Strong momentum in the domestic business continues

Highlights from Godrej Consumer Product’s (GCPL) pre-quarterly update for 4QFY21.

- **Macros**: Demand trends in GCPL’s categories across the key countries it operates in remained stable.

- **In India**, the management expects to deliver ~30% **sales growth**, led by strong volume growth and calibrated price increases.
  - Sales growth was quite broad based across key categories of Soaps, Household Insecticides, and Hair Colors.
  - GCPL also witnessed strong sales growth momentum in each of the months within 4QFY21.

- **In Indonesia**, it expects a gradual recovery, with **mid-single digit constant currency (CC) sales growth**. While macroeconomic variables and a stretched COVID-19 environment continue to pose challenges, it is witnessing a gradual recovery in the Air Fresheners category. It is strategically addressing the high competitive intensity in the Wet Wipes category.

- **In GAUM (Godrej Africa, the US and the Middle East)**, growth momentum continued across most key countries. It expects to deliver ~30% **CC sales growth**.

- **Within ‘others’ geographies**, sales growth in the Latin America business is expected to remain strong in CC terms. SAARC business too continues to deliver healthy sales growth.

- **At the consolidated level**, the company expects to deliver sales growth in the mid-20s in 4QFY21.

**Valuation and view**: Over FY10-20, GCPL posted healthy growth on all fronts. However, a domestic sales slowdown in recent years and continued inability to scale up margin and improve weak RoCE in the international business has adversely affected the pace of earnings growth. The loss of dominance in Hair Color, the advent of unorganized incense stick players in HI, and weak execution in the Africa business remains areas of worry. Although close to 30% topline performance in 4QFY21 is encouraging, it is on a soft base of a 12.2% sales decline in 4QFY20 due to the COVID-19 led lockdown. We need to watch out for management commentary to determine the sustainability of the performance. Given the uncertain outlook and inferior RoCE v/s peers, valuations of 35x Mar’23E EPS appear fair. Maintain **Neutral**.