

Whisper Rises To A Crescendo



P&G Hygiene and Healthcare (PGHH)

FMCG | Initiating Coverage

BUY

CMP: Rs14,059 | Target Price (TP): Rs16,600 | Upside: 18%

June 22, 2023

On the cusp of strong earnings growth

Key Points

- We initiate coverage on P&G Hygiene and Healthcare (PGHH) with a BUY rating and a target price (TP) of Rs16,600
- With the adverse impact of inflation gradually abating, we expect resumption of mid-teen topline CAGR over FY23E-FY25E (June year-end). PGHH has had one of the best track records among peers on this front and future growth prospects are also superior to peers given the low penetration and distribution expansion
- We also expect stellar EPS CAGR of 32% as benefits from strong sales growth meet the tailwinds of steep commodity cost decline and normalization of ad spends from the highs of recent years
- We value PGHH at 55x FY25E EPS, which we believe it deserves based on its best-of-breed long term topline growth potential, strong earnings growth prospects over the next two years and a phenomenal ROCE of over 80%

Remarkable track record on topline, high growth potential: Over the past 5/10/15 years, PGHH has reported one of the best topline and earnings growth among consumer staple peers, with both its key segments of Feminine Hygiene (brand Whisper; accounts for ~67% of sales) and Healthcare (brand Vicks; accounts for ~33% of sales), contributing to the high single digit-low double digit growth.

Long runway for growth in Feminine Hygiene: PGHH is extremely well placed in the Feminine Hygiene segment on the back of a combination of high category growth potential (penetration in early 20% levels, higher only than Pakistan and Sub-Saharan Africa), clear market leadership and superior moats vis-a-vis peers and lastly the extremely high barriers to entry for new players in the category. Its category development efforts in schools (over 9m schoolgirls reached in FY22) are unmatched not only among the competitors but they are also the most extensive in any consumer category in India, fulfilling the most important task of expanding the market in an under-penetrated category.

Dominant in the Healthcare segment: PGHH also has a dominant position in its Healthcare segment where Vicks is not only the clear market leader in Vaporub and Cough Drops, but has also been able to increase its share consistently over the last few years. Growth is coming from innovation and leveraging the distribution reach of over 6mn outlets of the unlisted sister concern P&G Home Products.

Expect strong topline growth: We believe that PGHH can deliver mid-teen topline growth over FY23E-FY25E better than the range of high single digit-low double digit growth that it has clocked in the previous 5/10/15 years.

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Est Change	-
TP Change	-
Rating Change	-

Company Data and Valuation Summary

Reuters	PROC.BO
Bloomberg	PG IN Equity
Mkt Cap (Rsbn/US\$bn)	455.5 / 5.5
52 Wk H / L (Rs)	15,500 / 13,082
ADTV-3M (mn) (Rs/US\$)	117.3 / 1.4
Stock performance (%) 1M/6M/1yr	3.9 / 0.3 / 5.6
Nifty 50 performance (%) 1M/6M/1yr	2.5 / 9.4 / 20.7

Shareholding	2QFY23	3QFY23	4QFY23
Promoters	70.6	70.6	70.6
DII's	14.6	15.3	15.4
FII's	1.7	1.1	1.1
Others	13.1	13.0	12.9
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY22	FY23E	FY24E	FY25E
Revenue	37,998	38,735	44,963	51,759
% Growth	6.3	1.9	16.1	15.1
Gross margin (%)	61.6	57.5	60.5	62.3
EBITDA	8,299	7,166	10,656	13,199
EBITDA margin (%)	21.8	18.5	23.7	25.5
% growth	19.0	-13.7	48.7	23.9
Reported PAT	5,758	5,648	7,841	9,783
Adjusted PAT	5,858	5,648	7,841	9,783
APAT margin (%)	15.4	14.6	17.4	18.9
% growth	15.6	-3.6	38.8	24.8
RoE (%)	80.7	73.8	94.1	100.8
RoCE (%)	86.5	80.2	102.1	108.8
P/E (x)	77.9	80.8	58.3	46.7
EV/EBITDA (x)	54.2	62.8	42.1	33.8

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links- [Annual Report FY22](#) | [3QFY23 Result](#)

Please refer to the disclaimer towards the end of the document.

Margin expansion from trough levels to boost earnings prospects

PGHH's topline and earnings growth in the past two years ending FY23E have been muted (a) due to inflation impacting the transition from 'cloth to sanitary napkins' in the Feminine Hygiene business (b) normalization of Covid-led spike in the Healthcare business (c) unprecedented material cost inflation in pulp & packaging materials (impacting Whisper) and waxes, oils & chemicals (impacting Vicks) and (d) sharp spike in ad spends in recent years, led by P&G's efforts globally to invest more than usual during the pandemic when others were cutting down on this key metric. Consequently, ad spends jumped by over 200bps as a percentage of sales over FY20-FY23E.

Outlook and valuation

With CPI Rural & Urban inflation pressures abating, the covid-led spike in Healthcare sales behind them, steep ongoing decline in waxes, oils, chemicals, pulp and packaging material costs, normalization of ad spends and benefits of operating leverage (led by sales growth revival), we expect ~700bps EBITDA margin expansion over the next two years, leading to ~32% EPS CAGR over FY23E-FY25E. This is likely to be the best-of-breed among peers over this period. Long-term topline and earnings growth potential is also superior than other Consumer sector peers while its moats are deeper. When combined with the stellar RoCE of over 80%, the PGHH stock deserves premium multiples. We value the company at 55x FY25E EPS, giving us a TP of Rs16,600, 18% upside from CMP. We initiate on PGHH with a BUY.

Exhibit 1: Earnings growth vs peers over FY23-FY25E

(Rs/share)	FY23	FY24E	FY25E	2 year CAGR (%)
PGHH	174.0	241.2	301.0	31.5
Hindustan Unilever	41.4	47.9	54.9	15.2
Gillette India	91.9	108.3	123.3	15.8
Nestle India	254.5	312.7	349.3	17.2
Britannia Industries	85.0	95.2	111.3	14.4
ITC	15.1	17.8	19.5	13.5
Colgate-Palmolive (India)	38.8	42.1	46.1	9.0
Dabur India	9.6	11.0	13.2	17.2
Emami	17.9	18.7	19.6	4.6
Marico	10.1	11.3	12.4	11.0
Tata Consumer	11.5	16.1	20.0	31.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: P/E multiple comparison with peers

Companies	P/E (x)		
	FY23	FY24E	FY25E
PGHH	80.8	58.3	46.7
Hindustan Unilever	64.2	55.4	48.3
Gillette India	49.9	42.4	37.2
Nestle India	88.6	72.1	64.5
Britannia Industries	58.7	52.4	44.8
ITC	29.7	25.2	23
Colgate-Palmolive (India)	42.2	38.9	35.5
Dabur India	58.4	51.3	42.5
Emami	23.3	22.3	21.3
Marico	51.9	46.3	42.1
Tata Consumer	73	52.2	42.1

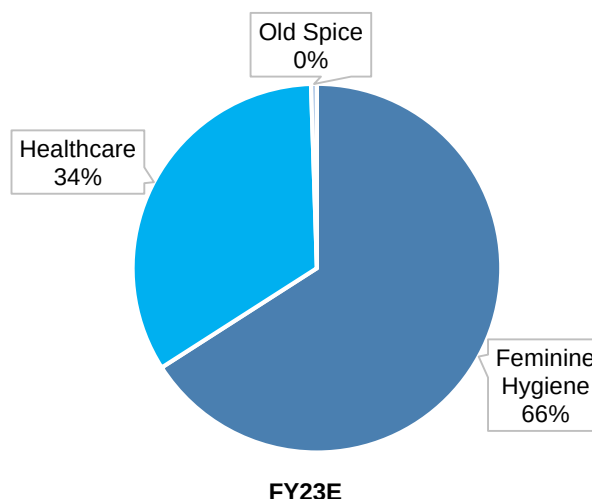
Source: Company, Nirmal Bang Institutional Equities Research

Company background

PGHH is engaged in manufacturing and selling of branded packaged Fast Moving Consumer Goods (FMCG) in the Feminine Hygiene and Healthcare businesses. Its parent company, Procter and Gamble Overseas India B.V. holds a 68.73% stake in PGHH as on March 31, 2023. The company manufactures, distributes and markets three major brands in India – Whisper (sanitary napkins), Vicks (balm, cough drops, inhaler and tablets) and Old Spice (after-shave lotion and deodorants).

Whisper is the leader with over 50% market share in the ~Rs50bn Indian Feminine Hygiene market (the largest segment for PGHH), contributing ~66% to sales in FY23E. Vicks is the leader with over 30% market share in the ~Rs64bn cough, cold and hay fever segment of OTC (over the counter) products, and is expected to contribute ~34% to FY23E sales. The Old Spice range of after-shave products, which were out-licensed to a third party until March 2013, is now a part of PGHH, but its revenue contribution is expected to be miniscule at less than ~1% of total sales in FY23E.

Exhibit 3: Revenue breakdown for FY23E



Source: Company, Nirmal Bang Institutional Equities Research

History in India: Vicks Product India was set up in 1951 as a subsidiary of Vicks Inc, USA. In 1964, a public limited company called Richardson Hindustan was formed, which obtained an industrial licence to manufacture menthol and de-mentholised peppermint oil and the Vicks range of products such as Vicks Vaporub, Vicks cough drops and Vicks inhaler. When P&G acquired Vicks globally in 1985, this entity became its subsidiary. In 1989, the name of the company was changed to P&G India and the company launched Whisper sanitary napkins. In 1999, the company's name was changed again to P&G Hygiene and Healthcare. The company manufactures its range of products from its plants in Goa.

The listed PGHH is one of the four P&G entities operating in India, with the others being P&G Home Products (unlisted), Procter & Gamble Health Ltd (listed, owned 51.82% by the parent) and Gillette India (listed, owned 75% by the parent).

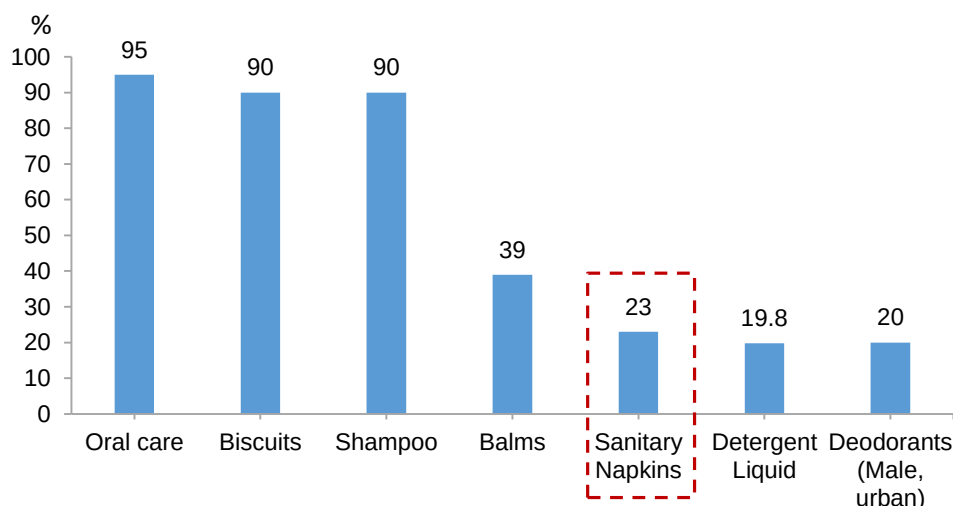
Mr. L.V. Vaidyanathan has been appointed as the new MD of the company from 1st July, 2022. Mr. Vaidyanathan started his career with P&G in India in 1996 and has worked in various leadership roles over the years. He has more than 26 years of experience across diverse geographies like India, Singapore, the Philippines, Thailand and Vietnam. Prior to this role, he was leading P&G business in Indonesia as CEO where he was instrumental for driving industry-leading growth and value creation.

Investment Arguments

(a) Huge growth opportunity given the extremely low category penetration in Feminine Hygiene

India's Feminine Hygiene market is projected to witness growth in high single digit to low double digit over the next five years and the market leader like PGHH (with over 50% market share; nearly 2/3rd of its revenue comes from Feminine Hygiene) with its strong moats compared to peers on distribution, product range, P&L & balance sheet strength and category development efforts is likely to benefit the most. In India, only ~23% of women reportedly use sanitary pads. This level is much lower compared to even other Emerging Markets (EM) like China and Thailand (~50-60%), Indonesia (over 80%), Kenya (~30%) and Uganda & Tanzania (~16% each). In case of the Developed Markets (DM) like the US, the UK and Germany, the penetration level is much higher at ~90-95%.

Exhibit 4: Segment-wise FMCG industry penetration



Source: Media reports, Annual reports, Company presentations, Nirmal Bang Institutional Equities Research

We can also arrive at ~23% penetration level through the following exercise:

Exhibit 5: Market penetration calculation

Available market size for category – Female population between age 15-45 (mn)	318
Population above poverty line (mn)	254
Total pad requirement in one cycle	11
Average total cycles in a year	13
Average cost of one pad – based on largest selling SKU (Rs)	6
Costs incurred per year (Rs)	858
Total market potential (Rsmn)	217,932
PGHH's segmental sales in FY23E (Rsmn)	25,616
PGHH's market share (%)	~50.9%
Current market size (Rsmn)	50,326
Market penetration (%)	23%

Source: Guesstimate; Nirmal Bang Institutional Equities Research

With higher product affordability, deepening distribution reach, higher education & income levels, rapid urbanization, rising proportion of working women, enhanced product awareness through media and category development efforts, usage in what is an essential product for a large segment of the population is picking up and will continue to be a strong long-term growth story given the existing low penetration levels. According to market research firm AC Nielsen's data, the Feminine Hygiene market penetration was only ~12% in 2011 and the current penetration level is ~23%, which indicates that the penetration level has grown at ~1% every year over the past decade.

(b) Market leadership and key edge over peers in the Feminine Hygiene segment

PGHH has been able to consistently maintain its market share of over 50% despite entering the Feminine Hygiene category only in the late 1980s when Johnson and Johnson (J&J) was the dominant market leader. A combination of a wider product range, product development efforts, intense category focus (for J&J and Unicharm Feminine Hygiene is a small part of their overall India business), distribution expansion and higher share of voice, PGHH has been able to gain and maintain a large chunk of the market share. With a significantly lower category penetration and wide distribution reach, it is well placed to capitalize on the high growth opportunity.

J&J is currently the second-largest player in the Feminine Hygiene market with an estimated ~29% market share through its Stayfree and Carefree brands.

Let us look at the performance of J&J's and Unicharm's Feminine Hygiene businesses over the past few years compared to PGHH.

Exhibit 6: Comparison between J&J and PGHH – Feminine Hygiene business

(Rsmn)	FY17	FY18	FY19	FY20	FY21	FY22	5 year CAGR (%)
P&G feminine hygiene sales (June year-end)^	16,614	16,491	20,525	20,236	23,807	25,616	9.0
Growth (%)	-	-0.7	24.5	-1.4	17.6	7.6	-
J&J feminine hygiene sales^	10,970	10,822	11,502	12,020	12,954	14,687	6.0
Growth (%)	-	-1.3	6.3	4.5	7.8	13.4	-
Unicharm feminine hygiene sales^	2,118	2,435	3,345	3,966	2,936	4,203	14.7
Growth (%)	-	15.0	37.4	18.6	-26.0	43.1	-
J&J's feminine hygiene sales as a proportion of P&GHH's feminine hygiene sales (%)	66.0	65.6	56.0	59.4	54.4	57.3	-
Unicharm's feminine hygiene sales as a proportion of P&GHH's feminine hygiene sales (%)	12.7	14.8	16.3	19.6	12.3	16.4	-

Source: Company; Nirmal Bang Institutional Equities Research

^Our estimates

As can be seen from the above, J&J's Feminine Hygiene segment has under-performed PGHH's Feminine Hygiene segment over a 5-year period. Thus, the relative proportion of the former's sales in this segment compared to PGHH has shrunk significantly - from ~65% of PGHH's sales in FY18 to ~57% in FY22. J&J's market share is believed to be ~29% as of FY22-end, just over half of PGHH's market share of ~51%. The loss in J&J's share seems to have been captured by Unicharm as it has seen faster sales growth at 14.7% CAGR (on a low base) over FY17-FY22 followed by PGHH. Currently, the market is dominated by these three players, accounting for ~88% of the total market. There is no marked difference in the product prices of PGHH and its peers.

Exhibit 7: Price points

Category	Number of pads	Price (Rs)	Price per pad (Rs)
Basic			
PGHH - Whisper choice/regular	20	99	4.95
J&J - Stayfree secure regular/XL	6-20	32-120	5.3-6
Unicharm - Sofy body fit regular/XL	8-18	36-110	4.5-6.1
Nua Sanitary pads/Ultra thin/Regular	30	399	13.3
Intermediate			
PGHH - Whisper maxi/Bindazz Night/XL/XL+	7-15	90-200	12.9-13.3
J&J - Stayfree dry max/all night/with wings	8-28	90-350	11.25-12.5
Unicharm – Sofy deep absorbent	28-54	249-399	7.4-8.9
Carmesi Sensitive sanitary pads/L/XXL	10-30	150-435	14.5-15
Kotex ProHealth+ ultra thin/XL+	42	550	13.1
Advanced			
PGHH - Whisper ultra clean/with wings/XL	7-30	90-299	9.9-12.9
J&J - Stayfree advanced/ultra thin	7-14	95-185	13.2-13.5
Unicharm – Sofy overnight/wide hip	305	20	15.25
Nua Sanitary pads/Ultra thin/L/XL	30	449-499	14.9-16.6
Carmesi Eco-conscious sanitary pads, L/XL	20-30	400-635	20-21.7
Kotex Super Overnight ultra thin/XL+	6-26	80-340	13.1-13.3

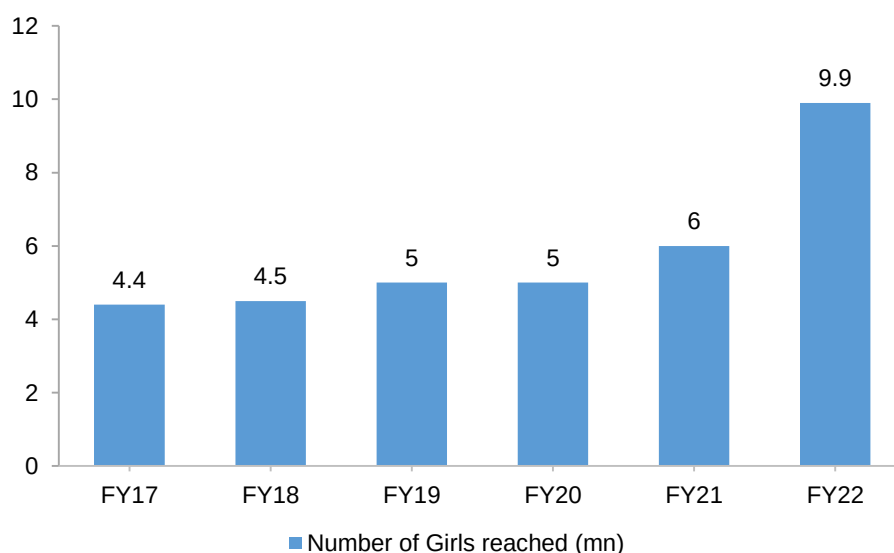
Source: E-commerce websites, Nirmal Bang Institutional Equities Research

PGHH has low priced units in both Feminine Hygiene and Vicks. Its product portfolios are ladderred across price points. While Menstrual Cups, Tampons etc seem to have gained some traction from working women and sports persons, demand for these products in India is currently miniscule. P&G is the global market leader in Tampons (brand: Tampax) and even if that sub-segment were to become more salient, these products can be launched from the parents' stable.

(c) Category development efforts in the Feminine Hygiene segment

This is another important factor that sets apart PGHH from its peers in the Feminine Hygiene segment. Not just in the Feminine Hygiene segment, but in the entire FMCG sector, only Colgate-Palmolive (India) in the Oral Care segment has a programme similar to PGHH's efforts in growing the Feminine Hygiene category. Since the outbreak of covid-19, the company has donated >3.8mn Whisper sanitary pads to support women and girls from under-privileged background.

Exhibit 8: Whisper Menstrual Health & Hygiene – School programme to promote Whisper brand



Source: Company; Nirmal Bang Institutional Equities Research

For the past few years, PGHH has been running the Whisper Menstrual Health & Hygiene School programme aimed at educating menstruating schoolgirls about the need for better menstrual hygiene. The programme also involves distribution of free sanitary pads. This disproportionate focus on the 'point of market-entry customer' reached 9.9mn schoolgirls through 50,000+ schools across the country in FY22, even higher than the average of 5mn (FY17-FY21) schoolgirls reached in the preceding years. This program, which reaches a large part of female school children entering menstrual age, is vital in creating category awareness and none of PGHH's peers have a similar programme of any scale.

On the back of higher education & income levels, rapid urbanization, rising proportion of working women, higher product awareness through the media, PGHH has rightly identified that spreading product awareness across the country would grow the Feminine Hygiene segment significantly, especially considering the backdrop of paltry market penetration levels at present. The company also launched Whisper #KeepGirlsInSchool campaign in 2020 to raise awareness about the issue of girls dropping out of school when they attain puberty and how to address the same.

(d) GST exemption makes the product more affordable

Till 2018, GST was charged on the sale of sanitary napkins at 12% but from 21st July, 2018, the sale of sanitary napkins was given an exemption from GST. This led to saving of GST on the final product.

PGHH has had a strong track record on sales growth vs peers both on an overall basis and particularly in the Feminine Hygiene segment over the past 5, 10 and 15 years.

Exhibit 9: Sales growth vs peers

Sales CAGR	5 year (%)	10 year (%)	15 year (%)
P&GHH	9.5	8.7	12.7
Healthcare	10.6	8.6	10.0
Feminine Hygiene	9.2	8.9	14.4
HUL	11.3	8.5	9.0
Gillette	7.8	5.5	10.0
Nestle	11.0	7.3	11.0
Britannia	10.2	10.0	12.4
ITC	10.3	8.4	11.0
Colgate	4.5	5.1	8.8
Dabur	8.5	6.5	11.2
Emami	6.5	7.2	12.5
Marico	9.2	7.8	11.5
Tata Consumer Products	15.3	6.5	8.0

Source: Bloomberg; Nirmal Bang Institutional Equities Research

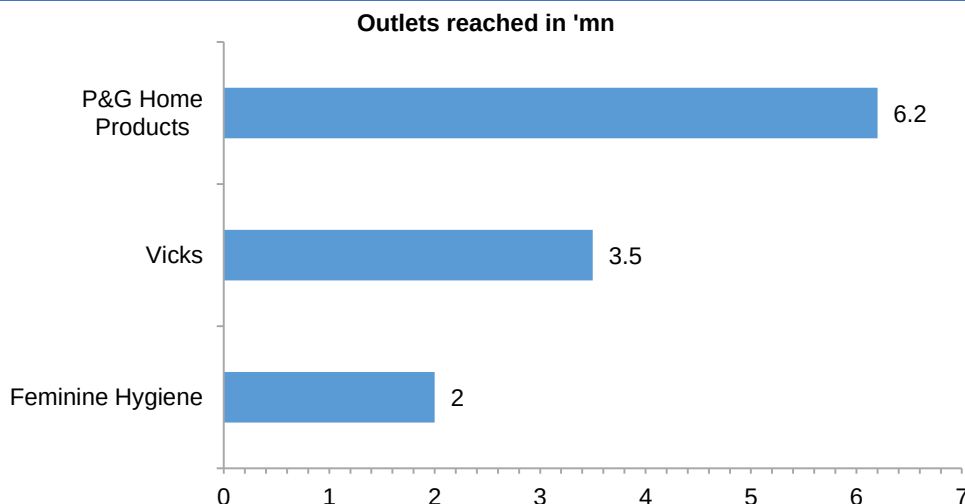
We believe that with low penetration levels in the Feminine Hygiene category and distribution led growth in Vicks, the company can deliver consistent double-digit revenue growth.

(e) Expansion in distribution reach and likely further increase in the same

Increased affordability has broadened the potential reach of PGHH's products in the Feminine Hygiene segment. Scope for expansion of Vicks branded products is also large. These two products currently reach ~2mn and 3.5mn stores across India, respectively. While the company has rapidly expanded its distribution reach over the last decade, especially for Vicks, the current distribution reach only covers a fraction of the unlisted P&G Home Products' existing reach in India, which is at 6.2mn outlets. Even if PGHH has to pay distribution commission to the unlisted P&G Home Products, which has these 6.2mn outlets, it is worth it because of the tremendous growth opportunity.

None of PGHH's competitors for Whisper or Vicks reach even half of PGHH's current reach, which as we have indicated can be expanded significantly.

Exhibit 10: Distribution reach

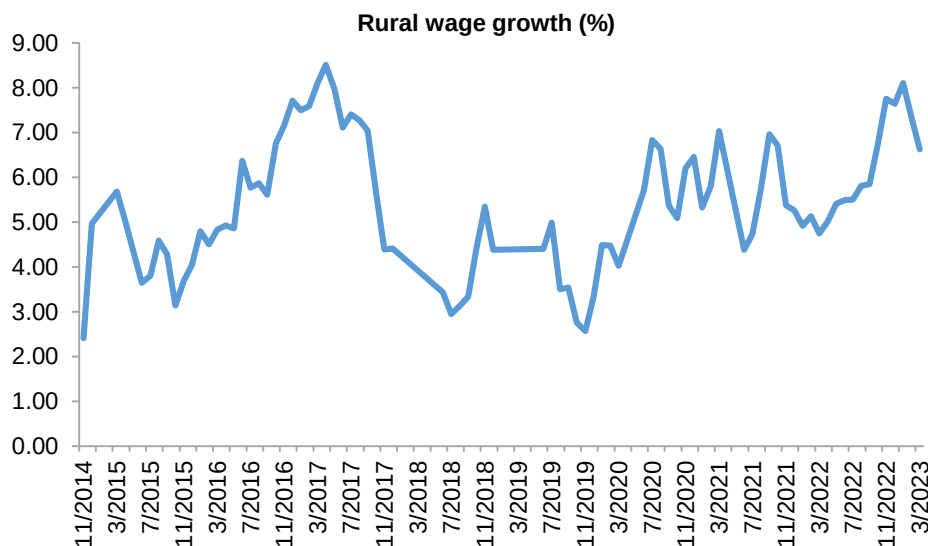


Source: Company; Nirmal Bang Institutional Equities Research

(f) Sustained increase in rural daily wage rate

Rural wage growth has seen some recovery in the past few months. Currently, if we compare the cost of using sanitary pads to daily wage rates, affordability may still be an issue. However, as the pace of economic growth increases in India and the percentage of working women in total population rising persistently, demand for sanitary pads will increase and PGHH would be one of the biggest beneficiaries, especially with its large distribution reach.

Exhibit 11: Rural wage growth rate



Source: CEIC; Gol; Nirmal Bang Institutional Equities Research

(g) Barrier for new entrants is quite high in the Feminine Hygiene segment

One of the unique characteristics of the Feminine Hygiene segment in India is not only low penetration, strong track record of past growth and potential for future growth, but also the fact that barriers to entry are high for new players and the top three MNCs have ~90% market share.

There are no unorganized players (barring some NGOs), so the conversion is happening from cloth to modern sanitary Feminine Hygiene players.

The category globally is dominated by MNCs. Apart from the MNCs stated above, the two other large players worldwide are Kimberly Clarke (brand Kotex) and SCA Hygiene (brand Libresse). Both had joint ventures with Hindustan Unilever and Godrej Consumer, respectively and despite access to the vast distribution reach of their Indian JV partners, they were unable to make much

headway, leading to dissolution of the JVs. Kotex (Kimberly-Clark) has re-entered the market recently on its own, but has not been able to make much headway yet.

Few other brands have discontinued the sale of sanitary napkins post a failed attempt to make any significant breakthrough in this category like *Don't Worry* (Mankind Pharma) and *She Comfort* (Emami). Rohit Surfactants (of Ghari detergent fame) also launched its sanitary napkin brand Pro-Ease a few years ago but has not been able to attain any material share.

Interestingly, this is a category where globally, private labels haven't been able to make their mark and this is true in India as well, where players like the Future Group have tried and failed in the past.

(h) Increasing salience of PGHH for parent

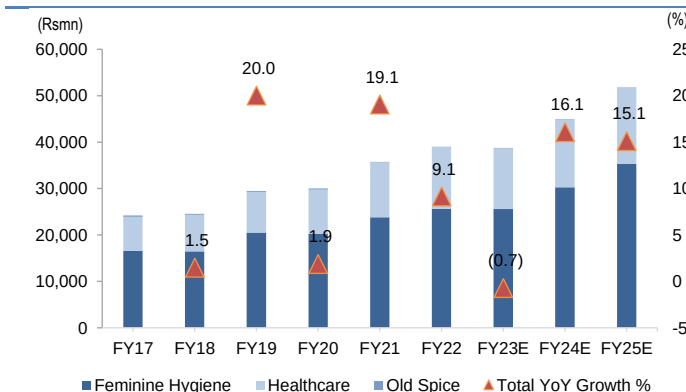
PGHH's Feminine Hygiene business (accounting for ~6% of P&G's global sales as per our estimates) earlier was part of the Healthcare segment for the parent but was later moved to Baby, Feminine and Family care sector business unit. Since it is now a part of the global Baby, Feminine and Family care unit, this is expected to result in greater focus and innovation in this segment, where P&G is also the global market leader. While the share of revenue from India on an overall basis (including unlisted P&G Home Products and listed entities PGHH and Gillette India) is only ~2%, the Feminine Hygiene segment in India is more relevant and is increasing in salience.

Exhibit 12: P&G's global sales

Description	FY19	FY20	FY21	FY22
USD-INR rate	69.0	75.5	74.3	79.0
India sales of all P&G entities (US\$m)	1552.9	1392.2	1584.8	1603.5
Global sales (US\$m)	67700	71000	76100	80200
India sales to global sales ratio (%)	2.3	2.0	2.1	2.0

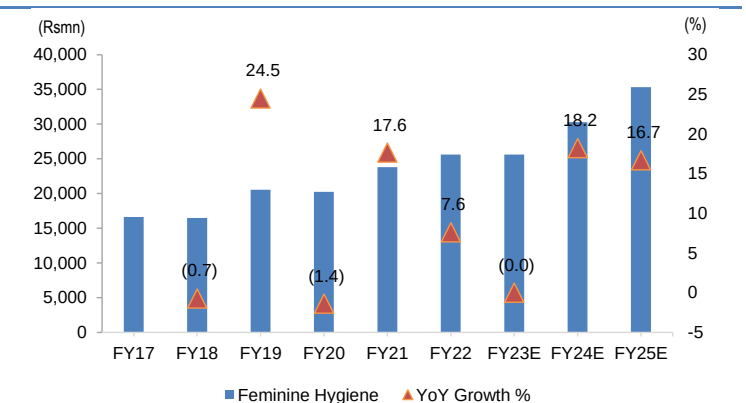
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Stable revenue mix between Feminine Hygiene and Healthcare segment over the years



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Feminine Hygiene segment's revenue growth



Source: Company, Nirmal Bang Institutional Equities Research

(i) Large potential for margin expansion

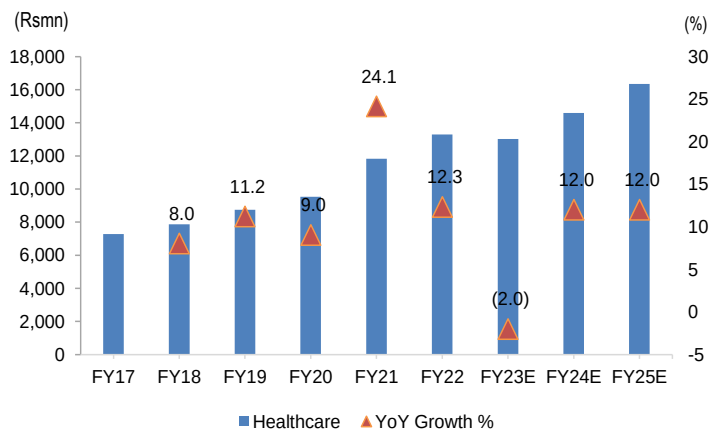
While the focus for PGHH evidently has been on topline growth under the last two CEOs, and rightly so, given the low levels of category penetration, the premiumization opportunity is huge over the longer term. This is especially true in urban India where penetration levels are well over 30% and the price per sanitary pad can be much higher than the average of Rs6 per pad currently.

(j) Increasing market share in the Healthcare segment

In FY23, the Feminine Hygiene segment is expected to contribute ~66% to total sales while the Healthcare segment (Vicks) is likely to contribute ~34% of total sales.

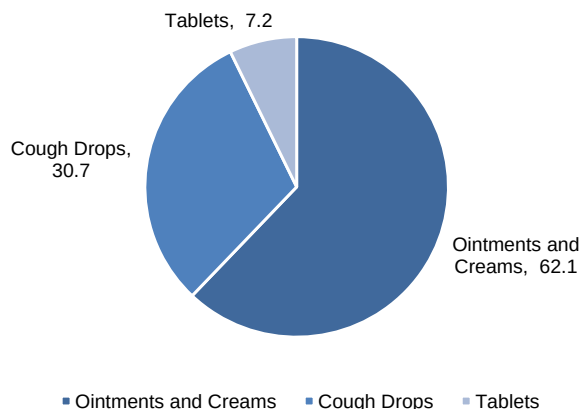
All the products in this segment are sold under the Vicks brand and include Vicks Vaporub, Vicks cough drop, Vicks inhaler and Vicks Action 500 tablet. The company is the market leader in the cough, cold and hay fever segment of OTC products, with more than 30% market share. This market share has increased in recent years.

Exhibit 15: Healthcare segment's growth



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Healthcare (product-wise breakdown)-FY22



Source: Company, Nirmal Bang Institutional Equities Research

Vicks Vaporub accounts for over 60% of the Healthcare segment's revenue and Vicks cough drops contribute 30% while the other two products account for the rest.

Healthcare is a steady business, which is expected to grow in double digits on a steady-state basis, led by volume growth and price hikes. While FY21 and FY22 saw significant uptick in sales on the back of Covid-19, we expect this business to report steady double-digit growth going forward. If this business does better than our expectations, then it will be an added bonus.

Competitors in this segment are widespread across products like Vicks Vaporub, Vicks inhaler, Vicks cough drop and Vicks Action 500 tablet, and include Reckitt Benckiser (which owns the erstwhile Paras Pharma business), Amrutanjan, Dabur, and all the leading domestic and OTC pharma companies that have the products to cater to this segment.

In addition to the products mentioned above, the company in the beginning of CY23 launched Vicks ZzzQuil NATURA, a melatonin based sleep supplement in the gummies format priced at Rs199 for 10 units (Rs19.9/unit) and Rs449 for 24 units (Rs18.7/unit). While our initial channel checks suggest that the product has not seen strong initial pick-up wherever available, it would be interesting to see how the category evolves going forward.

(k) Old Spice: Part of Global focus portfolio

Globally, P&G has identified various brands that will see increased focus to scale up the brands further. Interestingly, apart from the Feminine Hygiene brand *A/ways* (present in India as *Whisper*) and *Vicks*, this list also includes *Old Spice*. While we are not building any aggressive forecasts on *Old Spice* given that the growth has been lackluster in recent years and because the brand contributes less than 1% of sales for PGHH, we need to watch out for developments on the brand at a global level given that it has been identified as one of the 36 focus brands for the parent.

Exhibit 17: P&G's focus brands globally

Baby	Fem	Family	Fabric	Home	Hair	SPC	Grooming	Oral	PHC
Pampers	always	Bounty	Tide	DAWN	head & shoulders	SK-II	Gillette	Crest	VICKS
Luvs	TAMPAX	Charmin	Downy	FAIRY	PANTENE	OLAY	Venus	Oral-B	NyQuil DayQuil
		Puffs	ARIEL	Cascade	Rejoice	Old Spice	BRAUN		Meta Wound
			Gain	Felice	Herbal Essences	SavGuard			Pepto Bismol
			Lenor	Swiffer		Secret			Prilosec

Source: Company, Nirmal Bang Institutional Equities Research

(I) Margin improvement and resumption of healthy topline growth

We believe EBITDA margin could potentially see ~700bps improvement over FY23E-FY25E, led by decline in raw material costs from the extremely high levels, normalization in ad spends after a pandemic-led increase for P&G globally and healthy sales growth beyond FY23E.

Financials

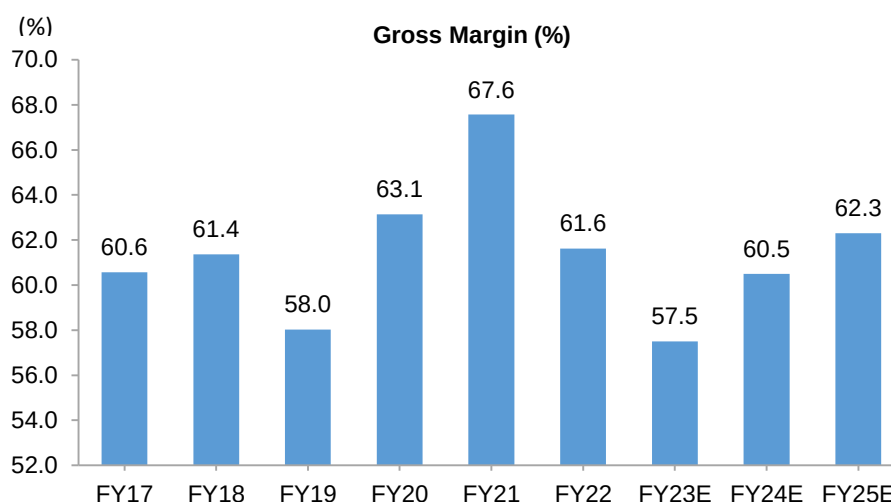
Topline growth recovery

Persistent inflation and normalization of Covid-led boost to Vicks sales led to mid-single digit sales growth during FY21-FY23E, but we expect resumption of healthy sales growth of close to mid-teens levels as the adverse impact of inflation abates. Persistently high levels of inflation lead to lower pace of conversion from cloth to sanitary napkins. Extremely low market penetration levels in an essential category, higher product affordability, widening distribution reach, category development efforts and advantages over competitors are all expected to result in sustained strong volume growth for PGHH.

Gross margin

The company has been affected badly by high inflation in raw material costs for both its key segments viz pulp and packaging costs in its Whisper business and waxes, oils and chemicals in its Vicks business. With large part of inflationary pressures now behind us, we expect ~480bps improvement in gross margin over FY23E-FY25E.

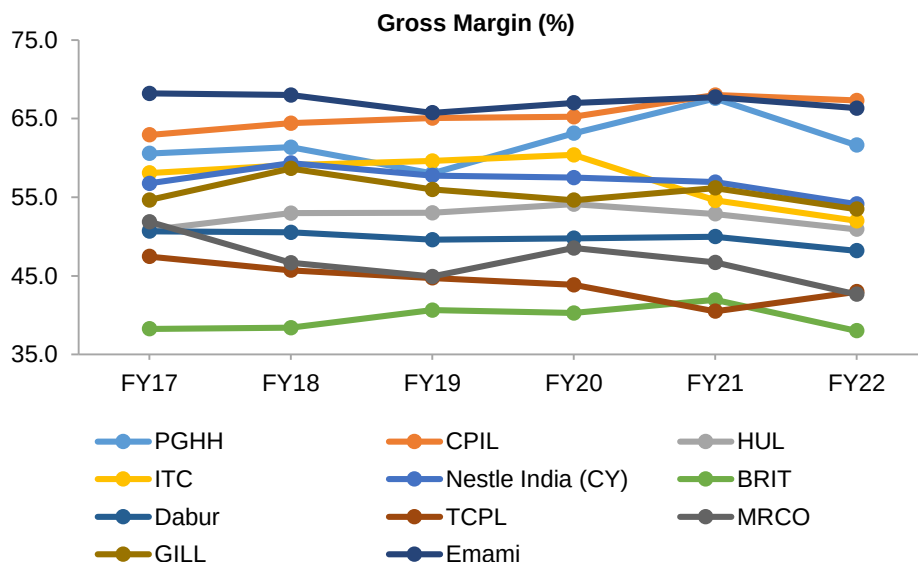
Exhibit 18: Gross margin



Source: Company, Nirmal Bang Institutional Equities Research

Despite price cuts in the past, PGHH's gross margin is actually among the highest in the FMCG space, indicating high pricing power and provides it with the ability to spend higher on advertisement and sales promotion.

Exhibit 19: Gross margin comparison with peers

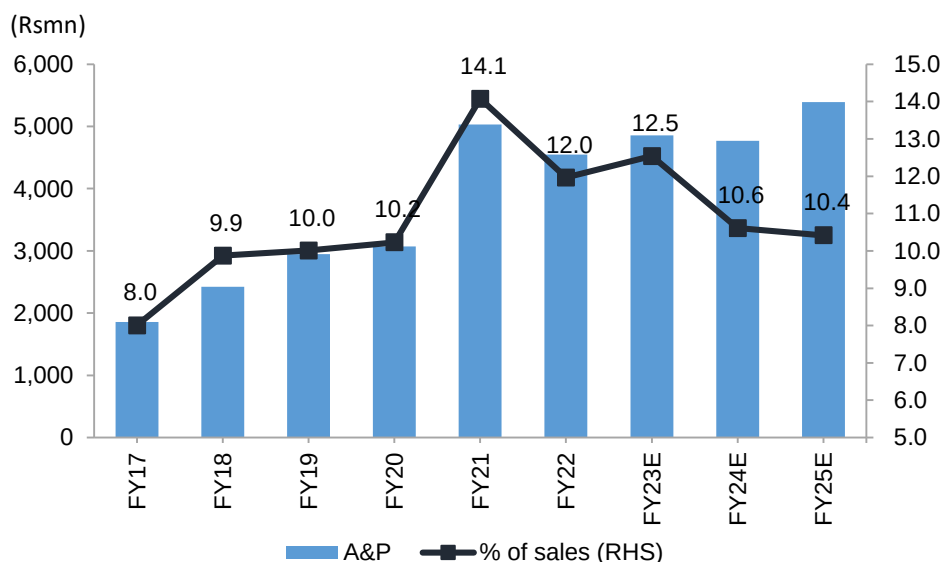


Source: Company, Nirmal Bang Institutional Equities Research

Other expenses and operating margin

Advertisement spends had shot up as the company invested aggressively during covid-19. This is likely to come down going forward, aiding operating margin expansion.

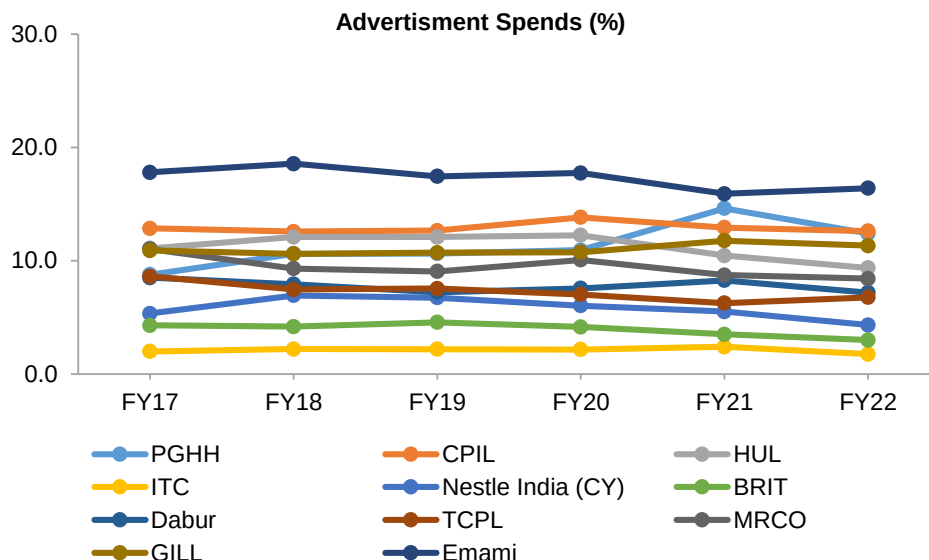
Exhibit 20: Advertisement spends



Source: Company, Nirmal Bang Institutional Equities Research

Also, Advertisement spends (as a % of sales) are on the higher side compared to peers as the company's gross margin profile is above 60%, giving the company room to spend more on advertisement and thereby create brand value in an under-penetrated category.

Exhibit 21: Advertisement spends comparison with peers

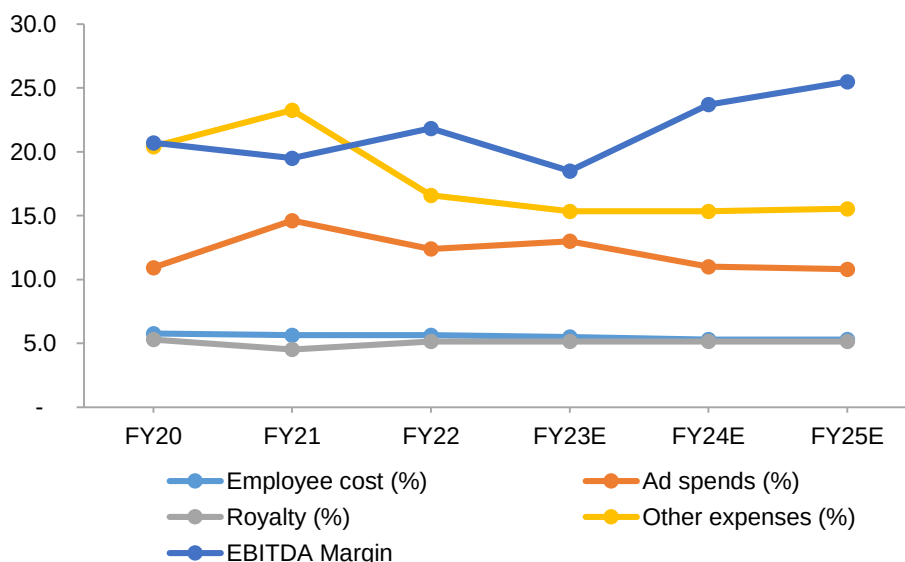


Source: Company, Nirmal Bang Institutional Equities Research

Other expenses (excluding advertisement spending and royalty) and staff costs put together accounted for ~22% of sales in FY22. As sales growth is likely to be strong, there will be savings on staff costs (as a percentage of sales) because the increase in these costs is unlikely to surpass inflation level. Within staff costs as well as other expenses, there are fixed costs which will not keep pace with sales growth. Even if PGHH has to fork out distribution charges to P&G Home Products to access the latter's network, we believe that the benefits from the consequent turnover growth will exceed the costs.

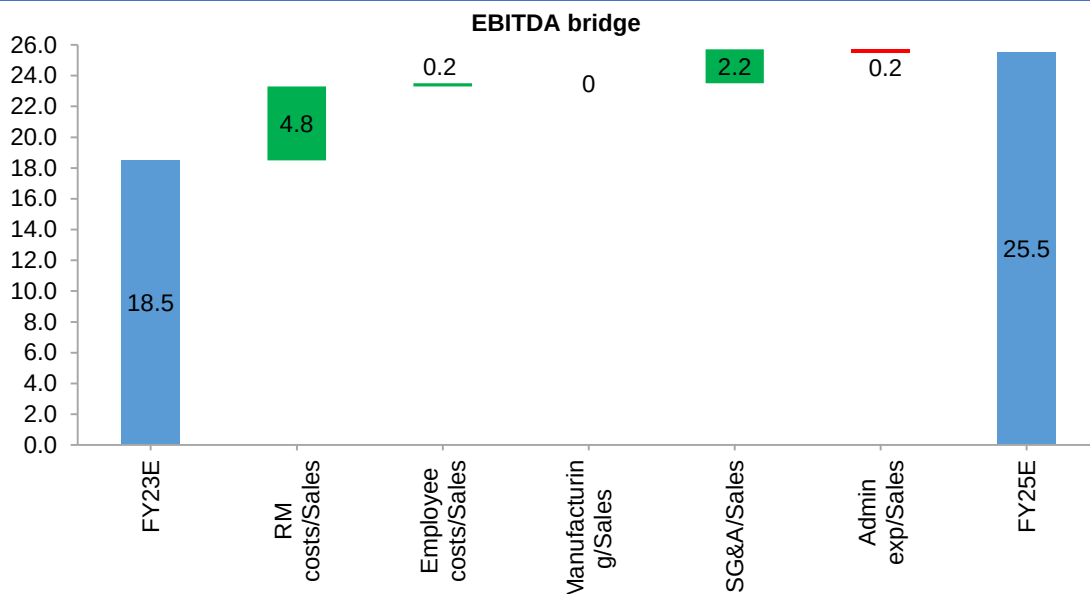
We expect a 700bps improvement in EBITDA margin over FY23E-FY25E.

Exhibit 22: EBITDA margin improvement over FY23E-FY25E



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: Factors contributing to margin expansion over FY23E-FY25E



Source: Company, Nirmal Bang Institutional Equities Research

Balance sheet metrics

Fixed asset turnover is ~8x and the working capital cycle is negative. RoIC is ~90% if one strips out the cash & cash equivalents, which is the largest component in the balance sheet. In FY22, the cash & cash equivalents stood at Rs6,393mn. Earlier, while the company used to lend a large portion of this cash to other P&G entities in India, in the past few years, there is no sizable remittance made to any of the fellow subsidiaries, which indicates that inter-corporate deposits have been muted and the company has the ability to use this cash as and when required to further enhance stakeholders' value. Infact, the company has given extremely high special dividends twice in the last 6 years to better utilize its burgeoning cash surplus, thereby rewarding shareholders.

Exhibit 24: Cash and cash equivalents

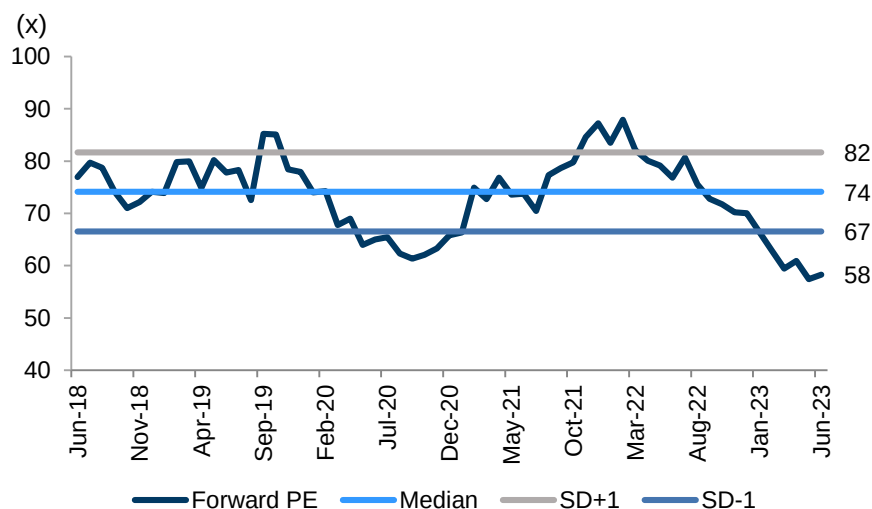
(Rsmn)	FY18	FY19	FY20	FY21	FY22
Cash & cash equivalents	3,996	5,405	9,025	6,602	6,393

Source: Company

Valuation

PGHH stock has traded at an average 1-year forward PE multiple of ~73x for the past five years and at ~72x for the past three years. Currently, it is trading at a multiple of ~47x FY25E EPS on our estimates i.e. ~35% discount to average multiple. P/E multiple could see some expansion from here as we build in ~32% APAT CAGR over FY23E-FY25E.

Exhibit 25: One-year forward P/E



Source: Bloomberg, Nirmal Bang Institutional Equities Research

While PGHH stock trades at a premium to average FMCG peers' P/E multiple, it is in line with MNC peers like Hindustan Unilever and a huge discount to the multiples that Nestle India trades at, despite potential earnings growth being much higher in the near term, medium term as well as the long term.

Exhibit 26: P/E multiple comparison with peers

Companies	P/E (x)		
	FY23	FY24E	FY25E
PGHH	80.8	58.3	46.7
Hindustan Unilever	64.2	55.4	48.3
Gillette India	49.9	42.4	37.2
Nestle India	88.6	72.1	64.5
Britannia Industries	58.7	52.4	44.8
ITC	29.7	25.2	23
Colgate-Palmolive (India)	42.2	38.9	35.5
Dabur India	58.4	51.3	42.5
Emami	23.3	22.3	21.3
Marico	51.9	46.3	42.1
Tata Consumer	73	52.2	42.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 27: Earnings growth vs peers over FY23-FY25E

(Rs/share)	FY23	FY24E	FY25E	2 year CAGR (%)
PGHH	174.0	241.2	301.0	31.5
Hindustan Unilever	41.4	47.9	54.9	15.2
Gillette India	91.9	108.3	123.3	15.8
Nestle India	254.5	312.7	349.3	17.2
Britannia Industries	85.0	95.2	111.3	14.4
ITC	15.1	17.8	19.5	13.5
Colgate-Palmolive (India)	38.8	42.1	46.1	9.0
Dabur India	9.6	11.0	13.2	17.2
Emami	17.9	18.7	19.6	4.6
Marico	10.1	11.3	12.4	11.0
Tata Consumer	11.5	16.1	20.0	31.7

Source: Company, Nirmal Bang Institutional Equities Research

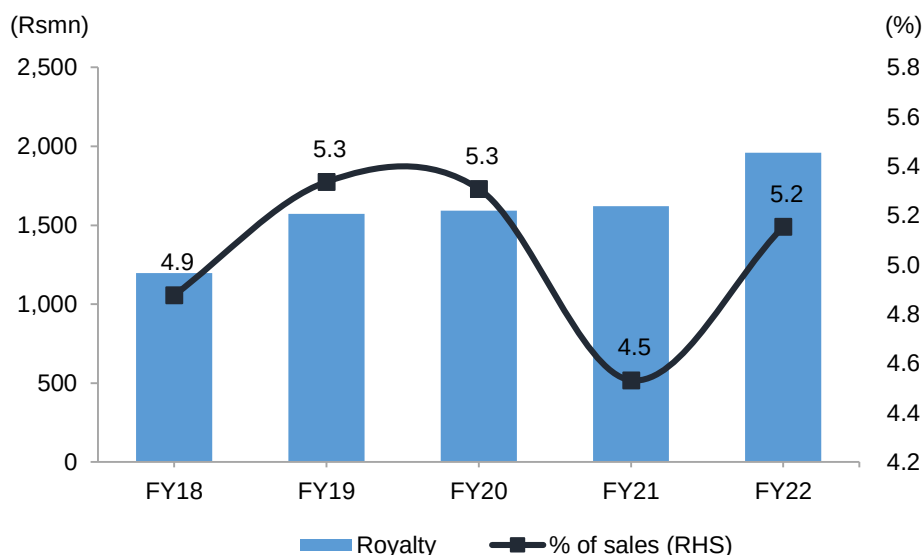
Not only is earnings growth among the top compared to peers, but the visibility is also higher, particularly on topline growth, driven by extremely low penetration in the Feminine Hygiene segment, higher product affordability post price cuts, competitive advantages over peers and rising distribution reach. Unlike other under-penetrated categories, the Feminine Hygiene segment deals with an essential product.

Our target valuation for the stock is 55x FY25E EPS (June year-ending), which is not unreasonable for a company with such strong earnings growth potential in the long run. On an EPS of Rs301 in FY25E, we have arrived at a TP of Rs16,600 for PGHH, up 18% from CMP.

Risks

- 1. Shift towards Menstrual Cups/Tampons:** While there is a higher need to create awareness for new Feminine Hygiene products, women shifting from synthetic pads to tampons/menstrual cups remain a key risk since menstrual cups are more affordable, reusable and hence have a longer life. Shift towards tampons, if that happens is not as much of a worry because P&G is the market leader globally in tampons.
- 2. Competition from new-age players:** The category has recently seen interest from various new-players like Nua, Carmesi, etc, which are offering differentiated products like ultra thin napkins (Nua), 100% Rash-Free pads (Carmesi), although at a higher cost per pad. They have seen some traction in urban India as these products offer differentiated benefits and some products are environment friendly as well. Nevertheless, from a category perspective, the salience of these new players is still very miniscule.
- 3. Deviation in strategy:** If the company goes in for sharp price hikes in the Feminine Hygiene segment, it would affect affordability and volume growth potential, which is currently very high. The only period in PGHH's history when it lost focus on topline growth was in the FY15-FY18 period when sales growth was below 2% CAGR but EBITDA margin expanded by ~500bps over this period as the company cut investments on ad spends and distribution expansion. Since then, under the next two CEOs, the company has brought back focus on the potentially high topline growth.
- 4. Royalty:** The rate of royalty to sales has been in the 5.0-5.2% range in the last four years, barring the pandemic affected FY21 when it declined to 4.5%. Any sharp increase in royalty rate could affect future profitability. Nevertheless, under the new Companies Act, such a move requires approval from majority of minority shareholders.

Exhibit 28: Royalty as a percentage of sales



Source: Company, Nirmal Bang Institutional Equities Research

- 5. Steep INR depreciation:** P&G's forex expenses to sales (including imports) stood at 19.5% of sales in FY22. Forex income, on the other hand, is only ~1.2% of sales, thereby leading to net forex expenses of 18.2% of sales for the year. While the net forex expenses-to-sales ratio has seen some moderation over the past few years, steep INR depreciation could have an impact on operating margin going forward. Raw material imports (likely to be cellulose) account for the largest share in total forex expenses.

Exhibit 29: Forex expenses to sales

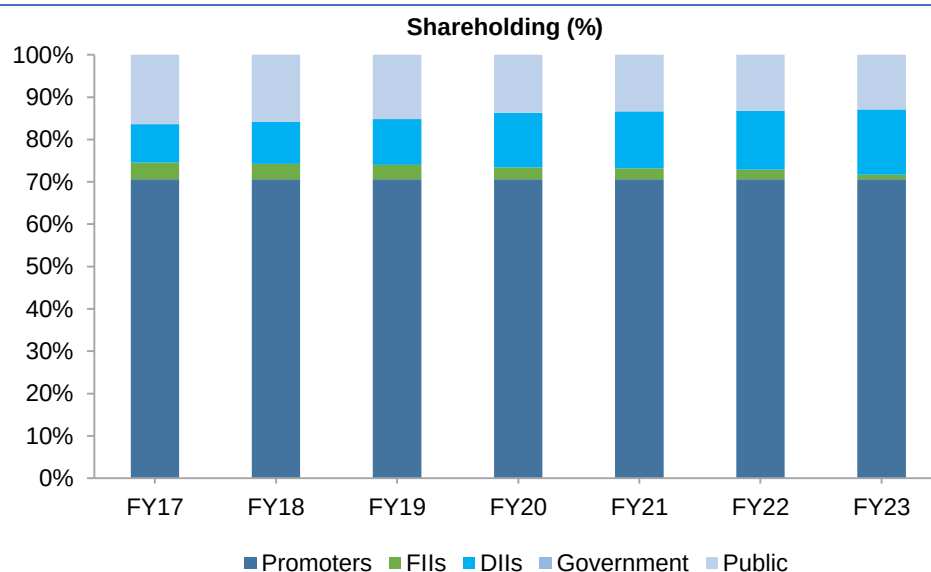
(Rsmn)	FY17	FY18	FY19	FY20	FY21	FY22
Forex expenses	4678	5600	7532	5939	5503	7398
% of sales	20.2	22.8	25.6	19.8	15.4	19.5
Forex income	553.8	263.5	242.2	375.3	459.8	469.6
% of sales	2.4	1.1	0.8	1.3	1.3	1.2
Net forex expenses	4124	5336	7290	5564	5043	6929
% of sales	17.8	21.7	24.7	18.5	14.1	18.2

Source: Company, Nirmal Bang Institutional Equities Research

Shareholding Pattern

P&G, the parent company of PGHH, has maintained its shareholding in the company for the past several years, indicating the management's confidence in future growth potential in the Feminine Hygiene category. While FIIs' holding has seen some moderation since FY17 (March year-end), DIIs have consistently increased stake in the company, reinforcing the potential category growth and execution capabilities that PGHH offers.

Exhibit 30: Increase in Domestic Institutional holding



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 31: Income statement

Y/E June (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	35,741	37,998	38,735	44,963	51,759
% Growth	19.1%	6.3%	1.9%	16.1%	15.1%
COGS	11,593	14,582	16,463	17,761	19,513
Staff costs	2,017	2,143	2,130	2,383	2,743
Other expenses	15,160	12,974	12,976	14,163	16,304
Total expenses	28,770	29,699	31,569	34,307	38,561
EBITDA	6,972	8,299	7,166	10,656	13,199
% growth	12.2%	19.0%	-13.7%	48.7%	23.9%
EBITDA margin (%)	19.5%	21.8%	18.5%	23.7%	25.5%
Other income	394	243	390	524	600
Interest costs	61	112	90	100	100
Depreciation	477	529	579	598	620
Profit before tax (before exceptional items)	6,828	7,901	6,888	10,482	13,079
Exceptional items	1,450	-101	0	0	0
Tax	1,759	2,042	1,240	2,641	3,296
PAT	6,518	5,758	5,648	7,841	9,783
APAT	5,068	5,858	5,648	7,841	9,783
APAT margin (%)	14.2%	15.4%	14.6%	17.4%	18.9%
% Growth	13.2%	15.6%	-3.6%	38.8%	24.8%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 32: Balance sheet

Y/E June (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Share capital	325	325	325	325	325
Reserves	6,818	7,051	7,616	8,400	10,357
Net worth	7,143	7,376	7,940	8,725	10,681
Deferred Tax Liabilities	-380	-519	-571	-628	-691
Total debt	35	19	19	19	19
Total liabilities	6,797	6,876	7,389	8,116	10,010
Gross block	4,719	5,012	5,481	5,681	5,881
Depreciation	2,881	3,376	3,954	4,553	5,173
Net block	1,838	1,637	1,527	1,129	708
Capital work-in-progress	376	439	200	200	200
Investments	0	0	0	0	0
Inventories	2,493	2,340	2,335	2,710	3,120
Debtors	1,424	1,908	2,122	2,710	3,120
Cash	6,602	6,393	6,129	7,273	10,072
Loans & advances	3,214	3578	3578	3578	3578
Total current assets	13,733	14,218	14,164	16,271	19,890
Creditors	7,541	7,784	6,798	7,609	8,726
Other current liabilities	731	710	781	859	945
Provisions	878	923	923	1,015	1,117
Total current liabilities and provisions	9,150	9,417	8,501	9,483	10,788
Net current assets	4,583	4,801	5,662	6,788	9,102
Total assets	6797	6,876	7,389	8,116	10,010

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 33: Cash flow

Y/E June (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
PBT	8,699	7,901	6,888	10,482	13,079
Depreciation	477	529	579	598	620
Net interest expense	-250	-154	-300	-424	-500
Others	139	115	0	0	0
(Inc)/Dec in WC	2,101	-166	-1,125	19	485
Taxes	-2,534	-2,494	-1,240	-2,641	-3,296
CF from Operations	8,631	5,731	4,801	8,034	10,388
(Inc)/Dec in FA	-315	-497	-230	-200	-200
Free Cash Flow	8,317	5,234	4,571	7,834	10,188
(Pur)/Sale of Investments	0	0	0	0	0
Others	325	246	390	524	600
CF from Investments	11	-251	160	324	400
Issue of Shares	0	0	0	0	0
Inc/(Dec) in Debt	0	0	0	0	0
Dividend Paid	-11,037	-5,681	-5,083	-7,057	-7,826
Interest Paid	-10	-25	-90	-100	-100
Others	-18	16	-52	-57	-63
CF from Fin. Activity	-11,064	-5,689	-5,225	-7,214	-7,989
Inc/Dec of Cash	-2,423	-210	-264	1,144	2,799
Opening Balance	9,025	6,603	6,393	6,129	7,273
Closing Balance	6,603	6,393	6,129	7,273	10,072

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 34: Key ratios

Y/E June	FY21	FY22	FY23E	FY24E	FY25E
Per share (Rs)					
EPS	156.1	180.5	174.0	241.2	301.0
Book value	220.0	227.2	244.6	268.8	329.1
DPS	315.4	160.2	156.6	217.4	241.1
Valuation (x)					
EV/sales	12.6	11.8	11.6	10.0	8.6
EV/EBITDA	64.5	54.2	62.8	42.1	33.8
P/E	90.0	77.9	80.8	58.3	46.7
P/BV	63.9	61.9	57.5	52.3	42.7
Return ratios (%)					
RoCE	60.0	86.5	80.2	102.1	108.8
RoE	54.1	80.7	73.8	94.1	100.8
RoIC	100.0	100.0	100.0	100.0	100.0
Profitability ratios (%)					
Gross margin	67.6	61.6	57.5	60.5	62.3
EBITDA margin	19.5	21.8	18.5	23.7	25.5
EBIT margin	18.2	20.4	17.0	22.4	24.3
PAT margin	14.2	15.4	14.6	17.4	18.9
Liquidity ratios (%)					
Current ratio	1.5	1.5	1.7	1.7	1.8
Quick ratio	1.2	1.3	1.4	1.4	1.6
Solvency ratio (%)					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
Turnover ratios					
Total asset turnover ratio (x)	5.3	5.5	5.2	5.5	5.2
Fixed asset turnover ratio (x)	7.8	7.8	7.4	8.1	9.0
Debtor days	16	26	20	22	22
Inventory days	23	26	22	22	22
Creditor days	66	64	62	60	60

Source: Company, Nirmal Bang Institutional Equities Research

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