MANAGEMENT DISCUSSION AND ANALYSIS

This discussion covers the financial results and other developments for the year ended 31st March, 2017 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, impact of competing products and their pricing, product demand and supply constraints within India and the countries within which the Group conducts its business.

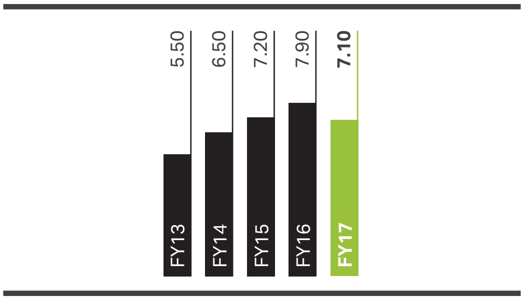
7.1%

India's GDP Growth

UPDATE ON MACRO ECONOMIC INDICATORS

India

GDP GROWTH (%)



Source: Asian Development Bank

India's burgeoning young workforce is the largest and youngest in the world. Simultaneously, this vast nation is amid a massive wave of urbanisation.

As per the Central Statistics Organisation (CSO) and International Monetary Fund (IMF), India has emerged as the fastest growing major economy in the world over the last five years. In 2017, India's GDP grew by 7.1%, a tad lower compared to 2016. The capital formulation was lower than expected. Moreover, demonetisation brought a liquidity crunch impacting demand in H2 FY17.

However, India's economic fundamentals remain robust. The Forex Reserves stand at 383 billion USD up from 295 billion USD five years ago. The fiscal deficit at 3.5% of GDP is down from 3.9% five years ago. Consumer Price Inflation (CPI) is low and hovers around 3.8%. The country is marching towards power sufficiency across various states while the pace of constructing roads is sustained at 100 km per day. These fundamentals auger well for India's future.

India's burgeoning young workforce is the largest and youngest in the world. Simultaneously, this vast nation is amid a massive wave of urbanisation. How India shapes its significant human potential and reimagines its mushrooming towns and cities will largely determine its future.

India is poised at a critical juncture. It needs massive investments to create jobs, housing, and infrastructure to meet the soaring aspirations of its people. Tidal growth that lifts all boats will be the key for a prosperous future.

GST will soon usher in one of the biggest regulatory reforms since independence. It is expected to improve compliance, further control inflation, improve tax revenues and create a level playing field for compliant industry players. While it may lead to short term hiccups, over the medium term, it is expected to simplify the indirect tax administration and compliance; and probably pave way for progressive reduction in tax rates.

Bangladesh

Bangladesh population is estimated at more than 160 million. It is largely an ethnically homogenous society with the highest population density in the world.

Despite global headwinds that crimped remittances, Bangladesh's GDP recorded robust growth of 7.1% in FY2017 on higher private investment and exports. The current account surplus expanded, and inflation slowed. Continued high growth will require a rebound in remittances and higher exports. Productive jobs are needed in manufacturing and modern services for the large number of new entrants to the labour force. Moreover, the country needs to engage its surplus farm labour and encourage female workforce participation.

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. Political stability will further help the cause.

Vietnam

Vietnam is one of the fastest growing countries in South East Asia. Since 1990, Vietnam's GDP per capita growth has been among the fastest in the world, averaging at 6.4% a year in the 2000s. Despite uncertainties in the global environment, Vietnam's economy remains resilient. The country's medium-term outlook remains favourable, while its fundamental drivers of growth – resilient domestic demand and export oriented manufacturing – remain in force. According to data issued by the Government Statistics Office (GSO), its GDP expanded by 6.2% in 2016, just shy of the government's projection of 6.3% and slightly above the IMF's estimate of 6.1%. The business environment has improved remarkably with tax reforms and slashing of 'red tapism' in the country.Better business conditions are sustaining healthy FDI inflows, which is an important growth driver in Vietnam's export-oriented economy. Robust investment, surging exports and the government's commitment to macroeconomic stability prompted credit rating agencies Fitch and Moody's to upgrade the country's outlook in May to BB- and B1 respectively.

Middle East and North Africa (MENA)

The Middle East, especially the Gulf Cooperation Council (GCC) countries, are currently affected by macro-economic downturn and a difficult job market, primarily due to the slump in oil prices. This calls for a thorough and challenging transformation for the GCC countries to be able to achieve desirable growth. Being highly dependent on oil, GCC countries have been deeply affected by the recent oil price drop (~60% since 2013). This has brought macro-economic instability that hinders job creation and slows down growth. The dip in oil prices has largely impacted GCC's public finances, predominantly generated by the oil sector, and has hampered Foreign Direct Investment (FDI). Only UAE has rebounded to its pre-crisis level. The slowdown impacted the job market, already riddled with a large youth unemployment rate and a population overly employed by state-owned companies. Further, a non-oil private sector that remains relatively small has limited the chances of growth and employment. GDP growth in GCC countries is forecasted at +2.3% in 2017, far from the growth experienced in the past.

Looking forward, GCC countries should decrease their dependence on oil through diversification. Besides, switching focus of growth from public to private sector, developing an ideal environment for SMEs and improving the banking system's liquidity and solvency will help these economies revive.

Egypt has embarked on a major economic reform programme, including the liberalisation of the exchange rate regime, fiscal consolidation measures and reforms in the business environment. The liberalisation of the exchange rate regime is a key step towards restoring the economy's competitiveness and bolstering private sector activity which had been severely impeded by shortages of foreign currency. Yet, the reforms are exacerbating social pressures in the short term; with inflation reaching some of the highest recorded rates and currency depreciating by more than 52% in one year.

GDP is expected to grow by 3.9% in FY17 and will be largely driven by public investment and to some extent net exports. Private investment is expected to pick up only in the second half of FY17; supported by enhanced competitiveness following the currency depreciation and the gradual implementation of business climate reforms. Besides, tourism is expected to steadily recover on the back of a weaker currency. Prudent monetary policy is projected to bring inflation down over the forecast horizon after the one-off effects of depreciation, subsidy reforms, and the introduction of VAT dissipate.

According to World Bank's semi-annual MENA Economic Monitor, economies in the MENA region will witness growth of 2.6% in 2017, down from 3.5% in 2016. This will be primarily owing to the political unrest, war and low oil prices. The sustainability of economic recovery in the region will depend on the effectiveness of any future peace-building and reconstruction efforts.

South Africa

South Africa is the second largest economy in Africa. The country is rich in natural resources and is a leading producer of platinum, gold, chromium and iron. From 2002 to 2008, South Africa grew at an average of 4.5% year-on-year, its fastest expansion since the establishment of democracy in 1994. However, in recent years, successive governments have failed to address structural problems such as the widening gap between rich and poor; low-skilled labour force; high unemployment rate; deteriorating infrastructure; high corruption; and crime rates. Consequently, since the recession in 2008, South Africa's growth has been sluggish and below African average. With the South African GDP declining by 0.3% in 2016 compared to 1.3% expansion in 2015, its economy continues to languish. While manufacturing recovered and retail sales posted strong growth in March 2017, economic activity remains weak and is still at risk of falling into a technical recession. Two credit rating agencies downgraded the country, which could dent private consumption and investment, and thereby dampen its economic prospects. This spells bad news at a time when a new political crisis is engulfing the embattled President and could distract the government from economic affairs.

Economic growth is projected to continue to be weak in 2017 before picking up moderately in 2018. The revival of the economy will be on the back of rising private consumption and exports due to recovery in commodity prices and growth in export markets. Unemployment and inequality will remain high, reflecting large skill gaps and low education quality. Inflation has been above target, due to the rand depreciation and rising food prices, but is easing.

OVERVIEW OF THE CONSUMER PRODUCTS INDUSTRY

India's FMCG sector at USD 41.1 billion is one of the largest sectors in India [Source: Nielsen]. Over the last five years, the sector has grown at compounded annual growth rate of 9.3%, ahead of the GDP growth. During the year under review, the growth rate has tapered off mainly due to deflation and the impact of demonetisation. While sentiment appears to have improved, it has not yet translated to tangible improvement in consumption across the sector. However, there is a silver lining. The recent 'normal monsoon' forecast augurs well for the sector. Some other factors expected to drive the recovery are a stronger GDP growth (leading to investments in various sectors, which eventually results in employment generation); moderate consumer inflation; enabling government policy framework; continuing input cost benefits; Goods and Service Tax (GST); Direct Benefit Transfer Scheme (DBT); One Rank One Pension (OROP) for ex-Military servicemen; and increased pay-outs to government employees consequent to implementation of 7th Pay Commission recommendations.

Indian consumer segment is broadly segregated into urban and rural markets, and it attracts companies from across the world. The sector comprises a large middle class, relatively large affluent class and a small economically disadvantaged class, with spending anticipated to more than double by 2025.

India's consumer confidence index stood at 136 in the fourth quarter of calendar 2016. It topped the global list of countries on the same parameter, as a result of strong consumer sentiment, according to market research agency, Nielsen. Further, in the discretionary spending category, 68% respondents from India indicated the next 12 months as being good to buy; thus, ensuring once again that India leads the global top 10 countries on this parameter during the quarter.

Global corporations view India as one of the key markets from where future growth is likely to emerge. The growth in India's consumer market would be primarily driven by a favourable demographics and increasing disposable incomes. McKinsey Global Institute's recent study (MGI) suggests that if India continues to grow at the current pace, average household incomes will triple over the next two decades. This will help India jump to the spot of the world's fifth-largest consumer economy by 2025, up from the current 12th position.

India's robust economic growth and rising household incomes are expected to increase consumer spending to US$ 3.6 trillion by 2020#.

The maximum consumer spending is likely to occur in food, housing, consumer durables, and transport and communication sectors. The report further stated that India's share of global consumption would expand more than twice to 5.8% by 2020.

The growing purchasing power and rising influence of the social media have enabled Indian consumers to spend more on discretionary items. India's consumer sector has grown at an annual rate of 5.7% between FY2005 and FY2015. Annual growth in the Indian consumption market is estimated to be 6.7% during FY2015-20 and 7.1% during FY2021-25.

India's fast-moving consumer goods (FMCG) companies are now collectively bigger than their multinational peers. The combined revenue of India's seven leading FMCG companies stood at US$ 11.1 billion in FY 2015-16, vis-à-vis US$ 9.4 billion revenues generated by select seven multinational companies (MNCs)[†].

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

[†] According to a report by The Associated Chambers of Commerce of India (ASSOCHAM), an all-India industry association and TechSci Research, a market research company.

OVERVIEW OF THE BEAUTY AND WELLNESS BUSINESS

The personal care industry makes up 22% of India's market for consumer-packaged goods and experts agree that India is full of opportunities and is a potential gold mine for many beauty and personal care companies.

As per analysts, the Ayurvedic market is estimated to be at ₹ 4,500 crore at present (~700 million USD). Currently, the herbal products form 6-7% of the overall personal care products market; while the estimates are that it could grow to about 10% of the segment by FY20 as the trend accelerates. Consequently, various players are rebooting their business strategies and investing in new products or making new acquisitions to reap in the benefit of the herbal wave. With a CAGR of 40%, the spa industry is the subsector with the most significant growth prospects among all personal care subsectors in India.

According to industry experts, the market size of India's beauty, cosmetics and grooming market will touch 20 billion USD by 2025 from the current level of 6.5 billion dollars. The rising awareness of personal care products, growing disposable incomes, changes in consumption patterns and lifestyles will influence the industry. Moreover, improved purchasing power of women promises exciting times for the personal care industry. These trends are anticipated to boost the personal care market in India and raise the consumption of personal care products and services, thereby offering extensive opportunities for domestic and international players.

The speed and stress of modern day living in India has brought the need for 'wellness' to the centre stage, paving way for accelerated growth of this segment.

The wellness industry in India is set to cross the ₹ 500 billion mark by the end of this year. The latest trends depict that the market will rise by 30% every year.

Another important factor that has driven the beauty and wellness business to a successful level is the increase in disposable income. The contemporary population is well aware of health and tends to inculcate new ideas for healthy lifestyle immediately. Going forward, the presence of appropriate supply channels will help in reaching the end customers efficiently. This is the right time to harness the potential market prospect by utilising the scope available with the wellness companies that provide franchise all over the country.

THE MARICO GROWTH STORY

Marico revenues stood at ₹ 5,986 crore (USD 886 million) for FY17, recording a decline of 1% over FY16. Volume growth for the year was at 4%. The value growth was lower owing to price reductions in the coconut oil portfolio in India and Bangladesh and currency devaluation in the Egypt region in H2FY17. The operating margin was at 19.5%. The business reported bottom line of ₹ 799 Crores (USD 119 million), a satisfactory growth of 12% over last year.

Over the past five years, Marico's top line and PAT have grown at a compounded annual growth rate (CAGR) of 10% and 18% respectively. This places Marico in the top quartile in this sector.

India's FMCG sector at USD 41.1 billion is one of the largest sectors in India. Over the last five years, the sector has grown at compounded annual growth rate of 9.3%, ahead of the GDP growth.

Domestic Business: Marico India

Marico India, the domestic business, achieved a turnover of ₹ 4,579 Crores (USD 683 million) in FY17, a decline of 2% over last year. While it recorded a volume growth for FY17 at 4%, its value growth diminished owing to price reductions in the coconut oil portfolio. The black swan event of demonetisation in Q3FY17 acted as a dampener on the overall annual volume growths due to liquidity crunch in India's informal economy. The operating margin for the India business was healthy at 24.3% before corporate allocations. Higher operating margins can be attributed mainly to gross margin expansion led by softer input costs.

Coconut Oil

Parachute's rigid portfolio (packs in blue bottles) recorded a volume growth of 4% for FY17 over FY16. Going forward, the volume growth in Parachute rigid is likely to remain in the range of 5-7%. Moreover, Marico aimed to protect the consumer franchise and maintain the volume momentum over maintaining short-term margins. Thus, the Company restricted the price increase in March 2017 to 8% in response to an inflation of 18% in commodity prices in H2FY17. For the full year, copra prices were down 12% corresponding to 14% price deflation in the coconut oil category.

The non-focused part of the portfolio (comprising Nihar and Oil of Malabar along with pouch packs in Parachute) remained flat in volume terms during the year.

Of the total coconut oil market, approximately 30-35% in volume terms is available in loose form. This loose component provides headroom for growth to branded players. The Company's flagship brand Parachute, being the market leader, is well placed to capture a significant share of this growth potential on a sustainable basis. The Company would continue to exercise a bias for franchise expansion as long as margins remain within a band. Towards that end, Marico will continue to invest behind brand building, distribution expansion and tactical inputs to remain competitive. It is generally observed that a moderate inflationary environment swings the competitive position to the Company's advantage putting pressure on the working capital requirements of marginal players. This leads to market share gain and better volume growths.

During the year under review, Marico's coconut oil portfolio achieved a volume and value market share at 58% and 59% on MAT basis respectively.

Parachute's rigid portfolio (packs in blue bottles) recorded a volume growth of 4% for FY17 over FY16.

Foods: Super premium refined edible oils and oat cereals

The Saffola refined edible oils franchise clocked an 8% growth in volume terms during FY17 over FY16.

The Saffola range of blended refined oils (available in five variants) operates in the premium and super-premium niches of the refined edible oils market. These oils provide a balance of PUFA (polyunsaturated fatty acids) and MUFA (mono-unsaturated fatty acids); and thus, help consumers to proactively manage a healthy lifestyle. With rising awareness about healthy living in the country, this provides significant chances for growth. The Company has been driving growth through building relevance of the Brand among proactive health-conscious consumers, with Saffola Active communication on the 'Stay Fit & Active' proposition.

Over the last few years, a new sub-segment of super premium edible oil has emerged and has been growing rapidly. Marico believes that it can participate in this growth with its differentiated proposition. Accordingly, in Q4FY17, it launched the first of its kind blend of Olive and Flaxseed oil under a sub-brand Saffola 'Aura'. A blend of two superfoods, Saffola Aura combines the benefits of Omega-3 and Antioxidants in single oil. It has been launched in Extra Virgin and Refined Variants across key Indian metros. With this launch, Saffola reaffirmed its position in the premium segment offering health benefits across divisions.

The brand gained market share of 283 bps and further strengthened its leadership position in the super premium refined edible oils segment to 66% during the 12 months ended March 2017. The near-term outlook for the blended oil franchise is positive with double digit volume growth prospects.

Saffola's foray into healthy foods, Saffola Oats continues to consolidate its strong second position in the oats category with a value market share of 27%. Saffola Oats is the highest distributed oats brand in the country. Focus on value-added offerings in the oats segment has enabled the Company to capture 69% value share in the flavored oats market on a MAT basis. The Company's ability to localise the product to suit the Indian palate and drive consumption by increasing the occasion of use apart from breakfast to in-between meals has been the key catalyst in creating and succeeding in this category.

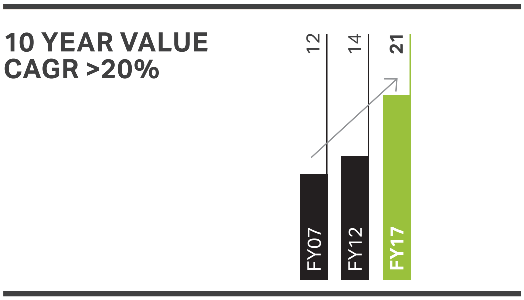
During FY17, the category slowed down due to strong the competitive headwinds, resulting in flat growth. The Company realises that future growth will come from expanding the category with continuous innovation in product and packaging; and it has taken definitive steps towards this end. Marico will further invest in sampling and distribution, which are the other two growth pivots for the segment. Besides, the Company is focused on improving margins with concentrated cost management initiatives that will provide resources to plough back for growth. The Company launched Saffola Multigrain Flakes, its new offering in the breakfast cereal space in February '17 in the cities of Mumbai and Bengaluru. Saffola Multigrain Flakes brings together the power of five grains in one breakfast bowl and is a superior breakfast option to other single grain flakes.

Value-added hair oils

Marico's value-added hair oil brands registered a volume growth of 4% during the year, despite declining by 12% in Q3FY17 due to demonetisation. Marico continues to grow faster than the value added hair oils market of ₹ 6,500 crore (USD 970 million). During the year, the Company further strengthened its market leadership in the segment by 150 bps to 33% volume share (for 12 months ended March 2017) and with value share gain of 100 bps to 26% for the same period. The Company will continue to focus on premiumisation to drive growth in the category. The Company's value-added hair oils portfolio crossed ₹ 1,250 crore (USD 187 million) landmark this year with a bouquet of four strong brands.

Value-added hair oils portfolio has grown at 10 year CAGR of more than 20% and now accounts for 21% of the Company's business in India.

SHARE OF HAIR OILS TO GROUP REVENUE



Over the past five years, Marico's top line and PAT have grown at a compounded annual growth rate (CAGR) of 10% and 18% respectively. This places Marico in the top quartile in this sector.

Nihar Shanti Amla is the key growth driver, and continues to gain market share. It achieved a volume market share of 39% for 12 months ending March 2017 in the Amla hair oil category (MAT March '16: 37%). The exit market share of Nihar Shanti Amla at 40% reflects the continued strong growth trajectory. The increased scale of the franchise enables the Company to benefit from operating leverage, thereby improving net margins, despite competitive pricing. Marico aims to become the volume market leader in the Amla hair oil category in near future.

Three growth pivots: (a) Targeting the bottom of the pyramid segment; (b) inducting a new consumer base and (c) premiumising the category will bring further growth to the category.

As an endeavour to further strengthen its presence in the low unit pack segments, Marico forayed into low unit packs with a prototype of ₹ 1 sachet of Parachute Advansed Jasmine hair oil in Gujarat and Nihar Naturals hair oil in Bihar. The Company's prototype of ₹ 5 spout pack under Nihar Shanti Amla is now being extended to one more Hindi speaking state. During the year, the Company also launched an ₹ 10 rigid bottle of Parachute Advansed Jasmine hair oil and Nihar Naturals hair oil to fast-track the consumer recruitment process.

Nihar Naturals Sarson Kesh Tel, a value-added mustard oil targeting loose mustard oil pool continues to expand its reach, post its launch across markets in North and parts of East India. It has a meaningful share in the perfumed mustard oil category (MAT March '17: 6%). The Company will continue to invest in the brand encouraged by a large source pool of unorganised mustard oil. The Company's rural go-to-market activities will help further scale up of these initiatives.

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Marico aims to become the volume market leader in the Amla hair oil category in near future.

Parachute Advansed Aloe Vera Hair Oil was launched in the markets of Andhra Pradesh, Telangana and Tamil Nadu in November after being prototyped in Maharashtra for a year. The Company will continue to aggressively invest behind the brand in these markets to premiumise it.

Hair fall control

Hair fall control oils now comprise 14% of the total value-added hair oils market. The size of this sub-category is now ₹ 900 Crore (USD 134 million).

Marico participates in the segment with two value added offerings.

- Parachute Advansed Ayurvedic Oil, with presence in southern states, continues to hold market shares.
- Parachute Advansed Ayurvedic Gold Hair oil, operating in all non-southern states has been performing below its action standards. However, the Company continues to be excited about the brand's long-term potential and therefore, will continue to invest in brand building and expansion initiatives.

The Company expects to cross top line milestone of ₹ 100 Crore (USD 15 million) by FY19.

The Value-added hair oils category has been among the fastest growing large sized FMCG segments in India and compares very well with other highly penetrated personal care categories. The new-age hair oils in the developed markets could create a super-premium segment in India too. This serves to emphasise that hair oils can drive both beauty and nourishment. Marico will continue to focus on upgrading the portfolio by playing across segments that cater to consumer needs of nourishment and problem solution.

Youth portfolio

The youth brands portfolio plays in following categories i.e., hair gels, deodorants, hair gain tonic and leave-in serums. For the full year, the franchise grew by 5% in value terms. The Company has defined a multi-pronged strategy for long-term sustainable growth of this business:

1. Set Wet Gels: Drive penetration and category growth;
2. Set Wet Deodorants: Drive market share through a differentiated imagery and in-store presence;
3. Livon Hair Gain: Drive trials and repeats through efficacious product offering, while simultaneously blocking out unfair competition with innovative packaging; and
4. Livon Hair Serum: Drive affordability, penetration and relevance in the niche segment of hair serums.

The value market share of **Set Wet gel** has grown by 391 bps in last 12 months and currently stands at 58%. The gels now comprise more than 40% of total youth portfolio. **Set Wet deodorants** portfolio achieved a volume market share of about 3.3% for the 12 months ended March 2017 in the deodorants category (MAT March '16: 2.6%).

Livon serum's core proposition of 'salon finish hair at home', launched in August 2016 with a focus on metro markets has been building relevance for the brand. Despite the macro-economic headwinds post demonetisation, the brand showed signs of positive traction with

value growth in FY17. Moreover, it has started to unlock the potential in e-commerce channel. In a bid to accelerate trials, Livon prototyped its sachet at ₹ 3 in Gujarat in October, 2016; which has performed well with reach of one lakh outlets in less than six months of launch.

The categories of hair gels and creams (Set Wet and Parachute) and leave-in conditioners (Livon and Silk and Shine) are at a very nascent stage; as their penetration in India is far lower as compared to other emerging markets. Being market leaders, the Company is determined to innovate and grow the market. Overall, given the initiatives rolled out for all three verticals, the Company is confident of a double-digit value growth in FY18.

Distribution

Marico's rural sales declined by 6% while urban sales were flat in FY17. This year the rural channel remained sluggish in H1FY17 as an aftermath of bad monsoons in the last two years and was influenced by demonetisation in H2FY17, despite a good monsoon. Hence, the Company's rural sales dropped to 31% of total India sales in FY17.

Sales in Modern Trade (10% of the India turnover) continued the good run with growth of 12% in FY17. CSD and institutional sales (7% of the domestic turnover) declined by 3% in FY17 due to stock correction.

Go-To-Market Transformation has been identified as one of the pillars of long-term growth. The Company has been systematically investing behind processes and IT infrastructure to augment its capabilities. An update on the Company's go-to-market transformation journey during FY17 is as under:

- Project ONE (outlet network expansion) aims at expanding the direct distribution of Marico and thus, has added 86,000 outlets across 34 cities over the last three years, yielding a turnover of ₹ 88 Crores every year. The Company plans to add further 14,000 outlets in FY18.
- The new Distributor Management System along with Order Management Platform was rolled out pan-India. It led to significant increase in range service levels with optimised inventory leading to lower loss of sales.
- Handheld devices powered with visual analytics and rich dashboards have enabled the sales force to target its efforts at the right channel and right outlets. This has helped generate effective sales leads and improve salesforce effectiveness.
- The Assortment Mix Analytics has been successfully implemented fully in one city,

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and has now been extended to two more cities in order to help drive cross-sales opportunities.
- The Company completed one successful prototype of the geo-tag based analytics-led route optimisation in Mumbai. The project has the potential to optimise the feet on street and drive higher outlet coverage with redeployment of the released manpower.
- Output from the analytics models of Category Growth Drivers and Market Mix modelling have been used for the annual planning of resource allocation between marketing- and sales-led inputs.
- The Company also launched a new Demand Sensing model, which helps improve response to intra-month forecast changes, thereby lowering the possibility of stock-outs.

Project Edge

The Company, during Q1FY17 launched Project EDGE, a new initiative aimed at improving the efficiency and effectiveness of current trade and marketing spends. The savings from this project will be redeployed to fuel growth – hard working spends to accelerate growth, distribution expansion and so on. The gains started accruing from Q4FY17 and annualised gains of ~₹ 35 crores will accrue from FY18. These will be ploughed back to further augment the sales infrastructure and fuel volume growth.

E-Commerce

As part of its plan to remain relevant to the internet-savvy new age consumers and other stakeholders, the Company, in coming quarters, will focus on various digital initiatives. As a result, e-commerce has become an important pivot of growth. The Company has taken definitive steps to stay ahead of the curve in this space; and has identified and appointed dedicated resources for e-commerce including top-class consulting resources.

The non-coconut oil portfolio is now ~23% of the total business in Bangladesh compared to 10% five years back.

Summing up the story of India Business in FY17

FY17 was an eventful year for Marico. The rural demand remained weak due in FY17 due to various factors, but returned to normalcy in Q4. Moreover, while H1 was deflationary for the Company, H2 was inflationary, especially Q4. There are three macro factors to consider as the Company plans for the next financial year:
- Inflation in key commodities;
- GST, India's biggest indirect tax reform - while in the long run, it will be beneficial for organised players, it will bring near-term uncertainties that may shrink trade pipeline. This will lead to volatility and uncertainty at least in H1FY18; and
- Monsoon

With this backdrop, the Company is targeting 8-10% volume growth and healthy market share gains. Going forward, Marico will support its growth strategies with increased investment in core portfolio, aggressive new product launches, distribution expansion, and judicious call on pricing and tighter cost management.

International FMCG Business: Marico International

Marico's international business (its key geographical constituents being Bangladesh, South East Asia, the Middle East, Egypt and South Africa) comprised 23% of the Marico Groups turnover in FY17. The business reported a 1% constant currency growth (volume growth of 3%) during the year. The severe macro-economic headwinds during H2FY17 in the MENA region have led to the muted growth of the overall international business in FY17. Excluding MENA, international geographies grew at a constant currency rate of 5% in FY17. The operating margin for the full year was healthy at 16.5% (before corporate costs allocations).

During the year, the international business continued to focus on the key pivots of growth in its chosen emerging markets of Asia and Africa:
1. Aggressive growth in non-Parachute portfolio in Bangladesh
2. Recovery in the Middle East and South East Asia
3. Go-to-market transformation in Egypt
4. Investment in new markets

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

Bangladesh (44% of the International Business)

The Bangladesh business reported a topline constant currency decline of 2% (volume growth of 2%) in FY17 due to price corrections of Parachute Coconut Oil on a Y-o-Y basis.

Parachute coconut oil declined by 5% in constant currency terms (volume decline of 1%) during the year; however, it further consolidated leadership position with 86% volume market share. With commodity prices increasing, the Company has increased the prices in the coconut oil portfolio by 10% towards the end of FY17. This will ensure inflation-led value growth in FY18. The scope of growth in coconut oil segment is limited as the category has matured. However, the Company is confident of growing

this franchise at a high single-digit constant currency growth in FY18.

The trend of consumer upgradation from base oils to value-added hair oils continued during the year. Riding on this trend, the Company's value-added hair oils portfolio grew at a rate of 14% in constant currency terms led by strong growth in the flagship brand 'Beliphool'. Overall, the non-coconut oil portfolio grew by 10% in constant currency terms in FY17. To mitigate the impact of increase in inputs costs, the Company initiated price increase of 8% in value-added hair oils (VAHO) portfolio in the later part of Q4FY17.

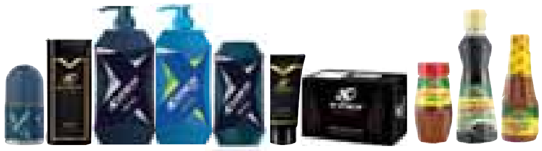
In the recent past, Marico has made significant investments to expand its non-coconut oil portfolio such as value added hair oils (VAHOs), deodorants, gels, leave-in conditioners, body lotion, packaged masala oats and premium edible oils. These products have been accepted well and are expected to create a portfolio, going forward. Consequent to these initiatives, the non-coconut oil portfolio is now ~23% of the total business in Bangladesh compared to 10% five years back. The new launches offer a substantial proposition for future growth. The Company is leveraging its strong distribution network and learning from the India market to quickly scale up its new product introductions in Bangladesh. The non-coconut oil portfolio is likely to become ~30-40% over next two to three years from the current share of ~ 23%.

Overall, in the near term, the Company is confident of delivering a double-digit constant currency growth in this important market.

South East Asia (28% of the International Business)

Business in South East Asia (of which Vietnam is a significant contributor) grew by 11% in FY17 in constant currency terms. In Vietnam, X-Men maintained its leadership in male shampoos and attained market leadership in the male aerosol deodorants category. Over the medium term, the Company remains well poised to participate in the category growths. The Foods business also delivered healthy growths during the year.

The Company continues to scale its presence in neighbouring countries like Myanmar. Marico ended the year in Myanmar with a turnover of USD 7 million.



The Middle East and North Africa (MENA) (15% of the International Business)

The MENA business declined by 13% in constant currency terms in FY17 over FY16. As the macro headwinds continued, the Company

chose to correct the distributor inventory levels in Q4FY17, both in the Middle East and Egypt businesses.

The Middle East business declined by 19% in FY17 on constant currency basis, while the Egypt business declined by 4% in FY17 in constant currency terms.

Egyptian Pound (EGP) has depreciated by 52% against INR over the last 12 months putting pressure on margins and value growth.

We remain cautiously optimistic about this region in the near term. Given the equity of brands such as Hair Code in Egypt and Parachute in the Middle East, we remain positive about the medium-term outlook on these markets. Overall, a marathon innings will be required for long-term victory in this region.

South Africa (7% of the International Business)

The business reported a constant currency growth of 5% during the year, despite challenging macro conditions.

Summing up the story of International Business in FY17

FY17 has been a tough year for Marico's international business as a whole. The business has almost remained flat compared to last year. On the positive side, the EBITDA margins have remained healthy. Further, there have been green shoots. The value-added hair oil portfolio in Bangladesh is looking up and the Vietnam market is growing at a healthy pace Growth in new country markets such as Nepal and Myanmar is promising. On the downsides, MENA region has been at the receiving end of stress and turmoil and we remain cautiously optimistic about this region.

CONSOLIDATED RESULTS OF OPERATIONS – AN OVERVIEW

During the year ended 31st March 2017 (FY17), Marico registered consolidated revenue from operations of ₹ 5,936 crore, a decline of 1% over previous year. The volume growth underlying this revenue growth was 4%. The value growth was lower owing to price reductions in the coconut oil portfolio and currency devaluation in the Egypt region in H2FY17.

Profit after tax (PAT) for FY17 was ₹ 799 crore, a growth of 12% over FY16.

TOTAL INCOME

Our total income consists of the following

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

The following table states the details of income from sales and services for FY17 and FY16

(₹ Crores)

Particular	FY17	FY16
Revenue from Operations	5,935.9	6,024.5
Other Income	97.3	93.3
Total Income	**6,033.2**	**6,117.8**

There has been 1% decline in revenue from operations on account of 2% decline in Marico India and 1% growth in Marico International.

EXPENSES

The following table sets the expenses and certain other profit and loss account line items for the years FY17 and FY16:

Particular	For the year ended March 31,			
	2017 ₹ Crores	% of Revenue	2016 ₹ Crores	% of Revenue
Revenue from Operations	**5,935.9**		**6,024.5**	
Expenditure				
Cost of Materials	2,849.1	48.0%	3,119.0	51.1%
Employees Cost	404.2	6.8%	373.4	6.2%
Advertisement and Sales Promotion	659.5	11.1%	692.7	11.5%
Other Expenditure	863.9	14.6%	829.3	13.8%
PBIDT margins	1,159.3	19.5%	1,051.4	17.5%
Depreciation, Amortisation and Impairment	90.3	1.5%	94.9	1.6%
Finance Charges	16.6	0.3%	20.6	0.3%
Tax	337.7	5.7%	305.4	5.1%
Profit after Tax	798.6	13.5%	711.5	11.8%

Cost of materials

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

The prices of copra, one of the main ingredients, declined by 12% compared to last year. Rice bran oil prices were up 17%, while liquid paraffin prices dropped by 1% during the year and safflower oil prices rose by 5%. HDPE (a key ingredient in packaging material) price was down by 2% compared to FY16. Considering copra accounts for a major proportion of input costs, the overall cost of materials reduced by 3% during FY17 leading to gross margin expansion.

Employee cost

Employee cost includes salaries, wages, annual performance incentives, provision towards long-term incentives, statutory bonus and gratuity, contribution to provident and other funds and staff welfare schemes expenses. The Company has an extensive process of performance management enhancement through the deployment of MBR (Management By Results), which is intended to create an environment, where employees are encouraged to challenge and stretch themselves. Based on the Company's target achievement and the individual's performances against goals identified performance incentives are determined. Long-term incentive provisions are towards Employee Stock Option Plan (ESOP) and Stock Appreciation Rights Scheme (the Company's long-term incentive plan). During the year under review, employee cost grew by 8% over FY16 on account of annual salary revisions offset by reversal in Stock Appreciation Rights (STAR) provisions and lower employee costs in INR terms due to the significant currency devaluation in Egypt.

Advertisement and Sales Promotion (ASP)

The Company continues to invest in existing and new products. ASP spends on new products comprises a meaningful part of the overall ASP. Overall, decrease in ASP spends for the full year was 5%. The Company increased its ASP spends by 5% in H1FY17 but post demonetisation in Q3FY17, it pull backed the ASP spends in H2FY17. This ensured effectiveness of spends in tough and volatile macro-economic conditions. However, the Company intends to continue spending on ASP in the near term for ensuring long-term sustainable growth. The Company expects to operate in a band of 11-12% in the medium term.

Depreciation, amortisation and impairment

For the year as a whole, depreciation has decreased from ₹ 94.9 crore in FY16 to ₹ 90.3 crore in FY17. The decrease is on account of the one-time depreciation impact due to change in useful life of moulds in FY16.

During the year ended 31st March 2017 (FY17), Marico registered consolidated revenue from operations of ₹ 5,936 crore

Other expenses

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

(₹ Crores)

Other Expenses	FY17	FY16	% variation
Fixed	324.4	299.0	8%
Variable	539.5	530.3	2%
Total	**863.9**	**829.3**	**4%**

a. Fixed Expenses include items such as rent, legal and professional charges, foreign exchange losses and donation. The hit on account of realised exchange losses on repayment of external commercial borrowing (ECB) was lower by ₹ 30.4 Crore in FY17 compared to FY16. The ECB was borrowed to fund the acquisition in Vietnam in FY11. Excluding the same, other fixed expenses have increased by 23% largely due to increased professional charges and costs towards enhancement of IT and sales infrastructure.

b. Variable Expenses include items such as freight, subcontracting charges, power and fuel, warehousing, input and output taxes, among others. The variable expenses have increased by 2%; in line with the volume growth partially offset by reduced contract manufacturing charges and freight costs on account of rate negotiation with the vendors and transporters, respectively.

Finance Charges

Finance charges comprise interest on loans and other financial charges. Reduction in finance charges is in line with reduction in the Company's Debt (refer balance sheet).

Direct Tax

The Effective Tax Rate (ETR) for the Company during FY17 was 29.4% vis-à-vis 29.7% during FY16.

In an endeavour to maximise returns to its shareholders, the Company increased its dividend payout in FY17 to 350% vis-à-vis 337.5% during FY16.

Indian Accounting Standard

The new accounting standards – Ind AS, have become effective from 1st April, 2016 and the financial statements presented in this Annual Report comply with these new accounting standards.

The change in balance sheet items as per Ind AS has been explained in details in the Financial Statements.

CAPITAL UTILISATION

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

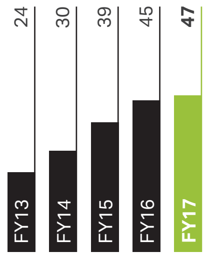
Ratio	FY17	FY16
Return on Capital Employed	47.1%	45.4%
Return on Net Worth	36.8%	37.0%
Working Capital Ratios (Group)		
- Debtors Turnover (Days)	15	13
- Inventory Turnover (Days)	67	58
- Net Working Capital (Days) including surplus cash	54	45
Debt: Equity (Group)	0.13	0.20
Finance Costs to Turnover (%) (Group)	0.3%	0.3%

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

The ratios have continued to be healthy for the year.

The Company's ROCE has been on a rise for the past five years with the Company focusing on organic growth. The chart below shows the yearly trend.

RETURN ON CAPITAL EMPLOYED (%)



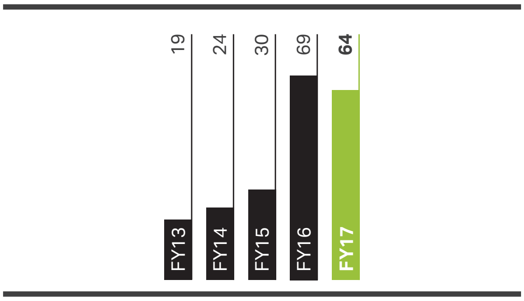
SHAREHOLDER VALUE

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 steady increase in operating cash flows; and in an endeavour to maximise returns to its shareholders, the Company increased its dividend payout in FY17 to 350% vis-à-vis 337.5% during FY16. The overall dividend payout ratio was 64% of PAT compared to 69% during FY16. Subject to its fund requirements towards inorganic growth, working capital, and capacity creation the Company shall endeavour to maintain a dividend payout ratio at ~ 50-60% in the medium term.

DIVIDEND PAYOUT RATIO (%)



HUMAN RESOURCES

Talent and culture continue to be key focus areas for Marico to achieve its business aspirations and make a difference to the lives of the 2,297 members. The HR function's strategy is focused on creating a future-ready workplace, strengthening the Company culture, building capability for business and nurturing careers to its people.

Over the last year, we have taken several initiatives in this direction, the key highlights for which are presented below:

Building depth of talent is a strategic thrust area to build capability for business. To facilitate this, and structured development for its members, the Company articulated functional and behavioural competency frameworks. The competency infrastructures have been defined considering Marico's current and emerging business requirements. They clearly outline the competency levels required for successful performance in different roles within the organisation.

Moreover, the Company has developed **career architectures** for the business functions to facilitate career and leadership development. The architectures offer flexible, cross functional and diverse career path options to its members for their development; simultaneously, building capability for business.

In the last few years, the Company has actively leveraged young leaders to build the Marico of tomorrow. Towards this, Marico has formed its first Young Board (a cohort of middle-level managers) in 2014 and constituted an Information Technology Think Tank. Currently, **Young Board** 3 is working on initiatives to spot new business opportunities and strengthen the Company's culture. Additionally, last year, **Growth Hacking team** was constituted, to capitalise on specific growth opportunities to build Marico's future business. Besides, Marico launched an interesting reverse mentoring programme, **Bottoms-up**. The programme is designed to enable our senior leaders to connect with the younger workforce and pick up useful contemporary skills like digital and social media savviness. The programme further facilitates in grooming the future leaders with direct access to senior leaders through whom they can learn broader business perspectives and leadership skills.

Automation and digital have been important technology levers for building the workplace of the future. Last year, Marico launched its integrated talent management suite, globally (SAP Success Factors). Named Membrain, this suite serves as a single platform for a member's lifecycle progresses covering talent acquisition, on-boarding, development, performance and compensation management. The Company continues to leverage iLearn, Marico's global technology enabled learning platform that provides on-demand training and learning inputs.

Additionally, Marico has enhanced its digital footprint both, within and outside the organisation. **Workplace by Facebook** was implemented, globally, as one of Marico's internal communication and social media platforms. Organisation news and

Talent and culture continue to be key focus areas for Marico to achieve its business aspirations and make a difference to the lives of the 2,297 members.

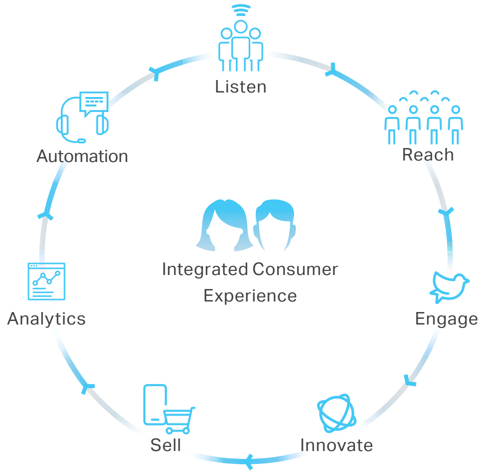
announcements, leadership communication, team updates, celebration of personal milestones, fun activities and events, and member connect and collaboration now happens on Workplace.

Further, the Company engages with lateral and campus talent through Linkedin, Instagram and Over the Wall, Marico's flagship campus engagement programme on Marico Campus Connections (on Facebook). Initiatives like Get a Job: Season 2 on MTV by **LinkedIn**, implementing a **Chatbot** on Facebook for enhancing discussions with business schools, curating blog series on **InsideIIM.com** have significantly enhanced Marico's digital presence among potential talent and contributed to strengthening the Company's employer brand.

As part of our endeavour to create a future-ready workplace, this year's **Innovation Jam** focused on crowdsourcing ideas from members on making Marico a great place to work. Innovation Jams are theme based initiatives to crowd source ideas from Marconians and has helped the Company garner over 900 ideas for experimenting with new age work practices. Ideas include empowering learning and development, enhancing flexibility and inclusiveness and ensuring health and wellness for the Marconians. The Company has selected high impact ideas from these and will be implementing them in the coming year. One such idea that has already been implemented is the upgrading of our parental policy. Last year, Marico introduced its new parental policy, which includes enhanced parental leave (26 weeks for mothers, 15 days for fathers). Additionally, the policy encompasses improved flexi work arrangements and wellness benefits to extend better care and support to its members during this special phase in their lives.

These initiatives and efforts over the last few years, have won the Company quite a few accolades, such as

1. Marico is ranked no. 30 in the Campus Track Survey Report by Nielsen, which is a positive shift from rank 34 from last year.
2. Marico has moved up 24 places and is ranked No. 40 in the Economic Times and Great Place to Work Institute's India's Best Companies to Work for 2017 study.
3. Marico is among the Top 100 companies to work for women in India as per the 2016 study for Working Mother and AVTAR Best Companies for Women in India.



INFORMATION TECHNOLOGY AND DIGITAL

Marico had developed a framework to harness the opportunities presented by prevalence of new-age digital technologies, and transform to become a digitally savvy consumer company. Various technologies in the realm of I-SMAC (IOT, Social, Mobile Analytics, Cloud) as well as platforms, AR and conversational assistants have been piloted to deploy the agenda identified under this infrastructure.

It has the following five interdependent elements so that a better and integrated experience can be delivered to the associates and consumers.

1. **Consumer Engagement** to listen, reach and engage with consumers
2. **Sell** with a focus on e-commerce and online sales
3. **Innovation** through digital business models
4. **Data Analytics** to drive agile business decisions
5. **Automation** for business process efficiencies

CONSUMER ENGAGEMENT

The Company enabled consumer engagement initiative through various means by using **digital as a media platform** and reinforcing category leadership through various **engagement platforms**. Reach, frequency and cost efficiency was achieved through key brands having a higher digital index like Livon Serums, Set Wet, Bio Oil and Parachute Advansed Body Lotion. Programmatic buying helped the communication to reach the right consumers through relevant micro moment algorithmic targeting, which helped increase efficiency.

Building on insights which have high affinity with consumers online made your Company create **'Made for Digital' content** to drive engagement at scale. Some examples include Parachute Advansed Hot Oil (which had 66Mn impressions, 11Mn reach); Parachute Advansed Coconut Hair Oil Holi Film (76Mn impressions) and Parachute Advansed Body Lotion (78 Mn impressions, 5.5Mn reach)

Saffola FitFoodie platform, the health platform for Saffola Foods recorded 1.57 Mn Visits and 3.85 Mn page views and drove engagement. In addition to the FitFoodie app, a new conversational assistant Saffola FitFoodie Buddy – a personal **Chefbot** on FB Messenger platform was launched to suggest convenient recipes to consumers depending on the time of the day and the choice of ingredients they have at home.

Besides, a content platform – **www.HairSutras.com** was launched, which shares ancient and timeless secrets to have great and good looking healthy hair.

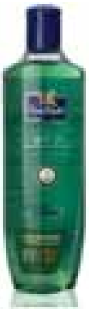
Both the above platforms will be scaled further in the coming year to help drive category leadership. The Company is also exploring the use of digital devices to drive brand differentiation through Internet of Things (IOT).

E-COMMERCE

Marico has established a dedicated team of professionals and is launching digital asset management tools to build capabilities for driving sales in the online and e-commerce channel. The Company has mapped the current and future categories based on their propensity to move online versus the starting position. Based on this a differentiated play across different category / channel combinations have been worked out.

DIGITAL BUSINESS INNOVATIONS

Marico announced a strategic investment in Zed Lifestyle Private Limited, which owns the Beardo brand. It is a fast growing online male grooming brand, which helps the Company get a foothold in the online business and enhances Marico's digital engagement capabilities. In addition, Parachute Advansed Gold Hair Oil range was launched on online channels only.



Moreover, the Company is running experiments with various start-up companies across the value chain to identify various innovation opportunities.

ANALYTICS AND AUTOMATION

In analytics and automation, the Company's strategy has been to capitalise on the latest advancements in technology for improving the business performance. A quick snapshot of initiatives across the value chain is provided below:

- The Company scaled its new Distributor Management System nationally during the year under review, which helped link its customers effectively and improve sales productivity, visibility and commercial controls. On the back of the lower data storage costs and increased internet bandwidth coverage across the country, the granular secondary sales data was centralised which enabled new opportunities in analytics.
- A newly enabled **Forecasting System** increased the forecasting accuracy by over 10% points.
- The **Project Retina** – Sales Assortment Analytics model was extended to a few more cities that enabled Marico to garner higher volume growths through recommendation of cross-sell / upsell opportunities.
- The project automated performance management dashboards (Project Prime) was extended across the sales hierarchy. It enabled rich and visual descriptive analytics

to help drive efforts in the right channel and right outlets. Such dashboards have now been enabled on mobile devices.

- Analytics-led **category growth drivers model** and deployment of **marketing mix models** enabled planning of revenue growth and marketing spends.
- **Project EDGE** led to optimisation of sales and offer spends in the traditional trade channel contributing to a savings of over ₹ 350 million, which will be redeployed to fuel growth and strengthen sales infrastructure.
- Further initiatives are being piloted in **geo-tag based sales route optimisation** and **demand sensing** models to help improve sales growth.

An end to end automation of demand planning and fulfilment system through Project Prime 2 was completed. This enabled the company to utilise the new SAP platform along with optimised flows to improve range service levels and availability. The project further helped to automate and outsource routine, repetitive tasks in the Procure to Pay (P2P), Order to Cash (O2C)

and Record to Report (R2R) processes. Similar automation of **Treasury** flows enabled better cash flow, forex and investment management.

Marico App World, an internal app was deployed for employees, which helped improve efficiency, seek approvals and handle claims efficiently on-the-go. A new tab enabled **Mobile PDA** was relaunched for the sales representatives that improved their daily working significantly and sales effectiveness.

Automation in HR processes through the use of **Membrain** – a **SuccessFactors** based platform as well as **Workplace** has enabled greater connect and collaboration. **Chatbots** were used along with **Marico Campus Connections platform** to improve Marico's connect with B-school campuses from where it hires significantly.

Road ahead

Marico will deepen the initiatives along the digital framework identified above, with greater use of consumer engagement and online sales along with analytics. This will enhance the Company's sustainable profitable journey. Marico has also piloted sensor & IOT based automation in its manufacturing plants, which will be scaled up in the coming year.

OUTLOOK

Marico India

As the Company enters FY18, there is a backdrop of three macro factors for the Company to consider:

- Inflation in key commodities;
- GST; and
- Monsoon

With this background, the Company is targeting 8-10% volume growth and healthy market share gains, backed by increased investment in core portfolio, aggressive new product launches, distribution expansion, judicious call on pricing and tighter cost management. The cost push and increased ASP investment would mean that the operating margins, which have expanded significantly during FY17 may get corrected to 20%+ levels. In **Parachute rigids**, the Company aims to grow volumes in the range of 5-7% in the medium term. With the commodity inflation coming back, the Company has already taken price increases in March 2017 leading to inflation-led growth from Q1FY18. **Saffola** is likely to continue the growth rate of circa 10% in the near term. In the medium term, the Company expects to continue growing at double-digit volume growth. In the **healthy foods** franchise, the Company will innovate aggressively to cater to the consumer need of tasty and healthy options and is in the process of reviving a double-digit value growth. In **value-added hair oils** space, the Company aims to grow this franchise at a double-digit volume growth on the back of growth in core portfolio and scaling of new launches. On the back of a continued healthy performance of gels, traction in deodorants and expected demand in Livon franchise, the **youth portfolio** is expected to grow at in double-digit in FY18 and at 15% in the medium term. The Company's **go-to-market strategy** will be focused on improving the width and depth of its distribution – both direct and wholesale. Strategic initiatives in sales and supply chain will aim at ushering in efficiency in selling and go-to-market. The Company is focusing on **digital initiatives** in a big way to improve consumer engagement, drive sales through e-commerce for internet savvy consumers and build **data analytics** capabilities. Investment in Zed Lifestyle is likely to enhance its capability in e-commerce and salons over the medium term.

Marico International

Over the last 12-18 months, the Company has systematically invested in the core international markets to strengthen both the brands and the organisational capability to handle growth. With such augmented efforts to build a **robust organic growth capability** and a stronger organisation, the Company will selectively explore **inorganic growth** opportunities. The Company believes that the **core markets** of Bangladesh, South East Asia and MENA are '**invest to grow**' markets. And the Company will continue to drive growth with brand restages, new product launches and capability building initiatives apart from aggressively tapping and growing new markets. It expects to clock a double-digit **organic topline growth in constant currency** in near to medium term. The structural shift in **operating margins** is expected to be sustained at around ~17%.

Marico Limited

The Company will aim at a volume growth of 8-10% and a topline growth of ~12-15% (depending on inflation) in the medium term. The Company will focus on **fewer but bigger innovations** to create growth engines of the future. Market growth initiatives in core categories and expansion into adjacent categories will be supported by investments in ASP in a band of 11-12% of sales with **focus on brand building**. Project Edge is aimed at making front-end spends effective. In FY18, the Company will implement this initiative in a few select international geographies. Operating margin is expected to be maintained in a band of 17-18% over the medium term. In the near term, this may mean a low profit growth. However, the Company has chosen **to focus on growth over short-term profitability**. Marico believes that social, environmental and economic values are interlinked and it belongs to an interdependent ecosystem comprising shareholders, consumers, associates, employees, government, environment and society. Marico's stated purpose is to '**make a difference**' by ensuring a positive impact on all the stakeholders. The Company staunchly believes a firm has to work closely with its ecosystem to create a sustainable and inclusive growth for all. Thus, Marico has focused approach in identifying sustainability goals in line with its business strategy and purpose. Its social responsibility (CSR) initiatives are an integral part of Marico's sustainability efforts and it is committed to making a sustainable impact on the society.

RISKS AND CONCERNS

Changing consumer preferences

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

Marico invests significantly in consumer in-sighting to adapt to changing preferences. The Company also actively watches social media trends to spot early trends in consumer preferences.

Input costs

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

However, brands with greater equity and pricing power may find it easier to adjust prices when the input prices increase and hold prices when the input prices decline. The Company's brands enjoy a significant equity with its consumers and thus, it holds adequate purchasing power. Moreover, Marico has been investing significantly in enhancing its forecasting capabilities.

Goods and service tax (GST)

While GST will streamline the indirect tax compliance framework, it may also bring in short-term disruptions. The trade may down-stock for some time. The initial teething issues around going live and compliances may eat up substantial managerial bandwidth.

Marico has anticipated some of these issues and plans to extend all possible assistance to its channel partners. It will also augment internal resources to cope up with go-live glitches, if any. The Company firmly believes that GST is good for the long-term growth of the organised FMCG industry as it would improve overall compliance levels.

Macro-economic factors

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

The Company continuously drives towards making its value-added products available to masses at affordable prices. Low unit packs of its value-added hair oils is an attempt in this direction.

Political risks

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

Marico operates in the developing and emerging economies of Asia and Africa and is exposed to political risk and unrest in these markets. However, the Company operates with well-defined risk management policies to mitigate various risks.

Competition

Increase in number of competing brands in the market place, counter campaigning and aggressive pricing by competitors have the potential of creating a disruption.

In the last few years, Marico has entered categories such as mass skin care, breakfast cereals, hair styling, post wash leave-in conditioners, deodorants and hair colours. The competitive intensity in these segments is relatively higher compared to the segments it has been operating in hitherto, such as coconut oil, hair oils and refined edible oils.

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

The Company believes that healthy competition is good for businesses as it focuses management attention on offering its consumers differentiated high-quality products that address consumers' needs. With such service approach, the Company expects to win and retain its consumer franchise. Additionally, Marico focuses on protecting volumes in preference to short-term profitability. Further, the Company concentrates on being nimble-footed so that scarce resources can be deployed towards brand building and sales infrastructure.

Product innovation and new product launches

Success rate for new product launches in the FMCG sector is typically low. New products may not be accepted by the consumer or may fail to achieve the sales target. This risk is even more pronounced in cases where industry leaders invest behind creating new categories.

Marico has 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.

Marico has adopted the prototyping approach to new product introductions that helps maintain a healthy pipeline and at the same time limits the downside risks with its fail fast approach.

Foreign currency exposure

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

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

Funding costs

Though the FMCG sector is not capital intensive, fund requirements arise on account of inventory position building, capital expenditure undertaken or financing inorganic growth. Changes in interest regime and in the terms of borrowing will impact the financial performance of the Group.

The Group maintains comfortable liquidity positions, thereby insulating itself from short-term volatility in interest rates.

Acquisitions

Acquisitions may divert management attention or result in increased debt burden on the parent entity. Further, it may expose the Company to country specific risk. Integration of operations and cultural harmonisation may also take time, thereby deferring benefits of synergies of unification.

Marico has been able to integrate its acquisitions with the mainstream with focus on talent and processes. Given its comfortable liquidity position and conservative capital management practices, the acquisitions have not put any significant pressure on the financial position of the Group.

Private labels

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

Talent acquisition and retention

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

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

Compliance

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

Marico has invested in compliance systems and processes to ensure that all its functions and units are aware of the laws and regulations to comply with and that adequate monitoring mechanism are put in place to ensure compliance.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

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

- Establishment and periodic review of business plans
- Identification of key risks and opportunities and regular reviews by top management and the Board of Directors
- Policies on operational and strategic risk management
- Clear and well-defined organisation structure and limits of financial authority
- Continuous identification of areas requiring strengthening of internal controls
- Operating procedures to ensure effectiveness of business processes
- 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 strong internal audit and review system
- A sturdy framework on Internal Financials Controls
- An effective whistle blowing mechanism

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

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

Ernst & Young LLP has been carrying out internal audits for Marico for the last three years. 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.

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

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

The management believes that strengthening IFC is a continuous process and therefore it will continue its efforts to make the controls smarter with 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, IFC framework has already been implemented in Marico Bangladesh Limited, your Company's largest subsidiary.