

BSE SENSEX
 37,577

 S&P CNX
 10,989


Stock Info

	MRCO IN
Bloomberg	MRCO IN
Equity Shares (m)	1,290
M.Cap.(INRb)/(USDb)	336.7 / 4.5
52-Week Range (INR)	404 / 235
1, 6, 12 Rel. Per (%)	4/-23/-14
12M Avg Val (INR M)	756
Free float (%)	40.4

Financials & Valuations (INR b)

Y/E March	2019	2020E	2021E	2022E
Sales	73.3	74.1	80.3	91.4
Sales Gr. (%)	16.0	1.1	8.3	13.9
EBITDA	12.8	14.7	14.2	16.2
EBITDA Margin (%)	17.5	19.9	17.7	17.7
Adj. PAT	9.3	10.5	10.1	11.5
Adj. EPS (INR)	7.2	8.1	7.8	8.9
EPS Gr. (%)	14.3	12.5	-3.7	14.6
BV/Sh.(INR)	23.2	28.8	32.5	35.0

Ratios

RoE (%)	33.6	31.2	25.5	26.5
RoCE (%)	31.0	29.3	24.2	25.1
Payout (%)	76.0	79.4	82.4	72.0

Valuations

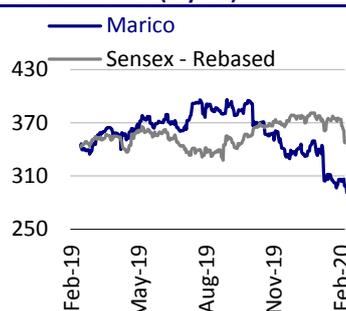
P/E (x)	36.2	32.2	33.4	29.2
P/BV (x)	11.2	9.1	8.0	7.5
EV/EBITDA (x)	25.8	21.9	22.6	19.7
Div. Yield (%)	2.5	2.5	2.5	2.5

Shareholding pattern (%)

As On	Dec-19	Sep-19	Dec-18
Promoter	59.6	59.6	59.7
DII	9.7	8.8	6.0
FII	23.9	25.0	26.5
Others	6.8	6.6	7.8

FII Includes depository receipts

Stock Performance (1-year)


CMP: INR261
TP: INR315 (+21%)
Upgrade to Buy

Sharp correction offers buying opportunity

Upgrade Marico to 'Buy'

- After the requisite (albeit admittedly delayed) price action in its largest brand, Parachute (~30% of sales), Marico's (MRCO) overall volume growth outlook appears relatively better than peers, barring HUVR and Nestle.
- Further, demand for brands like Parachute, Saffola, VAHO and youth products are unlikely to be significantly affected by the Coronavirus.
- While raw material costs are not declining as they were 6 months ago, near-term YoY outlook is highly attractive for all its key raw materials, (Copra, LLP, HDPE and Safflower) due to benign costs. MRCO will also be an incremental beneficiary of lower packaging costs owing to the ongoing crude cost decline.
- The stock has corrected ~35% since we downgraded MRCO to Neutral at the end of 2QFY20 results due to the company reporting a sharp deceleration in volume growth, a trend that has well continued in 3QFY20 results as well.
- Trailing FY20 valuations of 32.2x FY20E EPS and FY21/FY22 valuations of 33.4x/27.5x FY22E respectively (much lower than 3-year/5-year/10-year average of 44.8x/42.7x/ 35.2x) offer potential for an upside. CMP of INR261 is at a four year low. We upgrade the stock to 'Buy' with TP of INR315. Given the uncertain environment, we have attributed a target multiple of 35x, close to its 10-year average; yet, we have obtained 21% upside on the stock. If we value the company on its 5-year average, the upside could be ~47%.
- **Price reduction in Parachute could provide solace on overall volume growth:** Despite the sharp reduction in Copra costs in 1HFY20, Marico's management did not pass on the benefits during this period, underestimating the extent of the consumption slowdown. The company also did not take a sharp price decrease in Parachute as it wanted to utilize the product's sharp gross margin gains to funnel ad-spends, which in turn would boost overall sales and help in scaling up new products. While the organized segment's market share in coconut oil was at an all-time high of 61% at end-3QFY20; the delay in price reduction led to Marico losing market share to the unorganized segment during the few months ending Dec'19, reversing the trend of gains in recent years. However, the sharp price reduction (~13% in the 100ml pack and ~5% in the 250ml pack) taken in Dec'19 brought Parachute's price close to that of the unorganized segment, potentially leading to a gradual revival in its volumes from 1QFY21.
- **Material cost trend remains benign:** While the sharp material cost decline in Copra prices witnessed in 1HFY20 is over, 3QFY20 still witnessed modest low single-digit YoY/QoQ increase in costs. In 3QFY20, LLP costs witnessed 16% YoY decline and were flattish QoQ. HDPE costs on the other hand witnessed 29%/7.2% YoY/QoQ decline. Data in recent months does not show any reversal of this trend. In fact, with the ongoing sharp reduction in crude costs, MRCO could gain more on the gross margin front in the coming months.

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- **Other segments admittedly remain work in progress:** While Parachute (~30% of total sales) is likely to report gradual recovery in volume growth after the price reductions, recovery in Saffola (13%) witnessed in 3QFY20 is at an early stage and cannot yet be termed a turnaround. Similarly, category growth slowdown could continue to impact sales growth prospects in VAHO (20%) for the next couple of quarters. MRCO's international business outlook appears stable, especially in its largest component, Bangladesh (10%). However, the Coronavirus led impact in Vietnam (6%) is projected to lead ~100bp impact to the country's GDP growth. Youth portfolio business growth in India is discretionary and could take more time to recover compared to the other segments. MRCO's brand franchise in this category (its smallest) is also possibly the weakest.
- **Compared to other companies of its size, performance over the last 5 years, while slower than earlier part of the decade, has been much better than peers** that have reported single-digit or declining PAT growth. Nevertheless, over the past 10 years, the company has delivered healthy CAGR of ~11% in top line, 15% in EBITDA and 16% in PAT. However, over the past 5 years, growth while healthy has tapered off with the company's sales at ~5%, EBITDA at 11% and PAT at ~13%.
- **Valuation and view:** The stock has corrected nearly 35% since we downgraded MRCO to Neutral at end-2QFY20 results due to the company reporting a sharp deceleration in volume growth, a trend that has well continued in 3QFY20 results as well.
 - Trailing FY20 valuations of 32.2x FY20E EPS and FY21/FY22 valuations of 33.4x/27.5x FY22E respectively (much lower than 3-year/5-year/10-year average of 44.8x/ 42.7x/35.2x) offers potential for an upside. We upgrade the stock to **'Buy'** with TP of INR315. Given the uncertain environment, we are attributing a target multiple of 35x, close to its 10-year average and yet we obtain 21% upside on the stock. If we value the company on its 5-year average, the upside could be ~47%.
 - Our forecasts are conservative as they assume Copra price inflation in 2HFY21E, and thus, EBITDA margins are expected to reduce by 220bp in FY21E, leading to a small decline in our EPS forecast. If copra inflation does not come through, upsides risks to our forecasts are significant.

Exhibit 1: MRCO reported sharp deceleration in volume growth, a trend that continued in 3QFY20 as well

Volume growth (%)	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20
Asian Paints	13.0	11.0	12.0	2.0	10.0	4.0	9.0	6.0	10.0	10.0	11.0	21.0	10.0	16.0	14.0	11.0
Britannia	10.0	8.0	10.0	2.0	2.0	2.0	5.0	11.0	11.0	11.0	11.0	7.0	7.0	3.0	3.0	3.0
Colgate	3.0	5.0	4.0	(12.0)	(3.0)	(5.0)	(0.9)	12.0	4.0	4.0	7.0	7.0	5.0	4.0	4.0	2.3
Dabur	7.0	4.1	4.5	(5.0)	2.4	(4.4)	7.2	13.0	7.7	21.0	8.1	12.4	4.3	9.6	4.8	5.6
Emami	18.0	18.0	11.0	0.2	(1.5)	(18.0)	10.0	6.0	8.0	18.0	(4.0)	3.5	0.0	0.0	1.0	(2.0)
Godrej Consumer	MSD	LDD	(MSD)	(8.0)	5.0	(9.0)	15.0	15.0	15.0	10.0	10.0	0.0	NA	NA	NA	NA
GSK Consumer	0.0	(6.0)	(3.0)	(17.0)	(1.0)	0.0	2.5	15.0	8.0	12.8	10.8	8.0	6.5	5.4	3.6	3.0
Hindustan Unilever	4.0	4.0	(1.0)	(4.0)	4.0	0.0	4.0	11.0	11.0	12.0	10.0	10.0	7.0	5.0	5.0	5.0
ITC	0.0	3.0	4.0	(1.0)	0.0	1.0	(6.0)	(3.0)	(2.0)	1.0	6.0	7.0	8.0	3.0	2.5	2.5
Jubilant FoodWorks	2.9	(3.2)	4.2	(3.3)	(7.5)	6.5	5.5	17.8	26.5	25.9	20.5	14.6	6.0	4.1	4.9	5.9
Marico																
Domestic	8.4	8.0	3.0	(4.0)	10.0	(9.0)	8.0	9.4	1.0	12.4	6.0	5.0	8.0	6.0	1.0	(1.0)
Parachute	7.0	7.0	(6.0)	(1.0)	15.0	(9.0)	12.0	15.0	(5.0)	9.0	8.0	9.0	6.0	9.0	(1.0)	(2.0)
VAHO	15.0	9.0	11.0	(12.0)	10.0	(8.0)	3.0	8.0	11.0	15.0	5.0	7.0	1.0	7.0	0.0	(7.0)
Saffola	10.0	11.0	8.0	6.0	6.0	(9.0)	12.0	0.0	(1.0)	10.0	5.0	2.0	18.0	3.0	1.0	11.0
Pidilite	6.0	9.0	7.8	(1.5)	7.0	0.0	15.0	23.0	13.0	20.2	11.0	13.0	4.0	6.0	(1.0)	2.0

Source: Company, MOFSL

Exhibit 2: Price reduction in Parachute could provide solace on overall volume growth

Movements in MRP in SKUs	Dec'18	Nov'19	Dec'19
PCNO (100ml)	39	39	34
PCNO (250ml)	105	105	100
QoQ & YoY change (%)			
PCNO (100ml)			-12.8
PCNO (250ml)			-4.8

Source: Company, MOFSL

Exhibit 3: Material cost outlook remains benign

RM change	Cochin/ Kochi Coconut Oil	Copra Calicut/ Kozhikode	Safflower Oil Nominal Bombay	Kardi Oil Jalna	Rice Bran oil	Liquid Paraffin	HDPE
YoY %							
1QFY19	40.1	42.0	20.4	26.0	18.0	12.3	22.2
2QFY19	11.0	6.1	22.0	-0.7	14.2	26.6	29.3
3QFY19	-18.3	-23.0	13.3	5.6	9.7	17.8	21.5
4QFY19	-15.0	-18.7	7.0	11.1	-0.1	-3.2	-9.2
1QFY20	-23.6	-25.3	2.2	19.8	-11.7	-0.5	-21.3
2QFY20	-12.1	-10.0	4.7	23.2	-12.3	-9.2	-27.6
3QFY20	3.2	4.7	8.4	40.9	1.0	-16.6	-29.4
QoQ %							
1QFY19	-3.4	-5.6	4.3	-7.6	9.8	-1.6	9.4
2QFY19	-9.3	-12.5	6.0	-2.7	5.7	3.3	2.7
3QFY19	-12.4	-12.1	-2.3	10.2	-8.0	9.3	-4.8
4QFY19	10.7	11.9	-0.9	12.1	-6.3	-12.9	-15.2
1QFY20	-13.1	-13.2	-0.5	-0.4	-3.0	1.2	-5.2
2QFY20	4.3	5.4	8.6	0.0	4.9	-5.7	-5.4
3QFY20	2.8	2.2	1.2	26.1	5.9	0.4	-7.2

Source: Company, MOFSL

Exhibit 4: Compared to other companies of its size, performance over the last 5 years while slower ...

Y/E March	2015	2016	2017	2018	2019	2020E	5Y CAGR (%)
Net Sales	57,330	60,173	59,178	63,220	73,340	74,126	5.3
Change (%)	22.3	5.0	-1.7	6.8	16.0	1.1	
EBITDA	8,701	10,514	11,593	11,370	12,810	14,749	11.1
Change (%)	16.4	20.8	10.3	-1.9	12.7	15.1	
Margin (%)	15.2	17.5	19.6	18.0	17.5	19.9	470bp
Profit before Taxes	8,217	10,292	11,497	11,170	12,640	14,219	11.6
Change (%)	18.2	27.2	11.7	-2.8	13.2	12.5	
Margin (%)	14.3	17.1	19.4	17.7	17.2	19.2	490bp
Profit after Taxes	5,735	7,233	8,110	8,140	9,300	10,460	12.8
Change (%)	18.1	26.1	12.1	0.4	14.3	12.5	
Margin (%)	10.0	12.0	13.7	12.9	12.7	14.1	410bp

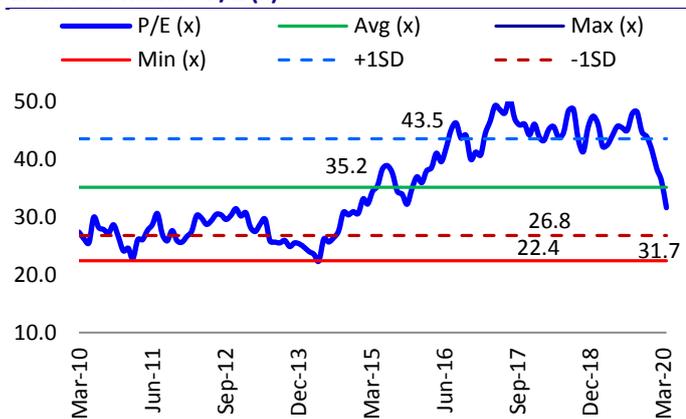
Source: Company, MOFSL

Exhibit 5: ...than earlier part of the decade, has been much better than peers

Y/E March	2010	2011	2012	2013	2014	2015	5Y CAGR (%)	2016
Net Sales	26,608	31,283	39,682	45,843	46,865	57,330	16.6	60,173
Change (%)	11.4	17.6	26.8	15.5	2.2	22.3		5.0
EBITDA	3,751	4,098	4,729	6,140	7,477	8,701	18.3	10,14
Change (%)	23.4	9.2	15.4	29.8	21.8	16.4		20.8
Margin (%)	14.1	13.1	11.9	13.4	16.0	15.2	110bp	17.5
Profit before Taxes	3,076	3,275	4,021	5,187	6,946	8,217	21.7	10,292
Change (%)	25.7	6.5	22.8	29.0	31.9	18.2		27.2
Margin (%)	11.6	10.5	10.1	11.3	14.8	14.3	270bp	17.1
Profit after Taxes	2,414	2,375	3,189	3,627	4,854	5,735	18.9	7,233
Change (%)	19.4	-0.3	33.5	15.0	33.8	18.1		26.1
Margin (%)	9.1	7.6	8.0	7.9	10.4	10.0	90bp	12.0

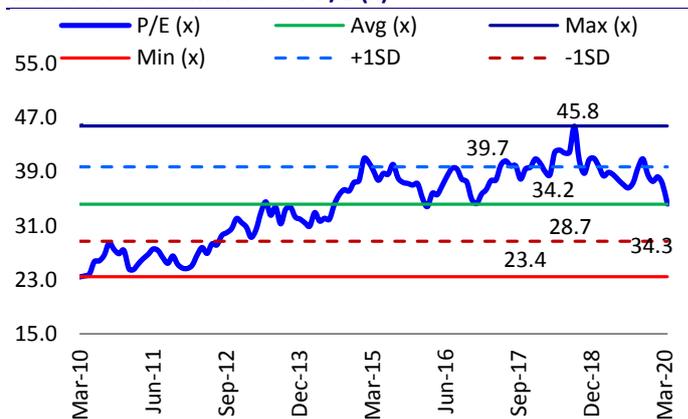
Source: Company, MOFSL

Exhibit 6: Marico P/E (x)



Source: Company, MOFSL

Exhibit 7: Consumer sector P/E (x)



Source: Company, MOFSL

Financials and Valuations

Income Statement								(INR M)
Y/E March	2015	2016	2017	2018	2019	2020E	2021E	2022E
Net Sales	57,330	60,173	59,178	63,220	73,340	74,126	80,260	91,405
Change (%)	22.3	5.0	-1.7	6.8	16.0	1.1	8.3	13.9
COGS	31,356	30,887	28,472	33,720	40,400	38,215	42,863	48,585
Gross Profit	25,974	29,286	30,706	29,500	32,940	35,911	37,397	42,820
Margin (%)	45.3	48.7	51.9	46.7	44.9	48.4	46.6	46.8
Operating Expenses	17,274	18,773	19,113	18,130	20,130	21,162	23,227	26,658
EBITDA	8,701	10,514	11,593	11,370	12,810	14,749	14,170	16,162
Change (%)	16.4	20.8	10.3	-1.9	12.7	15.1	-3.9	14.1
Margin (%)	15.2	17.5	19.6	18.0	17.5	19.9	17.7	17.7
Depreciation	843	949	903	890	960	1,332	1,474	1,636
Int. and Fin. Charges	230	206	166	160	240	427	479	531
Other Income - Recurring	589	933	973	850	1,030	1,229	1,482	1,663
Profit before Taxes	8,217	10,292	11,497	11,170	12,640	14,219	13,699	15,659
Change (%)	18.2	27.2	11.7	-2.8	13.2	12.5	-3.7	14.3
Margin (%)	14.3	17.1	19.4	17.7	17.2	19.2	17.1	17.1
Current Tax (excl MAT Ent)	2,383	2,503	2,922	2,840	3,310	3,508	3,380	3,863
Deferred Tax	-15	551	455	60	-150	71	68	78
Tax Rate (%)	28.8	29.7	29.4	26.0	25.0	25.2	25.2	25.2
Minority Interest	-114	-5	-10	-130	-180	-180	-180	-180
Profit after Taxes	5,735	7,233	8,110	8,140	9,300	10,460	10,071	11,537
Change (%)	18.1	26.1	12.1	0.4	14.3	12.5	-3.7	14.6
Margin (%)	10.0	12.0	13.7	12.9	12.7	14.1	12.5	12.6
Extraordinary items	0	-5	0	0	1,880	0	0	0
Reported PAT	5,735	7,228	8,110	8,140	11,180	10,460	10,071	11,537

Balance Sheet								(INR M)
Y/E March	2015	2016	2017	2018	2019	2020E	2021E	2022E
Share Capital	1,290	1,290	1,291	1,290	1,290	1,290	1,290	1,290
Reserves	16,958	18,884	21,966	24,140	28,700	35,869	40,638	43,874
Net Worth	18,248	20,174	23,257	25,430	29,990	37,159	41,928	45,164
Minority Interest	137	143	133	120	110	110	110	110
Loans	4,279	3,313	2,388	3,090	3,490	3,940	4,390	4,840
Capital Employed	22,664	23,630	25,778	28,640	33,590	41,209	46,428	50,114
Gross Fixed Assets	8,807	6,119	7,440	8,120	9,140	10,490	11,790	13,090
Intangibles	1,034	328	361	600	550	605	605	605
Less: Accum. Deprn.	-3,973	-917	-1,749	-2,480	-3,250	-4,582	-6,056	-7,692
Net Fixed Assets	5,868	5,531	6,053	6,240	6,440	6,513	6,339	6,003
Capital WIP	30	367	112	270	450	150	150	150
Goodwill	4,892	4,974	4,795	4,860	5,030	5,130	5,230	5,330
Investments	2,838	5,439	6,082	5,430	4,500	8,100	10,530	13,689
Curr. Assets, L&A	17,625	16,852	19,191	23,920	29,120	35,575	40,300	42,706
Inventory	9,947	9,256	12,534	15,110	14,110	15,567	16,855	18,829
Account Receivables	1,768	2,521	2,470	3,400	5,170	5,559	6,822	7,312
Cash and Bank Balance	2,049	3,171	2,360	2,010	5,520	9,542	10,945	9,981
Others	3,861	1,904	1,828	3,400	4,320	4,906	5,678	6,583
Curr. Liab. and Prov.	8,511	9,953	10,329	11,880	13,710	14,259	16,121	17,762
Current Liabilities	7,471	8,395	9,040	10,560	12,260	12,753	14,640	16,149
Accounts Payable	5,643	6,690	6,966	8,220	9,440	9,738	11,386	12,636
Provisions	1,040	1,558	1,289	1,320	1,450	1,505	1,481	1,613
Net Current Assets	9,115	6,899	8,862	12,040	15,410	21,316	24,179	24,943
Deferred Tax Liability	-79	421	-125	-200	1,760	0	0	0
Application of Funds	22,664	23,630	25,778	28,640	33,590	41,209	46,428	50,115

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	2015	2016	2017	2018	2019	2020E	2021E	2022E
Basic (INR)								
EPS	4.4	5.6	6.3	6.3	7.2	8.1	7.8	8.9
Cash EPS	5.0	6.3	6.8	7.0	9.4	9.1	8.9	10.2
BV/Share	14.1	15.6	18.0	19.7	23.2	28.8	32.5	35.0
DPS	1.2	3.5	4.3	4.6	6.6	6.4	6.4	6.4
Payout %	28.1	62.4	67.6	72.4	76.0	79.4	82.4	72.0
Valuation (x)								
P/E	58.7	46.5	41.5	41.4	36.2	32.2	33.4	29.2
Cash P/E	52.2	41.2	38.1	37.3	27.7	28.6	29.2	25.6
EV/Sales	5.9	5.5	5.6	5.3	4.5	4.4	4.0	3.5
EV/EBITDA	38.6	31.5	28.5	29.2	25.8	21.9	22.6	19.7
P/BV	18.5	16.7	14.5	13.2	11.2	9.1	8.0	7.5
Dividend Yield (%)	0.5	1.3	1.6	1.7	2.5	2.5	2.5	2.5
Return Ratios (%)								
RoE	36.0	37.7	37.3	33.4	33.6	31.2	25.5	26.5
RoCE	27.7	31.9	33.3	30.8	31.0	29.3	24.2	25.1
RoIC	35.7	41.5	47.4	40.7	40.4	43.1	39.4	42.5
Leverage Ratio								
Debt/Equity (x)	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1

Cash Flow Statement

(INR M)

Y/E March	2015	2016	2017	2018	2019	2020E	2021E	2022E
OP/(loss) before Tax	8,217	10,287	11,487	11,170	12,630	14,219	13,699	15,659
Int./Div. Received	-185	-594	-43	-280	-120	-1,229	-1,482	-1,663
Depreciation	843	949	903	890	960	1,332	1,474	1,636
Interest Paid	39	206	-197	-180	-300	427	479	531
Direct Taxes Paid	-2,097	-2,474	-2,964	-2,950	-3,200	-3,508	-3,380	-3,863
(Incr)/Decr in WC	-169	-197	-2,698	-3,490	210	-1,884	-1,460	-1,729
CF from Operations	6,648	8,176	6,487	5,160	10,180	9,358	9,330	10,571
(Incr)/Decr in FA	-581	-864	-815	-1,280	-1,600	-1,105	-1,300	-1,300
Free Cash Flow	6,068	7,312	5,673	3,880	8,580	8,253	8,030	9,271
(Pur)/Sale of Investments	410	-1,180	15	700	1,030	-3,600	-2,430	-3,159
Others	-2,238	1,000	-760	740	430	7,322	3,613	785
CF from Invest.	-2,408	-1,044	-1,560	160	-140	2,617	-117	-3,674
Issue of Shares	6	5	0	0	0	0	0	0
(Incr)/Decr in Debt	-437	0	0	0	0	450	450	450
Dividend Paid	-3,001	-5,023	-5,088	-6,360	-6,820	-8,495	-8,301	-8,301
Others	-2,824	-992	-652	690	290	93	41	-11
CF from Fin. Activity	-6,255	-6,010	-5,740	-5,670	-6,530	-7,952	-7,810	-7,862
Incr/Decr of Cash	-2,015	1,122	-812	-350	3,510	4,023	1,403	-965
Add: Opening Balance	4,064	2,049	3,171	2,360	2,010	5,520	9,543	10,945
Closing Balance	2,049	3,171	2,360	2,010	5,520	9,543	10,945	9,980

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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