

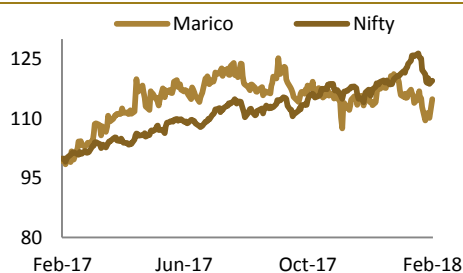
Market Statistics

| | |
|-------------------------|-----------|
| Current stock price (₹) | 310 |
| Shares O/S (cr.) | 129.1 |
| Mcap (₹cr) | 40,014 |
| 52W H/L (₹) | 349/310 |
| 6m avg. volume | 1,047,607 |
| Bloomberg | MRCO in |

Shareholding Pattern (%)

| | |
|-------------------------|-------|
| Promoters | 59.71 |
| Domestic Institution | 5.86 |
| Foreign Institution | 27.76 |
| Non-institution | 6.67 |
| of which more than 1% | |
| First State Investments | 3.64 |
| Cartica Capital | 2.59 |

Marico vs Nifty



Capital efficiency & valuations

| Particulars | FY17 | FY18E | FY19E |
|-------------|------|-------|-------|
| ROE (%) | 34.1 | 31.4 | 31.3 |
| ROCE (%) | 44.7 | 41.3 | 42.2 |
| P/B(x) | 17.5 | 15.1 | 12.8 |
| P/E (x) | 51.3 | 48.1 | 41.0 |
| EPS (₹) | 6.1 | 6.4 | 7.6 |
| EV/OCF (x) | 65.5 | 42.7 | 37.9 |

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Marico, based on IND AS, reported consolidated net sales growth of 14.7% to ₹16.24bn – inline with our expectation 13.6%YoY. Domestic business (77% of total) sales witnessed 18% growth led by 9.4% growth in volumes. Parachute rigid (25% of sales) showed 41% value growth and 15% volume growth. VAHO (21% of sales) portfolio grew by 7% & 8% in value and volume terms. Saffola de-grew by 4% in value while volumes were flat.

International business (23% of total) grew by 1.2% while on CC basis grew by 9%. On constant currency term, Bangladesh (45% of IBD) registered 12% growth, MENA (15% of IBD) was 15 & South East Asia (28% of IBD) de-grew by 4% while South Africa (7% of International) grew by 32% YoY.

Gross Margin contracted sharply by 507bps YoY to 46.5% YoY led by higher input costs. Average Copra prices during Q3FY18 climbed by 91% YoY. A&P spent declined by 4.5%YoY & stood at 8.9% of sales, down by 178bps YoY. Employee and other expenses moved by -45bps & -220bps as % of sales. Hence, EBITDA Margin contracted by 63bps to 18.6% in Q3FY18. EBITDA grew by 10.9% to ₹3,021mn. India EBIT Margin contracted by 224bps to 21.1% while International EBIT Margin expanded by 158bps to 13.0%. Reported saw rise of 16.6%YoY while APAT (including other comprehensive income) grew by 32.5%YoY to ₹2,157mn in Q3FY18.

Healthy Volume led growth in Domestic Biz: India biz showed strong growth of 18% led by 9.4% volume growth & price hike taken in parachute portfolio. Rural markets continue to outpace urban market & grew by 26% while urban grew by 15%. **Parachute showed 41% growth** in Q3FY18 led by 15% growth in volumes & price hike of 11% taken to combat higher copra prices. **Saffola portfolio** growth further deteriorated & declined by 4% YoY. Stiff competition & premium pricing vs peers impacted the Saffola performance. Management is working towards addressing this issue and should come out with competitive pricing in coming qtrs. Saffola healthy foods category continue to deliver strong growth of 24%. **Value added hair oil showed volume growth of 8%**, weak CSD impacted the category. However, ex-CSD growth was 11%. Grooming portfolio witnessed sharp recovery & showed growth of 36% led by Set Wet Hair Gels. Management mentioned that they are seeing gradual recovery and targets 9-10% volume growth in coming qtrs.

IBD performance picked up on CC basis: International biz grew by 1.0% due to currency impact, while on CC basis it grew by 9.0%. Bangladesh growth momentum continued with 12%(CC basis) growth. MENA growth picked up by 15% led by strong recovery in Middle East. South East Asia declined by 4% on CC basis while South Africa posted robust growth of 32%. We expect 13% CC growth from Q1FY19 onwards.

Higher input costs & delayed price hike results in Gross Margin contraction: Copra (largest input costs component) prices rose by 91% YoY resulting into 507bps decline to 46.5%. LLP& HDPE moved by 28% & -1% YoY. GM would be under pressure in H1FY18 due to high base in H1FY17.

Outlook & Valuation: Marico has maintained healthy profitable growth in the past through consistently expanding product portfolio and market reach. Marico is taking several operational initiatives which are positive in the long term growth. Guidance provided by the management is very encouraging particularly in the current lull environment. However, at 48x & 41x P/E of FY18 & FY19 earnings, we believe most positives are priced in and valuations look expensive relative to peers. **Hence, we maintain our HOLD rating on the stock.**

**Exhibit 1: Quarterly Performance**

| Particulars (₹mn) | Q3FY17 | Q2FY18 | Q3Y18 | YoY change (%) |
|----------------------------------|--------------|--------------|--------------|----------------|
| Net Sales | 14,167 | 15,363 | 16,243 | 14.7% |
| Total RM cost | 6,859 | 8,144 | 8,688 | 26.7% |
| Gross Profit | 7,309 | 7,219 | 7,556 | 3.4% |
| Gross Margin % | 51.6% | 47.0% | 46.5% | -507bps |
| Staff cost | 960 | 1,075 | 1,026 | 7.0% |
| % of net sales | 6.8% | 7.0% | 6.3% | -45bps |
| Advertisements & sales promotion | 1,508 | 1,601 | 1,439 | -4.5% |
| % of net sales | 10.6% | 10.4% | 8.9% | -178bps |
| Other Expenses | 2,117 | 1,951 | 2,070 | -2.3% |
| % of net sales | 14.9% | 12.7% | 12.7% | -220bps |
| EBITDA | 2,724 | 2,591 | 3,021 | 10.9% |
| EBITDA margin % | 19.2% | 16.9% | 18.6% | -63bps |
| PBIT | 2,743 | 2,570 | 2,982 | 8.7% |
| PBIT margin % | 19.4% | 16.7% | 18.4% | -101bps |
| PBT | 2,699 | 2,535 | 2,941 | 9.0% |
| Tax | 781 | 581 | 789 | 0.9% |
| Effective tax rate % | 28.9% | 26.8% | 24.1% | -486bps |
| Reported PAT | 1,916 | 1,850 | 2,233 | 16.6% |
| Adjusted PAT | 1,628 | 1,865 | 2,157 | 32.5% |

Source: Company, Trust

Exhibit 2: Market Share and Ranking

| Market Share - Volume (%) | Q3FY18 | Rank |
|---|--------|------|
| India | | |
| Coconut Oils | 59 | 1 |
| Saffola | 68 | 1 |
| Hair Oils | 34 | 1 |
| Livon and Silk & Shine | 83 | 1 |
| Hair Creams/Gels | 63 | 1 |
| Overseas | | |
| Value Added Hair Oils (Bangladesh) | 21 | 2 |
| Parachute Coconut Oil (Bangladesh) | 87 | 1 |
| X-Men Men's Shampoo (Vietnam) | 40 | 1 |
| Hair Code & Fiancée Hair Gels/Cream (Egypt) | 53 | 1 |

Source: Company, Trust

Exhibit 3: Category Volume and Value growth

| Category Growth Performance (%) | Q3FY17 | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 |
|---|--------|--------|--------|--------|--------|
| FMCG Business (India) | | | | | |
| Value Growth | (9) | 6 | (4) | 12 | 19 |
| Volume Growth | (4) | 10 | (9) | 8 | 9 |
| Parachute Coconut Oil (Rigid Pack) | | | | | |
| Value Growth | (12) | 11 | 3 | 26 | 41 |
| Volume Growth | (1) | 15 | (9) | 12 | 15 |
| Value Added Hair Oils | | | | | |
| Value Growth | (13) | 9 | (7) | 12 | 7 |
| Volume Growth | (12) | 10 | (8) | 12 | 8 |
| Saffola (Refined Edible Oil) | | | | | |
| Value Growth | 7 | 3 | (8) | 1 | (4) |
| Volume Growth | 6 | 6 | (9) | 3 | - |

Source: Company, Trust



Exhibit 4: Segmental Analysis

| Segmental Analysis | Q4FY16 | Q1FY17 | Q2FY17 | Q3FY17 | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Sales (₹mn) | | | | | | | | |
| Domestic | 9,775 | 13,874 | 10,760 | 10,811 | 10,350 | 13,275 | 12,000 | 12,846 |
| International | 3,146 | 3,669 | 3,670 | 3,356 | 2,870 | 3,648 | 3,363 | 3,397 |
| Total | 12,920 | 17,543 | 14,430 | 14,167 | 13,220 | 16,923 | 15,363 | 16,243 |
| EBIT (₹mn) | | | | | | | | |
| Domestic | 2,134 | 3,411 | 2,150 | 2,521 | 2,510 | 2,750 | 2,180 | 2,708 |
| International | 330 | 701 | 580 | 489 | 220 | 737 | 583 | 441 |
| Total | 2,464 | 4,112 | 2,730 | 3,010 | 2,730 | 3,487 | 2,763 | 3,149 |
| Sales Growth (%) | | | | | | | | |
| Domestic | | (1.2) | (2.5) | (9.5) | 5.9 | (4.3) | 11.5 | 18.8 |
| International | | 5.9 | 4.9 | (0.1) | (8.8) | (0.6) | (8.4) | 1.2 |
| Total | | 0.2 | (0.8) | (7.4) | 2.3 | (3.5) | 6.5 | 14.7 |
| Sales Mix (%) | | | | | | | | |
| Domestic | 75.7 | 79.1 | 74.6 | 76.3 | 78.3 | 78.4 | 78.1 | 79.1 |
| International | 24.3 | 20.9 | 25.4 | 23.7 | 21.7 | 21.6 | 21.9 | 20.9 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| EBIT Margin (%) | | | | | | | | |
| Domestic | 21.8 | 24.6 | 20.0 | 23.3 | 24.3 | 20.7 | 18.2 | 21.1 |
| International | 10.5 | 19.1 | 15.8 | 14.6 | 7.7 | 20.2 | 17.3 | 13.0 |
| Total | 19.1 | 23.4 | 18.9 | 21.2 | 20.7 | 20.6 | 18.0 | 19.4 |
| EBIT Mix (%) | | | | | | | | |
| Domestic | 86.6 | 83.0 | 78.8 | 83.8 | 91.9 | 78.9 | 78.9 | 86.0 |
| International | 13.4 | 17.0 | 21.2 | 16.2 | 8.1 | 21.1 | 21.1 | 14.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Company, Trust

Exhibit 5: International Biz Sales Mix and Growth

| Countries | Sales Mix (%) | | | | | Sales Gr. (%) CC | | | | |
|-----------------|---------------|--------|--------|--------|--------|------------------|--------|--------|--------|--------|
| | Q3FY17 | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 | Q3FY17 | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 |
| Bangladesh | 45 | 44 | 44 | 44 | 44 | Flat | 5 | 12 | 11 | 12 |
| MENA | 20 | 15 | 15 | 15 | 15 | -11 | -46 | -14 | Flat | 15 |
| South Africa | 7 | 7 | 7 | 7 | 7 | 4 | 6 | 5 | -8 | 32 |
| South East Asia | 25 | 28 | 28 | 28 | 28 | 6 | 11 | 7 | -8 | -4 |
| Others | 3 | 6 | 5 | 5 | 5 | | | | 15 | 4 |

Source: Company, Trust



Consolidated Financials

P&L Statement

| Y/E Mar (₹mn) | FY15 | FY16 | FY17 | FY18E | FY19E |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Revenues | 57,330 | 60,173 | 59,178 | 63,494 | 72,289 |
| % Growth | 22.3 | 5.0 | (1.7) | 7.3 | 13.9 |
| Raw Material | 31,190 | 30,706 | 28,310 | 31,712 | 35,671 |
| Staff | 3,251 | 3,734 | 4,042 | 4,143 | 4,724 |
| Other Expenses | 14,237 | 15,220 | 15,234 | 15,741 | 17,898 |
| Total Expenditures | 48,679 | 49,660 | 47,585 | 51,596 | 58,293 |
| EBITDA | 8,651 | 10,514 | 11,593 | 11,898 | 13,995 |
| % Growth | 15.7 | 21.5 | 10.3 | 2.6 | 17.6 |
| EBITDA Margins (%) | 15.1 | 17.5 | 19.6 | 18.7 | 19.4 |
| Other Income | 589 | 934 | 973 | 1,330 | 1,482 |
| Interest | 230 | 206 | 166 | 187 | 161 |
| Depreciation | 843 | 949 | 903 | 1,075 | 1,282 |
| Profit Before Tax | 8,167 | 10,287 | 11,487 | 11,966 | 14,034 |
| Provision for tax | 2,368 | 3,054 | 3,377 | 3,650 | 4,280 |
| Effective tax rate (%) | 29.0 | 29.7 | 29.4 | 30.5 | 30.5 |
| Reported PAT | 5,685 | 7,234 | 8,109 | 8,316 | 9,754 |
| % Growth | 17.1 | 27.2 | 12.1 | 2.6 | 17.3 |
| Adjusted PAT | 5,685 | 7,498 | 7,929 | 8,316 | 9,754 |
| % Growth | 17.1 | 31.9 | 5.7 | 4.9 | 17.3 |

Balance Sheet

| ₹mn (Y/E Mar) | FY15 | FY16 | FY17 | FY18E | FY19E |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Equity capital | 645 | 1,290 | 1,291 | 1,291 | 1,291 |
| Reserves & surplus | 17,360 | 18,884 | 21,966 | 25,196 | 29,862 |
| Shareholders' funds | 18,005 | 20,174 | 23,257 | 26,486 | 31,153 |
| Minorities interests | 137 | 143 | 133 | 133 | 133 |
| Total Debt | 3,478 | 1,656 | 2,547 | 2,192 | 1,892 |
| Capital Employed | 21,619 | 21,973 | 25,937 | 28,812 | 33,178 |
| Net fixed assets | 10,970 | 11,186 | 11,122 | 11,546 | 12,065 |
| Cash & Cash Eq. | 2,111 | 3,171 | 2,273 | 2,320 | 3,236 |
| Net other Current Assets | 3,575 | 1,627 | 6,408 | 6,810 | 7,743 |
| Investment | 3,355 | 5,124 | 5,919 | 7,919 | 9,919 |
| Other assets | 402 | 443 | 340 | 340 | 340 |
| Net Deferred Tax Assets | 1,207 | 421 | (125) | (125) | (125) |
| Total assets | 21,619 | 21,973 | 25,937 | 28,812 | 33,178 |

**Cash flow**

| ₹mn (Y/E Mar) | FY15 | FY16 | FY17 | FY18E | FY19E |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| Pre-tax profit | 8,217 | 10,287 | 11,487 | 11,966 | 14,034 |
| Depreciation | 843 | 949 | 903 | 1,075 | 1,282 |
| Total tax paid | (2,097) | (2,474) | (2,964) | (3,650) | (4,280) |
| Chg in working capital | (169) | (197) | (2,785) | (403) | (932) |
| Other operating activities | (146) | (389) | (525) | 187 | 161 |
| Cash flow from oper. (a) | 6,648 | 8,176 | 6,116 | 9,176 | 10,264 |
| Capital expenditure | (579) | (856) | (709) | (1,500) | (1,800) |
| Chg in investments | 410 | (1,282) | 28 | (2,000) | (2,000) |
| Other investing activities | (1,623) | 169 | 50 | - | - |
| Cash flow from inv. (b) | (1,792) | (1,969) | (630) | (3,500) | (3,800) |
| Free cash flow (a+b) | 4,857 | 6,207 | 5,485 | 5,676 | 6,464 |
| Equity raised/(repaid) | 6 | 50 | 0 | - | (0) |
| Debt raised/(repaid) | (437) | (447) | (670) | (355) | (300) |
| Chg in Minorities int. | - | - | - | - | - |
| Dividend (incl. tax) | (3,001) | (5,023) | (5,088) | (5,087) | (5,087) |
| Other financing activities | (2,893) | (591) | 18 | (187) | (161) |
| Cash flow from fin. (c) | (6,324) | (6,010) | (5,740) | (5,629) | (5,548) |
| Net chg in cash (a+b+c) | (1,468) | 197 | (254) | 47 | 916 |

Key Ratios

| Y/E Mar | FY15 | FY16 | FY17 | FY18E | FY19E |
|----------------------------------|------|------|-------|-------|-------|
| Raw Material Cost/Sales (%) | 54.4 | 51.0 | 47.8 | 49.9 | 49.3 |
| Manpower Cost/Sales (%) | 5.7 | 6.2 | 6.8 | 6.5 | 6.5 |
| Operating & Other Cost/Sales (%) | 24.8 | 25.3 | 25.7 | 24.8 | 24.8 |
| Revenue Growth (%) | 22.3 | 5.0 | (1.7) | 7.3 | 13.9 |
| EBITDA Margins (%) | 15.1 | 17.5 | 19.6 | 18.7 | 19.4 |
| Net Income Margins (%) | 9.9 | 12.5 | 13.4 | 13.1 | 13.5 |
| ROCE (%) | 40.0 | 47.8 | 44.7 | 41.3 | 42.2 |
| ROE (%) | 31.6 | 37.2 | 34.1 | 31.4 | 31.3 |

Valuation Parameters

| Y/E Mar | FY15 | FY16 | FY17 | FY18E | FY19E |
|---------------------------------|------|-------|------|-------|-------|
| EPS (₹.) | 4.4 | 5.8 | 6.1 | 6.4 | 7.6 |
| P/E (x) | 43.1 | 42.2 | 51.3 | 48.1 | 41.0 |
| BV (₹) | 14.0 | 15.6 | 18.0 | 20.5 | 24.1 |
| P/BV (x) | 13.6 | 15.7 | 17.5 | 15.1 | 12.8 |
| EV/EBITDA (x) | 28.1 | 29.4 | 34.6 | 32.9 | 27.8 |
| Fixed assets turnover ratio (x) | 9.4 | 9.7 | 9.4 | 9.4 | 9.9 |
| Net Debt/Equity (x) | 0.1 | (0.1) | 0.0 | (0.0) | (0.0) |
| EV/Sales | 43.1 | 42.2 | 51.3 | 48.1 | 41.0 |



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