



Between the Lines

Daily Corporate News Analysis

May 18th, 2007

Procter & Gamble Hygiene and Health Care Ltd (PGHH)

Q3FY2007 Result Update

Key Data

CMP	Rs 756.50
Date	May 18 th , 2007
Sector	FMCG
Face Value	Rs.10
BSE Code	500459
52 Week H/L	Rs 1005 / 628
Market Cap	Rs 2456 Cr

Investment Rationale

PGHH is one of the oldest Fast Moving Consumer Goods (FMCG) Company in India having presence in two niche but strong segments – Health Care (cough and cold OTC drugs) and Feminine Hygiene. We like PGHH for the following compelling reasons:

- **Focused Company growing faster than the industry:** PGHH after divesting its contract manufacturing business has emerged as focused company with two strong brands – VICKS and WHISPER – leading in their respective categories and growing ahead of the category.
- **Huge potential for growth:** Indian Feminine Hygiene category is highly under-penetrated with extremely low per capita usage. This coupled with increasing number of working women and rising income levels makes the existing 15% growth rate sustainable in the future.
- **Healthy Balance Sheet:** PGHH is a debt-free-cash-rich company with Rs76 cash per share on its books as on 30th June 2006. With majority of its Capex done and huge incremental cash flow generated from its current operations, we expect PGHH to amass huge cash reserves.
- **Liberal Bonus and Dividend Payout policy:** PGHH has followed a liberal bonus (5) and dividend distribution policy (250-400%) in the past. With no current plans of diversifying into other business ventures and huge cash reserves at its disposal, we expect the Company to continue with its liberal policy in the future. Alternatively, it could be a potential buy-back candidate.



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- **Retail boom – a boon:** The modern retail format lends much wanted visibility to the FMCG products. Category leaders with strong ad-spend to strengthen brand recall would be the major beneficiaries of this. Additionally, the sector provides huge scope for employment generation for women, which further augurs well for PGHH and other players in the category.
- **Highest and sustainable profit margins; High Return on Capital:** PGHH delivers one of the highest Operating and Net Profit Margins in the entire FMCG industry, which is also sustainable in the long run due to its business restructuring, growth potential of its core operations and fiscal benefits enjoyed by the new manufacturing plants. It is also one of the highest rewarding FMCG companies in India with high Return on Capital Employed and Return on Network.

Key Developments and Impact

Commencement of new plants at tax & excise free zone to improve margins

The Health Care major has set up two new plants at Baddi, Himachal Pradesh at a cost of Rs60 crore. The Company would manufacture Health Care products at the new plants, while the Feminine Hygiene products will continue to be manufactured at its Goa facility. The new plants would enjoy excise and tax benefits and hence reduce the effective rate of excise duty and tax beginning from the current fiscal.

Financials

Sales marginally lower than our expectations due to lower growth in Health Care segment

PGHH posted a modest 8.9% growth in Net Sales for Q3FY2007 to Rs122.9 crore as against Rs112.9 crore in Q3FY2006. Decline of 3.8% in the sales of the Health Care segment has offset the otherwise strong double digits, 20%, growth in Feminine Hygiene segment and resultantly dented the overall growth of the company to single digits.

Valuations

At the CMP of Rs 756.50, P&GHH is trading at a Price/Earnings ratio of 19.1x its TTM Earnings of Rs 39.7 and EV/Sales ratio of 4.1x.

Company Profile

PGHH is one of the oldest Fast Moving Consumer Goods (FMCG) Company in India having presence in Health and Hygiene Care segments. Origin of PGHH, 68.7% subsidiary of Procter & Gamble Company USA, traces back to 1951 when Vicks Product Inc. India was engaged in the manufacture (under loan license) and sale of VICKS brand of products. Later, Richardson Hindustan Limited (formed in 1964 to manufacture VICKS brand of products including others) was rechristened as Procter & Gamble India after becoming an affiliate of Procter & Gamble Company, USA in 1989.

The company was involved in manufacture and sale of various household and personal care products, which included detergents, shampoos, cough – cold – skin care OTC drugs, men's grooming and feminine hygiene products. The fabric care (detergent), hair care (shampoo) and baby care (diapers) business was divested in 1993 to a newly formed



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company Procter & Gamble Home Products (PGHP), which is now a wholly owned subsidiary of the P&G Company, USA; while retaining the health care and feminine hygiene business with itself. However, it continued to contract manufacture detergents and shampoos for this unlisted group company. The erstwhile P&G India got its current name PGHH in 1999. The detergent contract manufacturing business was divested to P&GHP with effect from 1st October 2005 and the company currently focuses only on two segments – Health Care and Hygiene Care.



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