

Industry  
Bloomberg  
BSE CODE

Cons. Staples  
GILL IN  
507815

## Higher costs along with muted sales impacted profitability

RATING	HOLD
CMP	7864
Price Target	8088
Potential Upside	3%

Rating Change	↓
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	8200/6200
Mkt Capital (Rs Cr)	25625
Free float (%)	25%
Avg. Vol 1M (,000)	1
No. of Shares (Crs)	3
Promoters Pledged %	NA

### 1QFY20 Result update

- GILLETTE 1QFY20 numbers remained slightly better than our expectations; Sales grew by 1.2% YoY to Rs 462 cr. (vs. expect of Rs. 469 cr.) impacted by prevailing unfavorable macroeconomic condition.
- Male Grooming segment which contributed to the extent of ~74% to the revenue posted flat growth to Rs. 343 cr. while Oral care which contributed to the extent of ~26% grew by 5% YoY to Rs. 119 cr driven by category expansion, go-to market and brand building initiatives.
- Gross margin deteriorated by 253 bps to 53.8% YoY on account of higher COGS while EBITDA margin deteriorated by 222 bps to 21.2% YoY on account of higher COGS and ad expenses while lower other expenses by 274 bps put some cushion to it. Ad expenses grew by 237 bps YoY to Rs 66 cr (vs Rs 54 cr in Q1FY19). The Company is making heavy investment on Ad for brand building activities which in turn deteriorated Profitability of the company.
- Lower provisioning of Taxes as percentage of PBT by 4.91% (Rs 25 cr vs Rs 33 cr in 1QFY19) led to PAT of Rs 62 cr (vs. expect of Rs. 59 cr.) with negative PAT growth of 5% YoY with a PAT margin of 13.4% in 1QFY20.

### View and Valuation

GILLETTE's numbers for 1QFY20 remained slightly better than expectations. Sales remained impacted due to demand slowdown, liquidity issues prevailing in the economy while Gross and EBITDA margin declined on account of higher COGS and increased Advertising spends which in-turn impacted profitability of the company. Going forward, we expect company's effort on brand building and distribution expansion to fetch good dividend with the improvement in the overall demand scenario. We largely kept our sales and PAT estimates for FY21 unchanged while due to recent increase in prices of the company, we have changed our rating from ACCUMULATE to HOLD with the previous target price of Rs 8088.

### Key Risks to our rating and target

- Continuous thrust on Ad & Promotion may impact the profitability.
- Increase in prices of raw material.

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Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	1788	1677	1862	2029	2252
EBITDA	382	382	381	449	519
EBIT	343	339	333	407	479
PAT	253	229	253	312	367
EPS (Rs)	78	70	78	96	113
EPS growth (%)	18%	-9%	10%	24%	18%
ROE (%)	51%	33%	32%	35%	36%
ROCE (%)	69%	49%	43%	46%	47%
BV	154	213	239	272	312
P/B (X)	31.5	26.6	29.8	29.0	25.3
P/E (x)	62.4	80.7	91.9	82.4	70.0

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## 2QFY20 Results Slightly better

Fig in Rs Cr

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	457	476	466	464	462	1.2%	-0.4%	1,677	1,862	11.0%
Other Income	4	4	3	2	2	-55.8%	-30.6%	13	14	6.7%
COGS	199	195	194	230	214	7.1%	-7.3%	693	819	18.1%
Gross Margin	56%	59%	58%	50%	54%	-2.5%	3.4%	59%	56%	-2.7%
Empl. Ex.	32	25	25	26	33	2.2%	25.6%	118	108	-8.2%
Other Exp.	64	62	70	127	52	-18.5%	-59.0%	267	323	21.0%
Ad & P exp	54	96	30	51	66	21.4%	30.1%	217	230	6.1%
EBITDA	107	98	146	30	98	-8.4%	226.5%	382	381	-0.2%
EBITDA Mar.	23%	21%	31%	6%	21%	-2.2%	14.7%	23%	20%	-2.3%
Depreciation	11	12	12	13	12	7.5%	-3.9%	42	48	12.8%
EBIT	96	86	134	17	86	-10.3%	395.5%	339	333	-1.8%
Interest	1	2	1	4	1	-11.1%	-79.6%	7	8	5.2%
PBT	98	89	136	16	87	-12.0%	448.1%	345	339	-1.6%
Exceptional Item	-	-	-	-	-	-	-	-	-	-
Tax	33	35	48	(30)	25	-24.9%	-182.7%	116	86	-25.5%
PAT	65	54	88	46	62	-5.5%	34.8%	229	253	10.4%
PAT Margin	14%	11%	19%	10%	13%	-1.0%	3.5%	14%	14%	0%

## Revenue Break Up (Rs in Cr.):

Fig in Rs Cr

SEGMENTS	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Grooming	318	309	332	353	337	343	373	381	361	343
Oral care	90	99	75	99	72	113	102	85	103	119
<b>Total</b>	<b>408</b>	<b>408</b>	<b>408</b>	<b>452</b>	<b>410</b>	<b>457</b>	<b>476</b>	<b>466</b>	<b>464</b>	<b>462</b>

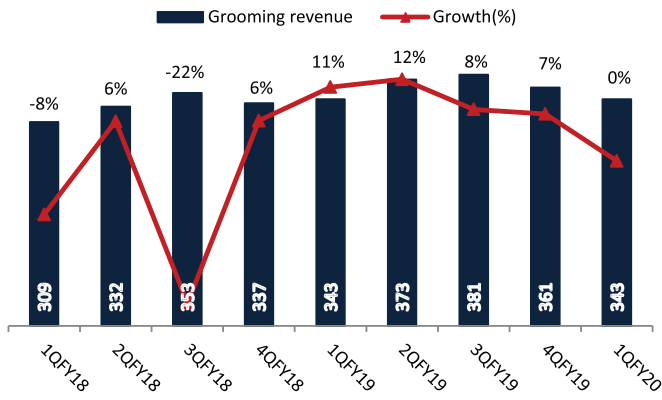
## Growth in different segment(%)

Fig in Rs Cr

SEGMENTS	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Grooming	-21%	-8%	6%	-22%	6%	11%	12%	8%	7%	0%
Oral care	11%	19%	-10%	17%	-20%	14%	36%	-14%	42%	5%
<b>Total</b>	<b>-16%</b>	<b>-3%</b>	<b>3%</b>	<b>-16%</b>	<b>0%</b>	<b>12%</b>	<b>17%</b>	<b>3%</b>	<b>13%</b>	<b>1%</b>

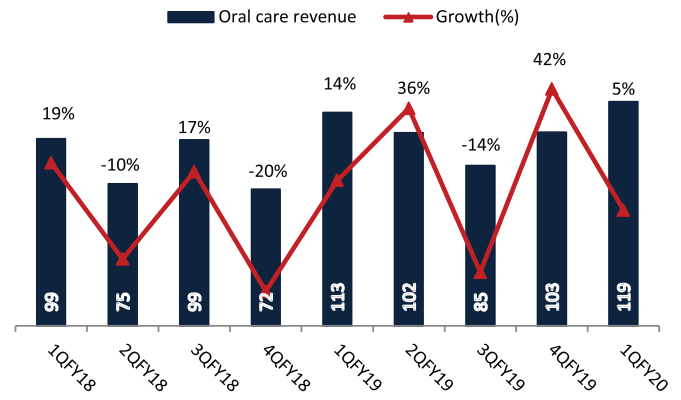
## Exhibit: Grooming revenue and Growth

The Company posted flat growth due to prevailing unfavorable macroeconomic conditions.



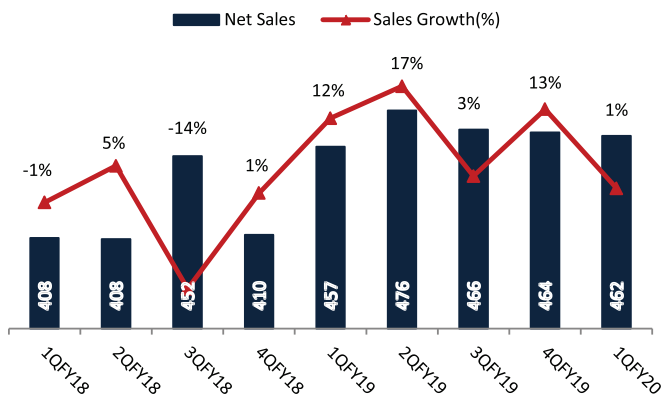
## Exhibit: Oral care revenue and Growth

Despite, unfavorable macroeconomic scenario Oral care posted a growth of 5% YoY.



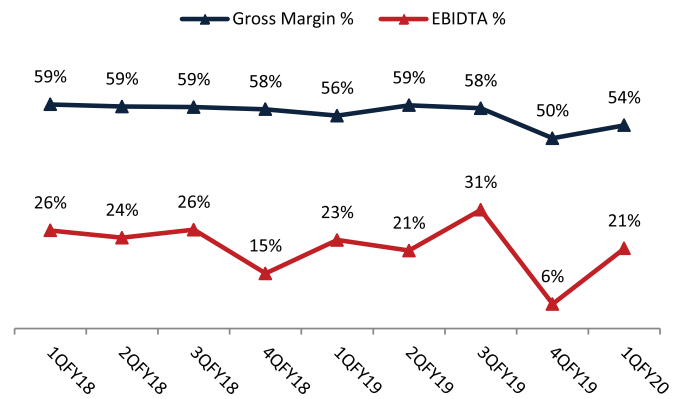
## Exhibit: Sales and Sales Growth

Sales grew by 1% YoY, driven by flat growth in grooming and better growth in oral care segment.



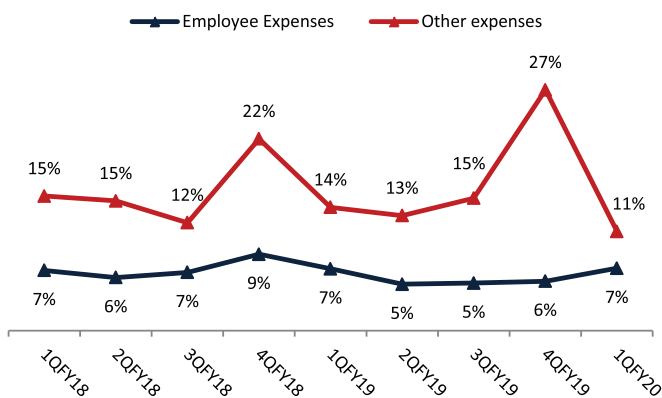
## Exhibit: Gross and EBITDA Margin

Gross margin decline on account of higher input cost which in turn deteriorated EBITDA margin.



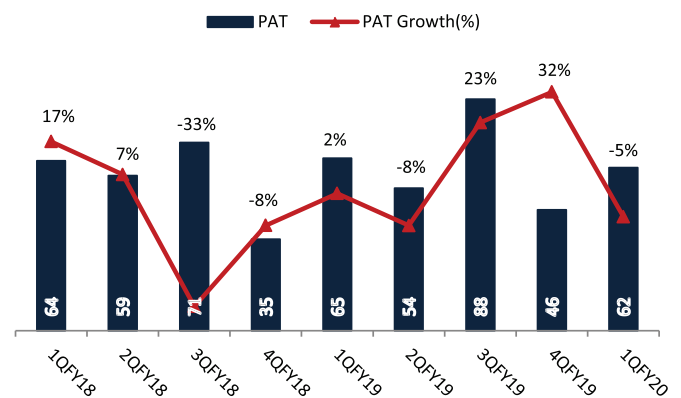
## Exhibit: Employee and Other expense

Employee expense increased by 6 bps while other expense declined by 274 bps in 1QFY20.



## Exhibit: PAT and PAT Growth

PAT de-grew by 5% YoY led by margin deterioration.



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	33	33	33	33	33	33	33	33
Reserves	611	710	904	468	662	746	855	983
<b>Networth</b>	<b>643</b>	<b>742</b>	<b>937</b>	<b>501</b>	<b>694</b>	<b>778</b>	<b>887</b>	<b>1,015</b>
Debt	-	-	-	-	-	-	-	-
Other Non Current Liab	5	3	4	5	35	79	79	79
<b>Total Capital Employed</b>	<b>643</b>	<b>742</b>	<b>937</b>	<b>501</b>	<b>694</b>	<b>778</b>	<b>887</b>	<b>1,015</b>
Net Fixed Assets (incl CWIP)	233	219	266	277	305	325	227	273
Non Current Investments	-	-	-	-	-	-	-	-
Other Non Current Assets	124	153	185	223	230	288	288	288
<b>Non Current Assets</b>	<b>357</b>	<b>372</b>	<b>451</b>	<b>500</b>	<b>535</b>	<b>613</b>	<b>515</b>	<b>561</b>
Inventory	231	202	245	222	200	234	255	283
Debtors	92	117	110	130	176	182	198	220
Cash & Bank	170	181	537	116	237	142	339	409
Other Current Assets	204	338	82	30	61	40	42	44
<b>Current Assets</b>	<b>697</b>	<b>837</b>	<b>973</b>	<b>498</b>	<b>674</b>	<b>597</b>	<b>834</b>	<b>956</b>
Creditors	256	268	321	323	329	281	306	340
Provisions	98	134	4	2	0	0	0	0
Other Current Liabilities	52	63	159	169	150	71	76	82
<b>Curr Liabilities</b>	<b>406</b>	<b>465</b>	<b>484</b>	<b>493</b>	<b>479</b>	<b>353</b>	<b>383</b>	<b>423</b>
<b>Net Current Assets</b>	<b>291</b>	<b>373</b>	<b>489</b>	<b>5</b>	<b>195</b>	<b>245</b>	<b>452</b>	<b>534</b>
<b>Total Assets</b>	<b>1,054</b>	<b>1,210</b>	<b>1,424</b>	<b>998</b>	<b>1,209</b>	<b>1,210</b>	<b>1,349</b>	<b>1,517</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>1,750</b>	<b>1,875</b>	<b>1,755</b>	<b>1,788</b>	<b>1,677</b>	<b>1,862</b>	<b>2,029</b>	<b>2,252</b>
Change (%)	22%	7%	-6%	2%	-6%	11%	9%	11%
<b>EBITDA</b>	<b>82</b>	<b>165</b>	<b>306</b>	<b>382</b>	<b>382</b>	<b>381</b>	<b>449</b>	<b>519</b>
Change (%)	(0)	1	1	25%	0%	0%	18%	15%
Margin (%)	5%	9%	17%	21%	23%	20%	22%	23%
Depr & Amor.	33	39	30	38	42	48	42	40
<b>EBIT</b>	<b>49</b>	<b>126</b>	<b>275</b>	<b>343</b>	<b>339</b>	<b>333</b>	<b>407</b>	<b>479</b>
Int. & other fin. Cost	0	5	6	7	7	8	8	9
Other Income	32	35	36	38	13	14	18	22
<b>EBT</b>	<b>81</b>	<b>156</b>	<b>306</b>	<b>374</b>	<b>345</b>	<b>339</b>	<b>418</b>	<b>491</b>
Exp Item	-	59	15	-	-	-	-	-
Tax	29	57	106	121	116	86	105	124
Minority Int & P/L share of Ass.								
Reported PAT	51	158	214	253	229	253	312	367
<b>Adjusted PAT</b>	<b>51</b>	<b>121</b>	<b>204</b>	<b>253</b>	<b>229</b>	<b>253</b>	<b>312</b>	<b>367</b>
Change (%)	(0)	2	0	18%	-9%	10%	24%	18%
Margin(%)	3%	8%	12%	14%	14%	14%	15%	16%

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	8%	21%	23%	51%	33%	32%	35%	36%
ROCE	8%	17%	29%	69%	49%	43%	46%	47%
Asset Turnover	2	2	1	2	1	2	2	1
Debtor Days	19	23	23	27	38	36	36	36
Inv Days	48	39	51	45	44	46	46	46
Payable Days	53	52	67	66	72	55	55	55
Int Coverage	137	27	50	51	45	42	52	51
P/E	135	94	70	62	81	92	82	70
Price / Book Value	11	20	16	32	27	30	29	25
EV/EBITDA	82	89	47	41	48	61	57	49
FCF per Share	3	35	65	47	48	18	126	98
Div Yield	0	0	0	0	0	1%	1%	1%

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	81	246	328	374	345	339	418	491
(inc)/Dec in Working Capital	60	(44)	85	6	(55)	(104)	(9)	(12)
Non Cash Op Exp	26	80	34	42	51	49	42	40
Int Paid (+)	0	5	6	7	7	8	8	9
Tax Paid	(44)	(80)	(139)	(145)	(101)	(146)	(105)	(124)
others	(27)	(34)	(34)	(37)	(11)	0.1	-	-
<b>CF from Op. Activities</b>	<b>96</b>	<b>172</b>	<b>279</b>	<b>248</b>	<b>237</b>	<b>136</b>	<b>353</b>	<b>405</b>
(inc)/Dec in FA & CWIP	(87)	(57)	(66)	(94)	(81)	(77)	56	(86)
Free Cashflow	9	115	213	154	156	59	409	319
(Pur)/Sale of Inv	-	-	-	-	-	-	-	-
others	51	(46)	221	107	4	11	-	-
<b>CF from Inv. Activities</b>	<b>(36)</b>	<b>(103)</b>	<b>155</b>	<b>14</b>	<b>(77)</b>	<b>(66)</b>	<b>56</b>	<b>(86)</b>
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	-	-	-	-	-	-	-	-
Int. Paid	(0)	(1)	(1)	(2)	-	-	(8)	(9)
Div Paid (inc tax)	(57)	(57)	(78)	(682)	(39)	(165)	(204)	(239)
others								
<b>CF from Fin. Activities</b>	<b>(57)</b>	<b>(58)</b>	<b>(79)</b>	<b>(684)</b>	<b>(39)</b>	<b>(165)</b>	<b>(211)</b>	<b>(249)</b>
Inc(Dec) in Cash	3	12	356	(422)	121	(95)	198	70
<b>Add: Opening Balance</b>	<b>166</b>	<b>169</b>	<b>181</b>	<b>536</b>	<b>114</b>	<b>235</b>	<b>142</b>	<b>339</b>
Closing Balance	169	181	536	114	235	140	339	409

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