

P&G Hygiene and Healthcare

Estimate changes

TP change

Rating change



Bloomberg	PG IN
Equity Shares (m)	32
M.Cap.(INRb)/(USDb)	445.2 / 5.4
52-Week Range (INR)	15500 / 12751
1, 6, 12 Rel. Per (%)	-7/-2/-12
12M Avg Val (INR M)	101

Financials & valuations (INR b)

Y/E June	FY23E	FY24E	FY25E
Sales	39.0	46.8	53.8
Sales Gr. (%)	2.5	20.1	15.0
EBITDA	7.8	11.5	13.7
Margin (%)	20.0	24.5	25.5
Adj. PAT	5.4	8.5	10.2
Adj. EPS (INR)	167.7	260.9	314.2
EPS Gr. (%)	-7.1	55.6	20.4
BV/Sh.(INR)	261.7	287.8	350.7

Ratios

RoE (%)	68.6	95.1	98.5
RoCE (%)	76.3	102.2	105.4

Valuations

P/E (x)	81.8	52.6	43.6
P/BV (x)	52.4	47.6	39.1
EV/EBITDA (x)	56.2	38.1	31.6
Div. Yield (%)	1.1	1.7	1.8

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	70.6	70.6	70.6
DII	15.4	15.3	13.9
FII	1.1	1.1	2.3
Others	12.9	13.0	13.2

FII Includes depository receipts

CMP: INR13,714
TP: INR15,050 (+10%)
Neutral

Weak quarter; ad-spends mount sequentially

- P&G Hygiene and Healthcare (PGHH) delivered a weak performance on all parameters in 3QFY23. Ad-spends mounted sequentially to 12.1% of sales from 9.7% (albeit, declined 50bp YoY) during the quarter.
- The company reversed income tax provision of INR575m pertaining to earlier years based on favorable ruling by the Income Tax Appellate Tribunal in a similar case. Adjusted for this, PAT decreased 4.9% YoY to INR1,075m v/s our expectation of INR1,516m.
- While we remain positive on the long-term growth potentials of the sanitary napkin and healthcare businesses, the uncertain pace of sales and earnings recovery as well as expensive valuations of 53x FY24E EPS/~44x FY25E EPS lead us to **maintain our Neutral rating**. We value the stock at 50x Mar'25E EPS to arrive at our TP of INR15,050.

Overall miss during the quarter

- **PGHH's 3QFY23 sales remained flat YoY at INR8.8b** (est. INR9.7b).
- EBITDA declined 9.5% YoY to INR1.5b (est. INR2.1b).
- PBT/Adj. PAT remained flat YoY at INR1.5b/INR1.1b (est. INR2.0b/INR1.5b).
- **Two-year sales/EBITDA/Adj. PAT CAGR stood at 7.8%/4.6%/1.6%.**
- **Gross margin contracted ~270bp YoY/70bp QoQ to 56.5%** (est. 58.5%).
- As a percentage of sales, lower employee expenses (-70bp YoY to 5.6%), lower ad-spends (-50bp YoY to 12.1%) and stable other expenses (+20bp YoY to 22%) led to only **~160bp drop in EBITDA margin to 16.9%** (est. 21.4%).
- Sales remained flat at INR30.6b while EBITDA/Adj. PAT declined 14.3%/13.6% to INR6.5b/INR4.7b during 9MFY23.
- **Exceptional item – During the quarter, PGHH reversed tax provision with respect to past tax litigations based on favorable ruling in a similar case. We have treated this as an exceptional item (of INR575m).**

Valuation and view

- We cut our FY23E/FY24E EPS by 3-4%, while there is no material change to our FY25E EPS.
- 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 as well as expensive valuations of 53x FY24E EPS/~44x FY25E EPS lead us to **maintain our Neutral rating**. We value the stock at 50x Mar'25E EPS to arrive at our TP of INR15,050.

Standalone - Quarterly earnings

(INR m)

Y/E June	FY22				FY23				FY22	FY23E	FY23	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	
Net Sales	10,583	10,930	8,913	7,573	10,428	11,374	8,831	8,328	37,998	38,961	9,715	-9.1%
YoY Change (%)	4.8	7.3	17.3	-3.7	-1.5	4.1	-0.9	10.0	6.3	2.5	9.0	
Gross profit	7,041	7,127	5,275	3,974	6,116	6,513	4,992	4,953	23,416	22,574	5,780	-13.6%
Margin (%)	66.5	65.2	59.2	52.5	58.6	57.3	56.5	59.5	61.6	57.9	59.5	
EBITDA	3,013	2,965	1,650	671	2,140	2,905	1,493	1,270	8,299	7,808	2,080	-28.2%
Growth	31.4	15.5	21.0	-10.4	-29.0	-2.0	-9.5	89.3	19.0	-5.9	26.1	
Margins (%)	28.5	27.1	18.5	8.9	20.5	25.5	16.9	15.3	21.8	20.0	21.4	
Depreciation	127	129	131	142	140	144	146	149	529	579	145	
Interest	6	29	68	8	10	39	36	6	112	90	20	
Other Income	58	69	60	56	67	93	144	25	243	330	85	
PBT	2,938	2,875	1,511	577	2,058	2,815	1,456	1,140	7,901	7,469	2,000	-27.2%
Tax	756	754	381	152	514	741	380	392	2,042	2,027	484	
Rate (%)	25.7	26.2	27.0	26.3	25.0	26.3	18.7	34.4	26.2	25.2	24.2	
Reported PAT	2,183	2,121	1,029	426	1,544	2,075	1,650	748	5,758	6,017	1,516	
Adj PAT	2,183	2,121	1,130	426	1,544	2,075	1,075	748	5,858	5,442	1,516	-29.1%
YoY Change (%)	27.3	16.4	8.4	-13.1	-29.3	-2.2	-4.9	75.7	15.6	-7.1	34.2	
Margins (%)	20.6	19.4	12.7	5.6	14.8	18.2	12.2	9.0	15.4	14.0	15.6	

E: MOFSL Estimates

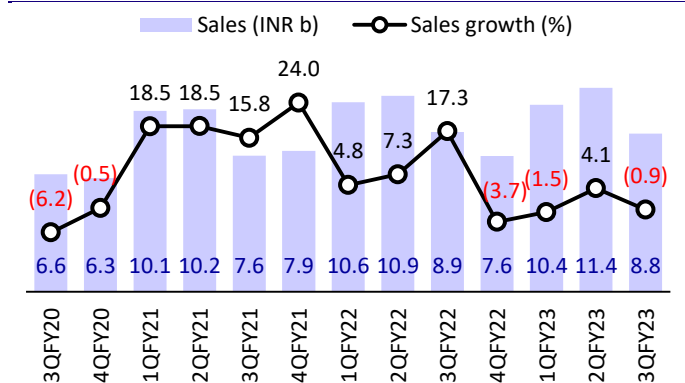
Key performance indicators

Y/E June	FY22				FY23			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE
2Y average growth (%)								
Sales	11.6	12.9	16.6	10.1	1.7	5.7	8.2	3.1
EBITDA	28.6	26.5	9.8	-21.3	1.2	6.7	5.7	39.5
PAT	26.3	25.2	5.5	-21.2	-1.0	7.1	1.8	31.3
% of Sales								
COGS	33.5	34.8	40.8	47.5	41.4	42.7	43.5	40.5
Employee Expenses	5.3	5.5	6.3	5.6	4.9	5.0	5.6	6.8
A&P Expenses	11.7	12.7	12.6	12.8	14.9	9.7	12.1	9.0
Other Expenses	21.1	19.9	21.8	25.2	18.3	17.0	22.0	28.4
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	-6.2
Employee Expenses	-8.7	44.9	-1.7	1.0	-8.7	-5.0	-11.5	33.8
A&P Expenses	36.8	27.7	-13.3	-50.1	26.2	-20.1	-5.2	-22.5
Other Expenses	-21.8	-27.2	5.0	-14.8	-14.6	-11.3	-0.2	23.8
Other Income	-39.3	-26.6	-59.1	-1.6	16.0	35.7	139.5	-55.4
EBIT	32.7	15.9	21.4	-15.0	-30.7	-2.6	-11.3	111.9

E: MOFSL estimates

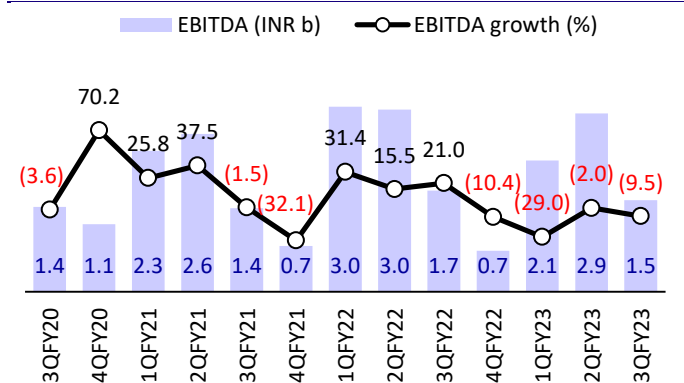
Key exhibits

Exhibit 1: Sales remained flat YoY at INR8.8b



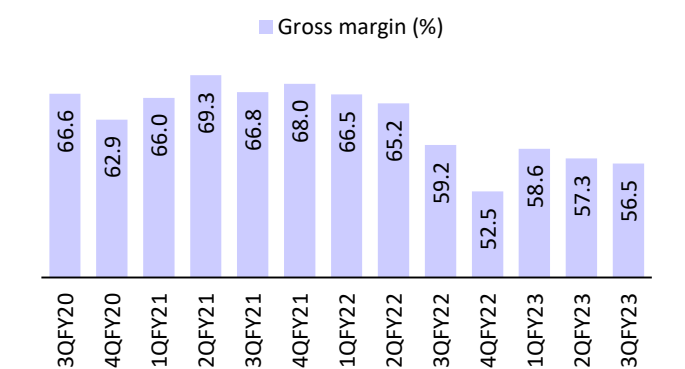
Source: Company, MOFSL

Exhibit 2: EBITDA declined 9.5% YoY to INR1.5b



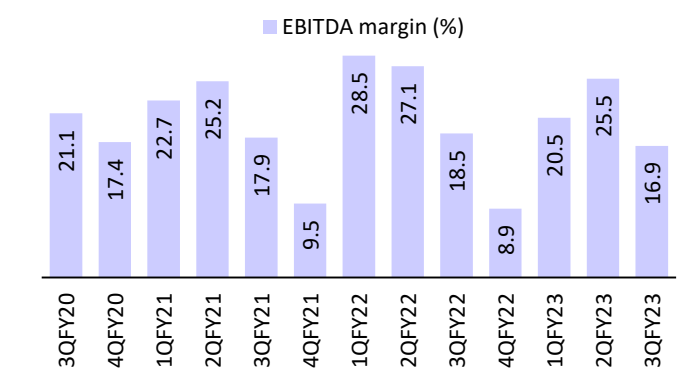
Source: Company, MOFSL

Exhibit 3: Gross margin contracted 270bp YoY to 56.5%



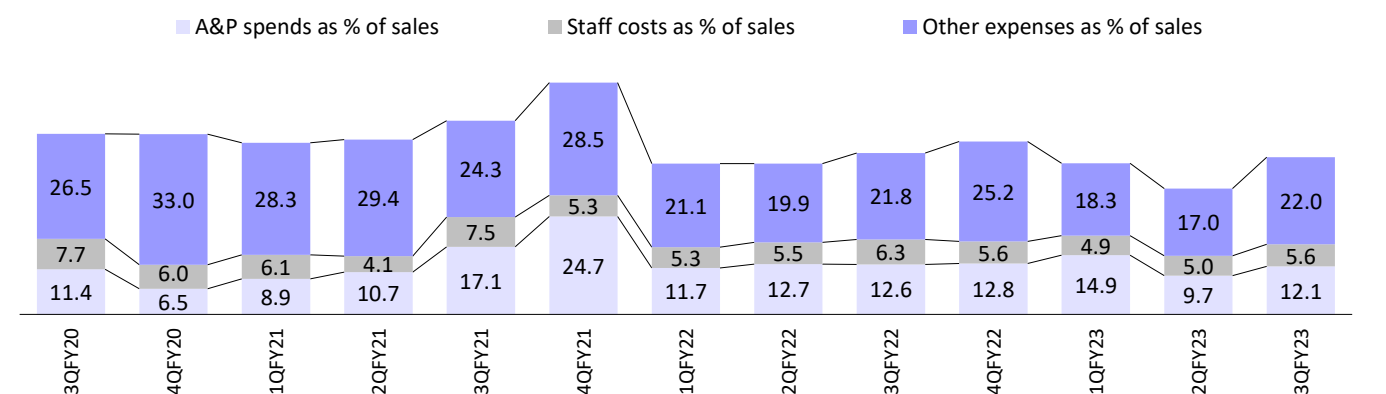
Source: Company, MOFSL

Exhibit 4: EBITDA margin contracted 160bp YoY to 16.9%



Source: Company, MOFSL

Exhibit 5: As a % of sales, ad spends/staff cost declined 50bp/70bp YoY while other expenses rose 20bp YoY



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 of these fronts, dragging the 10-year EBITDA/PAT CAGR to ~12%/~10%.
- 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, 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 at 6.3% in FY22.

Our view on the stock

- We cut our FY23E/FY24E EPS by 3-4%, while there is no material change to our FY25E EPS.
- 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 as well as expensive valuations of 53x FY24E EPS/~44x FY25E EPS lead us to **maintain our Neutral rating**. We value the stock at 50x Mar'25E EPS to arrive at our TP of INR15,050.

Exhibit 6: Our FY23E/FY24E EPS reduce by 4.1%/3.1%, while there is no material change to our FY25E EPS

	New			Old			Change		
(INR m)	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Sales	38,961	46,798	53,835	39,624	46,933	53,986	-1.7%	-0.3%	-0.3%
EBITDA	7,808	11,465	13,728	7,925	11,827	13,766	-1.5%	-3.1%	-0.3%
Adjusted PAT	5,442	8,479	10,212	5,674	8,750	10,241	-4.1%	-3.1%	-0.3%

Source: MOFSL

Exhibit 7: PGHH's P/E (x)

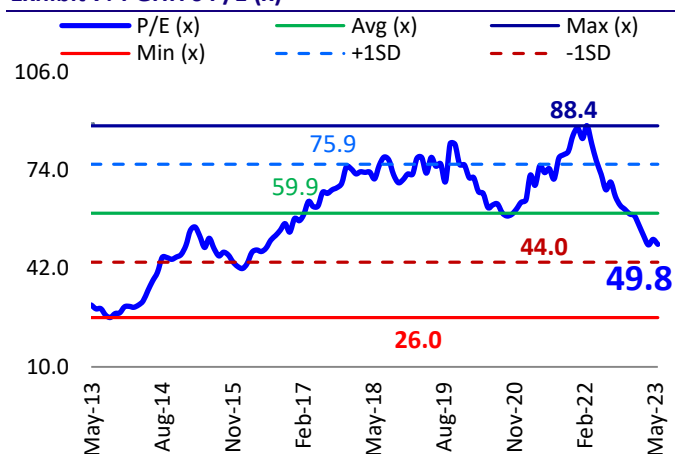
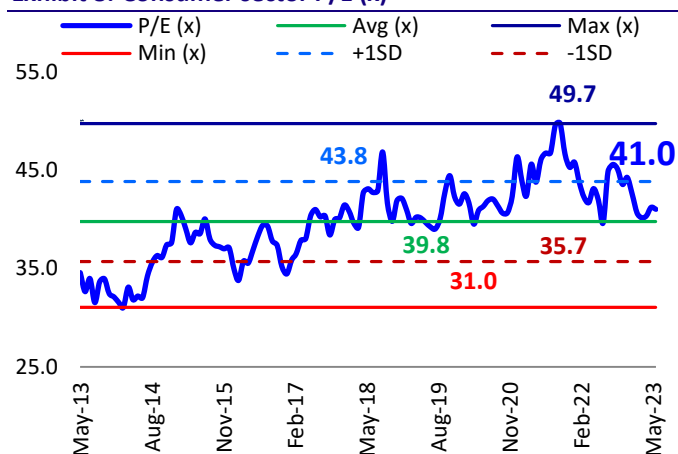


Exhibit 8: Consumer sector P/E (x)



Financials and valuations

Standalone - Income Statement

(INR m)

Y/E June	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Income from Operations	24,553	29,469	30,020	35,741	37,998	38,961	46,798	53,835
Change (%)	5.8	20.0	1.9	19.1	6.3	2.5	20.1	15.0
Raw Materials	9,487	12,368	11,068	11,593	14,582	16,387	17,783	20,296
% of Sales	38.6	42.0	36.9	32.4	38.4	42.1	38.0	37.7
Employees Cost	1,152	1,338	1,733	2,017	2,143	2,143	2,480	2,853
% 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	12,623	15,069	16,958
% of Sales	31.1	32.8	36.7	42.4	34.1	32.4	32.2	31.5
Total Expenditure	18,273	23,376	23,804	28,770	29,699	31,153	35,332	40,107
% of Sales	74.4	79.3	79.3	80.5	78.2	80.0	75.5	74.5
EBITDA	6,280	6,093	6,216	6,972	8,299	7,808	11,465	13,728
Margin (%)	25.6	20.7	20.7	19.5	21.8	20.0	24.5	25.5
Depreciation	524	498	479	477	529	579	598	620
EBIT	5,756	5,595	5,738	6,495	7,770	7,229	10,867	13,108
Int. and Finance Charges	53	55	61	61	112	90	55	55
Other Income	241	533	441	394	243	330	524	600
PBT bef. EO Exp.	5,944	6,073	6,118	6,828	7,901	7,469	11,336	13,653
EO Items	-82		-105	1,450	-101	575	0	0
PBT after EO Exp.	5,862	6,073	6,013	8,277	7,800	8,044	11,336	13,653
Total Tax	2,116	1,882	1,642	1,759	2,042	2,027	2,857	3,441
Tax Rate (%)	36.1	31.0	27.3	21.3	26.2	25.2	25.2	25.2
Reported PAT	3,746	4,191	4,371	6,518	5,757	6,017	8,479	10,212
Adjusted PAT	3,828	4,191	4,476	5,068	5,858	5,442	8,479	10,212
Change (%)	-11.5	9.5	6.8	13.2	15.6	-7.1	55.8	20.4
Margin (%)	15.6	14.2	14.9	14.2	15.4	14.0	18.1	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	8,170	9,018	11,061
Net Worth	8,055	9,091	11,579	7,143	7,376	8,495	9,343	11,385
Deferred Tax Liabilities	-230	-368	-296	-380	-519	-571	-628	-691
Total Loans	0	0	15	35	19	19	19	19
Capital Employed	7,825	8,723	11,298	6,797	6,876	7,944	8,734	10,714
Gross Block	3,975	4,000	4,495	4,719	5,012	5,481	5,681	5,881
Less: Accum. Deprn.	1,474	1,657	2,430	2,881	3,376	3,954	4,553	5,173
Net Fixed Assets	2,501	2,342	2,065	1,838	1,637	1,527	1,129	708
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	215	146	222	376	439	200	200	200
Total Investments	0	0	0	0	0	0	0	0
Curr. Assets, Loans&Adv.	11,308	13,315	15,702	13,733	14,218	14,757	17,191	20,935
Inventory	1,236	2,034	2,051	2,493	2,340	2,348	2,821	3,245
Account Receivables	1,485	1,814	1,663	1,424	1,908	2,135	2,821	3,245
Cash and Bank Balance	3,996	5,405	9,025	6,602	6,393	6,696	7,972	10,868
Loans and Advances	4,591	4,063	2,963	3,214	3,578	3,578	3,578	3,578
Curr. Liability & Prov.	6,199	7,080	6,691	9,150	9,417	8,540	9,785	11,129
Account Payables	4,062	5,477	5,313	7,541	7,784	6,836	7,911	9,067
Other Current Liabilities	1,606	895	587	731	710	781	859	945
Provisions	530	709	790	878	923	923	1,015	1,117
Net Current Assets	5,109	6,235	9,011	4,583	4,801	6,217	7,406	9,806
Appl. of Funds	7,825	8,723	11,298	6,797	6,876	7,944	8,734	10,714

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E June	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)								
EPS	117.8	129.0	137.7	156.1	180.5	167.7	260.9	314.2
Cash EPS	134.1	144.5	152.7	170.8	196.8	185.5	279.7	333.7
BV/Share	248.2	280.1	356.7	220.0	227.2	261.7	287.8	350.7
DPS	40	101	105	315	160	151	235	252
Payout (%)	34.0	78.6	78.1	202.0	88.8	90.0	90.0	80.0
Valuation (x)								
P/E	116.4	106.3	99.6	87.8	76.0	81.8	52.6	43.6
Cash P/E	102.3	94.9	89.8	80.3	69.7	73.9	49.0	41.1
P/BV	55.3	49.0	38.4	62.3	60.4	52.4	47.6	39.1
EV/Sales	18.0	14.9	14.5	12.3	11.5	11.3	9.3	8.1
EV/EBITDA	70.2	72.2	70.2	62.9	52.9	56.2	38.1	31.6
Dividend Yield (%)	0.3	0.7	0.8	2.3	1.2	1.1	1.7	1.8
FCF per share	116.3	126.4	130.5	256.2	161.2	154.4	261.7	326.0
Return Ratios (%)								
RoE	57.5	48.9	43.3	54.1	80.7	68.6	95.1	98.5
RoCE	59.8	51.1	44.9	60.0	86.5	76.3	102.2	105.4
Working Capital Ratios								
Asset Turnover (x)	3.1	3.4	2.7	5.3	5.5	4.9	5.4	5.0
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	FY23E	FY24E	FY25E
PBT	5,818	6,073	5,939	8,699	7,901	8,044	11,336	13,653
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	-1,113	87	496
Taxes	-2,731	-2,350	-1,435	-2,534	-2,494	-2,027	-2,857	-3,441
CF from Operations	4,155	4,130	4,741	8,631	5,731	5,243	8,696	10,783
(Inc)/Dec in FA	-381	-28	-503	-315	-497	-230	-200	-200
Free Cash Flow	3,774	4,102	4,237	8,317	5,234	5,013	8,496	10,583
(Pur)/Sale of Investments	0	-7	22	0	0	0	0	0
Others	115	451	1,265	325	246	330	524	600
CF from Investments	-266	416	783	11	-251	100	324	400
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	-4,898	-7,632	-8,170
Interest Paid	-6	-7	-9	-10	-25	-90	-55	-55
Others	0	0	-16	-18	16	-52	-57	-63
CF from Fin. Activity	-1,061	-3,137	-1,903	-11,064	-5,689	-5,040	-7,744	-8,288
Inc/Dec of Cash	2,828	1,409	3,621	-2,423	-210	303	1,276	2,896
Opening Balance	1,168	3,996	5,405	9,025	6,603	6,393	6,696	7,972
Closing Balance	3,996	5,405	9,025	6,603	6,393	6,696	7,972	10,868

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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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