

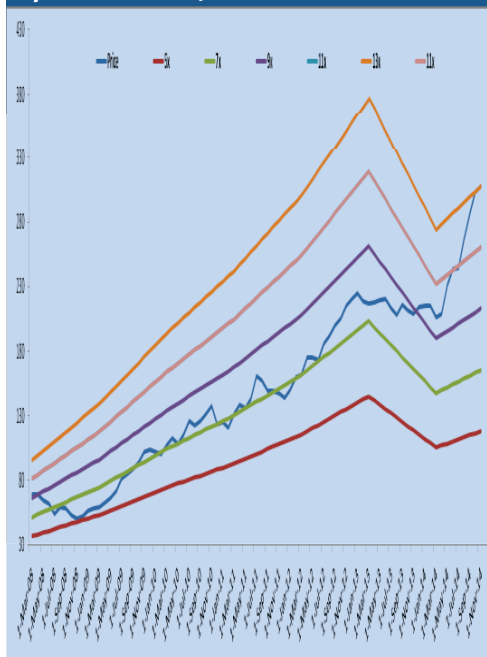
Result update	Buy
CMP	356
Target Price	400
Previous Target Price	370
Upside	12%
Change from Previous	8%

Market Data	
BSE Code	531642
NSE Symbol	MARICO
52wk Range H/L	372/200
Mkt Capital (Rs Cr)	22981
Average Daily Volume	126142
Nifty	8712

Stock Performance	1M	1yr	YTD
Absolute	7.9	61.9	33.7
Rel. to Nifty	4.0	17.8	21.1

Share Holding Pattern-%	Current	2QFY15	1QFY15
Promoters	59.69	59.69	59.69
FII	25.88	26.78	28.11
DII	6.51	7.12	6.16
Others	7.92	6.41	6.04

1 year forward P/BV-X



Inline performance, Price Target revised;

Marico Ltd delivered inline set of growth than streets expectation, reported 20.9%(YoY) revenue growth led by 2%(YoY) overall volume growth and 5% (YoY) Domestic FMCG volume growth with a healthy pricing growth. During the quarter, India FMCG business grew by 26%(YoY) and International FMCG business dragged by 4%(YoY) due to business restructuring in Egypt.

The Company gained its market share in more than 80% of the portfolio, reflecting strong equity of its brands and pricing. We believe that volume growth will be on track because of demand picking up in urban area and we are witnessing continued recovery in the Middle East and Bangla Desh business and sign of market share gain across all brands (No.1 in more than 90% of portfolio).

Margin contraction, as per expectation: Gross margin at 46.1%, Cost controlling efforts in other expenses (down 150bp YoY to 13.2%), staff costs (down 30bp YoY to 5.4%) and ad spends (down 60bp YoY to 10.6%) cushioned EBITDA margin contraction to 50bp YoY to 16.3%. International business EBITDA margin declined by 50bps(YoY) to 17.6% and India Business EBITDA margin was flat(YoY) at 18.6%.

Volume growth to moving track: During the quarter, the Company reported 2% volume growth led by 5% (YoY) volume growth from India business. Across the categories, Parachute reported 8%(YoY), Value added product 10% (YoY), and Saffola 3%(YoY). Management expects to see 7%(YoY) volume growth in 4QFY15E and 8-10% for medium to long term.

Domestic Business: Domestic volumes and revenues grew 5% and 26% respectively, led by Parachute (8% volume and 48% value), Saffola (3% volume and 9% value) and VAHO (10% volume and 25% value) on YoY basis.

International Business: International Business grew 4% in revenues with constant currency growth of 6%. Bangladesh, MENA and South Africa posted 18%, 39% and 9% growth respectively, on YoY basis.

Input cost and Pricing: The average market price of copra during Q3FY15 was up by 34% compared to Q3FY14 and down 10% compared to Q2FY15. Market prices of Copra have come off after peaking last quarter and is likely to be range bound till the next flush season. Considering declining trend of Copra prices, marginal price correction could be seen in near future.

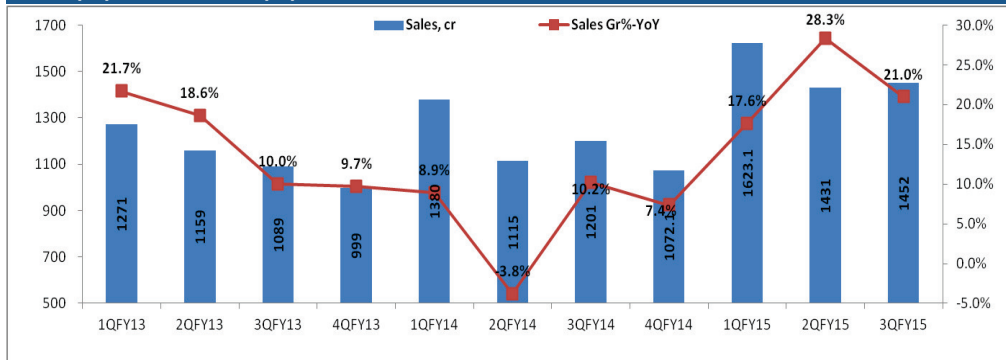
View and Valuation: The Company expects demand scenario is coming to track especially in urban areas in India and some of its international market like Bangladesh, Egypt and MENA. Considering near term challenges as rise in copra prices, margin is likely to remain flattish. However, **we believe that company has well positioned to report healthy growth and expand its market share. We retain our "BUY" view on the stock with a target price of Rs 400 (revised from Rs 370). At a price of Rs 356, stock trades at 9.9x of FY16E P/BV.**

Financials	3QFY15	2QFY15	(QoQ)-%	3QFY14	Rs, Crore (YoY)-%
Revenue	1452.4	1431.2	1.5	1200.7	21.0
EBITDA	236.9	195.19	21.4	201.81	17.4
PAT	159.9	118.2	35.3	105.9	51.0
EBITDA Margin	16.3%	13.6%	270bps	16.8%	(50bps)
PAT Margin	11.0%	8.3%	270bps	8.8%	220bps

(Source: Company/Eastwind)

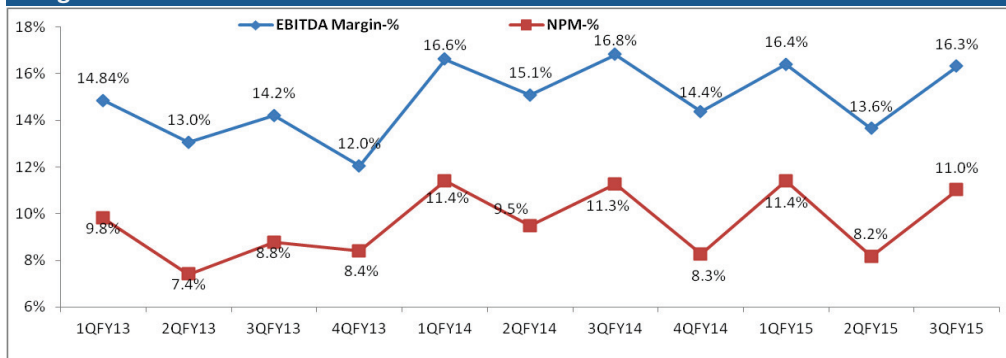
Marico

Sales (cr) and Growth (%) -



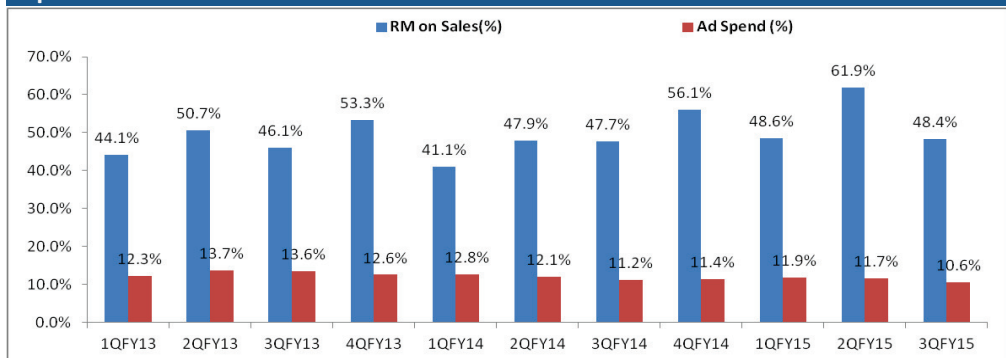
(Source: Company/Eastwind)

Margin-%



(Source: Company/Eastwind)

Expenses on Sales -%



(Source: Company/Eastwind)

Systemic and structural changes:

Inventory overhauling: Marico has introduced external global partner (3rd party) to revamp order management and trade inventory. It will implement automatic demand planning and auto replenishment system to optimize distributor inventory.

As per management this will implement to ensure discipline in trade inventory and harmonization of processes. It wants to maximize RoI of distributor by optimizing inventory without impacting business.

Markets and Distribution reach: Marico's rural sales continue to report a faster pace of growth at 32%(YoY) as compared to urban sales which also grew at a healthy rate of 25%. Sales in Modern Trade (9% of the domestic turnover) continued its good run and grew by 21% in Q3FY15. CSD and Institutional sales (7% of the domestic turnover) grew at a healthy rate of 41%.

Expecting double sales in next 4 years, Revenue CAGR for 4 years at 19%.

The Company believes that an operating margin for the Domestic business in the band of 17%-18% and 14.5-15% for overall business is sustainable in the medium term.

The average market prices of copra during Q2FY15 were up by 107% compared to Q2FY14 and 6% compared to Q1FY15.

Marico

Key facts from Management guidance;

- (1) Expect demand improvement in FY16E.
- (2) Major change in inventory, order management and demand planning process – this will likely disrupt primary sales growth in 1Q16E.
- (3) Expects to see 17-18% EBITDA margin from Domestic Business and 16-17% from International business in future.
- (4) They expect 8-10% Volume growth in FY16E.
- (5) There could be deflationary pressure in some categories next year due to correction in input costs.
- (6) Ad spend is expected to see at 11-12% in FY16E.

Financials

Rs in Cr	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
Sales	2500.09	3134.99	4008.28	4584.35	4676.19	5728.33	6587.58
Other Operating Income	160.67	19.06	30.90	12.51	10.33	11.46	16.47
Total income from operations	2660.76	3154.05	4039.18	4596.86	4686.52	5739.79	6604.05
RM Cost	1265.48	1712.66	2132.04	2220.79	2242.48	3050.34	3392.61
Purchases of stock-in-trade	12.47	20.36	17.44	116.59	111.47	114.80	132.08
WIP	-16.35	-115.43	-50.78	-127.47	45.20	43.05	33.02
Employee Cost	190.13	229.98	307.29	370.29	284.72	315.69	379.73
Ad Spend	351.12	345.95	448.99	597.94	561.17	642.86	759.47
Other expenses	482.76	523.36	668.90	791.07	693.47	731.82	858.53
Total expenses	2285.61	2716.88	3523.88	3969.21	3938.51	4898.55	5555.43
EBITDA	375.15	437.17	515.30	627.65	748.01	841.24	1048.62
Depreciation and Amortisation	60.06	70.80	72.52	86.62	76.86	93.03	85.01
Other Income	18.26	2.16	1.67	37.52	57.90	57.40	49.53
EBIT	333.35	368.53	444.45	578.55	729.05	805.61	1013.14
Interest	25.69	41.01	42.39	57.43	34.45	23.67	17.75
PBT	307.66	327.52	402.06	521.12	694.60	781.95	995.39
Tax Exp	64.33	84.98	78.25	146.18	190.48	222.85	283.69
PAT	243.33	242.54	323.81	374.94	504.12	559.09	711.70
Growth-% (YoY)							
Sales	11.4%	18.5%	28.1%	13.8%	2.0%	22.5%	15.1%
EBITDA	29.2%	16.5%	17.9%	21.8%	19.2%	12.5%	24.7%
PAT	39.1%	-0.3%	33.5%	15.8%	34.5%	10.9%	27.3%
Expenses on Sales-%							
RM Cost	47.6%	54.3%	52.8%	48.3%	47.8%	53.1%	51.4%
Ad Spend	13.2%	11.0%	11.1%	13.0%	12.0%	11.2%	11.5%
Employee Cost	7.1%	7.3%	7.6%	8.1%	6.1%	5.5%	5.8%
Other expenses	18.1%	16.6%	16.6%	17.2%	14.8%	12.8%	13.0%
Tax rate	20.9%	25.9%	19.5%	28.1%	27.4%	28.5%	28.5%
Margin-%							
EBITDA	14.1%	13.9%	12.8%	13.7%	16.0%	14.7%	15.9%
EBIT	12.5%	11.7%	11.0%	12.6%	15.6%	14.0%	15.3%
PAT	9.1%	7.7%	8.0%	8.2%	10.8%	9.7%	10.8%
Valuation:							
CMP	108.55	138.75	206.00	225.3	209.6	356	356
No of Share	60.90	61.40	61.40	64.48	64.48	64.48	64.48
NW	653.96	915.44	1143.01	1981.52	1360.64	1914.34	2324.29
EPS	4.00	3.95	5.27	5.81	7.82	8.67	11.04
BVPS	10.74	14.91	18.62	30.73	21.10	29.69	36.05
RoE-%	37.2%	26.5%	28.3%	18.9%	37.1%	29.2%	30.6%
P/BV	10.11	9.31	11.07	7.33	9.93	11.99	9.88
P/E	27.17	35.13	39.06	38.75	26.81	41.06	32.25

(Source: Company/Eastwind)