

East Africa reorganization in progress; to aid cluster profitability

Consumer Goods ▶ Event Update ▶ February 20, 2024

TARGET PRICE (Rs): 1,325

We retain ADD on GCPL (Dec-24E TP of Rs1,325/sh), as the stock priced in positives on better execution, backed by the management addressing business basics and simplifying operations. Management is now dealing with two key concerns in consol. operations: i) the new molecule-based HI offerings (across India, Indonesia), and ii) improved show in the GAUM cluster. With a view to enhance growth potential and profitability in the GAUM cluster, GCPL has announced divestment of its Tanzania operations (shift to franchisee model). With its Kenya business yet to be reorganized, GCPL will shift its overall revenue of Rs5bn to the franchisee model, which will drive ~Rs500mn in annual profit. Management sees cluster margin expansion to over 15% in the next couple of years (in line with our estimate) vs. high single-digit margin in the last 5 years.

Godrej Consumer Products: Financial Snapshot (Consolidated)

| Y/E Mar (Rs mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---------------------|---------|---------|---------|---------|---------|
| Revenue | 122,765 | 133,160 | 141,495 | 155,670 | 171,890 |
| EBITDA | 23,951 | 24,305 | 29,018 | 34,804 | 39,339 |
| Adj. PAT | 17,915 | 17,459 | 19,602 | 24,051 | 28,080 |
| Adj. EPS (Rs) | 17.5 | 17.1 | 19.2 | 23.5 | 27.5 |
| EBITDA margin (%) | 19.5 | 18.3 | 20.5 | 22.4 | 22.9 |
| EBITDA growth (%) | 0.3 | 1.5 | 19.4 | 19.9 | 13.0 |
| Adj. EPS growth (%) | 1.9 | (2.6) | 12.3 | 22.7 | 16.8 |
| RoE (%) | 17.1 | 13.9 | 13.5 | 15.6 | 17.0 |
| RoIC (%) | 19.8 | 16.9 | 16.2 | 17.7 | 19.9 |
| P/E (x) | 70.2 | 72.0 | 64.2 | 52.3 | 44.8 |
| EV/EBITDA (x) | 51.7 | 50.4 | 42.3 | 35.3 | 31.0 |
| P/B (x) | 10.9 | 9.1 | 8.5 | 7.9 | 7.4 |
| FCFF yield (%) | 1.0 | 1.7 | (0.4) | 2.1 | 2.5 |

Source: Company, Emkay Research

East Africa reorganization: Tanzania effected; Kenya to be actioned soon

In line with management strategy of restructuring East Africa operations, where it has relatively low profitability, the company is divesting its stake in 'Godrej East Africa Holdings Limited, Mauritius', along with its step-down subsidiaries, viz. operating companies in Kenya and Tanzania (with revenue of Rs1.4bn for FY23), to HKG Africa Weave Limited, for USD3.5mn (~Rs300mn). The selling unit's net-worth of Rs650mn represents ~5% of GCPL's net-worth. This will lead to a negative revenue impact of ~Rs700mn for Q4FY24. With this, GCPL has reorganized operations in Uganda, Angola, and Tanzania; the company now has to effect reorganization of its Kenya business.

Business reorganization to aid growth and better profitability in GAUM cluster

GCPL has divided its GAUM cluster into 5 parts: a) East Africa (includes Kenya, Tanzania, Angola, Uganda); b) West Africa (mainly Nigeria, Ghana); c) Southern Africa (includes South Africa, Mozambique); d) USA (mainly Strength of Nature); e) Rest (mainly Middle East, Zambia). GCPL sees profitable growth in South Africa; here it focuses on improving supply. In West Africa, GCPL has shifted distribution to Nigeria and is content with the progress. For its US business, wet hair care remains key; it is looking to start imports from Nigeria. Middle East remains an export destination; focus is on FMCG segments. For coming couple of years, GCPL eyes over 15% margin in the cluster, aided by East Africa reorganization and simplification of business (~200bps). With reorganization of the East cluster, GAUM cluster revenue contribution would ease, from ~26% in FY23 to <20% in FY25, while absolute profit would see expansion (aided by royalty plan).

Valuations factoring execution; we maintain ADD on limited upside

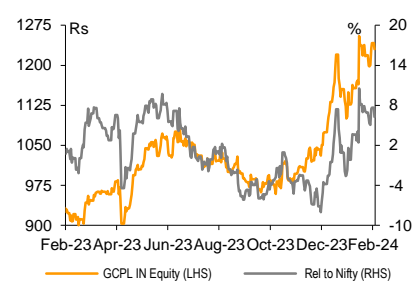
Under the new leadership, execution has seen a facelift. The new management is not only simplifying businesses, but is focused on category disruptions, which aid share gains. The stock reacted to positive developments like: a) expected efficacious launches in HI; b) profitable thrust in GAUM cluster. We retain ADD/TP of Rs1,325, on 50x P/E.

| | |
|-----------------------|---------|
| Target Price – 12M | Dec-24 |
| Change in TP (%) | - |
| Current Reco. | ADD |
| Previous Reco. | ADD |
| Upside/(Downside) (%) | 7.7 |
| CMP (19-Feb-24) (Rs) | 1,230.0 |

| Stock Data | Ticker |
|-----------------------------|----------|
| 52-week High (Rs) | 1,314 |
| 52-week Low (Rs) | 894 |
| Shares outstanding (mn) | 1,022.8 |
| Market-cap (Rs bn) | 1,258 |
| Market-cap (USD mn) | 15,155 |
| Net-debt, FY24E (Rs mn) | 0 |
| ADTV-3M (mn shares) | 1 |
| ADTV-3M (Rs mn) | 1,663.4 |
| ADTV-3M (USD mn) | 20.0 |
| Free float (%) | 36.8 |
| Nifty-50 | 22,122 |
| INR/USD | 83.0 |
| Shareholding, Dec-23 | |
| Promoters (%) | 63.2 |
| FPIs/MFs (%) | 23.0/8.4 |

| Price Performance (%) | 1M | 3M | 12M |
|-----------------------|-----|------|------|
| Absolute | 7.0 | 23.4 | 30.6 |
| Rel. to Nifty | 4.6 | 10.0 | 5.9 |

1-Year share price trend (Rs)



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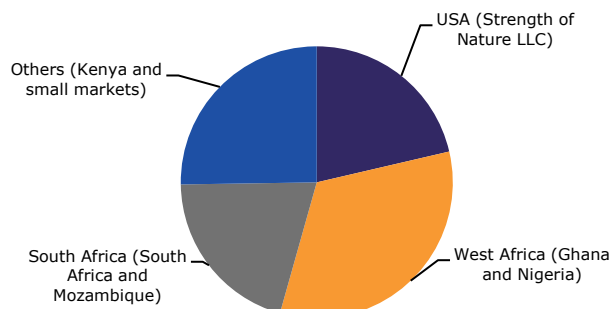
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GAUM cluster overview

Exhibit 1: The Africa, USA and Middle-East cluster – Revenue contribution

Refer to our detailed take on the Africa cluster: [Link](#)



Source: Company, Emkay Research

Exhibit 2: GAUM cluster performance

| (Rs mn) | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Revenue from operations | 20,303 | 21,873 | 24,547 | 23,158 | 24,976 | 30,490 | 34,111 |
| - growth | 51.5% | 7.7% | 12.2% | -5.7% | 7.8% | 22.1% | 11.9% |
| EBITDA | 3,067 | 2,675 | 1,904 | 2,294 | 1,772 | 1,845 | 2,227 |
| - growth | 39.2% | -12.8% | -28.8% | 20.4% | -22.7% | 4.1% | 20.7% |
| EBITDA margin | 15.1% | 12.2% | 7.8% | 9.9% | 7.1% | 6.1% | 6.5% |
| Depreciation and Amortization | -413 | -487 | -595 | -753 | -808 | -847 | -887 |
| EBIT | 2,655 | 2,188 | 1,310 | 1,541 | 965 | 998 | 1,340 |
| EBIT margin | 13.1% | 10.0% | 5.3% | 6.7% | 3.9% | 3.3% | 3.9% |
| Other income | 74 | 137 | 68 | 97 | 33 | 45 | 85 |
| Interest income | 37 | 37 | 41 | 46 | 33 | 14 | 26 |
| Profit before tax | 2,765 | 2,362 | 1,419 | 1,683 | 1,031 | 1,057 | 1,450 |
| - growth | 26% | -15% | -40% | 19% | -39% | 2% | 37% |
| 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% |

Source: Company, Emkay Research

Exhibit 3: 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) | |
| Revenue mix | 35% | 20% | 20% | 20% | 5% |
| Profit mix | 50% | 30% (~20% EBITDA margin) | -5% | 20% | 5% |
| 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 on franchisee model | Looking to import products from Nigeria | |

Source: Company, Emkay Research

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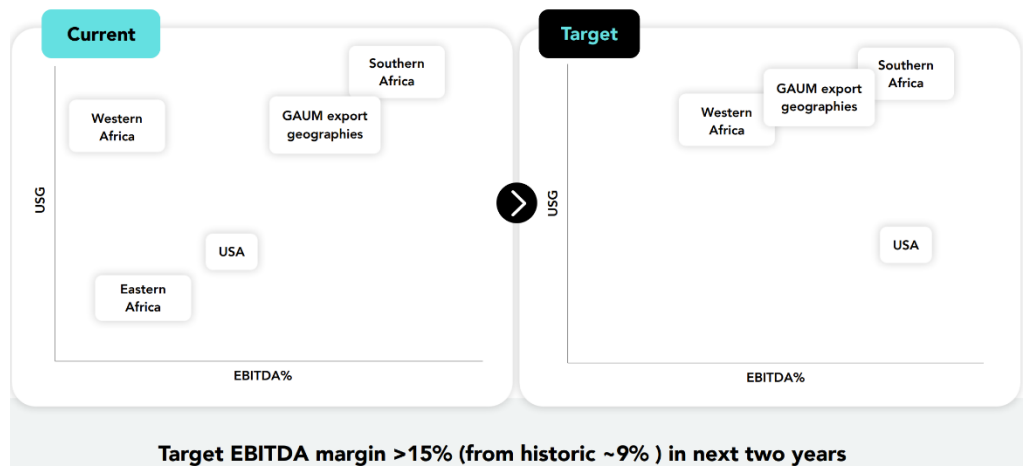
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Exhibit 4: Key verticals with divergent historical performance

| Business verticals | Sales growth | Profitability (EBITDA margin) | Plan for future |
|--|---|-------------------------------|----------------------------|
| Southern Africa | ~ Double digit | High (~20%) | Sustain robust performance |
| Godrej International / GAUM export geographies | | | |
| USA | Low single digit | Medium | Improve profitability |
| Western Africa | Double digit local currency; Volatile forex | Low to medium | |
| Eastern Africa | Negative | Low | Re-organise business model |

Source: Company

Exhibit 5: Clear transformation agenda in place



Source: Company

Godrej Consumer Products: Consolidated Financials and Valuations

| Profit & Loss | | | | | |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| Y/E Mar (Rs mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
| Revenue | 122,765 | 133,160 | 141,495 | 155,670 | 171,890 |
| Revenue growth (%) | 11.3 | 8.5 | 6.3 | 10.0 | 10.4 |
| EBITDA | 23,951 | 24,305 | 29,018 | 34,804 | 39,339 |
| EBITDA growth (%) | 0.3 | 1.5 | 19.4 | 19.9 | 13.0 |
| Depreciation & Amortization | 2,099 | 2,363 | 2,563 | 2,763 | 2,963 |
| EBIT | 21,852 | 21,942 | 26,456 | 32,041 | 36,376 |
| EBIT growth (%) | 0.0 | 0.4 | 20.6 | 21.1 | 13.5 |
| Other operating income | 1,023 | 1,173 | 1,330 | 1,963 | 2,709 |
| Other income | 897 | 1,684 | 2,700 | 1,500 | 2,100 |
| Financial expense | 1,102 | 1,757 | 2,900 | 1,400 | 800 |
| PBT | 21,647 | 21,868 | 26,256 | 32,141 | 37,676 |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Taxes | 3,719 | 4,303 | 6,958 | 8,357 | 9,796 |
| Minority interest | (3) | 0 | 0 | 0 | 0 |
| Income from JV/Associates | 0 | 0 | 0 | 0 | 0 |
| Reported PAT | 17,834 | 17,025 | 20,446 | 24,810 | 28,649 |
| PAT growth (%) | 3.6 | (4.5) | 20.1 | 21.3 | 15.5 |
| Adjusted PAT | 17,915 | 17,459 | 19,602 | 24,051 | 28,080 |
| Diluted EPS (Rs) | 17.5 | 17.1 | 19.2 | 23.5 | 27.5 |
| Diluted EPS growth (%) | 1.9 | (2.6) | 12.3 | 22.7 | 16.8 |
| DPS (Rs) | 0.0 | 0.0 | 11.0 | 13.0 | 18.0 |
| Dividend payout (%) | 0.0 | 0.0 | 55.0 | 53.6 | 64.3 |
| EBITDA margin (%) | 19.5 | 18.3 | 20.5 | 22.4 | 22.9 |
| EBIT margin (%) | 17.8 | 16.5 | 18.7 | 20.6 | 21.2 |
| Effective tax rate (%) | 17.2 | 19.7 | 26.5 | 26.0 | 26.0 |
| NOPLAT (pre-IndAS) | 18,098 | 17,625 | 19,445 | 23,710 | 26,918 |
| 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 | 26,256 | 32,141 | 37,676 |
| Others (non-cash items) | 0 | 0 | 0 | 0 | 0 |
| Taxes paid | (4,475) | (4,185) | (6,958) | (8,357) | (9,796) |
| Change in NWC | (5,362) | 933 | 414 | 413 | 78 |
| Operating cash flow | 14,506 | 21,507 | 25,003 | 28,492 | 33,022 |
| 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) | (2,700) | (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) | 3,159 | (27,244) | (24,509) |
| Net chg in Cash | 2,065 | (3,972) | (1,884) | (3,252) | 4,013 |
| OCF | 14,506 | 21,507 | 25,003 | 28,492 | 33,022 |
| Adj. OCF (w/o NWC chg.) | 19,867 | 20,573 | 24,589 | 28,079 | 32,943 |
| FCFF | 11,741 | 19,309 | (5,043) | 23,992 | 28,522 |
| FCFE | 11,229 | 18,661 | (7,943) | 22,592 | 27,722 |
| OCF/EBITDA (%) | 60.6 | 88.5 | 86.2 | 81.9 | 83.9 |
| FCFE/PAT (%) | 62.7 | 106.9 | (40.5) | 93.9 | 98.7 |
| FCFF/NOPLAT (%) | 64.9 | 109.6 | (25.9) | 101.2 | 106.0 |

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 | 146,116 | 157,631 | 167,872 |
| Net worth | 115,559 | 137,942 | 147,139 | 158,654 | 168,894 |
| 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 | 170,308 | 169,508 | 175,889 |
| Net tangible fixed assets | 37,441 | 40,147 | 67,085 | 68,822 | 70,359 |
| 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 | 36,279 | 34,193 | 39,159 |
| Current assets (ex-cash) | 37,352 | 32,256 | 33,070 | 34,785 | 37,112 |
| Current Liab. & Prov. | 27,126 | 24,085 | 25,348 | 27,515 | 29,964 |
| NWC (ex-cash) | 10,226 | 8,171 | 7,722 | 7,271 | 7,148 |
| Total assets | 126,900 | 143,876 | 170,308 | 169,508 | 175,889 |
| Net debt | (19,399) | (33,939) | (31,178) | (29,042) | (37,957) |
| Capital employed | 113,665 | 134,471 | 145,827 | 157,393 | 163,684 |
| Invested capital | 101,435 | 106,541 | 133,029 | 134,315 | 135,730 |
| BVPS (Rs) | 113.0 | 134.9 | 143.9 | 155.1 | 165.1 |
| 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 | 20.8 | 22.1 | 24.0 |

Source: Company, Emkay Research

| Valuations and key Ratios | | | | | |
|---------------------------|-------------|-------------|-------------|-------------|-------------|
| Y/E Mar | FY22 | FY23 | FY24E | FY25E | FY26E |
| P/E (x) | 70.2 | 72.0 | 64.2 | 52.3 | 44.8 |
| P/CE(x) | 59.4 | 59.7 | 54.5 | 44.8 | 38.6 |
| P/B (x) | 10.9 | 9.1 | 8.5 | 7.9 | 7.4 |
| EV/Sales (x) | 10.2 | 9.3 | 8.8 | 8.0 | 7.2 |
| EV/EBITDA (x) | 51.7 | 50.4 | 42.3 | 35.3 | 31.0 |
| EV/EBIT(x) | 53.6 | 52.7 | 43.8 | 36.3 | 31.7 |
| EV/IC (x) | 11.5 | 10.9 | 8.7 | 8.6 | 8.5 |
| FCFF yield (%) | 1.0 | 1.7 | (0.4) | 2.1 | 2.5 |
| FCFE yield (%) | 0.9 | 1.6 | (0.7) | 1.9 | 2.3 |
| Dividend yield (%) | 0.0 | 0.0 | 0.9 | 1.1 | 1.5 |
| DuPont-RoE split | | | | | |
| Net profit margin (%) | 14.6 | 13.2 | 13.6 | 15.3 | 16.2 |
| Total asset turnover (x) | 1.2 | 1.1 | 1.0 | 1.0 | 1.1 |
| Assets/Equity (x) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| RoE (%) | 17.1 | 13.9 | 13.5 | 15.6 | 17.0 |
| DuPont-RoIC | | | | | |
| NOPLAT margin (%) | 14.7 | 13.2 | 13.7 | 15.2 | 15.7 |
| IC turnover (x) | 1.3 | 1.3 | 1.2 | 1.2 | 1.3 |
| RoIC (%) | 19.8 | 16.9 | 16.2 | 17.7 | 19.9 |
| Operating metrics | | | | | |
| Core NWC days | (19.9) | (13.3) | (12.0) | (13.0) | (14.1) |
| Total NWC days | 30.4 | 22.4 | 19.9 | 17.0 | 15.2 |
| Fixed asset turnover | 1.2 | 1.2 | 1.1 | 1.1 | 1.2 |
| Opex-to-revenue (%) | 31.0 | 31.4 | 34.7 | 33.6 | 32.8 |

Source: Company, Emkay Research

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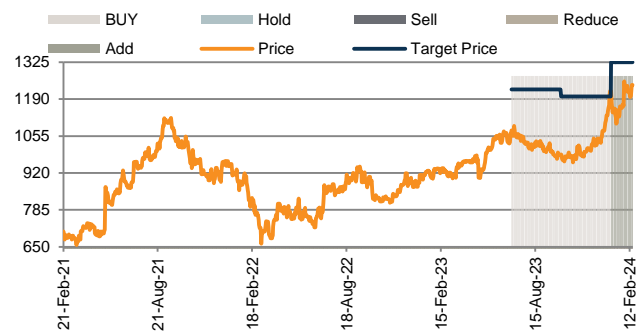
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RECOMMENDATION HISTORY - DETAILS

| Date | Closing Price (INR) | TP (INR) | Rating | Analyst |
|-----------|---------------------|----------|--------|-------------|
| 01-Feb-24 | 1,255 | 1,325 | Add | Nitin Gupta |
| 23-Jan-24 | 1,130 | 1,325 | Add | Nitin Gupta |
| 07-Jan-24 | 1,220 | 1,325 | Add | Nitin Gupta |
| 12-Dec-23 | 1,032 | 1,200 | Buy | Nitin Gupta |
| 30-Nov-23 | 1,008 | 1,200 | Buy | Nitin Gupta |
| 24-Nov-23 | 1,010 | 1,200 | Buy | Nitin Gupta |
| 17-Nov-23 | 997 | 1,200 | Buy | Nitin Gupta |
| 01-Nov-23 | 970 | 1,200 | Buy | Nitin Gupta |
| 20-Oct-23 | 983 | 1,200 | Buy | Nitin Gupta |
| 03-Oct-23 | 988 | 1,200 | Buy | Nitin Gupta |
| 28-Aug-23 | 1,023 | 1,225 | Buy | Nitin Gupta |
| 15-Aug-23 | 1,030 | 1,225 | Buy | Nitin Gupta |
| 08-Aug-23 | 1,004 | 1,225 | Buy | Nitin Gupta |
| 30-Jun-23 | 1,076 | 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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| SELL | <15% downside |

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