

HSIE Results Daily

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- Godrej Consumers:** GCPL's Q4 performance was a mixed bag, with in-line revenue but a miss on EBITDA margin. Consolidated revenue grew 7% YoY - domestic revenue was up by 9% (7% three-year revenue CAGR) and international was up 4%. Domestic volume declined 3% YoY, three-year CAGR at 2% vs. Marico's 7%, Dabur's 3%, HUL's 3% and Emami's 3%. However, the key highlight of the result is the weak international performance. International EBIT declined ~70% YoY due to the sharp fall in Indonesia and Africa EBIT margins. Indonesia remained under pressure and revenue contracted by 15%, leading to a sharp 1,400bps fall in EBITDA margin. Africa clocked healthy 15% growth, while EBITDA margin contracted by ~1,000bps YoY due to delayed price hike and inventory pilferage in South Africa. The new CEO is implementing several initiatives to recover margin and increase penetration for domestic categories. However, considering uncertainty around macro and RM inflation, we do not expect quick recovery in the near term. We cut our FY23/24 EPS by 5/4%. We value the stock at 35x (already in lower strata of our coverage universe) on Mar-24 EPS to derive a TP of INR 825. The recent correction in the stock price largely factors in the near-term challenges. We maintain ADD.
- JK Lakshmi Cement:** We maintain our BUY rating on JK Lakshmi Cement (JKLC) with a revised TP of INR 735/share (8x Mar-24E consolidated EBITDA). We expect its current low gearing and healthy cash flow to support its planned Udaipur expansion, without stressing its balance sheet and keeping the RoE buoyant. In Q4FY22, consolidated revenue rose 12% YoY due to better pricing and volume. EBITDA/APAT also rose 4/11% YoY respectively on modest margin compression and lower tax outgo.
- Somany Ceramics:** We maintain BUY on Somany Ceramics with a revised target price of INR 950/share (13x Mar-24E consolidated EBITDA). We continue to like SOMC for its strong retail distribution, improving product mix, and tightened working capital (WC). With the recent capacity expansion of ~20% in Q1FY23, we expect SOMC to continue industry leading volume growth. While Q4FY22 consolidated revenue rose 9% YoY, EBITDA/APAT declined by 43%/ 65% YoY on op-lev loss and elevated gas prices. Balance sheet continues to firm up, as Somany's cash conversion cycle fell to 50 days, the lowest in past seven years.

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Godrej Consumers

Weak international margin; near term daunting

GCPL's Q4 performance was a mixed bag, with in-line revenue but a miss on EBITDA margin. Consolidated revenue grew 7% YoY - domestic revenue was up by 9% (7% three-year revenue CAGR) and international was up 4%. Domestic volume declined 3% YoY, three-year CAGR at 2% vs. Marico's 7%, Dabur's 3%, HUL's 3% and Emami's 3%. However, the key highlight of the result is the weak international performance. International EBIT declined ~70% YoY due to the sharp fall in Indonesia and Africa EBIT margins. Indonesia remained under pressure and revenue contracted by 15%, leading to a sharp 1,400bps fall in EBITDA margin. Africa clocked healthy 15% growth, while EBITDA margin contracted by ~1,000bps YoY due to delayed price hike and inventory pilferage in South Africa. The new CEO is implementing several initiatives to recover margin and increase penetration for domestic categories. However, considering uncertainty around macro and RM inflation, we do not expect quick recovery in the near term. We cut our FY23/24 EPS by 5/4%. We value the stock at 35x (already in lower strata of our coverage universe) on Mar-24 EPS to derive a TP of INR 825. The recent correction in the stock price largely factors in the near-term challenges. We maintain ADD.

- In-line revenue, weak domestic volume:** Consolidated revenue was up 7% YoY (27% in Q4FY21, 8% in Q3FY22, 7% HSIE), with domestic growing 9% YoY (35% in Q4FY21, 8% in Q3FY22; 9% HSIE) and international growing 4% YoY (19% in Q4FY21, 9% in Q3FY22; 4% HSIE). Domestic volume declined 3% YoY. Indonesia, GUAM, and LATAM & SAARC revenues grew 15/+15/+19% YoY (5/30/30% in Q3FY21); cc growth was at -16/14/26% YoY. Personal Care revenue grew 18% YoY; Home Care declined 7% YoY. Personal Wash saw healthy price-led growth in India. Hair Colour gradually recovered. HI delivered a weak performance due to muted season and high base.
- Disappointing international margin:** GM contracted by 628bps YoY to 49.5%. Employee costs were down by 11% YoY (+38% in Q4FY21), A&P was down 3% YoY (+51% in Q4FY21), and other expenses were up 7% (+8% in Q4FY21). EBITDA margin fell 382bps YoY (-108bps Q4FY21, -211bps Q3FY22) to 17.2%, below our estimate of 20%. EBITDA declined by 13% YoY vs. HSIE growth of 3%. EBITDA margin for Indonesia/GUAM/Latin America & SAARC came in at 21/1/11% vs. 23/11/4% in Q4FY21.
- Con call takeaways:** (1) GCPL's launch of Hair Crème at a disruptive price point was in line with one of its category-growth strategies of increasing accessibility. (2) Penetration of Hair Colour is <20%. (3) Good Knight Jumbo Fast Card price dropped to INR10 vs. INR 15. (4) Africa business margin was impacted by pilferage (300bps impact), higher A&P spends (250bps impact) and lag in passing RM inflation (350bps impact). (5) Expect palm oil prices to correct in Q1FY22 with improved demand-supply dynamics and lifting of export ban from Indonesia. (6) Consolidated EBITDA margin would improve by 100bps in FY23.

Quarterly/annual financial summary

YE Mar (INR mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY21	FY22P	FY23E	FY24E
Net Sales	29,158	27,307	6.8	33,026	(11.7)	110,286	122,765	135,244	148,746
EBITDA	5,024	5,748	(12.6)	6,991	(28.1)	23,883	23,951	27,097	30,922
APAT	3,072	4,170	(26.3)	4,995	(38.5)	17,150	17,017	20,382	23,402
Diluted EPS (Rs)	3.0	4.1	(26.3)	4.9	(38.5)	16.8	16.6	19.9	22.9
P/E (x)						47.4	47.8	39.9	34.8
EV / EBITDA (x)						38.2	34.0	33.6	29.1
RoCE (%)						19.8	18.1	19.1	21.2

Source: Company Data, HSIE Research

ADD

CMP (as on 19 May 22)	INR 796
Target Price	INR 825
NIFTY	INR 15,809

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 850	INR 825
EPS %	FY23E	FY24E
	-5%	-4%

KEY STOCK DATA

Bloomberg code	GCPL IN
No. of Shares (mn)	1,023
MCap (INR bn) / (\$ mn)	814/10,933
6m avg traded value (INR mn)	1,130
52 Week high / low	INR 1,139/660

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(3.6)	(13.5)	(3.2)
Relative (%)	5.1	(2.0)	(9.7)

SHAREHOLDING PATTERN (%)

	Dec-21	Mar-22
Promoters	63.22	63.22
FIs & Local MFs	5.02	6.74
FPIs	25.63	24.16
Public & Others	6.13	5.88
Pledged Shares	0.42	0.42

Source : BSE

Pledged shares as % of total shares

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JK Lakshmi Cement

Healthy volume and margin performance

We maintain our BUY rating on JK Lakshmi Cement (JKLC) with a revised TP of INR 735/share (8x Mar-24E consolidated EBITDA). We expect its current low gearing and healthy cash flow to support its planned Udaipur expansion, without stressing its balance sheet and keeping the RoE buoyant. In Q4FY22, consolidated revenue rose 12% YoY due to better pricing and volume. EBITDA/APAT also rose 4/11% YoY respectively on modest margin compression and lower tax outgo.

- Q4FY22 performance:** Consolidated sales volume rose 8/26% YoY/QoQ. NSR fell 1% QoQ amid pricing pressure in north markets. Opex fell 9% QoQ on lower fuel costs (benefits of low cost fuel inventory, increased share of green fuel/power). Even fixed costs for Q4 fell QoQ, owing to reversal of cost provisions booked in the previous three quarters. Thus, consolidated EBITDA rebound 49% QoQ and fell only 4% YoY to INR 987/MT.
- Capex and outlook:** JKLC commissioned 10MW WHRS in Sirohi in Q4 and will be adding more solar power plants, going forward. It will complete its 1.5/2.5mn MT clinker/cement expansion at its Udaipur subsidiary in FY24E for a total Capex of INR 16.5bn. JKLC guided Capex of INR 8bn for FY23E. It also expects to deliver ~7-8% volume growth in FY23. We estimate the current low leverage (net debt/EBITDA 0.7x in Mar-22) and healthy cash flows to keep its RoE at a healthy level and net debt/EBITDA under 1x. Factoring in inflationary pressures, we trim our consolidated EBITDA estimates by 1/6% for FY23/FY24E respectively.

Quarterly/annual financial summary (consolidated)

YE Mar (INR bn)	Q4 FY22	Q4 FY21	YoY (%)	Q3 FY22	QoQ (%)	FY20	FY21	FY22P	FY23E	FY24E
Sales (mn MT)	3.29	3.04	8.4	2.61	25.9	9.72	10.45	11.20	11.98	12.94
NSR (INR/MT)	4,861	4,691	3.6	4,918	(1.2)	4,490	4,524	4,840	5,203	5,255
EBITDA(INR/MT)	987	1,031	(4.3)	664	48.5	821	898	849	886	891
Net Sales	16.00	14.24	12.3	12.86	24.4	43.64	47.27	54.20	62.34	68.00
EBITDA	3.25	3.13	3.7	1.74	87.0	7.98	9.39	9.51	10.61	11.53
APAT	2.38	2.29	4.0	0.64	270.7	2.78	4.43	4.91	5.25	5.86
AEPS (INR)	17.9	16.2	10.5	5.4	228.6	23.6	37.7	41.7	44.6	49.8
EV/EBITDA (x)						8.1	6.2	5.9	5.3	5.2
EV/MT (INR bn)						4.86	4.35	4.05	4.01	4.04
P/E (x)						17.8	11.2	10.1	9.4	8.5
RoE (%)						17.6	23.4	21.1	18.5	17.3

Source: Company, HSIE Research

Estimates revision summary

INR bn	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Net Sales	60.2	62.3	3.6	67.2	68.0	1.2
EBITDA	10.75	10.61	-1.3	12.30	11.53	-6.3
APAT	5.37	5.25	-2.3	6.39	5.86	-8.3

Source: Company, HSIE Research

BUY

CMP (as on 19 May 22)	INR 422
Target Price	INR 735
NIFTY	15,809

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 765	INR 735
EBITDA revision %	FY23E (1.3)	FY24E (6.3)

KEY STOCK DATA

Bloomberg code	JKLC IN
No. of Shares (mn)	118
MCap (INR bn) / (\$ mn)	50/667
6m avg traded value (INR mn)	125
52 Week high / low	INR 816/366

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(8.4)	(33.7)	(5.2)
Relative (%)	0.3	(22.2)	(11.7)

SHAREHOLDING PATTERN (%)

	Dec-21	Mar-22
Promoters	46.01	46.31
FIs & Local MFs	24.96	25.87
FPIs	12.97	12.29
Public & Others	16.06	15.54
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Somany Ceramics

Q4 hit by volume loss and elevated gas prices

We maintain BUY on Somany Ceramics with a revised target price of INR 950/share (13x Mar-24E consolidated EBITDA). We continue to like SOMC for its strong retail distribution, improving product mix, and tightened working capital (WC). With the recent capacity expansion of ~20% in Q1FY23, we expect SOMC to continue industry leading volume growth. While Q4FY22 consolidated revenue rose 9% YoY, EBITDA/APAT declined by 43%/ 65% YoY on op-lev loss and elevated gas prices. Balance sheet continues to firm up, as Somany's cash conversion cycle fell to 50 days, the lowest in past seven years.

- **Q4FY22:** Tiles/others revenues rose up by 9/12% YoY on better realisation. Tiles volume declined 5% YoY (3-year CAGR +2%). Brownfield expansion at its north plant disrupted production, leading to ~15% volume loss. Muted domestic demand and supply pressure from Morbi cluster restricted price hike amid soaring gas prices. Thus, EBITDA margin contracted 2.8/7.6pp QoQ/YoY to 8.2%.
- **Outlook:** Somany's tiles capacity is set to increase by ~20% (across the north, west and south) in Q1FY23. This should continue to drive ~15% volume growth in FY23E. As tiles price hike (2% at Apr end) is not sufficient to cover soaring gas prices, margins are expected to remain under pressure in Q1FY23. Due to the sharp spike in gas prices in European countries, Morbi's tile competitiveness has improved and exports are expected to pick up. This should reduce supply pressure in domestic markets, driving better pricing and margin recovery. Factoring in muted price hikes and soaring gas prices, we cut our EBITDA estimates for FY23/FY24E by 15/12% respectively.

Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q4 FY22	Q4 FY21	YoY (%)	Q3 FY22	QoQ (%)	FY20	FY21	FY22P	FY23E	FY24E
Tiles sales (MSM)	16.1	16.9	-4.5	15.6	3.4	48.9	49.8	57.9	66.6	74.1
NSR (Rs/Kg)	332.6	291.0	14.3	329.0	1.1	329.6	331.2	361.9	378.7	384.1
Tiles Revenue	5,358	4,909	9.1	5,126	4.5	14,016	14,377	18,360	22,185	24,670
Others Revenue	682	609	12.0	652	4.5	2,089	2,110	2,247	3,033	3,775
Net Sales	6,168	5,647	9.2	5,870	5.1	16,101	16,507	20,945	25,219	28,444
EBITDA	507	895	-43.4	646	-21.6	1,314	1,903	2,065	2,727	3,371
EBITDAM (%)	8.2	15.8		11.0		8.2	11.5	9.9	10.8	11.9
APAT	172	492	-65.1	322	-46.6	412	756	887	1,218	1,581
Diluted EPS (Rs)	4.0	11.6	-65.1	7.6	-46.6	9.7	17.8	20.9	28.7	37.2
EV / EBITDA (x)						22.3	14.1	13.6	10.7	8.8
P/E (x)						57.3	31.2	26.6	19.4	14.9
RoE (%)						5.9	10.5	11.3	13.7	15.6

Source: Company, HSIE Research

Estimates revision summary

INR mn	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Net Sales	25,540	25,219	-1.3	28,374	28,444	0.2
EBITDA	3,205	2,727	-14.9	3,843	3,371	-12.3
APAT	1,490	1,218	-18.2	1,894	1,581	-16.5

Source: Company, HSIE Research

BUY

CMP (as on 19 May 22) INR 596

Target Price INR 950

NIFTY 15,809

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,110	INR 950
EBITDA revision %	FY23E (14.9)	FY24E (12.3)

KEY STOCK DATA

Bloomberg code	SOMC IN
No. of Shares (mn)	42
MCap (INR bn) / (\$ mn)	25/340
6m avg traded value (INR mn)	32
52 Week high / low	INR 970/430

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(25.1)	(30.9)	37.3
Relative (%)	(16.3)	(19.5)	30.7

SHAREHOLDING PATTERN (%)

	Dec-21	Mar-22
Promoters	54.77	54.78
FIs & Local MFs	20.04	20.20
FPIs	2.48	2.51
Public & Others	22.71	22.50
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Varun Lohchab	Godrej Consumers	PGDM	NO
Naveen Trivedi	Godrej Consumers	MBA	NO
Saras Singh	Godrej Consumers	PGDM	NO
Rajesh Ravi	JK Lakshmi Cement, Somany Ceramics	MBA	NO
Keshav Lahoti	JK Lakshmi Cement, Somany Ceramics	CA	NO

Disclosure:

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