

## Revenue beat but margins miss; focus on power brands continues...

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

- It has legacy brands in the VMS category like Neurobion, 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

**Q3FY23 Results:** Beat on revenue front but margins were a big miss.

- Revenue grew 19.8% YoY to ₹ 321 crore
- On the operational front, EBITDA grew 15.8 % YoY to ₹ 79.7 crore whereas margins were at 24.8%
- PAT came in at ₹ 59.2 crore

**What should investors do?** P&G Health's share price has grown at 6.26% CAGR over the past three years.

- We maintain **BUY** rating as earnings reflect sustained efforts to regain momentum via improved mix and productivity initiatives

**Target Price and Valuation:** Valued at ₹ 5620 i.e. 34x P/E on FY25E EPS of ₹ 165.2.

**Key triggers for future price performance:**

- P&G's sustained efforts to strengthen power brands in VMS and other therapies via various patient engagement and commercial campaigns and doctors' involvement
- 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 daily supplements due to increased awareness in a post-Covid world

**Alternate Stock Idea:** Apart from PGHL, in healthcare coverage we like Ajanta.

- It is mainly into domestic as well as exports formulations with focus on launching maximum number of first time launches
- BUY with a target price of ₹ 1520



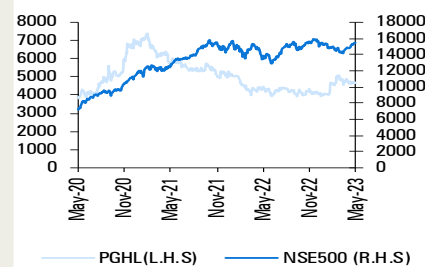
### Particulars

Particular	Amount
Market Capitalisation	₹ 8050 crore
Debt (FY22)	₹ 0 crore
Cash (FY22)	₹ 325 crore
EV	₹ 7725 crore
52 week H/L	5249/3870
Equity capital	₹ 10.0 crore
Face value	₹10

### Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promote	51.8	51.8	51.8	51.8
Others	48.2	48.2	48.2	48.2

### Price Chart



### Recent Event & Key risks

- Various patient awareness campaigns.
- Key Risk:** (i) Volatility in margins  
(ii) Competition in the VMS category

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### Key Financial Summary

Key Financial (₹ Crore)	FY20	FY21	FY22	CAGR (FY20-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Revenues	891.2	1008.7	1114.4	11.8	1248.1	1373.0	1510.2	10.7
EBITDA	210.8	246.0	268.4	12.9	358.8	343.2	392.7	13.5
EBITDA Margins (%)	23.6	24.4	24.1		28.7	25.0	26.0	
Net Profit	169.3	176.8	192.5	6.6	258.7	245.5	280.9	13.4
EPS (Adjusted)	99.6	104.0	113.2		152.2	144.4	165.2	
PE (x)	47.5	45.5	41.8		31.1	32.8	28.7	
RoCE (%)	24.0	32.2	39.8		43.7	34.5	33.6	
RoE (%)	18.7	25.1	31.2		33.2	26.5	25.7	

## Key takeaways of recent quarter & conference call highlights

### Q3FY23 Results: Beat on revenue front but margins a big miss

- Revenue grew 19.8% YoY to ₹ 321 crore. Evion, Neurobion, and Livogen, three of its key brands, continued to deliver strong numbers. On the operational front, EBITDA grew 15.8 % YoY to ₹ 79.7 crore whereas margins were at 24.8%. PAT came in at ₹ 59.2 crore
- Significant revenue beat that exceeded both our expectations as well as IQVIA for the period. Such momentum in the power brands from the vitamin category was the driving force behind this. In the third quarter, Neurobion also reclaimed its top spot as India's No. 1 Nerve care brand. On the other hand, a generalised increase in expenses (raw materials, staff costs and other expenses) caused margin performance to fall short of expectations. We expect this to be transitory and expect normalcy in margins in the coming quarters

Exhibit 1: Power Brands

							(₹ crore)	
Brand	Therapy	Mar-20	Mar-21	Mar-22	Mar-23	CAGR 20-23	YoY	
EVION	VITAMINS	178.0	202.3	213.1	230.3	9.0%	8.1%	
NEUROBION FORTE	VITAMINS	129.9	144.5	160.8	185.4	12.6%	15.3%	
NASIVION	RESPIRATORY	69.0	56.6	85.6	91.8	10.0%	7.2%	
LIVOGEN	GYNAECOLOGICAL	71.4	68.6	79.7	88.6	7.5%	11.2%	
POLYBION-LC	VITAMINS	66.0	65.5	73.9	83.8	8.3%	13.3%	
NEUROBION FORTE RF	VITAMINS	64.7	67.8	71.0	71.9	3.6%	1.2%	
EVION-LC	VITAMINS	40.4	38.9	47.2	58.4	13.1%	23.7%	
LIVOGEN-Z	GYNAECOLOGICAL	47.8	48.4	54.1	54.3	4.3%	0.3%	
CLOBETAMIL-G	DERMA	28.0	28.0	35.1	41.3	13.9%	17.4%	
POLYBION ACTIVE	VITAMINS	0.0	1.6	5.4	38.4	190.7%	605.0%	
Top 10 brands		695.2	722.1	826.0	944.0	10.7%	14.3%	
% of IQVIA sales		72.6%	75.0%	77.2%	82.8%			

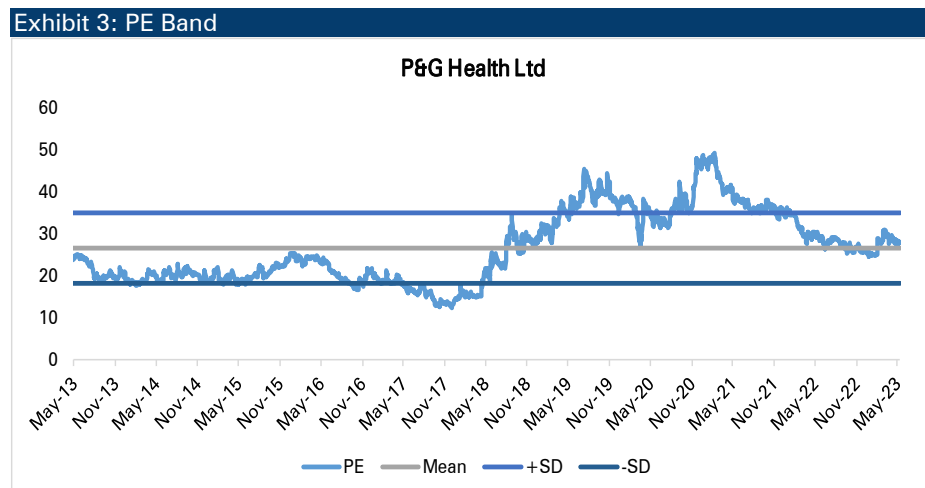
Source: IQVIA; Company; MAT TSA values in ₹ crore

Exhibit 2: Therapeutic break-up

							(₹ crore)	
Therapy	Mar-20	Mar-21	Mar-22	Mar-23	CAGR 20-23	YoY		
VITAMINS/MINERALS/NUTRIENTS	622.5	654.0	694.4	734.3	5.7%	5.8%		
GYNAEC.	135.9	135.2	152.4	161.9	6.0%	6.2%		
RESPIRATORY	89.6	71.0	105.1	110.5	7.3%	5.2%		
DERMA	58.6	59.0	66.8	72.2	7.2%	8.2%		
GASTRO INTESTINAL	50.9	42.9	51.2	61.2	6.3%	19.5%		
Top Therapies	957.5	962.0	1070.0	1140.2	6.0%	6.6%		
Total IQVIA Sales	957.9	962.4	1070.0	1140.2	6.0%	6.6%		

Source: IQVIA; Company; MAT TSA values in ₹ crore

Exhibit 3: PE Band



Source: ICICI Direct Research

## Financial Summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(Year-end June)	FY22	FY23E	FY24E	FY25E
Total Operating Income	1,114.4	1,248.1	1,373.0	1,510.2
Growth (%)	10.5	12.0	10.0	10.0
Raw Material Expenses	339.8	367.6	439.3	468.2
Gross Profit	774.6	880.5	933.6	1,042.1
Gross Profit Margins (%)	69.5	70.5	68.0	69.0
Employee Expenses	167.6	211.2	205.9	226.5
Other Expenditure	338.6	310.5	384.4	422.9
Total Operating Expenditure	846.0	889.4	1,029.7	1,117.6
<b>EBITDA</b>	<b>268.4</b>	<b>358.8</b>	<b>343.2</b>	<b>392.7</b>
Growth (%)	9.1	33.7	-4.3	14.4
Interest	0.4	0.8	0.8	0.8
Depreciation	27.8	27.5	36.4	40.8
Other Income	13.2	17.9	19.7	21.6
<b>PBT before Exceptional Items</b>	<b>253.4</b>	<b>348.4</b>	<b>325.7</b>	<b>372.7</b>
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT after Exceptional Items	253.4	348.4	325.7	372.7
Total Tax	60.9	89.7	80.2	91.8
PAT before MI	192.5	258.7	245.5	280.9
<b>PAT</b>	<b>192.5</b>	<b>258.7</b>	<b>245.5</b>	<b>280.9</b>
Growth (%)	8.9	34.4	-5.1	14.4
<b>EPS (Adjusted)</b>	<b>113.2</b>	<b>152.2</b>	<b>144.4</b>	<b>165.2</b>

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end June)	FY22	FY23E	FY24E	FY25E
Profit/(Loss) after taxation	189.5	258.7	245.5	280.9
Add: Depreciation & Amortization	27.1	27.5	36.4	40.8
Net Increase in Current Assets	-49.2	-21.1	-35.4	-21.8
Net Increase in Current Liabilities	1.9	15.6	38.4	16.2
Others	0.2	0.8	0.8	0.8
<b>CF from Operating activities</b>	<b>169.5</b>	<b>281.5</b>	<b>285.7</b>	<b>316.9</b>
Investments	0.0	-0.2	-0.2	-0.2
(Purchase)/Sale of Fixed Assets	-37.6	-40.0	-40.0	-40.0
Others	12.3	-3.4	-3.7	-3.9
<b>CF from Investing activities</b>	<b>-25.3</b>	<b>-43.7</b>	<b>-43.9</b>	<b>-44.2</b>
(inc)/Dec in Loan	0.0	0.0	0.0	0.0
Dividend & Dividend tax	-283.9	-96.1	-98.2	-112.4
Other	-4.8	-0.8	-0.8	-0.8
CF from Financing activities	-288.6	-96.9	-99.0	-113.2
<b>Net Cash Flow</b>	<b>-144.4</b>	<b>141.0</b>	<b>142.8</b>	<b>159.5</b>
Cash and Cash Equivalent	468.9	324.5	465.5	608.3
<b>Cash</b>	<b>324.5</b>	<b>465.5</b>	<b>608.3</b>	<b>767.8</b>
<b>Free Cash Flow</b>	<b>132.0</b>	<b>241.5</b>	<b>245.7</b>	<b>276.9</b>

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet				
	₹ crore			
(Year-end June)	FY22	FY23E	FY24E	FY25E
Equity Capital	16.6	16.6	16.6	16.6
Reserve and Surplus	599.9	762.5	909.8	1,078.3
Total Shareholders funds	616.5	779.1	926.4	1,094.9
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	0.0	0.0	0.0	0.0
Long-Term Provisions	40.8	41.6	42.4	43.3
Other Non Current Liabilities	0.6	0.6	0.6	0.6
<b>Source of Funds</b>	<b>657.9</b>	<b>821.4</b>	<b>969.5</b>	<b>1,138.9</b>
Gross Block - Fixed Assets	250.8	290.8	330.8	370.8
Accumulated Depreciation	141.8	169.2	205.6	246.4
Net Block	109.1	121.6	125.2	124.4
Capital WIP	40.6	40.6	40.6	40.6
Fixed Assets	149.7	162.2	165.8	165.0
Investments	2.6	2.8	3.0	3.3
Other non-Current Assets	114.9	117.2	119.6	122.0
Inventory	115.2	124.6	149.0	158.7
Debtors	83.4	93.5	102.8	113.1
Other Current Assets	83.7	85.4	87.1	88.8
Cash	324.5	465.5	608.3	767.8
Total Current Assets	606.9	769.0	947.1	1,128.4
Creditors	176.0	190.4	227.6	242.5
Provisions	17.5	17.9	18.2	18.6
Other Current Liabilities	42.3	43.2	44.0	44.9
Total Current Liabilities	235.8	251.4	289.8	306.0
Net Current Assets	371.1	517.5	657.3	822.5
Deferred Tax Assets	19.7	21.6	23.8	26.2
<b>Application of Funds</b>	<b>657.9</b>	<b>821.3</b>	<b>969.5</b>	<b>1,138.8</b>

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end June)	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
Reported EPS	113.2	152.2	144.4	165.2
BV per share	362.6	458.3	544.9	644.1
Cash per Share	190.9	273.8	357.8	451.7
Dividend per share	52.5	56.5	57.8	66.1
<b>Operating Ratios (%)</b>				
Gross Profit Margins	69.5	70.5	68.0	69.0
EBITDA margins	24.1	28.7	25.0	26.0
PAT Margins	17.3	20.7	17.9	18.6
Cash Conversion Cycle	-38.0	-38.0	-38.0	-38.0
Asset Turnover	4.4	4.3	4.2	4.1
EBITDA conversion Rate	63.2	78.5	83.2	80.7
<b>Return Ratios (%)</b>				
RoE	31.2	33.2	26.5	25.7
RoCE	39.8	43.7	34.5	33.6
RoIC	88.1	112.8	103.4	115.6
<b>Valuation Ratios (x)</b>				
P/E	41.8	31.1	32.8	28.7
EV / EBITDA	28.8	21.1	21.7	18.5
EV / Net Sales	6.9	6.1	5.4	4.8
Market Cap / Sales	7.2	6.4	5.9	5.3
Price to Book Value	13.1	10.3	8.7	7.4
<b>Solvency Ratios</b>				
Debt / EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.2	1.2	1.2	1.2
<b>Quick Ratio</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>
Inventory days	123.8	123.8	123.8	123.8
Debtor days	27.3	27.3	27.3	27.3
Creditor days	189.1	189.1	189.1	189.1

Source: Company, ICICI Direct Research

Exhibit 8: Healthcare Coverage Universe

Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				EV/EBITDA(x)				RoCE (%)				RoE (%)			
						FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
<b>Hospitals</b>																					
Apollo Hospitals	APOHOS	4586	5,460	Buy	66039	59.1	60.5	80.2	126.8	30.2	31.6	25.8	18.8	15.1	14.1	16.6	21.8	15.1	13.8	16.0	21.1
Narayana Hrudalaya	NARHRU	760	870	Buy	15503	16.7	27.9	29.0	27.4	23.1	16.7	14.0	13.7	20.5	23.6	21.2	17.1	23.0	27.9	22.7	17.8
Shalby	SHALIM	144	180	Buy	1560	5.4	6.8	9.5	11.4	13.3	10.3	8.2	6.9	8.4	11.3	13.9	15.7	6.7	7.9	10.1	11.1
Aster DM	ASTDM	252	280	Buy	12600	10.5	8.6	18.1	23.6	10.1	9.3	6.2	4.7	9.0	8.7	13.6	15.4	13.3	9.8	17.1	18.2
Healthcare Global	HEAGLO	300	385	Buy	4170	3.9	2.3	6.1	8.5	19.8	15.2	11.9	10.2	5.0	8.8	12.8	14.8	5.0	3.6	8.5	10.7
Rainbow Children's Medicare	RAICHI	899	900	Hold	9170	13.6	20.8	19.2	20.2	30.3	26.4	24.6	20.9	20.2	17.8	14.5	16.5	22.9	19.9	15.5	14.0
<b>Company</b>																					
Company	I-Direct Code	CMP (₹)	TP (₹)	Rating	M Cap (₹ cr)	EPS (₹)				P/E(x)				RoCE (%)				RoE (%)			
						FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
<b>MNC Pharma</b>																					
Abbott India	ABBIND	21186	21,025	Hold	44490	380.3	476.5	519.3	584.0	55.7	44.5	40.8	36.3	36.6	39.7	35.6	33.5	28.3	30.9	27.5	25.8
P&G Health	MERLIM	4735	5,620	Buy	8050	113.2	152.2	144.4	165.2	41.8	31.1	32.8	28.7	39.8	43.7	34.5	33.6	31.2	33.2	26.5	25.7
Sanofi India	SANOFI	6350	6,270	Hold	14605	410.6	269.8	251.4	272.7	15.5	23.5	25.3	23.3	33.3	55.1	49.6	45.0	25.9	41.2	36.9	33.3
Pfizer	PFIZER	3825	4,505	Hold	17596	133.2	139.7	149.3	162.0	28.7	27.4	25.6	23.6	26.1	23.5	24.0	22.6	21.4	17.6	18.4	17.3
<b>Pharma</b>																					
Ajanta Pharma	AJAPHA	1264	1,520	Buy	16179	55.7	46.5	59.9	69.2	22.7	27.2	21.1	18.3	27.0	21.3	23.5	23.3	21.8	17.4	19.2	18.9
Alembic Pharma	ALEMPHA	565	530	Hold	11137	27.7	17.4	14.1	22.1	20.4	32.6	40.1	25.6	10.6	8.6	8.0	11.6	10.4	7.8	6.2	9.1
Aurobindo Pharma	AURPHA	643	525	Hold	37703	47.4	34.8	46.2	52.4	13.6	18.5	13.9	12.3	12.9	10.2	12.6	13.1	11.3	7.7	9.3	9.6
Biocon	BIOCON	248	230	Hold	29785	6.3	4.9	3.1	3.1	39.1	50.2	78.8	78.8	7.5	3.3	5.1	6.2	8.1	2.7	6.2	8.3
Zydus Lifesciences	CADHEA	518	500	Buy	53002	21.0	22.6	27.0	35.5	24.7	22.9	19.2	14.6	12.0	12.3	12.3	12.0	12.6	12.1	12.8	14.6
Cipla	CIPLA	928	1,090	Buy	74894	32.9	36.4	42.7	48.2	28.2	25.5	21.7	19.2	16.7	17.4	17.8	18.2	12.7	12.5	13.2	13.4
Dr Reddy's Lab	DRREDD	4519	5,520	Buy	75007	127.2	269.3	230.2	256.5	35.5	16.8	19.6	17.6	12.5	23.9	18.8	21.1	11.0	19.2	14.4	14.2
Glenmark	GLEPHA	611	440	Hold	17241	42.7	33.3	47.4	54.8	14.3	18.4	12.9	11.2	14.8	14.9	15.7	16.4	13.2	9.4	11.9	12.2
Ipca Lab	IPCLAB	694	885	Hold	17638	34.8	20.8	31.4	37.0	20.0	33.3	22.1	18.8	17.4	12.1	15.7	16.5	16.1	8.9	12.1	12.7
Lupin	LUPIN	789	725	Hold	35900	11.9	8.3	25.6	33.0	66.4	94.9	30.8	23.9	3.4	5.7	11.0	13.0	4.4	3.0	8.6	10.2
Natco	NATPHA	630	565	Hold	11529	9.3	36.3	40.3	30.2	67.8	17.3	15.6	20.8	4.6	15.9	16.5	11.6	4.0	13.9	13.6	9.4
Sun Pharma	SUNPHA	951	1,210	Buy	228169	32.0	34.9	38.6	43.2	29.8	27.2	24.7	22.0	18.2	17.2	18.1	18.1	16.0	15.2	14.7	14.7
Torrent Pharma	TORPHA	1616	1,720	Hold	54626	32.0	36.3	45.1	53.8	50.4	44.5	35.8	30.0	19.7	17.1	20.4	23.3	18.2	17.9	19.0	19.4
Indoco Remedies	INDREM	356	440	Buy	3277	16.8	17.9	26.7	31.5	21.2	19.8	13.3	11.3	17.5	15.6	21.9	24.7	17.1	15.9	19.8	19.4
Caplin Point	CAPPOI	721	865	Buy	5477	39.5	48.8	47.9	47.9	18.3	14.8	15.1	15.1	25.3	23.5	22.4	22.4	20.2	20.2	16.7	16.7
Advanced Enzyme	ADVENZ	278	265	Reduce	3110	9.4	13.6	15.3	15.3	29.4	20.5	18.1	18.1	19.4	14.3	10.8	14.2	19.4	14.3	10.8	14.2
Hester Bios	HESPHA	1856	1,830	Hold	1670	45.7	35.6	49.7	59.8	40.6	52.0	37.3	31.0	10.9	9.9	10.9	12.0	15.0	10.7	13.5	14.4
<b>API/GRAMS</b>																					
Divi's Lab	DIVLAB	3300	2,945	Hold	87451	111.5	72.8	77.4	95.0	29.6	45.3	42.6	34.7	30.2	18.2	18.3	18.3	21.3	25.2	15.0	15.0
Hikal	HIKCHE	300	375	Hold	3688	13.0	5.7	14.6	20.7	23.0	52.7	20.6	14.5	13.6	7.2	14.3	17.7	15.0	6.3	14.1	17.0
Syngene International	SYNINT	697	740	Buy	27952	9.9	11.6	13.3	17.9	70.6	60.2	52.4	39.0	11.7	13.8	14.2	16.9	12.9	12.8	13.0	14.9
Granules India	GRANUL	297	355	Buy	7374	16.6	21.4	16.6	16.6	17.9	13.9	17.9	17.9	15.6	20.0	15.6	15.6	16.0	18.7	16.0	16.0
Laurus Labs	LAULAB	316	300	Hold	16953	15.4	14.7	10.5	10.5	20.5	21.4	30.1	30.1	21.3	19.8	14.6	16.0	24.7	19.6	12.4	13.5
Suven Pharma	SUVPH	475	530	Buy	12113	17.8	14.7	17.7	20.0	26.7	32.3	26.9	23.7	37.5	26.0	25.6	24.5	29.7	20.6	20.5	19.5

Source: ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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