

" Seeing sign of revival"

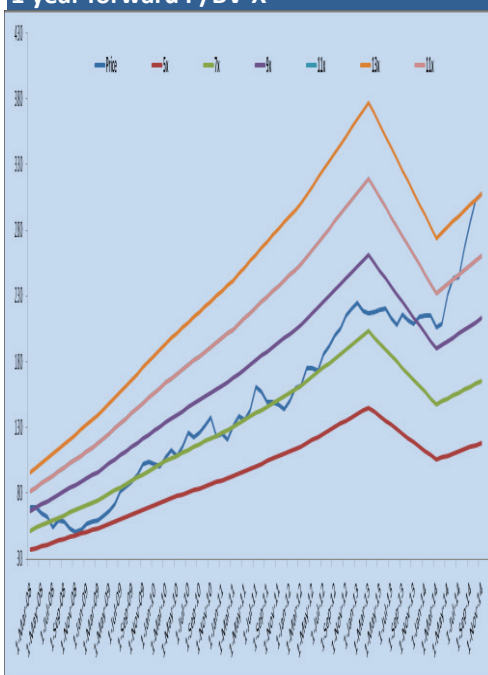
Result update	Buy
CMP	334
Target Price	370
Previous Target Price	350
Upside	11%
Change from Previous	6%

Market Data	
BSE Code	531642
NSE Symbol	MARICO
52wk Range H/L	350/200
Mkt Capital (Rs Cr)	21523
Average Daily Volume	126142
Nifty	8363

Stock Performance	1M	1yr	YTD
Absolute	1.8	48.7	16.6
Rel. to Nifty	-4.4	14.6	9

Share Holding Pattern-%	Current	1QFY15	4QFY14
Promoters	59.69	59.69	59.69
FII	26.78	28.11	27.55
DII	7.12	6.16	6.02
Others	6.41	6.04	6.74

1 year forward P/BV-X



Better operating performance, Price Target revised;

The Company gained in more than 80% of the portfolio, reflecting strong equity of its brands and pricing. We believe that volume growth is moving to 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).

For 2QFY15, Marico reported better growth than street expectation with 28% (YoY) sales growth led by an overall volume growth of 7% (YoY). The Domestic business recorded a growth of 34%(YoY), while the International business posted a growth of 12%(YoY). The overall sales growth was bolstered by the price increases across the portfolio to cover input cost push. PAT grew by 10.4%(YoY).

Margin declined on RM Cost pressure: During the quarter, EBITDA margin declined by 150bps(YoY)to 13.6% on account of sustained hyper-inflation in raw material prices as the Company chose to pass on only a part to the consumers and the operating margin of the India business during Q2FY15 was 15.1%. The Company believes that an operating margin in the band of 17%-18% is sustainable for the domestic business in the medium term.

Volume growth moving to track: During the quarter, the company reported 8%(YoY) volume growth led by volume growth of 8% in India and 5% in International business. Marico's Domestic volume growth recovered to 8% led by Value added hair oil, Saffola and Parachute growth, reported 13% (YoY), 9%(YoY) and 7%(YoY) volume growth respectively.

Management expects that the company could see volume growth at 8%+ in near future. This is expected to improve going forward from early/mid FY15. With the price increases already in market place, the overall top line growth could still be well over 20%.

Input Costs and Pricing: Market prices of Copra have increased further post Q1FY15. The average market prices of copra during Q2FY15 were up by 107% compared to Q2FY14 and 6% compared to Q1FY15. Copra being in off season from now onwards, prices are likely to be range bound for next quarter. The market prices of the other key inputs, Rice Bran oil and HDPE, a key ingredient in packaging material, were up about 5% and 13% on YoY basis.

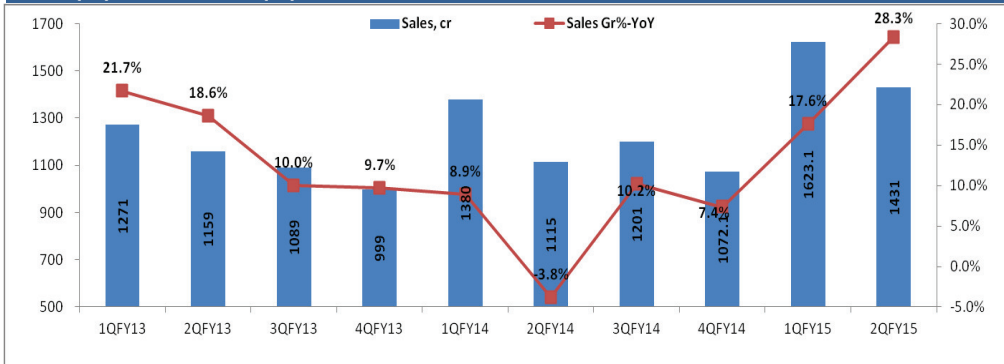
View and Valuation: The Company expects demand scenario is coming to track especially in urban areas in India and some of its international market like Bangladesh, Egypt and MENA. Considering near term challenges as rise in copra prices, margin is likely to remain flattish. However, **we believe that 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 370 (revised from Rs 350). At a price of Rs 334, stock trades at 13.4x/10.9x of FY15E/FY16E P/BV.**

Financials	2QFY15	1QFY15	(QoQ)-%	1QFY14	Rs, Crore (YoY)-%
Revenue	1431.2	1623.1	(11.8)	1118.41	28.0
EBITDA	195.19	266.65	(26.8)	168.51	15.8
PAT	116.9	185.3	(36.9)	105.9	10.4
EBITDA Margin	13.6%	16.4%	(280bps)	15.1%	(150bps)
PAT Margin	8.2%	11.4%	(320bps)	9.5%	(130bps)

(Source: Company/Eastwind)

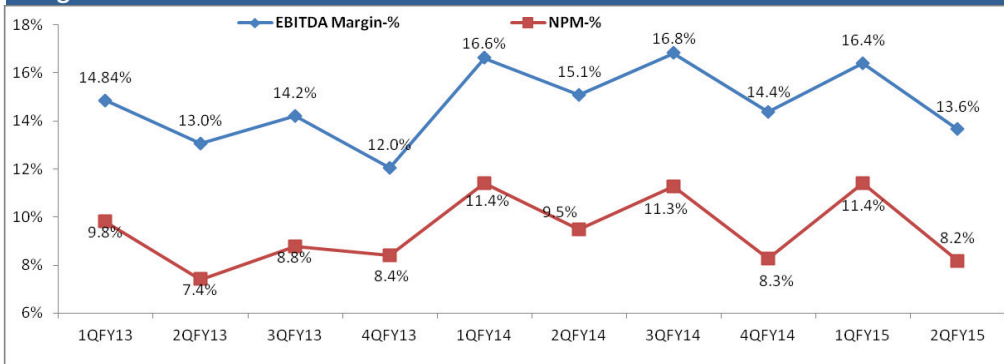
Marico

Sales (cr) and Growth (%) -



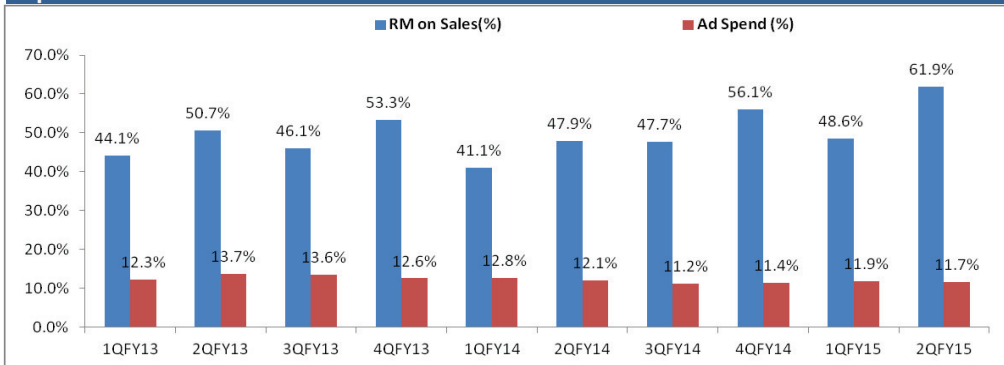
(Source: Company/Eastwind)

Margin-%



(Source: Company/Eastwind)

Expenses on Sales -%



(Source: Company/Eastwind)

Geography wise performance: Growth in the core markets remained healthy with Bangladesh growing at 17%, MENA at 24% and South Africa at 12% on constant currency basis. South East Asia grew at a relatively slow rate of 4%. Expansion in adjacent markets such as Nepal, Pakistan, Cambodia, Myanmar, Sri Lanka, North Africa etc., is expected to contribute up to INR 100 Crore (USD 17 million) by next year. However, Vietnam remained flat during the quarter.

Markets and Distribution reach: Marico's rural sales continue to clock a faster growth at 48% as compared to urban sales which also grew at a healthy rate of 30%. The continued focus on distribution expansion in rural markets has pushed the Company's rural sales to more than 30% of total Indian FMCG sales. Marico has increased its direct rural reach by 25% to 50,000 villages in the last 2yrs.

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) Expects healthy revenue, balance volume growth and ramping up in market share in FY15E. Expecting double turnover in next 4 years.
- (2) Management expects that next quarter will see slightly margin pressure. Operating margins expected to be sustained at around 14%-15% in FY15E.
- (3) Expects to see 15-20% every quarter organic growth in international business, and 14-15% is a right kind of a margin for International business.
- (4) The Youth brands portfolio is expected to grow by about 20%-25%. And expecting double digit growth in hair oil segment in every quarter.
- (5) Ad spend is expected to see at 11-13% in FY15E.

Financials

Rs in Cr,	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
Sales	2500.09	3134.99	4008.28	4584.35	4676.19	5592.72	6431.63
Other Operating Income	160.67	19.06	30.90	12.51	10.33	11.19	16.08
Total income from operations	2660.76	3154.05	4039.18	4596.86	4686.52	5603.91	6447.71
RM Cost	1265.48	1712.66	2132.04	2220.79	2242.48	2908.22	3215.82
Purchases of stock-in-trade	12.47	20.36	17.44	116.59	111.47	123.29	128.95
WIP	-16.35	-115.43	-50.78	-127.47	45.20	-56.04	32.24
Employee Cost	190.13	229.98	307.29	370.29	284.72	364.25	451.34
Ad Spend	351.12	345.95	448.99	597.94	561.17	644.45	741.49
Other expenses	482.76	523.36	668.90	791.07	693.47	756.53	838.20
Total expenses	2285.61	2716.88	3523.88	3969.21	3938.51	4740.69	5408.04
EBITDA	375.15	437.17	515.30	627.65	748.01	863.21	1039.67
Depreciation and Amortisation	60.06	70.80	72.52	86.62	76.86	107.96	97.17
Other Income	18.26	2.16	1.67	37.52	57.90	56.04	48.36
EBIT	333.35	368.53	444.45	578.55	729.05	811.29	990.86
Interest	25.69	41.01	42.39	57.43	34.45	25.84	19.38
PBT	307.66	327.52	402.06	521.12	694.60	785.45	971.49
Tax Exp	64.33	84.98	78.25	146.18	190.48	235.64	296.30
PAT	243.33	242.54	323.81	374.94	504.12	549.82	675.18
Growth-% (YoY)							
Sales	11.4%	18.5%	28.1%	13.8%	2.0%	19.6%	15.1%
EBITDA	29.2%	16.5%	17.9%	21.8%	19.2%	15.4%	20.4%
PAT	39.1%	-0.3%	33.5%	15.8%	34.5%	9.1%	22.8%
Expenses on Sales-%							
RM Cost	47.6%	54.3%	52.8%	48.3%	47.8%	51.9%	49.9%
Ad Spend	13.2%	11.0%	11.1%	13.0%	12.0%	11.5%	11.5%
Employee Cost	7.1%	7.3%	7.6%	8.1%	6.1%	6.5%	7.0%
Other expenses	18.1%	16.6%	16.6%	17.2%	14.8%	13.5%	13.0%
Tax rate	20.9%	25.9%	19.5%	28.1%	27.4%	30.0%	30.5%
Margin-%							
EBITDA	14.1%	13.9%	12.8%	13.7%	16.0%	15.4%	16.1%
EBIT	12.5%	11.7%	11.0%	12.6%	15.6%	14.5%	15.4%
PAT	9.1%	7.7%	8.0%	8.2%	10.8%	9.8%	10.5%
Valuation:							
CMP	108.55	138.75	206.00	225.30	209.60	334	334
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	1608.71	1982.15
EPS	4.00	3.95	5.27	5.81	7.82	8.53	10.47
BVPS	10.74	14.91	18.62	30.73	21.10	24.95	30.74
RoE-%	37.2%	26.5%	28.3%	18.9%	37.1%	34.2%	34.1%
P/BV	10.11	9.31	11.07	7.33	9.93	13.39	10.87
P/E	27.17	35.13	39.06	38.75	26.81	39.17	31.90

(Source: Company/Eastwind)