



ENAM Securities
India Research

CMP: Rs 140
Target Price: Rs 150
Potential Upside: 7%
Absolute Rating: **HOLD**

Marico Ltd

Relative to sector: **Outperformer**

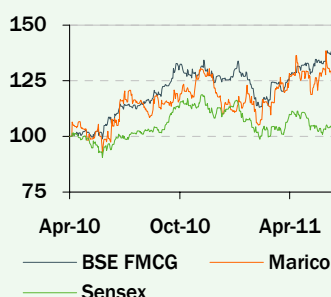
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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 615 mn
Market cap : Rs 86 bn
52 week high/low : Rs 153/ Rs 112
Avg. daily vol. (6mth) : 603,400 shares
Bloomberg code : MRCO IB
Reuters code : MRCO.BO

Shareholding (%) Mar-11 QoQ chg

Shareholder	Mar-11 (%)	QoQ chg
Promoters	62.9	(0.1)
FIs	25.9	0.7
MFs / UTI	3.1	(0.1)
Banks / FIs	1.3	(0.0)
Others	6.8	(0.5)

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	31,284	2,690	-	4.4	12.0	-	34.6	27.3	-	0.8
2012E	38,302	3,280	5.5	5.3	21.9	26.2	32.2	27.3	18.1	1.0
2013E	44,750	4,189	6.7	6.8	27.7	20.5	31.9	31.6	14.7	1.3

Source: *Consensus broker estimates, Company, ENAM estimates

ROBUST DEMAND DESPITE PRICE HIKES

Our interaction with management of Marico suggests that high consumer inflation & price hike's is unlikely to lead to a significant slowdown in volume growth in FY12E.

Key highlights

- **Healthy volume growth outlook:** Volume growth in key products – Parachute, Saffola & Value added hair oils remains robust despite large price hikes (14%-35% across key products) as demand seems to be fairly sticky. We expect domestic revenue growth of 18% in FY12E to be driven by 10% volume growth and 8% price hikes.
- **Rising probability of decline in Copra prices (~40% of RM):** Contrary to expectations, copra prices have not declined despite the onset of the flush season (during Feb-July). Copra prices (↑100% YoY) are currently at an all time high. However edible oil prices have started to decline from their recent peak in Jan'11 – Sunflower oil (↓ 6%), Kardi oil (↓ 6%), Palm kernel (↓ 15%) & Copra should follow suit.
- Hence while we have modeled a 70 bps decline in gross profit margin for the domestic business to 42.3% in FY12E, we believe there is rising probability of margin improvement in H2FY12E.
- **Kaya to turn profitable in FY12E:** Same-clinic sales growth (Indian ops.) improved to 8% in H2FY11 vs. de-growth in H1FY11. Improving business traction coupled with judicious Ad spends will lead to profits of Rs 13 mn profit in FY12E (vs. loss of Rs 23 mn in FY11).

Continued...

Key Risk: Continued rise in copra prices, could impact parachute volumes & profitability

In lieu of high copra prices (which have not softened contrary to our expectations) we have lowered our earnings estimates by 3% for FY12E. Our FY13E EPS remains unchanged. The stock is trading at 26x 1-yr fwd EPS, higher than its 5-yr upper quartile range of 24x. We are rolling-over valuations to FY13 estimates & as a result our new target price is Rs 150 (vs. Rs 127 earlier). Our new target multiple is 22x FY13E EPS (earlier 23x FY12E). Upgrade to **HOLD**.

Marico group: Growth trends

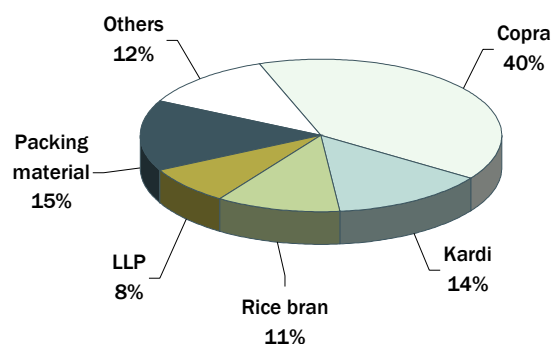
Rev. Mix (%)		Q1'10	Q2'10	Q3'10	Q4'10	FY10	Q1'11	Q2'11	Q3'11	Q4'11	FY11	FY12E	FY13E
29	Parachute * vol.	14	10	8	14	11	14	11	5	5	10	7	10
16	Saffola edible oils vol.	12	22	17	13	17	18	18	13	14	16	14	14
14	Value added hair oils vol.	10	18	11	27	16	27	14	31	21	24	18	16
11	Others ^ vol.												
	Domestic blz. vol.	11	15	14	13	13	16	11	10	9	11	10	11
70	Domestic blz. value	8	5	4	4	5	11	9	19	30	17	18	16
	Intl biz vol.	26	16	16	22	21	19	18	25	13	19	17	18
	Price & Sales mix (pre Forex)	14	17	8	0	9	12	5	8	11	8	4	4
23	Intl. blz. val (post Forex)	69	49	28	16	36	23	18	28	21	22	19	20
	Kaya Like-to-like clinic sales	6	(5)	(13)	(13)	(6)	(5)	(3)	10	6	2	6	6
7	Kaya post Derma Rx	26	16	16	22	21	14	28	41	41	31	20	24
	Marico group (Volume)	14	15	14	14	14	16	15	15	9	12	11	12
	Marico group (price + sales mix)	3	(1)	(6)	(8)	(3)	(3)	(2)	7	15	6	11	5
100	Marico group rev. growth	17	14	8	6	11	13	13	22	24	18	22	17

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

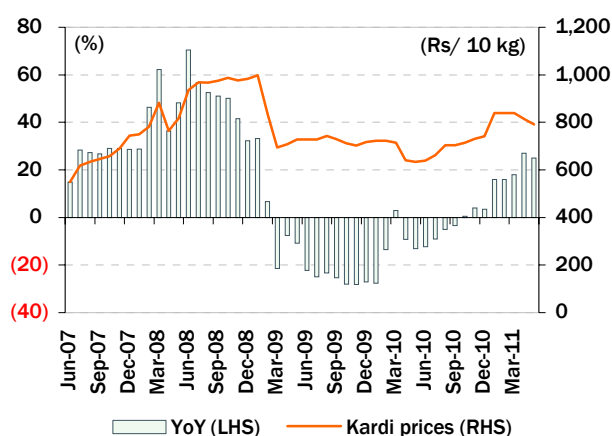
- ❑ **Parachute (29% of sales) volumes to remain subdued in FY12E:** Post the sharp price hike of 33% since July'10, volume growth for parachute rigid packs have come off to 5% YoY in H2FY11 (vs. 12% YoY in H1FY11). Consumers upgrading from loose oil to parachute has slowed down due to higher prices. Despite the highest price hike in recent time, volume growth has remained positive as (1) consumers 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 7% YoY in FY12E, as consumers re-adjust to the new pricing environment.
- ❑ **Saffola (16% of sales) volume growth outlook is robust:** Saffola reported 16% volume growth in FY11, despite price hikes of ~20% across various variants. Demand for Saffola is largely from higher income families who are looking at healthier eating options & can afford to pay a premium over other cooking oils. Thus demand is expected to remain firm, with 14% YoY volume growth in FY12E.
- ❑ **Value added hair oils (14% of revenue) market share has moved up** from 17% to 25% in the last 5 years. Volumes have grown over 20% across the hair oil portfolio in FY11. Plus recent launches (Parachute Advanced Ayurvedic Hot Oil, Parachute Advanced Ayurvedic cooling oils & Parachute Advanced Ayurvedic Hair Oil) have expanded the value-added portfolio by leveraging the Parachute franchise.
- ❑ In our opinion, domestic revenue growth of 18% in FY12E will be driven by 10% volume growth & 8% price hike.

- Rising probability of decline in Copra prices (~40% of RM cost):** Contrary to management expectations, copra prices have not declined despite the onset of the flush season (during Feb-July). Copra prices (↑100% YoY) are currently at an all time high. While supply of copra has remained steady, the surge in demand was caused by a switch of Palm kernel oil users to coconut oil (for cooking purpose), as the price differential between the two has narrowed. Similar demand-supply imbalance was noticed in 2008 when crude oil peaked at US\$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 have started to decline from their recent peak in Jan'11 – Sunflower oil (↓ 6%), Kardi oil (↓ 6%), Palm kernel (↓ 15%). We have modeled a 70 bps decline in gross profit margin for the domestic business to 42.3% in FY12E, we believe there is rising probability of margin improvement in H2FY12E.
- Marico has procured 80% of its annual supply of Kardi, a key input for Saffola cooking oil, at 12%-15% higher prices than last year.** This should ensure stable margins in Saffola as the price hikes effected in FY11 should be adequate.

Raw Material mix

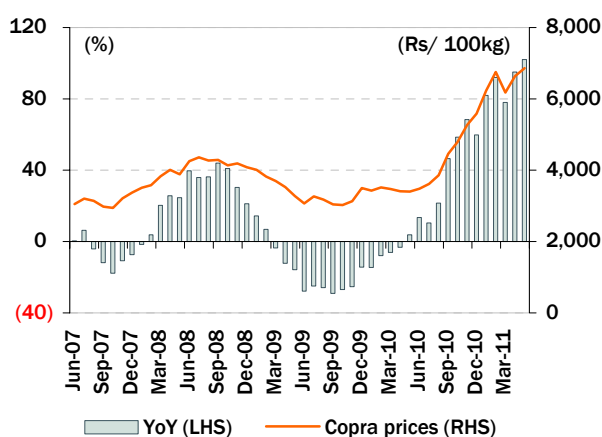


Kardi prices (14% of RM)

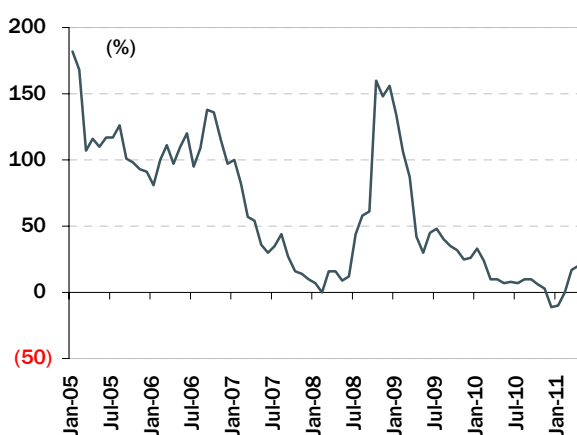


Source: Company

Copra price trend (40% of RM)

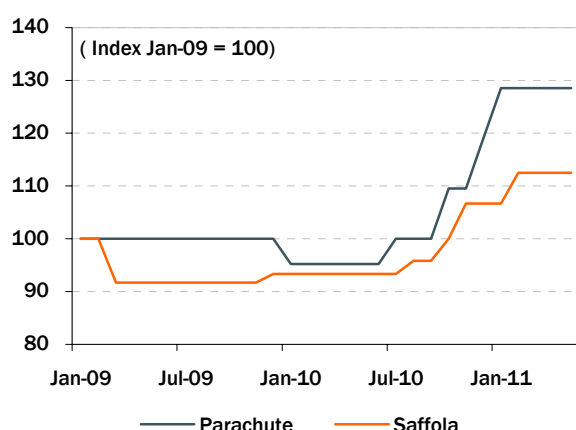


Coconut oil Premium over Palm kernel oil

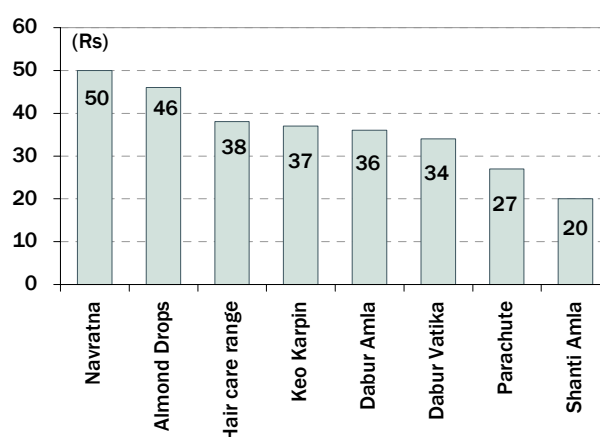


Source: Company, Bloomberg, ENAM Research

Price hikes in key products

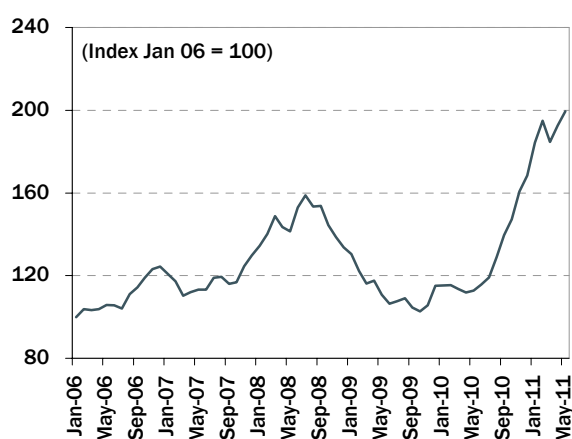


Comparative Price for 100ml packs

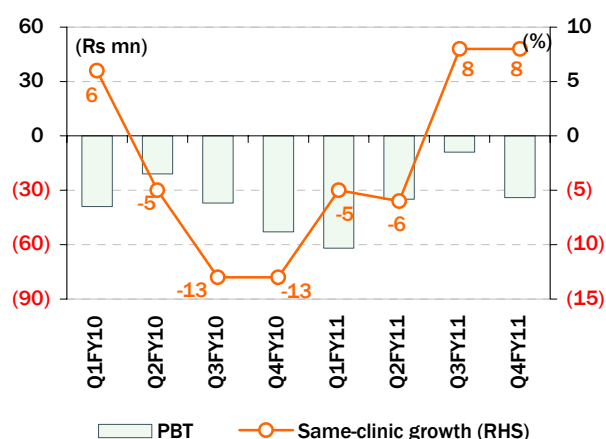


Source: Company, ENAM Research; Note: Parachute prices are for 100 ml pack. Saffola prices are for Saffola Gold 1 litre pack

RM Cost Index



Kaya Skin Clinic* to breakeven in FY12E



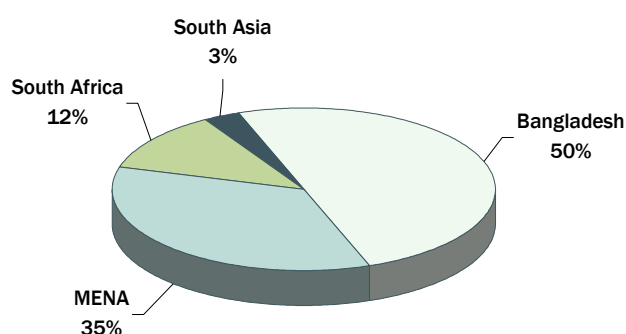
Source: Company, ENAM Research; Note* Excludes Derma Rx

- ❑ **Kaya business to turn profitable in FY12E:** Same-clinic sales growth (Indian ops) improved to 8% in H2FY11 vs. de-growth in H1FY11. New services at Rs 990 are driving footfalls. This was also backed by advertising on Radio & Press. In addition 4 new advanced skin care products from Derma Rx range were launched addressing Acne & Skin Ageing concerns. This has improved the revenue contribution from products to 17% in H2FY11 vs. 13% earlier. The advertisement budget through TV channels has been reduced, as it was proving less effective w.r.t to cost incurred. According to the management, Kaya India, which reported positive EBITDA in FY11, is expected to break even at PBT level in FY13E (vs. 140 mn loss in FY11). Including Derma Rx operations, we expect the skin care division to report of Rs 13 mn profit in FY12E (vs. loss of Rs 23 mn in FY11).
- ❑ **International business group (IBG) (23% of Sales):** The management expects close to 20% organic growth (i.e. excluding ICP, Vietnam) largely driven by Bangladesh & South Africa. Growth in Egypt & MENA is lower than expected

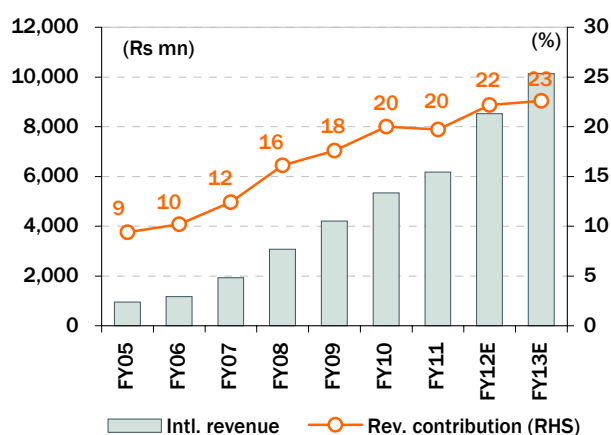
due to political uncertainty in the region. Marico will continue to invest in the international biz through high ASP's (~15% of sales for IBG) & IBG margins will still take 2-3 of years to catch up to group margins. Operating margins for IBG, at 11%-12% are lower than group margins (~14%) primarily due to higher employee & marketing costs. Expect ICP, Vietnam (acquired in Feb 2011) to contribute Rs 1.4 bn to sales with ~10% operating margins.

- ❑ **Looking at Inorganic acquisition's in South East Asia & Africa.** Marico is mainly looking at the hair care, skin care & male grooming categories
- ❑ **New products showing good traction:** Saffola Oats has grown by 35% YoY in FY11. Marico has ~7% MS in the Oats category (Category size ~Rs 1.4 bn) & intends to grow this to 15% over the next few years. The initial response for Saffola Arise has also been encouraging. The company is looking to increase share of non-oil Saffola products from 5% currently to 25% in the next 3 years by introducing new products.

International Biz. geographical Mix (FY11)

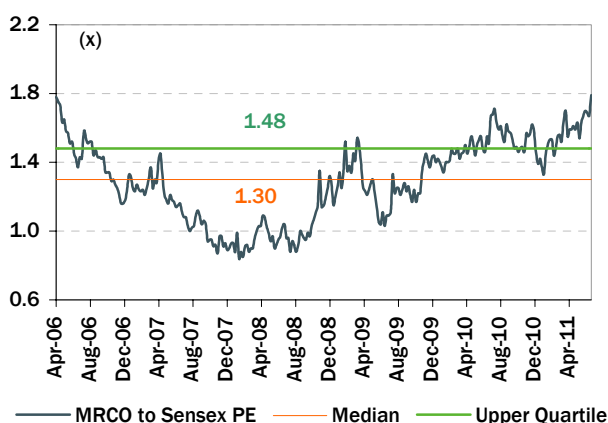


Revenue contribution from Int biz on a rise

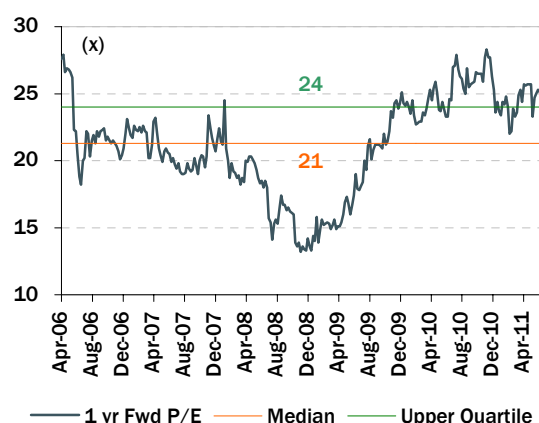


Source: Company, ENAM Research Note: Int Biz for FY11 includes only 1.5 months of ICP, Vietnam sales. FY12E sales for ICP expected at Rs 1.4 bn

Marico P/E relative to Sensex P/E



Marico 1-year forward P/E



Source: ENAM Research, Bloomberg

Company Financials

Income statement

(Rs. mn)

Y/E Mar	FY10	FY11	FY12E	FY13E
Net sales	26,608	31,284	38,302	44,750
Other operating income	43	94	153	179
Total Income	26,650	31,378	38,455	44,929
Cost of goods sold	16,085	20,220	24,693	28,572
Contribution (%)	0	0	0	0
Adv't/Sales/Distrn O/H	6,821	6,964	8,733	10,300
Operating Profit	3,744	4,194	5,030	6,057
Other income	140	182	162	161
PBIDT	3,883	4,376	5,191	6,218
Depreciation	601	582	610	645
Interest	257	393	430	270
Other pretax	0	0	0	0
Pre-tax profit	3,026	3,401	4,152	5,303
Tax provision	643	661	872	1,114
(-) Minority Interests	0	50	0	0
Associates	0	0	0	0
Adjusted PAT	2,383	2,690	3,280	4,189
E/o income / (Expense)	(65)	174	0	0
Reported PAT	2,318	2,864	3,280	4,189

Balance sheet

(Rs. mn)

Y/E Mar	FY10	FY11	FY12E	FY13E
Total assets	11,124	16,626	16,969	18,260
Gross block	6,142	11,840	12,660	13,860
Net fixed assets	3,718	8,834	9,044	9,599
CWIP	1,129	39	150	150
Investments	110	92	50	950
Wkg. cap. (excl cash)	3,719	4,881	5,661	6,678
Cash / Bank balance	1,115	1,679	923	602
Others/Def tax assets	1,333	1,101	1,141	281
Capital employed	11,124	16,626	16,969	18,260
Equity capital	609	614	614	614
Reserves	6,056	8,293	10,854	14,145
Borrowings	4,459	7,718	5,500	3,500

Source: Company, ENAM Research

Key ratios

(%)

Y/E Mar	FY10	FY11	FY12E	FY13E
Sales growth	11.4	17.6	22.4	16.8
OPM	14.1	13.4	13.1	13.5
Oper. profit growth	19.9	12.0	19.9	20.4
COGS / Net sales	60.4	64.4	64.2	63.6
Overheads/Net sales	25.6	22.2	22.7	22.9
Depreciation / G. block	9.8	4.9	4.8	4.7
Effective interest rate	6.3	6.5	6.5	6.0
Net wkg.cap / Net sales	0.1	0.1	0.1	0.1
Net sales / Gr block (x)	4.6	3.5	3.1	3.4
Incremental RoCE	19.3	9.0	73.4	63.1
RoCE	33.8	27.3	27.3	31.6
Debt / equity (x)	0.7	0.9	0.5	0.2
Effective tax rate	21.3	19.4	21.0	21.0
RoE	42.5	34.6	32.2	31.9
Payout ratio (Div/NP)	17.3	16.3	18.7	18.3
EPS (Rs.)	3.9	4.4	5.3	6.8
EPS Growth	15.5	12.0	21.9	27.7
CEPS (Rs.)	4.9	5.3	6.3	7.9
DPS (Rs.)	0.7	0.8	1.0	1.3

Cash-flow

(Rs. mn)

Y/E Mar	FY10	FY11	FY12E	FY13E
Sources	3,785	6,301	1,154	2,129
Cash profit	2,951	3,382	3,950	4,894
(-) Dividends	(472)	(467)	(614)	(768)
Retained earnings	2,479	2,915	3,336	4,126
Issue of equity	218	5	0	0
Borrowings	1,001	3,259	(2,218)	(2,000)
Others	87	121	37	2
Applications	3,785	6,301	1,154	2,129
Capital expenditure	1,564	4,608	931	1,200
Investments	706	64	58	100
Net current assets	1,287	1,061	921	1,150
Change in cash	229	567	(756)	(321)

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