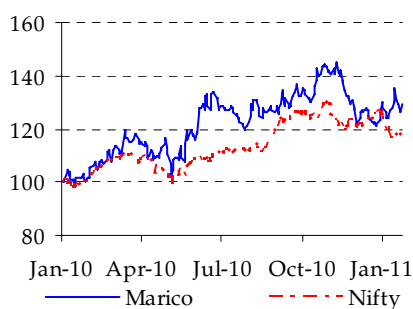


CMP: ₹ 127
Target ₹ 150
Upside 18%
Rating: BUY
January 28, 2011
Stock Info

Face Value (₹)	1
Shares O/S (mn)	614
Market Cap (₹ bn)	78
52-Week Range(H/L)	145.7/96.2
1-Year Avg Vol (mn)	0.6
Nifty	5604
Reuters Code	MRCO.BO
Bloomberg Code	MRCO IN
Year End	Mar

Share Holding Pattern
(Dec' 10)

Foreign	25.52
Institutions	4.52
Corporate Holding	2.79
Promoters	62.96
Public & Others	4.22

Relative Price Performance

Result at a glance – Inline with expectations

Marico declared its 3QFY11 quarterly results. Topline was inline with our estimates while bottomline was 7% ahead of our estimates. Topline at ₹ 8,177 mn (against our expectations of ₹ 8,100 mn) was 5% higher Q-o-Q and 22% higher Y-o-Y. EBIDTA was at ₹ 997 mn against our expectations of ₹ 931 mn. EBIDTA margins were 70 bps higher than our expectation of 11.5% primarily due to lower than expected raw material cost booking. This resulted into PAT of ₹ 710 mn (our expectations of ₹ 648 mn) that was down 3% Q-o-Q and up 13% Y-o-Y.

Strong operational performance

All the businesses categories of Marico registered good performance. The overall revenue growth was 22%. As mentioned in our previous communication, volume growth was very strong at 15%. During the quarter, company took three rounds of price increase to offset the raw material cost increase.

Increase in realization to offset cost pressure

During the quarter, input price for Marico increased substantially. Price of Copra; which account for 40% of the total raw material cost, increased sharply by ~21%. Management believes these are unsustainable levels and expects to come down in coming months. To offset the increased raw material cost, Marico has (for selected SKUs of Parachute oil and different variants of Saffola) taken three rounds of price increase 3QFY11 (see table below); the impact of these will be visible in the later part of 4QFY11.

Kaya business – positive returns in sight now

During the year, Marico's Kaya business (Ex Derma Rx) has shown considerable improvement. The losses of ₹ 62 mn in the 1QFY11 has come down to ₹ 9 mn during the quarter. We expect the business to deliver positive results from 1QFY12 if not from 4QFY11.

Outlook and valuations

Copra prices have continued its northward movement (against our expectations) during the 3QFY11 and the 'lower cost inventory level' has come down considerably. This will push the raw material cost even in the 4QFY11 higher than our earlier expectations. Though the company has taken series of price hikes recently, the impact will be visible in the revenues only in the later part of 4QFY11. This will affect the profitability of the 2HFY11 and bring the margins down. The stock is currently trading at 19.6x FY12E and we maintain our BUY recommendation on the stock with a price target of ₹ 150.

Key Financials

Y/E Mar (₹ Mn)	Net Sales	Growth (%)	EBITDA	Margin (%)	PAT	Growth (%)	EPS (₹)	P/E (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY09	23,884		3,040	12.7	2,037		3.3	38.0	26.3	53.1	36.0
FY10	26,608	11.4	3,751	14.1	2,433	19.4	3.9	32.0	21.1	43.6	34.1
FY11E	31,384	18.0	3,815	12.2	2,885	18.6	4.7	26.8	19.9	37.9	33.7
FY12E	36,348	15.8	5,158	14.2	3,804	31.8	6.2	20.3	14.3	37.5	42.6

Source: SBICAP Securities Research
Analyst: Akshit Shah
Tel: 30273336
E-mail: akshit.shah@sbicapsec.com
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Please refer to our disclaimer given at the back cover page

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Quarterly Financials					
Year to March	Q3 FY11	Q3 FY10	% change	Q2 FY11	% change
Net sales / Income from oper.	8,177	6,696	22.1	7,788	5.0
Cost of goods sold	4,307	3,167	36.0	3,880	11.0
Gross profit	3,870	3,528	9.7	3,908	(1.0)
Staff cost	556	474	17.4	582	(4.4)
Other expenditure	2,317	1,211	91.4	2,334	(0.7)
Total expenditure excl COGS	2,873	2,540	13.1	2,916	(1.5)
EBITDA	997	988	0.9	992	0.5
Depreciation, amort. & imp.	146	166	(11.7)	140	4.5
EBIT	851	822	3.5	852	(0.2)
Other income	69	56	22.7	71	(2.7)
EBIT (incl. other income)	920	878	4.7	923	(0.4)
Interest	76	64	19.4	65	17.6
Profit before tax & minority int.	843	814	3.6	858	(1.7)
PBT	843	814	3.6	858	(1.7)
Tax expense	133	183	(27.1)	126	5.9
Net profit	710	631	12.5	732	(3.0)

Source: Company, SBICAP Securities Research

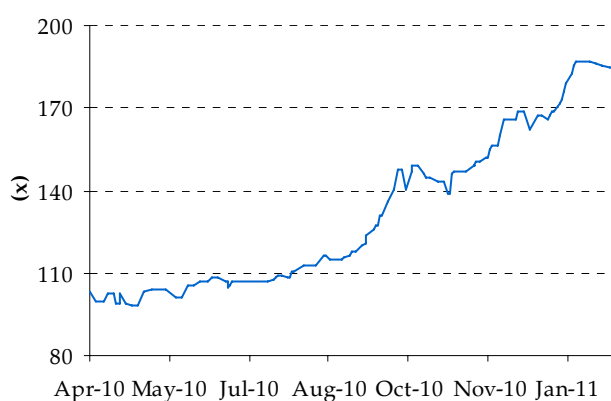
Operational Highlights

Volume led increase in revenue

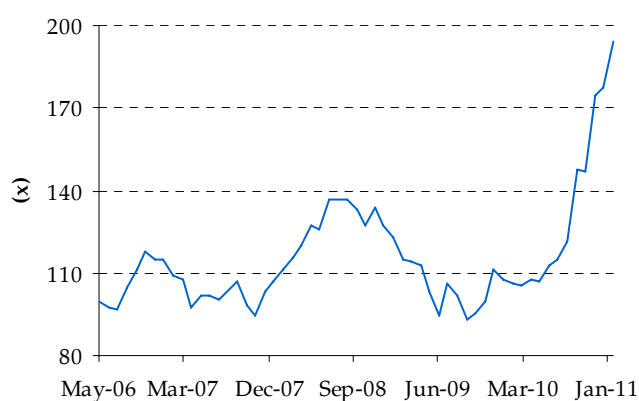
Marico's revenue increased by 22% YoY; primarily led by volume growth of 15%.

Parachute: Parachute coconut oil in rigid packs; which is a focused part of the portfolio, increased by ~14% YoY in value terms and 5% in volume terms on the higher base of 3QFY10 on the back of offers. During the quarter, Copra continued its northward movement (against our expectation). Management believes the levels as unsustainable and expects the prices to come down early FY12 which will pull the margins up for the year.

Copra price – Daily



Copra Price - Monthly



Source: Bloomberg, SBICAP Securities Research

Two rounds of price hikes:

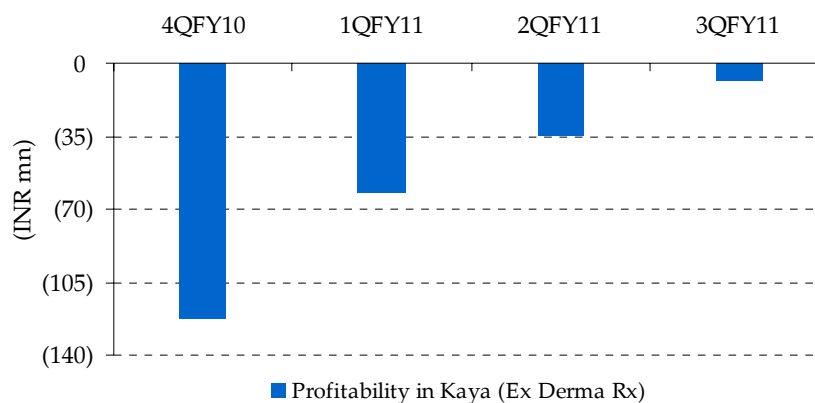
Product	SKU	Price Hikes			Total
		Oct-10	Nov-10	Dec-10	
Parachute Coconut Oil	50 ml	20%		8%	30%
Parachute Coconut Oil	100 ml	10%		9%	19%
Parachute Coconut Oil	200 ml	7%		9%	17%
Parachute Coconut Oil	250 ml	6%		12%	19%
Parachute Coconut Oil	500 ml	4%		10%	15%
Saffola-Kardi Oil	1 Ltr	5%	5%	0%	10%
Saffola Tasty Blend	1 ltr		12%	0%	0%
Saffola Gold	1 Ltr	4%	7%	0%	11%
Saffola Active	1 ltr	5%	3%	0%	9%

Source: Company, SBICAP Securities Research

Saffola: Saffola continued its strong growth trend and registered 13% volume growth and 24% value growth.

IBG: Marico's International Business Group (IBG) grew by 28% which consist of 33% volume growth and 8% price led growth however; it got impacted by exchange rate fluctuations.

Kaya: Kaya (Ex Derma Rx) continued its good performance. The losses of ₹ 62 mn in 1QFY11 has come down substantially to ₹ 9 mn during the quarter. We expect the business to start posting positive results latest by 1QFY12. Kaya (incl Derma Rx) registered a strong growth of 40%yoy however, it is not strictly comparable.

Kaya Losses coming down substantially


Source: SBICAP Securities Research

Income statement					(₹ mn)
Year to March	FY08	FY09	FY10	FY11E	FY12E
Net revenues	19,050	23,884	26,608	31,384	36,348
Cost of materials	9,809	12,779	12,577	16,206	17,992
Gross profit	9,242	11,106	14,031	15,178	18,356
Employee costs	1,268	1,648	1,901	2,166	2,581
Advertisement & sales costs	2,441	2,504	3,511	3,766	4,544
Other general expenditure	3,069	3,914	4,867	5,432	6,074
EBITDA	2,463	3,040	3,751	3,815	5,158
Depreciation	309	358	601	321	366
EBIT	2,155	2,682	3,151	3,494	4,792
Other income	67	65	183	183	183
Interest	276	301	257	242	190
PBT	1,945	2,447	3,077	3,435	4,785
Provision for taxation	360	409	643	549	981
PAT	1,586	2,037	2,433	2,885	3,804
Extraordinary items	106	(150)	(98)	0	0
Profit after tax	1,692	1,887	2,335	2,885	3,804
Profit after tax after Minority Interest	1,691	1,887	2,317	2,885	3,804
Equity shares outstanding (mn)	609	609	609	609	609
EPS (INR) basic	2.6	3.3	4.0	4.7	6.2
Diluted shares (mn)	614	614	614	614	614
CEPS (INR)	3.4	4.5	4.9	5.2	6.8
DPS	0.6	0.6	0.9	1.3	1.8
Dividend payout ratio (%)	29.5	22.9	26.6	33.5	33.5

Common size metrics (%)

Year to March	FY08	FY09	FY10	FY11E	FY12E
Cost of materials	51.5	53.5	47.3	51.6	49.5
Employee costs	6.7	6.9	7.1	6.9	7.1
Advertising & sales costs	12.8	10.5	13.2	12.0	12.5
Other general expenditure	16.1	16.4	18.3	17.3	16.7
Depreciation	1.6	1.5	2.3	1.0	1.0
Net interest expenditure	1.5	1.3	1.0	0.8	0.5
EBITDA margin	12.9	12.7	14.1	12.2	14.2
EBIT margin	11.3	11.2	11.8	11.1	13.2
Net profit margin	8.3	8.5	9.1	9.2	10.5

Growth metrics (%)

Year to March	FY08	FY09	FY10	FY11E	FY12E
Revenues	22.4	25.4	11.4	18.0	15.8
EBITDA	15.8	23.4	23.4	1.7	35.2
PBT	29.6	25.8	25.7	11.6	39.3
Net profit	49.8	11.6	22.8	24.6	31.8
EPS	32.0	28.6	18.5	19.5	31.8

Source: Company, SBICAP Securities Research

Balance sheet					(₹ mn)
As on 31st March	FY08	FY09	FY10	FY11E	FY12E
Share capital	609	609	609	609	609
Reserves	2,537	3,926	5,930	8,094	10,947
Shareholders' funds	3,146	4,535	6,539	8,703	11,556
Secured loans	1,345	812	1,142	792	392
Unsecured loans	2,234	2,931	3,317	2,817	2,317
Borrowings	3,579	3,743	4,459	3,609	2,709
Minority interests	1	-	126	126	126
Sources of funds	6,727	8,278	11,124	12,438	14,390
Gross block	3,499	4,569	5,292	5,992	6,792
Less depreciation	1,573	2,035	2,424	2,745	3,111
Net fixed assets	2,768	3,385	3,718	4,097	4,531
Capital work in progress	647	577	1,129	1,242	1,366
Investments	0	121	827	2,010	2,311
Deferred tax (net)	982	641	616	616	616
Current assets	5,281	6,699	8,970	9,621	11,947
Inventories	2,605	3,390	4,448	4,729	5,776
Sundry debtors	863	1,108	1,507	1,548	1,793
Cash and bank balance	753	902	1,115	1,065	1,643
Loans and advances	1,061	1,299	1,900	2,280	2,736
Current liabilities	2,952	3,144	4,136	5,149	6,382
Liabilities	2,560	2,779	3,369	3,851	4,487
Provisions	392	366	768	1,298	1,895
Working capital	2,330	3,554	4,833	4,472	5,566
Uses of funds	6,727	8,278	11,124	12,438	14,390

Cash flow					(₹ mn)
Year to March	FY08	FY09	FY10	FY11E	FY12E
Operating cash flow	1,155	1,516	1,772	3,517	3,655
Financing cash flow	748	(410)	(97)	(1,603)	(1,883)
Investing cash flow	(1,586)	(988)	(1,317)	(1,903)	(1,122)
Net cash flow	317	118	358	11	650
Capex	(1,204)	(974)	(934)	(700)	(800)
Dividends paid	(325)	(477)	(476)	(721)	(951)

Source: Company, SBICAP Securities Research

Ratios					
Year to March	FY08	FY09	FY10	FY11E	FY12E
ROAE	62.5	53.1	43.6	37.9	37.5
ROACE	38.6	36.0	34.1	33.7	42.6
Debtor days	14	15	18	18	17
Inventory days	90	86	114	103	107
Payable days	107	87	106	105	117
Current ratio	1.8	2.1	2.2	1.9	1.9
Debt/EBITDA	1.5	1.2	1.2	0.9	0.5
Cash conversion cycle days	(3)	14	26	17	6
Debt/Equity	1.1	0.8	0.7	0.4	0.2
Adjusted debt/equity	1.1	0.8	0.7	0.4	0.2
Interest coverage (x)	7.8	8.9	12.3	14.4	25.3
Operating ratios					
Total asset turnover	3.4	3.2	2.7	2.7	2.7
Fixed asset turnover	8.2	7.8	7.5	8.0	8.4
Equity turnover	7.5	6.2	4.8	4.1	3.6
Valuation parameters					
Diluted EPS (INR)	2.6	3.3	3.9	4.7	6.2
Y-o-Y growth (%)	32.0	28.6	18.5	19.5	31.8
CEPS (INR)	3.4	4.5	4.9	5.2	6.8
Diluted P/E (x)	49.2	38.3	32.3	27.0	20.5
Price/BV (x)	24.8	17.2	11.9	9.0	6.7
EV/Sales (x)	4.2	3.3	3.0	2.4	2.0
EV/EBITDA (x)	32.5	26.3	21.1	19.9	14.3
Dividend yield (%)	0.5	0.5	0.7	1.1	1.4
BasicEPS (INR)	2.6	3.3	4.0	4.7	6.2
Basic PE (x)	48.8	38.0	32.0	26.8	20.3

Source: Company, SBICAP Securities Research

SBICAP Securities Limited

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Guide to the expected return over the next 12 months. **1=BUY** (expected to give absolute returns of 20 or more percentage points); **2= ACCUMULATE/ADD** (expected to give absolute returns between 10 to 20 percentage points); **3=REDUCE** (expected to give absolute returns between 0 to 10 percentage points); **4=SELL** (expected to give absolute negative returns)

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