

Marico

Saffola and VAHO shine; miss on margin

Marico's 3Q was a mixed bag- while revenue was ahead of expectations, margin was a miss (in-line EBITDA). Domestic recovery was broad-based. PCNO continued its steady growth momentum, while VAHO saw an improved demand towards the top end of the pyramid. Saffola sustained its growth, aided by improved penetration. The International business saw recovery, led by SAARC and MENA markets. However, high RM inflation impacted margins sharply despite the improved product mix. Marico ramped up its A&P expenses as the company continued to be aggressive in new launches, but cost-saving initiatives in other areas limited the dip in EBITDA margin. We expect the growth momentum to sustain, and the pressure on margins to ease in FY22 owing to muted RM inflation and cost savings. We marginally increase our EPS estimates for FY22/FY23. We value Marico at 40x P/E on Mar-23E EPS to derive a target price of Rs 460. Maintain ADD.

- Robust 18% domestic growth:** Revenue grew by 16% YoY (-2% in 3QFY20 and +9% in 2QFY21), vs expectation of 11% YoY growth, led by 18% YoY Domestic growth. Domestic volume grew by strong 15% YoY (-1% in 3QFY20 and +11% in 2QFY21). PCNO saw 9/8% YoY value/volume growth while VAHO saw 21% YoY growth driven entirely by volumes. Saffola value/volume grew by 26/17% YoY. Premium Personal Care portfolio continued its recovery and reduced the decline to 4% YoY. Foods grew by 74% YoY while Oats saw 50% YoY growth. GT growth in rural/urban stood at 24/10% YoY. MT recovered to pre-COVID levels while e-commerce posted strong 88% YoY growth. However, CSD declined by 10% YoY.
- Bangladesh driving international:** International clocked 11% YoY growth, led by 8% CC growth. Bangladesh continued its strong performance with 15% YoY cc growth, and non-coconut portfolio saw 27% growth. MENA/South East Asia continued to struggle with cc decline of 1/3% YoY. South Africa/Other geographies saw 7/16% YoY cc growth.
- RM inflation impacts margin:** GM dipped by 223bps YoY (+282bps in 3QFY20 and -163bps in 2QFY21), vs expectation of a dip of 82bps YoY, due to high RM inflation (Copra/LLP/HDPE were up 26/12/18% YoY). Employee/Advertising/Other expenses grew by 28/4/9% YoY. EBITDA margin contracted by 99bps YoY to 19.5% (+170bps in 3QFY20 and +26bps in 2QFY21). EBITDA grew by 11% YoY (HSIE 12%). Domestic EBIT margin dipped by 162bps YoY while International margin expanded by 25bps YoY. PBT grew by 10% YoY while PAT grew by 13% YoY.
- Call takeaways:** (1) 65% of Saffola's growth was driven by increased penetration; (2) Saffola honey achieved >20% market share in e-comm; (3) e-comm revenue mix grew to 8%; (4) Foods revenue reached Rs 3.25bn in FY21 and is expected to reach Rs 4.5bn in FY22; (5) working capital days reduced to 23 days vs 35 days earlier, and can sustain at around 23-25 days.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	21,220	18,240	16.3	19,890	6.7	73,150	78,487	88,583	96,754
EBITDA	4,130	3,730	10.7	3,890	6.2	14,690	16,053	18,626	20,744
APAT	3,070	2,720	12.9	2,888	6.3	10,364	11,211	13,192	14,842
Diluted EPS (Rs)	2.38	2.11	12.9	2.24	6.3	8.03	8.69	10.23	11.51
P/E (x)						51.2	47.3	40.2	35.7
EV / EBITDA (x)						36.1	33.0	28.6	25.6
RoCE (%)						43.2	48.4	60.9	69.8

Source: Company, HSIE Research

ADD

CMP (as on 28 Jan 2021)	Rs 411
Target Price	Rs 460
NIFTY	13,818

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 450	Rs 460
EPS %	FY22E	FY23E
	1%	2%

KEY STOCK DATA

Bloomberg code	MRCO IN
No. of Shares (mn)	1,291
MCap (Rs bn) / (\$ mn)	531/7,274
6m avg traded value (Rs mn)	1,167
52 Week high / low	Rs 435/234

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	13.3	13.7	22.8
Relative (%)	(4.1)	(8.1)	8.4

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	59.61	59.61
FIs & Local MFs	10.26	10.00
FPIs	23.66	24.16
Public & Others	6.47	6.23
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Varun Lohchab

varun.lohchab@hdfcsec.com
+91-22-6171-7334

Naveen Trivedi

naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Aditya Sane

aditya.sane@hdfcsec.com
+91-22-6171-7336

Disclosure:

Authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com