

# Retail Equity Research Marico Limited

FMCG

BSE CODE: 531642

NSE CODE: MARICO

Bloomberg CODE: MRCO:IN

SENSEX: 40,165

**HOLD**

12M Investment period

Rating as per Large Cap

CMP Rs. 370

TARGET Rs. 403

RETURN 9% ↑

(Closing: 1-11-19)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

## Low volumes disappoint

Headquartered in Mumbai, Marico Limited is a leading Indian FMCG company with exports to over 25 countries. The company's product portfolio includes brands such as Parachute, Saffola, and Livon.

- Revenue declined -0.4% YoY to Rs 1,829cr in Q2FY20.
- EBITDA margin came in at 19.3% (+270bps YoY) helped by lower costs and improved product mix.
- PAT rose 16.5% YoY to Rs 247cr (vs. Rs. 212cr in Q2FY19).
- We assign a HOLD rating on the stock with a target price of Rs 403 based on 40x FY21E adj. EPS.

## Healthy margins despite flat revenues

The company's Q2FY20 revenue was flattish at Rs. 1,829cr (Q2FY19: Rs. 1,837cr), with improved international operations (+8.3% YoY to Rs. 431cr) on the back of strong performance in Bangladesh (contributing 46%; constant currency growth 15.0% YoY). Whereas revenues were negatively impacted by de-growth of 2.8% YoY in domestic sales to Rs. 1,398cr, owing to the subdued volume growth (+1.0% YoY) and slowdown in overall demand. EBITDA grew by 15.8% YoY to Rs 353cr, as EBITDA margin expanded 270bps YoY to 19.3% in Q2FY20, aided by better product mix and lower input costs, despite increase in advertising & promotion expenses (+12.1% YoY). PAT increased by 16.5% YoY to come Rs. 247cr.

## Key concall highlights

- Increased focus on digital initiatives to avail growth opportunities via e-commerce platforms. Company expects at least 5% contribution from e-commerce to its Indian business.
- The company plans to continue investing into brand building activities to support market growth initiatives in core categories and expansion into adjacent categories, thereby indicating higher advertising and promotion expenses.
- Plans of expanding the rural infrastructure of distributors and stockists to enhance rural distribution efficiency.
- Company has chosen not to opt for the new corporate tax structure.

## Growth revival expected in second half

In the recent past, Marico's performance has been affected drastically by changes in consumption patterns, esp. in the rural areas which witnessed a demand slowdown for its VAHO category of products. During the current quarter, external factors such as floods led to supply chain disruptions leading to a drop in volumes of sales of dependent products such as Parachute, further exacerbated by negative demand for such products in rural areas. Additionally, growth in the company's premium brands such as Saffola could not yet pick up to satisfactory levels. The company is banking on the launch of new products – Almond Plus Walnut Oil, FITTIFY, Coco Soul, and Kaya Youth – to help revive growth. We expect continual recovery, in light of government led reforms to enhance the consumer sentiment, the upcoming festive season and the good monsoon season this year.

## Valuation

The Company has reiterated its medium-term targets of 8-10% volume growth and a topline growth of 13-15% with an EBITDA margin of 18-19%. We estimate earnings to grow at CAGR of 7.8% over FY19-21. However, we remain cautious of volume growth in the near growth and assign a HOLD rating on the stock, with a target price of Rs 403 using 40x P/E on FY21E adj. EPS.

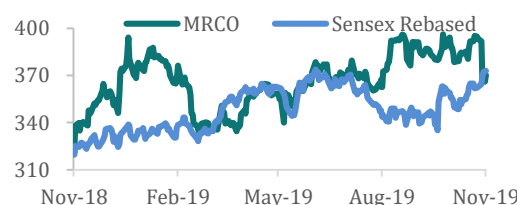
## Company Data

Market Cap (cr)	Rs. 47,644
Enterprise Value (cr)	Rs. 47,422
Outstanding Shares (cr)	128.6
Free Float	40.0%
Dividend Yield	1.3%
52 week high	Rs. 404
52 week low	Rs. 323
6m average volume (lacs)	0.8
Beta	0.4
Face value	Rs. 1

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	59.7	59.7	59.6
FII's	26.6	25.7	24.9
MFs/Insti	5.7	6.1	8.9
Public	3.8	3.8	3.9
Others	4.3	4.7	2.7
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	2.2%	3.3%	15.6%
Absolute Sensex	8.5%	2.9%	16.7%
Relative Return*	-6.3%	0.4%	-1.0%

\*over or under performance to benchmark index



Consolidated (Rs. cr)	FY19A	FY20E	FY21E
Sales	7,334	8,041	8,997
Growth (%)	15.8	9.6	11.9
EBITDA	1,281	1,563	1,794
EBITDA Margin (%)	17.5	19.4	19.9
Adj. PAT	1,118	1,129	1,299
Growth (%)	37.3	0.9	15.1
Adj. EPS	8.7	8.8	10.1
Growth (%)	37.2	0.9	15.1
P/E	40.0	42.3	36.8
P/B	14.9	13.7	11.4
EV/EBITDA	34.8	30.4	26.4
ROE (%)	37.3	31.8	31.1
D/E	0.1	0.1	0.1

## Quarterly Financials (Consolidated)

### Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Revenue	1,829	1,837	(0.4)	2,166	(15.6)	3,995	3,864	3.4
<b>EBITDA</b>	<b>353</b>	<b>305</b>	<b>15.8</b>	<b>461</b>	<b>(23.4)</b>	<b>814</b>	<b>672</b>	<b>21.2</b>
EBITDA margins	19.3	16.6	270bps	21.3	(200bps)	20.4	17.4	300bps
Depreciation	35	31	12.9	35	-	70	63	11.1
<b>EBIT</b>	<b>318</b>	<b>274</b>	<b>16.2</b>	<b>426</b>	<b>(25.4)</b>	<b>744</b>	<b>609</b>	<b>22.3</b>
Interest	13	10	30.0	12	8.3	25	19	31.6
Other Income	35	29	19.8	28	25.0	63	53	18.4
Exceptional Items	-	-	-	-19	-	-19	-	-
<b>PBT</b>	<b>340</b>	<b>293</b>	<b>16.0</b>	<b>423</b>	<b>(19.6)</b>	<b>763</b>	<b>643</b>	<b>18.7</b>
Tax	88	78	13.4	108	(18.5)	196	169	16.0
Share of profit from Associate	1	1	49.3	0	n.m.	1	1	7.5
Minority Interest	6	4	48.5	7	(14.3)	13	8	53.3
<b>Reported PAT</b>	<b>247</b>	<b>212</b>	<b>16.5</b>	<b>308</b>	<b>(19.8)</b>	<b>555</b>	<b>468</b>	<b>18.6</b>
Adjustments	0	0	n.m.	19	n.m.	19	0	n.m.
<b>Adjusted PAT</b>	<b>247</b>	<b>212</b>	<b>16.5</b>	<b>327</b>	<b>(24.5)</b>	<b>574</b>	<b>468</b>	<b>22.6</b>
No. of shares	128.6	129.1	(0.3)	129.8	(0.9)	128.6	129.1	(0.3)
<b>EPS (Rs)</b>	<b>1.9</b>	<b>1.7</b>	<b>15.7</b>	<b>2.4</b>	<b>(19.3)</b>	<b>4.3</b>	<b>3.6</b>	<b>18.1</b>

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	8,140	9,171	8,041	8,997	(1.2)	(1.9)
EBITDA	1,525	1,769	1,563	1,794	2.5	1.4
Margins (%)	18.7	19.3	19.4	19.9	70bps	60bps
Adj. PAT	1,121	1,302	1,129	1,299	0.7	(0.2)
EPS (Rs.)	9.0	10.0	8.8	10.1	(2.2)	1.0

## PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Revenue</b>	<b>5,936</b>	<b>6,333</b>	<b>7,334</b>	<b>8,041</b>	<b>8,997</b>
% change	(3.2)	6.7	15.8	9.6	11.9
<b>EBITDA</b>	<b>1,159</b>	<b>1,138</b>	<b>1,281</b>	<b>1,563</b>	<b>1,794</b>
% change	9.1	(1.9)	12.6	22.0	14.8
Depreciation	90	89	96	134	171
<b>EBIT</b>	<b>1,069</b>	<b>1,049</b>	<b>1,185</b>	<b>1,429</b>	<b>1,623</b>
Interest	17	16	24	41	68
Other Income	97	85	103	94	180
<b>PBT</b>	<b>1,150</b>	<b>1,117</b>	<b>1,264</b>	<b>1,482</b>	<b>1,735</b>
% change	11.2	(2.8)	13.1	17.3	17.1
Tax	338	290	128	356	416
Tax Rate (%)	29.4	25.9	10.1	24.0	24.0
<b>Reported PAT</b>	<b>799</b>	<b>814</b>	<b>1,118</b>	<b>1,110</b>	<b>1,299</b>
Adj*	-	-	-	19	-
<b>Adj PAT</b>	<b>799</b>	<b>814</b>	<b>1,118</b>	<b>1,129</b>	<b>1,299</b>
% change	10.2	2.0	37.3	0.9	15.1
No. of shares (cr)	128.8	128.9	129.0	128.9	128.9
<b>Adj EPS (Rs)</b>	<b>6.2</b>	<b>6.3</b>	<b>8.7</b>	<b>8.8</b>	<b>10.1</b>
% change	10.5	1.9	37.2	0.9	15.1
DPS (Rs)	3.5	4.3	4.8	4.8	4.8
CEPS (Rs)	6.9	7.0	9.4	9.8	11.4

## CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Net inc. + Depn.</b>	<b>889</b>	<b>904</b>	<b>1,214</b>	<b>1,244</b>	<b>1,470</b>
Non-cash adj.	18	(124)	(240)	203	87
Changes in W.C	(295)	(225)	44	185	(320)
<b>C.F. Operation</b>	<b>612</b>	<b>555</b>	<b>1,018</b>	<b>1,631</b>	<b>1,236</b>
Capital exp.	(81)	(123)	(143)	(322)	(360)
Change in inv.	(15)	66	(260)	(514)	(136)
Other invest.CF	34	74	52	(0)	(0)
<b>C.F - Investment</b>	<b>(63)</b>	<b>17</b>	<b>(351)</b>	<b>(836)</b>	<b>(496)</b>
Issue of equity	(13)	(14)	(18)	-	-
Issue/repay debt	(67)	69	40	8	2
Dividends paid	(509)	(636)	(682)	(618)	(618)
Other finance.CF	15	13	7	(41)	(68)
<b>C.F - Finance</b>	<b>(574)</b>	<b>(567)</b>	<b>(653)</b>	<b>(651)</b>	<b>(685)</b>
Chg. in cash	(59)	8	(2)	144	55
Closing cash	227	200	552	696	751

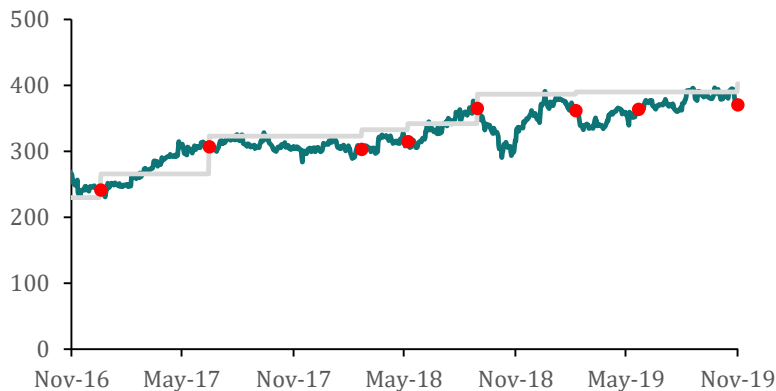
## BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	227	200	552	696	751
Accounts Receivable	247	341	517	643	900
Inventories	1,253	1,511	1,411	1,359	1,647
Other Cur. Assets	654	742	720	1,175	1,247
Investments	105	87	76	77	77
Gross Fixed Assets	713	781	898	1,220	1,580
Net Fixed Assets	547	534	572	742	916
CWIP	11	27	45	62	77
Intangible Assets	508	546	558	603	653
Def. Tax (Net)	10	9	188	71	83
Other Assets	38	85	103	107	111
<b>Total Assets</b>	<b>3,600</b>	<b>4,081</b>	<b>4,742</b>	<b>5,535</b>	<b>6,463</b>
Current Liabilities	984	1,168	1,351	1,606	1,827
Provisions	-	-	-	-	-
Debt Funds	239	309	349	357	359
Other Liabilities	38	49	32	53	59
Equity Capital	129	129	129	129	129
Reserves & Surplus	2,197	2,414	2,870	3,361	4,042
Shareholder's Fund	2,326	2,543	2,999	3,490	4,171
Minority Interest	13	13	11	28	48
<b>Total Liabilities</b>	<b>3,600</b>	<b>4,081</b>	<b>4,742</b>	<b>5,535</b>	<b>6,463</b>
<b>BVPS (Rs)</b>	<b>18</b>	<b>20</b>	<b>23</b>	<b>27</b>	<b>32</b>

## RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	19.5	18.0	17.5	19.4	19.9
EBIT margin (%)	18.0	16.6	16.2	17.8	18.0
Net profit mgn.(%)	13.5	12.9	15.2	13.8	14.4
ROE (%)	34.3	32.0	37.3	31.8	31.1
ROCE (%)	41.5	36.6	35.3	36.9	35.5
<b>W.C &amp; Liquidity</b>					
Receivables (days)	15.2	19.6	25.7	29.2	36.5
Inventory (days)	160.6	164.2	128.2	116.8	127.8
Payables (days)	89.2	89.3	85.8	103.4	110.7
Current ratio (x)	1.9	1.9	1.9	2.0	2.1
Quick ratio (x)	0.8	0.7	0.9	1.1	1.2
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	9.0	8.5	8.7	7.6	6.4
Total asset T.O (x)	1.7	1.6	1.7	1.6	1.5
Int. covge. ratio (x)	64.5	64.9	49.4	35.2	23.9
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.1
<b>Valuation</b>					
EV/Sales (x)	6.2	6.6	6.1	5.9	5.3
EV/EBITDA (x)	31.9	36.5	34.8	30.4	26.4
P/E (x)	46.3	50.9	40.0	42.3	36.8
P/BV (x)	15.9	16.3	14.9	13.7	11.4

## Recommendation Summary



Dates	Rating	Target
05-Aug-14	HOLD	133
19-Nov-14	HOLD	150
28-Apr-15	HOLD	210
06-Aug-15	HOLD	218
03-Feb-16	HOLD	230
19-Dec-16	HOLD	266
15-Jun-17	HOLD	323
21-Feb-18	HOLD	333
08-May-18	HOLD	342
30-Aug-18	HOLD	387
08-Feb-19	HOLD	390
22-May-19	HOLD	390
4-Nov-19	HOLD	403

## Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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