Management Discussion and Analysis

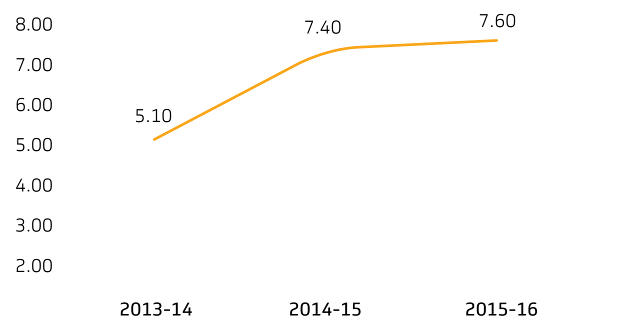
This discussion covers the financial results and other developments for the year ended March 31, 2016 in respect of Marico Consolidated, comprising its domestic and international FMCG business. The Consolidated entity has been referred to as 'Marico' or 'Group' or 'Company' in this discussion.

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, exchange rate and interest rate movements, impact of competing products and their pricing, product demand and supply constraints within India and the countries within which the Group conducts its business.

Update On Macro Economic Indicators & FMCG Industry

India

GDP Growth %



Source: Central Statistical Office

The Indian economy has been through challenging times in the last two years due to weak global macros coupled with below normal rainfall. However, even amid such weak global macros, the Indian economy has also transitioned from being one of the most fragile economies amongst the emerging markets in mid-2013 to one that is currently receiving significant capital inflows - taking the foreign exchange reserves to an all-new level of USD 350 Billion. GDP grew at a healthy clip of 7.6% in FY16 with a forecast of 7.8% in FY17. The country remained the leader among all nations in the global consumer confidence index with a score of 131 points for the quarter ending December 2015, followed by the Philippines (117), Indonesia (115) and Thailand (114). Consumer confidence in India has remained high for nine consecutive quarters. India's consumer inflation, which had been in double digits between 2010 and 2013, has come down to about 5%, in part due to the RBI's tight monetary policy, the government's measures to contain food inflation and the sharp decline in commodity prices especially crude oil.

The FMCG sector at USD 38.8 Billion (Source: Nielsen) is one of the largest sectors in India. Over the last 5 years, the sector has grown at compounded annual growth rate of 12.7%. In the past year, the growth rate has tapered off mainly due to deflation and below normal monsoons. While sentiment appears to have improved, it has not yet translated to tangible improvement in consumption across the sector. However, there is a silver lining. The recent "normal monsoon" forecast by meteorological agencies augurs well for the sector. Some other factors expected to drive the recovery are a stronger GDP growth (leading to investments in various sectors which eventually results in employment generation), moderate consumer inflation, enabling government policy framework, continuing input cost benefits, Direct Benefit Transfer Scheme (DBT), One Rank One Pension (OROP) for ex-Military servicemen and increased pay-outs to government employees consequent to implementation of 7th Pay Commission recommendations.

Over a medium to long-term, India's potential to emerge as one of the largest consumption economies of the world is intact. Apart from population growth, India is witnessing other trends that make it a favourable market from consumption perspective. These include urbanisation, increase in number of nuclear families, improvement in education level, more women in the workforce and modernisation of lifestyles. India's GDP per capita has more than tripled over the past decade. Various macro-economic studies have shown that growth in per capita consumption is not linear with per capita income. World Bank suggests that at the current GDP/ capita of USD 1,581, consumption should accelerate from the current levels, especially in premium categories. The FMCG sector will be the biggest beneficiary of the expected consumption boom.

The above macro-economic and demographic statistics make India look like a very attractive market for all consumer companies. However, like any other market, India has its own share of challenges, overcoming which will be the key to growth and profitability. **Economic inequality** continues to remain one of the most formidable challenges in the country. At the lower end of the population, as much as 50% of consumption expenditure is on food, making these households highly vulnerable to down-trading in times of high food inflation. Two-third of the Indian population lives in **remote villages** that are not well connected with the main cities. While this adds to the cost of serving rural markets, it also calibrates distribution expansion strategies. Regional players offer strong competition in these regions as they use a heavy discounting model with distributors which make some of the commoditised categories vulnerable. Lastly, monsoon continues to play an important role in the economy as more than 50% of the GDP comprises agriculture. The year gone by witnessed a less than normal rainfall, but with an expected better than average monsoon, we will see a positive effect on consumption in the medium term. Although, the growth in industry and service sectors over the years has reduced vulnerability to monsoon, it continues to be an important factor impacting disposable income and consumer sentiments.

In spite of these challenges, India's economy is well poised for growth given the correction in macro imbalances, weak global commodity prices, and structural reforms by the new government and the cyclical recovery that is in progress.

Bangladesh

Bangladesh population is estimated at more than 160 Million. It is largely an ethnically homogenous society with the highest population density in the world.

Over the last year, inflation rate has been steadily declining. Government subsidy payments were cut with a fall in global petroleum prices. Bangladesh's foreign exchange reserves hit a record USD 28.27 Billion at the end of March 2016 thanks to steady exports and slow import growth due to falling global commodity prices. Rising garment exports and steady remittances from Bangladesh nationals working overseas, two mainstay revenue generators for the country, have helped foreign exchange reserves grow steadily in recent years.

In the long-term, Bangladesh promises substantial potential in terms of socio-economic growth. A developing economy with a young demographic profile provides the perfect consumer base for the FMCG sector to flourish. Political stability will further help the cause.

Middle East and North Africa (MENA)

The decline in oil prices, weak global growth and rising geopolitical risks plagued economic activity in the Middle East and North Africa (MENA) in 2015. MENA's economy expanded 2.6% annually in 2015, which was below the 2.9% increase the year before. Oil-producing countries faced the brunt of the pain as the Organisation of the Petroleum Exporting Countries' (OPEC) strategy to keep oil prices low in order to retain market share backfired. As falling oil prices cut government revenues and sent budget balances deep into the red, most countries have also been cutting subsidies and raising energy prices, which will further restrain demand growth.

The Egyptian economy has embraced liberalisation in the recent past, thereby opening the doors to foreign direct investment and paving the path to economic growth. Fitch Ratings, a global leader in credit ratings and research, has reaffirmed Egypt's long-term foreign and local currency default rating with a "B" grade, which signifies a stable economic outlook. GDP growth for FY16 slowed to an estimated 3.2%, owing to decline in tourism revenues and the foreign currency crisis. This is after it strengthened to 4.2% in the previous year.

Fitch assumes that growth will strengthen moderately to 3.6% in FY17 since energy shortages are being addressed, and public and private investment is rising. However, Egypt's economic outlook is clouded by the ongoing dollar crunch, persistent macroeconomic imbalances, slow implementation of structural reforms and political instability.

While the short-term prospects appear subdued, the medium to long-term prospects are brighter. A steadily growing population and a developing economy provide a good base for FMCG companies in Egypt. Penetration levels in hair grooming and skin care products are modest suggesting bigger headroom for growth. The country also provides a gateway to North African countries of Algeria, Libya and Morocco.

Vietnam

Vietnam is one of the fastest growing countries in South East Asia. In the year 2015, the Vietnamese economy grew by 6.7%, in line with the government's target. Vigorous expansion of manufacturing and construction in 2015 spurred the fastest economic growth in Vietnam in the last 7 years. Foreign direct investment is seen supporting strong growth through the forecast period. The demographics of the country are very promising, with an extremely young and educated population providing an opportunity for FMCG companies to grow rapidly and premiumise.

South Africa

The South African GDP grew by 1.3% in 2015 compared to a 1.4% expansion in 2014 but is expected to rebound to 2.0% in 2016, as a large Rand depreciation may stimulate an export-led recovery. High levels of unemployment and inequality coupled with energy crisis are considered to be the most salient economic problems faced by the country. The long-term growth rate of South Africa has been estimated at 2.1%.

The Marico Growth Story

Marico achieved revenue from operations of ₹ 6,132 Crores (USD 915 Million) during FY16, a growth of 7% over FY15. The volume growth underlying this revenue growth was at 7%. Profit After Tax (PAT) for FY16 was ₹ 725 Crores (USD 108 Million), a growth of 26% over FY15.

Over the past 5 years, Marico's topline and PAT have grown at a compounded annual growth rate (CAGR) of 16% and 19% respectively. This places Marico in the top quartile in this sector.

Domestic FMCG Business: Marico India

The FMCG business in India achieved a turnover of ₹ 4,755 Crores (USD 710 Million) during the year, a growth of 7% over last year. The business delivered 7% volume growth. The operating margin of the India business during FY16 was 21.6% before corporate costs allocation.

Coconut Oil

Parachute's rigid portfolio (packs in blue bottles) recorded a volume growth of 7% for FY16 over FY15. Competitive position being favourable throughout the year, Parachute along with Nihar increased its market share by more than 63 bps to 59% during the 12 months ended March 2016. Further, in line with its philosophy to protect the consumer franchise and maintain the volume momentum, the Company actioned a cumulative decrease of 12% in its maximum retail prices in response to a deflation of 27% in the raw material prices.

The non-focused part of the portfolio (mainly pouch packs) witnessed contraction as the Company maintained minimum threshold of margins in an environment where the commodity prices have corrected substantially.

The branded coconut oil market size is ₹ 4,900 Crores (USD 731 Million). However, there is also a significant part of the market, approximately 30-40% in volume terms which is still in loose form. This loose component provides headroom for growth to the branded players. The Company's flagship brand Parachute, being the market leader, is well placed to capture a significant share of this growth potential on a sustainable basis. This is expected to be complemented by share gain in rural market where Parachute's share is lower than its urban market share. The Company would continue to exercise a bias for volume growth coupled with steady increase in market shares as long as margins remain within a band.

Foods: Super premium refined edible oils and oat cereals

The Saffola refined edible oils franchise demonstrated a 9% growth in volume terms during FY16 backed by a strong recovery in the second half of the year which was led by initiatives taken by the Company.

Over the recent years, Saffola has been leveraging the consumer trend of proactively managing a healthy lifestyle. Adopting Saffola is one of the shifts that consumers continue to make. The Saffola range of blended refined oils (available in four variants) operates in the premium niche of the refined edible oils market. The rising awareness about healthy living in the country provides significant headroom for growth. The Company continued focus on the key task of driving relevance amongst the proactively health conscious consumers through key marketing input of Saffola Active communication of "Use not just less Oil but Right Oil as well – to stay fit & active".

The near term outlook for this franchise is positive with double digit volume growth prospects. Over the medium term, we are also looking at the innovation pipeline especially in the premium segment. The Company is confident of maintaining double digit growths over the medium term.

The brand gained market share of 322 bps and further strengthened its leadership position in the super premium refined edible oils segment to 63% during the 12 months ended March 2016.

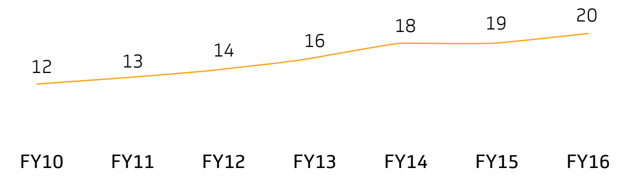
Saffola's foray into healthy foods, Saffola Oats, has emerged as a strong brand, ranked second, in the oats category with a value market share of 27%. Saffola Masala Oats launched two new exciting flavours viz. "Chinese and Italian" in January 2016. These flavours have been developed keeping in mind that consumers crave for novel and exciting flavours during snacking occasions. The brand has also signed on celebrity chef Kunal Kapoor as its brand ambassador to partner with the brand in creating many more superior product offerings for the consumers. Focus on value added offerings in the oats segment has enabled the Company to capture 70% value share in the flavoured oats market for the 12-month period ended March 2016. The franchise crossed ₹ 100 Crores (USD 15 Million) of top-line during the year and is well poised to cross ₹ 200 Crores (USD 30 Million) landmark by FY18. The Company's ability to localise the product to suit the Indian palate and drive consumption by increasing the occasion of use apart from breakfast to in-between meals has been the key catalyst in creating and succeeding in this category. The Company has also driven distribution expansion to improve availability. Saffola Masala Oats is now the most distributed brand in its category. Focus on improving the margins in this franchise with focused cost management initiatives will ensure long-term sustainable profitable growth.

Value Added Hair Oils

Marico's value added hair oil brands registered a volume growth of 14% during the year. Marico continues to grow faster than the value added hair oils market of ₹ 6,100 Crores (USD 910 Million). During the year, the Company further strengthened its market leadership by 179 bps to 32% volume share (for 12 months ended March 2016) and with value share gain of 132 bps to 25% for the same period. Going forward, the Company will continue its focus on premiumisation to drive growth in the category. The Company's Value Added Hair Oils portfolio crossed ₹ 1,200 Crores (USD 179 Million) landmark this year with a bouquet of 4 strong brands.

Value Added Hair Oils portfolio has grown at a 10 year Compounded Annual Growth Rate of ~30% and now accounts for a sizeable portion of the Company's Business which is growing strongly.

Hair Oils Journey-Share of Business %



Nihar Shanti Amla continued to gain market share and achieved a volume market share of about 37% for the 12 months ended March 2016 in the Amla hair oil category (MAT March 2015: 32%). The increased scale of the franchise enables the Company to benefit from operating leverage thereby improving net margins despite competitive pricing. A spout pack of ₹ 5 is being prototyped in Northern Rural India to drive trial and penetration.

Nihar Naturals Sarson Kesh Tel, a value added mustard oil targeting loose mustard oil pool was launched across markets in North and parts of East India after promising results from the prototype in Rajasthan.

In the Hair Fall Control segment of value added hair oils, Marico has two offerings – Parachute Advansed Ayurvedic Oil and Parachute Advansed Ayurvedic Gold Hair Oil. Marico clocked a top line of circa ₹ 60 Crores during FY16 in this segment. Parachute Advansed Ayurvedic Oil, a coconut oil based formulation, with presence in southern states, continued to grow rapidly. Parachute Advansed Ayurvedic Gold Hair Oil, a sesame oil based formulation, after its successful prototype in Maharashtra has now been extended to all the Non-Southern states in February 2016. This variant is aimed at a more broad-based play in northern and eastern India. The Company expects to cross top line milestone of ₹ 100 Crores (USD 15 Million) by FY18 in the Hair Fall Control segment.

The Value Added Hair Oils category has been amongst the fastest growing large-sized FMCG segments in India and compares very well with other highly penetrated personal care categories. There is also an emergence of new age hair oils in the developed markets that could create a super-premium segment in India too. This serves to emphasise that hair oils can drive both beauty and nourishment. Marico will continue to focus on upgrading the portfolio by playing across segments that cater to consumer needs of nourishment and problem solution. Marico's focus on leave-in hair nourishment offers Marico an opportunity to look beyond just hair oils and in the process premiumise its portfolio.

Youth Portfolio

The Youth brands portfolio plays in three categories i.e., Hair Gels, Leave-in serums and Deodorants. This business delivered a lackluster performance during FY16 - declining by 4% in comparison to FY15.

Set Wet Gel brand completed one full year after it was re-launched in Q4FY15. Riding on focused brand building efforts, new pack and expanded distribution, the brand delivered consistent double-digit growths throughout the year. It has also been gaining market share consistently which is testimony to the effectiveness of the revamped strategy. The market share went up by 1,197 bps in last 12 months to 54% in March 2016. The Gels now comprise circa 40% of total Youth Portfolio. The initiatives taken by the brand have also accelerated growth in the category, which is at a nascent stage of its evolution.

Taking a leaf from the Set Wet Gel success book, the 'Sada Sexy Raho' (Remain Sexy forever) campaign has been extended to Set Wet Deodorants too. Ranveer Singh, a leading cine actor and a youth icon, works with the brand as its ambassador. His youth appeal is expected to help the brand get back lost volumes and market share. The refreshed new product which hit the markets in March 2016 promotes the 'day usage' practice unlike the other brands which focus only on 'party / night usage'. The medium term objective is to regain the market share.

Livon Franchise declined in FY16 over FY15. Livon has two products – the Hair Gain and the Leave-in conditioner serum. The Livon Hair Gain franchise got impacted by counterfeits (especially in the e-commerce channel). The Brand launched its new communication showcasing real life consumer experiences to build credibility about the product's efficacy. The anti-counterfeit measures on the pack were also strengthened with the introduction of Unique Identification Number on each pack. In order to revive the growth in Serums category, the Company restaged Livon Serum during the second quarter of FY16. Key pillars of the restage included a better formulation, refreshed packaging, celebrity brand ambassador, new communication campaign and low unit packs at ₹ 5. While the medium term prospects for this brand are promising, in the near term, it will take couple of quarters to return to growth path, given the category creation task. The results of both Hair Gain and Serum restage are being closely monitored.

The Hair Gels and Creams (Set Wet and Parachute) and Leave-in Conditioners (Livon and Silk and Shine) now have a 12-month value share of 59% and 79% respectively. These categories are at a very nascent stage as their penetration in India is far lower as compared to other emerging markets. Being market leaders, the Company is well poised to innovate and grow the market.

Overall, given the initiatives rolled out for all the three verticals, the Company is confident of a double digit value growth in the Youth Business in near term.

Distribution

Marico's rural and urban sales grew by 8% and 6% respectively in FY16. The continued focus on distribution expansion in rural markets has pushed the Company's rural sales to 34% of total India sales in FY16. In rural areas, incremental direct coverage provides an ideal platform to enhance the reach of the Value Added Hair Oils portfolio. As a step towards increasing rural reach, the Company is prototyping ₹ 5 spout pack of Nihar Shanti Amla in rural India.

Sales in Modern Trade (9% of the India turnover) continued the good run with growth of 15% in FY16. CSD and Institutional sales (8% of the India turnover) grew at 11% in FY16.

Project ONE (Outlet Network Expansion) was conceived with an objective of increasing Marico's direct coverage in its top 6 metros. Project ONE has significantly augmented the reach of the Company's brands by improving assortment and availability at the outlet. It gives retailers convenience of service and access to promotions. With the coverage objective achieved, the initiative has been merged into regular distributor coverage. The project has resulted in optimizing distributor sales and store delivery apart from reducing service costs to these stores. Incremental Turnover of ` circa 60crore (USD 9 Million) was garnered through Project ONE in FY16. The Company has expanded the coverage of this initiative to the next level of 14 towns.

The journey to refresh and reconfigure the IT systems within the company with robust infrastructure including digital initiatives is underway.

The Company has completed the rollout of its technology driven collaboration platform for its customers in India. This new Order Management Platform enables automatic ordering through the system, which has helped increase the fill rates and brought about a greater visibility to stock-outs and thus impacted sales positively. Marico has also embarked on changing its point of sale as well as Distributor Management systems. This is an enabler to improve sales force productivity, visibility and commercial controls in the areas where it has already been rolled out. This is giving a strong backbone to drive data visibility and future analytics resulting in better execution in the market.

Marico has set up the analytics architecture in the back end to handle the visibility of digital data and use of the same across different functions.

The prototype on use of Advanced Analytics to predict store level assortment in one of the major cities is underway. The results have been encouraging and the pilot has been extended to all the outlets in that city from January 2016.

As part of its plan to remain relevant to the internet-savvy new age consumers and other stakeholders, the Company, in coming quarters, will focus a lot on various digital Initiatives. As a result, e-commerce has become an important pivot of growth. The Company has taken definitive steps to stay ahead of the curve in this space and has identified and appointed dedicated resources for e-commerce. As a result of these initiatives, Company has been able to double its annual revenue in e-commerce channel as compared to FY15.

Summing up the story of India Business in FY16

FY16 was a tough year for Indian economy. Although the consumer inflation was low, a below-normal rainfall caused distress, especially in Rural India. Amid these tough conditions, the India FMCG business delivered a satisfactory top line and a robust bottom line performance. With various building blocks in place and prospects of a normal monsoon, the outlook on this business for the coming year is positive.

International FMCG Business: Marico International

Marico's International FMCG business (its key geographical constituents being Bangladesh, South East Asia, Middle East, Egypt and South Africa) comprised 22% of the Marico Groups turnover in FY16. The business reported a 4% constant currency growth during the year. The operating margin for the full year was at 17.7% (before corporate costs allocations).

During the year, the International Business continued to focus on the following key pivots of growth in its chosen emerging markets in Asia and Africa:

1. Aggressive growth in non-Parachute portfolio in Bangladesh
2. Recovery in Middle East and South East Asia
3. Go-To-Market transformation in Egypt
4. Investment in new markets

Overall, the strategy of focusing on strengthening the core and investing behind capabilities has started showing positive results and should help accelerate growth in coming years.

Bangladesh (45% of the International Business)

The Bangladesh business remained flat in FY16 on account of muted volume growth in Parachute coconut oil and price cuts due to benign material costs.

Parachute coconut oil de-grew by 3% in constant currency terms due to price correction (volume growth: 2%) maintaining leadership position with 82% share. Given that the scope of growth in coconut oil segment is limited as the category has matured, the Company has taken substantial measures in driving adjacent sources of growth to diversify the portfolio. However, the coconut oil franchise continues to have a larger share of the business and needs to continue to grow. In line with the Company's philosophy to protect the consumer franchise and gain market share, an overall price cut of circa 10% across SKU's was actioned during the year.

During the year, the Company's value added hair oils portfolio grew at a rate of 13% in constant currency terms. New packaging has been introduced for 'Nihar Shanti Amla' in order to lend a modern and premium imagery to the brand. Flagship brand 'Beliphool' value added perfumed coconut oil was re-launched in new PET pack.

In the last couple of years, the Company has made significant investments to expand its non-coconut oil portfolio such as Value Added Hair Oils (VAHO), Hair Dyes, Deodorants, Leave-in conditioners, Savoury Oats and Premium Edible oils. These products have been accepted well and are expected to create a portfolio of the future in Bangladesh. During FY16, the non-coconut oil portfolio grew at a rate of 13% in constant currency terms. In FY16, the entire value growth is attributed to non-Coconut Oil portfolio given the reduction in Parachute Coconut Oil prices.

Consequent to these initiatives, the non-coconut oil portfolio is now more than 20% of the total business in Bangladesh as compared to 10% four years back. The new launches offer a substantial proposition for future roadmap in Bangladesh. The Company expects to leverage its strong distribution network and learning from the Indian market to quickly scale up its new product introductions in Bangladesh. From FY17 onwards, more than 80% of the incremental growth in the Bangladesh business is expected to come from the non-coconut oil portfolio backed by modest growth in core coconut oil business.

Middle East and North Africa (MENA - 20% of the International Business)

The MENA business on an overall basis grew by 17% (constant currency basis) during FY16 as compared to FY15.

In the Middle East business, the Parachute franchise of Value Added Hair Oils and Creams was re-launched with improved formulations and packaging. It targets the Arab consumers who are looking for nourishment and problem solutions in modern contemporary formats. The Business continued its positive momentum and grew by 27% on constant currency basis in FY16. Thus, the business has grown in double digits in all the

quarters in FY15 and FY16. The business has reported operating profits for the full year and this trend of improvement is expected to continue and the management expects the business to become consistently profitable in FY17.

The Company had undertaken a distribution transition in Egypt in the second half of FY15. The transition was aimed at eliminating dependence on a single distributor and achieving better go-to-market (GTM) model for realising the maximum distribution potential. Many transformational benefits such as increased direct distribution, improved retail selling and reduced working capital requirement resulting in lower credit risk have started to accrue. The transformation started yielding results in the second half of FY16; the business grew by 6% in constant currency over FY15. However, given the tough macro-economic conditions, the recovery is likely to be gradual. We remain positive about the medium term outlook on this market.

South East Asia (25% of the International Business)

Business in South East Asia (of which Vietnam is a significant contributor) grew by 2% in constant currency terms in FY16. On a like-to-like basis (without considering the results of its subsidiary, Beauté Cosmétique Societé Par Actions, which was divested during Q1FY16), the constant currency growth was 7% for the year. X-Men maintained its leadership in male shampoos and the number two position in male deodorants. Over the medium term, the Company remains well poised to participate in the category growths when economic growth picks up.

The Company continues to scale up its presence in neighboring countries like Malaysia and Myanmar. Myanmar ended the year with a turnover of circa USD 6 Million.

South Africa (7% of the International Business)

The business reported a constant currency growth of 7% during the year despite challenging macro conditions. The rapidly depreciating South African Rand (ZAR), however, impacted the top line growths. The currency has devaluated by 22% over last 12 months.

The Company has initiated its organic footprint in sub-Saharan African markets. The Company commenced exports to four countries. Plans for entry in other markets are on track and the Company believes these markets are "Invest to Grow" markets and will be backed by adequate marketing initiatives.

Summing up the story of International Business in FY16

FY16 was a tough year for the International Business. Challenging macros and longer gestation period for some of the transformation steps has resulted in a lower growth. The medium term outlook, however, is positive. The macro headwinds are slowly receding while the Company will step up its efforts to regain the double digit constant currency growth backed by growth in core and launch of new products.

Consolidated Results of Operations – An Overview

During the year ended March 31, 2016 (FY16), Marico registered consolidated revenue from operations of ₹ 6,132 Crores, a growth of 7% over previous year. The volume growth underlying this revenue growth was 7%.

Profit after tax (PAT) for FY16 was ₹ 725 Crores, a growth of 26% over FY15.

Total Income

Our total income consists of the following:

1. Revenue from Operations includes Sales from "Consumer Products" including coconut oil, value added hair oils, premium refined edible oils, anti-lice treatments, fabric care, functional and other processed foods, hair creams & gels, hair serums, shampoos, shower gels, hair relaxers & straighteners, deodorants and other similar consumer products, by-products, scrap sales and certain other operating income.

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

The following table states the details of income from sales and services for FY16 and FY15.

(₹ in Crores)

Particulars	FY16	FY15
Revenue from Operations	6,132.0	5,733.0
Other Income	93.4	58.9
Total Income	6,225.4	5,791.9

There has been 7% growth in Revenue from Operations on account of 7% growth in Marico India and 7% growth in Marico International.

Expenses

The following table sets the expenses and certain other profit and loss account line items for the years FY16 and FY15:

	For the year ended March 31,			
	2016		2015	
	₹ Crores	% of Revenue	₹ Crores	% of Revenue
Revenue from Operations	6,132.0		5,733.0	
Expenditure				
Cost of Materials	3,061.4	49.9%	3,119.0	54.4%
Employees Cost	363.9	5.9%	325.1	5.7%
Advertisement and Sales Promotion	786.1	12.8%	649.8	11.3%
Other Expenditure	858.2	14.0%	768.9	13.4%
PBIDT margins	1,062.5	17.3%	870.1	15.2%
Depreciation, Amortisation and Impairment	101.8	1.7%	84.3	1.5%
Finance Charges	20.3	0.3%	23.0	0.4%
Tax	297.1	4.8%	236.8	4.1%
Profit after Tax	724.8	11.8%	573.5	10.0%

Cost of Materials

Cost of material comprises consumption of raw material, packing material, semi-finished goods, purchase of finished goods for re-sale and increase or decrease in the stocks of finished goods, by-products and work-in-progress.

The prices of copra, one of the main ingredients, declined by 27% as compared to last year. Rice bran oil and Liquid Paraffin prices dropped by 3% and 31% respectively during the year while Safflower Oil prices were up by 10%. HDPE (a key ingredient in packaging material) price was down by 10% compared to FY15. Considering copra accounts for a major proportion of input costs, the overall cost of materials reduced by 448 bps during FY16 leading to gross margin expansion.

Employee Cost

Employee cost includes salaries, wages, annual performance incentives, provision towards long-term incentives, statutory bonus and gratuity, contribution to provident and other funds and staff welfare schemes expenses. The Company has an extensive process of performance management enhancement through the deployment of MBR (Management By Results), which is intended to create an environment where employees are encouraged to challenge and stretch themselves. Based on the Company's target achievement and the individual's performances against goals identified performance incentives are determined. Long-term incentive provisions are towards Employee Stock Option Plan (ESOP) and Stock Appreciation Rights Scheme (Company's long-term incentive plan). During the year under review, employee cost as % of revenue is higher compared to last year mainly due to higher provisions towards these long-term incentives.

Advertisement and Sales Promotion (ASP)

The Company continues to make investments behind existing products and new products. ASP spends on new products comprises significant part of the overall ASP. Overall increase in ASP spends for the full year was 21%. Significant part of the overall ASP was invested behind new products such as Value Added Hair Oils, Foods and Youth portfolio in India and new launches and restages across other geographies.

Depreciation, Amortisation and Impairment

For the year as a whole, depreciation has increased from ₹ 84.3 Crores in FY15 to ₹ 101.8 Crores in FY16. The increase is on account of change in useful life of moulds and capital asset additions for the year.

Other Expenses

(a) The other expenses consist of expenses which are fixed in nature (about 1/3rd) and expenses which are variable in nature (about 2/3rd).

Other Expenses	FY16	FY15	% variation
Fixed	295	222	33
Variable	564	547	3
Total	858	769	12

a. Fixed Expenses include items such as rent, legal and professional charges, foreign exchange losses and donation. A large part of increase in these fixed expenses is attributable to hit on account of realised foreign exchange losses during the year ₹ 45 Crores which pertains to hedging a part of external commercial borrowing (ECB) taken for funding acquisition of controlling stake in International Consumer Product Corporation (ICP), Vietnam in 2011. Excluding the same, other fixed expenses have increased by 13% largely due to increased Legal & Professional charges.

b. Variable Expenses include items such as freight, subcontracting charges, power and fuel, warehousing, input and output taxes, etc. The variable expenses have increased by 3% on account of freight and other rates and taxes.

Finance Charges

Finance charges include interest on loans and other financial charges. Reduction in finance charges is in line with reduction in the Company's Debt (refer balance sheet).

Direct Tax

The Effective Tax Rate (ETR) for the Company during FY16 was 29.1% as compared to 28.8% during FY15.

Consolidated Balance Sheet

(₹ in Crores)

	Particulars	As at March 31, 2016	2015
A	**Equity and Liabilities**		
1	Shareholders' Funds		
	(a) Share Capital	129.0	64.5
	(b) Reserves & Surplus	1,967.8	1,760.3
	Sub-total Shareholders' fund	**2,096.8**	**1,824.8**
2	Minority Interest	14.3	13.7
3	Non-current liabilities		
	(a) Long-term borrowings	0.4	168.7
	(b) Deferred tax liabilities (Net)	10.2	12.3
	(c) Long-term provisions	11.5	8.7
	Sub-total Non-current liabilities	**22.0**	**189.7**
4	Current Liabilities		
	(a) Short-term borrowings	152.8	165.4
	(b) Trade payables	669.0	564.3
	(c) Other current liabilities	375.1	276.5
	(d) Short-term provisions	103.3	95.3
	Sub-total current liabilities	**1,300.1**	**1,101.6**
	TOTAL - EQUITY AND LIABILITIES	**3,433.3**	**3,129.7**
B	**Assets**		
1	Non-current assets		
	(a) Fixed assets	582.6	589.8
	(b) Goodwill on consolidation	498.0	489.2
	(c) Non-current investments	69.4	46.8
	(d) Deferred Tax Assets	10.3	4.4
	(e) Long-term loans and advances	100.4	50.6
	(f) Other non-current assets	58.2	120.8
	Sub-total Non-current assets	**1,318.8**	**1,301.5**
2	Current assets		
	(a) Current investments	347.0	237.1
	(b) Inventories	925.8	994.7
	(c) Trade receivables	252.4	176.8
	(d) Cash and cash equivalents	309.7	204.9
	(e) Short-term loans and advances	249.0	179.1
	(f) Other current assets	30.7	35.6
	Sub-total current assets	**2,114.6**	**1,828.2**
	TOTAL ASSETS	**3,433.3**	**3,129.7**

Shareholders' Funds

This comprises the paid up share capital and reserves & surplus. Increase in Share Capital is on account of issue of bonus equity shares in the ratio of 1 equity share for every 1 equity share held and stock options exercised by the employees under the ESOP Scheme 2007. Annexure to the Directors' Report provides further details of stock options issued, exercised and pending to be exercised.

Increase in Reserves & Surplus from ₹ 1,760.3 Crores in FY15 to ₹ 1,967.8 Crores in FY16 is on account of net profits earned during the year, net off the dividend distributed and reduction in debit balance of hedge reverse pertaining to the ECB (refer note (a) under Other Expenses).

Minority Interest

Minority Interest represents the share of consolidated profits attributable to non-Marico shareholders in Marico Bangladesh Limited. Company's Bangladesh subsidiary, Marico Bangladesh Limited (MBL), had listed 10% of its equity share capital on the Dhaka Stock Exchange in September 2009 by issuing fresh shares to public in that country.

Increase in minority interest from ₹ 13.7 Crores in FY15 to ₹ 14.3 Crores in FY16 is mainly on account of profits earned during the year net off the dividend distributed by Marico Bangladesh Limited.

Long-term Borrowings

Long-term borrowings represent borrowings which have repayment schedules exceeding one year. The Long-term borrowings have come down from ₹ 168.7 Crores to ₹ 0.4 Crores primarily due to repayment of the External Commercial Borrowing (ECB) and the balance due to reclassification of part of ECB to Other Current Liabilities (as it is due for repayment within one year from the date of the balance sheet) and impact of translation of ECB loan as at year end as per Accounting Standard 11 (AS11).

Deferred Tax Liabilities

Deferred Tax Liabilities (DTL) represent the timing differences resulting due to variations in the treatment of items as per Income Tax Act, 1961 and Indian Generally Accepted Accounting Practices (GAAP). The reduction in DTL from ₹ 12.3 Crores in FY15 to ₹ 10.2 Crores in FY16 is largely due to the timing difference on the treatment of intangibles.

Long-term Provisions

Long-term Provisions are provisions for Leave Entitlements, Gratuity and Employee Stock Appreciation Rights (STAR). Long-term provisions have increased from ₹ 8.7 Crores in FY15 to ₹ 11.5 Crores in FY16 due to increase in provisions towards Gratuity.

Short-term Borrowings

Short-term Borrowings represent borrowings taken for working capital purposes. The short-term borrowings have reduced to ₹ 152.8 Crores in FY16 from ₹ 165.4 Crores in FY15 due to repayment of various short-term loans out of internal accruals.

Trade Payables

Trade payables represent amounts payable to vendors.

Other Current Liabilities

Other Current Liabilities include debts or obligations that are due within one year from the date of the balance sheet. Other Current Liabilities have increased from ₹ 276.5 Crores in FY15 to ₹ 375.1 Crores in FY16 on account of reclassification of a part of ECB (payable within one year from the balance sheet date) to Other Current Liabilities.

Short-term Provisions

Short-term Provisions represent provisions towards employee benefits, Income tax and Disputed Indirect Taxes. The amount has increased from ₹ 95.3 Crores in FY15 to ₹ 103.3 Crores in FY16 primarily due to increase in provision towards increase in income tax provisions in Marico Bangladesh Limited.

Fixed Assets including Intangible Assets and Capital work-in-progress

Fixed assets represent investments made by the Company in tangible assets such as Buildings, Plant & Machinery, Furniture & Fixtures, etc. Reduction in net Fixed Assets (Gross value of Fixed Assets net of depreciation, amortisation and impairment) from ₹ 589.8 Crores to ₹ 582.6 Crores is on account of normal impact of depreciation & impairment.

Goodwill on Consolidation

Goodwill on consolidation represents the excess of consideration paid over their net assets to acquire companies. Goodwill on Consolidation has increased from ₹ 489.2 Crores in FY15 to ₹ 498.0 Crores in FY16 mainly due to foreign currency translation impact on revaluation of goodwill of foreign subsidiary as per AS11.

Non-current Investments

Non-current Investments comprise long-term investments, the full value of which will not be realised before one year from the date of the balance sheet. Increase in non-current investments from ₹ 46.8 Crores in FY15 to ₹ 69.4 Crores in FY16 is on account of reclassification of a property as asset held for disposal and increase in investment in bonds.

Deferred Tax Assets

Deferred Tax Assets represent timing differences resulting due to variations in the treatment of items as per Income Tax Act, 1961 and Indian GAAP. Increase in deferred tax assets from ₹ 4.4 Crores in FY15 to ₹ 10.3 Crores in FY16 is due to timing difference on the treatment of depreciation in Indian GAAP and The Income Tax Act, 1961 and timing difference due to disallowance of certain expenses as per the income tax laws.

Long-term Loans and Advances

Long-term Loans and advances include the amounts paid by the Company recoverable in cash or in kind after 12 months from the balance sheet date. These include security deposits, advances paid to suppliers in select cases, balance with statutory and government authorities, advances given to Welfare of Mariconians (WEOMA) Trust, etc. Long-term Loans and Advances have increased from ₹ 50.6 Crores in FY15 to ₹ 100.4 Crores in FY16 during the year mainly due to additional loan disbursed to WEOMA for funding new STAR schemes.

Other Non-current Assets

Other non-current assets include receivables/entitlements maturing after more than 12 months from the balance sheet date. Decrease in Other Non-current assets from ₹ 120.8 Crores in FY15 to ₹ 58.2 Crores in FY16 is on account of Minimum Alternate Tax (MAT) Credit utilisation during the year.

Current Investments

Current investments comprise short-term investments, the full value of which will be realised before one year from the date of the balance sheet. It includes investments made in Mutual Funds, Bank Certificates of Deposits, etc. Increase in current investments from ₹ 237.1 Crores in FY15 to ₹ 347.0 Crores in FY16 is mainly on account of increase in investments in Mutual Funds.

Inventory

Inventory includes the stocks of raw material, packing material, work-in-process, stock-in-trade and finished goods held for sale in the ordinary course of business. Decrease in inventory from ₹ 994.7 Crores in FY15 to ₹ 925.8 Crores in FY16 is mainly due to deflation in raw material costs partially offset by higher raw material and finished goods inventory levels.

Trade Receivables

Trade Receivables include the monies to be received from its customers against sales made to them. Increase in trade receivables from ₹ 176.8 Crores in FY15 to ₹ 252.4 Crores in FY16 is attributed to a comparatively higher skew of sales towards the end of March 2016 as compared to March 2015.

Cash and Cash Equivalents

This includes amounts lying in Cash and with the Company's bankers. There is an increase in the cash balances from ₹ 204.9 Crores in FY15 to ₹ 309.7 Crores in FY16 primarily due to increase in Fixed Deposits (FD) kept with various banks.

Short-term Loans and Advances

Short-term loans and advances include monies to be received within one year from the date of the balance sheet. Increase in short-term loans and advances from ₹ 179.1 Crores in FY15 to ₹ 249.0 Crores in FY16 is mainly on account of increase in Inter Corporate Deposits and higher advance for import.

Other Current Assets

Other current assets include all other monies to be received within one year from the date of the balance sheet, such as interest receivable, export incentive receivable, assets held for disposal, etc. Decrease in Other Current Assets from ₹ 35.6 Crores in FY15 to ₹ 30.7 Crores in FY16 is on account of reclassification of a property as asset held for disposal (and thus included under non-current investments).

Contingent Liabilities

Contingent liabilities increased from ₹ 736.8 Crores in FY15 to ₹ 875.7 Crores in FY16.

1. Major component of this liability is a possible obligation of ₹ 685.5 Crores on account of excise duty which has been explained in detail in the Notes to Accounts.

2. Other contingent liabilities include letters of credit issued in the normal course of business and tax payments disputed with the various regulatory authorities of the country.

Capital Utilisation

Given below is a snapshot of various capital efficiency ratios for Marico:

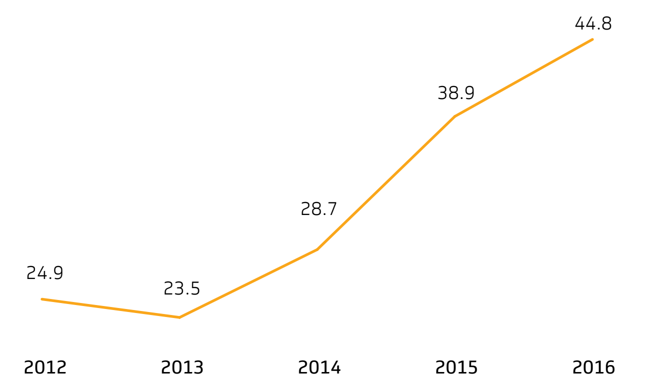
Ratio	FY16	FY15
Return on Capital Employed	**44.8%**	38.9%
Return on Net Worth	**37.0%**	36.0%
Working Capital Ratios (Group)		
- Debtors Turnover (Days)	**13**	13
- Inventory Turnover (Days)	**57**	57
- Net Working Capital (Days) including surplus cash	**46**	45
Debt: Equity (Group)	**0.19**	0.35
Finance Costs to Turnover (%) (Group)	**0.3%**	0.4%

Note: Turnover Ratios calculated on the basis of average balances.

The ratios have continued to be healthy for the year. They have shown an improvement over last year primarily due to robust growth in operating profits.

The Company's ROCE has been on a rise for the past 5 years which is depicted in the following chart.

ROCE - Past 5 years Trend %



Shareholder Value

The Company's dividend distribution policy is aimed at sharing its prosperity with its shareholders subject to maintaining an adequate chest for liquidity and growth.

Dividend Declared

Keeping in mind the increase in profits made by the Company and in an endeavour to maximise the returns to its shareholders, the Company increased its dividend payout during the year to 675% (including one time payout of 150% declared in March 2016) as compared to 250% during FY15. The overall dividend payout ratio was 69% of PAT as compared to 30% during FY15. Subject to its fund requirements towards inorganic growth, the Company shall endeavour to maintain a dividend payout ratio of 40-50% in the medium term.

Human Resources

Talent and Culture are two strategic drivers for Marico to achieve its business aspiration of becoming an emerging market multinational. The HR Function's mission has been to attract and nurture talent to succeed and create a great place to work.

Over the last year, we have taken several initiatives to live the mission for achieving our business aspiration and make a difference to our 2,461[1] employees worldwide. The key highlights are presented below.

In the strategic area of **Talent**, we built a robust talent pipeline to meet present and future business needs, in line with our endeavour to build capability ahead of growth. This involved streamlining of the **Talent Pipeline Process** to formally track the talent pipeline for critical positions. To strengthen our capability building efforts to meet current and future business needs, we have designed **Functional Competency** frameworks for select functions. This will facilitate talent development in line with the organisation's capability needs and help promote talent mobility across units in India and internationally. As part of our leadership development efforts, we extended **customised development experiences** to key talent based on their leadership passage.

"Over the Wall", Marico's flagship Business School engagement program was strengthened to build greater traction at leading business schools in India to attract top

[1] As on March 31, 2016

young talent. The program was integrated with our Facebook page "Marico Campus Connections (MC2)", which enabled us to organise live case study presentations at campuses and invite audiences to participate in selecting the best teams in this contest. Similarly, our Best Summer Project contest also went digital and these initiative garnered 8,547 hits online.

This year, we also launched the **Marico's Career page** on **LinkedIn** to strengthen our employer brand and connect with talent. **Talview**, a video based interview platform was introduced for hiring in Sales Function across India which has resulted in faster turnaround time and cost saving for hiring.

In the strategic area of **Organisational Culture**, we endeavoured to foster Innovation. **Innovation Jams** were leveraged successfully to crowdsource ideas from Mariconians on specific themes. Marico's first **Young Board**, comprising young home grown leaders, successfully completed their tenure and worked on spotting new business opportunities and key organisational initiatives. The succeeding, 2nd Young Board was constituted to continue the momentum to strengthen Marico's culture. A **Technology Think Tank** was constituted with bright young minds, which explored and recommended how to leverage technology innovatively.

Continuing with our digital theme, we extended **iLearn**, Marico's global technology enabled learning platform, to all members worldwide. Over 1,500 members (98%) were educated on Marico's Code of Conduct through e-learning via this platform. Members continue to leverage this platform for competency development. **Maricognize**, our unique social recognition program, continues to be leveraged to celebrate big and small contributions. We also embraced **technology** to organise a global interactive webinar with the MD and CEO to clarify Marico's business aspirations, progress on thrust areas, key achievements and also respond to member questions and concerns.

These initiatives and efforts over the last few years, have won us quite a few **accolades**. We are proud to share that

- Marico is ranked No. 3 in the FMCG industry in the 2015 Great Place to Work Study.

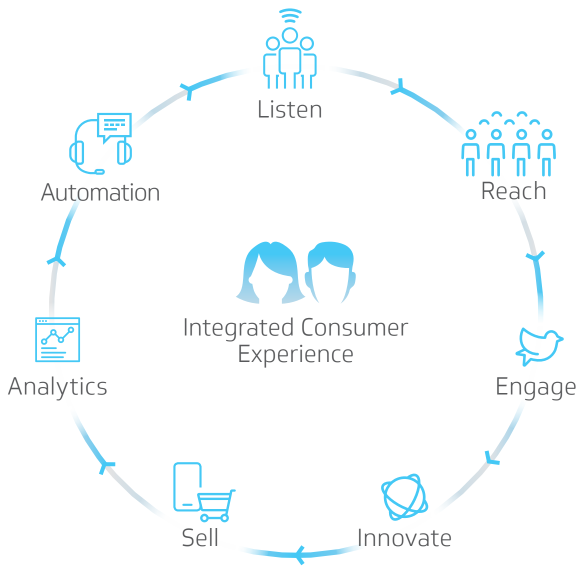
- Marico is ranked No. 4 in the 2014 Aon Hewitt Top Companies for Leaders in India, a study conducted by Aon Hewitt on talent management and leadership development practices globally.

- Marico participated as an invitee at the global Top Companies of Leaders Think Tank event co-hosted by Aon Hewitt and GE at GE's Crotonville campus in USA.

Information Technology and Digital

Over the last couple of years, the digital forces have brought about a lot of changes in the business environment. Your Company has also recognised the opportunities presented by such forces and has developed a strategy to harness them in order to become a digitally savvy consumer company.

Your Company has already taken steps to engage with its customers, consumers and employees through the use of SMAC (Social, Mobile, Analytics, Cloud) and platform based technologies.



It follows the cycle of Listen -> Reach -> Engage -> Innovate -> Sell -> Analyse - > Automate in order to deliver a better and integrated experience to the associates and consumers.

The Company Listens and Engages with its consumers through **Online** (saffolalife.com, fitfoodie.in), **Social** (facebook\SetWetStyling, Sentiment Monitoring) and **Mobile** (Nihar Shanti Amla Angrezi Pathshala, Parachute Advansed Ayurvedic Hair Oil) channels.

Your Company also rolled out Order Collaboration Platform for its Indian customers (distributors) which has helped in better fill rates, improve visibility of stock outs and thus positively impacting sales as well as the working of the distributors. The Company has also embarked on changing the point of sale and Distributor Management Systems to enable improved sales productivity, visibility and commercial controls. This has led to a positive impact on the life of the distributors benefiting them at an overall level and contributing to the wellbeing of our associates in a sustainable manner.

Sell: E-commerce is an important pivot of growth and with dedicated resources and technology the Company has been able to double its annual revenue in the e-commerce channel as compared to FY15.

As a result of the above platforms, the data available has led to better descriptive and predictive analytics. Your Company has already set up the analytics architecture in the back end to handle the visibility of digital data and its usage across functions. Specific projects are in various stages of progress across Sales, Marketing and Supply Chain functions.

Your Company also continuously scans for technologies that are useful and relevant to its business and which can aid in increasing the shareholder value through growth, innovation, simplification or efficiency. In order to prioritise the relevance of such technologies and to generate ideas on its usage, your Company successfully conducted an "Innovation Jam on Digital Technologies" which sought ideas from its employees. A team was formed comprising young IT Savvy Managers from across departments as a "Technology Think Tank" in order to generate top ideas which would contribute to the growth and business of the Company. Select ideas are now being prototyped and taken forward by the respective business teams in collaboration with the IT department. Your Company believes that these ideas will add to the sustainable profitable journey on which we have embarked upon.

Outlook

Marico India

The year FY17 has begun with deflationary pressures and a severe drought in many parts of the country, impacting at least 25% of the population. These headwinds may limit the volume growths in the short-term. However, the forecast of a normal monsoon has brought some good news. This should help lift the consumption levels, especially in the second half of FY17. The Company will strive to drive volume growths and maintain medium term growth rates in the range of 8-10% by growing the core and rapidly scaling New Products. In the near term, however, given the Year-on-Year deflation, the top line growth will be subdued. In **Parachute Rigids**, the Company aims to grow volumes in a range of 5-7%, both in the near term and medium term. **Saffola** is likely to grow by circa 10% in the near term due to combination of wider participation and selective pricing inputs. The medium term growth prospects are also similar. The **Foods** franchise is expected to contribute up to ₹ 200 Crores (USD 30 Million) by FY18. This translates to aggressive growths in the coming two years. New launches / prototypes in value added **hair oils** space will aid in premiumising the Company's offering and will further improve its value market shares. The launches will also help reaching the mass market segment by widening the product offering thus extending the gains in volume market shares. In the medium term, the Company aims to grow this franchise at a volume growth rate of 12-15%. On the back of a continued healthy performance of Gels, renovation of Deodorants and expected demand due to restage of Livon serum, the **Youth portfolio** is expected to grow at high double-digit (>20%) in FY17 and at 15% in the medium term. The **direct distribution initiative** of Project ONE is expected to supplement volume growths in the Tier I and Tier II markets. Strategic initiatives in sales and supply chain will aim at ushering in efficiency in selling and go-to-market. Over the medium term, **operating margin** (before allocation of corporate overheads) of about 18% to 19% is sustainable. However, in the near term, given the soft commodity price tables, the operating margin is likely to remain in the band of 20-22%.

Marico International

Over the last 12-18 months, the Company has systematically invested in the core international markets to strengthen both the brands and the organisational capability to handle growth. With such augmented efforts to build a **robust organic growth capability** and a stronger organisation, the Company is also looking at **inorganic growth** both in terms of new markets and acquisitions / alliances to step up the overall growth in International markets leveraging the current management bandwidth. The Company believes that the **core markets** of Bangladesh, Vietnam and MENA are "**Invest to Grow**" markets and the Company will continue to drive growth with brand restages, new product launches and capability building initiatives apart from aggressively tapping and growing new markets. Rest of South East Asia and East Africa are the new growth engines for future. The Company will aim for organic and inorganic growth in these markets. It expects to clock an organic top line growth of ~15% in constant currency in the medium term. However, in the near term, given the deflationary headwinds, especially in the Bangladesh market, the growths may be a tad lower. The structural shift in **operating margins** is expected to be sustained at around 17%.

Marico Limited

The Company will aim at a volume growth of 8-10% and a topline growth of ~15% in the medium term. In the near term, though, the value growths may be in single digit given the Y-o-Y deflation in key commodities in core markets. The Company will focus on **fewer but bigger innovations** to create growth engines of the future. Market growth initiatives in core categories and expansion into adjacent categories will be supported by investments in ASP with **focus on brand building**. The Company will continue to invest in increasing its **direct reach and Go-To-Market transformation** initiatives in all of its key markets. The Company is focusing on **Digital initiatives** in a big way to improve consumer engagement, drive sales through e-commerce for internet savvy consumers and build data Analytics capabilities. In FY17, there are plans to **revitalise the cost management** initiatives with specific focus on front-end spend effectiveness. **Operating margin** is expected to be maintained in a band of 17-18% over the medium term. In the near term, however, given the soft commodity prices, the margins will witness an upward bias. The Company will focus on **deriving synergies** from the unification of India and International FMCG businesses. This includes acceleration of cross pollination and portfolio harmonisation, talent mobility, supply chain synergies and process harmonisation leading to cost arbitrage. The Company will continue to support various initiatives which are true to its **Purpose of "Make a Difference"**.

Risks & Concerns

Changing Consumer Preferences

Demand can be adversely affected by a shift in consumer preferences. Given the explosion of social media, the speed of such shift could be very swift.

Marico invests significantly in consumer in-sighting to adapt to changing preferences. The Company also actively watches the social media trends to spot early trends in consumer preferences.

Input Costs

Unexpected changes in commodity prices can impact margins. The past few years have witnessed wide fluctuations in the input materials prices. As a result, the overall level of uncertainty in the environment continues to remain high.

However, brands with greater equity and pricing power may find it easier to adjust prices when the input prices increase and hold prices when the input prices decline. Your Company's brands enjoy a significant equity with its consumers and thus hold adequate purchasing power.

Macro-Economic Factors

In situations of economic constraints, items which are in the nature of discretionary spending are the first to be curtailed. Factors such as low GDP growth and high food inflation can result in down-trading from branded to non-branded or premium to mass market products.

The Company continuously drives towards making its value added products available to masses at affordable prices. Low Unit Packs of its Value Added Hair Oils is an attempt in this direction.

Political Risks

Unrest and instability in countries of operation can significantly impact the business.

Marico operates in the Developing & Emerging economies of Asia and Africa and is exposed to political risk and unrest in these markets. However, the Company operates with well-defined risk management policies to mitigate various risks.

Competition

Increase in number of competing brands in the marketplace, counter campaigning and aggressive pricing by competitors have the potential of creating a disruption.

In last few years, Marico has entered categories such as mass skin care, breakfast cereals, hair styling, post wash leave-in conditioners, deodorants and hair colors where the competitive intensity is relatively higher as compared to the segments it has been operating in hitherto, such as coconut oil, hair oils and refined edible oils.

Renewed focus on Ayurveda / Naturals / Indian by a few new players has brought in different competitive dimensions in Marico's core portfolio.

The Company believes that healthy competition is good for businesses as it focuses management attention on offering its consumers differentiated high-quality products that address consumers' needs. With such "service" approach the Company expects to win and retain its consumer franchise. The Company also focuses on protecting volumes in preference to short-term profitability.

Product Innovation 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 sales target. Even more so in cases where industry leaders invest behind creating new categories.

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.

Foreign Currency Exposure

Marico has a significant presence in Bangladesh, South East Asia, Middle East, Egypt and South Africa. The Group is therefore exposed to a wide variety of currencies like the US Dollar, South African Rand, Bangladeshi Taka, UAE Dirham, Egyptian Pound, Malaysian Ringgit, Myanmar Chats and Vietnamese Dong. Import payments are made in various currencies including but not limited to the US Dollar, Australian Dollar and Malaysian Ringgit.

Significant fluctuation in these currencies could impact the Company's financial performance. The Company is, however, conservative in its approach and uses plain vanilla hedging mechanisms.

Funding Costs

Though the FMCG sector is not capital intensive, fund requirements arise on account of inventory position building, capital expenditure undertaken or funding inorganic growth. Changes in interest regime and in the terms of borrowing will impact the financial performance of the Group.

The Group maintains comfortable liquidity positions, thereby insulating itself from short-term volatility in interest rates.

Acquisitions

Acquisitions may divert management attention or result in increased debt burden on the parent entity. It may also expose the Company to country specific risk. Integration of operations and cultural harmonisation may also take time thereby deferring benefits of synergies of unification.

Marico has been able to integrate its acquisitions with the mainstream with focus on talent and processes. Given its comfortable liquidity position and conservative capital management practices, the acquisitions have not put any significant pressure on the financial position of the Group.

Private Labels

Expansion of modern trade can lead to emergence of private labels. While the risk of private labels has been low in India, this can change quickly with e-commerce gaining traction in Urban India.

Talent acquisition and retention

Inappropriate hiring and inability to retain top talent may result in a firm's inability to pursue its growth strategies effectively.

Marico invests heavily in "hiring right" and "talent development & engagement". This helps provide fulfilling careers to members in Marico. Marico has identified having a robust Talent Value Proposition as one of the Transformation areas to drive sustainable growth over long run.

Compliance

Inadequate compliance systems and processes pose a reputation risk for an organisation. They may result in financial losses and penalties.

Marico has invested in compliance systems and processes to ensure that all its functions and units are aware of the laws and regulations to comply with and that adequate monitoring mechanism are put in place to ensure compliance.

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, all 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 periodic review of business plans
- Identification of key risks and opportunities and regular reviews by top management and the Board of Directors
- 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
- A robust framework on Internal Financials Controls
- An effective whistle blowing mechanism

The statutory auditors, as part of their audit process, carry out a systems and process audit to ensure that the ERP and other IT systems used for transaction processing have adequate internal controls embedded to ensure preventive and detective controls. The audit report is reviewed by the management for corrective actions and the same is also presented to and reviewed by the Audit Committee of the Board.

Internal audits are undertaken on a continuous basis, covering various areas across the value chain like procurement, manufacturing, supply chain, sales, marketing and finance. The internal audit program is reviewed by the Audit Committee at the beginning of the year to ensure that the coverage of the areas is adequate. Reports of the internal auditors are regularly reviewed by the management and corrective action is 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.

Ernst & Young LLP has been carrying out internal audits for Marico for the last three years. The work of internal auditors is coordinated by an internal team at Marico. This combination of Marico's internal team and expertise of a professional firm ensures independence as well as effective value addition.

Internal Financial Controls (IFC)

As per section 134 (5) (e) of Companies Act, 2013, IFC means the policies and procedures adopted by company for ensuring:

- Accuracy & completeness of accounting records
- Orderly & efficient conduct of business, including adherence to policies
- Safeguarding of its assets
- Prevention & detection of Frauds

For Listed companies, requirement is to have IFC framework in place and ensure operating effectiveness of controls. Marico India developed IFC framework basis review of Policies, procedures and processes. Controls for each of the processes were documented. Design and operating effectiveness of controls was tested by management and later audited by the statutory auditors. Your statutory auditors have given a clean report after checking effectiveness of controls.

The management believes that strengthening IFC is a continuous process and therefore it will continue its efforts to make the controls smarter with focus on preventive and automated controls as opposed to mitigating and manual controls. Over a period, the Company will also extend this framework to its overseas subsidiaries.