

India

ADD (no change)

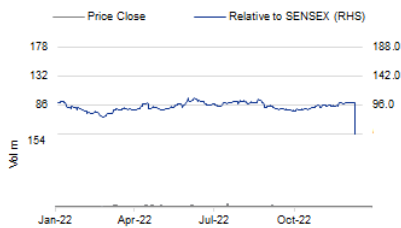
Consensus ratings*: Buy 29 Hold 6 Sell 1

Current price:	Rs913
Target price:	Rs1,010 ▲
Previous target:	Rs900
Up/downside:	10.6%
InCred Research / Consensus:	3.9%
Reuters:	
Bloomberg:	GCPL IN
Market cap:	US\$12,862m
	Rs933,977m
Average daily turnover:	US\$15.1m
	Rs1098.6m
Current shares o/s:	1,022.5m
Free float:	36.8%

*Source: Bloomberg

Key changes in this note

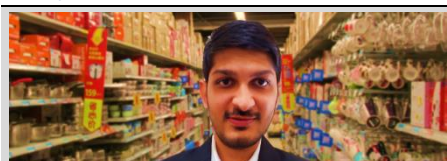
- Raise target price to Rs1,010 from Rs900.
- Raise FY23F/24F EPS by 9%/11%.



Price performance	1M	3M	12M
Absolute (%)	4.5	10.1	2.8
Relative (%)	6.7	13.0	1.6

Major shareholders	% held
Promoter	63.2
First State Investments ICVC	2.9
BlackRock Inc	1.6

Analyst(s)



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Godrej Consumer Products Ltd

Good recovery in domestic margins

- GCPL's 3QFY23 domestic/consolidated sales grew by 10.6%/9% yoy as volume grew by 3%/1%, respectively. Constant currency growth was 15% yoy.
- Domestic EBITDA margin at 27.1% (up 190bp) was closer to pre-Covid levels while consolidated margin (flat yoy) was dragged by lower IBD margins.
- Maintain ADD rating on the stock with a higher target price of Rs1,010 (42x Mar 2025F EPS).

Low-priced SKUs launched to drive penetration

Godrej Consumer Products or GCPL's domestic sales grew 10.6% yoy (3-year CAGR of 9.7%) with a volume growth of 3% in 3QFY23. GCPL witnessed broad-based growth across categories in the home care segment (up 10.1% yoy; 3-year CAGR of 6.4%) and the personal care segment (up 13.9% yoy; 14.8% on a 3-year CAGR). GCPL launched access packs of GoodKnight Mini at Rs50/pack (vs. Rs96/pack currently) and non-gas variant of Hit (Rs50) to drive penetration (increase adoption). Management was wary of a recovery in rural markets and discretionary spending in urban markets, which have been under pressure. Management attributed the current growth and expects near-term growth to be driven by category development initiatives and sustained share gains in soaps.

Africa sustains double-digit growth; optimistic on Indonesia

International business division's (IBD) growth was led by sustained double-digit growth in Africa, USA and the Middle East (GAUM), which grew 23% in constant currency (CC) terms driven by double-digit growth in both dry hair and FMCG categories. Indonesia sales (ex-hygiene) grew 2% while overall sales declined by 3% yoy. Management is optimistic that improving macros coupled with corrective actions (inventory corrections, reducing inter-channel rate conflict and increasing media spending) should drive Indonesia growth.

Good recovery in domestic margins; IBD margins decline

Standalone EBITDA margin expanded by 190bp yoy to 27.1%, closer to pre-Covid levels of 28-29% while gross margin expanded by 250bp yoy to 54.3%. GAUM/Indonesia business EBITDA margins declined by 160bp/100bp yoy, respectively, due to lower gross margin and higher advertisement spending. Domestic margins are expected to remain strong while margins in GAUM and Indonesia are expected to improve gradually. The tax rate will increase to 25% in FY25F due to the expiry of fiscal incentives and tax credits.

Maintain ADD rating

GCPL's thrust on category development and business simplification is going in the right direction. We maintain ADD rating on the stock with a higher target price of Rs1,010 (42x Mar 2025F EPS). Downside risks: Lower-than-expected sales in domestic/Africa, and lower-than-expected margin expansion in IBD due to macro/currency volatility.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	110,286	122,765	133,338	148,330	162,921
Operating EBITDA (Rsm)	23,883	23,951	23,569	30,427	34,795
Net Profit (Rsm)	17,209	17,831	16,723	22,640	24,513
Core EPS (Rs)	17.3	17.5	16.6	22.1	24.0
Core EPS Growth	12.1%	1.5%	(5.2%)	33.2%	8.3%
FD Core P/E (x)	54.25	52.37	55.84	41.25	38.10
DPS (Rs)	0.0	6.9	7.3	9.0	9.2
Dividend Yield	0.00%	0.00%	0.80%	0.98%	1.01%
EV/EBITDA (x)	38.84	38.81	38.35	29.32	25.23
P/FCFE (x)	479.91	575.68	29.02	46.74	41.17
Net Gearing	(6.3%)	(3.7%)	(24.2%)	(30.4%)	(36.7%)
P/BV (x)	9.89	8.08	7.50	6.77	6.10
ROE	20.4%	17.1%	14.2%	17.3%	16.9%
% Change In Core EPS Estimates			9.08%	11.40%	(0.23%)
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Good recovery in domestic margins

Key takeaways from the earnings call

India business

- The **demand** conditions remain challenging for rural consumers. Discretionary spending was under pressure post Diwali festival, even in urban markets.
- **Soaps** saw a drag at the premium end in urban markets. GCPL has gained 80-90bps market share on a yearly basis, which they are hopeful of continuing going ahead. Godrej No.1 is #2 brand in terms of volume.
- The **powder to liquid body wash** is taking some time to build traction. The powder to liquid handwash variant, launched earlier, which took c.18 months to build meaningful traction, is growing at a good pace.
- The company has been focusing on category development in hair care and air care, which led to good growth.
- **HI:**
 - **GCPL launched access packs** of GoodKnight Mini at Rs50/pack (vs. Rs96/pack currently) and non-gas variant of Hit (Rs50) to drive penetration (increase adoption). HI season starts in mid-Feb; roll out (of Rs50 packs) will be pan India. Management is reasonably bullish on both the innovations.
 - **Profit salience** is in liquids and not in combo pack of machine + liquid. Combo pack pushes the machine into a household and the company does not make profits on the machine. HI category GP are expected to grow faster and gross margin profile are better than avg GCPL margins.
 - **Illegal incense sticks** continue to grow in India, at a lower pace compared to earlier, but still impact the organized players. The focus will remain on driving value (price/unit) via innovation to battle these illegal incense sticks. Learnings in category is smaller consumers are sensitive to price per unit and larger consumers are not.
 - Mr. Sudhir Sitapati, MD, believes **sharpness of problem definition has changed** with more clarity on market development and products which should be launched.
 - HI category development initiatives **have not yet met management's targets**.
- **Hair colour:** Building on success of low unit packs which serve distinct consumer needs. Management feels that the total addressable market (TAM) increases with small packs (when market is democratized). An example being Crème format where market has moved from Rs90 to Rs30. Now 85% category is at Rs30 price point.
- **Working capital** continued to reduce. Cash from operations was up by Rs3bn in 9MFY23 on a yoy basis.

Category development

- **GoodKnight Mini** served at Rs50 vs. regular at Rs95/pack and the refill at Rs35 (vs Rs76). Refills of both the larger and smaller variants can be interchangeably used with each other.
- **Hit Mosquito Repellent** - No gas variant launched at 1/5th the price of a regular- sized spray at Rs50/pack. No gas variant has done well in Nigeria (not as a LUP but as a premium product), which led to volume growth in the FMCG categories there.
- Season starts from mid-Feb 2023F and hence, the company will roll out pan-India. Liquids are reasonably well-penetrated in urban India, but lower in rural markets.
- The focus is on developing the category of sprays and liquids and **getting users to shift from burning formats to these variants**. The potential for upgradation is very large in India.

- The **formulation used in the small packs** is more concentrated than the larger variants in the spray. If these LUPs are able to drive upgradation, management is hopeful of a strong recovery in the HI segment over a span of two years.
- **These price points bring affordability to the masses.** No other player has products priced at this level in HI.
- In categories like hair care, the access packs (Rs15 variant) also contribute positively to margins, which GCPL is replicating in the HI category through access packs. Small packs drive the TAM significantly. HI innovations are expected to follow suit.

International business

- **GUAM** continued to deliver double-digit sales growth (11th successive quarter). EBITDA margin declined by 160bp yoy to 13.7%. The focus is on driving volume growth of FMCG segment (double-digits), which has been very strong and will replicate Nigeria's success in Kenya. EBITDA margin is expected to improve gradually owing to cooling off input cost and reduction in fixed cost.
- **Indonesia:** Sales declined 3% in 3Q. Ex-sanitizer growth stood at 2% owing to corrective measures taken in 3Q (like holding back on below-the-line promotions, inventory correction, etc). The gross margin expanded but higher media spending led to an EBITDA decline. Management believes the macros have turned around. Offtake in GT retail has improved.
- Issues faced by Indonesia: 1) high sanitizer base (normalized from 4Q), 2) high inventory build-up in modern trade, and 3) inter-channel conflicts. 4QFY23F is expected to be sequentially better than 3QFY23. Management is optimistic about growth in FY24F & FY25F as these categories grow faster than GDP.

Simplification initiatives in Africa

- Company-wise inventory reduction is under process. Made progress in Africa. In Kenya, inventory days fell by 36 days in 9MFY23 on a yoy basis.
- Route to market – Earlier, the hair extensions were available through wholesale/salon channels. Now these products will be rolled out to retail channels as well through a distributor model.

Input cost and margin

- **India** is ahead of the curve having seen major benefits of RM in current quarter.
- **Indonesia and GAUM** will see margin expansion going ahead (both qoq/yoy). Trends are pointing towards easing margin pressure. GUAM will see a gradual margin expansion over two years to mid-teens while Indonesia margins are expected to go to mid-20's range gradually.
- **Soaps** - GCPL has been disciplined with pricing. Management believes they have good capability in palm buying across (Godrej) group. Some incremental margin benefits will kick in as palm prices go down.

Other highlights

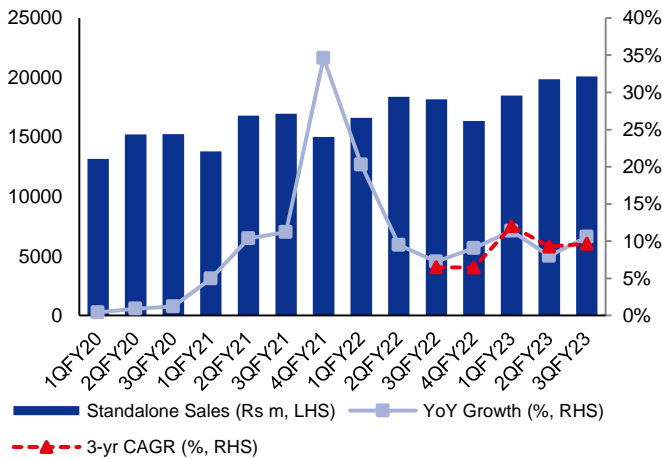
- Capex in FY24F will be in line with FY23F levels, with c.Rs50mn higher spending on digital investments is expected.
- Fiscal incentives for manufacturing facilities expire in FY23F. Non-cash tax rate will go up to 25% from FY24F onwards. Cash tax rate is expected to be 17.5% (after availing Rs6,000m MAT credit). ETR will converge to 25% by FY25F.
- Likely to end the year with a record high operating cash flow owing to the focus on cash generation since FY22.

Figure 1: Quarterly results summary - consolidated

Y/E, Mar (Rs. m)	3QFY22	2QFY23	3QFY23	YoY (%)	QoQ (%)	9MFY22	9MFY23	Gr (%)
Revenue	33,026	33,919	35,989	9.0	6.1	93,607	1,01,158	8.1
Expenditure	26,346	28,498	28,723	9.0	0.8	74,332	83,263	12.0
Consumption of RM	16,294	17,681	17,581	7.9	-0.6	46,017	51,954	12.9
as % of sales	49.3	52.1	48.9					
Employee Cost	2,828	2,593	2,917	3.2	12.5	8,309	8,107	-2.4
as % of sales	8.6	7.6	8.1					
Other expenditure	7,225	8,224	8,224	13.8	0.0	20,006	23,201	16.0
as % of sales	21.9	24.2	22.9					
EBITDA	6,680	5,421	7,266	8.8	34.0	19,275	17,896	-7.2
Depreciation	542	533	573	5.8	7.5	1,559	1,677	7.6
EBIT	6,138	4,888	6,693	9.0	36.9	17,716	16,219	-8.5
Other Income	224	399	432	92.5	8.2	660	1,105	67.6
Interest	256	483	399	56.2	-17.3	774	1,232	59.3
PBT	6,107	4,804	6,726	10.1	40.0	17,602	16,092	-8.6
Total Tax	972	989	1,188	22.3	20.1	3,511	3,269	-6.9
Adjusted PAT	5,135	3,815	5,538	7.8	45.1	14,091	12,823	-9.0
(Profit)/loss from Associates/Minority Interest	3	0	0	NA	NA	3	0	-100.0
APAT after MI	5,138	3,815	5,538	7.8	45.1	14,094	12,823	-9.0
Extraordinary items	138	-227	-74	-154	-67	108	-319	-396.3
Reported PAT	5,276	3,589	5,463	3.6	52.2	14,202	12,503	-12.0
Adj. EPS	5.0	3.7	5.4	7.8	45.1	13.8	12.5	-9.0
Margins (%)	3QFY22	2QFY23	3QFY23	YoY (bp)	QoQ (bp)	9MFY22	9MFY23	(bps)
Gross margin	50.7	47.9	51.1	50	330	50.8	48.6	-220
EBITDA	20.2	16.0	20.2	0	420	20.6	17.7	-290
EBIT	18.6	14.4	18.6	0	420	18.9	16.0	-290
EBT	18.5	14.2	18.7	20	450	18.8	15.9	-290
PAT	15.6	11.2	15.4	-20	410	15.1	12.7	-240

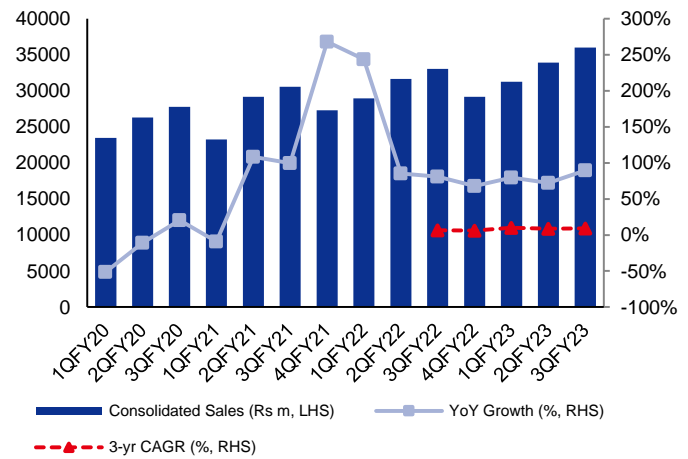
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Standalone sales grew 9.7% on a 3-yr CAGR basis in 3QFY23



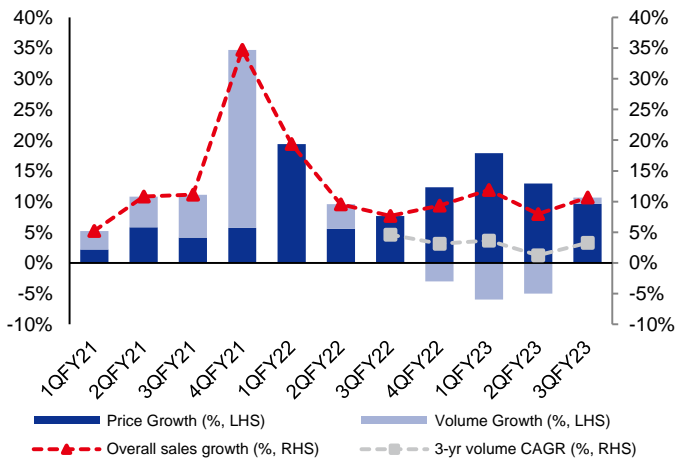
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Consolidated sales grew 9% on a 3-yr CAGR basis in 3QFY23



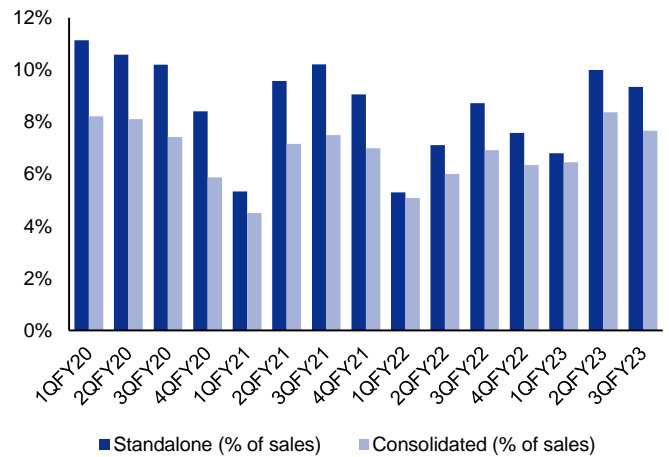
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Volume growth stood at 3% yoy in 3QFY23



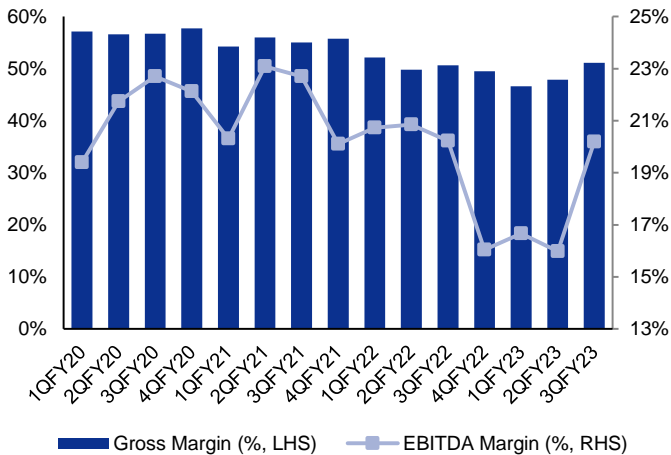
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Ad spends stood at 8%/9% of sales respectively in 3QFY23



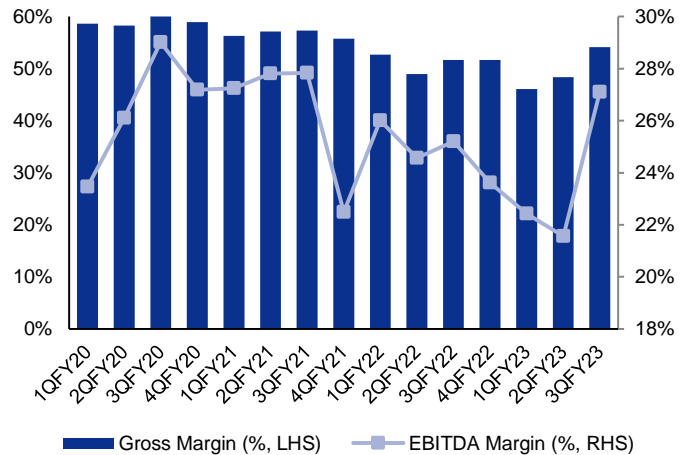
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Consolidated gross margin stood at 51.1% in 3Q



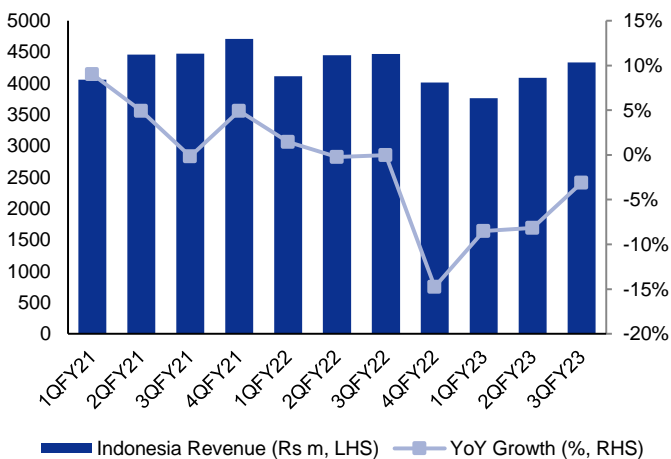
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Standalone gross margins stood at 54.2% in 3Q



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Indonesia business revenue declined 3% yoy



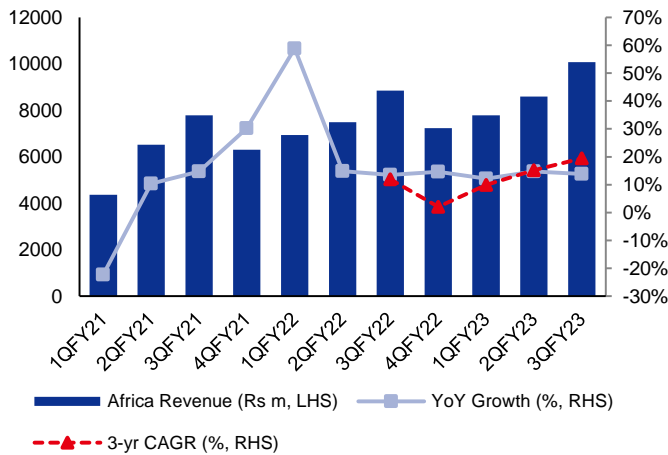
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Indonesia EBITDA margins declined 110bp yoy to 20% in 3QFY23



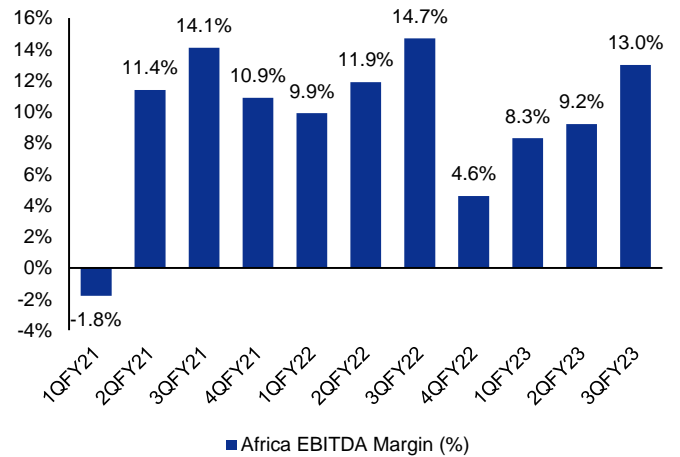
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Africa business revenue grew at 19% on a 3-year CAGR basis



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Africa business EBITDA margin stood at 13% in 3QFY23



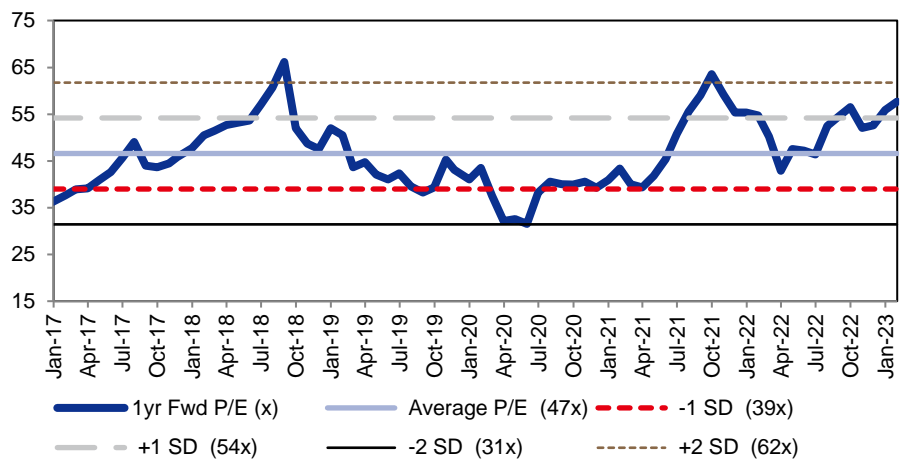
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Revision in our earnings estimates

Y/E, Mar (Rs. mn)	FY23F			FY24F			FY25F		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	1,33,892	1,33,338	-0.4	1,49,476	1,48,330	-0.8	1,66,809	1,62,921	-2.3
EBITDA	22,365	23,569	5.4	28,221	30,427	7.8	33,452	34,795	4.0
EBITDA Margin (%)	16.7	17.7	100bp	18.9	20.5	160bp	20.1	21.4	130bp
APAT	15,582	16,997	9.1	20,326	22,643	11.4	24,575	24,518	-0.2
EPS	15.2	16.6	9.1	19.9	22.1	11.4	24.0	24.0	-0.2

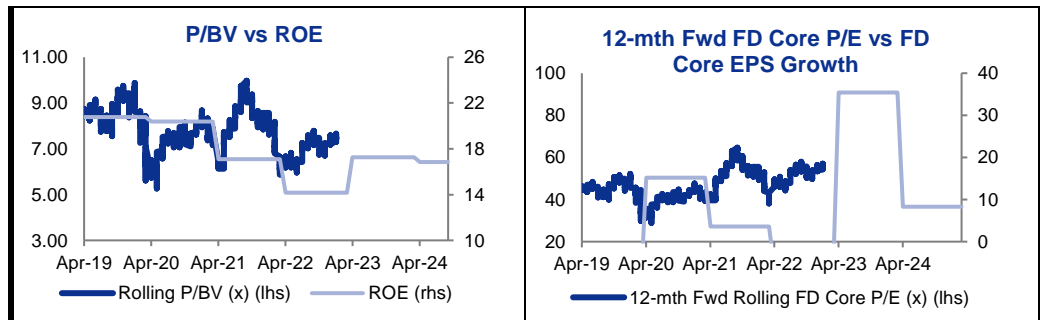
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 13: GCPL's one year forward P/E trades between 5-year average P/E and +1SD P/E



SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	110,286	122,765	133,338	148,330	162,921
Gross Profit	60,992	62,014	65,737	78,740	88,458
Operating EBITDA	23,883	23,951	23,569	30,427	34,795
Depreciation And Amortisation	(2,039)	(2,099)	(2,213)	(2,337)	(2,461)
Operating EBIT	21,844	21,852	21,355	28,090	32,333
Financial Income/(Expense)	(595)	(205)	(580)	(369)	(149)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	21,249	21,647	20,776	27,722	32,184
Exceptional Items					
Pre-tax Profit	21,249	21,647	20,776	27,722	32,184
Taxation	(3,595)	(3,719)	(3,782)	(5,082)	(7,671)
Exceptional Income - post-tax	(445)	(98)	(270)		
Profit After Tax	17,209	17,831	16,723	22,640	24,513
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	17,209	17,831	16,723	22,640	24,513
Recurring Net Profit	17,653	17,929	16,993	22,640	24,513
Fully Diluted Recurring Net Profit	17,653	17,929	16,993	22,640	24,513

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	23,883	23,951	23,569	30,427	34,795
Cash Flow from Invt. & Assoc.					
Change In Working Capital	143	(18,656)	16,228	(1,748)	(1,043)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	671	897	1,222	1,319	1,425
Net Interest (Paid)/Received	(1,266)	(1,102)	(1,802)	(1,688)	(1,574)
Tax Paid	(3,595)	(3,719)	(3,782)	(5,082)	(7,671)
Cashflow From Operations	19,835	1,372	35,434	23,229	25,932
Capex	1,224	(5,835)	(2,250)	(2,250)	(2,250)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(71)	(3,363)			
Other Investing Cashflow					
Cash Flow From Investing	1,153	(9,198)	(2,250)	(2,250)	(2,250)
Debt Raised/(repaid)	(19,042)	9,448	(1,000)	(1,000)	(1,000)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid		(7,105)	(7,507)	(9,185)	(9,398)
Preferred Dividends					
Other Financing Cashflow	(2,925)	9,926	126		
Cash Flow From Financing	(21,967)	12,269	(8,381)	(10,185)	(10,398)
Total Cash Generated	(980)	4,443	24,803	10,794	13,284
Free Cashflow To Equity	1,945	1,622	32,184	19,979	22,682
Free Cashflow To Firm	22,254	(6,725)	34,986	22,666	25,256

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	13,513	21,322	46,135	56,939	70,233
Total Debtors	10,045	11,163	14,520	16,001	17,401
Inventories	17,163	21,299	18,914	20,881	22,754
Total Other Current Assets	5,718	6,974	7,160	7,181	7,201
Total Current Assets	46,438	60,758	86,729	101,002	117,589
Fixed Assets	38,324	39,590	39,626	39,540	39,328
Total Investments					
Intangible Assets	51,299	53,768	53,768	53,768	53,768
Total Other Non-Current Assets	6,378	6,796	6,059	6,059	6,059
Total Non-current Assets	96,000	100,153	99,453	99,366	99,155
Short-term Debt	2,794	12,591	12,341	12,091	11,841
Current Portion of Long-Term Debt					
Total Creditors	21,596	21,631			
Other Current Liabilities	38,583	26,476	43,862	45,583	47,833
Total Current Liabilities	62,973	60,698	56,203	57,674	59,674
Total Long-term Debt	4,801	4,453	3,703	2,953	2,203
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	4,801	4,453	3,703	2,953	2,203
Total Provisions	1,871	1,832	1,832	1,832	1,832
Total Liabilities	69,645	66,983	61,738	62,459	63,709
Shareholders Equity	94,389	115,559	124,437	137,896	153,016
Minority Interests					
Total Equity	94,389	115,559	124,437	137,896	153,016

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	11.3%	11.3%	8.6%	11.2%	9.8%
Operating EBITDA Growth	11.5%	0.3%	(1.6%)	29.1%	14.4%
Operating EBITDA Margin	21.7%	19.5%	17.7%	20.5%	21.4%
Net Cash Per Share (Rs)	5.79	4.18	29.43	40.97	54.95
BVPS (Rs)	92.33	113.01	121.69	134.85	149.63
Gross Interest Cover	17.25	19.84	11.85	16.64	20.54
Effective Tax Rate	16.9%	17.2%	18.2%	18.3%	23.8%
Net Dividend Payout Ratio			44.2%	40.6%	38.3%
Accounts Receivables Days	35.77	31.53	35.15	37.55	37.42
Inventory Days	126.59	115.54	108.56	104.36	106.94
Accounts Payables Days	171.79	129.86	58.40		
ROIC (%)	31.8%	23.9%	22.2%	28.7%	32.8%
ROCE (%)	21.4%	19.1%	16.2%	19.7%	20.8%
Return On Average Assets	12.5%	12.0%	10.1%	11.9%	11.8%

Key Drivers					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Domestic business sales growth %	14.2%	11.1%	10.3%	11.0%	9.7%
International business sales growth %	7.6%	11.5%	6.5%	11.5%	10.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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