

Management Discussion and Analysis Report

Activities of the Company

The Company is in the “cleaning products” industry and has two major divisions, the Consumer Products Division and the Sulphonation Division.

The Consumer Products division is engaged in the manufacture, marketing and distribution of detergent powders, liquid detergents, hand wash liquids, toilet soaps, shampoos and other industrial & household cleaning products. In Northern Oman, the Company distributes its products directly while in Salalah and other export markets, the distribution is done through a network of distributors developed over a period of time. Detergent Powder accounts for a major portion of the Company’s business.

The Sulphonation Division is engaged in the manufacture of Sulphonic Acid, a surface active agent used in the detergent and home care products. The product is sold mainly to manufacturers in the region and nearby export markets.

Industry Structure

The detergent market for GCC is estimated to be around 240,000 MT per annum and large multinational Companies dominate this industry along with a number of regional players. The detergent market is broadly split between high foam and low foam powders, with the former accounting for a sizeable share of the total market. Based on quality and price, the market is further divided into premium, popular and economy segments. The popular segment accounts for the largest share amongst these.

The overall market growth is generally in line with the population growth in this region. The market is dominated by multinational brands in the premium and popular segments while the regional players focus on the popular and economy segments. There is excess detergent powder capacity available in the region, which leads to intense competition amongst the players, each one trying hard to improve and sustain his share in the market place. Hence, there is a strong pressure on Companies to focus on and develop new export markets continuously.

Toilet Soap segment had substantial capacity expansion in this region and exports into neighbouring regions improved over the years.

In the Sulphonation division, the demand for Sulphonic Acid is generally linked to the production level of detergents, hand wash liquids and personal care products. The industry has larger installed capacity compared to the regional demand and the industry has to perforce focus on export of this product to the nearby countries and regions.

Opportunities and Threats

Having developed a reasonable presence in the GCC countries through the distribution network built over the years, the Company's consumer products would be able to leverage its distribution strength into volume gains, as the economies of this region with the increased oil wealth continue to grow in the coming years. Improved distribution arrangements in key markets in GCC are providing further support in increasing sale volumes. The opening up of Arab market for GCC products offers increased opportunities and the Company has already started taking advantage of them. New product development offers additional opportunities as well.

Available excess capacity, continuing intense price competition and the increasing trend of material prices continue to pose the threat to growth and reasonable margins. Factors like recent significant increase in raw material prices, operational costs increase due to external factors and additional price competition in the industry have significant impact on the Company's operating margins. Regular availability of select raw materials, due to worldwide supply constraints, may also pose a challenge in the coming year.

In the Sulphonation division, the price of the major raw material had gone up substantially due to increase in oil prices and reduced availability of some of its key raw materials in the international markets. The Company has managed to pass on major portion of the cost increase to the consumers during the year. Opportunities to increase the export sale volumes in the nearby markets are there, though achieving satisfactory margins in these markets would be a continuing challenge.

Risks and Concerns

The Company is subject to normal business risks. Further, there is continuing pressure on operating margins, as explained earlier. The prevalent raw material prices are likely to continue to remain high or increase further linked to the oil prices and shortages in the world market. The Company is operating in an industry, which is dominated by multinational Companies. The prevailing price competition and eroding margins are major areas of concern for the Company. Increase in operational and distribution costs due to local factors also contribute to reduction in operating margins, which is another matter of concern.

Credit on open terms is a normal practice in the industry and the Company has to follow this norm in select cases to improve its sales volume and enter new markets. The Company has an approved credit policy and guidelines for commercial operations, which is periodically reviewed to ensure that the credit exposure is kept to the minimum.

Internal Control

The Company has in place an adequate internal control system commensurate with the nature and size of its operations. The Company has appointed M/s. Moore Stephens, a reputed audit firm in Oman for ensuring adequate controls and compliance with systems and procedures. The Audit Committee oversees the audit procedure and adequacy of the internal control systems.

Operational Performance

The Consumer Products division has recorded increased sales value and volume compared to the previous year and the realization level was marginally lower due to larger export business during the year compared to the previous year. Your Company had executed bulk export orders for detergent to a nearby country, which has helped in better capacity utilization and achieve higher volume sale compared to the previous year. In the local market, your Company has achieved satisfactory volume sale and value growth compared to last year due to the Company's conscious focus on profitable products. Our flagship brand 'Bahar' has also registered good sales growth during the year. The Company has been able to develop new markets for its range of products and trial orders have been executed during the year.

Management continued the successful implementation of the Company's strategic action plan, which has contributed to the improved results. However, our conscious strategy of opting to stay out of the non-profitable product/market segments have resulted in some loss in sales volume in select export markets during this year.

In spite of increase in competition, our sales promotional expenses were controlled effectively to achieve satisfactory contribution levels. The selling and distribution expenses have gone up due to increase in transportation and other operational costs. The distribution in Northern Oman continued to provide satisfactory results with improved sales value. The Company hopes to consolidate and improve its distribution reach and coverage in the coming years.

Direct Costs have gone up during the year due to prevalent high prices of raw and packing materials. However, the direct overheads were controlled well during the year with higher capacity utilization.

In the Sulphonation Division, sales volume and value has registered satisfactory growth due to increased captive consumption and improved sales realization in the export markets. Production levels also improved compared to the previous year. Material cost increased considerably due to the very high prices of LAB, the key raw material for the manufacture of Sulphonic Acid. However, the operating margins improved with the improvement in sales realization as the Company was able to pass on the material cost increase to the consumers by way of price revision and also due to the advantage of LAB stocks procured during the year at relatively lower prices.

Administrative and general expenses have been effectively managed with manpower rationalization and conscious reduction in manpower related costs. Finance costs were also controlled by optimum utilization of available funds despite higher working capital requirement due to higher material prices.

Our associate Company, Middle East Detergent Manufacture & Trading WLL, Bahrain was also impacted by the increase in material costs and reduced sales realization levels due to the prevalent competition in the market place. The Company registered a loss during the year, though lesser than the loss registered during the previous year. Your Company's share of loss from this has been duly accounted in the income statement.

The total operating profit of the Company for the year was RO 495,454 against an operating profit of RO 323,403 in the previous year. After considering 'other income' and 'provision for loss in associates', the total net profit for the year works out to RO 322,404 compared to the total profit of RO 139,107 of the previous year.

Future

The overall improvement in the regional GCC economies offers good business potential for fast moving consumer goods, like ours. However, the challenging business environment in our industry, due to reasons explained earlier, is expected to continue in the coming years. The current excess capacity in the region, continuing price competitions by the multinationals and the prevalent high levels of material prices are likely to continue in the near future, impacting the operating margins. Effective cost management and product range expansion along with identifying and tapping potential new export markets are part of our continuing strategic response to achieve profitable operational results in the coming years. Your Company is making all necessary efforts to effectively meet these challenges and deliver improved sales and operational results, although the profitability levels are expected to be under pressure in the coming period.
