

Marico Limited

Industry Consum. Staples
Bloomberg MRCO IN
BSE CODE 531642

Muted domestic business growth impacted by rural slowdown

RATING	HOLD
CMP	393
Price Target	431
Potential Upside	10%

Rating Change	↓
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	404/296
Mkt Capital (Rs Cr)	50,786
Free float (%)	40%
Avg. Vol 1M (,000)	1756
No. of Shares (Cr)	129
Promoters Pledged %	NA

Research Analyst

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2QFY20 Result update

- ❑ MARICO reported mixed set of numbers; Sales stood at Rs 1829 cr (vs. expect. Rs 1990 cr) showing a decline of 0.4% YoY on back of 3% decline in domestic business value growth and low domestic volume growth of 1% on account of liquidity crunch and low consumption in market.
- ❑ The company's International business reported 8% value growth and 9% in constant currency terms led by broad based growth in Bangladesh of 15% in constant currency while in remaining markets it had a flat quarter.
- ❑ Impacted by market scenario, Parachute rigid reported de-growth of 1% while Saffola had growth of 1% and Value Added Hair Oils (VAHO) was flat in volume terms on YoY basis.
- ❑ Gross margin reported at 49.6%, an expansion of 565 bps on YoY basis and 214 bps on QoQ basis led favorable prices of copra & crude.
- ❑ EBITDA margin expanded by 271 bps YoY to 19.3%, lower expansion in comparison to gross margin on account of higher A&P expenses & other expenses by 119 bps & 103 bps respectively.
- ❑ PAT grew by 17% to Rs 253 cr (vs. expect. Rs 256 cr) and PAT margin was at 13.8% improvement of 207 bps YoY.

View and Valuation

The company had a challenging quarter for domestic business, impacted by low consumption environment. Low input prices led to strong gross margin expansion, expected to have better margins in the near term also. The Company will continue to ride over innovation strategy to expand foods division. Going forward, company's distribution expansion and rejig distribution channel with improvement in demand scenario on the back of government initiatives will drive the growth. While considering rural slowdown and time lag in stabilization of distribution channels, we reduced sales and PAT estimates for FY20/FY21 by 4%/3% and 1%/4% respectively and reduced our target price from 445 to 431 with HOLD rating.

Key Risks to our rating and target

- ❑ Sharp increase in copra prices.
- ❑ High Volatility in currencies & its impact on International business.

Conso/Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	5936	6322	7334	7613	8556
EBITDA	1159	1138	1328	1504	1665
EBIT	1069	1049	1196	1364	1533
PAT	811	827	1132	1076	1222
EPS (Rs)	6	6	9	8	9
EPS growth (%)	12%	2%	37%	-5%	14%
ROE (%)	35%	33%	38%	33%	35%
ROCE (%)	46%	41%	40%	42%	44%
BV	18	20	23	25	27
P/B (X)	18.2	16.9	14.9	15.7	14.6
P/E (x)	52.2	52.1	39.4	47.1	41.5

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2QFY20 Results

Mixed numbers

Conso/Fig in Rs Cr

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,837	1,861	1,609	2,166	1,829	-0.4%	-15.6%	6,322	7,334	16.0%
Other Income	29	22	28	28	35	20.7%	25.0%	85	103	21.7%
COGS	1,028	999	820	1,137	921	-10.4%	-19.0%	3,348	4,017	20.0%
Gross Margin	44%	46%	49%	48%	50%	5.6%	2.1%	47%	45%	-1.8%
Empl. Cost	115	120	117	127	127	10.4%	0.0%	422	466	10.4%
Ad. Expense	176	164	153	219	197	11.9%	-10.0%	588	659	12.1%
Other Exp.	213	228	224	222	231	8.5%	4.1%	827	864	4.5%
EBITDA	305	349	295	461	353	15.7%	-23.4%	1,138	1,328	16.7%
EBITDA Mar.	17%	19%	18%	21%	19%	2.7%	-2.0%	18%	18%	0.1%
Depreciation	31	23	38	35	35	12.9%	0.0%	89	132	48.2%
EBIT	274	326	257	426	318	16.1%	-25.4%	1,049	1,196	14.0%
Interest	10	5	12	12	13	30.0%	8.3%	16	40	147.4%
PBT	293	343	273	442	340	16.0%	-23.1%	1,117	1,258	12.6%
Excep. Item	-	-	-	19	-	-	-	-	-	-
Tax	78	91	(133)	108	88	12.8%	-18.5%	290	126	-56.5%
PAT	216	252	405	315	253	17.1%	-19.7%	827	1,132	36.8%
PAT Margin	12%	14%	25%	15%	14%	2.1%	-0.7%	13%	15%	2.3%

Concall Highlights

- The company witnessed significant sequential slow down in VAHO and coconut oil categories especially in rural impacted by consumption slowdown especially in rural and tight liquidity in wholesale channel.
- Situation was further aggravated by stress in urban general trade channel.
- Taking reference from current slowdown, management believes certain slow down in the up gradation from unorganised to organised and in certain cases there may be down gradation from branded to loose in the core categories.
- The company will continue to invest behind A&P.
- Considering benign input prices 19 plus margin is achievable.
- Management is looking some focused pricing action in Parachute to make conversion pack more attractive among consumer in next couple of week.
- The management expects mid single digit growth from India business in 2H if consumption improves.
- VAHO: expected to see some recovery in 2H.
- International business: high single digit cc growth is possible in 2HFY20 if recovery in South Asia business happens it will reach to higher 10% level.
- Saffola continues to be an issue. The company is in process of sorting out the assortment strategy across the channels and also planning to ramp up of distribution expansion in 1 Lt pack to get incremental growth in 2H.
- The company has started three large steps in the Go to market to redeploy spends: 1. Improve partner profitability in GT mainly urban, 2. conversion of non performing trade schemes in to consumer advantage pricing and 3. driving differentiated assortment across the channel to reduce channel conflicts.
- The company is experimenting with alternate supply chain models for delivery to retail outlets presently in Delhi and Mumbai, this process is taking time to stabilize.
- The company has added 1500 stockiest this year especially in North and East.
- Copra price is expected to remain benign for at least 6 months.

Exhibit: Parachute Rigid Volume Growth (%)

It declined by 1% in volume terms and still continued improving market share, gained 22 bps in 2QFY20.

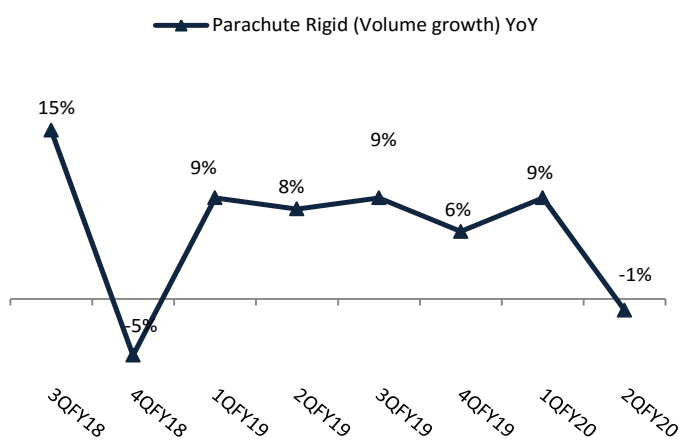


Exhibit: Saffola Volume Growth (%)

Saffola refined edible oils grew by 1% in volume terms, healthy growth coming from MT & E-commerce.

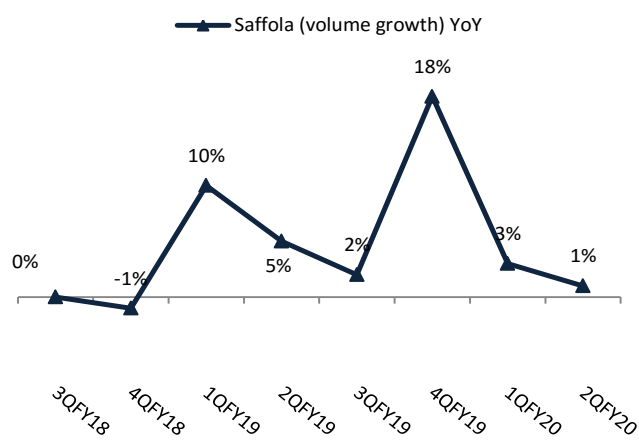


Exhibit: Internationa Business (CC growth %)

International business grew by 9% in constant currency terms led by strong growth in Bangladesh.

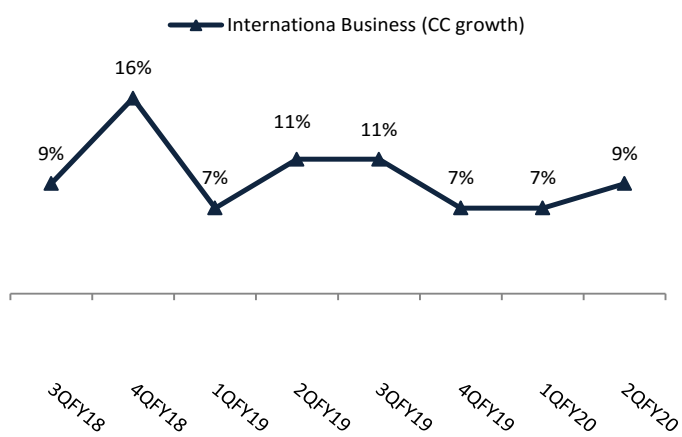


Exhibit: Sales and Sales Growth (%)

Muted sales growth led by slow domestic volume growth of 1% led by low consumption scenario.

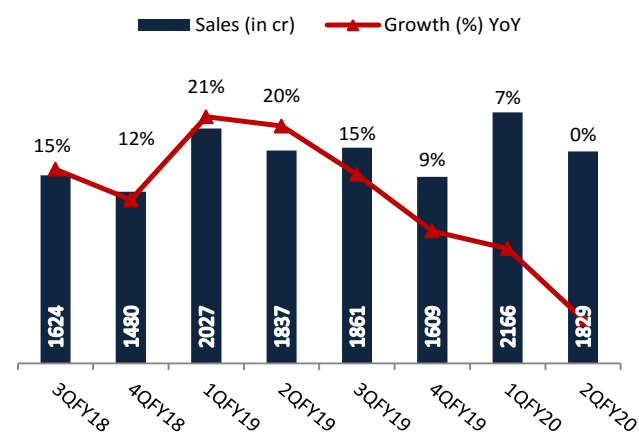


Exhibit: Gross and EBITDA Margin (%)

Gross margin reported at 49.6%, an expansion of 565 bps and EBITDA margin at 19.3%, up by 271 bps YoY.

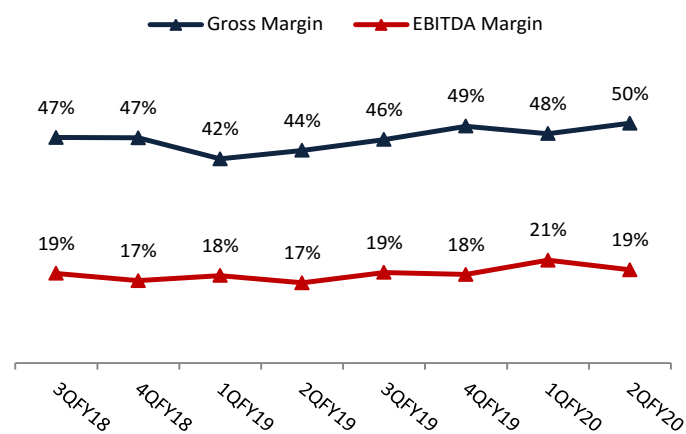
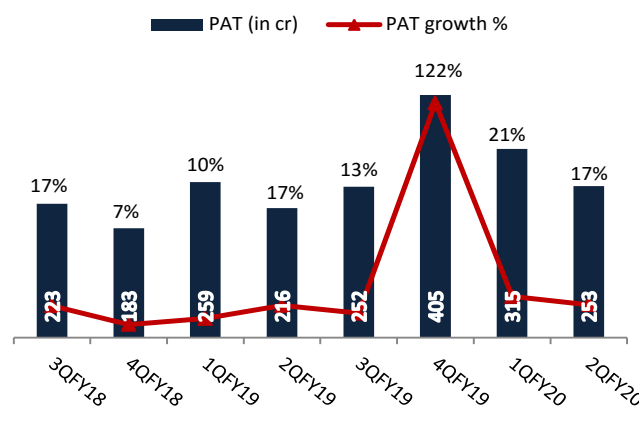


Exhibit: PAT and PAT Growth (%)

PAT grew by 17% to Rs 253 cr (vs. expect. Rs 256 cr) and PAT margin at 13.8% improvement of 207 bps YoY.



Financial Details

Balance Sheet

Conso/Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	64	65	129	129	129	129	129	129
Reserves	1,296	1,760	1,888	2,197	2,414	2,920	3,094	3,348
Networth	1,361	1,825	2,017	2,326	2,543	3,049	3,223	3,477
Debt	526	334	153	239	309	349	266	266
Other Non Current Liab	-	-	-	-	-	-	-	-
Total Capital Employed	1,612	1,994	2,017	2,326	2,563	3,013	3,237	3,491
Net Fixed Assets (incl CWIP)	638	590	590	586	622	672	633	602
Non Current Investments	50	46	43	58	37	34	34	34
Other Non Current Assets	155	121	31	18	32	35	35	35
Non Current Assets	1,158	1,296	1,274	1,218	1,288	1,542	1,499	1,468
Inventory	796	995	926	1,253	1,511	1,411	1,465	1,646
Debtors	223	177	252	247	341	517	537	603
Cash & Bank	406	205	93	34	51	48	605	651
Other Current Assets	34	36	116	98	250	308	320	359
Current Assets	1,807	1,829	2,107	2,382	2,793	3,200	3,430	3,868
Creditors	503	564	669	697	822	944	980	1,101
Provisions	82	95	51	56	57	57	59	66
Other Current Liabilities	445	277	140	120	161	196	203	229
Curr Liabilities	1,030	936	1,161	984	1,168	1,351	1,397	1,550
Net Current Assets	777	893	946	1,398	1,625	1,849	2,033	2,318
Total Assets	2,965	3,125	3,381	3,600	4,081	4,742	4,929	5,337

Income Statement

Conso/Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	4,687	5,733	6,024	5,936	6,322	7,334	7,613	8,556
Change (%)	2%	22%	5%	-1%	7%	16%	4%	12%
EBITDA	748	870	1,051	1,159	1,138	1,328	1,504	1,665
Change (%)	20%	16%	21%	10%	-2%	17%	13%	11%
Margin (%)	16%	15%	17%	20%	18%	18%	20%	19%
Depr & Amor.	77	84	95	90	89	132	140	132
EBIT	671	786	957	1,069	1,049	1,196	1,364	1,533
Int. & other fin. Cost	34	23	21	17	16	40	45	45
Other Income	58	59	93	97	85	103	120	143
EBT	695	822	1,029	1,150	1,117	1,258	1,439	1,632
Exp Item	-	-	-	-	-	-	-	-
Tax	190	237	305	338	290	126	362	409
Minority Int & P/L share of Ass.	19	11	1	1	-	-	-	-
Reported PAT	485	573	723	811	827	1,132	1,076	1,222
Adjusted PAT	485	573	723	811	827	1,132	1,076	1,222
Change (%)	0	18%	26%	12%	2%	37%	-5%	14%
Margin(%)	10%	10%	12%	14%	13%	15%	14%	14%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	36%	31%	36%	35%	33%	38%	33%	35%
ROCE	42%	39%	47%	46%	41%	40%	42%	44%
Asset Turnover	2	2	2	2	2	2	2	2
Debtor Days	17	11	15	15	20	26	26	26
Inv Days	62	63	55	77	87	70	70	70
Payable Days	39	36	40	43	47	47	47	47
Int Coverage	19	34	46	64	65	30	30	34
P/E	28	44	47	52	52	39	47	42
Price / Book Value	10	14	16	18	17	15	16	15
EV/EBITDA	9	14	32	36	38	34	33	30
FCF per Share	9	9	6	4	3	7	9	9
Div Yield	4%	1%	1%	1%	1%	1%	1%	2%

Cash Flow Statement

Conso/Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	695	822	1,034	1,149	1,117	1,258	1,439	1,632
(inc)/Dec in Working Capital	88	(17)	(0)	(270)	(306)	22	(24)	(133)
Non Cash Op Exp	68	78	84	82	49	111	140	132
Int Paid (+)	34	23	20	17	16	40	45	45
Tax Paid	(181)	(210)	(246)	(296)	(295)	(320)	(362)	(409)
others	(43)	(31)	(59)	(32)	(26)	(45)	-	-
CF from Op. Activities	660	665	833	649	555	1,066	1,238	1,265
(inc)/Dec in FA & CWIP	(77)	(59)	(101)	(87)	(128)	(162)	(106)	(106)
Free Cashflow	583	606	732	562	427	904	1,132	1,160
(Pur)/Sale of Inv	(197)	41	(118)	1	70	103	(104)	(105)
others	70	(161)	(17)	(6)	75	65	5	5
CF from Inv. Activities	(204)	(179)	(235)	(92)	17	(351)	(205)	(206)
inc/(dec) in NW	1	1	1	0	0	-	-	-
inc/(dec) in Debt	(145)	(269)	(46)	(67)	69	40	(83)	-
Int. Paid	(35)	(23)	(20)	(17)	(16)	(23)	(45)	(45)
Div Paid (inc tax)	(142)	(300)	(502)	(509)	(636)	(682)	(852)	(968)
others	(18)	(34)	(11)	19	15	12	-	-
CF from Fin. Activities	(339)	(625)	(580)	(574)	(567)	(653)	(980)	(1,013)
Inc(Dec) in Cash	117	(140)	17	(17)	4	62	52	46
Add: Opening Balance	105	224	77	93	43	51	552	605
Closing Balance	224	77	91	43	51	97	604	651

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