REDUCE

Godrej Consumer Products

Near-term outlook weak; step up in execution is key

Emkay
Your success is our success

Consumer Goods ▸ Result Update ▸ **January 24, 2025**

TARGET PRICE (Rs): 1,100

GCPL has been a play on execution for a couple of years now. Our downgrade (to Reduce) after the Q3 business update factored in concerns on slowdown in/waning of execution. Two-third of the India business is likely to be stressed in the near term, with India margin to be strained given inflationary pressure. The mgmt is hopeful of a business recoup in FY26, and where we see need for enhanced execution. Upholding market share in Soap and accelerating growth in Household Insecticides would be key. In International, we see margin-driven profit growth decelerating. We see 7%/11% topline/earnings CAGR over FY24-27E. Our FY26-27 estimate is 9-10% below Consensus', as the latter has not yet factored in the business stress. We retain Dec-25E TP of Rs1,100 (44x P/E). Any duty cut related to palm oil (if it materializes) in the upcoming Union Budget would provide some margin support.

Godrej Consumer Products: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	133,160	140,961	143,282	156,310	170,662
EBITDA	24,305	29,435	29,681	33,906	37,785
Adj. PAT	17,459	19,163	19,595	23,413	26,487
Adj. EPS (Rs)	17.1	18.7	19.2	22.9	25.9
EBITDA margin (%)	18.3	20.9	20.7	21.7	22.1
EBITDA growth (%)	1.5	21.1	0.8	14.2	11.4
Adj. EPS growth (%)	(2.6)	9.7	2.3	19.5	13.1
RoE (%)	13.9	14.5	15.3	17.8	19.8
RoIC (%)	16.9	17.8	17.5	20.4	22.4
P/E (x)	66.2	60.3	59.0	49.4	43.6
EV/EBITDA (x)	46.5	38.4	38.4	33.6	30.2
P/B (x)	8.4	9.2	8.9	8.7	8.6
FCFF yield (%)	1.7	1.6	1.8	2.0	2.4

Source: Company, Emkay Research

Q3 result weak, in line with business update; near-term outlook weak

Consolidated revenue grew 3% YoY, while EBITDA and earnings declined 10% and 14%, respectively, affected by margin pressure in India. The India underlying volume growth stood flat, and margin contracted by 710 bps YoY to 22.6%. Two-third of the business is likely to remain stressed, given the demand stress, inflationary pressure, and seasonal pressure. The balance 1/3rd of the portfolio continues to do well on growth, but expansion in the Raymond portfolio margin remains lower (in the mid-teens) than guidance of 25%. 'Premium' part of the portfolio is impacted overall, amid urban demand stress. In International, revenue/EBITDA grew 4%/68% (OPM at 16%, up by 300bps YoY). Africa business is likely to revert to the growth path from Q4. We see profit growth slowing down ahead on a normalized base, in International.

India margin to remain stressed in FY26E; execution step-up key for outlook

In India, the management is hopeful of margin logging at the lower end of the guided 24-26% in the near term (FY26; while Q4FY25 margin would be flat QoQ at 22.5%), with further price hikes (two rounds) in Soap. Palm oil prices have softened from the peak, but are unlikely to sustain, given the lean season. As noted in our preview update, rolling out a trade scheme is becoming tough, given the limited liquidity in trade. Amid urban slowdown, the management is struggling to achieve assured ROI for its distributors. For Household Insecticides, amid surge in competition and the non-conducive season, we see growth remaining in the slow lane. RNF-based liquid vaporizer share is 50% of the liquid portfolio, where a gradual roll out into the market and entry into modern trade would be effected. Disruptive innovation and M&As have aided performance in the last few years, but limited actions will have a bearing on growth in the near-to-medium term.

Valuation baking in business stress; maintain REDUCE

Under the new leadership, GCPL has addressed business needs well and enhanced its outlook. Ahead, we see need for ramp up in execution for enhancing fundamentals; retain REDUCE and Dec-25E TP of Rs1,100, on 44x P/E (in line with the last 5YF avg P/E).

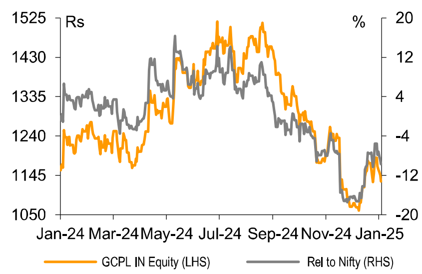
Target Price – 12M	Dec-25
Change in TP (%)	**-**
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(2.7)
CMP (24-Jan-25) (Rs)	1,130.4

Stock Data	**GCPL IN**
52-week High (Rs)	1,542
52-week Low (Rs)	1,055
Shares outstanding (mn)	1,023.0
Market-cap (Rs bn)	1,156
Market-cap (USD mn)	13,414
Net-debt, FY25E (Rs mn)	0
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	1,911.8
ADTV-3M (USD mn)	22.2
Free float (%)	36.8
Nifty-50	23,092
INR/USD	86.2
Shareholding, Dec-24	
Promoters (%)	53.0
FPIs/MFs (%)	20.7/11.0

Price Performance

(%)	1M	3M	12M
Absolute	4.9	(9.9)	(2.8)
Rel. to Nifty	7.8	(4.8)	(9.7)

1-Year share price trend (Rs)



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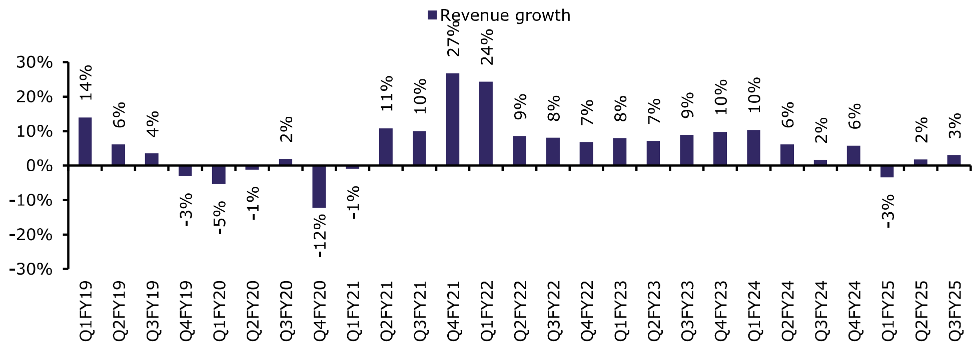
Quarterly performance

Exhibit 1: Q3FY25 and 9MFY25 performance

(Rs mn)	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)	Emkay Est	Var. (%)	9MFY25	9MFY24	YoY (%)
Total income	**37,684**	**36,596**	**3.0**	**36,663**	**2.8**	**37,089**	**1.6**	**107,663**	**107,105**	**0.5**
Cost of goods	17,282	16,143	7.1	16,282	6.1	16,690	3.5	48,272	48,346	(0.2)
Employee expenses	2,961	2,761	7.3	3,106	(4.7)	3,200	(7.5)	8,863	9,256	(4.2)
A&P spends	3,644	3,433	6.1	3,640	0.1	3,600	1.2	10,591	10,296	2.9
Other expenses	6,238	5,853	6.6	6,039	3.3	6,046	3.2	17,537	17,329	1.2
EBITDA	**7,559**	**8,407**	**(10.1)**	**7,596**	**(0.5)**	**7,553**	**0.1**	**22,400**	**21,877**	**2.4**
EBITDA margin (%)	20.1	23.0	-290bps	20.7	-70bps	20.4	-30bps	20.8	20.4	40bps
Depreciation	619	539	14.9	501	23.5	500	23.8	1,615	1,911	(15.5)
EBIT	**6,940**	**7,868**	**(11.8)**	**7,095**	**(2.2)**	**7,053**	**(1.6)**	**20,786**	**19,967**	**4.1**
EBIT margin (%)	18.4	21.5	-310bps	19.4	-90bps	19.0		19.3	18.6	70bps
Interest cost	897	666	34.7	831	8.0	830	8.1	2,606	2,179	19.6
Other income	831	701	18.6	860	(3.4)	850	(2.2)	2,462	2,051	20.0
PBT	**6,874**	**7,903**	**(13.0)**	**7,124**	**(3.5)**	**7,073**	**(2.8)**	**20,642**	**19,839**	**4.0**
Tax	1,834	2,040	(10.1)	2,154	(14.8)	1,981	(7.4)	5,932	5,410	9.6
Tax rate (%)	26.7	25.8	3.4	30.2	(11.7)	28.0	(4.7)	28.7	27.3	
Non-recurring items	-57	-53		-58		0		-307	-1,102	
PAT	**4,983**	**5,811**	**(14.2)**	**4,913**	**1.4**	**5,093**	**(2.2)**	**14,403**	**13,327**	**8.1**
Adj Profit	**5,040**	**5,864**	**(14.0)**	**4,971**	**1.4**	**5,093**	**(1.0)**	**14,710**	**14,429**	**2.0**
Net profit margin (%)	13.4	16.0	-260bps	13.6	-20bps	13.7	-40bps	13.7	13.5	
EPS (Rs)	**4.9**	**5.7**	**(14.1)**	**4.9**	**1.4**	**5.0**	**-1.0**	**14.4**	**14.1**	**1.9**

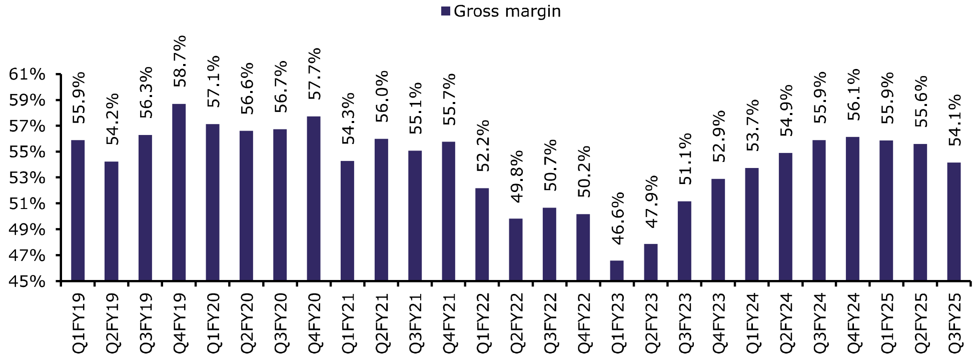
Source: Company, Emkay Research

Exhibit 2: Consolidated revenue growth



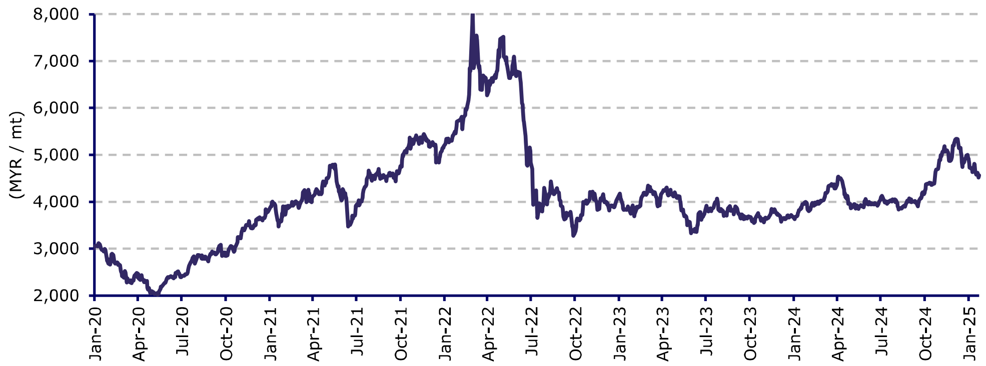
Source: Company, Emkay Research

Exhibit 3: Gross margin trend



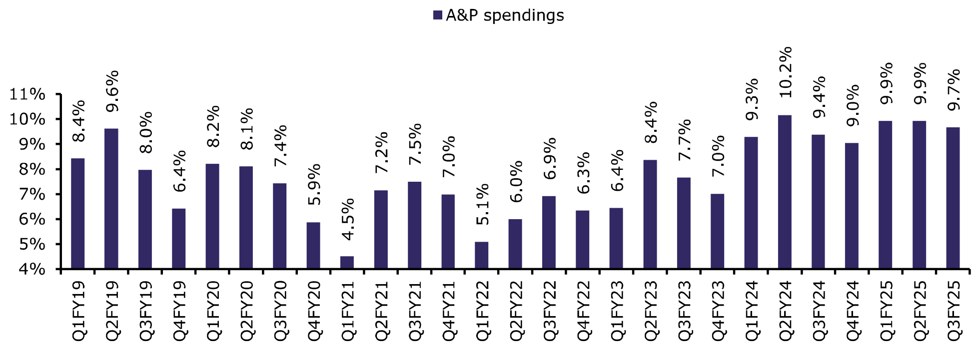
Source: Company, Emkay Research

Exhibit 4: Crude palm oil prices



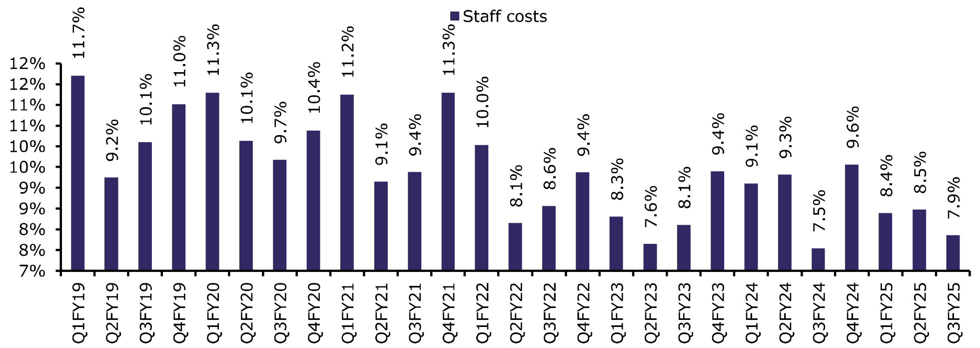
Source: Company, Emkay Research

Exhibit 5: Advertisement and Promotion spending as a % of sales



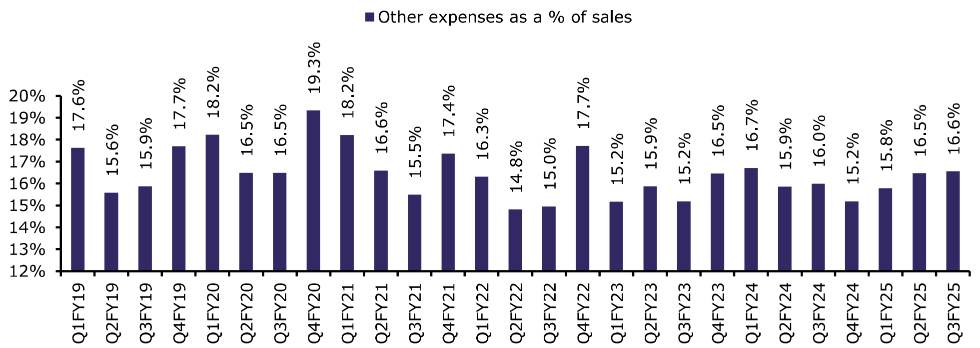
Source: Company, Emkay Research

Exhibit 6: Staff cost as a % of sales



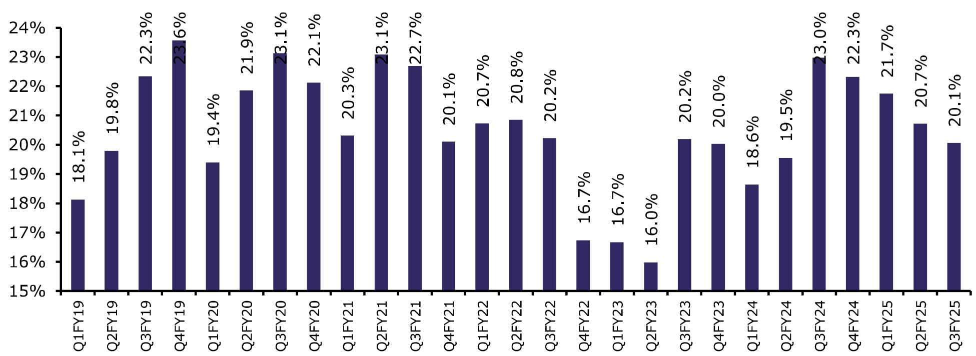
Source: Company, Emkay Research

Exhibit 7: Other expenses as a % of sales



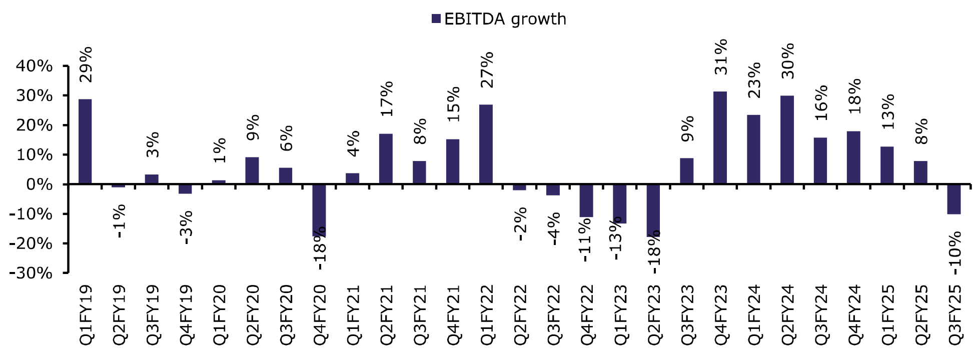
Source: Company, Emkay Research

Exhibit 8: EBITDA margin trend



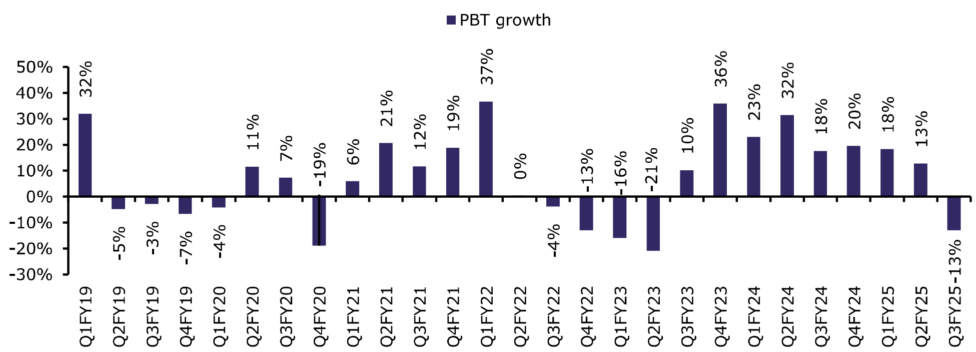
Source: Company, Emkay Research

Exhibit 9: EBITDA growth trend (YoY)



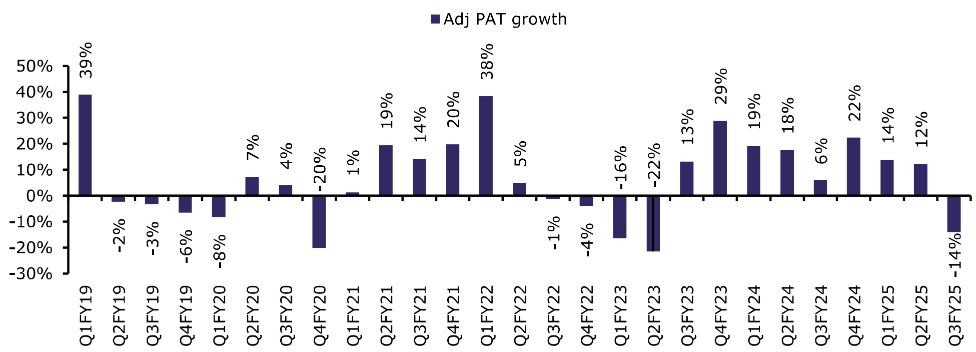
Source: Company, Emkay Research

Exhibit 10: Profit before tax growth (YoY)



Source: Company, Emkay Research

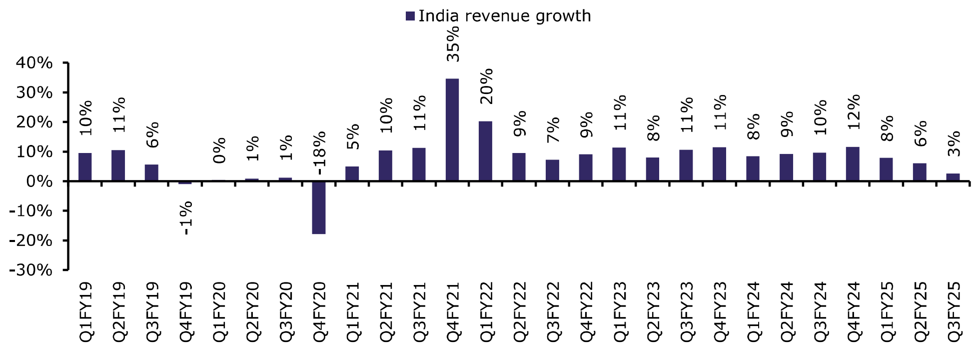
Exhibit 11: Adjusted profit after tax growth (YoY)



Source: Company, Emkay Research

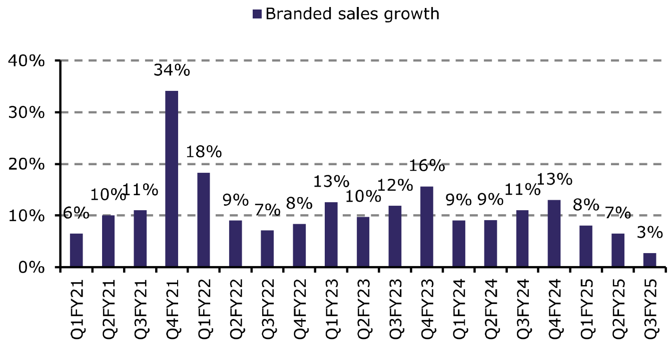
India business performance

Exhibit 12: India revenue growth



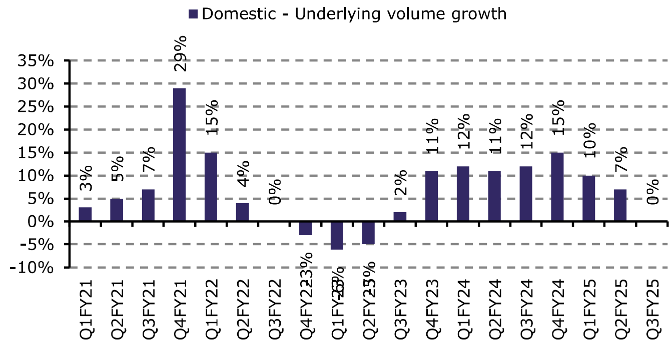
Source: Company, Emkay Research

Exhibit 13: India branded business revenue growth



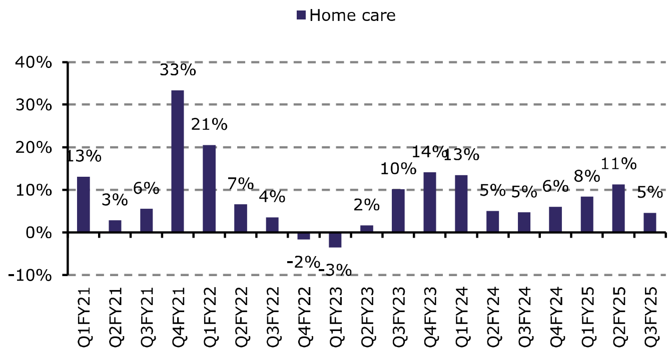
Source: Company, Emkay Research

Exhibit 14: India branded business volume growth



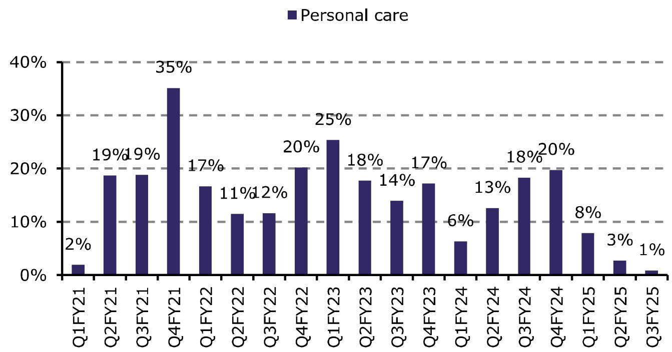
Source: Company, Emkay Research

Exhibit 15: India Home care segment growth



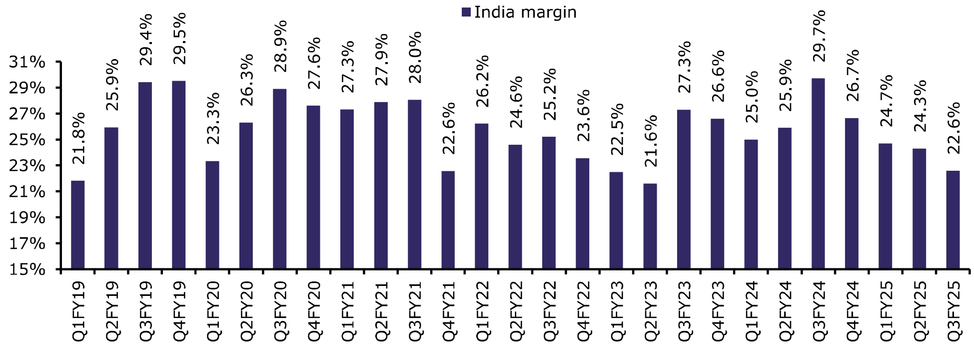
Source: Company, Emkay Research

Exhibit 16: India Personal care segment growth



Source: Company, Emkay Research

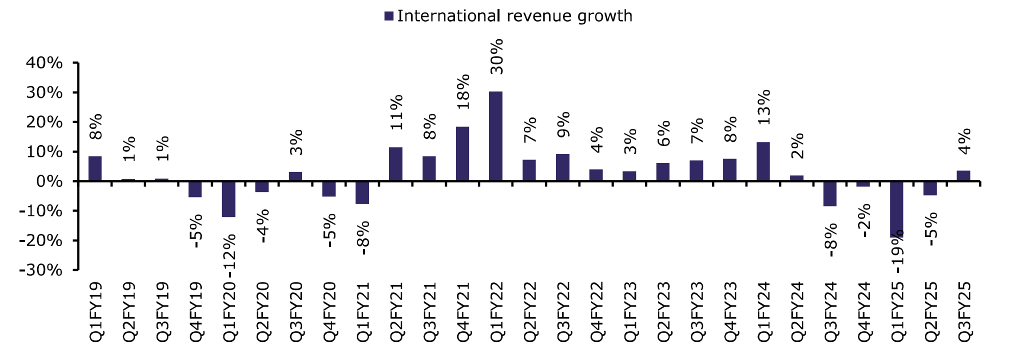
Exhibit 17: India business EBITDA margin



Source: Company, Emkay Research

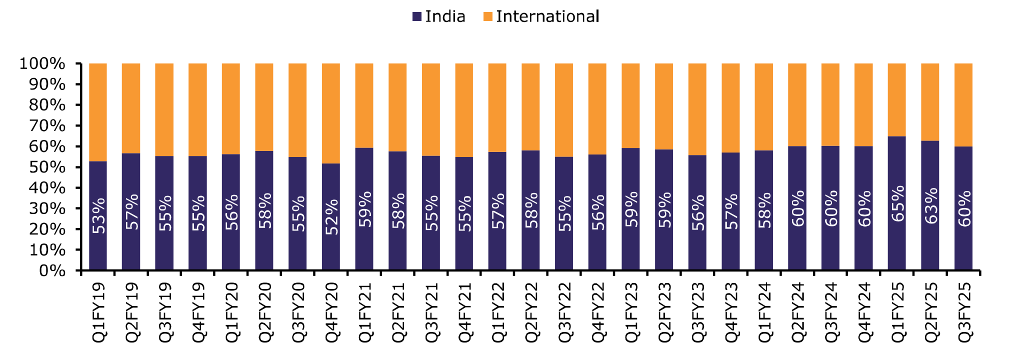
International business performance

Exhibit 18: International revenue growth



Source: Company, Emkay Research

Exhibit 19: Revenue contribution from India and International

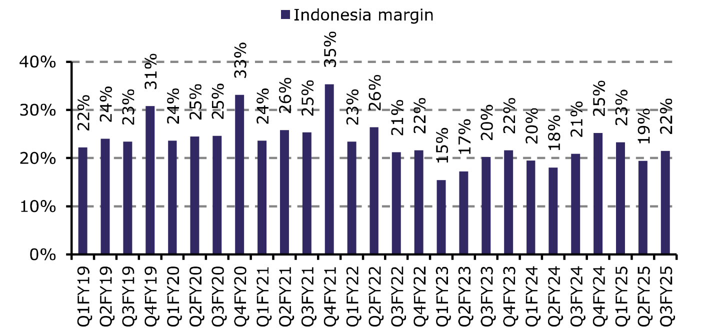


Source: Company, Emkay Research

Exhibit 20: Indonesia sales growth

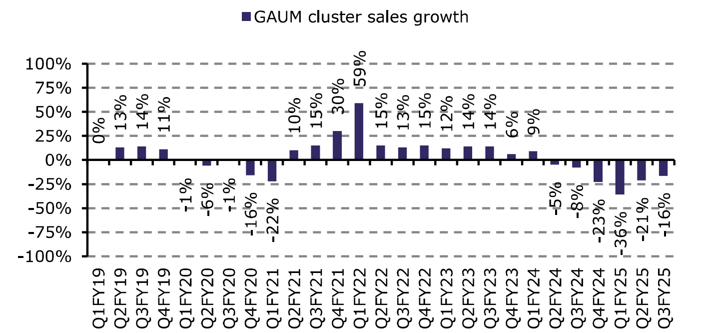
Source: Company, Emkay Research

Exhibit 21: Indonesia margin



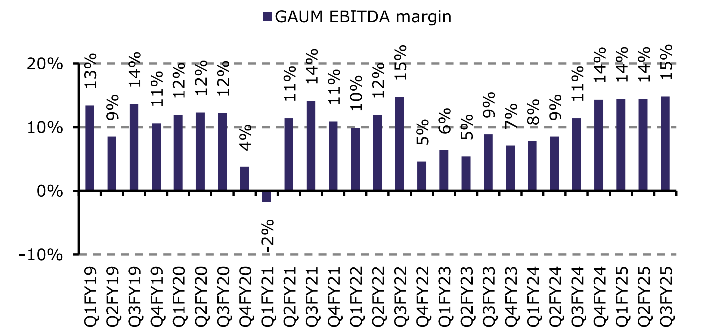
Source: Company, Emkay Research

Exhibit 22: GAUM cluster sales growth



Source: Company, Emkay Research

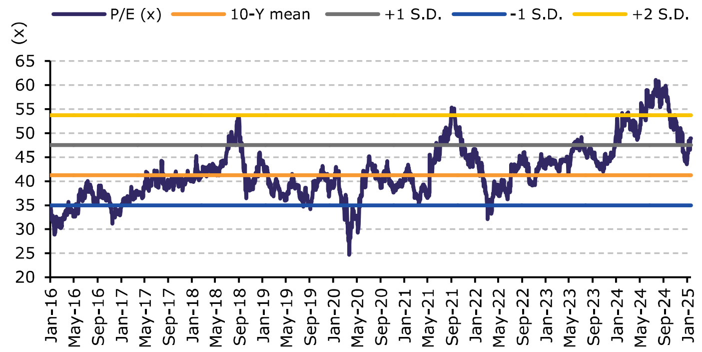
Exhibit 23: GAUM cluster margin



Source: Company, Emkay Research

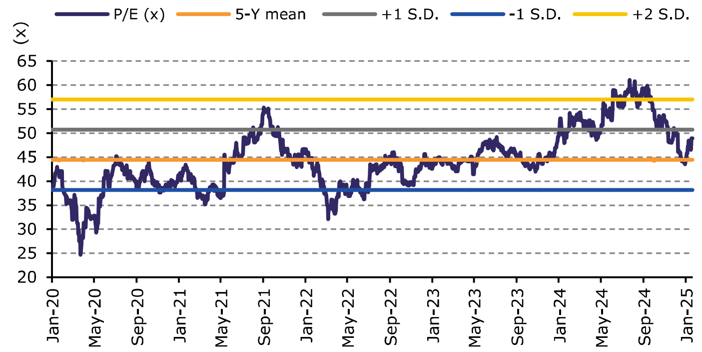
Valuation factoring in stress

Exhibit 24: CPL's one-year forward P/E (at 49x) trades near +1SD 10Y historical forward P/E (at 48x)



Source: Company, Bloomberg, Emkay Research

Exhibit 25: GCPL's one-year forward P/E (at 49x) trades near +1SD 5Y historical forward P/E (at 51x)



Source: Company, Bloomberg, Emkay Research

Exhibit 26: Key assumptions

	FY22	FY23	FY24	FY25E	FY26E	FY27E
Profit and loss account						
Domestic Sales growth	11%	10%	10%	6%	8%	8%
Console Sales growth	11%	8%	6%	2%	9%	9%
EBITDA growth	0%	1%	21%	1%	14%	11%
Earnings growth	2%	-3%	10%	2%	19%	13%
Margin						
Gross margin	51%	50%	55%	55%	57%	57%
A&P spends as a % of sales	6%	7%	9%	10%	10%	10%
EBITDA margin	20%	18%	21%	21%	22%	22%
Balance Sheet						
Adj EPS (Rs)	17.5	17.1	18.7	19.2	22.9	25.9
DPS (Rs)	0.0	0.0	15.0	15.0	20.0	25.0
Avg ROCE	19%	16%	18%	18%	20%	22%
Avg RoE	17%	14%	15%	15%	18%	20%
Inventory days (no of)	63	42	33	38	37	37
Receivable days (no of)	33	34	40	35	35	35
Payable days (no of)	64	50	43	45	45	44

Source: Company, Emkay Research

Exhibit 27: Changes to Emkay estimates

(Rs mn)	New estimates			Old estimates			Changes to estimate		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	143,282	156,310	170,662	142,422	155,374	169,655	1%	1%	1%
- growth	1.6%	9.1%	9.2%	1.3%	8.8%	8.9%			
EBITDA	29,681	33,906	37,785	29,806	33,804	37,517	0%	0%	1%
- growth	0.8%	14.2%	11.4%	1.3%	13.4%	11.0%			
EBITDA margin	20.7%	21.7%	22.1%	20.9%	21.8%	22.1%			
Adj PAT	19,595	23,413	26,487	19,927	23,499	26,442	-2%	0%	0%
- growth	2.3%	19.5%	13.1%	4.0%	17.9%	12.5%			
EPS (Rs)	19.2	22.9	25.9	19.5	23.0	25.9	-2%	0%	0%

Source: Company, Emkay Research

Exhibit 28: Emkay estimates vs Consensus expectations

(Rs mn)	Emkay estimates			Consensus estimates			Emkay vs consensus estimates		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	143,282	156,310	170,662	145,209	160,950	176,835	-1%	-3%	-3%
- growth	1.6%	9.1%	9.2%	3.0%	10.8%	9.9%			
EBITDA	29,681	33,906	37,785	31,278	36,174	40,378	-5%	-6%	-6%
- growth	0.8%	14.2%	11.4%	6.3%	15.7%	11.6%			
EBITDA margin	20.7%	21.7%	22.1%	21.5%	22.5%	22.8%			
Adj PAT	19,595	23,413	26,487	20,814	25,846	29,586	-6%	-9%	-10%
- growth	2.3%	19.5%	13.1%	8.6%	24.2%	14.5%			
EPS (Rs)	19.16	22.89	25.90	20.36	25.24	28.87	-6%	-9%	-10%

Source: Bloomberg, Emkay Research

Godrej Consumer Products: Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**133,160**	**140,961**	**143,282**	**156,310**	**170,662**
Revenue growth (%)	8.5	5.9	1.6	9.1	9.2
EBITDA	**24,305**	**29,435**	**29,681**	**33,906**	**37,785**
EBITDA growth (%)	1.5	21.1	0.8	14.2	11.4
Depreciation & Amortization	2,363	2,410	2,210	2,360	2,460
EBIT	**21,942**	**27,025**	**27,471**	**31,546**	**35,326**
EBIT growth (%)	0.4	23.2	1.7	14.8	12.0
Other operating income	1,173	1,220	915	1,381	1,981
Other income	1,684	2,690	3,300	2,633	2,827
Financial expense	1,757	2,964	3,365	2,540	2,360
PBT	**21,868**	**26,751**	**27,406**	**31,639**	**35,793**
Extraordinary items	0	0	0	0	0
Taxes	4,303	7,588	7,811	8,226	9,306
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	**17,025**	**(5,606)**	**19,595**	**23,413**	**26,487**
PAT growth (%)	(4.5)	(132.9)	0.0	19.5	13.1
Adjusted PAT	**17,459**	**19,163**	**19,595**	**23,413**	**26,487**
Diluted EPS (Rs)	**17.1**	**18.7**	**19.2**	**22.9**	**25.9**
Diluted EPS growth (%)	(2.6)	9.7	2.3	19.5	13.1
DPS (Rs)	**0.0**	**15.0**	**15.0**	**20.0**	**25.0**
Dividend payout (%)	**0.0**	**(273.7)**	**78.3**	**87.4**	**96.5**
EBITDA margin (%)	18.3	20.9	20.7	21.7	22.1
EBIT margin (%)	16.5	19.2	19.2	20.2	20.7
Effective tax rate (%)	19.7	28.4	28.5	26.0	26.0
NOPLAT (pre-IndAS)	**17,625**	**19,360**	**19,642**	**23,344**	**26,141**
Shares outstanding (mn)	1,022.7	1,022.8	1,022.8	1,022.8	1,022.8

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	1,023	1,023	1,023	1,023	1,023
Reserves & Surplus	136,920	124,963	129,216	132,173	133,090
Net worth	**137,942**	**125,986**	**130,239**	**133,196**	**134,113**
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(6,412)	(2,804)	(3,084)	(3,392)	(3,732)
Total debt	**12,346**	**33,895**	**26,453**	**26,562**	**26,676**
Total liabilities & equity	**143,876**	**157,078**	**153,609**	**156,366**	**157,057**
Net tangible fixed assets	40,147	52,382	54,672	56,812	57,353
Net intangible assets	58,223	50,264	50,264	50,264	50,264
Net ROU assets	967	1,651	1,734	1,820	1,911
Capital WIP	454	939	1,000	1,000	1,000
Goodwill	58,223	50,264	50,264	50,264	50,264
Investments [JV/Associates]	8,393	17,875	17,875	17,875	17,875
Cash & equivalents	**28,487**	**26,754**	**21,476**	**21,720**	**21,029**
Current assets (ex-cash)	32,256	32,904	33,557	35,899	38,878
Current Liab. & Prov.	24,085	24,040	25,235	27,203	29,342
NWC (ex-cash)	**8,171**	**8,864**	**8,322**	**8,695**	**9,536**
Total assets	**143,876**	**157,078**	**153,609**	**156,366**	**157,057**
Net debt	(25,546)	(25,081)	(15,752)	(15,945)	(15,205)
Capital employed	134,471	124,856	132,879	135,578	136,206
Invested capital	**106,541**	**111,510**	**113,258**	**115,772**	**117,153**
BVPS (Rs)	134.9	123.2	127.3	130.2	131.1
Net Debt/Equity (x)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)
Net Debt/EBITDA (x)	(1.1)	(0.9)	(0.5)	(0.5)	(0.4)
Interest coverage (x)	0.1	0.1	0.1	0.1	0.1
RoCE (%)	**19.0**	**22.9**	**23.9**	**25.5**	**28.1**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	21,868	26,751	27,406	31,639	35,793
Others (non-cash items)	0	0	0	0	0
Taxes paid	(4,185)	(3,739)	(7,811)	(8,226)	(9,306)
Change in NWC	933	(4,560)	469	(453)	(927)
Operating cash flow	**21,507**	**20,699**	**25,546**	**27,645**	**30,508**
Capital expenditure	(2,197)	(2,766)	(4,561)	(4,500)	(3,000)
Acquisition of business	0	0	0	0	0
Interest & dividend income	1,109	2,311	0	0	0
Investing cash flow	**(17,583)**	**(33,630)**	**(4,561)**	**(4,500)**	**(3,000)**
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(6,344)	22,652	(7,546)	0	0
Payment of lease liabilities	0	0	0	0	0
Interest paid	(1,116)	(2,620)	(3,300)	(2,633)	(2,827)
Dividend paid (incl tax)	0	(5,114)	(15,342)	(20,456)	(25,570)
Others	(436)	(855)	0	0	0
Financing cash flow	**(7,896)**	**14,063**	**(26,188)**	**(23,089)**	**(28,397)**
Net chg in Cash	(3,972)	1,132	(5,203)	56	(890)
OCF	21,507	20,699	25,546	27,645	30,508
Adj. OCF (w/o NWC chg.)	20,573	25,259	25,077	28,098	31,434
FCFF	19,309	17,933	20,985	23,145	27,508
FCFE	18,661	17,281	17,620	20,605	25,148
OCF/EBITDA (%)	88.5	70.3	86.1	81.5	80.7
FCFE/PAT (%)	106.9	90.2	89.9	88.0	94.9
FCFF/NOPLAT (%)	**109.6**	**92.6**	**106.8**	**99.1**	**105.2**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	66.2	60.3	59.0	49.4	43.6
P/CE(x)	58.0	53.6	53.0	44.9	39.9
P/B (x)	8.4	9.2	8.9	8.7	8.6
EV/Sales (x)	8.6	8.1	8.0	7.4	6.8
EV/EBITDA (x)	46.5	38.4	38.4	33.6	30.2
EV/EBIT(x)	51.5	41.9	41.5	36.1	32.3
EV/IC (x)	10.6	10.1	10.1	9.8	9.7
FCFF yield (%)	1.7	1.6	1.8	2.0	2.4
FCFE yield (%)	1.6	1.5	1.5	1.8	2.2
Dividend yield (%)	0.0	1.3	1.3	1.8	2.2
DuPont-RoE split					
Net profit margin (%)	13.2	13.6	13.7	15.0	15.5
Total asset turnover (x)	1.1	1.1	1.1	1.2	1.3
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	**13.9**	**14.5**	**15.3**	**17.8**	**19.8**
DuPont-RoIC					
NOPLAT margin (%)	13.2	13.7	13.7	14.9	15.3
IC turnover (x)	1.3	1.3	1.3	1.4	1.5
RoIC (%)	**16.9**	**17.8**	**17.5**	**20.4**	**22.4**
Operating metrics					
Core NWC days	(13.3)	(9.1)	(7.7)	(8.3)	(8.5)
Total NWC days	**22.4**	**23.0**	**21.2**	**20.3**	**20.4**
Fixed asset turnover	1.2	1.2	1.1	1.2	1.3
Opex-to-revenue (%)	31.4	34.3	34.3	34.8	34.4

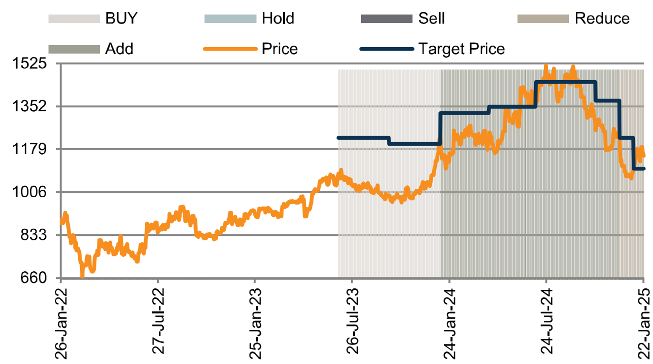
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
03-Jan-25	1,117	1,100	Reduce	Nitin Gupta
08-Dec-24	1,235	1,225	Reduce	Nitin Gupta
24-Oct-24	1,255	1,375	Add	Nitin Gupta
02-Oct-24	1,388	1,450	Add	Nitin Gupta
24-Sep-24	1,446	1,450	Add	Nitin Gupta
07-Aug-24	1,504	1,450	Add	Nitin Gupta
04-Jul-24	1,364	1,450	Add	Nitin Gupta
26-Jun-24	1,414	1,350	Add	Nitin Gupta
04-Jun-24	1,348	1,350	Add	Nitin Gupta
13-May-24	1,338	1,350	Add	Nitin Gupta
08-May-24	1,350	1,350	Add	Nitin Gupta
07-May-24	1,322	1,350	Add	Nitin Gupta
15-Apr-24	1,177	1,350	Add	Nitin Gupta
07-Apr-24	1,210	1,350	Add	Nitin Gupta
14-Mar-24	1,227	1,325	Add	Nitin Gupta
20-Feb-24	1,228	1,325	Add	Nitin Gupta
01-Feb-24	1,255	1,325	Add	Nitin Gupta
23-Jan-24	1,130	1,325	Add	Nitin Gupta
07-Jan-24	1,220	1,325	Add	Nitin Gupta
12-Dec-23	1,032	1,200	Buy	Nitin Gupta
30-Nov-23	1,008	1,200	Buy	Nitin Gupta
24-Nov-23	1,010	1,200	Buy	Nitin Gupta
17-Nov-23	997	1,200	Buy	Nitin Gupta
01-Nov-23	975	1,200	Buy	Nitin Gupta
20-Oct-23	988	1,200	Buy	Nitin Gupta
03-Oct-23	993	1,200	Buy	Nitin Gupta
28-Aug-23	1,028	1,225	Buy	Nitin Gupta
15-Aug-23	1,036	1,225	Buy	Nitin Gupta
08-Aug-23	1,009	1,225	Buy	Nitin Gupta
30-Jun-23	1,081	1,225	Buy	Nitin Gupta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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