

# P&G Hygiene and Healthcare



Estimate changes



TP change



Rating change



Bloomberg	PG IN
Equity Shares (m)	32
M.Cap.(INRb)/(USD\$b)	541.5 / 6.5
52-Week Range (INR)	18598 / 13101
1, 6, 12 Rel. Per (%)	-5/13/11
12M Avg Val (INR M)	104

## Financials & valuations (INR b)

Y/E June	FY23	FY24E	FY25E
Sales	39.2	46.3	53.7
Sales Gr. (%)	3.1	18.1	16.0
EBITDA	8.7	11.5	13.6
Margin (%)	22.2	24.8	25.3
Adj. PAT	6.1	8.4	10.0
Adj. EPS (INR)	188.9	257.9	307.8
EPS Gr. (%)	4.7	36.5	19.4
BV/Sh.(INR)	291.4	317.3	378.9

## Ratios

RoE (%)	72.8	84.8	88.5
RoCE (%)	81.1	92.1	95.6

## Valuations

P/E (x)	88.6	64.9	54.4
P/BV (x)	57.5	52.8	44.2
EV/EBITDA (x)	61.4	46.7	39.3
Div. Yield (%)	1.1	1.4	1.5

## Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	70.6	70.6	70.6
DII	15.4	15.5	14.6
FII	1.3	1.1	1.7
Others	12.6	12.7	13.1

FII Includes depository receipts

CMP: INR16,682

TP: INR16,940 (+2%)

Neutral

## Topline below our expectation; ad-spends mount sequentially

- PGHH reported high single-digit sales growth in 1QFY24 (ending in June), surpassing our initial double-digit growth expectations. PAT up 36% YoY driven by an increase in volume growth, a favorable product price-mix, and enhanced productivity.
- GP margin has been expanded 230bps, while operating margin expanded by 450 bps owing to the benefit of operating leverage. Ad-spends mounted sequentially to 13.5% of sales from 6.3% (albeit, declined 140bp YoY) during the quarter.
- The company continues to grow with strong product portfolio of sanitary napkins and healthcare business, superior consumer communications and stream of product innovations. With the challenging valuations of ~64.9x FY24E EPS/~54.4x FY25E EPS led us to **maintain our Neutral rating on the stock.**

## Sales below expectations; operating margins in line

- PGHH's 1QFY24 sales grew 9.2% YoY to INR11.4b (est. INR12.1b).
- EBITDA grew 33.1% YoY to INR2.8b (est. INR3.0b).
- PBT/Adj. PAT increased 38.2%/36.4% YoY to INR2.8b/INR2.1b (est. INR2.9b/INR2.2b).
- Three-year Sales and EBITDA CAGR stood at 4.1%/7.5%.
- Gross margin expanded ~230bp YoY/310bp QoQ to 60.9% (est. 58.0%).
- As a percentage of sales, employee expenses increased 70bp YoY and remained flat QoQ at 5.6%. Ad-spends declined 140bp YoY to 13.5% and other expenses fell 150bp YoY to 16.8%. As a result, EBITDA margin expanded 450bp to 25% (est. 24.7%).

## 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) robust growth potential in the Feminine Hygiene segment (~65% of FY22 sales), coupled with the potential for market share gains aided by strategic initiatives, including the fortification of significant market advantages, and 2) potential for higher margin gains from the long-term trend of premiumization in the Feminine Hygiene segment.
- Nevertheless, the uncertain pace of sales and earnings recovery and expensive valuations of ~64.9x FY24E EPS/~54.4x FY25E EPS led us to **maintain our Neutral rating on the stock with a TP of INR16,940 (based on 55x FY25E EPS).**

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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	FY23				FY24				FY23	FY24	FY24	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
<b>Net Sales</b>	<b>10,428</b>	<b>11,374</b>	<b>8,831</b>	<b>8,525</b>	<b>11,384</b>	<b>13,125</b>	<b>11,304</b>	<b>10,472</b>	<b>39,179</b>	<b>46,284</b>	<b>12,096</b>	<b>-5.9%</b>
YoY Change (%)	-1.5	4.1	-0.9	12.6	9.2	15.4	28.0	22.8	3.1	18.1	16.0	
<b>Gross profit</b>	<b>6,116</b>	<b>6,513</b>	<b>4,992</b>	<b>4,928</b>	<b>6,932</b>	<b>7,639</b>	<b>6,601</b>	<b>6,043</b>	<b>22,549</b>	<b>27,215</b>	<b>7,016</b>	<b>-1.2%</b>
Margin (%)	58.6	57.3	56.5	57.8	60.9	58.2	58.4	57.7	57.6	58.8	58.0	
<b>EBITDA</b>	<b>2,140</b>	<b>2,905</b>	<b>1,493</b>	<b>2,149</b>	<b>2,849</b>	<b>3,241</b>	<b>2,819</b>	<b>2,546</b>	<b>8,686</b>	<b>11,455</b>	<b>2,988</b>	<b>-4.6%</b>
Growth	-29.0	-2.0	-9.5	220.3	33.1	11.6	88.9	18.5	4.7	31.9	39.6	
Margins (%)	20.5	25.5	16.9	25.2	25.0	24.7	24.9	24.3	22.2	24.8	24.7	
Depreciation	140	144	146	154	143	159	160	164	584	626	148	
Interest	10	39	36	30	19	35	36	30	114	120	11	
Other Income	67	93	144	101	158	126	146	142	406	571	87	
<b>PBT</b>	<b>2,058</b>	<b>2,815</b>	<b>1,456</b>	<b>2,066</b>	<b>2,845</b>	<b>3,174</b>	<b>2,768</b>	<b>2,494</b>	<b>8,395</b>	<b>11,281</b>	<b>2,916</b>	<b>-2.5%</b>
Tax	514	741	380	553	738	809	714	638	2,263	2,899	735	
Rate (%)	25.0	26.3	18.7	26.8	25.9	25.5	25.8	25.6	25.2	25.7	25.2	
<b>Reported PAT</b>	<b>1,544</b>	<b>2,075</b>	<b>1,650</b>	<b>1,512</b>	<b>2,107</b>	<b>2,364</b>	<b>2,054</b>	<b>1,856</b>	<b>6,707</b>	<b>8,382</b>	<b>2,181</b>	
<b>Adj PAT</b>	<b>1,544</b>	<b>2,075</b>	<b>1,075</b>	<b>1,512</b>	<b>2,107</b>	<b>2,364</b>	<b>2,054</b>	<b>1,856</b>	<b>6,132</b>	<b>8,382</b>	<b>2,181</b>	<b>-3.4%</b>
YoY Change (%)	-29.3	-2.2	-4.9	255.4	36.4	14.0	91.0	22.7	4.7	36.7	41.3	
Margins (%)	14.8	18.2	12.2	17.7	18.5	18.0	18.2	17.7	15.7	18.1	18.0	

E: MOFSL Estimates

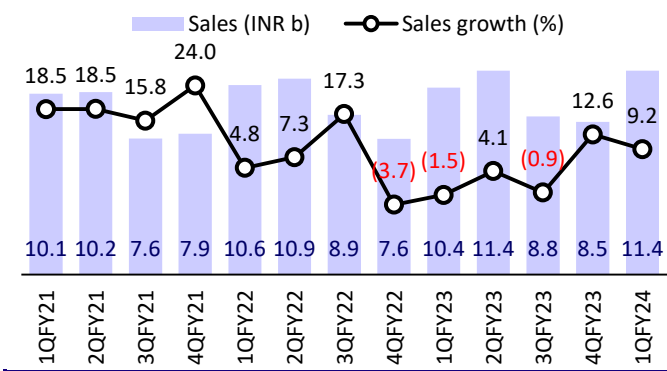
## Key Performance Indicators

Y/E June	FY23				FY24	
	1Q	2Q	3Q	4Q	1Q	1Q
<b>2Y average growth (%)</b>						
Sales	1.7	5.7	8.2	4.4		3.8
EBITDA	1.2	6.7	5.7	104.9		2.1
PAT	-1.0	7.1	1.8	121.1		3.6
<b>% of Sales</b>						
COGS	41.4	42.7	43.5	42.2		39.1
Employee Expenses	4.9	5.0	0.0	-0.7		5.3
A&P Expenses	14.9	9.7	0.0	-0.5		10.9
Other Expenses	18.3	17.0	0.0	0.2		19.3
Depreciation	1.3	1.3	1.7	1.8		1.3
<b>YoY change (%)</b>						
COGS	21.7	27.8	5.5	0.0		13.9
Employee Expenses	-8.7	-5.0	-11.5	13.7		-4.0
A&P Expenses	26.2	-20.1	-5.2	-44.8		-9.5
Other Expenses	-14.6	-11.3	-0.2	-7.8		-8.7
Other Income	16.0	35.7	139.5	79.4		134.3
EBIT	-30.7	-2.6	-11.3	276.9		35.3

E: MOFSL estimates

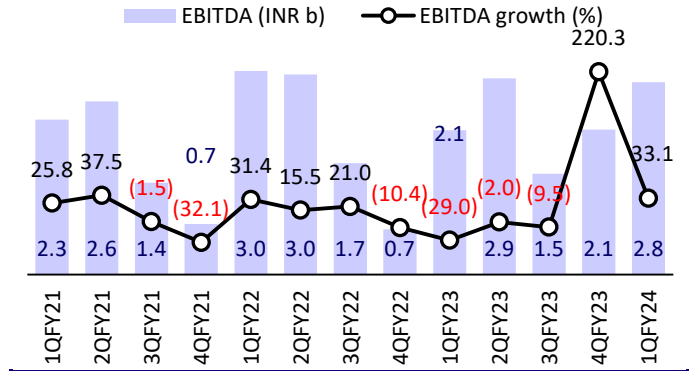
Key exhibits

Exhibit 1: Sales grew 9.2%YoY to INR11.4b



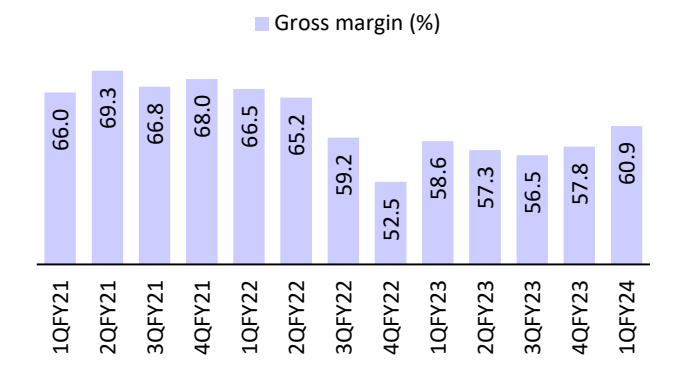
Source: Company, MOFSL

Exhibit 2: EBITDA rose 33.1% YoY to INR2.8b



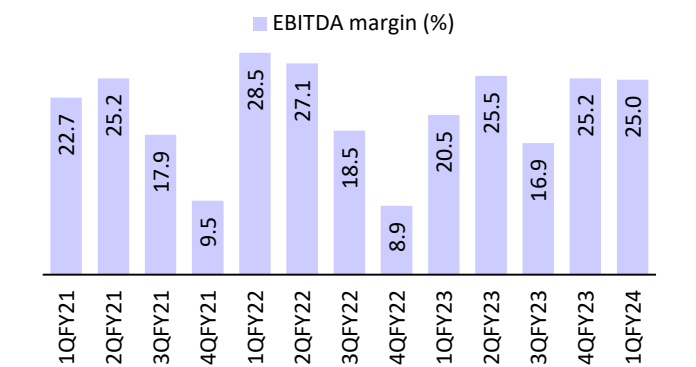
Source: Company, MOFSL

Exhibit 3: Gross margin expanded 230bp YoY to 60.9%



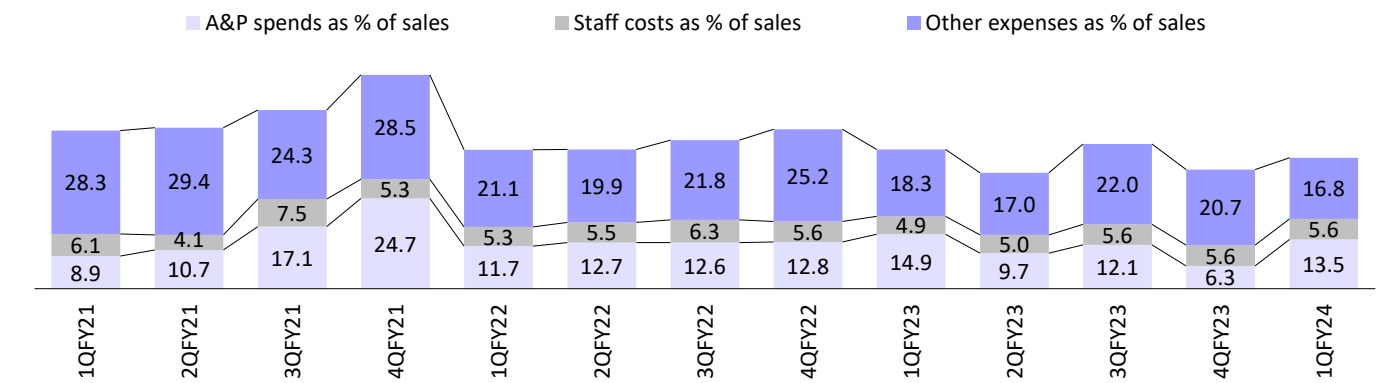
Source: Company, MOFSL

Exhibit 4: EBITDA margin expanded 450bp YoY to 25.0%



Source: Company, MOFSL

Exhibit 5: As a percentage of sales, staff costs increased 70bp; ad spends/other expenses declined 140bp/150bp



Source: Company, MOFSL

## Valuation and view

### Developments over the last 10 years

- While PGHH delivered a sales/EBITDA/PAT CAGR of ~9%/~13%/~12% in the first half of the decade ended in FY23. However, the growth rates remained consistent in the second half of the decade, leading to a 10-year EBITDA/PAT CAGR of ~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 FY13-17. 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

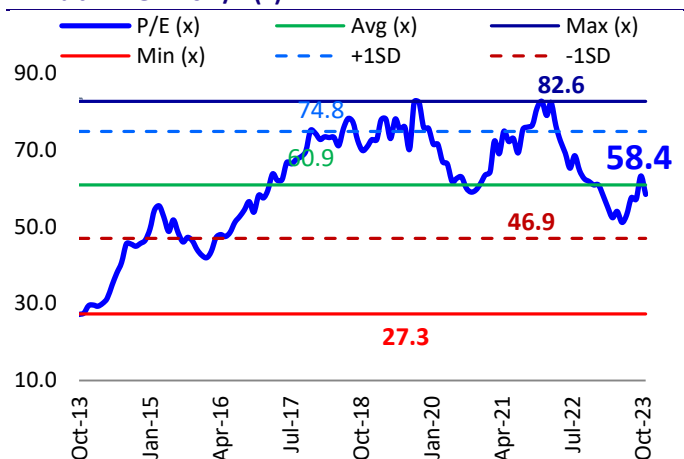
- We are not making any material changes to our EPS estimates, given the volatility in ad-spends and possible delays in gross margin recovery due to higher inventory even amid pulp and oil cost volatility.
- Two factors make PGHH an attractive long-term core holding: 1) robust growth potential in the Feminine Hygiene segment (~65% of FY22 sales), coupled with the potential for market share gains aided by strategic initiatives, including the fortification of significant market advantages, and 2) potential for higher margin gains from the long-term trend of premiumization in the Feminine Hygiene segment.
- Nevertheless, the uncertain pace of sales and earnings recovery and expensive valuations of ~64.9x FY24E EPS/~54.4x FY25E EPS led us to maintain **our Neutral rating on the stock with a TP of INR16,940 (based on 55x FY25E EPS)**.

Exhibit 6: There is no material change to our estimates

INR m	New		Old		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Sales	46,284	53,704	46,716	54,210	-0.9%	-0.9%
EBITDA	11,455	13,560	11,399	13,824	0.5%	-1.9%
Adjusted PAT	8,382	10,004	8,292	10,177	1.1%	-1.7%

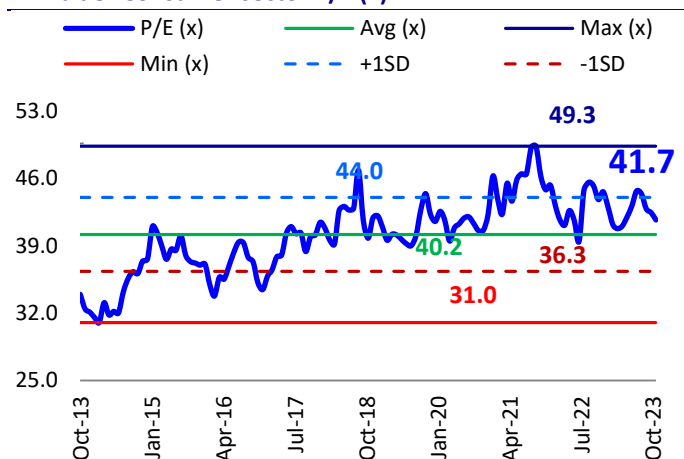
Source: MOFSL

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
<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>39,179</b>	<b>46,284</b>	<b>53,704</b>
Change (%)	5.8	20.0	1.9	19.1	6.3	3.1	18.1	16.0
Raw Materials	9,487	12,368	11,068	11,593	14,582	16,630	19,069	20,945
% of Sales	38.6	42.0	36.9	32.4	38.4	42.4	41.2	39.0
Employees Cost	1,152	1,338	1,733	2,017	2,143	2,058	2,546	2,954
% of Sales	4.7	4.5	5.8	5.6	5.6	5.3	5.5	5.5
Other Expenses	7,634	9,670	11,003	15,160	12,974	11,805	13,214	16,246
% of Sales	31.1	32.8	36.7	42.4	34.1	30.1	28.6	30.3
<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>30,493</b>	<b>34,829</b>	<b>40,144</b>
% of Sales	74.4	79.3	79.3	80.5	78.2	77.8	75.3	74.8
<b>EBITDA</b>	<b>6,280</b>	<b>6,093</b>	<b>6,216</b>	<b>6,972</b>	<b>8,299</b>	<b>8,686</b>	<b>11,455</b>	<b>13,560</b>
Margin (%)	25.6	20.7	20.7	19.5	21.8	22.2	24.8	25.3
Depreciation	524	498	479	477	529	584	626	641
<b>EBIT</b>	<b>5,756</b>	<b>5,595</b>	<b>5,738</b>	<b>6,495</b>	<b>7,770</b>	<b>8,103</b>	<b>10,830</b>	<b>12,920</b>
Int. and Finance Charges	53	55	61	61	112	114	120	115
Other Income	241	533	441	394	243	406	571	605
<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>8,395</b>	<b>11,281</b>	<b>13,410</b>
EO Items	-82		-105	1,450	-101	575	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>8,970</b>	<b>11,281</b>	<b>13,410</b>
Total Tax	2,116	1,882	1,642	1,759	2,042	2,263	2,899	3,406
Tax Rate (%)	36.1	31.0	27.3	21.3	26.2	25.2	25.7	25.4
<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>6,707</b>	<b>8,382</b>	<b>10,004</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>6,132</b>	<b>8,382</b>	<b>10,004</b>
Change (%)	-11.5	9.5	6.8	13.2	15.6	4.7	36.7	19.4
Margin (%)	15.6	14.2	14.9	14.2	15.4	15.7	18.1	18.6

### 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	9,974	11,975
<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>9,460</b>	<b>10,298</b>	<b>12,299</b>
Deferred Tax Liabilities	-230	-368	-296	-380	-519	-655	-721	-793
Total Loans	0	0	15	35	19	8	8	8
<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>8,813</b>	<b>9,586</b>	<b>11,515</b>
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	4,585	5,226
<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>1,700</b>	<b>1,247</b>	<b>806</b>
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	215	146	222	376	439	228	228	228
<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>0</b>
<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>18,790</b>	<b>18,214</b>	<b>22,033</b>
Inventory	1,236	2,034	2,051	2,493	2,340	2,198	2,790	3,237
Account Receivables	1,485	1,814	1,663	1,424	1,908	2,163	2,790	3,237
Cash and Bank Balance	3,996	5,405	9,025	6,602	6,393	9,816	8,280	11,205
Loans and Advances	4,591	4,063	2,963	3,214	3,578	4,613	4,354	4,354
<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>11,905</b>	<b>10,102</b>	<b>11,552</b>
Account Payables	4,062	5,477	5,313	7,541	7,784	9,711	7,803	9,023
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
<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>6,885</b>	<b>8,111</b>	<b>10,481</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>8,813</b>	<b>9,586</b>	<b>11,515</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E June	FY18	FY19	FY20	FY21	FY22	FY23	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>188.9</b>	<b>257.9</b>	<b>307.8</b>
Cash EPS	134.1	144.5	152.7	170.8	196.8	206.9	277.5	327.9
BV/Share	248.2	280.1	356.7	220.0	227.2	291.4	317.3	378.9
DPS	40	101	105	315	160	185	232	247
Payout (%)	34.0	78.6	78.1	202.0	88.8	98.1	90.0	80.0
<b>Valuation (x)</b>								
P/E	142.2	129.8	121.6	107.2	92.8	88.6	64.9	54.4
Cash P/E	124.9	115.9	109.7	98.0	85.1	80.9	60.3	51.1
P/BV	67.5	59.8	46.9	76.1	73.7	57.5	52.8	44.2
EV/Sales	22.0	18.3	17.8	15.0	14.1	13.6	11.6	9.9
EV/EBITDA	85.9	88.3	86.0	77.0	64.7	61.4	46.7	39.3
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	173.2	323.8
<b>Return Ratios (%)</b>								
RoE	57.5	48.9	43.3	54.1	80.7	72.8	84.8	88.5
RoCE	59.8	51.1	44.9	60.0	86.5	81.1	92.1	95.6
<b>Working Capital Ratios</b>								
Asset Turnover (x)	3.1	3.4	2.7	5.3	5.5	4.4	4.8	4.7
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	FY23	FY24E	FY25E
PBT	5,818	6,073	5,939	8,699	7,901	8,395	11,281	13,410
Depreciation	524	498	479	477	529	584	626	641
Net interest expense	-147	-317	-266	-250	-154	-237	-451	-490
Others	225	54	203	139	115	67	0	0
(Inc)/Dec in WC	466	172	-179	2,101	-166	1,745	-2,762	555
Taxes	-2,731	-2,350	-1,435	-2,534	-2,494	-2,295	-2,899	-3,406
<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>8,258</b>	<b>5,795</b>	<b>10,709</b>
(Inc)/Dec in FA	-381	-28	-503	-315	-497	-444	-172	-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>7,814</b>	<b>5,622</b>	<b>10,509</b>
(Pur)/Sale of Investments	0	-7	22	0	0	0	0	0
Others	115	451	1,265	325	246	380	571	605
<b>CF from Investments</b>	<b>-266</b>	<b>416</b>	<b>783</b>	<b>11</b>	<b>-251</b>	<b>-64</b>	<b>399</b>	<b>405</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	-4,707	-7,543	-8,003
Interest Paid	-6	-7	-9	-10	-25	-51	-120	-115
Others	0	0	-16	-18	16	-12	-66	-72
<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>-4,770</b>	<b>-7,729</b>	<b>-8,190</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>3,423</b>	<b>-1,535</b>	<b>2,924</b>
Opening Balance	1,168	3,996	5,405	9,025	6,603	6,393	9,816	8,281
<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>9,816</b>	<b>8,281</b>	<b>11,205</b>

E: MOFSL Estimates

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Explanation of Investment Rating	
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UNDER REVIEW	Rating may undergo a change
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