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Q1FY22 result review and ratings change

Consumer Staples & Discretionary

Target price Rs1,100

Earnings revision

(%)	FY22E	FY23E
Sales	↑ 3.0	↑ 3.0
EBITDA	↑ 5.3	↑ 4.4
PAT	↑ 3.2	↑ 3.2

Target price revision

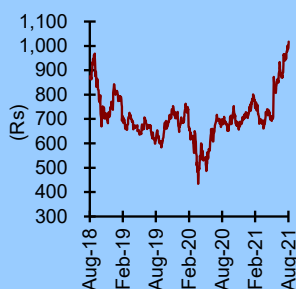
Rs1,100 from Rs1,000

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	63.2	63.2	63.2
Institutional investors	29.9	29.7	28.2
MFs and other	2.3	2.3	0.2
Banks, FI's, Insurance co	0.8	0.8	1.0
FII's	26.8	26.6	27.0
Others	6.9	7.1	8.6

Source: BSE

Price chart



Research Analysts:

Manoj Menon

manoj.menon@icicisecurities.com
+91 22 6637 7209

Aniket Sethi

aniket.sethi@icicisecurities.com
+91 22 2277 7632

Karan Bhuwania

karan.bhuwania@icicisecurities.com
+91 22 6637 7351

Godrej Consumer Products

ADD

Downgrade from BUY

Rs989

Another good quarter

Q1FY22 was impressive with 12% domestic revenue growth (2-year CAGR), continued profitable recovery in Africa while Indonesia was muted. India growth was driven by soaps and hygiene (continued market shares gains in an inflationary environment) and HI (broad-based across formats) while Hair Colour continued to recover. Africa sales grew 11% (CC terms; 2-year CAGR) and margins expanded (to 9.9%) driven by scale and cost saving initiatives. Indonesia was flat (CC terms) due to weak macros and impact of second wave. We believe strong growth momentum is likely to continue driven by (1) acceleration in India HI (through innovations in burning formats to recruit consumer and upgrade to premium formats) and (2) recovery in Indonesia (more a macro issue as trajectory was good prior to Covid), (3) profitable turnaround underway in Africa. We believe GCPL is looking at a bigger play in the fabric care category – it has also launched detergent pods (under Ezee brand). Appointment of Mr. Sudhir Sitapati continues to keep the consensus (including us) excited. **ADD**.

► **Double-digit revenue growth continued:** Consolidated revenue / EBITDA / PAT grew 24%/ 27% / 38%; on a 2-year CAGR basis revenue was up 11%. India business sales grew 19% (12% on a 2-year CAGR basis) with 15% domestic volume growth. Home Care grew 21% yoy (2-year CAGR: +17%) on the back of a double-digit growth in HI (broad-based across burning formats and premium formats of aerosols, electrics and non-mosquito portfolio). Demand for air fresheners improved sequentially while home hygiene products saw improved offtake in the second wave. Personal care grew 17% (2-year CAGR: +9%) with continued good momentum in soaps (market share gains; calibrated price increases taken to offset high input costs) and recovery in hair colours (shampoo-based hair colour is scaling up well).

Domestic EBITDA margins declined by 130bps to 26.0% due to input cost pressure – gross margins down 360bps. Operating leverage benefit aided costs as a % sales – employee cost (-120bps) and other expenses (-110bps).

► **International – Strong performance in Africa and LatAm while Indonesia decelerates:** International business sales grew 30% (2-year CAGR: +9%) with 74% EBITDA growth. Indonesia business was flat in CC terms (2-year CAGR: +3%) impacted by adverse macroeconomic factors and second-wave-led operating restrictions. Indonesia EBITDA margin was down only 20bps to 23.4% despite weak topline performance. On the other hand, robust recovery continued in GAUM (Africa, USA, and Middle East) with revenue growth (CC) of 60% (2-year CAGR: +11%), EBITDA margin of 9.9% compared to a loss in the Q1FY21. Management highlighted (1) strong growth in southern and west Africa and (2) continued GTM initiatives in key countries.

Market Cap	Rs1011bn/US\$13.6bn	Year to March	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	GOCP.BO/GCPL IN	Net Revenue (Rs mn)	99,108	1,10,286	1,23,394	1,36,560
Shares Outstanding (mn)	1,022.5	Net Profit (Rs mn)	15,776	17,653	19,839	23,084
52-week Range (Rs)	1017/651	Dil. EPS (Rs)	15.4	17.3	19.4	22.6
Free Float (%)	36.8	% Chg YoY	11.5	11.9	12.4	16.4
FII (%)	27.0	P/E (x)	64.1	57.3	51.0	43.8
Daily Volume (US\$'000)	20,744	CEPS (Rs)	17.4	19.3	21.6	25.0
Absolute Return 3m (%)	41.8	EV/EBITDA (x)	48.4	43.5	37.4	33.1
Absolute Return 12m (%)	42.9	Dividend Yield (%)	0.8	-	1.1	1.2
Sensex Return 3m (%)	13.4	RoCE (%)	16.4	18.1	19.5	20.3
Sensex Return 12m (%)	45.9	RoE (%)	20.8	20.4	20.1	21.4

- **Valuation and risks:** We increase our earnings estimates by ~3%; modelling revenue / EBITDA / PAT CAGR of 11% / 15% / 14% over FY21-23E. Downgrade to **ADD** (from **BUY**) with a SoTP-based revised target price of Rs1,100 (Rs1,000 earlier). At our target price, the stock will trade at 49x P/E multiple Mar-23E. Key downside risk is structural deceleration in India household insecticides and steep input cost pressure.

Table 1: Q1FY22 results review (standalone)

(Rs mn)

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Revenue	16,607	13,807	20	14,997	11	62,543	54,745	14
COGS	(7,852)	(6,035)	30	(6,632)	18	(27,094)	(22,460)	21
Gross profit	8,755	7,771	13	8,365	5	35,449	32,285	10
Staff cost	(1,082)	(1,061)	2	(1,196)	(10)	(4,171)	(3,192)	31
A&SP	(880)	(736)	20	(1,359)	(35)	(5,435)	(5,566)	(2)
Other opex	(2,474)	(2,213)	12	(2,439)	1	(9,322)	(9,050)	3
Total opex	(4,436)	(4,010)	11	(4,993)	(11)	(18,928)	(17,808)	6
EBITDA	4,319	3,762	15	3,372	28	16,521	14,477	14
Other income	162	222	(27)	121	35	654	913	(28)
Finance cost	(19)	(122)	(85)	(16)	17	(248)	(580)	(57)
D&A	(210)	(202)	4	(216)	(3)	(834)	(814)	2
PBT	4,252	3,660	16	3,261	30	16,093	13,996	15
Tax	(999)	(790)	26	(754)	32	(3,696)	(2,427)	52
Recurring PAT	3,254	2,870	13	2,507	30	12,397	11,569	7
Extraordinary items	-	(154)	-	-	-	(154)	230	-
Net profit (reported)	3,254	2,717	20	2,507	30	12,243	11,799	4
EPS	3.2	2.8	13	2.5	30	12.1	11.3	7

Costs as a % of sales

COGS	47.3	43.7	356 bps	44.2	306 bps	43.3	41.0	229 bps
Gross margin (%)	52.7	56.3	-357 bps	55.8	-307 bps	56.7	59.0	-230 bps
Staff cost	6.5	7.7	-117 bps	8.0	-146 bps	6.7	5.8	83 bps
A&SP	5.3	5.3	-4 bps	9.1	-377 bps	8.7	10.2	-148 bps
Other opex	14.9	16.0	-113 bps	16.3	-137 bps	14.9	16.5	-163 bps
EBITDA margin (%)	26.0	27.2	-125 bps	22.5	352 bps	26.4	26.4	-3 bps
Income tax rate (%)	23.5	21.6	190 bps	23.1	36 bps	23.0	17.3	562 bps

India Business	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Home Care	6,870	5,700	21	7,360	(7)	29,850	26,670	12
Personal Care	8,680	7,440	17	6,190	40	28,260	24,200	17
Unbranded and Exports	660	440	50	1,120	(41)	3,230	2,750	17
Total	16,210	13,580	19	14,670	10	61,340	53,620	14

Source: Company data, I-Sec research

Table 2: Q1FY22 results review (consolidated)

(Rs mn)

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Revenue	28,945	23,273	24	27,307	6	1,10,286	99,108	11
COGS	(13,847)	(10,645)	30	(12,084)	15	(49,294)	(42,617)	16
Gross profit	15,098	12,629	20	15,223	(1)	60,992	56,491	8
Staff cost	(2,904)	(2,618)	11	(3,084)	(6)	(11,233)	(10,188)	10
A&SP	(1,472)	(1,047)	41	(1,909)	(23)	(7,332)	(7,391)	(1)
Other opex	(4,722)	(4,237)	11	(4,741)	(0)	(18,546)	(17,565)	6
Total opex	(9,098)	(7,902)	15	(9,733)	(7)	(37,112)	(35,144)	6
EBITDA	6,000	4,727	27	5,490	9	23,880	21,347	12
Other income	209	218	(4)	166	26	673	1,206	(44)
Finance cost	(273)	(483)	(44)	(229)	19	(1,266)	(2,174)	(42)
D&A	(509)	(493)	3	(545)	(7)	(2,039)	(1,973)	3
PBT	5,427	3,968	37	4,882	11	21,248	18,406	15
Tax	(1,272)	(963)	32	(586)	117	(4,411)	(3,802)	16
PAT	4,155	3,005	38	4,296	(3)	16,838	14,605	15
Minority Interest	(3)	(4)		0		(0)	8	
PAT after MI	4,152	3,002	38	4,297	(3)	16,837	14,613	15
Extraordinary items	(16)	948		(638)		371	356	
Net profit (reported)	4,137	3,949	5	3,658	13	17,208	14,968	15
EPS	4.1	2.9	38	4.2	(3)	16.5	14.3	15

Costs as a % of sales

COGS	47.8	45.7	210 bps	44.3	358 bps	44.7	43.0	169 bps
Gross margin (%)	52.2	54.3	-211 bps	55.7	-359 bps	55.3	57.0	-170 bps
Staff cost	10.0	11.2	-122 bps	11.3	-127 bps	10.2	10.3	-10 bps
A&SP	5.1	4.5	58 bps	7.0	-191 bps	6.6	7.5	-81 bps
Other opex	16.3	18.2	-189 bps	17.4	-105 bps	16.8	17.7	-91 bps
EBITDA margin (%)	20.7	20.3	41 bps	20.1	62 bps	21.7	21.5	11 bps
Income tax rate (%)	23.4	24.3	-82 bps	12.0	1144 bps	20.8	20.7	10 bps

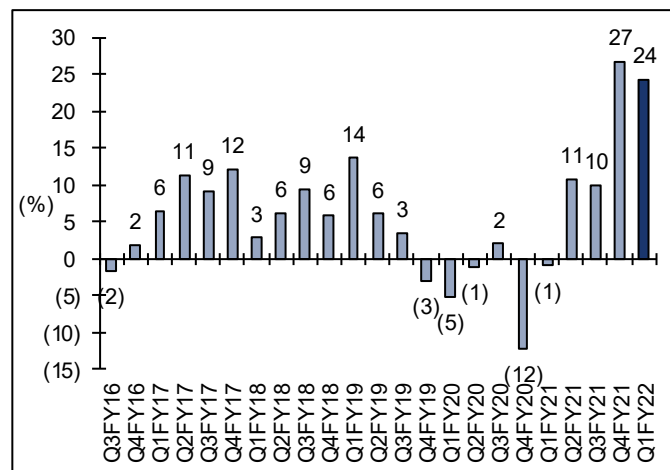
Source: Company data, I-Sec research

Table 3: Q1FY22 International performance

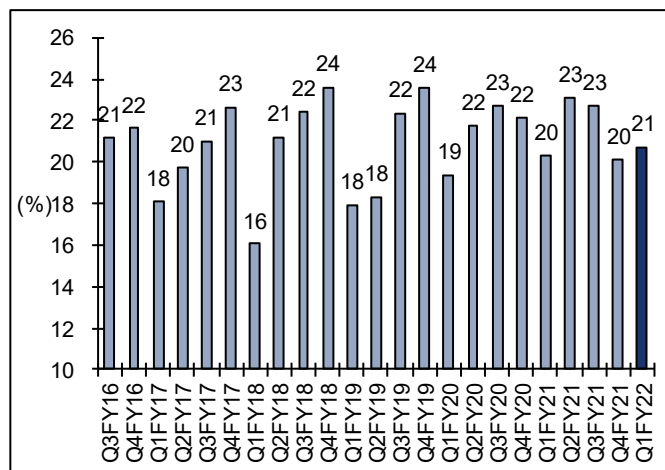
(Rs mn)

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
International Segment Revenues								
Indonesia	4,110	4,056	1	4,711	(13)	17,700	16,958	4
GAUM (Africa, USA, ME)	6,940	4,373	59	6,304	10	24,985	23,159	8
LatAm and SAARC	1,590	1,273	25	1,787	(11)	6,673	5,557	20
International Segment EBITDA								
Indonesia	962	957	0	1,668	(42)	4,907	4,516	9
GAUM (Africa, USA, ME)	687	(79)	(973)	687	(0)	2,522	2,420	4
LatAm and SAARC	216	143	52	64	236	526	260	102
International Segment EBITDA margins (%)								
Indonesia	23.4	23.6	-21 bps	35.4	-1200 bps	27.7	26.6	109 bps
GAUM (Africa, USA, ME)	9.9	(1.8)	1170 bps	10.9	-100 bps	10.1	10.4	-36 bps
LatAm and SAARC	13.6	11.2	240 bps	3.6	1000 bps	7.9	4.7	320 bps

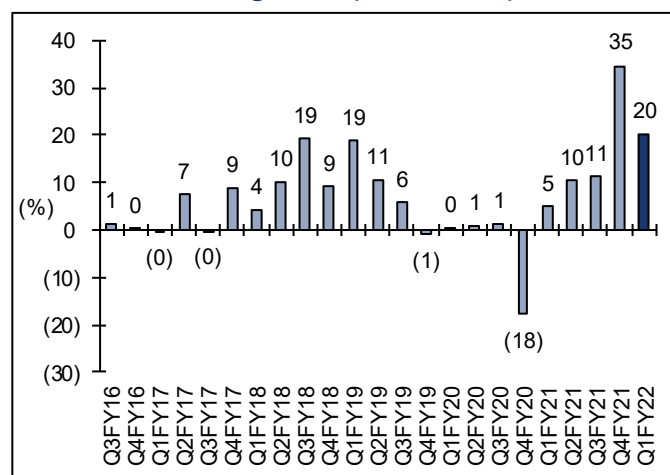
Source: Company data, I-Sec research

Chart 1: Revenue growth (consolidated)

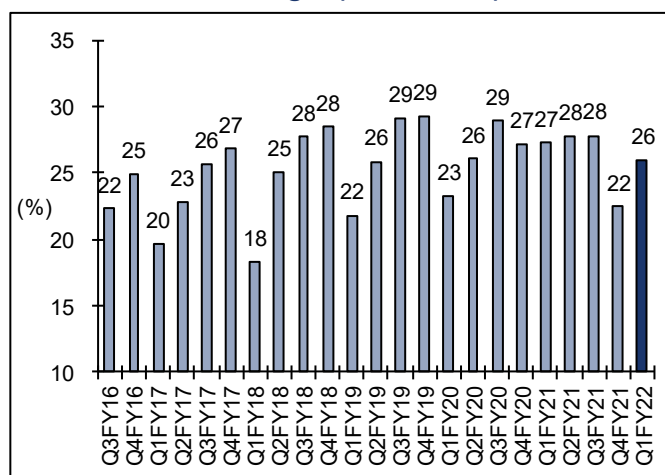
Source: Company data, I-Sec research

Chart 2: EBITDA margin (consolidated)

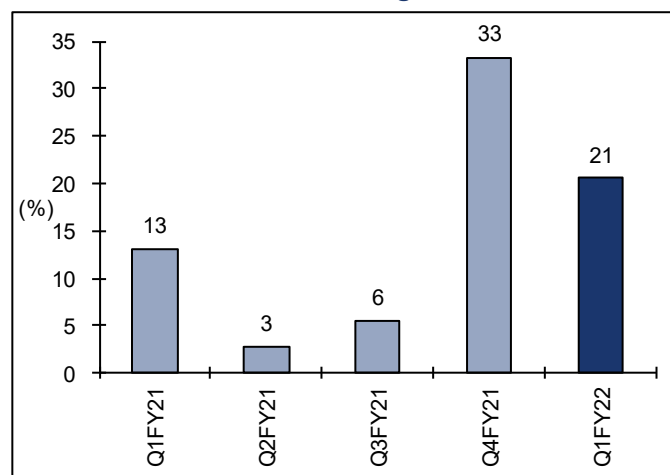
Source: Company data, I-Sec research

Chart 3: Revenue growth (standalone)

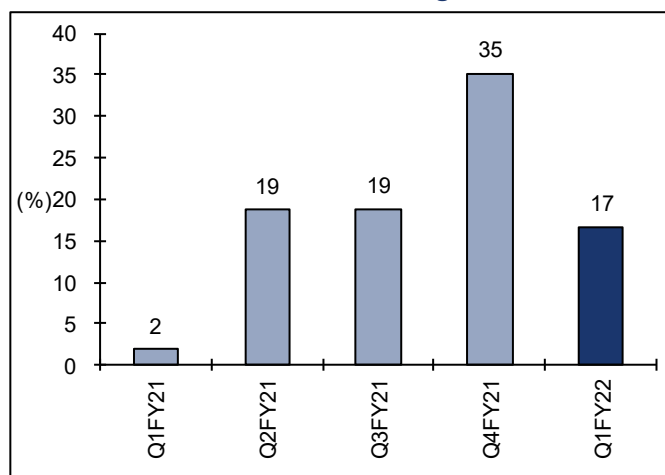
Source: Company data, I-Sec research

Chart 4: EBITDA margin (standalone)

Source: Company data, I-Sec research

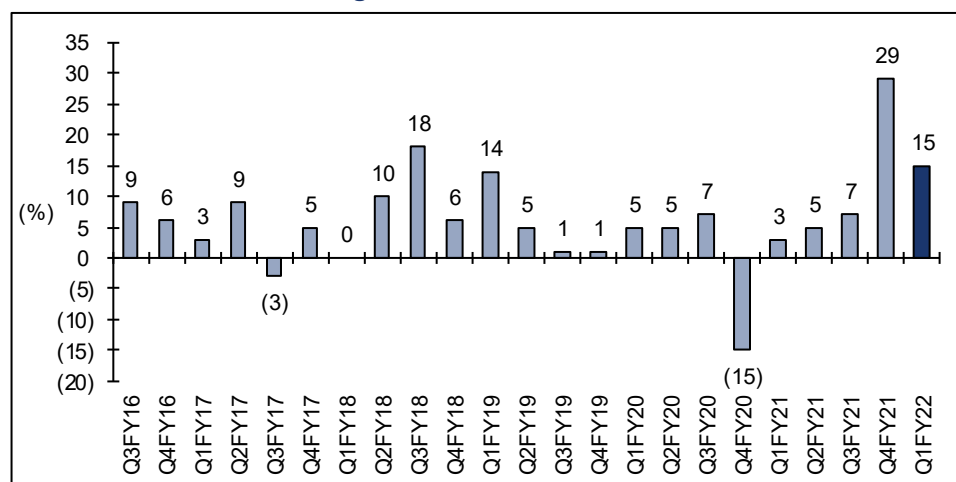
Chart 5: Home Care revenue growth

Source: Company data, I-Sec research

Chart 6: Personal Care revenue growth

Source: Company data, I-Sec research

Chart 7: Branded volume growth

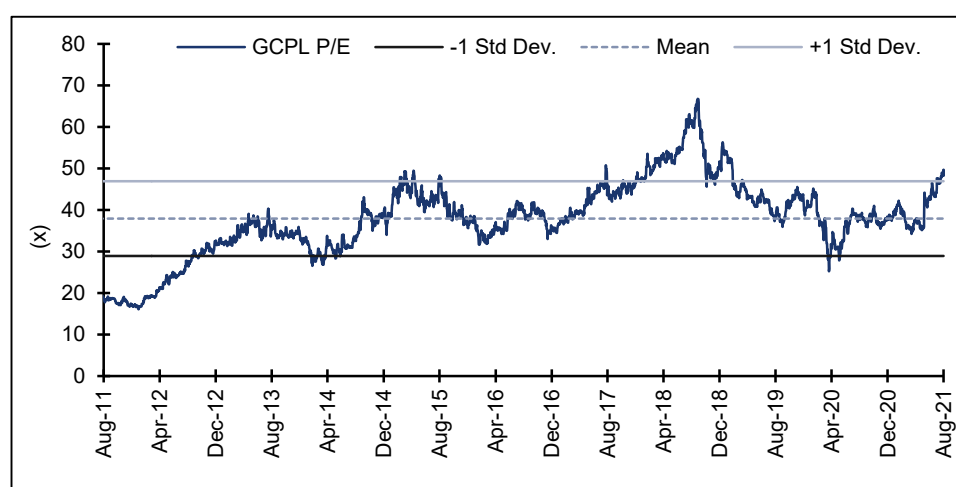


Source: Company data, I-Sec research

Table 4: SoTP valuation of GCPL

Geography	EBITDA (Rs mn) Mar-23E	EBITDA multiple (x) Mar-23E	EV (Rs mn)	Comments
Domestic (India)	20,792	39	8,06,724	
Africa	3,346	29	97,361	25% discount to Indian business
Indonesia	4,336	29	1,26,176	25% discount to Indian business
Latin America	1,146	27	31,120	30% discount to Indian business
US/Africa (SON)	1,731	27	47,005	30% discount to Indian business
EV (Rs mn)			11,08,385	
Less: Net debt (Rs mn)			(14,629)	
Equity value (Rs mn)			11,23,014	
Price per share (Rs)			1,100	

Chart 8: Mean P/E and standard deviations



Source: Company data, I-Sec research

Financial summary

Table 5: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Net Sales	99,108	110,286	123,394	136,560
Operating Expenses	77,678	86,404	95,682	105,205
EBITDA	21,430	23,883	27,712	31,355
% margins	21.6	21.7	22.5	23.0
Depreciation & Amortisation	1,973	2,039	2,198	2,433
Gross Interest	2,174	1,266	958	597
Other Income	1,123	671	911	1,284
Recurring PBT	18,406	21,248	25,467	29,609
Less: Taxes	2,638	3,595	5,627	6,525
Less: Minority Interest	8	-0	-0	-0
Net Income (Reported)	14,966	17,208	19,839	23,084
Extraordinaries (Net)	-811	-445	0	0
Recurring Net Income	15,776	17,653	19,839	23,084

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Assets				
Total Current Assets	48,825	45,417	61,413	75,124
of which cash & cash eqv.	7,702	6,722	19,188	29,375
Total Current Liabilities & Provisions	40,054	38,281	45,349	48,713
Net Current Assets	8,771	7,136	16,065	26,411
Investments	1,393	1,021	1,115	1,211
Net Fixed Assets	92,328	89,092	88,588	87,877
Capital Work-in-Progress	557	530	530	530
Total Assets	103,048	97,779	106,298	116,029
Liabilities				
Borrowings	29,765	9,768	9,711	9,156
Deferred Tax Liability	(5,701)	(6,378)	(6,378)	(6,378)
Minority Interest	-	-	-	-
Equity Share Capital	1,022	1,023	1,023	1,023
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	77,961	93,367	1,01,942	1,12,229
Less: Misc. Exp. n.w.o.				
Net Worth	78,984	94,389	102,965	113,251
Total Liabilities	103,048	97,779	106,298	116,029

Source: Company data, I-Sec research

Table 7: Quarterly trends

(Rs mn, year ending March 31)

	Sep 20	Dec 20	Mar 21	Jun 21
Net Revenues	29,151	30,554	27,307	28,945
% growth (YoY)	10.8	10.0	26.8	24.4
EBITDA	6,729	6,935	5,490	6,000
Margin (%)	23.1	22.7	20.1	20.7
Other income	139	150	166	209
Extraordinaries (Net)	(3)	65	(638)	(16)
Adjusted Net profit	4,584	4,956	4,297	4,152

Source: Company data, I-Sec research

Table 8: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Cashflow	18,494	20,748	22,403	25,182
Working Capital Changes	(2,613)	(452)	3,586	(111)
Capital Commitments	(3,377)	(3,615)	(2,221)	(2,249)
Free Cashflow	12,504	16,681	23,768	22,822
Cashflow from Investing Activities	(5,333)	(3,155)	(1,629)	(1,317)
Issue of Share Capital	0	0	-	-
Inc (Dec) in Borrowings	(3,094)	(18,162)	(1,158)	(1,297)
Dividend paid	(9,859)	-	(10,736)	(12,270)
Change in Deferred Tax Liability	(2,405)	(1,021)	12,466	10,187
Chg. in Cash & Bank balance	6,029	5,241	17,707	27,894

Source: Company data, I-Sec research

Table 9: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (Rs)				
EPS	15.4	17.3	19.4	22.6
Cash EPS	17.4	19.3	21.6	25.0
Dividend per share (DPS)	8.0	-	10.5	12.0
Book Value per share (BV)	77.3	92.3	100.7	110.8
Growth (%)				
Net Sales	(3.9)	11.3	11.8	10.7
EBITDA	1.2	11.4	16.0	13.1
PAT	11.5	11.9	12.4	16.4
DPS	(32.4)	(100.0)	NA	14.3
Valuation Ratios (x)				
P/E	64.1	57.3	51.0	43.8
P/CEPS	57.0	51.4	45.9	39.6
P/BV	12.8	10.7	9.8	8.9
EV / EBITDA	48.4	43.5	37.4	33.1
EV / Sales	10.6	9.5	8.5	7.7
Operating Ratios				
Raw Material / Sales (%)	43.0	44.7	44.7	44.5
Employee cost / Sales (%)	10.3	10.2	9.8	9.6
Other exps / Sales (%)	25.1	23.5	23.0	22.9
Other Income / PBT (%)	6.1	3.2	3.6	4.3
Effective Tax Rate (%)	14.3	16.9	22.1	22.0
Working Capital (days)	29.2	26.9	13.3	12.3
Inventory Turnover (days)	63.3	57.3	56.8	56.3
Receivables (days)	43.0	33.5	33.3	33.0
Payables (days)	92.1	72.1	72.3	72.6
Net D/E (x)	0.3	0.1	(0.0)	(0.1)
Profitability Ratios (%)				
Net Income Margins	15.9	16.0	16.1	16.9
RoACE	16.4	18.1	19.5	20.3
RoAE	20.8	20.4	20.1	21.4
Dividend Payout	65.9	-	54.1	53.2
Dividend Yield	0.8	-	1.1	1.2
EBITDA Margins	21.6	21.7	22.5	23.0

Source: Company data, I-Sec research

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