

- **Net sales decline 9% yoy to Rs4.1bn sans contract manufacturing operations. Core health & hygiene business registered strong 15% yoy growth.**
- **OPM expanded by 610bps to 29.1% sans low margin detergent business. Increase in adspend and staff cost restrict further margin expansion.**
- **Adjusted net profit decreased by 17% yoy to Rs772mn partly due to lower other income.**

### Financials Highlights

Period to	03/07	03/06	Growth	03/07	03/06	Growth
<b>(Rs mn)</b>	<b>(3)</b>	<b>(3)</b>	<b>(%)</b>	<b>(9)</b>	<b>(9)</b>	<b>(%)</b>
Gross sales	1,253	1,153	8.7	4,264	4,835	(11.8)
Excise duty	(24)	(25)	(1.6)	(124)	(296)	(58.2)
Net Sales	1,229	1,129	8.9	4,140	4,538	(8.8)
Expenditure	(900)	(861)	4.5	(2,937)	(3,495)	(16.0)
Operating profit	329	268	22.9	1,203	1,043	15.3
Other income	34	112	(69.6)	108	213	(49.4)
Interest	0	0	-	(0)	(1)	(90.9)
Depreciation	(27)	(16)	70.4	(66)	(58)	14.1
PBT	336	364	(7.7)	1,245	1,198	4.0
Tax	(122)	(98)	23.8	(366)	(342)	7.2
PAT	214	265	(19.3)	879	856	2.7
Prior period items	0	0	-	(107)	73	-
APAT	214	265	(19.3)	772	930	(17.0)
OPM (%)	26.7	23.7	-	29.1	23.0	-
Equity	325	325	-	325	325	-
Annualized EPS (Rs)	26.4	32.7	-	31.7	38.2	-
P/E (x), CMP - Rs769	29.1	-	-	24.3	-	-

### Health & hygiene business records strong 15% growth

During the nine months ended March 2007, Procter & Gamble Hygiene & Healthcare Ltd (PGHH) registered a decline of 8.8% yoy (sans contract-manufacturing operations) in topline at Rs4.1bn. Revenues from core Health & Hygiene segment recorded a strong 14.6% yoy growth. Feminine Hygiene business registered 22.6% yoy growth at Rs2.1bn driven by strong growth in Whisper Choice (low priced brand) and Whisper Ultra. The topline growth could have been higher but for the lower revenue growth of 7.9% yoy (at Rs2bn) in the healthcare products segment.

### Margins expand sharply, sans low margin detergent business

Operating margins for the period expanded by 610bps to 29.1% aided by a sharp decline (25% of net sales against 35.4% of net sales during 9M F6/06) in raw material cost (on account of discontinuation of low margin detergent manufacturing business). Higher adspend (240bps) and staff (120bps) cost restricted further margin expansion. The company has paid royalty of Rs207mn (5% of health & hygiene revenues) compared to Rs186mn paid during Jul'06-Mar'07.

### Cost Analysis

Period	03/07	03/06	Inc/Dec	03/07	03/06	Inc/Dec
<b>As a % of sales</b>	<b>(3)</b>	<b>(3)</b>		<b>(9)</b>	<b>(9)</b>	
Raw Material	29.0	22.1	7.0	25.0	35.4	(10.4)
Staff	6.4	5.8	0.6	6.9	5.7	1.2
Advertising	11.4	11.8	(0.4)	11.5	9.2	2.4
Royalty	4.5	4.9	(0.3)	5.0	4.1	0.9
Other expenditure	21.9	31.7	(9.8)	22.6	22.7	(0.1)

### **Net profit down 17% yoy**

Pretax profit increased by 4% yoy to Rs1.2bn mainly due to lower other income (Rs108mn compared to Rs213mn in 9M F6/06) and higher depreciation cost. Effective tax rate was at 29.4% resulting in a tax outgo of Rs366mn. Net profit increased marginally by 2.7% yoy to Rs879mn. Adjusted net profit after extraordinary items of Rs107mn on account of provision for prior years taxation decreased by 17% yoy to Rs772mn translating into an annualized EPS of Rs31.7.

### **Quarterly performance**

PGHH registered 8.9% yoy (sans contract-manufacturing operations) growth in topline at Rs1.2bn during Q3 F6/07. Feminine Hygiene segment registered strong 20.3% yoy growth at Rs713mn driven by strong growth in Whisper Choice (low priced brand) and Whisper Ultra. Healthcare products segment however witnessed decline in revenues by 3.8% yoy to Rs511mn. Operating margins for the quarter expanded by 310bps (down by 680bps qoq) to 26.7% aided by 980bps drop in overhead cost. The company has paid royalty of Rs56mn (4.5% of health & hygiene revenues) compared to Rs55mn paid in Q3 F6/06. Higher raw material cost (700bps) restricted further margin expansion. Net profit decreased by 19.3% yoy to Rs214mn, mainly due to lower topline growth on account of decrease in healthcare revenues.

### **Outlook**

Sans transfer of contract manufacturing business to 100% subsidiary, Procter & Gamble Home Products Ltd, the listed entity is now focused only on the Health & Hygiene segments. The feminine hygiene business has picked up pace aided by continuing growth in Whisper Ultra and low priced variants like Whisper Maxi & Whisper Choice.

Sans contract manufacturing (a low margin, low ROCE business) PGHH's margins have also been positively impacted. The company has set up two new health care plants in Baddi with an investment of Rs600mn, to meet the increasing demand for its products. With the additional revenues from these plants, which have commenced production during Q2 F6/07, we expect the overall profitability to improve going forward. The company will continue to produce the feminine hygiene products at its Goa facility.

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