

**Q3FYJune2010 Results Update****May 06, 2010**

GIL's Q3FYJune10 results were impressive on a Y-o-Y basis (GIL's accounting year ends in the month of June). Given below is a brief overview of the financial performance:

**Results Update****Y-o-Y:**

- GIL reported robust growth 29.1% in net sales in Q3FYJune10 to Rs. 2218.1 mn (Q3FYJune09: Rs. 1717.8 mn), driven by strong performance by grooming & oral care segments. The grooming segment grew by 21.4% to Rs. 1506.2 mn [Q3FYJune09: Rs. 1241 mn], thus accounting for 67.9% of the total revenue. The successful re-launch of Mach 3 & Disposable razors enabled the segment to grow in double digits during the quarter. The business grew significantly faster than the industry, leading to continued growth in the market share to record levels. Oral B also delivered strong results with growth across the three tiers (of cities) and distribution expansion. The segment revenues grew 62.6% to Rs. 620.5 mn [Q3FYJune09: Rs. 381.7 mn], accounting for 28% to the total revenue. The performance of portable power segment was disappointing, as its revenues declined by 4% to Rs. 91.3 mn [Q3FYJune09: Rs. 95.1 mn]. The segment contributed 4.1% to the total revenue.
- On the profitability front, the grooming segment continued to report robust numbers, as its PBIT increased by 114.2% over Q3FYJune09. The segment margins improved from 26.5% in Q3FYJune09 to 46.7% in Q3FYJune10. The oral care segment revenues declined by 14.1%, while its PBIT margins declined from 19% in Q3FYJune09 to 10% in Q3FYJune10. The portable power segment reported loss of Rs. 20.2 mn vs. profit of Rs. 9.1 mn in Q3FYJune09.
- GIL's operating profit grew by 45.3% to Rs. 608.5 mn [Q3FYJune09: Rs. 418.9 mn]. OPM improved significantly by 304 bps to 27.4% (Y-o-Y) mainly on account of decline in the raw materials consumed (down 5.1%) and lower growth in purchase of finished goods (up 18.5%), lower than the sales growth). However, high employee cost (up 31.8%), A&P spends (up 36%) and other expenses (up 55.6%) restricted further margin expansion. The total expenditure as a % to sales decreased from 75.6% in Q3FYJune09 to 72.6% in Q3FYJune10.
- Though depreciation increased by 7.8%, rise in the other income (up 9.3%) and lower effective tax rate (down from 38.2% in Q3FYJune09 to 34.7% in Q3FYJune10) led to higher growth in PAT, which increased by 50% to Rs. 427 mn [Q3FYJune09: Rs. 284.6 mn]. The PAT margins improved by 268 bps from 16.6% in Q3FYJune09 to 19.3% in Q3FYJune10. EPS for the quarter stood at Rs. 13.1 vs. Rs. 8.7 in Q3FYJune09.

**Q-o-Q:**

- Sequentially, the net sales rose 10% from Rs. 2016.8 mn in Q2FYJune10, mainly driven by grooming & oral care segment, which grew by 4.5% & 32% respectively. However, the portable power segment revenues declined by 13.2% over Q2FYJune10.
- The operating profit rose 8.6% from Rs. 560.1 mn in Q2FYJune10, lower than the sales growth on the back of higher purchase of finished goods, higher advertising & promotion cost and other expenses (up 86%, 34.9% & 61.7% respectively). The OPM declined by 34 bps from 27.8% in Q2YJune10.
- The grooming segment PBIT rose 55%, while the margins improved by 1523 bps from 31.5%. Even though the segment's revenue contribution decreased from 71.5% in Q2FYJune10 to 67.9% in Q3FYJune10, its contribution to the total PBIT rose from 86.9% to 94.4%. The oral care segment PBIT fell by 7.4%, thus reducing its profit share from 12.8% in Q2FYJune10 to 8.3% in Q3FYJune10. However, the segment revenue contribution increased from 23.3% in Q2FYJune10 to 28% in Q3FYJune10.
- Marginal increase in depreciation (up 3.4%) & lower effective tax rate (reduction of 136 bps from 36.1%) led to higher growth of 14% in PAT. The PAT margins improved by 67 bps from 18.6% in Q2FYJune10.

**Conclusion & Recommendation:**

GIL continues to maintain its market leadership in the razors & blades with the consistent increase in market share. Apart from having a dominant position in blades and razors category at the top-end of the market, GIL has plans to capture the mass end of the segment as well and to focus on increasing its rural presence significantly going forward. In a bid to increase share and growth, GIL introduced Mach3 in Nov 2009, priced at Rs. 125 or 60% lower than the Mach3 Turbo. This product is targeted at greater conversions from the doubled-edged segment, which accounts for 62% and 86% of the razors and blades market, in value and volume terms, respectively. Nearly half of this market comprises users who get their shaves done in a salon. GIL is attempting to convert this segment by giving them a salon-quality shave at an affordable price.

While the oral care segment continues to deliver robust growth in sales [up 62.6% Y-o-Y and 32% Q-o-Q in Q3FYJune10] on the back of strong distribution network (with Oral B commanding a leadership position), its margins have declined both on Y-o-Y & Q-o-Q basis in Q3FYJune10, mainly on the back of increasing competition from other established players in Oral Care. Also the portable power segment has been unable to deliver to the extent expected due to technology changes in user industry & increasing competition. In 9MFYJune10, the segment reported marginal growth of 10.2% in sales, while on profitability front it reported loss of Rs. 8.9 mn vs. profit of Rs. 34.6 mn in 9MFYJune09.

GIL's financials have improved significantly over the last one year on the back of synergies resulting from operational integration with its parent 'P&G'. We expect the growth momentum to continue considering GIL's market leadership in its grooming & oral care segment and support from parent company. However, increase in prices of key inputs like steel strips, plastic etc could put pressure on the company's margins going forward.

For 9MFYJune10, GIL's net sales & PAT rose 25.9% & 57.9% respectively. We feel that GIL could easily surpass our full year estimates. Hence, we are raising our FYJune10 sales & PAT estimates by 4.6% & 4.9% respectively. EPS has been revised upwards to Rs. 49.8 from Rs. 47.5 estimated earlier. We have also incorporated FYJune11 projections. We expect GIL's net sales & PAT to grow by 16% & 14.1% respectively in FYJune11. EPS is estimated to be Rs. 56.8. At the CMP of Rs. 1,583.4, the stock is trading at 27.9x FYJune11E EPS. We feel that GIL could continue to command higher valuations, considering its sound financials & low floating stock. In our Q2FYJune10 results review, we recommended investors to enter the scrip in the price band of Rs. 1,205-1,275 for a price target of Rs. 1,425 over the next six months. Thereafter, the stock touched a low of Rs. 1255 on Feb 25, 2010 and subsequently made a high of Rs. 1644 on May 05, 2010. From the current levels, the scope for further upside looks limited. Hence for better gains & margin of safety one should enter the scrip at lower levels in the price band of Rs. 1450-1,480 for sequential price targets of Rs. 1,647 (29x FYJune11E EPS) and Rs. 1704 (30x FYJune11E EPS) over the next six months.

#### Quarterly Financials:

Particulars	(Rs. in Million)							
	Q3FYJune10	Q3FYJune09	VAR [%]	Q2FYJune10	VAR [%] (Q-o-Q)	9MFYJune2010	9MFYJune2009	VAR [%]
<b>Net Sales</b>	<b>2218.1</b>	<b>1717.8</b>	<b>29.1</b>	<b>2016.8</b>	<b>10.0</b>	<b>6009.5</b>	<b>4774.7</b>	<b>25.9</b>
Other Income	76.1	69.6	9.3	55.9	36.1	183.0	225.7	-18.9
Total Income	2294.2	1787.4	28.4	2072.7	10.7	6192.5	5000.4	23.8
Total Expenditure	1609.6	1298.9	23.9	1456.7	10.5	4271.9	3730.8	14.5
Raw Material Consumed	160.6	279.5	-42.5	902.5	-82.2	1632.6	1289.2	26.6
Stock Adjustment	159.7	58.1	174.9	-293	-	-254.9	-319.6	-
Purchase of Finished Gds.	394.5	332.9	18.5	212.1	86.0	770.4	914.1	-15.7
Employee Expenses	122.7	93.1	31.8	105.8	16.0	360.5	352.1	2.4
Adv. & Sales Promotion	421.6	310.0	36.0	312.6	34.9	973.8	875.1	11.3
Other Expenses	350.5	225.3	55.6	216.7	61.7	789.5	619.9	27.4
<b>PBIDT</b>	<b>684.6</b>	<b>488.5</b>	<b>40.1</b>	<b>616.0</b>	<b>11.1</b>	<b>1920.6</b>	<b>1269.6</b>	<b>51.3</b>
Interest	0	0.0	-	0.3	-100.0	0.4	0.3	33.3
PBDT	684.6	488.5	40.1	615.7	11.2	1920.2	1269.3	51.3
Depreciation	30.3	28.1	7.8	29.3	3.4	88.5	84.8	4.4
PBT	654.3	460.4	42.1	586.4	11.6	1831.7	1184.5	54.6
Tax [incl. DT & FBT]	227.3	175.8	29.3	211.7	7.4	646.8	434.3	48.9
<b>Reported PAT</b>	<b>427.0</b>	<b>284.6</b>	<b>50.0</b>	<b>374.7</b>	<b>14.0</b>	<b>1184.9</b>	<b>750.2</b>	<b>57.9</b>
<b>EPS</b>	<b>13.1</b>	<b>8.7</b>	<b>50.0</b>	<b>11.5</b>	<b>14.0</b>	<b>36.4</b>	<b>23.0</b>	<b>57.9</b>
Equity	325.9	325.9	0.0	325.9	0.0	325.9	325.9	0.0
Face Value	10.0	10.0	0.0	10	0.0	10	10.0	0.0
<b>OPM (%)</b>	<b>27.4</b>	<b>24.4</b>	<b>12.5</b>	<b>27.8</b>	<b>-1.2</b>	<b>28.9</b>	<b>21.9</b>	<b>32.3</b>
<b>PATM (%)</b>	<b>19.3</b>	<b>16.6</b>	<b>16.2</b>	<b>18.6</b>	<b>3.6</b>	<b>19.7</b>	<b>15.7</b>	<b>25.5</b>

(Source: Company, HDFC Sec)

**Quarterly Segmental Details:**

Particulars	(Rs. in Million)							
	Q3 FYJune10	Q3FYJune09	VAR [%]	Q2FYJune10	VAR [%] (Q-o-Q)	9MFYJune10	9MFYJune09	VAR [%]
<b>Revenue from Operations</b>	<b>2218</b>	<b>1717.8</b>	<b>29.1</b>	<b>2016.8</b>	<b>10.0</b>	<b>6009.5</b>	<b>4774.7</b>	<b>25.9</b>
Grooming (incl. blades, razors & toiletries)	1506.2	1241	21.4	1441.4	4.5	4178.8	3465.5	20.6
Portable Power (incl. batteries)	91.3	95.1	-4.0	105.2	-13.2	288.7	262	10.2
Oral Care (incl. Tooth brushes/ oral care products)	620.5	381.7	62.6	470.2	32.0	1542.0	1047.2	47.2
<b>PBIT</b>	<b>746.1</b>	<b>410.2</b>	<b>81.9</b>	<b>523</b>	<b>42.7</b>	<b>1859.4</b>	<b>1004.3</b>	<b>85.1</b>
Grooming	704.1	328.7	114.2	454.4	55.0	1673.9	848.1	97.4
Portable Power	-20.2	9.1	-	1.4	-	-8.9	34.6	-
Oral Care	62.2	72.4	-14.1	67.2	-7.4	194.4	121.6	59.9
Less: Interest Expense	0	0	-	0.3	-100.0	0.4	0.3	33.3
Add / Less: Unallocated inc. net of other unallocable exp.	91.8	-50.2	-	-63.7	-	27.3	-180.5	-
<b>PBT</b>	<b>654.3</b>	<b>460.4</b>	<b>42.1</b>	<b>586.4</b>	<b>11.6</b>	<b>1831.7</b>	<b>1184.5</b>	<b>54.6</b>
<b>PBITM (%)</b>	<b>33.6</b>	<b>23.9</b>		<b>25.9</b>		<b>30.9</b>	<b>21.0</b>	
Grooming	46.75	26.49		31.52		40.1	24.5	
Portable Power	-22.1	9.6		1.3		-3.1	13.2	
Oral Care	10.0	19.0		14.3		12.6	11.6	
<b>CAPITAL EMPLOYED</b>	<b>2433.2</b>	<b>1949.2</b>	<b>24.8</b>	<b>2188.9</b>	<b>11.2</b>	<b>2433.2</b>	<b>1949.2</b>	<b>24.8</b>
Grooming	2121.9	1643.7	29.1	1815.6	16.9	2121.9	1643.7	29.1
Portable Power	113.5	95.4	19.0	102.6	10.6	113.5	95.4	19.0
Oral Care	197.8	210.1	-5.9	270.7	-26.9	197.8	210.1	-5.9

(Source: Company, HDFC Sec)

**Financial Estimates:**

Particulars	(Rs. in Million)				
	FYJune08	FYJune09	FYJune10 (OE)	FYJune10 (RE)	FYJune11E
Net Sales	5888.5	6615.1	7941.4	8309.5	9639.0
Operating Profit (excl. other income)	1626	1584	2291.1	2358.6	2679.6
Adjusted PAT	1077.2	1131.3	1546.4	1621.9	1850.7
Equity	325.9	325.9	325.9	325.9	325.9
EPS (Rs.)	36	34.7	47.5	49.8	56.8
OPM (%)	27.6	23.9	28.9	28.4	27.8
PATM (%)	18.3	17.1	19.5	19.5	19.2

(Source: Company, HDFC Sec Estimates)

\*OE - Original Estimates; RE - Revised Estimates

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