

Industry
Bloomberg
BSE CODE

Cons. Staples
GILL IN
507815

Sales remained impacted due to economic slowdown while lower tax favored profitability

RATING	HOLD
CMP	6356
Price Target	6790
Potential Upside	7%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	8200/6203
Mkt Capital (Rs Cr)	20710
Free float (%)	25%
Avg. Vol 1M (,000)	1
No. of Shares (Crs)	3
Promoters Pledged %	NA

2QFY20 Result update

- In 2QFY20 GILLETTE revenue de-grew by 3.4% YoY to Rs 459 cr. (vs. our expectation of Rs. 486 cr.) impacted by prevailing unfavorable macroeconomic condition and trade inventory correction.
- Male Grooming segment which contributed to the extent of ~75% to the revenue de-grew by 8% YoY to Rs. 345 cr. while Oral care which contributed to the extent of ~25% grew by 12% YoY to Rs. 115 cr. driven by go-to market and brand building initiatives.
- Gross margin expanded by 74 bps to 59.8% YoY while improvement in EBITDA margin was 116 bps YoY to 21.8% YoY on account of lower Ad & P expense by 417 bps while other expense increased by 303 bps.
- Lower provisioning of Taxes as percentage of PBT by 18.2% (Rs. 19 cr. vs. Rs 35 cr in 2QFY19) led to PAT of Rs. 71 cr. (vs our expectation of Rs 58 cr) with PAT growth of 32% YoY and PAT margin of 15.5% in 2QFY20.

View and Valuation

GILLETTE's numbers for 2QFY20 remained mixed as sales were impacted due to unfavorable macroeconomic condition and trade inventory correction. Gross margin improvement was led by benign input prices while EBITDA margin expansion was restricted due to higher other expense. However, lower tax favored company's profitability. 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 have largely kept our sales and PAT estimates for FY21 unchanged and have maintained HOLD rating with the previous target price of Rs. 6790.

Key Risks to our rating and target

- Steep increase in Ad & Promotion may impact the profitability.
- Increase in prices of raw material.

RESEARCH ANALYST

RAJEEV ANAND

rajeev.anand@narnolia.com
+91-22-62701229

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	1788	1677	1862	1907	2073
EBITDA	382	382	381	415	443
EBIT	343	339	333	373	403
PAT	253	229	253	287	310
EPS (Rs)	78	70	78	88	95
EPS growth (%)	18%	-9%	10%	13%	8%
ROE (%)	51%	33%	32%	33%	31%
ROCE (%)	69%	49%	43%	42%	41%
BV	154	213	239	270	303
P/B (X)	31.5	26.6	29.8	23.6	21.0
P/E (x)	62.4	80.7	91.9	72.1	66.8

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Narnolia Financial Advisors Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

2QFY20 Results Sales below estimate

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	476	466	464	462	459	-3.4%	-0.6%	1,677	1,862	11.0%
Other Income	4	3	2	2	4	7.9%	160.1%	13	14	6.7%
COGS	195	194	230	214	185	-5.2%	-13.6%	693	819	18.1%
Gross Margin	59%	58%	50%	54%	60%	0.7%	6.0%	59%	56%	-2.7%
Empl. Ex.	25	25	26	33	28	9.9%	-16.0%	118	108	-8.2%
Other Exp.	62	70	127	52	74	19.0%	42.0%	267	323	21.0%
Ad & P exp	96	30	51	66	73	-23.5%	11.2%	217	230	6.1%
EBITDA	98	146	30	98	100	2.0%	2.1%	382	381	-0.2%
EBITDA Mar.	21%	31%	6%	21%	22%	1.2%	0.6%	23%	20%	-2.3%
Depreciation	12	12	13	12	13	7.7%	2.7%	42	48	12.8%
EBIT	86	134	17	86	87	1.2%	2.0%	339	333	-1.8%
Interest	2	1	4	1	2	8.0%	135.0%	7	8	5.2%
PBT	89	136	16	87	90	1.4%	3.8%	345	339	-1.6%
Exceptional Item	-	-	-	-	-	-	-	-	-	-
Tax	35	48	(30)	25	19	-45.7%	-24.1%	116	86	-25.5%
PAT	54	88	46	62	71	31.6%	15.1%	229	253	10.4%
PAT Margin	11%	19%	10%	13%	15%	4.1%	2.1%	14%	14%	0%

Revenue Break Up (Rs in Cr.):

Fig in Rs Cr

SEGMENTS	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Grooming	309	332	353	337	343	373	381	361	343	345
Oral care	99	75	99	72	113	102	85	103	119	115
Total	408	408	452	410	457	476	466	464	462	459

Growth in different segment(%)

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

Exhibit: Grooming revenue and Growth

The Company posted negative growth in grooming segment due to prevailing unfavorable macroeconomic conditions.

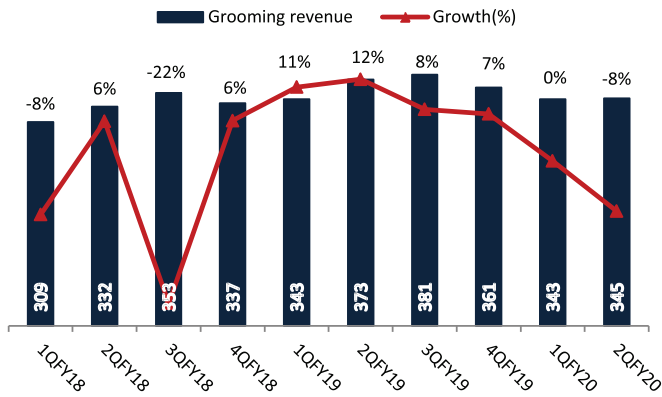


Exhibit: Oral care revenue and Growth

Despite, unfavorable macroeconomic scenario Oral care posted a growth of 12% YoY.

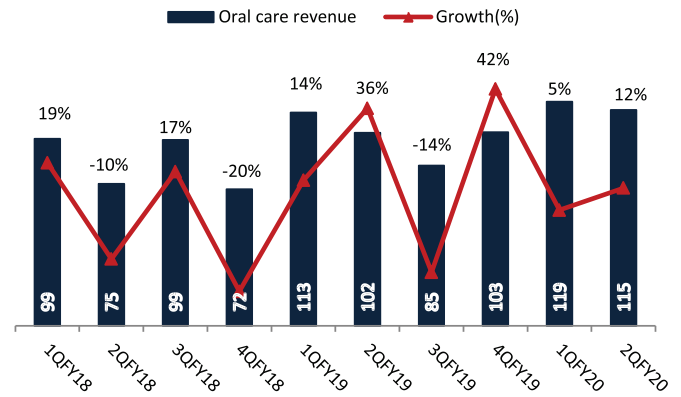


Exhibit: Sales and Sales Growth

Sales de-grew on account of subdued performance from grooming segment.

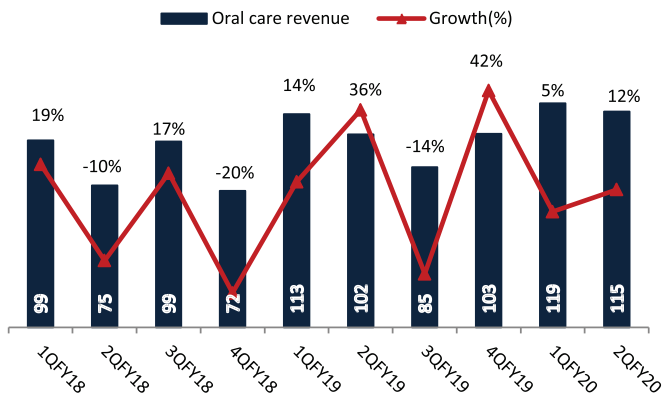


Exhibit: Gross and EBITDA Margin

GrossM. expansion led by benign input cost EBITDAM. expansion was driven by lower Ad & P spends.

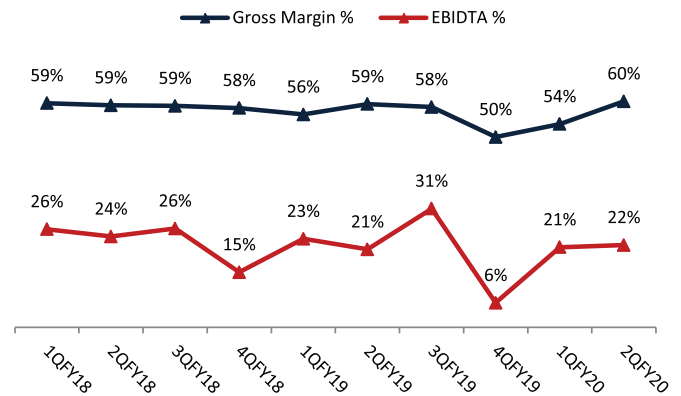


Exhibit: Employee and Other expense

Employee expense increased by 73 bps while other expense increased by 303 bps in 2QFY20.

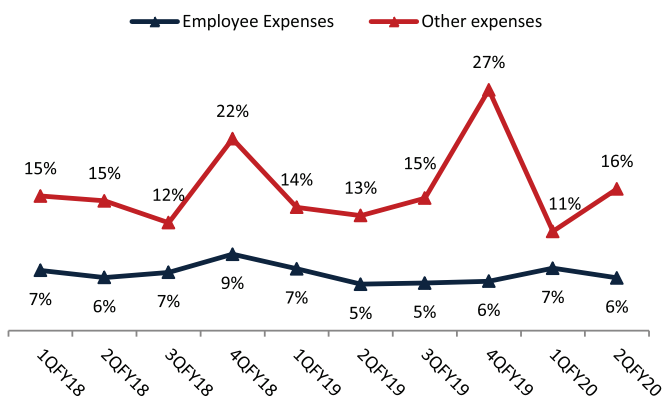
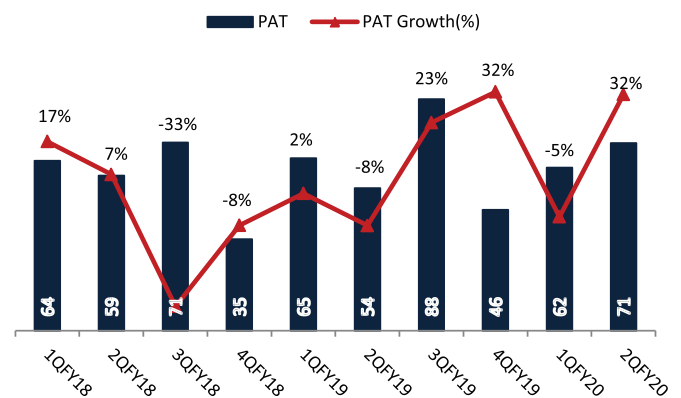


Exhibit: PAT and PAT Growth

PAT growth led by lower tax while PAT margin stood at 15.5% in 2QFY20.



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	846	954
Networth	643	742	937	501	694	778	878	987
Debt	-	-	-	-	-	-	-	-
Other Non Current Liab	5	3	4	5	35	79	79	79
Total Capital Employed	643	742	937	501	694	778	878	987
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
Non Current Assets	357	372	451	500	535	613	515	561
Inventory	231	202	245	222	200	234	240	261
Debtors	92	117	110	130	176	182	186	202
Cash & Bank	170	181	537	116	237	142	337	390
Other Current Assets	204	338	82	30	61	40	40	42
Current Assets	697	837	973	498	674	597	803	895
Creditors	256	268	321	323	329	281	288	313
Provisions	98	134	4	2	0	0	0	0
Other Current Liabilities	52	63	159	169	150	71	72	77
Curr Liabilities	406	465	484	493	479	353	361	391
Net Current Assets	291	373	489	5	195	245	443	504
Total Assets	1,054	1,210	1,424	998	1,209	1,210	1,318	1,456

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	1,750	1,875	1,755	1,788	1,677	1,862	1,907	2,073
Change (%)	22%	7%	-6%	2%	-6%	11%	2%	9%
EBITDA	82	165	306	382	382	381	415	443
Change (%)	(0)	1	1	25%	0%	0%	9%	7%
Margin (%)	5%	9%	17%	21%	23%	20%	22%	21%
Depr & Amor.	33	39	30	38	42	48	42	40
EBIT	49	126	275	343	339	333	373	403
Int. & other fin. Cost	0	5	6	7	7	8	8	9
Other Income	32	35	36	38	13	14	18	21
EBT	81	156	306	374	345	339	384	414
Exp Item	-	59	15	-	-	-	-	-
Tax	29	57	106	121	116	86	97	104
Minority Int & P/L share of Ass.								
Reported PAT	51	158	214	253	229	253	287	310
Adjusted PAT	51	121	204	253	229	253	287	310
Change (%)	(0)	2	0	18%	-9%	10%	13%	8%
Margin(%)	3%	8%	12%	14%	14%	14%	15%	15%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	8%	21%	23%	51%	33%	32%	33%	31%
ROCE	8%	17%	29%	69%	49%	43%	42%	41%
Asset Turnover	2	2	1	2	1	2	1	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	48	43
P/E	135	94	70	62	81	92	73	68
Price / Book Value	11	20	16	32	27	30	24	21
EV/EBITDA	82	89	47	41	48	61	50	47
FCF per Share	3	35	65	47	48	18	120	81
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	384	414
(inc)/Dec in Working Capital	60	(44)	85	6	(55)	(104)	(2)	(9)
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)	(97)	(104)
others	(27)	(34)	(34)	(37)	(11)	0.1	-	-
CF from Op. Activities	96	172	279	248	237	136	335	350
(inc)/Dec in FA & CWIP	(87)	(57)	(66)	(94)	(81)	(77)	56	(86)
Free Cashflow	9	115	213	154	156	59	390	264
(Pur)/Sale of Inv	-	-	-	-	-	-	-	-
others	51	(46)	221	107	4	11	-	-
CF from Inv. Activities	(36)	(103)	155	14	(77)	(66)	56	(86)
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)	(187)	(202)
others								
CF from Fin. Activities	(57)	(58)	(79)	(684)	(39)	(165)	(195)	(211)
Inc(Dec) in Cash	3	12	356	(422)	121	(95)	196	53
Add: Opening Balance	166	169	181	536	114	235	142	337
Closing Balance	169	181	536	114	235	140	337	390

Narnolia Financial Advisors Ltd. is a SEBI registered Research Analyst having SEBI Registration No. INH300006500. The Company/Analyst (s) does/do not have any holding in the stocks discussed but these stocks may have been recommended to clients in the past. Clients of Narnolia Financial Advisors Ltd. may be holding aforesaid stocks.

The stocks recommended are based on our analysis which is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed.

Disclosures: Narnolia Financial Advisors Ltd. (NFAL) (Formerly Microsec Capital Ltd.) is a SEBI Registered Research Analyst having registration no. INH300006500. NFAL is engaged in the business of providing Stock Broking, Depository Participant, Merchant Banking, Portfolio Management & distribution of various financial products. Details of associate entities of NFAL is available on the website at www.narnolia.com

No penalties have been levied on NFAL by any Regulatory/Statutory authority. NFAL, its associates, Research Analyst or their relative may have financial interest in the subject company. NFAL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. NFAL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of NFAL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. NFAL and/or its associates may have received compensation from the subject company in the past 12 months. In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, NFAL or any of its associates may have: a) managed or co-managed public offering of securities from subject company of this research report, b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report, c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report. d) Subject Company may have been a client of NFAL or its associates during 12 months preceding the date of distribution of the research report. NFAL and its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. NFAL and / or its affiliates may do and seek to do business including Investment Banking with companies covered in the research reports. As a result, the recipients of this report should be aware that NFAL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific Merchant Banking, Investment Banking or Brokerage service transactions. Research Analyst's views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of NFAL or its associates maintains arm's length distance with Research Team as all the activities are segregated from NFAL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Analyst Certification The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
---	-----

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerce Limited (Formerly Microsec Commerce Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVelox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

Disclaimer:

This report has been prepared by Narnolia Financial Advisors Ltd. (NFAL) and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of NFAL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NFAL will not treat recipients as customers by virtue of their receiving this report. Neither the Company, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL & its group companies to registration or licensing requirements within such jurisdictions.