

P&G Hygiene and Healthcare

BSE SENSEX
82,948

S&P CNX
25,378

CMP: INR16,540

TP: INR17,000 (+3%)

Neutral



Stock Info

	PG IN
Bloomberg	PG IN
Equity Shares (m)	32
M.Cap.(INRb)/(USDb)	536.9 / 6.4
52-Week Range (INR)	19180 / 15306
1, 6, 12 Rel. Per (%)	-6/-14/-31
12M Avg Val (INR M)	142
Free float (%)	29.4

Financials Snapshot (INR b)

Y/E June	FY24	FY25E	FY26E
Sales	42.1	46.8	51.6
Sales Gr. (%)	7.5	11.3	10.3
EBITDA	9.8	11.5	12.9
Margin (%)	23.4	24.5	25.0
Adj. PAT	7.2	8.5	9.6
Adj. EPS (INR)	220.3	260.2	296.4
EPS Gr. (%)	15.1	18.2	13.9
BV/Sh.(INR)	238.7	290.8	350.2

Ratios

RoE (%)	83.2	98.4	92.6
RoCE (%)	87.4	109.4	101.9

Valuations

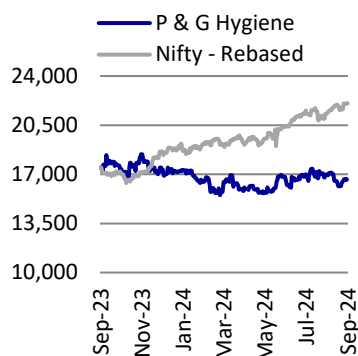
P/E (x)	72.9	61.7	54.2
P/BV (x)	67.3	55.2	45.9
EV/EBITDA (x)	52.4	44.8	39.6
Div. Yield (%)	1.6	1.3	1.5

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	70.6	70.6	70.6
DII	15.2	15.1	15.5
FII	1.6	1.6	1.1
Others	12.7	12.7	12.7

FII Includes depository receipts

Stock Performance (1-year)



Focusing on sustainable growth; rich valuation limits upside

We attended the analyst meet of PG and following are the key takeaways.

- During the analyst meet, the management highlighted: (a) potential for double-digit sales growth, particularly in the feminine hygiene segment, in which per-capita spending is currently only one-sixth of that in China; (b) the possibility of accelerating revenue growth following a 1.5x increase in distribution reach compared to three years ago; (c) growing momentum in new portfolio innovations such as Whisper Ultra hygiene products and Vicks Roll-On for headaches; and (d) cost savings to continue (savings of INR1.13b in FY24, ~3% of sales).
- PG has delivered sales/EBITDA/APAT growth of 8%/13%/15% in FY24. Gross margin expanded by 400bp YoY to 61.6% during the year, out of which 260bp was reinvested in A&P (up 33 % YoY in FY24). EBITDA margin moderated by 120bp YoY to 23.4%.
- The company has delivered growth over the years through a strong portfolio of products, superior packaging, brand communication, and retail execution. It has delivered a CAGR of 7%/10%/11% in sales/EBITDA/ APAT over FY19-24. EBITDA margin has improved by ~270bp over the same period.
- **The stock trades at an expensive valuation of 62x/54x FY25E/FY26E EPS. We reiterate Neutral rating on the stock.**

Valuation and view

- There is no change in our estimates after the analyst meet.
- Two factors make PG an attractive long-term core holding: 1) robust growth potential in the feminine hygiene segment (65-68% mix of FY24 sales) and 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, PGHH focuses 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 62x/54x FY25E/FY26E P/E. We do not see any medium-term trigger. Reiterate Neutral with a TP of INR17,000 (55x Jun'26E EPS).

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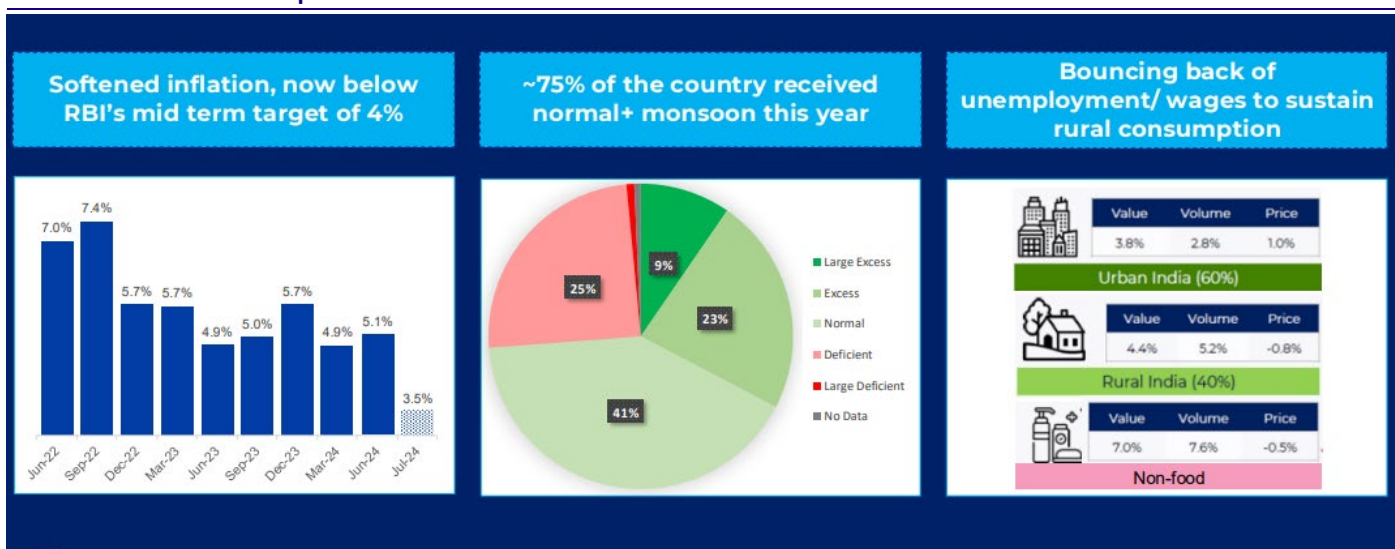
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Key points from analyst meet

Business environment

- The FMCG sector has witnessed a favorable recovery in volume growth. In FY24, the industry posted a ~4% increase in volume, and it is anticipated to deliver mid-single-digit growth in FY25.
- Improving consumption trends are emerging, driven by easing inflation and favorable monsoon patterns, which are expected to boost rural demand.
- Inflation has moderated, dropping to below 4% in Jul'24. Additionally, 75% of the country has experienced normal monsoon this year, further supporting agricultural output and rural spending.
- The rebound in employment is playing a crucial role in sustaining rural consumption, as improved income stability in rural areas stimulates purchasing power and demand for everyday goods.

Exhibit 1: Positive consumption trends



Source: Company, MOFSL

Strategic pillars for integrated growth strategy

- ❖ **Portfolio of daily use products**
 - PG has presence across a wide range of products and price points in the feminine hygiene and healthcare categories.
 - The company commands market leadership in both categories as it has a near 50% market share in the feminine category and more than 50% share in the healthcare category.
- ❖ **Superiority to win with customers**
 - PG is leveraging superiority to grow the market. The company is focusing on creating superior propositions across product, packaging, brand communication, retail execution and customer value equation.
- ❖ **Productivity to boost investment**
 - PG integrates productivity strategy across the value chain in materials, manufacturing, overhead, ad spending and working capital. As a result, the company was able to garner savings of INR1.13b in FY24 (~3% of sales) on account of improved efficiency and operational productivity.

- These savings are reinvested into the business to drive future growth, innovation, and market expansion.
- ❖ **Constructive disruption**
 - PG is leveraging global expertise in digital transformation, using artificial intelligence (AI) and machine learning to drive innovation and efficiency.
 - The company has shifted from a cluster-based planning approach to a store-based planning approach, allowing for more localized and precise marketing and sales efforts.
 - It is investing significantly in supply chain for range and higher growth opportunities.
- ❖ **Efficient organization structure**
 - PG's organizational philosophy focuses on being agile, empowered, and accountable. The company ensures that its teams are flexible and responsive to market needs while maintaining accountability at every level of operation.
 - The company's strategic ad spending includes campaigns that educate both mothers and young girls, aiming to create awareness and empower them with knowledge about healthcare and hygiene. This disruptive approach to advertising helps drive brand awareness and customer engagement.

Exhibit 2: Strategic pillars for integrated growth



Source: Company, MOFSL

Financial Performance

- In FY24, sales and PAT grew by 8% and 15%, respectively. Over the last five years, company has delivered a CAGR of 7%/10%/11% in sales/EBITDA/PAT.
- A&P expenses have increased at a faster rate than revenue growth for PG, as the company continues to leverage its strong presence in advertising to address bias through its long-standing brand initiatives. The focus is on increasing awareness, expanding customer touchpoints, and building long-term trust. Additionally, new product launches will further drive up spending.
- The absolute ad spending increased by 81% to INR5.7b in FY24 from INR3.1b in FY19. In 4QFY24, ad spending jumped 187% YoY, leading to a dip in margins.

- PG's margin has expanded by ~270bp over the last five years, from 20.7% in FY19 to 23.4% in FY24.
- It has been consistently paying dividends for the past 30 years. In FY24, the company paid a total dividend of INR255 per share, including a one-time special dividend of INR60 per share.

Segmental information

- The feminine hygiene market, currently valued at around INR34b, is expected to grow at a double-digit rate over the next 3-4 years.
- PG commands ~50% market share in the feminine hygiene category and more than 50% in the healthcare category.
- The feminine category has grown 100x in the last 30 years.
- Penetration of feminine care products stands at 60% in urban India but remains below 40% in rural areas, indicating significant growth potential.
- There is substantial room for market expansion, as India's per capita spending on feminine care is just one-sixth of China's.
- While competition in the sector is intense, PG sees this as a positive force driving overall category growth. The company has a diverse product range to meet consumer needs.
- PG's strategy of consistently challenging social taboos surrounding feminine care has been highly effective in fostering growth within the category.

Exhibit 3: Products in feminine care category



Source: Company, MOFSL

Exhibit 4: Products in healthcare category



Source: Company, MOFSL

Distribution expansion and innovation

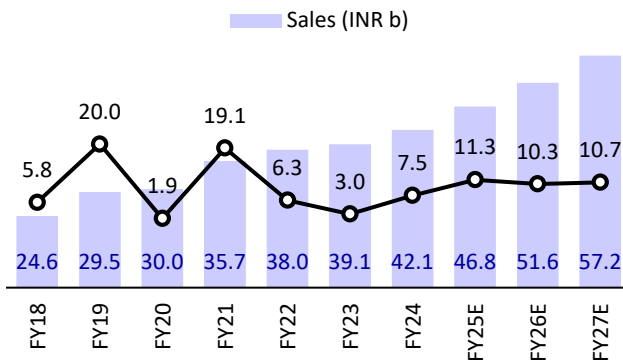
- The company has developed an in-house AI and machine-learning algorithm that analyses consumer behavior to customize product offerings at the store level. Over the past three years, the company has expanded its distribution reach by 1.5x, with its healthcare distribution through the chemist channel growing by 1.2x.
- Its products are now available across all major e-commerce and quick-commerce platforms, broadening consumer access.
- PG continues to focus on product innovation and brand enhancement within its portfolio to cater to the evolving and diverse needs of its customers.

Other points

- The P&G Shiksha program has significantly improved the learning environment and empowered marginalized communities. Presently, it collaborates with ~1,000 schools and positively impacts over 4.5m children.

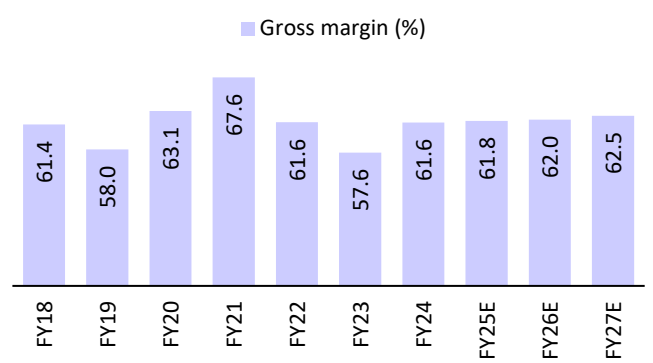
Story in charts

Exhibit 5: Net sales expected to grow in double digits



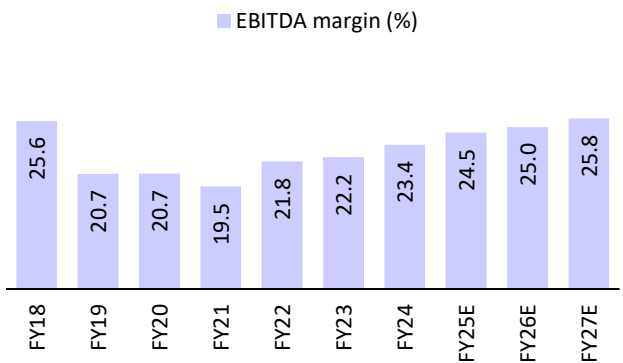
Source: Company, MOFSL

Exhibit 6: GP margin expected to remain steady



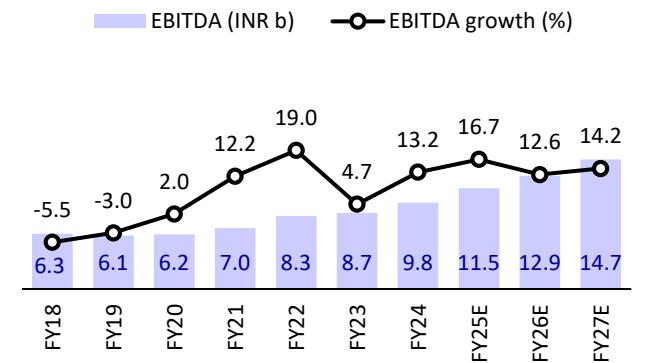
Source: Company, MOFSL

Exhibit 7: Gradual improvement in EBITDA margins...



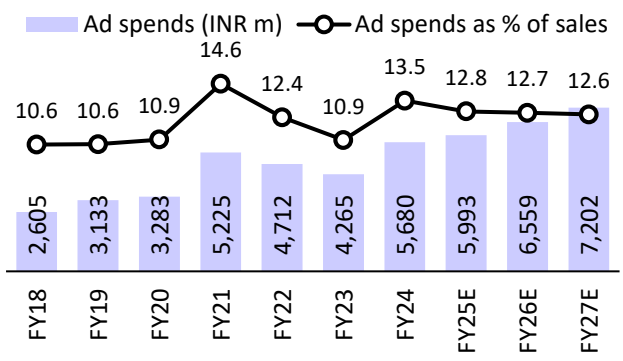
Source: Company, MOFSL

Exhibit 8: ..with 15% EBITDA CAGR expected in FY24-27E



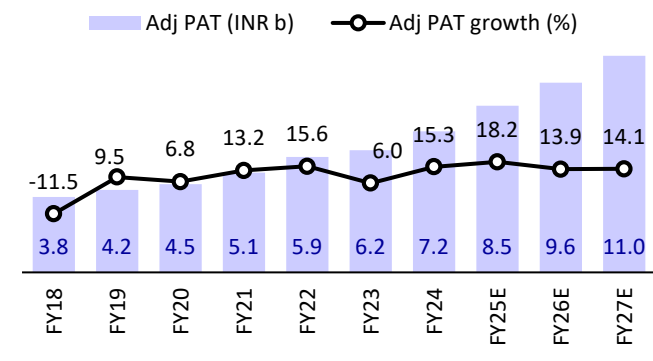
Source: Company, MOFSL

Exhibit 9: Ad spending grew in FY24 and will continue to rise going forward



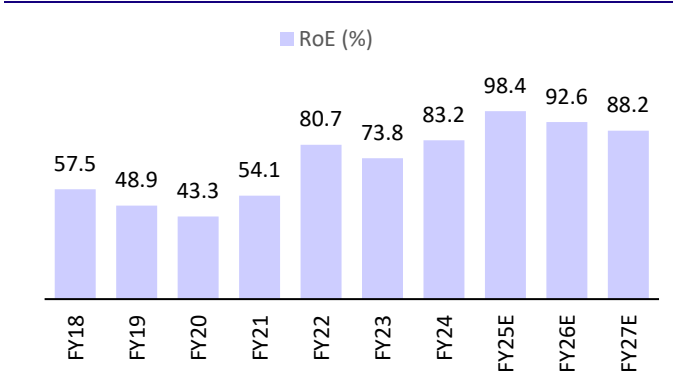
Source: Company, MOFSL

Exhibit 10: Adj. PAT expected to grow ~15% over FY24-27E



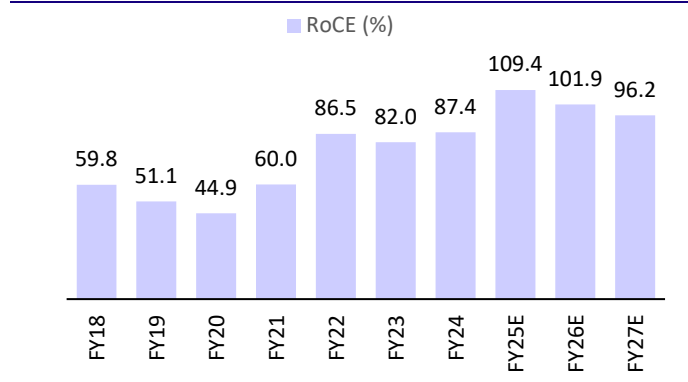
Source: Company, MOFSL

Exhibit 11: Improvement in ROE in FY24...



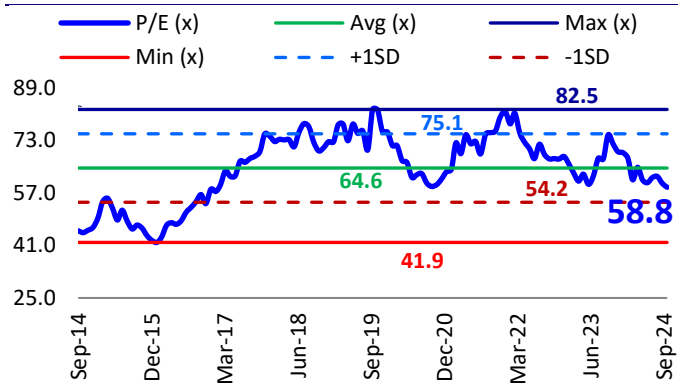
Source: Company, MOFSL

Exhibit 12: ...along with RoCE in FY24



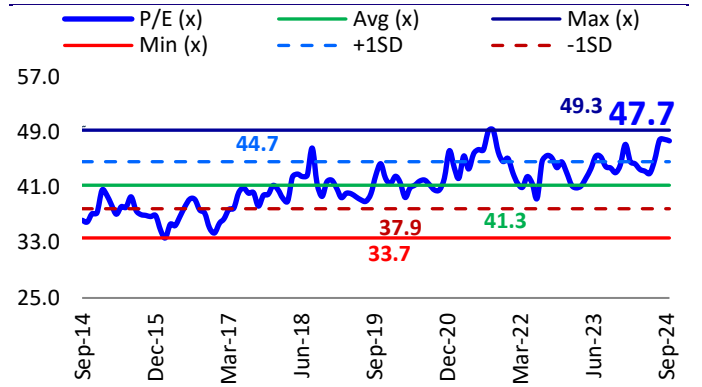
Source: Company, MOFSL

Exhibit 13: PGHH's P/E (x)



Source: Company, MOFSL

Exhibit 14: Consumer sector P/E (x)



Source: Company, MOFSL

Financials and Valuations

Standalone - Income Statement									(INR m)
Y/E June	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	29,469	30,020	35,741	37,998	39,123	42,057	46,817	51,648	57,160
Change (%)	20.0	1.9	19.1	6.3	3.0	7.5	11.3	10.3	10.7
Raw Materials	12,368	11,068	11,593	14,582	16,575	16,142	17,884	19,626	21,435
% of Sales	42.0	36.9	32.4	38.4	42.4	38.4	38.2	38.0	37.5
Employees Cost	1,338	1,733	2,017	2,143	2,058	2,456	2,669	2,892	3,201
% of Sales	4.5	5.8	5.6	5.6	5.3	5.8	5.7	5.6	5.6
Other Expenses	9,670	11,003	15,160	12,974	11,805	13,626	14,794	16,217	17,777
% of Sales	32.8	36.7	42.4	34.1	30.2	32.4	31.6	31.4	31.1
Total Expenditure	23,376	23,804	28,770	29,699	30,437	32,224	35,347	38,736	42,413
% of Sales	79.3	79.3	80.5	78.2	77.8	76.6	75.5	75.0	74.2
EBITDA	6,093	6,216	6,972	8,299	8,686	9,833	11,470	12,912	14,747
Margin (%)	20.7	20.7	19.5	21.8	22.2	23.4	24.5	25.0	25.8
Depreciation	498	479	477	529	584	565	653	669	703
EBIT	5,595	5,738	6,495	7,770	8,103	9,268	10,818	12,243	14,045
Int. and Finance Charges	55	61	61	112	114	268	115	110	113
Other Income	533	441	394	243	406	523	605	748	765
PBT after EO Exp.	6,073	6,013	8,277	7,800	8,966	9,082	11,308	12,881	14,697
Total Tax	1,882	1,642	1,759	2,042	2,184	2,674	2,850	3,246	3,704
Tax Rate (%)	31.0	27.3	21.3	26.2	24.4	29.4	25.2	25.2	25.2
Reported PAT	4,191	4,371	6,518	5,757	6,781	6,718	8,458	9,635	10,993
Adjusted PAT	4,191	4,476	5,068	5,858	6,210	7,159	8,458	9,635	10,993
Change (%)	9.5	6.8	13.2	15.6	6.0	15.3	18.2	13.9	14.1
Margin (%)	14.2	14.9	14.2	15.4	15.9	17.0	18.1	18.7	19.2

Standalone - Balance Sheet									(INR m)
Y/E June	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	325	325	325	325	325	325	325	325	325
Total Reserves	8,766	11,254	6,818	7,051	9,136	7,424	9,116	11,043	13,241
Net Worth	9,091	11,579	7,143	7,376	9,460	7,749	9,440	11,367	13,566
Deferred Tax Liabilities	-368	-296	-380	-519	-655	-749	-824	-906	-997
Total Loans	0	15	35	19	8	0	0	0	0
Capital Employed	8,723	11,298	6,797	6,876	8,813	7,000	8,617	10,461	12,569
Gross Block	4,000	4,495	4,719	5,012	5,582	5,838	6,036	6,236	6,436
Less: Accum. Deprn.	1,657	2,430	2,881	3,376	3,881	4,446	5,099	5,768	6,471
Net Fixed Assets	2,342	2,065	1,838	1,637	1,700	1,392	937	468	-35
Goodwill on Consolidation	0	0	0	0	0	0	0	0	0
Capital WIP	146	222	376	439	228	278	278	200	200
Total Investments	0	0	0	0	0	0	0	0	0
Curr. Assets, Loans&Adv.	13,315	15,702	13,733	14,231	18,790	16,168	17,606	21,035	24,820
Inventory	2,034	2,051	2,493	2,340	2,198	2,256	2,822	3,113	3,445
Account Receivables	1,814	1,663	1,424	1,921	2,163	2,408	2,822	3,113	3,445
Cash and Bank Balance	5,405	9,025	6,602	6,393	9,780	5,882	7,313	10,160	13,281
Loans and Advances	4,063	2,963	3,214	3,578	4,649	5,622	4,649	4,649	4,649
Curr. Liability & Prov.	7,080	6,691	9,150	9,431	11,905	10,837	10,204	11,242	12,416
Account Payables	5,477	5,313	7,541	7,798	9,711	8,517	7,768	8,562	9,468
Other Current Liabilities	895	587	731	710	1,036	1,185	1,303	1,433	1,577
Provisions	709	790	878	923	1,158	1,136	1,133	1,247	1,371
Net Current Assets	6,235	9,011	4,583	4,801	6,885	5,331	7,402	9,794	12,404
Appl. of Funds	8,723	11,298	6,797	6,876	8,813	7,000	8,617	10,461	12,569

E: MOFSL Estimates

Financials and Valuations

Ratios	(INR m)								
Y/E June	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)									
EPS	129.0	137.7	156.1	180.5	191.3	220.3	260.2	296.4	338.3
Cash EPS	144.5	152.7	170.8	196.8	209.3	237.9	280.7	317.4	360.3
BV/Share	280.1	356.7	220.0	227.2	291.4	238.7	290.8	350.2	417.9
DPS	101	105	315	160	185	255	208	237	271
Payout (%)	78.6	78.1	202.0	88.8	96.8	123.4	80.0	80.0	80.0
Valuation (x)									
P/E	124.5	116.6	102.9	89.0	83.9	72.9	61.7	54.2	47.5
Cash P/E	111.2	105.2	94.0	81.6	76.7	67.5	57.2	50.6	44.6
P/BV	57.3	45.0	73.0	70.7	55.1	67.3	55.2	45.9	38.4
EV/Sales	17.5	17.1	14.4	13.6	13.1	12.3	11.0	9.9	8.9
EV/EBITDA	84.7	82.4	73.8	62.0	58.9	52.4	44.8	39.6	34.4
Dividend Yield (%)	0.6	0.7	2.0	1.0	1.2	1.6	1.3	1.5	1.7
FCF per share	126.4	130.5	256.2	161.2	240.7	155.4	239.8	308.0	349.8
Return Ratios (%)									
RoE	48.9	43.3	54.1	80.7	73.8	83.2	98.4	92.6	88.2
RoCE	51.1	44.9	60.0	86.5	82.0	87.4	109.4	101.9	96.2
Working Capital Ratios									
Asset Turnover (x)	3.4	2.7	5.3	5.5	4.4	6.0	5.4	4.9	4.5
Inventory (Days)	20	25	23	23	21	22	22	22	22
Debtor (Days)	20	21	16	16	19	22	22	22	22
Creditor (Days)	59	66	66	74	82	60	60	60	60
Net WCC	-18	-20	-27	-34	-41	-16	-16	-16	-16
Growth (%)									
Sales	20.0	1.9	19.1	6.3	3.0	7.5	11.3	10.3	10.7
EBITDA	-3.0	2.0	12.2	19.0	4.7	13.2	16.7	12.6	14.2
PAT	9.5	6.8	13.2	15.6	6.0	15.3	18.2	13.9	14.1
Leverage Ratio (x)									
Current Ratio	1.9	2.3	1.5	1.5	1.6	1.5	1.7	1.9	2.0
Interest Cover Ratio	102.1	94.5	106.3	69.4	71.2	34.6	94.1	111.3	124.0
Debt/Equity	0.0	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	FY24	FY25E	FY26E	FY27E
PBT	6,073	5,939	8,699	7,901	8,395	9,392	11,308	12,881	14,697
Depreciation	498	479	477	529	584	565	653	669	703
Net interest expense	-317	-266	-250	-154	-237	-367	-490	-638	-652
Others	54	203	139	115	67	97	0	0	0
(Inc)/Dec in WC	172	-179	2,101	-166	1,745	-2,321	-640	455	510
Taxes	-2,350	-1,435	-2,534	-2,494	-2,295	-2,782	-2,850	-3,246	-3,704
CF from Operations	4,130	4,741	8,631	5,731	8,258	4,584	7,981	10,121	11,553
CF from Operating incl EO	4,130	4,741	8,631	5,731	8,258	4,584	7,981	10,121	11,553
(Inc)/Dec in FA	-28	-503	-315	-497	-444	461	-198	-123	-200
Free Cash Flow	4,102	4,237	8,317	5,234	7,814	5,045	7,783	9,999	11,353
Others	451	1,265	325	246	344	-325	605	748	765
CF from Investments	416	783	11	-251	-100	136	407	625	565
Dividend Paid	-3,131	-1,878	-11,037	-5,681	-4,707	-8,602	-6,766	-7,708	-8,795
Interest Paid	-7	-9	-10	-25	-51	-5	-115	-110	-113
Others	0	-16	-18	16	-12	-10	-75	-82	-91
CF from Fin. Activity	-3,137	-1,903	-11,064	-5,689	-4,770	-8,618	-6,956	-7,900	-8,998
Inc/Dec of Cash	1,409	3,621	-2,423	-210	3,387	-3,898	1,431	2,847	3,120
Opening Balance	3,996	5,405	9,025	6,603	6,393	9,780	5,882	7,314	10,160
Closing Balance	5,405	9,025	6,603	6,393	9,780	5,882	7,314	10,160	13,281

E: MOFSL Estimates

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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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