MANAGEMENT DISCUSSION & ANALYSIS

This discussion covers the financial results and other developments during April 2014 - March 2015 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.

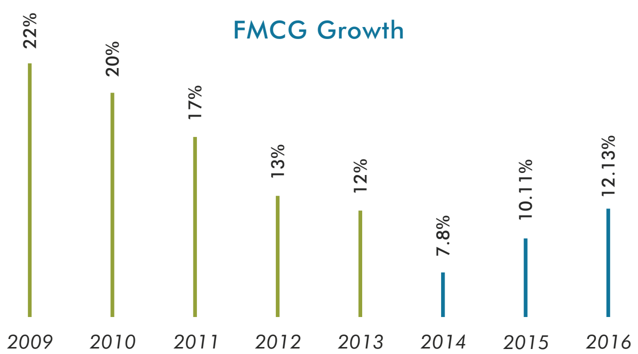
Some statements in this discussion describing projections, estimates, expectations or outlook may be forward looking. Actual results may however differ materially from those stated on account of various factors such as changes in government regulations, tax regimes, economic developments, exchange rate 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.

INDUSTRY STRUCTURE AND DEVELOPMENT

India

The Indian economy has been through challenging times in the last two years, faced with prolonged high inflation coupled with low growth. However, it has 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. Business sentiment improved post May 2014 with the change in government which is pro-growth and is taking efforts to boost investments.

India's consumer inflation, which had been in the 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 moves to contain food inflation and the sharp decline in commodity prices especially crude oil.



Source: Nielsen India

While sentiment appears to have improved, it has not yet translated to tangible improvement in consumption across the sector. However, India's USD 37 billion FMCG sector [Source: Nielsen] is witnessing perceptible signs of a sustained recovery. The primary factors expected to drive the recovery are a stronger GDP and rise in employment.

The new government has gradually been improving the ease of doing business, clearing projects that have been stuck, bringing in accountability in bureaucracy and making efforts to increase both domestic and foreign direct investment. Opening of more than 120 million bank accounts, auction of coal blocs, awarding highway contracts, deregulation of diesel prices and increased FDIs in defense, railway infrastructure and construction are some of the positive reforms undertaken by the new government so far. The Union Budget for FY16 provides a roadmap for the government's policy thrust. This is expected to have a positive impact on consumption.

The government's GDP forecast for FY16 is 8.1%-8.5% compared to 7.4% in FY15 based on the new way of calculating GDP. At this level, it is estimated to be on par with China, currently the fastest growing economy in the world. However, these growth rates are difficult to reconcile with other developments in the economy. As the government itself points out, the data should be interpreted with caution and seen as signs of a recovering rather than a surging economy.

The fundamentals of the consumer sector in India continue to remain strong. According to United Nations, India is forecasted to be the most populous country by 2030. In addition, the dependency ratio (ratio of non-working age people to working age) is expected to decline and drop below China in the next two decades [Source: UN]. Even among the ASEAN countries, India has one of the best demographic profiles.

Apart from population growth, India is witnessing other trends that make it a favourable market from a consumption perspective. These include urbanisation, increase in the number of nuclear families, improvement in education levels, 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. S-curve analysis suggests that at the current GDP/capita of USD 1500, consumption should accelerate from the current levels, especially in premium categories.

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 can be on food, making these households highly vulnerable to down-trading in times of high food inflation. Two-thirds 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 rain fall with prediction on the forthcoming monsoon not being very favourable. 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, structural reforms by the new government and the cyclical recovery that is in progress.

Bangladesh

The 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. The country's Forex Reserve continues to be on a rising trend. However, Bangladesh witnessed a fresh wave of political uncertainty towards the end of the financial year, which is expected to impact business sentiment.

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.

Middle East and North Africa (MENA)

Falling global oil prices in recent weeks have brought the economic vulnerabilities of the GCC region to the forefront. However, countries like the UAE may not have an immediate impact on the back of tourism, real estate, and retail sectors. The GDP of UAE is forecasted to grow at 4.6% in 2015. In Saudi Arabia, subdued inflationary conditions are expected to continue.

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. International rating agency Fitch upgraded Egypt's credit rating to "B" with a "Stable" outlook. Fitch expects annual GDP growth to continue to strengthen from 2.1% in 2013 to 4.7% in 2016. However, strengthening dollar and falling forex reserves are likely to impact EGP.

A steadily growing population and a developing economy provide a good base for FMCG companies. Penetration levels in hair grooming and skin care products are modest. Egypt also offers a gateway to North African countries such as Algeria, Libya and Morocco.

Vietnam

Vietnam is one of the fastest growing countries in South East Asia. In the year 2014, the Vietnamese economy grew by 6.0%, higher than the governments' target of 5.8%. Local economy is maintaining recovery momentum and is expected to grow faster going forward. The Vietnam government also approved a hike in minimum wages rate by 15% effective 1st January, 2015. The demographics of the country are very promising, with an extremely young and educated population providing an opportunity for FMCG companies to grow rapidly.

South Africa

The South African GDP grew by 1.5% in 2014 but is expected to rebound to 2.0% in 2015, as a large Rand depreciation may stimulate an export-led recovery. High levels of unemployment and inequality are considered to be the most salient economic problems facing the country. The long-term potential growth rate of South Africa has been estimated at 3.5%.

RISKS & CONCERNS

Changing Consumer Preferences

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

Marico invests significantly in consumer in-sighting to adapt to changing 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.

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.

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 in Bangladesh, Vietnam, Middle East, Egypt, Myanmar, and South Africa.

Competition

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

Marico has entered categories such as mass skin care, breakfast cereals, hair styling, post wash leave-in conditioners, deodorants, shampoos (in South East Asia) and hair colours 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.

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 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 pressure on the financial position of the Group.

Private Labels

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

Talent acquisition and retention

Inappropriate hiring and inability to retain top talent may impact a firm's ability 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.

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, 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 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

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 audits are undertaken on a continuous basis, covering various areas across the value chain like manufacturing, operations, sales and distribution, 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.

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.

THE MARICO GROWTH STORY

Marico achieved revenue from operations of INR 5,733 crore (USD 940 million) during FY15, a growth of 22% over FY14. The volume growth underlying this revenue growth was at 4%. Profit After Tax (PAT) for FY15 was INR 573 crore (USD 94 million), a growth of 18% over FY14.

Over the past 5 years, the FMCG top line and bottom line have grown at a compounded annual growth rate (CAGR) of 18% and 15% respectively.

Domestic FMCG Business: Marico India

The FMCG business in India achieved a turnover of INR 4,449 crore (USD 730 million) during the year, a growth of 26% over the same period last year. The business delivered 6% volume growth. The operating margin of the India business during FY15 was 17.7% before corporate allocation. The Company believes that an operating margin in the band of 17% to 18% is sustainable in the medium term.

Coconut Oil

Parachute's rigid portfolio (packs in blue bottles) crossed the landmark of INR 1,500 crore (USD 245 million) in revenues in FY15. The portfolio recorded a volume growth of 6% for FY15 over FY14. Competitive position being favourable throughout the year, Parachute along with Nihar increased its market share by more than 100 bps to 57% during the 12 months ended March 2015. A strong volume growth coupled with market share gains is a testimony to the pricing power that Parachute enjoys.

The non-focused part of the portfolio (pouch packs) witnessed contraction as the raw material prices faced inflationary pressures while the Company maintained minimum threshold margins.

The Company undertook a detailed study on the branded coconut oil market size. Based on the study, the branded coconut oil market size is INR 4,500 crore (USD 738 million). However, there is also a significant part of the market of approximately 35-40% 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.

Foods: Super premium refined edible oils and oat cereals

The Saffola refined edible oils franchise grew by 6% in volume terms for the year. Super premium refined oils category growth was impacted in the second half of the year mainly on account of increased price premium with respect to other branded refined oils. In line with the Company strategy of not sacrificing long term growth for short term gains, Marico did not take any pricing action on the portfolio. Instead, towards the end of the year, the Company initiated a few alternative steps to correct the growth trajectory going forward. This includes introduction of a new SKU of 500ml to encourage trials, increased distribution and driving one of the variants through focused market actions. These initiatives are currently in the prototype stage and will be scaled up basis market feedback.

Despite a lower rate of growth, the brand gained market share by 268 bps and further strengthened its leadership position in the super premium refined edible oils segment to 58% during the 12 months ended March 2015.

In the Oats category, Saffola has a strong no.2 position with a value market share of 21% during the 12 months ended March 2015 and an exit market share of 24%. Various distribution initiatives undertaken by the Company have resulted in Saffola oats now being the most distributed oats brand in the country. Saffola flavoured oats are available in eight variants. Two sweet flavours with fruits were introduced to complement the bouquet of six savoury (masala) flavours. Focus on value added offerings in the oats segment has enabled the Company to capture a 61% value share in the flavoured oats market on a 12-months basis. The portfolio is consistently gaining share with March 2015 exit value market share of 67%. During the year, the franchise reached a top line of INR 80 Crore (USD 13 million). 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 continues to focus on improving the margins in this franchise with focused cost management initiatives in order to ensure sustainable profitable growth.

In order to encourage consumers to adopt healthy eating habits, the franchise has introduced

Saffola Fit Foodie (www.fitfoodie.in) – a one stop destination for healthy recipes designed by Saffola's expert panel, headed by Vikas Khanna, the master chef. This has ensured productive interaction between the consumer and the brand.

Value Added Hair Oils

Marico's hair oil brands (Parachute Advansed, Nihar Naturals, and Hair & Care) grew by 10% in volume terms during the year.

Marico continues to grow faster than the value added hair oils market of INR 5,800 crore (USD 950 million). During the year, the Company further strengthened its market leadership by 88 bps to 29% volume share (for 12 months ended March 2015) and continues to premiumise with value share gain of 210 bps to 22% for the same period. Going forward, the Company will continue to focus on premiumisation to drive growth in the category.

Towards the premiumisation journey, Parachute Advansed Aromatherapy was launched as a prototype in Mumbai. The launch aims at making hair oiling relevant to urban lifestyle through the benefit of de-stressing and relaxation.

This year, this portfolio reached many milestones. Parachute Advansed Jasmine and Nihar Naturals Perfumed oil crossed the turnover of INR 250 Crore (USD 40 million) each. Nihar Shanti Amla is now an INR 300 crore (USD 50 million) brand. The Company's Value Added Hair Oils portfolio crossed INR 1,000 crore (USD 164 million) landmark this year with 4 strong brands. Parachute Advansed Ayurdevic Oil, with a presence in southern states, is growing rapidly and is expected to clock a turnover of circa INR 60-65 crore (USD 10 million) next year. The Value Added Hair Oils franchise, has registered a compounded annual growth rate of 20% in volume terms over the last 5 years.

Nihar Shanti Amla continues to gain market share and achieved a volume market share of about 33% for the 12 months ended March 2015 in the Amla hair oil category (MAT FY14: 30%). The exit market share of Nihar Shanti Amla was more than 36% reflecting a continued strong trajectory of growth. The increased scale of the franchise enables the

Company to benefit from operating leverage thereby improving net margins despite competitive pricing.

Loose mustard oil is the most widely used hair oil in the Hindi heartland. To address this market, the Company is prototyping Nihar Naturals Shanti Sarson Kesh Tel, a value added mustard hair oil. It delivers the goodness of mustard but with pleasant sensorial. The prototype was launched in Rajasthan in February 2015 and has received a positive response.

The 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 the consumer's needs of nourishment and problem-solution.

Body Lotion

Body Lotion, an INR 1,000 crore (USD 164 million) category in India, remained flat during FY15. In spite of the muted growth in the category, Parachute Advansed Body lotion gained volume share and maintained its No.3 position with 6% share for the 12 months ended March 2015.

The body lotion penetration level is below 20% in India. The Company plans to increase its participation in the skin care segment in the longer term.

Youth Portfolio

The Youth Portfolio plays in three categories i.e., Hair Gels, Leave-in serums and Deodorants. The Set Wet gels and Livon portfolio (which also consists of a hair gain tonic) forms 2/3rd of the Youth Portfolio. The Company will focus on expanding these high margin categories while maintaining share in the cluttered deodorants category (1/3rd of the Youth Portfolio).

The portfolio has grown by 5% in value terms during FY15. As a result of the revamped strategy, the portfolio is expected to get back to the medium term outlook of consistent 15-20% growth.

Set Wet gels and Livon serums have 44% and 82% share in their respective categories. 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. The re-launch of

Set Wet gels was accompanied with a jump in distribution. The coverage was scaled up in both urban and rural markets by 53% from April 2014.

During the year, the Company launched Livon Moroccan Silk Serum. It combines the goodness of Moroccan Argan Oil with the easy-to-apply serum format and is especially suited for Indian hair. It has been launched in two SKUs (30ml @ INR 149 and 59ml @ INR 259) and is available in the top 20 cities. With the current distribution stabilised, the footprint of the brand is planned for further increase to the Livon brand universe in the next year.

Set Wet and Zatak deodorants maintained its share in the deodorants category at 4%. The category is large and growing with fragmented market shares. The Company aims at maintaining its share in the category through tactical support. It will also benefit from the positive rub-off from Set Wet gels brand building initiatives. In the medium term, the Company expects some consolidation to take place in the category and gain from its wide distribution supported by brand building initiatives.

Distribution

Marico's rural sales continue to clock a faster pace of growth at 32% compared to urban sales of 23%. Sales in Modern Trade (9% of the domestic turnover) continued its good run with 24% growth for the full year. CSD and Institutional sales (7% of the domestic turnover) grew at a healthy rate of 33% for FY15.

The continued focus on distribution expansion in rural markets has pushed the Company's rural sales to 33% of total domestic sales in FY15. In rural, incremental direct coverage provides an ideal platform to enhance the reach of the Value Added Hair Oils portfolio. The Company has increased its direct rural reach by 25% to 50,000 villages in the last two years.

This year, the Company embarked on a Go-To-Market (GTM) transformation journey. With foray into newer categories such as breakfast foods, body lotion, male grooming and hair serums, it is important to expand the direct distribution in urban areas beyond general trade to other channels such as modern trade, open format, chemist/cosmetic stores.

Project ONE (Outlet Network Expansion) was conceived with an objective of increasing Marico's direct coverage in its top 6 metros. The project has increased direct coverage in these cities by 60%. Project ONE has significantly augmented the reach of the Company's brands by improving assortment and availability at the outlet. It has met with a very positive response from the retailer community as it gives them convenience of service and access to promotions. Project ONE has delivered a business of INR 33 crore (USD 5 million) in FY15. The Company will expand the coverage of this initiative in FY16.

Robust IT infrastructure is the backbone of any successful sales system and towards that, the Company has embarked on a journey to refresh and reconfigure its point of sale IT infrastructure and software systems. This would enable the Company to improve visibility, sales force productivity and strengthen commercial controls. This project is expected to be delivered by the middle of FY16. The Company has also initiated usage of advanced analytics to predict optimal assortment at a store level. The project is currently being pilot-tested in one major city.

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 Group's turnover in FY15. The business reported a 10% constant currency growth during the year. The operating margin for the full year was at 17.1% (before corporate allocations). The Company will endeavour to maintain international margins in the region of 16-17% and continue to invest and plough back savings to drive growth.

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
3. GTM transformation in Egypt
4. Invest in new markets

Bangladesh (45% of the International Business)

The Bangladesh business reported a top line constant currency growth of 13% during the year. The top line growth during the year was driven by overall volume growth of 3% backed by strong performance in the value added hair oils portfolio.

Parachute coconut oil grew by 7% in constant currency terms during the year and maintained leadership position with 81% share. Given that the scope of growth in Bangladesh's Parachute franchise is limited, the Company has taken substantial measures in deploying adjacent sources of growth to diversify the portfolio.

During the year, the Company's Value Added Hair Oils portfolio grew at a healthy rate of 38% in constant currency terms and maintained its market position at No.3. As hair fall is a critical issue among Bangladeshi women, this year the Company also launched Parachute Advansed Extra Care – a coconut based hair oil with added ingredients like fenugreek (Methi), Indian gooseberry (Amla) and Aloe vera. The product has been received well and is expected to be the next pillar of growth in the country. The management will aim at being the market leader in the category in the medium term.

The Company's HairCode brand (coupled with HairCode Active variant) gained 420 bps market share and continued to lead the powdered hair dye market with a value market share of around 37%. During FY15, the brand grew by 9% in constant currency terms. HairCode Keshkala, a liquid hair dye launched earlier this year, has been received well and is consistently gaining market share.

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, hair dyes, deodorants, leave-in conditioners and premium edible oils. These products have been accepted well and are expected to create a portfolio of the future in Bangladesh. This year, the Company also launched Set Wet Infinity deodorant and Parachute Advansed Body Lotion in the Bangladesh market. Consequent to these initiatives, the non-coconut oil portfolio is now ~20% of the total business in Bangladesh as compared to 10% three years back.

The Company expects to leverage its strong distribution network and learning from the India 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 - 18% of the International Business)

The Business in MENA grew by 4% in FY15 on a constant currency basis. This was mainly led by the recovery in Middle East.

The Middle East business continued the positive momentum and grew on constant currency basis by 67% in FY15, also aided by a suppressed base in FY14. The business has grown in double digits in all the quarters in FY15 and has reduced its losses substantially. This trend of improvement is expected to continue and the management expects the business to become profitable in the medium term.

The Company undertook a distribution transition in Egypt during the year. The transition was aimed at eliminating dependence on single distributor and achieving better Go-To-Market (GTM) model for realising the maximum distribution potential. Due to this transition, the Egypt business declined by 26% in FY15. However, the post transition lead indicators are looking positive and in the long run, this is expected to bring in many transformational benefits such as increased direct distribution, improved retail selling, professional set-up of distribution, and reduced working capital requirement resulting in lower credit risk. The benefit of lower working capital has already accrued to the business. This marks the completion of the final phase of GTM transformation in MENA. This initiative has not impacted the market shares and HairCode and Fiancée continue to be the market leader with 59% share.

South East Asia (26% of the International Business)

The business in South East Asia (of which Vietnam is a significant portion) grew by 5% in FY15 in constant currency terms. Business in Vietnam witnessed an uptick during the end of the year. X-Men maintained its leadership in male shampoos with 39% market share and is the number two player in male deodorants. The foods business registered a double digit constant currency growth during the year.

The Company continues to scale up its presence in neighbouring countries like Malaysia, Myanmar and Cambodia.

South Africa (8% of the International Business)

The business reported a constant currency growth of 9% during the year, backed by double digit growth in the skin care and health care business. During the year, the Company launched the Caivil Gold Fusion Oil range as part of the extensive Caivil offering and Mega Black hair colour under Black Chic. Marico is now the 4th largest ethnic hair care company in South Africa.

The Company is in the process of appointing distributors to initiate export-led business in East Africa.

RESULTS OF OPERATIONS – AN OVERVIEW

Marico achieved revenue from operations of INR 5,733 crore during FY15, a growth of 22% over FY14. The volume growth underlying this revenue growth was 4%.

Profit after tax (PAT) for FY15 was INR 573 crore, a growth of 18% over FY14.

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 shows the details of income from sales and services for FY15 and FY14.

INR/Cr.

Particulars	FY 15	FY 14
Revenue from Operations	5,733.0	4,686.5
Other Income	58.9	58.2
Total Income	**5,791.9**	**4,744.7**

There has been 22% growth in Revenue from Operations on account of 26% growth in Marico India and 10% growth in Marico International.

Expenses

The following table sets the expenses and certain other profit and loss account line items for the years FY15 and FY14:

INR/Cr.

Particulars	FY 2015		FY 2014	
	Amount (INR/Cr.)	% of Total Income	Amount (INR/Cr.)	% of Total Income
Revenue from Operations	5,733.0		4,686.5	
Expenditure				
Cost of Materials	3,119.0	54.4%	2,399.2	51.2%
Employees Cost	325.1	5.7%	285.0	6.1%
Advertisement and Sales Promotion	649.8	11.3%	561.2	12.0%
Depreciation, Amortisation and Impairment	84.3	1.5%	76.9	1.6%
Other Expenditure	768.9	13.4%	693.5	14.8%
Finance Charges	23.0	0.4%	34.5	0.7%
Tax	236.8	4.1%	190.5	4.1%

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, have been up by 60% as compared to last year. Rice bran oil prices remained flat for the year while Safflower Oil and Liquid Paraffin were down by 13% and 10% respectively. Considering copra accounts for a major proportion of input costs, the Company's gross margins declined by 321 bps during FY15.

Employee Cost

Employee cost includes salaries, wages, 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. Linked to this is a variable compensation element based on the Company's target achievement and the individual's performances against goals identified.

Apart from the annual salary revisions and increase in headcount, the increase is mainly on account of higher provision towards Employee Stock Option Plan (ESOP) and Stock Appreciation Rights Scheme (Company's long term incentive plan).

Advertisement and Sales Promotion

The Company continues to make investments behind existing products and new products. ASP spends on new products comprises a significant part of the overall ASP. Overall increase in ASP spends for the full year was 16%. Significant part of the overall ASP was invested behind new products such as Foods and Youth portfolio in India and new launches in Bangladesh, Vietnam and Myanmar. The Company also continued to invest behind the core i.e., Value Added Hair Oils and Saffola in India and Hair Oils and Hair Creams in the Middle East. ASP as a % of Sales declined on account of high inflation led top line growth.

Depreciation, Amortisation and Impairment

For the year as a whole, depreciation has increased from INR 76.9 crore (USD 12.6 million) in FY14 to INR 84.3 crore (USD 13.8 million) in FY15. Increase in depreciation to the extent of INR 9.8 crore (USD 1.6 million) was on account of adoption of the useful life of fixed assets as per Schedule II of Companies Act 2013, effective April 1, 2014.

Other Expenses

The other expenses comprise items which are fixed in nature (about 1/3rd of other expenses) and certain items which are variable in nature (more than 2/3rd of other expenses) that generally move in tandem with throughput growth.

- Fixed Expenses include items such as rent, repairs and maintenance, traveling, legal & professional charges and donation. In FY15, increase in fixed expenses was mainly on account of higher Legal & Professional charges towards outsourcing of transactional processes in finance & accounting and supply chain operations, foreign exchange losses on repayment of external commercial borrowings (ECB) and purchase of analytics software.
- Variable Expenses include items such as freight, subcontracting charges, power and fuel, warehousing, input and output taxes, etc. Increase in variable expense is on account of inflation in freight, subcontracting charges and other rates and taxes.

Other Expenses	FY15	FY14	% variation
Fixed	222	204	9%
Variable	547	489	12%
Total	**769**	**693**	**11%**

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 Net Debt (refer balance sheet).

Direct Tax

The Effective Tax Rate (ETR) for the Company during FY15 was 28.8% as compared to 27.4% during FY14. The increase in the ETR is primarily due to phasing out of tax exemptions in India and Vietnam.

Balance Sheet

Statement of Assets and Liabilities – Consolidated Financials

INR/Cr.

Particulars	As at March 31, 2015	As at March 31, 2014
EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	64.50	64.49
Reserves and Surplus	1,760.28	1,296.14
Sub-total Shareholder's fund	**1,824.78**	**1,360.63**
Minority Interest	13.65	35.79
Non-current Liabilities		
Long-term Borrowings	168.74	251.54
Deferred Tax Liabilities (Net)	7.88	9.62
Other Long-term Liabilities	-	0.01
Long-term Provisions	8.65	3.31
Sub-total Non-current Liabilities	**185.27**	**264.48**
Current Liabilities		
Short-term Borrowings	165.43	274.35
Trade Payables	564.32	502.52
Other Current Liabilities	276.53	444.81
Short-term Provisions	95.30	82.37
Sub-total Current Liabilities	**1,101.58**	**1,304.05**
TOTAL – EQUITY AND LIABILITIES	**3,125.28**	**2,964.95**

ASSETS		
Non-current Assets		
Fixed Assets	589.81	637.75
Goodwill on Consolidation	489.15	254.25
Non-current Investments	45.75	49.86
Long-term Loans and Advances	50.63	60.93
Other Non-current Assets	120.77	155.03
Sub-total Non-current Assets	**1,296.11**	**1,157.82**
Current Assets		
Current Investments	238.05	260.67
Inventories	994.71	796.24
Trade Receivables	176.75	223.19
Cash and Cash Equivalents	204.94	406.40
Short-term Loans and Advances	179.13	86.47
Other Current Assets	35.59	34.16
Sub-total Current Assets	**1,829.17**	**1,807.13**
TOTAL – ASSETS	**3,125.28**	**2,964.95**

Shareholders' Funds

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

Increase in Reserves & Surplus from INR 1,296.14 crores in FY14 to INR 1,760.28 crores in FY15 is on account of profits earned during the year net off the dividend distributed and Foreign Currency Translation Reserve generated due to forex translation impact as per Accounting Standard 11 (AS11) on revaluation of goodwill of foreign subsidiary.

Minority Interest

Minority Interest represents the share of consolidated profits attributable to non-Marico shareholders in Marico Bangladesh Limited and International Consumer Products Corporation:

1. 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.
2. The Company acquired 85% stake in International Consumer Products Corporation (ICP) in Vietnam and started consolidating it with effect from February 18, 2011. The balance 15% shareholding was brought back during the year making it a wholly-owned subsidiary.

Reduction in minority interest from INR 35.79 crores in FY14 to INR 13.65 crores in FY15 is mainly on account of buyback of 15% minority stake in ICP Vietnam. The minority interest as on 31st March, 2015 now represents 10% minority stake of MBL.

Long-term Borrowings

Long Term borrowings represent borrowings which have repayment schedules exceeding one year. The Long Term borrowings have come down from INR 251.54 crores to INR 168.74 crores primarily 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 AS11.

Deferred Tax Liabilities (DTL - net)

Deferred Tax Liabilities represent timing differences resulting due to variations in the treatment of items as per Income Tax Act, 1961 and Indian GAAP. The reduction in DTL from INR 9.62 crores in FY14 to INR 7.88 crores in FY15 is largely due to the timing difference on the treatment of intangibles in Indian GAAP and The Income Tax Act, 1961.

Long-term Provisions

Long Term Provisions are provisions for Leave Entitlements, Gratuity and Employee Stock Appreciation Rights Scheme (STAR). Long term provisions have increased from INR 3.31 crores in FY14 to INR 8.65 crores in FY15 due to Leave Entitlements and STAR schemes.

Short-term Borrowings

Short Term Borrowings represent borrowings taken for working capital purposes. This have reduced to INR 165.43 crores in FY15 from INR 274.35 crores in FY14 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 decreased from INR 444.81 crores in FY14 to INR 276.53 crores in FY15 on account of payment of unpaid dividend & repayment of debentures offset by reclassification of part of ECB to Other Current Liabilities.

Short-term Provisions

Short-term Provisions represent provisions towards employee benefits and Income tax and Disputed Indirect Taxes. The amount has increased from INR 82.37 crores in FY14 to INR 95.30 crores in FY15 primarily due to increase in provision towards employee benefits and disputed indirect taxes.

Fixed Assets

Fixed assets represent the investments made by the Company in tangible assets such as Buildings, Plant and Machinery, Furniture and Fixtures, etc. Reduction in Fixed Assets from INR 637.75 crores in FY14 to INR 589.81 crores in FY15 is on account of the normal impact of depreciation and impairment.

Goodwill on Consolidation

Goodwill on consolidation represents the excess of consideration paid to acquire companies over their net assets. Goodwill on Consolidation has increased from INR 254.25 crores in FY14 to INR 489.15 crores in FY15 mainly on account of buyback of 15% minority stake in ICP Vietnam and due to the foreign currency translation impact as per AS11 on revaluation of goodwill of foreign subsidiary.

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. Decrease in non-current investments from INR 49.86 crores in FY14 to INR 45.75 crores in FY15 is on account of reclassification of a part of mutual fund investments to current investments during the year.

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 decreased from INR 60.93 crores in FY14 to INR 50.63 crores in FY15 during the year mainly due to repayment of a part of loan given to WEOMA Trust.

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 INR 155.03 crores in FY14 to INR 120.77 crores in FY15 is on account of 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. Decrease in current investments from INR 260.67 crores in FY14 to INR 238.05 crores in FY15 is mainly on account of decrease in investments in Mutual Funds.

Inventory

Inventory includes the stocks of raw material, packing material, work-in-progress, stock-in-trade and finished goods held for sale in the ordinary course of business. Increase in inventory from INR 796.24 crores in FY14 to INR 994.71 crores in FY15 is mainly due to higher raw material inventory in India & Bangladesh and higher finished goods stock in India, mainly due to inflation in raw material costs.

Trade Receivables

Trade Receivables include the monies to be received from its customers against sales made to them. Decrease in trade receivables from INR 223.19 crores in FY14 to INR 176.75 crores in FY15 is attributed to reduction in one of the subsidiaries in Egypt – Marico Egypt Industries Company (MEIC) – due to lower credit period to new distributor & lower sales (refer section on MENA above to know more about GTM transformation) and in Marico Limited on account of higher collection from Canteen Stores Department (CSD).

Cash and Cash Equivalents

This includes amounts lying in Cash and with the Company's bankers. There is a decrease in the cash balances from INR 406.40 crores in FY14 to INR 204.94 crores in FY15 primarily due to payment of Dividend declared during the last quarter of FY14 and remaining unpaid as on March 31, 2014, partially compensated by increase in Fixed Deposits (FD).

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 INR 86.47 crores in FY14 to INR 179.13 crores in FY15 are 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. Increase in Other Current Assets from INR 34.16 crores in FY14 to INR 35.59 crores in FY15 is on account of reclassification of a property as Asset Held for disposal.

Contingent Liabilities

Contingent liabilities increased from INR 589.91 crores in FY14 to INR 737.33 crores in FY15

1. Major component of this liability is a possible obligation of INR 565.62 crores on account of excise which has been explained in detail in the Notes to Accounts.
2. Other contingent liabilities include a letter 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	FY15	FY14
Return on Capital Employed • Marico Group	47.0%	31.9%
Return on Net Worth (Group)	36.0%	27.5%
Working Capital Ratios (Group)		
• Debtors Turnover (Days)	13	16
• Inventory Turnover (Days)	57	64
• Net Working Capital (Days) including surplus cash	45	60
Debt: Equity (Group)	0.23	0.44
Finance Costs to Turnover (%) (Group)	0.4%	0.7%

* 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.

1. ROCE has improved on account of 16% increase in profits before interest and tax and reduction in net working capital (refer notes 2 and 3 below).
2. The debtor and inventory days have come down on account of higher inflation led top line growth and distribution transition in Egypt (lower credit).
3. Decrease in net working capital days is on account of reduction in surplus in Vietnam due to buy back of minority stake in ICP and higher inflation led top line growth.
4. Finance cost as a % of turnover has come down consequent to reduction in the Gross Debt of the Company.

SHAREHOLDER VALUE

The Company's dividend distribution policy is aimed at sharing its prosperity with its shareholders.

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 250% as compared to 175% (excluding one-time silver jubilee dividend) during FY14. The overall dividend payout ratio is 30% as compared to 24% during FY14. The Company will endeavour to improve the dividend payout ratio further depending on its fund requirements for organic and inorganic growth.

HUMAN RESOURCES (HR)

The HR function's Mission is to *'attract and nurture talent to succeed'* for Marico to achieve its business aspiration. The Company strives to achieve this by continuously providing opportunities to challenge, enrich, and fulfill the aspirations of Mariconians so that they can maximise their true potential. The HR function is also the custodian of Marico's culture and governance standards. In 2015, the HR function took several initiatives to strengthen the three pillars of the HR mission namely: (1) Encourage diversity of ideas and people to promote Innovation; (2) Create an Agile organisation that wins; and (3) Drive cutting-edge people practices.

The key highlights are presented below:

1) Encourage diversity of ideas and people to promote Innovation

Innovation is a key driver of Marico's sustainable profitable growth for which the following initiatives were taken last year:

a. **Innovation Jam** was established to crowdsource ideas from members on a specific topic or challenge.

b. **BMW Awards:** Marico constituted a special category of awards, the Breakthrough Marico WINNOVATION (BMW) Awards, to recognise and reward breakthrough innovations, game changing and high impact strategic initiatives that significantly impact Marico's sustainable profitable growth.

c. **Encouraging Innovation and Risk-taking**: Marico re-designed its performance-linked reward mechanism to proactively hedge performance risks for goals related to innovations, new product development or new country development. This was done to promote risk-taking, encourage imagination and create a safety-net for high-risk goals that will fuel Marico's future growth.

2) Create an Agile organisation that wins

Marico articulated its business aspiration to become an emerging markets multinational company two years ago. Since then, the business structure has been fine-tuned and One Marico harmonisation journey was initiated by establishing Centres of Excellence (COEs) in expertise functions. The COEs' mandate is to harmonise the ways of working across geographies, establish norms for best-in-class processes and build functional capability. The following COEs have now been established:

a. **Media & Digital Marketing**: To ensure value delivery of Marico's media investments globally by leveraging multi-market experience to shorten learning cycles, ensuring consistency in best practices and jump shifting the digital marketing journey.

b. **Corporate Communication & Public Relations**: To offer expertise and counsel to the company's international market operations on hiring agencies for brand and corporate PR initiatives, media protocols and press conferences.

c. **Consumer In-sighting**: To strengthen capability, across geographies and markets, to conduct consumer in-sighting through quantitative and qualitative research on consumers, markets and environmental, socioeconomic, demographic trends for brand building.

d. **Value Management (Marval)**: To drive a value enhancement culture by identifying 'value creating' ideas and working on them through cross-functional teams to make them sustainable.

Culture Building

Marico believes that culture is a key enabler for delivering on Marico's business aspiration. This year, Marico conducted an in-depth member in-sighting study to get qualitative insights on the core cultural elements that will help deliver our business aspirations. The study has enabled us to identify the shifts in mindsets and behaviours the company needs to make and the core cultural strengths that need to be preserved to achieve our business aspiration.

3) Drive cutting-edge people practices

This year, we undertook the following initiatives to strengthen our people practices:

- Leveraged **MC^2**, Marico's Facebook page, for engagement with campus students through digital contests, recruitment and crowdsourcing ideas for socially relevant projects. In just two years, the page has more than 73,000 dynamic fans.
- Introduced a **Talent Pipeline Process** to formally track the talent pipeline for critical positions.
- Undertook focused **Career Planning** to equip supervisors to proactively identify and discuss realistic career options with members during career development discussions.
- Launched **iLearn**, a global technology enabled learning platform with anytime-anywhere access to members.
- Constituted a **Young Board** which has 8 young home grown leaders representing different functions and geographies, to bring in fresh perspectives on organisation building initiatives. The Young Board's mandate is to work on 1-2 key organization initiatives including spotting new opportunities, potential pitfalls and making recommendations to Marico's top leadership team.
- Leveraged **Maricognize**, a unique social recognition program, to celebrate big and small contributions.

Marico continues to leverage its established practices and programs to attract talent and deliver on its Talent Value Proposition.

As on March 31, 2015, the employee strength of Marico Limited worldwide was 2,402.

OUTLOOK

Marico India

- While there has been no significant recovery on ground, the Company expects urban consumption to recover gradually.
- The Company has a robust innovation pipeline with multiple prototypes planned for the next year.
- The Company will strive to report volume recovery and maintain medium-term growth rates in the range of 8-10% by growing the core and rapidly scaling New Products.
- The direct distribution initiative of Project ONE is expected to fuel volume growths in the Metro markets.
- Sustain efforts to premiumise in the value added hair oils category to further strengthen its Value market leadership.
- Saffola volume growth is expected to be back in line with the medium term outlook of 8-10%.
- Execute the revamped strategy and drive innovation in the Youth portfolio to enable growth at about 15% to 20%.
- The Oats franchise is expected to contribute up to INR 125 Crores (USD 20 million) by next year.
- Over the medium term, operating margin before corporate allocations of about 17% to 18% is sustainable.

Marico International

- The Company will continue its efforts in building organic growth capability.
- It expects to clock an organic top line growth of ~ 15% in constant currency in the medium term. Any acquisition will add to the organic growth.
- The structural shift in operating margins is expected to be sustained at around 16-17%. Any excess will be ploughed back to fund future growth.
- Medium term growth potential in the core markets of Bangladesh, Vietnam, and MENA is intact and will continue to drive growth.
- Expansion in adjacent markets such as Nepal, Pakistan, Cambodia, Myanmar, Sri Lanka, East Africa, etc.

Overall

- The Company will aim at a volume growth of 8-10% and a top line growth of ~ 15% in the medium term.
- Operating margin is expected to be maintained in the band of 15-16%.
- The Company will focus on deriving synergies from the unification of Domestic and International FMCG businesses. This includes acceleration of cross-pollination & portfolio harmonisation, talent mobility, supply chain synergies and process harmonisation leading to cost arbitrage.
- The Company will focus on fewer but bigger innovations to create growth engines of the future.
- Significant portion of the gains from the value transformation exercise in India and overseas will be ploughed back to fund growth and innovation.
- Market growth initiatives in core categories and expansion into adjacent categories will be supported by investments in ASP in the region of 11-12% of sales with a focus on digital marketing.
- The Company will continue to invest in increasing its direct rural reach and Go-To-Market transformation initiatives including driving saliency through e-commerce.
- The Company will focus on building capabilities to set it up for growth in the long run.
- The Company will continue to support various initiatives which are true to its Purpose of "Make a Difference".

On behalf of the Board of Directors,

Harsh Mariwala
Chairman

Place: Mumbai Date: April 30, 2015