mint

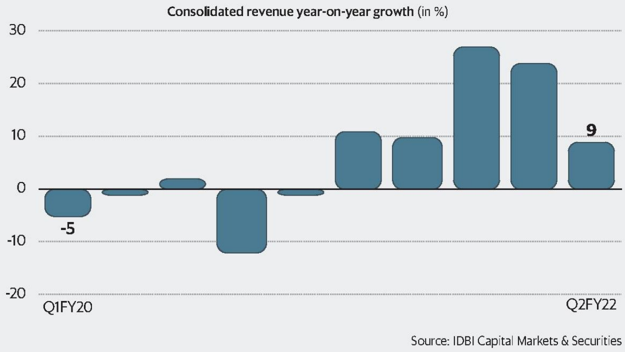
Wed, 22 Dec-21; Mint - Delhi; Size : 390 sq.cm.; Circulation:21050; Page : 4

How GCPL turns CEO's vision to action counts

Pallavi Pengonda
pallavi.pengonda@livemint.com

Report card

GCPL's growth moderated in Q2FY22 owing to a comparatively higher base.



SARVESH KUMAR SHARMA/MINT

Godrej Consumer Products Ltd's (GCPL's) shares rose 5% on the NSE on Tuesday. The Street is visibly pleased with GCPL's managing director and chief executive officer (MD&CEO) Sudhir Sitapati's first detailed investor session on Monday. Sitapati, who took charge in October 2021, offered meaningful insights into GCPL's business after spending the past two months getting to know the company better.

Analysts appreciated his clarity of thought on key parameters, his forthrightness about GCPL's areas of weakness and growth plans. "There is no earnings upgrade warranted but confidence level on existing drivers and on the execution machinery being put in place is definitely a few notches higher now," said analysts from JM Financial Institutional Securities Ltd after attending the meeting.

GCPL's key ambition for the next three to five years is to deliver double-digit underlying volume growth. This would be achieved through a combination of factors, including penetration gains, moderate market share gains, and consumption-led market growth. In the medium term, GCPL is also looking at Ebitda margin expansion of 150-200 basis points after deploying some savings back into key areas such as media, sampling, talent, distribution and digital. Ebitda is earnings before interest, taxes, depreciation, and amortization. One basis point is 0.01%.

"We believe the management's target of double-digit volume growth is achievable, given: a) increasing investments to drive penetration levels, b) rising marketing spends, and c) reduction in current complexity caused by a large portfolio," said analysts from Motilal Oswal Financial Services in a report on 20 December.

GCPL acknowledged that its main strengths include breakthrough innovation, obsession with quality, and a frugal cost mindset. On the other hand, a key weakness is its inability to drive category development, which typically tends to pause around 25% penetration, partly owing to downtrading fears. Another weakness is the complexity in its portfolio across geographies and categories.

JM Financial's analysts point out: "The backbone of Sudhir's plan lies in category development instead of ones built on fancy NPDs (new product developments) which tends to fail in 80-90% of cases, and that is what makes the plan realistic and believable."

CLARITY IMPRESSES

GCPL'S MD & CEO Sudhir Sitapati has offered meaningful insights into the firm's business

THE firm's key ambition for the next three to five years is to deliver double-digit volume growth

DESPITE the jump in GCPL's shares on Tuesday, the stock is down about 18% from its September highs

So far, so good, and Tuesday's jump in the share price shows that investors are excited. Even so, fast-moving consumer goods (FMCG) companies continue to grapple with cost pressures from a near-term perspective, and GCPL is not immune to that. Note that among the large FMCG firms, GCPL was the worst performer on gross margins in the September quarter, posting a significant 616bps year-on-year contraction.

If costs persist at current levels, the company says, volume growth in the half year ending March (H2FY22) may be low and price growth can be expected to be high. Furthermore, investors can expect margin pressures as well with high gross margin dilution. Nevertheless, FY23 may bring respite. GCPL is likely to see moderate volume growth, along with high price growth in the next financial year.

To be sure, the GCPL stock has declined almost 18% from its 52-week high on 15 September. Even so, after taking into account Tuesday's share price gains, the GCPL stock has appreciated by nearly 27% so far this calendar year vis-à-vis a 6% rise in the Nifty FMCG index. "GCPL is a turnaround story," said an analyst commenting on the stock, requesting anonymity.

As such, valuations of the GCPL stock are relatively lower. Based on the average of some brokerages, it trades at 43 times FY23 earnings per share estimates. That said, anticipated margin pressures and muted volumes may keep significant near-term upsides at bay.

From a long-term perspective, investors will closely watch the execution of Sitapati's vision.