

Easing of copra prices aided margin improvement. Maintain Accumulate.

Marico's Q1FY20 revenue was in line with our estimate, but EBITDA and APAT was a beat. Volume growth was 6%, on a base of 12.5% growth. Although volume growth in Parachute was impressive at 9%, Saffola posted mere 3% volume growth. VAHO reported improvement in performance, volume growth improved to 7% in Q1FY20 vs 1% in Q4FY19. The company continues to gain traction in modern trade and e-commerce. However, general trade in urban markets posted decline during Q1FY20.

GM improved significantly (+500bps), from Q1FY19, primarily due to a decline in copra prices. We believe the trend will continue as copra prices are trading at low levels, compared to last year. We also believe that Saffola and VAHO volumes would recover, due to a favorable base, and the Parachute brand will continue its strong growth. In addition, low RM costs will help improve margin performance. We have upward revised our FY20E and FY21E EPS estimates at ₹ 9.3 and ₹ 10.2 respectively. Valuing the stock at 38x FY21E EPS to arrive at a TP of ₹388. Maintain Accumulate.

Profitability came ahead of estimates

Revenues jumped by 6.9% YoY to ₹ 21.7bn vs est of ₹ 21.8bn. Domestic business reported 6% revenue growth whereas IB posted 9% growth. EBITDA increased 25.7% YoY to ₹ 4.6bn vs est of ₹ 4.2bn. EBITDA margin expanded by 320bps to 21.3% driven by 520bps expansion in GM. However, the expansion in GM was partially offset by 190/20bps increase in A&P spends/employee cost respectively. RPAT increased 21.3% to ₹ 3.2bn. Excluding exceptional loss related to VRS, APAT jumped 28.6% YoY to ₹ 3.3bn.

Mixed segmental performance

Marico reported 6% volume growth. Key brands grew as follows in Q1FY20:

- Parachute rose 8% in value, with a 9% volume growth;
- Value added hair oils grew 11%/7% in value/volume terms; and
- Saffola posted 6% value growth and 3% volume growth.

International business (IB) posted a 9% sales growth in cc, with a +11%, +8% and +2% YoY in Bangladesh, South East Asia and MENA regions respectively.

Q1FY20 Result (₹ Mn)

Particulars	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Revenue	21,660	20,268	6.9	16,090	34.6
Total Expense	17,050	16,600	2.7	13,140	29.8
EBITDA	4,610	3,668	25.7	2,950	56.3
Depreciation	350	310	12.9	380	(7.9)
EBIT	4,260	3,358	26.9	2,570	65.8
Other Income	280	240	16.6	280	0.0
Interest	120	90	33.3	120	0.0
EBT	4,230	3,508	26.9	4,610	(8.2)
Tax	1,080	913	18.3	550	96.4
RPAT	3,150	2,598	21.3	4,050	(22.2)
APAT	3,340	2,598	28.6	2,170	53.9
			(bps)		(bps)
Gross Margin (%)	47.5	42.3	522	49.0	(153)
EBITDA Margin (%)	21.3	18.1	319	18.3	295
NPM (%)	14.5	12.8	173	25.2	(1063)
Tax Rate (%)	25.5	26.0	(50)	11.9	1360
EBIT Margin (%)	19.7	16.6	310	16.0	369

* Note: Write-back of tax provision of ₹1,880mn in Q4FY19

CMP	₹ 363
Target / Upside	₹ 388 / 7%
BSE Sensex	37,072
NSE Nifty	11,118

Scrip Details

Equity / FV	₹ 1,291mn / ₹ 1
Market Cap	₹ 468bn
	US\$ 7bn
52-week High/Low	₹ 397/₹ 283
Avg. Volume (no)	1,822,320
NSE Symbol	MARICO
Bloomberg Code	MRCO IN

Shareholding Pattern Jun'19(%)

Promoters	59.7
MF/Banks/FIs	5.9
FIIIs	26.1
Public / Others	8.4

Valuation (x)

	FY19A	FY20E	FY21E
P/E	50.3	39.2	35.5
EV/EBITDA	36.1	28.2	25.8
ROE (%)	40.4	36.9	35.0
RoACE (%)	32.0	35.8	33.4

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	73,340	80,530	89,736
EBITDA	12,810	16,260	17,521
PAT	11,181	11,947	13,166
EPS (₹)	7.2	9.3	10.2

VP Research: Sachin Bobade

Tel: +91 22 40969731

E-mail: sachinb@dolatcapital.com

Associate: Nikhat Koor

Tel: +91 22 40969764

E-mail: nikhatk@dolatcapital.com

Exhibit 1: Key presence across product portfolio

Brands	Category	Indicative market share range %	Rank
Parachute and Nihar	Coconut Oil (India)	60	1
Hair Oil (Hair & Care, Parachute Jasmine, Parachute Advansed, Nihar Naturals, Nihar Shanti Amla, Parachute Advansed Ayurvedic hair oil, Parachute Advansed Cooling oil)	Hair Oils (India)	34	1
Saffola	Super Premium refined Edible Oils	73	1
VAHO (Parachute Beliphool, Parachute Advansed Cooling Oil, Nihar Naturals)	Value added Hair oil (Bangladesh)	22	2
Saffola Oats *	Oats (India)	30	2
Livon and Silk & Shine	Post wash Leave- On Serums	63	1
Setwet and Parachute after shower*	Hair Creams/Gels (India)	60	1
Parachute (Bangladesh)	Coconut Oil (Bangladesh)	84	1
X-Men*	Men's shampoo (Vietnam)	38	1

Source: DART, Company (* Value market share)

Exhibit 2: Various brands performance

Key businesses	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
(Vol growth)									
Parachute Coconut Oil	(9)	12	15	(5)	9	8	9	6	9
Value Added Hair Oil (VAHO)	(8)	12	8	11	15	5	7	1	7
Saffola	(9)	3	0	(1)	10	5	2	18	3

Source: DART, Company

Exhibit 3: Summary of growth: Reported value growth (%)

Category / Business	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Indicative share to Group's Turnover basis FY19 results
Group	(4)	6	15	12	20	20	15	9	7	100
India business (incl youth brands)	(4)	12	19	12	23	20	13	7	6	78
Parachute Coconut Oil (rigid packs)	3	26	41	24	38	32	19	4	8	38
Value added hair oil	(7)	12	7	9	12	12	19	7	11	25
Saffola (refined edible oil)	(8)	1	(4)	(3)	9	9	8	15	6	17
International business	(1)	(8)	1	13	9	18	21	14	9	22

Source: DART, Company

Exhibit 4: YoY growth across international business in CC (%)

Region	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	% of overseas business (in Q1FY20)
Bangladesh	12	11	12	17	9	10	16	12	11	46
MENA	(14)	0	15	61	17	19	8	5	2	15
South Africa	5	1	32*	23*	7*	18	0	0	6	8
South East Asia	7	(8)	(4)	(3)	0	14	13	4	8	26

Source: DART, Company (*Note South Africa Business includes Isoplus performance Q3FY18 onwards)

Exhibit 5: Change in estimate

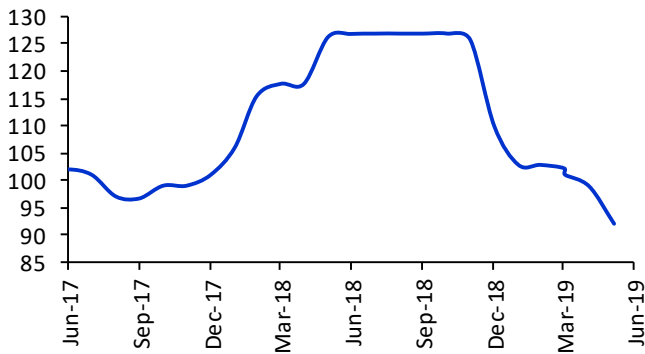
₹ Mn	FY20E			FY21E		
	New	Previous	Chg. (%)	New	Previous	Chg. (%)
Net Revenue	80,530	83,153	(3.2)	89,736	93,000	(3.5)
EBITDA	16,260	15,371	5.8	17,521	17,080	2.6
EBITDA Margin (%)	20.2	18.5	170 bps	19.5	18.4	120 bps
APAT	11,947	11,675	2.3	13,166	13,142	0.2
EPS (₹)	9.3	9.0	2.3	10.2	10.2	0.2

Source: DART, Company

Concall highlights

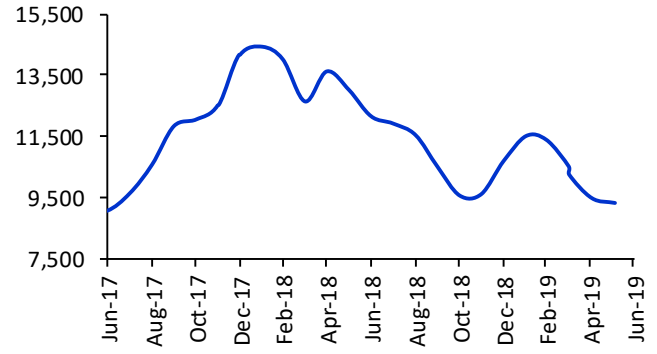
- During Q1FY20, Rural General Trade grew 6% YoY while urban GT declined 5%. Considering all three channels- GT, Modern trade and E-commerce, urban grew 5%. Modern trade grew by 30%, E-commerce almost doubled. CSD posted decent growth.
- Modern Trade, CSD and E-commerce contributes 13%, 6% and 4% of the India business respectively.
- The average market price of domestic copra was down 25% YoY. Rice Bran Oil, Liquid Paraffin (LLP) and HDPE declined 12%, 1% and 21% YoY respectively. Safflower Oil was up 20% YoY.
- Foods grew 38% in value terms. Saffola masala oats witnessed 20% growth. Company aspires Foods portfolio to reach ₹ 0.4bn in FY20 and ₹ 1.5-2.0bn in 2-3 years.
- Loose coconut oil accounts for 30-35% (~₹ 20bn) of coconut oil market providing enough room for Marico to convert unbranded users.
- Parachute market share in Bangladesh declined from 86% to 84% in MAT June'19 due to local competition. Marico is taking action to protect its market share.
- Company expects 6%- 8% volume within India with mild inflation in FY20E.
- Overall, Marico aims for a topline growth of 13-15% (depending on inflation) and volume growth of 8-10% over the medium term.
- IB grew 7% in constant currency in Q1FY20. There was a one-time trade inventory correction in the Gulf business. Adjusting for the same, constant currency growth in the IB stood at 9%.
- Overall, the operating margin is expected to be 19% in FY20. A&SP spends are likely to be 10% of sales.
- In international business, the company expects double-digit cc growth in remaining FY20E, with 18%+ operating margins.
- The capex is estimated to be ~` 1.25-1.5bn in FY20E.
- The company aims to grow Parachute Rigid volume in the range of 5-7% in the medium term and targets a double-digit volume growth in VAHO and high single digit growth in Saffola oil.

Exhibit 6: Price trend of HDPE ₹ / kg



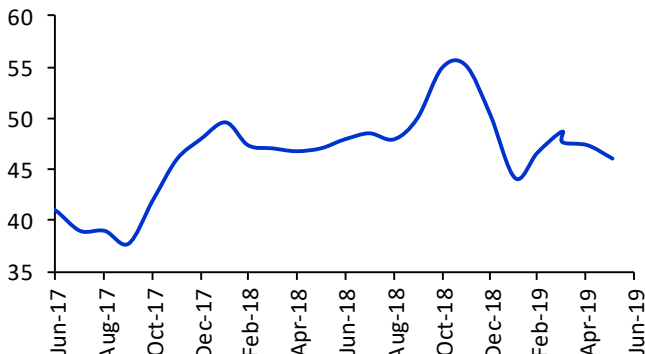
Source: DART, Company

Exhibit 7: Price trend of copra ₹ /100kg



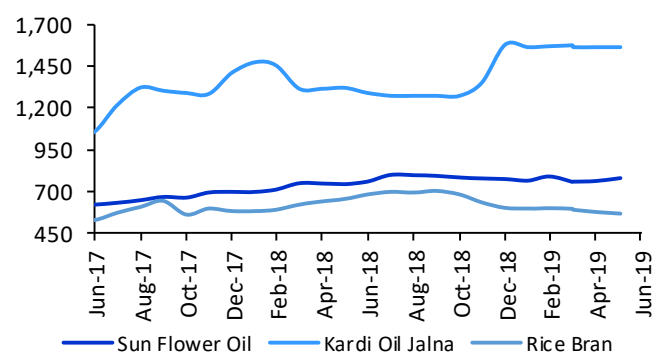
Source: DART, Company

Exhibit 8: Price trend of liquid paraffin ₹ /Lt



Source: DART, Company

Exhibit 9: Other key raw materials price trend ₹/10kg



Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	63,221	73,340	80,530	89,736
Total Expense	51,855	60,530	64,270	72,216
COGS	33,485	40,170	41,797	46,942
Employees Cost	4,220	4,660	5,118	5,693
Other expenses	14,150	15,700	17,355	19,581
EBIDTA	11,366	12,810	16,260	17,521
Depreciation	891	960	1,333	1,422
EBIT	10,475	11,850	14,928	16,098
Interest	162	239	440	453
Other Income	850	1,030	1,186	1,502
Exc. / E.O. items	0	1,880	0	0
EBT	11,163	14,521	15,675	17,147
Tax	2,896	3,160	3,539	3,783
RPAT	8,138	11,181	11,947	13,166
Minority Interest	130	180	189	198
Profit/Loss share of associates	0	0	0	0
APAT	8,138	9,301	11,947	13,166

Balance Sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Sources of Funds				
Equity Capital	1,291	1,291	1,291	1,291
Minority Interest	125	110	299	497
Reserves & Surplus	24,138	28,692	33,507	39,219
Net Worth	25,428	29,983	34,798	40,510
Total Debt	3,120	3,520	3,520	3,520
Net Deferred Tax Liability	202	(1,760)	(201)	(227)
Total Capital Employed	28,875	31,853	38,416	44,300

Applications of Funds

Net Block	11,107	11,476	11,444	11,021
CWIP	268	450	450	450
Investments	570	590	590	590
Current Assets, Loans & Advances	28,775	33,030	38,504	46,412
Inventories	15,109	14,110	16,355	17,350
Receivables	3,406	5,170	4,802	5,560
Cash and Bank Balances	2,002	5,520	9,482	15,022
Loans and Advances	3,401	4,320	3,955	4,570
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	11,845	13,693	12,572	14,173
Payables	8,260	9,470	10,398	11,587
Other Current Liabilities	3,585	4,223	2,174	2,586
Net Current Assets	16,930	19,337	25,932	32,239
Total Assets	28,875	31,853	38,416	44,300

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	47.0	45.2	48.1	47.7
EBIDTA Margin	18.0	17.5	20.2	19.5
EBIT Margin	16.6	16.2	18.5	17.9
Tax rate	25.9	21.8	22.6	22.1
Net Profit Margin	12.9	15.2	14.8	14.7
(B) As Percentage of Net Sales (%)				
COGS	53.0	54.8	51.9	52.3
Employee	6.7	6.4	6.4	6.3
Other	22.4	21.4	21.6	21.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	64.8	49.6	34.0	35.6
Inventory days	87	70	74	71
Debtors days	20	26	22	23
Average Cost of Debt	5.9	7.2	12.5	12.9
Payable days	48	47	47	47
Working Capital days	98	96	118	131
FA T/O	5.7	6.4	7.0	8.1
(D) Measures of Investment				
AEPS (₹)	6.3	7.2	9.3	10.2
CEPS (₹)	7.0	7.9	10.3	11.3
DPS (₹)	4.9	5.3	5.5	5.8
Dividend Payout (%)	78.1	73.3	59.7	56.6
BVPS (₹)	19.7	23.2	27.0	31.4
RoANW (%)	33.4	40.4	36.9	35.0
RoACE (%)	30.8	32.0	35.8	33.4
RoAIC (%)	41.6	44.5	54.0	55.3
(E) Valuation Ratios				
CMP (₹)	363	363	363	363
P/E	57.5	50.3	39.2	35.5
Mcap (₹ Mn)	468,044	468,044	468,044	468,044
MCap/ Sales	7.4	6.4	5.8	5.2
EV	464,305	462,134	458,172	452,632
EV/Sales	7.3	6.3	5.7	5.0
EV/EBITDA	40.9	36.1	28.2	25.8
P/BV	18.4	15.6	13.5	11.6
Dividend Yield (%)	1.4	1.5	1.5	1.6
(F) Growth Rate (%)				
Revenue	6.8	16.0	9.8	11.4
EBITDA	(2.0)	12.7	26.9	7.8
EBIT	(2.0)	13.1	26.0	7.8
PBT	(2.8)	30.1	7.9	9.4
APAT	1.9	14.3	28.4	10.2
EPS	1.9	14.3	28.4	10.2

Cash Flow

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	6,084	10,807	12,834	14,446
CFI	(623)	(630)	(1,300)	(1,000)
CFF	(5,819)	(6,659)	(7,571)	(7,907)
FCFF	4,804	9,207	11,534	13,446
Opening Cash	2,360	2,002	5,520	9,482
Closing Cash	2,002	5,520	9,482	15,022

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Feb-18	Reduce	309	310
May-18	Reduce	326	312
Aug-18	Accumulate	382	364
Nov-18	Buy	382	338
Feb-19	Accumulate	407	364
May-19	Accumulate	388	359
Jul-19	Accumulate	388	365

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kartik Sadagopan	VP - Equity Sales	kartiks@dolatcapital.com	+9122 4096 9762
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Ashwani Kandoi	AVP – Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	Manager – Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

II. Disclaimer:

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.

Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
