

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

Management Discussion and Analysis

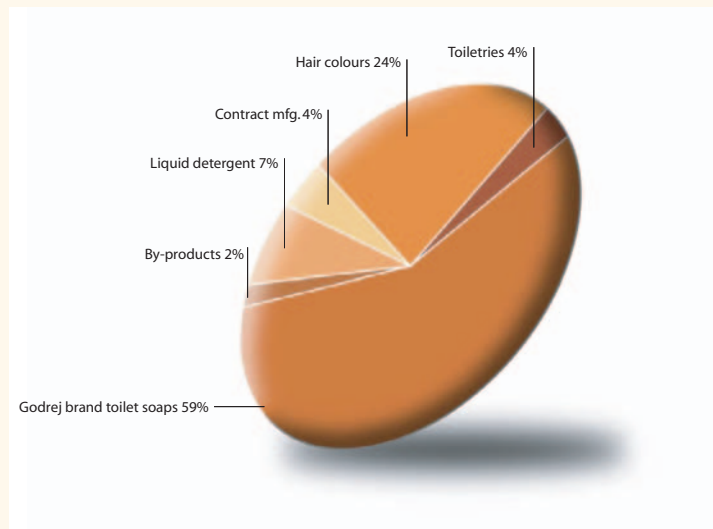
India's economic performance outdid most expectations in the year under review with GDP growing at about 7%. This is even more impressive when viewed, against a backdrop of a delayed monsoon, high commodity prices and the remarkable 8.5% growth witnessed in the preceding financial year.

In line with this buoyancy, there has been a marked increase in disposable incomes as a result of which we are witnessing a healthy uptrend in consumer demand and spend. While consumers continue to be discreet in their spending behaviour; their appetite for variety and intent to upgrade their lifestyles is clear.

These developments have provided just the necessary fillip for the FMCG sector, with the larger players that possess the necessary attributes of market understanding and depth being key beneficiaries. Your Company has during the year under review performed creditably by leveraging these opportunities while simultaneously continuing to create value for money offerings, enhancing operating efficiencies and strengthening its distribution infrastructure in its endeavour to create a platform of sustainable growth and consumer value.

A snapshot of your Company's sales mix is given in Table 1.

Table 1 : GCPL's sales mix



Turnover (Rs. crore)	FY 2004-05	FY 2003-04	Growth (%)
Toilet soaps	334.1	287.1	16
Hair Colour	133.6	114.8	16
Liquid detergents	36.5	35.6	3
Toiletries	24.5	26.1	(6)
Total Godrej Brands	528.7	463.5	14
Contract mfg	20.0	11.4	75
By products	14.0	14.7	(5)
Total	562.7	489.7	15

Soap

Toilet soaps

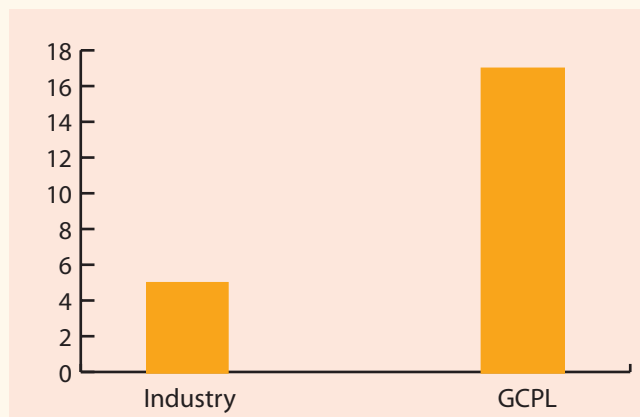
The Company's Toilet Soaps category demonstrated a robust growth in 2004-05 and maintained a superior to the segment performance, with a sales growth of 16%.



On the back of an aggressive three pronged approach comprising introduction of new products, effective communication and superior quality, your Company surpassed its objective of increasing market share by a percentage point per year and in improving margins.

GCPL's market share increased from 6.8% in 2003-04 to 8.0% in 2004-05. Profit before Interest and Tax (PBIT) margins also improved from 9.8% to 10.0%.

GCPL Brand Soaps presently comprises 63% of Brand Sales and 59% of Total Sales.



% Growth in Toilet soaps

This improvement was fuelled by strong performance by the lead toilet soap brands manufactured by your Company.

Cinthol, which as you are aware is a Superbrand, showed strong growth with healthy consumer offtake especially of the Cinthol Deo Soap and Cinthol Lime Fresh brands.

Godrej Fairglow soap turned in a promising performance in the fourth quarter. This was driven by a focused and rejuvenated advertising campaign communicating the benefits of a fairness soap backed by a money back guarantee. We believe this growth is sustainable and will contribute to our strengthening position in the segment.

Godrej No. 1 continued to be the fastest growing and largest selling Grade 1 soap in the country. In April 2004, the Company added the Jasmine variant to the range. This introduction was a result of research conducted by our teams, which indicated an affinity for the jasmine fragrance especially in North India.

From an operational perspective, vegetable oil prices continued to remain volatile during the year under review; bringing to the fore your Company's expertise in procurement enabling us to maintain margins while retaining our commitment to consistent and superior quality.

Your Company's performance in the Personal Care segment has been encouraging.



Personal Care

Hair Colour

The category accounted for 24% of GCPL's total sales and 25% of Godrej brand sales.

Being category leaders, the onus of expanding the category is on us. We have endeavoured to do this by introducing new products and variants at different price points as well as make the distribution system more efficient and effective. These initiatives have delivered results with the category growing at 16% during the year under review and encouraging usage trends in the liquid, cream and powder forms.

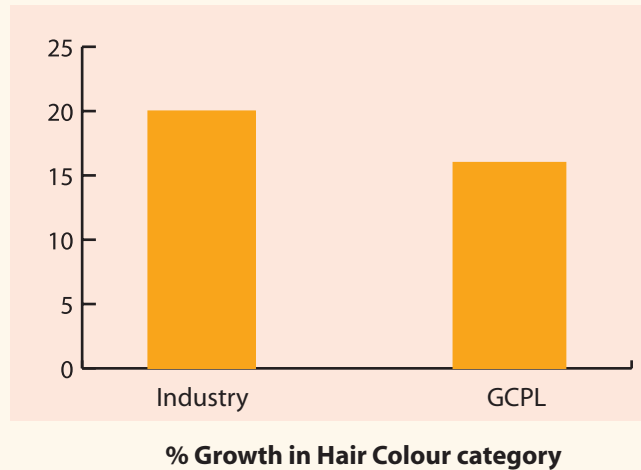
GCPL launched numerous offerings and variants which have received a healthy consumer response.

You will recall that GCPL introduced 'Godrej Renew', a cream based hair colour in four different shades during the last financial year. In October 2004, responding to the strong consumer response we expanded the range of this brand to comprise four more shades namely 'Dark Mahogany', 'Natural Darkest Brown', 'Copper Brown' and 'Light Golden Brown'. We also launched a new range of Fashion Colour powder in 5-gm sachets. These are presently available in three shades namely 'Burgundy', 'Natural Brown' and 'Auburn Red'. The initial response to the launch has been encouraging with good pick up at both the dealer and the consumer end – a fact that should be further validated by strong numbers, going forward.

Sales of your Company's other offerings in the category, namely 'Godrej Hair Dye', 'Godrej Kesh Kala', 'Godrej ColourSoft Hair Colour', 'Godrej Nupur Mehndi' and 'Godrej Kali Mehndi' continued to do well. Godrej Coloursoft has been relaunched recently in ammonia-free formulations and new graphics.

During the year, GCPL has endeavoured to streamline its distribution infrastructure for achieving lower inventories at the distributor level. Although this results in lower shipment numbers in the short run, this initiative ensures smooth operations and higher sales in the long run. Your Company continues to focus on expanding the category and increasing usage, which in turn translates to increasing opportunity.





Liquid detergents

Our liquid detergent business continued to perform steadily. Sales were relatively subdued during the year primarily due to an erratic winter.

GCPL maintained its leadership position in the category with a market share of 87.5%. Sales of the category forms 7% of GCPL’s total brand sales and grew by 3% in FY 2004-05.



Toiletries

Shaving creams

Shaving creams form a relatively small part of your Company’s sales. Over the year 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 advertising campaign. A value for money Deluxe lather variant has been test

marketed in the North. We believe that these initiatives will contribute to an improved performance in the Shaving Cream category.

Talcum powder

Sales of Cinthol Talcum powder, which is also a small contributor to total sales, improved considerably in FY 2004-05 - a significant enabler of this growth being the promotion operated during the year.

Our sales in this category have grown by 84% in volume terms and 48% in value terms in FY 2004-05



Exports

In FY 2004-05, GCPL's export income amounted to Rs. 12 crore, a 26% increase over the previous year. Exports comprised 25% from toilet soaps and 75% from personal care .

We now export our products to 40 countries.

Our international business strategy is two pronged :

- We will focus on geographies where the population is similar to that of India. Understanding and catering to the likes and preferences of these people, we believe is our strength.
- We are also striving to introduce as many of our products as possible in our current markets.

Operations



As you are aware, your Company strives to achieve excellence and maintain the highest quality standards. During the year, your Company set up a second soap line at Baddi which has increased the soap manufacturing capacity of the Company. The manufacturing unit at Baddi, has been certified by BVQI for ISO: 9001:2000 (Quality Management System), ISO: 14001:1996 (Environmental Management System), ISO: 18001:1999 (Occupational Health & Safety Management System). GCPL is one of the few organisations that applied for and obtained an integrated award of this kind. A detailed audit by experts from BVQI was conducted in December, 2004 for ISO: 9001:2000 and in February, 2005 for ISO: 14001:1996 and ISO: 18001:1999 after which the certificates were awarded.

Contract Manufacturing

Contract manufacturing is an opportunistic business. During FY 2004-05 revenues from contract manufacturing activity amounted to Rs. 20 crore.

Your Company was amongst the earliest to establish operations at Baddi, Himachal Pradesh as a result of which not only did we enjoy income tax and excise benefits on our products, but were also able to spare capacities for contract manufacturing.

The situation at the end of FY 2004-05 is now different. A number of other companies have also expanded or set up new operations. As a result of this our contract manufacturing revenues are likely to decline, going forward. However with the significantly improving demand for Godrej brands, availability of spare capacities is also expected to come down considerably.

Research & Development

Research and development as always continues to be the cornerstone of an innovation-focused company like yours. A strong R & D focus has enabled us to introduce numerous new offerings in both Toilet Soaps as well as in Personal Care.

During the year under review, the R & D team's focus continued to be towards identifying quality skincare and haircare offerings. Our thrust on Knowledge Management also enabled us to put in place a robust system that documents past learnings and ensures that these are captured for future reference.

Additionally as part of our unrelenting consumer centric approach, your Company's scientists interacted with consumers to obtain a first hand feel of their preferences and aspirations.

Human Resources

Our people are always our biggest asset.

Being part of a multi industry Group facilitates numerous cross sector learnings and experiences, which considerably enrich our teams' abilities.

GCPL's HR policy is founded on the platforms of transparency, performance evaluation and appreciation.

CNBC/Hewitt Associates recognized your Company's 'people' approach, as having the 'Best Managed Workforce' as part of their Best Employers Survey. Your Company was also ranked best in the FMCG segment and seventh overall in the 'Great Place to Work' survey conducted by Businessworld and Grow Talent.

A highlight for the GCPL HR team was the manning and training of the Baddi manufacturing facility in record time, which enabled smooth operations.

The Godrej Group has tied up with the Symbiosis Institute of Business Management to provide a 2-year diploma-training programme for front line sales officers. The course curriculum comprises classroom training, correspondence and e-learning sessions. This is a dedicated programme for employees from the Godrej Group.

As part of 'Gurukool' - another training initiative, students pursuing MBA programmes handle projects during their summer training, under the guidance of a senior manager. Good performers are selected for job offers, post MBA.

Another key element in the Group's HR approach is the Godrej Accelerated Learning Leadership and Orientation Programme (GALLOP). MBAs from reputed Institutes are selected for this programme where they undergo cross functional training which gives them a better perspective and helps in grooming for their future responsibilities.

Various training programmes have been of tremendous mutual benefit – enriching the 'learner' and offering the Company fresh perspectives.



Information Technology

The contribution of Information technology to your Company's operations cannot be understated. This function has contributed strongly to improved supply chain efficiencies, inventory minimization, cost optimisation and knowledge management.

Sampark, the supply chain management initiative of the Company demonstrated its ability to meet business objectives and increased levels of visibility at both the distributor and retailer levels. It has enabled a virtual 'information exchange and sharing platform' equipped to connect distributors to track stocks so as to ensure minimal inventories, timely delivery and efficient planning.

Your Company also has a robust Business Intelligence platform whereby primary and secondary sales can be tracked and analysed against various parameters and benchmarks.

Social and environmental initiatives

During the year under review, your Company also initiated voluntary social activities in areas near its Baddi factory. Your Company, in association with the villagers, school teachers & local panchayat contributed towards the construction of an entrance gate & boundary wall.

GCPL also sponsored awards that were conferred on meritorious students.

The world famous Kaziranga National Park in Assam celebrated its centenary year in 2005. The event organized by the Forest Department of the State attracted a host of international and domestic NGOs, celebrities and foreign delegates. To commemorate the occasion, a cultural event was organized along with a tour providing a panoramic view of the forest with one of the highlights being the one horned rhino.

The Godrej Group extended financial and other support to this effort of increasing awareness of the concept of conservation of natural resources as well as protection of wild life.

Financial Highlights

Abridged Profit & Loss statement

Rs. crore

	FY 2004-05	FY 2003-04
Sales	562.7	489.7
Processing charges	—	2.0
Other income	6.4	2.1
Total income	569.1	493.8
Material costs	278.4	235.2
Staff costs	32.9	25.6
Advertising & sales promotion	61.6	50.4
Other expenditures	89.3	94.2
Total expenditure	462.2	405.4
Profit before Depreciation, Interest and Tax	106.9	88.4
Depreciation	10.7	9.4
Profit before Interest and Tax	96.2	79.0
Interest and financial services (net)	2.5	2.4
Profit before Tax	93.8	76.6
Provision for taxation	7.7	11.7
Profit after Tax	86.1	64.9
Tax Adjustments of previous years	3.5	—
Net Profit	89.6	64.9

GCPL's net sales in FY 2004-05 was Rs. 562.7 crore, demonstrating a growth of 15% over FY 2003-04. Sales of Godrej brands have also increased by a healthy 14% over FY 2003-2004 sales, to Rs. 528.7 crore.

Your Company has also performed creditably across all profitability parameters.

Profit Before Interest, Depreciation and Tax (PBITD) increased by a healthy 21% to Rs. 106.9 crore on the back of healthy margin improvement in both our business segments.

The Profit before Interest and Tax (PBIT) margin of the Soap Segment improved to 10.0% in FY 2004-05 as compared to 9.8% in FY 2003-04. Personal Care PBIT margin also improved to 38.2% from 36.3%.

Your Company generated a Profit Before Tax (PBT) of Rs. 93.8 crore and a Profit After Tax (PAT) of Rs. 86.1 crore, a 22% and 33% growth respectively over the Company's FY 2003-04 performance. The Net Profit, after tax adjustments in respect of earlier years, is higher at Rs.89.6 crore.



Profitability perspective

	FY 2004-05	FY 2003-04
PBDIT/Sales	19.0%	18.1%
PBT/Sales	16.7%	15.6%
PAT/Sales	15.3%	13.2%
RoCE	150.5%	106.5%
RoNW	179.7%	153.1%
EPS (Rs.)	15.81	11.35
EVA (Rs. crore)	78.8	53.7

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 unauthorized use or disposition, and that transactions are authorized, 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 2005-06

A vibrant economy combined with increasing consumption and aspiration levels present a positive way forward for your Company. FMCG products are again enjoying a greater share of the Indian consumer's wallet.

The past has seen GCPL performing strongly even in challenging environments. An improved and conducive environment can only accelerate this growth.

Our Toilet Soaps business has demonstrated an over 1% improvement in market share in FY 2004-05 over the previous year and we believe it is possible to maintain this trend. Our manufacturing facilities at Baddi are fully operational, giving us the opportunity to aggressively pursue sales and enhance margins.

In the Personal Care segment, we will continue to research and innovate especially in the skincare, hair care and liquid detergent categories so as to expand the sector. There is significant opportunity to increase penetration and usage in these categories, especially in hair colour.

We are also consistently enhancing our operations in an effort to expand margins and strengthen our competitive position. The year ahead looks exciting.

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