

# P&G Hygiene and Healthcare (PGHH)

FMCG | 1QFY24 Result Update

**ACCUMULATE**

**CMP: Rs16,682 | Target Price (TP): Rs18,300 | Upside: 10%**

**October 31, 2023**

## Topline momentum sustains, margins surprise

### Key Points

- While sales growth was in line, EBITDA and PAT were ~10%/13% ahead of expectations led by gross margin beat (likely because of lower pulp costs) and healthy EBITDA margins despite healthy adspends to sales ratio of 13.5% for the quarter, the second highest in the last nine quarters.
- 4 year sales CAGR at 7.5% was similar to 4QFY23 levels and with gradual reduction of CPI inflation led impact on feminine hygiene sales (conversion from cloth to sanitary napkins gets affected during periods of high inflation) and recovery in the healthcare segment off earlier high base momentum is likely to be stronger in the second half in our view
- While we remain structurally positive on topline growth momentum of the stock as indicated in [our IC note](#) in June and [analyst meet note](#) in September, fair valuations of ~57x FY25 EPS leads us to maintain our accumulate rating

**1QFY24 performance update:** PGHH's 1QFY24 (June year-end) revenue grew by 9.2% YoY to Rs11.4bn (in line with our est). EBITDA was up by 33.1% YoY to Rs2.8bn (vs est. Rs2.6bn), APAT grew by 36.4% YoY to Rs2.1bn (vs est. Rs1.9bn). Gross margin at 60.9% was up ~230bps YoY and 310bps QoQ (vs est. 58.1%). A&SP expenses declined by 140bps YoY (up 720bps QoQ) and other expenses were down by 150bps YoY to 16.8% partially offset by higher employee cost (up 70bps YoY; flat QoQ), which meant that EBITDA margin expanded sharply by ~450bps YoY to 25% (vs est. 22.5%).

**Press release highlights:** The Company's business continues to grow behind a strong product portfolio, superior consumer communication and a continuous stream of product innovations aimed at delighting consumers, like Whisper Hygiene Comfort, Whisper Choice Nights, Vicks ZzzQuil-World's #1 Sleep Supplement, Vicks Roll-On Inhaler and Vicks Xtra Strong. Whisper also continues to raise awareness about menstrual hygiene education through 'Whisper Menstrual Health & Hygiene Program'.

**View and valuation:** Changes to our model after the good results have led to ~2% increase in FY24 EPS, but we have reduced our FY25 EPS by ~5% as we believe margin recovery will be more gradual. While we remain positive on PGHH from a longer term perspective on the back of: (a) 'best of breed' sales and earnings growth opportunity (b) strong moats and market leadership that the company enjoys in both key categories and (c) 'best of breed' return ratios & dividend payout, fair valuations of ~57x FY25E, lead us to maintain our accumulate rating on the stock. We value the company at 60x September 25 EPS arriving at a TP of Rs18,300

Est Change	Downward
TP Change	Downward
Rating Change	No change

### Company Data and Valuation Summary

Reuters:	PROC.BO
Bloomberg:	PG IN Equity
Mkt Cap (Rsbn/US\$bn):	541.5 / 6.5
52 Wk H / L (Rs):	18,598 / 13,140
ADTV-3M (mn) (Rs/US\$):	117.1 / 1.4
Stock performance (%) 1M/6M/1yr:	(7.1) / 19.1 / 18.2
Nifty 50 performance (%) 1M/6M/1yr:	(2.7) / (3.1) / 5.5

Shareholding	4QFY23	1QFY24	2QFY24
Promoters	70.6	70.6	70.6
DII's	15.4	15.5	15.5
FII's	1.1	1.1	1.3
Others	12.9	12.7	12.6
Pro pledge	0.0	0.0	0.0

### Financial and Valuation Summary

Particulars (Rsmn)	FY22	FY23	FY24E	FY25E
Revenue	37,998	39,179	43,319	49,868
<b>% Growth</b>	<b>6.3</b>	<b>3.1</b>	<b>10.6</b>	<b>15.1</b>
Gross margin (%)	61.6	57.6	59.5	62.0
EBITDA	8,299	8,687	10,007	12,766
<b>EBITDA margin (%)</b>	<b>21.8</b>	<b>22.2</b>	<b>23.1</b>	<b>25.6</b>
% growth	19.0	4.7	15.2	27.6
Reported PAT	5,758	6,782	7,317	9,476
Adjusted PAT	5,858	6,782	7,317	9,476
<b>APAT margin (%)</b>	<b>15.4</b>	<b>17.3</b>	<b>16.9</b>	<b>19.0</b>
% growth	15.6	15.8	7.9	29.5
<b>EPS</b>	<b>180.5</b>	<b>208.9</b>	<b>225.2</b>	<b>291.6</b>
% growth	15.6	15.8	7.8	29.5
RoA (%)	85.7	86.4	80.0	95.5
RoE (%)	80.7	80.6	74.5	88.8
P/E (x)	92.4	79.8	74.1	57.2
EV/EBITDA (x)	64.5	61.2	53.2	41.5

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

### Key Links –

[1QFY24 Result](#)

[1QFY24 Press Release](#)

Please refer to the disclaimer towards the end of the document

**Exhibit 1: 1QFY24 performance**

Particulars (Rsmn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24E	3Q24E	4Q24E	FY23	FY24E	1Q24E	Var
<b>Net Sales</b>	<b>10,428</b>	<b>11,374</b>	<b>8,831</b>	<b>8,525</b>	<b>11,384</b>	<b>12,284</b>	<b>9,891</b>	<b>9,761</b>	<b>39,179</b>	<b>43,319</b>	<b>11,471</b>	<b>-0.8%</b>
YoY Change (%)	-1.5	4.1	-0.9	12.6	9.2	8.0	12.0	14.5	3.1	10.6	10.0	-
<b>Gross profit</b>	<b>6,116</b>	<b>6,513</b>	<b>4,992</b>	<b>4,928</b>	<b>6,932</b>	<b>7,423</b>	<b>5,975</b>	<b>5,444</b>	<b>22,549</b>	<b>25,775</b>	<b>6,663</b>	<b>4.0%</b>
Margin (%)	58.6	57.3	56.5	57.8	60.9	60.4	60.4	55.8	57.6	59.5	58.1	-
Total Expenditure	8,288	8,469	7,338	6,376	8,535	9,190	7,394	8,195	30,492	33,313	8,890	-
<b>EBITDA</b>	<b>2,140</b>	<b>2,905</b>	<b>1,493</b>	<b>2,149</b>	<b>2,849</b>	<b>3,094</b>	<b>2,497</b>	<b>1,567</b>	<b>8,687</b>	<b>10,007</b>	<b>2,580</b>	<b>10.4%</b>
Growth	-29.0	-2.0	-9.5	220.3	33.1	6.5	67.3	-27.1	4.7	15.2	20.6	-
Margins (%)	20.5	25.5	16.9	25.2	25.0	25.2	25.2	16.1	22.2	23.1	22.5	-
Depreciation	140	144	146	154	143	148	150	168	584	609	145	-
Interest	10	39	36	30	19	40	40	46	114	145	25	-
Other Income	67	93	144	101	158	112	160	101	406	530	80	-
<b>PBT</b>	<b>2,058</b>	<b>2,815</b>	<b>1,456</b>	<b>2,066</b>	<b>2,845</b>	<b>3,018</b>	<b>2,467</b>	<b>1,453</b>	<b>8,395</b>	<b>9,783</b>	<b>2,490</b>	<b>14.2%</b>
Tax	514	741	-195	553	738	755	617	356	1,613	2,465	623	-
Rate (%)	25.0	26.3	-13.4	26.8	25.9	25.0	25.0	24.5	19.2	25.2	25.0	-
<b>Adj PAT</b>	<b>1,544</b>	<b>2,075</b>	<b>1,650</b>	<b>1,512</b>	<b>2,107</b>	<b>2,264</b>	<b>1,850</b>	<b>1,097</b>	<b>6,782</b>	<b>7,317</b>	<b>1,868</b>	<b>12.8%</b>
YoY Change (%)	-29.3	-2.2	46.0	255.4	36.4	9.1	12.1	-27.5	15.8	7.9	21.0	-
Margins (%)	14.8	18.2	18.7	17.7	18.5	18.4	18.7	11.2	17.3	16.9	16.3	-
Adj EPS	47.6	63.9	50.8	46.6	64.9	69.7	57.0	33.8	208.9	225.4	57.5	-

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 2: Common-size P&L over the quarters**

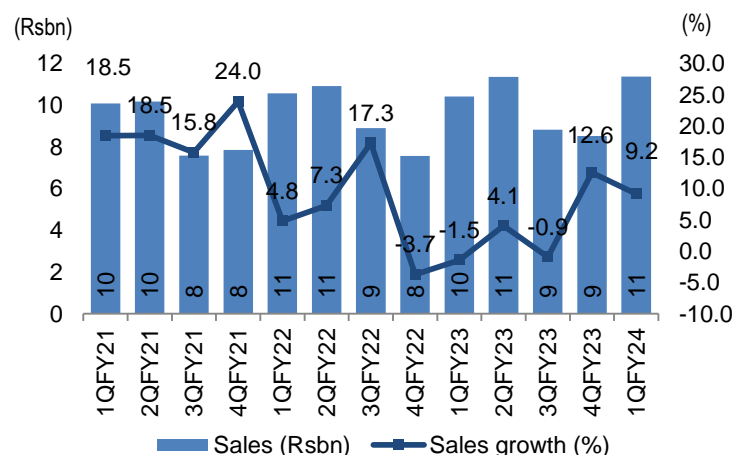
Particulars (%)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Gross margin	66.5	65.2	59.2	52.5	58.6	57.3	56.5	57.8	60.9
Staff Cost	5.3	5.5	6.3	5.6	4.9	5.0	5.6	5.6	5.6
Advertisement expenses	11.7	12.7	12.6	12.8	14.9	9.7	12.1	6.3	13.5
Other expenses	21.1	19.9	21.8	25.2	18.3	17.0	22.0	20.7	16.8
EBITDA	28.5	27.1	18.5	8.9	20.5	25.5	16.9	25.2	25.0
EBIT	27.3	25.9	17.0	7.0	19.2	24.3	15.3	23.4	23.8
PBT	27.8	26.3	17.0	7.6	19.7	24.8	16.5	24.2	25.0
Tax	7.1	6.9	4.3	2.0	4.9	6.5	-2.2	6.5	6.5
Adjusted PAT	20.6	19.4	12.7	5.6	14.8	18.2	18.7	17.7	18.5

Source: Company, Nirmal Bang Institutional Equities Research;

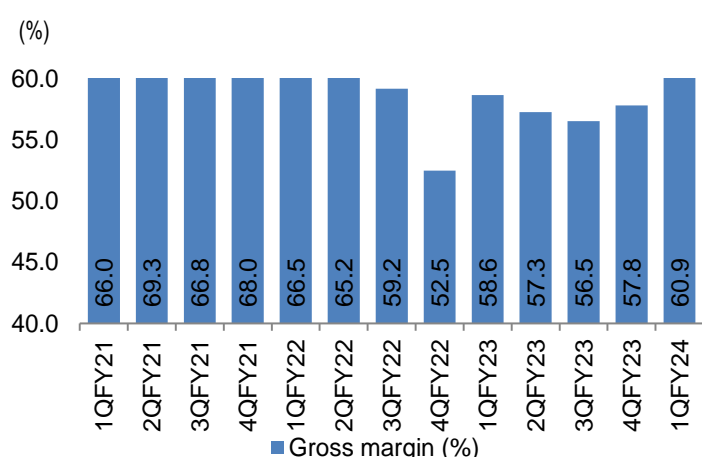
**Exhibit 3: Change in our estimates**

Y/E June	Earlier Estimates		New Estimates		Change (%)	
(Rsmn)	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Sales	43,319	49,868	43,319	49,868	0.0	0.0
EBITDA	9,790	13,414	10,007	12,766	2.2	-4.8
EBITDA margin (%)	22.6	26.9	23.1	25.6	0.5	-1.3
PAT	7,155	9,961	7,317	9,476	2.3	-4.9

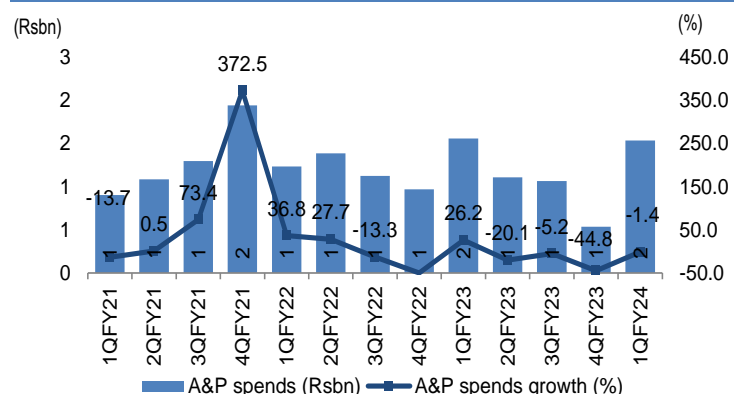
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: Net sales grew by 9.2% YoY to Rs11.4bn**


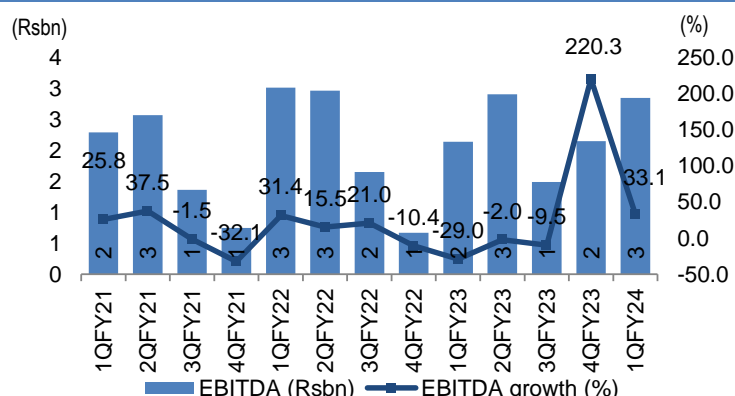
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: Gross margin came in at 60.9% (up 230bps YoY)**


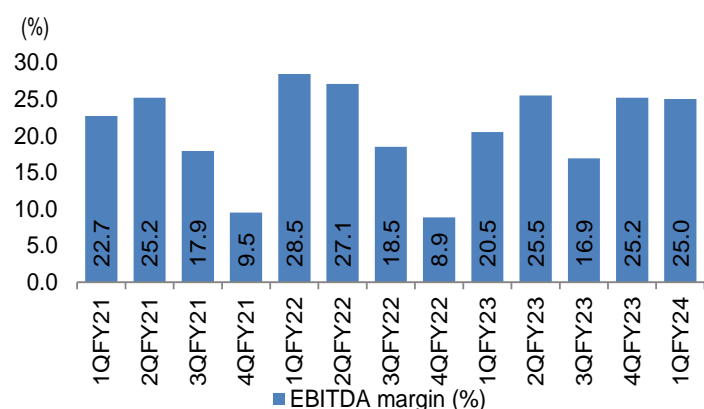
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: Absolute ad spend was at Rs1.5bn; as a % of net revenue, it was down ~140ps YoY at 13.5%**


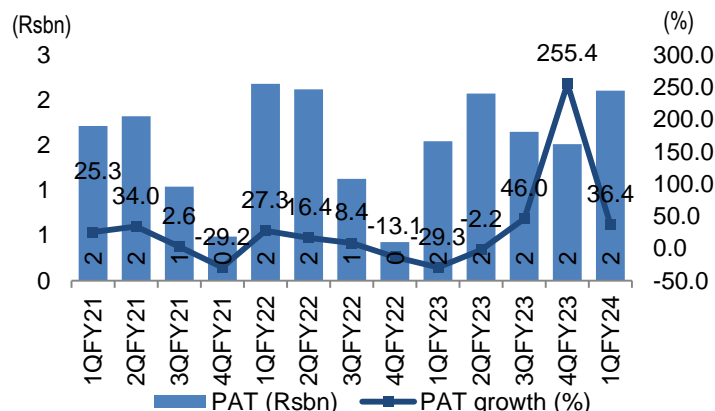
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: EBITDA grew by 33.1% YoY to Rs2.8bn**


Source: Company, Nirmal Bang Institutional Equities Research

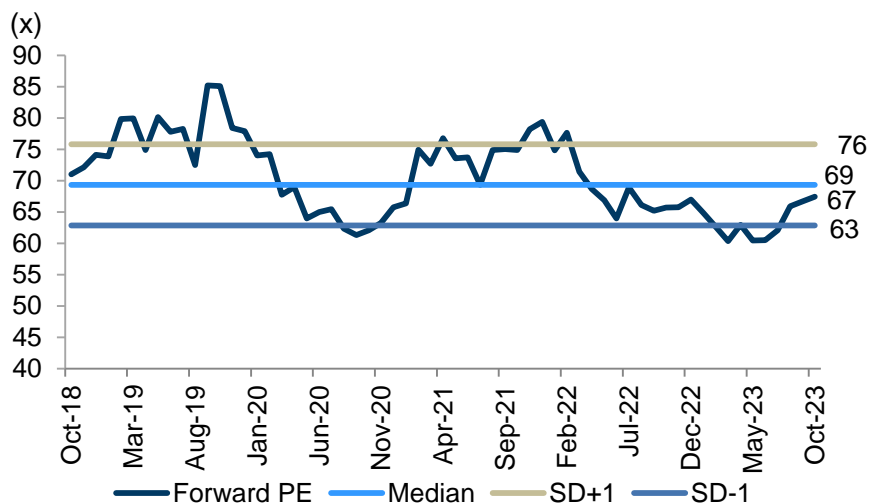
**Exhibit 8: EBITDA margin was up ~450bps YoY at 25%**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: APAT was up 36.4% YoY at Rs2.1bn**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: One-year forward P/E**



Source: Company, Nirmal Bang Institutional Equities Research

## Financials

**Exhibit 11: Income statement**

Y/E June (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	35,741	37,998	39,179	43,319	49,868
<b>% Growth</b>	<b>19.1%</b>	<b>6.3%</b>	<b>3.1%</b>	<b>10.6%</b>	<b>15.1%</b>
COGS	11,593	14,582	16,630	17,544	18,950
Staff costs	2,017	2,143	2,058	2,253	2,593
Other expenses	15,160	12,974	11,804	13,516	15,559
Total expenses	28,770	29,699	30,492	33,313	37,101
<b>EBITDA</b>	<b>6,972</b>	<b>8,299</b>	<b>8,687</b>	<b>10,007</b>	<b>12,766</b>
<b>% growth</b>	<b>12.2%</b>	<b>19.0%</b>	<b>4.7%</b>	<b>15.2%</b>	<b>27.6%</b>
<b>EBITDA margin (%)</b>	<b>19.5%</b>	<b>21.8%</b>	<b>22.2%</b>	<b>23.1%</b>	<b>25.6%</b>
Other income	394	243	406	530	651
Interest costs	61	112	114	145	100
Depreciation	477	529	584	609	649
Profit before tax (before exceptional items)	6,828	7,901	8,395	9,783	12,668
Exceptional items	1,450	-101	0	0	0
Tax	1,759	2,042	1,613	2,465	3,192
PAT	6,518	5,758	6,782	7,317	9,476
<b>APAT</b>	<b>5,068</b>	<b>5,858</b>	<b>6,782</b>	<b>7,317</b>	<b>9,476</b>
<b>APAT margin (%)</b>	<b>14.2%</b>	<b>15.4%</b>	<b>17.3%</b>	<b>16.9%</b>	<b>19.0%</b>
<b>% Growth</b>	<b>13.2%</b>	<b>15.6%</b>	<b>15.8%</b>	<b>7.9%</b>	<b>29.5%</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 12: Balance sheet**

Y/E June (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	325	325	325	325	325
Reserves	6,818	7,051	9,136	9,867	10,815
Net worth	7,143	7,376	9,460	10,192	11,140
Deferred Tax Liabilities	-380	-519	-655	-721	-793
Total debt	35	19	8	8	8
<b>Total liabilities</b>	<b>6,797</b>	<b>6,876</b>	<b>8,813</b>	<b>9,479</b>	<b>10,355</b>
Gross block	4,719	5,012	5,432	5,832	6,232
Depreciation	2,881	3,376	3,732	4,341	4,990
Net block	1,838	1,637	1,700	1,491	1,242
Capital work-in-progress	376	439	228	228	228
Investments	0	0	0	0	0
Inventories	2,493	2,340	2,198	2,611	3,006
Debtors	1,424	1,921	2,163	2,611	3,006
Cash	6,602	6,393	9,780	9,285	11,196
Loans & advances	3,214	3578	4649	4649	4649
Total current assets	13,733	14,231	18,790	19,156	21,856
Creditors	7,541	7,798	9,711	9,096	10,441
Other current liabilities	731	710	1,036	1,140	1,254
Provisions	878	923	1,158	1,160	1,276
Total current liabilities and provisions	9,150	9,431	11,905	11,395	12,971
Net current assets	4,583	4,801	6,885	7,761	8,886
<b>Total assets</b>	<b>6,797</b>	<b>6,876</b>	<b>8,813</b>	<b>9,479</b>	<b>10,355</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 13: Cash flow**

Y/E June (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
PBT	8,699	7,901	8,395	9,783	12,668
Depreciation	477	529	584	609	649
Net interest expense	-250	-154	-237	-385	-551
Others	139	202	157	0	0
(Inc)/Dec in WC	2,101	-253	1,655	-1,371	786
Taxes	-2,534	-2,494	-2,295	-2,465	-3,192
<b>CF from Operations</b>	<b>8,631</b>	<b>5,731</b>	<b>8,258</b>	<b>6,171</b>	<b>10,360</b>
(Inc)/Dec in FA	-315	-497	-444	-400	-400
<b>Free Cash Flow</b>	<b>8,317</b>	<b>5,234</b>	<b>7,814</b>	<b>5,771</b>	<b>9,960</b>
(Pur)/Sale of Investments	0	0	0	0	0
Others	325	246	343	530	651
<b>CF from Investments</b>	<b>11</b>	<b>-251</b>	<b>-101</b>	<b>130</b>	<b>251</b>
Issue of Shares	0	0	0	0	0
Inc/(Dec) in Debt	0	0	0	0	0
Dividend Paid	-11,037	-5,681	-4,707	-6,586	-8,528
Interest Paid	-10	-25	-51	-145	-100
Others	-18	16	-12	-66	-72
<b>CF from Fin. Activity</b>	<b>-11,064</b>	<b>-5,689</b>	<b>-4,770</b>	<b>-6,796</b>	<b>-8,700</b>
<b>Inc/Dec of Cash</b>	<b>-2,423</b>	<b>-210</b>	<b>3,387</b>	<b>-495</b>	<b>1,911</b>
Opening Balance	9,025	6,603	6,393	9,780	9,285
<b>Closing Balance</b>	<b>6,603</b>	<b>6,393</b>	<b>9,780</b>	<b>9,285</b>	<b>11,196</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 14: Key ratios**

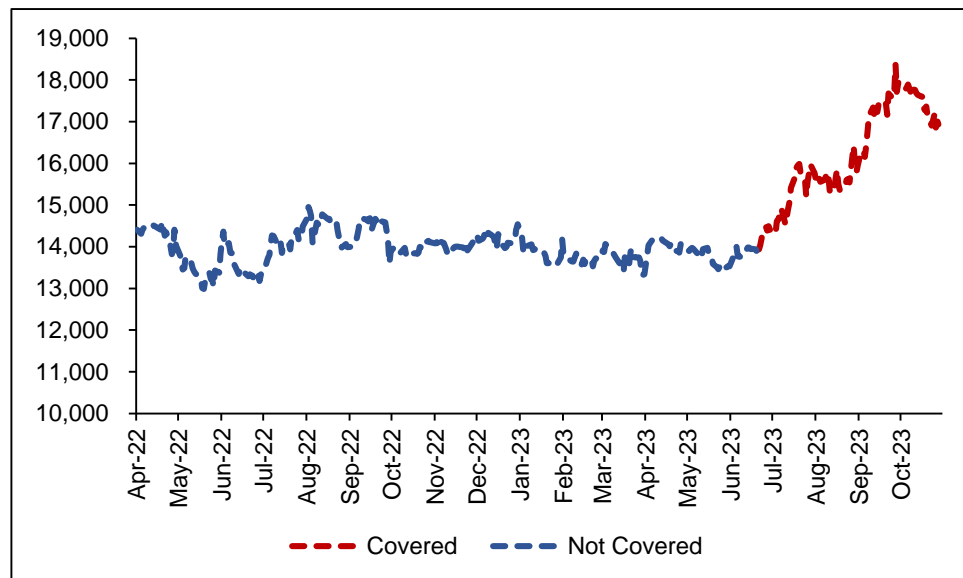
Y/E June	FY21	FY22	FY23	FY24E	FY25E
<b>Per share (Rs)</b>					
EPS	156.1	180.5	208.9	225.2	291.6
Book value	220.0	227.2	291.4	314.0	343.2
DPS	315.4	160.2	185.2	202.9	262.7
<b>Valuation (x)</b>					
EV/sales	15.0	14.1	13.6	12.3	10.6
EV/EBITDA	76.7	64.5	61.2	53.2	41.5
P/E	106.8	92.4	79.8	74.1	57.2
P/BV	75.8	73.4	57.2	53.1	48.6
<b>Return ratios (%)</b>					
RoCE	60.0	86.5	87.6	81.2	96.3
RoE	54.1	80.7	80.6	74.5	88.8
RoIC	100.0	100.0	100.0	100.0	100.0
<b>Profitability ratios (%)</b>					
Gross margin	67.6	61.6	57.6	59.5	62.0
EBITDA margin	19.5	21.8	22.2	23.1	25.6
EBIT margin	18.2	20.4	20.7	21.7	24.3
PAT margin	14.2	15.4	17.3	16.9	19.0
<b>Liquidity ratios (x)</b>					
Current ratio	1.5	1.5	1.6	1.7	1.7
Quick ratio	1.2	1.3	1.4	1.5	1.5
<b>Solvency ratio (x)</b>					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity ratio	-0.9	-0.9	-1.0	-0.9	-1.0
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	5.3	5.5	4.4	4.6	4.8
Fixed asset turnover ratio (x)	7.8	7.8	7.5	7.7	8.3
Debtor days	16	16	19	22	22
Inventory days	23	23	21	22	22
Creditor days	66	74	82	75	75

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
22 June 2023	Buy	14,059	16,600
29 August 2023	Buy	16,422	18,900
23 September 2023	Accumulate	17,678	19,710
31 October 2023	Accumulate	16,682	18,300

## Rating track graph



## DISCLOSURES

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ACCUMULATE -5% to 15%

SELL < -5%

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