

P&G Hygiene and Healthcare

BSE SENSEX	S&P CNX
36,971	11,069
Bloomberg	PG IN
Equity Shares (m)	32
M.Cap.(INRb)/(USD\$b)	324.3 / 4.5
52-Week Range (INR)	11000 / 8714
1, 6, 12 Rel. Per (%)	-1/-4/2
12M Avg Val (INR M)	68
Free float (%)	29.4

Financials & Valuations (INR b)

Y/E June	2019E	2020E	2021E
Net Sales	28.6	33.2	39.4
EBITDA	6.7	8.3	10.5
PAT	4.4	5.4	6.8
EPS (INR)	134.4	167.0	209.9
Gr. (%)	18.0	24.3	25.7
BV/Sh (INR)	289.9	341.7	406.9
RoE (%)	50.0	53.0	56.1
RoCE (%)	51.6	54.6	57.7
P/E (x)	74.3	59.8	47.6
P/BV (x)	34.5	29.2	24.6

Estimate change

TP change

Rating change



CMP: INR9,990

TP: INR9,800(-2%)

Neutral

Sales momentum sustains; material cut in EPS forecasts on major margin miss

- Net sales grew strongly for the second straight quarter at 16.2% YoY to INR8.2b** (our estimate: INR8.3b) in 2QFY19 (FY ending June). However, EBITDA declined by 9% YoY to INR1.9b (our estimate: INR2.4b) and adj. PAT was down by 5.4% YoY to INR1.2b (our estimate: INR1.5b).
- Gross margin shrank 460bp YoY to 55.5%**, which can be attributed to a combination of factors, such as (a) high commodity inflation levels, as also witnessed by peers so far in the Dec'18 results, (b) 10% price cuts in *Whisper Choice Ultra* and (c) absence of input tax credit under GST for sanitary napkins. EBITDA margin shrank 650bp YoY to 23.4%, led by higher ad spends (+140bp YoY – fourth straight quarter of sharp increase YoY), employee cost (+40bp YoY) and other expenses (+10bp YoY).
- 1HFY19 performance:** Net sales were up by 18.2% YoY to INR16.1b, EBITDA rose 0.8% YoY to INR4b and PAT grew 5.0% YoY to INR2.6b.
- Negative net working capital increased by ~60% both YoY and over March, as the increase in creditor days offset the rise in other components.
- Valuation view:** Changes to the model have resulted in a 16.4%/12.8%/8.4% reduction in our EPS estimate for FY19/20/21. Absence of input tax credit and price reduction will have an impact on margins in the subsequent quarters as well. 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 because of its considerable moats and (2) potentially huge margin gains from premiumization over the longer term in feminine hygiene. However, while PG remains a long-term pick, valuations of 59.8x FY20E EPS are expensive. Target multiple of 52x Dec'20E EPS (10% discount to 3 year average) results in TP of INR9,800. Maintain **Neutral**.

Standalone - Quarterly Earning Model

Y/E June	FY18				FY19				FY18	FY19E	FY19	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	6,576	7,042	5,689	5,247	7,918	8,181	6,514	6,010	24,553	28,623	8,309	-1.5%
YoY Change (%)	9.5	9.5	-0.9	4.3	20.4	16.2	14.5	14.6	5.8	16.6	18.0	
Gross profit	3,804	4,235	3,641	3,387	4,766	4,542	3,693	3,457	15,066	16,458	5,126.7	
Margin (%)	57.8	60.1	64.0	64.6	60.2	55.5	56.7	57.5	61.4	57.5	61.7	
EBITDA	1,875	2,102	1,464	839	2,096	1,912	1,433	1,257	6,280	6,698	2,368	-19.2%
Growth	24.0	-8.0	-4.8	-36.0	11.8	-9.0	-2.1	49.7	-5.5	6.7	13	
Margins (%)	28.5	29.9	25.7	16.0	26.5	23.4	22.0	20.9	25.6	23.4	28.5	
Depreciation	128	135	137	123	121	123	130	132	524	506	170	
Interest	4	5	4	41	4	5	6	6	53	21	10	
Other Income	35	71	66	68	96	117	115	121	241	448	110	
PBT	1,777	2,033	1,307	744	2,066	1,901	1,412	1,240	6,025	6,619	2,298	-17.3%
Tax	622	721	475	298	716	660	484	390	2,160	2,250	793	
Rate (%)	35.0	35.5	36.3	40.1	34.7	34.7	34.3	31.5	35.8	34.0	34.5	
Adj PAT	1,156	1,312	832	445	1,350	1,241	928	849	3,746	4,368	1,505	-17.5%
YoY Change (%)	10.6	-12.9	-16.5	-42.9	16.8	-5.4	11.4	90.6	-13.4	16.6	14.7	
Margins (%)	17.6	18.6	14.6	8.5	17.1	15.2	14.2	14.1	15.3	15.3	18.1	

E: MOSL Estimates

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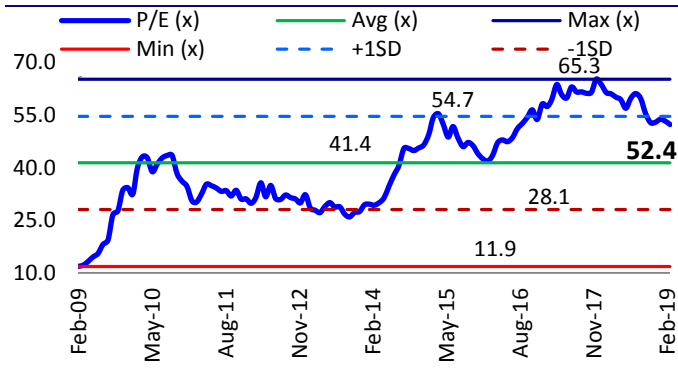
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Exhibit 1: Changes in our model have led to EPS cut of 16.4%/12.8% for FY19/20

Change in Estimates	New			Old			Change		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Net Sales	28,623	33,201	39,438	29,119	33,580	39,885	-1.7%	-1.1%	-1.1%
EBITDA	6,698	8,300	10,530	8,070	9,555	11,487	-17.0%	-13.1%	-8.3%
Adjusted PAT	4,368	5,428	6,821	5,228	6,226	7,451	-16.4%	-12.8%	-8.4%

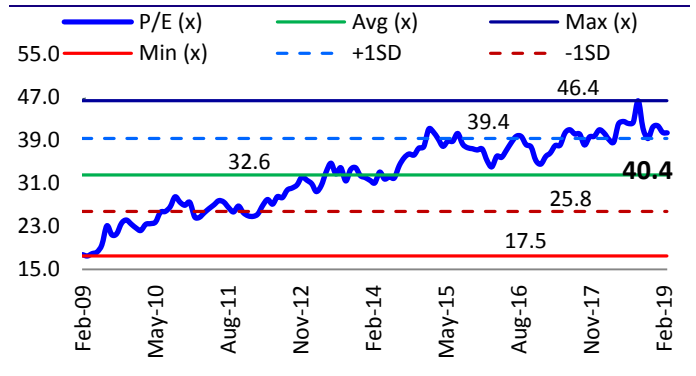
Source: Company, MOSL

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



Source: Company, MOSL

Exhibit 3: Consumer sector P/E (x)



Source: Company, MOSL

Financials and Valuations

Standalone - Income Statement

(INR Million)

Y/E June	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Total Income from Operations	23,338	22,754	23,204	24,553	28,623	33,201	39,438
Change (%)	13.8	-2.5	2.0	5.8	16.6	16.0	18.8
Raw Materials	9,209	8,848	9,150	9,487	12,165	13,779	15,775
% of Sales	39.5	38.9	39.4	38.6	42.5	41.5	40.0
Employees Cost	1,133	1,174	1,141	1,152	1,317	1,494	1,735
% of Sales	4.9	5.2	4.9	4.7	4.6	4.5	4.4
Other Expenses	8,152	6,674	6,267	7,634	8,444	9,628	11,398
% of Sales	34.9	29.3	27.0	31.1	29.5	29.0	28.9
Total Expenditure	18,494	16,696	16,558	18,273	21,925	24,901	28,908
% of Sales	79.2	73.4	71.4	74.4	76.6	75.0	73.3
EBITDA	4,844	6,059	6,646	6,280	6,698	8,300	10,530
Margin (%)	20.8	26.6	28.6	25.6	23.4	25.0	26.7
Depreciation	525	517	597	524	506	617	748
EBIT	4,319	5,542	6,049	5,756	6,192	7,683	9,782
Int. and Finance Charges	57	63	104	53	21	30	33
Other Income	746	876	773	241	448	572	587
PBT bef. EO Exp.	5,008	6,355	6,718	5,944	6,619	8,225	10,335
EO Items	0	0	0	-82	0	0	0
PBT after EO Exp.	5,008	6,355	6,718	5,862	6,619	8,225	10,335
Total Tax	1,547	2,130	2,390	2,160	2,250	2,796	3,514
Tax Rate (%)	30.9	33.5	35.6	36.8	34.0	34.0	34.0
Reported PAT	3,461	4,225	4,327	3,702	4,368	5,428	6,821
Adjusted PAT	3,461	4,225	4,327	3,746	4,368	5,428	6,821
Change (%)	14.6	22.1	2.4	-13.4	16.6	24.3	25.7
Margin (%)	14.8	18.6	18.6	15.3	15.3	16.3	17.3

Standalone - Balance Sheet

(INR Million)

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	9,085	10,767	12,882
Net Worth	13,457	16,518	5,261	8,055	9,409	11,092	13,207
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	9,156	10,814	12,901
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	3,675	4,292	5,040
Net Fixed Assets	3,093	3,174	3,332	3,443	3,830	4,312	4,708
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	16,378	19,433	23,565
Inventory	1,191	1,275	1,774	1,236	1,804	2,092	2,485
Account Receivables	1,139	1,496	1,328	1,485	1,804	2,092	2,485
Cash and Bank Balance	6,178	10,732	1,168	3,996	7,824	10,286	13,614
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	11,473	13,354	15,793
Account Payables	3,723	3,241	3,632	4,062	5,120	5,936	7,046
Other Current Liabilities	2,234	1,838	2,625	2,548	2,803	3,083	3,391
Provisions	70	67	558	530	3,550	4,335	5,355
Net Current Assets	9,934	12,907	1,258	4,168	4,905	6,080	7,772
Appl. of Funds	13,418	16,428	4,999	7,825	9,156	10,814	12,901

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E June	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Basic (INR)							
EPS	106.5	130.0	133.1	113.9	134.4	167.0	209.9
Cash EPS	122.8	146.1	151.7	131.5	150.2	186.2	233.2
BV/Share	414.6	508.9	162.1	248.2	289.9	341.7	406.9
DPS	0.0	36.0	389.0	40.0	92.9	115.4	145.0
Payout (%)	0.0	27.7	292.2	35.1	69.1	69.0	69.0
Valuation (x)							
P/E	93.8	76.8	75.0	87.7	74.3	59.8	47.6
Cash P/E	81.3	68.4	65.8	75.9	66.5	53.6	42.8
P/BV	24.1	19.6	61.6	40.3	34.5	29.2	24.6
EV/Sales	13.6	13.8	13.9	13.0	11.1	9.5	7.9
EV/EBITDA	65.7	51.8	48.6	51.0	47.2	37.8	29.5
Dividend Yield (%)	0.0	0.4	3.9	0.4	0.9	1.2	1.5
FCF per share	131.4	92.5	123.7	116.3	198.3	175.4	231.4
Return Ratios (%)							
RoE	29.5	28.2	39.7	56.3	50.0	53.0	56.1
RoCE	30.0	28.6	41.0	59.1	51.6	54.6	57.7
Working Capital Ratios							
Asset Turnover (x)	1.7	1.4	4.6	3.1	3.1	3.1	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 Million)

Y/E June	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
PBT	5,008	6,355	6,718	5,818	6,619	8,225	10,335
Depreciation	525	517	597	524	506	617	748
Net interest expense	-658	-785	-644	-147	-427	-542	-554
Others	212	66	146	225	0	0	0
(Inc)/Dec in WC	1,225	-615	135	466	3,090	1,288	1,636
Taxes	-2,056	-2,013	-2,500	-2,731	-2,250	-2,796	-3,514
CF from Operations	4,256	3,525	4,453	4,155	7,538	6,792	8,652
(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	6,438	5,692	7,510
(Pur)/Sale of Investments	0	0	0	0	0	0	-1
Others	274	2,770	2,009	115	425	547	559
CF from Investments	284	2,247	1,571	-266	-675	-553	-584
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	0	0	0	0	0	0	0
Dividend Paid	-893	-1,182	-15,550	-1,055	-3,014	-3,746	-4,707
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	-3,035	-3,776	-4,740
Inc/Dec of Cash	3,487	4,554	-9,564	2,828	3,828	2,463	3,328
Opening Balance	2,691	6,178	10,732	1,168	3,996	7,824	10,287
Closing Balance	6,178	10,732	1,168	3,996	7,824	10,287	13,615

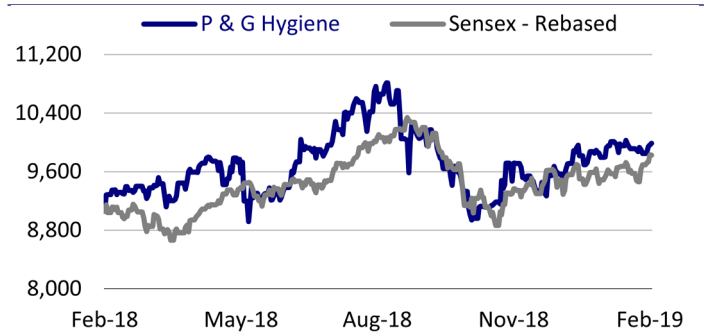
E: MOSL Estimates

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



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Dec-18	Sep-18	Dec-17
Promoter	70.6	70.6	70.6
DII	10.6	10.1	9.6
FII	3.4	3.7	3.9
Others	15.4	15.6	15.9

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Life Insurance Corporation Of India	3.2
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
Madhusudan Gopalan	Managing Director
Ishan Sonthalia	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: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	134.4	142.3	-5.5
FY20	167.0	169.5	-1.5
FY21	209.9	225.7	-7.0

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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