

**February 02, 2012**

 Gautam Duggad  
 gautamduggad@plindia.com  
 +91-22-66322233

Rating	Accumulate
Price	Rs153
Target Price	Rs170
Implied Upside	11.1%
Sensex	17,432
Nifty	5,270

*(Prices as on February 02, 2012)*
**Trading data**

Market Cap. (Rs bn)	94.2
Shares o/s (m)	614.4
3M Avg. Daily value (Rs m)	54.6

**Major shareholders**

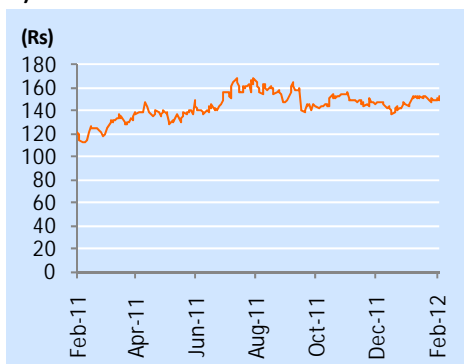
Promoters	62.78%
Foreign	25.79%
Domestic Inst.	4.87%
Public & Other	6.56%

**Stock Performance**

(%)	1M	6M	12M
Absolute	6.2	(5.1)	26.3
Relative	(6.2)	(1.4)	29.9

**How we differ from Consensus**

EPS (Rs)	PL	Cons.	% Diff.
2013	6.5	6.6	-1.0
2014	7.7	8.0	-3.3

**Price Performance (RIC: MRCO.BO, BB: MRCO IN)**


■ **Strong operational performance; 16% domestic volume growth:** Marico reported strong operational Q3Y12 performance, with 16% domestic volume growth (13% overall) and 300bps gross margin expansion being the key highlights. Notwithstanding the price hikes in its core brands and general inflationary headwinds to consumer wallets, volume growth of 16% reinforces MRCO's dominant brand franchise. Sales, EBITDA and PAT came in at Rs10.56bn (up 29% YoY), Rs1.22bn (up 22.1% YoY) and Rs841m (up 21%YoY), against our expectations of Rs10bn, Rs1.19bn and Rs810m, respectively. Recurring PAT adjusted for exceptional grew solid 25%. Parachute, Saffola and Value-added hair oils posted 13%, 15% and 2% volume growth, while Kaya reported 15% same store clinic growth. International division delivered 16% organic revenue growth.

■ **Softening in RM and price hikes boost gross margins:** With high RM in the base and softening in Copra (down 9% QoQ), standalone as well as consol gross margins expanded 300bps (consol gross margins up 120bps YoY). Like to like EBITDA margins (adjusting for Rs96m as excise provisioning in Q3FY11) contracted ~200bps driven by higher ad-spends (up170bps). **Current quarter also contains a charge of Rs129m in Kaya Middle East, pertaining to misstatement of expenses related to earlier years, thus, resulting in consequent overstatement of Kaya profitability in the relevant period.** As per the management, appropriate action has been taken for this lapse and monitoring process has been further strengthened.

■ **Maintain 'Accumulate':** MRCO's continued strong volume driven performance, despite the aggressive price hikes (taken in 2HFY11) and turn-around in RM dynamics, creates a good tailwind for EPS upgrades, going forward. However, current valuations at 23.6x FY13e is fair, in our view. Maintain 'Accumulate', with a revised Mar-13 TP of Rs170. Turnaround in Copra price trajectory is the key risk.

Key financials (Y/e March)	2011	2012E	2013E	2014E
Revenues (Rs m)	31,283	40,249	47,464	55,379
Growth (%)	17.6	28.7	17.9	16.7
EBITDA (Rs m)	4,098	4,889	6,010	7,101
PAT (Rs m)	2,620	3,263	3,992	4,758
EPS (Rs)	4.3	5.3	6.5	7.7
Growth (%)	12.2	24.5	22.3	19.2
Net DPS (Rs)	0.8	0.9	1.1	1.3

Profitability & Valuation	2011	2012E	2013E	2014E
EBITDA margin (%)	13.1	12.1	12.7	12.8
RoE (%)	33.4	31.1	29.7	28.0
RoCE (%)	20.8	19.3	20.6	21.1
EV / sales (x)	3.2	2.4	2.0	1.7
EV / EBITDA (x)	24.3	20.1	16.0	13.2
PE (x)	35.9	28.9	23.6	19.8
P / BV (x)	10.3	8.0	6.3	5.0
Net dividend yield (%)	0.5	0.6	0.7	0.8

Source: Company Data; PL Research

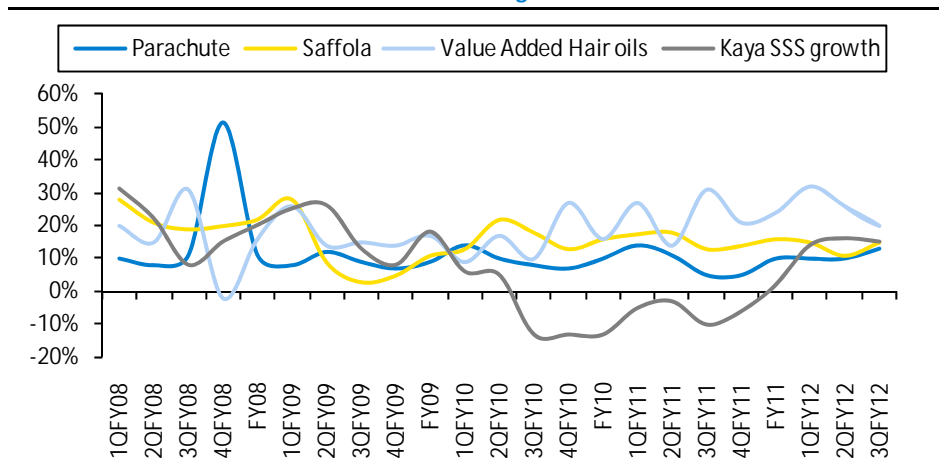
Prabhudas Lilladher Pvt. Ltd. and/or its associates (the 'Firm') does and/or seeks to do business with companies covered in its research reports. As a result investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision.

Please refer to important disclosures and disclaimers at the end of the report

**Exhibit 1: Q3FY12 Result Overview (Rs m)**

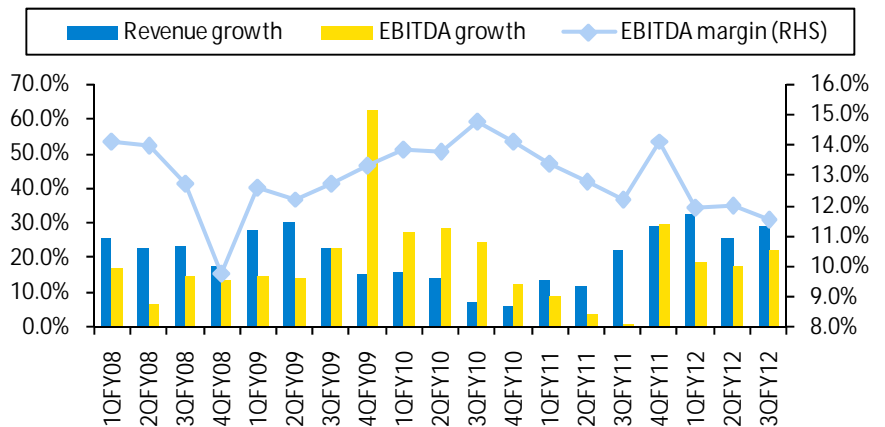
Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
<b>Net sales</b>	<b>10,578</b>	<b>8,177</b>	<b>29.4</b>	<b>9,745</b>	<b>30,809</b>	<b>23,837</b>	<b>29.2</b>
Expenditure	9,361	7,180	30.4	8,578	27,174	20,794	30.7
(Inc)/Dec in stock	268	48		(456)	368	174	
Consumption of raw material	4,440	3,473		4,740	13,727	9,987	
RM Cost	5,451	4,307		5,329	16,727	12,220	
Staff cost	808	556		725	2,240	1,679	33.4
Adv & Promotion	1,339	901		941	3,304	2,788	18.5
Other expenses	1,762	1,416		1,582	4,902	4,108	19.3
<b>Operating Profit/ EBITDA</b>	<b>1,217</b>	<b>997</b>	<b>22.1</b>	<b>1,167</b>	<b>3,635</b>	<b>3,043</b>	<b>19.5</b>
Depreciation & amortisation	188	146		177	535	406	
Other income	92	69	33.8	106	289	186	55.1
<b>EBIT</b>	<b>1,121</b>	<b>920</b>	<b>21.9</b>	<b>1,096</b>	<b>3,389</b>	<b>2,822</b>	<b>20.1</b>
Interest	82	76	7.4	91	270	211	27.7
<b>Profit before Tax</b>	<b>1,039</b>	<b>843</b>	<b>23.2</b>	<b>1,005</b>	<b>3,119</b>	<b>2,611</b>	<b>19.5</b>
Tax	178	133	33.4	205	594	422	40.8
<b>Net Profit after minority interests</b>	<b>841</b>	<b>695</b>	<b>21.0</b>	<b>783</b>	<b>2,474</b>	<b>2,148</b>	<b>15.2</b>
<b>As a % of net sales</b>							
RM	51.5	52.7		54.7	54.3	51.3	
Employee costs	7.6	6.8		7.4	7.3	7.0	
ASP	12.7	11.0		9.7	10.7	11.7	
Other expenses	16.7	17.3		16.2	15.9	17.2	
Tax rate	20.0	15.8		20.4	19.0	16.1	
EBITDA margin	11.5	12.2		12.0	11.8	12.8	

Source: Company Data, PL Research

**Exhibit 2: Continued volume traction in core categories**


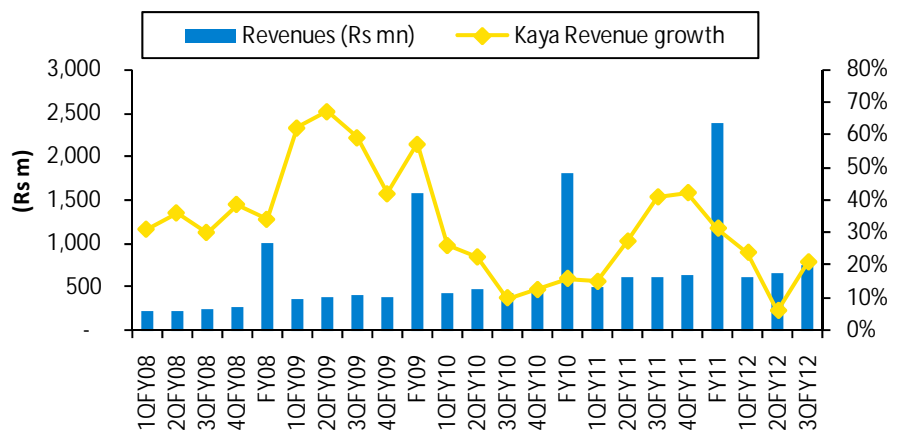
Source: Company Data, PL Research

**Exhibit 3: Domestic revenues posted 38% like to like sales growth**



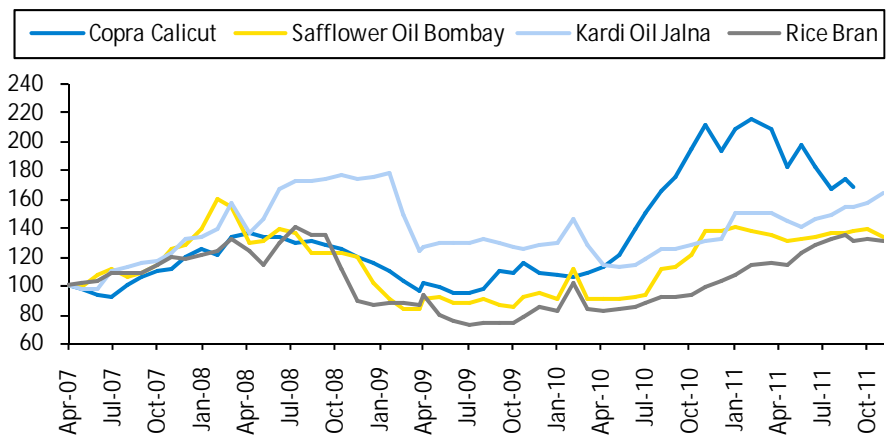
Source: Company Data, PL Research

**Exhibit 4: Kaya SSS revenues grow 15%**



Source: Company Data, PL Research

**Exhibit 5: RM dynamics turning favourable at the margin**



Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2011	2012E	2013E	2014E
<b>Net Revenue</b>	<b>31,283</b>	<b>40,249</b>	<b>47,464</b>	<b>55,379</b>
Raw Material Expenses	16,671	21,693	25,243	29,418
Gross Profit	14,612	18,556	22,222	25,961
Employee Cost	2,304	2,939	3,466	4,044
Other Expenses	8,211	10,728	12,746	14,815
<b>EBITDA</b>	<b>4,098</b>	<b>4,889</b>	<b>6,010</b>	<b>7,101</b>
Depr. & Amortization	708	801	924	1,056
Net Interest	393	419	476	484
Other Income	768	359	380	388
<b>Profit before Tax</b>	<b>3,764</b>	<b>4,028</b>	<b>4,990</b>	<b>5,949</b>
Total Tax	850	765	998	1,190
<b>Profit after Tax</b>	<b>2,915</b>	<b>3,263</b>	<b>3,992</b>	<b>4,759</b>
Ex-Od items / Min. Int.	294	—	—	1
<b>Adj. PAT</b>	<b>2,620</b>	<b>3,263</b>	<b>3,992</b>	<b>4,758</b>
<b>Avg. Shares O/S (m)</b>	<b>614.4</b>	<b>614.4</b>	<b>614.4</b>	<b>614.4</b>
<b>EPS (Rs.)</b>	<b>4.3</b>	<b>5.3</b>	<b>6.5</b>	<b>7.7</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	2,175	2,673	3,332	3,540
C/F from Investing	(4,689)	(433)	(413)	(405)
C/F from Financing	3,499	(813)	(1,150)	(1,295)
Inc. / Dec. in Cash	986	1,426	1,769	1,840
Opening Cash	1,942	3,021	4,447	6,216
Closing Cash	3,021	4,447	6,216	8,056
FCFF	(173)	2,240	2,920	3,135
FCFE	3,086	2,040	2,520	2,735

**Key Financial Metrics**

Y/e March	2011	2012E	2013E	2014E
<b>Growth</b>				
Revenue (%)	17.6	28.7	17.9	16.7
EBITDA (%)	1.3	19.3	22.9	18.2
PAT (%)	13.1	24.5	22.3	19.2
EPS (%)	12.2	24.5	22.3	19.2
<b>Profitability</b>				
EBITDA Margin (%)	13.1	12.1	12.7	12.8
PAT Margin (%)	8.4	8.1	8.4	8.6
RoCE (%)	20.8	19.3	20.6	21.1
RoE (%)	33.4	31.1	29.7	28.0
<b>Balance Sheet</b>				
Net Debt : Equity	0.6	0.3	0.1	—
Net Wrkng Cap. (days)	86	83	96	104
<b>Valuation</b>				
PER (x)	35.9	28.9	23.6	19.8
P / B (x)	10.3	8.0	6.3	5.0
EV / EBITDA (x)	24.3	20.1	16.0	13.2
EV / Sales (x)	3.2	2.4	2.0	1.7
<b>Earnings Quality</b>				
Eff. Tax Rate	22.6	19.0	20.0	20.0
Other Inc / PBT	8.5	8.9	7.6	6.5
Eff. Depr. Rate (%)	9.3	9.5	10.0	10.6
FCFE / PAT	117.8	62.5	63.1	57.5

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	9,155	11,804	15,046	18,909
Total Debt	7,718	7,518	7,118	6,718
Other Liabilities	219	219	219	219
<b>Total Liabilities</b>	<b>17,092</b>	<b>19,541</b>	<b>22,383</b>	<b>25,846</b>
Net Fixed Assets	4,897	4,889	4,757	4,494
Goodwill	3,976	3,976	3,976	3,976
Investments	890	940	990	1,060
Net Current Assets	7,028	9,436	12,359	16,015
<i>Cash &amp; Equivalents</i>	<i>2,131</i>	<i>3,507</i>	<i>5,227</i>	<i>6,996</i>
<i>Other Current Assets</i>	<i>10,072</i>	<i>12,225</i>	<i>14,515</i>	<i>16,955</i>
<i>Current Liabilities</i>	<i>5,175</i>	<i>6,297</i>	<i>7,382</i>	<i>7,936</i>
Other Assets	301	301	301	301
<b>Total Assets</b>	<b>17,092</b>	<b>19,541</b>	<b>22,383</b>	<b>25,846</b>

**Quarterly Financials (Rs m)**

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
<b>Net Revenue</b>	<b>7,786</b>	<b>10,486</b>	<b>9,745</b>	<b>10,578</b>
<b>EBITDA</b>	<b>1,101</b>	<b>1,251</b>	<b>1,167</b>	<b>1,217</b>
<i>% of revenue</i>	<i>14.1</i>	<i>11.9</i>	<i>12.0</i>	<i>11.5</i>
Depr. & Amortization	176	169	177	188
Net Interest	182	97	91	82
Other Income	93	90	106	92
<b>Profit before Tax</b>	<b>837</b>	<b>1,075</b>	<b>1,005</b>	<b>1,039</b>
Total Tax	159	210	205	178
<b>Profit after Tax</b>	<b>669</b>	<b>850</b>	<b>783</b>	<b>841</b>
<b>Adj. PAT</b>	<b>669</b>	<b>850</b>	<b>783</b>	<b>841</b>

**Key Operating Metrics**

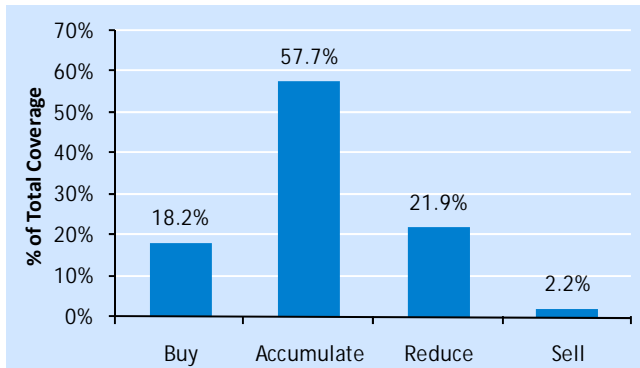
Y/e March	2011	2012E	2013E	2014E
Parachute Vol. Gr.	8.0	8.0	8.0	8.0
Saffola Vol. Gr.	15.0	13.0	13.0	13.0
International Rev. Gr.	19.3	30.0	20.0	20.0
Gross Margins	46.7	46.1	46.8	46.9
Ad Spends (as % of sales)	11.1	10.8	11.2	11.2

Source: Company Data, PL Research.



Prabhudas Lilladher Pvt. Ltd.  
 3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India  
 Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

**Rating Distribution of Research Coverage**



**PL's Recommendation Nomenclature**

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.