

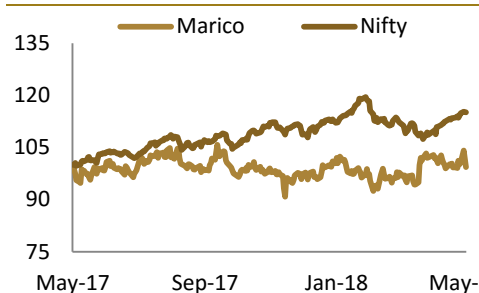
Market Statistics

Current stock price (₹)	318
Shares O/S (cr.)	129.1
Mcap (₹cr)	40,288
52W H/L (₹)	349/284
6m avg. volume	1,198,971
Bloomberg	MRCO in

Shareholding Pattern (%)

Promoters	59.71
Domestic Institution	6.39
Foreign Institution	27.42
Non-institution	6.48
of which more than 1%	
First State Investments	3.64
Cartica Capital	2.26

Marico vs Nifty



Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
ROE (%)	32.5	33.1	30.9
ROCE (%)	39.7	44.5	42.7
P/B(x)	16.1	13.5	11.2
P/E (x)	49.6	40.7	36.2
EPS (₹)	6.4	7.8	8.8
EV/OCF (x)	56.6	32.9	33.5

Marico's (MRCO) Q4FY18 consolidated revenue grew 12.6% YoY to Rs14.8b – in line with our expectation Rs14.9b. Domestic business (78% of total) revenue witnessed 12% growth mainly led by pricing while volumes disappointed at mere 1%. Parachute rigid (~25% of sales) registered 24% value growth and 5% volume decline; which shows the pricing power. Although management attributed this decline to an anomaly caused by combination of relatively concentrated price hikes in H2FY18 and higher base of volume growth (15% in post-demonetisation Q4FY17). VAHO portfolio grew by 9% & 11% in value and volume terms. Saffola continued to disappoint at -3% in value and -1% volume decline.

International business (22% of total) grew by 12.6% while on CC basis grew by 16%. On constant currency term, Bangladesh (45% of IBD) registered 17% growth, MENA (15% of IBD) grew sharp 61% on poor base & South East Asia (28% of IBD) de-grew by 3% while South Africa (7% of International) grew by 23% YoY.

Gross Margin contracted sharply by 551bps YoY to 46.6% YoY (flat QoQ) led by higher input costs. Average Copra prices during Q4FY18 climbed by 61% YoY. A&P spent grew 6%YoY & stood at 8% of sales, this is expected to go up to 10% over next two years. Employee and other expenses moved by -47bps & -186bps as % of sales. Hence, EBITDA Margin contracted by 269bps YoY to 17% in Q4FY18. EBITDA declined 3%YoY to Rs2.52b Vs our est. of Rs2.6b.

Sharp jump in copra prices hurts volume and margins despite healthy price hikes:

The volume growth in domestic FMCG operations was muted at 1%YoY, due to 5% YoY drop in Parachute coconut oil and 1% YoY drop in Saffola. Parachute coconut oil sales volumes were affected by a high base and sharp price hikes undertaken to offset higher copra prices. Mid quarter drop in copra prices led to lower stocking by distributors partially affecting volumes of Parachute CNO. Management expects H1FY19 margin to remain affected due to high prices of copra however we expect MRCO to benefit from cooling off of copra prices from H2FY19 due to its dominant position vis a vis players in loose coconut oil market. The average market price of Copra, the largest component of input costs, was up 61% YoY in Q4FY18. Liquid Paraffin, Safflower Oil and HDPE were up 20%, 26% and 10% respectively. Value added hair oil (VAHO) volumes grew 11% YoY during Q4FY18 and expected to see recovery led by rural India. CSD channel grew 32% YoY, bouncing back after 4 quarters of decline. Rural growth at 12% outpaced urban growth of 5% similar to its peers. Management is confident of achieving 5-7% volume growth in coconut oil on full year basis. Saffola disappointed in FY18 however it is expected to start recovering from H1FY19 led by some term initiatives like pricing actions and reduction in premium over other edible oils.

IBD performance picked up on CC basis and poor base: International biz grew by 12.6% while on CC basis grew by 16%. On constant currency term, Bangladesh (45% of IBD) registered 17% growth, MENA (15% of IBD) grew sharp 61% on poor base & South East Asia (28% of IBD) de-grew by 3% while South Africa (7% of International) grew by 23% YoY.

Outlook & Valuation: MRCO has maintained healthy profitable growth in the past due to its pricing power in coconut and margin expansion in deflationary RM price scenario; while it has consistently expanded its product portfolio in VAHO and market reach. Recent acquisitions in youth portfolio although insignificant now should deliver strong growth over next few years. We are upgrading our EPS estimates for FY19E and FY20E by 3% to Rs7.8 and Rs8.8 respectively. Stock trades at 36x FY20E EPS. We **upgrade the stock to BUY** from **HOLD** as we expect MRCO to benefit from impending softening of copra prices in H2FY19 and overall recovery in IBD business.

Analyst

Tushar Chaudhari

+91-2242245119

tushar.chaudhari@trustgroup.in



Exhibit 1: Quarterly Performance

Particulars (₹mn)	Q4FY17	Q3FY18	Q4FY18	YoY change (%)
Net Sales	13,146	16,243	14,801	12.6%
Total RM cost	6,290	8,688	7,896	25.5%
Gross Profit	6,856	7,556	6,905	0.7%
Gross Margin %	52.2%	46.5%	46.6%	-551bps
Staff cost	981	1,026	1,035	5.4%
% of net sales	7.5%	6.3%	7.0%	-47bps
Advertisements & sales promotion	1,107	1,439	1,175	6.2%
% of net sales	8.4%	8.9%	7.9%	-48bps
Other Expenses	2,174	2,070	2,172	-0.1%
% of net sales	16.5%	12.7%	14.7%	-186bps
EBITDA	2,595	3,021	2,523	-2.8%
EBITDA margin %	19.7%	18.6%	17.0%	-269bps
PBIT	2,544	2,982	2,521	-0.9%
PBIT margin %	19.4%	18.4%	17.0%	-232bps
PBT	2,493	2,943	2,468	-1.0%
Tax	579	789	707	22.0%
Effective tax rate %	31.4%	24.1%	26.0%	-536bps
Reported PAT	1,709	2,233	1,832	7.2%
Adjusted PAT	1,656	2,157	1,832	10.7%

Source: Company, Trust

Exhibit 2: Market Share and Ranking

Market Share - Volume (%)	Q4FY18	Rank
India		
Coconut Oils	59	1
Saffola	69	1
Hair Oils	34	1
Livon and Silk & Shine	82	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)	39	1
Hair Code & Fiancée Hair Gels/Cream (Egypt)	53	1

Source: Company, Trust

Exhibit 3: Category Volume and Value growth

Category Growth Performance (%)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
FMCG Business (India)					
Value Growth	5.9	-4.3	11.5	18.8	12.0
Volume Growth	10.0	-9.0	8.0	9.4	1.0
Parachute Coconut Oil (Rigid Pack)					
Value Growth	11.0	3.0	26.0	41.0	24.0
Volume Growth	15.0	-9.0	12.0	15.0	-5.0
Value Added Hair Oils					
Value Growth	9.0	-7.0	12.0	7.0	9.0
Volume Growth	10.0	-8.0	12.0	8.0	11.0
Saffola (Refined Edible Oil)					
Value Growth	3.0	-8.0	1.0	-4.0	-3.0
Volume Growth	6.0	-9.0	3.0	0.0	-1.0

Source: Company, Trust



Exhibit 4: Segmental Analysis

Segmental Analysis	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Sales (₹mn)									
Domestic	9,775	13,874	10,760	10,811	10,350	13,275	12,000	12,846	11,569
International	3,146	3,669	3,670	3,356	2,870	3,648	3,363	3,397	3,232
Total	12,920	17,543	14,430	14,167	13,220	16,923	15,363	16,243	14,801
EBIT (₹mn)									
Domestic	2,134	3,411	2,150	2,521	2,510	2,750	2,180	2,708	2,398
International	330	701	580	489	220	737	583	441	340
Total	2,464	4,112	2,730	3,010	2,730	3,487	2,763	3,149	2,738
Sales Growth (%)									
Domestic	3.0	(1.2)	(2.5)	(9.5)	5.9	(4.3)	11.5	18.8	11.8
International	13.6	5.9	4.9	(0.1)	(8.8)	(0.6)	(8.4)	1.2	12.6
Total	5.4	0.2	(0.8)	(7.4)	2.3	(3.5)	6.5	14.7	12.0
Sales Mix (%)									
Domestic	75.7	79.1	74.6	76.3	78.3	78.4	78.1	79.1	78
International	24.3	20.9	25.4	23.7	21.7	21.6	21.9	20.9	22
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100
EBIT Margin (%)									
Domestic	21.8	24.6	20.0	23.3	24.3	20.7	18.2	21.1	20.7
International	10.5	19.1	15.8	14.6	7.7	20.2	17.3	13.0	10.5
Total	19.1	23.4	18.9	21.2	20.7	20.6	18.0	19.4	18.5
EBIT Mix (%)									
Domestic	86.6	83.0	78.8	83.8	91.9	78.9	78.9	86.0	88
International	13.4	17.0	21.2	16.2	8.1	21.1	21.1	14.0	12
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100

Source: Company, Trust

Exhibit 5: International Biz Sales Mix and Growth

Countries	Sales Mix (%)					Sales Gr. (%) CC				
	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Bangladesh	44	44	44	44	45	5	12	11	12	17
MENA	15	15	15	15	14	-46	-14	Flat	15	61
South Africa	7	7	7	7	9	6	5	-8	32	23
South East Asia	28	28	28	28	26	11	7	-8	-4	-3
Others	6	5	5	5	6	-	-	15	4	16

Source: Company, Trust



Consolidated Financials

P&L Statement

Y/E Mar (₹mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	60,173	59,178	63,222	73,735	83,847
% Growth	5.0	(1.7)	6.8	16.6	13.7
Raw Material	30,706	28,310	33,482	36,385	41,626
Staff	3,734	4,042	4,222	4,724	5,338
Other Expenses	15,220	15,234	14,140	18,180	20,508
Total Expenditures	49,660	47,585	51,844	59,289	67,472
EBITDA	10,514	11,593	11,378	14,446	16,375
% Growth	21.5	10.3	(1.9)	27.0	13.4
EBITDA Margins (%)	17.5	19.6	18.0	19.6	19.5
Other Income	934	973	846	1,484	1,504
Interest	206	166	162	197	137
Depreciation	949	903	891	1,230	1,436
Profit Before Tax	10,287	11,487	11,171	14,504	16,305
Provision for tax	3,054	3,377	2,896	4,424	4,973
Effective tax rate (%)	29.7	29.4	25.9	30.5	30.5
Reported PAT	7,234	8,109	8,277	10,080	11,332
% Growth	27.2	12.1	2.1	21.8	12.4
Adjusted PAT	7,498	7,929	8,277	10,080	11,332
% Growth	31.9	5.7	4.4	21.8	12.4

Balance Sheet

₹mn (Y/E Mar)	FY16	FY17	FY18	FY19E	FY20E
Equity capital	1,290	1,291	1,291	1,291	1,291
Reserves & surplus	18,884	21,966	24,138	29,129	35,373
Shareholders' funds	20,174	23,257	25,429	30,420	36,664
Minorities interests	143	133	125	125	125
Total Debt	1,656	2,547	3,093	1,892	1,592
Capital Employed	21,973	25,937	28,647	32,437	38,381
Net fixed assets	11,186	11,122	11,499	12,069	12,433
Cash & Cash Eq.	3,171	2,273	3,080	4,969	7,459
Net other Current Assets	1,627	6,408	8,571	7,902	8,992
Investment	5,124	5,919	5,226	7,226	9,226
Other assets	443	340	473	473	473
Net Deferred Tax Assets	421	(125)	(202)	(202)	(202)
Total assets	21,973	25,937	28,647	32,437	38,381

**Cash flow**

₹mn (Y/E Mar)	FY16	FY17	FY18	FY19E	FY20E
Pre-tax profit	10,287	11,487	11,171	14,504	16,305
Depreciation	949	903	891	1,230	1,436
Total tax paid	(2,474)	(2,964)	(2,896)	(4,424)	(4,973)
Chg in working capital	(197)	(2,785)	(2,163)	669	(1,090)
Other operating activities	(389)	(525)	162	197	137
Cash flow from oper. (a)	8,176	6,116	7,165	12,176	11,816
Capital expenditure	(856)	(709)	(1,268)	(1,800)	(1,800)
Chg in investments	(1,282)	28	693	(2,000)	(2,000)
Other investing activities	169	50	-	-	-
Cash flow from inv. (b)	(1,969)	(630)	(575)	(3,800)	(3,800)
Free cash flow (a+b)	6,207	5,485	6,590	8,376	8,016
Equity raised/(repaid)	50	0	(1,016)	0	0
Debt raised/(repaid)	(447)	(670)	546	(1,201)	(300)
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(5,023)	(5,088)	(5,089)	(5,089)	(5,089)
Other financing activities	(591)	18	(162)	(197)	(137)
Cash flow from fin. (c)	(6,010)	(5,740)	(5,721)	(6,486)	(5,526)
Net chg in cash (a+b+c)	197	(254)	870	1,889	2,489

Key Ratios

Y/E Mar	FY16	FY17	FY18	FY19E	FY20E
Raw Material Cost/Sales (%)	51.0	47.8	53.0	49.3	49.6
Manpower Cost/Sales (%)	6.2	6.8	6.7	6.4	6.4
Operating & Other Cost/Sales (%)	25.3	25.7	22.4	24.7	24.5
Revenue Growth (%)	5.0	(1.7)	6.8	16.6	13.7
EBITDA Margins (%)	17.5	19.6	18.0	19.6	19.5
Net Income Margins (%)	12.5	13.4	13.1	13.7	13.5
ROCE (%)	47.8	44.7	39.7	44.5	42.7
ROE (%)	37.2	34.1	32.5	33.1	30.9

Valuation Parameters

Y/E Mar	FY16	FY17	FY18	FY19E	FY20E
EPS (₹.)	5.8	6.1	6.4	7.8	8.8
P/E (x)	42.2	51.3	49.6	40.7	36.2
BV (₹)	15.6	18.0	19.7	23.6	28.4
P/BV (x)	15.7	17.5	16.1	13.5	11.2
EV/EBITDA (x)	29.4	34.6	35.6	27.7	24.1
Fixed assets turnover ratio (x)	9.7	9.4	9.5	10.2	11.1
Net Debt/Equity (x)	(0.1)	0.0	0.0	(0.1)	(0.2)
EV/Sales	42.2	51.3	49.6	40.7	36.2



Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
Sales				
Vijay Shah	Sales		vijay.shah@trustgroup.in	+91-22-4084-5090
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4084-5028
Research Team				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Tushar Chaudhari	Analyst	Commodities, Consumer & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119

**DISCLAIMER**

This document has been prepared by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) to provide information about the company (ies) and/sector(s), if any, covered in the report. This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and TFCSP is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

Information and opinions presented in this report were obtained or derived from sources that TFCSP believes to be reliable, but TFCSP makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. TFCSP accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to TFCSP. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by TFCSP and are subject to change without notice. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Other Disclosures by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) under SEBI (Research Analysts) Regulations, 2014 with reference to the subject companies(s) covered in this report:

TFCSP is engaged in the business of Retail & Institutional Stock Broking. TFCSP is a member of the National Stock Exchange of India Limited, BSE Limited and Metropolitan Stock Exchange of India Limited.

The associate/subsidiary companies of TFCSP are engaged in the businesses of Merchant Banking, portfolio management, lending, wealth management etc.

TFCSP's activities were neither suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years.

TFCSP has not been debarred from doing business by any Stock Exchange / SEBI or any other authority.

No disciplinary action has been taken by any regulatory authority against TFCSP impacting its equity research analysis activities.

TFCSP and its associate/subsidiary companies may have managed or co-managed public offering of securities, may have received compensation for merchant banking or brokerage services, may have received any compensation for products or services other than merchant banking or brokerage services from the subject company in the past 12 months.

TFCSP and its associate/subsidiary companies have not received any compensation or other benefits from the subject company or third party in connection with the research report.

Subject Company may have been a client of TFCSP or its associate/subsidiary companies during twelve months preceding the date of distribution of the research report. TFCSP and/or its associate/subsidiary companies and/or employees may have interests/positions, financial or otherwise of over 1% at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report.

TFCSP is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH000001543.

Analyst Certification: The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject company securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of TFCSP research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Name of Company
Analyst Ownership of Stock	No
Served as Director or Employee	No

Stock Ratings are defined as follows :-Recommendation Interpretation

Recommendation **Expected absolute returns (%) over 12 months**

Buy More than 15%

Hold 15% to -15%

Sell Less than -15%

Regional Disclosures (outside India): This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject TFCSP or its associate/subsidiaries.