Marico - An Information Update October 21, 2008

Q2FY09 (Quarter ended September 30, 2008)

Group Turnover	**Rs. 603 Cr.**	**Up 30%**
Profit Before Tax	**Rs. 58.3 Cr.**	**Up 11.3%**
Net Profit	**Rs. 47.1 Cr.**	**Up 11.6%**

Marico maintains growth momentum

Marico recorded a turnover growth of 30% during the second quarter of FY09, building upon the strong 28% growth in the first quarter over the corresponding period in the previous year. The turnover during the quarter stood at Rs. 603 crore. Despite inflationary pressures, consumption was not adversely impacted during the period. All Marico's businesses, consumer products in India, international business and Kaya skin solutions showed healthy growth. The turnover growth of 30% comprised organic volume growth of 11% and inorganic growth of 3% accompanied by price led growth of 16%.

Profit After Tax (PAT) during the quarter was Rs 47.1 crore, a growth of 11.6% over Q2FY08 in line with volume growth. The period under review witnessed significant volatility in the environment including those in input costs, in foreign exchange rates and increased interest rates. The PAT during the quarter is after absorbing a foreign exchange mark to market (MTM) loss of Rs 7 crore as the Indian Rupee depreciated from INR 42.91 to a USD at the beginning of the quarter to INR 46.97 to a USD on Sep 30, 2008. The extent of this steep depreciation of the Rupee was unanticipated and had it not been for the MTM loss, the PAT growth for the quarter would have been 24% over Q2FY08.

Q2FY09 is in Y-o-Y growth terms, the:

- 32nd consecutive Quarter of growth in Turnover and
- 36th consecutive Quarter of growth in Profits

At its meeting held on October 21, 2008, the Board of Marico Limited, declared a first interim dividend of 30% on its equity share capital of Rs. 60.9 Crore.

Marico's Investor Relations efforts are co-ordinated by

- Chaitanya Deshpande, Head –M&A and Investor Relations (chaitanyajd@maricoindia.net)
- Milind Sarwate Chief – HR & Strategy (milinds@maricoindia.net)

For further information / clarification, Marico may be contacted on
Telephone : (91-22) 6648 0480 Fax : (91-22) 6649 0112 E-mail : milinvrel@maricoindia.net

Consumer Products Business - India:

A few Brand Stories:

Parachute & Nihar

Parachute continued to maintain its leadership market share in India. During the 12 months to August '08, it had a volume market share of 48% in the Rs 1300 crore branded coconut oils category. During Q2FY09, Parachute coconut oil in rigid packs recorded a volume growth of 12% over Q2FY08. Meanwhile Nihar's share in the category stood at 6% during the 12 months to August '08 with the brand registering a 10% growth in volume in rigid packs during Q2FY09 as compared to Q2FY08.

There has been an all round increase in input prices for most FMCG companies. Prices of Copra, the raw material input for coconut oil, were higher by 30% in Q2FY09 over Q2FY08. In August 2008, the company implemented a 5% increase in the retail prices of Parachute. Together with the price increases of 3% in July 2007 and 5% in April 2008, the cumulative price increase during the last year or so has been 13%. This increase is adequate to cover for a substantial part of the raw material cost inflation and keep the gross margin per unit volume within a tight band.

Given the company's high market share in the category (about 55%), a key component of its strategy is to grow the size of the branded market through encouraging loose coconut oil users to switch to branded consumption. In the current uncertain and inflationary environment there may be some pressure on the rate of volume growth in the immediate term.

Saffola

Saffola, Marico's second flagship brand, is positioned strongly on a "good for the heart" equity. The brand continues to leverage the growing awareness about heart health in India. In recent times it has been actively positioning itself on the "preventive" platform.

The Saffola refined edible oils franchise grew by 9% in volume over Q2FY08. This comes on the back of a quarter with exceptionally high volume growth of 28%, partly on account of the introduction of a new variant, Saffola Active. The volume growth during H1FY09 was 18% over H1FY08.

The brand operates in the niche super premium segment of the market in India and has been effecting necessary retail price increases to maintain its margin per unit volume of sale. Towards the end of Q2FY09, prices in some edible oils declined in tandem with palm oil which in itself reacted to crude. While safflower oil (kardi oil) prices have not witnessed any respite, Saffola's premium over other refined edible oils increased sharply. The company has therefore taken corrective action for the third quarter and decided to offer a temporary "price off" of about 10% on Saffola Tasty and Saffola Active towards the end of September 2008.

Marico has extended Saffola's good for heart equity beyond refined edible oils. Saffola Cholesterol Management and Saffola for Diabetics, two high fiber functional food flours have been launched. Progress on these has been encouraging. The company has plans to launch other functional health foods for management of conditions that can be laddered up to heart health – where Saffola's equity lies. This range of offerings from the Saffola stable is expected to have significant future potential.

Hair Oils

The Hair Oils category has been experiencing healthy growth. Marico's hair oils in rigid packs grew 14% in volume over the corresponding quarter in the previous year. Marico's basket of hair oils including Parachute Jasmine, Nihar perfumed hair oils, Hair & Care and Shanti Badam Amla had a market share of 20.4% during the 12 months ended August 2008.

In the perfumed coconut oil rigid category, Parachute Jasmine and Nihar perfumed oils grew by 9% in volume. While Parachute Jasmine continued the trend of high volume growth as in the preceding quarters, Nihar's growth was limited owing to an aggressive price increase (15%) taken during the quarter. This increase may need some moderation in the coming months.

During the quarter, a new variant Hair & Care Almond Gold was launched and was received well. This helped the Hair & Care franchise of non-sticky hair oils grow by 23% in volume over Q2FY08. The other significant product in Marico's hair oils portfolio, Shanti Badam Amla also performed well to register a volume growth of 25% during Q2FY09 over the corresponding period in the previous year.

Male Hair Grooming

Marico is present in the Rs 100 crore hair cream and hair gels market through Parachute Advansed hair creams and hair gels. During Q2FY09 this range of products grew in volume by 13% over Q2FY08. Parachute Advansed intends to grow the hair creams and gels market in India along with other key players such as Brylcreem and Set Wet. Its share in the category during the 12 months ended August '08 was 21%.

Recent Prototypes and New Launches

In order to generate additional sources of growth in the coming years, Marico as an FMCG company must create a healthy pipeline of new products. To identify scalable marketing and product propositions, Marico has been following a prototyping approach to test a few hypotheses in a low-cost fail-fast model before any decision to scale up is taken.

Currently two prototypes are being conducted in the marketplace. Parachute Night Repair Cream, a fragrant coconut protein based hair cream, is being prototyped in Mumbai. The response has been satisfactory thus far. Maha Thanda an ayurvedic cooling hair oil with herbal extracts is being prototyped in Bihar. The performance has not yet met action standards and the company may consider some changes in the marketing mix to help achieve them before it is ready to launch the product nationally. Given the seasonal skew in the category towards summer, a national roll out now looks unlikely in the next few months.

During Q2FY09, the company rolled out the Parachute Advansed Starz, a range of hair care products specially created for children in the age group 3-10 nationally. These catered to the mother's need for providing nourishment to the child's hair and that of children who are increasingly conscious about how they look compared to their peer group. The range comprising a coconut based non-sticky hair oil, a gentle shampoo and a nourishing cream gel has been performing in line with expectations.

International FMCG Business

Marico's overall international business grew by 59% during Q2FY09. A part of this increase is on account of the acquisition of the South African business made during Q3FY08. The international business, excluding turnover from South Africa grew by 41% over Q2FY08.

In Bangladesh, Parachute coconut oil continues to focus on growing the branded market by encouraging conversions from loose oil. Strong marketing support has resulted steady market share gains. During the 12 months ended August '08, its market share was 70%. The Bangladesh Brand Forum ranked Parachute as the 6th Most Trusted Brand across categories. Marico's basket of offerings in Bangladesh now includes Hair Code hair dye which was launched in September 2008. In the Middle East, Parachute cream has been making steady progress on the strength of its "nourishment plus protection from harsh water" positioning. Its market shares in the UAE and KSA are now 29% and 15% respectively (for the 12 months ended August '08). In Egypt the company has restaged the brand Fiancee with new graphics and a new thematic on Fiancee cream-gel. The work on the transition from directly servicing several wholesalers to dealing with them through a distributor is now complete. This is expected to result in a more efficiently managed supply chain. The performance in South Africa has been in line with expectations. During the quarter, the company added a range of flavours to its Hercules castor oil product. This is a new concept in the South Africa market and has been received very well. The process of restaging the brand Caivil is now underway.

The global inflationary pressures and volatility are being experienced in Marico's international markets as well. During the quarter, inflation in Bangladesh and Egypt was in excess of 20% while in South Africa it was about 14%. This has necessitated price increases in many of the products in the portfolio. While there has been a recent depreciation the Indian Rupee against the US Dollar, only a small proportion of these have benefited from the gain as the company had covered its trade dollar receipts in earlier months.

Kaya Skin Clinic

Kaya Skin Clinic continued with its plans of opening new clinics during the quarter. As of September '08 Kaya Skin Clinic offers its skin care solutions through 77 clinics, up from 65 in March 2008. Of these 67 clinics are operational across 20 cities in India while there are 10 clinics situated in the Middle East.

During Q2FY09, Kaya recorded a turnover of Rs 40 crore, a growth of 67% over Q2FY08. Revenue growth in clinics in India in Q2FY09 that were operational in Q2FY08 too was 26%. No Kaya Skin Clinic has been closed down since Kaya's inception in 2002.

Kaya introduced an anti-ageing product, Kaya Revive and Firm adding to its basket of skin care products. Priced at Rs 800 for 50ml, Kaya Revive and Firm has an intensive action formula that promotes the formation of collagen. It has been developed in association with Cymbiotics Inc of USA. Product sales comprise about 12% of Kaya's revenue.

Kaya Life

Kaya Life offering holistic weight management solution which 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 team is working on the model to increase the pace of customer acquisition and of expanding the menu of programmes and options. These modifications to the model will be tested before a full fledged roll out of Kaya Life is undertaken.

OPERATING MARGIN STRUCTURE FOR MARICO GROUP

% to Sales & Services (net of excise)	Q2 FY09	Q2FY08
Material Cost (Raw + Packaging)	54.3	51.6
Advertising & Sales Promotion (ASP)	9.0	13.0
Personnel Costs	6.4	5.5
Other Expenses	18.1	15.9
PBDIT margins	12.2	14.0
Gross Margins (PBDIT before ASP)	21.2	27.0

Notes:

1. Material cost to sales was higher during the quarter mainly on account of higher prices of Copra to the tune of about 30% on a y-o-y basis. Input costs of other edible oils despite a recent correction in prices were higher during the quarter on y-o-y basis viz. sunflower oil (~ 20%), safflower (~ 50%), corn oil (~ 10%) and rice bran oil (~ 25%).

2. ASP as % of sales was lower during the quarter mainly on account of an absence of any new product launches during the quarter. We expect ASP as % of sales to remain in the broad range of 11-12% on an annual basis. In addition, during Q2FY09, the ASP appears lower owing to a change in the accounting policy to now reducing consumer offer amounts from both revenue and ASP expenditure. Had it not been for this change, the ASP to Sales would have been 9.7%.
3. Personnel cost as % of sales is higher because of the consolidation of South African business which was not there during the same quarter last year, where staff costs form higher percentage of sales. Also, contribution of Kaya in the group topline is increasing over the quarters and being a service oriented model, personnel cost are higher as compared to the consumer products business. Higher clinic expansion in Kaya (12 clinics were added during H1FY09) has also meant additional head count ahead of revenue picking up in these clinics.
4. The proportion of other expenses to sales has increased on a y-o-y basis mainly on account of the mark to market (MTM) losses to the tune of Rs. 7 crore on forex exposures accounted during the quarter necessitated by the sharp depreciation of the Indian Rupee versus the US Dollar. The above are however not on account of any forex derivative products, which the company has consciously stayed out of. Also, a change in the portfolio mix of Marico Group with the addition of South Africa and increasing share of Kaya in the Group, where indirect overheads are higher.
5. The company's pricing strategy attempts to pass on the input cost increases so as to maintain margins on a unit volume basis. In an inflationary scenario therefore the margins on a percentage to sales basis may be squeezed, owing to the higher turnover value.
6. The detailed Financial Results and other related useful information are available on Marico's website –

   http://www.marico.com/investor_relations/latest_updates.html

CAPITAL UTILIZATION

Over the years, Marico has been maintaining a healthy Return on Capital Employed (ROCE). Given below is a snapshot of various capital efficiency ratios for Marico:

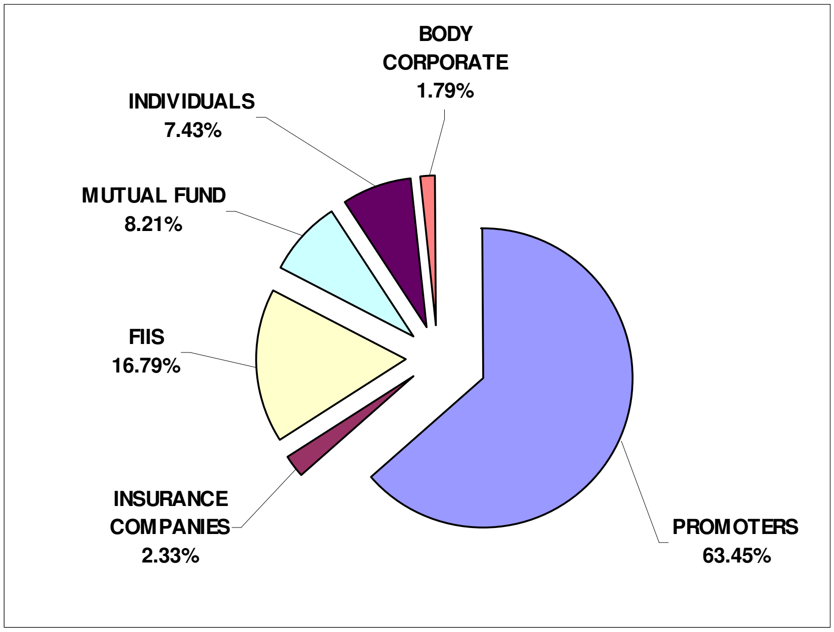
Ratio	Q2FY09	Q2FY08
Return on Capital Employed - Marico Group	32.8%	40.1%
Return on Net Worth – (Group)	50.0%	68.0%
Working Capital Ratios (Group)		

- Debtors Turnover (Days) - Inventory Turnover (Days) - Net Working Capital Turnover (Days)	23 50 54	17 52 51
Debt: Equity (Group)	1.17	1.36
Finance Costs to Turnover (%) (Group)	1.4%	1.4%

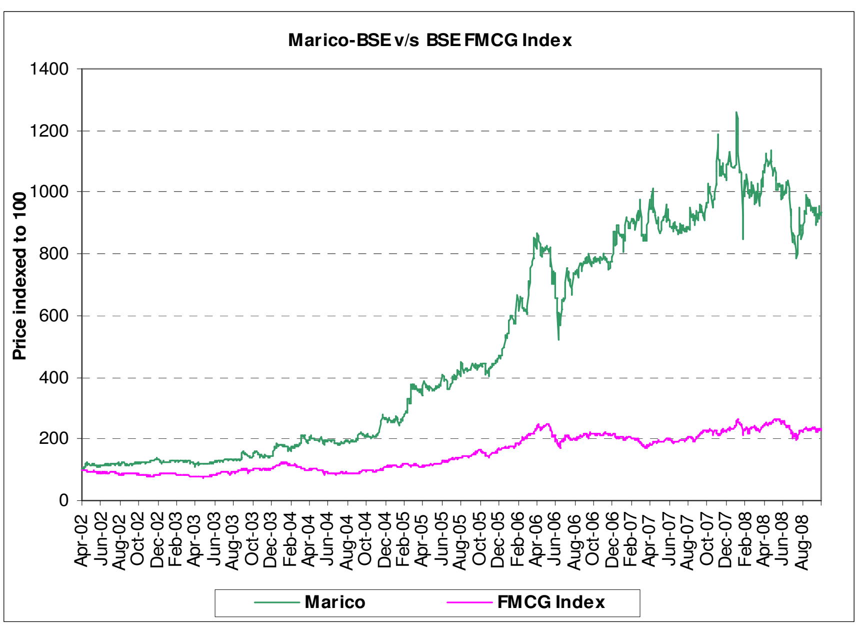
Marico's borrowings as on September 30, 2008 were about Rs 499 crore. Of these about Rs 180 crore are USD denominated loans and the balance borrowings in Indian Rupees. The average interest rate on the loans is 9%. The company has adequate cash flows to maintain healthy debt service coverage.

SHAREHOLDING PATTERN

The shareholding pattern as on September 30, 2008 is as given in the graph below.



SHARE PERFORMANCE ON STOCK EXCHANGES



- Marico's long term performance on the exchange vis-a-vis its peer group is depicted in the graph alongside.
- Marico's market capitalization stood at Rs. 3,544 crore as on September 30, 2008. The average daily volume on BSE and NSE during Q2FY09 was about 505,446 shares.

OUTLOOK

Marico has achieved a turnover of Rs 1200 crore with two consecutive quarters of high growth viz 28% in Q1FY09 and 30% in Q2FY09. This growth has witnessed a much higher component of price led growth than in FY08. Volume growth has nevertheless remained healthy at 13% to 15%.

In its last Information Update issued in July 2008, the company had indicated that its outlook in the immediate future was cautious. The current global economic environment is extraordinary indeed. The upheaval in the financial markets would inevitably have an impact on the real economy as well. Inflationary pressures that began to set in a few months ago remain. While uncertainty prevails, there is an expectation of an economic slow down even as governments take action to prevent a complete collapse of the financial systems. Though Marico's revenue has been healthy during the first half of the year, a drop in the rate of growth in the immediate future can be expected. There is evidence of consumers shifting to smaller pack sizes, which might lead to some contraction in the consumption. In the short term down-trading to cheaper brands and some curtailment in discretionary spends could occur.

The company would however focus on long term sustainable growth. It plans to invest in brand building through ASP spends which are likely to be kept at levels similar to that in the recent past. The ASP spends would go towards strengthening established brands and building new ones.

In driving growth, the company will attempt to maintain absolute unit margins across its portfolio of products. Given the inflation in input prices and resultant retail price increases, while the company may earn similar unit margins (in absolute terms), there could be a squeeze in the margin on higher revenues, in percentage terms. The short term may therefore see a drop in operating margins. The company's focus would remain on retaining and expanding its consumer franchise. When inflationary pressures on the input prices come off, it is likely that the company's percentage margins will be restored as it may not reduce retail prices proportionately.

The competitive environment in the flagship brands Parachute and Saffola remains largely unchanged and there are sufficiently strong barriers. The company would however have to be mindful of the entry of large players, if any.

To supplement its organic growth, Marico continues to look for acquisitions both in India and the overseas markets. It is open to exploring opportunities with a good fit in its focus segments of beauty and wellness. In the international markets, its preference is to make an entry into developing markets with a higher potential for a company like Marico to add value.

CONTENTS OF THE UPDATE

This update covers the following:

1. Financial results and other developments during Q2FY09 for the Marico Group –
   Marico Limited and its subsidiaries / joint ventures - Marico Bangladesh Limited (MBL), MBL Industries Ltd. (MBLIL), Kaya Limited, Marico Middle East FZE, Kaya Middle East FZE, Sundari LLC, MEL Consumer Care SAE , Egyptian American Investment & Industrial Development Company, Pyramids for Modern Industries, Wind Co , Marico South Africa Consumer Care (Pty) Limited, Marico South Africa (Pty) Limited and CPF International (Pty) Limited.

2. A Profile containing basic/historical information on Marico.

We recommend that readers refer to the Marico Group financials to get a better appreciation of the business performance. A copy of the latest Annual Audited Financial Results of Marico Limited as also that of the Group is available on Marico's website –

http://www.marico.com/investor_relations/annual_reports/ann_report_view/Annual_Report_2007-08.pdf

DISCLOSURE OF INFORMATION, COMMUNICATION WITH INVESTORS / ANALYSTS / FINANCIAL COMMUNITY

Marico issues fresh information updates, like the one you are reading now; on the day it declares its Quarterly Financial Results. Some forward looking statements on projections, estimates, expectations, outlook etc. are included in such updates to help investors / analysts get a better comprehension of the Company's prospects and make informed investment decisions.

Actual results may, however, differ materially from those stated on account of factors such as changes in government regulations, tax regimes, economic developments within India and the countries within which the Company conducts its business, exchange rate and interest rate movements, impact of competing products and their pricing, product demand and supply constraints.

All the aforesaid information is also available on Marico's Website: www.marico.com

In view of this, information contained in such updates is made public and does not therefore constitute unpublished price sensitive information under the SEBI (Prohibition of Insider Trading) Regulations, 1992. Marico typically holds a general meeting with investors, analysts and other members of the financial community once a year, in April, apart from periodic meetings/ conference calls, from time to time, with individual members of the financial community.

A Profile giving Basic / Historical Information

Marico is a leading Indian Group in Consumer Products and Services in the Global Beauty and Wellness space. Marico's solutions- Products and Services- in Hair care, Skin Care and Healthy Foods generated a turnover of about Rs.19.1 billion (USD 454 Million) during 2007-08. 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 and HairCode. Marico's brands and their extensions occupy leadership positions with significant market shares in most categories- Coconut Oil, Hair Oils, Anti-lice Treatment, Premium Refined Edible Oils, Fabric Care etc. Marico is present in the Skin Care Services segment through Kaya Skin Clinics (77 in India and the Middle East), the Sundari range of Spa skin care products (in the USA & other countries) and its nascent soap franchise in India and Bangladesh.

Marico's branded products are also present in Bangladesh, other SAARC countries, Egypt, South Africa and the Middle East. The Overseas Sales franchise of Marico's Consumer Products (whether as exports from India or as local operations in a foreign country) is one of the largest amongst Indian Companies and is entirely in branded products and services.

Marico has leveraged its core sources of competitive advantage viz. Branding, Distribution, Cost Management, Innovation and Technology to set up a fast growing franchise of new products and services – their share in turnover has moved up from 3% in FY00 to over 24% in FY08.

Marico's own manufacturing facilities are located at Goa, Kanjikode, Jalgaon, Pondicherry, Dehradun and Daman and supported by subcontracting units. Marico's wholly owned subsidiaries, Marico Bangladesh Limited, Egyptian American Investment and Industrial Development Corporation, Pyramid for Modern Industries, and Marico South Africa Pty Ltd. have their manufacturing facilities at Mouchak, near Gazipur in Bangladesh, 6th October City, Egypt, Salheya City, Egypt, and Mobeni in Durban, South Africa respectively.

Marico was incorporated in 1988 and during 1990 took over the then 40-year old consumer products business of The Bombay Oil Industries Limited. It made its initial public offer for equity shares in March 1996. Given below is an overview of Marico's market standing.

Brands	Category	Indicative Marke Share range %	Rank
Parachute, Oil Of Malabar, Nihar	Coconut Oil	55-57	1
Hair Oil (Hair & Care, Parachute Jasmine, Parachute Advansed, Shanti Badam Amla, Nihar)	Hair Oils	20-22	2
Mediker	Anti Lice Treatment	~ 90	1
Revive	Fabric Starch	~ 80	1

Source: A.C.Neilsen Urban Retail Market Research and Company Sources

Marico's frontline brands have shown remarkable resilience against competition - refer the market share statistics given below:

Brands	Category	1992 (%)	Now (%)
Parachute, Oil Of Malabar, Nihar	Coconut Oil	48-49	55-57
Hair Oil (Hair & Care, Parachute Jasmine, Parachute Advanced, Shanti Badam Amla, Nihar)	Hair Oils	_	20-22

Source: A.C.Neilsen Urban Retail Market Research and Company Sources

Marico has consistently sought to broadbase its brand basket. The new products dealt in by the Company during last 5 years have now assumed a critical mass and contribute 24% to the group business. In the process, Marico's dependence on Parachute has consistently been reducing. From a share in the range of 70% - 75% in early 90's, Parachute today contributes about 40% to the top line of Marico. Its share in profits too has come down.

Reach

Marico procures one out of every 25 coconuts produced in India and 3 nuts per coconut tree in India. Marico sells over 7 Crore (70 Mio) packs to around 13 Crore (130 Mio) people every month. Marico's products reach around 2.3 Crore (23 Mio) households through over 25 Lac (2.5 Mio) retail outlets serviced by its nation-wide distribution network comprising 4 Regional offices, 32 carrying & forwarding agents (CFAs) and about 3600 distributors and stockists. Marico's distribution network covers almost every Indian town with population over 20,000.

The table below provides an indicative summary of Marico's Distribution Network in India.

	Urban	Rural
Sales Territories	135	35
Towns Covered ('000's)	3.2	11.0
Distributors	850	-
Super Distributors	-	120
Stockists	-	3,600
Retail Outlets – Reach (millions)	1.65	0.85

In Bangladesh, Marico reaches over 370,000 outlets.

Skin Care Services and Global Spa Products:

In recent years, Marico entered the skin care solutions business through Kaya Skin Clinics offering a range of highly effective and safe services based on cosmetic dermatological procedures and products. Services offered at Kaya use US FDA approved technology and have been specifically customized for Indian skin. In-clinic dermatologists recommend a personalized series of treatments. The chain of Kaya clinics (all company owned) is now 77 strong, spread across 20 cities in India and a presence in the Middle East. Its customer base is now more than 300,000.

In June 2007, the company extended the Kaya equity to Kaya Life by offering sustainable weight management solutions customized to individuals. Currently, there are 3 Kaya Life centers located in Mumbai.

In FY03, Marico entered the ayurvedic spa products market through Sundari LLC. The focus of Sundari is the spa market in the USA and other parts of the world. The spa products market is estimated to be about US$ 2 billion.

Financial Highlights

Marico has maintained a steady top line and bottom line growth over the past decade with a consistently healthy Operating Return on Capital Employed (ROCE).

Particulars (Rs. Crore)	**FY04**	**FY05**	**FY06**	**FY07**	**FY08**	**CAGR%**
Sales & Services	888	1007	1,144	1,557	1,907	21
Profit before Tax	65	74	98	150	205	33
Net Profit (PAT)	59	70	87	113	169	30
Earning per share - Annualised (Rs.) *	1.0	1.2	1.5	1.9	2.8	29
Book value per share (Rs.) *	3.2	3.7	4.5	3.2	5.2	
Net Worth	184	217	261	208	315	
ROCE %	32	31	26	33	40	

* For a meaningful comparison of EPS and Book Value, the numbers for the previous years have been re-computed taking into account sub-division of equity shares to a face value of Re 1 per share.

Business Model and Organization

Marico's business model is based on focused growth across all its brands and territories driven by continuously improving value propositions to consumers, market expansion and widening of retail reach. Marico aims to be the leader in each of the businesses; by heightened sensitivity to consumer needs, setting new standards in the delivery and quality of products and services through processes of continuous learning and improvement. The model ensures that Marico is present in unique / ethnic Indian Product or Services categories where typical MNCs would not be strong. Therefore, Marico does not, unlike many other Indian FMCG Companies, get caught in MNC cross fires.