

HSIE Results Daily

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Results Review

- **Godrej Consumers:** GCPL's 1QFY21 was broadly in line with revenue/EBITDA growth of -1/3% YoY. Domestic revenue/EBITDA growth was at +5/+22% YoY, while international revenue/EBITDA growth was -8/-36% YoY. Domestic revenue growth was led by HI (27% YoY), while soaps surprised with a 2% YoY decline (HSIE +7%). Hair colours remained weak and declined by 18% YoY. Within international, GUAM was heavily impacted (-23% YoY) by lockdowns while Indonesia maintained a healthy pace (+5% YoY), driven by HI. GCPL continued to drive penetration through innovative launches, and the company launched 45 new products in its hygiene portfolio. We expect HI and hygiene portfolio to sustain healthy growth while discretionary/OOH will be muted in FY21. We maintain our EPS estimates for FY21/FY22/FY23. We value GCPL at 35x P/E on Jun-22E EPS and derive a target price of Rs 628. Maintain REDUCE.
- **Gujarat Gas:** Our ADD recommendation on Gujarat Gas (GGL) with a price target of INR 326 is premised on (1) volume growth of 20% CAGR over FY21-23E, (2) portfolio of mature, semi-mature and new geographical areas (GAs) and (3) compelling valuations among the city gas distribution players (RoE of 27% in FY22E versus 20% for peers - Indraprastha Gas and Mahanagar Gas). 1QFY21 EBITDA/APAT was 26/49% below estimates, primarily owing to 31% lower volumes at 4.1mmcmd, offset by 7% higher per unit EBITDA margin.

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Godrej Consumers

Strong comeback in HI

GCPL's 1QFY21 was broadly in line with revenue/EBITDA growth of -1/3% YoY. Domestic revenue/EBITDA growth was at +5/+22% YoY, while international revenue/EBITDA growth was -8/-36% YoY. Domestic revenue growth was led by HI (27% YoY), while soaps surprised with a 2% YoY decline (HSIE +7%). Hair colours remained weak and declined by 18% YoY. Within international, GUAM was heavily impacted (-23% YoY) by lockdowns while Indonesia maintained a healthy pace (+5% YoY), driven by HI. GCPL continued to drive penetration through innovative launches, and the company launched 45 new products in its hygiene portfolio. We expect HI and hygiene portfolio to sustain healthy growth while discretionary/OOH will be muted in FY21. We maintain our EPS estimates for FY21/FY22/FY23. We value GCPL at 35x P/E on Jun-22E EPS and derive a target price of Rs 628. Maintain REDUCE.

- HI drives revenue:** Consolidated revenue declined by 1% YoY (-5% in 1QFY20 and -12% in 4QFY20) vs the HSIE estimate of 2% YoY dip. Domestic volume growth was at 3% YoY (+5% in 1QFY20 and -15% in 4QFY20). Rural growth was ahead of urban growth. HI was benefited by channel filling, share gain from the unorganised market and higher consumer focus towards health. HI primary growth and secondary growth was mostly in line in the last 6 months. Soaps remained muted, and the company is trying to drive through new launches (Protekt brand). GUAM markets saw the severe impact of COVID-led lockdowns, with Africa among the worst impacted markets. However, demand has sequentially improved since May, while the company has launched a range of HI in Africa. Indonesia is expected to sustain healthy growth.
- Margins resilient:** Gross margin dipped by 286bps YoY to 54.3% (+133bps in 1QFY20 and -97bps in 4QFY20). The dip in margin was driven by an adverse product mix and RM inflation (palm oil). Employee expenses remained flat YoY while ASP/other expenses declined by 46/2% YoY, leading to an EBITDAM expansion of 77bps YoY to 20.3% (+140bps in 1QFY20 and -151bps in 4QFY20). EBITDA grew by 3% YoY to Rs 4.7bn (HSIE Rs 4.8bn). APAT (excluding exceptional item and normalized tax rate) up by 6% YoY to Rs 3.17bn (HSIE Rs 3.16bn).
- Call takeaways:** (1) Factories are operating at 90% of capacity; (2) supply chain disruption and import duty dented illegal incense sticks; (3) inventory levels to remain lower than pre-COVID levels in FY21; (4) growth in domestic business will be driven by rural growth; (5) no significant capex is expected in the near term.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	23,273	23,488	(0.9)	21,538	8.1	99,108	104,558	112,516	120,893
EBITDA	4,727	4,589	3.0	4,765	(0.8)	21,433	22,973	25,031	27,310
APAT	3,174	2,997	5.9	3,288	(3.5)	14,725	15,952	17,787	20,067
Diluted EPS (Rs)	3.1	2.9	5.9	3.2	(3.5)	14.4	15.6	17.4	19.6
P/E (x)						47.4	43.8	39.3	34.8
EV / EBITDA (x)						33.5	32.9	30.2	27.5
RoCE (%)						19.0	18.7	21.0	23.6

Source: Company, HSIE Research

REDUCE

CMP (as on 04 Aug 2020)	Rs 692
Target Price	Rs 628
NIFTY	11,095

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 628	Rs 628
	FY21E	FY22E
EPS %	0%	0%

KEY STOCK DATA

Bloomberg code	GCPL IN
No. of Shares (mn)	1,022
MCap (Rs bn) / (\$ mn)	708/9,427
6m avg traded value (Rs mn)	1,232
52 Week high / low	Rs 772/425

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	31.5	5.7	13.1
Relative (%)	12.7	13.3	11.6

SHAREHOLDING PATTERN (%)

	Mar-20	June-20
Promoters	63.24	63.24
FIs & Local MFs	3.10	3.19
FPIs	26.34	26.79
Public & Others	7.32	6.78
Pledged Shares	0.42	0.42

Source : BSE

Pledged shares as % of total shares

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Gujarat Gas

A complete washout quarter

Our ADD recommendation on Gujarat Gas (GGL) with a price target of INR 326 is premised on (1) volume growth of 20% CAGR over FY21-23E, (2) portfolio of mature, semi-mature and new geographical areas (GAs) and (3) compelling valuations among the city gas distribution players (RoE of 27% in FY22E versus 20% for peers - Indraprastha Gas and Mahanagar Gas). 1QFY21 EBITDA/APAT was 26/49% below estimates, primarily owing to 31% lower volumes at 4.1mmcmd, offset by 7% higher per unit EBITDA margin.

- Volumes:** Blended volume stood at 4.1mmcmd (HSIE 6.0), dragged by weak industrial demand (2.9mmcmd or 69% of volume mix versus 77% in FY20). Volume numbers cannot be compared on a YoY or QoQ basis because of the adverse impact of the nationwide lockdown in 1Q. Blended volumes have recovered to 9.5mmcmd in 2QFY21 as per the management. 13 CNG stations were commercialised in 1Q taking the company's total station tally to 413.
- Margin:** Per unit gross spread expanded by INR 2.3/1.4 QoQ/YoY to INR 9.4/scm. This is attributable to part retention of the benefit of falling RMC. APM (30% of 1Q sourcing mix) declined to USD 2.39/mmbtu in Apr-20, -26/-35% QoQ/YoY and Asian spot LNG price (64%) declined to USD 2.8/mmbtu in 1QFY21, -43/-48% QoQ/YoY. Per unit EBITDA came to INR 4.9/scm (vs. INR 4.7 per scm in FY20).
- Change in estimates:** We raise our FY21E per unit EBITDA margin estimates by 2% to INR 4.5/scm to factor in the company's 1QFY21 performance, leading to a 1% increase in EPS estimates to INR 11.0/sh.
- DCF-based valuation:** Our target price of INR 326 is based on Mar-22E free cash flows (WACC 11%, terminal growth rate 3.0%). The stock is currently trading at 17.4x FY22E EPS.

Standalone financial summary

YE Mar (INR bn)	1Q FY21	4Q FY20	QoQ (%)	1Q FY20	YoY (%)	FY19	FY20P	FY21E	FY22E
Revenues	11	27	(59.4)	26	(58.6)	78	103	77	106
EBITDA	2	4	(56.5)	5	(60.2)	10	16	14	19
APAT	1	2	(76.1)	2	(74.9)	4	9	8	12
AEPS (INR)	0.9	3.6	(76.1)	3.4	(74.9)	6.3	13.1	11.0	17.8
P/E (x)						49.1	23.7	28.2	17.4
EV/EBITDA (x)						23.6	13.8	15.8	10.8
RoE (%)						21.3	32.6	20.7	27.0

Source: Company, HSIE Research

Standalone change in estimates

	FY21E			FY22E		
	Old	New	% Ch	Old	New	% Ch
Volume (mmcmd)	8.4	8.3	(0.8)	11.1	11.1	-
Per unit EBITDA (INR/scm)	4.4	4.5	2.1	4.8	4.8	0.2
EBITDA (INR bn)	14	14	1.3	19	19	0.2
AEPS (INR/sh)	10.9	11.0	0.8	17.7	17.8	0.3

Source: Company, HSIE Research

ADD

CMP (as on 4 Aug 2020)	INR 310
Target Price	INR 326
NIFTY	11,095

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 325	INR 326
EPS %	FY21E +0.8%	FY22E +0.3%

KEY STOCK DATA

Bloomberg code	GUJGA IN
No. of Shares (mn)	688
MCap (Rs bn) / (\$ mn)	213/2,839
6m avg traded value (Rs mn)	291
52 Week high / low	Rs 330/162

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	23.3	5.9	75.5
Relative (%)	4.4	13.5	74.0

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	60.89	60.89
FIs & Local MFs	7.03	7.41
FPIs	9.83	9.23
Public & Others	22.25	22.47
Pledged Shares	0.00	0.00

Source : BSE

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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
Aditya Sane	Godrej Consumers	CA	NO
Harshad Katkar	Gujarat Gas	MBA	NO
Nilesh Ghuge	Gujarat Gas	MMS	NO
Divya Singhal	Gujarat Gas	CA	NO
Rutvi Chokshi	Gujarat Gas	CA	NO

Disclosure:

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