



P&G Hygiene and Healthcare

Estimate changes

TP change

Rating change



CMP: INR17,245

TP: INR16,000 (-7%)

Neutral

Lackluster show; expensive valuations

Bloomberg	PG IN
Equity Shares (m)	32
M.Cap.(INRb)/(USDb)	559.8 / 6.7
52-Week Range (INR)	19250 / 13101
1, 6, 12 Rel. Per (%)	-1/-1/-1
12M Avg Val (INR M)	121

Financials & valuations (INR b)

Y/E June	FY24E	FY25E	FY26E
Sales	41.4	46.2	52.0
Sales Gr. (%)	5.8	11.6	12.6
EBITDA	10.7	11.9	13.6
Margin (%)	25.8	25.9	26.1
Adj. PAT	7.8	8.8	10.1
Adj. EPS (INR)	241.1	271.3	310.0
EPS Gr. (%)	26.0	12.5	14.2
BV/Sh.(INR)	315.6	369.9	432.0

Ratios

RoE (%)	79.5	79.3	77.4
RoCE (%)	86.4	85.8	83.3

Valuations

P/E (x)	71.1	63.2	55.3
P/BV (x)	54.3	46.3	39.7
EV/EBITDA (x)	51.4	45.7	40.0
Div. Yield (%)	1.3	1.3	1.4

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	70.6	70.6	70.6
DII	15.3	15.4	15.3
FII	1.5	1.3	1.1
Others	12.6	12.7	13.0

FII Includes depository receipts

- P&G Hygiene and Healthcare (PGHH) recorded stagnant growth in 2QFY24 (ending in June), falling short of our high single-digit growth expectations. However, PAT increased 10% YoY propelled by a soft RM basket and a favorable product price mix.
- GM expanded 300bp YoY to 60%. Despite flat revenue growth, ad spending rose 14% YoY (11.2% of sales vs. 9.7% YoY). GM limited the EBITDA margin expansion to 180bp YoY at 27% (best margin during the last 8-9 quarters).
- With a portfolio of essentials and healthcare, the company remained focused on product innovation-led customer acquisition. Penetration play will continue, but at a steady pace, despite the high scope of user addition. The stock trades at rich valuations of 63x and 55x P/E of FY25E and FY26E. We do not see any medium-term trigger. **Reiterate Neutral.**

Revenue below expectations; EBITDA in line

- PGHH's 2QFY24 sales remain flat YoY to INR11.3b (est. INR12.4b).
- EBITDA grew 6.6% YoY to INR3.1b (est. INR3.2b).
- PBT/Adj. PAT increased 9.6%/10.1% YoY to INR3.1b/INR2.3b (est. INR2.9b/INR2.4b).
- **The three-year sales/EBITDA CAGR stood at 3.6%/7.2%.**
- Gross margin expanded ~300bp YoY and contracted by 70bp QoQ to 60.2% (est. 59.0%).
- Employee, A&P, and other expenses were -4%, +14% and -3% YoY, respectively.
- As a percentage of sales, employee expenses remained flat YoY/QoQ at 5.0%. Ad spending increased 160bp YoY to 11.3%, and other expenses declined 30bp YoY to 16.7%.
- **EBITDA margin expanded 180bp YoY/230bp QoQ to 27.3% (est. 25.8%).**
- **The Board declared an interim dividend of INR160/share, which included a one-time special dividend of INR60/share to celebrate its 60th year since the commencement of operations.**

Valuation and view

- We cut our EPS by 4/8% in FY24E/FY25E owing to weaker-than-expected 3Q performance and a slow demand environment.
- PGHH's relatively more urban skew than other staples makes it appear susceptible to the impact on sales growth in a subdued demand environment.
- Two factors make PGHH an attractive long-term core holding: 1) robust growth potential in the Feminine Hygiene segment (~68% of FY23 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.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- With a portfolio of essentials and healthcare, the company remained focused on product innovation-led customer acquisition. Penetration play will continue, but at a steady pace, despite the high scope of user addition. However, the stock trades at expensive valuations of 63x and 55x P/E of FY25E and FY26E. We do not see any medium-term trigger. **Our TP of INR16,000 is based on 55xDec'25E EPS; reiterate Neutral.**

Standalone - Quarterly Earnings

(INR m)

Y/E June	FY23				FY24				FY23	FY24	FY24	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	10,428	11,374	8,831	8,491	11,384	11,334	9,449	9,206	39,123	41,373	12,398	-8.6%
YoY Change (%)	-1.5	4.1	-0.9	12.1	9.2	-0.3	7.0	8.4	3.0	5.8	9.0	
Gross profit	6,116	6,513	4,992	4,893	6,932	6,825	5,669	5,522	22,549	24,948	7,315	-6.7%
Margin (%)	58.6	57.3	56.5	57.6	60.9	60.2	60.0	60.0	57.6	60.3	59.0	
EBITDA	2,140	2,905	1,493	2,114	2,849	3,097	2,192	2,536	8,686	10,674	3,200	-3.2%
Growth	-29.0	-2.0	-9.5	215.1	33.1	6.6	46.8	20.0	4.7	22.9	10.2	
Margins (%)	20.5	25.5	16.9	24.9	25.0	27.3	23.2	27.5	22.2	25.8	25.8	
Depreciation	140	144	146	154	143	143	165	157	584	607	156	
Interest	10	39	36	30	19	26	36	39	114	120	35	
Other Income	67	93	144	101	158	156	137	120	406	571	140	
PBT	2,058	2,815	1,456	2,031	2,845	3,085	2,128	2,460	8,395	10,518	3,148	-2.0%
Tax	514	737	380	553	738	796	549	599	2,184	2,682	768	
Rate (%)	25.0	26.2	18.7	27.2	25.9	25.8	25.8	24.4	24.4	25.5	24.4	
Reported PAT	1,544	2,075	1,650	1,478	2,107	2,289	1,579	1,861	6,781	7,836	2,380	
Adj PAT	1,544	2,079	1,075	1,478	2,107	2,289	1,579	1,861	6,210	7,836	2,380	-3.8%
YoY Change (%)	-29.3	-2.0	-4.9	247.2	36.4	10.1	46.8	26.0	6.0	26.2	14.5	
Margins (%)	14.8	18.3	12.2	17.4	18.5	20.2	16.7	20.2	15.9	18.9	19.2	

E: MOFSL Estimates

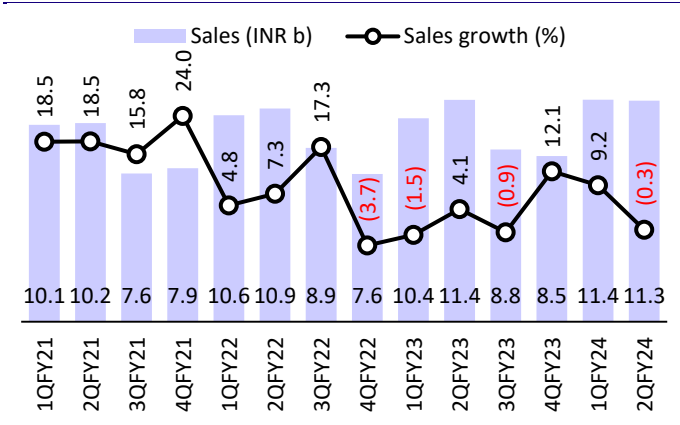
Key Performance Indicators

Y/E June	FY23				FY24	
	1Q	2Q	3Q	4Q	1Q	2Q
2Y average growth (%)						
Sales	1.7	5.7	8.2	4.2	3.8	1.9
EBITDA	1.2	6.7	5.7	102.3	2.1	2.3
PAT	-1.0	7.2	1.8	117.0	3.6	4.1
% of Sales						
COGS	41.4	42.7	43.5	42.4	39.1	39.8
Employee Expenses	4.9	5.0	5.6	5.7	5.6	4.8
A&P Expenses	14.9	9.7	12.1	6.3	13.5	11.2
Other Expenses	18.3	17.0	22.0	20.8	16.8	16.9
Depreciation	1.3	1.3	1.7	1.8	1.3	1.3
YoY change (%)						
COGS	21.7	27.8	5.5	0.0	3.2	-7.2
Employee Expenses	-8.7	-5.0	-11.5	13.7	24.3	-3.9
A&P Expenses	26.2	-20.1	-5.2	-44.8	-1.4	14.4
Other Expenses	-14.6	-11.3	-0.2	-7.8	0.3	-1.0
Other Income	16.0	35.7	139.5	79.4	134.3	67.3
EBIT	-30.7	-2.6	-11.3	270.4	35.3	7.0

E: MOFSL estimates

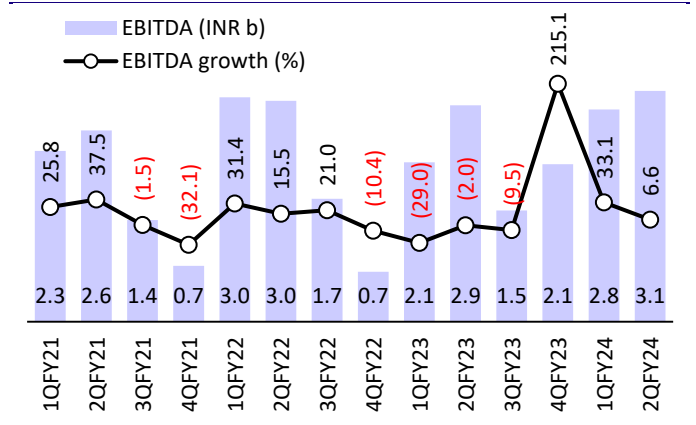
Key exhibits

Exhibit 1: Sales remained flat YoY at INR11.3b



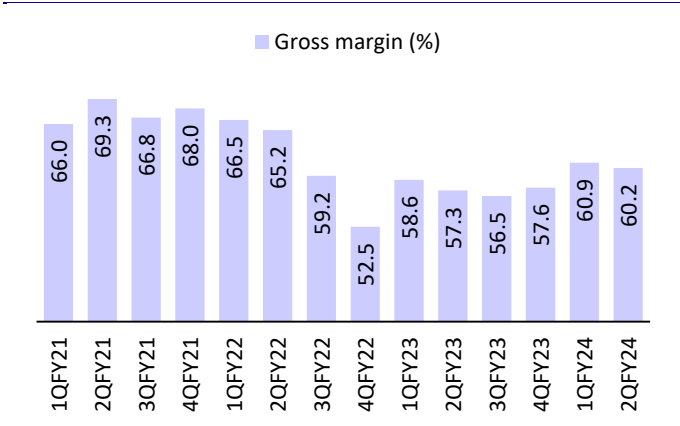
Source: Company, MOFSL

Exhibit 2: EBITDA rose 6.6% YoY to INR3.1b



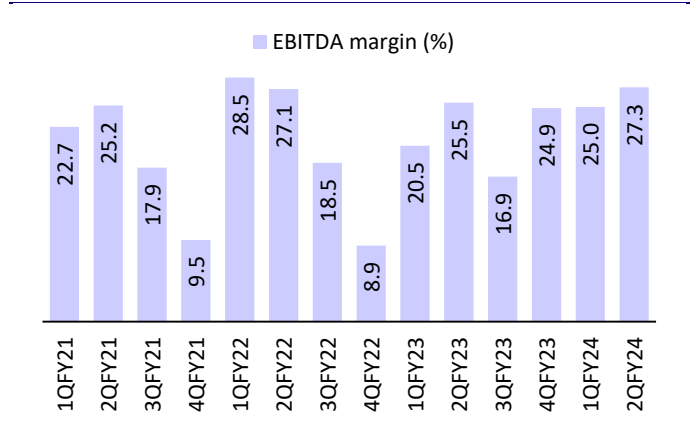
Source: Company, MOFSL

Exhibit 3: Gross margin expanded 290bp YoY to 60.2%



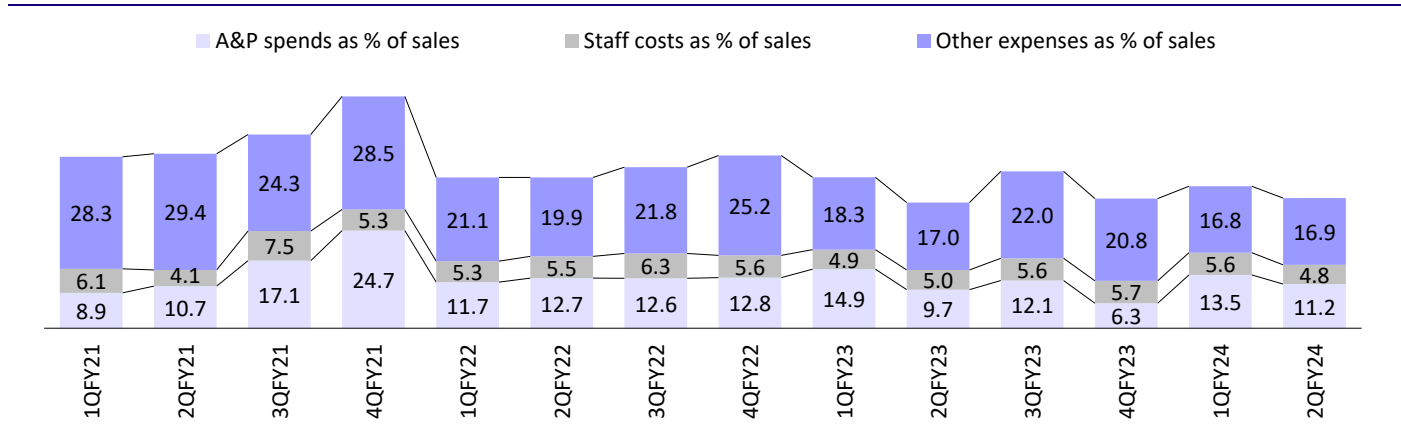
Source: Company, MOFSL

Exhibit 4: EBITDA margin expanded 180bp YoY to 27.3%



Source: Company, MOFSL

Exhibit 5: As a percentage of sales,; ad spending rose 160bp while staff cost and other expenses declined 20bp/30bp



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 FY23, 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, 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

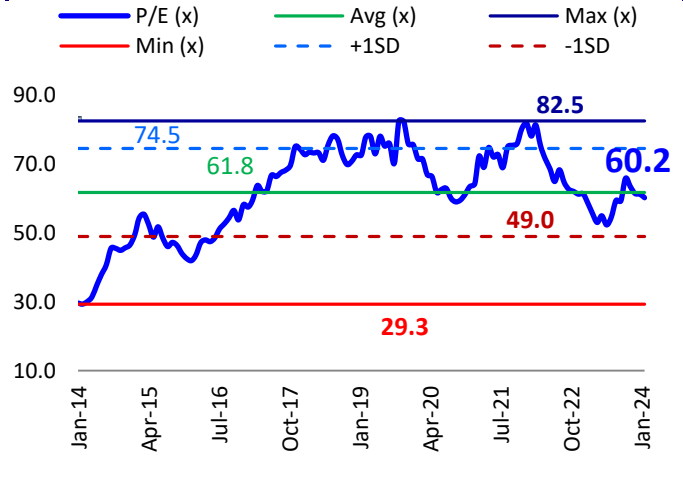
- We cut our EPS by 4/8% in FY24E/FY25E owing to weaker-than-expected 3Q performance and a slow demand environment.
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Exhibit 6: We cut our estimates by ~4-8% for FY24/FY25

INR m	New		Old		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Sales	41,373	46,179	43,615	50,723	-5.1%	-9.0%
EBITDA	10,674	11,937	11,144	12,909	-4.2%	-7.5%
Adjusted PAT	7,836	8,818	8,186	9,545	-4.3%	-7.6%

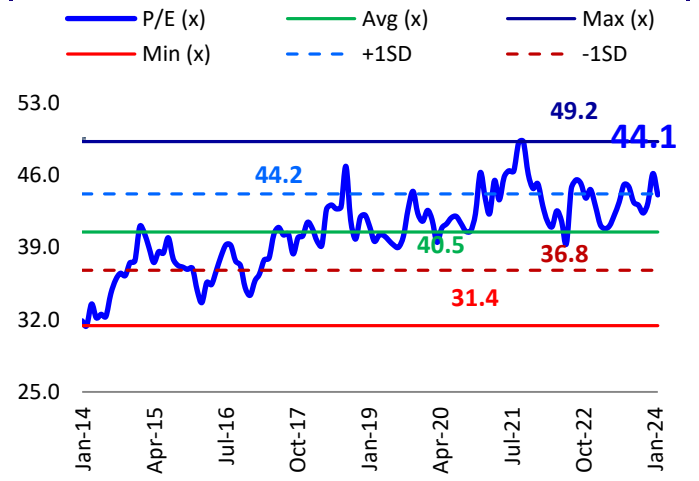
Source: MOFSL

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	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	29,469	30,020	35,741	37,998	39,123	41,373	46,179	51,998
Change (%)	20.0	1.9	19.1	6.3	3.0	5.8	11.6	12.6
Raw Materials	12,368	11,068	11,593	14,582	16,575	16,425	18,010	20,019
% of Sales	42.0	36.9	32.4	38.4	42.4	39.7	39.0	38.5
Employees Cost	1,338	1,733	2,017	2,143	2,058	2,193	2,355	2,600
% of Sales	4.5	5.8	5.6	5.6	5.3	5.3	5.1	5.0
Other Expenses	9,670	11,003	15,160	12,974	11,805	12,081	13,877	15,807
% of Sales	32.8	36.7	42.4	34.1	30.2	29.2	30.1	30.4
Total Expenditure	23,376	23,804	28,770	29,699	30,437	30,699	34,242	38,427
% of Sales	79.3	79.3	80.5	78.2	77.8	74.2	74.2	73.9
EBITDA	6,093	6,216	6,972	8,299	8,686	10,674	11,937	13,572
Margin (%)	20.7	20.7	19.5	21.8	22.2	25.8	25.9	26.1
Depreciation	498	479	477	529	584	607	638	677
EBIT	5,595	5,738	6,495	7,770	8,103	10,067	11,299	12,895
Int. and Finance Charges	55	61	61	112	114	120	115	110
Other Income	533	441	394	243	406	571	605	683
PBT bef. EO Exp.	6,073	6,118	6,828	7,901	8,395	10,518	11,789	13,468
EO Items		-105	1,450	-101	571	0	0	0
PBT after EO Exp.	6,073	6,013	8,277	7,800	8,966	10,518	11,789	13,468
Total Tax	1,882	1,642	1,759	2,042	2,184	2,682	2,971	3,394
Tax Rate (%)	31.0	27.3	21.3	26.2	24.4	25.5	25.2	25.2
Reported PAT	4,191	4,371	6,518	5,757	6,781	7,836	8,818	10,074
Adjusted PAT	4,191	4,476	5,068	5,858	6,210	7,836	8,818	10,074
Change (%)	9.5	6.8	13.2	15.6	6.0	26.2	12.5	14.2
Margin (%)	14.2	14.9	14.2	15.4	15.9	18.9	19.1	19.4

Standalone - Balance Sheet

(INR m)

Y/E June	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	325	325	325	325	325	325	325	325
Total Reserves	8,766	11,254	6,818	7,051	9,136	9,919	11,683	13,698
Net Worth	9,091	11,579	7,143	7,376	9,460	10,244	12,008	14,022
Deferred Tax Liabilities	-368	-296	-380	-519	-655	-721	-793	-872
Total Loans	0	15	35	19	8	8	8	8
Capital Employed	8,723	11,298	6,797	6,876	8,813	9,531	11,223	13,158
Gross Block	4,000	4,495	4,719	5,012	5,582	5,753	5,951	6,151
Less: Accum. Deprn.	1,657	2,430	2,881	3,376	3,881	4,488	5,127	5,803
Net Fixed Assets	2,342	2,065	1,838	1,637	1,700	1,264	824	347
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	146	222	376	439	228	228	228	200
Total Investments	0	0	0	0	0	0	0	0
Curr. Assets, Loans&Adv.	13,315	15,702	13,733	14,231	18,790	17,335	20,486	24,136
Inventory	2,034	2,051	2,493	2,340	2,198	2,494	2,783	3,134
Account Receivables	1,814	1,663	1,424	1,921	2,163	2,494	2,783	3,134
Cash and Bank Balance	5,405	9,025	6,602	6,393	9,780	7,698	10,270	13,218
Loans and Advances	4,063	2,963	3,214	3,578	4,649	4,649	4,649	4,649
Curr. Liability & Prov.	7,080	6,691	9,150	9,431	11,905	9,295	10,315	11,524
Account Payables	5,477	5,313	7,541	7,798	9,711	6,996	7,786	8,742
Other Current Liabilities	895	587	731	710	1,036	1,140	1,254	1,379
Provisions	709	790	878	923	1,158	1,160	1,276	1,403
Net Current Assets	6,235	9,011	4,583	4,801	6,885	8,040	10,171	12,611
Appl. of Funds	8,723	11,298	6,797	6,876	8,813	9,531	11,223	13,158

E: MOFSL Estimates

Financials and valuations

Ratios						(INR m)		
Y/E June	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	129.0	137.7	156.1	180.5	191.3	241.1	271.3	310.0
Cash EPS	144.5	152.7	170.8	196.8	209.3	260.1	291.3	331.2
BV/Share	280.1	356.7	220.0	227.2	291.4	315.6	369.9	432.0
DPS	101	105	315	160	185	217	217	248
Payout (%)	78.6	78.1	202.0	88.8	96.8	90.0	80.0	80.0
Valuation (x)								
P/E	132.9	124.4	109.7	94.9	89.6	71.1	63.2	55.3
Cash P/E	118.6	112.2	100.3	87.1	81.9	65.9	58.8	51.7
P/BV	61.2	48.0	77.9	75.4	58.8	54.3	46.3	39.7
EV/Sales	18.7	18.2	15.4	14.5	14.0	13.3	11.8	10.4
EV/EBITDA	90.4	88.0	78.8	66.3	62.9	51.4	45.7	40.0
Dividend Yield (%)	0.6	0.6	1.8	0.9	1.1	1.3	1.3	1.4
FCF per share	126.4	130.5	256.2	161.2	240.7	141.3	283.7	323.9
Return Ratios (%)								
RoE	48.9	43.3	54.1	80.7	73.8	79.5	79.3	77.4
RoCE	51.1	44.9	60.0	86.5	82.0	86.4	85.8	83.3
Working Capital Ratios								
Asset Turnover (x)	3.4	2.7	5.3	5.5	4.4	4.3	4.1	4.0
Inventory (Days)	20	25	23	23	21	22	22	22
Debtor (Days)	20	21	16	16	19	22	22	22
Creditor (Days)	59	66	66	74	82	60	60	60
Net WCC	-18	-20	-27	-34	-41	-16	-16	-16
Leverage Ratio (x)								
Current Ratio	1.9	2.3	1.5	1.5	1.6	1.9	2.0	2.1
Interest Cover Ratio	102.1	94.5	106.3	69.4	71.2	83.9	98.3	117.2
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	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
PBT	6,073	5,939	8,699	7,901	8,395	10,518	11,789	13,468
Depreciation	498	479	477	529	584	607	638	677
Net interest expense	-317	-266	-250	-154	-237	-451	-490	-573
Others	54	203	139	115	67	0	0	0
(Inc)/Dec in WC	172	-179	2,101	-166	1,745	-3,236	441	508
Taxes	-2,350	-1,435	-2,534	-2,494	-2,295	-2,682	-2,971	-3,394
CF from Operations	4,130	4,741	8,631	5,731	8,258	4,756	9,407	10,686
CF from Operating incl EO	4,130	4,741	8,631	5,731	8,258	4,756	9,407	10,686
(Inc)/Dec in FA	-28	-503	-315	-497	-444	-171	-198	-172
Free Cash Flow	4,102	4,237	8,317	5,234	7,814	4,585	9,209	10,513
Others	451	1,265	325	246	344	571	605	683
CF from Investments	416	783	11	-251	-100	400	407	511
Dividend Paid	-3,131	-1,878	-11,037	-5,681	-4,707	-7,052	-7,055	-8,059
Interest Paid	-7	-9	-10	-25	-51	-120	-115	-110
Others	0	-16	-18	16	-12	-66	-72	-79
CF from Fin. Activity	-3,137	-1,903	-11,064	-5,689	-4,770	-7,238	-7,242	-8,249
Inc/Dec of Cash	1,409	3,621	-2,423	-210	3,387	-2,082	2,572	2,948
Opening Balance	3,996	5,405	9,025	6,603	6,393	9,780	7,698	10,271
Closing Balance	5,405	9,025	6,603	6,393	9,780	7,698	10,271	13,218

E: MOFSL Estimates

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

NOTES

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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