

January 15, 2008

FOR PRIVATE CIRCULATION

Chetan Shet
 chetan.shet@kotak.com
 +91 22 6634 1382

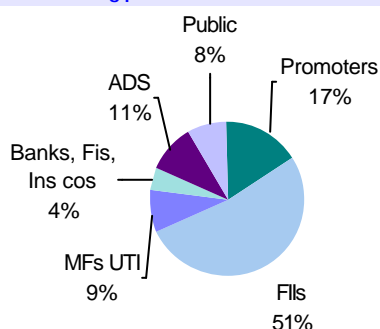
Stock details

BSE code	: 531642
NSE code	: MARICO
Market cap (Rs mn)	: 40924
Free float (%)	: 83
52-wk Hi/Lo (Rs)	: 83.25 / 57
Avg. daily volume	: 532081
Shares o/s (m)	: 609

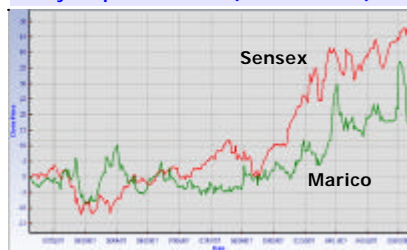
Summary table (Rs mn)

	FY07	FY08E	FY09E
Sales	15,569	19,700	23,640
Growth %	36.1	26.5	20.0
EBITDA	2,128	2,770	3,428
EBITDA margin %	13.7	14.1	14.5
Net profit	1,129	1,796	2,251
Net Profit Margin	7.3	9.1	9.5
EPS (Rs)	1.9	2.9	3.7
Growth %	23.8	59.1	25.3
CEPS	2.7	3.4	4.3
DPS (Rs)	0.6	1.0	1.3
ROE %	58.7	59.8	51.7
ROCE %	52.0	55.7	50.4
EV/Sales (x)	2.2	2.3	1.9
EV/EBITDA (x)	16.0	16.5	13.3
P/E (x)	27.9	24.1	19.2
P/Cash Earnings	19.1	20.6	16.5
P/BV (x)	16.4	14.4	9.9

Source: Company & Kotak Securities - Private Client Research

Shareholding pattern


Source: Company

One-year performance (Rel to sensex)


Source: Capitaline

Marico Ltd

PRICE : Rs.68
RECOMMENDATION : BUY
TARGET PRICE : Rs.90
FY09E PE : 19.2x

We believe the beauty and wellness segment is on a positive growth path riding on the back of fast-changing lifestyles, growing health consciousness, high disposable incomes and demand for quality products. The burgeoning urban population and rise in spending by rural India on personal care products augurs well for the consumer industry as a whole and the aforementioned segment in particular.

We forecast Marico will consolidate its leadership position in the beauty and wellness segment on the back of changing lifestyles, demand for high quality products and consistent introduction of new products and brand extensions. Kaya Skin Clinic, the skincare solutions business, is also expected to witness high growth post consolidation in FY07.

Increasing contribution from international markets and potential acquisitions should also help the company maintain consistent growth.

We expect business revenues to grow at a CAGR of 23% over FY07-09. The PAT is expected to grow to Rs.2.25 bn at a CAGR of 41% over FY07-09E. We have valued Marico's current business on a DCF basis and have arrived at a fair price of Rs.90 per share. We recommend BUY with a 12-month horizon.

Key Investment Rationale

Strong brands, stronger market. We believe the buying patterns of the Indian consumer are undergoing a structural shift from being price sensitive to quality sensitive. Robust economic growth, higher salaries and improving standards of living have led to consumers opting for quality, albeit pricey, products. We think this is a big positive for the company, as its products rank high on the quality front and enjoy a leadership position in most categories.

Marico has built a strong brand portfolio comprising Parachute, Saffola, Nihar, Mediker, Revive, Parachute After-Shower, etc catering predominantly to urban markets.

International business division - impressive performance. Marico has made a strong entry into the high growth African and West Asian markets. Though the growth in consumer spending in most developed countries is declining, we do not see a similar kind of threat emanating from these developing economies, which are growing at a robust pace. We believe this would lead to increased private consumption, pushing up demand for the Marico's quality products.

The company enjoys good brand equity in international markets like Egypt, Bangladesh and West Asia. It has recently acquired the consumer division of Enaleni in South Africa. In FY07, this international business division contributed about 14% of the group revenues. We expect the business to grow at a CAGR of 39% over FY07-09, contributing 16% to FY09 revenues.

Benign raw material prices. Good monsoon this year and massive re-plantation exercise to be undertaken by the government to boost the productivity will keep key raw material prices under check. Outlook for copra prices (key ingredient in coconut oils) continues to be benign due to good production and lack of preference as a cooking oil option except in southern states.

- **Kaya Skincare Clinic - First mover advantage.** Kaya Skincare Clinics are the first of their kind to provide safe, credible skincare services at multiple locations. Already an established brand, Marico has 48 clinics, with 43 operating in Indian markets and five in West Asian countries as of FY07.

Post consolidation in FY07, the company plans to add 45 more clinics in the next three years and looks well on track. With existing Kaya clinics breaking even, we expect significant contributions coming from the business.

Valuation

At the current price, Marico is trading at 23x and 18x FY08 and FY09 EPS estimates of Rs.2.9 and Rs.3.7, respectively. On an EV/EBITDA basis, the stock is trading at 12.8x FY09 estimates.

We initiate a **BUY** on the company with DCF based valuation yielding a price target of Rs.90 over a 12-month investment horizon. At the exit price the stock will trade at 24x FY09 earnings.

Key Risks

- **Relatively high dependence on one product.** The company's revenue growth depends to a great extent on the performance of one brand, Parachute (contributing approximately 38% of the group revenues). The company has consciously tried to reduce this dependence, and has succeeded in bringing it down from 50% three years ago to approximately 38% in FY07. We expect it to further decrease to 36 % by FY09.
- **Predominantly urban-centric strategies.** Marico's products and brands predominantly cater to the demands of urban consumer. The company's rural reach is restricted to the distributors and super-distributors it operates through. We believe regional players are getting stronger with more local reach and better coverage. Hence, aggressive rural plans of Marico, if any, may lead to margin erosion in the short-term.
- **Change in excise duty on coconut oil may impact company.** The manufacture of coconut oil contributes a significant proportion to Marico's total income and profitability. At present this does not attract excise duty due to the current excise tariff and classification of the product. Any change that increases the amount of excise duty payable on these products will adversely impact the profitability.

BACKGROUND

Marico Ltd is a family-owned company, incorporated on October 13 1988 as Marico Foods Ltd. The name was changed to Marico Industries Ltd with effect from October 31 1989. In April 1990 the company commenced commercial operations by taking over the business of the consumer products division of The Bombay Oil Industries Ltd (BOIL). Marico later changed its name to Marico Ltd on April 25 2005.

Marico largely continues to be a family-owned company with the promoters Harsh Mariwala and family holding 63.45% of the total shares as on September 30 2007. Though the company is family-owned, it is managed by professionals and the unique rotation policy of the company is also well-known.

Marico is a flat organization with only five levels of reporting between the managing director and an operator on the shop floor

Marico is a flat organization with only five levels of reporting between the managing director and an operator on the shop floor. We believe this flat structure helps the company in being more responsive to the environment while providing enriched roles for members. Keeping in mind the fast and ever changing business environs, Marico's structure is dynamic and constantly evolving.

Marico undertook an organizational restructuring exercise, which resulted in the Marico Group business organization being restructured into three strategic business units (SBUs) - consumer products business (personal & nature care and wellness & new products), Kaya Business (Kaya Skin clinics and Kaya Life) and the international business (which comprises the international FMCG business and the Sundari business).

With dedicated teams in place, we believe Marico is better placed to drive growth in its respective divisions in a much more focused manner. Thus, the company has evolved into a strong domestic as well as an international player.

Well spread out manufacturing facilities

Marico has the capability to manufacture large product volumes to service the markets. Domestically it has manufacturing facilities in eight different locations. As part of its international acquisition agreements with Fiancee and Enaleni, it will also acquire their manufacturing facilities in Cairo and Durban, respectively.

Subsidiaries

The company runs its international business and 'Kaya' clinics through separate 100% owned subsidiaries. The details are as follows:

Subsidiaries		
	Country	Stake
Marico Bangladesh Ltd.	Bangladesh	100.00
MBL Industries Ltd.	Bangladesh	100.00
Kaya Skincare Ltd.	India	100.00
Marico Middle East FZE	UAE	100.00
Kaya Middle East FZE	UAE	100.00
MEL Consumer Care SAE	Egypt	100.00
Sundari LLC	USA	100.00

Source: Company, Kotak Securities - Private Client Research

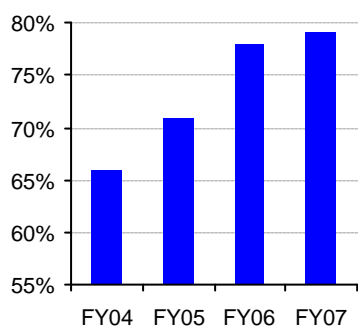
KEY INVESTMENT RATIONALE

Strong brands, stronger market

We believe the buying patterns of the Indian consumer are undergoing a structural shift from being price sensitive to quality sensitive. Robust economic growth, higher salaries and improving standards of living have led to consumers opting for quality, albeit pricey, products. We think this is a big positive for the company, as its products rank high on the quality front and enjoy a leadership position in most categories.

Marico has endeavored to move up the value-chain with consistent and de-risked growth strategies. As a part of this, Marico has realigned its product portfolio, enabling increased focus on high margin products and businesses. It has built a strong brand portfolio catering predominantly to urban markets.

Focus brand contributions



Source: Company, Kotak Securities - Private Client Research

Leadership in various segments (FY07)

Category	Brand	Market Share (%)	Rank	% of sales
Coconut oil (India)	Parachute	~48	1	40.0
Coconut Oil (Bangladesh)	Parachute	~60	1	15.0
Refined Safflower Oil	Saffola	~98	1	21.5
Anti lice treatment	Mediker	~96	1	4.9
Instant Fabric Starch	Revive	~95	1	12.4
Hair Oils	Parachute Jasmine,	~24%	2	6.0
	Shanti Amla, Hair & Care,			
	Nihar			

Source: Company

Marico has clearly segregated its brand portfolio into focus and non-focus brands. The focus brands comprise the aforementioned brands and have significant market shares in their product categories. The share of these focus brands have been increasing over the years. In FY07, the portfolio grew 39% and contributed 79% to group revenues as compared to 78% in FY06. With over 90% of the brand building efforts directed towards this high margin portfolio, we see an increasing contribution coming from this portfolio.

Market dominance continues

Marico controls 58% of the Rs.11-bn domestic coconut oil market (Source: AC Nielsen survey). The domestic coconut oil market is expected to grow at a robust pace of 10-12% on the back of a growing population and increasing conversions from loose oil customers to packaged oil users.

Marico has consolidated its position in the coconut oils segment by making strategic acquisitions of Oil of Malabar and Nihar in 1999 and 2006, respectively.

Parachute, the flagship brand, contributes approximately 40% of the group revenues. In FY07, volumes for parachute rigid packs grew 12% over FY06. Due to an 8% hike in input costs in 12 months to March 2007, Marico took a 3% price hike in Q2FY08, its first since 2004. With the raw material price scenario softening, margins are expected to expand. To counter the possible impact, if any, on volumes it has undertaken various micro-marketing initiative to further increase its market shares in pockets rather than in strongholds.

Marico's second flagship brand, Saffola, operates in the premium edible oil segment. With the increase in health awareness and fast changing lifestyles we think Saffola is well placed to take advantage of this fast evolving market. In FY07, the Saffola franchise registered a volume growth of 18%, contributing almost 20% of the group revenues. With growing demand from international markets, we expect it to grow at a strong pace taking its contribution to over 20% of the group revenues.

Marico controls 58% of the Rs.11-bn domestic coconut oil market

Competitive scenario

Category	Brands	Competition
Coconut Oils#	Parachute, Nihar, Oil of Malabar	Dabur
Hair Oils	Parachute Jasmine, Parachute Advansed, Shanti Badam Amla, Hair & Care, Nihar	Dabur, Emami, Bajaj, HUL
Edible Oils	Saffola, Sweekar	Agrotech, Adani
Skin Care	Kaya Skin Clinics, Sundari Spa	Unorganised players
Others	Mediker, Parachute After Shower, Revive, Silk-n-Shine, Sil, Sparsh, Manjal, Saffola Salt	Various players

Source: Company, Kotak Securities - Private Client Research

* Marico has a strong presence in the international markets of Bangladesh, Egypt and West Asia
In South India, coconut oil is also the base for cooking

Urban-centric product mix

The Indian hair oil market is pegged at Rs.13 bn and is growing at a CAGR of 25%

Marico's products are sold primarily in urban domestic markets that have exhibited very strong growth in personal and healthcare products. The Indian hair oil market is pegged at Rs.13 bn. It is growing at a CAGR of 25% for the past three years. With increasing urbanization and rising aspiration levels, we see the demand for these hair care products shooting up.

Marico is among the top two players and enjoys a 23% market share. Marico's Parachute Jasmine and Nihar controls 82% market share in the perfumed coconut oil category. Going forward, we expect revenues from the hair oil segment to rise from approximately 16% in FY07 to 18% by FY09.

New products

Hair gels and conditioners are growing at a robust pace of 40% and 30%, respectively

Marico, with the launch of its Parachute After-Shower and Silk-n-shine, has entered new high growth segments of hair gels and conditioners. These products are targeted at the aspiring urban youth with high spending ability. The market size, as of FY07, is estimated at Rs.800 mn and Rs.500 mn for hair gels and conditioners, respectively. It is growing at a robust pace of 40% and 30% for hair gels and conditioners, respectively. We think this is a good brand extension strategy and would further reduce the dependence on a single product.

As of FY07, Marico's market share in hair gels and hair conditioners stood at 35% and 50%, respectively establishing its dominant presence in the segment.

Focus on inorganic growth strategies

Besides organic growth, Marico is open to exploring acquisitions in the chosen strategic turfs of beauty and wellness. The past acquisitions of Marico have not only consolidated its market standing (for example, Nihar) but also thrown open new opportunities of growth.

In FY07, Marico achieved a turnover growth of 36%, wherein acquisitions made by company contributed 14% of the growth.

The key acquisitions in the recent past are:

The key acquisitions in recent past are:

Brands	Year of Acquisition	Location
Mediker	1999	India
Oil of Malabar	1999	India
Sundari	2003	USA
Camelia	2006	Bangladesh
Aromatic	2006	Bangladesh
Manjal	2006	India (South)
Nihar	2006	India
Fiancee	2007	Egypt
Haircode	2007	Egypt
Enaleni	2008	South Africa

Source: Company, Kotak Securities - Private Client Research

The African continent has been on the radar for quite some time. Marico has managed to enter the high growth markets of Egypt and neighboring nations. Continuing with its African growth strategy, Marico recently acquired Enaleni's consumer division in South Africa. This division has a strong ethnic population as well as a strong Indian consumer base. Going forward, we believe inorganic growth plans will be one of the key drivers of growth.

Benign raw material prices to keep prices in check

Copra (main ingredient in coconut oils) forms over 40% of raw material costs. It has witnessed a decreasing trend with prices correcting from a high of Rs.3750/quintal in October 2006 to the present day price of Rs.3350/quintal (Source: Bloomberg).

With almost the entire festival season behind us, raw material prices are showing no significant upside pressure, which augurs well for Marico.

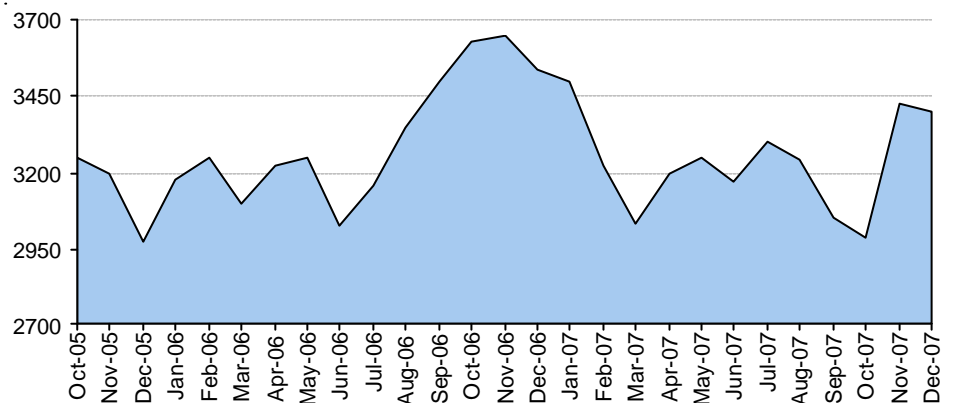
The Union Cabinet has approved the replantation of nearly 400,000 hectares (50% of the area under cultivation) of coconut plantations to increase the productivity levels. We believe this should lead to an increase in domestic supplies and will keep copra prices in check.

Replanting and higher production to keep copra prices in check

Any hike in copra prices will put the company's margins under pressure. However, we expect the strong brand equity of its product portfolio to make it possible to pass on the higher costs to consumers with no significant impact on volumes.

To protect itself in the long-term from rising raw material prices, Marico is concentrating on procuring coconuts with higher oil content and investing in better technology to extract it.

Copra price trend (Rs/Quintal)



Source: Bloomberg

In FY07, Kardi (the major ingredient in Saffola) had seen a price rise. Prudent inventory management and comparatively softer copra prices helped the company to keep raw material prices within manageable limits. To ensure a year-long uninterrupted supply of Kardi seeds, Marico has started sourcing seeds from Australian and Latin American markets.

Modern trade - Playing the volume game

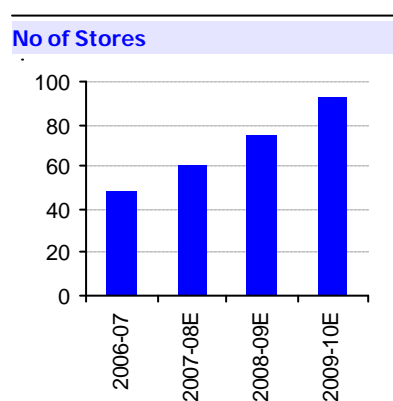
Organized retail chains have emerged as a good platform to launch new products and generate high volume business. These chains offer superior visibility and opportunity for the customer to touch and feel the product. Marico, with its urban-centric portfolio should find these formats an ideal fit for its brands. Currently, modern trade contributes only 4% to total revenues. However, in South India, a major market for Marico, almost 15% of revenues - come from modern trade.

Apart from showcasing the products, these chains also offer significant operational synergies. As volumes pick up, distribution cost per unit is expected to come down as direct supplies from factories will be possible. More cost effective packaging designs can be introduced to further reduce expenses.

With modern trade volumes slowly picking up, contributions are expected to go up to almost 10% of revenues by FY10. To achieve this, Marico has constituted a completely new team to handle modern trade relationships and appointed separate distributors for the same.

These initiatives should allow the company to keep distribution costs in check, while boosting its revenues.

Modern trade contributions to go up to 10% of revenues by FY10



Source: Company, Kotak Securities - Private Client Research

The company has added seven new clinics five in India and two in West Asia, taking the count to 48 and seven, respectively

KAYA - Future is here

Kaya Skincare Clinic is a unique retail venture undertaken by Marico. It is run by a wholly-owned subsidiary Kaya Skin Care Ltd, to operate skin care solution clinics and distribute Kaya-branded products. With increased awareness and demand for cosmetic enhancement and advancements in medical technology, procedures are now available that enhance the look and feel of the skin. Kaya Skin Clinics offer a scientific, unisex dermatological procedure using US Food and Drug Administration approved technologies.

After taking a breather in FY07, stabilizing and fine-tuning the model, Marico looks all set to execute its aggressive growth plans. The company has targeted at least 15 clinics per year for the next three years. As on December 2007, the company has added seven new clinics five in India and two in West Asia, taking the count to 48 and seven, respectively.

Kaya has been recognized as a pioneer in skin care and has become a benchmark for efficacy and client care. Kaya's focus on high levels of customer service and their satisfaction has earned it the Reid & Taylor Award for Retail excellence in Beauty and Health category in 2005 & 2006. To further improve its quality it has tied-up with Singapore Quality Center (Singapore Airlines) to train its staff on a 'Consumer First' mindset.

Revenue outlook

A Kaya clinic generates revenues from the services it offers and Kaya products it sells to the customers. Also, these revenues are a function of capacity utilization and limited space availability. According to the company, a stabilized Kaya clinic can operate at maximum 75% capacity utilization and generate revenues of around Rs.15-20 mn per annum. The existing capacity utilization of clinics is at around 60% leaving scope for growth.

At present, the product sales contribute around 14% of the total revenues generated from these clinics. However, the company has taken a conscious decision of not selling the products at other retail outlets but its own clinics and outlets. The high margin product sales are expected to contribute increasingly to the Kaya revenues touching 20% by 2010.

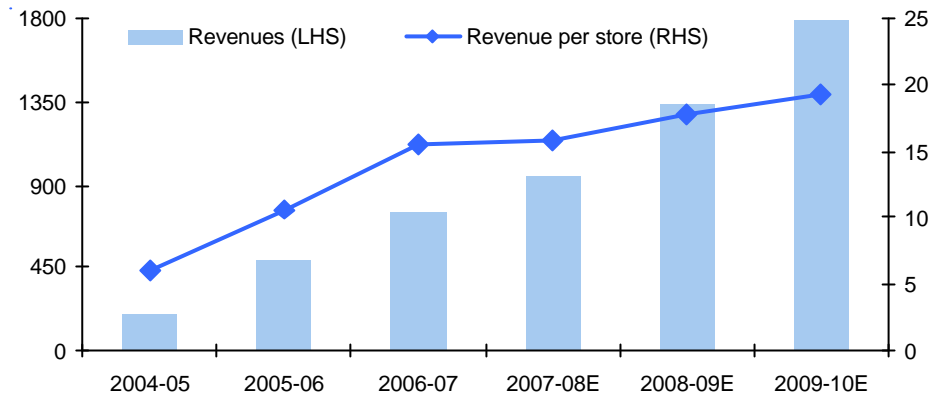
We've assumed 93 Kaya clinics by FY10 end. As more stores stabilize, the revenues/store is expected to go up.

Economics of a Clinic

Retail space	1500 sq.ft
Capital investment	Rs.15 mn
Revenues	Rs.15 mn
Break-even period	8-10 months

Source: Company, Kotak Securities - Private Client Research

Kaya revenue outlook (Rs mn)



Source: Company, Kotak Securities - Private Client Research

With the existing Kaya Clinics already having broken even the business stands to contribute significantly to net profits.

International business division - Leading the way

Marico's International Business Group (IBG) is among the top three export divisions of Indian consumer goods companies. Marico reaches out to more than 20 countries in West Asia, other nations in the Asian subcontinent, Africa, Australia and the US. Its product offerings in international markets include Parachute Coconut Oil, perfumed oils, hair creams and edible oils. IBG has now obtained Export House status.

In FY07, this division contributed about 14% to group revenues. We expect this to increase to almost 17% by FY10. The division will grow at a CAGR of 39% between FY07 and FY10.

Driven by inorganic growth initiatives in Egypt, the revenue contributions from the region are expected to touch approximately 5% of the group revenues this fiscal.

In Bangladesh, Marico operates via its wholly-owned subsidiary Marico Bangladesh Ltd. The company not only has a manufacturing facility but also has an established distribution network in place. Parachute Coconut Oil, the strongest company brand in the region, has increased its market share over 60% and extended its reach to more than 300,000 retail outlets. Camelia and aromatic soaps are also posting good numbers.

The West Asian region has proved to be a lucrative market for Parachute Hair Cream and coconut oil, with the latter being the leader in its category. Kaya Skin Clinics, the retail foray of the company has also found good acceptance in the region.

Continuing with the inorganic growth strategy, Marico recently acquired the consumer division of Enaleni Pharmaceuticals Consumer Division Ltd (EPCD), South Africa for a consideration of about Rs.530 mn. The deal is valued at about 1x the sales and 15-16x the current EBITDA.

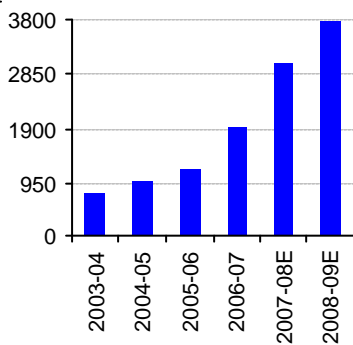
The acquisition has given the company a toehold in the Rs.6 bn ethnic hair care and OTC market of South Africa. The market is registering a robust growth of 20% YoY and the market shares for the acquired company are in the adjoining table:

More importantly, the acquisition has given an opening in Ethnic African markets with a strong Indian population. The company also comes with a manufacturing facility in Durban, thereby adding to the synergies. Margins are expected to improve, once it gets streamlined and the acquisition is completed.

Non-focus brands -laggards

A few brands like Sil, Sweekar, and Sundari have delivered a disappointing performance. The total revenue contribution from non-focus brands has also been declining over the years. With uncertainty prevailing over the future of these brands, we see them continuing to weigh on the company's resources.

International Revenues (Rs mn)



Source: Company, Kotak Securities - Private Client Research

IBD contribution to grow at a CAGR of 39% over FY07-10

Enaleni Market Share (%)

Haircare	5 - 6 %
OTC	9 - 10 %

Source: Company, Kotak Securities - Private Client Research

FINANCIALS

FY07 financial performance

- In FY07, Marico Industries recorded net sales of Rs.15.57 bn, a YoY growth of 36%. While acquisitions contributed 14% of the growth, organic growth was 22%.
- The company recorded higher EBITDA margins of 13.7% in FY07 as against 12.6% in FY06. This was primarily driven by increasing contribution from high margin products and a benign raw material price scenario. Raw materials costs were 49% of sales as compared to 53% in FY06.
- Marico reported net profits of Rs.1.17 bn in FY07 as against Rs.860 mn, crossing the Rs.1-bn mark for the first time. The company reported an EPS of Rs.1.93 in FY07.

H1FY08 performance

In H1FY08, Marico reported net sales of Rs.9.32 bn, recording a YoY growth of 24.3%. The company recorded lower EBITDA margins of 14% as against 14.9% in FY06 on account of higher advertisement and sales promotions and higher raw material and packaging costs. Marico reported net profits of Rs.824.3 mn in H1FY08 as against Rs.563.8 mn in Q2FY07, a 46.2% YoY growth and an EPS of Rs.1.35.

H1FY08 performance

(Rs mn)	Q1FY07	Q1FY08	YoY (%)	Q2FY07	Q2FY08	YoY (%)	H1FY07	H1FY08	YoY (%)
Net sales	3,728	4,691	25.8	3,780	4,638	22.7	7,508	9,329	24.3
Expenditure	3,165	4,031	27.4	3,221	3,990	23.9	6,387	8,022	25.6
- (Inc)/Dec In Stock In trade	155	84		(184)	(151)		(30)	(68)	
- Raw & Pkg Matl	1,756	2,361		2,056	2,544		3,813	4,906	
- Staff Cost	210	342		257	256		468	597	
- Advt & Sales Promo	484	512		482	603		966	1,115	
- Other	560	733		611	738		1,171	1,471	
Operating profit	563	660	17.3	558	648	16.0	1,121	1,308	16.6
Depreciation	112	58		127	64		239	122	
Gross profit	451	602		432	583		883	1,186	
Interest	48	71		57	65		105	136	
Other income	11	7		1	5		11	12	
PBT	414	539	30.2	375	523	39.6	789	1,062	34.7
Tax	111	136		161	101		272	237	
PAT	303	402	32.7	261	423	61.8	564	824	46.2
No. of Shares ostgd	609	609		609	609		1,218	1,218	
EPS (Rs)	0.50	0.66	32.7	0.43	0.69	61.8	0.93	1.35	46.2
Key Ratios (%)									
Operating profit margin	15.1	14.1		14.8	14.0		14.9	14.0	
RM/Sales	47.1	50.3		54.4	54.9		50.8	52.6	
Emp costs/Sales	5.6	7.3		6.8	5.5		6.2	6.4	
ASP/Sales	13.0	10.9		12.7	13.0		12.9	12.0	
Net profit margin/sales	8.1	8.6		6.9	9.1		7.5	8.8	

Source: Company

The group revenues are expected to grow at a CAGR of 23% during FY07 and FY09

Revenues

The group revenues are expected to grow at a CAGR of 23% during FY07 and FY09. The International Business Division and focus brands will mainly drive this growth. The focus brands include hair oils and edible oils, expected to grow at approximately 25% and 17%, respectively. The International Business Division is expected to deliver a 40% growth on the back of strategic acquisitions in the high growth African markets and West Asia.

We expect the coconut oils segment (approximately 40% of the revenues) to continue growing at a robust pace of 10-12% over the next few years. However, with the international business, hair oils and edible oils growing at a faster pace, the dependence of company revenues on flagship brand Parachute is expected to come down from 38% in FY07 to 36% by FY09.

Margin outlook

EBITDA margins

In FY07, EBITDA margins improved on the back of soft raw and packaging material prices. Copra forms about 40-45% of the total raw materials consumed. The prices of copra have fallen 7% over the past 12 months. With the festival season already behind us and demand for coconut oil subsiding we do not foresee any major upward pressures on prices.

Saffola, the second flagship brand of the company, operates in the high premium, high margin segment. Lately, product margins have been under pressure due to rising Kardi prices.

Some of the key acquisitions like Nihar have consolidated the competition

Marico already has established brand equity in domestic as well as international markets. The products distinctly stand out of the clutter, and lead their respective categories. Some of the key acquisitions like Nihar have consolidated the competition.

With many top-of-the-mind brands and a strong recall, we believe the company will need to spend lesser effort for future brand building exercises. Hence, we expect EBITDA to grow at a CAGR of 26 % during 2007-09E, due to better product mix and robust growth in focus brands.

Strong Cashflows

We expect the cash position of the company to improve to over Rs.4 bn by 2010E.

In FY07, Marico had undergone a restructuring exercise of writing off intangible assets worth Rs.4.5bn against the reserves. We believe this makes the company balance sheet lean and flexible to raise funds for its inorganic initiatives. We expect the cash position of the company to improve to over Rs.4 bn by 2010E. As on FY07, it has Rs.427 mn in cash and bank balances. Marico enjoys a RoCE of 52%, as on FY07 and is expected to maintain it above 50% in FY09.

We expect the company's effective tax rate to be around 24%, boosting PAT margins further. Consequently, we expect the PAT to grow at a CAGR of 41% to Rs. 2.25 bn in FY09. This should lead to an EPS of Rs.2.9 and Rs.3.7 in FY08 and FY09, respectively.

With no major capex requirements in near future, we believe the incremental cash can be utilized to make value-accretive acquisitions in the consumer goods space or in expanding capacities.

VALUATION

we recommend a BUY on the stock with a target price of Rs.90 over a period of one year

The stock is trading at 23x and 18x FY08E and FY09E earnings, respectively. On an EV/EBIDTA basis, the stock is trading at 12.8x FY09E financials. We prefer Marico over its peers given its leadership position in the segments it operates in and growth prospects for its new businesses.

We have assigned a target price of Rs.90 to the stock based on DCF. At our target price, the stock would trade at 24x FY09E earnings. Hence, we recommend a **BUY** on the stock with a target price of Rs.90 over a period of one year.

DCF valuation

FCFF valuation per share (Rs mn)	
Terminal value	41,571
Total FCFF	55,922
Less Net Debt	1,344
Shareholders' Value	54,578
Value per share	90

Assumptions

Terminal Growth (%)	4.0
Beta	0.6
Risk free Rate (%)	8.0
Risk Premium (%)	6.0
Cost of Equity (%)	11.6
Cost of Debt (%)	8.1
WACC (%)	11.4

Source: Kotak Securities - Private Client Research

Free Cash Flow to Firm (Rs mn)							
	2007	2008E	2009E	2010E	2011E	2012E	2013E
PAT	1,129	1,796	2,235	2,876	3,534	4,117	4,788
Depreciation	522	303	371	384	398	411	425
Interest (1-tax rate)	155	162	159	157	155	152	149
Capex	(2,054)	588	810	162	162	162	425
Change in NWC	87	317	240	308	292	302	348
FCFF	3,958	1,356	1,715	2,947	3,633	4,216	4,589
Discounted Value	-	1,356	1,669	2,578	2,856	2,978	2,913

Source: Kotak Securities - Private Client Research

The following grid below gives a sensitivity analysis based on various scenarios.

Sensitivity analysis					
Terminal Growth	WACC (%)				
	10.8	11.1	11.4	11.8	12.1
3.0	87	83	81	77	74
4.0	97	93	90	84	81
5.0	111	105	101	94	90

Source: Kotak Securities - Private Client Research

Profit and loss statement (Rs mn)				
Year end March	FY06	FY07	FY08E	FY09E
Revenues	11,439	15,569	19,700	23,640
% change yoy	13.0	36.1	26.5	20.0
EBITDA	1,443	2,128	2,770	3,428
% change yoy	64.6	47.4	30.2	23.7
Depreciation	448	522	303	371
EBIT	995	1,606	2,467	3,057
% change yoy	36.7	61.4	53.7	23.9
Net Interest	51	206	213	208
Other Income	35	102	103	104
Earnings Before Tax	980	1,501	2,357	2,953
% change yoy	35.4	53.2	57.0	25.3
Tax	111	372	561	702
as % of EBT	11.3%	24.8%	23.8%	23.8%
Net Income adj	869	1,129	1,796	2,251
% change yoy	25.0	30.0	59.1	25.3
Shares outstanding (m)	580	609	609	609
EPS (Rs)	1.5	1.9	2.9	3.7
DPS (Rs)	0.6	0.6	1.0	1.3
CEPS	2.3	2.7	3.4	4.3

Source: Company & Kotak Securities - Private Client Research

Cash Flow Statement (Rs mn)				
(Year-end Mar)	FY06	FY07	FY08E	FY09E
EBIT	995	1,606	2,467	3,057
Depreciation	448	522	303	371
Change in working capital	-171	85	316	253
Operating cash flow	1,614	2,042	2,454	3,175
Interest	51	206	213	208
Tax	111	372	561	702
Cash flow from operations	1,452	1,464	1,681	2,265
Capex	2,779	-2,054	588	810
(Inc)/dec in investments	61	-185	-0	-
Cash flow from investing	-2,839	2,238	-588	-810
Dividend paid	-410	-445	-717	-898
Other income	35	102	103	104
Proceeds from equity issue	-	29	-	-
Increase/(decrease) in debt	1,853	112	-10	-
Cash flow from financing	1,479	-203	-624	-794
Total Adjustments	-14	-3,488	260	310
Change in cash	77	12	729	971
Opening cash	338	416	427	1,156
Closing cash	415	427	1,156	2,127

Source: Company & Kotak Securities - Private Client Research

Balance sheet (Rs mn)				
Year end March	FY06	FY07	FY08E	FY09E
Cash and cash equivalents	416	427	1,156	2,127
Accounts receivable	515	643	788	946
Others	83	-1,152	-892	-582
Current Assets	1,014	-82	1,052	2,491
LT investments	185	0	-	-
Net fixed assets	3,830	2,104	2,389	2,828
Total Assets	5,028	2,022	3,441	5,319
Payables	1,406	2,322	2,878	3,436
Others	170	491	102	103
Current liabilities	1,576	2,813	2,980	3,539
LT debt	2,398	2,510	2,500	2,500
Other liabilities(deferred tax)	-	-	10	20
Equity & reserves	2,615	1,924	3,003	4,356
Total Liabilities	6,588	7,247	8,493	10,415
BVPS (Rs)	4.5	3.2	4.9	7.2

Source: Company & Kotak Securities - Private Client Research

Key ratios				
(Year-end Mar)	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	12.6	13.7	14.1	14.5
EBIT margin (%)	8.7	10.3	12.5	12.9
Net profit margin (%)	7.6	7.3	9.1	9.5
Adjusted EPS growth (%)	25.0	30.0	59.1	25.3
Receivables (days)	14.3	13.6	13.3	13.0
Inventory (days)	42.2	51.9	43.8	43.8
Sales / Net Fixed Assets (%)	3.3	10.9	11.8	11.5
Interest coverage (x)	19.7	7.8	11.6	14.7
Debt/ equity ratio	0.9	1.3	0.8	0.6
ROE (%)	33.3	58.7	59.8	51.7
ROCE (%)	20.2	52.0	55.7	50.4
EV/ Sales	1.8	2.2	2.3	1.9
EV/EBITDA	14.4	16.0	16.5	13.3
Price to earnings (P/E)	21.2	27.9	24.1	19.2
Price to book value (P/B)	7.0	16.4	14.4	9.9
Price to cash earnings	14.0	19.1	20.6	16.5

Source: Company & Kotak Securities - Private Client Research

Research Team

Name	Sector	Tel No	E-mail id
Dipen Shah	IT, Media, Telecom	+91 22 6634 1376	dipen.shah@kotak.com
Sanjeev Zarbade	Capital Goods, Engineering	+91 22 6634 1258	sanjeev.zarbade@kotak.com
Teena Virmani	Construction, Cement, Mid Cap	+91 22 6634 1237	teena.virmani@kotak.com
Awadhesh Garg	Pharmaceuticals	+91 22 6634 1406	awadhesh.garg@kotak.com
Apurva Doshi	Logistics, Textiles, Mid Cap	+91 22 6634 1366	doshi.apurva@kotak.com
Saurabh Gurnurkar	IT, Media, Telecom	+91 22 6634 1273	saurabh.gurnurkar@kotak.com
Saurabh Agrawal	Metals, Mining	+91 22 6634 1291	agrawal.saurabh@kotak.com
Saday Sinha	Banking, Economy	+91 22 6634 1440	saday.sinha@kotak.com
Rohit Ledwani	Retail	+91 22 6634 1507	rohit.ledwani@kotak.com
Sarika Lohra	NBFCs	+91 22 6634 1480	sarika.lohra@kotak.com
Chetan Shet	FMCG, Power	+91 22 6634 1382	chetan.shet@kotak.com
Shrikant Chouhan	Technical analyst	+91 22 6634 1439	shrikant.chouhan@kotak.com
Kaustav Ray	Editor	+91 22 6634 1223	kaustav.ray@kotak.com
K. Kathirvelu	Production	+91 22 6634 1557	k.kathirvelu@kotak.com

Disclaimer

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Securities Ltd. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Securities Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions - including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Equities Research Group of Kotak Securities Limited.

We and our affiliates, officers, directors, and employees world wide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

No part of this material may be duplicated in any form and/or redistributed without Kotak Securities' prior written consent.

Analyst holding in stock: Nil