

October 27, 2010

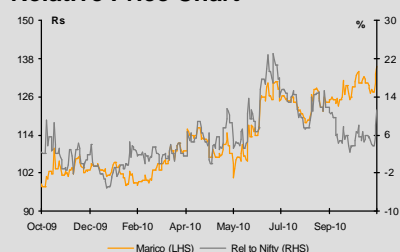
Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs 135	Rs 128
EPS change FY11E/12E (%)	-
Target Price change (%)	-
Nifty	6,013
Sensex	20,005

Price Performance

(%)	1M	3M	6M	12M
Absolute	7	8	21	40
Rel. to Nifty	7	(3)	5	13

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	FMCG
Bloomberg	MRCO@IN
Equity Capital (Rs mn)	614
Face Value(Rs)	1
No of shares o/s (mn)	614
52 Week H/L	153/94
Market Cap (Rs bn/USD mn)	83/1,866
Daily Avg Volume (No of sh)	693016
Daily Avg Turnover (US\$m)	2.0

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	63.5	63.5	63.5
FII/NRI	23.2	23.2	22.7
Institutions	6.2	6.2	6.7
Private Corp	1.0	1.0	1.0
Public	6.0	6.0	6.2

Source: Capitaline

Pritesh Chheda, CFA

pritesh.chheda@emkayglobal.com

+91 22 6612 1273

- **Marico's Q2FY11 performance meets expectation - revenue growth of 12.5% yoy to Rs7.8 bn and APAT growth of 14.8% yoy to Rs715 mn**
- **Implemented price hike to offset material price inflation - 13% in 'Parachute' and '10%' in 'Saffola' rice bran oil**
- **Satisfactory volume growth at 15% yoy - 'Parachute' grew by 10%, 'Saffola' grew by 18% and 'Hair oil' grew by 27%**
- **Maintain earnings estimates of Rs4.9/Share and Rs5.8/Share for FY11E and FY12E - Maintain 'HOLD' rating with price target of Rs128/Share**

Marico's Q2FY11 performance meets expectation - APAT growth of 14.8% yoy to Rs715 mn

Marico Q2FY11 performance meets expectation. The key highlights are (1) 12.5% yoy growth in revenues to Rs7.8 bn (2) 4.2% yoy growth in operating profit to Rs992 mn and (3) APAT growth of 14.8% yoy to Rs715 mn. Blended volume growth in the quarter was satisfactory at 15.0% yoy versus 16.0% in Q1FY11 and 14% in Q4FY10. Operating margins fell by 100 bps owing to reduction in gross margins – impact of price hikes would be visible in ensuing quarters.

Satisfactory volume growth of 15% in Q2FY11 – key brands post satisfactory performance

Satisfactory volume growth at 15% in Q2FY11 versus 15.0% in Q1FY11 and 14% in Q4FY10. 'Parachute' - flagship brand (oils in rigid pack) reported volume growth of 10% yoy and 'Saffola' refined oils recorded strong volume growth of 18% yoy – continued the growth momentum. Hair-Oils portfolio recorded 27% volume growth in Q2FY11.

Implement price hike in 'Parachute' and 'Saffola' in August – October 2010

20-25% price increase in key raw material Copra and Ricebran Oil - Marico has initiated selective price hike to offset the impact of raw material inflation. (1) 'Parachute' in rigid packs – prices increased by 5% in August 2010 and 8% in October 2010 (2) Saffola (rice bran oil) – prices increased by 5% in September 2010 and 5% in October 2010. But, no price increases taken on Parachute in flexi pouch – being a price sensitive segment. These price increases would offset the material price inflation and benefit should flow in ensuing quarters.

Strong growth outlook– shared in the Q2FY11 earnings conference call

Strong growth outlook was reiterated by management in the Q2FY11 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%. The recent price hikes would translate volume-led growth into value-led growth in H2FY11E. Both, rural and urban markets remain buoyant, but urban is now relatively more buoyant than rural.

Financial Snapshot

Rs Mn

YE-	Net	EBITDA			EPS	EPS	RoE	EV/		
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	23,884	3,048	12.8	1,969	3.1	11.6	49.1	43.6	27.9	18.1
FY10	26,608	3,741	14.1	2,433	3.8	22.7	41.8	35.5	22.7	12.9
FY11E	30,683	4,472	14.6	2,985	4.9	28.9	38.7	27.6	18.2	9.4
FY12E	35,448	5,206	14.7	3,509	5.8	17.5	34.3	23.4	15.2	7.2

Maintain earnings estimates, Maintain HOLD rating

Price hike implemented on 'Saffola' and 'Parachute' would largely offset the Impact of material price inflation. Though, Marico has lost some gross margins in the transition, it should be offset by revised taxation on profits – from 20% of PBT to 16% of PBT now. We maintain earnings estimates of Rs4.9/Share and Rs5.8/Share for FY11E and FY12E earnings. We maintain 'HOLD' rating with price target of Rs128/Share.

Quarterly Results

	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	% YoY Gr	% QoQ Gr
Net Sales	6,922.1	6,695.7	6,022.6	7,901.5	7,787.7	12.5	-1.4
Expenditure	5969.4	5707.9	5173.3	6846.7	6795.2	13.8	-0.8
Material Cost	3274.9	3167.5	2646.0	4033.2	3879.5	18.5	-3.8
% of Sales	47.3	47.3	43.9	51.0	49.8	250 bps	-120 bps
Employee Expenses	503.1	474.0	436.6	540.4	581.9	15.7	7.7
% of Sales	7.3	7.1	7.2	6.8	7.5	20 bps	60 bps
Selling & Administrative Expenses	927.6	855.8	892.4	937.9	948.9	2.3	1.2
% of Sales	15.5	15.0	17.2	13.7	14.0	-160 bps	30 bps
Other Expenses	1263.9	1210.7	1198.2	1335.2	1384.9	9.6	3.7
% of Sales	18.3	18.1	19.9	16.9	17.8	-50 bps	90 bps
Operating Profit	952.6	987.8	849.3	1054.8	992.5	4.2	-5.9
EBIDTA (%)	13.8	14.8	14.1	13.3	12.7	-100 bps	-60 bps
Other Income	41.7	56.3	53.0	44.4	71.5	71.4	61.1
Interest	55.0	64.0	50.4	70.0	64.7	17.5	-7.7
Depreciation	182.5	165.7	143.1	120.4	139.6	-23.5	15.9
PBT	756.8	814.3	708.8	908.7	859.7	13.6	-5.4
Tax	133.3	192.3	126.1	171.4	144.1	8.1	-15.9
APAT (After MI)	623.5	622.0	582.8	737.3	715.6	14.8	-2.9
APAT (%)	9.0	9.3	9.7	9.3	9.2	20 bps	-10 bps
EPS (Before Exceptional Items)	1.0	1.0	1.0	1.2	1.2	14.8	-2.9
EPS (After Exceptional Items)	1.0	1.0	1.0	1.2	1.2	14.8	-2.9

Margins (%)	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	(bps)	(bps)
EBIDTA	13.8	14.8	14.1	13.3	12.7	-100 bps	-60 bps
EBIT	11.7	13.1	12.6	12.4	11.9	10 bps	-50 bps
EBT	10.9	12.2	11.8	11.5	11.0	10 bps	-50 bps
PAT	9.0	9.3	9.7	9.3	9.2	20 bps	-10 bps
Effective Tax rate	17.6	23.6	17.8	18.9	16.8	-80 bps	-210 bps

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
Net Sales	23884	26608	30683	35448
Growth	25.4	11.4	15.3	15.5
Expenses	20836	22867	26211	30242
Growth	25.3	9.7	14.6	15.4
Raw Materials	12847	12616	15256	17545
% Of Sales	57.9	51.7	55.5	56.0
Employee Cost	1648	1901	2282	2738
% Of Sales	6.9	7.1	7.4	7.7
Manufacturing Expenses	1843	2286	2483	2869
% Of Sales	7.7	8.6	8.1	8.1
Admin Expenses	1054	1473	1265	1400
% Of Sales	4.4	5.5	4.1	3.9
Selling & Distribn Expenses	3445	4590	4925	5690
% Of Sales	14.4	17.3	16.1	16.1
Ebidta	3048	3741	4472	5206
Growth	25.7	22.7	19.5	16.4
Ebidta%	12.8	14.1	14.6	14.7
Other Income	-26	110	147	147
Interest	286	173	164	153
Depreciation	358	601	629	702
PBT	2378	3077	3827	4498
Tax	409	643	842	990
PAT (Before EO Item)	1969	2433	2985	3509
Growth	24.2	23.6	22.7	17.5
Net Margin%	8.2	9.1	9.7	9.9
E/O Item	-82	-117	0	0
Reported PAT	1887	2317	2985	3509

CashFlow

Y/E, Mar (Rs. mn)	FY09E	FY10E	FY11E	FY12E
Pre-Tax Profit	2296	2979	3827	4498
Depreciation	407	805	629	702
Chg in W Cap	-1007	-1287	1168	-303
Tax Paid	336	629	842	990
Operating CashFlow	1361	1868	4781	3907
Capex	-922	-1487	-700	-700
Free Cash Flow	439	382	4081	3207
Investments	0	-706	0	0
Equity Capital	0	218	0	0
Loans	187	807	-500	-500
Dividend	-477	-472	-643	-795
Others	0	0	0	1
Net Change in Cash	148	229	2939	1912
Opening Cash Position	742	883	1112	4051
Closing Cash Position	890	1112	4051	5963

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
Equity Share Capital	609	609	609	609
Reserves	3926	5930	8273	10986
Networth	4535	6540	8882	11595
Suecured Loans	1075	1142	1142	1142
Unsecured Loans	2675	3317	2817	2317
Loan Funds	3750	4459	3959	3459
Total Liabilities	8285	11124	12966	15180
Gross Block	5419	6142	6842	7542
Less: Depreciation	2035	2424	3053	3754
Net Block	3385	3718	3790	3788
Capital Work In Progress	577	1129	1129	1129
Investments	121	827	827	827
Current Assets	6719	8970	10444	13250
Inventories	3390	4448	3712	4231
Debtors	1108	1507	1220	1391
Cash&Bank	922	1115	4051	5963
Loans&Advances	1299	1900	1461	1665
Current Liabilities & Provisions	3158	4136	3843	4434
Net Current Assets	3561	4833	6602	8816
Miscellaneous Expenditure	0	0	0	0
Deferred Tax	641	616	616	616
Total Assets	8285	11124	12963	15177

Key Ratios

Y/E, Mar	FY09E	FY10E	FY11E	FY12E
Profitability %				
Ebidta Mgn	12.8	14.1	14.6	14.7
PAT Mgn	8.2	9.1	9.7	9.9
ROCE	29.4	26.5	25.8	25.8
ROE	49.1	41.8	38.7	34.3
Per Share Data				
EPS	3.1	3.8	4.9	5.8
CEPS	3.7	4.8	5.9	6.9
BVPS	7.4	10.5	14.3	18.8
DVPS	0.7	0.9	1.1	1.3
Valuations				
PER	43.6	35.5	27.6	23.4
CPER	36.6	28.2	22.8	19.5
P/BV	18.1	12.9	9.4	7.2
Ev/Sales	3.6	3.2	2.7	2.2
Ev/Ebidta	27.9	22.7	18.2	15.2
Dividend Yield	0.5	0.6	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	0.5	0.0	-0.2
Total Debt/Equity	0.8	0.7	0.4	0.3

Recommendation History: Marico – MARCO IN

Date	Reports	Reco	CMP	Target
29/07/2010	Marico Q1FY11 Result Update	Hold	126	128
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

Recent Research Reports

Date	Reports	Reco	CMP	Target
27/10/2010	Asian Paints Q2FY11 Result Update	Hold	2,503	2,510
26/10/2010	Titan Industries Q2FY11 Result Update	Accumulate	3,287	3,762
25/10/2010	Hindustan Unilever Q2FY11 Result Update	Reduce	306	275
27/08/2010	Hindustan Unilever Event Update	Hold	265	271

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.