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Godrej

Godrej Consumer Products Ltd.

ANNUAL REPORT 2005-2006

Changing Paradigms

Evolving Opportunities

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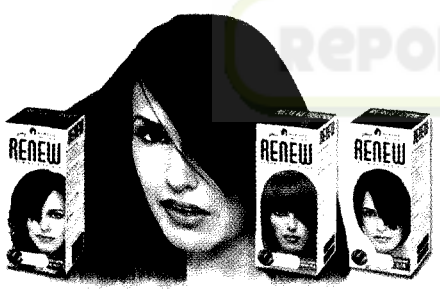

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Vision

"We are dedicated to **Deliver Superior Stakeholder Value**
by providing solutions to existing
and emerging consumer needs in the
Household and Personal Care business.
We will achieve this through
Enduring Trust and **Relentless Innovation**
delivered with **Passion** and **Entrepreneurial Spirit.**"

Changing Paradigms
Evolving Opportunities

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The business paradigms across India are changing. While there is a visible increase in disposable incomes and consumption, it is clear that only those entities with the necessary financial and operational scale and size will deliver value. Godrej Consumer Products is one such company – in the forefront of this transition. Having established a sound growth platform which was enabled by our ability to comprehend and deliver to the needs of the consumer, your Company took the next step in its aggressive growth drive – it acquired Keyline Brands Limited a much admired FMCG company in the United Kingdom. This has enabled ownership of several major brands, entry into new product segments as well as significant enhancement of our distribution and reach capabilities. This has been achieved while simultaneously driving organic growth and efficiencies through the introduction of new product variants, maintaining our thrust on quality and strengthening our supply chain. All these initiatives have enabled your Company to maintain its superior to sector performance as well as to enhance its competitive position in a rapidly changing business environment.

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Our Promises

Deliver Superior Stakeholder Value

All our endeavours are focused towards delivering superior stakeholder value. This has enabled us to sustain our strong growth momentum, the fruits of which are in turn reaped through superior returns for our shareholders, consumers, employees and associates.

Enduring Trust

We profess a total commitment to transparency. Our stakeholders have incessantly maintained enduring trust in us and we seek to strengthen and build upon it continually. In doing this we ensure that we always maintain the highest levels of corporate governance and deliver safe, reliable and value for money product offerings.

Relentless Innovation

In line with our relentless innovation thrust, we are infrastructurally well-equipped with a full-fledged research and development laboratory to identify new products and variants. We consistently develop and introduce new variants that both expand and enhance our product portfolio.

Passion

Our robust business performance is predominantly due to our passion for performance. A motivated work environment and well-structured programs have enabled us to attract and retain the best talent and expertise.

Entrepreneurial Spirit

Our entrepreneurial spirit has helped us adapt and capitalize upon the changing paradigms. This spirit has allowed us establish ourselves as a "Business Superbrand". The acquisition of Keyline Brands which is a step towards making our presence felt overseas is another example of our entrepreneurial spirit.

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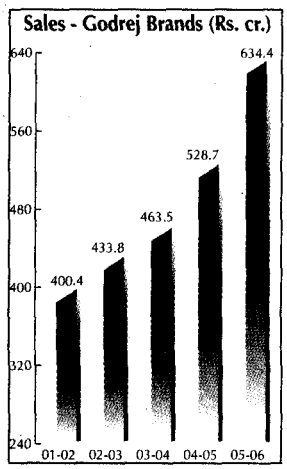
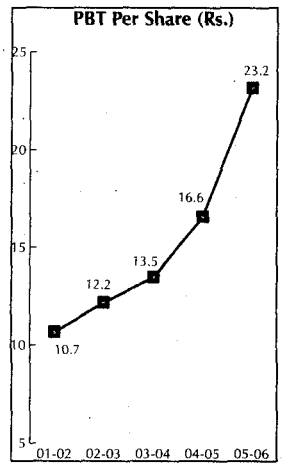
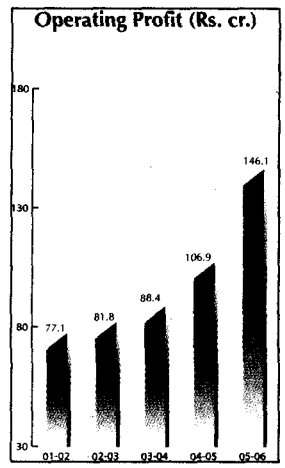
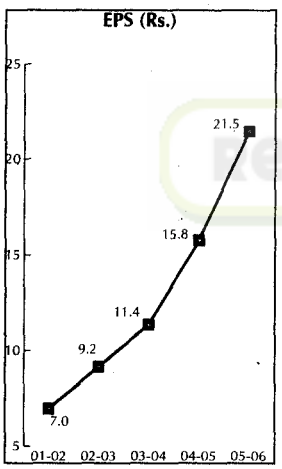
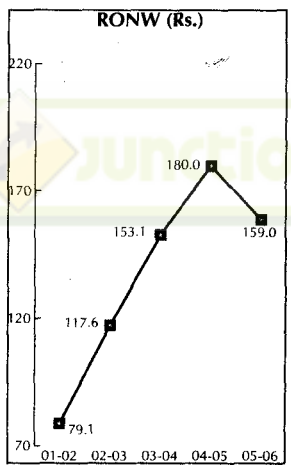
Performance Highlights

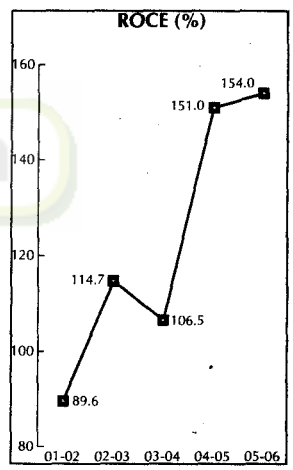


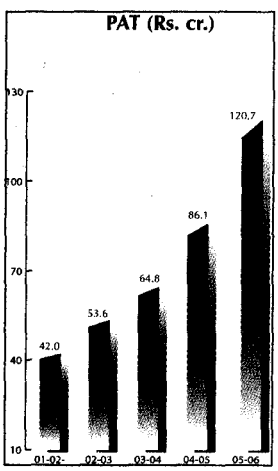


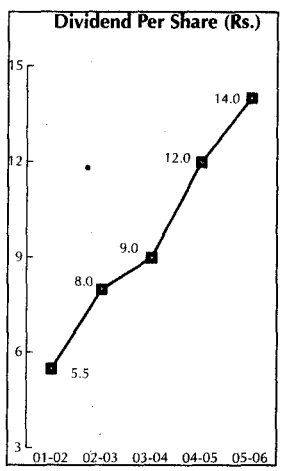


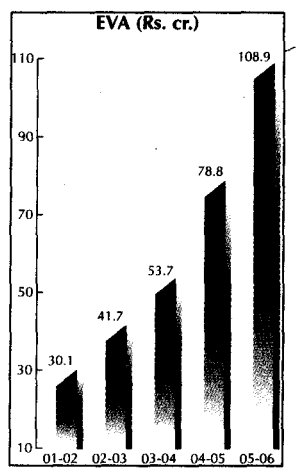












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The Year that was

Unrelenting growth

- FY 2005-06 sales revenues (net of excise) improve by 17% from Rs. 562.7 crore to Rs. 657.3 crore
- Sales of Godrej Brands grow 20% from Rs. 528.7 crore to Rs. 634.4 crore
- Profit After Tax increases by 40% from Rs. 86.1 crore to Rs. 120.7 crore
- EPS improves from Rs. 15.81 to Rs. 21.45
- Profit before Interest, Depreciation and Tax (PBIDT) improves 37% from Rs. 106.9 crore to Rs. 146.1 crore. Operating (PBIDT) margins improve from 19% to 22%.

All round business strength

- Your Company is now the second largest toilet soap manufacturer in India
- GCPL's toilet soap market share improves to 9% from 8% in FY 2004-05
- Hair colours demonstrate robust 22% growth
- Toiletries improve a healthy 61% increase with Talcum Powder, Shaving Cream and Baby Care all enjoying healthy consumer offtake
- Commenced exports to 11 new countries namely Czech Republic, Romania, Ghana, Congo, Sudan, Yemen, Iraq, Vietnam, North Korea, South Korea and Indonesia

Innovations and supply chain enhancements further improve performance

- New variants Godrej No. 1 Lavender and Cinthol Deo-Sport launched. New Evita Soap introduced. Godrej No. 1 talc in Sandal and Jasmine fragrances added to toiletries range. Coloursoft improved to include pleasant fragrances
- Extensive use of IT in Project Sampark has enabled significant efficiency enhancement, all round transparency and communications and minimal dealer inventories

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The Year that was

Commencement of a global presence

- Acquisition of Keyline Brands Limited, a much admired FMCG Company in the U.K. represents the first step in your Company establishing a global presence
- Transaction gives GCPL ownership of several international brands and trademarks including 'CUTICURA', 'ERASMIC' and 'NULON' in many countries
- It enables GCPL to widen geographical presence and access trade channels in key developed markets including Europe, Australia and Canada
- Transaction offers GCPL access to a strong customer base that includes Boots, Sainsbury and Tesco amongst others

Improved Shareholder value

- EPS increases from Rs. 15.81 to Rs. 21.45 per share
- Economic Value Added (EVA) rises 38% from Rs. 78.8 crore to Rs. 108.9 crore
- Dividend Rs. 14 per share: (350% on a face value of Rs. 4 per share)
- Return on Capital Employed (ROCE) and Return on Net Worth (RONW) high at 154% and 159% respectively

Recognitions

Financial

- Recognized as India's 'Best Managed Medium Cap Corporate of the Year' by Asia Money

Operations

- BVQi certified the Guwahati factory for ISO 9001 : 2000 and the Baddi factory for ISO 9001 : 2000, ISO 14001 : 1996 and ISO 18001 : 1999

Human Resources

- The Company was ranked twelfth in the 'Great Place to Work' survey conducted by Businessworld and Grow Talent.This is the third consecutive year that GCPL has found place in this coveted list

Awards

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

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Board of Directors

Adi Godrej

Jamshyd Godrej

Nadir Godrej

Bala Balachandran

Rama Bijapurkar

Bharat Doshi

Aman Mehta

Anupam Puri

Hoshedar Press

Company Secretary	:	Sunil Sapre
Auditors	:	Kalyaniwalla & Mistry
Registrars	:	Computech Sharecap Ltd.
Bankers	:	Central Bank of India
		State Bank of India
		Citibank N. A.
		HDFC Bank Limited
		The Honkong & Shanghai
		Banking Corporation Limited

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Chairman's Statement

Dear Shareholders,

The economy enjoyed robust growth this year. The year marked a new landmark in your Company's young but rich life . While continuing to deliver impressive revenue growth and profitability in the domestic markets, the year saw the commencement of Godrej Consumer Products building a global presence in the international FMCG market.

The Macro environment

The corporate landscape is undergoing several large and swift changes. Indian companies across sectors have begun to aggressively pursue growth both within the country as well as overseas while concurrently endeavoring to manage costs more efficiently. This has been enabled to a great extent by some consistent and growth oriented government policies. In fact one of the biggest triggers of the Indian entrepreneurship story has been the move to a simplified indirect tax system. The introduction of Value Added Tax (VAT) is a case in point. It has introduced greater simplicity and transparency in the system as well as enhanced revenue generation. Further indirect tax reforms such as the introduction of a comprehensive goods and services tax will add considerably to the growth of your Company and the Indian economy.

Government spend on education has also increased considerably. This is a step in the right direction as in my opinion our country does not face a problem of unemployment but of 'unemployability' and a strong education system will address this issue.

Infrastructure however is a bottleneck that needs to be addressed on a war footing as it can bring even the best growth story to a slow down. Amongst others there is clear need for better roads, improved energy supplies, commercial spaces and improved facilities at ports and airports.

I believe reforms, if well implemented, would further drive GDP growth as well as result in higher disposable incomes and improved standards of living for the consumer.

The FMCG Sector

Increasing disposable incomes have resulted in enhanced consumer spend and enabled strong growth for the sector. While consumers continue to exercise discretion in their purchase approach they are today ready to pay a little extra for quality.

Significantly, the growth in demand and consumption has been across both the rural and urban segments. This gives us reason to believe that this growth will continue strongly.

I have heard many queries on the influence of organized

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retail on the sector. While it is beginning to play an increasingly important role, it is presently estimated at around 5% of total FMCG offtake. However it is growing at a much faster pace as compared to general retailing and we are well prepared to leverage this opportunity as its salience increases.

I also continue to hear apprehensions of the possible impact of a bad monsoon on the FMCG sector. As I have said before, the correlation is today far less mainly because of the agricultural sector's relatively smaller contribution to GDP as well as the increasing proportion of 'non crop' activity like animal husbandry and horticulture . Moreover unlike a decade ago today, the size of the 'Rabi' crop which is irrigation dependent is almost double the size of the monsoon dependent 'Kharif crop'.

Today, for any FMCG player, the name of the game is to offer relevant products, supported by strong branding, advertising and promotion and to enhance distribution reach and efficiencies.

Your Company's performance

Your Company continues to be amongst the fastest growing players in the FMCG sector. It is today the second largest toilet soap player in the Country and has also strengthened its dominance in the hair colour category. This business growth has been facilitated by several supply chain enhancements and the introduction of new variants.

The highlight of the year was the acquisition of Keyline Brands, one of the UK's admired FMCG companies engaged in the manufacturing, marketing, sales, and distribution of cosmetics and toiletries. This acquisition represents the commencement of our building of a global presence in the international FMCG market. Keyline Brands is a consistent profit making Company with a portfolio of many great brands that have tremendous potential to grow in Europe, West Asia and the South Asian region. The acquisition will add strongly to GCPL's consolidated topline as well as bottomline. It will also enable GCPL to enhance its skills in marketing and management of modern trade channels.

Onward

Your Company has performed commendably since inception and now possesses the scale, size and capacity to do even better going forward.

We will continue to introduce new exciting consumer centric products and variants that deliver value for money to the consumer. Acquisitions, both in India and overseas, of profitable businesses and strong brands that have a synergy with our core competencies will continue to be one of our key strategies in strengthening our competitive position, driving profitability and enhancing stakeholder value growth.

I look forward to the future with confidence and optimism. I strongly feel that your Company's best years are ahead of us.

I thank all our stakeholders for their cooperation and look forward to their continued support in our exciting journey onwards and upwards!

Yours sincerely,

Adi Godrej
Chairman and Managing Director

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