

1Q/F14 result review
SELL
Improvement in profitability could be short lived

Current price	Rs	213
Target price	Rs	190
Upside/(downside)	%	(11)
Earning estimate		Revised

Market data

Mkt capitalisation	Rs bn	137.6
Average daily vol	'000	4245.7
52-week H/L	Rs	252 / 186
Shares O/S	mn	644.8
Free float	mn	259.7
Promotor holding	%	59.7
Foreign holding	%	28.0
Face value	Rs	1.0

Price performance (%)

	1m	3m	6m	1yr
Nifty (abs)	(4.4)	(4.2)	(2.6)	6.7
Stock (abs)	2.3	(0.4)	1.0	12.4
Relative to Index	6.7	3.8	3.6	5.6

Performance


Source: Bloomberg, SSL

Marico posted decent quarterly numbers as Net sales of Rs13.8bn was 8.8% led by a robust 10% volume growth in domestic business and 9% in IBG. Performance in PCNO continued to slide –value growth declined by 3% and vol growth was 4% (5% in 4QF13). Saffola bounced back to 10% volume growth after posting two consecutive quarters of dismal performance (vol. growth of 5%) due to high level of promotions. Performance of IBG also improved (15% up, 9% vol. growth) on the back of revival in Bangladesh (42% of IBG) and 26% growth in SE Asia. MRCO recorded market share gains in all the brands in the portfolio except Saffola where it is down by 130bps to 57.1%. Gross margin was up by 192bps due to reduction in key raw materials like Safflower oil (down 3%), Rice bran oil (down 20%) and increase in margin in Bangladesh (profits up by 140% due to lower costs). EBITDA was Rs2.3bn (4.5% above SSLe) up by 22.2% and EBITDA margin was at 16.6% up by 182bps led by increase in profitability of IBG from 10-11% to 13% in this quarter. PAT was at Rs1.6bn up by 27.4% (20.5% above SSLe due to higher other income).

PCNO continues to slide....: Volume growth in PCNO was at 4%, 300-400bps lower than the run-rate of 8-9% in previous quarters and 100bps lower than last quarter. The slide in PCNO continued despite the company taking a 3.5% reduction in prices at the portfolio level. For F14, the mgmt. expects the volume growth to bounce back to 7-8% as 1QF14 was hit by the strike due to the levy of LBT. Maharashtra is the largest market for Parachute hence April and May was badly hit. PCNO lost 2% volume growth due to LBT as per the June trends. MRCO took a pricing cut in 100/250ml SKU in 1QF14 and took 8% price cut in 175ml SKU in June which will catalyse 7-8% growth for the year.

.....while Saffola bounces back: Saffola jumped back to 10% volume growth after two consecutive quarters of mid-single digit growth (run rate 10%+). MRCO reduced the prices by 2-3% in their portfolio to reduce the pricing gap between them and other local/regional players. The bounce back in volumes could be attributed to high level of promotions. The management remains confident of achieving double digit growth in Saffola in the medium term.

Financial summary

Y/E March (Rs mn)	F 12	F 13	F 14e	F 15e
Sales	39,797	45,962	52,354	60,075
Growth(%)	24.0	15.5	13.9	14.7
EBIDTA margin (%)	12.2	13.6	15.0	14.9
Net Profit (Rep)	3,172	3,959	4,747	5,261
Net Profit (Adj)	3,189	3,627	4,747	5,261
Growth(%)	-0.2	13.7	30.9	10.8
EPS Rs (Adj)	5.2	5.6	7.4	8.2
P/E (x)	41.0	37.9	28.9	26.1
Dividend yield (%)	0.4	0.6	0.6	0.7
RoCE(%)	26.8	24.8	24.4	27.4
RoE(%)	30.6	22.1	21.2	19.8

Source: Company, SSLe

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Youth brands –Set Wet, Zatak and Livon grow by 40%; contains market share erosion in Set Wet and Zatak: The acquired portfolio of youth brands has now been fully integrated and achieved a top line of about INR 550mn in 1Qf14 (up 40% QoQ). MRCO has increased its reach in chemist outlets by over 20% consequent to the acquisition of the Youth brands Set Wet, Zatak and Livon. It now reaches about 75k chemist outlets out of the universe estimated to be around 500k outlets. The Company has established a leadership position in the Hair Gels (Set Wet) and Post Wash Leave-on conditioner (LIVON) market with about 42% and 80% share respectively. Set Wet and Zatak had earlier seen some decline in market shares in the deodorant segment given that there was some lack of focus in the hands of the erstwhile owners. This decline has now been arrested and the trend is beginning to reverse. On a sequential basis Setwet and Zatak brands put together gained about 100 bps in market share. We expect the growth rates to be around 25% in the next couple of years supported by new brand communication and product launches.

Bangladesh pulls up overseas performance; sales up 16% and profits up 140% : Relatively better economic environment –inflation moving down to 7% levels and GDP growth estimates to be around 6% levels led to a smooth sailing in Bangladesh in this quarter. Sales were up by 16% in const. currency terms and profits were up by 140% mainly led by gross margin expansion. PCNO recorded a double digit volume growth and maintained its market share at 82%.

De-risking the portfolio from PCNO continues in Bangladesh: MRCO continued to invest behind existing and new products in VAHO (Rs2.5bn market) and Hair Dye category as they have adopted a strategy to de-risk the portfolio from PCNO in Bangladesh just like in India. The portfolio posted a growth of about 19% in volumes during the quarter. MRCO has achieved 19% share in a short period since its entry in this fast growing segment of VAHO. They have introduced Parachute Beliphool (LHO), Parachute Advanced Cooling Oil and Nihar

MRCO invests 40% of ad-spends in new product launches: A&SP increased by 70bps in the quarter as the company continued to invest behind new product launches in fast growing categories like Saffola Oats, Saffola Muesli, Parachute Advanced Body Lotion in India and Value Added hair Oils in Bangladesh). Moreover, ASP investments made behind the acquired Youth brands (Set Wet, Zatak and Livon) also resulted in an overall higher ASP to Sales. About 40% of the ASP amount has been spent behind new products.

Outlook: As per MRCO, the company is likely to report a volume growth of 7-8% in PCNO, 15% in VAHO, 10% in Saffola, 25% growth in youth brands and 15% in IBG for F14 and slightly higher in F15 as saffola's performance improves further. MRCO was not very confident about maintaining the 13% margin in IBG that it achieved in 1QF14 (8.5-9% in F13) and reduced expectations to 11-12% going forward. The domestic FMCG business achieved a margin of 20% and we believe 17-18% is a reasonable estimate for quarters ahead as corpa (40% of RM) along with other factors like INR depreciation have increased the RM table up by 8% in July. Taking into account all the above factors we believe MRCO will grow top line at 14.3% in F13-15 period, gross margin will be up by 50bps to 52.4% and assuming 12% of sales on ad-spends, operating margin will be at 15% for F14/F15. ETR is expected to rise to 30% in F15 from 24% in F14 as MRCO will have a plant come out of the tax benefit net (exemption will be reduced from 100% to 30%). Net profit growth will be around 20% in F13-15 period.

Valuation: At CMP of Rs213, the stock is trading at a P/E multiple of 29x/26x based on EPS estimate of Rs7.4/8.2 for F14/F15. MRCO is trading at par with the sector valuation of 30x/26x and in –line with its own historic 1-yr fwd P/E multiple of 26x. We maintain our TP of Rs190 (23x F15e) with a SELL rating on the stock owing to a cautious view on PCNO and IBG.

Quarterly financials

Y/E March (Rs mn)	1Q/F14	1Q/F13	YoY (%)	4Q/F13	QoQ (%)	1Q/F14e	Var. (%)
Net Sales	13,823.7	12,703	8.8	9,985.9	38.4	14,462.7	(4.4)
COGS	6,710.5	6,410.7	4.7	4,409.8	52.2	6,989.9	(4.0)
Gross Profit	7,113.2	6,292.6	13.0	5,576.1	27.6	7,472.9	(4.8)
Gross Margin(%)	51.5	49.5	192	55.8	(438.3)	51.7	(21.3)
Employee Expenses	1,058.1	947.4	11.7	986.8	7.2	1,078.6	(1.9)
Share of sales(%)	7.7	7.5	20	9.9	(222.7)	7.5	19.7
Ad-spends	1,761.4	1,558.5	13.0	1,256.8	40.1	1,880.2	(6.3)
Share of sales(%)	12.7	12.3	47	12.6	15.6	13.0	(25.8)
Other expenses	1,996.8	1,907.6	4.7	2,129.7	(6.2)	2,316.4	(13.8)
Share of sales(%)	14.4	15.0	(57)	21.3	(688.3)	16.0	(157.2)
EBITDA	2,296.9	1,879.1	22.2	1,202.8	91.0	2,197.7	4.5
EBITDA Margin(%)	16.6	14.8	182.4	12.0	457.1	15.2	142.0
Depreciation	206.1	193.3		253.3		295.2	
EBIT	2,090.8	1,685.8	24.0	949.5		1,902.4	9.9
Interest costs	120.9	170.3		112.6		158.3	
Other income	139.5	145.1		101.7		56.8	
Extraordinary items	24.3	-		332.1		-	
PBT	2,133.6	1,660.6	28.5	1,270.6	67.9	1,800.9	18.5
Tax	512.5	402.6		405.7		468.2	
Tax Rate(%)	24.0	24.2		31.9		26.0	
PAT	1,621.2	1,258.0	28.9	864.9	87.5	1,332.7	21.6
Minority interests	43.9	19.5		26.3		23.7	
Net Profit	1,577.3	1,238.5	27.4	838.6	88.1	1,309.0	20.5
NPM(%)	11.4	9.7	166.1	8.4	301.2	9.1	

Source: SSLe

Financials

Income Statement (Y/E March)

Y/E March (Rs mn)	F12	F13	F14e	F15e
Total Revenues	39,797	45,962	52,354	60,075
Growth rate (%)	24.0	15.5	13.9	14.7
COGS	21,315	22,099	24,911	28,585
Gross Profit	18,481	23,863	27,443	31,490
Employee Costs	3,073	3,806	4,335	4,974
Share of Net Sales(%)	7.7	8.3	8.3	8.3
Ad-spends	4,258	5,979	6,283	7,209
Share of Net Sales(%)	10.7	13.0	12.0	12.0
Other manufacturing costs	6,306	7,820	8,993	10,342
Share of Net Sales(%)	15.8	17.0	17.2	17.2
EBITDA	4,844	6,258	7,833	8,966
EBITDA Margin(%)	12.2	13.6	15.0	14.9
Growth rate(%)	(1.5)	29.2	25.2	14.5
Depreciation	725	866	1,181	1,226
Interest Expense	424	580	633	661
Other income	326	375	227	438
PBT	4,021	5,187	6,246	7,516
Tax	782	1,462	1,499	2,255
Tax Rate (%)	19.5	28.2	24.0	30.0
PAT	3,221	4,057	4,747	5,261
Minority Interest	49.2	98.3	-	-
Net Profit (Rep)	3,172	3,959	4,747	5,261
Net profit (Adj)	3,183	3,736	4,747	5,261
Net profit margin(%)	8.0	8.1	9.1	8.8
Growth rate (%)	(0.2)	13.7	30.9	10.8
EPS (Adj) Rs.	5.2	6.1	7.4	8.2

Balance sheet

Y/E March (Rs mn)	F12	F13	F14e	F15e
Share Capital	615	645	645	645
Reserves	10,815	19,170	23,038	27,325
Total shareholder's Equity	11,430	19,815	23,683	27,970
Minority interests	249	351	351	351
Debt	9,648	10,849	11,349	11,849
Deferred tax liability	-	-	-	1
Total liabilities	21,327	31,016	35,384	40,171
Net block	5,017	14,210	13,920	13,444
Goodwill	3,954	3,955	3,955	3,955
CWIP	-	-	-	-
Investments	2,956	1,516	2,516	3,516
Current Assets	13,168	15,848	20,037	25,084
Inventories	7,202	8,627	9,584	10,997
Receivables	2,083	1,966	2,239	2,569
Loans & advances	1,995	2,555	3,066	3,679
Cash	1,706	2,666	5,149	7,839
Current Liabilities	4,780	5,998	6,529	7,313
Payables	3,584	4,785	5,315	6,099
Provisions	1,197	1,214	1,214	1,214
Deferred tax asset	(223)	58	58	58
Total Assets	21,327	31,016	35,384	40,171

Source: Company, SSLe

Cash Flow Statement (Y/E March)

Y/E March (Rs mn)	F12	F13	F14e	F15e
PBT after exceptionals	4,003	5,519	6,246	7,516
Depreciation/Amortisation	725	866	879	974
Interest expense(net)	98	205	406	224
Inc. in working capital	(1,785)	(503)	(1,175)	(1,573)
Exceptionals	18	(332)	-	-
Cash tax	(782)	(1,462)	(1,499)	(2,255)
CFO	2,277	4,293	4,857	4,886
Capex	(847)	(10,200)	(750)	(750)
Inc in investments	(2,067)	1,440	(1,000)	(1,000)
Interest income	326	375	227	438
Others	(1,250)	140	-	-
CFI	(3,838)	(8,245)	(1,523)	(1,312)
Interest Paid	(424)	(580)	(633)	(661)
Dividend Paid	(500)	(756)	(879)	(974)
Inc/(Repayment) of loans	1,929	1,202	500	500
Inc in share capital	1	5,000	-	-
Inc. in minority int.	30	-	-	-
Others	63	44	161	252
CFF	1,099	4,910	(851)	(883)
Net change in cash	(462)	959	2,483	2,690

Key ratios

Y/E March	F12	F13	F14e	F15e
RoCE(%)	26.8	24.8	24.4	27.4
Inventory Days	102.8	112.1	112.1	112.1
Receivables Days	19.1	15.6	15.6	15.6
Loans and Advances Days	34.2	42.2	44.9	47.0
Payable Days	51.1	62.2	62.2	62.2
Provision Days	11.0	9.6	9.6	9.6
Cash Conversion Cycle (Days)	93.9	98.1	100.8	102.9

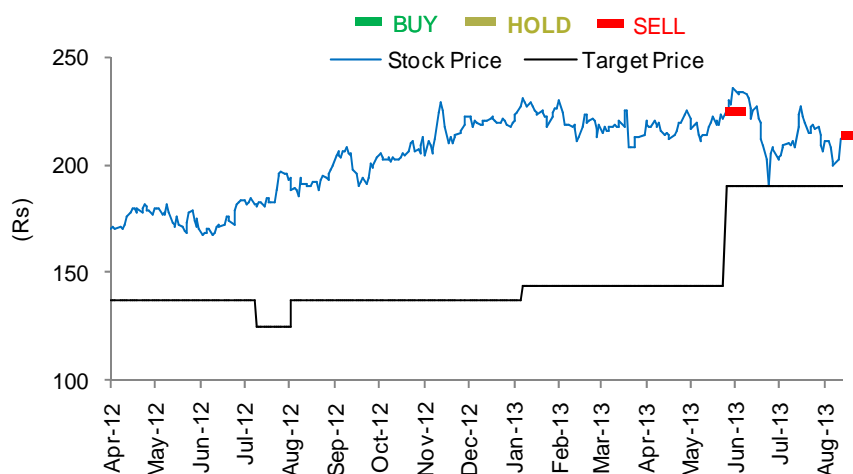
Valuation Ratios

Y/E March	F12	F13	F14e	F15e
P/E (x)	41.3	34.7	28.9	26.1
EV/Sales(x)	3.3	3.1	2.7	2.2
EV/EBITDA(x)	27.5	22.8	17.7	15.0
P/BV(x)	11.5	6.9	5.8	4.9
FCF yield (%)	0.8	(4.7)	2.5	2.5
Dividend Yield(%)	0.4	0.6	0.6	0.7

Du Pont Analysis - RoE

Y/E March	F12	F13	F14e	F15e
NPM(%)	8.0	8.1	9.1	8.8
Leverage	1.8	1.5	1.5	1.4
Asset turnover	2.1	1.8	1.6	1.6
RoE(%)	30.6	22.1	21.2	19.8

Recommendation History



Date	Stock Price	TP	Rec.
8-May-12	178	137	Reduce
10-Jul-12	182	125	SELL
3-Aug-12	188	137	REDUCE
6-Nov-12	208	137	REDUCE
5-Dec-12	218	137	REDUCE
8-Jan-13	233	144	REDUCE

Rating based on Current Rating System (Feb'13)

Date	Stock Price	TP	Rec.
27-May-13	225	190	SELL
14-Aug-13	213	190	SELL

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KEY TO INVESTMENT RATINGS (w.e.f. February 2013)

Guide to the expected return over the next 12 months. 1=BUY (expected to give absolute returns of 15 or more percentage points); 2=HOLD (expected to give absolute returns between -10 to 15 percentage points); 3=SELL (expected to give absolute returns less than -10 percentage points)

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