

Steady quarter; focus on growth in core VMS therapy

About the stock: Procter & Gamble Health is a leading pharma cum OTC company with key focus on vitamins, minerals, supplement (VMS) category.

- It has legacy brands in the VMS category like Neurobion Forte, Polybion, Evion (all vitamins), Livogen (iron supplement), Nasivion (nasal decongestant), Seven Seas (vitamin- substitute for malt based health drinks)
- The company was earlier known as Merck Ltd and was part of Merck KGaA, Germany. In 2018, it (as a consumer health business) was acquired by P&G

Q4FY22 Results: Domestic business grew 8% whereas the Sri Lanka business was impacted due to challenging environment. (note: it follows July-June fiscal year).

- Sales were up 3.7% YoY to ₹ 295.9 crore
- EBITDA was at ₹ 59.8 crore, up 23.4% YoY with margins at 20.2%
- Consequent PAT was at ₹ 41.19 crore (up 21% YoY)

What should investors do? P&G Health's share price has grown by ~3.5x over the past five years (from ~₹ 1200 in September 2017 to ~₹ 4171 levels in August 2022).

- We maintain **HOLD** on the stock as we look for above-average traction in core VMS portfolio as well as maintaining momentum in non-core brands

Target Price and Valuation: Valued at ₹ 4500 i.e. 32x P/E on FY24E EPS of ₹ 140.6.

Key triggers for future price performance:

- P&G's strong distribution channel and strong brand recall are likely catalysts for future growth besides the performance of ex-VMS portfolio
- MNC pharma traits like strong brand stickiness, growth, earnings visibility, consistency (despite quarterly fluctuations) in performances, strong b/s
- Key differentiator for PGHL is that its core category is VMS. As a therapeutic category, this is likely to be rediscovered as a preventive care mechanism due to increased health awareness in a post-Covid world

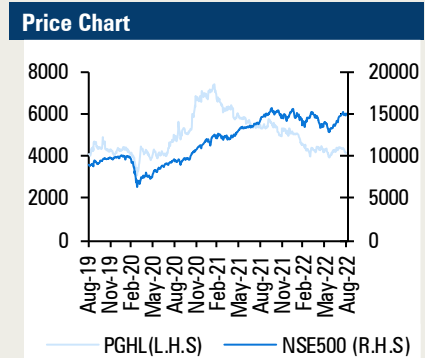
Alternate Stock Idea: Apart from PGHL, in our healthcare coverage we like Abbott.

- Abbott India is one of the fastest growing listed MNC pharma companies. It has outperformed the industry on a consistent basis in women's health, GI, metabolic, pain, CNS among others



Particulars	
Particular	Amount
Market Capitalisation	₹ 6924 crore
Debt (FY22)	₹ 0 crore
Cash (FY22)	₹ 325 crore
EV	₹ 6600 crore
52 week H/L	5850/3925
Equity capital	₹ 16.6 crore
Face value	₹ 10

Shareholding pattern				
(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	51.8	51.8	51.8	51.8
Others	48.2	48.2	48.2	48.2



- ### Recent Event & Key risks
- Steady quarterly revenues and margins
 - Key Risk:** (i) Volatility in margins, (ii) Better traction in OTC products

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Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	FY22	CAGR (FY20-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Revenues	891.2	1008.7	1114.4	11.8	1213.2	1320.9	8.9
EBITDA	210.8	246.0	268.4	12.9	288.2	323.6	9.8
EBITDA Margins (%)	23.6	24.4	24.1		23.8	24.5	
Net Profit	169.3	176.8	192.5	6.6	207.2	233.4	10.1
EPS (Adjusted)	102.0	106.5	116.0		124.8	140.6	
PE (x)	41.1	39.4	36.2		33.6	29.8	
RoCE (%)	24.0	32.2	39.8		36.0	33.8	
RoE (%)	18.7	25.1	31.2		28.1	26.2	

*adjusted FY20 to include previous 4 quarters only

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Steady quarterly revenues

- P&G Health's Q4FY22 (July-June fiscal year) revenue increased 4% YoY to ₹ 296 crore while domestic formulations were up 8% YoY. EBITDA margins improved 323 bps to 20.2% while EBITDA grew 23% YoY to ₹ 60 crore. Subsequently, PAT expanded 21% YoY to ₹ 41 crore. Q4 revenues were in-line with our expectations even after considering headwinds in operations in Sri Lanka. EBITDA margins came in lower mainly due to higher other expenditure amid normalisation in marketing and promotional activities
- For FY22, despite high inflationary pressures, sales grew 10.5% to ₹ 1114 crore in FY22 with EBITDA margins at 24.1%. On the growth front, the company's core therapy - VMS (65% of topline) has been muted YoY due to higher base
- P&G Health possesses MNC pharma traits like strong brand stickiness, growth, earnings visibility, strong b/s, etc. The key differentiator for P&G Health is that its core category is VMS. Amid increasing demand for daily supplements, the company is focused on executing its strategy of offering superior brands, driving productivity, increasing reach and improving awareness
- The Board of Directors of the company recommended a final dividend of ₹ 11.5 per equity share for FY22

Exhibit 1: Variance Analysis (₹ crore)

	Q4FY22	Q4FY22E	Q4FY21	Q3FY22	YoY (%)	QoQ (%)
Revenue	295.9	282.0	285.4	267.8	3.7	10.5
Raw Material Expenses	88.6	87.4	89.5	80.8	-1.0	9.6
Employee Expenses	42.1	47.4	43.9	45.1	-4.0	-6.5
Other Expenditure	105.4	77.0	103.6	73.2	1.8	44.0
Total Operating Expenditure	236.1	211.9	237.0	199.1	-0.4	18.6
EBITDA	59.8	70.1	48.4	68.8	23.4	-13.1
EBITDA (%)	20.2	24.9	17.0	25.7	323 bps	-548 bps
Interest	0.0	0.1	0.2	0.1	-88.2	-85.7
Depreciation	8.2	6.1	7.2	6.1	14.5	34.0
Other income	3.1	2.5	2.4	2.4	28.1	31.9
PBT before EO	54.7	66.3	43.5	64.9	25.5	-15.7
Less: Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0
PBT	54.7	66.3	43.5	64.9	25.5	-15.7
Tax	13.5	15.9	9.6	13.7	39.6	-1.8
MI & Share of loss/ (gain) as%	0.0	0.0	0.0	0.0	0.0	0.0
Adj. Net Profit	41.2	50.4	33.9	51.2	21.5	-19.5

Source: Company; ICICI Direct Research

Exhibit 2: Change in Estimates (₹ crore)

(₹ Crore)	FY23E			FY24E		
	Old	New	Change	Old	New	Change
Revenue	1,190.4	1,213.2	1.9	1,288.9	1,320.9	2.5
EBITDA	297.6	288.2	-3.2	322.2	323.6	0.4
EBITDA Margin (%)	25.0	23.8	-125 bps	25.0	24.5	-50 bps
PAT	216.6	207.2	-4.3	235.0	233.4	-0.7
EPS (₹)	130.5	124.8	-4.3	141.6	140.6	-0.7

Source: Company; ICICI Direct Research

Exhibit 3: ICICI Direct Coverage Universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				PE(x)				RoCE (%)				RoE (%)			
						FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Hospitals																					
Apollo Hospitals	APOHOS	4300	5,080	Buy	61827	7.9	59.1	79.0	101.0	547.1	72.7	54.5	42.6	6.3	15.1	15.3	18.8	2.5	15.1	17.4	18.9
Narayana Hrudalaya	NARHRU	699	800	Buy	14287	-0.7	16.7	20.6	22.7	NA	41.8	34.0	30.8	1.2	20.5	19.6	19.7	-1.3	23.0	22.3	19.9
Shalby	SHALIM	124	150	Buy	1337	3.9	5.4	7.5	9.9	31.5	22.8	16.5	12.5	6.5	8.4	11.7	14.3	5.1	6.7	8.6	10.4
Aster DM	ASTDM	224	250	Buy	11202	3.0	10.5	10.8	16.7	75.8	21.3	20.8	13.5	5.4	9.0	9.4	12.5	4.4	13.3	12.0	15.6
Healthcare Global	HEAGLO	271	345	Buy	3760	-13.9	3.9	4.5	8.8	-13.9	70.0	59.5	30.6	-0.9	5.0	9.4	12.1	-0.9	5.0	6.8	11.6
MNC Pharma																					
Abbott India	ABBIND	18722	21,140	Hold	39784	325.0	375.9	427.7	528.6	57.6	49.8	43.8	35.4	33.8	36.6	37.1	37.3	26.5	28.3	28.9	28.8
P&G Health	MERLIM	4192	4,500	Hold	6958	106.5	116.0	124.8	140.6	39.4	36.1	33.6	29.8	32.2	39.8	36.0	33.8	25.1	31.2	28.1	26.2
Sanofi India	SANOFI	6193	6,885	Hold	14263	207.4	410.1	270.5	264.8	29.9	15.1	22.9	23.4	32.3	33.3	41.1	50.7	24.5	25.9	31.2	38.7
Pfizer	PFIZER	4190	4,480	Hold	19168	108.8	133.9	140.4	149.3	38.5	31.3	29.8	28.1	27.6	26.1	22.4	21.8	20.8	21.4	17.9	17.7
Pharma																					
Ajanta Pharma	AJAPHA	1361	1,495	Buy	17442	51.0	55.6	60.1	71.1	26.7	24.5	22.7	19.1	29.0	27.0	24.4	24.5	21.8	21.8	19.9	19.9
Alembic Pharma	ALEMPHA	648	590	Reduce	12738	62.8	27.8	15.3	26.9	10.3	23.3	42.4	24.1	25.1	10.6	6.5	10.5	24.1	10.4	5.6	9.1
Aurobindo Pharma	AURPHA	546	615	Hold	31995	55.0	47.4	41.1	51.3	9.9	11.5	13.3	10.7	16.9	12.9	11.5	13.3	14.7	11.3	9.0	10.1
Biocon	BIOCON	309	320	Hold	37069	6.3	5.7	5.5	11.3	49.3	54.2	56.6	27.2	7.7	7.5	4.1	6.5	9.9	8.1	2.8	5.5
Zydus Lifesciences	CADHEA	379	405	Hold	38322	23.3	21.0	21.0	23.8	16.2	18.0	18.0	15.9	13.8	12.0	11.8	11.7	18.4	12.6	11.4	11.6
Cipla	CIPLA	1031	1,135	Buy	83224	29.9	32.9	38.6	45.8	34.5	31.3	26.7	22.5	16.3	16.7	17.9	19.0	13.1	12.7	13.3	14.1
Dr Reddy's Labs	DRREDD	4211	4,750	Buy	70091	117.3	126.9	203.4	191.0	35.9	33.2	20.7	22.0	13.1	13.0	19.1	18.1	11.1	11.0	15.4	13.0
Glenmark Pharma	GLEPHA	373	440	Hold	10516	32.9	42.7	39.5	44.9	11.3	8.7	9.4	8.3	13.9	14.8	14.7	14.4	13.1	13.2	11.0	11.2
Ipca Laboratories	IPCLAB	906	985	Hold	22996	44.9	34.8	27.5	35.1	20.2	26.0	33.0	25.8	27.1	17.4	14.3	16.3	24.2	16.1	11.4	13.0
Jubilant Pharmova	JUBLIF	353	340	Reduce	5619	37.4	26.0	15.9	26.1	9.4	13.6	22.2	13.5	13.7	9.0	6.1	8.6	12.6	7.8	4.6	7.0
Lupin	LUPIN	670	610	Reduce	30460	26.9	11.9	11.8	27.7	25.0	56.4	56.9	24.2	9.6	3.4	5.8	10.9	8.8	4.4	4.2	9.2
Natco Pharma	NATPHA	621	735	Hold	11329	24.2	9.3	41.6	42.3	25.7	66.6	14.9	14.7	13.1	4.6	18.1	16.9	10.7	4.0	15.5	13.9
Sun Pharma	SUNPHA	885	1,125	Buy	212413	30.0	32.0	34.8	40.1	29.5	27.7	25.4	22.1	14.2	18.2	18.0	18.7	15.5	16.0	15.2	15.2
Torrent Pharma	TORPHA	1544	1,800	Buy	52266	37.0	32.0	43.7	54.6	41.7	48.2	35.4	28.3	17.6	19.7	24.7	29.4	21.4	18.2	20.9	21.8
Indoco Remedies	INDREM	358	525	Buy	3294	10.1	16.8	21.6	29.2	35.4	21.3	16.5	12.3	11.7	17.5	17.6	23.9	12.1	17.1	18.6	20.6
Caplin Point	CAPPOI	786	1,000	Buy	5958	81.7	85.3	70.4	73.0	9.6	9.2	11.2	10.8	25.3	23.7	22.6	0.0	20.4	20.2	18.7	17.5
Advanced Enzymes	ADVENZ	269	265	Reduce	3012	13.1	10.7	8.5	12.1	20.6	25.2	31.8	22.4	19.4	14.3	10.2	13.2	15.1	11.0	8.1	10.4
Hester Biosciences	HESPHA	2127	2,015	Reduce	1809	44.4	45.7	35.9	51.8	47.9	46.5	59.3	41.1	16.2	10.9	9.3	11.8	16.5	15.0	10.8	14.0
API/CRAMS																					
Divi's Lab	DIVLAB	3625	4,315	Buy	96232	74.7	111.5	93.0	113.5	48.5	32.5	39.0	31.9	27.6	30.2	22.8	24.4	21.3	25.2	18.4	19.2
Hikal	HIKCHE	342	290	Hold	4217	10.8	13.0	3.8	14.4	31.7	26.3	89.3	23.7	15.1	13.6	5.6	13.8	14.3	15.0	4.3	14.2
Syngene Int.	SYNINT	601	710	Buy	24108	10.1	9.9	11.5	14.6	59.3	60.9	52.1	41.2	11.5	11.7	12.8	15.2	13.5	12.9	12.4	13.7
Granules India	GRANUL	306	375	Buy	7593	22.2	16.6	21.9	26.8	13.8	18.4	14.0	11.4	24.0	15.6	18.6	20.5	25.3	16.0	17.6	17.9
Laurus Labs	LAULAB	575	675	Buy	30912	18.3	15.4	20.7	27.0	31.4	37.4	27.8	21.3	31.7	21.3	23.6	26.0	37.9	24.7	25.6	25.6
Suven Pharmaceuticals	SUVPH	492	530	Hold	12525	14.2	17.8	17.0	17.6	34.6	27.6	29.0	27.9	31.2	37.5	28.7	25.0	30.7	29.7	23.0	20.0

Source: ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(Year-end June)	FY21	FY22	FY23E	FY24E
Total Operating Income	1,008.7	1,114.4	1,213.2	1,320.9
Growth (%)	13.2	10.5	8.9	8.9
Raw Material Expenses	314.8	339.8	367.0	396.3
Gross Profit	693.9	774.6	846.3	924.6
Gross Profit Margins (%)	68.8	69.5	69.8	70.0
Employee Expenses	151.0	167.6	182.0	198.1
Other Expenditure	296.9	338.6	376.1	402.9
Total Operating Expenditure	762.7	846.0	925.0	997.3
EBITDA	246.0	268.4	288.2	323.6
Growth (%)	16.7	9.1	7.4	12.3
Interest	0.8	0.4	0.1	0.1
Depreciation	30.0	27.8	29.8	32.0
Other Income	18.1	13.2	14.4	15.6
PBT before Exceptional Items	233.3	253.4	272.7	307.2
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Items	233.3	253.4	272.7	307.2
Total Tax	56.5	60.9	65.5	73.8
PAT before MI	176.8	192.5	207.2	233.4
PAT	176.8	192.5	207.2	233.4
Growth (%)	4.4	8.9	7.6	12.7
EPS (Adjusted)	106.5	116.0	124.8	140.6

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end June)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	165.2	189.5	207.2	233.4
Add: Depreciation & Amortization	30.0	27.1	29.8	32.0
Net Increase in Current Assets	43.1	-49.2	-18.3	-19.7
Net Increase in Current Liabilities	9.4	1.9	15.3	16.4
Others	-0.5	0.2	0.1	0.1
CF from Operating activities	247.3	169.5	234.0	262.2
Investments	0.0	0.0	-0.2	-0.2
(Purchase)/Sale of Fixed Assets	-51.4	-37.6	-20.0	-20.0
Others	20.6	12.3	-3.4	-3.7
CF from Investing activities	-30.8	-25.3	-23.7	-23.9
(inc)/Dec in Loan	0.0	0.0	0.0	0.0
Dividend & Dividend tax	-381.8	-283.9	-87.1	-80.1
Other	-4.9	-4.8	-0.1	-0.1
CF from Financing activities	-386.6	-288.6	-87.2	-80.2
Net Cash Flow	-170.1	-144.4	123.2	158.1
Cash and Cash Equivalent	639.1	468.9	324.5	447.7
Cash	469.0	324.5	447.7	605.8
Free Cash Flow	195.9	132.0	214.0	242.2

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet				
	₹ crore			
(Year-end June)	FY21	FY22	FY23E	FY24E
Equity Capital	16.6	16.6	16.6	16.6
Reserve and Surplus	687.1	599.9	719.9	873.3
Total Shareholders funds	703.7	616.5	736.5	889.9
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	0.0	0.0	0.0	0.0
Long-Term Provisions	40.1	40.8	41.6	42.4
Other Non Current Liabilities	3.4	0.6	0.6	0.6
Source of Funds	747.2	657.9	778.8	932.9
Gross Block - Fixed Assets	214.9	250.8	270.8	290.8
Accumulated Depreciation	113.9	141.8	171.5	203.5
Net Block	101.0	109.1	99.3	87.3
Capital WIP	39.2	40.6	40.6	40.6
Fixed Assets	140.1	149.7	139.9	127.9
Investments	3.0	2.6	2.8	3.0
Other non-Current Assets	96.1	114.9	117.2	119.6
Inventory	118.4	115.2	124.4	134.4
Debtors	59.4	83.4	90.8	98.9
Other Current Assets	80.4	83.7	85.4	87.1
Cash	468.9	324.5	447.7	605.8
Total Current Assets	727.1	606.9	748.3	926.2
Creditors	128.8	176.0	190.1	205.3
Provisions	6.1	17.5	17.9	18.2
Other Current Liabilities	104.1	42.3	43.2	44.0
Total Current Liabilities	239.0	235.8	251.1	267.5
Net Current Assets	488.2	371.1	497.2	658.7
Deferred Tax Assets	19.9	19.7	21.6	23.8
Application of Funds	747.2	657.9	778.7	932.9

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end June)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Reported EPS	106.5	116.0	124.8	140.6
BV per share	423.9	371.4	443.7	536.1
Cash per Share	282.5	195.5	269.7	365.0
Dividend per share	130.0	52.5	48.2	54.3
Operating Ratios (%)				
Gross Profit Margins	68.8	69.5	69.8	70.0
EBITDA margins	24.4	24.1	23.8	24.5
PAT Margins	17.5	17.3	17.1	17.7
Cash Conversion Cycle	9.5	-38.0	-38.0	-38.0
Asset Turnover	4.7	4.4	4.5	4.5
EBITDA conversion Rate	100.5	63.2	81.2	81.0
Return Ratios (%)				
RoE	25.1	31.2	28.1	26.2
RoCE	32.2	39.8	36.0	33.8
RoIC	98.5	88.1	96.1	111.0
Valuation Ratios (x)				
P/E	39.2	36.0	33.4	29.7
EV / EBITDA	26.2	24.6	22.5	19.5
EV / Net Sales	6.4	5.9	5.3	4.8
Market Cap / Sales	6.9	6.2	5.7	5.2
Price to Book Value	9.8	11.2	9.4	7.8
Solvency Ratios				
Debt / EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.1	1.2	1.2	1.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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