

# Focus on improving GAUM operating performance



Elara Diet Report—Your Swift and Savvy Guide to a ‘Breaking News or a Development’

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FMCG

Godrej Consumer Products (GCPL IN) is focused on simplifying and improving the fundamental aspects of its Godrej Africa, the US, Middle East (GAUM) business across geographies in the region. The restructuring in East Africa and currency fluctuations in Nigeria may reduce revenue salience from the region, with GAUM revenue salience decreasing from ~26% in FY23 to below 20% in FY25. Nevertheless, the company aims to enhance profitability with an EBITDA margin of more than 15% for the next two years vs the historical 9% level. While EBITDA margin target is 100bp, which is higher than our estimates, we would keep our estimates unchanged and look for signs of improvement to revise our estimates. We retain Buy with a TP of INR 1,400 based on 50x FY26E P/E. At CMP, the stock trades at 53x FY25E earnings and 45x FY26E earnings.

## Exhibit 1: Five business verticals with divergent historical performance

Business verticals	Sales growth	Profitability (EBITDA margin)	Plan for the future
Southern Africa	~Double digits	High (~20%)	Sustain robust performance
Godrej International and GAUM exports geographies			
US	Low single digits	Medium	Improve profitability
West Africa	Double-digit local currency; volatile forex	Low to medium	Improve profitability
East Africa	Negative	Low	Reorganize business model

Source: Company, Elra Securities Research

### Plan of action

- **East Africa:** GCPL is currently restructuring its East African dry hair fashion business into an asset-light model by adopting a royalty-based business approach. As part of this process, the company will divest assets, resulting in a projected decline in revenue by INR 5bn pa (equivalent to 4% of consolidated revenue and 9% of the international business). However, PAT is expected to increase by INR 500mn pa. Additionally, the anticipated negative impact on revenue for Q4FY24 due to reorganization is estimated at INR 700mn. In alignment with the restructuring strategy, GCPL has announced the divestment of its stake in subsidiary, Godrej East Africa Holdings, Mauritius, including its associated subsidiaries operating in Kenya and Tanzania
- **Nigeria (part of West Africa):** Naira's 50% devaluation against the USD over the past two months has significantly affected GCPL revenue when converted into the INR. The Nigerian Central Bank is striving to merge official and parallel market forex rates. If this unification persists, it will result in a ~200bp decline in consolidated INR revenue (~INR 600mn decrease per quarter for the next four quarters), with minimal impact on profit. GCPL's primary objective in Nigeria remains enhancing profitability through underlying volume growth

- **US and West Africa:** The primary goal is to enhance profitability by streamlining operations, including stock keeping unit (SKU) rationalization, a more straightforward business model, organizational efficiency, and optimized manufacturing. These simplification efforts aim to boost GAUM margin by ~200bp within the next two years
- **Southern Africa:** In southern Africa, the company is a market leader in hair colour and premium hair fashion. The focus in this region is to sustain robust performance
- **Godrej International and GAUM exports geographies:** GCPL caters to India and the African Union (AU) consumers in the region, operating on a distributor-led model with high EBITDA margin, owing to lower overhead. It aims to broaden its product range and geographical reach within this segment. Overall demand continues to be soft, contrary to expectations of a good recovery in Q3, due to the long festival and marriage seasons.

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