8 November 2021

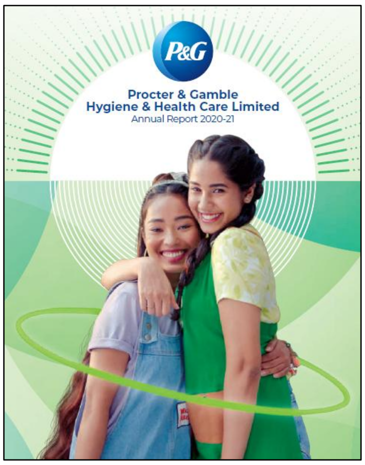
Update | Sector: Consumer

P&G Hygiene and Healthcare

BSE SENSEX	S&P CNX
60,546	18,069

CMP: INR14,371 TP: INR17,450 (+21%) Buy

Strong broad-based topline growth; ad spends to stabilize at lower levels



Stock Info

Bloomberg	PG IN
Equity Shares (m)	32
M.Cap.(INRb)/(USDb)	466.5 / 6.3
52-Week Range (INR)	15147 / 9881
1, 6, 12 Rel. Per (%)	4/-16/-4
12M Avg Val (INR M)	129

Financials Snapshot (INR b)

Y/E March	2021	2022E	2023E
Sales	35.7	39.2	46.3
Sales Gr. (%)	19.1	9.6	18.2
EBITDA	7.0	10.0	12.6
Margins (%)	19.5	25.7	27.1
Adj. PAT	5.1	7.4	9.4
Adj. EPS (INR)	156.1	228.4	288.4
EPS Gr. (%)	13.4	46.3	26.3
BV/Sh.(INR)	220.0	242.9	271.7
Ratios			
RoE (%)	54.1	98.7	112.1
RoCE (%)	60.1	104.6	118.8
Valuations			
P/E (x)	92.6	63.3	50.1
P/BV (x)	65.7	59.5	53.2
EV/EBITDA (x)	66.3	46.1	36.7
Div. Yield (%)	2.2	1.4	1.8

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	70.6	70.6	70.6
DII	13.5	13.6	13.5
FII	2.6	2.5	2.5
Others	13.3	13.3	13.4

FII Includes depository receipts

Here are the key takeaways from P&G Hygiene and Healthcare (PGHH)'s FY21 Annual Report:

- **Feminine Hygiene and Healthcare segments report strong growth:** PGHH continued to strengthen its brand fundamentals with innovation, product launches, distribution expansion, and superior communication and execution. Sales grew 19.1% YoY in FY21, led by the Feminine Hygiene (66% of sales; up 16.7% YoY) and Healthcare (33.1% of sales; up 24.1% YoY) segments. The company does not share segmental data as a part of its quarterly results.
- **Ramping up category development:** Since 1995, the Whisper school program has educated more than 25m girls across India on menstrual hygiene. PGHH supported 40,000 schools, educating ~6m adolescent girls on the importance of menstrual hygiene in FY21 – despite the pandemic – via digital means. It plans to reach over 8m girls annually within the next three years. The company is committed to doubling the program's impact by covering 50m girls within the next few years. This initiative is an important part of category development by PGHH, the category leader in the Feminine Hygiene segment, which has penetration levels of just ~20% in India.
- **Vicks continues to gain market share in each of its sub-segments:** PGHH continued to gain share in the Cough & Cold category, with strong offtake growth across sub-brands in the portfolio – VapoRub and BabyRub (61% of healthcare sales), cough drops (32%), and tablets (7%). Growth was driven by a) a superior go-to-market strategy, with an enhanced presence in stores with more visibility touchpoints per store, b) increased market share in the Cough & Cold category, and c) innovation backed by strong communication campaigns.
- **Gross margin increases sharply:** Some years ago, PGHH outsourced the manufacturing of its Vicks products to P&G's other entities. This has led to lower material costs, but subsequently higher processing charges. We believe this is a key factor that has largely contributed to the reduction in RM costs (32.4% of sales in FY21 from 36.9%/42% in FY20/FY19) for the company in recent years.
- **Investments in higher ad spend in line with P&G's global strategy:** The company's aggression in branding since FY18 was ramped up further in FY21. The company increased ad spending in FY18 and FY19 (10.6% of sales for both years). This continued in FY20 (10.9% of sales) and increased even further to 14.6% of sales in FY21, in line with P&G's global strategy to boost ad spends during the pandemic. We believe ad spends are likely to normalize at 11–12% of sales in subsequent years.

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- **Sustainability efforts:** On the sustainability front, PGHH is working towards reducing greenhouse emissions at its manufacturing sites. It aims to achieve half of 2010 levels by 2030, in line with P&G's global directive for the group. It has also initiated efforts to reduce the flow of plastic by recovering and recycling multi-layered plastic packaging waste.
- **Dividend:** In FY21, the Board of Directors declared an interim special dividend of INR150 per share, in addition to the interim/final dividends of INR85/INR80 per share. The dividend payout was over 200% in FY21. We believe intermittent special dividends in subsequent years will be an ongoing feature of the company – as it does not need the cash balance for expansion, and these payouts would only serve to improve RoCE and RoE.
- **AGM:** The 57th Annual General Meeting of the company is to be held on Wednesday, 17th Nov'21 at 11:00 am through video conferencing.

Valuation and view

- PGHH delivered strong sales growth in the first half of the decade, with a 20.4% CAGR over FY10–15. The company saw a lull period over the next three years due to overhauls such as demonetization and the introduction of GST. However, since FY19, growth seems to have returned strongly (barring a temporary blip in FY20 due to COVID-related disruptions). With 19% sales growth delivered in FY21, PGHH appears to have returned to the growth levels seen in the earlier half of the decade.
- Efforts in distribution expansion, significantly higher ad spends, new launches, and price cuts have boosted PGHH's growth in recent years. Although expensive valuations of 50.1x FY23E EPS imply a limited near-term upside, two factors make PGHH an attractive long-term core holding: (1) the potential for huge category and market share growth in the Feminine Hygiene segment (66% of FY21 sales) owing to considerable moats and (2) potentially huge margin gains from premiumization in Feminine Hygiene over the longer term.
- The company should see rapid growth over the long term on the back of certain encouraging developments: (a) the increasing pace of distribution expansion, (b) the continuingly strong pace of category development efforts in schools to boost awareness and growth, (c) rising ad spends after a lull in preceding years, (d) a healthy pipeline of new products, (e) accelerated consumer entries into the category through launches at low price points, and (f) the willingness to take price cuts, whenever required, to boost growth. We maintain a **Buy** rating, with TP of INR17,450 (50x Dec'23 EPS).

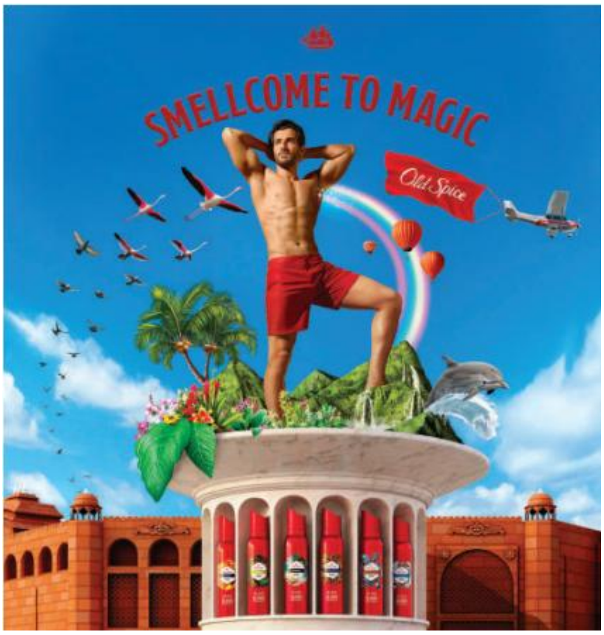
New launches in FY21

- In FY21, PGHH continued to focus on driving meaningful innovations for consumers, backed by distribution expansion and strong advertising.
- PGHH launched the Vicks Roll-On Inhaler.
- The newly launched Old Spice 0% gas deodorants are strengthening its foothold in the category.

Exhibit 1: Newly launched Vicks Roll-On Inhaler

Source: Company, MOFSL

Exhibit 2: Old Spice 0% gas deodorants



Source: Company, MOFSL

Feminine Hygiene business (66% of FY21 sales)

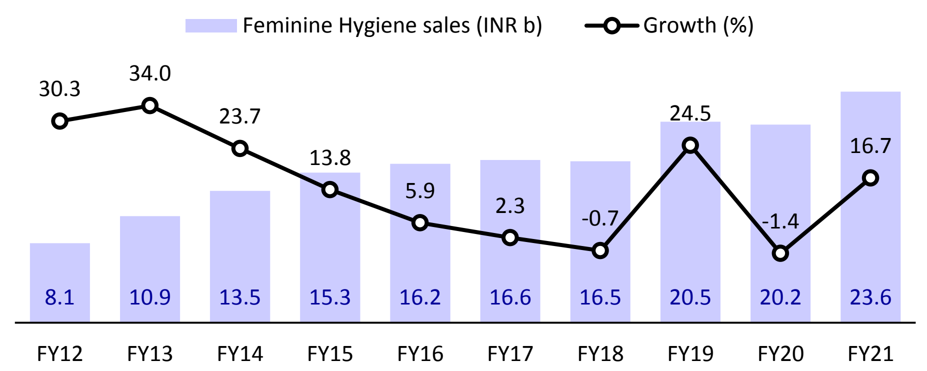
- In the Feminine Care business, Whisper remained the market leader.
- There was strong innovation across the portfolio. PGHH strengthened its position in the emerging premium Nights segment, while playing actively in the base Ultra and Choice portfolios.
- Segmental sales grew 16.7% YoY – this is the second year in the past three years that it has achieved sales growth in excess of 15% in this segment, following 24.5% growth in FY19.
- In FY21, PGHH ran the second version of the Whisper #KeepGirlsInSchool campaign to raise awareness about the issue of girls dropping out of school on reaching puberty.
- It also partnered with a major media house on the 'Period Of Pride Partnership' campaign.
  - Whisper advocated for the integration of a period module in the school curriculum to sensitize both boys and girls to the concept of menstruation and menstrual health. It believes educating both the sexes on menstruation could help bring a revolutionary change in how people perceive menstruation.
  - About 1m people signed Whisper's petition to integrate the period and puberty education module in the school curriculum, currently being developed in partnership with UNESCO.

- P&G plans to launch its global sanitary napkin recycling program in India. We note, however, that this has been in the planning stage for a few years now and seems to have been delayed, perhaps more recently due to the pandemic.

Whisper school program

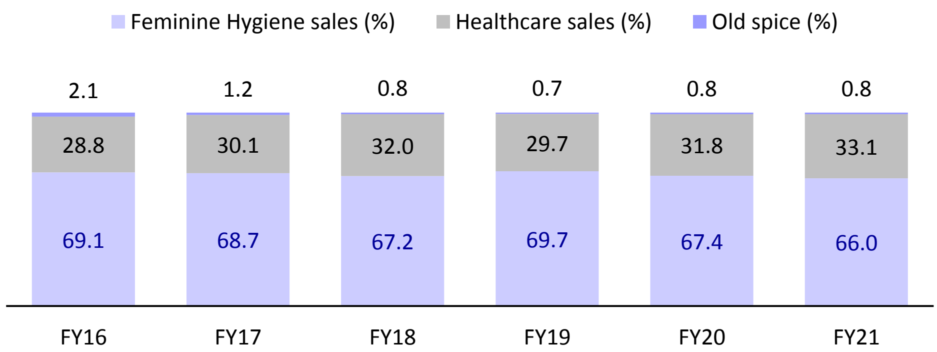
- PGHH supported 40,000 schools, educating ~6m adolescent girls on the importance of menstrual hygiene in FY21 – despite the pandemic – via digital means.
- The scope of this program is being extended; Whisper announced its commitment to educate over 25m adolescent girls on puberty and hygiene over the next three years. These are welcome category development efforts by PGHH, the leader in the category.
- P&G's signature CSR program in India, P&G Shiksha, conducted through P&G entities, focuses on three main areas – a) improving education infrastructure, b) empowering marginalized girls through education, and c) improving learning outcomes. To date, the P&G group in India has supported over 2,500 schools (+200 since last year) across the country, impacting the lives of over 2.3m children (+300,000 since last year).

Exhibit 3: Feminine Hygiene sees 16.7% growth in FY21, its second strong performance in three years



Source: Company, MOFSL

Exhibit 4: Feminine Hygiene continues to form the bulk of overall sales

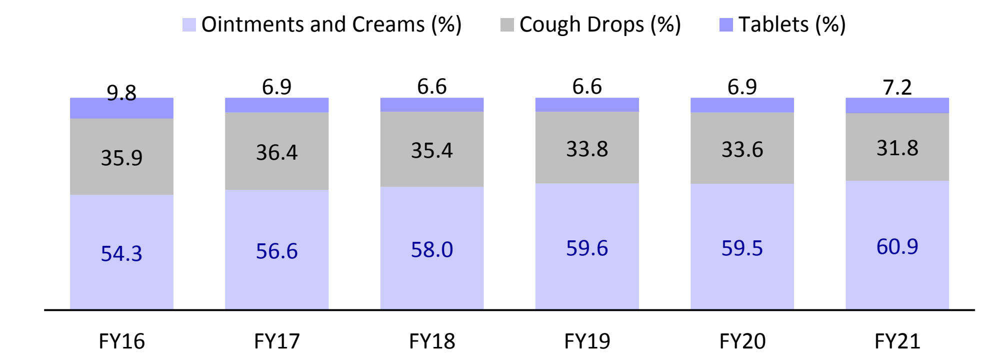


Source: Company, MOFSL

Healthcare business (33.1% of sales in FY21)

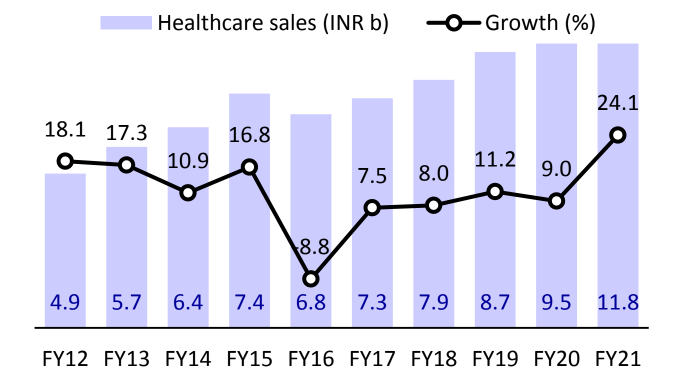
- The Healthcare segment grew 24.1% in FY21, the highest ever growth rate.
- PGHH continued to gain share in the Cough & Cold category, with strong offtake growth across sub-brands in the portfolio.
- Growth was driven by a) a superior go-to-market strategy, with an enhanced presence in stores, with more visibility touchpoints per store, b) increased market share in the Cough & Cold category, and c) innovation backed by strong communication campaigns.
- Distribution expansion has been one of the key sales drivers in the Healthcare segment in recent years, and the expansion seems to have continued unabated in FY21. We gather that the company has reached around 3.5m outlets. Not only is the reach significantly higher than a few years ago, but there is also massive opportunity to grow the distribution reach of Vicks further, even simply within the P&G universe. The unlisted company, P&G Home Products Pvt. Ltd., has reached over 6m outlets; Vicks has the potential to reach a large portion of these outlets given a) the problem-solving nature of the product, b) its Ayurvedic efficiency, c) its low-cost SKUs, and d) the significant lesser shelf space required for these products.

Exhibit 5: Vicks VapoRub (along with BabyRub) forms majority share of Healthcare business, contributing to 60.9% of FY21 segmental sales



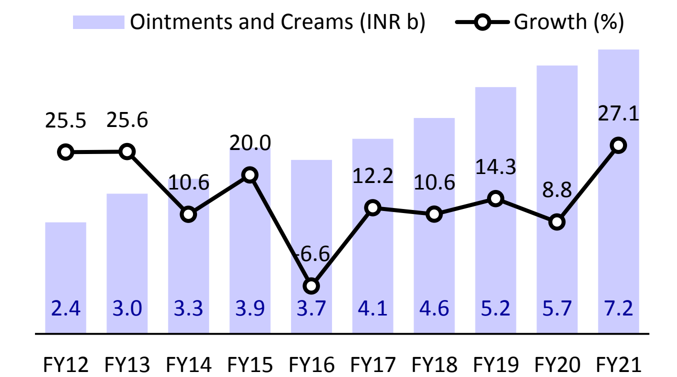
Source: Company, MOFSL

Exhibit 6: Healthcare segment up 24.1% YoY to INR11.8b in FY21 – the highest ever segmental growth rate



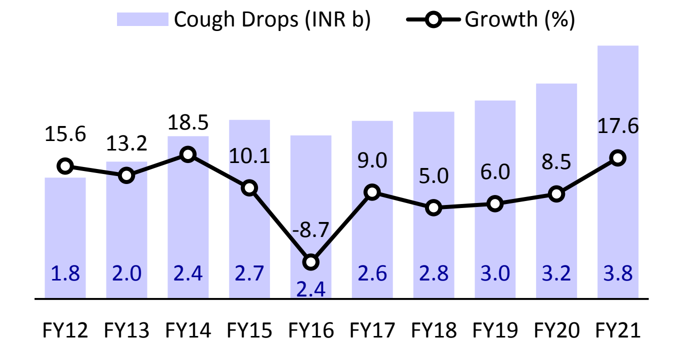
Source: Company, MOFSL

Exhibit 7: Ointments and creams continue positive trajectory, with growth of 27.1% YoY in FY21



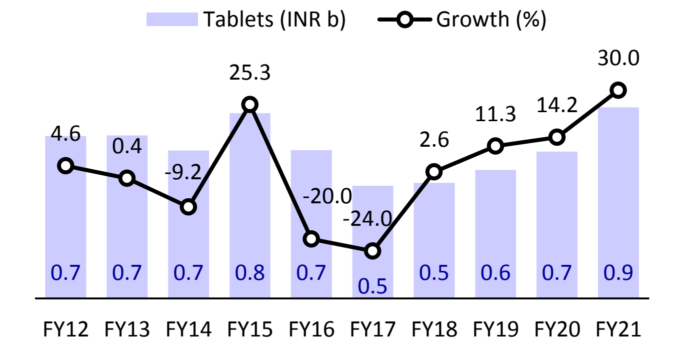
Source: Company, MOFSL

Exhibit 8: Cough drops (32% of FY21 healthcare sales) see strong growth of 17.6% YoY in FY21



Source: Company, MOFSL

Exhibit 9: Tablets (7% of FY21 healthcare sales) see sharp growth of 30% YoY in FY21



Source: Company, MOFSL

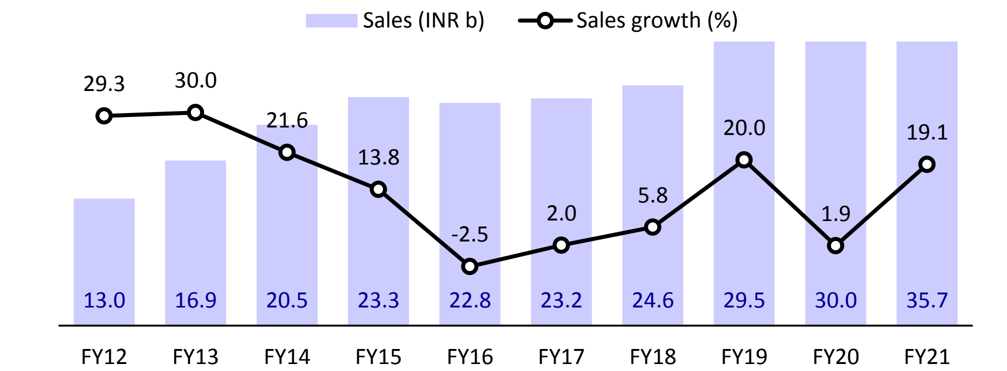
Old Spice (0.8% of sales in FY21)

- The aftershave lotion has posted double-digit growth.
- Old Spice launched a deodorant with a 0% gas proposition in Feb’20, which is strengthening its foothold in the category.

Overall pace of sales growth quickly rebounds in last two years

- FY21 saw strong sales growth of 19.1% YoY after a tepid increase of 1.9% YoY in FY20.
- The weak base of the last year was attributable to the impact of COVID-19 and its consequent lockdowns over the two quarters of Mar’20 and Jun’20 – PGHH is a June year-ending company.
- Sales were up 20% in FY19, led by 25% growth in Feminine Hygiene.
- Growth in FY21 was broad-based, with Feminine Hygiene (66% of sales in FY21) growing by 16.7% and the Healthcare segment (33.1% of FY21 sales) growing even faster at 24.1%. This was on account of its increased distribution reach and likely tailwinds due to the pandemic, leading to an increased focus on health and well-being among consumers.

Exhibit 10: Overall sales up 19.1% YoY to INR35.7b in FY21



Source: Company, MOFSL

Exhibit 11: Common-size statement of operating expenses

As a % of Sales	FY17	FY18	FY19	FY20	FY21
COGS	39.4	38.6	42.0	36.9	32.4
Gross Margins	**60.6**	**61.4**	**58.0**	**63.0**	**67.6**
Staff Cost	4.9	4.7	4.5	5.8	5.6
Ad Spend	8.8	10.6	10.6	10.9	14.6
Other Operating Expenses	18.2	20.5	22.2	25.7	27.9*
Total Operating Expenses	**71.4**	**74.4**	**79.3**	**79.3**	**80.5**
EBITDA Margin	**28.6**	**25.6**	**20.7**	**20.6**	**19.5**

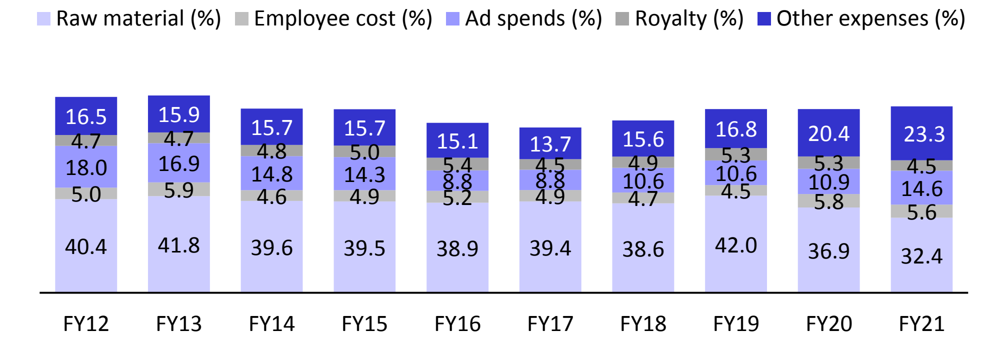
*Adjustments made to account for like-to-like growth as highlighted in 1Q and 2Q FY21 results

Source: Company, MOFSL

Comments on key cost items

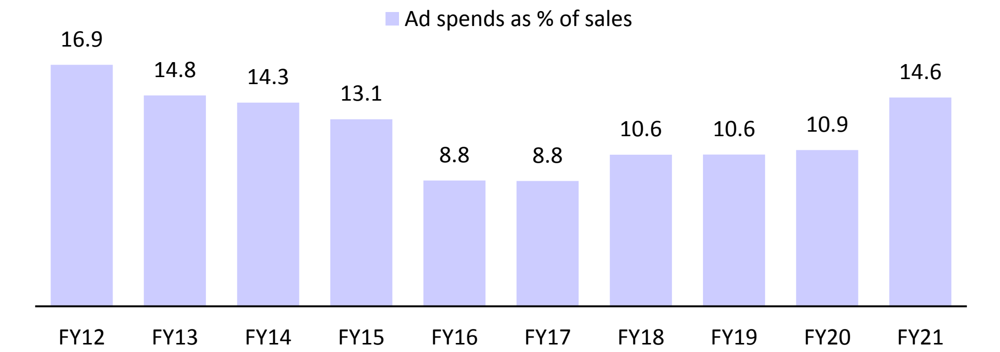
- Unlike disclosed in its quarterly press releases post the 1Q and 2QFY21 results, the company has not called out one-offs in the Annual Report, leading to higher reported EBITDA margins. We have retained the impact via the necessary adjustments, as called out by the company in its interim press releases.
- Some years ago, PGHH outsourced the manufacturing of its Vicks products to P&G's other entities. This has led to lower material costs, but subsequently higher processing charges. We believe this is a key factor that has largely contributed to the reduction in RM costs for the company in recent years. RM costs as a percentage of sales plummeted 450bp YoY to 32.4% in FY21. These are the lowest RM costs as a percentage of sales recorded since FY10.
- Employee costs decreased 20bp YoY to 5.6% of sales in FY21. Employee costs as a percentage of sales declined consistently over FY17–19, with a sharp increase in FY20, which seems to have stabilized.
- Ad spends as a percentage of sales surged 370bp YoY to 14.6% in FY21. Absolute ad spends increased 59.1% in FY21, the highest among peers, in line with P&G's global strategy during the pandemic. This has worked well and is reflected in the strong sales growth for the year – a key factor, especially in the Feminine Care segment, where penetration levels are still ~20%. We believe while ad spends are likely to be higher in subsequent years than 10.9% in FY20, they are unlikely to be anywhere as high as 14.6% in FY21.
- Royalties as a percentage of sales declined 80bp YoY to 4.5%.
- Other expenses remained elevated at 19.5% of sales in FY21 (a reduction of 50bp from FY20), the highest level in the past 10 years. Processing charges have played a big role in this increase.

Exhibit 12: Breakdown of key operating expenses



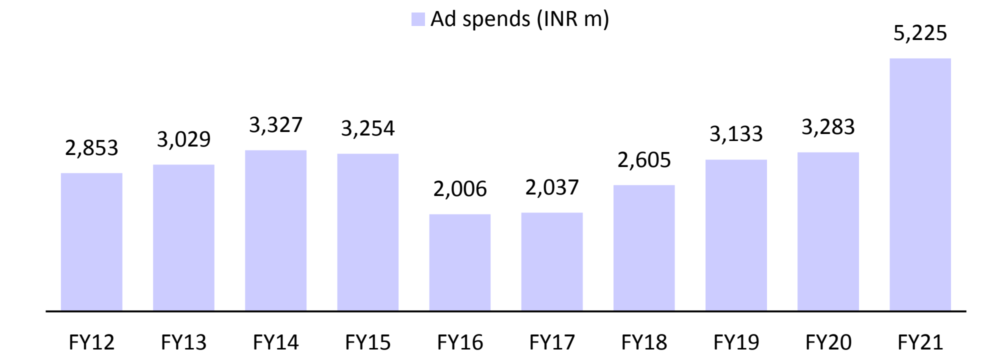
Source: Company, MOFSL

Exhibit 13: Ad spends as percentage of sales surge 370bp to 14.6% in FY21



Source: Company, MOFSL

Exhibit 14: Absolute ad spends increase 59.1% YoY to INR5.2b in FY21

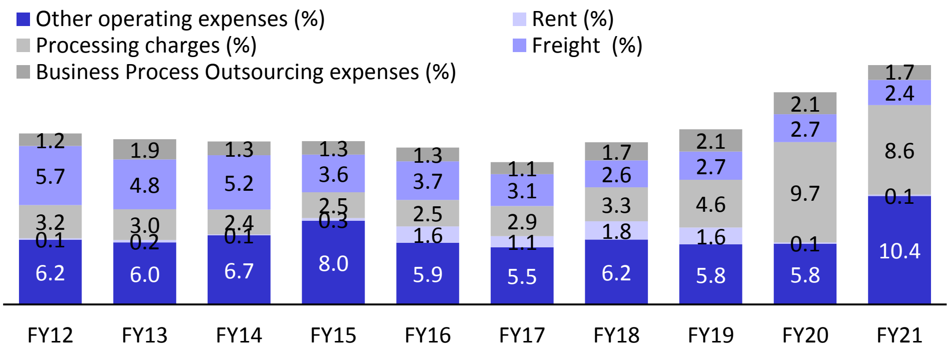


Source: Company, MOFSL

- Rent as a percentage of sales remained flat YoY (0.1%) in FY21. This was due to the implementation of Ind-AS 116.
- Processing charges as a percentage of sales remained elevated at 8.6% in FY21 (v/s9.7% in FY20, the highest level in 15 years). This increase in cost heads may be attributed to higher charges by group companies as a part of related-party transactions.
- Freight as a percentage of sales declined 30bp YoY to 2.4% in FY21. It remained far below the levels of 4.5–7% during FY10–14.
- Business Process Outsourcing (BPO) expenses as a percentage of sales declined 40bps YoY to 1.7% in FY21.

- Other operating expenses (adjusted for like-to-like growth) as a percentage of sales grew 80bp YoY to 6.7% in FY21. While expenses had increased to 6.2% in FY18, current levels seem to be in line with the levels seen over FY14–16.

Exhibit 15: Breakdown of key other operating expenses



*Other operating expenses include relevant adjustments in FY21 on the basis of information provided in the notes to the quarterly results.

Source: Company, MOFSL

Comments on employee costs

- The percentage increase in the median remuneration of employees for the financial year is 5.5%.
- 463 permanent employees were on the company payroll in FY21, including 115 permanent women employees. 514 persons were engaged on a temporary/contractual basis.
- The average percentage increase in the salaries of employees other than the managerial personnel was 8.9%in FY21, whereas the increase in the salaries paid to managerial personnel was 19.7%. The average increase per year is an outcome of the company's market competitiveness against peer group companies.

Exhibit 16: Average cost per head for permanent/total employees up 7%/5% in FY21

INR m	FY17	FY18	FY19	FY20	FY21
Total Staff Cost	1,141	1,152	1,338	1,733	2,017
Number of Permanent Employees	362	359	380	424	463
Number of Contractual Employees	250	350	390	447	514
Average cost per head – Permanent Employees	3.2	3.2	3.5	4.1	4.4
Average cost per head – Total Employees	1.9	1.6	1.7	2.0	2.1

Source: Company, MOFSL

Exhibit 17: Remuneration of MD

(INR m)	Mr. Madhusudan Gopalan#		
	FY19	FY20	FY21
Gross salary	43.9	55.4	59.5
Stock Option	0	0	0
Sweat Equity	0	0	0
Commission	0	0	0
Others	11.9	5.8	0
Total	**55.8**	**61.2**	**59.5**
Remuneration as % of staff cost	4.2	3.5	3.0
Remuneration as % of EBITDA	0.9	1.0	0.9
Remuneration as % of PAT	1.3	1.4	1.2

Source: Company, MOFSL

#Mr. Madhusudan Gopalan is paid by the Company and portion of the remuneration is cross charged to Gillette India Limited and Procter & Gamble Home Products Private Limited in proportion to their respective Net Outside Sales.

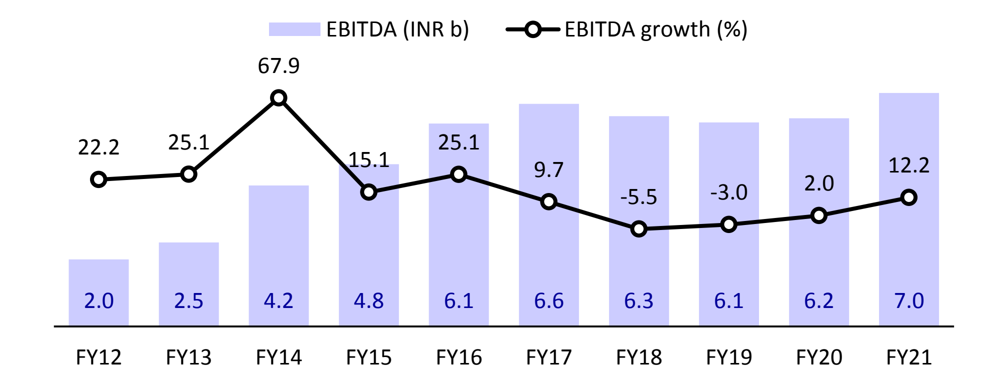
Exhibit 18: Remuneration of CFO

(INR m)	Mr. Prashant Bhatnagar*		
	FY19	FY20	FY21
Gross salary	4.8	6.0	6.0
Stock Option	0	0	0
Sweat Equity	0	0	0
Total	**4.8**	**6.0**	**6.0**
Remuneration as % of staff cost	0.4	0.3	0.3
Remuneration as % of EBITDA	0.1	0.1	0.1
Remuneration as % of PAT	0.1	0.1	0.1

*Mr. Prashant Bhatnagar receives salary from another group Company, Gillette India Limited and the Company contributes towards the same in proportion to its Net Outside Sales.

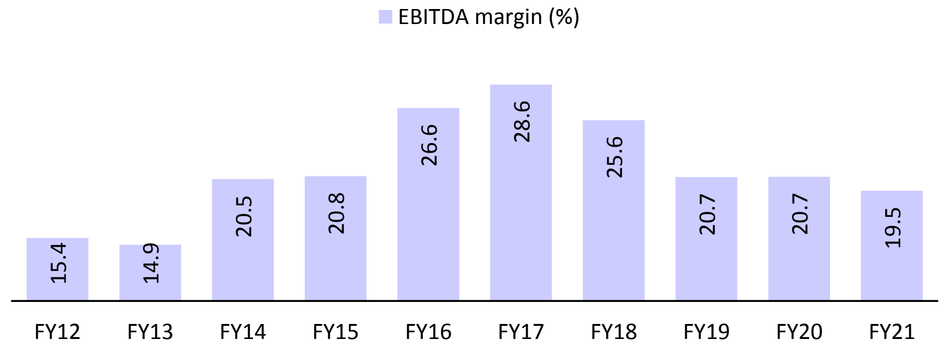
- Lower cost of goods sold (COGS; -440bp YoY) and employee costs (-20bp YoY) were offset by higher ad spends (+370bp YoY) and other expenses (+210bp). The EBITDA margin, thus, declined 120bp YoY to 19.5%, the lowest level in the last six years.
- Unlike disclosed in its quarterly press releases post the 1Q and 2QFY21 results, the company has not called out one-offs in the Annual Report, leading to higher reported EBITDA margins. We have retained the impact via the necessary adjustments, as called out by the company in its interim press releases.

Exhibit 19: EBITDA (adjusted) up 12.2% YoY to INR7b in FY21



Source: Company, MOFSL

Exhibit 20: EBITDA margin (adjusted) down 120bp YoY to 19.5%

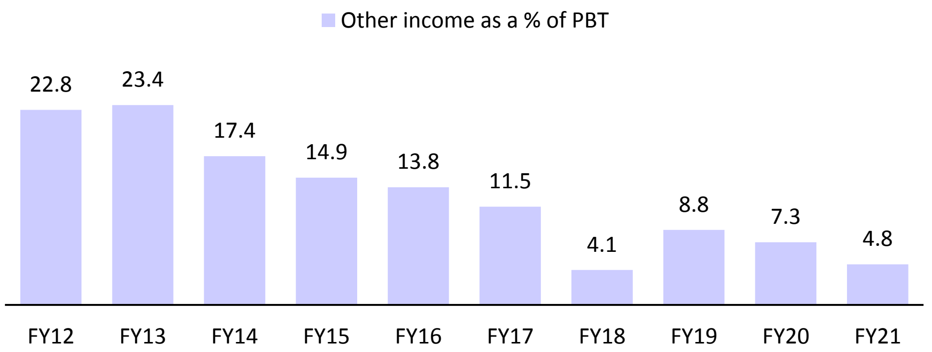


Source: Company, MOFSL

Decrease in salience of other income

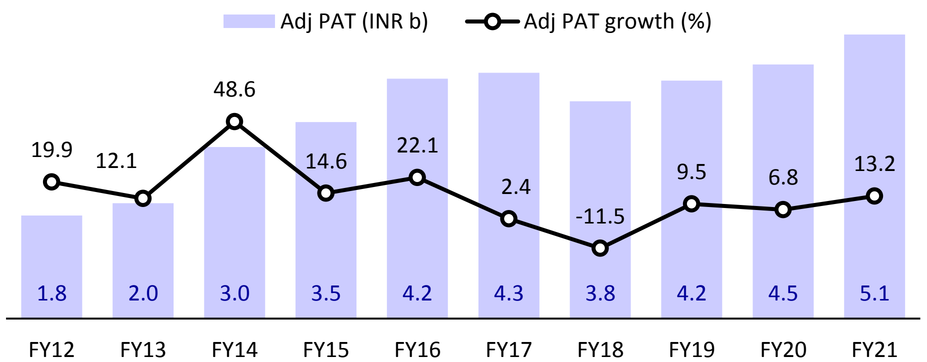
- The salience of other income decreased on account of lower cash levels, given a higher 202% payout in FY21. Furthermore, the reduction in loans to related parties also led to lower other income. Other income as a proportion of PBT decreased to 4.8% in FY21 from 7.3% in FY20.
- A similar trajectory was seen earlier, when it declined in FY18 after the huge special dividend in FY17, leading to a sharp reduction in cash and cash equivalents.

Exhibit 21: Other income as % of PBT declines to 4.8% in FY21



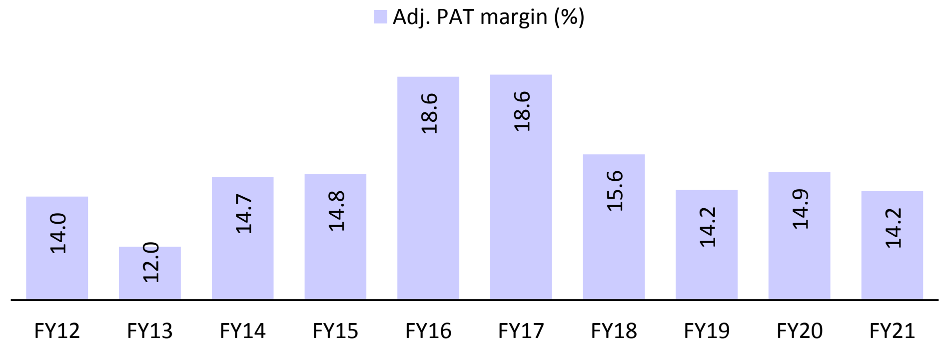
Source: Company, MOFSL

Exhibit 22: Adj. PAT up 13.2% YoY to INR5.1b in FY21



Source: Company, MOFSL

Exhibit 23: PAT margin declines 70bp YoY to 14.2% in FY21



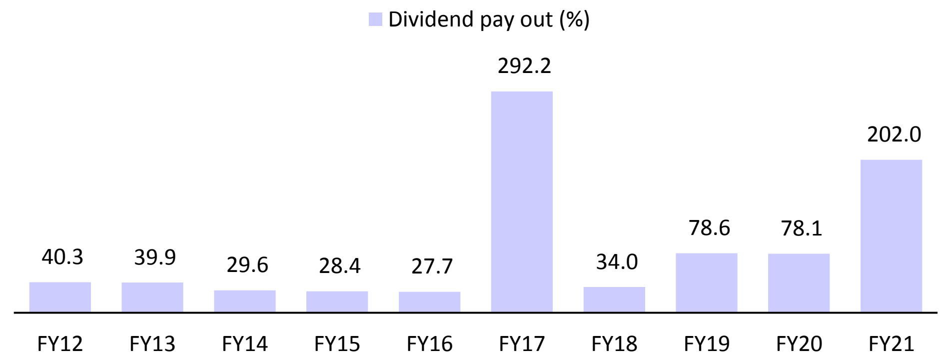
Source: Company, MOFSL

- We expect EBITDA margins to expand hereafter on continued positive sales momentum, leading to better fixed cost absorption, the stabilization of ad spends at lower levels, and premiumization.

Dividend

- In FY21, the Board of Directors declared an interim dividend of INR85 per share and a special dividend of INR150 per share. The payment of the said interim dividend and special dividend was completed on 25th Feb'21 and 27th May'21, respectively.
- A final dividend of INR80 per share has been declared and is subject to the approval of the members at the ensuing 57th Annual General Meeting.
- The dividend payout has been over 200% in FY21. It was close to 80% in FY19–20; there was a blip in FY18 following the huge special dividend in FY17.
- We believe intermittent special dividends in subsequent years would be an ongoing feature of the company as a) it does not need the cash balance for expansion and b) the cash increase on its books would impact RoCE and RoE.

Exhibit 24: Dividend payout rises to over 200% in FY21 after being near 80% in FY19/FY20



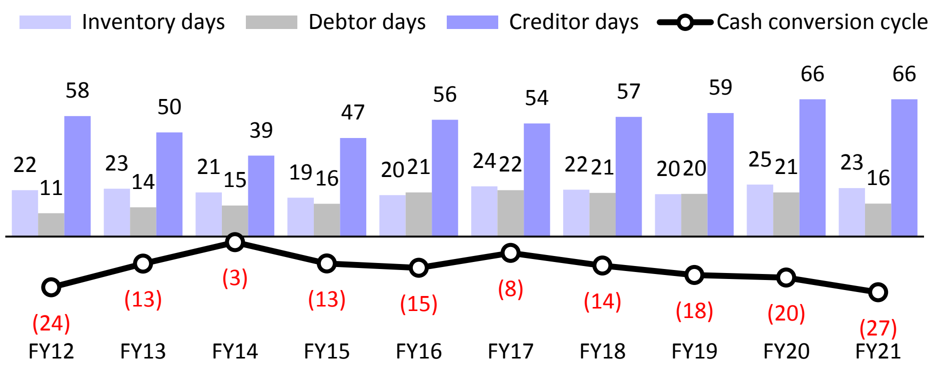
Source: Company, MOFSL

Balance sheet highlights

Working capital improves YoY (on average basis)

- Negative net working capital days declined to 27 days in FY21 from 20 days in FY20.
- The decrease in inventory days (23 v/s 25 YoY) and debtor days (16 v/s 21 YoY) was supported by flat creditor days (66 days), which led to the improvement.
- From a longer term perspective, PGHH is once again seeing the trend of double-digit negative NWC days, which the company witnessed before FY17, and it continues to strengthen its position.

Exhibit 25: PGHH continues to improve working capital management, with cash conversion cycle declining from -18 to -20 in FY19 and further to -27 days in FY21

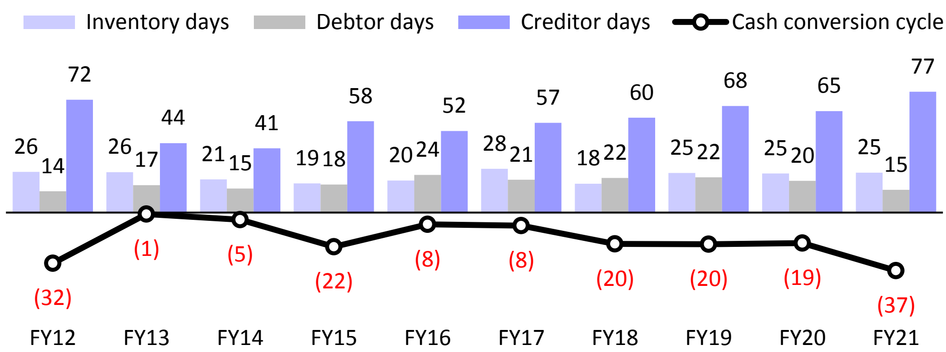


Source: Company, MOFSL

Working capital sees sharp improvement YoY on year-end basis as well

- Negative net working capital days improved further to 37 days in FY21 from 19 days in FY20.
- While inventory days remained flat (25 days), the higher number of creditor days (77 v/s 65 YoY) was complimented by lower debtor days (15 v/s 20 YoY).

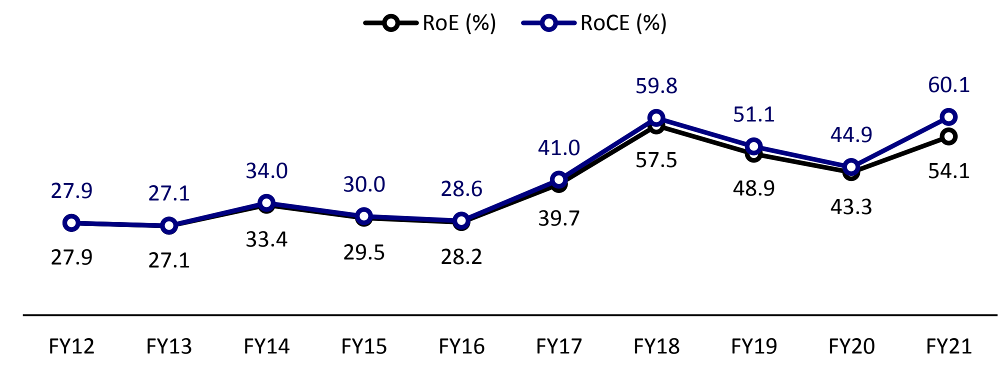
Exhibit 26: On year-end basis, PGHH's cash conversion cycle improves sharply by 18 days to 37 days in FY21



Source: Company, MOFSL

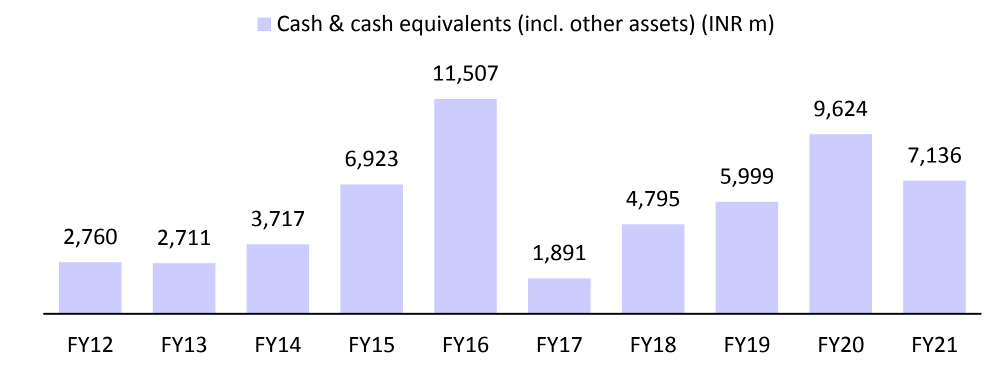
- Cash accumulation led to the deterioration of return ratios between FY18 and FY20. The improvement in FY21 was led by improved working capital days and cash and cash equivalents decreasing 26% YoY to INR7.1b.

Exhibit 27: Return ratios improve on account of lower cash accumulation in FY21



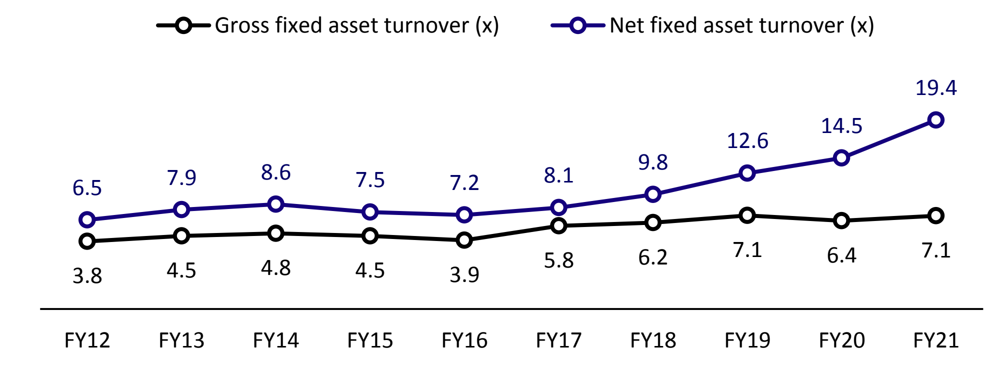
Source: Company, MOFSL

Exhibit 28: Cash and cash equivalents decrease 26% YoY to INR7.1b in FY21



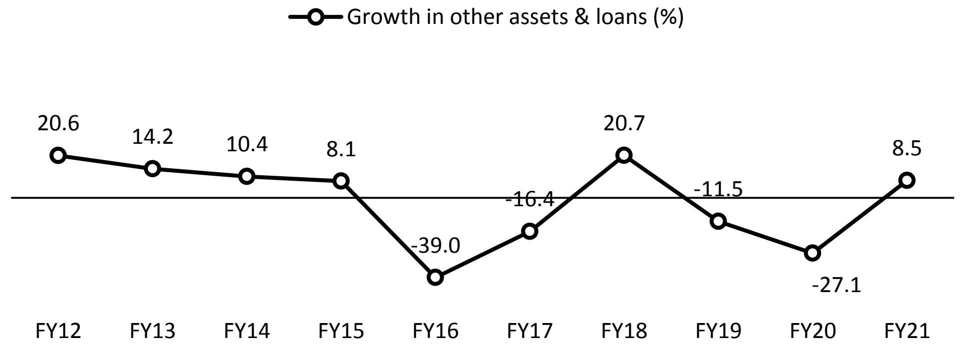
Source: Company, MOFSL

Exhibit 29: Fixed asset turns up significantly in FY21



Source: Company, MOFSL

Exhibit 30: Other assets up 8.5% YoY in FY21 on higher advance tax payments



Source: Company, MOFSL

Exhibit 31: Breakdown of other assets and loans for past five years

Particulars (INR m)	FY17	FY18	FY19	FY20	FY21
Loans & Advances					
Loan to related party	1,469	1,009	1,098	182	227
Other deposits	723	799	595	599	534
Balances with custom & excise	120	684	756	794	941
Advance tax paid	1,436	1,958	1,398	1,312	1,512
Total loans & advances	**3,748**	**4,450**	**3,848**	**2,886**	**3,214**
Other assets					
Interest accrued on Loan to fellow subsidiary	52	135	61	0	0
Interest accrued on bank deposits	2	2	0	0	0
Others	2	5	9	76	0
Total other assets	**56**	**142**	**70**	**76**	**0**
Total other assets & loans	**3,803**	**4,591**	**4,219**	**2,963**	**3,214**

Source: Company, MOFSL

Related-party transactions

- There were no loans outstanding to related parties at the end of FY21. This was the second year in a row (all loans outstanding were cleared by related parties in FY20) despite healthy cash and cash equivalents.
- Trade and other receivables from related parties stood at INR293m in FY21 (INR216m in FY20), 0.8% of full-year revenues.
- Trade payables to related parties stood at INR1.2b in FY21 (INR1.3b in FY20), 10.3% of full-year COGS.
- The purchase of goods from related parties declined 52% YoY to INR129m in FY21.
- The purchase of goods as a percentage of COGS decreased to 1.1% in FY21 from 2.4% in FY20.
- BPO expenses decreased 9% YoY to INR598m.

Exhibit 32: Goods purchase from related parties down to 1.1% of COGS in FY21 from 13.5% in FY19

INR m	FY19	FY20	FY21
Purchase of Goods	1,664	266	129
Purchase of Goods as % of COGS (%)	13.5	2.4	1.1

Source: Company, MOFSL

Other comments

- Forex income grew 60% YoY to INR375m in FY20, whereas forex expenses declined 21.2% YoY to INR5.9b. Forex expenses as a percentage of sales declined to 19.8% in FY20 from 25.6% in FY19.

Exhibit 33: Breakdown of net forex earnings

Particulars (INR m)	FY18	FY19	FY20	FY21
Foreign Exchange earnings	264	242	375	460
Change (%)	-52.4	-8.1	55.0	22.5
Foreign Exchange outgo	5,600	7,532	5,939	5,503
Change (%)	29.4	36.6	-18.5	-7.3
Net Foreign Exchange earnings	(5,336)	(7,290)	(5,563)	(5,043)
Change (%)	42.1	38.9	-21.1	-9.3

Source: Company, MOFSL

- The company managed to fulfill its CSR obligation of INR118m for FY21.

Exhibit 34: PGHH spends 2.4x its prescribed CSR obligation in FY21

Year	FY21
Average net profit for last 3 years	5,903
Prescribed CSR expenditure for FY20 (2% of average net profit)	**118.1**
Total amount actually spent on CSR activities	288.1
Amount unspent	**Nil**

Source: Company, MOFSL

Social initiatives

- The P&G group in India (including other P&G entities in India apart from PGHH), has contributed nearly INR500m during the year. This has been in the form of donations to more than 20 state governments, which would benefit nearly 5m citizens.
- The P&G group in India has also donated nearly 2m masks and sanitizers to support frontline workers.
- P&G entities in India are also partnering with Tata Trusts to support hospital capacity expansion in the country, an essential need in these tough times.
- Since the outbreak of the pandemic, PGHH, in partnership with the government and relief organizations, has distributed over 3.5m Whisper sanitary pads to women and girls from underprivileged and migrant communities, childcare institutions, frontline healthcare workers, and sanitation workers across the country.

Energy conservation and waste management

- **Carbon footprint reduction**: The manufacturing plant in Goa is a 'zero waste to landfill' site, which means there is no manufacturing discharge in the environment.
- **Carbon emission reduction**: In the last 10 years, the Goa plant has reduced its carbon emissions by 90% and energy consumption by nearly 30%. The plant is leveraging technology, experts, employees, and renewable sources of energy to reduce the overall carbon footprint, improve energy and water efficiency, and make operations more sustainable.
- **Plastic reduction**: P&G entities in India are committed to helping reduce the flow of plastic by making changes now and bringing long-term solutions. In

India, the company has put in place a system to recover and recycle multi-layered plastic packaging waste. It is working with various waste management companies and the industry to collect, segregate, and recycle multi-layered plastic packaging waste. Last year, P&G India collected, segregated, and recycled over 7,200mt of waste. It is building partnerships with external organizations to combat some of the current challenges and issues related to sustainability.

- **Incentivizing the unorganized sector**: In India, the focus is on incentivizing the unorganized sector through investments in businesses, value additions to collecting and sorting waste, and expanding plastic waste processing and recycling capacity.
- **Sustainable solutions**: In 2019, P&G India set up an 'Environmental Sustainability Fund' to collaborate with external partners offering environmentally sustainable business solutions. Through this fund, its goal is to identify and implement step-changing environmentally sustainable solutions such as packaging innovations, renewable sources of energy, and reducing carbon footprint.
- **Water-saving initiatives**: The following initiatives led to significant water savings:
  - Optimizing the use of water resources
  - Reclaiming and using circular water
  - Using rainwater v/s groundwater for cooling towers
  - Using air conditioning drains to recharge earthing pits
- **Energy-saving initiatives**: Certain initiatives undertaken for energy saving are given below:
  - Using energy efficient compressors
  - Monitoring air consumption and arresting and controlling air leakages
  - Monthly energy monitoring by Energy Management System and benchmarking
  - Installing energy efficient pumps and fans for cooling towers
  - Installing variable frequency drives (VFDs) for compressors and sequencing VFDs for energy efficiency
- **Capital investments**: Capital investments worth approximately INR7m were incurred on energy conservation equipment, such as energy efficient pumps and fans for cooling towers, energy efficient compressors, and variable frequency drives.

P&G's global sustainability efforts

- P&G's broad-reaching environmental sustainability goals are designed to enable responsible consumption and sustainable manufacturing.
- All P&G brands would enable responsible consumption through packaging that is 100% recyclable or reusable by 2030.
- By 2030, 100% of P&G manufacturing sites across the globe would cut greenhouse gas emissions in half v/s the 2010 baseline.
- It strives to grow operations responsibly, constantly improving efficiency, while reducing the environmental footprint.
- In 2019, P&G joined forces with more than 40 companies globally that make plastic, use plastic in their products and packaging, and recycle and manage plastic waste to form 'The Alliance to End Plastic Waste'. The Alliance is

supporting an array of projects and partnerships that focus on solutions in four core areas: infrastructure, innovation, education, and cleanup, with particular emphasis where the need is most urgent in Southeast Asia, including India.

New board and senior management appointees

- During the year, Mr Chittranjan Dua and Mr Krishnamurthy Iyer were appointed Independent Directors of the company for a period of five years, effective from 25th August 2020 and 1st December 2020, respectively.
- Mr Chittranjan Dua was appointed Chairman of the Board with effect from 24th September 2020.
- Mr Ghanashyam Hegde was appointed Company Secretary and Compliance Officer of the company effective from 1st September 2021. He was also appointed Executive Director of the company for a period of five years, effective from 1st September 2021. The said appointment as Executive Director is subject to the approval of the company shareholders at the ensuing 57th Annual General Meeting.
- Directors Mr Karthik Natarajan and Mr Pramod Agarwal retire by rotation, and being eligible, would offer themselves for re-appointment at the ensuing 57th Annual General Meeting.

Financials and valuations

Standalone - Income Statement (INR m)

Y/E June	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Total Income from Operations	**23,204**	**24,553**	**29,469**	**30,020**	**35,741**	**39,173**	**46,311**
Change (%)	2.0	5.8	20.0	1.9	19.1	9.6	18.2
Raw Materials	9,150	9,487	12,368	11,068	11,593	12,710	14,588
% of Sales	39.4	38.6	42.0	36.9	32.4	32.4	31.5
Employees Cost	1,141	1,152	1,338	1,733	2,017	2,115	2,501
% of Sales	4.9	4.7	4.5	5.8	5.6	5.4	5.4
Other Expenses	6,267	7,634	9,670	11,003	15,160	14,298	16,672
% of Sales	27.0	31.1	32.8	36.7	42.4	36.5	36.0
Total Expenditure	**16,558**	**18,273**	**23,376**	**23,804**	**28,770**	**29,123**	**33,761**
% of Sales	71.4	74.4	79.3	79.3	80.5	74.3	72.9
EBITDA	**6,646**	**6,280**	**6,093**	**6,216**	**6,972**	**10,050**	**12,550**
Margin (%)	28.6	25.6	20.7	20.7	19.5	25.7	27.1
Depreciation	597	524	498	479	477	528	572
EBIT	**6,049**	**5,756**	**5,595**	**5,738**	**6,495**	**9,522**	**11,978**
Int. and Finance Charges	104	53	55	61	61	45	55
Other Income	773	241	533	441	394	433	591
PBT bef. EO Exp.	**6,718**	**5,944**	**6,073**	**6,118**	**6,828**	**9,910**	**12,515**
EO Items	0	-82		-105	1,450	0	0
PBT after EO Exp.	**6,718**	**5,862**	**6,073**	**6,013**	**8,277**	**9,910**	**12,515**
Total Tax	2,390	2,116	1,882	1,642	1,759	2,497	3,154
Tax Rate (%)	35.6	36.1	31.0	27.3	21.3	25.2	25.2
Reported PAT	**4,327**	**3,746**	**4,191**	**4,371**	**6,518**	**7,413**	**9,361**
Adjusted PAT	**4,327**	**3,828**	**4,191**	**4,476**	**5,068**	**7,413**	**9,361**
Change (%)	2.4	-11.5	9.5	6.8	13.2	46.3	26.3
Margin (%)	18.6	15.6	14.2	14.9	14.2	18.9	20.2

Standalone - Balance Sheet (INR m)

Y/E June	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	325	325	325	325	325	325	325
Total Reserves	4,937	7,730	8,766	11,254	6,818	7,559	8,495
Net Worth	**5,261**	**8,055**	**9,091**	**11,579**	**7,143**	**7,884**	**8,820**
Deferred Tax Liabilities	-263	-230	-368	-296	-380	-418	-460
Total Loans	0	0	0	15	2	2	2
Capital Employed	**4,999**	**7,825**	**8,723**	**11,298**	**6,764**	**7,468**	**8,362**
Gross Block	4,024	3,975	4,145	4,674	5,052	4,764	4,432
Less: Accum. Deprn.	1,167	1,474	1,803	2,609	3,214	3,379	3,951
Net Fixed Assets	**2,857**	**2,501**	**2,342**	**2,065**	**1,838**	**1,386**	**481**
Goodwill on Consolidation	0	0	0	0	0	0	0
Capital WIP	408	215	146	222	376	200	200
Total Investments	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Curr. Assets, Loans&Adv.	**8,073**	**11,308**	**13,315**	**15,702**	**13,733**	**14,627**	**17,599**
Inventory	1,774	1,236	2,034	2,051	2,493	2,790	2,791
Account Receivables	1,328	1,485	1,814	1,663	1,424	2,790	2,538
Cash and Bank Balance	1,168	3,996	5,405	9,025	6,602	5,832	9,056
Loans and Advances	3,803	4,591	4,063	2,963	3,214	3,214	3,214
Curr. Liability & Prov.	**6,340**	**6,199**	**7,080**	**6,691**	**9,183**	**8,745**	**9,918**
Account Payables	3,632	4,062	5,477	5,313	7,541	6,994	7,992
Other Current Liabilities	2,150	1,606	895	587	764	840	924
Provisions	558	530	709	790	878	911	1,002
Net Current Assets	**1,733**	**5,109**	**6,235**	**9,011**	**4,550**	**5,882**	**7,681**
Appl. of Funds	**4,999**	**7,825**	**8,723**	**11,298**	**6,764**	**7,468**	**8,362**

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E June	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)							
EPS	**133.1**	**117.8**	**129.0**	**137.7**	**156.1**	**228.4**	**288.4**
Cash EPS	151.7	134.1	144.5	152.7	170.8	244.6	306.0
BV/Share	162.1	248.2	280.1	356.7	220.0	242.9	271.7
DPS	389	40	101	105	315	206	260
Payout (%)	292.2	34.0	78.6	78.1	202.0	90.0	90.0
Valuation (x)							
P/E	108.6	122.7	112.1	104.9	92.6	63.3	50.1
Cash P/E	95.3	107.8	100.1	94.7	84.6	59.1	47.2
P/BV	89.2	58.2	51.6	40.5	65.7	59.5	53.2
EV/Sales	20.2	18.9	15.7	15.3	12.9	11.8	9.9
EV/EBITDA	70.4	74.1	76.1	74.0	66.3	46.1	36.7
Dividend Yield (%)	2.7	0.3	0.7	0.7	2.2	1.4	1.8
FCF per share	123.7	116.3	126.4	130.5	256.2	182.2	343.6
Return Ratios (%)							
RoE	39.7	57.5	48.9	43.3	54.1	98.7	112.1
RoCE	41.0	59.8	51.1	44.9	60.1	104.6	118.8
Working Capital Ratios							
Asset Turnover (x)	4.6	3.1	3.4	2.7	5.3	5.2	5.5
Inventory (Days)	24	22	20	25	23	26	22
Debtor (Days)	22	21	20	21	16	26	20
Creditor (Days)	54	57	59	66	66	64	62
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	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
PBT	6,718	5,818	6,073	5,939	8,699	9,910	12,515
Depreciation	597	524	498	479	477	528	572
Net interest expense	-644	-147	-317	-266	-250	-388	-536
Others	146	225	54	203	139	0	0
(Inc)/Dec in WC	135	466	172	-179	2,101	-2,102	1,425
Taxes	-2,500	-2,731	-2,350	-1,435	-2,534	-2,497	-3,154
CF from Operations	**4,453**	**4,155**	**4,130**	**4,741**	**8,631**	**5,450**	**10,821**
(Inc)/Dec in FA	-438	-381	-28	-503	-315	464	333
Free Cash Flow	**4,015**	**3,774**	**4,102**	**4,237**	**8,317**	**5,914**	**11,154**
(Pur)/Sale of Investments	0	0	-7	22	0	0	0
Others	2,009	115	451	1,265	325	32	550
CF from Investments	**1,571**	**-266**	**416**	**783**	**11**	**496**	**882**
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	0	0	0	0	0	0	0
Dividend Paid	-15,550	-1,055	-3,131	-1,878	-11,037	-6,672	-8,425
Interest Paid	-37	-6	-7	-9	-10	-45	-55
Others	0	0	0	-16	-18	0	0
CF from Fin. Activity	**-15,587**	**-1,061**	**-3,137**	**-1,903**	**-11,064**	**-6,717**	**-8,480**
Inc/Dec of Cash	**-9,564**	**2,828**	**1,409**	**3,621**	**-2,423**	**-770**	**3,224**
Opening Balance	10,732	1,168	3,996	5,405	9,025	6,603	5,832
Closing Balance	**1,168**	**3,996**	**5,405**	**9,025**	**6,603**	**5,832**	**9,056**

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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