

Marico Limited

Industry Con. Staples
Bloomberg MRCO IN
BSE CODE 531642

Better traction from Parachute and IB ; Saffola's volume struggles

RATING	BUY
CMP	368
Price Target	460
Potential Upside	25%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	397/284
Mkt Capital (Rs Cr)	47104
Free float (%)	40%
Avg. Vol 1M (,000)	1539
No. of Shares (Crs)	129
Promoters Pledged %	NA

Research Analyst

RAJEEV ANAND
rajeev.anand@narnolia.com
+91-22-62701229

3QFY19 Result update

- Sales grew by 15% YoY to Rs.1861 Crs (vs expect. Rs.1847 crs), with an underlying overall volume growth of 6% and constant currency(cc) growth of 11% in the International business(IB).
- Domestic volume growth for the quarter remained 5% YoY led by Parachute Rigid, VAHO and Saffola which grew by 9%, 7% and 2% respectively while company reported strong Value growth of 13%, driven by price hikes taken in the core portfolios to counter the input cost inflation over the last year.
- Marico's International business grew by 11% in cc terms, led by broad-based volume growth across key markets wherein Bangladesh & Vietnam witnessed topline growth of 16% & 15% in cc terms respectively.
- Due to softening in copra prices, gross margin expanded by 230 bps QoQ and declined 39 bps YoY to 46.3% while, EBITDA margin expanded by 20 bps to 18.8% lead by decline in Ad expenses and other ex. by 20 and 55 bps respectively.
- PAT stood at Rs.252 Crs posting growth of 13%(lower than EBITDA growth of 16%) due to higher Tax expense. Provisioning of Taxes in this quarter increased by 257 bps YoY to 26.6%.

View and Valuation

Marico's numbers for Q3FY19 remained inline with our estimates; sales, EBITDA and PAT were up by 15%,16% and 13% respectively to Rs 1861 cr(expe. Rs 1847 cr),Rs 999 cr(expe. Rs 981 cr) and Rs252 cr(expe. Rs 260 cr). Domestic volume growth for the quarter remained 5% while International business (IB) grew by 11%in cc terms led by better performance of Bangladesh (16% cc growth) and Vietnam (15% cc growth). Saffola's volume growth remained dampener, up by 2%YoY(expec. 6%) while Parachute Rigid grew much better and clocked 9% volume growth(expec. 5%). Going forward, we expect gradual recovery in volume of Saffola on the back of focused communication while Parachute Rigid and VAHO to lead the domestic volume growth backed by improvement in demand scenario (rural& urban) and new launches. IB is expected to do better backed by better growth in Vietnam (new launches & market share gain) and Bangladesh(product diversification). Tailwinds in terms of lower copra prices (expects 15-20% correction in FY20e) and premiumization will help in margin improvement going forward although company will keep investing some of benefits in brand building. We continue to remain positive on Marico and maintain our BUY rating with the previous target price of Rs 460(50x FY20e eps).

Key Risks to our rating and target

- Sharp increase in Copra prices.
- Effect of currency movement on International Business.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	6024	5936	6333	7458	8596
EBITDA	1051	1159	1138	1312	1621
EBIT	957	1069	1049	1224	1533
PAT	723	811	827	956	1194
EPS (Rs)	6	6	6	7	9
EPS growth (%)	26%	12%	2%	16%	25%
ROE (%)	36%	35%	33%	35%	40%
ROCE (%)	47%	46%	41%	44%	51%
BV	16	18	20	21	23
P/B (X)	16.3	18.2	16.9	17.3	15.9
P/E (x)	47.1	52.2	52.1	49.6	39.8

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3QFY19 Results

In line with expectation

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	1,624	1,480	2,027	1,837	1,861	14.6%	1.3%	5,936	6,333	6.7%
Other Income	18	23	24	29	22	18.8%	-26.2%	97	85	-13.0%
COGS	866	790	1,170	1,029	999	15.4%	-2.9%	2,849	3,359	17.9%
Gross Margin	47%	47%	42%	44%	46%	-0.4%	2.3%	52%	47%	-5.0%
Employee Ex.	103	103	115	115	120	17.4%	5.1%	404	422	4.5%
Adv. Ex.	147	117	166	176	164	12.1%	-6.5%	-	-	0.0%
Other Expen.	208	217	222	224	228	9.6%	1.9%	1,523	1,414	-7.2%
EBITDA	301	252	355	294	349	15.8%	18.7%	1,159	1,138	-1.9%
EBITDA Mar.	19%	17%	18%	16%	19%	0.2%	2.7%	20%	18%	-1.6%
Depreciation	21	23	22	22	23	5.9%	0.8%	90	89	-1.4%
EBIT	280	229	332	272	326	17%	20.1%	1,069	1,049	-1.9%
Interest	4	5	5	6	5	23%	-15.5%	17	16	-2.5%
PBT	294	247	351	295	343	16.6%	16.2%	1,150	1,117	-2.8%
Exceptional	-	-	-	-	-	0.0%	0.0%	-	-	0.0%
Tax	71	64	91	78	91	29.0%	17.8%	338	290	-14.3%
PAT	223	183	260	218	252	12.7%	15.7%	811	827	2.0%
PAT Margin	14%	12%	13%	12%	14%	-0.2%	1.7%	14%	13%	-0.6%

Better sales growth with market share gain in Parachute (flagship brand)

Sales grew by 15% YoY to Rs.1861 Crs, with an underlying overall & domestic volume growth 6% & 5% respectively. Parachute Rigids grew by 9% in volume terms with market share gain in flagship brand. Value Added Hair Oils posted 7% volume growth with volume market share at ~34%, Hair & Care Dry Fruit Oil was new launch in this quarter. Saffola Oils grew 2% in volumes due to slower recovery in traditional channels and higher competitive intensity which company will be solving in coming quarters, company launched Saffola FITTIFY Gourmet range of foods and beverages offering superfood nutrition. Premium Hair Nourishment and Male Grooming, continuing their good run, grew 38% and 13% in value terms, respectively. The initial response to Parachute Advanced Coconut Crème Oil and True Roots Botanical Hair Tonic has been positive. IB grew by 11% in cc terms, led by broad-based volume growth across key markets wherein Bangladesh & Vietnam witnessed topline growth of 16% & 15% in cc terms respectively while Africa region had muted quarter due to macro headwinds in the region.

Low copra prices positively impacted margins

Due to softening in copra prices, gross margin expanded by 230 bps QoQ and declined 39 bps YoY to 46.3% while, EBITDA margin expanded by 20 bps to 18.8% lead by decline in Ad expenses and other ex. by 20 and 55 bps respectively. During the quarter, the average market price of domestic copra was down 23% YoY and down 12% sequentially while other key inputs prices like Rice Bran Oil, Safflower Oil, Liquid Paraffin (LLP) and HDPE were up 10%, 6%, 18% and 21%, respectively on YoY basis.

Concall Highlights

- Rural, Modern trade (MT) & E-commerce continue to grow healthily while witnessed slight recovery in CSD. General Trade(GT) urban remained muted. Mgmt. expects to deliver around 8% volume growth & double digit cc growth in Int. business (IB) in medium term.
- Company is expecting 18%+ margin in FY20. Copra Prices are expected to ease once the flush season begins in Q1FY20. Management expects 15-20% correction in copra in FY20.
- Company has strong new product development (NPD) pipeline, expected to launch many products in foods category and male grooming segment through MT and digital channels.
- Saffola: Company expects slow improvement in Saffola & expected to give 5-6% growth in H2. Company needs to solve promotion strategy, driving innovation in super premium category & improve its modern trade & general trade channel.
- Hair OIL: The Company aims to achieve 5-7% volumes from this segment into next year. In VAHO, company is focusing more on Premium products while keeping eye on LUP's. Marico has also launched Hair & Care Dry Fruit Oil in Q3FY19. Company will aggressively invest in Rs.10 lower unit packs of hair oil. Next year company will be focusing on both hair fall control & non sticky hair oil.
- International Business (IB): In IB, there is still more opportunity for reducing Fixed OH Exp. Africa region is struggling due to macro headwinds in the region. In Bangladesh, company will be entering Baby care category in this week and it is confident of delivering double-digit constant currency growth in this geography in the medium term.

Exhibit: Parachute Rigid Volume Growth (%)

Parachute Rigids grew by 9% in volumes terms led by market share gain in flagship brand.

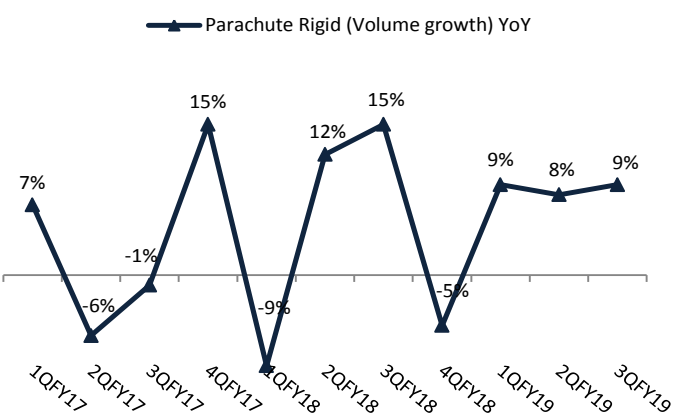


Exhibit: Saffola Volume Growth (%)

Saffola edible oil clocked muted growth on the back of slower recovery in traditional channels.

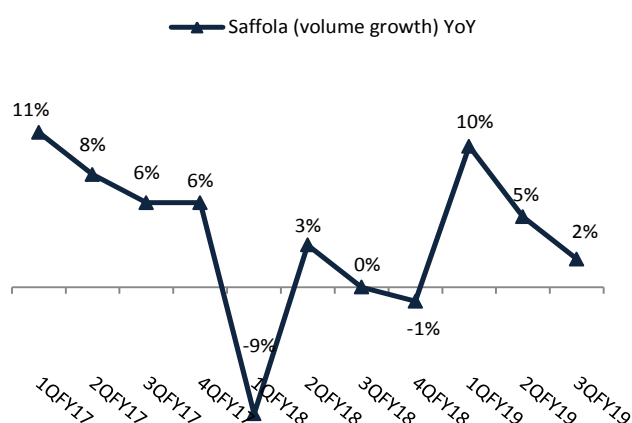


Exhibit: Value Added Hair oil Volume Growth (%)

VAHO registered a volume growth of 7% with offtake growth in line with the category.

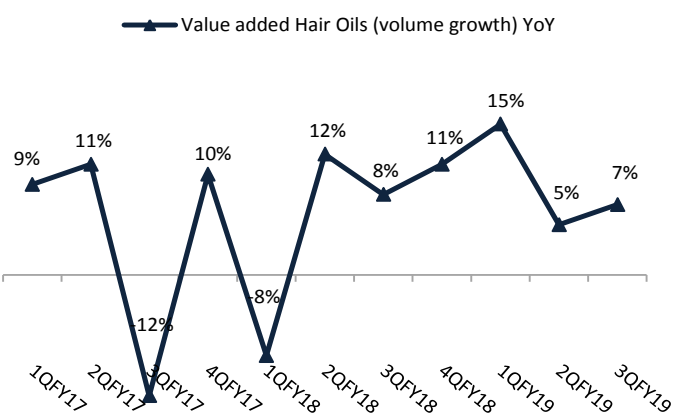


Exhibit: Sales and Sales Growth (%)

Sales grew by 15% YoY to Rs 1861 led by better pricing led growth in domestic market and better IB growth.

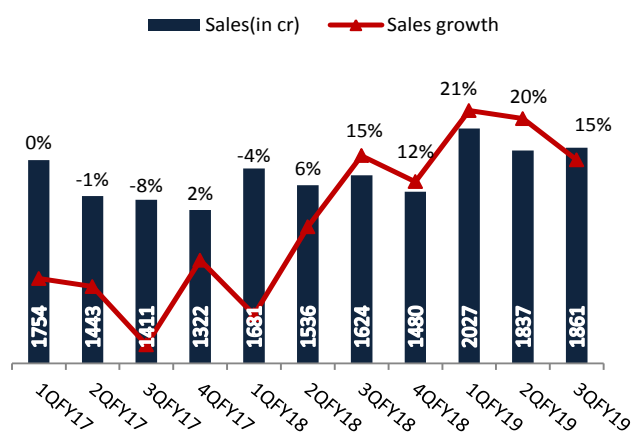


Exhibit: Gross and EBITDA Margin (%)

Gross margin declined 39 bps YoY & expanded by 230 bps QoQ due to softening in copra prices.

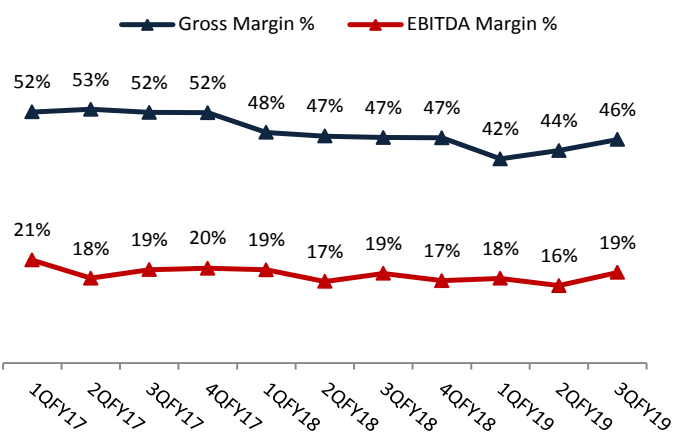
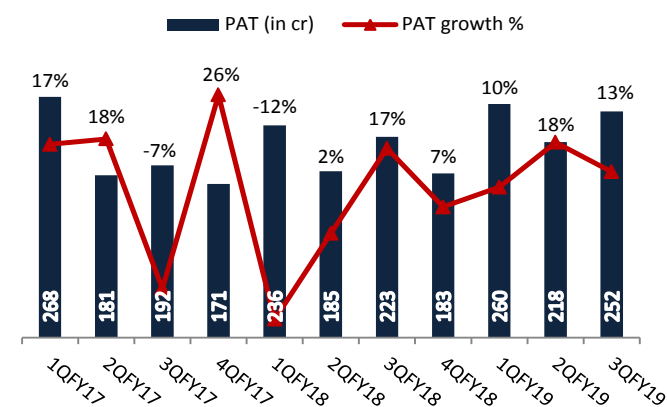


Exhibit: PAT and PAT Growth (%)

PAT stood at Rs.252 Crs posting growth of 13% (lower than EBITDA growth of 16%) due to higher Tax expense.



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	2,613	2,862
Networth	1,982	1,361	1,825	2,017	2,326	2,543	2,742	2,991
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	2,762	3,010
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	1,779	2,051
Debtors	197	223	177	252	247	341	401	462
Cash & Bank	267	406	205	93	34	51	219	262
Other Current Assets	14	34	36	116	98	250	294	339
Current Assets	1,589	1,807	1,829	2,107	2,382	2,793	3,186	3,615
Creditors	478	503	564	669	697	822	968	1,115
Provisions	111	82	95	51	56	57	67	78
Other Current Liabilities	294	445	277	140	120	161	189	218
Curr Liabilities	883	1,030	936	1,161	984	1,168	1,353	1,539
Net Current Assets	707	777	893	946	1,398	1,625	1,833	2,075
Total Assets	3,707	2,965	3,125	3,381	3,600	4,081	4,465	4,900

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	7,458	8,596
Change (%)		2%	22%	5%	-1%	7%	18%	15%
EBITDA	626	748	870	1,051	1,159	1,138	1,312	1,621
Change (%)		20%	16%	21%	10%	-2%	15%	24%
Margin (%)	14%	16%	15%	17%	20%	18%	18%	19%
Depr & Amor.	87	77	84	95	90	89	87	89
EBIT	539	671	786	957	1,069	1,049	1,224	1,533
Int. & other fin. Cost	58	34	23	21	17	16	22	17
Other Income	38	58	59	93	97	85	96	100
EBT	519	695	822	1,029	1,150	1,117	1,299	1,616
Exp Item	33	-	-	-	-	-	-	-
Tax	146	190	237	305	338	290	343	422
Minority Int & P/L share of Ass.	10	19	11	1	1	-	-	-
Reported PAT	396	485	573	723	811	827	956	1,194
Adjusted PAT	372	485	573	723	811	827	956	1,194
Change (%)		23%	18%	26%	12%	2%	16%	25%
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	56	89
P/E	35	28	44	47	52	52	50	40
Price / Book Value	14	10	14	16	18	17	17	16
EV/EBITDA	22	9	14	32	36	38	36	29
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	1,299	1,616
(inc)/Dec in Working Capital	(95)	88	(17)	(0)	(270)	(306)	(189)	(191)
Non Cash Op Exp	59	68	78	84	82	49	87	89
Int Paid (+)	58	34	23	20	17	16	22	17
Tax Paid	(110)	(181)	(210)	(246)	(296)	(295)	(343)	(422)
others	(31)	(43)	(31)	(59)	(32)	(26)	-	-
CF from Op. Activities	432	660	665	833	649	555	877	1,109
(inc)/Dec in FA & CWIP	(992)	(77)	(59)	(101)	(87)	(128)	(87)	(99)
Free Cashflow	(560)	583	606	732	562	427	789	1,010
(Pur)/Sale of Inv	148	(197)	41	(118)	1	70	(0)	(9)
others	11	70	(161)	(17)	(6)	75	9	4
CF from Inv. Activities	(832)	(204)	(179)	(235)	(92)	17	(79)	(104)
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)	(22)	(17)
Div Paid (inc tax)	(67)	(142)	(300)	(502)	(509)	(636)	(757)	(946)
others	0	(18)	(34)	(11)	19	15	-	-
CF from Fin. Activities	442	(339)	(625)	(580)	(574)	(567)	(779)	(963)
Inc(Dec) in Cash	44	144	(147)	17	(51)	8	19	42
Add: Opening Balance	61	105	224	77	93	43	200	220
Closing Balance	105	224	77	91	43	51	219	262

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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