

## Impressive volumes, Maintain ACCUMULATE

July 27, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs167	Rs172
EPS change FY12E/13E (%)	+12/+11
Target Price change (%)	+21
Nifty	5,547
Sensex	18,432

Price Performance (%)	1M	3M	6M	12M
Absolute	14	22	34	33
Rel. to Nifty	14	29	37	30

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Consumers
Bloomberg	MRCO@IN
Equity Capital (Rs mn)	614
Face Value(Rs)	1
No of shares o/s (mn)	614
52 Week H/L	1,600/1,087
Market Cap (Rs bn/USD mn)	102/2,154
Daily Avg Volume (No of sh)	101361
Daily Avg Turnover (US\$m)	2.6

### Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	62.9	62.9	63.0
FII/NRI	26.4	26.2	25.5
Institutions	4.2	4.4	4.5
Private Corp	2.5	2.4	2.8
Public	4.1	4.1	4.2

Source: Capitaline

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- Impressive volume growth drives a positive surprise in revenue, which grew 32.7% to Rs10.5bn. Higher copra prices restricts PAT growth to 15.3% to Rs850mn, in line
- Volume growth of 10% in Parachute and 15% in Saffola, post the sharp price increases – 32% in Parachute and 12% in Saffola, comes as a positive surprise
- Improvement in volume growth versus Q4FY11 and copra prices softening of 10% from recent peak boosts future earnings
- Upgrade our FY13E EBITDA and APAT estimates by 9% and 11% respectively. Maintain our ACCUMULATE rating with target price of Rs172/Share

### Impressive volumes drive performance despite sharp input cost inflation

Strong volume growth in Marico's mainstay portfolio coupled with full impact of price hikes drives strong 32.7% revenue growth to Rs 10.5 bn, 9% above our estimates. However, steep inflation in input costs impacted EBITDA margins, which declined 142 bps to 11.9%, despite lower A&P spends (9.8% vs 11.9% in 1QFY11). Consequently, PAT registered growth of 15.3% to Rs 850 mn, in line with our expectations.

### Robust volume growth emphasizes strong brand equity...

Organic volume growth at 14% in Q1FY12 was driven by a strong 10% growth in Parachute, 15% in Saffola and 32% in other hair oils portfolio. We are impressed with the volume growth clocked in this quarter as it has come on the back of full impact of sharp price hike undertaken – 32% in Parachute and 12% in Saffola. The company benefited through increased market shares, launch of low unit packs at price points of Rs 12 and Rs 45 in Parachute and higher rural off-take. We expect volume growth to revert to its mean and factor in 8% volume growth in Parachute and 17% in Saffola for FY12E.

### International business posted healthy revenue growth

International business registered strong 26% yoy revenue growth to Rs 2.2 bn aided by 20% organic growth and 19% inorganic growth. Bangladesh business registered healthy 9% volume growth while maintaining its leadership position. While South African business also registered healthy growth driven by its flagship product Caivil, the MENA and South East Asia region witnessed muted performance due to challenging operating environment.

### Sharp price increases in raw material index continues..

Copra prices continued to play the havoc, been up 96% yoy and 5% qoq. However, it has corrected by 10% from its peak. 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 have upgraded our EBITDA and APAT estimates by 9% and 11% for FY13E.

### Financial Snapshot

Rs Mn

YE-	Net Sales	EBITDA (Core)	(%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10	26,618	3,751	14.1	2,327	3.8	21.9	42.0	43.6	27.7	15.9
FY11	31,283	3,941	12.6	2,864	4.7	22.1	36.5	35.7	27.1	11.6
FY12E	40,077	5,638	14.1	3,898	6.3	36.1	36.1	26.2	18.5	8.5
FY13E	46,026	6,570	14.3	4,611	7.5	18.3	32.2	22.2	15.4	6.4

**Consolidated Quarterly Results**

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Net Sales	7,901	7,788	8,177	7,473	10,486	32.7	40.3
Expenditure	6,847	6,795	7,180	6,686	9,235	34.9	38.1
Material Cost	4,033	3,880	4,307	3,960	5,947	47.5	50.2
% of Sales	51.0	49.8	52.7	53.0	56.7	567 bps	31 bps
Employee Expenses	540	582	556	625	706	30.7	13.0
% of Sales	6.8	7.5	6.8	8.4	6.7	-10 bps	-163 bps
Selling & Administrative Expenses	938	949	901	672	1,023	9.1	52.3
% of Sales	13.7	14.0	12.5	10.0	11.1	-262 bps	103 bps
Other Expenses	1,335	1,385	1,416	1,429	1,558	16.7	9.0
% of Sales	16.9	17.8	17.3	19.1	14.9	-204 bps	-426 bps
Ebitda	1,055	993	997	788	1,251	18.6	58.9
Depreciation	120	140	146	302	169	40.3	(44.0)
EBIT	934	853	851	486	1,082	15.8	122.8
Other Income	44	71	69	93	90	102.2	(3.9)
Interest	70	65	76	182	97	37.8	(46.9)
PBT	909	860	843	398	1,075	18.3	170.5
Tax	171	144	148	437	225	31.5	(48.4)
Adjusted PAT	728	698	681	202	835	14.7	313.3
(Profit/Loss) from JV's/Ass/MI	10	18	14	8	15	56.4	84.5
APAT After MI	737	716	695	210	850	15.3	304.4
Extra Ordinary Items	-	-	-	755	-	-	-
Reported PAT	737	716	695	716	850	15.3	18.7
REPS	1.2	1.2	1.1	1.2	1.4	15.3	18.7

Margins (%)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
EBIDTA	13.3	12.7	12.2	10.5	11.9	-142 bps	139 bps
EBIT	11.8	11.0	10.4	6.5	10.3	-150 bps	382 bps
EBT	11.5	11.0	10.3	5.3	10.3	-124 bps	494 bps
PAT	9.2	9.0	8.3	2.7	8.0	-125 bps	526 bps
Effective Tax rate	18.9	16.8	17.5	37.9	21.0	210 bps	-1,691 bps

**Continue to maintain our positive bias... Maintain ACCUMULATE**

Reference to our Q4FY11 earnings report – Marico's earnings completely ignored the delta effect from any softening in edible oil prices. Also, Marico has allayed the concerns on volume growth by reporting improvement in volume growth versus Q4FY11. Consequently, we have now factored the benefit from 10% softening of Copra prices and revised volume growth assumptions for its mainstay portfolio. We have upgraded our FY13E EBITDA and APAT estimates by 9% and 11% respectively. We continue to like the business model of Marico with its focus on absolute Ebitda and strong brand efficacy. We retain our ACCUMULATE rating with a revised target price of Rs172/Share (from Rs 142/share).

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Chg	Earlier	Revised	% Chg
Revenues	39,312	40,077	1.9	45,091	46,026	2.1
EBITDA	5,179	5,638	8.9	6,018	6,570	9.2
EBITDA Margin (%)	13.2	14.1	-	13.3	14.3	-
APAT	3,524	3,948	12.0	4,193	4,661	11.2
EPS	5.7	6.3	12.0	6.7	7.5	11.2

## Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>26618</b>	<b>31283</b>	<b>40077</b>	<b>46026</b>
Growth	11.3	17.5	28.1	14.8
<b>Expenses</b>	<b>22867</b>	<b>27343</b>	<b>34439</b>	<b>39456</b>
Growth	9.7	19.6	26.0	14.6
Raw Materials	12616	16179	20292	23263
% Of Sales	50.9	54.0	54.4	54.3
Employee Cost	1901	2304	2880	3427
% Of Sales	7.1	7.4	7.2	7.4
Manufacturing Expenses	2286	2656	3402	3907
% Of Sales	8.6	8.5	8.5	8.5
Admin Expenses	1473	1371	1674	1748
% Of Sales	5.5	4.4	4.2	3.8
Selling & Distribn Expenses	4590	4833	6192	7111
% Of Sales	17.2	15.4	15.4	15.4
<b>Ebidta</b>	<b>3751</b>	<b>3941</b>	<b>5638</b>	<b>6570</b>
Growth	22.3	5.0	43.1	16.5
Ebidta%	14.1%	12.6%	14.1%	14.3%
Other Income	110	256	256	256
Interest	173	213	186	162
Depreciation	601	708	773	838
PBT	3087	3275	4935	5826
Tax	643	850	987	1165
<b>PAT (Before EO Item)</b>	<b>2444</b>	<b>2425</b>	<b>3948</b>	<b>4661</b>
Growth	22.8	-0.8	62.8	18.1
Net Margin%	9.2%	7.8%	9.9%	10.1%
E/O Item	-117	439	-50	-50
<b>Reported PAT</b>	<b>2327</b>	<b>2864</b>	<b>3898</b>	<b>4611</b>

## CashFlow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>Pre-Tax Profit</b>	<b>2979</b>	<b>3764</b>	<b>4935</b>	<b>5826</b>
Depreciation	805	530	723	788
Chg in W Cap	-1287	-1117	-403	-802
Tax Paid	629	783	987	1165
<b>Operating CashFlow</b>	<b>1868</b>	<b>2394</b>	<b>4268</b>	<b>4647</b>
Capex	-1487	-4095	-700	-700
<b>Free Cash Flow</b>	<b>382</b>	<b>-1701</b>	<b>3568</b>	<b>3947</b>
Investments	-706	-59	0	0
Equity Capital	218	339	0	0
Loans	807	2893	-2000	-1468
Dividend	-472	-475	-645	-799
Others	0	0	0	0
<b>Net Change in Cash</b>	<b>229</b>	<b>997</b>	<b>923</b>	<b>1680</b>
<b>Opening Cash Position</b>	<b>883</b>	<b>1115</b>	<b>2131</b>	<b>3054</b>
<b>Closing Cash Position</b>	<b>1112</b>	<b>2111</b>	<b>3054</b>	<b>4734</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity Share Capital	609	614	614	614
Reserves	5930	8545	11798	15610
<b>Networth</b>	<b>6540</b>	<b>9159</b>	<b>12412</b>	<b>16224</b>
Suecured Loans	1142	4250	4250	4250
Unsecured Loans	3317	3468	1468	0
<b>Loan Funds</b>	<b>4459</b>	<b>7718</b>	<b>5718</b>	<b>4250</b>
<b>Total Liabilities</b>	<b>11124</b>	<b>17096</b>	<b>18349</b>	<b>20693</b>
Gross Block	6142	11591	12291	12991
Less: Depreciation	2424	3366	4138	4976
<b>Net Block</b>	<b>3718</b>	<b>8226</b>	<b>8153</b>	<b>8015</b>
Capital Work In Progress	1129	648	648	648
<b>Investments</b>	<b>827</b>	<b>890</b>	<b>890</b>	<b>890</b>
<b>Current Assets</b>	<b>8970</b>	<b>12203</b>	<b>14218</b>	<b>17554</b>
Inventories	4448	6011	6513	7479
Debtors	1507	1880	2109	2422
Cash&Bank	1115	2131	3054	4734
Loans&Advances	1900	2181	2541	2918
<b>Current Liabilities &amp; Provisions</b>	<b>4136</b>	<b>5175</b>	<b>5864</b>	<b>6718</b>
<b>Net Current Assets</b>	<b>4833</b>	<b>7028</b>	<b>8353</b>	<b>10835</b>
Miscellaneous Expenditure	0	0	0	0
Deferred Tax	616	305	305	305
<b>Total Assets</b>	<b>11124</b>	<b>17096</b>	<b>18349</b>	<b>20693</b>

## Key Ratios

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>Profitability %</b>				
Ebidta Mgn	14.1	12.6	14.1	14.3
PAT Mgn	9.2	7.8	9.9	10.1
ROCE	26.6	18.3	23.1	24.5
ROE	42.0	36.5	36.1	32.2
<b>Per Share Data</b>				
EPS	3.8	4.7	6.3	7.5
CEPS	4.8	5.8	7.6	8.9
BVPS	10.5	14.4	19.7	25.9
DVPS	0.7	0.8	1.1	1.3
<b>Valuations</b>				
PER	43.6	35.7	26.2	22.2
CPER	34.7	28.6	21.9	18.8
P/BV	15.9	11.6	8.5	6.4
Ev/Sales	3.9	3.4	2.6	2.2
Ev/Ebidta	27.7	27.1	18.5	15.4
Dividend Yield	0.4	0.5	0.6	0.8
<b>Turnover X Days</b>				
Debtor TO	19.2	20.6	20.6	20.6
Inventory TO	57.7	63.7	63.7	63.7
<b>Gearing Ratio</b>				
Net Debt/Equity	0.5	0.6	0.2	0.0
Total Debt/Equity	0.7	0.8	0.5	0.3

**Recommendation History: Marico – MARCO IN**

Date	Reports	Reco	CMP	Target
02/05/2011	<a href="#">Marico Q4FY11 Result Update</a>	Accumulate	136	142
28/01/2011	<a href="#">Marico Q3FY11 Result Update</a>	Accumulate	124	142
27/10/2010	<a href="#">Marico Q2FY11 Result Update</a>	Hold	135	128
29/07/2010	<a href="#">Marico Q1FY11 Result Update</a>	Hold	126	128

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
27/07/2011	<a href="#">Asian Paints Q1FY12 Result Update</a>	Hold	3,140	3,026
25/07/2011	<a href="#">GCPL Q1FY12 Result Update</a>	Accumulate	453	474
22/07/2011	<a href="#">Colgate-Palmolive Q1FY12 Result Update</a>	Reduce	993	826
27/06/2011	<a href="#">Berger Paints Initiating Coverage</a>	Accumulate	100	109

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