

January 10, 2019

Company Report

■ Change in Estimates | ■ Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		BUY	
Target Price	387		387	
Sales (Rs. m)	83,553	94,065	83,553	94,065
% Chng.			-	-
EBITDA (Rs. m)	16,490	18,388	16,490	18,388
% Chng.			-	-
EPS (Rs.)	8.9	9.9	8.9	9.9
% Chng.			-	-

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	63,222	74,373	83,553	94,065
EBITDA (Rs. m)	11,378	13,534	16,490	18,388
Margin (%)	18.0	18.2	19.7	19.5
PAT (Rs. m)	8,145	9,569	11,496	12,834
EPS (Rs.)	6.3	7.4	8.9	9.9
Gr. (%)	2.0	17.4	20.1	11.6
DPS (Rs.)	(4.3)	(4.8)	(5.8)	(6.8)
Yield (%)	(1.1)	(1.2)	(1.5)	(1.7)
RoE (%)	33.5	35.9	39.3	40.2
RoCE (%)	38.7	42.8	49.2	51.3
EV/Sales (x)	7.8	6.6	5.9	5.2
EV/EBITDA (x)	43.6	36.5	29.9	26.8
PE (x)	61.4	52.2	43.5	39.0
P/BV (x)	19.7	17.9	16.3	15.0

Key Data

MRCO.BO | MRCO IN

52-W High / Low	Rs.397 / Rs.283
Sensex / Nifty	36,107 / 10,822
Market Cap	Rs.500bn/ \$ 7,084m
Shares Outstanding	1,291m
3M Avg. Daily Value	Rs.1419.92m

Shareholding Pattern (%)

Promoter's	59.99
Foreign	25.10
Domestic Institution	7.24
Public & Others	7.67
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	11.8	10.5	20.3
Relative	8.2	10.9	14.8

Amnish Aggarwal

amnishaggarwal@plindia.com | 91-22-66322233

Nishita Doshi

nishitadoshi@plindia.com | 91-22-66322381

Copra price led margin expansion factored in

We downgrade our rating from BUY to Accumulate given 1) 28% jump in stock price since our upgrade and 2) rising probability that Copra price decline in the current down cycle will be far lower than previous occasions.

Our channel checks suggest steady Copra prices in January on account of demand supply gap and expected softening from Feb to August, although the magnitude might be far lower than expected. Our analysis suggests that Copra prices dip by 14-34% from the MSP during down cycle and the ratio has been coming down over the years. We estimate that Marico's current parachute margins are ~55-60%, which are lower than previous peak of ~70%. We believe current bottom cycle margins can be lower than previous cycle given 60% increase in MSP (past 12 months) and focus on driving volumes. Our estimates factor in 150bps margin expansion in FY20 which will enable 20% PAT growth.

MRCO has increased pace of new launches with entry in hair Creams, Premium Hair oils, Soups and Hair tonic. However, MRCO has been able to meaningfully scale up only Saffola Oats in the past 12 years, while most launches including Body Lotion, Premium hair oils, Livon and Set wet etc. have been a moderate success only.

We estimate 16.4% PAT CAGR over FY18-21 and value the stock at 40xSept20 and arrive at target price of Rs378 (Rs377 at 40xSept20 earlier). We expect slow incremental gains post 28% jump in stock prices over past 2.5 months; Downgrade to Accumulate.

Channel checks Takeaways:

- Copra prices has been on a downturn on reversal of copra cycle where local market copra prices in Tamil Nadu fell from Rs14000/quintal to Rs.12400/quintal in a month. (Tamil Nadu is India's largest copra producer with 31% of the total production mainly in Pollachi and Thanjavur districts).
- Post recent increase in Copra MSP, the market price has increased by Rs400/quintal to Rs12800/quintal. Wholesalers expect firm local market price for copra till February and on the back of demand supply gaps.
- However, wholesalers expect local market price to soften to Rs 8000-10000/quintal during the harvest season (March to August) which is in line with the past trend that local market price is lower than MSP during peak season.
- Upto FY2016, Copra prices in season time used to decline to Rs6000/quintal. However, during the past 2 years, Copra prices have decreased only to 8000-10000/quintal due to 1) increase in copra demand in India as well as worldwide 2) decrease in production due to Cyclone Gaja affecting Thanjavur district and 3) Coconut trees getting infected by White flies (30-40 lakhs trees affected) which can reduce copra production by 50%.
- Kerala floods have not affected copra production. Channel checks suggests that the production has in fact increased post floods by nearly 40-45% due to early harvesting of coconut on fears of crop damage.

Sharp fall in copra prices looks unlikely

Copra prices started declining in May'18 from the peak of Rs13700/quintal to as low as Rs8845/quintal. Previous copra cycles have also witnessed wide fluctuations where copra prices have fallen by 35-60% from the peak and have bottomed out at 14-34% lower than the prevailing MSP. However, with every cycle, the gap between MSP and the peak cycle market price is increasing whereas the gap between MSP and bottom market price is decreasing as seen in Exhibit 1.

In the last week of December, Government announced increase in MSP of ball Copra for the next copra season by Rs2170/Quintal from Rs7750 to Rs9920/quintal and increase in MSP of milling Copra by Rs2010/Quintal from Rs7511 to Rs9521/quintal. Market price on the day of announcement was only 4% higher than the new MSP. Post the increase in MSP, Copra prices jumped 6% to Rs 10550/quintal (Bloomberg). We note that from Nov-18 onwards the difference between Bloomberg prices and trade prices is significantly higher.

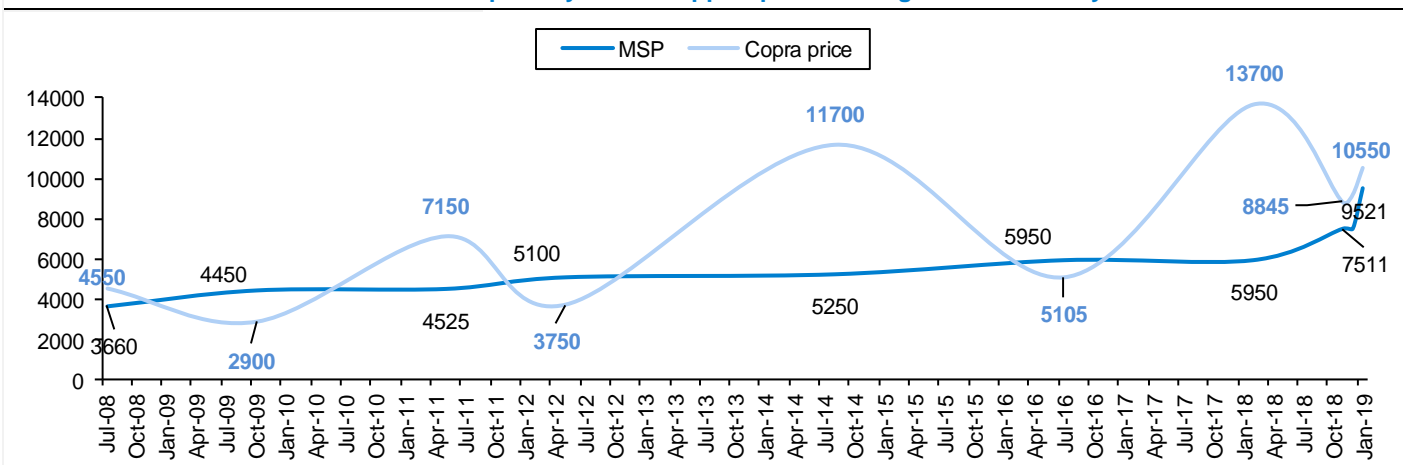
Analyzing the movement in copra prices and MSP in the past, we expect copra prices to bottom out at near MSP or at 10-15% discount to MSP, i.e. around of Rs8200-9500/quintal. The current price of Rs10550/quintal leaves limited room for downside.

Exhibit 1: Down cycle gap between MSP and Copra prices is decreasing

	Copra Cycle	MSP	Copra price	Mkt Price/ MSP
Jul-08	Highest	3660	4550	24.3
Oct-09	Lowest	4450	2900	-34.8
May-11	Highest	4525	7150	58.0
May-12	Lowest	5100	3750	-26.5
Aug-14	Highest	5250	11700	122.9
Jul-16	Lowest	5950	5105	-14.2
Feb-18	Highest	5950	13700	130.3
Nov-18	Lowest	7511	8845	17.8
Dec-18	Lowest	7511	9225	22.8
Jan-19	Lowest	9521	10550	10.8

Source: PL, Bloomberg

Exhibit 2: 60% increase in COPRA MSP in past 2 years to support prices during current down cycle



Source: PL, Bloomberg

Near term COPRA prices to remain steady to slightly firm

Our channel check suggests that Copra production is likely to remain muted in near term (January) on account of:

- Shortage of human resource for harvesting due to labour participation in the upcoming local festival season
- Cyclone Gaja adversely affecting production in Thanjavur district (one of the largest copra producing district) and
- Coconut trees being infected by White flies (30-40 lakhs trees affected) which can reduce copra production in Tamilnadu by 50%.

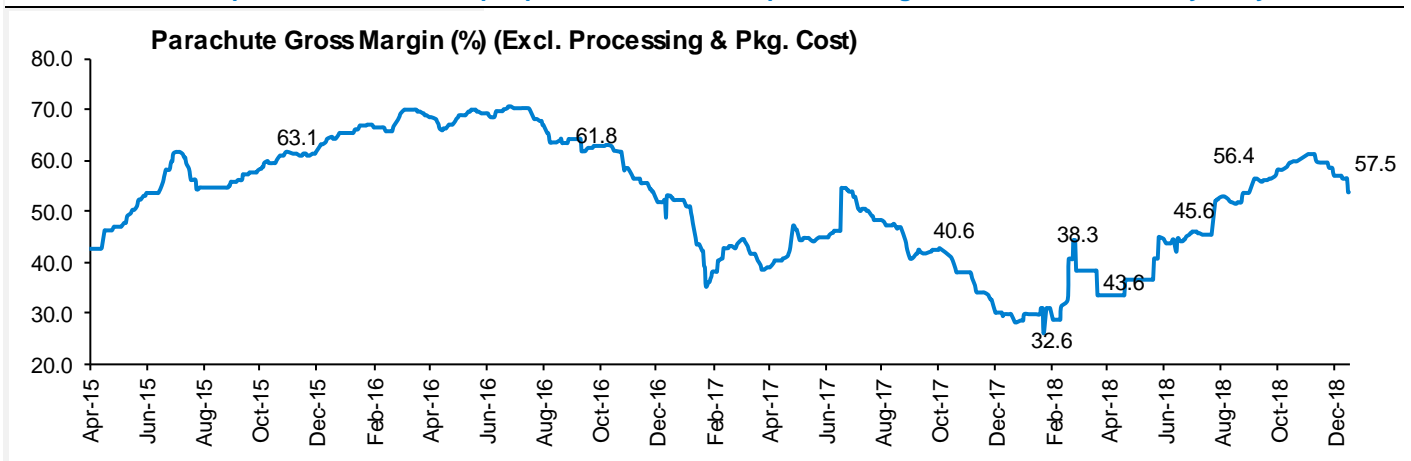
Our interaction with Copra wholesalers suggest steady to slightly firm local market price for copra till February on the back of demand supply gaps.

Parachute Gross margins in current cycle might be lower than previous downcycle

Copra (85%) is the key raw material in Parachute which accounts for ~40% of Marico's domestic sales. Moreover, 85% of Bangladesh sales (45% of international business) is of Parachute. We have estimated Parachute Coconut oil margins variation with the change in copra prices and MRP. We note that the gross margins in parachute declined to 32.6% in Feb2018 from a high of 70% in July 2016. Copra prices and Parachute MRP changes in the past few months indicate that the current gross margins could be in the range of 55-60% which show significant recovery from the lows, although it is still a good 10% away from the peak.

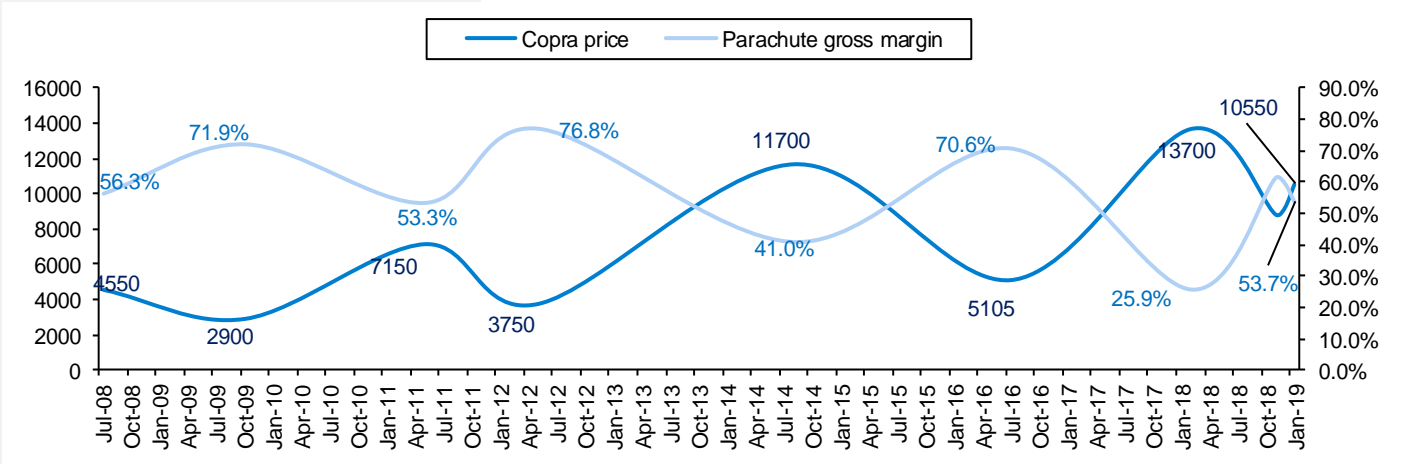
Marico had also cut Parachute prices by 17% during the previous down cycle, whereas it is yet to undertake any such price cuts. We expect 150bos QoQ gross margin expansion in 3Q19 as most of the effect of fall in copra prices would be reflected in this quarter. However, looking at current Copra prices and recent increase in MSP, parachute margins are unlikely to revert to earlier down cycle lows of 70%.

Exhibit 3: Jan 2018 price increase and Copra price decline have improved margins, incremental recovery likely to be slow



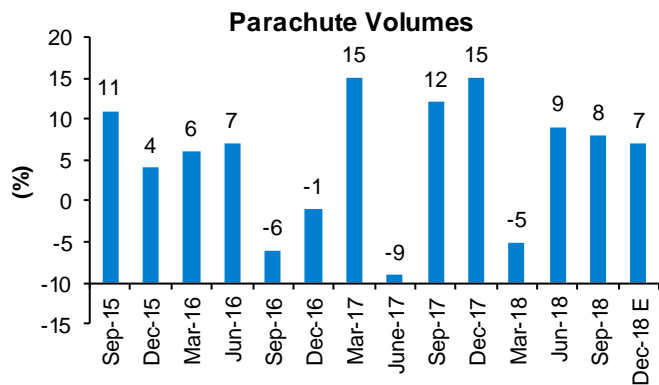
Source: Company, PL

Exhibit 4: Parachute margins reached the peak of 70% in last copra down cycle



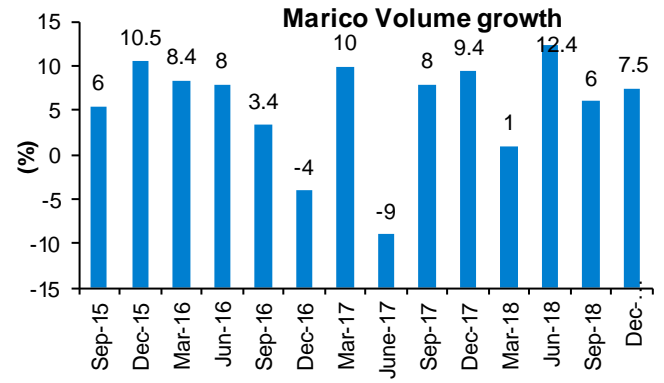
Source: Company, PL, Bloomberg

Exhibit 5: Expect 3Q Parachute volume growth at 7%



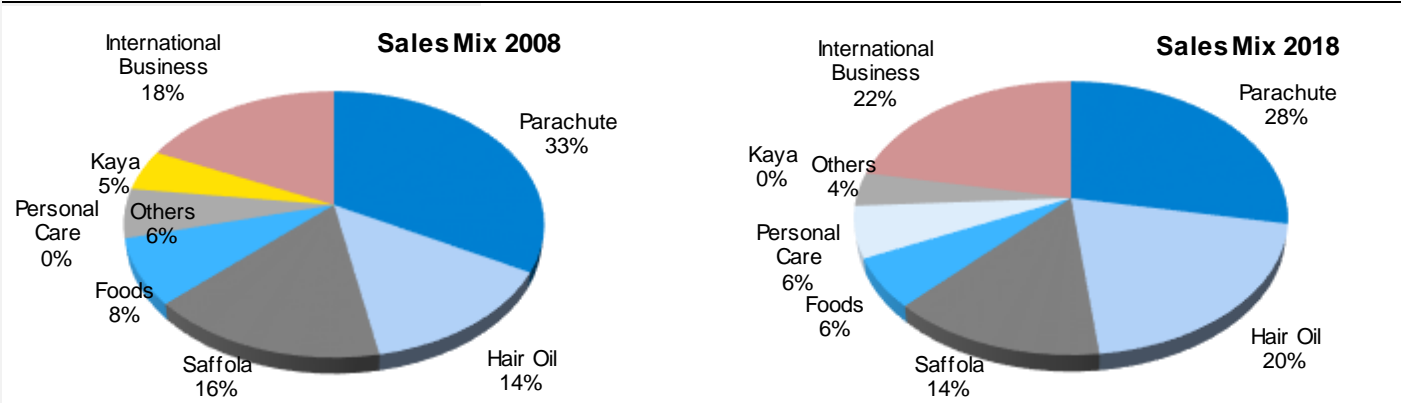
Source: Company, PL

Exhibit 6: Domestic FMCG Volumes to accelerate



Source: Company, PL

Exhibit 7: Consolidated: Success beyond Hair oils remains elusive despite acquisitions and new launches



Source: Company, PL

Exhibit 8: Innovations remain a Mixed Bag of Success and failure; Only Saffola oats got scaled up significantly

Year	Product	Product Category	Success/ failure
FY06	Saffola Cholesterol Atta mix	Atta Mix	Flop
	Parachute Therapie	Hair fall solution	Flop
FY07	Parachute Advanced Hair Perfect	Leave in moisturizer	Flop
	Revive Liquid Stiffener	Cloth starching	Moderate Success
FY08	Parachute Advanced After shower	Hair gel	Success
	Maha thanda	Ayurvedic hair oil	Flop
FY09	Parachute Advansed Starz	Hair care products for kids	Flop
	Saffola Diabetics	Atta Mix	Flop
FY10	Saffola Zest	Baked snacks	Flop
	Parachute Advansed revitalizing Hot Oil	Hair oil	Moderate Success
FY11	Saffola Arise	Rice	Flop
	Nihar Naturals coconut cooling oil	Hair oil	Moderate Success
FY12	Saffola Oats	Oats	Success
	Parachute Advansed Ayurvedic cooling oil	Ayurvedic hair oil	Flop
FY13	Parachute Advansed Ayurvedic Hair Oil	Ayurvedic hair oil	Moderate Success
	Parachute Advansed Ayurvedic Hot Oil	Ayurvedic hair oil	Moderate Success
FY14	Parachute Advansed Body Lotion	Body lotion	Moderate Success
	Acquired Set wet brand	Hair gel, male deodorant and leave-on serums	Moderate Success
FY15	Acquired Zatak brand	Hair gel, male deodorant and leave-on serums	Moderate Success
	Parachute Advansed Tender Coconut Oil	Coconut hair oil	Flop
FY16	Livon conditioning cream color	Hair color	Flop
	Livon Moroccan Silk Serum	Hair serum	Moderate Success
FY17	Parachute Aromatherapy	Oil	Flop
	Livon Hair Gain for women	Hair tonic	Moderate Success
FY18	Nihar Naturals Sarson Kesh Tel	Value added mustard oil	Moderate Success
	Parachute Advansed Aloe Vera Hair oil	Aloe Vera Hair oil	
FY19	Saffola Aura	Super premium edible oil	Flop
	Saffola Multigrain Flakes	Breakfast cereal	Flop
FY20	Parachute Advansed Men cream	Hair Cream	
	Parachute Advansed Men hair oil	Hair oil	
FY21	Hair &Care Fruit Oils	Fruit based hair oil	
	Saffola Slimming Nutri-Shake	Nutraceutical	
FY22	Saffola Active Soups	Soups	
	Set Wet Hair waxes	Hair Wax	
FY23	Set Wet Blast	Pocket deodorant spray	
	Nihar Naturals Shanti jasmine Coconut hair oil	Coconut hair oil	
FY24	Parachute Advansed crème oil Pre Wash hair nourisher	hair shampoo	
	Parachute Advansed Coconut crème shampoo	hair shampoo	
FY25	Parachute Advansed crème serum Hair serum	hair serum	
	Livon Hair Gain Shampoo	shampoo	
FY26	Set Wet Studio X range	Male grooming	
	Nihar Naturals Extra Care Hair Fall Control oil	Hair fall shampoo	
FY27	True roots Hair tonic	Hair tonic	
	Virgin coconut oil Hair tonic	Hair tonic	

Source: Company, PL

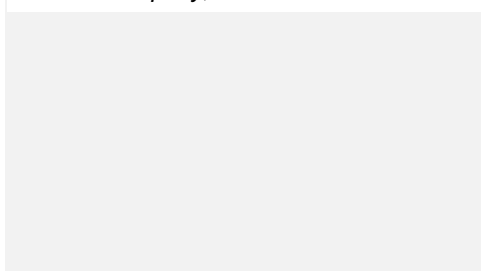
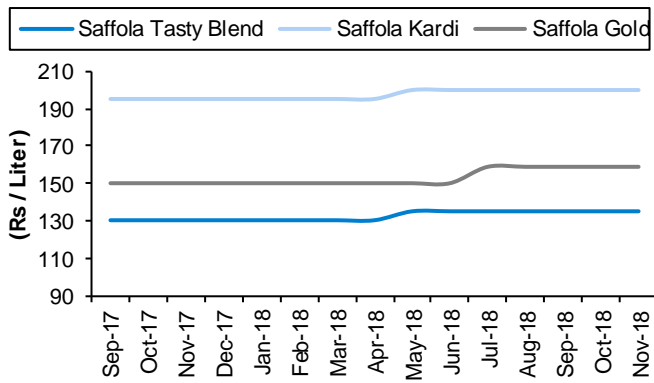


Exhibit 9: Innovations in 2QFY19: Nihar Naturals Extra Care Hair Fall Control Oil, True roots and Livon variants



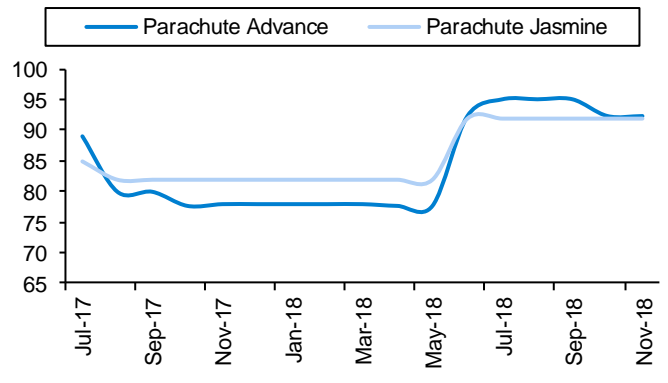
Source: Company, PL

Exhibit 10: Saffola: Prices increase of 2.6% taken to in Q2



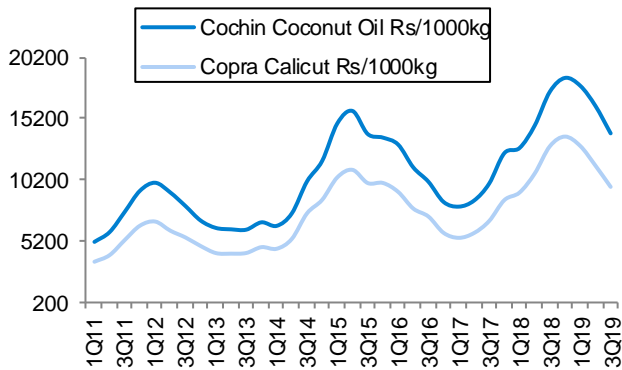
Source: Company, PL

Exhibit 11: Price cuts of 2.9% taken in Parachute Advance



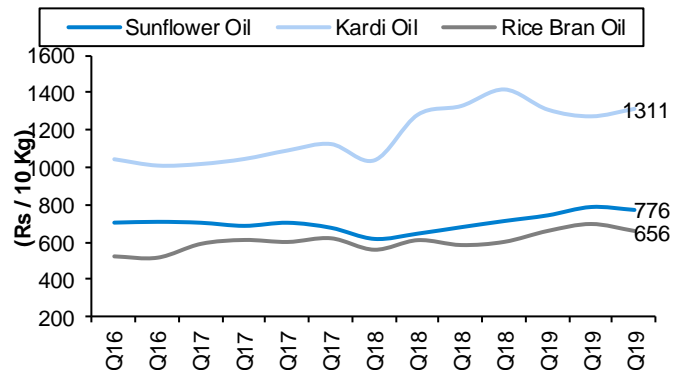
Source: Company, PL

Exhibit 12: Copra: Prices down 19.7% YoY and 13.8% QoQ

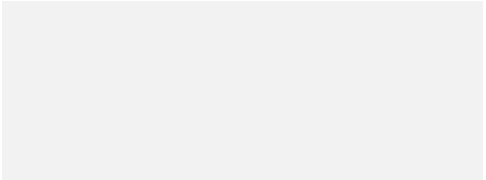


Source: Company, PL

Exhibit 13: Kardi Oil price up 3.1% QoQ and down 1.1% YoY



Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Net Revenues	63,222	74,373	83,553	94,065
YoY gr. (%)	6.8	17.6	12.3	12.6
Cost of Goods Sold	33,482	40,357	41,772	47,965
Gross Profit	29,740	34,016	41,781	46,099
Margin (%)	47.0	45.7	50.0	49.0
Employee Cost	4,222	4,462	5,097	5,832
Other Expenses	165	186	209	235
EBITDA	11,378	13,534	16,490	18,388
YoY gr. (%)	(1.9)	18.9	21.8	11.5
Margin (%)	18.0	18.2	19.7	19.5
Depreciation and Amortization	891	964	1,057	1,149
EBIT	10,487	12,569	15,433	17,238
Margin (%)	16.6	16.9	18.5	18.3
Net Interest	162	169	142	120
Other Income	846	861	895	959
Profit Before Tax	11,171	13,260	16,185	18,077
Margin (%)	17.7	17.8	19.4	19.2
Total Tax	2,896	3,541	4,516	5,044
Effective tax rate (%)	25.9	26.7	27.9	27.9
Profit after tax	8,276	9,720	11,670	13,033
Minority interest	131	151	174	200
Share Profit from Associate	-	-	-	-
Adjusted PAT	8,145	9,569	11,496	12,834
YoY gr. (%)	2.0	17.5	20.1	11.6
Margin (%)	12.9	12.9	13.8	13.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	8,145	9,569	11,496	12,834
YoY gr. (%)	2.0	17.5	20.1	11.6
Margin (%)	12.9	12.9	13.8	13.6
Other Comprehensive Income	22	-	-	-
Total Comprehensive Income	8,167	9,569	11,496	12,834
Equity Shares O/s (m)	1,291	1,291	1,292	1,292
EPS (Rs)	6.3	7.4	8.9	9.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Non-Current Assets				
Gross Block	12,803	14,153	15,403	16,653
Tangibles	11,371	12,721	13,971	15,221
Intangibles	1,433	1,433	1,433	1,433
Acc: Dep / Amortization	6,558	7,522	8,579	9,729
Tangibles	5,730	6,652	7,666	8,772
Intangibles	828	871	914	957
Net fixed assets	6,245	6,631	6,824	6,924
Tangibles	5,640	6,069	6,305	6,449
Intangibles	605	562	519	476
Capital Work In Progress	268	200	210	220
Goodwill	4,858	4,858	4,858	4,858
Non-Current Investments	760	788	819	853
Net Deferred tax assets	(202)	(231)	(264)	(299)
Other Non-Current Assets	656	629	624	624
Current Assets				
Investments	4,858	4,644	5,644	5,462
Inventories	15,109	16,512	17,490	19,678
Trade receivables	3,406	3,464	3,434	3,866
Cash & Bank Balance	2,001	3,049	3,545	4,140
Other Current Assets	2,500	2,603	2,507	2,352
Total Assets	40,815	43,553	46,135	49,163
Equity				
Equity Share Capital	1,291	1,291	1,292	1,292
Other Equity	24,138	26,559	29,330	32,010
Total Networkth	25,429	27,851	30,622	33,302
Non-Current Liabilities				
Long Term borrowings	233	-	-	-
Provisions	-	-	-	-
Other non current liabilities	192	211	232	256
Current Liabilities				
ST Debt / Current of LT Debt	2,895	2,395	1,895	1,395
Trade payables	8,217	8,958	9,095	9,772
Other current liabilities	3,431	3,772	3,993	4,218
Total Equity & Liabilities	40,815	43,635	46,317	49,460

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	11,172	13,261	16,186	18,077
Add. Depreciation	891	964	1,057	1,149
Add. Interest	162	169	142	120
Less Financial Other Income	846	861	895	959
Add. Other	(203)	(92)	(133)	(159)
Op. profit before WC changes	12,022	14,303	17,252	19,188
Net Changes-WC	(2,931)	(290)	(1,499)	(1,387)
Direct tax	(2,896)	(3,541)	(4,516)	(5,044)
Net cash from Op. activities	6,195	10,472	11,237	12,757
Capital expenditures	(1,342)	(1,282)	(1,260)	(1,260)
Interest / Dividend Income	-	-	-	-
Others	216	(12)	(13)	(14)
Net Cash from Inv. activities	(1,127)	(1,294)	(1,273)	(1,274)
Issue of share cap. / premium	355	11	12	13
Debt changes	739	(733)	(500)	(500)
Dividend paid	(6,359)	(7,115)	(8,690)	(10,117)
Interest paid	(162)	(169)	(142)	(120)
Others	-	(43)	(47)	(50)
Net cash from Fin. activities	(5,427)	(8,049)	(9,368)	(10,774)
Net change in cash	(358)	1,130	597	709
Free Cash Flow	4,852	9,191	9,977	11,497

Source: Company Data, PL Research

Key Financial Metrics

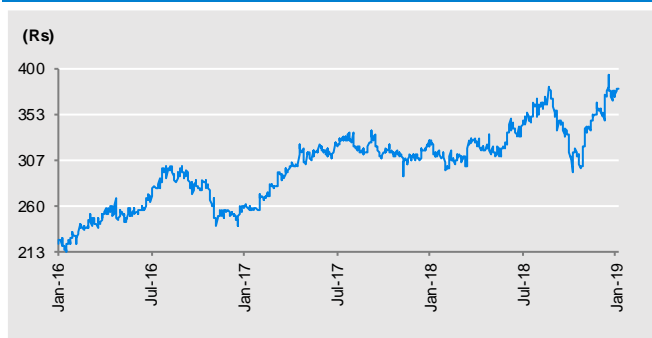
Y/e Mar	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	6.3	7.4	8.9	9.9
CEPS	7.0	8.2	9.7	10.8
BVPS	19.7	21.6	23.7	25.8
FCF	3.8	7.1	7.7	8.9
DPS	(4.3)	(4.8)	(5.8)	(6.8)
Return Ratio(%)				
RoCE	38.7	42.8	49.2	51.3
ROIC	30.9	35.1	41.8	43.6
RoE	33.5	35.9	39.3	40.2
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.2)
Net Working Capital (Days)	59	54	52	53
Valuation(x)				
PER	61.4	52.2	43.5	39.0
P/B	19.7	17.9	16.3	15.0
P/CEPS	55.3	47.5	39.8	35.8
EV/EBITDA	43.6	36.5	29.9	26.8
EV/Sales	7.8	6.6	5.9	5.2
Dividend Yield (%)	(1.1)	(1.2)	(1.5)	(1.7)

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Net Revenue	14,801	20,268	18,368	19,005
YoY gr. (%)	11.9	20.5	19.6	17.0
Raw Material Expenses	7,896	11,696	10,287	10,358
Gross Profit	6,905	8,572	8,081	8,647
Margin (%)	46.6	42.3	44.0	45.5
EBITDA	2,523	3,549	2,941	3,706
YoY gr. (%)	(16.5)	40.7	(17.1)	26.0
Margin (%)	17.0	17.5	16.0	19.5
Depreciation / Depletion	231	224	224	240
EBIT	2,292	3,325	2,717	3,466
Margin (%)	15.5	16.4	14.8	18.2
Net Interest	53	53	57	40
Other Income	229	240	292	180
Profit before Tax	2,468	3,512	2,952	3,606
Margin (%)	16.7	17.3	16.1	19.0
Total Tax	642	913	776	974
Effective tax rate (%)	26.0	26.0	26.3	27.0
Profit after Tax	1,826	2,599	2,176	2,632
Minority interest	(6)	44	(7)	40
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,832	2,554	2,183	2,592
YoY gr. (%)	7.2	8.3	18.0	16.1
Margin (%)	12.4	12.6	11.9	13.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,832	2,554	2,183	2,592
YoY gr. (%)	7.2	8.3	18.0	16.1
Margin (%)	12.4	12.6	11.9	13.6
Other Comprehensive Income	110	113	184	-
Total Comprehensive Income	1,942	2,668	2,367	2,592
Avg. Shares O/s (m)	1,291	1,291	1,291	1,291
EPS (Rs)	1.4	2.0	1.7	2.0

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Feb-18	Accumulate	309	310
2	13-Apr-18	Accumulate	309	316
3	3-May-18	Accumulate	313	312
4	10-Jul-18	Hold	313	341
5	5-Oct-18	Hold	366	314
6	1-Nov-18	BUY	377	320
7	7-Jan-19	BUY	387	387

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,300	1,396
2	Avenue Supermarts	Reduce	1,286	1,571
3	Britannia Industries	Accumulate	3,231	3,144
4	Colgate Palmolive	Hold	1,157	1,303
5	Crompton Greaves Consumer Electricals	BUY	276	227
6	Dabur India	Hold	427	420
7	Emami	Accumulate	521	419
8	Future Retail	BUY	604	459
9	GlaxoSmithKline Consumer Healthcare	Hold	8,520	7,488
10	Hindustan Unilever	Hold	1,880	1,785
11	ITC	BUY	364	282
12	Jubilant FoodWorks	Accumulate	1,395	1,217
13	Kansai Nerolac Paints	Accumulate	474	467
14	Marico	BUY	387	387
15	Nestle India	Accumulate	11,129	10,786
16	Pidilite Industries	Accumulate	1,121	1,103
17	Titan Company	BUY	1,115	944
18	Tribhovandas Bhimji Zaveri	Accumulate	78	71
19	Voltas	Accumulate	658	542

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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