

BSE SENSEX	S&P CNX	CMP: INR189	TP: INR211	Buy						
17,198	5,216									
Bloomberg	MRCO IN									
Equity Shares (m)	643.8									
52-Week Range (INR)	200/134									
1,6,12 Rel. Perf. (%)	6/18/22									
M.Cap. (INR b)	121.7									
M.Cap. (USD b)	2.2									
Year	Net Sales	PAT	EPS	EPS	P/E	P/BV	RoE	RoCE	EV/	EV/
End	(INR m)	(INR m)	(INR)	Gr. (%)	(X)	(X)	(%)	(%)	Sales	EBITDA
03/11A	31,283	2,918	4.7	24.6	-	-	31.9	29.7	-	-
03/12A	39,968	3,189	5.2	9.3	36.4	10.2	28.0	30.5	3.0	25.1
03/13E	47,179	4,361	6.8	30.5	27.9	6.0	21.6	29.7	2.6	19.5
03/14E	54,963	5,442	8.5	24.8	22.4	4.9	21.8	30.6	2.2	15.4

- Marico's 1QFY13 performance was better than our expectation. Adjusted PAT grew 45% to INR1.2b (v/s our estimate of INR1.1b), led by healthy margin expansion and higher other income.
- Consolidated sales grew 22% to INR12.6b (v/s our estimate of INR12.2b), driven by robust volume growth across key brands.
- Gross margin expanded 660bp to 49.4% due to lower copra prices; however, 300bp increase in ad spends curtailed EBITDA margin expansion at 260bp.
- Domestic volumes grew 16% - Parachute: 18%, hair oils: 25%, and Saffola: 12%. Management indicated sustainable volume growth at 9-10% in coconut oils, 15-17% in hair oils and 15% in Saffola.
- Copra prices declined 60% YoY and 10% QoQ. Though the medium-term trend in raw material prices is uncertain due to recent rise in palm oil prices, we believe Marico has enough leeway to expand margins in FY13.
- International business sales were up 17%. Organic growth was muted at 3%. Bangladesh business continues to be under pressure.
- Kaya: Same store sales (SSS) growth of 12% was lower than 4QFY12. Loss for 1QFY13 was INR73m. Product share increased to 25%. Marico has plans for a new retail identity and retail format under the Kaya brand name.
- The stock trades at 27.9x FY13E and 22.4x FY14E EPS. Maintain **Buy**.

Y/E March	FY12				FY13				FY12	FY13E	(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			Est.	Var.
Volume Growth (%)	14.0	14.0	13.0	17.0	14.0	13.0	14.0	14.0	14.0	13.5	13.0	
Net Sales	10,414	9,745	10,578	9,177	12,672	11,500	12,250	10,757	39,968	47,179	12,250	3.4%
YoY Change (%)	31.8	25.6	29.4	22.9	21.7	18.0	15.8	17.2	27.9	18.0	16.8	
COGS	5,952	5,329	5,451	4,264	6,411	5,923	6,125	6,012	20,987	24,470	6,370	0.6%
Gross Profit	4,462	4,415	5,127	4,913	6,261	5,578	6,125	4,745	18,981	22,709	5,880	6.5%
Gross margin (%)	42.8	45.3	48.5	53.5	49.4	48.5	50.0	44.1	47.5	48.1	48.0	
Other Expenditure	3,211	3,249	3,909	3,814	4,414	4,014	4,557	3,339	14,240	16,323	4,251	3.8%
% to Sales	30.8	33.3	37.0	41.6	34.8	34.9	37.2	31.0	35.6	34.6	34.7	
EBITDA	1,251	1,167	1,217	1,100	1,848	1,564	1,568	1,407	4,741	6,386	1,629	13.4%
Margins (%)	12.0	12.0	11.5	12.0	14.6	13.6	12.8	13.1	11.9	13.5	13.3	
YoY Change	18.6	17.7	22.1	38.8	47.7	34.1	28.8	27.9	15.9	34.7	30.2	
Depreciation	169	177	188	191	193	205	220	240	725	858	195	-0.9%
Interest	98	91	82	113	170	100	110	80	424	461	113	50.7%
Other Income	92	106	92	105	176	106	100	155	429	537	72	144.9%
PBT	1,075	1,005	1,039	901	1,660	1,365	1,338	1,241	4,021	5,605	1,393	19.2%
Tax	210	205	178	189	403	287	281	207	782	1,177	279	
Rate (%)	19.6	20.4	17.1	20.9	24.2	21.0	21.0	16.7	19.5	21.0	20.0	
Minority Interest	15	17	20	-2	19	13	13	21	50	66	13	
Adjusted PAT	850	783	841	714	1,238	1,065	1,044	1,014	3,189	4,361	1,102	12.4%
YoY Change (%)	15.3	9.4	21.0	-0.6	45.7	36.1	24.1	41.9	34.2	36.8	29.6	

E: MOSL Estimates

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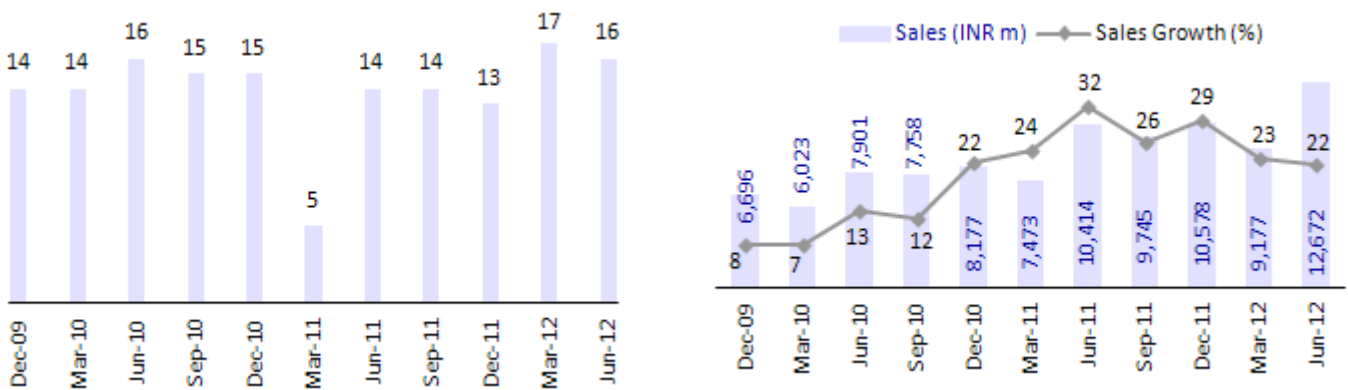
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Domestic sales up 22%; volumes up 16%; Parachute rigids volumes up 18%

- 22% domestic volume growth; consolidated organic volume growth was 14% for the quarter.
- Parachute (rigid packs) volumes grew 18%; the high growth was primarily due to low competitive intensity and distribution expansion. Marico has 35-40% market share in rural India which suggests that the growth momentum is one-off; it should sustain at 9-10% in the coming years.
- Saffola volumes grew 12% post the disappointing 3.3% growth in 4QFY12 due to lower promotional volumes and inventory de-stocking in CSD channel which accounts for 15% of Saffola sales.
- Value-added hair oils grew 25% as all brands grew at a healthy pace on the back of increased distribution and rural growth. Nihar Shanti Amla gained market share to 20% v/s 14.7% YoY.
- High focus on rural markets: In 1QFY13, for Marico, rural markets grew 26% v/s 18% growth in the urban markets. Share of rural sales stands 30%. Modern trade sales grew by 28% during the quarter led by Saffola and hair oils.
- Acquisition of HALITE from Reckitt Benckiser (brands Set Wet, Zatak and Livon) was completed on May 29, 2012. Sales for June 2012 stand at INR100m (10 days only according to the management).
- **Positive outlook:** We believe Saffola will continue to grow ahead of the market in premium edible oils; it has very little competition in that segment with strong pricing power. Further, Marico's strategy of gaining market share in hair oils with aggressive pricing and promotions is bearing fruit (market leaders in various segments are operating with very fat margins enabling it to gain share with margins in line with its current businesses).

Volume growth at 16%...

... led to robust Consol sales growth



Source: Company, MOSL

Strong volume growth momentum; Parachute and hair oils post robust growth

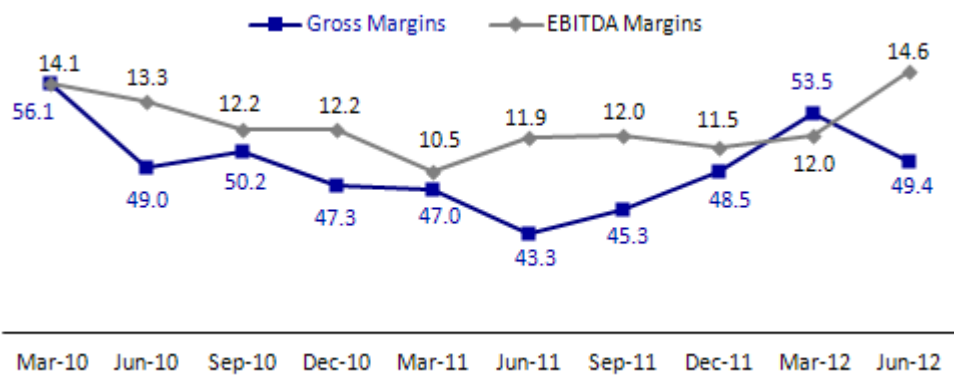
Volume Growth %	FY11	1QFY12	2QFY12	3QFY12	4QFY12	FY12	1Q13
Domestic Business							
Parachute Rigid	10.0	10.0	10.0	13.0	11.0	11.0	18.0
Saffola	16.0	15.0	11.0	15.0	3.3	11.2	12.0
Hair Oils	17.0	32.0	26.0	20.0	17.5	24.0	25.0
Domestic Business	17.0	14.0	14.0	13.0	10.3	14.0	16.0

Source: Company, MOSL

Gross margins expand 660bp led by lower copra prices; 300bp higher ad spend curtails EBITDA margin expansion to 260bp

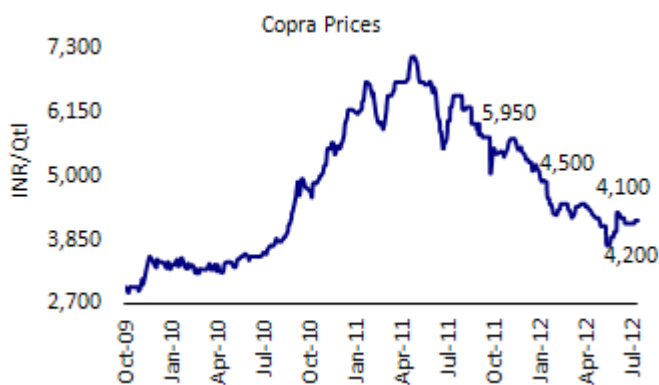
- Consolidated gross margins expanded 660bp to 49.4%, led by fall in copra prices own ~60% YoY and 10% QoQ). However, edible oil like kardi and rice bran prices continued to remain.
- Consolidated EBITDA margins expanded by only 260bp to 14.6% due to higher ad expenses (up 300bp) and staff costs (up 70bp).
- While copra prices are benign and should boost profitability, rice bran and kardi prices remain firm and would continue to pressurize Saffola margins.

Gross margin expansion of 660bp; increase in ad spends restricts EBITDA margin expansion 160bp (%)

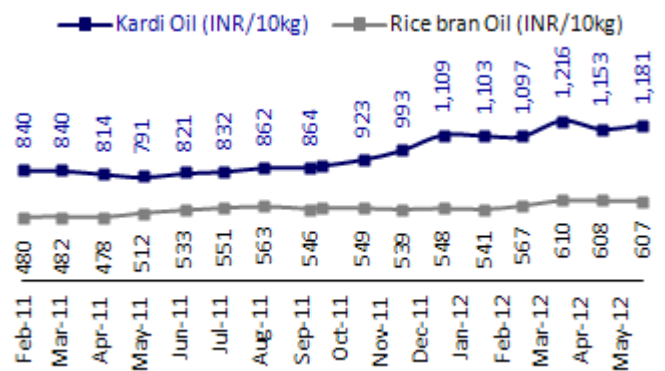


Source: Company, MOSL

Copra prices down 60% YoY... lead to 660bp gross margins expansion



Rice bran and Kardi oil prices remain firm



Source: Company, MOSL

International business sales up 17%; organic growth muted at 3%; Bangladesh business continues to remain under pressure

- International business (~20% of sales) grew 17% during 1QFY13, with organic growth at 3% and inorganic growth at 14%. Bangladesh (45% of international sales) continued to underperform, down 2% YoY. South Africa and South East Asia grew double digits, and Middle East by 5%.
- International margins 8.5%: Bangladesh margins remained under pressure due to Taka depreciation and high inflationary scenario. For full year FY13, management indicated international EBITDA margin of ~12%.
- Parachute's market share in Bangladesh was 80%; Hair Code achieved 29% share in hair color; value-added hair oils gained market share to 18% (7% YoY).
- South Africa topline grew 12%; Marico saw downtrading due to high inflationary environment.
- Vietnam: ICP's X-Men increased market share to 47% aided by a new campaign; integration plans are on track. South Asia market grew 28% in 1QFY13.

Kaya: 12% SSS growth lower than 4QFY12; 1QFY13 losses at INR73m; product share increases to 25%

- Kaya Skin Care reported 1QFY13 sales growth of 29% at INR810m; PBIT loss was INR73m.
- LTL sales grew 12%; the growth was single digit in India and double-digit in Middle East.
- Derma Rx range, post its introduction in India, has continued to gain traction; it enabled an increase in share of product revenue to 25%.
- Kaya has successfully transitioned from "Cure" to "Cure and Care"; management seems confident of a turnaround in Kaya by FY14.
- Management indicated plans for a new retail identity and retail format. The new retail format would be concentrated more on products and will be a sub-brand of Kaya. The plan is still nascent and would take 6-9 months to take some shape.

Valuation and view: Healthy traction in domestic business to continue; volume growth in key brands to remain healthy; Buy

- We believe that domestic business remains on strong footing with very little competition for Saffola in premium edible oils and Parachute in coconut oil. The growth momentum in Marico's key brands is impressive; we like its aggressive strategy to grow the value-added hair oil business across geographies.
- We estimate 31% CAGR in earnings over FY12-14. The stock trades at 27.9x FY13E and 22.4x FY14E EPS. **Buy.**

Marico: an investment profile

Company description

Marico has emerged as a dominant player in the Hair care and edible oil segment. Marico is has also made inroads in the international markets. Entry into skin care clinic reaffirms the management focus on wellness.

Key investment arguments

- We are positive on the long term growth strategy of the company and its successful forays in expanding overseas as well as developing new products for the domestic markets.
- The company has been able to leverage its existing brands by entering in the new categories.
- International operations are gaining traction due to acquisition of Fiancee and Haircode brands in Egypt and entry into South African market.

Key investment risks

- Volume growth to tend lower due to rising inflationary environment, thereby pressurizing consumer wallets.
- Copra price fluctuation poses risk to the profitability in the core business of pure coconut oil despite change in the pricing policy and improved pricing power of the company.

Comparative valuations

		Marico	GCPL	Dabur
P/E (x)	FY13E	27.9	29.1	27.5
	FY14E	22.4	23.9	23.0
P/BV (x)	FY13E	6.0	6.8	9.7
	FY14E	4.9	5.8	8.0
EV/Sales (x)	FY13E	2.6	3.7	3.4
	FY14E	2.2	3.0	3.0
EV/EBITDA (x)	FY13E	19.5	21.0	20.5
	FY14E	15.4	17.1	17.1

Shareholding pattern (%)

	Jun-12	Mar-12	Jun-11
Promoter	59.8	62.7	62.9
Domestic Inst	3.6	4.5	4.2
Foreign	29.4	25.9	26.4
Others	7.2	6.9	6.5

Recent developments

- Marico acquired Paras Personal care business for INR7.4b
- The company has raised INR5b through QIP to fund Paras acquisition.

Valuation and view

- EPS estimates are INR6.8 for FY13 and INR8.5 for FY14.
- We estimate 31% CAGR in earnings over FY12-14. The stock trades at 27.9x FY13E and 22.4x FY14E EPS. **Buy.**

Sector view

- We have a cautious view on the sector given the slower income growth in the economy which might impact volumes as well as profit margins of companies.
- Companies with low competitive pressures and broad product portfolios will be able to better withstand any slowdown in a particular segment.
- Longer term prospects appear bright, given rising incomes and low penetration.

EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	6.8	6.6	3.4
FY14	8.5	8.0	5.6

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
189	211	11.8	Buy

Stock performance (1 year)



Financials and Valuation

Income Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Net Sales	31,283	39,968	47,179	54,963	
Change (%)	17.6	27.8	18.0	16.5	
COGS	16,179	21,493	24,470	28,275	
Gross Profit	15,104	18,981	22,709	26,688	
Margin (%)	48.3	47.5	48.1	48.6	
Operating Expenses	11,006	14,240	16,323	18,915	
EBITDA	4,098	4,741	6,386	7,772	
Change (%)	9.2	15.7	34.7	21.7	
Margin (%)	13.1	11.9	13.5	14.1	
Depreciation	708	725	858	975	
Int. and Fin. Charges	393	424	461	406	
Other Income - Recurring	279	429	537	594	
Profit before Taxes	3,275	4,021	5,605	6,985	
Change (%)	6.5	22.8	39.4	24.6	
Margin (%)	10.5	10.1	11.9	12.7	
Current Tax (excl MAT Ent)	850	782	1,121	1,397	
Deferred Tax			56	70	
Tax Rate (%)	25.9	19.5	21.0	21.0	
Minority Interest	-50	-50	-66	-76	
Profit after Taxes	2,918	3,189	4,361	5,442	
Change (%)	20.9	9.3	36.8	24.8	
Margin (%)	9.3	8.0	9.2	9.9	
Extraordinary items	489	0	0	0	
Reported PAT	2,864	3,189	4,361	5,442	

Balance Sheet		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Share Capital	614	614	644	644	
Reserves	8,540	10,790	19,528	24,368	
Net Worth	9,155	11,404	20,172	25,011	
Loans	7,718	7,657	6,000	5,500	
Capital Employed	17,092	19,310	26,172	30,511	
Gross Fixed Assets	6,177	7,177	8,477	9,777	
Intangibles	1,438	1,342	8,647	8,552	
Less: Accum. Deprn.	-3,366	-4,085	-4,944	-5,919	
Net Fixed Assets	4,250	5,019	12,181	12,410	
Capital WIP	648	1,234	1,500	1,500	
Goodwill	3,976	3,955	3,976	3,976	
Investments	890	2,956	1,970	5,006	
Curr. Assets, L&A	12,203	12,699	13,973	16,258	
Inventory	6,011	7,202	8,256	9,069	
Account Receivables	1,880	1,816	2,170	2,528	
Cash and Bank Balance	2,131	1,686	1,420	2,399	
Others	2,181	1,995	2,127	2,261	
Curr. Liab. and Prov.	5,175	6,776	7,638	8,821	
Current Liabilities	4,098	5,570	6,744	7,779	
Provisions	1,077	1,206	894	1,042	
Net Current Assets	7,028	5,923	6,335	7,436	
Deferred Tax Liability	301	223	210	183	
Application of Funds	17,092	19,310	26,172	30,511	

E: MOSL Estimates

Ratios					
Y/E March	2011	2012	2013E	2014E	
Basic (INR)					
EPS	4.7	5.2	6.8	8.5	
Cash EPS	5.8	6.1	8.1	10.0	
BV/Share	14.9	18.6	31.3	38.8	
DPS	0.7	0.7	0.8	0.8	
Payout %	13.9	13.5	11.1	9.5	
Valuation (x)					
P/E		36.4	27.9	22.4	
Cash P/E		30.8	23.3	19.0	
EV/Sales		3.0	2.6	2.2	
EV/EBITDA		25.1	19.5	15.4	
P/BV		10.2	6.0	4.9	
Dividend Yield (%)		0.4	0.4	0.4	
Return Ratios (%)					
RoE	31.9	28.0	21.6	21.8	
RoCE	29.7	30.5	29.7	30.6	
Working Capital Ratios					
Debtor (Days)	22	17	17	17	
Asset Turnover (x)	1.8	2.1	1.8	1.8	
Leverage Ratio					
Debt/Equity (x)	0.8	0.7	0.3	0.2	

Cash Flow Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
OP/(loss) before Tax	4,098	4,741	6,386	7,772	
Int./Div. Received	279	429	537	594	
Interest Paid	-393	-424	-461	-406	
Direct Taxes Paid	-850	-782	-1,121	-1,397	
(Incr)/Decr in WC	-1,178	659	-678	-122	
CF from Operations	1,955	4,623	4,664	6,442	
Extraordinary Items	0	0	0	0	
(Incr)/Decr in FA	-1,842	-1,491	-8,871	-1,205	
(Pur)/Sale of Investments	-63	-2,067	987	-3,036	
CF from Invest.	-1,905	-3,558	-7,884	-4,241	
Issue of Shares	0	0	0	0	
(Incr)/Decr in Debt	3,260	-61	-1,657	-500	
Dividend Paid	-472	-503	-565	-603	
Others	-1,822	-946	5,176	-119	
CF from Fin. Activity	966	-1,510	2,954	-1,222	
Incr/Decr of Cash	1,016	-445	-266	979	
Add: Opening Balance	1,115	2,131	1,686	1,420	
Closing Balance	2,131	1,686	1,420	2,399	

N O T E S

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2. Group/Directors ownership of the stock
3. Broking relationship with company covered
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Marico

No
Yes
No
No

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