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Consumer Sector | Company Update

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Marico Industries

Parachute price cuts

HOLD

Price: Rs99 | Target Price: Rs114

Stock Details

Reuters / Bloomberg	MRCO B0 / MRCO IN
Equity Capital (mn no. of Shares)	609.3
Face Value (Re)	1
52 Week H/L (Rs)	113 / 56
Market Cap (Rsbn)	60.3
Daily Avg. Volume (mn no of shares)	0.4
Daily Avg. Turnover (US\$ Mn)	0.9
BSE Sensex / Nifty	15915 / 4,757

Source : Capitaline

Price Performance

(%)	1M	3M	12M	YTD
Absolute	(2.2)	(3.5)	68.3	(4.0)
Rel. to Sensex	6.9	(2.1)	(3.0)	4.8

Source : Capitaline

Consensus Versus MKSL Estimates

	MKSL	Cons	Diff (%)
FY10E			
Sales (Rs mn)	26,942	27,080	(0.5)
EPS (Rs)	3.9	4.0	(2.9)
FY11E			
Sales (Rs mn)	30,786	31,181	(1.3)
EPS (Rs)	4.7	4.8	(2.4)

Source: Bloomberg, Mangal Keshav Research Estimates

Hair Oil Brands	MRP Rs	SKU ml.	Chg (%)	Eff. Price Rs / ml
Hair & Care	60	200	0.0	0.300
Parachute Adv	48	213	(20.0)*	0.226
Para Jasmine	49	200	0.0	0.245
Vatika	45	150	0.0	0.300
Clinic Plus	57	200	0.0	0.285
Brahmi Amla	60	200	0.0	0.300
Dabur Amla	62	200	0.0	0.310
Shanti Badam	53	200	0.0	0.265

Source: Mangal Keshav Research, * 25% free volume

Volume Growth

(%)	FY09	Q1FY10	Q2FY10	Q3FY10
Parachute	9	14	10	8
Hair Oil	17	9	17	10
Saffola	11	13	22	18
Sweekar				56

Source: Company, Mangal Keshav Research

Shareholding Pattern

(as on 31 st December '09)	(%)
Promoters	63.5
FIs/FII	28.7
Others	7.8

Source : Capitaline

Investment Arguments

- Price off in larger packs as well:** In our price checks recently, we observed price cuts in LUPPs as well as large SKUs of *Parachute*. Management had indicated during the recent conference call that they had cut prices of recruiter packs to correct the premium vis-à-vis other brands. However, it has withdrawn the 20% free volumes it was earlier offering. This brings their prices closer to competition.
- Price cuts indicate some volume pressure:** We believe there is some pressure on coconut oil volume growth and such price cuts are effectively to offset that pressure. Core brands in Q3FY10 did grow slower than expected and domestic volume growth of 14% was contributed in large measure by the float brand *Sweekar*. *Sweekar* had contributed around 4ppts of the total volume growth.
- Pricing and raw material outlook:** We have argued earlier that pricing premium expansion beyond what we have already seen in the recent quarters is unsustainable and hence gross margins are more likely to come down. Copra prices have remained in a relatively narrow band in the last 12months. In the last three months, it has moved up by around 10%. We do not see any major price movement in the next few months, and hence believe that pricing actions will be relatively muted. In edible oil, we are approaching the key season for safflower which should determine the pricing for *Saffola* vis-à-vis other edible oils. With food inflation remaining high, Marico runs the risk of consumers downtrading from *Saffola* to other brands, part of which could accrue to *Sweekar*.
- We expected *Parachute* volumes to grow at around 8% in FY11E. We would be concerned if hair oils and premium refined oil in consumer pack fails to grow at around 13-14% and 15-16%, respectively.
- Reiterate HOLD:** Stock is trading at 21.7x 1-year forward EPS. We reiterate our **HOLD** and 12-month target price of Rs114. We see strong FCF CAGR and likely improvement in dividend payout supporting valuations, which look a little stretched compared to historical and peer averages. Risks remain higher Kaya losses as well as sharp spurt in safflower besides weak volume growth.

Key Consolidated Financials

(YE March 31st) (Rs Mn)	FY08	FY09	FY10E	FY11E	FY12E
Total Income	19,050	23,884	26,942	30,786	35,269
Operating Profit	2,463	3,109	3,774	4,383	5,116
Net Profit	1,563	2,107	2,368	2,841	3,394
yoy change (%)	48.8	34.8	12.4	20.0	19.5
EPS (Rs)	2.6	3.5	3.9	4.7	5.6
OPM (%)	12.9	13.0	14.0	14.2	14.5
RoE (%)	27.8	30.4	28.3	28.4	28.4
RoCE (%)	23.9	24.6	23.1	24.9	27.1
P/E (x)	38.5	28.6	25.4	21.2	17.7
EV/EBITDA (x)	25.6	20.2	16.5	13.8	11.5

Source : Company, Mangal Keshav Research Estimates

Marico- Taking prices down

Coconut Oil Brands	MRP (New)		MRP (Old)		Eff. Price Rs / ml	Chng (%)	Comments
	Rs	ml.	Rs	ml.			
<i>Parachute</i>	18	100	21	120	0.180	2.9	20% free scheme withdrawn
<i>Parachute</i>	39	200	39	240	0.195	20.0	20% free scheme withdrawn
<i>Parachute</i>	185-25	1000	185	1000	0.160	(13.5)	Rs25 off on MRP
<i>Cocoraj</i>	21	100	21	100	0.210	0.0	Priced at a premium to <i>Parachute</i>
<i>Cocoraj</i>	39	200	39	200	0.195	0.0	
<i>Cocoraj</i>	185	1000	185	1000	0.185	0.0	Priced at a premium to <i>Parachute</i>

Source: Mangal Keshav Research Estimates

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