



Marico

STOCK INFO. BLOOMBERG
BSE SENSEX: 10,170 MRCO IN
REUTERS CODE
S&P CNX: 3,065 MRCO.BO

22 October 2008

Buy

Rs53

Previous Recommendation: Buy

Equity Shares (m)	609.0
52-Week Range	83/47
1,6,12 Rel. Perf. (%)	19/15/31
M.Cap. (Rs b)	32.5
M.Cap. (US\$ b)	0.7

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	15,569	989	1.6	-10.8	33.2	16.9	51.4	36.1	2.2	17.4
03/08A	19,067	1,589	2.6	60.6	20.7	10.3	50.5	33.5	1.9	14.3
03/09E	24,410	1,851	3.0	16.5	17.7	7.2	41.0	34.4	1.4	11.7
03/10E	26,115	2,202	3.6	19.0	14.9	5.2	35.3	37.5	1.2	9.6

- Marico posted in-line net sales of Rs6b, a growth of 30% YoY. Adjusted net profit grew 11.6% YoY to Rs471m against our estimate of Rs495m. Impact of higher other expenditure (due to MTM losses of Rs70m) was neutralized by decline in advertising cost (absence of any new product launch).
- Net sales growth of 30% comprised of: 11% volume growth, 3% inorganic growth, and 16% price-led growth. Parachute volumes grew 12%, Hair oils reported 14% volume growth, while Saffola volumes increased by 9%.
- Consolidated gross margins declined 267bp due to the surge in prices of copra (up 30% YoY) and safflower oil (up 50% YoY). Copra prices have fallen by 10% over the last month in line with the retreat in other edible oil prices. We estimate that a further 8% decline in copra price would result in margin expansion.
- International business sustained its growth momentum, with net sales increasing 67% YoY (41% adjusted for the new acquisition). Strong growth in Bangladesh, Egypt and Middle East notwithstanding, the company has been impacted by depreciating rupee, as positions were covered earlier.
- Kaya reported net sales of Rs400m, up 67% YoY. The division added 8 new stores during the quarter, taking the total store count to 77. Same store sales growth has been a healthy 26% YoY.
- The management has given a cautious outlook on volume growth for 3QFY09. Prices of copra are likely to retreat in line with other edible oils in the coming weeks, which would be margin accretive for Marico. We expect adjusted PAT growth to remain under pressure in FY09 (16.5%); margin expansion of 90bp would result in 20% PAT growth in FY10. The stock is trading at 17.7x FY09E EPS of Rs3 and 14.9x FY10E EPS of Rs3.6. We maintain **Buy**.

QUARTERLY PERFORMANCE

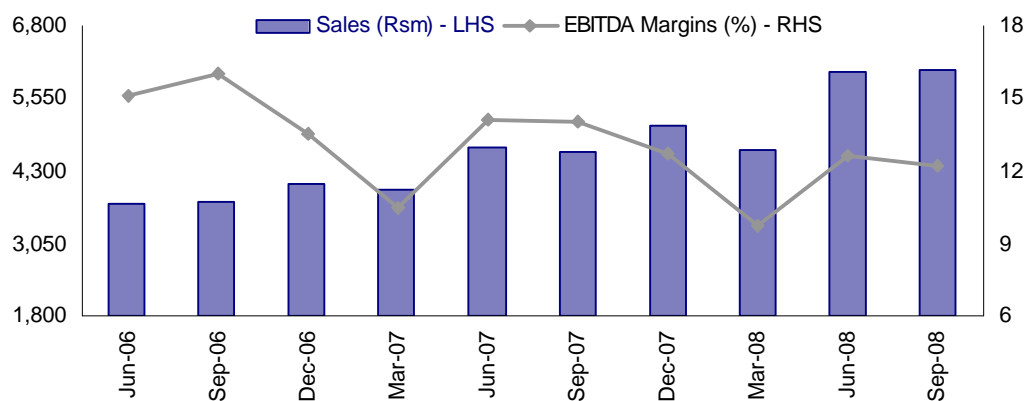
Y/E MARCH	(Rs Million)									
	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	4,691	4,638	5,062	4,675	6,009	6,035	6,450	5,916	19,067	24,410
YoY Change (%)	25.8	22.7	23.7	17.8	28.1	30.1	27.4	26.5	22.5	28.0
Total Exp	4,031	3,990	4,420	4,220	5,253	5,296	5,690	5,236	16,603	21,474
EBITDA	660	648	643	456	757	739	760	680	2,464	2,935
Margins (%)	14.1	14.0	12.7	9.7	12.6	12.2	11.8	11.5	12.9	12.0
Depreciation	58	64	66	79	75	82	90	99	309	346
Interest	71	65	68	73	80	87	90	107	277	364
Other Income	7	5	3	37	10	12	25	70	67	117
PBT	539	523	511	341	612	583	605	543	1,945	2,343
Tax	136	101	83	39	149	111	115	116	360	492
Rate (%)	25.3	19.3	16.3	11.4	24.4	19.1	19.0	21.5	18.5	21.0
Adjusted PAT	402	423	428	302	463	471	490	426	1,586	1,851
YoY Change (%)	32.9	38.0	54.4	-2.4	15.1	11.6	14.6	41.3	60.4	16.7
Exceptional Items	0	0	31	106	0	0	0	0	106	0
Reported PAT	402	423	459	408	463	471	490	426	1,692	1,851

E: MOST Estimates

Sustained volume growth, price hikes lead to 30% increase in net sales

Consolidated net sales grew 30% to Rs6b; the growth can be broken down as: 11% organic volume growth, 3% inorganic growth, and 16% price-led growth. Marico's flagship brand, *Parachute* reported volume growth of 12%, while *Nihar* volumes grew 10%. Hair oil volumes grew 14% and *Saffola* volumes grew 9% on a higher base (18% in 1HFY09). New prototypes have been receiving encouraging response. The contribution of new launches (of last five years) was 13% during the quarter; the management expects it to increase to 20% by FY13.

SUSTAINED SALES GROWTH MOMENTUM



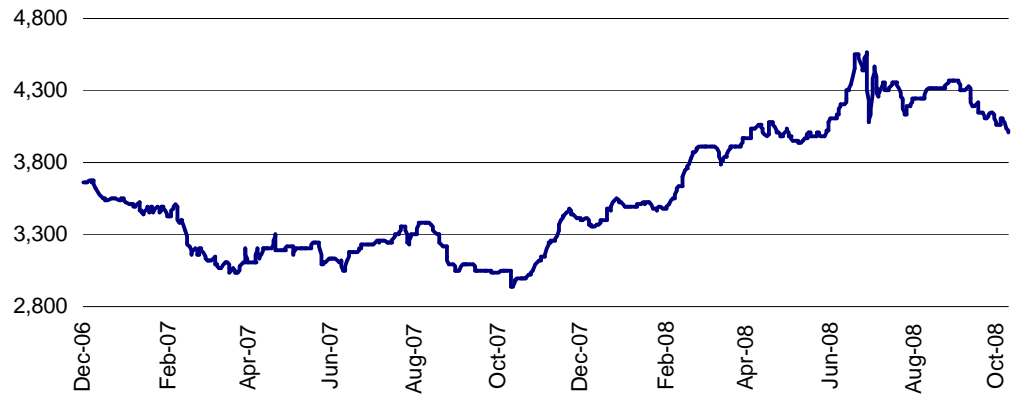
Source: Company/MOSL

Sustained growth momentum reflects little impact of recent inflationary pressures. However, the management has given a cautious outlook, going forward as conversions from loose oil to branded consumption could get impacted. Further, the widening price differential between *Saffola* and other edible oils (sharp decline in input costs) has forced the company to reduce prices of selective brands in the lower end by 10% (25% of *Saffola* brand) to curtail the downtrading to other edible oils (especially sunflower oil).

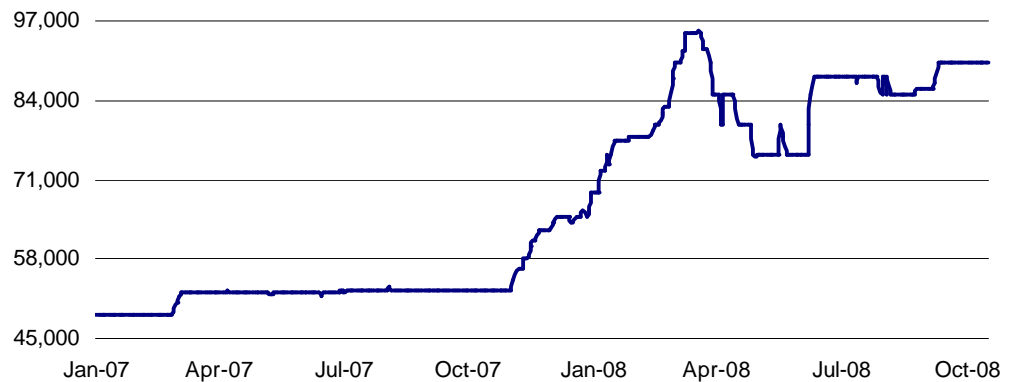
Sharp rise in raw material prices impacts margins; retreat to be margin accretive

Consolidated gross margins declined 267bp YoY due to the surge in prices of copra (up 30% YoY) and safflower oil (up 50% YoY). The company had increased prices – 13% YoY increase in *Parachute*; ~20% YoY in *Saffola* – but these were insufficient to maintain margins. With crude oil prices having fallen significantly, prices of most edible oils have come down (especially palm oil). However, copra prices followed only with a lag, the benefits of which have not been accounted for in 2QFY09. To date, copra prices have fallen by 10% off the peak of Rs4,375/Qtl to the current Rs4,040/Qtl. Safflower prices, though firm are expected to retreat with a longer lag due to supply constraints. We estimate that further 8% decline in copra prices would result in margin expansion. Further, the sharp decline in crude derivatives like HDPE would help reduce the packaging cost (~9% of net sales).

TREND IN COPRA PRICES (RS/QTL)



TREND IN SAFFLOWER PRICES (RS/QTL)

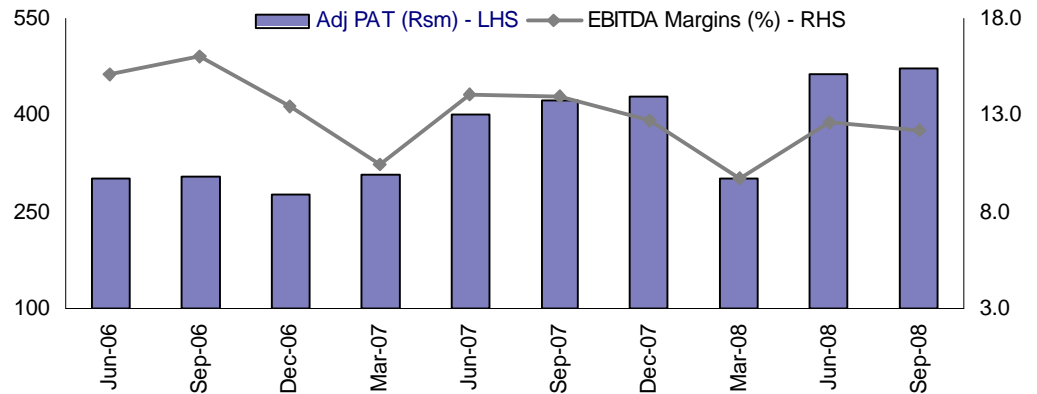


Source: Company/MOSL

Lower ad-spend neutralizes the increase in staff cost and other expenditure

While gross margins declined 267bp, the decline in EBITDA margins has been curbed to 180bp. 51% increase in staff cost and 47% increase in other expenditure were more than neutralized by 10% lower advertising spend. Other expenditure increased more than expected as the company had to book MTM forex losses and expansion of Kaya. Advertising spend declined YoY due to the absence of any new product launch during the quarter and also the impact of change in accounting policy with respect to consumer offers. (Consumer offers earlier treated as ASP are now deducted from both sales and ASP). EBITDA margins have also been impacted by lower margins in the newly acquired business (Egypt); however, the management has guided reversal of the impact by early next year, as the transitory supply chain issues are sorted out.

DECLINE IN EBITDA MARGINS IMPACTS PROFITS



Source: Company/MOSL

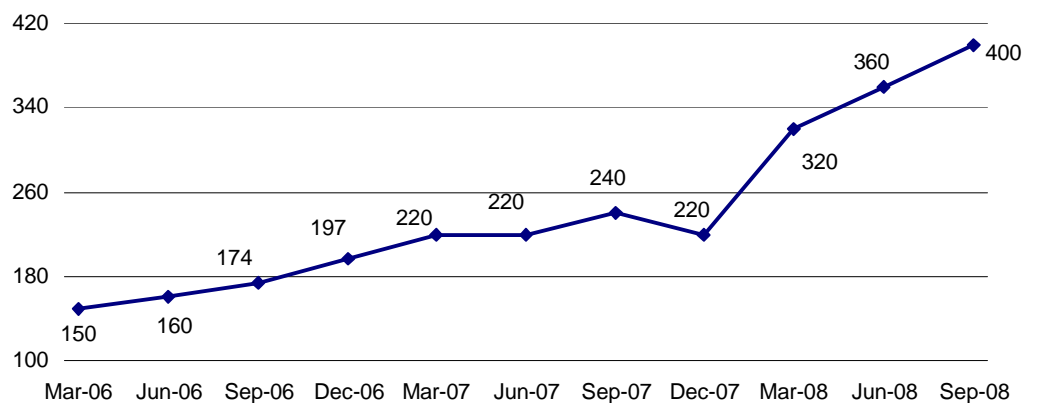
International business: growth traction continues

International business sustained its growth momentum, with net sales rising 67% YoY (41% adjusted for the new acquisition). The company continued its strong leadership in Bangladesh as *Parachute Hair Oil* increased its market share from 67% in FY08 to 70% during the quarter. In the Middle East, *Parachute Hair Cream* has been making steady progress while the company is expected to benefit from the recent re-launch campaign in *Fiancée* brands as well as the re-alignment of distribution channel. High inflation in Middle East and Egypt has forced Marico to increase prices; the full benefits of the same could not be reaped due to the depreciating rupee, as positions were covered earlier.

Kaya rollout on track; beauty platform to be the key for further growth

Kaya reported net sales of Rs400m (up 67% YoY). Same store sales growth has been a healthy 26%. The division added 8 new stores during the quarter, taking the total store count to 77. The company has guided full store addition of 15-20 during FY09.

SUSTAINED REVENUE TRACTION IN KAYA (RS M)



Source: Company/MOSL

The management believes that the beauty and wellness platform holds significant potential in India and the Middle East. We expect personal grooming and advanced skin care to grow at 30% CAGR over FY08-12 and believe that Kaya has built strong brand equity to leverage the same.

Outlook – volumes to tend lower, decline in commodity prices to be margin accretive; maintain Buy

The management has given a cautious outlook on volume growth for 3QFY09, as conversion from loose oil to branded consumption could slow down under current inflationary conditions. Prices of copra are expected to retreat in line with other edible oils in the coming weeks, which would be margin accretive for Marico. We expect adjusted PAT growth to remain under pressure in FY09 (16.5%); margin expansion of 90bp would result in 20% PAT growth in FY10. The stock is trading at 17.7x FY09E EPS of Rs3 and 14.9x FY10E EPS of Rs3.6. We maintain **Buy**.

Marico: an investment profile

Company description

Marico has emerged as a dominant player in the Hair care and edible oil segment. Marico is has also made inroads in the international markets. Entry into skin care clinic reaffirms the management focus on wellness.

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 developing new products for the domestic markets.
- ☞ The company has been able to leverage its existing brands by entering in the new categories.
- ☞ International operations are gaining traction due to acquisition of Fiancee and Haircode brands in Egypt and entry into South African market.

Key investment risks

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

Recent developments

- ☞ Decline in prices of Copra by 10%.
- ☞ Saffola Atta Mix scaled up to metro towns and key Saffola markets.

Valuation and view

- ☞ We have an EPS of Rs3 for FY09 and Rs3.6 for FY10.
- ☞ The stock is trading at 17.7x FY09E EPS and 14.9x FY10E EPS. We maintain **Buy**.

Sector view

- ☞ We have a cautious view on the sector on back of inflationary tendency 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 better withstand any slowdown in a particular segment.
- ☞ Longer term prospects appear bright, given rising incomes and low penetration.

COMPARATIVE VALUATIONS

		MARICO	GCPL	DABUR
P/E (x)	FY09E	17.7	13.9	17.5
	FY10E	14.9	10.6	14.4
P/BV (x)	FY09E	7.2	4.4	8.5
	FY10E	5.2	3.8	6.7
EV/Sales (x)	FY09E	1.4	1.9	2.4
	FY10E	1.2	1.7	2.0
EV/EBITDA (x)	FY09E	11.7	10.8	13.7
	FY10E	9.6	8.0	11.4

SHAREHOLDING PATTERN (%)

	SEP-08	JUN-08	SEP-07
Promoter	63.5	63.5	63.5
Domestic Inst	10.6	10.5	11.4
Foreign	17.2	16.8	16.3
Others	8.8	9.2	8.9

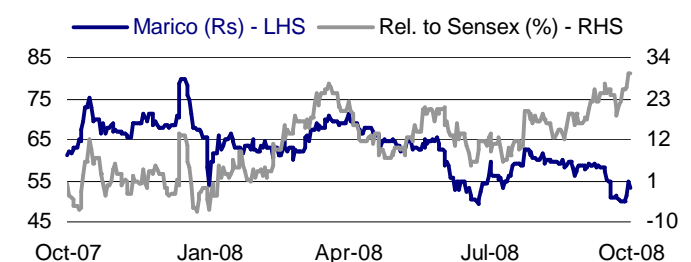
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	3.0	3.1	-2.2
FY10	3.6	3.7	-3.9

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
53	65	22	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(RS MILLION)			
Y/E MARCH	2007	2008	2009E	2010E	
Net Sales	15,569	19,067	24,410	26,115	
Change (%)	36.1	22.5	28.0	7.0	
Total Expenditure	-13,583	-16,604	-21,474	-22,741	
EBITDA	1,986	2,463	2,935	3,374	
Change (%)	37.7	24.0	19.2	14.9	
Margin (%)	12.8	12.9	12.0	12.9	
Depreciation	-521	-306	-346	-438	
Int. and Fin. Charges	-239	-305	-364	-284	
Other Income - Recurring	134	96	117	170	
Profit before Taxes	1,361	1,948	2,343	2,823	
Change (%)	38.9	43.2	20.3	20.5	
Margin (%)	8.7	10.2	9.6	10.8	
Tax	-214	-157	-258	-339	
Deferred Tax	-158	-202	-234	-282	
Tax Rate (%)	-27.3	-18.5	-21.0	-22.0	
Profit after Taxes	989	1,589	1,851	2,202	
Change (%)	13.8	60.6	16.5	19.0	
Margin (%)	6.4	8.3	7.6	8.4	
Extraordinary items	140	106	0	0	
Reported PAT	1,129	1,695	1,851	2,202	

BALANCE SHEET		(RS MILLION)			
Y/E MARCH	2007	2008	2009E	2010E	
Share Capital	609	609	609	609	
Reserves	1,315	2,537	3,911	5,635	
Net Worth	1,924	3,146	4,520	6,244	
Loans	2,510	3,579	3,350	2,050	
Capital Employed	4,433	6,727	7,870	8,294	
Gross Fixed Assets	2,260	2,934	3,434	4,734	
Intangibles	59	627	627	627	
Less: Accum. Deprn.	-1,394	-1,635	-1,981	-2,418	
Net Fixed Assets	1,385	1,926	2,080	2,943	
Capital WIP	270	647	1,000	250	
Goodwill	450	842	842	842	
Investments	0	0	0	0	
Curr. Assets, L&A	4,001	5,281	6,679	7,523	
Inventory	2,215	2,605	2,929	3,003	
Account Receivables	643	863	1,098	1,175	
Cash and Bank Balance	427	753	1,431	2,039	
Others	71	1,061	1,220	1,306	
Curr. Liab. and Prov.	2,824	2,952	3,480	3,729	
Current Liabilities	2,677	2,560	3,181	3,401	
Provisions	147	392	298	329	
Net Current Assets	1,177	2,330	3,200	3,794	
Miscellaneous Expense	1	0	0	0	
Deferred Tax Liability	1,152	982	747	465	
Application of Funds	4,434	6,727	7,870	8,294	

E: Most Estimates

RATIOS		(RS MILLION)			
Y/E MARCH	2007	2008	2009E	2010E	
Basic (Rs)					
EPS	1.6	2.6	3.0	3.6	
Cash EPS	2.7	3.3	3.6	4.3	
BV/Share	3.2	5.2	7.4	10.3	
DPS	0.7	0.7	0.7	0.7	
Payout %	40.8	25.4	22.3	18.8	
Valuation (x)					
P/E	33.2	20.7	17.7	14.9	
Cash P/E	19.9	16.2	14.8	12.3	
EV/Sales	2.2	1.9	1.4	1.2	
EV/EBITDA	17.4	14.3	11.7	9.6	
P/BV	16.9	10.3	7.2	5.2	
Dividend Yield (%)	12	12	13	13	
Return Ratios (%)					
RoE	51.4	50.5	41.0	35.3	
RoCE	36.1	33.5	34.4	37.5	
Working Capital Ratios					
Debtor (Days)	15	17	16	16	
Asset Turnover (x)	3.5	2.8	3.1	3.1	
Leverage Ratio					
Debt/Equity (x)	13	11	0.7	0.3	

CASH FLOW STATEMENT		(RS MILLION)			
Y/E MARCH	2007	2008	2009E	2010E	
OP/(loss) before Tax	1,465	2,158	2,590	2,936	
Int./Div. Received	134	96	117	170	
Depreciation and Amort.	521	306	346	438	
Interest Paid	-239	-305	-364	-284	
Direct Taxes Paid	-214	-157	-258	-339	
(Incr)/Decr in WC	-87	-827	-192	14	
CF from Operations	1,581	1,270	2,239	2,935	
Extraordinary Items	0	0	1	1	
(Incr)/Decr in FA	70	-1,051	-853	-550	
(Pur)/Sale of Investments	185	0	0	0	
CF from Invest.	255	-1,051	-852	-549	
Issue of Shares	0	0	0	0	
(Incr)/Decr in Debt	113	1,070	-229	-1,300	
Dividend Paid	-454	-467	-477	-477	
Others	-1,354	-496	-2	-1	
CF from Fin. Activity	-1,694	107	-709	-1,778	
Incr/Decr of Cash	141	325	678	608	
Add: Opening Balance	286	427	753	1,431	
Closing Balance	427	753	1,431	2,039	



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

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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

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