

Good set of numbers; deflationary copra cycle continues to aid gross margin; efforts on from management to stabilise Saffola brand ; Maintain Buy with TP of Rs 435

Current	Previous
CMP: Rs 362	
Rating: Buy	Rating: Buy
Target: Rs 435	Target: Rs 435

(NR-Not Rated)

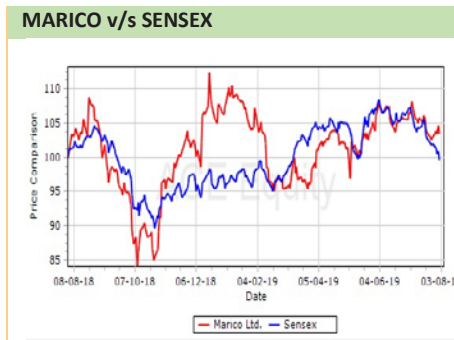
Stock Info	
INDEX	
BSE	532528
NSE	MARICO
Bloomberg	MRCO IN
Reuters	MRCO.BO
Sector	FMCG
Face Value (Rs)	1
Equity Capital (Rs Mn)	1291
Market Cap (Rs Mn)	467,306
52w H/L (Rs)	397 /283
Avg Weekly Vol (BSE+NSE)	5,107,330

Shareholding Pattern	%
(As on June, 2019)	
Promoters	59.7
Public & Others	40.3

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
MARICO	1.2	-3.6	-1.6
SENSEX	-5.2	1.5	-1.3

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

Marico came out with good set of numbers in Q1FY20 ahead of our estimates. Consolidated revenue grew 6.9% YoY to Rs 21660 mn against our estimate of Rs 21090 mn. EBITDA for Q1FY20 came at Rs 4630 mn (estimate Rs 4170 mn) a growth of 26.5% YoY. EBITDA margin increased 332 bps YoY to 21.4% for the quarter against 18.1% in Q1FY19, while on QoQ basis margins expanded 304 bps. Consolidated PAT for the quarter stood at Rs 3100 mn; which was in line with our estimate of Rs 3120 mn, a growth of 21.6% YoY. We like Marico over other FMCG peers due to its strong pricing power in its flagship Parachute brand, which makes it relatively insulated from weak demand environment plaguing other FMCG players. Also multiple tailwinds like deflationary copra cycle leading to higher gross margin and revival in Food and Saffola portfolio keep our faith intact on Marico. Maintain Buy with TP of Rs 435 (unchanged).

Q1FY20 Highlights

- In Q1FY20, domestic volume growth was 6% while international business grew 7% in constant currency (CC) terms. Gross margin expanded by 524 bps on the back of lower RM costs. However, due to higher A&P spends (+32% YoY), EBITDA margin expanded by only 332 bps.
- Parachute Rigids registered a strong volume growth of 9%. However, with deflation in copra prices setting in, the low margin non-focused Coconut Oil brands posted a double-digit decline in volumes.
- Value Added Hair Oils (VAHO) registered muted volume growth of 7% due to slowdown witnessed in premium hair oils because of subdued demand environment. Despite this Marico was able to gain market share with ~148 bps in volume share and 120 bps in value share during the quarter.
- Saffola Edible Oils grew 3% in volumes while Foods grew 38% in value terms. Saffola Masala Oats strengthened its position with a value market share of 75% (June 2019 MAT*) in the flavored oats category.
- Premium Hair Nourishment grew 28%, led by growth in Livon Serums, while Male Grooming (ex-deodorants) grew in double digits.
- During Q1FY20, the average price of domestic copra was down 25% YoY. Other key input prices for India business like Rice Bran Oil, Liquid Paraffin (LLP) and HDPE were down 12%, 1% and 21% respectively on YoY basis.

*moving annual total

Valuations

At CMP of Rs 362 Marico is trading at a P/E of 38.5x and 33.3x its FY20E and FY21E earnings respectively. Factoring in strong Q1FY20 results we keep our FY20E/21E estimate unchanged and continue to value the stock at a target P/E of 40x its FY21E earnings, which yields a target price of Rs 435 per share.

Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY18	63,222	11,378	8,145	6.3	18.0	32.0	57.4
FY19	73,340	12,810	11,180	8.7	17.5	37.3	41.8
FY20E	83,102	16,205	12,124	9.4	19.5	38.2	38.5
FY21E	93,074	18,615	14,039	10.9	20.0	39.8	33.3

Source: Company, Arihant Research

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Q1FY20 Financial Performance

Rs Mn (consolidated)	Q1FY20	Q4FY19	Q1FY19	Q-o-Q	Y-o-Y
Net Revenue	21,660	16,090	20,270	34.6%	6.9%
Material Cost	11,370	8,200	11,700	38.7%	-2.8%
Employee cost	1,270	1,170	1,150	8.5%	10.4%
Other Expenses	4,390	3,770	3,760	16.4%	16.8%
EBITDA	4,630	2,950	3,660	56.9%	26.5%
<i>EBITDA margin %</i>	<i>21.4%</i>	<i>18.3%</i>	<i>18.1%</i>	<i>+304bps</i>	<i>+332bps</i>
Other Income	280	280	240	0.0%	16.7%
Depreciation	350	380	310	-7.9%	12.9%
EBIT	4,560	2,850	3,590	60.0%	27.0%
Finance cost	120	120	90	0.0%	33.3%
Exceptional Item	-190	-	-	-	-
PBT	4,250	2,730	3,500	55.7%	21.4%
Tax Expense	1,080	-1,330	910	-181.2%	18.7%
Effective tax rate %	25.4%	-48.7%	26.0%	NA	-59bps
PAT	3,170	4,060	2,590	-21.9%	22.4%
MI & Associates	-70	-40	-40		
Consolidated PAT	3,100	4,020	2,550	-22.9%	21.6%
<i>PAT margin %</i>	<i>14.3%</i>	<i>25.0%</i>	<i>12.6%</i>	<i>-1067bps</i>	<i>+173bps</i>
EPS (Rs)	2.4	3.1	2.0	-22.9%	21.6%

Source: Company, Arianth Research

Post Result Conference Call Highlights

- Urban general trade (GT) is facing headwinds. Stress on wholesale channel is visible in post GST era, while modern trade and e-commerce is now showing improvement. For the quarter, urban GT declined by 5%, despite this overall urban growth was 5% mainly led by modern trade (MT) and e-commerce.
- Marico is targeting to grow its food business (ex-edible oil) from Rs 1.5bn currently to Rs 4bn in next 3-4 years with 20-25% growth.
- Aloe dry fruit oil and Kaya brand will be scaled up by the end of the year, which will drive VAHO growth going forward
- From 3rd quarter onwards might see some firming up in copra prices and might see some inflation in copra prices starting October-November 2019. With inflation in copra price some volume growth drop might be there.
- Marico gained market share of 250bps in Parachute Rigid. The company is confident of maintaining market share even if copra price goes up in 3rd quarter as the company is taking strategy like network optimisation and not being complacent and rigid about maintaining high margin.
- Quarterly fluctuation could be there in margins, however the management would be happy to maintain 19%+ margin for the full year.
- To revive the Saffola franchisee, still experimenting on the price and distribution strategy to get the right balance, as the brand equity for Saffola is very strong.

Consolidated Financials

Income Statement (Rs Mn)

Year End-March	FY18	FY19	FY20E	FY21E
Revenues	63,222	73,340	83,102	93,074
<i>Change (%)</i>	6.8%	16.0%	13.3%	12.0%
Raw materials	33,482	40,170	43,628	48,398
Gross Profit	29,740	33,170	39,473	44,675
Employee costs	4,222	4,660	4,986	5,584
Other expenses	14,140	15,700	18,282	20,476
Total Expenses	51,844	60,530	66,897	74,459
EBITDA	11,378	12,810	16,205	18,615
Other Income	846	1,030	1,247	1,489
Depreciation	891	960	1,049	1,139
Interest	162	240	237	246
PBT	11,171	12,640	16,166	18,719
Extra-ordinary	0	0	0	0
PBT after ext-ord.	11,171	12,640	16,166	18,719
Tax	2,896	1,280	4,041	4,680
<i>Rate (%)</i>	25.9%	10.1%	25.0%	25.0%
PAT	8,276	11,360	12,124	14,039
MI & Associates	-131	-180	0	0
Consolidated PAT	8,145	11,180	12,124	14,039
<i>Change (%)</i>	2.0%	37.3%	8.4%	15.8%

Source: Company, Arian Research

Balance Sheet (Rs Mn)

Year End-March	FY18	FY19	FY20E	FY21E
Sources of Funds				
Share Capital	1,291	1,291	1,291	1,291
Reserves & Surplus	24,140	28,700	30,448	33,983
Net Worth	25,431	29,991	31,739	35,274
Loan Funds	3,090	3,490	3,640	3,790
MI, Deferred Tax & other liabilities	600	430	430	430
Capital Employed	29,121	33,911	35,809	39,494
Application of Funds				
Gross Block	9,013	10,654	11,654	12,654
Less: Depreciation	2,571	3,531	4,580	5,718
Net Block	6,442	7,123	7,074	6,936
CWIP	268	450	450	450
Other non current assets	800	990	990	990
Deferred tax assets	90	1,880	1,880	1,880
Net Fixed Assets	7,601	10,443	10,394	10,256
Investments	5,230	4,250	4,250	4,250
Debtors	3,400	5,170	5,692	6,375
Inventories	15,110	14,110	14,941	16,575
Cash & bank balance	2,010	5,088	4,667	7,514
Loans & advances & other CA	2,600	3,330	7,338	7,830
Total Current Assets	23,120	27,698	32,638	38,293
Current liabilities	10,560	12,260	15,254	17,085
Provisions	1,130	1,250	1,250	1,250
Net Current Assets	11,430	14,188	16,134	19,959
Total Assets	29,121	33,911	35,809	39,494

Source: Company, Arian Research

Cash Flow Statement (Rs Mn)

Year End-March	FY18	FY19	FY20E	FY21E
PBT	11,171	12,640	16,166	18,719
Depreciation	891	960	1,049	1,139
Interest & others	-815	-970	-1,010	-1,243
Cash flow before WC changes	11,247	12,630	16,205	18,615
(Inc)/dec in working capital	-2,763	150	-2,367	-978
Operating CF after WC changes	8,484	12,780	13,838	17,637
Less: Taxes	-2,896	-1,280	-4,041	-4,680
Operating cash flow	5,588	11,500	9,796	12,957
(Inc)/dec in F.A + CWIP	-1,788	-3,195	-1,000	-1,000
(Pur)/sale of investment	1,152	980	0	0
Cash flow from investing	-637	-2,215	-1,000	-1,000
Free cash flow (FCF)	9,537	10,455	8,796	11,957
Loan raised/(repaid)	699	400	150	150
Equity raised	0	0	0	0
Interest & others	8,562	12,026	-976	-224
Dividend	-6,357	-7,745	-8,391	-9,036
Cash flow from financing activities	2,905	4,681	-9,217	-9,111
Net inc / (dec) in cash	7,857	13,966	-421	2,847
Opening balance of cash	2,360	2,010	5,088	4,667
Closing balance of cash	10,216	15,976	4,667	7,514

Source: Company, Arihant Research

Key Ratios

Year End-March	FY18	FY19	FY20E	FY21E
Per Share (Rs)				
EPS	6.3	8.7	9.4	10.9
CEPS	7.0	9.4	10.2	11.8
BVPS	19.7	23.2	24.6	27.3
DPS	4.9	6.0	6.5	7.0
Payout (%)	78.1%	69.3%	69.2%	64.4%
Valuation (x)				
P/E	57.4	41.8	38.5	33.3
P/CEPS	51.7	38.5	35.5	30.8
P/BV	18.4	15.6	14.7	13.2
EV/EBITDA	41.2	36.4	28.8	24.9
Dividend Yield (%)	1.4%	1.7%	1.8%	1.9%
Return Ratio (%)				
EBIDTA Margin	18.0%	17.5%	19.5%	20.0%
PAT Margin	12.9%	15.2%	14.6%	15.1%
ROE	32.0%	37.3%	38.2%	39.8%
ROCE	36.0%	34.9%	42.3%	44.2%
Leverage Ratio (%)				
Total D/E	0.1	0.1	0.1	0.1
Net D/E	0.0	-0.1	0.0	-0.1
Turnover Ratios				
Asset Turnover (x)	2.2	2.2	2.3	2.4
Inventory Days	165	128	125	125
Receivable Days	20	26	25	25
Payable days	67	67	67	67

Source: Company, Arihant 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% to -12%
SELL	<-12%

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