



CMP* (Rs)	226
Upside/ (Downside) (%)	1
Bloomberg Ticker	MRCO IN
Market Cap. (Rs bn)	292
Free Float (%)	40
Shares O/S (mn)	1,290

# Marico

## Impressive operating performance but fully valued

Marico's numbers for 3QFY16 were ahead of our estimates. Consolidated revenues increased 7.3% to Rs15.5bn, which was 3% ahead of our expectations. EBITDA grew by 25.1% to Rs2.9bn vs. estimate of Rs2.7bn and consolidated net profits came in at Rs2bn, vs. estimate of Rs1.9bn. Overall volume growth for the quarter stood at 10%, which was the highest in past ten quarters. We estimate a 10.3% and 17.6% CAGR in revenues and earnings through FY15-18E. However the stock trades at 30.6x FY18E earnings and we would advise to wait for better buying opportunity. We retain HOLD with revised target price of Rs229.

### Saffola, valued added hair oils lead volume growth

Backed by 17% volume growth in *Saffola* and 21% growth in value added hair oils, overall volume growth for the quarter stood at an impressive 10%. Volume growth in *Saffola* was the highest in at least past 20 quarters, while value added hair oils growth was the highest in past 14 quarters.

### Muted volume growth in Parachute

However the volume growth in flagship brand *Parachute* was muted at 4%. Marico had initiated 6% price reduction during the quarter to pass on the benefit to the consumers. The management attributed lower volume growth due to pipeline stocks in the system.

### 640bps improvement in gross margins

Benefiting from lower copra and liquid paraffin prices, gross margins improved by an impressive 640bps to 51.7%. While copra prices were lower by 28% for the quarter, liquid paraffin prices fell 35% in the same period. A&P spends were higher by 150bps to 12.1%. The resultant EBITDA margins improved 270bps to 18.8%.

### Outlook and valuations

While Marico's 3QFY16 results were ahead of our expectations, we believe that growth going forward would be moderate. Marico's EBITDA margins are at an all time high levels of above 17% and are not likely to expand significantly from current levels. Also value growth would be muted on account of deflationary environment. We expect Marico to post revenues of Rs68.7bn and Rs76.8bn and net profits of Rs8.3bn and Rs9.4bn in FY17E and FY18E respectively. At the current price, the stock is fairly valued at 30.6x FY18E earnings and we would advise for better entry opportunity. Retain HOLD with revised target price of Rs229.

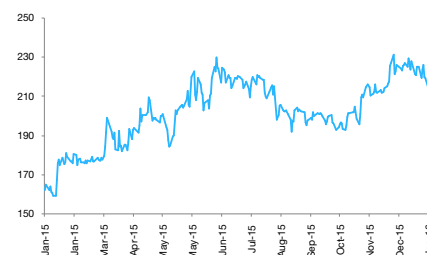
Key Financials (Rs mn)	FY15	FY16E	FY17E	FY18E
Sales	57,330	61,696	68,741	76,836
EBITDA	8,701	10,727	12,001	13,482
Net profit	5,735	7,327	8,266	9,354
EPS (Rs)	4.5	5.8	6.5	7.4
DPS (Rs)	2.5	3.0	3.5	4.0
P/E (x)	49.8	39.1	34.7	30.6
P/B (x)	16.0	13.8	12.0	10.5
EV/EBITDA (x)	16.6	26.6	23.6	20.7
ROE (%)	36.7	37.8	37.0	36.5
Dividend yield (%)	1.1	1.3	1.5	1.8

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(0.6)	16.6	25.1
Relative to Nifty	4.6	23.0	39.4

Shareholding Pattern (%)	Jun'15	Sep'15
Promoter	59.7	59.7
FII	25.0	23.7
DII	8.6	9.3
Others	6.8	7.4

### 1 Year Stock Price Performance



Note: \*CMP as on February 01, 2016

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**Risks to the view**

- ▶ Weak demand environment
- ▶ Sharp spike in key input costs, especially copra
- ▶ Performance of international business

**Exhibit 1: Result summary**

(Rs mn)	3QFY16	3QFY15	% yoy	2QFY16	% qoq	9MFY16	9MFY15	% chg
Net Sales	15,546	14,489	7.3	14,836	4.8	48,196	44,973	7.2
Consumption of RM	7,504	7,923	(5.3)	7,537	(0.4)	24,636	24,810	(0.7)
(% of Sales)	48.3	54.7		50.8		51.1	55.2	
Staff Costs	913	783	16.6	853	7.1	2,706	2,466	9.7
(% of Sales)	5.9	5.4		5.7		5.6	5.5	
Advertising	1,878	1,530	22.7	2,176	(13.7)	6,028	5,127	17.6
(% of Sales)	12.1	10.6		14.7		12.5	11.4	
Other Expenses	2,331	1,919	21.4	1,991	17.1	6,420	5,677	13.1
(% of Sales)	15.0	13.2		13.4		13.3	12.6	
Total Expenditure	12,626	12,155	3.9	12,557	0.5	39,791	38,079	4.5
Operating Profit	2,920	2,334	25.1	2,279	28.2	8,405	6,894	21.9
OPM	18.8	16.1		15.4		17.4	15.3	
Depreciation	247	235	5.3	239	3.4	692	643	7.7
EBIT	2,673	2,099	27.3	2,040	31.1	7,712	6,251	23.4
Interest	56	52	8.2	36	56.3	136	173	(21.8)
Other Income	188	136	37.8	161	16.8	712	496	43.7
PBT	2,805	2,184	28.4	2,165	29.6	8,289	6,573	26.1
(% of Sales)	18.0	15.1		14.6		17.2	14.6	
Provision for Taxation	800	562	42.2	624	28.2	2,328	1,840	26.5
(% of PBT)	28.5	25.7		28.8		28.1	28.0	
PAT (recurring)	2,005	1,622	23.7	1,541	30.1	5,961	4,733	26.0
Minority interest	27	23		33		98	99	
Reported PAT	1,978	1,599	23.7	1,507	31.2	5,864	4,634	26.5
PATM	12.7	11.0		10.2		12.2	10.3	
Equity shares (mn)	1,290	1,290		1,290		1,290	1,290	
EPS (Rs)	1.5	1.2	23.7	1.2	31.2	4.5	3.6	26.5

Source: Company, RSec Research

**Other result highlights**

The company witnessed higher market shares across all key categories for the period Jan-Dec'15. While *Parachute* and *Nihar* saw 40bps improvement to 57%, *Saffola* witnessed 320bps increase in market share to 60% in super premium edible oils. Value added hair oil brands too saw market share growing 200bps to 24%.

The management expects deflationary environment in copra to continue and the company would judiciously respond to the same by effecting price cuts. This could result in volatility in volume growth for *Parachute*. However the management expects *Parachute* to grow at 5-7% in volumes in the near term.

Impressive growth in *Saffola* is attributable to a wider consumer base, selective pricing intervention across variants and uptick in prices of other base oils resulting in reduced pricing premium for *Saffola*. *Saffola* Oats has emerged as the 2nd largest player in the oats category with value market share of 25% and expects to close FY16 with revenues of Rs1.2bn.

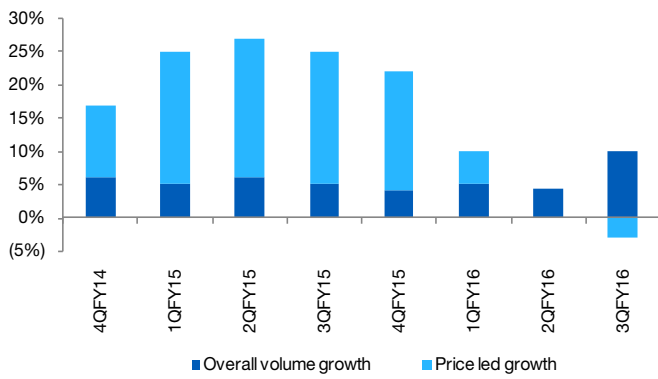


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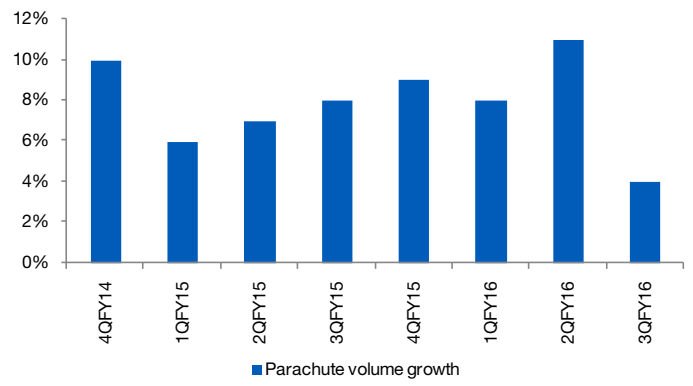
The revenues from Youth Brands fell by 8% in value terms for the quarter. While *Set Wet* gel grew in double digits on the back of new packaging and expanded distribution network, growth in *Livon* and deodorants was negative during the quarter.

Revenues from the international business increased 9% to Rs3.4bn in 3QFY16 and accounted for 22% of Marico's consolidated revenues. The business delivered double digit volume growth after 14 quarters. The MENA region led the growth with 45% while South East Asia grew by 9%. Growth in Bangladesh too turned positive growing by 1% in the quarter.

**Exhibit 2: Trend in price and volume led growth**

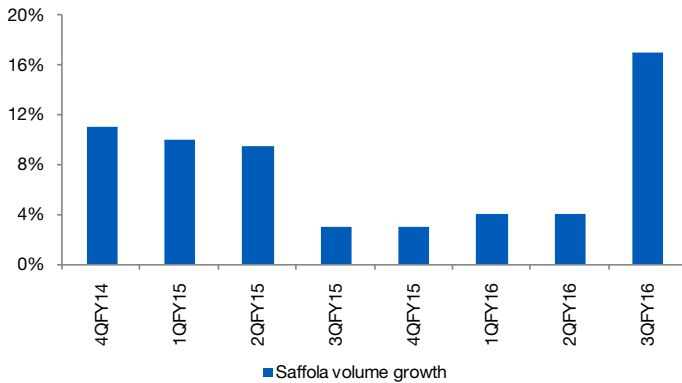


**Exhibit 3: Parachute volume growth muted**



Source: Company, RSec Research

**Exhibit 4: Saffola volume growth recovers smartly**



**Exhibit 5: Impressive hair oils volume growth**



Source: Company, RSec Research


**Profit & Loss Statement**

Y/E March (Rs mn)	FY15	FY16E	FY17E	FY18E
Net Sales	57,330	61,696	68,741	76,836
<b>Total operating income</b>	<b>57,330</b>	<b>61,696</b>	<b>68,741</b>	<b>76,836</b>
<i>% chg</i>	22.3	7.6	11.4	11.8
Total Expenditure	48,629	50,968	56,740	63,354
Cost of Materials	31,190	31,203	35,179	39,322
Advertising Exp (Incl Promotion)	6,498	7,724	8,261	9,234
Personnel	3,251	3,577	4,006	4,486
Others	7,689	8,465	9,294	10,311
<b>EBITDA</b>	<b>8,701</b>	<b>10,727</b>	<b>12,001</b>	<b>13,482</b>
<i>% chg</i>	16.3	23.3	11.9	12.3
<i>(% of Net Sales)</i>	15.2	17.4	17.5	17.5
Depreciation& Amortisation	843	883	945	1,008
<b>EBIT</b>	<b>7,857</b>	<b>9,845</b>	<b>11,055</b>	<b>12,474</b>
<i>% chg</i>	17.1	25.3	12.3	12.8
<i>(% of Net Sales)</i>	13.7	16.0	16.1	16.2
Interest & other Charges	230	192	159	127
Other Income	589	850	950	1,060
<i>(% of PBT)</i>	7.2	8.1	8.0	7.9
<b>Recurring PBT</b>	<b>8,217</b>	<b>10,503</b>	<b>11,846</b>	<b>13,407</b>
<i>% chg</i>	18.3	27.8	12.8	13.2
PBT (reported)	8,217	10,503	11,846	13,407
<b>Tax</b>	<b>2,368</b>	<b>3,046</b>	<b>3,435</b>	<b>3,888</b>
<i>(% of PBT)</i>	28.8	29.0	29.0	29.0
<b>PAT (recurring)</b>	<b>5,849</b>	<b>7,457</b>	<b>8,411</b>	<b>9,519</b>
<i>% chg</i>	16.0	27.5	12.8	13.2
<i>(% of Net Sales)</i>	10.2	12.1	12.2	12.4
Minority interest	114	130	145	165
<b>Net profit</b>	<b>5,735</b>	<b>7,327</b>	<b>8,266</b>	<b>9,354</b>
<b>Basic EPS (Rs)</b>	<b>4.5</b>	<b>5.8</b>	<b>6.5</b>	<b>7.4</b>
<b>Fully Diluted EPS (Rs)</b>	<b>4.5</b>	<b>5.8</b>	<b>6.5</b>	<b>7.4</b>
<i>% chg</i>	16.0	27.5	12.8	13.2



**Balance Sheet**

Y/E March (Rs mn)	FY15	FY16E	FY17E	FY18E
Share capital	645	1,290	1,290	1,290
Reserves	17,603	19,887	23,016	26,498
Net worth	18,248	21,177	24,306	27,788
Total borrowings	3,342	2,953	2,453	1,953
Minority interest	137	7	(138)	(303)
Defered tax	79	96	96	96
Total liabilities	21,805	24,234	26,717	29,535
Gross block	9,841	10,591	11,341	12,091
Less: Acc. depreciation	3,772	4,654	5,600	6,607
Net block	5,868	5,936	5,741	5,483
CWIP	30	44	44	44
Goodwill	4,892	4,892	4,892	4,892
Deferred tax	2,838	3,838	4,838	5,838
Investments				
Current assets	17,625	23,132	26,364	30,225
Inventories	9,947	10,488	11,686	13,062
Debtors	1,768	2,940	3,276	3,661
Cash	2,049	5,270	6,463	7,980
Loans and advances	3,861	4,434	4,940	5,522
Current liabilities	8,409	12,479	13,904	15,541
Provisions	1,040	1,129	1,258	1,406
Net current assets	8,177	9,524	11,203	13,278
Total assets	21,805	24,234	26,717	29,535


**Cash Flow Statement**

Y/E March (Rs mn)	FY15	FY16E	FY17E	FY18E
Net profit	5,735	7,327	8,266	9,354
Depn and w/o	843	883	945	1,008
Deferred tax	(17)	17	0	0
Change in working cap	(2,898)	1,873	(486)	(558)
<b>Operating cash flow</b>	<b>3,663</b>	<b>10,100</b>	<b>8,725</b>	<b>9,804</b>
Capital expenditure	(206)	(750)	(750)	(750)
Investments/ Acquisition	267	(1,000)	(1,000)	(1,000)
<b>Impact of goodwill</b>	<b>(2,349)</b>	<b>0</b>	<b>0</b>	<b>0</b>
Investing cash flow	61	(1,750)	(1,750)	(1,750)
Free cash	3,457	9,350	7,975	9,054
Dividend	(1,877)	(4,527)	(5,282)	(6,036)
Fresh equity	0	0	0	0
<b>Debt/Preference shares</b>	<b>(1,917)</b>	<b>(388)</b>	<b>(500)</b>	<b>(500)</b>
Financing cash flow	(3,794)	(4,916)	(5,782)	(6,536)
Others	405	(214)	0	0
<b>Net change in cash</b>	<b>334</b>	<b>3,220</b>	<b>1,193</b>	<b>1,517</b>
Opening cash	4,064	2,049	5,270	6,463
Closing cash	2,049	5,270	6,463	7,980

**Key Ratio**

Y/E March (Rs mn)	FY15	FY16E	FY17E	FY18E
<b>Valuation Ratio (x)</b>				
P/E (on FDEPS)	49.8	39.1	34.7	30.6
P/CEPS	43.6	35.0	31.2	27.7
P/BV	16.0	13.8	12.0	10.5
Dividend yield (%)	1.1	1.3	1.5	1.8
EV/Sales	2.5	4.6	4.1	3.6
EV/EBITDA	16.6	26.6	23.6	20.7
<b>Per Share Data (Rs)</b>				
EPS (Basic)	4.5	5.8	6.5	7.4
Core EPS	4.5	5.8	6.5	7.4
Cash EPS	5.2	6.5	7.3	8.2
DPS	2.5	3.0	3.5	4.0
Book Value	14.1	16.4	18.8	21.5
<b>Returns (%)</b>				
RoCE	29.8	33.3	33.5	34.0
RoE	36.7	37.8	37.0	36.5
<b>Turnover ratios (x)</b>				
Asset Turnover (Gross Block)	2.8	2.7	2.7	2.7
Inventory / Sales (days)	116	123	121	121
Receivables (days)	11	17	17	17
Payables (days)	87	128	127	127
Working capital cycle (ex-cash) (days)	41	12	12	12



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