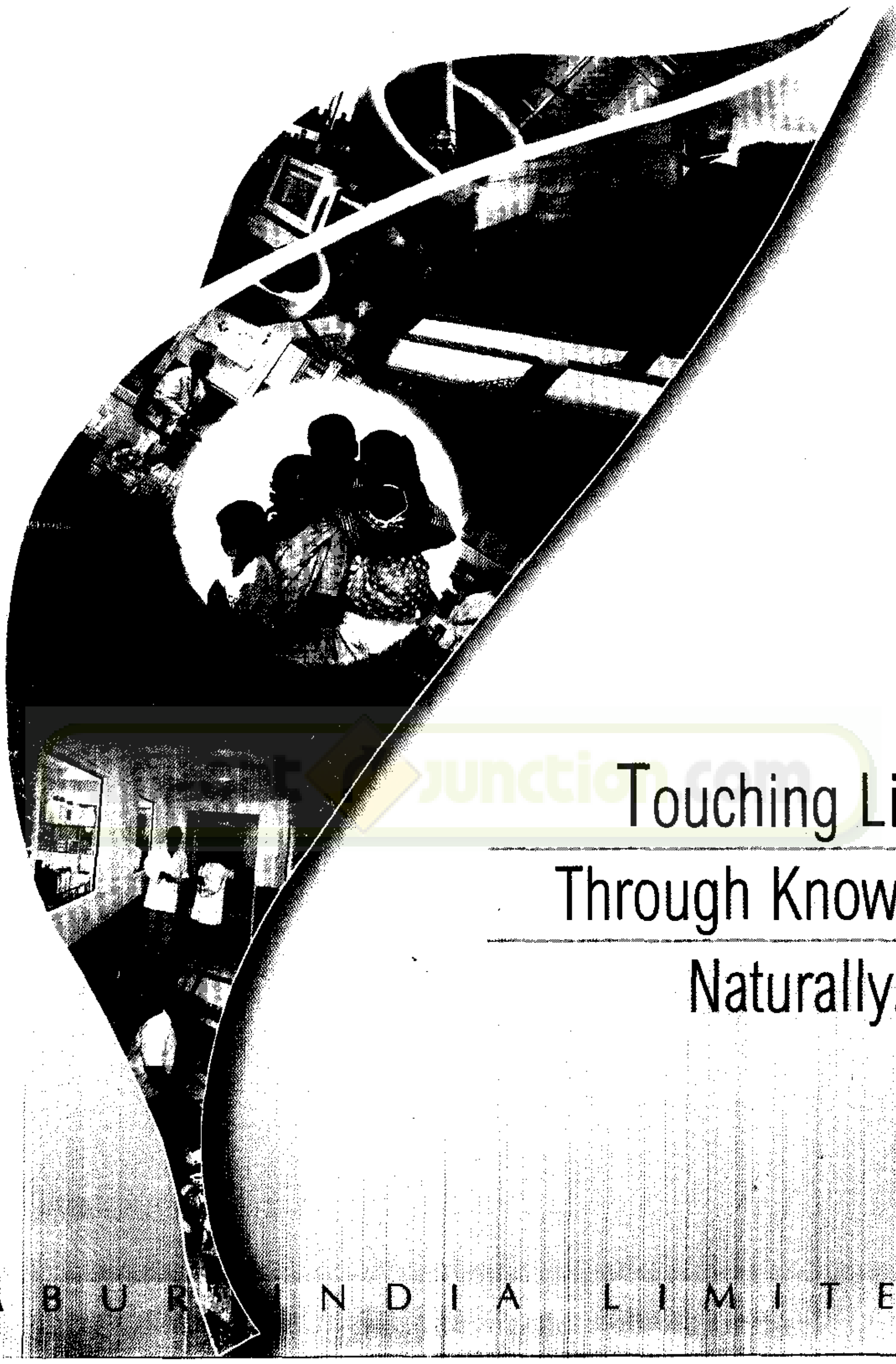
Dabur

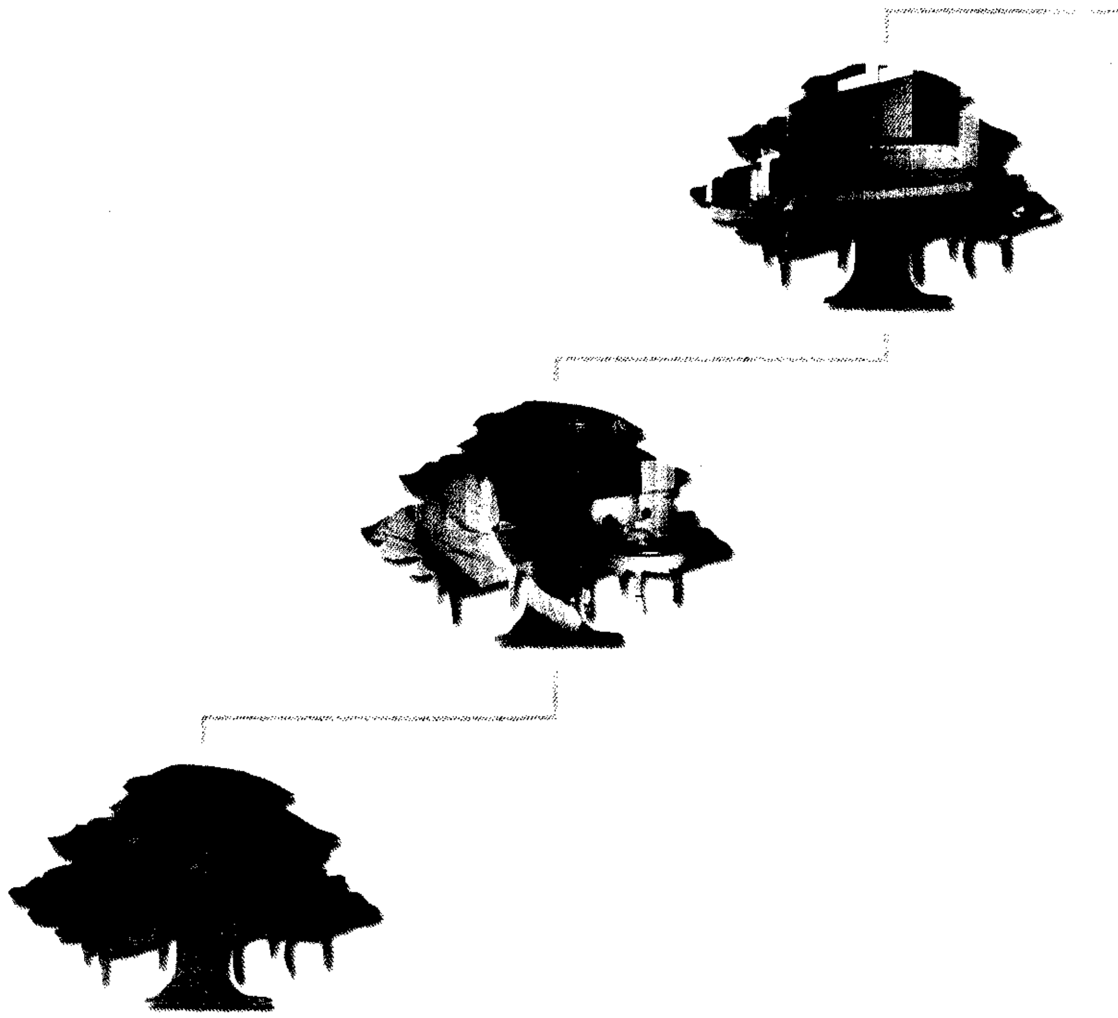
2001-002

# annual REPORT



Touching Lives
Through Knowledge,
Naturally.

DABUR INDIA LIMITED



Our purpose at Dabur is to promote the health and well being of every household. We believe in touching people's lives and making them better through products which have something extra. Extra from the bounty of nature, naturally from Dabur.

With over hundred years of knowledge of Ayurveda and herbal products behind us, we are continually building upon this knowledge through continuous research and validation. Constant improvement and innovation are a passion at Dabur.

At the same time we are also imbibing the highest standards of quality, performance, and productivity along with the best corporate governance practices in the company.



We believe these are the keystones to deliver the best value to our consumers, customers and stakeholders.

## Board of Directors

| | |
|---|---|
| Mr. V.C.Burman | Chairman |
| Dr. Anand C Burman | Vice Chairman |
| Mr. Pradip Burman | Director |
| Mr. Amit Burman | Director |
| Mr. P.D. Narang | Director |
| Mr. Sunil Duggal | Director |
| Mr. Uday S. Kotak | Director |
| His Highness Maharaja Gaj Singh | Director |
| Mr. Ajay Bahl | Director |
| Mr. P N Vijay | Director |

*Company Secretary*
Mr. Ashok Jain

*Auditors*
M/s G Basu & Co.
Chartered Accountants

*Internal Auditors*
Price Waterhouse

*Bankers:*
Punjab National Bank
Standard Chartered
GrindlaysBank Ltd.
American Express Bank Ltd.
HSBC Ltd.
State Bank of India
Deutsche Bank AG
ABN Amro Bank NV
Citibank NA
United Bank of India

*Corporate office :*
Dabur India Limited
Kaushambi, Sahibabad-201 010

*Registered Office :*
Dabur India Limited
8/3, Asaf Ali Raod, New Delhi - 110 002

Dabur

Dear Shareholders,

2001-02 was a tough year for the Indian economy, particularly for the fast moving consumer goods (FMCG) sector. The general economic slowdown depressed consumer demand and dampened consumer confidence. The FMCG sector experienced its worst year since the mid-1990s and many segments in this sector recorded a negative growth in value terms.

**The Company's Performance**

Although adverse market conditions have impacted the performance of your Company, we have still been able to protect its top line. The market shares of our leading brands have largely remained stable, on account of strengthened marketing inputs and focused marketing initiatives.

The Company was able to improve its gross margins (net sales less cost of materials and variable costs) from 40.4 per cent in 2000-01 to 41.8 percent in 2001-02. However, increased R&D costs on clinical trials for new drugs under development, and higher advertising and promotional expenses have adversely impacted the operating margin and the net profit of the Company.

Considering the state of the economy, your Company has done reasonably well. We are confident that our performance will improve when the economy recovers.

However, we are not waiting for an economic revival to improve our performance. The test of a company that is built to last lies in its ability to produce superior results in challenging times. With early signs of revival in 2002-03 already visible, we have actioned several new initiatives that will provide strong growth impetus for the company to grow profitably and generate higher returns.

**Growth Drivers**

In 2002-03, your Company will continue to strengthen its core businesses aggressively by leveraging its brand equity, distribution network and research capabilities. Many opportunities exist in the business segments that your Company is present in. Our FMCG business will focus on growth through consolidation and expansion in these market segments. The growth drivers will be the core brands which will be leveraged suitably to capture related opportunities. Here we have ensured that appropriate levels of advertising and promotional spends will support this growth thrust.

The pharmaceutical business will concentrate on aligning strategies, enhancing operational efficiencies, and maximizing penetration into the global marketplace. With infrastructure already in place, the pharmaceutical business will be looking at global opportunities in identified therapeutic areas, particularly oncology.

**Investments**

Your Company has been making substantial investments in brand building & process re-engineering over the years. These efforts will continue in the future & your company will continue to invest behind its brands, people and processes.



In the Pharmaceuticals business, your Company has been investing in R&D as well as in creating world class manufacturing facilities. The plant for oncology formulations in UK has been set up with an investment of about Rs.76 Crore and is a MCA, UK certified facility that has now become operational. It will help in creating a global presence for this business. In future, the focus of the pharmaceutical business will be on maximizing the returns on investments already made in the business.

**Operational and Process Efficiencies**

The Company has concentrated on operational efficiencies and process re-engineering to create a more efficient organization that is ready to take on the challenges of the future.

Several initiatives were implemented that will result in greater efficiencies in manufacturing, sales and distribution, purchase and information technology (IT). These measures will enable your Company to optimize costs and improve profitability. The benefits of this investment will accrue over the coming 2-3 years.

**IT Integration**

Technology is key to efficient management of logistics and real time MIS that contributes to objective decision making. Your Company has implemented Mfg Pro ERP for front-end operations and Baan ERP for the back-end. Currently integration of both the ERPs is being completed and we are working towards end-to-end networking of operations. This will enable the Company to manage the supply chain and working capital more efficiently in future.

**Research and Development**

Research and development (R&D) is playing a pivotal role in creating a good pipeline of products, clinical testing and validation. Your Company intensified its R&D efforts during the year with emphasis on building capabilities on the clinical trials front.

The New Drug Discovery efforts made good progress during the year. I am proud to inform you that a New Drug Delivery System (NDDS) for a leading anti cancer drug completed pre-clinical trials and is ready to enter Phase I clinical trials. With this, your Company will have two new drugs in the clinical trials stage.

R&D will also continue to focus on the exciting area of `Phytocare'. As part of this initiative, herbal medicines are being developed as a safer and side-effect free alternative to conventional medicines. R&D has generated vital leads in this direction, and some of these will be commercialized in the near future.

I am optimistic that the initiatives highlighted above will contribute significantly to both top-line as well as bottom-line growth of your company. Inspite of early signs of a revival in the FMCG sector in 2002-03, we are being prudent and not basing our business plans on a significant recovery. In addition to operational performance, I would like to share with you important developments viz. corporate governance and leadership.

**Progress on Corporate Governance**

We are committed to building shareholder value and adopting the highest standards of corporate governance.

In keeping with this objective, we have adopted the best corporate governance practices in terms of constitution and functioning of the Board, internal audit processes, disclosures to shareholders and professionalisation at all levels of the organization.

During 2001-02, more initiatives were taken in this direction. The Company re-constituted its Board of Directors on 1st April 2002 and the size of the Board was reduced from 16 to 10 directors. The representation of Promoter Directors on the Board was brought down from 6 to 4. The Chairman's role shall now be non-executive and focus on providing vision to the Company.

These steps have been taken with the objective of enabling independent and professional directors to play a significant role in strategic decision-making and they represent the company's commitment to drawing a distinction between ownership and management. The Company is now governed by the CEO, Management Committee and the Board of Directors. We hope to create a corporate governance benchmark that will be recognized by Indian industry.

**Leadership**

The Board of Directors has appointed Mr. Sunil Duggal as the CEO of your Company from July 1, 2002. Mr. Duggal has been with the Company since 1995 and has made significant contribution to the growth and progress of the Company. His elevation to this post re-affirms the commitment to professionalise your Company across all levels. I am confident that Dabur's competent and committed human resources, strong management team and its shared vision and drive will continue to create value for the Company and its stakeholders.

As we look towards the future with hope and optimism, our thoughts go to our late Vice Chairman and Managing Director, Mr. G. C. Burman, who left for his heavenly abode in September 2002. Gyan was one of the key architects of the modern Dabur and contributed significantly to growth and evolution of the Company during the last two decades. He will always be a source of inspiration for us and our best tribute to him will be to create a world-class company that maximizes returns to shareholders.

I take this opportunity to thank all our shareholders, employees, distributors, suppliers and customers, for their continued cooperation and support. Dabur reaffirms its commitment to be fully "Dedicated to the Health and Well Being of every household".

Thank you.

11th June, 2002

V.C. Burman

## Industry Scenario

During the year 2001-02, the performance of Fast Moving Consumer Goods (FMCG) industry was under pressure owing to sluggish demand, unfavourable macro economic indicators and intense competition. Some of the factors which affected sales in the sector were :

- low growth in agriculture and industrial sectors which affected growth in disposable incomes
- less capital investment in the economy leading to low employment growth
- High penetration of necessity products and upper income categories
- Increasing proportion of household expenditure on healthcare, education, transportation, communication and durables as compared to FMCG products
- Intense domestic competition from national as well as regional players
- Increased competition from imported products in high value FMCG and food segments

The sector saw increasing incidence of consumer promotions and freebies across almost all products. One of the key characteristics associated with a slowdown is downtrading by consumers to cheaper and low value brands. This was witnessed in some of the necessity product categories. On account of this, pricing power of companies in the FMCG sector remained poor and afforded low opportunity to increase prices.

## Opportunities and Threats



The industry will continue to be characterized by intense competition and we do not anticipate a significant revival in the economy. Even so, Dabur has strong potential to retain its edge and outperform the market owing to its focus on innovation and launching herbal value added products which deliver high quality and value for money. The Company perceives good opportunities in value added personal care segments and expanding the health care franchise.

## Financial & Operational Performance

Table I summarises the financial performance of Dabur India Limited during 2001-02 as compared with 2000-01

Rs. in Crore

| | Financial Year -2001-02 | | Financial Year-2000-01 | |
|---|---|---|---|---|
| | Amount | % of sales | Amount | % of sales |
| *Sales* | 1163.19 | | 1166.47 | |
| Other Income | 13.87 | | 18.87 | |
| Material Cost | 515.61 | 44.3% | 538.47 | 46.16% |
| Excise Duty | 60.61 | 5.2% | 59.36 | 5.09% |
| Manufacturing expenses | 26.94 | 2.3% | 29.06 | 2.5% |
| Selling and Administration costs | 364.57 | 31.3% | 339.73 | 29.1% |
| Employee cost | 84.49 | 7.3% | 77.69 | 6.7% |
| Financial expenses | 23.95 | 2.1% | 29.66 | 2.5% |
| Depreciation & Misc Expenditure written off | 25.38 | 2.2% | 26.20 | 2.2% |
| Profit Before Tax | 75.51 | 6.5% | 85.17 | 7.3% |
| *Provision For Tax - Current* | 5.51 | 0.5% | 7.25 | 0.6% |
| - Deferred | 5.56 | 0.5% | | |
| Profit After Tax | 64.44 | 5.5% | 77.92 | 6.7% |

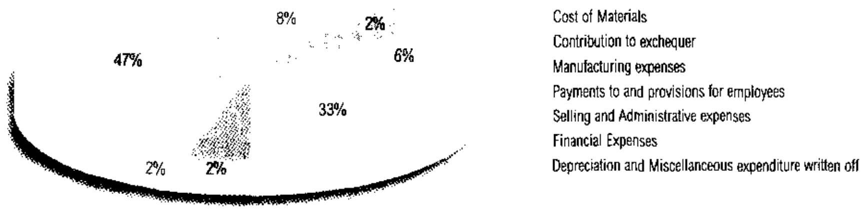
**On like to like basis, growth in sales over last year was 1.9% and growth in net profit was 1.1%**

During the year Dabur India Limited recorded a turnover of Rs. 1163.19 crore which was 0.3 % lower than previous year's sales of Rs. 1166.47 crore. The year was marked by depressed markets and intense competition. Keeping in view these factors and the need for financial prudence in such times the Company adopted a pipeline correction strategy to reduce distributor pipeline. This led to low growth of primary sales. Sales for the year are also not entirely comparable with those of last year, due to discontinuation of certain businesses and restructuring of exports. On like to like basis, growth in sales was 1.9% (after excluding the discontinued sale of herbal intermediates and restructuring of FMCG exports in Middle East through franchisee route).

The Profit After Tax of the Company declined by 17.3% from Rs.77.92 crore in 2000-01 to Rs.64.44 crore in 2001-02. This fall was primarily due to the deferred tax provision of Rs.5.56 Crore and increased R&D expenses of Rs.5.75 Crore incurred on clinical trials of DRF 7295, the new anti cancer drug under development. Excluding the deferred tax provision and expenses incurred on clinical trials, and taking into account the sale of brands of Rs. 3 crore recorded during last year, the Company's net profit for the year stands at Rs.75.75 Crore which is 1.1 % higher than last year's net profit.

**Expenditure Breakdown**

Total Expenditure (2001-02) Rs. 1101.55 Cr.




The advertising and promotional expenditure increased from Rs. 146.1 Crore (12.52% of sales) in 2000-01 to Rs. 154.5 Crore (13.28% of sales) in 2001-02

The net working capital (excluding cash) has gone up to 75 days of sales as compared to 66 days in the previous year primarily due to lower amount of provision for dividend at the end of financial year. Sundry debtors went down by 12.8% while inventories increased by 13.8%. Current liabilities increased by 14% with the increase in credit period from suppliers. Provisions were lower by 61% as there was no outstanding dividend liability as on 31st March 2002 as compared to Rs. 31.42 crore which was outstanding last year.

The Company has presented consolidated financial statements for the first time in this annual report. The consolidated sales of Dabur India Ltd and its subsidiaries was Rs. 1280.96 Crore and the consolidated Profit After Tax was Rs. 66.20 Crore (after excluding minority interest).

Additional investments of Rs. 50.6 Crore in Dabur Oncology Plc, UK were made during the year. In spite of the additional investments in the pharma business, debt level of the Company went up only by Rs. 17.47 Crore to Rs. 213.56 Crore resulting in debt equity ratio of 0.54:1.

During the year several initiatives were taken for process improvements and efficiency enhancement in all areas of business which are expected to yield results over the coming years. Significant among these are :



## Sales & Distribution

Dabur has one of the largest distribution networks in the country. The Company has been steadily increasing its penetration and reach in all parts of the country. In order to intensify this effort and achieve higher level of efficiency in sales and distribution, the Company appointed Accenture to advise and assist the Company in this direction. The following recommendations of Accenture are under implementation :

- Increased brand wise reach in towns where the company previously did not have a presence.
- Increasing direct coverage in present coverage towns
- Integration of distribution network for Family Products Division and Health Care Products