

January 27, 2009

ACCUMULATE

Price	Target Price
Rs60	Rs60
Sensex	8,674

Price Performance

(%)	1M	3M	6M	12M
Absolute	15	14	7	0
Rel. to Sensex	26	28	75	99

Source: Capitaline

Stock Details

Sector	FMCG
Reuters	MRCO.BO
Bloomberg	MRCO@IN
Equity Capital (Rs mn)	609
Face Value(Rs)	1
No of shares o/s (mn)	609
52 Week H/L	75/47
Market Cap (Rs bn/USD mn)	36/730
Daily Avg Volume (No of sh)	213946
Daily Avg Turnover (US\$m)	0.2

Shareholding Pattern (%)

	D'08	S'08	J'07
Promoters	63.5	63.5	63.5
FII/NRI	16.9	17.2	16.8
Institutions	11.3	10.6	10.5
Private Corp	1.5	1.6	1.8
Public	6.8	7.2	7.5

Pritesh Chheda, CFApritesh.chheda@emkayshare.com

+91 22 6612 1273

Sachin Bobadesachin.bobade@emkayshare.com

+91 22 6624 2492

Marico**Downgrade to 'ACCUMULATE'**Result
Update

Marico reported revenue growth of 23.0% yoy to Rs6.2 bn driven by (1) 1% acquisition-led, (2) 7% volume-led and (3) 15% attributed to pricing benefit. - surpassed our estimates. Operating Profit grew by 23.2% yoy to Rs791 mn, matching the revenue growth and OPM held at 12.7%. Adjusted net profit grew by 19.4% yoy to Rs509 mn- above our estimates. **Q3FY09 performance addressed 'Popular Myth' like (1) fears of slowdown in volume growth and (2) mounting losses in Kaya owing to slowing growth. 'Saffola' continues to remain overhang with further deceleration in volume growth momentum. Robust performance by 'Parachute' and 'Hair Oils' coupled with above expected performance of 'Kaya' likely to mitigate the impact of below-expected volume growth in 'Saffola'. We maintain our earnings estimates for FY09E and FY10E at Rs3.0 and Rs3.6 respectively. With CMP Rs59.8 close to target price of Rs60, we do not see upside in the short-term and downgrade our rating from 'BUY' to 'ACCUMULATE' with target price of Rs60.**

Adjusted net profit up 19.4% yoy to Rs509 mn, above estimates

During Q3FY09, Marico reported robust 23.0% yoy growth in revenues to Rs6.2 bn (1% was acquisition-led, 7% was volume-led and 15% attributed to pricing benefits), surpassing our estimates. Marico maintained its volume growth momentum at 7% yoy, addressing concerns of slowdown. Operating Profit grew by 23.2% yoy to Rs761 mn, matching the revenue growth and OPM held at 12.7%. No change in interest cost at Rs67.8 mn in rising interest rate scenario owing to (1) reduction in average borrowing costs and (2) repayment of debt funds. Higher tax outgo and 51.7% rise in depreciation costs triggered 19.4% yoy growth in adjusted net profit to Rs509 mn, yet above our estimates.

Addressed concerns on (1) volume growth and (2) 'Kaya' business

Q3FY09 performance addressed 'Popular Myth' like (1) fears of slowdown in volume growth and (2) mounting losses in Kaya owing to slowing growth. Against these 'Popular Myths' - Marico clocked healthy volume growth at 7% yoy. All key brands and businesses clocked robust volume growth - (1) 'Parachute' grew by 9% yoy (2) Hair Oil in rigid packs grew 15% yoy and (3) 'Nihar' grew 10% yoy.

'Kaya' did not show any signs of slowdown in business with (1) revenue growth at 59% yoy to Rs410 mn and (2) same store growth at 13% yoy, purely attributed to higher footfalls. Marico continued its expansion with addition of 11 clinics in the quarter. Marico reiterated its earlier comments - Kaya business likely to report marginal loss of Rs10 mn in FY09E.

'Saffola' continues to disappoint, remains a overhang

'Discounts offered on Saffola' during August-2008 failed to revive volume growth. 'Saffola' recorded further deceleration in growth momentum (3% yoy in Q3FY09 against 9% in Q2FY09). 'Saffola' will continue to remain overhang as current performance has jeopardized the (1) premium-brand status and (2) low price-elasticity argument. But, sharp decline in Kardi oil prices during January 2009 is likely to reduce the price-premium between 'Saffola' and competing brands raising hopes for revival in volume growth in ensuing quarters.

We downgrade our rating from BUY to ACCUMULATE

Robust performance by 'Parachute' and 'Hair Oils' coupled with above expected performance of 'Kaya' is likely to mitigate the impact of below-expected volume growth in 'Saffola'. We maintain our earnings estimates for FY09E and FY10E at Rs3.0 and Rs3.6 respectively. Spotlight has shifted towards volume growth and Q3FY09 performance is satisfactory with blended volume growth of 7% yoy. The stock price has appreciated by 13.5% in last 15-days in anticipation of Q3FY09 results. With CMP Rs59.8 close to target price of Rs60, we do not see substantial upside in the short-term and downgrade our rating from 'BUY' to 'ACCUMULATE' with target price of Rs60.

	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	AEPS (Rs)	EV/ EBITDA	P/BV	Div Yld (%)	RoE (%)	P/E (x)
FY07	15569	1990	12.8%	1129	1.9	19.3	18.9	1.1	24.4	32.3
FY08	19067	2380	12.5%	1692	2.8	16.5	11.6	1.1	32.7	21.5
FY09E	22558	2859	12.7%	1853	3.0	13.4	8.0	1.3	30.1	19.7
FY10E	25602	3307	12.9%	2184	3.6	11.4	5.9	1.4	30.6	16.7

Consolidated Quarterly Results

(Rs Million)	Q3FY09	Q3FY08	YoY Gr(%)	Q2FY09	QoQ Gr(%)
Net Sales	6228.3	5062.4	23.0	6035.0	3.2
Expenditure	5436.9	4419.9	23.0	5296.1	2.7
Material Cost	3422.7	2673.7	28.0	3275.3	4.5
% of Sales	55.0	52.8	210 bps	54.3	70 bps
Employee Expenses	402.7	307.2	31.1	387.1	4.0
% of Sales	6.5	6.1	40 bps	6.4	5 bps
Selling & Marketing Expenses	680.6	627.7	8.4	542.5	25.5
% of Sales	10.9	12.4	(150 bps)	9.0	190 bps
Other Expenses	931.0	811.3	14.7	1091.3	-14.7
% of Sales	14.9	16.0	(100 bps)	18.1	310 bps
Operating Profit	791.4	642.5	23.2	738.9	7.1
EBIDTA (%)	12.7	12.7	2 bps	12.2	50 bps
Other Income	30.7	0.0	-	12.2	151.2
Interest	67.8	68.3	-0.7	86.6	-21.7
Depreciation	97.5	64.3	51.7	81.8	19.3
Profit Before Tax	656.8	509.9	28.8	582.7	12.7
Tax	147.8	83.2	77.6	111.3	32.7
Adjusted Profit	508.9	426.3	19.4	471.2	8.0
Adjusted Profit (%)	8.2	8.4	(25 bps)	7.8	40 bps
EPS	0.84	0.70	19.4	0.77	8.0

Segmental Results

(Rs Mn)	Q3FY09	Q3FY08	% YoY	Q2FY09	% QoQ
Segment Revenue					
Consumer Products	5796.0	4775.6	21.4	5613.1	3.3
Others	432.3	286.8	50.7	421.8	2.5
Total	6228.3	5062.4	30.1	6035.0	0.4
Segment Profits					
Consumer Products	747.8	617.3	21.1	696.8	7.3
Others	-23.3	-6.7	-	-27.5	-
Total	724.6	610.6	13.8	669.3	-3.3
Segment Margins					
Consumer Products	12.9%	12.9%	2 bps	12.4%	50 bps
Others	-5.4%	-2.3%	(300 bps)	-6.5%	110 bps
Total	11.6%	12.1%	(40 bps)	11.1%	(50 bps)

Volume Growth Analysis

Product	Volume Growth									
	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	Q3FY09
Parachute	13.0%	11.0%	13.0%	20.0%	8.0%	11.0%	4.4%	8.0%	12.0%	9.0%
Saffola	20.0%	20.0%	19.0%	28.0%	21.0%	19.0%	21.0%	28.0%	9.0%	3.0%
Hair Care Range	33.0%	17.0%	17.0%	20.0%	15.0%	28.0%	16.0%	21.0%	13.0%	28.0%

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Emkay Global Financial Services Ltd.,

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013.

Tel: +91-22-66121212, Fax: +91-22-66242410