



Marico

BSE SENSEX	S&P CNX	Rs124	Neutral							
18,396	5,512									
Bloomberg	MRCOIN									
Equity Shares (m)	609.0									
52-Week Range	153/96									
1,6,12 Rel. Perf. (%)	12/-4/13									
M.Cap. (Rs b)	75.3									
M.Cap. (US\$ b)	1.6									
YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/10A	26,608	2,454	4.0	20.4	30.7	11.5	36.9	40.8	2.9	20.8
03/11E	31,456	2,758	4.5	12.7	27.2	8.9	32.5	38.3	2.5	19.6
03/12E	37,569	3,208	5.3	16.3	23.4	6.8	28.6	42.0	2.0	15.7
03/13E	44,064	3,932	6.5	22.5	19.1	5.2	26.9	42.2	1.7	13.0

3QFY11 results are above estimates with consolidated PAT up 12% YoY at Rs695m.

- Net sales grew 22.1% to Rs8.2b led by healthy volume growth of 15%. Price increases in Parachute and Saffola enabled realization growth of 7%.
- In volumes, Parachute (rigid packs) grew 5%, Saffola 13%, and hair oils grew 31% due to festive season demand.
- Gross margins contracted by 540bp YoY (290bp QoQ) due to a sharp surge in input costs like copra and other edible oil. EBITDA margin contraction was lower at 260bp due to containment in ad spend (down 180bp), other expenditure (down 80bp) and staff costs (down 30bp).

#### Gross margin contracts due to high copra prices, inadequate price increases

Consolidated gross margin contracted 540bp due to a surge in copra prices (62% YoY) and lagged/inadequate price increases in key brands like Parachute. Margin contraction in the standalone business has been higher (650bp). The management aims to maintain margins per unit. In a scenario of sharp increase in product prices, margins (as a percentage of sales) are likely to trend lower. Consolidated EBITDA margin contraction has been restricted to 260bp due to cost containment in ad spend (down 180bp) and other expenses (down 80bp). At its subsidiaries, containment was even higher: other expenses were down 420bp and ad spend down 460bp, which helped to improve the consolidated margins.

#### Parachute volume growth a key risk given the price increase; upgrading estimates 1-9%; Neutral

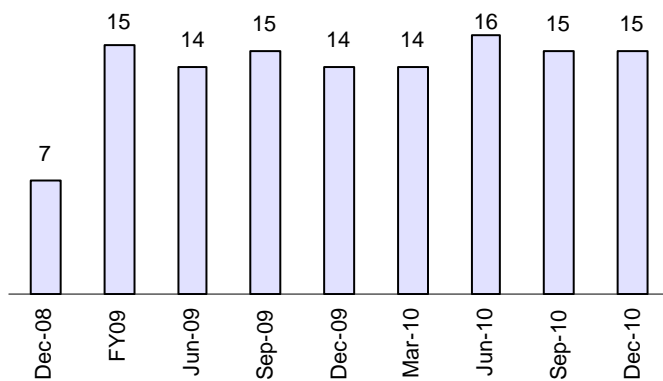
We are positive about Saffola's volume growth traction and the success of new launches in value added oils but we are cautious about Parachute's volume growth trend, given the 24% price increase. We are positively surprised by margin expansion in the international business as Marico Bangladesh comprises 40% of sales and has copra as its main input. We would watch out for the margin trend in the international business in the coming quarters. We are upgrading our FY11 estimates by 9%, 4% for FY12 and 1% for FY13. Our EPS estimates are revised to Rs5.3 for FY12 and Rs6.5 for FY13, implying EPS CAGR of 19.4% over FY11-13. The stock trades at 23.4x FY12E and 19.1x FY13E. **Neutral.**

Y/E MARCH	(Rs Million)									
	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Volume Growth (%)	14.0	15.0	14.0	14.0	16.0	15.0	15.0	13.0	14.0	14.8
<b>Net Sales</b>	<b>6,967</b>	<b>6,922</b>	<b>6,696</b>	<b>6,023</b>	<b>7,901</b>	<b>7,788</b>	<b>8,177</b>	<b>7,589</b>	<b>26,608</b>	<b>31,456</b>
YoY Change (%)	16.8	14.4	7.8	7.3	13.4	12.5	22.1	26.0	11.4	18.2
COGS	3,501	3,275	3,167	2,646	4,033	3,880	4,307	3,873	12,577	16,093
<b>Gross Profit</b>	<b>3,466</b>	<b>3,647</b>	<b>3,528</b>	<b>3,377</b>	<b>3,868</b>	<b>3,908</b>	<b>3,870</b>	<b>3,716</b>	<b>14,031</b>	<b>15,362</b>
Gross margin (%)	49.7	52.7	52.7	56.1	49.0	50.2	47.3	49.0	52.7	48.8
Other Expenditure	2,501	2,695	2,540	2,527	2,813	2,960	2,873	2,709	10,240	11,355
% to sales	35.9	38.9	37.9	42.0	35.6	38.0	35.1	35.7	38.5	36.1
<b>EBITDA</b>	<b>965</b>	<b>953</b>	<b>988</b>	<b>849</b>	<b>1,055</b>	<b>949</b>	<b>997</b>	<b>1,007</b>	<b>3,791</b>	<b>4,007</b>
Margins (%)	13.8	13.8	14.8	14.1	13.3	12.2	12.2	13.3	14.2	12.7
Depreciation	99	182	166	157	120	140	146	162	601	568
Interest	86	55	64	50	70	65	76	118	257	329
Other Income	31	42	56	53	44	71	69	24	183	209
<b>PBT</b>	<b>811</b>	<b>757</b>	<b>814</b>	<b>695</b>	<b>909</b>	<b>816</b>	<b>843</b>	<b>751</b>	<b>3,116</b>	<b>3,319</b>
Tax	210	133	183	117	162	126	133	109	643	531
Rate (%)	25.9	17.5	22.5	16.9	17.8	15.5	15.8	14.6	20.6	16.0
Minority Interest	0	1	9	0	10	18	14	-12	19	30
<b>Adjusted PAT</b>	<b>600</b>	<b>624</b>	<b>622</b>	<b>578</b>	<b>737</b>	<b>672</b>	<b>695</b>	<b>653</b>	<b>2,454</b>	<b>2,758</b>
YoY Change (%)	29.6	32.3	22.2	-2.7	22.8	7.7	11.8	13.1	20.4	12.4

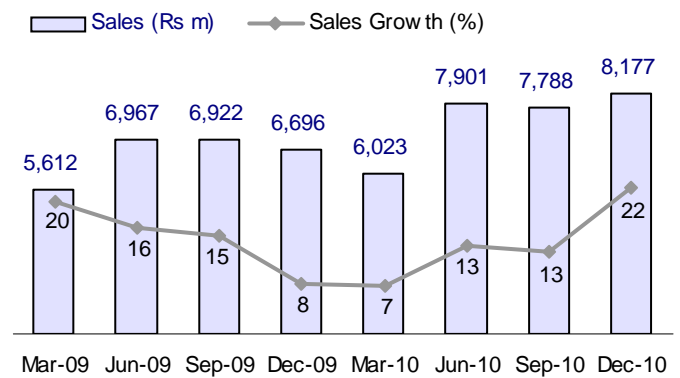
E. MOSL Estimates

- Net sales grew 22.1% to Rs8.2b (against our estimate of Rs8.1b) led by volume growth of 15%. Price increases in Parachute and Saffola enabled realization growth of 7%.
- In volumes, Parachute (rigid packs) grew 5%, and Saffola, 13%. Hair oils posted growth of 31% due to strong festive season demand.
- Gross margins contracted sharply by 540bp YoY (290bp QoQ) due to a sharp surge in input costs like copra and other edible oils.
- EBITDA margin contraction was lower at 260bp due to cost containment in ad spends (down 180bp), other expenditure (down 80bp) and staff costs (down 30bp).
- EBITDA grew 1% to Rs997m (against our estimate of Rs867m). Adjusted PAT grew 11.8% to Rs695m led by a lower tax rate (down 670bp).
- Standalone sales were up 20.8%, gross margins declined 660bp, EBITDA margins declined 510bp and adjusted PAT de-grew 8.2%.
- Subsidiaries (international business and Kaya) sales grew 26% and margins expanded 540bp, resulting in PAT growth of 95%.

Volume growth in mid-teens...(%)



...enables 22% sales growth



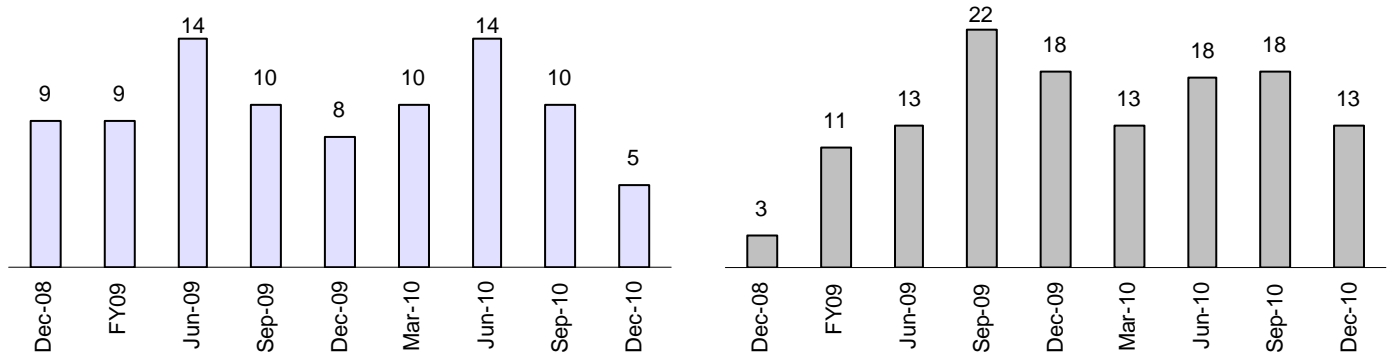
Source: Company/MOSL

**Parachute volumes up 5%, Saffola franchise up 13%**

Marico's volume growth momentum decelerated as recent price increases impacted key brand Parachute. The domestic consumer business volumes increased 10% and the international business grew 25% by volume, enabling consolidated volume growth of 15%. Parachute (rigid packs) volumes grew 5% YoY. Marico's market share in the Rs19b pure coconut oil category was ~53%. The weighted average price increase in the brand YTD was 24% including the ongoing price increase (8-9%). Parachute volume growth (including flexi-packs) was 4% in 3QFY11 and ~7% YTD.

Parachute volume up 5%...

...Saffola volume growth 13%



Source: Company/MOSL

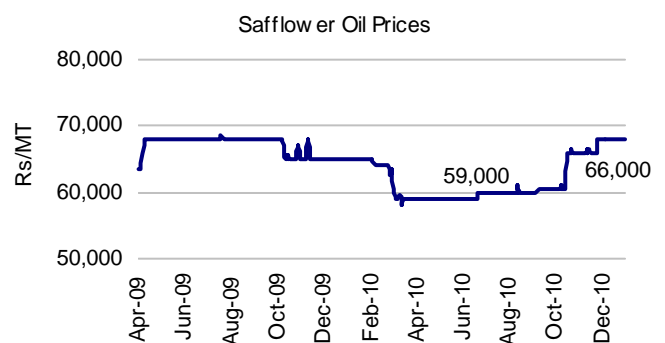
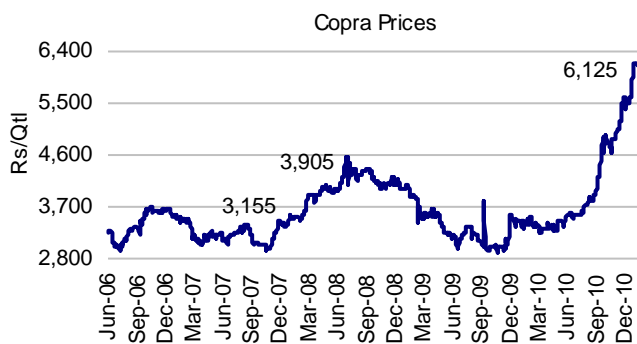
Saffola volumes were up 13% YoY and recent price increases enabled value growth of 24%. The brand is strengthening its "good for heart" platform with an encouraging response to recent launches (packaged rice and oats). Value-added hair oil volumes grew 31% as the category benefited from the festive season being in 3QFY11 this year (v/s 2QFY10 a year earlier). Initiatives behind new launches continued with Marico nurturing new segments like oats, packaged rice and ayurvedic hair oil to sustain long-term growth.

**Gross margins contract on high copra prices, inadequate price increases but cost control arrests EBITDA margin contraction**

Consolidated gross margins contracted 540bp due to a surge in copra prices (62% YoY) and lagged/inadequate price increases in key brands like Parachute. Margin contraction in the standalone business has been higher (650bp). The management aims to maintain margins per unit though in a scenario of a sharp increase in product prices, margins (as a percentage of sales) are likely to trend lower.

Copra prices up ~62% YoY

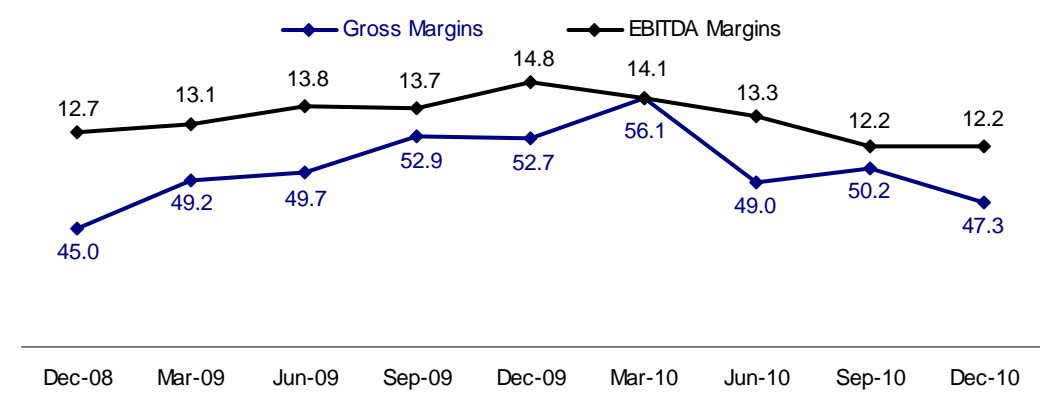
Kardi oil prices up 3% YoY



Source: Company/MOSL

Consolidated EBITDA margin contraction was restricted to 260bp due to cost containment in ad spend (down 180bp) and other expenses (80bp). In subsidiaries, containment has been more: other expense was down (420bp) and so was ad spend (down 460bp), which helped to improve consolidated margins. The management expects margins to improve in coming quarters helped by a forthcoming price increase in Parachute (8-9%) and a likely decline in copra prices in the flush season. However Marico is yet to pass on the full cost push and is banking on a decline in copra prices. Our estimates factor in gross margin contraction of 390bp in FY11 and 40bp in FY12.

#### Gross margin contracts 540bp, cost control arrests EBITDA margin fall



Source: Company/MOSL

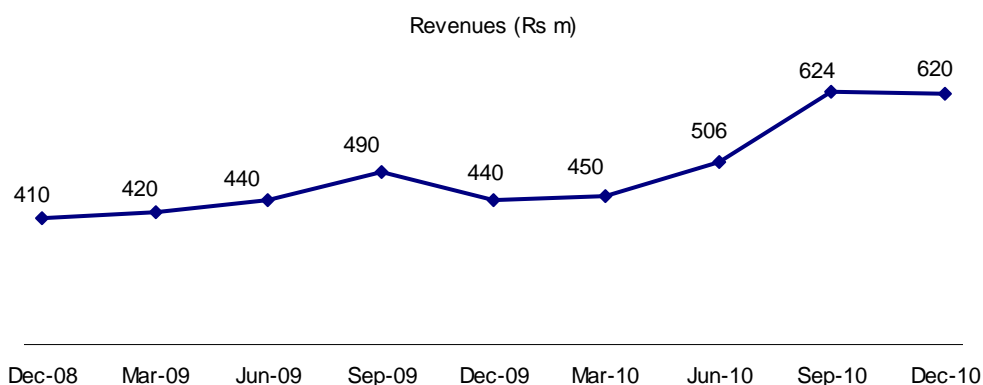
#### International business sales up 33% (28% adjusted for currency); margins improve in key markets

Marico's international business posted 33% sales growth in 3QFY11 (~28% in rupee terms) led by 25% volumes and 8% price increases. The margin profile in international business improved due to higher margins in Marico Bangladesh and higher volume growth in most markets. Marico continues to strengthen its leadership in the coconut oil segment in Bangladesh. Its entry in the hair dye segment has been a success with Hair Code cornering 25% market share in its first year of launch. The South African business grew 30% on a low base and the MENA region gained share through key brands Hair Code and Fiancee. Parachute Cream maintained its leadership (27% share) in the GCC market.

The management expects international business to sustain 20% growth in coming years. EBITDA margins are likely to expand to 13-14% from 11-12% currently.

#### Kaya: 10% SSS growth; operational profit due to Derma Rx acquisition

Kaya Skin Care posted sales of Rs620m (up 40% YoY) and EBITDA of Rs41m. Adjusted for consolidation of the new acquisition (Derma Rx), sales growth was 11% and operating loss Rs9m. Same store sales (SSS) grew 10% with Indian clinics posting SSS growth of 8%, after a decline in the past few quarters. In 3QFY11 the SBU added one clinic in the Middle East, and the management reiterated the Indian operations would not add clinics in FY11.

**10% SSS growth, consolidation of Derma Rx enable 40% sales growth**

Source: Company/MOSL

Marico's new ad campaign (radio and press) has reduced costs. Consumer promotion during the festive season helped to improve footfalls to clinics. New acquisition Derma Rx reported sales of ~Rs160m (on a standalone basis) and operates at a healthy margin of ~25%. The management indicated that the acquisition helped to increase the share of products to overall turnover to 17% (13% in FY10) and it plans to increase the share to 20-22% over the coming years. A higher share of the product business is likely to improve the RoCE of the business model.

**Valuation and view: Parachute volume growth a key risk; upgrading estimates 1-9%; Neutral**

We are positive about the volume growth traction in Saffola and the success of new launches in value added oils. However, we are cautious about Parachute's volume growth trend given a 24% price increase. We are positively surprised by margin expansion in international business more so as Marico Bangladesh comprises 40% of international sales and has copra as its major input. The gross margins of subsidiaries (excluding packaging cost) are up 170bp, despite a sharp increase in input costs. We watch out for the margin trend in international business in the coming quarters.

We are upgrading our FY11 estimates by 9%, 4% in FY12 and 1% in FY13. Our EPS estimates are revised to Rs5.3 for FY12 and Rs6.5 for FY13, implying EPS CAGR of 19.4% over FY11-13. The stock trades at 23.4x FY12E and 19.1x FY13E. **Neutral.**

## Marico: an investment profile

### Company description

Marico has emerged as a dominant player in the hair care and edible oil segments. Marico has also made inroads in the international markets and its entry into the skin care clinics business reaffirms Marico's focus on wellness.

### Key investment arguments

- We are positive about Marico's long term growth strategy, its overseas expansion and its development of new products for the domestic market.
- Marico leveraged its brands by entering new categories.
- International operations are gaining traction through the acquisition of Fiancee and Haircode brands in Egypt and its entry into South Africa.

### Key investment risks

- Volume growth to tend lower due to a rising inflationary environment, pressurizing consumer wallets.
- Copra price fluctuation poses a risk to profitability in the core business of pure coconut oil despite a change in the pricing policy and improved pricing power of the company.

### Recent developments

- Marico is increasing prices of Parachute by ~8% to cover the copra price surge.

### Valuation and view

- We are upgrading our FY11 estimates by 9%, 4% for FY12 and 1% for FY13. Our EPS estimates are revised to Rs5.3 for FY12 and Rs6.5 for FY13, implying EPS CAGR of 19.4% over FY11-13.
- The stock trades at 23.4x FY12E and 19.1x FY13E. **Neutral.**

### Sector view

- We are cautious on the sector given slower income growth in the economy, which might impact companies' volumes and profit margins.
- Companies with low competitive pressure and broad product portfolios will be able to better withstand a slowdown in a particular segment.
- Long term prospects appear bright, given rising incomes and low penetration.

### Comparative valuations

		Marico	GCPL	Dabur
P/E (x)	FY11E	27.2	26.7	28.0
	FY12E	23.4	22.2	23.5
P/BV (x)	FY11E	8.9	7.5	11.4
	FY12E	6.8	6.6	9.0
EV/Sales (x)	FY11E	2.5	4.0	3.9
	FY12E	2.0	3.1	3.3
EV/EBITDA (x)	FY11E	19.6	22.3	20.9
	FY12E	15.7	17.5	17.7

### EPS: MOSL forecast v/s Consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY11	4.5	4.8	-6.2
FY12	5.3	5.8	-8.0

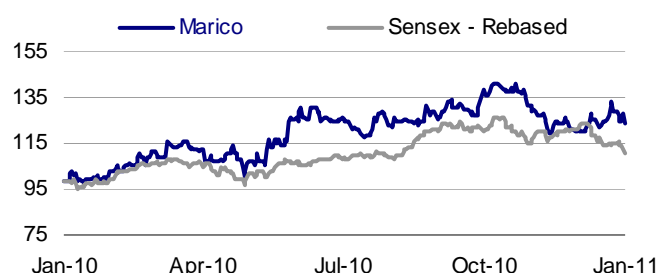
### Target Price and Recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
124	116	-5.9	Neutral

### Shareholding Pattern (%)

	Dec-10	Sep-10	Dec-09
Promoter	63.0	63.0	63.5
Domestic Inst	4.5	5.2	7.2
Foreign	25.5	24.5	21.9
Others	7.0	7.3	7.5

### Stock performance (1 year)



## Financials and Valuation

INCOME STATEMENT						(RS MILLION)					
Y/E MARCH	2009	2010	2011E	2012E	2013E	RATIOS					
Y/E MARCH	2009	2010	2011E	2012E	2013E	Y/E MARCH	2009	2010	2011E	2012E	2013E
<b>Net Sales</b>	<b>23,884</b>	<b>26,608</b>	<b>31,456</b>	<b>37,569</b>	<b>44,064</b>	<b>Basic (Rs)</b>					
<i>Change (%)</i>	25.4	11.4	18.2	19.4	17.3	<b>EPS</b>	<b>3.3</b>	<b>4.0</b>	<b>4.5</b>	<b>5.3</b>	<b>6.5</b>
COGS	13,118	13,021	16,093	19,382	22,784	Cash EPS	3.7	4.8	5.5	6.4	7.7
<b>Gross Profit</b>	<b>10,766</b>	<b>13,587</b>	<b>15,362</b>	<b>18,187</b>	<b>21,280</b>	BV/Share	7.4	10.7	13.8	18.2	23.8
<i>Margin (%)</i>	45.1	51.1	48.8	48.4	48.3	DPS	0.7	0.7	0.7	0.7	0.8
Operating Expenses	7,726	9,835	11,355	13,386	15,669	Payout %	19.6	16.5	14.3	13.3	11.6
<b>EBITDA</b>	<b>3,041</b>	<b>3,751</b>	<b>4,007</b>	<b>4,801</b>	<b>5,610</b>	<b>Valuation (x)</b>					
<i>Change (%)</i>	23.4	23.4	6.8	19.8	16.9	P/E	37.0	31.0	27.2	23.4	19.1
<i>Margin (%)</i>	12.7	14.1	12.7	12.8	12.7	Cash P/E	33.5	25.8	22.5	19.4	16.0
Depreciation	358	601	568	712	807	EV/Sales	3.3	2.9	2.5	2.0	1.7
Int. and Fin. Charges	357	257	329	293	217	EW/EBITDA	25.7	20.8	19.6	15.7	13.0
Other Income - Recurring	122	183	209	257	377	P/BV	16.6	11.5	8.9	6.8	5.2
<b>Profit before Taxes</b>	<b>2,447</b>	<b>3,076</b>	<b>3,319</b>	<b>4,054</b>	<b>4,964</b>	Dividend Yield (%)	0.5	0.5	0.5	0.6	0.6
<i>Change (%)</i>	25.8	25.7	7.9	22.2	22.5	<b>Return Ratios (%)</b>					
<i>Margin (%)</i>	10.2	11.6	10.5	10.8	11.3	RoE	44.9	36.9	32.5	28.6	26.9
Current Tax (excl MAT Ent)	70	613	498	770	943	RoCE	42.5	40.8	38.3	42.0	42.2
Deferred Tax	339	31	33	41	50	<b>Working Capital Ratios</b>					
<i>Tax Rate (%)</i>	16.7	20.9	16.0	20.0	20.0	Debtor (Days)	17	21	17	17	17
<i>Minority Interest</i>	0	-19	-30	-35	-40	Asset Turnover (x)	2.9	2.4	2.5	2.7	2.7
<b>Profit after Taxes</b>	<b>2,038</b>	<b>2,414</b>	<b>2,758</b>	<b>3,208</b>	<b>3,932</b>	<b>Leverage Ratio</b>					
<i>Change (%)</i>	28.5	19.4	14.6	16.3	22.5	Debt/Equity (x)	0.8	0.7	0.5	0.2	0.1
<i>Margin (%)</i>	8.5	9.1	8.8	8.5	8.9						
Extraordinary items	-150	-98	44	0	0						
<b>Reported PAT</b>	<b>1,888</b>	<b>2,316</b>	<b>2,801</b>	<b>3,208</b>	<b>3,932</b>						
<b>BALANCE SHEET</b>						<b>(RS MILLION)</b>					
Y/E MARCH	2009	2010	2011E	2012E	2013E	<b>CASH FLOW STATEMENT</b>					
Y/E MARCH	2009	2010	2011E	2012E	2013E	Y/E MARCH	2009	2010	2011E	2012E	2013E
Share Capital	609	609	614	614	614	OP/(loss) before Tax	3,041	3,751	4,007	4,801	5,610
Reserves	3,926	5,930	7,880	10,585	13,978	Int./Div. Received	122	183	209	257	377
<b>Net Worth</b>	<b>4,535</b>	<b>6,540</b>	<b>8,494</b>	<b>11,199</b>	<b>14,592</b>	Interest Paid	-357	-257	-329	-293	-217
Loans	3,743	4,459	4,000	2,550	1,500	Direct Taxes Paid	-70	-613	-498	-770	-943
<b>Capital Employed</b>	<b>8,278</b>	<b>11,124</b>	<b>12,494</b>	<b>13,749</b>	<b>16,092</b>	(Incr)/Decr in WC	-1,076	-1,066	611	-608	-761
Gross Fixed Assets	3,885	4,495	6,495	7,495	8,495	<b>CF from Operations</b>	<b>1,659</b>	<b>1,997</b>	<b>4,000</b>	<b>3,387</b>	<b>4,067</b>
Intangibles	684	797	797	797	797	Extraordinary Items	0	0	0	0	0
Less: Accum. Depn.	-2,035	-2,424	-2,992	-3,704	-4,511	(Incr)/Decr in FA	-938	-1,275	-2,371	0	-1,000
<b>Net Fixed Assets</b>	<b>2,534</b>	<b>2,868</b>	<b>4,299</b>	<b>4,587</b>	<b>4,780</b>	(Pur)/Sale of Investments	-121	-706	713	-1,359	-532
Capital WIP	577	1,129	1,500	500	500	<b>CF from Invest.</b>	<b>-1,059</b>	<b>-1,981</b>	<b>-1,658</b>	<b>-1,359</b>	<b>-1,532</b>
Goodwill	850	850	1,410	1,410	1,410	Issue of Shares	0	0	0	0	0
Investments	121	827	114	1,473	2,005	(Incr)/Decr in Debt	163	716	-459	-1,450	-1,050
<b>Curr. Assets, L&amp;A</b>	<b>6,699</b>	<b>8,970</b>	<b>9,492</b>	<b>10,814</b>	<b>13,083</b>	Dividend Paid	-467	-470	-467	-503	-539
Inventory	3,390	4,448	4,561	5,447	6,389	Others	-148	-49	-1,094	-77	-82
Account Receivables	1,108	1,507	1,447	1,728	2,027	<b>CF from Fin. Activity</b>	<b>-451</b>	<b>197</b>	<b>-2,020</b>	<b>-2,030</b>	<b>-1,671</b>
Cash and Bank Balance	902	1,115	1,437	1,435	2,299	<b>Incr/Decr of Cash</b>	<b>149</b>	<b>213</b>	<b>323</b>	<b>-2</b>	<b>864</b>
Others	1,299	1,900	2,047	2,204	2,368	Add: Opening Balance	753	902	1,115	1,437	1,435
<b>Curr. Liab. and Prov.</b>	<b>3,144</b>	<b>4,136</b>	<b>4,947</b>	<b>5,663</b>	<b>6,307</b>	<b>Closing Balance</b>	<b>902</b>	<b>1,115</b>	<b>1,437</b>	<b>1,435</b>	<b>2,299</b>
Current Liabilities	2,779	3,369	4,404	4,978	5,516						
Provisions	365	767	544	684	791						
<b>Net Current Assets</b>	<b>3,555</b>	<b>4,834</b>	<b>4,545</b>	<b>5,151</b>	<b>6,776</b>						
Miscellaneous Expense	0	0	0	0	0						
Deferred Tax Liability	641	616	626	628	621						
<b>Application of Funds</b>	<b>8,279</b>	<b>11,124</b>	<b>12,494</b>	<b>13,749</b>	<b>16,092</b>						

E: MOSL Estimates



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**Marico**

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| 1. Analyst ownership of the stock                       | No  |
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