

Management Discussion and Analysis

Driving our **Vision** through

Relentless Innovation

Innovation is the 'essence' of a vision. Relentless innovation is all about translating ideas into products that enhance lifestyles, easing lives.

At Godrej, we encourage people to translate ideas into tangible **products**. Our **Research & Development** facilities flame the enthusiasm to innovate, taking people to greater heights of achievement.



Relentless Innovation

We will be persistent in looking for better ways of doing things; we will seek new ideas to solve problems; we will experiment with new concepts, ideas and solutions; challenge the status quo and improve and evolve newer ways of delivering value to our stakeholders.

Management Discussion and Analysis

The year 2002-03 was a challenging though exciting year for Godrej Consumer Products Ltd. This because in the face of a demanding economic scenario and moderate sector growth, the GCPL team has demonstrated the resilience and competence to drive superior to sector growth in excess of categories across its chosen segments.

Economic growth, although better than the previous financial year, continued to be sluggish. The Central Statistical Organisation (CSO), largely due to a 3.1% decline expected in Agriculture, has scaled the GDP growth estimate for 2002-03 down to 4.4%. Industry is estimated to grow at 6.1%, while the growth in services is anticipated to touch 7.1% in 2002-03 as per the advance estimates of CSO.

Perspective

% Growth	2000-2001	2001-02	2002-03
GDP	4.4	5.6	4.4
Agriculture	(0.4)	5.7	(3.1)
Industry	6.6	3.3	6.1
Services	5.6	6.8	7.1

Continuing geopolitical tensions and domestic pressures have added to apprehensions among consumers. These challenges have given Indian FMCG players the opportunity to demonstrate resilience by delivering value despite environmental constraints. Companies have had to adapt their business models as well as explore innovative methods of driving growth. These include :

Developing value for money products

Rural India has displayed a major change in its aspirations and lifestyles with growing incomes translating into increasing consumption. While this is a large market, these consumers look for good value products at competitive prices.

Identification of niche segments

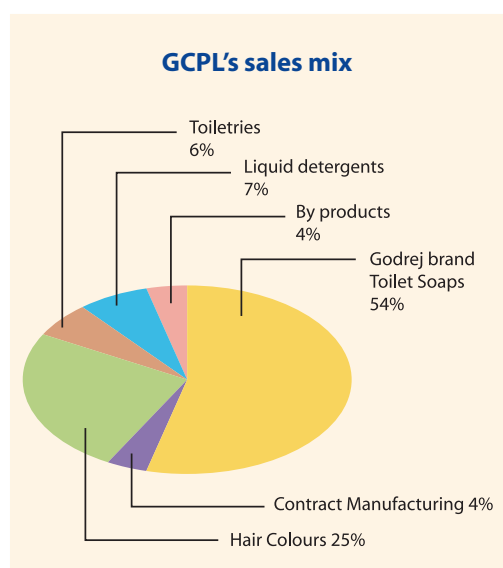
Though rural demand is seen to be growing at a fast pace, there is a significant market for high quality value-added niche products in the urban and higher income segments.

Aggressively enhancing efficiencies

FMCG companies are increasingly looking at various tools and methods to drive efficiencies and thereby deliver improved performance.

In this scenario, your Company has evolved into a faster and leaner organization with impressive growth :

- Sale of GCPL brands have increased 8% from Rs. 400.4 crore in 2001-02 to Rs. 433.8 crore in 2002-03.
- Profit before interest, tax and depreciation (PBDIT) has risen 6 per cent to Rs. 81.8 crore. GCPL's net profit has also appreciated 28 per cent to Rs. 53.6 crore.
- Your Company continues to be a leader in the sector as well as corporate India in terms of its usage of capital. It has delivered a ROCE of 115% and a RONW of 118% in 2001-02.
- On a weighted average cost of capital of 16 per cent, GCPL has generated an Economic Value Added (EVA) of Rs. 41.7 crore, which is 39 per cent higher than the returns delivered in 2001-02.



Amounts in Rs. crore

Turnover (net of Excise)	FY 02-03	FY 01-02	Growth %
Toilet Soaps	253.5	232.5	9
Hair Colours	117.4	101.0	16
Liquid Detergents	34.4	31.1	11
Toiletries	28.4	35.8	(21)
Total Godrej Brands	433.8	400.4	8
Contract Manufacturing	17.5	43.0	(59)
By-Products	18.8	15.2	24
Total Sales	470.1	458.6	3

In the ensuing discussion, we will apprise you of the strategies and processes adopted by GCPL across its chosen segments and the results of the same.

The Beauty of Innovation

Soap



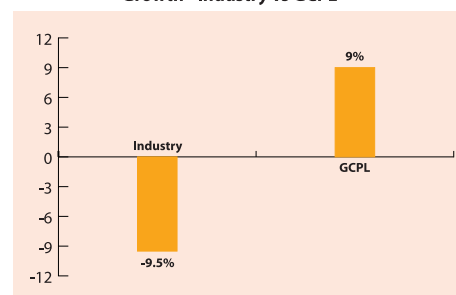
Toilet Soaps

In 2002-03, this category accounted for 54% of GCPL's total sales and 58% of GCPL's branded sales. Sales in this category grew 9% over 2001-02.

GCPL's soap brands grew 11% by volume and 9% by value in 2002-03. The GCPL flagship brand, Cinthol celebrated its Golden Jubilee in August 2002. Cinthol has over the years been nurtured to become one of India's leading and most trusted brands. Commemorating this occasion, Cinthol launched a special Golden Jubilee carton pack of three soaps priced at Rs. 50. The offer was available all across the country.



Growth - Industry vs GCPL





The value proposition of blemish-free fairness offered by Godrej FairGlow soap and Godrej FairGlow cream has generated high consumer acceptance. In May 2002, the product blend was further improved and the packaging enhanced to appear more contemporary and appealing. These initiatives are supported by a new and innovative campaign designed to communicate the unique and natural benefits the brand offers. A key component of this is the website www.fairglow.com which has sections on beauty tips and responds to consumer queries.



The Godrej No. 1 range has been expanded to include a fourth variant, namely Godrej No. 1 Ayurvedic Soap. This brand continues to display considerable volume gains through universal acceptance in the sub popular category.

GCPL soaps possess amongst the highest TFM contents in the category, which implies greater bath per unit and reduced 'wear off'. All the power brands of GCPL in the Toilet Soaps category continue to be of Grade-1 quality, which is the most stringent specification by the Bureau of Indian Standards. This we believe is now being appreciated by the market and will be a key driver in growing our soap sales.





The Benefit of Innovation

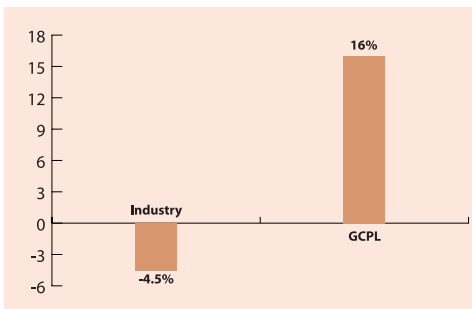
Personal Care

The Personal Care segment has been extremely buoyant, demonstrating good growth in 2002-03. This has been achieved through increased investments in innovation, research and communication. This segment contributes 38% to GCPL's total sales and 42% to the Company's branded sales.

Hair Colours

As you are aware, GCPL is the market leader in the hair colour category with a market share of 44% in 2002-03. The category accounted for 25% of GCPL's total sales and 27% of the branded sales.

Growth - Industry vs GCPL



The premium Godrej ColourSoft brand has shown strong performance and is poised to demonstrate even more significant growth. The brand continues to be the largest selling premium hair colour brand in India by volume.

GCPL being the leader in the category consistently explores opportunities to expand the market. Building on consumer insights and comprehending the need for increased choice, the Company introduced three new exciting fashion shades, Dark Mahogany, Burgundy and Copper Brown. The entire ColourSoft range has double conditioners which give visible and uniform colour results. The built-in conditioner penetrates the hair during the colouring process and protects the hair from any damage and strengthens it.





GCPL also entered the traditionally unbranded mehendi powder market with a 100 per cent natural mehendi branded “Godrej Nupur”. Godrej Nupur mehendi has a unique blend which offers natural colouring of hair along with the natural goodness of Amla, Brahmi and Bhringraj to keep it healthy and beautiful. Amla helps darken the hair and promotes hair growth. Brahmi too, promotes hair growth while Bhringraj makes the hair black and luxurious.

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Improved supply chain efficiencies and expansion of our distribution network, coupled with various special offers and schemes have contributed to expanding the reach of our other hair care brands which include Godrej Kesh Kala, Godrej Powder Hair Dye, Godrej Liquid Hair Dye and Anoop Hair Oil.



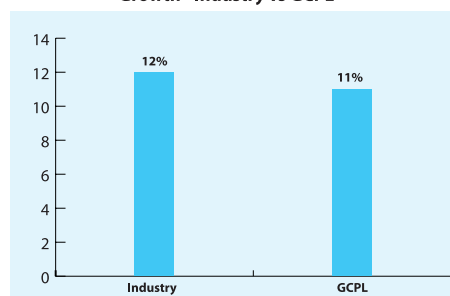
Godrej Kesh Kala was relaunched with attractive consumer friendly packaging that has received an enthusiastic response. A special offer on all variants of Godrej Liquid Hair Dye - Natural Black, Natural Brown and Dark Brown - was introduced wherein the product was available in a consumer friendly ‘combi-pack’ with a transparent window.

Liquid Detergents

This category contributed 8% to GCPL's total branded sales. GCPL is a leader in this category too with a market share of 87%. The Ezee brand, which possesses a fabric conditioner, is Woolmark approved. The GCPL Research team continues its thrust towards developing a product that is suitable for other materials as well.

The Godrej Dishwash Liquid is a special concentrated formulation for cleaning utensils. This product was repackaged in an appealing see through bottle in January 2003. The Company is highly optimistic about the prospects of the product.

Growth - Industry vs GCPL

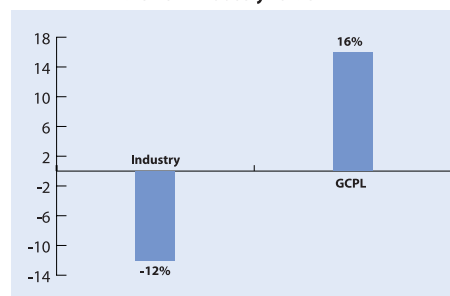


Toiletries

The Godrej Shaving Cream brand is one of the oldest in the country. All variants contain lanolin, which facilitate smooth and close shaving. While the brand has received high approval amongst its consumers, the growth has been gradual because of the absence of any innovation in terms of packaging, communications or offers. The Company is seized of this and is focused on developing a new packaging and look for the range. During the second half of 2002-03, all variants were offered with innovative gift schemes. This campaign received a highly positive response from the consumers who appreciated the high utility value of the offering.

In a challenging market environment, GCPL's offerings in the talcum powder and deodorant categories showed declining growth rates while the fairness cream Godrej FairGlow's sales are also witnessing a longer gestation period.

Growth - Industry vs GCPL



The Core of Innovation

Research and Development



Research and Development is the cornerstone of GCPL's initiatives. Your Company's thrust is on relentless innovation and discovering new or improved methods, concepts and solutions.

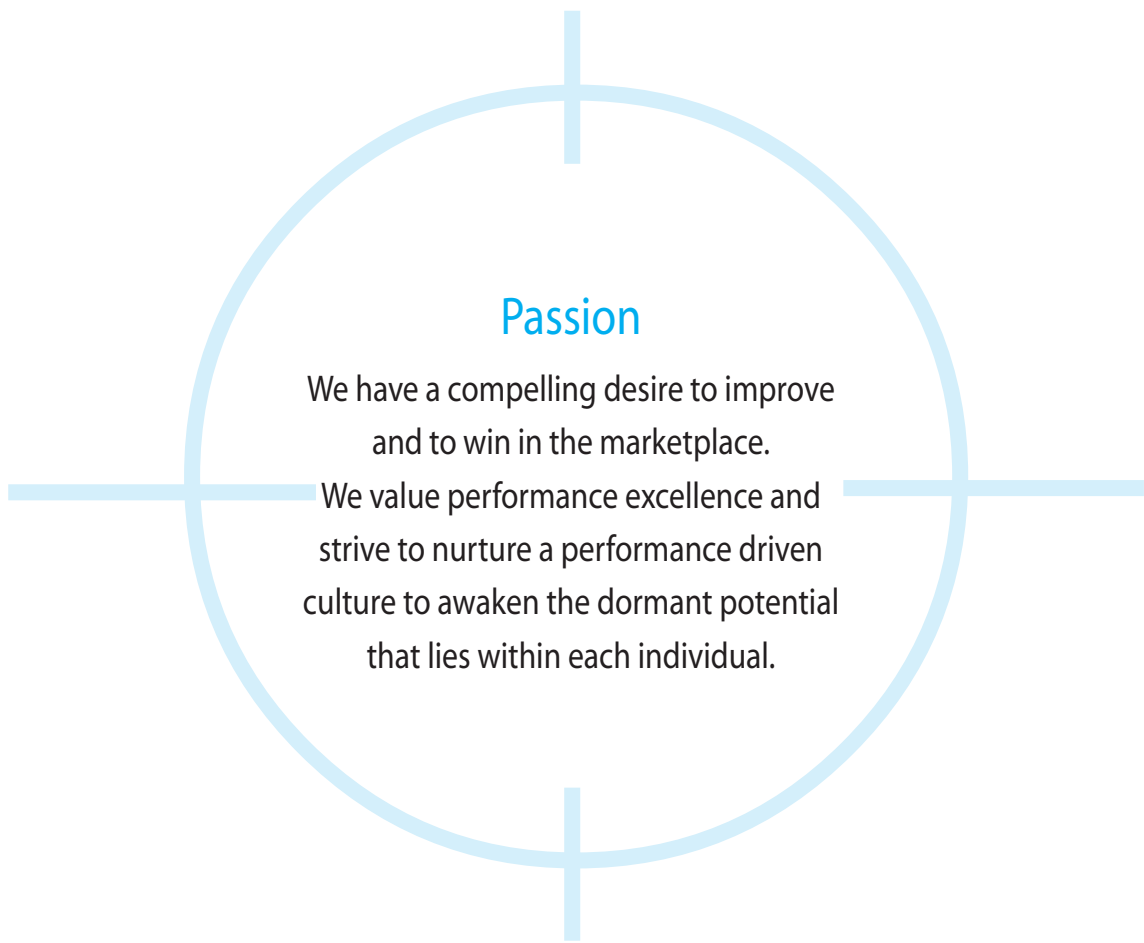
The R & D team has been focused on identifying innovative processes and new product lines in the hair colour and skin care category. The R & D initiatives have strongly supported GCPL's operations. During 2002-03, the R & D team's thrust has been on developing natural solutions in personal care, energy efficient processes, ensuring consistent quality standards at all manufacturing facilities and completely comprehending consumer needs.

This has culminated in the introduction of a number of new products, which include a new oil based Hair Colour, white Fairness Soap, Saffron Fairness Soap for the southern markets, Hand Sanitiser and Shower Gel and an Ayurvedic Toilet Soap with 21 herbs.



Realising our Vision with Passion

At Godrej, we ensure that passion acts as a fuel, energizing the Company's ascent through changing times. Our people are **driven by a will** to emerge ahead of others, charging towards their set goal with **determination** and **dedication**. We instill passion by seeking opportunity in every possibility, enabling swift action and making them reach out for what can be.





People Power Enthusiasm Motivation



A Passion for harnessing Human Talent

Human Resources



Growing in an increasingly competitive and dynamic environment, the Company places great importance in developing its human resources. All initiatives are undertaken keeping in mind overall organisational development, with a strong emphasis on enhancing employee productivity, accountability and efficiency, while also allowing the Company to be more market focused, consumer centric and cost conscious.



During 2002-03, the Godrej Group launched *Godrejite* – a B2E portal. This portal is designed to provide employees located anywhere in the country with a single point of access for most of the information they may need. The portal also makes it possible for employees to transact regular HR and administrative tasks on-line. *Godrejite* has contributed to minimizing time losses and increasing productivity.



This year also saw the launch of the 'SPARK' initiative to promote Potential to Performance through the coaching route.

The Company enjoys cordial relations with its workers and has not lost a single workday through strikes or faced any industrial unrest.



A Passion for IT

Information Technology



Information Technology has played an extremely active role in enhancing the Company's supply chain efficiencies.

GCPL is today integrated with major distributors, which will allow the Company to control inventory levels and view retailing information on a daily basis. This initiative has also enabled the Company to considerably improve its cost competitiveness. In 2002-03, the Company also set on-line its 'Business Intelligence Solutions' initiative, which enables line managers to view historical sales and cost patterns as well as other variables and interpret and analyse this data to define strategies, going forward. The B2E-Portal has provided a virtual workplace for the employees resulting in instant dissemination of information across the organisation, besides improving operational efficiency.

'Business Intelligence Solutions' initiative enables line managers to view historical sales and cost patterns to define strategies, going forward.

Complementing our Vision with Entrepreneurial Spirit

To hold a vision is to be an entrepreneur. Only the ordinary set reasonable goals. Entrepreneurs are bold, urged by an irrepressible spirit, refusing to operate within the boundaries of the 'real world'. Their entrepreneurial spirit dramatically boosts their ability to deliver.

A **forward outlook** and **global perspective** adds to our success. Keeping us ahead of others, hurtling us at a greater speed towards our vision.



Entrepreneurial Spirit

We encourage and expect initiative, creativity, risk taking ability, freedom and flexibility in decision making on part of all individuals. We believe in the inherent ability of people to create new, vital and excellent systems of thought and action through independent execution.



Global Outlook
Futuristic
Competitive



The spirit of exploring global opportunities



Exports



Your Company is aggressively exploring opportunities in the global market for both its Soap and Personal Care portfolio.

In 2002-03, GCPL's export income amounted to Rs. 8.3 crore, of which 37% is from the soap segment and 63% from the personal care segment. The highlights on the export front included a tie-up on third party manufacturing in Bangladesh, which will offer the Company significant cost efficiencies and logistical benefits. The Company has also launched its hair colour and fairness cream range in the virgin markets of Afghanistan, Somaliland and South Africa. Your Company has identified the Latin American and African regions as key growth markets and is exploring possibilities of growing GCPL's presence in these regions.

The spirit of
partnering excellence

Contract Manufacturing



GCPL's state-of-the-art manufacturing facilities present opportunities for leading FMCG companies to outsource part of their production from the Company. This also contributes to GCPL optimally utilizing its manufacturing facilities.

The superior efficiencies and quality of your Company's manufacturing plants continue to present GCPL with the opportunity to undertake contract manufacturing for other companies. The income generated from contract manufacturing in 2002-03 amounted to Rs. 17.5 crore by sales and Rs. 5.9 crore by way of processing charges. Unfortunately, this business is on a decline with marketers preferring to put up their own facilities in the tax efficient areas.

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A passion
for performance



Financial Highlights

Despite environmental constraints and a challenging geopolitical environment, the year 2002-03 was another step for GCPL towards delivering value to all its stakeholders.

Abridged Profit & Loss statement

All figures in Rs. crore

	2002-03	2001-02
Sales	470.1	458.6
Processing income	5.9	6.3
Other income	1.4	1.6
Total income	477.4	466.5
Material costs	223.1	224.3
Staff costs	25.5	22.2
Advertising & sales promotion	58.4	66.8
Other expenditure	88.6	76.2
Total expenditure	395.6	389.4
PBDIT	81.8	77.1
Depreciation	9.0	9.4
PBIT	72.8	67.7
Interest and financial charges (net)	2.7	4.5
PBT	70.1	63.2
Provision for taxation	16.5	21.2
PAT	53.6	42.0

GCPL's total sales in 2002-03 was Rs. 470.1 crore, a growth of 3% over 2001-02. Sales of Godrej brands have also shown an improvement of 8% over 2001-02 amounting to Rs. 433.8 crore.

GCPL generated a Profit Before Tax (PBT) of Rs. 70.1 crore and a Profit After Tax (PAT) of Rs. 53.6 crore, displaying a significant 11% and 28% growth respectively over the Company's performance in 2001-02. Your Company has performed creditably across all profitability parameters.

Profitability perspective

	2002-03	2001-02
PBDIT/Sales	17.4%	16.8%
PBT/Sales	14.9%	13.8%
PAT/Sales	11.4%	9.2%
ROCE	114.7%	89.6%
RONW	117.6%	79.1%
EPS (in Rs.)	9.2	7.0
EVA (in Rs. crore)	41.7	30.1

Internal control systems and their adequacy

GCPL has a proper and adequate system of internal controls to ensure that all assets are safeguarded and protected against loss from unauthorised use or disposition, and that transactions are authorised, recorded and reported correctly.

The Company has well documented Operating Procedures and Authorisations, which have adequate built-in controls. Adequate checks are built in to cover all monetary transactions with proper delineation of authority. The Company's ERP System, viz. MFGPro, provides adequate level of system-based checks and controls. The Company has also developed and adopted a formal Information Technology Policy (including IT Security), which is periodically reviewed.

The internal control is supplemented by an extensive programme of internal and external audits, review by management and documented policies, guidelines and procedures. The system is designed to ensure that financial and other records are reliable for preparing financial information and other data and for maintaining accountability of assets.

Outlook for 2003-04

Despite a challenging market environment, the Company through continued consumer centric initiatives, is confident of minimizing sector sensitivities and driving growth in the Toilet Soaps category and as leaders, expanding the Hair Colour and Liquid Detergent category.

Higher efficiencies driven by EVA, increased sales and distribution thrust, a focused communication strategy and an international market and acquisition outlook will be the key drivers towards business growth and profitability.

Cautionary statement

Some of the 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 might differ substantially from those expressed or implied. Important developments that could affect the Company's operations include a downtrend in the domestic industry, significant changes in political and economic environment in India, tax laws, import duties, litigation and labour relations.

Strengthening our Vision with Enduring Trust

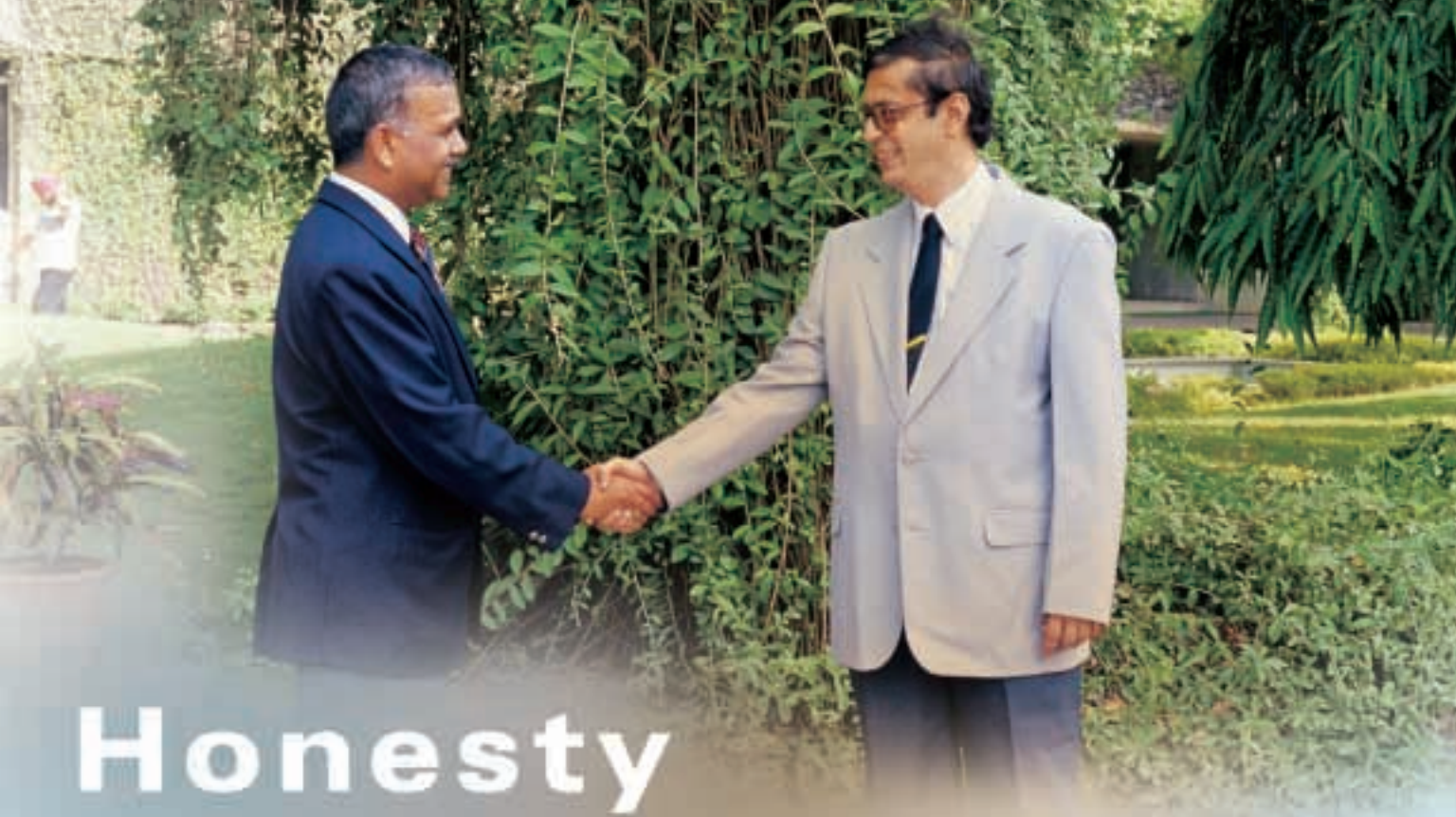
Vision and trust are inseparable. Both play a crucial role in deciding the path a company chooses to tread on. They define the operations, systems and processes.

At Godrej, trust is built on the pillars of **Honesty** and **Integrity**. Constantly living up to trust has been one of the most powerful elements in establishing our **credibility**. Ensuring that information is shared, **transparency** is certain and promises are delivered. Enduring trust forms the core of all our activities.



Enduring Trust

We believe in mutually trustworthy relationship within the organisation and with the external community. We will conduct our business only by legitimate means and approach people, organizations, media, issues and associations with honesty, integrity, straightforwardness and truthfulness.



Honesty

Integrity

Transparency

