MANAGEMENT DISCUSSION AND ANALYSIS

In line with international practice, Marico has been reporting consolidated results taking into account the results of its subsidiaries. This discussion therefore covers the financial results and other developments during April 05 to March 06 (FY06) in respect of Marico Consolidated - Marico Limited (ML) together with its subsidiaries Marico Bangladesh Limited (MBL), MBL Industries Limited (MBLIL), Kaya Skin Care Limited (KSCL), Marico Middle East FZE (MME) with its subsidiary Kaya Middle East FZE (KME) and ML's joint venture Sundari LLC (Sundari). The consolidated entity has been, in this discussion, referred to as "Marico" or "the Company" or "the Group".

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

INDUSTRY STRUCTURE AND DEVELOPMENT

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

The FMCG industry comprises segments such as Personal Care, Soaps and Detergents, Skin Care, Oral Care, Health and Hygiene Products, Home Care, Hair Care, Coconut Oil, Refined Edible Oils, Foods and Beverages, Dairy Products, etc. The FMCG industry is one of the largest in India, with an annual estimated turnover of Rs. 60,000 crore.

In recent times, the Indian economy has shown robust growth, with the GDP increasing by 6% to 8% every year - the second fastest growth amongst emerging economies. Overall economic growth has been accompanied by increased disposable incomes both in the urban and rural markets. A growing middle class has resulted in a sharp increase in the numbers of 'first time' users of FMCG products. The Indian consumer confidence is one of the highest in the world. This has clearly begun to benefit the FMCG sector, in which, many companies had experienced a rather sluggish growth in the few years prior to 2005.

Attitudes towards money have also been undergoing a change. Indians are more willing to take debt, and the use of credit cards is growing exponentially. Consumers however seek value for money and the challenge for companies is to ensure affordability in order to gain critical mass. Competition from regional players and the unorganized sector is ever increasing. FMCG companies must therefore find innovative ways to differentiate their product and service offerings and at the same time, reduce costs.

In recent years, the Indian rural market has acquired significance. By sheer size, it offers a huge untapped potential to all FMCG players. The existing brand choices in rural India are half of what are available in the urban areas. However, inadequate infrastructure makes the cost of accessing these markets high.

Greater governmental focus on this sector in the coming years should see a positive shift in favour of FMCG companies, given that most derive around 35% of their sales from rural areas.

In urban India, retailing has experienced a revolution over the last few years. The share of organized modern trade at present is 3% of the total FMCG sales. Although small, this is expected to grow rapidly with large corporate houses in the country entering this space. Gradually, FDI in retail is also expected to be permitted in the country, which would attract overseas retailers, to participate in one of the fastest growing consumer booms today. Modern trade will bring better shelf visibility and merchandising options for FMCG products, resulting in greater consumer interaction with products. Companies will also leverage information technology to create supply chain synergies.

Over the years, especially the last 5 years or so, owing to structural changes in the demographic profile of the Indian population, skin care as a segment has gained importance. Consumers are looking for skin care offerings, both products and services that are safe and scientific. The current structure of the skin care services industry is fragmented with local brands catering to local needs. There are very few corporate service providers. Marico's Kaya Skin Clinics attempt to fill this need gap with US FDA approved cosmetic dermatological procedures as also products that enhance the quality, look and feel of Indian skin.

The developments in the industry have set a new direction for growth for the FMCG companies. Marico has worked hard in improving its strengths in the critical competitive advantage areas of Branding, Innovation, Distribution, Cost Management and Research & Development, to deliver higher value add to its consumers. Marico's portfolio of products, has, over the years created enduring value for its consumers in consumer products as well as skin care segments. In the process, it has consolidated its presence in the market in India as well as overseas.

OPPORTUNITIES AND THREATS

The consumption potential of India, is, by itself, one of the largest FMCG opportunities. The branded FMCG consumption per capita is low as compared to the world average. Opportunities exist in various segments of the market.

At the upper end of the spectrum are aspirational categories, with very low penetration as compared to that in other emerging markets, indicating the possibility of high-paced growth. Skin care beyond fairness and male grooming products are examples. Discerning consumers are willing to pay a price for superior products and service experiences. Marico has already established itself in high-end skin care cosmetological solutions through Kaya Skin Clinics, where it remains the only significant organized player. Marico also made its foray in the male grooming segment with the launch of Parachute After Shower Cream.

Overall prosperity has begun to see a rise in the disposable income in the hands of the middle class. By virtue of the sheer numbers of this consuming segment, demand for FMCG products has seen a significant upturn. These consumers seek value - desired benefit at an affordable price. Marico has in place a process for continuously gathering and distilling new consumer insights to develop new products and product delivery forms.

In the less affluent segment, there exists the aspiration to use branded products that are functional. FMCG companies are looking at tapping households with low per capita disposal incomes. For instance, Parachute coconut oil has a 20 ml pack priced at Rs. 5 or a single use blister pack priced at just Re.1. These are expected to create conversions from unbranded usage to branded consumption.

India’s leadership in the ITES sector and the BPO boom has seen the emergence of a new consuming group - young consumers, with large disposable incomes that can be spent at their discretion. Marico is tapping this new class of consumers who are experimentative and are looking for newer products, with offerings for the youth such as Silk-n-Shine and Hair Perfect Lotion.

India is seeing an alarming increase in heart-related conditions. Deaths on account of cardio-vascular diseases in India are projected to be much higher than the world average. High fat diets and recent trends in lifestyle are contributory factors. With growing awareness amongst consumers, a large potential exists to market products and solutions that aid in living a healthy lifestyle. Saffola which enjoys a ’good for the heart’ equity, has launched a roti mix which is a functional food aimed at helping in the management of cholesterol.

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

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

Shifts in consumer habits may have an impact on the Company, and Marico has recognised the same. The Company has and will invest substantially in consumer education to ensure growth of its franchise. The Company will continue to invest in newer categories in its selected space of beauty and wellness.

RISKS AND CONCERNS

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

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

While a big rural franchise holds the key for many a FMCG player, changes in the purchasing power of the rural masses affect the overall business, as the rural incomes are closely linked to monsoons, although the linkage may be wearing off to some extent.

Indian agriculture and economy have become resilient over the years, and the dependence of Indian agriculture on monsoon has come down to some extent. However, the psychological impact of monsoon still remains at the same level as earlier. A good monsoon sets the tone for a feel good year and a bad monsoon spreads gloom. This is relevant for buying sentiment amongst consumers and to that extent, the success or failure of monsoon may affect the FMCG sector.

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

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

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

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

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 unauthorised use or disposition, that transactions are authorised, recorded and reported correctly and that operations are conducted in an efficient and cost effective manner. The key constituents of the internal control system are:

- Establishment and review of business plans
- Identification of key risks and opportunities
- Policies on operational and strategic risk management
- Clear and well defined organisation structure and limits of financial authority
- Continuous identification of areas requiring strengthening of internal controls
- Operating procedures to ensure effectiveness of business processes
- 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, finance etc. Reports of the internal auditors are regularly reviewed by the Management and corrective action initiated to strengthen the controls and enhance the effectiveness of the existing systems. Summaries of the reports are presented to the Audit Committee of the Board.

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

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 company that has built for itself a stimulating work culture that empowers people, promotes team building and encourages new ideas.

Great people resources deliver great results. The Company lays emphasis on hiring right. Its managerial talent is sourced from the country's premium technical and business schools and from amongst those with the country's premier professional qualifications. The Company believes in providing challenge and early responsibility at work that serves to keep team members enthused and motivated. Co-creation of the common values and alignment with the long-term business direction of the Company helps each individual relate his/her role and contribution to the over-arching Company objectives.

Many of the human resource programmes and initiatives in Marico are aligned to meet the business needs. The Company has been able to create a favourable work environment that motivates performance. Marico has a unique 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.

Marico's open environment fosters an exchange of ideas and views across the organization and facilitates the flow of information. Members have space for diversity of opinions notwithstanding hierarchical positions and know that their opinions count.

The Company believes in investing in people to develop and expand their capability. Marico's strategies are based, inter alia, on processes of continuous learning and improvement. Personal development plans focus upon how each individual's strengths can best be leveraged so as to help each one to deliver to his / her full potential. External training programmes and cross-functional exposure often provide the extra edge.

The Company continues to measure and act upon improving the "engagement levels" of its teams. 2006 is the year where we have concluded the 5th Gallup Q12 engagement survey. Over the years, the overall engagement scores for the Company have increased year on year. This is also reflected in the Company's performance over the years.

As on March 31, 2006, the employee strength of Marico Limited was 1075 and that of the entire Group was 1560.

Employee relations throughout the year were supportive of business performance.

MARICO GROWTH STORY

Sustained Growth

Marico's Consumer Products Business grew by 11% during FY06 as compared to the previous year. Sales for the group grew by 14% over FY05. Its focus brands portfolio in Consumer Products recorded a revenue growth of 17% during the year.

Marico has also been nurturing the skin care services business of Kaya and the skin care spa products business of Sundari. Together with these, the growth in focus brands was 20% during FY06.

During FY06, the focus brands turnover comprised 76% of the Group turnover as against 72% in FY05. A few quarters ago, the Company decided not to focus on one of its larger brands, Sweekar. Investments behind the brand have been minimal. This conscious strategy has resulted in a decline in Sweekar's revenue by about 12% in FY06 over FY05.

Domestic FMCG Business

In the domestic market, the flagship brand, Parachute Coconut Oil, continued to have a good run. Volume sales of Parachute in rigid packs in FY06 grew by 8.5%.

The focus segment of the Hair Care range (Parachute Jasmine, Shanti Badam Amla, and Hair & Care being the key elements) grew by 23% in volume and by 35% in value. Mediker, the Company's offering in the anti-lice market, grew its franchise by 20% in volume terms.

In the premium refined oils market, Saffola, the Company's second flagship, grew its franchise by 10% in volumes. Revive, operating in the fabric care segment, held its volumes with a modest growth of 2%.

International FMCG Business

During FY06, Marico's International FMCG business grew by 23% over the previous year with a turnover of Rs. 117 crore.

Parachute Hair Cream has clearly become the lead brand for Marico in the Gulf. It has established itself as the No. 2 player in UAE and has begun to make good progress in supermarkets in the Kingdom of Saudi Arabia. Parachute Coconut Oil continues to be the leader in the category. Marico's hair oils and Parachute Hamaam Zait Cream too have begun expanding their franchise in the region.

In Bangladesh, Parachute Coconut Oil continues to dominate the category with over 50% market share. It has enhanced its reach to over 3 lakh retail outlets.

During Q4 FY06, Marico Bangladesh Limited relaunched the soap brand Camelia that it had acquired earlier in the year. This is being supported by a new advertising campaign.

Marico's growing portfolio: Prototypes and New Launches

In order to generate additional sources of growth in the coming years, Marico as an FMCG company must create a healthy pipeline of new products. To identify scalable marketing and product propositions, Marico has been following a prototyping approach to test a few hypotheses in a low-cost fail-fast model before any decision to scale up is taken. The Company has thus introduced a slew of prototypes, in the overall space of beauty and wellness - these may be in contiguous categories or in new ones.

During Q2 FY06, the Company commenced its prototype of "Sparsh", in the Rs. 250 crore baby oil segment in Andhra Pradesh. Sparsh is positioned on the long-lasting goodness of nature, enriched with "Tulsi" and "Turmeric". Apart from media communication, the brand is being supported through celebrity endorsements, advertorials in the press, visibility and sampling campaigns, doctor detailing and other on-ground activation. Having met prototype action standards, Sparsh has been rolled out nationally.

During Q4 FY06 Marico entered the premium cosmetic segment with Parachute Therapie - a high-end efficacious hair fall solution. User trials have shown that hair fall reduction is visible in 45 days. The product was born out of intensive in-house company research. The active ingredient is a unique blend of proteins, vitamins, minerals and herbs and comes with the trust of a Parachute guarantee. Parachute Therapie is currently being prototyped in the city of Mumbai.

Trends in Indian lifestyle and the South Asian genetic make-up make India a potentially very large market for products aimed at assisting prevention of heart-related conditions. Saffola has long enjoyed a strong "good for the heart" equity amongst consumers. During Q4 FY06, Saffola began prototyping its first non-oil extension in functional foods. Saffola Atta Mix is a proprietary food that is completely natural and enriched with the goodness of oats, barley, soya protein and fibre. The atta mix is to be added to flour for making rotis and helps in the management of cholesterol. Saffola Atta Mix is being prototyped in Mumbai. Feedback from the prototype will be watched and analyzed over the next few months.

During Q4 FY06, the Company launched another soap prototype in West Bengal - Parachute Jasmine, a bath soap with coconut milk and the alluring fragrance of jasmine. For now, the Company intends to follow a cautious regional strategy in soaps rather than a mainline national strategy that may require disproportionate spends to gain market share.

The Company will continue to introduce new prototypes during FY07.

ACQUISITIONS

Acquisition of Camelia by Marico Bangladesh Limited

Marico Bangladesh Limited acquired the toilet soap brand Camelia from Mark and Allys Limited, another Bangladeshi personal care products company in April 2005. Camelia's brand equity owes its strength to the quality of the soap, primarily its fragrance, which has a strong recall amongst consumers.

Acquisition of Aromatic by Marico Bangladesh Limited

In early October 2005, Marico Bangladesh Limited acquired the toilet soap brand "Aromatic" from Aromatic Cosmetics Limited. Aromatic, the soap brand has an aggregate turnover of about Taka 30 crore in Bangladesh with a market share of around 5%.

The acquisition of Aromatic will now enable MBL to strengthen its presence in the soaps category that is estimated to be about Taka 600 crore. MBL enjoys a strong distribution reach of about 3 lakh outlets through Parachute. The soap brands Aromatic and Camelia can ride this network.

Acquisition of Manjal

During the first week of January 2006, Marico acquired the Rs. 9 crore herbal bath soap brand Manjal from Oriental Extractions Pvt. Ltd. The brand enjoys a strong equity in Kerala on account of its unique turmeric-based formulation that provides a superior bathing experience. Manjal has now been extended to Tamil Nadu, where the concept of applying turmeric is quite prevalent.

Acquisition of Nihar

In February 2006, Marico acquired the

brand Nihar from Hindustan Lever Limited for a consideration of Rs. 227 crore, inclusive of transaction costs.

Nihar adds about 8% points to Marico's share in the coconut oil category. During the first full year of operation in FY07, the brand is expected to deliver about Rs. 120 crore of turnover, about 10% of Marico's current revenue. (During Q4 FY06, Nihar contributed Rs. 6.7 crore to Marico's turnover.)

Marico will follow a twin brand strategy - invest behind and promote both Parachute and Nihar in the coconut oil category, and Parachute Jasmine and Nihar Perfumed Oil in the perfumed coconut oil category. Over the next few months, it plans to conduct prototypes and experiments in the market place before firming up its long-term strategy in these two product categories.

Apart from the incremental turnover and profits that this acquisition directly brings, Marico expects to derive significant synergies, as under:

- Nihar's distribution reach, particularly in Bihar and Jharkhand will give other Marico brands a larger base to ride on.
- The incremental throughput increases the turnover of Marico's distributors and their earning potential through Marico, leading to increased trade equity for Marico.
- Marico also expects to derive backroom cost advantages, given Marico's scale of operations and its high focus on coconut oil and hair oils.

At the PBDIT level, Marico will benefit, as operating margins in Nihar are higher than the current average margins of Marico. While the depreciation on the intangibles will also provide a tax shield, there would be a hit on account of depreciation charged in the books of account. As a result, in the short run, Nihar's contribution to Marico's PAT is likely to be modest.

A FEW BRAND STORIES

Parachute

Parachute continued its dominance over the branded coconut oils market. The package of initiatives including micro marketing and surround activities is paying off. Marico has launched packs at low price points in order to facilitate the conversion of loose oil users of coconut oil to Parachute and grow the market. While material costs were lower this year than in the previous year, Parachute had opted to retain its retail prices and expand margins. This has been ploughed back into investments in new products and prototypes as well as in brand building for some of the other brands in Marico's portfolio.

During FY06, volumes in Parachute's rigid packs grew by 8.5% over FY05. In the 12 months to March 06, Parachute's volume market share (including flexi packs) was 50%.

In February 2006, Marico acquired Nihar to add to its coconut oil portfolio. Together with Oil of Malabar, the Company now enjoys over 60% volume share in the Rs. 800 crore branded coconut oil market.

Saffola

Saffola, Marico's refined edible oil brand operating in the premium ROCP (Refined Oil in Consumer Packs) category is strongly positioned on the 'good for heart' platform. During the year, the brand launched its three variants with LoSorb Technology, which makes oil more stable during deep-frying. It is also shown to absorb less into fried food. This has been supported by clutter

breaking and insightful advertising on television, endorsement by celebrity chef Sanjeev Kapoor, a reality show on FM Radio - with Jaggu, a leading radio jockey, including Saffola in his weight-loss programme, in-shop and outdoor promotion.

During the year, Saffola's advertising campaign bagged the Grand Effie given by the Ad Club of Bombay for advertising effectiveness for the best advertising across categories. During FY06, the Saffola franchise comprising refined safflower oil and the two blends, Saffola Tasty Blend and Saffola Gold registered a volume growth of 10%.

Hair Oils

During the year, the Company has focused on rigid pack sales of its hair oil portfolio. Since its relaunch on the "most non-sticky" platform, Hair & Care has been witnessing increased offtakes. More recently, a new campaign to cue a combination of style and nourishment has also met with a positive market response. Its share in the non-sticky hair oils market for the 12 months to March 06 was about 15%.

Shanti Amla was relaunched in the April 06 with the added ingredient of badam. The brand has been gradually regaining lost market share. For the 12 months to March 06, its share was 11%.

In the perfumed coconut hair oils market, Marico's share was significantly bolstered with the acquisition of Nihar from Hindustan Lever Ltd. in February 2006. Meanwhile Parachute Jasmine has also been doing well with its market share in total value-added coconut oil category at 29% for FY06. Together with Nihar, Marico commands 77% of the perfumed coconut oil market (rigid packs share for the 12 months ended March 2006). During the year, Marico discontinued the marketing of Parachute Sampoorna whose performance was below expectations.

Mediker

Mediker remains the only significant player in the anti-lice shampoo and oil treatment market. The franchise grew by about 20% in volumes. Marico's R&D has developed an efficacious, all natural substitute to the chemical, permethrin, for its anti-lice brand, Mediker. This new formulation is used for both the oil and the shampoo format. After a successful prototype in Maharashtra, it has been launched nationally. The 100% natural formulation has given the brand significant potential distribution gains. As a drug license is no longer required, the Company can take Mediker to several new outlets. The brand's reach is expected to increase by over 20%. Apart from advertising support, awareness campaigns, activation programmes in small towns and school contact programmes have played their part expanding the franchise.

Parachute After Shower Cream

Parachute After Shower Cream is Marico's first foray into the men's grooming segment. The non-sticky and fragrant hair cream with coconut milk proteins to provide nourishment has been well received by consumers. The brand proposition of "Style on … Everyday" endorsed by one of India's young cricket sensations, Yuvraj Singh, brings alive the brand imagery well. The brand is being supported by communication through various media, trial generation activities and comprehensive retail visibility. During the year and within 6 months of its launch, the brand notched up a market share of over 30% in the hair cream market.

Cost Structure for the Consumer Products Business

% to Sales & Services (net of excise)	FY06	FY05
Material Cost (Raw + Packaging)	54.5	62.7
Advertising & Sales Promotion (ASP)	11.8	9.2
Personnel Costs	5.7	4.3
Depreciation	2.8	1.2
Other Expenses	14.2	14.0
Operating Costs	89.0	91.3
Net Operating Margin (PBIT)	11.0	8.7
PBDIT Margins	13.8	9.9
Gross Margins (PBDIT before ASP)	25.6	19.1

Notes:

1) Margins have been computed without including "Other Income", major components of which are lease rental Rs. 0.57 crore (previous year: Rs. 0.56 crore), profit on sale of investment Rs. 0.73 crore (previous year: Rs. 0.35 crore), exchange rate gain Rs. 0.49 crore (previous year: Nil) and insurance claims Rs. 0.23 crore (previous year: Rs. 0.17 crore), dividend income Rs. 0.56 crore (previous year: Rs. 0.44 crore), profit on sale of assets Rs. 0.48 crore (Rs. 0.03 crore).

2) The Company has invested part of the incremental margins earned into brand building ASP - both to strengthen established brands and to support new ones.

3) The increase in personnel costs to sales is on account of the annual increase in employee salaries in April 2005 and a provision for the Company's performance-based incentive scheme for its employees.

4) Depreciation is higher during FY06 on account of a change in the method of computing depreciation on plant and machinery from Straight Line Method (SLM) to Written Down Value (WDV). Consequently, there is a one time additional charge (pertaining to earlier years) of Rs. 14.0 crore.

5) The Consumer Products Business comprises operations in India (Marico Limited) and Bangladesh (Marico Bangladesh Limited, along with its subsidiary MBL Industries Limited). Skin Care Services and Global Spa Products are still evolving; hence their cost structures have not been discussed here, as these may not yet be capable of meaningful analysis and projection.

6) Previous year figures have been regrouped/restated wherever necessary.

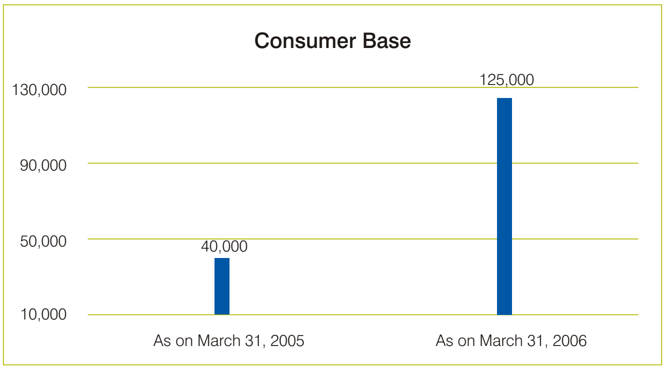
Balance Sheet for the Consumer Products Business Rs. Crore

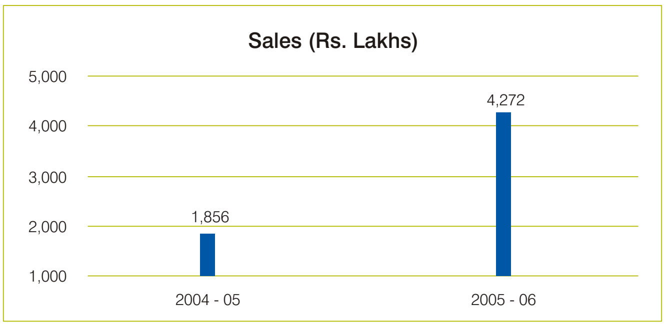
	March 31, 2006	March 31, 2005
SOURCES OF FUNDS		
Shareholders' Funds	301.6	236.1
Borrowings	238.1	55.3
Deferred Tax Liability	8.3	6.0
TOTAL	**548.0**	**297.4**
APPLICATION OF FUNDS		
Net Fixed Assets	325.0	102.3
Investments	16.0	7.1
Current Assets	324.3	252.7
Less: Current Liabilities	157.4	110.9
Net Working Capital	166.9	141.8
Operating Capital Employed	507.9	251.2
Financial Assets	40.1	46.2
TOTAL	**548.0**	**297.4**

Kaya Skin Clinic

During the course of FY06, Kaya has expanded to reach consumers in 16 cities in India through a network of 42 clinics. In addition Kaya is present through 2 clinics in Dubai and 1 in Abu Dhabi. The Kaya consumer base in India has increased to over 125,000.

The graphs given below show the growth in Kaya's performance in India.





In the cities where it is present, the brand has built for itself a good salience and a very positive imagery. This is being currently reinforced with brand building efforts focussed around the brand Kaya without specific reference to a service.

Kaya markets a range of products to complement the services it offers. Earlier this year, these began being manufactured in India, which has helped the same high quality of product being made available at more affordable prices. The share of product sales in Kaya revenues has reached about 10%. Kaya products are retailed through Kaya Skin Clinics. Growth in product sales helps in enhancement of revenues from the clinics, as they are not subject to room / machine capacity constraints.

Kaya has prototyped and plans to scale up new services created and tested by Kaya Skin Advisory, comprising a panel of its dermatologists. Kaya Advanced Facial, a one-hour protocol with unique features including no-reuse 100% disposable elements, has received a very positive feedback. Another service that has scaled up is the Kaya Age-Control non-surgical solution. It adopts a holistic approach that delivers visible results in helping the skin to look younger and healthier. Both these have received a positive consumer response and are being extended to more clinics.

During FY06, Kaya more than doubled its turnover to Rs. 48 crore. It had an operating PBIT of Rs. (12.7) crore. Based on the now reasonable experience with the Kaya business model, Marico has been reviewing the depreciation policy relating to some of the Kaya assets and accordingly making changes. This has caused the depreciation numbers during FY06 to be significantly higher as compared to FY05.

Kaya now plans to consolidate upon its clinics opened in India. High importance is attached to ensuring quality of service delivered and uniformity of experience across the entire chain of clinics. No clinics are therefore likely to be opened over the next six months or so.

The Company expects Kaya to be PBT positive during the year FY07.

Sundari

In the spa skin care products business, Sundari has been focussing on Tier 1 spas in the United States and Asia Pacific countries. The brand now has a presence in a number of trophy accounts such as Canyon Ranch (Tucson and Lenox), Hyatt Stillwater Spa (Bonita Springs), Spa Atlantic Starwood Luxury Collection (Fort Lauderdale) and JW Marriott Starr Pass (Tucson) in the USA. In Asia, Sundari has added Raffles, Four Seasons, The Oberoi and Westin to its client list. Besides USA and Asia, Sundari is being launched in Western Europe.

The Company is also working on expanding its range of product offerings. During the year, Asia Spa Magazine nominated Sundari for the ‘Spa Products of the Year’ award. Readers of American Spa Magazine have nominated Sundari amongst the final list of Favourite Spa Products.

However, cycle times from lead generation to bagging an order are long. The business is therefore taking longer than earlier anticipated to reach critical mass. The Company expects the business to remain in the investment phase over FY07.

CAPITAL UTILIZATION

Over the years, Marico has been maintaining its Return on Operating Capital Employed (ROCE) at levels above 30%. Given here is a snapshot of various capital efficiency ratios for Marico:

Ratio	FY06	FY05
Return on Operating Capital Employed		
• Marico Group	31%	38%
• Consumer Products	34%	43%
Return on Net Worth (Group)	40%	38%
Working Capital Ratios (Group)		
• Debtors Turnover (Days)	14	15
• Inventory Turnover (Days)	40	40
• Net Working Capital Turnover (Days)	41	42
Economic Value Added (Group)		
• Rs. Crore	51	46
• % to Capital Employed	13	19
Debt: Equity (Group)	0.92	0.30
Finance Costs to Turnover (%) (Group)	0.4%	0.2%

The Capital Employed as of March 31, 2006 is higher owing largely to the addition of the intangible asset on account of the acquisition of Nihar. This has also impacted the ROCE of the Consumer Products Business as the brand was acquired in February 2006 and has had only a few weeks of operation during the financial year.

SHAREHOLDER VALUE RELATED POLICIES AND PRACTICES

Payout - Distribution of profits to shareholders

Marico's distribution policy, which aims at sharing Marico's prosperity with its shareholders, through a formal earmarking/disbursement of profits to shareholders, has, in the recent past, been characterised by the following:

- Payout increasing from year to year and to the extent feasible
- Relentless regular dividend every quarter reflecting the confidence to sustain continuous distribution

Marico's cash profits have continued to grow and provide a logical support to its practice of declaring a dividend every quarter. The endeavor will be to keep a high payout around current levels of 47%, subject to financial requirements of its core business.

Dividend declared

At its meetings held in July, October, December 2005 and April 2006, the Board of Directors of Marico Limited, had declared interim dividends of 12%, 14%, 16% and 20% respectively on the equity base of Rs. 58 crore.

Raising long-term funds / balance sheet restructuring

The acquisition of the brand Nihar has been currently funded by a short-term loan. The Company would like to maintain its debt: equity ratio within prudent limits and also retain the flexibility to act speedily on future acquisition opportunities. The Board of Directors has therefore recommended raising long-term funds through issue of equity and/or preference shares on a rights and/or private placement basis, subject to the approval of the Company's shareholders. The aggregate issue size and pricing will be determined closer to the issue.

OUTLOOK

During FY06, Marico's revenues grew by 14% over the pervious year to reach Rs. 1144 crore. In achieving a CAGR of 13% topline growth over the last 5 years, Marico's strategies have been built around the pivot of sustainable profitable growth. Consequently, its PAT has recorded a CAGR of 15% during the same period.

Over the next 3 to 5 years, the Company aims to sharply change its trajectory of growth.

- In categories where Marico holds a leadership position, it will focus on growing the category. This would include the coconut oil market both in India and in Bangladesh as well as the niche premium refined oil segment through Saffola.
- In the hair oils segment, where Marico is number 2, the focus will be on increasing market shares. Improved consumer insights through frequent consumer interactions and innovativeness in delivering products and solutions to meet consumer needs would

ensure this.

- In the recent past, the Company has introduced a number of prototypes. It would continue to invest in new products, creating a pipeline of new product ideas through prototypes in India and abroad in its chosen areas of Beauty and Wellness.
- While continuing to maintain the growth momentum in the current territories of its International Business, the Company will explore expansion into new geographies as well, through organic and inorganic means.
- Kaya has established a presence in 16 cities in India and 2 in the Gulf. Over the next few years, Marico will look at taking Kaya to more locations.
- During FY06, the Group made four acquisitions, two in India and two in Bangladesh. Marico will continue to be open to other acquisitions Indian and Global - in the space of Beauty and Wellness.

While targeting a robust topline growth, Marico will continue to realign its portfolio in favour of focus brands. This increases the challenge of growing at the pace the Company has set for itself as a target.

Growth in the focussed portfolio would help in bringing sustainability to the Company's margin profile. FY06 witnessed a robust growth in Marico's operating margins. This was contributed to, in large measure, by significantly higher margins in Parachute. The Company will therefore have to sustain this for a few more quarters with an appropriate pricing strategy to suit the competitive landscape. As a market leader, the brand would also play its role of market expansion. The new products that Marico prototypes and rolls out are expected to earn higher margins eventually. In the near term however, gross profits from the established brands would have to be ploughed back into supporting and nurturing these. For Kaya, the Company will target a breakeven on the brand in FY07 although it will be some time before it recovers its accumulated losses. The Sundari business is not expected to break even in the immediate future.

With the scope of Marico's international business increasing, the Company is faced with the challenge of managing its foreign exchange exposure. This is particularly true of the business in Bangladesh, where the Taka continues to depreciate against the US Dollar.

In recent years, the Company has had a low effective tax rate, close to the Minimum Alternate Tax (MAT) rate. As the 80IB tax benefit period gets exhausted at some of its plants, the effective tax rate for Marico is expected to rise gradually over the next 3 to 4 years. However, the acquisition of Nihar provides Marico with a tax break. With this and other measures that the Company may put in place, it is expected that increases in the effective tax rate can be contained.

Marico has availed of a short-term loan facility to fund a large part of the acquisition. Over the next few months, the Company plans to review its financing pattern and may substitute the short-term loan with a mix of debt and equity so as to keep the leverage within prudent levels (less than 1.0). While doing so, the Company may explore the opportunity of restructuring its balance sheet so that it can continue with its policy of not maintaining goodwill / intangible assets on its books of account.

Marico would thus continue its journey on the path of sustainable profitable growth built on a foundation of strong brands, an unshakeable consumer franchise and a committed management.

On behalf of the Board of Directors

Harsh Mariwala
Chairman & Managing Director

Place: Mumbai Date: April 20, 2006