

September 18, 2024

**COMPANY UPDATE** | Sector: Consumer Staples

# Gillette India Ltd.

## Seeing positive consumption trends; Maintain Neutral

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) Seeing positive consumption trends with greenshoots in rural markets but cautious about unemployment and wages data, 2) GILL has seen 1.5x increase in its reach & coverage in last 3 years, 3) Male grooming continues to see highest ever share even in competitive market environment, 4) Within the large female hair removal market, razors have seen fastest growth and Venus has doubled its revenues in last 5 years growing in double digits, 5) Gill saw structural margin improvement of ~200bps in recent quarter through productivity and innovations. We recently (post the June'24 quarterly results) downgraded the stock to NEUTRAL rating from BUY after it delivered ~63% post our initiation on 30<sup>th</sup> Aug 2023. Information provided during the analyst meet does not lead to any change in our earnings or TP, hence we maintain our TP of Rs9,035, targeting ~56x on Sep'26E EPS (similar to its 5yr avg fwd. multiple).

### Key pointers from Gillette India's Investors Analysts Meet 2024:

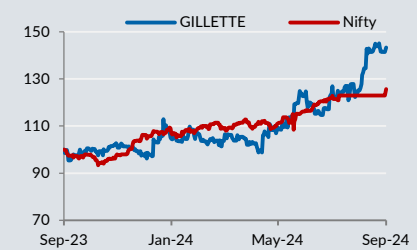
- **Macro:** Positive trends are finally emerging in consumption with greenshoots in rural. Lower inflation and strong monsoons augur well for rural consumption. Declining rural wages and unemployment are still a concern.
- **Male Grooming:** GILL has continued to be the market leader with the highest ever market share in a market environment with increased competitive intensity. Blades & Razors category stands at Rs3.3bn growing in mid-single digit. Company acknowledges the change in category with trend towards beards, but it is driving or maintaining high shares with innovations like *Fusion* (redesigned as re-styling tool).
- **Female Grooming:** Female grooming is a large market in which GILL focuses on in-home hair removal and competes with creams and salons. Razors have seen the highest growth on the back of convenience in a fast-paced life with lesser time to remove hair. In the past 5 years, *Venus* has double its revenues and has grown in double digits.
- **Oral care:** Growth in toothbrush has been slow for GILL due to competitive intensity in the entry level portfolio. Company recently upgraded the packaging so that the consumer easily identifies in a cluttered shelf space. It expects mid-single digit growth for the segment.
- **Appliances** contribute to 2% of the category in India. Braun has the best technology globally when it comes to shaving and trimming. The products are primarily available on e-commerce and digital platforms.
- **Electric toothbrush:** The company continued to strengthen the portfolio across all ages. Launched electric brushes with lower price points.
- **Distribution:** Reach & coverage increased by ~1.5x for the grooming category over the last 3 years. Company developed in-house AI & ML to predict consumption which has helped them significantly reduce dead stocks.
- **Innovations:** In FY24, GILL launched *Gillette Labs* razor and *Venus Bikini Sensitive* razor. Company also rolled upgraded *Gillette Guard* priced at Rs 12 supported by superior compelling advertisement for Hindi heartland. Introduced toothbrushes for kids in partnership with 'Chota Bheem'.
- **A&SP:** The spends were significantly higher in FY24 and was function of business need, innovations and consumer awareness support. When a superior product enters the market, the company does aggressive A&SP to create awareness, which was the case in FY24.
- **Structural margin improvement** of ~200bps in FY24 was driven by productivity as well as product innovation for consumers to trade up.
- **Productivity:** Company saw savings of Rs450mn in FY24 owing to productivity.
- **P&G Shiksha:** Program now completing 20 years, touching 1,000 schools & communities, impacting 45+ lacs students.

Reco	: NEUTRAL
CMP	: Rs 9,006
Target Price	: Rs 9,035
Potential Return	: +0.3%

### Stock data (as on Sep 18, 2024)

Nifty	25,378
52 Week h/l (Rs)	9495 / 5916
Market cap (Rs/USD mn)	289907 / 3464
Outstanding Shares (mn)	33
6m Avg t/o (Rs mn):	222
Div. yield (%):	1.1
Bloomberg code:	GILL IN
NSE code:	GILLETTE

### Stock performance



	1M	3M	1Y
Absolute return	14.6%	15.0%	45.5%

### 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	NEUTRAL	NEUTRAL
Target Price	9,035	9,035

### Δ in earnings estimates

	FY25e	FY26e	FY27e
EPS (New)	140.5	157.3	173.3
EPS (Old)	140.5	157.3	NA
% Change	0.0%	0.0%	NA

### Financial Summary (June-ending)

(Rs mn)	FY25E	FY26E	FY27E
Revenue	28,489	30,696	32,999
YoY Growth (%)	8.2	7.7	7.5
EBIDTA	6,779	7,549	8,281
Margins (%)	23.8	24.6	25.1
PAT	4,578	5,126	5,648
EPS	140.5	157.3	173.3
YoY Growth (%)	11.2	12.0	10.2
ROCE (%)	63.6	70.0	74.9
ROE (%)	47.0	51.9	55.6
P/E (x)	64.1	57.3	52.0
EV/EBITDA (x)	43.1	38.7	35.2

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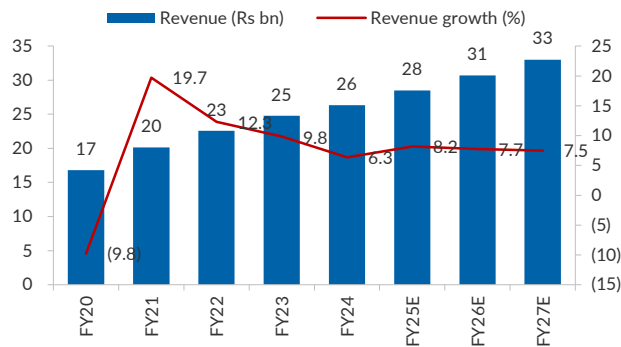
MANAS RASTOGI, Associate

**We also attended Procter & Gamble Hygiene and Health Care Limited (PGHH) Investors Analysts Meet September 2024. Key pointers:**

- **Feminine Care:** PGHH expects double digit category growth over the next 3 years for the Feminine care category led by penetration and consumption. It is a market leader with nearly half of the market share. The Feminine care market is about Rs3.4bn which has seen 100x rise in the last 30 years. Penetration levels lag in rural which stands at 40% vs urban at 60%. However, value spent per consumer is just 1/6th of China in urban markets. D2C has grown in niche channels but form less than 10% of category.
- **Innovations:** FY24 saw the strongest innovation pipeline for the company to drive category growth (Whisper Ultra XL, Vicks Roll-on, Steam Pods, Double Power Vicks Cough Drops and Period Panties).
- PGHH has grown its coverage by 1.5x in healthcare and 1.2x in Fem Care in the last few years.
- It has comprehensive plans to address the huge demand during Festive season for both rural and urban markets.
- PGHH saw ~400bps improvement in margin structure in latest quarter, but deliberately invested back into the business.

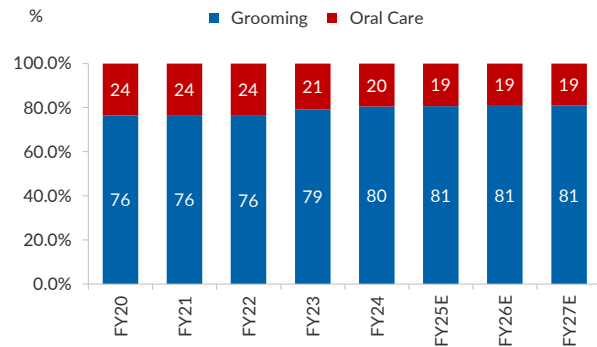
## STORY IN CHARTS (GILLETTE INDIA)

**Exhibit 1: Revenues are expected to reach Rs33bn growing at a CAGR of 7.8% over FY24-27E**



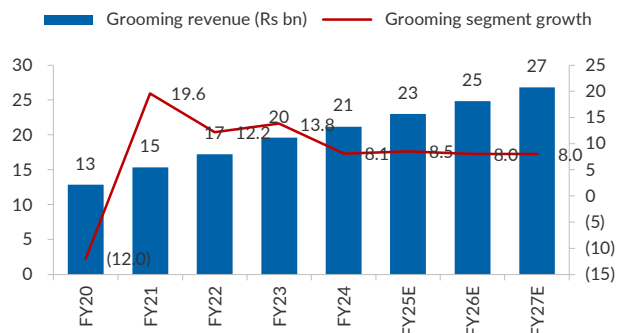
Source: Company, YES Sec

**Exhibit 2: Grooming and Oral care revenue mix are likely to remain stable at 81% and 19% respectively by FY27E**



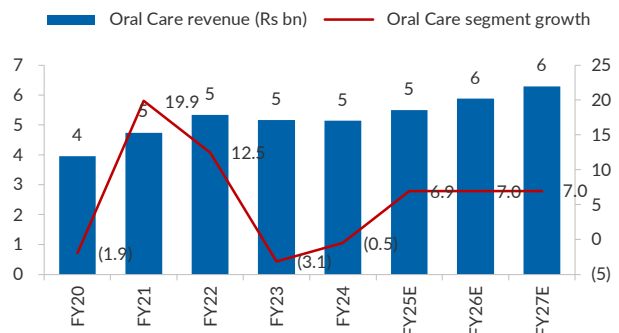
Source: Company, YES Sec

**Exhibit 3: Grooming segment revenues expected to reach Rs27bn by FY27E**



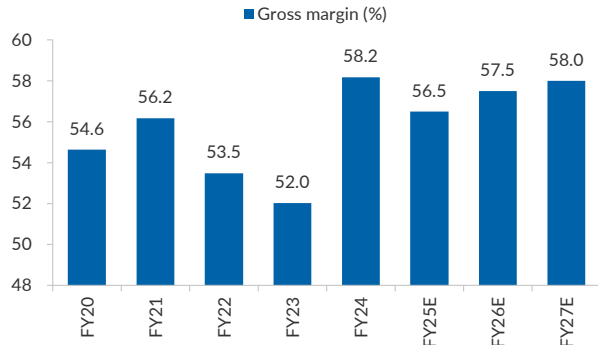
Source: Company, YES Sec

**Exhibit 4: Oral care segment revenues estimated at ~Rs6bn by FY27E**



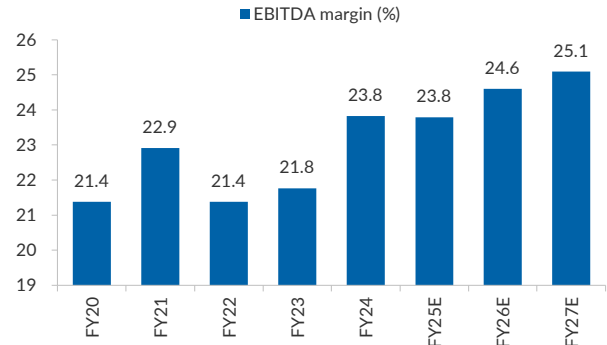
Source: Company, YES Sec

**Exhibit 5: Gross margin expected to see ~150bps expansion to 58% by FY27E.**



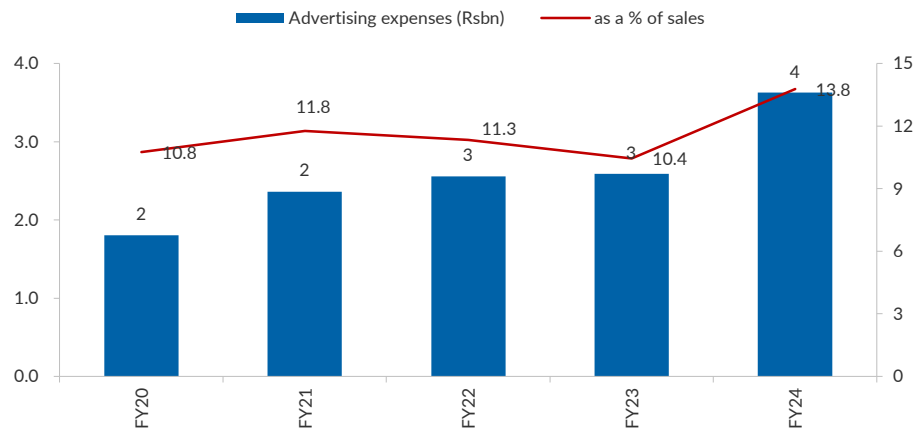
Source: Company, YES Sec

**Exhibit 6: ..EBITDA margins are expected to improve by 130bps to 25.1% over FY24-27E**



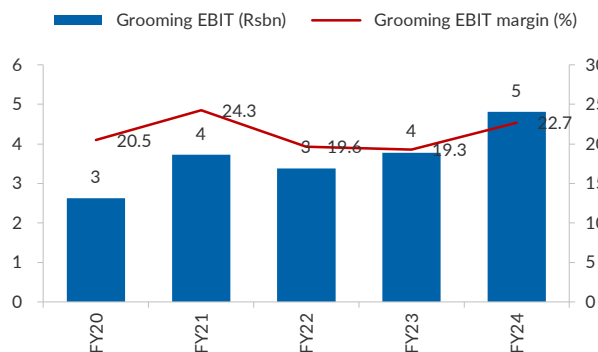
Source: Company, YES Sec

**Exhibit 7: A&SP was Rs3.6bn, higher by 340bps YoY at 13.8% in FY24 to support innovations**



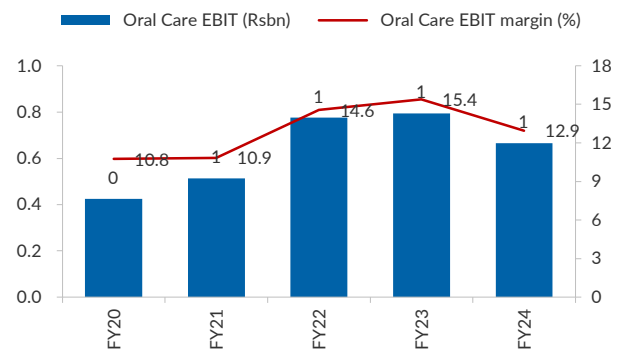
Source: Company, YES Sec

**Exhibit 8: Grooming segment EBIT margin up by ~340bps to 22.7% in FY24**



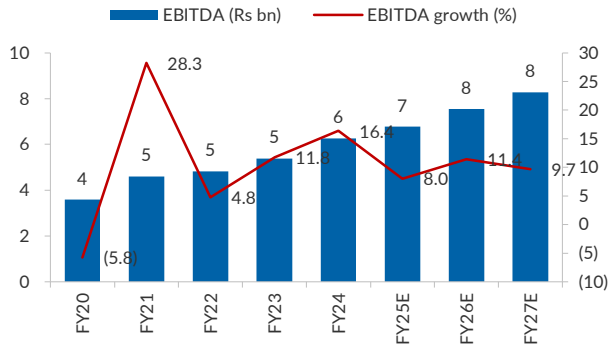
Source: Company, YES Sec

**Exhibit 9: Oral segment EBIT margin moderated by 240bps to 12.9% in FY24**



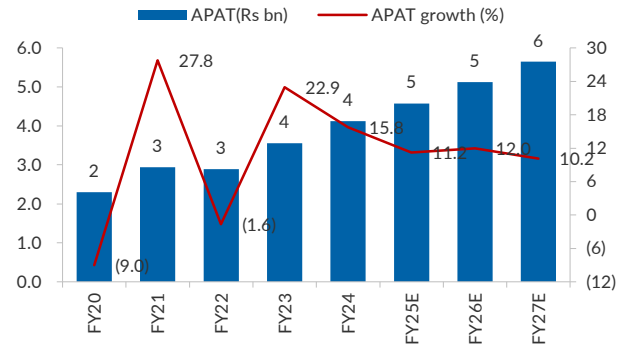
Source: Company, YES Sec

**Exhibit 10: EBITDA is expected to reach Rs8.3bn at a CAGR of 9.7% over FY24-27E**



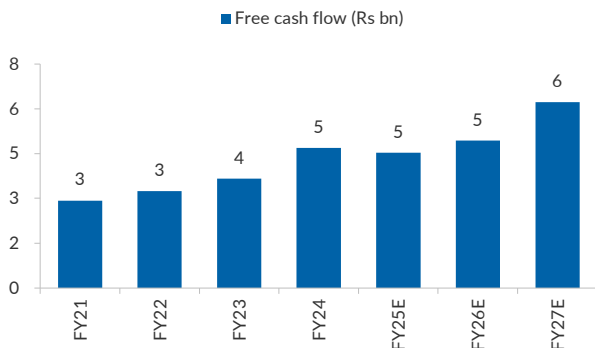
Source: Company, YES Sec

**Exhibit 11: APAT would reach Rs5.6bn at a CAGR of 11.1% over FY24-27E**



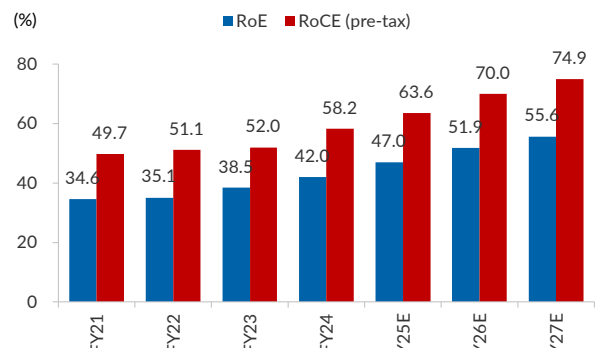
Source: Company, YES Sec

**Exhibit 12: Free cash flow would reach Rs6.2bn by FY27E**



Source: Company, YES Sec

**Exhibit 13: ROE and ROCE (pre-tax) expected to reach 55.6% and 74.9% respectively by FY27E**

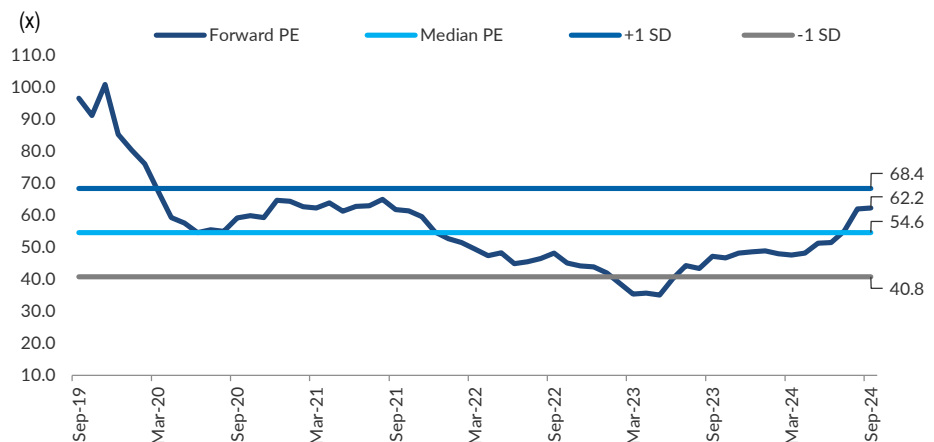


Source: Company, YES Sec

## View & Valuation

- We expect revenues to grow in grow by ~8.2% in FY25E on a base of ~6.3% led by 1) Continued momentum in grooming segment with an added support from value portfolio as we anticipate rural volume recovery in near-term, 2) Growth recovery in oral care on lower base, 3) Exports recovery in FY25.
- Over FY24-27E, we estimate 7.8% 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 ~130bps improvement in EBITDA margin largely led by pricing+premiumization and productivity interventions leading to EBITDA growth of 9.7% over FY24-27E.
- Gillette's market share are at highest levels and continue to gain. With strong traction in Gillette Labs, upgraded Guard product and continued innovations, it's market share should further improve or atleast be maintained in a competitive environment.
- The company boasts strong return ratios and has also shown healthy growth in dividends over the years.
- We recently (post the June'24 quarterly results) downgraded the stock to NEUTRAL rating from BUY after it delivered ~63% post our initiation on 30th Aug 2023. It is currently trading at ~64x/57x/52x June'25/June'26/June'27E EPS. Information provided during the analyst meet does not lead to any change in our earnings or target price (TP), hence we maintain our TP of Rs9,035, targeting ~56x on Sep'26E EPS (similar to its 5yr avg fwd. multiple).

**Exhibit 14: Currently trading at ~62x 1-yr forward earnings**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 15: Balance Sheet

Y/E June (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	326	326	326	326	326
Reserves	9,563	9,387	9,430	9,686	9,968
Net worth	9,889	9,713	9,756	10,012	10,294
Total debt	0	0	0	0	0
Deferred tax liability and others	-458	-535	-535	-535	-535
<b>Total liabilities</b>	<b>10,545</b>	<b>10,182</b>	<b>10,225</b>	<b>10,482</b>	<b>10,764</b>
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	2493	2239	2556
Inventories	4,124	3,958	4,871	4,067	5,428
Debtors	3,202	2,743	3,189	2,867	3,462
Cash	4,556	4,756	4,661	5,244	6,083
Other current assets	591	383	383	383	383
Total current assets	12,499	11,866	13,129	12,585	15,382
Creditors	6,801	6,390	7,873	6,428	8,764
Other current liabilities & provisions	1,357	1,200	1,363	1,548	1,762
Total current liabilities	8,158	7,590	9,235	7,976	10,526
Net current assets	4,341	4,276	3,894	4,610	4,856
<b>Total assets</b>	<b>10,545</b>	<b>10,182</b>	<b>10,225</b>	<b>10,482</b>	<b>10,764</b>

Source: Company, YES Sec

### Exhibit 16: Income statement

Y/E June (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	24,771	26,331	28,489	30,696	32,999
<b>% Growth</b>	<b>9.8%</b>	<b>6.3%</b>	<b>8.2%</b>	<b>7.7%</b>	<b>7.5%</b>
COGS	11,881	11,013	12,395	13,049	13,863
Staff costs	1,698	1,874	2,080	2,272	2,409
Advertising costs	2,916	3,629	3,678	3,978	4,293
Other expenses	2,884	3,541	3,557	3,848	4,154
Total expenses	19,379	20,057	21,710	23,147	24,718
EBITDA	5,392	6,274	6,779	7,549	8,281
<b>% growth</b>	<b>11.8%</b>	<b>16.4%</b>	<b>8.0%</b>	<b>11.4%</b>	<b>9.7%</b>
<b>EBITDA margin (%)</b>	<b>21.8%</b>	<b>23.8%</b>	<b>23.8%</b>	<b>24.6%</b>	<b>25.1%</b>
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	6,118	6,851	7,547
Tax	1,172	1,506	1,540	1,724	1,900
PAT (before exceptional items)	3,557	4,117	4,578	5,126	5,648
PAT	3,557	4,117	4,578	5,126	5,648
<b>PAT margin (%)</b>	<b>14.4%</b>	<b>15.6%</b>	<b>16.1%</b>	<b>16.7%</b>	<b>17.1%</b>
<b>% Growth</b>	<b>22.9%</b>	<b>15.8%</b>	<b>11.2%</b>	<b>12.0%</b>	<b>10.2%</b>

Source: Company, YES Sec

## Exhibit 17: Cash flow statement

Y/E June (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
PAT	3,557	4,117	4,578	5,126	5,648
Depreciation	807	826	880	955	1,030
Net other income	-222	-261	-290	-322	-357
(Inc.)/dec. in working capital	190	265	287	-133	594
<b>Cash flow from operations</b>	<b>4,409</b>	<b>5,034</b>	<b>5,525</b>	<b>5,692</b>	<b>6,975</b>
Capital expenditure (-)	-746	-336	-991	-750	-750
<b>Net cash after capex</b>	<b>3,663</b>	<b>4,698</b>	<b>4,535</b>	<b>4,942</b>	<b>6,225</b>
Inc./(dec.) in investments	219	175	477	79	545
<b>Cash from investing activities</b>	<b>-527</b>	<b>-161</b>	<b>-514</b>	<b>-671</b>	<b>-205</b>
Dividends paid (-)	-2,314	-4,399	-4,349	-4,870	-5,365
Inc./(dec.) in total borrowings	76	-273	-70	-65	-60
<b>Cash from financial activities</b>	<b>-2,238</b>	<b>-4,672</b>	<b>-4,419</b>	<b>-4,935</b>	<b>-5,425</b>
Opening cash balance	2,911	4,556	4,756	4,661	5,244
Closing cash balance	4,556	4,756	4,661	5,244	6,083
Change in cash balance	1,645	201	-95	583	839

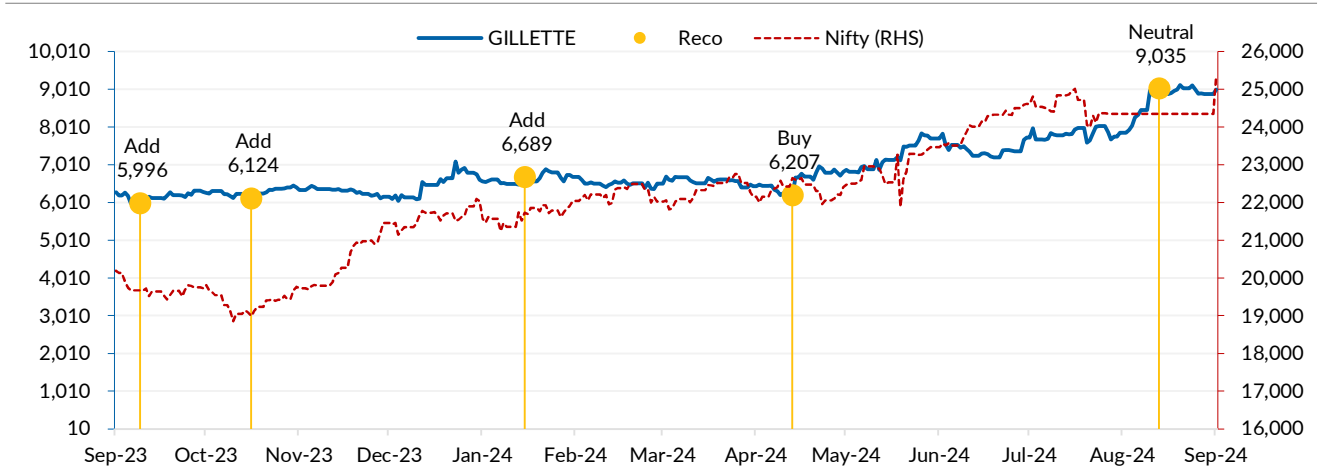
Source: Company, YES Sec

## Exhibit 18: Growth and Ratio matrix

Y/E June	FY23	FY24	FY25E	FY26E	FY27E
<b>Per share (Rs)</b>					
EPS	109.1	126.3	140.5	157.3	173.3
Book value	303.4	298.0	299.3	307.2	315.9
DPS	85.0	135.0	133.4	149.4	164.6
<b>Valuation (x)</b>					
P/Sales	11.8	11.1	10.3	9.6	8.9
EV/sales	11.8	11.1	10.2	9.5	8.8
EV/EBITDA	54.1	46.5	43.1	38.7	35.2
P/E	82.5	71.3	64.1	57.3	52.0
P/BV	29.7	30.2	30.1	29.3	28.5
<b>Return ratios (%)</b>					
RoCE (pre-tax)	52.0	58.2	63.6	70.0	74.9
RoE	38.5	42.0	47.0	51.9	55.6
RoIC (pre-tax)	81.7	100.6	115.3	134.5	162.6
<b>Profitability ratios (%)</b>					
Gross margin	52.0	58.2	56.5	57.5	58.0
EBITDA margin	21.8	23.8	23.8	24.6	25.1
EBIT margin	3.3	3.1	3.1	3.1	3.1
PAT margin	14.4	15.6	16.1	16.7	17.1
<b>Liquidity ratios (%)</b>					
Current ratio	1.5	1.6	1.4	1.6	1.5
Quick ratio	1.0	1.0	0.9	1.1	0.9
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	1.3	1.5	1.5	1.7	1.5
Fixed asset turnover ratio (x)	6.4	7.6	8.5	9.8	11.6
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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Analyst signature

Analyst signature

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