Godrej Consumer Products Ltd

Strong growth potential over next few years

- GCPL's 4QFY24 organic domestic value/volume growth stood at 5%/7%. Indonesia/Africa saw 12%/10% volume growth. Consol volume grew 9%.
- Reported domestic EBITDA margin stood at 22.3% (vs. 23%/20% in 3QFY24/4QFY23). Domestic/consolidated EBITDA grew by 12.4%/17.8% yoy.
- Scale-up of innovations and premiumization agenda are in the right direction. Maintain ADD rating with a higher target price of Rs1,455, from Rs1,285 earlier.

India

ADD *(no change)*

Consensus ratings*:	Buy 28	Hold 6	Sell 3

Current price:	Rs1,322
Target price: ▲	Rs1,455
Previous target:	Rs1,285
Up/downside:	10.1%
InCred Research / Consensus:	9.0%
Reuters:	GOCP.NS
Bloomberg:	GCPL IN
Market cap:	US$16,195m
	Rs1,352,527m
Average daily turnover:	US$16.6m
	Rs1385.7m
Current shares o/s:	1,022.5m
Free float:	36.8%

**Source: Bloomberg*

Key changes in this note

- Raise target price to Rs1,455 from Rs1,285.

Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9.3	6.8	41.2
Relative (%)	11.1	3.8	18.6

Major shareholders	% held
Promoter	63.2
First Sentier Investors	2.8
BlackRock Inc	2.0

Barring HI, all segments post healthy volume growth in 4QFY24

Godrej Consumer Products' (GCPL) India business posted reported volume/sales growth of 15%/12%, respectively, in 4QFY24. Household insecticides (HI) had a poor quarter due to the extended winter season in North & East India. Feedback regarding the recently launched incense sticks has been positive. Personal wash posted high single-digit volume growth while hair colour, air freshener and fabric care witnessed double-digit volume growth. Park Avenue and Kamasutra posted Rs1.37bn in sales in a seasonally weak quarter, growing 22% yoy in 4QFY24.

International business growth outlook improves

Indonesia business posted a 12% volume growth, with EBITDA up 34% yoy in 4QFY24, led by continued strong performance from the HI portfolio. GUAM's organic volume grew 10% while reported volume/EBITDA were up 2%/60%, respectively. The East Africa business restructuring efforts have been completed. PAT is expected to be positively impacted by Rs500m, despite the negative impact on revenue of Rs4.7bn per annum. In constant currency or CC terms, Indonesia and GUAM posted 17%/16% yoy sales growth, respectively. LATAM & SAARC reported a 41% yoy INR sales growth.

Premiumization, efficiency and affordability to be in focus in FY25F

GCPL stepped up its premiumization agenda by launching foam bodywash under Cinthol, RNF-formulated liquid vapourizers under Good Knight, premium condoms under Kamasutra and disruptive pricing in liquid detergents with Fab (priced at Rs99/litre). Fine fragrances under RCCL will be expanded using Park Avenue's brand recall. Two new distribution channels will be created, one each for OTC and cosmetics, backed with feet-on-the-street investments across rural & urban markets. Van distribution in rural markets is likely to touch 700 in 1QFY25F (from 500 currently). The EBITDA margin is likely to be range-bound from here on, while sales growth is expected in high single digits in FY25F.

Retain ADD rating with a higher target price of Rs1,455

GCPL's focus on TAM expansion, premiumization and distribution expansion are in the right direction. We retain our ADD rating on it with a higher target price of Rs1,455 (50x Mar 2026F EPS). Downside risks: Lower-than-expected sales growth.

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Financial Summary	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	122,765	133,160	140,961	154,238	168,835
Operating EBITDA (Rsm)	23,951	24,305	29,435	34,577	41,256
Net Profit (Rsm)	17,831	17,025	(5,606)	23,336	29,803
Core EPS (Rs)	17.5	17.2	18.7	22.8	29.1
Core EPS Growth	1.5%	(2.0%)	9.1%	21.8%	27.7%
FD Core P/E (x)	75.82	79.43	(241.27)	57.96	45.38
DPS (Rs)	6.9	7.5	8.8	9.7	12.2
Dividend Yield	0.00%	0.00%	0.38%	0.74%	0.93%
EV/EBITDA (x)	56.27	54.70	45.66	38.49	32.15
P/FCFE (x)	833.56	(104.74)	45.81	30.54	86.47
Net Gearing	(3.7%)	(16.6%)	(6.7%)	(15.4%)	(16.6%)
P/BV (x)	11.70	9.80	10.74	9.73	8.65
ROE	17.1%	13.9%	14.5%	17.6%	20.2%
% Change In Core EPS Estimates				(12.14%)	(4.71%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Strong growth potential over next few years

Highlights from the analyst meet

Household insecticides

- All the company's products had a 58% market share in 2008 while Good Knight (GK) was at 36%. In 2012, both had a 46% market share. GK is now at 57% while All Out is at 30%.
- Good Knight RNF variant LV machine will be launched soon.

India business

- Consumption growth in FY24 was 3% and agri growth was 0.5%. Top 10% of Indians contribute 90% to savings. The bottom-end contributes negatively to savings.
- FY25F strategy: 1) Premiumization (premium innovations, premium categories, premium channels), 2) efficiency (manufacturing footprint, media), and 3) affordability (GT-specific).
- Premiumization: Launched foam body wash, LV with RNF, Aer O air fresheners.
  - Management is bullish on body wash business. Body wash products have a 30% market penetration in India. The new formulation of body wash mimics the benefits of soaps (squeaky clean). Launched 10 days ago on the e-commerce channel and in Tamil Nadu.
  - Air freshner Aer O - Inspired by a product in Indonesia.
  - LV - RNF formulation - expected by Jun 2024F.
  - Some more innovations in the pipeline.
  - Kamasutra: Premium condoms were earlier dominated by Durex. Now, KS has been witnessing steady market share gains. Management is confident on the category going ahead.
  - Liquid detergents: Fab at Rs99. The surfactant mix is different from the others in the market. Hence, management believes it would be possible only for a handful to manufacture at a similar price. Margins are lower than the other industry players.
  - Fine fragrances (acquired from Raymond) are doing well on e-commerce. Park Avenue is strong in the male fragrance space. Will leverage its strengths to enter the fine fragrances segment in a bigger way.
- Distribution premiumization: Increase OTC and cosmetic channel presence by 50% in FY25F. In Dmart, GCPL has a 40% share in deodorants. Currently, modern trade or MT and e-com are growing in high single digits.
  - Two new channels will be created on the back of what RCCL had - 1) OTC, and 2) cosmetics channel. Many cosmetic outlets were covered earlier. Now an independent cosmetic channel will take deodorants, hair colour and other products in the pipeline for the channel. Will invest in feet-on-street for these in both rural and urban markets.
- Media efficiency: GCPL now has a proprietary algorithm for media planning. The CEO of Mindshare Fulcrum was hired to head media. Media spending was 1.4x higher in FY24 vs. FY23. Cost per rating point (CPRP) was down 6% despite higher advertising expenses, implying better efficiency.
- Van program: Moved to 500 vans during the quarter. Will get to 700 next quarter.
- Access packs will be a strong focus area. Some new innovations planned for FY25F.
- Park Avenue: SKU reduction took place from 500 to 150 post acquisition. Condoms and perfumes are the green shoots. Integration has been strong.

Synergies will flow through. The task is to get to EPS neutral situation by 2HFY25F.

- Outlook: High single-digit (>7%) growth (DD in the long term) led by TAM expansion, and upgradation from soaps. HI close to DD growth. These will take GCPL to DD volume growth. The EBITDA margin is expected to remain at 27-28% in India.

Indonesia

- Indonesia GDP growth pre/post Covid-19 pandemic was 5.1%/5.3%, respectively. GCPLs performance is down in comparison.
- Portfolio is strong. Many jewels like Cal Gajah (rat traps) sit in the business, which is home grown.
- There is a large headroom to grow.
- Category penetration is low in most categories the company operates in. Hence, a large room to grow.
- Modern trade's contribution is 75%. Now moving towards 70%. MT got deep discounted, which impacted the other channels. Difference in pricing for a lead pack of aerosol in MT/GT was between 25-26%.
- In Nov-Dec 2022, GCPL took a call to change the pricing gap. By Mar 2024F, the gap in pricing was non-existent.
- Following the pricing decision, GCPL moved operations from its branch model to distributors. The 12 branches were exited, and a pure distribution model was set in for D2C, MT and GT. It aided in improving outlet coverage, which was up 1.1x in FY24 vs. FY22.
- Assortments within outlets started going up in the first year. Lots more to extract in the space.
- Media spending will be stepped up. Unilever is at 7-8% (7-8x larger than GCPL there) vs. 3-4% for GCPL.
- Complexity was reduced. A 25% reduction in SKUs also took place. In a year or so, it will be squeezed out in the space.
- HI grew 38% yoy while the hair colour business was up 24% in FY24 in Indonesia. Air care lagged, declining 3% yoy in FY24, due to structural issues. The huge spike in rice and fuel prices last year impacted consumption. GCPL also reduced non-performing SKUs, which led to the decline.
- HI (under HIT): Indonesia has a huge base of aerosol and small base of liquid vapourizer, unlike in India. A competitor (Wape - Fumakila) was better in formulations. GCPL revamped its efficacy by 4x, which then led to stronger growth.
- LV portfolio is at 7% penetration annually. Significantly underpenetrated. For the last two years, the benefits of setting the price value equation have aided growth.
- The packaging of products was refreshed.
- Hit was launched in 1996 in Indonesia. From FY20-FY23, Hit declined while the category was growing better. Competitive intensity was also higher. Hit was playing in two formulations, which confused the customers. LVs were then launched with sharper communication. Pricing gaps were corrected between channels. There was a 40% growth in distribution. Home-to-home approach (1m homes in FY24) provided a positive impact. Hit, as a brand, grew 28%, with a 90bp improvement in penetration. Aerosols grew 23%.
- Stella brand will be revamped. LVs are going to be launched with refills priced for the mass-end. Stella pocket will be revamped. Aer O in India was inspired by Stella pocket.
- Shampoo hair colour: NYU brand ad spending has been stepped up. Active outlet coverage is expected to be 4x higher than in FY24 in FY25F.
- Outlook: HSD volume growth with mid-20s EBITDA margin.

Africa

- The environment is volatile and tough. Interest rates are high (24% in Feb 2024 vs. 17.5% in Apr 2023), forex volatility and geopolitical volatility.
- The focus is on driving UVG, ensuring INR EBITDA and cash growth on an annualized basis (owing to fluctuations).
- Code book to manage volatility: pricing, optimizing supply chain (number of factories went down from 26 in FY22 to 19 in FY24), FOH reduction (reduced 300bp FY20 vs. FY24).
- Larger FMCG salience: 50%\40% in FY24/FY22, respectively. Growth will remain faster than the rest of the range.
- Direct reach in South Africa was increased by 1.4x in FY24 vs. FY22.

New targets in place

- Innovation will be a strong focus area. Fewer innovations are expected but are expected to do well.
- Launching an electric fragrance machine in Indonesia under Stella brand.
- TAM expansion was higher in FY24 vs. previous years.
- Category development via relevance, access, availability and consumer trials.
- Aer's two-year UVG CAGR at 130%. Penetration is up 240bp. Darling Comb in South Africa grew at 110% on a two-year CAGR and 220bp penetration.
- Access packs have aided growth. In Indonesia, Hit aerosol (access) grew 48% in FY24 amid penetration gains of 500bp.
- Liquid vaporizers didn't do as well. Management is hopeful of growth in offtake.
- To reduce manufacturing footprint by 40% by FY26F.
- Will take products that are doing well in one market and cross pollinate in other markets.

Vistaar 2.0 (rural outreach program)

- Van operations will sell ready stock in rural India.
- Covers 400k outlets in rural areas. One-third of the sales contribution from rural markets. Very few of these outlets are covered by other companies.
- Vistaar 2.0 aims to improve this by doubling outlet counts.
- Reached 10m outlets,
- Costs 3-4k per day, per van.

Others

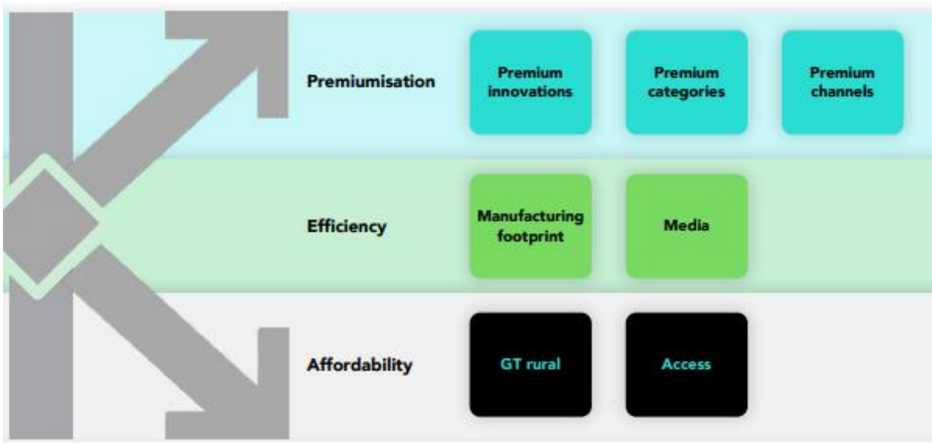
- Dividend payout ratio policy set at 50%.
- Capex expected at Rs9bn for two factories over 18-24 months. Capex will normalize after this.
- Tax rate will go to c.30% in FY25F. and then closer to 25% in FY26F. RCCL acquisition is giving tax benefit by creating a deferred tax item due to which real payouts are lower.

Figure 1: Quarterly summary - consolidated

Y/E Mar (Rs. m)	4QFY23	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY23	FY24	Gr (%)
Revenue	**32,002**	**36,596**	**33,850**	5.8	-7.5	**1,33,160**	**1,40,955**	5.9
Expenditure	**25,593**	**28,189**	**26,299**	**2.8**	**-6.7**	**1,08,856**	**1,11,527**	**2.5**
Consumption of raw materials	15,074	16,143	14,857	-1.4	-8.0	67,028	63,203	-5.7
as % of sales	*47.1*	*44.1*	*43.9*			*50.3*	*44.8*	
Employee costs	3,008	2,761	3,237	7.6	17.2	11,115	12,493	12.4
as % of sales	*9.4*	*7.5*	*9.6*			*8.3*	*8.9*	
Other expenditure	7,512	9,286	8,205	9.2	-11.6	30,713	35,830	16.7
as % of sales	*23.5*	*25.4*	*24.2*			*23.1*	*25.4*	
EBITDA	**6,409**	**8,407**	**7,551**	**17.8**	**-10.2**	**24,304**	**29,428**	**21.1**
Depreciation	686	539	499	-27.2	-7.4	2,363	2,410	2.0
EBIT	**5,723**	**7,868**	**7,052**	**23.2**	**-10.4**	**21,941**	**27,019**	**23.1**
Other income	579	701	638	10.2	-8.9	1,685	2,690	59.7
Interest	525	666	785	49.4	17.8	1,757	2,964	68.6
PBT	**5,777**	**7,903**	**6,906**	**19.5**	**-12.6**	**21,868**	**26,745**	**22.3**
Total tax	1,034	2,024	2,087	101.9	3.1	4,303	7,588	76.3
Adjusted PAT	**4,743**	**5,880**	**4,818**	**1.6**	**-18.0**	**17,566**	**19,157**	**9.1**
(Profit)/loss from associates/minority interest	**0**	**0**	**0**	**NA**	**NA**	**0**	**0**	**NA**
APAT after MI	**4,743**	**5,880**	**4,818**	**1.6**	**-18.0**	**17,566**	**19,157**	**9.1**
Extraordinary items	-222	-69	-23,757	10615.6	34379.7	-541	-24,769	4477.5
Reported PAT	**4,521**	**5,811**	**-18,938**	**-518.9**	**-425.9**	**17,025**	**-5,612**	**-133.0**
Adj. EPS	**4.6**	**5.8**	**4.7**	**1.6**	**-18.0**	**17.2**	**18.7**	**9.1**
Margins (%)	**4QFY23**	**3QFY24**	**4QFY24**	**YoY (bp)**	**QoQ (bp)**	**FY23**	**FY24**	**(bps)**
Gross margin	52.9	55.9	56.1	320	20	49.7	55.2	550
EBITDA	20.0	23.0	22.3	230	-70	18.3	20.9	260
EBIT	17.9	21.5	20.8	300	-70	16.5	19.2	270
EBT	18.1	21.6	20.4	230	-120	16.4	19.0	260
PAT	14.8	16.1	14.2	-60	-180	13.2	13.6	40
Effective tax rate	17.9	25.6	30.2	1,230	460	19.7	28.4	870

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Three-phased strategy for FY25F



SOURCE: INCRED RESEARCH, COMPANY REPORTS

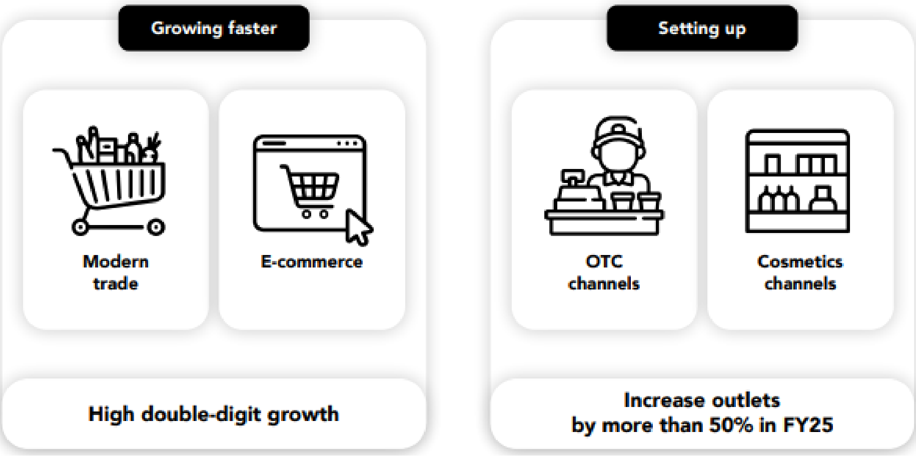
Figure 3: Premium innovations hold promise

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: New premium categories launched

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Tapping premium sales channels – OTC products and cosmetics



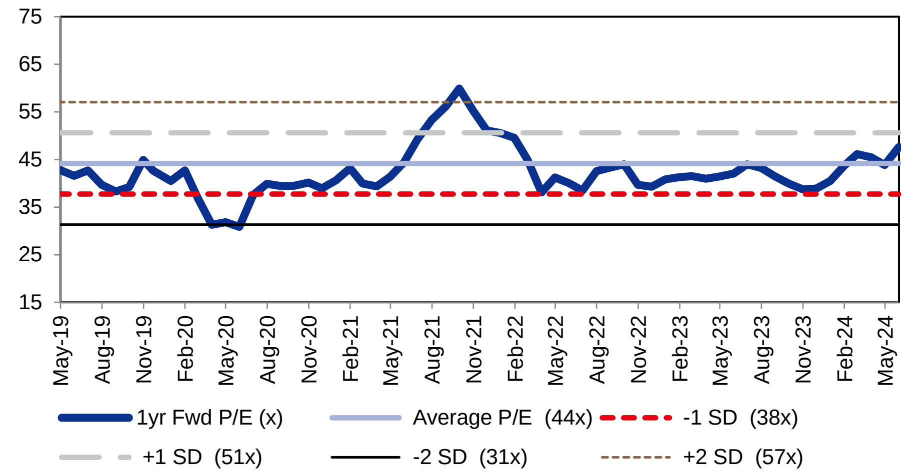
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Our revised earnings estimates

Y/E, Mar (Rs. mn)	FY25F			FY26F		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	1,67,676	1,54,238	-8.0	1,85,689	1,68,835	-9.1
EBITDA	36,431	34,577	-5.1	42,417	41,256	-2.7
EBITDA Margin (%)	*21.7*	*22.4*	*70bp*	*22.8*	*24.4*	*160bp*
APAT	26,557	23,336	-12.2	31,272	29,803	-4.8
EPS	26.0	22.8	-12.2	30.6	29.1	-4.8

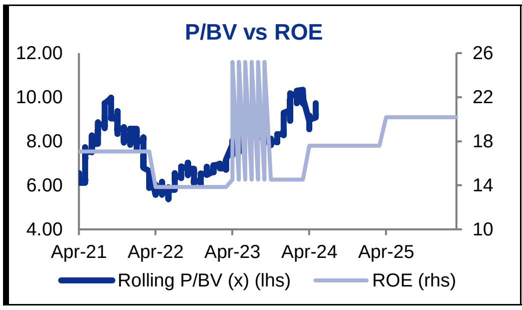
SOURCES: INCRED RESEARCH, COMPANY REPORTS

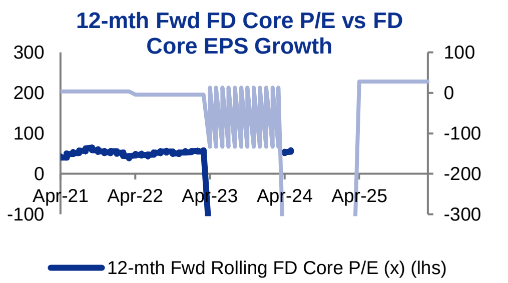
Figure 7: GCPL's one year forward P/E trades between its five-year average and +1SD



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	**122,765**	**133,160**	**140,961**	**154,238**	**168,835**
Gross Profit	**62,014**	**66,132**	**77,758**	**88,049**	**99,235**
Operating EBITDA	**23,951**	**24,305**	**29,435**	**34,577**	**41,256**
Depreciation And Amortisation	(2,099)	(2,363)	(2,410)	(3,200)	(3,697)
Operating EBIT	**21,852**	**21,942**	**27,025**	**31,377**	**37,558**
Financial Income/(Expense)	(205)	(73)	(274)	495	591
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	**21,647**	**21,868**	**26,751**	**31,872**	**38,149**
Exceptional Items					
Pre-tax Profit	**21,647**	**21,868**	**26,751**	**31,872**	**38,149**
Taxation	(3,719)	(4,303)	(7,588)	(8,536)	(8,346)
Exceptional Income - post-tax	(98)	(541)	(24,769)		
Profit After Tax	**17,831**	**17,025**	**(5,606)**	**23,336**	**29,803**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**17,831**	**17,025**	**(5,606)**	**23,336**	**29,803**
Recurring Net Profit	17,929	17,566	19,163	23,336	29,803
Fully Diluted Recurring Net Profit	**17,929**	**17,566**	**19,163**	**23,336**	**29,803**

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	23,951	24,305	29,435	34,577	41,256
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(18,656)	1,802	(337)	6,258	(9,509)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	897	1,684	2,690	2,215	2,306
Net Interest (Paid)/Received	(1,102)	(1,757)	(2,964)	(1,720)	(1,715)
Tax Paid	(3,719)	(4,303)	(7,588)	(8,536)	(8,346)
Cashflow From Operations	**1,372**	**21,731**	**21,236**	**32,794**	**23,991**
Capex	(5,835)	(8,758)	(7,735)	(8,250)	(8,250)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(3,363)	(20,136)	(4,905)		
Other Investing Cashflow					
Cash Flow From Investing	**(9,198)**	**(28,894)**	**(12,640)**	**(8,250)**	**(8,250)**
Debt Raised/(repaid)	9,448	(5,748)	20,926	19,749	(100)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(7,105)	(7,706)	(9,000)	(9,958)	(12,520)
Preferred Dividends					
Other Financing Cashflow	9,926	13,357	(18,961)	(1,555)	1,249
Cash Flow From Financing	**12,269**	**(98)**	**(7,034)**	**8,236**	**(11,371)**
Total Cash Generated	4,443	(7,261)	1,562	32,780	4,370
Free Cashflow To Equity	**1,622**	**(12,911)**	**29,523**	**44,293**	**15,641**
Free Cashflow To Firm	**(6,725)**	**(5,406)**	**11,560**	**26,264**	**17,456**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	21,322	34,197	40,664	73,444	77,814
Total Debtors	11,163	12,453	15,354	16,907	20,335
Inventories	21,299	15,372	12,709	22,401	27,998
Total Other Current Assets	6,974	6,636	7,312	7,395	7,403
Total Current Assets	**60,758**	**68,657**	**76,039**	**120,147**	**133,550**
Fixed Assets	39,590	41,530	54,814	59,864	64,417
Total Investments					
Intangible Assets	53,768	58,223	50,264	50,264	50,264
Total Other Non-Current Assets	6,796	5,963	2,804	4,017	2,768
Total Non-current Assets	**100,153**	**105,716**	**107,882**	**114,145**	**117,449**
Short-term Debt	12,591	8,829	31,864	51,413	51,163
Current Portion of Long-Term Debt					
Total Creditors	21,631	18,232	16,755		
Other Current Liabilities	26,476	23,349	23,137	40,722	40,246
Total Current Liabilities	**60,698**	**50,409**	**71,756**	**92,135**	**91,409**
Total Long-term Debt	4,453	2,467	358	558	708
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	**4,453**	**2,467**	**358**	**558**	**708**
Total Provisions	1,832	1,786	2,576	2,576	2,576
Total Liabilities	**66,983**	**54,662**	**74,690**	**95,269**	**94,693**
Shareholders Equity	115,559	137,942	125,986	139,023	156,306
Minority Interests					
Total Equity	**115,559**	**137,942**	**125,986**	**139,023**	**156,306**

Key Ratios

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	11.3%	8.5%	5.9%	9.4%	9.5%
Operating EBITDA Growth	0.3%	1.5%	21.1%	17.5%	19.3%
Operating EBITDA Margin	19.5%	18.3%	20.9%	22.4%	24.4%
Net Cash Per Share (Rs)	4.18	22.39	8.25	20.99	25.36
BVPS (Rs)	113.01	134.88	123.18	135.92	152.82
Gross Interest Cover	19.84	12.49	9.12	18.24	21.90
Effective Tax Rate	17.2%	19.7%	28.4%	26.8%	21.9%
Net Dividend Payout Ratio			26.7%	42.7%	42.0%
Accounts Receivables Days	31.53	32.37	36.00	38.17	40.26
Inventory Days	115.54	99.84	81.08	96.81	132.15
Accounts Payables Days	129.86	108.53	101.02	46.20	
ROIC (%)	23.9%	22.3%	26.1%	26.1%	28.3%
ROCE (%)	19.1%	16.2%	18.5%	18.5%	19.3%
Return On Average Assets	12.0%	10.5%	10.8%	10.9%	12.0%

Key Drivers

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Domestic business sales growth %	11.1%	10.3%	9.7%	12.2%	9.6%
International business sales growth %	11.5%	6.1%	0.6%	5.4%	9.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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