

January 30, 2023

RESULT REPORT DEC'23 QUARTER | Sector: Consumer Staples

Gillette India Ltd.

Exports impact topline; Margin surprises positively

Gillette India Ltd. (GILL's) Dec'23 quarters revenue was below estimate but margin surprised positively. Domestic sales grew ~6% for the quarter, which means exports business (~8.2% of FY23 revenues) saw a sharp decline. GILL exports its products to 17 countries including neighboring countries like Bangladesh, Nepal and Sri Lanka. Both the segments came in below our estimate for the quarter. Gross/EBITDA margin at 58.1%/24.4%, witnessed sharp improvement largely driven by productivity interventions, product price-mix and moderating cost inflation. A&SP spends has come down slightly in 2Q, but GILL has maintained spends at 13.7% level in 1HFY24 (flat YoY). We continue to build bottom-line growth faster than topline as called out by the management. Maintain ADD rating with a revised target price of Rs7,350 (Rs6,850 earlier). Key monitorables: 1) Outcome for P&G India businesses from evaluation of "Integrated growth strategy", [media sources](#); 2) Exports and non-Urban market recovery; 3) COGS outlook.

Dec'23 Quarter Result Highlights

- **Headline performance:** Revenue grew by 3.4% YoY to Rs6.4bn (vs est. Rs6.7bn). EBITDA was up 23.6% YoY to Rs1.6bn (vs est. Rs1.3bn). PAT was up 39.6% YoY to Rs1bn (vs est. Rs855mn).
- **Segmental performance:** Grooming business (~80.4% of revenues in Dec'23 Qtr vs 79.9% in Dec'22 Qtr) revenue up by 4% YoY to Rs5.1bn (vs est. Rs5.4bn). Grooming segment EBIT margin improves sharply by ~550bps YoY to 25.1%. Oral care revenues grew just 0.9% to Rs1.25bn (vs est. Rs1.35bn) with segment EBIT margin down 210bps YoY to 5.2%.
- **Margin:** Gross margin surprised us positively and came at 58.1% (vs. est. 52.5%), up 600bps YoY and +350bps QoQ. Increase in employee cost (up 150bps YoY) and other overheads (up 140bps YoY) was partially offset by lower A&SP spends (down 90bps YoY; absolute A&SP spends down 4% YoY). Thus, EBITDA margin was up 400bps YoY to 24.4% (vs est. 19.8%).
- **1HFY24 (Jul'23-Dec'23) performance:** Revenue, EBITDA and PAT grew by 5.5%, 11.7% and 22% YoY, respectively. Grooming business revenue (79.7% of revenues) up 5.9% YoY while Oral Care up 4.2% YoY. Gross margin up by 310bps YoY to 56.3%. EBITDA margin up 120bps YoY to 22.4%. A&SP flat YoY at 13.7% of revenue (+5.2% YoY in absolute basis).

Key points in press release

- (1) Domestic sales is up 6% vs year ago, driven by a robust portfolio, superior retail execution and strong brand fundamentals.
- (2) Profit growth largely driven by productivity interventions, product price-mix and moderating cost inflation.

View & Valuation

Due to impact from exports business, we now expect revenue to grow by ~6% in FY24E and ~8% in FY25E led by 1) Continued momentum in grooming segment with an added support from rural anticipating recovery, aiding value portfolio, 2) Recovery in oral care on lower base, 3) Exports recovery in FY25. Over FY23-26E, we estimate 7.1% revenue CAGR. Our current growth estimates do not consider any major reversal in trend towards shaving from 'sporting beard' or 'trimming'. Our expectation gross margin recovery has already panned out decently in 1HFY24. Over FY23-26E, we build ~110bps improvement in EBITDA margin largely led by lower COGS leading to EBITDA growth of ~9% over FY23-26E. In its recent analyst meet, management mentioned that Gillette's market share gain was faster in last 18 months and now stands at highest ever level of >60%. We continue to believe Gillette's market share should further improve or atleast be maintained in a competitive macro-economic environment. The company boasts strong return ratios. It has also shown healthy growth in dividends over the years. GILL is now trading at ~52x/48x June'25/June'26 EPS. We assign a target multiple of ~51x on Mar'26E EPS (3yr/5yr avg fwd. multiple ~51x/62x), arriving at a revised TP of Rs7,350 (Rs6,850 earlier). Maintain ADD.

Reco	: ADD
CMP	: Rs 6,689
Target Price	: Rs 7,350
Potential Return	: +10%

Stock data (as on January 30, 2024)

Nifty	22,097
52 Week h/l (Rs)	7336 / 4135
Market cap (Rs/USD mn)	211314 / 2552
Outstanding Shares (mn)	33
6m Avg t/o (Rs mn):	135
Div yield (%):	1.3
Bloomberg code:	GILL IN
NSE code:	GILLETTE

Stock performance



Shareholding pattern (As of Sep'23 end)

Promoter	75.0%
FII+DII	11.7%
Others	13.3%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	7,350	6,850

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	121.1	133.4	147.8
EPS (Old)	115.2	131.2	143.8
% change	+5.1%	+1.6%	+2.8%

Financial Summary (June-ending)

(Rs mn)	FY24E	FY25E	FY26E
Revenue	26,217	28,320	30,515
YoY Growth (%)	5.8	8.0	7.7
EBITDA	6,029	6,612	7,277
Margins (%)	23.0	23.3	23.8
PAT	3,945	4,346	4,816
EPS	121.1	133.4	147.8
YoY Growth (%)	10.9	10.2	10.8
ROCE (%)	53.9	56.4	58.7
ROE (%)	39.7	41.7	43.5
P/E (x)	55.3	50.2	45.3
EV/EBITDA (x)	35.9	32.7	29.7

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Exhibit 1: Actual vs estimate

Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	6,395	6,712	6,711	(4.7)	(4.7)
EBITDA	1,558	1,329	1,711	17.2	(8.9)
EBITDA Margin (%)	24.4	19.8	25.5	4.6	(1.1)
Adjusted PAT	1,040	855	1,084	21.6	(4.1)

Source: Bloomberg, YES Sec

Exhibit 2: Quarterly result snapshot

Particulars (Rs. Mn) - Y/E June	Dec'22	Sep'23	Dec'23	YoY (%)	QoQ (%)	1HFY23	1HFY24	YoY (%)
Revenue	6,186	6,676	6,395	3.4%	-4.2%	12,385	13,070	5.5%
COGS	2,963	3,034	2,682	-9.5%	-11.6%	5,799	5,715	-1.4%
Gross margin %	52.1%	54.6%	58.1%	6.0%	3.5%	53.2%	56.3%	3.1%
Employee costs	379	534	488	28.8%	-8.6%	795	1,022	28.5%
% of sales	6.1%	8.0%	7.6%	1.5%	-0.4%	6.4%	7.8%	1.4%
Advertising costs	790	1,029	758	-4.0%	-26.4%	1,699	1,787	5.2%
% of sales	12.8%	15.4%	11.8%	-0.9%	-3.6%	13.7%	13.7%	0.0%
Other expenses	795	712	909	14.4%	27.7%	1,475	1,621	9.9%
% of sales	12.8%	10.7%	14.2%	1.4%	3.6%	11.9%	12.4%	0.5%
EBITDA	1,260	1,367	1,558	23.6%	13.9%	2,618	2,926	11.7%
EBITDA margin %	20.4%	20.5%	24.4%	4.0%	3.9%	21.1%	22.4%	1.2%
Depreciation	192	201	207	7.9%	3.1%	372	408	9.6%
EBIT	1,069	1,167	1,351	26.4%	15.8%	2,246	2,518	12.1%
EBIT margin %	17.3%	17.5%	21.1%	3.9%	3.7%	18.1%	19.3%	1.1%
Interest expense	34	1	33	-3.0%	2400.0%	38	34	-12.0%
Other income	29	86	72	145.4%	-16.8%	56	158	181.2%
PBT	1,064	1,252	1,390	30.6%	11.1%	2,264	2,642	16.7%
Tax	320	325	351	9.7%	8.1%	652	676	3.7%
Effective tax rate %	30.0%	25.9%	25.2%	-4.8%	-0.7%	28.8%	25.6%	-3.2%
Adj. PAT	745	927	1,040	39.6%	12.1%	1,612	1,966	22.0%
PAT margin %	12.0%	13.9%	16.3%	4.2%	2.4%	13.0%	15.0%	2.0%
EPS	22.8	28.4	31.9	39.6%	12.1%	68.0	81.0	19.0%

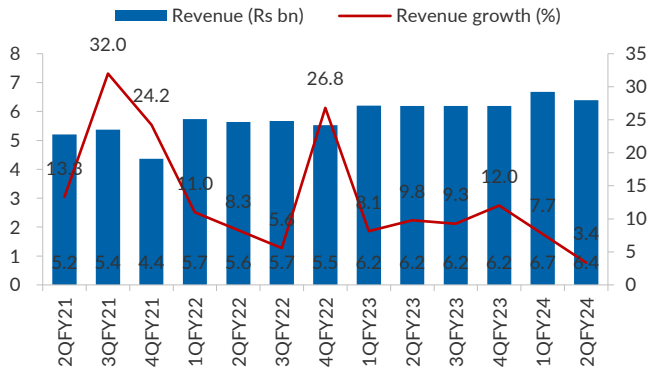
Source: Company, YES Sec

Exhibit 3: Quarterly Segmental Snapshot

Segmental Performance (Rs. Mn)	Dec'22	Sep'23	Dec'23	YoY (%)	QoQ (%)	1HFY23	1HFY24	YoY (%)
Segmental Revenue	6,186	6,676	6,395	3.4%	-4.2%	12,385	13,070	5.5%
Grooming	4,945	5,275	5,142	4.0%	-2.5%	9,839	10,417	5.9%
Oral Care	1,241	1,401	1,253	0.9%	-10.6%	2,546	2,653	4.2%
Revenue proportion (%)								
Grooming	79.9%	79.0%	80.4%	0.5%	1.4%	79.4%	79.7%	0.3%
Oral Care	20.1%	21.0%	19.6%	-0.5%	-1.4%	20.6%	20.3%	-0.3%
Segmental Results	1,058	1,189	1,355	28.1%	14.0%	2,247	2,544	13.2%
Grooming	967	933	1,290	33.5%	38.3%	1,964	2,223	13.2%
Oral Care	91	256	65	-28.6%	-74.7%	283	321	13.3%
EBIT margins (%)								
Grooming	19.6%	17.7%	25.1%	5.5%	7.4%	20.0%	21.3%	1.4%
Oral Care	7.3%	18.3%	5.2%	-2.1%	-13.1%	11.1%	12.1%	1.0%
EBIT composition (%)								
Grooming	91.4%	78.5%	95.2%	3.8%	16.8%	87.4%	87.4%	0.0%
Oral Care	8.6%	21.5%	4.8%	-3.8%	-16.8%	12.6%	12.6%	0.0%

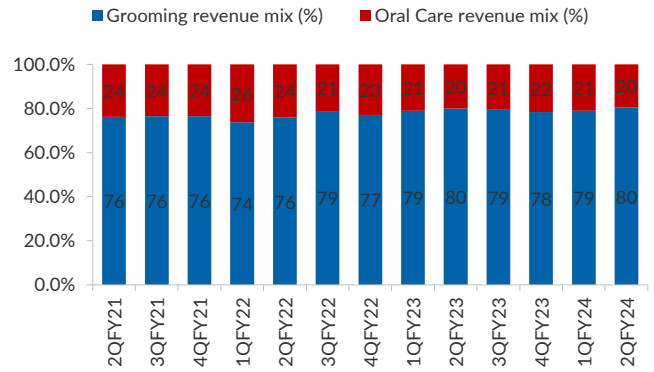
Source: Company, YES Sec

Exhibit 4: Revenues up by 3.4% YoY to Rs6.4bn in Dec'23 quarter



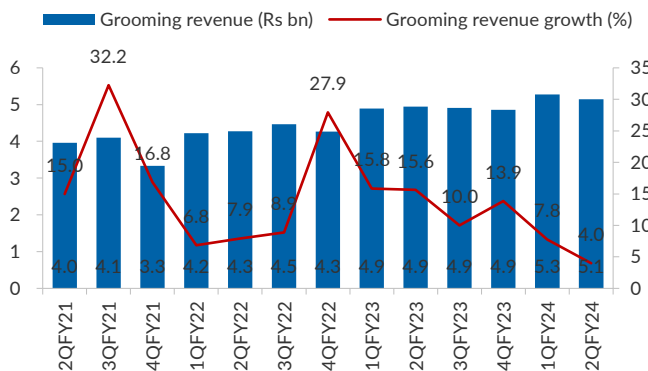
Source: Company, YES Sec

Exhibit 5: Grooming revenue mix improves 50bps YoY to 80.4%



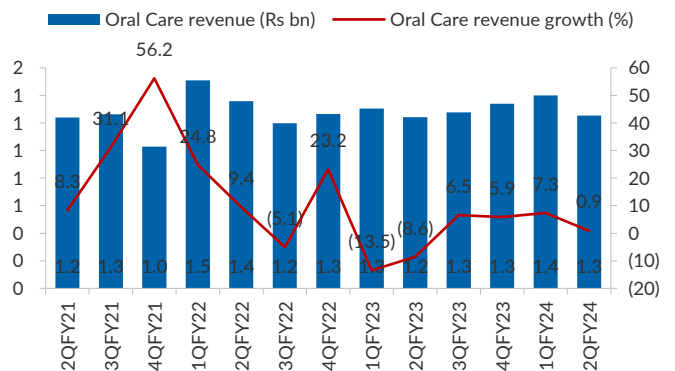
Source: Company, YES Sec

Exhibit 6: Grooming segment revenues grew by 4% YoY to Rs5.1bn



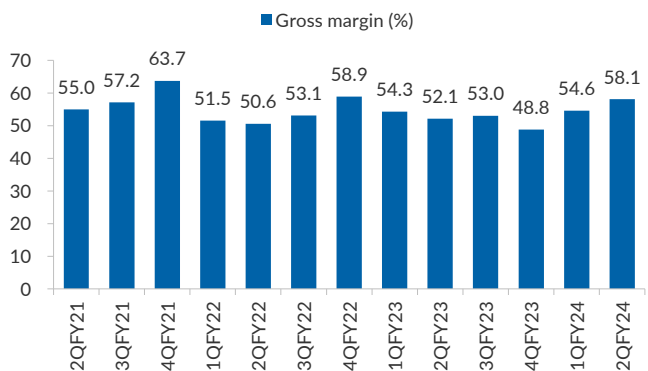
Source: Company, YES Sec

Exhibit 7: Ora Care segment revenues grew just 0.9% YoY to Rs1.3bn



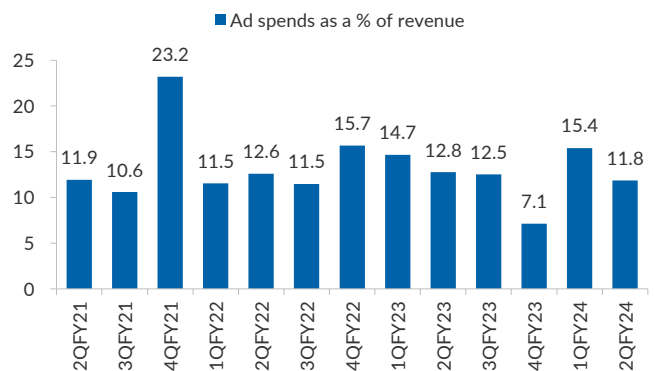
Source: Company, YES Sec

Exhibit 8: Gross margin for the quarter stood at 58.1% (+600bps YoY; +350bps QoQ)



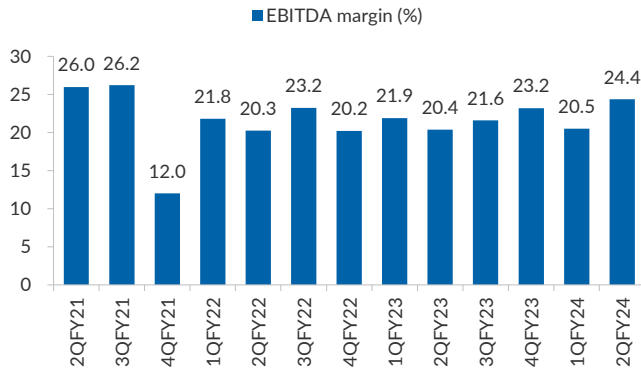
Source: Company, YES Sec

Exhibit 9: Advertisement & sales promotion expense (A&SP) as a % of revenue is down 90bps YoY to 11.8%



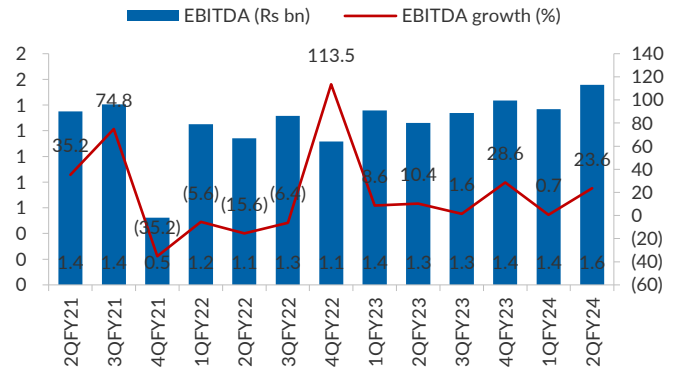
Source: Company, YES Sec

Exhibit 10: EBITDA margin for the quarter stood at 24.4% (+400bps YoY)



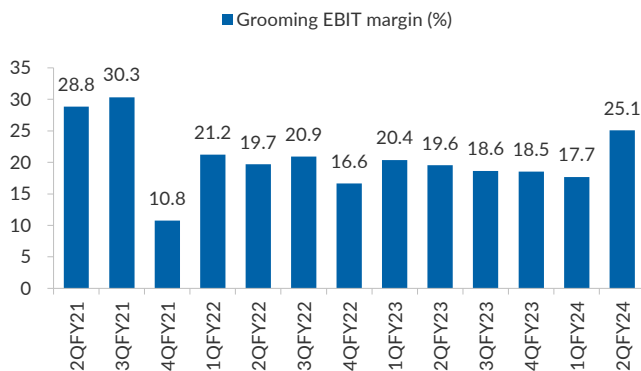
Source: Company, YES Sec

Exhibit 11: EBITDA thus grew 23.6% YoY to Rs1.6bn



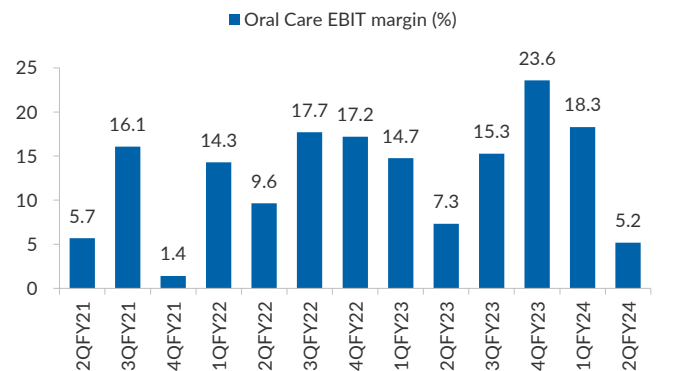
Source: Company, YES Sec

Exhibit 12: Grooming segment EBIT margin up 550bps YoY to 25.1%



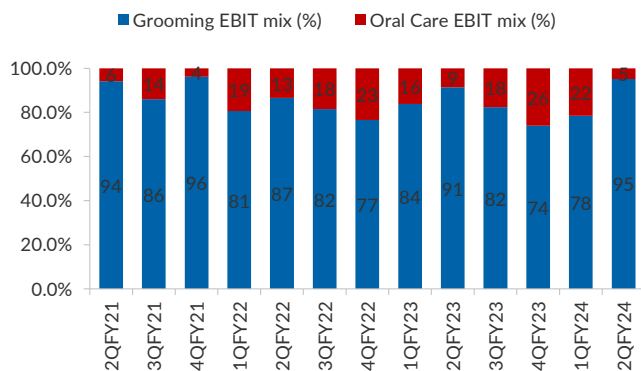
Source: Company, YES Sec

Exhibit 13: Oral Care segment EBIT margin down 210bps YoY to 5.2%



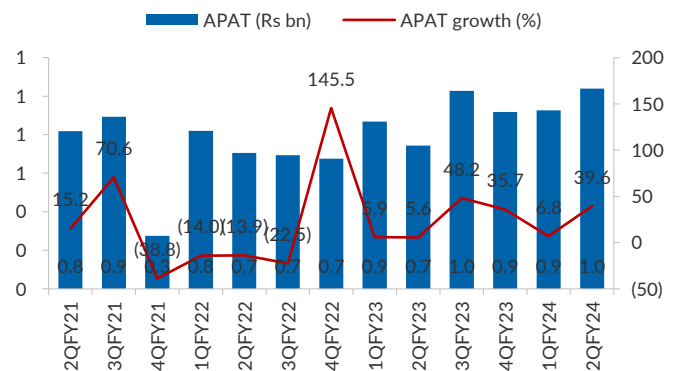
Source: Company, YES Sec

Exhibit 14: Grooming EBIT mix moves up 380bps YoY to 95.2%



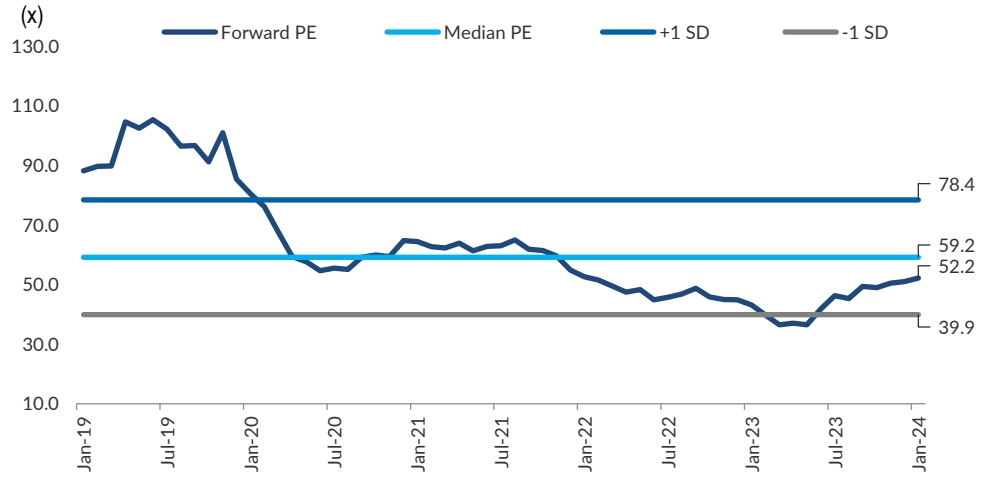
Source: Company, YES Sec

Exhibit 15: PAT grew by 39.6% YoY to Rs1bn



Source: Company, YES Sec

Exhibit 16: Currently trading at ~52x 1-yr forward earnings (still lower than the Median PE)



Source: Company, YES Sec

FINANCIALS

Exhibit 17: Balance Sheet

Y/E June (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	326	326	326	326	326
Reserves	8,286	9,563	9,675	10,509	10,991
Net worth	8,612	9,889	10,001	10,835	11,317
Total debt	0	0	0	0	0
Deferred tax liability and others	-331	-458	-458	-458	-458
Total liabilities	9,115	10,545	10,657	11,492	11,973
Gross block	6,958	8,029	9,029	9,779	10,379
Depreciation	3,327	4,134	5,047	6,053	7,131
Net block	3,630	3,895	3,982	3,726	3,247
Capital work-in-progress	650	324	500	500	500
Investments	0	0	0	0	0
Other LTA	1950	1986	2214	2043	2274
Inventories	3,734	4,124	3,482	4,562	3,789
Debtors	2,564	3,202	2,114	3,473	2,379
Cash	2,911	4,556	3,534	5,548	5,733
Other current assets	280	591	591	591	591
Total current assets	9,523	12,499	9,748	14,200	12,520
Creditors	5,446	6,801	4,290	7,298	4,683
Other current liabilities & provisions	1,191	1,357	1,497	1,679	1,885
Total current liabilities	6,638	8,158	5,787	8,977	6,568
Net current assets	2,885	4,341	3,961	5,223	5,952
Total assets	9,115	10,545	10,657	11,492	11,973

Source: Company, YES Sec

Exhibit 18: Income statement

Y/E June (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	22,562	24,771	26,217	28,320	30,515
% Growth	12.3%	9.8%	5.8%	8.0%	7.7%
COGS	10,495	11,881	11,567	12,440	13,252
Staff costs	1,501	1,698	1,974	2,124	2,258
Advertising costs	2,887	2,916	3,344	3,675	3,975
Other expenses	2,854	2,884	3,304	3,468	3,752
Total expenses	17,737	19,379	20,188	21,708	23,238
EBITDA	4,825	5,392	6,029	6,612	7,277
% growth	4.8%	11.8%	11.8%	9.7%	10.1%
EBITDA margin (%)	21.4%	21.8%	23.0%	23.3%	23.8%
Other income	77	222	245	272	302
Interest costs	105	78	75	70	65
Depreciation	684	807	913	1,006	1,078
Profit before tax (before exceptional items)	4,113	4,729	5,287	5,808	6,435
Exceptional items	0	0	0	0	0
Tax	1,220	1,172	1,341	1,462	1,620
PAT (before exceptional items)	2,893	3,557	3,945	4,346	4,816
PAT	2,893	3,557	3,945	4,346	4,816
PAT margin (%)	12.8%	14.4%	15.0%	15.3%	15.8%
% Growth	-1.6%	22.9%	10.9%	10.2%	10.8%

Source: Company, YES Sec

Exhibit 19: Cash flow statement

Y/E June (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
PAT	2,893	3,557	3,945	4,346	4,816
Depreciation	684	807	913	1,006	1,078
Net other income	-77	-222	-245	-272	-302
(Inc.)/dec. in working capital	784	190	-642	752	-543
Cash flow from operations	4,388	4,409	4,046	5,902	5,114
Capital expenditure (-)	-1,145	-746	-1,176	-750	-600
Net cash after capex	3,243	3,663	2,871	5,152	4,514
Inc./(dec.) in investments	368	219	-479	459	59
Cash from investing activities	-777	-527	-1,655	-291	-541
Dividends paid (-)	-2,248	-2,314	-3,354	-3,911	-4,334
Inc./(dec.) in total borrowings	-116	76	-75	-70	-65
Cash from financial activities	-2,364	-2,238	-3,429	-3,981	-4,399
Opening cash balance	1,663	2,911	4,556	3,534	5,548
Closing cash balance	2,911	4,556	3,534	5,548	5,733
Change in cash balance	1,248	1,645	-1,021	2,013	186

Source: Company, YES Sec

Exhibit 20: Growth and Ratio matrix

Y/E June	FY22	FY23	FY24E	FY25E	FY26E
Per share (Rs)					
EPS	88.8	109.1	121.1	133.4	147.8
Book value	264.3	303.4	306.9	332.5	347.2
DPS	69.0	85.0	102.9	120.0	133.0
Valuation (x)					
P/Sales	9.7	8.8	8.3	7.7	7.1
EV/sales	9.6	8.7	8.3	7.6	7.1
EV/EBITDA	44.8	40.1	35.9	32.7	29.7
P/E	75.3	61.3	55.3	50.2	45.3
P/BV	25.3	22.0	21.8	20.1	19.3
Return ratios (%)					
RoCE (pre-tax)	51.1	52.0	53.9	56.4	58.7
RoE	35.1	38.5	39.7	41.7	43.5
RoC (pre-tax)	71.6	81.7	83.3	92.9	110.8
Profitability ratios (%)					
Gross margin	53.5	52.0	55.9	56.1	56.6
EBITDA margin	21.4	21.8	23.0	23.3	23.8
EBIT margin	3.0	3.3	3.5	3.6	3.5
PAT margin	12.8	14.4	15.0	15.3	15.8
Liquidity ratios (%)					
Current ratio	1.4	1.5	1.7	1.6	1.9
Quick ratio	0.9	1.0	1.1	1.1	1.3
Turnover ratios					
Total asset turnover ratio (x)	1.4	1.3	1.6	1.4	1.6
Fixed asset turnover ratio (x)	6.2	6.4	6.6	7.6	9.4
Debtor days	37	42	37	36	35
Inventory days	129	121	120	118	115
Creditor days	166	188	175	170	165

Source: Company, YES Sec

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