

P&G Hygiene and Healthcare

Estimate changes

TP change

Rating change



Bloomberg	PG IN
Equity Shares (m)	32
M.Cap.(INRb)/(USDb)	448.3 / 6.1
52-Week Range (INR)	14100 / 9700
1, 6, 12 Rel. Per (%)	13/17/-18
12M Avg Val (INR M)	107

Financials & valuations (INR b)

Y/E June	2020	2021E	2022E	2023E
Sales	30.0	34.9	41.1	49.6
Sales Gr. (%)	1.9	16.4	17.6	20.7
EBITDA	6.2	7.4	9.9	12.5
Margins (%)	20.6	21.1	24.0	25.2
Adj. PAT	4.4	5.4	7.3	9.4
Adj. EPS (INR)	136.5	166.8	225.8	288.3
EPS Gr. (%)	5.8	22.2	35.3	27.7
BV/Sh.(INR)	356.7	259.8	304.9	362.6
Ratios				
RoE (%)	42.9	54.1	80.0	86.4
RoCE (%)	44.5	56.4	83.4	89.8
Valuations				
P/E (x)	101.2	82.8	61.2	47.9
P/BV (x)	38.7	53.2	45.3	38.1
EV/EBITDA (x)	71.1	60.0	44.7	35.1
Div. Yield (%)	0.8	1.7	1.3	1.7

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	70.6	70.6	70.6
DII	13.5	13.5	12.9
FII	2.5	2.5	2.8
Others	13.3	13.4	13.7

FII Includes depository receipts

CMP: INR13,811
TP: INR15,900 (+15%)
Buy

Topline below our expectations; increase in ad spends augurs well

- P&G Hygiene & Health Care's (PGHH) 3QFY21 sales growth, while healthy at 15.8% YoY, was lower than our expectations, considering: a) the strong momentum in recent quarters; and b) a favorable base, with a 6.2% sales decline in 3QFY20 (June year-ending company).
- There was a steep increase of 73% YoY in advertising spends, translating to ad spends coming in at 17.1% of sales in 3QFY21, much higher than the usual quarterly levels of 9-12% of sales. With gross margin actually above expectations (up 20bp YoY v/s our expectation of a 160bp YoY decline), high ad spends was the key reason for the miss on our EBITDA margin forecasts. The increased ad spends augur well for maintaining the sales growth momentum seen in recent quarters.
- The special dividend of INR150 per share is encouraging. Along with our forecast of 80% dividend payout in coming years, we believe special dividends will be an intermittent feature of the business every 2-3 years, given the healthy cash generation. This also elevates return ratios. Valuations at 47.9x FY23E EPS are not cheap, but best-of-breed structural earnings growth potential and improving RoEs lead us to maintain our **BUY** rating.

Sales disappoint, margin came in lower on increased ad spends

- Sales in 3QFY21 grew 15.8% YoY to INR7.6b** (v/s our estimate of INR8.2b), with EBITDA (adjusted) fell 1.5% to INR1.4b (v/s our expectation of INR2b), PBT (adjusted) declined 1.4% to INR1.4b (v/s our estimate of INR1.9b), and adjusted PAT grew 2.6% to INR1b (v/s our expectation of INR1.5b).
- Reported PAT grew 7.9% to INR983m.
- During 3QFY21, non-current assets held for sale were fully impaired as PGHH was unable to dispose of these assets. Consequently, an impairment loss of INR76.4m has been recognized.
- Gross margin expanded 20bp YoY to 66.8% (v/s our estimate of 65%).**
- Ad spends grew sharply (73.4% YoY) to INR1.3b, employee expenses grew 13.5% to INR570m, while other expenses (adjusted) rose 6.4% to INR1.8b.
- As a percentage of sales, employee costs/other expenses (adjusted) fell 20bp/210bp YoY to 7.5%/24.3%. Ad spends grew 570bp YoY to 17.1%, leading to a 320bp contraction in EBITDA margin to 17.9% (v/s our estimate of 24.1%) in 3QFY21. In 9MFY21, ad spends were up 14.3% YoY and stood at 11.8% of sales, which is slightly elevated when compared to the last three years, where they have been in the 10-11% range.
- Sales/EBITDA/adjusted PAT grew 17.7%/22.7%/25.8% YoY in 9MFY21.

Krishnan Sambamoorthy – Research Analyst (Krishnan.Sambamoorthy@MotilalOswal.com)

Research Analyst: Dhairya Dhruv (Dhairya.Dhruv@MotilalOswal.com)/Kaiwan Jal Olia (kaiwan.o@motilaloswal.com)

Investors are advised to refer through important disclosures made at the last page of the Research Report.

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

Highlights from the management commentary

- Feminine Care and Healthcare businesses delivered strong double-digit growth in 3QFY21.
- The company has declared a special interim dividend of INR150/share of INR10 each. This is noteworthy as we were expecting a final dividend of INR150/share.
- The management continues to focus on superior execution, improving productivity, leading constructive disruption, and strengthening its organization and culture.
- The strategies mentioned above have enabled PGHH to deliver consistent results, thus proving that these strategies will deliver balanced growth over the long-term.

Valuation and view

- While there has been a 7.7% reduction in our FY21E EPS estimate (June year-ending company) due to: a) sales miss, b) much higher ad spends relative to expectations, and c) as we exercise some caution on sales growth in 4Q due to the ongoing lockdowns, there is no significant change to our FY22E/FY23E EPS estimate.
- 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) potential for higher margin gains from premiumization in the Feminine Hygiene segment over the long term.
- While valuations are not cheap at 47.9x FY23E EPS, strong topline and earnings momentum, best-of-breed structural earnings growth potential, and improving RoEs will ensure premium multiples. We maintain our **BUY** rating with a TP of INR15,900/share (targeting 55x FY23E EPS).

Standalone Quarterly Earnings

(INR m)

Y/E June	FY20				FY21				FY20	FY21E	3Q FY21E	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	8,521	8,593	6,561	6,345	10,095	10,184	7,597	7,073	30,020	34,948	8,201	-7.4%
YoY change (%)	7.6	5.0	-6.2	-0.5	18.5	18.5	15.8	11.5	1.9	16.4	25.0	
Gross profit	5,146	5,381	4,371	4,013	6,663	7,056	5,078	4,444	18,912	23,240	5,330	
Margin (%)	60.4	62.6	66.6	63.2	66.0	69.3	66.8	62.8	63.0	66.5	65.0	
EBITDA	1,822	1,867	1,384	1,103	2,293	2,567	1,363	1,151	6,176	7,374	1,980	-31.2%
Growth	-13.1	-2.4	-3.6	70.2	25.8	37.5	-1.5	4.4	1.4	19.4	43.1	
Margin (%)	21.4	21.7	21.1	17.4	22.7	25.2	17.9	16.3	20.6	21.1	24.1	
Depreciation	115	115	118	132	118	120	113	141	479	491	142	
Interest	4	22	24	10	4	21	30	31	61	85	15	
Other Income	110	90	145	96	96	94	148	102	441	439	120	
PBT	1,814	1,820	1,388	1,056	2,267	2,520	1,369	1,082	6,078	7,237	1,943	-29.6%
Tax	445	461	371	364	552	698	326	245	1,642	1,492	490	
Rate (%)	24.6	25.3	29.0	34.5	19.1	21.8	24.9	22.6	27.5	25.2	25.2	
Reported PAT	1,368	1,359	911	692	2,341	2,506	983	837	4,331	4,434	1,454	
Adjusted PAT	1,368	1,359	1,016	692	1,715	1,822	1,042	837	4,436	5,415	1,454	-28.3%
YoY Change (%)	0.9	9.5	12.8	13.9	25.3	34.0	2.6	20.9	5.8	22.1	43.1	
Margin (%)	16.1	15.8	15.5	10.9	17.0	17.9	13.7	11.8	14.8	15.5	17.7	

E: MOFSL estimates

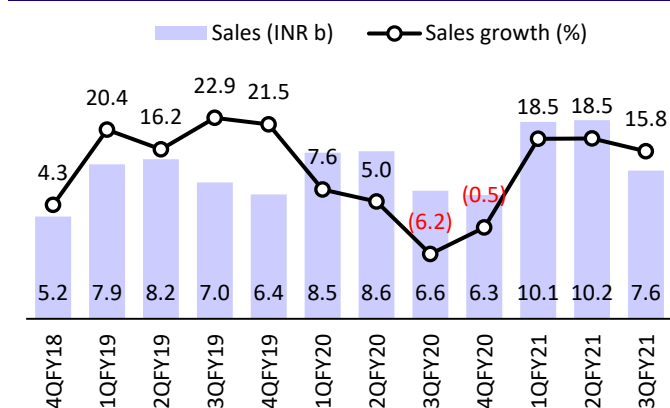
Key Performance Indicators

Y/E June	FY20				FY21		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
2Y average growth (%)							
Sales	14.0	10.6	8.4	10.5	13.0	11.8	4.8
EBITDA	-0.6	-5.7	-2.8	23.7	6.4	17.6	-2.6
PAT	9.1	2.0	5.7	25.2	13.1	21.8	7.7
% of Sales							
COGS	39.6	37.4	33.4	36.8	34.0	30.7	33.2
Employee Expenses	4.9	5.0	7.7	6.0	6.1	4.1	0.4
A&P Expenses	12.3	12.6	11.4	6.5	8.9	10.7	1.8
Other Expenses	21.8	23.3	26.5	33.4	28.3	29.4	3.1
Depreciation	1.3	1.3	1.8	2.1	1.2	1.2	1.5
YoY change (%)							
COGS	7.1	-11.7	-26.1	-10.9	1.7	-2.6	15.0
Employee Expenses	17.5	16.3	45.2	43.6	46.1	-3.6	13.5
A&P Expenses	25.6	20.4	6.4	-41.5	-13.7	0.5	73.4
Other Expenses	25.6	47.0	12.3	-1.3	53.5	49.1	6.4
Other Income	5.6	-22.6	72.2	-1.4	-13.2	3.7	1.6
EBIT	-13.6	-2.1	-3.4	86.7	27.4	39.7	-1.3

E: MOFSL estimates

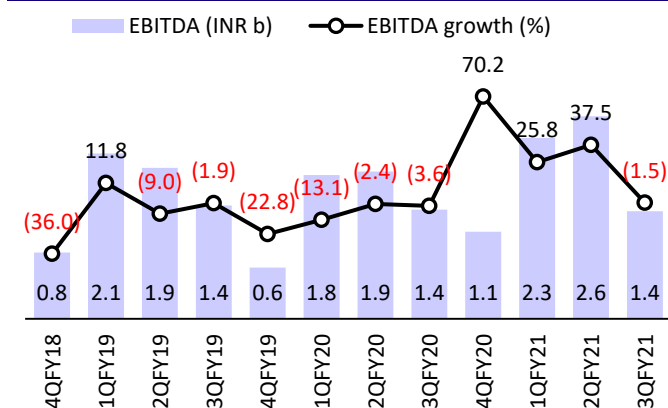
Key exhibits

Exhibit 1: Reported net sales grew 15.8% YoY to INR7.6b



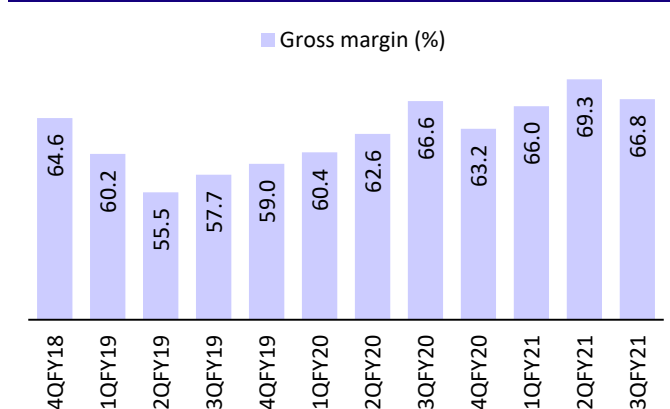
Source: Company, MOFSL

Exhibit 2: EBITDA declines 1.5% YoY to INR1.4b



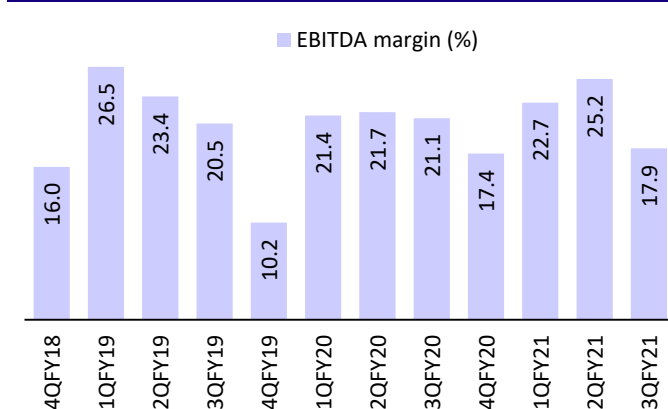
Source: Company, MOFSL

Exhibit 3: Gross margin expands 20bp YoY to 66.8%



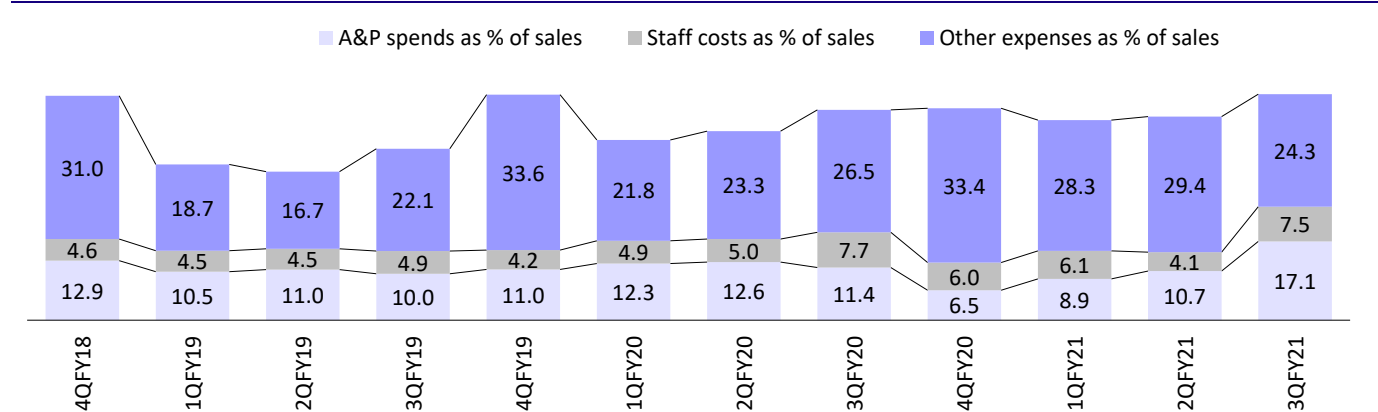
Source: Company, MOFSL

Exhibit 4: EBITDA margin contracts 320bp YoY to 17.9%



Source: Company, MOFSL

Exhibit 5: As a percentage of sales, ad spends grew 570bp YoY, while staff costs/other expenses fell 20bp/210bp



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 (by ~5% CAGR) on all these fronts in the second half, 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 management 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 topline 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

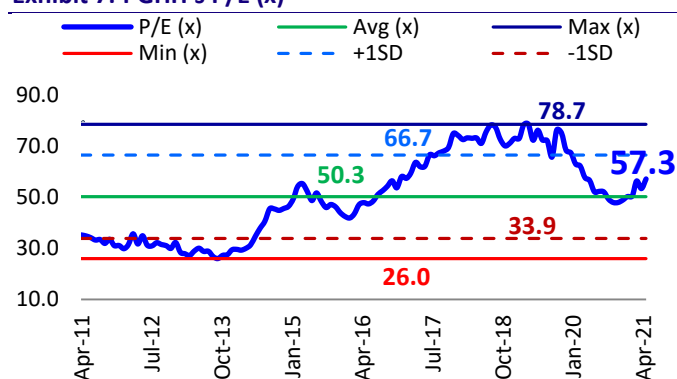
- While there has been a 7.7% reduction in our FY21E EPS estimate (June year-ending company) due to: a) sales miss, b) much higher ad spends relative to expectations, and c) as we exercise some caution on sales growth in 4Q due to the ongoing lockdowns, there is no significant change to our FY22E/FY23E EPS estimate.
- 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) potential for higher margin gains from premiumization in the Feminine Hygiene segment over the long term.
- While valuations are not cheap at 47.9x FY23E EPS, strong topline and earnings momentum, best-of-breed structural earnings growth potential, and improving RoEs will ensure premium multiples. We maintain our **BUY** rating with a TP of INR15,900/share (targeting 55x FY23E EPS).

Exhibit 6: Revise our FY21E/FY22E/FY23E EPS forecasts by -7.7%/-3.1%/2.8%

Change in estimates	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Sales	34,948	41,101	49,614	36,034	41,746	49,667	-3.0	-1.5	-0.1
EBITDA	7,374	9,864	12,503	7,999	10,228	12,218	-7.8	-3.6	2.3
Adjusted PAT	5,415	7,329	9,358	5,869	7,560	9,100	-7.7	-3.1	2.8

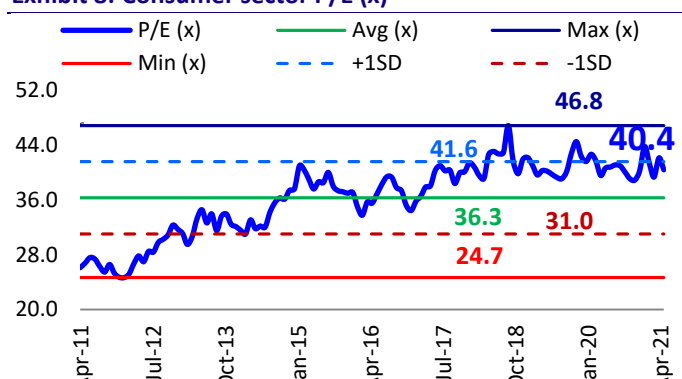
Source: Company, MOFSL

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	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total Income from Operations	22,754	23,204	24,553	29,469	30,020	34,948	41,101	49,614
Change (%)	-2.5	2.0	5.8	20.0	1.9	16.4	17.6	20.7
Raw Materials	8,848	9,150	9,487	12,368	11,108	11,708	13,974	16,869
% of Sales	38.9	39.4	38.6	42.0	37.0	33.5	34.0	34.0
Employees Cost	1,174	1,141	1,152	1,338	1,733	2,097	2,261	2,729
% of Sales	5.2	4.9	4.7	4.5	5.8	6.0	5.5	5.5
Other Expenses	6,674	6,267	7,634	9,670	11,003	13,770	15,002	17,514
% of Sales	29.3	27.0	31.1	32.8	36.7	39.4	36.5	35.3
Total Expenditure	16,696	16,558	18,273	23,376	23,844	27,574	31,237	37,111
% of Sales	73.4	71.4	74.4	79.3	79.4	78.9	76.0	74.8
EBITDA	6,059	6,646	6,280	6,093	6,176	7,374	9,864	12,503
Margin (%)	26.6	28.6	25.6	20.7	20.6	21.1	24.0	25.2
Depreciation	517	597	524	498	479	491	541	594
EBIT	5,542	6,049	5,756	5,595	5,697	6,883	9,323	11,908
Int. and Finance Charges	63	104	53	55	61	85	55	55
Other Income	876	773	241	533	441	439	526	652
PBT bef. EO Exp.	6,355	6,718	5,944	6,073	6,078	7,237	9,794	12,506
EO Items	0	0	-82	0	-105	-1,311	0	0
PBT after EO Exp.	6,355	6,718	5,862	6,073	5,972	5,926	9,794	12,506
Total Tax	2,130	2,390	2,116	1,882	1,642	1,492	2,465	3,148
Tax Rate (%)	33.5	35.6	36.1	31.0	27.5	25.2	25.2	25.2
Reported PAT	4,225	4,327	3,746	4,191	4,331	4,434	7,329	9,358
Adjusted PAT	4,225	4,327	3,828	4,191	4,436	5,415	7,329	9,358
Change (%)	22.1	2.4	-11.5	9.5	5.8	22.1	35.3	27.7
Margin (%)	18.6	18.6	15.6	14.2	14.8	15.5	17.8	18.9

Standalone Balance Sheet

(INR m)

Y/E June	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	325	325	325	325	325	325	325	325
Total Reserves	16,193	4,937	7,730	8,766	11,254	8,107	9,573	11,444
Net Worth	16,518	5,261	8,055	9,091	11,579	8,432	9,897	11,769
Deferred Tax Liabilities	-89	-263	-230	-368	-296	-325	-358	-394
Total Loans	0	0	0	0	15	15	15	15
Capital Employed	16,428	4,999	7,825	8,723	11,298	8,121	9,554	11,390
Gross Block	5,819	4,024	3,975	4,145	4,674	5,347	5,867	6,408
Less: Accum. Deprn.	2,645	1,167	1,474	1,803	2,609	2,906	3,447	4,042
Net Fixed Assets	3,174	2,857	2,501	2,342	2,065	2,441	2,419	2,366
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	347	408	215	146	222	200	200	200
Total Investments	0	0	0	0	0	0	0	0
Curr. Assets, Loans and Adv.	18,053	8,073	11,308	13,315	15,702	12,747	15,359	18,808
Inventory	1,275	1,774	1,236	2,034	2,051	2,106	2,477	2,990
Account Receivables	1,496	1,328	1,485	1,814	1,663	2,106	2,477	2,990
Cash and Bank Balance	10,732	1,168	3,996	5,405	9,025	5,564	7,425	9,839
Loans and Advances	4,550	3,803	4,591	4,063	2,963	2,970	2,979	2,988
Curr. Liability and Prov.	5,146	6,340	6,199	7,080	6,691	7,267	8,424	9,984
Account Payables	3,241	3,632	4,062	5,477	5,313	5,807	6,818	8,217
Other Current Liabilities	1,838	2,150	1,606	895	587	646	711	782
Provisions	67	558	530	709	790	814	896	985
Net Current Assets	12,907	1,733	5,109	6,235	9,011	5,480	6,935	8,824
Appl. of Funds	16,428	4,999	7,825	8,723	11,298	8,121	9,554	11,390

E: MOFSL estimates

Financials and valuations

Ratios

Y/E June	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Basic (INR)								
EPS	130.0	133.1	117.8	129.0	136.5	166.8	225.8	288.3
Cash EPS	146.1	151.7	134.1	144.5	151.4	182.0	242.4	306.6
BV/Share	508.9	162.1	248.2	280.1	356.7	259.8	304.9	362.6
DPS	36.0	389.0	40.0	101.3	105.1	233.6	180.6	230.6
Payout (%)	27.7	292.2	34.0	78.6	78.8	140.0	80.0	80.0
Valuation (x)								
P/E	106.2	103.7	117.3	107.1	101.2	82.8	61.2	47.9
Cash P/E	94.5	91.0	103.0	95.6	91.2	75.9	57.0	45.0
P/BV	27.1	85.2	55.7	49.3	38.7	53.2	45.3	38.1
EV/Sales	19.2	19.3	18.1	15.0	14.6	12.7	10.7	8.8
EV/EBITDA	72.2	67.3	70.8	72.7	71.1	60.0	44.7	35.1
Dividend Yield (%)	0.3	2.8	0.3	0.7	0.8	1.7	1.3	1.7
FCF per share	92.5	123.7	116.3	126.4	130.5	122.9	224.5	287.7
Return Ratios (%)								
RoE	28.2	39.7	57.5	48.9	42.9	54.1	80.0	86.4
RoCE	28.6	41.0	59.8	51.1	44.5	56.4	83.4	89.8
Working Capital Ratios								
Asset Turnover (x)	1.4	4.6	3.1	3.4	2.7	4.3	4.3	4.4
Inventory (Days)	18	24	22	20	25	22	22	22
Debtor (Days)	19	22	21	20	21	22	22	22
Creditor (Days)	51	54	57	59	66	60	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	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
PBT	6,355	6,718	5,818	6,073	5,939	5,926	9,794	12,506
Depreciation	517	597	524	498	479	491	541	594
Net interest expense	-785	-644	-147	-317	-266	-354	-471	-597
Others	66	146	225	54	203	0	0	0
(Inc.)/Dec. in WC	-615	135	466	172	-179	69	407	525
Taxes	-2,013	-2,500	-2,731	-2,350	-1,435	-1,492	-2,465	-3,148
CF from Operations	3,525	4,453	4,155	4,130	4,741	4,641	7,807	9,880
(Inc.)/Dec. in FA	-523	-438	-381	-28	-503	-652	-520	-541
Free Cash Flow	3,002	4,015	3,774	4,102	4,237	3,989	7,287	9,339
(Pur.)/Sale of Investments	0	0	0	-7	22	0	0	0
Others	2,770	2,009	115	451	1,268	216	493	616
CF from Investments	2,247	1,571	-266	416	786	-436	-27	76
Dividend Paid	-1,182	-15,550	-1,055	-3,131	-1,878	-7,581	-5,863	-7,486
Interest Paid	-35	-37	-6	-7	-12	-85	-55	-55
Others	0	0	0	0	-16	0	0	0
CF from Fin. Activity	-1,217	-15,587	-1,061	-3,137	-1,906	-7,666	-5,918	-7,541
Inc./Dec. in Cash	4,554	-9,564	2,828	1,409	3,621	-3,462	1,862	2,414
Opening Balance	6,178	10,732	1,168	3,996	5,405	9,025	5,564	7,425
Closing Balance	10,732	1,168	3,996	5,405	9,025	5,564	7,425	9,839

E: MOFSL estimates

N O T E S

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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