

Stock Statistics 17 Sept 2002

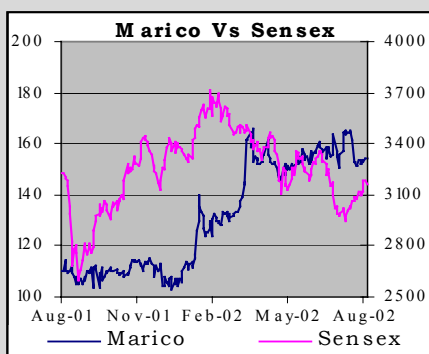
Market Cap	:	4640
52-week high	:	166
52-week low	:	102
Avg Daily Volume (shares)	:	10373
Avg Daily Trades	:	64
Face value	:	10
Sensex	:	3070
NSE Code	:	MRCOIND
Reuters Code	:	MRCO.BO
Bloomberg Code	:	MRCO IN
Industry	:	FMCG

Shareholding Pattern

Promoters	65.2
UTI	11.6
LIC	4.1
FIIs	6.4
Corporate / Others	3.7
Mutual Funds	1.7
Individuals (incl NRI)	7.3

Undervaluation camouflaging leader

- ✓ Marico is trading at around 60-70% discount to its MNC peers and at more than 40% discount to its Indian counterparts.
- ✓ The company has a low market capitalization to sales (0.6x FY03E) ratio, despite strong brand equity and leadership in almost all its categories
- ✓ P/BV of 2.4x FY03(E) is non-cognizant of improving RoCEs. The stock is trading at a P/E multiple of a mere 8.4x FY03(E) which is lower than cyclicals too.
- ✓ Marico has maintained market shares in its key categories withstanding competition from heavyweights like HLL. Simultaneously, it has been reducing its dependence on its largest brand, *Parachute*.
- ✓ The company's revamped strategy focuses on 'Big Bets'. The strategy is paying off with new products now contributing 15% to sales.
- ✓ Marico is de-emphasizing on promotions and is focusing on advertisements, especially building new brands.
- ✓ We expect Marico's earnings to grow at a CAGR of 15.5% over the next two years.
- ✓ We expect Marico's dividend payout to pick up to 50%. This is because Marico is a debt-free company, generates high free cash flow and, is through with all its major capex requirements.
- ✓ At 7.5x FY04(E) earnings, we maintain **Buy** with a target price of Rs206.



Year ending March 31	Sales Growth (%)	Net Profit	EPS (Rs)	Rs Mn		
				RoNW (%)	RoCE (%)	PER (x)
FY00	17.6	357	24.6	27.1	34.4	
FY01	1.5	456	31.5	29.1	33.9	
FY02	2	462	31.9	25.2	32.0	10.0
FY03E	11	548	18.9	28.1	32.6	8.4
FY04E	12	635	21.9	29.7	34.4	7.5

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Investment Argument

Positives

A Value Pick

Marico, despite being a formidable player in the FMCG sector, is cheaper than its peers on all valuation matrices. Marico is quoting at around 60-70% discount to its MNC peers and at around a more than 40% discount to its Indian counterparts. The company's market capitalization to sales stands at a low 0.62x FY03(E) sales and 0.56x FY04(E) sales. Price/Earnings is also a low 8.5x FY03(E) and 7.5x FY04(E).

Frontrunner among peers

Marico is a heavyweight in the FMCG arena with nine brands, most of which are leaders in their respective categories. The company has been successful in diversifying from primarily being a single-product company. It has also remained unfazed by competition especially from MNC behemoths like HLL.

Strategy revamp paying off

While Marico's core strength continues to be coconut oil and refined oil, it is continuously exploring new avenues for better growth. Marico has revamped its strategy to focus only on those products that have immense potential to grow big. It is also moving away from brand dilutive promotional strategy to brand building advertisement strategy, which is helping it reduce its A&SP spend.

Earnings CAGR of 15.5% over next two years

Marico's strategy of focusing on 'Big Bets' will provide the required impetus to bolster future growth. We believe that the company will grow its revenues at around 11.5% during the next two years. Cost cutting measures undertaken by the company coupled with the decline in A&SP expenditure will result in a 100 basis points improvement in OPM. We believe that this will culminate in earnings CAGR of 15.5% over the next two years.

Marico's dividend payout to pick up

We expect Marico's dividend payout to pick up to around 45-50%. This, because Marico has high free cash flows from its operations even while its requirement for funds has fallen significantly. Further, Marico has no long-term debt on its books even as capital expenditure requirements of the company for the next few years are very limited.

Concerns

Low liquidity

Besides the promoters, UTI is the largest shareholder in Marico. The promoters and UTI together account for 76% of the company's share holding. Liquidity on the stock was also hit, as it was amongst the first few stocks to go into rolling settlement.

Delayed Monsoons

Delayed monsoon this year is likely to impact Kharif crop production. However, it would be much lesser than feared earlier as the monsoons have revived almost at the fag end of the season. Hence, we expect pressure on rural demand to be muted. FMCG companies would also be affected only marginally.

Valuation

Marico has recorded consistent growth in earnings. It has also been regular in rewarding its shareholders through higher dividend payouts. But, Marico's valuation still lags its peers and it is one of the cheapest FMCG stocks today. We see a strong case for re-rating in Marico, as the company is well geared in the right direction. At 7.5x FY04(E) earnings, we expect its attractive valuations to act as a trigger going ahead.

In February '01 (report title 'A Value Buy' at price of Rs235 cum bonus) we had recommended Buy with a price target of Rs325 (cum bonus). The stock performance has been on expected lines appreciating 36% since then. The stock is now hovering close to our previous price target. We are now increasing our price target to Rs206 (ex-bonus). We maintain **Buy**.

Quotes at 60-70% discount to MNC peers and 40% to Indian counterparts

Attractive on all valuation parameters

Despite market leadership, market cap to sales at mere 0.6x FY03(E)

Earnings multiple dwarfs vis-à-vis cyclicals too

A Value pick

Marico Industries is cheaper than most of its peers on valuation matrices like Market capitalization/Sales, Price Earnings and P/E book value. Despite being a powerful player in the Indian FMCG space, Marico still quotes at around 60-70% discount to its MNC peers and at more than 40% discount to its Indian counterparts. The company's strong brand equity, healthy growth in earnings, high free cash flows and higher dividend payouts are some of the strong features that are not reflected in the stock's valuation at the bourses.

Exhibit 1: Attractive valuations vis-a-vis peers

Players	FY02			FY03(E)*
	P/E	Mkt Cap/ Sales	P/BV	P/E
HLL	25.07	3.64	13.09	22.65
Colgate	26.11	1.64	7.36	23.22
Nestle	28.18	2.81	20.32	24.94
Britannia	17.28	1.17	3.83	15.77
Marico	10.04	0.69	2.36	7.80
Dabur	20.64	12.28	3.35	14.97
Godrej Consumer	15.63	1.41	12.34	13.95

(* Consensus Estimates)

➤ **Lowest market cap to sales despite leadership in its categories**

Marico's market capitalization to sales stands at a low 0.62x FY03(E) sales and 0.56x FY04(E) sales – surely an unfavourable comparison vis-à-vis other players in the segment. Ironically, Marico has nine strong brands in its kitty, with most of them figuring among the top-three brands in their respective categories.

Exhibit 2: Leader across categories

Major Brands	Category	Market Share (%)	Industry Ranking
Parachute, Oil of Malabar	Coconut Oil	55 – 56	1
Revive	Fabric Starch	~ 100	1
Mediker	Anti-Lice	~ 100	1
Saffola, Sweekar	Refined Edible Oil	11 – 13	2
Hair & Care	Non-Sticky Hair Oil	19-21	2
SIL	Jams	10 – 14	2
Parachute	Value-added Coconut	17-20	3
Shanti	Amla Hair Oil	8 – 10	3

➤ **Low P/E multiple compared to cyclicals too**

Marico's P/E multiple at 8.5x FY03(E) and 7.5x FY04(E) earnings dwarfs in comparison to other players both MNCs and Indian companies. But, it does not reflect the strong sales and earnings growth potential -- 11.5% sales CAGR and 15.5% earnings CAGR -- in the next two years. Even some

Consistently improving RoCE not reflected in P/BV

of the cyclicals are currently getting better valuations than Marico. For instance, an ACC is trading at 16x FY03(E) earnings, M&M at 12x FY03(E) and Telco at 19x FY03(E) earnings. This clearly elucidates the case of gross under valuation in Marico.

➤ **P/BV non-cognizant of improving RoCEs**

The market has not taken cognizance of the fact that Marico's dividend payout is increasing, its balance sheet is getting nimble and, its RoCE is improving. Marico's RoCE (32.5%) is expected to spike to 34.4% in FY04(E). But, the company's P/BV remains at a low at 2.4x FY03(E) book value and 2.1x FY04(E) book value.

Frontrunner among peers

Marico has remained unfazed by competition especially from MNC behemoths like HLL. The company has maintained its market share in most of its product categories. It has strode ahead strongly and successfully to become a diversified player transforming from primarily being a single product company.

➤ **Unfazed by competition**

Marico has maintained its market share in most of its product categories unfazed by intense competition offered by heavyweights in the sector.

Coconut oil

Parachute. Marico has held on to its market share in coconut oil despite stiff competition from players like HLL. Marico's coconut oil offering, *Parachute*, commands strong brand equity. It has weathered all competition owing to positioning on the platform of purity (and now 'vital nourishment') and lack of differentiation by competitors (*See Box: HLL fails to Colgatify Marico*).

Oil of Malabar. To grab flanking customers, Marico acquired *Oil of Malabar*. The product is positioned as a price warrior and strives to capture the bottom end of the price segment.

Exhibit 3: Marico has maintained market share in most of its categories (%)

Category	Brand	Apr97- Mar98	Apr98- Mar99	Apr99- Mar00	Apr00- Mar01	Apr01- Mar02
Coconut Oils	Parachute & Oil of Malabar	55.4	56.3	55.0	54.3	55.4
Refined Oils	Saffola & Sweekar	16.9	16.0	14.3	12.8	12.2
Hair Oils	Total Hair Oils	7.3	8.2	7.2	7.5	11.8
Non-Sticky Hair Oils	Hair & Care	27.0	25.6	20.5	18.5	18.2
Value Added Coconut Oils	Parachute Extensions	1.1	7.6	8.8	12.6	21.4
Amla Hair Oils	Shanti Amla	-	-	-	0.5	8.7

(Source: Company and Industry Estimates)

Parachute stands tall

Going strong across Oil category

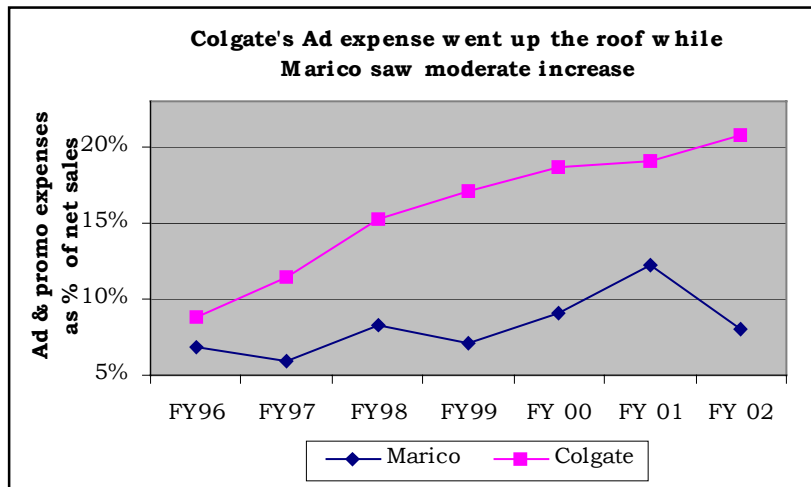
HLL finds a (tough) match in Marico

HLL fails to Colgatify Marico

HLL was able to make a dent in Colgate’s stronghold due to a gap in the latter’s product portfolio -- there was no Gel offering from Colgate. HLL moved in and grabbed marketshare in the category. Then ensued an aggressive advertisement and promotional expenditure drive by both players leading to Colgate’s A&SP expense zooming through the roof.

In tandem in coconut oil HLL has failed to introduce a differentiated product. Marico too stepped up its A&SP (though not as high as Colgate) to combat fierce competition and strengthen its brand equity and positioning of products. Marico first concentrated on maintaining market share and then started pruning its A&SP spend. Thus, while Colgate’s advertisement and promotion expenditure has more than doubled, Marico’s expenditure has increased only marginally. Apart from arresting any major impact on its bottom line, Marico has managed to strike out all concerns regarding competition from HLL.

Exhibit 4: HLL fails to Colgatify Marico



Brand extensions in good shape

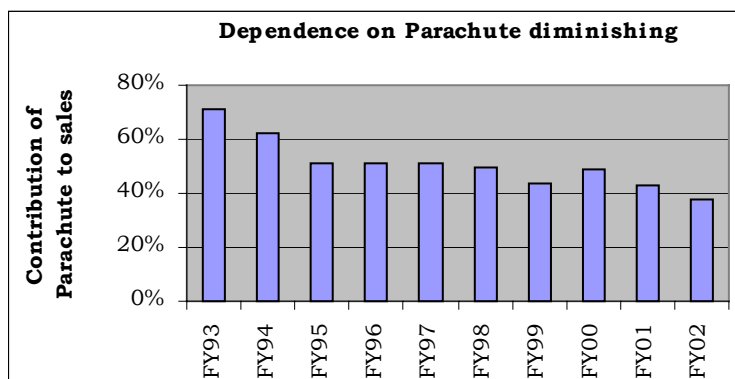
Refined Oil: The company has however lost some market share in the refined oil and non-sticky hair oil categories. In refined oil, Marico has been affected by higher prices of sunflower oil compared to other oils following imposition of 75% import duty on sunflower oil (45% import duty on soya oil). With consumers shifting over to cheaper oil, the sunflower oil category degrew by around 5% in FY02. Marico is focusing on maintaining its margins in this area through product differentiation (introduction of 'low absorb oils'). *Saffola* and its brand extensions, *Saffola Kardi-Corn* oil and *Saffola Kardi-Rice bran* oil are doing well both in volume and value terms.

➤ **Vulnerability to single-brand earnings lowered**

Marico has diversified from being a single product -- *Parachute* -- company to a multiple products entity. While *Parachute* is still the largest brand in it’s portfolio, *Parachute’s* contribution to sales has dwindled to around 38% from 71% a decade back.

No longer only Parachute company

Exhibit 5: Successful diversification into other product categories



(Source: Company and Karvy Estimates)

Product category-wise too, coconut oil is the highest contributor to the company’s revenues. This has been changing though with other product categories doing the catching up job as well. The refined oil segment now contributes around 36% to Marico’s revenues. Hair oil comprising non-sticky hair oil, value-added coconut oil and amla oil contributes around 9% to revenues. Contribution of other product categories to the company’s revenues is marginal.

Diversified portfolio holding in good stead

Exhibit 6: Widening Revenue mix

Category	Contribution to revenues (%)
Coconut Oil	45
Refined Edible Oil	36
Hair Oil	9
Pre-post Wash Product	2.5
Shampoo	1
Others	3
Exports	3.5

(Source: Industry and Karvy Estimates)

Strategy revamp reaping rich returns

Marico has been exploring new avenues in its quest to clock higher growth even as it’s core strength lies in coconut and refined oil. Pursuant to this strategy, in the past, Marico has introduced new products like *Nutrisheen*, *Saffola Salt* and *Revive Colourfix* which have not contributed significantly to the company’s revenues as their category sizes were itself small. The company has revamped its strategy to introduce only products that have immense potential to grow big in two-three years.

□ **Focusing on Big Bets**

In line with its revamped strategy, Marico is now focusing on 'Big Bet' new product launches. We like this game plan where brands will receive adequate support by way of commensurate share of resources as in undiluted management time and demand creation campaigns. This is a sharp improvement over the company’s earlier strategy, which involved identifying niche products but without taking into consideration the potential size.

New game plan to rest on potentially large products

Among Marico’s large Big Bets this year *Shanti Amla Oil*, *Parachute Jasmine* and *Saffola Kardi Corn* have performed extremely well.

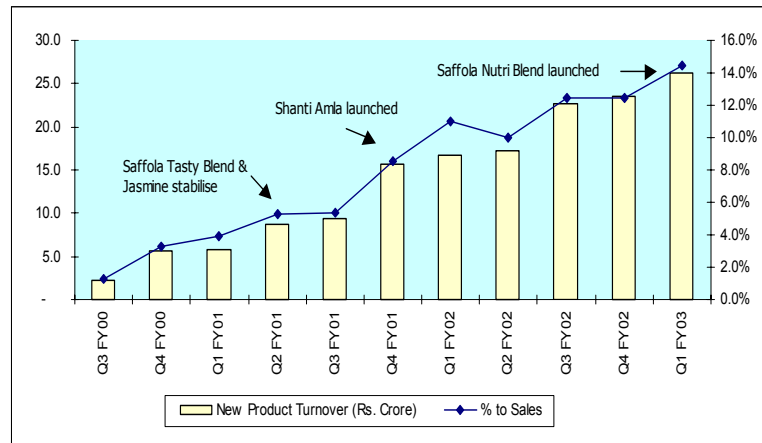
Shanti Amla Oil positioned on the “value for money” platform has managed to garner market share of 9%.

Parachute Jasmine enjoys market share of 22% in the value-added coconut hair oil segment.

Saffola Kardi Corn Oil positioned on the “health and taste” platform has garnered market share of 3%.

New product introductions now constitute 15% of the company’s total sales compared to 11% in FY02 and 5% in FY01.

Exhibit 7: New products’ share in revenues significantly up



New products spike sales

□ Moving away from promotional game

Faced with a low growth in demand, the FMCG sector has had to jig up its promotional expenditure to around 45% of the total A&SP budget. While we believe that this is highly brand dilutive, FMCG companies have aggressively resorted to promotions to maintain their top lines in the short-term. Marico’s promotional expense too stood at a high 40% of the A&SP budget in FY01.

Bucks promotion trend

Thereon however, the company has managed to buck the sector trend of focusing heavily on promotions and has reduced its below-the-line activity. It has been focusing its ad expenditure on new products along with maintaining its share of voice in existing categories. Marico has also been spending on creating demand for new products while simultaneously reducing promotions. The company’s A&SP spend which directly contributes to the bottom line has also reduced considerably.

Promotional expenses slashed to 25% of A&SP budget

Advertisements help in building and strengthening a brand and facilitate long-term sales growth. Promotions, on the other hand, both trade and consumer offers a tactical tool to increase sales in the short-term. Marico has been de-emphasizing such promotions and has slashed promotional expenses to around 20-25% of its A&SP budget in FY03.

Strategy shift to strengthening brands

Focused spending on new brand creation

A&SP spend stands lowered at 8% of sales in FY02

The company has been concentrating on spending more on creating demand. Even within its advertisement expenditure, Marico is focusing on spending more on creating new brands and less on defending the existing brands. This two pronged strategy of focusing ad expenditure primarily on new products while simultaneously reducing promotions is helping the company curtail its A&SP expenditure. Marico has not only maintained its existing market share in almost all the categories, it has also managed to lower its A&SP spend from 12% of sales in FY01 to around 8% in FY02.

OPM to improve by 100bps over next 2yrs

We expect A&SP expenditure to stay subdued as company's high profile launches -- *Shanti Amla* and *Parachute Jasmine* -- are complete and its new products have stabilised. This will have a direct bearing on its bottom line. We expect Marico's OPM to improve by around 100 basis points over the next two years aided by savings in A&SP spend along with other cost cutting measures.

□ Distribution on 'Mi-net'

Marico has a sizable distribution reach spanning 1.7 million retail outlets. It is in the process of integrating its distribution chain with the web-based interface 'Mi-Net,' which shall provide real-time information on the status of business operations between Marico and its distributors.

The company has already implemented the ERP Package SAP R/3 to integrate its operations and supply chain. Its urban distributors since April 1, 2002 are web knit. 70% of Marico's rural distribution has also gone online lately with the balance expected to go online by next year.

Exhibit 8: Sprawling distribution network

	Urban	Rural	Total
Sales Territories	135	35	170
Towns Covered ('000)	3.1	11	14.1
Distributors	850	0	850
Super Distributors	0	115	115
Stockists	0	2600	2600
Retail Outlets – Direct Reach (mn)	0.32	0.28	0.60
Retail Outlets - Indirect Reach (mn)	0.43	0.67	1.1
Total...	0.75	0.95	1.7

Networked wide and near

Working capital to improve

Being tech savvy will enable Marico to have an edge over competition, improve penetration levels of its sales force apart from improving working capital. We expect Marico's working capital days to reduce to around 24 days by FY04 from the current 30 days.

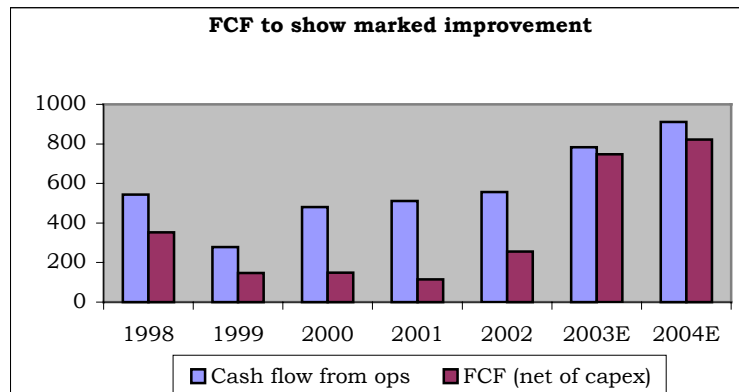
Tech edge facilitates lower working capital

<p>Pondicherry plant Profits exempt from Income Tax</p>	<p>➤ New plants in industrial backward zones</p> <p>Marico has set up a plant in the industrially backward area of Pondicherry to avail Income Tax benefits under Section 80IB. The unit would avail of 100% deduction in profits in the first five years and 30% in the following five years.</p> <p>Marico's Goa plant is also located in an industrially backward zone. This year the unit has moved away from 100% deduction to 30% deduction. Hence, Marico is shifting its manufacturing base (all its high value-added items) from Goa to Pondicherry to minimize the incidence of Income Tax. As a result, Marico's tax liability will remain lower than the statutory rate of Income Tax.</p> <p>All leading FMCG companies including HLL have used such legitimate means to reduce their tax liability. The deferred tax component shall however increase in case of Marico on account of lower depreciation under Company Law compared to Income Tax Act. Marico's effective tax rate (including deferred tax) would increase to around 20% in the next five years from around 12.6% in FY02.</p>
<p>Revenues to grow at 11.5%</p>	<p>15.5% earnings CAGR over next two years</p> <p>Focus on 'Big Bets' along with its existing product portfolio we believe will provide the required impetus to growth. Higher realisations are expected from coconut oil as the copra prices have started firming up post touching a ten-year low in FY01. In the ensuing two years, we believe the company will grow its revenues at around 11.5%. Cost cutting measures coupled with decline in A&SP expenditure will result in 100bps improvement in OPM. This, we believe, will lead to earnings CAGR of 15.5% over the next two years.</p> <p>Dividend payout to improve</p> <p>We expect Marico's dividend payout to pick up to around 45-50%. In the last couple of years, the company has been rewarding its shareholders by way of dividends in the range of 30-40%.</p>
<p>Minimal Cash requirements</p>	<p>➤ High free cash flow generation</p> <p>Marico has been generating high free cash flows. In FY02 and FY01, its cash flow from operations stood at Rs556mn and Rs511mn, respectively. Except FY99, when Marico had built a tactical position in inventory, the company's cash flows have continuously increased. With the implementation of new ERP package, its working capital requirement is expected to reduce further. We estimate that Marico will generate cash flows from operations of Rs783mn in FY03(E) and Rs911mn in FY04(E). The cash requirements though have been minimal on account of limited capital expenditure requirement and there is no debt on its books.</p>

Sales tax deferral liability only debt on the books

...share our prosperity among members, shareholders and associates...

Exhibit 9: Free Cash flows to improve further in FY03 and FY04



❑ *Limited Capex requirement*

In the last five years, significant capital expansion programs have been completed, including setting up factories in Goa, Daman and Pondicherry. Investment in technology and acquisition of brands -- new brands (*Oil of Malabar, Marico*) and purchase of *Parachute* and *Saffola* from a group company -- has been completed. We estimate Marico’s capex requirement for the next two years to be limited to around Rs100mn per annum.

❑ *Debt-free company*

Marico has no long-term debt on its book. Working capital outstanding for FY02 is Rs150mn (nil for FY01). Marico’s only liability pertains to the deferred sales tax benefit that it has in Maharashtra on account of its Jalgaon plant. But, this liability is a miniscule Rs50.6mn and is due for repayment only from FY06 onwards.

The Maharashtra State Government plans to extend the option of prepaying deferred tax outstanding at discounted net present value. If an attractive scheme does get introduced, Marico may consider repaying this amount.

❑ *Acquisitions present the only demand for cash; no certainty in this regard*

Marico has in the past used the inorganic route (acquisition of *Oil of Malabar* and *Mediker*) to add to its growth. We believe that the company is open to make further acquisitions. This seems to be the only large demand that may come for cash. However, the timing and scale of such an opportunity is difficult to assess.

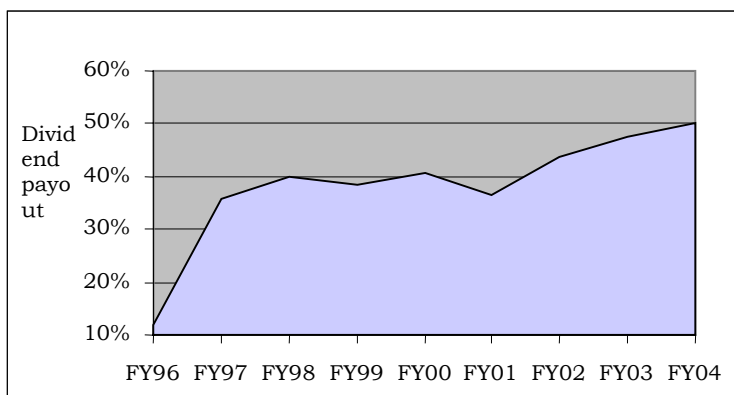
Besides, Marico being a debt-free company has the potential to raise debt at competitive rates. Hence, we don’t see that acquisitions present a strong case for the company to conserve cash. Also, we understand from the company that it is not keen to maintain a war chest for potential acquisitions if any.

➤ **Gels with Marico’s business direction 2010**

Marico’s business direction for 2010 states, ‘*We will share our prosperity among members, shareholders and associates who contribute in improving Marico’s Equity and Market Value.*’ **Marico has always been shareholder friendly and is only getting better.**

Including bonus redeemable shares, dividend payout in FY03 to exceed 100%

Exhibit 10: Marico to step-up Dividend Payout



Sample this,

✓ **1:1 Bonus issue in July 2002**

83% of Marico's equity capital comprises bonus. While we agree that the bonus issue is only a 'notional' event not entailing any cash flow to the shareholder, it facilitates higher liquidity by widening the shareholder base. This is a particularly good distribution tool for companies like Marico whose stocks have low liquidity.

✓ **1:1 Redeemable preference shares due in September 2002**

RePS will be redeemed in one or more tranches, but not later than 2005 and shall be entitled to receive dividend @ 8% p.a. during its tenure. These RePS will be listed on the stock exchange with a buy-back arrangement with HDFC Bank, one of the consortium bankers, has also been arrived at. Such an issue optimizes liquidity for both the shareholders and the company.

✓ **Regular dividend distribution every quarter**

Marico is one of the few companies that have moved to quarterly distribution of dividends. In the past seven quarters, Marico has consistently declared dividends.

Exhibit 11: Marico declares quarterly dividends now

Rs Mn		
Financial Year	Month of dividend declaration	Amount
FY01	Oct-00	70.8
	Apr-02	95.9
FY02	Jul-02	39.9
	Oct-02	47.9
	Jan-02	55.9
	Apr-02	72.5
FY03	Aug-02	21.8

We believe there exists a strong case for the company to step-up its dividend payouts. We believe that the company will have regular dividend payouts in the 40-50% band. It shall also periodically declare special payouts such as the redeemable preference shares introduced this year.

Illiquidity a major issue

Nimble Balance Sheet and higher RoCE

Marico's higher distribution to shareholders will result in lower addition to its Balance Sheet with its RoCE also improving. We expect the company's RoCE to improve from 32.5% in FY02 to 34.4% in FY04(E).

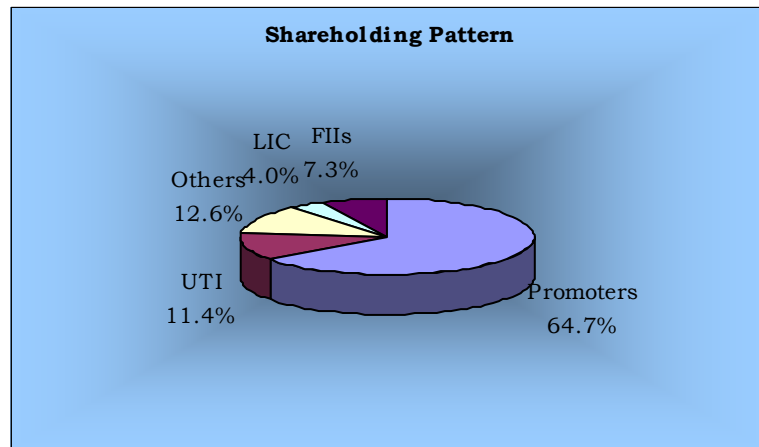
Taking stock of concerns

Concerns that could impact Marico's valuations include low floating stock, delayed monsoon and UTI overhang.

➤ **Low liquidity inhibiting interest in company**

One of our main concerns is the low liquidity in the stock. Besides the promoters, UTI is the largest shareholder in Marico. The promoters and UTI together account for 76% of the company's share holding. Liquidity on the stock was also hit, as it was amongst the first few stocks to go into rolling settlement.

Exhibit 12: Promoters and UTI hold 76% shares in Marico



UTI Overhang persists

Lately, liquidity in Marico has started picking up. Also, UTI's state of passive investment in Marico is likely to change in view of its own liquidity constraints. We don't expect UTI to dump the stock in the market. Far from that, in the last few months the mutual fund heavyweight has adopted a new pragmatic approach wherein it has sold stocks in negotiated deals with promoters (for instance the Bajaj group, Nestle) and participated actively in open offers (like IBP, IPCL, Cadbury). UTI has also been exploring options of selling its strategic stake in companies at a high premium (a la ITC, L&T).

The company, on its part, has tried to address the liquidity problem partly by declaring frequent bonuses. Bonus issues facilitate higher liquidity by widening the shareholder base. But, it does not change the floating stock of the company.

Monsoons not a dampener

➤ **Monsoons are delayed but unlikely to impact significantly**

Monsoons this year have been delayed. This is likely to impact the Kharif crop. However, the decline would be much lesser than feared earlier as monsoons have revived towards the fag end of the season. Pressure on rural demand would be muted. FMCG companies would be affected only marginally.

Grossly undervalued...

Further still, Marico is better placed than some of its peers owing to the fact that the rural segment contributes less than 25% of its revenues. The company derives bulk of its sales from the urban and semi-urban areas. In that respect, it is more insulated than some of the other FMCG players such as Colgate and HLL, which derive around half their revenues from rural India. We have factored in this scenario into our earnings estimate for FY03.

We believe that none of these issues are serious enough for the company to quote at such low valuations. And that a re-rating of the stock is inevitable.

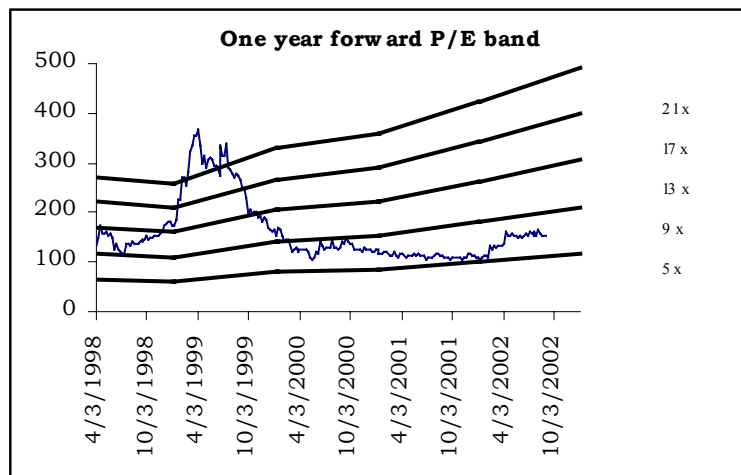
Valuation and View

Marico is currently quoting at 8.4x FY03(E) earnings and 0.6x FY03(market cap/sales. Such cheap valuation has only been hiding the company's consistent growth in earnings, strong brand equity, high free cash flows and higher dividend payouts.

We believe that Marico a company with strong fundamentals deserves to be at market capitalization to sales of at least 1x and at a stock price of Rs258, at 12x FY04(E) earnings. But, illiquidity will prevent the stock from getting such valuation. Hence, we have lowered our target price by 20% to Rs206.

At Rs206, Marico would be at 10.9x and 9.7x discount to its FY03(E) and FY04(E) earnings, respectively. Market capitalization at our target price will be 0.8x FY03(E) sales and 0.7x FY04(E) earnings. Even at these valuations, Marico will be available at a discount to other FMCG majors. **We recommend Buy with a one-year target price of Rs206, i.e. 29% returns.**

Exhibit 13: Marico's quoting at undemanding valuations



In case of UTI/other large investors selling out stake to a diversified group of investors, which increases liquidity in the stock or the company going for a buyback, price discovery in Marico would be faster. We would not like to base our call on such external factors and **believe that Marico's consistent earnings growth, higher distribution of profits to shareholders shall by itself lead to a good return in the stock.**

Profit & Loss Account
(Rs Million)

Year ending March 31	2000	2001	2002	2003E	2004E
Net revenues	6483	6580	6710	7446	8340
<i>YoY % growth</i>	17.6	1.5	2.0	11.0	12.0
Total expenditure:	5978	5989	5985	6586	7356
Raw material	3150	2396	2607	3049	3411
<i>% of revenues</i>	48.6	36.4	38.9	40.9	40.9
Purchase of Trading Goods	594	804	847	930	1050
<i>% of revenues</i>	9.2	12.2	12.6	12.5	12.6
Packing Material	606	734	714	725	811
<i>% of revenues</i>	9.3	11.2	10.6	9.7	9.7
Employees cost	229	289	318	343	371
<i>% of revenues</i>	3.5	4.4	4.7	4.6	4.4
Advertisement Expenses	587	798	536	542	631
<i>% of revenues</i>	9.1	12.1	8.0	7.3	7.6
Other Expenses	813	967	963	997	1082
<i>% of revenues</i>	12.5	14.7	14.3	13.4	13.0
Operating profit	505	591	725	861	983
<i>OPM</i>	7.8	9.0	10.8	11.6	11.8
Other income	35	42	28	30	33
EBIDTA	540	632	753	891	1016
Interest	55	45	46	42	50
Depreciation	78	89	142	158	169
PBT	407	499	566	691	797
Tax	50	43	103	142	180
PAT (current period)	357	456	462	548	617
<i>NPM</i>	5.5	6.9	6.9	7.4	7.4
Excess IT prov of earlier yrs	-	-	31*	-	-
Reported PAT	357	456	493	548	617
Shares outstanding	14.5	14.5	14.5	29.0	29.0
EPS (Fully diluted in Rs)	24.6	31.5	31.9	18.9	21.3
* Excess Income Tax prov of earlier years					

Balance Sheet		(Rs Million)				
As on March 31	2000	2001	2002	2003E	2004E	
Liabilities						
Equity share capital	145	145	145	290	290	
Reserves & surplus	1277	1567	1818	1647	1922	
Net worth	1422	1712	1963	1937	2212	
Preference Share Capital	-	-	-	290	-	
Fixed Deposit	3.00	-	-	-	-	
Sales tax deferral	30	36	51	60	70	
Total debt	30	36	51	60	70	
Deferred Tax Liability	0	0	60	133	218	
Total Capital Employed	1452	1748	2074	2421	2499	
ASSETS						
Gross block	1183	1518	1845	1935	2023	
Less: accumulated depreciation	251	325	489	647	817	
Net block	931	1192	1355	1288	1207	
CWIP	21	81	55	0	0	
Investments	9	9	9	454	597	
Current Assets:	1201	1333	1414	1468	1578	
Inventories	460	698	819	816	845	
Debtors	362	423	292	286	286	
Cash & Bank balances	103	40	102	120	140	
Loans & Advances	275	173	201	247	307	
Current Liabilities	707	866	759	789	882	
Creditors	530	670	589	653	731	
Provisions	93	115	28	35	35	
Other liabilities	84	82	142	101	116	
Net Current Assets	494	468	655	679	696	
Miscellaneous Exp	0	0	0	0	0	
Total Capital Employed	1455	1749	2074	2421	2499	

Free Cash flow		(Rs Million)				
Year ending March 31	2000	2001	2002	2003E	2004E	
EBIT	427	502	584	703	814	
Less Adjusted tax outgo	52	43	45	70	98	
NOPLAT	375	459	539	632	716	
Add:						
Depreciation	78	89	142	158	169	
Gross Cash Flows	453	548	681	790	886	
Less:						
Working Capital change	-28	37	125	7	-4	
Cash flow from operations	481	511	556	783	889	
Less:						
Capital Expenditure	333	396	301	35	88	
FCF	148	115	255	748	801	

Key Ratios

	2000	2001	2002	2003E	2004E
Debt to Equity (x)	0.0	0.0	0.0	0.0	0.0
Working Capital (Days)	22	24	30	27	24
RoCE (%)	34.4	33.9	32.0	32.6	34.4
RoNW (%)	27.1	29.1	25.2	28.1	29.7
P/E (x)			10.0	8.4	7.5
P/BV (x)			2.3	2.4	2.1
EV/EBIDTA (x)			6.3	4.8	3.9

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