

MANAGEMENT DISCUSSION AND ANALYSIS

In line with the requirements of the Listing Agreement with the Bombay Stock Exchange and National Stock Exchange, your Company has been reporting consolidated results - taking into account the results of its subsidiaries. This Discussion therefore covers the financial results and other developments during April '07 - March '08 in respect of Marico Consolidated comprising - **Domestic Consumer Products Business** under Marico Limited (Marico) in India, **International Consumer Products Business** comprising exports from Marico and the operations of its overseas subsidiaries and **Hair Care and Skin Care Solutions Business of Kaya** in India and overseas and that of Sundari LLC overseas. The consolidated entity has been referred to as 'Marico' or 'Group' or 'Your Group' in this Discussion.

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

INDUSTRY STRUCTURE AND DEVELOPMENT

India's fast moving consumer goods (FMCG) sector is the fourth largest sector in the economy. Its principal constituents are foods, personal care, fabric care and household products. The total FMCG market is in excess of US\$ 17.36 billion and is set to treble from US\$ 11.6 billion in 2003 to US\$ 33.4 billion in 2015.

The industry is characterized by a large unorganized sector, low penetration levels, well-established distribution network, low operating cost and lower per capita consumption.

Most products are manufactured by simple manufacturing processes that require fairly low capital investments. This has made the proliferation of localized brands and products being offered in loose form possible in small towns and rural India where brand awareness is low.

Brand building and product differentiation hence play a pivotal role in the success of a product in the FMCG sector. Consumer insighting and innovation assume great importance. Where innovation is low, smaller players are able to offer similar products at reasonable prices, making cost management another key to successful performance in the sector.

While the penetration of some product categories is high, there are several product segments in which the consumer spends as a proportion of disposable income appears very low when compared to other emerging Asian economies. Improvement in incomes is likely to steadily drive increased consumption in packaged foods, personal care and household products.

Most large FMCG companies have established nation wide distribution networks comprising company's C&F agents, distributors, wholesalers and retailers. These intermediaries ensure widespread presence for the brand so that products are available to consumers where they want them. The influx of the modern retail formats (organized retail) in the country is likely to catalyze acceleration of growth in FMCG categories where consumer interaction with products at the point of purchase is reasonably high. Penetration of the modern retail formats is still low at under 5%. However, this is expected to increase steadily over the next few years.

OPPORTUNITIES AND THREATS

Economic Growth and rise in Disposable Income

The Indian consumer remains one of the most upbeat globally. Indians are currently amongst the

most optimistic about their job prospects and personal finances. This opens attractive avenues for industries planning to tap the Indian consumer market.

The per capita income in India has nearly doubled in a short span of four years to just under US\$ 800 in 2006-07 (from around US\$ 450 in 2002-03). The Indian working class is getting richer and the income pyramid is getting heavier at the top. Corporate salaries in India are increasing at a rate faster than in most parts of the world. With rising income levels, there is a decline in the propensity to save. Moreover, the attitude towards debt and leverage is undergoing a change. Consumers are exhibiting a greater willingness to spend using credit. It is expected that the surge in consumer spending along with the changes in consumer tastes and low penetration levels of the organized sector in several products is likely to ensure high growth rates across a range of FMCG categories.

Rise of the Urban Indian Middle Class

India is getting urbanized at a faster rate than the rest of the world and, by 2030, 40.7 per cent of the country's population will be living in urban areas, according to a report by the United Nations Population Fund (UNFPA). This provides the opportunity of a large market concentrated in India's urban centers.

Rising disposable incomes are leading to a change in mindset towards indulgence and "consumerism". Increased affordability is fuelling uptrading in FMCG products from unbranded and loose to branded and further to premium aspirational products.

The new Indian consumer is a savvy shopper. He is educated, knows his brands and is ready to spend more on premium lifestyle products and entertainment. In an attempt to push up their profit margins and to cash in on higher disposable incomes and retailing opportunities on offer, thanks

to organized retail stores, several FMCG companies have aimed new launches at the urban, affluent consumer in the recent past. He is dreaming big and going all out to translate his aspirations into reality, even if it means overspending and using credit. All this has combined to make pricing a less important factor in the decision to purchase goods. Economists attribute the trend to the process of evolution brought about by global competition, proliferation of choices and growing disposable incomes in the hands of young Indians.

The Rural Opportunity

The Indian rural market with its vast size and demand base offers great opportunities to companies. Two-thirds of Indian consumers live in rural areas and almost half of the national income is generated here. It is only natural that rural markets form an important part of the total market in India.

Rural markets have however been typically characterized by inadequate infrastructure facilities, low per capita disposable income and seasonal consumption linked to dependence on monsoon, harvests, festivals, etc. The government's recent thrust on the agri sector through focus on infrastructure development and on employment generation is expected to lead to a rise in rural income levels. Stable growth in agriculture and increase in the value of farmland on the back of the boom in infrastructure such as SEZ (Special Economic Zones) has seen a rise in rural wealth. This is likely to lead to increased demand for FMCG products.

Favourable Demographic Mix

The Demographic structure of the Indian population sets up many opportunities for the FMCG sector. The median age of the Indian population is under 25 years. Today, India's youth not just has greater spending power but is also far more open to consumption than the earlier generation. With better education and greater

financial independence, women become a key consumer segment. An increasing number of women are entering the work force. This segment today is far more discerning and also willing to pay a premium for quality & convenience.

Such segments will have unique needs that FMCG players can access to either revitalize their businesses or to create new ones. There would be plenty of opportunities to go beyond providing basic products to delivering solutions & experiences to consumers. Some categories such as packaged foods and branded snacks have already begun responding to these trends.

FMCG players would however have to innovate to access these opportunities and develop offerings that are better designed to address the needs of these segments.

Growing Awareness through exposure to Education and Media

Higher literacy levels with exposure to media have led to a general increase in the health and hygiene awareness among the masses, driving the demand of packaged products. India is also witnessing 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. Consumers are increasingly taking to solutions that deliver healthy lifestyle, and companies in the FMCG sector are responding to this enhanced consumer demand.

Branded Solutions Sector

The rising disposable income level in India has also seen the emergence of lifestyle solutions offerings. Brands of gymnasias, spas and health clinics are establishing themselves 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.

RISKS & CONCERNS

Competition

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, significant expenditure in advertising and promotions is needed and is fraught with inherent risks. In addition, competitors may follow an aggressive advertising and promotions strategy. Increasing competitive pressure may also impact the capacity to command a pricing premium in some market segments.

Successes in product launches

The new product success rate in the FMCG industry is modest. Introduction of new products may face non-acceptance 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 over runs due to investments exceeding expectations or cannibalization of sales in existing products.

Input Costs

Over the last 18 months or so, we have witnessed a sharp rise in food grain and vegetable oil prices. A rising demand supply mismatch has

been caused in good measure by rising per-capita incomes, rising calorie intake and increasing diversion of grain usage to bio-fuels.

India is the third largest consumer of edible oils (after China and the EU) and currently imports about 40% of its requirement. Domestic prices remain susceptible to international price trends. Increasing diversion of soya oil and palm oil to bio-fuels and strengthening demand from China and India have resulted in tight supply conditions. In a bid to contain high inflation in the domestic market, the government recently cut import duties on most forms of vegetable oil to nil. Global price hikes are however expected to keep the prices high.

THE RISING DISPOSABLE INCOME LEVEL IN INDIA HAS ALSO SEEN THE EMERGENCE OF LIFESTYLE SOLUTIONS OFFERINGS. BRANDS OF GYMNASIA, SPAS AND HEALTH CLINICS ARE ESTABLISHING THEMSELVES IN LARGE CITIES.

The prices of crude oil and crude oil derivatives have also been on the rise. In recent months, prices have remained above US\$100/barrel and are trending higher.

High commodity prices are likely to see inflationary pressures on FMCG products in the near future. Brands with equity will find it easier to pass on price increases to their loyal consumers.

Interest Costs

Even with the worst of the recent global crises behind us, the cost of money is likely to remain high. Banks are trying to recapitalize and at the same time shed bad assets. Financing costs are higher and new money harder to come by.

Inorganic Growth

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, Egyptian Pound and South African Rand. 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.

FMCG market in Bangladesh

Bangladesh, India's neighbour in the East, has similar consumer habits as that in India. A population of around 150 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 for value for money FMCG products. In recent years, the GDP growth rate has been at 5% to 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 6% to 7%. As income levels rise, consumption of FMCG products is expected to show an increasing trend. Egypt has a population of about 82 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.

FMCG market in the Middle East

The GCC market for consumer goods has been rapidly expanding. This booming market is the eclectic mix of local consumers and its large expatriate population belonging to various nationalities. The continually rising crude oil prices are adding to this buoyancy with growths on many fronts including consumer spending. Privatization has resulted in large inflow of foreign direct investment, with a positive impact across sectors including consumer goods. Marketers of consumer goods from around the world are finding the GCC market one of the most lucrative.

FMCG market in South Africa

South Africa has been witnessing developments which are expected to impact the economy positively. Its population has grown by 18% and household income has doubled since 1994. The country's GDP has recorded a growth rate of 4.2 % and is expected to show sustained growth. A process of liberalization ensuring equitable participation has led to empowerment of the weaker sections of the population, leading to a growth in product categories aimed at them. With increased demand for metals and commodities, the country's mining and exploration industry is witnessing a boom. Investments in

infrastructure for the World Cup Soccer to be held in 2010 in South Africa are also expected to have a positive impact on the country's economic growth and drive consumption.

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 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

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create an environment of challenge and stretch. It is also linked to a variable element of performance-based compensation.

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.

Marico continues to measure and act upon improving the "engagement levels" of its teams. Impact planning sessions were conducted for 54 teams across Marico. Each team identified specific action plans to build engagement at their workplace.

An acronym for Marico Values was designed and institutionalized in Marico across Business /

Functions and Geographies. The new Acronym is:

Think **C**onsumer **TO BE BIG** as:

- C** Consumer Centric
- T** Transparency & Openness
- O** Opportunity Seeking
- B** Bias for Action
- E** Excellence
- B** Boundarylessness
- I** Innovation
- G** Global Outlook

Member Assistance Program was launched in April 2007 in association with 1to1help.net, a counseling service run by a team of qualified and experienced counselors. Member Assistance Program is a service wherein Mariconians and their immediate family members can avail of various services like counselling face to face, telephone and online website articles and self assessment Tests free of cost and in complete anonymity.

As on March 31, 2008, the employee strength of the Marico Limited was 1,195 and that of the entire Group was 2,211.

Employee relations throughout the year were supportive of business performance.

The company's focus on Human Resource has also been recognized externally:

- 3 top Awards instituted by CNBC-TV18, U21 Global and Watson Wyatt Worldwide, in the following categories: India's Employer of Choice for 2007, Award for HR Excellence & Award for Best Employer in the Consumer Products and Healthcare Sector.
- NDTV Profit - Business Leadership Award, FMCG Personal Hygiene Category (July 2007).
- The Pink Slip Awards in 3 categories - Sales & Marketing, Best Campaign of the year and Best Employer Branding of the year.
- Harsh C Mariwala, awarded "CEO with HR Orientation" at the Global Excellence HR Awards by Asia Pacific HRM Congress.

CORPORATE SOCIAL RESPONSIBILITY

"A good company delivers excellent products and services, and a great company does all that and strives to make the world a better place."

- William Ford Jr., Chairman, Ford Motor Co.

Corporate Social Responsibility (CSR) to Marico is an expression of being a responsible citizen. Marico defines it as all roles played by it in the course of discharging its responsibility to all the constituencies from which the organisation draws strength for conducting its business. CSR is thus community membership and leadership.

Marico's CSR is based on interdependence and it believes in the need for an efficient business eco-system, where business and the rest of the society co-exist with respectful interdependence.

The various constituencies targetted and reached out for CSR are:

- The neighborhoods of all Marico locations

Under this initiative Marico at various office and factory locations in India and overseas promotes education, sports, art, culture and supports welfare and relief operations.

- Marico Innovation Foundation

Spheres or processes which if strengthened enable business to prosper and uplift the status of the whole society. Setting up of the Marico Innovation Foundation reflects on Marico's belief in innovation as a process. The Foundation's objective is to fuel innovation in India. Initiatives undertaken by the Foundation are:

- Research in the areas of cutting-edge innovations in the Business and Social Sectors
- A unique partnership between top Indian Business Schools and the corporate world in Applied Innovation
- Innovation For India Awards to reward Business and Social Innovation

MARICO GROWTH STORY

Marico turned in a revenue of Rs. 1,907 crore during FY08. At 22%, it was another year of healthy growth over the previous year. This comprised 17% organic growth accompanied by 5% inorganic growth. All its businesses, those of consumer products in India, international business and Kaya skin solutions contributed to the overall growth.

Together with this topline increase, the bottom-

THE COMPANY HAS DEMONSTRATED STEADY GROWTH ON BOTH THE TOPLINE AND BOTTOMLINE. OVER THE LAST 5 YEARS, THEY GREW AT A CAGR OF 21% AND 30% RESPECTIVELY.

line recorded a growth of 50%. Profit After Tax (PAT) during the year was at Rs. 169 crore as against Rs. 113 crore in FY07. This PAT for FY08 includes certain extraordinary items (exchange gain on loan repayment Rs.10.6 crore, an additional charge on account of accelerated depreciation Rs. 4.3 crore and profit on sale of the Sil business Rs.10.6 crore). Had it not been for these items, the PAT would have been Rs. 155 crore, a growth of 27% over FY07 (extraordinary items excluded from the comparable figure in the previous year).

Q4FY08, in Y-o-Y growth terms, was the:

- 30th consecutive quarter of growth in turnover, and
- 34th consecutive quarter of growth in profits

The company has demonstrated steady growth on both the topline and bottomline. Over the last 5 years, they grew at a CAGR of 21% and 30% respectively.

Focus on Growth

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. The company intends to introduce new offerings to its consumers through prototype launches at regular intervals. Some of the products that the company has prototyped during the year are discussed below:

Maha Thanda

Marico's hair oil basket in India includes Parachute Advanced coconut oil, Parachute Jasmine and Nihar perfumed coconut oils, Hair and Care and Shanti Badam Amla. During Q4FY08, Marico marked an entry into the fast growing cooling oil market with a view to plug this gap in its hair oil portfolio. Maha Thanda is an Ayurvedic hair oil with extracts of several herbs and can be used for a cooling head massage that helps reduce stress, soothe headaches and enable good sleep. The national market for the category is estimated to be about Rs 400 crore with a growth of over 20% during the last year. Maha Thanda is being prototyped in Bihar and is endorsed by the Bhojpuri celebrity Ravi Kishan.



Parachute Advanced Starz

In December 2007, the company began prototyping the Parachute Advanced Starz range of hair care products for kids. This comprises a coconut based non-sticky hair oil, a gentle shampoo and a nourishing cream gel. The cream gel introduces a new format with the cream providing the goodness of coconut, keeping hair free from damage while the styling gel allows an instant cool and sporty hair-do. Parachute Advanced Starz hopes to capitalize upon a gap in the hair care for kids market in India today. The response hitherto has been encouraging.



Saffola Diabetes Management Atta Mix

Saffola enjoys substantial equity for its perceived health benefits, especially on the good for heart platform. Given the widespread issues of heart health in India, significant potential exists for the introduction of lifestyle management products. While the functional foods concept is still in its nascent stages in India, the brand hopes to play a leadership role in creating this habit amongst health conscious consumers.



The company had introduced Saffola Cholesterol Management last year. During FY08, it commenced the prototype of Saffola Diabetics in Delhi and the National Capital Region. In order to leverage the current health and lifestyle trend in India, the company plans to build a portfolio of functional food products.

Geographic expansion - Entry into the South African ethnic hair care and health care market.

During Q3FY08, Marico made an entry into the South African ethnic hair care and health care market through the acquisition of the consumer division of Enaleni Pharmaceuticals Limited.

Kaya Expansion

Kaya skincare services were made available to its customers at 18 new clinics during FY08. Kaya Skin Clinic now has a presence through 65 clinics of which 56 are in 19 cities across India and 9 service its customer in the Middle East.

During the year, Kaya also began offering weight management solutions at 3 centers under the brand Kaya Life.

Consumer Products Business - India:

In the consumer products business, the flagship brand Parachute Coconut Oil grew by 10%

in volume over the previous financial year. The focus segment of the hair-care range (Parachute Jasmine, Parachute Advansed, Shanti Badam Amla, Nihar Naturals and Hair & Care being the key elements) grew by 16% in volume. In the Premium Refined Oils market, Saffola, the company's second flagship, grew by 22% in volume during the year.

A few Brand Stories

Parachute & Nihar

Over the last few years, Marico has focused on a consistent strategy of growing the coconut oil market by encouraging conversion from loose oil to branded oil. At the same time Parachute has also worked on increasing its market share in pockets where the scope to do so is higher than in its strongholds, through various micro-marketing and distribution expansion initiatives.

During the year, Parachute coconut oil in rigid packs recorded a volume growth of 11% over the previous financial year. In July 2007, retail prices of the brand were increased by 3%, in anticipation of some inflation in input prices. Though input costs did not increase as expected during the major part of 2007, Parachute continued to show good volume growth and has maintained its market share.



Parachute's market share for the 12 months to March '08 was at 48% in volume terms.

Given the brand's strong equity amongst its consumers, the company expects to be able to pass on any increases in input prices and maintain its margins per unit volume. The competitive scenario in the category remains by and large unchanged. While there have been a few entrants, their impact has not been very significant. The company is keeping a watch on the progress of these brands.



Nihar coconut oil grew at a modest rate of 4% during the year. The annual growth appears low as the growth in the first half was depressed on account of pipeline filling during the previous year, the period immediately after Marico acquired the brand.

Marico commands a 56% share of the coconut oil category in India with its three brands Parachute, Nihar and Oil of Malabar.

Saffola

The brand continues to leverage the growing awareness about heart health in India. Saffola has been actively promoting health consciousness and positioning itself on the “preventive” platform. The Saffola refined edible oil franchise grew by 22% in volume over FY07, led by higher growths in Saffola Gold.



Prices of most edible oils have seen a significant increase in recent times, caused by a shift in the demand-supply equation with some edible oils being used in bio-fuels. The steep increase in input prices has necessitated retail price increases during the year. Saffola recorded a very healthy volume growth, these price increases notwithstanding. Continued advertising and sales promotion support that reinforces the equity of the brand is paying dividends.

The “Saffola World Heart day” campaign won a Bronze at the first-ever Asia Pacific Effie Awards at Singapore. With this, Saffola has emerged as one of the most awarded brands for effective advertising across the region by winning 5 Effie’s over the last 3 years.

Hair Oils

The Hair Oils category has been experiencing healthy growth. Marico’s hair oils in rigid packs, the

focussed part of its hair oil basket, grew 16% in volume over the previous year. The company used promotional offers and micro marketing initiatives to drive volumes.

The “Gorgeous Hamesha” campaign of Parachute Advanced endorsed by film personality Deepika Padukone has been received well. This together with the “One hour Champi” campaign from Parachute Advanced is expected to encourage increased usage of the brand both pre-wash and post wash. Parachute Advanced also introduced two innovative packs in the market. The “hot champi” (hot head massage) pack consists of a hair oil warmer along with a bottle of Parachute Advanced coconut oil. Consumers can enjoy the benefits of a hot oil massage in the comfort of their homes. Besides, the warm oil becomes easy to pour, even if the oil tends to freeze in winter. The Parachute Advanced Easy Champi pack is a spray pack that facilitates application of oil at the hair roots and helps reach every part of the scalp easily.



In the perfumed coconut oil rigid category, Parachute Jasmine and Nihar perfumed oils grew by 12% in volume. Marketing support has ensured continued performance in the market place. With Nihar focussed on the markets in the East and Parachute Jasmine in other parts of the country, Marico has a lion’s share in the perfumed coconut oils market. During the 12 months to March 2008 its share in rigid packs was at 78%. The company has also capitalized on synergies to improve its margins in the category.



Shanti Badam Amla achieved a growth of 24% in FY08 over FY07. Its market share in the Amla oil category was 9% (12 months to March 2008).

During the fourth quarter of FY08, Hair & Care saw the national launch of a new campaign

“Hair Ko Miley Healthy Care”, aimed at communicating that the goodness of herbal proteins present in Hair & Care helps result in healthy hair with a great bounce. In order to connect with the youth, who look for constant excitement and innovation, Hair & Care created a property called “Style Icon”, a hunt for the new face on the pack for the brand. Piloted in Gujarat, the property created a lot of buzz. The brand registered a volume growth of 15% during FY08. Its share in the NSHO (Non-Sticky Hair Oils) market for the 12 months to March 2008 was 17%.



Post Wash Conditioners

Marico has occupied a place in the newer age hair care formats popular amongst the youth through a portfolio of post-wash hair-grooming products.

These include Marico's Silk n Shine a post-wash conditioner, Parachute After Shower hair cream and hair gel. These are still nascent segments in the hair grooming category in India and the company intends to establish its presence in these segments that could see an inflection in usage in the future and to play its role in category creation. It may however be a while before they reach a significant size.

Silk n Shine, a post wash conditioner, continued to be promoted in a campaign promising “parlour like silky hair” endorsed by celebrity actress Katrina Kaif. During the fourth quarter of FY08, Silk N Shine launched “Shining Star Hunt” in colleges in Delhi, an innovative marketing activity aimed at improving awareness and driving relevance for the brand by taking it closer to its consumers. The brand has a share of 32% in the post-wash conditioner market (during the 12 months ended March 2008).



In the Male Grooming segment, Parachute Aftershower cream signed on Indian cricketer Sreesanth as its second brand ambassador in addition to Yuvraj Singh. A new campaign featuring both the brand ambassadors went on air in December 2007 driving the proposition of 24 x 7 dandruff free styling supporting the anti-dandruff variant. Parachute After Shower hair cream now commands a 42% share of the hair creams market (during the 12 months ended March 2008). Parachute After Shower gel launched in December 2006 has been receiving a good response. Marico's share in the male grooming segment, including gels, is about 21%.



Modern Trade and Marico

Marico's business portfolio is well balanced between modern trade and other retail formats. Marico's presence in modern trade is likely to grow manifold in some categories with major expansion plans of existing retail chains and the entry of new ones. 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

MARICO HAS OCCUPIED A PLACE IN THE NEWER AGE HAIR CARE FORMATS POPULAR AMONGST THE YOUTH THROUGH A PORTFOLIO OF POST-WASH HAIR-GROOMING PRODUCTS.

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 facilitate “consumer interaction” with the

products. This helps some of our new products such as Parachute Therapie and Saffola functional foods where packs are an important tool for consumer education. As of now, modern trade accounts for about 5% of Marico's turnover.

International FMCG Business

Marico's overall international business grew by 59%, while its organic growth over FY07 was 21%.

In its traditional markets, namely the Middle East and Bangladesh, Marico's International FMCG business continued to grow and record share gains.

In Bangladesh, Parachute coconut oil has been going from strength to strength. It has gained market dominance backed by strong marketing support. During the 12 months ended March '08, its market share was 67%. Parachute will focus on growing the branded market by encouraging conversions from loose oil.

In the Middle East, Parachute Cream's focussed marketing efforts, including advertising and in-store promotional activities have yielded good results. The brand has now begun closing the gap on the leader in the GCC countries, Brylcreem. Its advertising is locally tailored and uses a regional celebrity for endorsements. Earlier during the year, the brand was restaged as Parachute Aqua-shield, on the platform of nourishment plus protection from harsh water. The GMR Outstanding Achievement in Marketing Award was conferred upon Parachute for the second consecutive year.



The Egyptian brands, Fiancée and HairCode are performing as per expectations. They achieved a turnover of about Rs.88 crore during the year. Advertising support accompanied



by promotional offers during the Africa soccer championships helped in expanding the franchise. The current combined market shares of the two brands in Egypt stand higher at 62%. The company has also commenced exports of the products to neighbouring African nations.

MARICO'S OVERALL INTERNATIONAL BUSINESS GREW BY 59%, WHILE ITS ORGANIC GROWTH OVER FY07 WAS 21%.

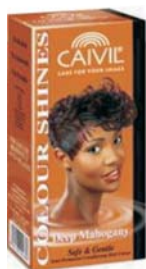
Earlier during the year, Marico commenced putting up a green field project in Egypt which will serve as a manufacturing base for the MENA (Middle East and North Africa) region. This aims to leverage benefits from trade agreements between Egypt and countries in the Middle East.

Geographic expansion forms part of Marico's growth strategy. In November 2007, Marico entered the fast growing South African ethnic hair care and health care market through the acquisition of Enaleni Pharmaceuticals Consumer Division Pty Ltd. The market for Ethnic Hair Care and Relevant OTC Healthcare products in South Africa is estimated to be in the region of about Rs.600 crore. The Durban-based entity is present across segments such as Hair Relaxers, After Care-Hair Food and Hair Conditioners with a current annualised turnover of about Rs.53 crore comprised largely of 3 brands, viz. Caivil in premium ethnic hair care, Black Chic in VFM hair care and Hercules in OTC Health Care. The process of integration of the business is underway. During FY08, Marico clocked a turnover of Rs. 20 crore in South Africa.



Marico expects to capitalize upon the rapidly growing ethnic hair care market driven by Black

Economic Empowerment (BEE) in South Africa. At the same time however, it anticipates the need for brand building investments. The contribution to the bottom line during the first two years is thus expected to be negligible.



A good performance from all geographic regions has enabled the International Business to show healthy growth. Marico's International Consumer Products Business now comprises about 16% of the group's turnover. Continued Rupee appreciation against the United States Dollar, is putting some pressure on the International Business margins and growth in Rupee terms.



Sundari

In line with the Operating Agreement with its joint venture partner, Shantih LLC, Marico has exercised its call option to raise its stake in its subsidiary Sundari LLC from 75.5% to 100%. With effect from October 23, 2007, Sundari has become a wholly owned subsidiary of Marico Limited.

Kaya Skin Clinic

During FY08, Kaya skin care added 18 clinics, making the chain 65 clinic strong (56 in India and 9 in the Middle East). Each of these is currently company owned and managed, there being no plans as of now to adopt a franchise model. In choosing locations in India, Kaya would try to saturate demand in existing cities (it is already present in 19 cities in India) and reach out to only a few new cities. In the Middle East, Kaya extended its services beyond UAE by opening clinics in the Sultanate of Oman and the Kingdom of Saudi Arabia.

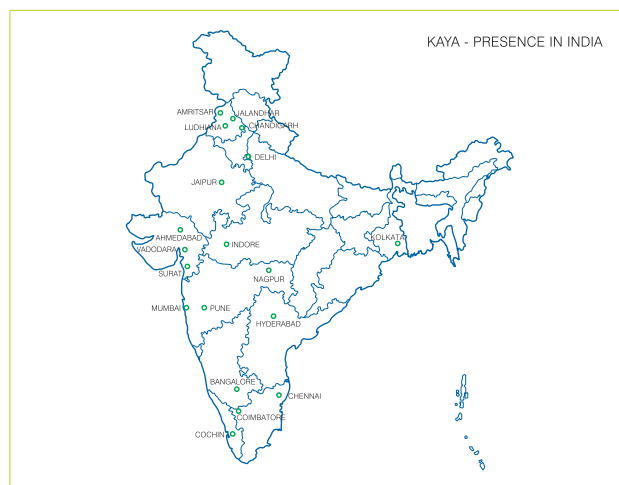


Kaya's skin care business achieved revenue of Rs 100 crore during FY08, a growth of 34% over FY07. This growth has been delivered roughly in equal measure through new clinics, volume increase from existing clinics and price increases.

DURING FY08, KAYA SKIN CARE ADDED 18 CLINICS, MAKING THE CHAIN 65 CLINIC STRONG

Kaya has been introducing new service offerings to its customers. During the year, Kaya Skin Renewal was launched nationally. The service which is a range of peels targeting specific skin needs of customers such as pimples, age-control, pigmentation, clarity and overall skin health holds good potential as a differentiated offering.

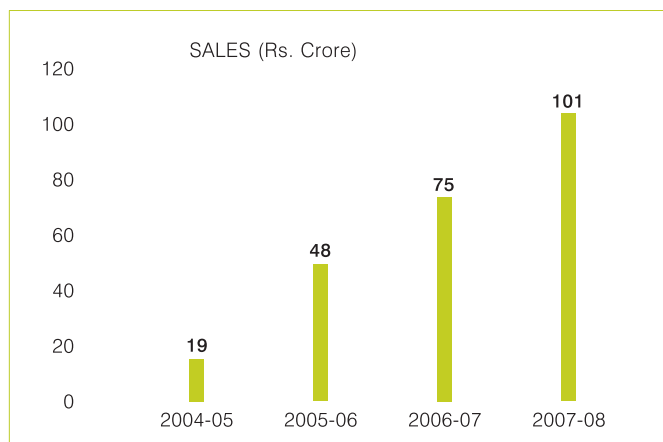
In addition to the skin care services, Kaya has begun providing a thrust to product sales. During the year, Kaya launched a range of hypoallergenic products for sensitive skin, comprising a Cleanser, Moisturizer and Sunscreen sans perfume. In Q4FY08,



a Face Cleanser, Kaya Fairness Day Cream and Kaya Fairness Night Cream were added to the Kaya basket of products. In order to enhance the product revenue stream, Kaya began prototyping the "shop-in-shop" model through kiosks at malls such as Lifestyle and Hyper City. The response from this experiment was good and the company has tied up with other malls and is currently present at about 36 locations.

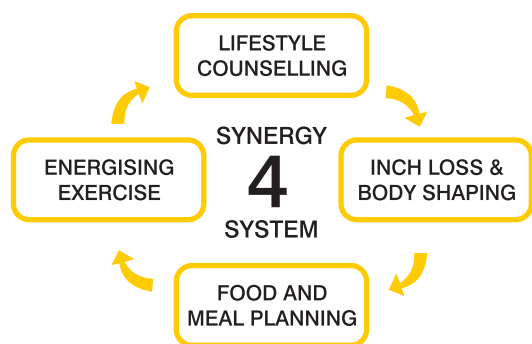
Currently, products form a share of about 13% of Kaya's revenues.

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



Kaya Life

In June 2007, Kaya was extended beyond skin care solutions. Kaya Life centers offer holistic weight loss solutions that are customized to individuals. The business has a unique proposition of



customized, holistic, sustainable weight management using the Synergy 4 model (four pillars of Lifestyle counselling, Inch Loss, Food & Meal planning and Energizing exercises). The feedback received from Kaya Life customers has been positive. They have witnessed consistent results and are satisfied with the Kaya Life methodology of weight management.

Kaya Life had opened its first center at Juhu in Mumbai towards the end of the first quarter of FY08. During Q4FY08, two more centres were opened in Mumbai (Malad and Bandra). Based on these, the

model would be further refined over the next few months before a national roll out. The business is currently testing new initiatives in the area of building awareness and scalable customer acquisition.

COST STRUCTURE FOR MARICO GROUP

| % to Sales & Services (net of excise) | FY08 | FY07 |
|---------------------------------------|------|------|
| Material Cost (Raw + Packaging) | 51.4 | 51.6 |
| Advertising & Sales Promotion (ASP) | 12.9 | 13.6 |
| Personnel Costs | 6.6 | 5.8 |
| Other Expenses | 16.1 | 15.9 |
| PBDIT Margins | 12.9 | 13.0 |
| Gross Margins (PBDIT before ASP) | 25.8 | 26.6 |

Notes:

- In order to make comparison meaningful, extraordinary items with a one-time impact have been excluded from the above table. These include a reversal of provisions during FY07 of Rs.8.0 crore pertaining to personnel costs and Rs.4.9 crore of ASP.
- Personnel expenses are higher owing to normal remuneration increases, performance incentives and higher head count, particularly in Kaya.
- The company has a conservative treasury policy with minimal risk exposures. It did not incur any losses on account of derivative structures and has no derivative structure exposure on its books.
- 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 | FY08 | FY07 |
|---------------------------------------|------|------|
| Return on Capital Employed (%) | | |
| • Marico Group | 39.8 | 32.9 |
| Return on Net Worth (Group) (%) | 66.7 | 49.7 |
| Working Capital Ratios (Group) | | |
| • Debtors Turnover (Days) | 14 | 14 |
| • Inventory Turnover (Days) | 46 | 41 |
| • Net Working Capital Turnover (Days) | 34 | 26 |
| Debt: Equity (Group) | 1.20 | 1.08 |
| Finance Costs to Turnover (Group) (%) | 1.5 | 1.3 |

The net working capital turnover ratio was higher on account of a fall in the balance of current liabilities and provisions during the quarter on a y-o-y basis. Current Liabilities were higher during FY07 on account of the final tranche for the Fiancee acquisition consideration being payable and paid over the subsequent quarters.

Marico's borrowings as on March 31, 2008 were about Rs.358 crore. The company has adequate cash flows to maintain healthy debt service coverage.

The sharp increase in the ROCE and RONW is partly on account of the balance sheet restructuring the company undertook in March 2007, involving an adjustment of intangible assets against special reserves to the extent of Rs.309 crore.

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:

1. Payout increasing from year to year.
2. Relentless regular dividend every quarter reflecting the confidence to sustain Continuous Distribution

Marico has concluded seven acquisitions since April 2005. The cumulative investment has aggregated over Rs.550 crore. These acquisitions have been funded partly by internal cash generations, partly by the QIP issue of Rs.151.4 crore in November 2006 and partly by borrowed funds. 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. In line with this strategy, the board of

directors of the company has decided to follow a conservative dividend policy, as compared to the past, unless the company is unable to deploy the funds in attractive growth opportunities. The broad direction for the moment is to declare the same quantum of dividend each year. On a growing profit base therefore, the payout ratio would be lower.

Dividend declared

At its meeting held in July, October 2007 and April 2008, the board of directors had declared interim dividend of 13.5%, 15% and 37% respectively. With this the cumulative dividend declared for the year is 65.5%, the same as the percentage declared in FY07. Consequently, on a higher profit base, the dividend payout ratio is lower at 28% (inclusive of dividend distribution tax).

OTHER DEVELOPMENTS

Sil Divestment

Marico has defined the segments of Beauty and Wellness as the space in which it would operate. Certain parts of its brand portfolio therefore, have not been the focus of its operations over the last few years. The Sil range of jams and other processed foods does not strictly fit into its focus segments. In line with this strategy, the Sil business was divested on March 11, 2008 to Scandic Food India Pvt Ltd, the Indian subsidiary of Good Food Group, a Danish business house, on a slump basis, including the manufacturing facility at Saswad, for a profit of Rs.10.6 crore. Marico will distribute the Sil range of products for Scandic for one year. Sil's share in Marico's turnover was not significant.

INFL Distribution

Marico and Indo Nissin Foods Ltd (INFL) have mutually decided to end their distribution alliance. Marico had been distributing the Top Ramen range of products for INFL, a subsidiary of Nissin Foods of Japan, in India, since 1998. When Marico entered into the alliance with INFL, it had a turnover of about

Rs 500 crore. This was supported by an extensive distribution network which the alliance partners sought to leverage. Since then, Marico has grown its own business more than three times. The company would like to focus its energies on distribution of brands from its own stable. Having achieved a certain critical size, INFL is also keen to set up a distribution network in India to service its own products. The two companies thus agreed to end the existing distribution agreement with effect from April 1, 2008. Marico's income from distribution of Top Ramen was about Rs.3 crore.

OUTLOOK

In the recent past, Marico has been on a high growth path. In FY07, the company grew by 36% followed by 22% in FY08. During FY08, 17% was organic growth accompanied by 5% inorganic growth. Moreover, a significant portion of Marico's growth has been through volume expansion.

The company's focus will remain on delivering healthy growth. The company's flagship brand Parachute has grown at over 10% in volume during the last 2 years. The company expects that given its size and the penetration achieved in the category, the brand can deliver a sustainable rate of growth of 6% to 8%. Its second flagship, Saffola has also been registering high growth rates in the recent past. The company believes it can grow this premium niche segment of refined edible oils by around 15%. Marico's hair oils portfolio, comprising Hair & Care, Parachute Jasmine, Nihar perfumed oil, Shanti Amla and Parachute Advanced grew at 16% in FY08. The company expects this segment to contribute to a significant part of the topline in the next few years. Marico has been investing in both its established brands and its new ones. Over the last few years, the company has launched new products in pre and post wash hair care. It will continue to nurture these brands and participate in category creation and growth. Similarly, Saffola's journey has now extended beyond refined edible oils into functional

foods. The company will invest in promoting the adoption of functional foods as part of changing consumer lifestyles. It will also explore launching new health food products in various formats. It is expected that some of these will grow into long term resource engines for the company. In the near future, they would demand strategic funding.

In driving growth, the company will attempt to maintain absolute unit margins across its portfolio of products. The environment has been experiencing significant inflation in input prices, both of crude oil derivatives such as liquid paraffin and HDPE and that of edible oils. Should this continue, while the company may earn similar unit margins (in absolute terms), there could be a squeeze in the margin on higher revenues, in percentage terms.

The competitive environment in the flagship brands Parachute and Saffola remains unchanged and there are sufficiently strong barriers to entry. The company would however have to be mindful of the entry of large players, if any.

In the international markets, Marico intends to grow the coconut oil market in Bangladesh and improve its market shares in hair creams in the Middle East. It plans to exploit the potential of the MENA region from its Egyptian base. In South Africa, the focus will be on integration of the new acquisition in the short run. The challenge for the International Business is ensuring sustainable profitability and growth in its new markets and managing the risks of currency movements versus the Indian Rupee. Overall, the International Business expects a sustainable rate of growth of about 20% in topline.

In Kaya, the company plans to expand its skin services by adding about 15 clinics each year. This growth implies continued investments in manpower (recruitment and training) and advertising for customer acquisition and brand building. Kaya's margins may thus remain modest in the near term.

Meanwhile, the company would also make business building investments in Kaya Life. Kaya's weight management business is likely to remain in investment mode in the near term.

To supplement its organic growth, Marico continues to look for acquisitions both in India and the overseas markets. It is open to exploring opportunities with a good fit in its focus segments of Beauty and Wellness. In the international markets, its preference is to make an entry into developing markets with a higher potential for a company like Marico to add value.

On behalf of the Board of Directors

Harsh Mariwala
Chairman & Managing Director

Place: Mumbai
Date: April 24, 2008