

Marico (MARIN)

₹ 126

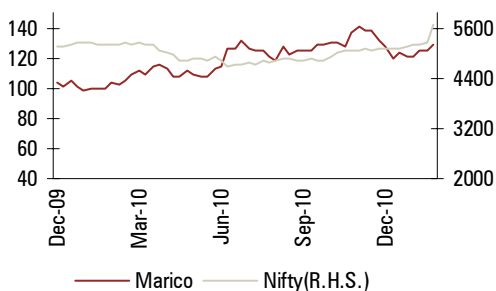
Rating matrix	
Rating	: Buy
Target	: ₹ 143
Target Period	: 12 months
Potential Upside	: 13%

Key Financials (₹ crore)				
	FY09	FY10	FY11E	FY12E
Net Sales	2,388.4	2,660.8	3,145.7	3,859.7
EBITDA	304.0	375.1	395.6	574.4
Net Profit	188.7	231.7	275.7	377.7
EPS (₹)	3.1	3.8	4.5	6.2

Valuation summary				
	FY09	FY10	FY11E	FY12E
P/E	40.7	33.1	27.9	20.3
Target P/E	47.8	39.0	32.8	23.9
EV / EBITDA	26.2	21.4	20.0	13.5
Price to Book Vc	16.9	11.8	11.7	9.1
RoNW(%)	49.1	41.8	42.2	50.5
RoCE (%)	33.1	33.1	35.4	52.6

Stock data	
Market Capitalisation	₹ 7677 crore
Total Debt (FY10)	₹ 445.9 crore
Cash & Investments (FY10)	₹ 194.2 crore
EV	₹ 8011.6 crore
52 week H/L	153 / 96
Equity capital	₹ 61.4 crore
Face value	₹ 1
MF Holding (%)	4.5
FII Holding (%)	25.2

Price movement



Analyst's name

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WHAT'S CHANGED...

PRICE TARGET	Changed from ₹ 149 to ₹ 143
EPS (FY11E)	Unchanged
EPS (FY12E)	Unchanged
RATING.....	Add to Buy

High copra prices hit margins, volume growth remains strong...

Marico's Q3FY11 results were in line with our estimates with sales growing by 22.1% to ₹ 817.8 crore led by ~15% volume growth and ~7% price led growth. EBITDA margin dipped by 260 bps to 12.2%, led by higher raw material cost. Raw material cost increased from 39.2% of the sales in Q3FY10 to 43.1% in Q3FY11 due to higher copra and rice bran prices. Interest cost increased by 19.5% to ₹ 7.6 crore and other income increased by 21.2% to ₹ 6.9 crore during the quarter. Net profit rose by 10% to ₹ 69.5 crore on the back of higher EBITDA and other income.

▪ Egypt disturbances may impact production temporarily

Egypt has been Marico's manufacturing hub for Middle East and North Africa (MENA) operations that contribute ~8% to the company's revenues. The company had to shut down production facilities in Egypt temporarily due to disturbances in the country, which we believe could negatively impact the supply in the MENA region. Though the company has plants to supplement the supplies from India, any prolonged closure of the facility would affect the sales in the region in Q4FY11.

Valuation

At the current market price of ₹ 126, the stock is trading at 27.9x and 20.3x its FY11 and FY12 estimated EPS of ₹ 4.5 and ₹ 6.2, respectively. The company has witnessed a volume growth of 31% in hair oils and 13% and 5% price rise in Saffola and Parachute, respectively. Simultaneously, earnings from Kaya have also improved by ₹ 2.8 crore YoY in Q3FY11. We believe the rising copra and safflower prices would continue to haunt margins as it would not be possible to pass on the entire increased cost to consumers. We have valued the stock at 23x its FY12E EPS of ₹ 6.2 with a price target of ₹ 142.6 per share with a **BUY** rating.

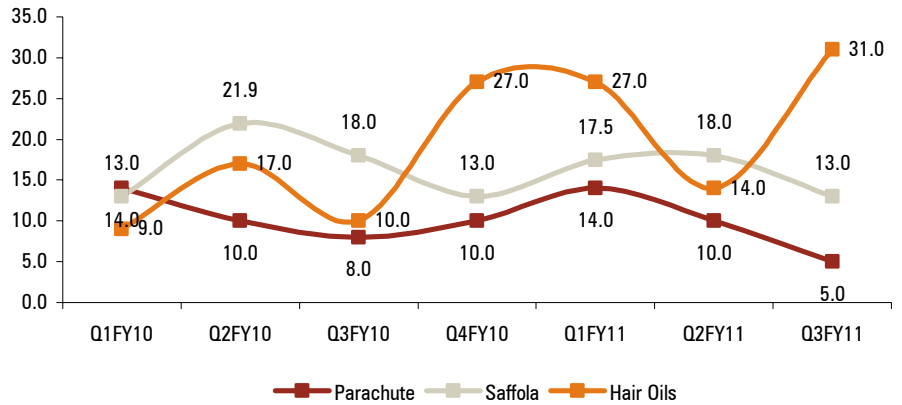
Exhibit 1: Performance Highlight

₹ crore	Q3FY11	Q3FY11E	Q3FY10	Q2FY11	YoY(%)	QoQ(%)
Net Sales	817.7	759.0	669.6	778.8	22.1	5.0
EBITDA margin (%)	12.2	13.0	14.8	12.7	-261bps	-55bps
Depreciation	14.6	8.0	16.6	14.0	-11.9	4.8
Interest	7.6	7.0	6.4	6.5	19.5	18.2
Other Income	6.9	8.0	5.7	7.1	21.2	-3.3
Reported PAT	69.5	72.1	63.2	71.6	10.0	-2.8
EPS (Rs)	1.1	1.2	1.0	1.2	14.1	-2.8

Source: Company, ICICIdirect.com Research

Exhibit 2: Volume growth (%)

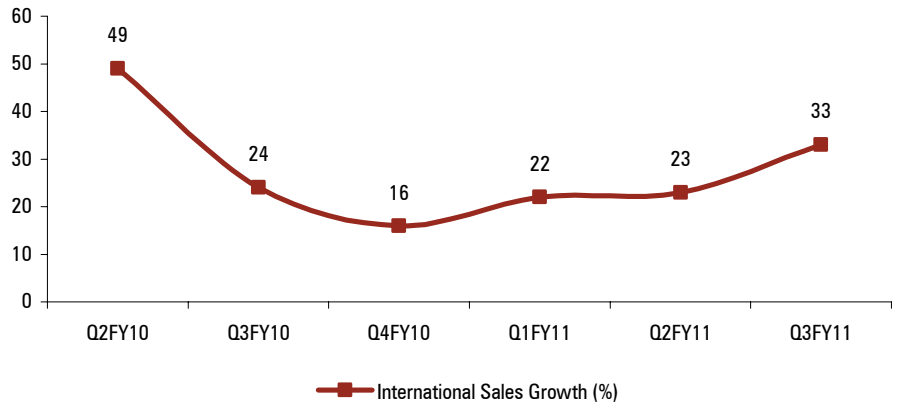
Lower volume growth in Parachute but hair oils witness robust growth



Source: Company, ICICIdirect.com Research

Exhibit 3: International sales growth (%)

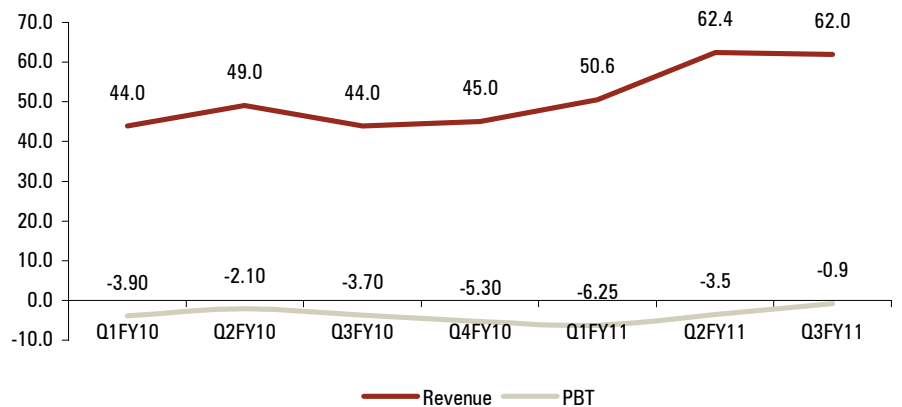
International sales have been witnessing robust growth of almost 33% driven by 25% volume rise and 8% price rise



Source: ICICIdirect.com Research

Exhibit 4: Kaya revenue and PBT (₹ crore)

Kaya's business continues to witness revenue growth (~41% YoY to ₹ 62 crore) with losses curbed at ₹ 0.9 crore against ₹ 3.7 crore in the corresponding quarter last year



Source: ICICIdirect.com Research

Price hikes taken in selected SKUs of Parachute and Saffola

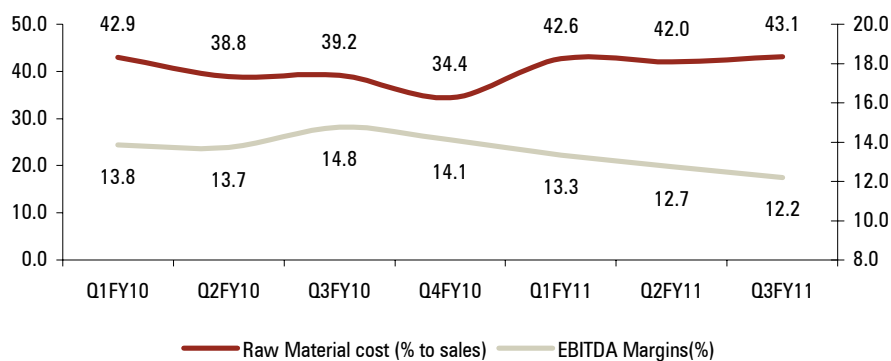
Exhibit 5: Price increase taken (%)

Parachute (50 ml)	30	Saffola Kardi Oil (1 Litre)	10
Parachute (100 ml)	19	Saffola Tasty Blend (1 litre)	12
Parachute (200 ml)	17	Saffola Gold (1 litre)	11
Parachute (250 ml)	19	Saffola Active (1 litre)	9
Parachute (500 ml)	15		

Source: Company, ICICIdirect.com Research

Raw material cost continues to pressurise margins

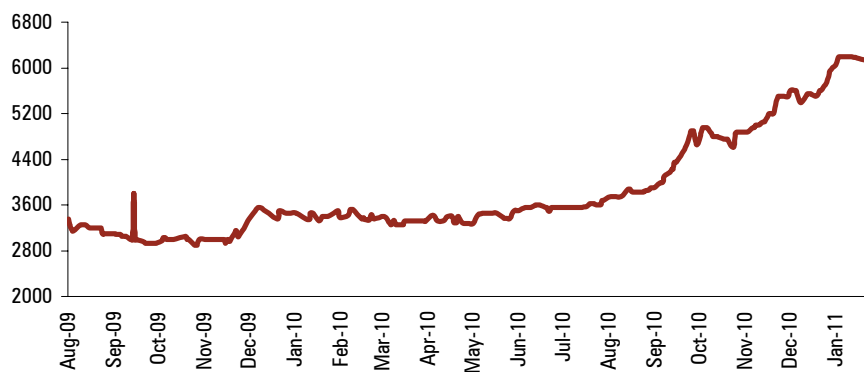
Exhibit 6: Raw material cost (%) and EBITDA margins (%)



Source: Company, ICICIdirect.com Research

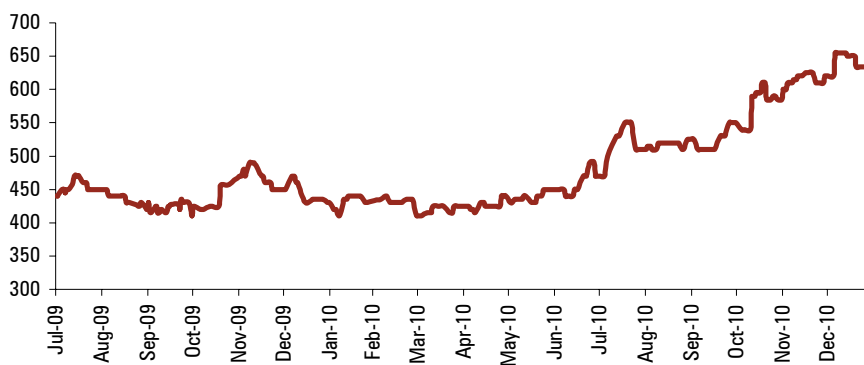
Copra prices surged to above ₹ 6000 resulting in high raw material cost

Exhibit 7: Copra price trend (₹ per quintal)



Source: Company, ICICIdirect.com Research

Exhibit 8: Rice bran price trend (₹ per quintal)



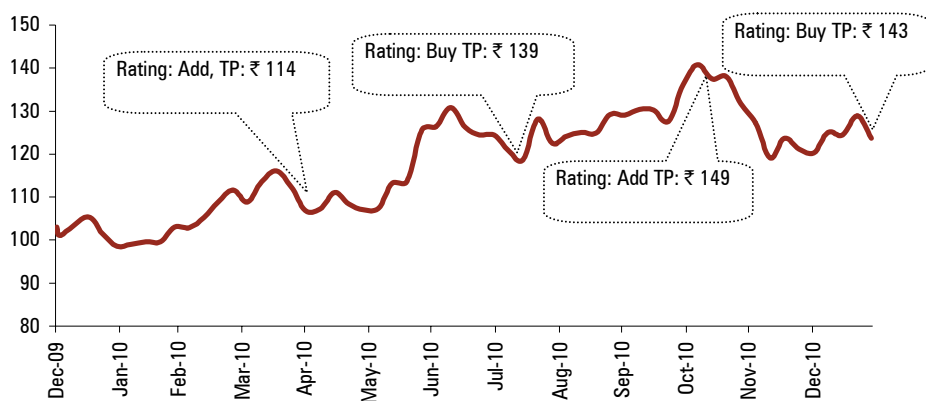
Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe (FMCG)

Asian Paints			Sales (₹ crore)	EPS (₹)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	ASIPAI CMP	2585.0 FY10	5125.1	86.9	29.7	20.2	79.5	81.6
	Target	2890.0 FY11E	7831.7	92.3	28.2	17.9	61.5	58.1
MCap	24795.3 Upside	11.8 FY12E	9332.0	110.8	23.3	15.7	53.7	45.8
Kansai Nerolac			Sales (₹ crore)	EPS (₹)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	GOONER CMP	891 FY10	1706.4	30.6	29.1	18.5	22.4	28.8
	Target	906 FY11E	2144.8	33.0	27.0	16.4	20.9	27.4
MCap	4801.6 Upside	1.7 FY12E	2468.0	49.1	18.1	12.8	24.6	29.7
Dabur India			Sales (₹ crore)	EPS (₹)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	DABIND CMP	94 FY10	3391.3	2.9	32.4	26.2	57.0	55.5
	Target	106.0 FY11E	3933.2	3.3	28.5	22.5	52.5	55.5
MCap	16362.6 Upside	12.8 FY12E	4558.6	3.9	24.1	19.2	50.1	55.5
Marico			Sales (₹ crore)	EPS (₹)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	MARIN CMP	126.0 FY10	2660.8	3.8	33.1	21.4	41.8	33.1
	Target	143.0 FY11E	3145.7	4.5	28.0	20.0	42.2	35.4
MCap	7677.0 Upside	13.5 FY12E	3859.7	6.2	20.3	13.5	50.5	52.6
Jyothy Lab			Sales (₹ crore)	EPS (₹)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	JYOLAB CMP	235.0 FY10	598.1	10.1	23.3	23.2	19.4	20.0
	Target	265.0 FY11E	719.9	11.0	21.4	19.4	12.3	12.8
MCap	1903.5 Upside	12.8 FY12E	870.1	13.2	17.8	15.5	13.8	15.0

Source: Company, ICICIdirect.com Research

Exhibit 9: Recommendation History



Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: 20% or more;
Buy: Between 10% and 20%;
Add: Up to 10%;
Reduce: Up to -10%
Sell: -10% or more;

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