



## **Directors' Report**

Godrej Consumer Products has leveraged its strengths, mobilised its resources and delivered value for all its stakeholders. The Directors' Report illustrates the corporate performance, growth and future plans that have and will help the company take a quantum leap.

## To The Shareholders,

Your Directors have pleasure in presenting their Report along with the Audited Accounts for the year ended on March 31, 2007

### 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
<b>Sales (net of excise duty)</b>	<b>758.5</b>	657.3
Other Income	5.0	8.7
<b>Total Income</b>	<b>763.5</b>	666.0
Total Expenditure other than Interest and Depreciation	(610.8)	(519.9)
Profit before Interest, Depreciation and Tax	152.7	146.1
Depreciation	(12.5)	(10.8)
<b>Profit before Interest and Tax</b>	<b>140.2</b>	135.3
Interest and Financial Charges (net)	(5.8)	(4.0)
<b>Profit before Tax</b>	<b>134.4</b>	131.3
Provision for tax:		
Current tax	(15.1)	(10.9)
Deferred tax	(1.3)	1.3
Fringe Benefit Tax	(0.8)	(0.9)
<b>Profit after tax</b>	<b>117.2</b>	120.7
Extraordinary item (net of taxes)	10.1	–
Tax adjustments in respect of previous years	4.8	0.5
<b>Profit after tax and tax adjustments for previous years</b>	<b>132.1</b>	121.2
Surplus brought forward	27.0	8.0
<b>Amount available for appropriation</b>	<b>159.1</b>	129.2

### Appropriation

Your Directors recommend appropriation as under

	This Year Rs. Crore	Last Year Rs. Crore
Interim Dividend	84.7	79.0
Proposed Final Dividend	-	-
Tax on distributed profits	12.7	11.1
Transfer to General Reserve	13.2	12.1
Surplus Carried Forward	48.5	27.0
<b>Total Appropriation</b>	<b>159.1</b>	129.2

### Subdivision

Pursuant to the Ordinary resolution passed by the shareholders in the Annual General Meeting held on July 20, 2006, during the year under review, the share capital of the Company was subdivided from shares of face value Rs. 4 each to shares of face value Re. 1 each. The Record Date for the subdivision was August 31, 2006.

### Dividend

For the year 2006-07, three interim dividends were paid – Rs. 3 per share on August 14, 2006 on the shares of face value Rs. 4 each (which is equal to Re. 0.75 per share on shares of face value Re. 1 each, post the subdivision), Re. 0.75 per share on November 17, 2006 on shares of face value Re.1 each and Re.1 per share on February 12, 2007 on shares of face value Re. 1 each.

In addition to the above, the Directors have declared a fourth interim dividend on April 25, 2007 at the rate of Rs.1.25 per share on shares of face value Re. 1 each. The record date for the same has been fixed as May 4, 2007.

The total dividend payout for the year ended March 31, 2007 works out to Rs. 3.75 per share (375% on the shares of the face value of Re. 1).

Your Directors recommend that the aforesaid interim dividends aggregating to Rs. 3.75 per share on shares of face value Re. 1 each be declared as final dividend (to be approved by the shareholders in the Annual General Meeting) for the year ended on March 31, 2007.

## Review of Operations

During the year under review your Company has recorded Profit After Tax (PAT) of Rs. 117.2 crore and Net Profit (after extra ordinary item (net of tax) and tax adjustments) of Rs.132.1 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 17 percent from Rs. 634.4 crore in 2005-06 to Rs. 743.2 crore in 2006-07.

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 21%. The performance of the personal care segment was also encouraging led by a 12% sales growth in hair colour.

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

Table 1: Comparison of Current year sales with previous year

(Rs. Crore)

Particulars	Year ended 31-Mar-07	Year ended 31-Mar-06	% Increase/ (decrease)
Soaps	475.1	392.7	21
Hair Colour	181.9	162.5	12
Toiletries	47.4	39.4	20
Liquid Detergents	38.8	39.7	-2
Contract Manufacturing	-	7.8	(100)
Other Sales	15.3	15.1	1
<b>Total</b>	<b>758.5</b>	<b>657.3</b>	<b>15</b>

## Acquisition

On September 1, 2006, your Company completed the acquisition of South African business of Rapidol UK as well as its subsidiary Rapidol International. The acquisition gives GCPL an entry into the large and fast growing African Hair Colour market, ownership of strong brands and the opportunity to introduce our "value for money" product portfolio in those geographies.

## Subsidiary Companies

During the year under review, Rapidol Pty. Limited, South Africa became a subsidiary of your Company.

During the post-acquisition period i.e. September 1, 2006 to March 31, 2007, Rapidol posted a turnover of ZAR 42.0 million and a profit after tax of ZAR 4.9 million. Keyline Brands Limited, UK posted a turnover of GBP 19.6 million and a profit after tax of million GBP 1.8 million.

Cuticura Laboratories Ltd., UK and Cosmetics That Care Limited, UK subsidiaries of your Company have been dormant and they have not carried any business during the year. The Board of Directors of Cuticura Laboratories and Cosmetics That Care Limited have passed resolutions on August 11, 2006 to voluntarily wind up the respective companies. Inecto Limited, U.K has been dormant and it has not carried out any business during the year. As per the local laws of U.K, specified dormant companies are not required to prepare the audited accounts. Since Inecto Ltd has been dormant, the financial statement as approved by the Board of Directors of Inecto Limited in the format prescribed by the local laws of U.K. for dormant companies is attached.

The annual report of the following subsidiaries viz. Godrej Netherlands BV, Godrej Consumer Products (U.K) Ltd, Keyline Brands Ltd., Inecto Manufacturing Ltd and Rapidol Pty Ltd and the statement pursuant to Section 212(1)(e) of the Companies Act, 1956 containing details of the your Company's interest in the subsidiaries is attached.

## New Manufacturing Units

During the year under review, your Company commenced commercial production at the two new manufacturing units – One at Village Katha, PO Baddi, District Solan, Himachal Pradesh for manufacture of toilet soaps and the other at Village Mamring, District Namchi, Sikkim for manufacture of Powder Hair Colours.

Both the above units enjoys excise and income tax benefits as announced by the Government.

## Joint Venture with SCA Hygiene Products AB, Sweden

During March 2007, GCPL formed a 50:50 joint venture known as Godrej SCA Hygiene Limited along with SCA Hygiene Products AB, Sweden. The joint venture

company will manufacture and market paper based absorbent hygiene products, specifically sanitary napkins and baby diapers, in India, Nepal and Bhutan. Mr. A. B. Godrej, Chairman Godrej group of companies is the Chairman of the new entity which has been set up with an equity capital of Rs. 20 crore through equal investments by both the companies.

SCA is a global consumer goods and paper company that develops, produces and markets personal care products, tissue, packaging solutions, publication papers and solid-wood products. SCA conducts sales in some 90 countries and with its TENA brand is the world's leading provider of absorbent incontinence products, holding a global market share of 26 per cent. Its strong, market-leading brands for baby diapers include Libero and Up & Go and for feminine hygiene products Libresse, Nana, Bodyform and Nuvenia. SCA will bring to the Joint Venture its world leading technology and brands for the Indian market.

Your Company's "Snuggly" Diaper brand, along with its trademark and copyright has been sold to the Joint venture company on March 29, 2007, at a consideration of Rs.15.60 crore.

### Closure of Silvassa Factory

During the year under review your Company closed the manufacturing facility at Silvassa Union Territory of Dadra & Nagar Haveli. The said factory manufactured various products like liquid hair colours and creams under the Hair Colour category. Though the management of the Company had been advised that in the instant case permission under Section 293(1)(a) of the Companies Act, 1956 was not required, as a matter of abundant caution, the approval of shareholders was sought under Section 293(1)(a) of the Companies Act, 1956 by means of a postal ballot for above closure.

The closure of the factory has not impacted the availability of the Hair Colours since the Company had made suitable alternate arrangement for getting the products processed from a third party in Himachal Pradesh.

### Employee Stock Option

The shareholders, vide a Special Resolution passed by postal ballot on March 14, 2007, had approved Godrej Consumer Products Ltd Employee Stock Option Plan (GCPL ESOP) for the grant of 20,00,000 stock options convertible into 20,00,000 equity shares of the nominal value Re.1 each to the eligible employees/directors of the Company and of the Company's subsidiaries. The

GCPL ESOP will be administered by a trust set up for this purpose viz. Godrej Consumer Products Ltd Employee Stock Option Trust.

Pursuant to resolutions passed by the Compensation Committee on March 21 and March 22, 2007, the trust has purchased 8,50,000 shares of the Company from the secondary market by using the loan funds given by the Company. Out of the shares so purchased, the Compensation committee has vide a resolution passed on April 2, 2007, allotted a total of 750,000 options to certain eligible employees of the Company. The options will vest in the concerned employees at the end of three years from the date of granting of the options. Since the options have been allotted after the financial year to which this report relates, the details of the Options allotted under GCPL ESOP, as also the disclosures in compliance with clause 12 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 are not applicable for the financial year 2006-07.

### Ratings

The Company continues to enjoy a Corporate Governance Rating of CGR2+ and the 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.

### Directors

In accordance with Article 127 of the Articles of Association of your Company, Ms. Rama Bijapurkar and Mr. Bharat Doshi 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. He held office as an additional director till the conclusion of the Annual General Meeting held on July 20, 2006. In the Annual General Meeting held on July 20, 2006, the shareholders have appointed Mr. Aman Mehta as a director liable to retire by rotation.

Mr. Aman Mehta is an Independent Director as envisaged in Clause 49 of the listing agreement with the stock exchanges.

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 Ltd. The listing fee for the year 2007-08 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 2006-07. 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:

- a) 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;
- b) that they have selected such accounting policies and applied them consistently and made judgements 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;
- c) 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;
- d) that they have prepared the annual accounts on a going concern basis.

## 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 (Particulars 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 employee 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.

## 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.

## Corporate Governance

Pursuant to Clause 49 of the Listing Agreements, the Management Discussion and Analysis Report and the 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.

## Acknowledgement

Your Directors wish to place their sincere thanks to the Union Government and the Governments of Maharashtra, Madhya Pradesh, Assam, Dadra & Nagar Haveli, Himachal Pradesh and Sikkim, as also to all the Government agencies, banks, financial institutions, 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, April 25, 2007

## 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 & OUT GO

### A. Conservation of Energy

#### I. (A) Energy Conservation measures undertaken:

1. Use of Regasified Liquefied Natural Gas (RLNG) in place of liquid fuels in boilers and thermic fluid heaters.
2. Installation of VFD in air compressor and wrapping machines.
3. Installation of energy efficient Grundfos pump in water feed for Boilers.
4. Reduction in power consumption from 132.69 kwh/mt to 121.28 kwh/mt by :
  - Improving productivity
  - Usage of Servo motors in wrapping machines
  - Raw edge cogged belts in place of V-belts for heavy equipments
  - Reduction in change over time

#### (B) Proposed energy conservation measures:

1. Provision of air pre heaters for thermic fluid heaters of new chemical complex.
2. Provision of VFD in flakers and roll mill.
3. Provision of energy efficient pumps for SWE Plant & HP Boiler.
4. Provision of energy efficient lights, replacing conventional light fittings, in soap finishing lines.

#### 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 & 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. Packaging Development

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

1. Launch of new soap variants
2. Launch of new talc variants
3. New look packaging for Ezee
4. New products for Keyline Brands, UK
5. Product registration in UK for Keyline Brands
6. New Products for Rapidol, SA
7. New technology introduced in PHD

- III. Future Plan of Action -

1. Focus on new categories
2. Reorganisation of R & D

- IV. Expenditure on R & D

	This Year Rs. Crore	Last Year Rs. Crore
a) Capital	0.17	0.00
b) Recurring	2.08	2.36
c) Total	2.25	2.36
d) Total R & D expenditure as a percentage of total sales turnover	0.30%	0.36%

## Technology Absorption, Adaptation and Innovation

### 1. Efforts, in brief, made towards technology absorption, adaptation and innovation:

- i) New technology introduced in the area of Hair Colours- a major step in the direction of Customer satisfaction.
- ii) Involvement with processes like Lateral thinking to bring in innovation.

### 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 cost reduction, customer satisfaction and top line and bottom line improvements.

### 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 11% over the previous year. During the year under consideration, the company started exporting its Hair Colours under the Godrej Brand to UK and under Inecto Brand to Republic of South Africa. The demand for Godrej Powder Hair Color continues to be strong in Nepal, Sri Lanka, Bangladesh and Middle East. Your Company sees significant opportunity in the African continent where it plans to leverage its presence through its subsidiary Rapidol for entering new geographies in this continent.

Rs.Crore

	<b>This Year</b>	Last Year
I. Foreign exchange used	<b>131.44</b>	105.94
II. Foreign exchange earned	<b>14.38</b>	11.05

## Annexure B forming part of the Directors' Report

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

1	Godrej & Boyce Mfg. Co. Ltd.	34	Krithika Agro Farm Chemicals & Engineering Industries Pvt. Ltd.
2	Godrej Industries Ltd.		
3	Cartini India Ltd.	35	Godrej Acquafeed Ltd.
4	Godrej Holdings Pvt Ltd.	36	Godrej Oilpalm Limited
5	Godrej Infotech Ltd.	37	Godrej Commodities Ltd.
6	Godrej Investments Pvt. Ltd.	38	Godrej Hicare Ltd.
7	Mercury Manufacturing Co. Ltd	39	Godrej Global Solutions Ltd.
8	Godrej Efacec Automation & Robotics Ltd.	40	Godrej Global Solutions (Cyprus) Ltd.
9	Geometric Software Solutions Company Ltd.	41	Godrej Global Solutions Inc.
10	Godrej (Malaysia) Sdn. Bhd.	42	Godrej Netherlands BV
11	Godrej (Singapore) Pte. Ltd.	43	Godrej Consumer Products (UK) Ltd.
12	Godrej (Vietnam) Co Ltd.	44	Keyline Brands Ltd.
13	J T Dragon Pte. Ltd.	45	Inecto Manufacturing Ltd.
14	Lawkim Ltd.	46	Rapidol Pty. Ltd.
15	Godrej Upstream Ltd.	47	Mr. Adi B.Godrej
16	Prashant Metal Forming Industries Pvt. Ltd.	48	Mrs. Parmeshwar .A. Godrej
17	Ensemble Holdings & Finance Ltd.	49	Ms. Nisa A. Godrej
18	Swadeshi Detergents Ltd.	50	Mr. Pirojsha A. Godrej
19	Vora Soaps Ltd.	51	Mrs. Tanya A. Dubash
20	Godrej Global Mid East FZE	52	Mr. Jamshyd N. Godrej
21	Godrej International Ltd.	53	Mrs. Pheroza J. Godrej
22	Godrej Properties Ltd.	54	Ms. Raika J. Godrej
23	Girikandra Holiday Homes & Resorts Ltd.	55	Mr. Navroze J. Godrej
24	Godrej Realty Pvt. Ltd.	56	Mr. Nadir .B. Godrej
25	Godrej Waterside Properties Pvt. Ltd.	57	Mrs. Rati N. Godrej
26	Godrej Real Estate Pvt. Ltd.	58	Master Burjis .N Godrej
27	Godrej Developers Pvt. Ltd.	59	Master Sohrab N. Godrej
28	Godrej Seaview Properties Pvt. Ltd.	60	Master Hormuzd N. Godrej
29	Godrej Agrovet Ltd.	61	Mr. Vijay M. Crishna
30	Bahar Agro Chem & Feeds Pvt. Ltd.	62	Mrs. Smita V. Crishna
31	Golden Feed Products Ltd.	63	Ms. Freyan V. Crishna
32	Goldmohur Foods & Feeds Ltd.	64	Ms. Nyrika V. Crishna
33	Aaadhaar retailing Services Ltd.	65	Mr. Rishad K. Naoroji

## **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, 2007, as stipulated in clause 49 of the Listing Agreements of the said Company with the Stock Exchanges in India.

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 compliance with 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 and the representations made by the Directors and the Management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above-mentioned Listing Agreement.

As per the records of the Company, there were no investor grievances remaining unattended for a period exceeding one month against the Company.

We further 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

**Daraius Z. Fraser**

Partner

M. No.: 42454

Mumbai, April 25, 2007