

Godrej Consumer: Outlook positive

Higher palm oil cost may lower profitability from soaps

HERE ARE THE key takeaways from interaction with the management of Godrej Consumer Products (GCPL): The robust upside volume gap (UVG) momentum in India continues, driven by improvements in home insecticides (HI) and sustained strength in soaps. This is somewhat offset by a decline in hair colour sales. Constant currency (cc) growth in Indonesia has increased following a muted first quarter, aligning with expectations. Both Indonesia and Africa are on track to achieve strong Ebitda growth this year. Palm oil inflation is expected to impact Godrej Consumer's profit margins in India. In contrast, Hindustan Unilever has not raised soap prices due to recent formulation innovations that have reduced palm oil consumption by approximately 25%, making it more competitive. Recommend ADD rating.

Godrej Consumer continues to experience robust volume growth in its soaps segment. However, palm oil



inflation, which has increased by 6.4% year-to-date in FY25e (estimates), is expected to put pressure on margins. The company has taken 3% price increase so far (as against 7-8% warranted) as Hindustan Unilever (market leader with 35-40% share) has retained prices. Hindustan Unilever's recent formulation innovation in Lux and Lifebuoy soap has reduced its palm consumption by about 25% (palm

Godrej Consumer expects RCCL to generate ₹600-650 crore in revenue for FY2024-25. While margins have expanded, revenue growth is slightly below projection

accounts for 80% of the raw materials used in producing soap), enabling it to be more competitive. It remains to be seen whether Hindustan Unilever will leverage this innovation to boost its soap portfolio's profitability or pursue aggressive market share gains. If needed, Godrej Consumer can potentially rejig its formulation in about six months per management. The newly launched RNF liquid

VALUATION DATA

Year to Mar	2024	2025E	2026E
EPS (₹)	18.7	22.3	27.4
EPS growth (%)	9.1	18.9	22.8
P/E (X)	77.8	65.4	53.3
P/B (X)	11.8	10.8	9.7
EV/Ebitda (X)	51.0	44.0	38.5
RoE (%)	14.5	17.3	19.2
Div. yield (%)	0.7	0.7	0.9
Sales (₹ cr)	14,100	14,600	16,100
Ebitda (₹ cr)	2,900	3,400	3,800
Net profits (₹ cr)	1,900	2,300	2,800

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

vaporiser (LV) is still not widely available. It will take 3-6 months to clean up the old inventory. It does not expect this launch to drive any noticeable growth before Q4FY25E. New Agarbatti (with RNF molecule) is scaling well and has moved to MSD market share.

Godrej Consumer's fabric care business was often forgotten when it was restricted only to Ezee. The launch of Fab (liquid detergent) and relaunch of Genteel, has helped fabric care portfolio to grow at 50-60%.

Godrej Consumer expects RCCL (RC Consumer, a subsidiary of Godrej Consumer) will generate rev-

enue in the range of ₹600 to 650 crore for FY2024-25. While margin expansion has played out on expected lines, revenue growth is a tad lower than its business case.

We expect Godrej Consumer's strong UVG (HSD) momentum to sustain in Q2. Unlike Q1, the performance is likely to be broad-based across clusters including India, Indonesia, and Africa. The home insecticides business is performing better than in Q1, with an estimated mid-to-high single-digit growth, though it has not fully recovered yet. The growth in the hair colour market has been subdued due to a weak base, notably with 'Adhik Maas' in Q2FY24. Given that soaps account for one-third of Godrej Consumer's business in India, there may be some margin pressure due to the company's inability to fully offset palm oil inflation.

Overall, we now project a slight improvement in India's UVG (compared to 8% in Q1), HSD Ebitda growth in the Indian business (slightly below previous expectations), and low-teen consolidated Ebitda growth.

KOTAK INSTITUTIONAL EQUITIES