

BSE SENSEX
39,057

S&P CNX
11,713

CMP: INR346

TP: INR460(+33%)

Buy



Stock Info

Bloomberg	MRCO IN
Equity Shares (m)	1,290
M.Cap.(INRb)/(USD\$b)	446.3 / 6.5
52-Week Range (INR)	397 / 286
1, 6, 12 Rel. Per (%)	-5/-3/-12
12M Avg Val (INR M)	661
Free float (%)	40.3

Financials Snapshot (INR b)

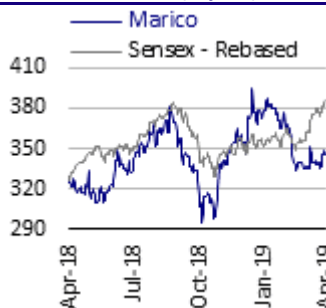
Y/E Mar	2019E	2020E	2021E
Net Sales	73.8	84.5	96.8
EBITDA	13.0	15.6	18.9
PAT	9.5	11.4	13.8
EPS (INR)	7.3	8.8	10.7
Gr. (%)	14.6	19.8	21.2
BV/Sh (INR)	22.5	24.5	25.2
RoE (%)	34.8	37.4	42.9
RoCE (%)	31.3	33.6	38.3
P/E (x)	47.1	39.3	32.4
P/BV (x)	15.3	14.1	13.7

Shareholding pattern (%)

As On	Dec-18	Sep-18	Dec-17
Promoter	59.7	59.7	59.7
DII	6.0	7.4	6.0
FII	26.5	25.3	27.9
Others	7.8	7.7	6.4

FII Includes depository receipts

Stock Performance (1-year)



Good offtake led by stable demand growth

New product development velocity remains strong

Marico (MRCO) released its pre-quarterly update for the quarter ended Mar'19. Key highlights:

- The demand environment remained stable in 4QFY19 with good offtake growth. Rural traction remained intact, exceeding urban growth in the traditional channel. Newer channels (modern trade and e-commerce) are growing robustly. Even CSD has now stabilized, but some slowdown was observed in the wholesale channel, specifically in the month of Mar'18, the reason for which was not mentioned.
- Domestic volume trend in 4QFY19 was in line with the near-term outlook. Parachute (36% of India business) continues performing well, while VAHO (26% of India business) has had a weak quarter. As guided by management in the 3QFY19 earnings call, Saffola edible oils (18% of India business) exhibited signs of a recovery led by marketing initiatives during the quarter, but the company remains cautiously optimistic in the near term.
- Key international regions Bangladesh (45% of international business) and Vietnam performed well. Thus, despite the subdued performance of other markets, the international business witnessed decent growth.
- There were no comments on growth in MRCO's relatively new portfolios (Premium Hair Nourishment, Male Grooming and Healthy Foods).
- Operating margins in 4QFY19 are likely to improve moderately, led by easing input costs pressures and operating leverage. Notably, latest data on copra price (Feb'19) indicate some easing from a bit of a move up in Jan'19. Management had earlier highlighted that it expects a 15-20% cost decline in copra costs from the flush season, starting Mar'19.
- Velocity of new launches remained strong during this quarter.
- **Valuation and view:** Three factors underpin our confidence on MRCO's earnings prospects: (i) the likely benign RM cost environment over the next 18 months (copra accounts for 40-50% of RM cost), (ii) the strong performance of Parachute volumes in recent quarters and healthy growth prospects in the VAHO segment and (c) good traction in new product development. Moreover, with over 30% of sales coming from rural (management is targeting 40%), and particularly with its technological edge over peers, MRCO is also becoming an interesting play on rural growth. Targeting 43x Mar'21E EPS (in line with three-year average), we derive a target price of INR460, a 33% upside to the CMP. From a medium-term (2-3 years) perspective – particularly if the targeted 7-8% of sales come from new products, MRCO is one of the few companies that can deliver 60-70% returns. Maintain **Buy**.

Exhibit 1: 4QFY19 performance update

Segment	Medium-term guidance	4QFY19 comments	Performance
Parachute Coconut Oil	To grow volumes in the range of 5-7%	Parachute Rigids continued to meet expectations	In-line
Value Added Hair Oils (VAHO)	To grow this franchise at double-digit volume growth	VAHO had a weak quarter	Negative
Saffola Edible Oil	To revert to healthy growth trajectory	Saffola Edible Oils has responded very well to focused marketing initiatives during the quarter	Positive
Premium Hair Nourishment/ Male Grooming/ Skin Care	To deliver value CAGR of 20%+	No comments	-
Healthy Foods	Healthy double-digit growth momentum	No comments	-
Domestic	For FY19 and beyond, company is confident of delivering 8-10% volume growth	Domestic business delivered volume growth in line with near-term outlook	In-line
International	Organic broad-based double-digit constant currency growth	Reasonable quarter	In-line

Source: Company, MOFSL

Velocity of new launches continued in 4QFY19 as well. The company...

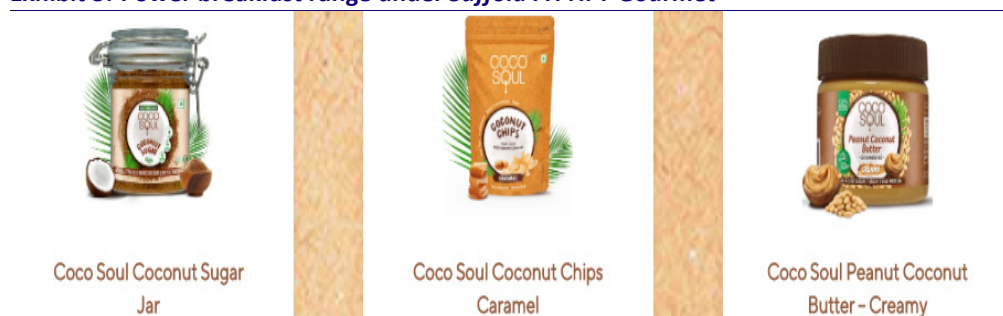
- Launched a new range of skin-care products under a new brand, *Kaya Youth O₂*. The range comprises face cream, face wash, micellar water and face wipes.
- Expanded its range of gourmet food offerings under *Saffola FITTIFY Gourmet* with the launch of a power breakfast range comprising ready-to-cook poha and upma; the offering was made healthier through the inclusion of superfoods such as millets and quinoa.
- In addition to cold-pressed virgin coconut oil, MRCO launched coconut-based organic food offerings under the *Coco Soul* brand - Coconut Sugar, Coconut Chips, Coconut Peanut Butter and Coconut Almond Butter.
- The company also introduced a new charcoal range of male grooming products under the *Set Wet Studio X* brand.

Exhibit 2: Skincare products under a new brand, *Kaya Youth O₂*



Source: Company, MOFSL

Exhibit 3: Power breakfast range under *Saffola FITTIFY Gourmet*



Source: Company, MOFSL

Exhibit 4: Expanded its range of gourmet food offerings under Saffola FITTIFY Gourmet with launch of power breakfast range



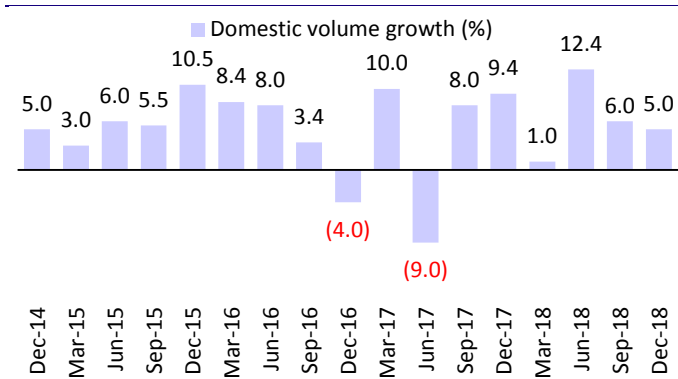
Source: Company, MOFSL

Exhibit 5: Domestic and overall volumes grew by 5% and 6% YoY, respectively, in 3QFY19

Marico India Segment growth (%)	3QFY18		4QFY18		1QFY19		2QFY19		3QFY19	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Parachute Rigid	15.0	41.0	(5.0)	24.0	9.0	38.0	8.0	32.0	9.0	19.0
Saffola (Refined Edible Oil)	0.0	(4.0)	(1.0)	(3.0)	10.0	9.0	5.0	9.0	2.0	8.0
Value added hair oils	8.0	7.0	11.0	9.0	15.0	12.0	5.0	12.0	7.0	19.0
Domestic Business	9.4	15.0	1.0	12.0	12.4	23.0	6.0	20.0	5.0	13.0

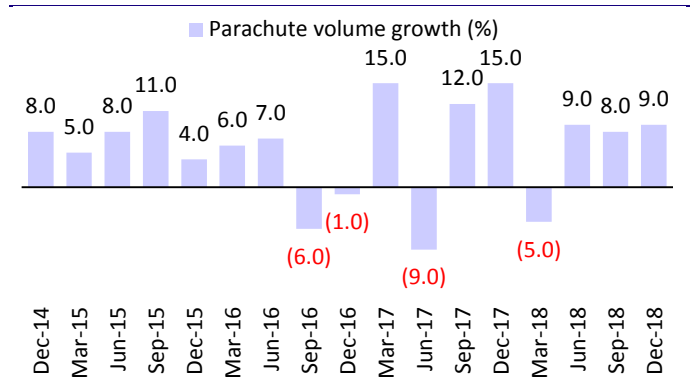
Source: Company, MOFSL

Exhibit 6: Domestic volumes grew by 5% in 3QFY19...



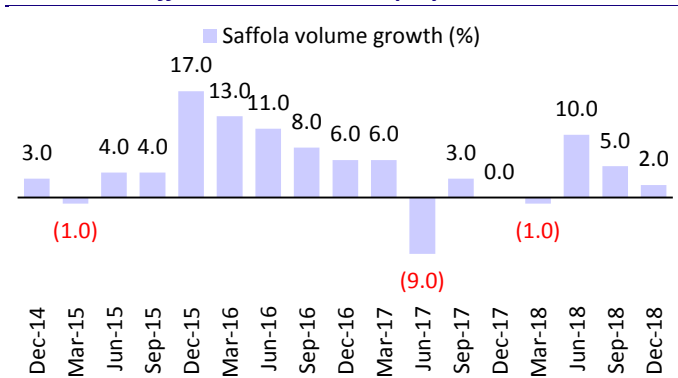
Source: MOFSL, Company

Exhibit 7: ..with Parachute rigid volumes up 9%



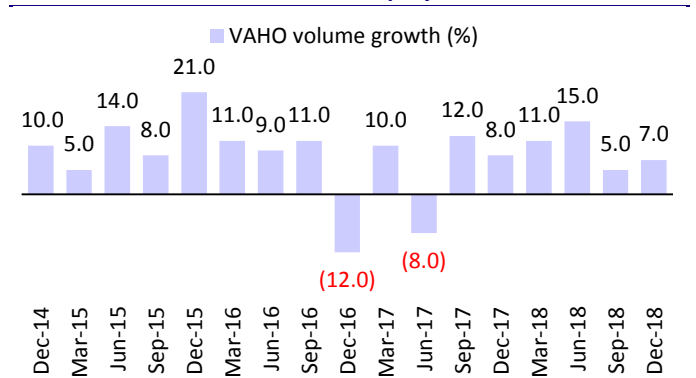
Source: MOFSL, Company

Exhibit 8: ..Saffola volumes were up by 2%



Source: MOFSL, Company

Exhibit 9: ..VAHO volumes were up by 7%



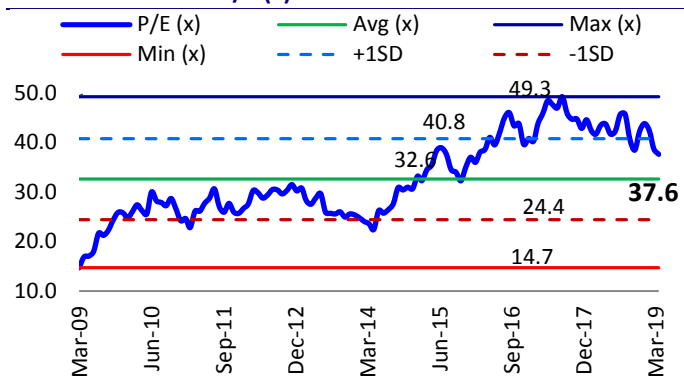
Source: MOFSL, Company

Exhibit 10: Consolidated segmental details

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Sales (INR m)									
Domestic	10,811	10,352	13,275	12,000	12,846	11,570	16,276	14,389	14,494
International	3,354	2,869	3,649	3,363	3,397	3,230	3,992	3,980	4,116
Total	14,165	13,222	16,924	15,363	16,243	14,800	20,268	18,368	18,610
EBIT									
Domestic	2,521	2,509	2,750	2,180	2,708	2,400	2,976	2,457	2,852
International	489	217	737	583	441	340	793	705	787
Total	3,010	2,726	3,487	2,763	3,149	2,740	3,769	3,162	3,639
EBIT margins									
Domestic EBIT margins	23.30%	24.20%	20.70%	18.20%	21.10%	20.7	18.30%	17.10%	19.70%
International EBIT margins	14.60%	7.50%	20.20%	17.30%	13.00%	10.5	19.90%	17.70%	19.10%
Total	21.20%	20.60%	20.60%	18.00%	19.40%	18.5	18.60%	17.20%	19.60%

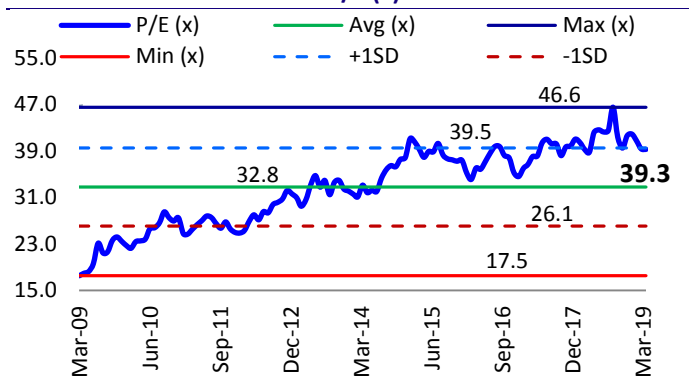
Source: Company, MOFSL

Exhibit 11: Marico P/E (x)



Source: Company, MOFSL

Exhibit 12: Consumer sector P/E (x)



Source: Company, MOFSL

Financials and Valuations

Income Statement							(INR m)
Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
Net Sales	57,330	60,173	59,178	63,222	73,834	84,478	96,791
Change (%)	22.3	5.0	-1.7	6.8	16.8	14.4	14.6
COGS	31,356	30,887	28,472	33,719	40,718	44,511	48,729
Gross Profit	25,974	29,286	30,706	29,503	33,116	39,967	48,062
Margin (%)	45.3	48.7	51.9	46.7	44.9	47.3	49.7
EBITDA	8,701	10,514	11,593	11,378	12,969	15,557	18,860
Change (%)	16.4	20.8	10.3	-1.9	14.0	20.0	21.2
Margin (%)	15.2	17.5	19.6	18.0	17.6	18.4	19.5
Depreciation	843	949	903	891	899	956	1,009
Int. and Fin. Charges	230	206	166	162	201	228	255
Other Income - Recurring	589	933	973	846	950	982	1,011
Profit before Taxes	8,217	10,292	11,497	11,172	12,818	15,355	18,607
Change (%)	18.2	27.2	11.7	-2.8	14.7	19.8	21.2
Margin (%)	14.3	17.1	19.4	17.7	17.4	18.2	19.2
Current Tax (excl MAT Ent)	2,383	2,503	2,922	2,841	3,269	3,915	4,745
Deferred Tax	-15	551	455	55	64	77	93
Tax Rate (%)	28.8	29.7	29.4	25.9	26.0	26.0	26.0
Minority Interest	-114	-5	-10	-1	-1	-1	-1
Profit after Taxes	5,735	7,233	8,110	8,275	9,484	11,361	13,768
Change (%)	18.1	26.1	12.1	2.0	14.6	19.8	21.2
Margin (%)	10.0	12.0	13.7	13.1	12.8	13.4	14.2
Reported PAT	5,735	7,228	8,110	8,275	9,484	11,361	13,768

Balance Sheet							(INR m)
Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
Share Capital	1,290	1,290	1,291	1,291	1,291	1,291	1,291
Reserves	16,958	18,884	21,966	24,138	27,818	30,341	31,271
Net Worth	18,248	20,174	23,257	25,429	29,109	31,632	32,562
Minority Interest	137	143	133	125	125	125	125
Loans	4,279	3,313	2,388	3,127	3,577	4,027	4,477
Capital Employed	22,664	23,630	25,778	28,681	32,811	35,784	37,164
Gross Fixed Assets	8,807	6,119	7,440	8,119	9,369	10,619	11,869
Intangibles	1,034	328	361	716	605	605	605
Less: Accum. Depn.	-3,973	-917	-1,749	-2,589	-3,489	-4,444	-5,453
Net Fixed Assets	5,868	5,531	6,053	6,245	6,485	6,780	7,021
Capital WIP	30	367	112	268	268	268	268
Goodwill	4,892	4,974	4,795	4,858	4,858	4,858	4,858
Investments	2,838	5,439	6,082	5,428	6,242	6,866	7,553
Curr. Assets, L&A	17,625	16,852	19,191	23,923	28,535	32,807	34,961
Inventory	9,947	9,256	12,534	15,109	16,190	18,585	19,358
Account Receivables	1,768	2,521	2,470	3,406	5,519	6,336	7,259
Cash and Bank Balance	2,049	3,171	2,360	2,001	2,737	2,979	2,946
Others	3,861	1,904	1,828	3,407	4,089	4,907	5,397
Curr. Liab. and Prov.	8,511	9,953	10,329	11,840	13,355	15,537	17,189
Current Liabilities	7,471	8,395	9,040	10,517	11,976	13,969	15,520
Accounts Payable	5,643	6,690	6,966	8,217	9,490	11,286	12,625
Provisions	1,040	1,558	1,289	1,323	1,379	1,568	1,668
Net Current Assets	9,115	6,899	8,862	12,083	15,180	17,270	17,772
Deferred Tax Liability	-79	421	-125	-202	-223	-258	-308
Application of Funds	22,664	23,630	25,778	28,681	32,811	35,784	37,164

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
Basic (INR)							
EPS	4.4	5.6	6.3	6.4	7.3	8.8	10.7
Cash EPS	5.0	6.3	6.8	7.1	8.0	9.5	11.4
BV/Share	14.1	15.6	18.0	19.7	22.5	24.5	25.2
DPS	1.2	3.5	4.3	5.0	6.5	8.5	8.5
Payout %	28.1	62.4	67.6	78.6	88.5	96.6	79.7
Valuation (x)							
P/E	77.8	61.7	55.0	53.9	47.1	39.3	32.4
Cash P/E	69.1	54.5	50.5	48.7	43.0	36.2	30.2
EV/Sales	7.8	7.3	7.4	7.0	6.0	5.2	4.5
EV/EBITDA	51.2	41.9	38.0	38.8	34.0	28.3	23.3
P/BV	24.4	22.1	19.2	17.5	15.3	14.1	13.7
Dividend Yield (%)	0.4	1.0	1.2	1.5	1.9	2.5	2.5
Return Ratios (%)							
RoE	36.0	37.7	37.3	34.0	34.8	37.4	42.9
RoCE	27.7	31.9	33.3	30.8	31.3	33.6	38.3
RoIC	35.7	41.5	47.4	40.7	40.1	43.9	50.7
Leverage Ratio							
Debt/Equity (x)	0.2	0.2	0.1	0.1	0.1	0.1	0.1

Cash Flow Statement

Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
(INR m)							
OP/(loss) before Tax	8,217	10,287	11,487	11,170	12,818	15,355	18,607
Int./Div. Received	-185	-594	-43	-327	-950	-982	-1,011
Depreciation	843	949	903	891	899	956	1,009
Interest Paid	39	206	-197	-174	201	228	255
Direct Taxes Paid	-2,097	-2,474	-2,964	-2,949	-3,269	-3,915	-4,745
(Incr)/Decr in WC	-169	-197	-2,698	-3,065	-2,361	-1,847	-536
CF from Operations	6,648	8,176	6,487	5,545	7,339	9,794	13,579
(Incr)/Decr in FA	-581	-864	-815	-1,231	-1,139	-1,250	-1,250
Free Cash Flow	6,068	7,312	5,673	4,314	6,200	8,544	12,329
(Pur)/Sale of Investments	410	-1,180	15	697	-814	-624	-687
Others	-2,238	1,000	-760	305	1,805	1,073	122
CF from Invest.	-2,408	-1,044	-1,560	-229	-149	-801	-1,814
Issue of Shares	6	5	0	0	0	0	0
(Incr)/Decr in Debt	-437	0	0	0	450	450	450
Dividend Paid	-3,001	-5,023	-5,088	-6,357	-7,548	-9,817	-12,838
Others	-2,824	-992	-652	682	643	616	589
CF from Fin. Activity	-6,255	-6,010	-5,740	-5,675	-6,454	-8,751	-11,799
Incr/Decr of Cash	-2,015	1,122	-812	-358	736	242	-33
Add: Opening Balance	4,064	2,049	3,171	2,360	2,001	2,737	2,979
Closing Balance	2,049	3,171	2,360	2,001	2,737	2,979	2,946

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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