

P&G Hygiene and Healthcare



Estimate changes

TP change

Rating change

Bloomberg	PG IN
Equity Shares (m)	32
M.Cap.(INRb)/(USDb)	534.2 / 6.5
52-Week Range (INR)	16599 / 13101
1, 6, 12 Rel. Per (%)	5/8/8
12M Avg Val (INR M)	109

Financials & valuations (INR b)

Y/E June	FY23	FY24E	FY25E
Sales	39.2	46.4	53.5
Sales Gr. (%)	3.1	18.6	15.1
EBITDA	8.7	11.4	13.6
Margin (%)	22.2	24.5	25.5
Adj. PAT	6.1	8.3	10.0
Adj. EPS (INR)	188.9	254.7	308.0
EPS Gr. (%)	4.7	34.8	20.9
BV/Sh.(INR)	291.4	316.9	378.6

Ratios

RoE (%)	72.8	83.8	88.7
RoCE (%)	81.1	91.0	95.8

Valuations

P/E (x)	87.1	64.6	53.4
P/BV (x)	56.5	51.9	43.5
EV/EBITDA (x)	60.4	46.2	38.4
Div. Yield (%)	1.1	1.4	1.5

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	70.6	70.6	70.6
DII	15.5	15.4	14.2
FII	1.1	1.1	2.0
Others	12.7	12.9	13.1

FII Includes depository receipts

CMP: INR16,458

TP: INR16,940 (+3%)

Neutral

Sales in line; margin surprise leads to profit beat

- PGHH reported sales growth of 12.6% in 4QFY23 (June year-end), higher than our exception, driven by premiumization and productivity interventions. The company beat our EBITDA/PBT/PAT estimates, as ad-spends were significantly lower than our expectation at 6.3% of sales (after jumping to 12.1% of sales in 3QFY23).
- 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 ~65x FY24E EPS/~53x FY25E EPS lead us to **maintain our Neutral rating**.

Lower ad intensity leads to EBITDA beat

- PGHH's 4QFY23 sales grew 12.6% YoY to INR8.5b (est. INR8.1b).
- EBITDA jumped 2.2x YoY to INR2.2b (est. INR1.5b).
- PBT/Adj. PAT increased by 2.5x/2.6x YoY to INR2.1b/INR1.5b (est. INR1.4b/INR0.9b).
- Three-year sales/EBITDA/Adj. PAT CAGR stood at 10.3%/24.9%/29.8%.
- Gross margin expanded by ~530bp YoY/130bp QoQ to 57.8% (est. 63.6%).
- As a percentage of sales, employee expenses remained flat YoY and QoQ at 5.6%, ad-spends declined 650bp YoY to 6.3%, and other expenses fell 460bp YoY to 20.7%. As a result, EBITDA margin expanded ~1630bp to 25.2% (est. 18.0%).
- FY23 sales grew 3.1% to INR39.2b, with EBITDA/PAT increasing 4.7%/16.5% to INR8.7b/INR6.7b.

Valuation and view

- We are not making any material changes to our EPS estimates, given the volatility in ad-spends and possible delays in gross margin recovery due to higher inventory even amid pulp and oil costs volatility.
- 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, 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 ~65x FY24E EPS/~53x FY25E EPS lead us to **maintain our Neutral rating**. We value the stock at 55x Mar'25E EPS, arriving at a TP of INR16,940.

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Standalone - Quarterly Earnings

(INR m)

Y/E June	FY22				FY23				FY22	FY23	FY23	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	10,583	10,930	8,913	7,573	10,428	11,374	8,831	8,525	37,998	39,179	8,137	4.8
YoY Change (%)	4.8	7.3	17.3	-3.7	-1.5	4.1	-0.9	12.6	6.3	3.1	7.4	
Gross profit	7,041	7,127	5,275	3,973.8	6,116	6,513	4,992	4,928	23,416	22,549	5,175	-4.8
Margin (%)	66.5	65.2	59.2	52.5	58.6	57.3	56.5	57.8	61.6	57.6	63.6	
EBITDA	3,013	2,965	1,650	671	2,140	2,905	1,493	2,149	8,299	8,686	1,469	46.3
Growth	31.4	15.5	21.0	-10.4	-29.0	-2.0	-9.5	220.3	19.0	4.7	118.9	
Margins (%)	28.5	27.1	18.5	8.9	20.5	25.5	16.9	25.2	21.8	22.2	18.0	
Depreciation	127	129	131	141.8	140	144	146	154	529	584	149	
Interest	6	29	68	8.4	10	39	36	30	112	114	1	
Other Income	58	69	60	56.3	67	93	144	101	243	406	46	
PBT	2,938	2,875	1,511	577	2,058	2,815	1,456	2,066	7,901	8,395	1,364	51.4
Tax	756	754	381	151.5	514	741	380	553	2,042	2,263	498	
Rate (%)	25.7	26.2	27.0	26.3	25.0	26.3	18.7	26.8	26.2	25.2	36.5	
Reported PAT	2,183	2,121	1,029	426	1,544	2,075	1,650	1,512	5,758	6,707	866	
Adj PAT	2,183	2,121	1,130	426	1,544	2,075	1,075	1,512	5,858	6,132	866	74.7
YoY Change (%)	27.3	16.4	8.4	-13.1	-29.3	-2.2	-4.9	255.4	15.6	4.7	103.5	
Margins (%)	20.6	19.4	12.7	5.6	14.8	18.2	12.2	17.7	15.4	15.7	10.6	

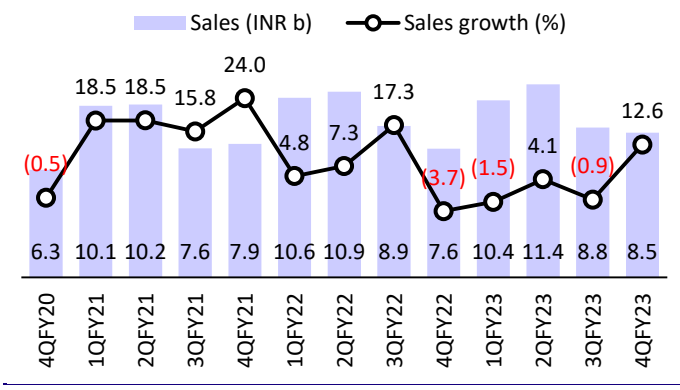
E: MOFSL Estimates

Key Performance Indicators

Y/E June	FY22				FY23			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
2Y average growth (%)								
Sales	11.6	12.9	16.6	10.1	1.7	5.7	8.2	4.4
EBITDA	28.6	26.5	9.8	-21.3	1.2	6.7	5.7	104.9
PAT	26.3	25.2	5.5	-21.2	-1.0	7.1	1.8	121.1
% of Sales								
COGS	33.5	34.8	40.8	47.5	41.4	42.7	43.5	42.2
Employee Expenses	5.3	5.5	6.3	5.6	4.9	5.0	0.0	-0.7
A&P Expenses	11.7	12.7	12.6	12.8	14.9	9.7	0.0	-0.5
Other Expenses	21.1	19.9	21.8	25.2	18.3	17.0	0.0	0.2
Depreciation	1.2	1.2	1.5	1.9	1.3	1.3	1.7	1.8
YoY change (%)								
COGS	3.2	21.6	44.4	43.1	21.7	27.8	5.5	0.0
Employee Expenses	-8.7	44.9	-1.7	1.0	-8.7	-5.0	-11.5	13.7
A&P Expenses	36.8	27.7	-13.3	-50.1	26.2	-20.1	-5.2	-44.8
Other Expenses	-21.8	-27.2	5.0	-14.8	-14.6	-11.3	-0.2	-7.8
Other Income	-39.3	-26.6	-59.1	-1.6	16.0	35.7	139.5	79.4
EBIT	32.7	15.9	21.4	-15.0	-30.7	-2.6	-11.3	276.9

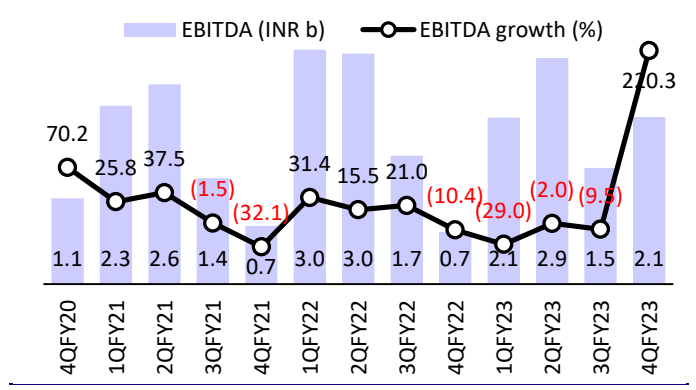
Key exhibits

Exhibit 1: Sales grew 12.6%YoY to INR8.5b



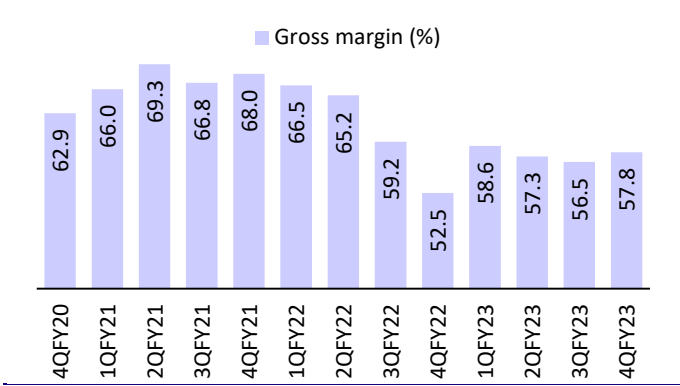
Source: Company, MOFSL

Exhibit 2: EBITDA rose 2.2x YoY to INR2.1b



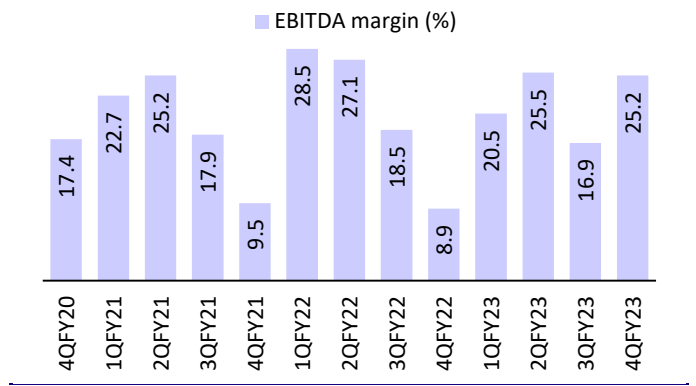
Source: Company, MOFSL

Exhibit 3: Gross margin expanded by 530bp YoY to 57.8%



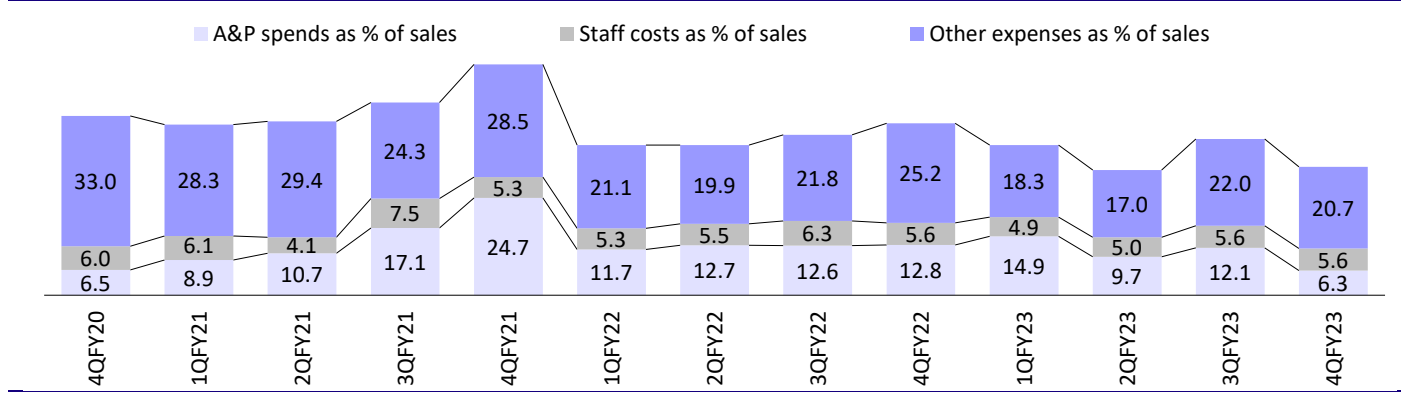
Source: Company, MOFSL

Exhibit 4: EBITDA margin expanded by 1630bp YoY to 25.2%



Source: Company, MOFSL

Exhibit 5: As a percentage of sales, staff costs remained flat; ad spends/other expenses declined 650bp/460bp



Source: Company, MOFSL

Valuation and view

Developments over the last 10 years

- While PGHH delivered a sales/EBITDA/PAT CAGR of ~8%/~20%/~13% in the first half of the decade ended in FY23, growth was slower in the second half on all these fronts, dragging down the 10-year EBITDA/PAT CAGR to ~13%/~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 resulted in lower revenue growth in FY22 (6.3% sales growth), sales growth was also tepid in FY23 at 3.1%.

Our view on the stock

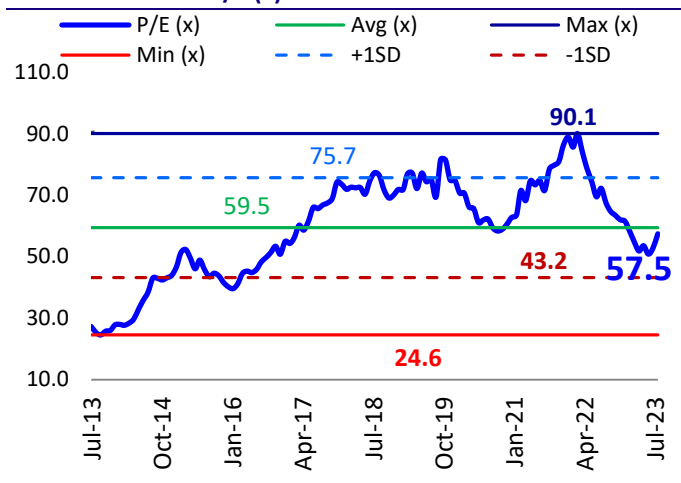
- We are not making any material changes to our EPS estimates, given the volatility in ad-spends and possible delays in gross margin recovery due to higher inventory even amid pulp and oil cost volatility.
- Two factors make PGHH an attractive long-term core holding: 1) huge category growth potential 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, 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 ~65x FY24E EPS/~53x FY25E EPS lead us to **maintain our Neutral rating**. We value the stock at 55x Mar'25E EPS, arriving at a TP of INR16,940.

Exhibit 6: There is no material change to our estimates

INR m	New		Old		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Sales	46,448	53,466	46,569	53,572	-0.3%	-0.2%
EBITDA	11,380	13,634	11,409	13,661	-0.3%	-0.2%
Adjusted PAT	8,278	10,009	8,370	10,081	-1.1%	-0.7%

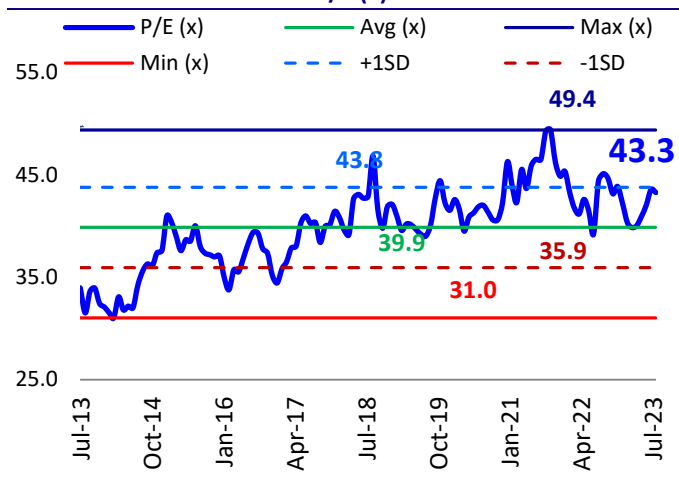
Source: MOFSL

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	FY23	FY24E	FY25E
Total Income from Operations	24,553	29,469	30,020	35,741	37,998	39,179	46,448	53,466
Change (%)	5.8	20.0	1.9	19.1	6.3	3.1	18.6	15.1
Raw Materials	9,487	12,368	11,068	11,593	14,582	16,630	18,579	20,317
% of Sales	38.6	42.0	36.9	32.4	38.4	42.4	40.0	38.0
Employees Cost	1,152	1,338	1,733	2,017	2,143	2,058	2,462	2,834
% of Sales	4.7	4.5	5.8	5.6	5.6	5.3	5.3	5.3
Other Expenses	7,634	9,670	11,003	15,160	12,974	11,805	14,027	16,681
% of Sales	31.1	32.8	36.7	42.4	34.1	30.1	30.2	31.2
Total Expenditure	18,273	23,376	23,804	28,770	29,699	30,493	35,068	39,832
% of Sales	74.4	79.3	79.3	80.5	78.2	77.8	75.5	74.5
EBITDA	6,280	6,093	6,216	6,972	8,299	8,686	11,380	13,634
Margin (%)	25.6	20.7	20.7	19.5	21.8	22.2	24.5	25.5
Depreciation	524	498	479	477	529	584	608	634
EBIT	5,756	5,595	5,738	6,495	7,770	8,103	10,772	12,999
Int. and Finance Charges	53	55	61	61	112	114	120	115
Other Income	241	533	441	394	243	406	534	605
PBT bef. EO Exp.	5,944	6,073	6,118	6,828	7,901	8,395	11,186	13,490
EO Items	-82		-105	1,450	-101	575	0	0
PBT after EO Exp.	5,862	6,073	6,013	8,277	7,800	8,970	11,186	13,490
Total Tax	2,116	1,882	1,642	1,759	2,042	2,263	2,908	3,480
Tax Rate (%)	36.1	31.0	27.3	21.3	26.2	25.2	26.0	25.8
Reported PAT	3,746	4,191	4,371	6,518	5,757	6,707	8,278	10,009
Adjusted PAT	3,828	4,191	4,476	5,068	5,858	6,132	8,278	10,009
Change (%)	-11.5	9.5	6.8	13.2	15.6	4.7	35.0	20.9
Margin (%)	15.6	14.2	14.9	14.2	15.4	15.7	17.8	18.7

Standalone - Balance Sheet							(INR m)	
Y/E June	FY18	FY19	FY20	FY21	FY22	FY23	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	9,136	9,963	11,965
Net Worth	8,055	9,091	11,579	7,143	7,376	9,460	10,288	12,290
Deferred Tax Liabilities	-230	-368	-296	-380	-519	-655	-721	-793
Total Loans	0	0	15	35	19	8	8	8
Capital Employed	7,825	8,723	11,298	6,797	6,876	8,813	9,576	11,505
Gross Block	3,975	4,000	4,495	4,719	5,012	5,660	5,832	6,032
Less: Accum. Deprn.	1,474	1,657	2,430	2,881	3,376	3,959	4,567	5,201
Net Fixed Assets	2,501	2,342	2,065	1,838	1,637	1,700	1,265	830
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	215	146	222	376	439	228	228	228
Total Investments	0	0	0	0	0	0	0	0
Curr. Assets, Loans&Adv.	11,308	13,315	15,702	13,733	14,218	18,790	18,212	21,960
Inventory	1,236	2,034	2,051	2,493	2,340	2,198	2,800	3,223
Account Receivables	1,485	1,814	1,663	1,424	1,908	2,163	2,800	3,223
Cash and Bank Balance	3,996	5,405	9,025	6,602	6,393	9,816	8,259	11,161
Loans and Advances	4,591	4,063	2,963	3,214	3,578	4,613	4,354	4,354
Curr. Liability & Prov.	6,199	7,080	6,691	9,150	9,417	11,905	10,129	11,513
Account Payables	4,062	5,477	5,313	7,541	7,784	9,711	7,830	8,984
Other Current Liabilities	1,606	895	587	731	710	1,036	1,140	1,254
Provisions	530	709	790	878	923	1,158	1,160	1,276
Net Current Assets	5,109	6,235	9,011	4,583	4,801	6,885	8,083	10,447
Appl. of Funds	7,825	8,723	11,298	6,797	6,876	8,813	9,576	11,505

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E June	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	117.8	129.0	137.7	156.1	180.5	188.9	254.7	308.0
Cash EPS	134.1	144.5	152.7	170.8	196.8	206.9	273.7	327.9
BV/Share	248.2	280.1	356.7	220.0	227.2	291.4	316.9	378.6
DPS	40	101	105	315	160	185	230	247
Payout (%)	34.0	78.6	78.1	202.0	88.8	98.1	90.0	80.0
Valuation (x)								
P/E	139.7	127.6	119.5	105.4	91.2	87.1	64.6	53.4
Cash P/E	122.8	113.9	107.8	96.3	83.6	79.6	60.1	50.2
P/BV	66.3	58.8	46.1	74.8	72.4	56.5	51.9	43.5
EV/Sales	21.6	17.9	17.5	14.8	13.9	13.4	11.3	9.8
EV/EBITDA	84.4	86.8	84.5	75.7	63.6	60.4	46.2	38.4
Dividend Yield (%)	0.2	0.6	0.6	1.9	1.0	1.1	1.4	1.5
FCF per share	116.3	126.4	130.5	256.2	161.2	240.7	170.8	323.2
Return Ratios (%)								
RoE	57.5	48.9	43.3	54.1	80.7	72.8	83.8	88.7
RoCE	59.8	51.1	44.9	60.0	86.5	81.1	91.0	95.8
Working Capital Ratios								
Asset Turnover (x)	3.1	3.4	2.7	5.3	5.5	4.4	4.9	4.6
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
Leverage Ratio (x)								
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	FY23	FY24E	FY25E
PBT	5,818	6,073	5,939	8,699	7,901	8,395	11,186	13,490
Depreciation	524	498	479	477	529	584	608	634
Net interest expense	-147	-317	-266	-250	-154	-237	-414	-490
Others	225	54	203	139	115	67	0	0
(Inc)/Dec in WC	466	172	-179	2,101	-166	1,745	-2,754	538
Taxes	-2,731	-2,350	-1,435	-2,534	-2,494	-2,295	-2,908	-3,480
CF from Operations	4,155	4,130	4,741	8,631	5,731	8,258	5,717	10,691
(Inc)/Dec in FA	-381	-28	-503	-315	-497	-444	-172	-200
Free Cash Flow	3,774	4,102	4,237	8,317	5,234	7,814	5,545	10,491
(Pur)/Sale of Investments	0	-7	22	0	0	0	0	0
Others	115	451	1,265	325	246	380	534	605
CF from Investments	-266	416	783	11	-251	-64	362	405
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	-4,707	-7,450	-8,008
Interest Paid	-6	-7	-9	-10	-25	-51	-120	-115
Others	0	0	-16	-18	16	-12	-66	-72
CF from Fin. Activity	-1,061	-3,137	-1,903	-11,064	-5,689	-4,770	-7,635	-8,195
Inc/Dec of Cash	2,828	1,409	3,621	-2,423	-210	3,423	-1,557	2,902
Opening Balance	1,168	3,996	5,405	9,025	6,603	6,393	9,816	8,259
Closing Balance	3,996	5,405	9,025	6,603	6,393	9,816	8,259	11,161

E: MOFSL Estimates

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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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