

# *Proposal for Reduction of Capital*

# Background

## Company Financials

(Rs. In Crore)

	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>Jun-07</u>
Share Capital	136.0	136.0	136.0	136.0	136.0
Reserves & Surplus	108.3	113.8	135.1	144.5	205.4
<b>Net Worth</b>	<b>244.3</b>	<b>249.8</b>	<b>271.1</b>	<b>280.5</b>	<b>341.4</b>



Dividend Per Share (Rs.)	6.00	7.00	7.50	9.50	-
Dividend Payout (%)	85.2	95.2	84.5	92.5	-
<b>Cash and Miscellaneous Investments</b>	<b>309.3</b>	<b>270.7</b>	<b>305.6</b>	<b>313.2</b>	<b>355.7</b>

# Objectives

---

---

- Reduce the **Share Capital** which is in excess of the operational needs of the Company i.e. the Company is over capitalized
- Enhance Shareholder value and improve the Return on Equity by using the excess cash

# Proposal for Reduction of Capital

---

---

- Reduce the face value of the shares from Rs. 10/ share to Re. 1/ share
- Return Rs. 9/share to each shareholder uniformly
- Rs. 9/share will be a tax-free “deemed dividend”; Company will pay the dividend distribution tax
- No change in the number of shares held by each shareholder, no change in the shareholding pattern of the Company
- The Share Capital will reduce from Rs. 136 Crore to Rs. 13.6 Crore

# Benefits to the Shareholders

---

---

- Each Shareholder receives Rs. 9/share tax-free cash
  - Available for re-investment
- No change in the number of shares held by each shareholder; also no change to the shareholding in the Company
  - CP USA continues at 51%
  - Local Shareholders continue at 49%
- Reduce the over-capitalization (Share Capital)
- Better utilize excess cash in the Company
- Enhance Shareholder value and increase Return on Equity

# Is the Proposal a Split of Shares ?

---

---

## Clarification

- There is **no change** in the number of shares or in the shareholding pattern

	Current	Proposed
No of Shares	135,992,817	135,992,817
CP USA	51%	51%
Other Shareholders	49%	49%

# Is the Proposal a Split of Shares ? (contd.)

- The Proposal is **NOT** a split of shares, only a reduction in the face value from Rs. 10/share to Re. 1/share

## Illustration

Proposed Reduction of Capital			Split (1:10)	
Face Value	Nominal Investment	No. of Shares	Nominal Investment	No. of Shares
10	1,000	100	1,000	100
1	100	100	1,000	1,000

# Why not a Buy-Back of Shares ?

A Buy-Back of Shares is usually justified:

- a. If the shares are under-valued by the stock market; this is not the case for CP

	March 31, 2006	March 31, 2007		July 26, 2007	
	Share Price	Share Price	% Inc vs Mar-06	Share Price	% Inc vs Mar-07
BSE FMCG Index	2,211	1,739	(21.4)	1,930	11.0
CP	432	332	(23.2)	378	13.9
Competitor A	272	205	(24.7)	205	(0.2)
Competitor B	1,104	791	(28.4)	795	0.5

- b. If the Parent Company wishes to increase its stake and reduce the local shareholding.

- CP USA has no intention of increasing its stake in CPIL at this time



# Why not a Buy-Back of Shares ? (contd.)

---

---

## In a Buy-Back proposal

- Not all shareholders will benefit uniformly
- Shareholders will not receive the Rs.9/share additional dividend

# Will Reduction of Capital impact future dividends ?

---

---

- Dividend payout depends on the business fundamentals and the profitability of the Company
  - CP has demonstrated improvement in profitability over the past 4 years
- CP has consistently rewarded its shareholders with high dividend payouts of 90% over the last 4 years
- There is no reason to change the dividend payout policy due to the Reduction of Capital
- Example, if the Reduction of Capital had been implemented as at March 31, 2007; for the year 2006-07
  - on a Rs.10/share the shareholder received dividend = Rs. 9.50 or 95%
  - on a Re.1/share the shareholder would have also received dividend = Rs. 9.50 or 950%

# What is the likely impact on the Share Price?

---

---

- Share Price –
  - Is a reflection of the Company's business performance, future prospects and attractive returns
  - Depends upon the supply-demand factors in the market
- Stock market has received the proposal very positively
  - Share price increased by **12.5%** a day after the Board Meeting on May 3, 2007 when the Scheme was announced

**From Rs. 352/ share to Rs. 396/share**

---

---

*Thank You*