

Marico Ltd

BUY

CMP Rs 412

Target Rs 491

Upside 19.3%

Strong demand momentum to continue, margin headwinds transient

Result Highlights

- ✓ **Quarter summary** – Revenue growth of 34.5% yoy with 25% domestic volume growth, rural grew 1.8x of urban, 25% growth and 23% CC growth in international business, gross margin decline of 520bps to 44.1%, EBITDA margin decline of 300bp to 15.9%, PAT growth of 16.7%.
- ✓ **Growth by verticals** – 29% volume and 38% value growth in Parachute on base of 8% and 12% decline, 22% volume and value growth in VAHO on base of 11% and 18% decline and 17% volume and 43% value growth in Saffola on base of 25% volume and value growth.
- ✓ **Commodity inflation impact** – Gross margins down by a sharp 520bps due to 25% inflation in copra prices, 39% in rice bran oil, 29% in LLP and 31% in HDPE.
- ✓ **Market share trends** – Coconut oil market share down 100bps yoy to 61%, Saffola share up 500bps to 81% and VAHO market share up 200bps to 37%.

Valuation and view – 4Q was a strong testament of the pricing power of MRCO's brands with strong broad-based growth momentum despite significant price hikes in Parachute and Saffola. Foods business more than doubled while VAHO saw strong market share gains led by amla. Margins were impacted as the company absorbed some commodity inflation which it believes is transient. While growth momentum should sustain with higher pricing contribution in FY22 led by aggressive expansion in rural stockiest network and eCom/MT channels, margins seem to have bottomed out in 4Q and should see a gradual recovery with copra prices already correcting 15% from peak and edible oils expected to cool off from 2Q onwards although crude remains one of the key risks. Foods business is expected to continue growing at 30% CAGR with continued new and innovative launches. The international business also seems to be on a strong wicket.

MRCO looks well placed to deliver on its medium-term aspiration of 13-15% growth with 19-20% margins given multiple levers like share gain possibilities in Parachute portfolio, strong momentum for Saffola edible oils and foods portfolio, recovery in international markets and continued strengthening of distribution and digital infrastructure. We model in revenue/EBITDA/PAT CAGR of 15%/16%/17% over FY21-23E and assume coverage with a BUY rating with a PT of Rs 491 based on 40x FY23E earnings, in-line with its 5-yr average multiple.

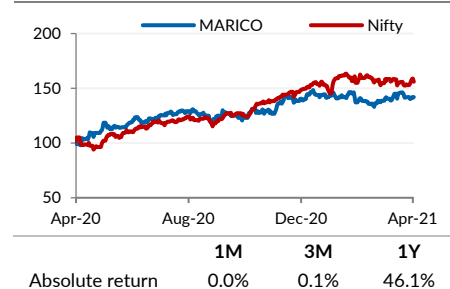
Exhibit 1: Result table

(Rs mn)	Q4FY21	Q4FY20	% yoy	Q3FY21	% qoq
Total sales	20,120	14,960	34.5%	21,220	-5.2%
EBITDA	3,190	2,820	13.1%	4,130	-22.8%
EBITDAM (%)	15.9%	18.9%		19.5%	
Depreciation	360	380	-5.3%	360	0.0%
Interest	100	130	-23.1%	70	42.9%
Other income	290	320	-9.4%	240	20.8%
PBT	3,020	2,630	14.8%	3,940	-23.4%
Tax	560	530	5.7%	820	-31.7%
Adjusted PAT	2,380	2,040	16.7%	3,070	-22.5%
Reported PAT	2,190	2,140	2.3%	3,070	-28.7%
PATM (%)	11.8%	13.6%		14.5%	
EPS (Rs)	1.8	1.6		2.4	

Stock data (as on Apr 30, 2021)

Nifty:	14,631
52 Week h/l (Rs)	434/277
Market cap (Rs/USD mn)	531,326/7,172
Outstanding Shares	1,291
6m Avg t/o (Rs mn):	994
Div yield (%):	1.1
Bloomberg code:	MRCO IN
NSE code:	MARICO

Stock performance



Shareholding pattern (As of Mar'21 end)

Promoter	59.6%
FII+DII	33.9%
Others	6.2%

Financial Summary

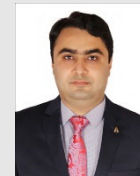
	FY21	FY22e	FY23e
Net Revenue	80,480	94,534	106,276
YoY Growth	10	17.5	12.4
EBITDA	15,910	17,867	21,468
Margins (%)	19.8	18.9	20.2
PAT	11,590	13,034	15,847
YoY Growth	14.4	13.8	14.9
ROE	37.0	38.7	43.3
ROCE	44.5	46.7	53.0
EPS	9.1	10.1	12.3
P/E	45.3	40.8	33.5
EV/EBITDA	33.0	29.4	24.4

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- ✓ **Foods and honey business** – Foods business grew 134% to cross Rs 3bn sales in FY21, oats grew 84%, Saffola Oodles launched during the quarter, honey gained market share in MT and eCom and on track to reach Rs 1bn revenue in FY22.
- ✓ **Premium personal care** – Q4 ended with a modest decline as growth in serums was more than offset by decline in male grooming.
- ✓ **Channel wise volume growth** – Urban GT grew 23% on base of 12% decline, rural GT grew 42% on base of 15% decline, MT declined 17% on base of 44% growth and e-commerce grew 81% on base of 29% growth.
- ✓ **International business** – Constant currency growth of 20% in Bangladesh on base of 6% growth, 62% in MENA on base of 50% decline, 48% in South Africa on base of 26% decline and 13% in SE Asia on base of 5% growth.
- ✓ **ASP spends** – A&P spends increased by 35% with aggressive investments on core brands and foods innovations with more investments towards growing brands.

MANAGEMENT COMMENTARY

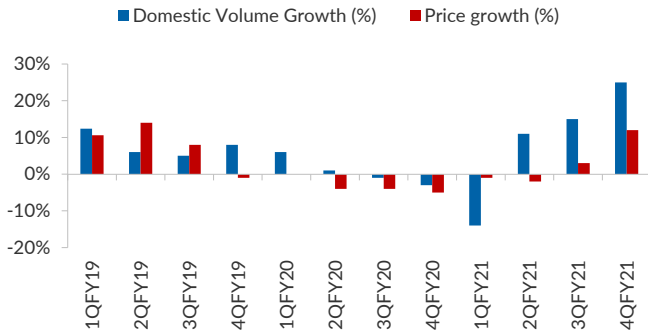
- ✓ **Overall commentary** – Strong momentum in business except last 3-4 days of the quarter, consistent commodity inflation partially passed on through multiple price hikes, volume growth of 18-20% adjusting for base effect indicating strong demand momentum, targeting another 25% increase in rural stockist network in 2 years after 25% growth in FY20, rural contribution to sales increased by 2%, eCom share at 8%,
- ✓ **Parachute** - Have taken 9% price increase in Parachute in H2 which is still lesser than commodity inflation, copra prices up 25% yoy but have seen some 15-16% correction in April from 4Q peak, margins foregone will be recouped in coming quarters, outlook remains flat to marginally higher in FY22 for copra.
- ✓ **VAHO** – 22% volume growth, 11% volume growth in 11 months, 200bps market share gain, will sustain double digit growth going forward with a broad portfolio straddling multiple price points.
- ✓ **Saffola** – Sixth consecutive quarter of double-digit growth, 30% price hike in H2, strong increase in household penetration, further 15-20% price hikes taken in April as well but growth has not tapered off, following commodity inflation with one month lag, edible oil prices should remain range-bound before retracing in June-July, will gradually regain margins in Saffola.
- ✓ **Foods** – grew 134%, oats up 84% and new launches doing well, Honey did well, ChyawanAmrit has had a promising start, Oodles is a good opportunity, 5000crs increase in total addressable market for Saffola in foods, 450-500crs target in FY22, soya chunks extended from West Bengal to other eastern states, started with GT and now expanding into MT and Ecom.
- ✓ **Premium personal care** – Near term pressures remain, might recover from 2Q, remain cautious on Beardo as well, should do 100crs in FY22.
- ✓ **COVID impact** - Difficult to foresee but better prepared to handle supply chain, 21-22 days of April saw strong momentum while last 10 days little slow but base very low, 2nd half of May will give clear picture, premium categories will be impacted more, 90% Marico portfolio is basic items which might be insulated.
- ✓ **Cost pressures** - should be transient, have strong pricing power across brands, sharp edible oil inflation, copra prices fallen 13-15% from peak, edible oil prices are speculation led and hence should cool off in few months, 150cr cost savings in FY21, slowly get back to 19-20% margins, prepared to take a short term hit given ongoing demand momentum, margins will improve sequentially and have bottomed out.

CONCALL TAKEAWAYS

- ✓ **Supply chain disruptions** - In end-April, restricted hours of operations for distributors and retailers impacted offtake but do not see any significant consumption impact; 90% essentials portfolio seeing resilient demand, expect normalization from June.
- ✓ **Input costs** – Crude impact on VAHO and packaging material, copra price drop has happened with 8-week lag so will recover margins gradually, edible oil prices still remain elevated – 45-50% increase in Saffola pricing; overall margins should improve sequentially in 1Q and will reach medium-term targeted levels in 2HFY22. Current copra prices close to FY21 average, edible oil tables have moved up by 55% or so, will retain some margin benefits once prices correct as have absorbed some inflation, will try and deliver 19% EBITDA margins in FY22.
- ✓ **Impact of 50% increase in Saffola prices** – Pricing competitiveness has increased as most players have cost plus model while Marico does not pass on fully, typical consumer uses 2-3 lts so incremental cost of Rs 180 per month not very difficult to absorb, not worried about downtrading as April trends remain very strong.
- ✓ **VAHO outlook** – Some issues in Shanti Amla now corrected, significant thrust on distribution expansion, pricing and communication issues corrected, all brands delivered well, should deliver 10% plus growth in upcoming quarters, 25% rural distribution increase will help VAHO growth. Smaller brands facing working capital and supply chain disruption, wholesale channel has been disrupted and direct rural reach is big advantage, market share up for grabs, significant journey to cover in rural markets especially in North markets. Reached 44% volume market share in amla.
- ✓ **Distribution focus** – Focusing on rural by increasing number of stockists, urban focus on chemist, cosmetic and food outlets which will continue to grow. Skin care, hair care, immunity products have skew in chemist channel, have a sizeable portfolio relevant for chemist channel, reach accelerated during Covid period.
- ✓ **Bangladesh business** - 40% business coming from non-Parachute – entering new categories like baby care, skin care, shampoos, will become 50% of revenue.
- ✓ **Inventory reduction** – Inventory days sharply lower as company reduced distributor holding to FY16 levels and rationalized 26% SKUs, supply chain automation has also reduced company and supply chain inventory, not built commodity inventory due to sharp inflation.
- ✓ **eCom and D2C channels** – Can reach 11-12% by FY24 from 8% currently, selling differentiated SKUs compared to GT to prevent channel conflict, will increase non-core business salience in MT and ECom channels, focus on premium products which will give more margins to cover expected increase in selling costs on these channels.

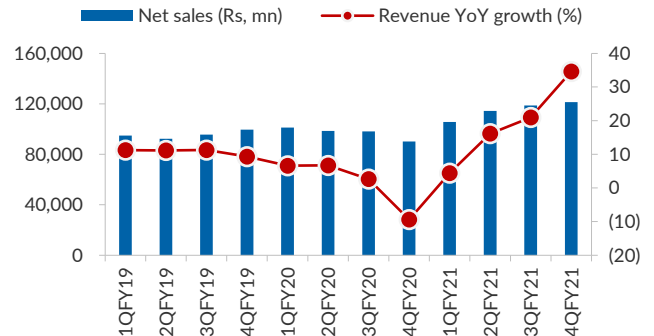
CHARTS

Exhibit 2: Strong volume growth albeit on a lower base



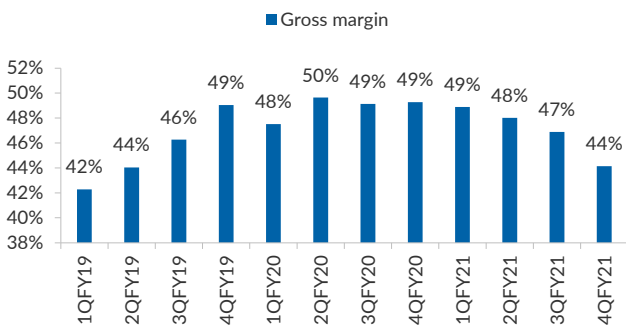
Source: Company, YES Sec – Research

Exhibit 3: Sales growth helped by price increases



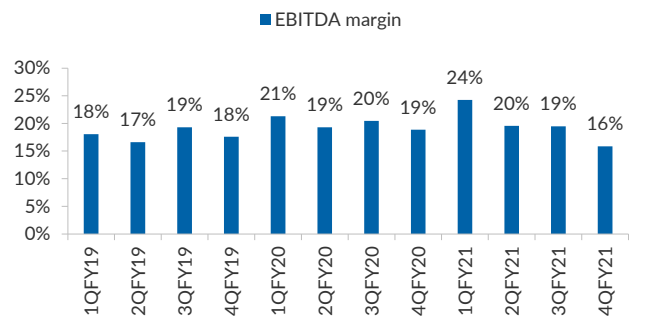
Source: Company, YES Sec – Research

Exhibit 4: Gross margin remain under pressure impacted by inflation in copra, rice bran oil and packing material prices



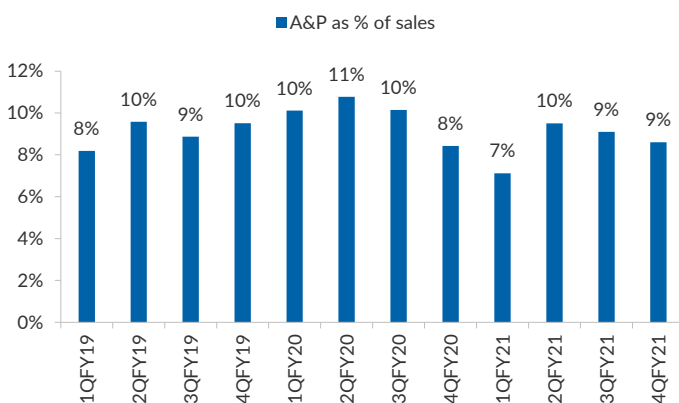
Source: Company, YES Sec – Research

Exhibit 5: ... However, lower other expenses partially offset impact on EBITDA margin



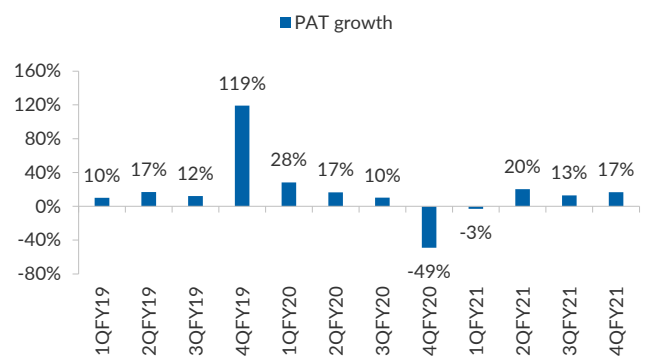
Source: Company, YES Sec – Research

Exhibit 6: A&P spends remain higher owing to investment in franchise and new products



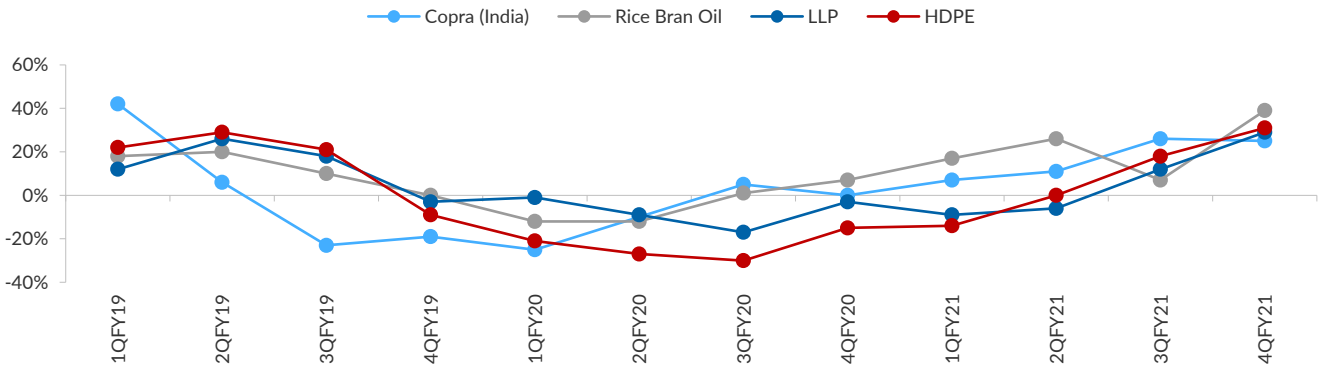
Source: Company, YES Sec – Research

Exhibit 7: Earnings trajectory remains range-bound



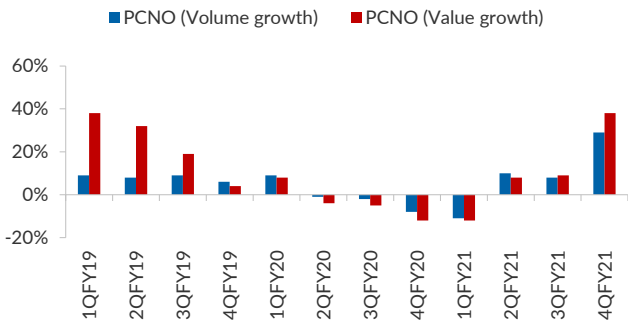
Source: Company, YES Sec – Research

Exhibit 8: Commodity price trends - inflationary pressure continue



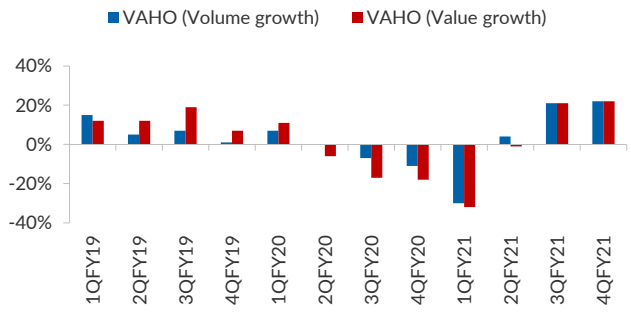
Source: Company, YES Sec - Research

Exhibit 9: Parachute coconut oil held up firmly with 120bps market share rise



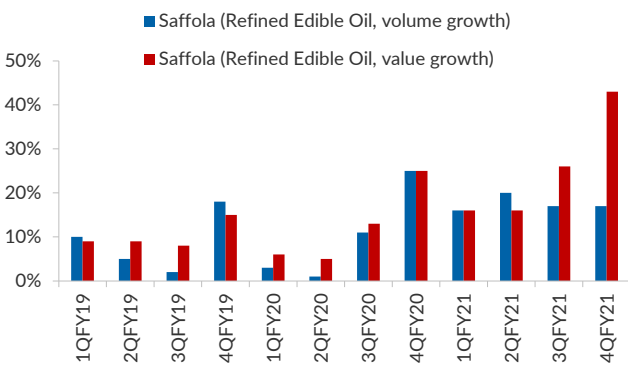
Source: Company, YES Sec - Research

Exhibit 10: VAHO resilient with double digit growth across brands driving 200bps market share gain



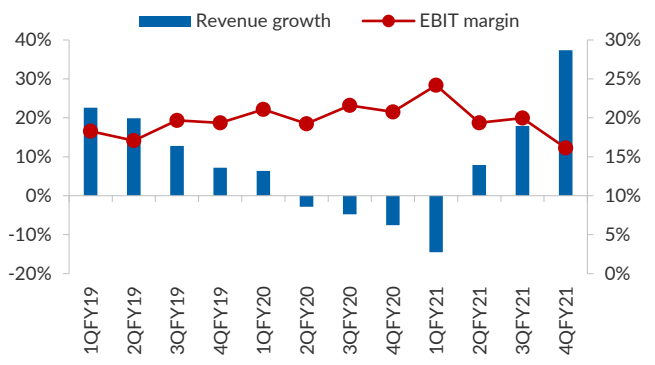
Source: Company, YES Sec - Research

Exhibit 11: Another stellar performance from Saffola oils with ~5% increase in market share to 81%



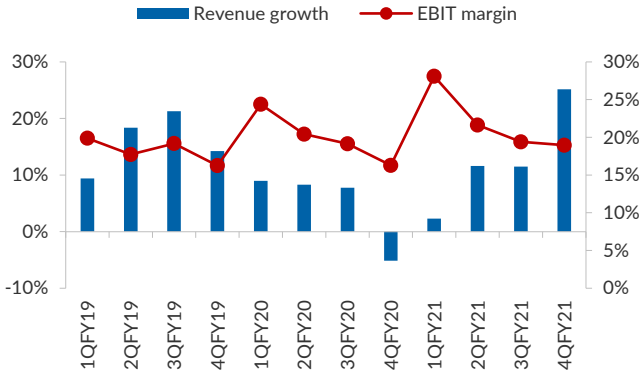
Source: Company, YES Sec - Research

Exhibit 12: India business performance aided by strong volume growth partially offset by inflationary pressure in input costs



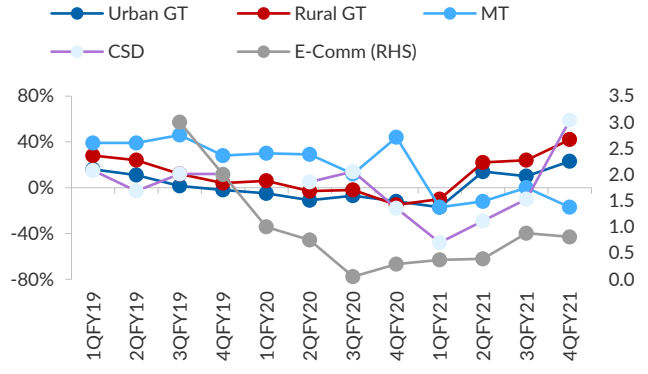
Source: Company, YES Sec - Research

Exhibit 13: International business recovery led by Bangladesh and South East Asia



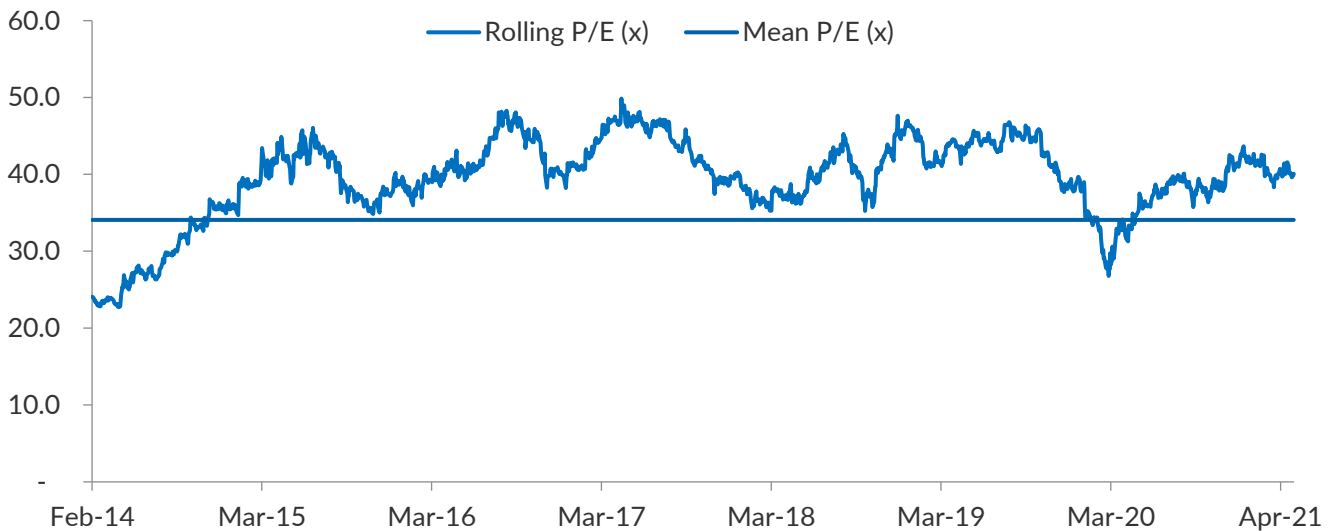
Source: Company, YES Sec - Research

Exhibit 14: Rural distribution strengthening while E-com accelerating



Source: Company, YES Sec - Research

Exhibit 15: Currently trading at 40x one-yr fwd earnings



Source: Company, YES Sec - Research

FINANCIALS

Exhibit 16: Balance sheet

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	1,290	1,290	1,290	1,290	1,290
Reserves	28,460	28,940	31,110	33,717	36,886
Net worth	29,750	30,230	32,400	35,007	38,176
Debt	3,490	3,350	3,480	3,080	2,680
Deferred tax liability	130	60	840	-	-
Other non-current liabilities	1,510	1,440	1,220	1,617	1,779
Current liability	13,890	14,600	16,730	18,690	20,985
Sundry creditors	9,440	9,780	11,340	12,950	14,558
Other current liabilities	3,200	3,700	4,410	4,662	5,241
Provision	1,250	1,120	980	1,078	1,186
Total liabilities	48,970	49,890	54,920	58,394	63,620
Net Block	11,300	12,330	15,950	15,758	15,461
CWIP	450	580	240	240	240
Fixed Asset	11,750	12,910	16,190	15,998	15,701
Non-current investments	4,420	7,210	8,710	8,710	8,710
Other Non-current Assets	4,650	4,160	2,940	2,208	2,327
Non-current assets	21,000	24,480	28,020	27,114	26,955
Current Assets	22,570	22,750	17,640	22,687	26,957
Inventories	14,110	13,800	11,260	14,245	17,470
Sundry debtors	5,170	5,390	3,880	5,180	5,823
Loans and Advances	3,170	3,480	2,360	3,108	3,494
Cash & equivalents	5,400	2,660	9,260	8,593	9,708
Total assets	48,970	49,890	54,920	58,394	63,620

Exhibit 17: Income statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	73,340	73,150	80,480	94,534	1,06,276
Operating profit	13,260	14,690	15,910	17,867	21,468
Depreciation	1,310	1,400	1,390	1,692	1,797
Interest expense	400	500	340	308	268
Other income	1,030	1,240	940	1,081	1,243
Profit before tax	12,580	14,030	15,120	16,948	20,646
Taxes	1,260	3,310	3,240	3,713	4,649
Minorities and other	180	220	290	200	150
Adj. profit	11,140	10,500	11,590	13,034	15,847
Exceptional items	-	290	(130)	-	-
Net profit	11,140	10,210	11,720	13,034	15,847

Exhibit 18: Cash flow statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Profit before tax	12,980	14,530	15,460	17,256	20,914
Depreciation	1,310	1,400	1,390	1,692	1,797
Tax paid	(1,260)	(3,310)	(3,240)	(3,713)	(4,649)
Working capital Δ	360	530	7,240	(3,087)	(1,975)
Other operating items					
Operating cashflow	13,390	13,150	20,850	12,148	16,088
Capital expenditure	(1,990)	(2,560)	(4,670)	(1,500)	(1,500)
Free cash flow	11,400	10,590	16,180	10,648	14,588
Equity raised	462	278	125	0	-
Investments	1,110	(2,790)	(1,500)	-	-
Debt financing/disposal	400	(140)	130	(400)	(400)
Dividends paid	(400)	(500)	(340)	(308)	(268)
Other items	(7,082)	(10,008)	(9,675)	(10,428)	(12,678)
Net Δ in cash	(2,380)	(160)	1,730	(179)	(127)

Exhibit 19: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Tax burden (x)	0.9	0.7	0.8	0.8	0.8
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
EBIT margin (x)	0.2	0.2	0.2	0.2	0.2
Asset turnover (x)	1.6	1.5	1.5	1.7	1.7
Financial leverage (x)	1.7	1.6	1.7	1.7	1.7
RoE (%)	40.5	35.0	37.0	38.7	43.3

Exhibit 20: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Growth matrix (%)					
Revenue growth	16.0	(0.3)	10.0	17.5	12.4
Op profit growth	16.6	10.8	8.3	12.3	20.2
EBIT growth	14.6	11.9	6.4	11.6	21.2
Net profit growth	36.9	(5.7)	10.4	12.5	21.6
Profitability ratios (%)					
OPM	18.1	20.1	19.8	18.9	20.2
EBIT margin	17.7	19.9	19.2	18.3	19.7
Net profit margin	15.2	14.4	14.4	13.8	14.9
RoCE	42.2	43.5	44.5	46.7	53.0
RoNW	40.5	35.0	37.0	38.7	43.3
RoA	24.4	21.2	22.1	23.0	26.0
Per share ratios					
EPS	8.6	8.1	9.0	10.1	12.3
Dividend per share	4.8	6.8	7.5	8.1	9.8
Cash EPS	9.7	9.2	10.1	11.4	13.7
Book value per share	23.1	23.4	25.1	27.1	29.6
Valuation ratios					
P/E	48	51	46	41	34
P/CEPS	43	45	41	36	30
P/B	18	18	16	15	14
EV/EBIDTA	40	36	33	29	24
Payout (%)					

Marico Ltd

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Dividend payout	64	95	83	80	80
Tax payout	10	24	21	22	23
Liquidity ratios					
Debtor days	26	27	18	20	20
Inventory days	70	69	51	55	60
Creditor days	47.0	48.8	51	50	50

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Potential return >15% over 12 months

ADD: Potential return +5% to +15% over 12 months

REDUCE: Potential return -10% to +5% over 12 months

SELL: Potential return <-10% over 12 months

NOT RATED / UNDER REVIEW

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