

July 29, 2010

HOLD

Price Rs 126	Target Price Rs 128
Sensex	17,992

Price Performance

(%)	1M	3M	6M	12M
Absolute	0	12	28	43
Rel. to Sensex	(1)	10	17	22

Source: Bloomberg

Stock Details

Sector	FMCG
Reuters	MRCO.BO
Bloomberg	MRCO@IN
Equity Capital (Rs mn)	609
Face Value(Rs)	1
No of shares o/s (mn)	609
52 Week H/L	136/78
Market Cap (Rs bn/USD mn)	77/1,647
Daily Avg Volume (No of sh)	718323
Daily Avg Turnover (US\$m)	1.8

Shareholding Pattern (%)

	M'10	D'09	S'09
Promoters	63.5	63.5	63.5
FII/NRI	23.2	22.7	21.9
Institutions	6.2	6.7	7.2
Private Corp	1.0	1.0	1.3
Public	6.0	6.2	6.2

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- Marico reported revenue growth of 13.4% yoy to Rs7.9 bn and adjusted net profit growth of 22.8% yoy to Rs737 mn in Q1FY11- ahead of expectation
- Blended volume growth at 16% yoy - 'Parachute' grew by 14%, 'Saffola' grew by 17.5% and 'Hair oil' grew by 27%
- Strong growth outlook shared in the Q1FY11 earnings conference call - expect blended volume growth of 14-16% in FY11E
- Intention to implement price hike in 'Parachute'. Roll valuations to FY12E earnings. Maintain 'HOLD' with price target of Rs128/Share

Revenue growth of 13.4% yoy and adjusted net profit growth of 22.8% yoy in Q1FY11- ahead of expectation

Marico Q1FY11 performance was ahead of estimates. The key highlights are - (1) 13.4% yoy growth in revenues to Rs7.9 bn (2) 9.1% yoy growth in operating profit to Rs1.1 bn and (3) adjusted net profit grew 22.8% yoy to Rs737 mn. Blended volume growth in the quarter was satisfactory at 16.0% yoy versus 14.0% in Q3FY10 and Q4FY10. Both domestic and international business reported strong revenue traction. Only exception, 55 bps decline in operating margins led by reduction in gross margins was not on expected lines.

Blended volume growth of 16% in Q1FY11 versus 14.0% in Q3FY10 and Q4FY10

Blended volume growth of 16% in Q1FY11 versus 14.0% in Q3FY10 and Q4FY10 was satisfactory. 'Parachute' - flagship brand (oil in rigid pack) reported volume growth of 14% yoy - providing good start to the fiscal year. The volume market share was 46% and along with 'Nihar' and 'Oil of Malabar' stood at 53%. 'Saffola' refined oils recorded strong volume growth of 17.5% yoy - continued the growth momentum. Hair-Oils portfolio recorded 27% volume growth in Q1FY10. Most importantly, unlike immediate preceding quarters, benefit from promotional activity was lower in the volume growth.

Kaya losses at Rs47 mn - closure of 6 clinics and addition of 4 clinics through Derma Rx

Kaya business clocked revenue growth of 3% yoy, but factoring the acquired business of Derma Rx (Singapore) growth was 14% yoy to Rs506 mn. Kaya business reported net loss in the quarter at Rs47 mn. Kaya closed 6 clinics in India as a planned strategy. Currently, Kaya has 81 clinics in India, 13 in Middle East, 1 in Dhaka and 4 clinics in Singapore and Malaysia (through Derma Rx).

Contemplating to implement price hike in 'Parachute' in Q2FY11E

Prices of Copra Oil has risen 4-6% in last 2-3 months. Further, citing current supply-demand scenario, management hints at hardening of prices by another 6%. Marico has hinted at increasing 'Parachute' prices by 3-5% in July-September 2010 to offset the impact of rising material prices. Any price hike in key brands will be viewed positively-hinting at ability to combat inflationary environment and fiercely competitive scenario.

Financial Snapshot

Rs Mn

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	EPS APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY09	23,884	3,048	12.8	1,969	3.1	11.6	49.1	40.7	26.1	16.9
FY10	26,719	4,061	15.2	2,445	4.0	29.6	44.5	31.4	19.1	11.9
FY11E	30,683	4,493	14.6	2,979	4.9	21.8	39.1	25.8	16.8	8.7
FY12E	35,448	5,217	14.7	3,510	5.8	17.8	34.6	21.9	14.1	6.7

Strong growth outlook– shared in the Q1FY11 earnings conference call

Strong growth outlook was directed by management in the Q1FY11 earnings conference call. Overall blended volume growth expectation for FY11E is 14-16% - with Parachute at 8-10%, Saffola at 14-16% and Hair Oils portfolio at +20%. There is expectation of material inflation – with Copra Oil expected to get dearer by 10%. Marico expects to report volume-led growth until H1FY11E, thereafter transit to value-led growth in H2FY11E. Both, rural and urban markets remain buoyant, but rural is relatively more buoyant than urban.

Fine-tune FY11E and FY12E earnings estimates, Maintain HOLD rating

Post Q1FY11 earnings performance; we have factored volume growth of 8% in 'Parachute', 17% in 'Saffola' and 20% in 'Hair Oils' for FY11E and FY12E. Further, intention to affect price hike in 'Parachute' – clearly hints at ability to combat inflationary environment and fiercely competitive scenario. We upgrade our FY11E earnings estimates by 6% from Rs4.6/Share to Rs4.9/Share and introduce FY12E earnings estimates of Rs5.8/Share. We roll valuations to FY12E earnings (versus FY11E earlier), amid intention to implement price hike and resolving ambiguity on near-term earnings performance. We maintain 'HOLD' rating with price target of Rs128/Share.

Consolidated Quarterly Financials

	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY Growth	QoQ Growth
Net Sales	6,967.2	6,922.1	6,695.7	6,022.6	7,901.5	13.4%	31.2%
Expenditure	6005.5	5972.4	5707.9	5173.3	6846.7	14.0%	32.3%
Material Cost	3515.0	3261.6	3167.5	2646.0	4033.2	14.7%	52.4%
% of Sales	50.5%	47.1%	47.3%	43.9%	51.0%	60 bps	710 bps
Employee Expenses	487.6	503.1	474.0	436.6	540.4	10.8%	23.8%
% of Sales	7.0%	7.3%	7.1%	7.2%	6.8%	-20 bps	-40 bps
Selling & Administrative Expenses	843.6	913.6	855.8	892.4	937.9	11.2%	5.1%
% of Sales	14.0%	15.3%	15.0%	17.2%	13.7%	-30 bps	-360 bps
Other Expenses	1159.3	1294.1	1210.7	1198.2	1335.2	15.2%	11.4%
% of Sales	16.6%	18.7%	18.1%	19.9%	16.9%	30 bps	-300 bps
Operating Profit	961.7	949.7	987.8	849.3	1054.8	9.7%	24.2%
EBIDTA (%)	13.8%	13.7%	14.8%	14.1%	13.3%	-50 bps	-80 bps
Other Income	31.0	41.9	56.3	53.0	44.4	43.3%	-16.4%
Interest	86.7	56.1	64.0	50.4	70.0	-19.3%	39.0%
Depreciation	95.4	178.7	165.7	143.1	120.4	26.2%	-15.8%
PBT	810.5	756.8	814.3	708.8	908.7	12.1%	28.2%
Tax	210.3	133.3	192.3	126.1	171.4	-18.5%	35.9%
PAT	600.2	623.5	622.0	582.8	737.3	22.8%	26.5%
PAT (%)	8.6%	9.0%	9.3%	9.7%	9.3%	70 bps	-30 bps
EPS	1.0	1.0	1.0	1.0	1.2	22.8%	26.5%

Margins (%)						(bps)	(bps)
EBIDTA	13.8%	13.7%	14.8%	14.1%	13.3%	-50	-80
EBIT	12.9%	11.7%	13.1%	12.6%	12.4%	-50	-20
EBT	11.6%	10.9%	12.2%	11.8%	11.5%	-10	-30
PAT	8.6%	9.0%	9.3%	9.7%	9.3%	70	-30
Effective Tax rate	25.9%	17.6%	23.6%	17.8%	18.9%	-710	110

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
Net Sales	23884	26719	30683	35448
Growth	25.4	11.9	14.8	15.5
Expenses	20836	22658	26190	30231
Growth	25.3	8.7	15.6	15.4
Raw Materials	12847	13057	15256	17545
% Of Sales	57.9	53.5	55.5	56.0
Employee Cost	1648	1977	2373	2847
% Of Sales	6.9	7.4	7.7	8.0
Manufacturing Expenses	1843	2061	2367	2735
% Of Sales	7.7	7.7	7.7	7.7
Admin Expenses	1054	1174	1308	1459
% Of Sales	4.4	4.4	4.3	4.1
Selling & Distribn Expenses	3445	4389	4886	5645
% Of Sales	14.4	16.4	15.9	15.9
Ebidta	3048	4061	4493	5217
Growth	25.7	33.2	10.6	16.1
Ebidta%	12.8%	15.2%	14.6%	14.7%
Other Income	-26	-247	40	30
Interest	286	267	246	224
Depreciation	358	413	468	522
PBT	2378	3134	3819	4501
Tax	409	690	840	990
PAT (Before EO Item)	1969	2445	2979	3510
Growth	24.2	24.2	21.8	17.8
Net Margin%	8.2%	9.2%	9.7%	9.9%
E/O Item	-82	0	0	0
Reported PAT	1887	2445	2979	3510

CashFlow

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
Pre-Tax Profit	2296	3134	3819	4501
Depreciation	407	413	468	522
Chg in W Cap	-1007	285	-200	-301
Tax Paid	336	690	840	990
Operating CashFlow	1361	3142	3247	3732
Capex	-922	-700	-700	-700
Free Cash Flow	439	2442	2547	3032
Investments	0	0	0	0
Equity Capital	0	0	0	0
Loans	187	-500	-500	-500
Dividend	-477	-521	-642	-795
Others	0	0	0	1
Net Change in Cash	148	1422	1404	1737
Opening Cash Position	742	922	2344	3748
Closing Cash Position	890	2344	3748	5485

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
Equity Share Capital	609	609	609	609
Reserves	3926	5850	8186	10902
Networth	4535	6459	8795	11511
Suecured Loans	1075	1075	1075	1075
Unsecured Loans	2675	2175	1675	1175
Loan Funds	3750	3250	2750	2250
Total Liabilities	8285	9709	11545	13761
Gross Block	5419	6119	6819	7519
Less: Depreciation	2035	2447	2915	3437
Net Block	3385	3672	3904	4082
Capital Work In Progress	577	577	577	577
Investments	121	121	121	121
Current Assets	6719	8019	10141	12772
Inventories	3390	3296	3712	4231
Debtors	1108	1083	1220	1391
Cash&Bank	922	2344	3748	5485
Loans&Advances	1299	1297	1461	1665
Current Liabilities & Provisions	3158	3322	3839	4432
Net Current Assets	3561	4698	6302	8340
Miscellaneous Expenditure	0	0	0	0
Deferred Tax	641	641	641	641
Total Assets	8285	9709	11545	13761

Key Ratios

Y/E, Mar	FY09	FY10P	FY11E	FY12E
Profitability %				
Ebidta Mgn	12.8	15.2	14.6	14.7
PAT Mgn	8.2	9.2	9.7	9.9
ROCE	29.4	29.5	29.8	29.1
ROE	49.1	44.5	39.1	34.6
Per Share Data				
EPS	3.1	4.0	4.9	5.8
CEPS	3.7	4.7	5.7	6.6
BVPS	7.4	10.6	14.4	18.9
DVPS	0.7	0.9	1.1	1.3
Valuations				
PER	40.7	31.4	25.8	21.9
CPER	34.2	26.9	22.3	19.0
P/BV	16.9	11.9	8.7	6.7
Ev/Sales	3.3	2.9	2.5	2.1
Ev/Ebidta	26.1	19.1	16.8	14.1
Dividend Yield	0.5	0.7	0.8	1.0
Turnover X Days				
Debtor TO	16.2	16.2	16.2	16.2
Inventory TO	49.3	49.3	49.3	49.3
Gearing Ratio				
Net Debt/Equity	0.6	0.1	-0.1	-0.3
Total Debt/Equity	0.8	0.5	0.3	0.2

Recommendation History: Marico – MARCO IN

Date	Reports	Reco	CMP	Target
29.04.2010	Marico Q4FY10 Result Update	Reduce	112	94
29.01.2010	Marico Q3FY10 Result Update	Reduce	98	85
30.10.2009	Marico Q2FY10 Result Update	Reduce	98	85
24.07.2009	Marico Q1FY10 Result Update	Reduce	86	82

Recent Research Reports

Date	Reports	Reco	CMP	Target
29.07.2010	Hindustan Unilever Q1FY11 Result Update	Hold	252	257
29.07.2010	Asian Paints Q1FY11 Result Update	Hold	2,585	2,510
26.07.2010	GCPL Q1FY11 Result Update	Accumulate	341	371
03.06.2010	GCPL Company Update	Accumulate	327	371

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