

Good set of numbers, continued market share gain in Parachute and long awaited revival in Saffola portfolio augurs well; Maintain Buy with a revised TP of Rs 435

Current	Previous
CMP: Rs 340	
Rating: Buy	Rating: Buy
Target: Rs 435	Target: Rs 464

(NR-Not Rated)

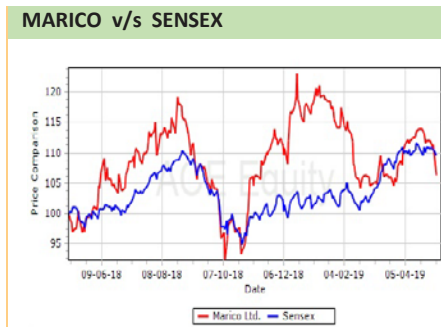
Stock Info	
INDEX	
BSE	532528
NSE	MARICO
Bloomberg	MRCO IN
Reuters	MRCO.BO
Sector	FMCG
Face Value (Rs)	1
Equity Capital (Rs Mn)	1291
Market Cap (Rs Mn)	438,906
52w H/L (Rs)	397 /283
Avg Weekly Vol (BSE+NSE)	3,134,370

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

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
MARICO	-6.7	1.5	6.9
SENSEX	4.4	10.3	10.6

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

Marico came out with good set of numbers in Q4FY19. Consolidated results were mostly in line with our estimate. Consolidated revenue for the quarter grew 8.7% YoY to Rs 16090 mn against our estimate of Rs 16490 mn. EBITDA for Q4FY19 came at Rs 2830 mn (estimate Rs 2940 mn) a growth of 12.3% YoY. EBITDA margin increased 56 bps YoY to 17.6% for the quarter against 17% in Q4FY18. Adjusted PAT (adjusted for one time tax write back of Rs 1880 mn) for the quarter stood at Rs 2130 mn ahead of our estimate of Rs 2010 mn, a growth of 18% YoY. We like Marico over other FMCG peers like Dabur; as Marico is relatively insulated from the macro slowdown and weak demand environment plaguing other FMCG players. Also multiple tailwinds like deflationary copra cycle, highest gross margin in past 8 quarters and revival in Saffola portfolio keep our bullish stance intact on Marico. Maintain Buy with a revised target price of Rs 435.

Q4FY19 Highlights

- Parachute Rigids grew by 6% in volume terms with continued market share gain, while decline in low-margin non-focused brands of Coconut Oil portfolio witnessed reversal during the quarter.
- Value Added Hair Oils (VAHO) seen muted growth of 1% in volume terms, due to underperformance in the premium segment and clearing of channel inventory prior to MRP decreases in select brands from April 2019. From April 1, Marico reduced MRPs of select brands by ~5%.
- Due to sustained marketing initiatives, Saffola Edible Oils grew 18% in volumes; growth in Healthy Foods increased to 32% in value terms.
- Premium Hair Nourishment and Male Grooming grew 38% and 3% in value terms, respectively.
- International business posted a constant currency (cc) growth of 7% led by healthy performance in key markets of Bangladesh (12% cc growth) and Vietnam (13% cc growth).
- Advertising & Sales Promotion spends, at 9.5% of sales in Q4FY19, was up 29% YoY, as Marico invested behind the extensive line-up of new products brought to market during the year.

Valuations

At CMP of Rs 340, Marico is trading at FY20E and FY21E, P/E multiples of 36.2x and 31.3x respectively. After factoring in Q4FY19 results we have revised our FY20E and FY21E estimates upwards, however reduced our target P/E from 45x earlier to 40x FY21E earnings, which yields a target price of Rs 435 per share. We maintain our Buy rating on the stock.

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	53.9
FY19	73,340	12,810	11,180	8.7	17.5	37.3	39.3
FY20E	83,102	16,205	12,124	9.4	19.5	38.2	36.2
FY21E	93,074	18,615	14,039	10.9	20.0	39.8	31.3

Source: Company, Arihant Research

Q4FY19 Financial Performance

Rs Mn (consolidated)	Q4FY19	Q3FY19	Q4FY18	Q-o-Q	Y-o-Y	FY19	FY18	Y-o-Y
Net Revenue	16,090	18,610	14,800	-13.5%	8.7%	73,340	63,220	16.0%
Material Cost	8,200	10,000	7,900	-18.0%	3.8%	40,170	33,480	20.0%
Employee cost	1,170	1,200	1,030	-2.5%	13.6%	4,660	4,220	10.4%
Other Expenses	3,890	3,920	3,350	-0.8%	16.1%	15,700	14,150	11.0%
EBITDA	2,830	3,490	2,520	-18.9%	12.3%	12,810	11,370	12.7%
<i>EBITDA margin %</i>	<i>17.6%</i>	<i>18.8%</i>	<i>17.0%</i>	<i>-116bps</i>	<i>+56bps</i>	<i>17.5%</i>	<i>18.0%</i>	<i>-52bps</i>
Other Income	280	220	230	27.3%	21.7%	1,030	850	21.2%
Depreciation	290	230	230	26.1%	26.1%	960	890	7.9%
EBIT	2,820	3,480	2,520	-19.0%	11.9%	12,880	11,330	13.7%
Finance cost	80	50	50	60.0%	60.0%	240	160	50.0%
Exceptional Item	-	-	-	-	-	-	-	-
PBT	2,740	3,430	2,470	-20.1%	10.9%	12,640	11,170	13.2%
Tax Expense	-1,320	910	640	-245.1%	-306.3%	1,280	2,900	-55.9%
Effective tax rate %	-48.2%	26.5%	25.9%	NA	NA	10.1%	26.0%	-1584bps
PAT	4,060	2,520	1,830	61.1%	121.9%	11,360	8,270	37.4%
MI & Associates	-50	-40	-20			-180	-130	
Consolidated PAT	4,010	2,480	1,810	61.7%	121.5%	11,180	8,140	37.3%
<i>PAT margin %</i>	<i>24.9%</i>	<i>13.3%</i>	<i>12.2%</i>	<i>+1160bps</i>	<i>+1269bps</i>	<i>15.2%</i>	<i>12.9%</i>	<i>+237bps</i>
EPS (Rs)	3.1	1.9	1.4	61.7%	121.5%	8.7	6.3	37.3%

Source: Company, Arianth Research

Post Result Conference Call Highlights

- Marico will continue to focus on a balanced approach towards volume growth and healthy profitability. The management would be comfortable with EBITDA margins at 20% plus in the India business over the medium term.
- Company is targeting 8-10% volume growth in India business in FY20.
- Double digit growth expected in international business in FY20.
- Q4FY19 saw sluggishness in Hair & Care brand.
- E-commerce contributed 4% of India business.
- Revival in Saffola happened due to analytics based decision making at company level, which helped Marico to identify key parameters influencing the brand and investment in those parameters has helped maximize the ROI.
- Marico is not perturbed about slowdown in macro and consumer sentiment like other FMCG players and do not expect June quarter to see further slowdown as being feared by other FMCG companies.
- Despite expecting decline in copra prices in coming quarters, company do not foresee any pricing intervention in its Parachute brand as it is expecting some bullishness in crude prices going forward, which will neutralize the gain from copra price drop, hence do not see any need to pass on the benefit of low copra prices to consumers.

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, Arianth 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				
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				
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, Arianth 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, Aриhant 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	53.9	39.3	36.2	31.3
P/CEPS	48.6	36.2	33.3	28.9
P/BV	17.3	14.6	13.8	12.4
EV/EBITDA	38.7	34.1	27.0	23.4
Dividend Yield (%)	1.4%	1.8%	1.9%	2.1%
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, Aриhant Research

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park ,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road
Chakala, Andheri (E).
Mumbai – 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House
E-5 RatlamKothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

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

Research**Analyst****Registration****No.**

INH000002764

Contact

SMS: 'Arihant' to 56677

Websitewww.arihantcapital.com**Email Id**research@arihantcapital.com

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Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880