

Procter & Gamble Hygiene & Health Care

Performance Highlights

Quarterly Data

(` cr)	3QFY16	3QFY15	% yoy	2QFY16	% qoq
Revenue	614	555	10.5	714	(14.0)
EBITDA	133	123	8.5	216	(38.3)
Margin (%)	21.7	22.1	(41)	30.3	(857)
Adj. PAT	97	87	12.0	147	(33.7)

Source: Company, Angel Research

Procter & Gamble Hygiene and Health Care (P&G)'s 3QFY2016 results are broadly in-line with our estimates. For the quarter, the company's top-line grew by ~11% yoy to `614cr while the reported PAT grew ~12% yoy to `97cr.

Key highlights

For 3QFY2016, the company's top-line grew by ~11% yoy to ~`614cr (against our estimate of ~`624cr), mainly due to growth in both female hygiene and health care segment. On the operating front, the company reported margin contraction by 41bp yoy to 21.7%, primarily on account of higher other expenses. The reported net profit grew by ~12% yoy to ~`97cr (our estimate was of ~`98cr) on account of healthy sales growth.

Outlook and valuation

On the top-line front, we expect the company to report ~13% CAGR and on the bottom-line front, we expect ~15% CAGR over FY2015-18E on the back of strong brands and distribution network. Further, P&G is a market leader in both of its product, ie Whisper (female hygiene segment) and Vicks (healthcare segment- ointment, creams, cough drops etc). **We are positive on the stock and recommend a Buy rating with a target price of `7,369.**

Key Financials

Y/E June (` cr)	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Net Sales	2,051	2,334	2,588	2,939	3,342
% chg	21.6	13.8	10.9	13.6	13.7
Net Profit	302	346	422	474	531
% chg	48.7	14.6	22.1	12.2	12.0
OPM (%)	20.5	20.8	23.3	23.2	23.0
EPS (`)	93.0	106.6	130.2	146.2	163.7
P/E (x)	68.8	60.1	49.2	43.8	39.1
P/BV (x)	20.7	16.9	13.6	11.1	9.2
RoE (%)	30.1	28.1	27.6	25.3	23.5
RoCE (%)	38.4	35.2	35.4	32.9	30.9
EV/Sales (x)	10.0	8.6	7.6	6.6	5.7
EV/EBITDA (x)	48.8	41.6	32.6	28.5	25.0

Source: Company, Angel Research; Note: CMP as of May 5, 2016

BUY

CMP	`6,404
Target Price	`7,369

Investment Period	12 months
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Stock Info

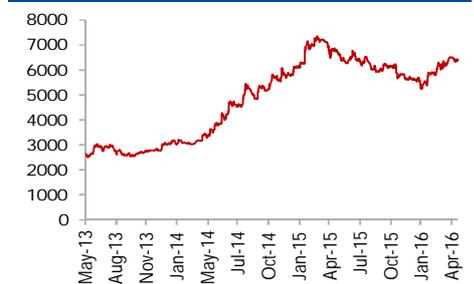
Sector	FMCG
Market Cap (` cr)	20,789
Net Debt (` cr)	-619
Beta	0.3
52 Week High / Low	6,981/5,171
Avg. Daily Volume	4,002
Face Value (`)	10
BSE Sensex	25,262
Nifty	7,736
Reuters Code	PROC.BO
Bloomberg Code	PG@IN

Shareholding Pattern (%)

Promoters	70.6
MF / Banks / Indian FIs	13.2
FII / NRIs / OCBs	3.8
Indian Public / Others	12.4

Abs.(%)	3m	1yr	3yr
Sensex	16.8	(6.4)	28.4
P&G	2.6	(7.9)	140.1

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly performance

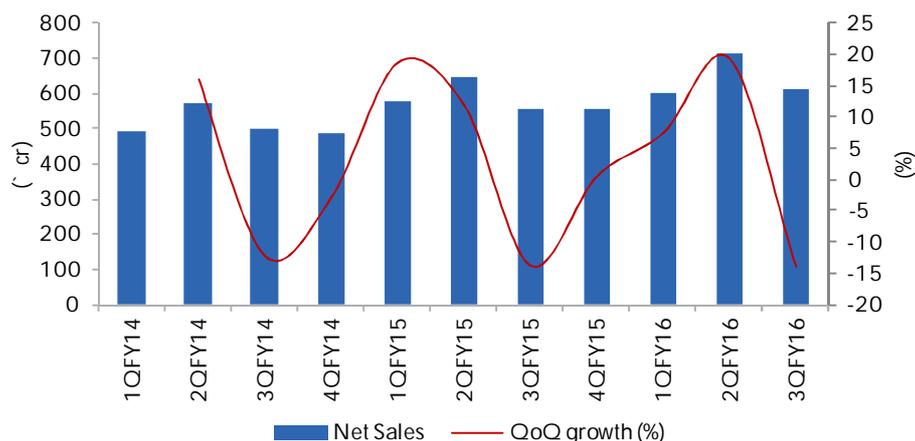
Y/E June (cr)	3QFY16	3QFY15	% yoy	2QFY16	% qoq	9MFY16	9MFY15	% chg
Net Sales	614	555	10.5	714	(14.0)	1,926	1,776	8.4
Consumption of RM	230	224	3.0	268	(14.2)	728	723	0.7
(% of Sales)	37.5	40.3		37.6		37.8	40.7	
Staff Costs	26	38	(29.5)	28	(7.0)	89	93	(5.2)
(% of Sales)	4.3	6.8		4.0		4.6	5.3	
Ad. & Marketing Expenses	93.05	92.58	0.5	113.89	(18.3)	259	259	(0.0)
(% of Sales)	15.2	16.7		16.0		13.5	14.6	
Operating Expense	130.8	79		87.0		405	371	
(% of Sales)	21.3	14.2		12.2		21.0	20.9	
Total Expenditure	481	432	11.1	498	(3.4)	1,480	1,446	2.3
Operating Profit	133	123	8.5	216	(38.3)	446	330	35.1
OPM (%)	21.7	22.1		30.3		23.2	18.6	
Interest	0	4	(93.7)	2	(89.6)	4	5	
Depreciation	12	12	1.7	14	(12.8)	39	39	0.2
Other Income	24	18	33.4	21	14.8	65	56	17.2
PBT	144	125	15.8	220	(34.5)	469	341	37.3
Ext Income/(Expense)		-				-	-	
PBT (incl. Ext Items)	144.2	125		220.2		469	341	
(% of Sales)	23.5	22.4		30.8		24.3	19.2	
Provision for Taxation	47	38	24.6	73	(36.1)	155	102	51.4
(% of PBT)	32.5	30.2		33.4		33.0	30.0	
Minority Interest		0				0	0	
Recurring PAT	97	87	12.0	147	(33.7)	314	239.1	31.3
PATM	15.9	15.6		20.6		16.3	13.5	
Exceptional items		0						
Reported PAT	97	87	12.0	147	(33.7)	314	239	31.3
Equity shares (cr)	3.2	3.2		3.2		3.2	3.2	
FDEPS ()	30.0	26.8	12.0	45.2	(33.7)	96.7	73.6	31.3

Source: Company, Angel Research

Healthy top-line growth

For 3QFY2016, the company's top-line grew by ~11% yoy to ~`614cr (against our estimate of ~`624cr), mainly due to growth in both female hygiene and health care segment. Going forward we expect the company to continue to perform on the top-line front due to strong brand positioning, market leadership and wide distribution network.

Exhibit 2: Top-line growth trend

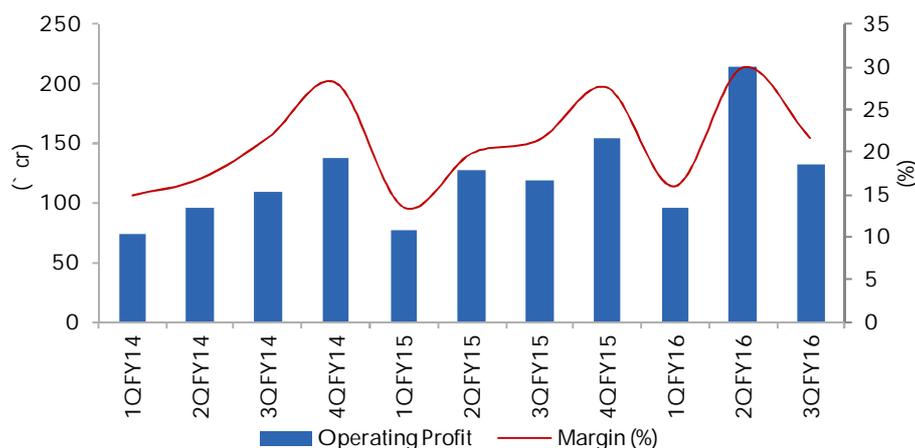


Source: Company, Angel Research

Operating margin contracts due to higher other expenses

On the operating profit front, the company reported growth of 8.5% yoy due to healthy sales growth. However, the margin contracted by 41bp yoy to 21.7%, primarily on account of higher other expenses.

Exhibit 3: Operating profit growth trend

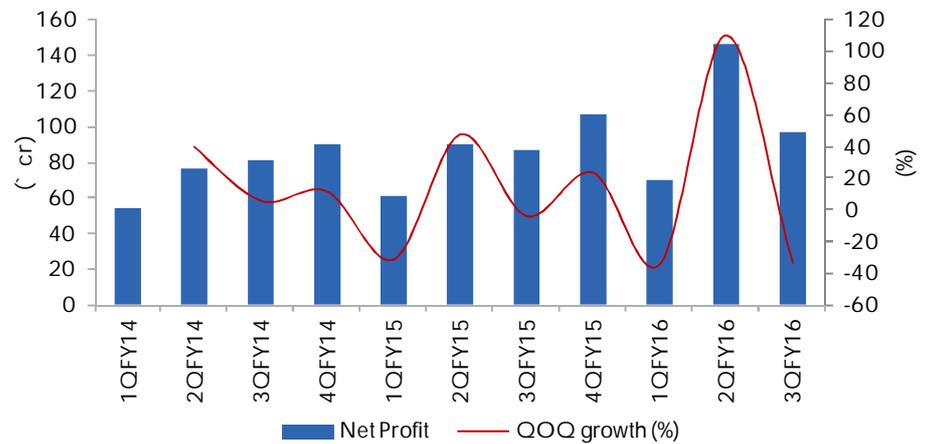


Source: Company, Angel Research

PAT grew ~12%

During the quarter, the company reported net profit growth of ~12% yoy to ~`97cr (our estimate was of ~`98cr) on account of healthy sales growth.

Exhibit 4: Net Profit and growth trend



Source: Company, Angel Research

Investment rationale

Lower penetration in female hygiene segment to drive growth

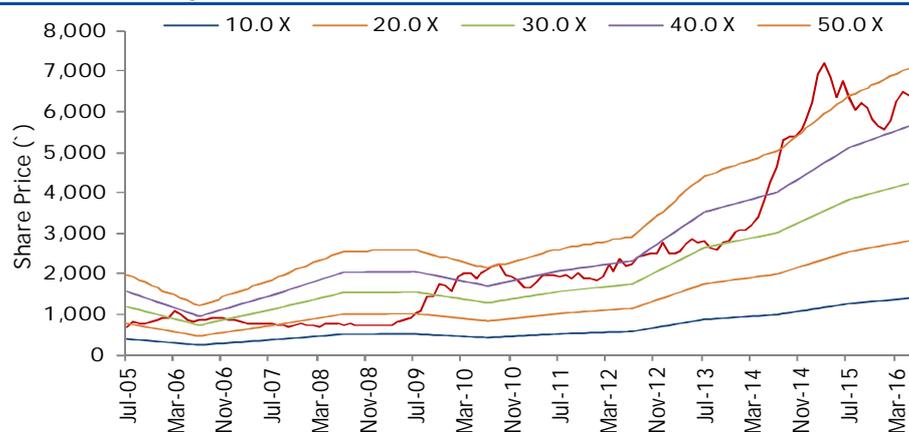
The current Indian female hygiene market size is of ~`3,400-3,600cr. Over the last four years, this market has grown at a CAGR of ~30%. We expect the growth momentum to continue on back of increase in penetration from the current 12% levels, while it would likely be supported by the government's campaign to promote sanitary napkins among adolescent girls. In this space, two brands capture more than 80% of the market share, with 'Whisper', a brand of P&G, being the leader with a market share of ~47-50%, and the other being Stayfree from Johnson & Johnson which has a market share of ~35-38%. In our view, P&G is best placed to benefit from the opportunities arising on the back of rising disposable incomes and increasing proportion of working women in the country coupled with its widening distribution reach.

Lower custom duty on raw material to help margin expansion During the Union Budget FY2016-17, the government has reduced the custom duty on pulp of wood, a key raw material for P&G, from 5% to 2.5%; and on super absorbent polymer (used in the manufacture of sanitary pads, napkins and tampons) from 7.5% to 5%. This will be positive for P&G with it having a major presence in female personal care products.

Outlook and valuation

On the top-line front, we expect the company to report ~13% CAGR and on the bottom-line front, we expect ~15% CAGR over FY2015-18E on the back of strong brands and distribution network. Further, P&G is a market leader in both of its product, ie Whisper (female hygiene segment) and Vicks (healthcare segment- ointment, creams, cough drops etc). **We are positive on the stock and recommend a Buy rating with a target price of `7,369.**

Exhibit 5: One year forward PE band



Source: Company, Angel Research

Downside risks to our estimates

P&G has a concentration risk as its revenue is majorly dependent on just two brands, which is Whisper and Vicks. Although these brands are market leaders in their respective segments as of now, but any increase in competition could lead to loss of revenue for the company.

Company Background

Procter & Gamble Hygiene and Health Care Ltd (P&G) is one of India's fastest growing FMCG companies that has in its portfolio well recognized brands such as Whisper (69% of revenue) and Vicks (31% of revenue). These brands come under the company's feminine care and health care divisions, respectively. The parent company Procter & Gamble was incorporated on 20th July, 1964 in Mumbai; it has four regional offices and one plant located at Kundaim in Goa. P&G Hygiene and Health Care Ltd is a 71% owned subsidiary of Procter & Gamble and manufactures, distributes and markets two segment leading products Whisper and Vicks.

Profit & Loss Statement

Y/E June (` cr)	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Total operating income	2,051	2,334	2,588	2,939	3,342
% chg	21.6	13.8	10.9	13.6	13.7
Total Expenditure	1,630	1,849	1,985	2,257	2,573
Raw Materials	813	921	983	1,120	1,283
Personnel Expenses	95	113	122	141	167
Selling & Administrative Expenses	398	444	466	520	575
Others Expenses	324	371	414	476	548
EBITDA	421	484	603	682	769
% chg	67.9	15.1	24.5	13.1	12.7
(% of Net Sales)	20.5	20.8	23.3	23.2	23.0
Depreciation & Amortisation	35	53	60	66	71
EBIT	386	432	543	616	697
% chg	75.8	12.0	25.6	13.5	13.2
(% of Net Sales)	18.8	18.5	21.0	21.0	20.9
Interest & other Charges	5	6	6	7	7
Other Income	80	75	76	78	80
(% of PBT)	17.4	14.9	12.4	11.3	10.4
Share in profit of Associates	-	-	-	-	-
Recurring PBT	460	501	613	688	770
% chg	60.8	8.8	22.3	12.2	12.0
Prior Period & Extraord. Exp./ (Inc.)	-	-	-	-	-
PBT (reported)	460	501	613	688	770
Tax	158	155	190	213	239
(% of PBT)	34.4	30.9	31.0	31.0	31.0
PAT (reported)	302	346	423	474	532
Add: Share of earnings of asso.	-	-	-	-	-
Less: Minority interest (MI)	0	0	0	0	0
PAT after MI (reported)	302	346	422	474	531
ADJ. PAT	302	346	422	474	531
% chg	48.7	14.6	22.1	12.2	12.0
(% of Net Sales)	14.7	14.8	16.3	16.1	15.9
Basic EPS (`)	93.0	106.6	130.2	146.2	163.7
Fully Diluted EPS (`)	93.0	106.6	130.2	146.2	163.7
% chg	48.6	14.6	22.1	12.2	12.0

Balance Sheet

Y/E June (₹ cr)	FY2014	FY2015	FY2016E	FY2017E	FY2018E
SOURCES OF FUNDS					
Equity Share Capital	32	32	32	32	32
Reserves & Surplus	970	1,196	1,501	1,842	2,225
Shareholders Funds	1,003	1,229	1,533	1,875	2,257
Total Loans	-	-	-	-	-
Deferred Tax Liability	11	14	14	14	14
Total Liabilities	1,014	1,243	1,548	1,889	2,272
APPLICATION OF FUNDS					
Gross Block	428	524	574	624	674
Less: Acc. Depreciation	189	215	275	341	412
Net Block	240	309	298	283	261
Capital Work-in-Progress	98	39	39	39	39
Investments	-	-	-	-	-
Current Assets	1,163	1,596	2,026	2,479	2,990
Inventories	119	119	142	169	192
Sundry Debtors	86	114	135	161	192
Cash	269	619	1,102	1,355	1,603
Loans & Advances	539	506	388	441	535
Other Assets	151	239	259	353	468
Current liabilities	505	719	834	930	1,037
Net Current Assets	658	877	1,192	1,549	1,953
Deferred Tax Asset	18	18	18	18	18
Total Assets	1,014	1,243	1,548	1,889	2,272

Cashflow Statement

Y/E June (₹ cr)	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Profit before tax	460	501	613	688	770
Depreciation	35	53	60	66	71
Change in Working Capital	9	123	169	(104)	(156)
Interest / Dividend (Net)	(61)	(66)	(6)	(7)	(7)
Direct taxes paid	(111)	(206)	(190)	(213)	(239)
Others	3	21	-	-	-
Cash Flow from Operations	335	426	646	429	440
(Inc.)/ Dec. in Fixed Assets	(135)	28	(50)	(50)	(50)
(Inc.)/ Dec. in Investments	-	-	-	-	-
Cash Flow from Investing	(135)	28	(50)	(50)	(50)
Issue of Equity	-	-	-	-	-
Inc./ (Dec.) in loans	(16)	(14)	-	-	-
Dividend Paid (Incl. Tax)	(81)	(89)	(118)	(133)	(149)
Interest / Dividend (Net)	(0)	(1)	6	7	7
Cash Flow from Financing	(97)	(104)	(112)	(126)	(142)
Inc./ (Dec.) in Cash	103	350	484	253	248
Opening Cash balances	166	269	619	1,102	1,355
Closing Cash balances	269	619	1,102	1,355	1,603

Key ratios

Y/E June	FY2014	FY2015E	FY2016E	FY2017E	FY2018E
Valuation Ratio (x)					
P/E (on FDEPS)	68.8	60.1	49.2	43.8	39.1
P/CEPS	61.6	52.1	43.0	38.5	34.5
P/BV	20.7	16.9	13.6	11.1	9.2
Dividend yield (%)	0.4	0.5	0.6	0.6	0.7
EV/Sales	10.0	8.6	7.6	6.6	5.7
EV/EBITDA	48.8	41.6	32.6	28.5	25.0
EV / Total Assets	13.5	10.3	8.3	6.9	5.8
Per Share Data (₹)					
EPS (Basic)	93.0	106.6	130.2	146.2	163.7
EPS (fully diluted)	93.0	106.6	130.2	146.2	163.7
Cash EPS	103.9	122.8	148.8	166.4	185.7
DPS	27.5	30.2	36.5	40.9	45.8
Book Value	309.0	378.5	472.3	577.5	695.4
Returns (%)					
ROCE	38.4	35.2	35.4	32.9	30.9
Angel ROIC (Pre-tax)	52.5	70.8	126.0	118.6	106.6
ROE	30.1	28.1	27.6	25.3	23.5
Turnover ratios (x)					
Asset Turnover (Gross Block)	4.8	4.5	4.5	4.7	5.0
Inventory / Sales (days)	21	19	20	21	21
Receivables (days)	15	18	19	20	21
Payables (days)	42	59	60	58	56
WC cycle (ex-cash) (days)	(6)	(23)	(21)	(17)	(14)

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Disclosure of Interest Statement	Procter & Gamble Hygiene & Health Care
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ` 1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15%)
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