

MARICO LIMITED

DIRECTORS' REPORT

To the Members

Your Board of Directors ('Board') is pleased to present the Eighteenth Annual Report of your Company, Marico Limited for the year ended March 31, 2006 ('the year' or 'FY06').

In line with international practice, your Company has been reporting consolidated results – taking into account the results of its subsidiaries. This Discussion therefore covers the financial results and other developments during April 05 – March 06 in respect of Marico Consolidated – **Consumer Products** [Marico Limited together with its subsidiaries – Marico Bangladesh Limited (MBL), MBL Industries Limited (MBLIL), Marico Middle East, FZE (MME)] **Skin Care** [Kaya Skin Care Limited (KSCL), Kaya Middle East, FZE (KME) (a subsidiary of MME)] **Global Ayurvedics** [its joint venture, Sundari LLC (Sundari)]. The consolidated entity has been, in this discussion, referred to as 'Marico' or 'Group'.

FINANCIAL RESULTS - AN OVERVIEW

	Rs. Crore	
	Year ended March 31,	
	2006	2005
Consolidated Summary Financials for the Group		
Sales and services	1143.9	1007.0
Profit before tax	98.0	74.3
Profit after tax	86.9	70.1
Summary Financials for the Consumer Products Business		
Sales and services	1090.0	980.7
Profit before tax	123.2	87.4
Profit after tax	112.3	83.3
Marico Limited – Financials		
Sales and Services	1044.9	942.1
Profit before Tax	109.0	77.6
Less: Provision for tax for the current year	9.0	6.1
Profit after Tax for the current year	100.0	71.5
Less: Provision for deferred tax liability / (Deferred tax asset)	3.2	(0.2)
Less: Excess income tax provision of earlier years written back	2.3	(2.1)
Less: Fringe benefit tax	2.2	–
Less: MAT credit	(6.6)	–
Profit after Tax	98.9	73.8
Add: Surplus brought forward	143.4	112.2
Profit available for Appropriation	242.3	186.0
Appropriations:		
Distribution to shareholders	36.0	31.1
Tax on dividend	5.0	4.1
	41.0	35.2
Transfer to General Reserve	9.9	7.4
Surplus carried forward	191.4	143.4
Total	242.3	186.0

DISTRIBUTION TO SHAREHOLDERS

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

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Your Company's distribution to shareholders during FY06 has comprised the following on the equity base of Rs. 58 crore:

- First interim dividend of 12 %
- Second interim dividend of 14 %
- Third interim dividend of 16 %
- Fourth interim dividend of 20%

The total dividend payout for FY06 (including dividend tax) was Rs. 41.0 crore (about 47% of the Group PAT).

Your Company has declared dividends every quarter for the past 21 consecutive quarters now.

MANAGEMENT DISCUSSION & ANALYSIS and REVIEW OF OPERATIONS

Given elsewhere in the Annual Report is a detailed Management Discussion and Analysis, which, inter alia, covers the following:

- Industry structure and development
- Opportunities and threats
- Risks and concerns
- Internal control systems and their adequacy
- Discussion on financial and operational performance
- Segment-wise performance
- Outlook

OTHER CORPORATE DEVELOPMENTS

Application to the Central Government for exemption from including Balance Sheets of the Subsidiary Companies

Your Company had applied to the Central Government under Section 212(8) of the Companies Act, 1956 seeking an exemption from attaching copies of the Balance Sheet, Profit and Loss Account, Directors' Report and Auditors' Report of its subsidiary companies.

In terms of approval granted by the Central Government vide order No. 47/69/2006-CL-III, copy of the Balance Sheet, Profit and Loss Account, Report of the Board of Directors and the Report of the Auditors of the Subsidiary Companies have not been attached with the Annual Report of the Company for the year 2005-06. However, the statement required under section 212 of the Companies Act, 1956 is attached. The Company will make available these documents / details upon request by any member of the Company interested in obtaining the same. The Consolidated Financial Statements pursuant to Accounting Standard AS-21 issued by the Institute of Chartered Accountants of India, presented by the Company includes the financial information of its subsidiaries.

Acquisitions

The acquisitions made by Marico Limited and its subsidiaries, have been dealt with separately in the Management Discussion and Analysis section of the Annual Report.

Research and Development

Your Company's Research and Development (R&D) team continued to develop new products, renovate existing ones and improve production facilities, packaging systems and processes. Your Company also worked closely with research laboratories of national and international repute for new product development.

Your Company spent Rs. 0.39 crore on capital expenditure on R&D as against Rs. 1.1 crore during the previous year. Revenue expenditure on R&D was Rs. 3.28 crore as against Rs. 2.9 crore in FY05.

The focus of the R & D function at Marico has been to convert the science of formulating and developing innovative products and packs into aesthetically appealing product offerings for the benefit of end consumers. This is achieved by networking closely with the brand management team within the organization for understanding articulated and unarticulated consumer needs and through external networking with various research institutes within and outside India for selection of appropriate technology. All the products

DIRECTORS' REPORT

are formulated to meet statutory requirements within India or relevant country specific mandatory needs. It has been our endeavour to offer products with proven efficacy and as such these products undergo rigorous clinical / efficacy / consumer testing before introducing them in the market place.

Your Company's R&D centre continues to be recognized by the Council for Scientific and Industrial Research (CSIR).

In the future, the R&D thrust will continue to be on quality, identification of new ways to optimise costs and development of new products with focus on consumer needs.

Change of Registrar and Transfer Agents (RTA)

The Company has intimated the shareholders about the change in RTA from Karvy Computershare Private Limited, Hyderabad to M/s Intime Spectrum Registry Limited (Intime), Mumbai. Intime has been appointed as your Company's RTA with effect from January 01, 2006. Your Company had made this move in view of the locational advantage of having the RTA in Mumbai and to facilitate a better interface and service to the shareholders.

Resignation of Company Secretary and new Appointment

Mr. Dev Bajpai resigned from the post of Head – Legal and Company Secretary, with effect from the close of working hours on February 3, 2006. Accordingly, he discontinues to act as the Compliance Officer of the Company from the said date.

Mr. Milind Sarwate, Chief Financial Officer of the Company, possessing the required qualification, was appointed as the Company Secretary and Compliance Officer of the Company upon Mr. Dev Bajpai's resignation.

The Board takes this opportunity to put on record its sincere thanks and appreciation for the services rendered by Mr. Dev Bajpai during his tenure.

Incorporation of two new Wholly Owned Subsidiaries in the Middle East

Your Company has incorporated Marico Middle East FZE on November 8, 2005, as a subsidiary of Marico Limited. Another company by the name Kaya Middle East FZE has been incorporated as a subsidiary of Marico Middle East FZE on December 25, 2005. These initiatives of your Company have enabled the Group to accentuate Marico's presence in the Middle East.

PUBLIC DEPOSITS

There were no outstanding public deposits at the end of this or the previous year. During the year, your Company has neither invited nor accepted any deposits from the public.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, 1956 (the Act) amended by the Companies (Amendment) Act, 2000, the Directors confirm that:

In preparation of the annual accounts of your Company, the Accounting Standards, laid down by the Institute of Chartered Accountants of India from time to time, have been followed.

Appropriate accounting policies have been selected and applied consistently, and reasonable and prudent judgement and estimates have been made so as to ensure that the accounts give a true and fair view of the state of affairs of your Company as at March 31, 2006 and the profits of your Company for the year ended March 31, 2006.

Proper and sufficient care has been taken for maintenance of appropriate accounting records in accordance with the provisions of the Act for safeguarding the assets of your Company and for preventing and detecting frauds and other irregularities.

The annual accounts have been prepared on a going concern basis.

The observations of the Auditors in their report to the Members have been adequately dealt with in the relevant notes to the accounts. Hence no additional explanation is considered necessary.

DIRECTORS' REPORT

CORPORATE GOVERNANCE

A report on Corporate Governance has been provided elsewhere in the Annual Report. The Auditors' Certificate on Corporate Governance forms an annexure to this report.

CORPORATE SOCIAL RESPONSIBILITY

Innovation for India – Marico Foundation

Your Company continues to contribute to the Innovation for India - Marico Foundation.

The Foundation was created in March 2003 under the stewardship of Dr. Ramesh Mashelkar (Director General, CSIR), with a single mission: to fuel innovation in India. The goal is to put India on the global map by leveraging Indian knowledge and know-how. By arming ourselves with two things: (i) a belief that innovation is possible and is the way to leapfrog India into the centre-stage of global business leadership, and (ii) a framework to leverage innovation for quantum growth. Marico and Erehwon (a Bangalore based innovation consulting firm) spearhead the Foundation.

The members of its governing council are:

Dr. (Prof.) Ramesh Mashelkar	(Chairman) Director General, CSIR
Mrs. Anu Aga	Chairperson, Thermax
Mr. Ashwin Dani	Vice Chairman & Managing Director, Asian Paints (India) Ltd.
Mr. Tony Joseph	Editor, Businessworld
Mr. Ranjan Kapoor	Country Manager WPP
Mr. Arun Maira	Chairman, Boston Consulting Group, India
Mr. Harsh Mariwala	Chairman and Managing Director, Marico
Mr. K. V. Mariwala	Director, Hindustan Polyamides & Fibres Ltd.
Mr. Rajiv Narang	Chairman and Managing Director, Erehwon Consulting Pvt. Ltd.
Mr. Jerry Rao	Chairman and CEO, Mphasis BFL Ltd.
Mr. Dorab Sopariwala	Consultant

The Innovation for India - Marico Foundation has sponsored studies for Challenger Innovation cases in the spaces of business as also social life. These studies bring out live examples of how Challenger Leadership can bring about a transformation and lead to quantum shifts in results. A unique feature of these transformational cases is the durability of the transformation even after the Challenger leader moves away from the scene, the transformation is sustained. The Foundation offers Challenger Presentation/ Talks based on the business / social innovation case studies. Such talks have received excellent responses at various corporate and industry fora.

In addition to the time spent by senior managers of the Company on the work relating to the Foundation, your Company spent an amount of Rs. 18 lakhs by way of revenue expenditure for the foundation.

The Foundation has instituted an award called the "Innovation for India Award" in partnership with Business World. The purpose is to acknowledge and propagate innovations in the business & social sectors. This is a first of its kind in India and the response has been overwhelming with over 160 entries in both categories. The winners have been selected by a panel of eminent jury members and the final function will be held on June 23, 2006.

More details on the Foundation are available at www.innovation4india.com.

Other Initiatives

Your Company is committed to development of the community in which it functions. During the year, your Company continued its sponsorship of the promenade on Carter Road in Bandra, a western suburb of Mumbai, as its contribution towards protecting Mumbai's waterfronts in the Company's neighbourhood.

Like in the past, your Company also contributed to social causes like health camps, scholarships, donations etc.

Your Company will continue these efforts in future.

DIRECTORS' REPORT

DIRECTORS

Directors retiring by rotation

Mr. Bipin Shah and Mr. Atul Choksey, Directors of the Company, retire by rotation as per Section 256 of the Companies Act, 1956 and being eligible offer themselves for re-appointment.

Changes in the Board of Directors

At its meeting held on July 26, 2005, the Board of Directors appointed Mr. Jacob Kurian and Ms. Hema Ravichandar as Additional Directors on the board of your Company. Their appointment has brought in rich experience and expertise in the field of Change Management, Leadership Development, Human Resource Development, Retailing and Marketing & Corporate Strategy. Their term expires at the ensuing Annual General Meeting and being eligible they offer themselves for appointment as directors liable to retire by rotation.

ADDITIONAL STATUTORY INFORMATION

Information under Section 217(1)(e) of the Act read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is annexed and forms part of this Report. Information pursuant to Section 217(2A) of the Act read with the Companies (Particulars of Employees) Rules, 1975, as amended by the Companies (Particulars of Employees) Amendment Rules, 1999 forms part of this Report. Although in accordance with the provisions of Section 219(1)(b)(iv) of the Act such information has been excluded from the Report and Accounts sent to the members, any member desirous of obtaining this information may write to the Company Secretary at the Registered Office of the Company.

Your Company has in accordance with the disclosure requirements contained in Sec 212 (1) (e) of the Companies Act, 1956 annexed the required statement concerning its subsidiaries companies. In case of five of the subsidiary companies, namely MBL, MBLIL, KME FZE, MME FZE and Sundari LLC incorporated outside India, the data is on the basis of the accounts compiled by these companies in accordance with the legal provisions of the respective country where they have been incorporated. For facilitating better appreciation, the financial figures in the statement have also been disclosed in Indian Rupees.

AUDITORS

RSM & Co., Chartered Accountants, retire at the ensuing Annual General Meeting and have confirmed their eligibility for re-appointment.

Aneja Associates, a Chartered Accountant firm, has been associated with your Company as its internal auditor. They have been partnering your Company in the area of risk management and internal control systems. Your Company has re-appointed Aneja Associates as its internal auditor for the year 2006-07.

ACKNOWLEDGEMENT

The Board takes this opportunity to thank all its employees for their dedicated service and firm commitment to the goals of the Company. The Board also wishes to place on record its sincere appreciation for the wholehearted support received from shareholders, distributors, bankers and all other business associates, as also from the neighbourhood communities of the various Marico locations. We look forward to continued support of all these partners in progress.

On behalf of the Board of Directors

Place : Mumbai
Date : April 20, 2006

HARSH MARIWALA
Chairman and Managing Director

ANNEXURE TO THE DIRECTORS' REPORT

I. Disclosure of Particulars with respect to Conservation of Energy, Technology Absorption and Foreign Exchange earnings and outgo as required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

A. Conservation of Energy

Marico continued to emphasize on the conservation and optimal utilisation of energy in every manufacturing unit of the Company. A number of energy conservation measures which were implemented during FY 06 are listed below:

- Use of VFD in cooling tower fan to optimise load condition during usage.
- Aligning the cake cooler to the elevator thereby removing two conveyors from the system.
- Eliminating the idle running of induced draft fan before cyclone separator.
- Eliminating the idle running of FOT pump by inter connection.
- Reducing the start up power losses by logical sequencing.
- Use of static mixer for caustic lye mixing.
- Use of recovery heat exchanger to reduce cooling tower load.
- Reduction of refinery start up and shutdown time.
- Optimum use of compressed air capacity for filling section requirement.
- Enhanced condensate recovery system by including off process vessels to the system.
- Optimisation of PRV setting to reduce line losses.
- Introduced a PHE to acid oil plant to reduce heating time.
- Automation of syntex tank with raw water pump to avoid overflow and motor running continuously.
- Reduction in street lights / alternate lamps ON.
- Use of VFD to optimise expeller load.
- Removal of lighting transformer.

Your Company continued its journey towards relentless effective utilization of energy. Significant reduction in power consumption has been achieved and rationalisation efforts will continue.

The details of total energy consumption and energy consumption per unit of production are given in Enclosure 'A'.

B. Technology Absorption

I. Research and Development (R&D)

1. Specific areas in which R & D was carried out by your Company:

R&D's main thrust during the year was to strengthen the current portfolio of products and also to look for new opportunities to satisfy the consumer needs more effectively. Numerous initiatives, which were earlier planned or initiated this year, progressed well to generate consumer appealing, functional products. Some of these initiatives were:

- Development of new technology platforms to support the consumer needs more effectively
- Development of competencies in new areas like Soap and Skin Care
- Development of new products, line extensions, and new processes based on consumer understanding to meet the unmet consumer aspirations

ANNEXURE TO THE DIRECTORS' REPORT

- Evaluation of natural herbs for proprietary, patentable hair & skin products, with sponsorship from Department of Science & Technology (DST)
 - Generation of consumer insights through rigorous and intense consumer interactions to make product more relevant and appropriate to consumers
 - Skill building towards evaluation of products for better success in the market
 - Working with premier research institutions to stay in tune with and assimilate the frontiers of research
 - Work on product and process patents
2. Benefits derived as the result of the above efforts:
- Various SKUs were developed under the hair oils & edible oils franchises.
 - A few domestic launches include:
 - Sparsh Baby Oil
 - Mediker Natural Oil
 - Mediker Natural Shampoo
 - Parachute Jasmine Soap
 - Parachute Therapie Hair Fall Solution
 - Parachute Advansed Hair Perfect Lotion
 - Parachute Advansed After Shower Anti-dandruff Cream
 - Various products were launched under the Kaya business to provide effective solutions in skin care
 - Numerous innovative packaging options to offer better shelf display value.
 - The international business saw the launch of:
 - 3 variants in Camelia soap range.
 - Various product and pack developments were undertaken in the current year to strengthen the business. These would translate into launches in the coming year.

Your company continues to identify new consumer needs and provide them through R&D.

3. Future Plan of Action:

Your Company's R&D will work towards continuous innovation in process, product & packaging technology to offer to consumers value for money with delightful sensorials.

4. Expenditure on R & D:

	2005-06	2004-05
		(Rs. Crore)
a) Capital	0.4	1.1
b) Recurring	3.3	2.9
Total	3.7	4.0
c) Total R & D expenditure as % to Sales & Services	0.4	0.4
d) Total R & D expenditure as % to PBT	3.4	5.2

ANNEXURE TO THE DIRECTORS' REPORT

II. Technology absorption, adaptation and innovation

1. Efforts, in brief, made towards technology absorption, adoption and innovation and benefits derived as a result of the same:

Various technologies were adopted in packaging towards providing better cost optimization and shelf appeal of the products. e.g.: Parachute Therapie Hair Fall Solution carton, Parachute Advansed After Shower jar.

Our innovations in the baby category have translated into innovative baby oil designed to meet consumer needs.

Similarly, innovations in the hair care segment have resulted in the unique offering in the form of the product Parachute Advansed Hair Perfect Lotion and Parachute Advansed After Shower Cream.

2. Imported technology (imported during the last 5 years reckoned from the beginning of this financial year):
Not Applicable

C. Foreign Exchange earnings and outgo:

The details of total exchange used and earned are provided in Schedule 'Q' of Notes to the Accounts.

On behalf of the Board of Directors

Place : Mumbai

Date : April 20, 2006

HARSH MARIWALA

Chairman and Managing Director

II. Auditors' Certificate on Corporate Governance

To

The Members of Marico Limited

We have examined the compliance of conditions of corporate governance by Marico Limited for the year ended on March 31, 2006 as stipulated in clause 49 of the Listing Agreement of the said Company with the stock exchanges.

The compliance of conditions of corporate governance is the responsibility of the Management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in clause 49 of the Listing Agreement.

We state that no investor grievance is pending for a period exceeding one month against the Company as per the records maintained by the Shareholders' Committee.

We further state that such compliance is neither an assurance as to future viability of the Company nor the efficiency or effectiveness with which the Management has conducted the affairs of the Company.

For RSM & Co.

Chartered Accountants

VIJAY N. BHATT

Partner (F – 36647)

Place : Mumbai

Date : April 20, 2006

ANNEXURE TO THE DIRECTORS' REPORT

ENCLOSURE 'A'

Power and Fuel Consumption

Note: The numbers given below relate to own manufacturing facilities of the Company.

		For the year ended March 31,	
		2006	2005
1.	Electricity		
a.	Purchased units (Kwh)	8,447,966.33	8,395,548.00
	Amount (Rs. Crore)	2.20	2.87
b.	Own Generation		
i.	Through Diesel Generator (Kwh)	484,864.78	412,906.00
	Amount (Rs. Crore)	0.47	0.34
	Average Rate (Rs. / Unit)	9.70	8.26
ii.	Through Steam Generator (Kwh)	15,291.00	50,239.00
	Amount (Rs. Crore)	Nil	Nil
	Average Rate (Rs. / Unit)	Nil	Nil
2.	Coal		
	Quantity (MT)	Nil	Nil
	Amount (Rs. Crore)	Nil	Nil
	Average Rate (Rs. / Ton)	Nil	Nil
3.	Furnace oil		
	Quantity (KL)	824.01	667.84
	Amount (Rs. Crore)	1.56	0.98
	Average Rate (Rs. / KL)	18,948.84	14,639.26
4.	Other Internal Generation (excludes HSD used for electricity generation)		
	L.D.O / H.S.D.		
	Quantity (KL)	142.66	119.87
	Amount (Rs. Crore)	0.40	0.27
	Average Rate (Rs. / KL)	27,874.43	22,645.67
5.	Baggase Consumption		
	Quantity (KG)	11,002.85	10,622.60
	Amount (Rs. Crore)	1.49	1.30
	Average Rate (Rs. / KG)	1,352.01	1,220.04
	Consumption per unit of production of Edible Oils		
		<u>Unit</u>	
	Electricity	Kwh	314.05
	Coal	MT	Nil
	Furnace oil	KL	0.03
	L.D.O. / H.S.D.	KL	0.00
	Baggase	KG	0.34

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		For the year ended March 31,	
		2006	2005
Consumption per unit of production of Processed Foods			
	<u>Unit</u>		
Electricity	Kwh	95.06	94.98
Coal	MT	Nil	Nil
Furnace oil	KL	Nil	Nil
L.D.O. / H.S.D.	KL	0.19	0.09
Consumption per unit of production of Hair Oils			
	<u>Unit</u>		
Electricity	Kwh	148.79	93.53
Coal	MT	Nil	Nil
Furnace oil	KL	Nil	Nil
L.D.O. / H.S.D.	KL	Nil	Nil
Consumption per unit of production of Formulations			
	<u>Unit</u>		
Electricity	Kwh	174.16	174.16
Coal	MT	Nil	Nil
Furnace oil	KL	Nil	Nil
L.D.O. / H.S.D.	KL	Nil	Nil