



Cadbury

Life full of Cadbury, Cadbury full of life



CADBURY INDIA LIMITED

54th Annual Report 2001

BOARD OF DIRECTORS

CHAIRMAN

C Y Pal

VICE CHAIRMAN

Rajiv Wahi

MANAGING DIRECTOR

Bharat Puri

DIRECTORS

Non-Executive

N V Iyer
David Kappler
Harsh Mariwala
Jaithirth Rao
Suresh Talwar

Executive

Vidyut Arte
Girish Bhat
Prashant Chhaya
Ganesh Sridhar
Johan Strydom

Company Secretary & Mgr. Financial Planning

Monaz Noble

General Managers

Vivek Aggarwal
Jimmy Gandhi
Sharad Gangal
Burjor Ichhaporia
Thomas John
Narender Katoch
Jaiboy Phillips
Sanjay Purohit
Sanjay Sarin

Financial Accounting & Control
Materials
Employee Relations & HR Services
Thane Factory
Cocoa Operations
Corporate Affairs
Malanpur Factory
Marketing
VBM, Strategic Planning &
New Business Development
Technical
Induri Factory & Third Party Operations
Sales

Ajit Tawde
Cedirc Vaz
Sanjay Warke

Auditors

AF Ferguson & Co., Mumbai

Advocates & Solicitors

Crawford Bayley & Co., Mumbai

Bankers

State Bank of India
Citibank N A

Registered Office

Cadbury House,
19, Bhulabhai Desai Road,
Mumbai 400 026.
Tel. : 4939558
Fax : 4938698

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Chairman's Statement

I have great pleasure in welcoming you all to the 54th Annual General Meeting of the Company and presenting the financial performance for the year 2001.

The year 2001 will unfortunately be remembered in history as a period of major tragedies starting with the Gujarat earthquake on January 26th, the terrorist attacks on September 11th in the United States and on the Indian Parliament on December 13th. These events left their indelible mark on the economic growth of the country. The September 11th tragedy in the United States not only impacted the home economy but also had an adverse impact on the global economy. Frighteningly terrorism has suddenly surfaced as a major risk factor to economic growth. These developments in the backdrop of the general economic slow-down that started about two years ago have certainly pushed back the timing of recovery in the economy.

The FMCG sector of the economy was badly hit by the slow-down in demand. However I am happy to report that your Company has once again performed well. Despite the difficult times we achieved a growth of 5.8% in sales volume and 9.7% in sales value with a net profit (before exceptional items) at 14.2% ahead of last year. The achievement of these results was helped by favourable material prices, buying efficiencies and reduction in factory costs.

In order to effectively deal with the economic slow down the Industry was hoping and looking forward to some major initiatives in the Central Government Budget 2002 that would help to push the economy on the path of growth. However the taxation measures seem to have disappointed every one, especially the tax paying middle class who will be left with lesser purchasing power to buy your Company's products. The Budget does include some measures of deregulation in the agricultural sector to remove controls on essential commodities and revamp of legislation relating to food products. These measures when implemented will hopefully have a positive effect on the operations of your Company.

During the year several existing brands were re-launched and revitalized to build a platform for further growth. The premium chocolate segment was strongly addressed through the launch of CADBURY TEMPTATIONS. This product is positioned to counter the growing competition from imported chocolate. Recently two more new products CADBURY CHOCKI and CADBURY CELEBRATIONS were launched. The first is a chocolate flavoured paste packed in an innovative tube format targeted at children and the latter is a premium assorted chocolate confectionery offering targeted at the gifting market. All the new products have been well received in the market place.

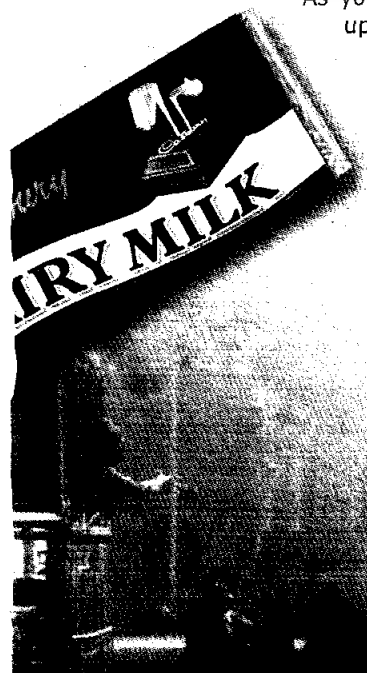
As you are all aware Cadbury Schweppes plc, U.K, and Cadbury Schweppes Mauritius Limited, Mauritius made an Open Cash Offer for purchase of up to 49% of the equity shares of your Company at a price of Rs. 500/- per share. The Offer received enthusiastic response from the Shareholders of the Company and the purchasers were able to garner more than 39% of the Company's equity shares from this Offer. As a result it is likely that the Company may be de-listed from the Stock Exchanges with which it is registered subject to various legal compliances.

I now come to the major changes in the management team of your Company. You will recollect that Mr. Matthew Cadbury was appointed as Managing Director of the Company with effect from February 5, 2001. Mr. Cadbury returned to the Cadbury Schweppes plc, U.K. on December 30, 2001 after completing his remit in the Company. I am sure you will all join me in thanking him for his contribution during his tenure with the Company.

I have great pleasure in welcoming on your behalf Mr. Bharat Puri as Managing Director of the Company. Mr. Puri was appointed to this position effective January 1, 2002. You all know him and his excellent performance since August 1998 when he was appointed to head the Sales and Marketing functions of Company. With his fine leadership qualities I am sure Mr. Puri will lead the Company to greater heights in the years to come.

Another important change in the management is the forthcoming move of Mr. Ganesh Sridhar who is our current Director - Human Resources. It is a matter of pride that Mr. Sridhar will be shortly taking up a senior position within the Group located in the U.K. as Regional Human Resources Director for Africa, India and the Middle East. I am sure you would like to join me in thanking Mr. Sridhar for his significant contribution in the area of industrial relations and human resource development. Mr. Sridhar will continue to be associated with the Company in his regional role.

Before I conclude, I extend my sincere gratitude to all the contributors to your Company's success, namely shareholders, employees, suppliers, distributors, retailers, bankers and last but not the least the consumers. I also acknowledge the support and encouragement we have always received from the Cadbury Schweppes Group for development and growth of your company's business.



Choose Cadbury

Cadbury Dairy Milk, the largest Chocolate brand in the country has continued its juggernaut march to accomplish the CIL mission of a Cadbury in every pocket.

The communication laced with regional flavors, efficient price-value equation across packlines and excellent distribution resulted in unprecedented sales growths over the last couple of years.

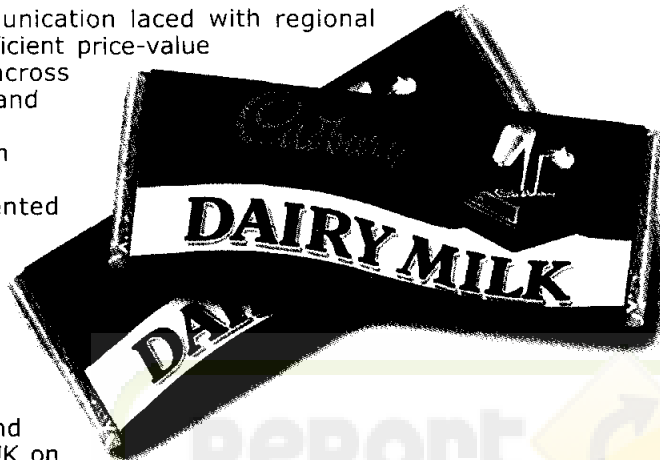
Today, we rank second after the UK on the world Chocolate map. Today Cadbury is equal to Chocolate and Chocolate is equal to Dairy Milk. Dairy Milk has won the coveted Campaign of the Century award in Indian Advertising.

Mr Bharat Puri, MD sums up the sentiments at CIL - "Not too far in the distant future, we will be the largest CDM market in the world".

Five Star, one of the oldest and largest brands of Chocolates, was re-launched with a completely new package, with an objective to increase growth.

The new package involves a new packaging; a new proposition; making it more contemporary and trendier.

Five Star is expected to expand the width of consumption in the Chocolate Market, thus to enlist more consumers into the Chocolate eating category.



Cadbury Dairy Milk Éclair was re-staged in May 2001 with the objective of expanding the category by enlisting new consumers without alienating the loyal consumers.

The re-staged package looked at initiating new users into the Chocolate category.

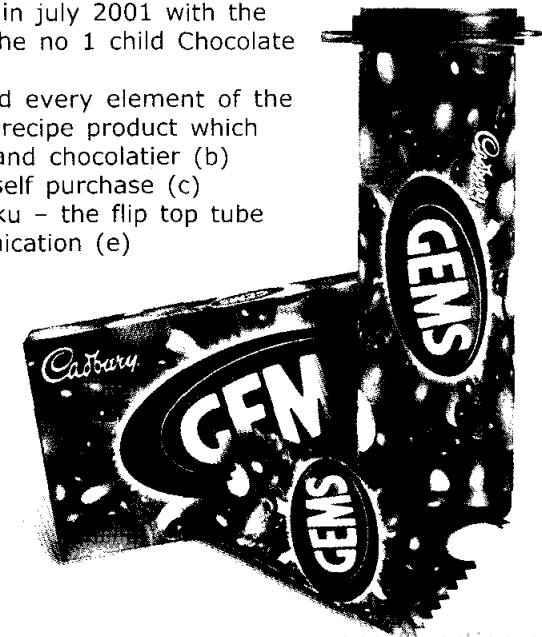
Theme communication to give a fillip to the brands equity was created after a gap of 5 years.



Gems was re-launched in July 2001 with the objective of becoming the no 1 child Chocolate brand in the country.

The re-launch addressed every element of the marketing mix (a) new recipe product which was crunchier, crispier and chocolatier (b) pricing strategy to aid self purchase (c) introduction of a new sku - the flip top tube (d) new theme communication (e) new packaging.

New Gems is on its way to achieve its objective and is showing healthy growths and positive trends.



Bournvita, had the challenge of market expansion through the position of leadership in the North and West and of gaining back the leadership position in Brown drinks in the South. With these key objectives the Brand was re-launched.

The entire marketing mix was changed right from product formulation to the thematic communication and is proving to be a runaway success across all markets.



Temptations – a range of premium Chocolates has been successfully launched across the country. The Temptations Range comprises of multiple flavor packs viz. Honey Apricot, Roast Almond Coffee, Black Forest, Old Jamaica, Cashew Delite and Butterscotch Raisin.

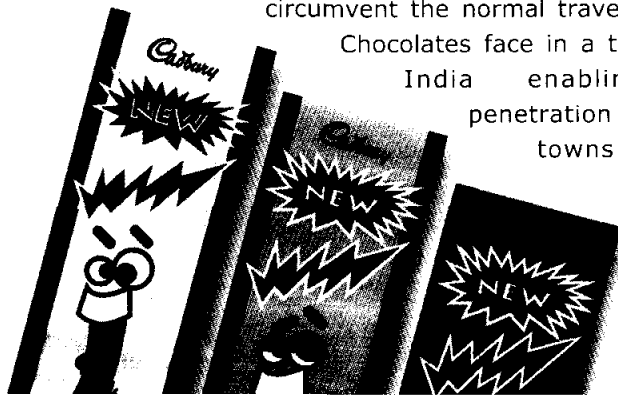
Temptations is a brand of international stature and the consumers' experience with the brand across all parameters – packaging, promotion and placement have that premium feel that denotes the highest quality.



Cadbury Chocki is the major initiative to drive the affordability of the Chocolate category. It offers the Chocolate taste in a novel - liquid/paste format, priced at Rs. 2/-.

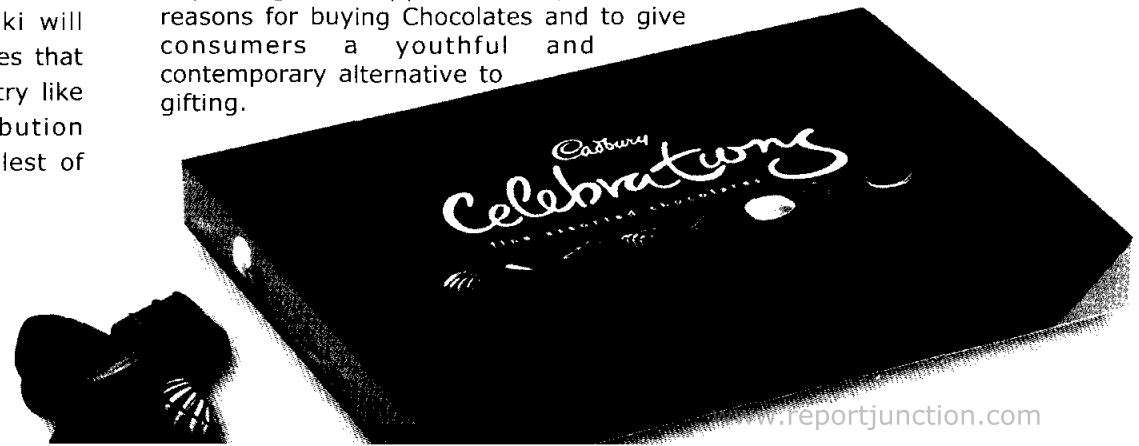
This product will be the bridge between Chocolates and sugar confectionery products.

The unique liquid format of Cadbury Chocki will circumvent the normal travel-ability issues that Chocolates face in a tropical country like India enabling distribution penetration in the smallest of towns.

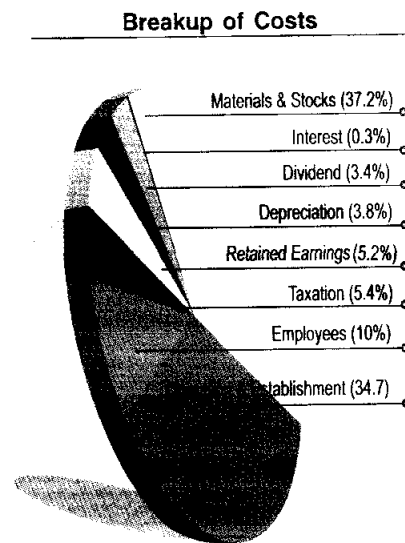
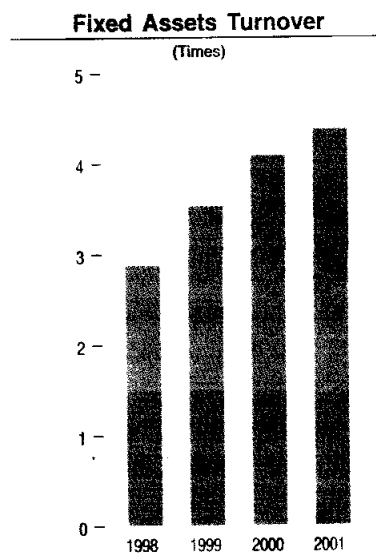
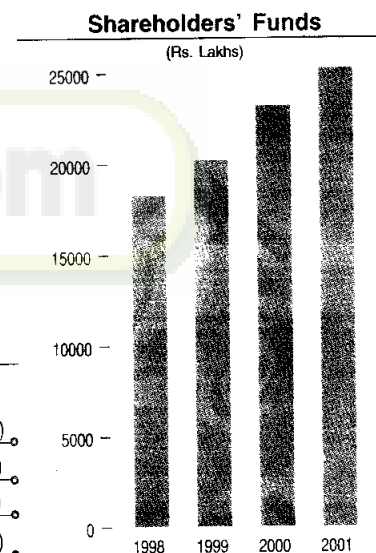
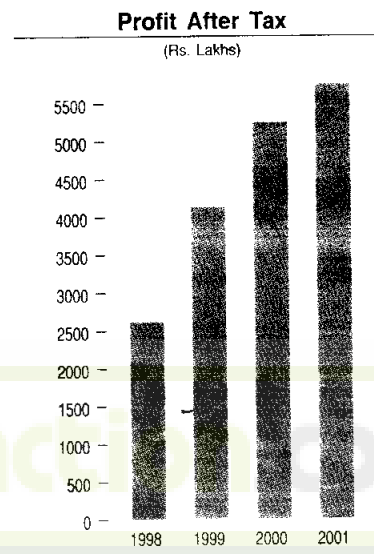
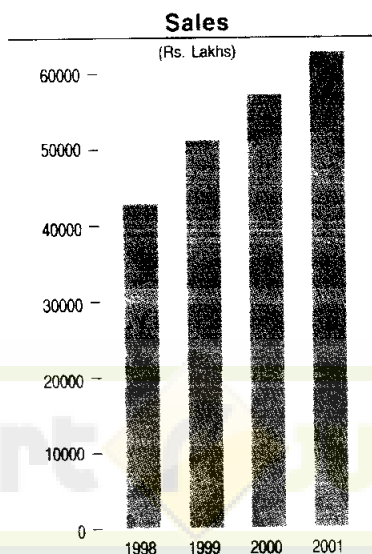
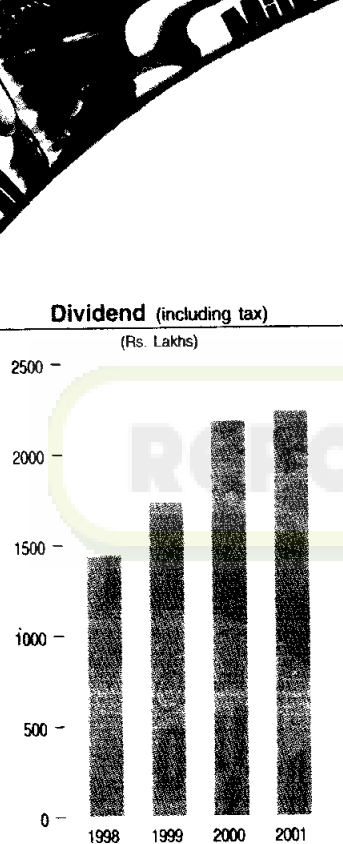


Celebrations – are premium fine assorted Chocolates, for personal gifting. Now premium assorted Chocolates, ideal for all occasion gifting, will be available, for the first time, from Cadbury. Positioned on the platform of 'All you ever need to give'.

The objective for Celebrations is to expand the Chocolate segment by exploring new opportunities, occasions and reasons for buying Chocolates and to give consumers a youthful and contemporary alternative to gifting.



Choose Cadbury



Report of the Directors

To the Members

Your Directors have pleasure in presenting the 54th Annual Report on the business and operations of your Company and the Audited Financial Statements for the year ended December 30, 2001.

1. Financial Results

	2001 Rs. Lakhs	2000 Rs. Lakhs
Sales	62632	57114
Other Income	903	1196
	63535	58310
Profit before Interest, Depreciation & Tax	11840	10692
Interest	(206)	(311)
Depreciation	(2379)	(2185)
Profit before Tax and Exceptional Items	9255	8196
Provision for Taxation		
– Current Tax	(3488)	(2965)
– Deferred Tax	205	–
Profit after Tax and before Exceptional Items	5972	5231
Exceptional items and tax adjustments for earlier years	(232)	(28)
Net Profit (after tax adjustments of earlier years)	5740	5203
Balance in P & L A/c brought forward	2071	1558
Balance available for distribution	7811	6761
Proposed Dividend (including Dividend Tax)	2361	2190
Dividend Tax of prior year	(214)	–
Transfer to General Reserve	3000	2500
Balance in P & L A/c carried forward	2664	2071
	7811	6761

2. Perky Performance

Your Company remains committed to deliver Superior Shareholder Value through concentrated resources and efforts being put behind the Cadbury Power Brands. This has resulted in the Power Brands showing healthy growth at the end of the year, driving the overall portfolio.

The Company has maintained its growth drive successfully despite a slowdown in the FMCG sector in the year 2001. The sales grew by

9.7% in value terms, and 5.8% in volume terms, over last year. Net profit (before exceptional items) for the year 2001 is 14.2 % higher than the corresponding period last year.

The margins have improved, primarily due to favourable material prices, buying efficiencies and reduction of factory costs. Initiatives on market expansion, both in terms of width and of depth, have resulted in higher investment in market place. Total marketing expenditure has increased by 21.5 % resulting in an Advertising/Sales ratio of 11.2% versus 10.1% last year.

The deferred tax liability of Rs.1557 lakhs, arising from timing differences as at 1st January 2001, has been adjusted against the opening balance of the General Reserve. A further credit of Rs.205 lakhs towards deferred tax has been taken into the Profit and Loss Account this year.

3. Dividend

Your Directors recommend a dividend of Rs 6.00 per Equity Share for the financial year ended December 30, 2001. This is 20% higher than last year. The dividend, if approved at the forthcoming Annual General Meeting, will be paid to:

- (i) all those Equity Shareholders whose names appear on the Register of Members of the Company, after taking into account all valid share transfers in physical form lodged with the Company on or before April 22, 2002 or
- (ii) those whose names appear as beneficial owners as at the end of business on April 22, 2002 as per lists to be furnished by the Depositories viz. National Securities Depository Limited and Central Depository Services (India) Limited.

4. Management Discussion and Analysis

A. Industry Structure & Development

The processed food market in India has been largely an urban one. However, with improved marketing inputs, distribution strategies and product ranges it has expanded into the rural areas. The critical factor in achieving growth, therefore, is to increase market penetration. This necessitates having a broad product range offering good value for money. In the last three years, the Company has had a strong market presence in the Rs. 5 market segment. To exploit this potential market further, Rs. 2 product (Cadbury Choki) has just been launched.

In the branded impulse category – confectionery, biscuits, ice creams, salted snacks and soft drinks – chocolates have the lowest share. This clearly reflects an opportunity for growth, provided that the product is offered at an affordable price point. www.reportjunction.com



Further, with greater exposure to chocolates and food drink products, consumers are slowly moving from an indulgence oriented consumption habit to the arena of snack foods to satisfy functional needs. Your Company is addressing both of these two key drivers for continued growth of the chocolate and food drinks segments.

B. Business Overview

Whilst the overall GDP growth at 5.4% seems to be on par with expectations, the composition of this growth is worrying. Industrial production is stagnating and has come down to a growth of only 2.3% from a level of 5% last year. This is a far cry from the high growth rates experienced in the mid nineties. Capital goods growth has been negative for the first half of last year. The key contributors to growth have been agriculture (which is monsoon led) and services sectors.

Apart from this, there are disturbed political conditions in the subcontinent leading to negative sentiment and a continuing softness in the equity market yielding lower returns on fixed income securities. Against a backdrop of these tough market conditions, the Company achieved sales value growth of 9.7%: from Rs. 57114 lakhs in 2000 to Rs. 62632 lakhs in 2001. A very healthy operating margin of 14.9% has been achieved with the help of material buying and manufacturing efficiencies. The Company continued the application of Value Based Management to reduce material and energy costs, optimise capacities, control working capital and limit capital expenditure, all of which helped in achieving the above results.

Innovative marketing strategies and an effective advertising plan have played a critical role in the growth of sales. During the year, The Advertising Club in Mumbai awarded the Milk Treat advertisement campaign the 'Grand Effy' for being the most effective advertisement amongst all categories for the year 2000. The campaign also won the 'Gold' for the most effective advertising in the Foods, Beverages and Tobacco sector.

C. Future Strategy

Future strategy will focus on –

- Aggressive expansion in the affordability segment. This is an attempt to enable participation in the chocolate experience at an affordable price.
- Increasing presence and availability in the market through distribution.
- Focus on advantaged brands, extending the offer into all areas where Cadbury has equity. New business opportunities have been identified in this area and a new business development group has been set up to tap into these new opportunities.
- Reduction in manufacturing and supply chain costs. Work has already begun in this area with the help of reputed consultants.

D. Financial and Operational Performance

(i) Highlights of Financial Performance:

	2001 Rs. Lakhs	2000 Rs. Lakhs	% change
1. Sales	62632	57114	9.7%
2. Other Income	903	1196	(24.3%)
3. Sub-Total (1+2)	63535	58310	9.0%
4. Total Expenditure (excl. interest)	54075	49803	8.6%
5. Profit before Interest, Tax and Exceptional Items	9461	8507	11.2%
6. Operating Margin	14.9%	14.6%	
7. Profit after Tax and before Exceptional Items	5972	5231	14.2%
8. Net Profit (after Tax adjustments for earlier years)	5740	5203	10.3%
9. Return on Capital Employed	34.6%	36.3%	
10. Inventory Turnover - Times	8.9	7.6	
11. Current Ratio	1.9	1.8	
12. Debt : Equity Ratio	0.03	0.01	

(ii) Operational Performance

Significant improvements in costs and services, brought about by improvement in systems, processes and people capability, has positively impacted profit and is a source of great pride for the Company. Cost reduction in energy and materials were the main contributors to the overall reduction in manufacturing costs, placing the Company amongst the top performers in the Cadbury Schweppes Group. Optimum utilisation of capital on high return projects has ensured lower cost of capital and an improved return on investment. Streamlining of processes and systems within the Supply Chain has improved service levels. A focus on improving people capability, both in terms of skill and competency, has led to a motivated and able workforce. This, coupled with groundbreaking improvements in industrial relations, has enabled greater performance for the year and for the future.

E. Segment-wise Performance

The Company operated in the Foods segment and maintained close to double-digit growth over the last year despite the difficult consumer market environment. In 2001, the Company has focused aggressively on re-launching its existing key brands – PERK, 5 STAR, GEMS, BOURNVITA. New flavours (lime lemon, coffee and pineapple) were launched in PERK, whilst BOURNVITA, the malted food drinks brand, was re-launched in the south with new packaging, a new flavour and



Report of the Directors

a new campaign. 5 STAR has seen a major revamp with a change in packaging and positioning as a product with “energy” for teenagers. GEMS has also seen a change in packaging and product configuration.

The launch of TEMPTATIONS, at the premium end of the market and in a range of international flavours met with great success. This locally manufactured product is aggressively priced at Rs 30 compared with similar imported chocolates at Rs 50 plus.

F. Sustainable Growth Opportunities

The domestic confectionary market in India is still small in size, with market penetration largely in urban areas. Even there, the per capita consumption is very low compared to developed markets like the UK and USA.

The objective of your Company has been to increase the depth and width of the market by the introduction of varied product offerings and innovative sales and marketing plans.

The biggest opportunity lies in bringing new consumers into the fold. This would happen through a multi pronged approach of:

Increasing relevance of chocolates in consumers lives
(through occasions, new reasons for consumption etc)

Making the product affordable

Increasing availability

The other opportunities lie in optimising manufacturing efficiencies, exploiting the mass media to create sustainable brands and using information technology to bring about efficiencies in logistics and distribution.

G. Risks and Concerns

The Company has a large exposure in foreign currency, mainly in US Dollars and Sterling Pounds, on account of the importation of cocoa beans. There is no natural hedge as our current value of exports is negligible.

The Company manufactures a wide range of chocolate and sugar confectionery products in various pack sizes. These calls for rigorous forecasting of production and procurement cycles in order to meet ever-changing demands.

The Company has in the recent past, been facing competition from imported confectionery products which are flooding the market as a result of the opening up of the economy. A risk is also perceived from confectionery products sold at substantially lower prices in the grey market.

H. Internal Control Systems and their Adequacy

The Internal Audit department conducted audits at various locations based on an annual audit plan. In line with the practices, planning

and conduct of the internal audit is oriented towards a review of controls in the management of risks, along with the maintenance of proper accounting records and the reliability of financial information used within the business.

The Internal Audit department reports significant audit observations, on a quarterly basis, to the Audit Committee which comprises three non-executive Directors: Mr. N. V. Iyer – Chairman, Mr. C. Y. Pal and Mr Suresh Talwar – Members. The Committee met three times during the year to review the audit observations and followed up implementation of remedial actions. The external auditors also attend the meetings to convey their views to the Audit Committee on the adequacy of internal control systems in the Company.

A financial controls audit, using external agencies, was carried out during the year to ascertain their adequacy.

I. Developing Human Capital

Your Company continued with its emphasis on investing in people. There were several initiatives aimed at developing people's capability across various levels of management. The process of cascading the 'Sharpening The Culture' programme continued. A team of senior managers participated in a programme on 'Building Strategic Capability' (aimed at enhancing the leadership capability) conducted by the Cadbury Schweppes Group.

There was considerable emphasis on development of good people practices such as Communication and Potential Assessment.

J. Cautionary Statement

Statements in the “Management Discussion and Analysis” describing the Company's objectives, expectations or predictions may be forward looking within the meaning of applicable laws and regulations. Actual results may differ materially from those expressed in the statement. Important factors that could influence the Company's operations include: domestic supply and demand conditions affecting selling prices of finished goods, input availability and prices, changes in government regulations, tax laws, economic developments within the country and other factors such as litigation and industrial relations.

5. Managing for Value

The growth drivers for the Company were firmed up under Managing For Value activity during the year. The future drive will be to expand into areas where the Company can leverage the Cadbury Equity in addition to its current portfolio. A New Business group has been set up to take the initiatives forward.

Your Company successfully launched a Distribution and Availability pilot programme in three states to validate the opportunity.

Cost reduction across the supply chain, materials and manufacturing continue to be focus areas to feed investments in growth.



6. Sales and Marketing

The successes of Cadbury India have been, in large measure, due to:

1. Increasing the Depth of Consumption by increasing the relevance of chocolates in the consumer's life space, creating various new consumption occasions and providing the consumer with a range of premium chocolates of international quality.
2. Increasing the Width of Consumption by increasing consumer awareness and also by providing products which offer a good eating experience at an affordable price.
 - Cadbury Temptations, was a premium chocolate range launched last year in order to provide the consumer with an international chocolate eating experience.
 - Cadbury Chocki was launched at Rs 2/- to provide consumers with a chocolate taste at an affordable price and has received tremendous success.
 - Products such as Cadbury 5 Star, Cadbury Gems and Cadbury Éclair were re-launched aimed at increasing the awareness and relevance of the brand. The Gifting segment was tapped aggressively with special focus during Raksha Bhandan and Diwali.
 - Bourn-Vita was re-launched in South India. The initial response has been very encouraging. Riding on the re-launch activity in North and West India, the brand achieved healthy growth for the year.
 - The corporate website has further evolved into an e-retail outlet where consumers can buy Cadbury products that are tailor-made for Gifting purposes.

7. Human Resources

Employee Relations throughout the year were supportive of business performance across all factories. At Thane, the Long Term Settlement was signed. The new settlement was aimed at strengthening workplace effectiveness. In line with the objective of cost competitiveness, a Voluntary Retirement Scheme was launched with further rationalization of workforce in view.

As on December 30, 2001 the total number of employees of your Company was 1901.

Information on particulars of Employees' Remuneration as per Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 forms part of this report.

8. Quality Initiatives

Product quality remains the bedrock of Cadbury businesses worldwide. Regular audits by Cadbury Schweppes plc, ensure compliance with Cadbury Schweppes Corporate standards and foster continuous improvement. All manufacturing facilities are currently implementing HACCP (Hazard Analysis of Critical Control Point) to further strengthen their quality systems. Continuous monitoring of quality at shop floor level is now an established practice in the Company. Employees at all levels are routinely trained and coached in quality standards and practices to ensure that products reach consumers in world class condition.

9. Environment & Safety

Sound environmental health and safety management is an integral part of the Company's business practices. In 2001, the Company has moved confidently to further strengthen and enhance performance in these areas. Of particular significance is the considerable improvement in energy usage. Your Company is committed to continuous improvements, supported by Cadbury Schweppes Plc, audits, in the years ahead. This commitment stems from an understanding that caring for the workforce, the communities in which we operate and our various business partners, contributes positively to the quality of life.

10. Information Technology

During the year, a business intelligence system was built through implementation of data warehousing. Your company received the SAP STAR Installation 2001 Award for the innovative use of the data warehousing solution.

Sales and Supply chain were the main focused business areas of Information Technology during the year. SAP R/3 & Business Warehousing together have significantly improved the information systems across the organisation.

The Strategic Outsourcing tie up with IBM Global Services India Pvt Ltd. is yielding expected results in maintaining the efficiency and consistency in Information Technology solutions.

11. Directors

Mr. Matthew Cadbury resigned as Managing Director of the Company. The Board avails of this opportunity to place on record its appreciation for the valuable contribution made by him in the area of strategic development of business in India.

Mr. Bharat Puri, Director – Sales, Marketing & Exports was appointed as Managing Director with effect from January 1, 2002. He is an MBA from Indian Institute of Management, Ahmedabad. Mr. Puri joined Cadbury India in 1998. He has been the architect of the successful "A Cadbury in every pocket" strategy, which yielded significant growth in sales.

Mr. Vidyut Arte was co-opted as an Executive Director - Sales & Exports of the Company with effect from January 1, 2002. He holds a B.E. (Mechanical) degree and has completed his Master in Management Studies from Jamnalal Bajaj Institute of Management Studies. He brings with him rich sales and marketing experience of Cadbury products having been with the Company for the past 12 years.

Mr. Johan Strydom, who was appointed as an Executive Director with effect from March 1, 1999 completed his term of three years on February 28, 2002. He has been reappointed as an Executive Director of the Company with effect from March 1, 2002.

Mr. Harsh Mariwala, Mr. Jaithrith Rao and Mr. Girish Bhat will retire at the ensuing Annual General Meeting and, being eligible, offer themselves for re-election.