



Directors' Report

Sustaining growth through transformation

Godrej Consumer Products has gained critical mass with the right financial and operational size and scale. The Directors' Report maps your Company's transformation and growth that are a result of strategy, foresight and business acumen.



Directors' Report

FOR THE YEAR ENDED ON MARCH 31, 2006

To The Shareholders,

Your Directors have pleasure in presenting their Report along with the Audited Accounts for the year ended on March 31, 2006.

OPERATING RESULTS

Your Company's financial performance for the year under review has been encouraging and is summarised below :

	This Year Rs. Crore	Last Year Rs. Crore
Sales (net of excise duty)	657.3	562.7
Other operating income	—	—
Other Income	8.7	6.4
Total Income	666.0	569.1
Total Expenditure other than Interest and Depreciation	(519.9)	(462.2)
Profit before Interest, Depreciation and Tax	146.1	106.9
Depreciation	(10.8)	(10.7)
Profit before Interest and Tax	135.3	96.2
Interest and Financial Charges (net)	(4.0)	(2.5)
Profit before Tax	131.3	93.8
Provision for tax :		
Current tax	(10.9)	(7.4)
Deferred tax	1.3	(0.3)
Fringe Benefit Tax	(0.9)	
Profit after tax	120.7	86.1
Tax adjustments in respect of previous years	0.5	3.5
Profit after tax and tax adjustments for previous years	121.2	89.6
Surplus brought forward	8.0	4.5
Amount available for appropriation	129.2	94.1

APPROPRIATION

Your Directors recommend appropriation as under :

	This Year Rs. Crore	Last Year Rs. Crore
Interim Dividend	79.0	68.0
Proposed Final Dividend	—	—
Tax on distributed profits	11.1	9.1
Transfer to General Reserve	12.1	9.0
Surplus Carried Forward	27.0	8.0
Total Appropriation	129.2	94.1

DIVIDEND

For the year 2005-06, three interim dividends were paid – Rs. 3 per share on August 12, 2005, Rs. 3 per share on November 14, 2005 and Rs. 3 per share on February 10, 2006.

In addition to the above, the Directors have declared a fourth interim dividend on April 26, 2006 at the rate of Rs. 5 per share. The record date for the same has been fixed as May 5, 2006.

The total dividend payout for the year ended March 31, 2006 works out to Rs.14 per share (350% on the shares of the face value of Rs. 4/-).

Your Directors recommend that the aforesaid interim dividends aggregating to Rs.14/- per share be declared as final dividend for the year ended on March 31, 2006.

REVIEW OF OPERATIONS

During the year under review your Company has recorded Profit After Tax (PAT) of Rs.120.7 crore and Net Profit (after tax adjustments) of Rs.121.2 crore.

The comparison of the current year's Sales with last year's is given in Table 1 below.

Sales of Godrej Consumer Products Limited (GCPL) brands have increased by 20 percent from Rs. 528.7 crore in 2004-05 to Rs. 634.4 crore in 2005-06.

During the year under review, your Company maintained performance that was superior to the industry in the soap segment, with sales of GCPL brands increasing by 18%. The performance of the personal care segment was also

encouraging led by a 22% sales growth in hair colour. Both segments had new offerings during the year.

A detailed analysis of your Company's performance is contained in the Management Discussion and Analysis Report.

ACQUISITION

On October 31, 2005, GCPL acquired 100% ownership interest in Keyline Brands Ltd. (Keyline), one of UK's admired FMCG companies. For GCPL this is a first step towards establishing a global presence.

This acquisition gives GCPL ownership of several international strong brands and trademarks including 'CUTICURA', 'ERASMIC' and 'AAPRI' in many countries. It enables access to trade channels in key developed markets including Europe, Australia and Canada and a strong customer base that includes Boots, Sainsbury and Tesco amongst others. During the post-acquisition period i.e. November 2005 to March 2006, Keyline posted a turnover of £ 5.4 million and a profit after tax of £ 0.4 million.

SUBSIDIARY COMPANIES

During the year under review, Godrej Netherlands B.V, Godrej Consumer Products (UK) Limited, Keyline Brands Limited, Inecto Manufacturing Limited, Inecto Limited, Cosmetics That Care Limited and Cuticura Laboratories Limited became subsidiaries of your Company.

Table 1 : Comparison of Current year sales with last year

		(Rs. Crore)		
Particulars	Year ended 31-Mar-06	Year ended 31-Mar-05	% Increase / (decrease)	
1. Godrej Brands (net of excise duty)				
a) Soaps	392.7	334.1	18	
b) Hair Colour	162.5	133.6	22	
c) Toiletries	39.4	24.5	61	
d) Liquid Detergents	39.7	36.5	9	
Total Godrej Brands	634.4	528.7	20	
2. Contract Manufacturing	7.8	20.0	(61)	
3. Other Sales	15.1	14.0	8	
Total	657.3	562.7	17	

The Company has been granted exemption by the Ministry of Company Affairs, from attaching with its accounts the individual accounts of each of the subsidiaries. The accounts of the subsidiary companies and the related detailed information will be made available to any shareholder seeking such information at any point of time. The accounts of the subsidiary companies are also available for inspection by any shareholder at the registered office of the Company or at the registered offices of the subsidiary companies.

The Consolidated Financial Statements of the Company and its subsidiaries, prepared in accordance with Accounting Standard 21 issued by the Institute of Chartered Accountants of India, forms part of the Annual Report and Accounts.

In accordance with the conditions stipulated by the Ministry of Company Affairs, while granting exemption from attaching the individual accounts of each of the subsidiaries, a one page financial summary for the subsidiaries is disclosed in the consolidated balance sheet.

RATINGS

The Company continues to enjoy a Corporate Governance Rating of CGR2+ and a Stakeholder Value Creation and Governance Rating of SVG2+, assigned by ICRA. The + sign indicates relatively higher standing within the category indicated by the rating. The above ratings are on a rating scale of 1 to 6, where 1 is the highest rating.

BUYBACK

The Board of Directors, in its meeting held on May 10, 2005, approved a proposal for buyback of shares from the open market, pursuant to the first proviso to Section 77A(2)(b) i.e. under the authority of the Board, at a maximum price not exceeding Rs.400/- per share at an aggregate consideration not exceeding Rs. 4.80 crore. The Public Announcement as per SEBI Regulations, for the buyback was made on May 16, 2005. The Company bought 143,448 shares from the open market under this buyback at a total consideration of Rs. 4.77 crore. The buyback was closed on June 30, 2005.

The Board of Directors, in its meeting held on May 10, 2005, approved another proposal for buyback of shares through the open market, pursuant to Section 77A(2)(b) i.e. at a maximum price not exceeding Rs.400/- per share at an aggregate consideration not exceeding Rs. 10.50 crore. This proposal was subject to shareholders approval by means of postal ballot and was to commence after the

closure/completion of the buyback of Rs.4.80 crore referred above. The approval of shareholders was so received and the results of postal ballot were announced on July 8, 2005. However, the Company has not been able to proceed with the buyback since the share price has been prevailing above the maximum price fixed for the buyback .

SUBDIVISION OF SHARES

In the Board meeting held on April 26, 2006, the Board of Directors approved a proposal for sub-division of equity shares from shares of the face value of Rs.4/- each to 4 shares of the face value of Re.1/- each. This proposal is subject to the approval of shareholders in the ensuing Annual General Meeting.

DIRECTORS

In accordance with Article 127 of the Articles of Association of your Company, Mr. J. N. Godrej and Mr. Bala Balachandran retire by rotation and, being eligible, offer themselves for re-appointment.

The Board of Directors at its meeting held on April 26, 2006 appointed Mr. Aman Mehta as an Additional Director on the Board of the Company. Mr. Aman Mehta is an Independent Director as envisaged in clause 49 of the listing agreement with the stock exchanges. Pursuant to Section 260 of the Companies Act, 1956 Mr. Mehta holds office up to the Annual General Meeting. The Company has received a notice from a member pursuant to Section 257 of the Companies Act, 1956, signifying his intention to propose the name of Mr. Aman Mehta as a Director in the ensuing Annual General Meeting.

Mr. Anupam Puri has resigned from the Board with effect from July 31, 2006. The Board places on record, its appreciation of the valuable contribution made by Mr. Puri during his tenure as an Independent Director in the Board.

LISTING

The shares of your Company are listed at The Bombay Stock Exchange Limited and The National Stock Exchange of India Limited. The listing fee for the year 2006-07 has been paid before the due date.

AUDITORS

The Auditors, Kalyaniwalla & Mistry, Chartered Accountants, Mumbai, retire and offer themselves for re-appointment.

Pursuant to directions from the Department of Company Affairs, P. M. Nanabhoy & Co., Cost Accountants have been appointed as Cost Auditors for the year 2005-06. They are required to submit the report to the Central Government within 180 days from the end of the accounting year.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the provisions contained in Section 217 (2AA) of the Companies Act, 1956, your Directors, based on the representation received from the Operating Management, and after due enquiry, confirm :

- that in the preparation of the annual accounts, the applicable accounting standards have been followed and no material departures have been made from the same;
- that they have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;
- that they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company for preventing and detecting fraud and other irregularities;
- that they have prepared the annual accounts on a going concern basis.

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement, a Management Discussion and Analysis Report and a Report on Corporate Governance are included in the Annual Report. The Auditors' Certificate certifying the Company's compliance with the requirements of Corporate Governance in terms of Clause 49 of the Listing Agreement is attached as **Annexure C** and forms part of this Annual Report.

GROUP FOR INTERSE TRANSFER OF SHARES

As required under clause 3(1)(e) of the Securities and Exchange Board of India (Substantial Acquisition of Shares

and Takeovers) Regulations, 1997 persons constituting "Group" (within the meaning as defined in the Monopolies and Restrictive Trade Practices Act, 1969) for the purpose of availing exemption from applicability of the provisions of Regulation 10 to 12 of the aforesaid Regulations, are given in the **Annexure B** attached herewith and forms part of this Annual Report.

ADDITIONAL INFORMATION

Annexure A to this Report gives the information in respect of Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo, required under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 and forms a part of the Directors' Report.

Information as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particular of Employees) Rules, 1975 forms part of this Report. As per provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to the Shareholders of the Company, excluding the statement of particulars of the employees under Section 217(2A) of the Companies Act, 1956. Any shareholder interested in obtaining a copy of the statement may write to the Company Secretary at the Registered Office of the Company.

The notes to the Accounts referred to in the Auditors' Report are self-explanatory and therefore do not call for any further explanation.

ACKNOWLEDGEMENT

Your Directors wish to place their sincere thanks to the Union Government and the Governments of Maharashtra, Madhya Pradesh, Assam, Dadra & Nagar Haveli and Himachal Pradesh, as also to all the Government agencies, banks, customers, shareholders, vendors and other related organisations who, through their continued support and co-operation, have helped, as partners, in your Company's progress.

For and on behalf of the Board of Directors

Adi Godrej
Chairman

Mumbai, May 19, 2006

Annexure A forming part of the Directors' Report

INFORMATION PURSUANT TO SECTION 217(1)(e) OF THE COMPANIES ACT, 1956, READ WITH THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF THE BOARD OF DIRECTORS) RULES, 1988 IN RESPECT OF CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS & OUTGO.

A. Conservation of Energy

I. (A) Energy Conservation measures undertake:

- i) Replacement of reciprocating compressor with energy efficient screw compressor in water chilling plant.
- ii) Installation of Variable Frequency Drive in the roll mill of a plant.
- iii) Change in noodle feeding system in a plant.

(B) Proposed energy conservation measures :

- i) Use of Regasified Liquefied Natural Gas (RLNG) in place of liquid fuels in Low Pressure/ High Pressure boilers and thermic fluid heaters.
- ii) Installation of Variable Frequency Drive for air compressor.
- iii) Replacement of existing tube lights with energy efficient tube lights.

II. Impact of measures on reduction of energy consumption and consequent impact on the cost of production of goods :

Saving in energy costs during the period under consideration.

B. Technology Absorption

Research and Development (R & D)

I. Specific areas in which R & D carried out by the Company -

During the year under review, Research and Development efforts in the following areas strengthened the Company's operations through technology absorption, adaptation and innovation :

1. Hair Care
2. Skin Care
3. Customer Centricity
4. Knowledge Management
5. Quality Control
6. Packaging Development

II. Benefits derived as a result of the above R & D efforts -

1. Launch of new soap variants
2. Launch of new No.1 talc in two variants
3. Launch of two Cinthol Talc variants
4. Launch of Evita age control soap
5. Improved Ezee formulation based on consumer studies
6. Launch of Fashion hair colours with pleasant fragrances.

III. Future Plan of Action :

- i) Focus on new soaps and innovative hair care products.
- ii) Understanding the consumer.
- iii) Focus on innovative packaging.

IV. Expenditure on R & D

	This Year Rs. Crore	Last Year Rs. Crore
(a) Capital	0.00	0.03
(b) Recurring	2.36	1.67
(c) Total	2.36	1.70
(d) Total R & D expenditure as a percentage of total sales turnover	0.36%	0.30%

Technology absorption, adaptation and innovation

1. Efforts, in brief, made towards technology absorption, adaptation and innovation :
 - i) Expansion of product range to meet the growing market needs.
 - ii) Upgradation in existing products.
2. Benefits derived as a result of the above efforts, e.g., product improvement, cost reduction, product development, import substitution, etc.:

The above efforts helped in satisfying consumer needs, as well as business requirements of introducing new products.

3. Imported Technology :

The Company has not imported any technology since incorporation.

C. Foreign Exchange earnings and outgo :

The total exports of your Company's products during the current year grew by 10% over the previous year. During the year under consideration, the company started exporting its products to eleven new countries. The company's products are now available

in more than 50 countries around the world. The Company has already initiated steps to enter into a few more countries and the registration process and identification of suitable business partners is being aggressively pursued.

Rs. Crore

	This Year	Last Year
I. Foreign exchange used	105.94	81.13
II. Foreign exchange earned	11.05	10.48

Annexure B forming part of the Directors' Report

"Group" for interse transfer of shares under clause 3(1)(e) of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations,1997.

1	Godrej & Boyce Mfg. Co. Ltd.	29	Golden Feed Products Ltd.
2	Godrej Industries Ltd.	30	Goldmohur Foods & Feeds Ltd.
3	Cartini India Ltd.	31	Aadhaar Retailing Services Ltd.
4	Godrej Appliances Ltd.	32	Krithika Agro Farm Chemicals & Engineering Industries Pvt. Ltd.
5	Godrej Holdings Pvt. Ltd.	33	Godrej Foods Ltd.
6	Godrej Infotech Ltd.	34	Godrej Beverages & Foods Ltd.
7	Godrej Investments Pvt. Ltd.	35	Godrej Hicare Ltd.
8	Mercury Manufacturing Co. Ltd.	36	Godrej Global Solutions Ltd.
9	Godrej Efacec Automation & Robotics Ltd.	37	Mr. Adi B. Godrej
10	Godrej (Malaysia) Sdn. Bhd.	38	Mrs. Parmeshwar A. Godrej
11	Godrej (Singapore) Pte. Ltd.	39	Ms. Nisa A. Godrej
12	Godrej (Vietnam) Co. Ltd.	40	Mr. Pirojsha A. Godrej
13	J T Dragon Pte Ltd.	41	Mrs. Tanya A. Dubash
14	Lawkim Ltd.	42	Mr. Jamshyd N. Godrej
15	Godrej Upstream Ltd.	43	Mrs. Pheroza J. Godrej
16	Prashant Metal Forming Industries Pvt. Ltd.	44	Ms. Raika J. Godrej
17	Ensemble Holdings & Finance Ltd.	45	Mr. Navroze J. Godrej
18	Swadeshi Detergents Ltd.	46	Mr. Nadir B. Godrej
19	Vora Soaps Ltd.	47	Mrs. Rati N. Godrej
20	Godrej Global Mid East FZE	48	Master Burjis N. Godrej
21	Godrej International Ltd.	49	Master Sohrab N. Godrej
22	Godrej Properties Ltd.	50	Master Hormuzd N. Godrej
23	Girikandra Holiday Homes & Resorts Ltd.	51	Mr. Vijay M. Crishna
24	Tahir Properties Ltd.	52	Mrs. Smita V. Crishna
25	Godrej Reality Pvt. Ltd.	53	Ms. Freyan V. Crishna
26	Godrej Waterside Properties Pvt. Ltd.	54	Ms. Nyrika V. Crishna
27	Godrej Agrovet Ltd.	55	Mr. Rishad K. Naorojis
28	Bahar Agro Chem & Feeds Pvt. Ltd.		

Annexure C forming part of the Directors' Report

Auditors' Certificate on Corporate Governance

To the Members of
Godrej Consumer Products Limited
Mumbai.

We have examined the compliance of conditions of Corporate Governance by Godrej Consumer Products Limited (the Company) for the year ended on March 31, 2006, as stipulated in Clause 49 of the Listing Agreement of the said Company with the Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For and on behalf of

Kalyaniwalla & Mistry
Chartered Accountants

V.R. Mehta

Partner

M. No. 32083

Mumbai, April 26, 2006