

# P&G Hygiene and Healthcare

## Estimate changes

TP change

Rating change



	PG IN
Bloomberg Equity Shares (m)	32
M.Cap.(INRb)/(USDb)	325.7 / 4.4
52-Week Range (INR)	12700 / 8500
1, 6, 12 Rel. Per (%)	-15/10/13
12M Avg Val (INR M)	77

## Financials & valuations (INR b)

Y/E March	2019	2020E	2021E	2022E
Sales	29.5	30.0	31.7	36.4
Sales Gr. (%)	20.0	1.7	5.7	14.8
EBITDA	6.1	6.1	7.0	8.3
Margins (%)	20.7	20.4	22.0	22.9
Adj. PAT	4.1	4.5	5.1	6.2
Adj. EPS (INR)	126.3	138.1	158.1	189.6
EPS Gr. (%)	7.3	9.3	14.4	19.9
BV/Sh.(INR)	280.1	322.9	372.0	430.8

## Ratios

RoE (%)	47.9	45.9	45.6	47.3
RoCE (%)	50.4	48.3	47.7	49.4

## Valuations

P/E (x)	79.4	72.6	63.5	52.9
P/BV (x)	35.8	31.1	27.0	23.3
EV/EBITDA (x)	52.6	51.7	45.0	37.3
Div. Yield (%)	1.0	1.0	1.1	1.3

## Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	70.6	70.6	70.6
DII	12.9	12.2	10.8
FII	2.8	3.3	3.4
Others	13.7	13.8	15.1

FII Includes depository receipts

CMP: INR10,034

TP: INR9,995 (0%)

Neutral

## Lockdown leads to sales decline; profits in-line

- While P&G Hygiene and Healthcare (P&GHH)'s operations in 3QFY20 were affected by the COVID-19-led lockdown, its ability to arrest decline in profitability is encouraging.
- We believe the company's portfolio is highly resilient and would bounce back once normalcy returns.
- Long-term prospects remain attractive on account of strong moats. Maintain **Neutral**.

## Sales below expectations; EBITDA in-line

- P&GHH's 3QFY20 sales declined 6.2% YoY to INR6.6b** (est. INR7.1b), with EBITDA decreasing 3.6% YoY to INR1.4b (est. INR1.4b) and PBT coming in flat YoY at INR1.4b (est. INR1.3b).
- Adj. PAT grew 12.8% YoY to INR1b (est. INR990m), supported by a lower corporate tax rate. Reported PAT came in at INR911m, which has been adjusted for exceptional expenses.
- Ad spends grew 6.4% YoY to INR747m, employee expenses 45.2% YoY to INR502m, and other expenses 12.3% YoY to INR1.7b.
- Gross margins expanded 900bp YoY to 66.6%**. As a percentage of sales, ad spends rose 130bp YoY to 11.4%, employee costs 270bp YoY to 7.7%, and other expenses 440bp YoY to 26.5%. This resulted in a 60bp expansion in EBITDA margins to 21.1% (est. 19%) in 3QFY20.
- The company reported impairment loss of INR139m on certain items in Property, Plant, Equipment that had been classified as "Held for Sale". We have adjusted our 3QFY20 tax and PAT numbers for this exceptional expense.
- 9MFY20 sales/EBITDA/PAT grew +2.5%/-6.8%/+4.5% YoY.

## Highlights from management commentary

- The management had forecast high single-digit sales growth for the quarter before the lockdown. However, the company's operations have been severely disrupted due to the lockdown.
- The management further indicated in the near term, the company would focus on scaling up its operations to maximize the availability of its products to meet consumer needs, while following the health and safety guidelines imposed by government authorities.

## Valuation and view

- While near-term sales are likely to be impacted, P&GHH has a more resilient portfolio, than that of peers, to withstand the COVID-19-related disruption in the post lockdown phase. We maintain sales forecasts in FY21 and FY22 and sustained profitability improvement in recent quarters, with normalizing ad-spends over the next couple of years resulting in an ~10% EPS upgrade.
- Although valuations are expensive at 52.9x FY22E EPS, implying near-term upside is limited, two factors make P&GHH an attractive long-term core holding: (a) huge category growth potential in the Feminine Hygiene segment (~70% of sales) and potential for market share gains owing to its considerable moats, and (b) potentially massive margin gains from premiumization in Feminine Hygiene over the long term. Maintain **Neutral**.

## Standalone – Quarterly earnings

(INR m)

Y/E June	FY19				FY20				FY19	FY20E	FY20	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
<b>Net Sales</b>	<b>7,918</b>	<b>8,181</b>	<b>6,993</b>	<b>6,373</b>	<b>8,521</b>	<b>8,593</b>	<b>6,561</b>	<b>6,297</b>	<b>29,465</b>	<b>29,972</b>	<b>7,133</b>	<b>-8.0%</b>
YoY Change (%)	20.4	16.2	22.9	21.5	7.6	5.0	-6.2	-1.2	20.0	1.7	2.0	
<b>Gross profit</b>	<b>4,766</b>	<b>4,542</b>	<b>4,032</b>	<b>3,776</b>	<b>5,146</b>	<b>5,381</b>	<b>4,371</b>	<b>3,983</b>	<b>17,116</b>	<b>18,882</b>	4,280.0	
Margin (%)	60.2	55.5	57.7	59.3	60.4	62.6	66.6	63.3	58.1	63.0	60.0	
<b>EBITDA</b>	<b>2,096</b>	<b>1,912</b>	<b>1,437</b>	<b>648</b>	<b>1,822</b>	<b>1,867</b>	<b>1,384</b>	<b>1,042</b>	<b>6,093</b>	<b>6,114</b>	<b>1,357</b>	<b>2.0%</b>
Growth	11.8	-9.0	-1.9	-22.8	-13.1	-2.4	-3.6	60.7	-3.0	0.4	-5.6	
Margins (%)	26.5	23.4	20.5	10.2	21.4	21.7	21.1	16.5	20.7	20.4	19.0	
Depreciation	121	123	126	128	115	115	118	145	498	491	141	
Interest	4	5	5	40	4	22	24	20	55	70	7	
Other Income	104	117	84	97	110	90	145	100	402	446	114	
<b>PBT</b>	<b>2,160</b>	<b>1,901</b>	<b>1,390</b>	<b>577</b>	<b>1,814</b>	<b>1,820</b>	<b>1,388</b>	<b>977</b>	<b>6,027</b>	<b>5,999</b>	<b>1,323</b>	<b>4.9%</b>
Tax	719	660	489	-31	445	461	371	232	1,836	1,510	333	
Rate (%)	33.3	34.7	35.2	-5.4	24.6	25.3	26.8	23.8	30.5	25.2	25.2	
<b>Adj PAT</b>	<b>1,356</b>	<b>1,241</b>	<b>901</b>	<b>608</b>	<b>1,368</b>	<b>1,359</b>	<b>1,016</b>	<b>711</b>	<b>4,106</b>	<b>4,489</b>	<b>990</b>	<b>2.7%</b>
YoY Change (%)	17.3	-5.4	-1.4	36.5	0.9	9.5	12.8	17.0	7.3	9.3	9.8	
Margins (%)	18.2	15.2	12.9	9.5	16.1	15.8	15.5	11.3	13.9	15.0	13.9	

E: MOFSL Estimates

Y/E June	FY19				FY20			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE
<b>2Y average growth (%)</b>								
Sales	15.0	12.8	11.0	12.9	14.0	10.6	8.4	10.1
EBITDA	17.9	-8.5	-3.3	-29.4	-0.6	-5.7	-2.8	19.0
PAT	14.0	-9.1	-4.8	-3.2	9.1	2.0	5.7	26.7
<b>% of Sales</b>								
COGS	39.8	44.5	42.3	40.7	39.6	37.4	33.4	36.7
Employee Expenses	4.5	4.5	4.9	3.9	4.9	5.0	7.7	5.2
A&P Expenses	10.5	11.0	10.0	11.0	12.3	12.6	11.4	10.2
Other Expenses	18.7	16.7	22.1	34.1	21.8	23.3	26.5	31.4
Depreciation	1.5	1.5	1.8	2.0	1.3	1.3	1.8	2.3
<b>YoY change (%)</b>								
COGS	13.7	29.7	44.6	39.6	7.1	-11.7	-26.1	-10.9
Employee Expenses	22.8	27.2	5.9	2.8	17.5	16.3	45.2	30.2
A&P Expenses	57.7	32.9	-3.2	3.6	25.6	20.4	6.4	-8.7
Other Expenses	33.4	16.8	37.6	33.8	25.6	47.0	12.3	-9.2
Other Income	194.9	64.5	27.5	41.9	5.6	-22.6	72.2	3.4
EBIT	13.1	-9.1	-1.2	-27.4	-13.6	-2.1	-3.4	72.5

E: MOFSL Estimates

Key exhibits

Exhibit 1: Reported net sales declined 6.2% YoY to INR6.6b

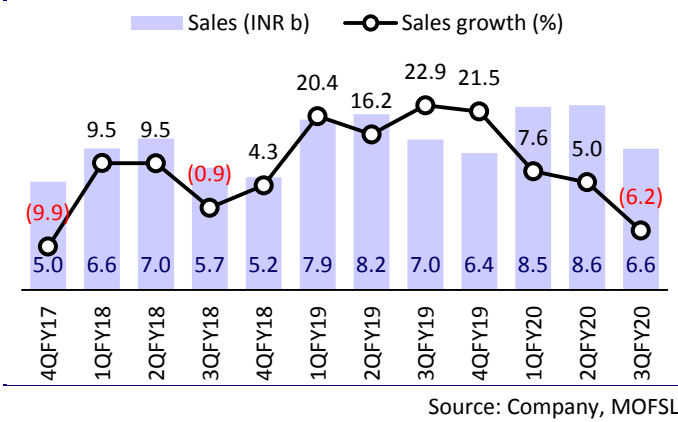


Exhibit 2: Reported EBITDA fell 3.6% YoY to INR1.4b

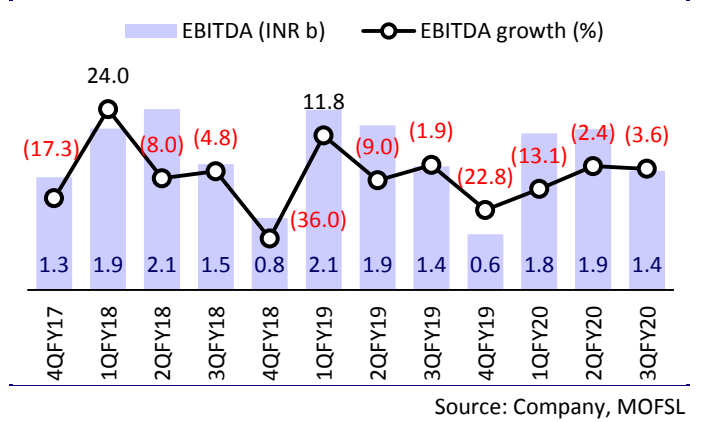


Exhibit 3: Gross margins expanded 900bp YoY to 66.6%

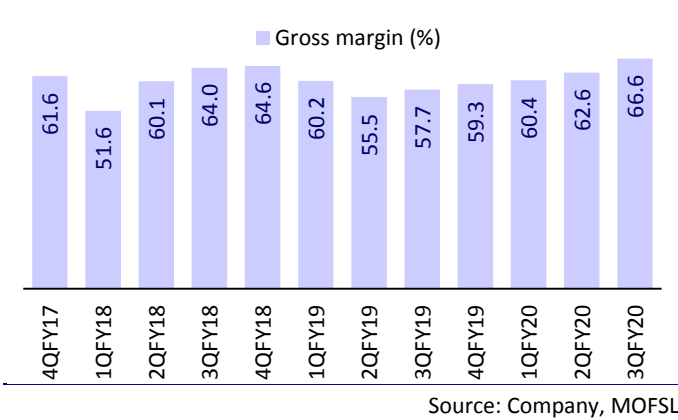


Exhibit 4: EBITDA margins increased 60bp YoY to 21.1%

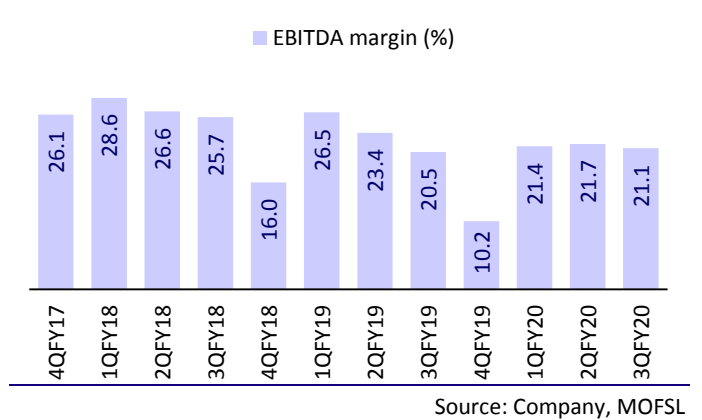
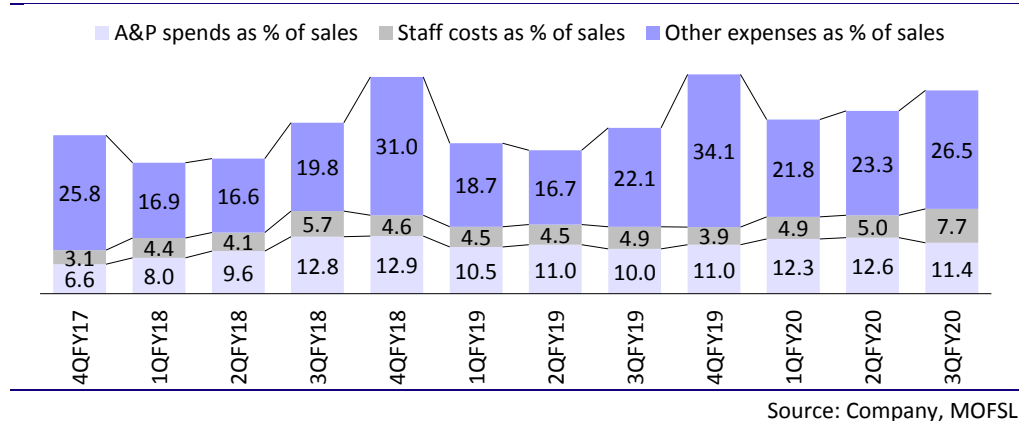


Exhibit 5: As a percentage of sales, staff costs grew 270bp YoY, ad spends 130bp YoY, and other expenses 440bp YoY



## Valuation and view

### Happenings over the last 10 years

- While P&GHH’s sales/EBITDA/PAT increased at a ~20%/~14%/~12% CAGR in the first half of the decade ending FY20E, 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%/~9%/~8%.
- Price cuts taken at the beginning of the decade, category development efforts, and an increase in distribution led to the EBITDA margin declining over FY10–14, but sales and EBITDA 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 seven to eight quarters. While this yielded strong topline growth in FY19 (20% sales growth), sales have been tepid thus far (in the mid-single digits) in FY20E, weighed by the slowdown in personal care categories.

### Our view on the stock

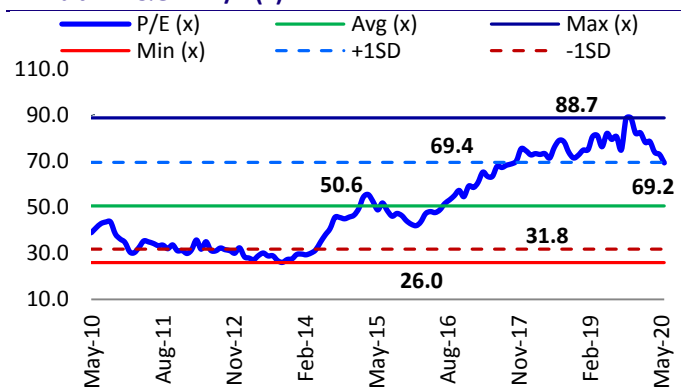
- While near-term sales would be impacted, P&GHH has a more resilient portfolio, than that of peers, to withstand the COVID-19-related disruption in the post lockdown phase. We maintain sales forecasts in FY21 and FY22 and sustained profitability improvement in recent quarters, with normalizing ad spends over the next couple of years resulting in an ~10% EPS upgrade.
- Although valuations are expensive at 52.9x FY22E EPS, implying near-term upside is limited, two factors make P&GHH an attractive long-term core holding: (a) huge category growth potential in the Feminine Hygiene segment (~70% of sales) and potential for market share growth owing to its considerable moats, and (b) potentially massive margin gains from premiumization in Feminine Hygiene over the longer term.
- We derive a TP of INR9,995, set at 55x Mar’22 EPS of INR190. Maintain **Neutral**.
- A key investment risk here is the government considering price caps on Feminine Hygiene products.

**Exhibit 6: We have raised our PAT forecasts by 4.1%/11.6% for FY20/FY21**

Change in Estimates	New			Old			Change		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Net Sales	29,972	31,689	36,394	30,636	31,776	36,475	-2.2%	-0.3%	-0.2%
EBITDA	6,114	6,971	8,334	5,882	6,260	7,514	3.9%	11.4%	10.9%
Adjusted PAT	4,489	5,137	6,162	4,310	4,605	5,548	4.1%	11.6%	11.1%

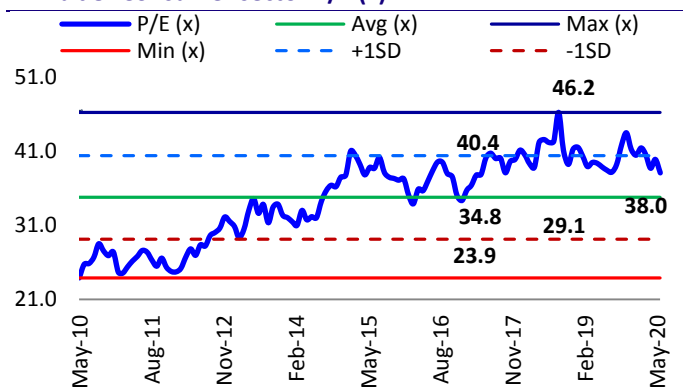
Source: Company, MOFSL

**Exhibit 7: P&GHH 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	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Total Income from Operations</b>	<b>23,338</b>	<b>22,754</b>	<b>23,204</b>	<b>24,553</b>	<b>29,465</b>	<b>29,972</b>	<b>31,689</b>	<b>36,394</b>
Change (%)	13.8	-2.5	2.0	5.8	20.0	1.7	5.7	14.8
Raw Materials	9,209	8,848	9,150	9,487	12,349	11,090	12,042	13,830
% of Sales	39.5	38.9	39.4	38.6	41.9	37.0	38.0	38.0
Employees Cost	1,133	1,174	1,141	1,152	1,324	1,678	1,584	1,674
% of Sales	4.9	5.2	4.9	4.7	4.5	5.6	5.0	4.6
Other Expenses	8,152	6,674	6,267	7,634	9,700	11,090	11,091	12,556
% of Sales	34.9	29.3	27.0	31.1	32.9	37.0	35.0	34.5
<b>Total Expenditure</b>	<b>18,494</b>	<b>16,696</b>	<b>16,558</b>	<b>18,273</b>	<b>23,373</b>	<b>23,857</b>	<b>24,717</b>	<b>28,060</b>
% of Sales	79.2	73.4	71.4	74.4	79.3	79.6	78.0	77.1
<b>EBITDA</b>	<b>4,844</b>	<b>6,059</b>	<b>6,646</b>	<b>6,280</b>	<b>6,093</b>	<b>6,114</b>	<b>6,971</b>	<b>8,334</b>
Margin (%)	20.8	26.6	28.6	25.6	20.7	20.4	22.0	22.9
Depreciation	525	517	597	524	498	491	564	631
<b>EBIT</b>	<b>4,319</b>	<b>5,542</b>	<b>6,049</b>	<b>5,756</b>	<b>5,595</b>	<b>5,623</b>	<b>6,408</b>	<b>7,703</b>
Int. and Finance Charges	57	63	104	53	55	70	55	55
Other Income	746	876	773	241	402	446	513	587
<b>PBT bef. EO Exp.</b>	<b>5,008</b>	<b>6,355</b>	<b>6,718</b>	<b>5,944</b>	<b>5,942</b>	<b>5,999</b>	<b>6,865</b>	<b>8,235</b>
EO Items	0	0	0	-82	85	0	0	0
<b>PBT after EO Exp.</b>	<b>5,008</b>	<b>6,355</b>	<b>6,718</b>	<b>5,862</b>	<b>6,027</b>	<b>5,999</b>	<b>6,865</b>	<b>8,235</b>
Total Tax	1,547	2,130	2,390	2,116	1,836	1,510	1,728	2,073
Tax Rate (%)	30.9	33.5	35.6	36.1	30.5	25.2	25.2	25.2
<b>Reported PAT</b>	<b>3,461</b>	<b>4,225</b>	<b>4,327</b>	<b>3,746</b>	<b>4,191</b>	<b>4,489</b>	<b>5,137</b>	<b>6,162</b>
<b>Adjusted PAT</b>	<b>3,461</b>	<b>4,225</b>	<b>4,327</b>	<b>3,828</b>	<b>4,106</b>	<b>4,489</b>	<b>5,137</b>	<b>6,162</b>
Change (%)	14.6	22.1	2.4	-11.5	7.3	9.3	14.4	19.9
Margin (%)	14.8	18.6	18.6	15.6	13.9	15.0	16.2	16.9

### Standalone – Balance sheet

(INR m)

Y/E June	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Equity Share Capital	325	325	325	325	325	325	325	325
Total Reserves	13,133	16,193	4,937	7,730	8,766	10,158	11,750	13,660
<b>Net Worth</b>	<b>13,457</b>	<b>16,518</b>	<b>5,261</b>	<b>8,055</b>	<b>9,091</b>	<b>10,482</b>	<b>12,075</b>	<b>13,985</b>
Deferred Tax Liabilities	-40	-89	-263	-230	-368	-404	-445	-489
Total Loans	0	0	0	0	0	0	0	0
<b>Capital Employed</b>	<b>13,418</b>	<b>16,428</b>	<b>4,999</b>	<b>7,825</b>	<b>8,723</b>	<b>10,078</b>	<b>11,630</b>	<b>13,496</b>
Gross Block	5,222	5,819	4,024	3,975	4,145	4,141	4,887	5,407
Less: Accum. Deprn.	2,128	2,645	1,167	1,474	1,803	1,990	2,554	3,185
<b>Net Fixed Assets</b>	<b>3,093</b>	<b>3,174</b>	<b>2,857</b>	<b>2,501</b>	<b>2,342</b>	<b>2,151</b>	<b>2,333</b>	<b>2,222</b>
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	390	347	408	215	146	100	200	200
<b>Total Investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>15,962</b>	<b>18,053</b>	<b>8,073</b>	<b>11,308</b>	<b>13,464</b>	<b>17,740</b>	<b>19,928</b>	<b>23,590</b>
Inventory	1,191	1,275	1,774	1,236	2,034	1,807	1,910	2,194
Account Receivables	1,139	1,496	1,328	1,485	1,807	1,807	1,910	2,194
Cash and Bank Balance	6,178	10,732	1,168	3,996	5,405	9,902	11,874	14,962
Loans and Advances	7,454	4,550	3,803	4,591	4,219	4,225	4,233	4,242
<b>Curr. Liability &amp; Prov.</b>	<b>6,027</b>	<b>5,146</b>	<b>6,340</b>	<b>6,199</b>	<b>7,229</b>	<b>9,914</b>	<b>10,831</b>	<b>12,516</b>
Account Payables	3,723	3,241	3,632	4,062	5,477	4,949	5,231	6,004
Other Current Liabilities	2,234	1,838	2,150	1,606	1,043	1,148	1,262	1,388
Provisions	70	67	558	530	709	3,818	4,337	5,124
<b>Net Current Assets</b>	<b>9,934</b>	<b>12,907</b>	<b>1,733</b>	<b>5,109</b>	<b>6,235</b>	<b>7,826</b>	<b>9,097</b>	<b>11,074</b>
<b>Appl. of Funds</b>	<b>13,418</b>	<b>16,428</b>	<b>4,999</b>	<b>7,825</b>	<b>8,723</b>	<b>10,078</b>	<b>11,630</b>	<b>13,496</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E June	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>106.5</b>	<b>130.0</b>	<b>133.1</b>	<b>117.8</b>	<b>126.3</b>	<b>138.1</b>	<b>158.1</b>	<b>189.6</b>
Cash EPS	122.8	146.1	151.7	134.1	141.8	153.4	175.6	209.3
BV/Share	414.6	508.9	162.1	248.2	280.1	322.9	372.0	430.8
DPS	0.0	36.0	389.0	40.0	101.3	95.4	109.2	131.0
Payout (%)	0.0	27.7	292.2	34.0	80.2	69.0	69.0	69.0
<b>Valuation (x)</b>								
P/E	94.2	77.2	75.4	85.2	79.4	72.6	63.5	52.9
Cash P/E	81.7	68.7	66.1	74.8	70.7	65.4	57.1	47.9
P/BV	24.2	19.7	61.9	40.4	35.8	31.1	27.0	23.3
EV/Sales	13.7	13.8	14.0	13.1	10.9	10.5	9.9	8.5
EV/EBITDA	66.0	52.0	48.8	51.2	52.6	51.7	45.0	37.3
Dividend Yield (%)	0.0	0.4	3.9	0.4	1.0	1.0	1.1	1.3
FCF per share	131.4	92.5	123.7	116.3	139.4	232.9	157.1	211.1
<b>Return Ratios (%)</b>								
RoE	29.5	28.2	39.7	57.5	47.9	45.9	45.6	47.3
RoCE	30.0	28.6	41.0	59.8	50.4	48.3	47.7	49.4
<b>Working Capital Ratios</b>								
Asset Turnover (x)	1.7	1.4	4.6	3.1	3.4	3.0	2.7	2.7
Inventory (Days)	19	18	24	22	20	22	22	22
Debtor (Days)	16	19	22	21	20	22	22	22
Creditor (Days)	47	51	54	57	59	60	60	60
<b>Leverage Ratio (x)</b>								
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

### Standalone – Cash flow statement

Y/E June	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>(INR m)</b>								
<b>PBT</b>	<b>5,008</b>	<b>6,355</b>	<b>6,718</b>	<b>5,818</b>	<b>6,027</b>	<b>5,999</b>	<b>6,865</b>	<b>8,235</b>
Depreciation	525	517	597	524	498	491	564	631
Net interest expense	-658	-785	-644	-147	-347	-376	-458	-532
Others	212	66	146	225	0	0	0	0
(Inc)/Dec in WC	1,225	-615	135	466	283	2,906	702	1,110
Taxes	-2,056	-2,013	-2,500	-2,731	-1,836	-1,510	-1,728	-2,073
<b>CF from Operations</b>	<b>4,256</b>	<b>3,525</b>	<b>4,453</b>	<b>4,155</b>	<b>4,624</b>	<b>7,511</b>	<b>5,945</b>	<b>7,372</b>
(Inc)/Dec in FA	10	-523	-438	-381	-100	49	-846	-520
<b>Free Cash Flow</b>	<b>4,266</b>	<b>3,002</b>	<b>4,015</b>	<b>3,774</b>	<b>4,524</b>	<b>7,560</b>	<b>5,100</b>	<b>6,852</b>
(Pur)/Sale of Investments	0	0	0	0	0	0	0	0
Others	274	2,770	2,009	115	228	105	472	542
<b>CF from Investments</b>	<b>284</b>	<b>2,247</b>	<b>1,571</b>	<b>-266</b>	<b>128</b>	<b>154</b>	<b>-373</b>	<b>22</b>
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	0	0	0	0	0	0	0	0
Dividend Paid	-893	-1,182	-15,550	-1,055	-3,289	-3,097	-3,545	-4,252
Interest Paid	-9	-35	-37	-6	-55	-70	-55	-55
Others	-152	0	0	0	0	0	0	0
<b>CF from Fin. Activity</b>	<b>-1,053</b>	<b>-1,217</b>	<b>-15,587</b>	<b>-1,061</b>	<b>-3,344</b>	<b>-3,167</b>	<b>-3,600</b>	<b>-4,307</b>
<b>Inc/Dec of Cash</b>	<b>3,487</b>	<b>4,554</b>	<b>-9,564</b>	<b>2,828</b>	<b>1,408</b>	<b>4,498</b>	<b>1,973</b>	<b>3,087</b>
Opening Balance	2,691	6,178	10,732	1,168	3,996	5,404	9,902	11,874
<b>Closing Balance</b>	<b>6,178</b>	<b>10,732</b>	<b>1,168</b>	<b>3,996</b>	<b>5,404</b>	<b>9,902</b>	<b>11,874</b>	<b>14,962</b>

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

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