MANAGEMENT DISCUSSION & ANALYSIS

This discussion covers the financial results and other developments during April '13 - March '14 in respect of Marico Consolidated comprising its domestic FMCG business and its International FMCG business (exports from India and the operations of its overseas subsidiaries). The Consolidated entity has been referred to as 'Marico' or 'Group' or 'Your Group' in this discussion.

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

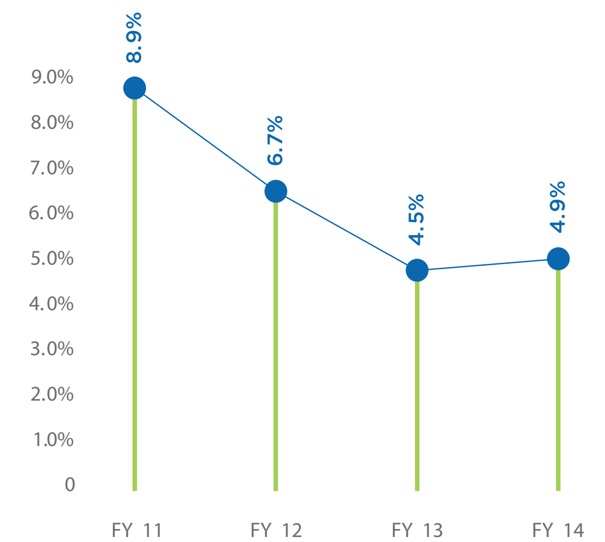
INDUSTRY STRUCTURE AND DEVELOPMENT

India

While the long term drivers of India's consumption story continue to remain robust given its large population and demographic profile, the last financial year was challenging. Slowing GDP growth and sustained inflationary pressure acted as a catalyst to temporarily hinder corporate earnings growth momentum, i.e. as consumers lose confidence in future income, they decrease consumption.

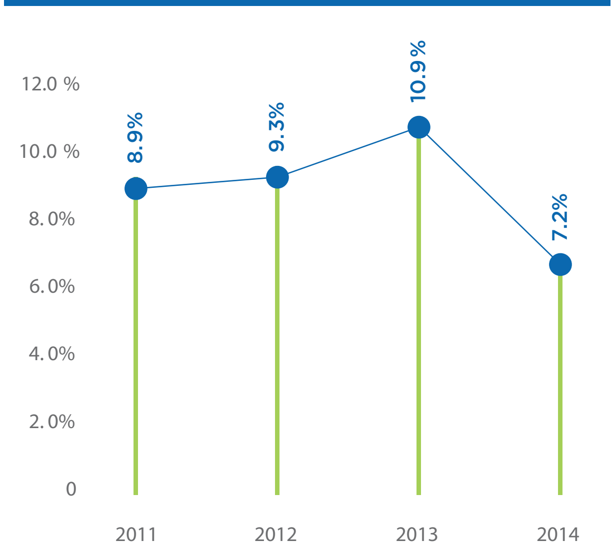
Muted wage growth coupled with double digit inflation is putting pressure on real wage growth. This has an adverse impact on urban middle income consumption. The trend in rural wage growth is not looking good as well; with growth in rural real wages tapering from 13.7% in December 2011 to 2.2% in August 2013 [Source: RBI].

GDP GROWTH %



One percent rise in GDP roughly adds 1.5 million direct jobs, each job creates three indirect jobs, and each job supports five people. This means 30 million people are impacted by one percent growth. The 4 percentage point decline in GDP

CPI



over the last 3 years has therefore impacted earnings (and consumption) of approximately 120 million people.

Growth moderation, high inflation, negative real wage inflation and lack of employment generation have hurt consumer sentiment. Rising inflation and negative real wage inflation imply greater share of wallet going towards non-discretionary items, hence less money to spend on discretionary consumer goods.

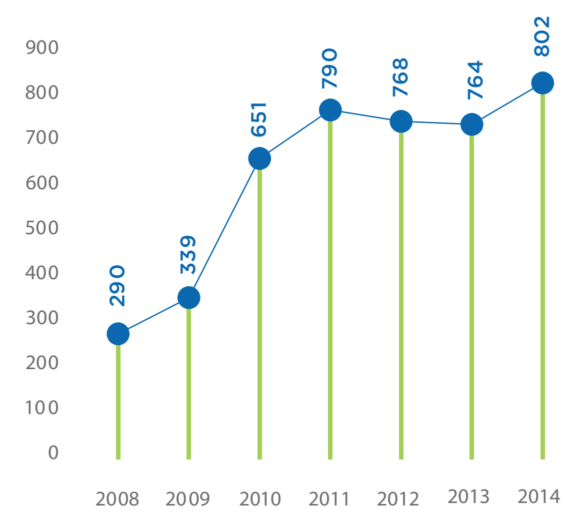
Although key economic indicators worsened in the past 3 years, demographic and social indicators have seen improvement. All India literacy rates have hit new highs and population growth rate, although higher than the global average, has slowed significantly. With improvement in economic growth and slowing population growth, the country's per capita income is expected to rise further. Per capita disposable income in India has been growing at c.13% since 2005 which is higher than the average CPI inflation of c.9%. This has resulted in spending on discretionary categories increasing substantially. It has also enabled consumers to upgrade to premium products.

Urbanization remains India's driving force and a key engine of growth acceleration in the past decade. India's urban sector presently contributes c.63% of India's GDP (from 45% in 1990). It is estimated that this contribution could go up to 70-75% of GDP by 2020 [Source: Barclays Research]. Government focus on urban infrastructure and organized sector jobs would result in the revival of urban sector.

Urbanization has a direct impact on discretionary spends of consumers. Discretionary consumption is in its infancy in India. India's per capita consumption in most discretionary categories is less than 25% of the emerging market average, and the share of unorganised/local brands is more than 60% in most categories. Besides rising incomes, structural drivers like nuclear families, the rising number of working women and aspirations aid growth in discretionary spends.

Favorable demographics are one of India's key, sustainable, long-term advantages. A young population is at the heart of India's demographic dividend. Thus, although the share of working-age population in total population has peaked in most developed and many developing countries, in India, it will continue to rise until 2035 [Source: Census India]. Such a demographic situation generally brings a surge in economic growth as gains to society from those in the productive age far outweigh the burden of supporting the old and the very young. The rising share of young population will support the uptick in domestic consumption and household savings. Both of these are already large components of the economy and they result in growth being domestically driven. This will be a key driver of India's long-term growth despite the current downturn. The dividend typically adds two percentage points to per capita GDP growth per year, as many economically successful countries have demonstrated in the past.

TOTAL RURAL SPEND (INR bn)



Rural India continues to remain a huge opportunity for consumer companies in India. Over the past decade, the government has stepped up its spending in rural areas leading to double digit growth in per capita income in rural India. The total government spending in rural India increased to INR 800 billion in 2014 from INR 290 billion in 2008. Minimum support price (announced by the government) for various commodities is up c.3x in 2007-2013. Higher disposable income in rural has led to consistent outperformance of rural consumption growth as compared to urban. However, future growth in rural spends might not match up to the historical trends. Growth in rural is expected to now come from expanding distribution networks.

There is a lot to be optimistic about the long term potential of the consumer sector in India. In spite of the near term difficulties, the fundamentals of the Indian economy are robust.

Bangladesh

FY14 was a challenging year for Bangladesh. Post the general elections, political situation and economic sentiments have started to ease, thereby sending positive signals to the business environment. However the political uncertainty continues to some degree.

Inflation rate increased during the year mainly due to increasing food inflation on account of supply disruptions and wage increases. The International Monetary Fund (IMF) has reduced the estimated growth rate for Bangladesh's economy for FY14 to 5.4% as compared to 6% last year. BDT has remained strong against USD as the country's forex reserve crossed USD 20 billion mark for the first time in history.

Like India, Bangladesh promises substantial long term potential in terms of socio-economic growth. The country has a demographic profile very similar to that of India. A population in excess of 160 million and a developing economy provide the perfect consumer base for the FMCG sector to flourish.

Middle East and North Africa (MENA)

Middle East offers a curious mix of local and expatriate population. This provides FMCG companies opportunities to offer branded solutions tailored to the needs of the consumer in the region. Dubai's economic outlook remains bullish over the coming years as a whole host of sectors possess significant growth prospects. Real GDP for Dubai is forecasted at 4.3% in 2014 and 4.5% in 2015 on the back of tourism, real estate and retail sectors. GDP growth in KSA is forecasted to be at 3.4% spurred by sustained domestic demand and government's ongoing infrastructure spending. Retail sales are set to benefit over the years from structural factors, including rising disposable income, favorable demographics, and increasing urbanization.

The Egyptian economy has embraced liberalization in the recent past, thereby opening the doors to foreign direct investment and paving the path to economic growth. However, higher inflation levels and deteriorating foreign currency reserves along with the unstable political situation poses a threat to economic growth of the country. GDP growth has toppled from around 7% in 2006 to expected 1.5% for the year.

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.

Our outlook on the long term trends in demand for personal care products in the MENA region remains positive.

Vietnam

Vietnam is one of the fastest growing countries in South East Asia, with a GDP growth of about 6%. In 2013, the GDP growth was at 5.4%, lower than estimated 6.3%. The demographics of the country are very promising, with an extremely young population providing an opportunity for FMCG companies to grow rapidly. The country is in the period of integrating into the world's economy, as part of globalization.

South Africa

The South African economy is the second largest in Africa behind Nigeria and accounts for 24% of its GDP in terms of purchasing power parity. 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%.

However in the near term, South African economy is expected to remain below potential on higher inflation and interest rates, depreciating currency and subdued domestic demand. In FY14 the household consumption expenditure was contained by slower income growth, high inflation and lower wage payments.

In spite of the near term challenges, South Africa offers a unique opportunity in ethnic hair care and grooming. The country also forms a gateway to the rest of sub-Saharan Africa. Africa is the fastest growing region after China and India, boasting unexploited mineral wealth, 60% of the world's uncultivated agricultural land and the youngest age profile of any continent.

RISKS & CONCERNS

Changing Consumer Preferences

A shift in consumer preferences could adversely affect demand. Given the explosion of social media, the speed of such shift could be very swift. Your Group invests significantly in consumer in-sighting to adapt to changing preferences. It also invests in educating the consumers about the functional benefits of using its products. The objective is to expand the categories in which the Group operates.

Input Costs

Unexpected changes in commodity prices can reduce margins. The past few years have witnessed wide fluctuations in the price of input materials. 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. Further, a firm's agility to manage price volatility will determine its win at the market place.

Economic Climate

In situations of economic constraints, items which are in the nature of discretionary spending are the first to be curtailed. In an extended recession, down trading from branded to non-branded or premium to mass market products could occur and affect the financial performance of the Company.

Competition

The competitive intensity in the FMCG sector in India is high and companies need to focus on branding, distribution and innovation to ensure their survival. Counter campaigning by competitors could reduce the efficacy of promotions. Similarly, aggressive pricing stances by competition have the potential of creating a disruption. Marico has recently entered categories such as mass skin care, breakfast cereals, hair styling, post wash leave-on conditioners, deodorants 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 targeted sales volume or value. Cost overruns and cannibalization of sales in existing products cannot be ruled out. Marico has adopted the prototyping approach to new product introductions that helps maintain a healthy pipeline and at the same time limits the downside risks.

Foreign Currency Exposure

The Marico Group 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

This may take the form of purchasing brands or purchase of stake in another company and is used as a means for gaining access to new markets or categories, or increasing market share. 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 harmonization may also take time thereby deferring benefits of synergies of unification.

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 unauthorized use or disposition that transactions are authorized, 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 organization 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 4,687 Crore (USD 781 million) during FY14, a growth of 10% over FY13 (FMCG Business). The volume growth underlying this revenue growth was at 6%. Profit after Tax (PAT) for FY14 was INR 485 Crore (USD 81 million), a growth of 12% over FY13 (including exceptional items). Excluding the one-time accounting adjustments made in FY13, the PAT growth for the year was at 19%.

During FY14, the Company received 900% dividend from Marico Bangladesh Limited on which income tax charge of INR 34.5 Crore was accounted in the books. This has increased the effective tax rate (ETR) for the year. Profit growth excluding this tax impact is 26% for FY14.

Over the past 5 years, the FMCG topline and bottom line have grown at a compounded annual growth rate (CAGR) of 16% and 21% respectively.

DOMESTIC FMCG BUSINESS: MARICO INDIA

Parachute and Nihar

Marico participates in the INR 2800 Crore (USD 466 million) branded coconut oil market through Parachute and Nihar. It is estimated that in volume

terms of the total coconut oil market about 60% to 65% is in branded form and the balance is loose. With growing aspirations to use branded products, this loose component provides headroom for growth to branded players. The Company's flagship brand Parachute, being the market leader, is well placed to capture disproportionate share of this growth potential on a sustainable basis.

Parachute's rigid portfolio (packs in blue bottles), recorded a volume growth of about 4% for FY14 over FY13. Copra prices on an annual average have moved up 51% compared to FY13. It is generally observed that an inflationary environment swings the competitive position to the Company's advantage as it puts pressure on the working capital requirements of marginal players. Moreover, an inferior cost structure and thin margins compel smaller competitors to pass on almost all the increases in input costs, whilst the Company can opt to absorb a part of the cost push. In a year when the category grew at a slower rate, Parachute along with Nihar marginally improved its market share over the same period last year to 56%.

Growth is being contemplated through conversion from loose oil usage to branded oil and by share gain in rural areas. Parachute's share in the rural markets, in the range of 35% to 40%, is lower than that in the urban markets, thus providing potential headroom for growth.

Due to a spurt in copra prices from mid-2013 onwards, the Company has initiated a series of price increases. Weighted average price increase of 9% and 4% was taken in the second and third quarter of the year. The Company had initiated another round of price increase in April'14 of about 12-13% across the portfolio on a weighted average basis, taking the point to point increase to about 25%. This is sufficient to pass on the cost push and maintain absolute margins, though percentage margins may appear lower on the increased realization base.

Saffola

The Saffola refined edible oils franchise grew by 9% in volume terms during FY14 compared to FY13. The brand has been able to reverse a softer performance in 2012-13 and accelerate in the second half of the year based on its effective equity building communication.

The Company has revamped its top-end variant i.e., New Saffola with an improved and top of the line offering for modern day needs "Saffola Total". The Company also initiated a new communication strategy to establish its superiority. The strategy was implemented with the release of "High Science" campaign in which the consumers were informed of the reasons why Saffola is a better product to consume. The brand has seen good traction since launch. The Company's approach is to deliver a

product that is best for the consumers based on science rather than offer plain commodities.

As a result of growing affluence in India, consumers are proactively moving on to healthy lifestyles. Moreover, awareness about health has been increasing in India. Saffola has made a significant contribution towards increasing the awareness about heart health (www.saffolalife.com).

The Saffola range of blended refined oils (available in four variants) operates in the super premium niche of the refined edible oils market. Saffola is estimated to reach over 3 million households of the 22 million SEC A/B households in India. The brand maintained its leadership position in the super premium refined edible oils segment with a market share of about 55% during the 12 months ended March 2014 (MAT 12 months ended March 13: 57%).

In the long term, Saffola expects to establish itself as a leading healthy lifestyle brand that offers healthy food options during all meals of the day. The rise in the number of nuclear households and that of working women provides an opportunity for convenient and healthy breakfast food options. The intent of the Company is to come up with value added offerings. Saffola savory oats are now available in six flavors. Saffola has a market share of over 14% by volume in the oats category and has emerged as the number two player in the category. Saffola Oats has increased its market share by about 24 bps as compared to last year. Saffola Oats crossed Rs. 50 Crore landmark (USD 8.3 million) in top line during the year under review. The Company expects to continue the robust growth in Oats.

Hair Oils

Marico's hair oil brands (Parachute Advansed, Nihar Naturals and Hair & Care) grew by 11% in volume terms during FY14 over FY13. Marico continues to gain market share in Value Added Hair Oils and has emerged as a clear market leader with 28% share (for 12 months ended March 2014) in the INR 4500 Crore (USD 834 million) market as against 26% during the same period last year.

These market share gains have been achieved through providing consumers with specific solutions, product innovation, packaging restaging, participation in more sub-segments of the value added hair oils category, continued media support in some of the brands and penetrative pricing action in others and expansion of Marico's direct retail reach in the rural markets.

Nihar Shanti Amla continues to gain market share and achieved a volume market share of about 30% for the 12 months ended March 2014 in the Amla hair oils category (FY13: 25%). Nihar Shanti Amla is now a INR 250 Crore (USD 41.7 million) brand.

Hair oiling is a deeply ingrained habit for leave-in hair conditioning on the Indian sub-continent. The Company has carried out scientific research and conducted successful clinical trials to establish the benefits of hair oiling. The Company believes that educating consumers by putting science behind the habit of hair oiling will build credibility and create a loyal franchise. (www.parachuteadvansed.com). There is also an emergence of new age hair oils such as argon & mythic oil in the developed markets that could create a super-premium segment in India too. This serves to emphasize the conditioning property of hair oils.

Hair oil category has been amongst the fastest growing large sized FMCG segments in India. The category has grown at 17% to 18% CAGR over the last 5 years. Marico has a "category play" in the segment whereby it offers its consumers a basket of value added hair oils for their pre-wash and post wash leave-in hair conditioning, nourishment and grooming needs. The Company's aim is to participate in all the sub-segments and have a wider portfolio to drive growth. Each brand in the portfolio has grown the overall hair oils franchise by bringing specificity and creating more occasions for use. There may also be an opportunity to enhance the overall sensorial experience of using hair oils by contemporizing the product and packaging formats.

Parachute Advansed Body Lotion

The Company launched India's first unique multi-dimensional 'spray-on' body lotion. It has a fragrant non-sticky formulation with double sunscreen to cool down the skin and protect it from the harmful effects of the sun. The new launch will be extensively supported with heavy media and visibility campaign. The variant has been launched in a 100ml SKU with an introductory price of INR 99.

Parachute Advansed Body Lotion has been voted the no.1 body lotion by Consumer Voice, a Government of India recognized organization. When tested on improvement in skin texture, the ability to make skin soft and supple, and other such factors, Parachute Advansed Body Lotion beat the top 12 leading body lotion brands. The brand also won three Effie Awards on debut in Integrated Campaign, Consumer Products and David vs Goliath categories.

The total skin care segment is estimated to be around INR 5000 Crore (USD 833 million) out of which the body lotion segment is around INR 550 Crore (USD 92 million) with penetration levels below 20%. The Company plans to increase its participation in the skin care segment in the longer term.

Due to the challenging environment, the body lotion category growth rate has fallen to single digit. Parachure Advansed Body Lotion has maintained its no.3 position with a market share of 6%. The Company expects the brand to be back on track next year. (www.facebook.com/ParachuteAdvansedBodyLotion)

Youth brands (Set Wet, Zatak, Livon)

The acquired portfolio of youth brands grew by 16% during the year over FY13. Due to inflationary trend and restricted spends on discretionary products, the category growth rates of Post Wash Serums, Hair Gels/Creams and Deodorants have come off considerably.

There is a fair degree of consolidation in two of the three streams in the Company's youth portfolio. The Company has established a leadership

position in the Hair Gels and Post Wash Leave-on conditioner (2/3rd of the Youth Portfolio) market with about 33% and 82% share respectively. High share is expected to benefit the Company's brands as they participate in market growth over the medium term.

Set Wet and Zatak deodorants (a third of the Youth portfolio) increased its market share marginally to 5% for 12 months ended March 2014, in this crowded category. In February, Set Wet launched a new variant Set Wet Infinity, a non-aerosol perfume spray with 'no-gas' formulation. The launch was supported by an extensive media campaign during the IPL7 cricket season. Set Wet (Deodorants and Gels) is now a INR 100 Crore (USD 16.7 million) brand with a strong equity and growing consumer franchise.

Over the next few years, the Company's growth rates are likely to average around 20-25% supported by new advertisement communication and product launches. However in the immediate term, the growth rates are more likely to be around 15-20%. In the medium term the company expects some consolidation to take place in the category and gain from our wider distribution supported by brand building initiatives. However, the environment in the immediate term is challenging and the category growth may be lower than the medium term outlook.

This youth portfolio will also witness a much higher interaction with overseas portfolio thereby leveraging scale and innovation synergies.

NEW INITIATIVES

Livon Conditioning Cream Colour

This year, the Company entered the Hair Colour category by introducing Livon Conditioning Cream Colour. This is a highly differentiated 'no ammonia' product which gives women natural looking coloured hair which is soft and shiny. Priced only at Rs.39, the Livon Conditioning Cream Colour Kit is packed with features that no other brand of hair colour offers. The product was introduced in January 2014 and is available in three colours with two SKUs.

The total hair colour category has low penetration and is estimated to be around INR 2500 Crores (USD 400 million), of which creams form about 25%. The cream format is the fastest growing in

the hair color category with growth rates of about 20%. The Company will focus on expanding the category by recruiting new users and upgrading powder and henna users by providing them a superior product at an affordable range. Entry into the hair colour category not only strengthens the Company's hair care portfolio in India but also establishes our presence in categories which are replicable in other geographies.

Bio-Oil, a distribution alliance with Union Swiss

In partnership with Union Swiss, the Company has introduced Bio-Oil in India during FY14. Union Swiss is a privately owned MNC based in South Africa. It researches, develops and manufactures oil based skin care products which it licenses for distribution across the world. Marico will be marketing and distributing its flagship brand, Bio-Oil, in India on an exclusive basis. With presence in 76 countries, Bio-Oil is the No.1 selling product to improve appearance of scars and stretch marks.

Bio-Oil is positioned as a premium skin care product priced at Rs. 450 for 60 ml. Scar and stretch mark category is estimated to be around INR 650 Crores (USD 105 million). It is a nascent category dominated by clinical-looking products with limited category building investments. Bio-Oil promises to revolutionize the space by balancing "efficacy with beauty", bringing about a fundamental shift in how the category operates. This marks Marico's foray into premium specialist skin care category. Having Bio-Oil in the portfolio will further strengthen Marico's presence in channels such as chemists and modern trade. The Company will earn an operating margin higher than the current Company average. The scale of business is however very small in Marico's overall context.

INTERNATIONAL FMCG BUSINESS: MARICO INTERNATIONAL

Over the years, two platforms have emerged as a core to international business – Hair Nourishment and Grooming. With focus on emerging markets of Asia and Africa, the Company operates in geographic hubs leading to supply chain and media synergies. The portfolio in India will also witness a much higher interaction with the international portfolio thereby leveraging scale and innovation synergies. Such focused commonalities in portfolio coupled with market leadership will help the Company create 'centers of excellence' across these hubs and transfer learnings across geographies.

The year FY14 began with the unification of India and International leadership which will enhance and accelerate this process. The focus of international business in the coming years will be organic growth. Margins will be maintained in a band and re-invested in the business to reinforce established brands and build new growth engines for the future.

Marico's International FMCG business (its key geographical constituents being Bangladesh, Middle East, Egypt, South Africa and South East Asia) comprised ~25% of the Marico Group's turnover in FY14.

The overall growth in Marico International was 16%. The underlying volume growth for the year was 5% over FY13. The Operating margin for the year as a whole was about 16.4%. The Company believes that the sustainable margins are more in the region of 14-15%. This demonstrates a structural shift in International margins based on the cost management projects undertaken in the last one year.

The Company continues to make investments behind existing and new products such a Value Added Hair Oils (VAHO), Hair Dye, Deodorants, Leave-on conditioners and Premium Edible oils. These products continue to gain traction and are expected to help create a portfolio of the future in Bangladesh. The Company's value added hair oils portfolio maintained its market share at 18.5% on MAT basis. It holds no.3 position in VAHO category on MAT basis. However, on the basis of exit market share, Marico is now no.2 in the category with 20% share.

Bangladesh

Due to the macro-economic instability during the year, the business has grown by 4% on a constant currency basis in FY14. However, owing to the brand strength, the business recorded robust bottom line growth.

The Company's HairCode brand (coupled with its newer variant HairCode Active) continues to lead the powdered hair dye market with a market share of around 36%.

During the year, Bangladesh business has made significant journey towards new products launch and entering new categories to strengthen the portfolio for future growth. HairCode Keshkala (Liquid hair dye), Livon, Set Wet and Saffola Active offers a substantial proposition for future roadmap in Bangladesh. 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.

MENA (Middle East and North Africa)

The MENA business on an overall basis grew by 4% (constant currency basis) during FY14 as compared to FY13. This is mainly on account of strong 21% business growth in Egypt primarily led by volume growth in HairCode and Fiancée. The GCC business reported topline decline of 20% for the year. However, the region has started showing signs of revival and reported topline growth in the fourth quarter of the year. This trend of improvement will continue over the next year.

In Egypt, HairCode and Fiancée together improved its market share to 52% in the gels category and reported double digit volume growths.

The Company's performance in the Middle East region faced challenges during most of the previous year due to some execution issues. Various steps have been taken during the last year such as distributor transition in KSA region, restructuring of the business model and SKU rationalization which has led to a significant shift in profitability this year.

South East Asia

The business in South East Asia (of which Vietnam comprises a significant portion) grew by 11% over FY13. Business in Vietnam was largely affected by sluggishness in the overall economy leading to reduced consumer confidence. Vietnam is expected to face consumption headwinds in the immediate term. 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, Myanmar and Cambodia.

South Africa

The business reported a topline growth of 5% for the full year. The business environment continues to be challenging with the ethnic hair care segments declining. Marico South Africa has, however, gained market share in the category over the past few years.

RESULTS OF OPERATIONS – AN OVERVIEW

Marico achieved revenue from operations of INR 4,687 Crore during FY14, a growth of 10% over FY13. The volume growth underlying this revenue growth was 6%.

Profit after tax (PAT) for FY14 was INR 485 Crore, a growth of 12% over FY13. These results include the following items that are not strictly comparable. Profit growth without considering these non-comparable items is given below:

INR/Crore

Particulars	FY14	FY13
Reported PAT	**485.4**	**433.9**
Exceptional Items		
Marico India	-	22.0
Depreciation gain on account of method change	-	17.6
Gain on account of brand valuation in MCCL	-	4.4
Marico International	-	2.8
Depreciation gain on account of method change	-	0.2
Profit on sale of MBL soap plant	-	2.6
Corporate	-	0.1
Depreciation gain on account of method change	-	0.1
MCCL Brand Depreciation	-	(6.1)
Fiancee Write Back	-	6.1
Total	-	24.9
Comparable PAT	**485.4**	**409.0**
Growth	19%	
Tax on MBL Dividend	34.5	3.2
PAT excluding Tax on MBL Dividend	519.9	412.2
PAT Growth excluding MBL Dividend Impact	26%	

FY13 figures do not include the Skin Care Business (Kaya) in order to make them comparable to FY14, which relate only to the FMCG business.

TOTAL INCOME

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, edible salt, functional and other processed foods, hair creams & gels, hair serums, hair colours, shampoos, 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 FY14 and FY13.

INR/Crore

Particulars	FY14	FY13
Revenue from Operations	4686.5	4,260.2
Other Income	57.9	43.6
Total Income	4744.4	4303.8

There has been 10% growth in Revenue from Operations on account of 8% growth in Marico India and 16% growth in Marico International. The underlying volume growth was 6% at Group level.

EXPENSES

The following table sets the expenses and certain other profit and loss account line items for the years FY14 and FY13:

INR/Crore

Particulars	FY14		FY13	
	Amount	% of Revenue	Amount	% of Revenue
Revenue from Operations	**4,686.5**		**4,260.2**	
Expenditure				
Cost of Materials	2,399.2	51.2%	2,169.3	50.9%
Employees Cost	284.7	6.1%	263.2	6.2%
Advertisement and Sales Promotion	561.2	12.0%	570.7	13.4%
Depreciation, Amortisation and Impairment	76.9	1.6%	61.6	1.4%
Other Expenditure	693.5	14.8%	655.5	15.4%
Finance Charges	34.5	0.7%	49.8	1.2%
Exceptional Items	-	0.0%	(52.4)	-1.2%
Tax	190.5	4.1%	142.3	3.3%

FY13 figures do not include the Skin Care Business (Kaya) in order to make them comparable to FY14, which relate only to the FMCG business.

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. At an overall level the cost of goods sold was 27 bps higher in FY14 as compared to FY13.

On a full year basis, the copra prices have been up by 51% compared to last year. Historically it is noted that copra prices are driven by market sentiments during extreme supply and demand imbalances causing sharp increase or decrease in prices before it settles down to fundamentally logical levels. The market prices of the other key input, Safflower Oil and Rice Bran Oil has been down 31% and 5% respectively. Considering copra accounts for a major proportion of input costs the Company margins declined on a net basis during FY14.

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. The increase in employee costs is primarily on account of normal annual compensation revisions and increase in headcount. As a percentage of revenue, employee costs stayed at the same level as last year.

Advertisement and Sales Promotion

The Company continues to make investments behind existing products and new products such as Livon Color, Saffola Total, Saffola Oats, Parachute Advansed Body Lotion, Youth brands in India and Value Added Hair Oils in Bangladesh. ASP spends on new products comprises significant part of the overall ASP. Overall ASP spends have decreased by 142 bps for the year as a whole. ASP spends have come down on account of higher number of new launches last year such as Parachute Advansed Tender Coconut Oil, Saffola muesli and Parachute Advansed Body Lotion.

Depreciation, Amortisation and Impairment

For the year as a whole, depreciation has increased from INR 61.6 Crore (USD 9.9 million) in FY13 to INR 76.9 Crore (USD 12.4 million) in FY14. The increase in depreciation is largely on account of impairment of certain plant and machinery items at some of its plants in India. The other factors are: depreciation on new corporate office building and its interiors, new copra crushing plant in Bangladesh, amortization of the brand "Fiancée" and other additions made during the year.

Other Expenses

The other expenses include certain items which are variable in nature (almost 2/3rd of other expenses).

- Fixed Expenses include items such as rent, legal and professional charges, donation, certain one-time project based consulting charges for capability building and value enhancement in the organization.
- Variable Expenses include items such as freight, subcontracting charges, power and fuel, warehousing etc. The variable expenses have grown slower than growth in sales mainly due to reduction in Marico Bangladesh as a result of shifting of crushing from third party operators to own factory.

INR/Crore

Other Expenses	FY14	FY13	% Variation
Variable	482.6	467.9	3%
Fixed	211.2	187.8	12%
Total	693.9	655.7	6%

Finance Charges

Finance charges include interest on loans and other financial charges. Reduction in finance charges are in line with reduction in the Company's Net Debt.

Direct Tax

The Effective Tax Rate (ETR) for the business during FY14 was 27.4% as compared to 24.3% during FY13. The increase in the ETR is primarily due to tax on dividend received from Bangladesh. The normalized ETR without considering the impact of Bangladesh dividend is 23.1% in FY14 and 22.7% in FY13.

BALANCE SHEET

INR/Crore

Particulars		As at March 31, 2014	As at March 31, 2013
A	**EQUITY AND LIABILITIES**		
1	Shareholders' Funds		
	(a) Share Capital	64.49	64.48
	(b) Reserves & Surplus	1,296.15	1,804.00
	Sub-total Shareholder's fund	**1,360.63**	**1,868.47**
2	**Minority Interest**	**35.79**	**35.14**
3	**Non-current liabilities**		
	(a) Long-term borrowings	251.54	376.83
	(b) Deferred tax liabilities (Net)	9.61	(0.89)
	(c) Other Long-term liabilities	0.01	0.98
	(d) Long-term provisions	3.32	3.71
	Sub-total Non-current liabilities	**264.48**	**380.64**
4	**Current Liabilities**		
	(a) Short-term borrowings	274.35	358.07
	(b) Trade payables	502.51	459.23
	(c) Other current liabilities	444.81	184.77
	(d) Short-term provisions	82.37	70.98
	Sub-total current liabilities	**1,304.05**	**1,073.05**
	TOTAL - EQUITY AND LIABILITIES	**2,964.95**	**3,357.30**
B	**ASSETS**		
1	**Non-current assets**		
	(a) Fixed assets	637.75	1,342.98
	(b) Goodwill on consolidation	254.25	254.25
	(c) Non-current investments	49.86	38.03
	(d) Long-term loans and advances	60.93	100.53
	(e) Other non-current assets	155.03	142.34
	Sub-total Non-current assets	**1,157.82**	**1,878.12**
2	**Current assets**		
	(a) Current investments	260.67	72.11
	(b) Inventories	796.24	837.53
	(c) Trade receivables	223.19	195.44
	(d) Cash and cash equivalents	406.39	238.54
	(e) Short-term loans and advances	86.47	122.92
	(f) Other current assets	34.16	12.64
	Sub-total current assets	**1,807.13**	**1,479.18**
	TOTAL – ASSETS	**2,964.95**	**3,357.30**

Balance Sheet figures as on March 31, 2013 do not include the Skin Care Business (Kaya) in order to make them comparable to FY14, which relate only to the FMCG business.

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.

Reduction in Reserves & Surplus is on account of Capital Reduction pertaining to Marico Consumer Care Ltd. (MCCL). Accordingly, intangible assets aggregating to INR 723.72 Crore were adjusted against the Share Capital and Securities Premium Reserves.

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, 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 continues to be with the company founder.

Increase in minority interest is on account of increase in profits in Marico Bangladesh and ICP.

Non-current Liabilities

Non-current Liabilities include borrowings which are payable after one year or more from the date of the balance sheet and long term provisions such as gratuity. These include a judicious blend of borrowings in local and foreign currency. Non-current liabilities have decreased on account of reclassification of current maturity of INR 100 Crore debentures and USD 9 million term loan to Other Current liabilities.

Current Liabilities

Current liabilities mainly comprise the amounts payable by the Company for the purchase of various input materials and services and short term provisions. Increase in current liabilities is mainly on account of reclassification of current maturity of the above mentioned long term loans.

Fixed Assets

Fixed assets represent investments made by the Company in tangible assets such as Buildings, Plant & Machinery, Furniture & Fixtures etc.

Reduction in Fixed Assets is on account of Capital Reduction pertaining to Marico Consumer Care Ltd. (MCCL). Accordingly, intangible assets aggregating to INR 723.72 Crore were adjusted against the Share Capital and Securities Premium Reserves.

Goodwill on Consolidation

Goodwill on consolidation represents the consideration paid to acquire companies in excess of their net assets at the time of acquisition. There is no material change in Goodwill on Consolidation as the Company did not make any acquisitions during the year.

Non-current Investments

Non-current Investments comprise long term investments the full value of which will not be realized before one year from the date of the balance sheet. Increase in non-current investments is on account of investments made in Bonds and Mutual Funds during the year.

Deferred Tax Asset (DTA)

Deferred Tax Asset represents the timing differences resulting due to variations in the treatment of items as per Income Tax Act, 1961 and Indian GAAP.

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 etc. Long-term Loans and Advances have decreased during the year mainly due to settlement of certain capital advances in FY14.

Other Non-current Assets

Other non-current assets include receivables/ entitlements maturing after more than 12 months from the balance sheet date. Increase in Other Non-current assets is on account of increase of MAT credit entitlement.

Current Investments

Current investments comprise short term investments the full value of which will be realized before one year from the date of the balance sheet. It includes investments made in Mutual Funds. Increase in current investments is mainly on account of increase in investments in Mutual Funds.

Inventory

Inventory includes the stocks of raw material, packing material, work in process and finished goods held for sale in the ordinary course of business. Decrease in inventory is on account of shedding of inventory positions mainly in Marico Limited.

Trade Receivables

Trade Receivables include the monies to be received from its customers against sales made to them. Increase in trade receivables is in line with increase in Sales.

Cash and Cash Equivalents

This includes amounts lying in Cash and with the Company's bankers. There is an increase in the cash balances primarily due to increase in balance in Unpaid Dividend account. The unpaid dividend pertains mainly to the third one time silver jubilee dividend declared in March 2014 and paid in April 2014.

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. Decrease in short term loans and advances are mainly on account of repayment of the advances to Welfare of Mariconians Trust on maturity of STAR Scheme I during the year (also refer to Note 41 to the Consolidated Financials).

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 etc. Increase in Other Current Assets is on account of reclassification of the fixed assets as 'Held for Disposal' (namely one of the Company office building), Land & Building at one of the manufacturing plants and accrued export incentive.

CAPITAL UTILIZATION

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

Ratio	FY14	FY13
Return on Capital Employed-Marico Group	25.1%	23.5%
Return on Net Worth – (Group)	22.9%	25.3%
Working Capital Ratios (Group)		
- Debtors Turnover (Days)	16	16
- Inventory Turnover (Days)	64	67
- Net Working Capital (Days)	60	62
Debt Equity (Group)	0.35	0.44
Finance Costs to Turnover(%) (Group)	0.7%	1.2%

* *Turnover Ratios calculated on the basis of average balances*

1. Kaya impact has been removed from FY13 ratios in order to make them comparable to FY14.
2. The MCCL capital reduction has not been considered in FY14 ratios in order to make them comparable to FY13. Marico Consumer Care Limited a wholly owned subsidiary of Marico, has under a scheme that was approved by Bombay High Court on 21st June 2013, adjusted the book value of Youth Brands, amounting to INR 723 Crore, acquired during last year against the Securities Premium and paid up equity share capital. This has resulted in a decline in the value of capital employed eading to an improvement in the reported ROCE, RONW and an increased D:E ratio. The Company will endeavor to improve its return ratios going forward.
3. The variation in working capital ratios is due to:
    a. Decrease in inventory is on account of shedding of inventory positions mainly in Marico Limited.
4. Finance cost as a % of turnover has come down because the Net Debt of the Company has reduced significantly during the year.
5. The Net Debt position of the Marico Group as of March 31, 2014 is as below-

Particulars	March 31, 2014	March 31, 2014
Gross Debt	**680**	**872**
Cash/Cash Equivalents & Investments(Marico Ltd: INR 309 Crore. Marico International: INR 273 Crore)	582	389
Net Debt	**98**	**483**
Foreign Currency Denominated out of the total gross debt (54% of Gross Debt hedged) (Also refer to Note 4 below)	441	584
Foreign Currency Denominated: Payable in One year	190	252
Foreign Currency Debt as a % age of Gross Debt	65%	67%
Rupee Debt out of the total gross debt	239	278
Rupee Debt: Payable in 1 Year	239	187
Total Debt Payable within 1 Year	428	439
Average Cost of Debt (%) : Pre tax	4.0%	5.7%

The Company may roll over some of the loans when they fall due during the year or redeem investments for repayment. Marico has adequate cash flows to maintain healthy debt service coverage.

6. The Debt denominated in foreign currency is either hedged or enjoys a natural hedge against future probable exports. Hence the MTM differences are routed through the balance sheet (Hedge Reserve) rather than the income statement.

7. The Company periodically reviews and hedges the variable interest liability for long term loans using Interest Rate Swaps.

8. The Company had, opted for early adoption of Accounting Standard 30 "Financial Instruments: Recognition and Measurement" to the extent it does not conflict with existing mandatory accounting standards and other authoritative pronouncements. Accordingly, the net unrealised loss of Rs. 76.3 Crores as at March 31, 2014 (Rs. 52.5 Crores as at March 31, 2013) in respect of outstanding derivative instruments and foreign currency loans at the period end which qualify for hedge accounting, stands in the 'Hedge Reserve', which is recognised in the Statement of Profit and Loss on occurrence of the underlying transactions or forecast revenue.

SHAREHOLDER VALUE

The Company's distribution policy has aimed at sharing its prosperity with its shareholders, through a formal earmarking / disbursement of profits to shareholders.

Dividend Declared

Keeping in mind the increase in the profits made by the Company over the last five years and in an endeavor to maximize the returns to its shareholders, the Company increased its dividend payout during the year to 350% as compared to 100% during FY13. This includes a one-time Silver Jubilee dividend of 175%, declared on the occasion of 25 years since incorporation. The overall dividend payout ratio is 47.3% as compared to 19.3% during FY13. Excluding the one-time dividend, the payout ratio for the year is 24.1%. The Company will endeavor to improve the dividend payout ratio further depending on the acquisition pipeline.

HUMAN RESOURCES (HR)

The mission of the HR Function at Marico is to partner business and attract and nurture talent to succeed. The HR function is also the custodian of Marico's culture and governance standards. This year the function took on several initiatives to strengthen the organization culture, build talent capability, enhance connect with members and potential talent and implement new governance standards. This included initiatives to integrate the international geographies with the Marico Way of Working while valuing the cultural aspects of each country. The key highlights are outlined below:

Culture building

Marico believes that Culture is a key differentiator and a source of competitive advantage. Every year, Marico takes considerable effort to educate members on Marico's core cultural tenets and values to encourage them to live the Marico Values. This is done through Values Workshops, Values Conversations with Leaders and Living the Values booklet.

Maricognize

The Company strongly believes that "celebrating small wins" is a stepping stone to achieve "big bets". In January 2014, Marico took a giant leap to drive a culture of recognition through a unique web-based recognition programme Maricognize. The programme provides a platform for members to connect, inspire and celebrate achievements and contributions. Maricognize has helped increase the frequency of recognition; in the first quarter itself there were 9,800+ recognitions & wishes for members.

Campus Connect

This year, Marico renewed its Campus Connect programme, to enhance the Company's connect with today's youth using their preferred platform – the social media. MC2 is Marico's Facebook page for direct interaction with campus students. It upped the cool quotient with digital contests, recruitments, crowd sourcing ideas for socially relevant projects, and constant updates and dialogues with students. In just a year of its launch, the page has more than 50,000 fans.

Talent attraction and development

Marico's Talent Value Proposition (TVP) to 'continuously challenge, enrich, and fulfill the aspirations of Mariconians so that they can maximize their true potential to Make a Difference' is an anchor for talent acquisition and development processes.

- Talent Acquisition: Marico leverages multiple sources to hire talent laterally such as member referral programme, TAREEF – Talent Referral, recruitment partners and the Company alumni. The Company also hires fresh talent from premier technical and business schools.
- Performance Management System: Management by Results (MBR) is Marico's performance management process that aligns individual and team goals with the organizational thrust areas.
- Talent Development: Personal Development Planning (PDP) is a career development process, distinct from performance management process. It provides a platform to members to discuss their career aspirations, identify their strengths and development areas and work towards enhancing individual competence. The process also helps in creating a Talent Pipeline and Succession Plan for key roles in the organization.
- Leadership Development: Marico invests in leadership development at front line, middle and senior leadership levels. Multiple development options are leveraged such as job rotation, classroom training, coaching and attending management development programmes at reputed institutes like Indian School of Business to address specific individual development needs.

This year as part of Marico's signature leadership development program, LEAD Talent (Lead, Encourage & Develop Talent) Marico Leaders became teachers and conducted sessions on how to become better people leaders for the Managers in their teams. 17 interactive sessions were conducted by different leaders covering more than 300 Managers.

A new programme was launched under LEAD Talent to equip first time managers to Lead, Encourage And Develop Talent. The programme focuses on enabling first time managers to transition from individual contributors to people leaders by orienting them to their new roles and teaching them skills on delegation and coaching. The concept of Marico Leaders as Teachers has also been leveraged for this program with Marico leaders taking session on the role of the leader in developing team members and living Marico values.

Overall, the employee relations throughout the year were supportive of business performance. As on March 31, 2014, the employee strength of Marico Limited was 1,938.

OTHER DEVELOPMENTS

For other corporate developments, refer to the Director's Report.

OUTLOOK

Marico has positioned itself, strategically, in the Developing and Emerging (D & E) markets of Asia and Africa. Most of these markets have large populations with growing GDP's where affluence is expected to continue to rise and segments where Marico participates – hair care, body care, skin care and health foods are under-penetrated. The Company believes that in D & E markets, focus on the long term is crucial. Long term success can be ensured only through stronger brands that enjoy loyal consumer franchises. The Company has therefore chosen to prioritize expansion of consumer franchise over expansion of margins.

The unified Domestic and International FMCG business will aim at leveraging the synergies in portfolio unlocking, efficiencies in supply chain and talent mobilization in the medium term.

Here is a broad outline of Marico's strategies and the expected outcome for its various businesses:

Marico India:

- The Company will continue to report gradual recovery in volume growths to the medium term outlook.
- The growth momentum in Rural and Middle India will continue to be ahead of Urban. Moreover, the Company is likely to invest significantly behind distribution which could give immediate gains.
- Immediate future could see volume growth rates of 7% to 8%. This is expected to improve going forward from early/mid FY15. With the price increases already in market place the overall top line growth could still be well over 15%.
- In the short term the margins will be impacted by the unprecedented rise in copra prices in recent months. The Company has chosen not to pass on the entire input cost push in order to continue the process of conversion from loose oil.
- In the immediate term, Operating margin will face compression. However over the medium term, margin of about 17% to 18% (without corporate overheads) is sustainable.
- The Youth brands portfolio is expected to grow by about 20% to 25%. However in the immediate term, the growth rates are likely to be around 15-20%.

Marico International:

- Organic top line growth in the region of 15% to 20% in constant currency.
- Operating margins expected to be sustained at around 14%.
- Growth potential in the core markets of Bangladesh, Vietnam and Egypt intact and will continue to drive growth.
- Expansion in adjacent markets such as Pakistan, Cambodia, Sri Lanka, North Africa.
- GCC region likely to come back on track from FY15 onwards.

Overall:

- The Company will focus on deriving synergies as a result of the combination of Domestic and International FMCG businesses.

- Product platforms will be leveraged across geographies and scale is expected to improve cost structures.
- Top line growth in the region of 15% to 20% in the medium term with an operating margin in the band of 14% to 15%.
- Market growth initiatives in core categories and markets and expansion into adjacent categories and markets will be supported by investments in ASP in the region of 11-12% of sales.
- The Company will focus on building capabilities to set it up for growth in the long run.
- Significant portion of the gains from the value transformation exercise in India and overseas will be ploughed back to fund growth and innovation.
- The Company will continue to invest in increasing its direct rural reach and Go To Market transformation initiatives.
- The Company will continue to engage in sustainability initiatives to enhance value of all its stakeholders.

On behalf of the Board of Directors,

Harsh Mariwala
Chairman

Place: Mumbai
Date: April 30, 2014