

P&G Hygiene and Healthcare

Estimate changes

TP change

Rating change



Bloomberg	PG IN
Equity Shares (m)	32
M.Cap.(INRb)/(USDb)	368.2 / 4.5
52-Week Range (INR)	12450 / 8500
1, 6, 12 Rel. Per (%)	7/-24/-8
12M Avg Val (INR M)	77

Financials & valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	30.0	35.2	40.7
Sales Gr. (%)	1.9	17.1	15.9
EBITDA	6.2	7.7	9.6
Margins (%)	20.6	22.0	23.5
Adj. PAT	4.4	5.7	7.1
Adj. EPS (INR)	136.5	175.1	218.0
EPS Gr. (%)	8.0	28.3	24.5
BV/Sh.(INR)	356.7	394.7	438.3

Ratios

RoE (%)	42.9	46.7	52.4
RoCE (%)	44.5	48.2	54.0

Valuations

P/E (x)	83.1	64.8	52.0
P/BV (x)	31.8	28.7	25.9
EV/EBITDA (x)	58.2	45.7	36.6
Div. Yield (%)	0.9	1.3	1.5

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	70.6	70.6	70.6
DII	13.5	13.2	12.1
FII	2.5	2.6	3.4
Others	13.4	13.6	13.9

FII Includes depository receipts

CMP: INR11,344

TP: INR11,700 (+3%)

Neutral

Stellar performance; Beat on all fronts

- P&G Hygiene and Healthcare (PGHH) reported a surprisingly strong 18.5% sales growth in 1QFY21 (June year-end) in a difficult operating environment.
- Management's statement in the press release was also encouraging. The press release stated that growth was driven by the Feminine Hygiene segment (67% of FY20 sales), which grew in double-digits (in our view over 20%) compared to the Healthcare segment, which grew in high single-digits. After ~25% growth in the Feminine Hygiene segment in FY19 (and ~20% overall sales growth), this segment had reported flattish growth in FY20 as highlighted in the annual report [note](#) released last week.
- Adjusted for one-offs (amounts and cost heads not shared separately), management stated that comparable earnings growth for the quarter was ~25% v/s reported earnings growth of 86%, which indicates that EBITDA margins while up 130bp YoY, were in line with expectations.
- While the structural opportunity remains attractive in both the Feminine Hygiene and Healthcare segments, valuations are fair at 52x FY22E EPS (June year-end). Maintain **Neutral**.

Sales above expectations; Margins mostly in line

- 1QFY21 sales/EBITDA/PBT/adj. PAT grew 18.5%/25.8%/25%/25.3% YoY to INR10.1b/INR2.3b/INR2.3b/INR1.7b (v/s est. INR8.9b/INR2b/INR2b INR1.5b).
- While management has not provided specifics of one-time items, they have stated that adj. PAT growth for 1QFY21 was up 25%. We have made adjustments to the figures mentioned above based on our assumptions.
- Ad spends declined 13.7% YoY to INR902m, employee expenses grew 46.1% YoY to INR615m, while other expenses (adjusted) rose 49.9% YoY to INR2.9b.
- Gross margins expanded 510bp YoY to 66% (v/s est. 61%).
- As % of sales, ad spends declined by 330bp YoY to 8.9%, employee costs rose by 120bp YoY to 6.1% and other expenses were up by 590bp YoY to 28.3%, leading to a 130bp expansion in EBITDA margins to 22.7% (v/s est. 22.9%).

Highlights from management commentary

- Feminine care business delivered double-digit sales growth, while Healthcare business sales grew in high single-digits during 1QFY21.
- The company's production and services are back to pre-COVID levels.

Valuation and view

- Changes to the model have led to 4.8%/9.5% increase in EPS for FY21/FY22E. We are still assuming 17.1% sales growth for the year despite 18.5% growth in 1QFY21 and weaker base (v/s 1QFY21) as we await more evidence of the sustenance of strong top line growth witnessed in 1QFY21.

- As highlighted in our annual report [note](#) released last week, (a) increasing pace of distribution expansion, (b) continuing strong pace of category development efforts in schools to boost awareness and growth, (c) rising ad spends after a lull in preceding years, (d) healthy pipeline of new products, (e) hastening consumer entry into the category through launches at low price points, and (f) willingness to take price cuts whenever required to boost growth, are all encouraging developments that should aid rapid growth for the company over the long term.
- Although valuations are expensive at 52x FY22E EPS (June year-end), which imply limited near-term upside, two factors make PGHH an attractive long-term core holding: (a) huge category growth potential in the Feminine Hygiene segment (~67% of sales) coupled with potential for market share gains due to considerable moats, and (b) huge potential margin gains from premiumization in the Feminine Hygiene segment over the long term. Maintain **Neutral** with TP of INR11,700 (50x Sep'22E EPS).

Standalone - Quarterly Earnings

Y/E June									(INR m)			
	FY20				FY21				FY20	FY21E	FY21	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	8,521	8,593	6,561	6,345	10,095	9,968	8,069	7,020	30,020	35,152	8,862	13.9%
YoY Change (%)	7.6	5.0	-6.2	-0.5	18.5	16.0	23.0	10.6	1.9	17.1	4.0	
Gross profit	5,190	5,381	4,371	3,990	6,663	6,280	5,084	4,471	18,912	22,497	5,406.0	
Margin (%)	60.9	62.6	66.6	62.9	66.0	63.0	63.0	63.7	63.0	64.0	61.0	
EBITDA	1,822	1,867	1,384	1,103	2,293	2,330	1,884	1,228	6,176	7,733	2,026	13.2%
Growth	-13.1	-2.4	-3.6	70.2	25.8	24.8	36.1	11.3	1.4	25.2	11.2	
Margins (%)	21.4	21.7	21.1	17.4	22.7	23.4	23.3	17.5	20.6	22.0	22.9	
Depreciation	115	115	118	132	118	122	138	146	479	524	135	
Interest	4	22	24	10	4	15	15	21	61	55	10	
Other Income	110	90	145	96	96	110	120	125	441	451	90	
PBT	1,814	1,820	1,388	1,056	2,267	2,303	1,851	1,186	6,078	7,606	1,971	15.0%
Tax	445	461	371	364	552	580	466	316	1,642	2,072	497	
Rate (%)	24.6	25.3	29.0	34.5	19.1	25.2	25.2	26.6	27.5	25.2	25.2	
Adj PAT	1,368	1,359	1,016	692	1,715	1,722	1,384	870	4,436	5,691	1,474	16.3%
YoY Change (%)	0.9	9.5	12.8	13.9	25.3	26.7	36.2	25.8	8.0	28.3	7.7	
Margins (%)	16.1	15.8	15.5	10.9	17.0	17.3	17.2	12.4	14.8	16.2	16.6	

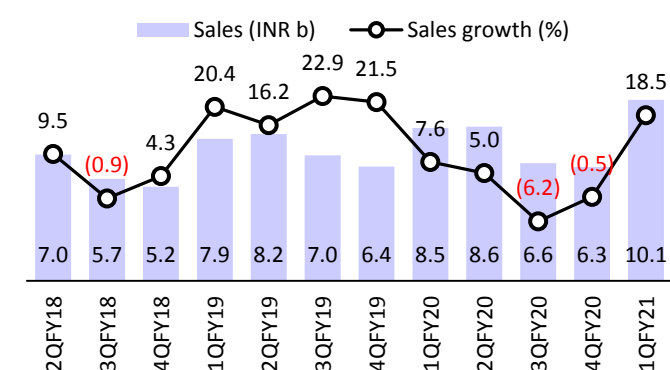
E: MOFSL Estimates

Y/E June	FY20				FY21
	1Q	2Q	3Q	4Q	1Q
2Y average growth (%)					
Sales	14.0	10.6	8.4	10.5	13.0
EBITDA	-0.6	-5.7	-2.8	23.7	6.4
PAT	9.1	2.0	5.7	25.2	13.1
% of Sales					
COGS	39.1	37.4	33.4	37.1	34.0
Employee Expenses	4.9	5.0	7.7	6.0	6.1
A&P Expenses	12.3	12.6	11.4	6.5	8.9
Other Expenses	22.3	23.3	26.5	33.0	28.3
Depreciation	1.3	1.3	1.8	2.1	1.2
YoY change (%)					
COGS	5.7	-11.7	-26.1	-10.0	3.0
Employee Expenses	17.5	16.3	45.2	43.6	46.1
A&P Expenses	25.6	20.4	6.4	-41.5	-13.7
Other Expenses	28.5	47.0	12.3	-2.3	49.9
Other Income	5.6	-22.6	72.2	-1.4	-13.2
EBIT	-13.6	-2.1	-3.4	86.7	27.4

E: MOFSL Estimates

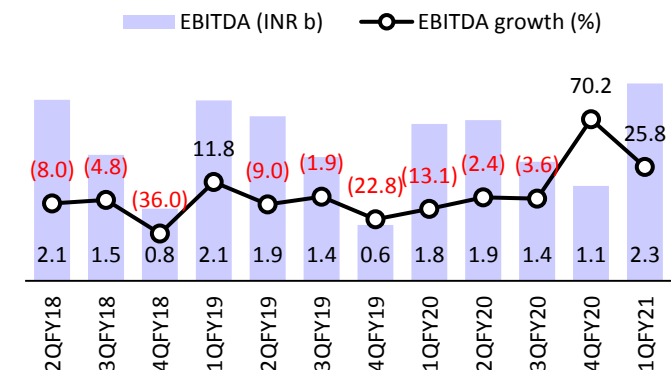
Key exhibits

Exhibit 1: Reported net sales grew 18.5% YoY to INR10.1b



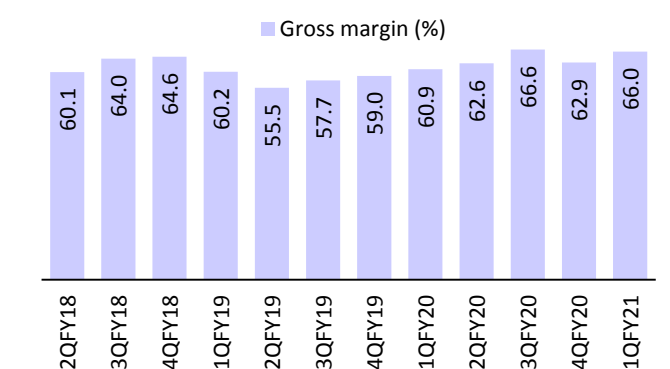
Source: Company, MOFSL

Exhibit 2: EBITDA grew 25.8% YoY to INR2.3b



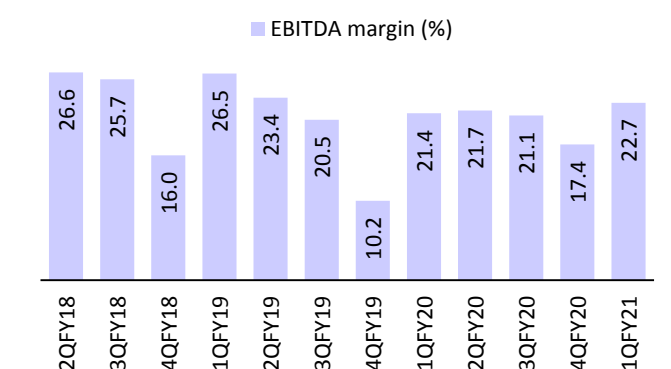
Source: Company, MOFSL

Exhibit 3: Gross margins expanded 510bp YoY to 66%



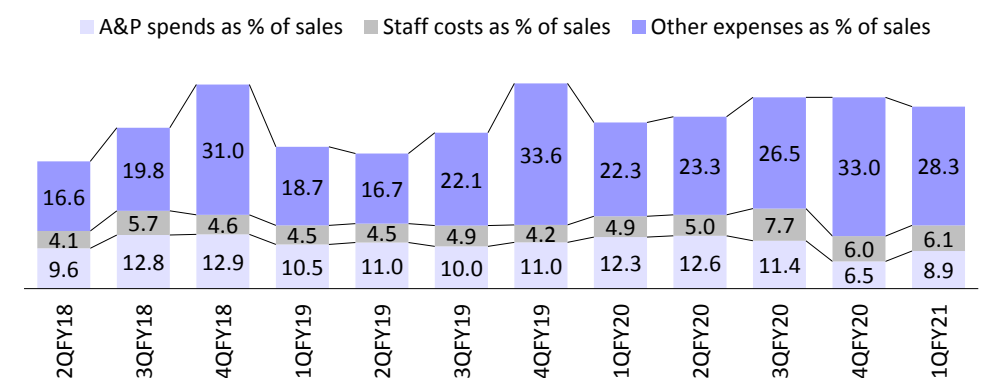
Source: Company, MOFSL

Exhibit 4: EBITDA margins increased 130bp YoY to 22.7%



Source: Company, MOFSL

Exhibit 5: As a % of sales, staff costs grew 120bp YoY, ad spends declined 330bp YoY, and other expenses grew 590bp YoY



Source: Company, MOFSL

Valuation and view

Happenings over the last 10 years

- While PGHH delivered sales/EBITDA/PAT of ~20%/~14%/~12% CAGR in the first half of the decade ending FY20, growth has been much slower at ~5% CAGR on all these fronts in the second half of the decade, dragging down decadal sales/EBITDA/PAT to ~13%/~10%/~8% CAGR.
- Price cuts taken at the beginning of the decade, category development efforts, and an increase in distribution led to EBITDA margin declining over FY10–14, but sales and EBITDA are still growing at a healthy pace.

- In an effort to revitalize sales growth, the company has embarked on a second round of investments in ad spends, distribution expansion, new launches, and price cuts over the past 7-8 quarters. While this yielded strong top line growth in FY19 (20% sales growth), sales growth was tepid in FY20 at 1.9%, weighed down by the slowdown in personal care categories.

Our view on the stock

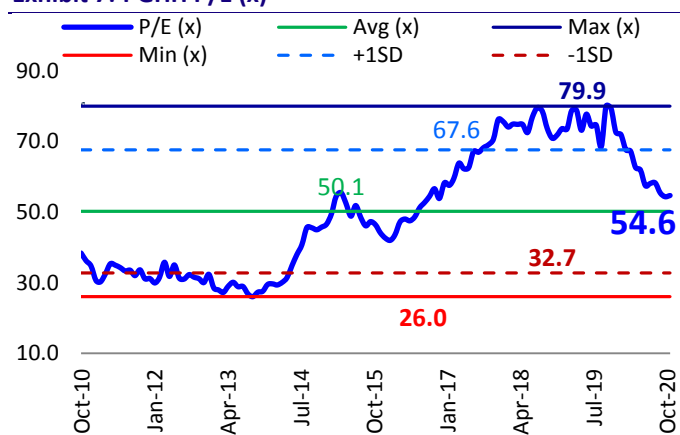
- Changes to the model have led to 4.8%/9.5% increase in EPS for FY21/FY22E. We are still assuming 17.1% sales growth for the year despite 18.5% growth in 1QFY21 and weaker base (v/s 1QFY21) as we await more evidence of the sustenance of strong top line growth witnessed in 1QFY21.
- As highlighted in our annual report [note](#) released last week, (a) increasing pace of distribution expansion, (b) continuing strong pace of category development efforts in schools to boost awareness and growth, (c) rising ad spends after a lull in preceding years, (d) healthy pipeline of new products, (e) hastening consumer entry into the category through launches at low price points, and (f) willingness to take price cuts whenever required to boost growth, are all encouraging developments that should aid rapid growth for the company over the long term.
- Although valuations are expensive at 52x FY22E EPS (June year-end), which imply limited near-term upside, two factors make PGHH an attractive long-term core holding: (a) huge category growth potential in the Feminine Hygiene segment (~67% of sales) coupled with potential for market share gains due to considerable moats, and (b) huge potential margin gains from premiumization in the Feminine Hygiene segment over the long term. Maintain **Neutral** with TP of INR11,700 (50x Sep'22E EPS).
- A key investment is the government considering price caps on Feminine Hygiene products.

Exhibit 6: We have raised our PAT forecasts by 4.8%/9.5% for FY21/FY22E

Change in Estimates	New		Old		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Sales	35,152	40,740	32,733	37,614	7.4%	8.3%
EBITDA	7,733	9,574	7,430	8,802	4.1%	8.8%
Adjusted PAT	5,691	7,084	5,429	6,466	4.8%	9.5%

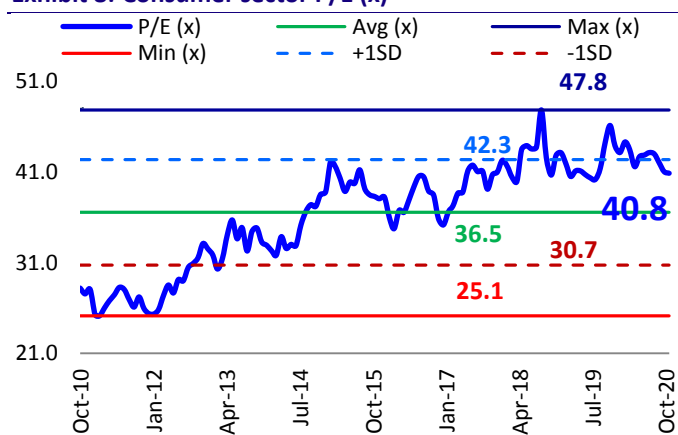
Source: Company, MOFSL

Exhibit 7: PGHH P/E (x)



Source: Company, MOFSL

Exhibit 8: Consumer sector P/E (x)



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

	(INR m)						
Y/E June	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	22,754	23,204	24,553	29,469	30,020	35,152	40,740
Change (%)	-2.5	2.0	5.8	20.0	1.9	17.1	15.9
Raw Materials	8,848	9,150	9,487	12,368	11,108	12,655	14,667
% of Sales	38.9	39.4	38.6	42.0	37.0	36.0	36.0
Employees Cost	1,174	1,141	1,152	1,338	1,733	2,109	2,241
% of Sales	5.2	4.9	4.7	4.5	5.8	6.0	5.5
Other Expenses	6,674	6,267	7,634	9,670	11,003	12,655	14,259
% of Sales	29.3	27.0	31.1	32.8	36.7	36.0	35.0
Total Expenditure	16,696	16,558	18,273	23,376	23,844	27,418	31,166
% of Sales	73.4	71.4	74.4	79.3	79.4	78.0	76.5
EBITDA	6,059	6,646	6,280	6,093	6,176	7,733	9,574
Margin (%)	26.6	28.6	25.6	20.7	20.6	22.0	23.5
Depreciation	517	597	524	498	479	524	579
EBIT	5,542	6,049	5,756	5,595	5,697	7,210	8,995
Int. and Finance Charges	63	104	53	55	61	55	55
Other Income	876	773	241	402	441	451	526
PBT bef. EO Exp.	6,355	6,718	5,944	5,942	6,078	7,606	9,466
EO Items	0	0	-82	85	-105	626	0
PBT after EO Exp.	6,355	6,718	5,862	6,027	5,973	8,232	9,466
Total Tax	2,130	2,390	2,116	1,836	1,642	2,072	2,383
Tax Rate (%)	33.5	35.6	36.1	30.5	27.5	25.2	25.2
Reported PAT	4,225	4,327	3,746	4,191	4,331	6,160	7,084
Adjusted PAT	4,225	4,327	3,828	4,106	4,436	5,691	7,084
Change (%)	22.1	2.4	-11.5	7.3	8.0	28.3	24.5
Margin (%)	18.6	18.6	15.6	13.9	14.8	16.2	17.4

Standalone - Balance Sheet

	(INR m)						
Y/E June	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	325	325	325	325	325	325	325
Total Reserves	16,193	4,937	7,730	8,766	11,254	12,486	13,903
Net Worth	16,518	5,261	8,055	9,091	11,579	12,811	14,227
Deferred Tax Liabilities	-89	-263	-230	-368	-296	-325	-358
Total Loans	0	0	0	0	15	15	15
Capital Employed	16,428	4,999	7,825	8,723	11,298	12,500	13,884
Gross Block	5,819	4,024	3,975	4,145	4,042	4,910	5,430
Less: Accum. Deprn.	2,645	1,167	1,474	1,803	1,977	2,501	3,079
Net Fixed Assets	3,174	2,857	2,501	2,342	2,065	2,409	2,350
Goodwill on Consolidation	0	0	0	0	0	0	0
Capital WIP	347	408	215	146	222	200	200
Total Investments	0	0	0	0	0	0	0
Curr. Assets, Loans & Adv.	18,053	8,073	11,308	13,464	15,702	22,120	25,366
Inventory	1,275	1,774	1,236	2,034	2,051	2,119	2,456
Account Receivables	1,496	1,328	1,485	1,807	1,663	2,119	2,456
Cash and Bank Balance	10,732	1,168	3,996	5,405	9,025	14,901	17,452
Loans and Advances	4,550	3,803	4,591	4,219	2,963	2,982	3,002
Curr. Liability & Prov.	5,146	6,340	6,199	7,229	6,691	12,228	14,032
Account Payables	3,241	3,632	4,062	5,477	5,313	5,840	6,759
Other Current Liabilities	1,838	2,150	1,606	1,043	587	646	711
Provisions	67	558	530	709	790	5,742	6,562
Net Current Assets	12,907	1,733	5,109	6,235	9,011	9,892	11,334
Appl. of Funds	16,428	4,999	7,825	8,723	11,298	12,500	13,884

E: MOFSL Estimates

Financials and valuations

Ratios							
Y/E June	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)							
EPS	130.0	133.1	117.8	126.3	136.5	175.1	218.0
Cash EPS	146.1	151.7	134.1	141.8	151.4	191.5	236.0
BV/Share	508.9	162.1	248.2	280.1	356.7	394.7	438.3
DPS	36.0	389.0	40.0	101.3	105.0	151.8	174.6
Payout (%)	27.7	292.2	34.0	80.2	78.7	80.0	80.0
Valuation (x)							
P/E	87.3	85.2	96.3	89.8	83.1	64.8	52.0
Cash P/E	77.6	74.8	84.6	80.0	74.9	59.2	48.1
P/BV	22.3	70.0	45.7	40.5	31.8	28.7	25.9
EV/Sales	15.7	15.8	14.8	12.3	12.0	10.1	8.6
EV/EBITDA	59.0	55.2	58.0	59.6	58.2	45.7	36.6
Dividend Yield (%)	0.3	3.4	0.4	0.9	0.9	1.3	1.5
FCF per share	92.5	123.7	116.3	126.4	130.5	321.5	239.7
Return Ratios (%)							
RoE	28.2	39.7	57.5	47.9	42.9	46.7	52.4
RoCE	28.6	41.0	59.8	50.4	44.5	48.2	54.0
Working Capital Ratios							
Asset Turnover (x)	1.4	4.6	3.1	3.4	2.7	2.8	2.9
Inventory (Days)	18	24	22	20	22	22	22
Debtor (Days)	19	22	21	20	22	22	22
Creditor (Days)	51	54	57	59	60	60	60
Leverage Ratio (x)							
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Standalone - Cash Flow Statement						(INR m)	
Y/E June	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
PBT	6,355	6,718	5,818	6,073	5,939	8,232	9,466
Depreciation	517	597	524	498	479	524	579
Net interest expense	-785	-644	-147	-317	-266	-396	-471
Others	66	146	225	54	203	0	0
(Inc)/Dec in WC	-615	135	466	172	-179	4,995	1,109
Taxes	-2,013	-2,500	-2,731	-2,350	-1,435	-2,072	-2,383
CF from Operations	3,525	4,453	4,155	4,130	4,741	11,283	8,300
(Inc)/Dec in FA	-523	-438	-381	-28	-503	-846	-520
Free Cash Flow	3,002	4,015	3,774	4,102	4,237	10,437	7,780
(Pur)/Sale of Investments	0	0	0	-7	22	0	0
Others	2,770	2,009	115	451	1,268	411	481
CF from Investments	2,247	1,571	-266	416	786	-435	-39
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	0	0	0	0	0	0	0
Dividend Paid	-1,182	-15,550	-1,055	-3,131	-1,878	-4,928	-5,667
Interest Paid	-35	-37	-6	-7	-12	-55	-55
Others	0	0	0	0	-16	11	12
CF from Fin. Activity	-1,217	-15,587	-1,061	-3,137	-1,906	-4,972	-5,710
Inc/Dec of Cash	4,554	-9,564	2,828	1,409	3,620	5,875	2,552
Opening Balance	6,178	10,732	1,168	3,996	5,405	9,025	14,900
Closing Balance	10,732	1,168	3,996	5,405	9,025	14,900	17,452

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

*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 within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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