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Q4 FY07
Result Update

Marico

Outperformer	Rs 56	April 30, 2007

Sales growth sustained, momentary margin pressures impact performance

Company Details	
Market Cap:	Rs 3,389m
52 Week High/Low:	Rs 68 / 33
Bloomberg Code:	MRCO@IN
Reuters Code:	MRCO.BO / NS
Shares O/s:	61m
Average Volume (3 months):	0.5m

Price Performance

(%)	1m	3m	12m
Absolute	(4.8)	(1.4)	2.1
Relative to Sensex	(10.8)	1.2	(15.4)

Result Snapshot

Marico has continued to witness a broad based sales growth of 33.4% to Rs.3970m during the quarter. Organic growth during the quarter was at 21%, while inorganic growth was at 12%. Operating margins, however dropped against expectations by 120bps to 11% due to higher other expenditure of about 333bps at 17.9% of net sales. Also Adspend remained high against expectations at 15.1% of net sales against our expectations of 12.6% of net sales. Adjusted Other income has grown to Rs.13m from Rs.2m in the previous corresponding period. Profit after tax and before extraordinary items grew in line with our expectations by 35.6% to Rs.325m, but primarily driven by higher sales and other income.

At the CMP of Rs 56 the stock is trading at 29.3x FY07 earnings and at 21.3x FY08 earnings. We continue to maintain an **Outperformer** rating on the stock in view of its sustained strong sales growth and its dominance in the hair oil industry. We believe that the impact on margins due to higher ad-spend and other overheads is expected to be of temporary nature, which we believe will improve with continued growth in sales from newer businesses.

Q4 FY07 Result Overview

(Rs m)

Y/e March	Q4FY07	Q4FY06	*yoy gr. (%)*	Q3FY07	FY06	FY07	*yoy gr. (%)*
Net Sales	3,970	2,977	*33.4*	4,092	11,439	15,569	*36.1*
OPBDIT	437	364	*20.2*	551	1,443	2,087	*44.6*
OP Margin (%)	*11.0*	*12.2*		*13.5*	*12.6*	*13.4*	
PAT	325	240	*35.6*	277	1,066	1,157	*8.5*
Extraordinary Item	(44)	-		7	(215)	(28)	
PAT After extraordinary	281	240	*17.3*	284	851	1,129	*32.6*

Detailed Quarterly Table given below

(Stock price as on April 27, 2007)

Result Highlights

Broad based sales growth sustained

Marico continued to witness a broad based growth during Q4FY07 recording 33.4% yoy growth in net sales to Rs.3970m. This was better over our expected growth in sales of 29.4% yoy at Rs.3853m for the quarter. The strong growth in sales was led by a 21% organic growth and 12% inorganic growth. Organic growth was again driven by a comprehensive growth across its key businesses, Parachute coconut oil, Hair care range, saffola, international business and Kaya. The growth in the key product categories was primarily volume led growth and kaya grew through higher utilisation levels. Across all the four quarters in FY07, Marico has been able to post a sustained growth in sales.

Break up of sales growth (yoy) *(%)*

Y/e March	Q1FY07	Q2FY07	Q3FY07	Q4FY07
Organic	*23.0*	*26.0*	*20.0*	*21.0*
Inorganic	*14.0*	*11.0*	*16.0*	*12.0*

Growth in Key Businesses (yoy) *(%)*

Y/e March	Q1FY07	Q2FY07	Q3FY07	Q4FY07
Parachute coconut oil	*12.0*	*13.0*	*11.0*	*13.0*
Hair care	*23.0*	*33.0*	*17.0*	*17.0*
Saffola	*14.0*	*20.0*	*20.0*	*19.0*
International sales	*56.0*	*57.0*	*33.0*	*24.0*
Kaya	*60.0*	*58.0*	*64.0*	*52.0*

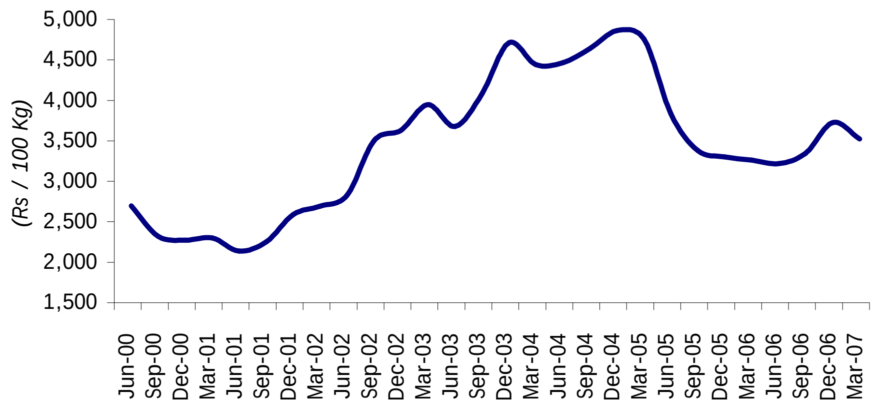
Operating margins disappoint, decline by 120bps to 11%

Operating margins declined by 120bps to 11% after adjusting for the Rs.11m one time additional charge in staff cost and Rs.25.24m one time impairment charge of assets in Kaya. Resultantly, operating profits grew by 20.2% to Rs.437m. This was a high disappointment to our expectations of a substantial 400bps improvement in operating margins during the quarter. The lower than expected operating profits during the quarter were due to the higher than expected advertisement expenditure and 333bps increase in other expenditure during the quarter. Advertisement expenditure at 15.1% of net sales was against our expectations of 12.6% of net sales. The high spend on advertisement expenditure was on account of increased spends on new brands in addition to higher spends on flagship brands. Almost 70% of the advertisement spends have been on new brands. Further other expenditure went up by about 333bps to 17.9% of net sales after adjusting for the one time impairment of assets in Kaya. One of the prime reasons for the higher other expenditure could be attributed to the Doctor referral expenses in Kaya. During the quarter in tie up with Singapore Quality Center (Singapore Airlines) Marico trained staff at Kaya on a “Customer First” mindset, a quality initiative. This is not expected to be incurred on an ongoing basis. Additionally, initial fixed expenses incurred in the Egyptian operations increased other expenditure during the quarter.

Copra prices rising by 8-10%, Marico may take price hikes

Raw material and Packing cost during Q4FY07 grew by 64bps to 52% of net sales, in line with our expectations. This was mainly on the back of about 8% rise in average copra prices during the quarter, which in turn led to a 262bps in crease in raw material cost to 42.7% of net sales. However packing cost during the quarter was lower by 198bps to 9.4% of net sales, which brought down the increase in overall raw material and packing cost. A look at the quarterly average copra prices has shown a slowdown in copra prices. However going by the company's expectations, copra prices are estimated to grow by 8-10% during FY08. We estimate that the impact of a 10% rise in copra prices will be to the tune of 200-240bps on operating margins. Base on these estimates we believe that, Marico would require to make price hikes to the tune of 6-7%. We further believe that the company will be able to make a price hike of about 5% on Parachute coconut oil, which will lead to a net increase in raw material cost of about 40-50bps.

Copra price trend



Source: Company, PL Research

Adjusted Other income grows to Rs.13m in Q4FY07 from Rs.2mn

The reported other income in the results table shows a substantial growth to Rs.87m against Rs.2mn in the corresponding previous quarter. However about Rs.74m is on account of profit made by Marico Middle East (MME) on transfer of brands Fiancee and Hair Code to Marico Limited. Marico Ltd had acquired hair code and Fiancee through Marico Middle East and the Accounting standards for consolidation require the company to show the figures at the gross level in other income as transfer of brands and in depreciation and amortization as an expense. Thus this is just an accounting entry and the effect of the same has been nullified by a similar charge in the depreciation and amortization account during the quarter.

Profit before tax and extraordinary grows by 35.6% to Rs.325m

After adjusting for the extraordinary expenses, PAT before extraordinary items has grown by 35.6% to Rs.325m. This has been driven by both growth in sales and higher other income during the quarter.

Capital re-structuring to reduce Amortization expenses by about Rs.280m in FY08

According to the capita re-structuring scheme approved by the shareholders and sanctioned by the court, marico has adjusted carrying value of certain intangible assets in the form of trademarks, copyrights, business and commercial rights against the balance in securities premium and capital redemption reserve account. The value of these intangible assets adjusted, are to the tune of Rs.3090m, which is net of deferred tax adjustment of about Rs.1390m. This is estimated to reduce amortization expenses in FY08 by about Rs.280m booked during FY07. Additionally the deferred tax to be adjusted will spread over a 10-year period in company's deferred tax accounts.

Kaya breaks even with marginal profits

Marico's Skin care solutions business, Kaya Skin Care Ltd., attained break even at the Profit before tax during FY07 with a marginal profit. During Q4FY07, Kaya recorded a turnover of Rs 220m, a growth of 52% over Q4FY06 and a growth of 10% over Q3FY07. Kaya recorded revenues of Rs 750m Kaya Skin Clinic in FY07. The business now comprises of 43 clinics in India and 5 in the Middle East. It has increased its consumer base to over 200,000. In order to drive increased footfalls to its clinics, Kaya had commenced the use of television advertising in September 2006. During the year, Kaya has focussed on improving the capacity utilization in existing clinics. The company expects that the utilization average of about 50% can be pushed up to 60-65%. The company also focussed on quality standardization, training and enhancement of customer services during the year. A tie-up with Singapore Quality Center (Singapore Airlines) helped train staff at Kaya on a "Customer First" mindset. This has been one of the reasons for the higher other expenditure during the quarter. The company is also focusing on Kaya products sales. As against a share of about 10% in Q4FY06, products constituted about 13.5% of Kaya's revenue in Q4FY07. The company plans to open about 15 to 20 more clinics both in India and in the Gulf during FY08 entailing an investment of about Rs.330-340m.

Kaya Skin Care - Quarterly Sales *(Rs m)*

Y/e March	Q1FY07	Q2FY07	Q3FY07	Q4FY07
Sales	160	174	197	220
yoy gr. (%)	*60.0*	*58.0*	*64.0*	*52.0*

Financials & Valuations

Though the operating profits have been below expectations, the continued strong growth in sales enthuses us. Further we believe that a major portion of the rise in expenses (excluding the higher raw material cost) may see some slowdown in the coming quarters. The advertisement expenditure, which was at 15.1% of net sales for the quarter and 13.6% of net sales for the full year (FY07) may be pegged at 13% in the coming years. Further the higher other expenditure in the form of initial fixed cost for the new acquisitions may fade out with higher sales from these operations in the coming quarters. Raw material and packing cost, we believe will rise by about 40-50bps during FY08. However any slowdown in copra prices will come as a positive for Marico. Also depreciation and amortization charge is estimated to reduce by a net amount of Rs.220m in during FY08 over FY07, due to adjustment of amortization expenses by the company.

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(Rs m)

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Net Sales	**3,970**	**2,977**	***33.4***	**4,092**	**11,439**	**15,569**	***36.1***
Expenditure							
Raw Mat	2,065	1,529	*35.0*	2,190	6,019	8,038	*33.5*
% of NS	*52.0*	*51.4*		*53.5*	*52.6*	*51.6*	
Personnel	158	167	*(5.4)*	229	783	877	*12.0*
% of NS	*4.0*	*5.6*		*5.6*	*6.8*	*5.6*	
Advertisement exp	598	483	*24.0*	559	1,388	2,123	*53.0*
% of NS	*15.1*	*16.2*		*13.7*	*12.1*	*13.6*	
Other Expenditure	711	434	*63.8*	562	1,806	2,443	*35.3*
% of NS	*17.9*	*14.6*		*13.7*	*15.8*	*15.7*	
Total Expenditure	3,532	2,613	*35.2*	3,541	9,996	13,482	*34.9*
OPBDIT	**437**	**364**	***20.2***	**551**	**1,443**	**2,087**	***44.6***
OP Margin (%)	*11.0*	*12.2*		*13.5*	*12.6*	*13.4*	
Other Income	87	2		3	21	102	*388.5*
PBDIT	**524**	**366**	***43.4***	**555**	**1,464**	**2,189**	***49.5***
Depreciation	115	96	*20.3*	168	259	522	*101.8*
Interest	47	23	*102.6*	54	51	206	*308.1*
PBT	**362**	**247**	***46.8***	**332**	**1,155**	**1,461**	***26.5***
Prov for Tax	37	7		55	88	304	*243.6*
% of PBT	*10.2*	*2.9*		*16.6*	*7.7*	*20.8*	
PAT	**325**	**240**	***35.6***	**277**	**1,066**	**1,157**	***8.5***
Extraordinary Item	(44)	-		7	(215)	(28)	
PAT After extraordinary	**281**	**240**	***17.3***	**284**	**851**	**1,129**	***32.6***

Key Figures

Y/e March	FY06	FY07E	FY08E	FY09E
Revenues (Rs m)	11,439	15,569	18,082	20,198
EBITDA (Rs m)	1,443	2,087	2,513	2,888
Margins (%)	*12.6*	*13.4*	*13.9*	*14.3*
PAT (Rs m)	1,066	1,158	1,591	1,852
EPS (Rs)	1.8	1.9	2.6	3.0
PER (x)	31.8	29.3	21.3	18.3
EV / E (x)	24.9	16.9	13.6	11.2
EV / Sales (x)	3.1	2.3	1.9	1.6
RoCE (%)	*28.4*	*29.4*	*39.7*	*38.3*
RoE (%)	*44.6*	*47.7*	*55.4*	*43.3*