

November 8, 2011

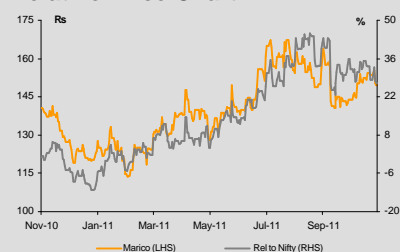
Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs149	Rs 172
EPS change FY12E/13E (%)	-16 / -2
Target Price change (%)	NA
Nifty	5,284
Sensex	17,563

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	(6)	17	6
Rel. to Nifty	(7)	(5)	23	26

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Consumers
Bloomberg	MRCO@IN
Equity Capital (Rs mn)	615
Face Value(Rs)	1
No of shares o/s (mn)	615
52 Week H/L	173/112
Market Cap (Rs bn/USD mn)	92/1,868
Daily Avg Volume (No of sh)	363799
Daily Avg Turnover (US\$m)	1.1

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	62.8	62.9	62.9
FII/NRI	25.7	26.4	26.2
Institutions	5.1	4.2	4.4
Private Corp	2.4	2.5	2.4
Public	4.0	4.1	4.1

Source: Capitaline

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- **14% volume growth driving performance; Also write back of excise duty resulted in net profit growth of 9.4% yoy to Rs783 mn, being in-line with estimates**
- **Both volume growth and market shares remain intact for core portfolio; Volume growth of 10% in Parachute, 11% in Saffola and 26% in Hair Oils**
- **International business grew 19% yoy to Rs2.4 bn; 14% organic growth and 19% inorganic growth gets marginally offset by -19% FX change**
- **Earnings factor softening of input prices. Retain FY13E earnings at Rs7.5/Share. Maintain ACCUMULATE rating with target price of Rs172/Share**

Volume growth driving overall performance; Also write-back of excise duty key feature in the quarter

During Q2FY12 (1) continued volume growth in Marico's mainstay portfolio (2) full impact of price hikes and (3) strong international business performance drives 25.6% revenue growth to Rs 9.7 bn, in line with estimates. However, continued rise in input costs resulted in 470 bps decline in gross margins. With lower A&P spends (9.7% vs. 12.2%) coupled with Rs293 mn write-back of excise duty, offset the impact of lower gross margins. Consequently, PAT registered growth of 9.4% to Rs 783 mn, in line with our expectations.

Robust volume growth; Market shares retained...

The 25.6% yoy growth in revenues was led by 14% volume growth in domestic consumer products and 14% volume growth in international business. Core portfolio witnessed continuous growth momentum and retained market shares, despite significant price increases;

- 'Parachute' coconut oil in rigid pack grew 10% in volume terms, retained 53% market share in branded coconut oil segment, whereas 'Parachute' including non-rigid grew 6% in volume terms
- 'Saffola' oil franchisee grew 11% in volume terms, improved its market share to 54.8%
- Hair Oils in rigid pack grew 26% in volume terms and 48% in value terms, retained market share at 23.4%.

International business grew 19% yoy to Rs2.4 bn

International business comprising of Bangladesh, MENA, South Africa and South East Asia registered 19% yoy revenue growth to Rs 2.4 bn aided by 14% organic growth and 19% inorganic growth. However, appreciation of Indian rupee resulted in translation loss of 14%, restricting international business growth to 19% yoy to Rs2.4 bn. While South African business registered healthy growth, the MENA and South East Asia region witnessed muted performance due to challenging operating environment.

Financial Snapshot

Rs Mn

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	26,618	3,751	14.1	2,327	3.8	21.9	42.0	36.9	23.6	13.4
FY11	31,283	3,941	12.6	2,864	4.7	22.1	36.5	30.2	23.2	9.8
FY12E	40,077	5,053	12.6	3,327	5.4	16.2	31.7	26.0	17.6	7.5
FY13E	46,026	6,687	14.5	4,583	7.5	37.7	33.4	18.9	12.9	5.7

Consolidated Quarterly Results

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	H1FY12	H1FY11	YoY (%)
Net Sales	7,758	8,177	7,473	10,486	9,745	25.6	(7.1)	20,231	15,660	29.2
Expenditure	6,767	7,180	6,686	9,235	8,578	26.8	(7.1)	17,813	13,613	30.8
Material Cost	3,880	4,307	3,960	5,947	5,329	37.4	(10.4)	11,276	7,913	42.5
% of Sales	50.0	52.7	53.0	56.7	54.7	-468 bps	202 bps	55.7	50.5	521 bps
Employee Expenses	582	556	625	706	725	24.6	2.6	1,432	1,122	27.5
% of Sales	7.5	6.8	8.4	6.7	7.4	6 bps	-70 bps	7.1	7.2	-9 bps
Selling & Administrative Expenses	949	901	672	1,023	941	(0.8)	(8.0)	1,965	1,887	4.1
% of Sales	14.0	12.5	10.0	11.1	11.0	305 bps	10 bps	11.0	13.9	-283 bps
Other Expenses	1,356	1,416	1,429	1,558	1,582	16.6	1.5	3,140	2,692	16.7
% of Sales	17.5	17.3	19.1	14.9	16.2	125 bps	-137 bps	15.5	17.2	-167 bps
Ebidta	991	997	788	1,251	1,167	17.7	(6.8)	2,418	2,046	18.2
Depreciation	140	146	302	169	177	26.9	4.8	346	260	33.1
EBIT	852	851	486	1,082	989	16.2	(8.6)	2,072	1,786	16.0
Other Income	73	69	93	90	106	46.6	18.6	196	117	67.7
Interest	65	76	182	97	91	40.8	(5.7)	188	135	39.3
PBT	860	843	398	1,075	1,005	16.9	(6.6)	2,080	1,768	17.6
Tax	144	148	437	225	222	53.9	(1.6)	447	315	41.8
Adjusted PAT	733	710	218	865	800	9.0	(7.6)	1,665	1,480	12.4
(Profit/Loss) from JV's/Ass/MI	18	14	8	15	17	(6.6)	10.2	32	27	15.5
APAT After MI	716	695	210	850	783	9.4	(7.9)	1,633	1,453	12.4
Extra Ordinary Items	-	-	755	-	-	NA	NA	-	0	Na
Reported PAT	716	695	716	850	783	9.4	(7.9)	1,633	1,453	12.4
REPS	1.2	1.1	1.2	1.4	1.3	8.5	(7.9)	2.7	2.4	11.4

Margins (%)					(bps)	(bps)					(bps)
EBIDTA	12.8	12.2	10.5	11.9	12.0	81	-4	12.0	13.1	-112	
EBIT	11.0	10.4	6.5	10.3	10.2	83	17	10.2	11.4	-117	
EBT	11.1	10.3	5.3	10.3	10.3	77	-6	10.3	11.3	-101	
PAT	9.5	8.7	2.9	8.2	8.2	125	4	8.2	9.5	-123	
Effective Tax rate	16.8	17.5	37.9	21.0	22.1	-531	-112	21.5	17.8	366	

Factor marginal improvement in gross margins in H2FY12E

Though, softened by 10% from peak, Copra prices continued to impact gross margins and earnings. Further, safflower oil and rice bran also continued to remain firm, up 27% and 45% yoy, respectively. We are factoring the benefit accrued from the 10% softening in copra prices, which is evident at current levels versus the peak levels. Consequently, we factor 100 bps improvement in gross margins in H2FY12E.

Continue to maintain our positive bias... Maintain ACCUMULATE

Marico demonstrates strong volume growth on sustained basis, despite significant price increase. Thus, Marico's earnings completely ignore the delta effect from any softening in edible oil prices. We have factored the benefit from 10% softening of Copra prices with gross and Ebidta margin improvement in H2FY12E and FY13E. We continue to like the business model of Marico with its focus on absolute Ebidta and strong brand efficacy. We retain our ACCUMULATE rating with target price of Rs172/Share.

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Chg	Earlier	Revised	% Chg
Revenues	40,077	40,077	0.0	46,026	46,026	0.0
EBITDA	5,638	5,053	-10.4	6,570	6,687	1.8
EBITDA Margin (%)	14.1	12.6	(90 bps)	14.3	14.5	20 bps
APAT	3,948	3,327	-15.7	4,661	4,583	-1.7
EPS	6.3	5.4	-14.0	7.5	7.5	-0.5

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	26618	31283	40077	46026
Growth	11.3	17.5	28.1	14.8
Expenses	22867	27343	35024	39338
Growth	9.7	19.6	28.1	12.3
Raw Materials	12616	16179	21972	24091
% Of Sales	47.4	51.7	54.8	52.3
Employee Cost	1901	2304	2880	3307
% Of Sales	7.1	7.4	7.2	7.2
Manufacturing Expenses	2286	2656	3402	3907
% Of Sales	8.6	8.5	8.5	8.5
Admin Expenses	1473	1371	1380	1842
% Of Sales	5.5	4.4	3.4	4.0
Selling & Distribn Expenses	4590	4833	5390	6190
% Of Sales	17.2	15.4	13.4	13.4
Ebidta	3751	3941	5053	6687
Growth	22.3	5.0	28.2	32.4
Ebidta%	14.1%	12.6%	12.6%	14.5%
Other Income	110	256	333	256
Interest	173	213	402	328
Depreciation	601	708	731	793
PBT	3087	3275	4253	5822
Tax	643	850	851	1164
PAT (Before EO Item)	2444	2425	3402	4658
Growth	22.8	-0.8	40.3	36.9
Net Margin%	9.2%	7.8%	8.5%	10.1%
E/O Item	-117	439	-75	-75
Reported PAT	2327	2864	3327	4583

CashFlow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Pre-Tax Profit	2979	3764	4253	5822
Depreciation	805	530	656	718
Chg in W Cap	-1287	-1117	-303	-921
Tax Paid	629	783	851	1164
Operating CashFlow	1868	2394	3755	4454
Capex	-1487	-4095	-700	-700
Free Cash Flow	382	-1701	3055	3754
Investments	-706	-59	0	0
Equity Capital	218	339	0	0
Loans	807	2893	-1000	-2468
Dividend	-472	-475	-645	-799
Others	0	0	0	0
Net Change in Cash	229	997	1410	488
Opening Cash Position	883	1115	2131	3541
Closing Cash Position	1112	2111	3541	4029

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity Share Capital	609	614	614	614
Reserves	5930	8545	11227	15011
Networth	6540	9159	11841	15626
Suecured Loans	1142	4250	4250	4250
Unsecured Loans	3317	3468	2468	0
Loan Funds	4459	7718	6718	4250
Total Liabilities	11124	17096	18778	20095
Gross Block	6142	11591	12291	12991
Less: Depreciation	2424	3366	4097	4890
Net Block	3718	8226	8194	8101
Capital Work In Progress	1129	648	648	648
Investments	827	890	890	890
Current Assets	8970	12203	14705	16849
Inventories	4448	6011	6513	7479
Debtors	1507	1880	2109	2422
Cash&Bank	1115	2131	3541	4029
Loans&Advances	1900	2181	2541	2918
Current Liabilities & Provisions	4136	5175	5964	6698
Net Current Assets	4833	7028	8741	10150
Miscellaneous Expenditure	0	0	0	0
Deferred Tax	616	305	305	305
Total Assets	11124	17096	18778	20094

Key Ratios

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Profitability %				
Ebidta Mgn	14.1	12.6	12.6	14.5
PAT Mgn	9.2	7.8	8.5	10.1
ROCE	26.6	18.3	20.8	25.3
ROE	42.0	36.5	31.7	33.4
Per Share Data				
EPS	3.8	4.7	5.4	7.5
CEPS	4.8	5.8	6.6	8.8
BVPS	10.5	14.4	18.8	24.9
DVPS	0.7	0.8	1.1	1.3
Valuations				
PER	36.9	30.2	26.0	18.9
CPER	29.3	24.2	21.3	16.1
P/BV	13.4	9.8	7.5	5.7
Ev/Sales	3.3	2.9	2.2	1.9
Ev/Ebidta	23.6	23.2	17.6	12.9
Dividend Yield	0.5	0.6	0.7	0.9
Turnover X Days				
Debtor TO	19.2	20.6	20.6	20.6
Inventory TO	57.7	63.7	63.7	63.7
Gearing Ratio				
Net Debt/Equity	0.5	0.6	0.3	0.0
Total Debt/Equity	0.7	0.8	0.6	0.3

Recommendation History: Marico – MARCO IN

Date	Reports	Reco	CMP	Target
15/09/2011	Consumers Sector Sector Update			
27/07/2011	Marico Q1FY12 Result Update	Accumulate	167	172
02/05/2011	Marico Q4FY11 Result Update	Accumulate	136	142
28/01/2011	Marico Q3FY11 Result Update	Accumulate	124	142

Recent Research Reports

Date	Reports	Reco	CMP	Target
03/11/2011	Jubilant FoodWorks Q2FY12 Result Update	Accumulate	815	900
31/10/2011	Colgate Palmolive Q2FY12 Result Update	Reduce	1,003	826
31/10/2011	Hindustan Unilever Q2FY12 Result Update	Hold	375	347
24/10/2011	Titan Industries Q2FY12 Result Update	Hold	226	225

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