

MANAGEMENT DISCUSSION AND ANALYSIS

In an intensely competitive environment, Dabur India Ltd. continued to drive Industry-best volume-led growth and posted one of its best performances, growing the Revenues by **20.6%** and Net Profit by **28.1%**

The year 2009-10 saw the global economy emerging from the worst-ever financial crisis since the Great Depression. India's growing importance in the world economy is now well established and the country has earned the distinction of being the second largest emerging market economy, the fifth largest global economy in terms of purchasing power parity and the second fastest growing economy in the world. While India may not have been in the throes of acute recession, the global financial meltdown did slow down the nation's growth story for a few months. However, the economy bounced back quickly, demonstrating its inherent resilience and strength.

The year also witnessed a delayed and below normal monsoon followed by drought like conditions in several parts of the country. While the Indian economy waded through these troubled waters and posted a remarkable recovery, a big worry – in the form

of spiraling food Inflation - started to trouble the country and the industry, especially in the second half of the year. These high food prices, together with the gradual hardening of other input costs, threatened to force consumers to tighten their purse-strings, particularly in the resurgent rural India.

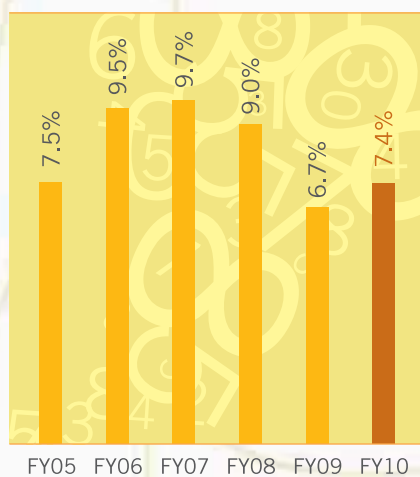
In spite of all these challenges, consumer demand remained robust fuelling growth in consumer products particularly in the rural areas. This was helped by government initiatives such as the rural job guarantee schemes, infrastructure development projects, debt waiver schemes and the spike in agri-commodity prices which has continued to boost agricultural incomes in recent years. As a result, aspiration levels in rural India continued to grow and this growing aspiration is now backed by more purchasing power. Gone are the days when the rural consumer was content with using unbranded, low quality products for personal care and

daily grooming. Today, the consumers are seeking to buy recognized brands and good quality products to meet their needs and aspirations. This shift once again ensured that growth in rural sales of FMCG products far exceeded the increase in urban sales.

The Gross Domestic Product (GDP), which recorded high growth of about 8-9% from fiscal 2004-05 to 2007-08, had slowed down to 6.7% in 2008-09 but recovered again in 2009-10 growing at 7.4% (as per CSO Revised Estimates). The recovery in GDP growth for 2009-10 is broadbased with six out of eight sectors/sub-sectors showing a growth rate of 6.5 per cent or higher (Source: CSO).

The economy has witnessed a demand revival as indicated by a 10.4% expansion in industrial production during 2009-10 as against 2.8% during 2008-09. In addition, bank credit expanded by 17% in 2009-2010 as compared to the year ago period.

CHART A : Growth in GDP in the Indian Economy



The Fast Moving Consumer Goods (FMCG) sector was benefited by this resurgence in the economy and the prevailing benign input cost environment in the first half of the year. Lower material costs and increasing gross margins led to hefty increase in spends on advertising and promotions by most

645↑↑



It is the percentage growth in Net Profit between **2001** and **2010**. It is the strength of a corporate brand that has not only survived the ups and downs of the economy, but more importantly gone on to report strong growth year after year.



The GDP, which recorded high growth of about 8-9% from 2004-05 to 2007-08, had slowed down to 6.7% in 2008-09 but recovered again in 2009-10, growing at 7.4%

FMCG players in an attempt to increase their share of voice. As a result the sector witnessed heightened competitive activity with most FMCG players vying for improving volumes and market share. This also kept pricing power in check with reluctance on part of the major players to affect any significant price hikes. Therefore the growth was largely volume driven and oriented towards mass market. Organized retail, which had been impacted by the slowdown in 2008-09, showed signs of revival with growth coming back in same store sales and announcement of expansion plans by some of the leading chains, although in a calibrated way. Overall the FMCG sector saw increased activity during the year fueled by improved margins and revival in consumer demand.

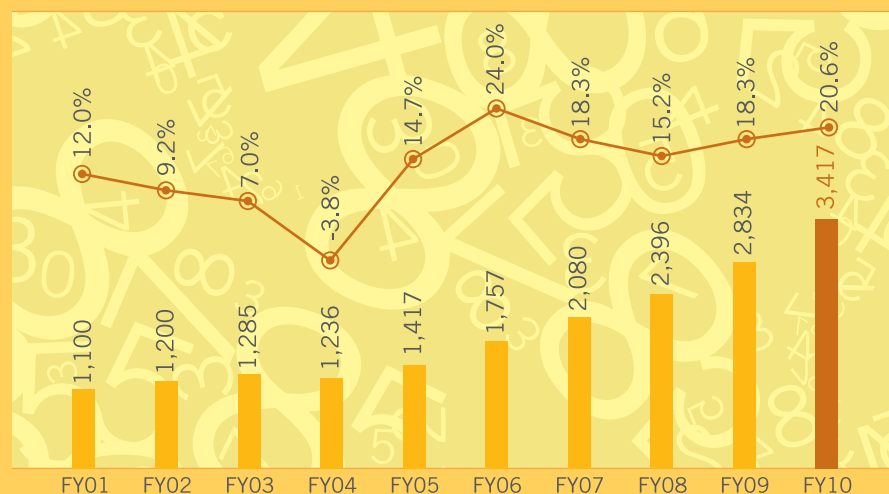
In this intensely competitive environment, Dabur continued to drive strong volume-led growth and posted

one of its best performances, growing the Revenues by 20.6% and Net Profit by 28.1%. The highlights of the Company's performance in 2009-10 on a consolidated basis are:

- Consolidated Sales increased to Rs 3,416.7 crore in 2009-10 from Rs 2,834.1 crore in 2008-09, registering a growth of 20.6%
- Earnings before interest, depreciation, taxes and amortization (EBIDTA) increased to Rs 669.5 crore in 2009-10 from Rs 517.3 crore in 2008-09, registering a growth of 29.4%
- Consolidated profits after tax (PAT) went up to Rs 501.3 crore in 2009-10 from Rs 391.2 crore, increasing by 28.1%
- Earnings per share (EPS) went up to Rs 5.8 in 2009-10 from Rs 4.5 in 2008-09

Chart B : Consolidated Sales growth during last 10 years

(In Rs crore)



Note: The Balsara acquisition in 2005-06 added 10% to revenues in that year and Fem Care Pharma Ltd which has been acquired in 2009-10 has added 3.5% to the revenues during 2009-10.

- Return on Net worth of the company increased to 53.5% in 2009-10 from 47.7% in 2008-09

The year 2009-10 recorded one of the highest revenue growths in Dabur (See Chart B) in the last decade.

Sales during 2009-10 were significantly volume-driven, with volumes accounting for around three fourths of the revenue growth. The input cost pressures were managed effectively and the company did not take any significant price increases during the year. Growth rates across quarters have been consistent and reflect your company's sound business strategies and strong execution capabilities.

On the operational front, the company achieved a significant improvement in EBIDTA margins which increased from 18.3% in 2008-09 to 19.6% during

2009-10. This was a result of comprehensive planning, forecasting and hedging strategy for procurement of raw and packing materials which was also aided by lower input costs during first half of the year. During the second half, although there was a sharp increase in agri-linked commodity prices and crude oil-linked input costs, the company managed to mitigate the impact of this increase in costs through proactive procurement and buying strategies. Chart C on WPI movement during the year highlights the inflation levels experienced during the year.

Part of the margin improvement was invested during the year on higher advertising and promotional expenditure, which increased from 12.1% to 14.4% of sales. This was utilized to invest behind our brands to drive strong growth in the portfolio of

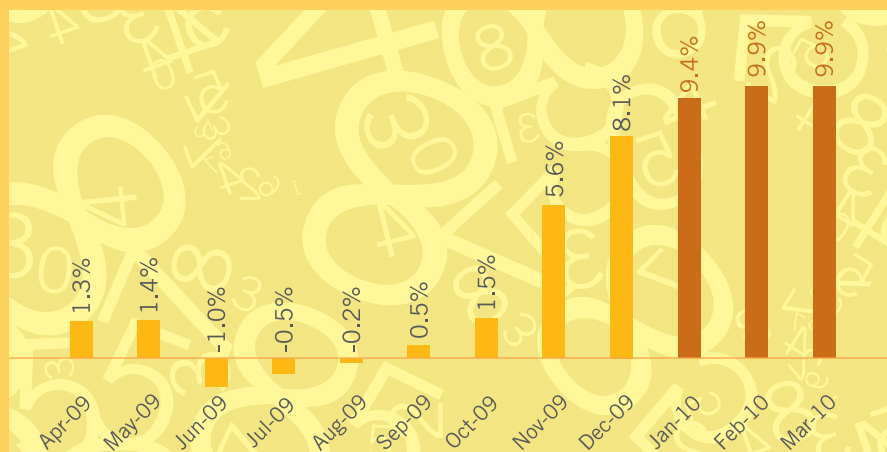
existing brands as well as new product initiatives. Aggressive marketing initiatives led to good volume led growth and market share gains in key categories like toothpastes, shampoos and health supplements.

During 2009-10 Dabur completed the acquisition of Fem Care Pharma Ltd. ("Fem" or "Fem Care"). The acquisition has added about 3.5% to the topline during 2009-10. The Company believes this acquisition will open new vistas of growth in the fast-growing skin care category and will accrue significant cost and revenue synergies. We have put Fem's core brands – fairness bleaches, hair removing creams and liquid soaps – firmly on the growth track. Significant investments have been made behind the brands, which would take them on to a strong growth trajectory in days to come. The operations of Fem Care Pharma Limited have been integrated with Dabur through a fairly quick and seamless integration of manpower, sales and distribution network, supply chain, IT processes, manufacturing operations and logistics. In fact, the company has shown good growth in revenues, margins and profits post the closing of the deal which was effected on 25th June, 2009.

The Fem Care legal entity has since been merged with Dabur and the merger takes effect retrospectively from 1st April 2009. The High Court order to this effect was passed on 2nd June 2010.

During the year, the company test-

Chart C : Movement of WPI during 2009-10



Note: Office of Economic Advisor, Govt of India



Dabur continues to move forward on the double-digit growth track with sustained volume growth across all product lines. 2009-10 has shown one of the best volume growths for the company in almost a decade

launched a host of new brands and products, including Dabur Uveda range of Ayurvedic skin care products. Packed with herbal extracts derived from a blend of authentic Ayurvedic ingredients that are documented in Ayurvedic scriptures of Bhavprakash Nighantu and proven actives, the Uveda range is well researched and proven to enhance skin tone and texture. The other major launch of the year was the Réal Burrst range of fruit-based beverages. Available in 4 variants, this non-carbonated light fruit beverage range offers the benefits of refreshment and thirst quenching qualities to the consumers. The company also introduced two new light hair oil brands – Vatika Enriched Almond

hair oil & Dabur Amla Flower Magic hair oil to expand its presence in the light hair oils category.

While things have certainly looked up, there are many challenges along the way which make it critical for us to continuously review and evaluate our strategies to compete well and capture the opportunities in this dynamic and fast growing industry. Growth rates in real GDP and per capita income should sustain at the levels seen in the recent past in order to support robust demand for consumer staples. Also, rising food inflation continues to be a major threat with regards to spending and may act as a dampener to the consumption story.



It is the number of new brands, products and variants launched by Dabur in 2009-10. The new launches - which include Uveda range of Ayurvedic skin care products and Réal Burrst range of fruit beverages - further strengthened Dabur's presence in existing categories besides opening up newer avenues of growth

But the economic growth drivers too are immense, in the form of a fairly young population, growing pool of skilled manpower, rising savings and investment rates, a vibrant services sector and potentially large source of domestic demand. These together hold out the promise of stable and sustained future growth for India and for your Company.

Though the economy has been on a path to recovery, conditions still remain challenging. In spite of this, Dabur continued to drive its key strategic initiatives and invest aggressively behind its brands and businesses during 2009-10.

Strategic Business Units

Dabur India Ltd continues to move forward on the double-digit growth track with sustained volume growth across all product lines. The year 2009-10, in fact, has shown one of the highest volume growths for the company in almost a decade and what's more encouraging is the fact that this growth has come at a time when the industry has been struggling with several downsides like poor monsoons, drought in several parts of the country, rising input costs and one of the highest instances of food inflation.

The challenges notwithstanding, Dabur

India Ltd ended the year with a robust sales growth of 20.6% with all its established strategic business units (SBUs) reporting strong performance.

- Consumer Care Division (CCD), the largest SBU of the company encapsulating the domestic consumer products business, today accounts for 68.1% of the Company's consolidated revenues. Even on this large base, Revenues for the business increased by 14.6% during the 2009-10 financial year
- International Business Division (IBD) has emerged as the second-largest SBU for Dabur, accounting for

14.6



It is the revenue increase in percentage terms during 2009-10 of Consumer Care Division, the largest SBU of the company, which today accounts for **68.1%** of total consolidated revenues



17.6% of Dabur's consolidated revenues. The division ended the year with a revenue growth of 26.3%, driven largely by introduction of new products and expansion into newer geographies

- Consumer Health Division (CHD), which leverages Dabur's core competence in Ayurveda and offers a range of Ayurveda-based Over-The-Counter (OTC) products, branded ethical and classical products, reported a growth of 15.0% and now accounts for 8.0% of the total consolidated turnover

Consumer Care Division (CCD)

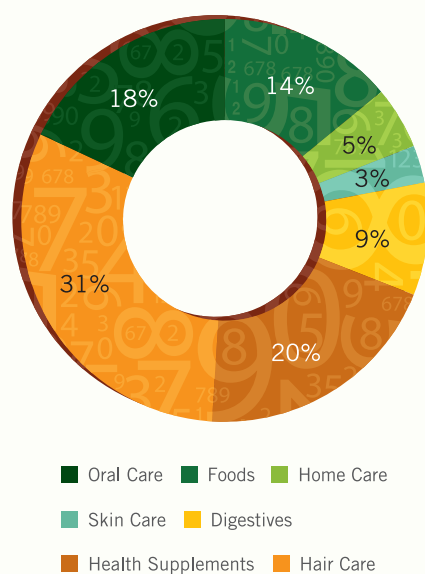
Dabur India Ltd continued to focus on expanding its product offerings to consumers by way of new product launches and expansion of existing products with the rollout of newer variants, thereby continuing to address the growing and ever-changing needs of its consumers across both urban and rural India. The year also saw Dabur introduce a variety of low-priced SKUs to increase affordability for its products and deepen its rural penetration through a host of sales and consumer initiatives.

Rural India, in fact, continues to be the big growth driver with demand from the hinterland outpacing demand from the urban markets in key categories like toothpastes & shampoos. The severe drought in several parts of the country and the lower than expected monsoons failed to dampen consumer demand in Rural India. The poor monsoon and drought came after four consecutive

years of bountiful harvest, which had put the rural economy on a strong wicket with a sizeable increase in rural income and consumption. Also, the government rural job guarantee schemes coupled with the spike in commodity prices in the recent years continue to add on to the rural wealth, in turn giving a big push to the standards of living in the hinterland. The result is there for everyone to see. Aspiration levels in rural India have gone up, fuelling demand for branded, packaged products.

Dabur India Ltd, with its various initiatives, was well poised to take advantage of this growing consumption in Rural India, which in turn helped Dabur's Consumer Care Division (CCD) achieve robust growth. CCD ended 2009-10 with 14.6% growth increasing its revenue to Rs 2,326.5 crore.

Chart D : Category wise break up of CCD revenues



Dabur's CCD business is divided into four key portfolios of Healthcare, Personal Care, Home Care and Foods. These cater to a number of consumer products segments like Hair Care, Skin Care, Oral Care, Health Supplements, Digestives, Home Care and Foods. Chart D gives the relative share of each category.

Health Care

2009-10 was one of the best-ever years for the Health Care vertical within Dabur India Ltd. With good growth across its three key product categories of Health Supplements, Oral Care and Digestives, Health Care became the first vertical within Dabur to cross the Rs 1,000-Crore turnover mark this fiscal.

Another big achievement for this vertical was the entry of Dabur Glucose, Dabur's flagship energy drink brand, in the haloed list of Dabur's Billion Rupee Brands. The Health Care portfolio has the largest presence in this list with as many as 7 brands – Dabur Chyawanprash, Dabur Honey, Hajmola, Dabur Red Toothpaste, Dabur Lal Dant Manjan, Babool and Dabur Glucose. Dabur Red Toothpaste, in fact, even has the distinction of being among the select few brands in FMCG history to achieve the Rs 100-crore turnover within 6 years of its launch.

With a share of 46.7%, Health Care continues to be the largest contributor to CCD's sales during 2009-10. Health care has also been identified as an important growth engine for the future and Dabur is drawing up a blueprint and lining up a host of new initiatives for the category.

Health Supplements: Growing health concerns in India on the back of the widespread outbreak of flu and viruses across the country and a flurry of consumer-connect initiatives with its various brands, helped the Health Supplements category end the year with over 20% growth in sales.

Dabur Chyawanprash, the flagship brand in this category, reported strong double digit growth in sales during the year. This growth has come in spite of a prolonged summer, which is traditionally seen as a lean sales period for the product. The brand was repositioned this year on the immunity plank, a move that ensured good consumer connect in view of the recent outbreak of flu and viruses across India. Dabur Chyawanprash seized the opportunity and undertook a mega awareness building campaign across India, underlining the need to strengthen the body's immune system to fight these new-age flus & viruses. Christened Immune India, this

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campaign brought together Ayurvedic doctors & experts from across the country, along with the Dabur Chyawanprash Brand Ambassador, to drive home the message of strengthening immunity through Ayurvedic products, particularly Dabur Chyawanprash.

This campaign was taken forward with the launch of a new advertising commercial – featuring brand ambassador Mahendra Singh Dhoni – that underlined the need to build immunity and remain fit. A mega school-level awareness drive was also rolled out across nine states – Delhi-NCR, Uttar Pradesh, Bihar, Jharkhand, Punjab, Maharashtra, West Bengal, Madhya Pradesh and Rajasthan. Under this initiative, the brand reached out to over 7.5 lakh students across 820 schools to educate children about the need for building immunity in order to stay healthy and strong.

Under this programme, doctors and health experts reached out to various schools and conducted workshops on immunity building. These workshops were designed with easy-to-comprehend pictorial presentations to make them interesting for the children. The success of this Immune India

campaign can be gauged by the fact that it bagged the Gold Award under the Best School Contact program of the year category at the WOW Event & Experiential Marketing Awards 2010.

Riding on these initiatives, Dabur Chyawanprash – already the market leader by a huge margin – saw its share of the Chyawanprash market increase from 61.9% to 62.7% during the year.

The year also saw Dabur introduce a new 2 kg value pack of Dabur Chyawanprash, priced at Rs 360. The Chyawanprash variants – Chyawan Junior and Chyawan Prakash – performed well as consumer acceptance increased for the two products. The malted food drink variant Dabur Chyawan Junior, which is now in its second year, continues to do well with consumer sales improving substantially.

Dabur Honey, the largest selling brand of honey in the country, was re-launched during the year with a new logo. The product was also made available in a Rs 10 pack, which has been hugely successful and has added new consumers to the brand. Our market intelligence revealed that consumers had a distinct need to use Honey for feeding it to children and for religious usages. This new SKU helped us address this need.

The brand continued its steady performance on the back of its high nutrition proposition and ended the year with healthy double-digit growth. The Company also launched the second edition of its Honey-based Recipe Book, titled Big Bee's Health Secrets, which was launched by Amitabh Bachchan, the brand ambassador for Dabur Honey. Dabur continued to leverage and take forward the brand message of "healthier



Health care has been identified as an important growth engine for the future. Dabur has drawn up a new strategy and is lining up a host of new initiatives for the category

alternative to sugar” to increase the franchise for Dabur Honey.

Dabur Glucose was the other strong performer of the health supplements portfolio, ending the fiscal with very impressive growth. Riding on a consumer connect initiative with its new brand ambassador Zaheer Khan and aided by extended summers, Dabur Glucose witnessed a huge upsurge in demand. Dabur Glucose rolled out a nationwide bowling talent hunt – Dabur Glucose-D Ace Of Pace - to discover the hidden pace bowling sensations in small town India. The contest saw over 68,000 kids from across the country participating, with the eight finalists even attending a bowling clinic with Zaheer Khan.

Introduction of Dabur Glucose in sachets and improved performance of its two variants – Orange and Lemon – continued to drive growth for the brand and helped

it gain market share. Dabur Glucose has now been re-launched in 2010 with new packaging and communication.

Oral Care: The category witnessed double digit growth during 2009-10 with Dabur's toothpaste brands continuing to be among the fastest growing oral care brands in the country.

Babool, Dabur's toothpaste brand in the value segment, recorded strong growth during the year riding on its value proposition and herbal equity. Babool also marked its entry into the gel category with the launch of Babool Mint Fresh Gel, which has been positioned as a good value proposition in this category. The launch has been successful with Babool Mint Fresh Gel cornering a decent share of the gel segment within just three months of its launch.

Meswak, reported good performance on

It is the Revenue in billion rupee earned by Dabur Chyawanprash, the flagship health supplement brand in Dabur's portfolio. The year also saw Dabur Chyawanprash - a market leader in the category - further increase its market share through a sharp focus on its immunity building proposition

2



20

It is the percentage growth of Dabur's Toothpaste brands in 2009-10 making it among the fastest growing toothpaste companies in India



the strength of a host of new initiatives to enter newer markets such as South India.

Red Toothpaste sustained its high growth momentum during the year. The company focused on accelerating growth with new communication and local activations for the brand which was also re-launched in a new contemporary pack. Dabur's toothpaste portfolio outperformed the category growth which enabled the company to gain market share in the toothpaste category.

The toothpowder market continued to be on a slower wicket as the growing affluence in rural India has resulted in an overall consumer shift from toothpowders to toothpastes. As a result the toothpowder category is more or less stagnant. However, the Company's continued efforts to target conversion of non-dentrifice using consumers to toothpowder usage through village contact programmes in Uttar Pradesh and Bihar paid off with Dabur Lal Dant Manjan maintaining its share of the toothpowder category.

Digestives and Confectionary: The Digestives category reported healthy double-digit growth during the year under review. Hajmola tablets joined the Rs 1 billion club while Hajmola candies grew at a good pace. Hajmola continues to be the most preferred digestive tablet in the country with as many as 2.5 crore tablets being consumed daily across India.

The company continued to drive forward Hajmola's post-meal connect with the launch of a '*Kahan Maara Chatkara*' – a radio-driven initiative that sought to identify the best street food joints across the country and boost sales through association with these food retail outlets. Through this, Hajmola reached out to over 2.5 crore listeners and identified close to 700 food joints across the country. The company also introduced a new 50-paise sachet containing two Hajmola tablets, targeted mainly at institutional customers.

Its new variants – Nimbu and Pudina – continued to add excitement around the brand and drive sales. Hajmola Pudina,

launched last year, has met with encouraging response in the market. The year also saw Dabur extend the Hajmola tablet portfolio with the introduction of a new variant – Hajmola Kachha Aam. Hajmola variants, in fact, now contribute to 7% of brand sales.

Hajmola Candy, on the other hand, undertook a mega school activation programme across 1,750 schools in 24 cities, reaching out to 11.5 lakh students. Another key initiative was the introduction of mega jar of 1,000 candies that enabled Hajmola Candy to make its way forcefully back on retail shelves.

Personal Care

The Personal care category, which accounts for 33.9% of CCD sales, offers a portfolio of Ayurvedic and natural products for hair care and skin care. A key growth driver for the company, the personal care category performed well during the 2009-10 fiscal, with bulk of the growth being driven by volumes – a considerable achievement given the tough economic environment. The

portfolio expanded during the year with the acquisition of Fem Care Pharma, a leading player in skin care and beauty products market. Fem, which has a leadership position in the fairness bleach category and a strong market position in hair removal and liquid soap category, gave Dabur an entry into the high-growth mainstream skin care and fairness market with an established brand name FEM.

A stream of new launches, entry into new categories like mainstream skin care and continued trade & consumer connect initiatives ensured steady growth for the portfolio. The growing shift in consumer preference towards natural personal care products also helped drive demand.

Hair Care: The hair care category - comprising hair oils and shampoos - recorded impressive sales growth during

2009-10. While hair oils grew by about 10%, Dabur's shampoo portfolio reported an increase of over 20%.

Dabur Amla continued its strong performance in the hair oil market driven largely by continued consumer & trade plans and strong rural activations in various states. What was most encouraging was the fact that even as volume growths in the overall hair oil category slipped to single digits in the later part of the year, Dabur's hair oil brands continued to grow ahead of the category. And this came at a time when competitive intensity in the market touched a new high with rival brands resorting to mega price cuts and higher trade promotions. Dabur Amla continued to withstand competition and has truly established itself as the largest perfumed hair oil brand in the country with a consumer base of over 35 million users.

The year saw Dabur unveil a new, modern & contemporary look for Dabur Amla Hair Oil, which is also Dabur's oldest and largest brand. The new identity modernized this over 60-year-old brand, making it more contemporary and relevant, in consonance with today's lifestyle. In order to further deepen the brand's penetration in rural pockets, Dabur India Ltd also announced the launch of special low-priced packs of Dabur Amla Hair Oil – a Re 1 sachet & a Rs 10 pack (25ml) – making this beauty brand more affordable. Dabur Amla Hair Oil has, in fact, been voted by consumers as the most preferred hair oil brand with the highest top-of-the-mind recall (Source: 4Ps-ICMR Survey).

Your Company also announced the expansion of its consumer initiative – a rural beauty pageant christened Dabur Amla '*Banke Dikhao Rani*', which recognises and rewards young girls for



25

It is the number in million of Hajmola tablets that are consumed daily in India. It is the story of a brand that has been touching millions of Indians daily thereby emerging as the most-preferred post-meal digestive in the country and becoming a billion rupee product

35

It is the number in million of consumers using Dabur Amla Hair Oil.

It is a reflection of the support enjoyed by this near 70-year-old beauty hair oil brand, which has continuously innovated and revamped itself to remain contemporary for consumers across generations



their beauty and talent. The contest was held across 52 districts in three states – Uttar Pradesh, Madhya Pradesh & Bihar – covering 2,000 villages.

Vatika Hair Oil continued to establish its superiority over plain coconut oil and ended the year with a good performance. Anmol coconut oil registered double digit growth by increasing penetration of the brand on the basis of its value proposition and aggressive trade support initiatives. This growth, in fact, comes at a time when the coconut oil category is showing signs of a slowdown.

The year also marked Dabur's entry into the light hair oil market with the launch of two new products – Dabur Amla Flower Magic hair oil and Vatika Enriched Almond hair oil. Both the products – which were rolled out nationally during the course of the year – have been well accepted by consumers and have carved a distinct identity for themselves in a cluttered market. Light hair oil market represents an exciting growth opportunity with the category size estimated at over Rs 600 crore. With consumers increasingly embracing light styling hair oils, Dabur – with these two products – is well poised to take advantage of this shift in consumer preference.

Dabur's shampoo portfolio, driven by its niche natural and herbal positioning, continued to be a strong player in this highly competitive market. Vatika was among the fastest selling shampoo brands in the country, reporting another power-packed performance. All Vatika variants continued to perform well and the company expanded the portfolio with the launch of a new variant – Vatika Black Shine with Sun Protection.

Dabur's maiden foray into health shampoo market with Dabur Total Protect Ayurvedic shampoo was well received and the Company plans to focus its efforts on pushing this product in key health shampoo markets like West Bengal.

Skin care: The skin care category saw impressive growth of more than 30%. Skin care has, in fact, been identified as one of the growth drivers for Dabur. The company has approached the Skin Care market with a three-pronged strategy, with Gulabari (offering a range of mainstream skin care products offering the benefits of Rose), Dabur Uveda (a range of mass prestige Ayurvedic skin care products) and the recently-acquired Fem (a portfolio of instant fairness bleaches and depilatory products) as the three pillars.

The Gulabari franchise continued to be the star performer in this category posting strong growth and increasing its penetration. The recently launched products of Gulabari skin care range – which include a moisturizing cream, lotion and face freshener spray – showed good momentum with the Gulabari moisturizing cream doubling its turnover during the year. The company will continue to look at further brand extensions under Gulabari and is in the process of developing newer Rose-based products under this franchise.

The growth of Gulabari brand was led by increased media spends, consumer activations like college-level beauty contests and enhanced retail & trade visibility. Dabur Gulabari has been hosting beauty contests in Uttar Pradesh, Hyderabad and North East, and these initiatives have helped boost sales. The new Gulabari face freshener spray also continues to do well and has now leveraged the distribution strength of FEM sales to drive volumes further.

The year also saw the launch of Dabur's new premium Ayurvedic skin care range under the brand Dabur Uveda. Dabur

Uveda, the skincare expert from Ayurveda, personifies attributes like expert, effective, enduring, dynamic, stylish, mature and Indian. Dabur has also roped in cine star Vidya Balan as the face of Dabur Uveda. The Dabur Uveda range comprises complete fairness cream, 2-in-1 Moisturizer, Moisturizing face wash and Clarifying Face wash. This also marks Dabur's entry into the fairness cream market. The range, test-launched in Delhi-NCR and six cities in Maharashtra, has met with encouraging response. The products and the packaging have been appreciated by consumers and we will continue to improve the mix and then look at a national rollout sometime during the next fiscal.

The third pillar of Dabur's Skin Care strategy is Fem, which was acquired during the year. With increased media spends, signing of a new brand ambassador in Preity Zinta and introduction of new products like Fem herbal Bleach and Fem Hair Removing Solution, the portfolio registered a robust growth of more than 20% in the 9 months of it being part of Dabur.

All the products under the Fem personal care portfolio – bleaches, hair removing cream and liquid soaps – performed well. The efforts made by Dabur to revitalize the brands and its focused approach saw the Fem portfolio get back on the growth trajectory.

The second quarter of the fiscal began with Fem's association with the blockbuster television reality show '*Rakhi Ka Swayamvar*'. This also marked the introduction of media intervention in Fem's bleach portfolio after a gap of 12 months. This, coupled with the

successful launch of Fem Herbal Bleach and re-launch of the hair removing cream in a new avatar with cream and nourishing lotion, local consumer activations in Punjab and Maharashtra by way of beauty pageants, improved retail presence and higher engagement with the beauty parlour community helped the core business of bleaches and hair removing creams register strong double-digit growth during the year.

Post-acquisition, the personal care portfolio of Fem has been integrated with CCD's skin care portfolio. The financials of Fem are not reflected yet in CCD. Fem will be included under CCD in the next fiscal.

Home Care

The smallest part of the CCD business, Dabur's Home Care portfolio comprises three categories: Air Fresheners, Mosquito Repellants and Surface Cleaners. Dabur has a well crafted strategy in place to develop the evolving and under penetrated Home Care business in India in a phased manner. During the 2009-10 fiscal, Dabur's home care sales increased marginally, with the second half of the year reporting good growth.

Sanifresh, the toilet cleaner brand, continued its powerful performance and recorded good growth during the year to become the second largest brand in this market. The focus on winning consumer value equation through selective advertising, improved product and providing better value to the consumer boosted the brand's sales.

In the personal application mosquito repellent category, Odomos performed well despite a reduced mosquito menace



due to prolonged summers during the year. Odomos opened new markets during the year, particularly in South India and Maharashtra, which have helped growth. The brand was aggressively promoted in the post-monsoon mosquito season with focus on efficacy and safety of the product, which has been certified by the Indian Medical Association (IMA).

Following the success of Dabur's Odomos Naturals in key markets like Tamil Nadu and Maharashtra, the brand is being scaled up nationally. Odomos Naturals is India's first range of personal application mosquito repellents packed with the natural goodness of Aloe Vera and Citronella. The range was aggressively marketed in various markets like Delhi, Uttar Pradesh, Mumbai, Bengaluru and

Kolkata. The mosquito repellent portfolio is now being expanded with the launch of Odomos oils, a value-for-money product targeted at rural consumers. The brand portfolio was extended with the launch of Odomos spray.

In the air fresheners category, the company provides a range of products under the Odonil brand. The brand has been facing increased competition from other players and private labels, and ended the year with flat growth. Odonil Blocks have been re-launched with new and attractive easy-to-use packaging, and in improved fragrances of Orchid Dew, Mystic Rose, Lavender Meadows and Jasmine Mist. A new TV commercial was launched highlighting the use of this product for improving the home ambience and as a result the mood of

the family. The company is introducing a Pluggy version of Odonil in addition to a Rs 10 SKU.

The hard surface cleaning products, Odopic dish cleaner and Dazzl witnessed flat growth due to intense competition and emergence of in store private label products in the category.

Foods

The foods business, which now contributes 14.2% to the CCD sales, registered a sales growth of about 20% during 2009-10. The growth was driven by both the range of fruit juices and culinary portfolio. The Company, which primarily operates in the packaged fruit juices & nectars market with Réal and Réal Activ, marked its entry into the burgeoning fruit drinks segment with the



It is the growth in percentage terms in 2009-10 of the foods business, which now contributes **14.2%** to the CCD sales, driven by both the range of fruit juices and culinary portfolio. The Company, which primarily operates in the packaged fruit juices & nectars market with Réal and Réal Activ, marked its entry into the burgeoning fruit drinks segment with the launch of Réal Burrst

launch of Réal Burrst. A light and refreshing fruit beverage, Real Burrst is available in 4 exciting flavours - Mixed Fruit, Crispy Apple, Orange Bytez and Mango Mania. Real Burrst promises an experience that delivers refreshment through lightness of fresh fruits, and comes in an attractive Tetrapak. The range was test launched in modern trade outlets and is gradually being expanded to general trade as well.

All our fruit beverage brands address specific consumer needs. For instance, our range of 100% juices with no added sugar - under the Réal Activ brand - is a fitness brand targeted towards young adults, while the Réal fruit juice range meets the nutritional needs of consumers, particularly kids. Réal Juice provides more than 60% of a day's

requirement of Vitamin C, contains minerals like Iron and Calcium & that too with no added colour or artificial flavor & no added preservatives. Réal Burrst, our fruit drink range, addresses the refreshment needs of consumers. So, the three brands Réal Activ, Réal and Réal Burrst have been positioned on the fitness, daily nutrition and refreshment platforms respectively.

The Réal & Réal Activ franchise maintained the growth momentum during the year and also increased their combined share of the packaged fruit juice market in India. This growth was aided by the launch of 3 new variants (Réal Apple Nectar, Réal Peach Nectar & Réal Blackcurrant Nectar), a brand new ad campaign establishing Réal's superiority over competition

and introduction of special occasion gifts packs that generated huge trials. The Réal Activ brand continued to focus on the 'No added Sugar' campaign with aggressive branding and activation activities.

Réal, the flagship fruit juice brand from the house of Dabur, also joined hands with Disney Consumer Products under which Réal used the image of Disney's most beloved character Mickey Mouse to adorn the Réal juices and nectars packs. Through this tie-up, Réal juices aim to communicate the message of "Nutritional power of Fruit juices" to the kids and families. The new packaging is available in 200 ml SKU, with 8 Réal variants - Orange, Mango, Pineapple, Mixed Fruit, Grape, Guava, Litchi and Apple.

The Hommade portfolio was relaunched in an all-new packaging, revamping the entire category with an aim to spur growth for its range of culinary products

Réal also undertook a mega consumer connect initiative, 'Réal Apollo National School Health Programme', - in association with Apollo Life, a part of Apollo Hospitals. The programme 'Healthy Kids - A Better Tomorrow' sought to educate & counsel school children on rules for maintaining good health. The programme was rolled out across Delhi-NCR, Mumbai, Bangalore, Hyderabad, Chennai and Kolkata, and reached out to 1.8 lakh children in nearly 300 schools. Under this initiative, a panel of experts from the Apollo Life will counsel the students on 'Rules to Good Health' and conduct sessions on good nutrition, regular exercise, stress management and good lifestyle habits. An interactive AV, featuring Disney's popular character Mickey Mouse, would also seek to educate the kids on balanced diet and healthy eating habits. The participating schools in this programme have got a cluster health analysis of their students and ultimately feature in a nationwide survey to identify 'The Healthiest School of the City'.

Réal Activ took forward its association with health with the participation in Delhi Half Marathon. The brand has also signed on film star and fitness icon Bipasha Basu to further popularize the brand amongst health conscious individuals.

The year saw mega initiatives being

introduced for the culinary range of products under the Hommade brand, which helped this portfolio achieve impressive growth of more than 30%. The entire Hommade portfolio was relaunched in an all-new packaging, revamping the entire category with an aim to spur growth for its range of culinary products. The product categories extend across interesting paste combinations to suit the tastes of Indian consumers with variants available in garlic, ginger, ginger-garlic and tamarind pastes respectively. The range also includes tomato puree, coconut milk and Lemoneez.

The new look complies with premium, international standards of packaging breaking the clutter with a better shelf presence and increased product shelf life of ginger, garlic & ginger-garlic paste from 9 months to 12 months. The product benefits, usage & instructions are clearly communicated on the new packs. Besides, special TVCs were also created for the first-time for the Hommade range and aired specially in South India.

International Business Division (IBD)

Dabur's International Business Division (IBD) caters to the health & personal care needs of customers across different international markets spanning Middle East, North & West Africa, EU and US

through its brands Dabur and Vatika. Over the years, this business has successfully transformed itself from a small operation focused on the Indian diaspora to a multi-location transnational business with a presence across 60 countries and catering to the ever-changing needs and aspirations of the local populace in these markets.

The business continued to be the fastest growth engine for Dabur, ending the year with a 26.3% growth during the 2009-10 financial year. The division's performance too was supported by strong volume-driven growth and calibrated price increases that were undertaken to offset the impact of rising input costs. IBD now accounts for 17.6% of Dabur's total consolidated Revenue. The division's growth during the year was driven primarily by Egypt, GCC, Nigeria, North Africa, Levant, and neighbouring countries. Expansion into new markets further contributed to this growth, as the company seeded several new geographies like Cambodia, Philippines, Belarus, Gambia and Bolivia. This robust growth, in fact, comes at a time when the external conditions remained extremely tough with recessionary trends, currency depreciations, demand contraction and the Dubai meltdown was threatening to hurt businesses.

Hair Creams, Toothpastes, Hair Oils and Conditioners were the key categories that accelerated the division's growth. While the company is operating in the international markets with brand architecture similar to its India operation, the products sold under these brands are completely different and have

been tailored to suit the specific needs of consumers in these markets.

The Focus Markets of GCC, Egypt & Pakistan delivered strong growth with healthy profit margin. Despite being a mature market, GCC has notched up yet another strong performance growing by 42% during the year.

Dabur Egypt saw yet another year of spectacular performance, reporting a 30% top line growth in 2009-10. Dabur Egypt is now the second largest contributor to the IBD business after Saudi Arabia.

The Potential Markets reported an impressive performance with a 49% growth in 2009-10. Performance in these markets has been driven primarily by the North African and Levant markets, which have grown by 61% and 57% respectively. The North Africa, Levant & East Africa potential markets have since been upgraded to Focus Markets status with the hiring of local resources and higher investments in local-level marketing and promotions.

African Consumer Care, Nigeria has grown by 17% during the year with both its key brands - Dabur Herbal Toothpaste and Dabur Herbal Fresh Gel - showing strong growth to achieve significant market share in a very competitive oral care segment. Asian Consumer Care, Pakistan reported a revenue growth of 26% during the year with Dabur Amla and Hajmola emerging as two strong brands in the country. Dabur UK Ltd closed the year at a 23% growth in turnover with introduction of more products and improved distribution.

The company reported impressive growth in its key brands across markets. Dabur Amla franchise achieved impressive growth and Dabur Amla Hair Oil is now the biggest brand in the hair

It is the compounded annual growth in Revenue generated by Dabur's international business division over the last six years. This has been one of the fastest growing divisions within Dabur with an array of products tailored to suit the ever-changing needs and aspirations of local consumers in the overseas markets

oil category in Saudi Arabia. The Amla franchise has been extended to the Hair Cream Category with the launch of Dabur Amla Hair Cream.

The Vatika franchise has also shown robust growth with Vatika Hair Oil range increasing its penetration and emerging as the fastest growing hair oil brand in the category. Vatika Hair Cream defied tough market conditions and achieved high growth and market share gains in hair creams category.

Dabur's toothpaste brand Miswak performed well in North Africa becoming the fastest growing toothpaste brand in Morocco and Algeria. Dabur Herbal Toothpaste also established itself as Nigeria's No. 1 toothpaste in the herbal segment and achieved good growth in a category that saw overall growth rates slip into the negative territory during the year.

New product development and Innovation remained key to Dabur's growth strategy in the overseas markets.

During the year, the company launched Amla Hair Cream, which has since become the fastest growing brand in the Hair Cream segment. Vatika DermoViva Soap was also successfully launched in a tough MNC-dominated category and the brand achieved good sales in the first year of launch.

The year saw the re-launch of Vatika Shampoo range in a new packaging with 5 shampoo variants and 2 conditioner variants. The launch was a big success with the brand doubling sales over the previous year. The company also introduced a new variant in Vatika Hamam Zaith – Hair Fall Control.

During the year, the newly acquired Fem range was also added to Dabur's overseas portfolio. The Fem brand was strengthened in the overseas markets through ATL and BTL inputs, which enabled the brand gain a foothold in these highly competitive markets.

The Sales & Distribution network has

been augmented by appointing new distributors in CIS, Mozambique, Guinea and Rwanda. Besides, local resources have been deployed in key markets of Yemen, Syria, Kuwait, Malaysia and Tanzania to strengthen the S&D structure.

With these initiatives, Dabur is now well on track to become one of the biggest FMCG companies in North Africa and the Middle East region with a strong growth profile both in revenues and profits.

Consumer Health Division (CHD)

The Consumer Health Division (CHD), offering a range of healthcare products based on the age-old principles of Ayurveda, continues to be a focus and high-growth area for Dabur. The company has formulated a blueprint to further drive growth in this category with the launch of a variety of new OTC (over-the-counter) healthcare products. The CHD portfolio, comprising both OTC products and classical range, registered



a growth of 15% during the fiscal with sales going up to Rs 273.7 crore.

This portfolio has been enhanced with the transfer of a few brands from CCD portfolio such as Pudín Hara, Janam Ghunti, Hingoli, Sat Isabgol & Gripe Water which have been transferred to CHD for sharper focus. The move has paid off and these brands have posted a robust growth during the year.

A new campaign for Pudín Hara with the theme '*Jaante Ho Par Lete Kyo Nahin*' was rolled out which boosted the brand's revenues. The company is now in the process of expanding the Pudín Hara franchise with the introduction of Pudín Hara Lemon Fizz in the first quarter of 2010-11.

In the OTC portfolio, Dabur revamped the women's health tonic brand Dashmularishta. The new pack, which now has brand ambassador Juhi Chawla on the front label, gave this age-old product a new, younger and more

contemporary look. This, coupled with a sharper communication strategy around rejuvenation and innovative consumer activation, helped the brand register a close to 20% growth during the year. Honitus, the division's flagship cough & cold brand, also reported a good performance supported by the launch of the new testimonial campaign. Launch of new variants helped the Honitus Lozenges range report a strong double digit growth.

The year marked the repackaging of several key products and the launch of television promotion for two key brands – Dabur Badam Tail and the rejuvenator brand Dabur Shilajit Gold – which resulted on both these brands posting a good performance. A new campaign was developed for Hingoli, marking the brand's re-entry into television screens after a gap of seven years.

With the relaunch of the Classics portfolio in a new, contemporary avatar and focused healthcare promotion

activities through Dabur Ayurvedic Centres, Health Camps and Vaid (Ayurvedic doctors) Meets, the division's ethical business growth accelerated and the business reported double digit growth.

Sales & Distribution

Dabur India has a highly developed sales and distribution network with a presence in even the smallest of markets. Dabur's distribution network covers over 2.8 million retail outlets, with a high penetration in both urban and rural areas.

Dabur's product portfolio is very diverse and the growth strategy envisages strengthening positions across categories. Continued focus on deepening penetration, improving product availability and capability building in Sales & Distribution to leverage category and channel opportunities were among the several new initiatives undertaken during



It is the percentage growth in 2009-10 of the CHD portfolio, which comprises both OTC products and classical range

2009-10 to support the growth vision. The S&D focus centered around the following areas:

Sales category focus: During the year, Dabur revamped its sales structure to get sharper focus on three distinct categories - Home & Personal Care, Healthcare and Foods - to drive share gains in an increasingly competitive market. The new approach was implemented in large urban markets where operational complexities were significantly higher.

Category focus with specialized field force and Stockist sales teams for Home & Personal care and for Healthcare categories was implemented in the top 90 markets in the country, which contribute to about 40% of the CCD business. These categories so far had common sales force to service traditional trade in most markets. The focus on key channels and the need for enhanced direct company field force contact was

enabled by augmenting field resources but the costs were contained through improved productivity and optimization.

While frontline field force and stockist salesmen were organized by the three categories in these large markets, the business was managed in an integrated manner at the managerial levels. The stockist network was also retained as common to derive benefits of optimized scale. This enabled appropriate frontline category focus without sacrificing the benefits of optimized costs and process harmony. A sales inventory management strategy was also developed to improve stockist service levels to support this initiative.

Fem integration: The newly-acquired business of Fem was integrated successfully into the CCD Sales & Distribution network during the year. The business strengthened Dabur's skincare presence with leadership positions in bleaches and provided the opportunity to access new channels like Beauty Parlours and Salons. The parlour network plays a crucial role in growing consumer franchise for categories like bleaches and beauty products, and the footprint was increased from 18,000 to over 25,000 parlours during the year.

While front-end for Fem in traditional trade was kept separate in top towns for continued focus on Cosmetic & Chemist channels, Modern Trade and small towns were integrated with CCD to leverage distribution synergies. The strength of the Fem network in Cosmetic stores was leveraged by ramping up few of the CCD cosmetic products through the network.

Fem Modern Trade business benefited immensely from the integration with its salience increasing significantly during the year. The year also witnessed harmonizing of all sales processes of Fem with Dabur, enhancing efficiencies. Fem business is now on a strong footing to continue the growth momentum into the next year.

Modern Retail: The year 2009-10 saw the Modern Trade environment stabilizing with key players reconfiguring their networks and optimizing scale up plans. A comprehensive strategy was developed to sustain growths in this scenario, focused on share gains in key categories. Investments in building an effective servicing & activation system to address complexities of multiple formats and supply chain configurations were the critical elements of the approach. The strategy helped Dabur sustain growths & make significant market share gains across key categories like Hair Oils, Shampoos, Toothpastes and Foods. Modern Trade now accounts for about 8% of the CCD business.

Rural Focus: Dabur rolled out special rural focused sales initiatives across 8 key states – UP, Punjab, MP, Chhattisgarh, Bihar, West Bengal, Maharashtra and Gujarat, contributing to almost 70% of the national rural potential. Brands with strong rural franchise were focused to sustain momentum in this scenario.

Low unit price packs and price point offerings were brought into focus to capitalize on the share gain opportunities. Rural distribution reach was also stepped up aggressively in 71 high potential districts in these states

Rural distribution reach was stepped up aggressively in 71 high potential districts in 8 key states, ensuring product penetration to villages with lower population strata

penetrating to villages with lower population strata. Market contact frequencies were significantly increased in these districts and market coverage improved significantly. The rural trade opportunity was also leveraged through 'Dabur Apnaao, Lakshmi Laao' programme for the Sub-Stockist network in focus states.

Direct engagement through non-traditional media like Haat activities etc enabled Dabur to provide rural consumers an opportunity to experience Dabur products. Fairs and festivals like 'Kumbh Mela' were also effectively used to improve brand communication across key rural markets.

Information Technology: During the year, Dabur significantly strengthened its capacity to process real-time market information. The footprint of the software 'Drishti' for stockists covers almost 70% of business and is helping us improve field efficiencies. The Drishti console provides dashboard of field efficiencies to the sales teams to direct their actions.

Customer service capabilities were enhanced with the development of a Portal for stockists to log in and view details of their transactions. Investments were also made in IT systems during the year to enhance the technical capability in Sales forecasting in order to improve supply chain efficiencies.

Retail Business - newu

Dabur India Ltd's retail business operated under the brand name 'newu' saw a calibrated expansion phase with corrections being implemented in the

The sales structure has been reorganised to get sharper focus on three distinct categories - Home & Personal Care, Healthcare and Foods - to drive share gains in an increasingly competitive market. The new approach has been implemented in large urban markets

format and business model. It was a year of consolidation for the business, which underwent rationalization and closure of some non-performing stores besides relocation and rapid introduction of new outlets at vantage locations resulting in a jump in sales and halving of losses during the fiscal.

This business - operated under the wholly owned subsidiary H&B Stores Ltd - is managed by a team of retail experts who have experience in beauty / lifestyle retail and realty intricacies. The team is focusing on giving the stores a distinct identity with a select range of beauty merchandise that is exclusive and uniquely positioned in stores. Introduction of exclusive international beauty brands would be another USP with the newu stores going forward: the company plans to build a pool of 8-10 such international brands exclusive to the newu cache. During the past year, the company has introduced two international beauty brands in India - SEN from Turkey and Beauty Formulas (UK) - through newu.

The year under review also marked newu's entry into two new markets - Punjab and Rajasthan - as part of a strategy to consolidate and expand

operations in North India. This will enable the business to build a cluster around NCR and North India which will be more cost effective and efficient from a logistics viewpoint. The profile of newu stores has also undergone a revamp and the outlets would now be positioned as a lifestyle beauty store, offering a one-stop solution for all beauty needs. The company today has 13 operational stores, with plans to take the count to around 40 stores by the end of 2010-11.

The company was among the first to realize that retail rentals would find rigorous correction in the near future; and had been selective in signing properties at high rentals. This has played an instrumental part in our calibrated expansion. Rentals at the few stores booked at high rates have also been re-negotiated favourably. Some of the new stores are being leased on revenue sharing basis instead of fixed rentals which has improved the viability of the business model.

Operations

Dabur's products touch the lives of millions of consumers every day. Building on a legacy of quality and experience for over 125 years, brand Dabur today evokes

trust. To reciprocate this trust and to ensure competitive advantage in the market, the company believes in continually striving for a higher and better level of quality not just in its products and packs, but also in its operations, without losing sight of its commitment towards the environment and the society. A strong back-end support in Procurement, Manufacturing, Research & Development and Human Resource management have been key to Dabur's sturdy performance through the year. A large number of initiatives were rolled out by the company to improve productivity through effective application of technology and advancement in manufacturing processes besides adoption of lower cost energy options.

Procurement

It was a year of strong margin expansion for Dabur India Ltd as well as wide fluctuations in inflationary

pressures. Controlling costs in an inflationary scenario was one of the biggest challenges faced by your Company during the year under review. The Company effectively tackled this challenge on the strength of its strategic futuristic planning and use of intelligent buying mechanisms like calibrated hedging and e-sourcing.

Effective use of short and medium-term planning with regular forecasts by a team of strategic planners helped Dabur effectively keep its costs under strict control and restrict price hikes to a minimum despite high inflation on several commodities.

Manufacturing

Dabur India Ltd has 19 state-of-the-art manufacturing facilities spread across the globe, which includes two greenfield plants set up during the 2009-10

fiscal and two units that came into the Dabur fold following the acquisition of Fem Care Pharma. Of these, 12 production facilities are located in India with key manufacturing locations being Baddi (Himachal Pradesh) and Pantnagar (Uttaranchal) besides seven factories located at Sahibabad (Uttar Pradesh), Jammu, Silvassa, Alwar, Katni, Narendrapur, Pithampur and Nasik. The Foods business is serviced by manufacturing facilities at Newai (Rajasthan) and Siliguri (West Bengal). Outside India, Dabur has manufacturing facilities in Dubai, Sharjah, Ras-al-Khaimah, Egypt, Nigeria, Nepal and Bangladesh.

Domestic: Dabur India Ltd expanded its production volumes during the year at its existing manufacturing locations by improving productivity at the various units. The company increased its efforts to improve productivity at all its



manufacturing locations by deploying various cost reduction and energy saving initiatives, resulting in a sharp drop in its manufacturing costs to lowest-ever levels.

In line with the market trends, the manufacturing department also successfully took up the challenge of introducing a bevy of low unit packs (LUPs) for a variety of products straddling Oral Care, Hair Care and Health Supplements. Manufacturing capabilities were enhanced at the facilities to service this burgeoning demand for low priced units.

The energy conservation and green initiative, which was introduced in the 2008-09 financial year, continued this year with the implementation of alternative fuel technologies for steam generation at several of its units, both in India and in overseas locations. A new

manufacturing technology for extraction of medicinal actives from herbs was rolled out at various locations during the year, generating efficiency in energy costs and providing cleaner & safer manufacturing procedure at the units. These green initiatives have been detailed in the Sustainability Report presented elsewhere in this annual report.

As part of the manufacturing strategy drawn up in the previous fiscal, Dabur has set up a Greenfield plant in Baddi and Phase-I of this facility was commissioned in March 2010. In the first phase, this unit will produce hair oils, skin care products and some Ayurvedic products. The second phase investment would be undertaken in the 2010-11 fiscal for adding capacities for more product lines. In addition, an expansion was undertaken at the company's existing Pantnagar facility to enhance the capacity for toothpastes

and shampoos, which was commissioned in March 2010. Both these units use principles of green manufacturing and have been designed using energy-efficient material and manufacturing technologies to ensure that operating costs are dramatically reduced. These units have, in fact, been designed to be eco-friendly with zero discharge of affluent.

The projects for setting up new units to manufacture Lal Dant Manjan and Hajmola in Baddi and Jammu respectively are in advanced stages of completion, and would be commissioned in the 2010-11 financial year.

The skin care units of Fem Care Pharma located at Baddi and Nasik, acquired as part of the acquisition, were successfully aligned to the manufacturing systems of Dabur and higher productivity achieved at both these locations, leading to cost

1085

It is the size of Dabur's healthcare portfolio in Rupees Crores, covering categories like Health Supplements, Oral Care and Digestives. It boasts of

brands like Dabur Chyawanprash, Honey, Hajmola, Babool and Dabur Red Toothpaste, which have together helped the healthcare portfolio become the first business unit within Dabur to cross the **Rs 1000 crore** mark





reduction and improved service levels. Even export volumes of Fem from the Nasik unit were increased significantly. During the year, the excess capacity available at Fem's Baddi unit was deployed to manufacture Dabur Gulabari range of skin care products to service the seasonal peak demand.

Overseas: Dabur's overseas production capacity has also been enhanced to keep pace with the growth in demand. The cold storage capacity in Nepal was doubled to service the surge in demand for its fruit juices.

Egypt continues to be an important destination for the company with strong growth coming from this market. The manufacturing facilities in Egypt have been expanded and enhanced to meet the future growth requirements. A second Hair Oil plant was commissioned in Egypt along with capacity enhancement in Hair

Cream & Toothpaste leading to doubling of production capacity. During the year, Dabur took possession of a new industrial plot in Egypt for construction of a new Greenfield facility. The company also doubled toothpaste manufacturing capacity at its other African manufacturing facility located in Nigeria.

Dabur's Ras-al-Khaimah (RAK) unit saw volumes increase by 20% and operating costs reduce dramatically through improved productivity across various categories. New manufacturing lines were also installed for Shampoo and Hair Cream, increasing the capacity of the RAK unit. The unit, in fact, saw the highest volumes during the year with the company rolling out a number of new SKUs from the plant. Power cost at the unit also came down substantially post receipt of the electrical connection, thus reducing the usage of gensets.

Warehouse Management System was implemented in Ras-al-Khaimah and Jebel Ali for the first time across any Dabur facility globally. The system helps in better traceability and ensures First-In-First-Out for raw materials and finished goods. Besides, the RAK plant was accredited with ISO 22716 Certification (GMP).

R&D and Innovation

Dabur maintains its edge over competition with its herbal and natural heritage. In a business where change in consumer needs and preferences are the only constant, Dabur has leveraged the power of research and development to create new products and categories while remaining true to its heritage.

The past 12 months have seen Dabur update and upgrade its portfolio in line with changing consumer demands and



The company increased its efforts to improve productivity at all its manufacturing locations by deploying various cost reduction and energy saving initiatives, resulting in a sharp drop in its manufacturing costs to lowest-ever levels

aspirations. In terms of product and packaging innovations, the Company successfully developed new variants in Hajmola, a new range of Ayurvedic skin care products and fruit-based beverages, new variants in shampoo, a range of light hair oils and a new gel toothpaste besides new packaging for Dabur Red toothpaste, Odonil and a host of new OTC products.

The company has always been in line with consumer trends. As a company, Dabur is highly connected to its

consumer and develops products that meet their needs and requirements. A high degree of consumer insight goes into development of each product.

Dabur India has a well equipped in-house research wing - Dabur Research & Development Centre (DRDC) - that follows a 'brush-to-brand' approach. We have our in-house nursery, which grows several rare herbs that go into various products. This in-depth knowledge about nature and natural ingredients is one of our big strengths in the market. DRDC

also undertakes detailed tests on individual ingredients and products to ensure that the final product meets customer needs and aspirations.

The company continues to benefit from the strong foundation and long tradition of Research & Development which differentiates us from many others. While a lot of companies today offer Ayurvedic and herbal products, Dabur enjoys the consumer's trust because of its herbal heritage. With a portfolio of Ayurvedic and natural products, nature and herbs are key to Dabur's existence and so, the company is investing substantially in sustainable development of bio-resources. With a lot of medicinal plants have been declared as endangered, Dabur has now started cultivating these herbs to meet its product development requirements. The company is in the process of establishing a mega greenhouse in Uttaranchal where saplings

As a company, Dabur is highly connected to its consumer and develops products that meet their needs and requirements. A high degree of consumer insight goes into development of each product

of these rare herbs would be grown. This greenhouse – to be set up over 10 acres of land – would operate on the same lines of the existing greenhouse at Banepa in Nepal. The saplings grown at the greenhouse would be provided to local farmers under a community development programme and the harvested plants would be bought by Dabur at prevailing market prices. This system of contract cultivation would assure the community of a sustained source of income while providing Dabur with a resource base for crucial raw materials.

Application of latest scientific tools to prove the efficacy of Ayurvedic formulations, products and medicines has been another major endeavour with DRDC. This has helped the company identify hitherto unknown mechanism of action of Ayurvedic medicines. Keeping pace with the development in science, bio-marker based studies were also conducted to validate the efficacy of Ayurvedic products like Mahanarayani Tail, Dabur Chyawanprash and Dabur Chyawan Junior.

This has helped make a 5,000-year-old science contemporary to suit the needs and aspirations of today's modern and

urban consumers. The age-old beliefs are now being increasingly endorsed by science, helping reaffirm consumer belief in Ayurvedic products. Dabur is now also partnering with government bodies to develop standards for Ayurvedic classical products, besides working together with Indian Pharmacopeia to develop standards for medicinal plants.

Human Resources

Dabur is committed to create an open and transparent organization that is focused on people and their capability, and fostering an environment that enables them to deliver superior performance. Even during the trying times that the industry was going through, Dabur remained committed to its employees, continually investing in the development of its human resources through a series of employee-friendly measures aimed at talent acquisition, development, motivation and retention.

People always have been, and shall continue to be, central to Dabur's growth story. The company's commitment can be gauged by the fact that Dabur absorbed all the employees of the

acquired entity - Fem Care Pharma Ltd. The Fem business was, in fact, seamlessly integrated to leverage organizational synergies.

The Company also made significant investments for training in the areas of marketing excellence, customer service and building higher skill sets. During the year, the company introduced an audio-visual based training programme for the Fem sales force. This programme - christened SPORT - looked at addressing the specific needs of selling Fem products to beauty and cosmetic outlets. All the field staff under the Fem network were put through this programme that also adopted the 'train the trainer' route.

In addition, a host of parlour training initiatives were also rolled out during the year which aimed at training the 25,000 strong parlour network about the various products under the Fem portfolio and their usage. Beauty experts were deployed to educate the parlour professionals about the various aspects of bleaching. It was also aimed at shattering the various myths around bleaching apart from explaining the importance of bleaching and how the Fem range works on improving the skin tone.

Another big initiative launched by Dabur recently was AdVenture - a combination of the words 'Ad' and 'Venture' epitomizing the entrepreneurial spirit of Dabur. The purpose of the event was to recognize the best practices in advertising and reward the people behind the creatives. Under this

initiative, nine marketing categories at Dabur were asked to nominate one advertisement each in TVC and Print categories, which was hosted on the Dabur intranet for an online poll by Dabur's sales and marketing managers across the country. Based on the outcome of this poll, the top four TVCs and top four print ads were selected to make the final presentation before an eminent Jury. The participating teams also included the members from the Agency which was involved in creating the advertisement.

Dabur also continued to drive forward its rewards programme for employees through the 'Applause' programme that seeks to reward employees in various categories like the Rising Star (best newcomer), Honours Club (employee of the year), Trailblazer (employee of the year) and Eureka (for the best idea generation). Besides, spot awards are also given to recognize employees at any time for demonstration of actions, which are innovative, save cost, promote team spirit, institute new initiatives and raise standards of performance. The response to the Applause programme grew manifold with huge participation from the manufacturing team.

The Company believes in total transparency and has put in place a number of formal and informal processes to get employee feedback, along with a system of holding a bi-annual survey. A key HR initiative at Dabur is internal communication. Apart from Intranet, each manufacturing facility and regional office has its own newsletter, with a local language component.

A vibrant culture, a low average employee age of 31-32 years, direct recruitment from some of the top B-schools in the country under the Young Managers' Development Program and Conduct of Competency Development Centres for elevation were some of the other important and continuous HR initiatives of the company. Riding on these initiatives, the attrition levels at Dabur continue to remain much lower than industry levels.

As of 31 March 2010, the company employs 4,984 people in various parts of its business.

Industrial Relations: The Company continues to have an excellent track record of industrial relations, which, by and large, remained good during the year.

People always have been, and shall continue to be, central to Dabur's growth story. The company's commitment can be gauged by the fact that Dabur absorbed all the employees of the acquired entity - Fem Care Pharma

Corporate Social Responsibility: As a responsible corporate citizen, the Company has put in place several initiatives to fulfill its social responsibility and contribute actively to the growth of the society. These have been covered in detail in a separate section of this report.

Financial Review (on a consolidated basis)

During 2009-10, your Company registered strong growth in revenues and profitability.

Consolidated sales increased by 20.6%, mainly due to strong double digit volume growth. The acquisition of Fem Care Pharma Ltd. contributed to 3.5% increase in sales during the financial year.

EBIDTA margin of the company improved from 18.3% to 19.6%. This was achieved despite inflationary pressures which started impacting our company in October 2009. Inflationary pressures were managed well by deploying modern forecasting tools, strategic stocking and e-sourcing technologies. This has led to improvement in the gross margin which enabled your company to increase investment in advertisement and promotional spends in a competitive market scenario.

The increase in MAT impacted your company and the effective tax rate went up from 12.1% to 16.7%. However, the strong revenue growth and improved EBIDTA margin enabled your company to increase its PAT by 28.1%.

The abridged P&L account and profitability ratios are given below:-

Table 1: DIL's Abridged Profit and Loss Statement, on a consolidated basis (in Rs crore)

	2009-10	2008-09	Change (%)
Sales	3,416.7	2,834.1	20.6%
Other Operating Income	24.4	25.6	-4.7%
Material costs	1,550.7	1,376.2	12.7%
Salaries & Wages	284.7	234.7	21.3%
Advertising & promotional expenses	493.5	343.3	43.8%
Other expenditure	432.4	380.8	13.5%
EBITDA	669.5	517.3	29.4%
Depreciation & Amortization	56.2	49.2	14.1%
EBIT	613.2	468.1	31.0%
Interest	12.3	23.2	-46.9%
PBT	600.9	444.8	35.1%
Tax Expenses	100.5	54.0	85.9%
PAT (after minority interest)	501.3	391.2	28.1%

Table 2: DIL - Key Profitability Ratios

	2009-10	2008-09
EBITDA / Sales	19.6%	18.3%
EBIT / Sales	17.9%	16.5%
PAT / Sales	14.7%	13.8%
Earnings per share (Rs)	5.8	4.5

During the year, the Company completed the merger of Fem Care Pharma Ltd. with itself and Fem Care Pharma Ltd. would henceforth cease to exist as a subsidiary of the Company. The consolidated financials of the Dabur India Limited incorporate the financials of Fem Care Pharma Ltd. with effect from 1st April 2009.

There has been a marked improvement

in capital efficiency with the ROCE increasing from 39.4% in 2008-09 to 45.5% in 2009-10 and RONW increasing from 47.7% to 53.5% in the same period. The improvement has been a result of strong surge in profitability and efficient management of capital employed.

Table 3: DIL - Key Balance Sheet Ratios

	2009-10	2008-09
ROCE	45.5%	39.4%
RONW	53.5%	47.7%
Book Value per share (Rs)	10.8	9.5
Net working capital* in no. of days sales	-0.7	-0.4

*Excludes Cash and Bank Balances

Net operating working capital of the company continued at negative level. This was a result of efficient management of supply chain, receivables and creditors. There was a remarkable reduction in Receivable outstandings from 23 days of sales to 13 days of sales. In addition, better inventory management led to a reduction in Inventory from 48 days of sales to 46 days of sales. Table 4 provides details of working capital.

Inflationary pressures were managed well by deploying modern forecasting tools, strategic stocking and e-sourcing technologies. This led to improvement in the gross margin, which helped Dabur increase its advertisement and promotion spends in a competitive market

Table 4: DIL - Net Working Capital

in days sales	2009-10	2008-09
Net Working Capital* Days	-0.7	-0.4
Days Sales Outstanding (DSO)	13	23
Days Inventory Outstanding (DIO)	46	48

*Excludes Cash and Bank Balances

The company incurred Capital expenditure of Rs 160.4 crore during the year which was invested in expansion of manufacturing capacities and regular maintenance expenditure. Debt level in the company remained low as the business generated strong free cash flow. Total loans came down from Rs 230 crore to Rs 179 crore during the year. In effect the company was in a net cash position as cash reserves exceeded the level of debt as on 31st March, 2010.

The Company had declared an interim dividend of 75% during the year and a final dividend 125% which has led to total dividend of 200% being declared for the year. This translates into a payout ratio of 47% of standalone net profit.

Internal Control Systems

Dabur has a robust internal audit and control system managed by qualified and experienced people. PriceWaterhouse Coopers is the internal auditor for the company and its subsidiaries.

The Company follows Standard

Operating Procedures (SOPs) that are in line with the best global practices, and have been laid down across the process flows, along with authority controls for each activity.

Dabur has also introduced the COSO framework for internal controls and adequacy of internal audit. Under this framework, various risks facing the Company are identified and assessed routinely across all levels and functions, and suitable control activities are designed to address and mitigate the significant risks.

The internal audit department reports to the Audit Committee of the Board of Directors, which recommends control measure from time to time. To read the report of the Audit Committee on internal control and adequacy, refer to the section on Corporate Governance of the Annual Report.

Risk Management

Dabur, like any other enterprise having national as well global business interests, is exposed to business risks which may be internal as well as external. In the broadest sense, we define risk as the eventuality of not achieving our financial, operative, or strategic goals as planned. To ensure our long-term corporate success, it is therefore essential that risks be effectively identified, analyzed and then mitigated by means of appropriate control measures. We have a comprehensive risk management system in place, which enables us to recognize and analyze risks early and to take the appropriate action. This system is

implemented as an integral part of our business processes across the entire Dabur operations and includes recording, monitoring, and controlling internal enterprise business risks and addressing them through informed and objective strategies.

The risk management system is spearheaded by the Chief Risk Officer (CRO) of the Company, who is responsible for, and ensures, effective risk management - both risk identification and mitigation. A team of risk officers at each Company location supports the CRO. Each employee is entitled to identify risk and report it to the concerned risk officer, who in turn reports it to the CRO.

The risks are reported in the Risk Register and classified in terms of their impact and probability of occurrence. The Risk Register is an inventory of risks affecting Dabur, and covers various functions like marketing, operations, regulatory affairs, finance and human resource development. The risks are further mapped in terms of mitigation action to be taken and the people who are responsible for taking such actions. The Risk Register is reviewed periodically by senior management and is presented to the Audit Committee on a quarterly basis.

One of the key risks faced by the company in today's scenario is rising inflationary trend and high food prices which can lead to compression in demand for non food consumption activities. A poor monsoon, if it happens, can impact rural incomes and dampen rural consumption and



It is the turnover in Rupees Billion of brand Vatika. Vatika also features among the only FMCG brands to enjoy high popularity in both the domestic and overseas markets evident from almost equal sales contribution from both these markets to its topline

spends. Increase of imitation / fake products and brands can hamper our growth. Any unexpected changes in regulatory framework pertaining to fiscal benefits and health related issues which may impact parts of our business or profitability is one of risks faced by the company. A slowdown in overall economic growth can lead to pressure on disposable incomes and spending power of people.

The Company is well aware of these risks and challenges and has put in place mechanisms to ensure that they are managed and mitigated with adequate timely actions.

Cautionary Statement

Statements in this Management Discussion and Analysis describing the Company's objectives, projections, estimates and expectations may be 'forward looking statements' within the meaning of applicable laws and regulations. Actual results may differ substantially or materially from those expressed or implied. Important developments that could affect the Company's operations include a downward trend in the domestic FMCG industry, rise in input costs, exchange rate fluctuations, and significant changes in political and economic environment in India, environment standards, tax laws, litigation and labour relations.