

Marico Industries Limited

CMP Rs. 51.0
BUY

Q2 FY2009
Result Update

Marico Industries Ltd has announced impressive results for the quarter ended September 30, 2008. The group has posted a turnover of Rs. 6,035Mn for the current quarter. This is a steep jump of 30% over last year. PAT during the quarter was Rs. 471.2Mn, at a growth of 11.6%, it was another year of healthy growth over previous year. The 30% revenue growth in the current quarter comprised of 11% volume growth, 3% inorganic growth and 16% price led growth. The company has thus demonstrated steady growth on both the topline and bottom line.

The recent slowdown in the economy has put the FMCG sector in focus. FMCG industry is among the sectors that seem less affected by the slowdown. They generally act as a good defensive bets particularly in tough economic times as witnessed now. Marico is one such company, which excites us as an investment opportunity. This mid-cap FMCG achieved decent margins (12.24% OPM & 7.81% NPM) and consistent return ratios in the range of 30-40% in the current quarter. The Board declared a first interim dividend of 30% this quarter. In terms of P/E, the scrip is trading at 20x FY08 EPS and 13x FY10E EPS.

Consistent and remarkable growth in all areas of business: This quarter being no exception, the company has recorded effective results in each of its business segments. All Marico's businesses, consumer products in India, international business and Kaya skin solutions showed healthy growth. The underlying tables help understand the growth in consumer products business:

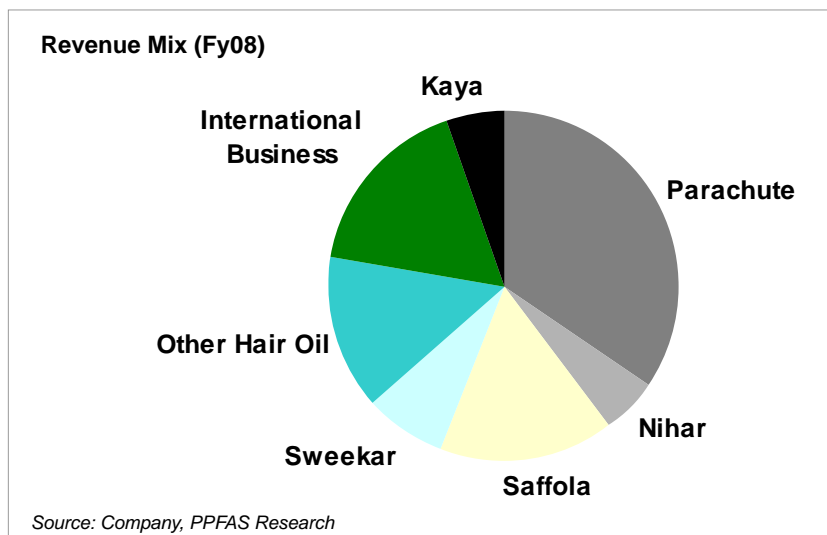
Coconut Oil	Market share as on Aug 08	Volume growth (Q2FY09)
Parachute	48.00%	12.00%
Nihar	6.00%	10.00%
Oil of Malabar	1.00%	
	55.00%	

Saffola	Volume growth (Q2FY09)	Volume growth (Q1FY09)	Volume growth (H1FY09)
	9.0%	28.0%	18.0%

Hair Oils	Market share as on Aug 08	Volume growth (Q2FY09)
Rigid Packs	20.40%	14.00%
Parachute Jasmine		9.00%
Nihar perfumed		9.00%
Hair&Care		23.00%
Shanti Badam Amla		25.00%

Source: Company, PPFAS Research

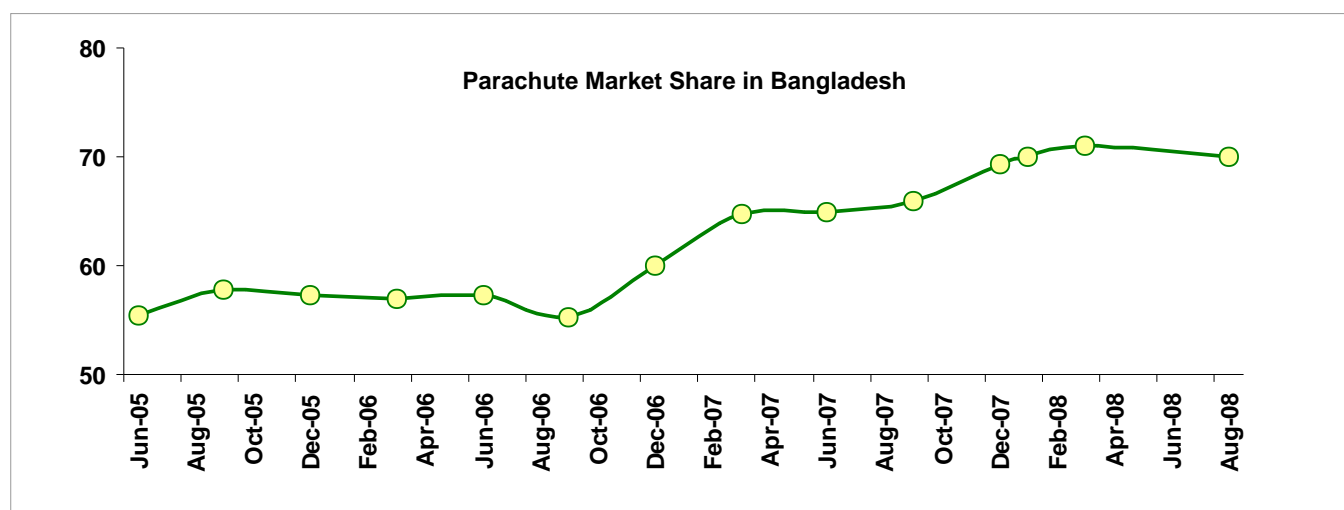
The company has a revenue mix of 75:25 between urban and rural i.e. 25% of the business is contributed from rural areas. Product portfolio is thus urban centric. The percentage growth in both the urban and rural contribution to revenues has been without any significant difference. Shanti Badam Amla, Parachute Coconut and Nihar (to an extent) are targeted at the rural consumers. Shanti Badam Amla performed well to register a volume growth of 25% during Q2FY09 over the corresponding period in the previous year.



International Business:

Marico's overall international business grew by 59% during Q2FY09. Marico's overseas market comprise primarily the Middle East, Egypt and SAARC countries. International business has lower margins to domestic business, but has provided growth of ~20% over the years.

Parachute brand has acquired a major market share in Bangladesh. The same is depicted in the chart. During the 12 months ended August '08, its market share was 70%. In the Middle East, Parachute cream has been making steady progress with market shares in the UAE and KSA of 29% and 15% respectively (for the 12 months ended August '08). The performance in South Africa has also been in line with expectations. In Egypt the brands are positioned as Value for Money goods. The global inflationary pressures and volatility are being experienced in Marico's international markets as well. During the quarter, inflation in Bangladesh and Egypt was in excess of 20% while in South Africa it was about 14%. The company has also reported a Rs70m MTM loss due to rupee depreciation.



Kaya:

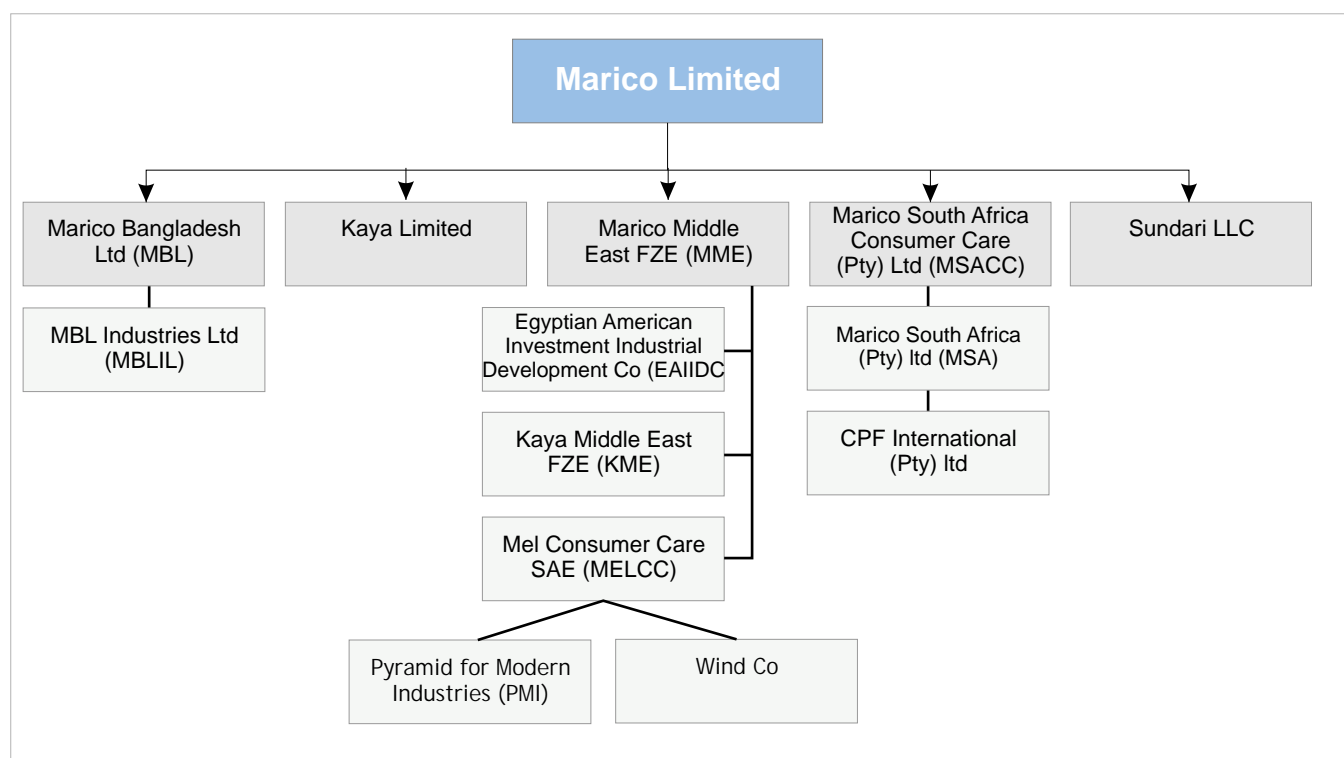
During Q2FY09, Kaya recorded a turnover of Rs 40 crore, a growth of 67% over Q2FY08. Revenue growth in clinics in India in Q2FY09 that were operational in Q2FY08 too was 26%. Kaya Skin Clinic continued with its plans of opening new clinics during the quarter. As of September'08 Kaya Skin Clinic offers its skin care solutions through 77 clinics, up from 65 in March 2008. Of these 67 clinics are operational across 20 cities in India while there are 10 clinics situated in

the Middle East. The company follows the strategy of expanding clinics in new cities to keep saturation of existing cities at bay.

Advertising costs :

The company has reported lower ad-spends in the current quarter on account of no major launch or relaunch of any product. Advertising spends have reduced from 13% to 9%, Y-Y basis, as a percentage of sales. Though the quarter on quarter contribution of advertising will vary as a percentage of sales, the company intends to maintain 12-13% as advertising spends for the year. That would ensure brand strengthening and keep weaker competition at bay.

Organization structure



Source: Company

Valuation:

The company has identified the challenges of uncertainty in the ambience, strengthening the Kaya brand and allocating resources for growth/sustainability. The price of the major raw material, copra, has climbed 30% Y-Y, putting pressure on the margins despite the price hikes. We have factored the current economic scenario of inflationary pressures, evidence of consumers shifting to smaller pack sizes, and economic slowdown, to bring down our future estimated operating and EBITDA margins. Yet we do not expect down-trading on account of strong brands, consumer loyalty and continuous investment in existing and new products.

Overall, the results have increased our confidence on the company. We maintain our BUY call on the scrip, with a revised price target of Rs. 78 based on 20x FY10E (53% Upside).

Marico : Consolidated Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q209	Q109	Q-Q(%)	Q208	Y-Y(%)	H109	H108	Y-Y(%)
Net Revenues	6,035.0	6,009.3	0.43%	4,637.9	30.12%	12,044.3	9,329.2	29.10%
Cost of Materials	2,728.2	2,770.5	-1.53%	2,005.1	36.06%	5,498.7	4,077.1	34.87%
Gross Profit	3,306.8	3,238.8	2.10%	2,632.8	25.60%	6,545.6	5,252.1	24.63%
Staff Costs	387.1	430.9	-10.18%	255.8	51.31%	818.0	597.3	36.94%
Other Expenses	2,180.9	2,051.2	6.32%	1,729.8	26.08%	4,232.1	3,347.2	26.44%
Total Expenditure	2,567.9	2,482.1	3.46%	1,985.6	29.33%	5,050.0	3,944.5	28.03%
Operating Profit	738.9	756.7	-2.35%	647.2	14.17%	1,495.6	1,307.6	14.38%
OPM (%)	12.24%	12.59%	-2.77%	13.95%	-12.26%	12.42%	14.02%	-11.41%
Other Income	12.2	10.0	22.25%	5.2	135.10%	22.2	12.2	82.17%
EBITDA	751.1	766.7	-2.03%	652.4	15.13%	1,517.8	1,319.8	15.00%
Depreciation	81.8	74.5	9.77%	64.1	27.57%	156.3	121.5	28.62%
EBIT	669.3	692.2	-3.30%	588.3	13.78%	1,361.5	1,198.3	13.62%
Interest	86.6	79.9	8.42%	64.9	33.48%	166.5	135.7	22.72%
PBT	582.7	612.3	-4.83%	523.4	11.33%	1,195.0	1,062.6	12.46%
Tax	111.3	149.2	-25.39%	100.9	10.33%	260.5	237.3	9.79%
PAT	471.4	463.1	1.79%	422.5	11.57%	934.5	825.3	13.23%
Extra-ordinary Income	0.0	0.0	-	0.0	-	0.0	0.0	-
Reported PAT before MI	471.4	463.1	1.79%	422.5	11.57%	934.5	825.3	13.23%
Minority Interest	0.1	0.2	-29.00%	0.1	42.00%	0.3	0.5	-31.60%
Reported PAT	471.2	462.9	1.80%	422.4	11.56%	934.1	824.8	13.26%
Equity Capital	609.0	609.0	0.00%	609.0	0.00%	609.0	609.0	0.00%
EPS	0.8	0.8	1.79%	0.7	11.57%	1.5	1.4	13.23%
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q209	Q109	Q-Q(bps)	Q208	Y-Y(bps)	H109	H108	Y-Y(bps)
OPM (%)	12.24%	12.59%	-34.86	13.95%	-171.11	12.42%	14.02%	-159.87
EBITDA (%)	12.45%	12.76%	-31.25	14.07%	-162.06	12.60%	14.15%	-154.50
EBIT (%)	11.09%	11.52%	-42.77	12.68%	-159.35	11.30%	12.84%	-154.01
PAT (%)	7.81%	7.71%	10.46	9.11%	-129.87	7.76%	8.85%	-108.76
Operational Parameters								
YE March (Rs. Mn.)	Q209	Q109	Q-Q(bps)	Q208	Y-Y(bps)	H109	H108	Y-Y(bps)
RM Consumed	45.21%	46.10%	-89.76	43.23%	197.30	45.65%	43.70%	195.12
Staff Cost	6.41%	7.17%	-75.70	5.52%	89.81	6.79%	6.40%	38.88
Other Expenditure	36.14%	34.13%	200.33	37.30%	-116.00	35.14%	35.88%	-74.12
Effective Tax Rate	19.10%	24.37%	-526.26	19.28%	-17.33	21.80%	22.33%	-53.10

Marico : Financials

Earnings Statement				
Particulars (Rs Mn)	FY07	FY08	FY09E	FY10E
Total Revenues	15,569.2	19,066.9	21,929.5	25,221.5
- Growth (%)	36.1%	22.5%	15.0%	15.0%
Total Expenditure	13,443.3	16,603.4	19,240.9	22,053.7
Operating Profit	2,125.9	2,463.5	2,688.6	3,167.8
Other Income	101.6	66.8	232.0	266.8
EBITDA	2,227.5	2,530.3	2,920.5	3,434.6
Depreciation	520.6	308.6	288.7	399.8
EBIT	1,706.9	2,221.7	2,631.9	3,034.8
Interest	206.1	276.6	276.6	276.6
PBT	1,500.8	1,945.1	2,355.3	2,758.2
Tax	371.9	359.5	339.8	409.4
PAT Before EI	1,128.9	1,585.6	2,015.5	2,348.8
- Growth (%)	29.9%	40.5%	27.1%	16.5%
EOI (Goodwill on consolidation)	106.1	0.0	0.0	0.0
Reported PAT before MI	1,128.9	1,691.7	2,015.5	2,348.8
Minority Interest	0.0	1.0	1.2	1.4
PAT after MI	1,128.9	1,690.7	2,014.3	2,347.4

Balance Sheet				
Particulars (Rs Mn)	FY07	FY08	FY09E	FY10E
Equity Capital	609.0	609.0	609.0	609.0
Reserves	1,314.7	2,537.2	4,060.6	5,978.9
Shareholders Funds	1,923.7	3,146.2	4,669.6	6,587.9
Minority Interest		1.2	2.4	3.8
Borrowed Funds	2,509.7	3,579.4	3,579.4	3,579.4
Total Liabilities	4,433.4	6,726.8	8,251.4	10,171.1
Fixed Assets	1,654.4	2,573.1	2,667.1	2,597.3
Goodwill	449.5	842.4	842.4	842.4
Investments	0.1	0.1	0.1	0.1
Deferred Tax Asset	1,151.5	981.7	981.7	981.7
Current Assets				
Inventory	2,214.7	2,604.6	2,944.0	3,385.9
Sundry Debtors	642.6	862.7	1,021.4	1,174.7
Loans & Advances	716.6	1,060.9	1,060.9	1,060.9
Cash & Bank Balance	427.3	752.8	2,000.2	3,836.3
Current Liabilities				
Sundry Creditors	2,677.2	2,559.6	2,944.0	3,385.9
Provisions	147.2	391.9	322.4	322.4
Net Current Assets	1,176.8	2,329.5	3,760.1	5,749.5
Misc Expenditure	1.2	0.0	0.0	0.0
Total Assets	4,433.5	6,726.8	8,251.4	10,171.1

Ratio Analysis				
Particulars	FY07	FY08	FY09E	FY10E
OPM (%)	13.7%	12.9%	12.3%	12.6%
EBITDA (%)	14.3%	13.3%	13.3%	13.6%
PBIT (%)	11.0%	11.7%	12.0%	12.0%
PAT (%)	7.3%	8.3%	9.2%	9.3%
Interest Cover (x)	8.3	8.0	9.5	11.0
EPS (Rs.)	1.9	2.6	3.3	3.9
P/E (x)	27.5	19.6	15.4	13.2
P/BV (x)	16.1	9.9	6.6	4.7
BVPS (Rs.)	3.2	5.2	7.7	10.8
Market Cap (Rs. Mn.)	31,028.6	31,028.6	31,028.6	31,028.6
M Cap/Sales (x)	2.0	1.6	1.4	1.2
EV (Rs. Mn.)	33,110.9	33,855.1	32,607.6	30,771.5
EV/EBITDA (x)	14.9	13.4	11.2	9.0
EV/Sales (x)	2.1	1.8	1.5	1.2
ROCE (%)	38.5%	33.0%	31.9%	29.8%
RONW (%)	58.7%	50.4%	43.2%	35.7%
Debt/Equity Ratio (x)	1.3	1.1	0.8	0.5
Inventory T/o Days	51.9	49.9	49.0	49.0
Debtors T/o Days	15.1	16.5	17.0	17.0
Advances T/o Days	16.8	20.3	17.7	15.4
Creditors T/o Days	62.8	49.0	49.0	49.0
Working Cap T/o Days	27.6	44.6	62.6	83.2
Fixed Assets T/o (Gross)	5.6	5.4	4.8	5.5
DPS (Rs.)	0.6	0.7	1.0	1.2
Dividend Payout (%)	34.6%	25.2%	30.0%	30.0%
Dividend Yield (%)	1.3%	1.3%	1.9%	2.3%

Cash Flow				
Particulars (Rs Mn)	FY07	FY08	FY09E	FY10E
Opening Cash & Bank	414.6	427.3	752.8	2,000.2
Profit After Tax	1,128.9	1,585.6	2,015.5	2,348.8
Invt Income	(101.6)	(66.8)	(232.0)	(266.8)
Interest Paid	206.1	276.6	276.6	276.6
Misc Exp W/Off	1.3	1.2	0.0	0.0
Depreciation	520.6	308.6	288.7	399.8
Deferred Taxation	158.1	202.1	0.0	0.0
Others	(4,715.7)	42.7	204.6	381.2
Change in Working Cap	(86.9)	(827.2)	(183.2)	(153.3)
CF - Operating Activities	2,889.2	1,522.8	2,370.2	2,986.2
Change in Fixed Assets	2,091.7	(1,197.6)	(382.8)	(330.0)
Change in Goodwill	(432.8)	(392.9)	0.0	0.0
Change in Investments	184.6	0.0	0.0	0.0
Investment Income	101.6	66.8	232.0	266.8
CF - Investing Activities	1,945.1	(1,523.7)	(150.8)	(63.2)
Increase in Equity	1,513.9	0.0	0.0	0.0
Changes in Borrowings	113.2	1,069.7	0.0	0.0
Interest Paid	(206.1)	(276.6)	(276.6)	(276.6)
Dividend Paid	(464.2)	(466.7)	(695.3)	(810.3)
CF - Financing Activities	956.8	326.4	(971.9)	(1,086.9)
Net Change in Cash	12.7	325.5	1,247.4	1,836.1
Closing Cash & Bank Bal	427.3	752.8	2,000.2	3,836.3

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