

P&G Hygiene and Healthcare

Estimate changes



TP change



Rating change



Bloomberg	PG IN
Equity Shares (m)	32
M.Cap.(INRb)/(USD\$b)	467.2 / 5.8
52-Week Range (INR)	16466 / 12599
1, 6, 12 Rel. Per (%)	-4/-11/7
12M Avg Val (INR M)	176

Financials & valuations (INR b)

Y/E June	2022	2023E	2024E
Sales	38.0	43.2	51.1
Sales Gr. (%)	6.3	13.6	18.5
EBITDA	8.3	10.1	13.1
Margin (%)	21.8	23.5	25.7
Adj. PAT	5.9	7.3	9.7
Adj. EPS (INR)	180.5	226.3	300.0
EPS Gr. (%)	15.6	25.4	32.5
BV/Sh.(INR)	227.2	249.9	279.9

Ratios

RoE (%)	80.7	94.9	113.4
RoCE (%)	86.7	102.4	122.1

Valuations

P/E (x)	79.4	63.3	47.8
P/BV (x)	63.1	57.4	51.2
EV/EBITDA (x)	55.3	45.2	34.8
Div. Yield (%)	1.1	1.4	1.9

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	70.6	70.6	70.6
DII	14.2	13.9	13.6
FII	2.0	2.3	2.5
Others	13.1	13.2	13.3

FII Includes depository receipts

CMP: INR14,393
TP: INR16,500 (+15%)
Buy

Commodity pressures hurt margins

- While the sales decline of 3.7% YoY in 4QFY22 (adjusted for a one-off in other operating income) was optically poor, it was on an unusually high base of Vicks sales in FY21 (24.1%) that may have been especially strong in 4QFY21 given the second wave of Covid-19. Even so, the two-year sales CAGR, which has been in the 12-17% range in the preceding three quarters, stood at only 9.2% in 4QFY22.
- As a percentage of sales, PGHH's ad spends declined sharply by 1,190bp YoY to 12.8% from the unusually high levels of 4QFY21. In fact, A&P spends moderated in FY22 to 12.4% of sales v/s 14.1% in FY21, which was when P&G chose to increase its ad spends globally rather than curtail marketing spends amid the pandemic. We believe A&P will continue to decline, reaching the 10-11% of sales level going forward.
- The company has strong earnings growth potential, led by a healthy revenue growth and gradual normalization of the unusually high ad spends in the aftermath of the pandemic as well as the ongoing material cost pressures. We maintain our **BUY** rating.

Overall miss on our estimates

Adjusted performance (adjusted for one-off intercompany inventory sale of INR191m)

- PGHH's sales declined 3.7% YoY to INR7.6b in 4QFY22** (est. INR8.5b). Adjusted EBITDA/PBT/PAT declined 10.4%/14.2%/13.1% YoY to INR671m/INR577m/INR426m (est. INR1.2b/1.2b/937m), respectively.
- Two-year sales/EBITDA/PAT (adjusted) CAGR came in at 9.2%/-22%/-21.6%, respectively.
- Gross margin contracted 1,560bp YoY to 52.5%** (est. 64.4%).
- As a percentage of sales, lower ad spends (-1,190bp YoY to 12.8%), adjusted other expenses (-330bp YoY to 25.2%), and higher employee costs (+30bp YoY to 5.6%) led to a **70bp contraction in adjusted EBITDA margin to 8.9%** (est. 14.3%) in 4QFY22.
- Adjusted sales/EBITDA/PAT grew 6.3%/19%/15.6% YoY in FY22, respectively.**
- The company has declared a final dividend of INR65 per share. It had declared an interim dividend of INR95 per share taking the total dividend for FY22 to INR160 representing a payout of 88.7%.

Highlights from the management commentary

- PGHH reported a one-time other income from the intercompany sale of inventory in 4QFY22 similar to that in 3QFY22.
- The management attributed the decline in profitability primarily to commodities inflation even as this was offset by cost rationalization and price hikes in FY22.
- It also highlighted that the operating environment continues to be marked by unprecedented headwinds and commodity fluctuations in the near-term.
- Innovations during the year included Whisper Choice Nights, Vicks Roll-On Inhaler, Vicks Xtra Strong and Vicks Tulsi Ginger Cough Syrup.
- Whisper's 'Menstrual Health & Hygiene Program' supported over 50,000 schools and reached about 10m adolescent girls in FY22.

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Valuation and view

- The miss on our forecasts drives us to cut our EPS estimates for FY23/FY24 by 11.4%/6.6%, respectively.
- With a full-year dividend of INR160 per share, dividend payout remains high at nearly 90% of EPS in FY22. Consequently, FY22 RoE and RoCE remain healthy at 80.7% and 86.7%, respectively.
- Two factors make PGHH an attractive long-term core holding: a) huge category growth potential in the Feminine Hygiene segment (~66% of FY21 sales), coupled with potential for market share gains backed by considerable moats, and b) the potential for higher margin gains from premiumization in the Feminine Hygiene segment over the long term.
- PGHH's best-of-breed structural earnings growth potential and improving RoE deserve premium multiples. **We maintain our BUY rating with a TP of INR16,500 (premised on 55x FY24E EPS).**

Standalone - Quarterly Earnings

Y/E June	FY21				FY22				FY21	FY22	FY22	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		4QE	(%)	
Net Sales	10,095	10,184	7,597	7,866	10,583	10,930	8,913	7,573	35,741	37,998	8,482	-10.7%
YoY Change (%)	18.5	18.5	15.8	24.0	4.8	7.3	17.3	-3.7	19.1	6.3	7.8	
Gross profit	6,663	7,056	5,078	5,352	7,041	7,127	5,275	3,974	24,148	23,416	5,458	
Margin (%)	66.0	69.3	66.8	68.0	66.5	65.2	59.2	52.5	67.6	61.6	64.4	
EBITDA	2,293	2,567	1,363	749	3,013	2,965	1,650	671	6,972	8,299	1,214	-44.7%
Growth	25.8	37.5	-1.5	-32.1	31.4	15.5	21.0	-10.4	12.2	19.0	62.1	
Margins (%)	22.7	25.2	17.9	9.5	28.5	27.1	18.5	8.9	19.5	21.8	14.3	
Depreciation	118	120	113	126	127	129	131	142	477	529	141	
Interest	4	21	30	7	6	29	68	8	61	112	22	
Other Income	96	94	148	57	58	69	60	56	394	243	140	
PBT	2,267	2,520	1,369	672	2,938	2,875	1,511	577	6,828	7,902	1,192	-51.6%
Tax	552	698	326	183	756	754	381	152	1,759	2,042	255	
Rate (%)	17.9	21.8	24.9	27.2	25.7	26.2	27.0	26.3	21.3	26.2	21.4	
Reported PAT	2,539	2,506	983	490	2,183	2,121	1,029	426	6,518	5,759	937	
Adj PAT	1,715	1,822	1,042	490	2,183	2,121	1,130	426	5,068	5,859	937	-54.6%
YoY Change (%)	25.3	34.0	2.6	-29.2	27.3	16.4	8.4	-13.1	13.2	15.6	91.2	
Margins (%)	17.0	17.9	13.7	6.2	20.6	19.4	12.7	5.6	14.2	15.4	11.0	

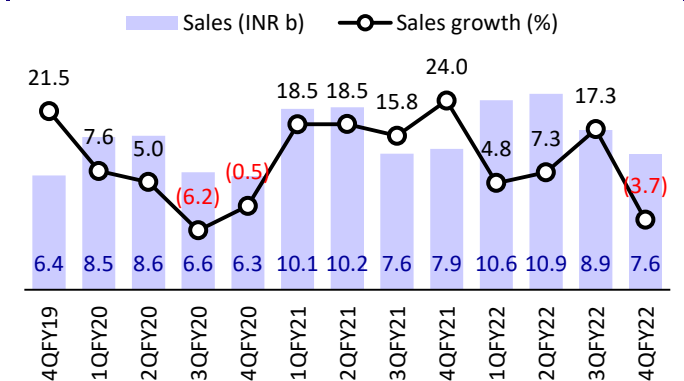
E: MOFSL Estimates

Key Performance Indicators

Y/E June	FY21				FY22			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
2Y average growth (%)								
Sales	13.0	11.8	4.8	11.7	11.6	12.9	16.6	10.1
EBITDA	6.4	17.6	-2.6	19.0	28.6	26.5	9.8	-21.3
PAT	13.1	21.8	7.7	-7.7	26.3	25.2	5.5	-21.2
% of Sales								
COGS	34.0	30.7	33.2	32.0	33.5	34.8	40.8	47.5
Employee Expenses	6.1	4.1	0.4	0.5	5.3	5.5	6.3	5.6
A&P Expenses	8.9	10.7	1.8	1.6	11.7	12.7	12.6	12.8
Other Expenses	28.3	29.4	3.1	6.7	21.1	19.9	21.8	25.2
Depreciation	1.2	1.2	1.5	1.6	1.2	1.2	1.5	1.9
YoY change (%)								
COGS	1.7	-2.6	15.0	6.8	3.2	21.6	44.4	43.1
Employee Expenses	46.1	-3.6	13.5	9.9	-8.7	44.9	-1.7	1.0
A&P Expenses	-13.7	0.5	73.4	372.5	36.8	27.7	-13.3	-50.1
Other Expenses	53.5	49.1	6.4	7.1	-21.8	-27.2	5.0	-14.8
Other Income	-13.2	3.7	1.6	-40.1	-39.3	-26.6	-59.1	-1.6
EBIT	27.4	39.7	-1.3	-35.9	32.7	15.9	21.4	-15.0

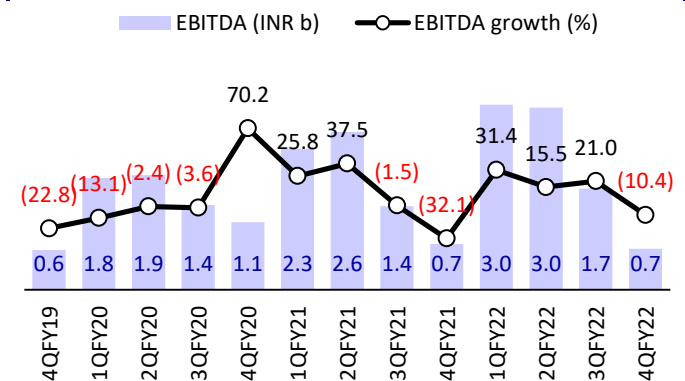
Key exhibits

Exhibit 1: Net sales down 3.7% YoY to INR7.6b



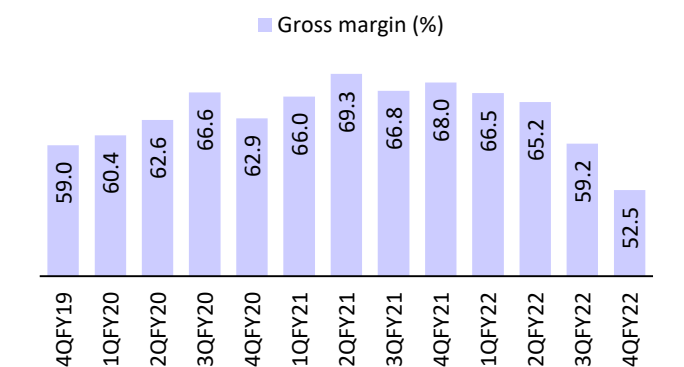
Source: Company, MOFSL

Exhibit 2: Adjusted EBITDA down 10.4% YoY to INR0.7b



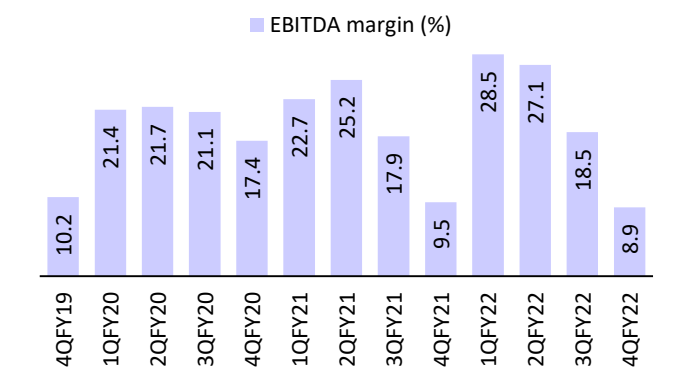
Source: Company, MOFSL

Exhibit 3: Gross margin contracts 1,560bp YoY to 52.5%



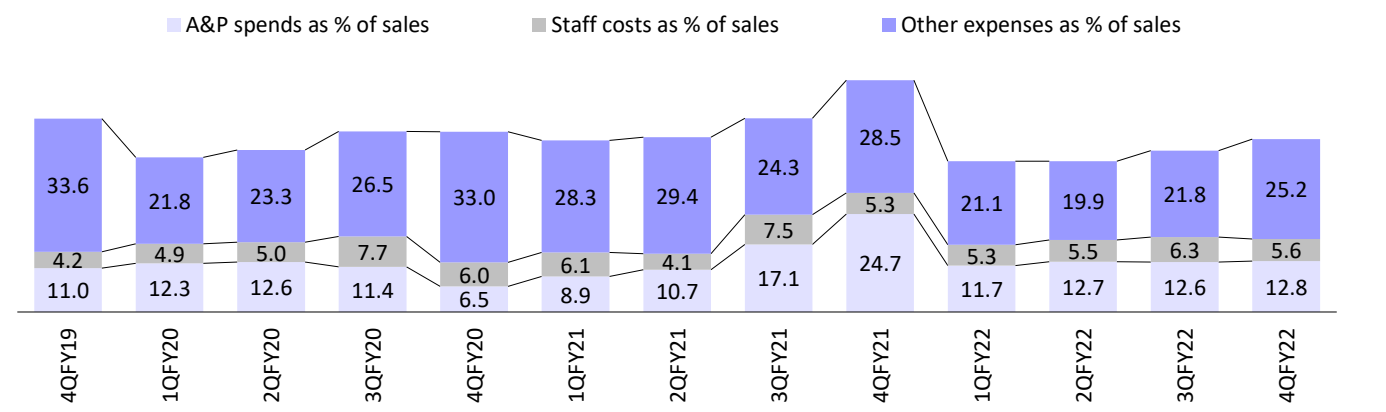
Source: Company, MOFSL

Exhibit 4: Adjusted EBITDA margin contracts 70bp YoY to 8.9%



Source: Company, MOFSL

Exhibit 5: As a percentage of sales, ad spends/other expenses fell 1,190bp/330bp; staff costs rose 30bp



Source: Company, MOFSL

Valuation and view

Happenings over the last 10 years

- While PGHH delivered a sales/EBITDA/PAT CAGR of ~20%/~14%/~12% in the first half of the decade ended FY20, respectively, growth was much slower (by ~5% CAGR) in the second half on all these fronts, dragging down the decade sales/EBITDA/PAT CAGR to ~13%/~10%/~8%, respectively.
- Price cuts taken at the start of the decade, category development efforts, and an increase in distribution led to EBITDA margin contracting over FY10-14. However, sales and EBITDA continued to grow at a healthy pace.
- Over the past seven-to-eight quarters, however, the management has embarked on a second round of investments in ad spending, distribution expansion, launches, and price cuts in an effort to revitalize the dwindling sales growth. While this yielded strong revenue growth in FY19 (20% sales growth), sales growth was tepid in FY20 at 1.9%, hurt by the slowdown in the Personal Care category.

Our view on the stock

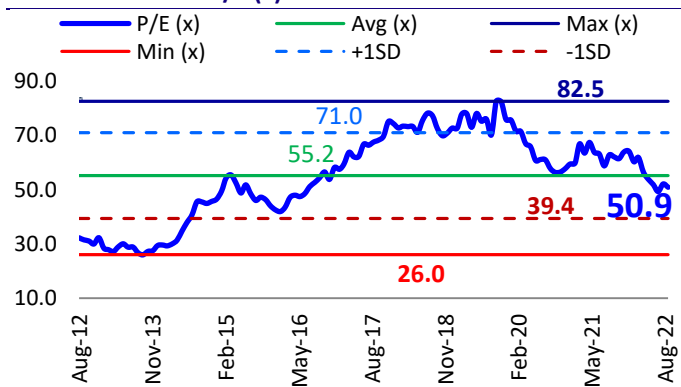
- The miss on our forecasts drives us to cut our EPS estimates for FY23/FY24 by 11.4%/6.6%, respectively.
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- Two factors make PGHH an attractive long-term core holding: a) huge category growth potential in the Feminine Hygiene segment (~66% of FY21 sales), coupled with potential for market share gains backed by considerable moats, and b) the potential for higher margin gains from premiumization in the Feminine Hygiene segment over the long term.
- PGHH’s best-of-breed structural earnings growth potential and improving RoE deserve premium multiples. **We maintain our BUY rating with a TP of INR16,500 (premised on 55x FY24E EPS).**

Exhibit 6: We revise our FY23/FY24 EPS forecasts by -11.4%/-6.6%, respectively

Change in estimates	New		Old		Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net sales	43,150	51,136	44,934	53,459	-4.0%	-4.3%
EBITDA	10,140	13,142	11,099	13,899	-8.6%	-5.4%
Adjusted PAT	7,347	9,749	8,293	10,435	-11.4%	-6.6%

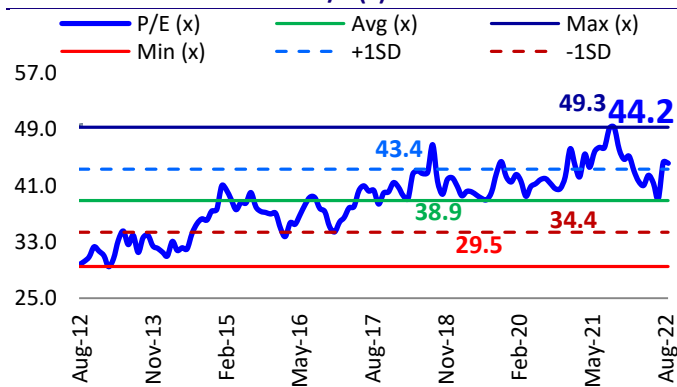
Source: MOFSL

Exhibit 7: PGHH’s P/E (x)



Source: Bloomberg, MOFSL

Exhibit 8: Consumer sector P/E (x)



Source: Bloomberg, MOFSL

Financials and valuations

Standalone - Income Statement

(INR m)

Y/E June	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	24,553	29,469	30,020	35,741	37,998	43,150	51,136
Change (%)	5.8	20.0	1.9	19.1	6.3	13.6	18.5
Raw Materials	9,487	12,368	11,068	11,593	14,582	17,260	19,432
% of Sales	38.6	42.0	36.9	32.4	38.4	40.0	38.0
Employees Cost	1,152	1,338	1,733	2,017	2,143	2,373	2,710
% of Sales	4.7	4.5	5.8	5.6	5.6	5.5	5.3
Other Expenses	7,634	9,670	11,003	15,160	12,974	13,377	15,852
% of Sales	31.1	32.8	36.7	42.4	34.1	31.0	31.0
Total Expenditure	18,273	23,376	23,804	28,770	29,699	33,010	37,994
% of Sales	74.4	79.3	79.3	80.5	78.2	76.5	74.3
EBITDA	6,280	6,093	6,216	6,972	8,299	10,140	13,142
Margin (%)	25.6	20.7	20.7	19.5	21.8	23.5	25.7
Depreciation	524	498	479	477	529	531	540
EBIT	5,756	5,595	5,738	6,495	7,771	9,609	12,602
Int. and Finance Charges	53	55	61	61	112	55	55
Other Income	241	533	441	394	243	399	660
PBT bef. EO Exp.	5,944	6,073	6,118	6,828	7,902	9,953	13,207
EO Items	-82		-105	1,450	-101	0	0
PBT after EO Exp.	5,862	6,073	6,013	8,277	7,801	9,953	13,207
Total Tax	2,116	1,882	1,642	1,759	2,042	2,606	3,458
Tax Rate (%)	36.1	31.0	27.3	21.3	26.2	26.2	26.2
Reported PAT	3,746	4,191	4,371	6,518	5,758	7,347	9,749
Adjusted PAT	3,828	4,191	4,476	5,068	5,859	7,347	9,749
Change (%)	-11.5	9.5	6.8	13.2	15.6	25.4	32.7
Margin (%)	15.6	14.2	14.9	14.2	15.4	17.0	19.1

Standalone - Balance Sheet

(INR m)

Y/E June	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	325	325	325	325	325	325	325
Total Reserves	7,730	8,766	11,254	6,818	7,051	7,786	8,761
Net Worth	8,055	9,091	11,579	7,143	7,376	8,110	9,085
Deferred Tax Liabilities	-230	-368	-296	-380	-519	-571	-628
Total Loans	0	0	15	2	19	19	19
Capital Employed	7,825	8,723	11,298	6,764	6,876	7,560	8,477
Gross Block	3,975	4,145	4,674	5,052	5,017	5,456	5,656
Less: Accum. Deprn.	1,474	1,803	2,609	3,214	3,380	3,911	4,451
Net Fixed Assets	2,501	2,342	2,065	1,838	1,637	1,545	1,205
Goodwill on Consolidation	0	0	0	0	0	0	0
Capital WIP	215	146	222	376	439	200	200
Total Investments	0	0	0	0	0	0	0
Curr. Assets, Loans&Adv.	11,308	13,315	15,702	13,733	14,218	15,066	17,570
Inventory	1,236	2,034	2,051	2,493	2,340	2,601	3,082
Account Receivables	1,485	1,814	1,663	1,424	1,908	2,364	3,082
Cash and Bank Balance	3,996	5,405	9,025	6,602	6,393	6,887	8,192
Loans and Advances	4,591	4,063	2,963	3,214	3,578	3,214	3,214
Curr. Liability & Prov.	6,199	7,080	6,691	9,183	9,417	9,251	10,498
Account Payables	4,062	5,477	5,313	7,541	7,784	7,547	8,624
Other Current Liabilities	1,606	895	587	764	710	781	859
Provisions	530	709	790	878	923	923	1,015
Net Current Assets	5,109	6,235	9,011	4,550	4,801	5,815	7,072
Appl. of Funds	7,825	8,723	11,298	6,764	6,876	7,560	8,477

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E June	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)							
EPS	117.8	129.0	137.7	156.1	180.5	226.3	300.0
Cash EPS	134.1	144.5	152.7	170.8	196.8	242.7	317.0
BV/Share	248.2	280.1	356.7	220.0	227.2	249.9	279.9
DPS	40	101	105	315	160	204	270
Payout (%)	34.0	78.6	78.1	202.0	88.8	90.0	90.0
Valuation (x)							
P/E	121.7	111.2	104.1	91.8	79.4	63.3	47.8
Cash P/E	107.0	99.2	93.9	83.9	72.9	59.1	45.2
P/BV	57.8	51.2	40.2	65.2	63.1	57.4	51.2
EV/Sales	18.8	15.6	15.2	12.8	12.1	10.6	8.9
EV/EBITDA	73.5	75.5	73.4	65.8	55.3	45.2	34.8
Dividend Yield (%)	0.3	0.7	0.7	2.2	1.1	1.4	1.9
FCF per share	116.3	126.4	130.5	256.2	161.2	209.9	293.6
Return Ratios (%)							
RoE	57.5	48.9	43.3	54.1	80.7	94.9	113.4
RoCE	59.8	51.1	44.9	60.1	86.7	102.4	122.1
Working Capital Ratios							
Asset Turnover (x)	3.1	3.4	2.7	5.3	5.5	5.7	6.0
Inventory (Days)	22	20	25	23	26	22	22
Debtor (Days)	21	20	21	16	26	20	22
Creditor (Days)	57	59	66	66	64	62	60
Leverage Ratio (x)							
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Standalone - Cash Flow Statement

(INR m)

Y/E June	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
PBT	5,818	6,073	5,939	8,699	7,901	9,953	13,207
Depreciation	524	498	479	477	529	531	540
Net interest expense	-147	-317	-266	-250	-154	-344	-605
Others	225	54	203	139	115	0	0
(Inc)/Dec in WC	466	172	-179	2,101	-166	-520	48
Taxes	-2,731	-2,350	-1,435	-2,534	-2,494	-2,606	-3,458
CF from Operations	4,155	4,130	4,741	8,631	5,731	7,015	9,732
(Inc)/Dec in FA	-381	-28	-503	-315	-497	-200	-200
Free Cash Flow	3,774	4,102	4,237	8,317	5,234	6,814	9,532
(Pur)/Sale of Investments	0	-7	22	0	0	0	0
Others	115	451	1,265	325	246	347	603
CF from Investments	-266	416	783	11	-251	147	403
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	0	0	0	0	0	0	0
Dividend Paid	-1,055	-3,131	-1,878	-11,037	-5,681	-6,612	-8,774
Interest Paid	-6	-7	-9	-10	-25	-55	-55
Others	0	0	-16	-18	16	0	0
CF from Fin. Activity	-1,061	-3,137	-1,903	-11,064	-5,689	-6,667	-8,829
Inc/Dec of Cash	2,828	1,409	3,621	-2,423	-210	494	1,305
Opening Balance	1,168	3,996	5,405	9,025	6,603	6,393	6,887
Closing Balance	3,996	5,405	9,025	6,603	6,393	6,887	8,192

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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