**INDUSTRY STRUCTURE, OPPORTUNITIES AND THREATS**

The year 2011-12 has been a year of consumption, with both the Central government-sponsored schemes and the impact of the Sixth Pay Revision pumping in large amounts of money in the hands of the consumers. Asset price inflation (largely land and gold), drove an increased sense of affluence amongst the masses. Hike in Minimum Support Price for food grains and continued support under NREGS, among other factors, have driven rural incomes and demand. Despite several domestic headwinds including high inflation and interest rates, trade deficit and delay in policy implementation, Fast Moving Consumer Goods (FMCG) continued to show robust growth.

The Indian FMCG market size is in excess of USD 33.4 billion and has grown at ~17% in the last 5 years. It is poised to grow 3.6 times between 2010 and 20201, faster than most other emerging markets. Rising household income, urbanization, increasing literacy, decline in the traditional joint-family structure and changing demographics are key contributors to growth. The most notable force is average household income, which is set to rise nearly 3 times between 2010 and 2020. 1 An indication of this is the per capita income which grew by 14% in FY12 to cross the sixty thousand mark. India’s income pyramid has typically had a wide base and increasingly smaller layers as income rises. This pyramid is quickly becoming a diamond, as per capita income grows.

In an increasingly globalized economy, India’s lion’s share comes from services. This requires skilled labour, which is driving the educated population from small towns and villages into the top towns and cities of the country. This is leading to rapid urbanization and expansion of the large cities (primarily because of poor infrastructure in the small towns), which will potentially lead to an infection in a decade or two, at which point the urban population will become a sizeable portion of the total.

By 2020, 35% of India’s population will live in cities. 1 As people move from rural areas to cities, they tend to both increase their purchases as well as spend on different items. Urban dwellers have better access to goods and are exposed to greater consumerism. Apart from the change in the population mix, the urban income distribution has also favorably changed over a period of time. The upper class in the urban income group has increased by about 36% as compared to 7% in 1986. 2 The rise in urban population coupled with improvement in the urban income mix is favorable for the FMCG industry. Apart from the better value growth in the urban market, it provides an opportunity to launch innovative premium products.

Women in urban India are also changing in their quest to break from their traditional image in society. They are increasingly assertive and feeling more secure to venture out to the stores and buy things on their own. A growing number of high-profile women desire the best and are creating a niche market for themselves. A widespread feeling of self-indulgence, which is leading to self-pampering in the form of beauty services and vacations, is emerging. These women are often the biggest potential buyers of niche high-quality, high-end products.

Modernization has led to changing aspirations where the need to be good looking, well-groomed and stylish has taken on a newfound importance. Indian men are also becoming conscious about their appearance, creating a market for male grooming products. Today’s men are less inhibited when it comes to looking good and do indulge in image enhancing products and treatments. The categories witnessing significant growth include men’s face creams, hair gels and deodorants.

A part of the trend to look fitter and well-groomed is the increasing emphasis on a healthy lifestyle. With increasing income, Indians are becoming health conscious leading to a change in lifestyle. Food is the largest consumption category, accounting for 31% of what India spends on today. 1 With growing awareness, product acceptance among the masses has also increased. The market for products that reduce stress, prevent aging, help the heart and fight diabetes are all on a growth curve. The health food market stood at INR 9,000 crore in 2010, and is expected to grow at a CAGR of 20% to INR 22,500 crore by 2015. 3 The health food contribution in packaged food, i.e. 10% in India, is on the lower side when compared to the global average of 25-30%. 3 With more companies focusing on products with a strong health and wellness quotient, the consumer awareness about healthier options of food consumption will increase.

Another significant emerging segment of the market is the rural sector, which currently accounts for 70% of India’s population. The rural market is being driven by growth in non-agriculture income, better MSP (Minimum Support Prices) rates, higher education, wealth effect coming from increasing land values, better infrastructure, increasing media penetration and the Government’s emphasis on rural development programmes. With a huge population base, improvement in rural income has opened several gates for the industry.

In the last 5 years, rural India has outperformed the overall FMCG growth. About 50% of the rural population will come under the INR 90k-200k annual income range by 2015, as against ~35% in 2005. 4 This rise in annual income is expected to favorably improve the lower middle class and middle class mix in future. This brings new consumers within the fold, while existing consumers move up the value chain. Also, penetration levels across categories are lower in rural areas compared to urban, which provide strong headroom for growth. This will help the industry maintain volume growth for a long period.

Rising consumption and increasing proportion of younger population where 70% of Indians will be of working age in 2025, increasing media penetration and rising aspiration will further drive FMCG growth. India’s organized retail is estimated at USD 28 billion with around 7% penetration but is expected to grow to 21% and become a USD 260 billion business over the next decade. 5 Modern retail offers opportunities to experiment with new categories. It also gives customers a chance to educate themselves about new products which is not the case with a general trade store. Category creation and market development starts
This discussion covers the financial results and other developments during the period April 2011 - March 2012 with respect to Marico Consolidated, comprising its domestic Consumer Products Business (CPB) under Marico Limited (Marico) in India, its International Business Group (IBG) comprising consumer products exports from Marico and the operations of its overseas subsidiaries and the Kaya skin care solutions business in India and overseas. The Consolidated entity has been referred to as ‘Marico’ or ‘Group’ or ‘Your Group’ in this discussion.

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

INDUSTRY STRUCTURE, OPPORTUNITIES AND THREATS

The year 2011-12 has been a year of consumption, with both the Central government-sponsored schemes and the impact of the Sixth Pay Revision pumping in large amounts of money in the hands of the consumers. Asset price inflation (largely land and gold), drove an increased sense of affluence amongst the masses. Hike in Minimum Support Price for food grains and continued support under NREGS, among other factors, have driven rural incomes and demand. Despite several domestic headwinds including high inflation and interest rates, trade deficit and delay in policy implementation, Fast Moving Consumer Goods (FMCGs) continued to show robust growth.

The Indian FMCG market size is in excess of USD 33.4 billion and has grown at ~17% in the last 5 years. It is poised to grow 3.6 times between 2010 and 20201, faster than most other emerging markets. Rising household income, urbanization, increasing literacy, decline in the traditional joint-family structure and changing demographics are key contributors to growth. The most notable force is average household income, which is set to rise nearly 3 times between 2010 and 20201. An indication of this is the per capita income which grew by 14% in FY12 to cross the sixty thousand mark. India’s income pyramid has typically had a wide base and increasingly smaller layers as income rises. This pyramid is quickly becoming a diamond, as per capita income grows.

In an increasingly globalized economy, India’s lion’s share comes from services. This requires skilled labour, which is driving the educated population from small towns and villages into the top towns and cities of the country. This is leading to rapid urbanization and expansion of the large cities (primarily because of poor infrastructure in the small towns), which will potentially lead to an inflection in a decade or two, at which point the urban population will become a sizeable portion of the total.

By 2020, 35% of India’s population will live in cities1. As people move from rural areas to cities, they tend to both increase their purchases as well as spend on different items. Urban dwellers have better access to goods and are exposed to greater consumerism. Apart from the change in the population mix, the urban income distribution has also favorably changed over a period of time. The upper class in the urban income group has increased by about 36% as compared to 7% in 19961. The rise in urban population coupled with improvement in the urban income mix is favorable for the FMCG industry. Apart from the better value growth in the urban market, it provides an opportunity to launch innovative premium products.

Women in urban India are also changing in their quest to break from their traditional image in society. They are increasingly assertive and feeling more secure to venture out to the stores and buy things on their own. A growing number of high-profile women desire the best and are creating a niche market for themselves. A widespread feeling of self-indulgence, which is leading to self-pampering in the form of beauty services and vacations, is emerging. These women are often the biggest potential buyers of niche high-quality, high-end products.

Modernization has led to changing aspirations where the need to be good looking, well-groomed and stylish has taken on a newfound importance. Indian men are also becoming conscious about their appearance, creating a market for male grooming products. Today’s men are less inhibited when it comes to looking good and do indulge in image enhancing products and treatments. The categories witnessing significant growth include men’s face creams, hair gels and deodorants.

A part of the trend to look fitter and well groomed is the increasing emphasis on a healthy lifestyle. With increasing income, Indians are becoming health conscious leading to a change in lifestyle. Food is the largest consumption category, accounting for 31% of what India spends on today1. With growing awareness, product acceptance among the masses has also increased. The market for products that reduce stress, prevent aging, help the heart and fight diabetes are all on a growth curve. The health food market stood at INR 9,000 crore in 2010, and is expected to grow at a CAGR of 20% to INR 22,500 crore by 20151. The health food contribution in packaged food, i.e. 10% in India, is on the lower side when compared to the global average of 25-30%1. With more companies focusing on products with a strong health and wellness quotient, the consumer awareness about healthier options of food consumption will increase.

Another significant emerging segment of the market is the rural sector, which currently accounts for 70% of India’s population. The rural market is being driven by growth in non-agriculture income, better MSP (Minimum Support Prices) rates, higher education, wealth effect coming from increasing land values, better infrastructure, increasing media penetration and the Government’s emphasis on rural development programmes. With a huge population base, improvement in rural income has opened several gates for the industry.

In the last 5 years, rural India has outperformed the overall FMCG growth. About 50% of the rural population will come under the INR 90k-200k annual income range by 2015, as against ~35% in 20051. This rise in annual income is expected to favorably improve the lower middle class and middle class mix in future. This brings new consumers within the fold, while existing consumers move up the value chain. Also, penetration levels across categories are lower in rural areas compared to urban, which provide strong headroom for growth. This will help the industry maintain volume growth for a long period.

Rising consumption and increasing proportion of younger population where 70% of Indians will be of working age in 2025, increasing media penetration and rising aspiration will further drive FMCG growth. India’s organized retail is estimated at USD 28 billion with around 7% penetration but is expected to grow to 21% and become a USD 260 billion business over the next decade4. Modern retail offers opportunities to experiment with new categories. It also gives customers a chance to educate themselves about new products which is not the case with a general trade store. Category creation and market development starts
with modern trade but as more consumers start consuming this category, they penetrate into other channels. Organized retail has fuelled new growth categories - liquid hand wash, breakfast cereals, ready-to-eat foods, pre-and post-wash products and hair conditioners account for almost 50% of their sales. However, a significant share of FMCG business is still generated through the ‘mom and pop’ store (kirana) format. With better infrastructure aiding access to the rural economy, it is likely that ‘mom and pop’ stores will remain the chief point of interface for the FMCG companies.

India Incorporated is looking to grow inorganically. It is important to go global not only to create multiple growth engines but also to create reverse learning for the home market. The year gone by has seen a number of overseas acquisitions made by Indian FMCG companies. Also, the emerging economies in Asia and Africa have low-to-medium penetrations in some of the FMCG categories. This signifies considerable headroom for growth in the mid-term. Favorable macros, changing attitudes of the consumers and progressive policies of the governments also make these markets attractive destinations. Typically, gestation periods tend to be longer as one needs to go up the learning curve in a new market. Some of them also offer inorganic entry possibilities that can create access to mainstream distribution, manufacturing and talent. This can speed up one’s learning curve as long as there is a strategic fit with the target.

Overall, a study of India’s private spending data reveals some fundamental shifts. Hence businesses across different consumer goods need to carry out a fresh assessment of the near term prospects of the Indian economy and the changes in consumer spending behavior. The FMCG sector is likely to benefit from these changes and will also get an opportunity to innovate with new products and categories while looking at extending its learnings to other emerging markets.

RISKS & CONCERNS

Input Costs
Domestic commodity prices are often linked to international indices and volatility in these benchmarks causes fluctuations in the domestic product prices, making the business environment uncertain.

The past few years have witnessed wide fluctuations in the price of input materials. Crude Oil touched a record high and saw considerable fluctuation during the last two to three years. Moreover, many commodities are often used as separate asset classes resulting in speculation-led variations in price trends. As a result, the overall level of uncertainty in the environment has gone up.

Input costs comprise nearly 60% of the production costs in the FMCG sector. Inflationary tendencies in the economy directly impact the input costs and could create a strain on the operating margins of the FMCG companies. Brands with greater equity and pricing power may find it easier to adjust prices in line with fluctuating input costs.

Pricing Power
The equity of a brand generally allows the organization to pass on the impact of any increase in cost structure to the consumers. However, considering the uncertainty in the environment, rising competitive pressures as well as the long term objective of expanding consumer franchise, part of the increased cost may be absorbed by the organizations.

Discretionary spending / Down trading
In situations of economic duress, items which are discretionary in nature are the first to be curtailed. This is relevant for the lifestyle solutions offered by companies. In an extended recession, down trading from branded products to non-branded ones could also occur and affect the financial performance of the Company.

Competition
The FMCG environment in India and overseas is competition intensive and companies need to focus on branding, product development, distribution and innovation to ensure their survival. Product innovations help to gain market share, while advertising and sales promotion creates visibility for the product. Such expenditures carry the inherent risk of failure. Counter campaigning by competitors would also reduce the efficacy of promotions. Similarly, aggressive pricing stances by competition have the potential of creating a disruption.

Product innovation and new product launches
The success rate for new product launches in the FMCG sector is low. New products may not be accepted by the consumer or may fail to achieve the targeted sales volume or value. Cost overruns and cannibalization of sales in existing products cannot be ruled out. Marico has adopted the prototyping approach to new product introductions, that helps maintain a healthy pipeline and at the same time limits the downside risks.

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

As the Group eyes expansion into other new geographical territories, the exposure to foreign currency fluctuation risk may increase. Significant fluctuation in these currencies could impact the company’s financial performance. The Company is, however, conservative in its approach and is likely to use simple hedging mechanisms.

Funding costs
Though the sector is not capital intensive, fund requirements arise on account of inventory position building or capital expenditure undertaken. In addition, growth through acquisitions may also contribute towards leveraging the Company’s balance sheet. Changes in the interest regime and in the terms of borrowing will impact the financial performance of the Group.

Acquisitions
This may take the form of purchasing the brands or purchase of stake in another company and is used as a means of gaining access to new markets or categories, or increasing market share. Acquisitions may divert management attention or result in increased debt burden on the parent entity. It may also expose the Company to country specific risk. Integration of operations and cultural harmonization may also take time, thereby deferring benefits of synergies of unification. Marico is keen on exploring acquisitions in its core segments of beauty and wellness, where it believes it can add value.

INTERNATIONAL MARKETS

FMCG market in Bangladesh
Bangladesh has a demographic profile very similar to that of India. A population in excess of 160 million and a developing economy provide the perfect consumer base for the FMCG sector to flourish. The GDP has grown at 5-7% over the last few years and it is amongst the Next Eleven (N-11) countries identified by Goldman Sachs as having high potential. Political instability may, however, be a cause of concern for companies operating in Bangladesh. Even though the demographic profile is similar to India, the relatively lower spending capacity can be a concern, more so in an inflationary environment.

FMCG markets in the Middle East and North Africa (MENA)
The Middle East offers a curious mix of a local
with modern trade but as more consumers start consuming this category, they penetrate into other channels. Organized retail has fuelled new growth categories - liquid hand wash, breakfast cereals, ready-to-eat foods, pre-and post-wash products and hair conditioners account for almost 50% of their sales. However, a significant share of FMCG business is still generated through the ‘mom and pop’ store (kirana) format. With better infrastructure aiding access to the rural economy, it is likely that ‘mom and pop’ stores will remain the chief point of interface for the FMCG companies.

India Incorporated is looking to grow inorganically. It is important to go global not only to create multiple growth engines but also to create reverse learning for the home market. The year gone by has seen a number of overseas acquisitions made by Indian FMCG companies. Also, the emerging economies in Asia and Africa have low-to-medium penetrations in some of the FMCG categories. This signifies considerable headroom for growth in the mid-term. Favorable macros, changing attitudes of the consumers and progressive policies of the governments also make these markets attractive destinations. Typically, gestation periods tend to be longer as one needs to go up the learning curve in a new market. Some of them also offer inorganic entry possibilities that can create access to mainstream distribution, manufacturing and talent. This can speed up one’s learning curve as long as there is a strategic fit with the target.

Overall, a study of India’s private spending data reveals some fundamental shifts. Hence businesses across different consumer goods need to carry out a fresh assessment of the near term prospects of the Indian economy and the changes in consumer spending behavior. The FMCG sector is likely to benefit from these changes and will also get an opportunity to innovate with new products and categories while looking at extending its learnings to other emerging markets.

**RISKS & CONCERNS**

**Input Costs**

Domestic commodity prices are often linked to international indices and volatility in these benchmarks causes fluctuations in the domestic product prices, making the business environment uncertain.

The past few years have witnessed wide fluctuations in the price of input materials. Crude Oil touched a record high and saw considerable fluctuation during the last two to three years. Moreover, many commodities are often used as separate asset classes resulting in speculation-led variations in price trends. As a result, the overall level of uncertainty in the environment has gone up.

Input costs comprise nearly 60% of the production costs in the FMCG sector. Inflationary tendencies in the economy directly impact the input costs and could create a strain on the operating margins of the FMCG companies. Brands with greater equity and pricing power may find it easier to adjust prices in line with fluctuating input costs.

**Pricing Power**

The equity of a brand generally allows the organization to pass on the impact of any increase in cost structure to the consumers. However, considering the uncertainty in the environment, rising competitive pressures as well as the long term objective of expanding consumer franchise, part of the increased cost may be absorbed by the organizations.

**Discretionary spending / Down trading**

In situations of economic duress, items which are discretionary in nature are the first to be curtailed. This is relevant for the lifestyle solutions offered by companies. In an extended recession, down trading from branded products to non-branded ones could also occur and affect the financial performance of the Company.

**Competition**

The FMCG environment in India and overseas is competition intensive and companies need to focus on branding, product development, distribution and innovation to ensure their survival. Product innovations help to gain market share, while advertising and sales promotion creates visibility for the product. Such expenditures carry the inherent risk of failure. Counter campaigning by competitors would also reduce the efficacy of promotions. Similarly, aggressive pricing stances by competition have the potential of creating a disruption.

**Product innovation and new product launches**

The success rate for new product launches in the FMCG sector is low. New products may not be accepted by the consumer or may fail to achieve the targeted sales volume or value. Cost overruns and cannibalization of sales in existing products cannot be ruled out. Marico has adopted the prototyping approach to new product introductions, that helps maintain a healthy pipeline and at the same time limits the downside risks.

**Currency Risk**

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

As the Group eyes expansion into other new geographical territories, the exposure to foreign currency fluctuation risk may increase. Significant fluctuation in these currencies could impact the company’s financial performance. The Company is, however, conservative in its approach and is likely to use simple hedging mechanisms.

**Funding costs**

Though the sector is not capital intensive, fund requirements arise on account of inventory position building or capital expenditure undertaken. In addition, growth through acquisitions may also contribute towards leveraging the Company’s balance sheet. Changes in the interest regime and in the terms of borrowing will impact the financial performance of the Group.

**Acquisitions**

This may take the form of purchasing the brands or purchase of stake in another company and is used as a means of gaining access to new markets or categories, or increasing market share. Acquisitions may divert management attention or result in increased debt burden on the parent entity. It may also expose the Company to country specific risk. Integration of operations and cultural harmonization may also take time, thereby deferring benefits of synergies of unification. Marico is keen on exploring acquisitions in its core segments of beauty and wellness, where it believes it can add value.

**INTERNATIONAL MARKETS**

**FMCG market in Bangladesh**

Bangladesh has a demographic profile very similar to that of India. A population in excess of 160 million and a developing economy provide the perfect consumer base for the FMCG sector to flourish. The GDP has grown at 5-7% over the last few years and it is amongst the Next Eleven (N-11) countries identified by Goldman Sachs as having high potential. Political instability may, however, be a cause of concern for companies operating in Bangladesh. Even though the demographic profile is similar to India, the relatively lower spending capacity can be a concern, more so in an inflationary environment.

**FMCG markets in the Middle East and North Africa (MENA)**

The Middle East offers a curious mix of a local
60% of the world’s uncultivated agricultural land and India, boasting unexploited mineral wealth, Africa is the fastest growing region after China forms a gateway to the rest of sub-Saharan Africa. 25% of the continent’s GDP. South Africa also With 6% of Africa’s population, it accounts for BRICS recognizes the country’s potential, placing (BEE), adopted by the Government to ensure measures such as Black Economic Empowerment distribution of wealth and income. The economic formal and informal sectors and an uneven characteristics associated with developing and industrialized economy that exhibits many disturbances. Our outlook on the long term trends, without instances of sporadic protests and overall environment in the region is better, it is not without MENA region witnessed socio-political unrest in the second half of FY11. This had an adverse effect on the economy during FY12. Although the overall environment in the region is better, it is not South African economy is a productive and industrialized economy that exhibits many formal and informal sectors and an uneven distribution of wealth and income. The economic measures such as Black Economic Empowerment (BEE), adopted by the Government to ensure growth and equitable distribution of wealth, have been very effective. South African’s ascension into BRICS recognizes the country’s potential, placing it alongside the leading economies of tomorrow. With 6% of Africa’s population, it accounts for 25% of the continent’s GDP. South Africa also forms a gateway to the rest of sub-Saharan Africa. India is the fastest growing region after China and India, boasting unexploited mineral wealth, 60% of the world’s uncultivated agricultural land and the youngest age profile of any continent.

**FMCG Markets in Vietnam**

Vietnam is one of the fastest growing countries in South East Asia, with a GDP growth of about 6%. The demographics of the country are very promising, with an extremely young population providing an opportunity for FMCG companies to grow rapidly. The country is in the process of integrating into the world’s economy, as part of globalization. Vietnam finds a place in the Goldman Sachs list of N-11 countries as a frontier market, indicating an opportunity to invest but with lower market capitalization and liquidity. The currency Vietnamese Dong (VND), however, has shown relative weakness to the US dollar in recent times.

**INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY**

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

- Establishment and review of business plans
- Identification of key risks and opportunities
- Policies on operational and strategic risk management
- Clear and well defined organization structure and limits of financial authority
- Continuous identification of areas requiring strengthening of internal controls
- Operating procedures to ensure effectiveness of business processes
- Systems of monitoring compliance with statutory regulations
- Well-defined principles and procedures for evaluation of new business proposals/capital expenditure
- A robust management information system
- A robust internal audit and review system

Marico’s Aneja Associates, Chartered Accountants, have been carrying out internal audits for Marico for a long time. During the current year, Ernst & Young were appointed as the new business partners to carry out internal audits across Marico. The work of internal auditors is coordinated by an internal team at Marico. This combination of Marico’s internal team and expertise of a professional firm ensures independence as well as effective value addition. The Board takes this opportunity to thank Aneja Associates for the value they have added to Marico.

Internal audits are undertaken on a continuous basis, covering various areas across the value chain like manufacturing, operations, sales and distribution, marketing and finance. Reports of the internal auditors are regularly reviewed by the management and corrective action 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.

**HUMAN RESOURCES**

Marico is a professionally managed organization that has a flat hierarchy, which empowers people and fosters a culture of innovation. The organization believes that great people deliver great results and lays emphasis on hiring right and retaining key talent. The Company maintains a strong business linkage to all human resource processes and initiatives. Marico recruits its talent from the country’s premier technical and business schools. Marico looks at talent, not just from a short-term perspective, but also from a long-term perspective, where people can be groomed for different roles. The organization believes in providing challenge and early responsibility at work, which serves to keep team members enthused and motivated.

Members’ networks are also tapped into for “hiring right”. A strong referral mechanism operates under the brand name “Tareef” (Talent referred by Mariconians). This benefits the organization in two ways: the talent referred is usually superior to that sourced independently in the market and it also translates into substantial cost savings in the recruitment process.

The organization has created a favourable work environment that motivates performance. Marico has a process of performance enhancement through deployment of MBR (Management By Results), to create an environment of challenge and stretch. It is also linked to a variable element of performance-based compensation.

The organization believes in investing in people – to help them develop and expand their capability. Personal development plans focus on how each individual’s strengths can best be leveraged to deliver his or her full potential. External training programmes and cross-functional exposure often provide the extra edge in turning out well-rounded individuals. In line with Marico’s philosophy of evaluating internal talent first, a structured internal job posting mechanism, MINTOS (Marico Internal Talent Opportunity Scheme) is in place. This is an internal forum for members to benefit from opportunities within the organization.

Marico continues to measure and act on improving the “engagement levels” of its teams. The Aon Hewitt Survey provides the organization with a measure of how it is faring at building engagement across the organization as well as within each of its teams.

Marico had articulated a contemporary set of values six years ago and it is important that all members in the organization are aware of and consciously practise these values. To build consciousness and commitment, “Values Workshops” are held for the teams to identify their focus areas and plan action accordingly.
and expatriate population, who are not averse to the idea of indulgence / extravagance. This provides FMCG companies opportunities to offer branded solutions, tailored to the needs of the consumer in the region.

The Egyptian economy has embraced liberalization in the recent past. Thereby opening the doors for foreign direct investment and paving the path to economic growth. It features amongst the Goldman Sachs list of N-11 countries. A steady growing population and a developing economy provides a good base for FMCG companies. Penetration levels in hair grooming and skin care products are modest.

MENA region witnessed socio-political unrest in the second half of FY11. This had an adverse effect on the economy during FY12. Although the overall environment in the region is better, it is not without instances of sporadic protests and disturbances. Our outlook on the long term trends, with respect to demand for personal care products in the region, remains positive.

FMCG markets in South Africa

The South African economy is a productive and industrialized economy that exhibits many characteristics associated with developing countries, including a division of labour between formal and informal sectors and an uneven distribution of wealth and income. The economic measures such as Black Economic Empowerment (BEE), adopted by the Government to ensure growth and equitable distribution of wealth, have been very effective. South African’s ascension into BRICS recognizes the country’s potential, placing it alongside the leading economies of tomorrow. With 6% of Africa’s population, it accounts for 25% of the continent’s GDP. South Africa also forms a gateway to the rest of sub-Saharan Africa. Africa is the fastest growing region after China and India, boasting unexploited mineral wealth, 60% of the world’s uncultivated agricultural land and the youngest age profile of any continent.

FMCG Markets in Vietnam

Vietnam is one of the fastest growing countries in South East Asia, with a GDP growth of about 6%. The demographics of the country are very promising, with an extremely young population providing an opportunity for FMCG companies to grow rapidly. The country is in the process of integrating into the world’s economy, as part of globalization. Vietnam finds a place in the Goldman Sachs list of N-11 countries as a frontier market, indicating an opportunity to invest but with lower market capitalization and liquidity. The currency Vietnamese Dong (VND), however, has shown relative weakness to the US dollar in recent times.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

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

- Establishment and review of business plans
- Identification of key risks and opportunities
- Policies on operational and strategic risk management
- Clear and well defined organization structure and limits of financial authority
- Continuous identification of areas requiring strengthening of internal controls
- Operating procedures to ensure effectiveness of business processes
- Systems of monitoring compliance with statutory regulations
- Well-defined principles and procedures for evaluation of new business proposals/capital expenditure

- A robust management information system
- A robust internal audit and review system

M/s Aneja Associates, Chartered Accountants, have been carrying out internal audits for Marico for a long time. During the current year, Ernst & Young were appointed as the new business partners to carry out internal audits across Marico. The work of internal auditors is coordinated by an internal team at Marico. This combination of Marico’s internal team and expertise of a professional firm ensures independence as well as effective value addition. The Board takes this opportunity to thank Aneja Associates for the value they have added to Marico.

Internal audits are undertaken on a continuous basis, covering various areas across the value chain like manufacturing, operations, sales and distribution, marketing and finance. Reports of the internal auditors are regularly reviewed by the management and corrective action 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.

HUMAN RESOURCES

Marico is a professionally managed organization that has a flat hierarchy, which empowers people and fosters a culture of innovation. The organization believes that great people deliver great results and lays emphasis on hiring right and retaining key talent. The Company maintains a strong business linkage to all human resource processes and initiatives.

Marico recruits its talent from the country’s premier technical and business schools. Marico looks at talent, not just from a short-term perspective, but also from a long-term perspective, where people can be groomed for different roles. The organization believes in providing challenge and early responsibility at work, which serves to keep team members enthused and motivated.

Members’ networks are also tapped into for “hiring right”. A strong referral mechanism operates under the brand name “Talent” (Talent referred by Mariconians). This benefits the organization in two ways: the talent referred is usually superior to that sourced independently in the market and it also translates into substantial cost savings in the recruitment process.

The organization has created a favourable work environment that motivates performance. Marico has a process of performance enhancement through deployment of MBR (Management By Results), to create an environment of challenge and stretch. It is also linked to a variable element of performance-based compensation.

The organization believes in investing in people – to help them develop and expand their capability. Personal development plans focus on how each individual’s strengths can best be leveraged to deliver his or her full potential. External training programmes and cross-functional exposure often provide the extra edge in turning out well-rounded individuals. In line with Marico’s philosophy of evaluating internal talent first, a structured internal job posting mechanism, MINTOS (Marico Internal Talent Opportunity Scheme) is in place. This is an internal forum for members to benefit from opportunities within the organization.

Marico continues to measure and act on improving the “engagement levels” of its teams. The Aon Hewitt Survey provides the organization with a measure of how it is fare in building engagement across the organization as well as within each of its teams.

Marico had articulated a contemporary set of values six years ago and it is important that all members in the organization are aware of and consciously practise these values. To build consciousness and commitment, “Values Workshops” are held for the teams to identify their focus areas and plan action accordingly.
Specific initiatives are underway to standardize Marico HR practices across international locations – the Middle East, Bangladesh, Egypt and South Africa.

The “Popcorn with Harsh” sessions continued last year as well. It is based on the concept of “Learning through Sharing”, where members have an opportunity to directly interact with Chairman and Managing Director, Harsh Mariwala. The sessions seek to leverage Marico leaders as mentors and coaches Mariconians at large.

At Marico, the overall well-being of members is an important priority. The member well-being program looks holistically at physical, emotional and financial aspects of an employee’s well-being. The various initiatives run during the year included a Member Assistance Program in association with 1 to 1 help.net, a counseling service run by a team of qualified and experienced counselors; a physical well-being program that provided personalized diet, lifestyle and physical training by a panel of health experts; and financial well-being through customized financial planning programs.

Employee relations throughout the year were supportive of business performance. As on March 31, 2012, the employee strength of Marico Limited was 1080 and that of the entire group was 3066.

CORPORATE SOCIAL RESPONSIBILITY

Marico believes in aligning the interest of all stakeholders in the environment in which it operates – its shareholders, consumers, members, associates, government and society. Promoting conscious capitalism is an important step towards fulfilling the Company’s purpose. Marico has chosen the following areas of focus to make its contributions to the Company’s purpose. Marico has chosen the following areas of focus to make its contributions

The Marico Innovation Foundation (MIF) is a best seller publication – “11 mission biographies - Making Breakthrough Innovation Happen: 11 Indians who pulled off the impossible”. This publication is a culmination of a six-year joint discovery effort to identify genuine breakthrough innovations from within India, and then uncover cutting-edge insights into what these innovations did differently, to make the impossible happen.

Through its upcoming Innovation Publication, the Marico Innovation Foundation looks to spread innovation knowledge that will enable organizations to emerge with innovative thinking and use this to address challenges. MIF felt the need to continuously generate this knowledge and create a regular channel to disseminate this information.

To recognise and applaud outstanding leadership with innovative focus in sectors, the Marico Innovation Foundation in 2006 institutionalised the Innovation for India Awards. These Awards acknowledge and foster leadership with innovative focus in various business and social sectors. From 2010, a new category - Public Governance - has been introduced to recognize innovations where the Central or State government or any wing of the government including public-private partnership has innovated. The intent of the Awards is to reward projects and businesses that make a real difference to India and the community at large. Based on the criteria of uniqueness, impact and scalability, India’s Best Innovations are declared biennially.

Since 2006, 41 innovators have been recognized, including organizations like Kirlisar Brothers, BOSCH MICO, Su-Kam, Titan, Azim Premji Foundation, Tricky Police, ITC IBD, Reliance KGD6, Tutor Vista, Goonj, PRS Legislative, Tata Chemicals and TIER, Gujarat Government’s Jyotigram Yojana, Defence Institute of High Altitude Research (DIHAR), Pilani Soft Labs Pvt. Ltd (Red Bus), IndiGo Airlines, Akshaya Patra, St. Jude India and EMRI, Bharti Airtel, Tata Nano and the UIDAI – Aadhaar programme of the Planning Commission, Government of India were recognized as Global Game Changers for their spirit of Innovation.

To extend the Marico Innovation Foundation’s catalytic approach towards innovation, it organizes Innovation Workshops for social enterprises. The purpose of these workshops is to enable social organizations to apply innovation as a key tool to significantly increase their social impact and scale programs. Post the workshop, a detailed analysis of the organization is done. After this, organizations are selected for a 12-18 month innovation incubation program. Two prototypes have successfully been implemented in Mumbai and Bangalore over the year.

One of its popular researches resulted in another organization which was incubated was ‘Waste Wise Trust’, which is developing scientific and automated waste disposal units, and faced shortage of land space, a major factor for disposing waste. After applying the new model developed under the guidance of MIF, the social organization managed to integrate all stakeholders – waste pickers, waste generators, waste recyclers and entrepreneurs, in an inclusive and mutually value creating manner. This led to the electronic city contracts to manage 10-15 metric tonnes of solid waste every day, up from 1.5 metric tonnes. This prototype has been replicated by the Electronics City Association in Bangalore, which is now funding 80% of the operational cost of the prototype.

The Foundation along with its partners will also be mentoring and providing resource support for 5 organizations, from the 2012 World Bank Developing Marketplace Winners in India. The Foundation aims at becoming a nodal agency for disseminating World Bank resources to social organizations in India.
Specific initiatives are underway to standardize Marico HR practices across international locations – the Middle East, Bangladesh, Egypt and South Africa.

The “Popcorn with Harsh” sessions continued last year as well. It is based on the concept of “Learning through Sharing”, where members have an opportunity to directly interact with Chairman and Managing Director, Harsh Mariwala. The sessions seek to leverage Marico leaders as mentors and coaches Mariconians at large.

At Marico, the overall well-being of members is an important priority. The member well-being program looks holistically at physical, emotional and financial aspects of an employee’s well-being. The various initiatives run during the year included a Member Assistance Program in association with 1 to 1 help.net, a counseling service run by a team of qualified and experienced counselors; a physical well-being program that provided personalized diet, lifestyle and physical training by a panel of health experts; and financial well-being through customized financial planning programs.

Employee relations throughout the year were supportive of business performance. As on March 31, 2012, the employee strength of Marico Limited was 1080 and that of the entire group was 3066.

CORPORATE SOCIAL RESPONSIBILITY

Marico believes in aligning the interest of all stakeholders in the environment in which it operates – its shareholders, consumers, members, associates, government and society. Promoting conscious capitalism is an important step towards fulfilling the Company’s purpose. Marico has chosen the following areas of focus to make its contributions to the Company’s purpose. Marico has chosen the following areas of focus to make its contributions to the

Marico Innovation Foundation (MIF)

Innovation is a crucial way to leapfrog into the center stage of global business leadership. Based on this cornerstone, Marico instituted its CSR initiative in 2003 by forming the Marico Innovation Foundation. The Foundation provides a framework to industry and the social sector to leverage innovation for quantum growth. The Foundation plays the role of a catalyst and works towards creating an innovation eco-system through cutting-edge research, knowledge creation and dissemination. Its recognition platform - Innovation for India Awards - biennially awards breakthrough innovations from India.

One of its popular researches resulted in a best seller publication - “11 mission biographies - Making Breakthrough Innovation Happen: 11 Indians who pulled off the impossible”. This publication is a culmination of a six-year joint discovery effort to identify genuine breakthrough innovations from within India, and then uncover cutting-edge insights into what these innovations did differently, to make the impossible happen.

Through its upcoming Innovation Publication, the Marico Innovation Foundation looks to spread innovation knowledge that will enable organizations emerge with innovative thinking and use this to address challenges. MIF felt the need to continuously generate this knowledge and create a regular channel to disseminate this information.

To recognise and applaud outstanding leadership with innovative focus in sectors, the Marico Innovation Foundation in 2006 institutionalised the Innovation for India Awards. These Awards acknowledge and foster leadership with innovative focus in various business and social sectors. From 2010, a new category - Public Governance - has been introduced to recognize innovations where the Central or State government or any wing of the government including public-private partnership has innovated. The intent of the Awards is to reward projects and businesses that make a real difference to India and the community at large. Based on the criteria of uniqueness, impact and scalability, India’s Best Innovations are declared biennially.

Since 2006, 41 innovators have been recognized, including organizations like Kirloskar Brothers, BOSCH MICO, Su-Kam, Titan, Azim Premji Foundation, Trichy Police, ITC (IBD), Reliance KGD6, Tutor Vista, Goonj, PRS Legislative, Tata Chemicals and TERI, Gujarat Government’s Jyotigram Yojana, Defence Institute of High Altitude Research (DIHAR), Pilani Soft Labs Pvt. Ltd (Red Bus), IndiGo Airlines, Akshaya Patra, St. Jude India and EMRI. Bharti Airtel, Tata Nano and the UIDAI – Aadhaar programme of the Planning Commission, Government of India were recognized as Global Game Changers for their spirit of Innovation.

To extend the Marico Innovation Foundation’s catalytic approach towards innovation, it organizes Innovation Workshops for social enterprises. The purpose of these workshops is to enable social organizations to apply innovation as a key tool to significantly increase their social impact and scale programs. Post the workshop, a detailed analysis of the organization is done. After this, organizations are selected for a 12-18 month innovation incubation program. Two prototypes have successfully been implemented in Mumbai and Bangalore over the year.

One was ‘Yuva Parivarthan’, a social organization providing employability training to young people who have either dropped out of formal education or are at a risk of having no real livelihood options. The intervention helped the organization to devise a new model for imparting training that exposed them to real life learning and earning scenarios, resulting in a staggering six times growth in the total number of youth impacted.

Another organization which was incubated was ‘Waste Wise Trust’ which is developing scientific and holistic ways of disposing solid wastes that impacts people, the planet and profits. Earlier they operated in a disconnected manner with waste disposal units, and faced shortage of land space, a major factor for disposing waste. After applying the new model developed under the guidance of MIF, the social organization managed to integrate all stakeholders – waste pickers, waste generators, waste recyclers and entrepreneurs, in an inclusive and mutually value creating manner. This led to the electronic city contracts to manage 10-15 metric tonnes of solid waste every day, up from 1.5 metric tonnes. This prototype has been replicated by the Electronics City Association in Bangalore, which is now funding 80% of the operational cost of the prototype.

The Foundation along with its partners will also be mentoring and providing resource support for 5 organizations, from the 2012 World Bank Developing Marketplace Winners in India. The Foundation aims at becoming a nodal agency for disseminating World Bank resources to social organizations in India.
A cluster farming and coconut producers’ society was formed in Kerala to drive cluster farming. It acts as a channel between the Coconut Development Board (CDB) and farmers, enabling farmers to access CDB initiatives, achieve higher yield/productivity and improve earnings per acre. The society also helps farmers receive various government benefits like free fertilizers and intercrops.

Marico also organized training programs with industry experts, educating farmers on quality standards, inspection methods, storage of copra and latest developments in farming/conversion process, enabling them to get a good price for their produce.

Contract farming for safflower was undertaken on around 10,000 acres of land which would have otherwise been barren in the rabi season. The Company also converted vendors from the non-edible grade of raw rice bran oil to the edible grade, thereby increasing their profitability.

Marico encourages farmers to adopt the practice of briquetting, which helps improve farmer realization and also provides a greener fuel.

Members
Marico gives utmost importance to the health and well-being of its members and organizes various workshops and seminars throughout the year to help them in their overall development. This year, a parenting workshop was organized at the corporate centre, to build greater awareness and sensitivity in teams that include Marico Mothers, through focused sessions. The workshop, conducted by a counsellor, covered the key topic of how to build a better relationship with your child, given that there are only a limited number of hours that are spent at home by working mothers and how to balance domestic and professional duties. It included sessions by a nutritionist to share recipes and talk on nutrition for children (of varied age groups) and child health.

Other sessions conducted at certain plants focused on educating parents about their behaviour towards their child during examinations and their role in planning their career.

Yoga classes were launched to help members live a more balanced and stress-free life. Free professional and confidential counselling is also provided to the members. On International Women’s Day, a session was conducted for women members of Marico on ‘How women get ahead’. It covered topics such as dealing with stereotypes and creating a professional image at work. Apart from these initiatives, investment and safety workshops are organized at all plants for members and health and safety seminars are conducted for contract workers. Reinforcement training like fire-fighting is compulsory at least once a year at all plants.

Society
Marico was once again a part of the ‘Joy of Giving Week’, popularly referred to as India’s own ‘giving festival’. Members from all locations participated, and contributions touched an all-time high. This year, we reached out to more than 2000 people. Mariconians also contributed by lending their expertise; for instance, the Marketing team worked with NGOs on a voluntary basis to help them create a brand image for their enterprises.

Apart from this, assistance was provided to neighbouring communities through scholarship awards for meritorious students, and contributions towards repairing roads and places of worship. Cleaning of the PIPDIC estate was undertaken by the Pondicherry plant members. Help was extended during a fire at Jain Irrigation factory at Jalgaon.

Green Initiatives
At its Baddi plant, Marico launched an initiative by which all open land spaces would be converted into a green belt, using the ETP processed water. Fuel consumption was reduced in Kanjikode. Several initiatives were taken to reduce CO2 emissions in Pondicherry and Jalgaon. 500 coconut trees were planted in coastal districts across Bangladesh. Most of the trees on the new plant site in Bangladesh were re-planted and in some cases roads and drains were modified to avoid cutting trees.

Sustainability Management
Any company taking up Sustainability Management typically has the following approach.
Through the knowledge dissemination mechanism, the Foundation is able to propagate the findings of the researches through large-scale mass platforms across India.

**Sustainability reporting initiative in Marico**

Sustainability Report is about disclosures on non-financial aspects of business. The reports are generally made on the GRI-G3 (Global Reporting Initiative – 3rd Generation) guidelines, covering the company’s performance in following fields:

1. **Economic**
2. **Environmental**
3. **Social**

Marico has been working in various areas related to sustainability over the past few years. There have been a wide range of initiatives across energy conservation, water conservation, CSR and waste disposal, apart from business initiatives involving communities such as farmers and associates.

**Associates**

Marico organizes an annual reward program “Keraratna”, for farmers associated with Marico Copra Collection Centres, to motivate small-scale farmers to stay active in the market and keep away from speculation, thus reducing financial losses. This initiative also aids in creating a long-term mutually beneficial relationship with the farmers.

A cluster farming and coconut producers’ society was formed in Kerala to drive cluster farming. It acts as a channel between the Coconut Development Board (CDB) and farmers, enabling farmers to access CDB initiatives, achieve higher yield/productivity and improve earnings per acre. The society also helps farmers receive various government benefits like free fertilizers and intercrops.

Marico also organized training programs with industry experts, educating farmers on quality standards, inspection methods, storage of copra and latest developments in farming/conversion process, enabling them to get a good price for their produce.

Contract farming for safflower was undertaken on around 10,000 acres of land which would have otherwise been barren in the rabi season. The Company also converted vendors from the non-edible grade of raw rice bran oil to the edible grade, thereby increasing their profitability.

Marico encourages farmers to adopt the practice of briquetting, which helps improve farmer realization and also provides a greener fuel.

**Members**

Marico gives utmost importance to the health and well-being of its members and organizes various workshops and seminars throughout the year to help them in their overall development. This year, a parenting workshop was organized at the corporate centre, to build greater awareness and sensitivity in teams that include Marico Mothers, through focused sessions. The workshop, conducted by a counsellor, covered the key topic of how to build a better relationship with your child, given that there are only a limited number of hours that are spent at home by working mothers and how to balance domestic and professional duties. It included sessions by a nutritionist to share recipes and talk on nutrition for children (of varied age groups) and child health.

Other sessions conducted at certain plants focused on educating parents about their behaviour towards their child during examinations and their role in planning their career.

Yoga classes were launched to help members live a more balanced and stress-free life. Free professional and confidential counselling is also provided to the members. On International Women’s Day, a session was conducted for women members of Marico on ‘How women get ahead’. It covered topics such as dealing with stereotypes and creating a professional image at work. Apart from these initiatives, investment and safety workshops are organized at all plants for members and health and safety seminars are conducted for contract workers. Reinforcement training like fire-fighting is compulsory at least once a year at all plants.

**Society**

Marico was once again a part of the ‘Joy of Giving Week’, popularly referred to as ‘India’s own giving festival.’ Members from all locations participated, and contributions touched an all-time high. This year, we reached out to more than 2000 people. Mariconians also contributed by lending their expertise; for instance, the Marketing team worked with NGOs on a voluntary basis to help them create a brand image for their enterprises.

Apart from this, assistance was provided to neighbouring communities through scholarship awards for meritorious students, and contributions towards repairing roads and places of worship. Cleaning of the PIPDIC estate was undertaken by the Pondicherry plant members. Help was extended during a fire at Jain Irrigation factory at Jalgaon.

**Green Initiatives**

At its Baddi plant, Marico launched an initiative by which all open land spaces would be converted into a green belt, using the ETP processed water. Fuel consumption was reduced in Kanjikode. Several initiatives were taken to reduce CO2 emissions in Pondicherry and Jalgaon. 500 coconut trees were planted in coastal districts across Bangladesh. Most of the trees on the new plant site in Bangladesh were re-planted and in some cases roadways and drains were modified to avoid cutting trees.

**Sustainability Management**

Any company taking up Sustainability Management typically has the following approach.

1. **Sustainability Vision and Policy**
2. **Core Sustainability Team at Corporate Level**
3. **Internal & External Stakeholder Dialogue**
4. **Identifying & Prioritizing Sustainability Challenges and Risks**
5. **Planning Activities for Sustainability Performance and Allocating Resources**
6. **Monitoring Activities and Performance**
7. **Reporting Sustainability Performance**
8. **Reviewing through Monitoring and Stakeholder Feedback**

**Sustainability Management at Marico**

In 2011-12 Marico started its journey towards a sustainability report, and is currently putting a Sustainability Management Framework in place. This will help the company to collate sustainability information in a structured manner. The Company has engaged CII as a knowledge partner for preparing the Sustainability Report and helping to set up a Sustainability Management Framework.

In this regard, the following steps were taken:
Creation of a Sustainability Task Force: A cross-functional team was created for Sustainability Reporting. The team comprised two representatives from each manufacturing location, one each from HR, Finance, Company Secretariat, Quality Assurance, Product Integrity Management, Supply Chain and 3P Manufacturing.

Stakeholder Engagement: Key stakeholders were identified and the modes of engagement with them were listed. This was done to avoid re-inventing the wheel.

Site Visits: The core team, along with CII consultants, visited key manufacturing locations of Marico. The visits helped to train other members in manufacturing locations on the basics of sustainability. At the same time, sustainability challenges were identified at each site.

Data Collection: During this phase, data for the past two years was collected from each manufacturing location on all aspects of sustainability.

Comments from CII: Based on the data shared, CII shared their comments and rectifications in data collection methodologies.

Planning for Sustainability Performance: Based on the data collected and stakeholder engagement outcomes, projects shall be suggested by CII in areas where the sustainability performance needs improvement. These projects will be undertaken during FY13.

Setting up Sustainability Management Framework: The data collection on sustainable indicators and monitoring of the projects will ensure that a sound sustainability management framework is put in place. This will be a stepping stone towards sustainability reporting.

Sustainability Reporting: Once the framework is in place along with strong systems, Marico plans to publish its Sustainability Report and share it with all its stakeholders. We expect this to take place in the near future.

A task force comprising members from various functions in the Company’s corporate office as well as manufacturing locations has been formed. This year, the focus is on Marico’s 7 manufacturing locations in India viz. Kanjikode, Pondicherry, Goa, Jalgaon, Baddi, Dehradun and Paonta Sahib.

CII conducted awareness training on GRI guidelines for the members of the sustainability task force. This training covered GRI G3 guidelines in detail along with other sustainability reporting aspects. Later, CII consultants also visited the manufacturing locations to help with data collection for sustainability indicators and to train other members at the manufacturing locations on aspects of sustainability.

The Company has begun capturing data for some of the environmental indicators. These include:
- GHG emissions
- Effluents
- Electricity consumption
- Energy conservation initiatives
- Water consumption
- Waste disposal

Marico also has systems to collect information regarding labour, as required for compliance by various authorities.

However, the Company still needs to set up systems to accurately measure the impact of various initiatives particularly Society and Human rights indicators. The company plans to set up these systems this year.

Marico will initially focus on manufacturing plants in India, as these locations are the most significant from the point of view of sustainability risks. The Company will look to expand its reporting boundaries in the years to come.

THE MARICO GROWTH STORY

Marico achieved revenue from operations of INR 4006 crore during FY12, a growth of 28% over FY11. The volume growth underlying this revenue growth was healthy at 17%. Profit after tax (PAT) for FY12 was INR 317 crore, a growth of 11% over FY11. Over the past 5 years, the top line and bottom line have grown at a compounded average growth rate (CAGR) of 21% and 23% respectively.

CONSUMER PRODUCTS BUSINESS (INDIA)

Parachute and Nihar in India

Parachute, Marico’s flagship brand, continued to expand its consumer franchise during the year. Parachute coconut oil in rigid packs, the focus part of its portfolio, grew by about 11% in volume as compared to FY11.

Marico has continued to drive conversion from loose oil usage to branded oil. Small packs helped to drive this growth. It is estimated that the loose market comprises about 40% of the coconut oil market in volume terms. This is expected to continue to be a source of growth in the medium term.

During FY12 Parachute improved its market share in the coconut oils segment by 130bps. The inflationary environment in the key input prices of coconut oil has kept the competition from the local/regional players relatively soft. However, the downward correction in the input prices could see the return of competition from some of the local players.

During the 12 months ended March 2012, Marico’s volume share represented by brands Parachute and Nihar, in the approximately INR 2300 crore (USD 460 million) branded coconut oil segment in India, was — 55.2% (FY11: 53.2%). Marico’s share in coconut oil in the rural markets, however, is lower at 39%. This provides headroom for growth in rural areas through market share gains.

Saffola

The Saffola Oils franchise grew by about 11% in volume terms during FY12 compared to FY11. The brand has recorded healthy volume growth over several quarters, indicating strong brand equity and a category tailwind.

Saffola has been, over recent years, leveraging the consumer trend of proactively managing a healthy lifestyle. Adopting Saffola is one of the shifts that consumers continue to make. The Saffola range of blended refined oils (available in four variants) operates in the premium niche of the refined edible oils market. Saffola refined oils are estimated to reach about 2.5 million households of the 21.4 million SEC A/B households in India. With rising awareness about heart health in the country, this provides significant headroom for growth. The brand maintained its leadership position in the super-premium refined edible oils segment, with a market share of about 58.2% during the 12 months ended March 2012 (FY11 53.1%).

Saffola would, in the longer term, establish itself as a leading healthy lifestyle brand that offers...
plants in India, as these locations are the most significant from the point of view of sustainability risks. The Company will look to expand its reporting boundaries in the years to come.

THE MARICO GROWTH STORY

Marico achieved revenue from operations of INR 4008 crore during FY12, a growth of 28% over FY11. The volume growth underlying this revenue growth was healthy at 17%. Profit after tax (PAT) for FY12 was INR 317 crore, a growth of 11% over FY11. Over the past 5 years, the top line and bottom line have grown at a compounded average growth rate (CAGR) of 21% and 23% respectively.

CONSUMER PRODUCTS BUSINESS (INDIA)

Parachute and Nihar in India

Parachute, Marico's flagship brand, continued to expand its consumer franchise during the year. Parachute coconut oil in rigid packs, the focus part of its portfolio, grew by about 11% in volume as compared to FY11.

Marico has continued to drive conversion from loose oil usage to branded oil. Small packs helped to drive this growth. It is estimated that the loose market comprises about 40% of the coconut oil market in volume terms. This is expected to continue to be a source of growth in the medium term.

During FY12 Parachute improved its market share in the coconut oils segment by 130bps. The inflationary environment in the key input prices of coconut oil has kept the competition from the local/regional players relatively soft. However, the downward correction in the input prices could see the return of competition from some of the local players.

During the 12 months ended March 2012, Marico's volume share represented by brands Parachute and Nihar, in the approximately INR 2300 crore (USD 460 million) branded coconut oil segment in India, was ~ 55.2% (FY11: 53.2%). Marico's share in coconut oil in the rural markets, however, is lower at 39%. This provides headroom for growth in rural areas through market share gains.

Saffola

The Saffola Oils franchise grew by about 11% in volume terms during FY12 compared to FY11. The brand has recorded healthy volume growth over several quarters, indicating strong brand equity and a category tailwind.

Saffola has been, over recent years, leveraging the consumer trend of proactively managing a healthy lifestyle. Adopting Saffola is one of the shifts that consumers continue to make. The Saffola range of blended refined oils (available in four variants) operates in the premium niche of the refined edible oils market. Saffola refined oils are estimated to reach about 2.5 million households of the 21.4 million SEC A/B households in India. With rising awareness about heart health in the country, this provides significant headroom for growth. The brand maintained its leadership position in the super-premium refined edible oils segment, with a market share of about 58.2% during the 12 months ended March 2012 (FY11 53.1%).

Saffola would, in the longer term, establish itself as a leading healthy lifestyle brand that offers
solutions, product innovation, packaging restaging, achieved through providing consumers with specific needs. In recent times, it has been one of the fastest growing FMCG categories in the country.

The Company’s aim is to participate in all the sub-segments and have a wider portfolio to drive growth. This is being achieved through the introduction of new products such as Parachute Advanced Ayurvedic Hot Oil, Parachute Advanced Ayurvedic cooling oil and Parachute Advanced Ayurvedic Hair Oil. All these have grown the overall hair oils franchise by bringing specificity and added hair oils for their pre-wash and post-wash hair conditioning, nourishment and grooming needs, in the approximately INR 3800 crore (USD 760 million) branded hair oils market. Hair oils remaining a deeply ingrained hair conditioning habit in the Indian sub-continent. The Company has carried out scientific research and conducted successful clinical trials to establish the benefits that hair oiling provides to consumers. With rising incomes in India there exist increasing opportunities to serve consumers looking for value-added options to their hair oiling needs. In recent times, it has been one of the fastest growing FMCG categories in the country.

Prototypes and New Launches

Marico, being an FMCG company, has to create a healthy pipeline of new products so that they become growth engines for the future. In order to create scalable marketing and product propositions, Marico follows a prototyping approach to test the products before launching in a low-cost fail-fast model.

In order to invest in new product initiatives, Marico follows a Strategic Funding (SF) approach. Marico defines SF as the negative contribution a product makes after providing for material costs, variable manufacturing and distribution costs and advertising and sales promotion expenditure for the product. Each year the Company budgets for a certain percentage of its Profit Before Tax to be available towards strategic funding for new products and businesses. All new products would have to fight for these resources. As the Company’s bottom line grows, the SF pie grows larger. This provides sufficient investments towards creating future growth engines and at the same time puts an overall ceiling to the SF at the group level.

In line with the Company’s aim to participate in all the sub-segments of Value Added Hair Oils, new products such as Parachute Advanced Ayurvedic Hot Oil, Parachute Advanced Ayurvedic cooling oil and Parachute Advanced Ayurvedic Hair Oil were launched during the year.

The Company believes that even though the category is competitive, there is a lot of head room for growth. The penetration levels are still less than 20%. The total skin care segment is estimated to be around INR 5000 crore (USD 1 billion), of which the body care segment is around INR 1300 crore (USD 290 million).

INTERNATIONAL FMCG BUSINESS GROUP (IBG)

Marico’s International FMCG business (its key geographical constituents being Bangladesh, MENA (Middle East and North Africa), South Africa and South East Asia) comprised ~24% of the Marico Group’s turnover in FY12. IBG continued its growth journey, clocking a turnover of INR 955 crore (USD 191 million) during FY12. This denotes a growth of about 30% over FY11, boosted by the acquisition of 85% equity in International Consumer Products in Vietnam in February 2011. The EBITDA margin for the year stood at approximately 11%.

Bangladesh

The business environment in Bangladesh has been challenging. Overall economic crises and liquidity crunch impacted the business. High inflation, including food inflation and a sharp depreciation in the Bangladeshi Taka versus USD, has resulted in cost push and resistance to retail price increases. Consequently, volume growth and margins have both been under pressure. Despite a challenging macro-economic environment that has put pressure on volume growth, on a like to like comparison (after adjusting MODVAT), our Bangladesh business posted a business growth of 11% during the year. Parachute was able to hold its market share of about 80% in the branded coconut oil market,
healthy food options for all meals. The Company has prioritized the breakfast space in the near term. Last year it entered the breakfast cereals market with the introduction of Saffola Oats. This has met with a favorable response, with trials building rapidly. Encouraged by this, the Company commenced a prototype with savory variants of oats in Tamil Nadu and later extended it to Kerala. The Company plans to extend this prototype to other parts of South India in a phased manner. Marico has about 14% value market share in the oats category and has emerged as the number two player in the category. The participation of multiple players in the oats market is helping to fast-forward growth in this category.

The Company will continue to innovate in the packaged food space and prototype new products in the near future.

Hair Oils
During the year, all Marico’s hair oil brands recorded healthy growth. The Company’s hair oils in rigid packs volumes grew by about 24% over FY11.

Marico’s hair oils franchise had achieved market share gains during FY11 and has continued to do so in FY12. There has been a positive shift of around 132 basis points in FY12 compared to FY11. Its volume market share during the 12 months ended March 2012 was about 24.1%, up from 17% about 5 years ago. These market share gains have been achieved through providing consumers with specific solutions, product innovation, packaging restaging, participation in more sub-segments of the value-added hair oils category, continued media support for some of the brands and penetrative pricing action in others, and expansion of Marico’s retail reach in the rural markets.

Marico offers its consumers a basket of value-added hair oils for their pre-wash and post-wash hair conditioning, nourishment and grooming needs, in the approximately INR 3800 crore (USD 760 million) branded hair oils market. Hair oiling remains a deeply ingrained hair conditioning habit in the Indian sub-continent. The Company has carried out scientific research and conducted successful clinical trials to establish the benefits that hair oiling provides to consumers. With rising incomes in India there exist increasing opportunities to serve consumers looking for value-added options to their hair oiling needs. In recent times, it has been one of the fastest growing FMCG categories in the country.

The Company’s aim is to participate in all the sub-segments and have a wider portfolio to drive growth. This is being achieved through the introduction of new products such as Parachute Advansed Ayurvedic Hot Oil, Parachute Advansed Ayurvedic cooling oil and Parachute Advansed Ayurvedic Hair Oil. All these have grown the overall hair oils franchise by bringing specificity and creating more occasions for use. Nihar Shanti Amla continues to gain market share on the back of disruptive pricing and achieved a volume market share of about 18.6% for the 12 months ended March 2012 in the Arriva hair oils category. The Company is now focusing on scaling up its presence in these sub-segments.

Prototypes and New Launches
Marico, being an FMCG company, has to create a healthy pipeline of new products so that they become growth engines for the future. In order to identify scalable marketing and product propositions, Marico follows a prototyping approach to test the products before launching in a low-cost fail-fast model.

In order to invest in new product initiatives, Marico follows a Strategic Funding (SF) approach. Marico defines SF as the negative contribution a product makes after providing for material costs, variable manufacturing and distribution costs and advertising and sales promotion expenditure for the product. Each year the Company budgets for a certain percentage of its Profit Before Tax to be available towards strategic funding for new products and businesses. All new products would have to fight for these resources. As the Company’s bottom line grows, the SF pie grows larger. This provides sufficient investments towards creating future growth engines and at the same time puts an overall ceiling to the SF at the group level.

In line with the Company’s aim to participate in all the sub-segments of Value Added Hair Oils, new products such as Parachute Advansed Ayurvedic Hot Oil, Parachute Advansed Ayurvedic cooling oil and Parachute Advansed Ayurvedic Hair Oil were launched during the year.

The Company believes that even though the category is competitive, there is a lot of head room for growth. The penetration levels are still less than 20%. The total skin care segment is estimated to be around INR 5000 crore (USD 1 billion), of which the body care segment is around INR 1300 crore (USD 290 million).

INTERNATIONAL FMCG BUSINESS GROUP (IBG)
Marico’s International FMCG business (its key geographical constituents being Bangladesh, MENA (Middle East and North Africa), South Africa and South East Asia) comprised ~24% of the Marico Group’s turnover in FY12. IBG continued its growth journey, clocking a turnover of INR 965 crore (USD 191 million) during FY12. This denotes a growth of about 30% over FY11, boosted by the acquisition of 85% equity in International Consumer Products in Vietnam in February 2011. The EBITDA margin for the year stood at approximately 11%.

Bangladesh
The business environment in Bangladesh has been challenging. Overall economic crises and liquidity crunch impacted the business. High inflation, including food inflation and a sharp depreciation in the Bangladeshi Taka versus USD, has resulted in cost push and resistance to retail price increases. Consequently, volume growth and margins have both been under pressure. Despite a challenging macro-economic environment that has put pressure on volume growth, on a like to like comparison (after adjusting MODVAT), our Bangladesh business posted a business growth of 11% during the year. Parachute was able to hold its market share of about 80% in the branded coconut oil market,
suggesting strong brand fundamentals. It continues to be among the top 5 most trusted brands for the third consecutive year (Source: Bangladesh Brand forum). Parachute continues to play out its market expansion strategy by converting loose oil users to packed branded coconut oil.

The Company is building upon its strategy of leveraging the extensive distribution network created by Parachute. Hair Code hair dye has achieved 29% value market share, thus establishing itself as the number one player in the hair dye market. The Company plans to extend the brand into the liquid hair dye segment during the coming year. In the INR 150 crore value-added hair oils space, the Company strengthened its presence through increased volumes of Parachute Beliphool, a light hair oil with a floral fragrance, and Parachute Advanced Cooling Oil. This has resulted in an increase in market shares. During Q4FY12, the Company also introduced three variants of value-added hair oils under the brand Nihar. The Company now has about 14% market share in the segment.

**MENA (Middle East and North Africa)**

The overall business environment in the region was much better this year, despite sporadic instances of protest and unrest. Some of the territories that still face instability, such as Libya, Yemen and Syria, are yet to return to normalcy in terms of operations. However, they comprise only about 5% of Marico’s business in the MENA region.

The Hair Code brand performed well during the year. The re-stage of the brand along with the new visual identity and the spout sachet packaging innovation, continues to yield good returns. This change was well supported with 360-degree marketing initiatives. The re-launch also helped the Company deal with counterfeit issues. Fiancée was backed by a campaign reinforcing its VFM positioning.

Marico has continued to leverage local consumer insights. It has launched a new range of Hair Oils and Hammam Zait under Parachute Secrets. This range leverages the tradition and belief amongst Arab women about the hair nourishment properties of certain ingredients. The response has been positive. To strengthen the core equity of its offerings, the Company has also re-staged Parachute Gold creams and hair oils across the Middle East markets. The response to the new range is encouraging.

**South Africa**

The South African business recorded a double digit Yo-Y growth over FY11. The turnover for FY12 crossed the INR 100 crore mark. Casvi Just for Kids consolidated its leadership position in the kids’ hair care market. Given the inflationary situation, the market has been witnessing some degree of down-trading. However, Marico’s representation in the VFM segment through Black Chic was able to capitalize on this trend. Overall, Marico’s hair care brands have been growing steadily and improving their market shares in the ethnic hair care market in South Africa.

**South East Asia**

The business environment in Vietnam remained challenging through the year, with high rates of inflation and cost push in power and fuel. The Vietnamese Dong has remained weak, leading to a rise in the cost of imported materials. Amidst this, X-Men, a leading men’s grooming brand, saw an uptick in its market share in the men’s shampoo category, to ~47%, aided by the launch of the new 4-Step X-Men campaign. Apart from the thematic TVC for shampoo, the campaign prompts a full male grooming regimen, with X-Men extensions in shower gel, face wash and deodorant. The thematic campaign has been supported by a 360-degree surround PR, including a digital campaign, outdoor visibility and merchandising. The other business segments of Skin Care and Foods are tracking as per plan. The integration of operations is on track. The Company has also started using Vietnam as a manufacturing hub for its operations in Malaysia.

Marico’s Malaysian business continues to grow at a very healthy rate. Code 10 has responded well to the brand re-stage and the Company has recently launched range extensions in male hair styling.

**Kaya Skin Care Solutions**

Kaya now offers skin care solutions – technology-led cosmetic dermatological services and products – through 107 clinics: 82 in India across 26 cities, 19 in the Middle East and 2 in Bangladesh, in addition to the 4 Derma Rx clinics and medispas in Singapore and Malaysia.

During FY12, Kaya achieved a turnover of INR 279 crore (USD 55.8 million). The Kaya business in India and in the Middle East achieved same store collection growth of 15% during FY12 as compared to FY11. Kaya has thus sustained the topline growth trend for the past 6 quarters on a same store basis, indicating early signs that the initiatives taken thus far are yielding results. Derma Rx also reported a healthy double digit top line growth.

This has been achieved through several initiatives:

- Introduction of regular skin care services at affordable price points to serve as traffic generators. During the latter part of FY11 and FY12, Kaya introduced a range of everyday skin care services like facials and aqua jet peels. Unlike ordinary facials, these services are created especially by dermatologists who combine the best of science and nature to give consumers a rehydrated, rebalanced, smooth, supple and brighter skin. These services are not in the nature of problem solution which means that they can be availed of after short periodic intervals, leading to regular foot falls in the clinic.

- Unlocking of portfolio synergies by introducing products from Derma Rx in India. These have experienced good acceptability from clients.

- A new bridal skincare program.

- A 360-degree campaign on Juvederm XC (dermal filler for anti-ageing) rolled out across key markets in order to penetrate the anti-ageing market.

- The Milestone program, designed to bring back customers who have not transacted with Kaya in the recent past – one of Kaya’s CRM initiatives.

Kaya has consciously made a shift in its positioning from “cure” to “cure & care”, moving from expert solution provider for skincare problems to personal guide for total skin care. The new tagline ‘Love what you see’ is an expression of
suggesting strong brand fundamentals. It continues to be among the top 5 most trusted brands for the third consecutive year (Source: Bangladesh Brand Forum). Parachute continues to play out its market expansion strategy by converting loose oil users to packed branded coconut oil.

The Company is building upon its strategy of leveraging the extensive distribution network created by Parachute. Hair Code hair dye has achieved 29% value market share, thus establishing itself as the number one player in the hair dye market. The Company plans to extend the brand into the liquid hair dye segment during the coming year. In the INR 150 crore value-added hair oils space, the Company strengthened its presence through increased volumes of Parachute Belphol, a light hair oil with a floral fragrance, and Parachute Advanced Cooling Oil. This has resulted in an increase in market shares. During Q4FY12, the Company also introduced three variants of value-added hair oils under the brand Nihar. The Company now has about 14% market share in the segment.

MENA (Middle East and North Africa)

The overall business environment in the region was much better this year, despite sporadic instances of protest and unrest. Some of the territories that still face instability, such as Libya, Yemen and Syria, are yet to return to normalcy in terms of operations. However, they comprise only about 5% of Marico’s business in the MENA region.

The Hair Code brand performed well during the year. The re-stage of the brand along with the new visual identity and the stout sachet packaging innovation, continues to yield good returns. This change was well supported with 360-degree marketing initiatives. The re-launch also helped the Company deal with counterfeit issues. Fiancé was backed by a campaign reinforcing its VFM positioning.

Marico has continued to leverage local consumer insights. It has launched a new range of Hair Oils and Hammam Zait under Parachute Secrets. This range leverages the tradition and belief amongst Arab women about the hair nourishment properties of certain ingredients. The response has been positive. To strengthen the core equity of its offerings, the Company has also re-staged Parachute Gold creams and hair oils across the Middle East markets. The response to the new range is encouraging.

South Africa

The South African business recorded a double digit Yo-Yo growth over FY11. The turnover for FY12 crossed the INR 100 crore mark. Cavil Just for Kids consolidated its leadership position in the kids’ hair care market. Given the inflationary situation, the market has been witnessing some degree of down-trading. However, Marico’s representation in the VFM segment through Black Chic was able to capitalize on this trend. Overall, Marico’s hair care brands have been growing steadily and improving their market shares in the ethnic hair care market in South Africa.

South East Asia

The business environment in Vietnam remained challenging through the year, with high rates of inflation and cost push in power and fuel. The Vietnamese Dong has remained weak, leading to a rise in the cost of imported materials.

Amidst this, X-Men, a leading men’s grooming brand, saw an uptick in its market share in the men’s shampoo category, to –47%, aided by the launch of the new 4-Step X-Men campaign. Apart from the thematic TVC for shampoo, the campaign prompts a full male grooming regimen, with X-Men extensions in shower gel, face wash and deodorant. The thematic campaign has been supported by a 360-degree surround PR, including a digital campaign, outdoor visibility and merchandising. The other business segments of Skin Care and Foods are tracking as per plan. The integration of operations is on track. The Company has also started using Vietnam as a manufacturing hub for its operations in Malaysia.

Marico’s Malaysian business continues to grow at a very healthy rate. Code 10 has responded well to the brand re-stage and the Company has recently launched range extensions in male hair styling.

Kaya Skin Care Solutions

Kaya now offers skin care solutions – technology-led cosmetic dermatological services and products – through 107 clinics: 82 in India across 26 cities, 19 in the Middle East and 2 in Bangladesh, in addition to the 4 Derma Rx clinics and medispas in Singapore and Malaysia.

During FY12, Kaya achieved a turnover of INR 279 crore (USD 55.8 million). The Kaya business in India and in the Middle East achieved same store collection growth of 15% during FY12 as compared to FY11. Kaya has thus sustained the topline growth trend for the past 6 quarters on a same store basis, indicating early signs that the initiatives taken thus far are yielding results. Derma Rx also reported a healthy double digit top line growth.

This has been achieved through several initiatives:

- Introduction of regular skin care services at affordable price points to serve as traffic generators. During the latter part of FY11 and FY12, Kaya introduced a range of everyday skin care services like facials and aqua jet peels. Unlike ordinary facials, these services are created especially by dermatologists who combine the best of science and nature to give consumers a rehydrated, rebalanced, smooth, supple and brighter skin. These services are not in the nature of problem solution which means that they can be availed of after short periodic intervals, leading to regular foot falls in the clinic.

- Unlocking of portfolio synergies by introducing products from Derma Rx in India. These have experienced good acceptability from clients.

- A new bridal skincare program.

- A 360-degree campaign on Juvederm XC (dermal filler for anti-ageing) rolled out across key markets in order to penetrate the anti-ageing market.

- The Milestone program, designed to bring back customers who have not transacted with Kaya in the recent past – one of Kaya’s CRM initiatives.

Kaya has consciously made a shift in its positioning from “cure” to “cure & care”, moving from expert solution provider for skincare problems to personal guide for total skin care. The new tagline ‘Love what you see’ is an expression of
therefore we have to constantly ensure that the fact that most costs in Kaya are front-ended and operations and costs. We are conscious of the partially explained above. is on building sustainable consumer bases, as launched initiatives in both these areas. Our focus distributed locations make it a complex business encapsulates an emerging business model. Its IBG, Kaya is a much younger business and Losses at PBIT level for FY11 were about INR 32.5 INR 29.1 crore (USD 6.4 million) at the PBIT level. of about 34% over FY11 and made a loss of their ROCE.
mor...
how consumers feel after a visit to Kaya. This re-branding will be rolled out across all Kaya Skin Clinics in India, product packaging and advertising, in a phased manner.

The products from Derma Rx introduced in India continue to gain good traction. Apart from these, Kaya also introduced a few other products in the Indian market during the year. About 23% of the revenues from Indian operations now come from the sale of products. This ratio was static at about 13% before the Company started focusing on products. The company will continue to introduce more products in India in a phased manner. Derma Rx products are in the process of being introduced in the Middle East too. A launch is expected in Q1FY13. We believe that these launches make Kaya’s product range more comprehensive. Higher product sales will generate more throughput from the clinics and help improve their ROCE.

During FY12, Kaya recorded a revenue growth of about 34% over FY11 and made a loss of INR 29.1 crore (USD 6.4 million) at the PBIT level. Losses at PBIT level for FY11 were about INR 32.5 crore (USD 8 million).

We believe that compared to the CPB or IBG, Kaya is a much younger business and encapsulates an emerging business model. Its distributed locations make it a complex business to manage, from the point of view of customer interfacing as well as business control. We have launched initiatives in both these areas. Our focus is on building sustainable consumer bases, as fully explained above.

Our focus has also been on rationalizing operations and costs. We are conscious of the fact that most costs in Kaya are front-ended and therefore we have to constantly ensure that the carrying cost of all our assets reflects current reality.

There has therefore been a drive in Kaya towards greater automation and scrutiny across all its clinics, in India and overseas. The constant re-assessment of asset values across Kaya has led to varying accounting changes. We expect this to continue for some time.

Thus, the current phase of securing consumers and ensuring cost effectiveness will hold out for some time. This will keep Kaya in an investment phase for a few more quarters.

The year witnessed steep inflation in prices of input materials as compared to last year. The year on year inflation of raw material cost, was about 20% higher in FY12 on a YoY basis. The market prices of Copra, the input for coconut oil, which accounts for about 40% of the Group’s raw material cost, was about 20% higher in FY12 on a YoY basis. Market prices of Saflower Oil and Rice Bran were up by 28% and 34% respectively on a YoY basis. The Company chose to pass on only a part of the cost push to the consumer leading to contraction in operating margins.

1. There has been a marginal decline in the Group’s ROCE in FY12 compared to FY11 mainly on account of the investment made by the Company in new products. The Company also chose to pass on only a part of the cost push to the consumer leading to contraction in operating margins.

2. The Net Debt position of the Marico Group as of March 31, 2012 is as below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (INR/Cr)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Debt</td>
<td>796</td>
</tr>
<tr>
<td>Cash/Cash Equivalents and Investments</td>
<td>388</td>
</tr>
<tr>
<td>Net Debt</td>
<td>407</td>
</tr>
<tr>
<td>Foreign Current Denominated</td>
<td>745</td>
</tr>
<tr>
<td>Foreign Current Denominated: Payable in One Year</td>
<td>456</td>
</tr>
<tr>
<td>Rupees Debt</td>
<td>50</td>
</tr>
<tr>
<td>Rupees Debt: Payable in One Year</td>
<td>55</td>
</tr>
<tr>
<td>Foreign Currency Debt as a % of Gross Debt</td>
<td>94%</td>
</tr>
<tr>
<td>Total Debt Payable with in One year</td>
<td>57%</td>
</tr>
<tr>
<td>Average Cost of Debt (%): Pre tax</td>
<td>5.20%</td>
</tr>
</tbody>
</table>

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

3. The Debt denominated in foreign currency is either hedged or enjoys a natural hedge against future probable exports hence the MTM differences are routed through the balance sheet rather than the income statement.

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

SHAREHOLDER VALUE

Marico has focused on deploying its resources in avenues which will result in maximization of shareholder value. Continuing with this policy, the Board of Directors of Marico has decided to follow a conservative dividend policy and deploy its internal accruals to fuel organic and inorganic growth. The broad direction is to maintain the absolute amount of dividend as paid out in the previous year. On a growing profit base, the payout ratio would be lower. However, if we do not find any suitable avenue to deploy funds in the near term, we will repay the debt on the balance sheet and re-look at the dividend payout ratios.

Dividend Declared

The Company had declared interim dividends of 30% and 40% during the year. With this the dividend declared for FY12 is 70%. The payout ratio on the annual profit after tax is 15.8%. The Company has remained conservative on its dividend payout. As the Company continues to explore inorganic growth opportunities to complement its organic growth plans, it continues to conserve cash.

Results of Operations – An Overview

Marico achieved revenue from operations of INR 408 crore during FY12, a growth of 28% over FY11. The volume growth underlying this revenue growth was healthy at 17%.

CAPITAL UTILIZATION

Over the years, Marico has been maintaining a healthy Return on Capital Employed (ROCE). Given below is a snapshot of various capital efficiency ratios for Marico Group:

<table>
<thead>
<tr>
<th>Ratio</th>
<th>FY12</th>
<th>FY11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Capital Employed</td>
<td>25.5%</td>
<td>27.4%</td>
</tr>
<tr>
<td>Marico Group</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on Net Worth (Group)</td>
<td>28.4%</td>
<td>32.0%</td>
</tr>
<tr>
<td>Working Capital Ratios (Group)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtors Turnover (Days)</td>
<td>17</td>
<td>19</td>
</tr>
<tr>
<td>Inventory Turnover (Days)</td>
<td>60</td>
<td>61</td>
</tr>
<tr>
<td>Net Working Capital Turnover (Days)</td>
<td>49</td>
<td>50</td>
</tr>
<tr>
<td>Debt: Equity (Group)</td>
<td>0.58</td>
<td>0.55</td>
</tr>
<tr>
<td>Finance Costs to Turnover (% (Group)</td>
<td>1.2%</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

*Turnover Ratios calculated on the basis of average balances

1. The above ratios are before considering the effect on non comparable items to enable like to like comparison.

2. The above ratios are before considering the effect on non comparable items to enable like to like comparison.

3. There has been a marginal decline in the Group’s ROCE in FY12 compared to FY11 mainly on account of the investment made by the Company in new products. The Company also chose to pass on only a part of the cost push to the consumer leading to contraction in operating margins.

4. There has been a marginal decline in the Group’s ROCE in FY12 compared to FY11 mainly on account of the investment made by the Company in new products. The Company also chose to pass on only a part of the cost push to the consumer leading to contraction in operating margins.

5. The above ratios are before considering the effect on non comparable items to enable like to like comparison.
Profit after tax (PAT) for FY12 was INR 317 crore, a growth of 11% over FY11. These results include the following items that are not strictly comparable with FY11. Each of these items are explained in detail in the Notes to the Consolidated Annual Financial Statements:

Over the past 5 years, Marico has shown a consistent performance with Sales and Profit after Tax growing at a compounded annual growth rate of 21% and 23% respectively.

TOTAL INCOME

Our total income consists of the following
1. Net Sales / Income from Operations comprising
   a. Sales from “Consumer Products” including coconut oil, value added hair oils, premium refined edible oils, anti-lice treatments, fabric care, edible salt, functional and other processed foods, hair creams & gels, shampoos, hair relaxers & straighteners, deodorants and other similar consumer products, by-products, scrap sales and certain other operating income.
   b. Sale and income from other products including skin care products sold through Skin Care Clinics under the brands Kaya and Derma Rx.
   c. Income from services offered at the Skin Care Clinics under the brands Kaya and Derma Rx

The following table shows the details of income from sales and services for FY12 and FY11.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>FY12</th>
<th>FY11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales / Income from Operations</td>
<td>4,008.3</td>
<td>3,135.0</td>
</tr>
<tr>
<td>Other Income</td>
<td>58.6</td>
<td>21.2</td>
</tr>
<tr>
<td>Total</td>
<td>4,040.9</td>
<td>3,156.2</td>
</tr>
</tbody>
</table>

There has been around 28% growth in Net Sales/Income from Operations on account of 26% growth in Consumer Products Business in India, 30% growth in Consumer Products Business outside India and 34% in Kaya. All the franchises of the Group witnessed a healthy growth during the year.

The underlying volume growth was healthy at 17% at Group level. It was possible as a result of 14% growth in Consumer Products Business in India with International Business Group and Kaya also recording healthy volume growth.

EXPENSES

The following table sets the expenses and certain other profit and loss account line items for the years FY12 and FY11:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>FY 2011-12 INR</th>
<th>FY 2010-11 INR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Materials</td>
<td>2,098.70</td>
<td>1,617.59</td>
</tr>
<tr>
<td>% of Total Income</td>
<td>51.94%</td>
<td>51.25%</td>
</tr>
<tr>
<td>Employees Cost</td>
<td>307.29</td>
<td>229.98</td>
</tr>
<tr>
<td>% of Total Income</td>
<td>7.60%</td>
<td>7.29%</td>
</tr>
<tr>
<td>Advertisement and Sales Promotion</td>
<td>448.99</td>
<td>345.95</td>
</tr>
<tr>
<td>% of Total Income</td>
<td>11.11%</td>
<td>10.96%</td>
</tr>
<tr>
<td>Depreciation, Amortisation and Impairment</td>
<td>72.52</td>
<td>70.8</td>
</tr>
<tr>
<td>% of Total Income</td>
<td>1.79%</td>
<td>2.24%</td>
</tr>
<tr>
<td>Other Expenditure</td>
<td>668.9</td>
<td>523.36</td>
</tr>
<tr>
<td>% of Total Income</td>
<td>16.55%</td>
<td>16.58%</td>
</tr>
<tr>
<td>Finance Charges</td>
<td>42.39</td>
<td>41.01</td>
</tr>
<tr>
<td>% of Total Income</td>
<td>1.05%</td>
<td>1.30%</td>
</tr>
<tr>
<td>Total Expenses before exceptional items</td>
<td>3,638.79</td>
<td>2,828.69</td>
</tr>
<tr>
<td>% of Total Income</td>
<td>90.05%</td>
<td>89.62%</td>
</tr>
<tr>
<td>PBT before Exceptional Items</td>
<td>402.06</td>
<td>327.52</td>
</tr>
<tr>
<td>% of Total Income</td>
<td>9.95%</td>
<td>10.38%</td>
</tr>
<tr>
<td>Exceptional Items</td>
<td>(1.75)</td>
<td>48.91</td>
</tr>
<tr>
<td>Profit Before Tax</td>
<td>400.31</td>
<td>376.43</td>
</tr>
<tr>
<td>% of Total Income</td>
<td>9.91%</td>
<td>11.93%</td>
</tr>
<tr>
<td>Tax</td>
<td>78.25</td>
<td>84.98</td>
</tr>
<tr>
<td>% of Total Income</td>
<td>2.06%</td>
<td>2.93%</td>
</tr>
<tr>
<td>Minority Interest</td>
<td>4.95</td>
<td>5.01</td>
</tr>
<tr>
<td>Profit after Tax</td>
<td>317.11</td>
<td>286.44</td>
</tr>
<tr>
<td>% of Total Income</td>
<td>7.85%</td>
<td>9.06%</td>
</tr>
</tbody>
</table>
Profit after tax (PAT) for FY12 was INR 317 crore, a growth of 11% over FY11. These results include the following items that are not strictly comparable with FY11. Each of these items are explained in detail in the Notes to the Consolidated Annual Financial Statements:

Over the past 5 years, Marico has shown a consistent performance with Sales and Profit after Tax growing at a compounded annual growth rate of 21% and 23% respectively.

**TOTAL INCOME**

Our total income consists of the following

1. Net Sales / Income from Operations comprising
   a. Sales from “Consumer Products” including coconut oil, value added hair oils, premium refined edible oils, anti-lice treatments, fabric care, edible salt, functional and other processed foods, hair creams & gels, shampoos, hair relaxers & straighteners, deodorants and other similar consumer products, by-products, scrap sales and certain other operating income.

   b. Sale and income from other products including skin care products sold through Skin Care Clinics under the brands Kaya and Derma Rx.

   c. Income from services offered at the Skin Care Clinics under the brands Kaya and Derma Rx

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

The following table shows the details of income from sales and services for FY12 and FY11.

### EXPENSES

The following table sets the expenses and certain other profit and loss account line items for the years FY12 and FY11:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>FY 2010-11</th>
<th>FY 2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>3,156.21</td>
<td>4,040.85</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Particulars</th>
<th>FY 11-12</th>
<th>FY 10-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales / Income from Operations</td>
<td>3,135.0</td>
<td>3,135.0</td>
</tr>
<tr>
<td>Other Income</td>
<td>21.2</td>
<td>21.2</td>
</tr>
<tr>
<td>Total</td>
<td>3,156.2</td>
<td>3,156.2</td>
</tr>
</tbody>
</table>

There has been around 28% growth in Net Sales/Income from Operations on account of 26% growth in Consumer Products Business in India, 30% growth in Consumer Products Business outside India and 34% in Kaya. All the franchises of the Group witnessed a healthy growth during the year.

The underlying volume growth was healthy at 17% at Group level. It was possible as a result of 14% growth in Consumer Products Business in India with International Business Group and Kaya also recording healthy volume growth.

### Particulars

<table>
<thead>
<tr>
<th>Particulars</th>
<th>FY 11-12</th>
<th>FY 10-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Materials</td>
<td>2,098.70</td>
<td>1,617.59</td>
</tr>
<tr>
<td>% of Total Income</td>
<td>51.94%</td>
<td>51.25%</td>
</tr>
<tr>
<td>Employees Cost</td>
<td>307.29</td>
<td>229.98</td>
</tr>
<tr>
<td>% of Total Income</td>
<td>7.60%</td>
<td>7.29%</td>
</tr>
<tr>
<td>Advertisement and Sales Promotion</td>
<td>448.99</td>
<td>345.95</td>
</tr>
<tr>
<td>% of Total Income</td>
<td>11.11%</td>
<td>10.38%</td>
</tr>
<tr>
<td>Depreciation, Amortisation and Impairment</td>
<td>72.52</td>
<td>70.8</td>
</tr>
<tr>
<td>% of Total Income</td>
<td>1.79%</td>
<td>2.24%</td>
</tr>
<tr>
<td>Other Expenditure</td>
<td>668.9</td>
<td>523.36</td>
</tr>
<tr>
<td>% of Total Income</td>
<td>16.55%</td>
<td>16.58%</td>
</tr>
<tr>
<td>Finance Charges</td>
<td>42.39</td>
<td>41.01</td>
</tr>
<tr>
<td>% of Total Income</td>
<td>1.05%</td>
<td>1.30%</td>
</tr>
<tr>
<td>Total Expenses before exceptional items</td>
<td>2,828.69</td>
<td>2,628.69</td>
</tr>
<tr>
<td>% of Total Income</td>
<td>90.05%</td>
<td>89.62%</td>
</tr>
<tr>
<td>PBT before Exceptional Items</td>
<td>326.90</td>
<td>262.90</td>
</tr>
<tr>
<td>% of Total Income</td>
<td>10.38%</td>
<td>10.38%</td>
</tr>
<tr>
<td>Exceptional Items</td>
<td>4.95</td>
<td>5.01</td>
</tr>
<tr>
<td>Profit before Tax</td>
<td>317.11</td>
<td>286.44</td>
</tr>
<tr>
<td>% of Total Income</td>
<td>7.85%</td>
<td>9.06%</td>
</tr>
</tbody>
</table>
Cost of Materials
Cost of material includes consumption of raw material, packing material, purchase of finished goods for resale and increase or decrease in the stocks of finished goods, by-products and work in progress. Input prices had seen an unprecedented increase in H2FY11 and continued to rise during the current year before a decline was witnessed in the latter part of FY12. For the year as a whole the average market prices of copra were higher than FY11 by about 20%. The market prices of other key inputs such as Safflower Oil and Rice bran oil were up 28% and 34% respectively during FY12 as compared to FY11. The Company had passed on part of this cost push to the consumers, some in the later part of previous financial year and some in the current financial year, and therefore the material cost as a percentage to total income is slightly higher as compared to the previous year. The Company maintained its thrust on volume growth and therefore chose not to pass on the entire input cost push to the consumers.

Employee Cost
Employee cost includes salaries, wages, bonus and gratuity, contribution to provident and other funds and staff welfare schemes expenses. The Company has an extensive process of performance management enhancement through the deployment of MBR (Management By Results), which is intended to create an environment where employees are encouraged to challenge and stretch themselves. Linked to this is a variable compensation element based on the Company’s target achievement and the individual’s performances against goals identified. The increase in employee costs is primarily on account of normal annual compensation revisions and increase in headcount. A part of the increase is also attributed to provision made during the year towards the Stock Appreciation Rights Plan (STAR Plan) which was not there in the previous year.

Advertisement and Sales Promotion
Advertisement and sales promotion (ASP) expenses in FY12 were slightly higher than that in FY11 on a percentage to net income basis. During the current year the consumer products business in India scaled up the prototype of Saffola Oats and launched Parachute Advanced Body Lotion nationally. Moreover, there were new launches in International markets. In Bangladesh new variants of value added hair oils were introduced during the current year and in the MENA region there were launch and re-launch of products.

Depreciation, amortisation and impairment
Generally, depreciation costs increase based on the capital expenditure incurred. Depreciation expense has remained in line with FY11 as no substantial capital expenditure was incurred this year. In line with the Indian Accounting Standards, the Company has continued to amortise Brands held by some of its overseas subsidiaries.

Other Expenses
Other expenses include items such as Advertisement charges, Freight & Forwarding, Selling and Distribution, Rent, Travel and other expenses. Other expenses include spends that are variable, semi-variable and fixed in nature. There has been no significant change on percentage to sales basis. However, in absolute terms the spends have gone up mainly on account of the investment in Vietnam. For the operations in Vietnam the entire year’s operations during FY12 were consolidated as compared to only two months during FY11. Moreover, a robust volume growth has lead to increase in expenses that are variable and semi variable in nature.

Finance Charges
Financial charges include interest on loans and other financial charges. Interest costs are in line with increase in long term and short term borrowings.

Exceptional Items
There were some items which are exceptional in nature and hence detailed separately on the face of Profit and Loss account. These are explained in Note 38 of the Consolidated Financial Statements.

### BALANCE SHEET

**Statement of Assets and Liabilities - Consolidated Financials**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>As at March 31, 2012</th>
<th>As at March 31, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EQUITY AND LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders’ Funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share Capital</td>
<td>61.49</td>
<td>61.44</td>
</tr>
<tr>
<td>Reserves and surplus</td>
<td>1,081.52</td>
<td>854.04</td>
</tr>
<tr>
<td><strong>Sub-total Shareholder’s fund</strong></td>
<td><strong>1,143.01</strong></td>
<td><strong>915.48</strong></td>
</tr>
<tr>
<td>Minority Interest</td>
<td>24.90</td>
<td>21.88</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>390.67</td>
<td>381.73</td>
</tr>
<tr>
<td>Other Long-term liabilities</td>
<td>0.63</td>
<td>0.57</td>
</tr>
<tr>
<td>Long-term provisions</td>
<td>41.93</td>
<td>44.60</td>
</tr>
<tr>
<td><strong>Sub-total Non-current liabilities</strong></td>
<td><strong>433.23</strong></td>
<td><strong>426.90</strong></td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>371.58</td>
<td>340.13</td>
</tr>
<tr>
<td>Trade payables</td>
<td>358.37</td>
<td>269.36</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>208.19</td>
<td>182.66</td>
</tr>
<tr>
<td>Short-term provisions</td>
<td>77.74</td>
<td>76.72</td>
</tr>
<tr>
<td><strong>Sub-total current liabilities</strong></td>
<td><strong>1,015.88</strong></td>
<td><strong>868.67</strong></td>
</tr>
<tr>
<td><strong>TOTAL - EQUITY AND LIABILITIES</strong></td>
<td><strong>2,617.02</strong></td>
<td><strong>2,233.13</strong></td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed assets</td>
<td>501.84</td>
<td>457.77</td>
</tr>
<tr>
<td>Goodwill on consolidation</td>
<td>395.49</td>
<td>397.59</td>
</tr>
<tr>
<td>Non-current investments</td>
<td>29.39</td>
<td>10.22</td>
</tr>
<tr>
<td>Deferred tax assets (net)</td>
<td>22.34</td>
<td>29.90</td>
</tr>
<tr>
<td>Long-term loans and advances</td>
<td>124.28</td>
<td>76.38</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>123.41</td>
<td>98.64</td>
</tr>
<tr>
<td><strong>Sub-total Non-current assets</strong></td>
<td><strong>1,196.86</strong></td>
<td><strong>1,070.50</strong></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current investments</td>
<td>266.26</td>
<td>78.71</td>
</tr>
<tr>
<td>Inventories</td>
<td>720.22</td>
<td>601.14</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>181.57</td>
<td>177.91</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>158.81</td>
<td>220.57</td>
</tr>
<tr>
<td>Short-term loans and advances</td>
<td>73.11</td>
<td>79.17</td>
</tr>
<tr>
<td>Other current assets</td>
<td>18.19</td>
<td>5.13</td>
</tr>
<tr>
<td><strong>Sub-total current assets</strong></td>
<td><strong>1,420.16</strong></td>
<td><strong>1,162.63</strong></td>
</tr>
<tr>
<td><strong>TOTAL - ASSETS</strong></td>
<td><strong>2,617.02</strong></td>
<td><strong>2,233.13</strong></td>
</tr>
</tbody>
</table>
Cost of Materials
Cost of material includes consumption of raw material, packing material, purchase of finished goods for re-sale and increase or decrease in the stocks of finished goods, by-products and work in progress. Input prices had seen an unprecedented increase in H2FY11 and continued to rise during the current year before a decline was witnessed in the latter part of FY12. For the year as a whole the average market prices of copra were higher than FY11 by about 20%. The market prices of other key inputs such as Safflower Oil and Rice bran oil were up 28% and 34% respectively during FY12 as compared to FY11. The Company had passed on part of this cost push to the consumers, some in the later part of previous financial year and some in the current financial year, and therefore the material cost as a percentage to total income is slightly higher as compared to the previous year. The Company maintained its thrust on volume growth and therefore chose not to pass on the entire input cost push to the consumers.

Employee Cost
Employee cost includes salaries, wages, bonus and gradually, contribution to provident and other funds and staff welfare schemes expenses. The Company has an extensive process of performance management enhancement through the deployment of MBR (Management By Results), which is intended to create an environment where employees are encouraged to challenge and stretch themselves. Linked to this is a variable compensation element based on the Company’s target achievement and the individual’s performances against goals identified. The increase in employee costs is primarily on account of normal annual compensation revisions and increase in headcount. A part of the increase is also attributed to provision made during the year towards the Stock Appreciation Rights Plan (STAR Plan) which was not there in the previous year.

Advertisement and Sales Promotion
Advertisement and sales promotion (ASP) expenses in FY12 were slightly higher than that in FY11 on a percentage to net income basis. During the current year the consumer products business in India scaled up the prototype of Saffola Oats and launched Parachute Advanced Body Lotion nationally. Moreover, there were new launches in International markets. In Bangladesh new variants of value added hair oils were introduced during the current year and in the MENA region there were launch and re-launch of products.

Depreciation, amortisation and impairment
Generally, depreciation costs increase based on the capital expenditure incurred. Depreciation expense has remained in line with FY11 as no substantial capital expenditure was incurred this year. In line with the Indian Accounting Standards, the Company has continued to amortise Brands held by some of its overseas subsidiaries.

Other Expenses
Other expenses include items such as Conversion changes, Freight & Forwarding, Selling and Distribution, Rent, Travel and other expenses. Other expenses include spends that are variable, semi-variable and fixed in nature. There has been no significant change on percentage to sales basis. However, in absolute terms the spends have gone up mainly on account of the investment in Vietnam. For the operations in Vietnam the entire year’s operations during FY12 were consolidated as compared to only two months during FY11. Moreover, a robust volume growth has lead to increase in expenses that are variable and semi variable in nature.

Finance Charges
Financial charges include interest on loans and other financial charges. Interest costs are in line with increase in long term and short term borrowings.

Exceptional Items
There were some items which are exceptional in nature and hence detailed separately on the face of Profit and Loss account. These are explained in Note 38 of the Consolidated Financial Statements.

Tax
Tax comprises Income Tax and Deferred Tax. The effective tax rate for FY12 is ~20%. The effective tax rate is lower than the corporate tax rate as the Company has invested in manufacturing facilities in tax free zones. There were some exceptional and non-comparable items in FY11 financial statements due to which the effective tax rate for FY11 was higher.

BALANCE SHEET
Statement of Assets and Liabilities - Consolidated Financials

<table>
<thead>
<tr>
<th>Particulars</th>
<th>As at March 31, 2012</th>
<th>As at March 31, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>EQUITY AND LIABILITIES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders’ Funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share Capital</td>
<td>61.49</td>
<td>61.44</td>
</tr>
<tr>
<td>Reserves and surplus</td>
<td>1,081.52</td>
<td>854.04</td>
</tr>
<tr>
<td>Sub-total Shareholder’s fund</td>
<td>1,143.01</td>
<td>915.48</td>
</tr>
<tr>
<td>Minority Interest</td>
<td>24.90</td>
<td>21.88</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>390.67</td>
<td>381.73</td>
</tr>
<tr>
<td>Other Long-term liabilities</td>
<td>0.63</td>
<td>0.57</td>
</tr>
<tr>
<td>Long-term provisions</td>
<td>41.93</td>
<td>44.60</td>
</tr>
<tr>
<td>Sub-total Non current liabilities</td>
<td>433.23</td>
<td>426.90</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>371.58</td>
<td>340.13</td>
</tr>
<tr>
<td>Trade payables</td>
<td>358.37</td>
<td>269.36</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>208.19</td>
<td>182.66</td>
</tr>
<tr>
<td>Short-term provisions</td>
<td>77.74</td>
<td>76.72</td>
</tr>
<tr>
<td>Sub-total current liabilities</td>
<td>1,015.88</td>
<td>866.87</td>
</tr>
<tr>
<td>TOTAL - EQUITY AND LIABILITIES</td>
<td>2,617.02</td>
<td>2,233.13</td>
</tr>
<tr>
<td>ASSETS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed assets</td>
<td>501.84</td>
<td>457.77</td>
</tr>
<tr>
<td>Goodwill on consolidation</td>
<td>395.49</td>
<td>397.59</td>
</tr>
<tr>
<td>Non-current investments</td>
<td>29.39</td>
<td>10.22</td>
</tr>
<tr>
<td>Deferred tax assets (net)</td>
<td>22.34</td>
<td>29.90</td>
</tr>
<tr>
<td>Long-term loans and advances</td>
<td>124.39</td>
<td>76.38</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>123.41</td>
<td>98.64</td>
</tr>
<tr>
<td>Sub-total Non current assets</td>
<td>1,196.86</td>
<td>1,070.50</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current investments</td>
<td>266.26</td>
<td>78.71</td>
</tr>
<tr>
<td>Inventories</td>
<td>720.22</td>
<td>601.14</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>181.57</td>
<td>177.91</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>158.81</td>
<td>220.57</td>
</tr>
<tr>
<td>Short-term loans and advances</td>
<td>73.11</td>
<td>79.17</td>
</tr>
<tr>
<td>Other current assets</td>
<td>18.19</td>
<td>5.13</td>
</tr>
<tr>
<td>Sub-total current assets</td>
<td>1,420.16</td>
<td>1,162.63</td>
</tr>
<tr>
<td>TOTAL - ASSETS</td>
<td>2,617.02</td>
<td>2,233.13</td>
</tr>
</tbody>
</table>
Shareholders’ Funds
This comprises the paid up share capital and reserves & surplus. There has been an increase in the share capital on account of stock options exercised by the employees under the ESOP Scheme. Annexure to the Directors’ Report provides further details of stock options issued, exercised and to be exercised.

Minority Interest
Minority Interest represents the share of consolidated profits attributable to non-Marico shareholders in Marico Bangladesh Limited and International Consumer Products Corporation:
1. The Company’s Bangladesh subsidiary, Marico Bangladesh Limited, had listed 10% of its equity share capital on the Dhaka Stock Exchange in September 2009 by issuing fresh shares to the public in that country.
2. The Company acquired 85% stake in International Consumer Products Corporation (ICP) in Vietnam and started consolidating its business with effect from February 18, 2011. The balance 15% shareholding continues to be held by the founding company.

Non-current Liabilities
Non-current Liabilities include borrowings which are payable after one year or more from the date of the balance sheet and long term provisions such as gratuity. These include a judicious blend of borrowings in local and foreign currency. Long term provision also includes provision for consideration towards acquisition of the Derma Rx founding company.

Goodwill on Consolidation
Goodwill on consolidation represents the consideration paid to acquire companies in excess of their net assets.

Non-current Investments
Non-current Investments comprise long term investments the full value of which will not be realized before one year from the date of the balance sheet. These investments have increased in FY12 as the Company has parked some amount of the additional funds generated during the year in tax free bonds.

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

The amount of deferred tax asset has come down on account of:
- The Company had adjusted in the Books of Account the value of Intangible Assets against the Capital Redemption Reserve and Securities Premium Account under the Capital Restructuring Scheme in an earlier year and hence created a DTA. As the Written Down Value of those Intangible Assets as per Taxation books is reducing each year the DTA is getting reversed.

Long-term Loans and Advances
Long-term Loans and Advances include the amounts paid by the Company recoverable in cash or in kind after 12 months from the balance sheet date. These include security deposits, advances paid to suppliers in select cases etc. Increase in long term loans and advances in FY12 are mainly on account of the refundable Earnest Money Deposit paid for acquisition of Personal Care business of Paras and advance to Welfare of Mariconians Trust. This trust manages the long term incentive plan, Marico Stock Appreciation Rights Plan (STAR Plan) for its employees. Under the plan, stock appreciation rights are granted to certain eligible employees.

On completion of the Paras acquisition, the Company will get a refund of the Earnest Money Deposit along with interest thereon.

Other Non-current Assets
Other non-current assets include receivables/ entitlements maturing after more than 12 months from the balance sheet date. Increase in non-current assets in FY12 is on account of increase in MAT credit entitlement.

Current Investments
Current investments comprise short term investments the full value of which will be realized before one year from the date of the balance sheet. It includes investments made in Mutual Funds, Bank Certificates of Deposits etc. Increase in current investments is mainly on account of the surplus generated during the year and continuing the arbitrage opportunity by not redeeming the investments while continuing with the loan book.

Inventory
Inventory includes the stocks of raw material, packing material, work in process and finished goods held for sale in the ordinary course of business. Increase in inventory is on account of inflation and is in line with the business growth. The Company has also built up stocks of finished goods to service the Q1 FY13 sales plans.

Trade Receivables
Trade Receivables include the monies to be received from its customers against sales made to them. Increase in trade receivables is on account of inflation and in line with the business growth.

Cash and Cash Equivalents
This includes amounts lying in Cash and with the Company’s bankers. There is a decrease in the cash balances primarily due to maturity of Fixed Deposits in Bangladesh which has been used for dividend remittance and capital expenditure.

Short-term Loans and Advances
Short term loans and advances include monies to be received within one year from the date of the balance sheet. There has been no significant change in short term loans and advances as compared to FY11.

Other Current Assets
Other current assets includes all other monies to be received within one year from the date of the balance sheet, such as interest receivable, export incentive receivable etc. Increase in interest receivable is on account of increase in investments.

OTHER DEVELOPMENTS

Acquisition of the Paras PC Business
In February 2012, the Company has executed definitive agreements to purchase the personal care business of Paras Pharmaceuticals Limited (PPL), from Reckitt Benckiser (Singapore) Pte Limited for a consideration of INR 740 crores to be paid in cash. This acquisition will give the Company access to youth brands such as Setwet, Zatuk and Livon. Brands in the portfolio rank within the top three positions in the hair gels, male deodorant and leave-on hair serum categories. This acquisition gives Marico an opportunity to participate in the rapidly growing deodorant and male grooming categories in India. The portfolio addresses the grooming needs of the youth and is supported by India’s demographic profile. Marico will also leverage its distribution strength in India to provide a fillip to the growth of the brands. The acquisition of this business is expected
Shareholders’ Funds

This comprises the paid up share capital and reserves & surplus. There has been an increase in the share capital on account of stock options exercised by the employees under the ESOP Scheme. Annexure to the Directors’ Report provides further details of stock options issued, exercised and to be exercised.

Minority Interest

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

1. The Company’s Bangladesh subsidiary, Marico Bangladesh Limited, had listed 10% of its equity share capital on the Dhaka Stock Exchange in September 2009 by issuing fresh shares to the public in that country.
2. The Company acquired 85% stake in International Consumer Products Corporation (ICP) in Vietnam and started consolidating its business with effect from February 18, 2011. The balance 15% shareholding continues to be held by the founding company.

Non-current Liabilities

Non-current Liabilities include borrowings which are payable after one year or more from the date of the balance sheet and long term provisions such as Gratuity. These include a judicious blend of borrowings in local and foreign currency. Long term provision also includes provision for gratuity. These include security deposits, advances paid or in kind after 12 months from the balance sheet date. These include security deposits, advances paid or in kind after 12 months from the balance sheet date.

Current Liabilities

Current liabilities mainly comprise the amounts payable by the Company for the purchase of various input materials and services and short term provisions. Increase in current liabilities is mainly on account of trade payables which are in line with the business growth.

Fixed Assets

Fixed assets represent investments made by the Company in tangible assets such as Buildings, Plant & Machinery, Furniture & Fixtures etc. Apart from normal yearly capital expenditure, the increase is on account of capitalisation of R&D office building in Mumbai and fixed assets in Bangladesh, Middle East and Egypt.

Goodwill on Consolidation

Goodwill on consolidation represents the consideration paid to acquire companies in excess of their net assets.

Non-current Investments

Non-current Investments comprise long term investments the full value of which will not be realized before one year from the date of the balance sheet. These investments have increased in FY12 as the Company has parked some amount of the additional funds generated during the year in tax free bonds.

Deferred Tax Asset (DTA)

Deferred Tax Asset represents the timing differences resulting due to variations in the treatment of items as per Income Tax Act, 1961 and Indian GAAP. The amount of deferred tax asset has come down on account of:
• The Company had adjusted in the Books of Account the value of Intangible Assets against the Capital Redemption Reserve and Securities Premium Account under the Capital Restructuring Scheme in an earlier year and hence created a DTA. As the Written Down Value of those Intangible Assets as per Taxation books is reducing each year the DTA is getting reversed.

Long-term Loans and Advances

Long-term Loans and advances include the amounts paid by the Company recoverable in cash or in kind after 12 months from the balance sheet date. These include security deposits, advances paid to suppliers in select cases etc. Increase in long term loans and advances in FY12 are mainly on account of the refundable Earnest Money Deposit paid for acquisition of Personal Care business of Paras and advance to Welfare of Mariconians Trust. This trust manages the long term incentive plan, Marico Stock Appreciation Rights Plan (STAR Plan) for its employees. Under the plan, stock appreciation rights are granted to certain eligible employees.

On completion of the Paras acquisition, the Company will get a refund of the Earnest Money Deposit along with interest thereon.

Other Non-current Assets

Other non-current assets include receivables/ entitlements maturing after more than 12 months from the balance sheet date. Increase in non-current assets in FY12 is on account of increase in MAT credit entitlement.

Current Investments

Current investments comprise short term investments the full value of which will be realized before one year from the date of the balance sheet. It includes investments made in Mutual Funds, Bank Certificates of Deposits etc. Increase in current investments is mainly on account of the surplus generated during the year and continuing the arbitrage opportunity by not redeeming the investments while continuing with the loan book.

Current Revenues

Current Revenues comprise short term investments the full value of which will be realized before one year from the date of the balance sheet. They include investments made in Mutual Funds, Bank Certificates of Deposits etc. Increase in current investments is mainly on account of the surplus generated during the year and continuing the arbitrage opportunity by not redeeming the investments while continuing with the loan book.

Deferred Tax Asset (DTA)

Deferred Tax Asset represents the timing differences resulting due to variations in the treatment of items as per Income Tax Act, 1961 and Indian GAAP. The amount of deferred tax asset has come down on account of:
• The Company had adjusted in the Books of Account the value of Intangible Assets against the Capital Redemption Reserve and Securities Premium Account under the Capital Restructuring Scheme in an earlier year and hence created a DTA. As the Written Down Value of those Intangible Assets as per Taxation books is reducing each year the DTA is getting reversed.

Other Non-current Assets

Other non-current assets include receivables/ entitlements maturing after more than 12 months from the balance sheet date. Increase in non-current assets in FY12 is on account of increase in MAT credit entitlement.

Current Investments

Current investments comprise short term investments the full value of which will be realized before one year from the date of the balance sheet. It includes investments made in Mutual Funds, Bank Certificates of Deposits etc. Increase in current investments is mainly on account of the surplus generated during the year and continuing the arbitrage opportunity by not redeeming the investments while continuing with the loan book.

Deferred Tax Asset (DTA)

Deferred Tax Asset represents the timing differences resulting due to variations in the treatment of items as per Income Tax Act, 1961 and Indian GAAP. The amount of deferred tax asset has come down on account of:
• The Company had adjusted in the Books of Account the value of Intangible Assets against the Capital Redemption Reserve and Securities Premium Account under the Capital Restructuring Scheme in an earlier year and hence created a DTA. As the Written Down Value of those Intangible Assets as per Taxation books is reducing each year the DTA is getting reversed.

Current Investments

Current investments comprise short term investments the full value of which will be realized before one year from the date of the balance sheet. It includes investments made in Mutual Funds, Bank Certificates of Deposits etc. Increase in current investments is mainly on account of the surplus generated during the year and continuing the arbitrage opportunity by not redeeming the investments while continuing with the loan book.

Deferred Tax Asset (DTA)

Deferred Tax Asset represents the timing differences resulting due to variations in the treatment of items as per Income Tax Act, 1961 and Indian GAAP. The amount of deferred tax asset has come down on account of:
• The Company had adjusted in the Books of Account the value of Intangible Assets against the Capital Redemption Reserve and Securities Premium Account under the Capital Restructuring Scheme in an earlier year and hence created a DTA. As the Written Down Value of those Intangible Assets as per Taxation books is reducing each year the DTA is getting reversed.

Inventory

Inventory includes the stocks of raw material, packing material, work in process and finished goods held for sale in the ordinary course of business. Increase in inventory is on account of inflation and is in line with the business growth. The Company has also built up stocks of finished goods to service the Q1: FY13 sales plans.

Trade Receivables

Trade Receivables include the monies to be received from its customers against sales made to them. Increase in trade receivables is on account of inflation and in line with the business growth.

Cash and Cash Equivalents

This includes amounts lying in Cash and with the Company’s bankers. There is a decrease in the cash balances primarily due to maturity of Fixed Deposits in Bangladesh which has been used for dividend remittance and capital expenditure.

Short-term Loans and Advances

Short term loans and advances include monies to be received within one year from the date of the balance sheet. There has been no significant change in short term loans and advances as compared to FY11.

Other Current Assets

Other current assets includes all other monies to be received within one year from the date of the balance sheet, such as interest receivable, export incentive receivable etc. Increase in interest receivable is on account of increase in investments.

OTHER DEVELOPMENTS

Acquisition of the Paras PC Business

In February 2012, the Company has executed definitive agreements to purchase the personal care business of Paras Pharmaceuticals Limited (PLL), from Reckitt Benckiser (Singapore) Pte Limited for a consideration of INR 740 crores to be paid in cash. This acquisition will give the Company access to youth brands such as Setwet, Zatik and Livon. Brands in the portfolio rank within the top three positions in the hair gels, male deodorant and leave-on hair serum categories. This acquisition gives Marico an opportunity to participate in the rapidly growing deodorant and male grooming categories in India. The portfolio addresses the grooming needs of the youth and is supported by India’s demographic profile. Marico will also leverage its distribution strength in India to provide a fillip to the growth of the brands. The acquisition of this business is expected
to further reduce Marico’s dependence on edible oils and hair oils.

Preferred Allotment of Equity Shares
To part-finance the Paras personal care acquisition, and considering your Company’s medium term funds requirements, it will be issuing additional equity shares amounting to INR 500 crore on preferential basis. The shareholders of the Company had accorded necessary approval for the preferential issue of equity shares at their Extra-Ordinary General Meeting held on May 2, 2012. The allotment will be made on a preferential basis to Indiwest Pte. Ltd. (an affiliate of Government of Singapore Investment Corporation Pte. Ltd.) and Baring India Private Equity Fund III Listed Investments Limited in the ratio of 3:1. The issue is placed at a price of INR 170 per share. Your Company was able to get a premium of about 2.5% over the SEBI floor price.

OUTLOOK
Marico has positioned itself, strategically, in emerging markets - India, South Africa (part of BRICS), Bangladesh, Vietnam and Egypt (Part of N-11 Group) and the Middle East. In emerging markets, a focus on the long term is crucial. Long term success can be ensured only through stronger brands that enjoy loyal consumer franchises. Marico has therefore chosen to prioritize expansion of consumer franchise over expansion of margins.

In the immediate term, however, there exists some uncertainty in the business environment. While the pressure of inflation has eased to some extent in India, the GDP growth estimates have been revised downwards. Even though FMCG companies marketing items of daily consumption are not affected as much as some other industries might be, there could be an effect on consumer demand especially for items of discretionary consumption in our portfolio. In addition, high inflation and weak currencies may have some impact on business in a few of Marico’s international markets.

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

Consumer Products Business in India
- In coconut oils, the Company will aim to grow by leading market expansion through its recruiter low unit size packs. In rural areas the Company aims to gain market share. The Company expects to achieve volume growth of 6% to 8% per annum in the medium term.
- In hair oils, Marico will focus on share gain through the introduction of differentiated and innovative products and by providing specificity to consumers accompanied by effective communication. The successful execution of this strategy is expected to result in annual volume growth of 15% to 17% over the next 2-3 years.
- The Company’s efforts in expanding rural reach is also expected to contribute towards franchise expansion in coconut oils and hair oils.
- Saffola is expected to continue growing its basket of premium refined edible oils by about 15% in volume each year. In addition the Company plans to build a sizeable business in the healthy foods space by leveraging Saffola’s equity. It aims to get about 25% revenues of Saffola from healthy foods over a period of 3 years.
- The Company will also focus on integrating the Paras acquisition into Marico. The Paras portfolio participating in tail wind categories is expected to have a rate of growth higher than Marico’s existing portfolio.

International Business Group (IBG)
- Marico will focus on growing the categories where it has significant market share - such as in coconut oil in Bangladesh and male grooming in MENA and Vietnam.
- The Company will focus on complementing growth of Parachute Coconut Oil in Bangladesh by expanding its portfolio to value-added hair oils and other personal care products. In the immediate future, however, there may some pressure on growth given the overall economic scenario in Bangladesh.
- In South Africa, the Company would work on increasing share in key categories and on expanding its footprint to other parts of sub-Saharan Africa, in the medium term.
- The overall environment in MENA is relatively better than it was last year. The business is largely back on track and the Company will aim to carry this momentum into the next year.
- Code 10 in Malaysia is expected to continue to show healthy growth.
- Marico will also explore other countries in the emerging markets of Asia and Africa as targets for expansion in the long term.
- IBG is expected to grow in healthy double digits.

Kaya
- The Kaya skin business in India is showing early signs of recovery having posted growth at same clinic level for 6 consecutive quarters. In the short term therefore, the Company plans to work on improving its revenue streams from the existing clinics in India and bringing the business firmly back on the growth track. It will focus on increasing its share of revenue through sales of products. Kaya will be cautious in terms of expansion plans but may continue to add a few clinics at strategic locations to drive growth. The Company believes that the building blocks for long-term value creation by Kaya are falling into place.
- The Company will be prototyping a new clinic format for Kaya in the coming year. This clinic is likely to be much smaller in size as compared to the existing Kaya clinics and will focus on sale of maintenance products and services. The Company expects that such a prototype, if successful, has a high scalability potential. Moreover, smaller clinics and a focus on maintenance services will also mean lower rental and capital expenses, leading to better returns on investments.

The long-term potential of the businesses continues to be strong. This belief stands bolstered by the recent record of strong volume growths across categories, despite price hikes. This emboldens the Company to spell out a preference for growing volume franchise as compared to focusing on profit margins alone.

On behalf of the Board of Directors

Harsh Mariwala
Chairman & Managing Director

Place: Mumbai
Date: May 3, 2012
to further reduce Marico’s dependence on edible oils and hair oils.

**Preferential Allotment of Equity Shares**

To part-finance the Paras personal care acquisition, and considering your Company’s medium-term funds requirements, it will be issuing additional equity shares amounting to INR 500 crore on preferential basis. The shareholders of the Company had accorded necessary approval for the preferential issue of equity shares at their Extra-Ordinary General Meeting held on May 2, 2012. The allotment will be made on a preferential basis to Indiwest Pte. Ltd. (an affiliate of Government of Singapore Investment Corporation Pte. Ltd.) and Baring India Private Equity Fund III Listed Investments Limited in the ratio of 3:1. The issue is placed at a price of INR 170 per share. Your Company was able to get a premium of about 2.5% over the SEBI floor price.

**OUTLOOK**

Marico has positioned itself, strategically, in emerging markets - India, South Africa (part of BRICSA), Bangladesh, Vietnam and Egypt (Part of N-11 Group) and the Middle East. In emerging markets, a focus on the long term is crucial. Long-term success can be ensured only through stronger brands that enjoy loyal consumer franchises. Marico has therefore chosen to prioritize expansion of consumer franchise over expansion of margins.

In the immediate term, however, there exists some uncertainty in the business environment. While the pressure of inflation has eased to some extent in India, the GDP growth estimates have been revised downwards. Even though FMCG companies marketing items of daily consumption are not affected as much as some other industries might be, there could be an effect on consumer demand especially for items of discretionary consumption in our portfolio. In addition, high inflation and weak currencies may have some impact on business in a few of Marico’s international markets.

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

**Consumer Products Business in India**
- In coconut oils, the Company will aim to grow by leading market expansion through its recruiter lower unit size packs. In rural areas the Company aims to gain market share. The Company expects to achieve volume growth of 6% to 8% per annum in the medium term.
- In hair oils, Marico will focus on share gain through the introduction of differentiated and innovative products and by providing specificity to consumers accompanied by effective communication. The successful execution of this strategy is expected to result in annual volume growth of 15% to 17% over the next 2-3 years.
- The Company’s efforts in expanding rural reach is also expected to contribute towards franchise expansion in coconut oils and hair oils.
- Saffola is expected to continue growing its basket of premium refined edible oils by about 15% in volume each year. In addition the Company plans to build a sizeable business in the healthy foods space by leveraging Saffola’s equity. It aims to get about 25% revenues of Saffola from healthy foods over a period of 3 years.
- The Company will also focus on integrating the Paras acquisition into Marico. The Paras portfolio participating in tail wind categories is expected to have a rate of growth higher than Marico’s existing portfolio.

**International Business Group (IBG)**
- Marico will focus on growing the categories where it has significant market share - such as in coconut oil in Bangladesh and male grooming in MENA and Vietnam.
- The Company will focus on complementing growth of Parachute Coconut Oil in Bangladesh by expanding its portfolio to value-added hair oils and other personal care products. In the immediate future, however, there may some pressure on growth given the overall economic scenario in Bangladesh.
  - In South Africa, the Company would work on increasing share in key categories and on expanding its footprint to other parts of sub-Saharan Africa, in the medium term.
  - The overall environment in MENA is relatively better than it was last year. The business is largely back on track and the Company will aim to carry this momentum into the next year.
- Code 10 in Malaysia is expected to continue to show healthy growth.
- Marico will also explore other countries in the emerging markets of Asia and Africa as targets for expansion in the long term.
- IBG is expected to grow in healthy double digits.

**Kaya**
- The Kaya skin business in India is showing early signs of recovery having posted growth at same clinic level for 6 consecutive quarters. In the short term therefore, the Company plans to work on improving its revenue streams from the existing clinics in India and bringing the business firmly back on the growth track. It will focus on increasing its share of revenue through sales of products. Kaya will be cautious in terms of expansion plans but may continue to add a few clinics at strategic locations to drive growth. The Company believes that the building blocks for long-term value creation by Kaya are falling into place.
  - The Company will be prototyping a new clinic format for Kaya in the coming year. This clinic is likely to be much smaller in size as compared to the existing Kaya clinics and will focus on sale of maintenance products and services. The Company expects that such a prototype, if successful, has a high scalability potential. Moreover, smaller clinics and a focus on maintenance services will also mean lower rental and capital expenses, leading to better returns on investments.

The long-term potential of the businesses continues to be strong. This belief stands bolstered by the recent record of strong volume growths across categories, despite price hikes. This emboldens the Company to spell out a preference for growing volume franchise as compared to focusing on profit margins alone.

On behalf of the Board of Directors

Harsh Mariwala
Chairman & Managing Director

Date: Mumbai

Date: May 3, 2012