

Industry	Con.staples
Bloomberg	MRCO IN
BSE CODE	531642

Margin to expand led by correction in Copra price

RATING	BUY
CMP	344
Price Target	400
Potential Upside	16%

Rating Change	↔
Estimate Change	↓
Target Change	↔

Stock Info

52wk Range H/L	388/284
Mkt Capital (Rs Cr)	44418
Free float (%)	40%
Avg. Vol 1M (,000)	1694
No. of Shares (Cr)	129
Promoters Pledged %	NA

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Key Highlights-

□ Marico' revenue has grown at the CAGR 3% over last three years led by multiple headwinds such as subdued category growth, supply chain issue related (CSD and MT) to Saffola and issues related to demonetization & GST. Now as most of the issues are settling down, we expect better volume growth for Marico going ahead.

□ Easing of Copra price is likely to boost company's margins going forward. Copra prices which accounts for ~40% of the company's raw material, has correct by ~25-30% from its peak.

□ Proactively management has sorted out Saffola's promotion and Modern Trade (MT) related issues which gives us confidence that remaining issues will be sorted out soon. We expect 6% of average volume growth for Saffola in remaining three quarters of FY19.

□ The company is focused towards developing new growth drivers like health foods, serums and male grooming. Management is also investing into digital space with strategic investments in male grooming brand Beardo and fitness solutions app Revofit.

1Q FY19 Results-

Marico's revenue grew by 21% YoY to Rs 2027 cr led by better volume and realization growth. It has witnessed broad based recovery in the volumes, domestic VAHO, Saffola and Parachute grew by 15%, 10% and 9% respectively. Marico's International business (IB) posted a cc growth of 7% while volume growth remained 3%. Gross margin deteriorated by 548 bps YoY led by higher copra and other input prices while EBITDA margin contracted by 178 bps to 17.5%. During the quarter, average market price of copra was up 42% YoY while prices of Rice Bran Oil, Safflower Oil, LLP and HDPE were up by 18%, 26%, 12% and 22%, respectively. PAT grew by 10% YoY to Rs 260cr.

View and Valuation

We expect Marico's volume to grow at 9% each for FY19 and FY20 backed by gradual recovery in Saffola's volume and better traction from VAHO business (led by LUP's). Recovery in rural demand on the back of good monsoon, higher MSP and government initiatives is likely to help VAHO and Parachute. Softening of copra prices, cost efficiency measures and pricing action taken by the company will help in garnering better margin going ahead. Turning around in South East Asia business will boost International business. We expect sales and PAT to grow at the CAGR of 16% and 19% over FY18-FY20e. We value Marico at 44x FY20e EPS and recommend BUY with the price of 400.

Key Risks to our rating and target

□ Delay in recovery of volume especially of Saffola.

□ Taking more time in cooling off the prices of key input prices like Copra.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	6024	5936	6333	7337	8462
EBITDA	1051	1159	1138	1298	1597
EBIT	957	1069	1049	1211	1509
PAT	723	811	827	944	1166
EPS (Rs)	6	6	6	7	9
EPS growth (%)	26%	12%	2%	14%	23%
ROE (%)	36%	35%	33%	34%	39%
ROCE (%)	47%	46%	41%	44%	50%
BV	16	18	20	21	23
P/B (X)	16	18	17	16	15
P/E (x)	47	52	52	47	38

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Exhibit: Saffola Vol. growth

Saffola Edible Oils recorded a volume growth 10% on the back of focused marketing & promotion initiatives.

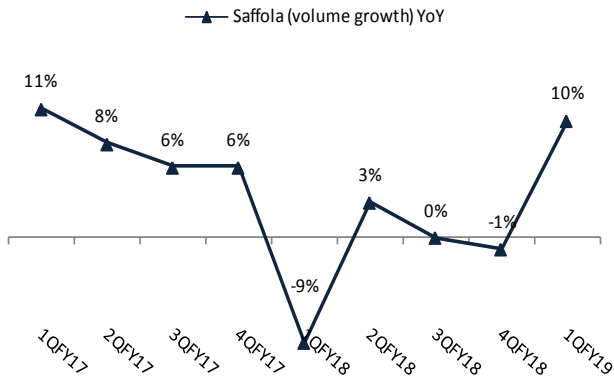


Exhibit: VAHO Vol. growth

VAHO has shown strong volume growth, grew by 15% YoY in this quarter.

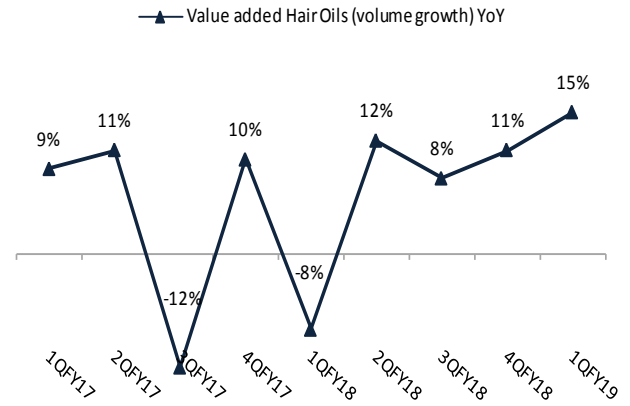


Exhibit: Parachute Vol. growth

Parachute Rigids grew by 9% in volume terms and continue to gain market share (vol. market share of ~59%).

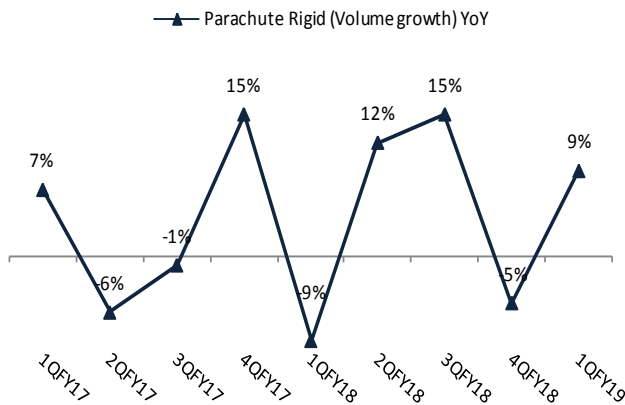


Exhibit: International Business (CC growth)

International business posted a cc growth of 7% while volume growth for the quarter remained 3%.

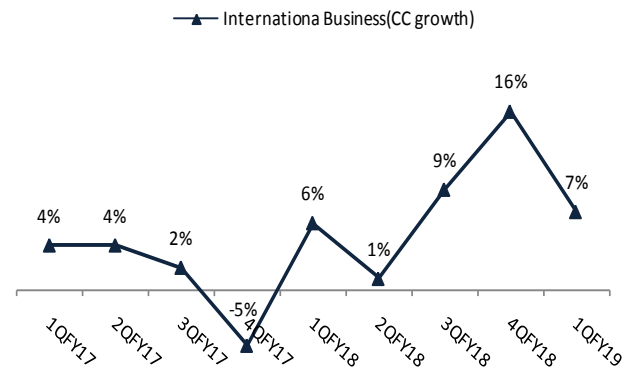


Exhibit: Sales and Sales growth

Marico's revenue grew by 21% YoY to Rs 2027 crs led by better volume and realization growth.

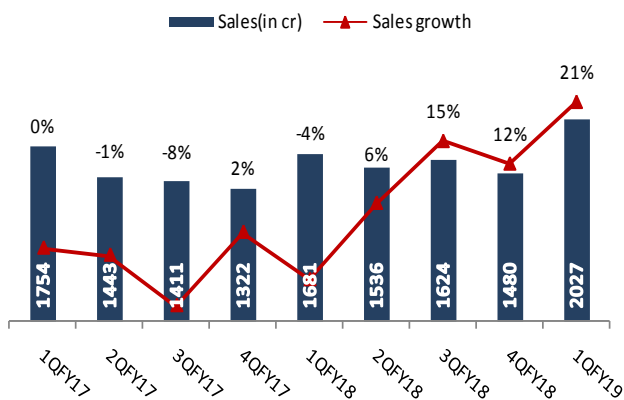
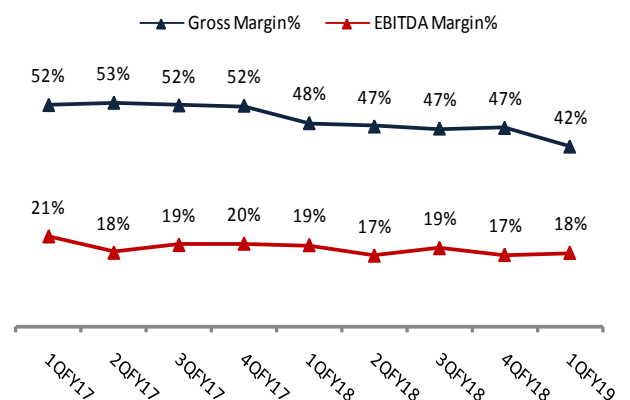


Exhibit: Gross and EBITDA margin

Gross margin deteriorated by 548 bps YoY led by higher copra and other input prices.



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	2,853
Networth	1,982	1,361	1,825	2,017	2,326	2,543	2,740	2,982
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	2,759	3,002
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	1,750	2,019
Debtors	197	223	177	252	247	341	395	455
Cash & Bank	267	406	205	93	34	51	237	420
Other Current Assets	14	34	36	116	98	250	290	334
Current Assets	1,589	1,807	1,829	2,107	2,382	2,793	3,164	3,584
Creditors	478	503	564	669	697	822	952	1,098
Provisions	111	82	95	51	56	57	66	76
Other Current Liabilities	294	445	277	140	120	161	186	215
Curr Liabilities	883	1,030	936	1,161	984	1,168	1,333	1,518
Net Current Assets	707	777	893	946	1,398	1,625	1,831	2,067
Total Assets	3,707	2,965	3,125	3,381	3,600	4,081	4,443	4,870

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	7,337	8,462
Change (%)		2%	22%	5%	-1%	7%	16%	15%
EBITDA	626	748	870	1,051	1,159	1,138	1,298	1,597
Change (%)		20%	16%	21%	10%	-2%	14%	23%
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	1,211	1,509
Int. & other fin. Cost	58	34	23	21	17	16	16	16
Other Income	38	58	59	93	97	85	98	101
EBT	519	695	822	1,029	1,150	1,117	1,292	1,594
Exp Item	33	-	-	-	-	-	-	-
Tax	146	190	237	305	338	290	348	428
Minority Int & P/L share of Ass.	10	19	11	1	1	-	-	-
Reported PAT	396	485	573	723	811	827	944	1,166
Adjusted PAT	372	485	573	723	811	827	944	1,166
Change (%)		23%	18%	26%	12%	2%	14%	23%
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%	34%	39%
ROCE	22%	42%	39%	47%	46%	41%	44%	50%
Asset Turnover	1.2	1.6	1.8	1.8	1.6	1.6	1.7	1.7
Debtor Days	15.6	17.4	11.3	15.0	15.2	19.6	19.6	19.6
Inv Days	68.5	62.0	63.3	55.1	77.1	87.1	87.1	87.1
Payable Days	9.6	9.3	10.2	9.0	8.5	7.7	7.7	7.7
Int Coverage	9	19	34	46	64	65	75	93
P/E	35	28	44	47	52	52	47	38
Price / Book Value	14	10	14	16	18	17	16	15
EV/EBITDA	22	9	14	32	36	38	34	28
FCF per Share	(8.7)	9.0	9.4	5.7	4.4	3.3	6.1	7.6
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	1,292	1,594
(inc)/Dec in Working Capital	(95)	88	(17)	(0)	(270)	(306)	(168)	(189)
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)	(348)	(428)
others	(31)	(43)	(31)	(59)	(32)	(26)	-	-
CF from Op. Activities	432	660	665	833	649	555	879	1,082
(inc)/Dec in FA & CWIP	(992)	(77)	(59)	(101)	(87)	(128)	(87)	(99)
Free Cashflow	(560)	583	606	732	562	427	792	983
(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)	(748)	(923)
others	0	(18)	(34)	(11)	19	15	-	-
CF from Fin. Activities	442	(339)	(625)	(580)	(574)	(567)	(764)	(939)
Inc(Dec) in Cash	44	144	(147)	17	(51)	8	37	183
Add: Opening Balance	61	105	224	77	93	43	200	237
Closing Balance	105	224	77	91	43	51	237	420

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