

Match-Making Done, Upgrade to ACCUMULATE

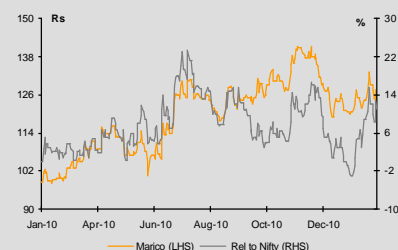
January 28, 2011

Reco	Previous Reco
Hold	Accumulate
CMP	Target Price
Rs 124	Rs 142
EPS change FY11E/12E (%)	-3.3/+1.5
Target Price change (%)	+11
Nifty	5,512
Sensex	18,396

Price Performance (%)	1M	3M	6M	12M
Absolute	2	(11)	(1)	26
Rel. to Nifty	13	(3)	(3)	11

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	FMCG
Bloomberg	MRCO@IN
Equity Capital (Rs mn)	3070
Face Value(Rs)	5
No of shares o/s (mn)	614
52 Week H/L	1,600/1,171
Market Cap (Rs bn/USD mn)	76/1,705
Daily Avg Volume (No of sh)	333091
Daily Avg Turnover (US\$m)	10.5

Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	63.0	63.0	63.5
FII/NRI	25.5	24.5	23.2
Institutions	4.5	5.2	6.2
Private Corp	2.8	1.1	1.0
Public	4.2	6.2	6.0

Source: Capitaline

Pritesh Chheda, CFA

pritesh.chheda@emkayglobal.com

+91 22 6612 1273

- **Marico's Q3FY11 marginally above expectation - APAT at Rs695 mn versus EMKAY expectation of Rs667 mn**
- **Volume growth at 15% for Q3FY11 – Hair Oils (31%) and International Business (25%) offsets lower growth in Parachute (3%) and Saffola (13%)**
- **Match-Making Done - 24% price increase in 'Parachute' and 12% price increase in 'Saffola –For-- YTD rise in Copra prices @ 62%, Safflower @ 25% and Rice Bran @ 3%**
- **Marico has adhered to unit price formula and not deviated from its focus on absolute Ebidta – Upgrade to ACCUMULATE with revised target price of Rs142/Share**

Q3FY11 performance marginally above expectation - APAT at Rs695 mn versus expectation of Rs667 mn

Marico Q3FY11 performance is marginally above expectation- APAT at Rs695 mn versus expectation of Rs667 mn. Key highlights are (1) 22.1% yoy growth in revenues to Rs7.8 bn (2) no change in Ebidta at Rs997 mn and (3) APAT growth of 11.8% yoy to Rs695 mn. Blended volume growth in the quarter at 15.0% yoy, balance from price increase. Also, international business registered robust performance with 33% revenue growth, which was driven 25% by volume growth and 8% price-led growth. Even, Kaya business registered 11% revenue growth, whereas including Derma RX registered 40% revenue growth to Rs620 mn.

Volume growth of 15% in Q3FY11 – Hair Oils and International Business offsets lower growth in base brands in India

Volume growth at 15% in Q3FY11, largely continuation of growth momentum – 15% in Q1FY11 and Q2FY11 and 14% in Q4FY10. But, 17% price hike (excluding January 2011) in Parachute resulted in only 3% volume growth in the quarter. Saffola registered volume growth of 13%, influenced by promotion scheme in preceding quarter. Hair Oils portfolio reported 31% volume growth, strongest in recent quarters. Even, international business comprising Marico Bangladesh, Egypt and South Africa acquisition reported 25% volume growth. It offset the lower volume growth of base brands in Indian business.

24% price increase in 'Parachute' and 12% price increase in 'Saffola

YTD price increase in Parachute is 24% and YTD price increase in Saffola is 12%. Marico implemented 4 price increases in Parachute – August 2010 @ 5%, September 2010 @ 8%, December 2010 @ 5% and January 2011 @ 7%. The corresponding YTD rise in Copra prices @ 62%, Safflower @ 25% and Rice Bran @ 3%. With its strategy to protect the unit margins, price increases would largely offset the input-cost rise (YTD) and benefit should flow in ensuing quarters. We expect improvement in gross margins and Ebidta margins in ensuing quarters.

Financial Snapshot

Rs Mn

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY09	23,905	3,069	25.4	1,990	3.1	23.8	49.7	39.9	25.7	16.8
FY10	26,608	3,741	21.9	2,433	3.8	22.3	41.8	32.9	21.0	11.9
FY11E	32,360	4,235	13.2	2,944	4.7	21.0	37.4	26.4	18.0	8.7
FY12E	39,720	5,325	25.7	3,722	6.0	26.4	35.2	20.8	13.9	6.5

Consolidated Quarterly Results

	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY Growth	QoQ Growth	YTD'11	YTD'10	YoY (%)
Net Sales	6,695.7	6,022.6	7,901.5	7,787.7	8,177.4	22.1	5.0	23,866.5	20,585.0	15.9
Expenditure	5707.9	5173.3	6846.7	6795.2	7180.5	25.8	5.7	20,822.3	17,682.8	17.8
Material Cost	3167.5	2646.0	4033.2	3879.5	4307.1	36.0	11.0	12,219.8	9,957.4	22.7
% of Sales	47.3	43.9	51.0	49.8	52.7	540 bps	290 bps	51.2	48.4	280bps
Employee Expenses	474.0	436.6	540.4	581.9	556.5	17.4	-4.4	1,678.8	1,464.6	14.6
% of Sales	7.1	7.2	6.8	7.5	6.8	-30 bps	-70 bps	7.0	7.1	-10bps
SGA Expenses	855.8	892.4	937.9	948.9	901.1	5.3	-5.0	2,787.9	2,627.0	6.1
% of Sales	15.0	17.2	13.7	14.0	12.5	-240 bps	-140 bps	13.4	14.9	-150bps
Other Expenses	1210.7	1198.2	1335.2	1384.9	1415.8	16.9	2.2	4,135.8	3,633.9	13.8
% of Sales	18.1	19.9	16.9	17.8	17.3	-80 bps	-50 bps	17.3	17.7	-30bps
Ebidta	987.8	849.3	1054.8	992.5	996.9	0.9	0.4	3,044.2	2,902.2	4.9
Depreciation	165.7	143.1	120.4	139.6	146.3	-11.7	4.8	406.3	443.6	-8.4
EBIT	822.1	706.2	934.4	852.9	850.6	3.5	-0.3	2,638.0	2,458.5	7.3
Other Income	56.3	53.0	44.4	71.5	69.1	22.8	-3.3	184.9	128.9	43.4
Interest	64.0	50.4	70.0	64.7	76.5	19.4	18.2	211.2	205.8	2.6
PBT	814.3	708.8	908.7	859.7	843.2	3.6	-1.9	2,611.7	2,381.7	9.7
Tax	192.3	126.1	171.4	144.1	148.0	-23.1	2.7	463.5	535.9	-13.5
Adjusted PAT	612.8	573.9	727.7	697.8	680.8	11.1	-2.4	2,106.3	1,836.0	14.7
(Profit/Loss) from JV's/Ass/MI	9.2	8.9	9.6	17.8	14.5	57.5	-18.7	41.9	9.8	326.1
APAT After MI	622.0	582.8	737.3	715.6	695.3	11.8	-2.8	2,148.2	1,845.8	16.4
Extra Ordinary Items	0.0	-71.3	0.0	0.0	0.0			0.0	-40.5	-100.0
Reported PAT	622.0	511.5	737.3	715.6	695.3	11.8	-2.8	2,148.2	1,805.3	19.0
REPS	1.0	0.8	1.2	1.2	1.1	11.8	-2.8	3.5	3.0	19.0

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	14.8	14.1	13.3	12.7	12.2	-260 bps	-60 bps	12.8	14.1	-130
EBIT	12.3	11.7	11.8	11.0	10.4	-190 bps	-60 bps	11.1	11.9	-90
EBT	12.2	11.8	11.5	11.0	10.3	-180 bps	-70 bps	10.9	11.6	-60
PAT	9.2	9.5	9.2	9.0	8.3	-80 bps	-60 bps	8.8	8.9	-10
Effective Tax rate	23.6	17.8	18.9	16.8	17.5	-610 bps	80 bps	17.7	22.5	-480

Adheres to unit margins formula, no deviation from strategy

Marico has yet again adhered to unit margin formula and not deviated from its focus on absolute Ebidta in business. It also showcases the confidence on Parachute and Saffola brand to maintain market shares and maintain median volume growth. So far, in YTD period Parachute and Saffola volume growth is 7% and 16%, equal to median volume growth.

Refreshing FY10- Drawing Parallel?

Input cost pressure on Marico? - is the buzzword – top of the mind and bone of contention. It seems to overshadow the efficacy and strength of brand portfolio and strict adherence to unit margin formula. Infact, 2HFY09 and 1HFY10 had identical chronology of event with current time period – input cost pressure – resultant price increases --- eventual collapse of input price – partial retention of price increases. This eventually triggered series of earnings upgrades driven by gross margin upgrades. Only difference is current period of high food inflation and its impact on volume growth. Hence, volume growth behavior in ensuing quarters would remain key monitorable.

Fine-tune earnings – Revise FY11E by -3.3% and FY12E by +1.5%

We have fine-tuned assumptions to factor (1) sharp rise in input costs and (2) price increases on key brands. We have revised revenues by +3.6% for FY11E and +9.9% for FY12E. Owing to unit margin formula, revise Ebitda margin by -90 bps and -100 bps for FY11E and FY12E respectively. Consequently, we have revised earnings by -3.3% for FY11E and +1.5% for FY12E to Rs4.7/Share and Rs6.0/Share respectively. We also introduce FY13E earnings of Rs6.9/Share.

Upgrade from HOLD to ACCUMULATE with revised target price of Rs142/Share

History indicates that agri-commodities have tendency to play havoc for shorter-term, especially so for Marico whose chief raw materials are Copra and Safflower. Also, Marico has adhered to unit price formula and not deviated from its focus on absolute Ebitda – as reflected from 24% price increase in Parachute and 12% increase in Saffola. It also showcases the confidence on Parachute and Saffola brand to maintain market shares and maintain median volume growth. We roll valuations to FY13E and upgrade our rating from HOLD to ACCUMULATE with revised target price of Rs142/Share – discounting FY13E earnings at PER 20.6X (equal to 5-year average).

Earnings Change

Y/E, Mar (Rs. mn)	FY11E			FY12E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	31,225	32,360	3.6	36,141	39,720	9.9
EBITDA	4,362	4,235	-2.9	5,195	5,325	2.5
EBITDA Margin (%)	14.0	13.1	(90 bps)	14.4	13.4	(100 bps)
APAT	2,982	2,884	-3.3	3,607	3,662	1.5
EPS	4.9	4.7	-3.3	5.9	6.0	1.5

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
Net Sales	23905	26608	32360	39720
Growth	25.3	11.3	21.6	22.7
Expenses	20836	22867	28125	34395
Growth	25.3	9.7	23.0	22.3
Raw Materials	12847	12616	16654	20337
% Of Sales	57.8	50.9	55.9	55.4
Employee Cost	1648	1901	2282	2852
% Of Sales	6.9	7.1	7.1	7.2
Manufacturing Expenses	1843	2286	2619	3215
% Of Sales	7.7	8.6	8.1	8.1
Admin Expenses	1054	1473	1538	1815
% Of Sales	4.4	5.5	4.8	4.6
Selling & Distribn Expenses	3445	4590	5033	6177
% Of Sales	14.4	17.3	15.6	15.6
Ebidta	3069	3741	4235	5325
Growth	25.4	21.9	13.2	25.7
Ebidta%	12.8%	14.1%	13.1%	13.4%
Other Income	-26	110	250	250
Interest	286	173	292	250
Depreciation	358	601	603	672
PBT	2399	3077	3590	4653
Tax	409	643	646	931
PAT (Before EO Item)	1990	2433	2944	3722
Growth	23.8	22.3	21.0	26.4
Net Margin%	8.3%	9.1%	9.1%	9.4%
E/O Item	-82	-117	-60	-60
Reported PAT	1908	2317	2884	3662

CashFlow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Pre-Tax Profit	2296	2979	3590	4653
Depreciation	407	805	603	672
Chg in W Cap	-1007	-1287	11	-919
Tax Paid	336	629	646	931
Operating CashFlow	1361	1868	3557	3475
Capex	-922	-1487	-700	-700
Free Cash Flow	439	382	2857	2775
Investments	0	-706	0	0
Equity Capital	0	218	0	0
Loans	187	807	-1000	-1000
Dividend	-477	-472	-524	-676
Others	0	0	0	1
Net Change in Cash	148	229	1333	1099
Opening Cash Position	742	883	1112	2445
Closing Cash Position	890	1112	2445	3544

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity Share Capital	609	609	609	609
Reserves	3926	5930	8290	11276
Networth	4535	6540	8899	11885
Suecured Loans	1075	1142	1142	1142
Unsecured Loans	2675	3317	2317	1317
Loan Funds	3750	4459	3459	2459
Total Liabilities	8285	11124	12483	14469
Gross Block	5419	6142	6842	7542
Less: Depreciation	2035	2424	3027	3699
Net Block	3385	3718	3815	3843
Capital Work In Progress	577	1129	1129	1129
Investments	121	827	827	827
Current Assets	6719	8970	10639	13657
Inventories	3390	4448	4705	5806
Debtors	1108	1507	1569	1937
Cash&Bank	922	1115	2445	3544
Loans&Advances	1299	1900	1920	2369
Current Liabilities & Provisions	3158	4136	4486	5486
Net Current Assets	3561	4833	6153	8171
Miscellaneous Expenditure	0	0	0	0
Deferred Tax	641	616	616	616
Total Assets	8285	11124	12541	14587

Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability %				
Ebidta Mgn	12.8	14.1	13.1	13.4
PAT Mgn	8.3	9.1	9.1	9.4
ROCE	29.7	26.5	27.0	29.1
ROE	49.7	41.8	37.4	35.2
Per Share Data				
EPS	3.1	3.8	4.7	6.0
CEPS	3.7	4.8	5.7	7.1
BVPS	7.4	10.5	14.4	19.3
DVPS	0.7	0.7	0.9	1.1
Valuations				
PER	39.9	32.9	26.4	20.8
CPER	33.6	26.1	21.8	17.6
P/BV	16.8	11.9	8.7	6.5
Ev/Sales	3.3	3.0	2.4	1.9
Ev/Ebidta	25.7	21.0	18.0	13.9
Dividend Yield	0.5	0.5	0.7	0.9
Turnover X Days				
Debtor TO	16.2	19.2	19.2	19.2
Inventory TO	49.3	57.7	57.7	57.7
Gearing Ratio				
Net Debt/Equity	0.6	0.5	0.1	-0.1
Total Debt/Equity	0.8	0.7	0.4	0.2

Recommendation History: Marico – MARCO IN

Date	Reports	Reco	CMP	Target
27/10/2010	Marico Q2FY11 Result Update	Hold	135	128
29/07/2010	Marico Q1FY11 Result Update	Hold	126	128
29/04/2010	Marico Q4FY10 Result Update	Reduce	112	94
29/01/2010	Marico Q3FY10 Result Update	Reduce	98	85

Recent Research Reports

Date	Reports	Reco	CMP	Target
27/01/2011	Hindustan Unilever Q3FY11 Result Update	Hold	271	275
25/01/2011	Asian Paints Q3FY11 Result Update	Hold	2,503	2,510
24/01/2011	Godrej Consumer Q3FY11 Result Update	Accumulate	400	420
24/12/2010	Godrej Consumer Management Meet Update	Accumulate	375	447

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.