

**Weak performance amid economic slowdown**

**CMP: Rs 305**

**Rating: Hold**

**Target Price: Rs 340**

**Stock Info**

BSE	531642
NSE	MARICO
Bloomberg	MRCO IN
Reuters	MRCO.BO
Sector	Personal care
Face Value (Rs)	1
Equity Capital (Rs mn)	1290
Mkt Cap (Rs bn)	393
52w H/L (Rs)	404/ 303
Avg Yearly Vol (in 000')	1894

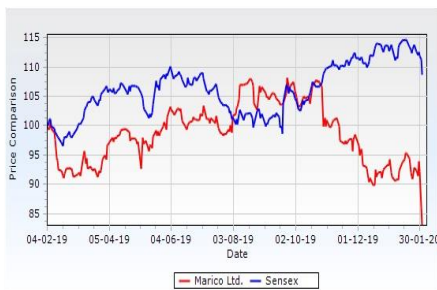
**Shareholding Pattern %**

(As on Dec, 2019)

Promoters	59.46
Public & Others	40.54

Stock Performance (%)	3m	6m	12m
Marico	-17.8	-16.0	-19.1
Sensex	-1.1	7.3	9.0

**Marico Vs Sensex**



Marico's Q3FY20 earnings were below our projections with a miss on revenue and EBITDA while Profit has beat our estimates. The company has reported a rise of 10% in its net profit at Rs 2760mn for the quarter under review as compared to Rs 2510mn for the same quarter in the previous year due to lower tax expenses. However, Net sales dropped by 0.27% at Rs 18240 mn for Q3FY20 as compared Rs 18610mn for the corresponding quarter previous year. The International business made another positive stride, delivering 10% constant currency growth, led by strengthening momentum in Bangladesh and healthy growth in exports to diaspora and other markets. Company has declared an interim dividend of 325% (Rs 3.25 per share) on its paid up equity share capital of INR 1290mn, up from 275% last year.

**Q3FY20 Highlights**

- Parachute Rigid declined by 2% in volume terms. Growth was also affected by pricing corrections hitting the shelves only towards the end of the quarter, post clearing of older inventory in the channel. However, volume market share of the brand strengthened with a gain of 314 bps during the quarter.
- Value Added Hair Oils declined by 7% in volume terms, as category offtakes declined owing to the sharper slowdown in rural markets. The franchise consolidated its volume market share at 35% on a MAT basis.
- Saffola Edible Oils posted 11% volume growth. The brand witnessed some recovery in general trade, in addition to continuing the good run in Modern Trade and E-Commerce.
- Foods grew by 37% in value terms, led by Saffola Masala Oats, as its value market share jumped to 83% (Dec 2019 MAT) in the flavored oats category.

**Valuations**

At CMP of Rs 305, Marico is trading at a P/E of 34x and 30.5x its FY20E and FY21E earnings respectively. We have lowered our revenue estimates owing to its weak performance with fall in volume growth. Due to weakness in VAHO category and Domestic business volume growth was also impacted by weak macro and internal issues, we believe near term upside will remain capped. We value the stocks at a target P/E of 34x its FY21E earnings, which yields a target price of Rs 340 per share. **We maintain our Hold rating on the stock.**

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY18	63,222	11,378	8,276	6.3	18.0	32.0	48.3
FY19	73,340	12,810	11,360	8.7	17.5	37.3	35.2
FY20E	79,657	15,931	11,582	9.0	20.0	38.2	34.0
FY21E	86,030	17,206	12,898	10.0	20.0	39.8	30.0

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

## Q3FY20 Financial Performance

Rs Mn (consolidated)	3QFY20	3QFY19	YoY (%)	2QFY20	QoQ (%)
<b>Net Revenue</b>	<b>18,240</b>	<b>18,610</b>	<b>-0.02</b>	<b>18,290</b>	<b>-0.27%</b>
Material Cost	9,280	10,000	-0.07	9,210	0.76%
Employee cost	1,160	1,200	-0.03	1,270	-8.66%
Other Expenses	4,070	3,820	0.07	4,280	-4.91%
<b>EBITDA</b>	<b>3,730</b>	<b>3,590</b>	<b>0.04</b>	<b>3,530</b>	<b>5.67%</b>
<i>EBITDA margin %</i>	<i>20.4%</i>	<i>19.3%</i>	<i>0.06</i>	<i>19.3%</i>	<i>5.96%</i>
Other Income	290	220	0.32	350	-17.14%
Depreciation	320	310	0.03	350	-8.57%
<b>EBIT</b>	<b>3,700</b>	<b>3,500</b>	<b>0.06</b>	<b>3,530</b>	<b>4.82%</b>
Finance cost	120	90	0.33	130	-7.69%
Exceptional Item	-	-	-	-	-
<b>PBT</b>	<b>3,580</b>	<b>3,410</b>	<b>0.05</b>	<b>3,400</b>	<b>5.29%</b>
Tax Expense	820	900	-0.09	880	-6.82%
Effective tax rate %	22.9%	26.4%	-0.13	25.9%	-11.50%
<b>PAT</b>	<b>2,760</b>	<b>2,510</b>	<b>0.10</b>	<b>2,520</b>	<b>9.52%</b>
MI & Associates	-	-	-	10	-
<b>Consolidated PAT</b>	<b>2,760</b>	<b>2,510</b>	<b>0.10</b>	<b>2,530</b>	<b>9.09%</b>
<i>PAT margin %</i>	<i>15.1%</i>	<i>13.5%</i>	<i>0.12</i>	<i>13.8%</i>	<i>9.39%</i>
<b>EPS (Rs)</b>	<b>2.1</b>	<b>1.9</b>	<b>0.10</b>	<b>1.9</b>	<b>9.90%</b>

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

## Conference Call Highlights

- Domestic business volume growth was impacted by weak macro and internal issues. Category off take across mass non package food categories in India witnessed deceleration on a sequential and Yoy basis. This is the secular trend across the category.
- Lose to branded conversion has drastically slowed down and there has been reverse migration from branded to lose witnessed in certain categories in rural market.
- Whole sale continue to reel in the liquidity pressure.
- Saugata Gupta, MD & CEO, Marico said, "The company witnessed a muted quarter in the India business as channel partners grappled with liquidity constraints and consumption trends failed to bring any cheer.
- Slow down is more pronounced in rural impacting growth of hair oil.
- VAHO: Performance was impacted by under performance of some mid and premium segment where company has to solve equity issue. Adverse mix, price correction and consumer offers led deflation of 10%. The company continues to witness growth in the bottom of pyramid segment driven by Shanti Amla and Shanti Jasmine and some flanker brands.
- Parachute oil declined by 2% while pricing intervention came at the end of this quarter. Growth is expected to come back with market share gain as time progresses.
- VAHO: Hope to resume growth of higher single digit as early as in 2QFY21. After growth comes back the company would target to get double digit growth by end of FY21.
- Other expenses expected to remain in the range of 11-13%.
- Marico's direct reach 1mn outlets. Overall reach is 5mn outlets.

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Profit & Loss Statement				
Particulars (Rs mn)	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	63,222	73,340	79,657	86,030
<i>Change (%)</i>	6.8%	16.0%	8.6%	8.0%
Raw materials	33,482	40,170	41,422	44,735
<b>Gross Profit</b>	<b>29,740</b>	<b>33,170</b>	<b>38,235</b>	<b>41,294</b>
Employee costs	4,222	4,660	4,779	5,162
Other expenses	14,140	15,700	17,525	18,927
<b>Total Expenses</b>	<b>51,844</b>	<b>60,530</b>	<b>63,726</b>	<b>68,824</b>
<b>EBITDA</b>	<b>11,378</b>	<b>12,810</b>	<b>15,931</b>	<b>17,206</b>
Other Income	846	1,030	797	1,376
Depreciation	891	960	1,049	1,139
Interest	162	240	237	246
<b>PBT</b>	<b>11,171</b>	<b>12,640</b>	<b>15,443</b>	<b>17,197</b>
Extra-ordinary	0	0	0	0
<b>PBT after ext-ord.</b>	<b>11,171</b>	<b>12,640</b>	<b>15,443</b>	<b>17,197</b>
Tax	2,896	1,280	3,861	4,299
<i>Rate (%)</i>	25.9%	10.1%	25.0%	25.0%
<b>PAT</b>	<b>8,276</b>	<b>11,360</b>	<b>11,582</b>	<b>12,898</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>11,582</b>	<b>12,898</b>
<i>Change (%)</i>	2.0%	37.3%	3.6%	11.4%
<b>Revenues</b>	63,222	73,340	79,657	86,030
<i>Change (%)</i>	6.8%	16.0%	8.6%	8.0%

Balance Sheet				
YE: Mar (Rs mn)	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	29,028	31,116
<b>Net Worth</b>	<b>25,431</b>	<b>29,991</b>	<b>30,319</b>	<b>32,407</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>34,389</b>	<b>36,627</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	5,456	5,892
Inventories	15,110	14,110	14,186	15,320
Cash & bank balance	2,010	5,088	3,684	4,317
Loans & advances & other CA	2,600	3,330	7,168	7,483
<b>Total Current Assets</b>	<b>23,120</b>	<b>27,698</b>	<b>30,493</b>	<b>33,012</b>
Current liabilities	10,560	12,260	14,622	15,792
Provisions	1,130	1,250	1,250	1,250
<b>Net Current Assets</b>	<b>11,430</b>	<b>14,188</b>	<b>14,621</b>	<b>15,970</b>
<b>Total Assets</b>	<b>29,121</b>	<b>33,911</b>	<b>34,389</b>	<b>36,627</b>

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Cash Flow				
YE: Mar (Rs mn)	FY18	FY19	FY20E	FY21E
<b>PBT</b>	<b>11,171</b>	<b>12,640</b>	<b>15,443</b>	<b>17,197</b>
Depreciation	891	960	1,049	1,139
Interest & others	(815)	(970)	(560)	(1,130)
Cash flow before WC changes	11,247	12,630	15,931	17,206
<b>(Inc)/dec in working capital</b>	<b>(2,763)</b>	<b>150</b>	<b>(1,838)</b>	<b>(716)</b>
Operating CF after WC changes	8,484	12,780	14,094	16,490
Less: Taxes	(2,896)	(1,280)	(3,861)	(4,299)
<b>Operating cash flow</b>	<b>5,588</b>	<b>11,500</b>	<b>10,233</b>	<b>12,191</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>9,233</b>	<b>11,191</b>
Loan raised/(repaid)	699	400	150	150
Equity raised	0	0	0	0
Interest & others	8,562	12,026	(2,397)	(1,671)
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>(10,637)</b>	<b>(10,558)</b>
<b>Net inc /(dec) in cash</b>	<b>7,857</b>	<b>13,966</b>	<b>(1,404)</b>	<b>633</b>
Opening balance of cash	2,360	2,010	5,088	3,684
Closing balance of cash	10,216	15,976	3,684	4,317

Ratios				
Per Share (Rs)	FY18	FY19	FY20E	FY21E
EPS	6.3	8.7	9.0	10.0
CEPS	7.0	9.4	9.8	10.9
BVPS	19.7	23.2	23.5	25.1
DPS	4.9	6.0	6.5	7.0
Payout (%)	78.1%	69.3%	72.4%	70.1%
<b>Valuation (x)</b>				
P/E	48.3	35.2	34.0	30.5
P/CEPS	43.6	32.4	31.2	28.0
P/BV	15.5	13.1	13.0	12.1
EV/EBITDA	34.7	30.6	24.7	22.9
Dividend Yield (%)	1.6%	2.0%	2.1%	2.3%
<b>Return Ratio (%)</b>				
EBIDTA Margin	18.0%	17.5%	20.0%	20.0%
PAT Margin	12.9%	15.2%	14.5%	15.0%
ROE	32.0%	37.3%	38.2%	39.8%
ROCE	36.0%	34.9%	43.3%	43.9%
<b>Leverage Ratio (%)</b>				
Total D/E	0.1	0.1	0.1	0.1
Net D/E	0.0	-0.1	0.0	0.0
<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: Arianth Research, Company Filings, Ace Equity, Bloomberg

**Arihant Research Desk**Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi 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% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

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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