

August 03, 2012

Rating	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs188	Rs 208
EPS Chg FY13E/FY14E (%)	NA
Target Price change (%)	11
Nifty	5,216
Sensex	17,198

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	5	15	18
Rel. to Nifty	5	5	18	23

Source: Bloomberg

Relative price chart



Source: Bloomberg

Stock Details

Sector	Consumers
Bloomberg	MRCO IB
Equity Capital (Rs mn)	645
Face Value(Rs)	1
No of shares o/s (mn)	645
52 Week H/L	200/ 134
Market Cap (Rs bn/USD mn)	121/ 2,170
Daily Avg Volume (No of sh)	388,966
Daily Avg Turnover (US\$mn)	1.2

Shareholding Pattern (%)

	Jun12	Mar12	Dec11
Promoters	59.8	62.7	62.8
FII/NRI	25.7	25.6	25.8
Institutions	7.0	4.5	4.9
Private Corp	3.3	3.0	2.4
Public	4.1	4.2	4.1

Source: Bloomberg

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- Q1FY13 sales were bang in line estimate aided by robust 14% volume growth. However, APAT beat estimate led by 612 bps expansion in gross margins, APAT grew 45.7% yoy to Rs1.2bn
- Revenue grew 20.8% yoy to Rs12.6 bn; Domestic consumer business up 22% yoy whereas International business growth moderates to 17% yoy (organic growth merely 3%)
- Key positives: Parachute dream run continues (+18% volume growth); Saffola witnessed 12% volume growth (despite lower CSD sales); gross margin expansion by 612bps
- Favorable base in Q2FY13E - 'Action to continue'. But, concerns are rising. Would revisit rating next quarter. Maintain ACCUMULATE

Results beat estimate; volume surprise

The company reported 20.8% revenue growth to Rs 12.6bn led by 14% volume growth. It reported 612bps expansion in gross margins; gaining from fall in copra prices. However, gross margin expansion was offset by rise in A&P spends (+254 bps), employee expenses (+74 bps) and other expenditure (+19 bps), which curtailed Ebidta margin expansion at 265 bps yoy and Ebidta growth at 47.7% yoy to Rs1.8 bn. APAT grew 45.7% yoy to Rs1.2bn.

Gross margin expands 612 bps yoy; Copra price slide did it all

As indicated in our earlier communications and sync with our report 'Action has started in Marico' dated 4th May 2012, Marico's gross margin expanded 612bps to 49.4%. This was primarily led by copra, constitutes 40% of total RM cost, prices down 38% yoy. The market prices of other key inputs such as Safflower Oil and Rice bran oil were up 46% and 20% respectively. We expect gross margin expansion to continue in Q2FY13 on account of favorable base. However, as most of its RM is agri-based, deficient monsoon concerns us. This is corroborated by signs of copra prices starting to increase during July 2012.

A&P to remain high

Marico has reported higher A&P in the quarter (+52.3% yoy, Rs1.6 bn) led by spends on launches and NPD in domestic and international markets. Marico had spent aggressively behind NPD like Saffola Oats and Parachute Body Lotion. Also, international markets witnessed NPD like – Parachute Secrets and Parachute Gold in MENA region. We expect the spends to remain at elevated levels due to continued focus on Saffola Oats, Parachute Body Lotion and also, investment on personal care brands acquired from Reckitt Benckiser. The company has also initiated various promotions in Parachute rigid packs and Saffola Gold.

Financial Snapshot (Consolidated)

(Rsmn)

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY11A	31,283	3,939	12.6	2,376	3.9	-2.8	30.3	48.6	30.8	12.6
FY12A	40,077	4,850	12.1	3,183	5.2	33.8	30.3	36.3	25.1	9.8
FY13E	48,206	6,547	13.6	4,568	7.1	37.0	28.1	26.5	19.6	5.8
FY14E	56,672	7,711	13.6	5,366	8.3	17.5	23.3	22.6	16.2	4.8

Exhibit 1: Consolidated Quarterly Results

Y/E, Mar (Rs. mn)	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	YoY (%)	QoQ (%)	FY12E	FY11	Gr (%)
Revenue	10,486	9,745	10,578	9,215	12,672	20.8	37.5	40,083	31,283	28.1
Expenditure	9,235	8,578	9,360	8,078	10,824	17.2	34.0	35,227	27,343	28.8
Consumption of RM	5,947	5,329	5,451	4,264	6,411	7.8	50.4	20,987	16,179	29.7
as % of sales	56.7	54.7	51.5	46.3	50.6			52.4	51.7	
Employee Cost	706	725	808	836	947	34.1	13.3	3,073	2,304	33.4
as % of sales	6.7	7.4	7.6	9.1	7.5			7.7	7.4	
Other expenditure	2,582	2,524	3,101	2,977	3,466	34.3	16.4	11,167	8,860	26.0
as % of sales	24.6	25.9	29.3	32.3	27.4			27.9	28.3	
EBITDA	1,251	1,167	1,218	1,137	1,848	47.7	62.4	4,856	3,941	23.2
Depreciation	169	177	188	191	193	14.4	1.4	725	708	2.5
EBIT	1,082	990	1,029	947	1,654	52.9	74.7	4,130	3,233	27.8
Other Income	90	106	92	67	176	96.5	161.8	314	257	22.1
Interest	97	91	82	113	170	76.4	50.6	424	213	98.7
PBT	1,075	1,005	1,039	901	1,660	54.4	84.3	4,021	3,277	22.7
Total Tax	210	205	178	189	403	91.4	113.3	782	850	-7.9
Adjusted PAT	865	800	861	712	1,258	45.4	76.6	3,238	2,427	33.4
(Profit)/loss from JV's/Ass/MI	15	17	20	-2	19	29.2	-1015.1	50	50	-1.2
APAT after MI	850	783	841	714	1,238	45.7	73.3	3,189	2,377	34.2
Extra ordinary items	0	0	0	-18	0	-	-100.0	-18	489	-103.6
Reported PAT	850	783	841	697	1,238	45.7	77.7	3,171	2,866	10.7
Adjusted EPS	1.4	1.3	1.4	1.2	1.9	39.0	65.4	5.2	3.9	34.2

Margins (%)	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	(bps)	(bps)	FY12E	FY11	(bps)
EBIDTA	11.9	12.0	11.5	12.3	14.6	265	220	12.1	12.6	-50
EBIT	10.3	10.2	9.7	10.3	13.1	274	280	10.3	10.3	0
EBT	11.2	11.2	10.6	11.0	14.4	327	340	11.1	11.2	-10
PAT	8.1	8.0	8.0	7.8	9.8	167	200	8.0	7.6	40
Effective Tax rate	19.6	20.4	17.1	20.9	24.2	469	330	19.5	25.9	-650

Source: Company, Emkay Research

Parachute and value-added hair oils grows, Saffola plays catch up

Blended volume growth gains pace as Domestic consumer business volume grows at 16% yoy versus 10.3% yoy in Q4FY12 and 13.0% in Q3FY12. The volume growth performance is on expected lines. Entire portfolio registers healthy volume growth.

- 'Parachute' coconut oil in rigid pack grew 18% yoy in volume terms. The company believes that such growth is an outlier and expects it to moderate.
- 'Saffola' Oil franchisee grew 12% yoy in volume terms despite lower CSD sales owing to latter's inventory correction (Saffola generates 17% of volumes from CSD channel)
- Value added Hair Oils grew 25% yoy in volume terms and 33% in value terms, gains market share to 25%.

No price hike taken in Saffola; promotions initiated in Parachute

Despite the market prices of key inputs such as Safflower Oil and Rice bran oil were up 46% and 20% respectively, the company has not taken any price hikes in Saffola. The company is wait and watch mode.

Also, with the copra prices down 37% yoy, the company has initiated promotions in Parachute recruiter pack (Rs. 2 off on 100ml pack and 45mn pack). This can percolate and the company may decide to take price cuts on the entire Parachute basket.

In such a case, the gross margin may come under pressure at the fag end of the financial year.

International business and Kaya Skin Care disappoints

International business grew a meager 17% yoy. The organic growth was pegged at mere 3% yoy in the quarter. Foreign exchange gains aided 14% in the quarter.

Kaya Skin Care revenue grew 29% in the quarter to Rs 810mn. The company reported losses of Rs 73mn at PBIT level as against Rs 55mn loss in Q1FY12. The increase in loss is primarily due to one time exceptional loss of Rs 48mn on account the proposed sale of Kaya Training Centre building. SSG declined to 12% as against 16% in Q4FY12.

Personal care brands acquired from Reckitt Benckiser

Marico commenced sales of the acquired brand during second half of June 2012. These brands contributed Rs 100mn to sales. The annual revenue of the acquired business was Rs 1500mn in FY12 and the company expects it to grow 25-30% going ahead. Q2FY13E to have full impact of the acquisition.

Cautiously optimistic, Retain ACCUMULATE rating

We remain enthused by Marico's strong brand salience and focus on expansion of distribution. We expect new product launches to aid consumer enthusiasm and sustain growth momentum. Also, favorable base in gross and EBITDA margins exist in Q2FY13, which would keep growth at alleviated levels in near term.

However, concerns have risen 1) profitability of international business has come under stress and 2) Also, deficient monsoon can play spoil sport as majority of its RM are agri-based.

We will revisit our rating in subsequent quarter as we expect gross margin to expand and alleviated earnings growth to continue in Q2FY13E, led by favorable base. Also, increased inflation may put pressure on fringe/regional players further aiding Marico's volume growth. We revise our target price to Rs. 208/share in lieu of higher growth in short term. Maintain 'ACCUMULATE'.

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
Net Sales	31,283	40,077	48,206	56,672
<i>Growth (%)</i>	17.5	28.1	20.3	17.6
Expenditure	27,344	35,227	41,659	48,961
Raw Materials	16,179	20,987	24,127	28,242
Employee Cost	2,304	3,073	4,178	4,911
Other Exp	30	31	34	38
EBITDA	3,939	4,850	6,547	7,711
<i>Growth (%)</i>	6.1	23.1	35.0	17.8
EBITDA margin (%)	12.6	12.1	13.6	13.6
Depreciation	708	725	781	948
EBIT	3,232	4,125	5,766	6,763
EBIT margin (%)	10.3	10.3	12.0	11.9
Other Income	257	314	659	659
Interest expenses	213	424	654	654
PBT	3,275	4,015	5,772	6,769
Tax	850	782	1,154	1,354
<i>Effective tax rate (%)</i>	25.9	19.5	20.0	20.0
Adjusted PAT	2,426	3,232	4,618	5,415
<i>Growth (%)</i>	-0.7	33.3	42.9	17.3
Net Margin (%)	7.8	8.1	9.6	9.6
(Profit)/loss from JVs/Ass/MI	-50	-50	-50	-50
Adj. PAT After JVs/Ass/MI	2,376	3,183	4,568	5,366
E/O items	489	-18	0	0
Reported PAT	2,865	3,165	4,568	5,366
PAT after MI	2,376	3,183	4,568	5,366
<i>Growth (%)</i>	-2.0	34.0	43.5	17.5

Cash Flow

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
PBT (Ex-Other income)	3,018	3,701	5,112	6,109
Depreciation	708	725	781	948
Interest Provided	213	424	654	654
Other Non-Cash items	-178	-50	-50	-50
Chg in working cap	-867	-417	-1,262	-1,184
Tax paid	783	782	1,154	1,354
Operating Cashflow	2,394	3,479	4,087	5,130
Capital expenditure	-4,734	-1,500	-9,600	-700
Free Cash Flow	-2,340	1,979	-5,513	4,430
Other income	257	314	659	659
Investments	-63	-2,070	0	0
Investing Cashflow	-4,154	-3,570	-9,600	-700
Equity Capital Raised	380	1	5,000	0
Loans Taken / (Repaid)	3,260	-60	0	0
Interest Paid	-213	-424	-654	-654
Dividend paid (incl tax)	-475	-492	-677	-838
Income from investments	0	0	0	0
Others	-195	424	654	654
Financing Cashflow	2,757	-551	4,323	-838
Net chg in cash	997	-642	-1,190	3,592
Opening cash position	1,115	2,131	1,489	299
Closing cash position	2,131	1,489	299	3,892

Balance Sheet

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
Equity share capital	614	615	644	644
Reserves & surplus	8,545	11,224	20,086	24,614
Net worth	9,159	11,839	20,731	25,258
Minority Interest	219	219	219	219
Secured Loans	4,250	3,880	3,880	3,880
Unsecured Loans	3,468	3,778	3,778	3,778
Loan Funds	7,718	7,658	7,658	7,658
Net deferred tax liability	-305	-305	-305	-305
Total Liabilities	16,791	19,411	28,303	32,830
Gross Block	11,591	13,091	21,291	23,391
Less: Depreciation	3,366	4,091	4,872	5,820
Net block	8,226	9,000	16,419	17,571
Capital work in progress	648	648	2,048	648
Investment	890	2,960	2,960	2,960
Current Assets	12,203	13,573	14,882	21,061
Inventories	6,011	7,127	8,600	10,126
Sundry debtors	1,880	1,802	2,175	2,561
Cash & bank balance	2,131	1,489	299	3,892
Loans & advances	2,181	3,155	3,807	4,483
Other current assets	0	0	0	0
Current lia & Prov	5,175	6,770	8,007	9,410
Current liabilities	4,098	6,770	8,007	9,410
Provisions	1,077	0	0	0
Net current assets	7,028	6,803	6,875	11,651
Misc. exp	0	0	0	0
Total Assets	16,791	19,411	28,302	32,830

Key Ratios

Y/E Mar	FY11A	FY12A	FY13E	FY14E
Profitability (%)				
EBITDA Margin	12.6	12.1	13.6	13.6
Net Margin	7.8	8.1	9.6	9.6
ROCE	25.6	24.5	26.9	24.3
ROE	30.3	30.3	28.1	23.3
RoIC	31.4	30.1	30.9	28.0
Per Share Data (Rs)				
EPS	3.9	5.2	7.1	8.3
CEPS	5.0	6.4	8.3	9.8
BVPS	14.9	19.3	32.2	39.2
DPS	0.8	0.8	1.1	1.3
Valuations (x)				
PER	48.6	36.3	26.5	22.6
P/CEPS	37.5	29.6	22.7	19.2
P/BV	12.6	9.8	5.8	4.8
EV / Sales	3.9	3.0	2.7	2.2
EV / EBITDA	30.8	25.1	19.6	16.2
Dividend Yield (%)	0.4	0.4	0.6	0.7
Gearing Ratio (x)				
Net Debt/ Equity	0.6	0.5	0.4	0.1
Net Debt/EBITDA	1.4	1.3	1.1	0.5
Working Cap Cycle (days)	57.1	48.4	49.8	50.0

Recommendation History: Marico – MARCO IN

Date	Reports	Reco	CMP	Target
04/05/2012	Marico Q4FY12 Result Update	Accumulate	180	191
06/02/2012	Marico Q3FY12 Result Update	Accumulate	163	172
08/11/2011	Marico Q2FY12 Result Update	Accumulate	149	172
27/07/2011	Marico Q1FY12 Result Update	Accumulate	167	172

Recent Research Reports

Date	Reports	Reco	CMP	Target
01/08/2012	GSK Cosnumer Q2CY12 Result Update	Accumulate	2,675	3,000
31/07/2012	Titan Industries Q1FY13 Result Update	Buy	222	260
27/07/2012	Nestle Q2CY12 Result Update	Buy	4,458	5,000
25/07/2012	Jubilant FoodWork Q1FY13 Result Update	Sell	1,189	1,000

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