

CMP: Rs 284

Rating: Accumulate

Target Price: Rs 319

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 cr)	36717
52w H/L (Rs)	404/ 234
Avg Yearly Vol (in 000')	2441

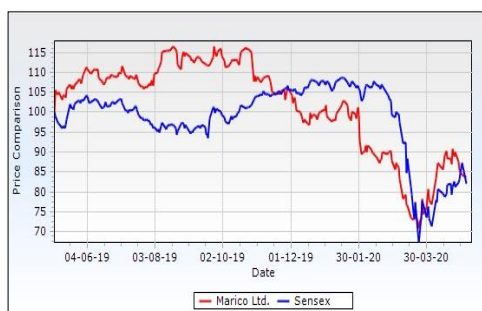
Shareholding Pattern %

(As on Dec, 2019)

Promoters	76.94
Public & Others	23.06

Stock Performance (%)	3m	6m	12m
Marico	-7.4	-22.1	-20.1
Sensex	-22.2	-21.3	-17.8

Marico Vs Sensex



Marico's Q4FY20 earnings were below our projections with a miss on revenue EBITDA and Profit is below our estimates. The company has reported lower net profit at Rs 1990mn for the quarter under review as compared to Rs 4030mn for the same quarter in the previous year due to , one off Tax write back in previous year to the tune of Rs.188 cr & impact of a coronavirus-led shutdown of operations in the last week of March. Net sales dropped by 7.02% at Rs 14960mn for Q4FY20 as compared Rs 16,090mn for the corresponding quarter previous year. EBITDA declined 4.08% YoY to Rs 2820mn for the quarter under review as compared to Rs 2940mn for the same quarter in the previous year. EBITDA margin expanded 50bps to 18.9% despite an adverse product mix (Saffola edible oils has the lowest margin among the core segments).

Q4FY20 Highlights

- **Parachute Rigids** declined by 8% in volume terms, primarily impacted by the disruption in supply chain operations in March leading to negligible sales in the last week. The brand had posted low-single digit volume growth in the first two months of the quarter, as impending pricing corrections and consumer promotions hit the retail shelves from the beginning of the quarter. The brand continued to log volume market share gains in excess of 250 bps during the quarter and on a MAT basis.
- **Saffola Edible** (as of FY20 India business turnover 20%) Oils posted a robust 25% volume growth, continuing its healthy run through the year, coupled with the upsurge in demand for essential items prior to the lockdown.
- **Value Added Hair Oils** declined by 11% in volume terms, as primary sales plummeted in the second half of March with cessation of sales in last week. However, there was a modest decline in secondary volumes during the quarter. The franchise consolidated its volume market share at 35% (MAT Mar' 20).
- **Foods** grew by 22% in value terms, led by the Oats portfolio, as its value market share jumped 354 bps to 33% in the Oats category (MAT Mar'20).

Valuations

At CMP of Rs 284, Marico is trading at a P/E of 35.1x and 32.1 its FY20 and FY22E earnings respectively. We have lowered our revenue estimates owing to factor in the impact of disruption caused by outbreak of COVID-19. Margin expansion despite an adverse product mix is the positive factor. We value the stock at a target P/E of 36x, which yields a target price of Rs 319 per share. **We upgrade our rating to Accumulate from Hold earlier.**

YE March	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
(Rs Mn)							
FY19	73,340	13,260	11,630	9.0	18.1%	38.8%	31.5
FY20	73,150	14,690	10,430	8.1	20.1%	34.4%	35.1
FY21E	73,882	14,776	10,963	8.5	20.0%	36.8%	33.4
FY22E	76,837	15,233	11,423	8.9	20.0%	36.5%	32.1

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

Q4FY20 Financial Performance

Rs Mn (consolidated)	Q4FY20	Q3FY20	Q4FY19	Q-o-Q	Y-o-Y
Net Revenue	14,960	18,240	16,090	-0.27%	-7.02%
Material Cost	7,590	9,280	8,200	0.76%	-7.44%
Employee cost	1,080	1,160	1,170	-8.66%	-7.69%
Other Expenses	3,470	4,070	3,780	-4.91%	-14.74%
EBITDA	2,820	3,730	2,940	5.67%	-4.08%
<i>EBITDA margin %</i>	<i>18.9%</i>	<i>20.4%</i>	<i>18.3%</i>	<i>-160bps</i>	<i>58bps</i>
Other Income	320	290	280	10.34%	14.29%
Depreciation	380	320	390	18.75%	-2.56%
EBIT	2,760	3,700	2,830	-25.41%	-2.47%
Finance cost	130	120	120	8.33%	8.33%
Exceptional Item	-100	-	-	-	-
Share of P/L of joint ventures	-10	-	-10	-	-
PBT	2,520	3,580	2,700	-29.61%	-6.67%
Tax Expense	530	820	-1,330	-35.37%	-139.85%
Effective tax rate %	21.0%	22.9%	-49.3%	-187bps	7029bps
PAT	1,990	2,760	4,030	-27.90%	-50.62%
MI & Associates	-	-	-	-	-
Consolidated PAT	1,990	2,760	4,030	-27.90%	-27.90%
<i>PAT margin %</i>	<i>13.3%</i>	<i>15.1%</i>	<i>25.0%</i>	<i>-183bps</i>	<i>-1174bps</i>
EPS (Rs)	1.5	2.1	3.1	-	-

Conference Call Highlights

- According to management, due to a sudden increase in in-house consumption and out-of-home consumption expected to remain lower in the coming quarters, Saffola and food products will continue to perform well in the coming quarters. Parachute and VAHO are expected to remain soft in the near term and would witness gradual recovery and normalize by Q2FY2021.
- Raw-material prices, including copra prices and other edible oil prices, are expected to remain benign in the near term and will, thus, help support the company's margins. Whole sale continue to reel in the liquidity pressure.
- The company is back to operating its factories at 70-80% capacity. 70-75% of distributors are open, but distribution to stores is happening at a lower level as compared to overall capacity utilization. The distributor's stock has considerably gone down, especially in rural and wholesale channels.
- The company has extended credit period to selective general trade partners due to liquidity stress and is also supporting its channel partners during lockdown. In the situation of lower manpower/logistic issue, the company is helping its distributors to supply its products to retail/kirana shops.

Five Key aspects

- Focus on realigning of portfolio as a result of shift in consumer behaviour and newer trends by launching of products catering to nutrition and hygiene. With reduction in out-of-home consumption and higher in-home cooking, the company is expected to innovate in the packaged foods category to leverage the trend of healthy meals.
- The company expects to focus more on essential category products, including health and hygiene products. Focus would be less on discretionary and semi-essential category products (15% of total revenue) within which the company is expected to focus more on low-value small packs.

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

- Severe disruption in supply chain has given rise to different logistical options. With acceleration in online shopping during the lockdown period, the company intends to focus on e-commerce channel (contributes 5% to sales) as well as on modern trade. The company has come up with new delivery models such as direct edible oil delivery in select metros and cities and partnering with food aggregators for supply of essentials.
- The company intends to moderate its advertisement and promotional spends and reallocate spends from non-media to media channels in the near term and continue its digital spends to scale up the e-commerce channel. The company is expecting to reduce A&P spends by 100-150 bps.
- The company expects to focus on aggressive cost management and resort to various cost-saving initiatives by reducing ad spends as well as certain other expenses. Marico expects OPM for FY2021 to sustain at FY2020 levels of ~20%.
- The company's current distribution reach (indirect) covers 5.3 million outlets with a direct reach of close to 1 million outlets. The company is giving a huge thrust on direct rural distribution; and in urban, the company is especially focusing on chemist and food, which is expected to grow at a good pace. The wholesale channel will continue to remain impacted.
- In view of the heightened need of hygiene and sanitisation among consumers, Marico has launched Mediker hand sanitiser and Veggie Clean, a fruit and vegetable cleaner in India in April 2020. Distribution of the hand sanitiser is being ramped up across all channels, whereas Veggie Clean will be available across modern trade and e-commerce channels. New launches will continue to do well and will further broaden Marico's scope in the hygiene segment for long-term sustainability in performance.
- The company is back to operating its factories at 70-80% capacity. 70-75% of distributors are open, but distribution to stores is happening at a lower level as compared to overall capacity utilisation. The distributor's stock has considerably gone down, especially in rural and wholesale channels.
- On the international business front, Bangladesh and Vietnam are expected to post recovery in revenue growth after being disruptive in Q1FY2021. In Bangladesh, non-oil portfolio is gaining good traction and growing in upwards of 20%. Medium-term growth prospects of Bangladesh business are intact. MENA and South Africa are expected to post slow recovery in performance.

Key Ratios

Year End-March	FY19	FY20	FY21E	FY22E
Per Share (Rs)				
EPS	9.0	8.1	8.5	8.9
CEPS	9.8	9.2	9.4	9.8
BVPS	23.2	23.5	23.1	24.3
DPS	6.0	6.5	7.0	7.5
Payout (%)	66.6%	80.4%	82.4%	84.7%
Valuation (x)				
P/E	31.5	35.1	33.4	32.1
P/CEPS	29.1	31.0	30.3	29.0
P/BV	12.2	12.1	12.3	11.7
EV/EBITDA	27.5	25.0	24.1	23.6
Dividend Yield (%)	2.1%	2.3%	2.5%	2.6%
Return Ratio (%)				
EBITDA Margin	18.1%	20.1%	20.0%	20.0%
PAT Margin	15.9%	14.3%	14.8%	14.9%
ROE	38.8%	34.4%	36.8%	36.5%
ROCE	36.3%	39.0%	40.5%	40.1%
Leverage Ratio (%)				
Total D/E	0.1	0.1	0.1	0.1
Net D/E	-0.1	0.0	-0.3	-0.1
Turnover Ratios				
Asset Turnover (x)	2.2	2.1	2.2	2.2
Inventory Days	128	125	125	126
Receivable Days	26	25	14	26
Payable days	67	67	67	68

Source: Company, Arianth Research

Income Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
Revenues	73,340	73,150	73,882	76,837
Change (%)	16.0%	-0.3%	1.0%	4.0%
Raw materials	40,170	37,450	38,418	39,955
Gross Profit	33,170	35,700	35,463	36,882
Employee costs	4,660	4,780	4,433	4,610
Other expenses	15,250	16,230	16,254	16,904
Total Expenses	60,080	58,460	59,105	61,469
EBITDA	13,260	14,690	14,776	15,367
Other Income	1,030	1,240	1,182	1,306
Depreciation	960	1,400	1,114	1,204
Interest	240	790	228	237
PBT	13,090	13,740	14,617	15,233
Extra-ordinary	0	0	0	1
PBT after ext-ord.	13,090	13,740	14,617	15,232
Tax	1,280	3,310	3,654	3,809
Rate (%)	9.8%	25.0%	25.0%	25.0%
PAT	11,810	10,430	10,963	11,423
MI & Associates	-180	0	0	0
Consolidated PAT	11,630	10,430	10,963	11,423
Change (%)	42.8%	-10.3%	5.1%	4.2%

Source: Company, Arianth Research

Balance Sheet (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
Sources of Funds				
Share Capital	1,291	1,290	1,290	1,290
Reserves & Surplus	28,700	29,000	28,531	30,008
Net Worth	29,991	30,290	29,821	31,298
Loan Funds	3,490	3,350	3,500	3,650
MI, Deferred Tax & other liabilities	430	400	400	400
Capital Employed	33,911	34,040	33,721	35,348
Application of Funds				
Gross Block	10,654	11,374	12,374	13,373
Less: Depreciation	3,531	4,931	6,044	7,248
Net Block	7,123	6,443	6,330	6,125
CWIP	450	580	580	580
Other non current assets	990	1,000	1,000	1,000
Deferred tax assets	1,880	1,590	1,590	1,590
Net Fixed Assets	10,443	9,613	9,500	9,295
Investments	4,250	7,040	7,040	7,040
Debtors	5,170	5,088	2,791	5,473
Inventories	14,110	13,800	13,800	13,793
Cash & bank balance	5,088	2,790	13,181	7,711
Loans & advances & other CA	3,330	3,270	4,261	7,209
Total Current Assets	27,698	24,948	34,033	34,186
Current liabilities	12,260	11,744	13,562	14,315
Provisions	1,250	1,198	1,198	1,198
Net Current Assets	14,188	12,006	19,273	18,673
Total Assets	33,911	34,040	33,721	35,348

Source: Company, Arianth Research

Cash Flow Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
PBT	13,090	13,740	14,617	15,233
Depreciation	960	1,400	1,114	1,204
Interest & others	-970	-450	-955	-1,069
Cash flow before WC changes	13,080	14,690	14,776	15,367
(Inc)/dec in working capital	150	-836	3,124	-4,870
Operating CF after WC changes	13,230	13,854	17,901	10,497
Less: Taxes	-1,280	-3,310	-3,654	-3,809
Operating cash flow	11,950	10,544	14,246	6,688
(Inc)/dec in F.A + CWIP	-3,195	350	-1,000	-999
(Pur)/sale of investment	980	-2,790	0	0
Cash flow from investing	-2,215	-2,440	-1,000	-999
Free cash flow (FCF)	10,905	10,964	13,246	5,689
Loan raised/(repaid)	400	-140	150	150
Equity raised	0	-1	0	0
Interest & others	12,026	-2,974	-4,215	-1,635
Dividend	-7,745	-8,385	-9,030	-9,675
Cash flow from financing activities	4,681	-11,500	-13,095	-11,160
Net inc / (dec) in cash	14,416	-3,396	151	-5,470
Opening balance of cash	2,010	16,426	13,030	13,181
Closing balance of cash	16,426	13,030	13,181	7,711

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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