

P&G Hygiene and Healthcare

Estimate changes

TP change

Rating change



Bloomberg	PG IN
Equity Shares (m)	32
M.Cap.(INRb)/(USDb)	521.6 / 6.3
52-Week Range (INR)	19180 / 13314
1, 6, 12 Rel. Per (%)	-6/-22/-10
12M Avg Val (INR M)	137

Financials & valuations (INR b)

Y/E June	FY24E	FY25E	FY26E
Sales	42.3	46.5	51.0
Sales Gr. (%)	8.2	10.0	9.6
EBITDA	11.2	12.5	13.8
Margin (%)	26.4	26.8	27.0
Adj. PAT	8.2	9.2	10.2
Adj. EPS (INR)	252.1	283.6	314.7
EPS Gr. (%)	31.8	12.5	11.0
BV/Sh.(INR)	307.1	363.9	426.9

Ratios

RoE (%)	84.3	84.6	79.7
RoCE (%)	89.8	91.7	85.8

Valuations

P/E (x)	63.7	56.6	51.0
P/BV (x)	52.3	44.1	37.6
EV/EBITDA (x)	46.0	41.0	36.9
Div. Yield (%)	1.4	1.4	1.6

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	70.6	70.6	70.6
DII	15.1	15.3	15.4
FII	1.6	1.5	1.1
Others	12.7	12.6	12.9

FII Includes depository receipts

CMP: INR16,059

TP: INR17,000 (+6%)

Neutral

Better-than-expected print; but valuations expensive

- P&G Hygiene and Healthcare (PGHH) delivered healthy sales growth of 13.5% in 3QFY24 (FY ending June), which was better than our expectation. This growth was led by a combination of product-price mix, premiumization, and strong retail execution. The growth was much better than our expectation (of 6%) and PGHH's recent performance (+4% YoY in 1HFY24).
- GM expanded 980bp/600bp YoY/QoQ to 66%. Ad spending rose 26% YoY (13.4% of sales vs. 12.1% YoY). EBITDA margin improved 880bp YoY to 26%. EBITDA jumped 72% YoY on a favorable base of a 10% decline in 3QFY23.
- With a portfolio of essentials and healthcare, the company remained focused on product innovation-led customer acquisition. Penetration play would continue, but at a steady pace, despite the high scope of user additions. The stock trades at expensive valuations of 57x/51x FY25E/ FY26E P/E. **We reiterate Neutral rating on the stock.**

Sales and margins are above expectations

- **Three-year sales CAGR at 10%:** PGHH's sales rose 13.5% YoY to INR10.0b (est. INR9.4b). Strong retail execution and premiumization resulted in accelerated growth, with three-year sales CAGR of 10%.
- **Beat on margin:** Gross margin expanded 980bp YoY and 600bp QoQ to 66% (est. 59%). Employee, A&P, and other expenses rose 21%, 26%, and 10% YoY, respectively. As a percentage of sales, employee expenses increased 40bp YoY to 6.0%. Ad spending increased 130bp YoY to 13.4%, while other expenses declined 80bp YoY to 16.7% during the quarter.
- **Strong APAT growth:** EBITDA jumped 72% YoY to INR2.6b (est. INR2.0b) on a favorable base of last year (down 10% YoY in 3QFY23). EBITDA margin expanded 880bp YoY, but contracted 170bp QoQ to 25.7% (est. 21.5%). There was a prior period interest cost of INR193m and taxes of INR166m. Adjusting for these expenses, adj. PAT jumped 72% YoY to INR1.8b (est. INR1.5b).

Valuation and view

- We raise our EPS by 4%/4%/2% for FY24E/FY25E/FY26E owing to better-than-expected growth and margin delivery.
- 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.
- With a portfolio of essentials and healthcare, the company remained focused on product innovation-led customer acquisition. Penetration play would continue, but at a stable pace, despite the high scope of user additions. The stock trades at expensive valuations of 57x/51x FY25E/ FY26E P/E. Further, we do not see any medium-term trigger. **Our TP of INR17,000 is based on 55xMar'26E EPS; reiterate Neutral.**

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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.

Standalone - Quarterly Earnings

(INR m)

Y/E June	FY23				FY24				FY23	FY24	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	
Net Sales	10,428	11,374	8,831	8,491	11,384	11,334	10,022	9,576	39,123	42,315	9,361	7.1%
YoY Change (%)	-1.5	4.1	-0.9	12.1	9.2	-0.3	13.5	12.8	3.0	8.2	6.0	
Gross profit	6,116	6,513	4,992	4,893	6,932	6,825	6,644	6,257	22,549	26,659	5,523	20.3%
Margin (%)	58.6	57.3	56.5	57.6	60.9	60.2	66.3	65.3	57.6	63.0	59.0	
EBITDA	2,140	2,905	1,493	2,114	2,849	3,097	2,573	2,652	8,686	11,171	2,011	27.9%
Growth	-29.0	-2.0	-9.5	215.1	33.1	6.6	72.4	25.4	4.7	28.6	34.7	
Margins (%)	20.5	25.5	16.9	24.9	25.0	27.3	25.7	27.7	22.2	26.4	21.5	
Depreciation	140	144	146	154	143	143	145	158	584	589	165	
Interest	10	39	36	30	19	26	224	44	114	313	36	
Other Income	67	93	144	101	158	156	136	146	406	595	150	
PBT	2,058	2,815	1,456	2,031	2,845	3,085	2,339	2,595	8,395	10,864	1,960	19.4%
Tax	514	737	380	553	738	796	796	651	2,184	2,981	506	
Rate (%)	25.0	26.2	18.7	27.2	25.9	25.8	34.0	25.1	24.4	27.4	25.8	
Reported PAT	1,544	2,075	1,650	1,478	2,107	2,289	1,544	1,944	6,781	7,883	1,454	
Adj PAT	1,544	2,079	1,075	1,478	2,107	2,289	1,854	1,944	6,210	8,194	1,454	27.5%
YoY Change (%)	-29.3	-2.0	-4.9	247.2	36.4	10.1	72.5	31.5	6.0	31.9	35.3	
Margins (%)	14.8	18.3	12.2	17.4	18.5	20.2	18.5	20.3	15.9	19.4	15.5	

E: MOFSL Estimates

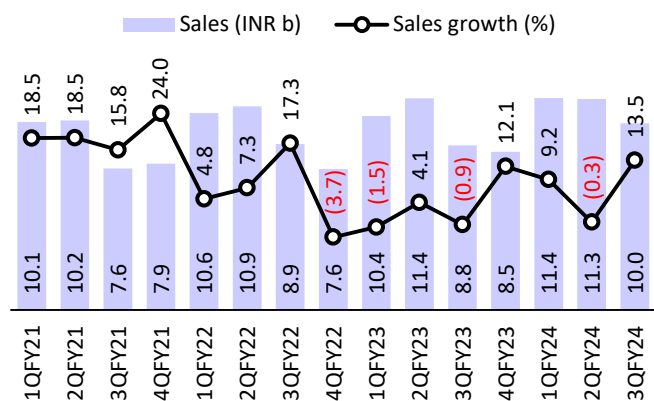
Key Performance Indicators

Y/E June	FY23				FY24		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
2Y average growth (%)							
Sales	1.7	5.7	8.2	4.2	3.8	1.9	6.3
EBITDA	1.2	6.7	5.7	102.3	2.1	2.3	31.4
PAT	-1.0	7.2	1.8	117.0	3.6	4.1	33.8
% of Sales							
COGS	41.4	42.7	43.5	42.4	39.1	39.8	33.7
Employee Expenses	4.9	5.0	5.6	5.7	5.6	4.8	6.0
A&P Expenses	14.9	9.7	12.1	6.3	13.5	11.2	13.4
Other Expenses	18.3	17.0	22.0	20.8	16.8	16.9	21.2
Depreciation	1.3	1.3	1.7	1.8	1.3	1.3	1.5
YoY change (%)							
COGS	21.7	27.8	5.5	0.0	3.2	-7.2	-12.0
Employee Expenses	-8.7	-5.0	-11.5	13.7	24.3	-3.9	21.3
A&P Expenses	26.2	-20.1	-5.2	-44.8	-1.4	14.4	25.9
Other Expenses	-14.6	-11.3	-0.2	-7.8	0.3	-1.0	9.8
Other Income	16.0	35.7	139.5	79.4	134.3	67.3	-5.9
EBIT	-30.7	-2.6	-11.3	270.4	35.3	7.0	80.2

E: MOFSL estimates

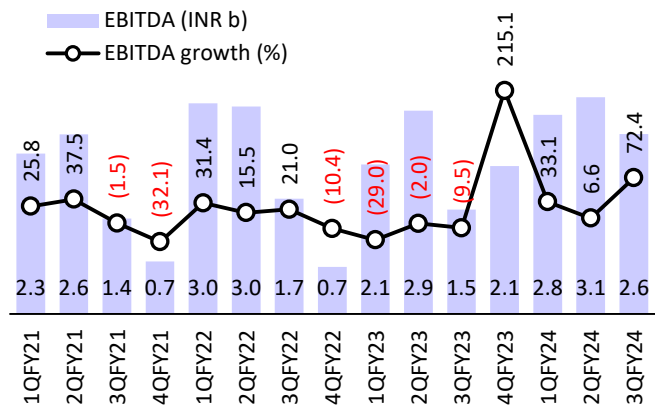
Key exhibits

Exhibit 1: Net sales grew 13.5% YoY to INR10b



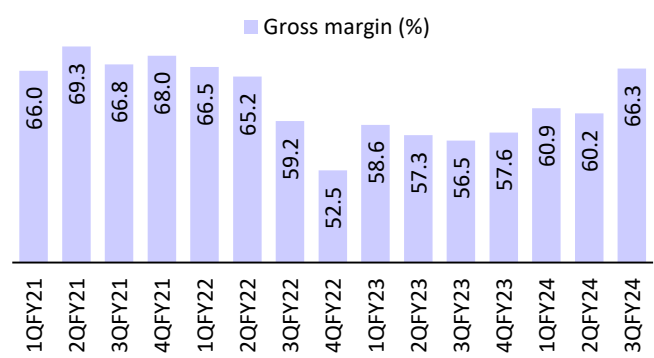
Source: Company, MOFSL

Exhibit 2: EBITDA rose 72.4% YoY to INR2.6b



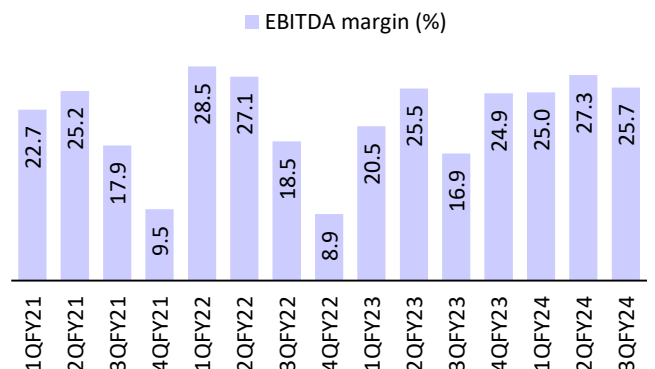
Source: Company, MOFSL

Exhibit 3: Gross margin expanded 980bp YoY to 66.3%



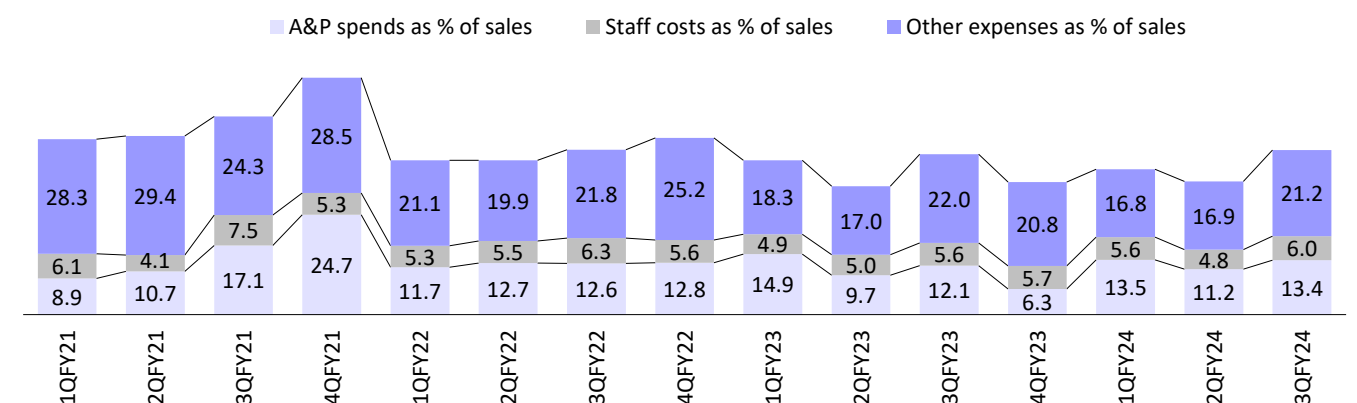
Source: Company, MOFSL

Exhibit 4: EBITDA margin expanded 880bp YoY to 25.7%



Source: Company, MOFSL

Exhibit 5: As a percentage of sales, staff costs/ad spending rose 40bp/130bp, while other expenses declined 80bp



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

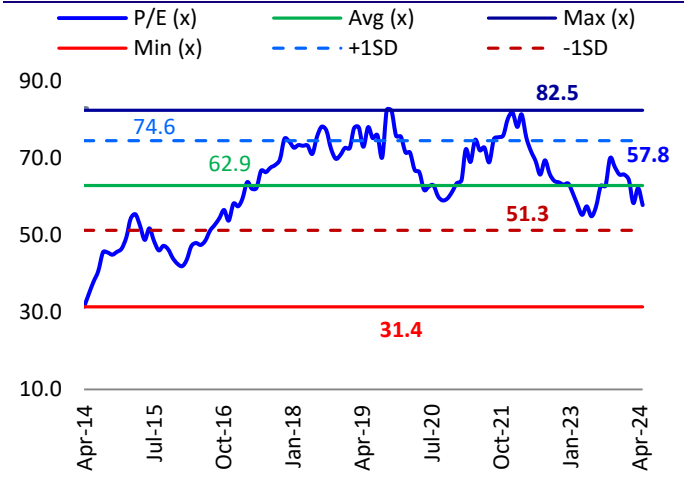
- We raise our EPS by 4%/4%/2% for FY24E/FY25E/FY26E owing to better-than-expected growth and margin delivery.
- Two factors make PGHH an attractive long-term core holding: 1) robust growth potential in the Feminine Hygiene segment (~68% of FY23 sales), coupled with the potential for market share gains 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.
- With a portfolio of essentials and healthcare, the company remained focused on product innovation-led customer acquisition. Penetration play would continue, but at a stable pace, despite the high scope of user additions. The stock trades at expensive valuations of 57x/51x FY25E/ FY26E P/E. Further, we do not see any medium-term trigger. **Our TP of INR17,000 is based on 55xMar'26E EPS; reiterate Neutral.**

Exhibit 6: We raise our estimates by 4%/4%/2% for FY24/FY25/FY26

INR m	New			Old			Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Sales	42,315	46,535	51,025	41,373	46,179	51,998	2.3%	0.8%	-1.9%
EBITDA	11,171	12,471	13,777	10,674	11,937	13,572	4.7%	4.5%	1.5%
Adjusted PAT	8,194	9,218	10,228	7,854	8,818	10,074	4.3%	4.5%	1.5%

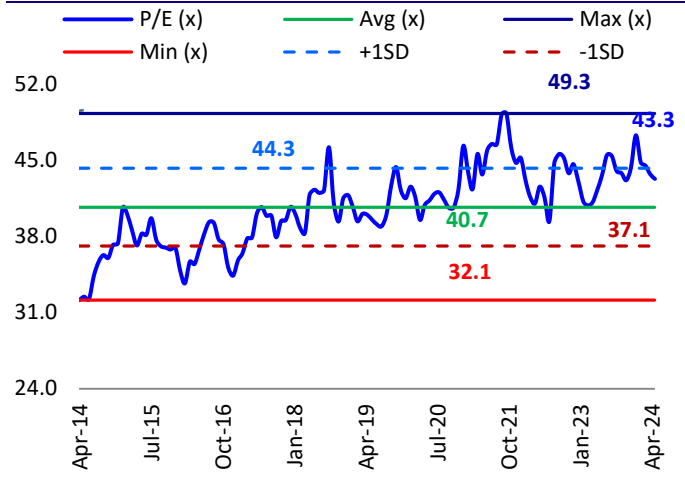
Source: MOFSL

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	42,315	46,535	51,025
Change (%)	20.0	1.9	19.1	6.3	3.0	8.2	10.0	9.6
Raw Materials	12,368	11,068	11,593	14,582	16,575	15,657	17,218	18,879
% of Sales	42.0	36.9	32.4	38.4	42.4	37.0	37.0	37.0
Employees Cost	1,338	1,733	2,017	2,143	2,058	2,370	2,513	2,704
% of Sales	4.5	5.8	5.6	5.6	5.3	5.6	5.4	5.3
Other Expenses	9,670	11,003	15,160	12,974	11,805	13,118	14,333	15,665
% of Sales	32.8	36.7	42.4	34.1	30.2	31.0	30.8	30.7
Total Expenditure	23,376	23,804	28,770	29,699	30,437	31,144	34,064	37,248
% of Sales	79.3	79.3	80.5	78.2	77.8	73.6	73.2	73.0
EBITDA	6,093	6,216	6,972	8,299	8,686	11,171	12,471	13,777
Margin (%)	20.7	20.7	19.5	21.8	22.2	26.4	26.8	27.0
Depreciation	498	479	477	529	584	589	638	677
EBIT	5,595	5,738	6,495	7,770	8,103	10,582	11,833	13,100
Int. and Finance Charges	55	61	61	112	114	313	115	110
Other Income	533	441	394	243	406	595	605	683
PBT bef. EO Exp.	6,073	6,118	6,828	7,901	8,395	10,864	12,323	13,673
EO Items		-105	1,450	-101	571	0	0	0
PBT after EO Exp.	6,073	6,013	8,277	7,800	8,966	10,864	12,323	13,673
Total Tax	1,882	1,642	1,759	2,042	2,184	2,981	3,105	3,446
Tax Rate (%)	31.0	27.3	21.3	26.2	24.4	27.4	25.2	25.2
Reported PAT	4,191	4,371	6,518	5,757	6,781	7,883	9,218	10,228
Adjusted PAT	4,191	4,476	5,068	5,858	6,210	8,194	9,218	10,228
Change (%)	9.5	6.8	13.2	15.6	6.0	31.9	12.5	11.0
Margin (%)	14.2	14.9	14.2	15.4	15.9	19.4	19.8	20.0

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	9,644	11,488	13,533
Net Worth	9,091	11,579	7,143	7,376	9,460	9,969	11,812	13,858
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	9,256	11,028	12,994
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	4,471	5,109	5,786
Net Fixed Assets	2,342	2,065	1,838	1,637	1,700	1,282	842	365
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	17,197	20,332	23,793
Inventory	2,034	2,051	2,493	2,340	2,198	2,551	2,805	3,075
Account Receivables	1,814	1,663	1,424	1,921	2,163	2,551	2,805	3,075
Cash and Bank Balance	5,405	9,025	6,602	6,393	9,780	7,447	10,073	12,993
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	9,450	10,373	11,364
Account Payables	5,477	5,313	7,541	7,798	9,711	7,151	7,844	8,582
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	7,747	9,959	12,429
Appl. of Funds	8,723	11,298	6,797	6,876	8,813	9,256	11,028	12,994

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	252.1	283.6	314.7
Cash EPS	144.5	152.7	170.8	196.8	209.3	270.6	303.6	335.9
BV/Share	280.1	356.7	220.0	227.2	291.4	307.1	363.9	426.9
DPS	101	105	315	160	185	227	227	252
Payout (%)	78.6	78.1	202.0	88.8	96.8	93.5	80.0	80.0
Valuation (x)								
P/E	124.5	116.6	102.9	89.0	83.9	63.7	56.6	51.0
Cash P/E	111.2	105.2	94.0	81.6	76.7	59.3	52.9	47.8
P/BV	57.3	45.0	73.0	70.7	55.1	52.3	44.1	37.6
EV/Sales	17.5	17.1	14.4	13.6	13.1	12.1	11.0	10.0
EV/EBITDA	84.7	82.4	73.8	62.0	58.9	46.0	41.0	36.9
Dividend Yield (%)	0.6	0.7	2.0	1.0	1.2	1.4	1.4	1.6
FCF per share	126.4	130.5	256.2	161.2	240.7	148.6	295.2	326.8
Return Ratios (%)								
RoE	48.9	43.3	54.1	80.7	73.8	84.3	84.6	79.7
RoCE	51.1	44.9	60.0	86.5	82.0	89.8	91.7	85.8
Working Capital Ratios								
Asset Turnover (x)	3.4	2.7	5.3	5.5	4.4	4.6	4.2	3.9
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
Growth (%)								
Sales	20.0	1.9	19.1	6.3	3.0	8.2	10.0	9.6
EBITDA	-3.0	2.0	12.2	19.0	4.7	28.6	11.6	10.5
PAT	9.5	6.8	13.2	15.6	6.0	31.9	12.5	11.0
Leverage Ratio (x)								
Current Ratio	1.9	2.3	1.5	1.5	1.6	1.8	2.0	2.1
Interest Cover Ratio	102.1	94.5	106.3	69.4	71.2	33.8	102.9	119.1
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	10,864	12,323	13,673
Depreciation	498	479	477	529	584	589	638	677
Net interest expense	-317	-266	-250	-154	-237	-282	-490	-573
Others	54	203	139	115	67	0	0	0
(Inc)/Dec in WC	172	-179	2,101	-166	1,745	-3,195	415	450
Taxes	-2,350	-1,435	-2,534	-2,494	-2,295	-2,981	-3,105	-3,446
CF from Operations	4,130	4,741	8,631	5,731	8,258	4,995	9,781	10,781
CF from Operating incl EO	4,130	4,741	8,631	5,731	8,258	4,995	9,781	10,781
(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	4,824	9,583	10,608
Others	451	1,265	325	246	344	595	605	683
CF from Investments	416	783	11	-251	-100	424	407	511
Dividend Paid	-3,131	-1,878	-11,037	-5,681	-4,707	-7,375	-7,374	-8,182
Interest Paid	-7	-9	-10	-25	-51	-313	-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	-7,753	-7,561	-8,371
Inc/Dec of Cash	1,409	3,621	-2,423	-210	3,387	-2,333	2,627	2,920
Opening Balance	3,996	5,405	9,025	6,603	6,393	9,780	7,447	10,073
Closing Balance	5,405	9,025	6,603	6,393	9,780	7,447	10,073	12,994

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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