A photograph of two hands shaking in a firm grip, set against a blue circular background with white concentric arcs. The hands are wearing white cuffs, suggesting a professional setting.

management discussion & analysis

Focus on innovation and quality with an emphasis on continuously enhancing stakeholder value.

Management Discussion and Analysis

Overall business activity in the country showed a distinct upturn in Financial Year 2003-04. GDP during the first nine months of the year under review recorded a growth of over 8%. It is encouraging to note that this growth is widely perceived to be driven by strong economic fundamentals.

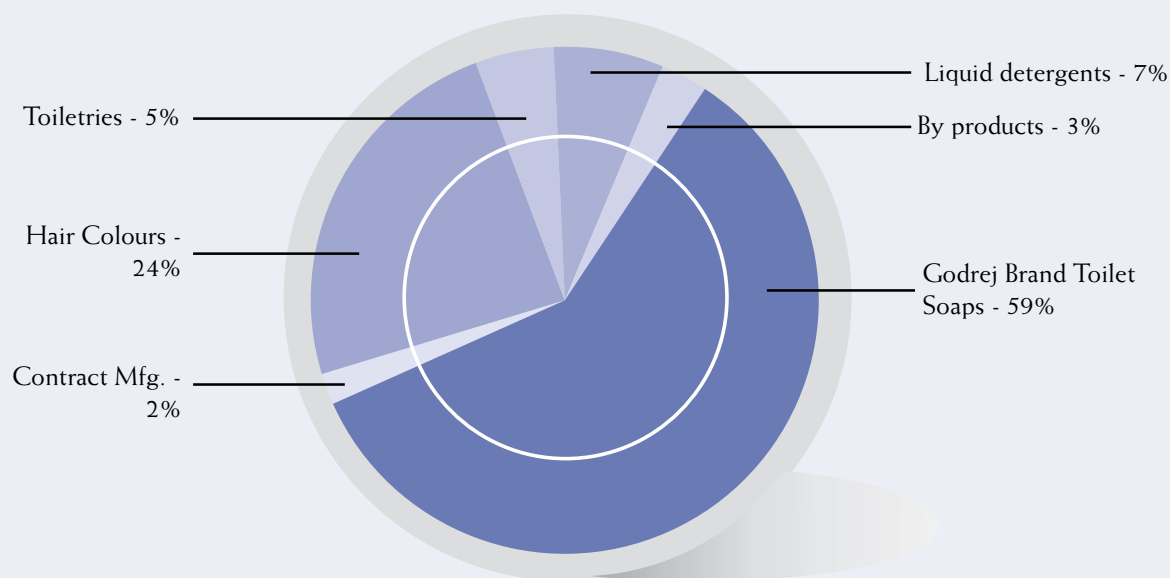
The performance of the FMCG sector however continued to be muted. This was the result of a variety of factors. First amongst these was the increasing allocation of discretionary income by consumers towards durables and other lifestyle products. Research shows a considerable increase in consumer spend on durables at the expense of FMCG products. The poor rural growth in the first half of the year was also partly responsible.

Godrej Consumer Products has, however, steered clear of these constraints by maintaining its focus on its defined strategy for its two businesses, namely enhancing margins and marketshare in the Soap segment, while expanding the Personal Care segment with the introduction of new offerings.

Our sustained thrust on innovation and creating value for the consumer coupled with an aggressive approach towards efficiency enhancement, is reflected in a creditable performance in FY 2003-04.

- Godrej brand sales improved 7% from Rs. 434 crore in FY 2002-03 to Rs. 464 crore in FY 2003-04.
- Your Company's growth continued to outperform that of the sector in the Toilet Soaps category. GCPL's sales by value grew 13% while the segment degrew 5%.
- Profit before interest, tax and depreciation (PBDIT) increased 8% to Rs. 88 crore. GCPL's net profit after tax increased 21% to Rs. 65 crore.
- Both Return on Capital Employed (RoCE) and Return on Net Worth (RoNW) ratios were very impressive at 107% and 153% respectively.
- Your Company's continued efficiency focus saw it generate an Economic Value Added (EVA) of Rs. 54 crore.
- New offerings in both the hair colour and liquid detergent categories strengthened the Company's presence in the Personal Care segment.

GCPL's sales mix FY 2003-04 :



Turnover (Rs. crore)

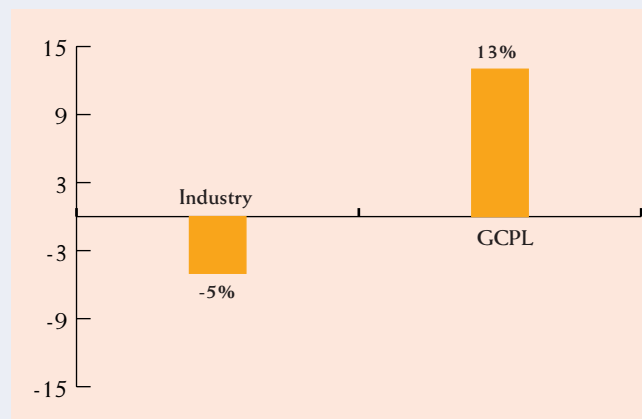
| Turnover | FY 2003-04 | FY 2002-03 | Growth (%) |
|---------------------|------------|------------|------------|
| Toilet Soaps | 287.2 | 253.5 | 13 |
| Hair Colours | 114.8 | 117.4 | (2) |
| Liquid Detergents | 35.6 | 34.4 | 3 |
| Toiletries | 26.1 | 28.4 | (8) |
| Total Godrej Brands | 463.7 | 433.8 | 7 |
| By products | 14.7 | 18.8 | (22) |
| Contract Mfg. | 11.2 | 17.5 | (36) |
| Total Sales | 489.6 | 470.1 | 4 |

Soap

Toilet soaps

In an overall degrowing segment, GCPL's sales grew 13%. The category presently represents 59% of GCPL's total sales and 62% of the branded sales.

Growth - Industry vs GCPL



Despite a steep increase in international prices of vegetable oil in the second and third financial quarters, GCPL continued to offer its consumers quality products at affordable prices. This was due to the high degree of expertise your Company has developed in vegetable oil procurement and use. Going forward, vegetable oil prices are expected to continue to be volatile. However, this expertise coupled with the strengthening Indian rupee and reduced import duties should enable us to control raw material costs.



GCPL Power Brand soaps meet the Bureau of Indian Standards (BIS) standards for Grade 1 Toilet Soap which is the highest grade. Grade 1 implies a minimum Total Fatty Matter (TFM) content of 76% with the least number of additives, implying a pure soap. In fact Godrej No. 1 is today the largest selling Grade 1 soap (by volume) in the country.



Cinthol, the Company's flagship brand was recognised by Superbrands Council (UK) to be one of India's strongest brands for the year 2003. The Superbrands judges panel comprised leading individuals of Indian media and industry. Cinthol also featured amongst 'Brand Equity's most trusted brands' in 2003. The brand has displayed encouraging consumer offtake especially post the launch in February of Cinthol Deo Soap, at a popular price point. The soap contains a unique ingredient that

removes odour causing bacteria keeping the user fresh and confident throughout the day.

The company launched the All New Godrej FairGlow fairness soap. Enriched with the unique bio-extract Natural Oxy-G, FairGlow comes in a new attractive pack and a lingering new fragrance.



Godrej No. 1 has demonstrated consistently impressive growth during the just concluded financial year. The sales of the brand which is targeted at the sub popular category and available in four variants grew 32% by volume in FY 2003-04.



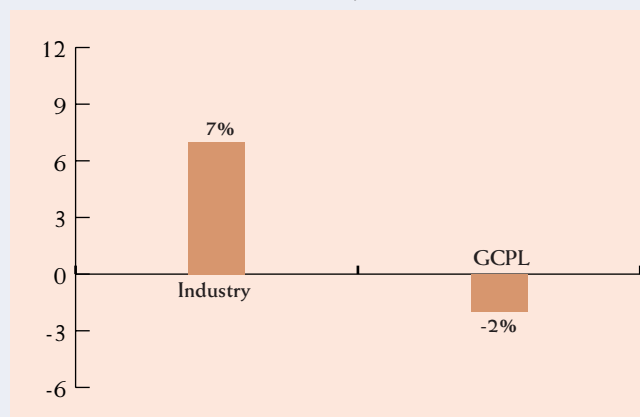
Personal Care

Hair Colour

Your Company continues to be the market leader in the Hair Colour category, with a market share of 43.1%. The category accounted for 24% of GCPL's total sales and 25% of the branded sales.

Consistent with its focus of expanding the category and to combat competitive launches, GCPL introduced Godrej Renew, a cream based hair colour. This offering is targeted at the mid-range segment in line with its objective of delivering value at an affordable price. Initial dealer and consumer response to this offering has been highly encouraging.

Growth - Industry vs GCPL

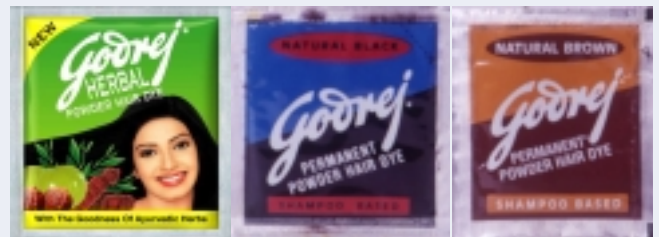




During the year under review, however, GCPL's shipment growth in the category was less than that of the sector offtake. This was due to our desire to reduce distributor stocks and also due to competitive launches. Going forward we are confident that GCPL will demonstrate healthy growth in the Hair Colour category.



Our product portfolio now encompasses product offerings at all price points and forms from 'Godrej Powder Hair Dye' to 'Godrej Liquid Hair-Dye' to 'Godrej Kesh Kala Oil' to 'Godrej Nupur Mehendi' to 'Godrej Renew Hair Colour Cream' and finally the premium 'Godrej ColourSoft Hair Colour.'

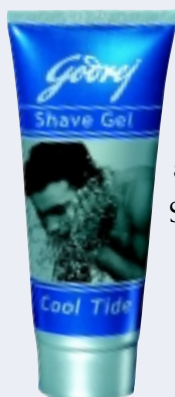


During the first half of the year we also introduced a herbal variant of the Godrej Powder Hair Dye.

Toiletries

Shaving Range

GCPL's marketshare in this category declined from 11.8% to 10% due to the onslaught of cheap creams.



As part of the Company's efforts towards rejuvenating its position in the category and with a view towards expanding its portfolio of offerings and building the equity of the Godrej brand, Godrej Shave Gel was introduced.



Baby Care

In the first quarter of FY 2003-04, your Company acquired the trademark and copyright for Shogun Diapers Limited's disposable diaper brand 'Snuggly'. The brand under which both 'baby diapers' and 'adult protection diapers' are marketed was bought for Rs. 5.9 crore and relaunched as "Godrej Snuggly".



Going forward, GCPL proposes to gradually explore opportunities of expanding its presence in this high potential category.

Hand Sanitiser

Your Company also added the Cinthol Hand sanitiser to its range of offerings in the Toiletries category. Cinthol Hand Sanitiser enjoys good response internationally and we are enthusiastic of its potential in the Indian market too.



Liquid Detergents

This category comprises 7% of GCPL's total sales and 8% of the branded sales. GCPL maintained its leadership position in the category with a marketshare of 88.6%. The product is marketed under the Ezee brand name, and is Woolmark approved.

The challenge here is to widen the scope of the offering such that it is suitable for fabrics other than wool.

In an effort towards achieving this, we have test marketed Ezee Silk, the response to which has been encouraging. Going forward, such initiatives will contribute towards reducing the seasonality of the brand and ensuring a steady contribution through the year from the category.



Exports

In FY 2003-04, GCPL's export income amounted to Rs. 9.5 crore, which comprised of 26% from the Soap segment and 74% from the Personal Care segment.

Your Company exports to more than 37 countries.

The third party manufacturing facility in Bangladesh also brings forth considerable opportunity. While Bangladesh is an important market for us, this facility also has minimised GCPL's cost of access to all SAARC markets.

Contract Manufacturing

Contract manufacturing represents an opportunistic business for GCPL. Based on capacity availability, your Company manufactures toilet soap for others.

During the just concluded financial year, GCPL's toilet soap brands enjoyed strong demand limiting the capacity available for Contract Manufacturing. Further, with some companies having set up their own manufacturing facilities, demand for this activity also declined.

During FY 2003-04 revenues from contract manufacturing activity amounted to Rs. 11 crore, a reduction of 36% from the previous year.

Research & Development

The driver of GCPL's strong innovation ability is a robust Research and Development division. GCPL continued to explore new and fresh ideas, products and processes.

In FY 2003-04, the R&D team's focus was in the areas of skin care, hair care, consumer centricity and knowledge management.

The various product launches during the year are testimony to the Company's proven R&D capability.

As part of its consumer centric thrust, GCPL also organised structured programmes wherein its scientists interacted with consumers to get a first hand feel of their preferences and aspirations. These meetings resulted in some fascinating qualitative insights, which will enable us to serve the consumer better.

Human Resources

GCPL views its people as its biggest asset. Your Company focusses on a transparent and performance rewarding policy.

Numerous initiatives that include customer feedback, internal customer surveys, etc. have been of significant benefit to GCPL employees.

Also as part of the Godrej Group's HR principle, employees across Group companies, who have displayed high potential are given opportunities to work together in teams so as to get insights into the working of other sectors, which can later be put to productive use in their own workplace. They also participate in the Godrej Group Young Executive Board (YEB) and Think Tank.

Your Company's well-structured HR approach has contributed in two significant respects. From a company viewpoint, besides enabling the identification of future leaders, it has brought to the fore some novel innovations. From an employee perspective, it has enabled young people to develop their strengths and forge their career path.

All the HR practices have been internalised by the employees and have contributed to an energised and focused environment.



Information Technology

Information technology is critical to ensuring efficiency, speed and a competitive edge in operations.

A robust IT backbone has enabled GCPL to obtain primary (at all the CFAs) and secondary data (from significant distributors) in an accurate and timely manner. This has contributed to considerable streamlining of costs and drastically reduced inventory levels.

It has also enabled improved and accurate planning at all levels.

The recently launched software, Sahyog has contributed to enhanced interaction between your Company and select suppliers.

Even the most well developed IT infrastructure is incomplete unless appropriate security measures are implemented. The need for a high level of system security has been recognised by the management and appropriate measures have been put in place to counter any IT security threat.

Financial Highlights

Abridged Profit & Loss statement

All figures in Rs. crore

| | FY 2003-04 | FY 2002-03 |
|--------------------------------------|--------------|--------------|
| Sales | 489.6 | 470.1 |
| Processing charges | 2.0 | 5.9 |
| Other income | 1.1 | 1.4 |
| Total income | 492.7 | 477.4 |
| Material costs | 235.2 | 223.1 |
| Staff costs | 25.6 | 25.5 |
| Advertising & sales promotion | 50.4 | 58.4 |
| Other expenditures | 93.1 | 88.6 |
| Total expenditure | 404.3 | 395.6 |
| PBDIT | 88.4 | 81.8 |
| Depreciation | 9.4 | 9.0 |
| PBIT | 79.0 | 72.8 |
| Interest and financial charges (net) | 2.4 | 2.7 |
| PBT | 76.6 | 70.1 |
| Provision for taxation | 11.8 | 16.5 |
| PAT | 64.8 | 53.6 |

GCPL's total revenue in 2003-04 was Rs. 489.6 crore, demonstrating a 4% growth over FY 2002-03. Sales of Godrej brands at Rs. 463.7 crore, have shown an improvement of 7% over FY 2002-03.

The Company's Profit Before Depreciation Interest and Tax (PBDIT) improved 8% at Rs. 88.4 crore.

GCPL generated a Profit Before Tax (PBT) of Rs. 76.6 crore and a Profit After Tax (PAT) of Rs. 64.8 crore, displaying a significant 9% and 21% growth respectively over the Company's FY 2002-03 performance. Your Company has performed creditably across all profitability parameters.

Profitability perspective

| | FY 2003-04 | FY 2002-03 |
|--------------------|------------|------------|
| PBDIT/Sales | 18.1% | 17.4% |
| PBT/Sales | 15.6% | 14.9% |
| PAT/Sales | 13.2% | 11.4% |
| RoCE | 106.5% | 114.7% |
| RoNW | 153.1% | 117.6% |
| EPS (Rupees) | 11.4 | 9.2 |
| EVA (Rupees Crore) | 53.7 | 41.7 |

Internal control systems and their adequacy

GCPL has a wide and adequate system of internal controls to ensure that all assets are safeguarded and protected against loss from unauthorised use or disposition, and that transactions are authorised, recorded and reported correctly.

The internal control is supplemented by an extensive programme of internal and external audits, review by management and documented policies, guidelines and procedures. The system is designed to ensure that financial and other records are reliable for preparing financial information and other data and for maintaining accountability of assets.

Outlook for FY 2004-05

We believe that strong GDP growth on the back of a good monsoon will drive consumer spend and result in significantly improved performance by those FMCG players who are focused on innovation and consistently creating value for the consumer.

Further, GCPL's product portfolio to a great degree ensures that it is reasonably insulated from any developments that are perceived to negatively influence the FMCG sector.

This is because in the Toilet soaps category, the Company backed by its extensive distribution network believes it enjoys significant growth opportunity. With our low market share, the potential to grow is huge. Additionally, GCPL has developed a high degree of expertise in vegetable oil procurement.

The confidence the Company reposes in its performance in the Soap segment is reflected in its consistently superior to sector growth and increasing market share.

In the Personal Care segment on the other hand, by virtue of enjoying leadership position in both the hair colour and the liquid detergent categories, the onus is on GCPL to take all initiatives to grow the segments. Current penetration of these products is low, providing good potential to grow.

The Company has demonstrated its strength in innovation through the introduction of new product offerings and variants at various price points and for different usages.

Cautionary statement

Some of the statements in this Annual Report, 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 industry, significant changes in political and economic environment in India, tax laws, import duties, litigation and labour relations.