

Marico Ltd.

INR 59

Another Oil Spill**ACCUMULATE**

Gateway to Prosperity

February 13, 2009

Company Background

Marico is a leading Indian Group in Consumer Products & Services in the Global Beauty and Wellness space. It provides solutions in Hair care, Skin care & Healthy Foods. Marico markets, well-known brands such as Parachute, Saffola, Sweekar, Hair & Care, Nihar, Shanti, Mediker, Revive, Manjal, Kaya, Sundari, Fiancée, Camelia, Aromatic, Caivil, Black Chic, Hercules & HairCode. Marico's operational areas also includes the markets of Bangladesh, other SAARC countries, Egypt, South Africa & Middle East markets. Marico's business model is based on focused growth across all its brands & territories driven by continuously improving value propositions to consumers, market expansion and widening of retail reach.

Investment Rationale.

➔ Growth Story for Marico continues. (Standalone Figures)

During the current quarter Marico recorded turnover of INR 6230 mn, registering a growth of 23% in comparison to previous years figures. Marico's all segments, consumer products in India, International business & Kaya skin solutions showed positive growth. Consequently, the company's Top Line remains robust increasing by 21%, followed by Bottom Line which grew by 29% during the corresponding period in the previous year, while Total Income too rose to INR 5033 mn as against INR 4186 mn, which supported well to maintain its Net Profit. Marico is expecting to witness 20% CAGR in its Bottom Line counter over FY08-11E.

➔ Business Segments.

Parachute & Nihar.

Parachute is the market leader positioning itself on the platform of purity. It is sold in rigid packs comprising plastic bottles and jars & non-rigid packs which cover more than 20-25% of Parachute sales. During Q3FY09, Parachute coconut oil in rigid packs recorded a volume growth of 9% over Q3FY08. During the 12 months to November 2008, it had a volume market share of 48% in the INR 13 bn branded coconut oils category. Meanwhile Nihar's share in the category stood at 6% during the 12 months to November 2008 with the brand registering a 9% growth in volume during Q3FY09 as compared to Q3FY08. Marico has been consistently reducing its dependence on Parachute as its largest revenue provider by reducing its share from 70-75% in early 90's to a present 40%. The company commands more than 56% share of the coconut oil segment in India with its three brands Parachute, Nihar & Oil of Malabar.

Edible Oils.

Saffola, Marico's second flagship brand is positioned on 'Preventive' platform & has been actively promoting itself as a health consciousness platform. During the last two years, the Saffola franchise showed a strong volume growth of about 18% despite its premium pricing to other refined edible oils. Following the steep drop in crude oil prices, most edible oils, led by palm

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Info Codes

Reuters	: MRCO.BO
Bloomberg	: MRCO@IN
NSE	: MARICO
BSE	: 531642

Market Data

52 Wk Range (INR)	: 74/46.50
Shares in Issue (mn)	: 609
Mkt. Cap (INR bn)	: 35.93
BSE 2 Wk Avg Vol	: 48022

Share Holding Pattern (%)

Promoters	: 63.45
MFs, FIs & Banks	: 11.33
FIIIs	: 16.53
Others	: 08.69

Investment Theme

Marico one of the leading player in FMCG segment is having diversified portfolio across India & Overseas market. Its branded product Parachute has market share of 48% in Indian coconut oils segment, while Saffola is too a leader in edible oil segment. Company is likely to open nearly 15-20 Kaya Clinics per year along with infusing around 150-200 mn. Marico expects to grow at a at CAGR of 20% over the next few years. It has a pan India presence of its products along with wide distribution network. Moreover it has a well-built network in Egypt, Middle East, USA, SAARC & African countries which grew by 44% in current quarter.

FMCG - Further Moves Clearly Good

also saw a sharp fall during the quarter. This led to many refined oil brands dropping their retail prices during Q2 & Q3 this year. Arrivals of the new Safflower crop is expected to be around March 09, which with the view of current scenario the prices are likely to see some downtrend. However it is expected that this downfall in raw material prices would enable it to provide Saffola at more reasonable premium in comparison to other premium branded & would help it grow at a healthy rate. Over the last few years Sweekar, Marico's refined sunflower oil brand has not been a focus brand. The brand has been witnessing low single digit growth in the past few quarters giving rise to the reports of a possible divestment from the company portfolio.

➔ **Hair Oils.**

The value added hair oils market in India is estimated to be around INR 18 bn with an annual growth rate of 14-15%. Marico's basket of hair oils includes Parachute Jasmine, Nihar perfumed hair oils, Hair & Care and Shanti Badam Amla, having a market share of about 20% during the 12 months ended November 2008. Hair & Care sales were augmented with the introduction of a new variant Hair & Care Almond Gold in Q2FY09, while its franchise grew in volume by 28% over the corresponding quarter in the previous year. In the perfumed coconut oil rigid category, Parachute Jasmine and Nihar perfumed oils grew by 10% in volume while Shanti Badam Amla recorded a volume growth of 16% over Q3FY09. Marico entered the cooling hair oil market in Q4FY08 by adding Maha Thanda to its hair oils segment. The brand was prototyped in Bihar with the national roll-out not expected before Mar'09 as its performance so far has been unsatisfactory. The cooling hair market in India is estimated to be INR 4 bn with an annual growth rate of 20%.

Segment	Products	Vol Gr(FY08)	Mkt Share
Perfumed coconut oil	Parachute Jasmine, Nihar	12%	78%
Amla Oil	Shanti Badam Amla	24%	9%
Non-Sticky	Hair & Care	15%	17%

(Source: Company Data)

➔ **Post-Wash conditioners.**

In India, the youth below the age of 25 years, accounts for 54% of the entire population & a majority of them find the usage of hair oils to be messy & outdated. Thus Marico is also present in the INR 1 bn Hair Cream & Hair Gels market through Parachute Advanced hair creams & hair gels along with Silk-n-Shine. Shower creams & gels grew by 12% in volume over the previous year, through the growth in Q3FY09 over Q3FY08 was 6%. Silk-n-Shine commands a market share of 32% in the niche post-wash conditioner market estimated at more than INR 500 mn. Parachute Aftershower Hair Cream garnered an impressive 28% market share within 2 months of its launch in Mumbai on Mar 05, furthermore capturing current 42% share of the hair-creams market in India. Marico's share in the male grooming segment including Gels is 21%.

➔ **Kaya Skin Clinic.**

The hair care and skin care business of Marico is carried out through a chain of clinics under the brand name of Kaya Skin Clinic. As of December 08 Kaya Skin Clinic offers its skin care solutions through 84 clinics, up from 65 in March 2008. Of these 73 clinics are operational across 20 cities in India while there are 11 clinics situated in the Middle East. Even it has added 6 new clinics in Mumbai, Delhi, Hyderabad and Chennai during the

Views on Marico's International unit .

The major markets for Marico in the global domain are Middle East, Bangladesh, Egypt & South Africa. Marico International unit continues to grow at a healthy pace, with registering a growth of 44% during 3QFY09 period over corresponding period in the previous year & comprised about 20% of the groups turnover.

Marico **Bangladesh** continues to do well led by its flagship, Parachute coconut oil which now commands a market share of 72%. It recently introduced a hair dye under the brand HairCode that would leverage the strong Parachute distribution network.

Marico **Middle East** is now a strong No. 2 in Hair Creams- with the success of Parachute cream that has a unique positioning- "Nourishment plus protection from Harsh water" & about 24% market share- quite close to the market leader in the GCC countries.

Marico **Egypt** has been undergoing a transition from directly servicing several wholesalers to dealing with them through a distributor, aimed at supply chain efficiencies and also the setting up of a third manufacturing facility near Cairo. It has commissioned a new factory in Egypt for hair creams through which it intends servicing the MENA region. This would help it to avail of the benefits of the FTA (Free Trade Agreement) between Egypt and countries of the GCC. Profits from this unit will be exempt from income tax in Egypt up to 2018

Marico **South Africa** has performed in line with expectations, with a positive response to the launch of new flavours in Hercules castor oil and the restaging of the brand Caivil.

quarter. During Q3FY09, Kaya recorded a turnover of INR 410 mn registering a growth of 59% over Q3FY08. Marico targets to open 15 new clinics every year in cities, in which it has already established presence and move on to new cities after saturating the demand in existing cities. In the Middle East, Kaya services are carried out through Kaya Middle East which is a subsidiary of Marico Middle East. In addition to skin care service, Kaya also includes contribution from product sales, which accounts for ~13% of its revenues. Product sales are expected to surge to ~25% of Kaya revenues over the next few years. The company is also attempting to increase the capacity utilization of clinics from 50% to 65%

Kaya Life.

Kaya Life offering holistic weight management solution, was launched in FY08. Currently has 3 centers – all in the city of Mumbai. Customers are experiencing effective results on both weight loss and inch loss. The model is being tested and fine-tuned prior to its complete roll-out.

Sundari.

Marico has acquired the spa products business under the brand name "Sundari" through the acquisition of a controlling interest in Sundari LLC, a Company domiciled in the United States, in February 2003. Over the years Marico has increased its shareholding, eventually making Sundari LLC a wholly owned subsidiary. Even the Management expects that Sundari concept and the business had begun to show positive signs from FY 08. The company intends to explore various alternatives including restructuring of Marico's stake in the brand Sundari or in the subsidiary Sundari LLC.

Rising share of International market-a key positive.

Marico's strategy of expanding into related international markets with significant potential demand for its existing products such as Bangladesh & Middle East has paid off handsomely. The International business (main areas of operations in Bangladesh, MENA and South Africa) currently contributes 16% (INR 3 bn) to the total turnover. It has successfully launched various product variants by capitalizing on mother brand 'Parachute' & is gradually increasing its presence in the overseas markets. Parachute coconut oil has achieved a leadership position in Bangladesh with 70% market share while in the Middle East market, Parachute cream has achieved 29% & 15% market share in the UAE and KSA respectively.

Key Financials

Year Ended 31st	Mar 06	Mar 07	Mar 08
Revenue (INR mn)	11474.8	15670.8	19133.7
Rev. growth (%)	13.12	36.57	22.10
EBITDA (INR mn)	1478.5	2088.5	2530.2
Net profit (INR mn)	868.8	1128.9	1690.7
Shares outstanding (mn)	580	609	609
EPS (INR)	1.50	1.85	2.78
EPS growth (%)	23.87	23.75	49.77
P/E (x)	36.04	33.07	24.22
ROCE (%)	28.41	35.15	50.03

Other key Arguments.

The company's extensive distribution network ensures a Pan-India presence of its products. Moreover, Marico has a well-built network in SAARC, Middle East and African countries.

Marico brands command either leadership or the second position in all the categories where it has presence. This gives the company a pricing power over other players in the market.

The company's presence in the largely under penetrated Indian beauty services segment will provide it with sufficient expansion opportunities, hence augmenting future revenues.

International operations are gaining traction due to acquisition of Fiancee and Haircode brands in Egypt and entry into South African market.

The company has been able to leverage its existing brands by entering in the new categories.

During the past few months, some FMGG companies have experienced faster growth in Rural India than in Urban India. In order to tap this opportunity, Marico is using its super distribution networks to service the rural areas along with providing low prices products in the same area, in order to increase the penetration of its brand.

Marico long term focus would be to continue its sustainable profitable growth, along with continuing to invest in its existing brands with building a pipeline of new products & solution that would provide significant delight to its valuable customers.

Financial Statements

Income Statement

(INR mn)

Year end Mar 31 st	FY 06	FY 07	% Chg	FY 08	% Chg
Revenue	11474.8	15670.8	36.57	19133.7	22.10
Total Sales	11439.4	15569.2	36.10	19066.9	22.47
Other Income	35.4	101.6	187.00	66.8	(34.25)
Total Expenses	9996.3	13582.3	35.87	16603.5	22.24
Raw Materials	6116.9	8184.3	33.80	10043.0	22.71
Operating Expenses	3879.4	5398	39.14	6560.5	21.54
EBITDA	1478.5	2088.5	41.26	2530.2	21.15
Depreciation	448	521.9	16.50	308.7	(40.85)
EBIT	1030.5	1566.6	52.02	2221.5	41.80
Total Interest	50.5	206.1	308.12	276.4	34.11
PBT	980	1500.8	53.14	2050.2	36.61
Taxation	111.2	371.9	234.44	359.5	(3.33)
Net Profit	868.8	1128.9	29.94	1690.7	49.77

4 Years Balance Sheets

(INR mn)

Balance Sheet as on 31 st	Mar 05	Mar 06	Mar 07	Mar 08
SOURCES OF FUNDS	2709.3	5008.7	3507.4	5858.2
Equity Share capital	580	580	609	609
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	1605.4	2193.6	1225.9	2193.3
Loan Funds	32.5	2032.5	504.8	1212.3
Unsecured Loans	491.4	202.6	1167.7	1843.6
USES OF FUNDS	2709.3	5008.7	3507.4	5858.2
Gross Block	1704.1	4021.1	2138.7	2288.9
Less : Revaluation Reserves	0	0	0	0
Less : Accumulated Depreciation	813	1125.6	1188.1	1319
Net Block	891.1	2895.5	950.6	969.9
Capital Work in Progress	116.5	189.7	89.7	491
Investments	290.9	363.9	809.1	1065.2
Current Assets	2652	3293.5	4941.8	5822.4
Less : Current Liabilities	1241.2	1733.9	3283.8	2490.3
Total Net Current Assets	1410.8	1559.6	1658	3332.1
Misc. Expenses not written	0	0	0	0
NOTE				
Bk Val Unquoted Investments	290.9	363.9	809.1	1062.5
Mkt Val. Quoted Investments	0	0	0	0
Contingent Liabilities	159.6	167.8	161.8	210.4
Dividend (%)	53.5	62	65	65

Quarterly Income Sheets

(INR mn)

Quarter Ended	Mar 08	Jun 08	Sep 08	Dec 08
Total Income	3735.9	5000.6	4913.4	5033.4
Sales	3712.9	4984	4898.9	5026.1
Other Income	23	16.6	14.5	7.3
Stock Adjustments	(267.8)	252.4	(909.6)	523.7
Total Expenses	3371.6	4400.7	4258.3	4293.2
Raw Materials	1987.2	2235.8	3201.5	2010.1
Adm & Selling Exp	501	541.8	402.1	404.6
Other Expenses	1151.2	1370.7	1564.3	1354.8
EBITDA	364.3	599.9	655.1	740.2
Depreciation	39.2	37.1	40.3	46.4
EBIT	325.1	562.8	614.8	693.8
Interest	65.4	62.5	81.2	55.9
PBT	259.7	500.3	533.6	637.9
Tax	17	113.4	82.5	120.7
PAT	242.7	386.9	451.1	517.2

52 Week Index Relative Percentage Appreciation



Marico with Sensex

Risks Associated

The retail environment is quite competitive both domestically & internationally, as significant expenditure in advertising & promotions is needed in order to reach its customers. Sometime it so happens that the competitors may too follow an aggressive advertising & promotions strategy, which increases the pressure of competition having its impacts on its firms pricing strategy. Launching of new products is quite risky here, as it may fail due to non acceptance by the consumers, non achievement of anticipated sales targets on account of marketing strategy to reach a pre defined market etc. Changes in the prices of key raw materials leads to high expenditure in turns have an impact the profit margins of the companies. Companies having operations internationally are also faced to risks due to volatility in foreign currencies. Even any expansion into new geographic & undertaking of new projects also exposes to additional foreign currency risks associated with such diversification.

In a Nutshell

Marico Ltd, is a leading Indian Group in Consumer Products & Services having space in Global Beauty & Wellness brands. Their extensions occupy leadership positions with significant market shares in categories such as coconut oil, hair oils & premium refined edible oils. Marico's Products and Services in Hair care, Skin Care and Healthy Foods generated a Turnover of about INR 19.1 bn during 2007-08. Its products reach in around 30 countries World-wide, including its main operational areas like Bangladesh, UAE, Egypt, South Africa and USA. Marico's focus on sustainable profitable growth is manifest through its consistent financial performance growing at a CAGR of 21% in Turnover & 30% in Profits over the past 5 years. Parachute the company's flagship brand, is the largest branded coconut oil commanding a volume market share of 48% of the Indian organised coconut oils segment, while its other flagship brand Saffola, is a leader in the edible oils segment. Marico has undertaken geographic expansion by entering the South African ethnic hair care and health care market through the acquisition of the consumer division of Enaleni Pharmaceuticals Ltd in Q3FY08. In addition, it has succeeded in innovating brand extensions and new product launches, which has enabled the company to build massive brands thus acquiring pricing power.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate up to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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