

February 12, 2018

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Rating	Accumulate
Price	Rs310
Target Price	Rs309
Implied Upside	-.3%
Sensex	34,300
Nifty	10,540

(Prices as on February 12, 2018)

Trading data

Market Cap. (Rs bn)	400.3
Shares o/s (m)	1,290.2
3M Avg. Daily value (Rs m)	306.2

Major shareholders

Promoters	59.71%
Foreign	27.76%
Domestic Inst.	5.85%
Public & Other	6.68%

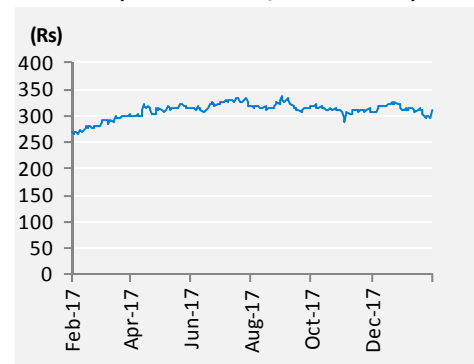
Stock Performance

(%)	1M	6M	12M
Absolute	(0.7)	(3.0)	15.1
Relative	0.1	(12.9)	(5.9)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	7.9	7.9	-0.8
2020	8.8	9.2	-4.0

Price Perf. (RIC: MRCO.BO, BB: MRCO IN)



Source: Bloomberg

We are upgrading MRCO from reduce to Accumulate following 47% underperformance to HUL and 18% to Dabur since our downgrade on 3rd May17. MRCO is witnessing green shoots in the domestic business led by strong demand in rural India and expected stabilisation of trade channels. Even as Saffola remains under tremendous pressure in premium edible oils, MRCO has identified Saffola Healthy Foods, VAHO, Male Grooming and Hair serums as Horizon 2 projects to accelerate growth in medium term. MRCO is targeting 8-10% volume growth in Domestic business and 12%+ growth in IBD. MRCO expects margin recovery in 2HFY19 despite 11% parachute price increase from Jan18 as it expects copra prices to soften after next crop. We value the stock at 35x FY20 and arrive at target price of Rs309, although expect back ended returns.

■ **Sales increased 14.7%, Domestic volumes up 9.4%:** Parachute volumes grew 15% despite 10% price increase in Oct'17. Gross margins declined 520bps. EBITDA increased 10.7% as margin decline was curtailed to 70bps (18.6%) due to reduction in ad spends (160bps), other expenses (250bps) and staff costs (50bps). Adj. PAT increased 16.5% to Rs 2.23bn. VAHO volumes increased 8% (11% ex CSD) as CSD channel remained impacted. Saffola had flat volumes as competing oils in price band of Rs95-100 impacted sales. Male grooming sales increased 36% led by Set wet hair gels after a decline since past 4 quarters. Saffola foods grew 24% with share in Masala oats increasing share to 70%.

■ **IBD grew 9% in CC terms, Sales up 1.2%:** IBD sales increased 1.2% (8% in CC); EBIT declined 9.8% as margins came off by 160bps to 13%. Bangladesh sales grew by 12% on 3% volume growth on higher Parachute prices and sustained traction in non-Parachute portfolio. SE Asia sales declined by 4% in CC terms. MENA sales increased by 15% led by strong recovery in Middle East. However, topline growth remained impacted on weak Egyptian currency devaluation in the base. South East Asia sales declined 4% in CC due to sluggishness in male Shampoos and Deo's, higher wholesale dependence and time lag for the trade to adjust to the price hike reversal in sachets (implemented in 2Q).

Key financials (Y/e March)	2017	2018E	2019E	2020E
Revenues (Rs m)	59,359	67,781	77,108	88,328
Growth (%)	(1.5)	14.2	13.8	14.6
EBITDA (Rs m)	11,588	12,673	14,360	16,022
PAT (Rs m)	8,110	8,909	10,153	11,398
EPS (Rs)	6.3	6.9	7.9	8.8
Growth (%)	10.9	9.9	14.0	12.3
Net DPS (Rs)	3.5	4.0	4.4	5.0

Profitability & Valuation	2017	2018E	2019E	2020E
EBITDA margin (%)	19.5	18.7	18.6	18.1
RoE (%)	36.7	35.8	35.9	35.6
RoCE (%)	32.8	33.8	34.6	34.4
EV / sales (x)	6.8	5.9	5.2	4.5
EV / EBITDA (x)	34.6	31.6	27.9	25.0
PE (x)	49.4	44.9	39.4	35.1
P / BV (x)	17.2	15.1	13.3	11.8
Net dividend yield (%)	1.1	1.3	1.4	1.6

Source: Company Data; PL Research*EPS gr. for FY16 is 34.8% excl. impact of bonus issue (1:1)

Exhibit 1: Q3FY18 Results (Rs m): Sales up 14.7%, Domestic volume up 9.4%, IBD constant currency sales up 9%, copra prices impact margins

Y/e March	Q3FY18	Q3FY17	YoY gr. (%)	Q2FY18	9MFY18	9MFY17	YoY gr. (%)
Net Sales	16,243	14,167	14.7	15,363	48,530	46,138	5.2
COGS	8,688	6,839	27.0	8,144	25,707	22,089	16.4
<i>% of Net Sales</i>	<i>53.5</i>	<i>48.3</i>		<i>53.0</i>	<i>53.0</i>	<i>47.9</i>	
Gross Profit	7,556	7,328	3.1	7,219	22,823	24,049	(5.1)
<i>% of Net Sales</i>	<i>46.5</i>	<i>51.7</i>		<i>47.0</i>	<i>47.0</i>	<i>52.1</i>	
Advertising & Promotion	1,439	1,483	(2.9)	1,601	4,669	5,381	(13.2)
<i>% of Net Sales</i>	<i>8.9</i>	<i>10.5</i>		<i>10.4</i>	<i>9.6</i>	<i>11.7</i>	
Total Expenses	13,223	11,439	15.6	12,772	39,675	37,131	6.9
EBITDA	3,021	2,729	10.7	2,591	8,855	9,007	(1.7)
<i>Margins (%)</i>	<i>18.6</i>	<i>19.3</i>		<i>16.9</i>	<i>18.2</i>	<i>19.5</i>	
Depreciation	213	218	(2.0)	235	660	638	3.4
EBIT	2,807	2,511	11.8	2,356	8,195	8,369	(2.1)
Interest	39	44	(12.4)	35	109	118	(8.2)
Other Income	174	233	(25.2)	214	618	750	(17.7)
PBT	2,943	2,700	9.0	2,535	8,704	9,000	(3.3)
Tax	709	781	(9.3)	679	2,254	2,594	(13.1)
<i>Effective tax rate (%)</i>	<i>24.1</i>	<i>28.9</i>		<i>26.8</i>	<i>25.9</i>	<i>28.8</i>	
Minority Interest	1	2		6	8	6	
Adjusted PAT	2,233	1,916	16.5	1,850	6,443	6,401	0.7

Source: Company Data, PL Research

Exhibit 2: Marico has registered market share gains in 90% of the portfolio

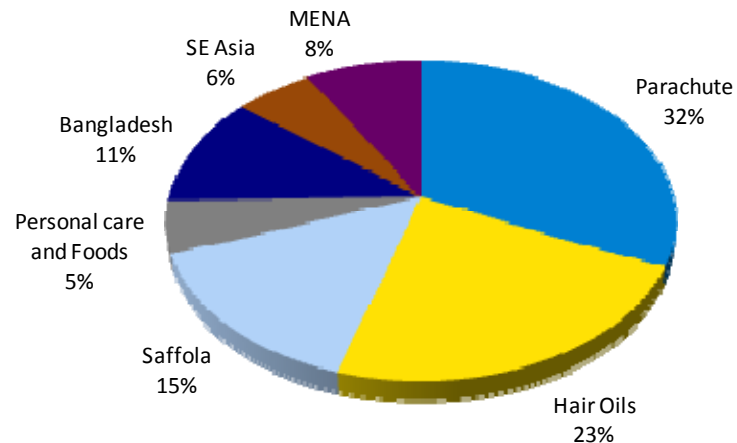
Market Share (%)	3QFY16	4QFY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Coconut Oil	57	59	58	58	58	58	58	59	59
Value-added Hair Oil	30	32	32	32	33	33	33	34	34
Shanti Amla	38	38	37	38	38	39	40	42	43
Saffola	60	63	63	64	65	66	66	67	68
Saffola Oats	25	27	27	28	28	27	27	27	28
Hair Creams/Gel	52	59	61	62	63	63	62	62	63
Deo	3	3	3	3.4	3.2	3.3	3.2	2.9	NA
Livon & Silk and Shine	79	79	78	80	81	82	83	83	83
Parachute Bangladesh	82	82	82	83	85	86	86	87	87
Hair Oils	15	16	17	16	17	18	18	19	21
X Men Vietnam	38	38	38	37	39	37	38	39	40
Hair Code and Fiancée	58	56	56	55	54	54	54	54	53

Source: Company Data, PL Research

Exhibit 3: Marico Consolidated Segmental: Domestic sales up18.8%, Bangladesh leads IBD growth revival

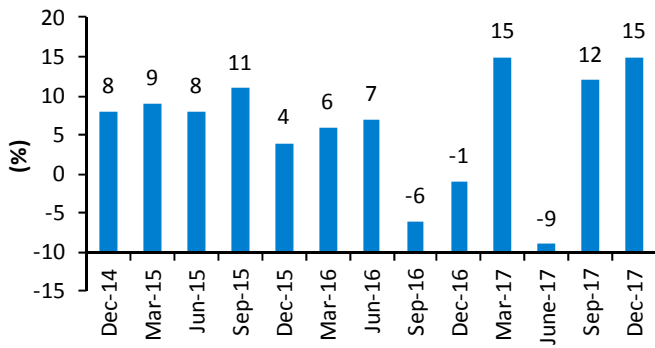
(Rs m)	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
Net Sales	15,303	12,906	17,543	14,428	14,167	13,222	16,924	15,363	16,243
Domestic	11,944	9,775	13,874	10,758	10,811	10,352	13,275	12,000	12,846
International	3,359	3,131	3,669	3,670	3,356	2,869	3,649	3,363	3,397
Sales Growth %	5.4	5.3	20.7	(0.8)	(7.4)	2.4	(3.5)	6.5	14.7
Domestic	4.8	3.0	25.7	(2.6)	(9.5)	5.9	(4.3)	11.6	18.8
International	7.7	13.0	4.8	4.9	(0.1)	(8.4)	(0.6)	(8.4)	1.2
EBIT	3,247	2,461	4,112	2,728	3,010	2,726	3,487	2,763	3,149
Domestic	2,610	2,134	3,411	2,147	2,521	2,509	2,750	2,180	2,708
International	636	326	701	581	489	217	737	583	441
EBIT Growth %	30.9	24.9	67.1	10.9	(7.3)	10.8	(15.2)	1.3	4.6
Domestic	29.9	33.4	76.7	11.3	(3.4)	17.6	(19.4)	1.5	7.4
International	35.4	(11.8)	32.2	9.5	(23.1)	(33.7)	5.3	0.4	(9.8)
EBIT Margins %	21.2	19.1	23.4	18.9	21.2	20.6	20.6	18.0	19.4
Domestic	21.9	21.8	24.6	20.0	23.3	24.2	20.7	18.2	21.1
International	18.9	10.4	19.1	15.8	14.6	7.5	20.2	17.3	13.0
Capital Employed	12,841	13,260	13,380	13,880	14,341	16,195	16,563	15,705	16,627
Domestic	5,911	6,466	6,350	6,810	7,658	9,927	10,277	9,214	10,020
International	6,931	6,794	7,030	7,070	6,683	6,268	6,286	6,491	6,607
International Sales Growth %									
Bangladesh (45%)	1.0	11.0	(6.0)	5.0	0.0	5.0	5.0	5.0	12.0
MENA (18%)	45.0	13.0	6.0	5.0	(11.0)	(46.0)	(46.0)	(7.0)	15.0
South Africa (8%)	8.0	10.0	15.0	9.0	4.0	6.0	6.0	1.0	1.0
SE Asia (26%)	3.0	8.0	8.0	12.0	6.0	11.0	11.0	(8.0)	(4.0)

Source: Company Data, PL Research

Exhibit 4: Marico Consolidated Sales Break-up


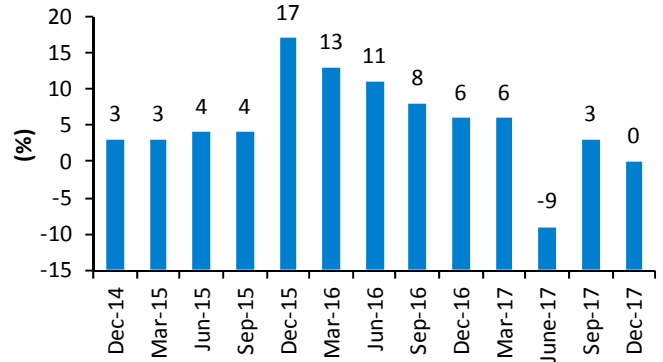
Source: Company Data, PL Research

Exhibit 5: Parachute: uptick on stocking ahead of price increase



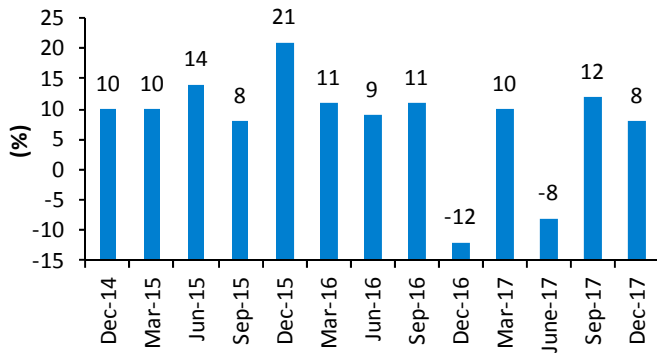
Source: Company Data, PL Research

Exhibit 6: Saffola: volume suffer on poor price value equation



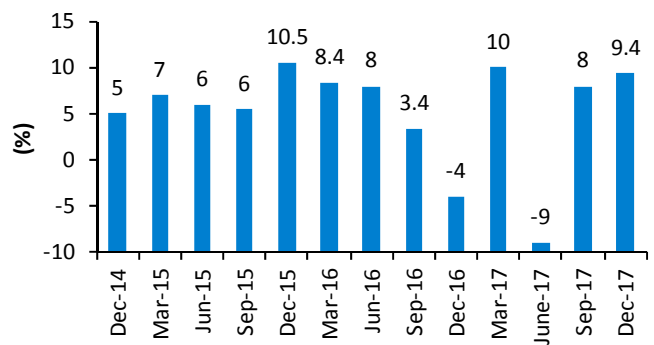
Source: Company Data, PL Research

Exhibit 7: Hair Oils: Volumes up 8%, Ex-CSD growth at 11%



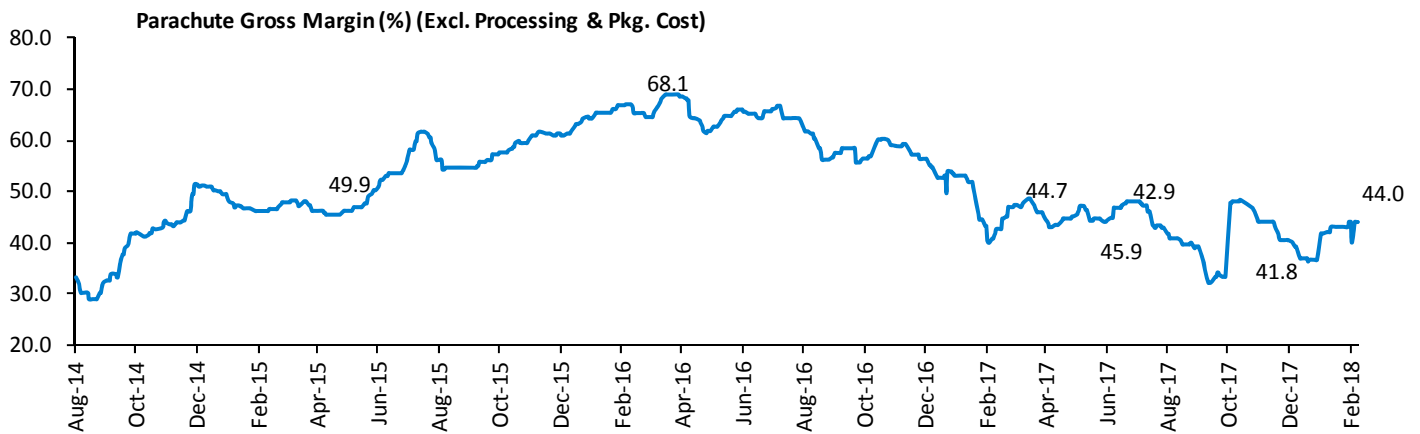
Source: Company Data, PL Research

Exhibit 8: Domestic FMCG: Volume growth at 9.4%



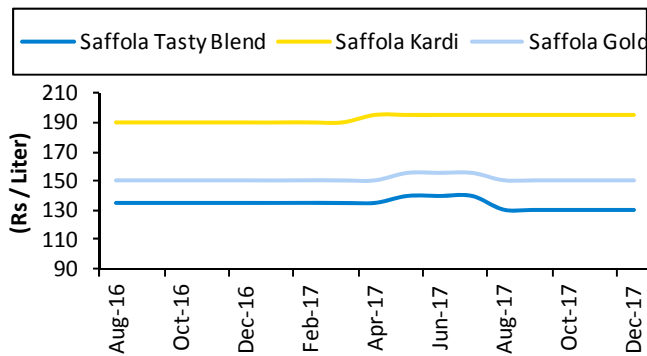
Source: Company Data, PL Research

Exhibit 9: MRCO ups Parachute rigid pack prices by 11% in Jan18 as margins (current prices) take a beating



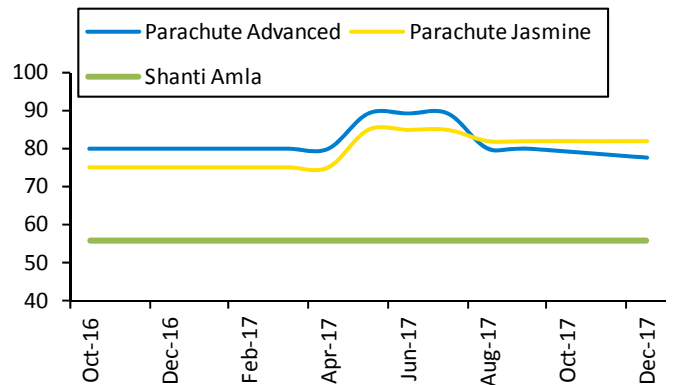
Source: Company Data, PL Research

Exhibit 10: Saffola: Prices remain stable post cut post ~3.5% cut in Q2



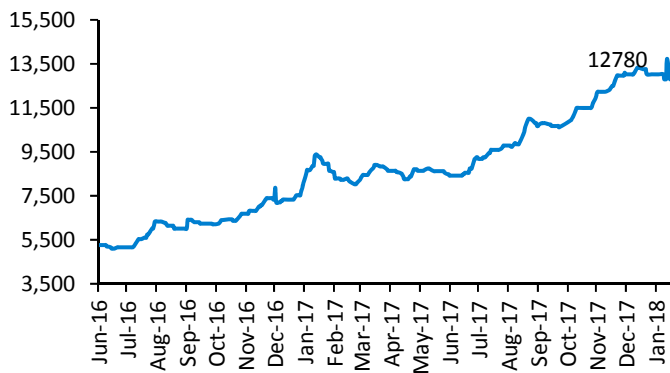
Source: Company Data, PL Research

Exhibit 11: Hair Oils: Parachute Advanced grammage increased 2.9%



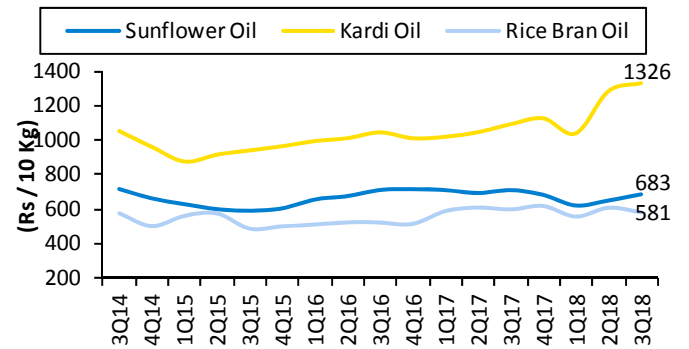
Source: Company Data, PL Research

Exhibit 12: Copra: Prices up 91% YoY and 21% QoQ



Source: Company Data, PL Research

Exhibit 13: Saffola: Kardi Oil prices up 22% YoY and 3.6% QoQ



Source: Company Data, PL Research

Income Statement(Rs m)

Y/e March	2017	2018E	2019E	2020E
Net Revenue	59,359	67,781	77,108	88,328
Raw Material Expenses	28,490	33,930	38,991	45,269
Gross Profit	30,869	33,851	38,116	43,059
Employee Cost	4,042	4,338	4,858	5,476
Other Expenses	15,239	16,840	18,899	21,561
EBITDA	11,588	12,673	14,360	16,022
Depr. & Amortization	903	1,094	1,213	1,355
Net Interest	166	126	123	120
Other Income	978	1,297	1,509	1,753
Profit before Tax	11,497	12,750	14,533	16,300
Total Tax	3,377	3,685	4,200	4,695
Profit after Tax	8,120	9,065	10,333	11,606
Ex-Od items / Min. Int.	(352)	157	180	207
Adj. PAT	8,110	8,909	10,153	11,398
Avg. Shares O/S (m)	1,290.5	1,290.2	1,290.2	1,290.2
EPS (Rs.)	6.3	6.9	7.9	8.8

Cash Flow Abstract(Rs m)

Y/e March	2017	2018E	2019E	2020E
C/F from Operations	9,639	8,849	10,851	11,536
C/F from Investing	(2,085)	(2,831)	(3,859)	(3,786)
C/F from Financing	(7,103)	(6,010)	(6,647)	(7,556)
Inc. / Dec. in Cash	451	8	345	194
Opening Cash	251	702	710	1,055
Closing Cash	701	710	1,055	1,249
FCFF	7,407	8,796	9,449	9,828
FCFE	6,474	7,736	9,349	9,728

Key Financial Metrics

Y/e March	2017	2018E	2019E	2020E
Growth				
Revenue (%)	(1.5)	14.2	13.8	14.6
EBITDA (%)	8.3	9.4	13.3	11.6
PAT (%)	11.0	9.8	14.0	12.3
EPS (%)	10.9	9.9	14.0	12.3
Profitability				
EBITDA Margin (%)	19.5	18.7	18.6	18.1
PAT Margin (%)	13.7	13.1	13.2	12.9
RoCE (%)	32.8	33.8	34.6	34.4
RoE (%)	36.7	35.8	35.9	35.6
Balance Sheet				
Net Debt : Equity	—	—	—	—
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	49.4	44.9	39.4	35.1
P / B (x)	17.2	15.1	13.3	11.8
EV / EBITDA (x)	34.6	31.6	27.9	25.0
EV / Sales (x)	6.8	5.9	5.2	4.5
Earnings Quality				
Eff. Tax Rate	29.4	28.9	28.9	28.8
Other Inc / PBT	8.5	10.2	10.4	10.8
Eff. Depr. Rate (%)	8.2	9.5	9.5	9.5
FCFE / PAT	79.8	86.8	92.1	85.3

Source: Company Data, PL Research.

Balance Sheet Abstract(Rs m)

Y/e March	2017	2018E	2019E	2020E
Shareholder's Funds	23,257	26,520	30,088	34,004
Total Debt	2,388	1,328	1,228	1,128
Other Liabilities	133	436	616	823
Total Liabilities	25,778	28,284	31,932	35,955
Net Fixed Assets	6,164	5,569	5,561	5,706
Goodwill	4,795	4,980	4,980	4,980
Investments	6,616	9,956	12,570	14,860
Net Current Assets	8,328	7,802	8,859	10,479
<i>Cash & Equivalents</i>	<i>1,933</i>	<i>710</i>	<i>1,055</i>	<i>1,249</i>
<i>Other Current Assets</i>	<i>16,392</i>	<i>19,090</i>	<i>21,610</i>	<i>24,724</i>
<i>Current Liabilities</i>	<i>9,997</i>	<i>11,998</i>	<i>13,806</i>	<i>15,494</i>
Other Assets	(125)	(23)	(37)	(70)
Total Assets	25,778	28,284	31,932	35,955

Quarterly Financials(Rs m)

Y/e March	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Net Revenue	13,222	16,815	15,363	16,243
EBITDA	2,595	3,243	2,591	3,021
<i>% of revenue</i>	<i>19.6</i>	<i>19.3</i>	<i>16.9</i>	<i>18.6</i>
Depr. & Amortization	273	211	235	213
Net Interest	(175)	(194)	(179)	(135)
Other Income	223	229	214	174
Profit before Tax	2,497	3,226	2,535	2,943
Total Tax	784	967	777	709
Profit after Tax	1,656	2,270	1,752	2,157
Adj. PAT	1,709	2,258	1,752	2,233

Key Operating Metrics

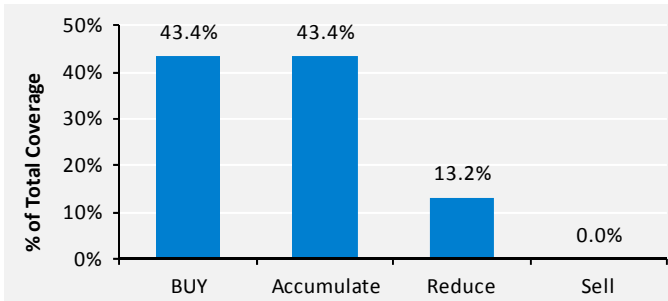
Y/e March	2017	2018E	2019E	2020E
Parachute Volume Growth %	(4.0)	6.0	7.0	7.0
Saffola Volume Growth %	—	7.0	9.0	10.0
Hair oil Volume Growth %	2.0	10.0	12.0	13.0
Gross Margin %	52.0	49.9	49.4	48.7
Ad Spends %	12.2	11.4	11.2	11.2

Source: Company Data, PL Research.

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Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month
Trading Sell	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock
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