

## Margins pressure to continue in near term...

Marico posted strong 25% volume growth with healthy growth in Parachute & VAHO on the back of a low base quarter. Saffola and foods business also continued the growth momentum. Revenue witnessed growth of 34.5% to ₹ 2012 crore led by 25% volume growth in India business and 23% growth in international business (constant currency). Parachute saw growth of 38% led by 29% volume growth. Similarly, Saffola & VAHO witnessed growth of 43% & 22%, respectively. Volume growth in Saffola & VAHO was 17% & 22%, respectively. The foods business grew 134% in Q4. With ~25% increase in copra prices & 39% increase in rice bran oil prices, gross margins contracted 513 bps during the quarter. Employee spends & marketing spends inched up 30 bps & 20 bps, respectively. However, the company was able to save 260 bps through various cost cutting measures. Operating profit increased 13.1% to ₹ 319 crore while operating profit margins contracted 300 bps to 15.9% during the quarter. Led by strong growth in operating profit, net profit witnessed growth of 12.9% to ₹ 227 crore.

### Saffola, foods continuing growth momentum

Saffola witnessed a robust volume growth of 17% in FY21 with increasing penetration & consumer preference for healthy cooking. Similarly, foods category has touched a ₹ 300 crore sales in FY21 on the back of high growth in Oats & foray in new category (Honey, Chyawanprash & Soya Chunks) in health space. The company also launched 'Saffola Oodles' in healthier noodles space during the quarter. Moreover, it has expanded its Soya Chunk distribution to MP (the product was launched only in WB earlier). The management expects the food business to grow to ~₹800-850 crore by FY24E. We believe edible oil & foods categories have gained the growth momentum with the change in consumer preferences for healthier foods. These two categories would drive the growth for the company.

### High commodity cost to pressurise margins in near term

The quarter has seen a very sharp increase in prices across commodities. Apart from copra & rice bran, liquid paraffin & HDPE prices have also risen by 29% & 31%, respectively, in Q4. However, copra prices have corrected by 15% in April from peak. Rice bran prices are also expected to cool down from June-July onwards. The company also took a price increase in Parachute to the tune of 9% in H2FY21E. Similarly, price increase in Saffola has been to the tune of 45-50% in January-April 2021. We expect operating margins to remain under pressure and estimate 19.1% & 19.2% operating margins for FY22E & FY23E, respectively (60-70 bps lower than FY21).

### Valuation & Outlook

We believe tailwind of healthier food consumption is expected to grow the foods & Saffola business in the next two to three years. Moreover, hair oils categories are also expected to witness strong growth with a mix of volumes and price hikes. It is also clear that Marico is looking to gain volumes and market share by not tinkering with prices too frequently. We maintain our **BUY** recommendation and target price of ₹ 490/share.

#### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	7334.0	7315.0	8048.0	8998.7	9990.7	11.4%
EBITDA	1281.0	1469.0	1591.0	1715.3	1921.1	9.9%
EBITDA Margin %	17.5	20.1	19.8	19.1	19.2	
Net Profit	1135.0	1043.0	1199.0	1241.6	1380.7	7.3%
Adjusted Net Profit	947.0	1043.0	1199.0	1241.6	1380.7	7.3%
EPS (₹)	8.80	8.08	9.29	9.62	10.70	
P/E	46.7	50.8	44.2	42.7	38.4	
RoNW %	31.6	34.5	37.0	37.4	39.7	
RoCE (%)	38.0	41.0	40.3	42.5	45.5	

Source: Company, ICICI Direct Research



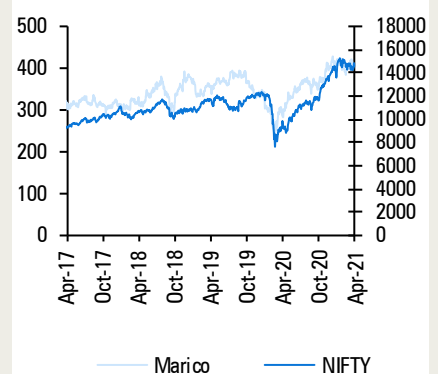
#### Particulars

Particulars (₹ crore)	Amount
Market Capitalization	53,027.2
Total Debt (FY21)	340.0
Cash and Investments (FY21)	1,572.0
EV	51,795.2
52 week H/L (₹)	434 / 277
Equity capital	129.0
Face value (₹)	1.0

#### Key Highlights

- Any nationalised lockdown due to second wave of Covid-19 could derail growth in Parachute & VAHO segments
- The sharp increase in crude based commodity prices & sustained rice bran oil prices could further pressurise margins

#### Price Performance



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Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Net Sales	2,012.0	1,834.7	1,496.0	34.5	2,122.0	-5.2	Net sales grew 34% led by 25% volume growth given base quarter saw de-growth in Parachute & VAHO segments
Raw Material Expenses	1,124.0	663.3	759.0	48.1	1,127.4	-0.3	Gross margins contracted 513 bps mainly on account of sharp rise in copra & rice bran oil prices
Employee Expenses	150.0	138.8	108.0	38.9	148.0	1.4	
SG&A Expenses	173.0	177.6	126.0	37.3	193.0	-10.4	
Other operating Expenses	246.0	206.4	221.0	11.3	241.0	2.1	
EBITDA	319.0	333.8	282.0	13.1	412.6	-22.7	
EBITDA Margin (%)	15.9	18.2	18.9	-300 bps	19.4	-359 bps	Despite cut in overhead spends, the company witnessed operating margins contraction
Depreciation	36.0	36.9	38.0	-5.3	36.0	0.0	
Interest	10.0	9.3	13.0	-23.1	7.0	42.9	
Other Income	29.0	26.7	32.0	-9.4	24.0	20.8	
Exceptional items	-19.0	0.0	0.0	NA	0.0	NA	
Minority Interest	0.0	0.0	0.0	NA	0.0	NA	
PBT	283.0	283.4	253.0	11.9	393.6	-28.1	
Tax Outgo	56.0	59.5	53.0	5.7	82.0	-31.7	
PAT	227.0	223.9	201.1	12.9	311.6	-27.2	PAT grew at a slower 12.9% due to operating margin contraction
<b>Key Metrics (%)</b>							
Domestic Volume Growth	25.0		-3.0		15.0		Volume growth was 25% largely due to low base quarter effect
Parachute Volume Growth	29.0		-8.0		8.0		
Saffola Volume Growth	17.0		25.0		17.0		Saffola continued to witness strong volume growth despite high base quarter with consumption shift towards healthy edible oil
VAHO Volume Growth	22.0		-11.0		21.0		

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY22E			FY23E			Comments
	Old	New	% change	Old	New	% change	
Gross Sales	8,649.7	8,998.7	4.0	8,752.7	9,990.7	14.1	We have factored in higher pricing growth in FY22 & FY23 as the company would need to take price hikes to protect margins
EBITDA	1,778.8	1,715.3	-3.6	1,785.7	1,921.1	7.6	
EBITDA Margin (%)	20.6	19.1	-150 bps	20.4	19.2	-117 bps	
PAT	1,260.9	1,241.6	-1.5	1,273.5	1,380.7	8.4	
EPS (₹)	9.8	9.6	-1.8	9.9	10.7	8.1	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current					Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY23E	FY22E	FY23E	
Std. Sales (₹ crore)	5,756.0	5,853.0	6,337.0	7,082.4	7,882.7	6,799.4	7,565.9	Higher sales due to expected increase in prices to pass on the sharp increase in commodity cost
Subs. Sales (₹ crore)	1,578.0	1,462.0	1,711.0	1,916.3	2,108.0	1,850.3	2,035.3	

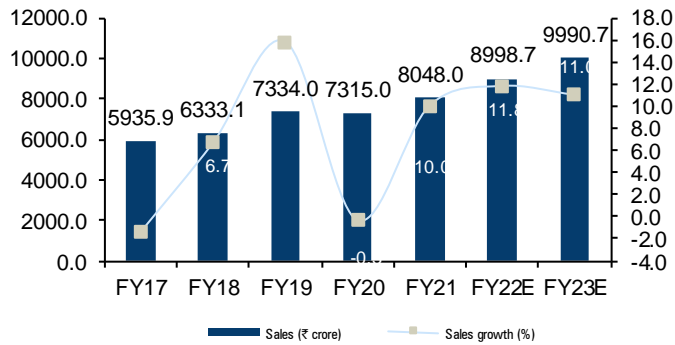
Source: Company, ICICI Direct Research

## Conference Call Highlights

- Marico reported robust growth of 34.5% in Q4 partially due to low base corresponding quarter & strong growth momentum in Saffola edible oil & foods category. Volume growth was 25% during the quarter
- Parachute (rigid) coconut oil witnessed splendid 39% sales growth aided by 29% volume growth. The company took a price hike of 9% in H2FY21 on the back of a sharp 25% increase in copra prices. Even considering a low base quarter (-4% growth in Q4FY20), the growth in the segment is remarkable. We believe that in the rising input cost scenario the company is gaining market share from unorganised companies. In FY21, parachute grew 8% with 6% volume growth
- Saffola edible oil continued its growth momentum with 43% growth in Q4 led by 17% volume growth despite strong 25% volume growth in the base quarter. The company took a price hike to the tune of ~30% in Q4 and further ~15-20% in April to pass on the sharp increase in rice bran oil prices. We believe the Saffola brand has been gaining through penetration given consumer preferences are changing towards healthier cooking specifically post pandemic break-out. The brand has seen a growth of 25% with volume growth of 17% in FY21
- VAHO saw 22% growth with similar volume growth given the company has not taken any price increase in the segment. The category has seen 11% volume growth in 11 months (May 2020-March 2021). Nihar Shanti Amla continued its strong momentum across its stronghold and non-core markets. On a full year basis, the segment saw 2% decline with flat volumes
- The foods category has continued the splendid growth momentum with 134% growth during the quarter. The company clocked ₹ 300 crore revenue in FY21. Saffola oats witnessed growth of 84% in Q4 with strong tailwind of healthier food. Within the new launched, Saffola Honey was most successful with closer to double digit market share in modern trade and 25% market share in the e-com channel
- Within foods, soya chunks distribution was extended to new markets (MP) after launching in West Bengal in the previous quarter. The product was also launched with modern trade & e-commerce channel. Total soya chunk market is ₹ 900 crore with organised players accounting for ₹ 300-350 crore
- Saffola Arogyam Chyawan Amrut (Chyawanprash) saw a moderate growth. The company has launched a TVC campaign and would continue to invest behind brand. The company introduced Saffola Oodles in healthier noodles category. Overall opportunity size in foods business is ₹ 4700 crore. Moreover, the company is looking to generate ₹ 800-850 crore through foods segment by FY24E
- The international market saw growth of 23% with Bangladesh business clocking 20% during the quarter. The business grew 15% in FY21. Similarly, South East Asia, MENA, South Africa business grew 13%, 62% & 48%, respectively, in Q4 due to low base in corresponding quarter
- In distribution channel, Marico is looking to expand its stockist network by 25% in next two years for the further penetration in rural markets. To tap into the increased opportunity in pharma/ chemist channels in the top 10 cities across the country, the company appointed specialist distributors during the quarter. E-commerce channel contributes 8% to the sales. The company is looking to increase e-commerce share to ~12% by FY24E. There is a differential SKU strategy to maintain similar margins across channels
- Income tax for next two years is expected to remain in 22-24% range

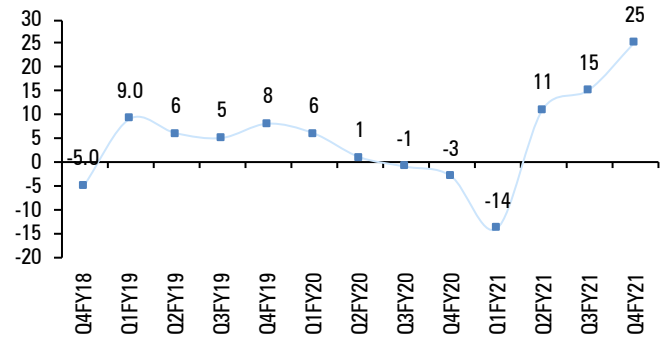
## Key Metrics

Exhibit 4: Revenue to grow at 11.4% CAGR over FY21-23E



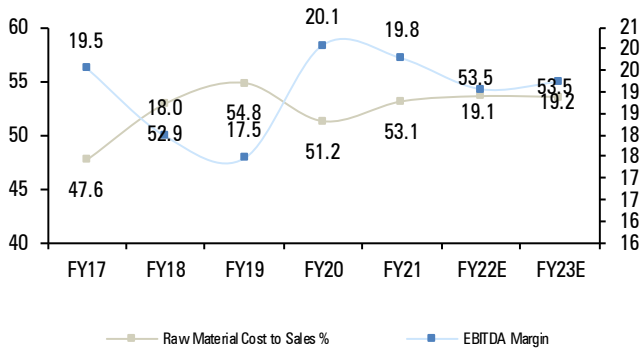
Source: ICICI Direct Research, Company

Exhibit 5: Domestic volume trend YoY (%)



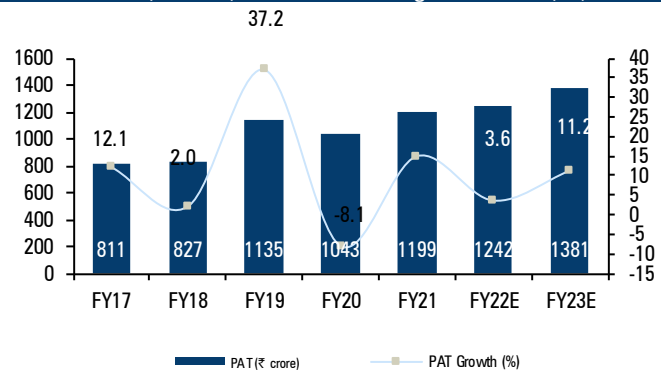
Source: ICICI Direct Research, Company

Exhibit 6: EBITDA margin and raw material trend



Source: Company, ICICI Direct Research

Exhibit 7: PAT (₹ crore) – LHS and PAT growth YoY (%) - RHS



Source: Company, ICICI Direct Research

Exhibit 8: Valuation

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY20	7315.0	-0.3	8.1	-8.1	50.8	35.9	34.5	41.0
FY21	8048.0	10.0	9.3	15.0	44.2	32.6	37.0	40.3
FY22E	8998.7	11.8	9.6	3.6	42.7	30.7	37.4	42.5
FY23E	9990.7	11.0	10.7	11.2	38.4	27.4	39.7	45.5

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 9: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
<b>Total Operating Income</b>	<b>7315.0</b>	<b>8048.0</b>	<b>8998.7</b>	<b>9990.7</b>	
Growth (%)	-0.3	10.0	11.8	11.0	
Raw Material Expenses	3,745.0	4,270.0	4,817.8	5,342.1	
Employee Expenses	478.0	570.0	638.9	689.4	
Marketing Expenses	727.0	698.0	818.9	919.1	
Excise Duty	0.0	0.0	0.0	0.0	
Other expenses	896.0	919.0	1,007.9	1,119.0	
Total Operating Expenditure	5,846.0	6,457.0	7,283.5	8,069.6	
<b>EBITDA</b>	<b>1469.0</b>	<b>1591.0</b>	<b>1715.3</b>	<b>1921.1</b>	
Growth (%)	14.7	8.3	7.8	12.0	
Depreciation	140.0	139.0	143.5	157.9	
Interest	50.0	34.0	34.8	47.1	
Other Income	124.0	94.0	98.7	102.6	
Share of profit/(loss) of associates	0.0	0.0	0.0	0.0	
Total Tax	331.0	324.0	392.1	436.0	
<b>PAT</b>	<b>1072.0</b>	<b>1188.0</b>	<b>1243.6</b>	<b>1382.7</b>	
Growth (%)	13.2	10.8	4.7	11.2	
<b>Adjusted PAT</b>	<b>1043.0</b>	<b>1199.0</b>	<b>1241.6</b>	<b>1380.7</b>	
Adjusted EPS (₹)	8.1	9.3	9.6	10.7	

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Profit before Tax	1,374.0	1,523.0	1,635.7	1,818.7	
Add: Depreciation	150.0	139.0	143.5	157.9	
(Inc)/dec in Current Assets	-25.0	480.0	-787.5	-262.6	
Inc/(dec) in CL and Provisions	38.0	250.0	-241.1	43.0	
Others	-338.0	-324.0	-392.1	-436.0	
<b>CF from operating activities</b>	<b>1,219.0</b>	<b>2,068.0</b>	<b>358.5</b>	<b>1,321.1</b>	
(Inc)/dec in Investments	70.0	-664.0	-52.0	-52.0	
(Inc)/dec in Fixed Assets	-186.0	-274.0	249.5	27.9	
Others	73.0	0.0	-113.5	-127.9	
<b>CF from investing activities</b>	<b>-43.0</b>	<b>-938.0</b>	<b>84.0</b>	<b>-152.0</b>	
Issue/(Buy back) of Equity	0.0	6.0	0.0	0.0	
Inc/(dec) in loan funds	-50.0	-170.0	-2.0	-2.0	
Dividend paid & dividend tax	-1,025.0	-968.0	-1,161.0	-1,225.5	
<b>CF from financing activities</b>	<b>-1,146.0</b>	<b>-1,119.0</b>	<b>-1,163.0</b>	<b>-1,227.5</b>	
Net Cash flow	45.0	16.0	-720.5	-58.4	
Opening Cash	48.0	93.0	109.0	-611.5	
Cash in Bank	186.0	835.0	835.0	835.0	
Closing Cash	279.0	944.0	223.5	165.0	

Source: Company, ICICI Direct Research \*includes cash in bank

Exhibit 11: Balance sheet		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
<b>Liabilities</b>					
Share Capital	129.0	129.0	129.0	129.0	
Reserve and Surplus	2,894.0	3,111.0	3,191.6	3,346.8	
Total Shareholders funds	3,023.0	3,240.0	3,320.6	3,475.8	
Long Term Borrowings	0.0	0.0	0.0	0.0	
Provisions & other LTL	175.0	130.0	130.0	130.0	
Minority Interest / Others	13.0	18.0	20.0	22.0	
Deferred Tax Liability	6	109	107	105	
<b>Total Liabilities</b>	<b>3217.0</b>	<b>3497.0</b>	<b>3577.6</b>	<b>3732.8</b>	
<b>Assets</b>					
Gross Block	1,016.0	1,136.0	1,256.0	1,376.0	
Less: Acc Depreciation	464.0	603.0	746.5	904.4	
Net Block	841.0	769.0	509.5	471.6	
Capital WIP	66.0	24.0	34.0	44.0	
Goodwill on Consolidation	538.0	613.0	583.0	553.0	
Non Current Investments	105.0	271.0	296.0	321.0	
Other Non CA	278.0	497.0	524.0	551.0	
Current Investments	628.0	628.0	688.0	748.0	
Inventory	1,380.0	1,126.0	1,602.5	1,751.8	
Debtors	539.0	388.0	641.0	684.3	
Cash & Bank	279.0	944.0	223.5	165.0	
Other CA	348.0	250.0	248.0	258.0	
Total Current Assets	3,174.0	3,336.0	3,403.0	3,607.1	
Creditors	978.0	1,134.0	862.9	875.9	
Short Term Borrowings	325.0	340.0	355.0	370.0	
Other Current Liabilities	482.0	539.0	554.0	569.0	
Total Current Liabilities	1,785.0	2,013.0	1,771.9	1,814.9	
Net Current Assets	1,389.0	1,323.0	1,631.1	1,792.2	
Miscl. Exps. not w/o	0.0	0.0	0.0	0.0	
<b>Application of Funds</b>	<b>3217.0</b>	<b>3497.0</b>	<b>3577.6</b>	<b>3732.8</b>	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
<b>Per share data (₹)</b>					
EPS (Adjusted)	8.1	9.3	9.6	10.7	
Cash EPS	9.2	10.4	10.7	11.9	
BV	23.4	25.1	25.7	26.9	
DPS	6.7	8.0	9.0	9.5	
Cash Per Share	2.2	7.3	1.7	1.3	
<b>Operating Ratios (%)</b>					
EBITDA Margin	20.1	19.8	19.1	19.2	
PBT / Total Operating income	18.8	18.9	18.2	18.2	
PAT Margin	14.3	14.9	13.8	13.8	
Inventory dbcs	69	51	65	64	
Debtor dbcs	27	18	26	25	
Creditor dbcs	49	51	35	32	
<b>Return Ratios (%)</b>					
RoE	34.5	37.0	37.4	39.7	
RoCE	41.0	40.3	42.5	45.5	
RoIC	50.4	68.0	49.9	52.7	
<b>Valuation Ratios (x)</b>					
P/E	50.8	44.2	42.7	38.4	
EV / EBITDA	35.9	32.6	30.7	27.4	
EV / Net Sales	7.2	6.5	5.8	5.3	
Market Cap / Sales	7.2	6.6	5.9	5.3	
Price to Book Value	17.5	16.4	16.0	15.3	
<b>Solvency Ratios</b>					
Debt/EBITDA	0.2	0.2	0.2	0.2	
Debt / Equity	0.1	0.1	0.1	0.1	
Current Ratio	2.0	1.4	2.2	2.4	
Quick Ratio	1.0	0.8	1.1	1.2	

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E
Colgate (COLPAL)	1,482	1,860	Buy	43,654	35.0	37.8	40.5	42.3	39.2	36.6	9.3	8.5	8.0	76.7	80.2	83.7	58.7	61.5	64.3
Dabur India (DABIND)	538	620	Buy	91,067	9.9	11.0	12.3	54.3	48.9	43.9	9.4	8.5	7.7	26.5	27.0	27.4	22.9	23.0	23.3
Hindustan Unilever (HINLEV)	2,354	2,715	Buy	554,458	33.9	40.5	45.0	69.5	58.1	52.3	12.2	10.6	9.8	18.9	25.6	27.7	17.1	20.0	21.6
ITC Limited (ITC)	203	245	Hold	267,970	10.7	12.8	14.1	18.9	15.9	14.4	5.8	5.1	4.7	26.3	31.0	33.1	20.1	23.7	25.3
Jyothy Lab (JYOLAB)	146	175	Hold	5,728	5.9	6.4	7.1	25.0	22.9	20.6	3.1	2.8	2.6	30.6	31.1	31.6	26.0	25.9	26.3
Marico (MARLIM)	411	490	Buy	53,027	9.3	9.6	10.7	44.3	42.8	38.4	6.6	5.9	5.3	40.3	42.5	45.5	37.0	37.4	39.7
Nestle (NESIND)	16,309	19,300	Hold	164,840	216.0	254.8	283.8	75.5	64.0	57.5	12.4	11.2	10.2	54.6	62.7	69.1	103.1	124.2	142.1
Tata Consumer Products (TAT)	670	700	Buy	53,448	11.0	12.5	14.1	60.7	53.6	47.4	4.6	4.3	4.0	8.9	9.8	10.5	7.2	8.1	8.8
VST Industries (VSTIND)	3,230	3,600	Hold	5,090	201.3	218.8	234.9	16.0	14.8	13.7	4.6	4.2	3.9	43.4	45.6	48.2	33.0	33.9	36.1
Varun Beverage (VARBEV)	951	965	Hold	26,011	12.5	21.0	26.5	75.8	45.4	35.9	4.0	3.4	3.1	10.9	17.2	20.1	10.3	15.1	16.5
Zydus Wellness (ZYDWEL)	2,097	2,500	Buy	12,343	19.0	60.3	71.3	110.5	34.8	29.4	6.6	5.8	5.3	6.2	7.8	9.0	5.5	8.0	9.3

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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