ACCUMULATE

Price	**Rs68**
Target Price	**Rs76**
Investment Period	**12 months**

Stock Info

Sector	FMCG
Market Cap (Rs cr)	4,108
Beta	0.6
52 WK High / Low	83 / 47
Avg Daily Volume	233,427
Face Value (Rs)	1
BSE Sensex	17,016
Nifty	5,090
BSE Code	531642
NSE Code	MARICO
Reuters Code	MRCO.BO
Bloomberg Code	MRCO IN

Shareholding Pattern (%)

Promoters	63.5
MF/Banks/Indian FIs	11.4
FII/ NRIs/ OCBs	17.6
Indian Public	7.5

Abs.	3m	1yr	3yr
Sensex (%)	(6.3)	22.3	176.5
Marico (%)	2.3	21.2	180.8

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Performance Highlights

- **Modest Topline growth, up 18%:** For 4QFY2008, Marico posted a modest Topline growth of 17.8% yoy to Rs468cr (Rs397cr) on a consolidated basis in line with our expectation of an 18.6% growth to Rs471cr. However, this was the first quarter of below 20% Topline growth during the last eight quarters indicating the impact of high base. Healthy growth across its businesses including consumer products in India, international business and Kaya Skin Solutions, contributed to overall growth.

- **Earnings growth disappoints, up 7%:** Marico's Earnings for the quarter, on a consolidated basis, grew 45.1% yoy to Rs40.8cr (Rs28.1cr) on reported basis largely aided by a one-time gain of Rs10.6cr on account of sale of *Sil* brand to Scandic Food India Pvt Limited (Good Food Group, Danish Firm). Adjusting for this extraordinary gain, Marico's recurring Earnings on pre-exceptional basis registered a disappointing growth of 7.3% yoy to Rs30.2cr (Rs28.1cr) as against our expectation of a 20.6% growth to Rs33.9cr. The lower-than-expected Earnings growth was on account of Margin contraction (owing to higher Staff Costs) and lower Other Income (declined almost 58% yoy).

- **Margins contract:** At the Operating front, Marico delivered a disappointing performance registering a 35bp contraction in OPM to 9.7% (10.1%) resulting in a muted 13.6% yoy growth in EBITDA to Rs45.6cr (Rs40.1cr). While the company witnessed some easing of pressure on the raw material front (122bp decline as a % of sales despite rising copra prices and higher edible oil prices) aided by price hikes, higher Staff costs (jumped almost 350bp yoy) led to Margin contraction. The rise in Staff Costs was due to additional head count for *Kaya*, performance incentives and higher employee costs in the South African acquisition (*Enaleni Pharma*). Going ahead, we believe Marico is likely to witness pressure on the Margin front owing to rising copra prices (up 15-20% during FY2008), strong rollout of Kaya Skin Clinics (will drag profits till operations stabilise) and consolidation of South African acquisition (enjoys lower Margins vis-à-vis Marico's core business).

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008E	FY2009E	FY2010E
Net Sales	**1,557**	**1,907**	**2,248**	**2,560**
% chg	*36.1*	*22.5*	*17.9*	*13.9*
Net Profit (Adj)	**98.9**	**158.5**	**182.6**	**220.9**
% chg	*13.8*	*60.3*	*15.3*	*20.9*
OPM (%)	12.8	12.9	12.8	13.1
EPS (Rs)	**1.9**	**2.8**	**3.0**	**3.6**
P/E (x)	36.4	24.3	22.5	18.6
P/BV (x)	21.4	14.6	10.4	7.5
RoE (%)	51.4	56.4	46.0	40.1
RoCE (%)	33.0	33.7	36.0	36.6
EV/Sales (x)	2.8	2.3	1.9	1.7
EV/EBITDA (x)	21.7	17.5	15.0	12.9

Source: Company, Angel Research

Key Developments during FY2008

- *Parachute* coconut oil registered 11% volume growth for FY2008 despite a 3% price hike in July 2007 to offset rising copra prices, which bears evidence to the brand's stronger pricing power. The brand currently has a marketshare of 48% in volume terms. However, including *Nihar,* Marico's marketshare in the branded coconut oil category stands at a strong 56%. During the year, *Nihar* recorded a modest growth of 4% yoy depressed on account of pipeline filling in the previous year.
- The Hair Oils Segment has been witnessing steady growth. Marico's hair oils in rigid packs grew 16% yoy in volume terms for FY2008.
    - In the Perfumed Hair Oil category (rigid packs), *Parachute Jasmine* and *Nihar* registered 12% volume growth for the year. Between the two brands, Marico commands a dominating marketshare of 78% in the category.
    - *Shanti Amla* recorded a strong growth of 24% yoy during the year, boosted by consumer promotions and commands 9% marketshare in the Amla Oil category.
    - *Hair & Care* registered a volume growth of 15% during the year buoyed by promotions. It commands 16% marketshare in the non-sticky hair oils (NSHO) market.
- Marico has leveraged its expertise in the hair care space and developed a range of products particularly in the post-wash hair grooming products including brands like *Silk-N-Shine* (commands 32% marketshare in post-wash conditioner market), *Parachute After Shower Hair Cream* (commands 42% share in the hair creams market) and *Parachute After Shower Gel*.
- *Saffola* franchise registered a strong 22% growth in volume for the year despite steep price hikes, led by higher growth of *Saffola Gold* and *Saffola Tasty*.
- **International business continues to perform well:** Marico's International business grew 59% yoy during the year largely led by acquisitions as organic growth contributed 21% to overall growth. In November 2007, Marico entered the fast growing South African ethnic hair care and healthcare market through the acquisition of *Enaleni Pharmaceuticals Consumer Division* Pty Ltd (EPCD). The Durban-based EPCD is present across segments and has an annualised turnover of Rs53cr comprising largely of three brands, viz. *Caivil* in the premium ethnic hair care, *Black Chic* in VFM hair care and *Hercules* in OTC Health Care. During FY2008, Marico clocked a turnover of Rs20cr in South Africa. The thrust on expanding the franchise of *Parachute* hair cream in the Middle East continues. The brand has now begun closing the gap on the leader in the GCC countries, *Brylcream*. In Bangladesh, *Parachute* coconut oil increased its marketshare to 67%. In Egypt, *Fiancee* and *HairCode* are doing as per expectations and delivered a turnover of Rs88cr for the year. Marico has commenced a green field project in Egypt, which would serve as a manufacturing base for the MENA (Middle East and North Africa) region.
- **Kaya Skin Clinic – growing at rapid pace:** Kaya registered 34% yoy growth in FY2008 to Rs100cr. This growth has been delivered roughly in equal measure through new clinics, volume increase from existing clinics and price increases. Products constitute 13% of Kaya's revenues. During the year, Kaya Skin Care added 18 clinics. It now has 65 clinics, including 9 in the Middle East. In June 2007, Kaya was extended beyond skin care solutions. Kaya Life centers offer holistic weight loss solutions that are customised to individuals. Kaya Life opened its first center at Juhu in Mumbai and has added two more centres in Mumbai in 4QFY2008. We remain extremely positive on *Kaya's* business model owing to high scalability and a differentiated offering. Going ahead, we expect Marico to regain its focus on building critical mass for the venture by taking its total network to 91 clinics by FY2010E.
- **Other Developments -** During 4QFY2008, Marico marked entry into the cooling oil market (Rs400cr market with a growth of over 20%) by launching *Maha Thanda*. In line with its strategy to grow its focus brands, the company divested *Sil* brand to Scandic Food India on a slump basis, including the manufacturing facility at Saswad, for a profit of Rs10.6cr. *Sil's* share in Marico's turnover was not significant. It also ended its distribution alliance with Indo Nissin Foods (INFL) to distribute *Top Ramen*. Marico's income from this distribution stood at a mere Rs3cr for FY2008.

Outlook and Valuation

During FY2008-10, we expect Marico to clock a CAGR growth of 15.9% in revenues backed by strong volume growth in the domestic markets, aggressive expansion of *Kaya* (higher number of clinics, increasing product revenues and extension of *Kaya* brand to other platforms like *Kaya Life*) and new product launches. The company expects its core brands *Parachute* and *Saffola* to deliver a sustainable growth of 6-8% and 15% respectively, in volume terms during FY2008-10. As for the International business, a key revenue growth driver, management expects to clock a sustainable growth rate of 20% during the period. On the operating front, we believe Marico is likely to witness pressure owing to rising copra prices (up 15-20% during FY2008), strong rollout of *Kaya Skin Clinics* (will drag Profits till operations stabilise) and consolidation of South African acquisition (enjoys lower Margins vis-à-vis Marico's core business). We expect Marico to post a CAGR growth of 16.7% in EBITDA during FY2008-10 largely driven by Topline growth as Margins are expected to remain flat (modeled a decline in FY2009).

We remain bullish on management's ability and product portfolio to deliver consistent growth going ahead as majority of the revenue growth continues to be volume driven. Thus, we have revised our Revenue estimates upwards by 1.4% and 1.5% for FY2009E and FY2010E, respectively. However, owing to rising cost pressures, we have downgraded our Earning estimates by 9.4% and 8.2% for FY2009E and FY2010E to Rs3.0 and Rs3.6, respectively. At the CMP of Rs68, the stock is trading at 18.6x FY2010E EPS of Rs3.6 and 12.9x EV/EBITDA. **We recommend Accumulate the stock, with a revised Target Price of Rs76 (Rs79).**

Exhibit 1: 4QFY2008 Performance (Consolidated)

Y/E March (Rs cr)	4QFY2008	4QFY2007	% chg	FY2008	FY2007	% chg
Net Sales	**467.5**	**397.0**	***17.8***	**1,906.7**	**1,556.9**	***22.5***
Consumption of RM	237.5	206.5	*15.0*	980.9	803.8	*22.0*
(% of Sales)	*50.8*	*52.0*		*51.4*	*51.6*	
Staff Costs	36.3	16.9	*114.5*	126.8	91.1	*39.3*
(% of Sales)	*7.8*	*4.3*		*6.6*	*5.8*	
Advertising	71.2	59.8	*19.0*	245.5	212.4	*15.6*
(% of Sales)	*15.2*	*15.1*		*12.9*	*13.6*	
Other Expenses	76.9	73.6	*4.6*	307.2	251.0	*22.4*
(% of Sales)	*16.5*	*18.5*		*16.1*	*16.1*	
Total Expenditure	**422.0**	**356.9**	***18.2***	**1,660.3**	**1,358.2**	***22.2***
Operating Profit	**45.6**	**40.1**	***13.6***	**246.4**	**198.7**	***24.0***
OPM (%)	*9.7*	*10.1*		*12.9*	*12.8*	
Interest	7.3	4.7	*55.1*	27.7	20.6	*34.2*
Depreciation & Amortisation	7.9	11.5	*(31.1)*	30.9	52.2	*(40.9)*
Other Income	3.7	8.7		6.7	10.2	
PBT (excl. Extr Items)	**34.1**	**32.6**	*4.5*	**194.5**	**136.1**	*43.0*
Extr Income/(Expense)	10.6	0.0		10.6	14.0	
PBT (incl. Extr Items)	**44.7**	**32.6**	***37.0***	**205.1**	**150.1**	***36.7***
(% of Sales)	*9.6*	*8.2*		*10.8*	*9.6*	
Provision for Taxation	3.9	4.5	*(13.1)*	36.0	37.2	*(3.3)*
(% of PBT)	*8.7*	*13.8*		*17.5*	*24.8*	
Reported PAT	**40.8**	**28.1**	***45.1***	**169.2**	**112.9**	***49.9***
Minority Interest	0.0	0.0		0.1	0.0	
Adjusted PAT	**30.2**	**28.1**	***7.3***	**158.5**	**98.9**	***60.3***
PATM (%)	*6.5*	*7.1*		*8.3*	*6.3*	
Equity Shares (cr)	60.9	60.9		60.9	60.9	
Reported EPS (Rs)	**0.7**	**0.5**		**2.8**	**1.9**	

Source: Company, Angel Research

Angel Broking Limited

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Ratings (Returns)	Buy (> 15%)	Accumulate (5 to 15%)	Neutral (5 to -5%)	Reduce (> -5%)	Sell (> -15%)