

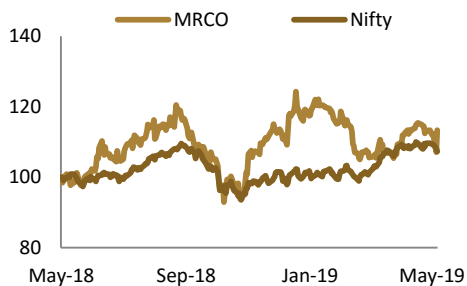
### Market Statistics

Current stock price (₹)	359
Shares O/S (cr.)	129.1
Mcap (₹cr)	46,396
52W H/L (₹)	397/283
6m avg. volume	1,949,818
Bloomberg	MRCO in

### Shareholding Pattern (%)

Promoters	59.71
Domestic Institution	5.47
Foreign Institution	26.56
Non-institution	8.26
of which more than 1%	
First State Investments	3.25
Arisaig India Fund	2.03

### Marico vs Nifty



### Capital efficiency & valuations

Particulars	FY19	FY20E	FY21E
ROE (%)	30.7	30.8	29.3
ROCE (%)	39.0	39.2	37.9
P/B(x)	15.0	12.5	10.2
P/E (x)	48.9	40.4	34.7
EPS (₹)	7.3	8.9	10.3
EV/OCF (x)	39.4	38.3	32.2

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Marico's (MRCO) 4QFY19 consolidated revenue grew 8.7% YoY to Rs16.1b – tad lower than our expectation Rs16.5b. Domestic business (77% of total) revenue witnessed 7% growth mainly led by volumes while realization declined 1% YoY. Parachute rigid (~25% of sales) registered mere 4% value growth but 6% volume growth; which is tad lower however on a higher base of value growth. MRCO maintains its medium term volume growth target of 6-8%. Saffola portfolio grew strong by 15% & 18% in value and volume terms. VAHO portfolio grew 7% in value and just 1% in volume terms. Management was confident of decent volume growth in near term as reliance on rural business is relatively lower than its peers at 35%. International business (IBD) performance was stronger mainly on margin front.

#### Decent volume growth despite strong pricing action undertaken in base quarters:

Consolidated gross Margin improved 239bps YoY to 49% YoY (improved 274bps QoQ) led by fall in copra prices which benefited standalone margins. Management is confident of maintaining margin in coming quarters as copra prices are expected to fall 15-20% in FY20 and lower price inventory would continue to improve margins. A&P spends were jacked up during the quarter to support volume growth. EBITDA Margin improved 54bps YoY to 17.6% in 4QFY19. EBITDA grew 12.2% YoY to Rs2.83b tad lower than our est. of Rs3b.

The volume growth in domestic FMCG operations was at 8% YoY, in-line with estimates largely due to Saffola. Value growth was lower for the quarter as price adjustments were undertaken to push volume growth on a higher base of value growth. The pressure on gross margins has subsided as low cost inventory of copra aids gross margin recovery. Management also expects copra prices to remain soft in FY20 which should aid MRCO to improve margins. Parachute Rigids posted 6% volume growth, but market share improved by 200bps and low margin non focused brands also reverted to growth during the quarter. Saffola refined edible oils grew by strong 18% in volume terms as the franchise responded to the focused marketing initiatives undertaken during the year towards re-establishing the superior product proposition and deploying tactical pricing inputs. 4QY19 growth was led mainly by Modern Trade and E-Commerce. Initial signs of recovery seen in Edible Oils, pace of growth in Healthy Foods picks up; MRCO also introduced power breakfast options under 'Saffola FITTIFY Gourmet' and coconut-based organic food offerings under 'Coco Soul'. The Healthy Foods franchise posted value growth of 38% in Q4FY19 and 32% in FY19. Value Added Hair Oils (VAHO) grew mere 1% in volume terms, due to underperformance in the premium segment and clearing of channel inventory prior to MRP decreases in select brands from April 2019. MRCO has reduced MRPs of select brands by 5% w.e.f. 1<sup>st</sup> April 2019.

**Stronger IBD performance:** International business (23% of total) grew by 14.2% YoY while on Constant Currency basis grew by 7%. On CC basis, Bangladesh (46% of IBD) registered 12% revenue growth, MENA (15% of IBD) grew 5% & South East Asia (26% of IBD) grew by 4% while South Africa performance (8% of International) was muted YoY. EBIT margins improved 580bps YoY to 16.3%.

**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, Saffola and overall market reach. Focus on new product development, innovations applied while entering new categories and continued premiumisation drive is expected to deliver strong earnings growth over next few years. Stock trades at 34.7x FY21E EPS. Maintain **BUY** as we expect MRCO to benefit from softening of copra prices, improving Saffola franchise and overall recovery in domestic consumption.



**Exhibit 1: Quarterly Performance**

Particulars (₹mn)	Q4FY18	Q3FY19	Q4FY19	YoY change (%)
<b>Net Sales</b>	<b>14,801</b>	<b>18,610</b>	<b>16,090</b>	<b>8.7%</b>
Total RM cost	7,896	9,994	8,200	3.8%
<b>Gross Profit</b>	<b>6,905</b>	<b>8,616</b>	<b>7,890</b>	<b>14.3%</b>
Gross Margin %	46.6%	46.3%	49.0%	239bps
Staff cost	1,035	1,204	1,170	13.1%
% of net sales	7.0%	6.5%	7.3%	28bps
Advertisements & sales promotion	1,175	1,644	1,530	30.2%
% of net sales	7.9%	8.8%	9.5%	157bps
Other Expenses	2,172	2,279	2,360	8.6%
% of net sales	14.7%	12.2%	14.7%	-1bps
<b>EBITDA</b>	<b>2,523</b>	<b>3,489</b>	<b>2,830</b>	<b>12.2%</b>
EBITDA margin %	17.0%	18.8%	17.6%	54bps
PBIT	2,521	3,479	2,820	11.9%
PBIT margin %	17.0%	18.7%	17.5%	50bps
PBT	2,468	3,431	2,740	11.0%
Tax	707	1,060	560	-20.8%
Effective tax rate %	26.0%	26.6%	20.4%	-558bps
Reported PAT	1,819	2,517	4,050	122.6%
<b>Adjusted PAT</b>	<b>1,819</b>	<b>2,517</b>	<b>2,170</b>	<b>19.3%</b>

Source: Company, Trust

**Exhibit 2: Market Share and Ranking**

Market Share - Volume (%)	Q4FY19	Rank
<b>India</b>		
Coconut Oils	59	1
Saffola	73	1
Hair Oils	34	1
Livon and Silk & Shine	75	1
Hair Creams/Gels	60	1
<b>Overseas</b>		
Value Added Hair Oils (Bangladesh)	23	2
Parachute Coconut Oil (Bangladesh)	86	1
X-Men Men's Shampoo (Vietnam)	39	1
Hair Code & Fiancée Hair Gels/Cream (Egypt)	54	1

Source: Company, Trust

**Exhibit 3: Category Volume and Value growth**

Category Growth Performance (%)	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
<b>FMCG Business (India)</b>					
Value Growth	12	23	20	13	7
Volume Growth	1	12	6	5	8
<b>Parachute Coconut Oil (Rigid Pack)</b>					
Value Growth	24	38	32	19	4
Volume Growth	(5)	9	8	9	6
<b>Value Added Hair Oils</b>					
Value Growth	9	12	12	19	7
Volume Growth	11	15	5	7	1
<b>Saffola (Refined Edible Oil)</b>					
Value Growth	(3)	9	9	8	15
Volume Growth	(1)	10	5	2	18

Source: Company, Trust



**Exhibit 4: Segmental Analysis**

Segmental Analysis	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
<b>Sales (₹mn)</b>									
Domestic	10,350	13,275	12,000	12,846	11,569	16,280	14,390	14,494	12,400
International	2,870	3,648	3,363	3,397	3,232	3,990	3,980	4,116	3,690
<b>Total</b>	<b>13,220</b>	<b>16,923</b>	<b>15,363</b>	<b>16,243</b>	<b>14,801</b>	<b>20,270</b>	<b>18,370</b>	<b>18,610</b>	<b>16,090</b>
<b>EBIT (₹mn)</b>									
Domestic	2,510	2,750	2,180	2,708	2,398	2,980	2,460	2,852	2,400
International	220	737	583	441	340	790	710	787	600
<b>Total</b>	<b>2,730</b>	<b>3,487</b>	<b>2,763</b>	<b>3,149</b>	<b>2,738</b>	<b>3,770</b>	<b>3,170</b>	<b>3,639</b>	<b>3,000</b>
<b>Sales Growth (%)</b>									
Domestic	5.9	(4.3)	11.5	18.8	11.8	22.6	19.9	12.8	7.2
International	(8.8)	(0.6)	(8.4)	1.2	12.6	9.4	18.4	21.2	14.2
<b>Total</b>	<b>2.3</b>	<b>(3.5)</b>	<b>6.5</b>	<b>14.7</b>	<b>12.0</b>	<b>19.8</b>	<b>19.6</b>	<b>14.6</b>	<b>8.7</b>
<b>Sales Mix (%)</b>									
Domestic	78.3	78.4	78.1	79.1	78.2	80.3	78.3	77.9	77.1
International	21.7	21.6	21.9	20.9	21.8	19.7	21.7	22.1	22.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>EBIT Margin (%)</b>									
Domestic	24.3	20.7	18.2	21.1	20.7	18.3	17.1	19.7	19.4
International	7.7	20.2	17.3	13.0	10.5	19.8	17.8	19.1	16.3
<b>Total</b>	<b>20.7</b>	<b>20.6</b>	<b>18.0</b>	<b>19.4</b>	<b>18.5</b>	<b>18.6</b>	<b>17.3</b>	<b>19.6</b>	<b>18.6</b>
<b>EBIT Mix (%)</b>									
Domestic	91.9	78.9	78.9	86.0	87.6	79.0	77.6	78.4	80.0
International	8.1	21.1	21.1	14.0	12.4	21.0	22.4	21.6	20.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, Trust

**Exhibit 5: International Biz Sales Mix and Growth**

Countries	Sales Mix (%)					Sales Gr. (%) CC				
	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Bangladesh	45	45	45	45	46	17	9	10	16	12
MENA	14	14	14	14	15	61	17	19	8	5
South Africa	9	9	9	9	8	23	7	18	Muted	Muted
South East Asia	26	26	26	26	26	-3	Flat	14	13	4
Others	5	5	5	5	5	16	5	Flat	Flat	Flat

Source: Company, Trust



## Consolidated Financials

### P&L Statement

Y/E Mar (₹mn)	FY17	FY18	FY19E	FY20E	FY21E
<b>Net Revenues</b>	<b>59,178</b>	<b>63,222</b>	<b>73,340</b>	<b>82,586</b>	<b>91,460</b>
% Growth	(1.7)	6.8	16.0	12.6	10.7
Raw Material	28,310	33,510	40,177	42,284	46,096
Staff	4,042	4,222	4,666	4,785	5,216
Other Expenses	15,234	14,112	15,684	20,262	22,382
Total Expenditures	47,585	51,845	60,527	67,331	73,693
<b>EBITDA</b>	<b>11,593</b>	<b>11,378</b>	<b>12,813</b>	<b>15,255</b>	<b>17,767</b>
% Growth	10.3	(1.9)	12.6	19.1	16.5
EBITDA Margins (%)	19.6	18.0	17.5	18.5	19.4
Other Income	973	846	1,028	1,277	1,404
Interest	166	162	238	137	114
Depreciation	903	891	964	1,119	1,275
<b>Profit Before Tax</b>	<b>11,487</b>	<b>11,169</b>	<b>14,520</b>	<b>15,275</b>	<b>17,782</b>
Provision for tax	3,377	2,896	3,161	3,819	4,445
Effective tax rate (%)	29.4	25.9	21.8	25.0	25.0
<b>Reported PAT</b>	<b>8,109</b>	<b>8,274</b>	<b>11,358</b>	<b>11,456</b>	<b>13,336</b>
% Growth	12.1	2.0	37.3	0.9	16.4
<b>Adjusted PAT</b>	<b>7,929</b>	<b>8,274</b>	<b>9,478</b>	<b>11,456</b>	<b>13,336</b>
% Growth	5.7	4.3	14.6	20.9	16.4

### Balance Sheet

₹mn (Y/E Mar)	FY17	FY18	FY19E	FY20E	FY21E
Equity capital	1,291	1,291	1,291	1,291	1,291
Reserves & surplus	21,966	25,153	29,544	35,913	44,162
<b>Shareholders' funds</b>	<b>23,257</b>	<b>26,443</b>	<b>30,835</b>	<b>37,204</b>	<b>45,453</b>
Minorities interests	133	133	133	133	133
Total Debt	2,547	2,192	1,892	1,592	1,292
<b>Capital Employed</b>	<b>25,937</b>	<b>28,769</b>	<b>32,860</b>	<b>38,929</b>	<b>46,878</b>
Net fixed assets	11,122	11,731	12,567	13,247	13,773
Cash & Cash Eq.	2,273	4,132	6,331	10,709	17,131
Net other Current Assets	6,408	6,772	7,828	8,839	9,841
Investment	5,919	5,919	5,919	5,919	5,919
Other assets	340	340	340	340	340
Net Deferred Tax Assets	(125)	(125)	(125)	(125)	(125)
<b>Total assets</b>	<b>25,937</b>	<b>28,769</b>	<b>32,860</b>	<b>38,929</b>	<b>46,878</b>

**Cash flow**

₹mn (Y/E Mar)	FY17	FY18	FY19E	FY20E	FY21E
Pre-tax profit	11,487	11,169	14,520	15,275	17,782
Depreciation	903	891	964	1,119	1,275
Total tax paid	(2,964)	(2,896)	(3,161)	(3,819)	(4,445)
Chg in working capital	(2,785)	(364)	(1,056)	(1,011)	(1,002)
Other operating activities	(525)	162	238	137	114
<b>Cash flow from oper. (a)</b>	<b>6,116</b>	<b>8,962</b>	<b>11,504</b>	<b>11,702</b>	<b>13,723</b>
Capital expenditure	(709)	(1,500)	(1,800)	(1,800)	(1,800)
Chg in investments	28	-	-	-	-
Other investing activities	(594)	-	-	-	-
<b>Cash flow from inv. (b)</b>	<b>(1,275)</b>	<b>(1,500)</b>	<b>(1,800)</b>	<b>(1,800)</b>	<b>(1,800)</b>
<b>Free cash flow (a+b)</b>	<b>4,841</b>	<b>7,462</b>	<b>9,704</b>	<b>9,902</b>	<b>11,923</b>
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(670)	(355)	(300)	(300)	(300)
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(5,088)	(5,087)	(5,087)	(5,087)	(5,087)
Other financing activities	18	(162)	(2,118)	(137)	(114)
<b>Cash flow from fin. (c)</b>	<b>(5,740)</b>	<b>(5,603)</b>	<b>(7,505)</b>	<b>(5,525)</b>	<b>(5,501)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(899)</b>	<b>1,859</b>	<b>2,199</b>	<b>4,378</b>	<b>6,422</b>

**Key Ratios**

Y/E Mar	FY17	FY18	FY19E	FY20E	FY21E
Raw Material Cost/Sales (%)	47.8	53.0	54.8	51.2	50.4
Manpower Cost/Sales (%)	6.8	6.7	6.4	5.8	5.7
Operating & Other Cost/Sales (%)	25.7	22.3	21.4	24.5	24.5
Revenue Growth (%)	(1.7)	6.8	16.0	12.6	10.7
EBITDA Margins (%)	19.6	18.0	17.5	18.5	19.4
Net Income Margins (%)	13.4	13.1	12.9	13.9	14.6
ROCE (%)	44.7	39.5	39.0	39.2	37.9
ROE (%)	34.1	31.3	30.7	30.8	29.3

**Valuation Parameters**

Y/E Mar	FY17	FY18	FY19E	FY20E	FY21E
EPS (₹.)	6.1	6.4	7.3	8.9	10.3
P/E (x)	51.3	56.0	48.9	40.4	34.7
BV (₹)	18.0	20.5	23.9	28.8	35.2
P/BV (x)	17.5	17.5	15.0	12.5	10.2
EV/EBITDA (x)	34.6	40.0	35.3	29.4	24.9
Fixed assets turnover ratio (x)	9.4	9.1	9.4	9.8	10.2
Net Debt/Equity (x)	0.0	(0.1)	(0.1)	(0.2)	(0.3)
EV/Sales	51.3	56.0	48.9	40.4	34.7



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Buy                      More than 15%

Hold                     15% to -15%

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