

## MARICO LTD.

### NEUTRAL

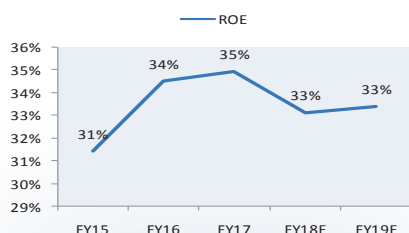
06-May-17

INDUSTRY - Con. Staples  
BSE Code - 531642  
NSE Code - MARICO  
NIFTY - 9360

#### Company Data

CMP	310
<b>Target Price</b>	<b>330</b>
Previous Target Price	330
<b>Upside</b>	<b>6%</b>
52wk Range H/L	330/235
Mkt Capital (Rs Cr)	39,992
Av. Volume (,000)	1,099

#### Maintain ROE of 33%

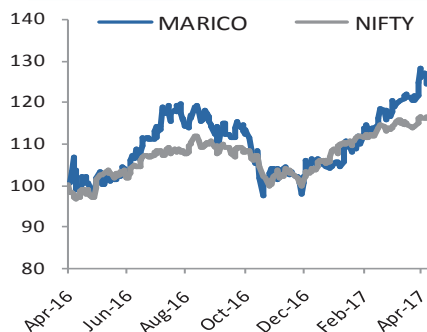


#### Shareholding patterns %

	4QFY17	3QFY17	2QFY17
Promoters	59.7	59.7	59.7
Public	40.1	40.1	40.0
Others	0.2	0.2	0.3
Total	100	100	100

#### Stock Performance %

	1Mn	3Mn	1Yr
Absolute	5.5	(4.6)	13.0
Rel.to Nifty	4.2	(11.7)	(6.9)



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#### Key Highlights of the Report:

- ✓ Marico's result for Q4FY17 is better than expectation. Domestic volume grew by 10% led by solid 15% volume growth in Parachute rigid portfolio and 10% growth in Value Added Hair Oil (VAHO).
- ✓ PAT for this quarter grew by 26% YoY backed by lower ad expenses. Ad expenses went down by 413 bps YoY.
- ✓ International business acted as dampener, declined by 8%YoY in value term impacted by 46% decline in MENA business in CC terms.
- ✓ Going forward we expect deterioration in margin due to higher input cost especially copra which may reduce ROE by 182 bps in FY18E. At present company is trading at the peak of its valuation so we see little upside from here hence recommend 'Neutral' with the target price of Rs330.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	5,733	6,024	5,936	6,351	7,226
EBITDA	870	1,051	1,159	1,205	1,328
EBIT	786	957	1,069	1,115	1,239
PAT	573	723	811	847	941
EPS (Rs)	4	6	6	7	7
EPS growth (%)	18%	26%	12%	4%	11%
ROE (%)	31%	34%	35%	33%	33%
ROCE (%)	39%	46%	46%	44%	44%
BV	14	16	18	20	22
P/B (X)	13.7	16.3	17.2	15.6	14.2
P/E (x)	43.5	47.1	49.3	47.2	42.5

#### RECENT DEVELOPMENT:

- ✓ The company has taken price hike in Parachute Rigid portfolio by 8% in March 2017.
- ✓ In Bangladesh, Company has taken price hike in the coconut oil portfolio by 10% and initiated price increase of 8% in VAHO portfolio in the later part of Q4FY17.
- ✓ The company has launched a new Demand Sensing model which will improve response to within month forecasting changes thereby lowering the possibility of stock-outs.
- ✓ The company has entered into super-premium oil segment with the launch of Saffola Aura whereas Saffola multigrain flakes introduced in selected markets.

## Quarterly Performance

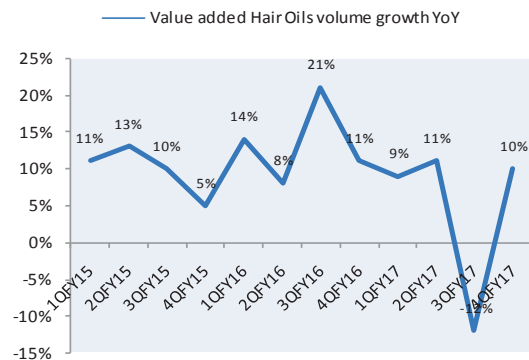
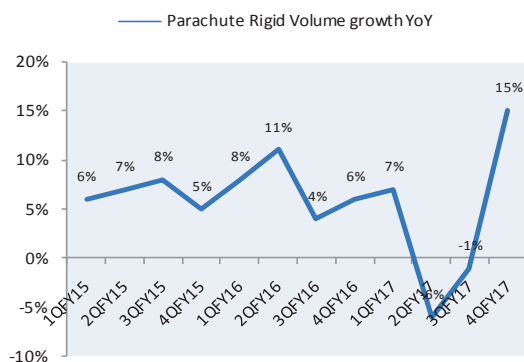
Financials	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	1,291	1,754	1,443	1,417	1,322	2%	-7%	6,024	5,936	-1%
Other Income	27.77	27.52	24.7	23.28	22.28	-20%	-4%	93.33	97.31	4%
COGS	599	842	685	686	637	6%	-7%	3,078	2,849	-7%
Ad & P Expenses	161	209	189	151	111	-31%	-27%			
Employee Cost	95	105	105	96	98	3%	2%	373	404	8%
Other Expenses	220	224	211	212	217	-1%	3%	1,522	1,523	0%
EBITDA	214	374	253	272	259	21%	-5%	1,051	1,159	10%
Depreciation	31	21	21	21	27	-12%	28%	95	90	-5%
Interest	7	5	2	4	5	-30%	7%	21	17	-20%
PBT	204	375	255	270	250	22%	-8%	1,029	1,150	12%
Tax	68	107	74	78	78	16%	0%	305	338	11%
PAT	136	268	181	192	171	26%	-11%	723	811	12%

## Reported solid volume growth after demonetization

Domestic business volume grew by 10% YoY.

- ✓ MARICO's revenue for this quarter grew by 2%YoY to Rs1322 cr led by robust volume growth in Parachute rigid portfolio(grew by 15% YoY) and VAHO(grew by 10%) while Suffola maintained its growth of 6% in this quarter.
- ✓ Domestic business has clocked double digit volume(10%) growth after four quarters while overall realization declined by ~4%.
- ✓ International business declined by 8% YoY and 5% YoY in constant currency(CC) term impacted by 46% decline in MENA business in CC terms.
- ✓ Gross margin for this quarter declined by 170 bps YoY to 51.9% due to sharp increase in copra prices(up by 25%QoQ), Rice Bran oil(up by 20% YoY), Liquid Paraffin (LP)(up by 27% YoY) and HDPE(up by 5% YoY).
- ✓ EBITDA margin improved by 301 bps YoY to 19.6% backed by 413 bps decline in Advertisement expenses.
- ✓ PAT grew by 26% YoY to Rs171 and PAT margin improved by 237 bps YoY in Q4FY17.

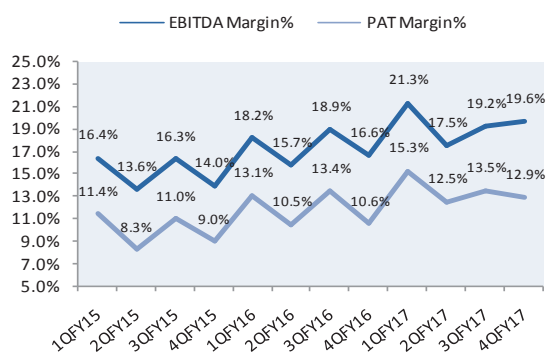
## Robust volume gr. of 15% YoY in Parachute Rigid Portfolio VAHO grew by 10% YoY



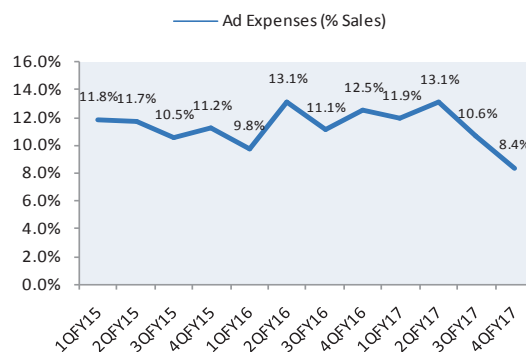
Margin %	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	53.6%	52.0%	52.5%	51.6%	51.9%	-0.02	0.00	49%	52%	0.03
EBITDA Margin	16.6%	21.3%	17.5%	19.2%	19.6%	0.03	0.00	17%	20%	0.02
PAT Margin	10.6%	15.3%	12.5%	13.5%	12.9%	0.02	-0.01	12%	14%	0.02

- ✓ Gross margin for this quarter declined by 170 bps YoY to 51.9% due to sharp increase input prices. On yearly basis company's gross margin improved by 309 bps to 52% from 48.9%.
- ✓ EBITDA margin improved by 301 bps YoY to 19.6% backed by 413 bps decline in Ad. expenses in Q4FY17. On yearly basis EBITDA margin improved by 208 bps to 19.5% led by lower COGS.
- ✓ PAT for this quarter grew by 26% YoY to Rs 171 cr whereas PAT for FY17, grew by 12% to Rs 811 cr. PAT margin improved by 237 bps YoY for Q4FY17 and 166 bps for FY17.

### Margin improvement led by lower ad expenses



### Lower ad expense due to postponement of new launches



### Concall Highlights:

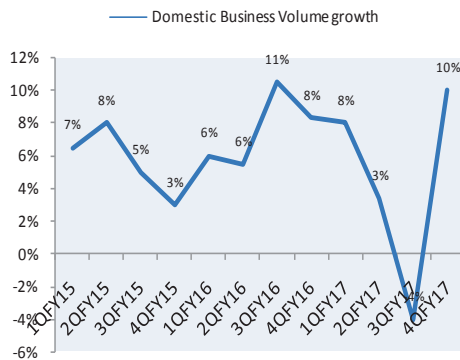
- ✓ More than half of the product portfolio improved market shares on 12 months MAT basis.
- ✓ Bangladesh business: Momentum to continue going forward.
- ✓ Going forward, the volume growth in Parachute rigid is likely to remain in the range of 5-7%.
- ✓ The company expects copra prices to increase further over the next two quarters due to lower supplies. Company will take pricing action to make balance between volume growths and threshold margins.
- ✓ The Company aims to become the volume market leader in the Amla hair oil category in FY18.
- ✓ The company plans to add 14000 outlets in FY18.
- ✓ Company launched Project Marval EDGE in Q1FY17 to improve efficiency and effectiveness of current trade and marketing spends. Management expects Rs 35 cr gain from this project in FY18.
- ✓ The Company will try maintaining international margins at ~16-17%
- ✓ The estimated capital expenditure in each of the years FY18 and FY19 is likely to be around Rs 100-125 cr .
- ✓ Ad&P expenses: The Company expects to operate in a band of 11-12% in the medium term.
- ✓ The expected effective tax rate during FY18 and FY19 would be around 27-28%.
- ✓ Ad expenses: will move up marginally in FY18.

Ad&P expenses will remain in the band of 11-12%.

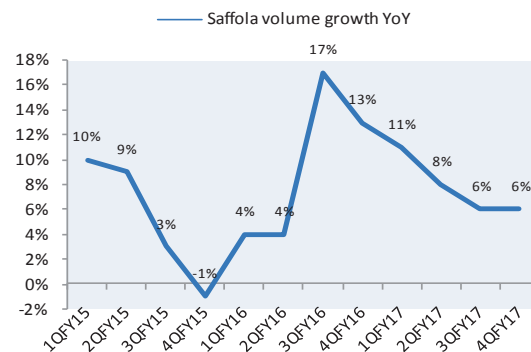
## Investment Arguments:

- ✓ **GST led growth:** In hair oil market, ~50% of the players are unorganized. Going forward, we expect due to passage of GST major shift of value will happen from unorganized sector to organized sector. Secondly some shift will happen from loose coconut oil which is approx. 30-35% of total coconut oil market to packaged form. Marico will be key beneficiary of the gradual shift as it has strong presence and brand equity.
- ✓ **Innovation led growth:** The Company is focusing on innovation and new products launches going forward. The company has entered into super-premium oil segment with the launch of Saffola Aura whereas Saffola multigrain flakes introduced in selected markets. Parachute Advanced Aloe Vera Hair Oil was launched in the markets of Andhra Pradesh, Telangana & Tamil Nadu in the month of November 2017. Going forward we expect new launches will drive growth for the company.
- ✓ **Strong Volume growth in Q4FY17:** Marico's domestic volume grew by 10% in a situation where most of the FMCG players are struggling for volume growth. Parachute Rigid volume grew by 15% YoY best in 18 months. VAHO grew by 10% in Q4FY17 as compared to 12% decline in Q3FY17. Going forward management expects 8-9% overall volume growth which is positive considering tough economic environment.

### Smart come back by domestic volume



### Stabilization of Saffola volume



## View & Valuation

Going forward we expect deterioration in margin due to higher input cost especially copra and higher advertisement expenses which may reduce ROE by 182 bps in FY18E. Secondly there will be some hiccups related to GST which may lead to channel realignment which in turn lead to de-stocking in next 2quarters. This could impact domestic volume of Marico in near term. At present company is trading at the peak of its valuation so we see little upside from here hence recommend 'Neutral' with the target price of Rs 330.

## Financials Snap Shot

Income Statement				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
<b>Revenue from Operation</b>	6,024	5,936	6,351	7,226
Change (%)	5%	-1%	7%	14%
<i>Other Operating Income</i>				
EBITDA	1,051	1,159	1,205	1,328
Change (%)	21%	10%	4%	10%
<b>Margin (%)</b>	<b>17%</b>	<b>20%</b>	<b>19%</b>	<b>18%</b>
Dep & Amortization	95	90	90	89
EBIT	957	1,069	1,115	1,239
Interest & other finance cost	21	17	22	22
Other Income	93	97	107	117
EBT	1,029	1,150	1,201	1,334
Exceptional Item	-	-	-	-
Tax	305	338	353	392
Minority Int & P/L share of Ass.	1	1	1	1
Reported PAT	723	811	847	941
<b>Adjusted PAT</b>	<b>723</b>	<b>811</b>	<b>847</b>	<b>941</b>
Change (%)	26%	12%	4%	11%
Margin(%)	12%	14%	13%	13%

Key Ratios				
Y/E March	FY16	FY17	FY18E	FY19E
ROE	34%	35%	33%	33%
ROCE	46%	46%	44%	44%
Asset Turnover	1.8	1.6	1.6	1.6
Debtor Days	15.03	15.03	15.03	15.03
Inventory Days	55.1	55.1	55.1	55.1
Payable Days	9	9	9	9
Interest Coverage	46.39	64.47	51.85	57.59
P/E	47	49	47	42
Price / Book Value	16.3	17.2	15.6	14.2
EV/EBITDA	32	34	33	30
FCF per Share	6	6	6	6
Dividend Yield	0.01	0.01	0.01	0.01

## Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
Domestic Volume growth	8%	4%	8%	10%
Domestic Pricing growth	-2%	-6%	2%	6%
International Business(CC growth)	5%	1%	-3%	3%

Balance Sheet				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	129	129	129	129
Reserves	1,968	2,193	2,429	2,692
<b>Networth</b>	<b>2,097</b>	<b>2,322</b>	<b>2,558</b>	<b>2,821</b>
Debt	334.18	153.2	220.0	220.0
Other Non Current Liab	-	-	-	-
Total Capital Employed	2,097	2,322	2,558	2,821
Net Fixed Assets (incl CWIP)	583	550	579	584
Non Current Investments	69	51	51	51
Other Non Current Assets	58	33	33	33
<b>Non Current Assets</b>	<b>1,319</b>	<b>1,275</b>	<b>1,304</b>	<b>1,309</b>
Inventory	926	896	959	1,091
Debtors	252	244	261	297
Cash & Bank	310	583	669	783
<b>Other Current Assets</b>	<b>31</b>	<b>30</b>	<b>32</b>	<b>36</b>
Current Assets	2,115	2,444	2,729	3,149
Creditors	669	648	693	788
Provisions	103	100	107	122
Other Current Liabilities	375	363	388	442
Curr Liabilities	1,147	1,111	1,188	1,352
<b>Net Current Assets</b>	<b>967</b>	<b>1,334</b>	<b>1,541</b>	<b>1,797</b>
Total Assets	3,433	3,719	4,033	4,458

Cash Flow Statement				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
PBT	1,034	1,149	1,200	1,333
(inc)/Dec in Working Capital	(0)	(93)	(121)	(144)
Non Cash Op Exp	102	90	90	89
Interest Paid (+)	(20)	(17)	(22)	(22)
Tax Paid	(246)	(338)	(353)	(392)
others	(67)	-	-	-
<b>CF from Op. Activities</b>	<b>833</b>	<b>825</b>	<b>837</b>	<b>907</b>
(inc)/Dec in FA & CWIP	(101)	(102)	(125)	(94)
Free Cashflow	732	723	712	814
(Pur)/Sale of Investment	(101)	(102)	(125)	(94)
others	(134)	56	6	(0)
<b>CF from Inv. Activities</b>	<b>(235)</b>	<b>(46)</b>	<b>(119)</b>	<b>(94)</b>
inc/(dec) in NW	1	-	-	-
inc/(dec) in Debt	(46)	67	-	-
Interest Paid	(20)	(17)	(22)	(22)
Dividend Paid (inc tax)	(502)	(585)	(611)	(679)
others	(11)	3	-	-
<b>CF from Fin. Activities</b>	<b>(580)</b>	<b>(504)</b>	<b>(632)</b>	<b>(700)</b>
Inc/Dec in Cash	17	275	86	113
Add: Opening Balance	77	310	583	669
Closing Balance	91	585	669	783