

MANAGEMENT DISCUSSION AND ANALYSIS

In line with international practice, Marico has been reporting consolidated results taking into account the result of its subsidiaries. This discussion therefore covers the financial results and other developments 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 MEL Consumer Care SAE with its subsidiary Pyramids for Modern Industries, and ML's joint venture Sundari LLC (Sundari) during April 2006 to March 2007 (FY07). The consolidated entity has been referred to as "Marico" or "the Company" or "the 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 AND DEVELOPMENT

The Indian FMCG industry is characterized by a well-established distribution network, intense competition between the organized and unorganized sector and low operation costs. The FMCG market is set to increase from US\$ 11.6 billion in 2003 to US\$ 33.4 billion in 2015. (Source: www.ibef.org). Penetration level as well as per capita consumption in most product categories like skin care and shampoo in India is low, indicating a large untapped market potential. The burgeoning

Indian population particularly the middle class and the rural segments, present an opportunity to the manufacturers of branded products.

CONSTITUENT SEGMENTS

The main segments of the FMCG sector are:

- Personal Care: This segment comprises oral care, hair care, skin care, cosmetics and toiletries, deodorants, perfumes, paper products and others.
- Household Care: The household care segment comprises household cleaners, toilet cleaners, air fresheners, insecticides, mosquito repellents, metal polish and others.
- Packaged Food and Beverages: The products that comprise this segment are health beverages, soft drinks, staples, cereals, bakery products, snack foods, dairy products and others.

CHIEF CHARACTERISTICS OF THE INDUSTRY

a) Importance of Brand Building

Creation of a strong brand is essential for FMCG companies and considerable money and effort is expended in the development of brands. A thorough understanding of the needs of the consumer is key to creating and offering differentiated products. FMCG players must develop insights into the needs of their customers. This forms the basis of FMCG strategy, including design of the product, its delivery format, pricing and communication. Some brands enjoy a first mover advantage, having built strong consumer loyalty with consistent quality over long periods of time. Others have created brand value through innovative product offerings with superior functional attributes supported by strong advertising and sales promotion campaigns.

The price the consumer is willing to pay is a function of the perceived value of physical attributes such as the product, its packaging and its availability as well as the image built around the brand. The initial period in the life of a brand is

likely to require higher expenditures on advertising and sales promotion as the brand owner attempts to create a positioning for the brand in the mind of the consumer. In the first year of launch, advertising and sales promotion costs can be as high as 50% to 100% of revenue. As brands get stronger, they are able to command a better price and reduce the proportion of advertising support to maintenance levels, thereby enhancing margins and profitability. A portfolio with some strong brands enables a FMCG company to invest in new brands and thus create a pipeline of new brands and products for the future.

In the face of intensifying competition, continuous efforts at brand building through advertising and sales promotion and other surround activities are important for FMCG players. This helps in maintaining and gaining market share.

Brand building, positioning and brand extensions typically play a key role in the success of a product in the FMCG sector. Occasionally, products are re-launched by repositioning the brands to re-start the life cycle of a product and extract better value from it.

b) Cost Factors

Materials cost and Marketing & Advertising are the primary costs incurred by a company in the FMCG sector. In certain segments, companies that have a large scale of operations are able to negotiate lower input costs of raw materials. In packing material, the industry has seen several innovations to provide superior and more convenient packaging at lower packing material costs.

Given the importance of branding in the industry, advertising and sale promotion expenses comprise a significant element of cost. Sustained investment over a period of time is required to create an association in the mind of the consumer.

Companies with a focus on building strong consumer franchises and creating a demand for their brands would usually spend a larger proportion of the advertising and sales promotion costs on above-the-line advertising. A more short-term measure would be to spend a larger proportion on sales promotion and channel discounts to create a sales push.

By and large, the industry is characterized by relatively low manufacturing costs. Manufacturing processes are typically simple. Investments in manufacturing assets are also relatively low, yielding a high turnover to investment ratio. Moreover, as the highest value addition comes in the process of branding, companies can avail themselves of third party manufacturing facilities, thus reducing their investments in fixed assets further. In the recent past however, FMCG companies have availed themselves of certain excise and income tax concessions by setting up their own manufacturing facilities in designated tax-free zones.

c) Extensive Distribution Networks

Delivering products to the point of consumer demand is a key determinant of success in the FMCG industry. The strength of the distribution network helps a brand to grow volumes through increased penetration levels. Given the size of the Indian sub-continent, any national player must establish a wide distribution network. The key constituents within the distribution chain are the company's C&F agents, distributors, wholesalers and retailers. These market intermediaries ensure widespread presence for the brand so that the products are available to consumers where they want them.

d) Large Unorganized Sector

Factors like low entry barriers in terms of low capital investment, fiscal incentives from government and low brand awareness in small

towns and in rural India have led to the mushrooming of a strong unorganized sector in India, offering localized brands as well as products in a loose unbranded form. Typically products from unorganized players are priced lower to entice consumers and also offer higher margins to stockists and intermediaries in order to provide a sales push.

Additionally, organized sector players face revenue losses due to fake and counterfeit products produced by the unorganized sector players. Some estimates suggest that the FMCG sector may be losing around 10% to 30% of its business to fake and counterfeit goods.

e) New Retail Formats

Of late, the Indian FMCG industry has witnessed the emergence of newer forms of distribution through the advent of modes such as hypermarkets/supermarkets/large-scale retail malls which offer a wide range of products at discounted rates; and through direct selling and multi-level marketing which typically involves sales through agents instead of the usual bulk/small-scale retailer. While such newer distribution channels have an impact on the conventional retail margins, they would have the advantage of allowing greater penetration of products and could lead to an overall increase in revenues for the sector.

FMCG MARKET IN BANGLADESH

Bangladesh, India's neighbour in the East, has similar consumer habits as that in India. A population of around 147 million provides a large concentration of consumers within its borders. As a developing economy, with a large part of the population with modest incomes, the country provides an opportunity of value for money for FMCG products. In recent years, the GDP growth rate has been at about 6%, which is expected to translate into greater disposable income in the hands of the consuming masses.

FMCG MARKET IN EGYPT

A process of economic liberalisation, inflow of foreign capital and investments in infrastructure are seeing a healthy trend in the economy in Egypt. The GDP is growing at a rate of about 5.5%. The improving economic environment is reflected in a more buoyant stock market. As income levels rise, consumption of FMCG products is expected to show an increasing trend. Egypt has a population of about 77 million, but most of this is concentrated in a few cities in the Nile Delta and along the banks of the river Nile. This makes distribution in the country relatively easy. The market for FMCG products is segmented into premium imported brands, high-end brands from MNCs based in Egypt, and mass market local brands. Each brand finds its value position in one of these segments.

OPPORTUNITIES AND THREATS

a) Economic Growth

In recent times, the Indian economy has shown robust growth. The broad thrust of the reforms process continues and growth in several sectors has been high. At 6% to 8% of GDP, the Indian economy is expected to be one of the fastest amongst emerging economies. 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. During the financial year 2004-2005, the sector experienced a growth of about 6%. The overall economic growth has been accompanied by increased disposable incomes both in the urban and rural markets.

b) Burgeoning Middle Class

India 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. Attitudes towards money have also been undergoing a change. Indians are becoming more willing to take on debt.

The use of credit cards is growing exponentially, leading to “consumerism”. Consumers however seek value for money and the challenge for companies is to ensure affordability in order to gain critical mass. Also, competition from regional players and the unorganized sector is ever increasing. FMCG companies must therefore find innovative ways to differentiate their product offerings, and at the same time, to reduce cost.

brands. Companies will have to invest in establishing their brands and in some cases even educate consumers on product features.

c) Large Untapped Rural Market

Despite the Indian rural market constituting more than half the demand in the Indian FMCG market, the sheer size of the Indian rural markets still offers a large untapped growth potential for FMCG companies. In terms of brand choices, rural India has access to only about half the branded products that are available to the urban consumer. However, despite the alluring prospect of a large untapped market, a variety of factors have posed difficulties in harnessing this market such as inadequate infrastructure facilities including roads and power, a strong unorganized sector, heavy dependence on external factors such as monsoons, a low per capita disposable income and seasonal consumption linked to harvests, festivals and similar events. However with the Government’s push to improve rural infrastructure, the potential of these markets that can be tapped by the FMCG sector may improve in the future.

d) Retail Expansion

Retailing has experienced a revolution over the last few years. On the one hand, there are chains which are focussed on greater affordability delivered through squeezing efficiencies from the supply chain. The value that consumers are being offered through a discount as compared to a neighbourhood store is significant and the future will see the expansion of this concept. On the other hand, we are observing the emergence of the large modern retail format. Whilst this is not significant as a percentage of FMCG sales today, this share will increase manifold, as has happened elsewhere in the world. Gradually, foreign direct investment in retail is expected to be permitted, which would attract overseas retailers to participate in one of the fastest growing consumer markets today. FMCG

One out of 8 people reading this ad is already contributing to our bottom-line.

Marico sells over 7 crore consumer packs to over 13 crore consumers every month. Which means, one out of every 8 Indians is a Marico consumer. Our brands enjoy a leadership position in each of their categories. And we've built a powerful franchise of loyal consumers across 24 countries. What drives our successes? An extraordinary way of thinking we call uncommon sense.

AUDITED FINANCIAL RESULTS - MARICO GROUP

	FY '06 Rs. Crore	FY '05 Rs. Crore	Growth %
Turnover	1,144	1,007	14
Profit After Tax	87	70	24
EPS (for Marico Ltd.) (Rs.)	17	13	34
Dividend - Rs. Per Share	6.20	5.35	16



All this has opened up several opportunities and challenges for FMCG companies. At the upper end of the spectrum are aspirational categories with very low penetration as compared to other emerging markets, indicating the possibility of high paced growth. Colour cosmetics, premium skin care and male grooming products are a few examples. Discerning consumers are willing to pay a higher price for superior products. These categories may continue to see a plethora of launches including the introduction of imported

players would have to upgrade their skills in merchandizing and shelf management as the open formats allow more interaction between the consumer and the products. This provides an opportunity for new brands / products to be picked up by the experimental consumer. Companies can also leverage information technology to create supply chain synergies.

e) Working Women

There are an increasing number of women managing their homes as well as their work. They are willing to pay a premium for products that provide convenience. Packaged foods should continue to witness increased demand in the coming years. FMCG players would however have to develop innovative products that suit the Indian palate. The branded snacks category has seen fast paced growth in the recent past. The trend towards living a healthy lifestyle, taking to various forms of exercise, be it mere walking or going to a gym, has also led to less guilt associated with occasional indulgence. The branded snacks category will leverage this together with the possibility of introducing healthy snack products without compromising taste.

f) Emergence of Young Working Class

India's leadership in the ITES sector and the BPO boom has given rise to large numbers of young consumers, who typically live with their families and have large disposable incomes that can be spent at their discretion. These young consumers are experimental and willing to try new products. Capturing insights into their needs and synthesizing these into actionable strategies and final product formats is important for FMCG players. This may lead to the launch of many youth products over the next few years.

g) Branded Solutions Sector

The rising disposable income level in India has also seen the emergence of lifestyle solution

offerings. Brands of gymnasias, spas and health clinics are becoming established in large cities as well as resort locations. Consumers are willing to pay significant premiums for efficacious solutions and better service levels. Apart from using personal grooming products, consumers are also using services for their hair care and skin care needs. Advances in the area of cosmetology have made it possible to leverage technology and medical science to offer solutions to address health based grooming needs. The industry is still in its nascent stage in India and is poised for rapid growth.

h) Favourable demographic mix

With the demographic mix getting more younger and more working women significantly changing the socio-economic behaviour, the proportion of consumer spend on lifestyle and premium goods has increased manifold. 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.

i) Growing awareness about maintaining a healthy lifestyle

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.

The overall possible increase in consumption provides a large opportunity for FMCG companies. The task of winning over consumers by drawing them to a particular brand and retaining them however remains challenging. Constant interaction

with consumers and glean specific insights that convert into products and product delivery is a key ingredient to successfully tapping this opportunity. Cutting through the confusion of advertisements will require communication to be that much more distinctive. The companies in the FMCG sector that will achieve success in the future are likely to be those that focus on meeting the consumer's stated and unstated needs, and at the same time, are able to communicate effectively.

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.

RISKS AND CONCERNS

The retail environment is highly competitive, both in India and in international markets. There are several strategies adopted by companies to increase market shares through advertising, pricing, channel discounts, quality, service, multi location operations, new product introductions and distribution reach, among others.

In order to protect existing market share or capture market share in this highly competitive environment, an increased expenditure in advertising, promotions is needed and is fraught with inherent risks. In addition, there may be business risks as a result of competing for customers with a number of multinational manufacturers and marketers, some of which are larger and have substantially greater resources.

They may therefore have the ability to spend more aggressively on advertising and marketing and have more flexibility to respond to changing business and economic conditions.

Increasing competitive pressure may also impact the capacity to command a pricing premium in respective market segments. This rise in competition or a significant increase in the input costs may affect business and financial performance.

Introduction of new products carries risks, as well as the possibility of unexpected consequences, which may include non-acceptance of the products by the consumers, non-achievement of anticipated sales targets on account of failure of marketing strategy to reach a predefined market segment, etc. New product initiatives may also experience cost overruns due to investments exceeding expectations or cannibalization of sales in existing products.

FMCG companies have identified inorganic growth as one of the avenues for growth. They may make acquisitions and enter into strategic relationships in the future as part of their strategy in India and overseas. However, it might be difficult to identify or conclude appropriate or viable acquisitions in a timely manner. Further, the acquisitions may not necessarily contribute to profitability in the short run and may divert management attention or require the company to assume a high level of debt or contingent liabilities. In addition, they may experience difficulty in integrating operations and harmonizing cultures leading to a non-realisation of anticipated synergies or efficiencies from such acquisitions.

A part of our revenues are earned in currencies such as US Dollars, Bangladeshi Taka, UAE Dirham and Egyptian Pound. Any expansion into new geographies and undertaking of new

projects also exposes us to additional foreign currency risks associated with such diversification. We also import some of our input materials into India in foreign currencies including US Dollars and Australian Dollars. While we may undertake appropriate foreign exchange hedging from time to time, any significant fluctuations in these currencies can have an adverse impact on our financial performance.

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 overarching Company objectives.

Many of the Company 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 be best 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. FY07 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, 2007, the employee strength of Marico Limited was 1190 and that of the entire Group was 1840.

Employee relations throughout the year were supportive of business performance.

MARICO GROWTH STORY

Sustained Growth

The financial year 2006-07 (FY07) was one of high growth at Marico. As compared to a compounded growth rate of about 13% during the period from FY02 to FY06, Marico achieved a turnover growth of 36% during the year, taking its revenue to Rs 1557 crore. While 14% of this growth was contributed to by acquisitions made by the company, organic growth was 22%. The company saw significant franchise expansion and thus 20% out of this 22% resulted from volume led growth.

Marico's focussed efforts towards sustainable profitable growth continued to bear fruit, with the turnover growth being accompanied by a growth of 30% in Profit After Tax (PAT). Marico's PAT exceeded Rs. 100 crore for the first time and stood at Rs. 113 crore.

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 39% during FY07. During FY07, the focus brands turnover comprised 79% of the Group turnover as against 78% in FY06.

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 grew by 12% in FY07.

The focus segment of the Hair Care range (Parachute Jasmine, Shanti Badam Amla, and Hair & Care being the key elements, excluding Nihar) grew by 21% in volume and by 33% in value.

In the Premium Refined Oils market, Saffola, the Company's second flagship, grew its franchise by 18% in volumes.

International FMCG Business

During FY07, Marico's International FMCG business, excluding Egypt, grew by 41% over the previous year with a turnover of Rs. 165 crore. Parachute Hair Cream has clearly become the lead brand for Marico in the Gulf. It has established itself as a strong player in UAE and has begun to make good progress in supermarkets in the Kingdom of Saudi Arabia.

In Bangladesh, Parachute Coconut Oil continues to dominate the category and increase its market share to over 60%. It has enhanced its reach to over 3 lakh retail outlets. Innovative distribution initiatives such as tie-ups with NGOs have helped increase the reach of Parachute and the soap brands. Aromatic soap has been relaunched with a new advertising campaign and is expected to improve its market share.

As part of its strategy to expand into new markets, Marico entered Egypt with the acquisition of Fiancée in September 2006. A second acquisition, that of HairCode, was concluded in December 2006 to augment its presence in the post-wash hair care market in Egypt. The two brands give Marico a leadership position of over 60% of the Rs. 170 crore hair creams and gels market in the country. The second acquisition allows the company to cover a much wider range of consumer preferences in the hair cream and hair gel market. Apart from providing synergies in the supply chain, it also helps us in leveraging the resources deployed in the country optimally. Operations in Egypt contributed Rs. 28 crore of turnover during the year, taking the total growth over FY06 in International Business to 65%. Marico's international FMCG business recorded a turnover of Rs. 193 crore during FY07.



The process of integrating the Egyptian acquisitions into Marico is progressing smoothly. In the short run, the Company would focus upon gaining insights about the Egyptian consumers and markets and build upon the business in Egypt. It could explore increasing exports from Egypt into neighbouring countries and introducing products from India subsequently.



HOW DID WE CORNER 23% OF THE HAIR CREAM MARKET IN THE UAE?
 We got women to try a man's product.


While hair creams the world over are targeted at men, our understanding of the Arab consumer led us to an altogether different conclusion: women want hair creams too!

The hair cream market in the Middle East, we discovered, was Rs. 90 crore. The largest after shampoo and cosmetics. So how would Parachute Hair Cream - a hitherto unknown brand - make a dent in the franchise owned by Bystander and Suna? We found a way: market Parachute Hair Cream to the Arab woman who has always believed in the nourishment of coconut. By presenting Parachute Hair Cream as a post-wash offering, we were able to offer her all the goodness of coconut oil - in a format she was more comfortable using.


With this, we were able to open up a whole new market for Parachute Hair Cream. The result: within 42 months of launching Parachute Hair Cream we had cornered 23% of the hair cream market in the UAE - surprising even our great competitors. They've got aghast: uncommon thinking yields uncommon results.

UNAUDITED FINANCIAL RESULTS - MARICO GROUP			
	Quarter ended 31.12.2005 Rs. in Crore	Quarter ended 31.12.2004 Rs. in Crore	Growth %
Turnover	304	268	17
Profit After Tax	22	18	24
Economic Value Added	15	12	21
Interest Disposed (%)	16	14	-
Annualized EPS (for Marico Ltd.)	15.2	12.1	26

Parachute Coconut Oil continues to be the leader in the category. During the fourth quarter, the flagship brand won the Outstanding Marketing Achievement Award (Silver) and Best Brand Extension Award (Gold) at the prestigious Gulf Marketing Review (GMR) Awards 2006 - a testimony to Marico's journey and strategy in the region.



The correct way to make an international acquisition.



The Marico way.

Common sense says: If you acquire a brand in a foreign market, absorb the acquisition into the system, understand the market, learn from it, and then expand further. We did quite the reverse: Barely 2 months after we'd acquired our first hair care brand in Egypt, France, we were buying out another - HairCode.

Why?


We reasoned: the management time and bandwidth required to run 30% of the market (France) was the same as that for 50% - our cumulative market share after acquiring an additional brand (HairCode). The supply chain was the same, and we would be optimising our resources across the country.

It is thanks to our robust growth and performance in existing businesses, that we continue to make uncommon investments like these. Acquiring brands that provide sustainable profitable growth and enhanced shareholder value.

The results are uncommon, to say the least.

UNAUDITED FINANCIAL RESULTS - MARICO GROUP

	Nine Months ended 31.12.2006 Rs. in Crores	Nine Months ended 31.12.2005 Rs. in Crores	Growth %
Turnover	1,160	846	37
Profit After Tax	95	63	35
Return/Dividend (%)	42.5	42	
EPS (for Marico Ltd) (Rs.) (Annualised)	19.92	16.51	21



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 prototypes in the overall space of beauty and wellness, in contiguous categories or in new ones. Some of these prototypes got scaled up during the year.

Saffola enjoys substantial equity for its perceived health benefits; especially on the 'good for heart' platform. Saffola introduced its first Functional Foods extension-Cholesterol Management Atta Mix in Feb 2006 in the Mumbai market. It 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. It leverages an existing habit of mixing grains for the flour used to make rotis with. Given the widespread issues of heart



health in India, lifestyle management products such as this are expected to have a large potential. In January 2007, **Saffola Atta Mix**, was scaled up to metro towns and other key Saffola markets.

Parachute Therapie - a 45-day hair fall solution commenced prototyping in Mumbai in Feb 2006. After a successful prototype in Mumbai, the brand was rolled out to the top 27 cities in the country in October 2006. Advertisements highlighted the problem of hair-fall and then built credibility through testimonial campaigns. That it is a natural formulation is also being leveraged. Hoardings, press and magazine advertising are supplementing the television campaign.

During Q1FY07, the youth product, **Parachute Advanced Hair Perfect** was added to the pipeline of prototypes. A daily leave-in moisturiser with coconut milk proteins and aloe vera, it helps remove dryness and makes hair shiny-soft. Pro-Vitamin B5 helps to keep hair healthy. Having successfully met action standards in Andhra Pradesh, it was launched in southern and western parts of the country during Q4FY07.



In Q4FY07, the Company commenced a prototype of **Revive Liquid Stiffener**, which dissolves evenly in water and delivers patch-free starching of both coloured and white clothes. As with Revive powdered starch, it provides the ease and convenience of cold-water starching.

Marico launched hair gels in India under the brand **Parachute Advanced After Shower** in December 2006. This is the latest addition to the range of new products launched by the Company. Targeted at young style-conscious men, the product comes loaded with aqua limon moisturisers and coconut proteins. This launch followed the successful launch of a range of

hair gels branded **Go Get Noticed Gel** in the UAE during Q2FY07.

The Company will continue to introduce new prototypes in order to create new growth engines for the future.

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 coconut oil users to Parachute and grow the branded market.



Parachute has maintained its retail prices since August 2004. In a declining input price scenario, the brand's ability to hold retail prices has enabled it to expand gross margins. A part of these incremental margins have been ploughed back into the business through advertising expenditure in Parachute, as well as new brands in Marico's portfolio. During Q4FY07, input prices have increased by about 8% over the same period in the previous year. The Company may therefore consider an increase in the retail prices of Parachute during FY08. The timing of the increase would however depend on a multitude of factors.

During FY07, volumes in Parachute rigid packs grew by 12% over FY06. In the 12 months to March 07, Parachute's volume market share (including flexi packs) was 48%.

In February 2006, Marico acquired Nihar to add to its coconut oil portfolio. Together with Oil of Malabar, the Company now enjoys over 55% volume share in the Rs. 1,100 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 and health' platform. The brand dominates the refined safflower oil and blended oils with safflower category. While it occupies a niche super premium position above other premium refined oils, the brand nevertheless has a large potential for growth given the increased incidence of heart related ailments in the country and growing awareness and health consciousness.



The strong equity that Saffola enjoys enables it to take a thought leadership position. The brand advocates proactive lifestyle management. Saffola is associated with World Heart Day and encourages people to "Walk". A new television advertising campaign 'Babu Samjho Ishare' serves as a 'wake up' call, highlighting the need to shift to a healthier lifestyle. Saffola was voted the Most Trusted Brand in the cooking oil category by Reader's Digest for the second year in succession.

The high quality of Saffola's advertising was recognized at the Effie Awards in 2006 when it won the Silver. Saffola also won the Gold last year. During FY07, the Saffola franchise comprising refined Safflower oil and the two blends, Saffola Tasty Blend and Saffola Gold, registered a volume growth of 18%.

Hair Oils

The Company's basket of hair oils showed strong growth during the year. As in the past, the Company has focussed on rigid pack sales of its hair oil portfolio. Marico's hair oils in rigid packs grew 21% in volume (excluding Nihar) over the previous year.

In the perfumed coconut oil category,

Parachute Jasmine has been doing well with its market share in rigid packs at 31% (12 months to March 2007). Together with Nihar, Marico now commands 85% of the perfumed coconut oil market (12 months to March 2007).



The performance of Shanti Badam Amla has not been up to expectations. On a year to date basis, the growth was 3%. Shanti Badam Amla's market share in the Amla oil category was 10% (12 months to March 2007).

Marico's Hair & Care continued to perform well in the market place. During FY07, the brand registered a volume growth of 21%. Its share in the NSHO (Non-Sticky Hair Oils) market for the 12 months to March 2007 was 18%.

Post Wash Hair Care

Marico is present in the post-wash hair care segment through Marico's Silk-n-Shine, a post-wash conditioner and Parachute After Shower hair cream. Recently, Marico launched Parachute After Shower hair gel in order to garner greater value from the consumers' spends on post-wash grooming. With these, Marico has established a presence in the newer age hair care formats popular amongst the youth.



Marico had rolled out a range of baby care products comprising baby oil, a baby bathing bar and a baby cream under the brand Sparsh. The brand has not performed as well as expected. The company has therefore decided to re-think its marketing mix.

Modern Trade and Marico

Marico's business portfolio is well balanced between Modern Trade and other retail. Marico's

presence in modern trade is likely to grow manifold in some categories with the entry of organized retailers such as Reliance Retail, Tesco, and Walmart and the major expansion plans of chains like Big Bazaar, Spencers, Foodworld and Subhiksha. This will put some pressure on internal margins as these chains provide a great opportunity for driving business growths and are hence quite demanding. However, strong brands will have their own pull and the balance of power may not necessarily be one sided. Moreover, this medium also provides opportunities of cost saving in supply chain / distribution through disintermediation and in packaging costs. The open format stores of Modern Trade also provide an opportunity for 'consumer interaction' with the product. This helps some of our new products such as Parachute Therapie and Saffola Atta Mix where we would like the consumer to read descriptions on the packs.

As of now, Modern Trade accounts for about 4% of Marico's turnover.

Rural Sales

Marico's distribution network is serviced by a large number of distributors and super-distributors. The distributors service retail outlets in urban towns. Super-distributors, on the other hand, are mandated to service the hinterland through stockists. Marico does not have a very strong direct access to the rural heartland of India. Apart from Parachute (an urban and rural brand), the Company's portfolio is by and large urban-centric. About 25% of its sales come through the super-distributor channel. Given the higher costs of direct rural reach, the Company may not pursue aggressive rural expansion, as it does not possess a sufficiently large basket of brands amenable for rural sales. Marico's focus in recent years has been to shift to more value-added products, which have a demand in the urban towns. Moreover, urban India itself has large concentrations of people with

low incomes who can be serviced with value for money products, which might otherwise have a demand in rural India.

Kaya Skin Clinic

Kaya Skin Clinic now reaches its customers through 43 clinics in India and 5 in the Middle East. The Kaya consumer base has increased to over 200,000. 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



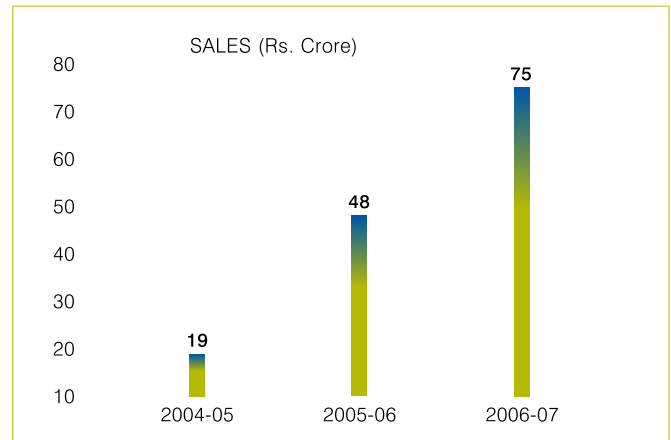
with brand building efforts focussed around the brand Kaya without specific reference to a service. In order to drive increased footfalls to its clinics, Kaya had

commenced the use of television advertising in September 2006. The campaign promises radiant flawless skin as opposed to a solution to a problem, thus attempting to broaden Kaya's audience appeal.

During the year, Kaya has focussed on improving the capacity utilization in existing clinics. Projects were taken up to improve cycle time in laser services and to reduce no-shows. With this, the Company expects that the utilization can be improved. The Company also focussed on quality standardization, training and enhancement of customer services during the year. A tie-up with Singapore Quality Center (Singapore Airlines) helped train staff at Kaya on a 'Customer First' mindset.

Kaya's focus on high levels of customer service and their satisfaction has earned it the Reid & Taylor Awards for Retail Excellence in the Beauty and Health category for the second year in a row. Kaya also won the Star Retailer Award, The Consumer Way, by Franchisee India Holdings, adjudged by KSA Technopak, in the Health & Beauty category.

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



Kaya markets a range of products to complement the services it offers. The share of product sales in Kaya revenues has reached about 14%. 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.

During the year, Kaya prototyped hair services and products in Bangalore. A consumer with hair concerns receives holistic solutions to address these, starting with 'hairscription' with one of Kaya's in-house dermatologists. One of the solutions offered is a Hair Loss Prevention Programme that includes use of hair loss prevention products together with oral medication and dietary and grooming advice. The other is an 'Intensive Hair Root Therapy'. A first of its kind in India, it involves essential nutrients being delivered directly to the root of the hair by Kaya's skilled dermatologists in a minimally invasive solution for advanced hair loss prevention. The concept was well received by the consumers and is being extended to more clinics.

During the year, two new products were introduced, each complementing an existing service, Kaya Pimple-Free Cream to help control and prevent occurrence of pimples and Kaya

Post-Laser Cream to help the natural healing process of the skin following laser hair reduction.

During FY07, Kaya's turnover grew 57% to reach Rs. 75 crore. The skin care solutions business of Kaya Skin Care Ltd. broke even during FY07 with a marginal profit before tax.

Having focussed on enhancing service quality and capacity utilization in India during FY07, Kaya plans to open about 15 more clinics both in India and in the Gulf during FY08.

remain in the investment phase over FY08.

COST STRUCTURE FOR MARICO GROUP

% to Sales & Services (net of excise)	FY07	FY06
Material Cost (Raw + Packaging)	51.6	52.6
Advertising & Sales Promotion (ASP)	13.6	12.6
Personnel Costs	5.8	6.8
Depreciation	3.4	3.9
Other Expenses	16.1	16.2
Operating Costs	90.6	92.1
Net Operating Margin (PBIT)	9.4	7.9
PBDIT Margins	12.8	11.8
Gross Margins (PBDIT before ASP)	26.4	24.4

Notes:

1. Margins have been computed after excluding the following exceptional / one-time items

- ASP writeback of Rs. 4.9 crore (previous year: Rs. 4.8 crore)
- Incentive writeback of Rs. 9.1 crore (previous year: Rs. Nil)
- Write back of earlier years' provision of miscellaneous expenses no longer required Rs. Nil (previous year : Rs. 4.5 crore)

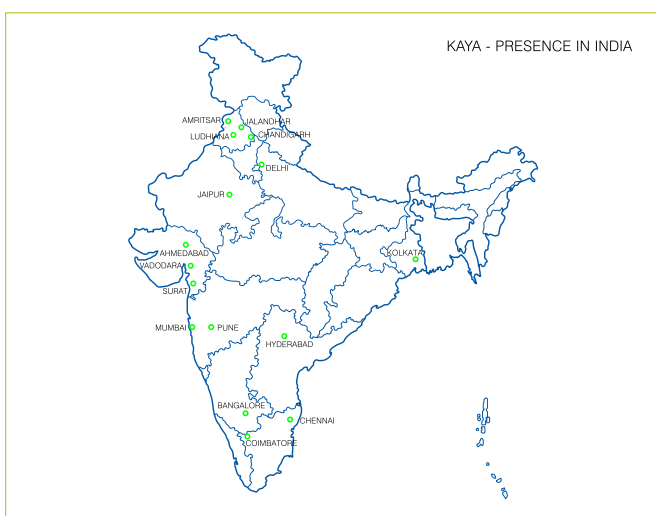
2. Previous period / year figures have been regrouped / restated wherever necessary.

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:

Ratio	FY07	FY06
Return on Capital Employed (%)		
• Marico Group	35.8	25.8
Return on Net Worth (Group) (%)	49.8	36.3
Working Capital Ratios (Group)		
• Debtors Turnover (Days)	14	16
• Inventory Turnover (Days)	42	40
• Net Working Capital Turnover (Days)	26	38
Debt: Equity (Group)	1.08	0.64
Finance Costs to Turnover (Group) (%)	1.3	0.4

The above ratios have been computed taking into account the adjustment of intangibles against special reserves explained in the note below. Marico's Debt-Equity Ratio has increased as a



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 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 is present at spas in Raffles, Four Seasons, The Oberoi and Westin. Besides USA and Asia, Sundari is being launched in Western Europe. 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



result of borrowings to part finance the recent acquisitions it has made.

Adjustment of Intangible Assets Against Special Reserves

During the period from January 2006, Marico Limited has acquired Intangible Assets relating to the brands 'Manjal', 'Nihar', 'Fiancée', and 'HairCode'.

Benefits from these Intangible Assets are expected to accrue only over a period. To the extent these assets are carried forward on the Company's balance sheet, they are classified under the head 'Intangible Assets' and the balance under the head 'Intangible Assets' as of February 2007 was Rs. 448 crore.

At the Extra-Ordinary General Meeting held on February 8, 2007, the shareholders approved a scheme of financial restructuring (duly sanctioned by the Hon'ble High Court of Judicature at Bombay) wherein the above-mentioned Intangible Assets would be adjusted against Special Reserves comprising Securities Premium Account and the Capital Redemption Reserve Account. The shareholders have approved the application / utilization of the Securities Premium Account to the maximum extent of Rs. 148.5 crore and / or the Capital Redemption Reserve Account to the maximum extent of Rs. 180.0 crore, for adjustment against these Intangible Assets net of deferred tax. Accordingly, the Company has adjusted the carrying amount of intangible assets amounting to Rs. 309 crore, net of deferred tax adjustment of Rs. 139 crore.

This is similar to the restructuring which the company had carried out in the Financial Year ended March 31, 2003. The benefits sought through the restructuring are the following:

a) Streamlining of the financial structure through elimination of intangible assets except to the extent of the balance relevant for deferred tax.

b) A much leaner balance sheet, with consequent favourable impact on financials, especially on items and ratios relating to capital employed and post-depreciation returns.

c) Uniform treatment in the books of account and management account to all intangible assets whether home grown or acquired, through a practice of eliminating intangible assets as previously mentioned.

The restructuring will have no impact on the tangible net worth and tangible Book Value of the Company's shares, even though the apparent net worth and apparent book value stand reduced.

Sub-Division Of Nominal Value Of Equity Shares

Marico has sub-divided the nominal value of each equity share of the company from Rs. 10 into ten equity shares of nominal value Re. 1 each with effect from February 21, 2007, to bring in additional interest from retail investors and contribute towards enhancement in the liquidity in the Marico scrip on the Stock Exchanges.

The average daily traded volume of the Marico scrip on BSE and NSE went up from around 0.47 lakh during the period January 02, 2007 to February 20, 2007 (pre sub-division) to more than 7.5 lakhs during the period February 21, 2007 to March 30, 2007 (post sub-division) in the nominal value of the shares.

SHAREHOLDER VALUE RELATED POLICIES & 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 past, been characterized by the following:

- Payout increasing from year to year.
- Relentless regular dividend every quarter reflecting the confidence to sustain continuous

distribution

During 2005-06, Marico acquired 4 brands, 2 in India (Nihar and Manjal) and 2 in Bangladesh (Camelia and Aromatic). During 2006-07, Marico concluded two more acquisitions in Egypt (those of Fiancée and HairCode). The cumulative investment has aggregated about Rs. 500 crore. These acquisitions have been funded partly by internal cash generations, partly by the QIP issue of Rs. 151.4 crore and partly by borrowed funds.

As part of its growth agenda, Marico would continue to explore new acquisition opportunities. These would call for additional funding.

Given Marico's appetite for funds and the need to keep the capital-gearing ratio at reasonable levels, it is necessary to conserve its financial resources and deploy the operating profits back in business. The Company thus intends to be more conservative in the quantum of dividend payout in the near future. With a very healthy Return on Net Worth in excess of 30%, the surplus deployed back in business would generate returns in excess of the opportunities that may otherwise be available to shareholders.

Dividend declared

At its meetings held in July, October, December 2006, and March 2007, the Board of Directors of Marico Limited had declared interim dividend of 13.5%, 15%, 17% and 20%, respectively. This constituted a payout of 39% (inclusive of dividend distribution tax).

Raising Long Term Funds

Marico has funded its recent acquisitions through internal accruals and short-term borrowings. In December 2006, Marico raised Rs. 151.4 crore by issuing 29 lac equity shares on a private placement basis through the Qualified Institutional Placement (QIP) route. The placement

was made at Rs. 522 per share at a slight premium to the SEBI determined floor price of Rs. 518 per share. The equity share capital of Marico Limited now stands enhanced at Rs. 60.9 crore from Rs. 58.0 crore. This has provided the company with the elbowroom to raise further debt as may be required to finance future acquisitions.

Our Chief Financial Officer was doing an excellent job. We moved him out.

So he could move in as Chief of HR & Strategy. Just as our Chief of Supply Chain took over Finance & IT and our HR Chief moved to set up our new venture, Haps.

Most companies encourage top performers to only keep at what they do best. Marico does quite the contrary: we move them to new turfs so they can leverage their strengths, pursue their passions and realize their full potential.

Why? We believe, to accelerate growth, you need fertile minds that bring fresh insights and perspectives to the table. And what better way than a free flow of talent across disciplines, to spur cross-functional thinking.

With more and more opportunities emerging, we're constantly evolving and reinventing ourselves to gear up for further growth. Our results speak for themselves.

	Year ended 31.03.2007 Rs. in Crore	Year ended 31.03.2006 Rs. in Crore	Growth %
Turnover	1,557	1,144	35
Profit Before Tax	150	98	53
EPS (for Marico Ltd) (Rs)**	1.94	1.70	14



Organisation Restructuring

As part of its growth strategy, Marico decided to put an organisational structure in place that would facilitate growth. This envisages a CEO for each of its business divisions and to bring all line functions in a business under a single chain of command. The business units will be supported by specialist functions like finance, human resources and technology. The three SBUs of Consumer Products Business, International Business (including Sundari) and Kaya Solutions Business would be headed by CEOs, Saugata Gupta, Vijay Subramaniam and Rakesh Pandey respectively. Dr. Vilas Shirhatti, Milind Sarwate and Vinod Kamath will head the functional units of Technology, HR & Strategy and Finance & IT respectively. These changes are aimed at leveraging each of the member's strengths while they pursue their passions. The Company expects that this reorganisation will give each business a bigger thrust and focus, to enable rapid growth and provide the right platform for functional support for growth.

OUTLOOK

During FY07, Marico stepped up the pace of growth with revenues growing by 36% over the previous year to reach Rs. 1557 crore. In achieving a CAGR of 19% 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 19% during the same period.

Over the next 3 to 5 years, the Company aims to continue to grow rapidly.

- 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 4 in the Gulf. Over the next few years, Marico would look at taking Kaya to more locations.

- During the last two years, the Group made six acquisitions, two each in India, Bangladesh and Egypt. 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. FY07 witnessed a robust growth in Marico's operating margins. This was contributed to, in large measure, by significantly higher margins in Parachute. 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.

With the scope of Marico's international business increasing, the Company is faced with the challenge of managing its foreign exchange exposure.

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 over the next 3 to 4 years.

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: May 18, 2007