

Gillette India

24 November 2020

Reuters: GILE.NS; Bloomberg: GILL IN

FY20 performance fully captures lockdown impact; We expect strong growth in FY21 on a low base

We pored over Gillette India's (GILL) annual report for FY20 (June-ending). Below are the key excerpts from the same:

FY20 (June-ending) performance: Sales, EBITDA and Adj. PAT declined by 9.8%, 5.8% and 9.0%, respectively. Gross margin was up by 70bps at 56.7%, leading to EBITDA margin expansion of 90bps to 21.4%. Advertising expenses were down 9.4% at ~Rs2bn (-110bps to 10.8% of revenues) and trade incentives were down by 61.1% at Rs230mn. The company declared a total dividend of Rs49 per share for FY20.

Industry & demand environment: Pandemic-led lockdown resulted in reduction of shaving frequency among consumers, which significantly affected the company's sales in April'20 and May'20. With the easing of the lockdown, GILL saw a sharp recovery to the pre-COVID levels since June'20. As of date, production and services are back to pre-COVID levels. In the recent quarter's results (1QFY21 June-ending), the management mentioned that the strong topline growth of 11.7% YoY was on the back of strong product innovations, trusted portfolio, market recovery and strong execution of brand & retail fundamentals. Despite near term challenges, the company will continue to work towards driving balanced growth on the back of brand fundamentals, strength of the product portfolio and improved execution.

Grooming segment (76.4% of revenue): Grooming business declined by 12% in FY20 but its EBIT margin expanded by ~160bps to 20.5%. The company continued to be the market leader in the men's grooming category and reached its highest ever market share in FY20 in the Blades and Razors category. While there is a visible reduction in shaving frequency, GILL continuous to add new users to the *Gillette* franchise, which has been driven by product superiority and commercial innovations. During the year, the company launched *Gillette SkinGuard* (a premium system razor) and *Guard* Personal Care portfolio (an entry level pre-shave range of products). *Gillette Guard*, the company's pioneering entry-level offering, registered its strongest value, volume and share growth, led by strong awareness, activation and go-to-market strategies. *Gillette Double Edge blades* continued to grow, led by the launch of the new *Gillette Winner*. Within the female grooming portfolio, *Gillette Venus* clocked its strongest value, volume and share growth.

Oral Care segment (23.6% of revenue): Oral Care business declined by 1.9% with EBIT margin contraction of ~310bps to 10.8%. However, the decline of 1.9% in topline was on a strong base of 16.7% growth in FY19 and was backed by growth across value share, volume share and brand penetration. GILL managed to grow ahead of the category on the back of innovations and a strong go-to-market execution. Innovation within the category included the kid's entry-tier, sensitive entry-tier, clove portfolio across tiers and rechargeable electric toothbrush for kids featuring *Star Wars* and *Frozen* characters. The company continued to leverage its targeted trial programs and deeper distribution plans to enable more consumers to have access to superior brushes. During the year, *Oral-B* continued its collaboration with dentists to promote oral health awareness via the free dental checkup program.

Response to the pandemic & CSR: In response to the pandemic, the group launched *P&G Suraksha India* to serve communities by partnering with government and relief organizations. It also reinvented its flagship CSR program *P&G Shiksha* to reach children remotely. Further, GILL launched the *Gillette Barber Suraksha Program* to enable the barber community restart their business while maintaining high standards of safety, health and hygiene. The company, through its *Safalta Apni Mutthi Mein* program, continues to groom the youth of the nation on key skills required to increase employability and has reached over 8000+ colleges & universities.

Outlook and valuation: With the easing of lockdown, GILL has seen a sharper-than-expected recovery since June'20. Going forward, we expect the company to deliver even higher growth in the rest of FY21 due to a low base, market recovery, service levels already coming back to pre-Covid levels in 1QFY21, product innovations and strong retail execution. The stock currently trades at 57.4x/50.1x/45.1x FY21E/FY22E/FY23E EPS. We retain our Accumulate rating with a target price (TP) of Rs5,895 by assigning a P/E multiple of 50x on September 2022 EPS.

ACCUMULATE

Sector: FMCG

CMP: Rs5,750

Target Price: Rs5,895

Upside: 3%

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Key Data

Current Shares O/S (mn)	32.6
Mkt Cap (Rsbn/US\$bn)	187.4/2.5
52 Wk H / L (Rs)	7,054/4,420
Daily Vol. (3M NSE Avg.)	9,631

Price Performance (%)

	1 M	6 M	1 Yr
Gillette India	9.1	19.0	(16.6)
Nifty Index	9.4	44.4	9.6

Source: Bloomberg

[FY20 Annual Report](#)

Exhibit 1: Financial summary

Y/E June (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	18,617	16,791	20,044	21,381	22,571
YoY growth (%)	11.0	-9.8	19.4	6.7	5.6
EBITDA	3,810	3,590	4,753	5,477	5,921
EBITDA margin (%)	20.5	21.4	23.7	25.6	26.2
PAT	2,529	2,302	3,262	3,737	4,156
EPS	77.6	70.6	100.1	114.7	127.5
YoY growth (%)	18.6	-9.5	10.4	-9.0	41.7
ROCE (%)	35.1	27.7	35.2	38.9	40.6
ROE (%)	34.4	27.2	34.6	38.3	40.1
ROIC (%)	46.6	34.0	47.2	64.6	83.3
P/E (x)	74.1	81.4	57.4	50.1	45.1
P/B (x)	24.1	20.6	19.2	19.2	17.1
EV/EBITDA (x)	48.4	51.3	38.8	33.7	31.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segmental performance

Description	FY15	FY16	FY17	FY18	FY19	FY20
Net Sales (Rsmn)	19,735	18,630	17,882	16,769	18,617	16,791
Grooming	13,853	14,212	14,407	13,313	14,584	12,836
Oral Care	4,895	3,545	3,476	3,455	4,033	3,955
Portable Power	988	873	-	-	-	-
Sales proportion (%)						
Grooming	70.2%	76.3%	80.6%	79.4%	78.3%	76.4%
Oral Care	24.8%	19.0%	19.4%	20.6%	21.7%	23.6%
Portable Power	5.0%	4.7%	-	-	-	-
Growth (%)						
Grooming	12.6%	2.6%	1.4%	-7.6%	9.5%	-12.0%
Oral Care	12.7%	-27.6%	-1.9%	-0.6%	16.7%	-1.9%
Portable Power	16.0%	-11.6%	-	-	-	-
EBIT (Rsmn)	1,586	2,901	3,472	3,374	3,312	3,052
Grooming	2,261	2,485	3,016	2,932	2,751	2,627
Oral Care	-791	242	456	441	561	426
Portable Power	116	174	-	-	-	-
EBIT margin (%)						
Grooming	16.3%	17.5%	20.9%	22.0%	18.9%	20.5%
Oral Care	-16.2%	6.8%	13.1%	12.8%	13.9%	10.8%
Portable Power	11.8%	19.9%	-	-	-	-
Change in EBIT margin (%)						
Grooming	1.9%	1.2%	3.5%	1.1%	-3.2%	1.6%
Oral Care	7.3%	23.0%	6.3%	-0.3%	1.1%	-3.1%
Portable Power	11.8%	8.2%	-	-	-	-

Source: Company, Nirmal Bang Institutional Equities Research

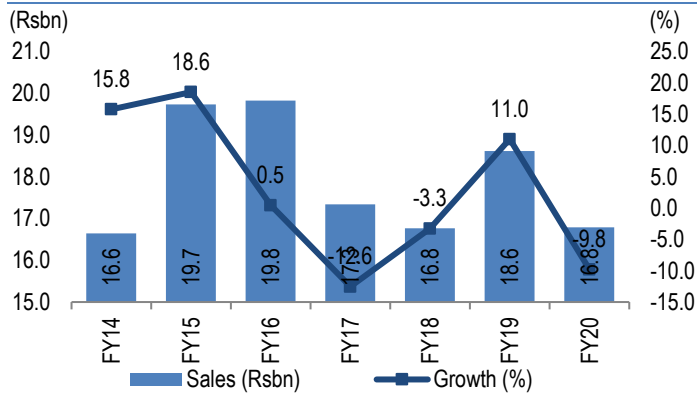
Exhibit 3: New launches during FY20



Source: Company, Nirmal Bang Institutional Equities Research

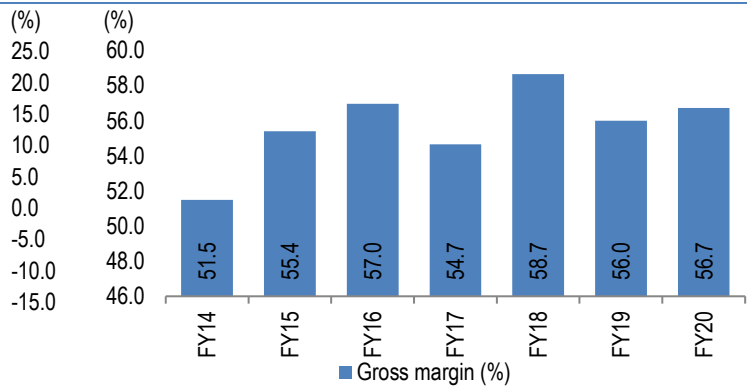
FINANCIAL STORY IN CHARTS

Exhibit 4: Net sales declined by 9.8% YoY to Rs16.8bn



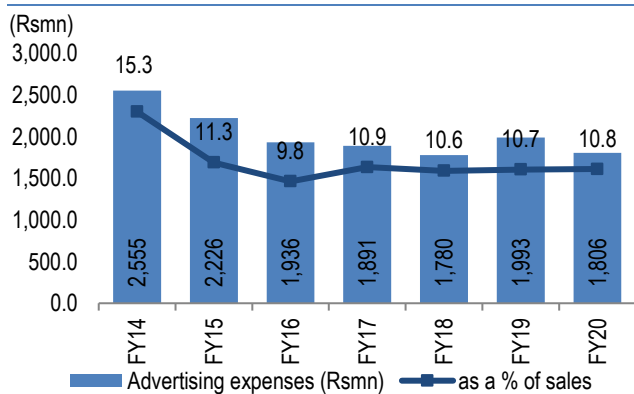
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Gross margin expanded by 72bps YoY to 56.7%



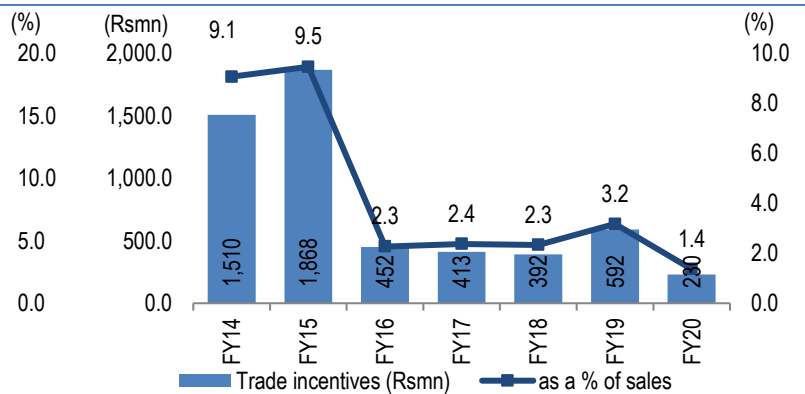
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Advertisement expenses stood at Rs1.8bn in FY20, i.e. 10.8% of sales



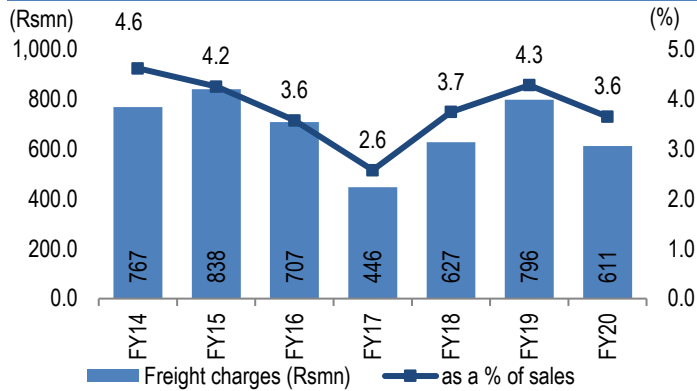
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Trade incentives stood at Rs230mn in FY20, i.e. 1.4% of sales



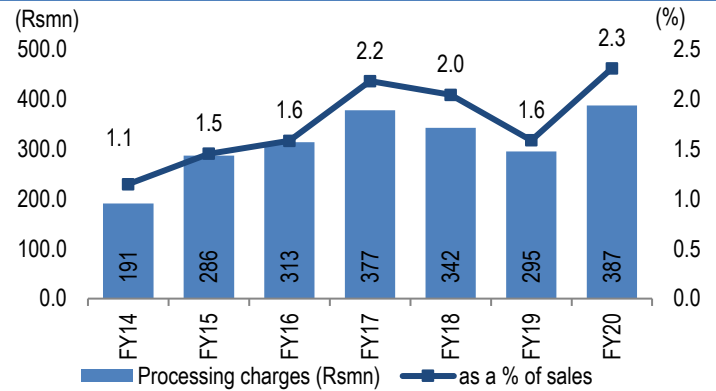
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Freight charges stood at Rs611mn in FY20, i.e. 3.6% of sales



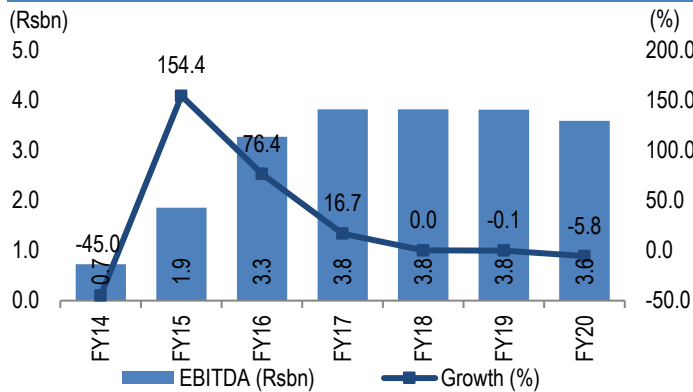
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Processing charges stood at Rs387mn in FY20, i.e. 2.3% of sales



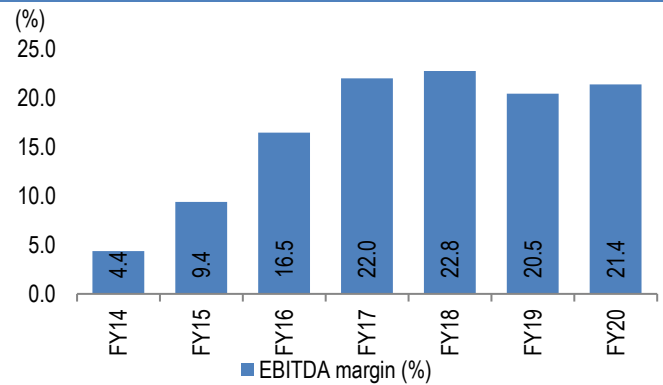
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: EBITDA declined by 5.8% YoY to Rs3.6bn



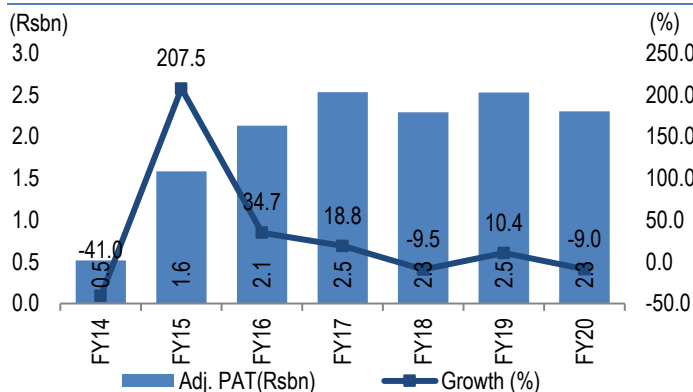
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: EBITDA margin expanded by 92bps YoY to 21.4%



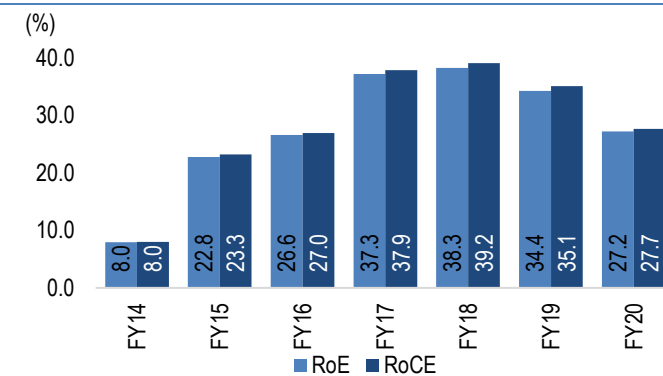
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Adj. PAT declined 9.0% to Rs2.3bn leading to...

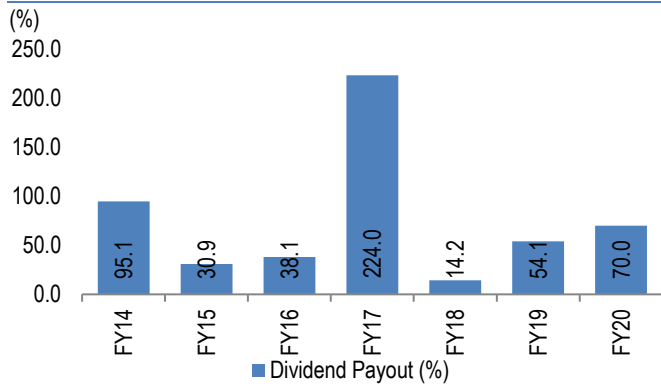


Source: Company, Nirmal Bang Institutional Equities Research

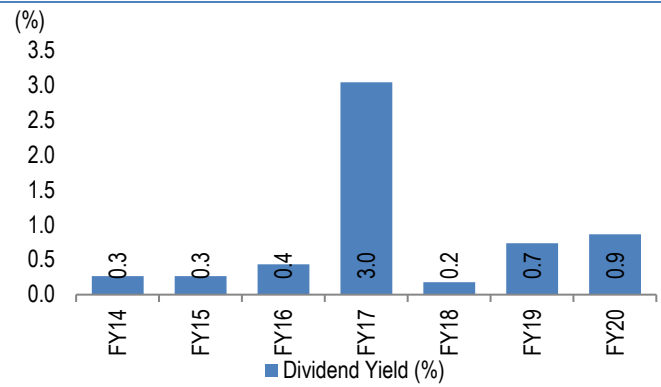
Exhibit 13: ...decline in return ratios during FY20



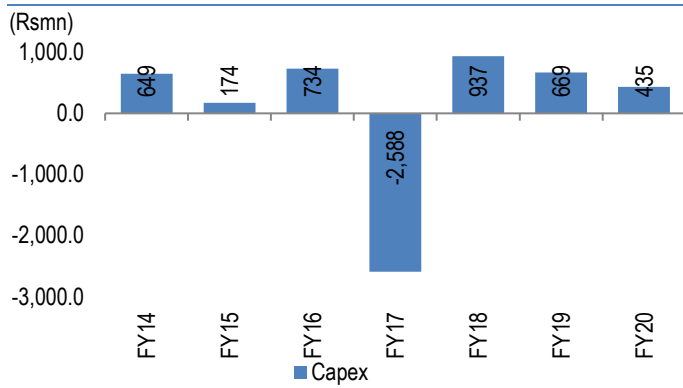
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Dividend payout ratio stood at 70% and...


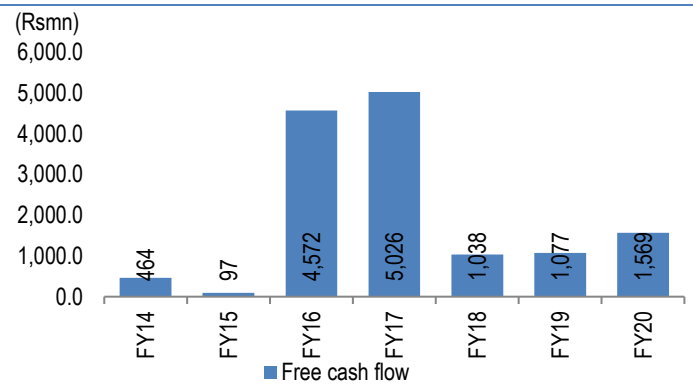
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: ...dividend yield stood at 0.9% in FY20


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Capex stood at a relatively lower Rs435mn ...


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: aiding increase in free cash flow


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Forex net outgo for the year stood at Rs3.3bn

Foreign exchange transactions (Rsmn)	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Earnings	156	1,037	585	1,526	2,782	1,437	1,406
Outgo	579	352	430	4,062	5,079	5,211	4,692
Net outgo	-423	684	155	-2,535	-2,296	-3,774	-3,286

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Cash conversion cycle

a) Cash conversion cycle (avg basis)	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Inventory days	52	40	41	49	46	43	56
Debtor days	20	19	21	25	33	35	41
Creditor days	53	48	54	68	71	60	62
Cash conversion cycle	19	11	8	7	8	18	35

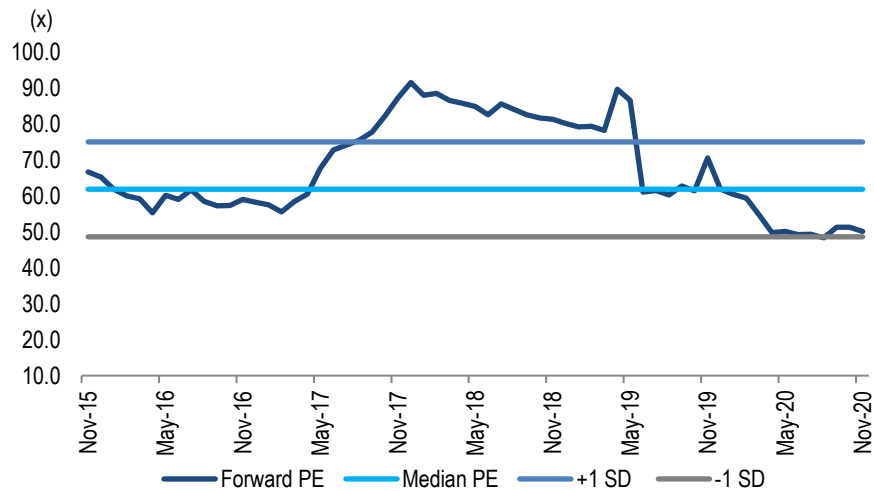
b) Cash conversion cycle (year-end basis)	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Inventory days	51	37	45	47	44	46	62
Debtor days	20	22	20	27	38	36	41
Creditor days	56	50	59	68	72	55	62
Cash conversion cycle	15	9	6	6	10	26	41

Source: Company, Nirmal Bang Institutional Equities Research; **Note: In 19a & 19b, days are calculated on Sales**

c) Cash conversion cycle (avg basis)	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Inventory days	106	90	95	108	111	97	130
Debtor days	20	19	21	25	33	35	41
Creditor days	108	109	126	149	172	136	143
Cash conversion cycle	18	0	-10	-16	-27	-4	28

d) Cash conversion cycle (year-end basis)	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Inventory days	104	84	105	103	105	104	143
Debtor days	20	22	20	27	38	36	41
Creditor days	116	111	137	150	173	126	144
Cash conversion cycle	9	-6	-13	-19	-30	15	40

Source: Company, Nirmal Bang Institutional Equities Research; **Note: In 19c & 19d, Debtor days calculated on Sales and Inventory/Creditor days calculated on COGS**

Exhibit 20: One- year forward P/E


Source: Company, Nirmal Bang Institutional Equities Research

Financials
Exhibit 21: Income statement

Y/E June (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Gross sales	18,617	16,791	20,044	21,381	22,571
Less: excise duty	0	0	0	0	0
Net Sales	18,617	16,791	20,044	21,381	22,571
% Growth	11.0%	-9.8%	19.4%	6.7%	5.6%
COGS	8,189	7,264	8,789	8,759	9,196
Staff costs	1,083	1,192	1,467	1,661	1,736
Advertising costs	2,305	2,036	2,225	2,462	2,575
Other expenses	3,230	2,708	2,809	3,022	3,143
Total expenses	14,807	13,200	15,290	15,903	16,650
EBITDA	3,810	3,590	4,753	5,477	5,921
% growth	-0.1%	-5.8%	32.4%	15.2%	8.1%
EBITDA margin (%)	20.5%	21.4%	23.7%	25.6%	26.2%
Other income	136	114	160	200	350
Interest costs	79	54	80	80	60
Depreciation	477	511	528	603	656
Profit before tax (before exceptional items)	3,391	3,140	4,305	4,994	5,554
Exceptional items	0	0	0	0	0
Tax	861	838	1,043	1,257	1,398
PAT (before exceptional items)	2,529	2,302	3,262	3,737	4,156
PAT	2,529	2,302	3,262	3,737	4,156
PAT margin (%)	13.5%	13.6%	16.1%	17.3%	18.1%
% Growth	10.4%	-9.0%	41.7%	14.5%	11.2%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: Balance sheet

Y/E June (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Share capital	326	326	326	326	326
Reserves	7,458	8,787	9,419	9,446	10,609
Net worth	7,784	9,113	9,745	9,772	10,935
Total debt	0	0	0	0	0
Deferred tax liability and others	189	385	225	-194	-194
Total liabilities	7,973	9,498	9,970	9,577	10,741
Gross block	4,564	5,033	5,533	6,533	7,283
Depreciation	1,562	2,069	2,597	3,200	3,856
Net block	3,002	2,965	2,936	3,333	3,427
Capital work-in-progress	246	212	300	750	800
Investments	0	0	0	0	0
Other LTA	2524	2464	2550	400	500
Inventories	2,340	2,843	2,936	2,295	2,996
Debtors	1,825	1,907	1,937	1,929	2,029
Cash	1,417	2,325	3,076	4,122	5,193
Other current assets	429	574	860	660	660
Total current assets	6,012	7,648	8,810	9,006	10,877
Creditors	2,817	2,874	3,628	2,852	3,699
Other current liabilities & provisions	992	916	998	1,060	1,164
Total current liabilities	3,810	3,790	4,626	3,911	4,863
Net current assets	2,202	3,858	4,184	5,094	6,014
Total assets	7,973	9,498	9,970	9,577	10,741

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: Cash flow

Y/E June (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
PAT	2,529	2,302	3,262	3,737	4,156
Depreciation	477	511	528	603	656
Net other income	-58	-60	-80	-120	-290
(Inc./dec. in working capital)	-1,203	-748	425	135	151
Cash flow from operations	1,746	2,004	4,136	4,355	4,674
Capital expenditure (-)	-669	-435	-588	-1,450	-800
Net cash after capex	1,069	1,565	3,548	2,905	3,874
Inc./(dec.) in investments	-291	1,135	-207	1,330	250
Cash from investing activities	-968	695	-796	-120	-550
Dividends paid (-)	-1,647	-1,934	-2,349	-2,691	-2,993
Inc./(dec.) in total borrowings	-80	141	-241	-499	-60
Cash from financial activities	-1,727	-1,792	-2,589	-3,190	-3,053
Opening cash balance	2,366	1,417	2,325	3,076	4,122
Closing cash balance	1,417	2,325	3,076	4,122	5,193
Change in cash balance	-949	908	751	1,046	1,071

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 24: Key ratios

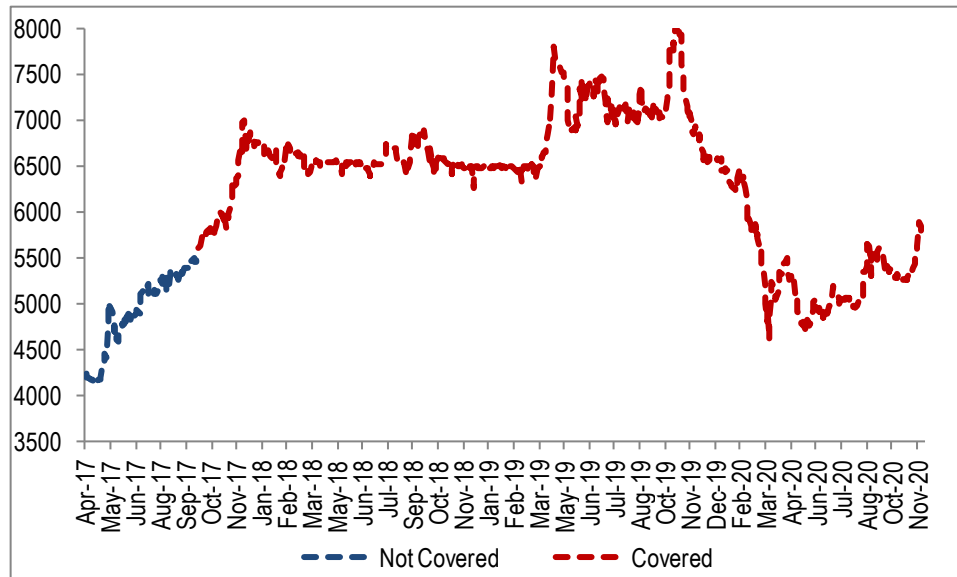
Y/E June	FY19	FY20	FY21E	FY22E	FY23E
Per share (Rs)					
EPS	77.6	70.6	100.1	114.7	127.5
Book value	238.8	279.6	299.0	299.8	335.5
DPS	42.0	49.4	60.1	68.8	76.5
Valuation (x)					
P/Sales	10.1	11.2	9.3	8.8	8.3
EV/sales	9.9	11.0	9.2	8.6	8.2
EV/EBITDA	48.4	51.3	38.8	33.7	31.1
P/E	74.1	81.4	57.4	50.1	45.1
P/BV	24.1	20.6	19.2	19.2	17.1
Return ratios (%)					
RoCE	35.1	27.7	35.2	38.9	40.6
RoE	34.4	27.2	34.6	38.3	40.1
RoIC	46.6	34.0	47.2	64.6	83.3
Profitability ratios (%)					
Gross margin	56.0	56.7	56.2	59.0	59.3
EBITDA margin	20.5	21.4	23.7	25.6	26.2
EBIT margin	17.9	18.3	21.1	22.8	23.3
PAT margin	13.5	13.6	16.1	17.3	18.1
Liquidity ratios (%)					
Current ratio	1.6	2.0	1.9	2.3	2.2
Quick ratio	1.0	1.3	1.3	1.7	1.6
Solvency ratio (%)					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
Turnover ratios					
Total asset turnover ratio (x)	1.6	1.3	1.4	1.6	1.4
Fixed asset turnover ratio (x)	6.2	5.7	6.8	6.4	6.6
Debtor days	35	41	35	33	32
Inventory days	97	130	120	109	105
Creditor days	136	143	135	135	130

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
23 Aug 2019	Accumulate	7,124	7,700
23 September 2019	Accumulate	7,148	7,930
6 November 2019	Accumulate	7,900	7,800
14 February 2020	Accumulate	6,356	6,677
30 March 2020	Accumulate	5,220	5,550
8 May 2020	Accumulate	4,991	4,870
27 August 2020	Accumulate	5,550	5,770
23 September 2020	Accumulate	5,378	5,770
10 November 2020	Accumulate	5,487	5,895
24 November 2020	Accumulate	5,750	5,895

Rating track graph



DISCLOSURES

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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