



ENAM Securities
India Research

CMP: Rs 141
Target Price: Rs 140
Potential Upside: -1%
Absolute Rating: **HOLD**

Marico Ltd

Relative to sector: **Neutral**

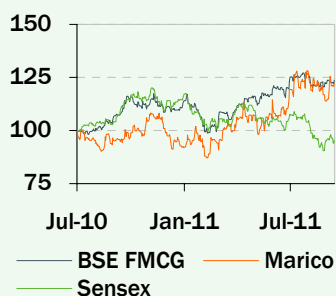
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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 615 mn
Market cap : Rs 86.8 bn
52 week high/low : Rs 173/ Rs 112
Avg. daily vol. (6mth) : 351,800 shares
Bloomberg code : MRCO IB
Reuters code : MRCO.BO

Shareholding (%)	Jun-11	QoQ chg
Promoters	62.9	(0.0)
FIs	26.1	0.2
MFs / UTI	3.0	(0.2)
Banks / FIs	1.3	(0.0)
Others	6.9	0.1

BUILDING IN NEAR-TERM STRESS

Marico issued an investor update, cautioning investors against excessive earnings forecast. The mgmt continues to remain optimistic of the long-term growth prospect of the biz but wishes to highlight short-term pains, especially over the next 1/2 qtrs.

Key takeaways from the investor update:

- **“Copra’s bull run denotes a structural upward shift; may need to reset the rules of the game”** – The bull run in copra started in May’10. Demand-supply imbalance & speculative interests have resulted in ~83% increase in prices during CY11. **We believe this move is not structural in nature**, similar to 2008, and **prices could soften** in the flush season of Feb’12. Given the recent decline in vegetable oil prices, we believe the demand-supply imbalance in Copra will also be restored.
- **“May not take any further increase in retail prices as it may impact volume growth”** – Despite the 32% YTD price hike in Parachute (~30% of sales), there has been a shortfall in covering cost inflation. Further price increases in the segment is fraught with risk of muted volume growth, which is still in the nascent stage of recovery. Hence, a cap on price hikes will impact margin recovery in the short run. We have build in **13% vol. growth in FY12E (vs. 11% in FY11)** for the domestic business; while we have factored in a **125 bps YoY decline in EBITDA margin for FY12E** due to input cost pressure.

Use this continued weakness as an entry opportunity

In view of the near-term pain and continued high input prices, we have lowered our earnings ests by 8% for FY12E & 7% for FY13E. Consequently, the TP has been lowered to Rs 140 (earlier: Rs 156). The 12% price correction, on cautious guidance from mgmt, has not yet brought the stock to attractive levels. But we believe, further correction from this point on or weak Q2FY12 should be used as an opportune entry point. We maintain our **HOLD** rating.

Financial summary (Consolidated)

Y/E Mar	Net Sales (Rs mn)	Adj. PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2010	26,608	2,383	-	3.9	15.5	-	42.5	33.8	-	0.7
2011	31,283	2,393	-	3.9	(0.4)	-	29.8	26.1	-	0.7
2012E	39,336	3,011	5.4	4.9	25.8	28.8	28.5	24.5	19.1	1.0
2013E	46,040	3,883	6.8	6.3	29.0	22.4	29.3	29.8	15.1	1.3

Source: *Consensus broker estimates, Company, ENAM estimates

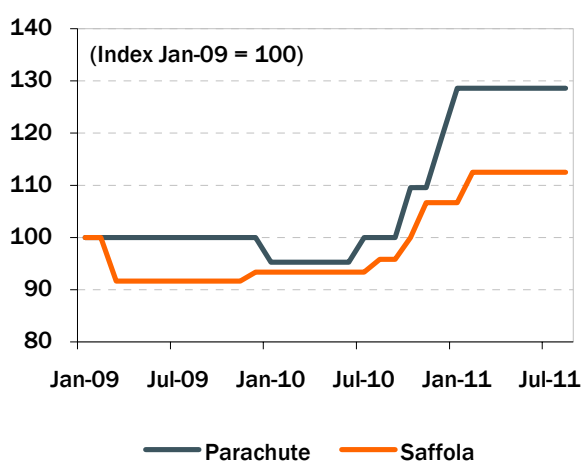
Marico group: Growth trends (%)

Rev. Mix	Q3'10	Q4'10	FY10	Q1'11	Q2'11	Q3'11	Q4'11	FY11	Q1'12	FY12E	FY13E
29 Parachute * vol.	8	14	11	14	11	5	5	10	10	11	10
16 Saffola edible oils vol.	17	13	17	18	18	13	14	16	15	15	14
14 Value added hair oils vol.	11	27	16	27	14	31	21	24	32	21	16
11 Others ^ vol.											
Domestic biz. vol.	14	13	13	16	11	10	9	11	15	13	11
70 Domestic biz. value	4	4	5	11	9	19	30	17	36	23	16
Intl biz vol.	16	22	21	19	18	25	13	19	na	17	18
Price & Sales mix (pre Forex)	8	0	9	12	5	8	11	8	na	4	4
23 Intl. biz. val (post Forex)	28	16	36	23	18	28	21	22	26	19	20
Kaya Like-to-like clinic sales	(13)	(13)	(6)	(5)	(3)	10	6	2	14	6	6
7 Kaya post Derma Rx	16	22	21	14	28	41	41	31	24	20	24
Marico group (Volume)	14	14	14	16	15	15	9	12	21	11	12
Marico group (price + sales mix)	(6)	(8)	(3)	(3)	(2)	7	15	6	12	15	5
100 Marico group rev. growth	8	6	11	13	13	22	24	18	33	26	17

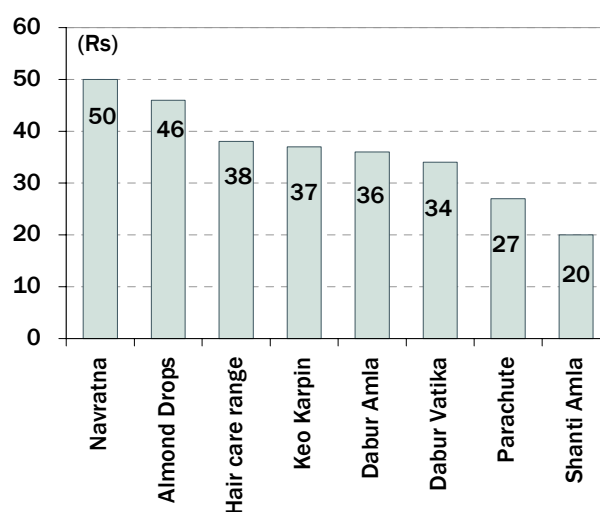
Source: Company; Note: * Growth for rigid packs only. ^ Others includes Nihar, Sweekar (sold in Q4'11), Oats, Arise etc

Parachute (~30% of sales) volumes are expected to be steady in FY12E: Despite the 32% YTD price hike in Parachute, 1QFY12 volume grew 10% YoY. The volume growth is expected to remain steady as: (1) consumer preference remains sticky amongst hair oil categories i.e. Coconut, Amla, Cooling & Almond; (2) Parachute still is the cheapest hair oil amongst other hair oil categories; (3) the absolute price increase of Rs 7 for a 100 ml pack (earlier priced at Rs 20) is not significant in the context of monthly grocery budget. In our opinion, Parachute volume is expected to grow by 11% YoY in FY12E, in-line with 10% volume growth in FY11.

Price hikes in key products



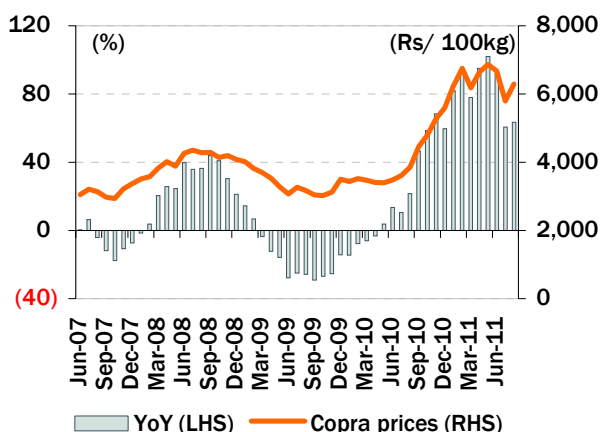
Comparative Price for 100ml packs



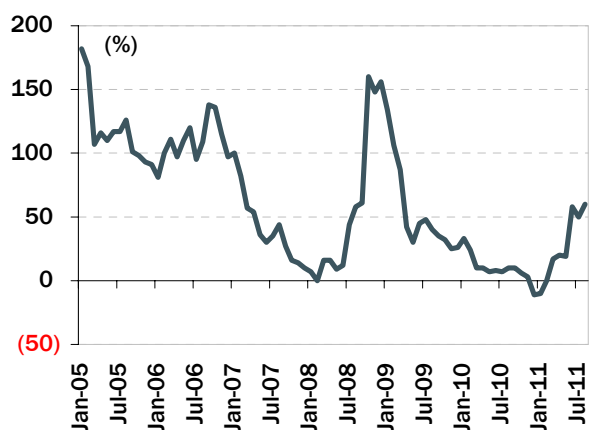
Source: Company, ENAM Research; Note: Parachute prices are for 100 ml pack. Saffola prices are for Saffola Gold 1 litre pack

- Copra prices likely to trend lower (~40% of RM cost):** Copra prices has corrected 10% from its Jan'11 peak but is still ~83% higher YoY for CY11. The surge in demand for coconut oil could be attributed to a switch of Palm kernel oil users to coconut oil (for cooking purpose), as the price differential between the two has narrowed down, even though supply of copra has been steady. Similar demand-supply imbalance was noticed in 2008 when crude oil peaked at USD 147. We believe there is a high probability that this temporary imbalance will be reset in H2FY12E, as coconut oil premium to palm kernel oil is close to the historical low (refer chart). Edible oil prices are trending weak, with Sunflower oil (↓ 3%) & Palm kernel (↓ 22%) having corrected from their recent peak in Jan/Feb'11. We have modeled a 230 bps decline in gross profit margin (to 40.5%) for the domestic business in FY12E. Further, we believe there remains a probability of margin improvement in H2FY12E.

Copra price trend (40% of RM)

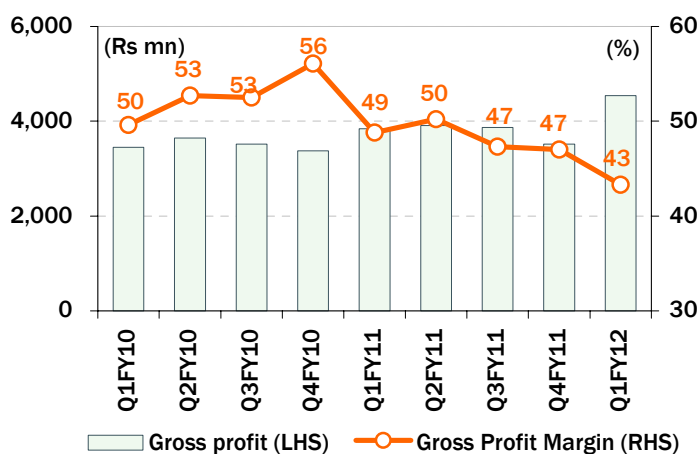


Coconut oil Premium over Palm kernel oil



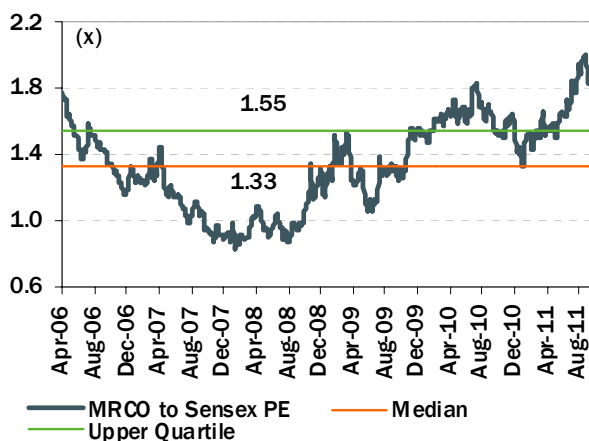
Source: Company, Bloomberg, ENAM Research

Consolidated gross profit margin trend

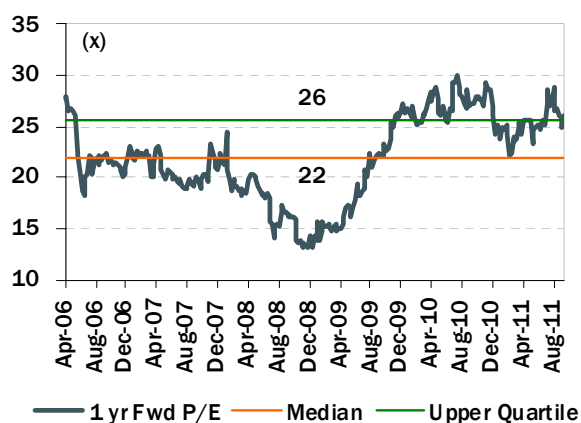


Source: Company, ENAM Research

Marico P/E relative to Sensex P/E



Marico 1-year forward P/E



Source: ENAM Research, Bloomberg

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