Sharekhan
by BNP PARIBAS

Marico

Mixed performance in a tough environment

Sector: Consumer Goods
Result Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 284**	
Price Target: **Rs. 325**	↓

↑ Upgrade ↔ No change ↓ Downgrade

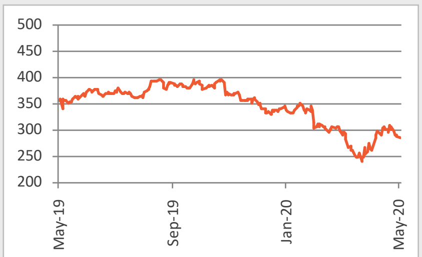
Company details

Market cap:	Rs. 36,663 cr
52-week high/low:	Rs. 404/234
NSE volume: (No of shares)	23.3 lakh
BSE code:	531642
NSE code:	MARICO
Sharekhan code:	MARICO
Free float: (No of shares)	52.2 cr

Shareholding (%)

Promoters	59.6
FII	23.8
DII	9.7
Others	6.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.2	-7.4	-22.2	-16.4
Relative to Sensex	-5.2	14.8	-0.9	1.5

Sharekhan Research, Bloomberg

Marico's Q4FY2020 performance was affected by supply disruption in the fag-end of the quarter caused by lockdown due to spread of COVID-19. The company's revenue declined by 7% with India business revenue declining by 8% (volume decline of 3%) and international business down by 5% during the quarter. If supply disruption would have not been there, volume growth would have been in mid-single digit. Parachute rigid pack and value-added hair oil posted 8% and 11% decline in sales volume, respectively, while Saffola edible oil witnessed 25% volume growth due to stocking of food products prior to the lockdown. On the international front, Bangladesh continued to perform well but a 50% decline in revenue in Middle East and North Africa (MENA) and 26% decline in revenue in South Africa led to lower revenue of the international business. Gross margin witnessed marginal improvement due to benign input prices, while lower advertisement spends and other expenses led to a 58 bps improvement in OPM to 18.9%. Marico is currently producing at 70-80% capacity utilisation, but its distributors are performing at lower capacity due to stringent lockdown norms/less availability of manpower. Though FY2021 is expected to be a disruptive year, Marico is focusing on delivering double-digit revenue growth in the near to medium term by launching new products in health and hygiene categories, different distribution model for urban markets and increased direct distribution in rural markets. OPM is expected to sustain at 20% in the near to medium term.

Key positives

- Saffola edible oil registered double-digit volume growth of 25%.
- Benign input prices and cost-saving initiatives aided OPM to improve by 58 bps.
- Bangladesh (49% of revenue) registered good growth of 6% on constant currency basis.

Key negatives

- Domestic sales volume declined by 3% with Parachute rigid pack and value-added hair oils (VAHO) registering an 8% and 11% decline in sales volumes.
- MENA and South Africa (together ~20% of sales) registered double-digit decline in revenue due to supply disruption.

Our Call

Maintained Buy with a revised PT of Rs. 325: We have reduced our earnings estimates for FY2021 and FY2022 by ~14% and ~7%, respectively, to factor in the impact of disruption caused by outbreak of COVID-19. Marico has revamped its growth strategies with focus on providing value preposition to consumers in existing categories, launching new products in the health and hygiene categories, enhancing the direct distribution reach (especially in the rural market), and stringent cost-saving initiatives, which would help the company to achieve double-digit earnings growth in the medium term. The stock is currently trading at discounted valuations of 29.8x its FY2022E EPS, largely factoring in near-term uncertainties. In view of discounted valuations and long-term growth prospects, we maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 325 (valuing stock at 34x its FY2022E EPS).

Key Risks

Slow recovery in domestic volume growth would act as a key risk to our earnings estimates in the near term

Valuation (Consolidated) Rs cr

Particulars	FY18	FY19	FY20	FY21E	FY22E
Revenue	6,333	7,334	7,315	6,614	7,909
OPM (%)	18.0	17.3	19.9	20.0	20.8
Adjusted PAT	828	939	1,069	958	1,229
Adjusted EPS (Rs.)	6.4	7.3	8.3	7.4	9.5
P/E (x)	44.3	39.0	34.3	38.3	29.8
P/B (x)	14.4	12.2	12.1	10.8	9.1
EV/EBIDTA (x)	31.9	28.3	24.8	27.0	21.3
RoNW (%)	34.0	33.9	35.5	29.8	33.0
RoCE (%)	41.0	40.6	41.3	36.2	42.1

Source: Company; Sharekhan estimates

Domestic volume declined by 3%; Margin expansion sustained: Consolidated revenue declined by 7% y-o-y to Rs. 1,496 crore as domestic sales volumes fell by 3%. India business declined by ~8% y-o-y, reporting revenue of Rs. 1,146 crore due to disruption in supply chain operations because of lockdown enforced at the end of March 2020 to contain the COVID-19 outbreak. Marico would have delivered flat revenue growth in India business, had disruptions not occurred. Benign prices of certain key inputs such as LLP and HDPE helped consolidated gross margins to expand by 23 bps to 49.3%. Despite an unfavourable portfolio mix, rationalised advertisement spends resulted in consolidated OPM to expand by 58 bps to 18.9%. OPM of India business improved to 22.8% in Q4FY2020 from 21.5% in Q4FY2019, aided by tighter cost controls. Consolidated operating profit declined by ~4% y-o-y to Rs. 282 crore. Profit before tax fell by ~3% y-o-y to Rs. 263 crore, whereas adjusted PAT declined by ~4% y-o-y to Rs. 206.5 crore in Q4FY2020 from Rs. 215 crore in Q4FY2019. Reported PAT came in at Rs. 199 crore.

Strong quarter for Saffola led by pantry loading; VAHO and Parachute affected due to lockdown:

- **Coconut Oil – Subdued quarter for Parachute:** Parachute rigid pack sales declined by 8% in volume terms and 12% in value terms affected by lockdown-led disruptions in March 2020, though it gained 268 bps in volume market share. The company will take judicious pricing decisions to maintain a balance between volumes and margins. The focus would be on availing value preposition to consumers in an uncertain environment. The company expects 5-7% volume CAGR in Parachute Rigids in the medium term.
- **Saffola registered strong growth:** Sales volume of Saffola refined edible oil grew by 25% in Q4FY2020, driven by households stocking up on food and essential items in the early stages of the COVID-19 outbreak. Higher salience was witnessed in modern trade and e-commerce channels. Saffola consolidated its leadership position with a ~76% volume market share in the premium refined oils segment. The company expects double-digit growth in FY2021, led by increased in-house consumption, stronger brand equity, and higher demand for healthy products.
- **VAHO growth affected by lockdown:** Revenue from VAHO declined by 18% y-o-y, while sales volume fell by 11%, which were affected because primary sales fell drastically in the past 15 days of March due to nation-wide lockdown. The company aims to revive growth in the VAHO segment in the medium term by adopting a three-pronged strategy of aggressive participation at the bottom of the pyramid, accelerating growth in the mid-segment through pricing and brand renovation and gaining market share in premium segments, where penetration is low, through innovations, and brand building.
- **Other discretionary categories barring foods, remained subdued:** The foods category revenue grew by 22% y-o-y, driven by strong growth in Saffola Oats franchise (value market share of Saffola Masala Oats increased to ~86% in the flavoured oats category). The hair nourishment category declined by 19% in volume terms, whereas sales of male grooming products declined by 9% in volumes due to negligible sales in the past 15 days of March. The company expects to drive low-unit price point packs in the hair nourishment and male grooming categories given significant reduction in personal care occasions. This, along with innovations and digital initiatives, would drive revenue growth in these categories in the medium term. Given the shifts in consumer behaviour during this crisis, the company will prioritise investments in foods and hygiene categories over premium personal care categories in the near term.

Bangladesh and Southeast Asia posted decent growth, MENA and South Africa had a subdued quarter

International business revenue declined by 5% (6% in constant currency terms) mainly driven by 6% revenue growth in Bangladesh despite a lockdown in the country in the past week of March 2020. Growth in Bangladesh was largely led by the non-coconut oil portfolio, which grew by 26% in Q4FY2020. Southeast Asia including Vietnam reported good revenue growth of 5% due to limited COVID-19 led restrictions. Marico launched hand sanitisers in both Bangladesh and Southeast Asia. MENA and South Africa regions witnessed a sharp decline in revenue due to continued volatile macro environment coupled with COVID-19 related restrictions and supply disruptions. OPM of the international business declined to 18% in Q4FY2020 from 19.1% in Q4FY2019 on account of a significant uptick in advertisement and promotion spends on new launches. The company expects ~20% margin to sustain in the medium term.

Key conference call highlights

- With structural changes in the business environment due to COVID-19 outbreak, Marico is focusing on the following five key aspects in the near term:
  - Focus on realigning of portfolio as a result of shift in consumer behaviour and newer trends by launching of products catering to nutrition and hygiene. With reduction in out-of-home consumption and higher in-home cooking, the company is expected to innovate in the packaged foods category to leverage the trend of healthy meals.
  - The company expects to focus more on essential category products, including health and hygiene products. Focus would be less on discretionary and semi-essential category products (15% of total revenue) within which the company is expected to focus more on low-value small packs.
  - Severe disruption in supply chain has given rise to different logistical options. With acceleration in online shopping during the lockdown period, the company intends to focus on e-commerce channel (contributes 5% to sales) as well as on modern trade. The company has come up with new delivery models such as direct edible oil delivery in select metros and cities and partnering with food aggregators for supply of essentials.
  - The company intends to moderate its advertisement and promotional spends and reallocate spends from non-media to media channels in the near term and continue its digital spends to scale up the e-commerce channel. The company is expecting to reduce A&P spends by 100-150 bps.
  - The company expects to focus on aggressive cost management and resort to various cost-saving initiatives by reducing ad spends as well as certain other expenses. Marico expects OPM for FY2021 to sustain at FY2020 levels of ~20%.
- The company's current distribution reach (indirect) covers 5.3 million outlets with a direct reach of close to 1 million outlets. The company is giving a huge thrust on direct rural distribution; and in urban, the company is especially focusing on chemist and food, which is expected to grow at a good pace. The wholesale channel will continue to remain impacted.
- In view of the heightened need of hygiene and sanitisation among consumers, Marico has launched Mediker hand sanitiser and Veggie Clean, a fruit and vegetable cleaner in India in April 2020. Distribution of the hand sanitiser is being ramped up across all channels, whereas Veggie Clean will be available across modern trade and e-commerce channels. New launches will continue to do well and will further broaden Marico's scope in the hygiene segment for long-term sustainability in performance.
- The company is back to operating its factories at 70-80% capacity. 70-75% of distributors are open, but distribution to stores is happening at a lower level as compared to overall capacity utilisation. The distributor's stock has considerably gone down, especially in rural and wholesale channels.
- The company has extended credit period to selective general trade partners due to liquidity stress and is also supporting its channel partners during lockdown. In the situation of lower manpower/logistic issue, the company is helping its distributors to supply its products to retail/kirana shops. We should expect debtor days to remain high in FY2021 and would reduce in FY2022 post the normalisation of the business environment.
- According to management, due to a sudden increase in in-house consumption and out-of-home consumption expected to remain lower in the coming quarters, Saffola and food products will continue to perform well in the coming quarters. Parachute and VAHO are expected to remain soft in the near term and would witness gradual recovery and normalise by Q2FY2021.
- Raw-material prices, including copra prices and other edible oil prices, are expected to remain benign in the near term and will, thus, help support the company's margins.
- On the international business front, Bangladesh and Vietnam are expected to post recovery in revenue growth after being disruptive in Q1FY2021. In Bangladesh, non-oil portfolio is gaining good traction and growing in upwards of 20%. Medium-term growth prospects of Bangladesh business are intact and we expect the business to post strong recovery in FY2022. MENA and South Africa are expected to post slow recovery in performance.

Results (Consolidated) Rs cr

Particulars	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %
Net sales	1496.0	1609.0	-7.0	1824.0	-18.0
Expenditure	1214.0	1315.0	-7.7	1451.0	-16.3
Operating profit	282.0	294.0	-4.1	373.0	-24.4
Other income	32.0	28.0	14.3	29.0	10.3
Interest expenses	13.0	12.0	8.3	12.0	8.3
Depreciation	38.0	39.0	-2.6	32.0	18.8
PBT	263.0	271.0	-3.0	358.0	-26.5
Tax	55.5	55.0	0.9	82.0	-32.3
PAT (before MI)	207.5	216.0	-3.9	276.0	-24.8
Minority Interest (MI)	-1.0	-1.0	-	0.0	-
Adjusted PAT (After MI)	206.5	215.0	-4.0	276.0	-25.2
Extraordinary items	-7.5	188.0	-	0.0	-
Reported PAT	199.0	403.0	-50.6	276.0	-27.9
Adjusted EPS	1.6	1.7	-4.0	2.1	-25.2
			bps		bps
GPM (%)	49.3	49.0	23	49.1	14
OPM (%)	18.9	18.3	58	20.4	-160

Source: Company; Sharekhan Research

Result (Standalone) Rs cr

Particulars	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %
Net Sales	1188.0	1290.0	-7.9	1434.0	-17.2
Operating profit	218.0	227.0	-4.0	286.0	-23.8
Adjusted PAT	227.0	241.0	-5.8	269.0	-15.6
			bps		bps
GPM (%)	45.9	45.4	45	45.7	20
OPM (%)	18.4	17.6	75	19.9	-159

Source: Company; Sharekhan Research

Value and Volume growth of key categories

Categories	Q4FY20		FY2020		Revenue share (%)
	Value growth	Volume growth	Value growth	Volume growth	
Parachute Coconut Oil (Rigid packs)	-12%	-8%	-2%	0%	38%
Value Added Hair Oils	-18%	-11%	-7%	-2%	24%
Saffola (Refined Edible Oil)	25%	25%	12%	9%	20%

Source: Company

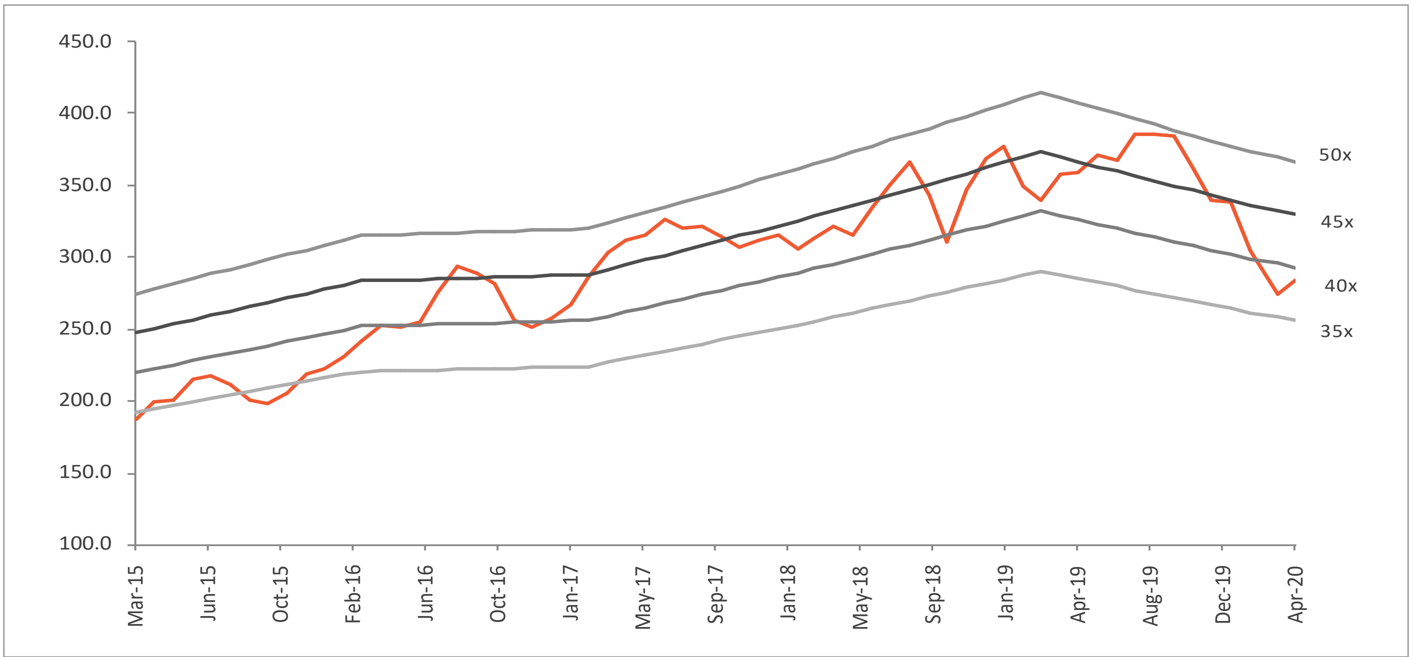
Outlook

Revenue to decline by ~10% in FY2021; Recovery anticipated in FY2022: The sustenance of lockdown in April-May would continue to impact the supply of products in the domestic market. Marico is currently producing at 70-80% capacity utilisation, but its distributors are performing at lower capacity due to stringent lockdown norms/less availability of manpower. Though FY2021 is expected to be a disruptive year, Marico is focusing on delivering double-digit revenue growth in the near to medium term by launching new products in health and hygiene categories, different distribution model for urban markets, and increased direct distribution in rural markets. With raw-material prices expected to remain benign and the company focusing on stringent cost-cutting majors, OPM is expected to sustain at 20% in the near to medium term.

Valuation

Maintain Buy with a revised PT of Rs. 325: We have reduced our earnings estimates for FY2021 and FY2022 by ~14% and ~7%, respectively, to factor in the impact of disruption caused by outbreak of COVID-19. Marico has revamped its growth strategies with focus on providing value preposition to consumers in existing categories, launching new products in the health and hygiene categories, enhancing the direct distribution reach (especially in the rural market), and stringent cost-saving initiatives, which would help the company to achieve double-digit earnings growth in the medium term. The stock is currently trading at discounted valuations of 29.8x its FY2022E EPS, largely factoring in near-term uncertainties. In view of discounted valuations and long-term growth prospects, we maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 325 (valuing stock at 34x its FY2022E EPS).

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Dabur	52.8	47.5	40	43.1	38.9	32.5	28.3	27.9	29.3
Hindustan Unilever	68.3	66.0	50.0	48.4	55.1	44.5	105.2	37.3	29.3
Marico	34.3	38.3	29.8	24.8	27.0	21.3	41.3	36.2	42.1

Source: Company, Sharekhan estimates

About company

Marico is one of India's leading consumer product companies in the domestic hair and wellness market with a turnover of over Rs. 7,000 crore. Marico has a presence in the categories of hair care, skin care, edible oils, health foods, and male grooming with a vast portfolio of brands such as Parachute, Saffola, Hair & Care, Nihar, Livon, Kaya Youth and Coco Soul. The company is currently present in 25 countries across emerging markets of Asia and Africa, including Middle East, Bangladesh Vietnam, Egypt and South Africa, which constitute 22% of the total revenue. The company has a retail reach of 4.9 million outlets in the domestic market.

Investment theme

Marico is a leading player in the domestic hair and wellness market with leadership position in categories such as branded hair oil (~59% market share), value-added hair oil (~26% market share), and branded edible oil (~70% market share). The company has a three-pronged strategy of driving growth through key categories, innovations/entrance into niche category and scale up its presence in the international geographies. In recent times, the company has entered into niche categories such as male grooming, premium hair nourishment, and healthy foods, which will not only improve the revenue growth trajectory but would help in boosting margins in the long run due to being premium in nature. Consistent innovations, a wide distribution network, and expansion in new-age channels such as modern trade and e-commerce would be key platforms to achieve good growth in the near term.

Key Risks

- **Demand slowdown:** Slowdown in key product categories would affect overall demand and revenue growth.
- **Higher input prices:** A significant increase in prices of key raw materials such as copra (~40% of input costs) would affect profitability and earnings growth.
- **Increased competition in highly penetrated categories:** Increased competition in highly penetrated categories such as VAHO and edible oils would threaten revenue growth.

Additional Data

Key management personnel

Harsh Mariwala	Chairman
Saugata Gupta	Managing Director and CEO
Vivek Karve	Chief Financial Officer
Hemangi Ghag	Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	First State Investment ICVC	4.9
2	Arisaig India Fund Limited	2.2
3	Blackrock Inc	1.5
4	Vanguard Group Inc	1.3
5	ICICI Prudential Asset Management Co Ltd	0.7
6	Aditya Birla Sunlife Asset Management	0.7
7	Franklin Resources Inc	0.6
8	UTI Asset Management Co Ltd	0.5
9	Mitsubishi UFJ Financial Group Inc	0.5
10	Dimensional Fund	0.4

Source: Bloomberg ** Shareholding as on March 17, 2020*

Sharekhan

by BNP PARIBAS

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