



TM

01 May 2021

Marico

All growth engines firing

RESULT UPDATE

Sector: FMCG Rating: BUY

CMP: Rs 412 Target Price: Rs 475

Stock Info

Sensex/Nifty	48,782/ 14,631
Bloomberg	MRCO IN
Equity shares (mn)	1,291
52-wk High/Low	Rs 439/277
Face value	Rs 1
M-Cap	Rs 532bn/US\$ 7.1bn
3-m Avg volume	US\$ 15.9mn

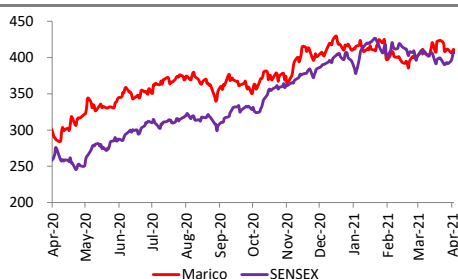
Financial Snapshot (Rs mn)

Y/E Mar	FY21	FY22E	FY23E
Sales	80,480	91,720	1,00,632
PAT	11,880	13,073	14,901
EPS (Rs)	9.2	10.1	11.5
PE (x)	44.8	40.7	35.7
EV/EBITDA (x)	33.0	29.4	25.9
P/BV (x)	16.4	14.9	13.5
EV/Sales	6.5	5.7	5.2
RoE (%)	37.9	38.4	39.7
RoCE (%)	42.3	44.2	46.6
NWC (days)	-37	-32	-32
Net gearing (x)	(0.2)	(0.2)	(0.3)

Shareholding Pattern (%)

	Mar 21	Dec 20	Sep 20
Promoter	59.6	59.6	59.6
-Pledged	-	-	-
FII	24.0	24.2	23.7
DII	10.1	10.0	10.3
Others	6.3	6.2	6.5

Stock Performance (1-year)



We reinstate BUY on Marico (MRCO) with a target price of Rs 475 based on a P/E of 41x (in line with its 5-year average P/E) to our FY23E EPS. We believe Marico's business is entering its strongest phase given: 1) *Parachute Coconut Oil's* (38% of FY21 India sales) strong market leadership and brand equity is enabling sustainable growth (management target of 5-7% volume growth in the medium term), 2) *VAHO* (Value Added Hair Oil – 22% of FY21 India sales) is expected to witness a revival in growth rates (management expects double-digit growth in the medium term) aided by focus on the bottom-of-the-pyramid and higher rural distribution, 3) *Saffola Edible Oil* (~22% of FY21 India sales) is expected to continue its strong growth momentum led by an increase in household penetration and increased relevance of healthy cooking, 4) the foods segment is likely to deliver robust growth due to continued innovation and benefits of *Saffola's* brand equity (management expects revenues of ~Rs 8.5bn in FY24E vs. Rs 3bn+ in FY21), 5) consistent performance in Bangladesh (~49% of international business) led by growth in non-coconut oil portfolio, 6) expansion in rural (~33% of India sales) distribution reach (targeting 25% expansion over FY21-23E) and a growing number of chemist, cosmetic and foods outlets in the urban markets and 7) cost efficiencies (achieved Rs 1.5bn/Rs 0.5bn cost savings in domestic/international business in FY21). Therefore, we expect revenue/EPS CAGR of 11.8%/12% over FY21-23E with robust return ratios and cash flow generation.

Robust domestic volume growth in 4QFY21: Marico reported a revenue growth of 34.5% YoY in 4QFY21 led by robust domestic volume growth of 25% YoY (on a base of 3% YoY decline). *Parachute Coconut Oil* volume grew by 29% YoY (vs. a base of -8% YoY) while value growth stood at 38% YoY aided by cumulative increase in effective consumer prices by ~9% in 2HFY21. *VAHO* portfolio's volumes grew by 22% YoY (vs. -11% in the base quarter) led by broad-based growth across most of its brands. *Saffola Edible Oil* reported its 6th consecutive quarter of double-digit volume growth -- growth of 17% YoY in volume terms (on a base of 25% YoY) led by an increase in household penetration and the growing relevance of healthy cooking. The foods portfolio grew by 134% YoY in 4QFY21 with total revenues reaching Rs 3bn+ mark in FY21. International business grew by 23% YoY (on a base of -6% YoY) in constant currency terms in 4QFY21 driven by continued strong performance in the Bangladesh business (up 20% YoY in CC terms). Impacted by inflation in copra and edible oil prices, gross margin contracted 513bps YoY to 44.1% in 4QFY21 while EBITDA margin contracted by 300bps YoY to 15.9%. A&P spends increased by 37.3% YoY in 4QFY21 to 8.6% of sales (up 20bps YoY). Adj. PAT grew by 16.7% YoY to Rs 2.38bn. **For FY21**, revenues grew by 10% YoY with domestic volume growth of 7% YoY. Gross margin contracted by 190bps YoY due to high RM inflation (especially copra) while EBITDA margin contracted by 30bps YoY to 19.8%. Adj PAT grew by 10.2% YoY to Rs 11.8bn.

Strong volume growth despite sharp pricing action: To mitigate the sharp inflationary pressure in copra (up 31% YoY in 4QFY21) and rice bran (up 39% YoY), the company took a price hike of 9% in *Parachute Coconut Oil* and ~30% in *Saffola Edible Oil* in 2HFY21. Despite the sharp increase in pricing, Marico managed to generate robust volume growth of 29%/17% YoY in *PCO/Saffola* respectively, indicating its strong brand equity. It took a further ~20% increase in *Saffola* in Apr'21 to negate the further increase in raw materials prices. Despite ~50% price increase in *Saffola*, management remains confident of growth momentum to continue in the brand, given pricing remains competitive coupled with increase in higher household penetration and the shift towards healthy cooking.

Continued recovery, broad-based growth in VAHO: The management's strategy of focusing on the bottom-of-the-pyramid and expansion in rural markets is driving strong growth for most of the brands. In FY21, Marico improved its market share by 200bps YoY in the category. It plans to further expand its rural distribution by 25% over FY21-23E especially in northern part of India which will aid growth of the VAHO segment; the management remains confident of delivering double-digit growth in the segment over the medium term.

Foods business on track to achieve Rs 4.5-5bn sales in FY22: The foods business reported 134% YoY growth in 4QFY21 and crossed the Rs 3bn+ sales mark in FY21. The growth was driven by the Oats franchise which continued to ride the health tailwind and posted a value growth of 84% YoY in 4QFY21. *Saffola Honey* continues to witness strong traction and exited with almost double-digit market share in key Modern Trade chains while crossing 25% market share in the e-commerce

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channel (MT and ecommerce channel forms ~40% of honey market). Through continued focus on new launches, the company has recently extended into the soya chunks and noodles categories and has effectively expanded its total addressable market in foods to ~Rs 47bn.

Key RM prices to ease in 1QFY22: After witnessing sharp inflation in FY21, copra prices corrected by ~15% in Apr'21; the management expects copra prices to remain stable to slightly inflationary in FY22. The prices of edible oils are also expected to cool down in 2QFY22. As the company was chasing the sharp inflation in key raw materials through calibrated price increases, it expects some margin pressure in the immediate term on YoY basis; but it expects margins to start improving on a sequential basis from Q1FY22.

Reinstate BUY with a TP of Rs 475: We expect Marico to deliver revenue CAGR of 11.8% between FY21-23E led by a 12.7% CAGR in India revenues and 8.7% CAGR in its international business. We see pressure on EBITDA margins in FY22 (19.4% in FY22E vs. 19.8% in FY21) on account of RM inflation and lag in price increases, but expect a recovery to 20% EBITDA margins in FY23. We estimate EBITDA/PAT growth of 12.4%/12% for FY21-23E. We reinstate BUY on the stock with a target price of Rs 475 based on a P/E of 41x to our FY23E EPS.

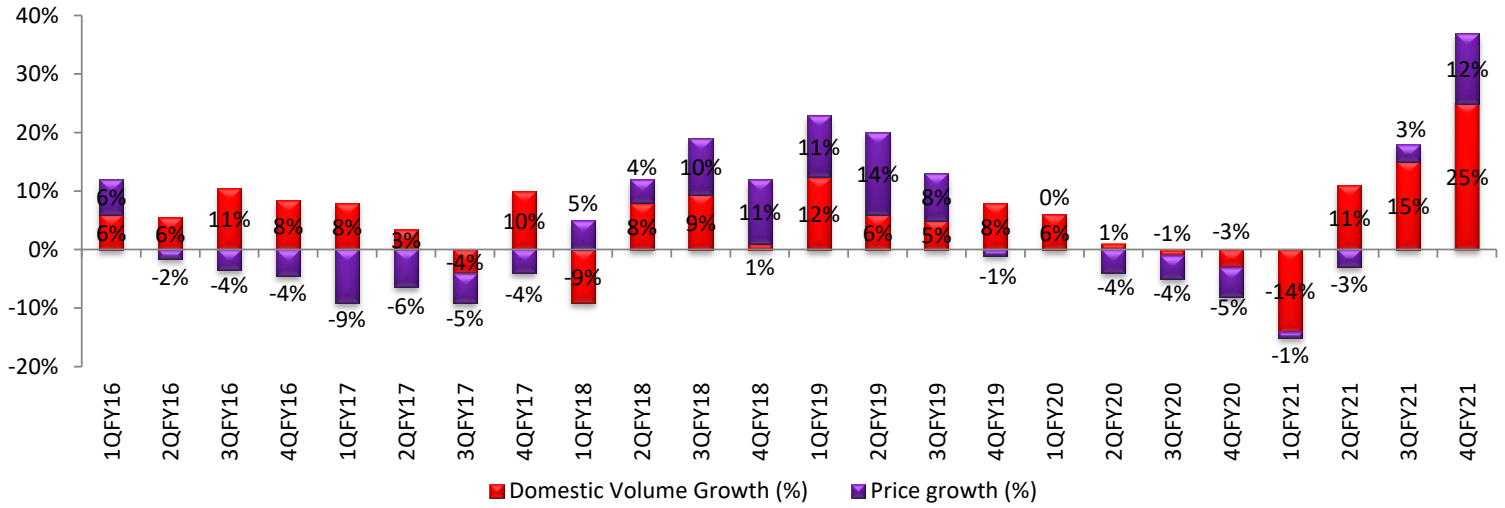
Risks: The second wave of COVID-19, slower-than-expected macro-economic recovery leading to weak demand which could result in down-trading, and a continued increase in raw material prices.

Exhibit 1: Strong volume-led topline growth but RM inflation impacts margins

YE March (Rs mn)	4QFY21	4QFY20	3QFY21	YoY (%)	QoQ (%)
Net Revenues	20,120	14,960	21,220	34.5	(5.2)
Cost of materials	10,200	7,120	10,340	43.3	(1.4)
(% of sales)	50.7	47.6	48.7		
Purchase of stock in trade	1,040	470	930	121.3	11.8
(% of sales)	5.2	3.1	4.4		
Employee cost	1,500	1,080	1,480	38.9	1.4
(% of sales)	7.5	7.2	7.0		
A&P	1,730	1,260	1,930	37.3	(10.4)
(% of sales)	8.6	8.4	9.1		
Others	2,460	2,210	2,410	11.3	2.1
(% of sales)	12.2	14.8	11.4		
EBITDA	3,190	2,820	4,130	13.1	(22.8)
EBITDA margin (%)	15.9	18.9	19.5		
Other income	290	320	240	(9.4)	20.8
PBIDT	3,480	3,140	4,370	10.8	(20.4)
Depreciation	360	380	360	(5.3)	0.0
Finance Cost	100	130	70	(23.1)	42.9
PBT	3,020	2,630	3,940	14.8	(23.4)
Tax	750	730	800	2.7	(6.3)
ETR (%)	24.8	27.8	20.3		
Deferred tax	(190.0)	(200.0)	20.0		
Fringe benefits tax	0.0	0.0	0.0		
Minority interest	80.0	50.0	50.0		
P/L of associate and JV	0.0	(10.0)	0.0		
Adjusted PAT	2,380	2,040	3,070	16.7	(22.5)
PATAMI margin	11.8	13.6	14.5		
Exceptional item	190	100	0		
Reported PAT	2,190	1,940	3,070	12.9	(28.7)
No. of shares (mn)	1,290	1,290	1,290		
Adj EPS (Rs)	1.8	1.6	2.4		

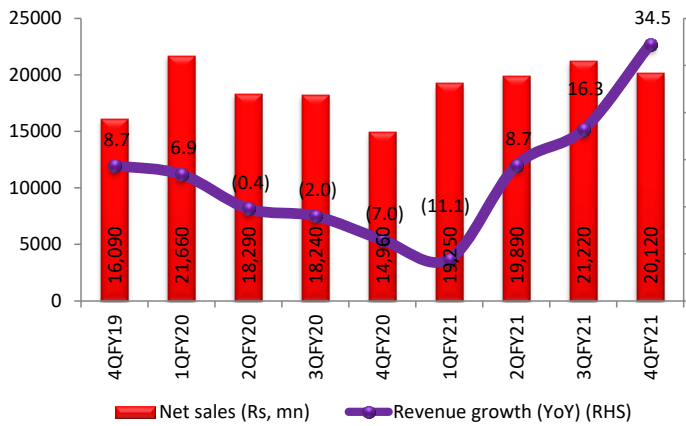
Source: Company, Systematix Institutional Research

Exhibit 2: Strong volume growth in 4QFY21 despite high pricing action



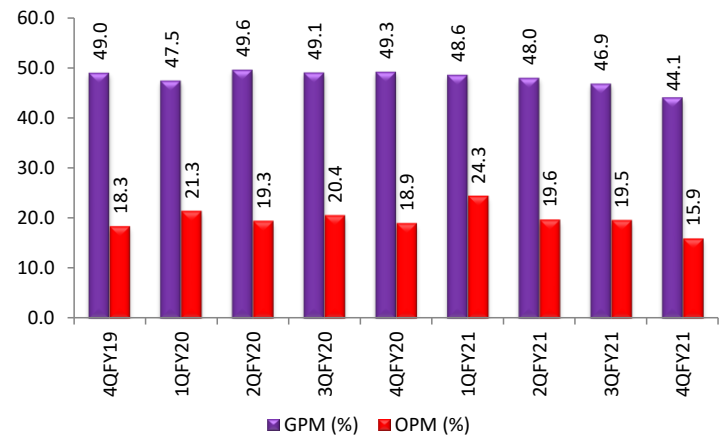
Source: Company, Systematix Institutional Research

Exhibit 3: Strong volume-led revenue growth in 4QFY21



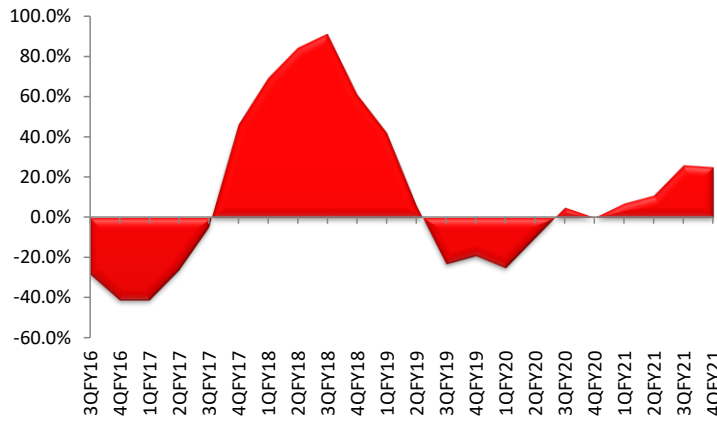
Source: Company, Systematix Institutional Research

Exhibit 4: Inflation in copra and oils puts pressure on GM in 4Q



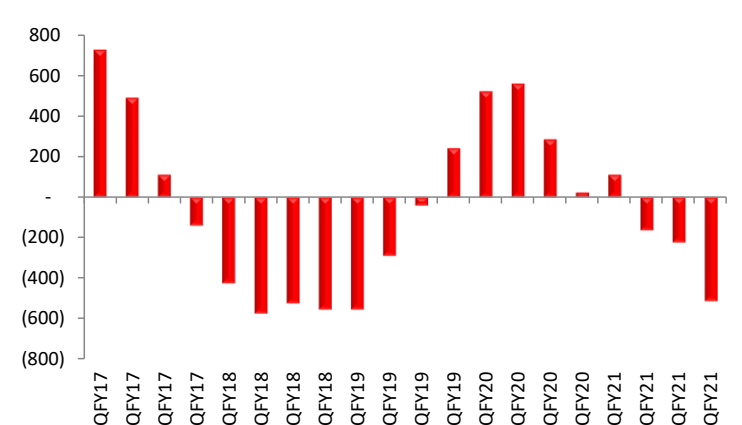
Source: Company, Systematix Institutional Research

Exhibit 5: Copra prices up 25% YoY in 4Q but saw ~15% deflation in Apr'21



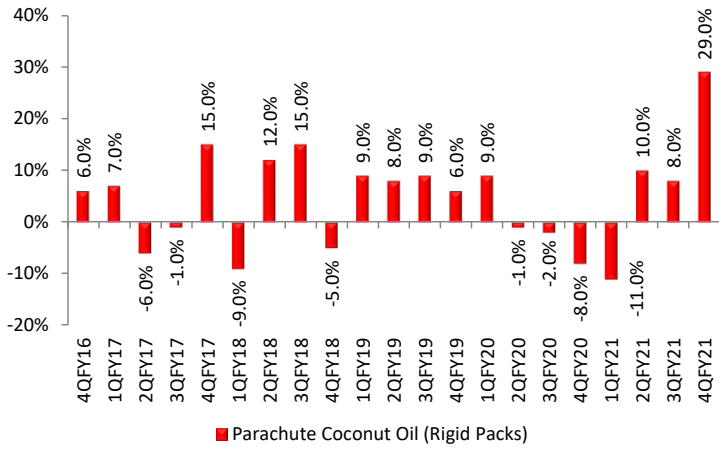
Source: Company, Systematix Institutional Research

Exhibit 6: Gross margin under pressure on inflation in copra and edible oil prices



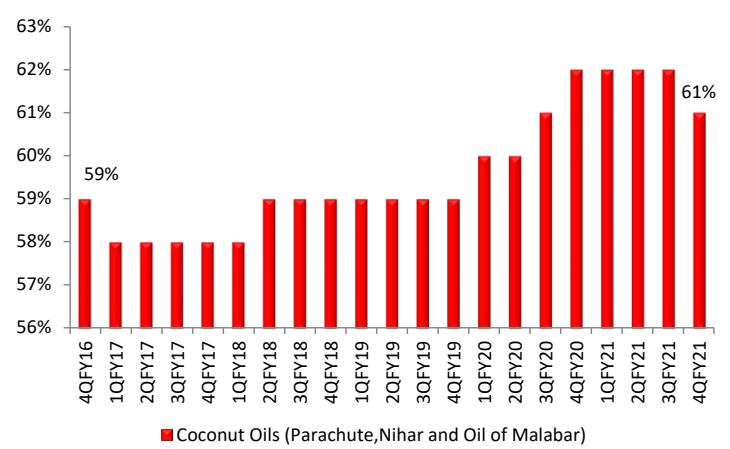
Source: Company, Systematix Institutional Research

Exhibit 7: PCNO (rigid packs) domestic volume growth



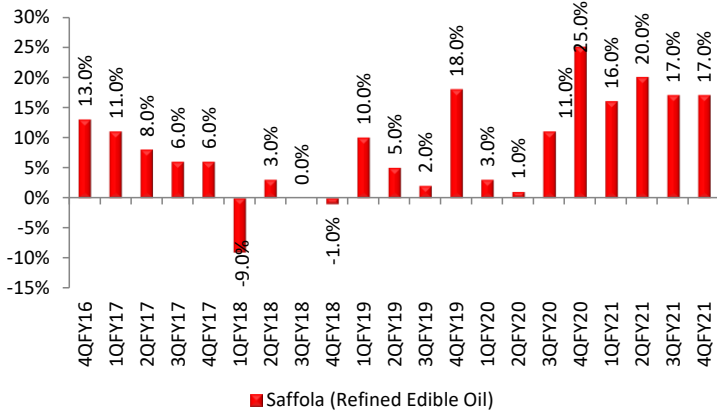
Source: Company, Systematix Institutional Research

Exhibit 8: Dominant market share in coconut hair oil category



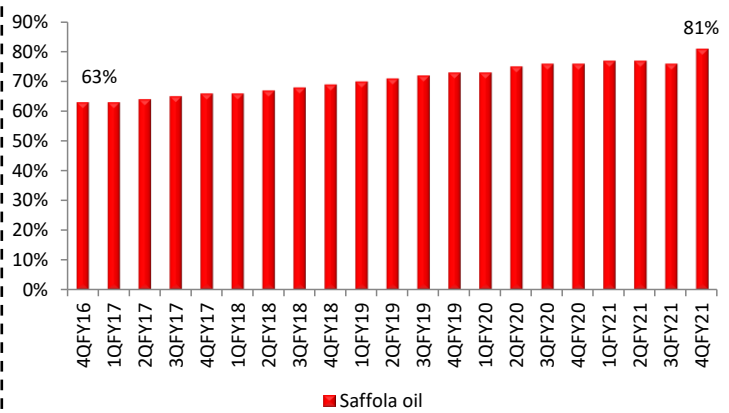
Source: Company, Systematix Institutional Research

Exhibit 9: 6th consecutive quarter of double-digit growth



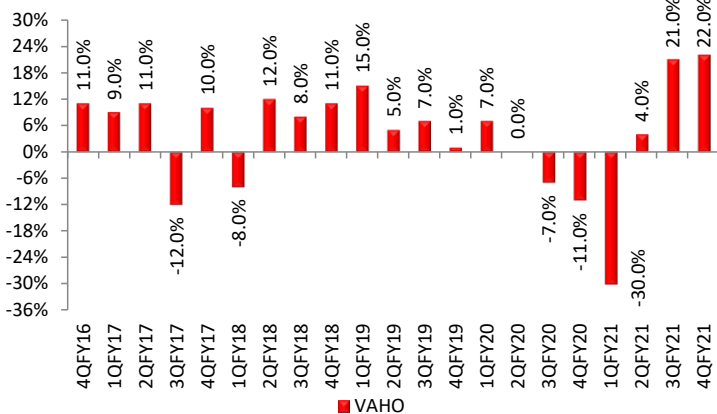
Source: Company, Systematix Institutional Research

Exhibit 10: growth driven by market share gains



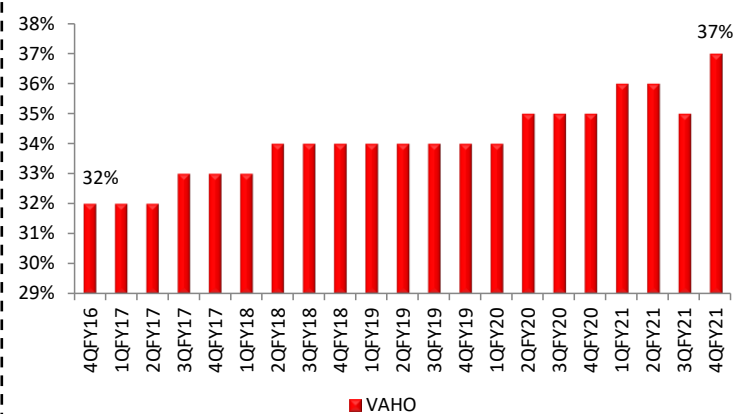
Source: Company, Systematix Institutional Research

Exhibit 11: VAHO volumes continue to recover



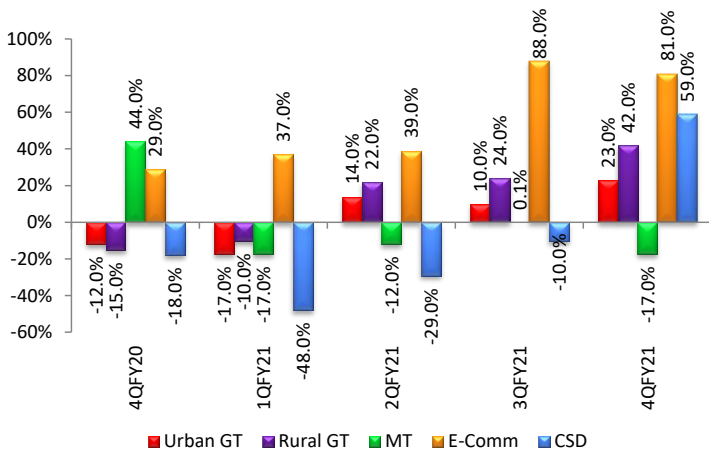
Source: Company, Systematix Institutional Research

Exhibit 12: 200bps market share gains in VAHO category in FY21



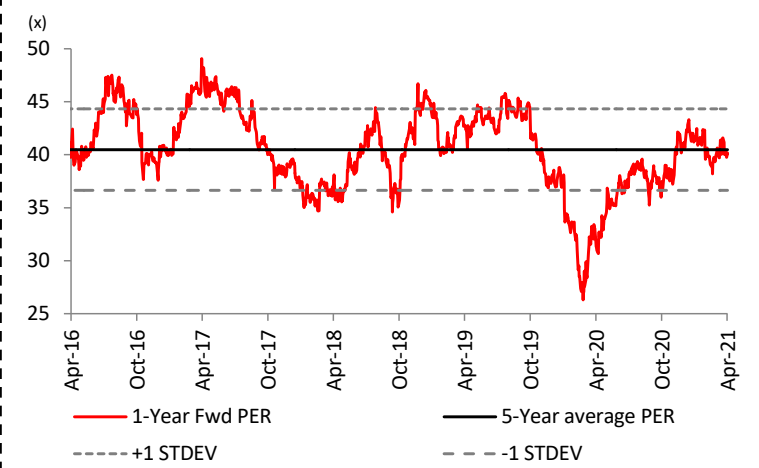
Source: Company, Systematix Institutional Research

Exhibit 13: Ecom and rural GT continue to drive robust growth



Source: Company, Systematix Institutional Research

Exhibit 14: Marico trades at 40.8x one-year forward P/E



Source: Bloomberg, Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	73,340	73,150	80,480	91,720	1,00,632
RM Cost	38,720	35,680	39,310	45,310	48,605
Purchase of trad. Goods	1,450	1,770	3,390	3,863	4,239
Gross Profits	33,170	35,700	37,780	42,547	47,788
Employee costs	4,660	4,780	5,700	6,237	7,044
Selling & Admin costs	15,250	16,230	16,170	18,527	20,630
Total Expenses	60,080	58,460	64,570	73,937	80,518
EBITDA	13,260	14,690	15,910	17,782	20,114
Depreciation	1,310	1,400	1,390	1,499	1,552
Other income	1,030	1,240	940	1,034	1,137
EBIT	12,980	14,530	15,460	17,317	19,700
cost	400	500	340	339	348
PBT	12,580	14,030	15,120	16,979	19,351
Taxes	1,250	3,310	3,240	3,905	4,451
Adj. PAT	11,330	10,720	11,880	13,073	14,901
Extraordinaries/Exceptional	-	290	(130)	-	-
Reported PAT	11,330	10,430	12,010	13,073	14,901
No. of shares (mn)	1,290	1,290	1,291	1,291	1,291
Adj. EPS	8.8	8.3	9.2	10.1	11.5

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
PBT	12,580	13,740	15,230	16,979	19,351
Add: Depreciation	1,310	1,400	1,390	1,499	1,552
Add:	400	500	340	(695)	(789)
Less: taxes paid	(3,200)	(2,900)	(2,850)	(3,905)	(4,451)
Add: other adjustments	(680)	(900)	(730)	-	-
Less: WC changes	210	300	7,300	(1,234)	(733)
Total OCF	10,620	12,140	20,680	12,643	14,931
OCF w/o WC changes	10,410	11,840	13,380	13,877	15,663
Capital expenditure	(1,620)	(1,880)	(2,740)	(1,500)	(1,500)
Change in investments	(2,061)	(1,400)	(1,250)	-	-
/Dividend reced.	341	2,890	(5,390)	-	-
Total ICF	(3,340)	(390)	(9,380)	(1,500)	(1,500)
Free Cash Flows	9,000	10,260	17,940	11,143	13,431
Share issuances	-	-	60	-	-
Change in borrowings	10	(1,060)	(1,440)	(400)	(400)
Dividends	(6,820)	(10,250)	(9,680)	(9,805)	(11,175)
Interest payment	(160)	(160)	(130)	695	789
Others	(330)	170	-	-	-
Total FCF	(7,300)	(11,300)	(11,190)	(9,510)	(10,786)
Net change in cash	(20)	450	110	1,633	2,644
Opening cash & CE	507	487	937	1,097	2,730
Closing cash & CE	487	937	1,097	2,730	5,374

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	1,290	1,290	1,291	1,291	1,291
Reserves and surplus	28,460	28,940	31,110	34,378	38,104
Net worth	29,750	30,230	32,401	35,669	39,395
Minority	120.0	130.0	180.0	180.0	180.0
Total Debt	3,490	3,350	3,480	3,080	2,680
Other LT liabilities	1,710	1,650	1,650	1,650	1,650
Total sources	35,070	35,360	37,711	40,579	43,905
Net Block	11,300	12,330	14,150	14,151	14,099
Goodwill on consolidation	-	-	-	-	-
Investment property	170	170	170	170	170
Net deferred tax	1,890	1,530	1,020	1,020	1,020
Other assets	2,810	2,780	3,241	3,241	3,241
CWIP	450	580	240	240	240
Investments	4,250	7,040	8,540	8,540	8,540
Cash	5,520	2,790	9,440	11,073	13,717
Inventories	14,110	13,800	11,260	13,821	15,164
Debtors	5,170	5,390	3,880	4,523	4,963
Other current assets	3,290	3,230	2,500	2,904	3,173
Current Assets	28,090	25,210	27,080	32,321	37,017
Creditors	9,440	9,500	11,340	13,034	13,982
Other CL	4,450	4,780	5,390	6,070	6,440
Current Liabilities	13,890	14,280	16,730	19,104	20,422
Net Working Capital	14,200	10,930	10,350	13,217	16,594
Total Uses	35,070	35,360	37,711	40,579	43,905

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY19	FY20	FY21	FY22E	FY23E
Yoy growth in Revenue	16.0	(0.3)	10.0	14.0	9.7
Yoy growth in EBITDA	16.6	10.8	8.3	11.8	13.1
Yoy growth in Net income	36.9	(5.3)	10.6	10.2	14.0
Effective tax rate	26.3	24.7	25.2	23.0	23.0
EBITDA margin	18.1	20.1	19.8	19.4	20.0
PAT margin	15.4	14.7	14.7	14.3	14.8
ROACE (pre-tax)	40.4	41.3	42.3	44.2	46.6
ROAE	41.1	35.7	37.9	38.4	39.7
Net debt to equity (x)	(0.1)	0.0	(0.2)	(0.2)	(0.3)
Inventory days	70	69	51	55	55
Debtors days	26	27	18	18	18
Payable days	89	97	105	105	105
NWC days	7	(1)	(37)	(32)	(32)
Per share numbers (Rs)					
Reported earnings	8.8	8.3	9.2	10.1	11.5
Dividend	4.8	7.8	7.5	7.6	8.7
Free cash	7.0	8.0	13.9	8.6	10.4
Book Value	23.1	23.4	25.1	27.6	30.5
Valuations (x)					
Price to diluted earnings	46.9	49.5	44.8	40.7	35.7
EV / EBITDA	39.9	36.2	33.0	29.4	25.9
Price to sales	7.2	7.3	6.6	5.8	5.3

Source: Company, Systematix Institutional Research

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