

MARICO LTD.(MRCO)

Stock Code:MRCO | Market Price:306

About the Company:

Marico Limited is a consumer products company operating in the beauty and wellness space. The Company's principal products include edible oils and value added hair oils. The Company's geographic segments include India and International, which includes primarily the Middle East, The South Asian Association for Regional Cooperation (SAARC) countries, Egypt, Myanmar, Malaysia, South Africa and Vietnam. It offers various brands in the categories of hair care, skin care, health foods, male grooming and fabric care. In India, the Company manufactures and markets products under various brands, such as Parachute, Parachute Advansed, Nihar, Nihar Naturals, Saffola, Hair & Care, Revive, Mediker, Livon, Set-wet and Code 10. Its international portfolio includes brands, such as Fiancee, Hair Code, Caivil, Hercules, Black Chic, Ingwe, X-men and Thuan Phat. Its subsidiaries include Marico Bangladesh Limited, Marico Middle East FZE, Marico South Africa (Pty) Limited and Marico Consumer Care Limited.

COMPANY DATA :-

Market Cap (cr)	Rs. 39,590
Enterprise Value (cr)	Rs. 39,505
Outstanding Shares (cr)	Rs. 129.5
Free Float	40.0%
Dividend Yield	2.0%
52 week High	Rs.404
52 week Low	Rs.299
6m Average Volume (lacs)	1.1
Beta	0.3
Face Value	Rs. 1



Segment Revenue:

Revenues declined 2.0% YoY to Rs. 1,824cr in Q3FY20, due to lower domestic volumes across the categories, offset by International market as it continues to grow at 10.0% on a constant currency basis.

EBITDA rose 3.8% YoY to Rs. 373cr, as EBITDA margin improved 115bps YoY to 20.4% driven by lower input costs.

Segment Profit:

↑ **Net Sales** - YoY Growth in year ended Mar 2019 is 15.81% vs 6.69% in Mar 2018

↑ **Consolidated Net Profit** - YoY Growth in year ended Mar 2019 is 37.35% vs 1.93% in Mar 2018

	Mar'19	Mar'18	Change(%)
Net Sales	7,334.00	6,333.00	15.81%
Operating Profit (PBDIT) excl Other Income	1,281.00	1,137.00	12.66%
Interest	24.00	16.00	50.00%
Exceptional Items	0.00	0.00	
Consolidated Net Profit	1,118.00	814.00	37.35%
Operating Profit Margin (Excl OI)	17.47%	17.95%	-0.48%

Figures in Rs cr

Analysis on Segment result:

Volume growth (%)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Parachute rigid volume growth (%)	15.0	(5.0)	9.0	8.0	9.0	6.0	9.0	(1.0)	(2.0)
Saffola (Refined Edible Oil) volume growth (%)	0.0	(1.0)	10.0	5.0	2.0	18.0	3.0	1.0	11.0
VAHO volume growth (%)	8.0	11.0	15.0	5.0	7.0	1.0	7.0	0.0	(7.0)
Domestic volume growth (%)	9.4	1.0	12.4	6.0	5.0	8.0	6.0	1.0	(1.0)
Overall volume growth (%)	7.0	2.0	10.4	6.0	6.0	8.0	6.0	3.0	2.0
Value growth (%)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Parachute rigid value growth (%)	41.0	24.0	38.0	32.0	19.0	4.0	8.0	(4.0)	(5.0)
Saffola (Refined Edible Oil) value growth (%)	(4.0)	(3.0)	9.0	9.0	8.0	15.0	6.0	5.0	13.0
VAHO value growth (%)	7.0	9.0	12.0	12.0	19.0	7.0	11.0	(6.0)	(17.0)
Domestic value growth (%)	15.0	12.0	23.0	20.0	13.0	7.0	6.0	(3.0)	(5.0)
Overall value growth (%)	15.1	12.6	20.5	19.6	14.7	8.5	6.7	(0.6)	(2.1)
Realisation growth (%)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Parachute rigid realisation growth (%)	26.0	29.0	29.0	24.0	10.0	(2.0)	(1.0)	(3.0)	(3.0)
Saffola (Refined Edible Oil) realisation growth (%)	(4.0)	(2.0)	(1.0)	4.0	6.0	(3.0)	3.0	4.0	2.0
VAHO realisation growth (%)	(1.0)	(2.0)	(3.0)	7.0	12.0	6.0	4.0	(6.0)	(10.0)
Domestic realisation growth (%)	5.6	11.0	10.6	14.0	8.0	(1.0)	0.0	(4.0)	(4.0)
Overall realisation growth (%)	8.1	10.6	10.1	13.6	8.7	0.5	0.7	(3.6)	(4.1)

Segmental Growth:

Parachute Rigids: The brand grew by 9% in volumes and continued to gain market share during the quarter. Brand volume offtakes grew at 3x of that of the category, resulting in volume market share gain of 246 bps during the quarter. Tactical inputs to maintain the value proposition enabled accelerated activation in non-core markets. On the other hand, the low margin non-focused brands witnessed a double-digit decline in a correcting copra price environment. Value Added Hair Oils: The portfolio grew by 7% in volume terms, short of medium term aspiration, due to the underperforming premium segment as growth in the sub-category visibly slowed in a subdued demand environment. Overall, the franchise gained 148 bps in volume market share and 120 bps in value market share during the quarter. On a MAT basis, the Company consolidated its market leadership with volume share at ~34% and value share at ~27%.

Saffola (Refined Edible Oil): Saffola refined edible oils grew by 3% in volume terms, slowed down further by sluggishness in the traditional urban channel. Growth during the quarter was led by the new-age channels of Modern Trade and E-Commerce. The brand also gained significant traction from the step up in media spends that accompanied a new campaign for the mainstay variant, Saffola Gold. Premium Hair Nourishment grew 28% in value terms and Male Grooming remained flat.



Premium Hair Nourishment: Livon Serums continued to grow healthily during the quarter. The 2.5 ml sachet pack (priced at INR 3) is clearly emerging as the key trial pack by reaching 150,000 stores. With the addition of new variants - 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. Contribution of these new variants has been on the rise. The company continued to witness healthy growth in GT and exponential growth in MT and E-Commerce.

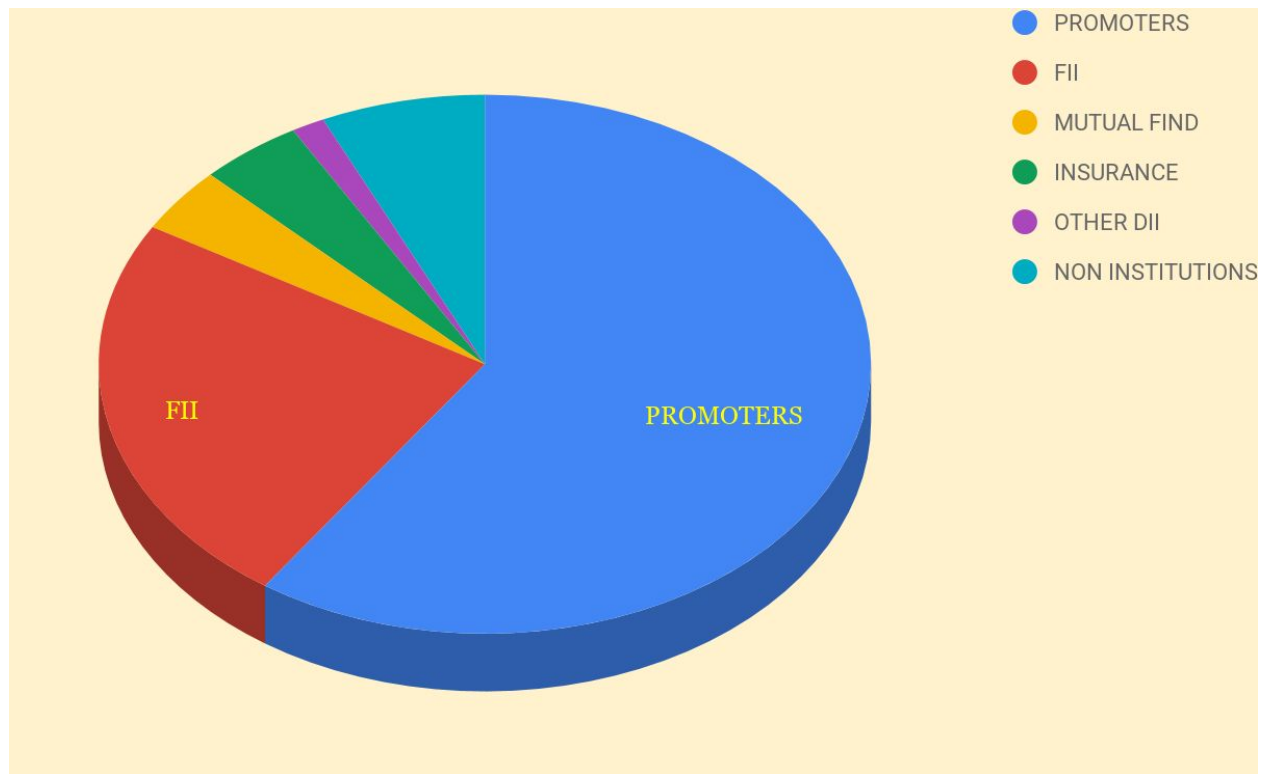
Male grooming: The segment had a flat quarter due to a weak performance in deodorants. Excluding deodorants, the Male Grooming franchise posted double digit value growth.

- Higher ad spends: Company invested behind the extensive line-up of new products brought to market during the year.
- Personnel Costs up 11%, due to annual salary revisions.
- Higher depreciation in 1Q20: The increase was on account of capitalization of capacity additions in some domestic manufacturing facilities during the year.

Outlook for Domestic business: Company would be comfortable 8-10% volume growth with EBITDA margins at 20% plus in the India business over the medium term. Marico 1 August 2019 4 Parachute Rigid: Company aims to grow volumes in the range of 5-7% over the medium term.

- **VAHO:** Double digit volume growth in the franchise over the medium term.
- Saffola: Remain cautiously optimistic. Aim to deliver high single digit volume growth over the medium term.
- Healthy Foods: 20% plus CAGR over the medium term.
- Premium Hair Nourishment, Male Grooming and Skin Care: Value growth of 20% plus CAGR over the medium term.

Share holding Pattern:



Analysis on financial fundamentals:

Recovery is expected going forward, both in terms of value and volume growth. We estimate earnings to grow at 9.3% FY20-22E CAGR and EBITDA margin to improve to 20.9% by FY22E. At current price level, stock looks attractive and hence we upgrade our rating to **BUY** with a revised **target price of Rs. 353** based on 35.0x FY22E adj. EPS

Analysis of company share price on valuation model:

Continued slowdown in consumption, especially in rural areas, led to significant decline in volumes in Q3FY20. Nevertheless, management expects recovery to happen from upcoming quarter, with price interventions taken for Parachute having hit the shelves by fag end of the December quarter and the old inventory being cleared. In the coming months. Marico stands to benefit from expected recovery in rural consumption patterns and should witness a demand revival for its VAHO category of products over the next 2-3 quarters.