

February 4, 2015

₹ 355

## Marico (MARIN)

### Urban discretionary demand still remains muted

- Marico's Q3FY15 results were below our estimates on both the revenues & earnings front with sales growth of 20.9% to ₹ 1448.9 crore (I-direct estimate: ₹ 1500.1 crore). The growth has been largely led by prices with copra prices up 39% YoY
- Domestic volume growth was 5%, led by 10% growth in value added hair oil & 8% growth in Parachute rigid pack. Saffola volume growth was dismal at 3% with urban discretionary demand staying muted
- Operating margins contracted 50 bps as raw material has increased 289 bps with the company holding high cost inventory of copra. Though copra prices are ~20% lower from August 2014, it is still 39% higher compared to Q3FY14. Net profit grew 18% YoY

### Brand strength aids in reviving volume growth

Led by Marico's strong brand equity, the company's volume growth across its key product portfolio, *Parachute* coconut oil rigid packs (23% of sales), *Saffola* refined oil (15% of sales) and value added hair oils (18% of sales) remained high at 9-11%, ~15% and ~20%, respectively in FY08-12. From Q3FY13 onwards, Marico's volume growth was witnessing constant stress led by a slowdown in consumption demand in the economy and a steep decline in urban discretionary demand. As Marico's portfolio is largely urban centric (~70% of sales), the company's volume growth across these brands, Parachute, Saffola and value added hair oils (VAHO), dipped to ~2%, ~9%, and ~13%, respectively, in 9MFY14. From Q4FY14, however, volume growth has finally started witnessing an uptick with growth in H1FY15 for Parachute and Saffola at 6% and 10%, respectively. Though, the growth in urban concentrated portfolio is still growing with slower pace, we believe that a revival in discretionary demand and improving economic scenario would drive growth in FY16E & FY17E

### Gaining strength in higher growth categories

Led by Marico's strong brand equity in its two flagship brands, *Parachute* (associated with nourishment and purity) and *Saffola* (associated with health and wellness), the company has successfully extended its brands into higher growth and underpenetrated categories of advanced/value added hair oils (*Parachute Advanced*), body lotions (*Parachute* body lotion) and breakfast cereals (*Saffola* Oats, masala oats and muesli). Further, the company's acquisition of youth brands, *Set Wet & Zatak* (deodorants) and *Livon* (hair care) provides it a platform to grow in the segments of future through already established brand equity. Marico has also extended its brand equity of *Livon* to enter the hair colour segment that is experiencing robust growth in India. Hence, we believe that led by Marico's strong brand strength and entry into higher growth segments, revenue and volume growth would remain strong through FY16-17E.

### Earnings to grow at 21.9% CAGR; maintain BUY

Marico has the ability to drive healthy sales growth at 19.4% CAGR (FY14-17E) aided by expansion into rural areas and capturing the revival in urban growth through its strong brands. Further, with increasing contribution of health and wellness products, youth brands and stabilising operations in the international business, we expect margins to improve to 17.7% by FY17E, driving profitability growth at 21.9% CAGR in FY14-17E. We value the stock at 32x FY17E EPS of ₹ 13.6 assigning the stock a target price of ₹ 420 with a BUY rating.

Rating matrix	
Rating	Buy
Target	₹ 420
Target Period	12-15 months
Potential Upside	18%

What's changed?	
Target	Changed from ₹ 363 to ₹ 420
EPS FY15E	Changed from ₹ 9.1 to ₹ 9.0
EPS FY16E	Unchanged
EPS FY17E	Unchanged
Rating	Unchanged

Quarterly performance					
	Q3FY15	Q3FY14	YoY (%)	Q2FY15	QoQ (%)
Sales	1448.9	1198.4	20.9	1429.1	1.4
EBITDA	236.9	201.8	17.4	195.3	21.3
EBITDA (%)	16.3	16.8	-50 bps	13.6	267 bps
PAT	159.9	135.4	18.1	118.3	35.2

Key financials				
₹ Crore	FY14	FY15	FY16E	FY17E
Net Sales	4,676.2	5,831.0	6,723.0	7,950.8
EBITDA	748.0	897.0	1,178.5	1,407.1
Net Profit	485.4	581.0	734.2	878.7
EPS (₹)	7.5	9.0	11.4	13.6

Valuation summary				
	FY14	FY15E	FY16E	FY17E
P/E	47.2	39.4	31.2	26.1
Target P/E	48.6	40.6	32.1	26.9
Div. Yield	1.0	0.4	0.6	0.7
Mcap/Sales	4.9	3.9	3.4	2.9
RoNW (%)	29.0	36.2	34.2	31.1
RoCE (%)	37.5	49.7	51.8	48.1

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	22,894.0
Total Debt (FY14) (₹ Crore)	525.9
Cash and Investments (FY13) (₹ Crore)	667.1
EV (₹ Crore)	22,752.8
52 week H/L	266 / 196
Equity capital	₹ 64.5 Crore
Face value	₹ 1

Price performance				
	1M	3M	6M	12M
Marico	5.8	12.4	33.7	63.8
Dabur	13.1	15.6	31.4	57.9
GCPL	11.9	13.7	29.3	50.3
HUL	20.5	23.4	31.3	59.8

Research Analyst	
Sanjay Manyal	sanjay.manyal@icicisecurities.com
Parineeta Rajgarhia	parineeta.rajgarhia@icicisecurities.com

### Variance analysis

	Q3FY15	Q3FY15E	Q3FY14	YoY (%)	Q2FY15	QoQ (%)	Comments
Net Sales	1,448.9	1,500.8	1,198.4	20.9	1,429.1	1.4	Net sales witnessed growth of 21% on the back of 5% volume growth led by strong growth in Parachute (rigid pack) & value added hair oil
Operating Income	3.5	2.8	2.3	49.9	2.0	72.7	
Raw Material Expenses	792.3	743.4	620.6	27.7	797.6	-0.7	Raw material cost to sales increased 289 bps with copra prices higher by 39% YoY as the company is holding high cost inventory
Employee Expenses	78.3	82.5	67.9	15.3	82.8	-5.5	
SG&A Expenses	153.0	187.6	134.1	14.1	167.5	-8.6	Marketing spend has been more than 10% to sales, which was lower by 60 bps to sales
Other operating Expenses	188.0	232.6	220.1	-14.6	961.4	-80.4	
EBITDA	236.9	257.4	201.8	17.4	195.3	21.3	
EBITDA Margin (%)	16.3	17.1	16.8	-50 bps	13.6	267 bps	Operating margins witnessed a dip of 50 bps as the company was holding high cost inventory during the quarter
Depreciation	23.5	21.7	20.7	13.3	20.5	14.5	
Interest	5.2	8.1	7.3	-29.4	5.1	0.4	
Other Income	10.1	11.7	18.0	-44.0	11.7	-13.6	
Exceptional Income/(Expenses)	0.0	0.0	0.0	NA	0.0	NA	
Minority Interest	-3.1	-6.3	-2.8	12.9	-12.6	-75.1	
PBT	216.1	239.8	185.5	16.5	178.2	21.3	
Tax Outgo	56.2	71.9	50.1	12.2	59.9	-6.1	
PAT	159.9	167.8	135.4	18.1	118.3	35.2	Net profit increased 18.1% led by higher EBITDA
<b>Key Metrics (%)</b>							
Domestic Volume Growth	5.0	NA	3.0		8.0		Domestic volume growth was lower at 5% mainly due to slower growth in Saffola
Parachute Volume Growth	8.0	NA	2.0		7.0		Parachute rigid pack witnessed strong 8% growth. However, other Parachute packs witnessed negative growth
Saffola Volume Growth	3.0	NA	9.0		9.0		Saffola volume growth was lower due to dismal urban discretionary demand
VAHO Volume Growth	10.0	NA	8.0		13.0		Value added hair oil witnessed healthy 10% volume growth

Source: Company, ICICIdirect.com Research

### Change in estimates

(₹ Crore)	FY15E			FY16E			FY17E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% change	
Sales	5,882.8	5,831.0	-0.9	6,723.0	6,723.0	0.0	7,950.8	7,950.8	0.0	We maintain our previous estimates
EBITDA	910.9	897.0	-1.5	1,177.7	1,178.5	0.1	1,406.3	1,407.1	0.1	
EBITDA Margin (%)	15.5	15.4	-10 bps	17.5	17.5	1 bps	17.7	17.7	1 bps	
PAT	584.6	581.0	-0.6	736.8	734.2	-0.4	881.3	878.7	-0.3	
EPS (₹)	9.1	9.0	-0.6	11.4	11.4	-0.4	13.7	13.6	-0.3	

Source: Company, ICICIdirect.com Research

### Assumptions

	FY15E			Current			Earlier			Comments
	FY13	FY14	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E		
Std. Sales (₹ crore)	3,398.8	3,674.3	4,774.7	5,384.9	5,710.9	4,774.2	5,384.9	5,710.9	We maintain our previous estimates	
Subs. Sales (₹ crore)	1,185.5	1,001.9	1,056.3	1,338.1	1,591.1	1,108.6	1,591.1	1,338.1		
Edible Oils vol. gr (%)	7.8	5.5	7.2	6.8	3.0	7.2	6.8	3.0		
Edible Oils value gr (%)	15.6	3.8	31.4	12.1	4.0	31.4	12.1	4.0		
Hair Oils vol. gr (%)	14.2	11.0	10.9	10.0	2.3	10.9	10.0	2.3		
Hair Oils value gr (%)	28.4	19.1	12.6	15.5	7.4	12.6	15.5	7.4		

Source: Company, ICICIdirect.com Research

## Company Analysis

### Revival in volume growth here to stay

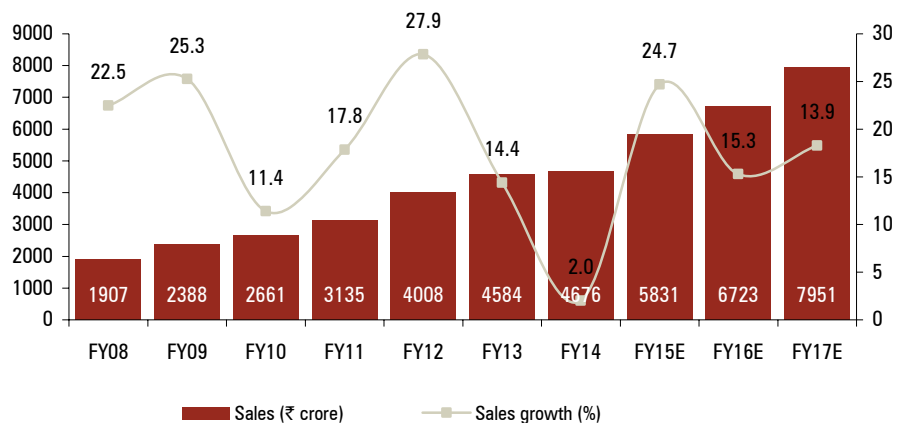
Marico's revenue growth of ~8% in FY14 was led by ~6% volume growth in the domestic FMCG business with ~2% price led growth. Volume growth for the company has dipped from an average of ~14% during FY11-13 to ~6% in FY14 and ~5% in Q3FY15 following the significant increase in input costs that are driving up the contribution of price led growth in revenues (~21% price led growth in Q3FY15) in an already subdued economic scenario.

The excessive increase in copra prices (~70% higher YoY in H2FY14 and ~113% higher in Q2FY15) forced the company to take ~9%, ~4%, ~13% and ~33% price hike in Q2FY14, Q3FY14, Q4FY14 and Q1FY15, respectively in Parachute rigid packs limiting the company's volume growth. Though, the copra prices have dipped by ~20% since August 2014 it is still higher by 39%. However, in spite of price hikes, Marico's increasing marketing activity, reach and strong brand equity have aided in a revival of Parachute's volume growth to ~10% in Q4FY14 and ~8% in Q3FY15. We believe fall in copra prices would result in price cuts across portfolio, which would help the company drive volume growth in future.

Volume growth of 4% in Saffola in Q3FY15 is a setback as it has seen strong growth in the past. The growth has been impacted by negative urban consumer sentiment. Healthy volume growth has been sustainable at ~10% in Q3FY15, which we believe continue to contribute to revenue growth in future.

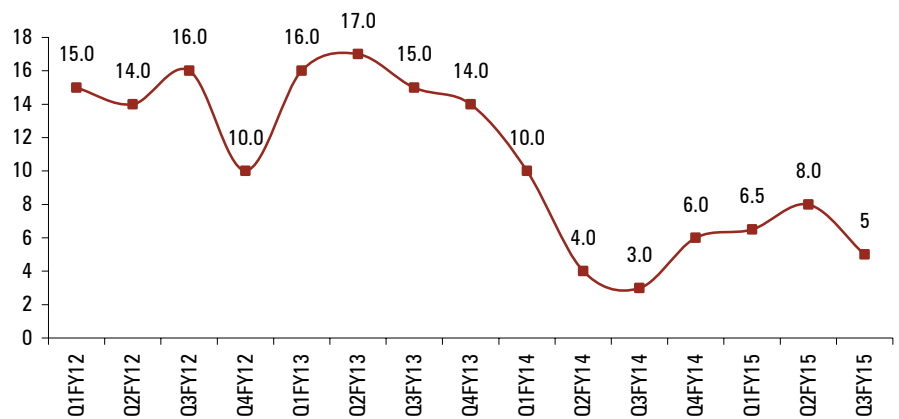
Going ahead, we believe there could be slight pressure on near term volume growth until company exhaust its high cost inventory. However, led by the company's increasing initiative to expand its rural reach, increasing innovations in food portfolio and new launches in youth brands portfolio, we expect revenue growth to remain healthy at 19.4% CAGR in FY14-17E led by volume growth of ~5% in edible oils (*Parachute & Saffola*) and ~8% in hair oils.

Exhibit 1: Sales & sales growth trend



Source: Company, ICICIdirect.com Research

**Exhibit 2: Domestic business volume growth (%)**



Source: Company, ICICIdirect.com Research

**Exhibit 3: Volume growth in percent (YoY) for Marico's key brands and products**

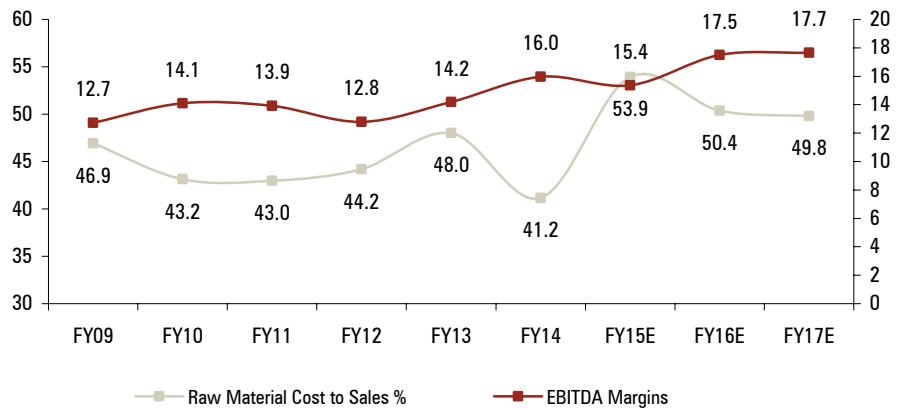
	FY09	FY10	FY11	FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	FY13	Q1FY14	Q2Y14	Q3FY14	Q4FY14	FY14	Q1FY15	Q2FY15	Q3FY15
Parachute	9.0	10.0	10.0	11.0	18.0	9.0	6.0	5.0	10.0	4.0	1.0	2.0	10.0	4.0	6.0	7.0	8.0
Saffola	11.0	16.0	16.0	11.0	12.0	6.0	4.0	5.0	7.0	10.0	7.0	9.0	11.0	9.0	10.0	9.0	3.0
VAHO	17.0	16.0	24.0	24.0	25.0	20.0	30.0	24.0	24.0	16.0	15.0	8.0	5.0	11.0	11.0	13.0	10.0

Source: Company, ICICIdirect.com Research

### Improvement in EBITDA margins to 17.7% by FY17E...

Marico's EBITDA margins have hovered in the range of 13-14% in FY08-FY13. In FY14, the company witnessed a significant jump in margins to 15.9% following the de-merger of its loss-making Kaya business. The de-merger of Kaya has significantly lowered the company's employee expenses and other operating expenses driving the savings hence witnessed. Marico's margins are highly susceptible to copra and coconut oil prices (key raw materials). Hence, any fluctuation in prices of these commodities impacts margins significantly over the quarters. In FY14, in spite of the de-merger of Kaya, business margins in H2FY14 were stressed following the ~70% increase in copra prices to ~₹ 10,500/quintal and ~85% increase in coconut oil prices to ~₹ 16500/quintal in august 2014. Further, the slowing demand scenario during the period limited the company from passing on the entire input cost inflation, thereby straining margins. In Q3FY15, copra and coconut oil prices have fallen to ~₹ 9294/quintal and ₹ 12833/quintal, respectively. We believe operating margins for the company would witness uptick as it exhaust its high cost inventory. Going ahead, we expect margins to improve further to ~17.5% in FY16E and FY17E led by the changing sales mix involving increasing contribution of youth brands and foods portfolio in revenues. Also, stabilising margins in the international portfolio to 14-15% would keep margins at elevated levels.

**Exhibit 4: Raw material cost (%) & EBITDA margin (%) trend**

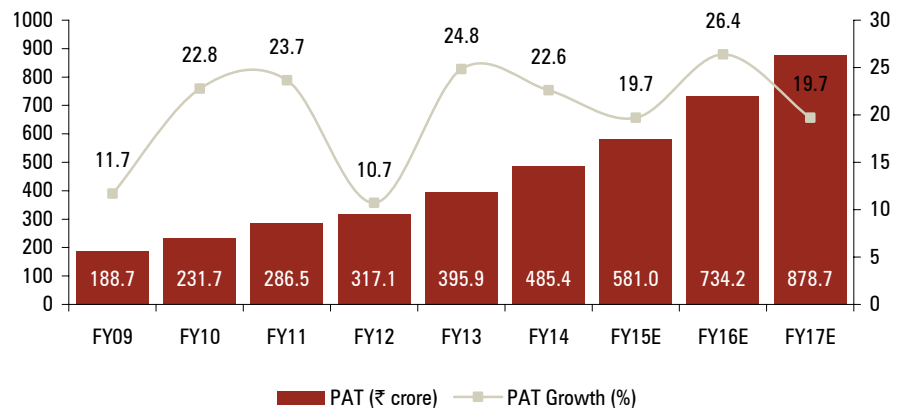


Source: Company, ICICIdirect.com Research

### Higher taxes to limit entire benefit of higher EBITDA

Marico's tax rate is expected to increase to ~30% through FY15E and FY16E following the company's factories coming out of tax benefits. We believe the increase in tax rate from an average of 22-24% until FY13 and to ~28% in FY14 would further increase to 30% in FY15E and ~33% in FY16E and FY17E. Hence, the higher tax rate, going ahead, would limit the benefit of expansion in margins from flowing down entirely to the bottomline restricting its growth at 21.9% CAGR in FY14-17E.

**Exhibit 5: PAT (₹ crore) - LHS and PAT growth YoY (%) - RHS**



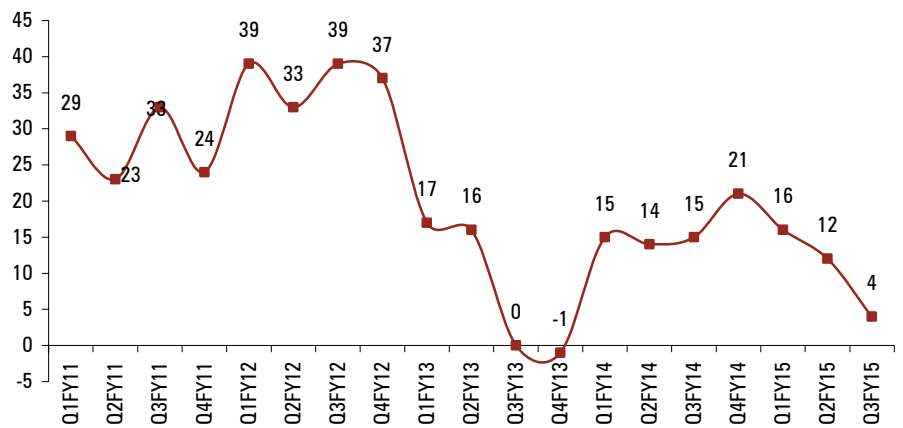
Source: Company, ICICIdirect.com Research

Chart includes Kaya numbers from FY08-13 however FY14-FY16E do not include Kaya numbers.

**International business growth on track**

Marico’s international business (~25% of revenues in FY14) comprises Marico’s operations in Bangladesh, Middles East and North Africa (MENA), South Africa and South East Asia. International business revenues have remained subdued since H2FY13 following the constant political disturbances in these regions pulling down growth from 25-40% to ~0% in H2FY13. Beginning FY14, aided by a favourable currency and revival in international operations revenue growth from the international business has gained traction to ~15% in 9MFY14, ~21% in Q4FY14 and ~16% in Q1FY15 before slowing to mere 4% in Q3FY15. Going ahead, we believe that with Marico’s increasing focus on Bangladesh markets and stabilising economic situation in other markets, international business growth is expected to remain healthy aiding the overall revenue growth of the company.

**Exhibit 6: International revenue growth YoY (%)**



Source: Company, ICICIdirect.com Research

## Outlook & valuation

Marico's largely urban centric portfolio (~70% of revenues are from urban India) has impacted the company's growth rates from H2FY13 onwards following the slowing urban consumption demand in the economy. Following this, the company is actively expanding its presence in the higher growth rural markets.

In the hair oils segment, we believe the near term growth in pure coconut hair oil (*Parachute*) revenues would be largely price driven (until H1FY15) led by the significant price increases that could keep volume growth modest. There could, however, be traction in the VAHO revenue growth led by innovations in the segment.

In the health foods segment, Marico's expansion in oats and muesli would continue to witness market share gains and strong volume growth led by innovations and new launches. Further, the successful integration of Paras' youth brands (*Set Wet, Zatak and Livon*) and entry into hair colours segment would also keep revenues from this portfolio healthy.

Hence, we expect Marico's revenue growth in FY14-17E to grow at a healthy CAGR of 19.4%. Further, with margins in the international business set to stabilise at ~15% and price increases to lower the impact of higher raw material costs, we expect margins to improve to 17.7% by FY17E from 14.1% in FY13 (ex-Kaya). Higher margins would, thereby, aid the earnings growth, which we thereby estimate will grow at 21.9% CAGR in FY14-17E. Hence, we continue to remain positive on the long term growth outlook of the company.

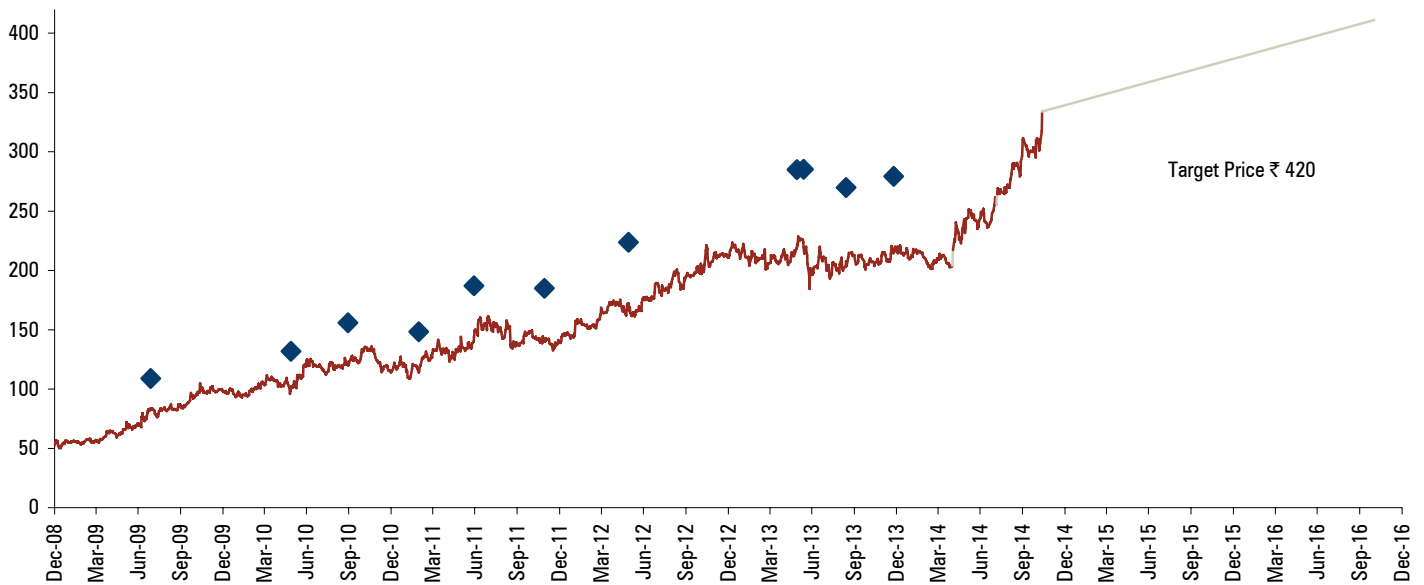
At the CMP, the stock is trading at 29.3x FY16E EPS of ₹ 11.4 and 24.5x FY17E EPS of ₹ 13.6 per share. With expected higher margins on back of softening commodity prices, we value the stock at a premium to its five-year average P/E at 32x FY17E EPS of ₹ 13.6 and assign it a target price of ₹ 420 with a **BUY** rating.

### Exhibit 7: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY14	4676.2	10.1	7.5	22.6	47.2	31.6	29.0	37.5
FY15E	5831.0	24.7	9.0	19.7	39.4	26.7	36.2	49.7
FY16E	6723.0	15.3	11.4	26.4	31.2	20.3	34.2	51.8
FY17E	7950.8	18.3	13.6	19.7	26.1	17.0	31.1	48.1

Source: Company, ICICIdirect.com Research

## Company snapshot



Source: Bloomberg, Company, ICICIdirect.com Research

## Key events

Date	Event
Jun-08	Highest copra prices (₹4140/quintal, ~10% higher YTD) ; a threat to margins in a softening consumption demand scenario
Jul-09	Strong revenue growth of ~25%YoY and by market share gains. Preference of defensives (FMCG Index return - ~12% YTD) further boosts stock price
May-10	Declining copra intensifies competition with unbranded players. Revenue growth fell to 8-10% YoY however margins and profitability improved.
Sep-10	FMCG Index return - ~40% (YTD); Copra prices started uptrending
Feb-11	Acquires 85% stake in Vietnam's 'International Consumer Products' with its leading men's brand 'X-men'
Jun-11	Robust revenue and volume growth of ~33% and 21%, respectively. Copra prices higher ~97% YoY resulting in market share gains in hair oils
Nov-11	Copra prices peak in May,2011 (₹6865/qrtl); FMCG Index return - 32% (YTD); Marico stock return - 30%; revenue growth back on 25-30%
May-12	Copra prices decline ~40% YoY; Revenue growth starts declining to 10-15% led by increasing competition from unbranded players
May-13	Stock price supported by run up in FMCG Index as investors park funds in defensives.
Jun-13	Earnings growth of ~34% alongwith significant improvement in margins; Revival in volume growth following price cuts
Sep-13	Kaya business de-merged; Volume growth remains muted after price cuts taken back; Expanding presence in rural markets
Dec-13	Copra prices uptrending from Sept.2013 onwards; FMCG Index YTD return ~8%
Dec-14	Copra prices started moving southwards and witnessed a decline of 20% in Second half of 2015

Source: Company, ICICIdirect.com Research

## Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Aquarius Family Trust	31-Dec-14	11.38	73.4	0.0
2	Gemini Family Trust	31-Dec-14	11.38	73.4	0.0
3	Taurus Family Trust	31-Dec-14	11.38	73.4	0.0
4	Valentine Family Trust	31-Dec-14	11.38	73.4	0.0
5	ARISAIG Partners (Asia) Pte. Ltd.	31-Dec-14	5.48	35.4	0.0
6	OppenheimerFunds, Inc.	31-Dec-14	3.40	21.9	-7.7
7	GIC Private Limited	31-Dec-14	2.47	16.0	-6.1
8	Mariwala (Rajvi Harsh)	31-Dec-14	2.03	13.1	0.0
9	Mariwala (Rishabh Harsh)	31-Dec-14	2.03	13.1	0.0
10	Mariwala (Archana H)	31-Dec-14	1.91	12.3	0.0

Source: Reuters, ICICIdirect.com Research

## Shareholding Pattern

(in %)	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Promoter	59.69	59.69	59.69	59.69	59.69
FII	27.58	27.55	28.11	26.78	28.11
DII	5.72	6.02	6.16	7.12	6.16
Others	6.95	6.74	6.04	6.41	6.04

## Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Franklin Advisers, Inc.	15.48m	3.00m	OppenheimerFunds, Inc.	-39.85m	-7.72m
Birla Sun Life Asset Management Company Ltd.	5.42m	1.05m	GIC Private Limited	-31.46m	-6.10m
Driehaus Capital Management, LLC	4.31m	0.84m	HDFC Asset Management Co., Ltd.	-4.96m	-1.08m
RBC Asset Management UK Ltd.	3.70m	0.74m	M & G Investment Management Ltd.	-4.49m	-0.96m
Wellington Management Company, LLP	1.16m	0.22m	Union Investment Privatfonds GmbH	-3.31m	-0.95m

Source: Reuters, ICICIdirect.com Research



## Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY14	FY15E	FY16E	FY17E	
Total operating Income	4686.5	5843.2	6736.5	7965.6	
Growth (%)	2.2	24.7	15.3	18.2	
Raw Material Expenses	2,399.2	3,143.2	3,386.4	3,958.6	
Employee Expenses	284.7	326.6	389.9	469.1	
Marketing Expenses	565.8	688.7	820.2	978.0	
Administrative Expenses	166.1	0.0	0.0	0.0	
Other expenses	522.8	787.8	961.4	1,152.9	
Total Operating Expenditure	3,938.5	4,946.3	5,558.0	6,558.5	
EBITDA	748.0	897.0	1178.5	1407.1	
Growth (%)	19.5	19.9	31.4	19.4	
Depreciation	76.9	86.0	98.5	111.7	
Interest	34.5	25.4	27.5	27.9	
Other Income	57.9	53.3	56.0	56.5	
PBT	694.6	838.8	1,108.4	1,324.1	
Others	-18.7	-12.6	-12.6	-12.6	
Total Tax	190.5	245.2	361.6	432.8	
PAT	485.4	581.0	734.2	878.7	
Growth (%)	22.6	19.7	26.4	19.7	
Adjusted EPS (₹)	7.5	9.0	11.4	13.6	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY14	FY15E	FY16E	FY17E	
Profit before Tax	694.6	838.8	1,108.4	1,324.1	
Add: Depreciation	76.9	86.0	98.5	111.7	
(Inc)/dec in Current Assets	17.1	-489.7	-426.9	-723.3	
Inc/(dec) in CL and Provisions	70.7	-41.2	96.0	120.8	
Others	-198.8	-245.2	-361.6	-432.8	
CF from operating activities	660.5	148.8	514.5	400.5	
(Inc)/dec in Investments	-172.7	-25.0	-35.0	-35.0	
(Inc)/dec in Fixed Assets	-72.3	-74.0	-61.5	-48.3	
Others	40.7	-86.0	-98.5	-111.7	
CF from investing activities	-204.2	-185.0	-195.0	-195.0	
Issue/(Buy back) of Equity	0.6	0.0	0.0	0.0	
Inc/(dec) in loan funds	-163.2	-90.0	-115.0	5.0	
Dividend paid & dividend tax	-142.0	-96.7	-129.0	-129.0	
Interest Paid	-34.6	0.0	0.0	0.0	
Others	22.7	0.0	0.0	0.0	
CF from financing activities	-316.6	-186.7	-244.0	-124.0	
Net Cash flow	139.6	-223.0	75.5	81.5	
Opening Cash	60.8	406.4	183.4	258.9	
Closing Cash	406.4	183.4	258.9	340.4	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY14	FY15E	FY16E	FY17E	
<b>Liabilities</b>					
Share Capital	64.5	64.5	64.5	64.5	
Reserve and Surplus	1,296.1	1,780.4	2,385.5	3,135.2	
Total Shareholders funds	1,360.6	1,844.9	2,450.0	3,199.7	
Long Term Borrowings	251.5	176.5	76.5	96.5	
Provisions & other LTL	3.3	3.3	3.3	3.3	
Minority Interest / Others	35.8	48.4	61.1	73.7	
Total Liabilities	1651.3	2073.1	2591.0	3373.3	
<b>Assets</b>					
Gross Block	963.4	1,113.4	1,263.4	1,413.4	
Less: Acc Depreciation	330.1	416.1	514.6	626.3	
Net Block	633.4	697.3	748.8	787.1	
Capital WIP	4.4	14.4	24.4	34.4	
Goodwill on Consolidation	254.3	254.3	254.3	254.3	
Non Current Investments	49.9	64.9	89.9	114.9	
Other Non CA	206.3	231.3	256.3	281.3	
Current Investments	260.7	280.7	310.7	340.7	
Inventory	796.2	958.5	1,197.3	1,742.6	
Debtors	223.2	351.5	460.5	544.6	
Cash	406.4	183.4	258.9	340.4	
Other CA	120.6	299.8	348.9	412.7	
Total Current Assets	1,807.1	2,073.8	2,576.2	3,381.0	
Creditors	502.5	431.3	497.3	588.1	
Short Term Borrowings	274.4	289.4	304.4	319.4	
Other Current Liabilities	527.2	542.2	557.2	572.2	
Total Current Liabilities	1,304.1	1,262.9	1,358.9	1,479.7	
Net Current Assets	503.1	811.0	1,217.3	1,901.3	
Application of Funds	1651.3	2073.1	2591.0	3373.3	

Source: Company, ICICIdirect.com Research

Key ratios					
(Year-end March)	FY14	FY15E	FY16E	FY17E	
<b>Per share data (₹)</b>					
EPS (Adjusted)	7.5	9.0	11.4	13.6	
Cash EPS	8.7	10.3	12.9	15.4	
BV	21.1	28.6	38.0	49.6	
DPS	3.7	1.5	2.0	2.5	
Cash Per Share	6.3	2.8	4.0	5.3	
<b>Operating Ratios (%)</b>					
EBITDA Margin	16.0	15.4	17.5	17.7	
PBT / Total Operating income	14.5	14.2	16.3	16.5	
PAT Margin	10.4	10.0	10.9	11.1	
Inventory days	65	60	65	80	
Debtor days	20	22	25	25	
Creditor days	30	27	27	27	
<b>Return Ratios (%)</b>					
RoE	29.0	36.2	34.2	31.1	
RoCE	37.5	49.7	51.8	48.1	
RoIC	35.9	33.2	33.0	30.2	
<b>Valuation Ratios (x)</b>					
P/E	47.2	39.4	31.2	26.1	
EV / EBITDA	31.6	26.7	20.3	17.0	
EV / Net Sales	5.0	4.1	3.6	3.0	
Market Cap / Sales	4.9	3.9	3.4	2.9	
Price to Book Value	16.8	12.4	9.3	7.2	
<b>Solvency Ratios</b>					
Debt/EBITDA	0.7	0.5	0.3	0.3	
Debt / Equity	0.4	0.3	0.2	0.1	
Current Ratio	1.4	1.6	1.9	2.3	
Quick Ratio	0.8	0.9	1.0	1.1	

Source: Company, ICICIdirect.com Research

## ICICIdirect.com coverage universe (FMCG)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E
Colgate (COLPAL)	1,865	1,919	Hold	25,526	41.3	47.9	54.9	45.2	40.0	34.0	31.1	26.3	22.8	103.5	99.6	96.6	78.8	74.5	71.1
Dabur India (DABIND)	265	263	Hold	44,990	6.4	7.5	8.2	41.2	35.2	32.2	32.1	26.7	24.3	43.4	42.3	38.4	38.3	36.8	33.7
Hindustan Unilever (HINLEV)	914	902	Hold	193,544	19.9	20.8	24.8	45.9	43.3	36.9	36.6	32.4	27.0	124.6	126.2	126.9	118.0	109.3	101.7
ITC Limited (ITC)	366	387	Hold	280,748	11.5	12.7	14.5	31.9	30.4	25.3	20.6	19.3	17.3	43.3	45.4	48.7	33.5	32.1	34.6
Jyothy Lab (JYOLAB)	298	272	Hold	5,159	8.7	9.8	10.1	34.4	27.8	29.5	29.7	28.0	25.6	12.1	12.0	12.6	11.1	19.2	19.7
Marico (MARIN)	360	420	Buy	22,894	9.0	11.4	13.6	40.0	36.9	26.4	26.7	20.3	17.0	49.7	51.8	48.1	29.0	36.2	34.2
Nestle (NESIND)	6,980	6,123	Hold	59,084	120.7	137.2	153.1	57.8	44.6	45.6	28.6	25.8	23.0	66.2	71.2	75.9	47.2	44.9	49.3
Tata Global Bev (TATTEA)	161	182	Buy	10,080	6.2	7.8	8.7	25.9	23.2	18.5	13.0	11.8	10.9	8.1	8.6	9.0	8.2	6.3	7.6
VST Industries (VSTIND)	1,855	1,962	Hold	2,924	89.7	95.8	109.0	20.7	20.5	17.0	13.0	11.7	10.3	56.1	59.2	62.0	45.8	40.7	42.0

Source: Company, ICICIdirect.com Research

## **RATING RATIONALE**

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICIdirect.com Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com**

## ANALYST CERTIFICATION

We /I, Sanjay Manyal, MBA (Finance) and Parineeta Rajgarhia, MBA (Finance), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

### Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, *inter alia*, engaged in the business of stock brokering and distribution of financial products. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that Sanjay Manyal, MBA (Finance) and Parineeta Rajgarhia, MBA (Finance), Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that Sanjay Manyal, MBA (Finance) and Parineeta Rajgarhia, MBA (Finance), Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.