

# Gillette India

25 August, 2021

Reuters: GILE.NS; Bloomberg: GILL IN

## Miss on all fronts in 4Q; Sharp increase seen in A&SP spends

Gillette India's (GILL) 4QFY21 (June-ending FY) performance was below our estimates on all fronts. Grooming business revenue came in ~17% below our estimate at Rs3.3bn (versus ~Rs4bn average quarterly run-rate seen in the previous three quarters). The segment also declined by 7.8% on the base of 4QFY19. Even the Oral Care business' revenue missed the previous three-quarters' average run-rate of ~Rs1.24bn and came in ~18% below our estimate at Rs1.03bn. The quarter also saw a sharp increase in Advertisement & Sales Promotion (A&SP) spends, much higher than what we had estimated. A&SP spends were up 78.2% QoQ at Rs1bn, which is the highest quarterly spend in the last 24 quarters. This along with higher other operating expenses (up 27.9% QoQ) led to a big miss on operating margin, which came in at 12% (down ~1100bps YoY). Full-year financials indicate that the cash conversion cycle still remains elevated and has only improved slightly from 35 days in FY20 to 31 days in FY21 (calculated on sales). Going forward, with increase in mobility, we expect shaving frequencies to increase. But, opening-up of salons might have a negative impact on shaving occasions at home, which benefitted the company in FY21. While we were expecting A&SP spends to increase in 4QFY21, the sharp spike came as a surprise. We expect spends on brand building to improve the revenue trajectory going forward. With the opening-up of markets, we also expect innovations to resume, a key focus area for GILL, which has aided in recruiting new consumers at premium level. Changes to our model have led to -1.7%/-0.5% change in our earnings estimates for FY22/FY23. The stock currently trades at 54.6x/48.1x FY22E/FY23E EPS as we build in 16.8% APAT CAGR over FY21-FY23E. We retain our Accumulate rating with a slightly revised target price (TP) of Rs6,000 (Rs6,020 earlier) (as we continue to assign a P/E multiple of ~50x on March'23E EPS).

**4QFY21 headline performance:** Revenue grew by 24.2% YoY to Rs4.4bn vs our est. of 49.4% YoY growth to Rs5.2bn. EBITDA was down 35.2% YoY at Rs523mn vs our est. of 71.4% YoY growth to Rs1.4bn. Adjusted PAT (APAT) was down 38.8% YoY at Rs275mn vs our est. of 81.5% YoY growth to Rs816mn.

**4QFY21 segmental performance:** Grooming business revenue (76.4% of total revenue in 4QFY21 vs 81.2% in 4QFY20) grew by just 16.8% YoY to Rs3.3bn on a lower base which had a 21.1% decline, way lower than the last three quarters' run-rate of Rs4bn. The Grooming segment's EBIT margin contracted by ~650bps YoY to 10.8%. The Oral Care business' revenue grew by 56.2% YoY to Rs1bn, lower than the last three quarters' run-rate of Rs1.24bn, with segment EBIT margin coming in at a paltry 1.4%.

**4QFY21 margin performance:** Overall gross margin expanded by ~1080bps YoY to 63.7% (+650bps QoQ). A sharp increase was seen in operating expenses in 4QFY21: A&SP expenses were up 1950bps YoY (up 689.5% YoY and up 78.2% QoQ on an absolute basis) and other operating expenses were up 250bps (up 41.5% YoY and up 27.9% QoQ on an absolute basis). Employee cost as a % of revenue was down 20bps YoY, but up 70bps QoQ. Thus, EBITDA margin contracted by ~1100bps YoY to 12% (vs our est. of 26.4%).

**FY21 performance:** Sales, EBITDA and APAT grew by 19.7%, 28.3% and 27.8%, respectively. Gross margin was up 120bps at 56.2% while EBITDA margin was up 150bps at 22.9%. Both, Grooming and Oral Care businesses recorded double-digit growth at 19.6% and 19.9%, respectively and grew ahead of their categories in FY21. The Board has declared a final dividend of Rs36/share. The cash conversion cycle still remains high, but has slightly improved to 31 days in FY21 vs 35 days in FY20 (calculated on sales) and stood at 26 days in FY21 vs 28 days in FY20 (calculated on sales & COGS).

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## ACCUMULATE

Sector: FMCG

CMP: Rs5,929

Target Price: Rs6,000

Upside: 1%

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### Key Data

Current Shares O/S (mn)	32.6
Mkt Cap (Rsbn/US\$bn)	193.2/2.6
52 Wk H / L (Rs)	6,670/4,966
Daily Vol. (3M NSE Avg.)	10,328

### Price Performance (%)

	1 M	6 M	1 Yr
Gillette India	(2.5)	6.2	10.5
Nifty Index	4.8	10.1	44.9

Source: Bloomberg

[FY20 Annual Report](#)
[4QFY21 Results & Press release](#)

Y/E June (Rs mn)	4QFY20	3QFY21	4QFY21	YoY (%)	QoQ (%)	FY20	FY21	YoY (%)
Net sales	3,510	5,366	4,360	24.2%	-18.8%	16,791	20,094	19.7%
COGS	1,654	2,299	1,582	-4.3%	-31.2%	7,559	8,807	16.5%
Gross margin %	52.9%	57.2%	63.7%	10.8%	6.5%	55.0%	56.2%	1.2%
Employee costs	293	399	355	21.1%	-11.2%	1,192	1,432	20.2%
% of sales	8.3%	7.4%	8.1%	-0.2%	0.7%	7.1%	7.1%	0.0%
Advertising costs	128	568	1,011	689.5%	78.2%	2,036	2,639	29.6%
% of sales	3.6%	10.6%	23.2%	19.5%	12.6%	12.1%	13.1%	1.0%
Other expenses	628	695	888	41.5%	27.9%	2,414	2,611	8.2%
% of sales	17.9%	12.9%	20.4%	2.5%	7.4%	14.4%	13.0%	-1.4%
EBITDA	807	1,406	523	-35.2%	-62.8%	3,590	4,605	28.3%
EBITDA margin %	23.0%	26.2%	12.0%	-11.0%	-14.2%	21.4%	22.9%	1.5%
Depreciation	134	149	154	15.0%	3.2%	511	575	12.7%
EBIT	673	1,257	369	-45.2%	-70.6%	3,080	4,030	30.8%
EBIT margin %	19.2%	23.4%	8.5%	-10.7%	-15.0%	18.3%	20.1%	1.7%
Interest expenses	24	5	26	7.5%	446.8%	54	53	-3.5%
Other income	18	92	34	94.3%	-63.0%	114	200	74.8%
PBT	667	1,344	377	-43.4%	-71.9%	3,140	4,177	33.0%
Tax	217	451	102	-53.0%	-77.3%	838	1,236	47.5%
Effective tax rate %	33%	34%	27%	-5.5%	-6.5%	27%	30%	2.9%
Adjusted PAT	450	894	275	-38.8%	-69.2%	2,302	2,941	27.8%
PAT margin %	12.8%	16.7%	6.3%	-6.5%	-10.3%	13.7%	14.6%	0.9%
EPS	13.8	27.4	8.4	-38.8%	-69.2%	70.6	90.2	27.8%

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

**Exhibit 1: Financial summary**

Y/E June (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	18,617	16,791	20,094	21,977	23,659
YoY growth (%)	11.0	-9.8	19.7	9.4	7.7
EBITDA	3,810	3,590	4,605	5,187	5,798
EBITDA margin (%)	20.5	21.4	22.9	23.6	24.5
PAT	2,529	2,302	2,941	3,541	4,014
EPS	77.6	70.6	90.2	108.7	123.2
YoY growth (%)	10.4	-9.0	27.8	20.4	13.3
ROCE (%)	47.1	37.8	49.7	52.4	48.5
ROE (%)	34.4	27.2	34.6	38.5	35.9
ROIC (%)	62.5	46.4	62.1	82.4	114.7
P/E (x)	76.4	83.9	65.7	54.6	48.1
P/B (x)	24.8	21.2	24.5	18.4	16.3
EV/EBITDA (x)	50.3	53.4	41.6	36.9	33.0

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 2: Quarterly segmental performance**

Description	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
<b>Net Sales (Rsmn)</b>	<b>4,640</b>	<b>4,622</b>	<b>4,593</b>	<b>4,066</b>	<b>3,510</b>	<b>5,164</b>	<b>5,204</b>	<b>5,366</b>	<b>4,360</b>
Grooming	3,613	3,433	3,448	3,103	2,852	3,955	3,964	4,103	3,332
Oral Care	1,027	1,189	1,145	963	658	1,209	1,241	1,263	1,028
<b>Sales proportion (%)</b>									
Grooming	77.9	74.3	75.1	76.3	81.2	76.6	76.2	76.5	76.4
Oral Care	22.1	25.7	24.9	23.7	18.8	23.4	23.8	23.5	23.6
<b>YoY Growth (%)</b>									
Grooming	7.1	0.0	-7.6	-18.5	-21.1	15.2	15.0	32.2	16.8
Oral Care	41.7	5.1	11.8	13.3	-35.9	1.7	8.3	31.1	56.2
<b>EBIT (Rsmn)</b>	<b>187</b>	<b>877</b>	<b>897</b>	<b>622</b>	<b>657</b>	<b>1,206</b>	<b>1,214</b>	<b>1,448</b>	<b>373</b>
Grooming	114	791	657	686	493	980	1,143	1,245	358
Oral Care	73	86	240	-64	164	227	70	203	14
<b>EBIT margin (%)</b>									
Grooming	3.1	23.0	19.0	22.1	17.3	24.8	28.8	30.3	10.8
Oral Care	7.1	7.2	21.0	-6.6	24.8	18.8	5.7	16.1	1.4
<b>YoY Change in EBIT margin (%)</b>									
Grooming	-14.1	-0.2	3.9	-11.4	14.2	1.7	9.8	8.2	-6.5
Oral Care	23.7	-7.5	-6.1	-11.8	17.7	11.5	-15.3	22.7	-23.4

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: Common-size P&L over the quarters**

Particulars (%)	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Gross margin	50.3%	54.4%	59.8%	55.7%	57.1%	50.0%	55.0%	57.2%	63.7%
Staff Cost	5.6%	7.1%	6.0%	7.3%	8.3%	7.1%	6.0%	7.4%	8.1%
Advertisement expenses	10.9%	14.2%	15.9%	12.7%	3.6%	8.5%	11.9%	10.6%	23.2%
Other expenses	27.3%	11.8%	16.1%	15.9%	22.1%	8.7%	11.1%	12.9%	20.4%
EBITDA	6.5%	21.2%	21.8%	19.8%	23.0%	25.6%	26.0%	26.2%	12.0%
EBIT	3.7%	18.5%	19.0%	16.6%	19.2%	23.0%	23.3%	23.4%	8.5%
PBT	3.4%	18.7%	19.6%	17.4%	19.0%	23.7%	23.7%	25.1%	8.7%
Adjusted PAT	9.0%	13.4%	15.5%	12.9%	12.8%	18.5%	15.7%	16.7%	6.3%

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: Our estimates versus actual performance**

Y/E June (Rs mn)	4QFY20	3QFY21	4QFY21	YoY (%)	QoQ (%)	NBIE Estimates	Deviation (%)
Net sales	3,510	5,366	4,360	24.2	-18.8	5,243	-16.8
EBITDA	807	1,406	523	-35.2	-62.8	1,384	-62.2
EBITDA margin (%)	23.0	26.2	12.0	-11.0	-14.2	26.4	-14.4
PAT	450	894	275	-38.8	-69.2	816	-66.3

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: Cash conversion cycle**

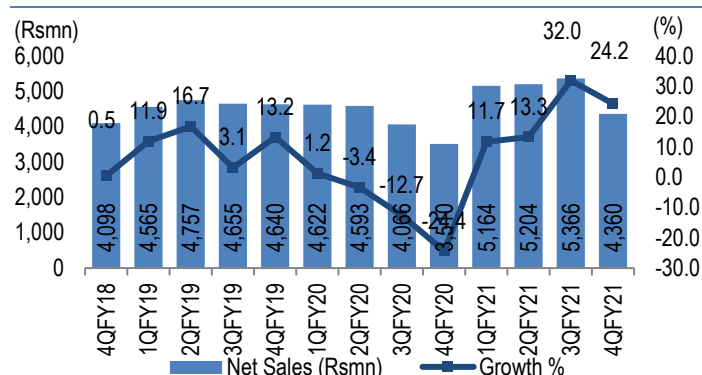
Y/E June (Rs mn)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
<b>On sales/COGS (days)</b>											
Avg inventory period	141	134	123	101	90	95	108	111	97	125	135
Avg collection period	24	19	20	19	19	24	25	33	35	41	35
Avg payment period	132	140	139	103	109	126	149	172	136	137	144
<b>Cash conversion cycle</b>	<b>33</b>	<b>14</b>	<b>5</b>	<b>17</b>	<b>0</b>	<b>-7</b>	<b>-16</b>	<b>-27</b>	<b>-4</b>	<b>28</b>	<b>26</b>
<b>On sales (days)</b>											
Avg inventory period	58	60	57	49	40	46	49	46	43	56	59
Avg collection period	24	19	20	19	19	24	25	33	35	41	35
Avg payment period	54	62	65	50	48	61	68	71	60	62	63
<b>Cash conversion cycle</b>	<b>28</b>	<b>17</b>	<b>13</b>	<b>18</b>	<b>11</b>	<b>9</b>	<b>7</b>	<b>8</b>	<b>18</b>	<b>35</b>	<b>31</b>

Source: Company, Nirmal Bang Institutional Equities Research

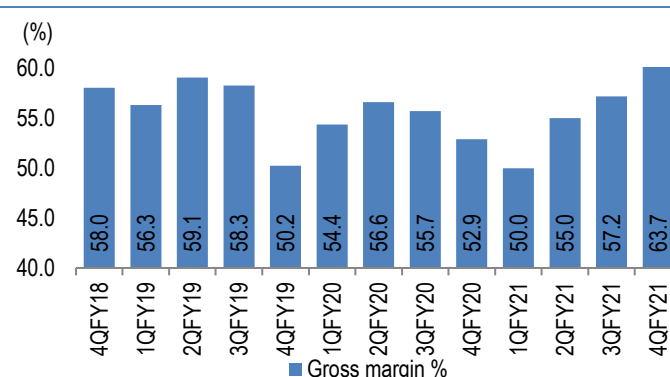
**Exhibit 6: Change in our estimates**

Y/E March	Earlier Estimates		New Estimates		Change (%)	
(Rs mn)	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net Sales	22,369	23,808	21,977	23,659	-1.8	-0.6
EBITDA	5,247	5,756	5,187	5,798	-1.2	0.7
EBITDA margin (%)	23.5	24.2	23.6	24.5	0.1	0.3
Net Income	3,602	4,033	3,541	4,014	-1.7	-0.5

Source: Company, Nirmal Bang Institutional Equities Research

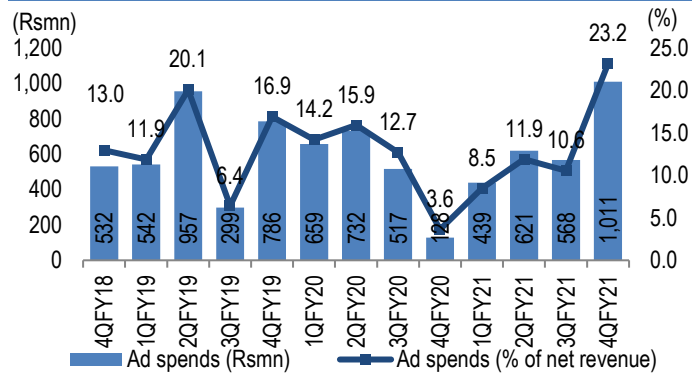
**Exhibit 7: Net sales grew by 24.2% YoY to Rs4.4bn**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 8: Gross margin expanded by ~1080bps YoY to 63.7%**


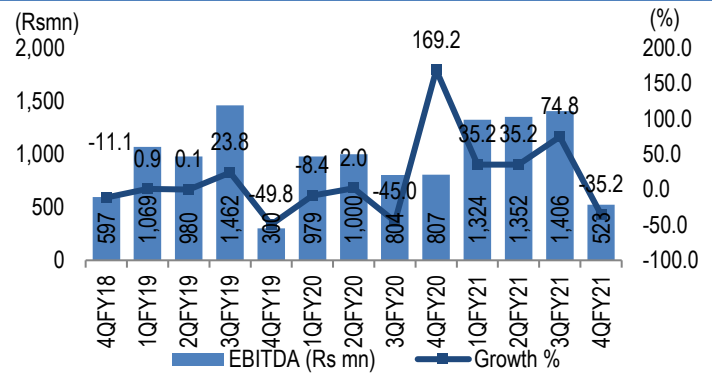
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: Absolute ad spend was at Rs1bn; as a % of net revenue, ad spends was up by ~1950bps YoY at 23.2%**



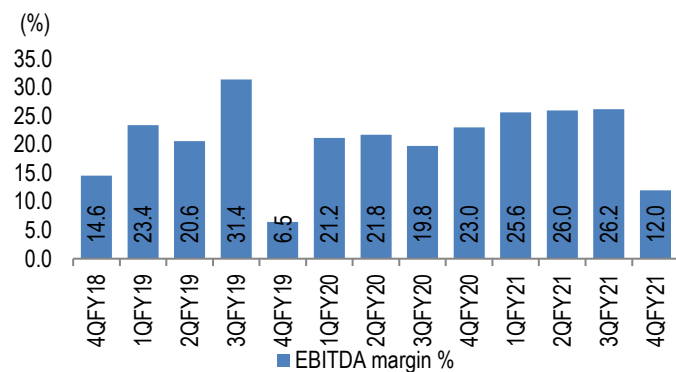
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: EBITDA declined by 35.2% YoY to Rs523mn**



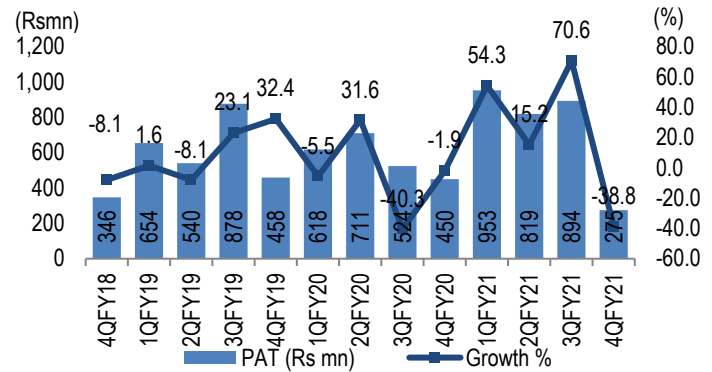
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 11: EBITDA margin contracted by ~1100bps YoY to 12%**



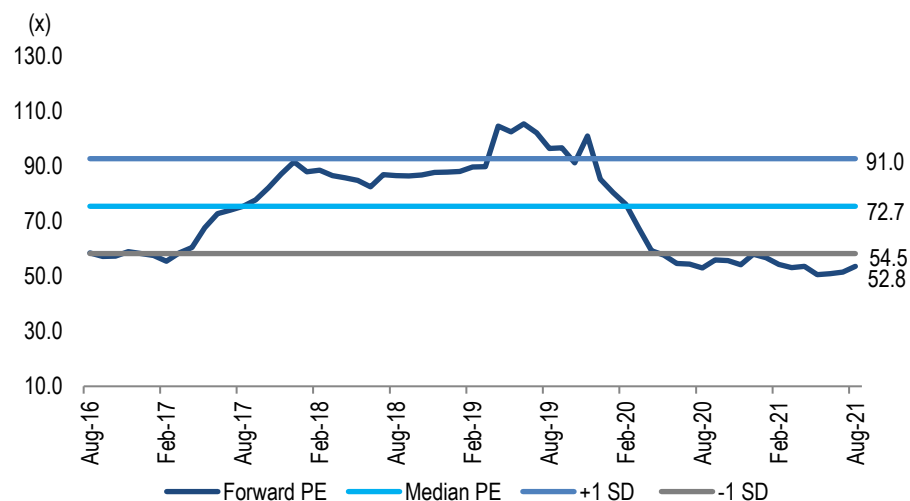
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 12: APAT declined by 38.8% YoY to Rs275mn**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 13: One- year forward P/E**



Source: Company, Nirmal Bang Institutional Equities Research

## Financials

**Exhibit 14: Income statement**

Y/E June (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	18,617	16,791	20,094	21,977	23,659
<b>% Growth</b>	<b>11.0%</b>	<b>-9.8%</b>	<b>19.7%</b>	<b>9.4%</b>	<b>7.7%</b>
COGS	8,193	7,559	8,807	9,450	9,937
Staff costs	1,083	1,192	1,432	1,621	1,744
Advertising costs	2,585	2,036	2,639	2,640	2,839
Other expenses	2,945	2,414	2,611	3,079	3,340
Total expenses	14,807	13,200	15,489	16,790	17,861
EBITDA	3,810	3,590	4,605	5,187	5,798
<b>% growth</b>	<b>-0.1%</b>	<b>-5.8%</b>	<b>28.3%</b>	<b>12.6%</b>	<b>11.8%</b>
<b>EBITDA margin (%)</b>	<b>20.5%</b>	<b>21.4%</b>	<b>22.9%</b>	<b>23.6%</b>	<b>24.5%</b>
Other income	136	114	200	250	350
Interest costs	79	54	53	80	60
Depreciation	477	511	575	624	724
Profit before tax (before exceptional items)	3,391	3,140	4,177	4,733	5,364
Exceptional items	0	0	0	0	0
Tax	861	838	1,236	1,191	1,350
PAT (before exceptional items)	2,529	2,302	2,941	3,541	4,014
PAT	2,529	2,302	2,941	3,541	4,014
<b>PAT margin (%)</b>	<b>13.6%</b>	<b>13.7%</b>	<b>14.6%</b>	<b>16.1%</b>	<b>17.0%</b>
<b>% Growth</b>	<b>10.4%</b>	<b>-9.0%</b>	<b>27.8%</b>	<b>20.4%</b>	<b>13.3%</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 16: Balance sheet**

Y/E June (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Share capital	326	326	326	326	326
Reserves	7,458	8,787	7,564	10,159	11,564
Net worth	7,784	9,113	7,890	10,485	11,890
Total debt	0	0	0	0	0
Deferred tax liability and others	189	385	514	514	514
<b>Total liabilities</b>	<b>7,973</b>	<b>9,498</b>	<b>8,404</b>	<b>10,998</b>	<b>12,403</b>
Gross block	4,564	5,033	5,741	6,741	7,741
Depreciation	1,562	2,069	2,644	3,268	3,992
Net block	3,002	2,965	3,098	3,474	3,749
Capital work-in-progress	246	212	720	750	800
Investments	0	0	0	0	0
Other LTA	2524	2464	2164	400	500
Inventories	2,340	2,843	3,666	2,910	3,079
Debtors	1,825	1,907	1,979	1,994	1,895
Cash	1,417	2,325	1,663	5,194	7,806
Other current assets	429	574	383	645	645
Total current assets	6,012	7,648	7,692	10,744	13,425
Creditors	2,817	2,874	4,084	3,165	4,730
Other current liabilities & provisions	992	916	1,186	1,204	1,341
Total current liabilities	3,810	3,790	5,270	4,369	6,071
Net current assets	2,202	3,858	2,422	6,375	7,354
<b>Total assets</b>	<b>7,973</b>	<b>9,498</b>	<b>8,404</b>	<b>10,998</b>	<b>12,403</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 15: Cash flow**

Y/E June (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
PAT	2,529	2,302	2,941	3,541	4,014
Depreciation	477	511	575	624	724
Net other income	-58	-60	-147	-170	-290
(Inc.)/dec. in working capital	-1,203	-748	775	-422	1,633
<b>Cash flow from operations</b>	<b>1,746</b>	<b>2,004</b>	<b>4,144</b>	<b>3,573</b>	<b>6,081</b>
Capital expenditure (-)	-669	-435	-1,217	-1,030	-1,050
<b>Net cash after capex</b>	<b>1,077</b>	<b>1,569</b>	<b>2,927</b>	<b>2,544</b>	<b>5,031</b>
Inc./(dec.) in investments	-291	182	-956	3,113	250
<b>Cash from investing activities</b>	<b>-960</b>	<b>-253</b>	<b>-2,173</b>	<b>2,083</b>	<b>-800</b>
Dividends paid (-)	-1,647	-981	-2,803	-1,948	-2,609
Inc./(dec.) in total borrowings	-87	137	72	-80	-60
<b>Cash from financial activities</b>	<b>-1,734</b>	<b>-843</b>	<b>-2,731</b>	<b>-2,028</b>	<b>-2,669</b>
Opening cash balance	2,366	1,417	2,325	1,663	5,194
Closing cash balance	1,417	2,325	1,663	5,194	7,806
Change in cash balance	-949	908	-662	3,531	2,612

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 17: Key ratios**

Y/E June	FY19	FY20	FY21	FY22E	FY23E
<b>Per share (Rs)</b>					
EPS	77.6	70.6	90.2	108.7	123.2
Book value	238.8	279.6	242.1	321.7	364.8
DPS	44.0	49.0	86.0	59.8	80.1
<b>Valuation (x)</b>					
P/Sales	10.4	11.5	9.6	8.8	8.2
EV/sales	10.3	11.4	9.5	8.7	8.1
EV/EBITDA	50.3	53.4	41.6	36.9	33.0
P/E	76.4	83.9	65.7	54.6	48.1
P/BV	24.8	21.2	24.5	18.4	16.3
<b>Return ratios (%)</b>					
RoCE	47.1	37.8	49.7	52.4	48.5
RoE	34.4	27.2	34.6	38.5	35.9
RoIC	62.5	46.4	62.1	82.4	114.7
<b>Profitability ratios (%)</b>					
Gross margin	56.0	55.0	56.2	57.0	58.0
EBITDA margin	20.5	21.4	22.9	23.6	24.5
EBIT margin	17.9	18.3	20.1	20.8	21.4
PAT margin	13.6	13.7	14.6	16.1	17.0
<b>Liquidity ratios (%)</b>					
Current ratio	1.6	2.0	1.5	2.5	2.2
Quick ratio	1.0	1.3	0.8	1.8	1.7
<b>Solvency ratio (%)</b>					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	1.6	1.3	1.5	1.4	1.3
Fixed asset turnover ratio (x)	6.2	5.7	6.5	6.3	6.3
Debtor days	35	41	35	33	30
Inventory days	97	125	135	127	110
Creditor days	136	137	144	140	145

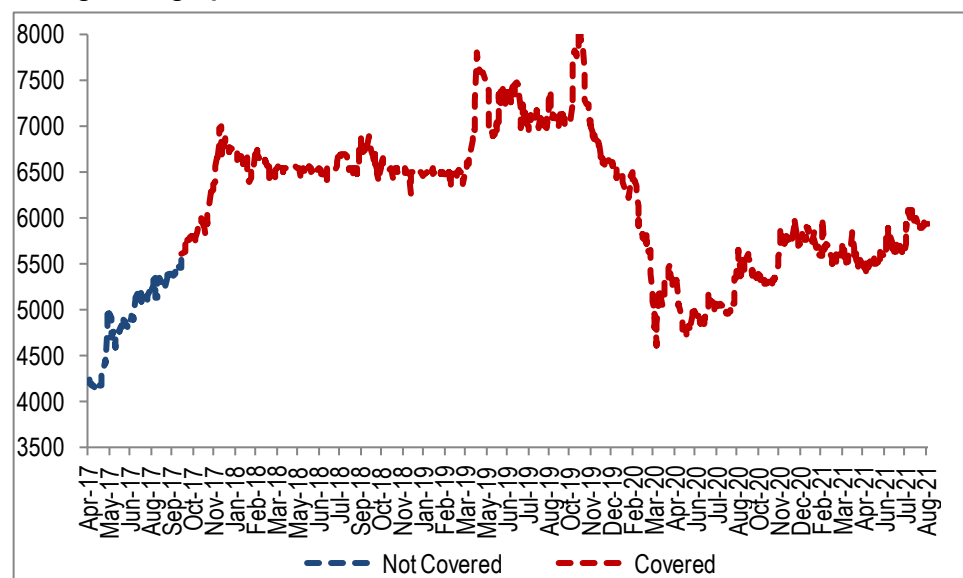
Source: Company, Nirmal Bang Institutional Equities Research

## 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
8 January 2021	Accumulate	5,899	6,165
4 February 2021	Accumulate	5,786	6,115
9 April 2021	Accumulate	5,587	6,100
6 May 2021	Accumulate	5,450	6,020
25 August 2021	Accumulate	5,929	6,000

\*Coverage transferred to Vishal Punmiya w.e.f. 19th August 2019

## Rating track graph





## DISCLOSURES

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## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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