

Procter & Gamble Hygiene and Health Care Limited

Annual Report
2010-2011



BOARD OF DIRECTORS

Mr. R. A. Shah
Chairman

Mr. S. Khosla
Managing Director

Mr. B. S. Mehta

Mr. D. Acharya

Ms. D. A. Henretta
(Alternate Mr. P. Agarwal)

Mr. A. Vyas
(Company Secretary)

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Dear Shareholders,

I am pleased to share with you the business results delivered by your Company in the Fiscal Year 2010-11, that stand as a continued testimony to your Company's purpose-driven growth strategy and its commitment to touch and improve the lives of consumers in more parts of India, more completely. These results stand within the context of a robust Indian economy with a growing Consumer goods category which is also becoming increasingly competitive.

The Fiscal Year 2010-11 was another good year for your Company, with growth in topline, a healthy margin and cash position. The Company continues to be a market leader and a front-runner in innovation. I take great pride to announce that your Company achieved robust sales at ₹ 1,037 crores higher by 14% versus sales in the previous Financial Year. This growth was seen across both the Health Care and the Feminine Hygiene categories, with *Vicks* and *Whisper* delivering accelerated sales momentum

and grew market share. This has enabled the Board of Directors to recommend a dividend of ₹ 22.50 per share for all the stakeholders this Financial Year.

Your Company has made investments towards brand building initiatives that enable our products to reach more consumers across economic segments. These strategic investments to drive sales growth and trial for our Brands are in line with our purpose-inspired growth strategy to drive long-term value for the Company, stakeholders and consumers. While these initiatives stand to impact earnings for the Company in the short term, we believe it will create long term value by expanding the categories in which we operate.

The HealthCare business further strengthened *Vicks* equity as one of the most trusted Brand in India by investing in innovative marketing initiatives like the '*Vicks* Cricket Jockey Hunt', leveraging consumer-relevant touch-points like radio and wall-painting as well as proven advertising copies. The Feminine Care business also continued to drive its purpose of empowering women with better health and hygiene, by focusing on busting the barriers of affordability and awareness towards adoption of sanitary napkins. Your Company's *Whisper* school program reached a total 2.5 million menstruating girls across both private and government schools. *Whisper* also brought its purpose to life this year, by expanding its portfolio with the launch of *Choice Ultra*. This product truly improves the lives of the middle income consumers, by allowing her the enhanced experience of top-tier product within the mid-tier price range.

As a Company, we continue to remain committed to our purpose of touching and improving the lives of consumers, in more parts of India and more completely. Inspired by this purpose, our signature social responsibility program in India – *Shiksha* – has taken nearly double its impact to reach 280,000 children and support over 140 schools in its 7th year since inception. This Financial Year was marked by heightened support from our consumers as well as partners such as NGOs, retailers, media and other stakeholders - thus enabling us to further the cause of building schools brick-by-brick. Our efforts towards environmental sustainability were also strengthened, with our Baddi plant reducing its environmental footprint further by effectively reducing CO₂ emissions, energy & water consumption as well as waste disposal. The Plant is also now a Zero Discharge Plant, with 100% of its waste being treated on site and also uses 100% hydro-electric power.

I wish to re-affirm our commitment to innovation and purpose-inspired growth, which will continue to be at the heart of everything we do – be it in our products or in our communication strategies. I would also like to attribute our success over the past year to our employees who have demonstrated their ability to embrace change and proactively influence the course of our businesses. Lastly, I would like to thank all the shareholders for their resolute trust in the Company and look forward to their continued support and participation in the growth of the Company.

A handwritten signature in dark ink, appearing to read 'R. A. Shah'.

R. A. Shah
Chairman

Mumbai
August 25, 2011

REPORT OF THE DIRECTORS

Your Directors have the pleasure of presenting the 47th Annual Report and the Audited Accounts of the Company for the Financial Year ended June 30, 2011.

FINANCIAL RESULTS

(Figures in ₹ crores)

	2010/11	2009/10
Sales including Excise	1037	914
Net Sales (less excise duty)	1000	903
Profit before tax	177	234
Profit after tax	151	180
Proposed Dividend plus tax thereon	85	85
Transfer to General Reserve	15	18
Balance carried forward	329	278



BUSINESS ENVIRONMENT

The Indian economy is emerging with remarkable rapidity from the slowdown caused by the global financial crisis of 2007-09. India is one of the fastest growing markets in the World. India ranks first in the Nielsen Global Consumer Confidence Survey released in January 2011. Rural India mostly termed as “high opportunity” market is no longer just an opportunity, but is now yielding results.

Backed by a rise in the domestic savings and investment rates, a revival of growth in agriculture and resilience in the manufacturing and services sector, India has displayed a great recovery post the global slowdown. However, persistent inflationary environment remains a big challenge. The rise in demand coupled with strong supply bottlenecks is a catalyst for inflation. With rising inflation the focus has inevitably shifted to fiscal deficit. Ineffective distribution, hoarding, misuse of subsidies etc. are actually plaguing the system. However, measures like containing wastage of subsidies, ensuring greater monitoring and eliminating price fixing cartels, improvements in the infrastructure for storage and distribution and possible introduction of multi brand retail through relaxation of FDI norms in this sector will help combat inflation to a great extent.



BUSINESS PERFORMANCE

Your Company delivered strong business results during the Financial Year under review. The sales at ₹1037 crores are higher by 14% versus sales of ₹914 crores in the previous Financial Year. The Healthcare business has shown sales growth of over 9% behind increased sales of *Vicks VapoRub*, *Vicks Inhaler* and *Vicks Cough drops*. Similarly, the Feminine Hygiene business also continues to grow in higher double digits with the various variants of *Whisper* Sanitary Napkins showing a healthy growth. *Whisper* has in fact increased its market share to its all time national high with growth across all major Brand forms. Overall, the Company continued to focus on driving consumer meaningful innovations backed by distribution expansion and strong advertising support thereby recording a valuable growth across all areas of business.

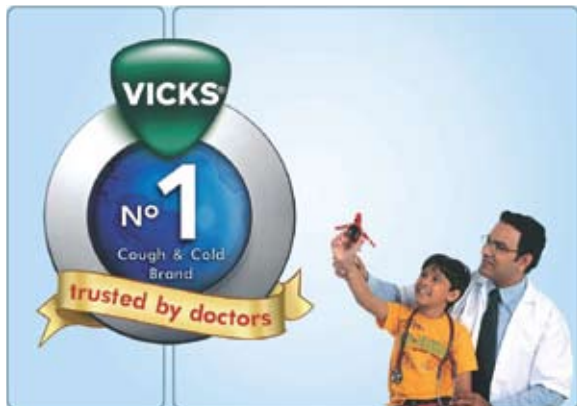
While the sales have grown by 14%, the Profit Before Tax (PBT) and the Profit After Tax (PAT) have decreased versus previous Financial Year but we still maintain a healthy margin. This is primarily due to increased investments in marketing initiatives, higher commodity prices and impact of higher excise duty for nine months. However the Company still maintains a healthy 15% After Tax margin, that will enable us to invest in category growth and defend increased competition.

Healthcare Business

Healthcare business at ₹414 crores (vs. previous Financial Year's ₹381 crores) posted a growth of 9% this Financial Year across *Vicks VapoRub*, *Vicks Cough Drops*, *Vicks Action 500* and *Vicks Inhaler* thereby consolidating the market leadership in its respective categories. This was driven by focused spending on key business drivers and increased spending on proven equity building advertising.

The *Vicks Cough Drops* business had an excellent Year, with the brand growing at 18%. The growth was driven by increased investment on proven advertising and driving awareness of flavors by using other relevant touch points for the Brand like radio and wall-painting, which increased consumption further. Given the passion for cricket among its consumers, the Brand also executed a

first ever cricket focused program with the launch of 'Vicks Cricket Jockey Hunt' spread over 16 top cities in the Country.



Vicks Inhaler shipments grew impressively driven by increased demand in the category and improved supply.

Vicks VapoRub had a continued strong volume growth driven by continued focus on the successful 'blanket of warmth' advertising via augmented media spend and on our ongoing strategy of upsizing consumers to drive consumption.

Vicks Action-500 faced aggressive competitive challenge from generics during the Financial Year. During the second half of the Financial Year, your Company invested in superior advertising support for the product. This helped to recover demand for the product, with exit market share higher compared to previous Financial Year. We will however continue promoting the benefits of the product and expanding its distribution to ensure a good growth of Vicks Action 500 in the Financial Year ahead.

Vicks will continue to innovate to ensure it stays the most trusted cough and cold care Brand in India.

Feminine Hygiene Business

Feminine Hygiene business recorded yet another Year of high growth, with sales at ₹623 crores (vs. previous Financial Year's ₹532 crores) translating to a growth of over 17%. Whisper has increased its market share with growth across all major Brand forms. Whisper Choice reached its all time high share overtaking competition to become the largest

mid tier Brand form. This growth is driven, both, by increase in penetration among non-users and consumption among users.

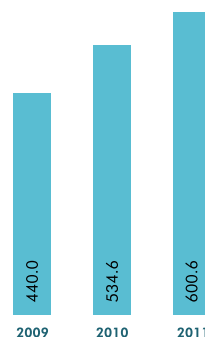
During the Financial Year under review, a number of initiatives were designed to win with the consumers' needs across segment.

The top tier consumers were delighted by the "10X Clean/Dry Protection" and the addition of scent to the pad promised by top tier *Whisper Ultra*. In order to reach more consumers with our product offering, by addressing their biggest barrier of affordability, *Whisper Choice* was priced down. The price down was supported by new communication above the line which increased awareness and massive distribution drives to ensure availability. As a result, *Whisper Choice* has become the largest distributed Brand form in the market.

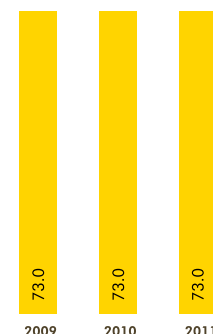


Your Company continued its disproportionate focus on the *Point of Market Entry* consumer. The *Whisper* school program reached a total of 2.5 million menstruating girls across private and government schools. At the same time, by constantly innovating to meet the consumers' needs, *Whisper* ensured that the top-tier Brand was sampled in the more urban schools, and the more economical mid-tier *Choice Ultra* in the upcountry schools. As opposed to *Whisper Choice* last Financial Year, the better product in the mid tier line up – *Choice Ultra* was sampled free to government school consumers. Not only did the program reach out to more potential consumers, but it also increased its depth by reaching out to lower class towns.

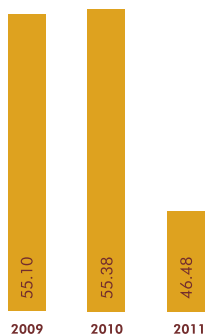
Networth
(₹Crores)



Outflow of Dividend
(₹Crores)



**E. P. S.
(₹)**



DIVIDEND

Your Directors are pleased to recommend a dividend of ₹22.50 for each Equity Share of ₹10 each for the Financial Year ended June 30, 2011.

CORPORATE SOCIAL RESPONSIBILITY

Shiksha: पढ़ेगा इंडिया तो बढ़ेगा इंडिया

P&G's focus on purpose-inspired growth drives us to not only serve our consumers with superior product propositions, but also truly touch and improve the lives of more consumers, more completely by contributing towards the communities we operate in. This commitment is the purpose behind our Corporate Social Responsibility initiatives 'Shiksha' and the 'Whisper School Program,' that help children from lesser-privileged background access their right to health and education.

P&G's flagship Corporate Social Responsibility Program 'Shiksha' is an integral part of our global philanthropy program – Live, Learn & Thrive, which currently reaches out to over 50 million children annually. Now in its 7th year, Shiksha enabled over 280,000 lesser-privileged children with access to good quality education by supporting sustainable and critical assets of schools. By the end of Fiscal Year 2011, Shiksha will be supporting over 140 schools by interventions such as reactivating defunct government schools, building new schools or enhancing education infrastructure at existing schools. Since its inception in 2005, Shiksha has made a cumulative donation of over ₹22 crores towards helping children on the path to better education. This is a result of the support from our consumers who participated in the Shiksha movement by buying P&G brands in the months of April, May and June 2011 and enabling P&G to contribute a part of the sales towards the cause. During the Financial Year ended June 30, 2011 alone, P&G India closed Shiksha with the largest-ever contribution of ₹5.6 crores in association with its partner NGOs, namely Save the Children India, Child Rights & You (CRY), Army Wives Welfare Association (AWWA), Round Table India (RTI), amongst others. Each of Shiksha's NGO partners focuses on a critical

approach towards education, with NGO Round Table India specializing in building educational infrastructure and supporting schools across India, NGO Save the Children laying emphasis on the



Students at the Shiksha supported Sankalp School in Mumbai for differently-abled children of Naval families, run by the Navy Wives Welfare Association (NWWA)

girl child via supporting the government's Kasturba Gandhi Balika Vidyalayas and the NGOs AWWA and NWWA serving the unique educational needs of differently-abled children of Naval and Army Officers' families. These activities together help Shiksha further its motto 'पढ़ेगा इंडिया तो बढ़ेगा इंडिया', and help us touch and improve the lives of our consumers.

Our Whisper School Program is now two decades old and it has protected millions of adolescent girls in India from getting trapped in traditional practices of using unhygienic cloth for sanitary protection. Through a sustained outreach program in private and government schools across the Country, P&G has been educating over 5 million adolescent girls in good Feminine Hygiene.

ENVIRONMENTAL SUSTAINABILITY

Environmental sustainability is embedded in our Purpose, Values, Principles, and our business. In order to improve lives, now and for generations to come, we ensure that our products, packaging and operations are safe for employees, consumers

**Employees
(Nos.)**



and the environment. We ensure this with a focus on technologies, processes and improvements that matter for the environment. The manufacturing technologies we use are low emission and generate almost 60% less emission than the local norms. We are committed to achieving the P&G global 2012 goal of 20% reduction of our footprints. Compliance is an integral part of our business strategy - All our products and formulations comply with Global and Indian regulatory requirements.

We aim at reducing waste at every step of the supply chain, with a robust system that targets zero waste, including product shelf life. We seek to develop Sustainable Products, with an improved environmental profile.

Moreover, ensure environmental friendly practices at our sites: These include reduction in power consumption, optimal water consumption and eliminating excess use of paper by increasing the use of scanning. A good example is the hydro-electric energy being used at our Plant in Baddi with efforts underway for extending this to other sites.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under section 217(2AA) of the Companies Act, 1956 ("the Act"), with respect to the Directors' Responsibility Statement, it is hereby confirmed:

- (i) that in the preparation of the Annual Accounts for the Financial Year ended June 30, 2011, the applicable Accounting Standards had been followed along with proper explanation relating to material departures;
- (ii) that the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the Financial Year and of the profit or loss of the Company for the Financial Year under review;
- (iii) that the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the

assets of the Company and for preventing and detecting fraud and other irregularities.

- (iv) that the Directors had prepared the accounts for the Financial Year ended June 30, 2011, on a "going concern" basis.

CORPORATE GOVERNANCE

A separate report on Corporate Governance along with the Auditors' Certificate on its compliance is annexed to this Report.

MANAGEMENT & PERSONNEL

The growth over the past few years demonstrates the core strengths of our employees to stay reality-based, embrace change and proactively influence the course of business. The Directors are confident that employees are up to the challenge and thank them for their continued trust and support.

The information as per Section 217(2A) of the Companies Act, 1956 ('Act'), read with the Companies (Particulars of Employees) Rules 1975 forms part of this Report. As per the provisions of Section 219(1)(b)(iv) of the Act, the Report and Accounts are being sent to the Members of the Company excluding the statement of particulars of Employees under Section 217(2A) of the Act. Any Member interested in obtaining a copy of the said statement may write to the Secretarial Department at the Registered Office of the Company.

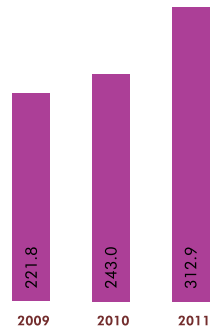
DIRECTORS

Mr. Bansi S. Mehta, Director, retires by rotation and, being eligible, offers himself for re-appointment. The Directors recommend his re-appointment. Mr. Bansi S. Mehta needs no introduction to the Members. Mr. Mehta is a graduate in commerce and a Fellow of the Institute of Chartered Accountants of India. Mr. Mehta is an accountant in practice dealing with taxation, accountancy and valuation of mergers and acquisitions. Mr. Mehta is a Director on the Boards of several prominent Companies.

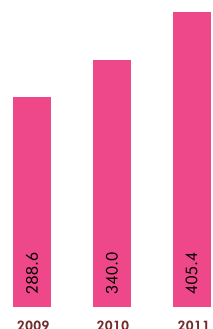
AUDITORS

The Auditors, M/s. Deloitte Haskins & Sells, Mumbai, Chartered Accountants (Registration No. 117366W) retire and offer themselves for re-appointment.

Fixed Assets
(₹Crores)

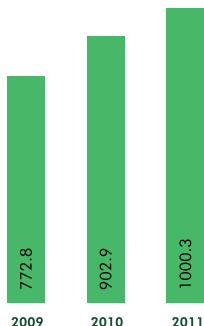


Net Current Assets
(₹Crores)



Procter & Gamble Hygiene and Health Care Limited

Net Sales
(₹Crores)



COST AUDITORS

Your Company has re-appointed M/s. Ashwin Solanki & Associates, Cost Accountants, to conduct the cost audit of drug formulations for the Financial Year ended June 30, 2012. The Company has received necessary Central Government approval for the re-appointment of the Cost Auditor.

CONSERVATION OF ENERGY ETC. INFORMATION

The information, in accordance with the provisions of Section 217(i)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, regarding conservation of energy, technology absorption and foreign exchange earnings and outgoings, are attached as Annexure to this Report.

TRADE RELATIONS

Your Directors wish to thank the Retailers, Wholesalers, Distributors, Suppliers of Goods & Services, Clearing & Forwarding Agents and all other business associates and acknowledge their efficiency and continued support in promoting such healthy growth in the Company's business.

ACKNOWLEDGEMENT

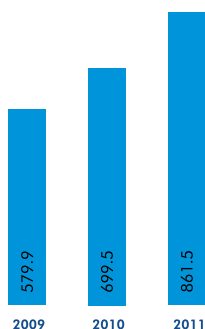
We are grateful to The Procter & Gamble Company, USA and the Procter & Gamble Asia Pte Limited, Singapore for their invaluable support in terms of access to the latest information/knowledge in the field of Research & Development for products, ingredients and technologies, timely inputs on exceptional marketing strategies and the goodwill of its world-renowned Trademarks and superior Brands. We are proud to acknowledge this unstinted association that has vastly benefited the Company.

On behalf of the Board of Directors

Mumbai
August 25, 2011

R. A. Shah
Chairman

Total Expenditure
(₹Crores)



ANNEXURE TO THE REPORT OF THE DIRECTORS

A. Power & Fuel Consumption		
	2010-11	2009-10
1. Electricity		
(a) Purchased:		
Units (KWH)	84 27 060	64 40 130
Total Amount (₹)	3 30 44 214	2 59 27 285
Rate/Unit (₹)	4.00	4.03
(b) Own Generation:		
(i) Through Diesel Generator		
Unit (KWH)	3 87 030	13 14 685
Unit Per lts. of Diesel Oil	3.06	2.50
Cost/Unit (₹)	12.75	14.42
(ii) Through Steam		
Turbine/Generator	N.A.	N.A.
2. Coal (Specify Quality and where used)		
3. Furnace Oil	N.A.	N.A.
4. Others/Internal Generation	N.A.	N.A.
B. Consumption per unit of Production		
	KWH/Tonnes	
	2010-11	2009-10
Other Products	546	583

Note:

Since Company's operations involve low energy consumption, the Company has no comments to offer under para Assignment (a) to (c) of Rule 2 of the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988.

I. RESEARCH & DEVELOPMENT:

- Specific areas in which R&D carried out by the Company:

During the Financial Year, the Company continued its Research and Development thrust for improvement of its existing products, process and import substitution. Research work is also being done for the development of new products.

- Benefits derived as a result of the above R&D:

R&D efforts have helped bringing about an improvement in processes and have resulted in cost reduction and import substitution.

- Future Plan of Action:

Emphasis will continue to be laid on the existing products and new products.

- Expenditure on R&D:

₹ Lakhs

	2010-11	2009-10
(a) Capital	—	—
(b) Recurring	4.93	41.70
(c) Total	4.93	41.70
(d) Total R&D expenditure as a percentage of total turnover	—	0.05

II. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:

- Efforts, in brief, made towards technology absorption, adaption and innovation: Continued implementation of QC/QA procedures of natural products; New products and processes were successfully adapted on commercial scale to utilize local raw materials and machinery; Technical Services for reliability, quality, cost savings and technology transfer from overseas.
- Benefits derived as a result of above efforts e.g. product improvement, cost reduction, product development, import substitution, etc. All the above efforts resulted in improving process efficiencies, consistent quality of our products, introduction of new products and import substitution and successful absorption of technology.
- Imported Technology: The Company has the advantage of availing advanced technology and continuous upgradation thereof from The Procter & Gamble Company, USA and its subsidiaries. This is an unmatched competitive advantage that helps the Company deliver strong business results.

III. FOREIGN EXCHANGE EARNINGS AND OUTGO:

Activities relating to exports; initiatives taken to increase exports; development of new export markets for products and services; and export plans:

The particulars of foreign exchange earned/ utilized during the Financial Year are given in Note No. 5(j) & 5(h) respectively of Part B of Schedule 17 forming part of the Financial Statements.

For and on behalf of the Board

R. A. Shah
Chairman

Mumbai
August 25, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Economic Scenario and impact of Union Budget 2011

The Economic Survey 2010-11 presented by the Hon'ble Finance Minister to the Parliament states that the Indian economy has emerged with remarkable rapidity from the slowdown caused by the global financial crises of 2007-09. The survey further states that notwithstanding the tightening of money markets and moderate growth in deposits, the financial situation remained orderly with a pick up in credit growth, vibrant equity market and stable foreign exchange market. The survey further states that though the down side risks of global events, particularly movement in prices of commodities like crude oil (exacerbated by the political turmoil in the Middle East), remain, the Indian economy is poised to further improve and consolidate in terms of key macroeconomic indicators.

The Union Budget 2011-12 was presented amidst generally optimistic growth outlook with notable improvements in private savings and investment rates, as well as a resumption of private consumption demand. While highlighting the strong and robust performance of the economy, the Finance Minister struck a tone of caution with respect to a number of challenges that the economy currently faces. Foremost amongst all was the trend of inflation that originated with supply bottlenecks but has become more generalized in recent times. Overall, the policy prescriptions outlined in the budget sends a signal that the general direction in which the economy is headed, is on course to deliver high growth and therefore does not warrant any significant course correction.

Monsoon does play an important role on the economy of a Country like India, where agriculture provides around 70% of employment either directly or indirectly. This is the major reason, for the economic growth of India to depend on Monsoon season. If the monsoon is good, it boosts up the economy of the Country and helps in maintaining GDP growth.

The FMCG Sector and Indian consumers

India is one of the fastest growing markets in the world. According to some leading studies the total consumption in India is likely to quadruple making India the fifth largest consumer market by 2025. Urban India will account for nearly 68 per cent of consumption growth while rural consumption will grow by 32 per cent by 2025. India ranks first in the Nielsen Global Consumer Confidence survey released in January 2011. As per leading studies more than 80 percent of FMCG categories are growing faster in rural India as compared to urban India. Not only are most categories growing faster in rural markets than in urban, rural India's contribution to growth in these categories is significantly high. Rural India,

mostly termed as "high opportunity" market, is no longer just an opportunity, but is now yielding results.

Performance Overview & Outlook

The Company operates in a single reportable business and geographical segment. The Company's core business is manufacturing, marketing and distribution of Healthcare and Feminine Hygiene products. Under these businesses it has in its portfolio: *VICKS* – India's No. 1 Healthcare Brand and *WHISPER* – India's leading Feminine Hygiene Brand (in value terms). The discussion on financial performance of the Company is elaborated in the Directors' Report.

Healthcare Business

Healthcare business at ₹414 crores (vs. previous Financial Year's ₹381 crores) posted a growth of 9% this Financial Year across *Vicks VapoRub*, *Vicks Cough Drops*, *Vicks Action 500* and *Vicks Inhaler* thereby consolidating the market leadership in its respective categories. This was driven by focused spending on key business drivers and increased spending on proven equity building advertising.

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Vicks VapoRub had a continued strong volume growth driven by continued focus on the successful '*blanket of warmth*' advertising via augmented media spend and on our ongoing strategy of upsizing consumers to drive consumption.

Vicks Action-500 faced aggressive competitive challenge from generics during the Financial Year. During the second half of the Financial Year, your Company invested in superior advertising support for the product. This helped to recover demand for the product, with exit market share which was higher compared to previous Financial Year. We will however continue promoting the benefits of the product and expanding its distribution to ensure a good growth of *Vicks Action 500* in the Financial Year ahead.