

Stock Update

Mixed quarter; Improved outlook

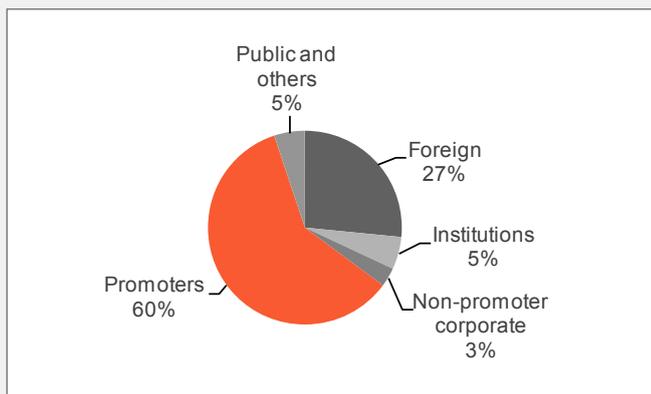
Marico

Reco: Buy | CMP: Rs340

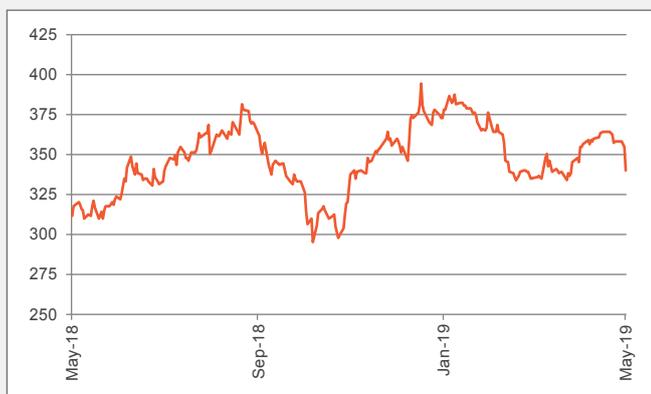
Company details

Price target:	Rs425
Market cap:	Rs43,889 cr
52-week high/low:	Rs397/286
NSE volume: (No of shares)	16.7 lakh
BSE code:	531642
NSE code:	MARICO
Sharekhan code:	MARICO
Free float: (No of shares)	52.0 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.3	-4.7	6.8	15.6
Relative to Sensex	0.1	-11.0	-4.4	2.9

Key points

- Volume growth stood at 8%; margin expansion due to lowering copra prices:** Marico's consolidated revenue grew by ~9% to Rs. 1,609 crore with domestic volume growth standing at 8% (better than Q3FY19 volume growth of 5%). Rural general trade grew by 12%, as it continued to outpace urban market general trade growth, which stood at 1% in Q3FY2019. The correction in copra prices resulted in gross margin standing flat at 46.3% (and improved sequentially by 230 BPS). OPM also stood flat at 18.8% during the quarter. Operating profit grew by 15.5% y-o-y to Rs. 348.9 crore. However, higher incidence of tax resulted in lower growth of 13% in reported PAT to Rs. 251.7 crore (below our expectation of Rs. 270.1 crore).
- Saffola posted recovery in the volume growth; value-added hair oil disappoints:** Marico's domestic business revenue grew by 7% y-o-y driven by 8% volume growth in Q4FY2019. Unlike other FMCG companies, rural sales maintained its lead ahead of urban channel for Marico, while other channels such as Modern trade and CSD channels maintained its growth momentum. *Parachute* rigid pack grew by 6% in volume terms and 4% in value terms. The active market initiatives resulted in significant improvement in the sales volume of Saffola edible oil to 18% in Q4FY2019 as against 2% achieved in Q3FY2019 (also due to low base of 1% volume decline in Q4FY2018). Value added hair oil volumes grew by just 1% due to underperformance in the premium segment and clearing of channel inventory prior to MRP decreases in selected brands. The international business revenues grew by 18% (7% on constant currency terms) on back double digit revenue growth in the markets such as Bangladesh, MENA region and South-East Asia region. The OPM of the international business expanded significantly to 18% in Q4FY19 as against 11.8% in Q4FY18 mainly on account of decline in the key input prices (including copra prices).
- Outlook – Volume growth to stand at 8-10% in the near term; OPM to improve sequentially:** Saffola edible oil has started seeing recovery in the sales volume due to relevant marketing initiatives and the management expects it to grow in mid-teens in the coming quarters. The parachute rigid pack sales volume is expected to grow by 6-8% in the coming quarters. Probable price cut due to sustained softening in the copra

prices would further improve the volume growth trajectory. The company has already taken price cut of ~5% in the value added hair oil portfolio, which will help it see gradually recovery in the sales volume growth in the coming quarters. Overall Marico's management is confident of achieving 8-10% volume growth in FY2020. The international business has also shown good recovery with markets such as Bangladesh and South East Asian markets that posted double digit growth in revenues. We expect steady growth momentum in international business to sustain in the near term. Copra prices (35-40% of Marico's raw material cost) were down by ~20% in Q4FY19 and the softening price trend has continued due to ongoing flush season. Thus, we expect the margins to remain high on y-o-y basis

in the near to medium term. Also, the company has reduced its tax rate guidance from 28% to 25% for FY2020-21

- ◆ **Retain Buy - better earning visibility and decent valuation:** We have fine-tuned our earnings estimates to factor in little lower than earlier expected revenue growth. The declining trend of copra prices would aid Marico to post higher profitability in the coming quarters. Further the lowering copra prices would help it to focus more on improving growth prospects of some of the key domestic categories. The stock is currently trading at valuations of 32.1x FY2021E earnings which is at a discount to comparable peers. We maintain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 425.

Valuations (consolidated)

Particulars	Rs cr				
	FY2017	FY2018	FY2019	FY2020E	FY2021E
Net sales	5935.9	6333.1	7333.6	8336.7	9514.3
OPM (%)	19.5%	18.0%	17.5%	19.0%	19.3%
Adjusted PAT (Rs cr)	811.0	827.7	947.7	1168.0	1366.1
EPS (Rs)	6.3	6.4	7.3	9.1	10.6
PER (x)	54.1	53.0	46.3	37.6	32.1
EV/EBIDTA (x)	37.4	38.2	33.8	26.9	22.9
RoCE (%)	47.2	41.0	40.9	44.7	44.6
RoNW (%)	36.7	34.0	34.2	35.4	34.2

Results (consolidated)

Particulars	Rs cr				
	Q4FY19	Q4FY18	YoY %	Q3FY19	QoQ %
Net sales	1609.0	1480.1	8.7	1861.0	-13.5
Expenditure	1326.0	1227.8	8.0	1512.0	-12.3
Operating profit	283.0	252.3	12.2	348.9	-18.9
Other income	28.0	22.9	22.4	21.6	29.8
Interest expenses	8.0	5.3	51.2	4.8	67.0
Depreciation	29.0	23.1	25.6	22.6	28.4
PBT	274.0	246.8	11.0	343.1	-20.1
Tax	56.0	64.2	-12.8	91.4	-38.8
PAT (before MI)	218.0	182.6	19.4	251.7	-13.4
Minority Interest (MI)	1.0	-0.6	-	0.0	
Adjusted PAT (After MI)	217.0	183.2	18.4	251.7	-13.8
Extraordinary items	-188.0	0.0	-	0.0	-
Reported PAT	405.0	183.2	121.1	251.7	60.9
Adjusted EPS	1.7	1.4	18.5	2.0	-13.8
GPM (%)	49.0	46.6	239	46.3	274
OPM (%)	17.6	17.0	54	18.8	-116

- ◆ **Domestic business – Volume growth stood at 8%:** Marico's consumer business in India grew by 7% y-o-y to Rs. 1,240 crore in Q4FY2019. Volumes grew moderately by 8% mainly led by Saffola, while value growth was driven by price hikes taken in the core portfolios to counter input cost inflation over the last year. OPM increased by 52 BPS y-o-y to 18% in Q4FY2019 as against 17.6% in Q4FY2018, largely on account of higher

copra prices. The company will continue to focus on a balanced approach towards volume growth and profitable margins. In the medium term, the company would be comfortable with 20% OPM in the domestic business. The company is planning to create dedicated product offerings suited to Modern Trade and e-commerce channels to boost growth.

- ◆ **Coconut Oil: Mid-single-digit volume growth:** In Q4FY2019, *Parachute Coconut Oil* (Rigid packs) posted volume growth of 6% led by market share gains and stronger off-takes in non-core markets. The portfolio grew by 4% in value terms. The low-margin non-focused brands also reverted to growth on the back of tactical inputs deployed in select markets. We expect volumes of *Parachute* rigid packs to grow by 5-7% in view of shift from non-branded to branded coconut oil and improving demand in rural markets.
- ◆ **Saffola: Edible oils post recovery, healthy foods pick up pace along with innovations:** The *Saffola refined edible oils* franchise recorded strong volume growth of 18% in Q4FY2019 as the franchise responded to focused marketing initiatives towards re-establishing the superior product proposition and deploying tactical pricing inputs. The brand has been gaining traction in modern trade and e-commerce. The brand strengthened its leadership position in the super premium refined edible oils segment to ~73% volume market share (March 2019 MAT). The *Healthy Foods* franchise posted value growth of 38% in Q4FY2019. The response to new launches such as the breakfast range of 'Saffola FITTIFY Gourmet' and products under the 'Coco Soul' range has been promising. The company expects to maintain a CAGR of over 20% in Healthy Foods over the medium term.
- ◆ **Value-added Hair Oils: disappointing quarter:** Value-added hair oils posted volume growth of 1%, owing to underperformance in the premium segment and clearing of channel inventory prior to a decrease in MRP of ~5% in select brands from April 2019. The company consolidated its market leadership with volume share of ~34% and value share of ~26%. *Nihar Naturals Shanti Amla Badam* retained its position as India's No. 1 Hair Oil in volumes (gained 202 BPS in volume share) in the Amla Hair Oil category. *Nihar Naturals Sarson Kesh Tel* witnessed good traction in Q4FY2019. The company will continue to invest in this brand as it taps into the sizeable unorganised mustard oil market. Newly launched *Nihar Naturals Extra Care Hair Fall Oil and Hair and Care Dry Fruit* are monitored. *Parachute Advanced Aloe Vera Enriched Coconut Hair Oil* continued its accelerated growth trend. The company aims to drive double-digit volume growth in this franchise on the back of growth in the core portfolio, the drive towards premiumisation, scale-up of new launches and active participation in bottom of the pyramid. The recent correction in MRP would aid value-added hair portfolio to achieve gradual improvement in the sales volume.
- ◆ **Premium Hair Nourishment: Livon performs well, line-up of launches this quarter:** In Q4FY2019, premium hair nourishment segment grew by 38% in value terms. The company is the market leader in the category with a volume share of ~75% (March 2019 MAT). *Livon Serums* registered strong growth (especially in modern trade and e-commerce) and with introduction of new variants such as *Livon Colour Protect Serum, Livon Serum for Dry & Unruly Hair and Livon Shake & Spray Serum*, the brand is tapping into a new pool of consumers by addressing credible hair needs and truly owning 'salon finish' as a benefit. Initial reception to *True Roots Botanical Hair Tonic* has been positive. *Parachute Advanced Coconut Crème Oil* range has gained reasonable traction.
- ◆ **Male grooming: Muted growth in the quarter:** During the quarter, the male grooming franchise grew by 3% in value terms. With a value market share of 56%, *Set Wet Hair Gels* continued to dominate the hair gels category and *Set Wet Hair Waxes* received healthy feedback. The Company launched the *Set Wet Studio X Charcoal* male grooming range, with natural detox and deep cleansing properties including shampoo, body wash, peel-off face mask, face wash and face scrub in a price range of Rs. 249 to 399. *Parachute Advanced Men Hair Creams* is gaining traction and *Set Wet Fragrances* had a steady year. The company aims to build these segments into growth engines of the future and expects to deliver value CAGR of over 20% over the medium.
- ◆ **International business performance – 7% revenue growth, healthy margin expansion:** International business revenue grew by 7% in constant currency (CC) terms backed by broad-based volume growth across key markets. On reported front, the international business revenues grew by 18% on back double digit revenue growth in the markets such as Bangladesh, MENA region and South-East Asia region. Operating margin improved significantly from 11.8% in Q4FY2018 to 18% in Q4FY2019, mainly driven by improvement in gross margin, partially offset by higher ad spends. The company aims to maintain international margins at over 18% over the medium term and will continue to invest and plough back savings to drive growth.
- ◆ Bangladesh business grew by 7% y-o-y in CC terms maintained its leadership position with ~86% volume market share whereas the non-coconut oil portfolio grew by 24%. Since the category has matured in this market, the company aims to grow this franchise in single

digits on a CC basis over the medium term because of its dominant position, distribution strength and consumption growth.

- ◆ South East Asia and Vietnam business grew by 4% and 13% respectively in Q4FY2019 in CC terms led by the Home and personal Care business. The Foods portfolio had a sluggish year.
- ◆ The MENA business grew by 5% in Q4FY2019 in CC terms contributed by both Egypt and Middle East. The macro environment is volatile and thus, the company remains

cautiously optimistic on the medium-term outlook of these markets.

- ◆ South Africa business had a muted quarter in CC terms. The business is expected to continue with similar growth rates owing to macro headwinds.
- ◆ With expansion in adjacent markets such as Sri Lanka, Nepal, Bhutan, exports to diaspora and other markets generated revenue of ~\$10 million in FY2019. The business grew by 5 in CC terms and the company remains positive on its future prospects.

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