Marico: Action to continue….

No material change in consumer demand,

Marico Ltd witnessed little below numbers than consensus because of growth contraction in International business and Kaya Business. Revenue grew by 10%, led by 11% growth on consumer business (FMCG) and Skin Care by 5% on YoY basis, Indian FMCG Business grew at 16% in value terms. PAT growth was up by 21.6% (YoY).

International Business: Marico's International Business Group (IBG) (contributes 22% of Sales) faced with a challenging environment in key geographies, IBG registered a flat revenue performance as compared to Q3FY12.

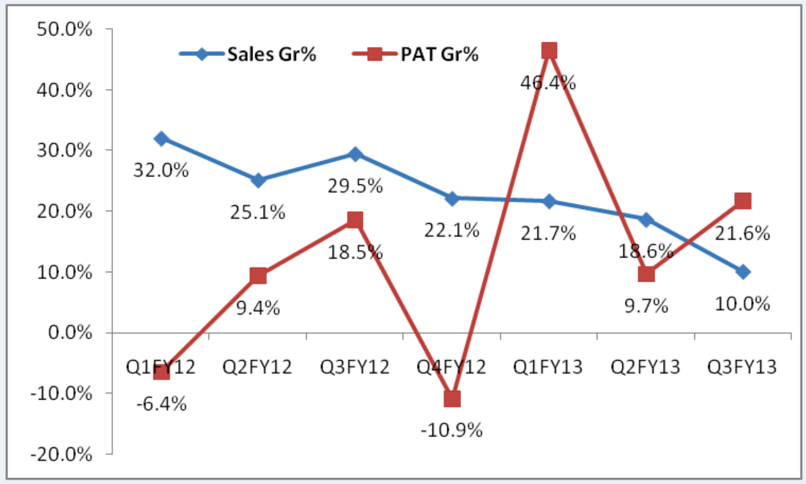
Bangladesh, which contributes 39% of IBG lost valuable business days owing to "strikes" in the country and posted 15% (YoY) decline. Middle East and North Africa, contributes 27% up by 6%(YoY), Egypt remains somewhat unpredictable because of political turmoil, Middle East region continued to face challenges and degrew during the quarter. While, Vietnam and South Africa posted a steady sales growth.

Stable Margin Picture: ***Due to Softness in Copra prices and acceptability of cost cut strategy, EBITDA Margin improved by 270bps (YoY) higher than expected - YoY to 14.2% as against analysts' forecast of 13.5%.*** This reflects the Company's approach towards focusing on new consumer acquisition across its portfolios as against maximizing margins in the short term.

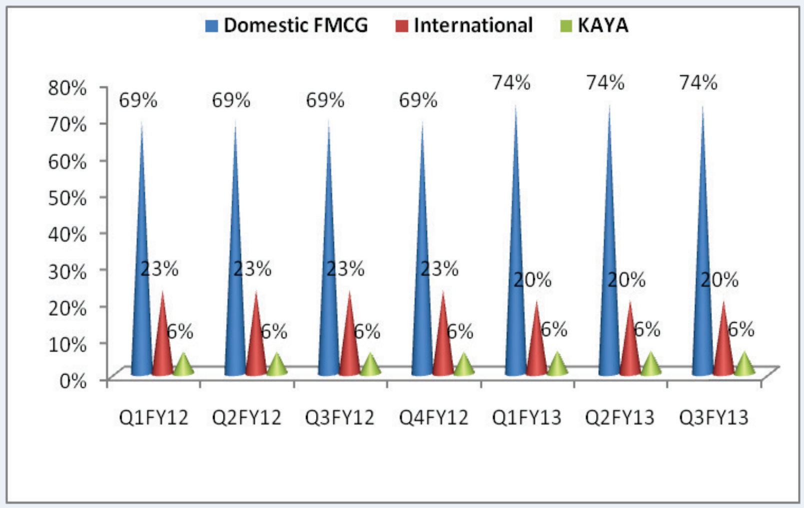
RM Cost: During the quarter, Raw material Cost declined to 46% of sales against the 49% of corresponding quarter of last year, while, considering the demand factor and sales promotion of youth brand, Ad spend increased to 13.6% from 12.7% (YoY). **The inflation in the safflower oil and rice bran oil is significantly higher than the inflation in sunflower oil. A large portion of that input basket is copra where the market has been quite benign.** Historically, Copra Prices trades at 27month low at Rs 2878/Qtl.

Steady Volume Growth: The domestic business (FMCG) Volume growth is about 15%. Organic volume growth, which means the brand already had last year, seen 9% volume growth. About 6% is because of the youth brands ((including SetWet, Zatak and Livon) that were acquired last year. 9% volume growth is lower than earlier quarters volume growth. As per the post results management comments, to enhancing the volume growth, they will raise some steps of pricing strategy in certain categories very soon.

Kaya Business: Company's Showpiece Business "Kaya" reported 5% YoY growth. Even in Kaya for example, the same store growth number continues to be positive at 4%. It is lower than earlier quarters, but it is there. Operating margin wise, Kaya has been an investment business and it has to some extent, dragged consumer product bottom-line. During the quarter, Kaya margin at 5% against the negative figure of same quarter last year. Per clinic kaya sales was at Rs.75cr/ Rs.70cr (Q2FY12), while it was at Rs0.86 crore of previous quarter. Company thrown away 2 clinics to 105 YoY basis.



(Source: Company/Eastwind)



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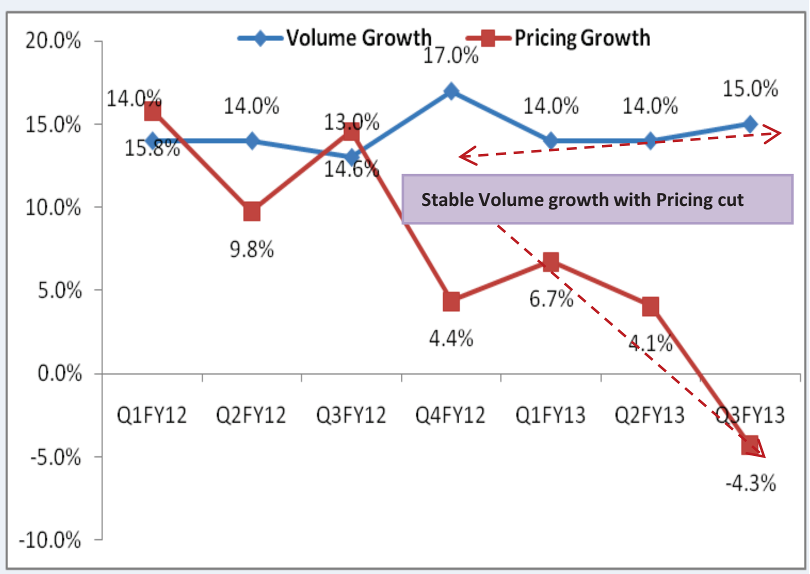
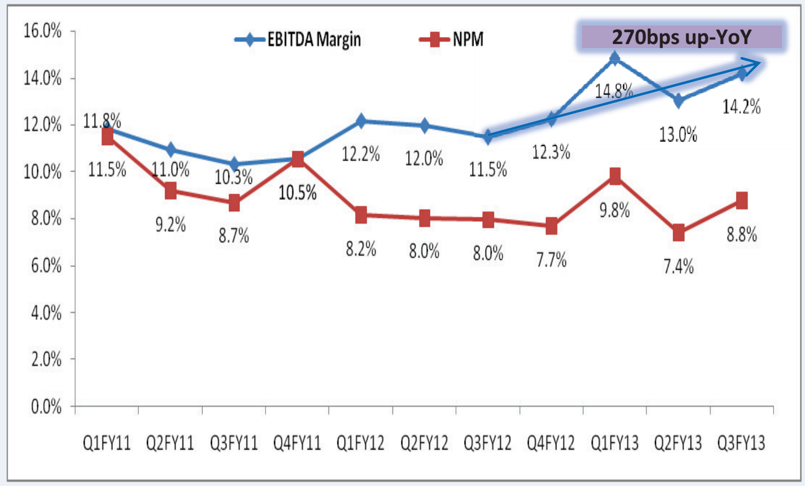


Source: Company/Eastwind

Marico:

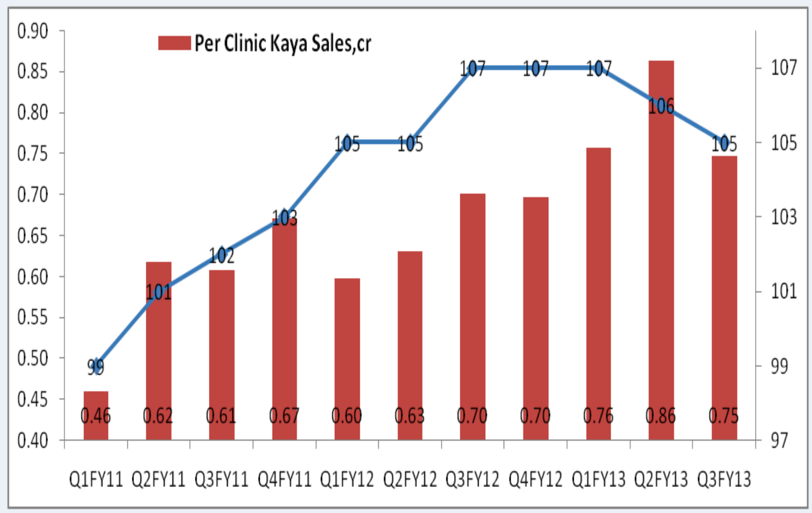
On going demerger plan: On the demerger of Kaya business, announced it on January 7, 2013. There is a series of steps to be completed for that, which includes the court process. Company has applied to the stock exchanges also for the eventual listing of the separate company. As a separate entity, they will be closely focused and the separation of the two businesses would help both of them to grow independently and in a very constructive focused manner.

We expect that the whole process including the court approval should be through by the end of June or maybe in the first week of July or so. Therefore, ***we expect that at the time of declaring the Q1FY14 numbers, we would see the results of the two companies separately at that time.***



(Source: Company/Eastwind)

Standing on Market Share of Key brands: Marico participates in the Rs2500 crore branded coconut oil market through Parachute and Nihar. T**he rigid part (packs in blue bottles) of the portfolio of Parachute, Marico's flagship brand, recorded a volume growth of about 6% during the quarter over Q3FY12. Company is having 58% of market share (volume), 1st place in this category. Saffola has a market share of 58% in the super premium refined edible oils category.**



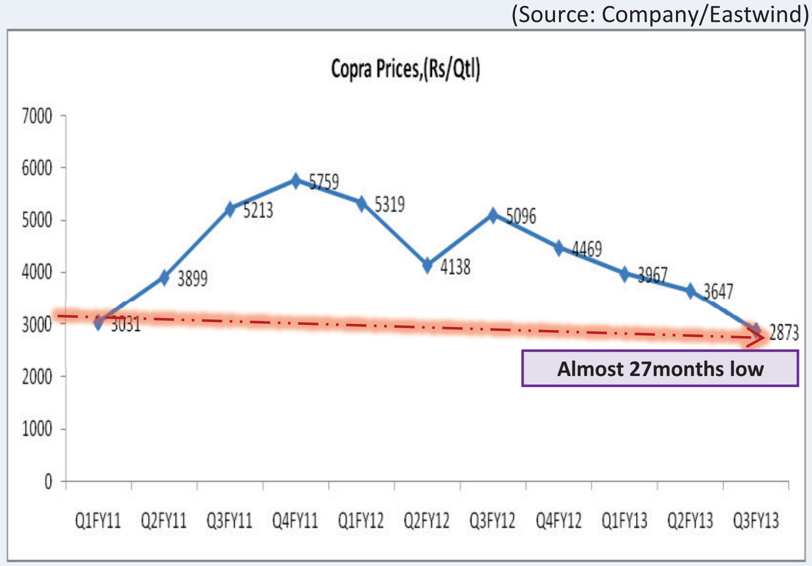
(Source: Company/Eastwind)

Parachute Advanced Body Lotion has achieved a volume market share of about 6% to 7% (moving 12 months basis) within a short period and has become the number 3 participant in the market. The brand's clutter-breaking premium packaging won the World Star 2012 award beating stiff competition from across several countries. The brand gained about 230 bps in market share during the current season as compared to the last season.

The company plans to invest about Rs 130-150 crore in capital assets in FY13. This estimate excludes any potential acquisition opportunities and the expenditure of about Rs 130 crore already made with respect to the additional office space purchased in Mumbai.

Marico's long-term growth potential across all categories and recent acquisition of male personal care brands in the male grooming/styling segments puts in a good position to leverage the Indian demographic trends and build a strong portfolio of the future. Company expects to maintain a margin of 13% and volume growth would be a priority field for the company in near future.

Company aims to grow its franchise by opening 3-4 new Kaya's clinics in strategic locations in India. Considering Copra price fluctuation and possibility of volume decline because of inflationary environment, we have a cautious view on the stock. At a price of Rs 230, stock trades at 27x FY14E earnings. We have "Netural" view on the stock with a target price of Rs 235.



Source: Company/Eastwind