

MANAGEMENT DISCUSSION AND ANALYSIS

In line with international practice, Marico has been reporting consolidated results taking into account the results of its subsidiaries. This Discussion therefore covers the financial results and other developments during April '03 - March '04 (FY04) in respect of Marico Consolidated - Marico Industries Limited together with its subsidiaries Marico Bangladesh Limited (MBL), MBL Industries Limited (MBLIL), Kaya Skin Care Limited (KSCL) and its joint venture, Sundari LLC (Sundari) and Sundari Spa LLC. The consolidated entity has been, in this Discussion, referred to as 'Marico' or 'Your Company' or 'Group' or 'Your Group'.

Some statements in this Discussion describing the projections, estimates, expectations or outlook may be forward looking. Actual results may, however, differ materially from those stated on account of various factors such as changes in government regulations, tax regimes, economic developments within India and the countries within which your Company conducts its business, exchange rate and interest rate movements, impact of competing products and their pricing, product demand and supply constraints.

INDUSTRY STRUCTURE AND DEVELOPMENT

In accordance with its Business Direction, Marico is committed to improving the quality of people's lives through its offerings of branded products and services. Your Company thus operates in two industries: Branded Products - the Fast Moving Consumer Goods (FMCG) industry and Branded Services (Skin Care Services industry).

The FMCG industry comprises segments such as Personal Care, Soaps and Detergents,

Skin Care, Oral Care, Health and Hygiene Products, Hair Care, Coconut Oil, Refined Edible Oils, Foods and Beverages, Dairy Products, etc. The FMCG industry is one of the largest in India, with an annual estimated turnover of Rs. 480,000 million.

MARICO IS COMMITTED TO IMPROVING THE QUALITY OF PEOPLE'S LIVES THROUGH BRANDED PRODUCTS AND SERVICES.

The FMCG industry typically is characterised by branding and product differentiation. However, over the last few years, differentiation has reduced due to lower innovation. This has led to emergence of smaller regional players who offer good quality products at reasonable price points. This has led to intensifying competition in the industry. Consumer insight into expressed and latent needs, innovation and cost control have assumed larger importance.

Another characteristic of this industry is presence of a large unorganised sector, especially in rural India, offering products in loose unbranded form. Of late, the FMCG industry has been witnessing emergence of newer channels of distribution like Direct Marketing, large organised retail chains, etc. Such developments are a fallout of the changing needs of Indian consumers.

Your Company has leveraged its core competitive advantages of Branding, Innovation, Distribution and Cost Management in delivering higher value add to its consumers. It has deployed innovation to create product differentiation that enhances the brand equity.

Marico's portfolio of products, has, over the years, created enduring value for its consumers. In the process, it has consolidated its presence in the market. In all its key categories of coconut oils, hair oils, anti-lice treatment, fabric care and premium refined edible oils, Marico has built significant market shares. During FY04, Marico has kept pace with the momentum of growth achieved in the past couple of years, with double-digit growth in topline and bottomline.

Marico's presence overseas (comprising exports from India and local operations in a foreign country) is entirely in branded FMCG products. Your Company's products reach 18 countries, mainly in the SAARC and the Gulf. With FY04 turnover of about Rs. 750 million, Marico is one of the largest Indian FMCG companies in terms of overseas size of their franchise.

Holism, wellness and using natural products are now significant global trends. Skin care in the US is a large US\$ 7 billion market. Of this, US\$ 2 billion is attributable to the prestige skin care business, which is growing at the rate of 20% p.a. Spa is another segment that has grown very fast in the last three to five years. The market size of products used or sold in spas is now around US\$ 1.5 billion. Thus, there is a good potential for a skin care brand like Sundari, which focusses on selling Ayurvedic skin care products through Spas and Internet.

Over the years, especially the last 5 years

or so, due to structural changes in the demographic profile of the Indian population, 'skin care' as a segment has gained importance. The modern-day consumer wants a healthy skin. She is looking for skin care offerings, both products and



services that are safe and scientific. The current structure of the skin care services industry is fragmented with local brands catering to local needs. There are very few corporate service providers. Marico's Kaya Skin Clinics attempt to fill this need gap with US FDA approved cosmetic dermatological procedures that enhance the quality, look and feel of Indian skin.

OPPORTUNITIES AND THREATS

Your Company continuously seeks new opportunities in expanding its current portfolio of branded products and services, through constant gathering of new insights in consumer preferences.

On the macro economic front, India has been witnessing structural changes that open up new avenues for growth. The percentage of youth in the total population has grown significantly, with 55% of the total population being in the age group of 25-55. A new consuming class has emerged due to the rise of the service sector, and has unique needs. There is an increasing demand in the wellness categories (skin care and health care). All these have led to opportunities in various sectors of the Indian Economy. Your Company is evolving strategies to exploit these opportunities and grow its businesses in the hair care, health care and skin care segments.

A good monsoon in 2003 and predictions of a normal monsoon in 2004 have created opportunities for Marico to convert consumers of loose unbranded products to branded Marico products, as the real income of the Indian population is expected to grow.

With increasing popularity of wellness categories like skin care products and services and healthy foods, Marico sees an opportunity to

create new businesses in skin care and health care. It has already established itself in high-end skin care services through its Kaya Skin Clinics. Your Company would leverage this early mover advantage to garner a significant pie of the overall skin care services market.

Marico's refined edible oil brands of Saffola and Sweekar already offer value-added healthy oils to health conscious consumers. Marico will aggressively pursue various prototypes in the category of health care products, and create brands with enduring value-generating apparatus.

Advancements in Information Technology will allow Marico's supply chain to reach even more consumers. In the process, it will also enhance the efficiency of the sales and marketing system.

Competition remains an ambient threat in any industry, especially in the FMCG sector, and has to be tackled on an ongoing basis. Product differentiation through genuine value add holds the key for survival and growth. Marico has been innovating in the fields of product formulation, packaging, distribution etc. It has been introducing packs at various price points to address the different needs of consumers across income segments. In categories such as edible oils, where the market has witnessed crowding, Marico has been focussing on profitable growth, rather than running only after volumes.

WITH INCREASING POPULARITY IN SKIN CARE PRODUCTS & SERVICES AND HEALTH FOODS, MARICO SEES AN OPPORTUNITY TO CREATE NEW BUSINESSES IN SKIN AND HEALTH CARE.

Shifts in consumer habits may have an impact on your Company, and Marico has recognised

the same. Your Company has and will invest substantially in consumer education to ensure growth of its franchise, and has begun investing in newer categories in hair care and skin care.

Your Company, like many other players in the branded FMCG segment, has been facing the menace of unfair competition, manifesting itself in the form of duplicates, clones and pass-offs. Your Company has initiated various measures to combat this menace by way of technology innovations and also field level action.

RISKS AND CONCERNS

Macro-economic factors like the recession, inadequate rainfall, subdued demand, political uncertainty and social upheavals, acts of God may affect the business of your Company as also the industry at large.

With increasing competitive pressures in all segments of the industry, increasing the market shares and the consumer base is a continuing challenge. Developments in technology - both 'hard' (product / packaging development) as also 'soft' (information, human resource management) - are other critical areas.

While a big rural franchise holds the key for many a FMCG player, changes in the purchasing power of the rural masses affect the overall business, as the rural incomes are closely linked to monsoons.

Adequate availability of key raw materials at the right prices is crucial for your Company. Any disruption in the supply or violent changes in the cost structure could affect your Company's ability to reach its consumers with the right value proposition.

Besides these, regulatory changes, especially fiscal and food-related also have a bearing on the business performance, especially new opportunities.

Your Company has however not been significantly impacted by these risk/concern factors due to the equity commanded by its brands, product differentiation, pro-active action towards anticipated hindrances, technological superiority and the strong distribution network.

Forays in new business areas and new product offerings would carry the associated business risks. However, more astute management of financial and human resources could help contain the attendant risks.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Your Company has a well-established and comprehensive internal control structure across the value chain to ensure that all assets are safeguarded and protected against loss from unauthorised use or disposition, that transactions are authorised, recorded and reported correctly and that operations are conducted in an efficient and cost effective manner. The key constituents of the internal control system are:

- Establishment and review of business plan.
- Identification of key risks and opportunities.
- Policies on operational and strategic risk management.
- Clear and well-defined organisation structure and limits of financial authority.
- Continuous identification of areas requiring strengthening of internal controls.
- Operating procedures to ensure effectiveness of business processes.
- System of monitoring compliance with statutory regulations.
- Well-defined principles and procedures for

evaluation of new business proposals/capital expenditures.

- A robust management information system.
- A robust internal audit and review system - Aneja Associates, Mumbai, a firm of Chartered Accountants, being the Internal Auditors.

Internal Audits are undertaken on a continuous basis covering various areas across the value chain like manufacturing, operations, sales and distribution, marketing, finance etc. Reports of the internal auditors are regularly reviewed by the Management, and corrective action initiated to strengthen the controls and enhance the effectiveness of the existing systems. Summaries of the reports are presented to the Audit Committee of the Board.

During the year, your Company continued to track the effectiveness of controls across all operating centres, using a measure called Control Effectiveness Index (CEI). CEI is a proprietary methodology developed and deployed by the Internal Auditors in Marico. Under this system, a score on CEI is calculated based on status of control in each functional area.

This system has helped strengthen controls in the Company through improved awareness among the role holders. Between 2002-03 and 2003-04, the overall CEI for the Company has increased from 77% to 90%. The CEI was also extended during the year as a system of self-assessment of functional areas by key operating persons.

The SAP suite of ERP (SAP R/3, SCM, APO) provides real time check on various transactions emanating from various business processes of the Company. Mi-Net, the web-enabled architecture that links Marico to its biggest business associates, namely its distributors also helps the Company exercise similar controls over its sales system.

HUMAN RESOURCES / INDUSTRIAL RELATIONS

Marico is a professionally managed company that has built for itself a stimulating work culture that empowers people, promotes team building and encourages new ideas. This has, over the years, enabled Marico to grow its stature as one of the few successful Indian FMCG companies. Marico was awarded the National Award for outstanding work in HRD by National HRD Network in 1994 as also the award for Top Performing Global Growth Company from India at the World Economic Forum in 1997. In FY04, your Company was ranked 15th among 120 companies in a survey conducted by Grow Talent and Business World on Great Places to Work.

Human Resource programmes and initiatives in Marico are aligned to meet the business needs. Your Company believes in investing in people to develop and expand their capability. The Company has been able to create a favourable work environment that motivates performance, customer focus and innovation. Marico's strategies are based, inter alia, on processes of continuous learning and improvement.

Your Company has a unique process of performance enhancement through deployment of MBR (Management By Results) to create an environment of challenge and provide opportunities for realisation of optimum performance.

Your Company believes that engaging people will lead to better performance as proved by the worldwide research by Gallup, a research organisation of international repute. It has therefore taken an active step in enhancing engagement in the organisation from its current levels. It will track the engagement levels using the Gallup Q12 questionnaire. In the last two surveys done, your Company showed an increase in its engagement.

The engagement scores placed your Company in the top 33% of the companies worldwide with high engagement scores. There were 7 teams, which are amongst the best-engaged teams in the world. These teams have also been high performing teams.

As on March 31, 2004, the employee strength of your Company was 1012. The average age of the employees of your Company is 33 years.

Employee relations throughout the year were supportive of business performance across all locations.

FINANCIAL PERFORMANCE WITH REFERENCE TO OPERATIONAL PERFORMANCE

Marico has, over the past three years, focussed on moving up the value chain with consistent and derisked growth strategies. The endeavour has been towards:

- Continuously improving the quality of its earnings, by a step up in value added products and services, and
- Extending further its remarkable record in consistently growing financial parameters.

FY04 saw Marico accomplish both objectives, through

- Realignment of its portfolio, enabling increased focus on high margin products and businesses, yielding a growth of 13% for its high margin portfolio, while market shares in key categories grew.
- Significant investment in new products and businesses - at both prototype and national launch stages - leading to new products performing well and two new businesses Kaya and Sundari getting established.

Against the backdrop of a lacklustre year for

the FMCG industry, despite a significant growth in national income, Marico continued its growth rally as its consumer-centric approach provided a natural hedge against competitive pressures.

The Consumer Products business posted a turnover of Rs. 8796 million for FY04 - up 13% over FY03, PBT of Rs. 733 million - up 14% over FY03 and PAT of Rs. 672 million - up 19% over FY03. The Marico Group turnover for the year was Rs. 8888 million, a growth of 15% over FY03. The Group PBT was Rs. 651 million, a growth of 2% while PAT was Rs. 590 million, a growth of 5%. During the year, your Company continued its investment in its two new businesses: Kaya Skin Care Services and Sundari range of Ayurvedic Skin Care Products.

The fourth quarter of FY04 (Q4 FY04) was in fact the 14th consecutive quarter of year on year growth in Turnover and 18th consecutive quarter of year on year growth in Profits.

DURING FY04, MARICO SHARPENED ITS FOCUS ON ITS HIGH MARGIN PORTFOLIO AND REDUCED FOCUS ON ITS LOW MARGIN PORTFOLIO.

Market shares of all product categories except edible oils improved during the 12 months ended February '04. In the crowded edible oils segment, Marico continued with its strategy of profitable growth. New products - Parachute Jasmine, Shanti Amla, Mediker Anti-lice Oil, Saffola blends, Parachute Gold, Parachute Hair Cream and Parachute Beliphool - continued their good run. The annualised turnover of these new products in the Consumer Products portfolio is now at Rs. 1500 million, contributing about 18% to the total turnover of Marico's Consumer Products Business.

In Bangladesh, Parachute Coconut Oil

consolidated its market leadership further - a market share of over 42%, up from 31% for FY03. Marico's hair oil franchise was a clear No. 2. Parachute Gold Perfumed Hair Oil and Parachute Hair Cream posted impressive growths in volumes in the Gulf market. The international business group contributed to about 10% of Marico's Consumer Products business.

The new businesses - Skin Care Services (Kaya Skin Clinics) and Global Ayurvedics (Sundari) - grew on planned lines.

CONSUMER PRODUCTS BUSINESS

Successful realignment of portfolio along higher margin lines

During FY04, your Company sharpened its focus on the high margin portfolio and consciously reduced focus on its low margin portfolio. Volumes of the consciously defocussed low margin portfolio degrew by 14% on account of discontinuance of products such as Sweekar Soya (FY03 sales Rs. 15 crore), Distribution of P & G Products (FY03 turnover Rs. 15 crore).

Brand building efforts were directed towards the high margin portfolio - nearly 95% of the total advertising & sales promotion spends were allocated to this portfolio. As a result, contribution of High Margin Portfolio to total turnover increased from 59% in FY03 to 64% in FY04.

Sustained volume growth across categories

The High Margin Portfolio of the domestic consumer product business grew by 12% in FY04. Parachute Coconut Oil volumes grew by 3%. Most of the growth came from the high margin part of the Parachute Coconut Oil franchise. Hair oil volumes in FY04 grew by 21%, led by a 33% growth in Parachute Jasmine. Mediker franchise grew by 67% in FY04 aided by more than doubling

of Mediker Anti-Lice Oil volumes. In Fabric Care, Revive held its volumes. In a stagnant Premium Refined Oils market, Saffola (Kardi Oil and blends) grew by 6% in FY04. Sweekar volumes grew by 6% during the year.

Consolidation of market shares

Market Shares in key categories consolidated during FY04. Given below are the urban market shares (source: A.C. Nielsen) for the 12-month period ended February 29, 2004.

Category	Brand	Market Share %		Rank
		Mar '03 - Feb '04	Mar '02 - Feb '03	
Coconut Oils	Parachute & Oil of Malabar	57.0	55.4	1
Hair Oils	Jasmine, Shanti Amla, Hair & Care	17.8	16.6	2
Premium Refined Oils in Consumer Packs (ROCP)	Saffola & Sweekar (Sunflower Oil)	14.5	17.0	3

Market shares grew consistently in the coconut oil segment, while in the hair oils market, Marico was a clear No. 2 during FY04. In value-added coconut oils, Parachute Jasmine reached a market share of 28.4%, up from 27.3% in FY03. In Amla hair oils, Shanti Amla was a stronger No. 2 with a share of 14.8%, up from 13.2%. In its ROCP portfolio, while Marico continued to reduce its focus on low margin oils, Saffola blends continued their domination over competition and retained their no. 1 position. Mediker and Revive franchises held their domination of the respective categories, with market shares close to 100%.

Stronger Flagship Brands: Parachute & Saffola

Parachute relaunch

Parachute was relaunched nationally in December 2003 and received a very positive response. The new Parachute is seen as young and vibrant. With a sleeker pack and pearlised look, Parachute has elevated itself to a 'modern'

brand that appeals to the young audience. The relaunch has immensely helped growth in the franchise: within 2 months of the relaunch, Parachute's market share has jumped by more than 4% points.



Saffola campaign

Throughout the year, Marico supported the brand Saffola with various brand-building activities like sponsorship of the World Heart Day, working through the Saffola Healthy Heart Foundation etc. A new Saffola TV campaign was launched to strengthen the bond between Saffola, the healthy oil, and Heart Care. These initiatives have helped consolidate the brand loyalty that Saffola already enjoys.

Growing portfolio of new products: already launched as also those under prototypes

Products already launched

Marico's new product portfolio in the domestic consumer product business - Parachute Jasmine, Shanti Amla, Mediker Anti-lice Oil and Saffola blends - continued to make a healthy contribution to Marico's turnover. These new products' volumes grew by 6% in FY04. A substantial portion of Marico's ASP spend was allocated towards new products - 47% for FY04 (as against 45% for FY03). The success of this strategy is evident in Marico's new product successes.

Mediker Oil Franchise has more than doubled

Mediker is the undisputed leader in the anti-lice treatment category, now also available as Mediker Oil where, within a year of its launch, volumes have more than doubled. The usage levels of branded lice solutions, amongst lice

sufferers, have jumped from 10% to 20% in just one year. All this has been achieved through unique advertising, highlighting the natural ingredients and communicating newly tapped insights such as 'Lice = mother's social embarrassment' and home-to-home selling. Through various marketing programmes & PR campaigns, mothers are being educated about the gravity of the lice problem and the contemporary remedies available under the Mediker franchise. These brand-building efforts have helped broadbase the franchise.

New products in the international business did very well

Parachute Cream, launched in the Gulf countries, grew its volumes by 85% during the year, and now has a market share of 13%. Parachute Gold, a light perfumed hair oil, also performed well. In Bangladesh, Parachute Beliphool, a perfumed hair oil, continued its good performance, helping the hair oil portfolio consolidate its No. 2 position.

Prototypes

To identify scalable marketing and product propositions, Marico follows the 'prototype' methodology, which allows the company to test a few hypotheses on a low-cost, fail-fast model before any decision for scale up is taken. During the year, Marico prototyped: Parachute Sampoorna, Saffola Gold, Hair & Care's Silk-n-Shine, Shanti Maha Thanda and Parachute Shampoo.

Parachute Sampoorna



After Parachute Jasmine, Parachute Sampoorna is Marico's second offering in the value-added coconut oil segment. Parachute Sampoorna leverages Parachute's coconut equity. The product formulation of Parachute Sampoorna is

unique since it combines Coconut Oil (for nourishment) with Almond Protein (for strength) and Hibiscus (for shine and lustre). This prototype in the state of Maharashtra has met the action standards and will be ready for a scale up.

Saffola Gold

Marico's Saffola franchise has evolved over a period of time. It started with Saffola safflower oil, which earned the brand loyalty of health conscious consumers. The blends introduced over the last 2 to 3 years have been successful in extending this loyalty to health conscious and cost conscious consumers. Continuing with its strategy to provide healthy oils, Marico during Q4 FY04 launched Saffola Gold prototype in Punjab. Saffola Gold is a healthy blend of rice bran oil and safflower oil with oryzanol and Vitamin E additives. Progress of this prototype is on the desired lines and the product is likely to be rolled out nationally in Q1 FY05.

Silk-n-Shine

As a part of its strategy to move up the value chain through addition of new categories to its existing hair care business, Marico has entered the promising segment of post-wash hair conditioners - with a new sub-brand Silk-n-Shine under the Hair & Care franchise. Silk-n-Shine is a unique hair potion with the goodness of Fruit Vitamins targetted at today's woman, who spends a lot of her time outdoors and is seeking a solution to bad hair days - where the hair looks dry, rough or tangled. Dry and rough hair gets tangled, leading to other problems like painful combing, hair breakage etc. Silk-n-Shine with its 3-step action detangles and conditions hair, giving it a soft and silky look all day long. It works on hair to: a) coat every strand b) detangle hair and c) make



hair soft and silky. The brand promise is transformation - from dry, rough, tangled hair to tangle-free soft silky hair - in minutes. Silk-n-Shine is available in a contemporary bottle with two pack sizes: 50 ml and 100 ml. The packaging reflects the youthfulness of the brand. Marico is prototyping Silk-n-Shine in West Bengal.

Shanti Maha Thanda

Marico had earlier prototyped Shanti Thanda, a cooling oil. Based on the consumer insights gathered through this, a new product Shanti Maha Thanda with a changed product formulation, packaging and positioning, is being prototyped. Shanti Maha Thanda is now positioned on the platform of 'Maha Thandak'. A new advertising campaign will also be unveiled to support the product proposition. Marico is currently prototyping this product in Madhya Pradesh and Chattisgarh.

Shampoo prototype

During the year, as part of Marico's structured efforts at a continuous move up the value chain, Marico initiated a prototype for a possible entry in the Hair Wash segment through Parachute Shampoo. Marico is quite conscious of the fact that shampoo is a crowded and extremely competitive category, currently witnessing a price war, and hence Marico's offering must carry the differentiation necessary to break the clutter. The prototype's focus is therefore to zone in on a clear USP. In view of rapid changes taking place in the competitive environment, Marico has decided to extend the prototype for a longer period of time.

Sustained growth in international business

In Bangladesh, Marico's wholly owned subsidiary, Marico Bangladesh Ltd., is the market leader in coconut oils, with a trailing 12-month market share of 42% for Parachute. During FY04,

volumes of Parachute Coconut Oil increased by 23% over FY03.



In the Gulf, notwithstanding competition from global brands, Marico ranks among the top three hair oil brands with a market share of more than 10%. Parachute Hair Cream launched in UAE in October 2000 has done well to reach a market share of 13% and a market ranking of 3rd in a short while. Parachute Gold, light perfumed hair oil, targeted at locals, also performed satisfactorily.

NEW BUSINESSES

Kaya: Skin Care Services

During Q4 FY04, 3 more Kaya Skin Clinics were opened - 2 in Mumbai (at Worli and Andheri, Lokhandwala) and 1 in Delhi (Noida), taking the total to 13 clinics - 7 in Mumbai, 4 in Delhi and 2 in Dubai. So far, over 10,000 clients have visited the clinics in India and rated the services as either 'Excellent' or 'Good'. On a scale of 1 to 5, the service rating is 4.44. The perception that skin care services are only meant for females is undergoing a change, evident from the fact that 17% of the Kaya clientele is now male, from 9% few months ago.

Clinics in Mumbai and Delhi achieved clinic level cash break even, while progress of clinics in Dubai was on desired lines. During the year, 2 new services were introduced, taking the total tally to 13 value adding services. The Kaya business clocked a total turnover of Rs. 5 crore for the year.

Marico has been following a 'saturation strategy' for its Kaya business. It will first tap as much potential as feasible in the two big metros of Mumbai and Delhi before moving to other cities and towns in other parts of India, primarily South India. This is likely to lead to a doubling of the number of Kaya clinics in India.

Marico's investment in Kaya will continue during FY05, with the addition of new clinics and services.

SO FAR, OVER 10,000 CLIENTS HAVE VISITED KAYA CLINICS IN INDIA AND RATED THE SERVICES 'EXCELLENT' OR 'GOOD'.

Sundari: Global Ayurvedics

This nascent business in the US is being nurtured in a cautiously focussed and derisked manner by using newer channels of distribution and launching new products. The channel strategy for spas and internet has started paying off. New distributors are being identified for international distribution. The network of international business in the Middle East will be leveraged to distribute Sundari products. The focus on cost rationalisation has started yielding results. On the whole, while the strategic pivots are being put in place, the business will remain in the investment phase for quite some time.

FINANCIAL ANALYSIS

Capital Utilisation

Over the years, Marico has been maintaining its Return on Capital Employed at levels above 30%. For FY04 also, the ROCE of the Consumer Products business was 35% and the Return on Net Worth (RONW) was at 35% (Both numbers are after considering the deployment in Financial Assets). The capital turnover ratios for the year were also satisfactory. Debtors' turnover ratio was

at 13 days, while the inventory turnover ratio was at 39 days (last year - 40 days). Net Working Capital as number of days of turnover was maintained at 41 days. Economic Value Added was higher at Rs. 469 million, a growth of 49% over FY03. For Marico Group, after considering the deployment in Financial Assets, ROCE was at 32% and RONW at 31%. As on March 31, 2004, the Debt:Equity Ratio was quite low at 0.06. Finance costs for FY04 continued to be low at 0.1% of the turnover.

Marico's consumer products business is not capital-intensive and is not likely to require significant investment in the near future, except for routine capital expenditure (e.g. investments in machinery for innovative packaging) and new office premises in Mumbai. These - net of the sale value of the existing premises - may be in the region of Rs. 100 million.

Balance sheet for the consumer products business Rs. Million

	March 31, 2004	March 31, 2003
SOURCES OF FUNDS		
Shareholders' Funds	1919	1932
Borrowings	94	103
Deferred Income Tax Provision	62	61
TOTAL	2075	2096
APPLICATION OF FUNDS		
<i>Deployed in Business</i>		
Net Fixed Assets	911	977
Investments	131	55
Current Assets	1841	1662
Less: Current Liabilities	1003	828
Net Working Capital	838	834
<i>Deployed in Financial Assets</i>		
	195	230
TOTAL	2075	2096

Net current assets have gone up in line with increase in turnover; capital turnover ratios have improved.

The operating net working capital turnover ratios have either improved or been maintained.

Cost structure for the consumer products business

The consumer products business comprises operations in India (Marico Industries Ltd) and Bangladesh (Marico Bangladesh Ltd, along with its subsidiary MBL Industries Limited).

% to Sales & Services (net of excise)	FY04	FY03
Material Cost (Raw + Packaging)	64.5	64.0
Advertising & Sales Promotion (ASP)	8.2	8.3
Personnel Costs	4.8	4.5
Depreciation	1.3	2.8
Other Expenses	13.1	13.4
Operating Costs	91.9	93.0
Net Operating Margin (PBIT)	8.1	7.0
PBDIT Margins	9.4	9.8
Operating Capital Employed (Rs. Million)	1873	1973
Operating ROCE (%)	39.0	33.0

Notes:

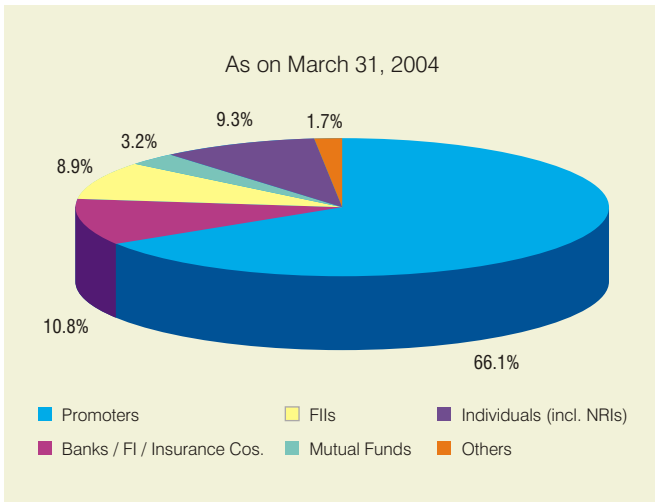
1. Margins have been computed without including 'Other Income', major components of which are lease rentals - Rs. 49 million (previous year Rs. 36 million) (not necessarily one-time), dividend Rs. 130 million (previous year nil) (not necessarily one-time), loss on sale of investment - Rs. 11 million (previous year profit - Rs. 64 million) and exchange rate gain - Rs.15 million (previous year nil), gain on pre-payment of sales tax liability on a discounting basis under a package incentive scheme of the Government of Maharashtra - Rs. nil (previous year Rs. 32 million) (one time), compensation towards termination of the distribution arrangement with Procter & Gamble - of Rs. nil (previous year Rs. 46 million) (one time).
2. Higher depreciation charge during FY03 is attributable to revision in useful life of certain software and IT assets and 100% amortisation of Mealmaker brand and associated IPR. If one excludes this extraordinary charge, the net operating margin for FY03 would have been 8%.
3. The PBDIT as a percentage to sales may appear to have marginally fallen. This has to be

viewed in the context of increase in the sales realisation per unit of volume, which gives rise to a statistical phenomenon of a fall in the margin per rupee of sales. Also in the framework of Marico's performance management, margins are viewed firstly as rupees per unit of volume and secondly as a proportion of capital engaged. On both these counts, there has been an improvement. Hence the apparent fall in the operating margin percentage does not hold out any major concern. In fact, the operating ROCE (PBIT excluding other income as a percentage of operating capital employed) has jumped from 33% in FY03 to 39% in FY04.

4. Prices of most of the commodity raw materials remained firm during FY04, in line with the commodity cycle globally witnessed. Since Marico's brand equity generally enables it to protect its margins per unit of volume and per unit of capital, commodity price fluctuations do not typically cause any great concerns for Marico's profitability.
5. ASP to Sales ratio at 8.2% was maintained at last year's level. In absolute terms, Marico made substantial investments in brand building for its flagships as well as the new product portfolio.
6. Skin Care Services and Global Ayurvedics are still evolving; hence their cost structures have not been discussed here, as these may not yet be capable of meaningful analysis and projection.

SHAREHOLDING PATTERN AND SHARE PERFORMANCE ON STOCK EXCHANGES

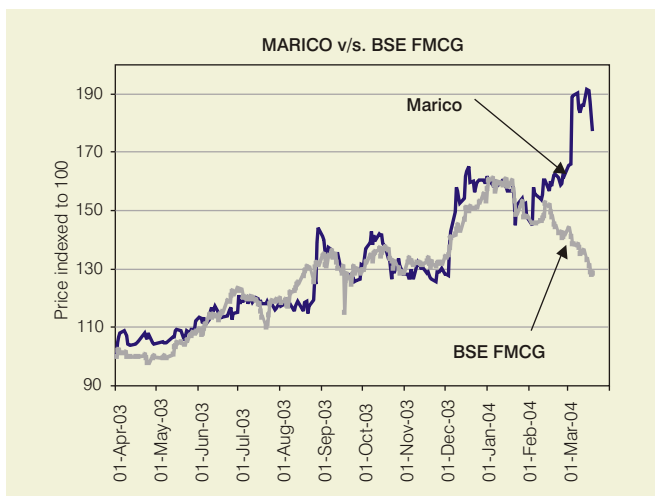
There has been a significant shift in the shareholding of Unit Trust of India in Marico during FY04. UTI, which held 10.9% of the total shareholding as on March 31, 2003 divested 5.4% during the year. Almost 2% of this divestment has been picked up by individuals which indicates rising retail interest in the Marico scrip. The



composition of free float has also changed. A year ago, the free float of about 10 million shares was held by about 5,000 shareholders, the largest one holding 10.9%. As of now, a similar free float is held by about 11,000 shareholders, the largest holding 5.5%. Directionally, wider dispersal of the free float is expected to improve liquidity perception of the scrip.

Share price performance

Marico's market capitalisation improved from Rs. 4290 million as on March 31, 2003 to Rs. 7570 million as on March 31, 2004, a rise of 76%. The total number of shareholders during the year has gone up to 11279 from 5046 as on March 31, 2003. Individuals now constitute 9.3% of the total equity, which shows that the retail interest in the Marico scrip has been increasing.



The average daily volume on BSE as well as NSE has been rising, especially after announcement of 1:1 Equity Bonus. The combined volume has steeply risen in FY04 - about 130,000 shares per day during March '04 as compared to about 10,000 per day last year. The number during Q4 FY04 was about 63,000 per day. The graph shows performance of the Marico scrip vis-à-vis BSE FMCG index. Marico has clearly outperformed BSE FMCG index during Q4 FY04.

OUTLOOK:

WHERE ARE WE GOING?

Over the past few years, Marico has strengthened its business fundamentals by investing in new products and businesses, realigning its portfolio and creating a pipeline of new business and product ideas through prototypes. With this, Marico is well placed to take advantage of the favourable macro economic situation.

In categories where higher value add can be offered and hence higher margins claimed, Marico's approach will be to expand the market and also Marico's market share. In categories with high margins but relatively low market share for Marico, we would go for de-risked growth. Marico has already focussed on de-risked growth in other areas, there being a clear defocus on low/moderate margin categories.

In line with these directions, Marico as the market leader in most categories will focus on consumer education, strategic and long-term brand building and continuous maintenance of a pipeline of new products, prototypes, businesses and territories. A few fresh prototypes, across the Hair Care and Healthy Foods categories, are already on the anvil.

To reiterate, Marico's specific strategies will be similar to those outlined at the beginning of this discussion:

1. Constant realignment of portfolio along higher margin lines
2. Focus on sustained volume growth across categories, consolidation of market shares and stronger flagship brands
3. Growing portfolio of new products: already launched, as also those under prototypes
4. Sustaining growth in international business
5. Nurturing of new businesses of Kaya and Sundari

Innovation continues to be the most focussed of Marico's four sources of competitive advantage, the other three being Branding, Cost Management and Distribution. Structured efforts to further

institutionalise innovation will continue throughout the year, with a strong belief that only an **uncommon sense** approach would enable Marico to get ahead of the common corporate crowd.

Marico is confident that with the broad-based nature of its growth strategies, the momentum of its growth will continue into the near future.

On behalf of the Board of Directors

Harsh Mariwala
Chairman & Managing Director

Place: Mumbai

Date: April 21, 2004