

# Marico Bangladesh Limited

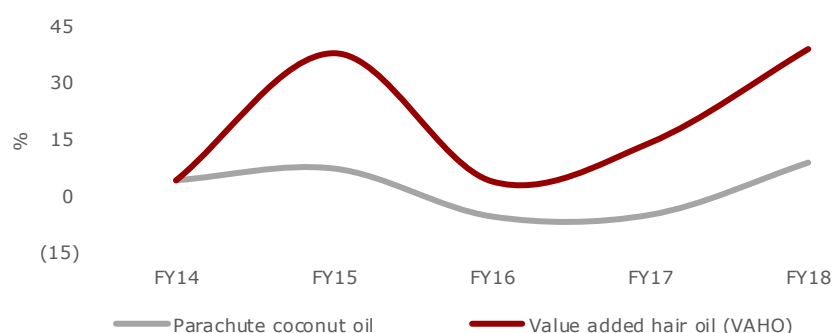
Marico Bangladesh Limited (MARICO), a trusted brand in beauty and wellness space in Bangladesh, was incorporated in 1999. The company is the first and the most profitable subsidiary of Marico Limited. The company manufactures branded cosmetic products in various category including branded coconut oil, Value Added Hair Oil (VAHO), hair color, skin care edible oil etc. Some of the flagship products of MARICO are Parachute, Parachute Advanced Beliphool, Nihar Natural Shanti Badam Amla, Set Wet Deodorant Spray Perfume, Set Wet Hair Gel, Saffola Active Blended Edible Oil etc. MARICO, the third largest MNC in Consumer Product Goods (CPG) sector, ranked first in coconut oil category and second in VAHO category.

MARICO has two factories, both of which are located in the Gazipur, Dhaka. The company distributes its products with its own distribution channel.

## Investment Positives

**MARICO is set on positive growth trajectory:** In FY18, topline of MARICO grew by 13.0% YoY to BDT 7,815mn. The growth was mainly attributable to the price growth in branded coconut oil category and volume growth in the VAHO category. VAHO category grew by 38.8% YoY in FY18 mainly driven by brands like Parachute Advanced Beliphool, Parachute Advanced Extra Care. The company holds ~82.0% market share in coconut oil segment. Parachute Coconut Oil, the flagship product of MARICO, registered 8.7% YoY growth in FY18.

## Growth of major product segments of MARICO



Source: Annual Report

MARICO is also diversifying its revenue source. In FY13, 87.4% of the revenue came from Parachute Coconut Oil; the contribution now decreased to 74.3%. Contribution of VAHO has increased from 10.3% in FY13 to 19.2% in FY18. Product of MARICO currently holds ~18.0% market share in VAHO segment. The company is aiming to increase the contribution of VAHO segment to the total revenue.

The company is also expanding the product basket. In FY18, the company introduced several products including Hair & Care Fruit Oil, Hair-Code Herbal Crème, stylish hair gel packs etc. In FY19, the company

## Equity Research

Fast Moving Consumer Goods (FMCG)

DSE Ticker: MARICO

Bloomberg Ticker: MBL BD

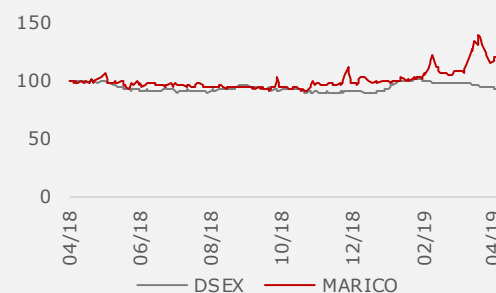
10 April 2019

Exchange	DSE/CSE
Year end	March
Market cap (BDT mn)	46,793.25
Market cap (USD mn)	554.75
Shares outstanding (mn)	31.50
Free float (%)	10
52WK avg daily volume	4,089.00
52Wk avg daily turnover (BDT)	5.9mn
52Wk avg daily turnover (USD)	0.1mn
52Week price range (BDT)	1,095.0-1,699.0
52Week price range (USD)	13.0-20.0
Earnings yield in FY18(%)	3.5
Dividend yield (%)	4.0

Key financials	FY17	FY18
Revenue	6,916	7,815
Gross profit	3,370	3,723
EBITDA	2,059	2,321
EBIT	1,858	2,136
Net profit after tax	1,440	1,643
Total asset	3,752	4,458
Total liabilities	2,172	2,966
ROA (%)	38.4	36.8
ROE (%)	91.1	110.1
EPS (BDT)	45.7	52.1
BVPS (BDT)	50.2	47.4

Price performance	3M	6M	12M
MARICO	17.1%	24.5%	18.3%
DSEX	-8.3%	-2.2%	-9.5%

## Rebased Performance



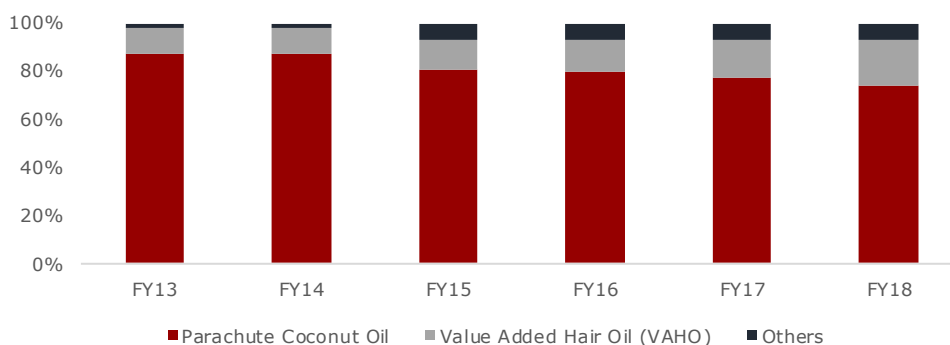
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## INVESTMENT THESIS

introduced baby care product in the market to further accelerate the diversification of product basket.

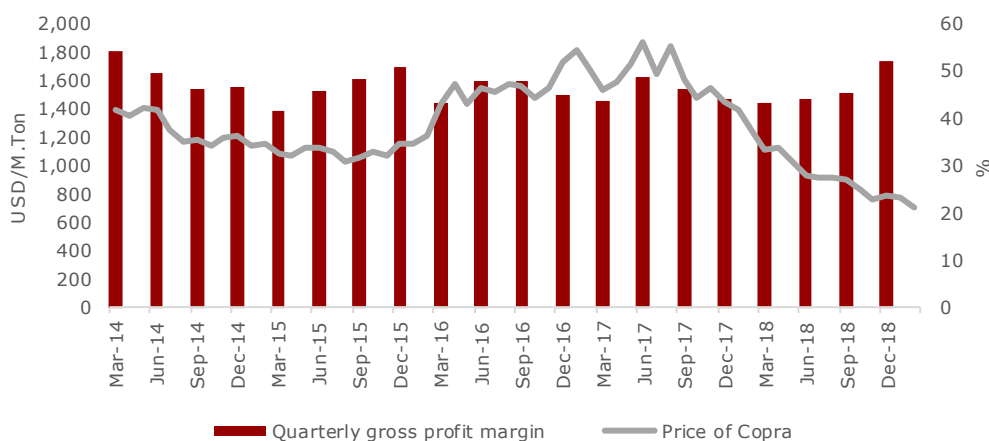
### Revenue break-down of MARICO



Source: Annual Report

**Raw material cost is expected to remain stable:** Copra is the key raw material used to produce coconut oil. Copra is accounted for ~70.0%-80.0% of the raw material of MARICO. So, when copra price increases in the international market, profit margin shrinks as it becomes more expensive to manufacture coconut oil. Although the company increases its products' price when price of copra increases, continuous increase in product price hampers market share. However, fluctuation in copra price does not immediately affect margin. We anticipate that it takes four to eight months to affect margin. Since February 2018, the price of copra has fallen by 42.9%. According to World bank Commodity Markets Outlook 2018, Copra price is expected to remain soft in the upcoming next three years. So, we expect profit margin of MARICO would increase or at least remain stable in the next three years.

### Copra price move and quarterly gross profit margin of MARICO



Source: indexmundi.com

**MARICO continued its robust growth in the first 11 month of FY19:** Revenue grew by 12.2% YoY in the first 11 month of FY19. Gross profit grew by 19.8%YoY to BDT 3,970. During the period under review, copra price has fallen by ~43.0%. As a result, gross profit margin increased by 310bp YoY to 48.7%. Operating profit and net profit has increased by 28.0% and 21.6% YoY respectively.

## INVESTMENT THESIS

### Performance analysis of MARICO - 11 month period ended FY19

Particulars (BDT mn)	11M FY18	11M FY19
<b>Revenue</b>	<b>7,269</b>	<b>8,159</b>
Gross profit	3,314	3,970
Operating profit	2,033	2,491
Net Profit	1,567	1,939
<b>EPS</b>	<b>49.75</b>	<b>61.55</b>
<b>Growth (%)</b>		
Revenue		12.2
Gross profit		19.8
EBIT		22.6
Net Profit		23.7
EPS		23.7
<b>Margin (%)</b>		
Gross profit	45.6	48.7
EBIT	28.0	30.5
Net Profit	21.6	23.8

Source: Annual Report

### Investment Negatives

**Competition at different levels:** While demand for hair care products has been increasing in both rural and urban markets, urban consumers are more extravagant than the rural consumers. Demand for hair product in urban areas is also different from the rural areas. While urban consumers are seeking more problem solving and styling products, rural consumers are demanding entry level hair product.

In urban area, consumers can easily switched to substitute of hair oil such as sophisticated shampoos and other non-oil hair product. In rural area, branded hair oil products are facing tough competition from low quality unbranded hair oil.

**Fluctuation of raw material price:** Profitability of hair oil producer like MARICO is heavily dependent on the price fluctuation of copra. A bad monsoon season can halt the momentum of the company.

**Depreciation of BDT:** MARICO imports its raw material from India, Indonesia and Philippines. So, further depreciation of BDT against USD would increase the cost of input.

## FINANCIALS

### Income Statement

Particulars (BDT mn)	FY13	FY14	FY15	FY16	FY17	FY18
Revenue	6,120	6,371	7,349	7,066	6,916	7,815
Cost of sales	3,851	3,027	3,882	3,712	3,546	4,092
<b>Gross profit</b>	<b>2,269</b>	<b>3,343</b>	<b>3,466</b>	<b>3,354</b>	<b>3,370</b>	<b>3,723</b>
Marketing, selling and distribution expenses	755	888	943	639	538	580
General and administrative expenses	459	685	599	697	764	814
Other income/(expense)	59	4	1	2	(9)	(9)
<b>EBITDA</b>	<b>1,114</b>	<b>1,774</b>	<b>1,925</b>	<b>2,020</b>	<b>2,059</b>	<b>2,321</b>
Depreciation	107	185	195	207	196	181
Amortization	0	1	3	3	5	4
EBIT	1,007	1,587	1,728	1,810	1,858	2,136
Finance income, net	163	288	101	115	69	108
<b>Profit before tax</b>	<b>1,170</b>	<b>1,876</b>	<b>1,829</b>	<b>1,924</b>	<b>1,927</b>	<b>2,244</b>
Income tax expense	303	490	484	510	487	601
<b>Profit after tax</b>	<b>867</b>	<b>1,386</b>	<b>1,345</b>	<b>1,414</b>	<b>1,440</b>	<b>1,643</b>
<b>Other comprehensive income</b>						
Remeasurement of defined benefit plan					10	0
Related taxes					3	(3)
Total other comprehensive income					8	2
<b>Total comprehensive income</b>	<b>867</b>	<b>1,386</b>	<b>1,345</b>	<b>1,414</b>	<b>1,448</b>	<b>1,645</b>
<b>EPS (BDT)</b>	<b>27.53</b>	<b>43.99</b>	<b>42.69</b>	<b>44.89</b>	<b>45.72</b>	<b>52.15</b>

### Balance Sheet

Particulars (BDT mn)	FY13	FY14	FY15	FY16	FY17	FY18
<b>Assets</b>						
Property, plant and equipment	837	883	732	596	594	512
Capital work in progress	28	11				
Intangible assets		6	7	13	9	6
Deferred tax assets	39	24	34	82	77	59
Non-current financial assets		5	3	5	10	12
Other non-current assets				79	42	29
<b>Total non-current assets</b>	<b>904</b>	<b>929</b>	<b>776</b>	<b>775</b>	<b>732</b>	<b>616</b>
Inventories	1,022	919	1,823	1,262	1,349	1,717
Accrued interest	55	75	14			
Advances, deposits and prepayments	216	78	50	127		
Fixed deposits	2,015					
Short-term investment		1,233	500			
Other current financial assets				863	1,311	1,244
Other current assets					193	611
Cash and cash equivalents	51	442	192	481	167	270
<b>Total current assets</b>	<b>3,359</b>	<b>2,747</b>	<b>2,578</b>	<b>2,733</b>	<b>3,021</b>	<b>3,842</b>
<b>Total assets</b>	<b>4,263</b>	<b>3,676</b>	<b>3,354</b>	<b>3,507</b>	<b>3,752</b>	<b>4,458</b>
<b>Equity</b>						
Share capital	315	315	315	315	315	315
Share premium	252	252	252	252	252	252
Retained earnings	2,589	1,139	1,145	1,142	1,013	926
<b>Total equity</b>	<b>3,156</b>	<b>1,706</b>	<b>1,712</b>	<b>1,709</b>	<b>1,580</b>	<b>1,493</b>
Provision for gratuity	16	16	20	35	44	50
Provision for leave encashment	9	6	6	9		
<b>Total non-current liabilities</b>	<b>25</b>	<b>22</b>	<b>27</b>	<b>44</b>	<b>44</b>	<b>50</b>
Loans and borrowings	39					300
Provision for gratuity		2	3	5		
Provision for leave encashment		1	1	2	5	7
Trade Payable	120	239	252	258	436	720
Other Payable	763	1,252	993	1,066	1,304	1,503
Current tax liabilities	160	453	366	423	382	386
<b>Total current liabilities</b>	<b>1,082</b>	<b>1,948</b>	<b>1,615</b>	<b>1,754</b>	<b>2,128</b>	<b>2,916</b>
<b>Total liabilities</b>	<b>1,107</b>	<b>1,970</b>	<b>1,642</b>	<b>1,799</b>	<b>2,172</b>	<b>2,966</b>
<b>Total equity and liabilities</b>	<b>4,263</b>	<b>3,676</b>	<b>3,354</b>	<b>3,507</b>	<b>3,752</b>	<b>4,458</b>
<b>BVPS (BDT)</b>	<b>100.18</b>	<b>54.16</b>	<b>54.35</b>	<b>54.25</b>	<b>50.16</b>	<b>47.38</b>

## FINANCIALS

### Cash Flow Statement

Particulars (BDT mn)	FY14	FY15	FY16	FY17	FY18
<b>Cash flows from operating activities</b>	<b>2,704</b>	<b>408</b>	<b>2,151</b>	<b>1,903</b>	<b>1,541</b>
Cash flows from investing activities	113	681	-445	-642	-6
Cash flows from financing activities	-2,874	-1,339	-1,418	-1,575	-1,433
<b>Net decrease in cash and cash equivalents</b>	<b>-56</b>	<b>-250</b>	<b>289</b>	<b>-314</b>	<b>103</b>
Opening cash and cash equivalents	499	442	192	481	167
<b>Closing cash and cash equivalents</b>	<b>442</b>	<b>192</b>	<b>481</b>	<b>167</b>	<b>270</b>
<b>OCF per share (BDT)</b>	<b>85.8</b>	<b>12.9</b>	<b>68.3</b>	<b>60.4</b>	<b>48.9</b>

### Key Ratios

Growth YoY	FY13	FY14	FY15	FY16	FY17	FY18
Revenue growth (%)		4.1	15.4	-3.9	-2.1	13.0
Gross profit growth (%)		47.3	3.7	-3.3	0.5	10.5
EBITDA growth (%)		59.3	8.5	4.9	1.9	12.7
EBIT growth (%)		57.7	8.8	4.7	2.7	14.9
PBT growth (%)		60.3	-2.5	5.2	0.1	16.4
Net profit growth (%)		59.8	-2.9	5.2	1.8	14.1

### Margins

Gross profit margin (%)	37.1	52.5	47.2	47.5	48.7	47.6
EBITDA margin (%)	18.2	27.8	26.2	28.6	29.8	29.7
EBIT margin (%)	16.5	24.9	23.5	25.6	26.9	27.3
PBT margin (%)	19.1	29.4	24.9	27.2	27.9	28.7
Net profit margin (%)	14.2	21.7	18.3	20.0	20.8	21.0

### Per share data

Adjusted EPS (BDT)	27.5	44.0	42.7	44.9	45.7	52.1
Adjusted BVPS (BDT)	100.2	54.2	54.4	54.2	50.2	47.4
Adjusted OCF (BDT)	62.5	85.8	12.9	68.3	60.4	48.9

### Return and valuation

P/E (x)	53.9	33.8	34.8	33.1	32.5	28.5
P/BV (x)	14.8	27.4	27.3	27.4	29.6	31.4
EV/ EBITDA (x)	42.0	26.4	24.3	23.2	22.7	20.2
P/OCF (x)	23.8	17.3	114.8	21.8	24.6	30.4
Dividend yield (%)	1.0	6.1	2.9	3.0	3.4	4.0
Dividend payout (%)	54	205	100	100	109	115
ROE (%)	27.5	81.2	78.5	82.8	91.1	110.1
ROA (%)	20.3	37.7	40.1	40.3	38.4	36.8
Cashflow yield (%)	4.2	5.8	0.9	4.6	4.1	3.3
Debt-to-equity (%)	1.2	0.0	0.0	0.0	0.0	20.1

### Turnover ratios

Inventory turnover (x)	3.8	3.3	2.1	2.9	2.6	2.4
Receivable turnover (x)						
Payable turnover (x)	32.1	12.7	15.4	14.4	8.1	5.7

### Cash Conversion Analysis

Days inventory outstanding	95.5	109.3	169.0	122.4	136.9	151.1
Days receivable outstanding						
Days payables outstanding	11.2	28.4	23.4	25.0	44.3	63.4
Cash conversion cycle	84.3	80.9	145.6	97.4	92.6	87.7

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Expected absolute returns are calculated as the percentage of difference between our target price and latest close price. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Please note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

Recommendation Type	Holding period (if not otherwise mentioned)	Absolute Return Potential
Buy	12 Months	More than +15%
Neutral/ Hold	12 Months	Between +15 % and -5 %
Underweight	12 Months	Less than -5 %

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