

Gillette India

9 May 2019

Reuters: GILE.NS; Bloomberg: GILL IN

Mixed Performance

Gillette India's (GILL) earnings in 3QFY19 continued to display volatility and unlike the previous quarter, top-line delivery was somewhat short of expectation, especially on account of the oral care segment. However, margins were well ahead as marketing investments witnessed moderation. Top-line performance, led by grooming business, was around 10% below expectation. While grooming business witnessed improvement in the growth rate to around 8%, it was still below expectation while oral care business disappointed fairly significantly by around 24%. In our opinion, the company still needs to build on the brand equity of Mach 3 Start which can help drive growth rate in its premium grooming business. Gillette Guard and Venus performance, in our opinion, should be healthy. The product innovations in the recent past such as Neem and Cavity Defense Black have been well received in the market. We believe the growth rate in the oral care segment was possibly impacted by the sharp slowdown witnessed in rural areas. Gross margin trend for the company during the quarter remained stable while EBITDA margin registered a sharp jump on account of moderation in marketing investments. EBITDA margin for the quarter was 31.4%, a new record high, and was up more than 500bps YoY. We believe there is potential for the earnings to witness further improvement considering the significant thrust on innovation, distribution and productivity. The GILL stock has delivered returns of more than 30% since we initiated coverage on it, outperforming Nifty FMCG benchmark by more than 10%. We believe this outperformance and current valuation fairly captures the medium-term growth potential and therefore we have downgraded our rating on the stock to Accumulate (from Buy earlier). After adjusting the earnings estimates our revised June 20 target price for the stock based on an unchanged forward P/E multiple of 60x is Rs7,700, implying an upside of 6% from the current market price or CMP.

Revenue growth below expectation: Revenue growth of 3% was substantially below expectation mainly on account of the decline experienced in the oral care segment which disappointed expectation by 24%, likely because of slowdown witnessed in rural areas, although the grooming segment registered an improvement in growth but still below expectation.

Marketing investments witness a substantial decline: Marketing expenses, unlike the previous quarter, experienced some moderation which aided in clocking healthy EBITDA growth, despite lower-than-expected growth in top-line. Moderation in marketing spending also helped in expansion of operating margin and net margin by 530bps and 300bps, respectively.

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. However, as a significant part of these initiatives is captured in the stock outperformance, we have downgraded our rating on it from Buy to Accumulate with a target price of Rs7,700 based on an unchanged target P/E multiple of 60x, indicating an upside of 6% from the CMP.

ACCUMULATE

Sector: FMCG

CMP: Rs7,297

Target Price: Rs7,700

Upside: 6%

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Key Data

Current Shares O/S (mn)	32.6
Mkt Cap (Rsbn/US\$bn)	237.9/3.4
52 Wk H / L (Rs)	7,920/6,169
Daily Vol. (3M NSE Avg.)	14,371

Price Performance (%)

	1 M	6 M	1 Yr
Gillette India	6.5	12.5	11.5
Nifty Index	(2.1)	7.2	6.0

Source: Bloomberg

Y/E June (Rsmn)	3QFY18	2QFY19	3QFY19	YoY (%)	QoQ (%)	9MFY18	9MFY19	YoY (%)
Net sales	4,515	4,757	4,655	3.1	(2.1)	12,671	13,977	10.3
COGS	1,870	1,948	1,943	3.9	(0.3)	5,212	5,885	12.9
% of sales	41.4	40.9	41.7	30bps	80bps	41.1	42.1	100bps
Gross margin %	58.6	59.1	58.3	(30bps)	(80bps)	58.9	57.9	(100bps)
Employee costs	299	250	251	(15.9)	0.4	824	822	(0.2)
% of sales	6.6	5.3	5.4	(120bps)	10bps	6.5	5.9	(60bps)
Advertising costs	612	957	299	(51.1)	(68.7)	1,640	1,799	9.7
% of sales	13.6	20.1	6.4	(710bps)	(137bps)	12.9	12.9	(10bps)
Other expenses	554	622	700	26.4%	12.6%	1,778	1,961	10.3
% of sales	12.3	13.1	15.0	280bps	190bps	14.0	14.0	-
EBITDA	1,181	980	1,462	23.8	49.1	3,219	3,510	9.1
EBITDA margin %	26.1	20.6	31.4	530bps	10.8	25.4	25.1	(30bps)
Depreciation	115	116	120	5.2	3.5	306	350	14.6
EBIT	1,066	864	1,341	25.8	55.3	2,913	3,160	8.5
EBIT margin %	23.6	18.2	28.8	520bps	10.7	23.0	22.6	(40bps)
Interest expenses	8	17	13	53.6	(25.9)	33	39	17.7
Other income	11	41	33	214.2	(17.8)	42	112	167.5
Exceptional items	-	-	-	-	-	-	-	-
PBT	1,068	887	1,362	27.5	53.5	2,921	3,233	10.7
Tax	355	347	484	36.3	39.5	977	1,162	18.9
Effective tax rate %	33	39	36	230bps	(360bps)	33	36	250bps
PAT	713	540	878	23.1	62.5	1,944	2,071	6.5
PAT margin %	15.8	11.3	18.7	290bps	750bps	15.3	14.7	(60bps)
EPS	21.9	16.6	26.8	22.4	61.7	59.6	63.4	6.3

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Exhibit 1: Financial summary

Y/E June (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	17,336	16,768	18,552	20,704	23,105
YoY growth (%)	(1)	-3	11	12	12
EBITDA	3,816	3,816	4,562	5,492	6,320
EBITDA margin (%)	22.0	22.8	24.6	26.5	27.4
Reported PAT	2,531	2,290	2,817	3,582	4,171
EPS	77.7	70.3	86.4	109.9	128.0
RoCE (%)	47.8	56.8	54.3	56.5	57.1
RoE (%)	35.2	38.3	37.5	40.8	41.4
P/E (x)	88.5	96.3	84.4	66.4	57.0
P/B (x)	44.8	31.8	29.5	25.0	22.3
EV/EBITDA (x)	58.4	57.2	51.3	42.3	36.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Our estimates versus actual performance

Y/E June (Rsmn)	3QFY18	2QFY19	3QFY19	YoY (%)	QoQ (%)	NBIE est. Estimates	Deviation (%)
Net sales	4,515	4,757	4,655	3.1	(2.1)	5,148	(9.6)
EBITDA	1,181	980	1,462	23.8	49.1	1,354	8.0
EBITDA (%)	26.1	20.6	31.4	530bps	10.8	26.3	510bps
PAT	713	540	878	23.1	62.5	849	3.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Change in our estimates

Y/E June (Rsmn)	Earlier estimate			New estimate			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Net sales	19,145.0	21,808.0	24,792.0	18,552	20,704	23,105	(3.1)	(5.1)	(6.8)
EBITDA	4,557.0	5,776.0	6,824.0	4,562	5,492	6,320	0.1	(4.9)	(7.4)
EBITDA margin (%)	23.8	26.5	27.5	24.6	26.5	27.4	79bps	4bps	(17bps)
Adj. PAT	2,837.7	3,771.8	4,507.0	2,817	3,582	4,171	(0.7)	(5.0)	(7.5)

Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 4: Income statement

Y/E June (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Gross sales	17,882	16,768	18,552	20,704	23,105
Less: excise duty	546	-	-	-	-
Net Sales	17,336	16,768	18,552	20,704	23,105
% Growth	(1.2)	(3.3)	10.6	11.6	11.6
COGS	7,860	6,931	7,806	8,637	9,575
Staff costs	1,097	1,179	1,097	1,139	1,294
Advertising costs	2,304	2,172	2,348	2,643	2,919
Other expenses	2,259	2,670	2,739	2,793	2,997
Total expenses	13,520	12,953	13,989	15,212	16,785
EBITDA	3,816	3,816	4,562	5,492	6,320
% growth	25.1	-	19.6	20.4	15.1
EBITDA margin (%)	22.0	22.8	24.6	26.5	27.4
Other income	378	128	280	430	550
Interest costs	67	75	50	50	50
Depreciation	384	423	488	526	561
Profit before tax (before exceptional items)	3,743	3,446	4,304	5,346	6,259
Exceptional items	-	-	-	-	-
Tax	1,212	1,156	1,487	1,764	2,088
PAT (before exceptional items)	2,531	2,290	2,817	3,582	4,171
PAT	2,531	2,290	2,817	3,582	4,171
PAT margin (%)	14.3	13.6	15.0	16.9	17.6
% Growth	19.2	(9.5)	23.0	27.2	16.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance sheet

Y/E June (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Share capital	326	326	326	326	326
Reserves	4,680	6,616	7,743	9,176	10,343
Net worth	5,006	6,942	8,069	9,502	10,669
Total debt	-	-	-	-	-
Deferred tax liability	(190)	(184)	(184)	(184)	(184)
Total liabilities	5,154	7,113	8,240	9,718	10,940
Gross block	5,576	6,502	7,252	8,002	8,752
Depreciation	3,435	3,858	4,346	4,872	5,434
Net block	2,141	2,644	2,906	3,130	3,318
Capital work-in-progress	633	404	350	350	450
Investments	-	-	-	-	-
Inventories	2,224	2,002	2,533	2,437	3,072
Debtors	1,303	1,760	984	1,625	1,160
Cash	1,156	2,366	3,707	5,323	5,953
Loans & advances	299	261	250	250	250
Other current assets	262	564	400	400	400
Total current assets	4,986	6,742	7,674	9,835	10,635
Creditors	3,227	3,293	2,995	3,820	3,630
Other current liabilities & provisions	1,413	1,521	1,895	2,177	2,384
Total current liabilities	4,640	4,814	4,890	5,997	6,013
Net current assets	345	1,928	2,784	3,838	4,622
Total assets	5,155	7,113	8,240	9,718	10,940

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Cash flow

Y/E June (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
PAT	2,531	2,290	2,817	3,582	4,171
Depreciation	384	423	488	526	561
Other income	(378)	(128)	(280)	(430)	(550)
(Inc./dec.) in working capital	328	(372)	485	563	(154)
Cash flow from operations	2,932	2,288	3,560	4,291	4,078
Capital expenditure (-)	(418)	(696)	(696)	(750)	(850)
Net cash after capex	2,514	1,591	2,864	3,541	3,228
Dividend paid (-)	(6,890)	(1,374)	(1,690)	(2,149)	(3,003)
Inc./(dec.) in total borrowings	-	-	-	-	-
Inc./(dec.) in investments	-	-	-	-	-
Cash from financial activities	(6,696)	(1,426)	(1,740)	(2,154)	(2,998)
Others	-	-	-	-	-
Opening cash balance	5,372	1,156	2,366	3,707	5,323
Closing cash balance	1,156	2,366	3,707	5,323	5,953

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Key ratios

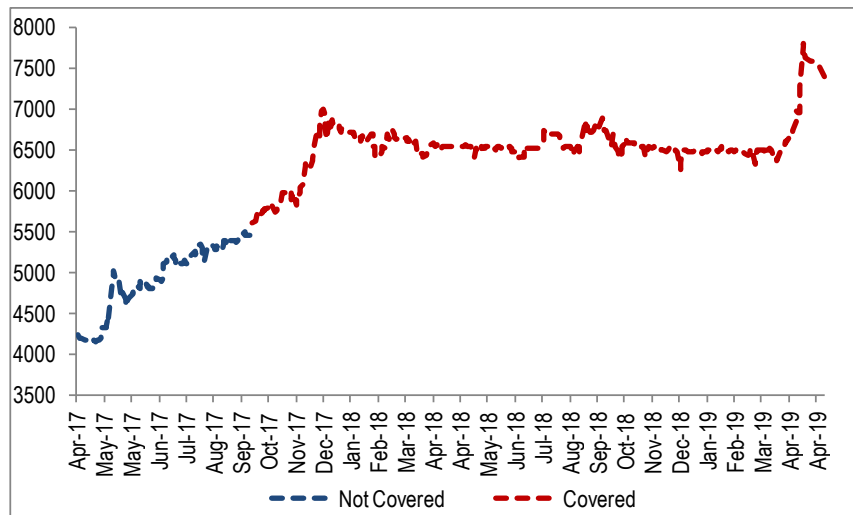
Y/E June	FY17	FY18	FY19E	FY20E	FY21E
Per share (Rs)					
EPS	77.7	70.3	86.4	109.9	128.0
Book value	153.6	213.0	247.6	291.5	327.4
DPS	176.2	35.1	43.2	55.0	76.8
Valuation (x)					
P/Sales	12.9	13.2	12.8	11.5	10.3
EV/sales	12.9	13.0	12.6	11.2	10.0
EV/EBITDA	58.4	57.2	51.3	42.3	36.7
P/E	88.5	96.3	84.4	66.4	57.0
P/BV	44.8	31.8	29.5	25.0	22.3
Return ratios (%)					
RoCE	47.8	56.8	54.3	56.5	57.1
RoE	35.2	38.3	37.5	40.8	41.4
Profitability ratios (%)					
Gross margin	54.7	58.7	57.9	58.3	58.6
EBITDA margin	22.0	22.8	24.6	26.5	27.4
EBIT margin	19.8	20.2	22.0	24.0	24.9
PAT margin	21.1	20.4	22.9	25.3	26.5
Liquidity ratios (%)					
Current ratio	1.1	1.4	1.6	1.6	1.8
Quick ratio	0.6	1.0	1.1	1.2	1.3
Solvency ratio (%)					
Debt-to-equity ratio	-	-	-	-	-
Turnover ratios					
Total asset turnover ratio (x)	1.8	1.4	1.4	1.3	1.4
Fixed asset turnover ratio (x)	8.1	6.3	6.4	6.6	7.0
Debtor days	25	33	27	23	22
Inventory days	108	111	106	105	105
Creditor days	149	172	147	144	142

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

Rating track graph



Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5 to 15%

SELL < -5%

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