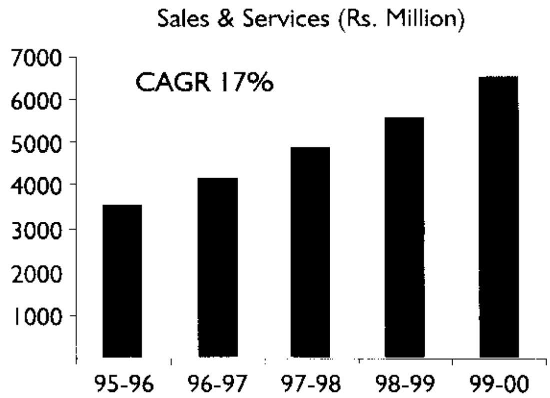
MARICO

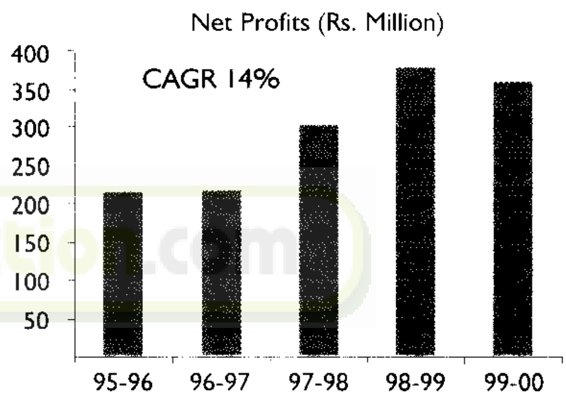
MARICO INDUSTRIES LIMITED

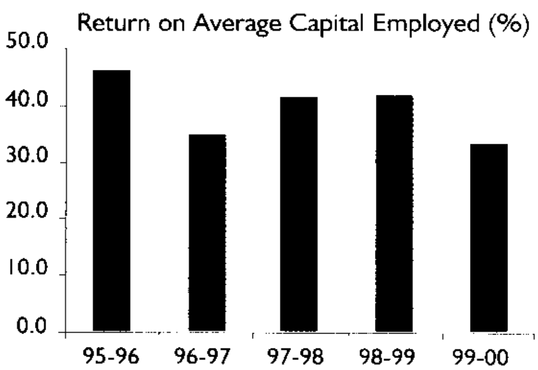
ANNUAL REPORT 1999-2000

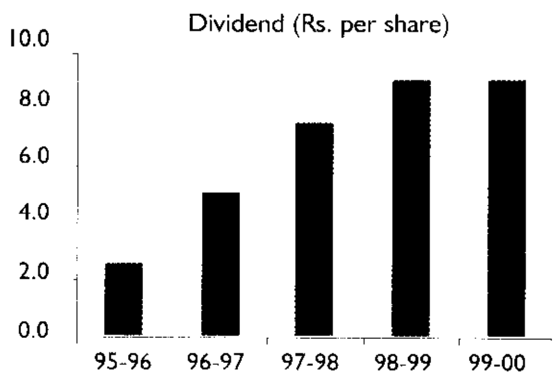
Contents

PERFORMANCE AT A GLANCE









Management Discussion

Overview

During the year ended March 31st, 2000 (FY00), Marico achieved a turnover of Rs. 6483 million (USD 148.5 million) from Sales and Services, representing a growth of 17.6% over the previous year (FY99). Despite difficult market conditions and intensified competition, top-line growth remained healthy.

FY00 saw a significant step-up in the Advertising and Sales Promotion (ASP) support extended to new products launched, as well as to the existing product range. Investments in ASP during FY00 were about Rs. 587 million (USD 13.4 million) as compared to Rs. 390 million (USD 8.9 million) in FY99. In terms of a proportion to Sales & Services, ASP increased to 9.1% in FY00 as against 7.1% in FY99. This significantly higher level of brand spend had an impact on FY00 profitability.

FY00 witnessed a steep decline in the prices of most edible oils, as a consequence of which all major players, including Marico, reduced retail prices of refined edible oils. This resulted in some erosion of margins for the Company.

Profit before Tax and exceptional item during FY00 at Rs. 426 million (USD 9.7 million), showed a de-growth of 3.3 % over FY99.

During December '99, workmen at the Company's Sewree plant availed of a Voluntary Retirement Scheme (VRS) offered by the Company and were paid an aggregate amount of Rs. 18 million (USD 0.4 million). As a prudent accounting policy, the entire amount has been charged off to revenue during the year and shown as an exceptional item in the financial results.

Consequent to Marico adopting the Accounting Standard AS2 (made mandatory by the Institute of Chartered Accountants of India with effect from April '99), necessary changes have been made in the method of valuation of its inventory, as a result of which, inventory as on March 31st, 2000 and profits for FY00 are higher by Rs. 10 million (USD 0.2 million).

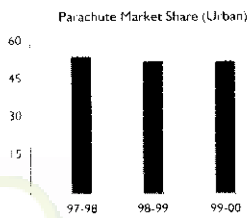
Dividend for the year comprised two interim dividends aggregating 90% (Rs. 9.00 per share of Rs. 10.00). This translates into a dividend payout of 40.5% (inclusive of dividend tax) as compared to 38.5% in FY99.

Brand Review

Parachute

Marico's top-line growth during FY00 was powered by a very healthy performance by its flagship brand Parachute. A strong volume growth of over 14% as compared to FY99 ensured that the brand maintained its dominating position in the branded coconut oils market. In order to build upon its existing franchise, the Company increased advertising support to the brand and ran sales promotion schemes. To provide greater value to consumers, it also introduced a new All Seasons' pack, which has made dispensation more convenient.

Notwithstanding increased competition, Parachute's market share during the 12-month period ended March '00, was maintained at 53%.



Raw material (copra) prices for Parachute ruled high through most of FY00. Average prices during the year were higher than those during the previous year by about 18% . Retail prices of Parachute were increased in stages during the year, which helped counter the higher raw material cost.

Increased sales realizations together with volume growth, resulted in the brand achieving a value growth of about 30% during the year ended March '00, over the previous year.

Oil of Malabar

In December '99, Marico acquired the coconut oil brand Oil Of Malabar and all associated business and commercial rights from West Coast India Ltd. (WCIL). Oil Of Malabar, with an All India market share of about 3% had clocked a turnover of over Rs. 120 million (USD 2.8 million) during 1998-99. On an All India basis, it reaches about 160,000 outlets including about 100,000 rural outlets.

This acquisition would help in increasing Marico's franchise in the pure coconut oil market. It also equips the Company with a second brand with which to combat low priced competition and thus take some pressure off Parachute.

Parachute Lite

The performance of Parachute Lite was moderate. The brand recorded a volume growth of over 6% over the previous year. Its share in the value added coconut oils market during the 12 months ended March '00, was maintained at 7%. Parachute Lite Jasmine, which was earlier test launched in the East, was rolled out in some markets in the North and the West.

Parachute Dandruff Solution

During the fourth quarter of FY00, the Company launched Parachute Dandruff Solution coconut hair oil. This is for the first time that a coconut hair oil with a dandruff fighting property has been introduced. It combines the goodness of coconut oil with special anti-dandruff agents such as - Neem, Lemon and Tea Tree Oil. The recommended application instruction of leaving the oil on overnight makes it more effective than ordinary anti-dandruff shampoos. Thus, apart from coconut nourishment, Parachute Dandruff Solution also provides a more distinct consumer benefit. The launch was supported by a strong advertisement campaign. The initial response to the launch has met expectations.

Marico's Hair & Care

During the year ended March '00, Marico's Hair & Care grew by 7% in value terms while volumes declined marginally. In the 12-month period ended March '00, its market share showed a small decline to about 23% of the Non-Sticky Hair Oils market.

Revive

Revive continues its dominance of the cold water fabric starch category. During the year ended March '00, however, its volumes remained flat.

Mediker

During the first quarter of FY00, Marico acquired from Procter & Gamble (P&G), the Anti-Lice Treatment business under the Brand Mediker with an annual turnover of about Rs. 80 million (USD 1.8 million). The Company commenced sales of Mediker towards the end of July '99. Focus provided by Marico resulted in an immediate spurt in the sales of the brand. During the nine months or so of operations until March '00, Mediker sales exceeded the annual turnover of about Rs. 80 million (USD 1.8 million) achieved during the entire year FY99.

Saffola & Sweekar

Oils

Saffola recovered some of the franchise lost last year. The Saffola safflower and corn oil blend, which brings a healthy oil to consumers at a price point between refined safflower oil and refined sunflower oil, was extended to some of the markets of South and East India during the second quarter of FY00. Saffola volumes (Refined Safflower Oil and Refined Safflower + Corn blend) grew during FY00 by over 14% over

FY99. The value growth was lower at about 3%, partly on account of the blend being consciously priced lower.

Last year Sweekar had achieved an extraordinary volume growth of 45%. On the back of this strong performance in the previous year, the brand has shown a volume de-growth of about 19%. Part of this decline is on account of the fact that the Company, as part of a portfolio rationalisation initiative, decided to discontinue some of the lower margin variants of Sweekar it had launched in the last two years.

Most edible oils experienced a steep decline in prices during FY00. This resulted in most players lowering their retail prices. Together with the de-growth in volume therefore, Sweekar showed a value decline of 35% over the previous year.

Marico's share in the Refined Oil in Consumer Packs (ROCP) market during the 12-month period ended March '00 was about 14%.

Value Added Salt

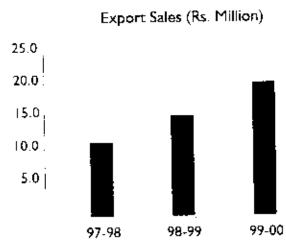
Last year two variants of Saffola salt had been rolled out. While Saffola Mineral Enriched Salt (MES) continues to be available in select towns, Saffola Healthy Heart Salt (HHS) has been rolled out nationally. The response is in line with expectations. Being premium priced, Saffola Salts are expected to notch up a small share of the market in the medium term.

Sil

The Sil range of processed foods was re-staged last year, with new pack designs and a new formulation of jams with glucose. This has evoked a good consumer response. During the year ended March '00, the brand recorded a turnover growth of about 29% compared to the previous year. Sil's market share in the jams category during the 12-month period ended March '00 increased to over 12%, from about 10% in the previous year.

International Business

Exports grew by 23 % over the previous year. Export sales now stand at Rs.200 million (USD 4.6 million), comprising largely exports to the Middle East and Bangladesh.



In the medium term, the Company plans to explore opportunities in the SAARC region. In order to optimally tap the potential offered by Bangladesh, Marico set up its first wholly owned subsidiary in Bangladesh. Marico Bangladesh Ltd. (MBL) commenced local operations during the year. The Company has also identified Srilanka as a market with potential.

Marketing and Distribution Business

Top Ramen

Top Ramen instant noodles which Marico markets and distributes for Indo Nissin Foods Ltd., continues to do well. Top Ramen Curry Noodles, a new variant, was launched during the year. During the 12-month period ended March '00, Top Ramen's share in the instant noodle market was 21% as compared to about 19% in the previous year.

P&G

An agreement was put into effect in July '99, with Procter & Gamble Home Products Ltd. and Procter & Gamble Hygiene and Health Care Ltd. (P&G) to distribute their brands Clearasil, Ultra Clearasil, Pampers, Old Spice, Ariel detergent bar and Camay in India. During the nine month period from July '99 to March '00 that Marico distributed these brands, they clocked a turnover of Rs. 444 million (USD 10.2 million). This is being accounted as Marico's turnover, on which it earns a fee to cover expenses and profit expectations.

Leveraging Marico's distribution network through these alliances has, apart from providing benefits such as access to certain food and chemist outlets and an increased throughput, also helped in adding a distinct income stream for the Company.

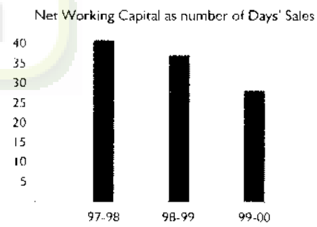
Operations

	% to Sales & Services	
	FY00	FY99
Raw Material	57.8	57.6
Packing Material	9.3	9.9
Advertising & Sales Promotion	9.1	7.1
Personnel	3.3	3.2
Other Expenses	13.6	13.9
Operating Costs	93.1	91.7
Operating Margins (PBIT) (Excludes Other Income & Exceptional item)	6.9	8.3

Raw material prices showed varied trends. While there was a steep decline in sunflower oil prices, copra prices remained high for most of the year. However, retail prices of Parachute were increased to counter the raw material price increase. The inclusion of P&G products in finished goods purchased has also increased the component of raw material in the cost structure. Overall, raw material as a proportion of sales and services was the same as in the previous year. While all other costs were also kept under control, a sharp increase in advertising and sales promotion investment to 9.1% of sales & services in FY00 from 7.1% in FY99, resulted in the operating margin declining to 6.9% of sales & services in FY00 from 8.3% in FY99.

Financial Review

Net cash flow from continuing operations nearly doubled to Rs. 443 million from Rs. 223 million in FY99. During the year, paid up equity share capital remained at Rs. 145 million (USD 3.3 million). Reserves and surplus increased by Rs. 212 million (USD 4.9 million) to Rs. 1277 million (USD 29.3 million). Against a net worth of Rs. 1422 million (USD 32.6 million), the Company had no secured debt and an unsecured debt of Rs. 33 million (USD 0.8 million) on March 31st, 2000. The unsecured debt comprises Rs. 3 million (USD 0.1 million) fixed deposits carrying a coupon of 15% per annum and an interest free deferred sales tax loan of Rs. 30 million (USD 0.7 million). With a debt to equity ratio of 0.02:1, the Company is well placed in its capacity to raise debt. The Company continues to have 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 8.0 million). ICRA reaffirmed Marico's short-term commercial paper rating at A1+, indicating highest safety and its MAA+ rating for medium term debt.



For the increase in turnover during the period, there was a less than proportionate increase in Net Working Capital. Average Net Working Capital thus reduced to 29 days of Sales & Services during FY00 from 33 days in FY99.

During the year there was a significant increase in the investments in Fixed Capital. Gross Fixed Assets as on March 31st, 2000 were higher than on March 31st, 1999 by Rs. 333 million (USD 7.6 million). The major investments were in the acquisitions of the brands Mediker and Oil Of Malabar and balancing equipment at the Company's Jalgaon factory. During the last quarter of FY00, the Company acquired the processed foods manufacturing facility of Kanmoor Foods Ltd., located at Saswad, for a consideration of Rs. 17 million (USD 0.4 million), based on valuation reports of Deloitte Haskins & Sells.

Return On average Capital Employed (ROCE) for the year has declined to 32.7% from 41.5% in the previous year, largely because of a higher gross block. Economic Value Added (EVA) during the period was Rs. 233 million (USD 5.3 million) as compared to Rs. 230 million (USD 5.3 million) in the previous year.

During June 1999, the Boards of Directors of Marico and The Bombay Oil Industries Limited (BOIL) had reached an understanding in terms of which the brands Parachute and Saffola would be assigned to Marico. The assignment will take effect by June 30th, 2000. Marico is expected to discharge the full payment of Rs. 300 million (USD 6.9 million) during the quarter April - June 2000. The outgo on account of payment of royalty to BOIL would stop upon payment of the consideration. This addition of Rs. 300 million (USD 6.9 million) to the Company's gross block, will have an impact on ROCE and EVA.

Economic Value Added Analysis

Rs. in Million

Year Ended March 31st	1996	1997	1998	1999	2000
a) Average Capital Employed	704	1023	1027	1152	1345
b) Average Debt / Total Capital (%)	44.4	28.7	13.5	5.0	2.1
c) Beta Variant	0.75	0.75	0.75	0.68	0.31
d) Risk Free Debt (%) (Average of 364 days Treasury bill yields)	12.9	11.3	10.0	9.5	10.1
e) Market Premium (%)	10.0	10.0	10.0	10.0	10.0
f) Cost of Equity (%) d + (c x e)	20.4	18.8	17.5	16.3	13.2
g) Cost of Debt (Post Tax)(%)	10.0	10.0	9.4	8.5	7.1
h) Weighted Average Cost of Capital (%)	15.8	16.2	16.4	15.9	13.1
i) Profit After Tax (excl. extraordinary item)	183	201	300	375	375
j) Add : Interest Post Tax	52	52	57	38	34
k) Net Operating Profit After Tax	236	253	357	413	409
l) Less : Cost of Capital	111	166	169	183	176
m) Economic Value Added	**125**	**86**	**188**	**230**	**233**
n) EVA % to Capital Employed	17.8	8.4	18.3	20.0	17.3

Portfolio Rationalisation

Over the last two years or so, Marico had test marketed / launched over a dozen new products. These have met with varying degrees of success in the market place. There has also been learning, which is being acted upon. In order to focus organizational energies and resources on a vital few, the product portfolio was rationalised. The choice of brands to focus on is based on their strategic importance and financial returns. Consequently, the Company withdrew some of the low margin variants of Sweekar