

P&G Hygiene and Healthcare

BSE SENSEX 66,009 S&P CNX 19,674

CMP: INR17,693 TP: INR16,940 (-4%) Neutral



Stock Info

	PG IN
Bloomberg	PG IN
Equity Shares (m)	32
M.Cap.(INRb)/(USDb)	574.3 / 6.9
52-Week Range (INR)	17820 / 13101
1, 6, 12 Rel. Per (%)	13/12/9
12M Avg Val (INR M)	112
Free float (%)	29.4

Financials Snapshot (INR b)

Y/E June	FY23	FY24E	FY25E
Sales	39.2	46.4	53.5
Sales Gr. (%)	3.1	18.6	15.1
EBITDA	8.7	11.4	13.6
Margin (%)	22.2	24.5	25.5
Adj. PAT	6.8	8.3	10.0
Adj. EPS (INR)	208.9	254.7	308.0
EPS Gr. (%)	15.8	21.9	20.9
BV/Sh.(INR)	291.4	316.9	378.6

Ratios

RoE (%)	80.6	83.8	88.7
RoCE (%)	87.6	91.0	95.8

Valuations

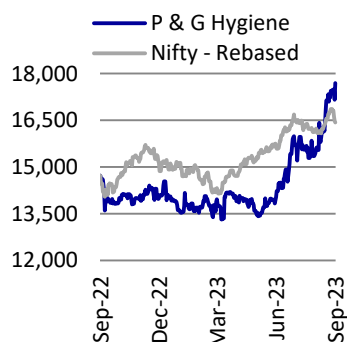
P/E (x)	84.8	69.6	57.5
P/BV (x)	60.8	55.9	46.8
EV/EBITDA (x)	65.1	49.8	41.4
Div. Yield (%)	1.0	1.3	1.4

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	70.6	70.6	70.6
DII	15.5	15.4	14.2
FII	1.1	1.1	2.0
Others	12.7	12.9	13.1

FII Includes depository receipts

Stock Performance (1-year)



Committed efforts underway to ensure sustained growth

PGHH organized an analyst meet to share its performance over the years and here are the takeaways:

- P&G has achieved superior growth over the years through a strong portfolio of products, including superior packaging, brand communication, and retail execution. Its strategic integration of productivity measures led to substantial savings of approximately INR 1.05b in FY23.
- It holds over 50% market share in both Feminine Care and Health Care categories and 90% of the company products are natural and Ayurvedic.
- The market in which the company deals is still underpenetrated, offering ample opportunities for growth. The management expects mid-single digit volume growth over the next four to five years and believes that bottom-line growth will outpace the top-line growth.
- The company leverages AI and machine learning to enhance convergence, reduce non-movable inventories, improve consumer behavior analysis, and expand distribution reach.
- E-commerce and digital channels contribute significantly, now accounting for double-digit percentages of total revenue.
- Over the past decade, it has demonstrated superior and sustained execution with a CAGR of 9%/13% in Net sales/PAT for FY23. Additionally, its RoE has increased by 54% over FY13-23.
- The P&G Shiksha program has significantly improved the learning environment and empowered marginalized communities. Presently, it collaborates with 13 partners and positively impacts ~+35 lakh children.

Valuation and view

- We are not making any material changes to our EPS estimates, considering the volatility in ad-spends and potential delays in gross margin recovery due to increased inventory levels, all amid fluctuations in pulp and oil costs.
- Two factors make PGHH an attractive long-term core holding: 1) substantial growth potential within the Feminine Hygiene segment (~65% of FY22 sales); this growth is further supported by the potential for the company to gain market share, aided by competitive advantages that the company is continuously strengthening, and 2) the potential for increased profitability through premiumization within the Feminine Hygiene segment over the long term.
- Nevertheless, the uncertain pace of sales and earnings recovery and expensive valuations of ~70x FY24E EPS/~57x FY25E EPS lead us to **maintain our Neutral rating**. We value the stock at 55x Mar'25E EPS, arriving at a TP of **INR16,940**.

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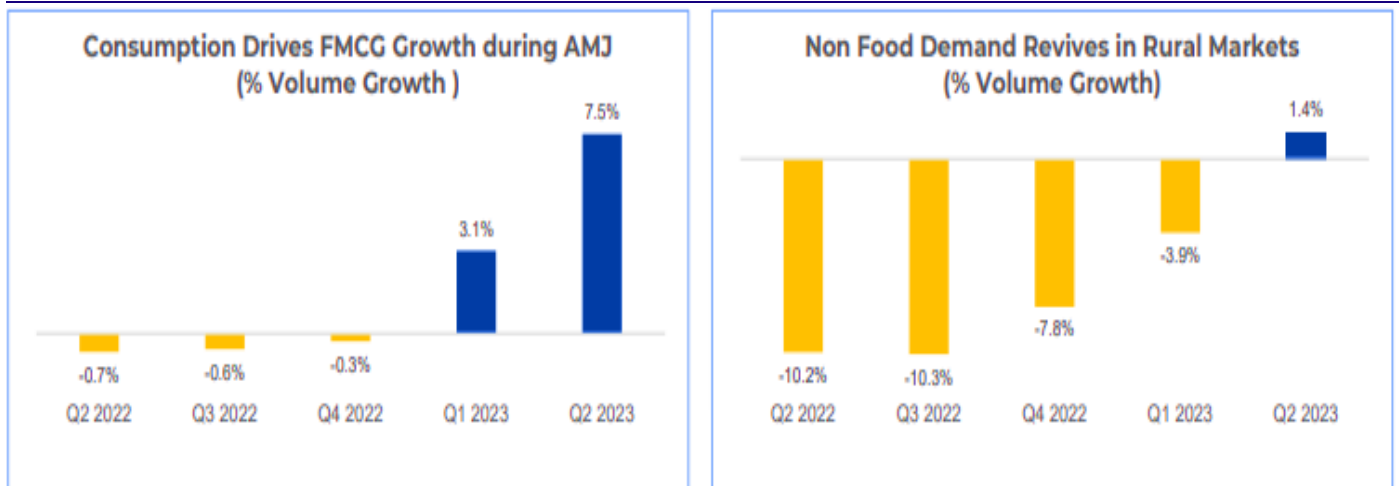
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Key points from analyst meet

Business Environment

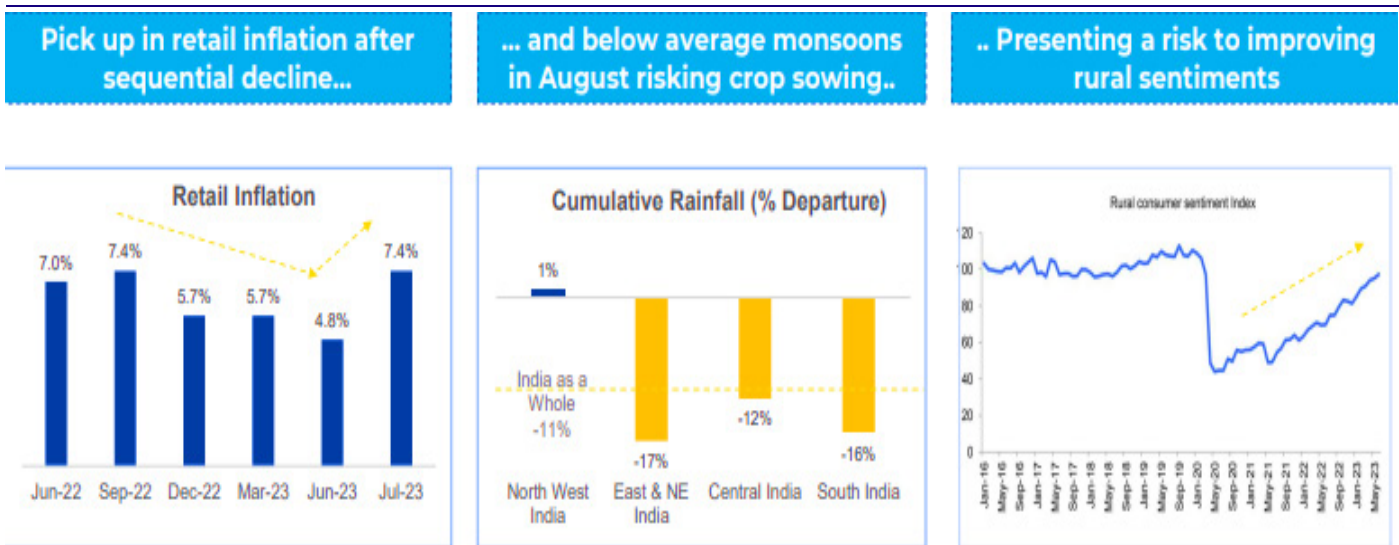
- The FMCG industry has experienced a positive turnaround in volume growth over the past two quarters. This improvement comes after four consecutive quarters of decline and can be attributed to a decrease in inflation rates and an uptick in rural consumption. In the 2QCY23, the industry's volume growth stands at 7.5%, a significant improvement compared to the -0.7% recorded in the 2Q 2022.
- Non-food demand is on the rise in rural markets, with a noticeable turnaround in volume growth in 2QCY23, reaching 1.4%, as opposed to the -10.2% recorded in the same period in CY22.
- There is near-term risk to the revival of rural demand due to a sequential increase in retail inflation and unpredictable weather conditions.

Exhibit 1: Revival in rural market



Source: Company, MOFSL

Exhibit 2: Near-term risks to rural demand revival

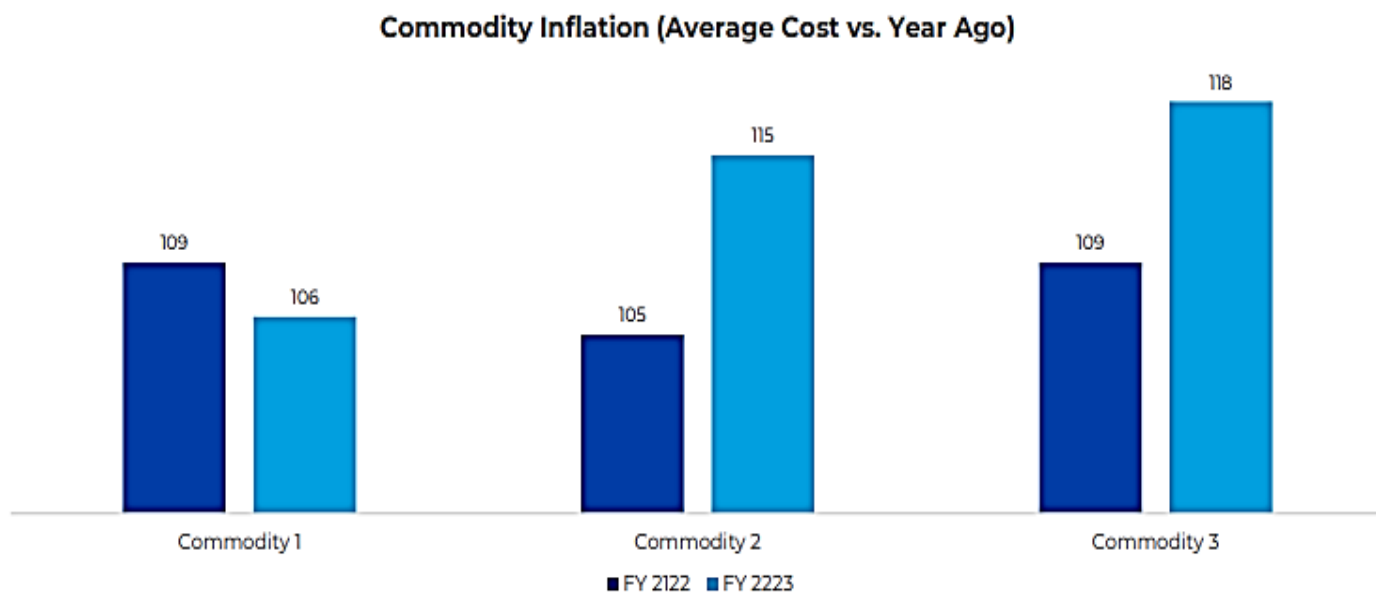


Source: Company, MOFSL

- P&G has achieved superior growth over the years through a strong portfolio of products, including superior packaging, brand communication, and retail execution.
- Urban areas contribute more than ~62% of P&G's sales, indicating significant growth potential within these markets. Rural areas make up less than ~35% of the company's sales.
- The pad category is dominated by organized players (95%), with minimal risk from imports as unorganized players operate primarily in India.
- Despite macro and demand challenges, P&G has maintained its market share leadership through innovation and product quality.
- P&G currently holds the position of market leader in both the Feminine Care category, commanding nearly half of the market share, and in the Cough and Cold category, where they control over half of the market.
- About 90% of P&G's products are natural and Ayurvedic, aligning with consumer preferences.
- The introduction of innovative products like the Whisper Nights portfolio serves as a noteworthy illustration of addressing specific consumer requirements. This offering is experiencing robust double-digit growth, effectively addressing a significant unmet need among consumers.
- Products such as Vicks VapoRub have thrived due to targeted and inspiring communication that effectively addresses consumer needs.
- P&G has focused on the feminine category for three decades, contributing to women's education.

Cost and Distribution Network

- In challenging environments, P&G has expanded margins by innovating and implementing cost-efficient measures, saving INR 1.05b in the last fiscal year.
- However, commodity prices remain high, with no signs of reduction, affecting the company's cost structure.
- E-commerce and digital channels contribute significantly, now accounting for double-digit percentages of total revenue. Products such as Whisper Nights excel in e-commerce and quick commerce.
- P&G leverages AI and machine learning to enhance convergence, reduce non-movable inventories, improve consumer behavior analysis, and expand distribution reach.
- The manufacturing of its brands is predominantly carried out locally.

Exhibit 3: Commodity prices remain elevated

Source: Company, MOFSL

Outlook

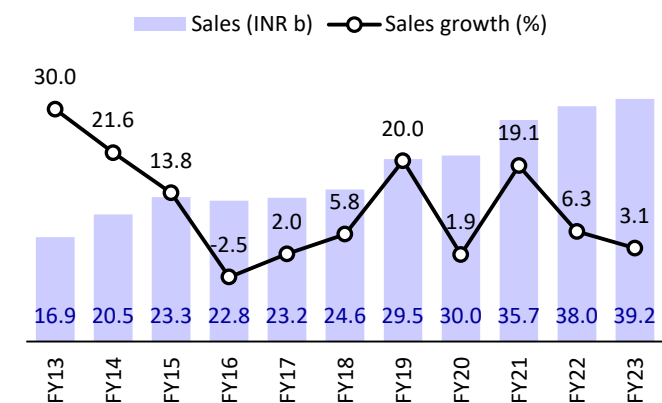
- The management expects mid-single-digit volume growth in categories over the next four to five years, with opportunities to penetrate underdeveloped markets.
- The management believes that the bottom-line growth would outpace the top-line growth over the coming years.
- The management is optimistic about the prospects for FY24, foreseeing significant upgrades and innovations in the brand.
- The company currently has no plans for M&A, as it believes its current corporate structure provides ample room for growth.

Financial Performance

- Sales in the health care category have grown by 3%YoY in FY23, albeit impacted by the high COVID-driven base. Over the last decade, P&G has achieved a 9% CAGR in sales, driven by an integrated growth strategy.
- The bottom line has outpaced top-line growth, increasing by 16% through strategies such as premiumization, pricing optimization, and advertising. 10-year CAGR is 12.8% in FY23.
- The company has been consistently paying dividends for the last three decades.
- The company has a return ratio of over 80% and its dividend payout ratio stands at 90%.

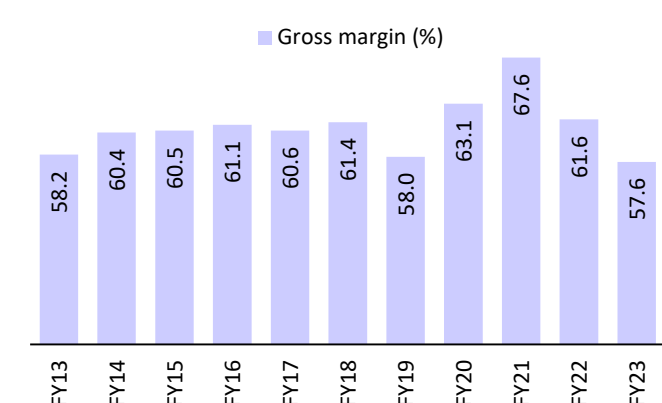
Story in charts

Exhibit 4: Net sales 10-year CAGR is 9% in FY23 ...



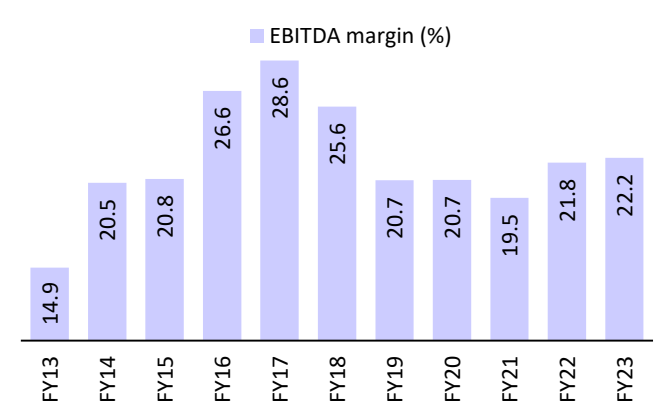
Source: Company, MOFSL

Exhibit 5: ...with lowest GP margin in last 10 year



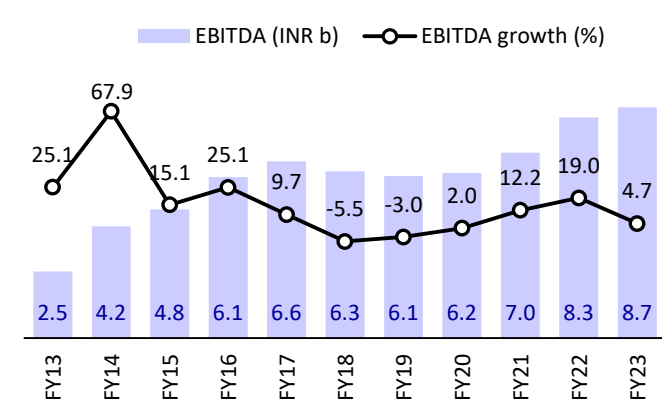
Source: Company, MOFSL

Exhibit 6: Maintaining EBITDA margin at 22.2% in FY23



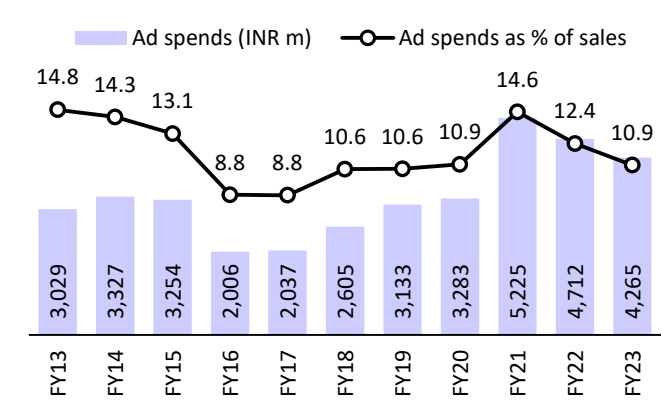
Source: Company, MOFSL

Exhibit 7: EBITDA 10-year CAGR is 13% in FY23



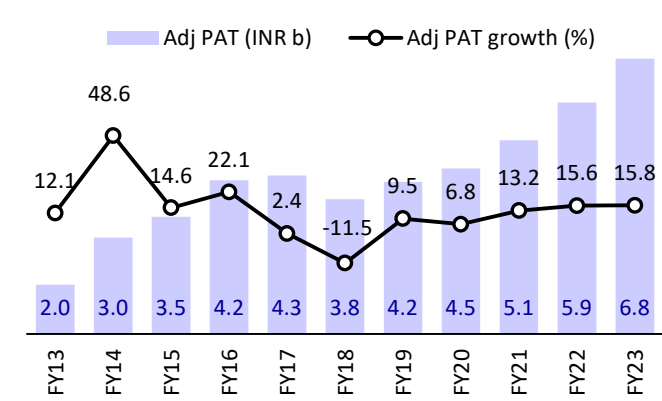
Source: Company, MOFSL

Exhibit 8: Ad-spends normalized to pre-pandemic level in FY23



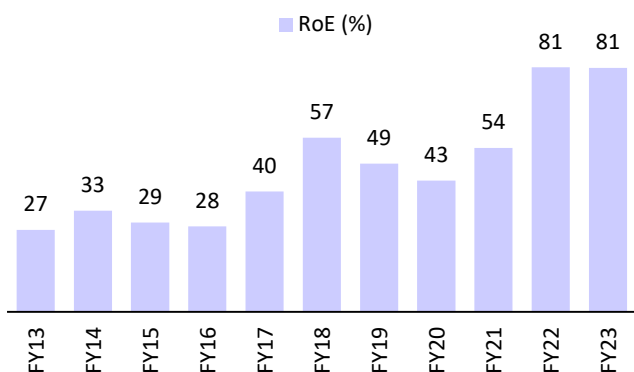
Source: Company, MOFSL

Exhibit 9: Adj. PAT 10-year CAGR at 12.8% in FY23



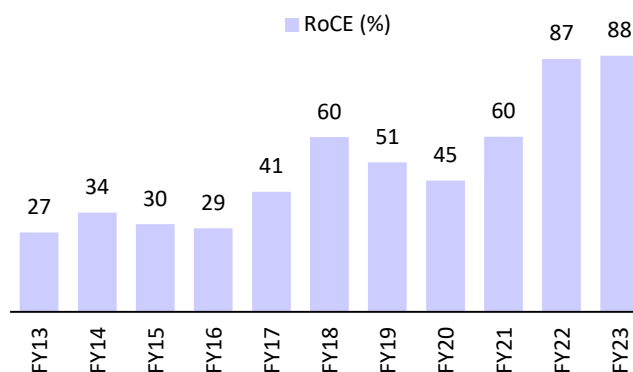
Source: Company, MOFSL

Exhibit 10: ROE has improved 54% over the last 10 year



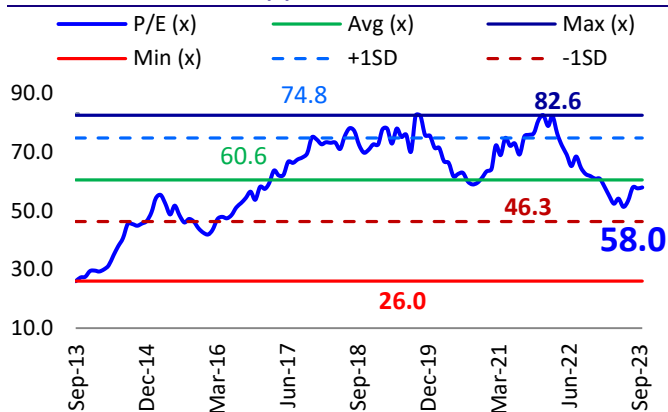
Source: Company, MOFSL

Exhibit 11: ...while RoCE grew by 60%



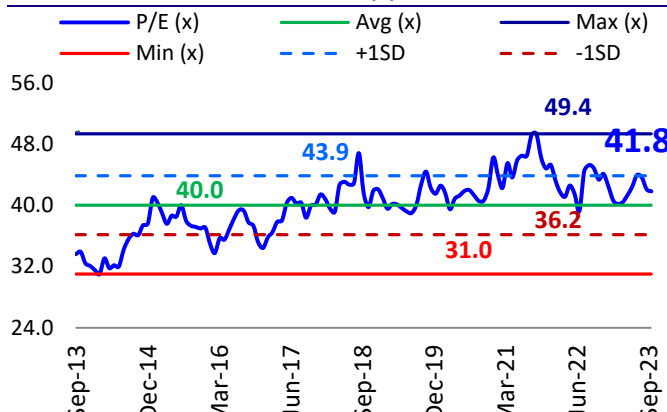
Source: Company, MOFSL

Exhibit 12: PGHH's P/E (x)



Source: Company, MOFSL

Exhibit 13: Consumer sector P/E (x)



Source: Company, MOFSL

Financials and Valuations

Standalone - Income Statement								(INR m)
Y/E June	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	24,553	29,469	30,020	35,741	37,998	39,179	46,448	53,466
Change (%)	5.8	20.0	1.9	19.1	6.3	3.1	18.6	15.1
Raw Materials	9,487	12,368	11,068	11,593	14,582	16,630	18,579	20,317
% of Sales	38.6	42.0	36.9	32.4	38.4	42.4	40.0	38.0
Employees Cost	1,152	1,338	1,733	2,017	2,143	2,058	2,462	2,834
% of Sales	4.7	4.5	5.8	5.6	5.6	5.3	5.3	5.3
Other Expenses	7,634	9,670	11,003	15,160	12,974	11,805	14,027	16,681
% of Sales	31.1	32.8	36.7	42.4	34.1	30.1	30.2	31.2
Total Expenditure	18,273	23,376	23,804	28,770	29,699	30,493	35,068	39,832
% of Sales	74.4	79.3	79.3	80.5	78.2	77.8	75.5	74.5
EBITDA	6,280	6,093	6,216	6,972	8,299	8,686	11,380	13,634
Margin (%)	25.6	20.7	20.7	19.5	21.8	22.2	24.5	25.5
Depreciation	524	498	479	477	529	584	608	634
EBIT	5,756	5,595	5,738	6,495	7,770	8,103	10,772	12,999
Int. and Finance Charges	53	55	61	61	112	114	120	115
Other Income	241	533	441	394	243	406	534	605
PBT bef. EO Exp.	5,944	6,073	6,118	6,828	7,901	8,395	11,186	13,490
EO Items	-82		-105	1,450	-101	0	0	0
PBT after EO Exp.	5,862	6,073	6,013	8,277	7,800	8,395	11,186	13,490
Total Tax	2,116	1,882	1,642	1,759	2,043	1,613	2,908	3,480
Tax Rate (%)	36.1	31.0	27.3	21.3	26.2	19.2	26.0	25.8
Reported PAT	3,746	4,191	4,371	6,518	5,758	6,781	8,278	10,009
Adjusted PAT	3,828	4,191	4,476	5,068	5,859	6,781	8,278	10,009
Change (%)	-11.5	9.5	6.8	13.2	15.6	15.8	22.1	20.9
Margin (%)	15.6	14.2	14.9	14.2	15.4	17.3	17.8	18.7

Standalone - Balance Sheet								(INR m)
Y/E June	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	325	325	325	325	325	325	325	325
Total Reserves	7,730	8,766	11,254	6,818	7,051	9,136	9,963	11,965
Net Worth	8,055	9,091	11,579	7,143	7,376	9,460	10,288	12,290
Deferred Tax Liabilities	-230	-368	-296	-380	-519	-655	-721	-793
Total Loans	0	0	15	35	19	8	8	8
Capital Employed	7,825	8,723	11,298	6,797	6,876	8,813	9,576	11,505
Gross Block	3,975	4,000	4,495	4,719	5,012	5,660	5,832	6,032
Less: Accum. Deprn.	1,474	1,657	2,430	2,881	3,376	3,959	4,567	5,201
Net Fixed Assets	2,501	2,342	2,065	1,838	1,637	1,700	1,265	830
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	215	146	222	376	439	228	228	228
Total Investments	0	0	0	0	0	0	0	0
Curr. Assets, Loans&Adv.	11,308	13,315	15,702	13,733	14,218	18,754	18,212	21,960
Inventory	1,236	2,034	2,051	2,493	2,340	2,198	2,800	3,223
Account Receivables	1,485	1,814	1,663	1,424	1,908	2,163	2,800	3,223
Cash and Bank Balance	3,996	5,405	9,025	6,602	6,393	9,780	8,259	11,161
Loans and Advances	4,591	4,063	2,963	3,214	3,578	4,613	4,354	4,354
Curr. Liability & Prov.	6,199	7,080	6,691	9,150	9,417	11,905	10,129	11,513
Account Payables	4,062	5,477	5,313	7,541	7,784	9,711	7,830	8,984
Other Current Liabilities	1,606	895	587	731	710	1,036	1,140	1,254
Provisions	530	709	790	878	923	1,158	1,160	1,276
Net Current Assets	5,109	6,235	9,011	4,583	4,801	6,849	8,083	10,447
Appl. of Funds	7,825	8,723	11,298	6,797	6,876	8,777	9,576	11,505

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E June	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	117.8	129.0	137.7	156.1	180.5	208.9	254.7	308.0
Cash EPS	134.1	144.5	152.7	170.8	196.8	226.9	273.7	327.9
BV/Share	248.2	280.1	356.7	220.0	227.2	291.4	316.9	378.6
DPS	40	101	105	315	160	185	230	247
Payout (%)	34.0	78.6	78.1	202.0	88.8	88.7	90.0	80.0
Valuation (x)								
P/E	150.4	137.4	128.6	113.5	98.2	84.8	69.6	57.5
Cash P/E	132.2	122.6	116.1	103.7	90.0	78.1	64.7	54.0
P/BV	71.4	63.3	49.7	80.5	78.0	60.8	55.9	46.8
EV/Sales	23.3	19.3	18.9	15.9	15.0	14.4	12.2	10.5
EV/EBITDA	90.9	93.5	91.1	81.5	68.5	65.1	49.8	41.4
Dividend Yield (%)	0.2	0.6	0.6	1.8	0.9	1.0	1.3	1.4
FCF per share	116.3	126.4	130.5	256.2	161.2	240.7	170.8	323.2
Return Ratios (%)								
RoE	57.5	48.9	43.3	54.1	80.7	80.6	83.8	88.7
RoCE	59.8	51.1	44.9	60.0	86.5	87.6	91.0	95.8
Working Capital Ratios								
Asset Turnover (x)	3.1	3.4	2.7	5.3	5.5	4.5	4.9	4.6
Inventory (Days)	22	20	25	23	26	22	22	22
Debtor (Days)	21	20	21	16	26	20	22	22
Creditor (Days)	57	59	66	66	64	62	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

Y/E June	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
(INR m)								
PBT	5,818	6,073	5,939	8,699	7,901	8,395	11,186	13,490
Depreciation	524	498	479	477	529	584	608	634
Net interest expense	-147	-317	-266	-250	-154	-237	-414	-490
Others	225	54	203	139	115	67	0	0
(Inc)/Dec in WC	466	172	-179	2,101	-166	1,745	-2,754	538
Taxes	-2,731	-2,350	-1,435	-2,534	-2,494	-2,295	-2,908	-3,480
CF from Operations	4,155	4,130	4,741	8,631	5,731	8,258	5,717	10,691
(Inc)/Dec in FA	-381	-28	-503	-315	-497	-444	-172	-200
Free Cash Flow	3,774	4,102	4,237	8,317	5,234	7,814	5,545	10,491
(Pur)/Sale of Investments	0	-7	22	0	0	0	0	0
Others	115	451	1,265	325	246	380	534	605
CF from Investments	-266	416	783	11	-251	-64	362	405
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	-1,055	-3,131	-1,878	-11,037	-5,681	-4,707	-7,450	-8,008
Interest Paid	-6	-7	-9	-10	-25	-51	-120	-115
Others	0	0	-16	-18	16	-12	-66	-72
CF from Fin. Activity	-1,061	-3,137	-1,903	-11,064	-5,689	-4,770	-7,635	-8,195
Inc/Dec of Cash	2,828	1,409	3,621	-2,423	-210	3,423	-1,557	2,902
Opening Balance	1,168	3,996	5,405	9,025	6,603	6,393	9,816	8,259
Closing Balance	3,996	5,405	9,025	6,603	6,393	9,816	8,259	11,161

E: MOFSL Estimates

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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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