MANAGEMENT DISCUSSION AND ANALYSIS

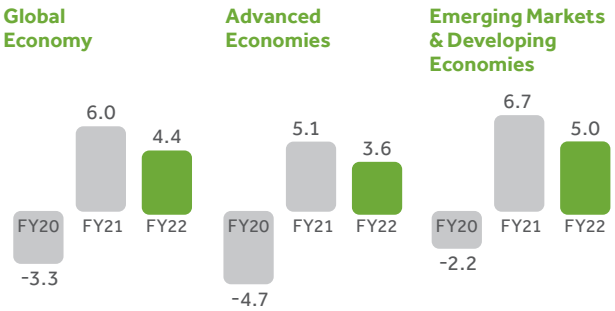
This discussion covers the financial results and other developments for the year ended March 31, 2021, with respect to our Consolidated business, comprising the domestic and international business. The Consolidated entity has been referred to as 'Marico' or 'Group' or 'Company' in this discussion.

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 macro-economic factors, competitive environment, product demand and supply constraints within India and the countries within which the Group conducts its business.

ECONOMIC SCENARIO

Global

Growth Projections



Source: IMF World Economic Outlook, April 2021

As per IMF's World Economic Outlook (WEO) April 2021, global growth is projected at 6% in 2021, moderating to 4.4% in 2022. The projections for the two years were stronger than the WEO projections from October 2020. The upward revision reflects additional fiscal support in a few large economies, the anticipated vaccine-powered recovery in the second half of 2021, and continued adaptation of economic activity to subdued mobility.

In advanced economies, occasional regional restrictions will likely be necessary at times to stem the progression of new strains of the virus. As the vulnerable population gets vaccinated, contact-intensive activities are expected to resume and drive a significant pickup in growth, owing to pent-up demand funded by accumulated savings in 2020.

In emerging market and developing economies, vaccine procurement data suggest that effective protection will remain unavailable for a large part of the population in 2021. Therefore, lockdowns and containment measures may be needed from time to time in 2021 and 2022 than in advanced economies, increasing the likelihood of medium-term scarring effects on the potential output of these countries.

India

India is the fastest-growing trillion-dollar economy in the world and the fifth-largest overall, with a nominal GDP close to 3 trillion. The ramifications of the pandemic have taken a heavy human toll, not just in terms of afflicting lives and human well-being, but also by impacting incomes and livelihoods. The latest World Economic Outlook of the International Monetary Fund (IMF) released in April 2021 estimated India's GDP to have slid by 8% in FY21. However, IMF's prediction of growth rebounding by 12.5% in FY22 is now facing significant downside risks due to the resurgent second wave. During the first wave, a stringent nation-wide lockdown for two months was followed by a calibrated opening. By the time cases peaked in September 2020, we were already in the fourth phase of unlock, and pent up demand had started reflecting in the faster rebound in economic activity. During the second surge, states have announced restrictions of varying degree and duration, as they face increasing caseloads at different periods. In terms of stringency, current restrictions are not as strict as those imposed during the first nationwide lockdown. While manufacturing, construction and transport have been allowed to function with caveats, many establishments have been forced to curtail operations owing to supply-side bottlenecks and employees being infected. Also, even as urban demand remains weak (in the absence of any urban-focused policy support and given that urban areas account for ~70% of the services economy – the most-affected segment), rural demand, which was buoyant last year, may have come under threat this time around.

Private final consumption expenditure (PFCE), the biggest demand-side driver of India's GDP, declined significantly in FY21. However, owing to some pent-up demand and optimism because of an improvement in the pandemic situation, PFCE growth is most likely to have turned mildly positive in the last quarter of FY21. The second wave has now put renewed pressure on it. The Reserve Bank of India's latest consumer confidence survey also reflects this: the Current Situation Index fell to 53.1 in March 2021 from 55.5 in January 2021 (a reading above 100 shows optimism). Respondents were also worried about the year-ahead prospects, with the Future Expectations Index dropping to 108.8 from 117.1. The gap between consumer and business confidence has never been as wide as it is today. The removal of mobility restrictions and reduced supply disruptions helped businesses to bounce back with greater confidence. However, a gradual job market revival and health and financial concerns prevented consumers from spending, weakening their confidence in the economic revival.

Given the healthcare challenges posed by the enormity of the second wave and expectation of an impending third wave, restrictions imposed by states could stay for longer in one form or the other – at least for as long as a larger proportion of the population is not vaccinated against Covid-19. A national vaccination program began on 16 January 2021, for which the government has budgeted □350 Billion to be spent in FY22. The rollout initially encountered delays and hesitancy, but with teething issues solved and private sector help, the pace picked

up significantly. Ramping up vaccinations to cover a larger proportion of the population seems the only way to usher in speedier and broad-based recovery. The Indian government's target is to fully vaccinate the adult population by end-2021. That translates to covering 68% of the total population. However, the large population size and severe shortage of vaccine supplies do present a challenge. The supply issue is expected to be sorted out by August, as higher domestic production and imports start to kick in.

Therefore, five factors would be key to steering growth over the next two years. First is the rapid pace of vaccination and low fatality rates. Second, strong growth in private investment, and its rebound stimulated by reforms and schemes. Third, pent-up demand backed by savings made by high- and mid-income consumers who are waiting to spend. Fourth, fiscal spending on building assets and infrastructure (that have a high multiplier effect on income, jobs, and private investments) that will likely start gaining momentum on the ground; and lastly, a global economic rebound in late 2021, as forecasted by economists.

Bangladesh

Despite headwinds from the COVID-19 pandemic, Bangladesh's GDP continued to grow in fiscal year 2020 (FY20, ended 30 June 2020). GDP is estimated to have grown by 5.2% in fiscal year 2020, down from 8.2% growth in the previous year as the onset of the COVID-19 pandemic reduced economic activities in the fourth quarter (Q4). Industrial growth slowed, with a sharp decline in readymade garment (RMG) manufacturing output. Service sector growth also decelerated due to disruptions in transport, retail, hotels, and restaurants. Exports plummeted in Q4 as buyers canceled garment shipments and new orders evaporated, and domestic COVID-19 containment measures restricted many economic activities for 2 months.

The Government of Bangladesh (GoB) responded to the economic shock from the pandemic proactively. It announced a COVID-19 response program of US$14.6 Billion (4.5 percent of estimated FY20 GDP). However, implementation challenges remain, particularly in bringing resources to small businesses and poor households. To support the GoB's program, Bangladesh Bank eased monetary policy and introduced refinancing facilities. A national COVID19 vaccination campaign began in February 2021, and is expected to accelerate as Bangladesh receives doses under the COVAX Initiative. However, achieving mass vaccination and herd immunity will take time.

Asian Development Bank, in its annual outlook, estimates GDP growth to pick up to 6.8% in FY21 (FY21, ended 30 June 2021), with stimulus package implementation and recovery in global growth and world trade. Continued healthy remittance inflow will likely keep domestic demand buoyant and underpin solid growth in private consumption. Private investment should pick up as moderate growth in private sector credit improves confidence. Public investment is estimated to be higher as the government expands capital spending with the start of the Eighth Five-Year Plan, 2021–2025. In FY22 (FY22, ended 30 June 2022), GDP growth to edge up further to 7.2% as both exports and imports pick up under sustained global recovery. Continuing strong remittances will underpin growth in private consumption, and private investment will accelerate on favorable global economic conditions and efforts to improve the business climate. Higher public investment in large projects will also boost growth. On the supply side, agriculture is expected to accelerate if normal weather prevails. Double-digit growth in industry is expected on continued strong global demand for low-end garments produced in Bangladesh and government policy support. Growth in services is also expected to be slightly higher, following the trend in agriculture and industry.

Vietnam

Despite COVID-19, Vietnam's economy has remained resilient, expanding by 2.9 percent in calendar year 2020—one of the highest growth rates in the world. The pandemic hit the economy hard, but Vietnam has taken decisive steps to limit both the health and economic fallout. Swift introduction of containment measures, combined with aggressive contact tracing, targeted testing, and isolation of suspected COVID-19 cases, helped keep recorded infections and death rates notably low on a per capita basis. Successful containment, along with timely policy support, also helped limit the economic fallout and the size of the emergency response package. COVID-19 vaccinations commenced on 8 March 2021, and will continue throughout the year with the goal of vaccinating 80% of the population by June 2022.

According to the IMF's latest annual assessment, the economy is expected to grow by 6.7% in calendar year 2021 and 7.0% in calendar year 2022—strong and steady growth made possible by Vietnam's success in containing the COVID-19 pandemic. The drivers of this growth will be industry, especially export-oriented manufacturing, increased investment, and expanding trade. Private consumption is expected to recover in tandem with private investment and modest inflation. Retail sales rose 5.1% in first quarter of 2021, indicating a recovery in consumer confidence. Business sentiment is buoyant, as shown by a December 2020 survey in which 80% of respondents expected business conditions to either improve in 2021 or remain stable.

Middle East and North Africa (MENA)

The Middle East and North Africa (MENA) region, like the rest of the world, remains in a pandemic-spawned crisis. World Bank estimates that the Middle East and North Africa (MENA) region's economies contracted by 3.8% in 2020. The MENA region is expected to recover only partially in 2021, but that recovery is, in part, dependent on an equitable rollout of vaccines. In the short-term, fiscal spending is needed to mitigate the effects of the pandemic, including income

transfers to support consumption of hardest hit families and health spending on testing, treatment, and vaccination. Most of the countries in this region started vaccinations in December 2020 or January 2021 and are expected to inoculate a significant share of their population by the end of 2021.

The real GDP growth of the GCC countries is forecast to stand at 2.7% in calendar year 2021 and 3.8% in calendar year 2022, according to the IMF's report "Regional Economic Outlook for the Middle East and Central Asia" released in April 2021. Activity in oil-exporting countries is set to rebound, reflecting a carryover from the last quarter of 2020, and amplified by the expected pickup in activity in the second half of 2021. Higher oil prices and early vaccine rollouts support the outlook for many Gulf Cooperation Council economies. The recent increase in oil prices will boost confidence, supporting non-oil GDP. The recovery in oil importing countries is expected to be sluggish in the near term, with growth projected at 2.3 percent in calendar year 2021.

With the Covid-19 pandemic continuing to weigh on the Egyptian economy, both through the direct domestic channel and its wider global effects, World Bank projects real GDP growth at 2.3% in the fiscal year ending June 2021 from 3.6% in the preceding year. The outlook for Egypt's tourism sector remains uncertain in the near term given that some major economies are still seeing rapidly surging cases in recent weeks. In this environment, announcements by the Egyptian government with regards boosting spending are a positive for GDP growth. As has been the case for much of the five years since the economic reform programme began, public investment will be a key driver of economic expansion. If the vaccine is sufficiently deployed by early-2022, Egypt is expected to gradually regain its growth momentum during FY22 and FY23.

South Africa

The World Bank estimates that the economy contracted by 7% in 2020, as the pandemic weighed heavily on both external demand and domestic activity as the government implemented containment measures. South Africa entered the pandemic after several years of low growth. In 2019, the economy grew by 0.2% (in 2018 it was 0.8%). The spread of the virus has slowed significantly since the peak of the third wave in mid-January. In February, the first phase of the vaccination programme started, targeting over 1.5 Million healthcare workers. By mid-May, around 400 thousand people, less than one per cent of the population, had been vaccinated. The rollout of the vaccination programme has started slowly, affected by the abandonment of a key vaccine. However, the government has secured around 60 Million doses of alternative vaccines, which should allow vaccination of the targeted 14 Million adults between mid-May and October.

As per OECD's outlook, the economy is projected to rebound by 3.8% in 2021 and 2.5% in 2022.The strong rebound at the end of 2020 has slowed in the first half of 2021 due to a protracted second wave of the virus that has held back economic activity. However, growth should accelerate in the second half of the year, driven by domestic demand and commodity exports. Household consumption will contribute significantly to growth as the economy opens up and exceptional savings last year are spent at least partially. Private investment will progressively strengthen. Inflation is increasing, but is expected to remain below the central bank's target, allowing the monetary policy authorities to maintain current policy interest rates until the end of 2021. Fiscal policy will continue to be constrained to limit debt growth. However, implementing the government's infrastructure investment plan is essential to lift growth potential, requiring better prioritisation of spending. Unlocking electricity production will be key to lifting production bottlenecks and restoring confidence.

FAST MOVING CONSUMER GOODS (FMCG) SECTOR IN INDIA

The FMCG industry in India has witnessed positive momentum post the initial disruption at the onset of the pandemic, growing 9.4 per cent in the quarter ending March 2021 after growing by 7.3 per cent in the preceding quarter. This was supported by price growth in staples and increased retail offtake of in-home consumption categories such as staples, essential non-foods and indulgence categories.

Rural markets continued their good run - growing by 14.6 per cent in the March 2021 quarter after a 14.2 per cent growth in the December quarter. The current year is expected to have a good monsoon making it the third consecutive year of rural rejoice. This had a boost up effect on earnings of agrarian households and kept rural sentiments upbeat. Besides, increased focus on MGNREGA in terms of bigger outlay; rise in wages and increase in MSP of key crops have been instrumental in keeping FMCG consumption in rural markets buoyant.

FMCG companies are facing unprecedented flux in the market. As per BCG research, the current crisis is likely to result in **long-lasting, structural changes in FMCG** that will advantage early movers:

- Channel mix will shift dramatically in favour of ecommerce
- The economic slowdown will create flight to value through low price channels and private label offerings
- Temporary pressure on slow turning SKUs as retailers cut tail, but will be reignited and grow once supply chains stabilize
- This pressure may make small high growth brands attractive M&A targets and create organic growth opportunities through innovation
- Supply chains will be more localized and flexible, providing greater resilience for future shocks along with growth for smaller local suppliers
- Governments, businesses, and nonprofits will continue to promote hygienic behavior, which will lead to sustained increase in consumption

- Advanced analytics will be critical in enabling winning performance given the fast changing consumer and competitor landscape

As companies continue to adapt to prolonged and unplanned lockdowns, their ability to rapidly digitise the value chain, form alliances for manufacturing, distribution, marketing and product development, use data analytics to understand consumers and shoppers better to maintain and possibly improve customer experience, will be the big differentiator in the industry.

As the pandemic has impacted supply chain dynamics, there are two opposing trends around realigning assortment by retailers, as observed by Nielsen research. Retailers are now stocking more categories in their stores. The trend is more pronounced among rural retailers that are now, on an average, stocking as many categories as an average urban retailer does. Staples and Habit Forming categories (within Food basket) and Essentials (within Non-Food basket) entered more stores and increased depth of assortment. However, to make room for more categories, retailers are prioritizing on two levels - firstly, they are dealing with a lesser number of SKUs per category and secondly, they are stocking a lesser number of units for each SKU they are dealing in.

Since the pandemic has reshaped our lives from how we shop, travel and work, this reorganisation is going to have a significant long-lasting impact on the way businesses design products, services and operate as well as engage with customers in the future. Following are emerging behavioral shifts that are likely to sustain over the longer term:

Increased focus on health, immunity, hygiene and personal wellbeing: The heightened awareness of personal hygiene and health has led to a surge in sales of personal and home care products. Consumers are also paying more attention to their health, which is aiding the demand for immunity-positioned supplements.

Consumer shift in channel preferences will be evident: Consumers will continue to avoid crowded places and look for safer access to products and services. While traditional grocery retailers will see a short-term spike in demand due to ease of access, e-commerce will continue to benefit as more consumers start to shop online. A recent BCG COVID Consumer Sentiment Survey suggests that **50%** first time online shoppers are likely to continue buying online post the pandemic.

Seeking trust, safety and assurance: The reduced consumer confidence indicates that people are seeking transparency and assurance from brands on quality, delivery, hygiene so much so that they are spending more time learning about the quality of the product and what measures brands are taking to safeguard employees, vendors and customers. Safety being a top priority implies that consumers are willing to pay more for products that promise safety. The brands that will establish trust, safety, assurance in the minds of consumers, will stand to do well.

Phygital experiences: Consumers are spending time on multiple digital platforms, learning to engage with brands in new ways but they are also still heavily reliant on known friendly local kirana (mom and pop) stores for localised human connect and trust. It appears that a seamless navigation of physical and digital world may be preferable as opposed to just digital. This is further confirmed by an observed behaviour that there is heightened sense of awareness of physical environment, products, objects by way of paying attention to their features, make, usability, safety aspects, among others. This only reaffirms the need for physical or tactile experience that only stores can provide.

Contactless Interactions: With increased adoption of digital platforms, people are learning how to shift almost all daily activities such as working, shopping, banking, exercising, learning/studying, socialising to a digital platform. This is also slowly building confidence in our ability to survive and potentially thrive with our social and business transactions becoming contactless. However, the need for human touch across these interactions will still always be desired.

Sense of community: One of the positive outcomes coming out of this crisis, which has impacted visibly every human life on the planet, is the sense of social solidarity that has connected people across geographies, continents, political aisle and social strata. This has led to people taking interest in how brands and organisations are taking care of their employees, helping communities which is resulting in trust being fostered in the brand. There is a large momentum to also support local origin products especially ever since the 'AatmaNirbhar Bharat Abhiyan' was announced.

High value for money: The increased expectations of hygiene and safety coupled with product availability in the market is leading to willingness to pay more. There is also an increased spend across certain premium categories, perhaps due to children, pets, senior citizens/high vulnerable group at home. Also observed is a tendency to forego price comparisons at the moment. At the same time, there has been reduction in income due an economic downturn, significantly diminishing the purchasing power. Hence, the long term expected behaviour of the consumer is to give priority to routine expenditures and to a brand that promises safety, at the same time seeking high value out of products/services they spend on.

The industry goes omni-channel: The changing mindset of consumers and greater competition from e-tailers is driving brick and mortar retailers to launch their omni-channel strategies and websites. With the onset of lockdowns, multiple small and medium businesses are also ramping up their online presence, Adoption of the omni-channel strategy can help the organized retailers and online players to connect with customers seamlessly through their channel of preference.

Direct-to-consumer (D2C) selling has also been growing among retailers: Multiple Indian brands are focusing on the D2C strategy, selling and delivering merchandise directly to consumers without depending on intermediaries such

as third party sellers, wholesalers and distributors and leveraging digital or online channels. A D2C model offers multiple opportunities to businesses to increase profit margins, enhance personalization and improve digital payment capabilities.

Government initiatives have also supported FMCG growth from time to time. In April 2021, the Ministry of Food Processing Industries (MoFPI) released the Production Linked Incentive (PLI) scheme for the food processing industry. Considering the change in lifestyle, consumption patterns and the pandemic's impact, the future and opportunities in the Indian food processing ecosystem are higher in the tertiary and value-added processed goods in the form of Ready-to-Eat/Ready-to-Cook segments, processed fruits and vegetables, etc. which is also evident from selected target segment in the PLI schemes. Moreover, the scheme provides an opportunity for complete participation in all the target segments across the value chain –production, distribution, innovation and marketing. This further validates India's push towards enabling food processing businesses and its focus on becoming a global hub and champion of food processing in the future.

THE MARICO GROWTH STORY

In FY21, Marico posted revenue from operations of ₹8,048 Crore (USD 1.1 Billion), 10% higher than the previous year, with an underlying domestic volume growth of 7% and constant currency growth of 7% in the international business. The business delivered an operating margin of 19.8% and recurring net profit of ₹1,162 Crore, a growth of 11% over the last year on a like-to-like basis.

Domestic Business: Marico India

Marico India, the domestic FMCG business, achieved a turnover of ₹6,189 Crore in FY21, up 9% over the last year. The underlying volume growth was 7%. Despite significant supply chain disruptions owing to the lockdown during the first quarter, the business progressively scaled up with restrictions easing subsequently. The operating margin (before corporate allocations) for the India business was healthy at 21.3% in FY21 vs 22.4% in FY20. The profitability was impacted by severe input cost push during the second half of the fiscal, which is expected to ease over the next year.

Coconut Oil

Parachute Rigids (packs in blue bottles) grew 6% in FY21 in volume terms, despite the demand drop during lockdown affecting the first quarter. During the year, we also reinforced our hygienic processing and safety credentials in the minds of consumers with the launch of the 'Untouched by hand' campaign. We maintained resilience throughout the second half, despite a pullback of consumer offers and MRP increases taken in response to the sharp inflation in copra prices. During the second half of the fiscal, the cumulative increase in effective consumer prices was at ~9%. The brand maintained its stronghold in the branded coconut oil market with the rigid packs gaining market share of ~120 bps during the quarter and 20 bps on a MAT basis. The brand is well poised to sustain its good run as it enters FY22 with improving salience in both core and non-core markets. Nearly a third of the total coconut oil market is unorganized, which continues to provide headroom for growth of branded coconut oil on a sustainable basis. Given Parachute's volume market share in rural is much lower than in urban, a pickup in rural spending presents us with an opportunity to improve our rural market share over the medium term. The non-focused Coconut Oil portfolio also grew by 3%. Overall, the volume market share of the Coconut Oil franchise (includes Nihar Naturals and Oil of Malabar) was at 61% (March 2021 MAT).

Saffola: Super Premium Refined Edible Oils

The Saffola refined edible oils franchise grew 17% in volume terms during FY21. The brand has delivered double-digit volume growth for six consecutive quarters, owing to increased household penetration, growing inclination towards healthy cooking and topped up by the in-home consumption tailwind. Considering the marked inflation in the edible oils table, we took cumulative MRP increases amounting to ~30% during the second half of the year.

We have put renewed impetus on enhancing accessibility and driving a compelling value proposition. Media investments during the first half of the year continued with the 'Saffola wala khana' campaign building brand relevance and penetration by reaffirming its health credentials. Subsequently, a new thematic campaign 'Rakhe Heart ka Khayaal' was launched, with a message that reverses the stereotypical gender roles and emphasises the impact of stress on our heart to drive home the relevance of proactive heart care. Besides mainstream media, we leveraged digital media through targeted campaigns during the lockdown to engage with consumers and improve availability, such as:

- Tied up with food tech brands to introduce Saffola store on their delivery platforms
- Launched Saffola Healthy Snackathon with a series of healthy and tasty recipes curated by renowned Chef Kunal Kapoor.
- Leveraged digital media to drive realisation around the stress that women go through everyday via the #CareForHerHeart campaign launched under the not-for-profit banner Saffolalife on World Heart Day.

The brand gained 450 bps in volume market share to ~81% in the Super Premium Refined Edible Oils category (MAT Mar' 21).

Foods

The **Foods** franchise crossed the ₹ 300 Crore milestone in FY21, led by 41% growth in the Saffola Oats franchise. The **Oats franchise** continued to ride the health tailwind. In line with the growth strategy of driving penetration, the new thematic communication 'Shaam Waali Laalach' went on air. **The value market share of Saffola Masala Oats**

strengthened by over 800 bps to ~94% in the flavoured oats category (Mar'21 MAT).

In response to the heightened immunity boosting needs of the consumer, we launched Saffola Honey, 100% pure honey with no added sugar. Every batch of **Saffola Honey** undergoes the strict Nuclear Magnetic Resonance (NMR) test, which is among the most advanced tests in the world to check for purity and origin of food items through spectroscopic fingerprinting. The brand gained salience across channels during the year, and exited just shy of double-digit market share in key Modern Trade chains and crossed 25% market share in e-commerce.

To extend the play in the immunity segment, **Kadha Mix** and **Golden Turmeric Milk Mix** were launched in select channels of Modern Trade and e-commerce under the umbrella brand, **Saffola ImmuniVeda**. Both the products are proprietary ayurvedic recipes inspired by the traditional recipe of '*Kadha*' and '*Haldi Doodh*'.

We also forayed into the chyawanprash category with the launch of **Saffola Arogyam Chyawan Amrut**, an enhanced variation of the traditional chyawanprash with a proprietary combination of added ingredients that consist of Ayush Kwath herbs, Ashwagandha, Turmeric, Giloy and 50% more Amla. The product had a moderate start but we will continue to invest behind brand building in this franchise.

In line with our aim to strengthen presence in the healthy foods segment, we entered the plant-based protein category with the launch of **Saffola Mealmaker Soya Chunks**, made using Super Soft Technology, which keeps the chunks juicy and tender. Made with carefully chosen ingredients and a balance of key nutritional factors, the chunks ensure optimum quality, providing 53 grams of protein for every 100 gram of product, 13% fibre and less than 1% fat. The product was launched digitally and in select markets. The initial response to the launch has been promising and ahead of internal estimates.

To further augment our healthy foods portfolio, we launched **Saffola Oodles**, a perfect combination of a delicious masala flavour and the goodness of wholegrain oats and real vegetables, which make for a mouth-watering snack. It brings a twist to the conventional noodles with its unique ring-shape, making it a novel offering in the category. Saffola Oodles does not contain maida or artificial preservatives and is a perfect snack time option for kids, teens and adults alike. The initial response to the launch has been very encouraging.

Value-Added Hair Oils

Value-Added Hair Oils had a flattish year. After a sharp decline in April 2020 due to lockdown restrictions not allowing billing for most of the month, the hair oils portfolio turned around with 11% volume growth in the 11 months ended March 2021. We gained ~200 bps in volume market share in overall hair oils category on a MAT basis (MAT March 2021).

Nihar Shanti Amla kept up its momentum across its stronghold and non-core markets. **Parachute Advanced Jasmine** and **Nihar Naturals Perfumed Coconut Hair Oil** also recovered well through the year. **Hair & Care** was re-staged with the new proposition of 'Damage Repair', supported by the addition of aloe vera to enhance its nourishment credentials. **Parachute Advansed Aloe Vera** continued to gained salience in its key South and West markets. **Nihar Naturals Almond**, a premium offering at an affordable price, was launched during the second quarter and received positive response.

Over the medium term, we aim to build on to the growth in this franchise by adopting a three-pronged strategy:

- Continue to aggressively participate at the bottom of the pyramid on the back of its leadership position, as consumers become increasingly value conscious in their purchasing behaviour and demonstrate heightened preference for trusted brands.
- Accelerate growth in the mid segment through pricing and brand renovation.
- Aim to gain market share in the premium segments, where we are relatively under-represented, through brand building and innovations offering higher order sensorial and functional benefits.

Premium Personal Care

Premium Personal Care (contributing to less than 5% of revenues) recorded sharp declines given the significant fall in discretionary category sales during the year. Livon Serums regained significant traction as the year progressed. Male Grooming continued to face headwinds, although Set Wet Hair Gels performed better in rural India, owing to its strong distribution footprint and affordability. Skin Care remained below par. We expect these categories to regain fervour once discretionary spends pick up as the impact of the pandemic recedes over the next few quarters.

Beardo

The Beardo franchise has been gradually regaining traction after the initial COVID-induced headwinds. With the second COVID wave flaring up, we would remain cautious on the near term outlook for the franchise but will continue to invest behind the strengthening equity of the brand over the medium term.

Hygiene

We forayed into the Hygiene segment to serve the surge in demand in the wake of the COVID-19 pandemic. Responding to the subdued demand in this category following the initial surge, we consciously withdrew investments and defocused from this segment.

Sales and Distribution

We reach 5.3 Million retail outlets, which are serviced by our nationwide distribution network. This network covers 58,000 villages in India and almost every Indian town with population over 5,000. We have continued to expand direct distribution and now serve about 1 Million outlets directly.

Amid severe supply chain constraints during the quarter, we were able to generate bulk of our sales despite operating with a much lower number of SKUs across key portfolios. We will continue to systematically drive SKU rationalisation periodically to bring about incremental efficiencies in supply chain operations.

While there were multiple challenges that affected day-to-day operations – localised lockdowns in cities, unavailability of workforce, distribution difficulties due to lack of vehicles, among others, a multi-dimensional responsive GTM strategy was prototyped to tackle the same. We joined forces with food service aggregators to use their platforms for direct delivery to customers. Post enforcement of complete lockdown, we set up central tele-calling operations covering top urban outlets and rural stockists and a web application for retailers to directly place orders through SMS/WhatsApp Messenger. To ensure uninterrupted supplies to retailers, we introduced direct supply from our warehouses to retailers, from factories to the customer warehouse and also tied up with new-age logistics start-ups for delivery from distributors to retailers. We introduced a direct-to-home delivery portal for consumers in select metro cities. These measures have been critical in ensuring business continuity during the crisis.

With markets opening up by the second half of the year, direct distribution improved and is now ahead of pre-COVID levels in both urban and rural areas. To tap into the increased opportunity in pharmacy/chemist channels in the top 10 cities across the country, we appointed specialist distributors during the quarter. Operations have been scaled up in the top 5 metros as we expand into non-metro locations across North, East and South. Consequent to this initiative, our reach in pharma/chemist channels increased 5-6x so far, albeit on a low base. We expect the same to stand it in good stead during the ongoing second COVID-19 wave.

Over the last 2 years, we have identified rural as a growth engine, considering the increase in rural income driven by good harvests and government stimulus. In order to leverage this increase in rural consumption, we invested in improving the rural GTM network as well as drive relevant pack and portfolio mix. In FY20, we expanded our rural stockist network by 25%. While we took a pause in FY21 due to COVID-19 disruptions, in Q4FY21, we re-started the task of further expanding our rural network by another 25% over the next 2 years. We also made significant improvement in digitization of the rural network, thereby improving efficiency of rural spends.

Project SARAL – In order to ensure that we remain the partner of choice for channel partners across the country, several initiatives to improve engagement, collect feedback and ensure grievance resolution through a series of surveys, focussed group discussions and internal stakeholder meetings were undertaken. We are working to create tech-enabled and simplified processes/solutions for issue and grievance resolution of channel partners.

In FY21, traditional trade bounced back strongly after the decline in the first quarter to end the year at 9% growth in volume terms with rural and urban growing 15% and 5%, respectively. Rural contributed to 33% of domestic sales in FY21. While social distancing norms led to a 12% decline in Modern Trade, it spurred a stellar 60% growth in e-commerce. Modern Trade and e-commerce contributed to 14% and 8% of the India business respectively. CSD (6% of sales) was down 13%.

International FMCG Business: Marico International

Marico International, our International FMCG business, posted a turnover of ₹1,859 Crore, a growth of 12% over the last year. The business reported constant currency growth of 7%. The operating margin (before corporate allocations) for the International business expanded to 21.3% in FY21 from 20.1% in FY20.

Bangladesh

The business posted constant currency growth of 15% in FY21, maintaining the double-digit growth momentum for the fourth successive year. Parachute Coconut Oil grew 9% in constant currency terms, with the non-Coconut oil portfolio leading with 26% constant currency growth. Beliphool, ExtraCare and Aloe Vera continued to lead growth in Value-Added Hair Oils. Just for Baby (baby care) and Skinpure (skin care) ranges introduced last year also had a healthy year. To further strengthen footprint in the personal care category, we launched Parachute Naturale Shampoo in three variants - Nourishing Care, Damage Repair, and Anti Hair Fall. Just for Baby Skin Cream and Saffola Honey were also launched during the year. As a result, the revenue share of the non-Coconut Oil portfolio in Bangladesh moved closer to 40% in FY21 from sub 20% in FY17.

The Company will continue to leverage its strong distribution network and learnings from the Indian market to quickly scale up future engines of growth in Bangladesh. The healthy macro indicators also provide the required thrust for growth.

South East Asia

The South East Asia (SEA) business ended the year on a positive note clocking double-digit growth in the fourth quarter after missing the mark in the first three quarters of the year. The Home and Personal Care (HPC) category in Vietnam witnessed recovery as the year progressed, while the Foods business continued its positive momentum. Given the much slower start to the year, the SEA business was down 3% in FY21. Based on the series of turnaround measures taken in Vietnam, we expect the business to build a sustained growth trajectory ahead.

Middle East and North Africa (MENA)

The MENA business ended at 1% cc growth in FY21. Following the decline during the first quarter due to restrictions stemming from the pandemic, the pace of recovery in the Middle East was faster than in Egypt. While the growth outlook for this business remains muted, the Company will

stay aggressive with cost management to enable it to tide over the challenging macros.

South Africa

The South Africa business grew 9% in cc terms in FY21, driven by the Health Care portfolio. This was after the business declined during the first quarter due to continued macro headwinds coupled with restrictions imposed to contain the outbreak of COVID-19 in the region.

New Country Development & Exports

The New Country Development & Exports business has posted 4% constant currency growth in FY21. It has been a reasonably stable performer over the years except during times of external disruption. The Company remain positive on the future prospects of this business, as it incubates new geographies to expand its franchise.

OVERVIEW OF CONSOLIDATED RESULTS OF OPERATIONS

TOTAL INCOME

Our total income consists of the following

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

The following table states the details of income from sales and services for FY20 and FY21:

Particulars (₹ in Crore)	FY21	FY20
Revenue from operations	8,048	7,315
Other income	94	124
Total income	**8,142**	**7,439**

There has been 10% growth in revenue from operations, owing to 9% growth in Marico India and 12% growth in Marico International.

EXPENSES

The following table sets the expenses and certain other profit and loss account line items for FY20 and FY21:

	FY21 (₹ in Crore)	% of Revenue	FY20 (₹ in Crore)	% of Revenue
Revenue from operations	8,048		7,315	
Expenditure				
Cost of materials	4,270	53.1%	3,741	51.1%
Employees cost	570	7.1%	478	6.5%
Advertisement and sales promotion	698	8.7%	733	10.0%
Other expenditure	919	11.4%	894	12.2%
PBIDT margins	1,591	19.8%	1,469	20.1%
Depreciation and amortisation	139	1.7%	140	1.9%
Finance charges	34	0.4%	50	0.7%
Tax	324	4.1%	331	4.5%
Profit after tax after MI (excl. one-offs)	1,162	14.4%	1,043	14.3%

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 FY21, average domestic copra prices were up by 17%, rice bran oil increased by 28%, LLP was up 4% and HDPE was up 8%.

Employee Cost

During the year under review, employee cost grew by 19% over FY20 due to i) higher incentive payout owing to better performance; ii) integration of Beardo; and iii) higher share-based payout (linked to Marico's share price performance on the bourses). Excluding the same, the increase in employee cost was in line with average salary increments.

Advertisement and Sales Promotion (ASP)

ASP spends during the year was 8.7% of sales, down by 5% over FY20, as the Company rationalized spends in discretionary categories, while sustaining its focus on the core categories.

Capital Expenditure and Depreciation

The capital expenditure in FY21 stood at ₹142 Crore. The capital expenditure in FY22 is likely to be in the range of ₹125-150 Crore. Depreciation was at ₹139 Crore in FY21 as compared to ₹140 Crore in FY20.

Other Expenses

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

Finance Charges

Finance charges comprise interest on loans and other financial charges. Finance charges was at 34 Crore in FY21 as compared to 40 Crore in FY20.

Direct Tax

The Effective Tax Rate (ETR), excluding exceptional items was 21.5% in FY21. Pursuant to a change in the dividend taxability regime, we are expecting to claim tax exemption on dividend income from subsidiaries, which is to be set off against dividend distributed by us, thereby leading to a decrease in ETR. This tax rate is basis the accounting charge in the P&L account. In view of the recent changes in the corporate tax rates, we will continue to recognise 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, we will utilise MAT credit accumulated over the years. The current MAT credit stands at 169 Crore as on March 31, 2021.

CAPITAL UTILISATION

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

Ratio	FY21	FY20
Return on Capital Employed (ROCE)	44.6	42.4
Return on Net Worth (RONW)	37.1	34.8
Working Capital Ratios (Group)		
• Debtors Turnover (Days)	21	26
• Inventory Turnover (Days)	57	70
• Net Working Capital (Days)	19	37
Debt: Equity (Group)	0.10	0.11
Finance Costs to Turnover (%) (Group)	0.4	0.7

Note: Turnover ratios calculated based on average balances

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

- We reduced inventory norms across categories and drove comprehensive SKU rationalisation leading to reduced inventory turnover days
- Reduced Modern Trade and CSD contribution and introduced stricter credit control in GT (because of reduced inventory levels), resulting in reduction in debtor turnover days.

SHAREHOLDER VALUE

Our dividend distribution policy is aimed at sharing prosperity with shareholders subject to maintaining an adequate chest for liquidity and growth.

Dividend Declared

Keeping in mind steady increase in operating cash flows and in an endeavor to maximise the returns to for our shareholders, we increased our dividend payout to 750% in FY21 as compared to 675% in FY20. The overall dividend payout ratio in FY21 stood at 83% of the consolidated profit after tax (excl. one-offs).

OUTLOOK

Over the medium term, we will continue to drive sustained, profitable, volume-led growth, through a focus on strengthening the franchise across core categories and driving the new engines of growth towards gaining critical mass. We aspire to be an admired emerging market MNC with leadership in the core categories of leave-in hair nourishment, foods and male styling in the following regions – South Asia, Southeast Asia, the Middle East, North Africa and South Africa. We plan to achieve this by winning with consumers, trade and talent. We identified the following key strategic drivers for achieving this goal:

- Grow and premiumise the core
- New growth engines
- Create shared value

We hold our aspiration to deliver 13-15% revenue growth over the medium term on the back of 8-10% domestic volume growth in the domestic business and double-digit constant currency growth in the international business.

However, macroeconomic challenges stemming from the resurgence of COVID-19 or any geo-political instability in our key markets pose downside risks to our outlook for the near term. We will aim to maintain our operating margin above the threshold of 19% over the medium term.

In India, the calendar year 2021 started on a positive note with the overall sentiment and the COVID-19 curve moving in the right direction, but the recovery was interrupted by the severe second wave. We hope for caseloads to trend downwards with localized lockdowns coming into effect and vaccination gathering pace, while the Company is adequately prepared to tackle any disruptions in the business environment at this time. **Parachute Rigids** has clocked 6% volume growth in FY21. Given the market construct and strengthening brand equity, we expect to grow volumes in the range of 5-7% over the medium term. **Value-Added Hair Oils** has delivered 20%+ volume growth in the second half of the fiscal, after a slow start, with most brands performing well. We aim to capitalise on its leadership position in the market and sustain a double-digit growth trajectory over the medium term. **Saffola Edible Oils** exceeded medium-term aspirations on the back of improved penetration through a variety of channel/pricing/promotion measures taken over the last 18-24 months. As the base catches up, we expect to deliver high single-digit volume growth over the medium term in this franchise. Having crossed the ₹300 Crore mark in the **Foods** category in FY21, we will aim to reach the ₹450-500 Crore mark in FY22 while continuing to innovate and broaden our play. **Saffola Honey** has gained considerable salience since launch this year. The brand will continue to build consumer trust based on superior quality and nutritional value and should touch ₹100 Crore in revenues in FY22. We will aggressively invest behind **Saffola Arogyam Chyawan Amrut, Saffola Mealmaker Soya Chunks and Saffola Oodles** to gain scale and reach critical mass. We will build the **Premium Personal Care** portfolios into growth engines of the future and deliver double-digit value growth over the medium term in these portfolios. In the near term, expectations remain muted given the uncertainty in discretionary spending levels. With Beardo integrated into our fold and tracking healthily, the business should touch a run rate of close to ₹100 Crore in the next year unless the second COVID-19 wave materially affects the business.

Over the last few years, we have systematically invested in core international markets to strengthen both the brands and the organisational capability to handle growth. We are confident that the key markets are well poised to capitalise on the emerging opportunities. In **Bangladesh**, we will aim to maintain the double-digit growth trajectory, as the medium-term macro prospects look promising. Therefore, we will leverage our distribution and brand strength to further consolidate market shares in the core portfolios, scale up new launches and enter new categories. As a market leader, the **Vietnam** business will continue to invest in the male grooming category and drive excellence in sales and distribution systems. We initiated an aggressive cost management programme, which will enable resource generation for brand building. Myanmar and the rest of Southeast Asia are growth engines of the future. Overall, the consumer sentiments in Southeast Asia are reviving and we expect to chart a sustained growth trajectory ahead. In the **MENA region**, we will focus on getting the basics right by judiciously investing behind brands and go-to-market initiatives. In the Middle East, we will work towards strengthening the Coconut Oils and Hair Oils play. In Egypt, cost management initiatives will enable the business to weather the persistent macro headwinds. The **South Africa** business has ended the year on an encouraging note and is showing signs of revival. We are cautiously optimistic about 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 **NCD and exports segment** has been growing healthily over the years and we will continue to invest in developing presence across new countries and scale the business profitably.

HUMAN RESOURCES

Talent and culture are among the key building blocks in shaping us into a resilient and sustainable organization. Over the course of the last year, we took several initiatives in this direction, which are presented in the chapter titled **Employees**. We will continue to focus on the following strategic areas in order to leverage the potential of our human capital:

- People-first Culture
- Inclusion and Diversity
- Digitization and Simplification of People Processes
- Building Organization for Future

INFORMATION TECHNOLOGY AND DIGITAL

We continued to progress on our roadmap of using digital, analytics and automation opportunities to deliver a better and integrated experience to our consumers, associates and employees. We continued to increase the use of digital as a media platform, with more brands establishing their presence through online, social and mobile media as well as using programmatic buying. The share of digital in the total mix has been in double digits in percent terms in each of the last four years. In addition, analytics and automation led initiatives helped drive consumer and customer experience, boost sales growth and efficiency and improve employee engagement. We also aim to accelerate our digital transformation journey through building a portfolio of at least three ₹100 Crore-plus digital-first brands, either organically or inorganically, within the next three years. Further details of the latest initiatives and developments have been provided in the chapter titled **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 them. For us, the risks are multi-dimensional and therefore we look at it in a holistic manner, straddling both, the external environment and the internal processes. These risks can be broadly classified into following categories:

- Strategic Risk
- Compliance and Governance Risk
- Financial Risk
- Environmental Risk
- Operational Risk
- Social Risk

We integrate risk management with strategy formulation and business planning processes. Details of the risks envisaged along with our strategic response to the same is presented in the chapter titled **Risk and Opportunities**.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

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

- Establishment and periodic review of business plans
- Identification of key risks and opportunities and regular reviews by top management and the Board of Directors
- Policies on operational and strategic risk management
- Clear and well-defined organization structure and limits of financial authority
- Continuous identification of areas requiring strengthening of internal controls
- Standard 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
- Robust management information system
- Comprehensive Information Security Policies and guidelines
- Comprehensive internal audit and review system
- Well-defined Internal Financials Controls framework
- An effective whistle-blowing mechanism
- Training/awareness sessions on policies and code of conduct compliance
- Robust Crisis Management Framework

The internal control system is regularly tested and reviewed by Independent Internal Auditor. The internal auditor is appointed by the Audit Committee of the Board. All possible measures are taken by the Audit Committee to ensure the objectivity and independence of the Internal Auditor, including quarterly one on one discussions. The Company also has a management audit team which carries out internal control reviews and follow-up audits. The team is also responsible for monitoring implementation of action points arising out of internal audits.

The internal auditors and management audit team, 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 process includes validation of transactions on sample basis to check if the operations of the company are conducted in compliance to internal policies and ethical standards defined by the company. 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, compliance and finance with the intent to cover all material business processes and locations under internal audit at least once in every 3-4 years. 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.

We have also deployed audit analytics in the domains 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's India operations as well as key international geographies.

Deloitte Touche Tohmatsu India, LLP has carried out our internal audit in the year under review. The work of internal auditors is coordinated by an internal team at our end. This combination of our internal team and expertise of a professional firm ensure 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 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

We have implemented a robust internal financial controls framework within the Company. The Internal Financial Controls have been documented and embedded in the business processes. Design and operating effectiveness of controls are tested by the management annually and later audited by statutory auditors. Statutory auditors have issued an unqualified report after checking the effectiveness of these 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 manual controls. The Company has robust ERP and other supplementary IT systems which are integral part of internal control framework. The Company continues to constantly leverage technology in enhancing the internal controls. On a voluntary basis, our material subsidiary, Marico Bangladesh Limited ("MBL") has also adopted this framework. Over time, we will extend this framework to our other overseas subsidiaries.