



Management Discussion & Analysis

Godrej Consumer Products has set its sights on emerging as a truly global FMCG player. Therefore strategy, future plans and processes are aligned to this objective. Having registered healthy growth in the domestic sector and marked forays into the international arena, the company presents the Management Discussion and Analysis for this year.

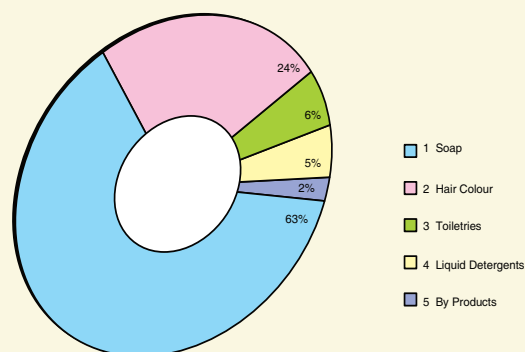
Management Discussion and Analysis

During the year under review, the Indian economy continued to grow strongly on the back of macroeconomic fundamentals. GDP growth rate as per the Economic Survey 2006-07 released by the CSO was 9.2%. (ES -2006-07)

India's FMCG sector is the fourth largest sector in the country with a market size in excess of Rs. 57,000 crore (IBEF). During the year, the sector witnessed strong volume growth along with major acquisitions by some players – a reflection of their increasingly enhanced competitive position. Rising disposable incomes combined with a gradual increase in share of wallet and greater consumer awareness contributed to a rise in sales in both urban and rural markets.

However, with rural penetration levels continuing to be low, the per capita consumption of most products in the country is amongst the lowest in the world. As a result, growth potential in this sector is huge.

The environment is gradually changing. As the market becomes increasingly sophisticated, many FMCG companies are increasingly focusing on premium products and brands. Further, owing to the cost advantage, India is becoming the sourcing base for many companies. Last year with the introduction of VAT, tax compliance improved, and standardized rates benefited the sector. An increasing number of modern retail outlets



GCPL Sales Mix

is also leading to a change in consumer habits, supply demand metrics and the approach of companies.

Your Company continues to be amongst the fastest growing FMCG companies. GCPL maintained its strong growth momentum across its business segments. The Keyline Brands acquisition has contributed to the consolidated earnings. In 2006-07, your Company acquired the South African business of Rapidol U.K. and its subsidiary Rapidol International, which is a key step towards expanding its global presence. The Company also entered into a joint venture with SCA Hygiene Products AB, Sweden, an initiative that gives GCPL an entry into the feminine hygiene products and technical strengths in the baby diaper markets, which are today very nascent segments.

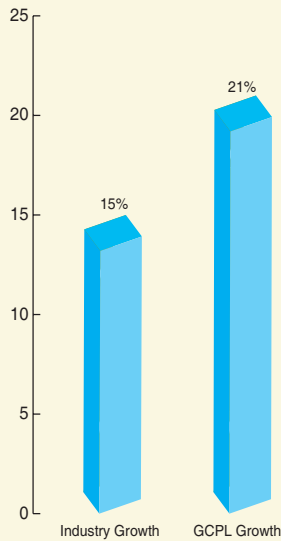
GCPL's sales mix

Turnover (Rs. Crore)	FY 2006-07	FY 2005-06	Growth
Soaps	475.1	392.7	21%
Hair Colours	181.9	162.5	12%
Toiletries	47.4	39.4	20%
Liquid Detergents	38.8	39.7	-2%
Contract Manufacturing	0.0	7.8	-100%
By-Products	15.3	15.2	1%
Total	758.5	657.3	15%

Soap

Toilet soaps

GCPL continues to be the second largest toilet soaps player in India with a market share of 9.1% compared to 8.5% in the previous year. PBIT margins were healthy at 11%. Prices of vegetable oil, which is the key raw material



rose to unprecedented levels in the second quarter necessitating a price increase in October 2006.

The Toilet Soap segment grew by 15% during the year. However, the Company's toilet soap sales grew by 21% backed by healthy growth across all categories and improved supply chain management. This resulted in an increase in market share as above.

This segment presently comprises 63% of your Company's sales.

Cinthol which is the Company's flagship brand continues to do well. Cinthol Lime Fresh's "Buy Three Get One Free" promotion was well received by consumers. Cinthol Deo Soap also received a strong response from the consumers. The soap has an ingredient TCC that kills germs which cause body odour.



Godrej No. 1 continues to be the largest selling Grade 1 soap in the country. Today the soap is the third largest brand in toilet soaps. Its Lavender variant, which was introduced last year, continues to do

well. The No.1 brand has crossed a turnover of Rs. 300 crore this year.



Our Fairglow soap, which is India's first and largest selling fairness soap, continued to receive encouraging response. It is a Grade 1 quality fairness product with a pleasant fragrance.

During February 2007, we launched Godrej Vigil, the only Grade 1 health soap in India. It has an advanced TCS (triple control system) formula, which removes germs, acts faster and lasts longer. The soap is available in 75 gm and 125 gm packs.



In December 2006, your Company commenced commercial production at its new factory at Katha in H.P.

GCPL continues to provide various innovative promotion schemes to the consumer, which contribute to both increased consumer demand and improved visibility. These include :

- Cinthol Regular pack of three available for Rs. 51
- Buy two Cinthol Regular and get Cinthol Talc 50 gms free.
- Buy Cinthol Deo soap packs worth Rs. 126 and get one set of Evita 125 gms soap free.



From an operational perspective, the steep vegetable oil price increases in the early part of the year were contained by the price covers we had taken earlier – a reflection of your Company's expertise in procurement of this key raw material. However as these prices continued to harden, we increased toilet soap prices in October 2006.

Going forward, we will continue to introduce new and innovative products in this category as well as improve our existing offerings.

Personal Care

Hair Colorants

We remain leaders in this category with a variety of offerings ranging across the popular, sub popular and premium categories. Our products are at various price points to satisfy a gamut of consumers. Our hair colorant business grew by 12% during the year.



Today this category accounts for 24% of GCPL's total sales.

We increased the price of our Powder Hair Dye sachet by Re. 1 to Rs. 9. The product was also relaunched with added conditioner and perfume. This has been a revolutionary step since this is the first time that a powder hair dye sachet contains added perfume and conditioner. Consumer response has been highly encouraging and we believe that this will provide us with a great launchpad to further increase our penetration and sales worldwide.



Our Renew cream hair colour was relaunched in new attractive packaging. The cream now contains Aloe and Protein conditioners that protect hair while colouring. We also introduced a 20 ml pack during the year at Rs. 35 in Natural Black and Burgundy colours. This

pack is convenient for males and for females who only need a touch up. During the year, we also launched 'Renew Highlights', in blonde and red colours. 'Renew Highlights' is a convenient home kit to highlight hair at home. All these introductions hold great promise which we hope will be reflected in improved demand, going forward.



All our other offerings in this category namely 'Godrej Permanent Liquid Hair Dye', 'Powder Fashion Hair Colour', 'Godrej ColourSoft Hair Colour', 'Godrej Kesh Kala Oil', 'Godrej Nupur Mehendi', 'Godrej Kali Mehendi' and 'Anoop' delivered an encouraging performance.

During March 2007, the Company commenced production at its new factory in Sikkim for manufacture of hair colour.

In India, hair colour is still an extremely underpenetrated category. In many regions, the category is still only associated with what we call 'cover up' which is essentially dyeing grey hair. Colouring is still largely restricted to metros. We believe there is significant potential for a quality product at the right price. Towards this end, we are constantly working on new and innovative products and creating product awareness while concurrently exploring opportunities in the high-end consumer market.

Toiletries

This category amounts to 6% of GCPL's total sales. Sales increased by 20% with growth being witnessed across all our categories namely talcum powder, shaving cream and diapers. Some of the promotion schemes introduced included :

- Buy a Cinthol Deo Spray and get a multi utility knife free
- Buy a Cinthol Deo Spray and get Cinthol Talc free.

Shaving creams

Our shaving cream is one of the oldest and well-established brands in the category. The creams are available in two new variants : Deluxe & Luxury.



The Deluxe range continues to do well. During the current year, we launched the cream in the Eastern region and Madhya Pradesh. The luxury shaving cream was also introduced in a new 7 gm travel pack tube for Rs. 5 and the response towards this has been tremendous.



Talcum powder

Our Talcum powder is available in two brands namely Cinthol and Godrej No. 1.



Godrej No. 1 is available in two variants, Jasmine and Sandal. Its promotion scheme of buy one get one free has and continues to be a significant growth driver.

Cinthol Deo Talc is available in four variants and has a special deo formula that protects the consumer from body odour.

Liquid detergents

Our Ezee liquid detergent is designed for use for special and delicate garments, including silks and all winter wear.

During the year, we introduced a new product 'Glossy', which is an



all-new Premium DishWash Liquid. It is specially formulated for gentle yet effective cleansing of special utensils and specializes in cleaning glassware, non-stick ware and crockery.

During March 2007, the Company commenced production at its factory in Sikkim for manufacture of toiletries.

Baby care

Performance of Snuggly diapers remained strong due to encouraging response received to the reduction in price from Rs. 15 to Rs. 10. It is now a significant player in the



southern states of Kerala and Tamil Nadu. During the year, the 'Snuggly' brand was sold to the joint venture Company 'Godrej SCA Hygiene Limited'.

Distribution and Supply Chain

The Company has a well-established distribution and supply chain.

During the year, GCPL's thrust was on consolidation in bigger towns. We currently have 4,400 distributors, which includes 1,400 added during the current year. We now have a distributor in almost every town, which will help us increase availability, which in turn would create more awareness for our products. Due to a distributor, being present at almost all locations, the degree of acceptance for our new offerings improves leading to a wider presence of our SKUs.

Some other programs undertaken by your Company to enhance the distribution and supply chain include :

- The feeder wholesaler program : The program includes setting certain targets and motivating the feeder wholesaler to meet them.

- City wholesale program, which has commenced recently. This ensures a continuous line of communication between the wholesaler and the Company, resulting in quicker replenishments and fewer stockouts.

Brand Valuation

The balance sheet of a Company discloses the financial position of the Company including its tangible assets. However gradually it has been realised that more than tangible assets, it is the intangible assets that are the significant growth drivers for a company. Values associated with its products are communicated to a consumer through a brand. A brand is a promise by the company of quality and authenticity that consumers can rely on and has become critical for shareholder wealth creation.

Keeping this in mind, your company undertook a major brand valuation exercise during the last financial year. Brand Finance PLC, a leading UK based global brand valuation and strategy consultancy was commissioned to value 5 major GCPL brands, namely Cinthol, Fairglow, Godrej No. 1, Ezee and Godrej PHD. Post this appraisal, these 5 brands have been valued at Rs.2622 crore.

The objective for this exercise was three fold - firstly to determine the correct value of the brands, secondly to identify the demand drivers for each brand and lastly to quantify the potential branded business value uplift by leveraging brand equity.

Besides the valuation, the Company received suggestions from Brand Finance towards value enhancement of these brands. Alterations that are not very elaborate can be expected to augment the value of these brands to Rs.3880 crore. Your Company proposes to implement these suggestions suitably. This valuation has given GCPL an opportunity to understand the values of FMCG business worldwide and consumer response to branded FMCG products.

Human Resources

We believe that people are the backbone of an organization and hence we lay great emphasis on optimizing their performance. We currently have a staff strength of more than 1200 employees.

In March 2007, as part of our endeavour to make our employees partners in our growth, we introduced an Employee Stock Option Plan and granted the options to key employees during April 2007.

Our Company encourages people to think and act differently and we work to develop bright, energetic and motivated leaders. Towards this, we have revamped many of our recruitment and training schemes. Our Godrej Sales Academy recruits fresh graduates and trains them to become successful sales personnel. Our ACE program recruits professionals from premium institutes and provides them the necessary learning skills, in turn developing them into successful managers. GALLOP (Godrej Accelerated Learning, Leadership and Orientation Program) is designed to give recruits a strong career growth platform. New recruits are inducted from Premier Business Schools across the country and trained across geographies and group companies so that they are optimally positioned to respond to tomorrow's challenges.



We believe that learning is an ongoing process and never stops. Towards this end, we have tied up with the IIT School of Management, Mumbai and Symbiosis Institute of Business Management, Pune to provide employees with management education in Operations and General Management leading to an executive MBA qualification.

Our Total Talent Management program has been launched to identify and groom leadership talent. Under this program, our employees are sent to premier business schools like Harvard to further develop their skills. Depending on their performance, the Company plans their future career growth.

At GCPL, we see employee feedback to be a key metric. Feedback is provided and obtained through a variety of mechanisms. Our Performance Improvement Process provides quarterly feedback to all the employees on their deliverables and progress on the same. The 360-degree evaluation program is used to assess the leadership effectiveness of business leaders. Here feedback is obtained from supervisors, colleagues, subordinates and customers. The Internal Customer Satisfaction Survey provides feedback to all service functions.

In order to manage our human resources effectively we have adopted the PeopleSoft Human Resource Management System (HRMS) package which is a globally- acclaimed state-of-the-art HRMS. Named GEMS (Godrej Employee Management System) this system has been customized specially for us. HRMS is a comprehensive data repository and a robust reporting and analysis tool that captures all workforce related data in a single environment. It helps in collecting the workforce data and using it in monitoring the workforce, making decisions and driving performance.

We also provide a 'GURUKOOL' summer training program, which includes a live project with a structured goal, workshop by senior leaders and an informal interaction with seniors and the Chairman.

Once again this year we organized 'Shrishti 2006-07', a business plan contest where contestants were asked to draw on existing capabilities and competence in the FMCG business and extend its utility to create a scope for differentiated services as a new line of business. The winner received a cash prize and an opportunity to interact with top management.

A reflection of GCPL being a true people company is found in the recognitions received. Hewitt recently

announced the results of its 'Best Employers Study' for the year 2006. GCPL is ranked 6th in the study and is the highest ranked FMCG company. In all 230 companies forwarded their nominations to be considered as Best Employers and the views of over 44,000 employees have been represented in this study. The "Great Place to Work" survey which is an annual survey conducted by Grow Talent in partnership with Great Places to Work Inc., USA along with Business world also ranked your Company's people approach highly. GCPL has been a regular participant in this survey and has featured among the TOP 25 employers for the fourth consecutive time - a feat achieved by only three organisations. GCPL is ranked 15th in the recently concluded survey. It is the only FMCG Company to feature on the list this year. The survey spanned over 121 companies covering over 16,000 employees.

Information Technology

At GCPL, we believe that technology is crucial in ensuring efficiency and competitiveness.

One of the highlights during the year was the implementation of SAP from January 2007, which provides a comprehensive range of software applications to empower every aspect of the business across the supply chain.

Project 'Sampark', the supply chain management initiative of the Company, is an information exchange to ensure efficient planning, timely delivery and minimal inventories. Information exchange is online and helps maintain inventories at a minimum level based on the demand with minimal stock outs.

Research & Development

At GCPL, we believe in providing the consumer innovative products year after year. Towards this, we have a well equipped Research and Development laboratory to identify new products, variants and





categories based on consumer feedback. Along with that, we are constantly improving the quality of our existing product offerings.

During the year, our Research and Development team accomplished among others the following :

- The creation of a new health soap 'Vigil'
- Development of products shipped to Keyline Brands U.K. and Rapidol S.A.
- Product registration in U.K. for GCPL Brands
- Powder Hair Dye with added conditioner and perfume.

International Operations

GCPL currently exports to 33 countries. Your Company's export income amounted to Rs. 14.6 crore which forms 2% of the Company's total sales.

During the year, GCPL's powder hair dye (in bottles) and Godrej No. 1 soap received EU certification enabling us introduce both these products in Europe. This certification was achieved pursuant to a series of stringent tests and is yet another reflection of your Company's product quality and R & D capabilities.

We witnessed a steady growth in the European market with our 'CUTICURA' brand reporting healthy growth. This year we relaunched some of our products of Keyline Brands namely 'AAPRI' in the face care segment and the 'ERASMIC' men's portfolio.

In September, we acquired the South African hair colour business of Rapidol U.K. and its subsidiary Rapidol International which is a leading marketer of permanent hair colours. Rapidol enjoys a proud heritage and a huge reputation of being a safe and affordable hair colourant for consumers in South Africa and across the African continent. Through this acquisition, GCPL acquired a

significant market share in the South African ethnic hair colour market. We gained ownership of strong ethnic hair colour and care brands 'INECTO' and 'SOFLENE' trademarks in ten countries in addition to our present trademark rights through Keyline Brands.

The acquisition also provides us an opportunity to enter the large African hair colour market. Besides enabling access to modern trade network and ownership of customer listing enjoyed by 'INECTO' and 'SOFLENE'.



Post acquisition we launched 'INECTO PLUS' cream in the premium end of the ethnic hair colour category, in six variants.

Our 'INECTO' brand currently is a leader in South Africa, Lesotho, Swaziland, Namibia, Zambia, Zimbabwe, Angola, Mozambique, Congo and Botswana.



We have already begun augmenting the synergies we derive from this acquisition too. Our first shipments of Renew cream hair colour were dispatched to South Africa during the year.

During the year, our thrust has been on identifying opportunities to build on these synergies and identify opportunities in both international and domestic markets.

Joint Venture Company – Godrej SCA Hygiene Limited

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, specially sanitary napkins and baby diapers in India, Nepal and Bhutan. Our ‘Snuggly’ brand has been sold to the joint venture company.

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. The Group is present in 90 countries and has production facilities in 40 countries with brands like ‘Tena’, ‘Libero’, ‘Libresse’, ‘Nana’ and ‘Bodyform’.

This joint venture will provide GCPL the opportunity to gain entry into the feminine hygiene products and baby diaper market, which is still in the nascent stage in India. The joint venture would get access to SCA’s world leading technology and also enable it introduce SCA brands into the Indian market.

Social and Environmental Initiatives

During the year, the Company supported and encouraged various social and environmental initiatives. Towards this, the Company has created 4 SC/ST entrepreneurs during the year to build business partnership. Our Malanpur plant has adopted a school at a nearby village ‘Singwari’ and granted financial help by way of scholarships to the best performing child belonging to the SC/ST from the fifth to the eight standard. Presently the Company has more than 10% employees under SC/ST category from its total employee strength.

Financials

Abridged Profit & Loss statement - Consolidated

All figures in Rs. crore

	FY 2006-07	FY 2005-06
Sales	953.2	699.7
Other income	2.6	7.3
Total income	955.8	707.0
Material costs	487.7	336.2
Staff costs	54.3	47.6
Advertising & sales promotion	108.2	72.1
Other expenditures	123.3	101.1
Total expenditure	773.5	557.0
PBDIT	182.3	150.0
Depreciation	14.2	11.4
PBIT	168.1	138.6
Interest and financial charges (net)	9.6	6.5
PBT	158.5	132.1
Provision for taxation	24.3	11.3
PAT	134.2	120.8
Extra Ordinary item (net of taxes)	5.0	–
Tax adjustment of previous year	4.8	0.5
Net Profit	144.0	121.3

GCPL’s net sales in FY 2006-07 were Rs. 953.2 crore, demonstrating a growth of 36% over FY 2005-06

GCPL has been consistently registering high growth rates

Profit before Interest, Depreciation and Tax (PBIDT) increased by 22% to Rs. 182.3 crore

The Profit before Interest and Tax (PBIT) margin of our toilet soap business segment were 11% in FY 2006-07 as compared to 12% in FY 2005-06. Personal Care PBIT margins were at 29% in FY 2006-07 as compared to 37% in FY 2005-06.

Your company generated a Profit Before Tax (PBT) of Rs. 158.5 crore and a Net Profit after tax of Rs. 144.0 crore, displaying a 20% and 19% growth respectively over the Company's FY 2005-06 performance.

Profiability perspective

Consolidated

	FY 2006-07	FY 2005-06
PBDIT/Sales	19.1%	21.4%
PBT/Sales	16.6%	18.9%
PAT/Sales	14.1%	17.3%
RoCE	54%	90%
RoNW	109%	154%
EPS (Rs.)	6.4	5.4
EVA (Rs. crore)	113.2	108.9

Internal control systems and their adequacy

Your company 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.

Your Corporate Audit & Assurance Dept which is ISO 9001: 2000 certified, issues well documented operating procedures and authorities with adequate built-in controls at the beginning of any activity and any time there is any major change.

The internal control is supplemented by an extensive programme of internal, external audits & periodic review by the management.

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.

During the year your Corporate Audit & Assurance Dept was involved in facilitating the SAP implementation so

as to ensure that the existing processes are adequately captured with in-built control mechanisms.

Information Security

Your company recognised that Information being an important asset requires adequate protection

Therefore "Information Security" has been established as a separate focused Corporate function and attached to Corporate Audit & Assurance Dept.

As a part of this initiative, your company has, with the help of a reputed consultant, formally documented Infosec Policies & Procedures.

A Chief Information Security Manager has been appointed and entrusted with the implementation of the above policies with a view to safeguard information assets by all concerned.

Awards & Recognitions

Your Company has received several awards and recognitions from prestigious organizations

The Company received a commendation certificate for Strong Commitment to Excel in the CII-EXIM Bank Award for Business Excellence.

Malanpur factory won the Platinum Award in the India Manufacturing Excellence Awards (IMEA) by Frost & Sullivan, in the Chemicals Category.

Risk Controls

Like any other business, GCPL encounters risks and uncertainties pertaining to activities that could be caused by external as well as internal factors. Since the Company now operates across various geographies the possibility of risks being encountered increases. These risks include operational risks like vegetable and palm oil prices, change in government policies, distributor and

employee relationships, competition, etc. and financial risks like foreign exchange rate fluctuation, interest rates, changes in accounting and taxation rules and regulations, etc.

Risk management is an ongoing & iterative process based on the dynamics of risk environment. At GCPL, we continually seek to improve and enhance our ability to identify risks & plan responses thereto. The Company has a Risk Committee to monitor and review risks periodically.

Outlook for FY 2007-08

Our thrust going forward will be to leverage the scale and size we have achieved over the last few years to drive growth and profits. We have expanded our operations and entered several new geographies. We have also established our presence in new categories, which we

believe have tremendous potential. All this has put in place a sound growth platform for your Company.

The long-term outlook for the FMCG sector in India is also very encouraging with higher awareness levels and increasing disposable incomes being key drivers. We look forward to a year of growth and excitement.

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.