

October 28, 2024

RESULT REPORT SEPT'24 QUARTER | Sector: Consumer Staples

Gillette India Ltd.

Strong growth; Outperforms peers in Sept quarter

Gillette India Ltd. (GILL's) Sept'24 quarter saw a sharp beat driven by strong growth of 23% in the Grooming business (5-yr revenue CAGR at 13.6%). The performance looks even more commendable as it comes at a time when FMCG peers are seeing consumption pressure in urban markets. We believe this robust is driven by multiple factors (1) improved rural growth aiding volumes in Guard portfolio, (2) introduction of upgraded Guard product at a higher price point of Rs.12 supported by superior compelling advertisement for Hindi heartland, (3) continued strong growth in the Venus portfolio, (4) reach & coverage increase and (5) premiumization supported by strong traction for Gillette Labs. On the other hand, growth in toothbrush continues to be slow due to competitive intensity in the entry level portfolio. Quarterly margin volatility continues but structurally it is on an upward trajectory through productivity and innovations. Earnings upgrade, recent price correction and roll-forward of our target price (TP) to March'27 EPS, gives us a revised target price (TP) of Rs9,500 (Rs9,035 earlier), implying upside of ~11%. We thus upgrade our rating a notch to ADD. Key monitorable: 1) Sustenance of drivers for Sept'24 quarter revenue beat; 2) Outcome for P&G India businesses from evaluation of "Integrated growth strategy"; 3) Exports & Oral Care recovery.

September'24 Quarter Result Highlights

- **Headline performance:** Revenue grew by 17.1% YoY to Rs7.8bn (vs est. Rs7bn). EBITDA was up 39.3% YoY to Rs1.9bn (vs est. Rs1.7bn). APAT was up 43.5% YoY to Rs1.3n (vs est. Rs1.1bn).
- **Segmental performance:** (1) Grooming business (~83% of revenues in Sept'24 Qtr vs 79% in base Qtr) revenue up by strong 23% YoY to Rs6.5bn (vs est. Rs5.7bn). Grooming segment EBIT margin improves by ~640bps YoY to 24.1%. (2) Oral care revenues (17% of revenues in Sept'24 Qtr vs 21% in Sept'23 Qtrs.) were down 5.1% to Rs1.3bn (vs est. Rs1.3bn) with segment EBIT margin down 650bps YoY to 11.8%.
- **Margin:** Overall gross margin came at 56.4% (vs. est. 55%), up 190bps YoY but down 1,060bps QoQ. Increase in other overheads (up 70bps YoY) was more than offset by lower A&SP spends (down 90bps YoY; absolute A&SP spends up 10.3% YoY) and lower employee costs (down 180bps YoY). Thus EBITDA margin was up 390bps YoY to 24.4% (vs est. 24%).
- **Other comments:** (1) The growth has been broad based amidst continuing green shoots in rural markets. (2) Change in Chief Financial Officer: Mr. Gautam Kamath, Director & Chief Financial Officer (CFO) has tendered his resignation as the Director & CFO of the Company effective close of business hours of October 31, 2024, as he will be moving onwards to a new assignment as Vice President - Corporate Strategy in the P&G Global Headquarter. The Board of Directors have appointed Ms. Srividya Srinivasan as CFO of the Company and Additional (Executive) Director effective November 1, 2024.

View & Valuation

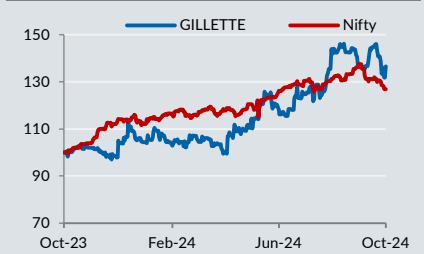
Over FY24-27E, we estimate 9.8% revenue CAGR. Our current growth estimates do not consider any major reversal in trend towards shaving from 'sporting beard' or 'trimming'. Gross margin recovery was ahead of expectation in FY24, leading to beat on operating margin. Over FY24-27E, we now build ~70bps improvement in EBITDA margin largely led by pricing+premiumization and productivity interventions leading to EBITDA growth of 10.8% over FY24-27E. Gillette's market share are at highest levels and continues to strengthen. With strong traction in Gillette Labs, upgraded Guard product and continued innovations, it's market share should further improve or atleast be maintained. GILL boasts strong return ratios and has also shown healthy growth in dividends over the years. Earnings upgrade, recent price correction and roll-forward of our target price (TP) to March'27 EPS, gives us a revised target price (TP) of Rs9,500 (Rs9,035 earlier), implying upside of ~11%. We thus upgrade our rating a notch to ADD. Key monitorable: 1) Sustenance of drivers for Sept'24 quarter revenue beat; 2) Outcome for P&G India businesses from evaluation of "Integrated growth strategy"; 3) Exports & Oral Care recovery.

Reco	: ADD
CMP	: Rs 8,516
Target Price	: Rs 9,500
Potential Return	: +11.6%

Stock data (as on Oct 28, 2024)

Nifty	24,339
52 Week h/l (Rs)	9560 / 5921
Market cap (Rs/USD mn)	267841 / 3187
Outstanding Shares (mn)	33
6m Avg t/o (Rs mn):	240
Div. yield (%):	1.4
Bloomberg code:	GILL IN
NSE code:	GILLETTE

Stock performance



	1M	3M	1Y
Absolute return	0.3%	9.3%	36.5%

Shareholding pattern (As of Jun'24 end)

Promoter	75.0%
FII+DII	13.9%
Others	11.1%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	NEUTRAL
Target Price	9,500	9,035

Δ in earnings estimates

	FY25e	FY26e	FY27e
EPS (New)	150.6	165.0	179.1
EPS (Old)	140.5	157.3	173.3
% change	+7.2%	+4.9%	+3.4%

Financial Summary (June-ending)

(Rs mn)	FY25E	FY26E	FY27E
Revenue	29,682	32,294	34,813
YoY Growth (%)	12.7	8.8	7.8
EBIDTA	7,216	7,880	8,529
Margins (%)	24.3	24.4	24.5
PAT	4,909	5,378	5,838
EPS	150.6	165.0	179.1
YoY Growth (%)	19.2	9.5	8.6
ROCE (%)	68.0	73.1	77.1
ROE (%)	50.4	54.3	57.3
P/E (x)	56.5	51.6	47.5
EV/EBITDA (x)	38.2	35.0	32.3

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MANAS RASTOGI, Associate

Exhibit 1: Actual vs estimate

Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	7,818	7,041	6,918	11.0	13.0
EBITDA	1,905	1,690	1,559	12.7	22.2
EBITDA Margin (%)	24.4	24.0	22.5	0.4	1.8
Adjusted PAT	1,330	1,119	1,034	18.9	28.6

Source: Bloomberg, YES Sec

Exhibit 2: Quarterly result snapshot

Particulars (Rs. Mn) - Y/E June	Sept'23	June'24	Sept'24	YoY (%)	QoQ (%)
Revenue	6,676	6,453	7,818	17.1%	21.1%
COGS	3,034	2,126	3,406	12.3%	60.2%
Gross margin %	54.6%	67.1%	56.4%	1.9%	-10.6%
Employee costs	534	399	481	-9.9%	20.7%
% of sales	8.0%	6.2%	6.2%	-1.8%	0.0%
Advertising & sales promotion expenses	1,029	1,152	1,134	10.3%	-1.6%
% of sales	15.4%	17.9%	14.5%	-0.9%	-3.3%
Other expenses	712	1,031	892	25.3%	-13.5%
% of sales	10.7%	16.0%	11.4%	0.7%	-4.6%
EBITDA	1,367	1,745	1,905	39.3%	9.1%
EBITDA margin %	20.5%	27.0%	24.4%	3.9%	-2.7%
Depreciation	201	212	192	-4.2%	-9.2%
EBIT	1,167	1,533	1,712	46.8%	11.7%
EBIT margin %	17.5%	23.8%	21.9%	4.4%	-1.9%
Interest expense	1	27	11	707.7%	-60.8%
Other income	86	46	71	-18.4%	53.9%
PBT	1,252	1,552	1,772	41.6%	14.2%
Tax	325	393	442	36.2%	12.7%
Effective tax rate %	25.9%	25.3%	25.0%	-1.0%	-0.3%
Adj. PAT	927	1,160	1,330	43.5%	14.7%
PAT margin %	13.9%	18.0%	17.0%	3.1%	-1.0%
EPS	28.4	35.6	40.8	43.4%	14.7%

Source: Company, YES Sec

Exhibit 3: Quarterly Segmental Snapshot

Segmental Performance (Rs. Mn)	Sept'23	June'24	Sept'24	YoY (%)	QoQ (%)
Segmental Revenue	6,676	6,453	7,818	17.1%	21.1%
Grooming	5,275	5,197	6,489	23.0%	24.9%
Oral Care	1,401	1,257	1,329	-5.1%	5.8%
Sales proportion (%)					
Grooming	79.0%	80.5%	83.0%	4.0%	2.5%
Oral Care	21.0%	19.5%	17.0%	-4.0%	-2.5%
Segmental Results					
Grooming	933	1,392	1,563	67.6%	12.3%
Oral Care	256	130	157	-38.7%	21.0%

EBIT margins (%)

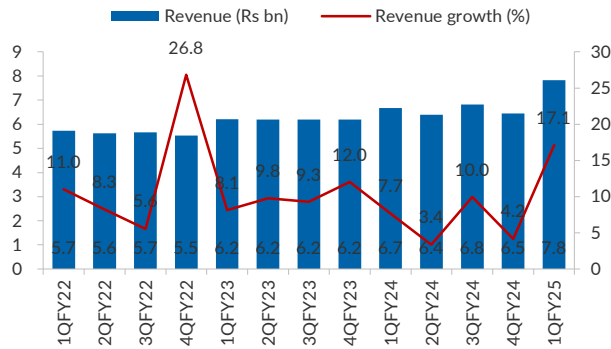
Grooming	17.7%	26.8%	24.1%	6.4%	-2.7%
Oral Care	18.3%	10.3%	11.8%	-6.5%	1.5%

EBIT Composition (%)

Grooming	78.5%	91.5%	90.9%	12.4%	-0.6%
Oral Care	21.5%	8.5%	9.1%	-12.4%	0.6%

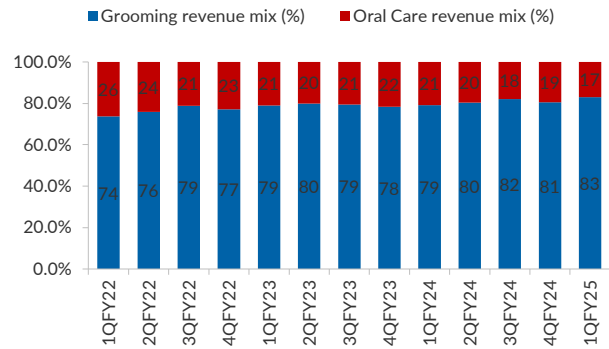
Source: Company, YES Sec

Exhibit 4: Revenues up by 17.1% YoY to Rs7.8bn in Sept'24 quarter



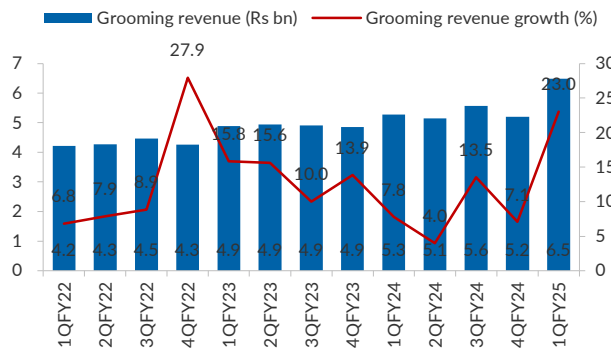
Source: Company, YES Sec

Exhibit 5: Grooming revenue mix improves 400bps YoY to 83% in Sept'24 quarter



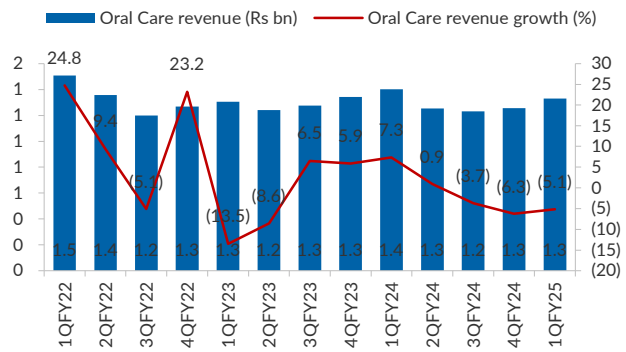
Source: Company, YES Sec

Exhibit 6: Grooming segment revenues grew by 23% YoY to Rs6.5bn



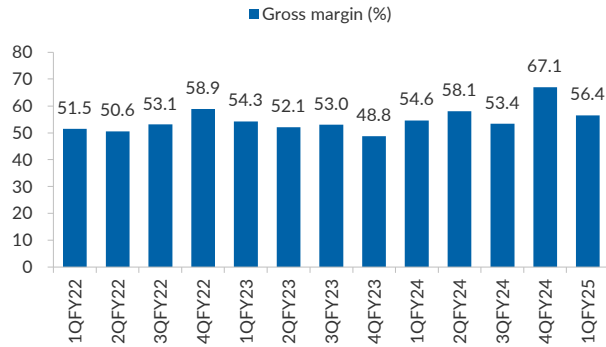
Source: Company, YES Sec

Exhibit 7: Oral Care segment revenues down 5.1% YoY to Rs1.3bn



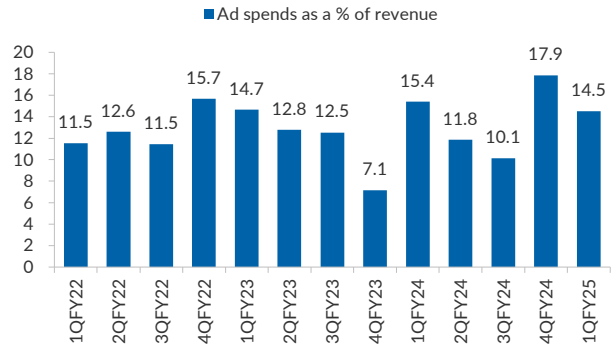
Source: Company, YES Sec

Exhibit 8: Gross margin for the quarter stood at 56.4% (+190bps YoY but -1,060bps QoQ)



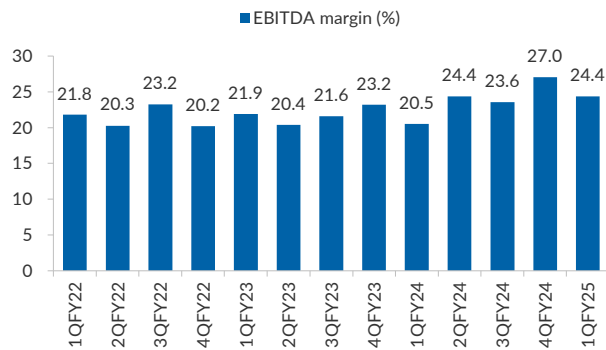
Source: Company, YES Sec

Exhibit 9: Advertisement & Sales Promotion expense (A&SP) as a % of revenue is down 90bps YoY to 14.5%



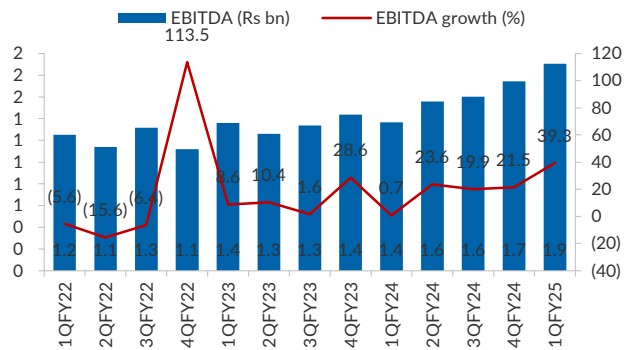
Source: Company, YES Sec

Exhibit 10: EBITDA margin for the quarter stood at 24.4% (+390bps YoY)



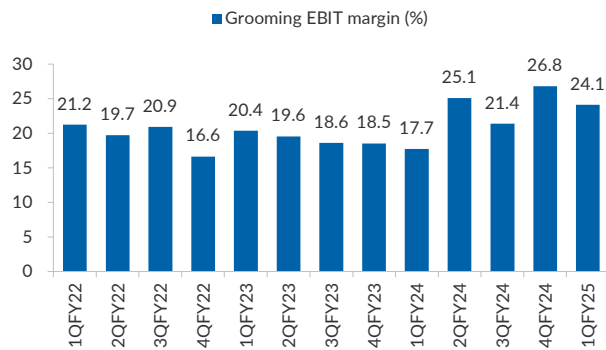
Source: Company, YES Sec

Exhibit 11: EBITDA thus grew 39.3% YoY to Rs1.9bn



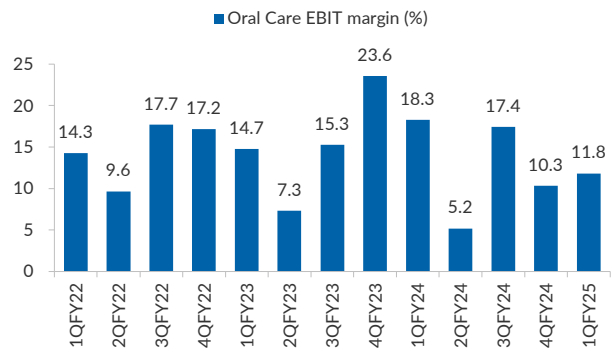
Source: Company, YES Sec

Exhibit 12: Grooming segment EBIT margin up 640bps YoY to 24.1%..



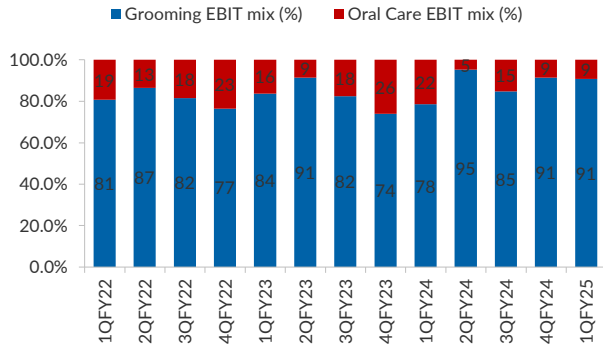
Source: Company, YES Sec

Exhibit 13: ..while Oral Care segment EBIT margin down 650bps YoY to 11.8%



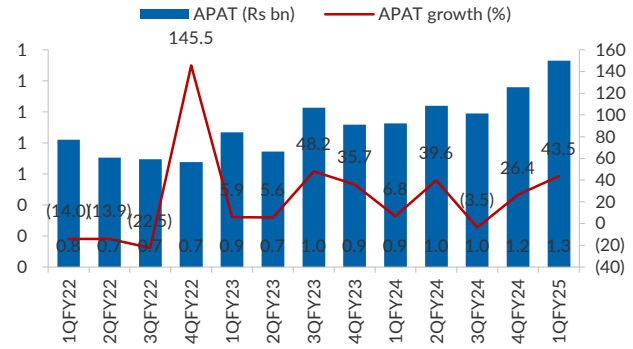
Source: Company, YES Sec

Exhibit 14: Grooming EBIT mix moves up 1,240bps YoY to 90.9%



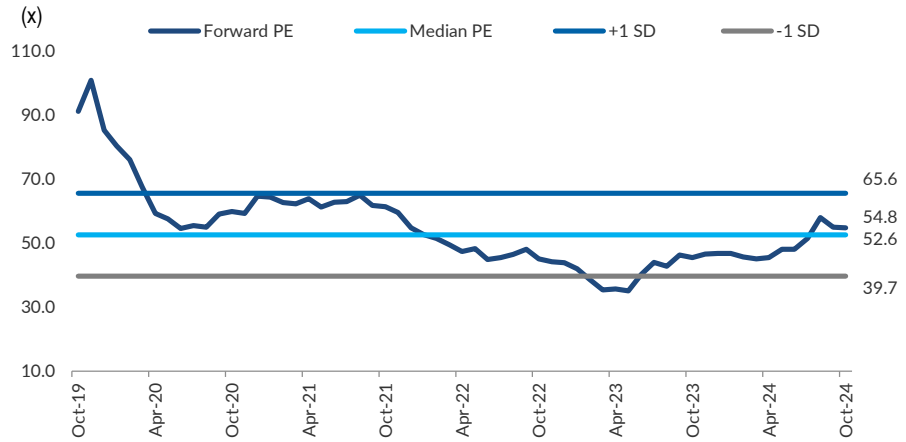
Source: Company, YES Sec

Exhibit 15: APAT was up 43.5% YoY to Rs1.3bn in Sept'24 quarter



Source: Company, YES Sec

Exhibit 16: Currently trading at ~55x 1-yr forward earnings



Source: Company, YES Sec

FINANCIALS

Exhibit 17: Balance Sheet

Y/E June (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	326	326	326	326	326
Reserves	9,563	9,387	9,446	9,715	10,007
Net worth	9,889	9,713	9,772	10,041	10,333
Total debt	0	0	0	0	0
Deferred tax liability and others	-458	-535	-535	-535	-535
Total liabilities	10,545	10,182	10,242	10,511	10,803
Gross block	8,029	8,430	9,180	9,930	10,680
Depreciation	4,134	4,961	5,841	6,797	7,827
Net block	3,895	3,469	3,339	3,133	2,853
Capital work-in-progress	324	259	500	500	500
Investments	0	0	0	0	0
Other LTA	1986	2178	2525	2250	2594
Inventories	4,124	3,958	4,740	4,263	5,370
Debtors	3,202	2,743	3,437	2,933	3,743
Cash	4,556	4,756	4,345	5,355	5,810
Other current assets	591	383	383	383	383
Total current assets	12,499	11,866	12,930	12,960	15,332
Creditors	6,801	6,390	7,660	6,744	8,669
Other current liabilities & provisions	1,357	1,200	1,392	1,588	1,807
Total current liabilities	8,158	7,590	9,052	8,332	10,476
Net current assets	4,341	4,276	3,878	4,628	4,856
Total assets	10,545	10,182	10,242	10,511	10,803

Source: Company, YES Sec

Exhibit 18: Income statement

Y/E June (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	24,771	26,331	29,682	32,294	34,813
% Growth	9.8%	6.3%	12.7%	8.8%	7.8%
COGS	11,881	11,013	12,211	13,144	14,065
Staff costs	1,698	1,874	2,012	2,228	2,437
Advertising costs	2,916	3,629	4,150	4,586	4,978
Other expenses	2,884	3,541	4,094	4,457	4,804
Total expenses	19,379	20,057	22,466	24,415	26,284
EBITDA	5,392	6,274	7,216	7,880	8,529
% growth	11.8%	16.4%	15.0%	9.2%	8.2%
EBITDA margin (%)	21.8%	23.8%	24.3%	24.4%	24.5%
Other income	222	261	290	322	357
Interest costs	78	86	70	65	60
Depreciation	807	826	880	955	1,030
Profit before tax (before exceptional items)	4,729	5,623	6,555	7,181	7,796
Exceptional items	0	0	0	0	0
Tax	1,172	1,506	1,646	1,803	1,958
PAT (before exceptional items)	3,557	4,117	4,909	5,378	5,838
PAT	3,557	4,117	4,909	5,378	5,838
PAT margin (%)	14.4%	15.6%	16.5%	16.7%	16.8%
% Growth	22.9%	15.8%	19.2%	9.5%	8.6%

Source: Company, YES Sec

Exhibit 19: Cash flow statement

Y/E June (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
PAT	3,557	4,117	4,909	5,378	5,838
Depreciation	807	826	880	955	1,030
Net other income	-222	-261	-290	-322	-357
(Inc.)/dec. in working capital	190	265	-13	260	227
Cash flow from operations	4,409	5,034	5,557	6,336	6,799
Capital expenditure (-)	-746	-336	-991	-750	-750
Net cash after capex	3,663	4,698	4,566	5,586	6,049
Inc./(dec.) in investments	219	175	477	79	545
Cash from investing activities	-527	-161	-514	-671	-205
Dividends paid (-)	-2,314	-4,399	-4,663	-5,109	-5,546
Inc./(dec.) in total borrowings	76	-273	-70	-65	-60
Cash from financial activities	-2,238	-4,672	-4,733	-5,174	-5,606
Opening cash balance	2,911	4,556	4,756	4,345	5,355
Closing cash balance	4,556	4,756	4,345	5,355	5,810
Change in cash balance	1,645	201	-411	1,010	455

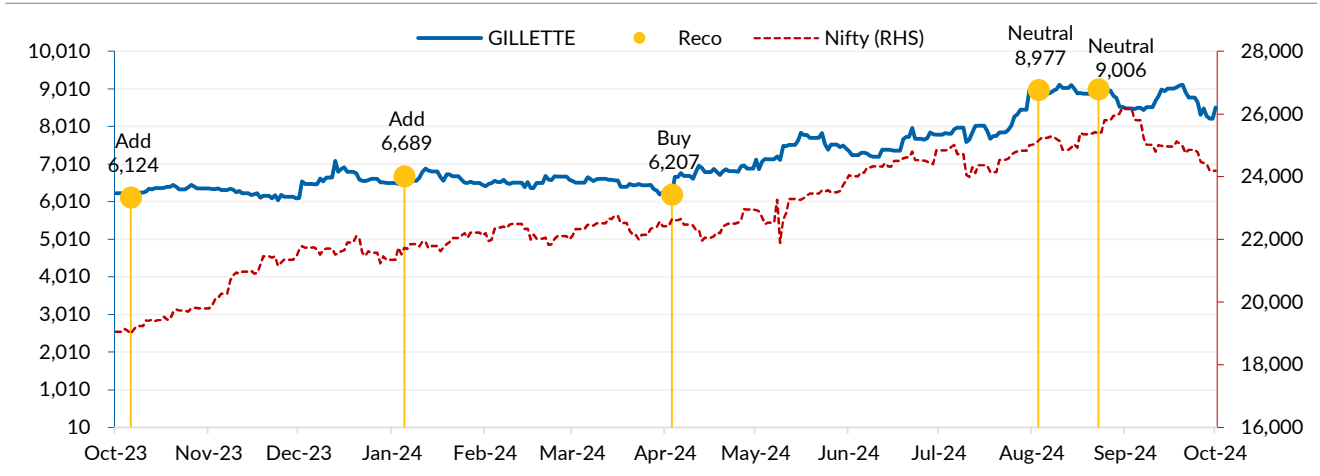
Source: Company, YES Sec

Exhibit 20: Growth and Ratio matrix

Y/E June	FY23	FY24	FY25E	FY26E	FY27E
Per share (Rs)					
EPS	109.1	126.3	150.6	165.0	179.1
Book value	303.4	298.0	299.9	308.1	317.1
DPS	85.0	135.0	143.1	156.8	170.2
Valuation (x)					
P/Sales	11.2	10.5	9.4	8.6	8.0
EV/sales	11.1	10.5	9.3	8.5	7.9
EV/EBITDA	51.2	44.0	38.2	35.0	32.3
P/E	78.0	67.4	56.5	51.6	47.5
P/BV	28.1	28.6	28.4	27.6	26.9
Return ratios (%)					
RoCE (pre-tax)	52.0	58.2	68.0	73.1	77.1
RoE	38.5	42.0	50.4	54.3	57.3
RoIC (pre-tax)	81.7	100.6	120.0	137.8	163.9
Profitability ratios (%)					
Gross margin	52.0	58.2	58.9	59.3	59.6
EBITDA margin	21.8	23.8	24.3	24.4	24.5
EBIT margin	3.3	3.1	3.0	3.0	3.0
PAT margin	14.4	15.6	16.5	16.7	16.8
Liquidity ratios (%)					
Current ratio	1.5	1.6	1.4	1.6	1.5
Quick ratio	1.0	1.0	0.9	1.0	1.0
Turnover ratios					
Total asset turnover ratio (x)	1.3	1.5	1.5	1.7	1.6
Fixed asset turnover ratio (x)	6.4	7.6	8.9	10.3	12.2
Debtor days	42	41	38	36	35
Inventory days	121	134	130	125	125
Creditor days	188	219	210	200	200

Source: Company, YES Sec

Recommendation Tracker



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