MANAGEMENT DISCUSSION AND ANALYSIS

In line with the requirements of the Listing Agreement with the Bombay Stock Exchange and National Stock Exchange, your company 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 '09 - March '10 in respect of Marico Consolidated comprising Domestic Consumer Products Business under Marico Limited (Marico) in India, International Consumer Products Business comprising exports from Marico and the operations of its overseas subsidiaries and the skin care & hair care solutions business and weight management business of Kaya in India and overseas. The Consolidated entity has been referred to as 'Marico' or 'Group' or 'Your Group' in this discussion.

Some of the statements in this discussion describing projections, estimates, expectations or outlook may be forward looking. Actual results may however differ materially from those stated on the account of various factors such as changes in government regulations, tax regimes, economic developments within India and the countries within which the Group 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

Despite the global economic slowdown experienced over the last year, India's Fast Moving Consumer Goods (FMCG) sector has continued to show robust growth. It is poised to reach a turnover of about USD 43 billion by 2013 and USD 74 billion by 2018. The implementation of Goods and Services Tax (GST) and opening of Foreign Direct Investment (FDI) are expected to fuel the growth further and raise the industry size to USD 47 billion by 2013 and USD 95 billion by 2018 (Source: IBEF, FICCI - Technopak Report). The FMCG segment includes products like soaps, detergents, oral care, hair care and skin care products.

India's FMCG market can be divided into two segments - urban and rural. The urban segment is characterized by high penetration levels and high spending propensity of the urban resident. The rural economy is largely agrarian - directly or indirectly dependent on agriculture as a means of livelihood with relatively lower levels of penetration and a large unorganized sector. In the recent past the government has focused upon development in the rural sector. This includes investments in development of infrastructure and schemes for job creation (such as NREGA). This is resulting in a rise in disposable incomes levels in the rural economy and consequently in demand for FMCGs. The demand is increasing by 18% in the rural areas and by 11% in urban areas. (Source: AC Nielsen, May 2010)

As socio-economic changes sweep across India, the country is witnessing an expansion of existing markets and the creation of many new ones. Over 300 million people are expected to move up from the category of rural poor to rural lower middle class between 2005 and 2025 and rural consumption levels are expected to rise to the current levels in urban India by 2017. (Source: IBEF). This provides the FMCG companies with opportunities for growing their respective franchises.

With the impact of sustained economic growth of the last two decades, consumption has moved from "roti, kapda and makaan" to other non-basic needs like mobile phones, personal transport, jewellery & watches, personal care products and others. Modernization has led to changing aspirations where the need to be considered good looking, well-groomed and stylish has taken on newfound importance. There is a change in the mindset of Indians from being savers to spenders with an inclination towards "living for today". There is a trend towards increasing spends on personal care products cosmetics and toiletries. There is also a rising trend of usage of indulgence products. Marketers are beginning to focus on providing an experience rather than merely offering a product. Changing lifestyles have had an impact on health including the area of heart health. In the recent past, the awareness level about conditions related to heart health has increased significantly. FMCG companies have begun to tap the opportunity of serving needs related to these shifts in lifestyles. The FMCG industry is expected to continue to innovate in order to meet these evolving consumer needs.

Though there has been a growth in modern retail format stores in India, a significant share of business is still generated through the "mom and pop" store (kirana) format. With access to the rural economy gradually improving with investments in physical infrastructure, it is likely that it shall continue to be the chief point of interface of the FMCG companies with the retail consumer. Organized retail comprises about 8-10% of FMCG business but is nevertheless expected to expand its share over the next few years. There has been a rise in "private" labels and these could provide tough competition particularly to players that are not differentiated and relatively weaker brands. Consumers are steadily shifting from low price to a price-plus platform. They are seeking greater balance between price with quality, convenience, consistency, innovation and shopping experience. The quality conscious consumer is willing to pay premiums for effective solutions, improved services and a superior experience. The focus of marketers is to provide consumers with a holistic solution for their needs in the form of a consolidated offering of various products and services.

India has a large young population with many of them entering the working age. Income in the hands of younger consumers with a higher propensity to spend is providing buoyancy to the economy while opening up new categories in the FMCG space. With more women joining India's workforce, FMCG marketers are finding opportunities to introduce products in the convenience and health foods segments. Spending on personal care products is also becoming far more acceptable and guilt free.

As socio-economic changes sweep across India, we're witnessing *an expansion of existing markets* and the creation of many new ones.

India Inc. is looking to grow inorganically. It is important to go global not only to create multiple growth engines but also to create reverse learning for the home market. Also, the emerging economies in Asia and Africa have low-to-medium penetrations in some of the FMCG categories. This provides considerable headroom for growth in the mid-term. Favourable macros, changing attitudes of the consumers and progressive policies of the governments also make these markets attractive destinations. Typically, gestation periods tend to be longer as one needs to go up the learning curve in a new market. Some of them also offer inorganic entry possibilities that can create access to mainstream distribution, manufacturing and talent. This can speed up one's learning curve as long as there is a strategic fit with the target.

RISKS & CONCERNS

Input Costs

Domestic commodity prices are often linked to international indices and volatility in these benchmarks causes fluctuations in the domestic product prices.

The past 2-3 years have witnessed wide fluctuations in the price of commodities. Crude Oil touched a record high of USD 140 per barrel before crashing to below USD 50 per barrel. Similar volatility was experienced in other commodities. The overall level of uncertainty in the environment has gone up.

Input costs comprise nearly 60% of the production costs in the FMCG sector. Inflationary tendencies in the economy directly impact the input costs and could create a strain on the operating margins of the FMCG companies. Brands with greater equity may find it easier to adjust prices in line with fluctuating commodity prices and input costs.

Pricing Power

The equity of a brand generally allows the organization to pass on the impact of any increase in cost structure to the consumers. However considering the uncertainty in the environment and rising competitive pressures some impact might have to be absorbed by the organizations.

Discretionary Spending / Down Trading

In situations of economic duress, items which are in the nature of discretionary spending are the first to be curtailed. This is relevant for the lifestyle solutions offered by companies. In an extended recession, down trading from branded products to non-branded ones could also occur and affect the financial performance of the company.

Competition

The FMCG environment in India and overseas is competition intensive and companies need to focus on branding, product development, distribution and innovation to ensure their survival. Product innovations help to gain market share while advertising and sales promotions create visibility for the product. Such expenditures carry the inherent risk of failure. Counter campaigning by competitors would also reduce the efficacy of promotions.

Product Innovation and New Product Launches

The success rate for new product launches in the FMCG sector is low. New products may not be accepted by the consumer or may fail to achieve the targeted sales volume or value. Cost overruns and cannibalization of sales in existing products cannot be ruled out. Marico has adopted the prototyping approach for new product introductions which helps maintain a healthy pipeline while limiting downside risks.

Currency Risk

The Marico Group has a significant presence in the Indian Sub-continent including Bangladesh, South East Asia, MENA (Middle East & North Africa) and South Africa. The group is therefore exposed to a wide variety of currencies like the US Dollar, South African Rand, Bangladeshi Taka, UAE Dirham and Egyptian Pound. Import payments are made in various currencies including but not limited to the US Dollar, Australian Dollars and Malaysian Ringgit. Significant fluctuation in these currencies could impact the company's financial performance. As the group eyes expansion into new geographical territories, the exposure to foreign currency fluctuation risk increases. The company is however conservative in its approach and is likely to use simple hedging mechanisms than resort to exotic derivative products.

Funding Costs

Though the sector is not capital intensive, fund requirements arise on account of inventory, position building or capital expenditure undertaken. In addition, growth through acquisitions may also contribute towards leveraging the company's balance sheet. Changes in interest rate regime and in the terms of borrowing will impact the financial performance of the group.

Acquisitions

This may take the form of purchasing brands or purchasing a stake in another company and is used as a means for getting access to new markets or categories, for increasing market share or eliminating competition. Acquisitions may divert management attention or result in increased debt burden on the parent entity. Integration of operations and cultural harmonization may also take time thereby deferring benefits of synergies of unification. Marico is keen on exploring acquisitions in its core segments of beauty and wellness where it believes it can add value.

Marico has adopted the prototyping approach for product introductions which helps *maintain a healthy pipeline* while limiting downside risks.

FMCG Market in Bangladesh

Bangladesh has a demographic profile very similar to that of India. A population in excess of 150 million and a developing economy provide the perfect consumer base for the FMCG sector to flourish. Political instability may however be a cause of concern for companies operating in Bangladesh.

FMCG Markets in Middle East

The market offers a curious mix of local and expatriate population who are not averse to the idea of indulgence. This provides FMCG companies opportunities to offer branded solutions tailored to the needs of the consumer in the region. After a period characterized by high crude oil prices and a construction boom, the Middle East witnessed a financial crisis and there has been an adjustment in the overall economic growth. The impact on the FMCG companies is however likely to be less severe.

FMCG Markets in Egypt

The Egyptian economy has embraced liberalization in the recent past, thereby opening its doors to foreign direct investment and paving the path to economic growth. A steadily growing population, concentrated on the banks of the River Nile, and a developing economy provide a good base for FMCG companies. The rate of GDP growth in the medium term is expected to be around 6-7% and that can have a favourable impact on FMCG consumption.

FMCG Markets in South Africa

The South African economy is a productive and industrialized economy that exhibits many characteristics associated with developing countries, including a division of labour between formal and informal sectors, and an uneven distribution of wealth and income. Economic measures such as Black Economic Empowerment (BEE) adopted by the government to ensure growth and equitable distribution of wealth have been very effective. Rising income levels, especially among the middle socio-economic segments is likely to result in increased growth opportunities for FMCG markets.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Marico 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 unauthorized use or disposition that transactions are authorized, 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 plans
- Identification of key risks and opportunities
- Policies on operational and strategic risk management
- Clear and well-defined organization structure and limits of financial authority
- Continuous identification of areas requiring strengthening of internal controls

- Operating procedures to ensure effectiveness of business processes
- System for monitoring compliance with statutory regulations
- Well-defined principles and procedures for evaluation of new business proposals/capital expenditure
- A robust management information system
- A robust internal audit and review system

M/s Aneja Associates, Chartered Accountants have been appointed to carry out the Internal Audit for Marico. The work of internal auditors is co-ordinated by an internal team at Marico. This combination of Marico's internal team and the expertise of Aneja Associates ensures independence as well as effective value additions.

At Marico, 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 controls and enhance the effectiveness of existing systems. Summaries of the reports are presented to the Audit Committee of the Board.

The SAP suite of ERP (SAP R/3, SCM, APO) provides a 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 RESOURCE/INDUSTRIAL RELATIONS

Marico is a professionally managed organization that has a flat hierarchy, which empowers people and fosters a culture of innovation. The organization believes that great people deliver great results and lays emphasis on hiring right and retaining key talent. The company maintains a strong business linkage to all Human Resource processes and initiatives.

Marico recruits its talent from the country's premier technical and business schools or from amongst those with the country's premier professional qualifications. Marico looks at talent, not just from a short-term perspective, but also from a long-term perspective - where people can be groomed for different roles. The organization believes in providing challenge and early responsibility at work which serves to keep team members enthused and motivated.

Member's networks are also tapped into for "hiring right". A strong referral mechanism operates under the brand name of "TAREEF" (Talent Referred by Mariconians). This benefits the organization in two ways, namely; the talent referred is usually of a superior quality to that sourced independently in the market and it also translates into substantial cost savings for the recruitment process.

The organization has created a favorable work environment that motivates performance. Marico has a process of performance enhancement through deployment of MBR (Management By Results) to create an environment of challenge and stretch. It is also linked to a variable element of performance-based compensation.

The organization believes in investing in people to develop and expand their capability. Personal development plans focus on how each individual's strengths can be best leveraged to deliver to his or her full potential. External training programmes and cross-functional exposure often provide the extra edge. In line with our philosophy of valuing internal talent first, a structured internal job posting mechanism, MINTOS (Marico Internal Talent Opportunity Scheme) is in place. This is an internal forum for members to benefit from opportunities within the organization.

Marico continues to measure and act on improving the “engagement levels” of its teams. The Gallup Survey provides the organization with a measure of how it is faring at building engagement across the organization as well as in each of its teams.

Marico had articulated a contemporary set of values five years ago and it is important that all members in the organization are not only aware but also consciously practise these values. To build this consciousness and commitment, ‘Values Workshops’ are held for teams to identify their focus areas and plan actions accordingly.

Marico is a *professionally managed organization* that has a flat hierarchy.

Specific initiatives are under way to standardize Marico HR practices across International locations - Middle East, Bangladesh, Egypt and South Africa.

The “Popcorn with Harsh” sessions continued last year as well. It is based on the concept of “Learning through Sharing”, where members have an opportunity to directly interact with Chairman & Managing Director, Harsh Mariwala. The sessions seek to leverage Marico leaders as mentors and coaches to Mariconians at large.

At Marico, the overall well-being of its members is considered important. The Member Well-being Program looks holistically at physical, emotional and financial aspects of an employee’s well-being. The various initiatives run during the year included, Member Assistance Program in association with 1to1help.net, a counseling service run by a team of qualified and experienced counselors; Physical well-being program that provided personalized diet, lifestyle and physical training by a panel of health experts; Financial well-being through customized financial planning programs.

Employee relations throughout the year were supportive of business performance. As on March 31, 2010, the employee strength of Marico Limited was 981 and that of the entire group was 2592.

CORPORATE SOCIAL RESPONSIBILITY

In today’s world, Corporate Social Responsibility (CSR) is not just a term but a phenomenon that defines the relationship which the company enjoys with each of its stakeholders. It is an expression of being a responsible citizen and a voluntary act by a business, over and above legal & statutory requirements.

Corporate Social Responsibility is intrinsically related to sustainable development of the company by ensuring socio-economic development of the society.

Marico believes in promoting conscious capitalism, gives prominence to CSR and acknowledges that it is an important step towards fulfilling its purpose. Through various initiatives and activities undertaken by Marico, across all its locations, it contributes towards a better society for our future generations to live in.

Marico has identified key areas where it could make a difference. These include initiatives in key areas such as Women Empowerment, Education & Training, Donations and Medical Help. In each of these areas, the company implements initiatives that are beneficial to the society.

Marico has been promoting the usage of Coconut Climbing Machines among farmers to improve their productivity and to ensure the safety of farmers. The program encourages and trains unemployed youths in the use of tree climbing machines for coconut harvesting. Tree climbing machines are also distributed free of cost in association with the Coconut Development Board and an Accident Insurance of Rupees One Lac by Marico.

Marico's copra collection centers encourage farmers to send in their queries with regard to coconut plantation and cultivation, which are answered by professors from the Tamil Nadu University. In addition, Marico's 14 member team visits around 200 farmers every month for field surveys and addresses preliminary queries on coconut farming.

Marico's coconut sourcing team at Coimbatore has taken up the responsibility to manage the grants given by the Coconut Development Board towards distribution of agricultural inputs like pesticides and seeds to farmers. Around 2600 farmer families benefit from this initiative. Marico also provides a subsidy to these farmers to buy one drier which helps in conversion of coconut to copra.

Women Empowerment

Marico has initiated project "Sanjog", which is aimed at creating employment for women. These women perform door-to-door sales of Marico products in the villages of Bangladesh. In addition, an association of the members' spouses, conducted a seminar on cancer and its causes.

Education & Training

Marico's factories and depots are present in rural areas, where there is ample opportunity for the company to give back to society by empowering the younger generation. Keeping this in mind, Marico has donated books and study material at various local government schools and to the children of local vegetable and newspaper vendors. It has also sponsored scholarships to meritorious students in rural areas, summer camps for the local school children, coaching camps for the talented children as well as workshops on safety for all.

Medical Help

Marico gives utmost importance to health; not only that of its members and consumers but that of the public in general. In line with the philosophy, Marico organized blood donation camps at many locations across the country. The company also sponsored pulse polio programs in various rural locations and donated artificial limbs to the physically disabled.

Marico has implemented a Payroll Giving Program for its members through Give India, a non-profit organization dedicated to raising funds for good NGOs. Payroll Giving is a system where members can donate a small part of their salary, every month, to a cause of their choice. This is purely voluntary, and members can join the program for as little as Rs.50 per month. Give India ensures that every donor gets feedback on how his or her money has been utilized. Marico donates Rs.200 on the member's behalf which gets added to the contribution the member makes every month.

Considering the increased number of road accidents, Marico has contributed to reflectors for bullock carts, reflective overcoats and umbrellas for traffic police. In addition to this, Marico has contributed to Flood Relief in North Karnataka & Andhra Pradesh, as both areas were severely affected by torrential rains and floods. It also contributed to the fund for flood victims hit by cyclone SIDR in Bangladesh.

Marico, as a part of its CSR activities, also participated in distribution of basic amenities like fans, stationery to Anganwadi girl schools, wheel chairs to old age homes and also built water tanks for orphanages and local schools at various locations.

MARICO INNOVATION FOUNDATION

Innovation is a crucial way to leapfrog to the centre stage of global business leadership. Based on this cornerstone, in 2003, Marico instituted its CSR initiative - Marico Innovation foundation, to provide a framework to leverage innovation for quantum growth. The overall approach of the foundation is to be a catalyst and it concentrates on creation of knowledge, through cutting-edge research, knowledge dissemination & recognition, through its 'Innovation for India Awards'.

One of its popular researches resulted in a bestseller publication - "11 mission biographies - Making Breakthrough Innovation Happen: 11 Indians who pulled off the impossible". This publication is a culmination of a six-year joint discovery effort, to identify genuine breakthrough innovations, from within India and then uncover cutting-edge insights into what these innovators did differently to make the impossible happen. Other knowledge building initiatives of the foundation include alliances between leading Indian Business Schools and Indian organizations, for a 2-month elective 'live' course on Applied Innovation.

Through the knowledge dissemination mechanism, the foundation is able to propagate its findings through large-scale mass platforms across India. In addition, its Innovation Exchange in association with IIM, Ahmedabad & the Department of Science and Technology, GOI is a portal that brings together, on a single platform, the entire Innovation ecosystem including researchers, innovators, entrepreneurs and academia across industry, along with investors and mentors.

To recognize and applaud outstanding leadership with innovative focus in various sectors, the Marico Innovation Foundation institutionalized Innovation for India Awards in 2006. These awards acknowledge and foster leadership, with innovative focus, in various Business & Social sectors. The intent of the awards is to reward projects and businesses that make a real difference to India and community at large. Based on the criteria of uniqueness, impact & scalability, "India's Best Innovations" are declared biennially. From 2010, a new category - Public Governance was introduced, to recognize the Central or State government or any wing of the government, including public-private partnership, for outstanding innovations.

Behind the significant work of the Foundation, sits an eminent Governing Council that constantly steers the Foundation. Dr. R. A. Mashelkar, chairs the Governing Board, while other visionaries like Anu Aga (Chairperson, Thermax), Sam Balsara (CEO, Madison), Ashwin Dani (Vice Chairman, Asian Paints), Ranjan Kapur (Country Manager, WPP), Prof. Prasad Kaipa (Executive Director, ISB), Dr. Sujata Ramadorai (Professor, TIFR), Harsh Mariwala (Chairman & Managing Director, Marico), K. V. Mariwala (Ex-Director, Marico), Rajiv Narang (Chairman & Managing Director, Erehwon Innovation Consulting) and Dorab Sopariwala (Consultant), form a part of the Governing Council.

(To know more or connect with innovators, visit www.maricoinnovationfoundation.org)

MARICO GROWTH STORY

Marico achieved a turnover of Rs.2661 crore during FY10, a growth of 11% over FY09. The volume growth underlying this revenue growth was healthy at 14%. The value growth was lower owing to deflation in some of the company's key input materials, part of which the company chose to pass on to the consumer in order to expand its consumer franchise.

Profit After Tax (PAT) for FY10 was Rs.232 crore, a growth of 23% over FY09. These results include the following items that are not strictly comparable with FY09:

- A provision of Rs.29.4 crore towards excise duty on dispatches of coconut oil in packs up to 200ml, made by the company on conservative principles.
- One time loss of Rs.4 crore arising out of divestment of equity interest in Sundari LLC.
- A provision for Rs.5.7 crore made in respect of the withdrawal of the Kaya Life prototype by Kaya Limited.

(If these items were to be ignored, the PAT for the year would have been higher at Rs.264 crore, 42% higher than in FY09.)

Marico has kept up its track record of quarterly growth. Q4 FY10 is in Y-o-Y terms, the:

- 38th consecutive quarter of growth in turnover
- 42nd consecutive quarter of growth in profits

Over the past 5 years, the top line and bottom line have grown at 21% and 27% respectively.

FEW BRAND STORIES

Parachute & Nihar

Parachute, Marico's flagship brand, continued to expand its franchise during the year. Parachute coconut oil in rigid packs, the focal part of its portfolio, grew by over 10% in volume as compared to FY09. Similarly Nihar in rigid packs grew at about 9% in volume terms.

The year experienced a decline in copra (dried coconut kernel - the raw material input for coconut oil) prices, after a year of high prices in FY09. Average copra prices during FY10 were lower than in FY09 by 20%. This decline resulted in Parachute's premium over loose coconut oils expanding significantly and had an impact on the rate of conversion from loose oil to packed oil. Lower prices also attracted more local players in the category. Softening of rural demand in the FMCG sector during the second half of the year especially in the basic high penetration categories due to high food inflation added to the pressure. As the company had begun observing a slow down in the "recruiter packs", it took pricing action to pass on part of the value to consumers of rigid packs - the more profitable part of its coconut oil franchise. It reduced the retail price of Parachute's 50ml pack from Rs.12 to Rs.10 in November '09. In addition it initiated a reduction in the price of its 100ml pack from Rs.21 to Rs.20 in January '10. The company also increased the price of the 200ml pack from Rs.39 to Rs.40 as it believes that the brand's equity has the ability to sustain these higher price points.

The focal part of Parachute's portfolio is the rigid packs - the ubiquitous blue coconut oil bottle. The non-focus component, predominantly flexi (pouch) packs with lower margins than rigids, comprises about 25% of Parachute sales in volume terms. Being more sensitive to the premium over loose oil, this non-core part of the portfolio experienced a marginal decline in volume over FY09. Consequently the volume growth for Parachute Coconut oil as a whole was a little over 7%. In Nihar, where the component of non-core flexi packs is higher than in Parachute, the volume growth as a whole was marginal.

Parachute's volume share in the 12 months ended Febraury '10 was 42.9%. Together with Nihar and Oil of Malabar, Marico's share in the branded coconut oil segment in India was 53.3%.

During the year, the Central Board of Excise & Customs (CBEC) issued instructions vide a circular wherein it has classified coconut oil packed in container size up to 200ml as hair oil, which is chargeable to excise duty with effect from the date of the circular that is June 3, 2009. The company has filed writ petitions with the High Courts and believes it has a strong legal case on merits. The company continues to clear all coconut oil from its factories without payment of excise duty. The matter is currently sub-judice and it could take some time for it to resolve completely. Pending such outcome, as a matter of abundant caution, the company has decided to make a provision for the excise duty on packs up to 200ml, which the excise department has sought to classify as hair oil to the extent of 75% of the duty payable in the unlikely event that the decision goes against the company. The provision for the year is Rs.29.4 crore. During the first three quarters, the company had adopted an even more conservative approach of providing 100% of the excise duty amount. In the management's judgment a provision of 75% of the amount is conservative enough. Consequently, during Q4 FY10, the provision on account of this excise duty amount is Rs.115 crore.

Saffola

Marico's second flagship brand, Saffola, is positioned strongly on the "good for the heart" platform and rides the trend of increasing concern around health and heart health in India. With the increasing awareness about health and a healthy lifestyle, Saffola has been able to steadily increase the number of households in which it is used. During FY10, Saffola refined oils recorded a strong volume growth of 16% over FY09.

FY10 saw a decline in the edible oil table following the sharp upward movement during the first part of FY09. Input prices for Saffola and particularly that of Safflower oil remained lower than those in the previous year by about 22%. The brand passed on a part of this to consumers using a strategic mix of promotions and price reductions across select packs during the year to keep the premium over other branded refined edible oils at sustainable levels. This was supported by a media campaign and other marketing efforts. Higher volumes are expected to increase the customer base of Saffola as the brand has a high retention rate. Households buying Saffola have steadily increased with the number of households estimated to have gone up by over 12% during FY10. The Saffola refined oil franchise continues to hold its market leadership position in the super premium ROCP (Refined Oil in Consumer Packs) segment.

In the longer term, Saffola would like to establish itself as a leading healthy lifestyle brand. It has commenced its journey in the functional foods space and plans to have a basket of offerings that provides healthy food options throughout the day to individuals conscious about heart health. During Q4 FY09, Saffola Arise, rice that keeps you feeling light after eating, yet keeps you full for longer, was launched across Saffola's key markets at an invitational price and has been supported by insightful advertising. The initial performance has been in line with expectations. The packaged rice market in India is about Rs.400 crore and is growing at a high rate (over 20%), especially in Modern Trade, a channel in which Saffola Arise is doing well. With its health positioning, the company hopes to create a sizable niche for itself over the next two to three years.

Hair Oils

Marico offers its consumers a basket of value added hair oils for their pre-wash and post wash hair conditioning, nourishment and grooming needs. Its key brands participating in this Rs.2600 crore market are Parachute Advansed coconut hair oil, Parachute Jasmine non-sticky coconut hair oil, Nihar Naturals perfumed coconut hair oil, Hair & Care nourishing non-sticky hair oil, Hair & Care Almond Gold (enriched with almond proteins) and Shanti Badam Amla hair oil (enriched with almond and amla (gooseberry) extracts). With rising incomes there has been an opportunity to serve consumers looking for value added options to their hair oiling needs.

During the year, Marico's hair oils brands recorded healthy growth and the portfolio as a whole grew by about 16% over FY09. Marico's hair oils franchise had a volume market share of 21% during the 12 months ended Feb 2010. Over the last few months however, it has been gaining share reaching about 23% in Feb 2010. This has been achieved through packaging and communication restaging in some of the brands and penetrative pricing action in others. With the objective of generating trails and expanding its base, Shanti Badam Amla, which comprises a relatively small part of Marico's hair oils portfolio, ran an aggressive price off during Q4 FY10. This has provided some traction to the brand and it is hoped that most of the consumers who try the new offering would remain with the brand. Marico backed its portfolio of hair oils with continued media support and consumer offers.

Parachute Advansed Hot Oil, a new product that was launched during FY10, received an encouraging response from consumers. Parachute Therapie a coconut oil based hair vitalizer that heals damaged roots and controls hair fall was relaunched in October 2009 in a 100ml pack at a price point below Rs.100. The response is in line with expectations.

The company plans to increase its participation in the hair oils category by entering the cooling oils segment. It is currently prototyping two differentiated cooling oil variants - Nihar Naturals Coconut Cooling Oil in Bihar and Parachute Advansed Coconut Cooling Oil in Andhra Pradesh.

In order to build capacity for the future and to take advantage of fiscal benefits provided by the government for making manufacturing investments in certain designated territories, the company commissioned a new plant for hair oils and value added personal care products at Paonta Sahib in Himachal Pradesh. The unit is designed to optimize quality, cost and flexibility and is environmentally friendly. It entailed a capital expenditure of Rs.23 crore and is expected to take care of the company's growth aspirations in this segment for the next few years.

Other Prototypes & New Launches

Marico, being an FMCG company, has to create a healthy pipeline of new products so that they become the growth engines for the future. In order to identify scalable marketing and product propositions, Marico follows a prototyping approach to test the products before launching in a low-cost fail-fast model.

In order to invest in new product initiatives, Marico follows a Strategic Funding (SF) approach. Marico defines SF as the negative contribution a product makes after providing for material costs, variable manufacturing and distribution costs and advertising and sales promotion expenditure for the product. Each year the company budgets for a certain percentage of its Profit Before Tax to be available towards strategic funding for new products and businesses. All new products would have to fight for these resources. As the company's bottom line grows, the SF pie grows larger. This provides sufficient investments towards creating future growth engines and at the same time puts an overall ceiling to the SF at the group level.

During the year, the company has continued the process of prototyping and launching.

Parachute Advansed Hot Oil was launched during the year and achieved good performance on the back of an improved proposition & communication mix. Parachute Advansed Cooling Oil was prototyped in the state of Andhra Pradesh in June 2009. With a new campaign involving Tollywood superstars Nagarjuna and Bhumika Chawla and with an improved mix, the initiative is expected to meet action standards this season. Saffola Arise was launched in January 2010. The initial response has been positive and the company is now planning to increase the relevance beyond the early adopters in strong rice markets.

International FMCG Business

From a single digit share in FY05, about 23% of the group's turnover is now contributed by Marico's International FMCG business. Its key geographical presence is in Bangladesh, MENA (Middle East and North Africa) and South Africa. In January 2010, Marico established an entry into the South East Asian region through the acquisition of the hair styling brand Code 10 in Malaysia. During FY10, the company's international business crossed the Rs.600 crore mark in turnover, a growth of 36% over FY09. Much of this growth was derived from consumer franchise expansion (about 21%), accompanied by price led growth of 9%. An additional 6% growth was on account of favourable foreign exchange rates.

In Bangladesh, Parachute continues to focus its efforts on increasing the size of the market through driving conversions from loose oil to packed oil. Its market leadership position has been strengthened further and it now commands a volume share of about 75%. Parachute has achieved the status of second most trusted brand in the country (Bangladesh Brand Forum 2009), a testimony to its brand equity. Riding upon the extensive distribution network created by Parachute in Bangladesh, Hair Code hair dye has been able to establish itself as the second largest hair dye brand in the country. A strong 360 degree media campaign with presence on TV, print and outdoor media as well in-salon activations and in-store visibility has helped in this achievement. The company now plans to extend a few more products from its India portfolio into the Bangladesh market over the next few quarters.

In the Middle East, both Parachute Cream and Parachute Gold hair oil experienced healthy growths as compared to the corresponding quarter in the previous year registering improvement in market shares. In the GCC (Gulf Cooperation Council) countries, Parachute cream enjoys a leadership market share of about 27%, while the Parachute hair oil franchise has improved its share to 28%.

Marico's business in Egypt comprising the hair cream and hair gel brands Fiancée and Hair Code achieved a growth of 19% during FY10. Most of the issues faced as part of the distribution transition in FY09 have been resolved and the business is back on track. Several promotional campaigns, including digital and viral marketing initiatives have helped improve the salience of the brands with the market share now standing at 57%. The company is experiencing some challenges in fighting counterfeiting especially in the sachet packs. This is being tackled through packaging innovations to contain the problem.

During Q4 FY10, Marico launched Parachute Gold hair oil in Egypt and the initial response has been encouraging. Marico also made inroads into the neighboring geographies in the MENA region launching its products in Morocco and Sudan. In addition, the new plant that was set up to exclusively manufacture the Parachute range of products for supplies to the MENA region has stabilized and is now fully operational.

Despite a difficult macro economic situation in South Africa, impacted by the global downturn, Marico's business in ethnic hair care and health care through its portfolio of brands Caivil, Black Chic and Hercules performed well. All the brands registered healthy growths and Marico improved its market share in ethnic hair care by about 100 basis points. Caivil scalp protector, which was launched during Q3 FY10, had a good start and is generating trials as desired. Hercules' Healthy Body Healthy Mind campaign following up on the flavoured castor oil launch has been received well.

Marico entered the Malaysian hair cream and hair gels market (sized at RM 150 million in consumer prices) through the acquisition of Code 10 from Colgate Palmolive in January 2010. Code 10 is the number 3 player behind Brylcreem and Gatsby and has a share of about 10%. As part of the understanding Marico was supported by Colgate-Palmolive Malaysia for distribution of the Code 10 range in the immediate term. Marico has now identified a distribution partner and is in the process of moving to handling its distribution independently. The integration is progressing as per plan. Marico expects that this acquisition will serve as a stepping stone to Marico's designs for the South East Asian region.

Over the year FY10, Marico's International FMCG began the process of taking some of its brands to other geographies. The Egyptian brand Hair Code for instance was launched in Bangladesh as a hair dye. Similarly, the company has now launched Hair Code Gel in select GCC markets and Parachute Therapie has been introduced in the Middle East in Q4FY10.

The operating margins of the business have been steadily improving over the years. The company has also taken structural initiatives to improve its margins in the International FMCG business. The new factory commissioned in Egypt in FY09 has gradually begun taking over the hair cream servicing needs of the Middle East region. Similarly backward integration initiatives in Bangladesh have helped to improve the cost structure. It is expected that the International business will catch up with the current company average margins over the next three years or so.

Kaya Skin Clinic

Kaya is the first organized player in the segment of cosmetic dermatology and now enjoys a large first mover advantage in the segment in India. During Q4 FY10, Kaya opened its first clinic in Dhaka, Bangladesh. It now offers its technology led cosmetic dermatological services through 101 clinics: 87 in India across 27 cities and 13 in the Middle East in addition to the most recent one in Dhaka.

The company had ended FY09 with revenue of Rs.116 crore. Even though there was some deceleration of the rate of growth, the business in India achieved same store growth rates of around 11% during the second half of FY09. The company thus continued with its growth plans and opened 10 new clinics in Q1 FY10. Kaya also launched its "designer skin" advertising campaign and it was expected that the revenue growth would sustain.

However, as FY10 unfolded, greater clarity on consumer trends emerged. Kaya's offering are in the nature of discretionary spends. Apart from the impact of the overall economic downturn, the Kaya skin business in India faced two adverse developments during the first half of FY10. The outbreak of swine flu, though temporary, led to

a drop in customer appointments particularly in cities such as Pune and Bangalore where the incidence of the outbreak was more acute. The introduction of service tax in the Union Budget in an already unfavorable ambience made growth more challenging.

While there has been some improvement in the macro environment in the latter part of the year, Kaya continues to experience a decline in same clinic revenue (revenue from clinics that have been in existence for over a year) in India. Kaya's performance in the Middle East however, despite the turbulence in Dubai, has been good with the clinics registering a same clinic growth of 17%. Consequently, the same clinic growth for Kaya Skin as a whole was a negative 5%.

Kaya Skin business achieved a revenue of Rs.182 crore, a growth of 15% (including revenue from new clinic additions) and incurred a loss of Rs.12.25 crore.

The company has identified declining customer retention and high skin practitioner attrition as two of the issues being faced by Kaya skin business in India. It has begun to put measures in place to improve upon these. Kaya Everyday Radiance, a new service launched in Q3 FY10 seeks to attract customers on a more repetitive basis. Other packages to increase the life time value of a customer to Kaya are being initiated. These will include the introduction of more products in the Kaya portfolio. Today products constitute only about 13% of revenues for Kaya. Providing training on a larger suite of services to bring variety into the skin practitioner's routine and also making the clinic leadership directly responsible for retaining team members is expected to bring down skin practitioner attrition levels over time.

During Q4 FY10, the management also reviewed all its existing clinic operations and decided to close down / relocate 7 skin clinics which did not hold long term potential, by June 2010. In the process, the company has estimated a closure cost of Rs.2.1 crore. This has been provided for in FY10 accounts of Kaya.

The company's overall experience with Kaya Skin Care business has been encouraging. This is a fairly young business - only 7 years since its inception. We have already experienced, in a few accounting periods, profitability at both clinic level and regional level. Marico's belief in the Kaya business model is therefore intact, especially as it perceives the long term opportunity in skin care solutions to be significant. The company would of course aim to perfect the offering and overcome the challenges that the Indian business is currently facing. During FY11, while Kaya plans to add 3-5 clinics in the Middle East it is unlikely to open any new clinics in India. The company expects Kaya Skin Clinic to achieve its targeted ROCE over the next 3 to 4 year period.

COST STRUCTURE FOR MARICO GROUP

% to Sales & Services (net of excise)	FY10	FY09
Material Cost (Raw + Packaging)	47.4	53.5
Advertising & Sales Promotion (ASP)	13.2	10.2
Personnel Costs	7.2	6.9
Other Expenses	18.1	16.7
PBDIT Margins	14.1	12.7
Gross Margins (PBDIT before ASP)	27.3	22.9

Notes:

The year witnessed a decline in some key input prices. Copra, the input for coconut oil, which accounts for about 40% of the company's raw material cost, was ~ 20% lower than in FY09. Similarly, market prices of safflower oil, comprising about 13% of the company's raw material cost, were about 22% lower than in the previous year.

Part of the higher gross margins were ploughed back to make higher investments in ASP across the three businesses to support new product introductions such as Saffola Arise, & Parachute Advansed Cooling Oil in India and Hair Code Dye in Bangladesh and in brand building efforts on established brands such as Saffola & Parachute Advansed in India and Parachute Hair Cream in the Middle East.

Other expenses as a % of sales were higher primarily due to provisions made for excise on coconut oil pack size upto 200ml, higher rental expenses due to expansion of Kaya clinics and higher storage costs.

CAPITAL UTILIZATION FOR MARICO GROUP

Over the years, Marico has maintained a healthy Return on Capital Employed (ROCE). Given below is a snapshot of various capital efficiency ratios for Marico:

Ratio	FY10	FY09
Ratio	FY10	FY09
Return on Capital Employed	34.3%	37.4%
Return on Net Worth	41.8%	49.1%
Working Capital Ratios)		
• Debtors Turnover (Days)	18	16
• Inventory Turnover (Days)	54	46
• Net Working Capital Turnover (Days)	58	45
Debt: Equity	0.67	0.88
Finance Costs to Turnover (%)	1.0	1.5

*Turnover Ratios calculated on the basis of average balances

1. The debtors turnover has increased partly on account of the international business constituting a larger share of turnover. The market norms from debtors in the international business are higher than in India. Inventory days have increased primarily due to strategic build up particularly in safflower and copra.

2. As of March 31, 2010 the Marico Group had a Net Debt of Rs.251 crore (Gross Rs.446 crore). Of the Gross Debt about Rs.186 crore is denominated in US Dollars (USD). About Rs.147 crore of the USD debt is repayable within a year. About Rs.229 crore debt denominated in Indian Rupees is payable within a year. The average cost of the debt is ~ 5.0 %. The company may roll over some of the loans when they fall due during the year. Marico has adequate cash flows to maintain a healthy debt service coverage.

3. The Company adopts a conservative policy for hedging its foreign currency exposures using a mix of forwards, plain vanilla options and hedging on a net basis. Foreign currency trade loans and imports are hedged immediately on contracting the same.

SHARE HOLDER VALUE

Pay out distribution of profit to share holders

Over the past 5 years, the company had made acquisitions and financed the same through issue of fresh equity, borrowings from banks and internal cash generation. Marico has been focused on deploying its resources in avenues which will result in maximization of share holder value. Continuing with this policy, the Board of Directors of the Company has decided to follow a conservative dividend policy, as compared to the past, unless the company is unable to deploy the funds in attractive growth opportunities. The broad direction is to maintain the absolute amount of dividend as paid out in the previous year. On a growing profit base, the pay out ratio would be lower. However, if the Company does not find any suitable avenue to deploy funds in near term it will repay the debt on the balance sheet and relook at the dividend payout ratios.

Dividend Declared

At its meetings held in October 2009 and April 2010, the Board of Directors had declared interim dividends of 30% and 36% respectively. With this the cumulative dividend declared is 66%. Consequently, on a higher profit base, the dividend payout ratio is lower at 20% (inclusive of dividend distribution tax).

OTHER DEVELOPMENTS

Listing of Marico Bangladesh Limited

Marico Bangladesh Limited (MBL), a wholly owned subsidiary of Marico Limited (ML) was listed with the Dhaka Stock Exchange and Chittagong Stock Exchange in the month of September 2009. MBL issued ordinary shares equivalent of 10% of its total equity thereby raising Taka 270 million. One equity share of Taka 10 was issued at a premium of Taka 80 per share. The proceeds of the IPO strengthened the financial position of MBL to enable continued growth. This IPO was the ‘first’ in the following aspects:

- The first time that an overseas subsidiary of Marico went public
- The first time that a Bangladeshi subsidiary of an Indian Company got listed in Bangladesh

Bangladesh has been an important part of Marico’s global strategy. Over the past nine years, the Group has consistently invested in Bangladesh. The “Think Global, Act Local” approach has helped Bangladesh to record a CAGR of 71% in turnover in the past 3 years. The IPO was a further step towards localizing the Marico business in Bangladesh, through local ownership.

Capital markets in Bangladesh are poised for growth. The Marico Group looks forward to being part of the Bangladesh growth story.

Withdrawal of Kaya Life Prototype

Marico had launched the Kaya Life prototype to offer consumers holistic weight management solutions. The prototype had reached a capacity of 5 centres, all in the city of Mumbai. While the clients had been experiencing effective results on the weight loss and inch loss, the prototype had less than expected progress in building a sustainable business model, despite the passage of a reasonably long period of time. Marico has therefore decided to withdraw the Kaya Life Prototype from the market. The net cost of the Kaya Life prototype during FY10 is estimated to be about Rs.5.7 crore. This has been provided for in the books of account of Kaya and disclosed separately as an exceptional item.

The prototype withdrawal has already been set in motion. This will help Marico to reallocate the company’s financial resources and management bandwidth to initiatives expected to have better potential, such as Kaya Skin Clinics or Marico’s consumer products businesses in India and overseas.

OUTLOOK

- Sustained volume and value growth in consumer products (India & international)
- Consolidation in Kaya India and building scale in Kaya Middle East
- Sustained performance in group margins
- Continued investments for the future

The consumer products business of the company expects to sustain overall volume growth and to improve value growth. Though there may be some increase in input costs from the low levels experienced in FY10, the company expects to be able pass these on to the consumer and maintain its unit margin in the same band, given the strength of its brands. At the same time, in the medium term the company would like to focus on growing its brand franchise rather than increasing margins unduly. With the rural markets growing faster than urban ones, the company is planning to focus on rural markets in order to drive deeper penetration for its existing products and also to create a basket of products more amenable to these markets. In coconut oils in India the company expects to grow through holding the price point on low unit packs (Rs.10 and below). In hair oils in India, Marico will focus on share gain through effective communications and introduction of differentiated and innovative products. Saffola is riding a trend in healthy living being adopted by the Indian consumer. The brand expects to continue to expand its franchise in the premium refined edible oil niche. It will also extend its good for heart equity to functional foods, the first of which, Saffola Arise (rice) has now been rolled out. The company will continue to prototype new product ideas to create new engines of growth for the future. Given the current size of Marico's consumer product business, the company will focus on new product initiatives with a potential more commensurate with its size.

In the International consumer products business, Marico will focus on growing the categories where it has dominant share - such as in coconut oil in Bangladesh and creams and gels in Egypt. In the Middle East and South Africa it would work on increasing share in key categories. The company has also commenced the process of expanding its distribution to neighboring countries from its hubs in the Middle East, Egypt and South Africa. This is expected to widen Marico's playing arena in West Asia and Africa in the medium to long term. The acquisition of Code 10 in Malaysia has marked Marico's entry into the South East Asian region. Over time, this is expected to grow into a new pillar for growth for Marico's international business. Marico expects that its international business can clock a business growth of about 20% per annum over the next few years. It will also focus on improving its margins gradually.

Over the past few quarters Kaya Skin Clinic has experienced a slow down in India, as discussed earlier in this note. In the short term therefore, the company plans to work on improving its revenue streams from the existing clinics in India. It will continue to drive new clinic growth through expansion in the Middle East. It has taken Kaya longer to achieve profitability than the company had earlier anticipated. The longer term attractiveness of the business however remains intact and Kaya expects to deliver the targeted ROCE over the next 3 to 4 years.

On behalf of the Board of Directors

Harsh Mariwala
Chairman & Managing Director

Place: Mumbai
Date: June 22, 2010