

Gillette India Ltd.

Business improving; trend reversal offers potentiality

We initiate coverage on Gillette India Ltd (GILL) with ADD rating. Our view is pinned on the following arguments: (1) Expect core portfolio to improve or atleast maintain share with potentiality of stronger growth led by part reversal in trend towards clean shave (2) Women's razor & shave care portfolio offers delta through penetration led growth (3) We hope GILL's brand equity & global expertise to help play catch-up in electric segment where it has been a laggard (4) Global mix and margin profile shows potential for Gillette's India grooming business (5) Latest quarter's performance suggest improving growth (6) Even after recent run-up (up ~25% in last 3 months), valuations remain lower than median.

Expect core portfolio to improve or atleast maintain share

With industry growths improving in 'beyond urban' market in near term, we believe GILL can see volume growth improvement through the men's shaving value brand 'Guard'. Even in midst of increased competition in the core portfolio of men's razor & shave care especially in the online channel, we expect the market leader to grow at atleast ~7% CAGR owing to its strong brand equity, robust distribution set-up built over the years especially in offline channel (general retail, chemist, modern trade), innovations and the capacity to spend high on advertisement & sales promotions (A&SP) behind a single category. Our assumptions could have an upside, if the category sees even a part reversal in trend towards clean shave.

Women's razor & shave care portfolio offers delta through penetration led growth

Management believes the female hair removal category to be as big as men's grooming. While there are substitutes for women's hair removal in the form of creams, epilators, etc. but the low penetration levels, DIY nature and painless method provides enough growth headroom for razors. GILL started off with disposables but now has business even in systems. We believe women's range could be in the range of 10-15% for GILL. Bombay Shaving Company (BSC) with its brand "Bombae" have also started investing behind the category and women's products is already accounting for ~25% of its overall business. We expect this portfolio to grow faster for GILL than the men's portfolio over the next few years.

We hope GILL's brand equity & global expertise to help play catch-up in electric segment

GILL has been a rather late entrant in the electric shavers, trimmers and epilators segment. It won't be an easy task for GILL in this vertical as (a) players like Philips have a strong brand recall (b) long replacement cycle of the product (c) increased number of players (largely focused on online channel) with innovative products. What could really work in GILL's favour is its brand equity & global expertise, which might help play catch-up. Products from global portfolio especially in the 'Intimate' segment can potentially address & open new market.

Global mix and margin profile shows potential for Gillette's India grooming business

Gross margin recovery will support near term profitability. Over the medium term, P&G Global grooming business margins shows potential for India Grooming business. Global grooming business EBIT margin stood at 28.1% in FY23 (EBITDA margin of 33.4%) versus Gillette India's grooming business EBIT margin of 19.3% in FY23 (EBITDA margin of 23.4%, as per our estimate). Premiumization and segmental mix improvement will be a key driver of margins over the long term thus reducing gap with global margins.

4QFY23 & FY23 (June-ending FY) Result Highlights

What we liked in 4QFY23 & FY23 performance?: 1) Robust grooming segment growth. 2) Highest-ever market share in the Blades and Razors category in FY22-23. 3) Oral care has is recovering well. 4) Sharp improvement in cash conversion cycle in FY23. 5) Dividend payout maintained for FY23 despite managements prudent view to manage cash this year amidst challenging operating environment and significant cost headwinds.

Initiate coverage on GILL with an ADD rating and a target price of Rs6,090

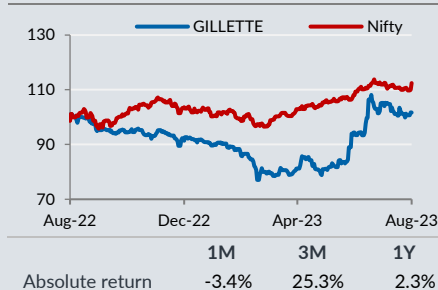
GILL boasts strong retrain ratios and has healthy dividend payout. It is currently trading at ~48x 1-yr forward earnings (still lower than the Median PE). We assign a target multiple of ~48.5x on June'25 EPS (3yr/5yr avg fwd. multiple ~53x/65x), arriving at a target price (TP) of Rs6,090. Initiate with ADD rating. Near term valuations offer limited upside on one-year forward basis post recent run-up (up ~25% in last 3 months).

Reco	: ADD
CMP	: Rs 5,523
Target Price	: Rs 6,090
Potential Return	: +10.3%

Stock data (as on August 29, 2023)

Nifty	19,343
52 Week h/l (Rs)	5968 / 4135
Market cap (Rs/USD mn)	180126 / 2181
Outstanding Shares (mn)	33
6m Avg t/o (Rs mn):	73
Div yield (%):	1.2
Bloomberg code:	GILL IN
NSE code:	GILLETTE

Stock performance



Shareholding pattern (As of June'23 end)

Promoter	75.0%
FII+DII	12.0%
Others	13.1%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	-
Target Price	6,090	-

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	112.8	125.5
EPS (Old)	-	-
% change	-	-

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	24,771	26,877	28,971
YoY Growth (%)	9.8	8.5	7.8
EBITDA	5,392	5,940	6,511
Margins (%)	21.8	22.1	22.5
PAT	3,557	3,676	4,091
EPS	109.1	112.8	125.5
YoY Growth (%)	22.9	3.3	11.3
ROCE (%)	52.0	52.9	55.5
ROE (%)	38.5	37.0	39.5
P/E (x)	50.6	49.0	44.0
EV/EBITDA (x)	33.1	30.0	27.4

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4QFY23 (June-ending FY) Result Highlights continued...

- **What disappointed this quarter?:** 1) There was a sharp QoQ/YoY impact on gross margins in 4QFY23. We believe this was largely due to higher cost of traded goods and cost headwinds. Important to note, around 20-25% of GILL's finished goods portfolio is still imported because their premium portfolio is reliant on imports. 2) Sharp cut seen in A&SP this quarter. Looking at segmental EBIT margins, we believe a good chunk of this cut might have been done in Oral Care. With expectation of gross margin building back, A&SP should also increase in coming quarters.
- **Headline performance:** GILL's 4QFY23 revenues grew by 12% YoY to Rs6.2bn. EBITDA was up by 28.6% YoY to Rs1.4bn. PAT was up 35.7% YoY to Rs917mn.
- **Margins performance:** Overall gross margin came in at 48.8%, down 1010bps YoY / -430bps QoQ. Savings in overheads as % of revenue: A&SP down 850bps YoY, other overheads down 440bps YoY and employee cost down 20bps YoY meant that EBITDA margin was up 300bps YoY to 23.2%.
- **FY23 performance:** Revenue and EBITDA grew by 9.8% and 11.8% YoY, respectively. PAT was up 22.9% YoY to Rs3.6bn. Gross margin stood at 52% (-150bps) while EBITDA margin stood at 21.8% (+40bps). A&SP was down 100bps to 11.8% in FY23.
- The Company recorded the highest-ever market share in the Blades and Razors category in FY22-2023.
- Sharp positive movement in cash conversion cycle in FY23 led by reduction in inventory days and increase in creditor days.
- Directors have recommended a final dividend of Rs50/- per equity share for FY23. Dividend payout thus maintained at ~78% in FY23 despite managements prudent view to manage cash this year amidst challenging operating environment & significant cost headwind.
- Innovations in FY23: Relaunch of *Gillette Fusion* as a styling tool, *Venus Swirl* and *Oral-B SensitiveX* (a premium sensitive toothbrush).

Exhibit 1: Quarterly result snapshot

Particulars (Rs. Mn) - Y/E June	4QFY22	3QFY23	4QFY23	YoY (%)	QoQ (%)	FY22	FY23	YoY (%)
Revenue	5,529	6,191	6,194	12.0%	0.1%	22,562	24,771	9.8%
COGS	2,273	2,908	3,175	39.7%	9.2%	10,495	11,881	13.2%
Gross margin %	58.9%	53.0%	48.8%	-10.1%	-4.3%	53.5%	52.0%	-1.5%
Employee costs	339	532	370	9.1%	-30.4%	1,501	1,698	13.1%
% of sales	6.1%	8.6%	6.0%	-0.2%	-2.6%	6.7%	6.9%	0.2%
Advertising costs	866	776	442	-49.0%	-43.0%	2,887	2,916	1.0%
% of sales	15.7%	12.5%	7.1%	-8.5%	-5.4%	12.8%	11.8%	-1.0%
Other expenses	934	637	771	-17.4%	21.0%	2,854	2,884	1.1%
% of sales	16.9%	10.3%	12.4%	-4.4%	2.2%	12.6%	11.6%	-1.0%
EBITDA	1,117	1,337	1,437	28.6%	7.4%	4,825	5,392	11.8%
EBITDA margin %	20.2%	21.6%	23.2%	3.0%	1.6%	21.4%	21.8%	0.4%
Depreciation	186	218	216	16.5%	-0.9%	684	807	18.0%
EBIT	931	1,119	1,220	31.0%	9.1%	4,141	4,585	10.7%
EBIT margin %	16.8%	18.1%	19.7%	2.9%	1.6%	18.4%	18.5%	0.2%
Interest expense	24	8	32	31.1%	310.4%	105	78	-26.2%
Other income	15	118	48	214.5%	-59.4%	77	222	186.6%
PBT	922	1,229	1,236	34.1%	0.6%	4,113	4,729	15.0%
Tax	246	202	319	29.5%	58.1%	1,220	1,172	-3.9%
Effective tax rate %	27%	16%	26%	-0.9%	9.4%	30%	25%	-4.9%
Adj. PAT	676	1,027	917	35.7%	-10.7%	2,893	3,557	22.9%
PAT margin %	12.2%	16.6%	14.8%	2.6%	-1.8%	12.8%	14.4%	1.5%
EPS	20.7	31.5	28.2	35.7%	-10.7%	68.0	81.0	19.0%

Source: Company, YES Sec

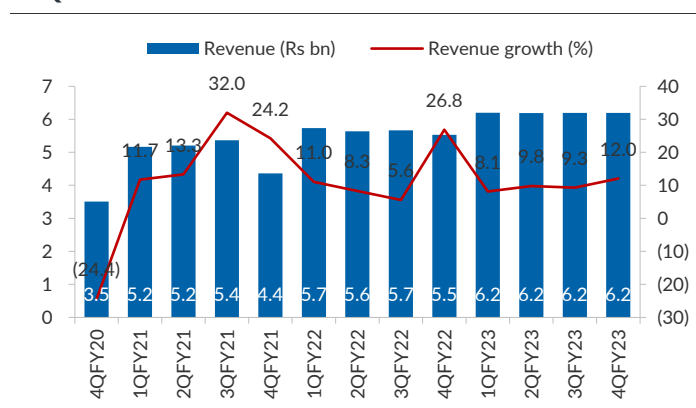
- **Grooming business (78.4% of revenues in 4QFY23 vs 77.1% in 4QFY22)** – Revenue up by 13.9% YoY to Rs4.85bn. Grooming segment EBIT margin was up ~190bps YoY to 18.5%.
- **Oral care (21.6% of 4QFY23 revenues)** – Oral care revenues grew by 5.9% to Rs1.34bn with segment EBIT margin up 640bps to 23.6%.

Exhibit 2: Quarterly Segmental Snapshot

Segmental Performance (Rs. Mn)	4QFY22	3QFY23	4QFY23	YoY (%)	QoQ (%)	FY22	FY23	YoY (%)
Segmental Revenue	5,529	6,191	6,194	12.0%	0.1%	22,562	24,771	9.8%
Grooming	4,263	4,914	4,854	13.9%	-1.2%	17,231	19,606	13.8%
Oral Care	1,266	1,277	1,341	5.9%	5.0%	5,331	5,164	-3.1%
Revenue proportion (%)								
Grooming	77.1%	79.4%	78.4%	1.3%	-1.0%	76.4%	79.2%	2.8%
Oral Care	22.9%	20.6%	21.6%	-1.3%	1.0%	23.6%	20.8%	-2.8%
Segmental Results								
Grooming	927	1,109	1,215	31.1%	9.5%	4,159	4,572	9.9%
Grooming	709	915	899	26.8%	-1.7%	3,383	3,777	11.7%
Oral Care	218	195	316	45.2%	62.1%	776	794	2.3%
EBIT margins (%)								
Grooming	16.6%	18.6%	18.5%	1.9%	-0.1%	19.6%	19.3%	-0.4%
Oral Care	17.2%	15.3%	23.6%	6.4%	8.3%	14.6%	15.4%	0.8%
EBIT composition (%)								
Grooming	76.5%	82.4%	74.0%	-2.5%	-8.4%	81.3%	82.6%	1.3%
Oral Care	23.5%	17.6%	26.0%	2.5%	8.4%	18.7%	17.4%	-1.3%

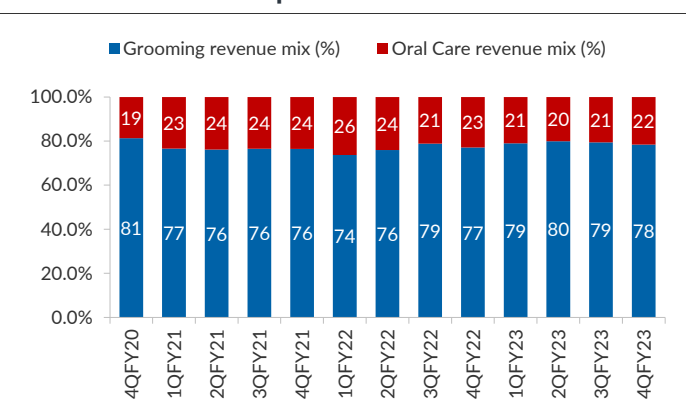
Source: Company, YES Sec

Exhibit 3: Revenues up by 12% YoY to Rs6.2bn in 4QFY23



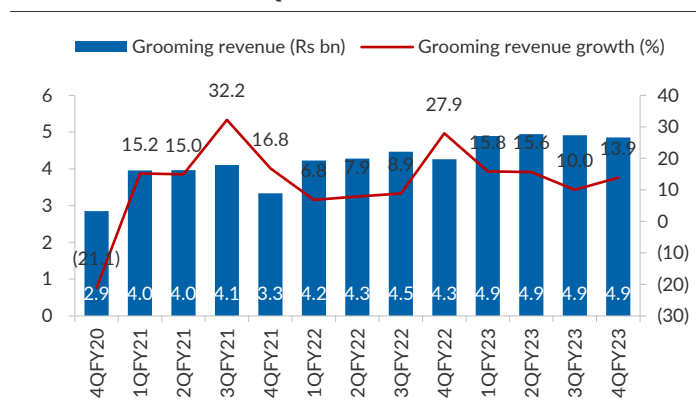
Source: Company, YES Sec

Exhibit 4: Grooming revenue mix improves to ~78.4% versus 77.1% in base quarter



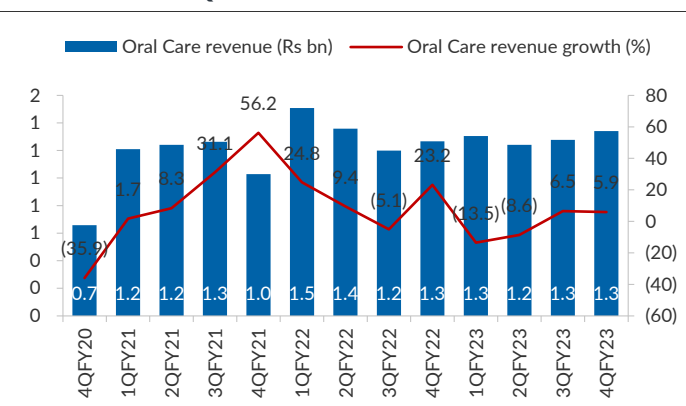
Source: Company, YES Sec

Exhibit 5: Grooming segment revenues grew by 13.9% YoY to Rs4.9bn in 4QFY23



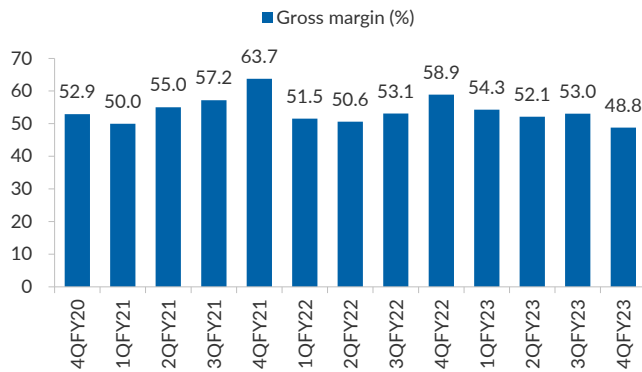
Source: Company, YES Sec

Exhibit 6: Ora Care segment revenues grew by 5.9% YoY to Rs1.3bn in 4QFY23



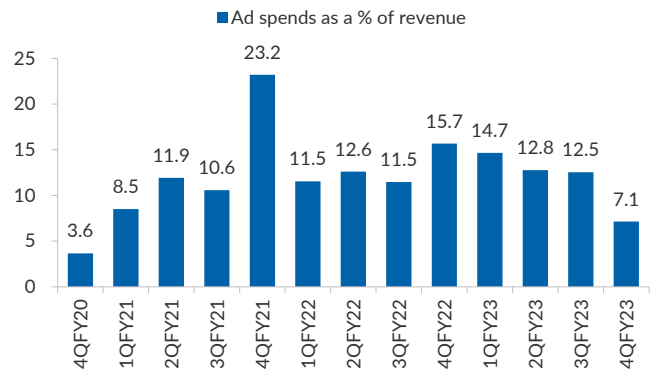
Source: Company, YES Sec

Exhibit 7: Gross margin for the quarter stood at 48.8% (-430bps YoY; -1010bps QoQ)



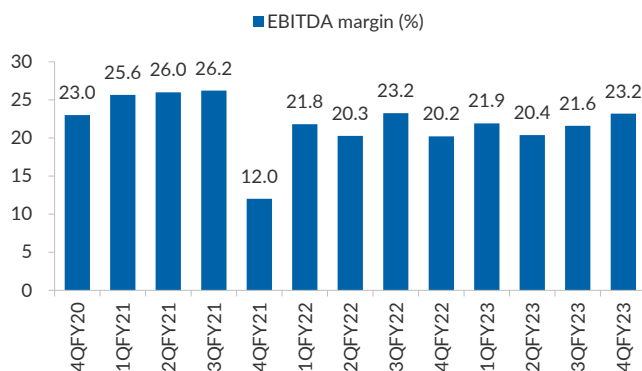
Source: Company, YES Sec

Exhibit 8: Advertisement & sales promotion expense (A&SP) as a % of revenue was down 850bps YoY to 7.1%



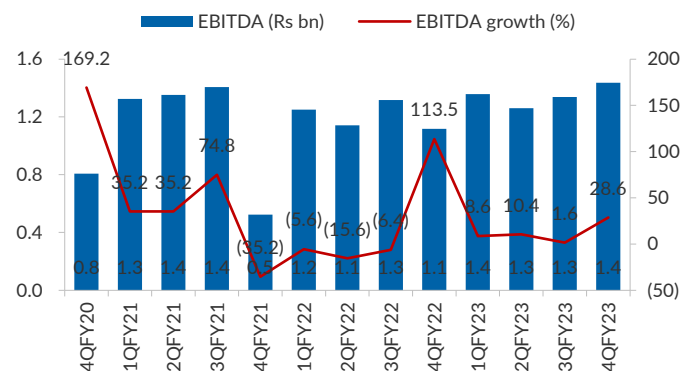
Source: Company, YES Sec

Exhibit 9: EBITDA margin for the quarter stood at 23.2% (+300bps YoY; +160bps QoQ)



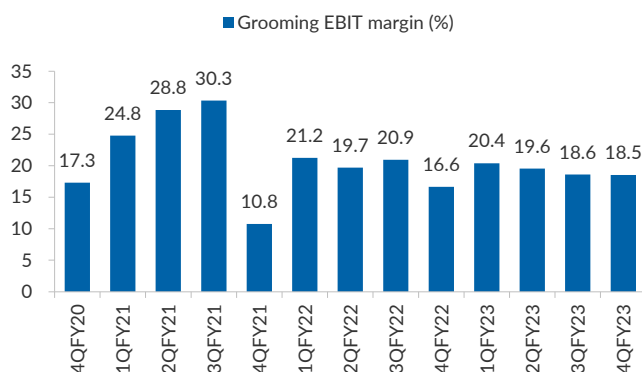
Source: Company, YES Sec

Exhibit 10: EBITDA grew by 28.6% YoY to Rs1.4bn in 4QFY23



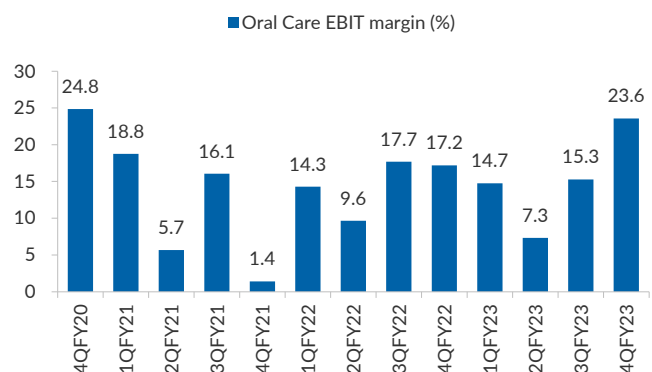
Source: Company, YES Sec

Exhibit 11: Grooming segment EBIT margin was up 190bps to 18.5% in 4QFY23



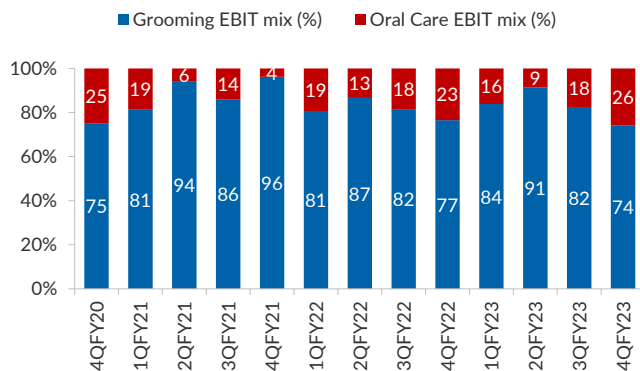
Source: Company, YES Sec

Exhibit 12: Oral Care segment EBIT margin was up 640bps to 23.6% in 4QFY23



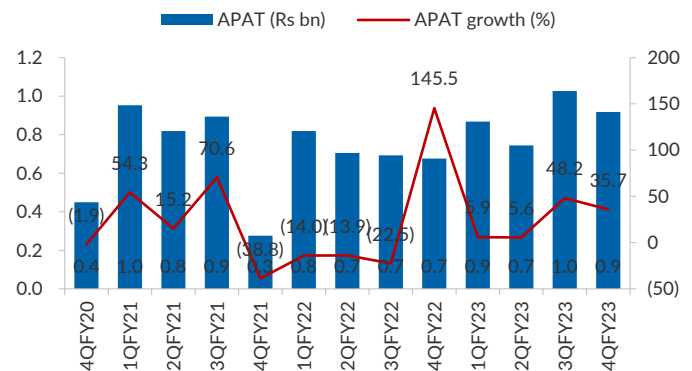
Source: Company, YES Sec

Exhibit 13: Oral care EBIT mix moves up by 250bps YoY to 26% in 4QFY23



Source: Company, YES Sec

Exhibit 14: Overall APAT grew by 35.7% YoY to Rs917mn in 4QFY23



Source: Company, YES Sec

Gillette India Ltd. – how things stand

- Gillette India (GILL) is one of the two listed P&G India entity operating in two key segments: Grooming (via *Gillette*, *Venus*, *Braun* & *King C Gillette*) and Oral Care (toothbrush under *Oral-B* brand). The company also exports its products into Bangladesh, Nepal and Sri Lanka.
- GILL reported a revenue of Rs24.8bn in FY23 (up 9.8% from FY22). Its revenue has grown by ~8.1% CAGR over the last 5 years (FY18-23). EBITDA margin for the business has been in the band of 21-23% over the last 5 years and thus EBITDA has grown at a CAGR of just 7.2% CAGR over the last 5 years while APAT has grown at a CAGR of 9.2% over the last 5 years (FY18-23). Adjusting for prior year tax adjustment reported in 3QFY23, APAT would have seen ~8% CAGR over FY18-23.
- Grooming segment (79.2% of FY23 revenue; market leader):** Currently, GILL's grooming portfolio (comprising of Men's and Women's Razor & Blades, Shave care and Electric shavers, trimmers and epilators) spans a wide range of both consumer price points, as well as benefits spaces. Segment revenue grew by 8% CAGR over FY18-23. Since its launch in 2010, *Gillette Guard* has been instrumental in driving demand from the low-to-mid income groups. On the other hand, innovations under *Mach*, *Fusion*, *Skinguard* and *Styler* has helped them maintain their leadership among the urban consumers. Newer propositions under *King C Gillette* and *Braun* are expected to support growth going forward. *Venus* over the last 9-10 years has helped GILL cater the women's hair removal market via razors. In its shave care business, GILL has consolidated, grown market leadership & extended gap versus nearest competition.

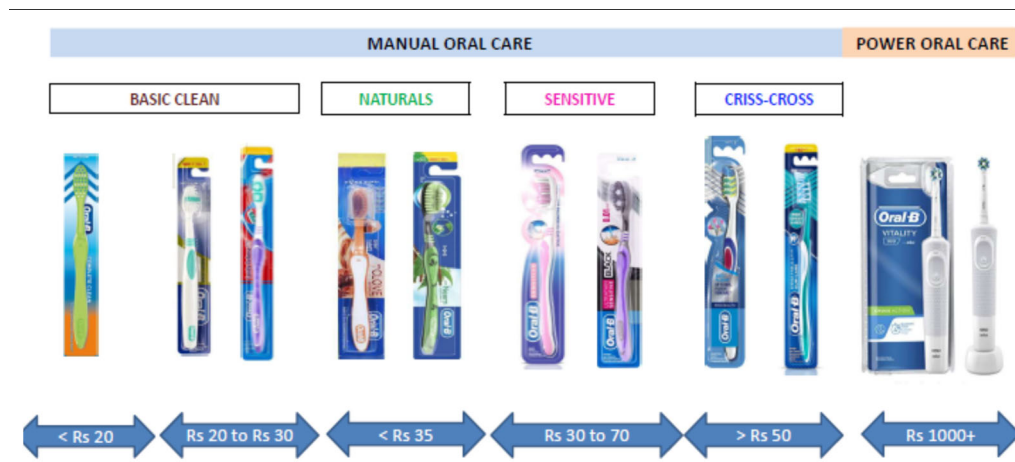
Exhibit 15: Grooming core portfolio across price points and benefit spaces



Source: Company, YES Sec

- **Oral care segment (20.8% of FY23 revenue; closing gap vs market leader):** Within oral care, GILL participates only in the toothbrush category in India. Oral care segment for GILL grew by 8.4% CAGR over FY18-23, ahead of the category on the back of innovations (company has rolled out +2 innovations in each of the past 5 years) and a strong go-to-market execution. On Oral B toothbrushes, GILL continues to keep closing the gap versus the market leader. Over a decade ago, when gap in market share versus the market leader was almost 40%, which has now come down to less than 10%.

Exhibit 16: Oral care – Present across price spectrum



Source: Company, YES Sec

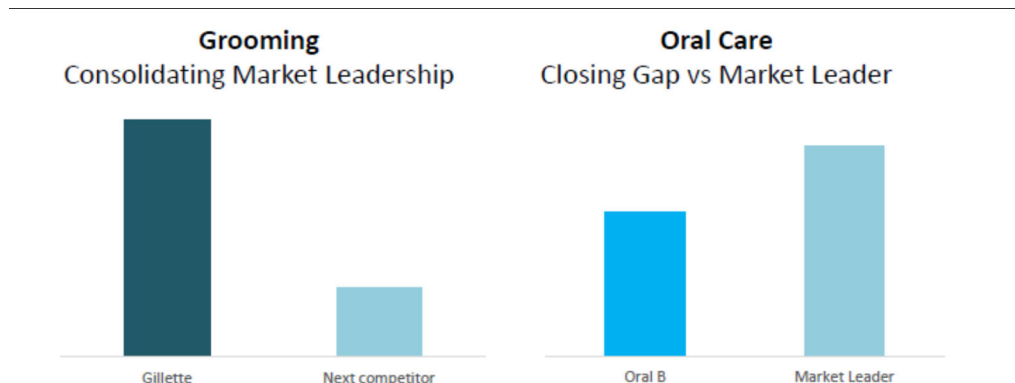
Exhibit 17: Segmental revenue performance

	FY19	FY20	FY21	FY22	FY23
Revenue (Rs bn)					
Grooming	14.6	12.8	15.4	17.2	19.6
Oral Care	4.0	4.0	4.7	5.3	5.2
Revenue mix (%)					
Grooming	78.3	76.4	76.4	76.4	79.2
Oral Care	21.7	23.6	23.6	23.6	20.8
Revenue growth (%)					
Grooming	9.5	(12.0)	19.6	12.2	13.8
Oral Care	16.7	(1.9)	19.9	12.5	(3.1)

Source: Company, YES Sec

- Management believes *Gillette* market share has increased to >62%. Similarly, *Oral-B* manual toothbrushes has increased to ~27%.

Exhibit 18: Consolidating in grooming; closing gap in toothbrush



Source: Company, YES Sec

Our view is pinned on the following arguments:

1) Expect core portfolio to maintain share with potentiality of stronger growth

With industry growths improving in 'beyond urban' market in near term, we believe GILL can see volume growth improvement through the men's shaving value brand 'Guard'. Beyond urban areas, razors & gels/foams are still perceived as an aspirational product and hence there is enough scope for category penetration. Winning in this market is very critical for GILL to convert users from double edge users to system users of the future. Along with innovations & enhanced communication, company is also focusing on influencers (recently launched 1st ever Influencer plan) and celebrities to generate trials for *Guard*. Market leader Gillette with its value portfolio should be able to generate volume growth from these regions due to its perceived brand equity.

Exhibit 19: Guard conversion through innovation & 1st ever influencer plan



Source: Company, YES Sec

Apart from value tier, growth in the premium systems is of equal importance for GILL. Innovation has been a key area of focus for the company. While *Guard* has helped in recruiting new consumer, innovations has played a crucial role in maintaining market leadership and in premiumization/mix improvement. Innovations under *Mach*, *Fusion*, *Skinguard* and *Styler* has helped them maintain their leadership among the urban consumers. Newer propositions under *King C Gillette* and commencement of marketing & sales of its personal grooming brand *Braun* in India are expected to support growth & premiumization further. Recently, GILL has also positioned *Fusion* as a trimming tool and drive placement among emerging users and new users. Category itself is seeing strong trend towards use of premium razors & blades which we believe should benefit the market leader as well.

Exhibit 20: Driving premium systems among increasing bearded consumers



Source: Company, YES Sec

Even in midst of increased competition in the core portfolio of men's razor & shave care especially in the online channel, we expect the market leader to grow at atleast ~7% CAGR maintaining its share owing to its strong brand equity, robust distribution set-up built over the years especially in offline channel (general retail, chemist, modern trade), innovations and the capacity to spend high on advertisement & sales promotions (A&SP) behind a single category.

Exhibit 21: Data suggest male shaving market to grow at 6-7% CAGR over the next few years, slowest within the men's grooming market

Rs mn	2021	2022	2023	2024	2025	2026	CAGR
Male grooming market	125,000	139,000	153,000	167,000	181,000	195,000	9.3
Male shaving market	53,750	57,513	61,538	65,846	70,455	75,387	7.0
Male toiletries market	52,500	58,275	64,685	71,801	79,699	88,466	11.0
Male fragrances market	18,750	21,188	23,942	27,054	30,571	34,546	13.0

Mix (%)	2021	2022	2023	2024	2025	2026	Change in mix
Male grooming market	100.0	100.0	100.0	100.0	100.0	100.0	
Male shaving market	43.0	41.4	40.2	39.4	38.9	38.7	(4.3)
Male toiletries market	42.0	41.9	42.3	43.0	44.0	45.4	3.4
Male fragrances market	15.0	15.2	15.6	16.2	16.9	17.7	2.7

Source: Euromonitor, YES Sec

During Covid pandemic, while shaving frequency took a hit due to lower requirement of grooming but we believe GILL would have added new set of consumers as salons remained closed but chemist channel was operational. If the category sees even a part reversal in trend towards clean shave from 'sporting a beard' or 'just trimming' led by continues strong focus on influencer led marketing, it could lead to increase in our growth assumptions.

In the oral care (toothbrush) business, we expect ~8% revenue CAGR over FY23-25E as market is witnessing unbundling and premiumization, to some extent supported by lower base (category growth was impacted by sharp inflation and is gradually recovering).

2) Women's razor & shave care portfolio offers delta through penetration led growth

Management believes the female hair removal category to be as big as men's grooming. While there are substitutes for women's hair removal in the form of creams, epilators, etc. but the low penetration levels, DIY nature and painless method provides enough growth headroom for razors. GILL started off with disposables but now has business even in systems.

We believe women's range could be in the range of 10-15% for GILL. Bombay Shaving Company (BSC) with its brand "Bombae" have also started investing behind the category and women's products is already accounting for ~25% of overall business. We expect this portfolio to grow faster than the men's portfolio for GILL over the next few years.

3) We hope GILL's brand equity & global expertise to help play catch-up in electric segment

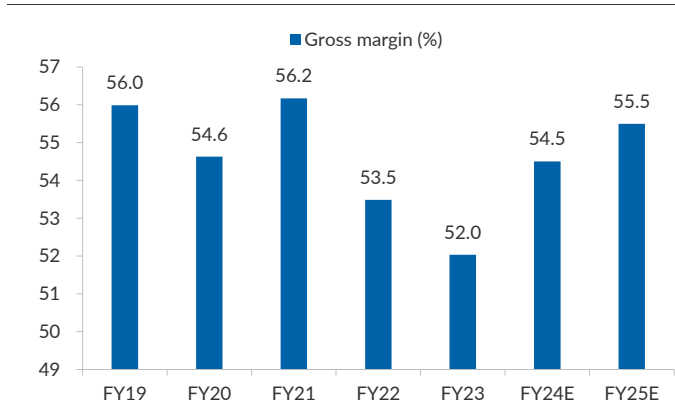
GILL has been a rather late entrant in the electric shavers, trimmers and epilators segment. It participates in the category through *Gillette Styler* and *Braun* (relatively small part of the portfolio as it was relaunched couple of years back). We believe, it won't be an easy task for GILL in this vertical as (a) players like *Philips* have a strong brand recall (b) long replacement cycle of the product (c) increased number of players (largely focused on online channel) with innovative products.

What could really work in GILL's favour is its brand equity & global expertise, which might help play catch-up. Products from global portfolio especially in the 'Intimate' segment can potentially address & open new market.

4) Global mix and margin profile shows potential for Gillette's India business margins

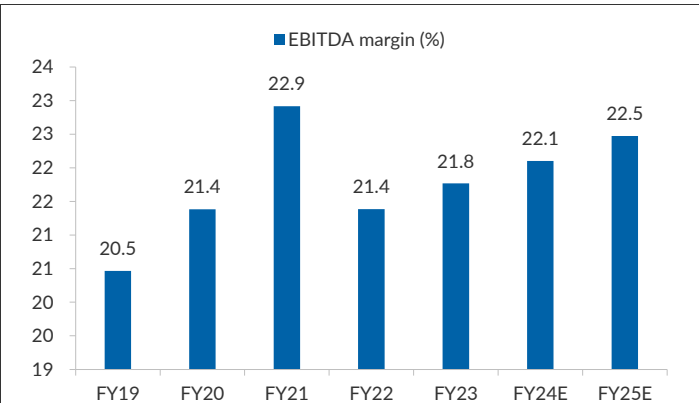
Gross margin in last couple of years has taken a hit due to challenging macro environment and unprecedented cost inflation. We expect gross margins to recover in coming quarters as inflation settles but we also expect A&SP spends to go up thus restricting EBITDA margin expansion.

Exhibit 22: Gross margin estimated to expand by 350bps over FY23-25E



Source: Company, YES Sec

Exhibit 23: EBITDA margin estimated to expand by 70bps over FY23-25E as A&SP picks up



Source: Company, YES Sec

P&G Global grooming business has been facing multiple headwinds due to increasing competitive intensity, changing consumer behaviour & demographics, gap in innovations, etc. But we don't see some of this factors to impact the India grooming business anytime soon as competition remains small, online subscription model hasn't picked up well, millennial & Gen Z population mix remains robust and innovations in the category have actually picked up. But, the ongoing trend, started before Covid, of 'sporting a beard' or 'just trimming' has had a impact on shaving frequency.

Global grooming business margins of P&G shows a big difference versus the India business. Global grooming business EBIT margin stood at 28.1% in FY23 (EBITDA margin of 33.4%) versus Gillette India's grooming business EBIT margin of 19.3% in FY23 (EBITDA margin of 23.4%, as per our estimate). Premiumization and segmental mix improvement will be a key driver of margins over the long term and will reduce gap with global margins.

Exhibit 24: Grooming business margin comparison: P&G Global versus GILL India

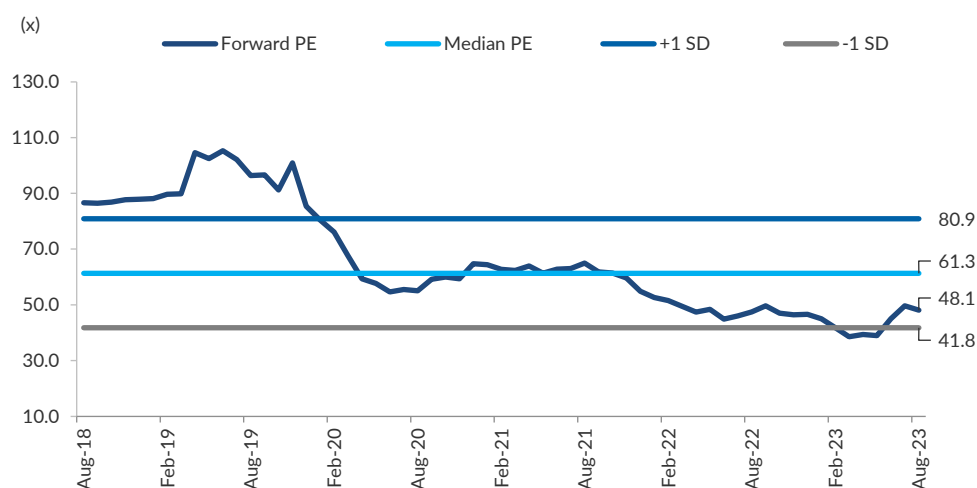
USD mn	FY19	FY20	FY21	FY22	FY23
Grooming Net Sales	6,199	6,069	6,440	6,587	6,419
P&G Global Grooming EBIT	1,777	1,613	1,728	1,835	1,806
Add: Depreciation	429	406	378	361	335
EBIT margin of P&G Global Grooming segment (Braun, Venus, Gillette) (%)	28.7	26.6	26.8	27.9	28.1
P&G Global Grooming EBITDA	2,206	2,019	2,106	2,196	2,141
EBITDA margin of Grooming segment of P&G (Braun, Venus, Gillette) (%)	35.6	33.3	32.7	33.3	33.4
GILL India Grooming EBIT margin (%)	18.9	20.5	24.3	19.6	19.3
Grooming EBIT margin difference (%)	9.8	6.1	2.6	8.2	8.9
GILL India Grooming EBITDA margin (%) - our est.	22.1	24.4	28.0	23.6	23.4
Grooming EBITDA margin difference (%) - our est.	13.5	8.8	4.7	9.7	10.0

Source: Company, YES Sec

5) Initiate coverage on GILL with an ADD rating and a target price of Rs6,090

- We expect revenues to grow in 8-9% range in coming quarters led by 1) Good momentum in grooming segment 2) Recovery in oral care on lower base. We thus estimate 8.1% revenue CAGR over FY23-25E.
- Our growth estimate does not consider any strong reversal in trend towards shaving from 'sporting beard' or 'trimming'.
- We also expect gross margin recovery with easing inflationary pressure but increase in A&SP will restrict EBITDA margin expansion. We thus build ~70bps improvement in EBITDA margin over FY23-25E largely led by lower COGS leading to EBITDA growth of ~10% over FY23-25E. Earnings (adjusted for prior year tax adjustments in March 2023 quarter) is expected to grow by ~10.4% over the same period.
- The company boasts strong return ratios. It has also shown healthy growth in dividends over the years. Last fiscal, the management though it was prudent to not continue to keep growing the dividend and take a pause but even then, the payout remains healthy.
- GILL is currently trading at ~48x 1-yr forward earnings (still lower than the Median PE). We assign a target multiple of ~48.5x on June'25 EPS (3yr/5yr avg fwd. multiple ~53x/65x), arriving at a target price (TP) of Rs6,090. Initiate with ADD rating. Near term valuations offer limited upside on one-year forward basis post recent run-up (up ~25% in last 3 months).

Exhibit 25: Currently trading at ~48x 1-yr forward earnings (still lower than the Median PE)



Source: Company, YES Sec

FINANCIALS

Exhibit 26: Balance Sheet

Y/E June (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	326	326	326	326	326
Reserves	7,564	8,286	9,563	9,634	10,443
Net worth	7,890	8,612	9,889	9,960	10,769
Total debt	0	0	0	0	0
Deferred tax liability and others	-279	-331	-458	-458	-458
Total liabilities	8,404	9,115	10,545	10,617	11,426
Gross block	5,741	6,958	8,029	9,029	9,779
Depreciation	2,644	3,327	4,134	5,047	6,053
Net block	3,098	3,630	3,895	3,982	3,726
Capital work-in-progress	720	650	324	500	500
Investments	0	0	0	0	0
Other LTA	2164	1950	1986	2232	2043
Inventories	3,666	3,734	4,124	3,918	4,419
Debtors	1,979	2,564	3,202	2,247	3,467
Cash	1,663	2,911	4,556	3,566	5,441
Other current assets	341	280	591	591	591
Total current assets	7,692	9,523	12,499	10,349	13,945
Creditors	4,084	5,446	6,801	4,925	7,084
Other current liabilities & provisions	1,186	1,191	1,357	1,522	1,703
Total current liabilities	5,270	6,638	8,158	6,447	8,788
Net current assets	2,422	2,885	4,341	3,902	5,157
Total assets	8,404	9,115	10,545	10,617	11,426

Source: Company, YES Sec

Exhibit 27: Income statement

Y/E June (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	20,094	22,562	24,771	26,877	28,971
% Growth	19.7%	12.3%	9.8%	8.5%	7.8%
COGS	8,807	10,495	11,881	12,229	12,893
Staff costs	1,432	1,501	1,698	1,881	2,057
Advertising costs	2,639	2,887	2,916	3,561	3,925
Other expenses	2,611	2,854	2,884	3,265	3,585
Total expenses	15,489	17,737	19,379	20,937	22,460
EBITDA	4,605	4,825	5,392	5,940	6,511
% growth	28.3%	4.8%	11.8%	10.2%	9.6%
EBITDA margin (%)	22.9%	21.4%	21.8%	22.1%	22.5%
Other income	200	77	222	224	247
Interest costs	53	105	78	75	70
Depreciation	575	684	807	913	1,006
Profit before tax (before exceptional items)	4,177	4,113	4,729	5,177	5,682
Exceptional items	0	0	0	0	0
Tax	1,236	1,220	1,172	1,501	1,591
PAT (before exceptional items)	2,941	2,893	3,557	3,676	4,091
PAT	2,941	2,893	3,557	3,676	4,091
PAT margin (%)	14.6%	12.8%	14.4%	13.7%	14.1%
% Growth	27.8%	-1.6%	22.9%	3.3%	11.3%

Source: Company, YES Sec

Exhibit 28: Cash flow statement

Y/E June (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
PAT	2,941	2,893	3,557	3,676	4,091
Depreciation	575	684	807	913	1,006
Net other income	-200	-77	-222	-224	-247
(Inc.)/dec. in working capital	775	784	190	-551	620
Cash flow from operations	4,144	4,388	4,409	3,888	5,540
Capital expenditure (-)	-1217	-1145	-746	-1176	-750
Net cash after capex	2,927	3,243	3,663	2,712	4,790
Inc./(dec.) in investments	641	368	219	-500	434
Cash from investing activities	-576	-777	-527	-1,675	-316
Dividends paid (-)	-4,301	-2,248	-2,314	-3,124	-3,682
Inc./(dec.) in total borrowings	72	-116	76	-75	-70
Cash from financial activities	-4,229	-2,364	-2,238	-3,199	-3,752
Opening cash balance	2,325	1,663	2,911	4,556	3,566
Closing cash balance	1,663	2,911	4,556	3,566	5,441
Change in cash balance	-662	1,248	1,645	-989	1,874

Source: Company, YES Sec

Exhibit 29: Growth and Ratio matrix

Y/E June	FY21	FY22	FY23	FY24E	FY25E
Per share (Rs)					
EPS	90.2	88.8	109.1	112.8	125.5
Book value	242.1	264.3	303.4	305.6	330.4
DPS	83.0	69.0	85.0	95.9	113.0
Valuation (x)					
P/Sales	9.0	8.0	7.3	6.7	6.2
EV/sales	8.9	7.9	7.2	6.6	6.2
EV/EBITDA	38.7	37.0	33.1	30.0	27.4
P/E	61.2	62.2	50.6	49.0	44.0
P/BV	22.8	20.9	18.2	18.1	16.7
Return ratios (%)					
RoCE (pre-tax)	49.7	51.1	52.0	52.9	55.5
RoE	34.6	35.1	38.5	37.0	39.5
RoIC (pre-tax)	62.1	71.6	81.7	82.3	91.5
Profitability ratios (%)					
Gross margin	56.2	53.5	52.0	54.5	55.5
EBITDA margin	22.9	21.4	21.8	22.1	22.5
EBIT margin	2.9	3.0	3.3	3.4	3.5
PAT margin	14.6	12.8	14.4	13.7	14.1
Liquidity ratios (%)					
Current ratio	1.5	1.4	1.5	1.6	1.6
Quick ratio	0.8	0.9	1.0	1.0	1.1
Turnover ratios					
Total asset turnover ratio (x)	1.5	1.4	1.3	1.6	1.4
Fixed asset turnover ratio (x)	6.5	6.2	6.4	6.7	7.8
Debtor days	35	37	42	37	36
Inventory days	135	129	121	120	118
Creditor days	144	166	188	175	170

Source: Company, YES Sec

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