

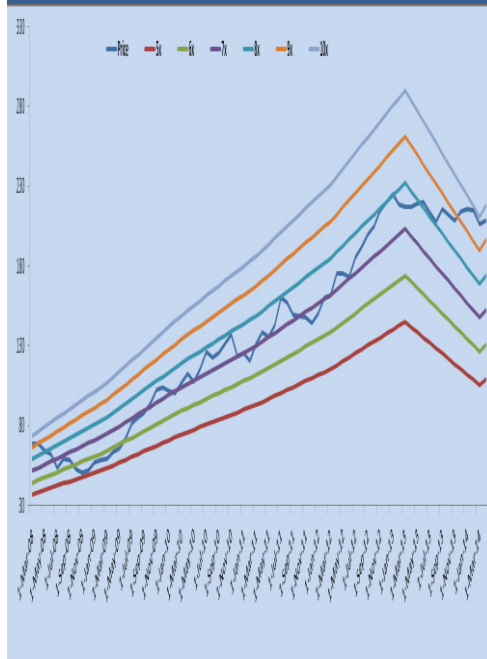
Result update	Neutral
CMP	236
Target Price	220
Previous Target Price	-
Upside	-
Change from Previous	-

Market Data	
BSE Code	531642
NSE Symbol	MARICO
52wk Range H/L	263/188
Mkt Capital (Rs Cr)	15206
Average Daily Volume	126142
Nifty	7580

Stock Performance			
	1M	1yr	YTD
Absolute	-0.15	16.04	15.59
Rel. to Nifty	-3.04	-19.56	-17.81

Share Holding Pattern-%			
	Current	3QFY14	2QFY14
Promoters	59.69	59.69	59.69
FII	27.55	27.58	27.6
DII	6.02	5.72	5.88
Others	6.74	7.01	6.83

## 1 year forward P/BV-X



### Margin pressure in near future and optimistic on revenue traction;

On recent Conference Call, Marico's management expressed its positive view on strong revenue traction in near term on expectation of better consumer discretionary demand. While, there is some concern on margin front because of sustained inflation on copra prices and there will be an adverse impacts on margin especially in 1HFY15E.

Its youth brands remain under pressure in the near term, especially deodorants (contribute 35-40% of overall youth portfolio) due to high fragmentation (over 400 brands) and new entrants. Its peer Emami has just launched its deodorant brand 'He' and getting a good response from consumer.

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

**Margin pressure in near future:** Copra is one of the major raw material of Marico, recently Copra Price has increased by 16%(YoY). The mgmt said that the gross margin expansion in second half of the year may be impacted due to rise in copra prices. Management added that it is more focused on volume than margin for medium to long term.

**Volume growth moving to track:** on 4QFY14, Marico's Domestic volume growth recovered to 6% led by Parachute and Saffola growth, both reported 10% (YoY) and 11%(YoY) volume growth respectively. Considering inflationary pressure on Copra price, the company has taken further 12-13% price hike in Parachute with cumulative price hike totaling 25%.

The management expects that the company could see volume growth at a range of 7-8% 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%.

**Expansion plans on distribution reach:** Marico's total distribution reach stands at 5 mn outlets (950,000 direct outlets) and it is planning to increase direct reach by 25-30% over the next couple of years.

Growth potential in the core markets of Bangladesh, Vietnam and Egypt intact and will continue to drive growth.

**View and Valuation:** The Company expects demand scenario is coming to growth track especially in urban areas in India and some of its international market like Bangladesh, Egypt and MENA. Considering near term challenges like rise in copra prices and below monsoon, we believe that slower volume growth could not easily turned out in next 1-2 quarters. We retain our "NEUTRAL" view on the stock, at a price of Rs 236, stock trades at 8x FY15E P/BV.

Financials					Rs, Crore
	4QFY14	3QFY14	(QoQ)-%	3QFY13	(YoY)-%
Revenue	1072.1	1200.7	(10.7)	998.6	7.4
EBITDA	154.1	201.81	(23.6)	120.29	28.1
PAT	88.6	135.4	(34.6)	83.9	5.6
EBITDA Margin	14.4%	16.8%	(240bps)	12.0%	220bps
PAT Margin	8.3%	11.3%	(300bps)	8.4%	(10bps)

(Source: Company/Eastwind)

# Marico

## Key facts from Management guidance;

- (1) Immediate future could see volume growth rates of 7% to 8%. This is expected to improve going forward from early/mid FY15E. With the price increases already in market place the overall top line growth could still be well over 20%.
- (2) Management expects that next 2 quarters will see margin pressure. Operating margins expected to be sustained at around 14%-15% in FY15E.
- (3) Growth potential in the core markets of Bangladesh, Vietnam and Egypt intact and will continue to drive growth.
- (4) The Youth brands portfolio is expected to grow by about 20%-25%. However in the immediate term, the growth rates are likely to be around 15-20%.
- (5) Ad spend is expected to see at 11-11.5% in FY15E.

## Financials

Rs in Cr,	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
Sales	2500.09	3134.99	4008.28	4584.35	4676.19	5143.81	5915.38
Other Operating Income	160.67	19.06	30.90	12.51	10.33	12.86	17.75
Total income from operations	2660.76	3154.05	4039.18	4596.86	4686.52	5156.67	5933.13
RM Cost	1265.48	1712.66	2132.04	2212.27	2242.48	2520.47	2868.96
Purchases of stock-in-trade	12.47	20.36	17.44	116.59	111.47	113.45	118.66
WIP	-16.35	-115.43	-50.78	-127.47	45.20	-51.57	29.67
Employee Cost	190.13	229.98	307.29	380.56	284.72	335.18	415.32
Ad Spend	351.12	345.95	448.99	597.94	561.17	593.02	652.64
Other expenses	482.76	523.36	668.90	791.07	693.47	799.28	949.30
Total expenses	2285.61	2716.88	3523.88	3970.96	3938.51	4309.83	5034.55
EBITDA	375.15	437.17	515.30	625.90	748.01	846.84	898.58
Depreciation and Amortisation	60.06	70.80	72.52	86.62	76.86	69.29	63.40
Other Income	18.26	2.16	1.67	37.52	57.90	51.57	59.33
EBIT	333.35	368.53	444.45	576.80	729.05	829.12	894.51
Interest	25.69	41.01	42.39	57.43	34.45	24.12	16.88
PBT	307.66	327.52	402.06	519.37	694.60	805.00	877.63
Tax Exp	64.33	84.98	78.25	146.18	190.48	233.45	258.90
PAT	243.33	242.54	323.81	373.19	504.12	571.55	618.73
<b>Growth-% (YoY)</b>							
Sales	11.4%	18.5%	28.1%	13.8%	2.0%	10.0%	15.1%
EBITDA	29.2%	16.5%	17.9%	21.5%	19.5%	13.2%	6.1%
PAT	39.1%	-0.3%	33.5%	15.2%	35.1%	13.4%	8.3%
<b>Expenses on Sales-%</b>							
RM Cost	47.6%	54.3%	52.8%	48.1%	47.8%	48.9%	48.4%
Ad Spend	13.2%	11.0%	11.1%	13.0%	12.0%	11.5%	11.0%
Employee Cost	7.1%	7.3%	7.6%	8.3%	6.1%	6.5%	7.0%
Other expenses	18.1%	16.6%	16.6%	17.2%	14.8%	15.5%	16.0%
Tax rate	20.9%	25.9%	19.5%	28.1%	27.4%	29.0%	29.5%
<b>Margin-%</b>							
EBITDA	14.1%	13.9%	12.8%	13.6%	16.0%	16.4%	15.1%
EBIT	12.5%	11.7%	11.0%	12.5%	15.6%	16.1%	15.1%
PAT	9.1%	7.7%	8.0%	8.1%	10.8%	11.1%	10.4%
<b>Valuation:</b>							
CMP	108.55	138.75	206.0	225.3	209.6	236.0	236.0
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	1894.47	2513.20
EPS	4.00	3.95	5.27	5.79	7.82	8.86	9.60
BVPS	10.74	14.91	18.62	30.73	21.10	29.38	38.98
RoE-%	37.2%	26.5%	28.3%	18.8%	37.1%	30.2%	24.6%
P/BV	10.11	9.31	11.07	7.33	9.93	8.03	6.05
P/E	27.17	35.13	39.06	38.93	26.81	26.62	24.59

(Source: Company/Eastwind)