

BSE Code: 531642

NSE Code: MARICO

Reuters Code: MRCO.NS

Bloomberg Code: MRCO:IN

Founded in 1987, Marico Ltd is a leading Indian Group in consumer products space. The company markets products in hair care, health foods and male grooming segments. Marico's Indian business portfolio includes brands like parachute advansed, hair & care, nihar, mediker, saffola, revive, manjal, setwet, zatak and livon, while the global portfolio offers localized brands like parachute, hair code, fiancee, caivil, hercules, blackchic, code 10, ingwe, x-men, l'ovite and thuan phat. The company derives ~78% revenue from domestic market, while, the rest ~22% revenue comes from global operations. The company has presence in Egypt, South Africa, Middle East, Malaysia, Vietnam and Bangladesh, apart from India.

### Investment Rationale

**Enjoys market leadership in domestic and international market** - Most of the company's brands enjoy leadership position in the market. In domestic market, its key brands like Parachute and Saffola enjoys market leadership with a market share of ~57% and 58%, respectively; while, other brands like nihar, livon and silk & shine are also continuously gaining traction. In international market, parachute coconut oil (Bangladesh) and hair code & fiancée hair gels (Egypt) relishes a market share of 81% and ~59%, respectively. These market leading brands helps Marico in boosting its sales even if its other brands found the going tough.

**New launches to drive growth** - Launching new and innovative products in the domestic market is one of the three growth pillars of Marico (second being driving growth in current portfolio and thirdly through strategic acquisitions). During Q4FY15, Marico launched a variety of products in different product categories to stay competitive. While the company launched 'Parachute Advansed Aromatherapy' and 'Nihar Naturals Shanti Sarson Kesh Tel' in value added hair oils category; it also launched 'Livon Moroccan Silk Serum' and re-launched 'Set Wet Gels' among Youth brands. Moreover, in order enhance its customers in edible oil category, Marico decided to launch lower pack sizes of its super premium refined edible oil, Saffola at 500 ml, which is expected to grab its urban customer's attention. We believe the newly launched products would help the company to grow faster and ahead of its peers.

**Eyeing ~25-35% revenue contribution from global operations** - Presently having presence in Egypt, South Africa, India, Middle East, Malaysia, Vietnam and Bangladesh; Marico is planning to increase the revenue contribution from its global operations to ~25-35% in the upcoming years from the current revenue contribution of ~22%. In order to achieve this, the company would be focusing more on Asian and African market as its area of interest lies in low-to-mid income consumer market, where there are younger people and product penetration is low.

**Cross-pollinating to protect margins** - Marico has been banking on cross pollination to drive growth and innovation. For instance, Marico brought Code10 gel format in India from its Malaysian market and launched it under the Set Wet brand. Livon has been launched in Bangladesh, which is from the Indian portfolio and the company is also convinced that Livon also has the potential to do well in the Middle East. From Vietnam portfolio, Marico has launched new fragrances in its Set Wet Zatak deodorants in India. Marico's focus on deriving synergies from the unification of domestic and international business bodes well for the company's growth.

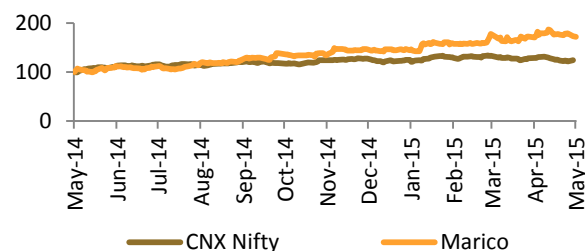
### Market Data

Rating	<b>BUY</b>
CMP (₹)	369.9
Target (₹)	<b>454</b>
Potential Upside	~22.7%
Duration	Long Term
Face Value (₹)	1.0
52 week H/L (₹)	428.4/222.5
Adj. all time High (₹)	575.1
Decline from 52WH (%)	13.7
Rise from 52WL (%)	66.2
Beta	0.7
Mkt. Cap (₹crore)	23,854.7
EV (₹crore)	23,997.6

### Fiscal Year Ended

Y/E	FY14	FY15	FY16E	FY17E
Revenue (₹bn)	46.9	57.3	66.2	76.4
EBITDA (₹bn)	7.5	8.7	10.5	12.7
Net Profit (₹bn)	4.9	5.7	6.8	7.9
EPS (₹)	7.5	8.9	10.5	12.2
P/E (x)	49.1	41.6	35.2	30.2
P/BV (x)	17.5	13.1	10.3	8.2
EV/EBITDA (x)	32.1	27.6	22.5	18.3
ROCE (%)	43.9	41.7	41.1	40.0
ROE (%)	35.7	31.4	29.3	27.0

### One year Price Chart



Shareholding Pattern	Mar15	Dec14	Diff.
Promoters	59.7	59.7	-
FII	26.2	25.9	0.3
DII	6.2	6.5	(0.3)
Others	7.9	7.9	-

**While operating under a single segment i.e. Consumer products, the company's products in Hair care, Health Foods and Male Grooming sub-segments generated a turnover of ₹5,733.0 crore in FY15.**

**Over the past five years, Marico's top-line and bottom-line have grown at a CAGR of ~16% and ~21%, respectively.**

## Company snapshot

Marico Ltd, one of the country's leading consumer products group, was founded in 1987. It is operating under a single segment i.e. Consumer products, with the company's products in Hair care, Health Foods and Male Grooming sub-segments generating a turnover of ₹5,733.0 crore in FY15. Over the past five years, Marico's top-line and bottom-line have grown at a CAGR of ~16% and ~21%, respectively.

Marico's Indian business markets brands such as Parachute Advansed, Hair & Care, Nihar, Mediker, Saffola, Revive, Manjal, Setwet, Zatak and Livon among others. With unique brands like Parachute, Hair Code, Fiancee, Caivil, Hercules, BlackChic, Code 10, Ingwe, X-Men, L'Ovite and Thuan Phat; Marico has tried to localise the lifestyle needs of its global customers.

While deriving majority of revenue from Indian operations; Marico grabs a significant share from the markets of Egypt, South Africa, Middle East, Malaysia, Vietnam and Bangladesh as well. The company's Indian and global business accounts for ~78% and 22%, respectively (as in FY15). Marico's key manufacturing capacities are located at Kanjikode (Kerala), Perundurai (Tamil Nadu), Pondicherry (Pondicherry), Dehradun (Uttarakhand), Poanta Sahib and Baddi (Himachal Pradesh). Through its distribution network of 4 regional offices, 32 carrying & forwarding agents (CFAs) and about 5000 distributors and stockists; Marico sells more than 7.5 crore packs every months through ~3.6 mn retail outlets.

We remain enthused by Marico's focus on new growth drivers and its effort as an emerging market MNC. We are also positive over its aggression in the breakfast space with continued dominance in hair oils and super premium refined edible oils space.

## Volume-wise market share in top 10 categories

Brand & Territory	~Market Share (%)	Rank
Parachute and Nihar coconut oil (India)	57%	1 <sup>st</sup>
Saffola - Super Premium Refined Oils (India)	58%	1 <sup>st</sup>
Value Added Hair Oils (India)	29%	1 <sup>st</sup>
Value Added Hair Oils (Bangladesh)	16%	3 <sup>rd</sup>
Saffola Oats (India)*	21%	2 <sup>nd</sup>
Parachute Coconut Oil (Bangladesh)	81%	1 <sup>st</sup>
Leave-in Serums (India) (Livon and Silk & Shine)	82%	1 <sup>st</sup>
Hair Creams/Gels (India) (Set Wet & Parachute After Shower)*	44%	1 <sup>st</sup>
Hair Code & Fiancee Hair Gels (Egypt)*	59%	1 <sup>st</sup>
X-Men Men's Shampoo (Vietnam)*	39%	1 <sup>st</sup>

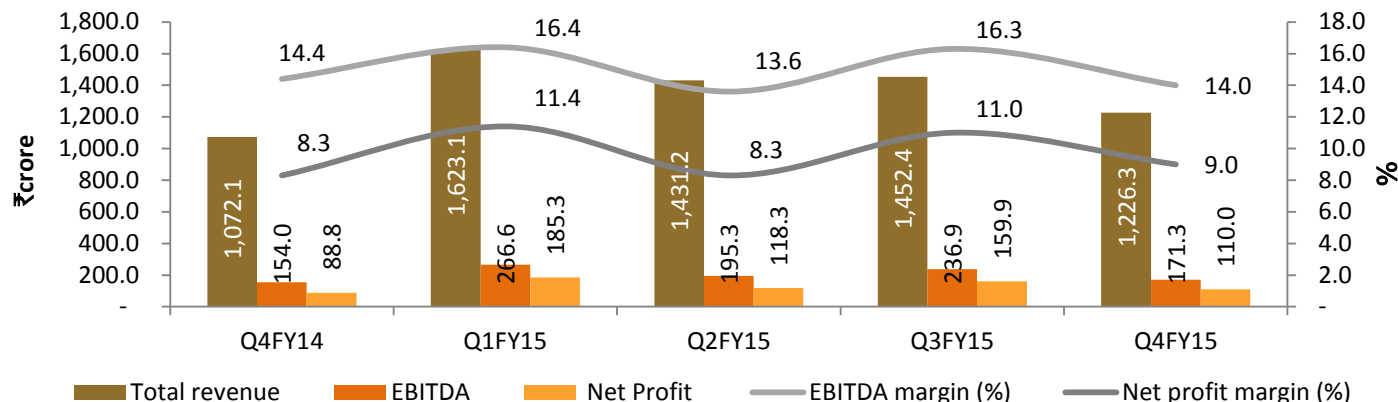
\*Value market share

**During Q4FY15, market shares in key categories remained intact and in some cases improved, demonstrating strong brand equity**

## Showcased decent performance in Q4FY15, prospects seems brighter on domestic as well as on international front

Marico witnessed a healthy performance for the fourth quarter and year ended March 2015. The volumes continued to grow, though at a slower rate. Market share in key categories remained intact and in some cases improved, demonstrating strong brand equity. Going forward, the company believes that there will be lesser challenges in the business environment and it would see a further improvement in performance.

### Recorded healthy YoY numbers in Q4FY15



**Led by healthy growth on domestic and international front in Q4FY15, the FMCG major witnessed a growth of 14.4% in total revenue.**

**Value growth in Indian FMCG business boosted the top-line:** The FMCG major, Marico recorded healthy growth of 14.4% YoY in consolidated revenue to ₹1,226.3 crore in Q4FY15, while reporting a 22.3% YoY growth for FY15 to ₹5,733.0 crore. This was mainly on account of healthy growth on both domestic as well as international front. Having generated a revenue growth of 17.0% from Indian business, Marico posted 6.0% growth (in constant currency terms) in revenue from international business in Q4FY15. For the year, Marico registered a growth of 26.0% and 10.0% in revenue from Indian and global business.

### Summary of value growth across Businesses

Categories/Businesses	Q4FY15	FY15	Share of Group's FY15 Turnover
Group	14.4%	22.3%	
India FMCG Business	17.0%	26.0%	~78%
International FMCG Business	6.0%	10.0%	~22%

In India, the volumes grew marginally by ~3% in Q4FY15 and by ~6% in FY15, reflecting continued softer consumption trends, however, the overall sales growth was boosted by the price increases taken across the portfolio to cover a major part of the input cost push.

### Growth summary across key segments

Categories	Q4FY15		FY15		% of Group's FY15 Turnover
	Value Growth	Volume Growth	Value Growth	Volume Growth	
Parachute Rigids	34%	5%	44%	6%	27%
Value Added Hair Oils	14%	5%	25%	10%	19%
Saffola Edible Oil	3%	-1%	11%	6%	14%

**Marico showcased a 24.0% YoY growth in consolidated net profit at ₹110.0 crore in Q4FY15 on account of 42.8% YoY growth in other income to ₹18.8 crore.**

**Higher raw material cost dented the margins:** Supported by a substantial decline in purchases of stock-in trade and a drop in inventory (as a % of sales) by 108bps and 392bps, Marico managed to report 11.2% YoY growth in EBITDA to ₹171.3 crore in Q4FY15. However, a 480bps YoY rise in raw material cost (as a % of sales) impacted the EBITDA margin, which contracted by 39bps YoY to 14.0% in Q4FY15. EBITDA margin for the year improved to 16.6% compared to 15.9% in FY14.

**Net Profit surged 24% YoY driven by a rise in other income:** Lastly, Marico showcased 24% YoY growth in its consolidated net profit at ₹110.0 crore in Q4FY15 on account of 42.8% YoY growth in other income to ₹18.8 crore. Decline in interest and depreciation cost by 16.9% and 7.0% YoY further augmented the profit-base in Q4FY15. While, in FY15, net profit surged by 18.1% YoY to ₹573.5 crore.

*Parachute's share in the rural markets, currently in the range of 35% to 40%, is lower than that in the urban markets, which provides potential headroom for growth in the rural markets.*

*For Q4FY15, Saffola's volume was down 1% impacted primarily due to increased price premium of ₹40-50 a litre compared to other brands. To cope up with this, Marico has decided to launch smaller packs of 500 ml in a move to drive volumes.*

*Given the company's continuous focus on upgrading the value added hair oil's portfolio, the category would continue to grow, going forward.*

## **Parachute & Nihar: Potential headroom for growth in loose coconut oil market and in rural space**

Marico has been able to maintain healthy growth across its product portfolio over the years. The company's flagship brand, Parachute, has witnessed improvement in market share during the 12 months period ended March 2015. The market share of Parachute along with Nihar improved ~100bps to 57%, reflecting a strong position in the market. During FY15, Parachute's rigid portfolio (packs in blue bottles) saw a value growth of 34% and crossed the landmark of ₹1,500 crore in revenue. As per a study on branded coconut oil market by Marico, the overall branded coconut oil market size is ~₹4,500 crore, of which, approximately 35-40% (in volume terms) is in loose form. This loose component provides headroom for growth to the branded players. Parachute, being the market leader is well placed to capture a significant share of this growth potential on a sustainable basis. Further, Parachute's share in the rural markets, currently in the range of 35% to 40%, is lower than that in the urban markets, which provides potential headroom for growth in the rural markets.

## **Saffola: Launched smaller packs to encourage volume pick-up; traction in oats category to provide growth momentum**

Marico's other dominant brand, Saffola, continues to see improvement its performance as it grew by ~6% YoY in volume terms during FY15. However, in Q4FY15, volume was down 1% impacted primarily due to increased price premium of ₹40-50 a litre compared to other brands. To cope up with this, Marico has decided to launch smaller packs of 500 ml in a move to drive volumes. Launch of 500 ml packs is likely to encourage trials for first time buyers. The management believes that a recovery in urban demand would help it achieve a volume growth rate of ~9-10%. Saffola is considered an urban brand with ~30% of its sales coming from modern retail outlets.

In the oats category, various distribution initiatives undertaken by Marico have placed Saffola Oats now being the most distributed oats brand in India. The oats franchise crossed the revenue benchmark of ₹80 crore in FY15 and is expected to cross ₹125 crore in FY16. Localisation of product and encouragement of consumption by promoting Saffola Oats as an in-between meal apart from breakfast has been the key catalyst in creating and succeeding in this category.

Marico's premium urban brand, Saffola maintained its leadership position in the super premium refined edible oils segment with 268bps gain in market share to 58% in FY15 and is expected to maintain this trend for the upcoming year in the midst of increased competitive intensity in the category. Saffola oats too, has gained a strong no. 2 position in the market, iterating the success story of the newly introduced category.

## **Value Added hair oils: Portfolio upgradation to drive growth going ahead**

Marico's value added hair oils (Parachute Advansed, Nihar Naturals and Hair & Care) recorded a volume growth of ~10% in FY15. With four strong brands under its portfolio, namely, Parachute Advansed Jasmine, Parachute Advansed Ayurvedic Oil, Nihar Naturals Perfumed oil and Nihar Shanti Amla; Marico's value added oils crossed a landmark of ₹1,000 crore revenue in FY15. The company strengthened its position in the segment with 88bps growth to 29% volume share for the 12 month period ended March 2015. During Q4FY15, Marico launched Parachute Advansed Aromatherapy, a prototype aimed at making hair oiling relevant to urban lifestyle through the benefit of de-stress and relaxation. Moreover, with the launch of Nihar Naturals Shanti Sarson Kesh Tel, in February 2015, Marico tried to grab a share in loose mustard oil market. Given Marico's continuous focus on upgrading the portfolio by playing across segments that cater to consumer needs of nourishment and problem solution, we expect the value added hair oil category would continue to grow, going forward.

## **Eyeing ~25-35% revenue from international operations**

With plans to increase its presence in the global FMCG space, Marico is eyeing to capture ~25-35% of revenue from international market mainly through organic measures. Presently catering to the markets of Egypt, South Africa, Middle East, Malaysia, Vietnam and Bangladesh; the

*With plans to increase its presence in the global FMCG space, Marico is eyeing to capture ~25-35% of revenue from international market through organic measures.*

*While the average market price of copra was up by 16% YoY in Q4FY15, the same rose 60% YoY for the year.*

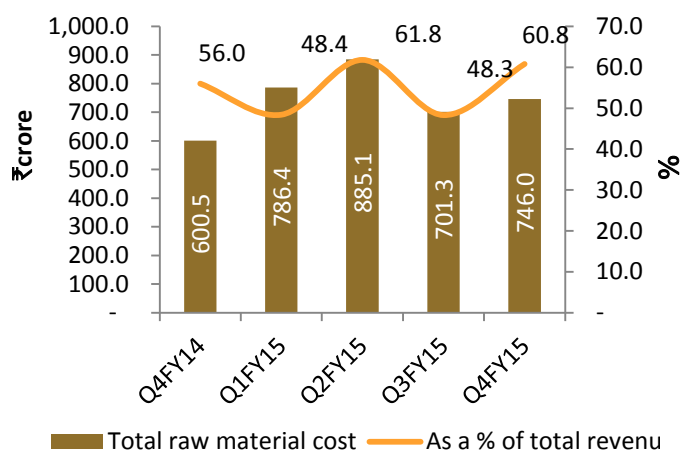
company derives ~22% revenue from its international operations. Since the company looks for opportunities in markets with sizeable low-to-mid income consumers, where the product penetration is low, and there are younger people; Asia and Africa offers more opportunities for growth as compared to the US and European market. Further, Marico plans to enter Kenya, Tanzania and Uganda soon and has identified the product categories to push growth in international markets. While, for Vietnam their focus would be more on food products and for South African market the company would be focusing on hair care.

## Price hike to deal with spurt in Copra prices bodes well for Marico

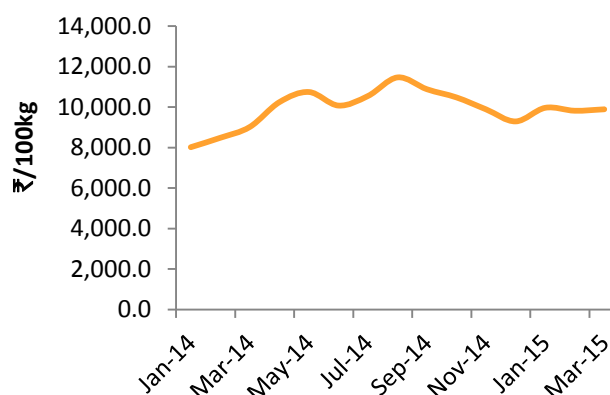
Marico witnessed a significant rise in the cost of its key raw material, Copra (constitutes ~40% of Marico's raw material cost) as the production was affected due to the adverse weather conditions. Since there is a direct correlation between copra prices and the company's consolidated gross margins, any increase or decrease in copra prices directly impacts the profitability of the firm.

A spurt in copra prices has been seen from mid-2013 onwards. While the average market price of copra was up by 16% YoY in Q4FY15, the same rose 60% YoY for the year. In order to mitigate the risks related to the same, Marico undertaken a weighted average price increase by ~11% in FY15 so as to pass on the cost push and maintain absolute margins.

Raw material cost grew 480bps YoY in Q4FY15



Copra price trend



*Changing consumer preferences, new product innovations, foreign currency exposure and uncertainty in economy are some of the risks Marico is exposed to.*

## Key Risks

**Changing consumer preferences:** For a FMCG company like Marico, shift in consumer preferences could have adverse impact on demand of the company's product. Given the explosion of social media, the speed of such shift could be very swift. However, Marico invests significantly in consumer insighting to adapt to changing preferences.

**Product innovation and new product launches:** In FMCG space, there are chances that new product launches may not be accepted by the consumer or may fail to achieve the targeted sales volume or value. Given this fact that the success rate of newly launched products in FMCG sector is low, Marico emphasize more on launching the prototyping of existing products that helps maintain a healthy pipeline and at the same time limits the downside risks.

**Foreign currency exposure:** Marico is exposed to a wide variety of currencies like the US Dollar, South African Rand, Bangladeshi Taka, UAE Dirham, Egyptian Pound, Malaysian Ringgit, and Vietnamese Dong. The company is, however, conservative in its approach and uses various hedging mechanisms to compensate for the same.

**Uncertain economic climate:** In situations of economic constraints, items which are in the nature of discretionary spending are the first to be curtailed. In an extended recession, down trading from branded to non-branded or premium to mass market products could occur and affect the financial performance of the company.



## Balance Sheet (Consolidated)

Y/E (₹cr)	FY14A	FY15A	FY16E	FY17E
Share Capital	64.5	64.5	64.5	64.5
Reserve & surplus	1,296.1	1,760.3	2,251.2	2,853.3
<b>Net Worth</b>	<b>1,360.6</b>	<b>1,824.8</b>	<b>2,315.7</b>	<b>2,917.8</b>
Minority Interest	35.8	13.7	18.3	24.7
Total debt	525.9	334.2	300.4	286.9
Provisions	85.7	103.9	127.3	156.7
Deferred tax liability	9.6	7.9	8.7	9.5
Other non-current liabilities	0.01	-	-	-
Other current liabilities	947.3	840.9	997.7	1,197.3
<b>Capital Employed</b>	<b>2,965.0</b>	<b>3,125.3</b>	<b>3,768.2</b>	<b>4,592.9</b>
Fixed Assets	637.8	589.8	560.3	549.1
Goodwill	254.3	489.1	626.1	801.4
Investments	310.5	283.8	276.5	270.2
Loans & advances	147.4	229.8	278.5	343.8
Other non-current assets	155.0	120.8	108.7	97.8
Other current assets	1,460.0	1,412.0	1,918.1	2,530.6
<b>Capital Deployed</b>	<b>2,965.0</b>	<b>3,125.3</b>	<b>3,768.2</b>	<b>4,592.9</b>

## Key Ratios (Consolidated)

Y/E	FY14A	FY15A	FY16E	FY17E
EBITDA Margin (%)	16.0	15.2	15.9	16.6
EBIT Margin (%)	15.6	14.7	15.5	16.2
NPM (%)	10.4	10.0	10.2	10.3
ROCE (%)	43.9	41.7	41.1	40.0
ROE (%)	35.7	31.4	29.3	27.0
EPS (₹)	7.5	8.9	10.5	12.2
P/E (x)	49.1	41.6	35.2	30.2
BVPS(₹)	21.1	28.3	35.9	45.2
P/BVPS (x)	17.5	13.1	10.3	8.2
EV/Net Sales (x)	5.1	4.2	3.6	3.0
EV/EBITDA (x)	32.1	27.6	22.5	18.3

## Profit & Loss Account (Consolidated)

Y/E (₹cr)	FY14A	FY15A	FY16E	FY17E
<b>Total revenue</b>	<b>4,686.5</b>	<b>5,733.0</b>	<b>6,617.7</b>	<b>7,643.9</b>
Expenses	3,938.5	4,862.9	5,565.3	6,375.3
<b>EBITDA</b>	<b>748.0</b>	<b>870.1</b>	<b>1,052.4</b>	<b>1,268.5</b>
Other Income	57.9	58.9	64.8	71.3
Depreciation	76.9	84.4	92.8	102.1
<b>EBIT</b>	<b>729.0</b>	<b>844.6</b>	<b>1,024.4</b>	<b>1,237.7</b>
Interest	34.5	22.9	18.4	14.7
<b>Profit Before Tax</b>	<b>694.6</b>	<b>821.7</b>	<b>1,006.0</b>	<b>1,223.0</b>
Tax	190.5	236.8	314.9	418.8
<b>Profit After Tax</b>	<b>504.1</b>	<b>584.9</b>	<b>691.1</b>	<b>804.2</b>
Minority Interest	18.7	11.4	13.1	15.1
<b>Net Profit</b>	<b>485.4</b>	<b>573.5</b>	<b>678.0</b>	<b>789.1</b>

## Valuation and view

Marico's sharpened focus on growth drivers like food categories (oats) and youth brands (deodorants, hair gels, hair creams) is believed to yield fruitful result. The company's management's continuous focus towards deriving synergies from the unification of domestic and international business also makes us positive for an improved performance in the upcoming years. Further, we believe that cross pollination of different products will drive innovations and brands, especially in the youth portfolio. Demerger of low margin Kaya business makes it a pure play consumer company and thus the future prospects seem brighter for the company.

At a current CMP of ₹369.9, Marico is attractively placed at EV/EBITDA of ~22.5x FY16E, 35.2x FY16E P/E and 10.3 x FY15E P/B. Considering the above aspects, we rate the stock as 'BUY' with a target price of ₹454, implying potential upside of ~22.7% for the coming 12 months.

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