



# ALPHA

**02 DEC 2022**
**Godrej Consumer Products Ltd. – Hair Care Expert**

Market Data	
CMP	Rs. 869
Date	02-Dec-22
New Target Price	Rs. 1015
Old Target Price	Rs. 1064
Upside Potential	17.00%
52 Week High/Low	976/660
Market Cap	Large Cap
NSE Code	GODREJCP
Sector	FMCG – Personal
Rating	ACCUMULATE

Godrej Consumer Products Ltd (GCPL) is a part of the 125-year-old Godrej Group. The group enjoys a patronage of 1.15 billion consumers globally. GCPL is present in emerging markets of Asia, Africa and Latin America and the company's product portfolio ranges from home care and personal care to hair care, household insecticides, hair colour, soaps, air fresheners, liquid detergents, hair extensions, personal wash, styling in mass and professional markets, skin care, sanitizers, sun care and female deodorants. GCPL is ranked among the largest household insecticide and hair care players in the emerging markets. The manufacturing plants are in Assam, Goa, Himachal Pradesh, Jammu and Kashmir, Madhya Pradesh, Meghalaya, Puducherry, Sikkim and Tamil Nadu.



**Products & Services:** The Company offers various brands under multiple segments.

**Hair Care** – Godrej Expert, Darling, Inecto, Mega growth, Ilicit, Nupur, Blunt, Professional, Roby, NYU, etc.

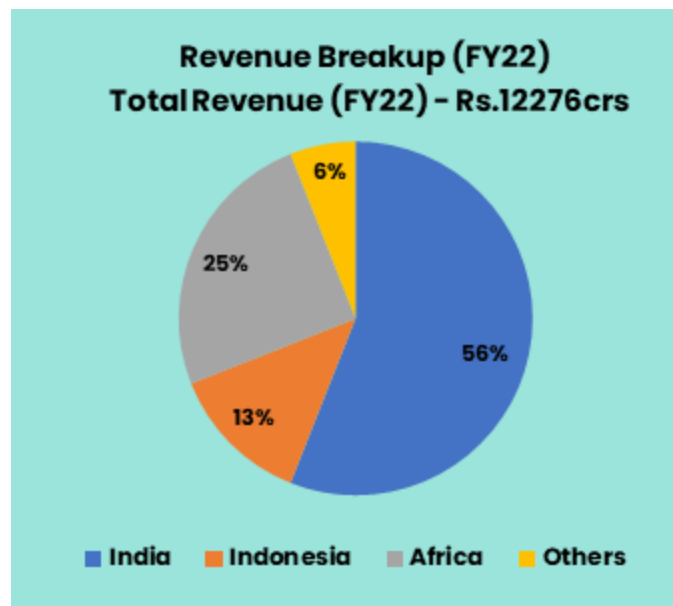
**Home Care** – Good knight, Saniter, Aer, HIT, Ezee, etc.

**Personal Care** – Cinthol, Protpekt, pamelagrant beauty, Mitu, etc.



SHP	Sep - 22 (%)	Jun - 22 (%)	Change
Promoters	63.22	63.22	0.00
FPI	24.43	24.03	0.40
DII	6.47	6.05	0.42
Public & Others	5.88	6.70	-0.82
Pledged	0.66	0.66	0.00

**Subsidiaries:** The company has 62 subsidiaries and 1 Associate company as of Mar'2022..



Margins - FY22	
Gross	51%
EBITDA	20%
PAT	15%





## Key Rationale

- **Market Leader** – GCPL's brands enjoy a market leading position in the domestic household insecticides (HI) market (Goodnight and Hit) and hair colours (Godrej Expert) market and is the second largest player in the domestic air freshener (Aer) and soaps (Godrej No.1, Cinthol) market. Furthermore, it enjoys market leading positions in various categories such as HI (Hit), air fresheners (Stella) and wet wipes (Mitu) in Indonesia and ethnic hair care and hair extensions/dry hair care (Darling) in Sub-Saharan Africa. Supported by its portfolio of strong brands, constant innovations and brand repositioning have aided GCPL in maintaining its competitive position in these key product categories and geographies. The same lend considerable competitive benefits to GCPL in the form of pricing power and economies of scale, among others.
- **Q2FY23** – GCPL reported consolidated revenue from operations of Rs.3392 crs (+7.2% YoY/+8.5% QoQ). On a 3-year CAGR basis, the revenue growth was at 9.0%. The underlying volumes declined by 5.0% YoY in Q2FY23. India business sales for Q2FY23 were at Rs.1985 crs (+8.0% YoY/ +7.3% QoQ). Africa, USA, and Middle east sales were at Rs.859 crs (+14.9% YoY/+10.2% QoQ). Indonesia sales were Rs.409 crs (-8.0% YoY/+8.5% QoQ). Others sales were Rs.174 crs (+0.3% YoY/+13.2%). In India, Home care segment sales grew by 1.6% YoY and 31.1% QoQ. Personal care sales grew by 17.7% YoY but were lower by 6.5% QoQ.
- **Diversified Operations** – GCPL's inorganic expansion over the past decade in Asia, Africa, USA and Latin America has enabled it to enjoy a diversified revenue profile, with international operations driving ~44% of its consolidated revenues in FY2022. Such expansion has helped GCPL in extracting synergies in terms of product cross pollination and a stronger distribution network, besides diversifying its product portfolio and geographical reach. Furthermore, at the consolidated level, GCPL derived 43% of its FY2022 revenues from the home care segment, 31% from the hair care segment and 26% from personal care segment, illustrating a diversified segmental presence. The diversified product profile and geographical presence have helped GCPL limit the vulnerability of its scale and margins to any adverse developments in any particular segment or geography.
- **Financial Performance** – The company has generated a Revenue and PAT CAGR of 10% and 12% for the past 10 years. It also has a strong balance sheet with Rs.2123 crs of cash and cash equivalents with a very low debt to equity ratio of 0.09. The 5-year average ROE stands at 22% for the FY18-22 period and the 5-year average ROCE stands at 20% for the same period.

**Ratios - FY22**

ROE	15%
ROCE	17%
Div. Yield	0.00%
PE Ratio	50.00
Face Value	1.00
EPS	Rs. 17.44

**Industry Analysis**

Fast-Moving Consumer Goods (FMCG) can be defined as packaged goods that are consumed or sold at regular and small intervals. Household and personal care products accounts for 50% of the sales in the FMCG industry, healthcare accounts for 31-32% and food and beverage accounts for the remaining 18-19%. FMCG is the fourth largest sector in the Indian economy. It provides employment to around 3 million people accounting for approximately 5% of the total factory Employment in India. According to NielsenIQ's FMCG Snapshot for Q2 2022, the FMCG industry has grown by 10.9% in the quarter ending June 2022, versus 6% in the previous quarter. Also, the consumption recovery and promising macro factors indicate a double-digit growth for FMCG in India, in 2022. The FMCG market in India is expected to increase at a CAGR of 14.9% to reach US\$ 220 billion by 2025. The FMCG sector grew by 36.9% in the April-June quarter of 2021 despite lockdowns in various parts of the country.

**Growth Drivers**

The Government of India has approved 100% FDI in the cash and carry segment and in single-brand retail along with 51% FDI in multi-brand retail.

The Goods and Services Tax (GST) is beneficial for the FMCG industry as many of the FMCG products such as soap, toothpaste and hair oil now come under the 18% tax bracket against the previous rate of 23-24%.

Organised sector is expected to grow as the share of unorganised FMCG market has seen a fall with increased level of brand consciousness.



## Peer Analysis

**Competitors:** HUL, Dabur, etc.

HUL is the biggest company in the Indian soaps industry with a commanding market share; however, it has lost market share in recent times due to the trend of moving towards natural products (naturals) and increased aggression from other large/regional incumbents. On the contrary, GCPL has gained market share in the soaps category. When comparing with Sales and profit growth CAGR, GCPL stands strong among its peers.

Company	CMP	Mcap.	10 Yr Sales CAGR	10 Yr PAT CAGR	EPS	P/E
Godrej	869	88826	10.00%	12.00%	17.44	50
HUL	2622	616063	8.00%	13.00%	37.79	69
Dabur	578	102373	7.00%	11.00%	9.84	59

## Outlook

Premiumization continues to remain the challenge in HI category. Company expects HI business to improve in H2FY23. Indonesia business is expected to witness flat growth in Q3FY23 and grow from Q4FY23. Management targets for margins in early twenties for Indonesia business going forward. The operating environment for FY23E continues to be challenging due to unprecedented inflation impacting consumption, aggressive monetary tightening measures from global central banks, strengthening of the USD, and the resultant GDP growth cuts across the board. Despite this, GCPL's expectations for FY23E remain broadly unchanged and the management is expecting double-digit sales growth and low single-digit volume growth. GCPL has seen green shoots in parts of the business in October which augurs well for H2FY23 performance. Directionally, GCPL expects overall gross margins to go up in coming quarters sequentially as well as on a YoY basis. On the other side, Company will continue to increase spends for market development through advertising, penetrative pricing and sampling.



## Valuation

GCPL has a consistent track record of introducing new products to cater to shifting consumer preferences and expects that, going forward, its revenue growth will be driven by stable demand growth and introduction of new products across geographies. Supported by its portfolio of strong brands, constant innovation, and brand repositioning, the company has managed to maintain its competitive position in the key product categories and geographies. Hence, we recommend an ACCUMULATE rating in the stock with the target price (TP) of Rs.1015, 60x FY24E EPS.

## Risks

- **Competition risk** – It can arise in the form of product pricing strategy, aggressive pricing by competitors, entry of new players, emergence of E-Com/digital first brands and dependency on a few product categories to drive sales.
- **Currency risk** – The company has over 40% of its revenue from foreign operations and has a presence in five continents. Currency fluctuations in its key international markets, including Africa and Indonesia, will affect its earnings performance.
- **Promoter's pledged shares** – The company has the promoter's pledged share percentage of around 0.66% as of Sep'22 Qtr which is not alarming but need to watch for.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

**Abeshak C V**

Equity Research Analyst – Fundamental  
Equity Research Desk





**Disclaimer:** Wealth India Financial Services Pvt. Ltd is registered under the SEBI (Research Analyst) Regulations, 2014 (SEBI Regulations) as a Research Analyst vide Registration No. INH200000394.

The analyst for this report certifies that all the views expressed in this report accurately reflect his / her personal views about the subject company or companies, and its / their securities. No part of his / her compensation was / is / will be, directly / indirectly related to specific recommendations or views expressed in this report. This material is for the personal information of the authorized recipient, and no action is solicited on the basis of this. It is not to be construed as an offer to sell, or the solicitation of an offer to buy any security, in any jurisdiction, where such an offer or solicitation would be illegal.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable, though its accuracy or completeness cannot be guaranteed. Neither Wealth India Financial Services Pvt. Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance.

We and our affiliates, officers, directors, and employees worldwide:

Do not have any financial interest in the subject company / companies in this report;

Do not have any actual / beneficial ownership of one per cent or more in the company / companies mentioned in this document, or in its securities at the end of the month immediately preceding the date of publication of the research report, or the date of public appearance;

Do not have any other material conflict of interest at the time of publication of the research report, or at the time of public appearance;

Have not received any compensation from the subject company / companies in the past 12 months;

Have not managed or co-managed the public offering of securities for the subject company / companies in the past 12 months;

Have not received any compensation for investment banking, or merchant banking, or brokerage services from the subject company / companies in the past 12 months;

Have not served as an officer, director, or employee of the subject company;

Have not been engaged in market making activity for the subject company;

This document is not for public distribution. It has been furnished to you solely for your information, and must not be reproduced or redistributed to any other person.

You are receiving this mail because you are a registered user at [www.FundsIndia.com](http://www.FundsIndia.com).

Our mailing address is:

Uttam Building, Third Floor,

No. 38 & 39, Whites Road, Royapettah, Chennai – 600014