

<b>Marico Ltd.</b>	<b>CMP Rs. 120.75 HOLD</b>	<b>Result Update Q1FY11</b>
<b>Ruchak Mehta   ruchak@ppfas.com</b>		

Marico Ltd reported an average set of numbers for the June quarter FY10.

On a yoy quarterly consolidated basis, the topline grew by 13.4%, from Rs.6,967.2 Mn in Q1 FY10 to Rs.7,901.5 Mn. This was primarily on account of strong volume growth of 16%. Prices of Raw materials have started increasing marginally. Cost of Materials went up by 60 basis points at Rs.4,033.2 Mn. The Company continued to make provision for excise duty on coconut oil packs of below 200ml. It stood at Rs.88 Mn for this quarter and is included in Other Expenses. Overall, OPM was lower by 45 bps at 13.4%. Reported PAT stood at Rs.737.4 Mn as against Rs.559.7 Mn for the same period a year ago, a rise of 32%. EPS stood at Rs.1.2.

Parachute coconut oil (rigid packs) grew by 14% in volume over the corresponding period last year. Alongwith Nihar and Oil of Malabar, market share in the branded coconut oil segment as of Jun 2010 (12 months, volume) stood at 53.3%.

The Company's other flagship brand, Saffola also continued to grow with a 17.5% volume increase. Under the Saffola brand, the Company has begun prototyping oats in June 2010. Oats in India is a Rs.1200 to Rs.1400 Mn market growing at the rate of 40%. In the longer term, Marico intends to position Saffola on the health platform and accordingly introduce a basket of food products under the brand. The hair oil portfolio (rigid packs) grew well too with a 27% volume increase and a 150 bps gain in market share. The same stands at 21.6% (12 months, volume).

On the Kaya skin clinic front, the Company closed down another 6 clinics. The total no of clinics in India stands at 81 now. Like Q4FY10, same clinics in India (those in existence for 12 months and over) continued to show a de-growth yoy. It declined by 5%. During the quarter, the Company acquired Derma Rx – a Singapore based skincare clinics business. It has 4 centers, 3 in Singapore and 1 in Malaysia and a total turnover of Rs.500 Mn. Overall for the quarter, the Kaya business lost Rs.47 Mn at the PBT level.

International business continued to do well. It saw a 22% y-o-y growth (29% ignoring currency translation). Volumes grew by 17% while the remaining was price led. International business forms a considerable part of Marico's overall Revenues with a 23% contribution.

At the CMP of Rs.120.75, Marico trades at a PE(TTM) of 29.5. The Company has continued to command such high valuations for quite sometime now. Given the macro story about consumption in India and the strong brands that the Company is riding on, this may be justified to an extent. Nevertheless we have our concerns on the Kaya business front. The business has faced de-growth for a while (same clinic basis) and also kept losing money at the PAT level. Management has closed some clinics and are very positive about the business in the medium to longer term however our stand is cautious on this matter. Given, the discretionary nature of the service and also being the first of its kind, there is high uncertainty about the future. For now, our weighing pan still tilts in favor of the former i.e. core business strength. Till then, we recommend investors to continue holding onto the stock.

## Quarterly Financials

Earnings Statement					
YE March (Rs. Mn.)	Q1FY11	Q4FY10	Q-Q(%)	Q1FY10	Y-Y(%)
Net Revenues	7,901.5	6,022.6	31.20%	6,967.2	13.41%
Cost of Materials	4,033.2	2,646.0	52.42%	3,515.0	14.74%
Gross Profit	3,868.3	3,376.5	14.56%	3,452.2	12.05%
Staff Costs	540.4	436.6	23.78%	487.6	10.85%
Advertising and Sales Promotion	937.9	892.4	5.10%	843.6	11.17%
Other Expenses	1,335.2	1,198.2	11.43%	1,159.3	15.17%
Total Expenditure	6,846.7	5,173.3	32.35%	6,005.5	14.01%
Operating Profit	1,054.8	849.3	24.20%	961.7	9.68%
OPM (%)	13.35%	14.10%		13.80%	
Other Income	44.4	53.0	-16.37%	31.0	43.29%
EBITDA	1,099.2	902.3	21.82%	992.7	10.72%
Depreciation	120.4	157.0	-23.30%	95.4	26.17%
EBIT	978.7	745.3	31.32%	897.3	9.08%
Interest	70.0	50.4	39.04%	86.7	-19.25%
Exceptional Items	-	57.4		40.5	
PBT	908.7	637.5	42.53%	770.0	18.01%
Tax	161.7	117.2		210.3	
PAT before Minority Interest	747.0	520.3	43.56%	559.7	33.45%
Minority Interest	9.6	8.9			
PAT	737.4	511.5	44.17%	559.7	31.73%
Equity Capital (FV Re 1)	609.4	609.3		609.0	
EPS	1.2	0.8	44.14%	0.9	31.65%
Ratio Analysis					
Profitability					
YE March	Q1FY11	Q4FY10	Q-Q(bps)	Q1FY10	Y-Y(bps)
OPM (%)	13.35%	14.10%	(75.2)	13.80%	(45.4)
EBITDA (%)	13.91%	14.98%	(107.1)	14.25%	(33.7)
EBIT (%)	12.39%	12.37%	1.2	12.88%	(49.1)
PAT (%)	9.45%	8.64%	81.4	8.03%	142.0
Operational Parameters					
YE March	Q1FY11	Q4FY10	Q-Q(bps)	Q1FY10	Y-Y(bps)
RM Consumed	51.04%	43.94%	710.8	50.45%	59.3
Advertising and Sales Promotion	11.87%	14.82%	(294.8)	12.11%	(23.9)
Staff Cost	6.84%	7.25%	(41.0)	7.00%	(15.8)
Other Expenditure	16.90%	19.90%	(299.8)	16.64%	25.9
Effective Tax Rate	17.80%	18.39%	(59.0)	27.31%	(951.2)

## Financials

Earnings Statement					Balance Sheet				
Particulars (Rs Mn)	FY07	FY08	FY09	FY10	Particulars (Rs Mn)	FY07	FY08	FY09	FY10
Total Revenues	15,569.2	19,050.4	23,884.2	26,607.6	Equity Capital (FV Re1)	609.0	609.0	609.0	609.3
- Growth (%)	36.1%	22.4%	25.4%	11.4%	Reserves	1314.7	2537.2	3925.9	5930.3
Total Expenditure	13,583.6	16,588.2	20,844.3	22,856.1	Shareholders Funds	1923.7	3146.2	4534.9	6539.6
Operating Profit	1,985.6	2,462.2	3,039.9	3,751.5	Minority Interest	0.1	1.2	-	125.3
Other Income	101.6	95.6	122.0	182.6	Loan Funds	2509.7	3579.4	3749.7	4458.8
EBITDA	2,087.2	2,557.8	3,161.9	3,934.1	Deferred Tax Liability (Net)	-	-	-	-
Depreciation	520.6	307.5	357.9	600.6	Total Liabilities	4433.5	6726.8	8284.6	11123.7
EBIT	1,566.6	2,250.3	2,804.0	3,333.5	Goodwill on Consolidation	449.5	842.4	850.3	850.3
Interest	206.1	305.2	357.3	256.9	Fixed Assets	1654.4	2573.1	3111.0	3996.8
PBT and EI	1,360.5	1,945.1	2,446.7	3,076.6	Investments	0.1	0.1	121.1	827.1
Exceptional Items	140.3	106.1	(150.3)	(97.9)	Deferred Tax Asset (Net)	1151.5	981.7	641.2	616.3
PBT	1,500.8	2,051.2	2,296.4	2,978.7	Current Assets				
Tax	371.9	359.5	409.3	643.3	Inventory	2214.7	2604.6	3390.4	4448.1
PAT Before Minority Interest	1,128.9	1,691.7	1,887.1	2,335.4	Sundry Debtors	642.6	862.7	1108.0	1506.9
- Growth (%)	29.9%	49.9%	11.6%	23.8%	Loans & Advances	716.6	1060.9	1298.5	1899.9
Minority Interest	-	(1.0)	0.1	(18.7)	Cash & Bank Balance	429.4	752.8	921.9	1114.6
Reported PAT	1,128.9	1,690.7	1,887.2	2,316.7	Other Current Assets	-	-	-	-
					Current Liabilities				
					Liabilities	2679.3	2559.6	2802.7	3368.7
					Provisions	147.2	391.9	355.1	767.6
					Net Current Assets	1176.8	2329.5	3561.0	4833.2
					Miscellaneous Exp not W/Off	1.2	-	-	-
					Total Assets	4433.5	6726.8	8284.6	11123.7

  

Ratio Analysis				
Particulars	FY07	FY08	FY09	FY10
OPM (%)	12.8%	12.9%	12.7%	14.1%
EBITDA (%)	13.4%	13.4%	13.2%	14.8%
PBIT (%)	10.1%	11.8%	11.7%	12.5%
PAT (%)	7.3%	8.9%	7.9%	8.8%
Interest Cover (x)	7.6	7.4	7.8	13.0
EPS (Rs.)	1.9	2.8	3.1	3.8
P/E (x)	33.1	24.2	19.4	28.6
P/BV (x)	19.4	13.0	8.1	10.1
BVPS (Rs.)	3.2	5.2	7.4	10.7
Market Cap (Rs. Mn.)	37,331.7	40,955.3	36,570.5	66,142.3
M Cap/Sales (x)	2.4	2.1	1.5	2.5
EV (Rs. Mn.)	39,412.0	43,781.9	39,398.3	69,486.5
EV/EBITDA (x)	18.9	17.1	12.5	17.7
EV/Sales (x)	2.5	2.3	1.6	2.6
ROCE (%)	35.3%	33.5%	33.8%	30.0%
RONW (%)	58.7%	53.7%	41.6%	35.4%
Debt/Equity Ratio (x)	1.3	1.1	0.8	0.7
Inventory T/o Days	51.2	49.2	51.1	60.2
Debtors T/o Days	14.9	16.3	16.7	20.4
Advances T/o Days	16.6	20.0	19.6	25.7
Creditors T/o Days	62.0	48.4	42.2	45.6
Working Cap T/o Days	27.2	44.0	53.7	65.4
Fixed Assets T/o (Gross)	5.6	5.4	5.2	5.0
DPS (Adjusted)(Rs.)	0.6	0.7	0.7	0.7
Dividend Payout (%)	34.6%	23.6%	21.1%	17.4%
Dividend Yield (%)	1.0%	1.0%	1.1%	0.6%

# Disclaimer

## Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
3. PMS ownership of the scrip

Marico

NO  
NO  
YES

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Parag Parikh Financial Services Ltd. (PPFAS). PPFAS is disseminated and available primarily electronically, and, in some cases, in printed form. Additional information on recommended securities is available on request.

PPFAS is a Stock Broker registered with Securities and Exchange Board of India Limited (SEBI) and so it is regulated by SEBI. This report is not and should not be construed as an investment advice to any client to acquire, subscribe, purchase, sell, dispose of, retain any securities or an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as an official endorsement of any investment.

If 'Buy', 'Sell', or 'Hold' recommendation is made in this report such recommendation or view or opinion expressed on investments in this report is not intended to constitute investment advice and should not be intended or treated as a substitute for necessary review or validation or any professional advice. The views expressed in this report are those of the analyst which are subject to change and do not represent to be an authority on the subject. PPFAS may or may not subscribe to any and/ or all the views expressed herein.

PPFAS makes best endeavour to ensure that the analyst(s) use current, reliable, comprehensive information and obtain such information from sources, which the analyst(s) believes to be reliable. However, such information has not been independently verified by PPFAS or the analyst(s).

The information, opinions and views contained within this report are based upon publicly available information and rates of taxation at the time of publication, which are subject to change from time to time without any prior notice. reports may be updated anytime without any prior notice to any and/ or all client(s).

PPFAS makes no guarantee, representation or warranty, express or implied; and accepts no responsibility or liability as to the accuracy or completeness or currentness of the information in this report.

Please note that past performance is not necessarily a guide to evaluate future performance.

PPFAS and its affiliates and their respective officers directors and employees may hold positions in any securities mentioned in this report (or in any related investment) and may from time to time add to or dispose of any such securities (or investment).

This report should be read and relied upon at the sole discretion and risk of the client.

The value of any investment made at your discretion based on this report or income therefrom may be affected by changes in economic, financial and/ or political factors and may go down as well as up and you may not get back the full or the expected amount invested. Some securities and/ or investments involve substantial risk and are not suitable for all investors.

This report is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied in whole or in part, for any purpose. Neither this report nor any copy of it may be taken or transmitted or distributed, directly or indirectly within India or into any other countries or to any resident thereof. The distribution of this report in other jurisdictions may be strictly restricted and/ or prohibited by law, and persons into whose possession this report comes should inform themselves about such restriction and/ or prohibition, and observe any such restrictions and/ or prohibition.

Neither PPFAS nor its affiliates or their directors, employees, agents or representatives, shall be responsible or liable in any manner, directly or indirectly, for views or opinions expressed in this report or the contents or any errors or discrepancies herein or for any decisions or actions taken in reliance on the report or inability to use or access our service or this report or for any loss or damages whether direct or indirect, incidental, special or consequential including without limitation loss of revenue or profits or any loss or damage that may arise from or in connection with the use of or reliance on this report or inability to use or access our service or this report.

## Contact

Ruchak Mehta

Analyst - Investment Research

ruchak@ppfas.com

91 22 2284 6555 Extn 202

**Now access PPFAS Reports on Bloomberg**

**<PPFS> <Go>**

## Parag Parikh Financial Advisory Services Limited

130/132, Great Western Building, 1st Floor, S. B. Marg, Near Lion Gate, Fort, Mumbai - 400 001.

Tel : 91-22-2284 6555 Fax : 91-22-2284 6553, e-mail : researchcall@ppfas.com

[www.ppfas.com](http://www.ppfas.com)