Marico - An Information Update January 28, 2010

Q3FY10 (Quarter ended December 31, 2009)

Group Turnover	**Rs. ~**	**670 Cr.**	**Up 8%**
Profit Before Tax	**Rs. ~**	**81 Cr.**	**Up 24%**
Net Profit	**Rs. ~**	**62 Cr.**	**Up 22%**

Marico –Profitable Growth Sustained

During the quarter Q3FY10, Marico achieved a turnover of Rs 670 crore, a growth of 8% over Q3FY09. The Company maintained a healthy franchise expansion with volume growth during the quarter at about 14%, although value growth was lower than in earlier quarters. The mismatch between volume growth and value growth reflects some downward correction in retail prices to sustain growth while maintaining margins in a scenario of deflation in some key input costs.

Profit before tax (PBT) for the quarter was Rs 81 crore, a growth of 24% over Q3FY09. Profit after tax at Rs 62 crore showed a growth of 22% over Q3FY09. The results for Q3FY10 include the following two items that are not strictly comparable with Q3FY09

- Adopting conservative principles, the company made a provision of Rs 11 crore towards excise duty on dispatches of coconut oil in packs up to 200 ml.
- Marico Bangladesh Limited made a provision for impairment of assets pertaining to its soap brands to the extent of Rs 4.5 crore.

The PAT during Q3FY10 before these items is 42% higher than in Q3FY09.

The Group's turnover has crossed the Rs 2000 crore mark over the first three quarters of the financial year, as it kept up its track record of quarterly growth. Q3FY10 was in Y-o-Y terms, the:

- 37th consecutive Quarter of growth in Turnover and
- 41st consecutive Quarter of growth in Profits

Marico's Investor Relations efforts are co-ordinated by

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Consumer Products Business - India:

Parachute & Nihar

Marico's flagship brand, Parachute, achieved a volume growth of about 8% over Q3 FY09 in rigid packs, the focus part of the portfolio. Parachute's share in the coconut oil category inched up during the quarter. Its volume market share for the 12 months ended December '09 was 45.9%. Together with Nihar and Oil of Malabar, Marico's share in the branded coconut oil segment in India was 53.4%.

During the quarter, the prices of copra (dried coconut kernel) the raw material input for Parachute coconut oil were about 22% lower than in Q3 FY09. Even though there was some increase in December '09, the rates for the month remained lower than in December '08 by about 14%. One of the principal sources of growth for Parachute is conversion of loose oil usage into branded oil and hence it is important to keep the premium of the small size SKUs over loose oil at sustainable levels. As the company had begun observing a slow down in the conversion from loose oil into the "recruiter packs", it reduced the retail price of Parachute's 50 ml pack from Rs 12 to Rs 10 in November '09. In addition it has initiated a reduction in the price of its 100 ml pack from Rs 21 to Rs 20 in January '10.

The company continues to clear all coconut oil from its factories without payment of excise duty. The matter is currently sub-judice and it could take some time for it to resolve completely. Pending such outcome, as a matter of abundant caution, the company has decided to make a provision for the excise duty on packs up to 200 ml, which the excise department has sought to classify as hair oil. The provision for Q3FY10 is Rs 11 crore.

Saffola

Saffola, Marico's second flagship brand, is positioned strongly on "good for the heart" equity. With the increasing awareness of the need for maintaining a healthy lifestyle, Saffola is able to leverage its strong positioning and provide support to the consumer in adopting and sustaining a healthy lifestyle.

The refined edible oils franchise of Saffola continued to show a healthy volume growth. During Q3FY10 the franchise grew by about 18%. This growth was aided by a consumer offer of 20% extra on select SKUs of Saffola Gold and Saffola Active. These offers took advantage of the lower input costs (as compared to the abnormally high input costs in FY09) and kept the premium over other branded refined edible oils at sustainable levels. These initiatives have led to an increase in the customer base for Saffola as the brand has a high retention rate. Saffola's strong performance during the month of December '09 has resulted in its overtaking the volumes of Sundrop (the other player in the super premium refined edible oil category) for the first time.

In the longer term, Saffola would like to establish itself as a leading healthy lifestyle brand. It has commenced its journey in the functional foods space and in the long term plans to have a basket of offerings that provides healthy food options throughout the day to individuals conscious about heart health. During Q4FY09 the company had begun prototyping Saffola Rice, rice with a lower Glycemic index that keeps you feeling light after eating, yet keeps you fuller for longer, in Mumbai and Andhra Pradesh. "Saffola Arise" has commenced a roll out to other parts of the country from January 2010.

Hair Oils

Marico backed its portfolio of hair oils with continued media support and consumer offers through Q3FY10. Parachute Advansed Ayurvedic Hot Oil introduced in the early part of the calendar year was scaled up during Q3FY10. It received a good response in the North where oil can freeze during the winter months. During the quarter Marico's hair oils in rigid packs grew 10% in volume over the corresponding period in the previous year. Marico's basket of hair oils including Parachute Jasmine, Nihar perfumed hair oils, Hair & Care and Shanti Badam Amla maintained its market share at 21% during the 12 months ending December 2009. The share during the quarter was higher at 22.3%. The company plans to increase its participation in the hair oils category by entering the cooling oils segment. It is currently prototyping two differentiated cooling oil variants - Nihar Naturals Coconut Cooling Oil in Bihar and Parachute Advansed Coconut Cooling Oil in Andhra Pradesh

International FMCG Business

Marico's international FMCG business has been steadily growing and comprises about 23% of the group's turnover. Its key geographies are Bangladesh, MENA (Middle East and North Africa) and South Africa. During the first three quarters of FY10, the international business has crossed the Rs 450 crore mark in turnover.

In Q3FY10 the business grew by about 24% over Q3FY09. The growth in Indian Rupee terms is partly deflated owing to the appreciation of the INR. Business growth (excluding the currency movement) was slightly higher at 28%.

In Bangladesh, Parachute coconut oil continues to go from strength to strength. It has become the second most trusted brand in country (Bangladesh Brand Forum 2009), a testimony to the brand's equity. Its market share over the last 12 months has moved up beyond 73%. Hair Code hair dye was launched in the Bangladeshi market FY09 and has begun to leverage the retail reach created by Parachute. A new media campaign backed by sampling / trial generation initiatives has enabled the brand to reach a 15% market share.

In the Middle East, both Parachute cream and Parachute Gold hair oil turned in a strong performance. Parachute cream recorded share gains in KSA, Oman and Kuwait and strengthened its No1 position in the GCC. Parachute Gold hair oil has leveraged its learning from Parachute Advansed in India and its campaign on using hair oil before a shampoo has been received well. The Egyptian brands Fiancée and Hair Code are tracking well. Sachets introduced to the market in Egypt last year are helping to drive penetration in the category. During the quarter the company restaged its gel variant – Hair Code Ultra Hold gel in both sachets and jars. Fiancée and Hair Code give Marico a 58.5% of the hair creams and gels market in Egypt.

Despite the macro recessionary trends in South Africa, all three Marico brands Caivil, Hercules and Black Chic continued to show y-o-y growth. The company intends to introduce new product offerings to help strengthen the brands and the product portfolio. Last year the company had introduced flavoured castor oil which provided a fillip to a stagnating category. In Q3FY10 Marico South Africa commenced the prototype of Caivil 3-in-1 Scalp Protector. This seeks to introduce an innovative product into the South African hair care regimen; a pre-relaxer product. The company will be able to gauge a response to this new product over the next few months.

In January 2010 Marico made an entry into the Malaysian hair styling market through the acquisition of the brand Code 10 from Colgate-Palmolive Company.

Marico estimates the Malaysian hair styling market to be about RM 150 million in size. Code 10 is the number 3 player and enjoys a double digit market share. The two players with larger shares are Brylcreem and Gatsby. Marico will be supported by Colgate-Palmolive Malaysia for distribution of the Code 10 range for a period of 6 months, by which time the company expects to set up a distribution partner. Manufacturing of Code 10, will be done through third party manufacturers as also done in the past by Colgate. Marico expects to be able to build upon Code 10's existing franchising with fresh marketing inputs behind the brand. This acquisition will serve as a stepping stone to Marico's designs for the South East Asian region.

Kaya Skin Clinic

Marico became the first organized player in dermatology led skin care segment in India. Over the last few years it has built scale and during the quarter Kaya Skin Clinic opened its 100th clinic in Guwahati. Kaya now offers its services across 27 cities in India and 9 in the Middle East. In January 2010 Kaya established a presence in Bangladesh with its first clinic in Dhaka.

During Q3FY10, Kaya's skin care turnover grew by 10% over Q3FY09. At Rs 44 crore however, this was a decline of about 9% over the turnover achieved during Q2FY10. Given the discretionary nature of consumer spending at Kaya, the business has been impacted by the overall economic slowdown. Besides, the price increase taken by Kaya consequent to the imposition of service tax from September 1, 2009 has also acted as a dampener to growth. For clinics that have been in existence for over 12 months, the overall same clinic revenue in India has declined by 13%. While the clinics in Dubai have got impacted by the financial crises, the business in the Middle East as a whole has performed well with the other Emirates and KSA making up for the slow down in Dubai. Same clinic revenue growth is the Middle East was 16% over the corresponding quarter in the previous year. The Kaya Skin business incurred a loss of Rs 3.7 crores during Q3FY10.

The company remains confident about the medium and long term growth and profitability prospects of Kaya Skin Clinic and plans to focus on improving lifetime value of a customer. Kaya has commenced the prototype of Kaya Everyday Radiance extending its skin expertise to its consumers' daily skin regime. Kaya may take a temporary break in clinic additions in India while continuing to expand in the Middle East during the year FY11. The company expects Kaya Skin Clinic to achieve its targeted ROCE over the next 3 to 4 year period.

OPERATING MARGIN STRUCTURE FOR MARICO GROUP

% to Sales & Services (net of excise)	**Q3FY10**	**Q3FY09**
Material Cost (Raw + Packaging)	47.3	55.1
Advertising & Sales Promotion (ASP)	12.8	10.2
Personnel Costs	7.1	6.6
Other Expenses	18.1	15.4
PBDIT margins	14.8	12.7
Gross Margins (PBDIT before ASP)	27.5	22.9

Notes:

1. The quarter witnessed decline in the input commodity prices. Copra, the input for coconut oil, which accounts for about 40% of the company's raw material cost, was ~ 22% lower than in Q3FY09. Similarly, market prices of safflower oil, comprising about 13% of the company's raw material cost, were about 28% lower than in the corresponding period of the previous year.
2. ASP as % of sales was higher on account of increased investments across the three businesses.
3. Personnel cost as % of sales are higher during the quarter as compared to the corresponding period last year on account of a higher provision for variable performance incentive and fresh recruitments in new clinics in the Kaya business.
4. Other expenses as a % of sales are higher owing to a charge of Rs 11 Cr on account of provision for excise.
5. 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	**Q3FY10**	**Q3FY09**
Return on Capital Employed - Marico Group	34.4%	34.2%
Return on Net Worth – (Group)	41.4%	49.5%
Working Capital Ratios (Group)		
- Debtors Turnover (Days)	22	23
- Inventory Turnover (Days)	52	53
- Net Working Capital Turnover (Days)	61	59
Debt: Equity (Group)	0.68	1.1
Finance Costs to Turnover (%) (Group)	0.96%	1.3%

* Turnover Ratios calculated on the basis of average balances

1. As of December 31, 2009 the Marico Group had a net debt of Rs 212 Crore (Gross Rs 414 Crore). Of the gross debt about Rs 235 crore is denominated in US Dollars. About Rs 166 crore of the USD debt is repayable with in a year. About Rs 98 crore debt denominated in Indian Rupees is payable within a year. The average cost of the debt is about 5.0 %. The company may roll over some of the loans when they fall due during the year. Marico has adequate cash flows to maintain healthy debt service coverage.

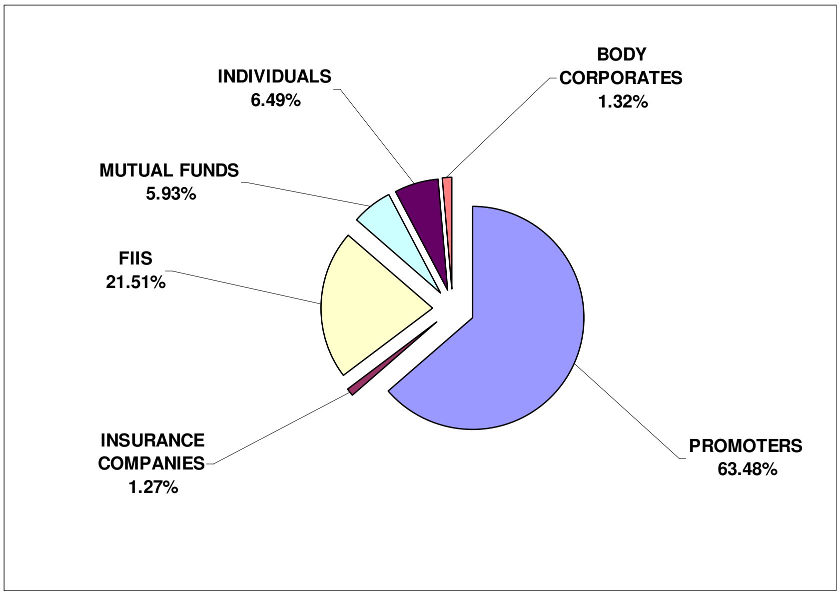
2. The Company adopts a conservative policy for hedging its foreign currency exposures using a mix of forwards, plain vanilla options and hedging on a net basis. Foreign currency trade loans and imports are hedged immediately on contracting the same. In Q3 FY 2010, total realization for exports for Marico Limited was in excess of USD 7.2 million while import payments were about USD 1.5 million and Trade loans about USD 4.3 million

Effective Tax Rate:

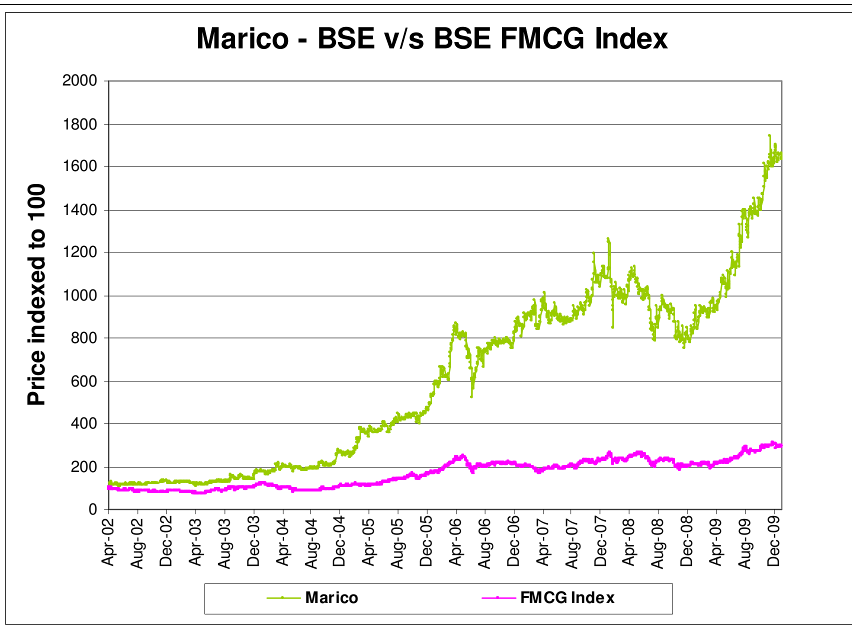
The total effective tax rate (as % of PBT) after considering adjustments for MAT credit and deferred tax for Q3FY10 is 22%. The total tax provision during the year FY10 is expected to be about 20% to 22%.

SHAREHOLDING PATTERN

The Shareholding pattern as on December 31, 2009 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. 6273 crore on December 31, 2009. The average daily volume on BSE and NSE during Q3FY10 was about 427,206 shares.

OUTLOOK

- **Sustained volume growth in consumer products (India & international)**
- **Consolidation in kaya India**
- **Sustained performance in group margins**
- **Continued investments for the future**

The company expects to sustain overall volume growth. However, food related inflation being experienced in India may have some impact on the rate of growth of the entire personal care and edible oil categories in the immediate term. In coconut oils in India the company expects to grow at about 6% to 8% in volume. The company will focus on growing the market through holding the price point on low unit packs (Rs 10 and below). Tapping the rural markets is also expected to contribute towards this process. In hair oils in India, Marico will focus on share gain with effective advertising support and introduction of differentiated and innovative products. Saffola is riding a trend in healthy living being adopted by the Indian consumer. The brand expects to continue to expand its franchise in the premium refined edible oil niche at 12% to 14%. It will also extend its good for heart equity to functional foods, the first of which, Saffola Arise rice has now been rolled out. The company will continue to prototype new product ideas to create new engines of growth for the future. Given that Marico's consumer product business' annual turnover will now be in the region of Rs 2000 crores, the company will focus on new product initiatives with a potential more commensurate with its size.

In the International consumer products business, Marico will focus on growing the categories where it has dominant share such as in coconut oil in Bangladesh and creams and gels in Egypt. In the Middle East and South Africa it would work on increasing share in key categories. The company has also commenced the process of expanding its distribution to neighboring countries from its hubs in the Middle East, Egypt and South Africa. This is expected to widen Marico's playing arena in West Asia and Africa in the medium to long term. The acquisition of Code 10 in Malaysia has marked Marico's entry into the South East Asian region. Over time, this is expected to grow into a new pillar for growth for Marico's international business. Marico expects that its international business can grow at about 20% per annum during the next few years. It will also focus on improving its margins gradually.

Over the last few quarters Kaya skin clinic has experienced a slow down in India, as discussed earlier in this note. In the short term therefore, the company plans to work on improving its revenue streams from the existing clinics in India. It will continue to derive new clinic growth through expansion in the Middle East. It has taken Kaya longer to achieve profitability than the company had earlier anticipated. The longer term attractiveness of the business however remains intact and Kaya expects to deliver the targeted ROCE over the next 3 to 4 years.

CONTENTS OF THE UPDATE

This update covers the following:

1. Financial results and other developments during Q3 FY10 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, MEL Consumer Care SAE , Egyptian American Investment & Industrial Development Company, Marico Egypt Industries Company, Wind Co , Marico South Africa Consumer Care (Pty) Limited, Marico South Africa (Pty) Limited, CPF International (Pty) Limited and Marico Malaysia Sdn Bhd.
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/Consol_Annual_Report_2008-09.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.

Profile giving Basic / Historical Information

Marico is a leading Indian Group in Consumer Products & Services in the Global Beauty and Wellness space. Marico's Products and Services in Hair care, Skin Care and Healthy Foods generated a Turnover of about Rs. 24 billion (about USD 480 Million) during 2008-09. Marico markets well-known brands such as Parachute, Saffola, Sweekar, Hair & Care, Nihar, Shanti, Mediker, Revive, Manjal, Kaya, Aromatic, Fiancée, HairCode, Caivil and Black Chic. Marico's brands and their extensions occupy leadership positions with significant market shares in most categories- Coconut Oil, Hair Oils, Post wash hair care, Anti-lice Treatment, Premium Refined Edible Oils, niche Fabric Care etc. Marico is present in the Skin Care Solutions segment through Kaya Skin Clinics (101 in India, The Middle East and Bangladesh) and its soap franchise (in India and Bangladesh).

Marico's branded products are present in Bangladesh, other SAARC countries, the Middle East, Egypt and South Africa. 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'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, Marico Egypt Industries Company (erstwhile 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, Sadaat 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 Market Share range %	Rank
Parachute, Oil Of Malabar, Nihar	Coconut Oil	51-53	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	51-53
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 11% 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 in India today contributes about 32% to the top line of Marico. Its share in profits too has come down.

Reach

Marico procures one out of every 13 coconuts produced 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 Solutions

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 101 strong, spread across 27 cities in India and a presence in the Middle East and Bangladesh. Its customer base is now more than 500,000.

In June 2007, the company extended the Kaya equity to Kaya Life by offering sustainable weight management solutions customized to individuals. Currently, there are 5 Kaya Life centers located in Mumbai.

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 crores)	FY 05	FY 06	FY 07	FY 08	FY 09	CAGR %
Sales & Services	1,007	1,144	1,557	1,905	2,388	24
Profit Before Tax	74	98	150	205	230	33
Net Profit (PAT)	70	87	113	169	189	28
Earnings per Share - Annualised (Rs)*	1.2	1.5	1.9	2.8	3.1	27
Book Value per Share (Rs)*	3.7	4.5	3.2	5.2	7.4	
Net Worth	217	261	192	315	453	
ROCE %	31	26	36	42	35	

* 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.