

MARICO

Cross pollinating growth

India Equity Research | Consumer Goods

We recently met Mr. Harsh Mariwala, Chairman and MD, Marico. Although the company expects near-term demand to be subdued, it is optimistic on the long-term trend. It has taken price hikes to counter rise in copra (raw material) prices and is open to further hikes if copra prices continue to increase. Marico expects the tepid demand to impact *Parachute* coconut oil over near term but maintains *Parachute's* long-term volume growth guidance of 7-8%. *Saffola* and value added portfolio performance will continue to grow faster than rest of the portfolio. The company is optimistic on international business, with the exception of Middle East (ME), where it is taking corrective action. Maintain 'BUY'.

Near-term demand pressure; price hikes taken to counter inflation

Demand in hair oil category remains subdued over the near term. Price hikes have been taken to counter rise in copra prices (in *Parachute* portfolio, prices have been increased in the 9-17% range, value added portfolio has witnessed increase in range of 4-18% while *Saffola* price has been increased by 3-9%). Marico estimates FY14 domestic volume growth in the mid to high single digit, while sales growth, bolstered by price hikes, is expected to be in the 12-13% range.

Cross pollination to drive growth

Marico is banking on cross pollination to drive growth and innovation—Code10 gel was introduced in India under the Set Wet brand from Malaysia and recently it also introduced it in a big jar format, Livon from India has been launched in Bangladesh.

Outlook and valuations: Positive; maintain 'BUY'

We remain enthused by Marico's focus on new growth drivers and its effort as an emerging market MNC. We also like its aggression in the breakfast space with continued dominance in hair oils and super premium refined edible oils space. Currently, the stock is trading at 26.9x and 22.8x FY14E and FY15E EPS, respectively. We maintain 'BUY/Sector Performer' recommendation/rating on the stock.

Financials

Year to March	FY12	FY13	FY14E	FY15E
Revenues (INR mn)	39,797	45,962	49,150	57,082
Rev. growth (%)	26.9	15.5	6.9	16.1
EBITDA (INR mn)	4,844	6,258	7,569	8,905
Net profit (INR mn)	3,171	3,959	5,049	5,950
Shares outstanding (mn)	615	645	645	645
Diluted EPS (INR)	5.2	5.7	7.8	9.2
EPS growth (%)	34.4	9.1	38.4	17.9
Diluted P/E (x)	40.6	37.2	26.9	22.8
EV/EBITDA (x)	27.5	22.4	17.8	14.6
ROAE (%)	31.0	23.2	22.9	22.1

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

MARKET DATA (R: MRCO.BO, B: MRCO IN)

CMP	: INR 210
Target Price	: INR 240
52-week range (INR)	: 252 / 190
Share in issue (mn)	: 644.9
M cap (INR bn/USD mn)	: 136 / 2,182
Avg. Daily Vol.BSE/NSE('000)	: 332.0

SHARE HOLDING PATTERN (%)

	Current	Q1FY14	Q4FY13
Promoters *	59.7	59.7	59.7
MF's, FI's & BK's	5.9	5.2	5.5
FII's	27.6	28.0	28.0
Others	6.8	7.1	6.8
* Promoters pledged shares (% of share in issue)	:		Nil

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Consumer Goods Index
1 month	0.0	(0.2)	9.2
3 months	3.9	15.3	16.8
12 months	(1.7)	6.4	40.8

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Mr. Harsh Mariwala
Chairman and MD, Marico

Key takeaways from our meeting with Mr. Harsh Mariwala & Team

Price increase: Copra prices have increased sharply in the past few months; in response, Marico has taken commensurate price hikes. The company expects prices of copra to soften on fresh supply in the new season. However if copra prices increase further, the company will take further price hikes. The company took ~17% QoQ price hike in November 2013 in the 100ml SKU. In overall Parachute portfolio price increase is in the 9-17% range. In *Saffola Total*, Marico raised prices by 3%. Overall *Saffola oil* price increase is in the 3-9% range. Prices of the value added portfolio has been increased in the range of 4% to 18%.

Volume growth: Primary and the secondary volume growth data disclosed by the company in Q2FY14 will not be disclosed in the coming quarters as it was a one-time exercise and now both are trending close to each other. The disclosure was important in Q2FY14 to help understand the stock norm adjustment in the trade in the right context.

Raw material: Copra price has increased in Q3FY14, but Marico expects it to fall in coming months as higher supply comes in. Supply of copra is usually higher in H2 than H1. In Q2FY14, the company had cover of low cost inventory, which is missing now, affecting the margin to some extent. Before raising prices, Marico takes a 3-6 month view of prices of raw material. However, no shocks are expected on the margin front. The company keeps three months' copra inventory as it is an important raw material. Other raw material prices have remained flat YoY. LLP price has increased 8-9% YoY, though during the past 2 months it has remained flat.

Overall demand: Demand is a bit subdued as compared to Q2FY14.

Value and volume growth expected: Marico believes that in the current economic scenario volume growth is expected to be in the mid to high single digit. Value growth for the domestic business is expected to be in the 12-13% range in FY14E.

Saffola: Saffola is witnessing steady performance and the company expects primary volume growth to be in the 7-8% range in FY14E.

Parachute: Marico maintains guidance of 7-8% volume growth over the long term. However, near-term growth is likely to be lower and will recover once GDP picks up.

HUL entry in almond oil: HUL's entry with *Clinic Vita oil* is not expected to directly impact Marico. The company believes that consumers value the nourishment and the sensorial properties of hair oil rather than ingredients. Edelweiss is of the view that HUL's entry will benefit the category as a whole as it will promote hair oil usage.

Value added hair oil: In the value added hair oil segment, Marico expects to witness double digit volume growth. The company is the leader in the value added hair oil segment with 28% market share, followed by Dabur with 26.5% market share, and this gap is increasing. In the amla hair oil segment, price differential exists between Marico and Dabur—Marico is priced at INR22 for 90ml pack while Dabur is priced at INR39 for 100ml pack, which is benefiting the former. In the amla hair oil category, Marico has a market share of 29% (3 years ago it was 7%) while Dabur is the leader with 63% share (3 years ago it was 73%). Amla hair oil contributes 4% to Marico's total turnover with a 3 year CAGR of more than 30%.

The gap in prices of amla hair oil between the two companies helps Marico as consumers who upgrade from mustard hair oil or first time users prefer the lower priced product. As far





as product quality is concerned, company believes Marico's amla hair oil is at par with Dabur's.

Youth portfolio: *Livon* has done well post acquisition. Deodorants growth has slowed down as the whole category is witnessing slower growth. Deodorants growth rate has dipped from 25-30% at the time of acquisition to ~20% now. Of the total youth portfolio, deodorants contribute 25-30% to sales, while the balance is contributed equally by *Livon* and gels. In the deo segment, the company has brought changes in the form of packaging, fragrances etc. Marico does not plan to enter the perfume category.

Youth portfolio market share: Marico is the leader in gels with a market share of 42-43% followed by *Gatsby* and *Brylcreem* with 20% and 7% market shares, respectively.

Livon and *Silk n Shine* together have a market share of 83%, with *Livon's* market share at ~43%.

Saffola Oats: Oats are tracking well with Marico cornering ~15% market share. The exit market share in Q2FY14 for Saffola oats was 17%. The company, as a strategy, wants to focus on value added segment only as plain oats has lower margin. Masala oats come in smaller INR15 SKU only and contribute 60% to total oats portfolio. Plain oats are available in 400gm and 1kg SKUs.

Male grooming: Marico remains focused on the male grooming segment and will also come out with a new range of products going forward. The company recently cross pollinated the gel format of *Code10* and launched it under the *Set Wet* brand in India.

Cooling oil: Marico has withdrawn from the cooling oil segment. As per management, people do not perceive any hair oiling benefit from cooling oil as it caters to different need of the consumers like stress removal, fatigue etc.

Bangladesh: Though Marico's PAT growth was good, the country continues to be plagued by political uncertainty. Profits have been growing at above 50% due to favourable inventory cover and Taka appreciation. Marico is investing in new categories and going forward the share of *Parachute* in the total revenue pie will dip. Marico has launched *Livon* in Bangladesh and will also be launching deodorants going forward. Its robust distribution network in Bangladesh will aid rolling out of new products.

Vietnam: Vietnam continues to do well. Marico expects sales to grow in mid to high teens in FY14. Focus is to increase market share. Marico is also planning entry in new nearby markets like Cambodia and Laos where products can be exported via Vietnam.

South Africa: Contribution is small for Marico and it expects to grow in mid single to high single digit.

Egypt: Egypt is also doing well and is expected to grow in high single to mid teens in FY14E.

Middle East: Marico is sorting out issues in Middle East, for which it is incorporating changes in its distribution and portfolio. This geography is expected to report profit from FY15. Losses in FY13 were INR500mn, while in FY14 they are expected to be substantially lower.





Management: Mr. Saugata Gupta is the CEO of Marico and looks at both domestic and international businesses. Mr. Sridhar is the Head of international business (earlier Head of Sales in domestic business) and Mr. Sameer is Head of the domestic business (earlier Head of Marketing in India); both report to Mr. Gupta, who reports to Mr. Harsh Mariwala.

Cross pollination: Marico brought *Code10* gel format in India from its Malaysian market and launched it under the *Set Wet* brand in a big jar package. *Livon* has been launched in Bangladesh, which in from the Indian portfolio and the company is also convinced that *Livon* also has the potential to do well in Middle East. From Vietnam portfolio, Marico has launched new fragrances in its *Set Wet Zatak* deo in India.

Rural and urban: Rural growth has dipped, though it is still growing faster than urban areas. On relative basis, it still continues to outperform urban growth by the same differential as earlier (rural growth is 1.5x urban growth).

Ad spends: Ad spends are expected to be ~13% of total revenue in FY14E.

New products: Marico will launch products under the same categories and may enter new categories in the next 1-2 years.

Chart 1: Copra price moving north



Source: Edelweiss research



Q2FY14 conference call | Key Takeaways



Overall business: Marico's (excluding Kaya) sales grew 4.8% YoY to INR1,1184mn in Q2FY14, while volume growth came in at 4% YoY. Growth in primary sales was low because of the paring down of stocks in trade as value growth lagged volume growth and the increase in distribution costs. This also helped get price hikes faster to the market by a week (took three weeks instead of four). This is a one-time phenomenon as in a deflationary environment, volume growth exceeds value growth which results in costs increasing. Also, Marico took this step to enhance trade equity. However, secondary sales came in line with expectations. Going forward, the company expects to achieve volume growth of 8-10% YoY which will also be helped by low base in Q3FY14.

Pricing actions: As a result of the increase in raw material prices (copra prices jumped 29% YoY in Q2FY14); Marico took a weighted price increase of 9% in Parachute portfolio. The company has taken two rounds of price hikes in the portfolio. Price hike of 4% was taken across the portfolio initially and after further increase in input cost prices, prices were raised 5%. Marico has also raised prices ~6% in the value-added portfolio that includes brands like *Nihar Naturals*, *Parachute Advanced Jasmine* and *Hair and Care* variants. The price hikes effected are by and large sufficient to offset the rise in input cost. Loose (unbranded) players have taken a price hike of ~30% due to increase in raw material prices.

Domestic business: Domestic business grew ~1.4% YoY on back of primary volume growth of 4% YoY.

Parachute: Parachute declined 6% YoY while volume growth came in at 1% YoY. However, volume growth in secondary sales was 7% YoY. The proportion of the pouches in total share has reduced and now they account for less than 15% YoY of total Parachute sales. Inflationary scenario pans out better for the company compared to deflationary environment.

Rural: Parachute enjoys ~35-40% market share in rural areas. Marico will focus aggressively on improving its rural distribution reach and will double its feet on street in rural areas. The company is investing in increasing the direct distribution reach to rural areas and has increased the same by 15% YoY. Marico has also prototyped *Saffola* in rural areas and has achieved good results. It plans to expand *Saffola* to rural areas as demand in the urban areas have come down.

Saffola: *Saffola* refined oil grew 3% YoY in Q2FY14 while volume growth came in at 7% YoY. Value and volume growth in secondary sales was 5% YoY and 9% YoY, respectively. *New Saffola* was revamped to *Saffola Total* and advertisements for the same have been initiated. Marico was lagging on the innovations front in the edible oil portfolio due to which it believed growth suffered; hence, new innovation will be done in *Saffola* in the coming three-four quarters. To bring back growth in *Saffola*, the company will increase innovations, expand rural distribution and go in for price optimisation.



Marico plans to extend its offering in the breakfast space and has achieved a market share of 13% in volume terms in the oats category. This category is also witnessing slowdown since the past few quarters. The company has a market share of 11-12% in muesli.



Value-added hair oils: Value-added hair oil grew 16% YoY while volume growth came in at 15% YoY. Performance of the recently launched *Parachute Advanced Tender Coconut* has been satisfactory. Marico believes there is enough headroom for growth in this segment.

Youth portfolio: This portfolio achieved a turnover of INR970mn in H1FY14 (INR560mn in H1FY13). The company expects it to grow at 20 to 25% YoY in the medium term however the near term growth may be subdued due to impact on all discretionary spends

As per approval by Bombay High Court, Marico has adjusted the book value (INR7230mn) of Youth Brands against the Securities Premium and paid up equity share capital resulting in a decline in the value of capital employed leading to optimal improvement in the Return On Capital Employed, Return On Net Worth and an increased Debt to Equity.

Skin: Marico have launched a new variant in this category as the winter approaches. It has also increased the stock supply in lieu of the coming winter in line with other players.

Raw material: Copra prices surged 29% YoY in Q2FY14. However, prices of safflower oil and rice bran fell 21% YoY and 15% YoY, respectively, in Q2FY14. Marico expects copra prices to cool down by February 2014.

International business: Marico's international business revenue grew ~14% YoY, while overall volume grew 4% YoY. The company believes that current international margins are not sustainable and is targeting 13-14% for coming quarters.

Bangladesh sales grew 1% YoY as the overall macro economic and political environment in this region remains unstable. Margin improved as copra prices in Bangladesh remained subdued and the company did not cut prices. Marico has recently launched *Livon* and is also launching *Set Wet* deo in Bangladesh. It expects to achieve volume growth of 8-10% YoY in this region over the next three-four quarters provided the political situation stabilises.

MENA business declined marginally YoY in Q2FY14 as the political scenario in Egypt remains unstable. Egypt sales grew 5% YoY in Q2FY14 while GCC sales declined. GCC region is gradually turning around as its performance is better compared to FY13. The company expects this region to turnaround completely in Q4FY14 or Q1FY15.

South Africa sales grew 7% YoY in Q2FY14 while Vietnam did as per expectations and grew 21% in Q2FY14.

Modern trade: Modern trade grew 11% YoY in Q2FY14.

CSD: Growth in this channel is back on track and has reverted to normal growth trajectory.

Ad spends: Marico's ad spends declined 9.9% YoY to INR1,352mn as in the base quarter (Q2FY13), A&P spends were high for new launches and also in Q2FY14 there was a significant reduction in A&P spend in some of the international businesses. For FY14 A&P spends as % of sales is expected to be ~12%.

Tax rate: ~25% in FY14 and ~30% in FY15 and FY16.

Capex: ~INR750mn in FY14E and FY15E.



Outlook and valuations: Positive; maintain 'BUY'

We like Marico's sharpened focus on new growth drivers like skin care, food categories (oats, muesli) and youth brands (deodorants, hair gels, hair creams) which have been growing at a fast clip. We believe cross pollination of different products will drive innovations and brands, especially in the youth portfolio. This will be further bolstered by realignment of the management structure with one CEO looking after both domestic and international businesses. Demerger of low margin Kaya business makes it a pure play consumer company; will be margin accretive as it was bleeding EBIT (in FY13 posted PBIT loss of INR185mn). We maintain target multiple of 26x on FY15E EPS with at target price of INR240. We maintain 'BUY' and rate it 'Sector Performer' on relative return basis.

Table 1: Summary of growth

Category / Business	Reported growth in	Share of Group's
	Q2FY14 (%)	Turnover basis FY13 results
Group: total reported value growth	5	
FMCG business (India)	1	71
Parachute coconut oil in rigid packs	(6)	23
Value added hair oil	16	16
Saffola (refined edible oil)	3	15
International business group: total	14	22
Kaya (ME and India)	NA	7

Source: Company, Edelweiss research

Table 2: Marico's market share (volume) position

Brands	Category	Indicative market	
		share range	Rank
Parachute and Nihar	Coconut Oils (India)	56	1
Parachute Advansed, Nihar, Hair & Care	Hair Oils (India)	28	1
Saffola	Super Premium refined Edible Oils	57	1
Set Wet and Zatak	Deodorants (India)	5	4
Livon and Silk & Shine	Post wash Leave-On Serums	80	1
Set Wet and Parachute after shower*	Hair Creams/Gels	43	1
Parchute (Bangladesh)	Coconut Oil (Bangladesh)	83	1
X-Men*	Men's shampoo (Vietnam)	42	1
Hair Code & Fiancee*	Hair care (Egypt)	56	1

Source: Company, Edelweiss research

* Value market shares

Table 3: Volume growth in sales of key business

Key business	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14
CPB (India)	14	14	20	17	14	14	9	8	10	4
Parachute coconut oil in rigid packs	10	10	13	11	18	9	6	5	4	1
Value added hair oil	32	26	20	18	25	20	30	25	16	15
Saffola	15	11	15	3	12	6	4	5	10	7
International*	26	19	39	37	17	16	-	(1)	9	4

Source: Company, Edelweiss research
* Reported value growth (% YoY) in INR

Table 4: International FMCG business

Factor	Q2FY14 YoY growth %
Reported Growth	14
Volume/Value growth	3
Exchange Rate impact	11
Turnover (INR mn)	3,140

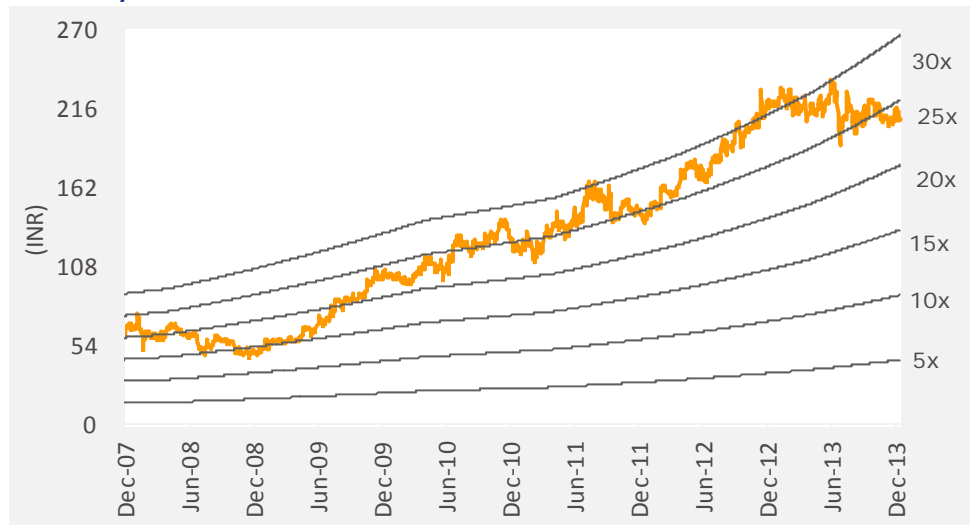
Source: Company, Edelweiss research

Table 5: International business split

Region	Reported growth % YoY
Bangladesh	1
Middle East and North Africa	Marginal decline
South Africa	7
South East Asia	21

Source: Company, Edelweiss research

Chart 2: 1 year forward PE band



Source: Company, Edelweiss research

Company Description

Marico has evolved into one of the leading Indian FMCG companies from a coconut oil manufacturer over the past few years. It has positioned itself on the beauty and wellness platform and caters to hair care, health care, and skin care. Its brands include Parachute, Nihar, Hair & Care, and Fiancee in hair care, Saffola, and Ingwe in health care and Kaya in skin care. The company has been at the forefront of launching innovative products and services such as Saffola Cholesterol Control Atta Mix and Kaya Skin clinics to provide Indian consumers with premium personal care products. Over the past two years, Marico has captured inorganic growth opportunities to spread its base across geographies and increase the range of products at its disposal. It has acquired two hair care brands in Egypt, Fiancee and Haircode, which give it control of 50% of the hair care market in the country. Further, it has acquired three soap brands in Bangladesh and skin care brand Derma Rx in Singapore to expand its presence there. Marico announced 100% acquisition of Paras Personal Care Business. This has given Marico access to brands like Set Wet, Livon and Zatak, ranked amongst top three in respective categories. Acquisition of this business is likely to further reduce Marico's dependence on edibles oils and hair oils besides giving it an opportunity to participate in the rapidly growing categories in India.

Investment Theme

Marico is amongst the leading beneficiaries of the changing preference of Indian consumer for better personal care, food products and services. The company has been able to distinguish itself by offering niche products and services through brands such as Saffola, and Kaya, while extending Parachute to various new generation hair care products such as hair creams and value-added hair oils.

Key Risks

Coconut oil forms the biggest share of Marico's top line and bottom line. Copra prices have been hardening over the past few months. A greater-than-expected inflation can hurt the bottom line substantially.

Appreciation of rupee against Egyptian pound, Bangladeshi taka and other international currencies puts the growth in revenues and profits at risk.

Financial Statements

Key Assumptions

Year to March	FY12	FY13	FY14E	FY15E
Macro				
GDP(Y-o-Y %)	6.2	5.0	4.8	6.0
Inflation (Avg)	8.9	7.4	6.0	6.0
Repo rate (exit rate)	8.5	7.5	8.3	7.3
USD/INR (Avg)	48.0	54.5	62.0	60.0
Company				
Revenue growth (Y-o-Y %)				
International business growth	(25.9)	13.5	14.0	18.0
Hair oil sales growth	21.4	30.9	12.0	14.0
Edible oil sales growth	31.7	6.3	10.0	15.0
EBITDA margin assumptions				
Oil Seeds (Copra and kardi seeds) as % of COGS	31.8	30.0	34.0	34.0
Raw Oil (Other than copra and kardi seeds) as % of	21.1	23.0	22.0	22.0
COGS as % of sales (Consol)	53.6	48.1	49.7	48.9
Staff costs as % of sales (Consol)	7.7	8.3	7.5	7.5
Financial assumptions				
Tax rate (%)	19.5	28.2	25.0	28.0
Capex (INR mn)	1,033	8,361	(152)	675
Debtor days	18	16	17	17
Inventory days	113	131	125	125
Payable days	54	69	70	70
Cash conversion cycle (days)	77	78	72	72
Interest rate on o/standing debt (%)	5.4	7.0	6.2	6.2
Depreciation as % of gross block	8.9	6.8	3.9	4.0
Dividend as % of net profit	13.6	8.1	10.0	10.0
Yield on cash	7.6	9.0	12.5	11.0

Income statement

(INR mn)

Year to March	FY12	FY13	FY14E	FY15E
Net revenue	39,797	45,962	49,150	57,082
Materials costs	21,315	22,099	24,427	27,913
Gross profit	18,481	23,863	24,722	29,169
Employee costs	3,073	3,806	3,686	4,281
Other Expenses	6,306	7,820	7,569	8,848
Advertisement & sales costs	4,258	5,979	5,898	7,135
EBITDA	4,844	6,258	7,569	8,905
Depreciation & Amortization	725	866	678	725
EBIT	4,119	5,392	6,891	8,179
Other income	326	375	523	660
EBIT incl. other income	4,444	5,767	7,414	8,839
Interest expenses	424	580	431	293
Profit before tax	4,021	5,187	6,983	8,546
Provision for tax	782	1,462	1,746	2,393
Net profit	3,238	3,725	5,237	6,153
Extraordinary income/ (loss)	(18)	332	-	-
Minority interest	(50)	(98)	(189)	(203)
Profit after minority interest	3,171	3,959	5,049	5,950
Shares outstanding (mn)	615	641	645	645
Diluted EPS (INR)	5.2	5.7	7.8	9.2
Dividend per share (INR)	0.7	0.5	0.8	0.9
Dividend payout (%)	13.6	8.1	10.0	10.0

Common size metrics

Year to March	FY12	FY13	FY14E	FY15E
Materials costs	53.6	48.1	49.7	48.9
Employee expenses	7.7	8.3	7.5	7.5
Advertising & sales costs	10.7	13.0	12.0	12.5
EBITDA margins	12.2	13.6	15.4	15.6
Net profit margins	8.0	7.9	10.3	10.4

Growth ratios (%)

Year to March	FY12	FY13	FY14E	FY15E
Revenues	26.9	15.5	6.9	16.1
EBITDA	15.9	29.2	21.0	17.6
Net profit	10.7	24.8	27.5	17.9
EPS	34.4	9.1	38.4	17.9

Balance sheet		(INR mn)			
As on 31st March	FY12	FY13	FY14E	FY15E	
Equity capital	615	645	645	645	
Reserves & surplus	10,815	19,170	23,618	28,857	
Shareholders funds	11,430	19,815	24,263	29,502	
Minority interest (BS)	249	351	540	743	
Short term debt	3,716	3,581	2,147	1,737	
Long term debt	3,907	4,326	2,595	2,098	
Borrowings	7,848	8,719	5,229	4,229	
Sources of funds	19,304	28,943	30,090	34,532	
Tangible assets	3,733	4,618	4,690	4,714	
Intangible assets	883	8,130	8,130	8,130	
CWIP (incl. intangible)	402	1,477	575	500	
Total net fixed assets	5,018	14,224	13,395	13,344	
Goodwill on consolidation	3,955	3,955	3,955	3,955	
Current Investments	2,663	1,136	1,136	1,136	
Cash and equivalents	1,321	2,668	4,481	8,080	
Inventories	7,202	8,627	8,366	9,559	
Sundry debtors	2,083	1,966	2,289	2,659	
Loans and advances	1,995	2,555	2,555	2,555	
Other current assets	1,416	1,562	1,562	1,562	
Total current assets (ex cash)	12,696	14,709	14,771	16,334	
Trade payable	3,584	4,785	4,685	5,353	
Others current liabilities	3,059	3,345	3,345	3,345	
Total current liabilities &	6,643	8,129	8,029	8,698	
Net current assets (ex cash)	6,053	6,580	6,742	7,637	
Uses of funds	19,304	28,943	30,090	34,532	
Book value per share (INR)	31.4	44.9	46.7	53.6	

Free cash flow		(INR mn)			
Year to March	FY12	FY13	FY14E	FY15E	
Net profit	3,171	3,959	5,049	5,950	
Add : Non cash charge	644	1,312	1,297	1,222	
Depreciation	725	866	678	725	
Gross cash flow	3,815	5,271	6,346	7,172	
Less: Changes in WC	(194)	952	162	895	
Operating cash flow	4,009	4,319	6,184	6,277	
Less: Capex	1,033	8,361	(152)	675	
Free cash flow	2,976	(4,042)	6,336	5,602	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted PE (X)		EV/EBITDA (X)		ROAE (%)	
		FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Marico	2,182	26.9	22.8	17.8	14.6	22.9	22.1
Bajaj Corp	510	16.8	14.8	13.7	11.8	37.1	38.0
Emami	1,707	27.0	22.5	22.9	19.0	46.4	46.8
Godrej Consumer	4,567	35.4	28.8	24.8	20.1	22.5	23.7
Hindustan Unilever	19,588	34.0	30.2	25.2	21.9	104.5	87.6
ITC	40,443	28.1	23.9	18.4	15.6	36.4	38.2
Dabur	4,711	31.7	25.8	23.8	19.0	38.7	37.7
AVERAGE	-	30.4	25.7	21.5	18.0	51.7	49.9

Source: Edelweiss research

Cash flow metrics					
Year to March	FY12	FY13	FY14E	FY15E	
Operating cash flow	4,009	4,319	6,184	6,277	
Investing cash flow	(3,558)	(8,299)	152	(675)	
Financing cash flow	(1,187)	4,423	(4,522)	(2,004)	
Net cash flow	(736)	442	1,814	3,598	
Capex	(1,033)	(8,361)	152	(675)	
Dividends paid	(500)	(385)	(601)	(711)	

Profitability & efficiency ratios

Year to March	FY12	FY13	FY14E	FY15E
ROAE (%)	31.0	23.2	22.9	22.1
ROACE (%)	25.5	24.6	24.6	26.6
Inventory day	113	131	125	125
Debtors days	18	16	17	17
Payable days	54	69	70	70
Cash conversion cycle (days)	77	78	72	72
Current ratio	2.5	2.3	2.5	2.9
Debt/EBITDA	1.6	1.4	0.7	0.5
Debt/Equity	0.7	0.4	0.2	0.1
Adjusted debt/equity	0.7	0.4	0.2	0.1
Interest coverage	9.7	9.3	16.0	27.9

Operating ratios

Year to March	FY12	FY13	FY14E	FY15E
Total asset turnover	2.2	1.9	1.7	1.8
Fixed asset turnover	9.0	5.3	3.8	4.4
Equity turnover	3.9	2.9	2.2	2.1

Valuation parameters

Year to March	FY12	FY13	FY14E	FY15E
Diluted EPS (INR)	5.2	5.7	7.8	9.2
Y-o-Y growth (%)	34.4	9.1	38.4	17.9
CEPS (INR)	6.4	7.1	9.2	10.7
Diluted PE (x)	40.6	37.2	26.9	22.8
Price/BV (x)	6.7	4.7	4.5	3.9
EV/Sales (x)	3.3	3.0	2.7	2.3
EV/EBITDA (x)	27.5	22.4	17.8	14.6
Dividend yield (%)	0.3	0.2	0.4	0.4

Additional Data

Directors Data

Harsh Mariwala	Chairman & Managing Director (Promoter)	Nikhil Khattau	Chairman of Audit Committee, Non-Executive and Independent Director
Rajeev Bakshi	Non-Executive and Independent Director	Atul Choksey	Non-Executive and Independent Director
Anand Kripalu	Non-Executive and Independent Director	Rajendra Mariwala	Non-Executive Director (Promoter)
Hema Ravichandar	Non-Executive and Independent Director	B. S. Nagesh	Non-Executive and Independent Director

Auditors - Price Waterhouse; Internal Auditors: Ernst & Young

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Arisaig Partners Asia Pte Ltd	5.5	Oppenheimerfunds Incorporated	4.1
First State Investments Icv	3.7	Indivest Pte Ltd	3.4
Arctic Investments Pty Ltd	1.4	Baring India Investments	1.1
Napean Trdg Inves Co Pvt	1.1	Templeton Asset Mgmt	1.0
Franklin Templeton Investments	0.9	First State Investments	0.7

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
04 Dec 2013	Kishore Mariwala	Sell	200000
04 Dec 2013	Harsh C. Mariwala	Buy	200000
04 Dec 2013	Harsh Mariwala	Buy	200000
22 Aug 2013	Kishore Mariwala	Sell	15000

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Asian Paints	BUY	SP	M	Bajaj Corp	BUY	SP	M
Colgate	HOLD	SU	M	Dabur	BUY	SO	M
Emami	BUY	SP	H	GlaxoSmithKline Consumer Healthcare	HOLD	SP	M
Godrej Consumer	BUY	SO	H	Hindustan Unilever	HOLD	SU	L
ITC	BUY	SO	L	Marico	BUY	SP	M
Nestle Ltd	HOLD	SP	L	Pidilite Industries	BUY	SP	M
United Spirits	BUY	SO	H				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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Coverage group(s) of stocks by primary analyst(s): Consumer Goods

Asian Paints, Bajaj Corp, Colgate, Dabur, Godrej Consumer , Emami, Hindustan Unilever, ITC, Marico, Nestle Ltd, Pidilite Industries, GlaxoSmithKline Consumer Healthcare, United Spirits

Recent Research

Date	Company	Title	Price (INR)	Recos
16-Dec-13	Asian Paints	Growth hue: Painting a growth story; <i>Company Update</i>	486	Buy
28-Nov-13	Pidilite Industries	Adhesive growth: Ties that bind; <i>Initiating Coverage</i>	294	Buy
26-Nov-13	United Spirits	High on W&M potential stake sale; <i>EdelFlash</i>	2622	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	127	44	8	180
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	112	54	14	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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