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 '08 - March '09 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 Solutions Business of Kaya in India and Overseas. The Consolidated entity has been referred to as 'Marico' or 'Group' or 'Your Group' in this discussion.

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

INDUSTRY STRUCTURE AND DEVELOPMENT

The Fast Moving Consumer Goods (FMCG) sector, comprising goods of daily use like soaps and detergents, oral and skin care products, food & beverages, oils and dairy products is the fourth largest sector in the Indian economy and is projected to cross USD30 billion in turnover in the next five years.

The FMCG market can be divided into two segments - the urban and rural. The urban segment is characterized by high penetration levels and high spending propensity of the urban resident. The rural economy is largely agrarian directly or indirectly dependent on agriculture as a means of livelihood - with relatively lower levels of penetration and a large unorganised sector.

On the back of four consecutive years of bountiful harvest, rural India, home to about two-thirds of the country's one billion plus population is witnessing an increase in its income and also in its consumption.

The FMCG Industry caters to the needs of the consumers located across the country and deep in its heartland through a well-developed and efficient supply chain model comprising C&F Agents, distributors, wholesalers and retailers. A significant share of business is still generated through the "mom and pop" store (kirana) format. With access to the rural economy gradually improving with investments in physical infrastructure, it is likely that it shall continue to be the chief point of interface of the FMCG companies with the retail consumer. Though organized retail comprises only about 6% of the FMCG business, it is expected to expand its share over the next few years.

The Indian consumer aspires to reach a level of consumption commensurate with the consumption pattern of those in more developed economies even as he is cautious about extravagance and over indulgence. This provides the FMCG companies with opportunities for growing the market.

Low capital requirements, simple manufacturing processes and sub-contracting of manufacturing activities are characteristic of the industry. As a result, several small local and regional brands tend to compete with well-established ones. FMCG companies have to continuously innovate and also advertise in order to build the equity of their brands and create mass pull. Brand building, product innovation and product differentiation are critical to the survival of FMCG companies.

OPPORTUNITIES AND THREATS

Demographic profile

The Indian sub-continent has a population in excess of one billion. This provides the FMCG companies with a large consumer base. The median age continues to be in the mid twenties. The youth of today is conscious of the need to be well groomed and to look good. With increasing focus on education and empowerment of women, their lifestyle and propensity to consume is undergoing a change; they are becoming more fashion conscious and open to experimenting with new products.

Urban economy

Rapid urbanisation has resulted in large markets getting concentrated in urban centres. Increasing disposable incomes and exposure to media have shaped aspirations of the urban consumer while consumerism has led to satisfaction of wants. Availability of credit and changed mindset towards consumption has further fuelled the demand for consumables.

The high growth trajectory in the urban economy of the past few years has shown some slowdown on account of the global economic crisis, particularly for discretionary spending. However, the impact has been muted for items of daily consumption.

Rise of the rural economy

The economic scenario in the country has undergone a change in the recent past. Nearly two-thirds of the Indian population resides in rural towns and villages and practices agriculture. Higher realizations for agricultural output, without an accompanying increase in input costs, increased employment and the recent waiver of farm loans by the government has led to a spurt in demand. Rural India now forms a sizeable share of the demand for FMCG products, consumer durables and consumer discretionary products.

Increased spending power of the rural Indian coupled with a relatively lower degree of penetration of branded FMCG products in these markets has provided the industry players with an opportunity to drive growth. Established brands are tapping into the rural economy to encourage up-trading by the consumer from unbranded products to branded ones with assured quality.

RURAL INDIA NOW FORMS A SIZEABLE SHARE OF THE DEMAND FOR FMCG PRODUCTS AND CONSUMER DURABLES.

Lifestyle and awareness

The present day consumer is savvy, has higher aspirations and is brand & lifestyle conscious. They do not mind spending on quality products and seeks value for money spent. FMCG companies have recognised the opportunity available by introducing “value for money” as also “premium” product variants aimed at catering to the varying needs of different consumers.

Products aimed at delivering healthy lifestyle solutions have been introduced to woo health-conscious consumers.

Branded solutions sector

The increase in the propensity to consume and the increasing consciousness for adopting healthy lifestyle offerings has led to the development of branded solutions including leveraging existing brand identities and creating extensions around them.

The quality-conscious consumer is willing to pay a premium for effective solutions, improved services and a superior experience.

The focus is to provide consumers with a holistic solution for their needs in the form of a consolidated offering of various products and services.

RISKS & CONCERNS

Input costs

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

The past 2 years have witnessed a wide fluctuation in the price of commodities. Crude Oil touched a record high of USD140 per barrel before crashing to below USD50 per barrel. Similar volatility was experienced in other commodities. The overall level of uncertainty in the environment has gone up.

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

Competition

The FMCG environment in India and overseas is competition intensive and companies need to focus on branding, product development, distribution and innovation to ensure their survival. Advertising and consumer offers are some of the methods used to combat competition.

Product innovations help to gain market share while advertising creates visibility for the product. Such expenditures carry the inherent risk of failure. Counter campaigning by competitors would also reduce the efficacy of promotions.

Currency risk

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

Product innovations and new product launches

Success rate for new product launches in the FMCG sector is low. New products may not be accepted by the consumer or may fail to achieve the targeted sales volume or value. Cost overruns and cannibalisation of sales in existing products cannot be ruled out. Marico has adopted the prototyping approach to new product introductions that helps maintain a healthy pipeline and at the same time, limits the downside risks.

Funding costs

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

Discretionary spending / Down trading

In situations of economic duress, items which are in the nature of discretionary spending are the first to be curtailed. This is relevant for the lifestyle solutions offered by the companies.

In an extended recession, down trading from branded products to non-branded ones could also occur and affect the financial performance of the company.

Acquisitions

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

FMCG market in Bangladesh

Bangladesh has a demographic profile identical to that of India. Population in excess of 150 million and a developing economy provide the perfect consumer base for the FMCG sector to flourish. Political instability witnessed earlier has reduced post elections.

FMCG markets in the Middle East

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

FMCG markets in Egypt

The Egyptian economy has embraced liberalization in the recent past, thereby opening the doors for foreign direct investment and paving the path to economic growth. A steadily growing population, concentrated on the banks of the river Nile, and a developing economy provide a good base for FMCG companies. The recent global economic turmoil however, has impacted the near-term growth prospects. The rate of GDP growth may decline to between 4% and 5%. In the medium term however, this could revert to a healthier 6% to 7% with its consequent beneficial impact on FMCG consumption.

FMCG markets in South Africa

The South African economy is a productive and industrialized economy that exhibits many characteristics associated with developing countries, including a division of labour between formal and informal sectors and an uneven distribution of wealth and income. The economic measures adopted by the Government to ensure growth and equitable distribution of wealth have been effective with the GDP showing a steady growth in excess of 4%. Rising income levels, especially amongst the middle socio-economic segments, are likely to result in increased growth opportunities for FMCG marketers.

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

The organisation believes that great people deliver great results, and lays emphasis on hiring right and retaining key talent.

Its managerial talent is sourced from the country's premier technical and business schools, and from amongst those with the country's premier professional qualifications. The organisation believes in providing challenge and early responsibility at work which serves to keep team members enthused and motivated.

A strong business linkage of all Human Resource processes and initiatives is maintained at Marico. The organisation has created a favourable work environment that motivates performance. Marico has a process of performance enhancement through deployment of MBR (Management By Results) to create an environment of challenge and stretch. It is also linked to a variable element of performance-based compensation.

Automation of key HR processes this year has helped in streamlining the back-end processes and increased efficiency immensely. The company's user friendly intra-net vests power in the individual to track one's own HR processes such as joining, development planning, transfer movements, loans and leave. The intranet also provides an ideal medium for internal communication and brings together members from the different geographies the organization now has a presence in.

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

The organization 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.

In line with our philosophy of valuing internal talent first, a structured internal job posting mechanism - MINTOS (Marico Internal Talent Opportunity Scheme) - was launched. This is an internal forum for members to benefit from opportunities within the organization.

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

MARICO IS A PROFESSIONALLY MANAGED COMPANY THAT HAS BUILT FOR ITSELF A STIMULATING WORK CULTURE THAT EMPOWERS PEOPLE, PROMOTES TEAM BUILDING AND ENCOURAGES NEW IDEAS.

Marico had formulated a contemporary set of values three years ago and it is important that all members in the organization are not only aware but also consciously practice and "walk the talk" on all its values. To build this consciousness and commitment, 'Values Workshops' are held for teams to identify their focus areas and plan actions accordingly.

An exciting initiative we launched during the year was the "Popcorn Session with Harsh". It is based on the concept of "Learning through Sharing", where the members have an opportunity to directly interact with the Chairman and Managing Director, Harsh Mariwala. The sessions seek to leverage Marico leaders as mentors and coaches to Mariconians at large. The format of the Popcorn Session is unique: 8-10 members, including Harsh engage in conversation on a pre-selected topic. It provides a mutual learning opportunity for both the leader and the members attending the session, to gain insights from each other's personal and professional experiences. So far, 135 members have participated in these sessions.

Member Assistance Program was launched in April 2007 in association with 1to1help.net, a counselling service run by a team of qualified and experienced counsellors. Member Assistance Program is a service wherein Mariconians and their immediate family members can avail themselves of various services like counselling - face to face, telephone and online; Website Articles and Self Assessment Tests free of cost and in complete anonymity. This has been institutionalized this year.

Employee relations throughout the year were supportive of business performance.

As on March 31, 2009, the employee strength of Marico Limited was 934 and that of the entire Group was 2585.

CORPORATE SOCIAL RESPONSIBILITY

Every organisation owes its existence and sustained growth to its various stakeholders: Investors, Customers, Employees and Society at large. An organisation fulfils its responsibility to the society through various actions and initiatives which realise returns for it and also result in the betterment of society.

Corporate Social Responsibility to Marico is an expression of being a responsible citizen and is defined to include 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. Marico's CSR is based on inter-dependence and it believes in the need for an efficient business eco-system, where business and the rest of the society co-exist with respectful inter-dependence.

Marico is a significant buyer of the marketable surplus of safflower (kardi) crop in India. Over the years, the company has worked on merging its needs of sourcing safflower seeds with those of the farming community for crop sustainability. As part of its agri-extension efforts, Marico actively educates the farmers in improved techniques of farming including best sowing practices, crop damage control measures and the use of hybrid seeds. A helpline to facilitate query resolution has been put in place. These have led to significant improvement in yields and have positively impacted the livelihood of thousands of farmers in the country. Marico has also commenced contract farming in kardi. Apart from a price guarantee, the initiative also envisages providing credit for seeds for sowing and technical guidance throughout the crop cycle. This initiative has a wide reach touching the lives of around 20,000 farmers. It has resulted in productive usage of otherwise fallow land and thus acted as an income generator.

"Marico's Contract Farming was a boon to us! We got rate guarantee & technical guidance throughout the crop cycle."

Chudaman Patil (Maharashtra), Safflower farmer

"The farmers who have seen the crop here are very enthusiastic about the crop, and next year, acreage will increase."

Hanumant Rathod (Rajasthan), Safflower farmer

Marico is the largest buyer of copra in the country. In order to assist farmers and convertors from whom it procures copra, the company has set up farm care centres that disseminate information on best farming practices. Farmers are given the opportunity to have queries addressed by experts. In order to improve productivity, training on the use of coconut tree climbing machines is provided.

The company has also collaborated with the Coconut Development Board (CDB) which provides free agricultural inputs and advice on farming practices to improve yield.

"I am very happy to be part of this cluster programme. I extend my deepest gratitude to CDB and Marico Limited for their efforts"

"Wherever you go they say no labour is available…..They gave us a climbing machine and trained us to use it, now we are giving training to others in order to over come the labour crisis."

Copra farmer in Kerala

The offices of Marico at various locations, both within India and overseas, actively participate in various community service activities for promoting education, art, culture and health, and also provide support for welfare and relief operations. These include blood donation and free health check up camps, HIV / AIDS awareness, flood relief.

Sustainability Programme at Marico

Being green has been an integral part of Marico's culture. Bottles of Parachute coconut oil, the company's flagship brand, consumes the least amount of plastic when compared to our competitors in coconut oil. The company's coconut oil yield from copra crushed is amongst the highest in the industry. This implies a lower quantity of copra to be transported for every tonne of coconut oil produced, thus reducing the quantum of fuel consumed in transporting copra to our factories.

However, to sustain this, one needs continuous fresh thinking and thus the sustainability programme at Marico is appropriately branded "Think Fresh and Be Green". This initiative is led by a core team consisting of members drawn from Marico's three businesses and various functions. During FY09, an energy modelling recommendation has been implemented at all office locations leading to a 5% to 20% reduction in electricity consumption at these locations. Such reductions have been sustained. All manufacturing locations have taken up site specific energy reduction and water conservation programmes. Many of the identified programmes have been implemented and regular brainstorming sessions are leading to identifying more such programmes. Our Jalgaon manufacturing unit has received the CII water conservation award and the GOI award for energy conservation. Rain water harvesting is being piloted at one manufacturing location and will be rolled out at others.

MARICO AT VARIOUS LOCATIONS, ACTIVELY PARTICIPATES IN VARIOUS COMMUNITY SERVICE ACTIVITIES FOR PROMOTING EDUCATION, ART, CULTURE AND HEALTH, AND ALSO PROVIDES SUPPORT FOR WELFARE AND RELIEF OPERATIONS.

In order to make it an initiative that touches a wide section of members in Marico, the focus for the year included saving on paper. The seasons greeting cards sent to business associates have been replaced by e-greeting cards and the hard copies of diaries have been replaced by e-planners. At the factory locations, tree planting within the premises and outside has been undertaken. To bring about awareness, sign boards are displayed at all manufacturing locations as a constant reminder of our responsibilities in saving energy and conserving water. An intranet website provides information and features articles on sustainability.

The core group regularly studies the best practices of other industries to evaluate their applicability to Marico. This year's initiatives have led to a reduction of CO_2 emission by 1300 tons. The company has also initiated the process of completing the carbon foot print for Marico's consumer products business and identifying potential projects for reducing the carbon foot print.

The year 2009 marks a beginning. In the coming years, the company plans to study and implement options for green formulations and more sustainable packaging. It hopes to achieve wider participation amongst organization members as well as its business associates.

Marico Innovation Foundation

The Marico Innovation Foundation (www.maricoinnovationfoundation.org) is guided by an eminent board of trustees. The Marico Innovation Foundation was created in March 2003 with a single mission - to fuel innovation in India. The aim is to put India on the global map by leveraging Indian knowledge and know-how. The foundation has armed itself with the belief that innovation is possible and that it is the only way to leapfrog India into global business leadership.

The Innovation for India - Marico Foundation has sponsored studies for Challenger Innovation cases in the spaces of Business and Social Life. It made a first-hand study of diverse Indian organisations that achieved quantum growth in the face of heavy odds. Organisations that dared to question well entrenched paradigms, and created uniqueness for themselves. Their innovation journeys were traced through painstaking insight dialogues, not by gleaning from published literature. These studies bring out live examples of how Challenger Leadership can bring about a transformation and lead to quantum shifts in results. A unique feature of these transformational cases is the durability of the transformation: even after the challenger leader moves away from the scene, the transformation is sustained. The Innovation Foundation has converted these successful missions into lighthouses that show how it is possible to make a quantum impact in a short time span, and to inspire many others to lead and support such innovative initiatives. In addition, the studies generate insight into 'what differentiates challenger leaders' and proposes a process to inspire and cultivate challenger leaders in all sectors and thereby make a quantum jump in our capacity as a nation.

One of the Foundation's objectives is to be a catalyst and initiate creation of content and multiplication of knowledge through learning platforms. One such initiative involving years of effort in identifying genuine breakthrough innovations from within India and then uncovering insights into what these innovators did differently to make the impossible happen, culminated in the publication of a book "Making Breakthrough Innovation Happen: How 11 Indians Pulled Off The Impossible", by Porus Munshi. It shows how world-class innovation is now happening in India and how we can all do in our own fields what the 11 Indian people and organisations featured in the book did. It is hoped that this will give a big boost to the concept and practice of innovation in India.

In an effort to equip the leaders of tomorrow, the Foundation has commenced promoting education of innovation by collaborating with leading educational institutions in the country. This envisages creating of course content on innovation as well as training of faculty.

In order to showcase successful innovations and thus propagate and encourage a culture of innovation, the Foundation has institutionalised 'Innovation for India Awards' for Business and Social Innovation. Based on the criteria of uniqueness, impact and scalability, 'India's Best Innovations' are declared at these Awards. These include projects and businesses that make a real difference to the country and community at large. Over the last 3 years, 23 such innovators have been recognized at the Innovation for India Awards.

MARICO GROWTH STORY

Marico posted a topline growth of 25% and recorded a turnover of Rs.2388 crore. Almost the entire growth during the year was attributable to organic growth of which volume growth comprised 12%.

Profit before tax (PBT) for the year was Rs.229 crore a growth of 12% over FY08. However during FY08, the company made a one time profit of Rs.10.6 crore on the sale of its Sil business. Moreover in FY09, the company has booked a one-time extraordinary loss of Rs.15.03 crore on the sale of its Sundari business (more details are included in the latter part of this note). If we ignore these one-time items, the PBT for the year would be Rs.245 crore, a growth of 30% over that in the previous year. Profit After Tax (PAT) during the year was Rs.188.7 crore, a growth of 11.6% over FY08. However, the growth net of extraordinary items was 21%.

Q4FY09, in Y-o-Y growth terms, was the:

- 34th consecutive quarter of growth in turnover, and
- 38th consecutive quarter of growth in profits

Over the past 5 years, the top line and bottom line have grown at 24% and 28% respectively.

A FEW BRAND STORIES

Parachute & Nihar

Marico's flagship brand, Parachute maintained its momentum of growth in line with expectations. Parachute coconut oil in rigid packs, the focus part of the portfolio, grew by 9% in volume over FY08. During the 12 months to February '09, it maintained its volume market share of 48% in the Rs.1500 crore branded coconut oils category, indicating resilience against potential down trading in the current economic downturn. Meanwhile, Nihar's share in the category stood at 6% during the 12 months to February '09 with the brand registering 11% growth in volume during the year backed by infrastructure augmentation in Bihar. Marico's coconut oil franchise comprising Parachute, Nihar and Oil of Malabar had a market share of 55% during the 12 months to February '09.

During the year, the prices of copra (dried coconut kernel) the raw material input for Parachute coconut oil were about 25% higher than in FY08. The company took price increases to pass on most of this increase to consumers. The input prices have declined from their peak levels in Q2 & Q3 of FY09 towards the end of the year.

Parachute is likely to maintain its margins per unit volume in a tight band. The company expects to be able to continue to grow volumes at 6% to 8% by focussing on conversions to branded usage from the approximately Rs.1000 crore loose coconut oil market.

Saffola

Saffola, Marico's second flagship brand, is positioned strongly on "good for the heart" equity. The incidence of heart-related ailments in India is high and a cause for concern. The cases of diabetes, high cholesterol, blood pressure, obesity etc, are disproportionately high. Saffola supports the efforts of consumers to adopt and sustain a healthy lifestyle. Over the years, Saffola Healthy Heart Foundation has worked towards raising awareness levels through its advertising campaigns and programmes such as blood check-up camps. Saffola constantly urges consumers to adopt a healthy lifestyle (its "Walk" campaign) and building it into a movement. It supports their efforts through unique services like "Dial a Dietician".

Saffola has been innovating to come up with products to support the trend of an improved lifestyle that consumers want to adopt. In the past, it was the first refined oils brand to introduce blends in the country to offer a balance of PUFA and MUFA (poly-unsaturated fatty acids and mono-unsaturated fatty acids). The ingredients of its most recent refined oil blend introduction, Saffola Active provide Omega-3 and oryzanol. The blends also enable the company to price Saffola more attractively for consumers, so that a much wider franchise of consumers can access the brand.

Saffola is expected to ride the trend in health consciousness and the increasing awareness levels with respect to heart-related ailments in India. In the medium term, the company hopes to transition the brand from a healthy refined edible oils product to a lifestyle brand offering a range of functional foods.

During FY09, Saffola's turnover still comprised primarily of refined edible oils. The oils franchise of Saffola grew by 11% over FY08. The growth during the second half of the year was much slower, even though the growth rate picked up to 5% during Q4FY09. Saffola retails at a significant premium to other refined edible oils in the market. However, during H2FY09, this premium shot up to unsustainable levels owing to relatively higher levels of prices of safflower oil, one of the Saffola oils range's key ingredients. The brands growth was also partly impacted by some down-stocking of all inventory levels implemented by organised retailers (Modern Trade).

With the arrival of the new safflower crop in April 2009, it is expected that the safflower oil prices will see a significant decline as compared to FY09. In anticipation of lower average prices of safflower and other oils during FY10, the company has taken some price reductions in Saffola (Saffola Gold from Rs.120 to Rs.110, Saffola Tasty from Rs.99 to Rs.94 and Saffola Active from Rs.99 to Rs.89 (all prices per litre)). This will lower the premium of Saffola over other branded oils and the range pricing starting with Saffola Active is expected to encourage consumers to come into the Saffola fold at a faster pace. The company expects that it can achieve a volume growth of over 10% during the year.

India is the largest producer of safflower. It is a hardy crop that grows in arid / poorly irrigated areas. Marico's agri-extension team has been working over the years to increase the acreage under safflower (kardi), on land that may otherwise lie fallow, thus improving the farmers' return from the land. Marico educates farmers on best sowing practices, crop damage control measures, and has a helpline for query resolution. More recently, the company has commenced a contract farming programme under which it provides credit for seeds, technical guidance through the crop cycle and guarantees a price for buyback.

Saffola ad campaigns have been recognized at various forums for their creativity and impact.

Hair Oils

The Rs.2200 crore Hair Oils category has been experiencing healthy growth. During FY09, Marico's hair oils in rigid packs grew 17% in volume over the previous year.

During the 12 months ended February '09, Marico's basket of hair oils including Parachute Jasmine, Nihar perfumed hair oils, Hair & Care and Shanti Badam Amla increased its market share to about 22%. This has

been achieved by increased micro marketing efforts in select markets. Moreover, the launch of a new variant Hair & Care Almond Gold in Q2FY09 also bolstered the volume growth.

During the year, Parachute Advansed introduced a revitalising Hot Oil with the goodness of coconut oil and other herbs.

The cooling oils segment of the hair oils category is amongst its faster growing segments. Marico has begun prototyping a cooling oil brand, Nihar Naturals Coconut Cooling Oil - cooling oil with the added benefit of coconut nourishment.

Male Hair Grooming

Marico is present in the Rs.100 crore hair cream and hair gels market through Parachute Advansed hair creams and hair gels. Though small, the hair cream and gel category is growing at a modest pace in India. During the year, Marico's Parachute After Shower creams and gels have grown by 6% in volume over the previous year. Its share in the category during the 12 months ended February '09 was about 19%.

Other 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.

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

During Q3FY09, Marico launched Parachute Advansed Revitalising Hot Oil, a coconut oil enriched with warming oil, rosemary, thyme and patchouli. Parachute Advansed Hot Oil is positioned as a pre-wash product for winter and is priced at Rs.65 for 170 ml. The initial response to the product has been positive.

During January 2009, Saffola extended its journey in the health foods space. Saffola Zest, a salty baked snack, combines strong health benefits with great taste to give consumers a novel healthful snacking experience. Being baked, it contains half as much fat as other namkeen, and its ingredients are heart friendly. It also contains a high proportion of protein and fibre, making it an ideal snack for the entire family.

Saffola Zest comes in three tasty flavours - tangy tomato, chatpata masala and mast masala. Each is available in three SKUs (stock keeping units) priced at Rs 10, 25 and 45. The initial response, though still very early, has been positive.

As in any food snack product, the feedback on taste has been immediate. While individual tastes can vary significantly, the company has taken action on some of the early feedback.

In Q4FY09, the company commenced the prototype of Saffola Rice - low GI rice that helps in weight management. Marico has commenced a prototype in the state of Andhra Pradesh and in Mumbai. The brand is available in 1 kg and 2.5 kg packs priced at Rs.59 and Rs.140 respectively. The product has generated interest, though a better sense of the response will take some more time.

Revive Strong & White is a liquid fabric whitener that offers a unique double action of making clothes white together with making them strong to last longer. The product is currently being prototyped in West Bengal.

Modern Trade

Modern Trade comprises about 6.5% of domestic sales, up from about 5% a year ago (with the share of Saffola and some of the company's newer products being higher). In recent months however, the pace of new store openings has come down. Organised retailers are consolidating and closing some unprofitable store locations. In addition, they are attempting to improve cost structures through rationalizing manpower and inventory levels. The company will provide a thrust towards servicing the top end of general trade so as not to lose out by way of any potential slow down in growth in modern trade (organised retail).

IT Initiative in Sales

In the past, Marico has focussed on building a strong distribution network which would be a source of competitive advantage not only in terms of retail reach but also in the quality of its sales network. The company had already established IT connectivity with distributors through whom a majority of its sales are done. This has enabled a vendor-managed inventory system whereby sales are effected based on stock levels at the distributor - a pull rather than a push system. Sales targets within the organisation are also tracked on secondary sales and not on primary sales to the distributor.

In order to enhance the productivity of the distributor sales representatives (DSR), Marico has now rolled out the use of Personal Digital Assistants (PDA) in large cities. This provides the DSR with focussed information on each outlet, thus improving the quality of his interaction with the retailer. Outlet-wise history and ordering patterns are used to prompt the DSR to focus on specific SKUs and the quantities of each during a sales call. Through the PDA, Marico's sales managers can now drive channel-specific plans. The use of information technology has obviated the need for time-consuming manual work. The data readily available has also enabled the system to be less person dependent and a new DSR can be brought up to speed in a much shorter time. As the company's brands and SKUs continue to grow in numbers, the PDA is expected to expand the DSRs capacity to handle them and at the same time improve productivity.

International FMCG Business

Marico's international business, its key geographies being Bangladesh, MENA (Middle East and North Africa) and South Africa, comprised about 19% of the group's turnover during FY09. As a whole, the international business turnover grew by 43% over FY08.

In Bangladesh, Parachute coconut oil has focussed on growing the branded market by encouraging conversions from loose oil. Advertising campaigns highlighted the superior quality of branded coconut oil over that of loose oil. Affordable price points were used to drive conversions. These initiatives together with a drive to expand distribution and leveraging other on-ground opportunities such as “haats” (weekly markets) have helped to firmly establish the brand as a leader in the coconut oil market in Bangladesh. Its market share during the 12 months ended February ’09 was 72.7%. Parachute was recognised as the 6th Most Trusted Brand in Bangladesh by The Global Brand Forum and AC Nielsen (2008).

During FY09, Bangladesh witnessed high inflation during the first half of the year, necessitating price increases. Some of the cost push pressures have eased towards the end of the year. The company would try and retain some of this benefit in order to improve its margin structure. Given the higher base, therefore, the volume growth of Parachute in Bangladesh during FY10 is likely to be modest.

The company will focus on using its market leadership stature to enhance the brands imagery across consumer segments through thematic campaigns. Meanwhile Hair Code hair dye, the company’s new product launched during FY09, has been responding well in the market.

In the Middle East, Parachute cream has been making steady progress on the strength of its “nourishment plus protection from harsh water” positioning. Its market share in the GCC (Gulf Cooperation Council) countries has increased to 23% during the 12 months ended February ’09. During the year, Marico also increased its share in the hair oils market to 22.5%. The company has commenced the process of extending its footprint in the Middle East region by entering new countries.

The performance in Egypt during FY09 was negatively impacted by the company’s decision to modify the distribution structure whereby it made a shift from directly servicing several wholesalers to dealing with them through a distributor. This distribution transition is expected to bring more efficiency to the supply chain in Egypt. While this has now been completed, the resolution of issues during execution took longer than initially anticipated. Besides, the economic environment in Egypt also witnessed high levels of inflation which exceeded 20%, putting pressure on business growth. Both these resulted in a contraction of sales in Egypt during the year FY09. With the transition completed and inflationary pressure having eased towards the end of the financial year, the Egyptian business is now poised to show an improving trend in the coming quarters.

Apart from a recovery following the settling down of the new supply chain, the Egyptian business is expected to get a boost with the restage of Hair Code in new packaging. The company has also begun seeding new markets such as Libya.

The performance in South Africa has been in line with expectations. In the initial period, the company has focussed on a smooth integration of the acquisition. The response to the launch of new flavours in Hercules castor oil and the restaging of the brand Caivil is positive. The market shares in the company’s hair care portfolio are showing an upward trend. During FY10, Marico South Africa will continue to build upon this. The company has also commenced work on developing differentiated products to add to its basket of offerings. In addition, the company would also make a beginning towards taking the South African brands into neighbouring countries during FY10.

While growing its international business operations, the company has commenced taking supply chain initiatives to improve margins in the business. In Bangladesh, the company has done backward integration by crushing copra locally. Marico has commissioned a new factory in Egypt for hair creams through which it intends servicing the MENA region, and this is expected to result in supply chain efficiencies.

Kaya

Kaya Skin Clinic entered the business of offering dermatology led cosmetic skin care solutions in India in 2003. As an organized player, Kaya has a large first mover advantage in introducing cosmetic dermatology in the country. Through specialized skin services (beauty enhancement, problem-solution and anti ageing) using world-class FDA approved technology adapted for relevant skin types, Kaya has been able to offer its consumers highly efficacious solutions and a refreshing experience. Kaya has become the leading skin care services brand with 74 clinics in India across 21 cities and 11 clinics in the Middle East. During FY09, Kaya added 20 new skin clinics. Over 500,000 customers have availed of services at Kaya Skin Clinic. Kaya now has over 250 dermatologists associated with it.

During FY09, Kaya's skin care business achieved a turnover of Rs.157 crore, a growth of 57% over the previous year. Apart from revenue contributed by new clinics, the existing clinics also recorded a growth of 18%. With the overall slow down in the economy and Kaya's offering being largely in the nature of discretionary spends, this rate of growth was lower in the second half of the year at about 10%.

The company plans to continue to open 12-15 new clinics each year. In the existing cities, the company still sees potential to add clinics in new catchment areas. As customers usually avail of a package of services that requires them to come to a clinic 3 to 4 times, a short driving distance is important. Simultaneously, the company is also working on increasing the revenues from existing clinics. This is being planned through advertising campaigns to increase footfall, cross selling services to existing clients, launching maintenance packages and the introduction of new products. Kaya Care is an Annual Membership Program designed to inculcate a habit of regular skin care amongst clients through a personalized skin care calendar.

The company has recently introduced three new products for its male customers - Kaya Skin Relief After Shave Gel, Kaya Revitalizing Face Wash and Kaya Whitening Moisturizer. Products currently comprise about 13% of Kaya's turnover.

The Kaya skin business made a loss of Rs.1.6 crore during the year. This is primarily on account of the new clinics opened during the year, which is yet to achieve break-even. During FY10, the company expects Kaya's skin care solutions business to contribute positively to the bottom line as it now has a sufficient base of existing clinics to absorb the losses that the new ones will incur in the initial phase. On reaching critical mass in the medium term, the company expects Kaya to achieve operating margins of over 20%.

No Kaya Skin Clinic has been closed since Kaya's inception.

Kaya Life

Kaya Life offers customized holistic weight management solutions. Customers are experiencing effective results on both weight loss and inch loss. However, action standard in terms of number of customers, is yet to be achieved. The team is working on the model to increase the pace of customer acquisition. A fourth centre has been opened (located at Vashi, near Mumbai) to try a model without therapy machines which makes it possible to have a more compact clinic layout. These modifications to the model will be tested before a full-fledged roll out of Kaya Life is undertaken.

COST STRUCTURE FOR MARICO GROUP

% to Sales & Services (net of excise)	FY09	FY08
Material Cost (Raw + Packaging)	53.5	51.5
Advertising & Sales Promotion (ASP)	10.5	12.9
Personnel Costs	6.9	6.7
Other Expenses	16.5	16.1
PBDIT Margins	12.6	12.9
Gross Margins (PBDIT before ASP)	23.1	25.8

The year saw a significant increase in two of the company's key raw material prices. Copra, the input for coconut oil, which accounts for about 40% of the company's raw material cost, ruled at about 25% higher than in FY08. Similarly, market prices of safflower oil, comprising about 13% of the company's raw material cost, were about 35% higher than in the previous year. It is expected that for both these raw materials, lower prices than in FY09 will prevail during FY10. Marico's packing material costs to sales are currently about 8%.

ASP as % of sales was lower during the year, mainly on account of phasing the new prototype launches towards the end of the year. Moreover, during FY09, the ASP appears lower owing to a change in the accounting policy to now reducing consumer offer amounts from both revenue and ASP expenditure. Had it not been for this change, the ASP to Sales would have been 10.8%. We expect ASP as % of sales to be in the region of 12% during FY10.

Personnel cost as % of sales is higher because the contribution of Kaya in the group topline is increasing over the quarters. Being a service oriented model, personnel costs are higher as compared to the consumer products business. Higher clinic expansion in Kaya (20 clinics were added during the year) has also meant additional head count ahead of revenue picking up in these clinics.

The company's pricing strategy attempts to pass on the input cost increases so as to maintain margins on a unit volume basis. This is based on the belief that it is easier to regain margins than to recover lost customers. In an inflationary scenario therefore the margins on a percentage to sales basis may be squeezed, owing to the higher turnover value.

CAPITAL UTILISATION

Over the years, Marico has been maintaining a healthy return on its capital employed (ROCE). Given below is a snapshot of various capital efficiency ratios for Marico:

Ratio	FY09	FY08
Return on Capital Employed (%)		
• Marico Group	37.4	40.3
Return on Net Worth (Group) (%)	49.1	66.7
Working Capital Ratios (Group)		
• Debtors Turnover (Days)	15	14
• Inventory Turnover (Days)	46	46
• Net Working Capital Turnover (Days)	45	34
Debt: Equity (Group)	0.95	1.20
Finance Costs to Turnover (Group) (%)	1.5	1.6

*Ratios computed on average balances

Inventories are higher partly on account of higher raw material costs and partly owing to some raw material position building.

Net Fixed Assets increased by Rs.54 crore during the year. This comprised mainly investments in an R&D Centre in Mumbai, 20 new Kaya clinics and a new factory in Egypt apart from normal capital expenditure.

As on March 31, 2009, the Marico Group has a net debt of Rs.270 crore (Gross Rs.375 crore). Of the gross debt, about Rs.200 crore is denominated in US Dollars. About Rs.100 crore of the USD debt is repayable within a year. A little over Rs.100 crore debt denominated in Indian Rupees is payable within a year. The average cost of the debt is about 8%. The company may roll over some of the loans when they fall due during the year. It is expected however, that the net debt level will be lower at the end of FY10. Marico has adequate cash flows to maintain healthy debt service coverage.

SHAREHOLDER VALUE

Pay out - distribution of profit to shareholders

Over the past 4 years, the company had made acquisitions and financed the same through issue of fresh equity, borrowings from banks and internal cash generation. Marico has been focussed on deploying its resources in avenues which will result in maximization of share holder value. Continuing with this policy, the Board of Directors of the Company has decided to follow a conservative dividend policy, as compared to the past, unless the company is unable to deploy the funds in attractive growth opportunities. The broad direction is to maintain the absolute amount of dividend as paid out in the previous year. On a growing profit base, the pay out ratio would be lower.

Dividend declared

At its meeting held in October 2008 and April 2009, the Board of Directors had declared interim dividends of 30% and 35.5% respectively. With this, the cumulative dividend declared is 65.5%, the same as the percentage declared in FY07 and FY08. Consequently, on a higher profit base, the dividend payout ratio is lower at 25% (inclusive of dividend distribution tax).

OTHER DEVELOPMENTS

Sundari divestment

Marico Limited (Marico) had acquired the spa products business under the brand “Sundari” through the acquisition of a controlling interest in Sundari LLC, a Company domiciled in the United States, in February 2003. Over the years, Marico increased its shareholding, eventually making Sundari LLC a wholly owned subsidiary.

Marico has made investments to grow the business. Lead times in the business, primarily in the nature of B2B are however long and the revenue generated has remained modest, despite extremely favourable customer feedback and reviews on the product range. With the overall shift in the global business environment, Marico has decided to focus on its core businesses in Asia and Africa in the B2C space.

Marico has sold its Sundari business to Wellness Systems, a limited liability company promoted by two of the Marico Group’s senior managers who were managing the Sundari business. As part of the terms of the agreement, Wellness Systems has acquired the business at a consideration based on a valuation report by an independent agency and free of any liabilities. The Marico Group’s consolidated accounts therefore show a one-time extraordinary impact of Rs.15.03 crore during FY09. Based on legal advice received, the company has treated the loss on non-recoverable advances and interest thereon as a business loss in its computation of tax provision for the year. Consequently, the profit after tax of the company is not negatively impacted.

OUTLOOK

The company has been keeping a cautiously optimistic outlook on the near future. The current global economic environment continues to remain uncertain. However, with Marico's product offerings being largely in the area of items of daily consumption in which one-time outlays are not significant, the impact of any slowdown on the company's operations is expected to be limited. Inflationary pressures in India, in crude oil as well as edible oils, have eased. Based on the extent of the decline in input costs and factors such as the competitive environment and potential down-trading, the company would take a call on pricing changes and investments in advertising and sales promotion, to grow its consumer franchise. It expects to make some improvement over its operating margins in FY09.

During the last year or so, there has been significant inflation in input prices for FMCG companies. Given Marico's strategy of attempting to maintain the absolute unit margins across its portfolio, it has taken price increases both in India and its international markets. While the company believes that its brands will continue to show volume growth, the revenue growth in FY10 will have to take into account the base effect. Moreover, should the INR appreciate sharply in FY10 against the USD, Bangladeshi Taka and South African Rand, then the revenue growth in INR could get depressed.

The company would continue to focus on long-term sustainable growth. Apart from expanding existing franchises through investments in ASP (advertising and sales promotion) and innovating to enhance the value of its offerings such as the Parachute Advansed Champi pack (hair oil with massager) or Parachute Advansed Revitalising Hot Oil, the company will also launch and prototype new products. The launch of Hair & Care Almond Gold for instance, would bring more consumers into the brand's fold, and the introduction of Saffola Zest and Saffola Rice are expected to tap into the health foods category.

In the recent past, Marico's international business introduced Hair Code hair dye in Bangladesh, and new flavours under Hercules castor oil in South Africa. Besides these, the restaging of Hair Code in Egypt and Caivil in South Africa are expected to contribute towards growth in the international business.

In Kaya, Marico will continue to open 12 to 15 clinics a year, work at reducing the time to scale up revenues in new clinics, improve capacity utilizations in existing ones and add to its range of service and product offerings.

The competitive environment in the flagship brands Parachute and Saffola remains largely unchanged and there are sufficiently strong barriers.

On behalf of the Board of Directors

Harsh Mariwala
Chairman and Managing Director

Place: Mumbai
Date: June 19, 2009