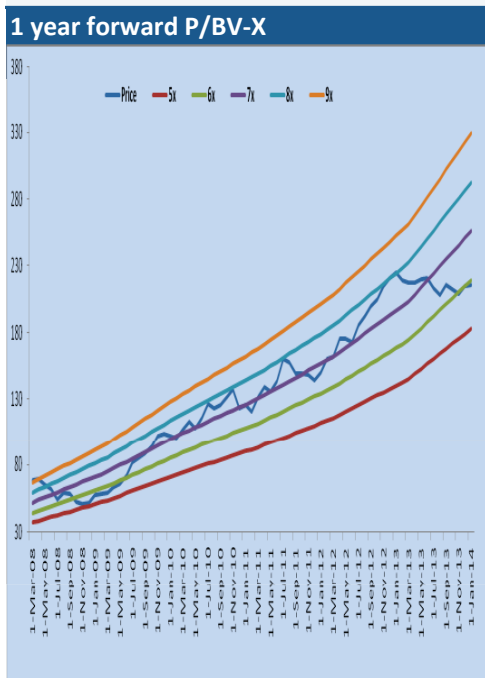


Result update	Neutral
CMP	214
Target Price	-
Previous Target Price	-
Upside	-
Change from Previous	-

Market Data	
BSE Code	531642
NSE Symbol	MARICO
52wk Range H/L	248/188
Mkt Capital (Rs Cr)	13829
Average Daily Volume	126142
Nifty	6090

Stock Performance	1M	1yr	YTD
Absolute	-3.6	2.4	0.5
Rel. to Nifty	-10.8	-7.9	-9.1

Share Holding Pattern-%	Current	2QFY14	1QFY14
Promoters	59.69	59.69	59.72
FII	27.58	27.6	27.96
DII	5.72	5.88	5.19
Others	7.01	6.83	7.13



**Beats the street on profitability and Margin front with poor volume growth;**

Marico witnessed better numbers than expectation with 10% sales growth (excluding Kaya Sales) led by 3% volume growth on YoY basis. PAT grew by 31% (YoY) because of cost rationalization across various head of expenses like Ad Spend, employee cost etc. However, the profits of Q3FY14 are not strictly comparable to Q3FY13 due to the change in the method of depreciation from WDV to SLM carried out in Q4FY13 and demerger of Kaya business.

The Company maintained its market share across the portfolio, reflecting strong equity of its brands, even though the rates of category growth have decelerated over the past few quarters. We believe that slower volume growth could not easily turned out in next 1-2 quarters because of poor discretionary demand.

**Margin ramp up:** During the quarter, its EBITDA margin of the India FMCG business during Q3FY14 was 18.7% and PAT margin was at 11.3%. The Company believes that an operating margin in the band of 17% to 18% is sustainable in the medium term. On YoY basis margin growth could not computed because of Kaya consolidation in same quarter previous year.

**Poor volume growth:** Because of weak demand discretionary environment and socio political instability in some regions, its volume growth of various segments have come down during the quarter. The volume growth in India was marginally above 3% for the quarter, reflecting continued soft consumption trends. Post earning, management stated that the trend of volume decline has bottomed out based on hypothesis.

**Mix segmental growth:** India FMCG business grew by 10%(YoY). Parachute's rigid portfolio (packs in blue bottles), recorded a volume growth of about 2% during Q3FY14 over Q3FY13. Parachute along with Nihar marginally improved its market share over the same period last year to 56%. The Saffola refined edible oils franchise grew by about 9% in volume terms during Q3FY14. During the quarter, Saffola average price hiked by 4-5% to manage its RM cost and Packaging materials. Marico's hair oil brands (Parachute Advansed, Nihar Naturals and Hair & Care) grew by 8% (YoY) in volume terms during Q3FY14.

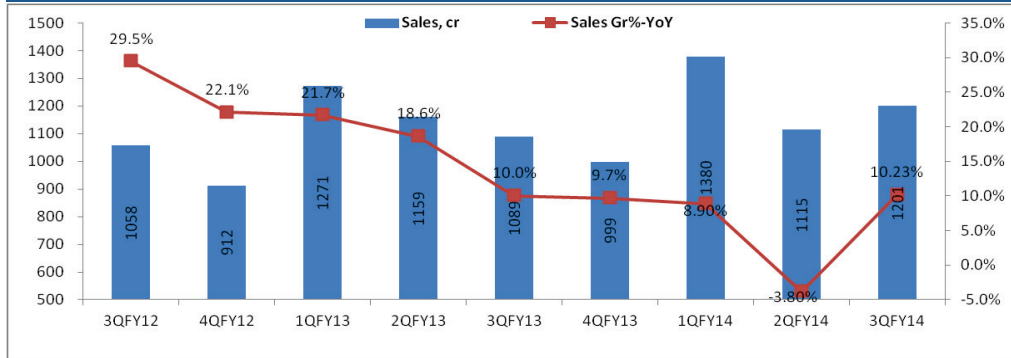
**View and Valuation:** The company expects demand scenario to remain challenging especially in urban areas in India and some of its international market like Bangladesh, Egypt and MENA. Based on hypothesis, management is expecting regarding the bottom out of volume decline but they are not ignoring the threat of demand environment challenges for near future. **We believe that slower volume growth could not easily turned out in next 1-2 quarters because of poor discretionary demand environment. Therefore, we downgrade our view from BUY to NEUTRAL on the stock, at a price of Rs 214, stock trades at 4.9x FY15E P/BV.**

Financials	Rs, Crore				
	3QFY14	2QFY14	(QoQ)-%	2QFY13	(YoY)-%
Revenue	1089.29	1115.36	(2.3)	1155.89	-5.8
EBITDA	201.81	168.51	19.8	165.8	21.7
PAT	135.4	105.9	27.9	102.3	32.4
EBITDA Margin	18.5%	15.1%	340bps	14.3%	-
PAT Margin	12.4%	9.5%	290bps	8.9%	-

(Source: Company/Eastwind)

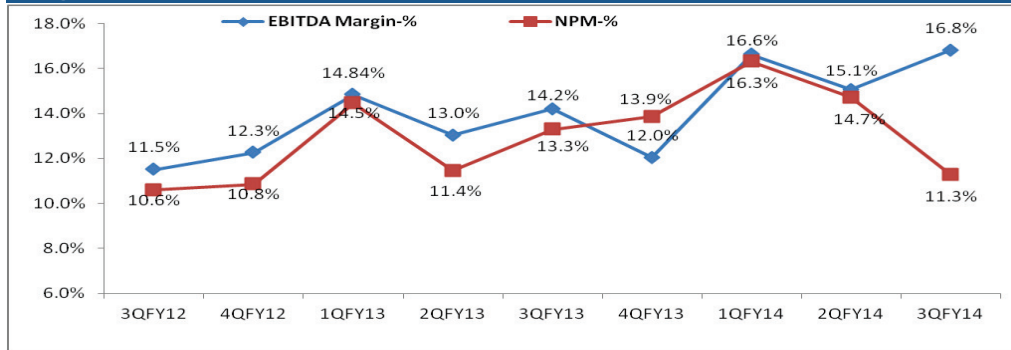
# Marico

## Sales (cr) and Growth (%) -



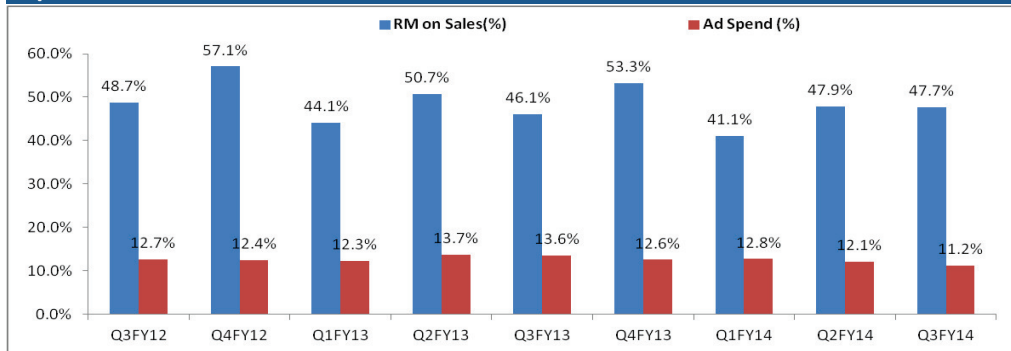
(Source: Company/Eastwind)

## Margin-%



(Source: Company/Eastwind)

## Expenses on Sales -%



(Source: Company/Eastwind)

**Geographical challenges:** International market recorded a growth of 15%. Because of political uncertainty, Bangladesh sales declined by 14%(YoY). While, the MENA business on an average grew by 10% CC basis. The business in Egypt grew by 22% mainly led by strong volume growth in Haircode and Fiancée. The business in GCC continued to report a decline. Political environment in Egypt seems to have bettered for the time being with no major report of violence, however the uncertainty continues. South Africa reported a top-line growth of 5%. The business in South East Asia of which Vietnam comprises a significant portion grew by 24% in constant currency terms.

For 2QFY14, Marico reported 4% (YoY) decline in sales growth because of sluggish volume growth impacted by weaker demand in urban area.

Because of cost control in ad spend by 200bps and Raw material about 190bps, its margin gone up by 210 bps to 15.1% on YoY basis.

The demerger of Kaya is on the way, and new demerged entity would expected to get listed by November or December.

## Key facts from Management guidance;

(1) Management believes that the decline trend of volume growth has turned out, while the economic environment is still challenging and there will be gradual recovery.

(2) Immediate future could see volume growth rates of 7%- 8%. With the price increases already in market place the overall sales growth could still be in the region of 12%-14%. This is expected to improve from early/mid FY15.

(3) Operating Margin could sustain at a range of 17-18% in the medium term.

(4) The Youth brands portfolio is expected to grow by about 20% to 25%.

(5) In near term, Company does not expect to see any price hike decision.

## Financials

Rs in Cr,	FY10	FY11	FY12	FY13	FY14E	FY15E
Sales	2500.09	3134.99	4008.28	4259.53	4740.86	5344.65
Other Operating Income	160.67	19.06	30.90	12.51	14.22	16.03
Total income from operations	2660.76	3154.05	4039.18	4596.86	4755.08	5360.68
RM Cost	1265.48	1712.66	2132.04	2212.27	2228.20	2672.32
Purchases of stock-in-trade	12.47	20.36	17.44	116.59	48.53	54.71
WIP	-16.35	-115.43	-50.78	-127.47	-98.72	-111.29
Employee Cost	190.13	229.98	307.29	380.56	380.41	428.85
Ad Spend	351.12	345.95	448.99	597.94	618.16	643.28
Other expenses	482.76	523.36	668.90	791.07	808.36	911.32
Total expenses	2285.61	2716.88	3523.88	3970.96	3984.94	4599.19
EBITDA	375.15	437.17	515.30	625.90	770.14	761.49
Depreciation and Amortisation	60.06	70.80	72.52	86.62	145.44	133.80
Other Income	18.26	2.16	1.67	37.52	19.17	21.61
Exceptional Item	-9.79	48.91	-1.75	33.20	33.29	37.52
EBIT	323.56	417.44	442.70	610.00	677.15	686.82
Interest	25.69	41.01	42.39	57.43	57.43	57.43
PBT	297.87	376.43	400.31	552.57	619.72	629.39
Tax Exp	64.33	84.98	78.25	146.18	163.95	166.50
PAT	233.54	291.45	322.06	406.39	455.78	462.89
<b>Growth-% (YoY)</b>						
Sales	11.4%	18.5%	28.1%	13.8%	3.4%	12.7%
EBITDA	29.2%	16.5%	17.9%	21.5%	23.0%	-1.1%
PAT	33.5%	24.8%	10.5%	26.2%	12.2%	1.6%
<b>Expenses on Sales-%</b>						
RM Cost	47.6%	54.3%	52.8%	48.1%	46.9%	49.9%
Ad Spend	13.2%	11.0%	11.1%	13.0%	13.0%	12.0%
Employee Cost	7.1%	7.3%	7.6%	8.3%	8.0%	8.0%
Other expenses	18.1%	16.6%	16.6%	17.2%	17.0%	17.0%
Tax rate	21.6%	22.6%	19.5%	26.5%	26.5%	26.5%
<b>Margin-%</b>						
EBITDA	14.1%	13.9%	12.8%	13.6%	16.2%	14.2%
EBIT	12.2%	13.2%	11.0%	13.3%	14.2%	12.8%
PAT	8.8%	9.2%	8.0%	8.8%	9.6%	8.6%
<b>Valuation:</b>						
CMP	108.55	138.75	206.00	216.95	214.00	214.00
No of Share	60.90	61.40	61.40	64.48	64.48	64.48
NW	653.96	915.44	1143.01	1981.52	2399.58	2824.75
EPS	3.83	4.75	5.25	6.30	7.07	7.18
BVPS	10.74	14.91	18.62	30.73	37.21	43.81
RoE-%	35.7%	31.8%	28.2%	20.5%	19.0%	16.4%
P/BV	10.11	9.31	11.07	7.06	5.75	4.88
P/E	28.31	29.23	39.27	34.42	30.28	29.81

(Source: Company/Eastwind)