

# **Dabur India - Working Capital and Cost Management**

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## **ABSTRACT**

After running as a family business for over 100 years, when in late 1990s the management of the Dabur was handed over to a team of professional managers, the new management faced a gigantic task of improving performance in several critical areas. In particular, working capital and cost management required urgent attention as the company's performance in these areas had been far from satisfactory. The then prevailing current ratio of 3.2 and quick ratio of 2.4 were considered too high and indicative of heavy unnecessary investments in working capital that would have a negative effect on company's profitability.

Efforts to improve the working capital efficiency were met with stiff resistance from various quarters, but finally yielded results. The case study discusses the measures taken to improve the working capital and cost management performance, and how with concerted efforts the management turned around a highly inefficient working capital management into one of the most efficient in the FMCG sector of Indian Industry. In fact, the company seemed to have taken the matter to the other extreme of negative working capital, with the current ratio declining to 0.8 and the quick ratio to just 0.4 in 2004-05.

In 2005-06 as the company was ready to launch itself into the next phase of fast growth, several critical issues related to the liquidity and solvency of the company confront the management which are also discussed in the case study.

## **CASE**

"How could a company have a 'negative' working capital and call itself successful?" Bo asked his friend Sharad. They had just joined Dabur India as Management Trainees and at the moment were having their lunch in the company's staff canteen. Bo (nick named for Bose) had spent the morning studying the company's balance sheets for the years 2003-04 and 2004-05 and was surprised to see that the company's current liabilities exceeded its current assets. He remembered reading in his textbooks that such a situation indicated that the company could face difficulties in meeting its short-term liabilities.

"I don't know about that", Sharad replied, "but I think it is a highly profitable company."

"Sure, no problem with the company's profitability. In fact the net profit in 2004-05 jumped by as much as 46% to Rs 148 Crore from Rs 101 Crore last year."

"Wow, that's a lot of increase in one year," Sharad said, "In fact I am told the company has an impressive market share in its product line and is the fourth largest FMCG company in India. But if the company is making high profits and has a good market share, then where is the problem?"

Bo was ready with his reply, "The way I understand, that could be a common trap for the profitable but fast growing companies. Liquidity and profitability are two separate issues and it is naïve to assume that a profitable company would necessarily be liquid too. See, what happens is that in order to provide finance for expansion and diversification projects, a company could cut down on inventories, reduce the credit period to customers while at the same time seek extended credit facilities from its suppliers of raw materials, other goods and services. Also, it tries to manage with nil or as little cash in hand as possible. As

a result, the current assets represented by inventories, debtors and cash would be reduced and current liabilities represented by creditors would increase, culminating in a situation when the company might not have enough current assets to pay for its current liabilities if all creditors wanted them to be settled at once, what to talk about leaving some surplus to continue with its normal business operations.” Bo said emphatically.

Dabur India’s corporate office was housed in a beautifully landscaped, imposing six storied glass building set on several acres of prime land at Kaushambi adjacent to New Delhi. “Well, if the company can make its working capital more efficient, I don’t see any body should have a problem with that. But don’t forget we have an orientation meeting with the finance department in a little while from now.”

Bo was too engrossed with his own thoughts to be affected by such interruption, and continued, “The traditional wisdom of having a positive net working capital means that at least some part of the working capital finance should come from the company’s long term sources so that at any time, even if the company has to settle all its current liabilities at once, it would still be left with some minimum current assets with which it could continue to do its normal business. In technical terms, they say a company needs some permanent working capital and a fluctuating working capital. From what I have read, ideally the permanent working capital and may be some part of the fluctuating working capital also should be financed out of the company’s long-term sources in order to ensure good liquidity and avoid the threat to its solvency.”

Sharad looked at his watch, “My friend, the times are changing. Reduction in inventory and debtors could as well be a management strategy. The Japanese have shown the world how to manage with zero inventories. As far as debtors are concerned, when a firm can sell on cash or near cash terms, why should it sell on credit just to make the balance sheet fit in to your traditional wisdom? Modern enterprises have to be efficient, lean and mean, if we could put it that way, to remain competitive.”

Bo did not like this argument and said, “You don’t get the point, do you? Once a company defaults on payment of any of its current liabilities, the word spreads like wild fire and affects the company’s image and credit rating. With lower credit rating, not many lenders would come forward if it wanted to borrow more, and even if they do, it would cost the company dearer. All this might just start a roller coaster the company might not have bargained for.”

Sharad did not like Bo’s habit of lecturing, and firmly said, “Bo, come out of the textbooks. I think there’s more to liquidity than just the ratio of current assets and current liabilities.” Then getting up he said, “Any ways, let’s not be late for the orientation meeting. We can continue with our discussion later on.”

The stage was already set for the orientation meeting by the time Bo and Sharad walked in. The meeting had a touch of professional perfection and was more detailed and thorough than they had anticipated. Mr. D.K. Chhabra, Additional GM - Financial Planning, made an impressive PowerPoint presentation and dealt with many aspects including the company’s history, handing over of the management to professional team, current challenges and future strategy. Some PowerPoint slides are reproduced in the annexure.

## **The Company**

The story of Dabur began with a visionary endeavor by Dr. S. K. Burman to provide effective and affordable natural cures for the killer diseases of those days like cholera, malaria and plague for ordinary people in far-flung villages in Bengal. Soon 'Daktar' (Doctor) Burman became popular for his effective cures, and that is how his venture Dabur got its name - derived from the Devanagri rendition of Daktar Burman. Dr. Burman set up Dabur in 1884 to produce and dispense Ayurvedic medicines, with the vision of good health for all.

More than a century later, by 1990s Dabur had grown manifold. Over the years, the family has understood the need for incorporating a professional management team that would be able to launch Dabur onto a high growth path in the emerging competitive environment. Therefore, in 1998, the Burman family started

handing over the management of the company to professionals and downscaled its direct involvement in day-to-day operations.

In 2003, with the approval of the Delhi High Court, the company demerged its pharmaceutical business to a new company Dabur Pharma Limited, to 'unlock value in both pharma & FMCG business'. As a result, the entire pharma business was transferred to the said company.

By 2005 Dabur India had emerged as a leading nature-based health and family care products company with 8 manufacturing units, 5000 distributors and over 1.5 million retail outlets spread all over India and abroad. Dabur crossed a turnover of Rs.1, 000 crores in year 2000-01, and further Rs. 1300 crore in 2004-05 thereby establishing its market leadership in its line of activity. Its main product lines include:

- Hair-care: Vatika, Dabur Amla hair oil
- Health supplements: Glucose-D, Dabur honey, Chyawanprash, Real
- Digestives and confectionaries: Hajmola, Anardana Churan
- Oral care: Dabur Lal Dant Manjan, Dabur Red Toothpaste
- Baby and skin care: Dabur Tel, Gulabari etc.

### **The New Management**

With the professional management team taking over in 1998, there was a significant change in the focus, approach and strategy of managing the company. Earlier, the company used to focus mainly on bottom line growth i.e. on improving the profits, while the new management stressed on improving efficiency and performance in all areas. With the help of Mckinsey management consultants, the company changed its organizational structure for better responsibility accounting. Various departments were introduced/rationalized including the supply-chain, sales and marketing, purchase/procurement etc and their functions were clearly defined. The planning and budgeting activity was strengthened, performance oriented incentives were put in place and the finance department was made the custodian of all MIS. The finance department instituted a system of regular comparative evaluation of the company's performance vis-à-vis other FMCG competitors using detailed financial ratios analysis; this aspect was somehow not given due importance in the earlier management regime. The main idea behind introducing such changes was to improve not only the bottom-line of the company but to induce competency in all functional areas.

One area the new management considered as full of potential was the management of working capital. A lot of investment seemed blocked in inventories and debtors, which was pulling down the overall return on capital employed (ROCE). There was an opportunity and a need to trim down investment in this area. Therefore, the company focused on reducing the working capital needed for the operations. The company set a target of achieving zero net working capital by year 2000-01 and aimed at further reducing it to negative levels in the long term. A number of initiatives were taken to reduce the cost of different components of working capital. However, it was not an easy task as the management faced stiff resistance and opposition from its bulk-customers and stockists, suppliers of raw materials and other services, as well as internal departments.

### **Inventory Management and Cost Reduction**

Given the large variety of products that are manufactured and marketed, and hundreds of different raw materials used by the company, accurate forecasting of inventory is very important for effective working capital management. A wrong forecast can lead to piles of inventory, thus blocking unnecessary investment and increasing storage cost as well as the risk of damage associated with perishable items.

After the new management took over, an inventory management system was instituted involving all related departments like procurement, manufacturing, marketing, sales and supply chain. The finance department is involved throughout the process and helps in linking all operations and controlling flow of information through various departments.

The annual planning process begins in November-December each year with the objective of finalizing the company's annual budget before the start of the next accounting year from April. The sales targets for the forthcoming period are set by MANCOM (Management Committee), which comprises the heads of functional areas like Sales, Marketing, Human Resource, Commercial, Supply chain, Production and Finance taking the company's product-packaging-mix of approximately one thousand (1,000) SKU's (Stock Keeping Units) into consideration. The sales targets take into account the sales trends and special promotion schemes.

On the basis of sales targets set for the forthcoming period, the sales department establishes product wise requirements of the finished goods. This information is used by the production department to prepare a rolling production plan and establish the quantity of each type of raw material required for meeting the production targets. This information on raw material requirements is then communicated to the purchase/procurement department.

As the production department itself establishes the requirements of raw materials to be purchased, it prevents excess purchases and helps in reducing the storage cost as well as the cost of funds blocked in inventories. For each item purchased a safety stock is identified and maintained to take care of any fluctuations in lead-time and usage of raw materials before fresh supplies would arrive. Suitable safety stocks are maintained for finished goods too.

Raw materials have been classified on the basis of value, quantity required and location of procurement. While purchases of more valuable items are taken care of by the central procurement unit, low-value and/or low-number items may be locally purchased on a decentralized basis. The main aim is to minimize the cost of the raw materials including the transportation cost. Specialized professionals (called Category Managers) are appointed to look after the procurement of various types of raw materials.

As far as possible, the company procures materials on back-to-back basis following the Just-in-Time approach. However, JIT inventory system is not applicable for all inputs. Many of its inputs are agricultural products that are available at cheaper prices seasonally when fresh crops arrive into the market. If the annual requirement of raw materials is not purchased/tied-up during this period, the company may have to pay much higher prices which could rise by as much as 50% to 75% in the off-season months. As a result, the company must procure such raw materials within the period of their seasonal abundance (typically just 45-65 days) and preserve them for later use. Often, enough stocks are procured to partly use them in the current year (40%) and partly (60%) next year.

Fortunately, with the start of a Commodities Exchange in India, the company has an alternative way of managing raw material cost, and that is by taking a position in the derivatives (futures and options) market. For example, suppose the company can buy a call option for 1 million kg of material X at an exercise price of Rs. 15 per kg with a maturity of 3 months. The call option gives the company a right (but not obligation) to buy the stated quantity of X at the agreed exercise price. To buy a call option the company will have to pay a cost, called premium (say Rs. 0.50 per kg), but at the same time the call option will hedge it against possible losses if the market price of X rises beyond the exercise price before the maturity of the option. For example, if the price of X rises to Rs. 18 per kg, the company will find it advantageous to exercise its option to buy it at Rs. 15. Usually, the company enters into futures and options contracts for periods ranging from 3 to 9 months. Hedging combined with e-procurement has significantly helped the company in cost control and reduction. According to the CFO, Mr. Rajan Varma, "We managed to cut costs through our e-procurement system. We as a company may or may not have control over commodity prices, but our marketing and purchase guys are taking futuristic positions and even though this practice constitutes a business risk it is beginning to show results."

Another significant tool of cost reduction used by Dabur India is 'value engineering' to identify and develop more cost effective materials. For example, this has resulted in reducing the cost of packaging for several of the company products. Research and development activities have also helped in reducing the time of processing which has increased productivity.

In non-manufacturing areas too, the company has been looking for opportunities to cut down the costs. In 2003, the Company applied for and got the Court approval for de-listing of its shares from several regional stock-exchanges including Ahmedabad, Bangalore, Delhi, Jaipur, Ludhiana, Magadh and U.P. Stock Exchanges. The trading volumes of Company's shares at these stock exchanges had been negligible for many years and by de-listing its shares from these regional stock exchanges, the company saved itself from considerable costs as well as regulatory provisions.

### **Debtors Management**

The company has mainly three types of customers: stockists, institutions and international/export customers. The company does not have a standard credit policy that could be applied to all customers. Instead, distinct credit terms are offered to each group depending upon various factors such as the product, place, price, demand and competition.

#### **1. Stockists:**

In 2005, the company has about 1.5 million stockists. The credit terms to the stockists vary from 1 – 10 days depending upon factors stated above as well as their locations vis-à-vis the depot towns. Depot towns are mostly the state capitals or other commercial towns/cities where the company has its own sales depots operating.

- **Stockists in Town Depots:** 70% of the company's stockists are located in or around the 'depot towns'. At these places, the company uses the Cash Management System (CMS) offered by banks; stockists' cheques collected till the end of a day are deposited next morning into the company's local bank account from where the funds are transferred to the corporate bank account.

Earlier these stockists used to enjoy 5 days credit period but now the company has decreased the time frame to 1 day. For new stockists, sales are normally made on Demand-Draft basis. If a stockist's cheque bounces, then the party has to make payment only by demand-draft. If a party defaults on payment (or a party's cheques bounce) more than once, then for all its transactions with Dabur India in the coming year the party would be required to make payments only by demand-draft.

- **Stockists in remote areas:** The rest 30% of the turnover with stockists takes place at remote places away from depot towns with no easy access to banks so that the 'anywhere cheque' system is logistically not possible. Such stockists may be allowed a credit period of up to 10 days. On the average, the money is credited in company's bank account in 3 - 7 days.

2. **Institutions:** Institutions like canteen stores department (CSD), large stores, hotels and modern Malls etc are offered soft payment terms that may range from 15 to 90 days. Though such institutions are slower in making payments, the higher profit margins on such sales more than make up the cost of extended credit.

3. **International Customers:** Similarly, credit terms negotiated with export customers would depend on the international competition and product pricing etc.

Where longer credit terms must be offered as a part of the marketing strategy, the company often resorts to 'factoring' as a means of financing debtors. The factoring arrangements are made with banks or specialized factoring companies. In these cases, the company makes sure that profit margins from such sales are high enough to cover the cost of factoring.

### **Cash Management**

As stated above, the company maintains bank accounts at all depots towns. Cheques/drafts received from customers in nearby places are sent for local clearing to initially collect funds in these bank accounts. This has reduced the average collection period (as compared to the time it would take if customer cheques were first received at head-office and then sent for out-station clearing) thereby increasing the velocity of cash

inflows. Funds thus collected at the depot towns are each day transferred to the company's head-office (or corporate) bank account. The company has a 'sweeping arrangement' with the bank at head-office by which any funds transferred from the depot towns are automatically applied towards settling the company's cash credit loan from the bank and reducing its debit balance. These steps have resulted in reducing and controlling the cost of interest to the company.

When the company has surplus funds, the company invests the same in short-term investments or instruments like mutual funds and Govt. securities.

### **Suppliers**

The company has more than 1000 suppliers inclusive of service providers like advertisement companies etc. Out of these, 100-150 are regular suppliers. Most suppliers are small business units with annual trading volume of Rs 2-3 crore with Dabur India.

The Company enjoys credit periods ranging from 7 to 90 days from the creditors, which can at times be extended up to 120 days. The suppliers use the bills discounting to avail bank financing against their receivables from Dabur India and bear the bank charges as well. However, if the credit period is extended beyond 120 days, the bills discounting charges are born by Dabur India.

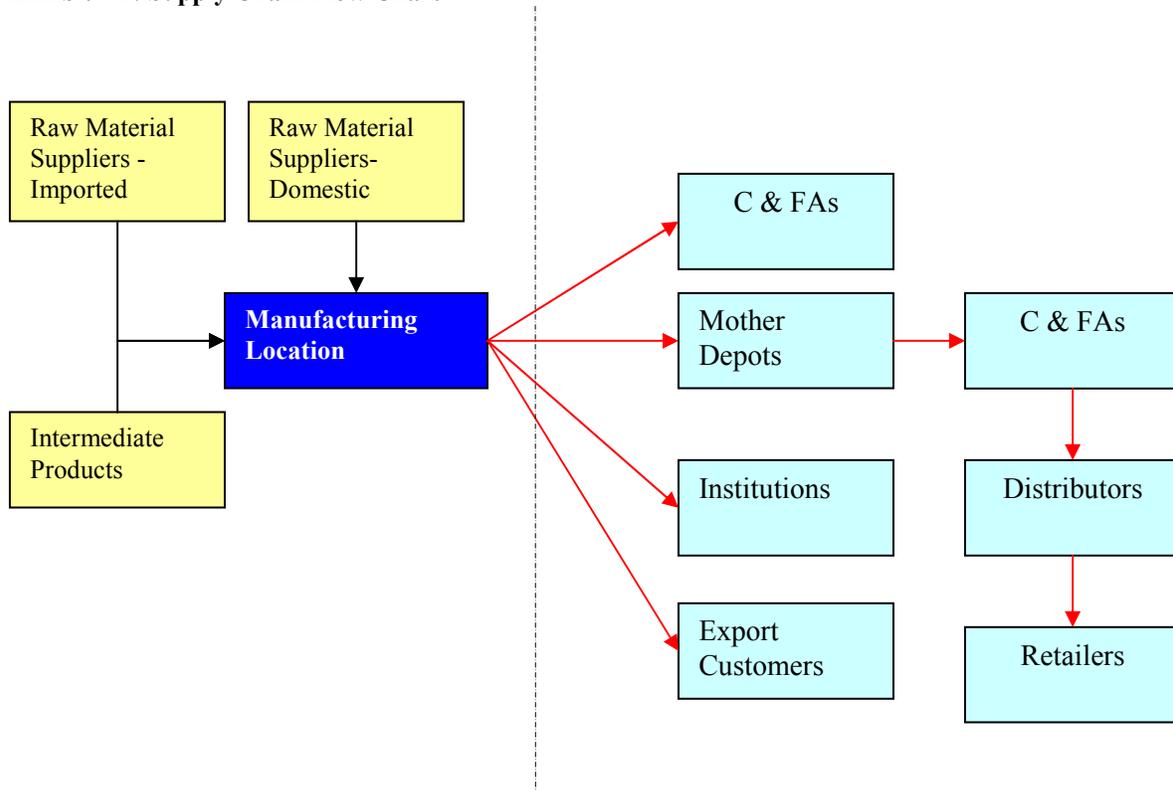
**Financing Working Capital:** The Company makes an aggressive use of all ethical means to increase the velocity of cash inflows from customers and tries to slow down the cash outflows to creditors. Credit facilities from suppliers of raw materials, other goods and services are therefore the main sources of financing working capital. However, it has not been easy for the company to negotiate favourable terms with its debtors and creditors. The Dabur management spends considerable time and effort to train debtors and suppliers in modern ways of financing such as factoring or bills discounting, and helps them by bank introductions etc. When a policy change in credit terms seems necessary, it is first negotiated with the big creditors and debtors before being implemented for all suppliers and customers.

Discussions with suppliers take place in a highly transparent manner. Among the methods used to control credit are techniques such as regression, progression, slap or standardized terms. The management identifies and bridges the communication gaps through educating the suppliers.

## Supply Chain Management

The supply chain management in Dabur India is a key factor impacting sales, profitability and working capital. Exhibit-1 shows the supply chain flowchart.

**Exhibit – 1: Supply Chain Flow Chart**



An efficient supply chain system helps in value creation for the business in four important ways. These are: (i) Positive impact on sales: created by improved service through reliable and regular flow of quality goods to retailers and end-use customers. (ii) Reducing investment in inventories and increasing accounts payables, (iii) Cost management: lower inventory levels result in lower carrying cost, which is approximately 10% per annum on the average inventory held. Thus, if inventory holding reduces by Rs. 10 million, it will lead to a saving in carrying cost of about Rs 1 million per annum. Cost savings also result from the better coordination between inventory planning, acquisition and usage departments and (iv) Facilitating optimum use of the firm's fixed assets and infrastructure by increasing inventory turnover.

### **Role of the Finance Department:**

The finance department is involved in all aspects of financial planning and control. It maintains a quarterly score card, which helps the company to evaluate the performance of employees in terms of Cost to Company (CTC). Managerial remuneration consists of a fixed salary plus bonuses based on performance on a variety of parameters including maintenance of inventory levels and other working capital items within agreed limits. The department also prepares MIS and communicates the same to all the concerned departments. It also continuously monitors the management of inventory, debtors and creditors to ensure that the net working capital remains within the budgeted levels. If, for example, the investment in inventory exceeds the planned limits due to some unavoidable circumstances, it must be offset by either an increase in creditors or a reduction in debtors.

The orientation meeting was coming to a close. The AGM concluded by saying, "Ever since the professional management took over the reigns of the company, efforts have been made to upgrade

efficiency in all aspects of business to build a competitive edge and improve the return on investment. I may add here that, in my personal opinion, the balance sheet as per the current provisions of the Companies Act does not show a true picture of the company's liquidity. This is because the company's investment in marketable securities is at present not allowed to be included in the current assets. Therefore, the company actually has a better liquidity position than reflected by the net working capital as shown in the balance sheet."

Bo was so absorbed in the presentation that he remained seated even after it was over and others starting leaving the small but well furnished conference hall. He was shaken out of his thoughts when he heard Sharad, "Wow, I didn't know managing working capital involved so many aspects. What do you think?"

"Well, definitely it has been a learning experience. I guess I have to start analyzing the company performance all over again. To fully understand the evolving financial strategy, may be I should begin with a comparative analysis of Dabur India's performance against its competitors, say HLL, for some years before and after 1998 when the change in management took place," Bo said as they followed others out of the hall.

### QUESTIONS

1. Assume this is 1998-99. The new management wants to identify areas with potential for improving performance, particularly in the area of working capital. For this purpose, taking HLL financial performance as a benchmark, carry out a financial ratios analysis for Dabur India for the period 1995 to 1998, and identify the areas where there is need for improving performance. Use the summarized data in Exhibits 2 and 3 for this purpose.
2. Using data in exhibit-4, calculate various working capital ratios for Dabur India for the years 2003-04 and 2004-05. Compare these with similar ratios for the years 1995 to 1998. Identify the trends and discuss their implications on cost management and other aspects.
3. What do you think are the advantages and disadvantages of a 'negative' net working capital policy? If you are the CFO of a company, which policy would you like to follow and why?
4. What is the importance of cost control and reduction in the emerging business environment? Using Dabur India's experience as an illustration, discuss the techniques or methods that a company could use to reduce costs.
5. What is hedging and how can futures and options contracts be used to hedge against adverse price rises? Prepare a note on Commodities Futures and Options markets in India. (Skip this question if not relevant to the specific training group).
6. Using internet and other available sources collect latest financial information on major competitors in the FMCG sector and carry out a detailed financial ratios analysis covering as many aspects as possible.

**Exhibit–2a: HLL Summarized P & L accounts: 1995-1998**

(Rs. Crore)

	1995	1996	1997	1998
<b>Sales and other income</b>	<b>3434</b>	<b>6718</b>	<b>8004</b>	<b>9727</b>
<b>Expenditure</b>				
Operating expenses	3018	6001	7062	8466
Depreciation	24	55	58	102
Interest	20	57	34	29
<b>Total Expenditure</b>	<b>3062</b>	<b>6113</b>	<b>7154</b>	<b>8597</b>
<b>Profit before tax</b>	<b>372</b>	<b>605</b>	<b>850</b>	<b>1130</b>
Tax for the year	133	192	270	293
<b>Profit after tax</b>	<b>239</b>	<b>413</b>	<b>580</b>	<b>837</b>

Source: Annual Reports of HLL.

**Exhibit – 2b: HLL Summarised Balance Sheets: 1995-1998**

(Rs. Crores)

	1995	1996	1997	1998
<b>Sources of Funds</b>				
Shareholders' funds	<b>816</b>	<b>1170</b>	<b>1261</b>	<b>1713</b>
Share Capital	146	200	199	220
Reserves and surplus	670	970	1062	1493
Loan funds	160	259	187	264
<b>Total</b>	<b>976</b>	<b>1429</b>	<b>1448</b>	<b>1977</b>
<b>Application of Funds</b>				
Net Fixed assets	396	722	794	1054
Investments	122	328	532	697
Current Assets	1337	1829	2201	2609

Inventories	685	904	1045	1146
Receivables	563	722	582	803
Cash and bank balances	89	203	574	660
Current Liabilities and Provisions	879	1450	2079	2383
Net Current Assets	458	379	122	226
<b>Total</b>	<b>976</b>	<b>1429</b>	<b>1448</b>	<b>1977</b>

Source: Annual Reports of HLL.

**Exhibit-3a: Dabur India Summarised P & L accounts: 1995-1998**

(Rs. Crores)

	1995	1996	1997	1998
<b>Sales and other income</b>	<b>436.6</b>	<b>608.6</b>	<b>716.2</b>	<b>835.3</b>
<b>Expenditure</b>				
Operating expenses	379.3	530.6	629.4	745.9
Depreciation	8.1	12.1	11.3	16.2
Interest	18.3	24.5	32.0	29.4
<b>Total Expenditure</b>	<b>405.7</b>	<b>567.2</b>	<b>672.7</b>	<b>791.5</b>
Profit before tax	30.9	41.4	43.5	43.8
Tax for the year	7.0	7.0	1.1	0.3
<b>Profit after tax</b>	<b>23.9</b>	<b>34.4</b>	<b>42.4</b>	<b>43.5</b>

Source: CMIE software 'Prowess'

**Exhibit – 3b: Dabur India’s Summarised Balance Sheets: 1995-1998**

(Rs. Crores)

	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
<b>Sources of Funds</b>				
Shareholders’ funds	135.2	161.0	194.8	227.3
Share Capital	28.5	28.5	28.5	28.5
Reserves and surplus	106.7	132.5	166.3	198.8
Loan funds	144.2	191.1	214.0	271.4
<b>Total</b>	<b>279.4</b>	<b>352.1</b>	<b>408.8</b>	<b>498.7</b>
<b>Application of Funds</b>				
Net Fixed assets	72.2	105.6	160.6	206.0
Investments	35.5	24.5	34.1	43.1
Current Assets	246.1	317.2	290.5	327.3
Inventories	62.8	107.5	96.8	118.1
Receivables	176.8	203.3	187.2	188.8
Cash and bank balances	6.5	6.4	6.5	20.4
Current Liabilities and Provisions	77.4	97.8	78.8	85.7
Net Current Assets	168.7	219.4	211.7	241.6
Misc. expenses not w.off	3.0	2.6	2.4	8.0
<b>Total</b>	<b>279.4</b>	<b>352.1</b>	<b>408.8</b>	<b>498.7</b>

Source: CMIE software ‘Prowess’

Exhibit 4a: Dabur India Balance Sheets as at 31st March 2005 and 2004:

Balance Sheet as at 31st March, 2005

Schedule	As at 31st March, 2005 (Rs. lac)	As at 31st March, 2004 (Rs. lac)
<b>Sources of Funds :</b>		
<b>Shareholders' Funds :</b>		
A) Share Capital	2,864.20	2,862.49
B) Reserves and Surplus	30,943.15	24,003.32
	<b>33,807.35</b>	<b>26,865.81</b>
<b>Loan Funds :</b>		
A) Secured Loans	1,570.38	1,909.37
B) Unsecured Loans	3,292.60	2,071.91
	<b>4,862.98</b>	<b>3,981.28</b>
<b>Deferred Tax Liability</b>	<b>1,277.51</b>	<b>796.95</b>
<b>Total</b>	<b>39,947.84</b>	<b>31,644.04</b>
<b>Application of Funds :</b>		
<b>Fixed Assets :</b>		
(A) Gross Block	32,672.44	27,450.18
(B) Less : Depreciation	13,511.83	11,955.85
(C) Net Block	<b>19,160.61</b>	<b>15,494.33</b>
<b>Investments</b>	<b>27,094.25</b>	<b>17,122.67</b>
<b>Deferred Tax Assets</b>	<b>137.75</b>	<b>57.01</b>
<b>Current Assets, Loans and Advances :</b>		
(A) Inventories	12,802.57	10,951.93
(B) Sundry Debtors	4,928.27	4,207.22
(C) Cash & Bank Balances	1,065.38	1,188.72
(D) Loans & Advances	6,400.96	5,584.34
	<b>25,197.18</b>	<b>21,932.21</b>
<b>Less : Current Liabilities and Provisions :</b>		
(A) Liabilities	23,838.05	16,452.07
(B) Provisions	8,384.94	7,169.81
	<b>32,222.99</b>	<b>23,621.88</b>
<b>Net Current Assets</b>	<b>(7,025.81)</b>	<b>(1,689.67)</b>
<b>Miscellaneous Expenditure</b> (To the extent not written off or adjusted)	<b>581.04</b>	<b>659.70</b>
<b>Notes to Accounts</b>		
<b>Total</b>	<b>39,947.84</b>	<b>31,644.04</b>

As per our report of even date attached

For **G. Basu & Co.**  
Chartered Accountants

**S. Lahiri**  
Partner

New Delhi  
28th April, 2005

For **Dabur India Ltd.**

**V. C. Burman**

**P. D. Narang**

**P. N. Vijay**

**A. K. Jain**

Chairman

Director

Director

Addl. GM (Fin.) &  
Company Secretary

Exhibit 4b: Dabur India Profit & Loss Account for the years ended 31st March 2005 and 2004:

Profit & Loss Account for the year ended 31st March, 2005

	Schedule	For the year ended 31st March, 2005 (Rs. lac)	For the year ended 31st March, 2004 (Rs. lac)
<b>Income :</b>			
Sales less returns	J	126,871.51	114,797.73
Other Income		1,150.32	1,104.59
<b>Total Income</b>		<b>128,021.83</b>	115,902.32
<b>Expenditure :</b>			
Cost of Materials	K	54,365.36	50,319.20
Excise Duty		4,248.86	6,539.58
Manufacturing Expenses	L	2,919.46	2,548.52
Payments to and Provisions for Employees	M	8,208.56	7,558.56
Selling and Administrative Expenses	N	39,488.95	35,117.32
Financial Expenses	O	429.57	689.77
Miscellaneous Expenditure Written Off	IB	149.33	210.38
Depreciation		1,709.92	1,574.96
<b>Total Expenditure</b>		<b>111,520.01</b>	104,558.29
<b>Balance being Net Profit before Taxation</b>		<b>16,501.82</b>	11,344.03
Provision for Taxation – Current		1,300.00	875.00
– Deferred		399.83	348.65
<b>Net Profit after Taxation</b>		<b>14,801.99</b>	10,120.38
Balance brought forward		8,112.18	6,611.56
Provision for Taxation of earlier years written back		–	19.95
Provision for Taxation for earlier year		(5.30)	(25.72)
Transferred from Debenture Redemption Reserve		–	250.00
Transferred from Investment Allowance Reserve		82.58	–
Transferred from Investment Deposit Reserve		182.50	–
		<b>23,173.95</b>	16,976.17
<b>Appropriations</b>			
Interim Dividend		2,862.89	1,717.49
Proposed Dividend - Final		4,296.30	4,007.49
Corporate Tax on Interim Dividend		374.14	220.05
Corporate tax on Proposed Dividend		602.56	513.46
Transferred to Capital Reserve		–	155.50
Transferred to General Reserve		2,515.08	2,250.00
<b>Balance carried over to Balance Sheet</b>		<b>12,522.98</b>	8,112.18
		<b>23,173.95</b>	16,976.17
<b>Earning Per Share (In Rs.) (Face Value Re. 1/- each)</b>			
Basic		5.17	3.54
Diluted		5.14	3.52
<b>No. of Shares</b>			
Basic		286,336,927	285,987,220
Diluted		287,819,156	286,984,379

As per our report of even date attached

For **G. Basu & Co.**  
Chartered Accountants

**S. Lahiri**  
Partner

New Delhi  
28th April, 2005

For **Dabur India Ltd.**

**V. C. Burman**

**P. D. Narang**

**P. N. Vijay**

**A. K. Jain**

Chairman

Director

Director

Addl. GM (Fin.) &  
Company Secretary

## ANNEXURES

### **Dabur's Vision and Philosophy**

1. Ownership
2. Passion for Winning
3. People Development
4. Consumer Focus
5. Team Work
6. Innovation
7. Integrity

This is our company. We accept personal responsibility, and accountability to meet business needs.

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

People are our most important asset. We add value through result driven training, and we encourage & reward excellence.

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

We work together on the principle of mutual trust & transparency in a boundary-less organisation. We are intellectually honest in advocating proposals, including recognizing risks.

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

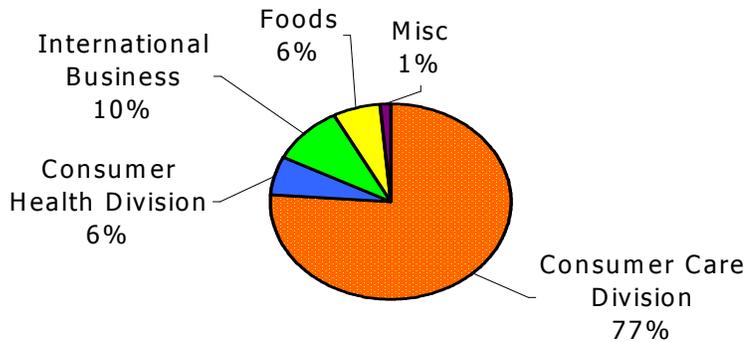
We are committed to the achievement of business success with integrity. We are honest with consumers, with business partners and with each other.

### **Dabur Mile stones**

- 1884: The birth of Dabur
- 1986: Registered as a Public Limited Company
- 1972: The company shifts to Delhi from Kolkata
- 1994: Company gets listed
- 1995: First Ayurvedic Company to get ISO 9002 Certification
- 1998: Professional CEO inducted
- 2000: Dabur reaches a turnover of Rs. 1000 crores

- 2001: Board restructured, more professionals inducted
- 2003: De-merger of Pharmaceuticals business
- 2005: Profit exceeds Rs. 150 crores

**Dabur Business Structure**



**CONSUMER CARE DIVISION**

*Range of personal care and health care products viz. hair care, oral care, skin care, baby care, health supplements and digestives*

**CONSUMER HEALTH DIVISION**

*Range of health care products comprising Ayurvedic medicines and OTC Ayurvedic products*

**FOODS DIVISION**

*Dabur Foods Ltd, a 100% subsidiary comprising Real Fruit Juices, Hommade cooking pastes & Lemoneez*

**INTERNATIONAL BUSINESS DIVISION**

*Dabur's international business based in Dubai; Having operations in Middle East, Asia, Africa, Australia, UK , US and Canada*

**Dabur's Finance Organizational Structure**

