

# P&G Hygiene and Healthcare

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
29,859	9,285
<b>Bloomberg</b>	<b>PG IN</b>
Equity Shares (m)	32.5
M.Cap.(INRb)/(USDb)	239.3/3.7
52-Week Range (INR)	7611 / 6025
1, 6, 12 Rel. Per (%)	-1/-4/-3
Avg Val, INRm/ Vol m	49
Free float (%)	29.4

## Financials & Valuations (INR b)

Y/E June	FY16	FY17E	FY18E
Net Sales	22.8	23.9	27.4
EBITDA	6.1	7.0	7.8
NP	4.2	4.7	5.1
EPS (INR)	129.9	144.9	155.8
EPS Gr. (%)	22.0	11.5	7.5
BV/Sh. (INR)	465.6	175.3	219.9
RoE (%)	30.8	45.3	78.9
RoCE (%)	31.3	46.0	80.5
P/E (x)	56.7	50.9	47.3
P/BV (x)	15.8	42.1	33.5

## Estimate change

### TP change

### Rating change



**CMP: INR 7,373 TP: INR 8,760 (+19%)**

**Buy**

## Payout of INR12b cash a huge boost to return ratios

- Net sales rose 5.5% YoY (est. of +9%) to INR5.73b.** Sales growth, albeit lower than estimated, is still better than that reported by peers so far. Gross sales were up by a healthy 7% YoY. The company has not shared segmental data; however, in our view, close to double-digit sales in Feminine Hygiene was offset by flat growth and higher excise in Healthcare, leading to moderate net sales growth. EBITDA margin expanded 230bp YoY to 26.8% v/s estimate of 210bp contraction due to fear of a high base. EBITDA increased by 15.3% YoY (est. of +0.1%) to INR1.54b and PAT by 2.6% YoY (est. of -2.4%) to INR996m.
- EBITDA margin surprises positively:** Gross margin shrunk 60bp YoY to 58.6% in the quarter. Staff costs rose 100bp YoY to 5.8% of sales, ad spend was down 20bp YoY to 9.4% of sales (far lower decline than that reported by all other consumer peers so far), and other expenses declined 360bp YoY to 16.6% of sales (a key factor driving margin expansion).
- Dividend payout a huge positive:** The company declared a significant interim dividend of INR362 per share (5% yield), utilizing entire cash balance built up over two years via a sharp reduction in inter-group lending, good operating performance and a low payout. We believe that this portends further decline in inter-group lending as well as significantly elevated dividend payout.
- Valuation and view:** PGHH's has distinct advantages over FMCG peers: (1) It is in a much faster-growing category and (2) It enjoys far superior barriers to entry in its key Feminine Hygiene segment (69% of sales). While there will be some weakness in earnings over next few years due to low other income, we note that payout of cash potentially takes RoCE closer to 80% from ~30%, adding to the attractiveness of the stock. We maintain **Buy** with a target price of INR8,760 (50x March 2019E EPS, a 10% premium to three-year average due to far superior return ratios compared to previous levels).

## Standalone - Quarterly Earning Model

(INR Million)

Y/E June	FY16				FY17				FY16	FY17	FY17	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	5,387	6,593	5,438	5,336	6,004	6,432	5,739	5,739	22,754	23,915	5,927	-3.2%
YoY Change (%)					11.5	-2.4	5.5	7.6	-2.5	5.1	9.0	
Total Expenditure	4,418	4,431	4,104	3,748	4,493	4,146	4,201	4,108	16,701	16,948	4,592	
EBITDA	970	2,162	1,334	1,588	1,512	2,286	1,538	1,632	6,053	6,967	1,335	15.2%
Growth					55.9	5.7	15.3	2.8			0	
Margins (%)	18.0	32.8	24.5	29.8	25.2	35.5	26.8	28.4	26.6	29.1	22.5	
Depreciation	127	142	124	124	127	132	142	156	517	556	142	
Interest	17	28	7	8	4	43	13	-5	60	55	4	
Other Income	212	206	236	222	225	208	232	62	876	726	236	
PBT before EO expense	1,038	2,199	1,439	1,677	1,605	2,320	1,614	1,543	6,353	7,082	1,425	
PBT	1,038	2,199	1,439	1,677	1,605	2,320	1,614	1,543	6,353	7,082	1,425	13.3%
Tax	343	733	468	585	561	814	618	380	2,129	2,372	477	
Rate (%)	33.0	33.4	32.5	34.9	34.9	35.1	38.3	24.7	33.5	33.5	33.5	
Reported PAT	696	1,465	971	1,092	1,044	1,506	996	1,162	4,223	4,709	947	5.2%
Adj PAT	696	1,465	971	1,092	1,044	1,506	996	1,162	4,223	4,709	947	5.2%
YoY Change (%)		61.6	11.7	2.0	50.1	2.8	2.6	6.4	22.0	11.5	-2.4	
Margins (%)	12.9	22.2	17.8	20.5	17.4	23.4	17.4	20.3	18.6	19.7	16.0	

E: MOSL Estimates

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

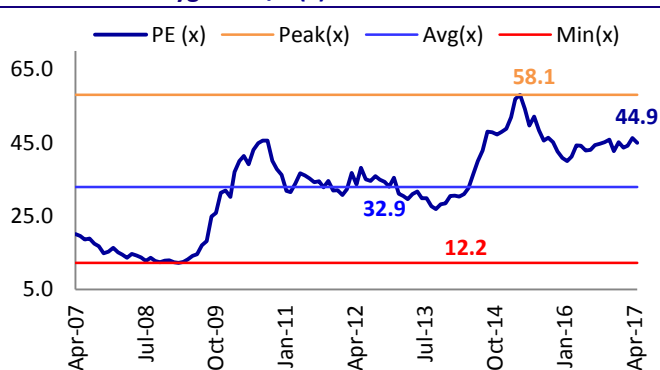
Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Exhibit 1: FY18E and FY19E PAT affected by lower other income due to payout of cash**

	Old			New			Change (%)		
	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Sales	24,515	29,220	34,470	23,915	27,445	31,984	-2.5	-6.1	-7.2
EBITDA	6,831	7,907	9,370	6,967	7,788	9,134	2.0	-1.5	-2.5
PAT	4,736	5,449	6,462	4,709	5,064	5,903	-0.6	-7.1	-8.7

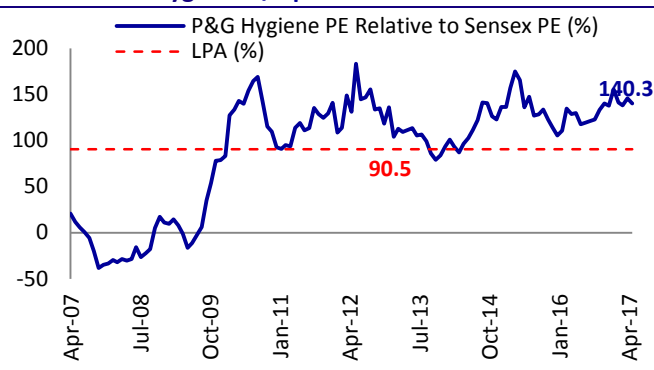
Source: Company, MOSL

**Exhibit 2: P&G Hygiene P/E (x)**



Source: Company, MOSL

**Exhibit 3: P&G Hygiene P/E premium vs. Sensex**



Source: Company, MOSL

**Exhibit 4: Valuation Matrix of coverage universe**

Company	Reco	CMP (INR)	Mkt Cap (USD B)	EPS Growth YoY (%)			P/E (x)			EV/EBITDA (x)			RoE (%)	Div. (%)
				FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E		
<b>Consumer</b>														
Asian Paints	Neutral	1,146	16.8	9.5	10.2	18.0	55.9	50.7	43.0	35.1	32.5	27.6	32.8	1.0
Britannia Inds.	Buy	3,523	6.7	3.0	15.5	22.0	48.8	42.3	34.6	36.6	31.4	24.8	43.1	0.7
Colgate-Palm.	Buy	1,013	4.4	-4.4	18.9	22.7	46.7	39.3	32.0	29.2	24.3	20.1	54.9	1.5
Dabur India	Neutral	273	7.6	1.9	6.7	18.3	37.6	35.3	29.8	30.6	29.2	24.4	28.4	0.9
Emami	Buy	1,085	3.9	5.0	12.6	20.6	41.0	36.4	30.1	33.3	28.9	24.4	36.6	1.0
Godrej Consumer	Neutral	1,766	9.6	11.9	15.6	15.9	47.5	41.1	35.5	34.8	30.5	26.6	22.5	0.7
GlaxoSmith C H L	Neutral	5,164	3.3	-1.7	12.5	10.3	33.6	29.8	27.1	22.0	19.2	17.1	24.6	1.0
Hind. Unilever	Neutral	954	32.1	1.1	11.7	15.4	49.5	44.3	38.4	34.5	31.3	27.1	67.6	2.0
ITC	Buy	277	52.7	8.6	11.6	18.1	33.1	29.6	25.1	22.6	20.1	16.7	28.4	1.9
Jyothy Lab.	Neutral	377	1.1	94.5	12.8	16.5	47.3	42.0	36.0	26.7	24.4	21.7	16.4	1.1
Marico	Neutral	305	6.2	12.1	10.5	21.1	48.6	43.9	36.3	34.7	31.4	26.2	36.7	1.0
Nestle India	Neutral	6,722	10.1	-1.6	18.0	17.3	57.0	48.3	41.2	35.0	29.2	24.8	39.0	0.9
<b>P &amp; G Hygiene</b>	<b>Buy</b>	<b>7,373</b>	<b>3.7</b>	<b>11.5</b>	<b>7.5</b>	<b>16.6</b>	<b>50.9</b>	<b>47.3</b>	<b>40.6</b>	<b>34.2</b>	<b>29.9</b>	<b>25.3</b>	<b>45.3</b>	<b>4.9</b>
Page Industries	Buy	14,206	2.5	12.9	29.5	27.3	60.3	46.6	36.6	39.1	30.0	23.7	41.3	0.7
Parag Milk Foods	Neutral	240	0.3	-87.9	756.4	79.4	295.4	34.5	19.2	27.1	14.8	10.1	1.3	0.0
Pidilite Inds.	Neutral	735	5.9	12.5	10.1	12.3	44.3	40.2	35.8	29.7	26.2	23.0	27.9	0.7
United Breweries	Buy	777	3.2	-5.4	34.3	28.2	72.8	54.2	42.3	30.5	27.0	21.3	12.6	0.1
United Spirits	Neutral	1,896	4.3	71.2	47.2	39.1	66.2	45.0	32.3	32.6	26.0	20.2	20.8	0.0
<b>Retail</b>														
Jubilant Food.	Neutral	1,029	1.1	-17.6	76.4	34.0	83.5	47.3	35.3	26.8	18.2	13.8	10.1	0.2
Titan Company	Neutral	492	6.8	17.1	10.8	13.5	52.3	47.2	41.6	37.6	33.3	28.7	21.5	0.6

Note: For Nestle FY16 means CY15

Source: Company, MOSL

## Financials and Valuations

### Standalone - Income Statement

(INR Million)

Y/E June	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Income from Operations	16,986	20,673	23,599	23,492	24,781	28,499	33,212
Less: Excise Duty	118	164	261	738	867	1,054	1,228
<b>Total Income from Operations</b>	<b>16,868</b>	<b>20,509</b>	<b>23,338</b>	<b>22,754</b>	<b>23,915</b>	<b>27,445</b>	<b>31,984</b>
Change (%)	30.0	21.6	13.8	-2.5	5.1	14.8	16.5
Raw Materials	7,045	8,128	9,209	8,848	9,298	10,670	12,435
% of Sales	41.8	39.6	39.5	38.9	38.9	38.9	38.9
Employees Cost	997	950	1,133	1,179	1,298	1,400	1,562
% of Sales	5.9	4.6	4.9	5.2	5.4	5.1	4.9
Other Expenses	6,321	7,225	8,152	6,674	6,352	7,586	8,853
% of Sales	37.5	35.2	34.9	29.3	26.6	27.6	27.7
<b>EBITDA</b>	<b>2,506</b>	<b>4,207</b>	<b>4,844</b>	<b>6,053</b>	<b>6,967</b>	<b>7,788</b>	<b>9,134</b>
Margin (%)	14.9	20.5	20.8	26.6	29.1	28.4	28.6
Depreciation	313	352	525	517	556	618	723
<b>EBIT</b>	<b>2,192</b>	<b>3,855</b>	<b>4,319</b>	<b>5,536</b>	<b>6,410</b>	<b>7,170</b>	<b>8,411</b>
Int. and Finance Charges	0	54	57	60	55	35	35
Other Income	670	802	746	876	726	480	501
<b>PBT after EO Exp.</b>	<b>2,862</b>	<b>4,603</b>	<b>5,008</b>	<b>6,353</b>	<b>7,082</b>	<b>7,616</b>	<b>8,877</b>
Total Tax	830	1,583	1,547	2,129	2,372	2,551	2,974
Tax Rate (%)	29.0	34.4	30.9	33.5	33.5	33.5	33.5
<b>Adjusted PAT</b>	<b>2,032</b>	<b>3,020</b>	<b>3,461</b>	<b>4,223</b>	<b>4,709</b>	<b>5,064</b>	<b>5,903</b>
Change (%)	12.1	48.6	14.6	22.0	11.5	7.5	16.6
Margin (%)	12.0	14.7	14.8	18.6	19.7	18.5	18.5

### Standalone - Balance Sheet

(INR Million)

Y/E June	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Equity Share Capital	325	325	325	325	325	325	325
Total Reserves	7,729	9,704	11,962	14,788	5,367	6,813	8,502
<b>Net Worth</b>	<b>8,053</b>	<b>10,029</b>	<b>12,287</b>	<b>15,112</b>	<b>5,691</b>	<b>7,138</b>	<b>8,826</b>
Deferred Tax Liabilities	-30	-72	-40	-79	-87	-95	-105
Total Loans	0	0	0	0	0	0	0
<b>Capital Employed</b>	<b>8,024</b>	<b>9,957</b>	<b>12,247</b>	<b>15,033</b>	<b>5,605</b>	<b>7,042</b>	<b>8,721</b>
Gross Block	3,775	4,281	5,237	5,759	6,006	6,984	8,084
Less: Accum. Deprn.	1,626	1,886	2,149	2,591	3,147	3,765	4,488
<b>Net Fixed Assets</b>	<b>2,149</b>	<b>2,395</b>	<b>3,088</b>	<b>3,169</b>	<b>2,859</b>	<b>3,219</b>	<b>3,596</b>
Capital WIP	412	982	390	347	300	422	422
<b>Total Investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>9,903</b>	<b>11,631</b>	<b>15,960</b>	<b>18,051</b>	<b>8,111</b>	<b>13,515</b>	<b>16,344</b>
Inventory	1,189	1,185	1,191	1,275	1,288	1,396	1,627
Account Receivables	809	861	1,139	1,496	1,216	1,314	1,531
Cash and Bank Balance	1,660	2,691	6,186	10,749	1,054	6,228	8,584
Loans and Advances	6,245	6,894	7,444	4,532	4,553	4,577	4,603
<b>Curr. Liability &amp; Prov.</b>	<b>4,440</b>	<b>5,050</b>	<b>7,190</b>	<b>6,534</b>	<b>5,666</b>	<b>10,113</b>	<b>11,641</b>
Account Payables	2,895	2,934	4,570	4,239	4,650	5,359	6,159
Provisions	1,545	2,117	2,621	2,295	1,016	4,754	5,482
<b>Net Current Assets</b>	<b>5,463</b>	<b>6,581</b>	<b>8,770</b>	<b>11,518</b>	<b>2,445</b>	<b>3,401</b>	<b>4,703</b>
<b>Appl. of Funds</b>	<b>8,024</b>	<b>9,957</b>	<b>12,247</b>	<b>15,033</b>	<b>5,605</b>	<b>7,042</b>	<b>8,721</b>

E: MOSL Estimates

## Financials and Valuations

<b>Ratios</b>	<b>(INR Million)</b>						
<b>Y/E June</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
<b>Basic (INR)</b>							
<b>EPS</b>	<b>62.5</b>	<b>92.9</b>	<b>106.5</b>	<b>129.9</b>	<b>144.9</b>	<b>155.8</b>	<b>181.6</b>
Cash EPS	72.3	103.9	122.8	146.0	162.2	175.1	204.1
BV/Share	248.1	309.0	378.5	465.6	175.3	219.9	271.9
DPS	25.0	27.5	30.2	36.0	364.4	96.1	135.2
Payout (%)	39.9	29.6	28.4	27.7	251.5	61.7	74.3
<b>Valuation (x)</b>							
P/E		79.3	69.2	56.7	50.9	47.3	40.6
Cash P/E		71.0	60.0	50.5	45.5	42.1	36.1
P/BV		23.9	19.5	15.8	42.1	33.5	27.1
EV/Sales		11.5	10.0	10.0	10.0	8.5	7.2
EV/EBITDA		56.3	48.1	37.8	34.2	29.9	25.3
Dividend Yield (%)	0.3	0.4	0.4	0.5	4.9	1.3	1.8
FCF per share	24.2	63.9	144.1	183.9	140.5	275.2	207.8
<b>Return Ratios (%)</b>							
RoE	27.1	33.4	31.0	30.8	45.3	78.9	74.0
RoCE	27.1	34.0	31.5	31.3	46.0	80.5	75.2
ROIC	28.8	41.3	49.9	76.6	104.1	205.4	250.0
<b>Working Capital Ratios</b>							
Asset Turnover (x)	2.1	2.1	1.9	1.5	4.3	3.9	3.7
Inventory (Days)	23	21	19	18	18	17	17
Debtor (Days)	14	15	16	19	17	16	16
Creditor (Days)	50	39	47	51	49	50	50
<b>Leverage Ratio (x)</b>							
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0

<b>Standalone - Cash Flow Statement</b>	<b>(INR Million)</b>						
<b>Y/E June</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>	<b>FY19E</b>
Reported profit after tax	2,032	3,020	3,461	4,232	4,834	5,206	6,077
Depreciation	151	260	263	442	556	618	723
Provisions	627	571	504	-325	-1,279	3,738	728
Deferred Taxes	-14	-42	32	-39	-8	-9	-10
(Inc)/Dec in WC	-1,571	-659	802	2,140	657	480	325
<b>CF from Operations</b>	<b>1,225</b>	<b>3,150</b>	<b>5,063</b>	<b>6,449</b>	<b>4,760</b>	<b>10,033</b>	<b>7,844</b>
Others	0	0	-22	0	0	0	0
<b>CF from Operating incl EO</b>	<b>1,225</b>	<b>3,150</b>	<b>5,041</b>	<b>6,449</b>	<b>4,760</b>	<b>10,033</b>	<b>7,844</b>
(Inc)/Dec in FA	-439	-1,075	-364	-480	-200	-1,100	-1,100
<b>Free Cash Flow</b>	<b>786</b>	<b>2,075</b>	<b>4,677</b>	<b>5,969</b>	<b>4,560</b>	<b>8,933</b>	<b>6,744</b>
(Pur)/Sale of Investments	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0
<b>CF from Investments</b>	<b>-439</b>	<b>-1,075</b>	<b>-364</b>	<b>-480</b>	<b>-200</b>	<b>-1,100</b>	<b>-1,100</b>
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	0	0	0	0	0	0	0
Dividend Paid	-949	-1,044	-1,182	-1,407	-14,255	-3,759	-4,388
Others	0	0	0	0	0	0	0
<b>CF from Fin. Activity</b>	<b>-949</b>	<b>-1,044</b>	<b>-1,182</b>	<b>-1,407</b>	<b>-14,255</b>	<b>-3,759</b>	<b>-4,388</b>
<b>Inc/Dec of Cash</b>	<b>-163</b>	<b>1,031</b>	<b>3,495</b>	<b>4,563</b>	<b>-9,695</b>	<b>5,174</b>	<b>2,356</b>
Opening Balance	1,824	1,661	2,691	6,186	10,749	1,054	6,229
<b>Closing Balance</b>	<b>1,661</b>	<b>2,691</b>	<b>6,186</b>	<b>10,749</b>	<b>1,054</b>	<b>6,229</b>	<b>8,584</b>

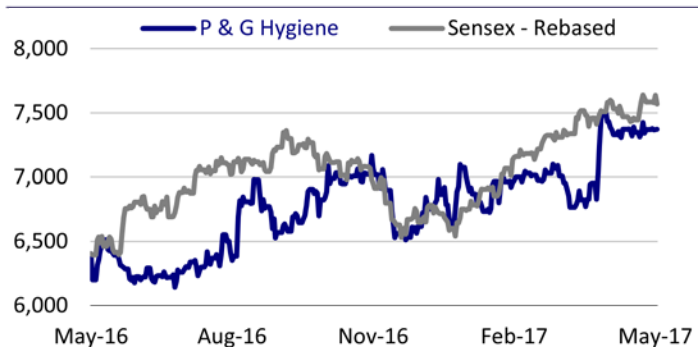
E: MOSL Estimates

## Corporate profile

### Company description

Procter & Gamble Hygiene & Health Care Limited (PGHH), a 71% subsidiary of P&G, manufactures, distributes and markets three major brands in India – Whisper (sanitary napkins), Vicks (balm, cough drops and tablets), and Old Spice (aftershave lotion and deodorants). Whisper is the market leader, with ~56% share Indian Feminine Hygiene market, and is likely to contribute ~65% of sales in FY16 (June year-end). Vicks is also the market leader, with over 30% share in the cough, Cold and Hay Fever segment of OTC (over the counter) products.

### Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

### Exhibit 2: Shareholding pattern (%)

	Mar-17	Dec-16	Mar-16
Promoter	70.6	70.6	70.6
DII	9.3	9.2	10.0
FII	3.8	3.9	3.4
Others	16.3	16.3	16.0

Note: FII Includes depository receipts Source: Capitaline

### Exhibit 3: Top holders

Holder Name	% Holding
General Insurance Corporation Of India	1.6

Source: Capitaline

### Exhibit 4: Top management

Name	Designation
R A Shah	Chairman
AI Rajwani	Managing Director
Preeti Bishnoi	Company Secretary

Source: Capitaline

### Exhibit 5: Directors

Name	Name
R A Shah*	Karthik Natarajan
AI Rajwani	Pramod Agarwal
A K Gupta*	Shailymanyu Singh
Bansi S Mehta*	Sonali Dhawan

\*Independent

### Exhibit 6: Auditors

Name	Type
Deloitte Haskins & Sells LLP	Statutory
Dholakia & Associates LLP	Secretarial Audit
Ashwin Solanki & Associates	Cost Auditor

Source: Capitaline

### Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY16	129.0	130.4	-1.1
FY17	144.9	146.0	-0.7
FY18	155.8	165.7	-6.0

Source: Bloomberg

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