4QFY09 Results Update
SECTOR: FMCG

Marico

STOCK INFO.	BLOOMBERG
BSE Sensex: 11,403	MRCO IN
	REUTERS CODE
S&P CNX: 3,474	MRCO.BO

Equity Shares (m)	609.0
52-Week Range	70/47
1,6,12 Rel. Perf. (%)	-5/9/36
M.Cap. (Rs b)	41.9
M.Cap. (US$ b)	0.8

30 April 2009 **Buy**

Previous Recommendation: Buy Rs69

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	19,067	1,589	2.6	62.6	26.4	13.3	50.5	33.5	2.3	18.2
03/09A	23,884	1,882	3.1	18.4	22.2	9.2	41.3	37.5	1.8	14.5
03/10E	25,448	2,275	3.7	20.9	18.4	6.6	35.8	37.4	1.6	12.1
03/11E	29,074	2,670	4.4	17.4	15.7	4.9	31.2	37.1	1.4	10.5

We attended Marico Industries' post results analyst meet.

Our key takeaways

- Marico has identified 'Health and Wellness' as the next growth driver. It has launched *Saffola Zest* (baked snack), *Saffola GI* rice and *Saffola Active* refined oil in 4QFY09.
- Marico will gain from lower input costs of copra (7-8%) and packaging (10%) in FY10. In addition, safflower oil prices are likely to decline significantly.
- Kaya Skin Care is likely to turn profitable in FY10. Kaya Skin Care is expanding network by 15-20 clinics every year. This SBU will achieve inflexion point at 120-130 clinics; post this, EBITDA margin should sustain at 20%.

12% volume growth in FY09; momentum likely to sustain: Consolidated net sales for FY09 increased 21%, backed by strong volume growth of 12%. In 4QFY09, sales grew 20.5% YoY. Gross margin declined 150bp, though lower ad-spend (down 500bp) resulted in EBITDA margin expansion of 330bp YoY. Reported PAT grew 8.7% YoY (adj PAT grew 43% YoY), as the company booked Rs150m impairment on sale of its US-based spa products business, Sundari.

Like growth strategy; maintain Buy: We are positive on Marico's long-term growth strategy. Margin pressure is likely to recede, as copra and safflower prices have declined. We estimate 90bp margin expansion in FY10, resulting in 20.7% PAT growth (CAGR of 19% over FY09-11). We are revising our EPS estimates by 3% for FY10 (to Rs3.7 from Rs3.6) and by 5% for FY11 (to Rs4.4 from Rs4.2). The stock trades at 18.4x FY10E and 15.7x FY11E EPS. **Buy**.

QUARTERLY PERFORMANCE (Rs Million)

Y/E MARCH	FY08				FY09				FY08	FY09
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	**4,691**	**4,638**	**5,062**	**4,659**	**6,009**	**6,035**	**6,228**	**5,612**	**19,067**	**23,884**
YoY Change (%)	*25.8*	*22.7*	*23.7*	*17.4*	*28.1*	*30.1*	*23.0*	*20.5*	*22.5*	*25.3*
Total Exp	4,031	3,990	4,420	4,203	5,253	5,296	5,437	4,879	16,603	20,864
EBITDA	**660**	**648**	**643**	**456**	**757**	**739**	**791**	**733**	**2,464**	**3,020**
Margins (%)	*14.1*	*14.0*	*12.7*	*9.8*	*12.6*	*12.2*	*12.7*	*13.1*	*12.9*	*12.6*
Depreciation	58	64	66	79	75	82	98	104	309	358
Interest	71	65	68	87	80	87	68	113	277	348
Other Income	7	5	3	52	10	12	31	80	67	133
PBT	**539**	**523**	**511**	**341**	**612**	**583**	**657**	**595**	**1,945**	**2,447**
Tax	136	101	83	39	149	111	148	156	360	564
Rate (%)	*25.3*	*19.3*	*16.3*	*11.4*	*24.4*	*19.1*	*22.5*	*26.1*	*18.5*	*23.0*
Adjusted PAT	**402**	**423**	**428**	**302**	**463**	**471**	**509**	**439**	**1,586**	**1,883**
YoY Change (%)	*32.9*	*38.0*	*54.4*	*-2.4*	*15.1*	*11.6*	*19.0*	*45.6*	*60.4*	*18.8*
Exceptional Items	0	0	31	106	0	0	0	4	106	4
Reported PAT	**402**	**423**	**459**	**408**	**463**	**471**	**509**	**444**	**1,692**	**1,887**

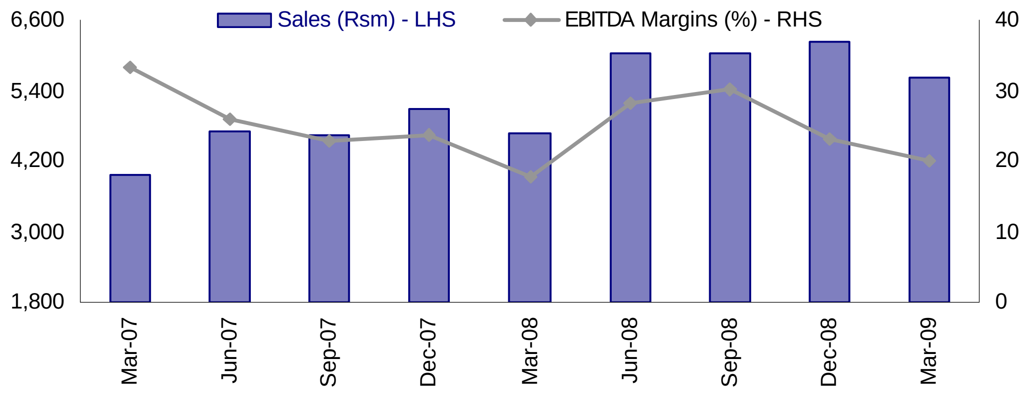
E: MOSL Estimates

Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com)Tel:+9122 39825404/Amit Purohit (AmitPurohit@MotilalOswal.com)Tel:+9122 39825418

12% volume growth in FY09; EBITDA margin expands 330bp YoY in 4QFY09

Marico ended FY09 with 26% sales growth (12% volume growth and 13% inflation-led). For 4QFY09, the company reported sales growth of 20% YoY. Gross margin declined 150bp YoY, though lower ad-spend (down 500bp) resulted in EBITDA margin expansion of 330bp YoY. Reported PAT grew 8.7% YoY (adj PAT grew 43% YoY), as the company booked Rs150m impairment on sale of its US-based spa products business, Sundari. The management indicated that Sundari business was hived off on account of (1) non-synchronization of Sundari (B2B venture) in the overall strategy, (2) business continuing to be in investment mode, and (3) difficulty in managing business from India.

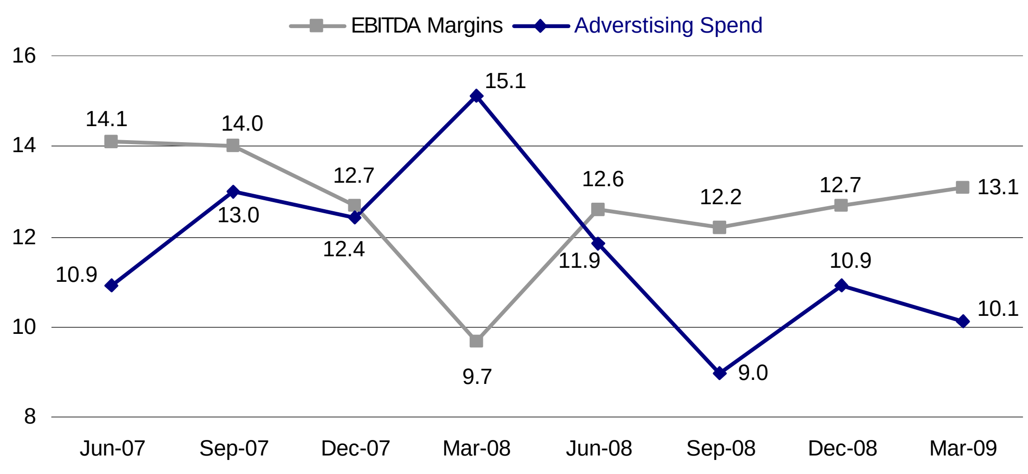
DECLINE IN SALES GROWTH DUE TO LOWER VOLUME GROWTH



Source: Company/MOSL

In 4QFY09, containment of ad-spend helped Marico to achieve YoY EBITDA margin expansion. Lower ad-spend was because of base effect (increased spending in 4QFY08 on account of new launches) and fewer launches in 4QFY09 as *Saffola Zest* and *Saffola GI* rice are still in prototype phase. Ad-spend has also been lower due to change in accounting policy (70bp decline), with consumer offers now being reduced from revenues and advertising. The management has guided ad-spend of 12% in FY10.

LOWER AD-SPEND ENABLES 330BP MARGIN EXPANSION IN 4QFY09



Source: Company/MOSL

Parachute and hair oils sustain steady volume growth

Marico's flagship brand, *Parachute* coconut oil recorded volume growth of 9% YoY, while volumes in the hair oil portfolio increased by 14%. Marico maintained its market leadership in the pure coconut oil segment, with 55% market share. In the hair oil segment, Marico has increased its market share by 160bp to 22% from 20.4% in August 2008, with brands like *Parachute Jasmine*, *Nihar*, *Hair & Care*, and *Shanti Amla*. *Parachute Advanced* hair cream and gel volumes grew 6%.

New launches in hair oil – *Parachute Advanced Revitalizing Hair Oil* and *Hair & Care Almond Gold* also helped boost volume growth. Performance of the newly launched cooling oil brand *Maha Thanda* has not been up to the mark; the company has changed the proposition through a new brand – *Nihar Natural Coconut Cooling Oil*, which is being prototyped in Bihar. The company has increased its push in rural markets through attractive pricing (Rs4 SKU), focused media campaigns and has also initiated IT connectivity with distributors to streamline the process.

Saffola volume growth improves QoQ; prices cut by 8%

Saffola volumes grew 11% in FY09. Volume growth was under pressure during 2HFY09, as the premium vis-à-vis other edible oils had reached unsustainable levels. With safflower prices falling, the company has initiated price reductions, the impact of which is reflected in higher volume growth – 5% in 4QFY09 vis-à-vis 3% in 3QFY09. Price reduction has been 8% in *Saffola Gold* (Rs120/litre to Rs110/litre), 5% in *Saffola Tasty Blend* (Rs99/litre to Rs94/litre) and 10% in *Saffola Active* (Rs99/litre to Rs89/litre). Declining premium vis-à-vis other edible oils is expected to contain possible downtrading and expand the brand franchise.

International business grows 43% in FY09; supply chain rationalization and re-launches to increase growth in Egypt

Marico's international business grew 43% YoY in FY09 – 15% was on account of rupee depreciation. Initiatives in advertising, distribution and packaging helped strengthen the *Parachute* franchise in Bangladesh, with market share increasing to 72.7%. *Parachute* hair cream attained market leadership, while market share in hair oils increased to 23% in GCC. In Egypt, completion of supply chain rationalization and re-launch of *Hair Code* brand is expected to boost sales growth in FY10. Performance of South African business Enaleni has been in line with expectations, with positive response to new launches.

The management indicated that sales momentum in international business is likely to continue as (1) penetration of product categories where Marico is present is 40-50%, ensuring sustainable volume growth, (2) as Marico increases its geographical spread – Parachute has already become the second widely distributed brand in Bangladesh and still has retail penetration of only ~70% – there would be distribution benefits, (3) it is leveraging its strong distribution in varied countries to cross-sell products (Egyptian brand *Hair Code* has already been launched in Bangladesh).

Launches on Health and Wellness platform to be the next growth driver

Our interactions with the management indicated their eagerness to capitalize on the latent demand for lifestyle products. We note that demographic changes and rise in income level has led to a structural change in food consumption pattern in favor of health foods. Marico is in a sweet position to capitalize on this opportunity as it can leverage the strong brand equity of *Saffola*, which has already seen extension into segments like *atta* mix. Marico has upped its tempo of new launches under the wellness platform, with the launch of two new products in niche categories – baked snacks and low cholesterol rice during 4QFY09. We note that these are nascent categories and the company will have to nurture new categories itself. We expect Marico to further capitalize on its positioning in health foods, with new launches in the coming year.

NEW LAUNCHES UNDER HEALTH AND WELLNESS PLATFORM

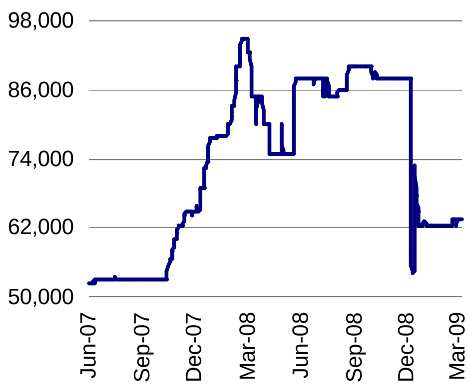
Source: Company/MOSL

Sharp decline in input prices to enable margin expansion in FY10

Marico was adversely impacted by the sharp increase in raw material prices during FY09. Increase in prices of major commodities like copra (up ~25%) and safflower oil (up ~35%) led to margin contraction of 200bp (150bp in 4QFY09). Arrival of new copra crop from January and start of flush season for safflower (April/May) has begun reflecting in lower prices (11% decline in copra prices and 27% decline in safflower prices since January 2009). Management indicated that prices of copra are likely to decline 7-8% during FY10; safflower prices too would be significantly lower. The company would also benefit from 10% decline in packaging material cost. We estimate gross margin expansion of 220bp in FY10.

COPRA PRICES DECLINE 11% FROM JAN LEVELS (RS/QTL)

SAFFLOWER PRICES DECLINE 27 % SINCE DEC (RS/MT)

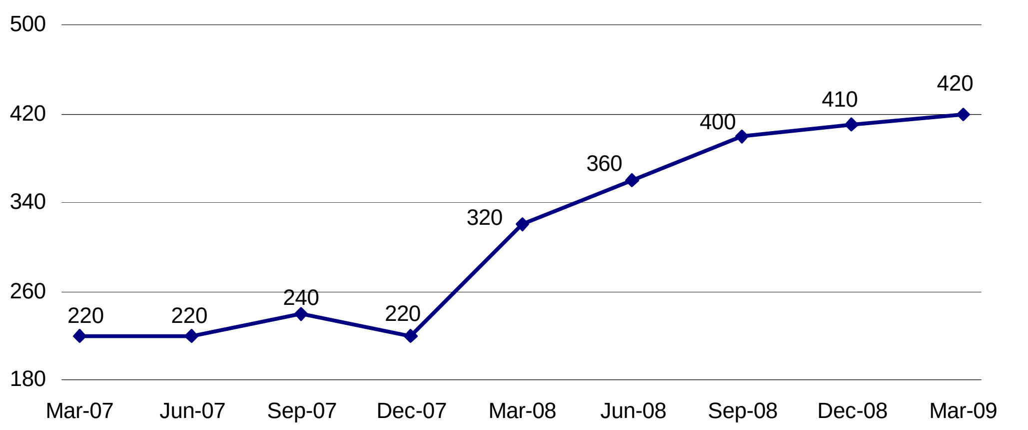


Source: Company/MOSL

Kaya to turn profitable in FY10

Kaya's 4QFY09 sales at Rs420m grew 31% YoY. Same store sales growth declined to 10% in 2HFY09 due to the impact of economic slowdown. FY09 sales grew 57% to Rs1.6b, with same store sales growth at 18%. Kaya reported loss of Rs13m in FY09 and a small profit in 4QFY09. It added 20 clinics in FY09, taking the total to 85 clinics.

TREND IN KAYA REVENUES (RS M)



Source: Company/MOSL

We believe that profitability of Kaya is at an inflexion point, and can change the margin profile of Marico. With mature stores (>2 years) earning EBITDA margin of 25-30%, profitability of the division would improve, as the proportion of mature stores to total stores increases. Further, management aims at increasing the capacity utilization at stores from the current 35-40% to 50-60%, and at improving the sales mix. The company plans to add 12-15 new Kaya stores in FY10. It intends to focus on increasing sales in existing stores by increasing footfalls, cross-selling, maintenance packages (repeat customers) and by introducing new products.

Revising EPS estimates upwards; maintain Buy

We are positive on the company's long-term growth strategy and remain upbeat on the possibility of success of recent launches in functional foods. Margin pressure is likely to recede, as copra and safflower prices have declined. We expect volume growth of 8-9% in *Parachute* during FY10 and *Saffola* volumes to bounce back in 2HFY10. We estimate 90bp margin expansion in FY10, resulting in 20.7% PAT growth (CAGR of 19% over FY09-11). We are revising our EPS estimates by 3% for FY10 (to Rs3.7 from Rs3.6) and by 5% for FY11 (to Rs4.4 from Rs4.2). The stock trades at 18.4x FY10E and 15.7x FY11E EPS. Maintain **Buy**.

Marico: an investment profile

Company description

Marico has emerged as a dominant player in the Hair Care and Edible Oil segment. Marico has also made inroads into international markets. Entry into skin care clinics reaffirms the management's focus on wellness.

Recent developments

- The company has launched Saffola Zest in the Rs25b snack category and Saffola GI low Cholesterol Rice.
- Marico will gain from lower input costs of copra (7-8%) and packaging (10%) in FY10.
- Kaya skin care is likely to turn profitable in FY10.

Key investment arguments

- We are positive on the long term growth strategy of the company and its successful forays in expanding overseas as well as in developing new products for the domestic markets.
- The company has been able to leverage its existing brands by entering new categories.
- International operations are gaining traction due to acquisition of Fiancee and Haircode brands in Egypt and entry into the South African market.

Valuation and view

- We have an EPS of Rs3.7 for FY10 and Rs4.4 for FY11.
- The stock trades at 18.4x FY10E and 15.7x FY11E EPS. We maintain **Buy**.

Key investment risks

- Volume growth to tend lower in the current economic environment
- Copra price fluctuation poses a risk to profitability in the core business of pure coconut oil despite change in the pricing policy and improved pricing power of the company.

Sector view

- We have a cautious view on the sector given the slower income growth in the economy, which might impact volumes as well as profit margins of companies.
- Companies with low competitive pressures and broad product portfolios will be able to withstand slowdown in a particular segment better.
- Longer term prospects appear bright, given rising incomes and low penetration.

COMPARATIVE VALUATIONS

		MARICO	GCPL	DABUR
P/E (x)	FY10E	18.4	21.9	23.5
	FY11E	15.7	17.1	19.8
P/BV (x)	FY10E	6.6	6.1	10.6
	FY11E	4.9	5.6	8.2
EV/Sales (x)	FY10E	1.6	2.5	3.2
	FY11E	1.4	2.3	2.7
EV/EBITDA (x)	FY10E	12.1	17.2	19.5
	FY11E	10.5	12.7	15.3

EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY10	3.70	3.74	-1.02
FY11	4.40	4.48	-1.68

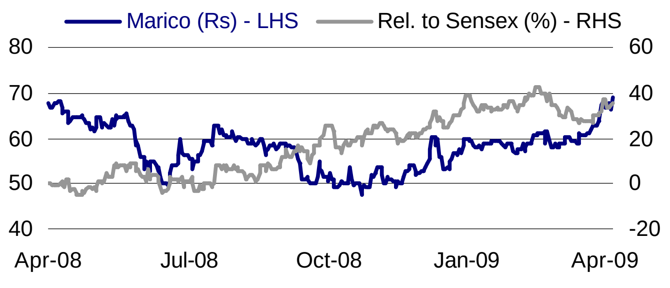
TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
69	75	8.7	Buy

SHAREHOLDING PATTERN (%)

	MAR-09	DEC-08	MAR-08
Promoter	63.5	63.5	63.5
Domestic Inst	11.0	11.3	9.4
Foreign	17.2	16.9	17.7
Others	8.4	8.3	9.5

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT				(RS MILLION)
Y/E MARCH	2008	2009	2010E	2011E
Net Sales	**19,067**	**23,880**	**25,448**	**29,074**
Change (%)	*22.5*	*25.2*	*6.6*	*14.2*
Total Expenditure	-16,604	-20,859	-21,999	-25,297
EBITDA	**2,463**	**3,021**	**3,449**	**3,777**
Change (%)	*24.0*	*22.6*	*14.2*	*9.5*
Margin (%)	*12.9*	*12.7*	*13.6*	*13.0*
Depreciation	-306	-358	-422	-470
Int. and Fin. Charges	-305	-358	-267	-166
Other Income - Recurring	96	142	157	238
Profit before Taxes	**1,948**	**2,447**	**2,916**	**3,379**
Change (%)	*43.2*	*25.6*	*19.2*	*15.9*
Margin (%)	*10.2*	*10.2*	*11.5*	*11.6*
Tax	-157	-367	-408	-473
Deferred Tax	-202	-196	-233	-237
Tax Rate (%)	*-18.5*	*-23.0*	*-22.0*	*-21.0*
Profit after Taxes	**1,589**	**1,884**	**2,275**	**2,670**
Change (%)	*60.6*	*18.6*	*20.7*	*17.4*
Margin (%)	*8.3*	*7.9*	*8.9*	*9.2*
Extraordinary items	106	0	0	0
Reported PAT	**1,695**	**1,884**	**2,275**	**2,670**

BALANCE SHEET				(RS MILLION)
Y/E MARCH	2008	2009	2010E	2011E
Share Capital	609	609	609	609
Reserves	2,537	3,948	5,745	7,938
Net Worth	**3,146**	**4,557**	**6,354**	**8,547**
Loans	3,579	2,933	2,160	1,000
Capital Employed	**6,727**	**7,490**	**8,514**	**9,547**
Gross Fixed Assets	2,934	3,434	4,434	4,934
Intangibles	627	627	627	627
Less: Accum. Depn.	-1,635	-1,993	-2,415	-2,885
Net Fixed Assets	**1,926**	**2,068**	**2,646**	**2,676**
Capital WIP	647	1,000	250	200
Goodwill	842	842	842	842
Investments	0	100	800	1,600
Curr. Assets, L&A	**5,281**	**6,127**	**7,077**	**8,084**
Inventory	2,605	2,866	2,927	3,343
Account Receivables	863	1,075	1,145	1,308
Cash and Bank Balance	753	897	1,478	1,688
Others	1,061	1,290	1,527	1,744
Curr. Liab. and Prov.	**2,952**	**3,432**	**3,654**	**4,172**
Current Lilibilities	2,560	3,101	3,304	3,796
Provisions	392	331	350	376
Net Current Assets	**2,330**	**2,694**	**3,423**	**3,913**
Miscelleneous Expense	0	0	0	0
Deferred Tax Liability	982	786	553	316
Application of Funds	**6,727**	**7,491**	**8,514**	**9,547**

E: MOSL Estimates

RATIOS				(RS MILLION)
Y/E MARCH	2008	2009	2010E	2011E
Basic (Rs)				
EPS	**2.6**	**3.1**	**3.7**	**4.4**
Cash EPS	3.3	3.7	4.4	5.2
BV/Share	5.2	7.5	10.4	14.0
DPS	0.7	0.7	0.7	0.7
Payout %	25.1	21.7	17.9	15.3
Valuation (x)				
P/E	26.4	22.2	18.4	15.7
Cash P/E	20.9	18.7	15.5	13.3
EV/Sales	2.3	1.8	1.6	1.4
EV/EBITDA	18.2	14.5	12.1	10.5
P/BV	13.3	9.2	6.6	4.9
Dividend Yield (%)	1.0	1.0	1.0	1.0
Return Ratios (%)				
RoE	50.5	41.3	35.8	31.2
RoCE	33.5	37.5	37.4	37.1
Working Capital Ratios				
Debtor (Days)	17	16	16	16
Asset Turnover (x)	2.8	3.2	3.0	3.0
Leverage Ratio				
Debt/Equity (x)	1.1	0.6	0.3	0.1

CASH FLOW STATEMENT				(RS MILLION)
Y/E MARCH	2008	2009	2010E	2011E
OP/(loss) before Tax	2,158	2,663	3,027	3,307
Int./Div. Received	96	142	157	238
Depreciation and Amort.	306	358	422	470
Interest Paid	-305	-358	-267	-166
Direct Taxes Paid	-157	-367	-408	-473
(Incr)/Decr in WC	-827	-221	-147	-280
CF from Operations	**1,270**	**2,217**	**2,782**	**3,097**
Extraordinary Items	0	1	1	1
(Incr)/Decr in FA	-1,051	-853	-250	-450
(Pur)/Sale of Investments	0	-100	-700	-800
CF from Invest.	**-1,051**	**-952**	**-949**	**-1,249**
Issue of Shares	0	0	0	0
(Incr)/Decr in Debt	1,070	-646	-773	-1,160
Dividend Paid	-467	-477	-477	-477
Others	-496	3	-2	0
CF from Fin. Activity	**107**	**-1,121**	**-1,252**	**-1,637**
Incr/Decr of Cash	**325**	**145**	**581**	**210**
Add: Opening Balance	427	753	897	1,478
Closing Balance	**753**	**897**	**1,478**	**1,688**

MOTILAL OSWAL

"Best Overall Country Research - Local Brokerage"

2007 asia money BROKERS POLL

For more copies or other information, contact
Institutional: Navin Agarwal. **Retail:** Manish Shah
Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motilaloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited **(***hereinafter referred as MOSt***)** is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOSt or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOSt or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOSt and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOSt has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement	Marico
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	Yes
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

This information is subject to change without any prior notice. MOSt reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOSt is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.