

## Marico Ltd

### Results above estimates; Maintain BUY

During Q3FY11, Marico reported a YoY growth of 22.1%/1%/11.8% in its sales/EBITDA/PAT, as against our estimates of 15%/(8%)/(1%)—thus posting above-expected results for the quarter. The company reported a volume growth of 15%, with the India business clocking a 10% volume growth and the international business 25%. Kaya business reported strong revenue traction and got back to same-clinic sales growth of 10%. However, a 62% YoY increase in copra prices dented the company's EBITDA margins by 260bps, with gross margins declining sharply. To account for the lower gross margins, we are slightly lowering our earnings estimates for FY11/FY12/FY13 by 5.1%/2.8%/1.4%. We maintain our BUY rating on the stock with a Sept' 11 price target of Rs 150.

**Strong price-led sales growth:** Marico reported sales growth of 22.1% YoY to Rs 8.1bn, with overall volume growth coming in at 15%. The company has taken a strong price increase of 24% in its flagship *Parachute* coconut oil brand, which reported a 5% volume/14% value growth during the quarter. *Saffola* also saw price increases in the quarter with value/volume growth at 24%/ 13%. The value-added hair oil portfolio reported strong volume growth of 31% for the quarter, with Marico improving its market share by 140bps in Q3FY11.

**Kaya reports strong numbers; international business sees another quarter of strong growth:** Kaya business reported a 40% YoY growth in Q3FY11, with organic growth (excluding the DermaRx acquisition) at 11%. The company also reported a same-clinic sales growth of 10% for the quarter. India clinics reported 5% sales growth (8% sales growth for same clinics). International business posted a strong 33% same-currency sales growth with 25% volume and 8% price-led growth, as South Africa and Malaysia reported 30% growth each.

**Higher copra prices pressurise gross margins:** Marico reported a flat EBITDA on a YoY basis to Rs 997mn, above our expectations, with margins contracting 260bps YoY largely on account of a 515bps decline in gross margins. Copra and rice bran were the two key commodities hitting margins, as prices of these inputs increased by 62% and 25% YoY respectively. The company was able to salvage some amount of margin decline with reduction in A&P and other expenses. Adj. PAT grew 11.8% YoY to Rs 695mn, favourably impacted by a lower tax rate and depreciation.

**Maintain BUY with a Sept '11 price target of Rs 150:** We are marginally lowering our earnings estimates for FY11/FY12/FY13 by 5.1%/2.8%/1.4% on account of Marico's lower gross margins, while maintaining our Sept '11 price target of Rs 150 with a BUY rating on the stock. Marico remains one of our top picks in the mid-cap FMCG space as the company has strong pricing power across categories—a strong positive in the current inflationary scenario.

#### Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	26,608	31,673	38,046	43,291
Growth (%)	11.4	19.0	20.1	13.8
Adj net income	2,433	2,772	3,424	4,168
Growth (%)	19.4	13.9	23.5	21.7
FDEPS (Rs)	4.0	4.5	5.6	6.8
Growth (%)	18.9	13.4	23.5	21.7

#### Profitability and return ratios

(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	14.1	12.4	12.9	13.7
EBIT margin	11.8	10.6	11.0	11.8
Adj PAT margin	9.1	8.8	9.0	9.6
ROE	43.9	36.8	35.2	33.6
ROIC	28.1	28.2	32.2	35.1
ROCE	27.3	26.6	28.8	28.7

#### What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 127	Rs 150	BUY	LOW

BSE	NSE	BLOOMBERG
531642	MARICO	MRCO IN

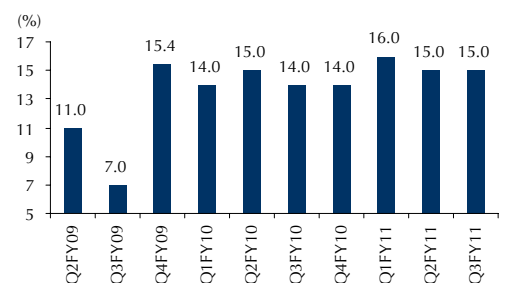
#### Company data

Market cap (Rs mn / US\$ mn)	78,386 / 1,720
Outstanding equity shares (mn)	614.1
Free float (%)	37.0
Dividend yield (%)	0.9
52-week high/low (Rs)	153 / 96
2-month average daily volume	570,756

#### Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Marico	127	5.5	(6.4)	1.4
BSE FMCG	3,448	(3.8)	(5.3)	7.1
Sensex	18,684	(6.9)	(7.6)	3.7

#### Consolidated volume growth (YoY)



#### Valuation matrix

(x)	FY10	FY11E	FY12E	FY13E
P/E @ CMP	32.1	28.3	22.9	18.8
P/E @ Target	37.7	33.2	26.9	22.1
EV/EBITDA @ CMP	21.2	20.3	16.3	13.5



## Result highlights

**Fig 1 - Actual vs estimated performance**

(Rs mn)	Actual	Estimate	% Variance
Revenue	8,177	7,700	6.2
EBITDA	997	909	9.7
Adj net income	695	616	12.9
EBITDA margins (%)	12.2	11.8	40bps
Adj. PAT margins (%)	8.5	8.0	50bps

Source: RCML Research

**Fig 2 - Consolidated Quarterly performance**

(Rs mn)	Q3FY11	Q3FY10	% Chg YoY	Q2FY11	% Chg QoQ
Net sales	8,177	6,696	22.1	7,788	5.0
Cost of revenues	4,307	3,182	35.4	3,880	11.0
Gross profit	3,870	3,514	10.1	3,908	(1.0)
Personnel costs	556	474	17.4	582	(4.4)
Other operating expenses	1,416	1,204	17.5	1,385	2.2
A&P expenses	901	848	6.3	949	(5.0)
Total Operating Expenditure	7,180	5,708	25.8	6,795	5.7
Operating profit	997	988	0.9	993	0.4
Depreciation	146	166	(11.7)	140	4.8
Other income	69	57	22.2	71	(3.3)
Interest	76	65	18.2	65	18.2
PBT	843	814	3.6	860	(1.9)
Tax	133	183	(27.1)	126	5.7
PAT	695	622	11.8	716	(2.8)
EBITDA margin (%)	12.2	14.8	(260bps)	12.7	(55bps)
FDEPS (Rs)	1.13	1.02	10.8	1.17	(2.9)

Source: Company, RCML Research

### Key highlights from the Concall

- ❖ **Hikes Parachute prices by 24%:** Marico has taken a total 24% price hike in the *Parachute* brand with the latest 7–8% price increase taken in the month of January 2011. The company expects this round of price increase to help maintain margins on an absolute basis. The growth in *Parachute* is in line with the market growth on YTD basis.
- ❖ **Hike of 12% for Saffola:** Despite a 12% price increase, the *Saffola* brand saw 13% volume growth for the quarter. The company expects the *Saffola* brand of rice and oats to deliver annual revenues of Rs 400mn.
- ❖ **Value-added products grow 31%:** Marico's value-added hair oil portfolio reported a strong volume growth of 31% for the quarter, with most of the brands reporting over 20% volume growth. The company has also taken a price increase of 8–10% in this portfolio. Marico's market share in the segment improved by 140bps in Q3FY11.
- ❖ **Commodity inflation update:** Copra prices increased by 62% YoY. However, the management expects the recent round of price hikes in *Parachute* to cover the impact of this increase in *Copra* prices. The *Kardi* crop is likely to come in with the onset of the season in February, and at a higher price (for Q3FY11 *Kardi* price increased by 3% YoY).

Results surprise positively

Net sales growth driven by underlying  
15% volume growth

260bps EBITDA margin compression on  
account of higher input cost inflation



- ❖ **Kaya business bounces back:** Kaya reported strong growth in the quarter with same-clinic growth bouncing back to positive territory in the current quarter. The management expects Kaya business to be profitable in FY12 with a growth of 10% in same-clinic sales.
- ❖ **International business margins to improve:** Margins in the international business currently stand at 11–11.5% and are likely to improve to company levels over the medium term. International business reported a strong 33% sales growth for the quarter, with the growth in INR coming at 28%.

**Fig 3 - Consolidated Cost Break-up**

(As a % of Net Sales)	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Material cost	47.5	43.9	51.0	49.8	52.7
A&P expenses	12.7	14.8	11.9	12.2	11.0
Personnel expenses	7.1	7.2	6.8	7.5	6.8
Other expenses	18.0	19.9	16.9	17.8	17.3

**Fig 4 - Earnings Revision**

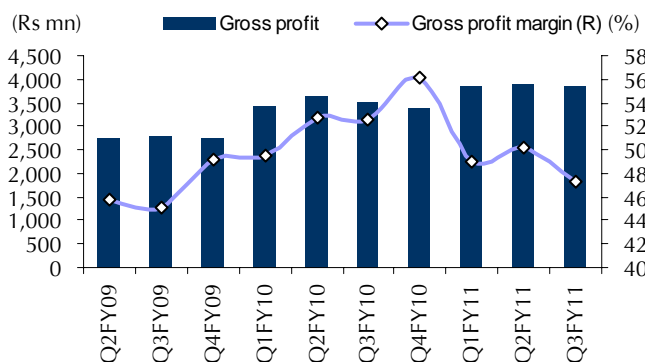
Key parameters	FY11E			FY12E			FY13E		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Revenue (Rs mn)	30,698	31,673	3.2	35,408	38,046	7.4	41,305	43,291	4.8
EBITDA (Rs mn)	4,225	3,935	(6.9)	5,022	4,894	(2.5)	5,965	5,916	(0.8)
EBITDA margin (%)	13.8	12.4	(134)	14.2	12.9	(132)	14.4	13.7	(77)
Net profit (Rs mn)	2,920	2,772	(5.1)	3,524	3,424	(2.8)	4,224	4,168	(1.3)
EPS (Rs)	4.76	4.51	(5.1)	5.74	5.58	(2.8)	6.88	6.79	(1.4)

Source: RCML Research



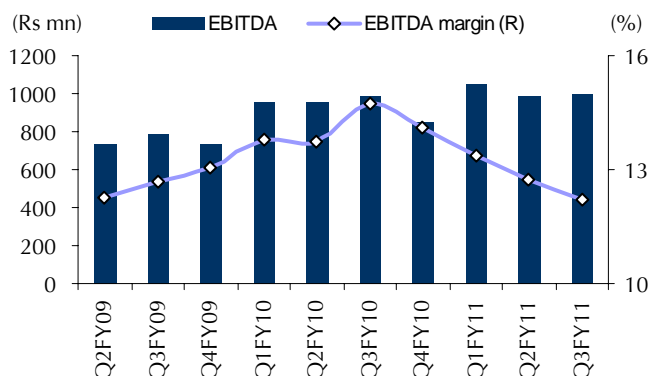
## Quarterly trends

**Fig 5 - Consolidated Gross profit margin trend**



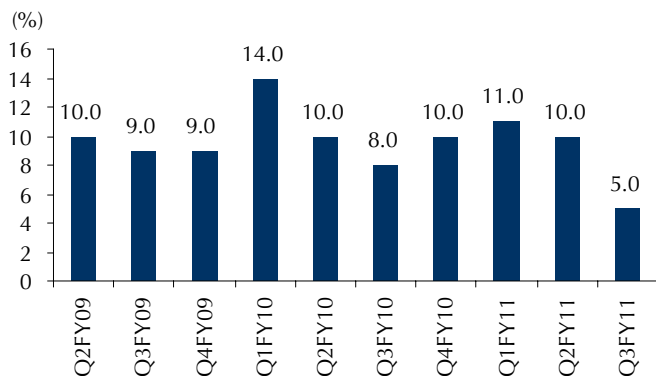
Source: RCML Research, Company

**Fig 6 - Consolidated EBITDA margin trend**



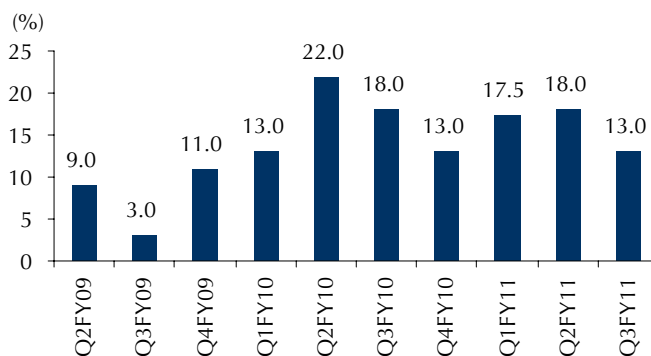
Source: RCML Research, Company

**Fig 7 - Parachute (rigid packs) volume growth**



Source: RCML Research, Company

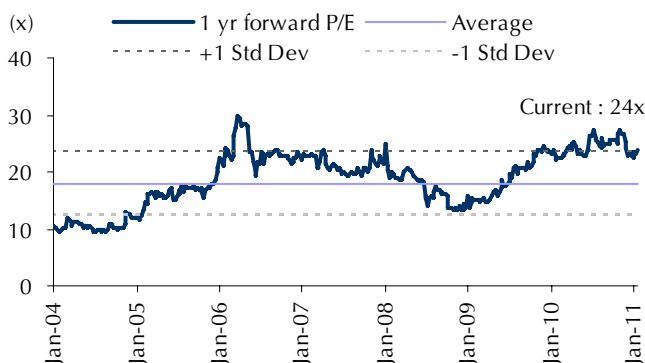
**Fig 8 - Saffola refined oil volume growth**



Source: RCML Research, Company

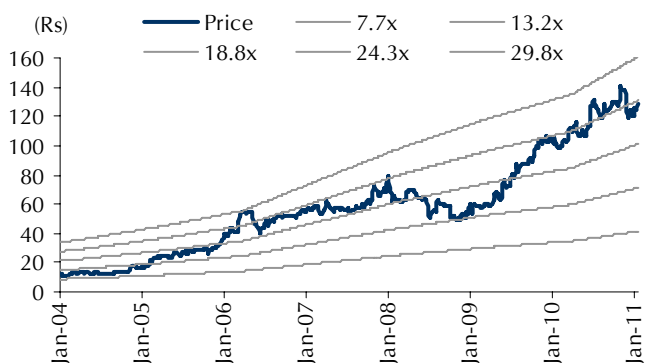
## Valuation

**Fig 9 - 1 year forward P/E**



Source: RCML Research, Bloomberg

**Fig 10 - 1 year forward P/E bands**



Source: RCML Research, Bloomberg



## Consolidated financials

### Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
<b>Revenues</b>	<b>26,608</b>	<b>31,673</b>	<b>38,046</b>	<b>43,291</b>
<i>Growth (%)</i>	11.4	19.0	20.1	13.8
<b>EBITDA</b>	<b>3,752</b>	<b>3,935</b>	<b>4,894</b>	<b>5,916</b>
<i>Growth (%)</i>	23.4	4.9	24.4	20.9
Depreciation & amortisation	601	587	705	802
EBIT	3,151	3,348	4,190	5,115
<i>Growth (%)</i>	17.5	6.3	25.1	22.1
Interest	257	270	252	252
Other income	85	241	289	347
EBT	2,979	3,320	4,227	5,210
Income taxes	643	548	803	1,042
Effective tax rate (%)	21.6	16.5	19.0	20.0
Extraordinary items	-	-	-	-
Min into / inc from associates	19	-	-	-
Reported net income	2,317	2,772	3,424	4,168
Adjustments	(117)	-	-	-
<b>Adjusted net income</b>	<b>2,433</b>	<b>2,772</b>	<b>3,424</b>	<b>4,168</b>
<i>Growth (%)</i>	19.4	13.9	23.5	21.7
Shares outstanding (mn)	609.7	614.1	614.1	614.1
<b>FDEPS (Rs) (adj)</b>	<b>4.0</b>	<b>4.5</b>	<b>5.6</b>	<b>6.8</b>
<i>Growth (%)</i>	18.9	13.4	23.5	21.7
DPS (Rs)	0.8	1.1	1.4	1.7

### Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	2,917	3,358	4,128	4,969
Non-cash adjustments	431	270	252	252
Changes in working capital	(1,287)	294	(511)	(389)
Cash flow from operations	2,061	3,923	3,870	4,832
Capital expenditure	(1,487)	(912)	(1,327)	(1,133)
Change in investments	(722)	110	-	-
Other investing cash flow	119	-	-	-
Cash flow from investing	(2,090)	(802)	(1,327)	(1,133)
Issue of equity	18	5	-	-
Issue/repay debt	807	(1,459)	(200)	-
Dividends paid	(472)	(811)	(1,001)	(1,219)
Other financing cash flow	(72)	(270)	(252)	(252)
Change in cash & cash eq	252	586	1,089	2,228
Closing cash & cash eq	1,115	1,701	2,790	5,018

### Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	1,115	1,701	2,790	5,018
Accounts receivable	1,507	1,781	2,085	2,372
Inventories	4,448	4,311	5,104	5,734
Other current assets	1,900	1,900	2,283	2,597
Investments	827	717	717	717
Gross fixed assets	5,292	5,865	7,045	8,017
Net fixed assets	2,868	2,855	3,330	3,500
CWIP	1,129	1,468	1,615	1,776
Intangible assets	850	850	850	850
Deferred tax assets, net	616	616	616	616
Other assets	-	-	-	-
<b>Total assets</b>	<b>15,260</b>	<b>16,200</b>	<b>19,389</b>	<b>23,181</b>
Accounts payable	3,096	3,589	4,311	4,905
Other current liabilities	273	316	380	432
Provisions	768	664	845	1,042
Debt funds	4,459	3,000	2,800	2,800
Other liabilities	125	125	125	125
Equity capital	609	614	614	614
Reserves & surplus	5,930	7,891	10,314	13,262
Shareholder's funds	6,540	8,505	10,928	13,876
<b>Total liabilities</b>	<b>15,260</b>	<b>16,200</b>	<b>19,389</b>	<b>23,181</b>
BVPS (Rs)	10.7	13.9	17.8	22.6

### Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
<b>Profitability &amp; Return ratios (%)</b>				
EBITDA margin	14.1	12.4	12.9	13.7
EBIT margin	11.8	10.6	11.0	11.8
Net profit margin	9.1	8.8	9.0	9.6
ROE	43.9	36.8	35.2	33.6
ROCE	27.3	26.6	28.8	28.7
<b>Working Capital &amp; Liquidity ratios</b>				
Receivables (days)	18	19	19	19
Inventory (days)	110	98	89	92
Payables (days)	78	74	75	78
Current ratio (x)	2.7	2.5	2.6	2.9
Quick ratio (x)	0.8	0.9	1.0	1.4
<b>Turnover &amp; Leverage ratios (x)</b>				
Gross asset turnover	5.4	5.7	5.9	5.7
Total asset turnover	2.0	2.0	2.1	2.0
Interest coverage ratio	12.3	12.4	16.6	20.3
Adjusted debt/equity	0.7	0.4	0.3	0.2
<b>Valuation ratios (x)</b>				
EV/Sales	3.0	2.5	2.1	1.8
EV/EBITDA	21.2	20.3	16.3	13.5
P/E	32.1	28.3	22.9	18.8
P/BV	11.9	9.2	7.2	5.6



### Quarterly trend

Particulars	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Revenue (Rs mn)	6,696	6,023	7,901	7,788	8,177
YoY growth (%)	7.5	7.3	13.4	12.5	22.1
QoQ growth (%)	(3.3)	(10.1)	31.2	(1.4)	5.0
EBITDA (Rs mn)	988	849	1,055	993	997
EBITDA margin (%)	14.8	14.1	13.3	12.7	12.2
Adj net income (Rs mn)	622	569	737	716	695
YoY growth (%)	22.0	(4.2)	22.8	3.1	11.8
QoQ growth (%)	(10.4)	(8.5)	29.6	(2.9)	(2.8)

### DuPont analysis

(%)	FY09	FY10	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	71.4	65.8	62.6	60.8	60.0
Interest burden (PBT/EBIT)	85.6	94.5	99.1	100.9	101.9
EBIT margin (EBIT/Revenues)	11.2	11.8	10.6	11.0	11.8
Asset turnover (Revenues/Avg TA)	226.4	199.4	201.4	213.8	203.4
Leverage (Avg TA/Avg equity)	274.7	240.9	209.1	183.1	171.6
<b>Return on equity</b>	<b>53.0</b>	<b>43.9</b>	<b>36.8</b>	<b>35.2</b>	<b>33.6</b>

### Company profile

Marico has a strong brand presence in hair care, skin care and edible oil segments. Its key products are coconut oils (Parachute and its variants, Nihar, and Oil of Malabar), hair oils (Shanti Badam Amla and Maha Thanda), edible oils (Saffola and Sweekar) and other products such as Mediker (anti-lice treatment), hair cream and gels and Revive (fabric starch). The skin care segment comprises Kaya Skin Care and the company's skin care business in Dubai.

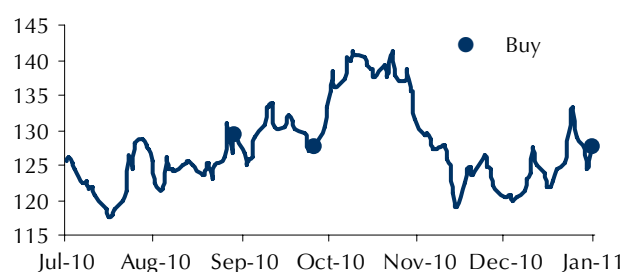
### Shareholding pattern

(%)	Jun-10	Sept-10	Dec-10
Promoters	63.5	63.0	63.0
FIs	22.9	24.2	25.2
Banks & FIs	6.2	5.2	4.6
Public	7.4	7.6	7.3

### Recommendation history

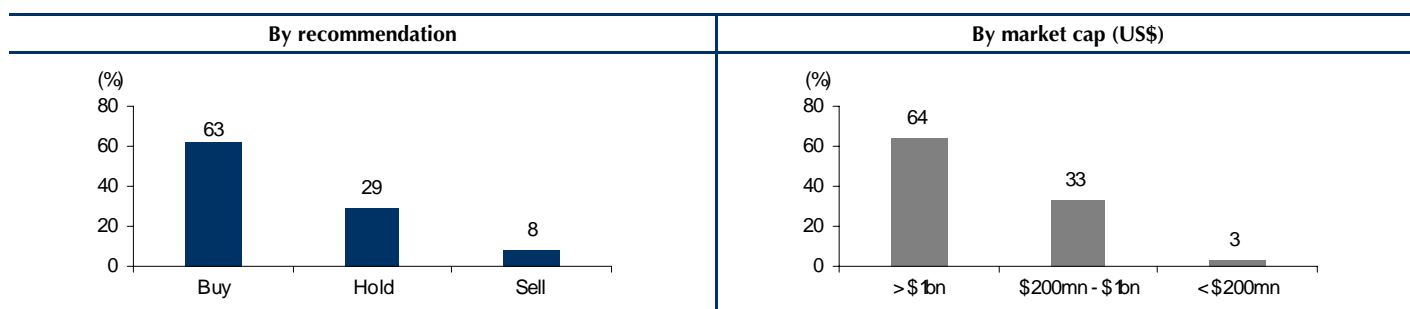
Date	Event	Reco price	Tgt price	Reco
27-Sep-10	Initiating Coverage	129	140	Buy
26-Oct-10	Results Review	133	150	Buy
28-Jan-11	Results Review	127	150	Buy

### Stock performance





### Coverage Profile



### Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

### Religare Capital Markets Ltd

4<sup>th</sup> Floor, GYS Infinity, Paranjpe 'B' Scheme, Subhash Road, Vile Parle (E), Mumbai 400 057.

### Disclaimer

**This document is NOT addressed to or intended for distribution to retail clients (as defined by the FSA).**

This document is issued by Religare Capital Markets plc ("RCM") in the UK, which is authorised and regulated by the Financial Services Authority in connection with its UK distribution. RCM is a member of the London Stock Exchange.

This material should not be construed as an offer or recommendation to buy or sell or solicitation of any offer to buy any security or other financial instrument, nor shall it, or the fact of its distribution, form the basis of, or be relied upon in connection with, any contract relating to such action or any other matter. The material in this report is based on information that we consider reliable and accurate at, and share prices are given as at close of business on, the date of this report but we do not warrant or represent (expressly or impliedly) that it is accurate, complete, not misleading or as to its fitness for the purpose intended and it should not be relied upon as such. Any opinion expressed (including estimates and forecasts) is given as of the date of this report and may be subject to change without notice.

RCM, and any of its connected or affiliated companies or their directors or employees, may have a position in any of the securities or may have provided corporate finance advice, other investment services in relation to any of the securities or related investments referred to in this document. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this briefing note.

RCM accepts no liability whatsoever for any direct, indirect or consequential loss or damage of any kind arising out of the use of or reliance upon all or any of this material howsoever arising. Investors should make their own investment decisions based upon their own financial objectives and financial resources and it should be noted that investment involves risk, including the risk of capital loss.

This document is confidential and is supplied to you for information purposes only. It may not (directly or indirectly) be reproduced, further distributed to any person or published, in whole or in part, for any purpose whatsoever. Neither this document, nor any copy of it, may be taken or transmitted into the United States, Canada, Australia, Ireland, South Africa or Japan or into any jurisdiction where it would be unlawful to do so. Any failure to comply with this restriction may constitute a violation of relevant local securities laws. If you have received this document in error please telephone Nicholas Malins-Smith on +44 (0) 20 7382 4479.