

VMS focus to the fore despite quarterly fluctuations

Q4FY20 (year ending June) revenues declined 13.9% YoY to ₹ 201 crore due to temporary disruption of operations initially from the second fortnight of March amid Covid. EBITDA margins expanded 305 bps YoY to 26.4% due to better gross margins and lower other expenditure. EBITDA de-grew 2.7% YoY to ₹ 53 crore. Net profit grew 10.8% YoY to ₹ 49 crore. Delta vis-a-vis EBITDA was due to lower tax rate (12.3% vs. 28.3% in Q4FY19).

Note: P&G Health (PGHL) has converted from calendar cycle to July-June financial year and reported 18 month's numbers (January 2019-June 2020)

VMS power brands to drive growth amid increasing awareness

PGHL is a pharma cum consumer OTC player with strong and legacy brands in the vitamin minerals & supplement (VMS) category like Neurobion, Polybion, Evion (all vitamins), Livogen (iron supplement), Nasivion (nasal decongestant), Seven Seas (vitamin- substitute for malt based health drinks). Post the change in ownership (from Merck to P&G), we expect these known brands to leverage on P&G's distribution might as most of these brands are driven by self-medication habit rather than doctor's prescription. It also has a presence in the prescription based cardio-diabetology category. The company's top five brands (Neurobion, Concor, Livogen, Polybion, Evion) together posted revenue CAGR of 7.4% (MAT June 16-20), leading their combined sales contribution to grow from 69% in June 2016 to nearly 78% in June 2020 (based on AIOCD sales). Going ahead, we expect increasing awareness and health consciousness amid the Covid pandemic to drive growth in the VMS segment.

Strong balance sheet, improving financials

PGHL is a cash-rich company and has seen its core RoEs (excluding cash) improving from 7.7% in CY14 to 29.0% in CY18. EBITDA margins have also improved significantly to 23.6% in adjusted FY20 (includes last four quarters) from the lows of 6.8% in CY14. P&G's strong distribution channel and strong brand recall are likely catalysts for future growth. Core RoE is expected to improve to 67.4% by FY22E. The board has recently approved a dividend of ₹ 230 (₹ 188: special + ₹42: final) for FY20.

Valuation & Outlook

While Q4FY20 revenues were impacted by Covid related challenges, PGHL has posted one of the best margin performances in the recent past leading to resilient profitability. Besides possessing MNC pharma traits like strong brand stickiness, growth, earnings visibility, consistency (despite quarterly fluctuations) in performances, strong b/s etc, the key differentiator for PGHL is that its core category is VMS, which, as a therapeutic category, is likely to be rediscovered amid the current pandemic. PGHL combines the best of P&G and legacy Merck's consumer health capabilities and cultures. We upgrade from HOLD to **BUY** with a TP of ₹ 6110 (44x FY22E EPS of ₹ 138.8).

Key Financial Summary

₹Crore	CY18	FY20	FY21E	FY22E	CAGR FY20-22 (%)
Revenues	849.0	891.2	985.5	1097.0	10.9
EBITDA	148.2	210.8	239.3	281.1	15.5
EBITDA Margins (%)	17.5	23.6	24.3	25.6	
Net Profit	101.7	169.3	191.3	230.4	16.7
EPS (Adjusted)	57.3	102.0	115.2	138.8	
PE (x)	86.6	52.1	46.1	38.3	
RoCE (%)	9.8	24.0	34.4	35.3	
RoE (%)	6.2	18.7	26.7	27.2	

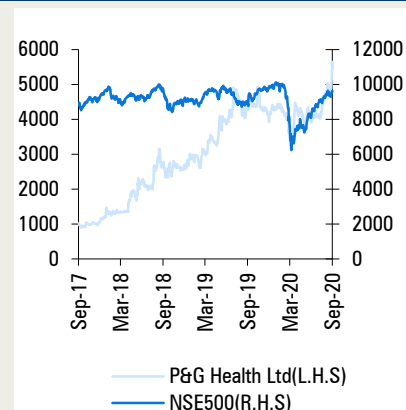
Source: ICICI Direct Research; Company; *adjusted FY20 to include previous 4 quarters only



Particulars

Particular	Amount
Market Capitalisation	₹8814 crore
Debt (FY 20)	₹0 crore
Cash (FY 20)	₹639 crore
EV	₹8175 crore
52 week H/L	5683/2928
Equity capital	₹16.6 crore
Face value	₹10

Price Performance



Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Mitesh Shah
mitesh.shah@icicisecurities.com

Sudarshan Agarwal
sudarshan.agarwal@icicisecurities.com

Exhibit 1: Power brands (₹ crore)

Brand	Therapy	JUN 16	JUN 17	JUN 18	JUN 19	JUN 20	CAGR 16-20
NEUROBION	VITAMINS	100.4	121.0	121.6	140.5	144.6	9.6
CONCOR	GYNAECOLOGICAL	68.8	83.4	97.7	117.8	140.9	19.6
LIVOGEN	CARDIAC	100.8	104.9	118.4	128.6	130.9	6.7
POLYBION	VITAMINS	128.7	132.5	119.0	106.8	116.6	-2.4
EVION	VITAMINS	34.4	40.4	47.2	48.3	42.6	5.5
Top 5 brands		433.1	482.1	504.0	542.0	575.6	7.4
Total AIOCD sales		625.3	662.8	675.9	718.5	734.4	4.1
as % of sales		69%	73%	75%	75%	78%	

Source: AIOCD (MAT values); Company

Exhibit 2: Therapeutic break-up (₹ crore)

Therapy	JUN 16	JUN 17	JUN 18	JUN 19	JUN 20	CAGR 16-20
VMS	278.3	309.5	304.8	315.4	320.4	3.6
CARDIAC	96.0	110.8	126.2	146.4	171.5	15.6
GYNAECOLOGICAL	133.2	131.0	135.1	146.6	137.2	0.8
DERMA	39.7	39.5	44.5	42.8	37.6	-1.3
ANTI-NEOPLASTICS	2.9	5.0	11.9	24.0	29.3	78.9
Top 5 therapies	550.0	595.8	622.4	675.2	696.0	6.1
Total AIOCD sales	625.3	662.8	675.9	718.5	734.4	4.1
as % of sales	88%	90%	92%	94%	95%	

Source: AIOCD (MAT values); Company

Financial Summary

Exhibit 3: Profit & Loss		₹ crore			
(Year-end March)	CY18	FY20	FY21E	FY22E	
Total Operating Income	849.0	891.2	985.5	1,097.0	
Growth (%)	21.6	NA	10.6	11.3	
Raw Material Expenses	269.4	289.7	315.4	342.8	
Gross Profit	579.6	601.5	670.2	754.2	
Gross Profit Margins (%)	68.3	67.5	68.0	68.8	
Employee Expenses	131.3	119.2	134.3	149.5	
Other Expenditure	300.2	271.5	296.6	323.6	
Total Operating Expenditure	700.8	680.4	746.2	815.9	
EBITDA	148.2	210.8	239.3	281.1	
Growth (%)	92.5	42.3	13.5	17.5	
Interest	0.0	0.0	0.0	0.0	
Depreciation	21.1	20.6	20.6	20.4	
Other Income	24.4	33.7	37.0	47.2	
PBT before Exceptional	151.4	223.9	255.6	307.9	
Less: Exceptional Items	-6.6	0.0	0.0	0.0	
PBT after Exceptional Item	158.0	223.9	255.6	307.9	
Total Tax	56.2	54.6	64.3	77.5	
PAT before MI	101.7	169.3	191.3	230.4	
PAT	101.7	169.3	191.3	230.4	
Growth (%)	66.7	66.4	13.0	20.5	
EPS (Adjusted)	57.3	102.0	115.2	138.8	

Source: ICICI Direct Research; *adjusted FY20 to include previous 4 quarters only

Exhibit 4: Cash Flow Statement		₹ crore			
(Year-end March)	CY18	FY20	FY21E	FY22E	
Profit/(Loss) after taxation	833.6	253.3	191.3	230.4	
Add: Depreciation & Amortiz	25.0	29.5	20.6	20.4	
Net Increase in Current Assets	-77.2	-37.2	19.2	-25.4	
Net Increase in Current Liabilities	26.9	30.2	-15.8	14.1	
Others	-938.7	-40.3	0.0	0.0	
CF from Operating activities	-130.4	235.4	215.4	239.5	
Investments	70.9	0.0	-0.3	-0.3	
(Purchase)/Sale of Fixed Assets	-26.5	-23.0	-25.0	-25.0	
Others	1,081.3	66.7	-2.3	-2.5	
CF from Investing activities	1,125.7	43.7	-27.6	-27.8	
(inc)/Dec in Loan	0.0	0.0	0.0	0.0	
Dividend & Dividend tax	-30.1	-883.4	-381.8	-98.6	
Other	0.0	0.0	0.0	0.0	
CF from Financing activities	-30.1	-883.4	-381.8	-98.6	
Net Cash Flow	965.2	-604.3	-194.0	113.2	
Cash and Cash Equivalent	278.2	1,243.4	639.1	445.1	
Cash	1,243.4	639.1	445.1	558.3	
Free Cash Flow	-156.9	212.4	190.4	214.5	

Source: ICICI Direct Research

Exhibit 5: Balance Sheet		₹ crore			
(Year-end March)	CY18	FY20	FY21E	FY22E	
Equity Capital	16.6	16.6	16.6	16.6	
Reserve and Surplus	1,523.5	889.7	699.2	831.1	
Total Shareholders funds	1,540.1	906.3	715.8	847.7	
Total Debt	0.0	0.0	0.0	0.0	
Deferred Tax Liability	0.0	0.0	0.0	0.0	
Long-Term Provisions	21.1	40.9	41.7	42.5	
Other Non Current Liabilities	2.2	1.2	1.2	1.3	
Source of Funds	1,563.4	948.4	758.7	891.4	
Gross Block - Fixed Asset	185.6	204.4	229.4	254.4	
Accumulated Depreciation	85.8	106.5	127.1	147.5	
Net Block	99.8	97.9	102.3	106.9	
Capital WIP	17.4	21.5	21.5	21.5	
Fixed Assets	117.1	119.4	123.7	128.4	
Investments	3.8	3.3	3.6	3.8	
Other non-Current Assets	86.2	81.7	83.4	85.0	
Inventory	113.4	134.1	131.6	146.5	
Debtors	66.2	95.3	76.8	85.5	
Other Current Assets	111.4	87.7	89.5	91.3	
Cash	1,243.4	639.1	445.1	558.3	
Total Current Assets	1,534.3	956.2	743.0	881.5	
Creditors	91.4	124.0	106.1	118.1	
Provisions	43.7	13.4	13.7	13.9	
Other Current Liabilities	60.9	90.0	91.8	93.6	
Total Current Liabilities	196.0	227.3	211.6	225.7	
Net Current Assets	1,338.3	728.9	531.4	655.9	
Deferred Tax Assets	18.0	15.2	16.7	18.3	
Application of Funds	1,563.4	948.4	758.7	891.4	

Source: ICICI Direct Research

Exhibit 6: Key Ratios					
(Year-end March)	CY18	FY20	FY21E	FY22E	
Per share data (₹)					
Reported EPS	61.3	102.0	115.2	138.8	
BV per share	927.8	546.0	431.2	510.7	
Cash per Share	749.1	385.0	268.1	336.3	
Dividend per share	17.4	670.0	59.4	71.5	
Operating Ratios (%)					
Gross Profit Margins	68.3	67.5	68.0	68.8	
EBITDA margins	17.5	23.6	24.3	25.6	
PAT Margins	11.2	19.0	19.4	21.0	
Cash Conversion Cycle	37.9	43.2	37.9	37.9	
Asset Turnover	4.6	4.4	4.3	4.3	
EBITDA conversion Rate	-88.0	111.7	90.0	85.2	
Return Ratios (%)					
RoE	6.2	18.7	26.7	27.2	
RoCE	9.8	24.0	34.4	35.3	
RoIC	44.6	69.7	79.4	88.9	
Valuation Ratios (x)					
P/E	86.6	52.1	46.1	38.3	
EV / EBITDA	51.1	38.8	35.0	29.4	
EV / Net Sales	8.9	9.2	8.5	7.5	
Market Cap / Sales	10.4	9.9	8.9	8.0	
Price to Book Value	5.7	9.7	12.3	10.4	
Solvency Ratios					
Debt / EBITDA	0.0	0.0	0.0	0.0	
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	1.5	1.4	1.4	1.4	

Source: ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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