

CMP : Rs 377

Rating : BUY

Target : Rs 476

STOCK INFO

INDEX	
BSE	531642
NSE	MARICO
Bloomberg	MRCO.IN
Reuters	MRCO.BO
Sector	FMCG
Face Value (Rs)	1
Equity Capital (Rs mn)	1291
Mkt Cap (Rs mn)	486,669
52w H/L (Rs)	388 / 284
Avg Weekly Vol (BSE+NSE)	1,909,990

SHAREHOLDING PATTERN

	%
(As on September, 2018)	
Promoters	59.7
Public & Others	40.3

Source: BSE, Arihant Research

STOCK PERFORMANCE(%)	3m	6m	12m
Marico	9.6	11.3	22.7
SENSEX	-3.5	2.0	7.9

Source: ACE Equity, Arihant Research

Marico v/s SENSEX



Source: ACE Equity, Arihant Research

Marico is the market leader in Coconut Oil (Parachute), Value Added Hair Oil (VAHO) and Refined Edible Oil (Saffola brand) and enjoys strong brand equity. The Company aims for a volume growth of 8-10% and a topline growth of 13-15% (depending on inflation) in the medium term. We expect Marico to report 14.6% CAGR in its revenues over FY18-20E, while PAT will witness a CAGR of 17.1% over the same period. EBITDA margin is expected to be steady around 17-18% level. We remain positive on Marico's future growth prospects, and initiate coverage on the stock with a BUY rating and a target price of Rs 476 (55x FY20E earnings), giving an upside potential of 26.2%.

- Impressive volume growth in key segments to drive domestic business growth**
For FY19 and beyond, the Company is confident of delivering 8-10% volume growth coupled with healthy market share gains, on the back of increased investment in the core portfolio, aggressive new product launches, distribution expansion & judicious pricing.
- EBITDA margin to be maintained at 17-18% level with upside trigger**
Marico will continue to drive cost excellence across the organization to extract savings that will be redeployed towards igniting profitable growth. EBITDA margin is expected to be maintained at 17-18% over the medium term.
- Strong distribution network gives opportunity for huge headroom for growth**
Marico has a strong distribution network, with overall reach spanning 4.9 mn outlets out of 10.1 mn total outlets, this itself presents a huge opportunity for Marico to grow further in future.
- PAT to witness 17.1% CAGR over FY18-20E**
With 14.6% CAGR revenue growth over FY18-20E and stable EBITDA margin around 17-18% level, we expect Marico's PAT to grow from Rs 8145mn in FY18 to Rs 11,162mn in FY20E, thereby registering a CAGR of 17.1% over FY18-20E.
- Steady cash generating company with healthy dividend payout**
During current financial year of FY19, Marico has continued to generate steady cash. The net surplus of the Group as on Q2FY19 end is about Rs 9bn. In absence of any strategic acquisitions, Marico will continue to maintain a healthy dividend payout.

Valuations

At CMP of Rs 377, Marico trades at FY19E and FY20E, P/E multiples of 51.6x and 43.6x respectively. We value the stock at a FY20E target P/E multiple of 55x, which yields a target price of Rs 476 per share. We are bullish on the future prospects of Marico and initiate coverage on the stock with a BUY rating and a target price of Rs 476 (55x FY20E earnings), which gives an upside of 26.2%.

Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)	P/BV (x)
FY16	60173	10514	7115	5.5	17.5	35.4	68.4	24.2
FY17	59178	11593	7986	6.2	19.6	34.5	60.9	21.0
FY18	63222	11378	8145	6.3	18.0	32.2	59.8	19.2
FY19E	73738	12917	9436	7.3	17.5	35.0	51.6	18.1
FY20E	83102	15183	11162	8.6	18.3	36.5	43.6	15.9

Source: Company, Arihant Research

Company Background

Marico Limited is one of India's leading consumer products companies operating in the beauty and wellness space. Currently present in 25 countries across emerging markets of Asia and Africa, Marico has nurtured multiple brands in the categories of hair care, skin care, edible oils, health foods, male grooming, and fabric care. Marico's India business markets household brands such as Parachute, Parachute Advanced, Saffola, Hair & Care, Nihar, Nihar Naturals, Livon, Set Wet, Mediker and Revive among others that add value to the life of 1 in every 3 Indians. The International business offers unique brands such as Parachute, HairCode, Fiancée, Caivil, Hercules, Black Chic, Isoplus, Code 10, Ingwe, X-Men and Thuan Phat that are localized to fulfil the lifestyle needs of its international consumers.

Product Portfolio

The company primarily caters to the 'Beauty and Wellness' theme. It has a wide product portfolio comprising of the following segments, 1) coconut oils, 2) leave-in hair nourishment, 3) healthy foods and 4) male grooming. Each of the above segments has different sub-segments targeting to specific segment of customers depending on their specific requirements. Broadly Marico's product lines can be sub-divided into the following products that the company currently offers in its domestic (Indian) market.



Coconut Oil

- ▶ Parachute Coconut Oil
- ▶ Nihar Naturals Coconut Oil
- ▶ Nihar Naturals Uttam Coconut Oil

Hair Oil

- ▶ Parachute Advanced Coconut Hair Oil
- ▶ Parachute Advanced Deep Conditioning Hot Oil
- ▶ Parachute Advanced Aloe Vera Enriched Coconut Hair Oil
- ▶ Parachute Advanced Jasmine Coconut Hair Oil
- ▶ Nihar Naturals Sarson Kesh Tel
- ▶ Nihar Naturals Shanti Amla Badam Kesh Tel
- ▶ Hair & Care Fruit Oils
- ▶ Nihar Naturals Shanti Jasmine Kesh Tel
- ▶ Nihar Naturals Coconut Hair Oil

Anti Hairfall

- ▶ Livon Hair Gain Tonic
- ▶ Parachute Advanced Ayurvedic Hair Oil
- ▶ Parachute Advanced Scalp Therapie Hair Oil

Hair Serum

- ▶ Livon Hair Serum
- ▶ Hair & Care Silk n Shine Leave-In Hair Conditioner

Skincare

- ▶ Parachute Advanced Body Lotion

Male Grooming & Styling

- ▶ Parachute Advanced Men Aftershower Hair Cream
- ▶ Set Wet Hair Gels
- ▶ Set Wet Beard Gels and Creams
- ▶ Set Wet Deodorants
- ▶ Set Wet Blast Deodorants
- ▶ Set Wet Hair Waxes
- ▶ Set Wet Studio X Range

Healthy Foods

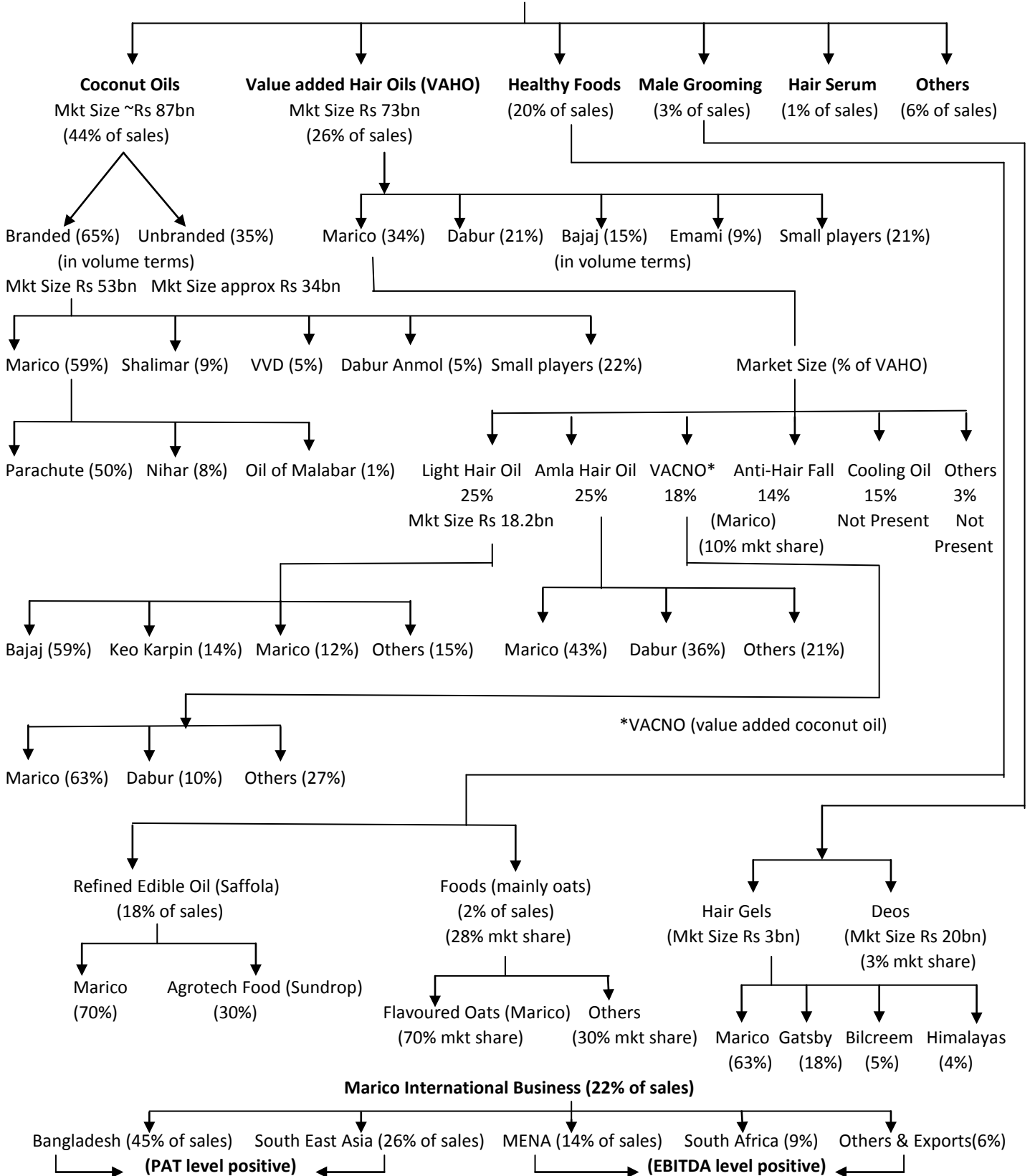
- ▶ Saffola Refined Edible Oils
- ▶ Saffola Aura – Olive & Flaxseed Oil
- ▶ Saffola Masala Oats
- ▶ Saffola Multigrain Flakes
- ▶ Saffola Active Soups
- ▶ Saffola Active Slimming Nutri Shakes

Source: Company, Arianth Research

Marico's Product Portfolio at a Glance

Marico (78% Domestic Revenue share – FY18 /22% International Revenue share – FY18)

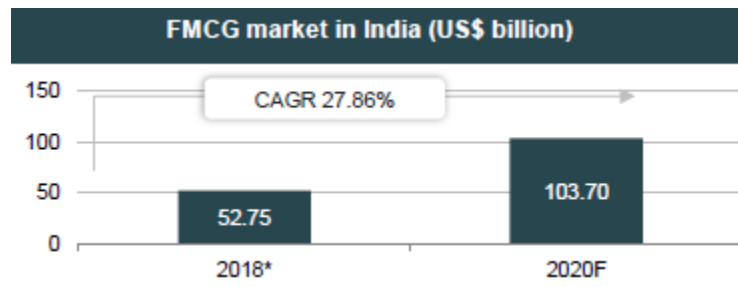
Marico Domestic Business (78% of FY18 Revenue)



Industry Analysis

■ Favourable demographics and rise in income level to boost FMCG market

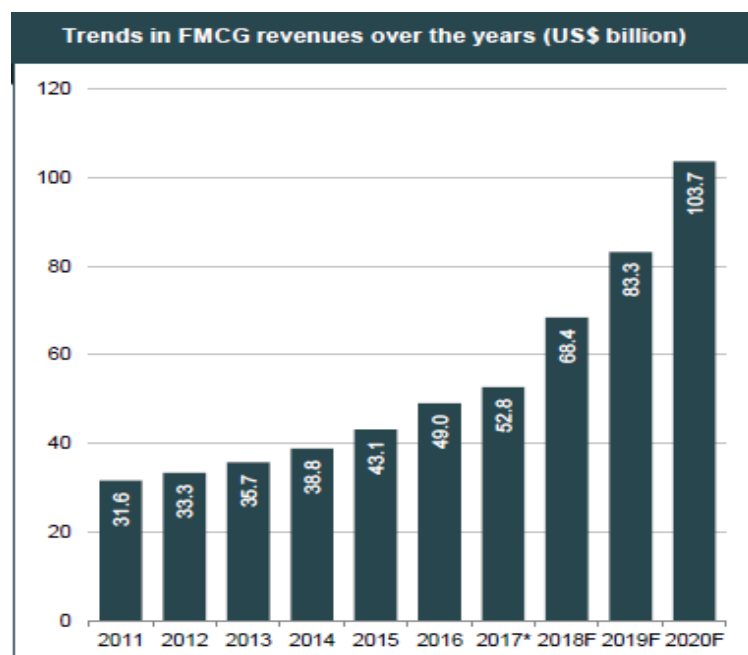
FMCG market in India is expected to grow at a CAGR of 27.86% and is expected to reach the figure of US\$ 103.70bn by 2020 from US\$ 52.75bn in FY18. Rising incomes and growing youth population have been key growth drivers of the sector. Brand consciousness has also aided demand. India's contribution to global consumption is expected to more than double to 5.8% by 2020. With growing demand, Tier II/III cities are also witnessing faster growth in trade.



Source: IBEF Reports, Arianth Research

■ Strong growth in Indian FMCG sector augurs well for the FMCG players like Marico

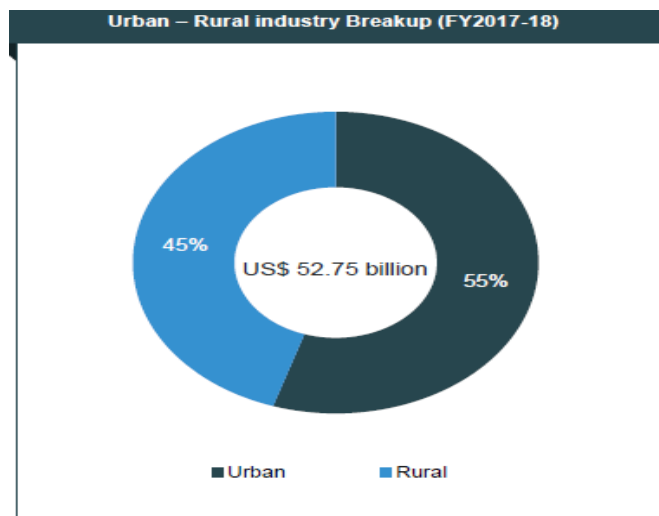
Revenues of FMCG sector reached Rs 3400 bn (US\$ 52.8 bn) in FY18 and are estimated to reach US\$ 103.7 bn in 2020F. The FMCG sector witnessed growth of 11% in value terms during April – June 2018 period, mainly supported by rate cuts due to GST along with better consumer off-take. The sector is expected to grow at 12-13% between July – December 2018 period. The initiatives taken in Union Budget 2018-19 are expected to increase the disposable income in the hands of the common people, especially in the rural area, which will be beneficial for the sector. Also FMCG sector will gain support for growth from Inland Waterways Authority of India (IWAI) multi-modal transportation project of freight village at Varanasi which will bring together retailers, warehouse operators and logistics service providers, with investments worth Rs 1.7 bn (US\$ 25.35 million).



Source: IBEF Reports, Arianth Research

- **Urban market accounts for major chunk of revenues for the FMCG players**

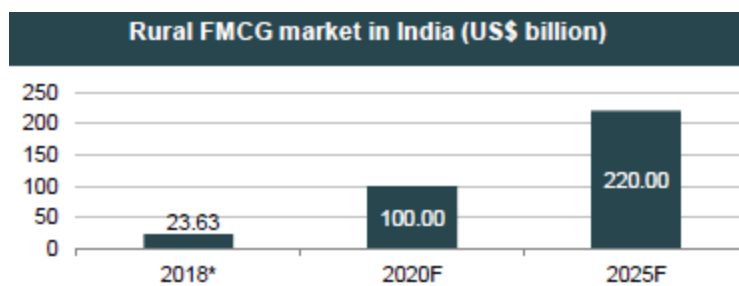
Accounting for a revenue share of around 55%, urban segment is the largest contributor to the overall revenue generated by the FMCG sector in India. Demand for quality goods and services have been going up in rural areas of India, on the back of improved distribution channels of manufacturing and FMCG companies. Rural segment is growing at a rapid pace and accounted for a revenue share of 45% in the overall revenues recorded by FMCG sector in India during FY17-18 period. FMCG products account for 50% of total rural spending. In last few years, the FMCG market has grown at a faster pace in rural India compared to urban India. In FY19E, urban segment of the FMCG sector is expected to clock a steady revenue growth of 8%, while revenue from rural segment is expected to grow at 15-16% outpacing the urban segment growth.



Source: Industry Reports, Arianth Research

- **Rural growth to help stronger players like Marico**

The FMCG sector also offers attractive opportunities for the incumbent players as low penetration levels in rural market offers room for growth. In FY18, Rural consumption rose by 9.7%. Going forward, the rural FMCG market in India is expected to grow to US\$ 100bn by 2020 and further to US\$ 220 bn by 2025 from US\$ 23.6 bn in FY18.



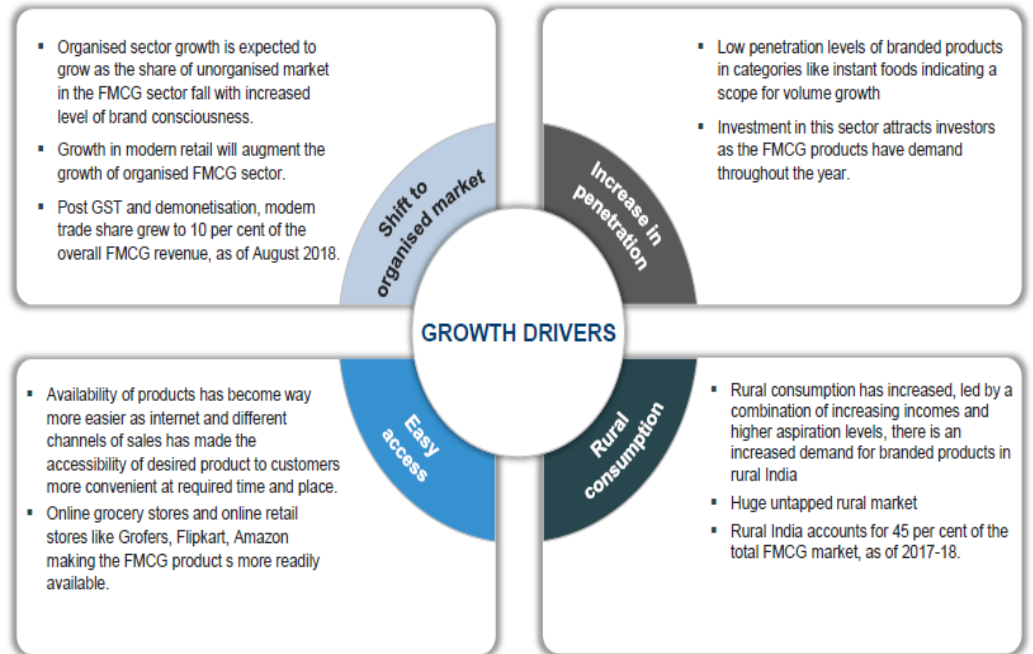
Source: IBEF Reports, Arianth Research

The rural demand is also getting tailwind from other key variables like rise in disposable income. Disposable income in rural India has increased due to the direct cash transfer scheme, which augurs well for the FMCG companies. Also, E-commerce companies like Amazon are strengthening their business in FMCG sector, by positioning their platform pantry as front line offering to drive daily products sales. All these will drive the rural growth further for the FMCG companies and stronger players with significant market shares (like Marico in Hair Oil) will be the key beneficiaries of this uptick in rural demand.

■ Growth drivers for the Indian FMCG sector

The Indian FMCG sector is poised to see robust growth going forward as the following key variables act as future growth drivers for the sector,---

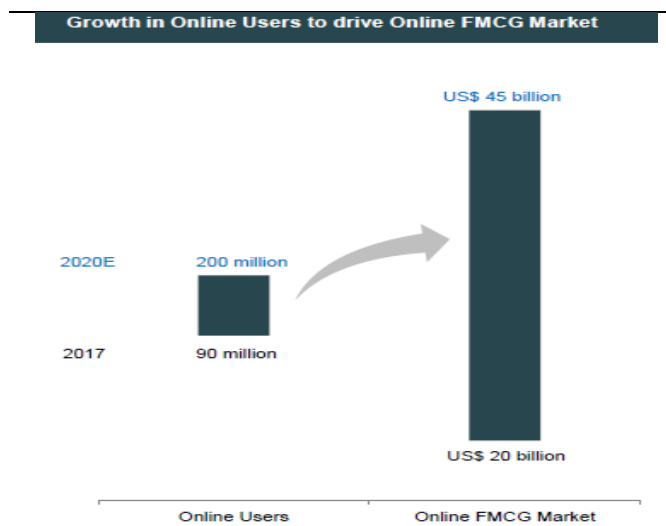
- Shift to organised market
- Increase in penetration
- Easy access
- Rural consumption



Source: IBEF Reports, Arihant Research

■ Rise in online users giving boost to online FMCG sales through platforms like Amazon pantry

Increasing internet penetration, rising digital maturity of users and developing infrastructure have helped boost online transactions. The number of online users in India is forecasted to reach 200 mn in 2020 from 90 mn in 2017. The online FMCG market is forecasted to reach US\$ 45 bn in 2020 from US\$ 20 bn in 2017. By 2020, about 40% of FMCG consumption is estimated to be digitally influenced.



Investment Rationale

■ Impressive volume growth in key segments to drive India (domestic) business growth

Marico enjoys strong brand equity and leadership position in its key product segments like Coconut Oil (Parachute), Value Added Hair Oil (VAHO) and Refined Edible Oil (Saffola brand). For the recently concluded quarter of Q2FY19, the FMCG business in India (domestic) achieved a turnover of Rs 14.4bn (USD 205 mn), clocking a growth of 20% YoY. Volume growth during the quarter was 6%, lower than the medium term aspiration, largely due to a significant decline in CSD (Canteen Store Department) sales. Volume growth ex-CSD was 7%. Going forward for FY19 and beyond, the Company retains the target of 8-10% volume growth and healthy market share gains in the India business.

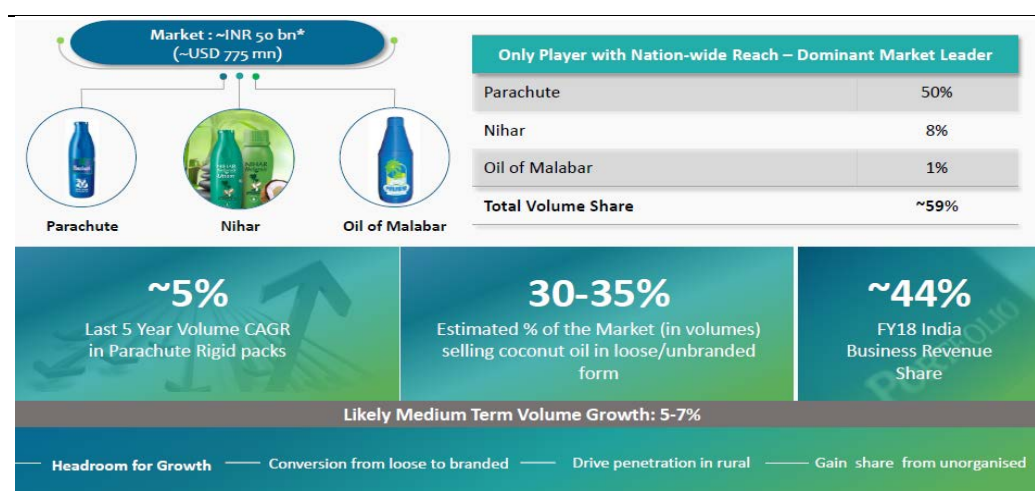
The table below summarizes volume and value growths across key segments:

Categories	Q2FY19		H1FY19		% of FY18 India Business Turnover
	Value Growth	Volume Growth	Value Growth	Volume Growth	
Parachute Coconut Oil (Rigid packs)	32%	8%	35%	8%	36%
Value Added Hair Oils portfolio	12%	5%	12%	10%	26%
Saffola (Refined Edible Oil)	9%	5%	9%	7%	18%

Source: Company, Arihant Research

➤ Coconut Oil (Parachute)

In Q2FY19, Parachute Rigids (packs in blue bottles) posted a volume growth of 8%, led by higher category growth and stronger off-takes in non-core markets. The Coconut Oil franchise (includes Nihar Naturals and Oil of Malabar) strengthened Marico's leadership position and consolidating its volume market share at 59% (Sep 2018 MAT). Of the total coconut oil market, approximately 30-35% in volume terms is in loose form. This loose component provides headroom for growth to branded players like Marico. We believe, Marico's flagship brand Parachute, being the market leader, is well placed to capture a significant share of this growth potential from this loose market on a sustainable basis.

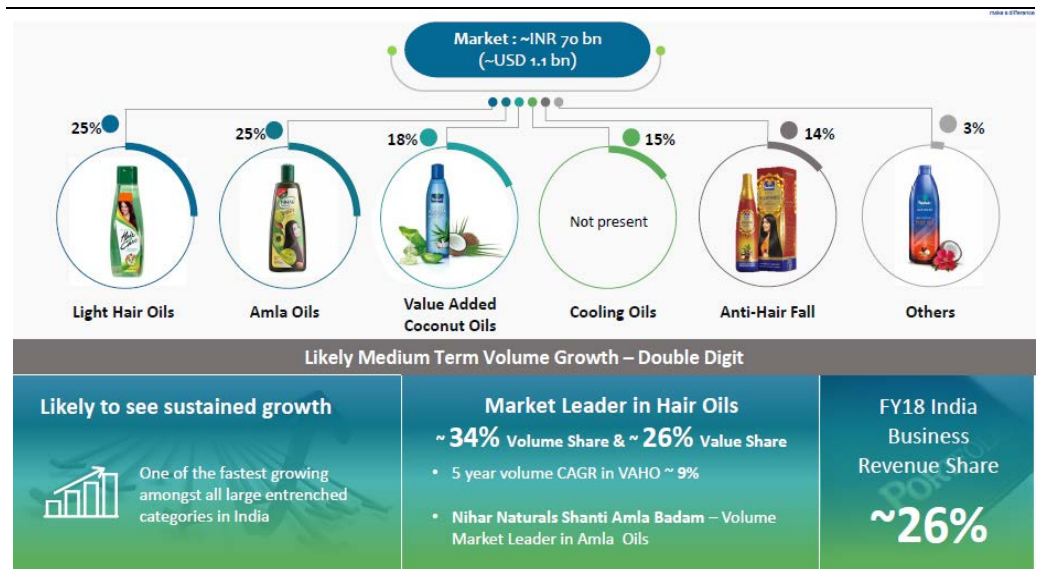


Source: Company, Arihant Research

As we know Marico operates in a band of gross margin per unit, hence we are hopeful that the Company will take judicious pricing decisions to maintain a sweet spot between volume growth and margins. The management said that it would continue to exercise a bias for franchise expansion as long as margins remain within a band and to meet this objective, Marico will continue to invest behind brand building and tactical inputs to remain competitive. The Company expects to deliver 5-7% volume CAGR over the medium term.

➤ Value Added Hair Oils (VAHO)

In Q2FY19, Value Added Hair Oils (VAHO) registered a volume growth of 5%, lower than the medium term aspiration, due to a steep decline in CSD sales. Volume growth in VAHO ex-CSD was at 10%. The Company consolidated its market leadership with a volume share of ~34% and value share of ~26% (Sep 2018 MAT). Nihar Naturals Shanti Amla Badam strengthened its volume market leadership in the Amla Hair Oil category, and in the process, further cemented its position as “India’s No. 1 Hair Oil”. By consistently increasing the number of rural consumers that the brand touches, its market share is expected to strengthen in the coming quarters. Marico will continue to invest in Nihar Naturals Sarson Kesh Tel, which taps into the sizeable unorganised mustard oil market. The Company’s rural GTM initiatives hold it in good stead to make the most of this opportunity.



Source: Company, Arianth Research

Parachute Advanced Aloe Vera Enriched Coconut Hair Oil continued its good run in Q2FY19. The brand has made healthy progress in its chosen markets of Maharashtra and southern India. Marico plans to scale up its footprint gradually over the next few quarters. During the quarter of Q2FY19, Marico launched Nihar Naturals Extra Care Hair Fall Control Oil, an innovative product which brings alive the age-old recipe of soaking seeds in oil. The light hair oil comes with a unique bottle cap, which carries a potent mix of Activ-seeds which are known to reduce hair-fall. This hassle-free technique makes it possible to enjoy the benefit of this age-old method every day. The product has been launched in West Bengal as a test initiative. Depending on its success and consumer acceptability, Marico will launch it pan India later.

➤ Refined Edible Oil (Saffola)

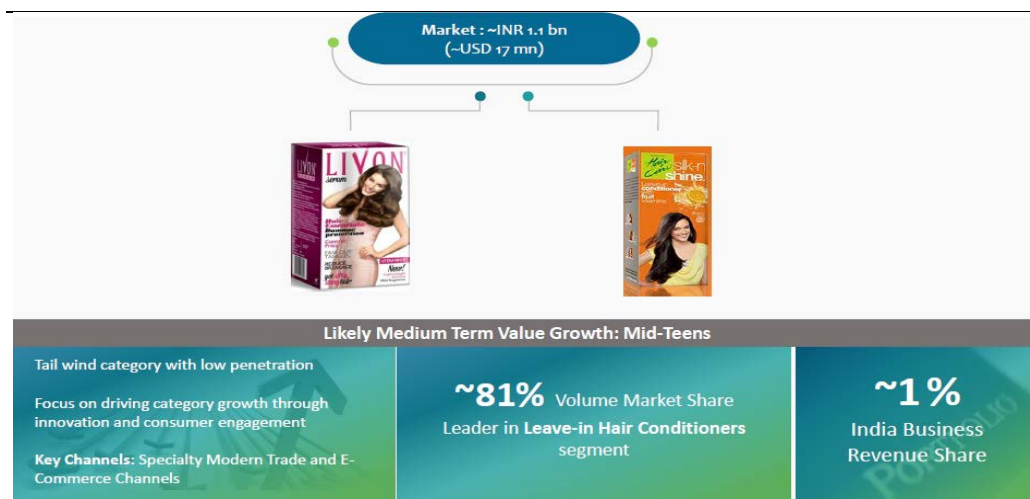
The Saffola refined edible oils franchise grew 5% in volume terms during the quarter of Q2FY19. The franchise appears to be responding to the concerted efforts taken by the Company towards reinvigorating this segment. The brand has been gaining traction in Modern Trade and E-Commerce too. In addition to tactical inputs towards improving the consumer value proposition, Marico has increased its media investments in the brand during the quarter. To this initiative, the Company launched the Saffola life World Heart Day for 2018, a digital and PR campaign to drive heart health awareness in select target markets. Consequently, the brand strengthened its leadership position in the super premium refined edible oils segment to ~70% volume market share (Sep 2018 MAT).

- **Healthy Foods – an extension of Saffola brand to capitalise on the brand value of Saffola**
 The Healthy Foods franchise posted value growth of 35% in Q2FY19. Growth in Saffola Masala Oats (SMO) has been spurred by the continued promotional campaign which highlights its health supremacy over instant fried noodles. The brand continued the uptrend in its value market share, now holding ~70% in the flavoured oats category (Sep 2018 MAT). The growing consumer trend towards healthier culinary choices and the strong brand equity continue to lend confidence in the medium term potential of the Saffola franchise. We believe that future growth will come from expanding the category through continuous innovation in product and packaging and Marico is taking definitive steps towards the same objective.



Source: Company, Arihant Research

- **Premium hair nourishment**
 During Q2FY19, the segment of Premium Hair Nourishment (Livon and H&C Silk n Shine) grew 66% in value terms. Livon Serums registered strong growth during the quarter. With a reach of more than 0.1mn stores, sachets are emerging as a key pack in ensuring accessibility and are generating more than 70% of brand trials. Being the market leader with a volume share of ~80-82% (Sep 2018 MAT) in Post wash Leave-on Serums, Marico continues to focus on innovation and consumer engagement to drive category growth. During the quarter, the Company launched variants of Livon Serums specifically formulated for common hair care needs – Livon Serums for Dry and Unruly Hair, Livon Serum Colour Protect and Livon Shake and Spray Serum.



Source: Company, Arihant Research

➤ **Male Grooming**

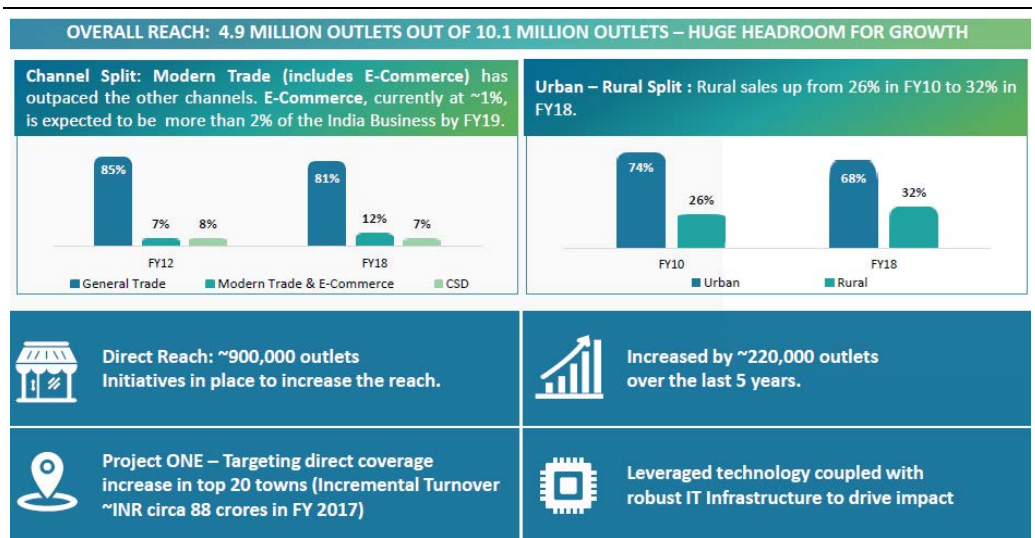
The Male Grooming franchise of Marico grew 32% in value terms during the quarter of Q2FY19. Set Wet Hair Gels continued to dominate on the back of its 57% value market share in the Hair Gels category. The recently launched affordable pocket perfume spray, Set Wet Go (priced at Rs 49), has been gaining traction across all the launch markets. It is now one of the top 3 players in the budget perfumery segment. Marico’s strategy is to continue innovating in this space in order to drive saliency. The initial response to Set Wet Hair Waxes, launched in FY18, has been satisfactory. The product has been launched on E-Commerce and in select regions of Mumbai, Punjab, Delhi, Kerala, NER and Haryana. Marico’s management aims to maintain a consistent value growth trajectory in this portfolio in FY19.



Source: Company, Arianth Research

■ **Strong distribution network gives opportunity for huge headroom for future growth**

Marico has a strong distribution network, with overall reach spanning 4.9 mn outlets out of 10.1 mn total outlets, this itself presents a huge opportunity for Marico to grow further in future. The Company has increased its reach by approx. 220,000 outlets in last five years. It is leveraging technology coupled with robust IT infrastructure to drive impact.



Source: Company, Arianth Research

■ International business looking strong

Over the last three years, Marico has systematically invested in the core international markets to strengthen both the brands and the organizational capability to handle growth. Marico management is confident that each of these markets is well-poised to capitalize on the market opportunities.

Marico's international business is mainly spread out in five regions,---

➤ Bangladesh (45% of international business)

Bangladesh, the main international market of Marico, contributing 45% of its business is likely to continue the momentum as the medium term macro prospects look promising. Marico will continue to invest in brand building, Go to Market transformation and diversify beyond Coconut Oil within its stated strategy.

➤ South East Asia – Vietnam/Myanmar & Others (26% of international business)

As a market leader in the Vietnam business, Marico will continue to invest in the male grooming category and excellence in sales and distribution systems. Aiming at portfolio diversification, Marico has launched a female grooming range under a new brand 'Sedure'. Marico is banking on Myanmar and rest of South East Asia as growth engines of the future.

➤ MENA (14% of international business)

To gain market share and drive growth in the MENA region, Marico will focus on getting the basics right by judiciously investing behind brands and Go-to-Market initiatives.

➤ South Africa (9% of international business)

The South Africa business will leverage the acquisition of Isoplus to gain scale and grow profitably, while protecting and growing the core business of ethnic hair and health care.

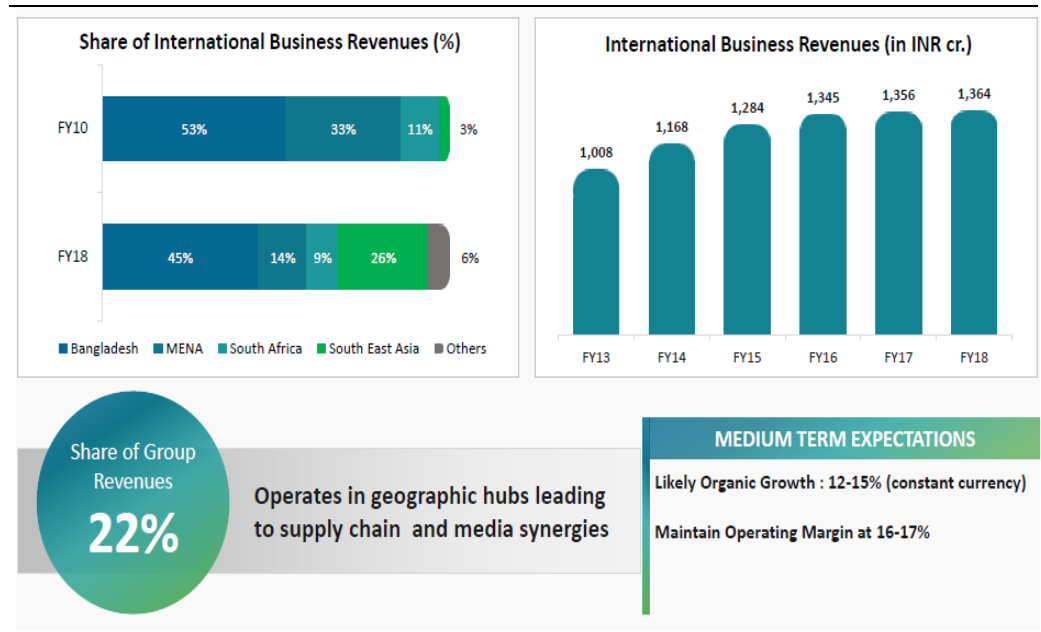
➤ New country development & Exports (6% of international business)

Marico, as a strategy initiative, will continue to invest in developing new countries and scale the business profitably.



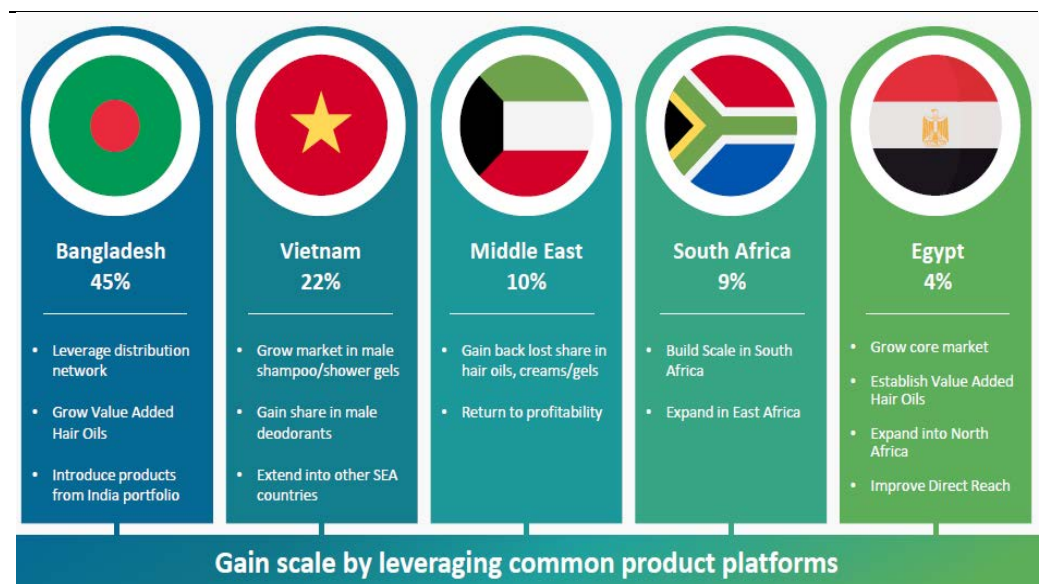
Source: Company, Arihant Research

In Q2FY19, Marico’s International business grew by 11% in constant currency terms backed by a volume growth of 8%. The operating margin (before corporate allocations) was at 18% in Q2FY19 against 18.5% as Advertising and Promotion (A&P) spends shot up during the quarter. Going forward Marico aims to maintain international margins at ~16-17% and continue to invest and plough back savings to drive growth.



Source: Company, Arihant Research

With considerable room for organic growth in the business, Marico management plans to be opportunistic with respect to acquisitions, which may either be immediately value accretive due to operating leverage or enable consolidation of leadership in existing categories.



Source: Company, Arihant Research

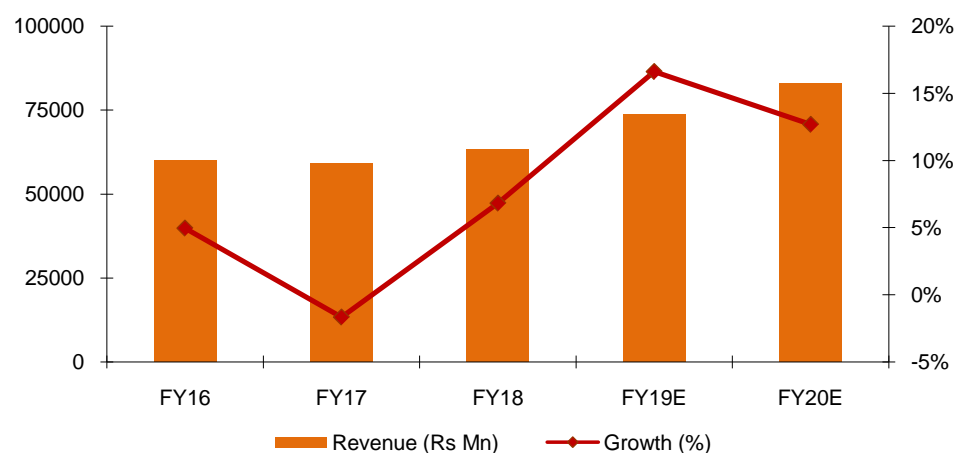
Future Outlook

With GST issues now stabilising and business conditions having normalized amidst a stable macro environment, we expect consumption growth to trend favorably. Though inflation trends have remained benign so far, food inflation remains a key monitorable for the FMCG sector. Rural growth has now outpaced urban growth in the last 5 quarters. However, monsoons have not exited some pockets of the country on a cheery note. Therefore, the progress in rural demand trends will have to be closely monitored in conjunction with any supportive measures of the Government. The India business registered a volume growth of 9% in H1FY19, despite the decline in CSD sales in Q2. For FY19 and beyond, the Company is confident of delivering 8-10% volume growth coupled with healthy market share gains, on the back of increased investment in the core portfolio, aggressive new product launches, distribution expansion & judicious pricing. With copra prices having eased, margins in the CNO (coconut oil) franchise are expected to gradually improve from H2FY19. However, the cost push in other key inputs (Rice Bran Oil, LLP and HDPE) and increased A&P (advertising and promotion) investment will put some pressure. Overall, operating margins of the India business may inch up towards 20% in H2.

Financial Performance Analysis

■ Revenue to witness 14.6% CAGR over FY18-20E

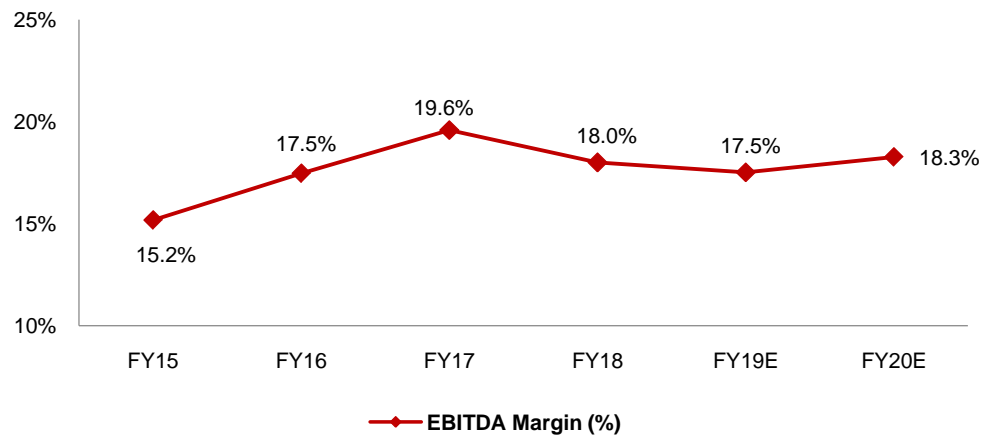
In the medium term, Marico will aim for a volume growth of 8-10% and a revenue growth of 13-15% (depending on inflation). Investments towards brand building will be stepped up to support market growth initiatives in core categories and expansion into adjacent categories. The Company will also aggressively invest behind the recent innovations and a visibly strong pipeline for the next 2-3 years. Consequently, A&P spends is expected to gradually move towards ~10% of revenue on an annualized basis. Marico will continue to drive cost excellence across the organization to extract savings that will be redeployed towards igniting profitable growth. We expect that going forward, Marico will clock a revenue growth of 16.6% and 12.7% respectively in FY19E and FY20E. As a result Marico's revenue would witness 14.6% CAGR over FY18-20E.



Source: Company, Arianth Research

■ EBITDA margin to be maintained around 17-18% level

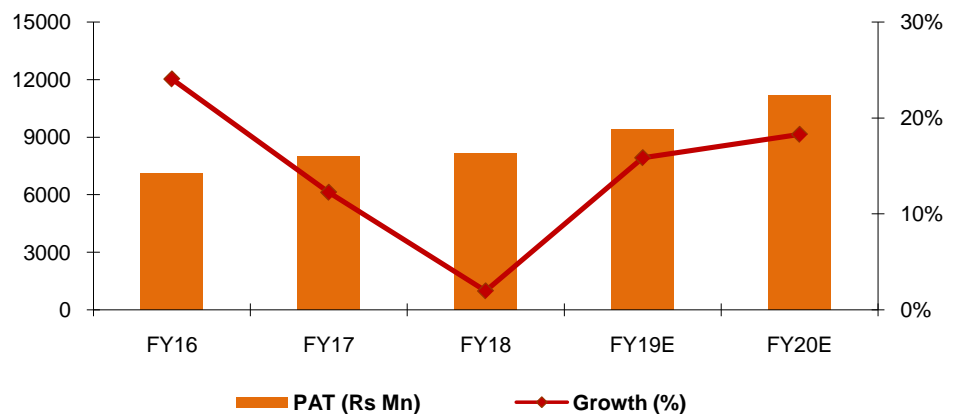
As per management, the Company will continue to drive cost excellence across the organization to extract savings that will be redeployed towards igniting profitable growth. EBITDA margin is expected to be maintained in a band of 17-18% over the medium term. In the near term, the Company has chosen to focus on volume growth and market share gains over short term profitability. As a result, despite input cost reduction (copra price), margin will not witness significant expansion, since the Company plans to plough back the savings from input cost to drive up the A&P spends to gain market share.



Source: Company, Aриhant Research

■ PAT to grow at 17.1% CAGR over FY18-FY20E

With 14.6% CAGR revenue growth over FY18-20E and stable EBITDA margin around 17-18% level, we expect Marico's PAT to grow from Rs 8145mn in FY18 to Rs 11,162mn in FY20E, thereby registering a CAGR of 17.1% over FY18-20E. During the current financial year of FY19, Marico has continued to generate steady cash. The net surplus of the Group as at 30th September, 2018 is about Rs 9bn (Gross debt of Rs 3.2 bn & Gross Investments of Rs 12.2 bn). The future growth strategy is anchored primarily in healthy organic growth. While the Company is open to strategic acquisitions, the leverage ratios are comfortable. In absence of any strategic acquisitions, Marico will continue to maintain a healthy dividend payout.



Source: Company, Aриhant Research

Q2FY19 and H1FY19 Financial Performance

Rs Mn (consolidated)	Q2FY19	Q1FY19	Q2FY18	Q-o-Q	Y-o-Y	H1FY19	H1FY18	Y-o-Y
Net Revenue	18,368	20,268	15,363	-9.4%	19.6%	38,636	32,287	19.7%
Material Cost	10,287	11,696	8,154	-12.1%	26.2%	21,983	16,926	29.9%
Employee cost	1,146	1,147	1,075	-0.1%	6.5%	2,292	2,161	6.1%
Other Expenses	3,995	3,876	3,543	3.1%	12.8%	7,871	7,249	8.6%
EBITDA	2,941	3,549	2,591	-17.1%	13.5%	6,490	5,951	9.1%
<i>EBITDA margin %</i>	<i>16.0%</i>	<i>17.5%</i>	<i>16.9%</i>	<i>-150</i>	<i>-86</i>	<i>16.8%</i>	<i>18.4%</i>	<i>-163</i>
Other Income	292	240	214	21.7%	36.2%	532	436	22.1%
Depreciation	224	224	235	-0.2%	-4.8%	448	447	0.4%
EBIT	3,009	3,565	2,570	-15.6%	17.1%	6,574	5,940	10.7%
Finance cost	57	53	35	7.2%	61.1%	110	70	56.8%
Exceptional Item	-	-	-	-	-	-	-	-
PBT	2,952	3,512	2,535	-15.9%	16.5%	6,464	5,870	10.1%
Tax Expense	776	913	679	-15.0%	14.3%	1,689	1,545	9.3%
Effective tax rate %	26.3%	26.0%	26.8%	29	-48	26.1%	26.3%	-18
PAT	2,176	2,599	1,856	-16.3%	17.2%	4,775	4,325	10.4%
MI & Associates	-34	-42	-42			-76	-82	
Consolidated PAT	2,142	2,557	1,814	-16.2%	18.1%	4,699	4,243	10.7%
<i>PAT margin %</i>	<i>11.7%</i>	<i>12.6%</i>	<i>11.8%</i>	<i>-95</i>	<i>-15</i>	<i>12.2%</i>	<i>13.1%</i>	<i>-98</i>
EPS (Rs)	1.7	2.0	1.4	-16.2%	18.1%	3.6	3.3	10.7%

Source: Company, Arianth Research

Valuations

At CMP of Rs 377, Marico is trading at FY19E and FY20E, P/E multiples of 51.6x and 43.6x respectively. If we look at the average P/E band of Marico for the last 10 years then the stock has traded at an average P/E of more than 40x. As India is a compelling growth story based on its favourable demographic profile with consumption being in a secular growth trend, hence the companies catering to the consumption theme are trading at significant premium to the market. This is mainly due to their high return ratios (ROCE >35%), ample positive cash flows, good corporate governance and high dividend payout. Marico is no exception and hence commands a premium valuation. Based on this rationale, we value the stock at a FY20E target P/E multiple of 55x, which yields a target price of Rs 476 per share. We are bullish on the future prospects of Marico and initiate coverage on the stock with a BUY rating and a target price of Rs 476 (55x FY20E earnings), which gives an upside potential of 26.2%.

PE Band - Marico Ltd.



Source: Company, ACE Equity, Arian Research

Peer Comparison

Marico's closest peer companies are Dabur India, HUL, Colgate and Britannia Industries. In the following table we have compared Marico with its peers on key parameters.

Company Name (FY20E estimates)	Sales (Rs Mn)	EBITDA (Rs Mn)	EBITDA Margin (%)	PAT (Rs Mn)	EPS (Rs)	P/E (x)	P/BV (x)	ROE (%)
Dabur India	98430	21268	21.6	18022	10.2	42.5	10.9	27.4
HUL	445728	103688	23.3	73414	34.1	54.5	47.4	90.3
Marico	83102	15183	18.3	11162	8.6	43.6	15.9	36.5
Colgate*	50370	14018	27.8	8484	31.1	41.9	19.6	50.2
Britannia	129117	21659	16.8	14505	60.6	51.8	15.7	32.0

Source: Company, Bloomberg, Arian Research

* Standalone numbers

Consolidated Financials

Income Statement (Rs mn)

Year End-March	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenues	57,330	60,173	59,178	63,222	73,738	83,102
<i>Change (%)</i>	22.3%	5.0%	-1.7%	6.8%	16.6%	12.7%
Raw materials	31,190	30,706	28,259	33,482	41,092	45,738
Gross Profit	26,139	29,468	30,919	29,740	32,646	37,363
Employee costs	3,251	3,734	4,042	4,222	4,450	4,557
Other expenses	14,188	15,220	15,285	14,140	15,279	17,624
Total Expenses	48,629	49,659	47,585	51,844	60,821	67,919
EBITDA	8,700	10,514	11,593	11,378	12,917	15,183
Other Income	589	933	973	846	1,012	990
Depreciation	843	949	903	891	876	895
Interest	230	206	166	162	188	192
PBT	8,216	10,292	11,497	11,171	12,866	15,086
Extra-ordinary	0	0	0	0	1	2
PBT after ext-ord.	8,216	10,292	11,497	11,171	12,865	15,084
Tax	2,368	3,054	3,377	2,896	3,354	3,922
<i>Rate (%)</i>	28.8%	29.7%	29.4%	25.9%	26.1%	26.0%
PAT	5,849	7,239	8,120	8,276	9,511	11,162
MI & Associates	-114	-124	-134	-131	-76	0
Consolidated PAT	5,734	7,115	7,986	8,145	9,436	11,162
<i>Change (%)</i>	18.1%	24.1%	12.2%	2.0%	15.8%	18.3%

Source: Company, Arianth Research

Balance Sheet (Rs mn)

Year End-March	FY15	FY16	FY17	FY18	FY19E	FY20E
Sources of Funds						
Share Capital	645	1,290	1,291	1,291	1,291	1,291
Reserves & Surplus	17,570	18,819	21,890	24,032	25,668	29,289
Net Worth	18,215	20,110	23,181	25,323	26,959	30,580
Loan Funds	3,342	1,529	2,391	3,095	3,245	3,395
MI, Deferred Tax & other liabilities	248	-214	335	433	433	433
Capital Employed	21,805	21,425	25,906	28,850	30,636	34,407
Application of Funds						
Gross Block	14,732	11,421	12,282	13,378	14,628	16,128
Less: Depreciation	3,973	917	1,735	2,571	3,447	4,342
Net Block	10,759	10,504	10,547	10,808	11,182	11,787
CWIP	30	367	112	268	268	268
Other non current assets	15	17	13	15	15	15
Deferred tax assets	0	0	0	0	0	0
Net fixed assets	10,804	10,889	10,672	11,091	11,465	12,070
Investments	2,838	5,439	6,382	5,724	5,724	5,724
Debtors	1,768	2,521	2,470	3,406	4,040	4,554
Inventories	9,947	9,256	12,534	15,109	18,913	21,303
Cash & bank balance	2,049	3,171	2,360	2,001	1,915	2,503
Loans & advances & other CA	3,847	4,400	1,817	3,394	3,961	5,562
Total current assets	17,611	19,348	19,181	23,909	28,831	33,921
Current liabilities	8,409	10,181	8,469	10,033	15,152	17,076
Provisions	1,040	4,069	1,860	1,841	232	232
Net current assets	8,163	5,098	8,852	12,036	13,447	16,613
Total Assets	21,805	21,425	25,906	28,850	30,636	34,407

Source: Company, Arianth Research

Cash Flow Statement (Rs mn)

Year End-March	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	8,216	10,292	11,497	11,171	12,866	15,086
Depreciation	843	949	903	891	876	895
Interest & others	-474	-851	-941	-815	-900	-798
Cash flow before WC changes	8,586	10,390	11,459	11,247	12,842	15,183
(Inc)/dec in working capital	-169	3,687	-4,020	-3,465	-1,497	-2,579
Operating CF after WC changes	8,418	14,077	7,439	7,782	11,344	12,604
Less: Taxes	-1,811	-3,054	-3,377	-2,896	-3,354	-3,922
Operating cash flow	6,607	11,024	4,061	4,886	7,990	8,682
(Inc)/dec in F.A + CWIP	-581	-85	217	-419	-1,250	-1,500
(Pur)/sale of investment	410	-2,601	-943	658	0	0
Cash flow from investing	-171	-2,685	-727	239	-1,250	-1,500
Free cash flow (FCF)	6,026	10,942	4,274	4,469	6,740	7,182
Loan raised/(repaid)	-2,255	-1,813	862	704	150	150
Equity raised	0	645	0	0	0	0
Interest & others	-1,374	-1,026	80	169	100	1,627
Dividend	-3,001	-5,023	-5,088	-6,357	-7,077	-8,371
Cash flow from financing activities	-6,629	-7,216	-4,146	-5,484	-6,826	-6,594
Net inc /(dec) in cash	-193	1,122	-811	-359	-86	588
Opening balance of cash	2,242	2,049	3,171	2,360	2,001	1,915
Closing balance of cash	2,049	3,171	2,360	2,001	1,915	2,503

Source: Company, Arianth Research

Key Ratios

Year End-March	FY15	FY16	FY17	FY18	FY19E	FY20E
Per share (Rs)						
EPS	8.9	5.5	6.2	6.3	7.3	8.6
CEPS	10.2	6.2	6.9	7.0	8.0	9.3
BVPS	28.2	15.6	18.0	19.6	20.9	23.7
DPS	4.7	3.9	3.9	4.9	5.5	6.5
Payout (%)	52.3%	70.6%	63.7%	78.1%	75.0%	75.0%
Valuation (x)						
P/E	42.4	68.4	60.9	59.8	51.6	43.6
P/CEPS	37.0	60.3	54.7	53.9	47.2	40.4
P/BV	13.3	24.2	21.0	19.2	18.1	15.9
EV/EBITDA	28.1	46.1	42.0	42.9	37.8	32.1
Dividend Yield (%)	1.2%	1.0%	1.0%	1.3%	1.5%	1.7%
Return ratio (%)						
EBIDTA Margin	15.2%	17.5%	19.6%	18.0%	17.5%	18.3%
PAT Margin	10.0%	11.8%	13.5%	12.9%	12.8%	13.4%
ROE	31.5%	35.4%	34.5%	32.2%	35.0%	36.5%
ROCE	36.0%	44.6%	41.3%	36.3%	39.3%	41.5%
Leverage Ratio (%)						
Total D/E	0.2	0.1	0.1	0.1	0.1	0.1
Net D/E	0.1	-0.1	0.0	0.0	0.0	0.0
Turnover Ratios						
Asset Turnover (x)	2.6	2.8	2.3	2.2	2.4	2.4
Inventory Days	116	110	162	165	168	170
Receivable Days	11	15	15	20	20	20
Payable days	60	86	64	69	75	75

Source: Company, Arianth Research

Annexure

Average Market Prices of Input Materials

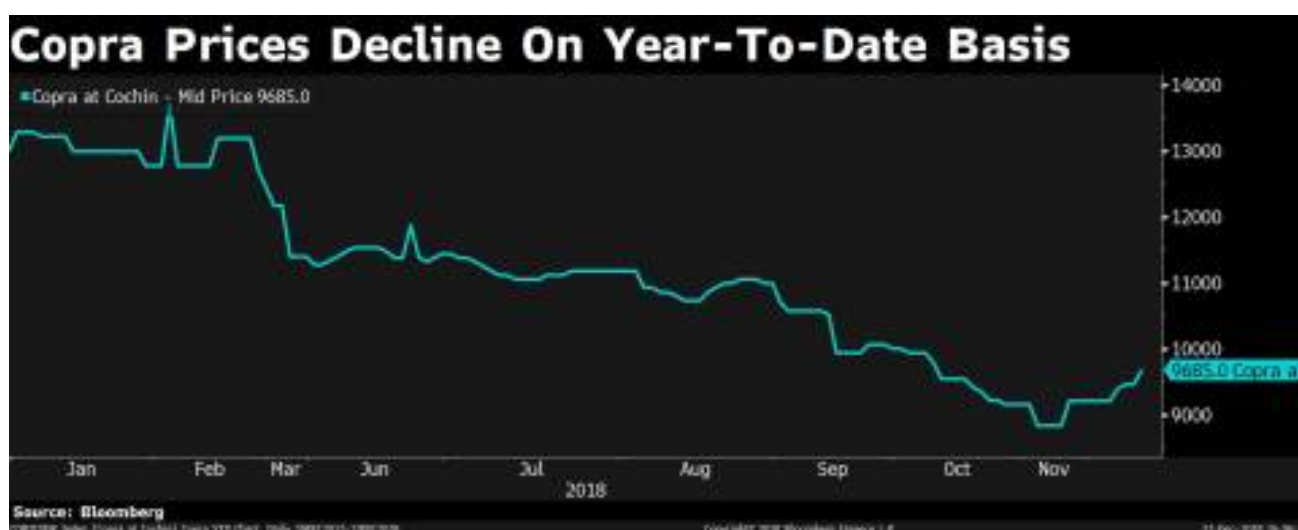
(Based on simple average of the daily market prices. Company's actual procurement prices may differ.)

	Rs/100KG	Rs/100KG	Rs/10KG	Rs/10KG	Rs /LT	Rs / KG
Month	COCHIN CN OIL	COPRA CALICUT	KARDI OIL JALNA*	RICE BRAN	LIQUID PARAFFIN	HDPE*
Jul-17	13,338	9,617	1,216	547	39	101
Aug-17	14,472	10,560	1,320	578	39	97
Sep-17	15,996	11,826	1,302	610	38	97
Oct-17	16,078	12,043	1,287	563	42	99
Nov-17	16,936	12,513	1,281	597	46	99
Dec-17	19,132	14,172	1,409	583	48	101
Jan-18	19,187	14,433	1,474	583	50	106
Feb-18	18,938	14,021	1,454	591	47	115
Mar-18	17,378	12,637	1,313	620	47	118
Apr-18	18,363	13,629	1,312	639	47	118
May-18	18,081	13,002	1,319	652	47	126
Jun-18	17,139	12,150	1,288	678	48	127
Jul-18	16,792	11,910	1,271	693	49	127
Aug-18	16,404	11,535	1,271	689	48	127
Sep-18	15,433	10,496	1,271	698	50	127
Q2FY19 vs Q2FY18	11%	6%	-1%	20%	26%	29%
Q2FY19 vs Q1FY19	-9%	-12%	-3%	6%	3%	3%

*For Kardi Oil Jalna and HDPE, the prices are inclusive of taxes as applicable.

Copra Price Trend

Copra prices have declined by nearly 24% this year, which will benefit Marico, for which it is a key raw material



Source: Company, Bloomberg, Arianth Research

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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