

# P&G Hygiene and Healthcare

Estimate changes 

TP change 

Rating change 

Bloomberg	PG IN
Equity Shares (m)	32
M.Cap.(INRb)/(USDb)	459.7 / 5.6
52-Week Range (INR)	16466 / 12751
1, 6, 12 Rel. Per (%)	0/-5/-6
12M Avg Val (INR M)	131

## Financials & valuations (INR b)

Y/E June	FY23E	FY24E	FY25E
Sales	39.6	46.9	54.0
Sales Gr. (%)	4.3	18.4	15.0
EBITDA	7.9	11.8	13.8
Margin (%)	20.0	25.2	25.5
Adj. PAT	5.7	8.7	10.2
Adj. EPS (INR)	174.8	269.2	315.1
EPS Gr. (%)	-3.1	54.0	17.0
BV/Sh.(INR)	244.7	271.7	334.8
<b>Ratios</b>			
RoE (%)	74.1	104.4	104.1
RoCE (%)	80.5	112.7	111.7
<b>Valuations</b>			
P/E (x)	81.0	52.6	44.9
P/BV (x)	57.9	52.1	42.3
EV/EBITDA (x)	57.2	38.2	32.6
Div. Yield (%)	1.1	1.7	1.8

## Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	70.6	70.6	70.6
DII	15.3	14.6	13.5
FII	1.1	1.7	2.6
Others	13.0	13.1	13.3

FII Includes depository receipts

**CMP: INR14,161**

**TP: INR15,180 (+7%)**

**Neutral**

## Sales and gross profit in line; lower ad-spends surprise

- PGHH reported an in-line performance up to the gross profit level in its 2QFY23 results (June year-end). However, the company beat our EBITDA/PBT/PAT estimates by 15-17%, as ad-spends were significantly lower than our expectation at 9.7% of sales (after jumping to 14.9% of sales in 1QFY23).
- While we remain positive on the long-term growth potential of the sanitary napkin and healthcare business, the uncertain pace of recovery and challenging valuations of ~53x FY24E EPS/~45x FY25E EPS lead us to **maintain our Neutral rating**.

## Lower ad intensity leads to EBITDA beat

- PGHH's 2QFY23 sales remained flat YoY at **INR11.4b** (est. INR10.9b).
- EBITDA/PBT/PAT remained flat YoY at INR2,905m/INR2,815m/INR2,075m (est. of INR2,494m/INR2,421m/INR1,811m).
- The two-year sales/EBITDA/PAT CAGR stood at 5.7%/6.4%/6.7%.**
- Gross margin contracted 790bp YoY/130bp QoQ to 57.3%** (est. 58.5%).
- As a percentage of sales, lower other expenses (-290bp YoY to 18.3%), lower ad-spends (-290bp to 9.7%) and stable employee expenses (-50bp YoY to 5%) led to only a **160bp contraction in EBITDA margins to 25.5%** (est. 22.8%).
- 6MFY23 sales remained flat at INR21.8b, while EBITDA/Adj. PAT declined 15.6%/15.9% to INR5.0b/INR3.6b.

## Valuation and view

- We are not making any material changes to our EPS forecasts, given the volatility in ad-spends, possible delays in gross margin recovery due to higher inventory even as pulp and oil costs are coming down, and traditionally weak single-digit margins in 4Q every year recently.
- Two factors make PGHH an attractive long-term core holding: 1) huge category growth potential in the Feminine Hygiene segment (~65% of FY22 sales), coupled with potential for market share gains aided by considerable moats that the company is fortifying, as indicated in our [detailed annual report note](#) in Nov'22; and 2) potential for higher margin gains from premiumization in the Feminine Hygiene segment over the long term.
- Nevertheless, the uncertain pace of sales and earnings recovery and expensive valuations of 53x FY24E EPS/~45x FY25E EPS lead us to **maintain our Neutral rating**. We value the stock at 50x Mar'25E EPS, arriving at a TP of INR15,180.

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

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## Standalone - Quarterly Earnings

(INR m)

Y/E June	FY22				FY23				FY21	FY22	FY23E	FY23 2QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE					
<b>Net Sales</b>	<b>10,583</b>	<b>10,930</b>	<b>8,913</b>	<b>7,573</b>	<b>10,428</b>	<b>11,374</b>	<b>9,715</b>	<b>8,107</b>	<b>35,741</b>	<b>37,998</b>	<b>39,624</b>	<b>10,930</b>	<b>4.1%</b>
YoY Change (%)	4.8	7.3	17.3	-3.7	-1.5	4.1	9.0	7.1	19.1	6.3	4.3	0.0	
<b>Gross profit</b>	<b>7,041</b>	<b>7,127</b>	<b>5,275</b>	<b>3,974</b>	<b>6,116</b>	<b>6,513</b>	<b>5,780</b>	<b>4,968</b>	<b>24,148</b>	<b>23,416</b>	<b>23,378</b>	<b>6,394</b>	<b>1.9%</b>
Margin (%)	66.5	65.2	59.2	52.5	58.6	57.3	59.5	61.3	67.6	61.6	59.0	58.5	
<b>EBITDA</b>	<b>3,013</b>	<b>2,965</b>	<b>1,650</b>	<b>671</b>	<b>2,140</b>	<b>2,905</b>	<b>2,080</b>	<b>800</b>	<b>6,972</b>	<b>8,299</b>	<b>7,925</b>	<b>2,494</b>	<b>16.5%</b>
Growth	31.4	15.5	21.0	-10.4	-29.0	-2.0	26.1	19.2	12.2	19.0	-4.5	-15.9	
Margins (%)	28.5	27.1	18.5	8.9	20.5	25.5	21.4	9.9	19.5	21.8	20.0	22.8	
Depreciation	127	129	131	142	140	144	145	150	477	529	579	140	
Interest	6	29	68	8	10	39	20	22	61	112	90	13	
Other Income	58	69	60	56	67	93	85	85	394	243	330	80	
<b>PBT</b>	<b>2,938</b>	<b>2,875</b>	<b>1,511</b>	<b>577</b>	<b>2,058</b>	<b>2,815</b>	<b>2,000</b>	<b>712</b>	<b>6,828</b>	<b>7,901</b>	<b>7,586</b>	<b>2,421</b>	<b>16.3%</b>
Tax	756	754	381	152	514	741	484	173	1,759	2,042	1,912	610	
Rate (%)	25.7	26.2	27.0	26.3	25.0	26.3	24.2	24.3	21.3	26.2	25.2	25.2	
<b>Reported PAT</b>	<b>2,183</b>	<b>2,121</b>	<b>1,029</b>	<b>426</b>	<b>1,544</b>	<b>2,075</b>	<b>1,516</b>	<b>539</b>	<b>6,518</b>	<b>5,758</b>	<b>5,674</b>	<b>1,811</b>	
<b>Adj PAT</b>	<b>2,183</b>	<b>2,121</b>	<b>1,130</b>	<b>426</b>	<b>1,544</b>	<b>2,075</b>	<b>1,516</b>	<b>539</b>	<b>5,068</b>	<b>5,858</b>	<b>5,674</b>	<b>1,811</b>	<b>14.6%</b>
YoY Change (%)	27.3	16.4	8.4	-13.1	-29.3	-2.2	34.2	26.7	13.2	15.6	-3.1	-14.6	
Margins (%)	20.6	19.4	12.7	5.6	14.8	18.2	15.6	6.7	14.2	15.4	14.3	16.6	

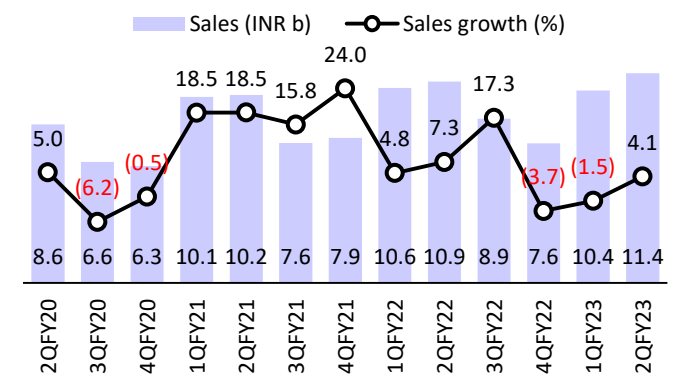
E: MOFSL Estimates

## Key Performance Indicators

Y/E June	FY22				FY23	
	1Q	2Q	3Q	4Q	1Q	2Q
<b>2Y average growth (%)</b>						
Sales	11.6	12.9	16.6	10.1	1.7	5.7
EBITDA	28.6	26.5	9.8	-21.3	1.2	6.7
PAT	26.3	25.2	5.5	-21.2	-1.0	7.1
<b>% of Sales</b>						
COGS	33.5	34.8	40.8	47.5	41.4	42.7
Employee Expenses	5.3	5.5	6.3	5.6	4.9	5.0
A&P Expenses	11.7	12.7	12.6	12.8	14.9	9.7
Other Expenses	21.1	19.9	21.8	25.2	18.3	17.0
Depreciation	1.2	1.2	1.5	1.9	1.3	1.3
<b>YoY change (%)</b>						
COGS	3.2	21.6	44.4	43.1	21.7	27.8
Employee Expenses	-8.7	44.9	-1.7	1.0	-8.7	-5.0
A&P Expenses	36.8	27.7	-13.3	-50.1	26.2	-20.1
Other Expenses	-21.8	-27.2	5.0	-14.8	-14.6	-11.3
Other Income	-39.3	-26.6	-59.1	-1.6	16.0	35.7
EBIT	32.7	15.9	21.4	-15.0	-30.7	-2.6

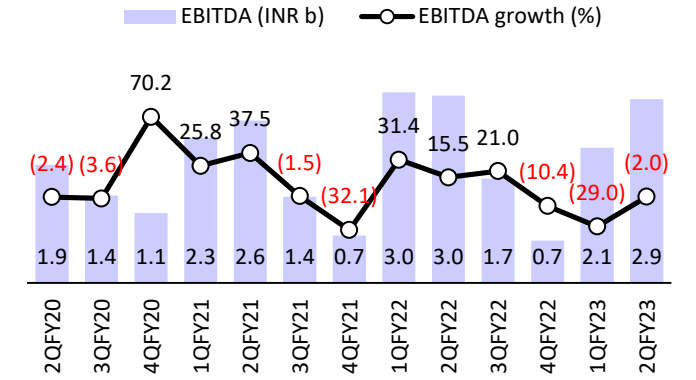
Key exhibits

Exhibit 1: Sales remain flat YoY at INR11.4b



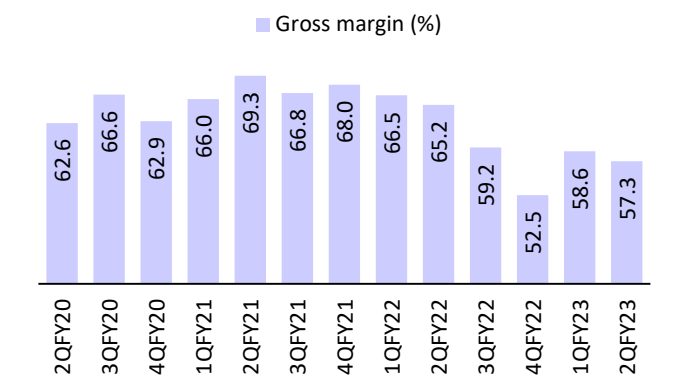
Source: Company, MOFSL

Exhibit 2: EBITDA remains flat YoY at INR2.9b



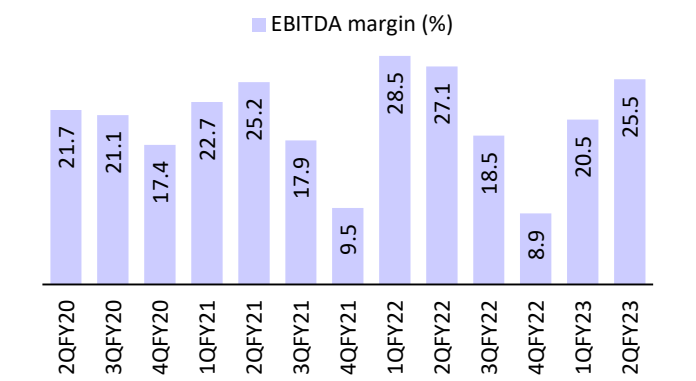
Source: Company, MOFSL

Exhibit 3: Gross margin contracts 790bp YoY to 57.3%



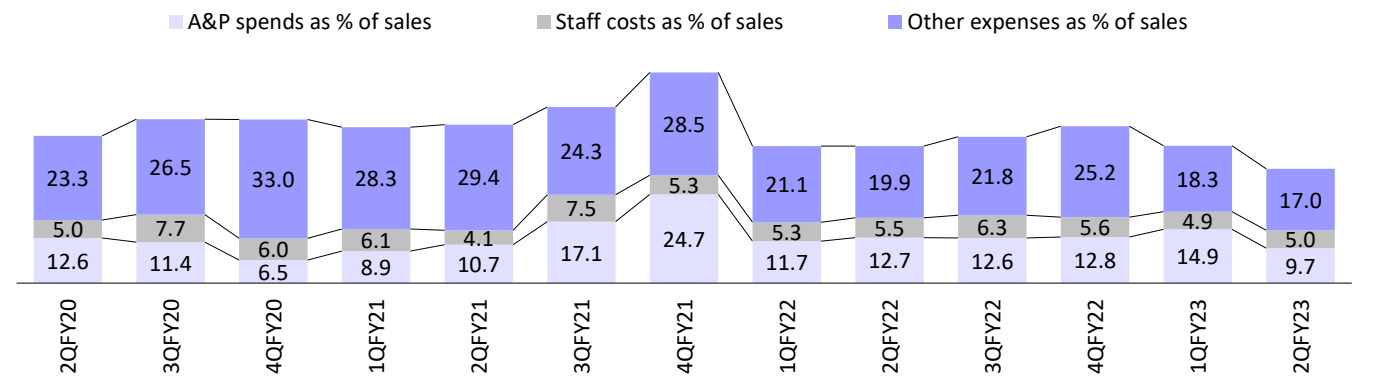
Source: Company, MOFSL

Exhibit 4: EBITDA margin contracts 160bp YoY to 25.5%



Source: Company, MOFSL

Exhibit 5: As a percentage of sales, ad spends/staff cost/other expenses decline 290bp/50bp/290bp



Source: Company, MOFSL

## Valuation and view

### Developments over the last 10 years

- While PGHH delivered a sales/EBITDA/PAT CAGR of ~7%/~22%/~16% in the first half of the decade ended in FY22, growth was slower in the second half on all these fronts, dragging down the 10-year EBITDA/PAT CAGR to ~15%/~12%.
- Price cuts taken at the start of the decade, category development efforts, and an increase in distribution led to an EBITDA margin contraction 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 FY21 (19% sales growth), sales growth was tepid in FY22 at 6.3%.

### Our view on the stock

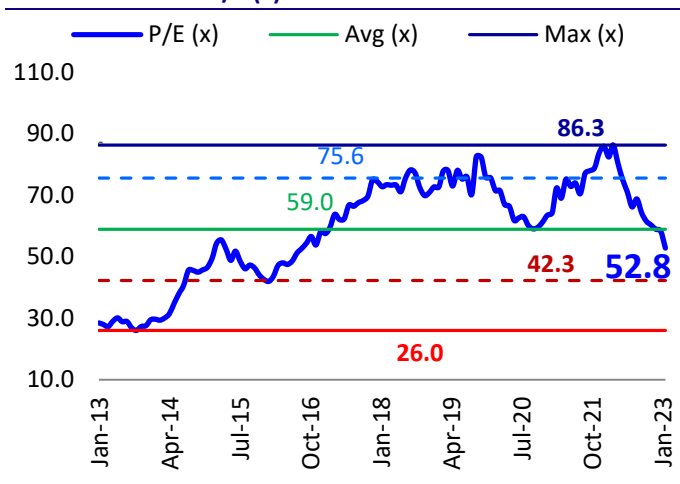
- We are not making any material changes to our EPS forecasts, given the volatility in ad-spends, possible delays in gross margin recovery due to higher inventory even as pulp and oil costs are coming down, and traditionally weak single-digit margins in 4Q every year recently.
- Two factors make PGHH an attractive long-term core holding: 1) huge category growth potential in the Feminine Hygiene segment (~65% of FY22 sales), coupled with potential for market share gains aided by considerable moats that the company is fortifying, as indicated in our [detailed annual report note](#) in Nov'22; and 2) potential for higher margin gains from premiumization in the Feminine Hygiene segment over the long term.
- Nevertheless, the uncertain pace of sales and earnings recovery and expensive valuations of 53x FY24E EPS/~45x FY25E EPS lead us to **maintain our Neutral rating**. We value the stock at 50x Mar'25E EPS arriving at a TP of INR15,180.

Exhibit 6: There is no material change to our estimates

INR m	New			Old			Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Sales	39,624	46,933	53,986	39,367	46,641	53,659	0.7%	0.6%	0.6%
EBITDA	7,925	11,827	13,766	8,070	11,753	13,683	-1.8%	0.6%	0.6%
Adjusted PAT	5,674	8,750	10,241	5,825	8,831	10,179	-2.6%	-0.9%	0.6%

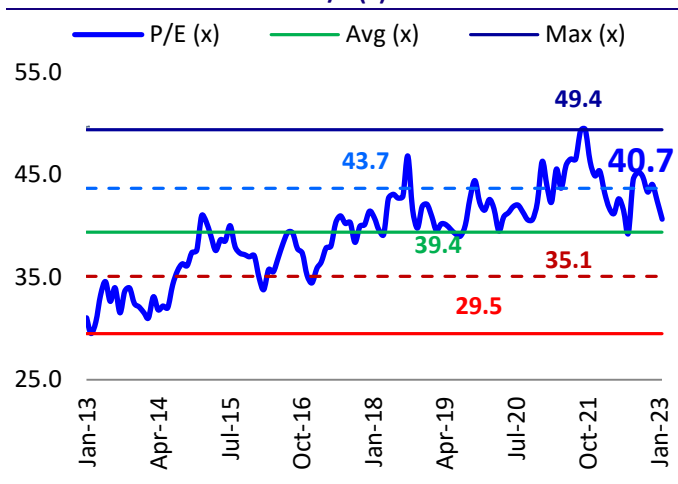
Source: MOFSL

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	FY25E
<b>Total Income from Operations</b>	<b>24,553</b>	<b>29,469</b>	<b>30,020</b>	<b>35,741</b>	<b>37,998</b>	<b>39,624</b>	<b>46,933</b>	<b>53,986</b>
Change (%)	5.8	20.0	1.9	19.1	6.3	4.3	18.4	15.0
Raw Materials	9,487	12,368	11,068	11,593	14,582	16,246	17,834	20,353
% of Sales	38.6	42.0	36.9	32.4	38.4	41.0	38.0	37.7
Employees Cost	1,152	1,338	1,733	2,017	2,143	2,179	2,487	2,861
% of Sales	4.7	4.5	5.8	5.6	5.6	5.5	5.3	5.3
Other Expenses	7,634	9,670	11,003	15,160	12,974	13,274	14,784	17,006
% of Sales	31.1	32.8	36.7	42.4	34.1	33.5	31.5	31.5
<b>Total Expenditure</b>	<b>18,273</b>	<b>23,376</b>	<b>23,804</b>	<b>28,770</b>	<b>29,699</b>	<b>31,699</b>	<b>35,106</b>	<b>40,220</b>
% of Sales	74.4	79.3	79.3	80.5	78.2	80.0	74.8	74.5
<b>EBITDA</b>	<b>6,280</b>	<b>6,093</b>	<b>6,216</b>	<b>6,972</b>	<b>8,299</b>	<b>7,925</b>	<b>11,827</b>	<b>13,766</b>
Margin (%)	25.6	20.7	20.7	19.5	21.8	20.0	25.2	25.5
Depreciation	524	498	479	477	529	579	598	620
<b>EBIT</b>	<b>5,756</b>	<b>5,595</b>	<b>5,738</b>	<b>6,495</b>	<b>7,770</b>	<b>7,346</b>	<b>11,229</b>	<b>13,146</b>
Int. and Finance Charges	53	55	61	61	112	90	55	55
Other Income	241	533	441	394	243	330	524	600
<b>PBT bef. EO Exp.</b>	<b>5,944</b>	<b>6,073</b>	<b>6,118</b>	<b>6,828</b>	<b>7,901</b>	<b>7,586</b>	<b>11,698</b>	<b>13,692</b>
EO Items	-82	0	-105	1,450	-101	0	0	0
<b>PBT after EO Exp.</b>	<b>5,862</b>	<b>6,073</b>	<b>6,013</b>	<b>8,277</b>	<b>7,800</b>	<b>7,586</b>	<b>11,698</b>	<b>13,692</b>
Total Tax	2,116	1,882	1,642	1,759	2,042	1,912	2,948	3,450
Tax Rate (%)	36.1	31.0	27.3	21.3	26.2	25.2	25.2	25.2
<b>Reported PAT</b>	<b>3,746</b>	<b>4,191</b>	<b>4,371</b>	<b>6,518</b>	<b>5,757</b>	<b>5,674</b>	<b>8,750</b>	<b>10,241</b>
<b>Adjusted PAT</b>	<b>3,828</b>	<b>4,191</b>	<b>4,476</b>	<b>5,068</b>	<b>5,858</b>	<b>5,674</b>	<b>8,750</b>	<b>10,241</b>
Change (%)	-11.5	9.5	6.8	13.2	15.6	-3.1	54.2	17.0
Margin (%)	15.6	14.2	14.9	14.2	15.4	14.3	18.6	19.0

### Standalone - Balance Sheet

(INR m)

Y/E June	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	325	325	325	325	325	325	325	325
Total Reserves	7,730	8,766	11,254	6,818	7,051	7,619	8,494	10,542
<b>Net Worth</b>	<b>8,055</b>	<b>9,091</b>	<b>11,579</b>	<b>7,143</b>	<b>7,376</b>	<b>7,943</b>	<b>8,818</b>	<b>10,866</b>
Deferred Tax Liabilities	-230	-368	-296	-380	-519	-571	-628	-691
Total Loans	0	0	15	35	19	19	19	19
<b>Capital Employed</b>	<b>7,825</b>	<b>8,723</b>	<b>11,298</b>	<b>6,797</b>	<b>6,876</b>	<b>7,392</b>	<b>8,210</b>	<b>10,195</b>
Gross Block	3,975	4,145	4,674	5,052	5,378	5,408	5,608	5,808
Less: Accum. Deprn.	1,474	1,803	2,609	3,214	3,741	3,911	4,509	5,129
<b>Net Fixed Assets</b>	<b>2,501</b>	<b>2,342</b>	<b>2,065</b>	<b>1,838</b>	<b>1,637</b>	<b>1,497</b>	<b>1,099</b>	<b>678</b>
Capital WIP	215	146	222	376	439	200	200	200
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>11,308</b>	<b>13,315</b>	<b>15,702</b>	<b>13,733</b>	<b>14,218</b>	<b>14,347</b>	<b>16,718</b>	<b>20,471</b>
Inventory	1,236	2,034	2,051	2,493	2,340	2,388	2,829	3,254
Account Receivables	1,485	1,814	1,663	1,424	1,908	2,171	2,829	3,254
Cash and Bank Balance	3,996	5,405	9,025	6,602	6,393	6,210	7,483	10,385
Loans and Advances	4,591	4,063	2,963	3,214	3,578	3,578	3,578	3,578
<b>Curr. Liability &amp; Prov.</b>	<b>6,199</b>	<b>7,080</b>	<b>6,691</b>	<b>9,150</b>	<b>9,417</b>	<b>8,652</b>	<b>9,807</b>	<b>11,154</b>
Account Payables	4,062	5,477	5,313	7,541	7,784	6,948	7,933	9,092
Other Current Liabilities	1,606	895	587	731	710	781	859	945
Provisions	530	709	790	878	923	923	1,015	1,117
<b>Net Current Assets</b>	<b>5,109</b>	<b>6,235</b>	<b>9,011</b>	<b>4,583</b>	<b>4,801</b>	<b>5,695</b>	<b>6,911</b>	<b>9,317</b>
<b>Appl. of Funds</b>	<b>7,825</b>	<b>8,723</b>	<b>11,298</b>	<b>6,797</b>	<b>6,876</b>	<b>7,392</b>	<b>8,210</b>	<b>10,195</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E June	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>117.8</b>	<b>129.0</b>	<b>137.7</b>	<b>156.1</b>	<b>180.5</b>	<b>174.8</b>	<b>269.2</b>	<b>315.1</b>
Cash EPS	134.1	144.5	152.7	170.8	196.8	192.6	288.0	334.6
BV/Share	248.2	280.1	356.7	220.0	227.2	244.7	271.7	334.8
DPS	40	101	105	315	160	157	243	252
Payout (%)	34.0	78.6	78.1	202.0	88.8	90.0	90.0	80.0
<b>Valuation (x)</b>								
P/E	120.2	109.8	102.8	90.7	78.5	81.0	52.6	44.9
Cash P/E	105.6	98.0	92.8	82.9	72.0	73.5	49.2	42.3
P/BV	57.1	50.6	39.7	64.4	62.3	57.9	52.1	42.3
EV/Sales	18.6	15.4	15.0	12.7	11.9	11.4	9.6	8.3
EV/EBITDA	72.6	74.6	72.5	65.0	54.6	57.2	38.2	32.6
Dividend Yield (%)	0.3	0.7	0.7	2.2	1.1	1.1	1.7	1.8
FCF per share	116.3	126.4	130.5	256.2	161.2	158.5	269.1	327.0
<b>Return Ratios (%)</b>								
RoE	57.5	48.9	43.3	54.1	80.7	74.1	104.4	104.1
RoCE	59.8	51.1	44.9	60.0	86.5	80.5	112.7	111.7
<b>Working Capital Ratios</b>								
Asset Turnover (x)	3.1	3.4	2.7	5.3	5.5	5.4	5.7	5.3
Inventory (Days)	22	20	25	23	26	22	22	22
Debtor (Days)	21	20	21	16	26	20	22	22
Creditor (Days)	57	59	66	66	64	62	60	60
<b>Leverage Ratio (x)</b>								
Debt/Equity	0.0	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	FY25E
PBT	5,818	6,073	5,939	8,699	7,901	7,586	11,698	13,692
Depreciation	524	498	479	477	529	579	598	620
Net interest expense	-147	-317	-266	-250	-154	-240	-469	-545
Others	225	54	203	139	115	0	0	0
(Inc)/Dec in WC	466	172	-179	2,101	-166	-1,077	57	497
Taxes	-2,731	-2,350	-1,435	-2,534	-2,494	-1,912	-2,948	-3,450
<b>CF from Operations</b>	<b>4,155</b>	<b>4,130</b>	<b>4,741</b>	<b>8,631</b>	<b>5,731</b>	<b>4,936</b>	<b>8,936</b>	<b>10,813</b>
(Inc)/Dec in FA	-381	-28	-503	-315	-497	209	-200	-200
<b>Free Cash Flow</b>	<b>3,774</b>	<b>4,102</b>	<b>4,237</b>	<b>8,317</b>	<b>5,234</b>	<b>5,145</b>	<b>8,736</b>	<b>10,613</b>
(Pur)/Sale of Investments	0	-7	22	0	0	0	0	0
Others	115	451	1,265	325	246	-131	467	538
<b>CF from Investments</b>	<b>-266</b>	<b>416</b>	<b>783</b>	<b>11</b>	<b>-251</b>	<b>78</b>	<b>267</b>	<b>338</b>
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	0	0	0	0	0	0	0	0
Dividend Paid	-1,055	-3,131	-1,878	-11,037	-5,681	-5,107	-7,875	-8,193
Interest Paid	-6	-7	-9	-10	-25	-90	-55	-55
Others	0	0	-16	-18	16	0	0	0
<b>CF from Fin. Activity</b>	<b>-1,061</b>	<b>-3,137</b>	<b>-1,903</b>	<b>-11,064</b>	<b>-5,689</b>	<b>-5,197</b>	<b>-7,930</b>	<b>-8,248</b>
<b>Inc/Dec of Cash</b>	<b>2,828</b>	<b>1,409</b>	<b>3,621</b>	<b>-2,423</b>	<b>-210</b>	<b>-182</b>	<b>1,273</b>	<b>2,902</b>
Opening Balance	1,168	3,996	5,405	9,025	6,603	6,393	6,210	7,483
<b>Closing Balance</b>	<b>3,996</b>	<b>5,405</b>	<b>9,025</b>	<b>6,603</b>	<b>6,393</b>	<b>6,210</b>	<b>7,483</b>	<b>10,385</b>

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

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