



ANNUAL REPORT
2006-07

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DABUR INDIA LIMITED

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Vision

"Dedicated to the Health & Well-Being of every Household"

Principles

Ownership

This Is our Company and we accept personal responsibility and accountability to meet business needs.

Passion for Winning

We all are leaders in our area of responsibilities with a deep commitment to deliver results. We are determined to be the best at doing what matters the most.

People Development

People are our most important asset. We add value through result driven training, while encouraging and rewarding excellence.

Consumer Focus

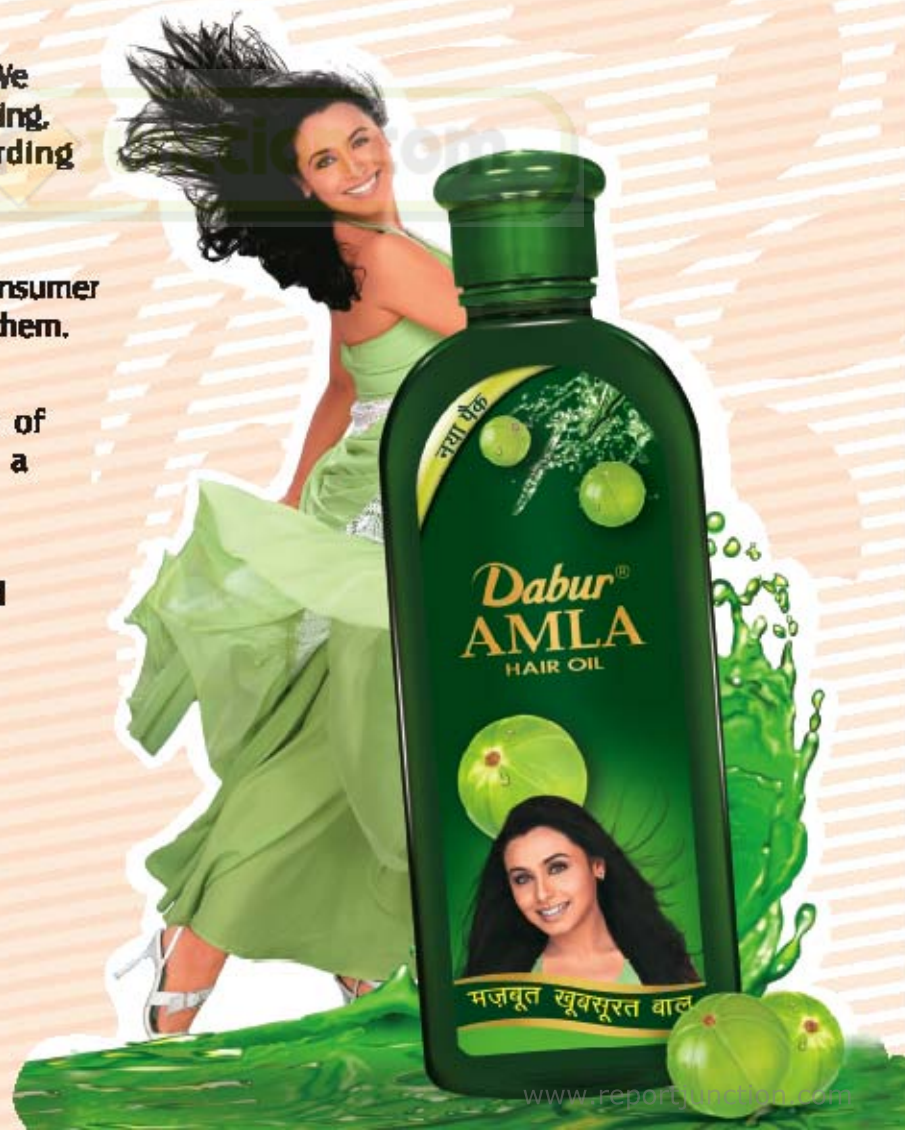
We have superior understanding of consumer needs and develop products to fulfill them.

Team Work

We work together on the principle of mutual trust and transparency in a boundary-less organization.

Innovation

Continuous innovation in products and processes is the basis of our success.





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Ten Year Highlights

Rs Crore	FY98	FY99	FY00	FY01*	FY02**	FY03	FY04***	FY05	FY06#	FY07^
Operating Results:										
Sales	811	915	1043	1166	1281	1371	1330	1537	1900	2233
Other Income	13	23	34	19	12	7	9	9	13	26
EBIDTA	86	98	128	137	144	162	164	217	304	375
EBIDTA Margins (%)	10.6	10.7	12.2	11.8	11.3	11.8	12.3	14.1	16.0	16.8
Profit Before Tax(PBT)	45	52	81	85	82	106	124	176	257	319
Taxes	1	2	4	7	14	14	15	19	30	37
Tax Rate (%)	2.2	2.9	4.5	8.5	16.6	13.3	12.0	10.8	11.7	11.7
Profit After Tax (PAT)	44	50	77	78	64	85	107	156	214	283
PAT Margins(%)	5.5	5.5	7.4	6.7	5.0	6.2	8.0	10.1	11.3	12.7
Financial Position:										
Fixed Assets (Net)	206	239	251	243	371	257	250	295	512	379
Current Assets,Loans & Advances	327	344	412	393	504	522	340	408	471	640
Current Liabilities & Provisions	87	83	108	158	183	241	294	400	436	452
Net Working Capital	240	260	304	235	322	281	46	8	35	189
TOTAL ASSETS	497	556	609	558	705	640	433	543	624	670
Share Capital	29	29	29	29	29	29	29	29	57	86
Reserves & Surplus	199	233	292	334	365	388	256	335	439	393
SHARE HOLDERS FUNDS	227	262	320	362	394	417	285	364	496	479
Loan Funds	270	295	289	196	304	964	132	164	121	160
TOTAL CAPITAL EMPLOYED	497	556	609	558	705	640	432	542	624	670
RoCE (%)	15.1	15.1	17.0	19.5	12.6	16.0	28.7	31.4	39.0	45.9
RONW (%)	20.2	19.9	24.7	22.0	16.6	20.6	38.5	43.6	46.2	61.6
Equity Share Data:										
Earnings Per Share (Rs)	15.6	17.6	27.1	2.7	2.3	3.0	3.7	5.5	3.7	3.3
Dividend Per Share (Rs)	3.9	5.0	10.0	1.0	0.5	1.4	2.0	2.5	1.8	1.4
No of Shares (In Crores)	2.9	2.9	2.9	28.5	28.5	28.6	28.6	28.6	57.3	86.3

* Stock split from Rs 10/share to Rs 1/ share

** Consolidated results from FY02 onwards

***Dabur Pharma got de-merged.

#Bonus issue of 1:1 was issued during the year

^ Bonus Issue of 1:2 was issued during the year

Dabur

a trusted name in natural healthcare for over 100 years, is known for providing a range of efficacious and time-tested healthcare products based on the principles of Ayurveda.

Vatika

a premium brand and a leader in its category, is one of the flagship brands and a popular name in the natural personal care space.

Hajmola

a tasty fun-filled digestive available in various forms - from tablets, traditional Churnas to modern formats like centre-filled candy - appealing to all age groups.



country's leading brand of packaged fruit juices, provides the largest range of refreshing and healthy fruit juices that are 100 percent natural and free of preservatives.

Anmol

a relative new member in the family of Dabur's key brands, provides a range of herbal and natural products across various FMCG categories with a focus on providing quality and affordability.

BOARD OF DIRECTORS

Mr V C Burman

Dr Anand Burman

Mr Pradip Burman

Mr Amit Burman

Mr P D Narang

Mr Sunil Duggal

His Highness Maharaja Gaj Singh

Mr R C Bhargava

Mr P N Vijay

Dr S Narayan

Chairman

Vice Chairman

Director

Director

Director

Director

Director

Director

Director

Director

GM (Finance) & Company Secretary

Mr Ashok Jain

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Auditors

M/s G. Basu & Co.

Chartered Accountants

Internal Auditors

Price Waterhouse Coopers Pvt. Ltd.

Bankers

Punjab National Bank

Standard Chartered Bank

HSBC Ltd.

State Bank of India

ABN Amro Bank NV

Citibank NA

United Bank of India

HDFC Bank Ltd.

IDBI Bank Ltd.

Corporate Office

Dabur India Limited,

Dabur Tower,

Kaushambi, Sahibabad,

Ghaziabad - 201 010

(U.P.), India

Tel: 0120 – 3982000, 3001000

Fax: 0120 – 4374935

Website: www.dabur.com

Email: investors@dabur.com

Registered Office

8/3, Asaf Ali Road,

New Delhi-110002

Tel: 011-23253488

Chairman's Message

Dear Shareholders,

Although the final estimates have not come in as yet, all indicators suggest that India will have achieved a real GDP growth of 9.2 per cent for 2006-07. Coming as it does, after a growth of 9 per cent in the previous year, we are now seeing a compounded annual growth rate in excess of 8 per cent over the last four years — and 8.6 per cent over the last three. Investor interest in India is at an all time high. Our foreign exchange reserves have crossed US\$ 200 billion and rising with every month. Indian companies are creating significant global footprints. Demand is buoyant throughout the economy. And except odd temporary hiccups — like the current bout of inflation which I am sure will soon subside — India is now clearly positioned on a higher growth path.

Consistent growth over the last four years has led to higher disposable incomes throughout India and, with it, greater consumer spends. Even three years ago, when India had just about begun its journey to higher growth, the FMCG industry was having a difficult time. In most segments of the business, market growth was in mediocre single digits; in some it was flat; and there were bruising price wars and discounts being offered by all in order to retain market share. Things have changed significantly since then.

Once again, the FMCG industry is seeing healthy double digit growth across most of its key segments. Despite even more intense national and local competition, prices have begun to firm up. And it is now clear that households — in urban, semi urban and rural India — are spending more on a gamut of FMCG products.

Is this just a cyclical blip? Or could it signify a fundamental change in consumption patterns? Let me briefly try to address this issue.

The largest and most comprehensive household consumption survey for India as a whole is conducted by the National Sample Survey (NSS), which is a part of the Government of India's Central Statistical Organisation (CSO). Every five years, the NSS conducts a very large nation-wide survey on household consumption expenditure. Data for the latest survey (61st. round, 2004-05) has just been released. It is useful to compare the results of this survey with the one undertaken in 1993-94 (50th. round).

- In 1993-94, the average household expenditure at the all-India level (consisting of a family of five people) was Rs.19,840 per year. In 2004-05, this had risen by 110 per cent to Rs.41,600 per year, or in excess of Rs.3,500 per month. Since inflation over this entire period was less than 70 per cent, it is clear that real household expenditure has increased by more than 40 per cent between 1993-94 and 2004-05.
- These numbers are averages. For the top 10 per cent of India's households — and there are some 22 million such units in the country — the increases in disposable income and expenditure have been much greater.
- Such significant growth in average household expenditure has been accompanied by a major, and lasting, shift in the patterns of spending. Even on an average, there has been a marked drop in the share of the family budget spend on food, and an equally remarkable increase in the share of non-foods.

In 1993, at an all-India level, 63 per cent of household expenditure comprised foods, and 37 per cent was non-foods. In 2004-05, over a 110 per cent growth in the expenditure base, the share of foods has fallen to 51 per cent, while that of non-foods has grown to 49 per cent.

Thus, more people are spending greater amounts of their increased income on non-food items.

This pattern will continue, indeed intensify, over the years. All over the world, as households get better off, they spend relatively less on food and more on other items of consumption. India is proving that it is no exception to this global rule.

What does this mean for the FMCG business in general and your Company in particular?

To my mind, this paradigm shift in both consumer incomes and spending patterns implies huge business opportunities for your Company. For 2006-07 itself, Dabur has witnessed excellent growth in both revenues and profits. Here are some of the numbers on a consolidated basis:

Consolidated for the Dabur Group

- Sales grew by 17.6 per cent to Rs.2,234 crore in 2006-07.
- EBITDA grew by 23.5 per cent to Rs.376 crore.

- PAT after minority interests increased by 32 per cent to Rs.283 crore.

Your Company's consistent and steady performance point to the fact that our strategies are in the right direction.

Going forward, I am quite confident that strong growth in the business can be maintained. To be sure, there may be the odd bad years because of poor monsoons and reduced agricultural income. But even these will be less disastrous to the FMCG sector and your Company than earlier, thanks to rapid growth in urban and rural non-farm incomes.

Equally, it is important to realise that these shifts in consumer expenditure and aspirations will create new challenges and opportunities, which your Company will need to surmount and leverage in order to optimise its growth opportunities.

First, we will have to continuously leverage our excellence in Ayurveda and natural products built over the last 100 years to offer a wider and more innovative range of products and services across all price points throughout urban as well as rural India. My vision of Dabur is of a Company that has offerings of first choice for every Indian household, irrespective of where it is located in the rural-urban income spectrum. Therefore, we will have to constantly innovate in terms of new product development, packaging and connecting with the consumers. Simply put, Dabur must continue to be a household name irrespective of whether the family resides in a town or a village, or whether it is rich, middle-class or lower down in the income strata.

Second, without compromising an iota on quality, we must be able to procure and produce so well as to make us the most efficient and lowest cost producer in the market. Supply chain optimisation, production efficiencies and scale will protect your Company's margins in the odd lean years; and shore them up in times of plenty.

Third, we must build on our channels and distribution systems to create the most efficient distribution network in the country – one that not only unerringly delivers those Dabur products that consumers need irrespective of where they are, but does so at a unit cost lower than its competitors.

Fourth, we will need to accelerate our presence in the rest of the world. Your Company's international business has done well – growing by almost 29 per cent to Rs.292 crore in 2006-07. We must continue to grow fast so that, over time, major

geographies throughout the world become important markets for your Company's products.

Fifth, in addition to all our products, Dabur must now move on to the retail and the service space. I am happy to inform you that your Company has taken its first steps in that direction by announcing a plan to set up a chain of Health & Beauty retail outlets through a wholly owned subsidiary of Dabur India Limited. An investment of Rs.140 crore has been approved by your Board of Directors to be made over the next three years. The stores will cater to the requirement of health and beauty products for the entire family and would be modelled along the lines of some of the international players in this segment. The company plans to set up 350 stores in a period of 5 years. I am looking forward to your Company's management making this venture a major success.

Finally, continued strong growth of Dabur depends upon the quality, motivation, integrity and value systems of its people. I am convinced that in the years to come, the difference between a company that is a winner and one which also ran will be in the quality of its employees – right from the shop floor to senior management. Today, all Indian companies are facing major shortages in key talent. Offering higher compensation is only part of the answer. Your Company will have to create HR policies, structures and practices that enable and empower all employees, and make Dabur an employer of choice. I am sure that the management will deliver this objective as well.

It has been a good year and there are many more to come. We need to further harness our energies, align our priorities and re-dedicate ourselves to achieving even higher goals. With your continued support, dear Shareholders, I am sure you will see your Company scaling newer heights.

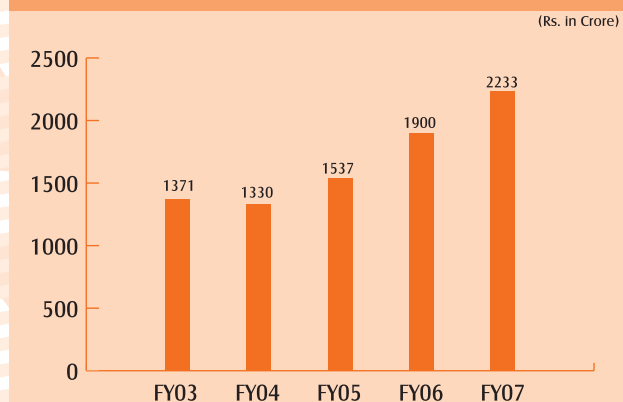
Yours sincerely,



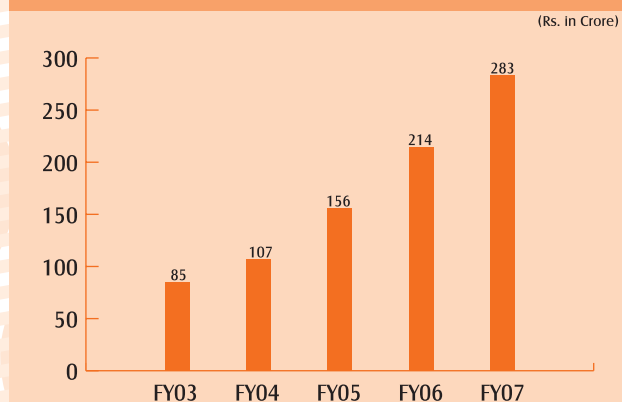
V.C. Burman
Chairman

Performance At A Glance

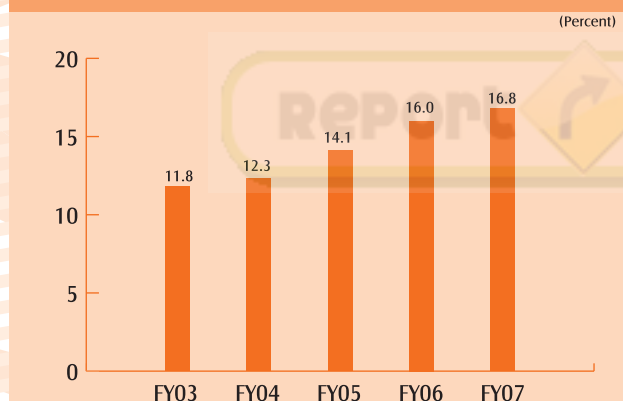
Sales



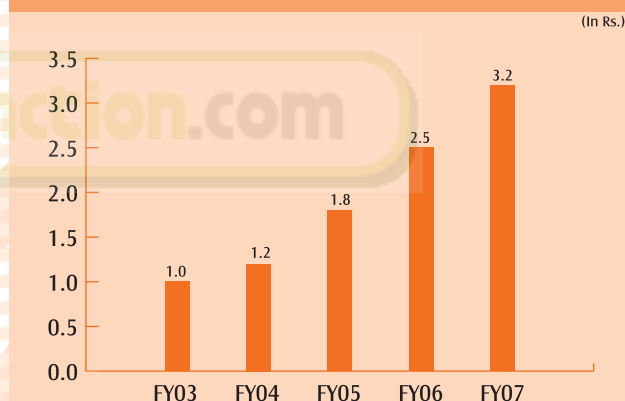
Profit After Tax



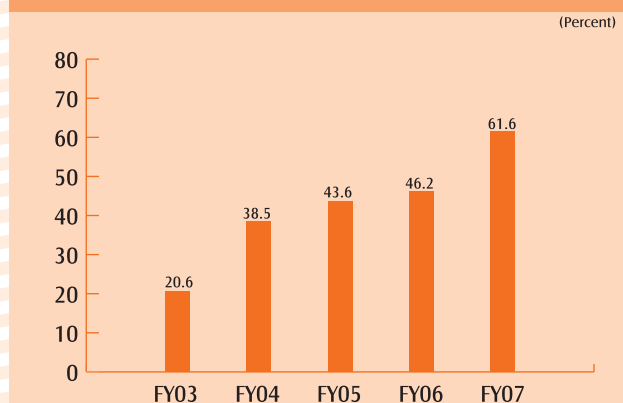
EBIDTA Margins



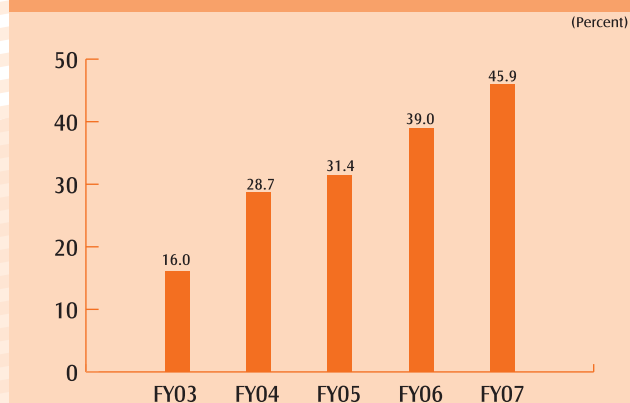
Earnings Per Share



Return on Net Worth



Return on Capital Employed



Management Discussion and Analysis

With the Central Statistical Organisation (CSO) predicting 9.2 per cent real GDP growth in 2007-08, coming after 9 per cent growth in 2005-06, India will now register a four year compounded annual growth of over 8 per cent. Early doubts about the sustainability of a higher growth trajectory have subsided. Even the most hard-nosed economists accept that Indian can sustain an 8 per cent growth path for fairly long – and scale up to closer to 9 per cent with adequate investments in physical infrastructure. The tide has definitely turned.

The economic transformation of India in the last decade and a half has created profound changes to the profiles and expenditure patterns of Indian consumers.

First, there has been a steady increase in the average annual nominal and real consumption expenditure – and this is true in both urban and rural India.—Chart A shows this very clearly. According to the National Sample Survey (NSS), average nominal household consumption in India as a whole increased by 110 per cent, from Rs.19,840 in 1993-94 to Rs.41,600 in 2004-05. Since the decadal inflation is way below this growth, it follows that real (inflation adjusted) consumption has increased substantially over the period. People are clearly earning and spending more; and that the greatest growth and shift in spending patterns are occurring in the second and third tier cities as well as in rural India.

Chart A: Growth in household consumption (nominal)

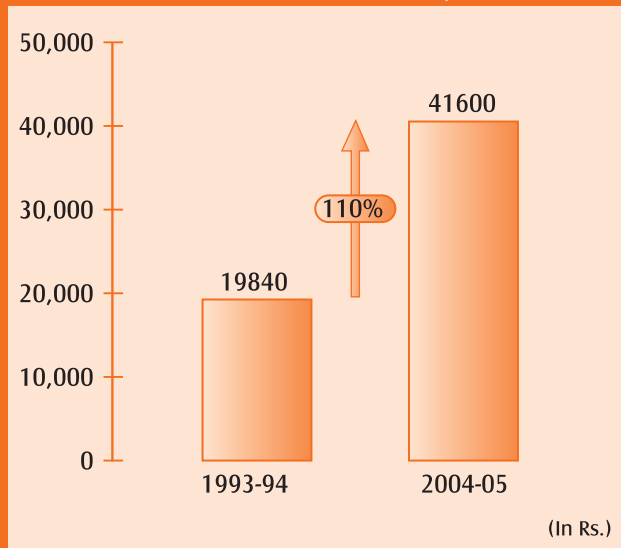
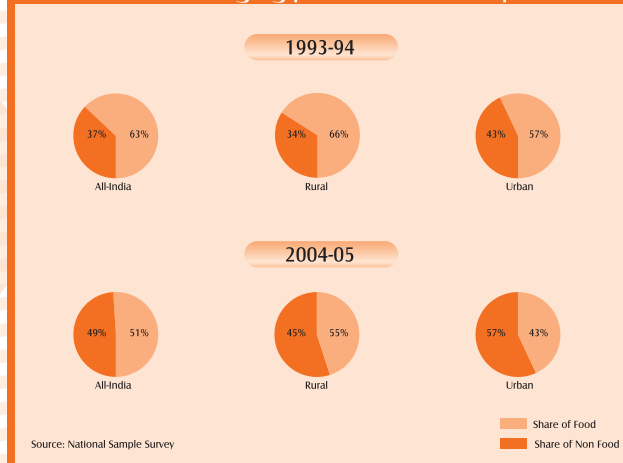


Chart B: Changing pattern of consumption



Second, rising incomes have changed the aspiration levels of the Indian consumer. In consumer economics, there is something called the Engel Curve which plots the consumption of key items against income levels. The common story of all nations is that as disposable incomes increase, the share of expenditure on basic necessities falls, while that on others rises. This is now evident in the case of India. The share of expenditure on food items has been steadily decreasing over the years (and within it, there has been a sharp decrease in cereals and pulses, accompanied by a substitution in favour of milk, meat, eggs, fish, fruit and vegetables and processed food). Concomitantly, there has been a steady rise in the share of non-food items in the consumer basket. Chart B shows this very clearly.

As Chart B shows, at the all-India level, the share of non-food expenditure in the consumption basket of the average household has increased from 37 per cent in 1993-94 to 49 per cent in 2004-05. If one were to superimpose this on the 110 per cent growth in aggregate household consumption over the period, one would immediately realise that there has been a huge increase in the absolute levels of non-food spends between 1993-94 and 2004-05.

This change is pervasive throughout the country. For urban India, the household share of non-food expenditure has increased from 43 per cent in 1993-94 to 57 per cent in 2004-05. Today, therefore, 38 per cent of India's households that