

JHS SVENDGAARD LABORATORIES LIMITED

16th ANNUAL REPORT 2019-20



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JHS Svendgaard Laboratories Limited

- India's largest integrated manufacturer of oral care products.
- Partner to leading Indian and global FMCG brands.
- A leading kid's oral care brand in the Delhi and NCR region.

Established in 1997, the Company is India's leading private label manufacturer of oral care products. The Company's product basket includes a complete range of oral care products that are manufactured at its two ISO-certified, state-of-the-art manufacturing facilities at Kala-Amb (Himachal Pradesh), India.

The Company also manufactures and sell oral care products under its proprietary brand '**aquawhite**' and specializes into Kids oral care products.

The Company is headquartered in New Delhi, India. Its business operations are managed by an experienced team of enthusiastic professionals.

Vision

- To be among the most preferred contract manufacturer in the Oral Care Category by leveraging on our manufacturing capability enabling us to offer unique products that disrupt category trends.
- Aim to make '**aquawhite**' a Brand of Choice for Kids and be the most preferred contract manufacturer for national and global brands.
- To inculcate the importance of oral hygiene across the country, with a strong focus on children.

Mission

- Constantly driving innovations in our products
- Committed to customer delight by combining affordable pricing with best quality
- Increasing awareness for oral hygiene through products, services and media campaigns

Shareholder information

BSE Code: 532771

NSE Code: JHS

Face value per share: Rs.10

Book value per share: Rs.29.80

181.50	144.71	44.17	338	45.97
Networth (Rs crore)	Revenue, 2019-20 (Rs crore)	Promoters holding (%)	Team size	Market capitalisation (Rs crore)

Financial progress

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Total revenue (Rs. crore)	56.18	100.82	105.49	145.68	125.44	144.71
EBIDTA (Rs. crore)	(2.98)	7.17	12.15	21.38	13.20	21.22
Net Profit (Rs. crore)	(22.14)	(21.63)	22.00	28.07	3.66	1.77
Net worth (Rs. crore)	101.84	95.10	134.80	176.64	179.99	181.50

Our edge in our business space

Strategic advantage

- Over 23 years a wealth of experience and expertise in manufacturing toothbrushes, toothpaste and mouthwash, complete range of oral care products.
- State-of-the-art manufacturing facilities at Kala Amb (Himachal Pradesh) with an additional land bank and built up unit to turn around any new initiatives / projects immediately.
- Fully integrated oral care unit to manufacture toothpaste and toothbrushes in the same premises, reconciling completely different manufacturing competencies - mechanical and chemical under one roof.

Customer advantage

- Closely working with reputed FMCG brands domestically and globally.
- Majority of the outsourcing relationships with customers are long-term contracts providing adequate revenue visibility.
- Business with existing clients has been growing with new SKUs being added to the outsourcing basket with the Company.

Financial advantage

- The company is debt free and reliance on external funding has declined substantially except for vehicle loans.

Outline for 2020-21

Private label

- Add smaller clients in the oral care space who have the potential to grow meaningfully in the near-term
- Increase business volumes with existing customers
- Establish a strong presence in the international private label space; add 2-3 international players to the private label client list

Proprietary brand

Adult segment

- Strengthen brand awareness and availability in North India
- Kickstart the Company's presence in the South and West Indian markets through distribution tie-ups
- Branding and advertisement done for the kids segment will have a positive impact on the adult segment too – this would improve sales volumes

Kids segment

- Widen the presence to the North Indian states of Uttar Pradesh, Punjab, Haryana, and Rajasthan – create a strong distribution presence comprising Modern and General trade channels
- Strengthen brand awareness and presence in the Delhi-NCR region by strengthening the entrenching the distribution channel deeper.

Exports

Not an area of focus but will continue to capitalise on interesting business opportunities from time to time.

DEAR SHAREHOLDERS,



I am pleased to share with you an update on your Company's performance for FY 2019-20. The year saw a challenging business environment with lower GDP growth and slowdown in consumption. This resulted into a weakening consumer sentiment and lower demand for the categories in which we operate. Against this backdrop, your Company has delivered competitive, profitable* and responsible growth.

The financial year 2019-20 can also be marked as the recovery year for the value and business shrunk in the FY 2018-19 due to supply chain issues with one of the key clients of the company. In this year, your company has achieved revenue of Rs.144.70 Cr. with an improvised EBIDTA margin of 14.61% [Rs.21.14 Cr.].

THE CURRENT YEAR

Fiscal 2020-21 starts with set-back due to the coronavirus and initially it appears not very encouraging for India as a whole. Print and electronic media has been highlighting numerous indicators which suggest that globally the economies are at the threshold of an economic slowdown including India. However, we believe that this is rather an opportunity for the Indian economy and shall give a boost to the Make in India initiative that has been emphasized upon by the Govt. of India. The Government cognizant of this reality has also been focusing on **"Aatmanirbhar Bharat"** (self-reliant India) and promoting "Vocal for Local". The Govt. is running various campaigns striving hard to kick start economic resurgence through favorable policies by infusing liquidity into the economy. And when the rebound happens, as already signaled during the first quarter, the FMCG sector will be the first on the uptick. From the Company's perspective, we are optimistic of our performance in the current year owing to healthy volumes from existing and new clients.

Your company has been taking various steps in the last couple of years to be able to leap ahead and these efforts are beginning to show some results. While we, the entire management team, are very happy about the past year, we are even more excited about the future to deal with and overcome the challenges that marks the beginning of fiscal 2020-21 due to the set back of novel coronavirus.

We are confident that we should be able to soon add some of the larger FMCG players in the country as our private label clients and break some more records in the next couple of years. This growth comes with the addition of new clients, new capacities, and new product categories.

JHS Svendgaard Laboratories Limited today is one of the largest oral care contract manufacturers in India. Our mission of being able to provide manufacturing and other solutions for the FMCG industry is beginning to find traction with our customers. We are being repeatedly trusted by our existing customers while we continue to develop new customers and new product categories. We want our customers to concentrate on brand building and marketing activities while we manufacture the product and in some cases, even develop the product.

Some of the operational highlights in the past year included the strategic realignment in its proprietary branded portfolio with renewed focus on the kids oral care category with the focused approach on the e-commerce, modern trade and institutional business while regulating the geographical expansion in the general trade and adults oral care segment. You're Board and the management team decided that we should continue to concentrate on our strengths and deliver manufacturing solutions to our customers. Your company has also once again become debt free with the repayment of the working capital facilities that were availed by the company.

*exceptional expenditure of Rs.10.64 Cr. is one time capital nature expense. For details refer note no. 35.

We have realised that your company has the chance of establishing itself as the preferred partner for the FMCG players when it comes to their manufacturing requirements. The two main themes leading to this are the GST regime and the change in the distribution landscape of the FMCG industry.

GST is becoming a game changer for the industry and leading to a decentralization of manufacturing units. This is opening up huge opportunities for the contract manufacturing industry in general, and the company in particular as your company look at setting up manufacturing facilities closest to the market.

We also strongly believe that with e-commerce and modern retail achieving critical mass, new companies with innovative products will continue to enter the market. The need for organized contract manufacturers who can assume the manufacturing responsibilities and enable the brands to focus on marketing initiatives will increase, thereby giving them the freedom to experiment and innovate products, without having to worry about hefty manufacturing setup costs.

Your company's team of nearly 338 people have not only the domain knowledge to be able to manufacture any FMCG products but also the ability to cater to any demands that the customers may place before us. Any organization is only as good or as bad as the people working there. We do not boast of the state-of-the art facilities that we have built but are proud of our team. They are the ones who truly deserve the credit for the company's growth. I am honoured to be given an opportunity to lead such an awesome bunch of people.

With India being one of the fastest growing FMCG markets in the world, we believe that the industry has tremendous growth potential and the relevance of contract manufacturers like us will only continue to rise.

ACKNOWLEDGEMENT

I would like to take this opportunity to reiterate that your Company stands united with the nation during this challenging phase of COVID-19. I would also like to convey my sincere appreciation to all our shareholders and express my gratitude to the government and its agencies, our eminent Board, our customers, employees, bankers and suppliers for believing in our vision and facilitating the management in taking the Company to newer heights each year.

Warm regards
Nikhil Nanda
Managing Director

MANAGEMENT DISCUSSION AND ANALYSIS

AN ECONOMIC OVERVIEW

GLOBAL ECONOMY

COVID-19 has triggered a global crisis like no other—a global health crisis that, in addition to an enormous human toll, is leading to the deepest global recession since the Second World War. The COVID-19 pandemic has spread with alarming speed, infecting millions and bringing economic activity to a near-standstill as countries imposed tight restrictions on movement to halt the spread of the virus. As the health and human toll grows, the economic damage is already evident and represents the largest economic shock the world has experienced in decades. While the ultimate growth outcome is still uncertain, and an even worse scenario is possible if it takes longer to bring the health crisis under control, the pandemic will result in output contractions across the vast majority of emerging market and developing economies. The baseline forecast envisions a 5.2 percent contraction in global GDP in 2020, the deepest global recession in decades, despite the extraordinary efforts of governments to counter the downturn with fiscal and monetary policy support.

Historic contraction of per capita income

The pandemic is expected to plunge most countries into recession in 2020, with per capita income contracting in the largest fraction of countries globally since 1870. Advanced economies are projected to shrink 7 percent. That weakness will spill over to the outlook for emerging market and developing economies, who are forecast to contract by 2.5 percent as they cope with their own domestic outbreaks of the virus. This would represent the weakest showing by this group of economies in at least sixty years. “The crisis highlights the need for urgent action to cushion the pandemic’s health and economic consequences, protect vulnerable populations, and set the stage for a lasting recovery.”

INDIAN ECONOMY

The annual growth forecast for India’s FMCG sector is projected to be in the range of 5-6 per cent for the calendar year 2020, as the world grapples with the Covid-19 pandemic. The earlier predicted growth was in the range of 9-10 per cent for India’s FMCG sector for the full year of 2020.

The research and insights firm, which follows the January-December period as a fiscal year, pointed to macro-economic conditions such as lower GDP growth rate predictions, rising unemployment levels especially in rural region as well as the severe impact on economic activity across sectors and supply chains, due to the Covid-19 pandemic, as key reasons for this forecast.

It also said that the intensity, severity and longevity of the lockdown would have significant implications for multiple industries, including FMCG industry, which had begun witnessing signs of revival in the first two months of the year.

While manufacturers and brands are working to get back to normalcy as quickly as possible, there are pragmatic challenges as business performances are under extreme pressure.

A trajectory of silver lining

India has so far managed to keep a relatively flatter infection curve in its battle against the pandemic. When compared to other countries, it does appear to have a better chance of pulling off with lesser collateral damage, at least for the time being. However, several factors are already playing in, or might play out, during the course of these events, and these might prove to be favourable for India to become a major trade and commerce player in the world.

An outsourcing hub

The global economic slowdown will mean that first world economies - such as the US - will be looking out for low-cost outsourcing solutions. Whether it is IT, finance or non-core items, India can rise up to the challenge. Supply basket

Globally, buyers have already shifted to India to source ceramics, home, fashion, and lifestyle goods. The drive to look for alternatives can be beneficial for India to enter multiple trade channels as a supplier of raw materials and manufactured goods.

A shift in manufacturing

Around a thousand foreign manufacturers want to relocate their production to India, a country they see as an alternative to China. Reportedly, at least 300 are already talking with the Indian government for production in a wide range of sectors, including electronics, medicine, and textiles. Impact? Infrastructural development around manufacturing facilities and a boost to employment.

Supporting the cause

This year, the government has proposals to hike import duties on more than 300 products, such as an increase of 30% in furniture import from the current 25 % price. This can provide an opportunity for local production to break out within the market, especially OMEs, SMEs, and even the ever-so-varied handicrafts of India.

Source: <https://www.worldbank.org/en/news/feature/2020/06/08/the-global-economic-outlook-during-the-covid-19-pandemic-a-changed-world>
<https://www.thehindubusinessline.com/economy/research-firm-nielsen-slashes-fmcg-growth-forecast-for-2020>

Of dependencies and actions

Much of the world has had China as its resource, assembly and manufacturing hub, especially in the case of electronics and mobile accessories. However, given the source of pandemic and actions taken over it, the world is paying a heavy price. There is no easy way to put it: the pandemic has instilled a shift in consumer psychology, and the outcome will be an altered behaviour towards the market, especially China and its products. However, before India leaps to fill this global void, it needs to cut the shackles of its dependencies.

The shutdown of supply chains, however, has called for a need to shift the market or become independent. Thankfully, the government has planned to boost local production and emerge as a global alternate supplier.

For a long time, China has been in the top of India's imports list for a variety of items. It is no denying that, given the pandemic, the supply has been hit hard. But the Indian government is already exploring alternative countries for over 1,000 items to replace China as their supplier. Undoubtedly, there are many hitches to overcome, some which will require other countries to lift themselves up from the pandemic before entering trade negotiations.

Future, however is difficult to predict, but anticipating where a single seed can be planted to bear a massive fruit-bearing tree is what we need to do. The COVID-19 pandemic will, undoubtedly, continue to keep us all on our toes until a vaccine comes out. But hope is what we have, so it is what we shall use.

IMPACT OF COVID-19 ON FMCG SECTOR & CONSUMER BEHAVIOR

It is not established that life and our approach towards it will never be the same again. Naturally, such a change impacts some businesses adversely while giving an impetus to others.

In the immediate to medium term, lot of changes in consumer behaviour are expected, due to which FMCG companies will be forced to adapt their strategy for customer acquisition and retention. The composition of the consumption basket has changed due to COVID and some of these changes will be more permanent than others. An increased focus on health and hygiene will become the norm. Demand in the discretionary categories is likely to come back slowly but not immediately.

For the average consumer, we are seeing a surge in demand for products that enhance personal hygiene in and around homes and workplaces. Products such as soaps, handwashes, sanitisers, mouthwashes, disinfectants, wipes, toothpaste, masks, home cleaning products such as floor cleaners, kitchen cleaners, toilet cleaners are seeing a surge in demand and this trend is expected to continue into the future as cleanliness and hygiene are going to be the new mantras. FMCG companies servicing these requirements are likely to do well. Similarly, companies which focus on food staples,

and convenience foods such as instant noodles, biscuits, frozen foods, flour, cooking oils, instant mixes, and nutrition are going to be in demand. Products that help in building immunity against illnesses are also in significant demand from the consumers. It will also be imperative to manage inventory better to avoid concerns surrounding freshness and expiry of products.

THE ORAL HEALTHCARE SPECTRUM

The oral care/ hygiene market is projected to reach USD 53.3 billion by 2025 from USD 45.8 billion in 2020, at a CAGR of 3.1%. The increase in the prevalence of dental caries, periodontal diseases, and other dental diseases, growing awareness about oral hygiene, rising dental healthcare expenditure, an increasing number of small/ private clinics with dental dispensaries are some of the factors contributing to the growth of this market. However, the competitive pricing pressure faced by prominent players is hampering the growth of the oral care/oral hygiene market.

Covid-19 Impact on the Oral Care/Oral Hygiene Market

The oral care/oral hygiene market is not expected to be significantly impacted by the Covid-19 pandemic in 2020-2021. However, there could be possible disruptions in the distribution channel during the period of lockdown and movement restrictions imposed globally to control the virus spread and flatten the curve. Social distancing protocols and quarantine measures have led to a shift in consumer purchasing patterns from in-store to online, which would be reflected in oral care/oral hygiene product sales as well. Major players in the market have continued their production activities during this period.

Driver: Growing awareness of the importance of maintaining oral hygiene

Oral hygiene awareness is one of the major contributors to market growth in the overall oral care/oral hygiene market through efforts made by dentists as well as key players in the market. These stakeholders conduct various seminars and programs to increase awareness of dental hygiene and demonstrate newly launched and technologically advanced products. This helps players to showcase their product portfolio, thereby raising the adoption of oral care products.

Restraint: Increased competition in the oral care/oral hygiene market escalating price pressure

The oral care/oral hygiene market is highly competitive, with a growing number of players operating at the regional level. The emergence of local players in developing markets such as India, China, and Brazil further increases the pricing pressure on global players. Local/regional players offer oral care products at discounted prices as compared to the global players and sell their products through e-commerce channels at low prices, creating pricing pressure on global players.

Opportunity: Increasing online purchase of Oral Care Products

There has been a marked shift in the retailing of oral care products across the globe in recent years. Online retailers are gradually being preferred over traditional distributors, retailers, and pharmacies. Purchasing oral care products through e-commerce portals offers several advantages, such as the availability of multi-brand oral care products at relatively lower prices, ease of purchasing, and free shipping. The successful sale of oral care products through e-commerce has prompted increasing investment towards these channels by major market players.

Challenge: High Dependency on Retail/Consumer Stores

Prominent players in the oral care/oral hygiene market are highly dependent on retail stores as they are the immediate customers for manufacturers. Large stores/supermarkets such as Wal-Mart, Target, and Costco have high bargaining strength; the continued trend of consolidation among retailers could thus create a cost and margin pressure on manufacturers. Furthermore, the high bargaining power of buyers may negatively impact the business of manufacturers.

The toothbrushes segment is expected to grow at the fastest rate in the forecast period.

The oral care/oral hygiene market is broadly segmented by product categorized into toothpaste, toothbrushes & accessories, mouthwashes/rinses, denture products, dental accessories/ancillaries, and dental prosthesis cleaning solutions. The toothbrush segment includes manual, electric (rechargeable), and battery-powered (non-rechargeable) toothbrushes. The toothbrushes

segment is expected to witness high growth forecast period of 2020-2025. The growth in this market is mainly due to growing awareness about oral health and technological innovations in the electric toothbrushes industry.

Consumer stores accounted for the largest share in the oral care/oral hygiene market in the year 2019.

Based on the distribution channel, the oral care/oral hygiene market is segmented into consumer stores, retail pharmacies, online distribution, and dental dispensaries. In 2019, the consumer store segment accounted for the oral care/oral hygiene market. The large share of consumer stores in case of oral care/oral hygiene products can be attributed to the large number of stores across the globe and their easy accessibility.

The Asia Pacific region is expected to show the highest growth rate during the forecast period of 2019-2025.

Geographically, the global oral care/oral hygiene market is segmented into North America, Europe, the Asia Pacific, Latin America, and the Middle East & Africa. Asia Pacific is expected to show the highest growth rate during the forecast period. The high growth rate of this region can mainly be attributed to the increase in the number of the geriatric population associated with edentulism, growing prevalence of dental caries and other periodontal diseases in children and adults, increasing healthcare expenditure (coupled with the rising disposable income), rising awareness about oral healthcare, and willingness to spend more on dental care. Moreover, increasing the focus of prominent players in emerging Asian countries will further support the growth of the market in this region.

COMPANY OVERVIEW

JHS Svendgaard Laboratories Ltd. is India's largest integrated manufacturer of oral care products that services the demanding requirements of leading Indian and global FMCG brands operating in India. Apart from contract manufacturing partnerships with domestic oral care brands, the Company manufactures proprietary brands as well. The Company manufactures the entire range of oral care product at its ISO-certified state-of-the-art manufacturing facilities at Kala Amb (Himachal Pradesh).

PERFORMANCE REVIEW

The Company's revenues increased from Rs.125.44 Cr. in 2018-19 to Rs.144.71 Cr. in 2019-20, an increase of about 15%. The EBDITA margin increased from Rs.13.20 Cr. in 2018-19 to Rs.21.14 Cr. in 2019-20, an increase of about 409 basis points. It reported a Net profit of Rs.1.75 Cr. in 2019-20 due to exceptional expenditure [*Refer Note 35, for more details] against a Net Profit of Rs.3.65 Cr. in 2018-19.

SEGMENT WISE REPORT

Particulars	Manufacturing Business		Other than Manufacturing Business		Retail Business	
	YTD March 2020	YTD March 2019	YTD March 2020	YTD March 2019	YTD March 2020	YTD March 2019
Sale to external customers	12,750.10	11,596.87	897.63	644.80	263.69	173.49
Revenue with other operating segment	545.50	369.21	0.82	0.91	-	-
Depreciation	742.97	698.11	20.47	3.72	112.63	6.95
Cost of goods sold	9,707.87	8,479.25	587.14	444.90	205.93	135.09
Income tax expense/ (income)	2.10	161.70	(86.70)	(194.77)	(11.94)	(3.71)
Total assets	22,908.71	21,830.59	1,460.33	1,191.62	1,197.81	641.06
Total liabilities	4,758.91	3,831.15	311.87	462.11	603.51	27.45

Significant changes i.e. change of 25% or more in the key financial ratios

In accordance with the amendments notified by SEBI in Regulation 17 of the SEBI (Listing Obligation and Disclosure Requirement) Regulation, 2015 on 9th May, 2018, the details of significant changes i.e. change of 25% or more in the key financial ratios as compared to the immediately previous financial year along with detailed explanations are reported hereunder:

Particulars	FY 19	FY20	% of Change	Reason for Change , if change 25% or more
Debtors Turnover Ratio	2.13	1.40	-35%	The change In this ratio is primarily due to increased contribution of Exports Sales in the overall business of the company.
Inventory Turnover Ratio	16.77	42.91	156%	As the novel coronavirus impact had started hinting early february'2020, so the company had reduced the inventory holding levels considering the uncertainties of its related impact and measures at that point of time.
Current Ratio	2.49	2.59	4%	
Debt Equity Ratio	0.03	0.00	-94%	The company aiming towards being debt free has repaid majority of the working capital facility during the year.
Operating Profit Margin	29.14	26.98	-7%	
Net Profit Margin	3.01	1.33	-56%	The Company has identified certain plant and equipment which were not in active use having gross value and written down value of ₹ 1776.53 lakhs and ₹ 1073.69 lakhs respectively. Consequently these assets have been carried its net realisable value and recognized under the head "Assets classified as held for Sale" at an estimated realisable value of ₹ 10.00 lakhs. Therefore, loss of ₹ 1063.69 lakhs has been charged to the statement of profit and loss shown as exceptional item.
Return on Net Worth	2.00	0.98	-51%	

ENVIRONMENT, HEALTH AND SAFETY

JHS strives to be an 'injury free' and 'zero environmental incident' organisation. For it firmly believes that a risk free environment results in improved productivity and superior performance. In line with the philosophy, the Company

has created a framework that focuses on eliminating the risk of injury or incidents. Subsystems and procedures have been institutionalised to facilitate risk-free operations. The Company incorporates the latest engineering standards and continually invests in contemporary safety hardware at all its facilities.