

Industry Cons. Staples
Bloomberg MRCO IN
BSE CODE 531642

Strong performance led by higher realization.

RATING	BUY
CMP	338
Price Target	415
Potential Upside	23%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	388/284
Mkt Capital (Rs Cr)	43612
Free float (%)	40%
Avg. Vol 1M (,000)	2286
No. of Shares	129
Promoters Pledged %	NA

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Key Highlights -

- Marico's numbers for Q2FY19 remained better than our expectation, Sales grew by 20% YoY to Rs 1837 cr(vs our expec. of Rs 1763 cr) while PAT grew by 18% to Rs 218 cr(vs expec.202 cr).
- Overall volume growth for the quarter remained 6% led by Parachute Rigid, Saffola and VAHO which grew by 8%,5% and 5% respectively.
- Strong sales grow. driven by higher realization mainly led by Parachute Rigid (~24%).
- International business(IB) bounced back in this quarter, grew by 11% in cc terms while in value terms it grew by 18%. Currency impacted ~700 bps positively.
- Gross margin declined 299 bps YoY led higher input prices although copra (~45-50% RM) has started declining. While Ebitda margin declined by 86 bps YoY. Lower other, Ad and employee expenses has arrested the Ebitda margin decline to 86 bps.

2Q FY19 Results-

Marico's sales grew by 20% led by higher realization mainly in Parachute Rigid while volume growth remained 6% led by better performance in Parachute which grew by 8% on a higher base. IB has recorded a growth of 11 % in cc terms with a volume growth of 8%. Currency benefits remained ~700 bps. Vietnam business which was facing problems for last few quarters bounced back in this quarter with 13% growth in cc terms. Bangladesh continues to grow at stable pace and grew by 10% in cc terms. Gross margin declined by 299 bps led by higher prices of Rice Bran Oil, LLP and HDPE by 20%, 26% and 29% YoY respectively while copra price were up by 6%but down by 12% QoQ. PAT grew by 18%.

View and Valuation

Marico has reported numbers better than our expectations, sales grew by 20% while PAT growth remained 18% for this quarter. IB has also shown strong performance led by turn around in East Asia business. Going forward, we expect 9%domestic volume growth for FY19e and FY20e each led by recovery in the volume of Saffola (half of the problem is solved) and VAHO. IB is expected to do better due to better growth in Vietnam(new launches & market share gain), Bangladesh(product diversification) and Mena business. Tailwinds in terms of lower copra prices and premiumization will help in margin improvement in 2HFY19.Considering strong Q2FY19 numbers we have increased our sales and PAT by 3%/3% and 1%/2% respectively and slightly changed our target price to 415(45x FY20e's eps) from 409 and maintain BUY.

Key Risks to our rating and target

- Lower volume growth led by tapering of rural demand & slower decline in copra price.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	6024	5936	6333	7497	8648
EBITDA	1051	1159	1138	1305	1632
EBIT	957	1069	1049	1218	1543
PAT	723	811	827	946	1189
EPS (Rs)	6	6	6	7	9
EPS growth (%)	26%	12%	2%	14%	26%
ROE (%)	36%	35%	33%	35%	40%
ROCE (%)	47%	46%	41%	44%	51%
BV	16	18	20	21	23
P/B (X)	16	18	17	16	15
P/E (x)	47	52	52	46	37

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2Q FY 19 Results**Better than our expectation.**

<i>Financials</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>FY17</i>	<i>FY18</i>	<i>YoY %</i>
Net Sales	1,536	1,624	1,480	2,027	1,837	19.6%	-9.4%	5,936	6,333	6.7%
Other Income	21	17	23	24	29	36.2%	21.7%	97	85	-13.0%
COGS	814	869	790	1,170	1,029	26.3%	-12.1%	2,849	3,359	17.9%
Gross Margin	47%	47%	47%	42%	44%	-3.0%	1.7%	52%	47%	-5.0%
Employ. Cost	108	103	103	115	115	6.5%	-0.1%	404	422	4.5%
Other Expen.	355	351	335	388	400	12.5%	3.1%	1,523	1,414	-7.2%
EBITDA	259	302	252	355	294	13.5%	-17.1%	1,159	1,138	-1.9%
EBITDA Mar.	17%	19%	17%	18%	16%	-0.9%	-1.5%	20%	18%	-1.6%
Depreciation	24	21	23	22	22	-4.8%	-0.2%	90	89	-1.4%
EBIT	236	281	229	332	272	15.3%	-18.3%	1,069	1,049	-1.9%
Interest	4	4	5	5	6	61.1%	7.2%	17	16	-2.5%
PBT	254	294	247	351	296	16.7%	-15.7%	1,150	1,117	-2.8%
Exceptional Item	-	-	-	-	-	-	-	-	-	-
Tax	68	71	64	91	78	14.3%	-15.0%	338	290	-14.3%
PAT	185	223	183	260	218	18.0%	-16.0%	811	827	2.0%
PAT Margin	12%	14%	12%	13%	12%	-0.2%	-0.9%	14%	13%	-1%

Witnessed strong domestic business growth led by improvement in realization.

The company has posted strong sales number led by improvement in realization by ~14% backed by better realization from Parachute rigid(~24%). While the Company has reported domestic volume growth of 6% YoY backed by volume growth in its key categories like Parachute rigid, VAHO and Saffola (Refined Edible Oil) portfolio by 8%, 5% and 5% YoY respectively. The volume growth in VAHO remained subdued on account of change in ordering patterns in CSD.

IB posed better performance led by broad based cc growth and currency impact

IB grew by 11% in cc terms with a volume growth of 8% wherein all countries posted descent growth. Bangladesh (~ 45% of IB) posted a growth of 10% YoY(Volume gr. 3% YoY) in cc terms. The company will continue to diversify its product portfolio in Bangladesh in coming quarters. Positive remain Vietnam business, which after a 5 consecutive quarters of degrowth posted a cc growth of 13%. Despite of various macro headwinds in MENA regions and South Africa the business there posted a cc growth of 19% and 18% YoY. The company has a positive outlook towards its International business and expects double digit cc growth from here in FY19e.

Gross margin declined due to inflation in key input prices

Gross margin declined by 299 bps on account of increase in prices of key inputs i.e. Rice Bran Oil, Liquid Paraffin (LLP) and HDPE were up by 20%, 26% and 29% YoY respectively while copra price were up by 6%but down by 12% QoQ. Going forward, we expect declining trend to continue in copra as deflation cycle(18-24 months) has started.

Concall Highlights

- ❑ Consumption is stable but sluggish monsoon in September may impact the rural growth.
- ❑ Management is focused towards protecting market share in lower unit packs and simultaneously invests in premium segment to boost premiumization.
- ❑ Some benefits of lower copra prices will be invested in A&P while taking judicious call in margin protection and volume growth.
- ❑ The company aspires for 8-10% volume growth from Indian business in FY19e.
- ❑ Management is confident of double digit constant currency growth from International business in FY19e.
- ❑ The company is investing towards predictive analysis which will make business more stable.
- ❑ Copra deflation cycle (18-24 months) has been started due to which margin is expected to remain better in 2HFY19.
- ❑ Change in structures and automation have led to lower employee expenses.
- ❑ Male grooming category is at inflection point. Management is confident on strong growth from this in coming few years and quarters.

Exhibit: Parachute Rigid Volume Growth

Parachute rigid has shown strong performance and grew by 8% on the higher base of 12%.

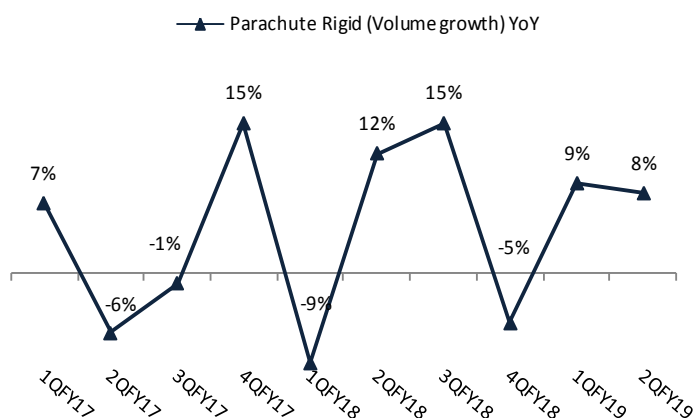


Exhibit: Saffola Volume Growth

Half of problem has shorted out for Saffola, rest will be shorted out in coming quarters, grew by 5% in Q2FY19.

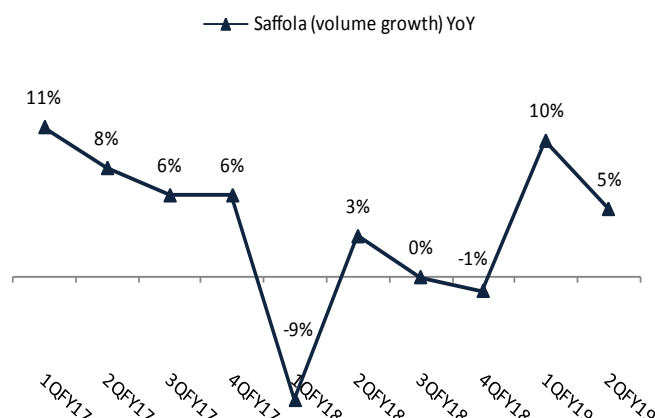


Exhibit: Value Added Hair oil Volume Growth

VAHO has witnessed muted growth due to contraction in CSD channels.

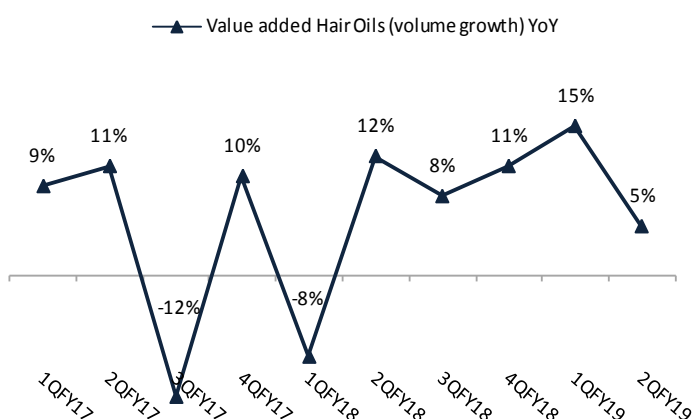


Exhibit: Sales and Sales Growth

Marico has posted strong sales numbers led by higher realization in Parachute rigid portfolio.

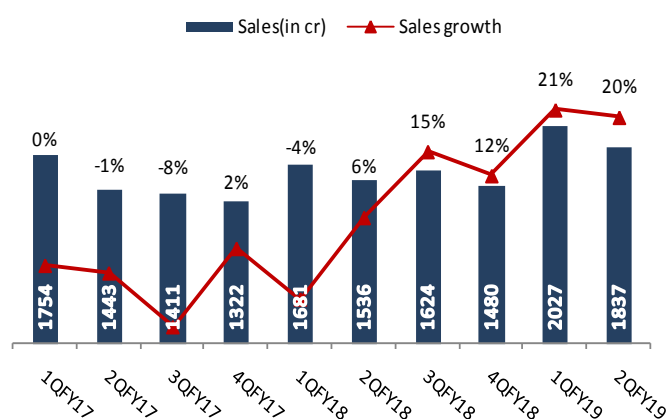


Exhibit: Gross and EBITDA Margin

Gross margin declined by 299 bps led by higher copra(6%), Rice Bran Oil(20%), LLP(26%) and HDPE(29%).

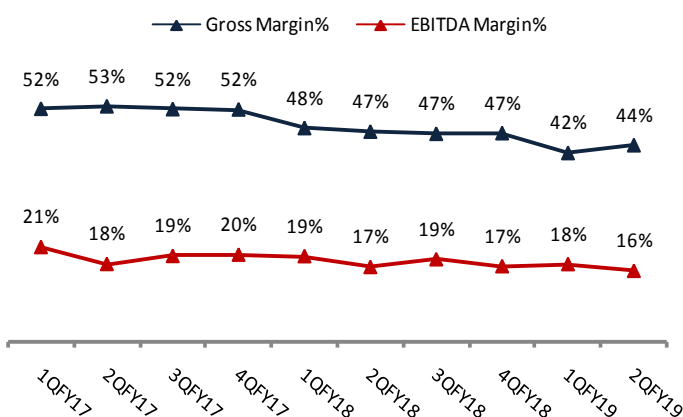
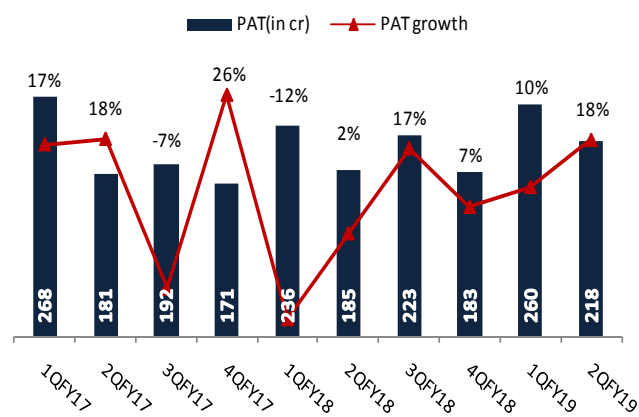


Exhibit: PAT and PAT Growth

PAT growth remained 18% for the quarter while PAT margin contracted by 16 bps YoY.



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	64	64	65	129	129	129	129	129
Reserves	1,917	1,296	1,760	1,888	2,197	2,414	2,611	2,858
Networth	1,982	1,361	1,825	2,017	2,326	2,543	2,740	2,987
Debt	791	526	334	153	239	309	309	309
Other Non Current Liab	-	-	-	-	-	-	-	-
Total Capital Employed	2,414	1,612	1,994	2,017	2,326	2,563	2,760	3,007
Net Fixed Assets (incl CWIP)	1,422	638	590	590	586	622	613	619
Non Current Investments	38	50	46	43	58	37	37	37
Other Non Current Assets	143	155	121	31	18	32	32	32
Non Current Assets	2,118	1,158	1,296	1,274	1,218	1,288	1,279	1,286
Inventory	863	796	995	926	1,253	1,511	1,788	2,063
Debtors	197	223	177	252	247	341	403	465
Cash & Bank	267	406	205	93	34	51	211	395
Other Current Assets	14	34	36	116	98	250	296	341
Current Assets	1,589	1,807	1,829	2,107	2,382	2,793	3,190	3,620
Creditors	478	503	564	669	697	822	973	1,122
Provisions	111	82	95	51	56	57	68	78
Other Current Liabilities	294	445	277	140	120	161	190	219
Curr Liabilities	883	1,030	936	1,161	984	1,168	1,359	1,548
Net Current Assets	707	777	893	946	1,398	1,625	1,831	2,072
Total Assets	3,707	2,965	3,125	3,381	3,600	4,081	4,470	4,906

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	4,596	4,687	5,733	6,024	5,936	6,333	7,497	8,648
Change (%)		2%	22%	5%	-1%	7%	18%	15%
EBITDA	626	748	870	1,051	1,159	1,138	1,305	1,632
Change (%)		20%	16%	21%	10%	-2%	15%	25%
Margin (%)	14%	16%	15%	17%	20%	18%	17%	19%
Depr & Amor.	87	77	84	95	90	89	87	89
EBIT	539	671	786	957	1,069	1,049	1,218	1,543
Int. & other fin. Cost	58	34	23	21	17	16	16	16
Other Income	38	58	59	93	97	85	96	99
EBT	519	695	822	1,029	1,150	1,117	1,298	1,626
Exp Item	33	-	-	-	-	-	-	-
Tax	146	190	237	305	338	290	351	437
Minority Int & P/L share of Ass.	10	19	11	1	1	-	-	-
Reported PAT	396	485	573	723	811	827	946	1,189
Adjusted PAT	372	485	573	723	811	827	946	1,189
Change (%)		23%	18%	26%	12%	2%	14%	26%
Margin(%)	8%	10%	10%	12%	14%	13%	13%	14%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	20%	36%	31%	36%	35%	33%	35%	40%
ROCE	22%	42%	39%	47%	46%	41%	44%	51%
Asset Turnover	1	2	2	2	2	2	2	2
Debtor Days	16	17	11	15	15	20	20	20
Inv Days	69	62	63	55	77	87	87	87
Payable Days	10	9	10	9	9	8	8	8
Int Coverage	9	19	34	46	64	65	75	95
P/E	35	28	44	47	52	52	46	37
Price / Book Value	14	10	14	16	18	17	16	15
EV/EBITDA	22	9	14	32	36	38	33	26
FCF per Share	(9)	9	9	6	4	3	6	8
Div Yield	0%	4%	1%	1%	1%	1%	1%	2%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	552	695	822	1,034	1,149	1,117	1,298	1,626
(inc)/Dec in Working Capital	(95)	88	(17)	(0)	(270)	(306)	(195)	(193)
Non Cash Op Exp	59	68	78	84	82	49	87	89
Int Paid (+)	58	34	23	20	17	16	16	16
Tax Paid	(110)	(181)	(210)	(246)	(296)	(295)	(351)	(437)
others	(31)	(43)	(31)	(59)	(32)	(26)	-	-
CF from Op. Activities	432	660	665	833	649	555	854	1,101
(inc)/Dec in FA & CWIP	(992)	(77)	(59)	(101)	(87)	(128)	(87)	(99)
Free Cashflow	(560)	583	606	732	562	427	767	1,002
(Pur)/Sale of Inv	148	(197)	41	(118)	1	70	(0)	136
others	11	70	(161)	(17)	(6)	75	9	4
CF from Inv. Activities	(832)	(204)	(179)	(235)	(92)	17	(79)	41
inc/(dec) in NW	498	1	1	1	0	0	-	-
inc/(dec) in Debt	69	(145)	(269)	(46)	(67)	69	-	-
Int. Paid	(58)	(35)	(23)	(20)	(17)	(16)	(16)	(16)
Div Paid (inc tax)	(67)	(142)	(300)	(502)	(509)	(636)	(749)	(942)
others	0	(18)	(34)	(11)	19	15	-	-
CF from Fin. Activities	442	(339)	(625)	(580)	(574)	(567)	(765)	(958)
Inc(Dec) in Cash	44	144	(147)	17	(51)	8	10	184
Add: Opening Balance	61	105	224	77	93	43	200	211
Closing Balance	105	224	77	91	43	51	210	395

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