

India

**ADD** (no change)

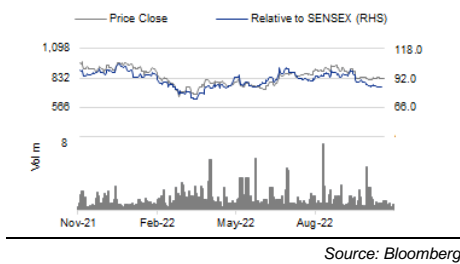
Consensus ratings\*: Buy 30 Hold 5 Sell 1

Current price:	Rs827
Target price:	Rs900
Previous target:	Rs975
Up/downside:	8.8%
InCred Research / Consensus:	-8.8%
Reuters:	
Bloomberg:	GCPL IN
Market cap:	US\$11,645m
	Rs845,566m
Average daily turnover:	US\$16.8m
	Rs1219.6m
Current shares o/s:	1,022.5m
Free float:	36.8%

\*Source: Bloomberg

**Key changes in this note**

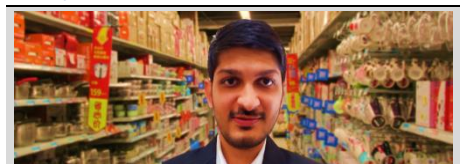
- Reduce target price to Rs900 from Rs975.
- Introduce FY25F estimates.
- Reduce FY23F/24F EPS by 25%/15%.



Price performance	1M	3M	12M
Absolute (%)	(0.4)	(4.8)	(14.9)
Relative (%)	(5.2)	(8.4)	(15.8)

Major shareholders	% held
Promoter	63.2
First State Investments ICVC	2.8
BlackRock Inc	1.5

**Analyst(s)**



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# Godrej Consumer Products Ltd

## Weak volume; subdued margins

- GCPL's 2QFY23 consolidated sales grew by 7.2% yoy (3-year CAGR 8.8%). Volume declined by 5% (3-year volume CAGR at 1.2% in 2Q vs. 3.6% in 1Q).
- Higher ad spending (up 50% yoy in 2Q) to support category development initiatives will weigh on EBITDA margin even as gross margin recovers.
- Structural initiatives may take time to fructify. Valuation provides some comfort. Retain ADD rating with a lower target price of Rs900 (41x Sep-2024F EPS).

### Sales growth led by personal care segment; HI segment impacted

Godrej Consumer Products or GCPL's domestic sales grew 8% yoy (3-year CAGR of 9.3%) with a volume decline of 5% in 2QFY23. Pricing-led growth in soaps drove the personal care segment's growth (up 18% yoy; 16% on a 3-year CAGR) while hair colour business witnessed a high single-digit growth. Home care segment grew 1.6% yoy (3-year CAGR of 3.7%) as household insecticides (HI) reported another soft quarter owing to seasonality in northern and eastern parts of India. Category development remains a key focus area as rising (numeric) distribution reach and the pace of innovations (with more focus on impactful product launches) take a backseat.

### IBD growth driven by GAUM

International business division's (IBD) growth was led by Africa, USA and the Middle East (GAUM), which grew 13% in constant currency (CC) terms driven by double-digit growth in both dry hair and FMCG categories. South Africa and West Africa continued their growth momentum. Indonesia sales (ex-hygiene) grew 12% (flat in 1QFY23) while overall sales declined by 8% yoy. Efforts to reduce channel inventory, increase general trade (GT) distribution and category development should ensure a gradual recovery. GAUM/Indonesia EBITDA margins contracted by 270bp/930bp yoy to 9.2%/17.1%, respectively, yoy.

### Gross margin to normalize; advertisement spending to increase

Consolidated gross margin/EBITDA contracted by 190bp/490bp yoy to 47.9%/16%, respectively, in 2QFY23. While gross margin is expected to improve sequentially (and normalize) with falling raw material prices, advertising spending (up 50% yoy in 2Q) is expected to trend higher to support category development initiatives. Hence, EBITDA margin is likely to normalize at a lower band vs. pre-Covid levels, in our opinion.

### Maintain ADD rating with lower target price of Rs900

Market development initiatives, simplifying business (reducing stock-keeping unit or SKU counts, inventory levels, etc.) and concentrating on impactful innovations are right steps but may take time to fructify. Retain ADD rating on GCPL but cut our target price to Rs900 (41x Sep 2024F EPS). Downside risks: Lower-than-expected sales in domestic/Africa business, slow pace of margin recovery, and macro-economic/currency volatility in IBD.

### Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	110,286	122,765	133,893	149,476	166,809
Operating EBITDA (Rsm)	23,883	23,951	22,365	28,221	33,452
Net Profit (Rsm)	17,209	17,831	15,409	20,322	24,571
Core EPS (Rs)	17.3	17.5	15.2	19.9	24.0
Core EPS Growth	12.1%	1.5%	(13.1%)	30.4%	20.9%
FD Core P/E (x)	49.12	47.41	54.87	41.61	34.41
DPS (Rs)	0.0	6.9	6.6	8.1	9.4
Dividend Yield	0.00%	0.00%	0.80%	0.97%	1.13%
EV/EBITDA (x)	35.15	35.12	36.47	28.51	23.63
P/FCFE (x)	434.50	521.22	27.07	46.56	37.13
Net Gearing	(6.3%)	(3.7%)	(24.2%)	(30.1%)	(36.5%)
P/BV (x)	8.96	7.32	6.83	6.22	5.60
ROE	20.4%	17.1%	13.0%	15.6%	17.1%
% Change In Core EPS Estimates			(25.05%)	(15.00%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## Weak volume, subdued margins

### Key takeaways from the earnings call

#### India business

- Domestic business results were below management expectations owing to muted performance in household insecticides.
- **Household insecticides (HI):** In India, it was soft in 2QFY23 owing to seasonality for the industry, especially in east and north India. Market shares remain stable (flat yoy). Challenge remains on premiumization. Media spends have been increased and GoodKnight has been revamped. The focus remains on driving premium formats of liquids and aerosol, which are expected to grow faster. Premium ranges aren't present in many stores (owing to the relevance of the type of stores).
- **Soaps:** Volume typically grows in line with population growth (c.95% penetration). GCPL typically gains market share of 50bp yoy. In the last four quarters, volume declined but consumption remained intact (meaning inventory at household/retail level reduced). Industry 3-year CAGR is at 3-3.5% while GCPL is expected to grow at 4.5-5%. Soaps have a small share of unorganized players (c.10-12%) and the rest is taken by large players and regional brands.
- **Innovation:** Air care (large category) has seen good growth led by Air Matic, which was present in India (growing reasonably well) but was strong in Indonesia. After GCPL routed ad spends behind it, it saw good growth in India. For air care, ad spends grew 8x in 2QFY23. Management is committed to growing the Magic Body Wash (powder to liquid) range launched last quarter.

#### Simplification efforts

- Reduced SKUs by 26%/33% in India/GUAM (which contributed less than 2% to sales but accounted for higher contribution in inventory), respectively, which led to a fall in inventory days to 51 days (from 61 days). This led to doubling of operating cash flow by removing the capital blocked from inventory. Productive SKU sales have improved after simplification measures.
- A few special purpose vehicles or SPVs which were created during acquisitions have been de-layered. The focus is on reducing the number of subsidiaries to improve cash efficiency.

#### Indonesia

- Growth, ex-sanitizers, stood at 12%. Post Sep 2022, the base is expected to normalize.
- 3QFY23F is expected to be flat in Indonesia and 4QFY23F is likely to see higher growth. The target is to get to low 20's EBITDA margin in Indonesia (17.1% in 2QFY23). High-cost inventory-related issues are expected to ease in 2HFY23F.

#### Input cost and margins

- As per management, GCPL is in line with industry in terms of digital and television advertising expenditure.
- When raw material prices softened in 2QFY23, GCPL was faster (than industry) to take price cuts, despite having high-priced inventory, which yielded good growth in market share in soaps. Soaps' gross margin is expected to revert to FY21 level gradually in India.
- Cost-saving initiatives will continue, despite higher inflation pressure and higher media spending, going ahead.

**Outlook**

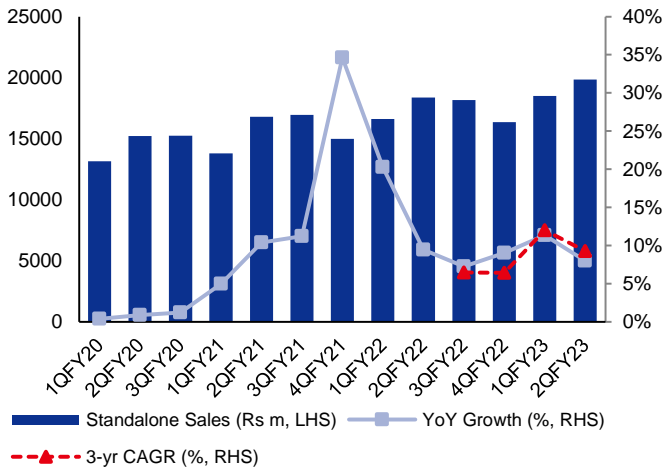
- FY23F outlook remains challenging, despite which management expects the year to record double-digit sales growth with low single-digit volume growth.
- Management believes that some volatility in the market has smoothed out and some investments in hair care and air care are paying off. Forex management in Africa remains challenging.

**Figure 1: Quarterly results summary - consolidated**

Y/E, Mar (Rs. m)	2QFY22	1QFY23	2QFY23	YoY (%)	QoQ (%)	1HFY22	1HFY23	Gr (%)
<b>Revenue</b>	<b>31,637</b>	<b>31,250</b>	<b>33,919</b>	7.2	8.5	<b>60,581</b>	<b>65,169</b>	7.6
<b>Expenditure</b>	<b>25,041</b>	<b>26,042</b>	<b>28,498</b>	13.8	9.4	<b>47,986</b>	<b>54,540</b>	13.7
Consumption of RM	15,876	16,692	17,681	11.4	5.9	29,723	34,373	15.6
as % of sales	50.2	53.4	52.1					
Employee cost	2,578	2,597	2,593	0.6	-0.1	5,481	5,190	-5.3
as % of sales	8.1	8.3	7.6					
Other expenditure	6,587	6,753	8,224	24.9	21.8	12,781	14,977	17.2
as % of sales	20.8	21.6	24.2					
<b>EBITDA</b>	<b>6,596</b>	<b>5,208</b>	<b>5,421</b>	<b>-17.8</b>	<b>4.1</b>	<b>12,596</b>	<b>10,629</b>	<b>-15.6</b>
Depreciation	509	571	533	4.8	-6.6	1,018	1,104	8.5
<b>EBIT</b>	<b>6,087</b>	<b>4,637</b>	<b>4,888</b>	<b>-19.7</b>	<b>5.4</b>	<b>11,578</b>	<b>9,525</b>	<b>-17.7</b>
Other income	226	275	399	76.1	44.9	435	674	54.8
Interest	245	351	483	96.9	37.6	518	833	60.8
<b>PBT</b>	<b>6,068</b>	<b>4,562</b>	<b>4,804</b>	<b>-20.8</b>	<b>5.3</b>	<b>11,495</b>	<b>9,366</b>	<b>-18.5</b>
Total tax	1,267	1,093	989	-22.0	-9.5	2,540	2,081	-18.0
<b>Adjusted PAT</b>	<b>4,801</b>	<b>3,470</b>	<b>3,815</b>	<b>-20.5</b>	<b>10.0</b>	<b>8,956</b>	<b>7,285</b>	<b>-18.7</b>
(Profit)/loss from associates/minority interest	2	0	0	NA	NA	0	0	-100.0
<b>APAT after MI</b>	<b>4,803</b>	<b>3,470</b>	<b>3,815</b>	<b>-20.6</b>	<b>10.0</b>	<b>8,955</b>	<b>7,285</b>	<b>-18.7</b>
Extraordinary items	-14	-18	-227	1,474	1,139	-30	-245	719.4
<b>Reported PAT</b>	<b>4,789</b>	<b>3,451</b>	<b>3,589</b>	<b>-25.1</b>	<b>4.0</b>	<b>8,926</b>	<b>7,040</b>	<b>-21.1</b>
<b>Adj. EPS</b>	<b>4.7</b>	<b>3.4</b>	<b>3.7</b>	<b>-20.6</b>	<b>10.0</b>	<b>8.8</b>	<b>7.1</b>	<b>-18.7</b>
<b>Margins (%)</b>	<b>2QFY22</b>	<b>1QFY23</b>	<b>2QFY23</b>	<b>YoY (bp)</b>	<b>QoQ (bp)</b>	<b>1HFY22</b>	<b>1HFY23</b>	<b>(bps)</b>
Gross margin	49.8	46.6	47.9	-190	130	50.9	47.3	-370
EBITDA	20.8	16.7	16.0	-490	-70	20.8	16.3	-450
EBIT	19.2	14.8	14.4	-480	-40	19.1	14.6	-450
EBT	19.2	14.6	14.2	-500	-40	19.0	14.4	-460
PAT	15.2	11.1	11.2	-390	10	14.8	11.2	-360

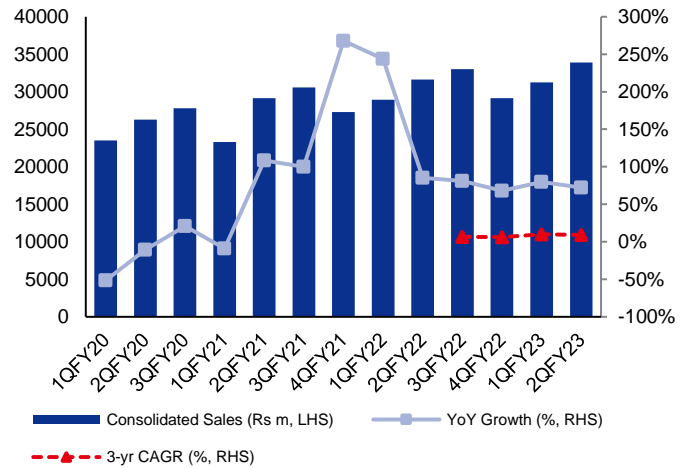
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Standalone sales grew 9.3% on a 3-year CAGR basis in 2QFY23**



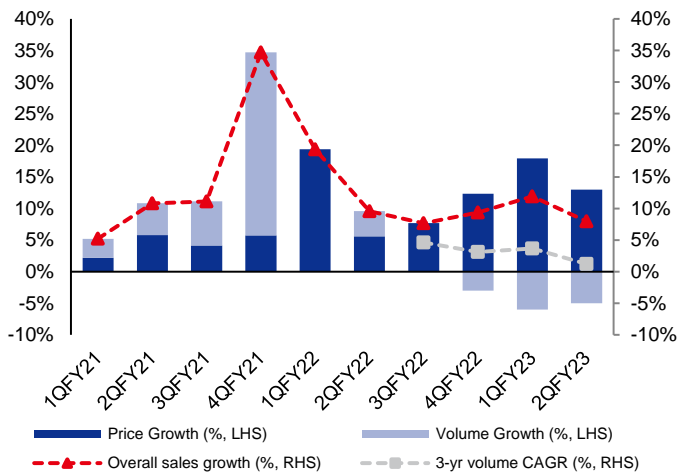
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: Consolidated sales grew 8.8% on a 3-year CAGR basis in 2QFY23**



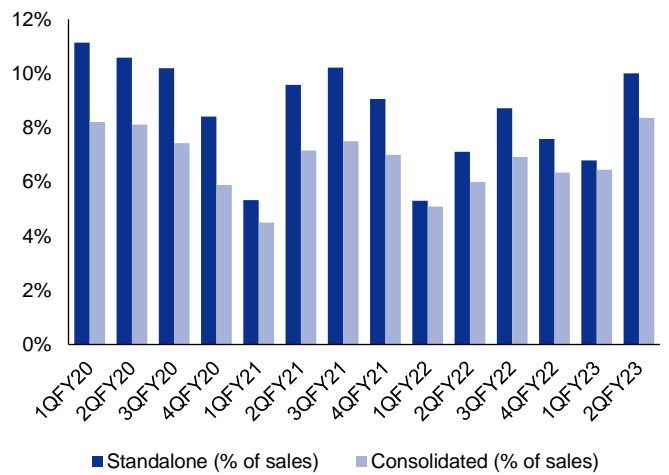
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Volume declined 5% yoy in 2QFY23



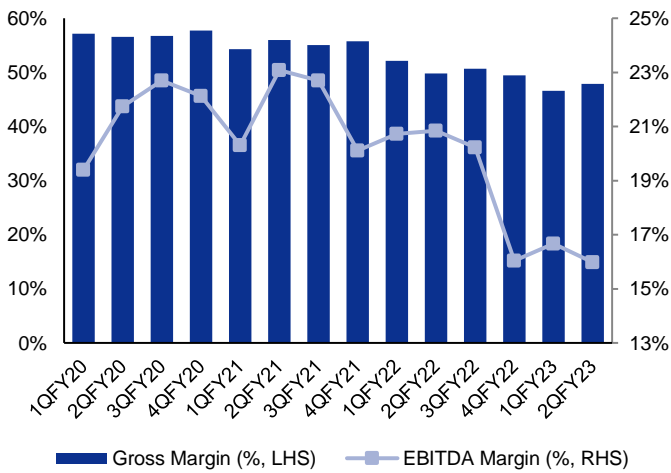
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Advertisement spending increased in 2QFY23



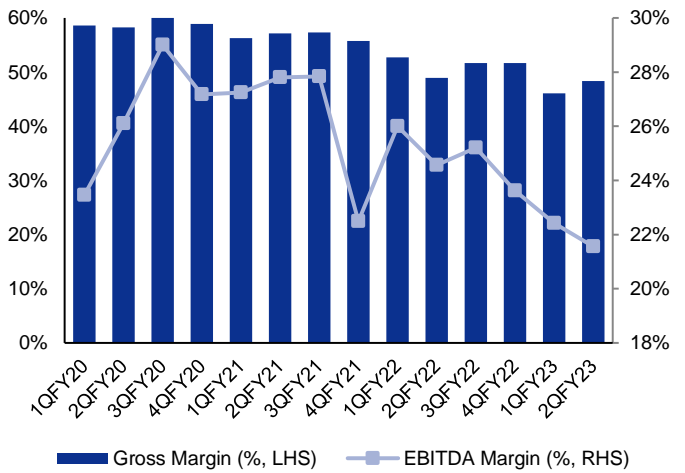
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Consolidated gross margin stood at 47.9% in 2QFY23



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Standalone gross margin was at 48.3% in 2QFY23



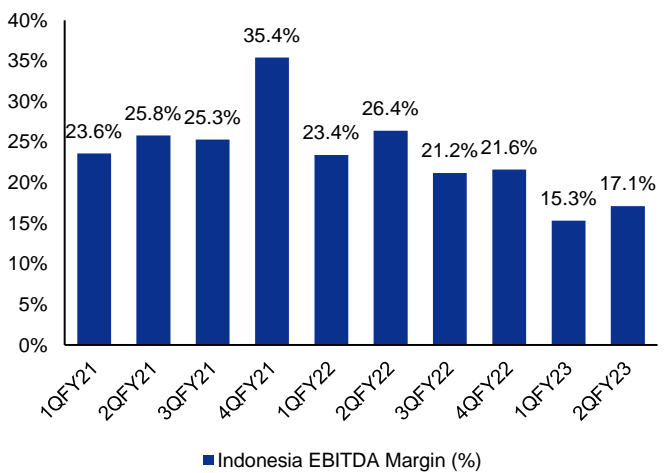
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Indonesia revenue declined 8.2% yoy in 2QFY23



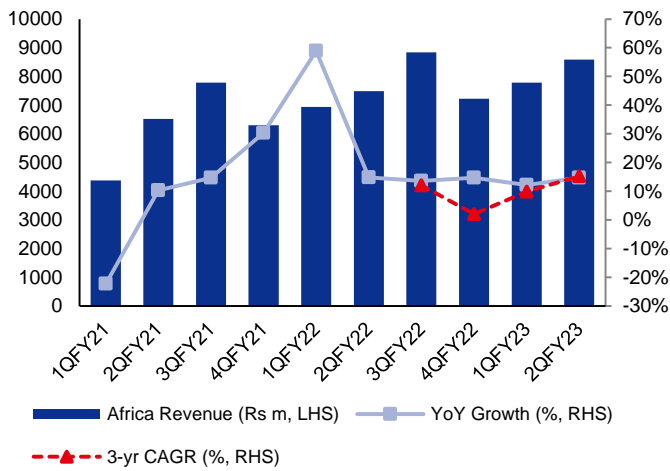
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Indonesia EBITDA margin stood at 17.1% in 2QFY23



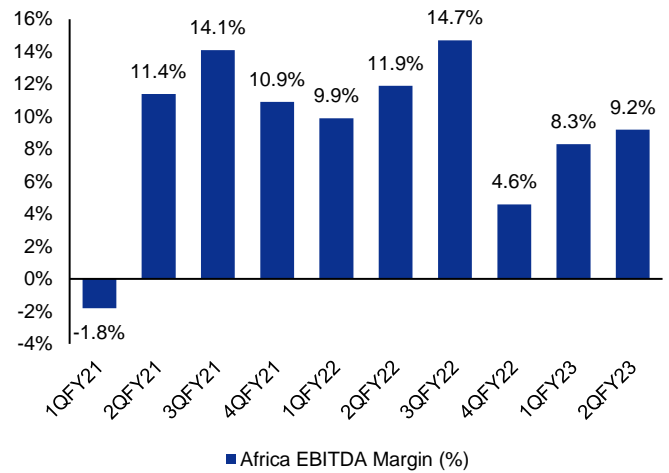
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Africa sales grew 14.7% yoy in 2QFY23



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Africa EBITDA margin stood at 9.2% in 2QFY23



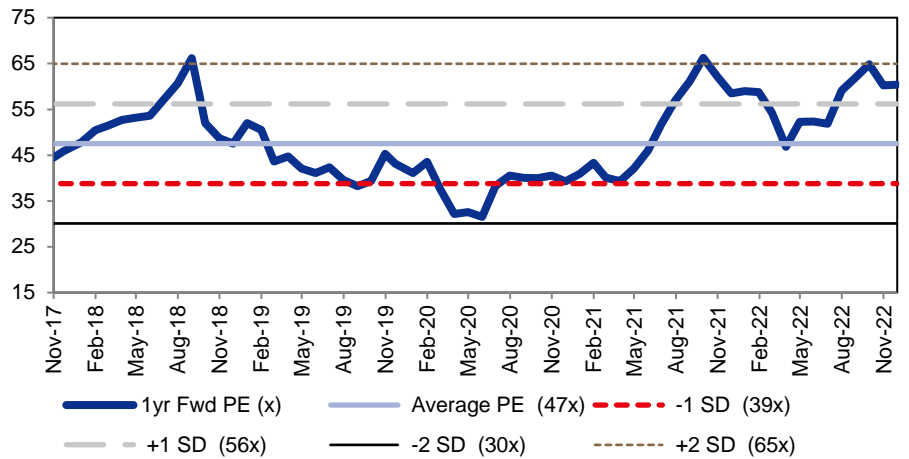
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Revision in our earnings estimates

Y/E, Mar (Rs. m)	FY23F			FY24F			FY25F Introduced
	Earlier	Revised	% Change	Earlier	Revised	% Change	
Revenue	1,35,087	1,33,892	-0.9	1,50,116	1,49,476	-0.4	1,66,809
EBITDA	28,408	22,365	-21	32,245	28,221	-12	33,452
EBITDA Margin (%)	21.0	16.7	-430bp	21.5	18.9	-260bp	20.1
APAT	20,789	15,582	-25.1	23,911	20,326	-15.0	24,575
EPS	20.3	15.2	-25.1	23.4	19.9	-15.0	24.0

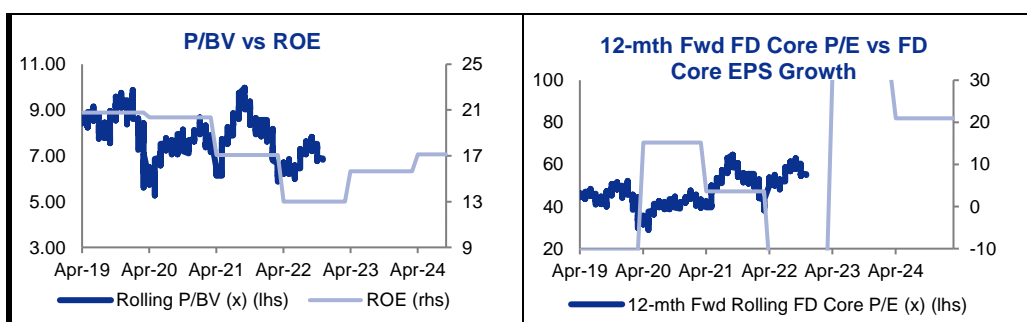
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: GCPL's 1-year forward P/E trades between +1SD and +2SD



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>110,286</b>	<b>122,765</b>	<b>133,893</b>	<b>149,476</b>	<b>166,809</b>
<b>Gross Profit</b>	<b>60,992</b>	<b>62,014</b>	<b>64,771</b>	<b>76,044</b>	<b>87,364</b>
<b>Operating EBITDA</b>	<b>23,883</b>	<b>23,951</b>	<b>22,365</b>	<b>28,221</b>	<b>33,452</b>
Depreciation And Amortisation	(2,039)	(2,099)	(2,213)	(2,337)	(2,461)
<b>Operating EBIT</b>	<b>21,844</b>	<b>21,852</b>	<b>20,151</b>	<b>25,885</b>	<b>30,991</b>
Financial Income/(Expense)	(595)	(205)	(580)	(369)	(149)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
<b>Profit Before Tax (pre-EI)</b>	<b>21,249</b>	<b>21,647</b>	<b>19,572</b>	<b>25,516</b>	<b>30,842</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>21,249</b>	<b>21,647</b>	<b>19,572</b>	<b>25,516</b>	<b>30,842</b>
Taxation	(3,595)	(3,719)	(3,993)	(5,194)	(6,271)
Exceptional Income - post-tax	(445)	(98)	(170)		
<b>Profit After Tax</b>	<b>17,209</b>	<b>17,831</b>	<b>15,409</b>	<b>20,322</b>	<b>24,571</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>17,209</b>	<b>17,831</b>	<b>15,409</b>	<b>20,322</b>	<b>24,571</b>
Recurring Net Profit	17,653	17,929	15,579	20,322	24,571
<b>Fully Diluted Recurring Net Profit</b>	<b>17,653</b>	<b>17,929</b>	<b>15,579</b>	<b>20,322</b>	<b>24,571</b>

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>23,883</b>	<b>23,951</b>	<b>22,365</b>	<b>28,221</b>	<b>33,452</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	143	(18,656)	16,693	(1,247)	(1,012)
(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)	(3,993)	(5,194)	(6,271)
<b>Cashflow From Operations</b>	<b>19,835</b>	<b>1,372</b>	<b>34,485</b>	<b>21,412</b>	<b>26,020</b>
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					
<b>Cash Flow From Investing</b>	<b>1,153</b>	<b>(9,198)</b>	<b>(2,250)</b>	<b>(2,250)</b>	<b>(2,250)</b>
Debt Raised/(repaid)	(19,042)	9,448	(1,000)	(1,000)	(1,000)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid		(7,105)	(6,772)	(8,236)	(9,588)
Preferred Dividends					
Other Financing Cashflow	(2,925)	9,926	226		
<b>Cash Flow From Financing</b>	<b>(21,967)</b>	<b>12,269</b>	<b>(7,546)</b>	<b>(9,236)</b>	<b>(10,588)</b>
Total Cash Generated	(980)	4,443	24,689	9,926	13,183
<b>Free Cashflow To Equity</b>	<b>1,945</b>	<b>1,622</b>	<b>31,235</b>	<b>18,162</b>	<b>22,770</b>
<b>Free Cashflow To Firm</b>	<b>22,254</b>	<b>(6,725)</b>	<b>34,037</b>	<b>20,849</b>	<b>25,344</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	13,513	21,322	46,021	55,957	69,150
Total Debtors	10,045	11,163	14,692	16,243	17,924
Inventories	17,163	21,299	19,062	21,114	23,362
Total Other Current Assets	5,718	6,974	7,160	7,182	7,206
<b>Total Current Assets</b>	<b>46,438</b>	<b>60,758</b>	<b>86,936</b>	<b>100,497</b>	<b>117,642</b>
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
<b>Total Non-current Assets</b>	<b>96,000</b>	<b>100,153</b>	<b>99,453</b>	<b>99,366</b>	<b>99,155</b>
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	44,647	47,025	49,966
<b>Total Current Liabilities</b>	<b>62,973</b>	<b>60,698</b>	<b>56,988</b>	<b>59,116</b>	<b>61,807</b>
Total Long-term Debt	4,801	4,453	3,703	2,953	2,203
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>4,801</b>	<b>4,453</b>	<b>3,703</b>	<b>2,953</b>	<b>2,203</b>
Total Provisions	1,871	1,832	1,832	1,832	1,832
<b>Total Liabilities</b>	<b>69,645</b>	<b>66,983</b>	<b>62,523</b>	<b>63,901</b>	<b>65,842</b>
Shareholders Equity	94,389	115,559	123,858	135,949	150,936
Minority Interests					
<b>Total Equity</b>	<b>94,389</b>	<b>115,559</b>	<b>123,858</b>	<b>135,949</b>	<b>150,936</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	11.3%	11.3%	9.1%	11.6%	11.6%
Operating EBITDA Growth	11.5%	0.3%	(6.6%)	26.2%	18.5%
Operating EBITDA Margin	21.7%	19.5%	16.7%	18.9%	20.1%
Net Cash Per Share (Rs)	5.79	4.18	29.32	40.01	53.89
BVPS (Rs)	92.33	113.01	121.12	132.94	147.60
Gross Interest Cover	17.25	19.84	11.18	15.34	19.69
Effective Tax Rate	16.9%	17.2%	20.4%	20.4%	20.3%
Net Dividend Payout Ratio			43.5%	40.5%	39.0%
Accounts Receivables Days	35.77	31.53	35.24	37.77	37.38
Inventory Days	126.59	115.54	106.56	99.85	102.17
Accounts Payables Days	171.79	129.86	57.11		
ROIC (%)	31.8%	23.9%	21.1%	26.7%	31.7%
ROCE (%)	21.4%	19.1%	15.3%	18.4%	20.2%
Return On Average Assets	12.5%	12.0%	9.3%	10.7%	11.9%

<b>Key Drivers</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Domestic business sales growth %	14.2%	11.1%	9.5%	11.5%	11.6%
International business sales growth %	7.6%	11.5%	8.5%	11.9%	11.5%
Orderbook Replenishment	N/A	N/A	N/A	N/A	N/A
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (%. main prod./serv.)	N/A	N/A	N/A	N/A	N/A
Util. rate (%. main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (%. 2ndary prod./serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (%. 2ndary prod./serv)	N/A	N/A	N/A	N/A	N/A

SOURCE: INCRED RESEARCH, COMPANY REPORTS



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