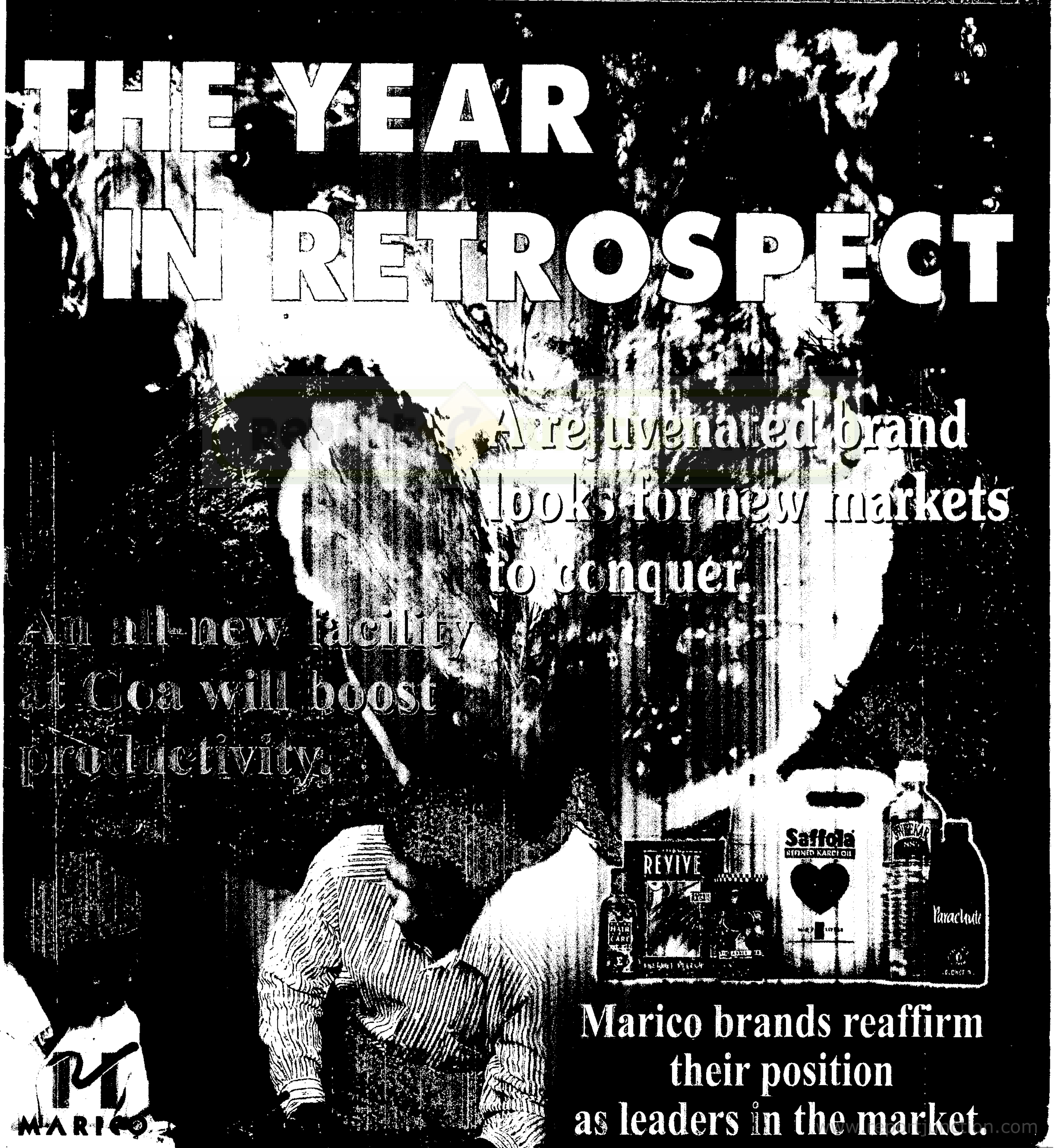
MARICO

ANNUAL REPORT 1997-98

THE YEAR IN RETROSPECT

A rejuvenated brand looks for new markets to conquer.

An all-new facility at Goa will boost productivity.



Marico brands reaffirm their position as leaders in the market.

MARICO

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ANNUAL REPORT 1997 • 98

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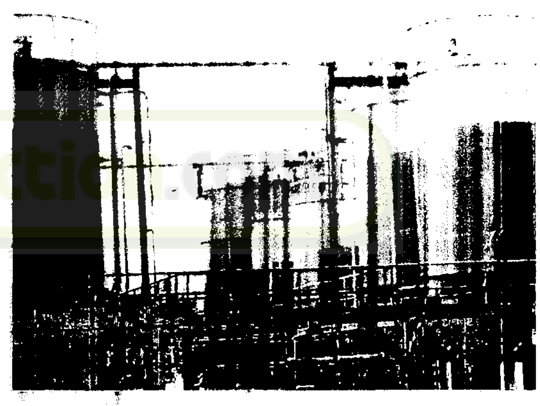
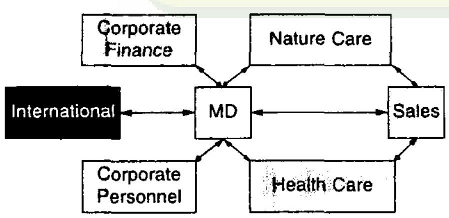


Organisational Realignment

Putting into place strategic structures for the future.



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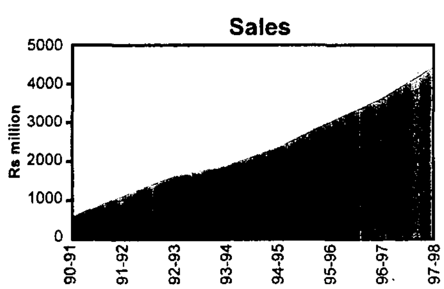


In this Annual Report

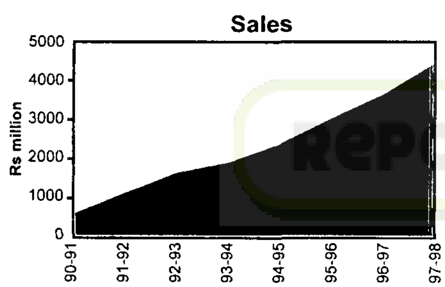
IN A LEAGUE OF ITS OWN

6 brands. 3 market leaders. 4 factories. 27 depots. 3000 distributors. 425,000 retail outlets. A description of a true blue chip.

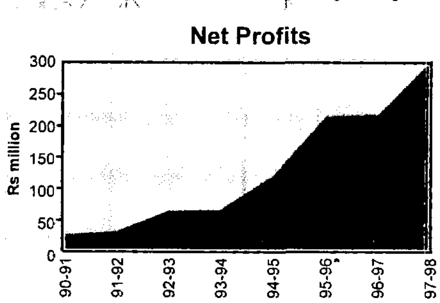
The Marico Stable

Nature Care	Health Care
Parachute	Saffola
Revive	Sweekar
Hair & Care	SIL

In terms of brands and distribution muscle, a term that Marico rightly deserves. Since 1990-91, its first year of independent operations, Marico has recorded consistent and handsome growth: A compounded annual rate of 25% in turnover and 43% in post-tax profits.



Every single Marico brand is either number one or number two in its category. *Parachute* is India's leading coconut oil (CNO) brand. *Sweekar* and *Saffola* together lead the branded Refined Oil in Consumer Packs (ROCP) segment. *Revive* is India's only branded starch in consumer packs. Marico's *Hair & Care* occupies the Number 2 slot in the Non Sticky Hair Oil (NSHO) segment. The *SIL* range of jams



and other processed foods is similarly placed at the second spot in that market. Thanks to the insights that Marico has into its consumers, it is energetically pursuing new business opportunities and tapping new markets with relevant brand extensions. For 1997-98, Total Revenue stands at Rs. 4916 million, while post-tax profits are Rs. 300 million. Exports are Rs. 123 million.

Parachute - Opening Out

After an eventful first life of 40 years, Marico decided to refurbish the Parachute image. Marico appointed Strategic Shining Design, the famous Paris-based image consultant to give a new, more vibrant look to Parachute. Research was conducted to zoom in on the perceived and potential values of Parachute. The findings clearly stated purity, nourishment, reliability, and heritage as core values. What was missing was emotional values, liveliness and a young image. The need of the hour, therefore, was a new image. Following the research, Strategic Shining Design, which works with global consumer product giants, came up with a new logo and a new look - the Coconut Dream. The Coconut Dream connotes Marico's seal and promise of the goodness of coconut in all its products. It captures the values of coconut such as protection, nutrition, nourishment, religiosity and natural goodness, among others. Parachute's Coconut Dream seeks to bring out all these do-good values of the coconut and associate them with the brand Parachute. It is Parachute's promise - both rational and emotional - to all its consumers. The Coconut Dream seal is now on all extensions of Parachute. It is the first step towards the metamorphosis of Parachute from being the largest Coconut Oil Brand into a mega brand with several value-added products under its umbrella.

Parachute

The new logo defines a special kind of beauty, a living, breathing timeless beauty. Blue reflects vastness, and serenity, Green reflects health, natural nourishment and earth, White stands for purity and tranquility.

Consumers have responded to the new look with enthusiasm, assured of the eternal goodness of the product.

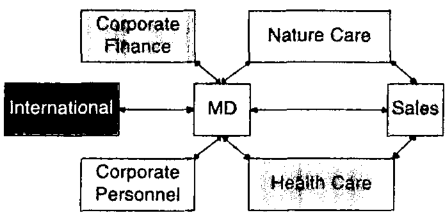
A new structure for the future

To deal with pace and change of the future, Marico has reorganised itself into three businesses which will function as Profit Centres: Nature Care, Health Care and International Business. The rationale for this is to :

- Support Strategy with structure.
- Strengthen unique competencies required for each business.
- Improve co-ordination within each business unit and derive a Value Chain focus.
- Each business unit will have a Business

Head supported by a team of professionals. Such an approach will create a new stimulus, enthusiasm, accountability and focus.

The New Organisation



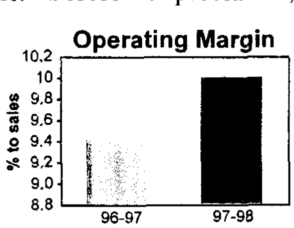
The year gone by

Marico achieved a turnover of Rs. 4916 million, a 19% growth over the previous year. All the brands registered double digit growth in terms of volume alongside appreciable profit growth. Stable raw material prices and lower finance charges saw the company post a 27% rise in operating profit and a 50% rise in net profit.

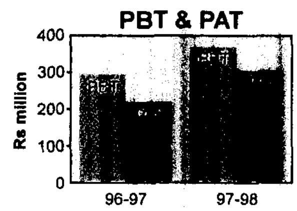
1997-98, a year of consolidation, also saw two strategic initiatives.
One was the refurbishing of Parachute in terms of image and product.
The other was the internal regrouping into three Strategic Business Units.

Pre-tax profit up 32% from Rs. 277 million to Rs. 365 million.
A net profit of Rs. 300 million, 50% higher than the previous year.

Marico's Profit Before Depreciation, Interest and Tax (PBDIT), adjusted for expenses of



Rs. 26 million, at Rs. 489 million, was higher by 27.4% over the previous year's PBDIT of Rs. 384 million, the operating margin improving from 9.4% to 10%. Pre-tax margin on turnover went up from 6.7% to 7.4%. At the net profit level, the margin improved from 4.9% to 6.1%.



The results analysed

Marico's improved results can be attributed to several factors. Chiefly, stable raw material prices, increased realisations and lower finance charges.

Raw material cost as a percentage to sales fell by almost 3 percentage points. This was partly a correction of the abnormal increase in raw material prices in the previous year. While employee and other operating costs have more or less remained under control, increased investment in advertising and sales promotion can be largely attributed to the re-staging of Parachute, the launch of new products and increasing competition in the market. Lower finance charges also played a part in this year's showing.

Operating Cost to Sales (%)

	1996-97	1997-98
Materials	59.0	56.2
Advertisement & Sales Promotion	5.9	8.3
Personnel	2.8	2.8
Other expenses	22.9	22.7
Operating Costs	90.6	90.0

Finance charges came down by almost 22%, from Rs.76 million to Rs.59 million owing to reduced debt burden. Other expenses include Rs. 26 million which represents a non-recurring item.

Where brands stand

Parachute - The dream run

The little blue bottle, by now a synonym for pure coconut oil, reaches 18 million households. During 1997-98, sales of Parachute Coconut Oil grew by 10% in volume and over 22% in value. Such powerful growth further consolidated Marico's lock on this segment. Market share figures provide ample proof.

Branded Coconut Oil - Urban Market Share (%) *

	1996-97	1997-98
Parachute	50.9	52.3

* Source : ORG Retail Report

To leverage the Parachute brand name fully, Marico launched three variants of Parachute last year: Parachute Lite, Parachute Nutri Sheen Liquid and Parachute Nutri Sheen Cream.

Parachute Lite is targeted at young women who appreciate purity and nourishment without the greasiness associated with oil. Parachute Nutri Sheen, targeted at young, upper class, fashion-conscious individuals, is a pioneering concept. It is a grooming product available in both liquid and cream form. The initial response to all the three brand extensions has been encouraging. Marico expects significant contribution to sales and profitability from these extensions, besides inviting a larger franchise of consumers.

Hair & Care - Chipping away at the market leader

Non-sticky Hair Oil - Urban Market Share (%)*	1996-97	**1997-98**
Hair & Care	26.2	**27.8**

* Source: ORG Retail Report

In the Non-Sticky Hair Oil (NSHO) market, Marico's Hair & Care continued to hold the number 2 position. Its market share during the last year increased from 26.2% to 27.8% through a reach of 1.3 million households. The brand, during 1997-98, grew by around 20% in both volume and value terms. Hair & Care continues to make inroads into the market leader's share and is expected to keep up the momentum in future too.

Revive - one of a kind.

Revive continues to penetrate more and more households, the figure reaching 0.9 million during 1997-98. In volume terms, Revive witnessed a volume growth of over 20%, while in terms of value it grew by over 50%. Revive's competitive position is unassailable, considering it's the only branded household starch in the market. During 1997-98, Marico test marketed Revive Spray Starch, the response to which was encouraging. The future would see more innovative extensions of Revive, aimed at a more convenience-minded consumer.

Saffola & Sweekar - Healthy growth

In the Refined Oil in Consumer Packs (ROCP) segment, both Sweekar and Saffola continued to grow. While in terms of volume, Saffola and Sweekar together grew by about 19%, in value terms they grew by about 16%. Saffola is the only refined safflower oil in the country even after 30 years of its launch. The brand franchise has been steadily increasing both with the consumers and the medical fraternity. The agricultural extension efforts over the last few years have also helped the company in increasing its equity with farmers. The company assists farmers through its agri-extension efforts in association with various State Governments.

Refined Oil in Consumer Packs - Urban Market Share *	1996-97	**1997-98**
Saffola + Sweekar	16.5	**16.6**

* Source: ORG Retail Report

The franchise for Sweekar was extended into Refined Mustard oil in the North and East. The initial response matches expectations. Sweekar today reaches nearly half a million households. The increasing franchise of Sweekar is intended to be leveraged by extending its presence into other ROCP categories.

SIL - Emerging player

Processed foods marketed under the brand SIL currently make a relatively small contribution to Marico's turnover. The range comprises jams and specialities such as Chinese sauces, baked beans, mayonnaise and soups. SIL recorded a healthy growth of 21.4% during 1997-98, and now reaches nearly half a million households. Changing consumer habits, evidenced by the introduction of new types of processed foods in the market, highlights the scope for the SIL range of processed foods. The brand is, therefore, well positioned to tap emerging trends.

Raw Material Scenario

Copra

Coconut prices remained more or less stable during 1997-98, with no major fluctuations in Copra prices.

Safflower / Sunflower

Towards the end of 1997-98, safflower/ sunflower prices commenced a spiral upwards, increasing by as much as 50% at times.

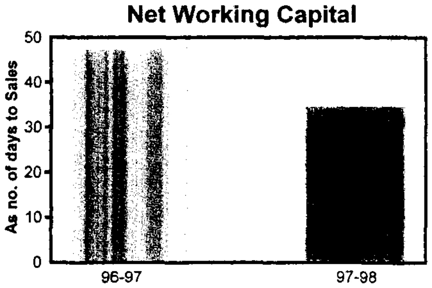
This has been caused by a domestic crop failure due to unseasonal winter rains, lower production in other exporting countries and a ban on exports of palm oil by Indonesia, which has reduced the availability for importing countries, including India.

The reduced availability, particularly of safflower, and the inflationary price situation, is a cause for concern during the current financial year. Appropriate strategies are being worked out.

On a financial note

During 1997-98, Marico increased its Authorised Share Capital from Rs. 150 million to Rs. 300 million. There was no change in the Paid-up Equity Capital of the company. Reserves and Surplus have gone up substantially from Rs. 653 million to Rs. 834 million. Marico has been very conscious about its debt profile

Net Working Capital

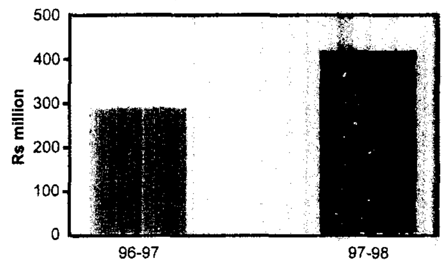


and has been reducing debt consistently. The debt : equity ratio is now at an all-time low of 0.09, down from 0.23 previous year. The company had no outstanding secured debt at the end of 1997-98. Among unsecured loans, Marico redeemed the entire Commercial Paper of Rs. 50 million while privately placing 13.25% non-convertible debentures worth Rs. 70 million. A prime contributor to lower finance charges was efficient working capital management, a key parameter for all consumer-products companies. While inventory holding period came down from 24 days to 19 days, average collection period too came down by a day from 22 days to 21 days. The average net working capital cycle came down from 47 days to 34 days.

Liquidity, Cash Flow & Deployment

During the year, Marico's net operating cash flow increased by 46% from Rs. 286 million to Rs. 416 million. The company, as of March 31, 1998, had net surplus funds of Rs 120 million, which are proposed to be judiciously deployed in

Net Operating Cash Flow

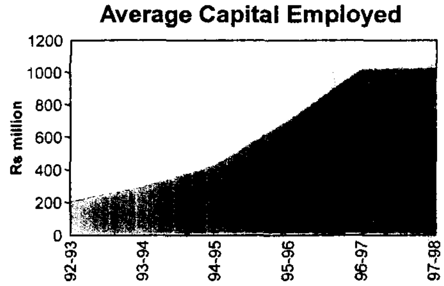


exploring growth opportunities including acquisitions, without compromising the return on capital employed and shareholder value accretion.

Capital Employed

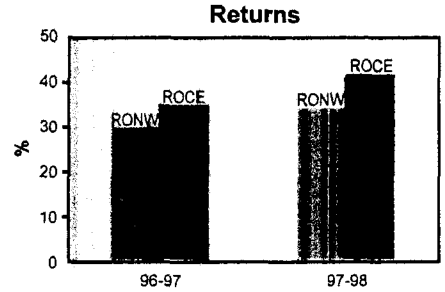
Despite a 20% growth in Sales, the average Capital Employed was flat at Rs. 1027 million, up by only Rs. 4 million from the previous year's level of Rs. 1023 million. Capital Employed,which does not rise in the same proportion as Sales, provides to Marico's business, a platform of leanness, based on which Operational and Marketing efficiencies can consistently contribute to Economic Value Added (EVA).

Average Capital Employed



Effective utilisation of Capital Employed together with improved earnings has helped Marico to post handsome gains on two important parameters of return to shareholders, viz., Return on Capital Employed (ROCE) and Return on Net Worth (RONW). ROCE went up from 34.5% to 41.3%, while RONW spurted from 29.5% to 33.8%.

Returns



Goa on Marico's Map

During 1997-98, Marico successfully commissioned its Goa factory without any time or cost overruns. The factory, with a project cost of about Rs 165 million,incorporates the DeSmet Technology in oil expelling,which has been employed for the first time in the world for crushing Copra on a large scale.

Brand growth. Profits. And more. In December 1997, the World Economic Forum honoured Marico as a Top-performing Global Growth Company from India. Another recognition was the prestigious AMITY - HRD Network Human Resource Excellence Award, won by Marico's Kanjikode unit, from among 160 organisations. Marico's all round competencies continue to win accolades from the cognoscenti.

TO FELLOW SHAREHOLDERS

Dear Shareholders:

Financial Performance

Marico closed 1997-98 with a 20% sales growth and a 50% profit growth. Our brands continued to reaffirm their leadership positions. The focused efforts of our Organisational Members and associates ensured an extended consumer franchise across India, the Middle East and some SAARC countries.

New Organisation Structure

Effective 1998-99, we have organised ourselves into three Businesses which will function as Profit Centres: Nature Care (Brands: *Parachute, Hair & Care* and *Revive*), Health Care (Brands: *Saffola, Sweekar* and *SIL*) and International Business. Each of these Businesses require specialised focus and competencies, thereby rendering such a re-organisation a strategic necessity. Also, the creation of the profit centres would lead to higher business orientation, improved interfunctional co-ordination and ensure the most competitive and judicious use of shareholders' funds. Another feature of the new structure is the creation of a separate Sales Organisation which would improve the overall productivity of the Sales effort.

Brands

Brands are key assets for Marico. There have been some doubts expressed on the ownership of the Brands - *Parachute* and *Saffola*. It is to be noted that *Parachute* and *Saffola* were conceived by Bombay Oil Industries Limited (BOIL) before Marico's incorporation. BOIL is therefore the natural owner of the Brands. However, the Brands *Parachute* and *Saffola* are on perpetual lease to Marico, allowing it total freedom to build the Brands. Marico is also free to extend the equity of the Brands to new products at no extra royalty costs. Marico has the first right of refusal, should BOIL wish to alienate itself from the ownership of the Brands. The royalty rates are commercially reasonable, in line with the industry practice. The current arrangement thus ensures that the commercial benefits of the Brands are available to Marico on an enduring and sustainable basis. The other Brands, namely *Sweekar, Revive, Hair & Care* and *SIL* are in the exclusive ownership of Marico.

Merger of Kanmoor Foods with Marico

The proposed merger of Kanmoor Foods Limited with Marico is awaiting the approval of BIFR. In considering the merger proposal, Marico has ensured that the principle of incremental shareholder value is not compromised in any way. Accordingly, if the merger terms, as finally approved, are not in the best interests of Marico, the merger will not be proceeded with.

Marico, as a matter of policy, deals with other entities owned by its promoters on an "arms-length commercial basis". This policy would continue to apply in all respects.

Distribution Policy

From a conservative stance of a closely-held unlisted company, Marico has moved towards delivering value to the Shareholders in line with the practices adopted by high performing, widely-held companies. In the past two years, the dividend has increased each half year. This committment towards shareholder value-enhancement will continue to be the determinant of Marico's Distribution Policy

The Immediate Future

The 50% profit growth of 1997-98 was partly a correction of the deceleration during 1996-97 and hence, may not be fully sustainable.

However, the financial performance outlook for 1998-99 is promising. Raw material availability by and large, will be satisfactory, except in the case of Safflower, which may give rise to fluctuations in revenue and profits from quarter to quarter.

We would continue to consolidate, pursue aggressive growth and extend our Brands with a greater emphasis on value-added products.

Marico is one among the few funds-surplus companies in India. We will continue to ensure that we utilise these funds judiciously towards maximising Shareholder Value.

The Long Term Future

The birth of Marico eight years ago, was the continuation of a dream we had of building a contemporary FMCG business, equal to, if not better than the best. Our dream, has been partly realised, but there are still many things to do and yet more things to accomplish.

We will aggressively grow our three businesses, in spite of the highly competitive environment and the accelerated pace of change. We believe we have all our building blocks in place to launch ourselves into the next millennium as a formidable FMCG company in India and parts of Asia.

Our capabilities have been amply demonstrated in our track record. You can rest assured that we will continue to work hard in delighting you, both as a consumer and as an investor.

Best Wishes.

Charandas V Mariwala

Chairman

SHAREHOLDER VALUE MAXIMISATION

Research has shown that there is a fundamental correlation between Economic Value Added (EVA) and shareholder value. Last year, we were one of the few Indian companies to measure and report EVA in their Annual Report. We continue to report this measure of Shareholder value creation.

EVA is :

EVA is the residual income after a charge for the cost of capital provided by lenders & shareholders is considered. It represents the value added to the shareholders by generating operating profits in excess of the cost of capital employed in the business.

EVA can also be described as incremental Net Operating Profit after Tax (NOPAT) over cost of capital employed (COCE).

NOPAT is :

Profits after depreciation and taxes but before interest, denoting the return available to both lenders and shareholders.

COCE is :

The weighted average cost of funds.

Cost of funds comprises cost of borrowed funds & cost of own funds, i.e. cost of equity.

Cost of equity is the aggregate of risk free return approximated by return on 364 day treasury bills plus Market risk premium multiplied by the Beta factor. The Beta factor measures the risk associated with the company's equity relative to the share market.

An increase in EVA reflects :

- Greater efficiency in utilisation of existing capital.
- Investment of additional capital in projects that return more than the cost of obtaining the new capital, i.e profitable growth.
- Liquidation of unproductive investments that do not cover the cost of capital.

Marico's Policy

Marico believes that consistent enhancement of EVA would lead to a consistent appreciation in shareholder value. EVA has, therefore, been adopted as a yardstick to measure shareholder value in Marico and is being woven into the performance measurement system at various levels. This will ensure that the objective of maximising shareholder value is embedded across Marico's organisation structure.

During 1997-98, EVA as a percentage of the Average Capital Employed grew to 18.3% from 8.5% in 1996-97, the quantum of EVA showing a hefty rise from Rs. 87 million to Rs. 188 million.

Economic Value Added analysis

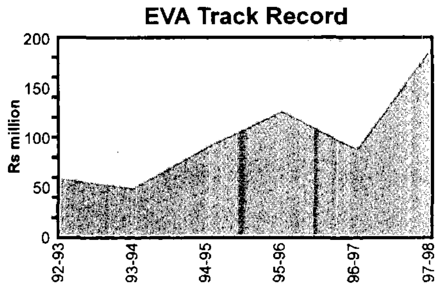
The following detailed analysis of the EVA

Year ended March 31	1993	1994	1995	1996	1997	1998 (Rs. million)
Average Capital Employed	207	294	427	704	1023	**1027**
Avg. Debt/Total Capital	54.4%	46.9%	43.6%	44.4%	28.7%	**13.5%**
BETA Variant	0.75	0.75	0.75	0.75	0.75	**0.75**
Cost of Risk Free Debt (Average of 364 days Treasury bill yields)	11.4%	11.1%	10.2%	12.9%	11.3%	**10.0%**
Market Premium	10.0%	10.0%	10.0%	10.0%	10.0%	**10.0%**
Cost of Equity {Cost of Risk free debt + (Beta * Mkt. Premium)}	18.9%	18.6%	17.7%	20.4%	18.8%	**17.5%**
Cost of Debt (Post Tax)%	8.7%	8.3%	10.3%	10.0%	10.0%	**9.4%**
Weighted Average Cost of Capital (WACC)	13.4%	13.7%	14.4%	15.8%	16.2%	**16.4%**
Profit after Tax (PAT) (excluding extraordinary Income)	62	64	118	183	201	**300**
Add: Interest Post Tax	23	25	33	52	52	**57**
Net Operating Profit after Tax (NOPAT)	85	88	151	236	253	**357**
Less: Cost of Capital	28	40	62	111	166	**169**
Economic Value Added	**58**	**48**	**89**	**125**	**87**	**188**

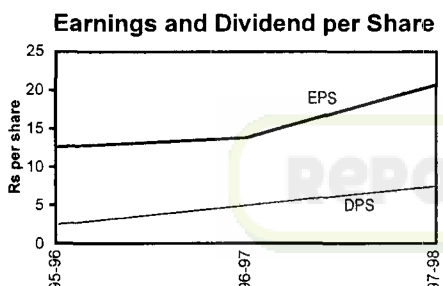
+ 1996 Average Capital Employed excludes the effect of application money received pending allotment (Rs. 175 million).

growth reveals Marico's twin strategy for shareholder value enhancement viz. control capital employed and boost operating margins.

Marico's EVA Track Record

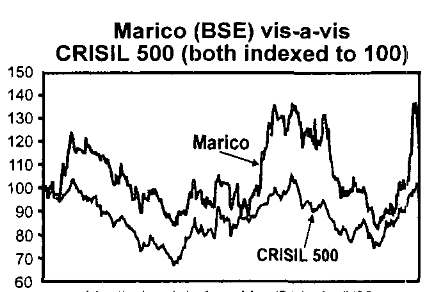


Marico's EPS and Dividend Record



Marico on the Stock Exchanges

Marico made its Initial Public Offer (IPO) during March 1996, at a price of Rs. 175 per share of Rs. 10. The performance of Marico's share since the IPO is captured in the graph alongside, which sees it out-performing the CRISIL 500 - an index which tracks a large sample of comparable companies including Marico.



Shares in Marico are currently listed on the Bombay Stock Exchange as also on the National Stock Exchange.

Shareholder Return Analysis

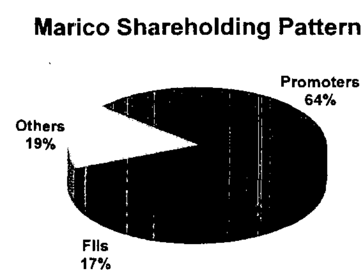
Since its IPO, Marico has provided consistently enhanced returns to its shareholders. The Returns to an investor in the IPO consist of a capital appreciation of Rs. 160 per share (based on the market price of Rs. 335 per share on the BSE as on April 27, 1998), together with aggregate dividends of Rs. 8.00 per share starting with the Interim dividend for 1996-97 and ending with the Interim for 1997-98.

Market Capitalisation

Marico's Market Capitalisation as on April 27, 1998, was Rs. 4857.50 million, based on the closing price of Rs. 335 on the Bombay Stock Exchange. Marico would be amongst the first 150 companies on the BSE ranked in the order of Market Capitalisation.

Distribution of Shareholding

(As on April 27, 1998.)



Current Limit to Investments by Foreign Institutional Investors (FIIs) is 24%.

Codes for Transactions

Reuters Code	: MRCO
Bloomberg Code	: MRCO IN
BSE Code	: 31642