

## RESULT UPDATE

### MID CAP

#### Share Data

Reuters code	MRCO.BO
Bloomberg code	MRCO IN
Market cap. (US\$ mn)	1,257
6M avg. daily turnover (US\$ mn)	1.4
Issued shares (mn)	609
Target price (Rs)	98

Performance (%)	1M	3M	12M
Absolute	7	11	95
Relative	9	5	2

#### Valuation Ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	4.1	4.9
+/- (%)	32.7	20.1
PER (x)	23.8	19.8
PBV (x)	9.1	6.7
Dividend/Yield (%)	0.8	0.8
EV/Sales (x)	2.3	2.0
EV/EBITDA (x)	16.1	13.7

#### Major shareholders (%)

Promoters	63
FII's	21
MF's	6
BFSI's	2
Public & Others	8

#### Financial highlights (consolidated)

(Rs mn)	2QFY09	2QFY10	YoY (%)	2HFY09	2HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	6,049	6,922	14.4	12,015	13,889	15.6	23,884	27,257	14.1	30,942	13.5
EBITDA	809	950	17.4	1,566	1,914	22.3	3,040	3,872	27.4	4,557	17.7
EBITDA margin %	13.4%	13.7%		13.0%	13.8%		12.7%	14.2%		14.7%	
Other Income	21	42	95.7	48	73	54.2	122	131	7.4	144	10.0
Interest	(96)	(56)	-41.4	(192)	(142)	-25.8	(357)	(356)	-0.5	(360)	1.1
Depreciation	(82)	(179)	118.5	(156)	(278)	77.8	(358)	(395)	10.4	(436)	10.4
PBT & Extraordinary	653	757	16.0	1,265	1,567	23.9	2,447	3,252	32.9	3,905	20.1
Extraordinary Items	(70)			(70)			150				
Tax (incl deferred)	(111)	(133)	19.2	(261)	(343)	31.6	(559)	(748)	33.8	(898)	20.1
PAT	471	624	32.4	934	1,224	31.0	2,038	2,504	22.9	3,007	20.1
Adjusted PAT	541	624	15.3	1,004	1,224	21.9	1,888	2,504	32.6	3,007	20.1
Adjusted EPS (Rs.)	0.9	1.0	15.3	1.6	2.0	21.9	3.1	4.1	32.6	4.9	20.1

## Marico Industries

Maintain Outperformer

Price: Rs 98

BSE Index: 16,283

28 October 2009

### 2QFY10 Result – Strong performance...excise provision limits PAT growth

**Marico results were in line with expectations with a 14% growth in net sales at Rs 6.92 bn. Strong gross margin expansion on account of lower input costs led to the growth in net profit by 15% at Rs 624 mn. The net profit growth was lower due to provisioning for excise duty and impairment of assets, excluding which the profit before tax registered a 48% growth at Rs 967 mn.**

Domestic volume growth at 15% continues unabated with all major brands contributing to the growth. However, lower realisations on the company's edible oil franchise has subdued the domestic value growth. The cost index for Marico continues to be extremely favourable and we do not expect significant inflation in copra and safflower prices from current levels, thus aiding robust margin expansion for the remainder of the year. Saffola volumes had been a key area of concern in FY09 and with volume growth picking up considerably in 1HFY10, we expect strong volume momentum from Saffola to continue in FY10. With improvement in international margins and Kaya expected to post profits in the second half, we expect Marico to maintain strong profit momentum in the FY09-11E period. The company at the current run rate would provide ~Rs 420 mn for the excise dispute in FY10 and Rs 500 mn in FY11 (13% of consolidated PBT). A positive result in favour of Marico will result in reversal of the provisioning and provide upsides to our earnings estimates.

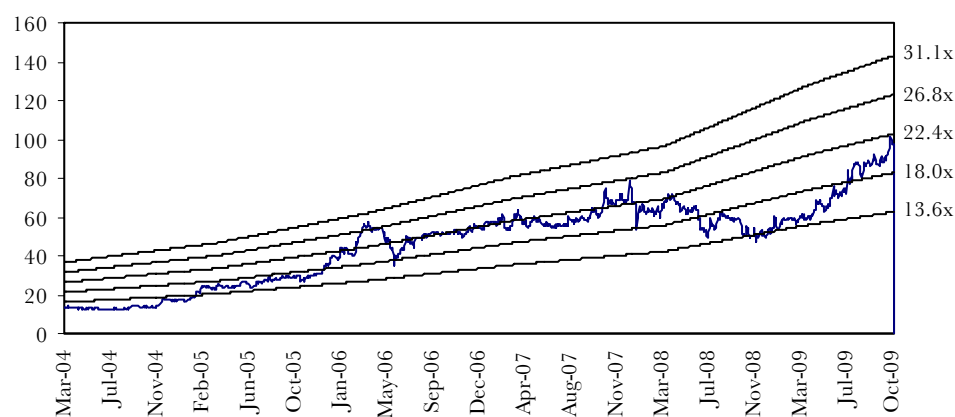
Currently, the stock trades at 24x our FY10E and 20x our FY11E earnings estimates. We maintain our Outperformer rating on the stock.

### Highlights

The 14% revenue growth was largely volume led with the domestic business registering a 15% volume growth. The hair oils business continued to post strong growth with Parachute registering a 10% volume growth and other focus hair oils growing by 17% in volumes. The major improvement in the quarter came from Saffola, which grew in volumes by 22%, aided by a price cut in the beginning of the year and consumer offers during the month of September.

- The company continued to benefit from lower raw material prices with key input costs copra and safflower lower by ~27% and ~25% for the quarter, which led to a gross margin expansion of 700 bps to 49.7%. Higher A&P expenses and a provision of Rs 124 mn made for the pending excise duty dispute on coconut oil packs below 200 ml restricted EBITDA margin to 30 bps at 13.7%. Excluding the provision, margins would have expanded to 15.5%.
- Net profit growth of 15% was further restricted due to a Rs 86 mn impairment write-off due to the company's relocation of R&D facility in Mumbai as well as impairment charges related to Camelia and Aromatic, its soap brands in Bangladesh.
- International business continued to post impressive revenue growth of 49%, driven by an equal growth in volumes, price currency translation. Margins continue to improve in its international portfolio led by moderated inflation and the company expects international margins to match up to standalone margins in the next three years. With the business constituting 25% of consolidated revenues during the quarter, and constantly improving margin profile, we expect international business to contribute significantly to profitability in the future.
- Kaya skin clinics posted a 24% revenue growth for the quarter at Rs 490 mn, with same store growth at 5%. Pressure on domestic same store growth has continued with the domestic clinics witnessing a de-growth during the quarter. The company has added 2 clinics for the year taking its total to 99 clinics. Higher new clinic addition during the first half has resulted in a Rs 21 mn loss. On 01 September, the company increased prices by 10% on its Kaya services in line with the service tax imposition during the Union Budget. Though domestic growth has been subdued, a 4% QoQ same store growth shows first signs of improvement and with most of the clinic additions completed in the first half, we expect Kaya to be profitable during the second half of the year.

#### PER Band



## Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
<b>Net sales</b>	<b>19,050</b>	<b>23,884</b>	<b>27,257</b>	<b>31,300</b>
Growth (%)	22.4	25.4	14.1	14.8
Operating expenses	(16,587)	(20,844)	(23,385)	(26,744)
Operating profit	2,463	3,040	3,872	4,557
<b>EBITDA</b>	<b>2,463</b>	<b>3,040</b>	<b>3,872</b>	<b>4,557</b>
Growth (%)	24.0	23.4	27.4	17.7
Depreciation	(309)	(358)	(395)	(436)
Other income	96	122	131	144
<b>EBIT</b>	<b>2,250</b>	<b>2,804</b>	<b>3,607</b>	<b>4,265</b>
Interest paid	(305)	(357)	(356)	(360)
Pre-tax profit (before non-recurring)	1,945	2,447	3,252	3,905
Non-recurring items	106	(150)	0	0
Pre-tax profit (after non-recurring)	2,051	2,296	3,252	3,905
Tax (current + deferred)	(360)	(409)	(748)	(898)
Net profit (before Minority Interest, Pref. Dividend, etc.)	1,692	1,887	2,504	3,007
Minority interests	(1)	(0)	0	0
<b>Reported PAT</b>	<b>1,691</b>	<b>1,887</b>	<b>2,504</b>	<b>3,007</b>
<b>Adjusted net profit</b>	<b>1,584.6</b>	<b>1,887.3</b>	<b>2,503.9</b>	<b>3,006.9</b>
Growth (%)	31.0	19.1	32.7	20.1

## Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash and Marketable sec.	753	1,043	1,615	3,322
Other current assets	4,528	5,797	6,538	7,554
Net fixed assets	3,416	3,961	4,149	4,296
Other non-current assets	982	641	641	641
<b>Total assets</b>	<b>9,678</b>	<b>11,442</b>	<b>12,944</b>	<b>15,813</b>
Current liabilities	2,952	3,158	3,226	3,658
Total debt	3,579	3,750	3,214	3,214
<b>Total liabilities</b>	<b>6,531</b>	<b>6,908</b>	<b>6,440</b>	<b>6,872</b>
Share capital	609	609	609	609
Reserves & surplus	2,537	3,926	5,895	8,332
<b>Shareholders' funds</b>	<b>3,146</b>	<b>4,535</b>	<b>6,504</b>	<b>8,941</b>
Minorities interests	1	0	0	0
<b>Total equity &amp; liabilities</b>	<b>9,678</b>	<b>11,442</b>	<b>12,944</b>	<b>15,813</b>
<b>Capital employed</b>	<b>6,727</b>	<b>8,285</b>	<b>9,719</b>	<b>12,155</b>

## Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	2,051	2,296	3,252	3,905
Depreciation	308	358	395	436
Change in working capital	(1,091)	(1,052)	(706)	(583)
Total tax paid	(190)	(69)	(748)	(898)
<b>Cash flow from oper. (a)</b>	<b>1,078</b>	<b>1,534</b>	<b>2,193</b>	<b>2,860</b>
Capital expenditure	(1,552)	(946)	(563)	(563)
Change in investments	0	(121)	0	0
Others	(66)	42	(20)	(20)
<b>Cash flow from inv. (b) (1,565)</b>	<b>(1,245)</b>	<b>(583)</b>	<b>(583)</b>	<b>(583)</b>
<b>Free cash flow (a+b)</b>	<b>(486)</b>	<b>289</b>	<b>1,610</b>	<b>2,276</b>
Debt raised/(repaid)	1,070	170	(536)	0
Dividend (incl. tax)	(203)	(477)	(502)	(570)
Others	(55)	188	(0)	0
<b>Cash flow from fin. (c)</b>	<b>812</b>	<b>(120)</b>	<b>(1,038)</b>	<b>(570)</b>
<b>Net change in cash (a+b+c)</b>	<b>325</b>	<b>169</b>	<b>572</b>	<b>1,706</b>

## Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	2.6	3.1	4.1	4.9
Growth	31.0	19.1	32.7	20.1
Book NAV/share (Rs)	5.2	7.4	10.7	14.7
Dividend/share (Rs)	0.7	0.7	0.8	0.8
Dividend payout ratio	29.5	24.7	21.3	19.0
Tax	17.5	17.8	23.0	23.0
EBITDA margin	12.9	12.7	14.2	14.6
EBIT margin	11.8	11.7	13.2	13.6
RoCE	40.3	37.4	40.1	39.0
Net debt/Equity	89.8	59.7	24.6	(1.2)

## Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	37.5	31.5	23.8	19.8
PCE	31.4	26.5	20.5	17.3
Price/Book	18.9	13.1	9.1	6.7
Yield (%)	0.7	0.7	0.8	0.8
EV/Net sales	3.3	2.6	2.3	2.0
EV/EBITDA	25.3	20.5	16.1	13.7

## Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	8.3	7.9	9.2	9.6
Asset turnover	2.2	2.3	2.2	2.2
Leverage factor	3.3	2.7	2.2	1.9
Return on equity (%)	62.5	49.1	45.4	38.9

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  4. **SELL:** Potential downside of < -25% (absolute returns)
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