



Management Discussion and Analysis



Creating value for growth

Godrej Consumer Products has created business value by working on and enhancing the multiple facets of business. Sharpening its core competence to get the cutting edge in the market and polishing its strategies further to radiate brilliant success, your Company presents the Management Discussion and Analysis for this year.

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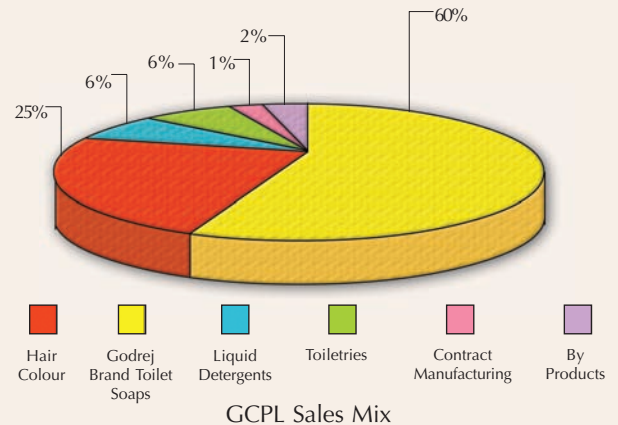
With 8 percent annual GDP growth, foreign exchange reserves of close to USD 165 billion, Foreign Direct Investment near USD 8 billion and an over 20 percent surge in exports, the Indian economy is clearly on a strong growth path.

While the FMCG sector with an estimated market size of around Rs. 450 billion is mirroring this performance, per capita consumption across the FMCG spectrum in India remains amongst the lowest in the world.

This reflects the significant potential the sector enjoys. As disposable incomes increase and standards of living improve we can expect rapidly increasing levels of spend on various FMCG products.

Gradual changes are already visible with strong rural and urban growth and an end to down trading which considerably hampered market growth earlier. The implementation of VAT has also been very positive for the sector. It has enabled increased levels of compliance, and transparency and reduced tax evasion.

Going forward, a thrust on innovation, an enhanced focus on branding, increased advertisement spends, focus on



globalization, strengthening of the distribution system and improved penetration levels are all going to be the key to drive growth.

During the year under review your Company has endeavoured to do all these while maintaining its strong sector outperforming growth performance. In addition to introducing new product variants and significantly enhancing its supply chain efficiencies GCPL has also taken its first major step towards establishing a global presence with the acquisition of Keyline Brands Limited, one of the admired FMCG companies in the United Kingdom.

A snapshot of GCPL's sales mix is as below.

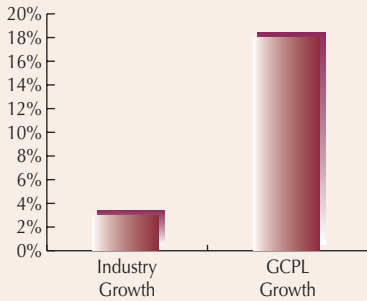
Turnover (Rs. crore)	FY 2005-06	FY 2004-05	Growth (%)
Toilet soaps	392.7	334.1	18
Hair colour	162.6	133.5	22
Liquid detergents	39.7	36.5	9
Toiletries	39.4	24.6	61
Total Godrej Brands	634.4	528.7	20
Contract mfg.	7.8	20.0	(61)
By products	15.1	14.0	8
Total	657.3	562.7	17

(Non Consolidated numbers, net of excise)

Soap

Toilet soaps

GCPL maintained its strong growth momentum in the Soap segment. Your Company is today the second largest player in the sector. In line with its stated two fold objective for the segment, of expanding marketshare and enhancing



margins, GCPL today enjoys a 9% marketshare compared to 8% of the previous year. PBIT margins too continue to be healthy at 12%

despite increased A&P spends.

The Toilet Soap segment which has exhibited flat growth in recent years grew by 3% in FY 2005-06. Your Company's toilet soap business grew by 18% YoY primarily on the back of innovations, healthy demand traction and improved distribution.

This segment presently comprises 60% of your Company's sales.

Cinthol, GCPL's flagship brand, which is recognized as a 'Superbrand', enjoyed healthy offtake. Cinthol Deo Soap



Sport, a new variant introduced in the first quarter also received a strong response at both the dealer and consumer level. The soap

promotes social confidence by removing odour causing bacteria and is targeted at the youth.



Godrej No. 1 continued to be amongst the fastest growing soap brands and is the largest selling Grade 1 soap in the country. During the year under review, we added our sixth brand variant, namely Lavender, which has performed encouragingly.

Fairglow soap, the country's first blemish free fairness soap which created marketing history as one of the most successful innovations, was relaunched with an attractive new perfume and packing. Consumer response to the relaunch has been highly encouraging.



In March 2006, your Company introduced a new age control soap called 'Evita'. It contains AHA that rejuvenates the skin from within reducing wrinkles. The need for such a soap has been voiced by several consumers during our surveys. Evita is available in 75 gm and 125 gm packs.

As part of its thrust on expanding its presence in smaller markets where affordability is a constraint, your Company has introduced a 50-gram offering in many of its brands.

From an operational perspective, vegetable oil prices were relatively stable during the year under review. In the second half of the year, improved efficiencies enabled the Company to enhance production of and achieve self-sufficiency in soap noodles.

Personal Care

Hair Colours

In the year under review, this category accounted for 25% of GCPL's total sales.

Being leaders in this category the onus of expanding it is on GCPL. We have endeavored to do this by introducing new products and variants at various price points. Today GCPL's presence is spread across the entire category spectrum i.e. from the basic but most popular Godrej Powder Hair Dye sachet to the premium Godrej Coloursoft. We offer solutions for cover up and colour up segments that suit consumer needs at various price points.



Sales of all your Company's other offerings in the category continued to be encouraging, namely 'Godrej Permanent Liquid Hair Dye'- a range of shampoo based hair dyes which contain herbal extracts that rejuvenate and condition the hair, 'Godrej Kesh Kala Oil'- a ready for application oil based hair dye, 'Godrej ColourSoft Hair Colour', 'Godrej Renew', 'Godrej Nupur Mehendi' and 'Godrej Kali Mehendi'.

During the year GCPL increased the price of its hair dye sachet by one rupee. This price increase was well accepted by the consumer with the brand continuing to demonstrate strong volume and value growth.



The Powder Fashion Colour sachet range launched in the beginning of the year also continues to perform creditably.

As the category leader, our responsibility is to increase awareness across consumers with regard to hair colour. Our endeavor has been to increase penetration. Our radio program "TOP KI BAAT", broadcasted daily on AIR, educates people on hair colour and provides solutions for issues on grey hair. This program has boosted sales in rural areas and has a huge fan following. We receive about 3000-5000 letters every month on this program. This program has been certified by AIR as the longest aired sponsored program on Primary Channels ever.

Your Company will continue to focus on the mainstream. With low market penetration, this is clearly a significant opportunity. The potential market size can be ascertained from the fact that the hair colour market in India is about one tenth that of the toilet soap market while globally it is more than double.

Toiletries

This category amounts to 6% of GCPL's total sales. The growth momentum picked up in this category to 61% YoY with encouraging growth across its products namely talcum powder, shaving cream and baby care products.

Shaving creams

Godrej Shaving Cream is one of the oldest and well-established brands in this category. The cream is marketed in four variants.





The newly introduced Deluxe range has been the key driver in this segment.



Over the years, we have striven to enhance the Godrej Shaving Cream value proposition. The range has been revamped to look more trendy and attractive. This has been supported by a new and creative advertising campaign. These initiatives are expected to contribute to an improved performance in the Shaving cream category in the future years.

Talcum powder

Talcum powder, which is a smaller contributor to total sales, registered good growth during the year.

The introduction of Godrej No. 1 talc in Sandal and Jasmine fragrances has been well received. Sales of Cinthol Talcum powder in FY 2005-06 improved considerably, a significant enabler of this growth being the 1+1 promotion.



Baby care

GCPL entered this category by acquiring the trademark and copyright for the disposable diaper brand 'Snuggly'.



During the year GCPL introduced the trial price of Rs. 10 which dramatically improved sales. The brand enjoys strong salience in the south and is slowly establishing a presence in other regions. In the future GCPL is looking at improving its presence in the rest of the country.

Liquid detergents

The liquid detergent business grew strongly in the year under review. 'Ezee' sales were higher by 9% YoY boosted by the onset of an early winter especially in the northern regions. 'Ezee' possesses a Woolmark certification that indicates that it is ideally suited to wash all woolen materials.



गरम कपड़े रखे गए के लिए!

GCPL maintained its leadership position in the category with a marketshare of 87%. Sales of Ezee form 6% of GCPL's total sales.

Exports

In FY 2005-06, GCPL's export income amounted to Rs. 13.1 crore, a 10% increase over the previous year. Toilet soap comprised 30% of exports with the balance being made up by personal care.

Today GCPL products are available in 50 countries. During the year under review we commenced exports to 11 new locations namely the Czech Republic, Romania, Ghana, Congo, Sudan, Yemen, Iraq, Vietnam, North Korea, South Korea and Indonesia.

There is a significant opportunity for competitively priced hair colour offerings specially in Asian and Latin American countries wherein the populace have similar hair colours and textures to India. We are also witnessing strong demand for powder hair dye in countries like Nepal, Sri Lanka and the Middle East.

Contract manufacturing

GCPL's contract manufacturing amounts to 1% of the total turnover. As has been reiterated in the past, this is an opportunistic business, which is dependent on capacity availability as well as the needs of other players. With increased demand for GCPL branded soaps reducing spare capacity, and other players beginning to set up their own facilities, the revenue contribution from this business is rapidly reducing.

Distribution and supply chain

GCPL possesses a well-entrenched sales and distribution network.

Today we directly cater to over 600,000 retailers. 32 C & F agents and over 3,000 distributors, super stockists and sub stockists support the sales force. The sales, marketing and distribution teams meet on a monthly basis to make rolling demand and supply forecasts for the upcoming 12 months.

The new distribution and supply chain system based on a replenishment philosophy has helped us to reduce the stock outs at various levels in the supply chain system, thereby increasing availability of the products. It has also helped us move from being a traditional "Push" operation to becoming a "Pull" Operation.

Research and Development

In line with its strong innovation focus GCPL has a well equipped full-fledged R&D laboratory to identify new products, variants and applications based upon consumer

insights and feedback. Concurrently we endeavor to continuously enhance quality of our existing product range.

During the year our R&D team had several successes which included :

- the introduction Cinthol Deo Soap Sport
- the relaunch of Evita soap
- the improved 'Ezee' formulation
- fashion hair colours with pleasant fragrances.

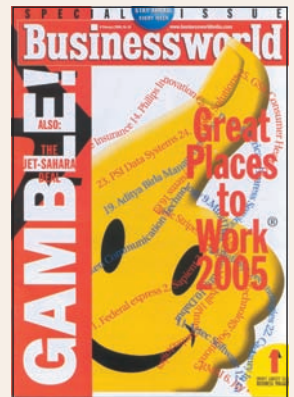
Going forward, the R&D team is focused on identifying and developing new relevant products to meet consumer needs.

Human Resources

Our employees are our biggest strength and we place great emphasis on their training and development. Your Company today has more than 1200 employees.

GCPL, as you are aware, is strongly focused on Economic Value Added (EVA). In line with this philosophy, we have introduced several programmes with the specific objective of maximizing EVA, suitably rewarding high performers and enhancing overall productivity and performance.

We have invested in the PeopleSoft Human Resource Management System (HRMS) package which is a globally-acclaimed state-of-the-art HRMS. The System has been suitably customized for GCPL and named GEMS (Godrej Employee Management System).



The package is a comprehensive data repository with a robust reporting and analysis tool that captures all employee related data in a single environment and helps to monitor the workforce, make decisions and drive performance. This software enables integrated performance and learning, evaluating and deploying employees, integrated career planning, report generation when required, all of which are system driven with complete transparency and reduced dependence on individuals.

In 2005, GCPL was recognized as a “Great Place to Work” in the Great Places to Work Survey conducted by Businessworld and Grow Talent for the third consecutive year. GCPL was ranked 12th in the list of top 25 companies selected from 179 considered for this recognition.

A motivated work environment and well-structured programs enables GCPL to attract and retain the best talent and expertise. The Company has instituted a two level award scheme namely ‘Local Level Awards’ and ‘Company Level Awards’. Managers are authorized to give Local Level Awards instantly to employees who perform extraordinarily, over and above their regular job profile. This could be in areas of sales, service, customer satisfaction and innovation. The Company Level Awards on the other hand are given annually to employees on a competitive basis in recognition of specific achievements.

During the year under review, the Company organized ‘Shrishti 2005-06’, a business plan contest amongst students of top Management Schools. The contestants will get a cash prize along with an opportunity to interact with and get insightful feedback from the top management.

The Company has also initiated an ‘Executive MBA’ programme for its employees. This Programme introduced in association with the Symbiosis Institute of Management, covers both field and non-field employees.

Further, the Company conducts Internal Customer Satisfaction Surveys (ICSS) to measure the service levels of its support functions and streamline inter-functional interfaces. This study was conducted for the fifth year in a row. Action plans for further improving internal customer satisfaction indices have been drawn up.

Information Technology

Technology is critical in ensuring efficiency, competitiveness and speed in an organization. It has contributed significantly towards improving all round transparency and communications.

Project ‘Sampark’, the supply chain management initiative of the Company, provides information exchange between the Company, the CFA warehouse and the dealers to ensure efficient planning, timely delivery and minimal inventories. This data is used by the Collaborative Planning, Forecasting and Replenishment (CPFAR) programme to manage inventories at a minimal level based on actual sales.

The IT infrastructure also continues to contribute to Knowledge Management by enabling access to learnings across several functions.

Social and environmental initiatives

Your Company places great emphasis on its social and environmental responsibilities.

It provides financial and administrative support to run a dispensary in Singwari Village located near the Malanpur plant. Doctors visit the dispensary thrice a week for preliminary diagnosis and free medicine distribution. Several awareness programs on health and hygiene safety were organized.

We believe that education is one of the key drivers of economic growth and in support of this belief, encourage

children's education. We renovated a school building near our Malanpur Factory, rewarded 14 meritorious students and organized a plant visit. Taking this belief onwards, we also rewarded students of a local school at Baddi .

On the environmental front, your Company reduced its power consumption for soap from 156.88 KWh/MT to 132.69 KWh/MT during the year due to improvement in line productivity, reduction in downtime of machines, rework, product changeover time and interlocking of conveyors.

Financials

Abridged Profit & Loss statement (Non-consolidated)

All figures in Rs. crore

	FY 2005-06	FY 2004-05
Sales (net of excise)	657.3	562.7
Other operating income	-	-
Other income	8.7	6.4
Total income	666.0	569.1
Material costs	303.6	274.7
Staff costs	43.2	32.9
Advertising & sales promotion	53.4	43.7
Other expenditures	119.7	110.9
Total expenditure	519.9	462.2
PBDIT	146.1	106.9
Depreciation	10.8	10.7
PBIT	135.3	96.2
Interest and financial services (net)	4.0	2.5
PBT	131.3	93.8
Provision for taxation	10.6	7.7
PAT	120.7	86.1
Tax Adjustment of previous year	0.5	3.5
Net Profit	121.2	89.6

GCPL's net sales in FY 2005-06 were Rs. 657.3 crore, demonstrating a growth of 17% over FY 2004-05. Sales of Godrej brands improved by a healthy 20% over FY 2004-05 sales, to Rs. 634.4 crore.

Profit Before Interest, Depreciation and Tax (PBDIT) increased by a healthy 37% to Rs 146.1 crore. This was accompanied by healthy margin improvement in both our business segments.

The Profit Before Interest and Tax (PBIT) margin of our soap business segment was 12% in FY 2005-06 as compared to 10% in FY 2004-05. Personal care PBIT margin also improved to 43% from 38%.

Your Company generated a Profit Before Tax (PBT) of Rs. 131.3 crore and a Net Profit after tax (PAT) of Rs. 120.7 crore, displaying a 40% growth over the Company's FY 2004-05 performance.

Key Measures

	FY 2005-06	FY 2004-05
PBDIT/Sales	22.2%	19.0%
PBT/Sales	20.0%	16.7%
PAT/Sales	18.3%	15.3%
RoCE	154%	150.5%
RoNW	159%	179.7%
EPS (Rs.)	21.45	15.81
EVA (Rs. crore)	108.9	78.8

Keyline acquisition

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

Keyline, is a consistently profit making FMCG entity. The Company registered sales of GBP 19.7 million and PBT of GBP 2.6 million for 15 months ended March '06. Due to the seasonal nature of Keyline Product Portfolio, sales are stronger in the summer months .



This acquisition gives GCPL ownership of several international strong brands and trademarks including 'CUTICURA', 'ERASMIC' and 'AAPRI' in many countries and 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.

The synergy of the Indian business and the UK business is yet another benefit that GCPL will derive from this acquisition. The transaction offers GCPL the opportunity to learn various practices in marketing and trade channel management, which will be beneficial in a changing domestic retail environment.

Going forward, GCPL proposes to derive further value from the transaction by leveraging its high quality yet low cost manufacturing skills and producing some of Keyline's products in India. Concurrently there is also significant opportunity to use the Keyline distribution network to

market some of its products to the considerably large Indian diaspora in the UK and the Middle East.

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 transaction are authorised, recorded and reported correctly.

The system is designed to adequately ensure that financial and other records are reliable for preparing financial information and other data and for maintaining accountability of assets.

The Group Corporate Audit & Assurance function is certified under ISO 9001:2000. There are well documented operating procedures and authorisations with adequate built-in controls.

The internal control is supplemented by an extensive programme of internal, external audits and periodic review by the management. Consequent to the amendment in Clause 49 of the Listing Agreement by SEBI, the Corporate Audit and Assurance Dept facilitated formal documentation, implementation and review of Internal Controls at all GCPL locations.

Awards and Accolades

The Business Superbrands Council conferred "Business Superbrand" status on GCPL during the year under review. GCPL was also recognized as India's 'Best Managed Medium Cap Corporate of the Year' by Asia Money.

After a detailed and thorough audit, various factories of GCPL were certified by BVQi. The Malanpur factory is the first factory in North India to get ISO 14001:2004. The Guwahati factory received ISO 9001:2000 and the Baddi factory ISO 9001:2000, ISO 14001:1996 and ISO 18001:1999.



Our Malanpur team won 14 awards at the National Convention organized by the Quality Circle Forum of India, Hyderabad.

Outlook for FY 2006-07

GCPL is consistently innovating and enhancing its capabilities and operations to strengthen its competitive position. The year ahead promises to be an exciting one for FMCG players on the back of a combination of factors that include higher disposable income levels, increasing spends and improved standards of living.

The Company plans to spend about Rs. 110 crore towards the expansion or setting up of soap, hair colour and toiletries facilities while maximizing excise and Income tax benefits. Concurrently we are exploring acquisitions in both the domestic and international markets.

Risks and Concerns

Your Company continuously monitors the business environment and has put in place a framework for identification, assessment and management of risks. A Risk Committee has been formed to review the risks periodically.

The risk framework takes into account risks in all areas of operation and includes assessment of impact and likelihood of risks and exposure of GCPL to such risks in the context of achievement of business objectives.

Appropriate risk response strategies have been developed for various risks identified.

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 shift in the industry structure, significant changes in political and economic environment in India and internationally, tax laws, import duties, litigation and labour relations.