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 the period April 2010-March 2011, with respect to 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 solutions 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 statements in this discussion describing 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 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, OPPORTUNITIES AND THREATS

India's Fast Moving Consumer Goods (FMCG) sector is estimated to be about INR 1300 billion having shown an annual growth of about 11% per annum over the last decade. Robust growth in India's Gross Domestic Product (GDP), growing urbanization, evolving consumer lifestyles and increased income in rural areas are some of the key drivers of growth. The FMCG segment includes products like soaps, detergents, oral care, hair care and skin care products, food and beverages, oils and dairy products.

Opportunities are opening up for FMCG marketers in India in various household income segments. The affluent, comprising about 1% of the population, are willing to buy premium products for their emotional value or exclusivity. The upper middle class, comprising about 2% of the population, may aspire to emulate the affluent. These two segments are driving the fast growth of premium and masstige products. While they make up a small proportion of the consuming base in the country, their numbers are expanding rapidly and are expected to double over the next decade. The numbers in the middle class are expected to expand significantly over the next decade. Comprising about 11% of the population today, this segment is likely to grow to nearly 30% by 2020. These consumers are becoming more aware about products and their benefits and taking informed decisions. While price is important, the consumer also demands value. Finally, there is the Bottom of the Pyramid (BOP) opportunity in India. These consumers are largely rural, spending on essentials with very little demand for expensive lifestyle products. These markets have hitherto been poorly served owing to infrastructural constraints.

India's demographic dividend is highlighted by the fact that it has 17% of the world's population and that half of these people are below the age of 25. With a median age of 25 years, increasing numbers are joining the Indian workforce. Whereas China's dependency ratio bottoms in the next five years, for India it's likely to bottom out only in 2040. India's share in world consumer spending is set to increase from 1.9% in 2005 to 3.1% in 2020. (Source: Technopak) 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. While spending on women's personal care products is also becoming far more acceptable and guilt-free.

Rapid shifts in income profiles are leading to an evolution of product categories. At the higher income levels, there is a need for more sophistication and customization to individual tastes. Personal preferences also drive multiple brand purchases within households, unlike the earlier trend of using only a single brand or product. Therefore, marketers are introducing several variants of products to cater to a wider set of preferences. Products are also being segmented to cater separately to the needs of men, women and children. Mass customization is likely to intensify with FMCG players profiling potential buyers by attributes such as age, region, skin type and ethnic background.

Consumers are steadily shifting from low prices to a price-plus platform. They now tend to balance price with quality, convenience, consistency, innovation and shopping experience. The quality conscious consumer is willing to pay a premium 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's FMCG market can be divided into two segments – urban and rural. The urban segment is characterized by high penetration levels and higher spending propensity of the urban resident as compared to his rural counterpart. The trend towards urbanization continues, with migration of rural citizens to urban areas. The number of urban towns has increased significantly, estimated at 53% over the last two decades.

Rural India accounts for 70% of India's population and is estimated to account for 56% of national income and 64% of expenditure. This market is seeing significant income growth and employment diversity for the first time in its history. Income derived directly from agriculture has reduced to around 40% with farmers often multi-tasking. However, the indirect dependence of the rural economy on agriculture is still high. Infrastructural investments in roads, railways and telecom have led to improved connectivity in rural India with a positive impact on growth, employment, education and health care. The Government's initiatives such as National Rural Employment Guarantee Act (NREGA), other employment generation schemes, waiver of loans and managing minimum support prices of select agricultural output are resulting in higher disposable incomes and consumption trends in rural India. The most recent initiative of providing a Unique Identification Number (UID) will further strengthen the position of people living in rural areas. Rural markets comprise about 34% of the total FMCG market. In recent times, the growth rate has overtaken that of the urban markets. Category penetration, however, still remains low, providing significant headroom for growth. With organized FMCG players accessing these markets, rural consumers are becoming increasingly brand conscious. However affordability remains a challenge, giving rise to a large market for small size SKUs.

India is currently going through a socio-economic change; the country is witnessing an expansion of existing markets and the creation of many new ones. The beauty products market is expected to grow by 15%-20% in the future as a result of the changing socio-economic status of Indian consumers, especially women. Better paying jobs and exposure to fashion and beauty trends in the developed world through television and other media have resulted in changing tastes and choices. Middle class women are more conscious of their appearance and are willing to spend more on enhancing it. Modernization has led to changing aspirations where the need to be considered good-looking, well-groomed and stylish has taken on a newfound importance. This has changed the mindset of saving for future. Accordingly, people are spending more on consumption. As a result, hair care and skin care products are expected to show healthy growth. Indian men are also becoming conscious about their appearance, creating a market for male grooming products. There is also an increased awareness about good health practices. Sedentary lifestyles and unhealthy habits have led to the rise of lifestyle-related diseases such as diabetes and heart problems. Increased awareness is leading to a demand for healthier products with lower calories, less sugar, lower glycemic index, higher nutritional content and higher fiber.

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 better infrastructure aiding access to the rural economy, it is likely that 'mom and pop' stores will remain the chief point of interface of the FMCG companies with the retail consumer. Organized retail comprises about 5% of FMCG business, but is expected to grow rapidly and expand its share over the next few years, reaching 11% by 2015 and nearly 30% by 2020. The share of certain categories such as processed foods and beverages is expected to grow rapidly within organized retail. Several formats exist within organized retail such as hyper marts, supermarkets and cash-and-carry (wholesale). It is expected that formats will evolve and new formats may come up in the future. 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. Organized retail is also expected to make investments in information technology to optimize supply chain efficiencies. This will also require strong backward integration with distributors and manufacturers.

India Incorporated 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. The year gone by has seen a number of overseas acquisitions made by Indian FMCG companies. Also, the emerging economies in Asia and Africa have low-to-medium penetrations in some of the FMCG categories. This signifies considerable headroom for growth in the mid-term. Favorable macro-economic factors, changing attitudes of the consumers and progressive policies of 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 could cause fluctuations in the domestic input prices.

The past 2-3 years have witnessed wide fluctuations in the prices of commodities. Crude oil touched a record high of USD 140 per barrel in FY09 before crashing to below USD 50 per barrel in FY10 and then again breaching USD 100 per barrel during the second half of FY11. Volatility was consequently experienced in other commodities –

in crude derivatives like liquid paraffin and high density polyethylene (HDPE) as well as edible oils.

Input costs comprise nearly 60% of the production costs in the FMCG sector. Inflationary trends in the input costs 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 movements in 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, rising competitive pressures as well as the longer term objective of expanding consumer franchise, part of the increased cost structure may 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, while advertising and sales promotion creates visibility for the product. Such expenditures carry the inherent risk of failure. Counter campaigning by competitors could also reduce the efficacy of promotions. Similarly, aggressive pricing stances by competition have the potential of creating a disruption.

Product innovations 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 to new product introductions that helps maintain a healthy pipeline and at the same time limits the downside risks.

Currency Risk

The Marico Group has a significant presence in the Indian subcontinent, 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, Egyptian Pound, Malaysian Ringgit, Singapore Dollar and Vietnamese Dong. Import payments are made in various currencies including but not limited to the US Dollar, Australian Dollar and Malaysian Ringgit.

As the Group eyes expansion into new geographical territories, the exposure to foreign currency fluctuation risk may increase. Significant fluctuation in these currencies could impact the company's financial performance. The Company is, however, conservative in its approach and is likely to use simple hedging mechanisms.

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 the interest regime and in the terms of borrowing will impact the financial performance of the Group.

Acquisitions

This may take the form of purchasing the brands or purchase of stake in another company and is used as a means of gaining access to new markets or categories, of increasing market share or eliminating competition. Acquisitions may divert management attention or result in increased debt burden on the parent entity. It may also expose the company to country specific risk. 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.

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. The GDP has grown at 6-7% over the last few years and it is amongst the Next 11 (N11) countries identified by Goldman Sachs as having high potential. Political instability may, however, be a cause for concern for companies operating in Bangladesh.

FMCG markets in Middle East and North Africa (MENA)

The market offers a curious mix of local and expatriate populations, who are not averse to the idea of indulgence/extravagance. This provides FMCG companies opportunities to offer branded solutions tailored to the needs of the consumer in the region. The Egyptian economy has embraced liberalization in the recent past, thereby opening the doors for foreign direct investment and paving the path to economic growth. It features amongst the Goldman Sachs list of N11 countries. A steadily-growing population and a developing economy provide a good base for FMCG companies. Penetration levels in hair grooming and skin care products are modest.

During the last few months of FY11, the MENA region has witnessed socio-political unrest. This has had an adverse impact on the economy. Whilst the situation is moving towards normalcy in Egypt, conditions remain serious in other countries. It is likely that uncertainty may prevail over the region for a substantial part of the calendar year 2011. Once the situation returns to normal, however, the potential for growth in the region remains high.

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. The economic measures such as Black Economic Empowerment (BEE), adopted by the Government to ensure growth and equitable distribution of wealth, have been very effective. South Africa's ascension into BRICS recognizes the country's potential, placing it alongside the leading economies of tomorrow. With 6% of Africa's population, it accounts for 25% of the continent's GDP. South Africa also forms the gateway to the rest of sub-Saharan Africa. Africa is the fastest growth region after China and India, boasting unexploited mineral wealth, 60% of the world's uncultivated agricultural land and the youngest age profile of any continent.

FMCG markets in Vietnam

Vietnam is one of the fastest-growing countries in South East Asia, with a GDP growth of about 6%. The demographics of the country are very promising, with a young population providing an opportunity for FMCG companies to grow rapidly. Vietnam finds place in the Goldman Sachs list of N11 countries as a frontier market, indicating an opportunity to invest but with lower market capitalization and liquidity. The currency, Vietnamese Dong (VND), however, has shown relative weakness to the US Dollar in recent times.

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
- Systems of 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 coordinated by an internal team at Marico. This combination of Marico's internal team and expertise of Aneja Associates ensures independence as well as effective value addition.

Internal audits are undertaken on a continuous basis, covering various areas across the value chain like manufacturing, operations, sales and distribution, marketing and finance. The 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.

HUMAN RESOURCES

Marico is a professionally managed organization with 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, with the long-term perspective of grooming its next-generation leaders. The organization believes in providing challenge and early responsibility at work, keeping team members enthused and motivated.

Hiring right is the first step, often by tapping into the networks of existing members. A strong referral mechanism operates under the brand name 'Tareef' (Talent referred by Mariconians). This benefits the organization in two ways: the talent referred is usually of a higher calibre than personnel sourced through other means and it also results in substantial cost savings in the recruitment process.

Marico ensures that its work environment is challenging and motivating, through its Management by Results policy. This includes performance-based compensation, along with other measures that help enhance performance.

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 leveraged to maximize his or her potential. External training programmes and cross functional exposure often provide the extra edge. In line with the company's philosophy of valuing internal talent first, a structured internal job posting mechanism - MINTOS (Marico Internal Talent Opportunity Scheme) provides an internal forum for members to benefit from opportunities within the organization.

Marico has a holistic member well-being program, which includes the physical, emotional and financial aspects of an employee's well-being. Its initiatives are many: a Member Assistance Program in association with www.1to1help.net, a counseling service run by a team of qualified and experienced counselors; a physical well-being program that provides personalized diet, lifestyle and physical training by a panel of health experts; and financial well-being through customized financial planning programs.

Marico continually strives to increase the engagement levels of its teams. The Gallup Survey keeps the organization updated on its success at building engagement across the organization as well as in each of its teams.

Through 'Values Workshops', Marico disseminates its core values to all its members, building commitment and helping teams work with a corporate focus.

‘Popcorn with Harsh’ sessions, giving members the opportunity to interact directly with the Chairman and Managing Director, Harsh Mariwala, continue to leverage the strengths of Marico's leaders, helping them mentor Mariconians and coach the leaders of the future.

Specific initiatives are underway to standardize Marico HR practices across its international locations – the Middle East, Bangladesh, Egypt and South Africa.

Employee relations throughout the year were supportive of business performance. As on March 31, 2011, the employee strength of Marico Ltd. was 996 and that of the entire group was 2277.

CORPORATE SOCIAL RESPONSIBILITY

Marico believes in aligning the interest of all stakeholders in the environment in which it operates – its shareholders, consumers, members, associates, government and society. Promoting conscious capitalism is an important step towards fulfilling the Company's purpose. Marico has chosen the following areas of focus to make its contributions towards society and to function responsibly is respect of the impact its operations have on the environment.

1. Marico Innovation Foundation

Marico instituted the Marico Innovation Foundation (www.maricoinnovationfoundation.org) in 2003, to provide a framework to the Industry and Social Sector to leverage innovation for quantum growth. The overall approach of the Foundation is to be a catalyst that concentrates on creation of knowledge through research, knowledge dissemination & recognition through its Innovation for India Awards.

The Foundation has drawn insights from Indian organizations that have challenged convention and achieved quantum growth through innovation – organizations that have considered ideas and not resources as their key competitive advantage. Its social innovation research seeks to highlight inspiring work that brings insight into what differentiates social innovation which if scaled up, has the power to address some of the fundamental problems in the country. One of Foundation's popular researches resulted in a best seller

WE SET UP OUR INNOVATION FOUNDATION FOR ONE SIMPLE REASON. WE WANT YOU TO CHANGE THE WORLD.

The Marico Innovation Foundation isn't about us.
It's about recognizing and mentoring upcoming innovators
and supporting ideas that can transform lives.

Marico
Innovation
Foundation

publication 'Making Breakthrough Innovation Happen: How 11 Indians 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'. The other knowledge building initiatives of the foundation include alliances between top Indian Business Schools and Indian organizations for a 2-month elective 'live' course on Applied Innovation.

To extend the Marico Innovation Foundation's catalytic approach towards Innovation, it organises 'Innovation Workshop for Social Enterprises'. The purpose of these workshops is to enable social organizations to apply innovation as a key tool to significantly increase their social impact and scale programs. The 3-day workshop focuses on innovation tools, knowledge sharing from successful case studies, addressing primary challenges in applying innovation and helping social enterprises identify and put together an innovative roadmap to scale up and create greater impact. After the workshop, organizations are selected for a 12-18 month innovation incubation program.

Through the knowledge dissemination mechanism the Foundation is able to propagate the findings of the researches through large-scale mass platforms across India. It has shared its learning at business schools, industry fora and management associations to help take other organizations to take quantum leaps instead of going through the process of rediscovery. In addition its Innovation Exchange is a portal that brings the entire Innovation Ecosystem including researchers, innovators, entrepreneurs and academia across industry along with investors and mentors together onto one single platform. This is an initiative in association with the Indian Institute of Management, Ahmedabad (IIM–A) and the Department of Science and Technology, Government of India.

To recognize and applaud outstanding leadership with a focus on innovation, the Marico Innovation Foundation institutionalized Innovation for India Awards in 2006. These Awards acknowledge & foster leadership with innovative focus in various Business & Social sectors. From 2010 a new category - Public Governance, has been introduced to recognize innovations where the Central or State government or any wing of the government including public-private partnership has innovated. The intent of the Awards is to reward projects and businesses that make a real difference to India and the community at large. Based on the criteria of uniqueness, impact and scalability, 'India's Best Innovations' are declared biennially. Since 2006, 32 innovators have been recognized. Bharti Airtel and Tata Nano were recognized as Global Game Changers for their spirit of innovation.

An eminent Governing Council chaired by Dr. R A Mashelkar FRS, CSIR Bhatnagar Fellow steers the work of the Foundation.

2. Sustainability Initiatives

Marico's sustainability efforts are aimed towards conserving the ecology, whilst institutionalizing a 'green mindset' amongst Mariconians. Marico has successfully implemented over 50 ideas in the areas of energy, water and paper usage reduction in the last 2 years. The ideas varied from process changes in manufacturing to investing in equipment that would reduce energy consumption to reduced usage of plastic.

We have gained considerable momentum in our efforts to reduce our carbon footprint, most of our strategies and processes today undergo a Green filter, as we intrinsically evaluate the environmental implications of all initiatives.

Highlighted below are some key initiatives that had a significant positive impact on the environment.

Energy

- Leveraged the latest technology to reduce power consumption in our datacenter
- Improved truck loading efficiency at our factories leading to reduced fuel consumption
- Designed the new plant at Baddi in an energy-efficient manner. Learning from here is being replicated across all manufacturing locations
- Installed variable frequency drives to reduce energy consumption at our Pondicherry factory
- Use of bio mass fuel for boilers

Water

- Reduction of water consumption at Jalgaon plant by about 36%
- Rainwater harvesting across manufacturing sites
- Drip irrigation system installed at the Jalgaon factory

Paper

- Use of recycled paper at Kaya Skin Clinic

Plastic

- Reduction in PVC Consumption by 90% in plastic bottles

The 'Think Fresh, Be Green' initiative aims to build a Green culture at Marico. Tree plantations on birthdays, using video conferencing to reduce travel, celebrating festivals in an eco-friendly way are part of the culture. We have also institutionalized a Green Score Card which measures progress on our Green journey through member feedback. Teams that have made significant contributions to our sustainability journey are recognized every year at the annual Organisation Communication event.

We conducted sessions for our C&FA agents (depots) on the need and benefits of going Green, which has led to considerable savings for the organisation. More importantly however, it has increased the saliency of the need to adopt sustainable work practices amongst our associates.

Our achievements in this space have been recognized through numerous awards,

- Marico (Kanjikode) was conferred with the Kerala State Energy Conservation Commendation Award 2010, in the large-scale energy consumers category.
- Marico won 'Silver' at the Greentech Environment Excellence Award 2010, in the FMCG sector.
- Marico bagged the Runners-up trophy at the G-CUBE
- Marico (Jalgaon) won the Good Green Governance Award.

3. Safety

Marico places prime importance on the safety & health of all its members.

In pursuit of a hazard and incident-free work environment, we have defined an Environmental & Occupational Health & Safety (EOHS) policy, which guides systematic efforts to continually upgrade our systems, impart relevant training and improve communication system to handle emergency situations.

Some of the initiatives we have taken are:

- Marico Factories are certified for OHSAS 18001:2007 by certifying body DNV. We have recently undergone an ISO: 14001 and OHSAS: 18001 (EOHS) audit by an external agency.

- Safety Councils at our plants, periodically review accidents, safety records and issues related to safety, health and work environment.
- In factories, every major project is routed through the Safety department.
- We have installed diesel engines for the operation of the fire hydrant systems, in case of power failures.
- All plants hold annual safety weeks that aim to increase awareness of potential hazards and serve as a refresher for key safety procedures.
- Emergency preparedness and response procedures are tested regularly by conducting mock drills.
- Members undergo Safety Training as part of their induction. Health and safety seminars are conducted for contract workers.
- Reinforcement training like Fire fighting is compulsory at least once a year; other training is imparted as per a training calendar.

In recognition of our achievement Marico plants at Jalgoan, Goa, Poanta Sahib and Kanjikode have won the Greetech Award for Safety.

4. Other Initiatives

Most of these initiatives have been primarily in the areas of Education and Training and support for local communities.

Education & Training:

Marico's factories and depots are present in rural areas, where there is an opportunity for the Company to give back to the society by empowering the younger generation. Keeping this in mind, Marico has donated books, stationery, study material, clothes and emergency lamps and aided renovation at various local government schools.

In order to give students an industry perspective, Marico collaborated with the local institutes to offer training programs to students. These include training sessions on Supply Chain & TPM. Several plant visits were organized for government primary schools.

Marico also conducted a training programme on FSSC for Food Safety Officers, all across India. It covered about 650 Food Safety Officers.

Marico Bangladesh has organized communities under the Community based organization. It educates and guides the community in solving problems faced by them in areas of coconut production and development and conversion of the coconuts to copra. It has also worked towards establishment of other businesses that complement copra supply to augment income of the participating groups.

Awareness sessions for the local communities were organized; Aids Awareness programme for truck drivers by Pondicherry AIDS Control Committee at the Pondicherry factory. In addition, parenting sessions were held for workers' family members at some of the factories.

Support for Local Communities:

As part of our contributions to the local communities in which we are present Marico has contributed towards participation in blood donation camps at factory locations in India and overseas, conducted skin care camps for Helpage India by dermatologists from Kaya, provided financial support for weather risk insurance to farmers and helped in the renovation exercise of the local police station in Egypt.

This year, Marico members also participated in the week-long Joy of Giving Initiative, to promote 'Giving'.

Joy of Giving:

Joy of Giving Week is a not-for-profit organization, run and managed by a group of volunteers, that promotes 'Giving' in any form- Money, Resources, Skills, Time. Marico organized a series of activities at its various locations, during the week of September 26–October 2, 2010. These included:

Vastra Samman & Toy Bank: A week long collection drive that encouraged members to donate old clothes, toys, books and stationery. The donated items were in turn distributed to rural areas and villages, through the NGO Goonj and Toy Bank. Members donated enthusiastically for this cause.

Make A Wish Foundation: The foundation collects monetary donations, in order to fulfill wishes of children facing life threatening diseases. Members contributed generously to this cause. A variety of wishes were fulfilled; holiday with family, owning a doll set, a computer and many more.

Crafts Bazaar: Marico organized a day-long Crafts Bazaar at several of its locations. It invited NGOs that support Women Empowerment, Children and Education to set up stalls at its office premises. This gave the NGOs a platform to not only display but also sell their products; the key objective being to raise funds that would in turn be ploughed back into the NGO, to further support their individual causes.

THE MARICO GROWTH STORY

Marico achieved a turnover of INR 3128 crore during FY11, a growth of 18% over FY10. The volume growth underlying this revenue growth was healthy at 12%. Profit after Tax (PAT) for FY11 was INR 286 crore, a growth of 24% over FY10. Over the past 5 years, the top line and bottom line have grown at a compounded average growth rate (CAGR) of 22% and 27% respectively.

CONSUMER PRODUCTS BUSINESS (INDIA)

Parachute & Nihar in India

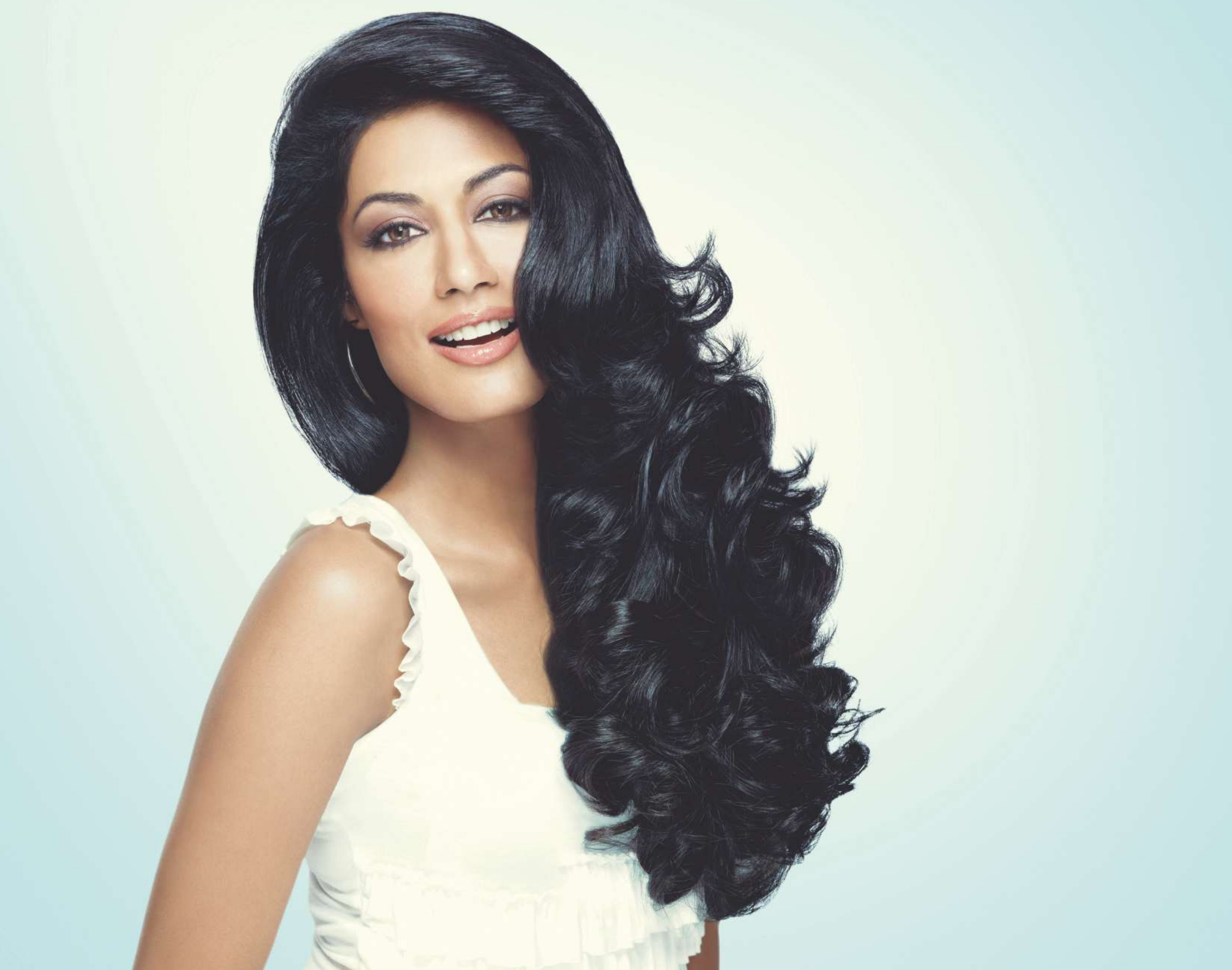
Parachute, Marico's flagship brand, continued to expand its consumer franchise during the year. Parachute coconut oil in rigid packs, the focus part of its portfolio, grew by ~10% in volume as compared to FY10.

The year saw an unprecedented increase in the price of copra - dried coconut kernel, the raw material input for coconut oil. The average prices in FY11 were higher than in FY10 by ~45%. This rise can be primarily attributed to the spiraling of the global Palm Kernel oil table. (While pure coconut oil is the preferred cooking medium in parts of the country, it may be substituted with palm kernel oil when palm kernel oil prices remain at a normal discount to coconut oil. When palm kernel rises to close the gap, consumers may switch to coconut oil, thus increasing its demand and consequently the market rates).

The Company took price increases to pass on most of the cost push to its consumers. However, with the rapid upward spiral of costs, retail price increases lagged behind, resulting in some compression in margins. The Company implemented retail price increases in a phased manner from August 2010 to February 2011, taking a cumulative increase of about 32%. This unprecedented price increase, in the overall context of inflation in the country, has led to a modest volume growth of ~5% in H2FY11. However, at the same time, the Company has prioritized expansion of its consumer franchise. Consequently, it did not pass on the entire cost inflation; particularly in its 'recruiter packs', the smaller stock keeping units (SKUs).

PROTECTING. NOURISHING. ENHANCING.
IF IT COMES FROM MARICO, IT HAS TO DO MORE.

With heart-friendly foods, nourishing hair oils and high-performance grooming aids, Marico ensures that its brands deliver the maximum value possible to its consumers.



The Company will maintain its bias to grow volumes and in the event of a decline in copra prices could thus be expected to pass back some of the decline in input costs to consumers, particularly in the smaller packs. It may, however, hold on to a portion of the softening of input costs so as to regain a part of the margin drop in coconut oil during FY11.

Parachute's volume market share during the 12 months ended March 2011 was ~45.8%. Together with Nihar and Oil of Malabar, Marico's volume share in the INR 1900 crore branded coconut oil segment in India was ~52.6%.

Saffola

Over the years, Saffola has created a very strong franchise for itself in the super premium refined edible oils market. It continues to leverage its 'good for heart' equity, riding the trend of increasing concern for overall health and heart health in India. Several households have adopted Saffola in order to lead a healthier lifestyle (a preventive measure as opposed to being largely doctor-recommended). With the introduction of blends (currently Saffola refined oil is offered to consumers in four blends), the Company has been able to bring Saffola to its consumers at a range of price points. Given that the brand has a healthy consumer retention rate, an increased household base is expected to create a larger long term franchise for the brand.

During this year's World Heart Day, Saffola launched its 'Young at Heart' campaign, partnering leading hospitals, diagnostic centers and dietician teams to educate consumers about their 'heart age'. Aided by this initiative, the Saffola refined oils franchise continued its healthy growth. Saffola grew by ~16% in volume terms during FY11 compared to FY10. It maintained its leadership position in the super premium refined edible oils market, with a market share of ~52.1% during the 12 months ended March 2011.

During FY11, while average market prices of safflower oil remained flat, those of rice bran oil were up ~21% as compared to FY10. The Company took price increases in select packs to compensate for this cost push.

In the longer term, Saffola would like to establish itself as a leading healthy lifestyle brand. It has commenced its journey in the foods space, and plans to have a basket of offerings that provides healthy food options throughout the day. In line with this strategy, the Company introduced Saffola Oats in the month of June 2010. The product prototyped primarily in the Modern Trade format in select cities across India and has received a good response. The oats market in India is valued at INR 120-140 crore and is growing at a healthy rate of ~40%. While the category has seen the recent entry of a few players, the nascent market and trend towards wellness and health foods provides room for all players to participate in this category growth. Saffola will also play a role in expanding the market.

During Q4FY10, Saffola Arise was launched across key Saffola markets. The performance so far has been encouraging in the West and South India markets, where short grain rice is popular. Repeat purchases of Saffola Arise are taking place and the brand is also receiving the support of influencers such as nutritionists. During Q4FY11, two more variants, Basmati Gold and Premium Grain (long grain rice) were introduced to strengthen the brand's position in the North, where the longer grain is preferred.

The packaged rice market in India is ~INR 400 Crore and is growing at over 20%. With its innovative health positioning, Saffola hopes to create a sizable franchise 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. In the INR 3000 crore branded hair oils market, hair oiling remains a deeply ingrained hair conditioning habit across the Indian sub-continent. With rising incomes in India, there are opportunities to serve consumers looking for value-added options to their hair oiling needs.

During the year, all Marico's hair oil brands recorded healthy growth. The company's hair oils portfolio in rigid packs grew by ~24% over FY10 in volume terms, with most variants clocking a growth of over 20%. Moreover, the introduction of new sub-segments in Marico's portfolio, such as Parachute Advansed Ayurvedic Hot Oil, Parachute Advansed Cooling Oil and Parachute Advansed Ayurvedic Hair Oil has grown the overall hair oils franchise by bringing specificity and creating more occasions for use.

Marico's hair oils franchise has achieved market share gains during FY11. Its volume market share during the 12 months ended March 2011, was 23%. The share is, however, on an increasing trend, having reached ~25% in recent months. Five years ago, the company's share was about 17%. These market share gains have been achieved through providing consumers with specific solutions, product innovations, packaging re-staging, participation in more sub-segments of the value-added hair oils category, continued media support to some of the brands and penetrative pricing action in others.

Prototypes & New Launches

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

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 product ideas 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.

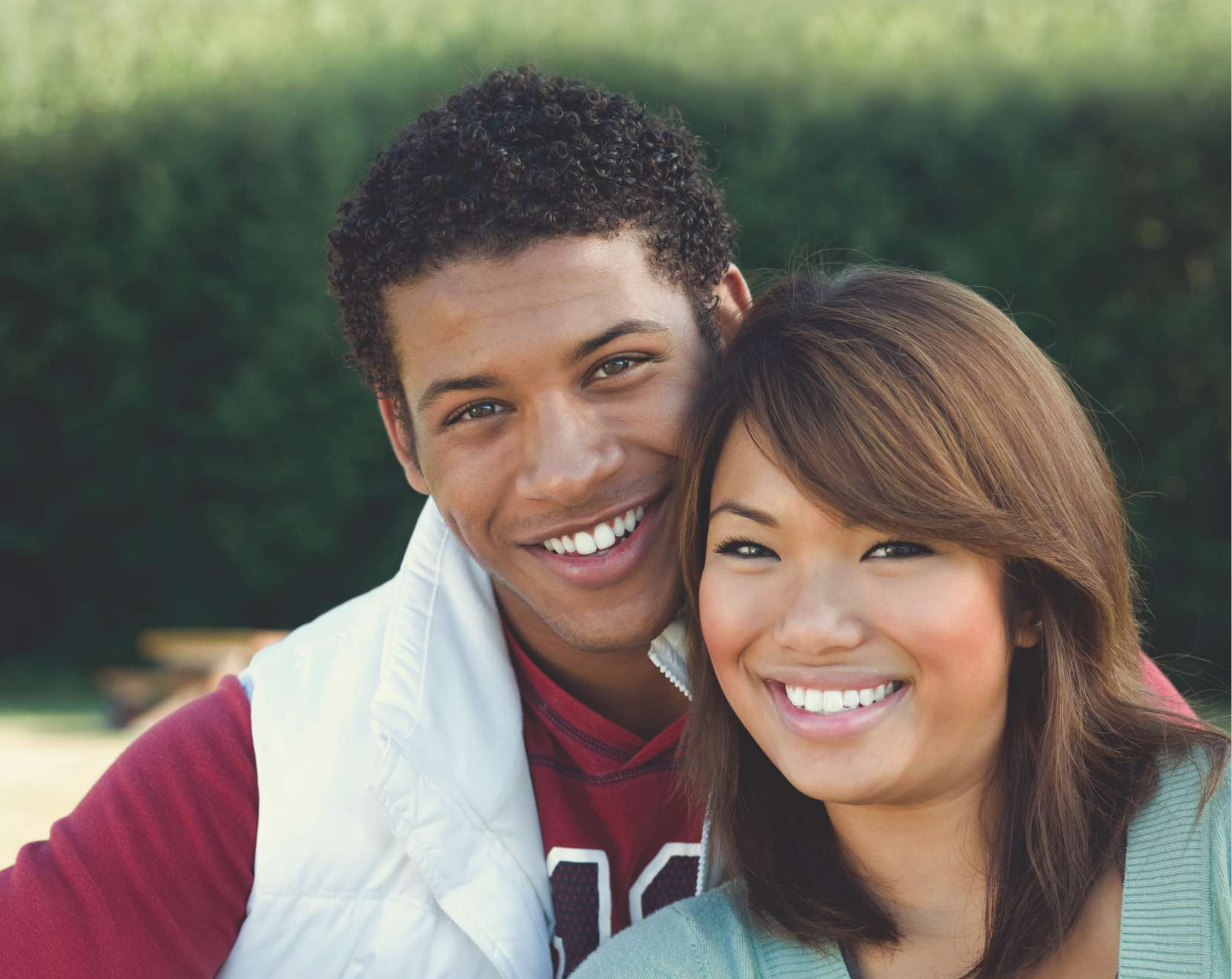
During the year, the Company continued the process of prototyping and launching. Parachute Advansed Ayurvedic Hair Oil is being prototyped in Tamil Nadu, while Parachute Advansed Body Lotion in being prototyped in West Bengal. Both have received a positive response. The Company is also prototyping Saffola Oats in the Organized Trade channel across India and certain 'mom and pop' stores in Southern India. The response has exceeded expectations. Saffola Arise was launched in January 2010. During the year, two more variants, Basmati and Premium Grain were introduced.

International FMCG Business

Marico's International FMCG business (with key geographical constituents being Bangladesh, MENA (Middle East and North Africa), South Africa and South East Asia) comprised 23% of the Marico Group's turnover in FY11. The Company's international business continued to grow handsomely and registered a growth of 22% in FY11. The business growth (excluding foreign currency impact) was, however, higher

HAIR QUALITY DIFFERS WIDELY ACROSS SOUTH-EAST ASIA & AFRICA. THE HAIR CARE PROVIDER, HOWEVER, STAYS THE SAME.

Acquiring some leading local brands and adapting some from its Indian portfolio, Marico holds the dominant position in ethnic hair care and male grooming, across South-east Asia and Africa.



at 27% comprising 17% volume growth, 8% pricing and the balance coming from the new business in Vietnam. These growth rates would have been higher had the MENA region not seen political unrest in Q4FY11.

Bangladesh

In Bangladesh, Parachute continues to play out its market expansion strategy by converting loose oil to packed branded coconut oil while maintaining its strong leadership position. It continued to ride on the growth momentum backed by strong thematic campaigns and new launches. The brand has gone from strength to strength and was recognized as the 2nd most trusted brand in Bangladesh across categories last year. (Source: A C Neilsen)

The Company is building on its strategy of leveraging the extensive distribution network created by Parachute. Hair Code hair dye has achieved about 29% value market share, establishing itself as a strong number 2 player. In the value added hair oils space, Parachute Advansed Beli, a light hair oil with a floral fragrance, is showing a positive trend while the recently launched Parachute Advansed Cooling Oil has seen encouraging results in the market. The response to Saffola refined edible oil, introduced in Bangladesh in FY11, is in line with expectations. This makes us confident of achieving continued strong growth in Bangladesh, through these new categories that complement the growth of the flagship, Parachute.

MENA (Middle East and North Africa)

Revenue for this region in FY11 was flat as compared to FY10. Growth during the first three quarters of the year was unfortunately negated by a fourth quarter that was badly impacted by the political unrest in the region. Marico has created a manufacturing hub for MENA in Egypt. The supply chain was adversely impacted for about 5-6 weeks. While this stabilized towards the end of Q4FY11, the situation in other parts of the region remains uncertain. While we believe the long term trends for personal care products in the region remain positive, the growth in the immediate future may be unpredictable. In the near term, the company will be cautious about the overall level of investment in advertising. Meanwhile it is also working on alternative sourcing options in order to de-risk its supply chain operations.

South Africa

The South African business continued to grow handsomely and recorded a growth of ~33%, aided by the acquisition of Ingwe. The organic growth during the year was 24%. Caivil and Black Chic, the two lead brands, have been growing steadily and improving their market shares in the ethnic hair care market in South Africa.

Malaysia

Marico's Malaysian business has grown at a very healthy growth rate and has responded well to the brand re-stage and the renewed thrust to distribution for Code 10. The initiatives of integrating distribution and managing the transition in manufacturing were completed as planned.

Entry into Vietnam

Marico increased its commitment to the South-east Asian market by taking up 85% equity in International Consumer Products Corporation (ICP), one of the most successful Vietnamese FMCG companies. ICP was founded in 2001, by Dr. Phan Quoc Cong and his partner. Its brands (X-Men, L'Ovite, Thuan Phat and others) have a significant presence across the personal care, beauty cosmetics and sauces/condiments categories. X-Men is a leading player in the male grooming segment in Vietnam and is the 2nd Most Trusted Personal Care brand in the country. With over 35% market share, it leads the men's shampoo category. L'Ovite, the company's premium cosmetics brand, ranks amongst the top 5 premium cosmetics brands in Vietnam. The investment was funded entirely through debt.

The ICP numbers were consolidated with the Marico Group financials for the period February 18 to March 31, 2011 and contributed ~INR 15 crore to the Group's top line for FY11.

Kaya Skin Clinic

Kaya was the first organized player in the segment of cosmetic dermatology in India, and now enjoys a large first mover advantage in the segment. During FY11, Kaya's skin solutions business achieved a turnover of INR 239 crore, recording a revenue growth of ~31% over FY10, boosted by the acquisition of Singapore-based Derma Rx in May 2010. On an overall basis, Kaya made a loss of INR 2.30 crores at PBT level.

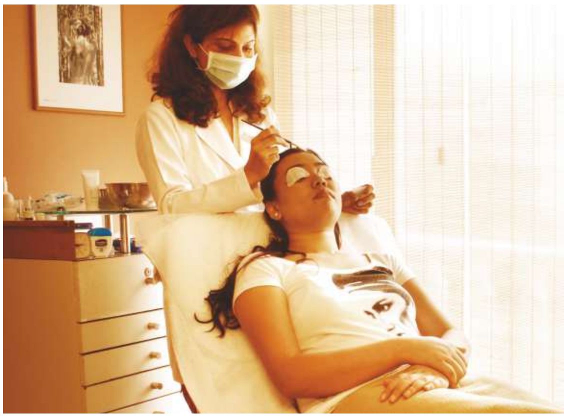
The Kaya business without Derma Rx achieved a revenue growth of ~7% over FY10. Same clinic growth during the year was 2%. The Kaya business (excluding Derma Rx) incurred a PBT loss of INR 14.1 crore. (These numbers are before considering the impact of exceptional and one time items explained in the notes to the financial statements).

While Kaya had experienced same clinic decline in revenue during H1FY11, the trend was reversed during H2FY11. It recorded a same clinic year-on-year growth of ~8% in the second half of the year.

Kaya introduced services priced at INR 990 for a single session to serve as traffic builders. These were accompanied by easy upgradable offers. They were backed by advertising on radio and press as well as robust digital and CRM plans. The change in media strategy from TV to radio and press has resulted in better utilization of resources. Kaya will continue to use consumer promotions in the future in the form of loyalty and referral offers.

Four new advanced skin care products from the Derma Rx range addressing acne and skin ageing concerns were launched. The response to these products has been encouraging. The share of products to total turnover has increased to ~17% in H2FY11 compared to ~13% earlier. This is in line with the Company's strategy to increase the share of products to about 20%-22% in the next 2 years. The Company will continue to introduce more products in India in a phased manner. Derma Rx products are in the process of being introduced in the Middle East too. The process has got delayed owing to regulatory procedural issues. It is expected that these products can be introduced in the clinics in the Middle East by Q2FY12. The Company believes that introduction of these products makes the range of products at Kaya more complete. These products will set a new standard for acne and pigmentation management in India. Higher product sales will generate more through-put from the clinics and help improve their ROCE.

Kaya now offers its technology-led cosmetic dermatological services through 103 clinics: 81 in India across 26 cities, 16 in the Middle East and 2 in Bangladesh, in addition to the 4 clinics and medispas in Singapore and Malaysia through Derma Rx.



WORLD-CLASS CLINICS. CUSTOMIZED SKINCARE SOLUTIONS. CUTTING-EDGE TECHNOLOGY. NATURALLY, OUR CUSTOMERS ARE GLOWING.

With advanced technology, customized skin care services and world-class clinics at destinations across the country and overseas, Kaya Ltd. brings radiant skin and unbounded confidence to over a million people every year - making it India's leading cosmetic dermatology chain and one of the largest in the world.

COST STRUCTURE FOR MARICO GROUP

(before exceptional and one time adjustments)

% to Sales & Services (net of excise)	FY11	FY10
Material Cost (Raw + Packaging)	51.2	47.4
Advertising & Sales Promotion (ASP)	11.0	13.2
Personnel Costs	7.3	7.3
Other Expenses	16.6	16.8
PBDIT Margins	13.9	15.3
Gross Margins (PBDIT before ASP)	24.9	28.5

Notes:

1. The above ratios are before exceptional and one time items included in the financials for the period.

2. The year witnessed steep inflation in prices of input materials. Market prices of Copra, the input for coconut oil, which accounts for ~40% of the Group's raw material cost, was ~45% higher than in FY10. Market prices of Safflower Oil were flat whereas prices of Rice Bran Oil were up by 21% compared to the previous year. The Company chose to pass on a part of the input cost increase to consumers.

3. With increased input costs and retail prices, while the company may maintain its absolute margin per unit at around the last three years' average, the higher sales realization base will reflect a lower margin in percentage terms.

4. Increases in ASP, personnel costs and other expenses have not kept pace with the 18% revenue growth leading to some decline in percentage terms. During Q4FY11, the company took a conservative approach to ASP spends in MENA. In Kaya there was a change in strategy to focus on press and digital media instead of television advertizing. In the domestic consumer products business, the phasing between quarters saw a lower spend in Q4FY11.

CAPITAL UTILIZATION

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

Ratio	FY11	FY10
Return on Capital Employed	22%	34.4%
Return on Net Worth	36.5%	41.8%
Working Capital Ratios		
• Debtors Turnover (Days)	20	18
• Inventory Turnover (Days)	61	54
• Net Working Capital Turnover (Days)	69	57
Debt: Equity	0.78	0.74
Finance Costs to Turnover (%)	1.3	1.0

*Turnover Ratios calculated on the basis of average balances

1. There has been a decline in the Group's ROCE in FY11 compared to FY10 mainly on account of the investments made in Vietnam.

2. There has been an increase in NWC level mainly due to an increase in inventory on account of inflation in input prices.

3. As of March 31, 2011 the Marico Group had a net debt of INR 500 crore (~USD 111 mio) {Gross INR 772 crore (~USD 171.5 mio)}. Of the gross debt, about INR 554 crore (~USD 123.1 mio) is denominated in foreign currency. About INR 222 crore (~USD 49.3 mio) of the foreign currency debt is repayable within a year. Other than INR 50 crore (~USD 11.1 mio) debt, the balance debt of INR 168 crore (~USD 37.3 mio) 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 or redeem investments for repayment. Marico has adequate cash flows to maintain healthy debt service coverage.

4. The Company periodically reviews and hedges the variable interest liability for long

term loans using Interest Rate Swaps.

5. The Company had decided to adopt Accounting Standard (AS) 30 in FY10 – Financial Instruments: Recognition & Measurement issued by The Institute of Chartered Accountants of India. Accordingly the net unrealized gains or losses in respect of outstanding derivative instruments and foreign currency loans at the period end which qualify for hedge accounting are reflected in the 'Hedge Reserve Account', which will get recognized in the Profit and Loss account when the underlying transaction or forecast revenue arises.

SHAREHOLDER VALUE

Pay out – distribution of profit to shareholders

Over the past few years, Marico has made acquisitions, including a majority stake in International Consumer Products (ICP), Vietnam in February 2011. The company financed the same through issue of fresh equity, borrowings from banks and internal cash generation. Marico has focused on deploying its resources in avenues which will result in maximization of shareholder value. Continuing with this policy, the Board of Directors of Marico has decided to follow a conservative dividend policy, till we are able 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 we do not find any suitable avenue to deploy funds in the near term, we will repay the debt on the balance sheet and re-look at the dividend payout ratios.

Dividend declared

At its meetings held on October 26, 2010 and May 2, 2011, the Board of Directors had declared interim dividends of 30% and 36% respectively. With this, the cumulative dividend declared for the year is 66%. This corresponds to a dividend payout ratio of 16.5% (inclusive of dividend distribution tax).

RESULTS OF OPERATIONS – AN OVERVIEW

Marico achieved a turnover of Rs. 3128 crore during FY11, a growth of 18% over FY10. The volume growth underlying this revenue growth was healthy at 12%.

Profit after tax (PAT) for FY11 was 286 crore, a growth of 24% over FY10. These results include the following items that are not strictly comparable with FY10. Each of these items is explained in detail in the Notes to the Consolidated Annual Financial Statements:

- Reversal of Excise Duty Provision of Rs. 29.4 crore made during FY10 towards contingent excise duty obligation in respect of dispatches of coconut oil in packs up to 200 ml (Please refer to Note 27, Schedule R);
- Profit on divestment of edible oil brand ‘Sweekar’ amounting to Rs. 50 crore (Please refer to Note 14 (b), Schedule R);
- Impact of change in accounting estimates relating to revenue recognition in Kaya amounting to Rs. 31.32 crore (Please refer to Note 16, Schedule R);
- Impairment Provision impact of Rs. 7.74 crore as a result of impairment testing at clinic level at Kaya Skin clinics in India (Please refer to Note 14 (d), Schedule R);
- Impairment of tangible and intangible assets relating to the business of Fiancée amounting to Rs. 22.7 crore (Please refer to Note 14(c), Schedule R) and
- Amortization of Intangible assets (brands) held by overseas subsidiaries amounting to Rs. 9.5 crore (Please refer to Note 15, Schedule R).

Also, there is an increase in depreciation by

Rs. 3.09 crore as a result of review of remaining useful life of certain assets at Kaya Skin clinics.

Similarly there were certain one-time items included in FY10 results which are not strictly comparable such as Write-off of Translation Reserve pertaining Sundari business amounting to Rs. 4.1 crore and closure costs of Kaya Life Centres amounting to Rs. 5.7 crore.

If these items were to be ignored, the Sales and PAT for the year under review would have been higher at Rs. 3157 crore, a growth of 19% over FY10, and Rs. 300 crore, a growth of 15% over FY10, respectively.

Marico has kept up its track record of quarterly growth. Q4FY11 was in Y-o-Y terms, the:

- 42nd consecutive Quarter of growth in Turnover and
- 46th consecutive Quarter of growth in Profits

Over the past 5 years, the Sales and PAT have grown at a compounded annual growth rate of 22% and 27% respectively

TOTAL INCOME

Our total income consists of the following

1. Sale of products comprising
   a. Sales from 'Consumer Products' including coconut oil, value added hair oils, premium refined edible oils, anti-lice treatments, fabric care, edible salt, functional foods, hair creams & gels, shampoos, hair straightners and other similar consumer products, by-products, and scrap sales.
   b. Sale and income from other products including skin care products sold through Skin Care Clinics under the brand Kaya and Derma Rx.

2. Income from services offered at the Skin Care Clinics under the brand Kaya and Derma Rx

3. Other Income, primarily includes profits on sale of investments, dividends, interest and miscellaneous income.

The following table shows the details of income from sales and services for FY11 and FY10

INR crore

Particulars	FY 10-11	FY 09-10
Net Sales / Income from Operations	3128.31	2660.75
Other Income	27.88	18.26
Total	3156.19	2679.01

There has been around 18% growth in Net Sales/Income from Operations on account of 17% growth in Consumer Products Business in India, 22% growth in Consumer Products Business outside India and 12% in Kaya. There was a one-off revenue adjustment in Kaya amounting to INR 31.32 crore (Please refer to Note 16, Schedule R). The growth before this one off adjustment is higher at 19%.

The underlying Volume growth in the Consumer Products Business was healthy at 12% at Group level as a result of 11% growth in Consumer Products Business in India and 19% growth in Consumer Products Business outside India.

Other income principally accounts for profit on sales of investment, interest and dividend income arising largely from investment of short term surpluses.

EXPENSES

The following table sets the expenses and certain other profit and loss account line items for the years FY11 and FY10:

INR crore

Particulars	FY 2010-11	FY 2009-10
Total Income	3156.19	2679.01
Expenditure		
Cost of Materials	1617.94	1261.60
% of Total Income	51.3%	47.1%
Employees Cost	230.37	190.12
% of Total Income	7.3%	7.1%
Advertisement and Sales Promotion	345.98	351.11
% of Total Income	11.0%	13.1%
Depreciation, Amortisation and Impairment	70.80	60.06
% of Total Income	2.2%	2.2%
Other Expenditure	524.24	482.78
% of Total Income	16.6%	18.0%
Finance Charges	39.33	25.68
% of Total Income	1.2%	1.0%
Total Expenses before exceptional items	2828.66	2371.36
% of Total Income	89.6%	88.5%
PBT before Exceptional Items	327.53	307.65
% of Total Income	10.4%	11.5%
Exceptional Items	(48.91)	(9.78)
Profit Before Tax	376.44	297.86
% of Total Income	11.9%	11.1%
Tax	84.99	64.32
Profit after tax before Minority Interest	291.45	233.54
% of Total Income	9.2%	8.7%
Minority Interest	5.01	1.87
Profit after Tax	286.44	231.67
% of Total Income	9.1%	8.6%

Cost of Materials

Cost of material includes consumption of raw material, packing material, purchase of finished goods for sale and increase or decrease in the stocks of finished goods, by-products and work in progress. There was an overall inflationary environment seen in input cost prices during FY11. As a result, the Company's material cost as a percentage to total income has increased. This is largely on account of unprecedented inflation seen in prices of Copra, an important ingredient for the Company. The market prices of copra were higher by 45% compared to the previous year. Prices of other input materials also saw an increase. Rice bran oil for instance was higher by 21%, Liquid Paraffin by 36% and HDPE by 6%. The Company maintained its thrust on volume growth and therefore chose not to pass on the entire input cost push to the consumers.

Employee Cost

Employee cost includes salaries, wages, bonus and gratuity, contribution to provident and other funds and staff welfare schemes expenses. We have an extensive process of performance management enhancement through the deployment of MBR (Management by Results), which is intended to create an environment where employees are encouraged to challenge and stretch themselves. Linked to this is a variable compensation element based on the Company's target achievement and the individual's performances against goals identified. The increase in employee costs is primarily on account of normal annual compensation revisions and increase in headcount.

Advertisement and Sales Promotion

Our advertisement and sales promotion (ASP) expenses in FY11 were slightly lower than that in FY10. In the Consumer Products Business in India there was a conscious strategy to do fewer but bigger new product launches. In addition the overall cost push in materials also led to some moderation in the ASP spends. In Kaya we have gone back to localised and more effective advertisement in Print and Radio as against TV earlier. During Q4FY11 advertising expenditure in MENA was curtailed owing to the political unrest in the region.

Depreciation, amortisation and impairment

Generally, depreciation costs increase based on the capital expenditure we incur.

Depreciation expense has increased compared to FY10 mainly on account of certain one off adjustments during FY11

- In line with the Indian Accounting Standards the Company has commenced amortisation of Brands held by some of the overseas subsidiaries. This expense however will be continued going forward (Please refer to Note 15, Schedule R).

Other Expenses

Other expenses include items such as Freight & Forwarding, Selling and Distribution, Rent and other expenses mainly fixed in nature. There is a decline seen in the other expenses as a percentage to sales mainly due to the fact that the Excise Duty Provision of Rs. 29.4 crore made during FY10 towards possible excise duty obligation in respect of dispatches of coconut oil in packs up to 200 ml was reversed in FY11 (Please refer to Note 27, Schedule R). In addition inflation in other expenses has not kept pace with the inflationary growth in top line.

Finance Charges

Financial charges include interest on loans and other financial charges. There is an increase in finance costs owing partly to an increase in the overall interest rate regime and partly on account of increased borrowings. Borrowings are higher primarily on account of the acquisitions of Derma Rx, Ingwe and shares in ICP as well as higher inventory owing to inflation in input costs.

Exceptional Items

There were some items which are exceptional in nature and hence detailed separately on the face of Profit and Loss account. These are explained in Note 14 of Schedule R of the Consolidated Financial Statements.

Tax

Taxes comprise Income Tax and Deferred Tax. There has not been any significant change in the effective tax rate for the year FY11 compared to FY10.

BALANCE SHEET

Statement of Assets and Liabilities - Consolidated Financials

INR crore

Particulars	As at March 31, 2011	As at March 31, 2010
SOURCES OF FUNDS		
Shareholders' Funds		
Share Capital	61.44	60.93
Reserves and surplus	854.05	593.03
	915.49	**653.96**
Minority Interest	21.88	12.54
Loan Funds	771.82	445.87
Total	**1709.19**	**1112.37**
APPLICATION OF FUNDS		
Goodwill on Consolidation	397.60	85.03
Fixed Assets (Net)	489.74	399.66
Investments	89.16	82.71
Deferred Tax Asset (Net)	30.11	61.63
Current Assets, Loans and Advances		
Inventories	601.13	444.81
Sundry Debtors	187.98	150.69
Cash and bank balances	213.09	111.46
Loans and Advances	206.06	190.00
	1208.27	**896.96**
Less: Current Liabilities and Provisions		
Current Liabilities	440.46	336.86
Provisions	65.23	76.76
	505.69	**413.62**
Net Current Assets	**702.58**	**483.34**
Total	**1709.19**	**1112.37**

Shareholders Funds

This comprises the paid up share capital and reserves & surplus. There has been an increase in the share capital on account of stock options exercised by the employees under the ESOP Scheme. (Note 21) to the Financial Statements provides further details of stock options issued, exercised and pending to be exercised.

Minority Interest

Minority Interest represents the share of Consolidated profits attributable to non-Marico shareholders in Marico Bangladesh Limited and International Consumer Products Corporation:

1. The Company's Bangladesh subsidiary, Marico Bangladesh Limited, had listed 10% of its equity share capital on the Dhaka Stock Exchange in September 2009 by issuing fresh shares to public in that country;

2. The Company acquired 85% stake in International Consumer Products Corporation (ICP) in Vietnam and started consolidating it with effect from February 18, 2011. The balance 15% shareholding continues to be with one of the sellers.

Loan Funds

Loan funds include borrowings which are payable after one year or more from the date of the balance sheet. These include a judicious blend of borrowings in local and foreign currency. There has been an increase in the loan funds due to various acquisitions made by the Company during the year primarily funded through debt.

Goodwill on Consolidation

Goodwill on consolidation represents the consideration paid to acquire companies in excess of their net assets.

1. In May 2010, a wholly owned subsidiary of Kaya Limited, Derma Rx International Aesthetics Pte. Ltd. acquired 100% equity stake in DRx Clinic Pte. Ltd., The DRx Medispa Pte. Ltd., DRx Investment Pte. Ltd. and DRx Aesthetics Sdn. Bhd in Singapore.

2. Further in February 2011, Marico Limited acquired 85% equity stake in International Consumer Products Corporation, Vietnam.

Fixed Assets

Fixed assets represent investments made by the Company in tangible assets such as Buildings, Plant & Machinery, Furniture & Fixtures etc. Apart from normal yearly capital expenditure, the increase is largely on account of trade marks and fixed assets of Derma Rx and ICP which were acquired during the year.

Investments

Investments comprise funds parked in short term and long term instruments like Mutual Funds. A substantial part of the investments is parked in short term instruments. There has not been any significant variation in the balances as on March 2011 compared to March 2010.

Deferred Tax Asset (DTA)

Deferred Tax Asset represents the timing differences resulting due to variations in the treatment of items as per Income Tax Act, 1961 and Indian GAAP.

The amount of deferred tax asset has come down on account of two main reasons

- The Company had adjusted in the Books of Account the value of Intangible Assets against the Capital Redemption Reserve and Securities Premium Account under the Capital Restructuring Scheme in an earlier year and hence created a DTA. As the Written Down Value of those Intangible Assets as per Taxation books is coming down the DTA is getting reversed.
- The Company has made a DTA on the excise

duty liability on coconut oil packs below 200 ml. This provision has been reversed during FY11 and hence the corresponding DTA created on this unpaid liability is also reversed.

Inventory

Inventory includes the stocks of raw material, packing material, work in process and finished goods held for sale in ordinary course of business. Inventory days have increased on account of cost push in input material which was not completely passed on to the consumers in order to focus on growing the long term consumer franchise of the company's brands. The Company has also built up stocks of finished goods to service the Q1FY12 sales plans.

Sundry Debtors

Sundry Debtors include the monies to be received from its customers against sales made to them. The industry norm for debtors in international markets is higher as compared to India. With an increase in the share of international business in the company's sales mix the debtors' days has trended upwards.

Cash and Bank balance

This include amounts lying in Cash and with the Company's bankers. There is an increase in the cash balances primarily due to increase in retained cash earnings in Marico Bangladesh Limited and Derma Rx.

Loans and Advances

Loans and advances include the amounts paid by the Company recoverable in cash or in kind. These include amounts such as security deposits, advances paid to suppliers in select cases etc. There has not been any material change in the position.

Current Liabilities

Current liabilities mainly comprise the amounts payable by the Company for the purchase of various input materials and services. Increase in current liabilities is in line with growth in the business. Further, impact of change in accounting estimates relating to revenue recognition in Kaya amounting to Rs. 31.32 crore also lead to increase in current liabilities. A part of the increase is also attributed to consolidation of overseas acquisition made by the Company.

Provisions

Provision include liabilities on account of items such as Income tax, Leave encashment, Gratuity etc. It also includes amounts that are acknowledged by the Company as Debts but not been transferred to the credit of that specific vendor. Compared to March 31, 2010, there have been two significant movements in the Provisions:

1. Reduction due to reversal of excise duty provision relating to FY10 on pack size up to 200 ml – Rs. 29.4 crore (Please refer to Note 27, Schedule R of the Consolidated Financials) and

2. Increase due to accounting of contingent consideration in respect of Derma Rx acquisition – Rs. 43.8 Crore (Please refer to Note 18, Schedule R of the Consolidated Financials).

OTHER DEVELOPMENTS

Acquisition of Derma Rx

In May 2010, Kaya Limited, Marico's wholly owned subsidiary delivering skin care solutions in India, acquired the skincare aesthetics business of the Singapore-based Derma Rx Asia Pacific Pte Ltd. (Drx AP). Derma Rx offers solutions to its customers through four clinics and medispas located in Singapore and Kuala Lumpur (Malaysia). This acquisition gives Kaya access to a range of highly efficacious skin care products, some of which have been introduced in India and are in the process of being introduced in the Middle East.

Acquisition of the brand 'Ingwe'

Marico, through its wholly owned subsidiary Marico South Africa (Pty) Ltd (MSA), acquired the brand 'Ingwe' from the South Africa-based Guideline Trading Company in August 2010. The product range comprises immuno boosters focused on the ethnic consumer in South Africa. The acquisition of Ingwe brings in a range of products that complements that of MSA's brand, Hercules.

Marico's entry into Vietnam

Marico strengthened its foot hold in South-East Asia by taking up 85% equity in International Consumer Products Corporation (ICP), one of the most successful Vietnamese FMCG companies, in February 2011. ICP was founded in 2001 by Dr. Phan Quoc Cong and his partner. Its brands (X-Men, L'Ovite, Thuan Phat and others) have a significant presence across the personal care, beauty cosmetics and sauces/condiments categories. X-Men is a leading player in the male grooming segment in Vietnam and has been rated the 2nd Most Trusted Personal Care brand in the country. With over 35% market share, it leads the men's shampoo category. L'Ovite, the company's premium cosmetics brand, ranks amongst the top 5 premium cosmetics brands in Vietnam.

Divestment of brand 'Sweekar'

Marico divested its refined sunflower oil brand 'Sweekar' to Cargill India Private Limited (Cargill) in March 2011. This is in line with the Company's focus on the wellness platform through its healthy refined edible oils and functional foods brand Saffola.

Marico Employee Stock Option Scheme 2007 and STAR

Marico has an Employee Stock Options Scheme (the Scheme) for grant of Employee Stock Options (ESOS) to certain employees. The Corporate Governance Committee ('Committee') of the Board of Directors is entrusted with the responsibility of administering the Scheme and has granted 1,13,76,300 stock options (as at March 31, 2011) comprising about 1.85% of the current paid-up equity capital of the Company. Additional information on ESOS as required by Securities and Exchange Board of India (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 is annexed and forms part of the Directors' report.

None of the Non-executive Directors (including Independent Directors) have received stock options in pursuance of the above Scheme. Likewise, no employee has been granted stock options during the year equal to or exceeding 0.5% of the issued capital (excluding outstanding warrants and conversions) at the time of grant.

Our auditors, M/s. Price Waterhouse, have certified that the Scheme has been implemented in accordance with the SEBI Guidelines and the resolution passed by the members at the Extra-Ordinary General Meeting held on November 24, 2006.

OUTLOOK

- Fundamentals in place to leverage India growth story
- New product pipeline being made robust – scalability a key objective
- Continued growth in international business, near term MENA environment uncertain
- Kaya India showing early signs of recovery

Marico will continue to focus on its long term strategic objectives, with a bias towards franchise expansion in its businesses. In coconut oils in India, we will aim to grow the market through low-unit size packs. We expect to achieve volume growth of 6% to 8% per annum in the medium term. In hair oils in India, Marico will focus on share gain through introduction of differentiated and innovative products, providing specificity to consumers, accompanied by effective communication. Successful execution of this strategy is expected to result in annual volume growth of 15% to 17% over the next 2-3 years. The Company's efforts in expanding rural reach is also expected to contribute towards franchise expansion in coconut oils and hair oils. Saffola is riding a trend in healthy living being adopted by the Indian consumer. The brand expects to continue to grow its basket of premium refined edible oil by about 15% in volume each year. In addition Marico plans to build a sizeable business in the healthy foods space by leveraging Saffola's health equity.

In the international consumer products business, Marico will focus on growing the categories where it has significant market share - coconut oil in Bangladesh and male hair grooming in MENA and Vietnam. We will complement the growth of Parachute Coconut Oil in Bangladesh with the introduction of other products. In South Africa, we will work on increasing share in key categories, and over the medium term expand our footprint to other parts of sub-Saharan Africa. In the immediate term, our approach in MENA will be cautious. However, our current penetration levels indicate positive long term potential in this market. Code 10 in Malaysia is expected to continue at a very healthy growth rate, albeit on a small base. In Vietnam, we will focus on the process of integration. The business is expected to grow in healthy double digits, though the bottom line may be modest owing to the conscious strategy of higher investments in advertising during the year.

The Kaya skin business in India is showing early signs of recovery, having posted growth at same clinic level in H2FY11. In the short term therefore, we will work on improving its revenue streams from the existing clinics in India and bring the business back on the growth track. We will continue to invest in new clinic growth through expansion in the Middle East. It has taken Kaya longer to achieve profitability than what we had earlier anticipated. The long-term attractiveness of the business, however, remains intact.

The medium to long-term outlook on all the three businesses remains positive. Marico will thus focus on strengthening the building blocks for future value creation - strong equities for its existing brands amongst its consumers, volume growths, robust new product pipelines and competitive supply chain effectiveness.

On Behalf of the Board of Directors

Harsh Mariwala
Chairman & Managing Director

Place: Mumbai
Date: May 2, 2011