

*Muted results; deflationary copra cycle continues to aid gross margin; however tepid volume growth and weakness in VAHO remain concerns; Downgrade to Hold with TP of Rs 435*

Current	Previous
CMP: Rs 394	
Rating: Hold	Rating: Buy
Target: Rs 435	Target: Rs 435

(NR-Not Rated)

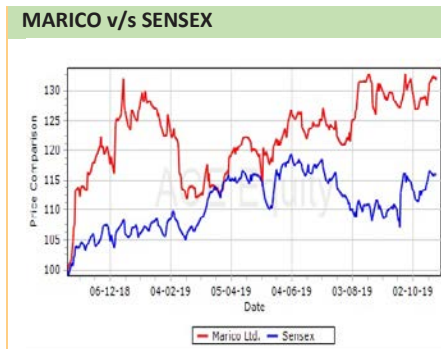
Stock Info	
INDEX	
BSE	532528
NSE	MARICO
Bloomberg	MRCO IN
Reuters	MRCO.BO
Sector	FMCG
Face Value (Rs)	1
Equity Capital (Rs Mn)	1291
Market Cap (Rs Mn)	507,324
52w H/L (Rs)	404 /295
Avg Weekly Vol (BSE+NSE)	8,063,380

Shareholding Pattern	%
<b>(As on Sept, 2019)</b>	
Promoters	59.6
Public & Others	40.4

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
MARICO	8.8	10.1	31.9
SENSEX	3.2	0.8	15.9

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

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**Marico came out with muted set of numbers in Q2FY20, which were below our estimate. Consolidated revenue was flat on YoY basis (-0.4% YoY) at Rs 18,290 mn, which was below our estimate of Rs 20,776 mn. EBITDA stood at Rs 3,530 mn, little below our estimate of Rs 3,740 mn, registering a growth of +15.7% YoY/-23.8% QoQ. EBITDA margin expanded 270 bps YoY to 19.3% for Q2FY20 against 16.6% in Q2FY19, though on QoQ basis margins contracted by 208 bps. Consolidated PAT stood at Rs 2,470 mn, below our estimate of Rs 2,597 mn, a growth of 21.7% YoY/-20.3% QoQ. We like Marico due to its strong pricing power in its flagship Parachute brand, also multiple tailwinds like deflationary copra cycle leading to higher gross margin and revival in Food portfolio augur well for Marico. Though we agree that weakness in its VAHO category due to depressed consumer demand and rural weakness remains a concern, which will limit near term upside. Downgrade to Hold with TP of Rs 435 (unchanged).**

**Q2FY20 Highlights**

- In Q2FY20, domestic volume growth was muted at 1% while international business grew 9% in constant currency (CC) terms. Marico had a soft quarter due to challenging liquidity condition and subdued consumption demand environment in domestic market, especially in rural arena.
- Due to low inputs costs in domestic and Bangladesh markets gross margin expanded by 561bps YoY, though actual EBITDA margin expansion was only 270 bps, as Marico actively invested in capability and brand building during the quarter, which resulted in higher A&P spend (+12% YoY).
- Parachute Rigids witnessed 1% decline in volume growth. However, it was able to maintain its market share gain with 225 bps rise in market share.
- Value Added Hair Oils (VAHO) witnessed flat volume growth due to slowdown witnessed in premium hair oil brands except Amla & Aloe, because of subdued demand environment. Despite this Marico was able to gain market share with ~100 bps in volume and 60 bps in value terms.

**Valuations**

At CMP of Rs 394, Marico is trading at a P/E of 41.9x and 36.2x its FY20E and FY21E earnings respectively. 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. However due to weakness in VAHO category and tepid domestic volume growth on the back of sluggish consumer demand and rural weakness, we believe near term upside will remain capped. **Hence we downgrade our rating to HOLD.**

**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	62.4
FY19	73,340	12,810	11,180	8.7	17.5	37.3	45.5
FY20E	83,102	16,205	12,124	9.4	19.5	38.2	41.9
FY21E	93,074	18,615	14,039	10.9	20.0	39.8	36.2

Source: Company, Arihant Research

## Q2FY20 and H1FY20 Financial Performance

Rs Mn (consolidated)	Q2FY20	Q1FY20	Q2FY19	Q-o-Q	Y-o-Y	H1FY20	H1FY19	Y-o-Y
<b>Net Revenue</b>	<b>18,290</b>	<b>21,660</b>	<b>18,370</b>	<b>-15.6%</b>	<b>-0.4%</b>	<b>39,950</b>	<b>38,640</b>	<b>3.4%</b>
Material Cost	9,210	11,370	10,280	-19.0%	-10.4%	20,580	21,980	-6.4%
Employee cost	1,270	1,270	1,150	0.0%	10.4%	2,540	2,290	10.9%
Other Expenses	4,280	4,390	3,890	-2.5%	10.0%	8,690	7,640	13.7%
<b>EBITDA</b>	<b>3,530</b>	<b>4,630</b>	<b>3,050</b>	<b>-23.8%</b>	<b>15.7%</b>	<b>8,140</b>	<b>6,730</b>	<b>21.0%</b>
<i>EBITDA margin %</i>	<i>19.3%</i>	<i>21.4%</i>	<i>16.6%</i>	<i>-208bps</i>	<i>+270bps</i>	<i>20.4%</i>	<i>17.4%</i>	<i>+296bps</i>
Other Income	350	280	290	25.0%	20.7%	630	530	18.9%
Depreciation	350	350	310	0.0%	12.9%	700	630	11.1%
<b>EBIT</b>	<b>3,530</b>	<b>4,560</b>	<b>3,030</b>	<b>-22.6%</b>	<b>16.5%</b>	<b>8,070</b>	<b>6,630</b>	<b>21.7%</b>
Finance cost	130	120	100	8.3%	30.0%	250	190	31.6%
Exceptional Item	-	-190	-	-	-	-190	-	-
<b>PBT</b>	<b>3,400</b>	<b>4,250</b>	<b>2,930</b>	<b>-20.0%</b>	<b>16.0%</b>	<b>7,630</b>	<b>6,440</b>	<b>18.5%</b>
Tax Expense	880	1,080	870	-18.5%	1.1%	1,960	1,680	16.7%
<i>Effective tax rate %</i>	<i>25.9%</i>	<i>25.4%</i>	<i>29.7%</i>	<i>+47bps</i>	<i>-381bps</i>	<i>25.7%</i>	<i>26.1%</i>	<i>-40bps</i>
<b>PAT</b>	<b>2,520</b>	<b>3,170</b>	<b>2,060</b>	<b>-20.5%</b>	<b>22.3%</b>	<b>5,670</b>	<b>4,760</b>	<b>19.1%</b>
MI & Associates	-50	-70	-30			-120	-70	
<b>Consolidated PAT</b>	<b>2,470</b>	<b>3,100</b>	<b>2,030</b>	<b>-20.3%</b>	<b>21.7%</b>	<b>5,550</b>	<b>4,690</b>	<b>18.3%</b>
<i>PAT margin %</i>	<i>13.5%</i>	<i>14.3%</i>	<i>11.1%</i>	<i>-81bps</i>	<i>+245bps</i>	<i>13.9%</i>	<i>12.1%</i>	<i>+175bps</i>
<b>EPS (Rs)</b>	<b>1.9</b>	<b>2.4</b>	<b>1.6</b>	<b>-20.3%</b>	<b>21.7%</b>	<b>4.3</b>	<b>3.6</b>	<b>18.3%</b>

Source: Company, Arianth Research

### Post Result Conference Call Highlights

- During the quarter, Marico witnessed significant slowdown in VAHO and coconut oil categories due to channel liquidity issues and consumption slowdown especially in rural markets.
- Food business bucked the trend of slow growth, and performed well. Foods grew by 34% in value terms, led by Saffola Masala Oats, as its value market share jumped to 79% in the flavored oats category.
- Marico continued to invest in A&P spends, which increased by 12% YoY, and will keep the A&P spend at elevated level to gain market share.
- Due to deflationary copra cycle, input cost continues to remain benign and hence Marico management expects to maintain EBITDA margin at 19%+ level.
- In the international markets, Bangladesh continued to do well and the company expects to clock 8-10% constant currency growth in the international business for FY20E.
- During August consumption suffered due to floods in Maharashtra, which somewhat improved during September and October. The management expects the demand condition to improve going forward and hence expecting some improvement in H2 in the domestic business.
- Premium Hair Nourishment grew by 7% in volume terms, as Livon Serums continued its good run. While Male Grooming declined marginally during the quarter. The company launched 'Set Wet Hair Serums for Men' during the quarter in its Male Grooming category.

## Consolidated Financials

## Income Statement (Rs Mn)

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

Source: Company, Aриhant Research

## Balance Sheet (Rs Mn)

Year End-March	FY18	FY19	FY20E	FY21E
<b>Sources of Funds</b>				
Share Capital	1,291	1,291	1,291	1,291
Reserves & Surplus	24,140	28,700	30,448	33,983
<b>Net Worth</b>	<b>25,431</b>	<b>29,991</b>	<b>31,739</b>	<b>35,274</b>
<b>Loan Funds</b>	<b>3,090</b>	<b>3,490</b>	<b>3,640</b>	<b>3,790</b>
MI, Deferred Tax & other liabilities	600	430	430	430
<b>Capital Employed</b>	<b>29,121</b>	<b>33,911</b>	<b>35,809</b>	<b>39,494</b>
<b>Application of Funds</b>				
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
<b>Net Fixed Assets</b>	<b>7,601</b>	<b>10,443</b>	<b>10,394</b>	<b>10,256</b>
<b>Investments</b>	<b>5,230</b>	<b>4,250</b>	<b>4,250</b>	<b>4,250</b>
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
<b>Total Current Assets</b>	<b>23,120</b>	<b>27,698</b>	<b>32,638</b>	<b>38,293</b>
Current liabilities	10,560	12,260	15,254	17,085
Provisions	1,130	1,250	1,250	1,250
<b>Net Current Assets</b>	<b>11,430</b>	<b>14,188</b>	<b>16,134</b>	<b>19,959</b>
<b>Total Assets</b>	<b>29,121</b>	<b>33,911</b>	<b>35,809</b>	<b>39,494</b>

Source: Company, Aриhant Research

**Cash Flow Statement (Rs Mn)**

Year End-March	FY18	FY19	FY20E	FY21E
<b>PBT</b>	<b>11,171</b>	<b>12,640</b>	<b>16,166</b>	<b>18,719</b>
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
<b>(Inc)/dec in working capital</b>	<b>-2,763</b>	<b>150</b>	<b>-2,367</b>	<b>-978</b>
Operating CF after WC changes	8,484	12,780	13,838	17,637
Less: Taxes	-2,896	-1,280	-4,041	-4,680
<b>Operating cash flow</b>	<b>5,588</b>	<b>11,500</b>	<b>9,796</b>	<b>12,957</b>
(Inc)/dec in F.A + CWIP	-1,788	-3,195	-1,000	-1,000
(Pur)/sale of investment	1,152	980	0	0
<b>Cash flow from investing</b>	<b>-637</b>	<b>-2,215</b>	<b>-1,000</b>	<b>-1,000</b>
<b>Free cash flow (FCF)</b>	<b>9,537</b>	<b>10,455</b>	<b>8,796</b>	<b>11,957</b>
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
<b>Cash flow from financing activities</b>	<b>2,905</b>	<b>4,681</b>	<b>-9,217</b>	<b>-9,111</b>
<b>Net inc /(dec) in cash</b>	<b>7,857</b>	<b>13,966</b>	<b>-421</b>	<b>2,847</b>
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, Arianth Research

**Key Ratios**

Year End-March	FY18	FY19	FY20E	FY21E
<b>Per Share (Rs)</b>				
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%
<b>Valuation (x)</b>				
P/E	62.4	45.5	41.9	36.2
P/CEPS	56.3	41.9	38.6	33.5
P/BV	20.0	17.0	16.0	14.4
EV/EBITDA	44.8	39.6	31.3	27.1
Dividend Yield (%)	1.2%	1.5%	1.6%	1.8%
<b>Return Ratio (%)</b>				
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%
<b>Leverage Ratio (%)</b>				
Total D/E	0.1	0.1	0.1	0.1
Net D/E	0.0	-0.1	0.0	-0.1
<b>Turnover Ratios</b>				
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, 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% to -12%
SELL	<-12%

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