

MARICO

HOLD
CMP Rs159
TP Rs139

Naveen Trivedi
naveent@pinc.co.in
+91-22-6618 6384

PINC Quick Bite

Marico in its press release expressed its concerns over street's earnings expectation being higher than the company's expectation. The company believes, input price pressure, higher spending on A&P on account of new product launches and slower growth in overseas market would impact the EBITDA margin in medium term. However, management is bullish on the long term growth of the business.

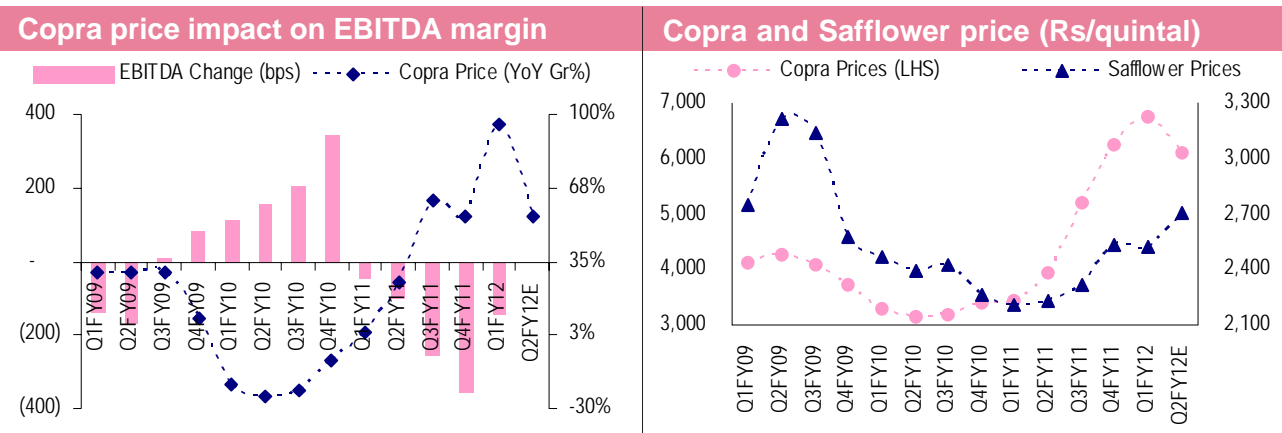
Copra prices were up by 62%, 55% and 96% in Q3FY11, Q4FY11 and Q1FY12 and that resulted into 256bps, 357bps and 142bps decline in EBITDA margin respectively. We were already cautious on Marico's higher exposure to the commodity prices. As Marico had already taken ~32% cumulative price hike on Parachute hair oil during FY11 we see limited scope for further price hike.

Copra (40% of RM) and Safflower (13% of RM) prices during the current quarter surged 55% and 22% YoY while on QoQ basis Copra prices were down by 9% and Safflower prices up 7%. Therefore, gross margin on QoQ basis in Q2FY12 should improve while there would be pressure on YoY comparison.

We expect that on account of high base of Copra prices in H2FY11, the relative benefit will come in H2FY12 and would improve the gross level profitability. Although, we cut our FY12 and FY13 earning estimates by 7.6% and 5.3% respectively as we believe higher A&P spending for new products and additional overhead cost in overseas business would put pressure on EBITDA margin going forward.

VALUATIONS AND RECOMMENDATION

On account of limited product portfolio, higher exposure to commodity prices and moderate scope for further price hike on key brands, we maintain Marico's P/E discount over FMCG sector. We maintain our 24x multiple on 12-month forward earning and derive a TP of Rs139 (Rs142 earlier). We reiterate our 'HOLD' rating.



Source: Company, PINC Research

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KEY FINANCIALS (CONSOLIDATED)					(Rs mn)
	FY09	FY10	FY11	FY12E	FY13E
Net Sales	23,884	26,608	31,283	38,266	43,843
YoY Gr. (%)	25.4	11.4	17.6	22.3	14.6
Op. Profit	2,890	3,752	4,098	4,670	5,509
Op. Marg. (%)	12.1	14.1	13.1	12.2	12.6
Adj. Net Profit	1,998	2,535	2,668	3,141	3,868
YoY Gr. (%)	24.7	26.8	4.4	17.7	23.2
KEY RATIOS					
Dil. EPS (Rs)	3.3	4.2	4.3	5.1	6.3
ROCE (%)	34.9	33.7	24.0	27.6	27.7
RoE (%)	44.1	38.8	29.1	26.6	25.4
PER (x)	48.5	38.2	36.6	31.1	25.3
EV/ Net Sales (x)	4.2	3.7	3.3	2.6	2.2
EV/EBDITA (x)	34.5	26.5	25.0	21.5	17.7

STOCK DATA	
Market cap	Rs98bn
Book Value per share	Rs15
Shares O/S (F.V. Rs1)	614mn
Free Float	37%
Avg. Trade Value (6 months)	Rs71mn
52 week High/Low	Rs173/112
Bloomberg Code	MRCO IN
Reuters Code	MRCO.BO

Year Ended March (Figures in Rs mn)

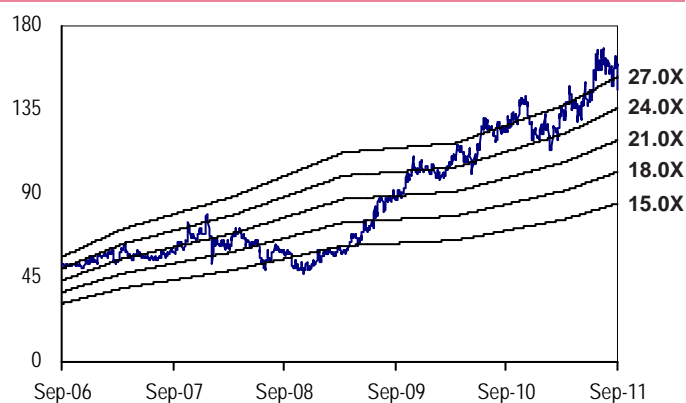
Income Statement	FY09	FY10	FY11	FY12E	FY13E
Net sales	23,884	26,608	31,283	38,266	43,843
YoY Gr (%)	25.4	11.4	17.6	22.3	14.6
Gross Profit	11,037	13,992	15,104	18,051	21,048
YoY Gr (%)	19.4	26.8	7.9	19.5	16.6
EBITDA	2,890	3,752	4,098	4,670	5,509
YoY Gr (%)	17.4	29.8	9.2	14.0	18.0
Depreciation	358	601	708	783	876
Other income	122	183	279	525	600
EBIT	2,654	3,334	3,669	4,412	5,233
Interest paid	357	257	393	395	298
PBT (before E/o items)	2,296	2,979	3,764	4,017	4,935
Tax provision	46	613	534	823	1,012
Effective tax rate%	17.8	21.6	22.6	20.5	20.5
Reported PAT	1,887	2,317	2,864	3,141	3,868
YoY Gr (%)	11.6	22.8	23.6	9.6	23.2
Adjusted PAT	1,998	2,535	2,668	3,141	3,868
Diluted EPS (Rs)	3.3	4.2	4.3	5.1	6.3
Diluted EPS Growth (%)	24.7	26.8	4.4	17.7	23.2

Cash Flow Statement	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	2,296	2,979	3,764	4,017	4,935
Depreciation	358	601	708	783	876
Total tax paid	(336)	(629)	(534)	(823)	(1,012)
Chg in working capital	(1,008)	(1,287)	(1,198)	(635)	(737)
Other operating activities	536	358	393	395	298
Cash flow from oper. (a)	1,847	2,021	3,134	3,736	4,360
Capital expenditure	(790)	(1,526)	(4,966)	(800)	(1,000)
Chg in investments	(121)	(706)	(63)	-	-
Other investing activities	(77)	158	-	-	-
Cash flow from inv. (b)	(988)	(2,074)	(5,029)	(800)	(1,000)
Free cash flow (a+b)	859	(53)	(1,895)	2,936	3,360
Equity raised/(repaid)	292	218	5	-	-
Debt raised/(repaid)	(162)	1,001	3,259	(2,880)	(500)
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(477)	(472)	(474)	(474)	(474)
Other financing activities	(370)	(466)	(393)	(395)	(298)
Cash flow from fin. (c)	(717)	281	2,396	(3,750)	(1,273)
Net chg in cash (a+b+c)	141	229	502	(813)	2,088

Balance Sheet	FY09	FY10	FY11	FY12E	FY13E
Equity capital	609	609	614	614	614
Reserves & surplus	3,927	5,930	8,540	11,207	14,600
Shareholders' funds	4,536	6,540	9,155	11,821	15,215
Minorities interests	-	125	219	271	327
Total Debt	3,743	4,459	7,718	4,838	4,338
Capital Employed	8,278	11,124	17,091	16,930	19,879
Net fixed assets	3,111	3,997	4,896	4,913	5,037
Cash & Cash Eq.	902	1,115	2,112	1,299	3,386
Net other Current Assets	2,653	3,719	4,916	5,551	6,288
Investment & Goodwill	971	1,677	4,866	4,866	4,866
Net Deferred Tax Assets	641	616	301	301	301
Total assets	8,278	11,124	17,091	16,930	19,879

Key Ratios	FY09	FY10	FY11	FY12E	FY13E
OPM (%)	12.1	14.1	13.1	12.2	12.6
Net margin (%)	8.4	9.5	8.5	8.2	8.8
Dividend yield (%)	0.4	0.4	0.4	0.4	0.4
Net debt/Equity (x)	0.6	0.5	0.6	0.3	0.1
Net Working Capital (days)	40.5	51.0	57.4	53.0	52.3
ROCE (%)	34.9	33.7	24.0	27.6	27.7
RoE (%)	44.1	38.8	29.1	26.6	25.4
EV/Net sales (x)	4.2	3.7	3.3	2.6	2.2
EV/EBITDA (x)	34.5	26.5	25.0	21.5	17.7
PER (x)	48.5	38.2	36.6	31.1	25.3
PCE (x)	41.1	30.9	28.9	24.9	20.6
Price/Book (x)	21.3	14.8	10.7	8.3	6.4

P/BV Band



Key Assumptions

Particulars	FY09	FY10	FY11e	FY12e	FY13e
Domestic Gr%	21.6	5.0	15.7	15.0	10.7
IBD Gr%	32.3	34.8	22.0	21.0	21.0
Kaya Gr%	57.0	15.9	30.0	25.0	25.0
Gross Margin %	46.2	52.6	48.3	47.2	48.0
EBITDA Margin %	12.1	14.1	13.1	12.2	12.6
Effective Tax Rate %	17.8	21.6	22.6	20.5	20.5

T E A M

EQUITY DESK

Sadanand Raje	Head - Institutional Sales Technical Analyst	sadanand.raje@pinc.co.in	91-22-6618 6366
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RESEARCH

Vineet Hetamasaria, CFA	Head of Research, Auto, Cement	vineet.hetamasaria@pinc.co.in	91-22-6618 6388
Nikhil Deshpande	Auto, Auto Ancillary, Cement	nikhil.deshpande@pinc.co.in	91-22-6618 6339
Tasmai Merchant	Auto, Auto Ancillary, Cement	tasmai.merchant@pinc.co.in	91-22-6618 6377
Vinod Nair	Construction, Power, Capital Goods	vinod.nair@pinc.co.in	91-22-6618 6379
Ankit Babel	Capital Goods, Engineering	ankit.b@pinc.co.in	91-22-6618 6551
Hitul Gutka	Power	hitul.gutka@pinc.co.in	91-22-6618 6410
Subramaniam Yadav	Construction	subramaniam.yadav@pinc.co.in	91-22-6618 6371
Madhura Joshi	Power	madhura.joshi@pinc.co.in	91-22-6618 6395
Satish Mishra	Fertiliser, Natural Gas	satish.mishra@pinc.co.in	91-22-6618 6488
Urvashi Biyani	Fertiliser, Natural Gas	urvashi.biyani@pinc.co.in	91-22-6618 6334
Naveen Trivedi	FMCG	naveent@pinc.co.in	91-22-6618 6384
Rohit Kumar Anand	IT Services	rohit.anand@pinc.co.in	91-22-6618 6372
Namrata Sharma	Media	namrata.sharma@pinc.co.in	91-22-6618 6412
Sakshee Chhabra	Media	sakshee.chhabra@pinc.co.in	91-22-6618 6516
Bikash Bhalotia	Metals, Mining	bikash.bhalotia@pinc.co.in	91-22-6618 6387
Harleen Babber	Metals, Mining	harleen.babber@pinc.co.in	91-22-6618 6389
Dipti Vijaywargi	Metals, Mining	dipti.vijaywargi@pinc.co.in	91-22-6618 6393
Sushant Dalmia, CFA	Pharma	sushant.dalmia@pinc.co.in	91-22-6618 6462
Poonam Sanghavi	Pharma	poonam.sanghavi@pinc.co.in	91-22-6618 6709
Suman Memani	Real Estate, Mid caps	suman.memani@pinc.co.in	91-22-6618 6479
Abhishek Kumar	Real Estate, Mid caps	abhishek.kumar@pinc.co.in	91-22-6618 6398
C Krishnamurthy	Technical Analyst	krishnamurthy.c@pinc.co.in	91-22-6618 6747

SALES

Rajeev Gupta	Equities	rajeev.gupta@pinc.co.in	91-22-6618 6486
Ankur Varman	Equities	ankur.varman@pinc.co.in	91-22-6618 6380
Himanshu Varia	Equities	himanshu.varia@pinc.co.in	91-22-6618 6342
Shailesh Kadam	Derivatives	shaileshk@pinc.co.in	91-22-6618 6349
Ganesh Gokhale	Derivatives	ganeshg@pinc.co.in	91-22-6618 6347

DEALING

Mehul Desai	Head - Sales Trading	mehul.desai@pinc.co.in	91-22-6618 6303
Naresh Panjnani	Co-Head - Sales Trading	naresh.panjnani@pinc.co.in	91-22-6618 6333
Amar Margaje		amar.margaje@pinc.co.in	91-22-6618 6327
Ashok Savla		ashok.savla@pinc.co.in	91-22-6618 6321
Sajjid Lala		sajjid.lala@pinc.co.in	91-22-6618 6337
Raju Bhavsar		rajub@pinc.co.in	91-22-6618 6322
Kinjal Mehta		kinjal.mehta@pinc.co.in	91-22-6618 6333
Chandani Bhatia		chandani.bhatia@pinc.co.in	91-22-6618 6324
Hasmukh D. Prajapati		hasmukhp@pinc.co.in	91-22-6618 6325
Kamlesh Purohit		kamlesh.purohit@pinc.co.in	91-22-6618 6357

SINGAPORE DESK

Amul Shah		amul.shah@sg.pinc.co.in	65-6327 0626
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DIRECTORS

Gaurang Gandhi		gaurangg@pinc.co.in	91-22-6618 6400
Hemang Gandhi		hemangg@pinc.co.in	91-22-6618 6400
Ketan Gandhi		ketang@pinc.co.in	91-22-6618 6400

COMPLIANCE

Rakesh Bhatia	Head Compliance	rakeshb@pinc.co.in	91-22-6618 6400
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1216, Maker Chambers V, Nariman Point, Mumbai - 400 021; Tel.: 91-22-66186633/6400 Fax : 91-22-22049195

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