

Marico

Margin growth remains strong

Marico's Q3FY10 performance was largely in line with our expectations, barring the below-expected growth of 7.5% in its net sales mainly on account of price reductions undertaken by the company. Volume growth for the quarter stood at a healthy 14%. The EBITDA margin too expanded 205bps on better gross margins and supported a 23.9% YoY increase in adj. PAT. Currently, Marico trades at a P/E of 24.8x and 20.2x its FY10E and FY11E earnings. We maintain Buy on the stock with a price target of Rs 113.

Net sales below estimates: Marico's net sales for Q3FY10 increased by 7.5% YoY to Rs 6.7bn, standing 5.7% below our estimates. Volume growth for the quarter was healthy at 14%; lower growth in value terms was thus attributed to price cuts. Marico's flagship brand *Parachute* recorded an 8% volume growth for the quarter while volumes for *Saffola* rose 18%. The value-added hair oil category clocked a 10% growth during the quarter. International business surged 24% in revenue terms.

Kaya slows down QoQ: During the quarter, the Kaya segment grew 10% in revenue terms but fell 9% QoQ; same clinic revenues for Indian centres also declined by 13% YoY during the quarter. The business has seen some slowdown in the recent past. Also, price hikes undertaken on account of the imposition of service tax from 1 September '09 have dented the segment's performance.

EBITDA margin expands 205bps: Marico's EBITDA jumped 24.9% YoY to Rs 988mn in tandem with a 205bps expansion in the operating margin to 14.8%. Gross profit margins improved 770bps YoY primarily due to lower commodity prices; cost of copra and safflower, both key raw materials, fell 22% and 28% YoY respectively during the quarter. A&P expenses, however, increased by 190bps YoY to 12.8% of sales, restricting the growth in margins to some extent.

Adj. PAT rises 23.9%: A strong operating performance enabled Marico to report a 23.9% increase in adj. PAT to Rs 632mn during the quarter. This, however, included a provision of Rs 110mn towards dispatches of coconut oil in packets up to 200 ml. Marico Bangladesh also made a provision of ~Rs 45mn towards impairment of assets pertaining to its soap brands. Adjusting for these two items, PAT would be higher by 42% than in Q3FY09.

Estimates pared; maintain Buy: Currently, Marico trades at a P/E of 24.8x and 20.2x its FY10E and FY11E earnings. We have revised our earnings estimates by (6.7%) and (0.5%) for FY10E and FY11E. We maintain Buy on the stock with a price target of Rs 113, valuing the company at 23x its FY11E earnings.

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 98	Rs 113	BUY	LOW

BSE	NSE	BLOOMBERG
531642	MARICO	MRCO IN

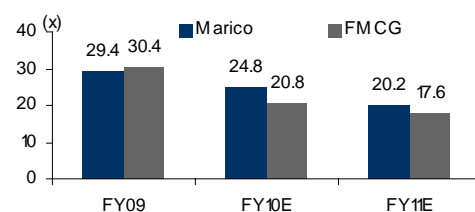
Company data

Market cap (Rs mn / US\$ mn)	59,895 / 1,292
Outstanding equity shares (mn)	609
Free float (%)	36.5
Dividend yield (%)	1.0
52-week high/low (Rs)	113 / 51
2-month average daily volume	436,697

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Dabur	99	(6.0)	0.9	12.0
BSE FMCG	2,777	(1.7)	(1.1)	5.3
Sensex	16,307	(6.1)	0.1	6.4

P/E comparison



Valuation matrix

(x)	FY09	FY10E	FY11E	FY12E
P/E @ CMP	29.4	24.8	20.2	16.3
P/E @ Target	33.5	28.4	23.0	18.6
EV/EBITDA @ CMP	20.6	16.4	14.0	11.7

Financial highlights

(Rs mn)	FY09	FY10E	FY11E	FY12E
Revenue	23,884	26,746	30,817	35,536
Growth (%)	25.4	12.0	15.2	15.3
Adj net income	2,038	2,410	2,971	3,681
Growth (%)	28.5	18.3	23.3	23.9
FDEPS (Rs)	3.3	4.0	4.9	6.0
Growth (%)	28.5	18.3	23.3	23.9

Profitability and return ratios

(%)	FY09	FY10E	FY11E	FY12E
EBITDA margin	12.7	14.3	14.6	15.1
EBIT margin	11.2	12.6	12.9	13.5
Adj PAT margin	8.5	9.0	9.6	10.4
ROE	53.1	44.7	40.8	38.2
ROIC	32.0	34.8	37.5	39.9
ROCE	31.4	29.5	30.3	30.9

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RHH: Winner of LIPPER-STARLINE broker award for "Earnings Estimates in Midcap Research 2008" | "Honourable Mention" in Institutional Investor 2009 | Voted amongst Top 5 most improved brokerages by Asia Money Poll 2009

RHH Research is also available on Bloomberg FTIS <GO> and Thomson First Call





Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	6,696	7,099	(5.7)
EBITDA	988	983	0.5
Adj net income	632	617	2.4
FDEPS (Rs)	1.04	1.01	2.4

Source: RHH

Fig 2 - Quarterly performance

(Rs mn)	Q3FY10	Q3FY09	% Chg YoY	Q2FY10	% Chg QoQ
Revenue	6,696	6,228	7.5	6,922	(3.3)
Expenditure	5,708	5,436	5.0	5,972	(4.4)
Operating profit	988	791	24.9	950	4.0
Other income	56	31	79.0	42	34.1
Interest	64	68	(5.6)	56	14.1
Depreciation	166	98	69.9	93	78.2
PBT	815	658	23.9	757	7.6
Tax	183	148	23.9	133	38.1
PAT	632	510	23.9	624	1.2
EBITDA margin (%)	14.8	12.7	205	13.7	103
FDEPS (Rs)	1.04	0.84	24.1	1.02	1.2

Source: Company, RHH

Fig 3 - Revised estimates

Key parameters (Rs mn)	FY10E			FY11E		
	Old	New	% Chg	Old	New	% Chg
Revenue	27,365	26,746	(2.3)	31,327	30,817	(1.6)
EBITDA margin (%)	14.5	14.3	(22 bps)	14.3	14.6	28bps
Net profit	2,583	2,410	(6.7)	2,985	2,971	(0.5)
FDEPS (Rs)	4.24	3.96	(6.7)	4.77	4.88	(0.5)

Source: RHH

Results marginally below estimates due to price reductions

Net sales surge on a 14% volume growth; price cuts lead to lower value growth

Lower Copra and Kardi prices boost operating performance

Estimates scaled back to account of price cuts taken by the company



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Revenues	23,884	26,746	30,817	35,536
Growth (%)	25.4	12.0	15.2	15.3
EBITDA	3,040	3,819	4,492	5,374
Growth (%)	23.4	25.6	17.6	19.6
Depreciation & amortisation	358	446	514	592
EBIT	2,682	3,374	3,979	4,781
Growth (%)	24.5	25.8	17.9	20.2
Interest	357	290	260	232
Other income	122	215	348	488
EBT	2,447	3,299	4,067	5,038
Income taxes	409	888	1,095	1,357
Effective tax rate (%)	16.7	26.9	26.9	26.9
Extraordinary items	(150)	-	-	-
Min into / inc from associates	0	-	-	-
Reported net income	1,887	2,410	2,971	3,681
Adjustments	(150)	-	-	-
Adjusted net income	2,038	2,410	2,971	3,681
Growth (%)	28.5	18.3	23.3	23.9
Shares outstanding (mn)	609.0	609.0	609.0	609.0
FDEPS (Rs) (adj)	3.3	4.0	4.9	6.0
Growth (%)	28.5	18.3	23.3	23.9
DPS (Rs)	0.7	1.0	1.2	1.5

Cash flow statement

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Net income + Depreciation	2,245	2,856	3,485	4,273
Non-cash adjustments	219	-	-	0
Changes in working capital	(1,007)	119	(555)	(451)
Cash flow from operations	1,458	2,975	2,930	3,822
Capital expenditure	(917)	(557)	(979)	(971)
Change in investments	(132)	-	-	-
Other investing cash flow	-	-	-	-
Cash flow from investing	(1,049)	(557)	(979)	(971)
Issue of equity	-	-	-	-
Issue/repay debt	187	(250)	(500)	(200)
Dividends paid	(477)	(705)	(869)	(1,077)
Other financing cash flow	-	-	-	-
Change in cash & cash eq	118	1,463	582	1,574
Closing cash & cash eq	922	2,385	2,967	4,541

Economic Value Added (EVA) analysis

Y/E March	FY09	FY10E	FY11E	FY12E
WACC (%)	11.1	11.0	11.0	11.0
ROIC (%)	32.0	34.8	37.5	39.9
Invested capital (Rs mn)	7,597	7,894	9,067	10,092
EVA (Rs mn)	1,589	1,883	2,407	2,921
EVA spread (%)	20.9	23.9	26.5	28.9

Balance sheet

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Cash and cash eq	922	2,385	2,967	4,541
Accounts receivable	1,108	1,514	1,689	1,947
Inventories	3,390	3,578	4,150	4,835
Other current assets	1,299	1,605	1,849	2,132
Investments	121	121	121	121
Gross fixed assets	4,569	4,953	5,707	6,581
Net fixed assets	2,534	2,473	2,713	2,994
CWIP	577	750	975	1,072
Intangible assets	850	850	850	850
Deferred tax assets, net	641	641	641	641
Other assets	-	-	-	-
Total assets	11,442	13,917	15,955	19,135
Accounts payable	2,465	3,093	3,341	3,852
Other current liabilities	338	424	458	529
Provisions	355	660	813	1,008
Debt funds	3,750	3,500	3,000	2,800
Other liabilities	-	-	-	-
Equity capital	609	609	609	609
Reserves & surplus	3,926	5,631	7,733	10,338
Shareholder's funds	4,535	6,240	8,342	10,947
Total liabilities	11,442	13,917	15,955	19,135
BVPS (Rs)	7.4	10.2	13.7	18.0

Financial ratios

Y/E March	FY09	FY10E	FY11E	FY12E
Profitability & Return ratios (%)				
EBITDA margin	12.7	14.3	14.6	15.1
EBIT margin	11.2	12.6	12.9	13.5
Net profit margin	8.5	9.0	9.6	10.4
ROE	53.1	44.7	40.8	38.2
ROCE	31.4	29.5	30.3	30.9
Working Capital & Liquidity ratios				
Receivables (days)	15	18	19	19
Inventory (days)	83	93	89	90
Payables (days)	65	74	74	72
Current ratio (x)	2.4	2.6	2.8	3.1
Quick ratio (x)	0.7	0.4	0.4	0.4
Turnover & Leverage ratios (x)				
Gross asset turnover	5.9	5.6	5.8	5.8
Total asset turnover	2.3	2.1	2.1	2.0
Interest coverage ratio	7.5	11.6	15.3	20.6
Adjusted debt/equity	0.8	0.6	0.4	0.3
Valuation ratios (x)				
EV/Sales	2.6	2.3	2.0	1.8
EV/EBITDA	20.6	16.4	14.0	11.7
P/E	29.4	24.8	20.2	16.3
P/BV	13.2	9.6	7.2	5.5



Quarterly trend

Particulars	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Revenue (Rs mn)	6,228	5,612	6,967	6,922	6,696
YoY growth (%)	23.0	20.0	15.9	14.7	7.5
QoQ growth (%)	3.2	(9.9)	24.2	(0.6)	(3.3)
EBITDA (Rs mn)	791	733	965	950	988
EBITDA margin (%)	12.7	13.1	13.9	13.7	14.8
Adj net income (Rs mn)	510	444	601	624	632
YoY growth (%)	11.1	47.0	29.7	32.7	23.9
QoQ growth (%)	8.4	(12.9)	35.3	3.9	1.2

DuPont analysis

(%)	FY08	FY09	FY10E	FY11E	FY12E
Tax burden (Net income/PBT)	67.0	54.8	54.8	54.8	67.0
Interest burden (PBT/EBIT)	91.2	97.8	102.2	105.4	91.2
EBIT margin (EBIT/Revenues)	11.2	12.6	12.9	13.5	11.2
Asset turnover (Revenues/Avg TA)	226.2	210.9	206.3	202.5	226.2
Leverage (Avg TA/Avg equity)	275.0	235.4	204.8	181.9	275.0
Return on equity	53.1	44.7	40.8	38.2	53.1

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. The segment provides its products and services under the brand Kaya which has 99 clinics in 35 cities.

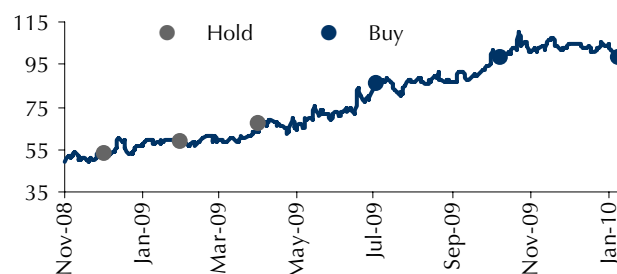
Shareholding pattern

(%)	Jun-09	Sep-09	Dec-09
Promoters	63.5	63.5	63.5
FIs	19.2	20.9	21.5
Banks & FIs	8.3	7.6	7.2
Public	9.0	8.0	7.8

Recommendation history

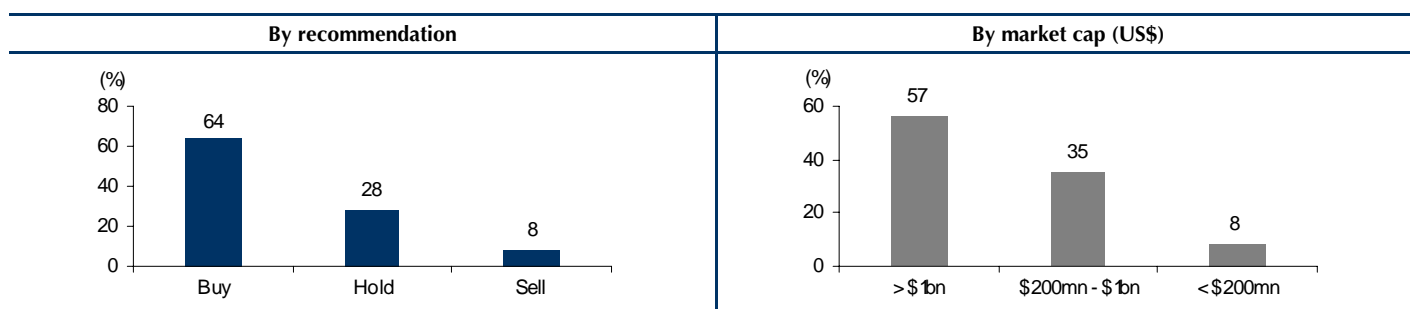
Date	Event	Reco price	Tgt price	Reco
23-Dec-08	Initiating Coverage	53	60	Hold
23-Jan-09	Results Review	59	67	Hold
22-Apr-09	Results Review	67	67	Hold
23-Jul-09	Results Review	86	100	Buy
28-Oct-09	Results Review	98	113	Buy
28-Jan-10	Results Review	98	113	Buy

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.

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