

P&G Hygiene and Healthcare

BSE SENSEX	S&P CNX
37,789	11,359
Bloomberg	PG IN
Equity Shares (m)	32
M.Cap.(INRb)/(USDb)	338.1 / 4.9
52-Week Range (INR)	11190 / 8714
1, 6, 12 Rel. Per (%)	0/0/-1
12M Avg Val (INR M)	67
Free float (%)	29.4

Financials & Valuations (INR b)

Y/E June	2019	2020E	2021E
Net Sales	29.1	34.0	40.4
EBITDA	6.7	8.3	10.4
PAT	4.3	5.4	6.7
EPS (INR)	131.9	166.2	207.6
Gr. (%)	14.5	26.0	24.9
BV/Sh (INR)	289.1	340.7	405.1
RoE (%)	49.2	52.8	55.7
RoCE (%)	50.7	54.4	57.3
P/E (x)	79.0	62.7	50.2
P/BV (x)	36.0	30.6	25.7

Estimate change



TP change



Rating change


CMP: INR10,416
TP: INR9,860 (-5%)
Neutral

Sales growth momentum sustains; margins below expectations

- **3QFY19 (June-ending) net sales witnessed third consecutive quarter of strong sales revival at 22.9% YoY** to INR7b (v/s est. of INR6.5b). EBITDA was in line at INR1.44b (down 1.9% YoY) and PAT was slightly below expectations at INR903m (v/s est. of INR928m), up 8.3% YoY. Management mentioned that adjusted for GST impact in the base quarter, sales growth was ~15%.
- **Gross margins contracted 630bp YoY** to 57.7%, likely due to (a) impact of 10% price cuts taken in *Whisper Choice Ultra*, and (b) absence of input tax credit under GST for sanitary napkins. Adspend declined off a high base by 270bp YoY to 10.0% of sales. Adspend costs had shown a robust increase in each of the preceding four quarters. Employee costs to sales were down 80bp YoY to 4.9% of sales, while other expenses to sales were up 240bp YoY to 22.1% of sales, leading to 520bp decline in EBITDA margins to 20.5% (v/s est. of 22.0%) in 3QFY19.
- **9MFY19 performance:** Net sales were up 19.6% YoY to INR23.1b, EBITDA was flat at INR5.4b, while Adj. PAT grew 3.3% YoY to INR3.5b.
- **Valuation and view:** Changes to the model has resulted in 1.9%/0.5%/1.1% cut in EPS for FY19/FY20/FY21. Two factors make PG an attractive long-term core holding – (1) huge category growth potential in the Feminine Hygiene segment (~70% of sales) and potential for market share growth due to its considerable moats, and (2) potentially huge margin gains from premiumization over the longer term in Feminine Hygiene. With recent moves on sharp increase in distribution, increased advertising and taking price cuts where required, the company is clearly back on the growth path. However, while PG remains a long-term pick, valuation of 50.2x FY21E EPS is expensive. Target multiple of 50x Mar'21 EPS results in TP of INR9,860. Maintain **Neutral**.

Standalone - Quarterly Earning Model

Y/E June	FY18				FY19				(INR Million)			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY18	FY19E	FY19 3QE	Var. (%)
Net Sales	6,576	7,042	5,689	5,247	7,918	8,181	6,993	6,009	24,553	29,101	6,514	7.4%
YoY Change (%)	9.5	9.5	-0.9	4.3	20.4	16.2	22.9	14.5	5.8	18.5	14.5	
Gross profit	3,804	4,235	3,641	3,387	4,766	4,542	4,032	3,451	15,066	16,791	3,693.3	
Margin (%)	57.8	60.1	64.0	64.6	60.2	55.5	57.7	57.4	61.4	57.7	56.7	
EBITDA	1,875	2,102	1,464	839	2,096	1,912	1,437	1,214	6,280	6,658	1,433	0.2%
Growth	24.0	-8.0	-4.8	-36.0	11.8	-9.0	-1.9	44.6	-5.5	6.0	-2	
Margins (%)	28.5	29.9	25.7	16.0	26.5	23.4	20.5	20.2	25.6	22.9	22.0	
Depreciation	128	135	137	123	121	123	126	129	524	499	130	
Interest	4	5	4	41	4	5	5	7	53	21	6	
Other Income	35	71	66	68	96	117	84	110	241	407	115	
PBT	1,777	2,033	1,307	744	2,066	1,901	1,390	1,188	6,025	6,545	1,412	-1.6%
Tax	622	721	475	298	716	660	489	394	2,160	2,258	484	
Rate (%)	35.0	35.5	36.3	40.1	34.7	34.7	35.2	33.1	35.8	34.5	34.3	
Adj PAT	1,156	1,312	832	445	1,350	1,241	901	795	3,746	4,287	928	-2.9%
YoY Change (%)	10.6	-12.9	-16.5	-42.9	16.8	-5.4	8.3	78.4	-13.4	14.4	11.4	
Margins (%)	17.6	18.6	14.6	8.5	17.1	15.2	12.9	13.2	15.3	14.7	14.2	

E: MOFSL Estimates

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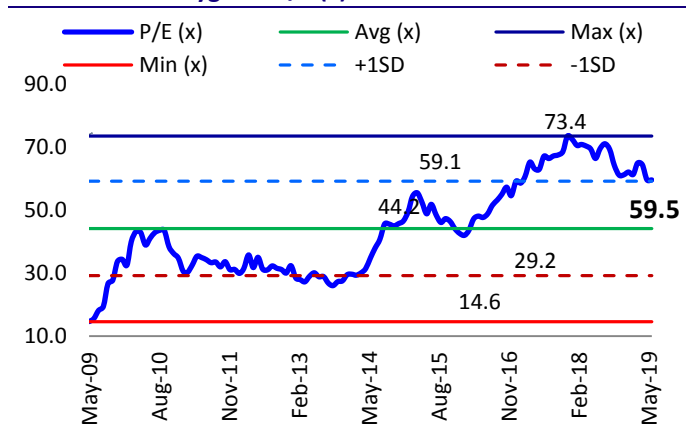
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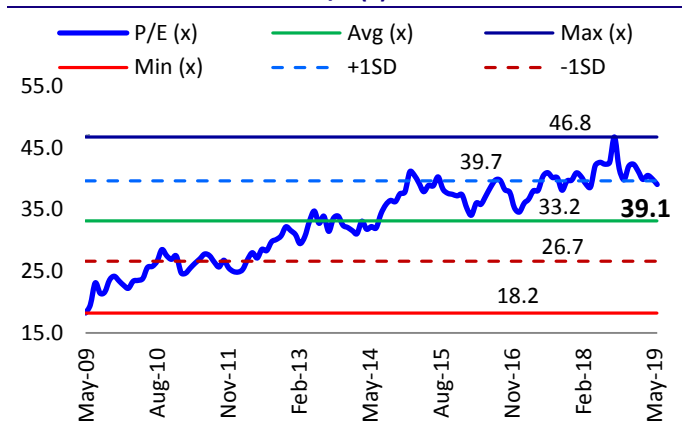
Exhibit 1: Changes in our model have led to 1.9%/0.5%/1.1% cut in EPS for FY19/FY20/FY21, respectively

Change in Estimates	New			Old			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Net Sales	29,102	33,988	40,375	28,623	33,201	39,438	1.7	2.4	2.4
EBITDA	6,658	8,259	10,417	6,698	8,300	10,530	-0.6	-0.5	-1.1
Adjusted PAT	4,287	5,401	6,747	4,368	5,428	6,821	-1.9	-0.5	-1.1

Source: Company, MOFSL

Exhibit 2: P&G Hygiene P/E (x)

Source: Company, MOFSL

Exhibit 3: Consumer sector P/E (x)

Source: Company, MOFSL

Financials and Valuations

Standalone - Income Statement

(INR M)

Y/E June	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Total Income from Operations	23,338	22,754	23,204	24,553	29,102	33,988	40,375
Change (%)	13.8	-2.5	2.0	5.8	18.5	16.8	18.8
Total Expenditure	18,494	16,696	16,558	18,273	22,443	25,729	29,959
% of Sales	79.2	73.4	71.4	74.4	77.1	75.7	74.2
EBITDA	4,844	6,059	6,646	6,280	6,658	8,259	10,417
Margin (%)	20.8	26.6	28.6	25.6	22.9	24.3	25.8
Depreciation	525	517	597	524	499	617	748
EBIT	4,319	5,542	6,049	5,756	6,159	7,642	9,669
Int. and Finance Charges	57	63	104	53	21	30	33
Other Income	746	876	773	241	407	572	587
PBT bef. EO Exp.	5,008	6,355	6,718	5,944	6,545	8,183	10,222
EO Items	0	0	0	-82		0	0
PBT after EO Exp.	5,008	6,355	6,718	5,862	6,545	8,183	10,222
Total Tax	1,547	2,130	2,390	2,160	2,258	2,782	3,476
Tax Rate (%)	30.9	33.5	35.6	36.8	34.5	34.0	34.0
Reported PAT	3,461	4,225	4,327	3,702	4,287	5,401	6,747
Adjusted PAT	3,461	4,225	4,327	3,746	4,287	5,401	6,747
Change (%)	14.6	22.1	2.4	-13.4	14.5	26.0	24.9
Margin (%)	14.8	18.6	18.6	15.3	14.7	15.9	16.7

Standalone - Balance Sheet

(INR M)

Y/E June	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	325	325	325	325	325	325	325
Total Reserves	13,133	16,193	4,937	7,730	9,059	10,734	12,825
Net Worth	13,457	16,518	5,261	8,055	9,384	11,058	13,150
Deferred Tax Liabilities	-40	-89	-263	-230	-253	-278	-306
Total Loans	0	0	0	0	0	0	0
Capital Employed	13,418	16,428	4,999	7,825	9,131	10,780	12,844
Gross Block	5,222	5,819	6,505	6,612	7,504	8,604	9,748
Less: Accum. Deprn.	2,128	2,645	3,173	3,169	3,668	4,285	5,033
Net Fixed Assets	3,093	3,174	3,332	3,443	3,837	4,319	4,715
Goodwill on Consolidation	0	0	0	0	0	0	0
Capital WIP	390	347	408	215	422	422	420
Total Investments	0	0	0	0	0	0	1
Curr. Assets, Loans&Adv.	15,962	18,053	8,073	11,308	16,375	19,514	23,616
Inventory	1,191	1,275	1,774	1,236	1,834	2,142	2,544
Account Receivables	1,139	1,496	1,328	1,485	1,834	2,142	2,544
Cash and Bank Balance	6,178	10,732	1,168	3,996	7,760	10,268	13,548
Loans and Advances	7,454	4,550	3,803	4,591	4,947	4,963	4,980
Curr. Liability & Prov.	6,027	5,146	6,815	7,140	11,503	13,475	15,909
Account Payables	3,723	3,241	3,632	4,062	5,206	6,076	7,213
Other Current Liabilities	2,234	1,838	2,625	2,548	2,803	3,083	3,391
Provisions	70	67	558	530	3,494	4,316	5,304
Net Current Assets	9,934	12,907	1,258	4,168	4,873	6,039	7,708
Appl. of Funds	13,418	16,428	4,999	7,825	9,131	10,780	12,844

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E June	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Basic (INR)							
EPS	106.5	130.0	133.1	115.3	131.9	166.2	207.6
Cash EPS	122.8	146.1	151.7	131.5	147.4	185.4	230.9
BV/Share	414.6	508.9	162.1	248.2	289.1	340.7	405.1
DPS	0.0	36.0	389.0	40.0	91.1	114.8	143.4
Payout (%)	0.0	27.7	292.2	34.7	69.1	69.0	69.0
Valuation (x)							
P/E	97.8	80.1	78.2	90.4	79.0	62.7	50.2
Cash P/E	84.8	71.3	68.7	79.2	70.6	56.2	45.1
P/BV	25.1	20.5	64.3	42.0	36.0	30.6	25.7
EV/Sales	14.2	14.4	14.5	13.6	11.4	9.6	8.0
EV/EBITDA	68.5	54.0	50.7	53.2	49.6	39.7	31.2
Dividend Yield (%)	0.0	0.3	3.7	0.4	0.9	1.1	1.4
FCF per share	131.4	92.5	123.7	116.3	195.9	176.2	228.3
Return Ratios (%)							
RoE	29.5	28.2	39.7	56.3	49.2	52.8	55.7
RoCE	30.0	28.6	41.0	59.1	50.7	54.4	57.3
Working Capital Ratios							
Asset Turnover (x)	1.7	1.4	4.6	3.1	3.2	3.2	3.1
Inventory (Days)	19	18	24	22	23	23	23
Debtor (Days)	16	19	22	21	23	23	23
Creditor (Days)	47	51	54	57	65	65	65
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	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
PBT	5,008	6,355	6,718	5,818	6,545	8,183	10,222
Depreciation	525	517	597	524	499	617	748
Net interest expense	-658	-785	-644	-147	-386	-542	-554
Others	212	66	146	225	0	0	0
(Inc)/Dec in WC	1,225	-615	135	466	3,059	1,341	1,611
Taxes	-2,056	-2,013	-2,500	-2,731	-2,258	-2,782	-3,476
CF from Operations	4,256	3,525	4,453	4,155	7,460	6,818	8,552
(Inc)/Dec in FA	10	-523	-438	-381	-1,100	-1,100	-1,142
Free Cash Flow	4,266	3,002	4,015	3,774	6,360	5,718	7,410
(Pur)/Sale of Investments	0	0	0	0	0	0	-1
Others	274	2,770	2,009	115	384	547	559
CF from Investments	284	2,247	1,571	-266	-716	-553	-584
Dividend Paid	-893	-1,182	-15,550	-1,055	-2,958	-3,727	-4,655
Interest Paid	-9	-35	-37	-6	-21	-30	-33
Others	-152	0	0	0	0	0	0
CF from Fin. Activity	-1,053	-1,217	-15,587	-1,061	-2,979	-3,757	-4,688
Inc/Dec of Cash	3,487	4,554	-9,564	2,828	3,764	2,508	3,280
Opening Balance	2,691	6,178	10,732	1,168	3,996	7,760	10,268
Closing Balance	6,178	10,732	1,168	3,996	7,760	10,268	13,548

E: MOFSL Estimates

Corporate profile

Company description

Procter & Gamble Hygiene & Health Care Limited (PGHH), a 71% subsidiary of P&G, manufactures, distributes and markets three major brands in India – *Whisper* (sanitary napkins), *Vicks* (balm, cough drops and tablets), and *Old Spice* (aftershave lotion and deodorants). Whisper is the market leader, with ~56% share Indian Feminine Hygiene market, which contributed to ~67% of sales in FY18 (June year-end). Vicks is also the market leader, with over 30% share in the cough, Cold and Hay Fever segment of OTC (over the counter) products.

Exhibit 1: Sensex rebased

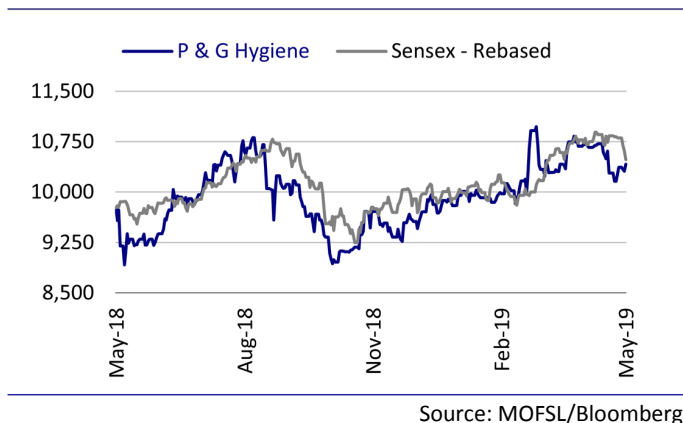


Exhibit 2: Shareholding pattern (%)

	Mar-19	Dec-18	Mar-18
Promoter	70.6	70.6	70.6
DII	10.8	10.6	9.9
FII	3.4	3.4	3.6
Others	15.1	15.4	15.8

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Life Insurance Corporation Of India	3.4
Sbi Equity Hybrid Fund	2.1
General Insurance Corporation Of India	1.6

Source: Capitaline

Exhibit 4: Top management

Name	Designation
R A Shah	Chairman & Independent Director
Madhusudan Gopalan	Managing Director
Flavia Machado	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Karthik Natarajan	Sonali Dhawan
Pramod Agarwal	A K Gupta*
Shailymanyu Singh Rathore	Bansi S Mehta*

*Independent

Exhibit 6: Auditors

Name	Type
Ashwin Solanki & Associates	Cost Auditor
Dholakia & Associates LLP	Secretarial Audit
Kalyaniwalla & Mistry LLP	Statutory

Source: Capitaline

Exhibit 7: MOFSL forecast v/s consensus

EPS (INR)	MOFSL forecast	Consensus forecast	Variation (%)
FY19	131.9	144.5	-8.7
FY20	166.2	171.5	-3.1
FY21	207.6	229.3	-9.5

Source: Bloomberg

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

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