

Gillette India

6 November 2019

Reuters: GILE.NS; Bloomberg: GILL IN

Weak show continues

Gillette India's (Gillette) 1QFY20 operating and net profit performance trailed expectations largely on account of topline growth falling significantly below expectation. Topline performance in 1QFY20 disappointed by remaining almost flat YoY. While the mix between Grooming and Oral Care was in line with our estimates growth in the respective categories has disappointed. Growth in both the categories came in much lower than expected with nil growth in Grooming and Oral Care registering a modest growth of 5%. The subdued topline was likely a result of challenging economic conditions and tight liquidity conditions in certain markets. In our opinion, the company still needs to build on the brand equity of Mach 3 Start, which can help drive growth in its premium grooming business. Gross margin during the quarter was significantly impacted as COGS continued to grow ahead of revenue for a second quarter in a row, resulting in a gross margin decline of 250bps. EBITDA margin for the quarter stood at 21.2%, declining by around 220bps YoY. Efficiency measures taken by the management resulted in other expenses declining by 19% YoY but it was offset by increase in advertising costs and higher spending on innovation. We anticipate gross margin to improve with further improvement in mix. We believe that the subdued performance was largely due to challenging market conditions and subdued consumer sentiment and anticipate a recovery in earnings as market conditions improve. We retain Accumulate rating on Gillette with a Revised Target Price (TP) of Rs7,800 based on a P/E multiple of 53x, implying downside of 1% from the current market price.

Revenue growth trailed expectations: Revenue growth of 1% YoY was significantly below expectation. The subdued performance was largely a result of challenging market conditions. Grooming failed to register any growth, while the growth in Oral Care too was below expectation at 5%.

Overheads affect margins: COGS grew ahead of revenue, resulting in gross margin declining by 250bps YoY. After a significant decline experienced in last quarter the gross margin recovered slightly but was still 250bps lower on a YoY basis. Apart from subdued growth in topline, increase in advertising costs and higher spending on innovation caused EBITDA and net profit to remain significantly lower than our estimates. We anticipate improvement in operating as well as net profit margin in the coming quarters as market conditions improve.

Outlook and valuation: The company continues to meet our expectation in terms of category development, premiumisation and strengthening its distribution network. Along with productivity initiatives, it should be able to drive substantial growth in earnings. Although the performance has remained subdued in the recent quarters we believe the company will continue to benefit from its innovation capability, wide portfolio and strong market execution capability. We believe there is further headroom for improvement in product mix and expect earnings to recover in the coming quarters. We retain Accumulate rating on Gillette with a revised TP of Rs7,800 based on a P/E multiple of 53x, implying a downside of 1% from the current market price.

ACCUMULATE

Sector: FMCG

CMP: Rs7,900

Target Price: Rs7,800

Downside: 1%

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Key Data

Current Shares O/S (mn)	32.6
Mkt Cap (Rsbn/US\$bn)	256.4/3.6
52 Wk H / L (Rs)	8,200/6,169
Daily Vol. (3M NSE Avg.)	6,051

Price Performance (%)

	1 M	6 M	1 Yr
Gillette India	11.7	5.0	22.3
Nifty Index	6.6	1.7	13.2

Source: Bloomberg

Y/E June (Rsmn)	1QFY19	4QFY19	1QFY20	YoY (%)	QoQ (%)	FY18	FY19	YoY (%)
Net sales	4,565	4,640	4,622	1.2	(0.4)	16,768	18,617	11.0
COGS	1,995	2,304	2,136	7.1	(7.3)	6,931	8,189	18.1
% of sales	43.7	49.7	46.2	250bps	(340bps)	41.3	44.0	270bps
Gross margin %	56.3	50.3	53.8	(250bps)	340bps	58.7	56.0	(270bps)
Employee costs	321	261	327	2.2	25.6	1,179	1,083	(8.2)
% of sales	7.0	5.6	7.1	10bps	150bps	7.0	5.8	(120bps)
Advertising costs	542	506	659	21.4	30.1	2,172	2,305	6.1
% of sales	11.9	10.9	14.2	240bps	330bps	13.0	12.4	(60bps)
Other expenses	639	1,269	521	(18.5)	(59.0)	2,670	3,230	21.0
% of sales	14.0	27.3	11.3	(270bps)	(1,610bps)	15.9	17.3	140bps
EBITDA	1,069	300	979	(8.4)	226.5	3,816	3,810	(0.2)
EBITDA margin %	23.4	6.5	21.2	(220bps)	1470bps	22.8	20.5	(230bps)
Depreciation	113	127	122	7.5	(3.9)	423	488	15.5
EBIT	955	173	857	(10.3)	395.5	3,393	3,322	(2.1)
EBIT margin %	20.9	3.7	18.5	(240bps)	1,480bps	20.2	17.8	(240bps)
Interest expenses	9	39	8	(11.1)	(79.6)	75	50	(33.0)
Other income	38	24	17	(55.8)	(30.6)	128	280	119.6
Exceptional items	-	-	-	-	-	-	-	-
PBT	984	158	866	(12.0)	448.1	3,446	3,552	3.1
Tax	331	(300)	248	(24.9)	(182.7)	1,156	861	(25.5)
Effective tax rate %	34	(190)	29	(490bps)	21,870bps	34	24	(930bps)
PAT	654	458	618	(5.5)	34.8	2,290	2,647	15.6
PAT margin %	14.2	9.8	13.3	(90bps)	350bps	13.6	14.0	50bps
EPS	20.0	12.9	18.5	(7.7)	43.8	70.3	76.2	8.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E June (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net sales	16,768	18,617	20,132	22,265	24,715
YoY growth (%)	(3)	11	8	11	11
EBITDA	3,816	3,810	4,785	6,087	6,756
EBITDA margin (%)	22.8	20.5	23.8	27.3	27.3
Reported PAT	2,290	2,690	3,472	4,509	5,078
EPS	70.3	82.6	106.5	138.3	155.8
RoCE (%)	56.8	45.1	49.5	55.0	56.4
RoE (%)	38.3	36.5	40.4	44.9	46.7
P/E (x)	96.3	84.9	74.2	57.1	50.7
P/B (x)	31.8	29.3	27.4	24.1	23.3
EV/EBITDA (x)	57.2	59.6	52.6	41.5	37.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Our estimates versus actual performance

Y/E June (Rsmn)	1QFY19	4QFY19	1QFY20	YoY (%)	QoQ (%)	NBIE Estimates	Deviation (%)
Net sales	4,565	4,640	4,622	1.2	(0.4)	5,027	(8.1)
EBITDA	1,069	300	979	(8.4)	226.5	1,111	(11.9)
EBITDA (%)	23.4	6.5	21.2	-222bps	1471bps	22.1	(20.96)
PAT	654	458	618	(5.5)	34.8	795	(22.4)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Change in our estimates

Y/E June (Rsmn)	Earlier estimate			New estimate			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Net sales	20,703.9	23,104.7	25,213.0	20,132	22,265	24,715	(2.8)	(3.6)	(2.0)
EBITDA	5,492.1	6,320.1	6,879.0	4,785	6,087	6,756	(12.9)	(3.7)	(1.8)
EBITDA margin (%)	26.5	27.4	27.3	23.8	27.3	27.3	-276bps	-	-
Adj. PAT	3,642.0	4,591.0	5,170.0	3,472	4,509	5,078	(4.7)	(1.8)	(1.8)

Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 4: Income statement

Y/E June (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Gross sales	16,768	18,617	20,132	22,265	24,715
Less: excise duty	0	0	0	0	0
Net Sales	16,768	18,617	20,132	22,265	24,715
% Growth	(3.3)	11.0	8.1	10.6	11.0
COGS	6,931	8,189	8,691	9,219	10,234
Staff costs	1,179	1,083	1,134	1,257	1,395
Advertising costs	2,172	2,305	2,677	2,816	3,126
Other expenses	2,670	3,230	2,845	2,887	3,205
Total expenses	12,953	14,807	15,347	16,178	17,959
EBITDA	3,816	3,810	4,785	6,087	6,756
% growth	0.0	(0.1)	25.6	27.2	11.0
EBITDA margin (%)	22.8	20.5	23.8	27.3	27.3
Other income	128	280	430	550	700
Interest costs	75	50	50	50	50
Depreciation	423	488	526	561	620
Profit before tax (before exceptional items)	3,446	3,552	4,638	6,025	6,786
Exceptional items	0	0	0	0	0
Tax	1,156	861	1,166	1,517	1,708
PAT (before exceptional items)	2,290	2,690	3,472	4,509	5,078
PAT	2,290	2,690	3,472	4,509	5,078
PAT margin (%)	13.6	14.2	16.9	19.8	20.0
% Growth	(9.5)	17.5	29.0	29.9	12.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance sheet

Y/E June (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Share capital	326	326	326	326	326
Reserves	6,616	7,458	9,081	10,343	10,745
Net worth	6,942	7,784	9,407	10,669	11,071
Total debt	0	0	0	0	0
Deferred tax liability	-184	-322	-322	-322	-322
Total liabilities	7,113	8,253	9,485	10,803	10,786
Gross block	6,502	7,252	8,002	8,752	9,752
Depreciation	3,858	4,346	4,872	5,434	6,053
Net block	2,644	2,906	3,130	3,318	3,698
Capital work-in-progress	404	246	350	450	1000
Investments	0	0	0	0	0
Inventories	2,002	2,340	2,660	2,644	2,403
Debtors	1,760	1,815	722	1,962	476
Cash	2,366	1,417	5,930	4,847	6,309
Loans & advances	261	317	255	255	3,918
Other current assets	564	345	400	400	180
Total current assets	6,742	5,973	9,768	9,908	9,423
Creditors	3,293	2,812	4,046	3,127	4,723
Other current liabilities & Prov.	1,521	713	2,116	2,296	2,475
Total current liabilities	4,814	3,525	6,162	5,424	7,198
Net current assets	1,928	2,448	3,606	4,484	2,224
Total assets	7,113	8,253	9,485	10,803	10,786

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Cash flow

Y/E June (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
PAT	2,290	2,690	3,472	4,509	5,078
Depreciation	423	488	526	561	620
Other income	(128)	(280)	(430)	(550)	(700)
(Inc.)/dec. in working capital	(372)	(1,468)	3,355	(1,962)	3,721
Cash flow from operations	2,288	1,480	6,973	2,608	8,769
Capital expenditure (-)	(696)	(592)	(855)	(850)	(1,550)
Net cash after capex	1,591	889	6,119	1,758	7,219
Dividend paid (-)	(1,374)	(1,614)	(2,083)	(3,246)	(3,656)
Inc./dec. in total borrowings	-	-	-	-	-
Inc./dec. in investments	-	-	-	-	-
Cash from financial activities	(1,426)	(1,366)	(2,524)	(3,241)	(4,125)
Others	-	-	-	-	-
Opening cash balance	1,156	2,366	1,417	5,930	4,847
Closing cash balance	2,366	1,417	5,930	4,847	6,309

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Key ratios

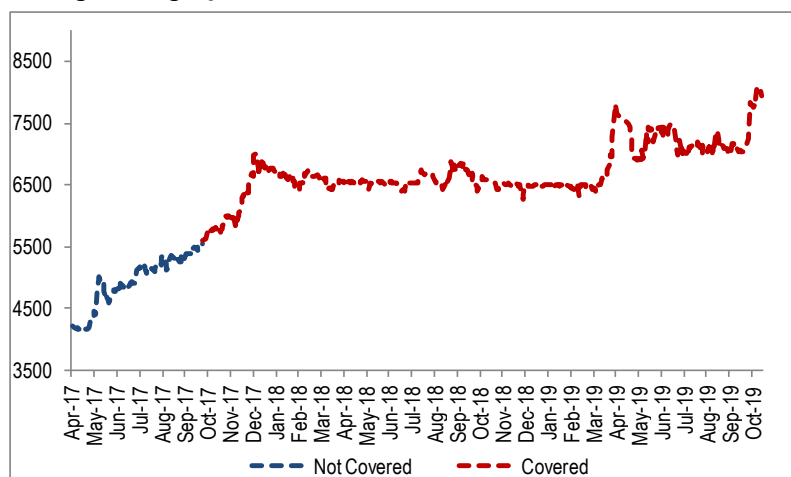
Y/E June	FY18	FY19	FY20E	FY21E	FY22E
Per share (Rs)					
EPS	70.3	82.6	106.5	138.3	155.8
Book value	213.0	238.8	288.6	327.4	339.7
DPS	35.1	41.3	53.3	83.0	93.5
Valuation (x)					
P/Sales	13.2	12.3	12.8	11.6	10.4
EV/sales	13.0	12.2	12.5	11.3	10.2
EV/EBITDA	57.2	59.6	52.6	41.5	37.2
P/E	96.3	84.9	74.2	57.1	50.7
P/BV	31.8	29.3	27.4	24.1	23.3
Return ratios (%)					
RoCE	56.8	45.1	49.5	55.0	56.4
RoE	38.3	36.5	40.4	44.9	46.7
Profitability ratios (%)					
Gross margin	58.7	56.0	56.8	58.6	58.6
EBITDA margin	22.8	20.5	23.8	27.3	27.3
EBIT margin	20.2	17.8	21.2	24.8	24.8
PAT margin	20.4	18.8	22.6	26.4	26.7
Liquidity ratios (%)					
Current ratio	1.4	1.7	1.6	1.8	1.3
Quick ratio	1.0	1.0	1.2	1.3	1.0
Solvency ratio (%)					
Debt-to-equity ratio	0.0	0.0	0.0	0.0	0.0
Turnover ratios					
Total asset turnover ratio (x)	1.4	1.6	1.3	1.4	1.4
Fixed asset turnover ratio (x)	6.3	6.2	6.4	6.7	6.7
Debtor days	33	35	23	22	18
Inventory days	111	97	105	105	90
Creditor days	172	136	144	142	140

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
29 September 2017	Buy	5,640	7,000
14 November 2017	Buy	5,861	7,000
12 February 2018	Buy	6,546	8,000
14 May 2018	Buy	6,532	7,600
29 August 2018	Buy	6,542	7,600
5 November 2018	Buy	6,539	7,500
13 February 2019	Buy	6,489	7,500
9 April 2019	Buy	6,800	7,900
9 May 2019	Accumulate	7,297	7,700
23 Aug 2019	Accumulate	7,124	7,700
23 September 2019	Accumulate	7,148	7,930
6 November 2019	Accumulate	7,900	7,800

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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