MOTILAL OSWAL
Investment Services

P&G Hygiene and Healthcare

Estimate changes	↓
TP change	↓
Rating change	↓

Bloomberg	PG IN
Equity Shares (m)	32
M.Cap.(INRb)/(USDb)	457.9 / 5.5
52-Week Range (INR)	16466 / 12751
1, 6, 12 Rel. Per (%)	-106/-107/-101
12M Avg Val (INR M)	177

Financials & valuations (INR b)

Y/E June	2022	2023E	2024E
Sales	38.0	39.4	46.6
Sales Gr. (%)	6.3	3.6	18.5
EBITDA	8.3	8.1	11.8
Margin (%)	21.8	20.5	25.2
Adj. PAT	5.9	5.8	8.8
Adj. EPS (INR)	180.5	179.5	271.7
EPS Gr. (%)	15.6	-0.6	51.4
BV/Sh.(INR)	227.2	245.2	272.4
Ratios			
RoE (%)	80.7	76.0	105.1
RoCE (%)	86.5	82.1	113.5
Valuations			
P/E (x)	78.2	78.6	51.9
P/BV (x)	62.1	57.5	51.8
EV/EBITDA (x)	54.4	56.0	38.3
Div. Yield (%)	1.1	1.1	1.7

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	70.6	70.6	70.6
DII	14.6	14.2	13.5
FII	1.7	2.0	2.6
Others	13.1	13.1	13.3

FII Includes depository receipts

CMP: INR14,106 TP: INR14,250 (+1%) Downgrade to Neutral

Weak result and uncertain pace of recovery lead to a rating downgrade

- P&G Hygiene and Healthcare (PGHH) declared a weak set of numbers in its 1QFY23 result (June year-end). PGHH reported flattish sales v/s our expectation of 11% growth. High CPI inflation appears to be severely affecting the conversion from cloth to sanitary napkins, the key driver of its sales growth. While the company does not share segmental data in its quarterly results, there may also have been a high base of Vicks sales in 1QFY22 because of the pandemic. Downtrading to cheaper SKUs in the feminine hygiene segment may also be a factor impacting sales adversely.
- While gross margin performance was better than expected and improved ~610bp sequentially, it contracted ~790bp YoY. This along with extremely high advertising expenses (14.9% of sales in 1QFY23 v/s 11.7% to 12.8% range in the preceding four quarters) led to ~29% YoY decline in EBITDA and PAT each during the quarter.
- While we remain positive on the long-term growth potential of the sanitary napkin and healthcare business, uncertain pace of recovery and challenging valuations of ~52xFY24E EPS lead us to **downgrade the stock to Neutral.**

Overall miss; sequential gross margin improvement the only silver lining

- **PGHH's 1QFY23 sales remained flat YoY at INR10.4b** (est. INR11.7b).
- **The sale of raw material worth INR20.9m has been adjusted from sales and COGS consequent to the change in business model of PGHH from toller to contract manufacturing.**
- EBITDA/PBT/PAT declined 29%/30%/29.3% YoY to INR2,140m/INR2,058m/INR1,544m (est. of INR2,861b/2,818b/2,108m), respectively.
- **Two-year sales CAGR remained flat (+1.6%) while that of EBITDA/PAT came in at -3.4%/-5.1%.**
- **Gross margin contracted 790bp YoY to 58.6%. However, it expanded 610bp QoQ** (est. 55.0%).
- As a percentage of sales, lower other expenses (-280bp YoY to 18.3%), stable employee expenses (-40bp YoY to 4.9%) and higher ad-spends (+330bp YoY to 5.6%) led to **800bp contraction in EBITDA margin to 20.5%** (est. of 24.4%) in 1QFY23.

Valuation and view

- Changes to our model have resulted in 21%/9% cut in FY23E/FY24E EPS because of weaker-than-expected results, likely delayed recovery in sales amid high CPI inflation and a spike in near-term ad-spends, all of which are likely to impact earnings growth adversely. PGHH's relatively more urban skew compared to other staples does not seem to be protecting it from sales growth impact in an inflationary environment.

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- Two factors make PGHH an attractive long-term core holding: a) huge category growth potential in the Feminine Hygiene segment (~65% of FY22 sales), coupled with potential for market share gains aided by considerable moats, and b) the potential for higher margin gains from premiumization in the Feminine Hygiene segment over the long term.
- Nevertheless, the uncertain pace of recovery and expensive valuations of 51.9xFY24E EPS lead us to **downgrade the stock to Neutral**. We value the stock at 50x Sep'24E EPS arriving at our TP of 14,250.

Quarterly earnings performance **(INR m)**

Y/E June	FY22				FY23				FY22	FY23E	FY23	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	**10,583**	**10,930**	**8,913**	**7,573**	**10,428**	**10,930**	**9,715**	**8,295**	**37,998**	**39,367**	**11,747**	**-11.2**
YoY Change (%)	4.8	7.3	17.3	-3.7	-1.5	0.0	9.0	9.5	6.3	3.6	11.0	
Gross profit	**7,041**	**7,127**	**5,275**	**3,974**	**6,116**	**6,394**	**5,780**	**5,133**	**23,416**	**23,423**	6,461	**-5.3**
Margin (%)	66.5	65.2	59.2	52.5	58.6	58.5	59.5	61.9	61.6	59.5	55.0	
EBITDA	**3,013**	**2,965**	**1,650**	**671**	**2,140**	**2,494**	**1,980**	**1,456**	**8,299**	**8,070**	**2,861**	**-25.2**
Growth	31.4	15.5	21.0	-10.4	-29.0	-15.9	20.0	117.0	19.0	-2.8	-5.1	
Margins (%)	28.5	27.1	18.5	8.9	20.5	22.8	20.4	17.6	21.8	20.5	24.4	
Depreciation	127	129	131	142	140	140	145	133	529	557	130	
Interest	6	29	68	8	10	13	15	18	112	55	13	
Other Income	58	69	60	56	67	80	85	98	243	330	100	
PBT	**2,938**	**2,875**	**1,511**	**577**	**2,058**	**2,421**	**1,906**	**1,403**	**7,901**	**7,788**	**2,818**	**-27.0**
Tax	756	754	381	152	514	610	480	358	2,042	1,963	710	
Rate (%)	25.7	26.2	27.0	26.3	25.0	25.2	25.2	25.5	26.2	25.2	25.2	
Reported PAT	**2,183**	**2,121**	**1,029**	**426**	**1,544**	**1,811**	**1,426**	**1,045**	**5,758**	**5,825**	**2,108**	
Adj PAT	**2,183**	**2,121**	**1,130**	**426**	**1,544**	**1,811**	**1,426**	**1,045**	**5,858**	**5,825**	**2,108**	**-26.8**
YoY Change (%)	27.3	16.4	8.4	-13.1	-29.3	-14.6	26.1	145.5	15.6	-0.6	-3.4	
Margins (%)	20.6	19.4	12.7	5.6	14.8	16.6	14.7	12.6	15.4	14.8	17.9	

E: MOFSL Estimates

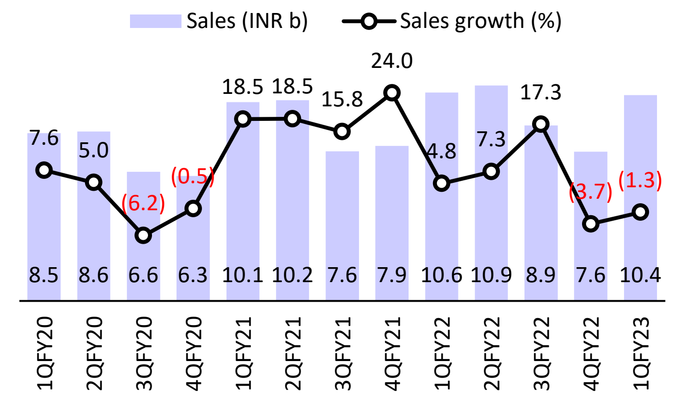
Key Performance Indicators

Y/E June	FY22				FY23
	1Q	2Q	3Q	4Q	1Q
2Y average growth (%)					
Sales	11.6	12.9	16.6	10.1	1.7
EBITDA	28.6	26.5	9.8	-21.3	1.2
PAT	26.3	25.2	5.5	-21.2	-1.0
% of Sales					
COGS	33.5	34.8	40.8	47.5	41.4
Employee Expenses	5.3	5.5	6.3	5.6	4.9
A&P Expenses	11.7	12.7	12.6	12.8	14.9
Other Expenses	21.1	19.9	21.8	25.2	18.3
Depreciation	1.2	1.2	1.5	1.9	1.3
YoY change (%)					
COGS	3.2	21.6	44.4	43.1	21.7
Employee Expenses	-8.7	44.9	-1.7	1.0	-8.7
A&P Expenses	36.8	27.7	-13.3	-50.1	26.2
Other Expenses	-21.8	-27.2	5.0	-14.8	-14.6
Other Income	-39.3	-26.6	-59.1	-1.6	16.0
EBIT	32.7	15.9	21.4	-15.0	-30.7

E: MOFSL estimates

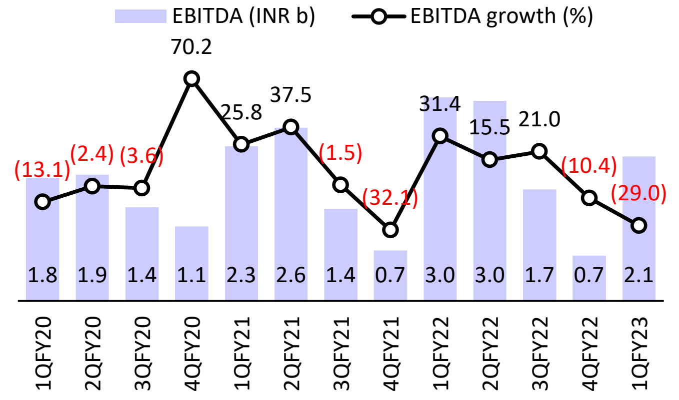
Key exhibits

Exhibit 1: Adjusted sales remain flat YoY to INR10.4b



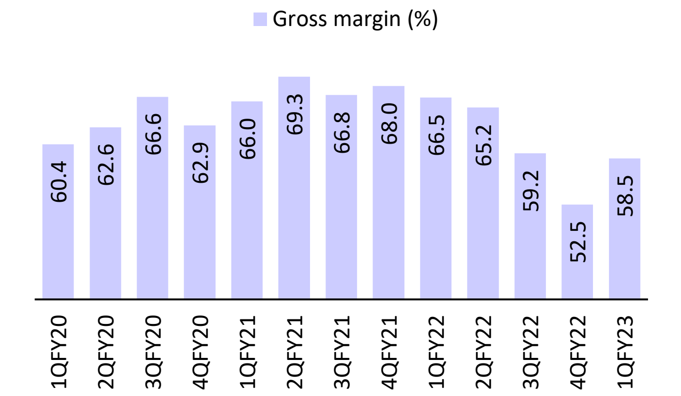
Source: Company, MOFSL

Exhibit 2: Adjusted EBITDA down 29% YoY to INR2.1b



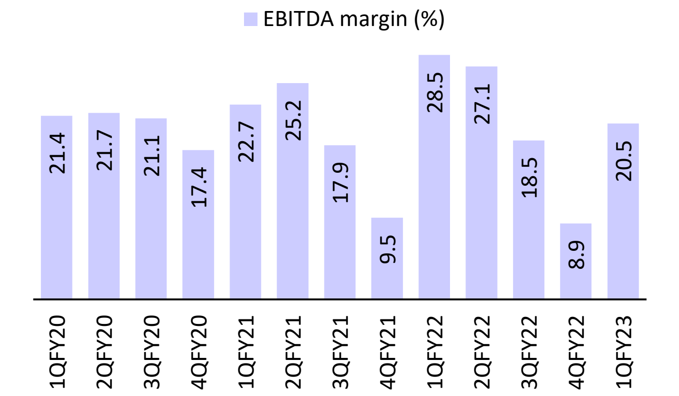
Source: Company, MOFSL

Exhibit 3: Gross margin contracts 790bp YoY to 58.6%



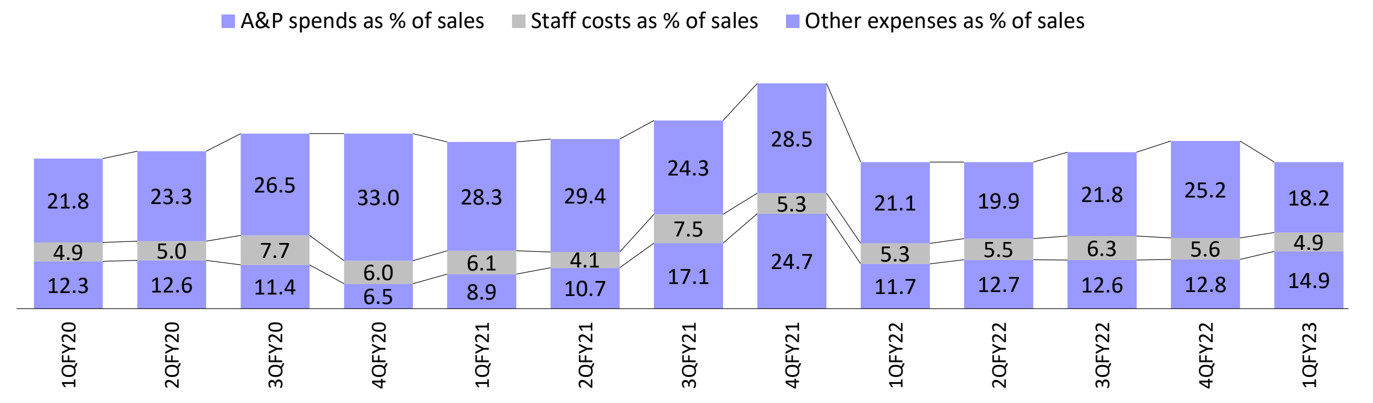
Source: Company, MOFSL

Exhibit 4: Adjusted EBITDA margin contracts 800bp YoY to 20.5%



Source: Company, MOFSL

Exhibit 5: As a percentage of sales, ad spends rise 330bp while staff cost/other expenses decline 40bp/280bp, respectively



Source: Company, MOFSL

Valuation and view

Happenings over the last 10 years

- While PGHH delivered a sales/EBITDA/PAT CAGR of ~20%/~14%/~12%, respectively, in the first half of the decade ended FY20, 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.
- In an effort to revitalize sales growth, the management has embarked on a second round of investments in ad spending, distribution expansion, launches, and price cuts over the past seven-to-eight quarters. While this yielded strong revenue growth in FY19 (20% sales growth), sales growth was tepid in FY20 at 1.9%, weighed on by the slowdown in the Personal Care category.

Our view on the stock

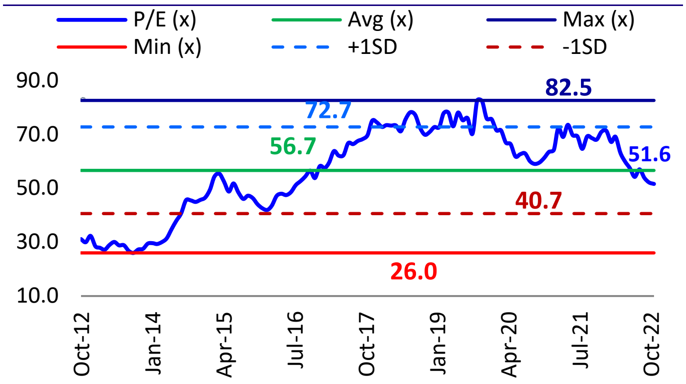
- Changes to our model have resulted in 21%/9% cut in FY23E/FY24E EPS because of weaker-than-expected results, likely delayed recovery in sales amid high CPI inflation and a spike in near-term ad-spends, all of which are likely to impact earnings growth adversely. PGHH's relatively more urban skew compared to other staples does not seem to be protecting it from sales growth impact in an inflationary environment.
- Two factors make PGHH an attractive long-term core holding: a) huge category growth potential in the Feminine Hygiene segment (~64% of FY22 sales), coupled with potential for market share gains aided by considerable moats, and b) the potential for higher margin gains from premiumization in the Feminine Hygiene segment over the long term.
- Nevertheless, the uncertain pace of recovery and expensive valuations of 51.9xFY24E EPS lead us to **downgrade the stock to Neutral**. We value the stock at 50x Sep'24E EPS arriving at our TP of 14,250.

Exhibit 6: We revise our FY23/FY24 EPS forecasts by -20.7%/-9.4%, respectively

Change in Estimates	New estimates		Old estimates		Change in estimates	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net Sales	39,367	46,641	43,150	51,136	-8.8%	-8.8%
EBITDA	8,070	11,753	10,140	13,142	-20.4%	-10.6%
Adjusted PAT	5,825	8,831	7,347	9,749	-20.7%	-9.4%

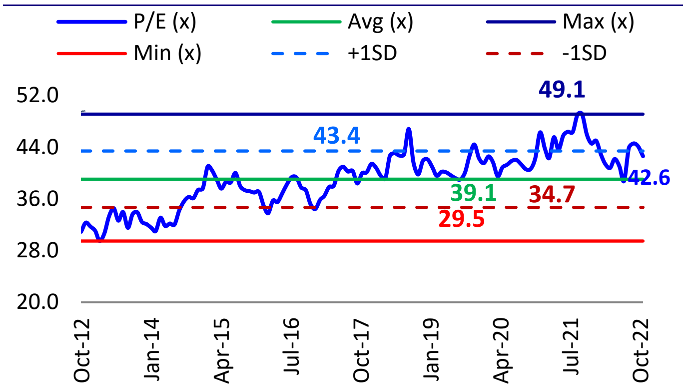
Source: MOFSL

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**	**39,367**	**46,641**
Change (%)	5.8	20.0	1.9	19.1	6.3	3.6	18.5
Raw Materials	9,487	12,368	11,068	11,593	14,582	15,944	17,723
% of Sales	38.6	42.0	36.9	32.4	38.4	40.5	38.0
Employees Cost	1,152	1,338	1,733	2,017	2,143	2,165	2,472
% 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	13,188	14,692
% of Sales	31.1	32.8	36.7	42.4	34.1	33.5	31.5
Total Expenditure	**18,273**	**23,376**	**23,804**	**28,770**	**29,699**	**31,297**	**34,887**
% of Sales	74.4	79.3	79.3	80.5	78.2	79.5	74.8
EBITDA	**6,280**	**6,093**	**6,216**	**6,972**	**8,299**	**8,070**	**11,753**
Margin (%)	25.6	20.7	20.7	19.5	21.8	20.5	25.2
Depreciation	524	498	479	477	529	557	540
EBIT	**5,756**	**5,595**	**5,738**	**6,495**	**7,770**	**7,513**	**11,213**
Int. and Finance Charges	53	55	61	61	112	55	55
Other Income	241	533	441	394	243	330	648
PBT bef. EO Exp.	**5,944**	**6,073**	**6,118**	**6,828**	**7,901**	**7,788**	**11,806**
EO Items	-82		-105	1,450	-101	0	0
PBT after EO Exp.	**5,862**	**6,073**	**6,013**	**8,277**	**7,800**	**7,788**	**11,806**
Total Tax	2,116	1,882	1,642	1,759	2,042	1,963	2,975
Tax Rate (%)	36.1	31.0	27.3	21.3	26.2	25.2	25.2
Reported PAT	**3,746**	**4,191**	**4,371**	**6,518**	**5,757**	**5,825**	**8,831**
Adjusted PAT	**3,828**	**4,191**	**4,476**	**5,068**	**5,858**	**5,825**	**8,831**
Change (%)	-11.5	9.5	6.8	13.2	15.6	-0.6	51.6
Margin (%)	15.6	14.2	14.9	14.2	15.4	14.8	18.9

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	7,634	8,517
Net Worth	**8,055**	**9,091**	**11,579**	**7,143**	**7,376**	**7,958**	**8,841**
Deferred Tax Liabilities	-230	-368	-296	-380	-519	-571	-628
Total Loans	0	0	15	35	19	19	19
Capital Employed	**7,825**	**8,723**	**11,298**	**6,797**	**6,876**	**7,407**	**8,233**
Gross Block	3,975	4,145	4,674	5,052	5,378	5,408	5,608
Less: Accum. Deprn.	1,474	1,803	2,609	3,214	3,741	3,889	4,429
Net Fixed Assets	**2,501**	**2,342**	**2,065**	**1,838**	**1,637**	**1,518**	**1,178**
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**	**14,297**	**16,614**
Inventory	1,236	2,034	2,051	2,493	2,340	2,373	2,811
Account Receivables	1,485	1,814	1,663	1,424	1,908	2,157	2,811
Cash and Bank Balance	3,996	5,405	9,025	6,602	6,393	6,190	7,414
Loans and Advances	4,591	4,063	2,963	3,214	3,578	3,578	3,578
Curr. Liability & Prov.	**6,199**	**7,080**	**6,691**	**9,150**	**9,417**	**8,609**	**9,759**
Account Payables	4,062	5,477	5,313	7,541	7,784	6,905	7,885
Other Current Liabilities	1,606	895	587	731	710	781	859
Provisions	530	709	790	878	923	923	1,015
Net Current Assets	**5,109**	**6,235**	**9,011**	**4,583**	**4,801**	**5,689**	**6,855**
Appl. of Funds	**7,825**	**8,723**	**11,298**	**6,797**	**6,876**	**7,407**	**8,233**

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**	**179.5**	**271.7**
Cash EPS	134.1	144.5	152.7	170.8	196.8	196.6	288.7
BV/Share	248.2	280.1	356.7	220.0	227.2	245.2	272.4
DPS	40	101	105	315	160	162	245
Payout (%)	34.0	78.6	78.1	202.0	88.8	90.0	90.0
Valuation (x)							
P/E	119.8	109.4	102.4	90.3	78.2	78.6	51.9
Cash P/E	105.2	97.6	92.4	82.6	71.7	71.7	48.9
P/BV	56.8	50.4	39.5	64.1	62.1	57.5	51.8
EV/Sales	18.5	15.4	15.0	12.6	11.9	11.5	9.7
EV/EBITDA	72.3	74.3	72.2	64.7	54.4	56.0	38.3
Dividend Yield (%)	0.3	0.7	0.7	2.2	1.1	1.1	1.7
FCF per share	116.3	126.4	130.5	256.2	161.2	161.0	266.1
Return Ratios (%)							
RoE	57.5	48.9	43.3	54.1	80.7	76.0	105.1
RoCE	59.8	51.1	44.9	60.0	86.5	82.1	113.5
Working Capital Ratios							
Asset Turnover (x)	3.1	3.4	2.7	5.3	5.5	5.3	5.7
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	7,788	11,806
Depreciation	524	498	479	477	529	557	540
Net interest expense	-147	-317	-266	-250	-154	-275	-593
Others	225	54	203	139	115	0	0
(Inc)/Dec in WC	466	172	-179	2,101	-166	-1,091	58
Taxes	-2,731	-2,350	-1,435	-2,534	-2,494	-1,963	-2,975
CF from Operations	**4,155**	**4,130**	**4,741**	**8,631**	**5,731**	**5,017**	**8,836**
(Inc)/Dec in FA	-381	-28	-503	-315	-497	209	-200
Free Cash Flow	**3,774**	**4,102**	**4,237**	**8,317**	**5,234**	**5,226**	**8,636**
(Pur)/Sale of Investments	0	-7	22	0	0	0	0
Others	115	451	1,265	325	246	-131	591
CF from Investments	**-266**	**416**	**783**	**11**	**-251**	**78**	**391**
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	-5,243	-7,948
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**	**-5,298**	**-8,003**
Inc/Dec of Cash	**2,828**	**1,409**	**3,621**	**-2,423**	**-210**	**-203**	**1,224**
Opening Balance	1,168	3,996	5,405	9,025	6,603	6,393	6,190
Closing Balance	**3,996**	**5,405**	**9,025**	**6,603**	**6,393**	**6,190**	**7,414**

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 be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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