

Sector: FMCG

Sensex:	17,694
CMP (Rs):	2,033
Target price (Rs):	2,240
Upside (%):	10.2
52 Week h/l (Rs):	2372 / 770
Market cap (Rscr) :	6,599
6m Avg vol ('000Nos):	15
No of o/s shares (mn):	32
FV (Rs):	10
Bloomberg code:	PG IB
Reuters code:	PROC.BO
BSE code:	500,459
NSE code:	PGHH

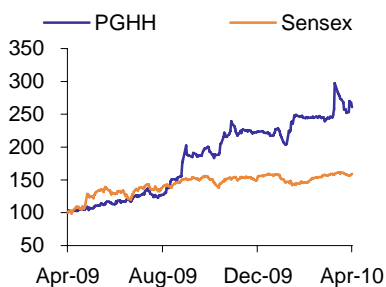
Prices as on 23 Apr, 2010

Shareholding pattern

December '09	(%)
Promoters	70.6
Institutions	10.1
Non promoter corp hold	3.3
Public & others	16.0

Performance rel. to sensex

(%)	1m	3m	1yr
PGHH	5.0	15.8	104.0
GCPL	14.8	17.9	74.3
HUL	3.2	(12.4)	(58.8)
DABUR	9.3	7.3	9.7

Share price trend


- ⊕ Top line increases 15.3% yoy to Rs2.05bn backed by strong 16% yoy growth in Feminine Hygiene and 15% yoy rise in Healthcare segment
- ⊕ Despite sharp rise in ad spends by 70.4% yoy, PGHH registered an increase of 330 bps in OPM on account of lower overheads and raw material costs
- ⊕ Net profit jumped 25.4% yoy to Rs437mn driven by strong operational performance coupled with lower tax rate
- ⊕ We expect the company to witness 21% CAGR in revenues and ~26.3% CAGR in net profit over F6/09-11
- ⊕ We maintain our BUY rating on the stock with a revised price target of Rs2,372

Result table

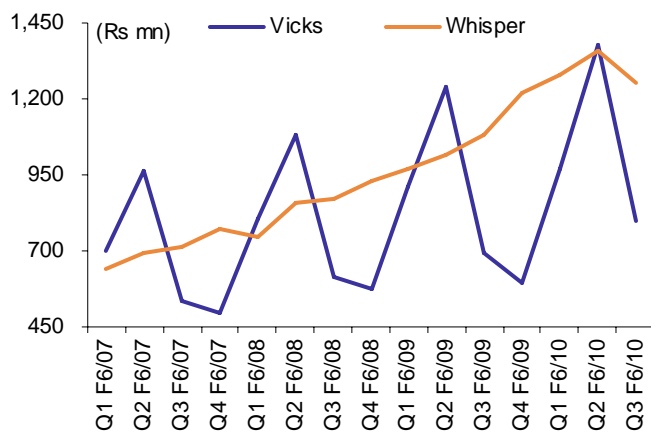
(Rs m)	Q3 F6/10	Q3 F6/09	% yoy	Q2 F6/10	% qoq
Net sales	2,050	1,778	15.3	2,746	(25.4)
Material cost	(569)	(566)	0.6	(841)	(32.3)
Personnel cost	(146)	(115)	26.9	(135)	8.3
Advertising cost	(441)	(259)	70.4	(368)	19.8
Royalty	(116)	(95)	22.1	(159)	(27.3)
Other overheads	(344)	(426)	(19.2)	(278)	24.0
Operating profit	433	317	36.5	965	(55.1)
OPM (%)	21.1	17.8	329 bps	35.2	(1403) bps
Depreciation	(45)	(38)	18.4	(46)	(3.1)
Interest	(0)	-	-	(0)	-
Other income	173	178	(2.8)	61	185.3
PBT	562	458	22.7	980	(42.7)
Tax	(125)	(109)	14.3	(235)	(46.7)
Effective tax rate (%)	22.3	23.9	-	24.0	-
Reported PAT	437	348	25.4	745	(41.4)
PAT margin (%)	21.3	19.6	171 bps	27.1	(584) bps
Ann. EPS (Rs)	53.8	42.9	25.4	91.8	(41.4)

Source: Company, India Infoline Research

Revenues driven by growth across segments

Procter & Gamble Hygiene and Health Care Ltd (PGHH) registered a 15.3% yoy increase in revenues at Rs2.05bn during Q3 F6/10. This was mainly on account of a robust growth in both the Feminine Hygiene and Health Care segments. The Feminine Hygiene segment recorded a turnover of Rs1.25bn (up 16% yoy), led by Whisper Ultra, Whisper Maxi, and Whisper Choice brands. The Healthcare business recorded a healthy 15% yoy increase in revenues at Rs0.8bn led by strong growth in Vicks VapoRub and Vicks Cough Drops.

Trend in revenues of key brands



Source: Company, India Infoline Research

Healthy operating margins despite of sharp rise in ad spends

During Q3 F6/10 PGHH reported 36.5% yoy jump in operating profit to Rs433mn and 329bps yoy expansion in OPM to 21.1%. This was despite sharp increase in ad-spend (70.4% yoy jump in absolute terms and 696bps yoy surge as % of net sales). However, the impact was more than offset by 405bps yoy and 717bps yoy fall in material cost and overheads respectively.

Cost analysis

As a % of net sales	Q3 F6/10	Q3 F6/09	Bps yoy	Q2 F6/10	bps qoq
Material cost	27.8	31.8	(405)	30.6	(284)
Personnel cost	7.1	6.5	65	4.9	222
Advertising cost	21.5	14.6	696	13.4	811
Royalty	5.6	5.3	31	5.8	(15)
Other overheads	16.8	24.0	(717)	10.1	669
Total costs	78.9	82.2	(329)	64.8	1,403

Source: Company, India Infoline Research

Net profit records robust 25.4% yoy growth

PGHH recorded a robust 25.4% yoy growth in net profit at Rs437mn driven by healthy revenue growth coupled improved operating efficiency. The growth has been better also on account of lower tax effective tax rate of 22.3% during the quarter (as against 23.9% in Q3 F6/09). We believe higher share of production from the Baddi facility must have resulted in lower tax rate.

Maintain Buy with a revised target of Rs2,372

PGHH enjoys strong leadership position in its core high-margin-high-growth segments with two flagship brands, Vicks in Healthcare space and Whisper in the Feminine Hygiene space (~50% market share). With a very low penetration level and low per capita consumption, both these categories have a tremendous growth potential. PGHH being the market leader, will be the biggest beneficiary. The feminine hygiene business of the company has picked up pace and is likely to sustain the growth momentum given low penetration levels in the category.

PGHH has set up two new healthcare plants in Baddi with an investment of Rs600mn to meet increasing demand for its products while it continues to produce feminine hygiene products at Goa facility. With the commencement of production at its Baddi facility, it has started saving on its outsourcing cost. With the additional contribution from the new plants, we expect the overall profitability to improve. We expect the company to witness a 26.3% CAGR in net profit over F6/09-11. At the current market price of Rs2,033, the stock is trading at 23.1x F6/11E EPS of Rs87.8. We maintain BUY with a revised price target of Rs2,372 (earlier Rs1,845).

Financial summary

Y/e 30 Jun (Rs m)	F6/08	F6/09	F6/10E	F6/11E
Revenues	6,450	7,742	9,378	11,337
yoy growth (%)	19.4	20.0	21.1	20.9
Operating profit	1,776	2,087	2,812	3,360
OPM (%)	27.5	27.0	30.0	29.6
Reported PAT	1,314	1,788	2,374	2,851
yoy growth (%)	46.3	36.1	32.7	20.1
EPS (Rs)	40.5	55.1	73.1	87.8
P/E (x)	50.2	36.9	27.8	23.1
Price/Book (x)	19.0	15.0	11.7	9.3
EV/EBITDA (x)	36.2	31.2	23.1	19.3
Debt/Equity (x)	0.0	0.0	0.0	0.0
RoE (%)	41.2	45.5	47.3	44.7
RoCE (%)	56.2	58.2	60.6	57.4

Source: Company, India Infoline Research

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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