

# Marico Industries (MARIN)

Rs 108

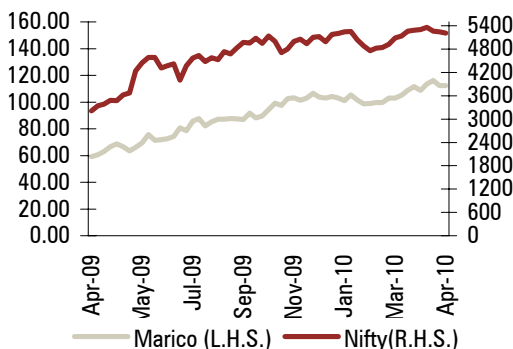
Rating matrix	
Rating	: Add
Target	: Rs 114
Target Period	: 12 months
Potential Upside	: 6%

Growth % (yoy)				
(YoY Growth)	FY09	FY10	FY11E	FY12E
Net Sales	25.3	11.4	21.2	15.7
EBITDA	23.5	23.4	26.1	17.7
Net Profit	11.7	23.3	34.3	18.0
EPS (Rs)	3.1	3.8	5.1	6.1

Valuation summary				
	FY09	FY10	FY11E	FY12E
P/E	34.9	28.3	21.0	17.8
Target P/E	41.1	36.8	29.8	22.2
EV / EBITDA	22.6	17.9	14.0	11.7
Target EV / EBITDA	21.9	18.1	14.5	12.6
Price to Book Value	14.5	10.1	8.4	6.8

Stock data	
Stock Data	
Market Capitalization	6808.6
Total Debt (FY10)	445.9
Cash and Investments (FY10)	194.2
EV	7146.4
52 week H/L (Rs)	122.4 / 57.7
Equity capital	60.9
Face value	10.0
MF Holding (%)	6.7
FII Holding (%)	22.4

### Price movement (Stock vs. Nifty)



### Analyst's name

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## WHAT'S CHANGED...

PRICE TARGET .....	Unchanged
EPS (FY11E) .....	Unchanged
EPS (FY12E) .....	Unchanged
RATING.....	Changed from BUY to ADD

## Strong volume growth to drive sales...

Marico registered a muted topline growth in Q4FY10 at Rs 602.2 crore (up by 6.5%) as compared to Rs 565.9 crore in Q4FY09. Volume growth for the quarter was seen at 14%. However, the value growth was lower at 11% due to price cut taken by the company on the back of deflation in some of the key input material prices like copra. The EBITDA in Q4FY10 increased by 15.9% from Rs 15.9 crore to Rs 84.9 crore on the back of lower raw material cost despite the 63% increase in advertising and sales promotion costs. The increase in advertisement cost was to support new product introductions and brand building efforts by the company during the quarter. The PAT witnessed a growth of 15% YoY from Rs 44.4 crore in Q4FY09 to Rs 51.2 crore in Q4FY10 on account of a dip in interest costs.

### Parachute continue to remain the leader

The company's flagship brand Parachute and Saffola continued to exhibit strong volume growth with a 10% and 16% YoY growth rates, respectively, in FY10. Parachute's volume share in FY10 to the topline was 42.9% with Marico continuing its leadership position with the 53.3% market share in the branded oil segment. The share of Parachute in the overall topline of the company was about 30% in FY10.

## Valuation

At the current market price of Rs 108, Marico is trading at 21.0x its FY11E EPS of Rs 5.1 and 17.8x its FY12E EPS of Rs 6.1. The company witnessed an increase in EBITDA margins as copra prices have witnessed a correction in FY10. However, with the expected increase in some of the raw material prices, we believe these margins are not sustainable. The company would continue to witness a positive volume growth. We maintain our price target of Rs 114 per share on the stock.

### Exhibit 1: Performance Highlight (Rs crore)

	Q4FY10	Q4FY10E	Q4FY09	Q3FY10	QoQ (Chg %)	YoY (Chg %)
Net Sales	602.3	695.7	561.2	669.6	-10.1	7.3
EBITDA	84.9	103.1	73.3	98.8	-14.0	15.9
EBITDA Margin (%)	14.1	14.8	13.1	14.8	-65 bps	104 bps
Depreciation	15.7	9.8	10.4	16.6	-5.3	50.6
Interest	5.0	8.5	11.3	6.4	-21.3	-55.6
Reported PAT	51.1	67.3	44.4	63.2	-19.0	15.2
EPS (Rs)	0.8	1.1	0.7	1.0	-19.0	15.2

Source: Company, ICICIdirect.com Research

**Outlook**

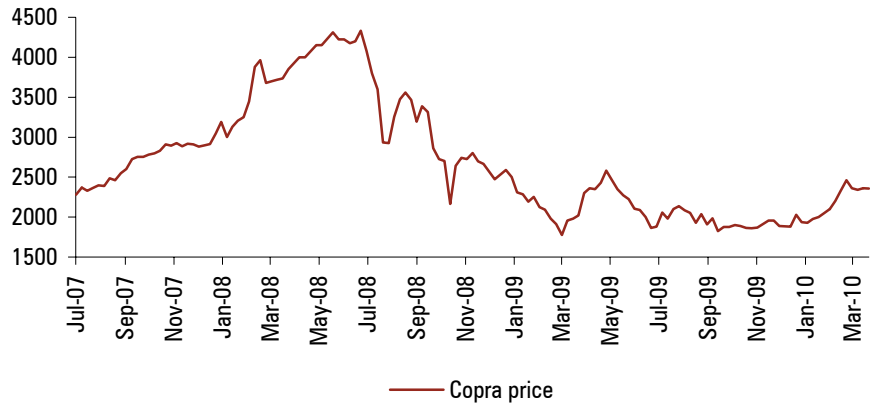
**Input Costs protect margins**

The company witnessed a decline in its major raw materials (copra and safflower oil) prices during the year. Prices of copra (the major input for coconut oil) declined by almost 20% in FY10 compared to FY09 and were almost 9% lower in Q4FY10 in comparison to Q4FY09. The company passed on the benefits of lower costs to the consumers by reducing the retail prices of Parachute’s 50 ml and 1000 ml packs from Rs 12 and Rs 21 to Rs 10 and Rs 20, respectively.

Input prices for Saffola especially safflower oil were lower by around 22% during FY10 compared to the previous year. The company passed on the benefits of lower costs to the consumers through a strategic mix of promotions and price reductions across select packs. The product, henceforth, witnessed a 12% increase in the household consumer base in FY10 and a 13% increase in Q4FY10 over the corresponding period last year.

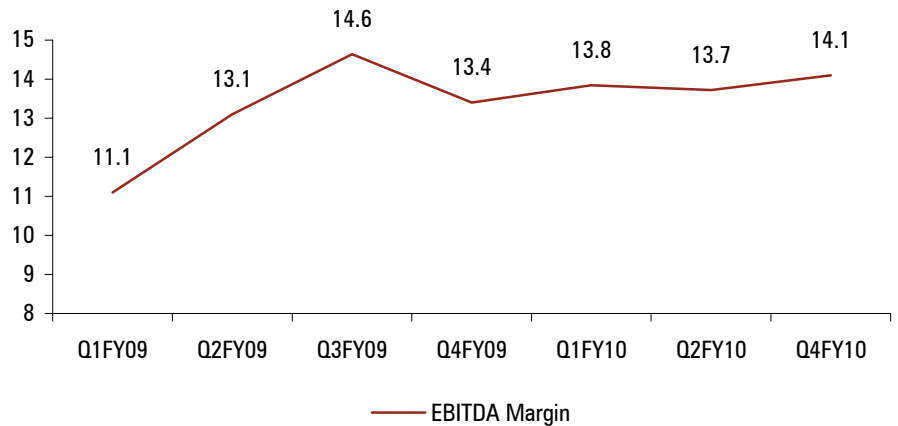
Fall in copra prices resulted in high margins for the company in FY10

**Exhibit 2: Copra prices (Rs per quintal)**



Source: Company, ICICIdirect.com Research

**Exhibit 3: EBITDA margins (%)**



Source: Company, ICICIdirect.com Research

Decline in revenue growth to 13% in existing stores resulted in losses of Rs 5.3 crore in Q4FY10

### Kaya Skin Clinic

Kaya experienced a setback in its earnings in FY10 with a loss of Rs 5.3 crore in Q4FY10. However, the revenues did see an improvement by 15% to Rs 182 crore in FY10 over FY09. Kaya's offerings being of the nature of discretionary spends were impacted by the overall economic downturn in the first half of FY10. Further, the company identified declining customer retention and high skin practitioner retention as the main issues impacting its margins. The introduction of service tax in the Union Budget added to the existing woes of the company. Hence, Kaya experienced a decline in the same clinic revenue in Q4FY10 by 13% in India and overall decline including international operations was 5%. The company thereby plans to relocate seven skin clinics that do not hold long-term potential by June 2010 consequently estimating a closure cost of Rs 2.1 crore that has already been accounted for in Q4FY10 results. However, in FY11 it plans to expand its international presence by adding three clinics in the Middle East where the long-term opportunity in skin care seems to be significant.

### International FMCG Business

The sales from international segment (mainly Bangladesh, Middle East, North and South Africa) now contribute around 23% to Marico's turnover with the revenues crossing the Rs 600 crore mark in FY10. During Q4FY10, the international business grew at 16% over Q4FY09 partly deflated due to the appreciation in the Indian rupee. Parachute strengthened its hold in Bangladesh and attained a volume share of about 75% in that market.

## Valuation

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#### Exhibit 4: Valuation Matrix

	Sales (Rs cr)	Growth (%)	EPS (Rs)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
<b>FY10</b>	2660.8	11.4	3.8	23.3	28.3	17.9	44.0	35.4
<b>FY11E</b>	3225.1	21.2	5.1	34.3	21.0	14.0	45.2	45.0
<b>FY12E</b>	3732.8	15.7	6.1	18.0	17.8	12.9	42.3	50.0

Source: Company, ICICIdirect.com Research

**ICICIdirect.com Coverage Universe**

<b>Asian Paints</b>				<b>Sales (Rs cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/E (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
<b>Idirect Code</b>	ASIPAI	<b>CMP</b>	2075 <b>FY09</b>	4270.0	37.8	54.8	30.8	45.5	48.4
		<b>Target</b>	1890 <b>FY10</b>	5052.4	77.2	26.9	19.6	62.8	69.9
<b>Mcap</b>	19903	<b>Upside</b>	-8.9% <b>FY11E</b>	5901.5	82.0	25.3	15.9	51.4	54.4
<b>Kansai Nerolac</b>				<b>Sales (Rs cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/E (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
<b>Idirect Code</b>	GOONER	<b>CMP</b>	1395.0 <b>FY09</b>	1375.0	36.6	38.1	13.6	15.1	18.3
		<b>Target</b>	1125 <b>FY10</b>	1729.4	64.2	21.7	9.7	22.1	31.4
<b>Mcap</b>	3392	<b>Upside</b>	-19.4% <b>FY11E</b>	2025.5	75.0	18.6	8.2	21.1	42.2
<b>Dabur</b>				<b>Sales (Rs cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/E (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
<b>Idirect Code</b>	DABIND	<b>CMP</b>	179.1 <b>FY09</b>	2805.4	4.5	39.6	32.2	54.4	51.1
		<b>Target</b>	154.0 <b>FY10</b>	3365.7	5.8	30.8	23.8	54.8	51.9
<b>Mcap</b>	15493.5	<b>Upside</b>	-14.0% <b>FY11E</b>	3802.0	6.5	27.4	21.5	50.0	48.7
<b>Marico</b>				<b>Sales (Rs cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/E (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
<b>Idirect Code</b>	MARIN	<b>CMP</b>	108 <b>FY10</b>	2060.6	3.8	28.4	17.9	44.0	36.3
		<b>Target</b>	114.0 <b>FY11E</b>	3228.3	5.1	21.2	14.0	45.2	46.7
<b>Mcap</b>	6623	<b>Upside</b>	5.6% <b>FY12E</b>	3732.8	6.1	17.7	11.7	42.3	51.1

Source: Company, ICICIdirect.com Research

## RATING RATIONALE

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 Add: Up to 10%;  
 Reduce: Up to -10%  
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