

## Chairman's Statement

Dear Shareholders,

The year 2004-05 was a good year for the Indian economy which grew at about 7% notwithstanding a sub normal monsoon and increasing commodity prices. Your Company has delivered industry-outperforming growth in the past in a challenging environment, and so it is only natural that it has performed even more creditably in a more conducive environment.

Godrej Consumer Products' strategy of enhancing margins and increasing market share in the Toilet Soaps category while investing in expanding the Personal Care market, wherein we are leaders, is clearly showing results with smart increases in both revenues and profits.

### **The macro environment**

In the year under review, the manufacturing and services sectors enjoyed healthy growth while the performance of the agricultural sector was moderate. Agriculture's contribution to the economy, relative to previous years was lower on the back of a delayed monsoon. What is important to note, however, is that the Indian economy overall and the FMCG segment in particular has gradually transitioned from being 'monsoon critical' to 'monsoon sensitive'. I say this for two reasons. Firstly, increasing water tables and better storage mechanisms have contributed to increased and timely availability of water in a number of regions. Additionally, an increasing proportion of agricultural income has begun to come from non-crop activity like animal husbandry, farm management, etc.- pursuits that are economically viable while at the same time not influenced by the vagaries of the monsoon.

The trends in consumer response, appetite and demand have also been highly encouraging. GDP measured at Purchasing Power Parity (PPP) of the Indian economy has appreciated



significantly, as a result of which India presently stands 4th globally in terms of GDP (PPP) and can be expected to further improve its position in the near future. What is even more heartening for the FMCG sector is that while consumer spend was earlier seen to be shifting towards consumer durables and other non-FMCG items, the year under review has witnessed an increase in spend on the FMCG sector.

### **Robust financial and operating performance**

In 2004-05, your Company's revenues increased 15% to Rs.563 crore while Net Profit after Tax increased an impressive 33% to Rs.86 crore. Our operating profits too have registered an improvement of 21% with operating margins continue to be strong at 19%.

Our highly efficient utilization of assets and capital is reflected in our maintaining triple digit Return on Capital Employed (RoCE) and Return on Net worth (RoNW) both of which are amongst the highest in the Indian industry. We also continue to operate on negative net working capital.

Economic Value Added (EVA) is a key financial metric used to measure GCPL's creation of stakeholder value. In the year under review, your Company's EVA improved 47% to Rs. 79 crore, another indication of GCPL's endeavour and ability to create enduring value for its stakeholders.

### **Innovation, Value for Money and Efficiencies**

Our growth, as always has been driven by a focus on innovating and creating quality and 'value for money' products for our consumers while at the same time sweating our assets and identifying cost competitive manufacturing options without compromising on quality.



The introduction of new soap variants while maintaining an affordable price has enabled us to widen our consumer base and considerably expand our market share. In the Hair colour category too, in line with being leaders and providing direction to the category we have identified offerings at new price points, which are enjoying healthy consumer offtake.

From an operational viewpoint, we remain highly efficient. Our expertise in vegetable oil procurement is evidenced in our ability to optimise raw material prices. As you are aware, your Company was amongst the first to set up a manufacturing facility in the economically backward region of Baddi in Himachal Pradesh. A second line has become fully operational during the year, resulting in greater excise and income tax benefits for your Company.

### **Values**

We are committed to responsible management and control while being consistently agile to take advantage of various opportunities. The cornerstones of our corporate governance are mutual trust, efficient cooperation and transparent communication, all with the objective of safeguarding the interests of our stakeholders. A 'Code of Conduct' and 'Prevention of Sexual Harassment Policy' are in place.

Your Company's 'people' approach resulted in it being recognized by the 'Great Place to Work Institute' as one of the best Indian Companies to work in for the second year in a row. CNBC/Hewitt Associates too acknowledged GCPL as having the 'Best Managed Workforce'.

ICRA too, reaffirmed its ratings for the Corporate Governance practices of your Company at CGR2+ and the rating for Stakeholders Value Creation and Governance practices at

SVG2+ which is a reflection of the high quality of Corporate Governance practices followed by your Company.

### **Going forward**

Today, Godrej Consumer Products possesses a strong product range, superior processes, a well established distribution system and a great set of enthusiastic and motivated people, all requirements for continued sector outperforming growth.

Robust economic growth and increasing urbanization are driving aspiration levels, which in turn is increasing consumption. The categories we are present in are demonstrating strong growth and are expected to continue to do so. All this bodes extremely well for your Company.

I believe we will continue to outperform the sector. We are aggressively exploring viable inorganic and organic growth opportunities to deploy the cash our business generates and further accelerate our growth.

I thank our team and our business partners for their support and contribution in our performance and look forward to continuing cooperation. To our esteemed shareholders, I extend our thanks for the confidence you have shown in us. It will be our prime objective in FY2005-06 to further strengthen that confidence.

Yours sincerely,

**Adi Godrej**  
Chairman and Managing Director