Management Discussion and Analysis

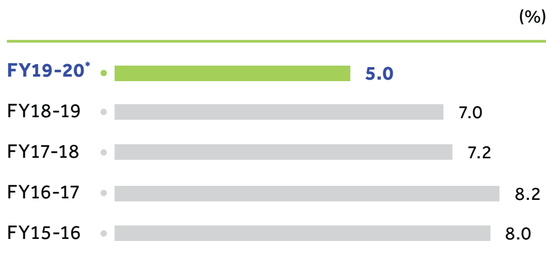
This discussion covers the financial results and other developments for the year ended March 31, 2020, in respect of Marico Consolidated, comprising its domestic and international business. The Consolidated entity has been referred to as 'Marico' or 'Group' or 'Company', in this discussion.

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

Update on macroeconomic indicators

India

GDP Growth



Source: Asian Development Bank, Central Statistics Office
*Advance official estimates

Economic growth slowed to 5.0% in FY20, according to advance official estimates. This was below the average of 7.0% in the past decade and the slowest since the global financial crisis, when growth had slipped to 3.1% in FY09. Within FY20, growth hit a 27-quarter low of 4.7% in the third quarter. With the COVID-19 outbreak starting in late January, and subsequently affecting India, the actual GDP growth in FY20 is likely to be lower than the advance estimate.

On the supply side, agriculture growth improved on better grain output supported by an above normal rainfall in the second half, while industry growth slowed as manufacturing and construction weakened. With public administration and other services expanding, services grew healthily. On the demand side, a decline in investment severely dragged down growth. After growing by an annual average of 7.2% over the past decade, gross fixed capital formation contracted by 0.6% in FY20, its worst showing since FY03. With consumer confidence sagging to its lowest in a decade, growth in private consumption slowed from 7.2% in FY19 to 5.3%, adding only 3.0 percentage points to GDP growth in FY20, the least since FY10. Government consumption rose by 9.8%, as it acted to support growth from the second quarter of FY20. As domestic demand slowed, imports of goods and services fell, allowing net exports to improve and contribute 0.9 percentage points to growth despite falling exports. With remittances also growing in double digits, the current account deficit therefore shrank from the equivalent of 2.1% of GDP in FY19 to 0.9% in FY20.

The growth slowdown in the past three years from a recent high of 8.2% in FY17 reflects both cyclical and structural factors. The economy had enjoyed fast growth at an annual average of 7.5% from FY14 to FY17, driven largely by consumption, both private and government. Credit from banks and in particular nonbanking financial companies (NBFCs, including housing finance companies) supported this expansion. Banks, mainly, public sector banks constrained by high non-performing loans (NPLs) from earlier periods, were not as aggressive as before. NBFCs stepped up lending to consumers and businesses, expanding their share of nonfood credit. As the economy slowed, the asset quality of NBFCs deteriorated. With banks and NBFCs stressed, a credit crunch ensued as the flow of financial resources to businesses collapsed from the equivalent of 11.7% of GDP in FY19 to 4.0% in the first half of FY20. The credit crunch directly induced a continued slowdown in FY19 and FY20. Other structural constraints were - subdued job and wage growth and continued rural stress, which affected consumption; inadequate infrastructure; very slow progress on reforms in key areas such as labor and land; and low tax revenue constricting fiscal space. Further, with the central government missing its disinvestment target, it had little room to use fiscal policy to boost economic activity in FY20. The fiscal deficit in FY20 was revised up by 0.5 percentage points to 3.8%, after fiscal stimulus was provided by lowering corporate tax rates.

Consumer price inflation, benign in the first half of FY20, spiked above the target zone of 2%–6% in December 2019, for the first time since the adoption of inflation targeting. The spike was caused by a surge in prices for vegetables, particularly onions as the harvest was hit by a late monsoon. Inflation remained elevated in early 2020 and averaged 4.7% in FY20.

Net foreign direct investment (FDI) inflow remained healthy at $54.1 Billion in FY20. Net foreign portfolio flow remained positive, but then turned negative in March 2020 under COVID-19. Equity inflow similarly grew modestly from the beginning of the fiscal year, before a substantial fall in March 2020. The Indian rupee depreciated against the US dollar by 7.8% in FY20, more than half of the decline occurring in March. India's international reserves increased by $58.4 Billion in FY20 to $471.3 Billion.

Despite these challenges, India is now within touching distance of a place in the top 50 best places to do business. The country climbed to the 63rd rank among 190 countries in the World Bank's Ease-of-Doing-Business rankings in the 2020 report. The leap of 14 places put India among the top 10 improvers in the rank yet again.

Startups in the country have been able to create an estimated 60,000 new direct jobs over the year, in addition to another 1.3-1.8 Lakh new indirect jobs estimated to have been created. India has seen an addition of over 1,300 startups in 2019, strengthening its position as the third largest startup ecosystem across the world, right behind China and the US, but ahead of Britain and Israel. This takes the total number of technology startups to about 9,000 in the last five years, according to the NASSCOM Startup Report.

The COVID-19 pandemic jeopardises global growth and India's recovery. The spread of the virus within India has widened significantly. Indian central and state governments have moved to contain the outbreak by closing borders and initiating a national lockdown from March 25th until at least May 31st. Consumption and investment are expected to be severely affected in the first quarter of FY20, though demand is expected to recover strongly when the pandemic is eventually contained in India and globally. India's low participation in global supply chains may help limit impact. The lowest oil prices in more than 15 years will, if sustained, benefit India as a large oil importer, and partly offset the adverse impact of COVID-19.

Domestic demand is expected to rebound strongly once the pandemic passes and full economic activity resumes. As consumer sentiment and investor confidence are restored, growth in consumption and investment is expected to return to rates similar to before FY20, or perhaps higher. However, FY21 will face the brunt of this pandemic and the economy may contract.

With the hope for a normal monsoon in FY21, agriculture is likely to remain strong and support rural incomes. Government measures are expected to alleviate rural distress and help revive rural consumption. The FY20 budget increased allocations to agriculture and rural sectors by 28.1% to equal 0.8% of GDP. A 16-point action plan in the budget includes hikes to minimum support prices that aim to ensure a minimum 50% profit margin to farmers, an ambitious target of $210 Billion in credit to agriculture from public and private financial institutions, and an increased allocation to a central government programme of conditional cash transfers to small landholders. A record high winter crop in the second half of FY20 will increase famers' incomes.

To counter the impact of COVID-19, the central government has allocated $2 Billion to strengthen the health system and introduced a $22.5 Billion (0.8% of GDP) relief package, including direct cash transfers and increased free distribution of food and gas to the poor and vulnerable, insurance covers for health workers, welfare support for construction workers and support for small businesses. The central government had increased capital expenditure to the equivalent of 1.8% of GDP in the Union Budget announced before the pandemic. To support an ambitious plan to invest $1.4 Trillion in designated National Infrastructure Pipeline projects in the next five years, the central government has allocated $3 Billion as equity support to infrastructure finance companies to leverage more long-term lending from the market. The central bank has been accommodative in its stance and cut its policy rate by 75 basis points to 4.4% in March 2020, and rolled out a range of measures to preserve financial stability.

Private investment, both domestic and foreign, will be encouraged by corporate tax cuts introduced in September 2019, which eased the average effective corporate tax rate including all surcharges from 30% to 25% and, for new manufacturing companies, to 17%. Investor sentiment should improve as well with the removal of the dividend distribution tax, the extension of concessional corporate tax rates to new power companies, and tax relief introduced for startups. An investment clearance cell is being set up to provide end-to-end facilitation and support for investment, including pre-investment advice, and improve the ease of doing business. Foreign sovereign wealth funds are incentivized to invest in infrastructure.

Nonbanking financial companies (NBFCs) have become increasingly important to financing the Indian economy, particularly after 2013, as bank credit growth slowed in response to NPLs rapidly increasing to an 11.2% share of all loans outstanding in FY18. Recently, NBFCs have become fragile, and the collapse of a large one triggered the credit crunch that slowed growth in FY20. Therefore, ensuring NBFC health has become essential.

As per RBI's latest assessment of the economic situation, the Indian economy is expected to contract for the first time in nearly 41 years, while the outlook for inflation remains highly uncertain. Directionally, headline inflation may remain firm in the first half of the year and may ease in second half. Inflation may fall below 4% in the third or fourth quarter of the current fiscal. The combined impact of demand compression and supply disruption will depress economic activity in the first half of the year. Assuming economic activity gets restored in a phased manner, especially in the second half of this year, and taking into consideration favorable base effects, it is expected that the combination of fiscal, monetary and administrative measures being currently undertaken would create conditions for a gradual revival in activity in the second half of FY21. Separately, several investment banks, brokerages and economists have also predicted the economic growth to remain flat or contract in the range of 1.5% to 6.8%.

However, there are downside risks to the outlook. A prolonged COVID-19 pandemic would push the global economy into deep recession and further slow Indian growth. Were the virus to spread widely within India, economic activity would be severely constrained. Failure to implement reform to address structural weakness would further hamper recovery after the pandemic.

Bangladesh

Bangladesh, one of the most densely populated economies in the world, has continued making impressive strides in achieving social development goals for its 167 Million citizens. The resilience of the country's economy has been commendable. GDP growth increased to 8.2% in FY19 (ended 30 June 2019) from 7.9% in the previous year, on robust growth in industry and services. Growth in industry rose from 12.1% in FY18 to 12.7% in FY19, reflecting brisk growth in manufacturing output to supply markedly higher export demand, notably to the US and some previously unpenetrated markets. Growth in services increased from 6.4% to 6.8% mainly on improvements in wholesale and retail trade, transport, education, and health and social services. Agriculture growth moderated from 4.2% to 3.9%. Inflation slowed following a good crop harvest, and the current account deficit narrowed as the trade deficit shrank and remittances expanded further.

As per IMF estimates, GDP growth is expected to decline to 3.8% in FY20 (ended 30 June 2020), as the nationwide stay-at-home order to contain the coronavirus pandemic has resulted in simultaneous supply and demand shocks, with production, consumption, trade and investment severely affected. The traditional growth drivers of the economy -export-oriented industries, remittances, domestic consumptions, and SMEs - have all ground to a halt. Before the pandemic, the economy was on track to grow by 7.8% in FY20. Bangladesh has taken prompt actions to control the spread of the disease and manage its impact on health, welfare, and the economy under its COVID-19 response plan. A social protection and economic stimulus package amounting to Tk 95,619 crore, or $11.3 Billion, equivalent to 3.5% of the GDP, has been announced. The risk of delayed implementation of the economic stimulus or inadequate size remains, which may reduce the effectiveness of the programme. Also, significant escalation of the pandemic may lead to severe disruptions in government work that could hamper programme implementation.

Prudent macroeconomic management has allowed Bangladesh to achieve impressive economic and social development in recent past. Robust growth has increased per capita income and reduced poverty. In the long term, Bangladesh promises substantial potential in terms of socio-economic growth. A developing economy with a young demographic profile provides the perfect consumer base for the FMCG sector to flourish.

Vietnam

The Vietnamese economy remained robust, recording 7% GDP growth in calendar year 2019, with expansion underpinned by strong domestic demand, resilient manufacturing, and solid foreign direct investment. However, growth is forecast to decelerate significantly in 2020, with risks to the downside as the COVID-19 pandemic unfolds. Inflation eased to a three-year low in 2019, but it is projected to rise moderately in 2020 and 2021. The current account surplus expanded in 2019, but will contract sharply this year. Despite the economic deceleration and the downside risks from the COVID-19 pandemic, the economic growth in Vietnam is projected to remain one of the highest in the region.

As per the Asian Development Bank's outlook, the spread of COVID-19 and the resulting abrupt global slowdown will slash growth in Vietnam to 4.8% in 2020. Despite the potentially large impact of COVID-19, Vietnam's economic fundamentals remain resilient. The government has taken very early and effective measures to curb the spread of the pandemic in the country, which has resulted in reopening of the economy. If the outbreak is contained within the first half of 2020, growth should rebound to 6.8% in 2021 and remain strong over the medium and long term.

Drivers of economic growth—a growing middle-income class and a dynamic private sector, notably household businesses and domestically held enterprises—remain robust. The middle class in Vietnam is one of the fastest growing in Southeast Asia. According to the Boston Consulting Group, the middle class has doubled in size since 2014 to 33 Million, or a third of the population. The business environment similarly continues to improve. The disbursement of public investment has improved significantly, growing by nearly 18% in January–February 2020 over the same period in 2019. Disbursement will continue to improve in 2020 as this is a priority fiscal measure in response to COVID-19. The large number of bilateral and multilateral trade agreements in which Vietnam participates promise the improved market access essential for an economic rebound after COVID-19. Containment of COVID–19 in the People's Republic of China and that market's likely return to normalcy will help revive global value chains and facilitate economic recovery in Vietnam.

Middle East and North Africa (MENA)

Growth in the MENA region decelerated to an estimated 0.1% in calendar year 2019. Geopolitical and policy constraints on oil sector production slowed growth in oil-exporting economies, despite support from public spending. Growth in oil importers remained stable, as reform progress and resilient tourism activity were offset by structural and external headwinds.

Events over the first quarter of calendar year 2020 have posed major challenges to the Middle East & North Africa region's economic outlook, both over the short and longer term. The spread of Covid-19 has caused large-scale disruptions to economic activity-weighing on external and domestic demand-while the breakdown of OPEC+ and resultant sharp drop in oil prices has significantly ramped up fiscal and external pressures on MENA oil producers. World Bank economists expect output of MENA to decline in calendar year 2020. This is in sharp contrast to the forecast in October 2019 when the regional economies were expected to grow at 2.6% this year.

Real Gross Domestic Product (GDP) growth increased in Egypt to 5.6% in FY19 (ending June 30, 2019), up from 5.3% in the previous year. Egypt's macroeconomic stabilisation programme was largely successful in supporting growth, generating a solid primary budget surplus, reducing the debt-to-GDP ratio, and replenishing reserves. Vulnerabilities persist however, including the exports and FDI underperformance, which may be aggravated by the disruptive repercussions related to the COVID-19 pandemic. Despite the expected gradual recovery of private consumption and investment, the pandemic is expected to hamper growth through its effect on production and exports. Key sectors, such as tourism and natural gas, are expected to experience a slowdown due to restricted international travel and the crash in oil prices. Policy responses are already being put in place, including the 300-basis point monetary policy rate cut, forbearance measures on credit, and signals of fiscal stimulus in the Fiscal Year 2020-21 budget. In case of prolonged disruptions, the impact is expected to affect the availability of final products and lead to a new wave of inflation, thereby challenging the recovery of households' purchasing power.

South Africa

South Africa, ranked as an upper middle-income economy by the World Bank, is the second largest economy in Africa. In South Africa, growth remained anemic in calendar year 2019 as it fell to 0.7%, down from 0.8% in 2018. Weak growth momentum has reflected an array of overlapping constraints. These include persistent policy uncertainty, constrained fiscal space, subdued business confidence, infrastructure bottlenecks —especially in electricity supply—and weakening external demand, particularly from the Euro Area and China. In addition, financial stresses at the public energy utility have worsened the government budget balance and raised debt sustainability concerns, weighing further on sentiment.

Ratings agency Moody's foresees the South African economy going into recession and the gross domestic product (GDP) contracting 6.5% in real terms in calendar year 2020. This is as a result of long-standing structural challenges and the severe hit to economic activity caused by the outbreak of COVID-19. It foresees that the temporary lockdown of the country will reduce production and cut household consumption. Furthermore, it foresees that the transport, hospitality, mining and manufacturing industries will be particularly hard hit. Moody's does, however, acknowledge that government's fiscal package and regulatory measures to ensure adequate liquidity in money and government bond markets and loosening of capital requirements to free capital for on-lending by banks, will provide some support.

Fast-Moving Consumer Goods (FMCG) sector in India

India is the fastest-growing trillion-dollar economy in the world and the fifth-largest overall, with a nominal GDP of $2.94 Trillion. India has become the fifth-largest economy in 2019, overtaking the United Kingdom and France. Domestic consumption, which powers 60% of the GDP today, is expected to grow into a $6 Trillion opportunity by 2030.

This consumption growth will be supported by a 1.4 Billion strong population that is younger than that of any other major economy. Household savings have historically been high as thrifty and cautious Indian families put away more than a fifth of their incomes for a rainy day. This buffer provides support to domestic consumption expenditure even through challenging cycles in economic activity.

Fast-moving consumer goods (FMCG) sector is the fourth largest sector in the Indian economy with Household and Personal Care accounting for 50% of FMCG sales in India. Growing awareness, easier access and changing lifestyles have been the key growth drivers for the sector. The urban segment (accounts for a revenue share of around 55%) is the largest contributor to the overall revenue generated by the FMCG sector in India.

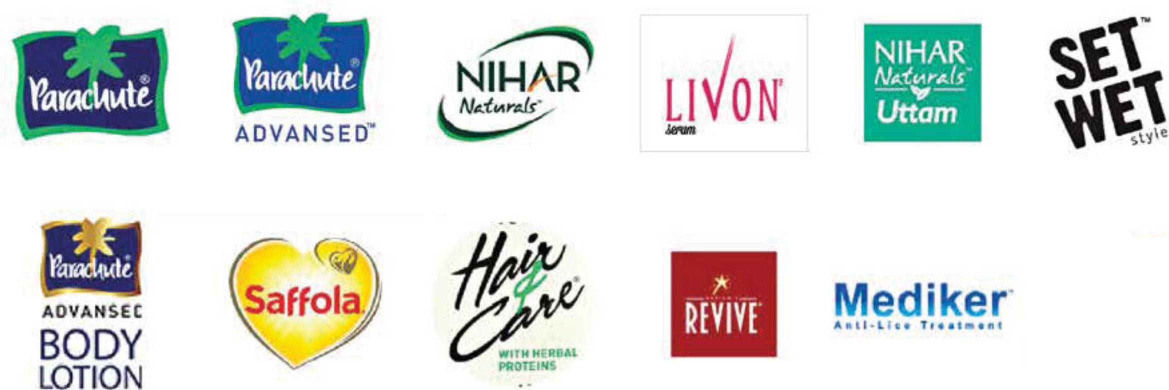
Rural consumption has also increased, led by a combination of increasing incomes and higher aspiration levels; there is an increased demand for branded products in rural India. Semi-urban and rural segments are growing at a rapid pace and FMCG products account for 50% of total rural spending. Being largely dependent on agriculture and allied activities, the factors affecting agricultural income like monsoon and minimum support prices (MSP) of crops are critical for the growth in rural consumption demand. Various government reforms like increasing minimum support prices (MSP) of crops and direct benefit transfer targeted towards transferring the governmental subsidies and payments directly into beneficiary bank accounts are helping plug the systemic leakages and increased farmer incomes. While demonetisation and GST negatively affected rural demand, FMCG companies have changed their distribution model and working on increasing their direct reach. Demand for quality goods and services have been going up in rural areas of India, on the back of improved distribution channels of manufacturing and FMCG companies. Companies have also started launching smaller SKUs or price point packs, which not only reduce the immediate burden on customers, but also allow companies to expand their product portfolio and upgrade the customers from loose to branded products.

With the share of the unorganised market in the FMCG sector falling, the organised sector growth is expected to rise with increased level of brand consciousness, also augmented by the growth in modern retail. 100% Foreign Direct Investment (FDI) in food processing and single-brand retail and 51% in multi-brand retail has provided high visibility for FMCG brands in organised retail markets, bolstering consumer spending and encouraging more product launches.

It is estimated that a massive increase in internet penetration will lead to more than a billion internet users in India by 2030. Online connectivity, and the resultant access to information, is proving to be a key driver of differences in aspiration and the desire to spend and upgrade consumption, even among people at similar income levels. While general trade continues to be the largest sales channel for overall FMCG retail sales, growth in sales through modern trade and E-Commerce in particular, is significantly outpacing the growth of FMCG products in general trade. Amongst all the FMCG items, online grocery order leads the sales with 44% contribution, followed by personal care which accounts for 40% of such orders. Household care, comes third in the list, with a share of 13% of all online FMCG orders. As per Nielsen, while the E-Commerce FMCG market stands at around $1.2 Billion, which is 2% of the total FMCG market in India, metro cities account for 6% orders from the online channels of the FMCG total sales. Fast-moving consumer goods sales coming from the E-Commerce channel is expected to grow to $4 Billion with a CAGR of 44% by 2022. Continued demand for convenience in urban areas, the integration between online and offline, the creation of new direct-to-consumer options and more technology, will all help reach new targets beyond the current profile of affluent families with children.

India is reporting an annual population growth of 1.1% and is expected to emerge as the most populous country in the world by 2024. Nearly half of India's population is under the age of 25 and two-thirds are less than 35. According to Accenture, India is expected to have the world's largest workforce by 2027, with a billion people aged between 15 and 64. This indicates that the growth in non-discretionary consumer demand, like food, healthcare, household and personal care products, is likely to sustain in the long term. In addition, India is expected to witness strong growth in per capita income, leading to an increase in affluent population and rise in disposable income in general, which in turn should result in a rise in discretionary spending. As per a report published by the World Economic Forum in collaboration with Bain & Company, the vision for the future of consumption in India is anchored in the growth of the upper-middle income and high-income segments, which will grow from being one in four households today, to one in two households by 2030. At the same time, India will also lift nearly 25 Million households out of poverty, to reduce the share of households below the poverty line to 5%, down from 15% today. Thus, India represents a relatively broad-based pattern of growth and benefit sharing, in contrast to the global scenario of increasing inequality, wherein the richest 10% of the population is capturing an increasing share of national incomes and, consequently, wealth. Rising demand for premium products and faster growth in sales through modern trade are likely to bring incremental growth. Growing awareness, easier access, and changing lifestyles are the key growth drivers for the consumer market. Lastly, the focus on agriculture, MSMEs, education, healthcare, infrastructure and employment in the Union Budget and subsequent policy measures is expected to positively impact the FMCG sector. While the outbreak of COVID-19 has clouded the outlook in the near term in the wake of an adversely affected supply chain, change in consumer behavior and a much weakened macro-environment, the FMCG sector in India is likely to grow steadily owing to these structural drivers over the medium to long run.

The Marico Growth Story



In FY20, Marico posted revenue from operations of ₹7,315 Crore (USD 1.03 Billion), which was marginally lower than the previous year. The underlying volume growth for the year was 2%. The business delivered an operating margin of 20.1% and recurring net profit of ₹1,043 Crore, a growth of 13% over the last year on a like-to-like basis.

Domestic Business: Marico India

Marico India, the domestic FMCG business, achieved a turnover of ₹5,655 Crores in FY20, down 2% over the last year. The underlying volume growth was a muted 1%, vastly affected by the consumption slowdown witnessed in the economy through the year, which was further exacerbated by supply chain disruptions from the lockdowns enforced in the month of March 2020 to contain the outbreak of COVID-19 in India. The operating margin (before corporate allocations) for the India business was healthy at 22.0% in FY20 vs 20.2% in FY19. The improvement in profitability was led by gross margin tailwinds owing to a benign input cost environment

Coconut Oil (44% of India business)

Parachute's rigid portfolio (packs in blue bottles) had a flat FY20 in volume terms, amidst a slow consumption environment, a delay in connecting specific pricing interventions to the retail shelves due to older inventory in the channel at the end of H1FY2020 and severe lockdown-led disruptions in March 2020. The brand strengthened its leadership position with a gain of 268 bps in volume market share (MAT Mar'20). The non-focused Coconut Oil portfolio had a soft year amidst the tepid consumption environment. Overall, the volume market share of the Coconut Oil franchise (includes Nihar Naturals and Oil of Malabar) improved by 208 bps to 62% (Mar'20 MAT).

Given Parachute's volume market share in rural is much lower (47%) than in urban (61%), a pickup in rural spending presents the Company with an opportunity to improve its rural market share over the medium term. Of the total coconut oil market, approximately 30-35% in volume terms is in loose form. This component provides headroom for growth to branded players. Parachute, being the market leader in the circa ₹5,000 Crore* branded coconut oil market, is well placed to capture a significant share of this growth potential on a sustainable basis. The Company operates in a band of gross margin per unit and will take judicious pricing decisions to maintain a sweet spot between volume growth and margins. The Company would continue to exercise a bias for franchise expansion as long as margins remain within a band. Towards that end, we will continue to invest behind brand building and tactical inputs to remain competitive. Therefore, given the market construct and brand equity, the Company expects to deliver 5-7% volume CAGR in Parachute Rigids over the medium term. In the near term, the brand can witness accelerated market share gains as marginal branded players could be contending with liquidity constraints. Also, as consumers grow wary of unhygienic loose oil, the franchise may further benefit as it stands for purity and is manufactured without the involvement of any direct human touch.

*Based on management estimates

Saffola: Super Premium Refined Edible Oils and Foods (23% of India business)

The Saffola refined edible oils franchise grew 9% in volume terms during FY20. While the brand posted growth in the traditional channel as well, higher salience in the new age channels of modern trade and E-Commerce enabled it to outperform through the year. The continued traction in Q4 was topped up by households stocking up on food and essential items in the early stages of the COVID-19 outbreak in March 2020. The brand has been backed by in-store promoter programmes and significant media investments with communication to build relevance and drive adoption among its target consumers by re-affirming its superior credentials. The renewed communication appears to have resonated well with the consumer, and we will continue to implement differential packs/pricing/ channel strategies in an attempt to maintain the healthy growth trajectory for the brand. The brand gained 350 bps in volume market share brand to consolidate its volume market share at ~76% in the Super Premium Refined Edible Oils category (MAT Mar'20). Rising health consciousness among consumers and higher incidence of in-home cooking also augur well for the franchise.

The Healthy Foods franchise posted value growth of 31% in FY20, led by consistent growth in the Saffola Oats franchise. The value market share of Saffola Masala Oats strengthened to ~86% in the flavoured oats category (Mar'20 MAT), driven by consistent communication and distribution expansion. The brand continued to gain traction in modern trade and E-Commerce.

Select offerings in the Saffola FITTIFY Gourmet and Coco Soul ranges have been received well.

From Q1 FY20, the Company also prototyped the Saffola Perfect Nashta range, comprising a range of 3-minute ready-to-cook mixes of traditional Indian breakfasts, such as idli, dosa, upma (semolina) and poha (rice flakes), with a perfect balance of traditional spices fortified with five essential nutrients. The Company prototyped the range in modern trade and select general trade channels in Delhi and NCR. Given the encouraging response, the prototype was extended to Mumbai in Q4 FY20.

We believe that growth in the Healthy Foods category will come through continuous innovation in product and packaging and the Company is taking definitive steps towards the same.

Value Added Hair Oils (24% of India business)

Value added hair oils registered a volume decline of 2% during the year, largely due to underperformance in the mid and premium segments, while category growth flattened in a subdued demand environment, especially in rural. The performance was also affected by primary sales plummeting in the last fortnight of March, with cessation of sales in the last 7 days of the year. However, offtake growth ahead of the category led the Company to consolidate its market leadership in the circa ₹8,200 Crore with a volume share of ~35% and value share of ~26% (Mar'20 MAT).

Nihar Naturals Shanti Amla Badam has been the leading hair oil in volume sales among all sub-brands in Value Added Hair Oils category. The brand gained 64 bps in volume share (MAT Mar'20) in the Amla Hair Oils category.

Among the newer introductions, **Parachute Advansed Aloe Vera Enriched Coconut Hair Oil** and **Hair & Care Dry Fruit Oil**, both now scaled up to a pan-India level, continued to post healthy growths.

The Company also stepped up participation in the bottom-of-the-pyramid segment through **Nihar Shanti Jasmine** and **Nihar Naturals Gold**, in addition to driving premiumisation and scaling up new launches.

The Company aims to revive growth in this franchise over the medium term by adopting a three-pronged strategy:

a) Continue aggressive participation at the bottom of the pyramid on the back of its leadership position

b) Accelerate growth in the mid segment through pricing and brand renovation

c) Aim to gain market share in the premium segments, where the Company is relatively under-represented, through brand building and innovations offering higher order sensorial and functional benefits

Premium Personal Care (5% of India business)

The Premium Personal Care portfolio, comprising Premium Hair Nourishment, Male Grooming and Premium Skin Care, had a lacklustre year amidst a sharp dip in discretionary spending during the year.

Within Premium Hair Nourishment, Livon Serums posted high single-digit volume growth in FY20. While the growth in the bottle packs was led by new age channels of Modern Trade and Ecommerce, the 2.5 ml sachet pack (priced at ₹3) played its role as the key trial pack by expanding the brand's reach in General Trade.

With a dominant volume share of ~65% (MAT Mar'20) in the leave-in conditioners category, the Company continues to focus on innovation and consumer engagement to drive category growth.

We have gone back to the drawing board for Parachute Advansed Coconut Crème Oil and True Roots after a lukewarm response. We believe that establishing category relevance would be the key growth driver for these brands and we will continue to direct our efforts towards the same.

Within Male Grooming, Set Wet consolidated its 55% value market share in the styling category. Set Wet Hair Waxes also gained share in the overall styling segment.

Parachute Advansed Men Hair Creams grew healthily with a sustained momentum in the E-Commerce channel. The Company has planned focused initiatives to accelerate growth of this franchise. Execution will however be contingent upon the duration of lockdown and return to normalcy thereafter.

Within Premium Skin Care, Kaya Youth has a presence in General Trade in Mumbai, Pune and Delhi, Modern Trade in the top eight metros and E-Commerce. The beauty advisor programme, which was initially rolled out to 70 stores, is emerging as a key driver and has been scaled up to more high potential outlets in the modern trade and self-service channels. During the year, the Company extended this range with the launch of Oxy-Infusion Face Polishing Scrub and Oxy-Infusion Face Mask (in two variants - Brightening and Replenishing). The Company will aim to extend this range to build a larger portfolio play over the medium term. However, the Company may lie low in this category in the near term, given that premium personal care may struggle to gain traction in the current environment.

Sales and Distribution

Marico reaches 5.1 Million retail outlets, which are serviced by its nationwide distribution network. The Company has continued to expand its direct distribution and now serves over 0.9 Million outlets directly. It reaches 58,000 villages through its stockist network.

Go-To-Market Transformation is one of the key pillars of long-term growth for Marico. With a focus on building processes, driving new age initiatives, creating a state-of-the-art IT & Analytics infrastructure and an advanced capability building cell, the Company has witnessed an exciting journey in FY20.

Foray into the Hygiene segment: Mediker Hand Sanitizer and Veggie Clean launched

With the rising consciousness among consumers about personal health and hygiene, the Company introduced Mediker Hand Sanitizer in April'20. The hand sanitiser packs have 70% v/v alcohol content that is sufficient to kill 99.9% germs without water, ensuring effective protection on-the-go from disease-causing germs. We have launched three SKUs – 90 ml, 200 ml, 500 ml and are ramping up distribution across all channels.

In April'20, the Company also launched Veggie Clean, a first-of-its-kind fruit and vegetable cleaner, made with a unique mix of 100% safe ingredients that removes all the germs, bacteria, chemicals, waxes and soil present on the surface of fruits and vegetables without leaving any residue, aftertaste or smell. This solution does not contain any harmful preservative and is soap-free, chlorine-free as well as alcohol-free. Veggie Clean has been introduced in two SKUs - 200 ml and 400 ml, and has been made available across all channels.

In order to drive greater engagement among our General Trade channel partners, we kick-started a slew of measures in FY20. These are aimed at driving greater ownership of the Company's agenda and improvement in partner engagement. We have also rolled out an exclusive loyalty programme for top channel partners across the country with benefits like:

- Joint Business Planning
- Regular interaction with senior leadership
- Training exercises to help them manage their business better

Another key focus area has been the expansion of direct distribution in rural and urban. In rural, the aim has been to build a future ready infrastructure to grow our business in a sustainable manner. Initial efforts have already started yielding dividends, as we have increased our stockist base by 33%, leading to incremental growth. To further increase our urban footprint, **Project SURE (Sustainable Urban Reach Expansion)** was kick-started in February 2020, in order to improve our reach in a cost-efficient manner over the next one to two years.

The Company also initiated a separate route-to-market for our chemist and cosmetics channel in select metro cities. This initiative has been expanded to 10 cities and delivered reasonable growth in FY20.

Further leveraging technology as an enabler for sales, the Company launched a behavioural science driven sales analytics program called **Project Nudge**, to help improve the productivity of the field force. In addition, a series of Big Data and Analytics based initiatives have been started to ensure the Company stays ahead of the curve in its GTM journey.

In line with our digital transformation journey, we have successfully moved our sales training and capability modules online. This has led to 5700 hours of training being imparted across the country through digital means, which has doubled from the previous year. In addition, we launched an exclusive online training and certification program for all our sales teams leading to 570 man-hours of training.

In order to cope up with the twin challenges of manpower and logistics availability posed by the unprecedented crisis of COVID-19, the Company has identified and nimbly executed a number of innovative GTM approaches. The Company joined forces with online food-service aggregators to use their platforms for direct delivery to customers. Post enforcement of complete lockdown, a tele-caller facility was set up to directly reach ~80K top retail outlets in the country and take orders from them. In order to ensure uninterrupted supplies to retailers, the Company tied up with new-age logistics services start-ups. The Company also introduced a direct-to-home delivery portal for consumers in select metro cities. This has been critical in ensuring business continuity during the crisis.

The consumption slowdown was most pronounced in the traditional channel as urban and rural sales were down 8% and 3%, in volume terms, respectively. Rural contributed to 31% of domestic sales. Modern Trade grew by 27%, while E-Commerce grew 43%. Urban, including the alternate channels, grew 2%. Modern Trade and E-Commerce contributed to 17% and 5% of the India business respectively. CSD (7% of sales) grew by 6%.

International FMCG Business: Marico International

Marico International, the International FMCG business, posted a turnover of ₹1,660 Crore, a growth of 5% over the last year. The business reported constant currency growth of 5%. The revenue contribution from new products in FY20 jumped to ~5% in FY20 from ~2% in FY19. The operating margin (before corporate allocations) for the International business expanded to 21.5% in FY20 from 20.1% in FY19. The margin improvement was led by input cost tailwinds in the Bangladesh business.

Bangladesh

(49% of the International Business)

The business in Bangladesh grew by 12% in FY20 in constant currency terms, thereby delivering double-digit constant currency growth for the third year in a row.

Parachute Coconut Oil posted 5% constant currency growth in FY20. With the category having matured in this market, the Company expect to grow this franchise in mid-single digits on a constant currency basis over the medium-term on the back of its dominant market share, distributive strength and consumption growth.

The non-Coconut oil portfolio in Bangladesh grew by 29% in FY20, in constant currency terms. Consequent to the consistent high double digit growth in Value Added Hair Oils, the Company retained market leadership in value terms on MAT basis and also attained leadership in volume terms on P3M (past 3 months) basis in Q4.

During the year, the Company also launched **Parachute SkinPure Beauty Olive Oil**. Made from the finest olives in Spain and enriched with Vitamin E & C, the product can be used for hair and skin nourishment.

The initial response to the recent launches - baby care range (Parachute Just for Baby), Male Grooming Range (Studio X) and Olive Oil (Parachute SkinPure), has been positive.

In Apr'20, Marico Bangladesh launched **Mediker SafeLife Hand Sanitizer** and **Hand Wash**, bringing Mediker's international expertise in care and protection to the country.

The non-Coconut Oil portfolio in Bangladesh constitutes over ~30% of the total business in Bangladesh. The Company will leverage its strong distribution network and learnings from the India market to quickly scale up its new product introductions in Bangladesh. With this, the contribution of the non-coconut oil portfolio is likely to exceed 35% by FY22. We remain confident of delivering double-digit constant currency growth in this geography over the medium term. The healthy macro indicators also provide the required thrust for growth.

South East Asia

(26% of the International Business)

The South East Asia business grew by 4% in FY20 in constant currency terms. The business witnessed limited impact in Q4 due to less stringent COVID-19-led restrictions in the region.

Vietnam posted a growth of 5% in constant currency terms as growth in the Home and Personal Care (HPC) segment moderated. In H1, the Company launched a new range - shampoo, shower gel and face wash, under the brand X-Men, aimed at converting the unisex users looking for functional benefits. The Foods portfolio managed to post decent growth.

To serve the pressing hygiene needs of its consumers, the Company launched X-Men Go Hand Sanitizer, a cleansing gel that gives 99% protection, in a convenient pack size for men to carry on the go. Launched in April, the product has been made available in both General and Modern Trade.

The Company has initiated an aggressive cost management programme, which will enable resource generation for brand building. We expect to deliver steady currency growth in this geography over the medium term. In FY21, we expect normalcy to return faster compared to other regions due to well-implemented safety measures by the local government.

Middle East and North Africa (MENA)

(12% of the International Business)

The MENA business declined by 18% in constant currency terms, further accentuated by supply chain disruptions in March 20 due to the COVID-19 outbreak. The recent crash in oil prices and volatile macro environment keeps us cautiously optimistic about the medium term outlook of these markets. We remain cautious about Egypt at this stage and will be aggressive on cost management to give the business a fighting chance to survive and thrive.

South Africa

(7% of the International Business)

The South Africa business declined by 5% in constant currency terms, due to continued macro headwinds coupled with social distancing and other restrictions enforced to contain the outbreak of COVID-19 in the region during Q4 FY20. In Q4 FY20, the Company has recognised an impairment loss of ₹10 Crore towards Goodwill arising out of South African Hair styling brand ISOPlus, which was acquired in 2017. The same is disclosed under 'Exceptional items' in the Consolidated Statement of Profit and Loss.

The macros in the region continue to be weak. We expect some revival in this business over the medium term on the back of a pipeline of new products.

New Country Development & Exports

(6% of the International Business)

With expansion in adjacent markets such as Nepal and Bhutan, exports to diaspora and other markets generated revenues of nearly US$ 14 Million in FY20. The business grew by 33% in constant currency terms in FY20. The Company remains positive on the future prospects of this business, as it incubates new geographies to expand its franchise. Early signs of easing of cross-border supply chain makes us confident of reviving growth in FY21.

Consolidated results of operations – an overview

Total Income

Our total income consists of the following

1. Revenue from Operations comprises Sales from "Consumer Products" including coconut oil, value added hair oils, premium refined edible oils, anti-lice treatments, fabric care, functional and other processed foods, hair creams & gels, hair serums, shampoos, shower gels, hair relaxers & straighteners, deodorants and other similar consumer products, by-products, scrap sales and certain other operating income.
2. Other Income primarily includes profits on sale of investments, dividends, interest, GST budgetary support and miscellaneous income.

The following table states the details of income from sales and services for FY19 and FY20:

Particulars (in ₹ Crore)	FY20	FY19
Revenue from Operations	7,315	7,334
Other Income	124	103
Total Income	**7,439**	**7,437**

There has been 0.3% decline in Revenue from Operations on account of 2% decline in Marico India and 5% growth in Marico International.

Expenses

The following table sets the expenses and certain other profit and loss account line items for the years FY19 and FY20:

For the year ended March 31	FY20 ₹ Crore	% of Revenue	FY19 ₹ Crore	% of Revenue
Revenue from Operations	7,315		7,334	
Expenditure				
Cost of Materials	3,745	51.2	4,017	54.8
Employees Cost	478	6.5	466	6.4
Advertisement and Sales Promotion	727	9.9	659	9.0
Other Expenditure	896	12.2	866	11.8
EBITDA	1,469	20.1	1,326	18.1
Depreciation and Amortisation	140	1.9	131	1.8
Finance Charges	50	0.7	40	0.5
Tax (excl. tax adjustments for earlier years)	331	4.5	314	4.3
Profit After Tax (excl. one-offs)	1,043	14.3	926	12.6

Cost of Materials

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

In FY20, average domestic copra prices were down 9%, rice bran oil was down 4%, LLP was down 8% and HDPE was down 24%.

Employee Cost

During the year under review, employee cost grew by 3% over FY19.

Advertisement and Sales Promotion (ASP)

ASP spends during the year was 9.9% of sales, up 10% over FY19.

Capital Expenditure and Depreciation

The capital expenditure in FY21 is likely to be around ₹125–150 crores. Depreciation was at ₹140 crore in FY20 as compared to ₹131 crore in FY19.

Other Expenses

The other expenses consist of expenses which are fixed in nature (about 1/3rd) and expenses which are variable in nature (about 2/3rd). Other expenses are likely to remain in the range of 11-13% of turnover in the medium term.

Other Expenses (in ₹ Crore)	FY20	FY19	% variation
Fixed	273	258	6
Variable	623	608	2
Total	**896**	**866**	**3**

Finance Charges

Finance charges comprise interest on loans and other financial charges. Finance charges was at ₹50 Crore in FY20 as compared to ₹40 Crore in FY19.

Direct Tax

The Effective Tax Rate (ETR) for FY20 was 24.1%. It should be noted that this tax rate is basis the accounting charge in the P&L account.

In view of the recent changes in the corporate tax rates, the Company will continue to recognize tax expense after availing the exemptions/deductions as per the existing provisions of the Income Tax Act and not opt for the revised rate structure. However, from a cash flow point of view, the Company will utilise MAT credit accumulated over the years. The current MAT credit stands at ₹133 Crore as of 31st March, 2020.

Impact of Ind AS-116

Ind AS-116 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion. The accounting treatment has no impact on the actual cash flows of a Company.

In order to facilitate a like-to-like comparison, Marico has restated the financials for the comparative quarters as reported in the statutory disclosures, including the last financial year (FY19). **As per the restated financials, EBITDA margin stands revised upwards by 60-70 bps in the reported periods**.

The impact of Ind AS-116 on the Company's consolidated financial statements for the reported periods is as under:

(in ₹ Crore)	FY20	FY19
Increase in Depreciation and Amortisation expense	37	35
Reduction in Other Expenses	(50)	(45)
Increase in Interest Cost	16	16
Increase in EBITDA	50	45

Capital utilisation

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

Ratio	FY20	FY19
Return on Capital Employed (ROCE)	42.4	42.0
Return on Net Worth (RONW)	34.0	33.7
Working Capital Ratios (Group)		
Debtors Turnover (Days)	26	21
Inventory Turnover (Days)	70	73
Net Working Capital (Days)	37	38
Debt: Equity (Group)	0.11	0.12
Finance Costs to Turnover (%) (Group)	0.7	0.5

Note: Turnover Ratios calculated on the basis of average balances.

The ratios have continued to be healthy for the year. The variation in ratios is due to:

a. Lower inventory turnover on account of benign input costs and lower buildup of raw materials.

b. Higher receivables turnover was due to increase in revenue contribution from MT and E-Commerce, higher receivables from CSD and selective extension of credit periods in GT due to the liquidity stress and also to support our channel partners during lockdown. In the near term, we expect the receivable days to remain at higher levels although we do not expect any bad debt risks.

c. However, net working capital was lower due to higher payables, on account of supply chain financing initiatives.

Shareholder value

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

Dividend Declared

Keeping in mind, the steady increase in operating cash flows and in an endeavour to maximise the returns to its shareholders, the Company increased its dividend payout in FY20 to 675% as compared to 475% during FY19. The overall dividend payout ratio in FY20 stood at 96% of the consolidated Profit After Tax. While the Company is open to strategic acquisitions, the leverage ratios are comfortable.

Outlook

Over the medium term, Marico aspires to be an admired emerging market MNC with leadership in categories of leave-in hair nourishment, healthy foods, skin care and male grooming in a few chosen markets in South Asia, South East Asia, the Middle East and North Africa as well as South Africa. Marico plans to meet this aspiration by seeking to win amongst consumers, trade and talent. As the Company scales up, it has to maintain a delicate balance between entrepreneurial way of working, while continuing to strengthen governance and processes. The Company's focus will be on creating winning brands, winning culture and a winning talent pool to create a virtuous cycle of great talent and an enabling culture that promotes innovation driven growth.

Marico India

- In FY20, the India business delivered a volume growth of 1%, amidst a tough consumption environment, especially in rural, with acute liquidity stress crippling the traditional trade channel, fall in overall discretionary spending, delay in pricing interventions in the Parachute Coconut Oil, underperformance of mid and premium segments of Value Added Hair Oils, and lastly, the unprecedented COVID-19-led disruption in the last fortnight of March.
- With the first quarter of FY21 starting on a considerably bleak note due to the extended period of lockdown, it is difficult to set an aspiration for FY21, until more clarity emerges during the year.
- In the near term, the Company will channelise its energies towards the following:
  - As consumers are likely to be more value-seeking during this economic downturn, consumer-advantaged pricing and small packs will be a key focus.

- Enhancing the value proposition of recruitment packs in Coconut Oil, thereby hastening the conversion from loose to the branded fold in this scenario.
- Continue aggressive strategies in the bottom of pyramid segment of Value Added Hair Oils to garner volume growth and market share gains.
- Scaling up availability and distribution of Saffola Edible Oils, leveraging the strong equity of the brand, especially given the rising consciousness towards health and wellness and high incidence of in-home cooking.
- With a near cessation of out-of-home consumption and increasing in-home savoury meals consumption, focus on broad-basing of the Foods portfolio through innovation to serve the evolving consumer needs.
- In view of the heightened need of hygiene and sanitisation among consumers, the Company has launched Mediker Hand Sanitizer and Veggie Clean in India during the quarter and will further broaden its play in the Hygiene segment for long term sustainability in performance.
- With further acceleration in online shopping and online media consumption, the Company will continue to aggressively push for growth of the E-Commerce business. E-Commerce contributed more than 5% of India sales in FY20.
- Given the perceptible shifts in consumer behaviour during this crisis, the Company will prioritise investments in Foods and Hygiene over Premium Personal Care categories.

- Parachute Rigids had a flat FY20. Given the market construct and strengthening brand equity, the Company expects to grow volumes in the range of 5-7% over the medium term.
- Value Added Hair Oils has posted 2% volume decline in FY20. The Company aims to revive volume growth in this franchise in the near term with focused pricing and marketing initiatives, innovation, driving premiumisation, scale-up of new launches and active participation in the bottom of the pyramid segment.
- Saffola Edible Oils volumes grew by 9% in FY20. The brand appears to have charted a sustainable growth path after a variety of channel/pricing/promotion measures taken over the last 18 months. We aim to sustain high single digit volume growth over the medium term in this franchise.
- Foods grew 31% in value terms in FY20. The Company will continue to innovate and broad-base its play in this category, thereby maintaining 20% + CAGR over the medium term.
- We aim to build Premium Hair Nourishment, Male Grooming and Skin Care into growth engines of the future and expect to deliver value growth of 20% + CAGR over the medium term in these portfolios. Though, in the near term, our expectations remain muted.
- The Company's medium-term Go-To-Market (GTM) strategy will be focused on improving the width and depth of its distribution. The Company is investing behind upgrading its distribution infrastructure in urban General Trade to ensure profitability of channel partners and expanding direct reach in rural markets. It aims to ensure sustainable, harmonious and incremental growth in General Trade, Modern Trade and E-Commerce through specific price and SKU management measures.
- The Company is focusing on Digital initiatives in a big way to improve consumer engagement, drive sales through E-Commerce for internet-savvy consumers and build Data Analytics capabilities. With Beardo coming under Marico's fold, we expect a positive shift in our capabilities in E-Commerce and salons over the medium term.

Marico International

- Over the last few years, the company has systematically invested in the core international markets to strengthen both the brands and the organisational capability to handle growth. The Company is confident that the key markets are well-poised to capitalise on the market opportunities.
- Like in case of India, with the first quarter of FY21 starting on a considerably sombre note due to the extended period of lockdown, it is difficult to set an aspiration for FY21, until more clarity emerges in Q2.
- The business in **Bangladesh** is likely to continue the momentum as the medium term macro prospects look promising. Therefore, the Company will leverage its distributive strength to further consolidate market shares in the core portfolios, scale up new launches of FY20 and enter into new categories.
- As a market leader, the **Vietnam** business will continue to invest in the male grooming category and excellence in sales and distribution systems. The Company has initiated an aggressive cost management programme, which will enable resource generation for brand building. **Myanmar** and the **rest of South East Asia** are growth engines of the future.
- In the **MENA** region, the Company will focus on getting the basics right by judiciously investing behind brands and Go-to-Market initiatives. In the Middle East, the Company will work towards strengthening the Coconut Oils and Hair Oils play. While Egypt may struggle due to persistent macro headwinds, the Company has launched cost management initiatives to enable the business to cope better.
- The **South Africa** business has been subdued by macroeconomic headwinds and resultant sluggishness in demand. We are cautious on the near term outlook of the business, but expect to protect the core franchise of ethnic hair care and health care over the medium term.
- The Company will continue to invest in developing new countries and scale the business profitably. In the short term, ably restoring the supply chain will be key.

- We aim to clock an organic broad-based double-digit constant currency growth.
- With considerable room for organic growth in the business, the Company will only be opportunistic with respect to acquisitions, which may either be immediately value accretive due to operating leverage or enable consolidation of leadership in existing categories.

Marico Consolidated

- While the Company holds its medium term aspiration of delivering 8-10% volume growth and 13-15% revenue growth, the near term is currently unpredictable. The Company will focus on right pricing and availability of goods to the consumer to maneuvre through the current crisis.
- We will continue to invest behind brand building to support market growth initiatives in core categories and expansion into adjacent categories. In the near term, the Company will reallocate spends from non-media to media channels. Spends on the digital platforms will continue to rise.
- The Company will continue to drive cost excellence across the organisation to extract savings that will be redeployed towards igniting profitable growth and pricing. The Company may also explore aggressive work from home programmes to adapt to the more contemporary ways of working.
- In FY21, the Company will strive to maintain the operating margin at FY20 levels. However, it would be comfortable maintaining operating margin at 19% + over the medium term.

Human resources

Talent and culture are among the key building blocks in shaping Marico into an organisation that is built to last. Over the course of the last year, we have taken several initiatives in this direction, which are presented in the **Employees section on Page 52.**

Information technology and digital

Marico continued to progress on its roadmap of using digital, analytics and automation opportunities to deliver a better and integrated experience to its consumers, associates and employees. Your Company increased the use of Digital as a media platform significantly in the current year, with more brands having their presence through online, social and mobile media as well as through the use of programmatic buying. The share of Digital in the total mix has been in double digits in percent terms in the past three years. In addition, analytics and automation led initiatives have helped drive consumer and customer experience, boost sales growth and efficiency and improve employee engagement. Details of some of the latest technologies adopted by the Company during the year are presented in the chapter **Consumers.**

Risks & opportunities

Risks are an integral part of any business environment and it is essential that we create structures and processes that are capable of identifying and effectively mitigating the same. For Marico, the risks are multi-dimensional and therefore we look at it in a holistic manner, straddling both, the external environment and the internal processes.

The Company integrates risk management with strategy formulation and business planning processes. Details of the risks envisaged along with Company's strategic response to the same have been presented in the chapter **Risk Management**.

Internal control systems and their adequacy

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

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

- Well-defined principles and procedures for evaluation of new business proposals/capital expenditure
- A robust management information system
- A robust internal audit and review system
- A robust framework on Internal Financials Controls
- An effective whistle blowing mechanism
- Training/awareness sessions on policies and Code of Conduct compliance

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

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

The Company has also deployed audit analytics in the domain of sales, procurement, manufacturing, supply chain and employee spends. It helps in continuous control monitoring of control effectiveness and areas, where actions are required. The Internal Controls team reviews output of this tool and derives corrective action on timely basis. In order to strengthen control environment, audit analytics will be deployed in other functions of Marico India as well as in key international geographies.

Deloitte has carried out the internal audit for Marico in the year under review. 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 and protection.

Internal Financial Controls (IFC)

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

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

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

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