

Industry  
Bloomberg  
BSE CODE

Consum. Staples  
MRCO IN  
531642

## Channel related issues sorted out, see gradual recovery in domestic volume .

RATING	BUY
CMP	304
Price Target	408
Potential Upside	34%
Rating Change	↔
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	404/302
Mkt Capital (Rs Cr)	39,283
Free float (%)	40%
Avg. Vol 1M (,000)	1934
No. of Shares (Crs)	129
Promoters Pledged %	NA

### 3QFY20 Result Update

- Marico's number for 3QFY20 remained largely in line with our expectation Sales declined by 2% YoY to Rs 1824 cr(vs our expectation of Rs 1845 cr) impacted by sluggish rural demand and channel related conflicts in the domestic market.
- Positive remained Saffola Volume growth which grew by 11% while Parachute Rigid and VAHO reported decline of 2% and 7% respectively.
- Modern Trade(MT) and ecommerce grew by 12% and 5%respectively impacted due to steps taken by the company to improve price parity across channels.
- International business grew by 8% YoY ( 10% in Constant Currency(CC) terms) to Rs 444 cr on the back of strong growth in Bangladesh market which grew by 15% in cc terms. The non-Coconut oil portfolio in Bangladesh grew by 34%YoY in Q3FY20.
- Benign input prices in domestic and Bangladesh businesses led to expansion in gross margin by 282 bps YoY to 49.1% while EBITDA margin expanded by 115 bps YoY to 20.4%.Benefits of gross margin expansion was invested behind brand, ad expense grew by 12% YoY to Rs 185 cr.
- Higher other income (up by 34 YoY to Rs 29 cr), expansion in gross margin and lower provisioning of Taxes (22.9% vs 26.4% in 3QFY19) supported PAT growth, which reported a growth of 10% to Rs 276 cr(vs expect. Rs 268 cr).

### View and Valuation

Marico had a challenging quarter for domestic business, impacted by sluggish consumption environment especially rural and price parity related issues among the channels. Positive remained international business which grew by 8% YoY(10% in cc terms) led by better traction from Bangladesh business which grew by 15% in CC terms. Going forward, as channels price related issues are largely sorted out, we expect better growth from Modern trade and ecommerce business in coming quarters. International business is expected to be better backed by Bangladesh business & recovery in Vietnam business after product diversification. We see gradual recovery in domestic market on the back of company's thrust on distribution expansion and product launches in premium & mid segment in Value added hair oil (VAHO) portfolio and sorting out equity related issue (may take two quarters). Cost efficiency measure and judicious pricing will help in stable margin going ahead. Considering present demand environment & issues facing by VAHO portfolio, we have reduced our sales & PAT estimates of FY21e by 3% & 4% respectively and maintain our BUY rating with the target price of Rs 408(earlier Rs 426).

### 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	7434	8177
EBITDA	1159	1138	1328	1474	1575
EBIT	1069	1049	1196	1340	1447
PAT	811	827	1132	1066	1157
EPS (Rs)	6	6	9	8	9
EPS growth (%)	12%	2%	37%	-6%	9%
ROE (%)	35%	33%	38%	33%	33%
ROCE (%)	46%	41%	40%	41%	42%
BV	18	20	23	25	27
P/B (X)	18.2	16.9	14.9	12.2	11.3
P/E (x)	52.2	52.1	39.4	36.8	33.9

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## 3QFY20 Results

Largely inline.

Conso/Fig in Rs Cr

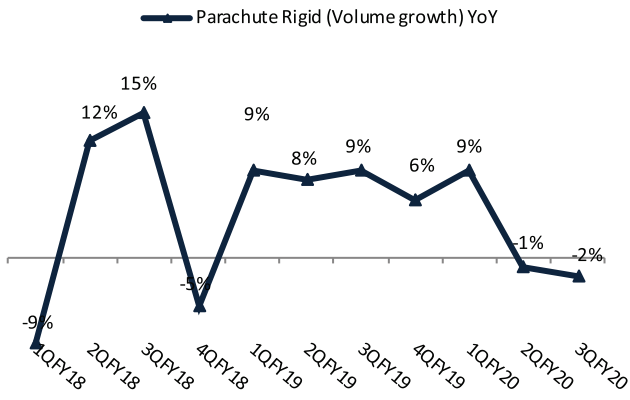
FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,861	1,609	2,166	1,829	1,824	-2.0%	-0.3%	6,322	7,334	16.0%
Other Income	22	28	28	35	29	34.4%	-17.1%	85	103	21.7%
COGS	999	820	1,137	921	928	-7.1%	0.8%	3,348	4,017	20.0%
Gross Margin	46%	49%	48%	50%	49%	2.8%	-0.5%	47%	45%	-1.8%
Empl. Cost	120	117	127	127	116	-3.7%	-8.7%	422	466	10.4%
Ad. Expense	164	153	219	197	185	12.1%	-6.1%	588	659	12.1%
Other Exp.	228	224	222	231	222	2.3%	-3.9%	827	864	4.5%
EBITDA	349	295	461	353	373	3.8%	5.7%	1,138	1,328	16.7%
EBITDA Mar.	19%	18%	21%	19%	20%	1.1%	1.1%	18%	18%	0.1%
Depreciation	23	38	35	35	32	3.2%	-8.6%	89	132	48.2%
EBIT	326	257	426	318	341	3.9%	7.2%	1,049	1,196	14.0%
Interest	5	12	12	13	12	33.3%	-7.7%	16	40	147.4%
PBT	343	273	442	340	358	5.1%	5.3%	1,117	1,258	12.6%
Excep. Item	-	-	19	-	-	-	-	-	-	-
Tax	91	(133)	108	88	82	-8.9%	-6.8%	290	126	-56.5%
PAT	252	405	315	253	276	10.1%	9.1%	827	1,132	36.8%
PAT Margin	14%	25%	15%	14%	15%	1.7%	1.3%	13%	15%	2.3%

## Concall Highlights

- Domestic business Volume growth was impacted by weak macro and the internal issues. Category off take across mass non packages food categories in India witnessed deceleration on a sequential and YoY basis. This is the secular trend across the categories.
- Lose to branded conversion has drastically slowed down and there has been reverse migration from branded to lose witnessed in certain categories in rural market.
- International business clocked strong double digit growth with healthy operating margin. Bangladesh has shown strong growth of 15% cc term. The management will continue to pursue growth of non coconut portfolio in Bangladesh.
- The company expects to sustain this trajectory of growth in both top line and bottom line going forward in the International business. Confident of high single to low double digit cc growth from international business going ahead.
- For reviving Vietnam business, management is looking on diversification of product portfolio. Optimistic on reviving growth as it has strong macro economic condition.
- MT(up by 12%) and ecommerce(5%) was impacted due to steps taken by the company to improve price parity across channels. Both action in terms differential pricing and assortment is in the place. New age channels are expected to back into strong growth over coming next two quarters.
- VAHO: Performance was impacted by under performance of some mid and premium segment where company has to solve equity issues. Adverse mix, price correction and consumer offers led to deflation of 10%. The company continues to witness growth in the bottom of pyramid segment driven by Shanti Amla and Shanti Jasmine and some flanker brands.
- Parachute oil declined by 2% while pricing intervention came at the end of this quarter. Growth is expected to come back with market share gain as time progresses.
- Among new launches, Parachute Advanced Aloe Vera and Hair & Care Dry Fruit Oil is doing well, both now scaled up to a pan-India level. These two brand is expected to reach to Rs 125-150cr level in next year. The company bets on these two brands for growth.
- Vaho: Hope to resume growth of higher single digit as early as in 2QFY21. After growth comes back the company would target to get double digit growth by end Fy21.
- The company expects mid to high single digit growth in Saffola edible oil in near to medium terms. Recent rise in prices of edible oil will be passed to the consumer coming year, carefully, balancing the price premium and volume growth aspiration.
- Marico's direct reach is 1 mn outlets. Overall reach is 5mn outlets.
- Tax rate for FY20:24.5-25%.

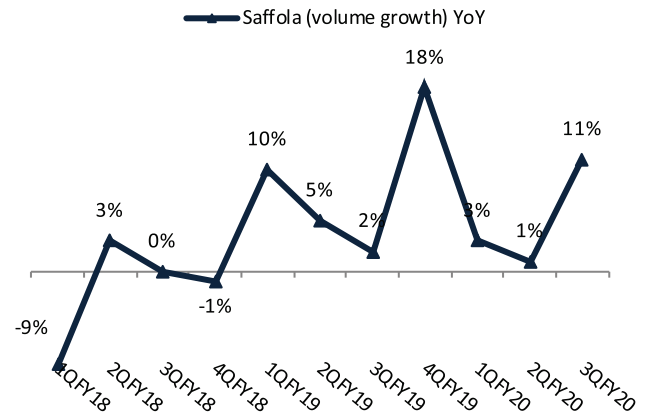
## Exhibit: Parachute Rigid Volume Growth (%)

Pricing corrections led older inventory clearing impacted Parachute Rigid volume growth.



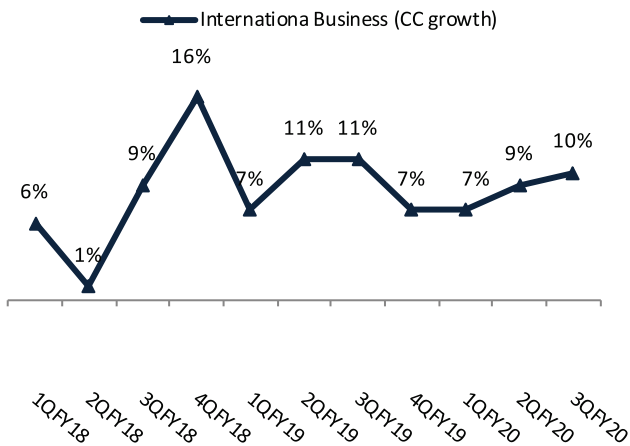
## Exhibit: Saffola Volume Growth (%)

Saffola Volume was supported by recovery in general trade and better traction from MT and e-Commerce.



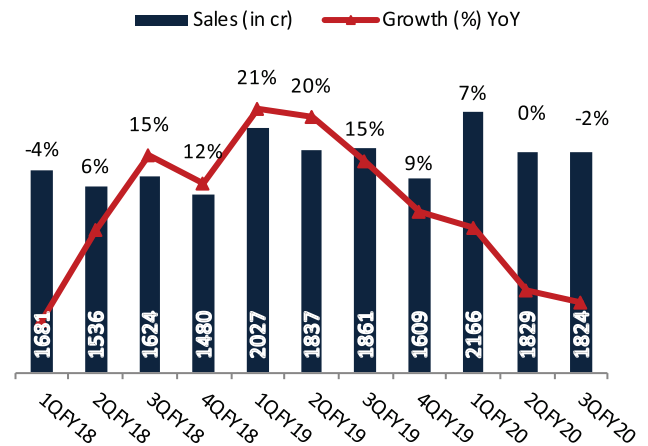
## Exhibit: International Business (CC growth %)

International business (IB) posted 10% cc growth on the back of 15% in cc in Bangladesh market.



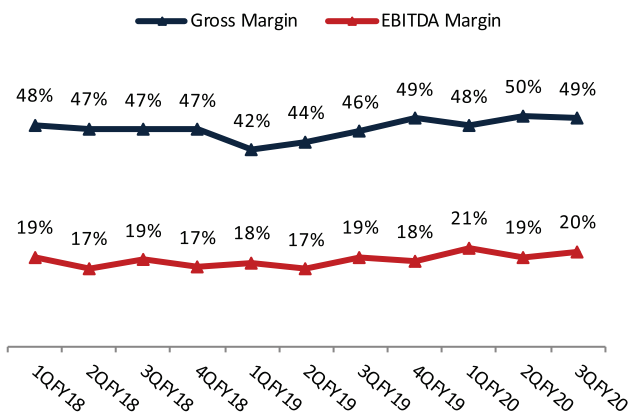
## Exhibit: Sales and Sales Growth (%)

Sales were impacted by sluggish rural demand and channel related conflicts in the domestic market.



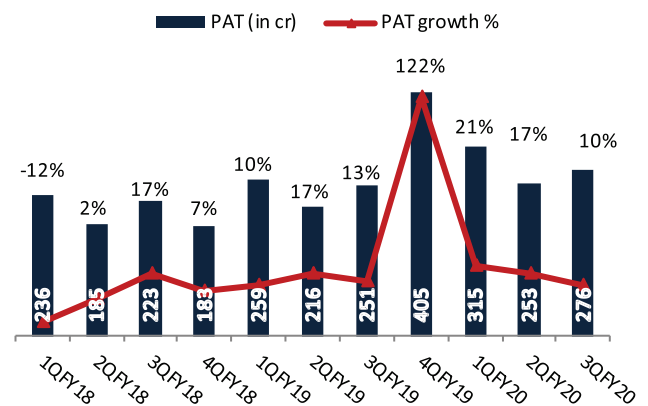
## Exhibit: Gross and EBITDA Margin (%)

Benign input prices in domestic and Bangladesh business led to expansion in gross margin by 282 bps YoY to 49.1%.



## Exhibit: PAT and PAT Growth (%)

Higher other income, expansion in gross margin and lower provisioning of Taxes supported PAT growth.



## 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	3,092	3,333
<b>Networth</b>	<b>1,361</b>	<b>1,825</b>	<b>2,017</b>	<b>2,326</b>	<b>2,543</b>	<b>3,049</b>	<b>3,221</b>	<b>3,462</b>
Debt	526	334	153	239	309	349	266	266
Other Non Current Liab	-	-	-	-	-	-	-	-
<b>Total Capital Employed</b>	<b>1,612</b>	<b>1,994</b>	<b>2,017</b>	<b>2,326</b>	<b>2,563</b>	<b>3,013</b>	<b>3,235</b>	<b>3,476</b>
Net Fixed Assets (incl CWIP)	638	590	590	586	622	672	639	612
Non Current Investments	50	46	43	58	37	34	34	34
Other Non Current Assets	155	121	31	18	32	35	35	35
<b>Non Current Assets</b>	<b>1,158</b>	<b>1,296</b>	<b>1,274</b>	<b>1,218</b>	<b>1,288</b>	<b>1,542</b>	<b>1,505</b>	<b>1,478</b>
Inventory	796	995	926	1,253	1,511	1,411	1,430	1,573
Debtors	223	177	252	247	341	517	524	576
Cash & Bank	406	205	93	34	51	48	622	679
Other Current Assets	34	36	116	98	250	308	312	343
<b>Current Assets</b>	<b>1,807</b>	<b>1,829</b>	<b>2,107</b>	<b>2,382</b>	<b>2,793</b>	<b>3,200</b>	<b>3,393</b>	<b>3,781</b>
Creditors	503	564	669	697	822	944	957	1,053
Provisions	82	95	51	56	57	57	58	64
Other Current Liabilities	445	277	140	120	161	196	199	219
<b>Curr Liabilities</b>	<b>1,030</b>	<b>936</b>	<b>1,161</b>	<b>984</b>	<b>1,168</b>	<b>1,351</b>	<b>1,367</b>	<b>1,489</b>
<b>Net Current Assets</b>	<b>777</b>	<b>893</b>	<b>946</b>	<b>1,398</b>	<b>1,625</b>	<b>1,849</b>	<b>2,025</b>	<b>2,293</b>
<b>Total Assets</b>	<b>2,965</b>	<b>3,125</b>	<b>3,381</b>	<b>3,600</b>	<b>4,081</b>	<b>4,742</b>	<b>4,897</b>	<b>5,259</b>

### Income Statement

Conso/Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>4,687</b>	<b>5,733</b>	<b>6,024</b>	<b>5,936</b>	<b>6,322</b>	<b>7,334</b>	<b>7,434</b>	<b>8,177</b>
Change (%)	2%	22%	5%	-1%	7%	16%	1%	10%
<b>EBITDA</b>	<b>748</b>	<b>870</b>	<b>1,051</b>	<b>1,159</b>	<b>1,138</b>	<b>1,328</b>	<b>1,474</b>	<b>1,575</b>
Change (%)	20%	16%	21%	10%	-2%	17%	11%	7%
Margin (%)	16%	15%	17%	20%	18%	18%	20%	19%
Depr & Amor.	77	84	95	90	89	132	134	128
<b>EBIT</b>	<b>671</b>	<b>786</b>	<b>957</b>	<b>1,069</b>	<b>1,049</b>	<b>1,196</b>	<b>1,340</b>	<b>1,447</b>
Int. & other fin. Cost	34	23	21	17	16	40	48	48
Other Income	58	59	93	97	85	103	121	145
<b>EBT</b>	<b>695</b>	<b>822</b>	<b>1,029</b>	<b>1,150</b>	<b>1,117</b>	<b>1,258</b>	<b>1,413</b>	<b>1,545</b>
Exp Item	-	-	-	-	-	-	-	-
Tax	190	237	305	338	290	126	348	388
Minority Int & P/L share of Ass.	19	11	1	1	-	-	-	-
Reported PAT	485	573	723	811	827	1,132	1,066	1,157
<b>Adjusted PAT</b>	<b>485</b>	<b>573</b>	<b>723</b>	<b>811</b>	<b>827</b>	<b>1,132</b>	<b>1,066</b>	<b>1,157</b>
Change (%)	0	18%	26%	12%	2%	37%	-6%	9%
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%	33%
ROCE	42%	39%	47%	46%	41%	40%	41%	42%
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	28	30
P/E	28	44	47	52	52	39	37	34
Price / Book Value	10	14	16	18	17	15	12	11
EV/EBITDA	9	14	32	36	38	34	26	24
FCF per Share	9	9	6	4	3	7	9	9
Div Yield	4%	1%	1%	1%	1%	1%	2%	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	1,413	1,545
(inc)/Dec in Working Capital	88	(17)	(0)	(270)	(306)	22	2	(105)
Non Cash Op Exp	68	78	84	82	49	111	134	128
Int Paid (+)	34	23	20	17	16	40	48	48
Tax Paid	(181)	(210)	(246)	(296)	(295)	(320)	(348)	(388)
others	(43)	(31)	(59)	(32)	(26)	(45)	-	-
<b>CF from Op. Activities</b>	<b>660</b>	<b>665</b>	<b>833</b>	<b>649</b>	<b>555</b>	<b>1,066</b>	<b>1,249</b>	<b>1,227</b>
(inc)/Dec in FA & CWIP	(77)	(59)	(101)	(87)	(128)	(162)	(106)	(106)
Free Cashflow	583	606	732	562	427	904	1,143	1,122
(Pur)/Sale of Inv	(197)	41	(118)	1	70	103	(104)	(105)
others	70	(161)	(17)	(6)	75	65	5	5
<b>CF from Inv. Activities</b>	<b>(204)</b>	<b>(179)</b>	<b>(235)</b>	<b>(92)</b>	<b>17</b>	<b>(351)</b>	<b>(205)</b>	<b>(206)</b>
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)	(48)	(48)
Div Paid (inc tax)	(142)	(300)	(502)	(509)	(636)	(682)	(844)	(917)
others	(18)	(34)	(11)	19	15	12	-	-
<b>CF from Fin. Activities</b>	<b>(339)</b>	<b>(625)</b>	<b>(580)</b>	<b>(574)</b>	<b>(567)</b>	<b>(653)</b>	<b>(975)</b>	<b>(964)</b>
Inc(Dec) in Cash	117	(140)	17	(17)	4	62	70	57
<b>Add: Opening Balance</b>	<b>105</b>	<b>224</b>	<b>77</b>	<b>93</b>	<b>43</b>	<b>51</b>	<b>552</b>	<b>622</b>
Closing Balance	224	77	91	43	51	97	622	679



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