

P&G Hygiene and Healthcare

Estimate changes



TP change



Rating change



Bloomberg	PG IN
Equity Shares (m)	32
M.Cap.(INRb)/(USDb)	425.6 / 5.7
52-Week Range (INR)	14138 / 9594
1, 6, 12 Rel. Per (%)	-3/-9/-17
12M Avg Val (INR M)	117

Financials & valuations (INR b)

Y/E June	2021	2022E	2023E
Sales	35.7	42.3	51.1
Sales Gr. (%)	19.1	18.4	20.6
EBITDA	7.0	9.8	12.9
Margins (%)	19.5	23.2	25.2
Adj. PAT	5.1	7.3	9.6
Adj. EPS (INR)	156.1	224.2	295.8
EPS Gr. (%)	13.4	43.6	31.9
BV/Sh.(INR)	220.0	242.5	272.0

Ratios

RoE (%)	54.1	96.9	115.0
RoCE (%)	60.1	102.9	121.9

Valuations

P/E (x)	84.0	58.5	44.3
P/BV (x)	59.6	54.1	48.2
EV/EBITDA (x)	60.1	42.8	32.5
Div. Yield (%)	2.4	1.5	2.0

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	70.6	70.6	70.6
DII	13.6	13.5	13.2
FII	2.5	2.5	2.6
Others	13.3	13.3	13.6

FII Includes depository receipts

CMP: INR13,113

TP: INR15,530 (+18%)

Buy

Topline momentum healthy; increase in ad spends affects quarterly margin

- P&G Hygiene and Healthcare (PGHH) ended FY21 (June year-end company) with 19.1% sales growth – this is the second year in the preceding three years that it has reported topline growth of over 19%. Thus, after losing momentum in the three years between FY16 and FY18, after the CEO change, the company seems to be back at the 19–20% topline CAGR trajectory seen over FY08–15. For a non-discretionary company, this is very strong topline momentum. With only ~20% penetration in feminine hygiene products (~67% of PGHH FY20 sales), coupled with dominant market leadership and considerable moats, the growth opportunity remains immense.
- 4QFY21 saw revival in sales momentum (+24% YoY), following a small blip in 3QFY21, after strong growth in 1HYF21 (18.5% growth). Gross margins were also higher v/s expectations. However, advertising spends skyrocketed 4.7x YoY during the quarter, leading to the EBITDA and PAT misses. As a result of the very high ad spends in 4QFY21, ad spends as a percentage of sales were up to 14.6% in FY21 v/s 10.9% in FY20.
- Operating leverage, led by healthy sales growth and the relative normalization of ad spends, is likely to lead to healthy margin improvement going forward. This would bolster earnings growth in what is an already strong topline growth story. Maintain **Buy**.

Sales beat; profitability lower than expected due to higher brand investments

- Sales in 4QFY21 grew 24% YoY to INR7.9b** (est. INR7.1b), with EBITDA declining 32.1% YoY to INR749m (est. INR1.2b), PBT declining 36.3% YoY to INR672m (est. INR1.1b), and adj. PAT declining 29.2% YoY to INR490m (est. INR837m).
- Gross margins expanded 520bp YoY to 68% (est. 62.8%).**
- Ad spends grew sharply (372.5% YoY) to INR1.9b, employee expenses 9.9% YoY to INR419m, and other expenses 7.1% YoY to INR2.2b.
- As a percentage of sales, ad spends grew 1,820bp YoY to 24.7%, while employee costs declined 70bp YoY to 5.3% and other expenses were down 450bp YoY to 28.5%. This led to a 790bp contraction in EBITDA margins to 9.5% (est. 16.3%) in 4QFY21. We highlight that ad spends to sales over the last three years have been at 10–11%.
- FY21 sales / EBITDA (adjusted) / adj. PAT grew 19.1%/12.2%/13.2% YoY.
- Average inventory/debtor days in FY21 were lower by two/five days YoY, coming in at 23/16 days. Creditor days remained flat at 66 days. Average net working capital days improved by seven days to -27 days in FY21.

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Highlights from management commentary

- The Feminine Care and Healthcare businesses recorded double-digit growth, outperforming the industry in FY21.
- The company has declared a final dividend of INR80/share. Factoring in the interim dividend of INR85/share and special dividend of INR150/share announced in 2QFY21 and 3QFY21 respectively, the total dividend for the full year was INR315/share.
- Notably, the company had also declared a special interim dividend of INR362/share in FY17. We believe special dividends would be an intermittent feature of the company going forward.
- The strategy to focus on superiority and productivity, enabled by the resilience and agility of the organization, is helping PGHH deliver balanced growth.

Valuation and view

- 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 FY20 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 at 44.3x FY23E EPS are in line with staples peers, PGHH has a stronger topline and earnings track record, best-of-breed structural earnings growth potential, and strongly improving RoEs that deserve premium multiples. We maintain our BUY rating, with TP of INR15,530/share (targeting 50x Sep'23E EPS).

Standalone - Quarterly Earnings

Y/E June	(INR m)											
	FY20				FY21				FY20	FY21	FY21	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Net Sales	8,521	8,593	6,561	6,345	10,095	10,184	7,597	7,866	30,020	35,741	7,073	11.2%
YoY Change (%)	7.6	5.0	-6.2	-0.5	18.5	18.5	15.8	24.0	1.9	19.1	11.5	
Gross profit	5,146	5,381	4,371	3,990	6,663	7,056	5,078	5,352	18,952	24,148	4,444	
Margin (%)	60.4	62.6	66.6	62.9	66.0	69.3	66.8	68.0	63.1	67.6	62.8	
EBITDA	1,822	1,867	1,384	1,103	2,293	2,567	1,363	749	6,216	6,972	1,151	-35.0%
Growth	-13.1	-2.4	-3.6	70.2	25.8	37.5	-1.5	-32.1	2.0	12.2	4.4	
Margins (%)	21.4	21.7	21.1	17.4	22.7	25.2	17.9	9.5	20.7	19.5	16.3	
Depreciation	115	115	118	132	118	120	113	126	479	477	141	
Interest	4	22	24	10	4	21	30	7	61	61	31	
Other Income	110	90	145	96	96	94	148	57	441	394	102	
PBT	1,814	1,820	1,388	1,056	2,267	2,520	1,369	672	6,118	6,828	1,082	-37.8%
Tax	445	461	371	364	552	698	326	183	1,642	1,759	245	
Rate (%)	24.6	25.3	29.0	34.5	17.9	21.8	24.9	27.2	27.3	21.3	22.6	
Reported PAT	1,368	1,359	911	692	2,539	2,506	983	490	4,371	6,518	837	
Adj PAT	1,368	1,359	1,016	692	1,715	1,822	1,042	490	4,476	5,068	837	-41.5%
YoY Change (%)	0.9	9.5	12.8	13.9	25.3	34.0	2.6	-29.2	6.8	13.2	20.9	
Margins (%)	16.1	15.8	15.5	10.9	17.0	17.9	13.7	6.2	14.9	14.2	11.8	

E: MOFSL Estimates

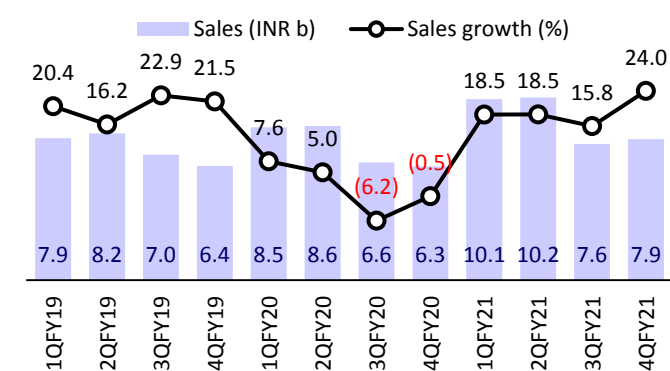
Key Performance Indicators

Y/E June	FY20				FY21			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
2Y average growth (%)								
Sales	14.0	10.6	8.4	10.5	13.0	11.8	4.8	11.7
EBITDA	-0.6	-5.7	-2.8	23.7	6.4	17.6	-2.6	19.0
PAT	9.1	2.0	5.7	25.2	13.1	21.8	7.7	-7.7
% of Sales								
COGS	39.6	37.4	33.4	37.1	34.0	30.7	33.2	32.0
Employee Expenses	4.9	5.0	7.7	6.0	6.1	4.1	0.4	0.5
A&P Expenses	12.3	12.6	11.4	6.5	8.9	10.7	1.8	1.6
Other Expenses	21.8	23.3	26.5	33.0	28.3	29.4	3.1	6.7
Depreciation	1.3	1.3	1.8	2.1	1.2	1.2	1.5	1.6
YoY change (%)								
COGS	7.1	-11.7	-26.1	-10.0	1.7	-2.6	15.0	6.8
Employee Expenses	17.5	16.3	45.2	43.6	46.1	-3.6	13.5	9.9
A&P Expenses	25.6	20.4	6.4	-41.5	-13.7	0.5	73.4	372.5
Other Expenses	25.6	47.0	12.3	-2.3	53.5	49.1	6.4	7.1
Other Income	5.6	-22.6	72.2	-1.4	-13.2	3.7	1.6	-40.1
EBIT	-13.6	-2.1	-3.4	86.7	27.4	39.7	-1.3	-35.9

E: MOFSL estimates

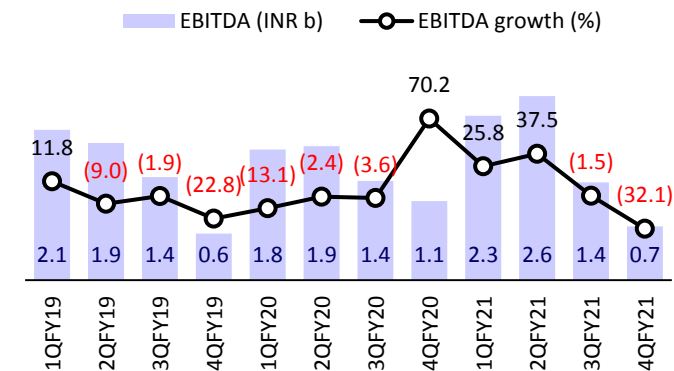
Key exhibits

Exhibit 1: Reported net sales up 24% YoY to INR7.9b



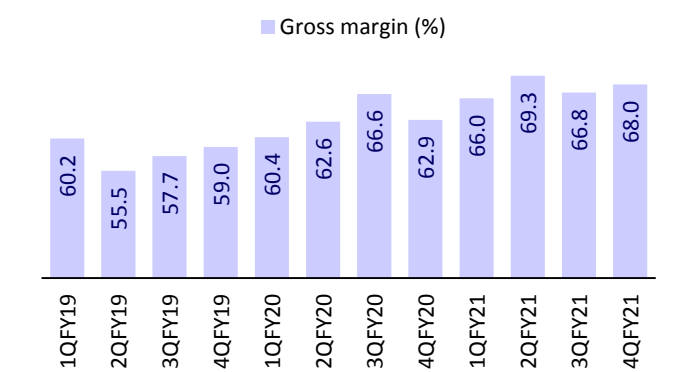
Source: Company, MOFSL

Exhibit 2: EBITDA down 32.1% YoY to INR749m



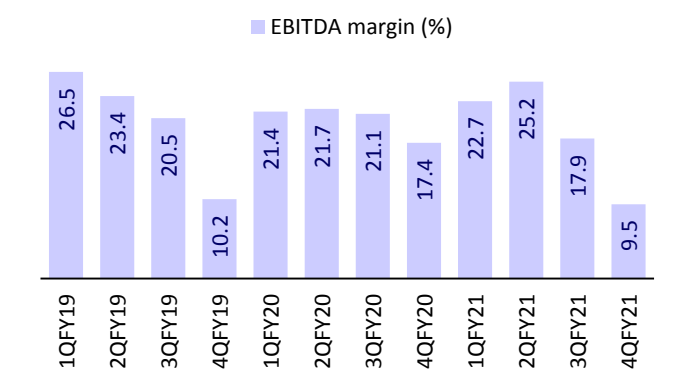
Source: Company, MOFSL

Exhibit 3: Gross margin expands 520bp YoY to 68%

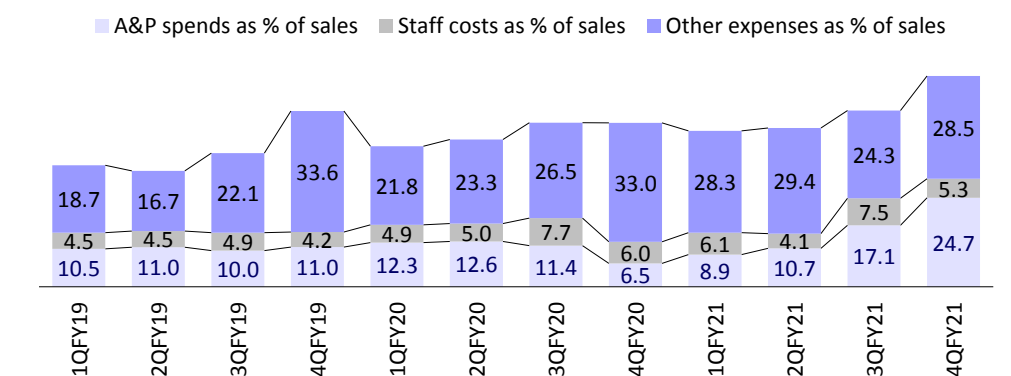


Source: Company, MOFSL

Exhibit 4: EBITDA margin contracts 790bp YoY to 9.5%



Source: Company, MOFSL

Exhibit 5: Ad spends, as % of sales, surge 1,820bp YoY, while staff costs / other expenses fall 70bp/450bp

Source: Company, MOFSL

Valuation and view

Happenings over the last 10 years

- PGHH delivered a sales/EBITDA/PAT CAGR of ~20%/~14%/~12% in the first half of the decade ended FY20. However, growth was much slower (by ~5% CAGR) on all these fronts in the second half, which dragged down the decadal sales/EBITDA/PAT CAGR to ~13%/~10%/~8%.
- Price cuts taken at the start of the decade, category development efforts, and an increase in distribution led to the EBITDA margin declining over FY10–14; 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 spends, distribution expansion, new launches, and price cuts over the past 7–8 quarters. This yielded strong topline growth in FY19 (20% sales growth). On the other hand, sales growth was tepid in FY20 at 1.9%, weighed by a slowdown in the Personal Care category.

Our view on the stock

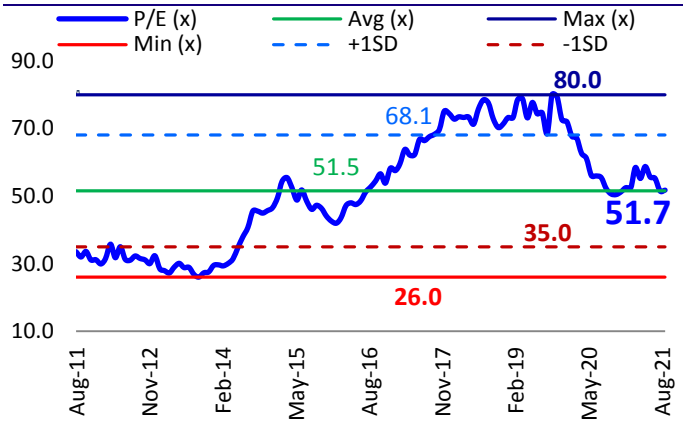
- There is no significant change to our FY22E/FY23E EPS estimate.
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- While valuations at 44.3x FY23E EPS are in line with staples peers, PGHH has a stronger topline and earnings track record, best-of-breed structural earnings growth potential, and strongly improving RoEs that deserve premium multiples. We maintain our BUY rating, with TP of INR15,530/share (targeting 50x Sep'23E EPS).

Exhibit 6: Revise our FY22E/FY23E EPS forecasts by -0.7%/2.6%

Change in estimates	New		Old		Change	
	FY22E	FY23E	FY22E	FY21E	FY22E	FY23E
Net Sales	42,335	51,076	41,101	49,614	3.0%	2.9%
EBITDA	9,822	12,871	9,864	12,503	-0.4%	2.9%
Adjusted PAT	7,277	9,601	7,329	9,358	-0.7%	2.6%

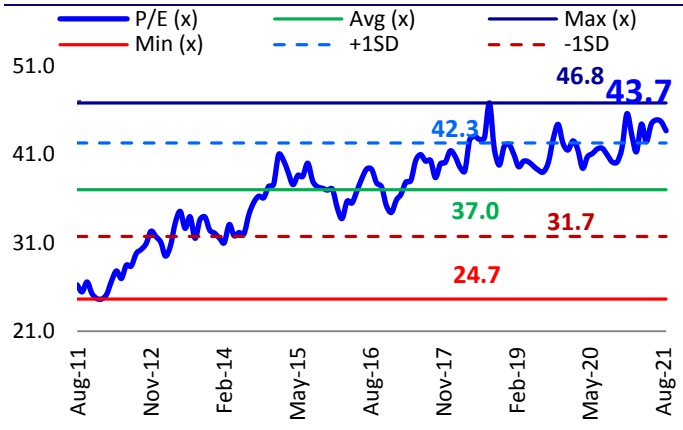
Source: Company, MOFSL

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	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Total Income from Operations	23,204	24,553	29,469	30,020	35,741	42,335	51,076
Change (%)	2.0	5.8	20.0	1.9	19.1	18.4	20.6
Raw Materials	9,150	9,487	12,368	11,068	11,593	13,547	16,089
% of Sales	39.4	38.6	42.0	36.9	32.4	32.0	31.5
Employees Cost	1,141	1,152	1,338	1,733	2,017	2,328	2,809
% of Sales	4.9	4.7	4.5	5.8	5.6	5.5	5.5
Other Expenses	6,267	7,634	9,670	11,003	15,160	16,638	19,307
% of Sales	27.0	31.1	32.8	36.7	42.4	39.3	37.8
Total Expenditure	16,558	18,273	23,376	23,804	28,770	32,513	38,205
% of Sales	71.4	74.4	79.3	79.3	80.5	76.8	74.8
EBITDA	6,646	6,280	6,093	6,216	6,972	9,822	12,871
Margin (%)	28.6	25.6	20.7	20.7	19.5	23.2	25.2
Depreciation	597	524	498	479	477	528	572
EBIT	6,049	5,756	5,595	5,738	6,495	9,294	12,299
Int. and Finance Charges	104	53	55	61	61	55	55
Other Income	773	241	533	441	394	490	591
PBT bef. EO Exp.	6,718	5,944	6,073	6,118	6,828	9,729	12,836
EO Items	0	-82		-105	1,450	0	0
PBT after EO Exp.	6,718	5,862	6,073	6,013	8,277	9,729	12,836
Total Tax	2,390	2,116	1,882	1,642	1,759	2,452	3,235
Tax Rate (%)	35.6	36.1	31.0	27.3	21.3	25.2	25.2
Reported PAT	4,327	3,746	4,191	4,371	6,518	7,277	9,601
Adjusted PAT	4,327	3,828	4,191	4,476	5,068	7,277	9,601
Change (%)	2.4	-11.5	9.5	6.8	13.2	43.6	31.9
Margin (%)	18.6	15.6	14.2	14.9	14.2	17.2	18.8

Standalone - Balance Sheet

	(INR m)						
Y/E June	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	325	325	325	325	325	325	325
Total Reserves	4,937	7,730	8,766	11,254	6,818	7,546	8,506
Net Worth	5,261	8,055	9,091	11,579	7,143	7,870	8,831
Deferred Tax Liabilities	-263	-230	-368	-296	-380	-418	-460
Total Loans	0	0	0	15	2	2	2
Capital Employed	4,999	7,825	8,723	11,298	6,764	7,454	8,372
Gross Block	4,024	3,975	4,145	4,674	5,105	5,644	6,185
Less: Accum. Deprn.	1,167	1,474	1,803	2,609	3,267	3,419	3,991
Net Fixed Assets	2,857	2,501	2,342	2,065	1,838	2,225	2,194
Goodwill on Consolidation	0	0	0	0	0	0	0
Capital WIP	408	215	146	222	376	200	200
Total Investments	0	0	0	0	0	0	0
Curr. Assets, Loans&Adv.	8,073	11,308	13,315	15,702	13,733	14,328	16,705
Inventory	1,774	1,236	2,034	2,051	2,493	3,016	3,079
Account Receivables	1,328	1,485	1,814	1,663	1,424	3,016	2,799
Cash and Bank Balance	1,168	3,996	5,405	9,025	6,602	5,410	7,942
Loans and Advances	3,803	4,591	4,063	2,963	3,214	2,886	2,886
Curr. Liability & Prov.	6,340	6,199	7,080	6,691	9,183	9,299	10,727
Account Payables	3,632	4,062	5,477	5,313	7,541	7,549	8,802
Other Current Liabilities	2,150	1,606	895	587	764	840	924
Provisions	558	530	709	790	878	911	1,002
Net Current Assets	1,733	5,109	6,235	9,011	4,550	5,029	5,978
Appl. of Funds	4,999	7,825	8,723	11,298	6,764	7,454	8,372

E: MOFSL Estimates

Financials and valuations

Ratios							
Y/E June	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)							
EPS	133.1	117.8	129.0	137.7	156.1	224.2	295.8
Cash EPS	151.7	134.1	144.5	152.7	170.8	240.5	313.4
BV/Share	162.1	248.2	280.1	356.7	220.0	242.5	272.0
DPS	389	40	101	105	315	202	266
Payout (%)	292.2	34.0	78.6	78.1	202.0	90.0	90.0
Valuation (x)							
P/E	98.5	111.3	101.7	95.2	84.0	58.5	44.3
Cash P/E	86.4	97.8	90.8	85.9	76.8	54.5	41.8
P/BV	80.9	52.8	46.8	36.8	59.6	54.1	48.2
EV/Sales	18.3	17.2	14.3	13.9	11.7	9.9	8.2
EV/EBITDA	63.9	67.1	69.0	67.0	60.1	42.8	32.5
Dividend Yield (%)	3.0	0.3	0.8	0.8	2.4	1.5	2.0
FCF per share	123.7	116.3	126.4	130.5	256.2	164.4	329.0
Return Ratios (%)							
RoE	39.7	57.5	48.9	43.3	54.1	96.9	115.0
RoCE	41.0	59.8	51.1	44.9	60.1	102.9	121.9
Working Capital Ratios							
Asset Turnover (x)	4.6	3.1	3.4	2.7	5.3	5.7	6.1
Inventory (Days)	24	22	20	25	23	26	22
Debtor (Days)	22	21	20	21	16	26	20
Creditor (Days)	54	57	59	66	66	64	62
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	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
PBT	6,718	5,818	6,073	5,939	8,699	9,729	12,836
Depreciation	597	524	498	479	477	528	572
Net interest expense	-644	-147	-317	-266	-250	-435	-536
Others	146	225	54	203	139	0	0
(Inc)/Dec in WC	135	466	172	-179	2,101	-1,670	1,582
Taxes	-2,500	-2,731	-2,350	-1,435	-2,534	-2,452	-3,235
CF from Operations	4,453	4,155	4,130	4,741	8,631	5,700	11,219
(Inc)/Dec in FA	-438	-381	-28	-503	-315	-363	-541
Free Cash Flow	4,015	3,774	4,102	4,237	8,317	5,337	10,678
(Pur)/Sale of Investments	0	0	-7	22	0	0	0
Others	2,009	115	451	1,265	325	76	550
CF from Investments	1,571	-266	416	783	11	-287	9
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	0	0	0	0	0	0	0
Dividend Paid	-15,550	-1,055	-3,131	-1,878	-11,037	-6,550	-8,641
Interest Paid	-37	-6	-7	-9	-10	-55	-55
Others	0	0	0	-16	-18	0	0
CF from Fin. Activity	-15,587	-1,061	-3,137	-1,903	-11,064	-6,605	-8,696
Inc/Dec of Cash	-9,564	2,828	1,409	3,621	-2,423	-1,192	2,531
Opening Balance	10,732	1,168	3,996	5,405	9,025	6,603	5,410
Closing Balance	1,168	3,996	5,405	9,025	6,603	5,410	7,942

E: MOFSL Estimates

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

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