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MARICO INDUSTRIES LIMITED

ANNUAL REPORT 1998-99

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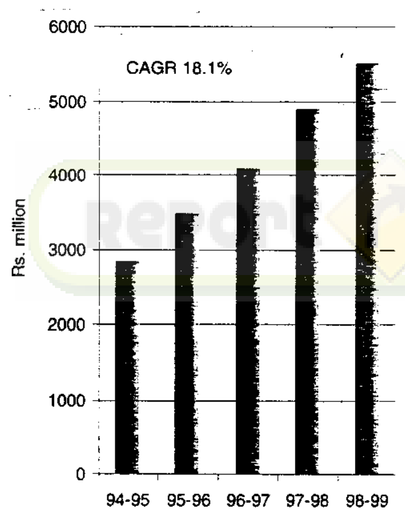

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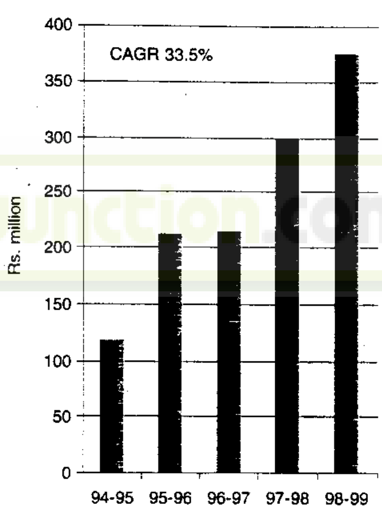

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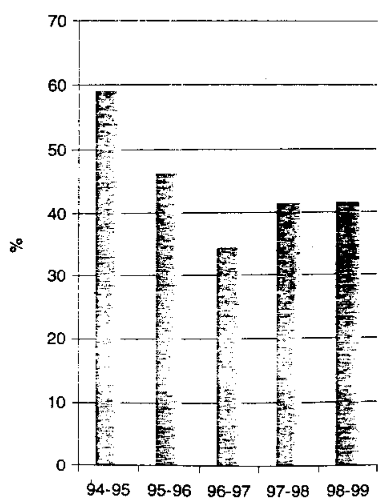

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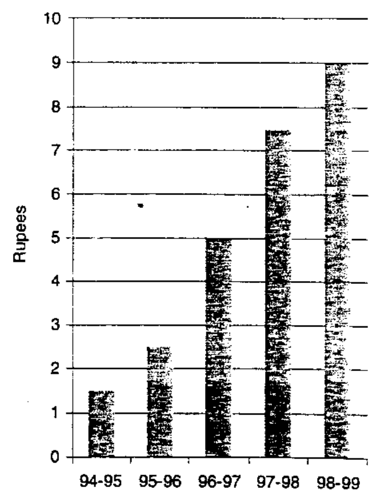

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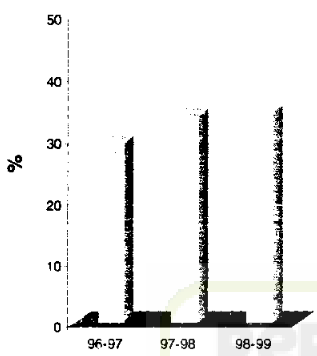
MANAGEMENT DISCUSSION

OVERVIEW

In the year ended March 31,'99 (FY 99), Marico achieved a Total Revenue of Rs. 5531 million (USD 129.4 million), representing a growth of 12.5% over the previous financial year (FY 98). The sluggish trend in the revenue growth during the first half of the year was reversed in the second half. In contrast to a growth of 9.1% in the first half, revenue in the second half recorded a growth of 15.5% over the corresponding period in FY 98.

Return on Average Net Worth



Marico posted pretax profits of Rs. 440 million (USD 10.3 million), a growth of 20.7%. Net Profit at Rs. 375 million (USD 8.8 million) was 6.8% of revenue, up from 6.1%, registering a growth of 24.9% over FY 98. Earnings per share during the year were Rs. 25.9 as compared to Rs.20.7 in FY 98. (Profits for FY 98 are after considering a non-recurring expense of Rs. 26 million (USD 0.6 million)).

Marico continued to maintain its focus on productivity of capital. Return on average capital employed (ROCE) was 41.5% against 41.3% in the previous year, while return on average net worth (RONW) improved to 34.3% from 33.8% in FY 98.

The Board of Directors has recommended distribution of a final dividend of 55%. Together with the interim dividend of 35% declared in October '98, the total distribution recommended is 90%, as compared to 75% for FY 98.

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BRANDS

PARACHUTE

During the ~~first quarter~~ of FY 99, retail prices of Parachute were dropped by about 18% with a view to expanding the coconut oil market and fighting low priced competitors. Although retail prices were raised by about 6% in the third quarter, Parachute showed a decline of 7% in value terms for the year as a whole. Whilst the volume growth in the first half of the year was a modest 4.5%, the second half saw volumes rising appreciably and the brand registered a 7.5% growth for the whole year.

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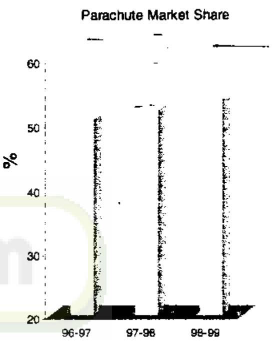
Parachute continued its dominance of the coconut oil market and improved its market share to 54.0% from 52.3% in FY 98. The Company plans to hold its market share through investments in brand building, maintaining cost leadership across the value chain and extending availability of the brand through distribution initiatives.



A significant portion of the coconut oil demand in the country today is serviced in loose form. This provides a large market opportunity waiting to be tapped. Parachute provides the consumer with coconut oil of a superior quality, free from adulteration, with better aroma and clarity. It also fulfils the aspiration of those with rising incomes, keen to switch to branded products. To encourage conversion from loose to packed consumption, Parachute is available in pouches, which can be retailed at a lower price due to lower packing costs and small unit volume packs that help reduce the unit price as well.

In FY 98, Parachute was restaged with a new look and the Coconut Dream logo. Parachute's Coconut Dream sought to associate the inherent goodness of coconut with the brand. This would provide the ideal platform for launching a basket of value-added hair care products with the "Goodness of Coconut" theme. In FY 98 the Parachute franchise was extended to Parachute Lite, a less greasy coconut hair oil, as well as two other hair grooming products, Parachute Nutri-Sheen Cream and Parachute Nutri-Sheen Liquid. This year, the Company test launched Parachute Lite Perfumed, with Jasmine fragrance and Parachute Active Herbs, a coconut hair oil with herbal ingredients Neem, Hibiscus and Almonds. When heated, its "Hot Oil Action" makes these ingredients penetrate deep into hair roots, giving maximum nourishment to help keep hair problem-free.

The response to Parachute Lite has been good and has helped it post a market share of 8.6% in the Value Added Coconut Oils market. Nutri-Sheen, a new product category, is being retailed in select towns.

Revive

Value growth during the year was over 5%. The unusually prolonged monsoon affected offtake and volumes grew by 2%. Revive, however, continues to be the only branded cold water

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starch to be retailed in the country. An improved formulation of the brand, which was rolled out recently, enhances the solubility of the starch thus adding to convenience, and also ensures a more uniform starching of all garments.

The Company test launched Revive Colourfix in July '98. This is an innovative product that fixes colour on fabric, addressing another typically Indian consumer need. During the year, sales were about Rs. 150 million (USD 0.35 million). Revive is emerging as a niche fabric care brand that could be extended to similar products.

Marico's Hair & Care

The brand turned in a steady performance during the period. Volumes grew by 15.7% accompanied by a value growth of over 19%. Marico's Hair & Care maintained its market share of 27.9% in the Non-Sticky Hair Oils market.

Saffola and Sweekar

For the Refined Oils in Consumer Packs business, the fortunes in FY 99 were mixed.

Saffola faced a raw material supply constraint during the year due to a complete washout of the domestic safflower crop on account of unseasonal winter rains. Alternative arrangements were made through imports in order to protect volumes. However, the lead-time for procuring the material from overseas resulted in considerable loss of sales. Volumes in Saffola, therefore declined by 15% as compared to FY 98.

Sweekar volumes improved substantially, partially offsetting the decline in Saffola. Sales of Sweekar refined sunflower oil crossed, for the first time, the Rs. 1 billion (USD 23.4 million) mark. With edible oil prices ruling high this year, some shifts from higher priced oils to more economical options like sunflower may have occurred. The outbreak of epidemic dropsy in some regions of the country, caused by adulteration of mustard oil with argemone seed oil, also gave a fillip to sales of branded oils which carry an assurance of better quality. Both, Sweekar refined sunflower oil and refined mustard oil, grew during the year.

In continuation of its strategy to make the preferred oil of the region available to consumers, Marico launched a refined Soya oil variant of Sweekar in

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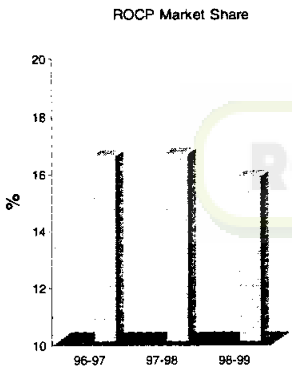
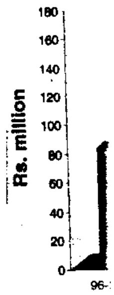
September '98 and Sweekar Filtered Groundnut Oil in January '99. With this, Sweekar now has a presence in most major segments based on regional tastes / preferences.

Marico's brands in the refined oils in consumer packs category grew by 19.7% in volume compared to FY 98. Marico maintained its number 2 position in the category, with a slight decline in market share due to Saffola shortages.



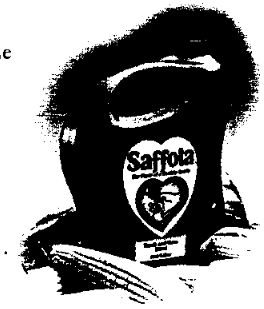
Raw material prices increased significantly during the first three quarters of the year. However, since the brands enjoy considerable equity, price increases could be taken. Consequently, in value terms, refined oils showed a growth of 41%.



Saffola means more than just refined safflower oil to the consumer and offered a potential for being restaged. In order to enable its transition from a largely curative to a wider, preventive usage, the brand has been positioned on a "Heart of a Healthy Family" platform.

In December '98, a safflower-corn blended refined oil was launched in North India. This brings with it the health benefits of safflower together with the rich taste of corn. It is priced below Saffola refined safflower oil, and is expected to expand the market.

The packaging for the brand also underwent an overhaul. Saffola is now available in a uniquely shaped jar. Its design facilitates smooth pouring of the oil, making it the only "glug-free" container in the market today.



The "Good for the Heart " equity of Saffola offered potential for the brand to be extended to other food categories. In December '98, Marico launched its first non-oil extension - a Mineral Enriched Salt. This is formulated to provide a 25% reduction in sodium in the salt. Diets low in sodium may reduce the risk of high blood pressure. The salt has been launched in a PET jar and retails at Rs. 20/- per kg, a significant premium over ordinary iodized salts. In February '99, a second variant (providing 10% reduction in sodium) was launched in a pouch pack at a retail price of Rs. 10/- per kg.

In January '99, Saffola Atta (wheat flour) was added to Saffola's heart care range. This is a whole-wheat atta enriched with natural soya proteins and soluble

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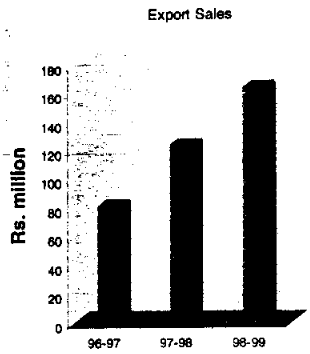
fibre from oats. Soluble fibre helps in the breakdown of cholesterol in the body. At present the product has been test launched in Delhi and is premium priced at Rs.·32/- for a 2 kg. pack.

Sil

The Sil range of processed foods was restaged during the year. New formulations including jams with glucose have been introduced. In order to enhance appeal and convenience, the packaging design for the entire range has been changed. The brand registered a 3 % growth in value. Sil jams maintained a market share of around 10%.



Exports

Exports during the year grew at 32 %, on a larger base, as compared to 50 % in FY 98. Marico's export turnover has now reached Rs. 163 million (USD 3.8 million), comprising largely of exports to the Middle East and Bangladesh.

Alliance with Indo Nissin Foods Ltd. for Instant Noodles

The large and well-established distribution network of Marico provided an opportunity for being leveraged to generate additional revenue streams for the Company. In June '98, Marico operationalised its marketing and distribution alliance with Indo Nissin for Top Ramen instant noodles. Under the arrangement Marico earns a fee linked to sales. No investments are envisaged by Marico while all expenses are reimbursed by Indo Nissin. This has increased the Company's throughput in the processed foods segment and is expected to increase Marico's clout in the distribution chain. It will also provide the Sil range access to certain types of outlets where Top Ramen has a better reach.

In July '98, Top Ramen had a market share of 13.6% of the instant noodle market. By February '99, this improved to 21.4%.

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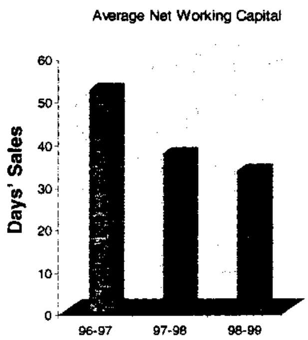
FINANCIAL REVIEW

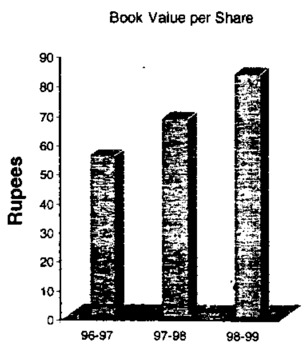
Net Cash Flows from continuing operations continued to fund the Company's working capital, capital expenditure, dividends and reduction of debt. Operating profit before working capital changes increased by 14.5% to Rs. 529.8 million (USD 12.4 million). At the year end, there was an increase of inventory levels by Rs. 239.3 million (USD 5.6 million) as compared to March '98, largely on account of raw material build up in safflower and advances for raw material imports in transit. The level of finished goods inventory was also Rs. 132 million (USD 3.1 million) higher owing to higher unit values in Parachute as well as the launch of new products this year.



During the year, additions to fixed assets were about Rs. 130 million (USD 3.06 million). These mainly comprised investments in new packaging systems at the Goa plant, in production facilities for instant starch and in information technology, including VSATs for improved connectivity amongst factories, regional offices, the copra buying office at Calicut and the corporate centre.

The focus on tight control of working capital was maintained. Despite the launch of a range of extensions, average net working capital increased only marginally. Consequently, the Company's return on total capital employed continued to remain healthy at 41.5%. Receivables increased marginally to 23 days from 21 days of sales. With the proportion of rural sales increasing, the collection period may inch upwards.

During the year, paid up equity capital remained at Rs. 145 million (USD 3.4 million). Reserves and surplus increased by Rs. 230.9 million (USD 5.4 million) to Rs. 1064.9 million (USD 24.9 million). The Company repaid 13.25% non-convertible debentures of Rs. 70 million (USD 1.6 million) during the year. Against a net worth of Rs. 1,234.8 million (USD 28.9 million), the Company had no secured debt and an unsecured debt of Rs. 25 million (USD 0.6 million) on 31 March, '99, reflecting a high debt raising capacity. (The unsecured debt comprises Rs. 4.4 million (USD 0.1 million) fixed deposits carrying a coupon of 15 % per annum and an interest-free deferred sales tax loan



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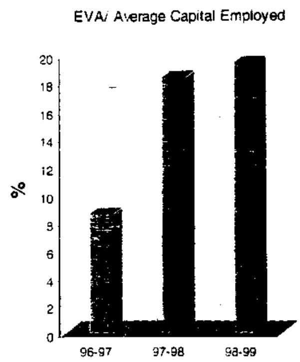
of Rs. 20.6 million (USD 0.5 million)). The Company has access to various sources of funds at attractive rates based on its strong financial position, including undrawn lines of fund-based credit from its consortium of banks totalling Rs. 350 million (USD 8.2 million). Marico's short-term commercial paper rating with ICRA remained at A1+, indicating highest safety.

Operations

	Operating Costs to Sales (%)	
	FY 98	**FY 99**
Raw Material	56.2	**57.6**
Packing Material	10.7	**9.9**
Advertising & Sales Promotion (ASP)	8.3	**7.1**
Personnel	2.8	**3.2**
Other Expenses	12.9	**12.9**

[Other expenses for FY 98 are after considering a non-recurring expense of Rs.26 million (USD 0.6 million)]

Raw materials showed divergent trends during the period. While the prices of both sunflower and safflower oil flared owing to a poor oilseeds crop in India as well as overseas, copra prices ruled easy. However, a drop in retail prices lowered the sales realisation of Parachute coconut oil. Overall the raw material cost as a percentage of revenue moved up by about 1.4 percentage points. ASP expense ratio was lower as advertising expenditure on Saffola refined safflower oil was curtailed in view of the supply constraint. Another factor causing the lowering of ASP ratio to Revenue was the relatively higher spend on the restaging of Parachute in FY 98 as compared to the restaging of Saffola this year. Control on other expenses was maintained.



EVA (Economic Value Added)

One of Marico's strategic objectives is to consistently deliver earnings in excess of the cost of capital provided by lenders and shareholders. EVA, which measures the residual income after considering a charge for the cost of capital, has therefore been adopted

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