

FAC 307- IAPM

# Analysis Report



Godrej Consumer Products

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Group 6

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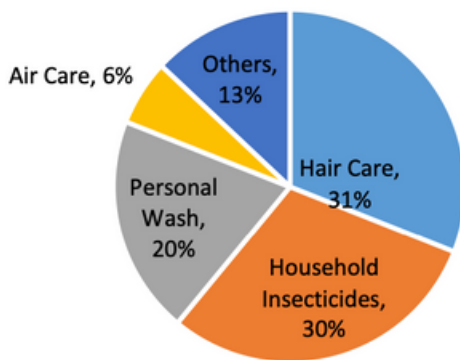
# 01 COMPANY OVERVIEW

Godrej Consumer Products Ltd (GCPL) is a part of the 124-year-old Godrej Group. The group enjoys patronage of 1.15 billion consumers globally.

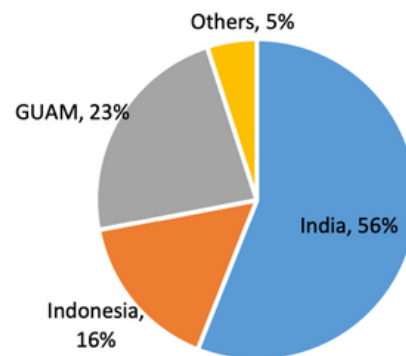
GCPL is present in emerging markets of Asia, Africa and Latin America and the company's product portfolio ranges from home care and personal care to hair care, household insecticides, hair colour, soaps, air fresheners, liquid detergents, hair extensions, personal wash, styling in mass and professional 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.

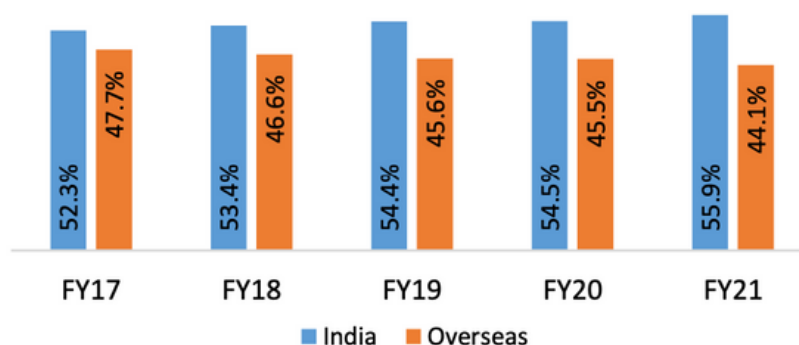
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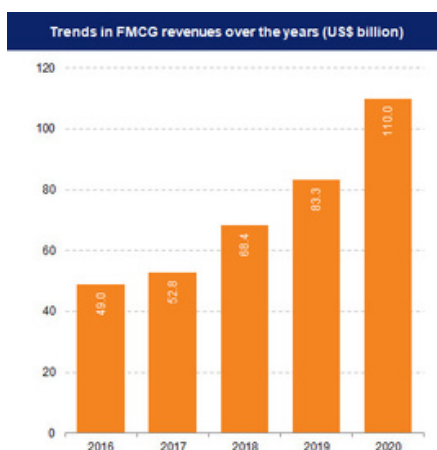
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# INDUSTRY ANALYSIS 02

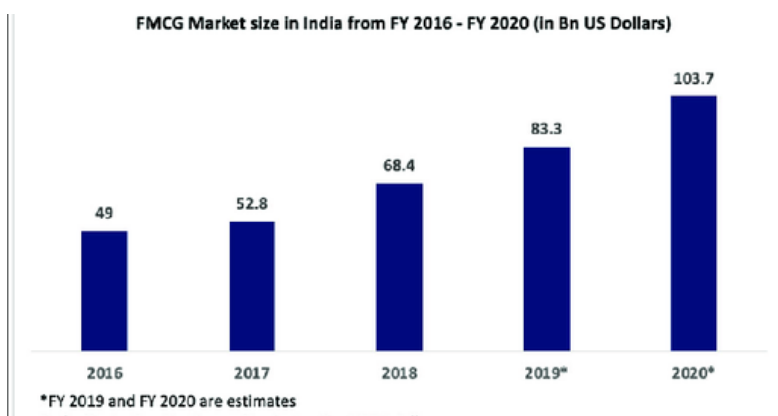
## 1. Size

The fast-moving consumer goods (FMCG) sector is India's fourth-largest sector and has been expanding at a healthy rate over the years as a result of rising disposable income, a rising youth population, and rising brand awareness among consumers. With household and personal care accounting for 50% of FMCG sales in India, the industry is an important contributor to India's GDP.



Indian food processing market size reached US\$ 307.2 trillion in 2022 and is expected to reach US\$ 547.3 trillion by 2028, exhibiting a growth rate (CAGR) of 9.5% during 2023-2028.

India is a country that no FMCG player can afford to ignore due to its middle class population which is larger than the total population of USA. FMCG market reached US\$ 56.8 billion as of December 2022. Total revenue of FMCG market is expected to grow at a CAGR of 27.9% through 2021 to 2027, reaching nearly US\$ 615.87 billion.



India includes 780 million internet users, and an average Indian person spends around 7.3 hours per day on their smartphone, one of the highest in the world. The number of active internet users in India will increase to 900 million by 2025 from 622 million in 2020. In 2021, India's consumer spending was US\$ 1,891.90 billion.

India's e-commerce industry recorded a 36.8% year-on-year growth in 2022. The Indian e-commerce market is anticipated to reach a value of Rs. 26,459.18 billion (US\$ 319.3 trillion) by the end of 2027, expanding at a CAGR of ~26.71% during the 2022 - 2027 period.

## **2. Government Support**

- In 2022, Government announced that the food processing industry has invested Rs. 4,900 crores (US\$ 593 million) so far under the PLI scheme which was approved in March 2021, with a budget outlay of Rs. 10,900 crores (US\$ 1.3 billion), likely to increase sales and exports of food products.
- In 2022, a total of 112 food processing projects were completed and operationalized, leveraging the private investment of Rs. 706.04 crores (US\$ 85.4 million) and generating direct and indirect employment for 25,293 people.
- In order to boost the food processing sector, the Centre has permitted under the Income Tax Act a deduction of 100% of profit for five years and 25% of profit in the next five years in case of new agro-processing industries set up to package and preserve fruits and vegetables.

As per the Union Budget 2022-23:

- Rs. 1,725 crore (US\$ 222.19 million) has been allocated to the Department of Consumer Affairs
- Rs. 215,960 crore (US\$ 27.82 billion) has been allocated to the Department of Food and Public Distribution.
- In 2021-22, the government approved the Production Linked Incentive Scheme for Food Processing Industry (PLISFPI) with an outlay of Rs. 10,900 crore (US\$ 1.4 billion) to help Indian brands of food products in the international markets.

The Government has allowed 100% Foreign Direct Investment (FDI) in food processing and single-brand retail and 51% in multi-brand retail. This would bolster employment, supply chain, and high visibility for FMCG brands across organised retail markets thereby bolstering consumer spending and encouraging more product launches.



### **3. Major Investments**

- In October 2022, Dabur India Limited acquired a 51% stake in Badshah Masala Private Limited to expand its foods business to Rs. 500 Crore (US\$ 60.3 million) in 3 years and expand into new adjacent categories.
- In October 2022, Tata Consumer Products renovates and rebrand TATA Q as TATA Sampann Yumside with a new and larger range of Ready to Eat and Ready to Cook offerings.
- The sector recorded an FDI of US\$ 20.84 billion between April 2000-June 2022.
- In January 2023, ITC opened 59 acres food processing plant in Telangana, that will make in phases biscuits, chips, noodles as well as atta that ITC markets under its popular brands, including Sunfeast and Aashirvaad. Furthermore, it announced plans to acquire 100% of Sproutlife Foods (SFPL), a direct-to-consumer (D2C) startup and parent company of health food brand 'Yoga Bar' over a period of three to four years.
- FMCG ad volumes on television rose by 33% in the year 2021 when compared to 2019. The growth was 22% when compared to the year 2020. The top 10 advertisers on TV accounted for a 60% share of ad volumes in the year 2021 with HUL topping the list, followed by Reckitt Benckiser (India), and Brooke Bond Lipton India.

## **4. Competition**

FMCG giants such as Johnson & Johnson, Himalaya, Hindustan Unilever, ITC, Lakmé, and other companies (that have dominated the Indian market for decades) are now competing with D2C-focused start-ups such as Mamaearth, The Moms Co., Bey Bee, Azah, Nua and Pee Safe. Market giants such as Revlon and Lotus took ~20 years to reach the Rs. 100 crore (US\$ 13.4 million) revenue mark, while new-age D2C brands such as Mamaearth and Sugar took four and eight years, respectively, to achieve that milestone. This further indicates the enormous support and growth trajectory of the industry.

## **5. Key Performance Indicators**

The following KPIs may be used as industry-specific indicators that will provide a deeper and more comprehensive understanding of the sector and the particular challenges firms belonging to this sector might look to overcome. These include-:

- 1. Numeric distribution percentage:** Retailers that sell FMCG products in a specific area are represented by this percentage. The higher the numeric distribution %, the more likely a product is to be found in retailers.
- 2. Product penetration rate:** This figure represents the percentage of households, individuals, or customers who purchase a specific item. The product penetration rate is frequently used to assess the success of a marketing campaign or promotion. It's also looked at to see how much of a prospective market is still up for grabs.
- 3. On-Shelf-Availability:** Measures the percentage of time an item is visibly accessible for sale on the shelf by consumers, where they expect it and at the moment they want to buy it. This can be performed by a physical audit or an inventory data analysis.
- 4. Carrying Cost of Inventory:** The Carrying Costs of Inventory are also referred to as 'holding costs' and are calculated as a percentage of the inventory value. It is essentially all the costs incurred by a business to hold and store its inventory over a certain time. It includes employee costs, insurance, opportunity cost, and cost of capital, but also the losses caused by obsolescence, pilferage, and damage.
- 5. Average Time to Sell:** This FCMG metric is all the more important in the fast-moving consumer goods industry. Speed being an inherent part of this sector, that deals with a lot of fresh products, the Average Time To Sell is a crucial KPI to measure. According to the type of items (food and beverages, personal care, tobacco, household care, etc.), the freshness varies and has to be respected to avoid poisoning and observe the law.

# Financial Statements 03

## Consolidated Profit/Loss Statement

(In Crores)

Particulars	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18
INCOME					
Revenue From Operations [Gross]	12,174.22	10,936.01	9,826.51	10,221.07	9,861.74
Less: Excise/Sevice Tax/Other Levies	0	0	0	0	93.72
Revenue From Operations [Net]	12,174.22	10,936.01	9,826.51	10,221.07	9,768.02
Other Operating Revenues	102.28	92.61	84.29	93.27	75.25
Total Operating Revenues	12,276.50	11,028.62	9,910.80	10,314.34	9,843.27
Other Income	89.71	67.07	112.3	108.76	107.55
Total Revenue	12,366.21	11,095.69	10,023.10	10,423.10	9,950.82
EXPENSES					
Cost Of Materials Consumed	5,782.98	4,606.76	4,121.75	4,062.43	3,646.23
Purchase Of Stock-In Trade	353.65	365.01	313.08	337.36	572.13
Changes In Inventories Of FG,WIP And Stock-In Trade	-61.54	-42.35	-173.15	154.54	56
Employee Benefit Expenses	1,104.14	1,123.34	1,018.82	1,068.41	1,057.41
Finance Costs	110.16	126.63	217.41	224.25	160.74
Depreciation And Amortisation Expenses	209.93	203.85	197.28	169.98	155.68
Other Expenses	2,702.16	2,587.61	2,487.27	2,573.99	2,444.39
Total Expenses	10,201.48	8,970.85	8,182.46	8,590.96	8,092.58
Profit/Loss Before Exceptional, ExtraOrdinary Items And Tax	2,164.73	2,124.84	1,840.64	1,832.14	1,858.24
Exceptional Items	-9.75	-44.47	-81.05	252.56	179.56
Profit/Loss Before Tax	2,154.98	2,080.37	1,759.59	2,084.70	2,037.80
Current Tax	397.31	408.14	378.66	417.9	392.5
Deferred Tax	-25.44	-48.6	-114.84	-674.1	12.2
Total Tax Expenses	371.87	359.54	263.82	-256.2	404.7
Profit/Loss After Tax And Before ExtraOrdinary Items	1,783.11	1,720.83	1,495.77	2,340.90	1,633.10
Profit/Loss From Continuing Operations	1,783.11	1,720.83	1,495.77	2,340.90	1,633.10
Profit/Loss For The Period	1,783.11	1,720.83	1,495.77	2,340.90	1,633.10
Share Of Profit/Loss Of Associates	0.28	-0.01	0.81	0.63	1.08
Consolidated Profit/Loss After MI And Associates	1,783.39	1,720.82	1,496.58	2,341.53	1,634.18
EARNINGS PER SHARE					
Basic EPS (Rs.)	17	17	15	23	24
Diluted EPS (Rs.)	17	17	15	23	24
DIVIDEND AND DIVIDEND PERCENTAGE					
Equity Share Dividend	0	0	817.82	1,226.52	613.12



## Consolidated Balance Sheet

(In Crores)

Particulars	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18
EQUITIES AND LIABILITIES					
SHAREHOLDER'S FUNDS					
Equity Share Capital	102.26	102.25	102.23	102.22	68.13
Total Share Capital	102.26	102.25	102.23	102.22	68.13
Reserves and Surplus	11,453.67	9,336.65	7,796.13	7,164.70	6,190.18
Total Reserves and Surplus	11,453.67	9,336.65	7,796.13	7,164.70	6,190.18
Total Shareholders Funds	11,555.93	9,438.90	7,898.36	7,266.92	6,258.31
Minority Interest	0	0	0	0	0
NON-CURRENT LIABILITIES					
Long Term Borrowings	380.85	480.11	2,145.04	2,604.78	2,380.32
Deferred Tax Liabilities [Net]	51.94	39.03	76.73	76.53	304.72
Other Long Term Liabilities	66.73	74.37	173.34	221.82	756.32
Long Term Provisions	107	114.72	116.98	108.25	98.24
Total Non-Current Liabilities	606.52	708.23	2,512.09	3,011.38	3,539.60
CURRENT LIABILITIES					
Short Term Borrowings	1,226.81	279.41	518.7	270.94	140.51
Trade Payables	2,163.06	2,159.64	2,480.49	2,539.88	2,356.85
Other Current Liabilities	505.53	1,624.24	1,491.41	1,030.11	1,619.62
Short Term Provisions	76.21	72.4	55.96	50.85	47.82
Total Current Liabilities	3,971.61	4,135.69	4,546.56	3,891.78	4,164.80
Total Capital And Liabilities	16,134.06	14,282.82	14,957.01	14,170.08	13,962.71
ASSETS					
NON-CURRENT ASSETS					
Tangible Assets	1,373.36	1,301.35	1,256.92	1,192.29	1,066.36
Intangible Assets	2,469.15	2,473.57	2,635.16	2,559.94	2,529.77
Capital Work-In-Progress	114.75	52.97	55.67	50.9	82.08
Intangible Assets Under Development	1.69	4.46	1.37	1.16	1.8
Fixed Assets	3,958.95	3,832.35	3,949.12	3,804.29	3,680.01
Non-Current Investments	171.12	21.93	34.8	34.67	141.52
Deferred Tax Assets [Net]	731.51	676.79	646.79	549.32	100.04
Long Term Loans And Advances	0.03	21.78	22.63	18.77	18.87
Other Non-Current Assets	208.39	127.71	156.01	156.59	135.72
Total Non-Current Assets	10,446.79	9,810.41	10,148.67	9,481.67	8,795.03
CURRENT ASSETS					
Current Investments	844.31	657.17	637.18	481.31	855.76
Inventories	2,129.85	1,716.25	1,703.12	1,558.59	1,577.72
Trade Receivables	1,116.32	1,004.50	1,157.25	1,292.90	1,245.50
Cash And Cash Equivalents	1,107.77	672.21	770.16	894.72	960.21
Short Term Loans And Advances	0.05	4.64	3.27	3.73	2.89
OtherCurrentAssets	488.97	417.64	537.36	457.16	525.6
Total Current Assets	5,687.27	4,472.41	4,808.34	4,688.41	5,167.68
Total Assets	16,134.06	14,282.82	14,957.01	14,170.08	13,962.71
OTHER ADDITIONAL INFORMATION					
CONTINGENT LIABILITIES, COMMITMENTS					
Contingent Liabilities	950.96	1,106.01	1,089.97	911.53	872.44
BONUS DETAILS					
Bonus Equity Share Capital	68.13	68.13	68.13	68.13	34.06
NON-CURRENT INVESTMENTS					
Non-Current Investments Quoted Market Value	145.92	2.51	0	0	84.79
Non-Current Investments Unquoted Book Value	25.2	0	0	0	56.86
CURRENT INVESTMENTS					
Current Investments Quoted Market Value	127.19	55.3	80.1	329.94	339.38
Current Investments Unquoted Book Value	717.12	601.87	557.12	152.04	519.75

## **Consolidated Cash Flow Statement**

*(In Crores)*

Particulars	Mar '22	Mar '21	Mar '20	Mar '19	Mar '18
Net Profit Before Tax	2155.26	2080.36	1760.4	1832.77	1859.32
Net Cash From Operating Activities	1450.57	2029.63	1588.11	1728.85	1723.35
Net Cash (used in)/from	-864.23	-315.5	-533.26	251.55	-339.83
Investing Activities					
Net Cash (used in)/from Financing Activities	-379.52	-1816.22	-1295.33	-2038.73	-1384.01
Net (decrease)/increase In Cash and Cash Equivalents	226.79	-77.19	-255.5	-38.14	0.39
Opening Cash & Cash Equivalents	524.13	600.96	856.46	894.6	894.21
Closing Cash & Cash Equivalents	750.92	523.77	600.96	856.46	894.6

# Valuation 04

## Our Approach

We began our valuation by collecting financial information from annual reports from 2013 - 2022.

After analysing industry valuation techniques, we decided to use the **Discounted Cash Flow Method** for our valuation.

## Discounted Cash Flow Method

For this method, we require the following information:

1. Estimated Free Cash Flows from the year 2022 onwards
2. WACC

### 1. Calculating FCF

		1	2	3	4	5	6	7	8	9	10	11
	Base (FY22)	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	Terminal Year
Particulars												
Revenue growth rate	11%	10.20%	9.70%	9.20%	8.80%	8.30%	7.90%	7.50%	7.10%	6.80%	6.40%	
Revenue from sales	12,366.21	13,630	14,954	16,334	17,765	19,244	20,766	22,327	23,921	25,543	27,188	
Operating Margin	40%	43%	43%	43%	43%	43%	43%	43%	43%	43%	43%	
Operating income	4,887	5,803	6,366	6,954	7,563	8,193	8,841	9,505	10,184	10,874	11,575	
Tax rate	18.44%	21.15%	21.15%	21.15%	21.15%	21.15%	21.15%	21.15%	21.15%	21.15%	21.15%	
EBIT (1-T)	3,986	4,575	5,020	5,483	5,963	6,460	6,971	7,495	8,030	8,574	9,127	
Opening Balance of PPE	1,210	1,275	1,463	1,673	1,908	2,168	2,457	2,777	3,128	3,515	3,938	
Depreciation	207	218	250	286	327	371	421	475	536	602	674	
(Less) Capital Expenditure	95.67	199	210	241	275	314	357	405	457	515	579	
(Less) Change in Working Capital	1,383.53	808	886	968	1,053	1,140	1,231	1,323	1,417	1,514	1,611	
FCF	2,603	3,768	4,134	4,515	4,911	5,320	5,740	6,172	6,612	7,061	7,516	2,16,871.74

Central to the above calculations is our estimate of the growth rate. Below, we outline the numerous methods used by our group to determine the growth rate.

It is vital to mention that after researching several analyst reports and industry estimates, we were able to discern a range of 10 - 10.5% growth rate level for GCPL.

**Attempt 1**(Refer to the "Growth Rate Calculations" sheet in Excel):

In this attempt, we calculated the average growth rate of GCPL from 2013 - 2022. The growth rate was 7.22%. Similarly, we attempted to explain this using a line of best fit (see graph on Excel sheet). However, we quickly realized this growth rate was far from realistic.

**Attempt 2** (Refer to the "Growth Rate Calculations" sheet in Excel):

In this attempt, we collected financial information on segmented revenue. Once again, using the average, we were only able to obtain a growth rate of 7.6%. At this point, we realised our quantitative estimates of growth rate would be far from our target range as COVID-19 had severely impacted revenues and thus, reliable quantitative forecasting methods.

**Attempt 3:**

We begin with our calculated base rate of 7.6% (from segmented revenue calculations). From this, we add a growth rate of 2.6% based on expert outlook on the company and our growth outlook (refer to Section 5 in this report). Finally, we arrived at our expected growth rate of 10.2%

Using this growth rate, we forecasted revenues from 2023 to 2032. We made use of a declining growth rate as GCPL is a mature company with conservative estimates. As companies get larger, it gets more difficult to sustain value-adding growth

Particulars	Base (FY22)	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
Revenue growth rate	11%	10.2%	9.7%	9.2%	8.8%	8.3%	7.9%	7.5%	7.1%	6.8%	6.4%
Revenue from sales	12,366	13,630	14,954	16,334	17,765	19,244	20,766	22,327	23,921	25,543	27,188

(Refer to the "Schedules" sheet in Excel)

Further, we calculated EBIT, opening balance of PPE, depreciation, capital expenditure, and change in working capital using the average extrapolation method.

We arrive at the following values for FCF calculations.

		1	2	3	4	5	6	7	8	9	10	11
Particulars	Base (FY22)	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	Terminal Year
Revenue growth rate	11%	10.2%	9.7%	9.2%	8.8%	8.3%	7.9%	7.5%	7.1%	6.8%	6.4%	
Revenue from sales	12,366.21	13,630	14,954	16,334	17,765	19,244	20,766	22,327	23,921	25,543	27,188	
Operating Margin	40%	43%	43%	43%	43%	43%	43%	43%	43%	43%	43%	
Operating income	4,887	5,803	6,366	6,954	7,563	8,193	8,841	9,505	10,184	10,874	11,575	
Tax rate	18.44%	21.15%	21.15%	21.15%	21.15%	21.15%	21.15%	21.15%	21.15%	21.15%	21.15%	
EBIT (1-T)	3,986	4,575	5,020	5,483	5,963	6,460	6,971	7,495	8,030	8,574	9,127	
Opening Balance of PPE	1,210	1,275	1,463	1,673	1,908	2,168	2,457	2,777	3,128	3,515	3,938	
Depreciation	207	218	250	286	327	371	421	475	536	602	674	
(Less) Capital Expenditure	95.67	199	210	241	275	314	357	405	457	515	579	
(Less) Change in Working Capital	1,383.53	808	886	968	1,053	1,140	1,231	1,323	1,417	1,514	1,611	
FCF	2,714	3,787	4,174	4,561	4,962	5,377	5,804	6,243	6,691	7,147	7,611	219,627.53

## 2. Calculating WACC

(Refer to the "DCF" sheet in Excel)

We calculate WACC to use a discount factor when making use of DCF.

Cost of Debt		
Interest Expenses	103.6	
Total Debt	1,608	
Cost Of Debt	6.44%	
Effective Tax Rate	25.54%	
Terminal Growth Rate	6.4%	
Cost of Equity		
Risk Free Rate	0.0731	
Beta	0.64	
Market Premium	0.045	
Cost of Equity	10.19%	
Weight of Debt and Equity		
Total Debt	1,608	1.57%
Market Cap	100,936	98.43%
Total	102544	
WACC	10.13%	

## **Final DCF Values**

	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	Terminal Year
Free Cash Flows	3786.8	4174.2	4560.6	4961.9	5376.8	5804.1	6242.5	6690.7	7147.4	7611.1	219627.5
Projection Year	1	2	3	4	5	6	7	8	9	10	11
Present Value of Free Cash Flow	3438.4	3441.6	3414.2	3372.9	3318.7	3252.9	3176.8	3091.6	2998.8	2899.6	75975.0

Implied Share Price Calculation	
Sum of PV of CF	32405.63218
PV of Terminal Value	75975.04556
Enterprise Value	108380.6777
add: Cash	1,107.77
(less) Debt	1,608
(less) Minority Interest	0
Equity Value	107,880.45
No. of Shares Outstanding	102
Implied Share Price	1057.651448
Market Price of the Share	987.15

(Refer to the "DCF" sheet in Excel)

The current market price of share: Rs 987.50

The implied share price: Rs 1057.65

From this, our group believes the shares of GCPL are **undervalued**.

# 05 Growth Outlook

## **1: Growth of Health & Hygiene Segment**

Godrej Consumer Products Limited (GCPL) has a strong presence in the soap and handwash market in India, with its major brands being Godrej No.1 and Cinthol. The company has doubled its investments in health soaps, including Cinthol Health soap and Protekt Health soap, as it sees it as a three-year journey to build a sizable market share. Handwash penetration has increased from 0% to 19% in the past 15 years, largely driven by urban demand, but the COVID-19 pandemic has caused a fundamental disruption in the category, with penetration increasing 1.7 times over the past six months across rural and urban markets. The company sees a long runway for growth in handwash, even if the current penetration level of 34% corrects to 30%. Its powder handwash (Mr. Magic) is in a sweet spot, as it directly competes with soaps at Rs10, enabling consumers to upgrade their preferences from soap to handwash.

## **2: Household Insecticides: Revival Period**

The Household Insecticides (HI) business of Godrej Consumer Products Limited (GCPL) contributes around 40% of domestic revenues and has had strong growth in the past but tapered off due to various factors. However, in the last 5 quarters, HI has shown solid growth, and the management expects high single-digit to low double-digit growth driven by breakthrough innovations, rising penetration, and increasing salience of the non-mosquito segment. The company plans to launch new burning format products to compete with illegal incense sticks and introduce Good Knight Smart Spray, which has a unique combination of non-gas with SOS, for test marketing. The HI category is still underpenetrated, and there is tremendous scope for penetration-led growth in the out-of-home mosquito repellent market. Additionally, the non-mosquito space presents a massive opportunity for growth, and the company has launched Hit Roach Bomb priced at Rs 25 to increase the penetration of anti-roach products. The management expects the non-mosquito portfolio to grow in double digits in the future.

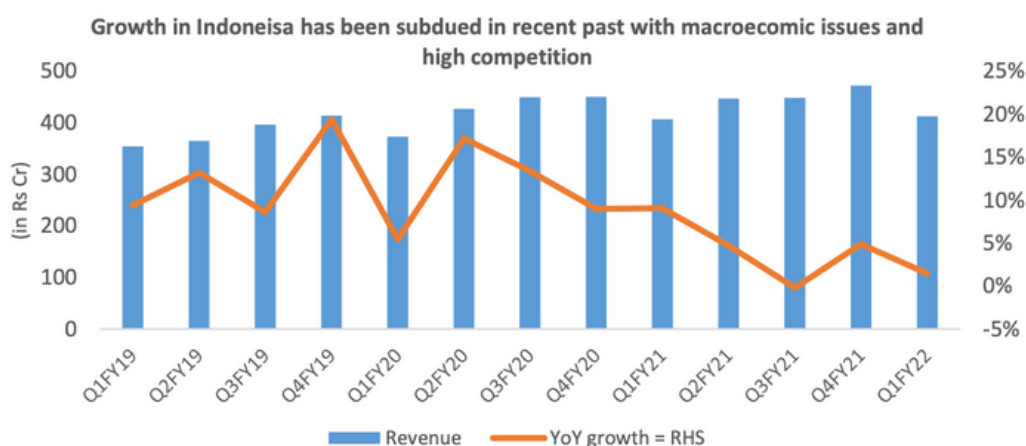
### **3: Launch of new products in premium sectors**

The incense stick market in India is worth around Rs. 700 crore, with regional and imported brands dominating the market and selling through wholesale channels. However, many incense sticks use banned and illegal chemicals, representing a lost opportunity for organized players who could offer premium, natural products. The use of illegal incense sticks has harmful effects on both mosquitoes and humans. The government and industry have taken corrective actions, such as increasing import duties and awareness programs, but the impact on the market is expected to continue in the near term. Goodknight, a major brand, has responded to this issue by introducing new products in burning format, such as the Goodknight Jumbo Fast Card and Goodknight Naturals Neem Agarbatti.



### **4: Ambitious Expansion in Indonesia**

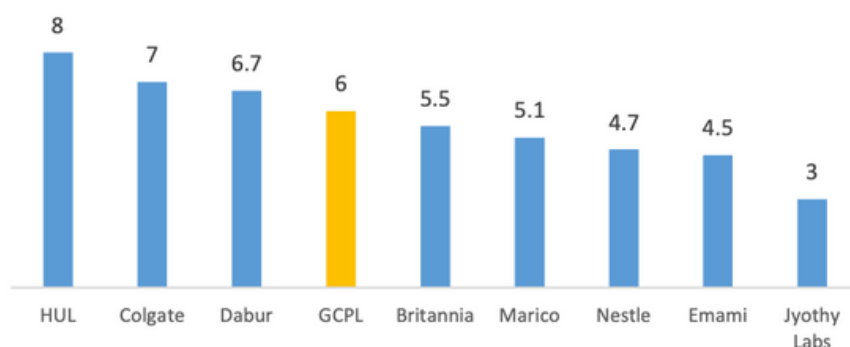
In 2010, GCPL acquired PT. Megasari Makmur Group in Indonesia, which produces and distributes household insecticides, wet tissues, air fresheners, and baby care products. Despite a tough period from FY14-18 due to economic conditions and competition, GCPL has since recovered and is now the No. 1 player in household insecticides, air fresheners, and wet wipes in Indonesia. The company has expanded its portfolio by launching new sub-categories and innovative products, and has gained market share in household insecticides through the launch of HIT Expert Piramida. GCPL's Indonesian business grew 4% YoY in FY21, with a margin of 27-28%. The company plans to expand its margins through sustainable sales growth, favorable category mix, and cost-saving initiatives such as Project Cermat and Project PI.



Source: HDFC Sec



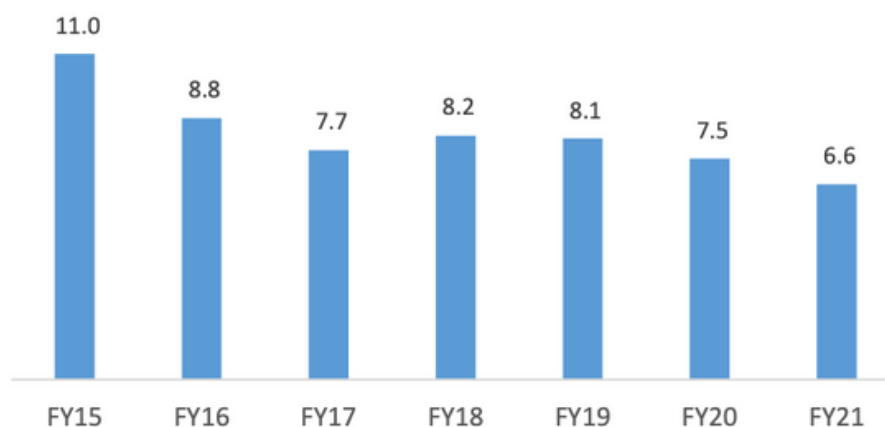
GCPL has wide reach and plans to increase to ~8mn outlets by FY23



## **5: Widening distribution reach**

GCPL (Godrej Consumer Products Limited) is expanding its reach in traditional trade in India, with a total reach of around 6 million outlets, and plans to expand to 7 million in two years. It is also expanding its rural sub-stockist network and direct presence in villages. In Bangladesh, it is expanding its direct reach to 100,000 outlets and driving sales force automation. In Sri Lanka, it is building its own distribution network with a distributor management system and sales force automation. In Indonesia, it is increasing the number of salespeople on the ground and focusing on general trade and local modern trade channels. In Africa, it is improving collaborations with regional distributor partners and shifting the coverage of key accounts in modern trade to third-party logistics partners. In Nigeria, it is scaling up its reach through a more intensive redistribution network, and in Kenya, it is scaling up distribution expansion through a combination of various models. In South Africa, GCPL has piloted a 'Perfect Stores' program to increase sales by enhancing the shopping experience and maximizing shopper conversion opportunities.

Ad Spends as % of sales



## 6: Steadfast innovation

Godrej Consumer Products Limited (GCPL) has focused on innovation to drive revenue growth, particularly in categories such as hygiene and home insecticides. The company has launched new products across geographies, often as a new entrant in the category, giving it room for future expansion. GCPL has also incubated premium portfolios in organic baby care and natural household insecticides, and developed products specifically for e-commerce. The company employs its RIDE approach to develop and bring these product innovations to market, with a central innovation team leading development in global categories across India, Indonesia, Africa, and the US. GCPL has also cross-pollinated products from one country to another, creating new categories and expanding its distribution network. These strategies are expected to continue driving value growth for the company in the future.

### Some of the GCPL's product launches in recent years in India

Launch Year	Products	Categories
FY19	Godrej Protekt Mr. Magic	Hygiene
	Kala HIT Lime	Household Insecticides
	Goodknight Power Chip	Household Insecticides
	Godrej Nupur	Hair Care
	Godrej Aer Matic (automatic diffuser)	Air Care
	Goodknight Naturals Neem Agarbatti	Household Insecticides
	Cinthol Mens' (Grooming Products)	Hygiene
	Godrej Professional	Hair Care
FY20	Cinthol Charcoal Soap	Hygiene
	Goodness.me (New Brand)	Baby Care
	Godrej Protekt Health Soap	Hygiene
	Chandan Abhyang Snaan	Hygiene
	Hit Mosquito Racquet	Household Insecticides
	Goodknight Gold Flash LV	Household Insecticides
	Godrej Expert Creme	Hair Care
	Godrej Ezee 2-in-1	Air Care
	Godrej Proclean	Hygiene
	Aer Smart Matic	Hygiene
	Goodknight Naturals	Household Insecticides
	Godrej Anoop Ayurvedic (Hair Oil)	Hair Care
	Godrej Expert Easy 5 minute shampoo	Hair Care
FY21	45+ hygiene products across categories such as handwash, soaps, floor cleaners, sanitizers etc) through multiple brands (Protekt, Saniter, etc)	Hygiene
	Goodknight Smart Spray	Household Insecticides
YTD FY22	Goodknight Jumbo Fast Card	Household Insecticides
	Aer Power Pocket	Air Care
	Godrej Protekt All-in-1 Dishwasher Tablets	Hygiene
	Godrej Ezee Detergent Pods	Hygiene
	Goodknight Anti Mosquito Bed Nets	Household Insecticides

# KEY RISKS 06

**Competition risk** can arise in the form of product pricing strategy, aggressive pricing by competitors, entry of new players, the emergence of e- com/digital-first brands and dependency on a few product categories to drive sales. The likely disruption in the grocery retail market and the growth of the hyper-local formats of Reliance Retail and the new e-commerce hypermarkets pose a risk to the industry dynamics in the medium term.

**The company faces currency risk** as it 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.

**Economic risk** exists in the territories GCPL operates in. Extended lockdowns in geographies such as Indonesia and sub-Saharan Africa due to the COVID-19 spread also pose a risk. Also, if employment opportunities do not improve soon, demand for some of GCPL's products might be impacted negatively.

**Commodity risk** exists as volatility in commodity prices (like palm oil, crude oil derivatives etc.) can impact GCPL's revenue and margins.

**Business slowdown risk exists.** GCPL saw muted sales, EBITDA and PAT growth in FY18-20 due to a combination of factors (including consumer spending slowdown/downtrading in various geographies, volatility in raw material prices, geopolitical issues in some countries, nil growth/degrowth in insecticides business for some quarters, heightened competition in some categories, etc.) and, hence, its stock price underperformed. Any resurgence of such a slow-growth scenario could hurt its growth, going forward.

**Foreign markets risk:** The African business has been a big pain point for the past few years. GCPL has hired the ex-CEO of Nestle Nigeria as the new head of the Africa business. The new regional CEO is well versed in the region for decades and the management expects him to lead a strong turnaround there. Recently, GCPL has seen a sequential improvement in performance.

# 07 OUR RECOMMENDATION

In the recent past, GCPL's stock has underperformed its FMCG counterparts, which can be attributed to mediocre performance of its key domestic categories as domestic sales witnessed meagre growth at ~3% CAGR over FY16-20. However, it witnessed solid 14% growth in FY21, propped by COVID-led tailwinds for household insecticides (HI - up 16% YoY) and soaps (up 15% YoY). The domestic HI business, which has struggled due to rampant competition from illegal incense sticks (revenue declined 1% on CAGR basis over FY16-20), has seen a strong rebound owing to consumers' increasing preferences for disease prevention products in the wake of COVID-19.

Recent innovations (such as Gold Flash LV, Good Knight Smart Spray, etc.) have been gaining encouraging traction. The high-margin hair colour business, which saw a poor year in FY21 due to curtailed spending on discretionary products, is likely to make a strong comeback.

GCPL commands a leadership position in the Indian HI and hair care market; there are many growth opportunities in these two segments as there is a lot of scope to increase penetration levels. Its focus on premiumisation is margin accretive. The COVID-19 pandemic has been a shot in the arm for the hygiene sector and GCPL has left no stone unturned to make the most of this unusual situation, which is also an opportunity. With 45+ launches in the hygiene category (toilet & floor cleaners, hand-wash and sanitisers) scaled up to 4% of sales, it will continue to grow on the back of penetration gains.

On the international business front, Indonesia, which struggled in the past (~-3% CAGR over FY16-18) due to rising competitive intensity and a challenging macroeconomic environment, grew at 12.6%/11.2% in FY19/FY20 while curtailed discretionary spends by consumers in air care and wet wipes led to growth falling to ~4% in FY21 though EBIT margins have witnessed a double-digit growth over past five years.

Godrej Africa, the US, and the Middle East (GUAM) businesses had been the biggest pain points for GCPL over the past few years; however, the appointment of the new CEO for GUAM, Mr Dharnesh Gordhon, and the right strategic initiatives could help it achieve >10% sales CAGR with margins scaling up to 17-18% over the next 2-3 years.

We expect EPS to grow by ~12% and ~16% CAGRs respectively over FY21-24E with healthy expansion in RoCE. We believe GCPL's improved execution and new leadership to translate into higher growth.

We think the fair value of the stock is Rs 1057.65. Along with the growing prospects of the industry and company, we recommend BUYINGGCPL stock.

# MAIN REFERENCES

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<https://godrejcp.com/investors/annual-reports>

<https://www.hdfcsec.com>