,837 | 31,448 |
| NWC (ex-cash) | 10,226 | 8,171 | 8,027 | 7,826 | 7,713 |
| Total assets | 126,900 | 143,876 | 178,607 | 185,652 | 202,924 |
| Net debt | (19,399) | (33,939) | (39,473) | (45,180) | (65,128) |
| Capital employed | 113,665 | 134,471 | 154,126 | 173,536 | 190,720 |
| Invested capital | 101,435 | 106,541 | 133,034 | 134,320 | 135,594 |
| BVPS (Rs) | 113.0 | 134.9 | 152.0 | 170.9 | 191.6 |
| Net Debt/Equity (x) | (0.2) | (0.2) | (0.3) | (0.3) | (0.3) |
| Net Debt/EBITDA (x) | (0.8) | (1.4) | (1.4) | (1.3) | (1.6) |
| Interest coverage (x) | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 |
| RoCE (%) | 21.9 | 19.0 | 19.1 | 20.5 | 21.2 |

Source: Company, Emkay Research

| Valuations and key Ratios | | | | | |
|---------------------------|-------------|-------------|-------------|-------------|-------------|
| Y/E Mar | FY22 | FY23 | FY24E | FY25E | FY26E |
| P/E (x) | 56.6 | 58.1 | 51.5 | 41.0 | 35.3 |
| P/CE(x) | 50.7 | 51.0 | 45.6 | 36.9 | 32.1 |
| P/B (x) | 8.8 | 7.4 | 6.5 | 5.8 | 5.2 |
| EV/Sales (x) | 8.2 | 7.4 | 6.7 | 5.9 | 5.3 |
| EV/EBITDA (x) | 41.5 | 40.3 | 34.0 | 27.6 | 23.8 |
| EV/EBIT(x) | 45.6 | 44.7 | 37.8 | 30.2 | 25.9 |
| EV/IC (x) | 9.8 | 9.2 | 7.3 | 7.2 | 7.0 |
| FCFF yield (%) | 1.2 | 2.0 | (0.6) | 2.5 | 3.1 |
| FCFE yield (%) | 1.1 | 1.8 | (0.8) | 2.3 | 2.8 |
| Dividend yield (%) | 0.0 | 0.0 | 0.3 | 0.6 | 0.8 |
| DuPont-RoE split | | | | | |
| Net profit margin (%) | 14.6 | 13.2 | 13.3 | 14.9 | 15.7 |
| Total asset turnover (x) | 1.2 | 1.1 | 1.0 | 1.0 | 1.0 |
| Assets/Equity (x) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| RoE (%) | 17.1 | 13.9 | 13.2 | 14.8 | 15.4 |
| DuPont-RoIC | | | | | |
| NOPLAT margin (%) | 14.7 | 13.2 | 13.4 | 14.8 | 15.3 |
| IC turnover (x) | 1.3 | 1.3 | 1.2 | 1.2 | 1.3 |
| RoIC (%) | 19.8 | 16.9 | 16.4 | 18.2 | 20.5 |
| Operating metrics | | | | | |
| Core NWC days | (19.9) | (13.3) | (11.8) | (12.9) | (14.2) |
| Total NWC days | 30.4 | 22.4 | 20.1 | 17.3 | 15.5 |
| Fixed asset turnover | 1.2 | 1.2 | 1.2 | 1.1 | 1.2 |
| Opex-to-revenue (%) | 31.0 | 31.4 | 33.7 | 32.6 | 32.1 |

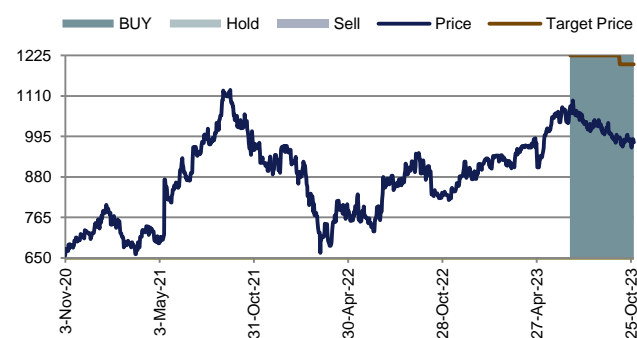
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

| Date | Closing Price (INR) | TP (INR) | Rating | Analyst |
|-----------|---------------------|----------|--------|-------------|
| 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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|-------------|---|
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