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# P&G Hygiene & Healthcare Ltd.

Update Note: TP(↑), Estimate(↓), Rating(↔)

Regular Coverage

Absolute : LONG

Relative : Overweight

11% ATR in 13 months

**Sanitary napkins growth a bit slow in rural markets while growth in Vicks stagnant, retain LONG on the back of long-term category potential**

Household Products

We recently conducted channel checks to understand the demand scenario for sanitary napkins and how it could impact Whisper (PGHH brand). The opinion is that while there are near-term growth challenges in sanitary napkin category given low rural demand, long-term potential still remains intact. Our checks reaffirmed that PGHH (and all P&G companies likewise) are continuing to focus on profit growth in India. Growth in sanitary napkins over the last 9-12 months has slowed down a bit due to sluggish rural growth which has been witnessed across the board for other FMCG companies. Post the ban of Vicks Action 500, off-take for the same has been impacted and growth in overall Vicks portfolio is a bit sluggish at this point in time. We mainly adjust revenue estimates due to IND-AS and reduce EPS estimates due to lower other income. We maintain LONG rating on the stock with revised DCF based Jun'18 TP of Rs. 8,965 (prev. Jun'18 TP Rs. 7.029).

**Volume growth in urban areas continues to remain stable in sanitary napkins while slow rural growth is currently leading to lower sales in the category:** Our recent interactions indicated that volume growth in sanitary napkins has come-off from FY16 highs and would be currently in high single digits. Whisper Choice Ultra is currently the fastest growing brand in the space. Growth for sanitary napkins in rural markets hasn't picked up as per expectations and the trend is similar to that witnessed by many other FMCG companies. During our interactions it was also indicated that PGHH has lost around 100-150bps of value market share in sanitary napkins category to Stayfree, ProEase. We believe that loss of some market share is not a major concern given the fact that PGHH has ~60% value market share in the category.

**Growth in Vicks remains sluggish due to ban on Vicks Action 500 which has affected off-take:** Sales for Vicks portfolio was affected during FY16 majorly on account of poor monsoons and declining sales in Vicks Action 500 (sales de-growth of 11%) in FY16. Post the ban on Vicks Action 500 for which PGHH got a stay and started selling the product in the market; sales growth hasn't picked up and the company is facing challenges for the same during FY17. We continue to remain positive on brand strength of Vicks despite increasing competition in Rubs and Lozenges and believe good monsoons in FY18 should be able to drive up growth for the brand.

**PGHH ensuring that minimal de-stocking happens and is likely to take a hit on margins in the near-term:** With GST rate of 12% for sanitary napkins it is likely to be neutral to positive for the company as current excise duty as per notifications on the same is 6% and besides a handful of states like Gujarat and few others VAT on the same is in the normal range. Besides that PGHH has ensured to the trade channels that any hit on account of stocks held would be compensated by way of trade margins which could impact profits in the near-term which isn't plausible for us to factor in our numbers in near-term.

## Change in Estimates

Rs. Mn	FY17E	Chg (%)	FY18E	Chg (%)
Sales	24,920	-13%	27,840	-14%
EBITDA	6,975	-2%	7,733	-8%
EPS (Rs.)	146	-8%	157	-17%

## Consolidated Financials

Rs. Mn	YE Jun	FY16A	FY17E	FY18E	FY19E
Sales	23,492	24,920	27,840	31,293	
EBITDA	6,053	6,975	7,733	8,872	
Depreciation	517	531	526	549	
Interest Expense	60	73	52	52	
Other Income	876	815	440	600	
Reported PAT	4,216	4,726	5,089	5,944	
Recurring PAT	4,222	4,732	5,089	5,944	
Total Equity	15,112	5,738	9,117	13,162	
Gross Debt	0	0	0	0	
Cash	10,749	252	3,429	7,182	
Rs Per Share	FY16A	FY17E	FY18E	FY19E	
Earnings	130.1	145.8	156.8	183.1	
Book Value	466	177	281	405	
Dividends	36.0	371.3	45.0	50.0	
FCFF	184.6	112.5	151.6	175.2	
P/E (x)	61.6	55.0	51.1	43.8	
P/B (x)	17.2	45.3	28.5	19.8	
EV/EBITDA (x)	41.2	37.3	33.2	28.5	
ROE (%)	31%	45%	69%	53%	
Core ROIC (%)	63%	79%	79%	85%	
EBITDA Margin (%)	26%	28%	28%	28%	
Net Margin (%)	18%	19%	18%	19%	

Rating Information	
Price (Rs)	8,015
Target Price (Rs)	8,965
Target Date	30 Jun '18
Target Set On	14 Jun '17
Implied yrs of growth (DCF)	20
Fair Value (DCF)	8,965
Fair Value (DDM)	3,103
Ind Benchmark	SPBSMIP
Model Portfolio Position	NA

Stock Information	
Market Cap (Rs Mn)	260,170
Free Float (%)	29.36%
52 Wk H/L (Rs)	8150/5731.061
Avg Daily Volume (1yr)	7,718
Avg Daily Value (Rs Mn)	51
Equity Cap (Rs Mn)	325
Face Value (Rs)	2
Bloomberg Code	PG IN

Ownership	Recent	3M	12M
Promoters	70.6 %	0.0 %	0.0 %
DII	9.1 %	-0.1 %	-0.9 %
FII	3.9 %	0.1 %	0.5 %
Public	16.4 %	0.0 %	0.3 %

Price %	1M	3M	12M
Absolute	5.7 %	23.4 %	36.0 %
Vs Industry	6.1 %	14.3 %	5.5 %
SKB	0.6 %	-1.1 %	-5.3 %
NEST	-2.0 %	9.2 %	1.4 %

## Standalone Quarterly EPS forecast

Rs/Share	1Q	2Q	3Q	4Q
EPS (16A)	21.4	45.1	29.9	33.6
EPS (17E)	32.2	46.4	30.7	36.5

## Company Snapshot

### How we differ from Consensus

		Equirus	Consensus	% Diff	Comment
EPS	FY17E	145.8	145.6	0 %	Not much coverage on the stock
	FY18E	156.8	159.8	-2 %	
Sales	FY17E	24,920	26,653	-7 %	
	FY18E	27,840	30,433	-9 %	
PAT	FY17E	4,216	4,726	0 %	
	FY18E	4,216	5,089	0 %	

### Our Key Investment arguments:

- Product profile, Strong brand and equally strong business fundamentals could result in strong sales and profitability for P&G

### Key Estimates:

	FY16A	FY17E	FY18E	FY19E
Sales	23,492	24,920	27,840	31,293
EBITDA	6,053	6,975	7,733	8,872
EBITDA Margin	25.8%	28.0%	27.8%	28.4%

### Risk to Our View:

- Volatility of commodity prices could lead fluctuations in raw material cost.
- Increasing competitive intensity could lead to price wars thereby reducing margins going forward.
- Economic slowdown & high inflation

Comparable valuation		Mkt Cap Rs. Mn.	Price Target	Target Date	EPS			P/E			BPS		P/B		RoE		Div Yield	
Company	Reco.				CMP	FY16A	FY17E	FY18E	FY16A	FY17E	FY18E	FY16A	FY17E	FY14A	FY17E	FY18E	FY16A	FY17E
PGHH	LONG	8,015	260,170	8,965	30thJun'18	130.1	145.8	156.8	61.6	55.0	51.1	465.6	45.3	31 %	45 %	69 %	0.3 %	0.3 %
GSK CH	NR	5,331	224,192	NR	NR	156.2	175.1	196.5	34.1	30.4	27.1	742.4	6.8	24 %	24 %	24 %	1.3 %	1.1 %
Nestle	NR	6,684	644,476	NR	NR	129.0	150.2	170.4	51.8	44.5	39.2	347.2	19.3	39 %	42 %	45 %	1.3 %	1.4 %

### Key Triggers

- Stable raw material prices.
- Increasing demand for premium products.

Sensitivity to Key Variables	% Change	% Impact on EPS
Raw Material Price	1 %	-4 %
-	-	-
-	-	-

### DCF Valuations & Assumptions

Rf	Beta	Ke	Term. Growth	Debt/IC in Term. Yr
6.6 %	0.5	9.6 %	3.0 %	0.0 %

	FY17E	FY18E	FY19-26E	FY27-31E	FY32-36E
Sales Growth	6 %	12 %	12 %	11 %	10 %
NOPAT Margin	17 %	17 %	18 %	18 %	19 %
IC Turnover	4.70	4.70	4.96	5.00	5.00
RoIC	78.9 %	79.2 %	92.7 %	97.6 %	100.1 %

Years of strong growth	1	2	10	15	20
Valuation as on date (Rs)	2,266	2,466	4,524	6,275	8,147
Valuation as of June'18	2,493	2,713	4,978	6,905	8,965

Based on DCF, assuming 20 years of 13% CAGR growth and 93% average ROIC, we derive current fair value of Rs. 8,147 and Jun'18 fair value of Rs. 8,965.

### Company Description:

PGHH manufactures personal & beauty care and healthcare products. The brands include AmbiPur, Ariel, Duracell, Gillette, Head & Shoulders, Olay, Oral-B, Pampers, Pantene, Wella, Whisper, Vicks, and Tide. Its products are sold through retail operations, including mass merchandisers, grocery stores, membership club stores, drug stores, department stores, and high frequency stores. The Company has manufacturing units locations at Kundaim- Goa and Baddi- Himachal Pradesh.

## Standalone Quarterly Earnings Forecast and Key Drivers

Rs in Mn	1Q16A	2Q16A	3Q16A	4Q16A	1Q17A	2Q17A	3Q17A	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	FY16A	FY17E	FY18E	FY19E
Revenue	5,534	6,737	5,598	5,623	6,225	6,656	6,011	6,028	6,691	7,755	6,796	6,599	24,843	24,920	27,840	31,293
Cost of Raw and Packing Material Consumed	1,209	1,597	1,429	1,277	1,455	1,519	1,532	2,321	2,543	2,947	2,583	2,507	5,809	6,827	10,579	11,891
Purchase of Stock-in-Trade	961	1,017	790	567	1,049	819	844	0	0	0	0	0	3,335	2,712	0	0
Employee Benefits Expense	334	283	263	299	377	274	335	313	321	364	319	310	1,186	1,299	1,315	1,455
Advertising & Sales Promotion Expenses	510	566	525	406	619	544	540	512	669	775	680	660	3,254	2,216	2,784	3,129
Other Expenses	1,403	968	1,097	1,201	993	991	951	1,025	1,071	1,241	1,087	1,056	3,979	3,959	4,454	4,850
EBITDA	970	2,162	1,333	1,588	1,512	2,286	1,538	1,640	1,853	2,156	1,889	1,834	6,046	6,975	7,733	8,872
Depreciation	127	142	124	124	127	132	142	130	130	131	131	133	517	531	526	549
EBIT	842	2,021	1,210	1,464	1,385	2,154	1,396	1,510	1,723	2,025	1,758	1,701	5,536	6,444	7,207	8,323
Interest	17	28	7	8	4	43	13	13	13	13	13	13	40	73	52	52
Other Income	212	206	236	222	225	208	232	150	110	110	110	110	876	815	440	600
PBT	1,038	2,199	1,439	1,677	1,605	2,320	1,614	1,647	1,820	2,122	1,855	1,798	6,372	7,186	7,595	8,871
Tax	343	733	469	585	561	814	618	461	601	700	612	593	2,134	2,453	2,506	2,928
Recurring PAT	696	1,465	969	1,092	1,044	1,506	996	1,186	1,219	1,422	1,243	1,205	4,222	4,732	5,089	5,944
Extraordinary	3	0	0	3	7	-1	0	0	0	0	0	0	6	6	0	0
Reported PAT	693	1,465	969	1,089	1,037	1,507	996	1,186	1,219	1,422	1,243	1,205	4,216	4,726	5,089	5,944
EPS (Rs)	21.4	45.1	29.9	33.6	32.2	46.4	30.7	36.5	37.6	43.8	38.3	37.1	130.1	145.8	156.8	183.1
<b>Key Drivers</b>																
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Sequential Growth (%)</b>																
Revenue	-1%	22%	-17%	0%	11%	7%	-10%	0%	11%	16%	-12%	-3%				
Cost of Raw and Packing Material Consumed	9%	32%	-11%	-11%	14%	4%	1%	51%	10%	16%	-12%	-3%				
EBITDA	-37%	123%	-38%	19%	-5%	51%	-33%	7%	13%	16%	-12%	-3%				
EBIT	-40%	140%	-40%	21%	-5%	56%	-35%	8%	14%	18%	-13%	-3%				
Recurring PAT	-35%	111%	-34%	13%	-4%	44%	-34%	19%	3%	17%	-13%	-3%				
EPS	-35%	111%	-34%	13%	-4%	44%	-34%	19%	3%	17%	-13%	-3%				
<b>Yearly Growth (%)</b>																
Revenue	-4%	5%	1%	1%	12%	-1%	7%	7%	7%	17%	13%	9%	6%	0%	12%	12%
EBITDA	23%	69%	9%	3%	56%	6%	15%	3%	23%	-6%	23%	12%	25%	15%	11%	15%
EBIT	24%	80%	9%	4%	64%	7%	15%	3%	24%	-6%	26%	13%	28%	16%	12%	15%
Recurring PAT	13%	62%	12%	2%	50%	3%	3%	9%	17%	-6%	25%	2%	22%	12%	8%	17%
EPS	13%	62%	12%	2%	50%	3%	3%	9%	17%	-6%	25%	2%	22%	12%	8%	17%
<b>Margin (%)</b>																
EBITDA	18%	32%	24%	28%	24%	34%	26%	27%	28%	28%	28%	28%	24%	28%	28%	28%
EBIT	15%	30%	22%	26%	22%	32%	23%	25%	26%	26%	26%	26%	22%	26%	26%	27%
PBT	19%	33%	26%	30%	26%	35%	27%	27%	27%	27%	27%	27%	26%	29%	27%	28%
PAT	13%	22%	17%	19%	17%	23%	17%	20%	18%	18%	18%	18%	17%	19%	18%	19%

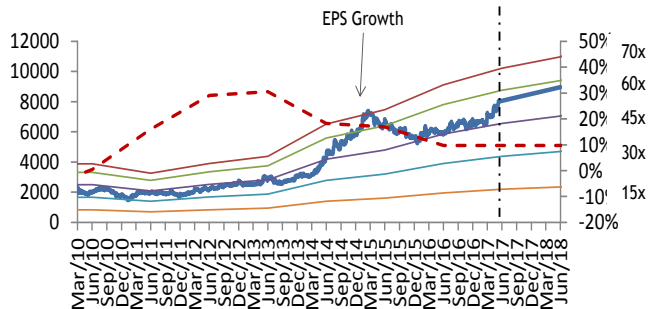
### Consolidated Financials

P&L (RsMn)	FY16A	FY17E	FY18E	FY19E
Revenue	23,492	24,920	27,840	31,293
Op. Expenditure	17,439	17,945	20,107	22,421
EBITDA	6,053	6,975	7,733	8,872
Depreciation	517	531	526	549
EBIT	5,536	6,444	7,207	8,323
Interest Expense	60	73	52	52
Other Income	876	815	440	600
PBT	6,353	7,186	7,595	8,871
Tax	2,130	2,453	2,506	2,928
PAT bef. MI & Assoc.	4,222	4,732	5,089	5,944
Minority Interest	0	0	0	0
Profit from Assoc.	0	0	0	0
Recurring PAT	4,222	4,732	5,089	5,944
Extraordinaires	6	6	-	-
Reported PAT	4,216	4,726	5,089	5,944
FDEPS (Rs)	130.1	145.8	156.8	183.1
DPS (Rs)	36.0	371.3	45.0	50.0
CEPS (Rs)	146.0	162.1	173.0	200.0
FCFPS (Rs)	184.6	112.5	151.6	175.2
BVPS (Rs)	465.6	176.8	280.9	405.5
EBITDAM (%)	26%	28%	28%	28%
PATM (%)	18%	19%	18%	19%
Tax Rate (%)	34%	34%	33%	33%
Sales Growth (%)	1%	6%	12%	12%
FDEPS Growth (%)	22%	12%	8%	17%

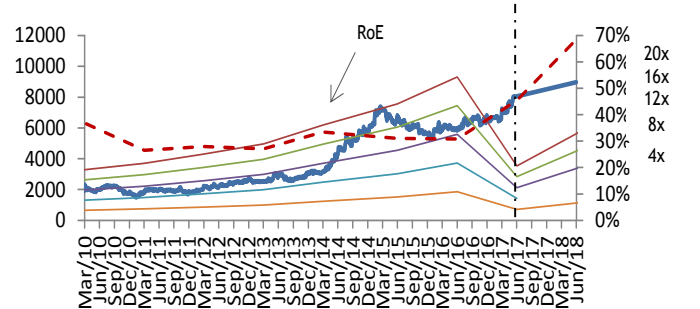
Balance Sheet (RsMn)	FY16A	FY17E	FY18E	FY19E
Equity Capital	325	325	325	325
Reserve	14,788	5,413	8,793	12,838
Networth	15,112	5,738	9,117	13,162
Long Term Debt	0	0	0	0
Def Tax Liability	36	36	36	36
Minority Interest	0	0	0	0
Account Payables	3,241	2,712	4,058	4,561
Other CurrLiabi	3,257	1,780	1,989	2,235
Total Liabilities & Equity	21,646	10,265	15,199	19,994
Net Fixed Assets	3,169	3,638	4,312	4,963
Capital WIP	347	0	0	0
Others	1,795	1,582	1,082	682
Inventory	1,275	1,502	1,678	1,886
Account Receivables	1,496	1,092	1,220	1,372
Other Current Assets	2,816	2,199	3,478	3,909
Cash	10,749	252	3,429	7,182
Total Assets	21,646	10,265	15,199	19,994
Non-cash Working Capital	-911	301	330	371
Cash Conv Cycle	-14.2	4.4	4.3	4.3
WC Turnover	-25.8	82.7	84.4	84.4
FA Turnover	6.7	6.9	6.5	6.3
Net D/E	-0.7	0.0	-0.4	-0.5
Revenue/Capital Employed	2.1	1.8	2.7	4.2
Capital Employed/Equity	1.0	1.0	1.0	1.0

Cash Flow (RsMn)	FY16A	FY17E	FY18E	FY19E
PBT	6,353	7,186	7,595	8,871
Depreciation	517	531	526	549
Others	-6	-6	0	0
Taxes Paid	2,130	2,453	2,506	2,928
Change in WC	1,140	-1,213	-29	-41
Operating C/F	5,873	4,044	5,586	6,452
Capex	79	-440	-700	-800
Change in Invest	0	0	0	0
Others	0	0	0	0
Investing C/F	79	-440	-700	-800
Change in Debt	0	0	0	0
Change in Equity	-1,391	0	0	0
Others	2	-14,101	-1,709	-1,899
Financing C/F	-1,389	-14,101	-1,709	-1,899
Net change in cash	4,563	-10,497	3,177	3,753
RoE (%)	31%	45%	69%	53%
RoIC (%)	31%	46%	69%	53%
Core RoIC (%)	63%	79%	79%	85%
Div Payout (%)	0%	298%	34%	32%
P/E	61.6	55.0	51.1	43.8
P/B	17.2	45.3	28.5	19.8
P/FCFF	43.4	71.2	52.9	45.8
EV/EBITDA	41.2	37.3	33.2	28.5
EV/Sales	10.6	10.4	9.2	8.1
Dividend Yield (%)	0.3%	0.3%	0.3%	0.3%

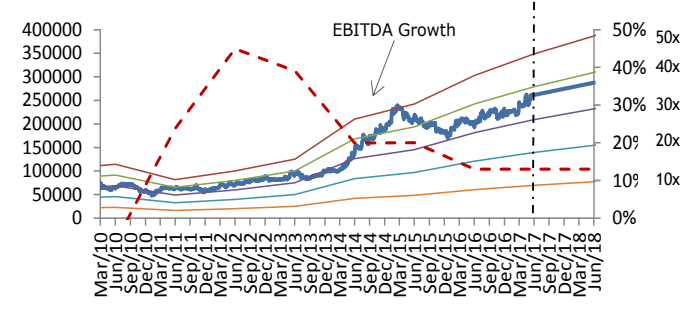
TTM P/E vs. 2 yr forward EPS growth



TTM P/B vs. 2 yr forward RoE



TTM EV/EBITDA vs. 2 yr forward EBITDA



## Historical Consolidated Financials

P&L (Rs Mn)	FY13A	FY14A	FY15A	FY16A
Revenue	16,868	20,509	23,338	23,492
Op. Expenditure	14,362	16,303	18,494	17,439
EBITDA	2,506	4,207	4,844	6,053
Depreciation	313	352	525	517
EBIT	2,193	3,855	4,319	5,536
Interest Expense	0	54	57	60
Other Income	670	802	746	876
PBT	2,862	4,603	5,008	6,353
Tax	830	1,583	1,547	2,130
PAT bef. MI & Assoc.	2,032	3,020	3,461	4,222
Minority Interest	0	0	0	0
Profit from Assoc.	0	0	0	0
Recurring PAT	2,032	2,032	2,032	4,222
Extraordinaires	0	0	0	0
Reported PAT	2,032	2,032	2,032	4,216
EPS (Rs)	62.6	93.0	106.6	106.6
DPS (Rs)	25.0	27.5	27.5	27.5
CEPS (Rs)	72.3	103.9	122.8	122.8
FCFPS (Rs)	22.2	62.8	141.1	141.1
BVPS (Rs)	248.1	309.0	378.5	378.5
EBITDAM (%)	15 %	21 %	21 %	26 %
PATM (%)	12 %	15 %	15 %	18 %
Tax Rate (%)	29 %	34 %	31 %	34 %
Sales growth (%)	30 %	22 %	14 %	1 %
FDEPS growth (%)	12 %	49 %	15 %	22 %

Balance Sheet (Rs Mn)	FY13A	FY14A	FY15A	FY16A
Equity Capital	325	325	325	325
Reserve	7,729	9,704	11,962	14,788
Networth	8,053	10,029	12,287	15,112
Long Term Debt	0	0	0	0
Def Tax Liability	28	29	33	36
Minority Interest	0	0	0	0
Account Payables	2,045	2,303	3,723	3,241
Other Curr Liabi	1,854	2,718	3,434	3,257
<b>Total Liabilities &amp; Equity</b>	<b>11,980</b>	<b>15,079</b>	<b>19,477</b>	<b>21,646</b>
Net Fixed Assets	2,149	2,395	3,088	3,169
Capital WIP	412	982	390	347
Others	1,012	1,578	2,428	1,795
Inventory	1,189	1,185	1,191	1,275
Account Receivables	809	861	1,139	1,496
Other Current Assets	4,749	5,388	5,055	2,816
Cash	1,660	2,691	6,186	10,749
<b>Total Assets</b>	<b>11,980</b>	<b>15,079</b>	<b>19,477</b>	<b>21,646</b>
Non-cash Working Capital	2,848	2,413	229	-911
Cash Conv Cycle	61.6	42.9	3.6	-14.2
WC Turnover	5.9	8.5	102.1	-25.8
FA Turnover	6.6	6.1	6.7	6.7
Net D/E	-0.2	-0.3	-0.5	-0.7
Revenue/Capital Employed	2.6	2.7	2.6	2.1
Capital Employed/Equity	1.0	1.0	1.0	1.0

Cash Flow (Rs Mn)	FY13A	FY14A	FY15A	FY16A
PBT	2,862	4,603	5,008	5,008
Depreciation	313	352	525	525
Others	-364	-569	-447	-447
Taxes Paid	682	1,137	2,056	2,056
Change in WC	-1,087	84	1,225	1,225
Operating C/F	1,042	3,332	4,256	4,256
Capex	-372	-1,466	-774	-774
Change in Invest	0	-458	318	318
Others	52	594	740	740
Investing C/F	-321	-1,330	284	284
Change in Debt	0	0	0	0
Change in Equity	0	0	0	0
Others	-839	-924	-1,053	-1,053
Financing C/F	-839	-924	-1,053	-1,053
<b>Net change in cash</b>	<b>-118</b>	<b>1,078</b>	<b>3,487</b>	<b>3,487</b>
RoE (%)	27 %	33 %	31 %	31 %
RoIC (%)	27 %	34 %	31 %	31 %
Core RoIC (%)	25 %	34 %	41 %	41 %
Div Payout (%)	47 %	35 %	30 %	30 %
P/E	128.0	86.1	75.2	61.6
P/B	32.3	25.9	21.2	17.2
P/FCFF	360.7	127.7	56.8	43.4
EV/EBITDA	103.2	61.2	52.4	61.6
EV/Sales	15.3	12.6	10.9	15.9
Dividend Yield (%)	0.2%	0.3%	0.3%	0.3 %



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