

September 24, 2023

**EVENT REPORT** | Sector: Consumer Staples

# Gillette India Ltd.

## Aims to grow bottom-line faster than topline

We recently participated in Gillette India Ltd. (GILL's) Investors & Analysts Call held by the management to highlight company's performance, strategies and business outlook. Key takeaways: 1) Market growth improving but management remains cautiously optimistic, 2) Near-term cost pressure still not receded but aim is to grow bottom-line faster than topline, 3) *Gillette's* market share gain faster in last 18 months and now stands at highest ever level of >60%, 4) Within the large female hair removal market, razors (GILL's focus area) as a subsegment have seen fastest growth in last three years, 5) Parent expects India to deliver consistent double-digit growth and become one of the top contributors of topline and bottom-line for the company globally. While this is a softer aspect, we consider management now addressing investors & analysts as a positive. We now assign a target multiple of ~51x on June'25 EPS (3yr/5yr avg fwd. multiple ~53x/65x), arriving at a target price (TP) of Rs6,650 (Rs6,090 earlier). Maintain ADD rating.

### Comments on recent performance and outlook

Quoting syndicated data for the industry, management sees FMCG consumption to be the fastest in latest quarter compared to past 6 quarters. Volume growth is finally returning. Rural growth is also inflecting well. Management still remains cautiously optimistic about the market growth outlook at the moment. In its latest fiscal as well as quarterly performance, GILL's saw its profits growing stronger than topline driven by premiumization, pricing and an overall cost-reduction program. Commodity prices remain high for GILL, and it has not seen the cost pressures receding as expected. Average cost of two out of top three key commodities for GILL was still higher in FY23 vs FY22, and they are not showing signs of receding. This means bottom-line pressures will remain. Given the price volatility, GILL expects the recovery to take longer than the immediate 9-12 months. Company still aims to grow bottom-line ahead of topline in the foreseeable future to fund innovation, raise the bar on superiority, and absorb macro headwinds.

### Grooming - *Gillette* seeing share gain faster post Covid

GILL has been consistently growing share for the past few years, but post Covid share growth has been faster, especially in the past 18 months. *Gillette's* market share currently is at the highest ever level, upwards of 60%. In the recent past, there has been a trend not only towards men growing beards, but also towards men grooming their beards. The category is undergoing a transformation, and this presents an opportunity for GILL to play in premium systems and trimmers. Female hair removal is a large market, but razors compete with creams, in-home waxes and salons. GILL's focus has been on the in-home hair removal segment. In the last 3 years, razors as a subsegment have seen fastest growth. *Venus India* has grown 10X in past 10 years.

### India - an important market for P&G globally

India is among top 10 markets for P&G globally. In fact, P&G Global COO has gone on record stating that he expects India to deliver consistent double-digit growth and become one of the top contributors of topline and bottom-line for the company globally.

### Appliances - relatively small category but likely to grow in future

Appliances is a relatively small category and less than 2% of the category in value. While the consumer habit is evolving, the shift to electronic razors is relatively small but likely to grow in future. Currently, *Braun* range is available primarily on ecommerce and digital platforms.

### Distribution - making further headway digitally

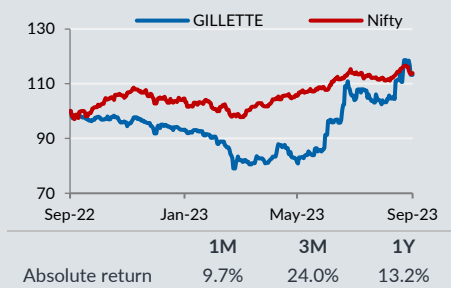
GILL has expanded direct reach by over 65% vs 5 years ago. Currently, it is making headway with SMART distribution, an in-house developed artificial intelligence and machine learning algorithm that analyzes consumer behavior and pattern to customize a range of P&G products at a store level (improving availability along with optimizing inventory and reducing non-moving stock). With this, the company has transitioned from a cluster-based planning to a store/neighborhood-based planning. It is also raising the bar on e-commerce and digital presence. (e.g. e-commerce vendors offering subscription deals on *Gillette*).

Reco	: ADD
CMP	: Rs 5,996
Target Price	: Rs 6,650
Potential Return	: +10.9%

### Stock data (as on September 22, 2023)

Nifty	19,674
52 Week h/l (Rs)	6415 / 4135
Market cap (Rs/USD mn)	195366 / 2355
Outstanding Shares (mn)	33
6m Avg t/o (Rs mn):	93
Div yield (%):	1.2
Bloomberg code:	GILL IN
NSE code:	GILLETTE

### Stock performance



### Shareholding pattern (As of Jun'23 end)

Promoter	75.0%
FII+DII	12.0%
Others	13.1%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	6,650	6,090

### Δ in earnings estimates

	FY24e	FY25e
EPS (New)	118.9	130.5
EPS (Old)	112.8	125.5
% change	5.4	3.9

### Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	24,771	26,877	28,971
YoY Growth (%)	9.8	8.5	7.8
EBIDTA	5,392	5,940	6,511
Margins (%)	21.8	22.1	22.5
PAT	3,557	3,874	4,252
EPS	109.1	118.9	130.5
YoY Growth (%)	22.9	8.9	9.7
Pre-tax RoCE (%)	52.0	52.8	55.3
ROE (%)	38.5	39.0	40.9
P/E (x)	54.9	50.4	46.0
EV/EBITDA (x)	35.9	32.6	29.8

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## Premiumization

The premiumization trend has been positive for *Gillette* as well as *Oral B*. Premium portfolio, like the *Fusion* portfolio, *Gillette Venus* and *Oral B* Power Oral care has grown well for GILL in recent times.

## Media planning

Ads spend is a function of business needs and therefore it could vary time to time. GILL has moved away from media planning in silos (TV, digital, ecommerce separately) to an Integrated Media Approach where an algorithm power with the latest trends and historical data can bring up the best cross-screen media model that helps achieve maximum reach at the lowest cost.

## Productivity

Productivity is now fully embedded in company's operating model and is embraced in every part of their operation. Last year, through its productivity interventions, company achieved savings of >Rs550mn.

## Innovations and upgradations

*Mach 3 Charcoal*, *Venus Swirl* and *Braun BT5* were the innovations across the portfolio last fiscal. On top of that, there was also the introduction of *Oral-B SensitiveX* – a premium sensitive toothbrush, and a relaunch of *Gillette Fusion* as a styling tool. GILL continued to upgrade its propositions, including *Gillette Guard*, *Oral-B Criss Cross* and *Oral-B Kids* electric toothbrushes.

## On competition from D2C

GILL believes the best way to win is to keep consumer at the centre – not competition. And the way to win with the consumer, is to deliver superior products at a price which delivers great value to the consumer as there is a visible shift in consumer behaviour – from price conscious to being truly value conscious. Company believes, if they are able to consistently offer better value products, they will not only grow the category but also win against competition.

## Oral care

Company expects Oral care as a category to demonstrate mid-single digit market growth, in line with FMCG market growth. GILL aims to grow faster than category.

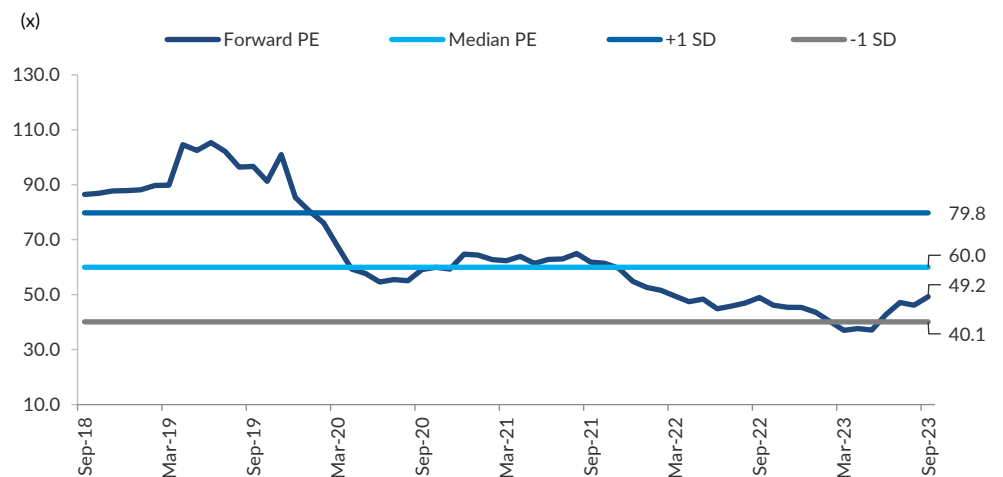
## Looking to further increase local manufacturing

A substantial portion of GILL's sales is locally manufactured, and it is always on the lookout to bring more parts of the business under local manufacturing especially for the advanced premium systems as management believes that capital investment needs to be justified with sufficient scale and growth prospects.

## View & Valuation

- We expect revenues to grow in 8-9% range in coming quarters led by 1) Good momentum in grooming segment 2) Recovery in oral care on lower base. We thus estimate 8.1% revenue CAGR over FY23-25E.
- Our current growth estimate for FY24 & FY25, does not consider any strong reversal in trend towards shaving from 'sporting beard' or 'trimming'.
- We also expect gross margin recovery starting 2HFY24 but increase in A&SP will restrict EBITDA margin expansion. We thus build ~70bps improvement in EBITDA margin over FY23-25E largely led by lower COGS leading to EBITDA growth of ~10% over FY23-25E. Earnings (adjusted for prior year tax adjustments in March 2023 quarter) is expected to grow by ~10.4% over the same period.
- The company boasts strong return ratios. It has also shown healthy growth in dividends over the years. Last fiscal, the management though it was prudent to not continue to keep growing the dividend and take a pause but even then, the payout remains healthy.
- GILL is currently trading at ~46x FY25 EPS (June-ending). While this is a softer aspect, we consider management now addressing investors & analysts as a positive. We now assign a target multiple of ~51x on June'25 EPS (3yr/5yr avg fwd. multiple ~53x/65x), arriving at a TP of Rs6,650 (Rs6,090 earlier). Maintain ADD rating. Near term valuations offer limited upside on one-year forward basis post recent run-up (up ~24% in last 3 months).

### Exhibit 1: Currently trading at ~49x 1-yr forward earnings



Source: Company, YES Sec

## FINANCIALS

### Exhibit 2: Balance Sheet

Y/E June (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	326	326	326	326	326
Reserves	7,564	8,286	9,563	9,664	10,489
Net worth	7,890	8,612	9,889	9,990	10,815
Total debt	0	0	0	0	0
Deferred tax liability and others	-279	-331	-458	-458	-458
<b>Total liabilities</b>	<b>8,404</b>	<b>9,115</b>	<b>10,545</b>	<b>10,647</b>	<b>11,472</b>
Gross block	5,741	6,958	8,029	9,029	9,779
Depreciation	2,644	3,327	4,134	5,047	6,053
Net block	3,098	3,630	3,895	3,982	3,726
Capital work-in-progress	720	650	324	500	500
Investments	0	0	0	0	0
Other LTA	2164	1950	1986	2232	2043
Inventories	3,666	3,734	4,124	3,918	4,419
Debtors	1,979	2,564	3,202	2,247	3,467
Cash	1,663	2,911	4,556	3,596	5,487
Other current assets	341	280	591	591	591
Total current assets	7,692	9,523	12,499	10,379	13,991
Creditors	4,084	5,446	6,801	4,925	7,084
Other current liabilities & provisions	1,186	1,191	1,357	1,522	1,703
Total current liabilities	5,270	6,638	8,158	6,447	8,788
Net current assets	2,422	2,885	4,341	3,932	5,203
<b>Total assets</b>	<b>8,404</b>	<b>9,115</b>	<b>10,545</b>	<b>10,647</b>	<b>11,472</b>

Source: Company, YES Sec

### Exhibit 3: Income statement

Y/E June (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	20,094	22,562	24,771	26,877	28,971
<b>% Growth</b>	<b>19.7%</b>	<b>12.3%</b>	<b>9.8%</b>	<b>8.5%</b>	<b>7.8%</b>
COGS	8,807	10,495	11,881	12,229	12,893
Staff costs	1,432	1,501	1,698	1,881	2,057
Advertising costs	2,639	2,887	2,916	3,561	3,925
Other expenses	2,611	2,854	2,884	3,265	3,585
Total expenses	15,489	17,737	19,379	20,937	22,460
EBITDA	4,605	4,825	5,392	5,940	6,511
<b>% growth</b>	<b>28.3%</b>	<b>4.8%</b>	<b>11.8%</b>	<b>10.2%</b>	<b>9.6%</b>
<b>EBITDA margin (%)</b>	<b>22.9%</b>	<b>21.4%</b>	<b>21.8%</b>	<b>22.1%</b>	<b>22.5%</b>
Other income	200	77	222	224	247
Interest costs	53	105	78	75	70
Depreciation	575	684	807	913	1,006
Profit before tax (before exceptional items)	4,177	4,113	4,729	5,177	5,682
Exceptional items	0	0	0	0	0
Tax	1,236	1,220	1,172	1,303	1,430
PAT (before exceptional items)	2,941	2,893	3,557	3,874	4,252
PAT	2,941	2,893	3,557	3,874	4,252
<b>PAT margin (%)</b>	<b>14.6%</b>	<b>12.8%</b>	<b>14.4%</b>	<b>14.4%</b>	<b>14.7%</b>
<b>% Growth</b>	<b>27.8%</b>	<b>-1.6%</b>	<b>22.9%</b>	<b>8.9%</b>	<b>9.7%</b>

Source: Company, YES Sec

## Exhibit 4: Cash flow statement

Y/E June (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
PAT	2,941	2,893	3,557	3,874	4,252
Depreciation	575	684	807	913	1,006
Net other income	-200	-77	-222	-224	-247
(Inc.)/dec. in working capital	775	784	190	-551	620
<b>Cash flow from operations</b>	<b>4,144</b>	<b>4,388</b>	<b>4,409</b>	<b>4,086</b>	<b>5,701</b>
Capital expenditure (-)	-1217	-1145	-746	-1176	-750
<b>Net cash after capex</b>	<b>2,927</b>	<b>3,243</b>	<b>3,663</b>	<b>2,910</b>	<b>4,951</b>
Inc./(dec.) in investments	641	368	219	-500	434
<b>Cash from investing activities</b>	<b>-576</b>	<b>-777</b>	<b>-527</b>	<b>-1,675</b>	<b>-316</b>
Dividends paid (-)	-4,301	-2,248	-2,314	-3,293	-3,826
Inc./(dec.) in total borrowings	72	-116	76	-75	-70
<b>Cash from financial activities</b>	<b>-4,229</b>	<b>-2,364</b>	<b>-2,238</b>	<b>-3,368</b>	<b>-3,896</b>
Opening cash balance	2,325	1,663	2,911	4,556	3,596
Closing cash balance	1,663	2,911	4,556	3,596	5,487
Change in cash balance	-662	1,248	1,645	-959	1,890

Source: Company, YES Sec

## Exhibit 5: Growth and Ratio matrix

Y/E June	FY21	FY22	FY23	FY24E	FY25E
<b>Per share (Rs)</b>					
EPS	90.2	88.8	109.1	118.9	130.5
Book value	242.1	264.3	303.4	306.5	331.9
DPS	83.0	69.0	85.0	101.0	117.4
<b>Valuation (x)</b>					
P/Sales	9.7	8.7	7.9	7.3	6.7
EV/sales	9.6	8.6	7.8	7.2	6.7
EV/EBITDA	42.1	40.2	35.9	32.6	29.8
P/E	66.4	67.5	54.9	50.4	46.0
P/BV	24.8	22.7	19.8	19.6	18.1
<b>Return ratios (%)</b>					
RoCE (pre-tax)	49.7	51.1	52.0	52.8	55.3
RoE	34.6	35.1	38.5	39.0	40.9
RolC (pre-tax)	62.1	71.6	81.7	82.3	91.5
<b>Profitability ratios (%)</b>					
Gross margin	56.2	53.5	52.0	54.5	55.5
EBITDA margin	22.9	21.4	21.8	22.1	22.5
EBIT margin	2.9	3.0	3.3	3.4	3.5
PAT margin	14.6	12.8	14.4	14.4	14.7
<b>Liquidity ratios (%)</b>					
Current ratio	1.5	1.4	1.5	1.6	1.6
Quick ratio	0.8	0.9	1.0	1.0	1.1
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	1.5	1.4	1.3	1.6	1.4
Fixed asset turnover ratio (x)	6.5	6.2	6.4	6.7	7.8
Debtor days	35	37	42	37	36
Inventory days	135	129	121	120	118
Creditor days	144	166	188	175	170

Source: Company, YES Sec

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