Management Discussion And Analysis

This discussion covers the financial results and other developments for the year ended March 31, 2018 in respect of Marico Consolidated, comprising its domestic and international businesses. 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 competition, product demand and supply constraints within India and the countries within which the Group conducts its business.

UPDATE ON MACROECONOMIC INDICATORS

The Goods and Services Tax (GST) that went live on July 1, 2017 is the biggest tax reform that India has witnessed since independence. Its implementation encountered transitory headwinds and had an impact on the gross domestic output, resulting in a GDP growth of 6.6% compared to 7.1% in FY16-17. Notwithstanding the same, the GST has paved the way for a more integrated and efficient taxation system, an efficient supply chain ecosystem, competitiveness in manufacturing and a wider tax base. Fiscal consolidation slowed down with the Central Government revising its fiscal deficit from a target equal of 3.2% of GDP to 3.5%, unchanged from the last year's outcome. Strong capital flows kept the Indian rupee stable and India's reserve holdings increased by US$50 billion in FY2017-18 to exceed US$420 billion. Inflation eased and the current account deficit widened, but remained modest.

India has improved its ranking in the World Bank's *Doing Business Report* by 30 spots over its 2017 ranking; the country now ranks 100th among 190 countries in the 2018 edition of the Report. India has seen an addition of over 1,000 startups this year, strengthening its position as the third largest startup ecosystem across the world, only behind the US and UK. This takes the total number of technology startups in India to nearly 5,200, according to the *NASSCOM Startup Report*.

Consumption is expected to remain an important growth driver in FY18-19. A healthy monsoon and various Government initiatives to improve farm productivity will help agriculture grow at a healthy rate. Government-sponsored initiatives around higher food procurement prices, agriculture market reform, crop insurance and investment in irrigation and logistics are expected to bolster the purchasing power of the farmer community. Stronger rural incomes augur well for rural consumption. The deferment of fiscal consolidation will allow Government consumption to increase, providing an impetus to growth.

Inflation has inched up since July 2017. With global oil prices forecasted to increase in 2018, decontrolled prices for fuels are expected to rise. Any strengthening of rural wages may affect retail food prices. However, prospects for a good monsoon, only modest increases in global food prices and Government efforts to improve agriculture supply management promise to mitigate the rise in food inflation. Core inflation could inch up as accelerated economic activity allows producers to pass their rising input costs on to consumers. Household inflation expectations turned higher from a year earlier. In sum, inflation is likely to range between 4.6-5.0% in FY2019 and FY2020, with further stabilisation of global commodity prices and strengthening of domestic demand.

The medium-term forecasts for growth and consumption in the Indian economy are promising. As per the latest estimates by Asian Development Bank (ADB), India's economy has bottomed out from the deceleration caused by one-time policy events. The economy is now expected to re-emerge as the fastest growing one in Asia and clock 7.3% rise in GDP in the current fiscal and further accelerate to 7.6% in FY2020. India's robust economic growth and rising household incomes are expected to increase consumer spending to US$3.6 trillion by 2020. The maximum consumer spending is likely to occur in the food, housing, consumer durables and transport and communication sectors. India's share of global consumption is also expected to expand more than twice to 5.8% by 2020*.

The medium-term challenges and key tasks for the Indian Government include capital investment in infrastructure, job creation, inclusive growth and regulatory reforms. Towards the end of FY2019, the country will vote for a new government at the Centre. This important political event may have a short-term bearing on the economic activity and growth rates.

BANGLADESH

Bangladesh, with a population of circa 166 million, is largely an ethnically homogenous society with the highest population density in the world (among countries with a population of over 10 million). The country's GDP grew by 7.3% in FY2017 (ended June 30, 2017), edging up from 7.1% a year earlier. The pickup mainly reflected acceleration in private consumption expenditure, despite falling remittances and continued growth in public infrastructure investment. Inflation eased, but the current account fell into deficit.

As per ADB, GDP growth is expected to moderate to 7.0% in FY2018 (ended June 30, 2018), as consumption demand slackens despite a rebound in worker remittances. Remittance beneficiaries are likely to adopt a cautious approach to spending, repaying the debt incurred in recent years of remittance declines. Private investment is nevertheless expected to edge up with support from an accommodative credit policy and public investment will expand as the authorities seek to speed up the implementation of infrastructure projects.

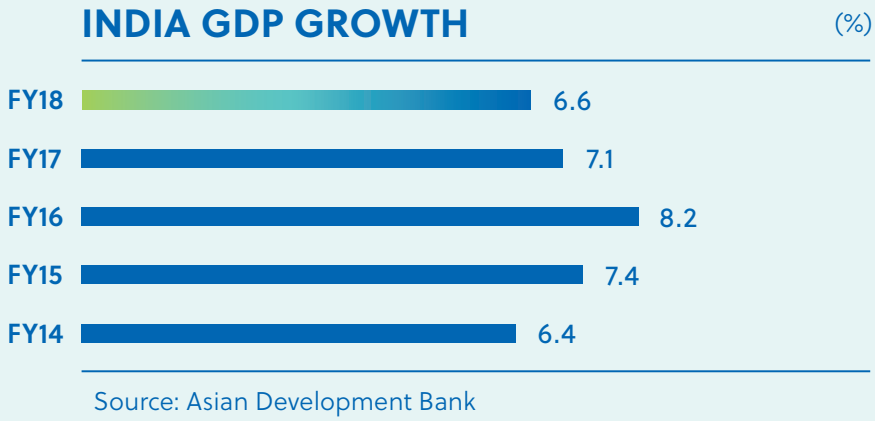
In the long-term, Bangladesh promises substantial potential in terms of socio-economic growth. A developing economy with a young demographic profile provides the perfect consumer base for the Fast-moving Consumer Goods (FMCG) sector to flourish. Political stability will further help the cause.

VIETNAM

Vietnam is one of the fastest growing countries in South East Asia. Since 1990, Vietnam's per capita GDP growth has been among the fastest in the world, averaging 6.4% a year in the 2000's. Despite uncertainties in the global environment, Vietnam's economy remains resilient. The country's medium-term outlook remains favourable, while the country's fundamental drivers of growth–resilient domestic demand and export oriented manufacturing–remain in force.

Growth accelerated from 6.2% in 2016 to 6.8% in 2017, its highest rate since before the global financial crisis of 2008-09. A hefty rise in exports, a strong increase in investment and buoyant private consumption underpinned growth last year. As per ADB, GDP growth is expected to accelerate to 7.1% this year and then ease back to 6.8% in 2019,

** According to a report by Boston Consulting Group (BCG), a global consulting firm, and the Confederation of Indian Industry (CII), an all-India industry association.*



Source: Asian Development Bank

driven by rising foreign direct investment, vigorous export growth, strengthening agriculture and a robust domestic demand. Inflation will edge up but remain modest and the current account surplus will narrow. For Vietnam, closing its widening skills gap is key to remaining attractive to foreign investors and sustaining growth.

MYANMAR

Myanmar, defined as a lower-middle income economy by the World Bank, is one of the fastest growing economies in the East Asia and Pacific regions and globally. GDP growth picked up in FY2018 to 6.8% backed by stronger agriculture, growth in exports and robust private consumption, with investment continuing to soften. Inflation eased and the current account deficit widened. With continued economic reform, growth should be sustained this year and accelerate next year. Inflation will likely edge up and the current account deficit will widen further.

As per ADB, GDP growth is projected at an annualised 6.8% in the six months (April-September 2018) prior to Myanmar's adoption of a new fiscal year in October 2018. Growth is forecast at 7.2% in FY2019 (ending September 31, 2019). By pursuing reform to improve the business environment, policy makers can sustain the sizeable foreign direct investment needed over the medium-term to finance the current account deficit.

MIDDLE EAST AND NORTH AFRICA (MENA)

Growth in the Middle East and North Africa (MENA) region is estimated to have declined markedly to 1.8% in calendar year 2017 from 5.0% in the previous year, contributed by hydrocarbon-sector-led growth decelerations among regional oil exporters. In contrast, growth in oil importers in 2017 has strengthened to 3.7% from the previous year, supported by reforms and improved competitiveness. Both groups of economies continue to face growth headwinds from fiscal consolidation plans and geopolitical tensions.

Egypt experienced strong industrial production, investment and exports, supported by the effects of the exchange rate devaluation on competitiveness. Inflation rose rapidly from 2016 and remained elevated (above 2%, y-o-y) till December 2017. This reflected the effects of the currency float in November 2016, higher food prices and administered price hikes, prompting the central bank to hike interest rates twice in 2017, taking its overnight lending rate to 19.75%. However, these inflationary pressures have eased to some extent in 2018.

As per World Bank, Egypt is expected to grow by 5% in the calendar year 2018 and to increase gradually to 5.8% by FY2020. Growth is expected to be driven by resilient private consumption and investment, in addition to a gradual pickup in exports (notably from tourism and gas).

As per World Bank Group's flagship report, *Global Economic Prospects*, the growth in MENA is projected to increase steadily after 2017, to 3.0% in 2018 and 3.2% by 2020, reflecting accelerations among both oil exporters and importers. This forecast reflects the assumption of a moderation of geopolitical tensions as well as a modest rise in oil prices. The pickup in growth among oil exporters would be led by the Gulf Cooperation Council (GCC) economies.

Key downside risks to the outlook include continued conflicts in the region, weakness in oil prices and obstacles to reform process, which are only partly offset by the effects of a possible stronger-than-expected Euro area activity.

SOUTH AFRICA

South Africa, ranked as an upper-middle-income economy by the World Bank, is the second largest economy in Africa.

The International Monetary Fund (IMF) *World Economic Outlook*, published in April 2018, highlighted a change in fortunes for South Africa due to the recent changes in leadership. After experiencing a GDP growth of 1.3% in 2017, amid a difficult economic climate, the IMF penciled in 1.5% growth in 2018 and 1.7% in 2019. The IMF said that business confidence is likely to gradually firm up with the change in the political leadership, but warned that the country's growth prospects remain weighed down by structural bottlenecks. The medium-term outlook is subdued, it said, with growth expected to stabilise at 1.8% over 2020-2023.

FMCG SECTOR

FMCG is the fourth largest sector in the Indian economy. The FMCG market in India is expected to grow at a Compounded Annual Growth Rate (CAGR) of 27.9% and is expected to reach US$104 billion by FY2021 from US$53 billion in 2017-18^. Rising incomes and growing youth population have been the key growth drivers of the sector. Brand consciousness has also aided demand.

There are three main segments in the sector–50% is accounted for by Household and Personal Care, 31% by Healthcare (includes Over-the-Counter (OTC) products and ethicals) and the remaining 19% by Food and Beverages. Hair Care is the leading segment, accounting for 23% of the Personal Care segment in terms of revenue. The

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beauty, cosmetics and grooming market in India is expected to reach US$20 billion by 2025 from US$6.5 billion currently.^

Rural India accounts for about 60% of the total FMCG market. As income levels are rising, there is also a clear uptrend in the share of non-food expenditure in rural India. Demand for quality goods and services has been going up in rural India, on the back of improved distribution channels of manufacturing and FMCG companies.

The retail market in India is estimated to reach US$1.1 trillion by 2020 from US$672 billion in 2017, with modern trade expected to grow at 20-25% per annum, which is likely to boost the revenues of FMCG companies.^

Growth of consumer goods retailed through the newer channels is now outpacing the growth of FMCG products in traditional trade. Tier II and Tier III towns are witnessing a faster growth in the modern trade segment. Factors such as comfort, convenience, rising trust factor, modern store experience, access to a wide variety of categories and brands under a single roof and compelling value-for-money deals are attracting consumers to the newer channels in a big way.

As per a recent joint report by Google India and Boston Consulting Group (BCG), 40% of FMCG consumption in India will be driven digitally, translating to a value of US$45 billion by 2020. The report finds that while time spent on digital is the same as that spent in front of the TV in urban India, share of digital advertising spends by FMCG companies was only 10% in 2016. This is, however, expected to grow substantially to reach 25-30% by 2020.

The report also highlights that there will be 650 million internet users by 2020, driven by increasing mobile penetration, with the highest growth coming from non-metros. This reinforces that digital in India is now a way to reach the masses, and not just a small, targeted opportunity.

From an audience perspective, the report estimates that online consumers spend two times more on FMCG purchases than offline consumers. India's 28 million affluent and elite households will contribute to about 40% of the overall online FMCG consumption by 2020, of which 60-65% will be digitally influenced.

The e-commerce segment within FMCG is expected to grow to become a US$6 billion market in 2020, on the back of assortment, convenience and availability along with discounting.

In the same period, the number of online video users has grown by three times and digital video reach is already 2/3rd of TV reach in urban areas. Similarly, with the next wave of users coming in from non-metro cities, local language content is increasingly becoming important. There has been a ten times growth in vernacular 'searches', over two times growth in the watch time of vernacular YouTube content and five times faster growth of Hindi content consumption on websites versus English in the last one year. Outlining opportunities for brands to tap the online consumers, the report states that users are today seeking the 3Vs–video, vernacular content and views.

Lastly, the implementation of the GST is seen to be positive for the sector. Over time, the implementation of a single tax regime is expected to benefit the FMCG sector immensely by reducing the overall incidence of taxation and unethical competition. GST has already reduced the cascading effect by replacing a multitude of indirect taxes. Moreover, FMCG companies are now able to optimise logistics and distribution costs in the GST era.

^According to a report by the Associated Chambers of Commerce of India (ASSOCHAM), an all-India industry association, and MRSS India, a market research agency.

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THE MARICO GROWTH STORY

Marico achieved revenue from operations of ₹6,333 crore (US$982 million) during FY2018, a growth of 7% over FY2017. Volume growth for the year was at 1.3%. The value growth was driven by price increases taken in the Coconut Oil portfolio to counter the significant inflation in one of the key inputs, copra, during the year. The operating margin was at 18.0%. The business reported bottom line of ₹814 crore (US$126 million), a growth of 2% over last year.

Since inception, Marico's revenues and Profit After Taxes (PAT) have grown at a compounded annual growth rate of 16% and 24%, respectively. This places Marico in the top quartile in this sector. The focus on delivering sustainable business and earnings growth has so far resulted in a healthy shareholder return of 26% CAGR since the Company's listing in 1996.

DOMESTIC BUSINESS: MARICO INDIA

Marico India, the domestic business, achieved a turnover of ₹4,969 crore (US$770 million) in FY2018, a growth of 9% over last year. Volume growth for the year was at 1.5%. The value growth was higher owing to price increases taken in the Coconut Oil portfolio. Annual volume growth this year was dampened by destocking in trade prior to GST implementation, which led to a sharp volume decline across portfolios in Q1 FY2018 and a subdued year for Saffola Edible Oils. The operating margin for the India business was at 21.3% (before corporate allocations) versus 24.3% in FY2017. Lower operating margins can be attributed mainly to the gross margin contraction on account of the severe input cost push during the year.

Coconut Oil
(44% of India business)

Parachute's rigid portfolio (packs in blue bottles) recorded a volume growth of 2% in FY2018, lower than the medium-term expectation. A few factors contributed to this lower growth–destocking by trade in Q1 in anticipation of the GST implementation and relatively concentrated price increases taken in H2 FY2018. While the full-year growth was lower at 2%, volumes grew 5% in H2 FY2018, as trade began to stabilise post the GST implementation.

During the year, the copra prices went up by 75% while the Company increased the consumer prices by ~22%, as it chose to resort to the approach of protecting the franchise at the cost of short-term margin losses. The Company expects copra prices to stay firm in H1 FY2019 and soften only in H2 FY2019.

The non-focused part of the portfolio (comprising Nihar Naturals, Oil of Malabar and pouch packs in Parachute) declined 7% in volume terms during the year.

During the year under review, Marico's Coconut Oil portfolio improved its volume market share to 59%, up 90 bps on a Moving Annual Total (MAT) basis.

Given Parachute's market share in rural India is lower than that in urban India, the expected consumption revival in the rural regions presents the Company with an opportunity to improve its rural market share in the medium-term.

Of the total coconut oil market, approximately 30-35% in volume terms is in loose form. 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 a significant share of this growth potential on a sustainable basis. The Company operates in a band of gross margin per unit and will take judicious pricing decisions to maintain a sweet spot between volume growth and margins. The Company would continue to exercise a bias for franchise expansion and market share gains as long as margins remain within a band. Towards that end, the Company will continue to invest behind brand building and tactical inputs to remain competitive. Notwithstanding the lower volume growth this year, the Company retains the guidance of 5-7% volume CAGR over the medium-term.

Saffola: Super Premium Refined Edible Oils And Healthy Foods
(20% Of India Business)

The Saffola refined edible oils franchise declined 1% in volume terms during FY2018. The franchise encountered multiple short-term headwinds during the year, namely, a slowdown in orders from the Canteen Stores Department (CSD) due to rationalisation of turnover limits imposed by the Ministry of Defence and sluggishness in the super premium segment of edible oils market, while the mid segment witnessed growth.

Despite the headwinds, the brand gained a market share of 324 bps and further strengthened its leadership position in the super premium refined edible oils segment to 69% during the 12 months ended March 2018.

Also, the Company passed on the benefits, accruing on account of the GST, to the consumers by cutting retail prices by ~3.5% on a weighted average basis.

To overcome the near-term challenges, the Company has made tweaks in its variant communication, market/ channel/ media prioritisation, pricing and promotion strategies. We are confident that these initiatives will bear fruit towards the end of H1 FY2019.

The Saffola Aura range of Edible Oils, a blend of olive and flaxseed oil, launched last year, received a tepid response during the year. The Company has responded by correcting prices to further enhance the value proposition vis-à-vis other brands on the shelf and hopes to see improved traction in FY2019.

The growing consumer trend towards healthier culinary choices and the strong brand equity continue to lend confidence in the medium-term potential of the franchise.

Saffola's foray into healthy foods, Saffola Oats, continues to consolidate its strong second position in the oats category with a value market share of 28%. Saffola Oats is the highest distributed oats brand in the country. **Saffola Masala Oats (SMO)** maintained its momentum, on the back of focused inputs and a renewed promotional campaign, which led to a consolidation in its value share to 70% (March 2018 MAT) in the flavoured oats category. 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.

During the year, we launched three new exciting flavors under the Chef's choice range viz. **Pongal Surprise, Tandoori Magic and Tangy Chaat**. Also, we are expanding the prototyping of Saffola Masala Oats vending machines in corporate offices, gyms and hospitals in Mumbai, Pune and New Delhi. We have placed more than 150 vending machines currently, reaching ~83,000 consumers across 100 commercial establishments in these cities. We have also placed **Saffola Masala Cuppa Oats** in Out-of-Home (OOH) locations in Mumbai in addition to trade. These initiatives fuel consumer trials and repeats.

In October 2017, an all-new meal replacement product, the **Saffola Active Slimming Nutri-Shake** was launched in four variants–Swiss Chocolate, French Vanilla, Royal Kesar Pista and Pista Badam-in 400 gm and 50 gm packs. The

product has been made available on e-commerce and specialty pharmacy chains in metro cities, as a healthy meal option with essential nutrients that complement the busy urban lifestyle.

We further extended Saffola's footprint in the space of weight management and fitness with the launch of a range of **Saffola Active Soups** in November 2017, which is currently being prototyped in Mumbai. The high-fibre soups (5x fibre than other soups) boost one's metabolism and help in maintaining a healthier lifestyle. These are available in five flavours–Tangy Tomato, Creamy Sweet Corn, Fiery Hot & Sour, Garden Vegetables and Simmering Manchow-in two formats – single-serve instant soup sachets at ₹ 10 as well as multi-serve ready-to-cook packs at ₹ 55.

The initial response to Saffola Active Slimming Nutri-Shake and Saffola Active Soups has been encouraging.

Overall, the Healthy Foods franchise clocked a topline of ~₹ 125 crore in FY2018. The Company aspires to grow the Healthy Foods franchise to an ₹ 450-500 crore level over the next 4-5 years, on the back of continuous innovations in this space.

The growing relevance of the e-commerce channel has not replaced the need for direct consumer engagement. Towards this, the Company made a strategic investment in Revolutionary Fitness Private Limited, which owns Revofit, an integrated fitness and holistic wellness solutions app that provides a 360-degree approach to a healthy lifestyle. This alliance enables the Company to strengthen Marico's healthy lifestyle offerings by leveraging Revofit's integrated platform.

Leave-In Hair Nourishment (27% Of India Business)

The leave-in hair nourishment portfolio of the Company has two sub-segments: **value-added hair oils and leave-in serums**.

Value-added Hair Oils (26% of India business)

Marico's value-added hair oil brands registered a volume growth of 4% during the year, despite declining by 8% in Q1 FY2018 due to destocking in trade prior to GST implementation.

The Company passed on the benefits, accruing on account of the GST, to the consumers by cutting retail prices by ~5% on a weighted average basis.

The Company further strengthened its market leadership by 70 bps to 34% volume share on a MAT basis, with a value share of 26% for the same period. The Company will continue to focus on premiumisation to drive growth in the category. The Company's Value-added Hair Oils portfolio has grown at ten-year CAGR of 19% and now accounts for 26% of the Company's business in India.

One of the key pivots of growth in Value-Added Hair Oils will be to target the bottom of the pyramid through price point packs of ₹ 10 and ₹ 20 each. The Company will continue to focus on the availability and affordability of these packs to ensure conversion.

Nihar Naturals Shanti Amla Badam achieved market leadership in volume terms and exited with a market share of ~41% within the Amla Hair Oils category. A renewed advertising campaign and the association of the brand with a societal purpose augmented the brand image. The gain of ~153 bps in market share during the year reflects the continuing strong growth trajectory. The increased scale of the franchise enables the Company to benefit from operating leverage, despite competitive pricing.

Nihar Naturals Sarson Kesh Tel, a value-added mustard oil targeting the loose mustard oil pool, post the launch across markets in North and parts of East India, continues to grow steadily and expand its reach. The brand had an exit volume market share of 10% in the perfumed mustard oil category. The Company will continue to invest behind the brand, encouraged by a large source pool of unorganised mustard oil. The Company's rural Go-to-Market (GTM) initiatives hold it in good stead to make the most of the same.

In May 2017, the Company launched **Hair & Care Fruit Oils** in two variants: (i) Olive, Mosambi and Green Apple and (ii) Orange, Anaar and Strawberry. The former (in green packs) received a satisfactory response, while the latter (in orange packs) failed to gain ground. The Company is in the process of revisiting its strategy for the brand to reignite growth.

Parachute Advansed Aloe Vera Enriched Coconut Hair Oil, available in Andhra Pradesh, Karnataka, Maharashtra, Tamil Nadu and Telangana, continued to gain traction during the year. The Company will continue to invest behind the brand in these markets and extend it to other markets.

Within the hairfall control segment, **Parachute Advansed Ayurvedic Oil** had a flattish year. The brand is present in the southern states of Andhra Pradesh, Karnataka, Kerala, Tamil Nadu and Telangana and continues to hold ~30% market share in the region.

As a market leader in the Value-added Hair Oils category, the Company assumes the responsibility of expanding and growing the category. The culture of innovation fostered across the organisation, coupled with our ability to understand and cater to the evolving hair nourishment needs of the Indian consumer, should help us in maintaining our 'right to win' in Value-added Hair Oils. The Company will continue to focus on offering a variety of sensorial/functional benefits to consumers, thereby driving premiumisation-led growth in the category.

**The erstwhile Youth portfolio comprised of the following categories: Hair Gels, Deodorants, Hair Gain Tonic and Leave-in Serums. From FY2018, the communication with respect to this portfolio has been split accordingly in view of the different business dynamics of the segments.*

Leave-in Serums (1% of India business)

The leave-in serums portfolio of Livon and Hair & Care Silk n Shine grew by 13% in value terms during the year, on a comparable basis. Marico's efforts in relevance building and reach have started yielding positive results. The portfolio was seen gaining further traction in H2 FY2018. Livon Serum sachets registered strong growth. With a reach of more than 1 Lakh stores, sachets are emerging as a key pack in ensuring accessibility and are generating more than 70% of brand trials. Livon Serums continued to witness higher growth in modern trade and e-commerce.

The new marketing campaign for Livon Serums–**Salon in my bag**–launched in January 2018, focused on delivering salon-finish hair on demand for millennials. With a media plan focusing on creating impact, the campaign reached out to more than 20 million girls in the age group of 18-35 across all youth channels and digital platforms such as Facebook, Instagram and YouTube.

Being the market leader with a volume share of **~82%** (March 2018 MAT) in the Post wash Leave-on Serums segment, the Company will focus on driving category growth through innovation and consumer engagement.

There was a decline in the Livon Hair Gain business. However, we are closely monitoring the initial response to Livon Hair Gain Tonic, launched in a new 70 ml pack in March 2018.

Male Grooming (3% Of India Business)

Male Grooming (Set Wet Gels/ Waxes/ Deos and Parachute Advansed Men Hair Creams) declined 4% in value terms during the year on a comparable basis.

The value market share of **Set Wet Hair Gels** currently stands at 58%, constituting circa 60% of total Male Grooming Portfolio.

The portfolio witnessed a healthy growth of 21% in H2 FY2018 in value terms on a comparable basis, signalling a positive growth trajectory ahead.

The Company considers Male Grooming to be a big opportunity across its geographies and is determined to innovate and grow the market. The Company aims to have a broad spectrum play in this category and ultimately gain market leadership in various sub-segments.

In the early part of the year, the Company launched **Set Wet Blast**, an affordable pocket spray, priced at ₹ 49, in 2 variants–Aqua Blast and Citrus Blast. Promising 140 sprays that will last an entire month, the product received a good response from trade and consumers across all the launch markets. Given the positive response, the brand will be extended to other markets.

To further strengthen and premiumise our play in the Hair Styling Category, we launched **Set Wet Hair Waxes** in Q3 FY2018. The product has been launched on e-commerce and in select regions of Mumbai, Punjab, Delhi, Kerala, NER and Haryana, in two size variants–25 gms and 75 gms packs at ₹75 and ₹225, respectively. The initial response has been encouraging.

During the year, the Company also relaunched the **Parachute Advansed Men Hair Cream** in three variants–Classic, Anti-Dandruff and Anti-Hairfall. On gaining significant traction in Karnataka and Kerala, the brand has been extended to Maharashtra and Andhra Pradesh as well.

With the portfolio* coming back to grow in H2 FY2018, the Company will aim to revive a consistent value growth trajectory in the coming year.

The Company's investment in Zed Lifestyle (which owns the brand 'Beardo') is likely to enhance its capability in e-commerce and salons over the medium-term.

PRICE REDUCTIONS IN MALE GROOMING, LEAVE-IN SERUMS AND SKIN CARE ON ACCOUNT OF REVISION IN INDIRECT TAX RATES UNDER THE GST

The Company cut retail prices in the Leave-in Serums, Male Grooming and Skin Care portfolios commensurate to the reduction in GST rates from 28% to 18%, announced in November 2017, to pass on the benefits to the consumers.

The price correction is expected to provide a fillip to consumption in these categories in the medium-term.

DISTRIBUTION

Rural growth outpaced urban growth during the year. Marico's rural sales grew by 12%, while urban sales grew by 5%. The contribution of rural to the India turnover has increased from 26% in FY2012

to 32% in FY2018. Modern trade (11% of the India turnover in FY2018) grew by 15% in FY2018, fueled by factors such as a comfortable and modern shopping experience, access to diverse categories

as well as a wide variety of brands under a single roof and attractive prices. CSD (7% of the India turnover in FY2018) was flattish for the year.

The e-commerce channel contributed over 1% of India turnover in FY2018 and has become an important pivot of growth. This business almost quadrupled in FY2018, albeit on a low base. This segment is expected to contribute ~2% of the India business in FY2019.

GTM transformation is one of the key pillars of long-term growth for Marico. With its focus on building processes, driving new age initiatives, carving a state-of-the-art IT infrastructure and an advanced capability building cell, GTM transformation has witnessed an exciting journey in 2017-18:

- Project ONE (Outlet Network Expansion) has been the marquee project to expand the direct distribution of Marico over the past four years. We added 86,000 urban outlets in 2014-2017 across 34 cities, yielding a turnover of ₹88 crore every year. In 2017-18, we added another 12,000 urban outlets, which incrementally contributed ₹10 crore of incremental annual turnover to the kitty.
- In order to optimise travel time for the feet on ground and scientifically arrive at clearly demarcated sales routes, Integrated Sales Route Optimisation (ISRO) was implemented across six cities in the country. ISRO, a geo-tag based and analytics-led route optimisation model, has helped Marico cover more outlets with lesser manpower. The released manpower was in turn redeployed to further aid direct reach expansion.
- Further, in order to leverage technology as an enabler for sales, Retailer Intelligence & Analytics (RETINA) was rolled out across 13 cities. By suggesting the next best Stock Keeping Unit (SKU) to sell in every store, RETINA has enabled Marico to increase its range in the stores.
- Marico embarked on customised assessment and certification modules to analyse the quality of its field force and channel partners. This, coupled with predictive analytics, led to a reduction in attrition and enabled Marico to have the best-in-class infrastructure.
- The Capability Building cell leveraged IT to bring a structural shift in the way the field force is trained. While virtual e-learning modules and e-classroom trainings became a regular medium to train the field force, Marico has also developed an in-house content factory for its field force.

SUMMING UP THE STORY OF INDIA BUSINESS IN FY2018

FY2018 was a year of transformative change. The landmark reform of the GST created a level playing field in the marketplace to the benefit of the organised players in the medium-term. It will also lead to supply chain efficiencies, which will further unlock value for the Company. However, the short-term volatility in the trade environment affected the Company's performance in H1 FY2018.

Despite the muted performance during the year, sustained offtake growth coupled with market share gains in 90% of the portfolio on a MAT basis affirmed the underlying strength of the franchise.

There have been early signs of a revival in rural India, as it outpaced urban growth in the last three quarters of FY2018. We expect the Government's spending plans to bolster rural development and raising of minimum support prices of crops to help regain the momentum in rural demand in the medium-term. Normal monsoons, as recently forecasted, would be critical for a pickup in the overall sentiment and demand growth in rural areas.

The year was also marked by hyperinflation in one of the key inputs, copra, which kept margins in check through the year. As sustained high prices usually lead to rationing of demand, we expect the prices of copra to stabilise around current levels and soften only in H2 FY2019.

> For FY2019 and beyond, the Company retains the target of 8-10% volume growth

For FY2019 and beyond, the Company retains the target of 8-10% volume growth, healthy market share gains on the back of increased investment in the core portfolio, aggressive premiumisation and new product launches, distribution expansion, judicious pricing and tighter cost management.

INTERNATIONAL FMCG BUSINESS: MARICO INTERNATIONAL

The international business (its key geographical constituents being Bangladesh, South East Asia, Middle East, Egypt and South Africa) contributed to 22% of the Group turnover in FY2018. The business reported a 9% constant currency growth (volume growth of 1%) during the year. The operating margin for the full year was healthy at 16.6% (before corporate allocations).

Bangladesh (45% of the International Business)

In Bangladesh, topline grew by 13% in FY2018 (volume growth of 4%) in constant currency terms. In addition to volumes, growth was led by an improving revenue mix as the journey of premiumisation gathered pace during the year and price increases were taken to counter the input cost push.

Parachute Coconut Oil declined by 2% in constant currency terms, while maintaining the leadership position with ~87% volume market share. The scope of volume growth in the Coconut Oil segment is limited as the category has matured. However, the Company is confident of growing this franchise at a single-digit constant currency growth over the medium-term on the back of its dominant position and consumption growth.

The non-Coconut Oil portfolio in Bangladesh grew 32% in constant currency terms during FY2018. This was led by handsome volume-led growth in Value-added Hair Oils, driven by the flagship brand Parachute Advansed Beliphool. Currently in a firm second position, we aim to gain market leadership in this category in the medium-term. Premium Edible Oils and Male Grooming (Set Wet Gels and Deodorants) also responded well during the year.

Consequently, the non-Coconut Oil portfolio contributed to 26% of the total business in Bangladesh in FY2018 as compared to 10% in FY2012. The non-Coconut Oil portfolio is likely to grow ~30-35% over next two to three years. Therefore, the Company is confident of delivering a double-digit constant currency growth in the medium-term in this geography.

South East Asia (26% of the International Business)

Business in South East Asia (mainly Vietnam and Myanmar) declined by 2% in FY2018 in constant currency terms.

Vietnam declined 5% in constant currency in FY2018 due to under-performance in the male shampoo business. The flagship brand 'X-Men' maintained its leadership in male shampoos and second position in deodorants. The Foods business continued to post single-digit growth in constant currency terms. We are taking definitive steps to reignite growth in the male shampoo category and are investing in setting up a top-notch IT backbone to support our GTM initiatives. This is expected to deliver results by the end of H1 FY2019.

Myanmar grew steadily through the year and recorded a topline of over US$8 million during the year.

Middle East and North Africa (MENA) (14% of the International Business)

In FY2018, the MENA business recovered to post a growth of 14% in constant currency terms.

The Middle East business grew by 12% and Egypt grew by 17% in FY2018, in constant currency terms. The devaluation of the Egyptian Pound (EGP) continued to put pressure on margins and optical value growth.

Hair Code in Egypt and Parachute in Middle East enjoy strong brand equities. However, the macros continue to be tough. As a result, we remain cautiously optimistic about the medium-term outlook on these markets.

South Africa (9% of the International Business)

Despite the challenging macro-economic conditions, the standalone South Africa business grew in low single digits in constant currency terms through the year.

In July 2017, the South Africa business acquired Isoplus, a leading hair styling brand in South Africa. This strategic buyout enabled the Company to have a full spectrum ethnic hair care play in South Africa. The newly acquired business is being integrated with the core business of ethnic hair care and health care.

Including Isoplus, the business posted a growth of 16% in FY2018 in constant currency terms.

New Country Development and Exports (5% of the International Business)

With expansion in adjacent markets such as Sri Lanka, Nepal and Bhutan and exports to diaspora and other markets, this business generated revenues of ~US$11 million this year. This business grew 15% in FY2018, in constant currency terms. The Company remains positive on the future prospects of this business.

SUMMING UP THE STORY OF INTERNATIONAL BUSINESS IN FY2018

FY2018 has been a mixed bag for the international business. While the business grew in constant currency terms, adverse forex movements led to a flattish y-o-y reported growth. On the positive side, the EBITDA margins have remained healthy. Bangladesh grew in double digits on the back of aggressive growth in the non-Coconut Oil portfolio. Vietnam had an exceptionally challenging year due to sluggishness in the male shampoo category and high dependence on wholesale. The MENA region staged an impressive recovery in the second half of the year and we remain cautiously optimistic about this region. Growth in new country markets such as Nepal and Myanmar remains promising. In South Africa, the integration of the newly acquired Isoplus has progressed as per schedule and the operating results have been satisfactory.

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

CONSOLIDATED RESULTS OF OPERATIONS – AN OVERVIEW

During the year ended March 31, 2018 (FY2018), Marico registered consolidated revenue from operations of ₹ 6,333 crore, a growth of 7% over the previous year. The volume growth underlying this revenue growth was 1.3%. The value growth was higher owing to price increases in the Coconut Oil portfolio. PAT for FY2018 was ₹ 814 crore, a growth of 2% over FY2017.

TOTAL INCOME

Our total income consists of the following:

1) Revenue from operations comprises 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 and gels, hair serums, shampoos, shower gels, hair relaxers and straighteners, deodorants and other similar consumer products, by-products, scrap sales and certain other operating income.
2) Other income primarily includes profits on sale of investments, dividends, interest and miscellaneous income.

The following table states the details of income from sales and services for FY2017 and FY2018:

(₹ in crore)

Particulars (in ₹ crore)	FY18	FY17
Revenue from Operations	6,333.1	5,935.9
Other Income	84.6	97.3
Total Income	**6,417.7**	**6,033.2**

There has been 7% growth in revenue from operations on account of 9% growth in Marico India and 1% growth in Marico International.

EXPENSES

The following table sets the expenses and certain other profit and loss account line items for the years FY 2017 and FY 2018:

(₹ in crore)

	For the year ended March 31			
	2018	% of Revenue	2017	% of Revenue
Revenue from Operations	6,333.1		5,935.9	
Expenditure				
Cost of Materials	3,359.1	53.0%	2,844.0	47.9%
Employees Cost	422.2	6.7%	404.2	6.8%
Advertisement and Sales Promotion	585.6	9.2%	651.0	11.0%
Other Expenditure	828.4	13.1%	877.5	14.8%
PBDIT margins	1,137.8	18.0%	1,159.3	19.5%
Depreciation, Amortisation and Impairment	89.1	1.4%	90.3	1.5%
Finance Charges	16.2	0.3%	16.6	0.3%
Tax	289.6	4.6%	337.7	5.7%
PAT	814.5	12.9%	798.6	13.5%

COST OF MATERIALS

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

The price of copra, one of the main inputs, was up 75% as compared to last year. The price of rice bran oil was down 4%, while the prices of liquid paraffin and safflower oil were up by 21% and 18%, respectively. The price of HDPE (a key ingredient in packaging material) was flat compared to FY2017. Considering copra accounts for a major proportion of input costs, the overall cost of materials increased by 18% during FY2018, leading to a gross margin contraction of ~510 bps.

EMPLOYEE COST

During the year under review, employee cost grew by 4% over FY2017 on account of annual salary revisions offset by lower provision for Stock Appreciation Rights (STARs) provisions and lower employee costs pertaining to the international business in Indian rupee terms due to comparatively weaker currencies.

ADVERTISEMENT AND SALES PROMOTION (ASP)

ASP spends to sales ratio during the year was 9.2%. Unlike in the previous taxation regime, the GST system allows the credit of taxes paid at each stage as a set-off against the taxes to be paid at every subsequent stage. In light of the same,

the ASP of the base year (FY2017) is 10.4% on a comparable basis. Advertising and Promotional (A&P) spends were down 5% over FY2017 on a comparable basis. The Company has been driving improvements in the efficiency of A&P spends, which have led to savings. The Company expects to operate in a band of 10-11% of sales over the medium-term. This has been revised from the earlier guidance of 11-12% of sales on account of the following factors: a) A&P expenses now being recognised in the Profit and Loss (P&L), net of taxes, under the GST regime and b) Improved efficiency in A&P spends achieved through cost savings programmes.

CAPITAL EXPENDITURE AND DEPRECIATION

For the full year, depreciation was at ₹ 89.1 crore (US$13.8 million) as compared to ₹ 90.3 crore (US$13.5 million) in FY2017.

The capital expenditure in FY2018 was ₹ 128 crore (US$20 million). The capital expenditure in FY2019 is likely to be around ₹ 125–150 crore.

OTHER EXPENSES

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

Other expenses are not comparable with the base year (FY2017) on account of the following exceptions:

a) Expenses being recognised in the P&L, net of taxes, under the GST regime

b) One-time exchange loss in the base

On adjusting for these, other expenses were higher by 4% over FY2017.

Other expenses are likely to remain in the range of 12-14% of turnover in the medium-term.

(₹ in crore)

Other Expenses	FY18	FY17	% variation	% variation adjusting for exceptions (a-b)
Fixed	291.6	337.7	-14%	2%
Variable	536.9	539.8	-1%	5%
Total	**828.4**	**877.5**	**-6%**	**4%**

FINANCE CHARGES

Finance charges comprise interest on loans and other financial charges. For the full year, finance charges was at ₹ 16.2 crore (US$2.5 million) as compared to ₹ 16.6 crore (US$2.5 million) in FY2017.

DIRECT TAX

The Effective Tax Rate (ETR) for the Company during FY2018 was 25.9% as compared to 29.4% during FY2017. ETR was lower due to tax deductions in the new Guwahati manufacturing unit.

INDIAN ACCOUNTING STANDARD

The new accounting standards–Indian Accounting Standards (Ind AS) – have become effective from April 1, 2016 and the financial statements presented in this Annual Report comply with these new accounting standards. The change in balance sheet items as per Ind AS has been explained in detail in the Financial Statements.

CAPITAL UTILISATION

Given below is a snapshot of various capital efficiency ratios for Marico FY 2017 and FY 2018:

Ratio	FY18	FY17
Return on Capital Employed (ROCE)	41.7%	47.1%
Return on Net Worth (RONW)	33.5%	36.8%
Working Capital Ratios (Group)		
- Debtors Turnover (Days)	17	15
- Inventory Turnover (Days)	80	67
- Net Working Capital (Days), including surplus cash	58	46
Debt: Equity (Group)	0.12	0.11
Finance Costs to Turnover (%) (Group)	0.3%	0.3%

Note: Turnover ratios calculated on the basis of average balances

The ratios have continued to be healthy for the year.

The fall in the Company's ROCE was on account of decrease in EBIT margins due to the input cost push. The inflation in copra and other key input prices in India and international geographies as well as position build-up in key commodities also led to the increase in inventory days.

SHAREHOLDER VALUE

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

Dividend Declared

Keeping in mind the steady increase in operating cash flows and in an endeavour to maximise the returns to its shareholders, the Company increased its dividend payout during the year to 425% as compared to 350% during FY2017. The overall dividend payout ratio was 78% of PAT as compared to 64% during FY2017. Subject to its fund requirements towards inorganic growth, working capital and capacity creation, the Company shall endeavour to maintain a dividend payout ratio at ~60-65% in the medium-term.

HUMAN RESOURCES

Talent and culture are among the five key transformational areas to make Marico future ready. Over the last year, we have taken several initiatives in this direction, the key highlights of which are presented below:

Building depth of talent across levels is a thrust area to build capability for business. We continue to institutionalise the career architecture, and functional and behavioural competencies as the anchors for our talent development initiatives. After articulating the frameworks that outline the competency levels required for successful performance in different roles, we have started a **Competency Discussion Process**. This process enables members to create a focused Personal Development Plan to accentuate their strengths

and address the competency gaps after receiving holistic feedback on all competencies mapped to the role. This process is supplemented by a robust **Talent Review** process to take talent decisions, assess depth of talent across the functions and businesses and identify critical areas for functional competency development.

We have adopted **Accelerated Learning (AL)** techniques, which enable better and faster, post-training, on-the-job application. Leveraging AL, we have now designed and deployed functional training modules on topics such as Shopper Marketing, Category Management, Safety Training, etc. Friday Learning, a unique virtual training series, was launched to train the frontline field force, including the distributor workforce. Using the Train the Trainer approach and a combination of instructor-led videos, quizzes and other learning games, frontline sales personnel were trained on core sales topics.

We continue to strengthen **Automation** and the **Digital** footprint in Human Resources. Membrain is now established as Marico's integrated talent management digital suite covering members' lifecycle in the organisation. We have deployed Artificial Intelligence (AI) for enhancing member experience and taking real-time feedback. Amber and Maricognize Bot are some of the AI-based initiatives undertaken last year. **Amber** is our CEO's personal digital assistant who connects with new members at predefined milestones throughout their tenure in Marico. She listens to them by inviting them to share their experiences, feedback and suggestions to make Marico a better workplace. Through the **Maricognize Bot**, we have successfully integrated our social rewards and recognition platform Maricognize at the workplace. With the Kudos Bot and its 'workplace-first' approach, we have enabled members to give out top-down and peer-to-peer recognitions publicly, globally and spontaneously.

In our endeavour to make Marico future ready, we implemented progressive practices such as **Experiential Rewards** and **Disconnect to Connect**. These initiatives were launched as part of winning ideas from the **Innovation Jam 4**, our initiative to crowdsource ideas from Marico members. **Experiential Rewards** is part of Maricognize, our social recognition program. New and coveted CXO Rewards were added to Maricognize 2.0 wherein CXOs appreciate and reward members every quarter for exemplary performance, out-of-the-box thinking and being institutional. The reward is a box with a series of experiences that they can enjoy and cherish. **Disconnect to Connect @Marico** is aimed towards aiding members to disconnect from devices during meetings, become more mindful and connect with what matters in the moment. The objective is to enable members to leverage devices (mobile phones, laptops, tablets, etc.) for enhancing productivity and dissuade them from using them to enable meaningful conversations during meetings.

We continue to engage with **lateral and campus talent** through Linkedin, Instagram and Over the Wall, our flagship campus engagement programme on Marico Campus Connections (on Facebook). To enhance our campus connect, we started **Marico's JAM Sessions** – a new and unique programme wherein our Senior Leaders from the Marketing function visit Premiere B-schools and conduct JAM Sessions with the students, helping them discover how the most loved brands go about creating a clear, unique and advantageous position in people's minds. **Operations Bootcamp** aims to build students' perspectives on what they can expect when they select a career in the Operations function in an FMCG firm. The Bootcamp includes knowledge sharing sessions and interactions with Marico's senior leaders in the Supply Chain function and a visit to Marico's factories and 3P locations using **Virtual Reality Technology**. The students get a realistic 3-D view of all the manufacturing processes, right from raw material handling to finished goods in this virtual tour.

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

1. Marico is among the Top 50 India's Best Companies to Work For in the Economic Times and Great Place to Work Institute's India's 2017 study (Ranked 40 across industries)
2. Marico is ranked No. 8 in the Manufacturing industry in the 2018 Great Place to Work Study
3. Marico is among Top 100 Best Companies for Women and Working Mothers as per 2017 study conducted by Working Media & AVTAR
4. Marico was listed in Jombay's Top 50 People Capital Index (PCI) companies. Jombay is one of the fastest growing Talent Assessment and Capability Building companies. PCI is an indicator (or a measure) of employee perception on how well the organisation is developing their people capital and is inspired by the Human Capital Index published by the World Economic Forum for different countries.

Talent and culture will continue to be important pivots for Marico to scale business and create

a future-ready organisation while focusing on preserving the founder's mentality. Our focus over the next few years would be on the following strategic areas:

1. Developing Leadership Talent
2. Strengthening Culture of Performance, Collaboration and Innovation
3. Robust Talent Management
4. Creating a Future-ready Organisation

INFORMATION TECHNOLOGY AND DIGITAL

Marico continued to progress on its roadmap of using Digital, Analytics and Automation opportunities to deliver a better and integrated experience to its consumers, associates and employees.

CONSUMER ENGAGEMENT INITIATIVES

Your Company increased the use of Digital as a media platform significantly in the current year, with more brands having their presence through online, social and mobile media as well as through the use of programmatic buying. The use of Digital in the total mix is now in double digits in percent terms as compared to last year.

The Company continued to reinforce category leadership through engagement platforms.

Saffola FitFoodie platform, the health platform for Saffola Foods recorded a reach of 1.26 million. A tie-up with the **Revofit** platform during the Saffola World Heart Day also helped increase the engagement. Marico also announced the acquisition of stake in the Revofit platform at the end of the year. It is a digital wellness platform that helps health-conscious consumers build healthy habits, track and manage their nutritional intake, provide guided workouts with celebrity fitness trainers and easy-to-cook recipes from India's leading Masterchefs and will also enable delivery of health- and fitness-related food supplements and accessories. This is a great fit to the existing fitfoodie.in platform and both will be API-integrated in future to help drive a new Digital Business Model for consumer engagement.

A content platform, **www.HairSutras.com**, which was launched last year, recorded a reach of 2.09 million. The HairSutras platform helps rediscover the ancient and timeless care secrets for gorgeous hair in this fast-paced world.

The Company also introduced digital devices to drive engagement. A sensor-based Sound of Skin device was used to drive tactical activation drives amongst consumers for Parachute Advansed Body Lotion in malls in the winter season. Similar experiments will be scaled up in the coming year.

PROCESS-LED INITIATIVES

Your Company migrated its internal and external systems to work with the new GST regime within the deadline, in order to meet the new rules of compliance and also harness the opportunities presented through **Analytics-led Network Optimisation**.

The Company also scaled up its sales supply system to cater to the high-growth modern trade and e-commerce segment channels. The **Supply Chain Planning System** was revamped to take care of the smaller batch sizes, freshness index and quick supply to these channels. A **future-ready mobile TSOE application** was rolled out to give information to the TSOs / TSEs on their fingertips. An On-the-go-Mobile Training cum assessment module helped the field force access new training materials easily, which was facilitated by the ease of data access now available through 4G networks.

Your Company also harnessed **geo-tags** and route **optimisation analytics** to rationalise the sales routes and improve salesman productivity. **Geo-tagging** in van routes along with **Rural Mobile App** in rural areas also helped improve

effectiveness of van deliveries, field force tracking and payouts.

The Company also harmonised the sales and supply processes in Marico Bangladesh in line with the initiatives rolled out in Marico India.

AI-led **Robotic Process Automation (RPA)** was also piloted during the year and is now being rolled out in Finance, Procurement and HR-led processes to begin with. This is expected to bring about process efficiency and improve accuracy.

Exception-led Analytics in the area of certain class of spends led to better control and visibility in the internal audit of such areas.

A new **Manufacturing Information and Intelligence** platform integrated with the sensors in production and non-production processes was implemented in two of the Company's plants, which gave significant visibility in the form of real-time event monitoring through Descriptive Analytics Dashboards and helped improve overall effectiveness.

A **Farmer Outreach Programme** helped improve ease, transparency and visibility to the bidding process in Copra Collection centres. Along with Kalpvriksha, the new farmer platform, it improved the Company's connect with its farm suppliers.

EMPLOYEE INITIATIVES

Augmented Reality (AR) based training modules, **SAP SuccessFactors**-led integrated HR platform and **AI-led** chatbot applications and employee mood tracker were launched and scaled up. These have been described in detail in the earlier sections of this report.

FUTURE

The Company will continue to focus on Analytics- and Automation-led initiatives which help drive consumer and customer experience, boost sales growth and efficiency and improve employee engagement.

OUTLOOK

Over the medium-term, Marico aspires to be an admired emerging market MNC with leadership in the two core categories of nourishment and male styling in the following regions–South Asia, South East Asia, Middle East and North Africa and South Africa. Marico plans to meet this aspiration by seeking to win amongst consumers, trade and talent. Towards this goal, the Company has identified five areas of transformation where it will develop top-quartile capability, processes and execution excellence ahead of growth: **Innovation, GTM Transformation, Talent Value Proposition, IT and Analytics and Cost Management.**

This strategy will be executed synergistically under the 'One Marico' umbrella. As the Company scales up, it has to maintain a delicate balance between its entrepreneurial way of working while continuing to strengthen governance and processes. The Company's focus will be on creating winning brands, winning culture and a winning talent pool to create a virtuous cycle of great talent and an enabling culture propelling innovation-driven growth.

MARICO INDIA

As the Company enters FY2019, there is a backdrop of two macro factors:

- Inflation in key commodities
- Monsoon

With this backdrop, the Company is targeting 8-10% volume growth and healthy market share gains, backed by increased investment in its core portfolio, aggressive new product launches, distribution expansion, judicious pricing and tighter cost management. The cost push and increased ASP investment would mean that the operating margins may stay at 20%+ levels, like in FY2018. In Parachute Rigids, the Company aims to grow volumes in the range of 5-7% in the medium-term. With the hyperinflation in copra witnessed through the year, the Company has already taken price increases aggregating to ~22% this year. The Company may evaluate the need for any further increases if the prices continue to stay firm. In the Value-added Hair Oils space, the Company aims to growing this franchise at a double-digit volume growth on the back of growth in core portfolio, the drive towards premiumisation and scale-up of new launches.

> In Parachute Rigids, the Company aims to grow volumes in the range of 5-7% in the medium-term

While Saffola had a tough year, it is likely to revert to a healthy growth trajectory in the near term on the back of focused marketing and sales promotion initiatives. In the medium-term, the Company expects to get back to double-digit volume growth in this category. In the Healthy Foods franchise, the Company will innovate aggressively to cater to the consumer need of tasty and healthy options and in the process maintain the healthy double-digit value growth momentum from this year. Investment in Revofit is expected to enhance our ability to improvement engagement with the health-seeking digital consumer. We expect to continue on the recovery path in the Leave-in Serums and Male Grooming portfolios and build it into a growth engine for the future. The Company will also gradually create dedicated premium product offerings suited for modern trade and e-commerce channels to continue aggressively growing in these channels. The Company's GTM strategy will be focused on improving the width and depth of its distribution. Strategic initiatives in sales and supply chain will aim at ushering in efficiencies in selling and GTM. The Company will renew its efforts towards enhancing its GTM capabilities in salons, pharmacy chains, cosmetics and specialty food outlets. The Company is focusing on Digital initiatives in a big way to improve consumer engagement, drive sales through e-commerce for internet-savvy consumers and build Data Analytics capabilities. Investment in Zed Lifestyle is likely to enhance the capability in e-commerce and salons over the medium-term. We are aggressively investing in the e-Commerce business and expect it to contribute ~2% of the India business by FY2019.

MARICO INTERNATIONAL

Over the last three years, the Company has systematically invested in the core international markets to strengthen both the brands and the organisational capability to handle growth. The Company is confident that each of these markets is well-poised to capitalise on the market opportunities. The business in Bangladesh had a promising year and is likely to continue the momentum as the medium-term macro prospects look promising. Therefore, the Company will continue to invest in brand building, GTM transformation and will diversify beyond Coconut Oil within its stated strategy. As a market leader, the Vietnam business will invest in reigniting the male shampoos category and foster excellence in sales and distribution systems. Myanmar and the rest of South East Asia are the new growth engine for the future. In the MENA region, the Company will focus on getting its basics right by judiciously investing in brands and GTM initiatives. The South African business will leverage the new acquisition of Isoplus to gain scale and grow profitably. The Company will continue to invest in developing new countries and scale the business profitably. We expect to clock an organic top-line growth of 12-15% in constant currency in the near to medium-term. We aim to maintain the guidance of 16-17% operating margins over the medium-term. With considerable room for organic growth in the business, the Company will only be opportunistic with respect to acquisitions, which may either be immediately value accretive due to operating leverage or enable consolidation of leadership in existing categories.

> In the International business, we expect to clock an organic top-line growth of 12-15% in constant currency in the near to medium-term

MARICO CONSOLIDATED

The Company will aim at a volume growth of 8-10% and a topline growth of ~15% plus (depending on inflation) in the medium-term. The Company will focus on the following growth pivots:

- Grow the core of Parachute coconut oils, Saffola Edible Oils and Hair Oils in India and overseas
- Premiumise the leave-in hair nourishment play
- Nurture new growth engines of healthy foods and male grooming
- Disproportionately grow modern trade and e-commerce businesses
- Leverage the distribution play in Bangladesh to rapidly scale up in that market across chosen categories

Market growth initiatives in core categories and expansion into adjacent categories will be supported by investments in ASP in a band of 10-11% of sales with focus on brand building. Operating margin is expected to be maintained in a band of 17-18% over the medium-term. In the near term, this may mean a low profit growth. However, the Company has chosen to focus on growth over short-term profitability. The Company will aggressively drive efficiencies in A&P spends, sales and marketing spends and all other costs to extract savings that will be redeployed towards igniting profitable growth.

Marico believes that social, environmental and economic values are interlinked and we belong to an interdependent ecosystem comprising Shareholders, Consumers, Associates, Employees, Government, Environment and Society. Our stated purpose is to 'Make a Difference' by ensuring a positive impact of our existence on all stakeholders. A firm has to work closely with its ecosystem to create a sustainable and inclusive growth for all. We have a focused approach in identifying sustainability goals in line with our business strategy and purpose. Corporate Social Responsibility (CSR) initiatives are an integral part of our sustainability efforts and Marico is committed to making a sustainable impact on the society.

RISKS AND CONCERNS

CHANGING CONSUMER PREFERENCES

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

Marico invests significantly in consumer in-sighting to adapt to changing preferences. The Company also actively watches the social media trends to spot early trends in consumer preferences. Marico has also introduced 'Mariscope', a consumer connect initiative for its members. With Mariscope, the Company wishes to move a step closer towards understanding its consumer base, knowing them better and strengthening relationships. The initiative of **www.HairSutras.com** is also aimed at keeping the hair-oiling habit relevant.

INPUT COSTS

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

However, brands with greater equity and pricing power may find it easier to adjust prices when the input prices increase and hold prices when the input prices decline. Your Company's brands enjoy a significant equity with its consumers and thus holds adequate purchasing power. Your Company has also been investing behind significantly enhancing its forecasting capabilities. The initiative of Kalpavriksha, which aims at doubling the income of coconut farmers over the medium-term, will help supply assurance for the key commodity, which is copra.

MACROECONOMIC FACTORS

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

The Company continuously drives towards making its value-added products available to masses at affordable prices. Low unit packs in Value-added Hair Oils is an attempt in this direction. Portfolio diversification, which is one of the pivots of future.

POLITICAL RISKS

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

Marico operates in the developing and emerging economies of Asia and Africa and is exposed to political risk and unrest in these markets. However, the Company operates with well-defined risk management policies to mitigate various risks. It also moderates its growth aspirations depending on the geopolitical scenario.

COMPETITION

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

In the last few years, Marico has entered categories such as mass skin care, healthy foods, hair styling, post-wash leave-in 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.

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

The Company believes that healthy competition is good for businesses as it focuses management attention on offering its consumers differentiated high-quality products that address their needs. With this approach, the Company expects to win and retain its consumer franchise. The Company also focuses on protecting volumes in preference to short-term profitability. Further, the Company focuses on being nimble-footed so that scarce resources can be deployed towards brand building and sales infrastructure. Finally, the Company is committed to investing commensurate resources for brand building to build a moat against the competitive threat.

PRODUCT INNOVATION AND NEW PRODUCT LAUNCHES

Success rate for new product launches in the FMCG sector is typically low. New products may not be accepted by the consumer or may fail to achieve the sales target. This risk is even more pronounced 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 with its fail-fast approach. The Company has also upped its efforts to identify and invest behind big-ticket new ideas in its chosen categories for driving growth.

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 such as the US Dollar, South African Rand, Bangladeshi Taka, UAE Dirham, Egyptian Pound, Malaysian Ringgit, Myanmar Chats and Vietnamese Dong. Import payments are made in various currencies, including, but not

limited to, the US Dollar, Australian Dollar and Malaysian Ringgit.

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

FUNDING COSTS

Though the FMCG sector is not capital intensive, fund requirements arise on account of inventory position building, capital expenditure undertaken or funding inorganic growth. Changes in the 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 impose a financial burden on the parent entity or expose the Company to country-specific risks. Integration of operations and cultural harmonisation may also take time, thereby deferring benefits of synergies of unification.

Marico has been able to integrate its acquisitions with the mainstream with focus on talent and processes. Given its comfortable liquidity position and conservative capital management practices, the acquisitions have not put any significant pressure on the financial position of the Group. Further, the Company is more focused on organic growth. This implies that it will adopt a more opportunistic approach towards acquisitions.

PRIVATE LABELS

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

The Company invests commensurate brand-building resources to improve the saliency of its brands in the consumers' mind. This is expected to provide the necessary hedge.

TALENT ACQUISITION AND RETENTION

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

Marico invests heavily in 'hiring right' and 'talent development and engagement'. This helps provide fulfilling careers to the members in Marico. Marico has identified having a robust talent value proposition as one of the transformation areas to drive sustainable growth over the long run. A detailed update has been provided in earlier paragraphs.

COMPLIANCE

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

Over the years, Marico has built a high-governance culture across the organisation with appropriate policies, processes and controls. 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 an adequate monitoring mechanism is put in place to ensure compliance.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Marico has a well-established and comprehensive internal control structure across the value chain to ensure that all assets are safeguarded and protected against loss from unauthorised use or disposition; all transactions are authorised, recorded and reported correctly and that operations are conducted in an efficient and cost-effective manner. The key constituents of the internal control system are:

- Establishment and periodic review of business plans
- Identification of key risks and opportunities and regular reviews by top management and the Board of Directors
- Policies on operational and strategic risk management
- Clear and well-defined organisation structure and limits of financial authority
- Continuous identification of areas requiring strengthening of internal controls
- Operating procedures to ensure effectiveness of business processes

> Marico has been able to integrate its acquisitions with the mainstream with focus on talent and processes

- Systems of monitoring compliance with statutory regulations
- Well-defined principles and procedures for evaluation of new business proposals/capital expenditure
- A robust management information system
- A robust internal audit and review system
- A robust framework on Internal Financials Controls (IFC)
- An effective whistle-blowing mechanism

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

Internal audits are undertaken on a continuous basis, covering various areas across the value chain, such as procurement, manufacturing, supply chain, sales, marketing and finance. The internal audit programme is reviewed by the Audit Committee at the beginning of the year to ensure that the coverage of the areas is adequate. Reports of the internal auditors are regularly reviewed by the management and corrective action is initiated to strengthen the controls and enhance the effectiveness of the existing systems. Summaries of the reports are presented to the Audit Committee of the Board.

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

INTERNAL FINANCIAL CONTROLS (IFC)

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

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

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

The management believes that strengthening IFC is a continuous process and therefore, it will continue its efforts to make the controls smarter, with a focus on preventive and automated controls as opposed to mitigating and manual controls. Over a period, the Company will also extend this framework to its overseas subsidiaries. To start with, an IFC framework has already been implemented in Marico Bangladesh Limited, your Company's largest subsidiary.

The management believes that strengthening IFC is a continuous process and therefore, it will continue its efforts to make the controls smarter