

## Marico

### Domestic remains weak; beat on margins

Marico posted a mixed set of numbers as revenue declined 11% YoY due to weak domestic performance. Domestic revenue/EBIT declined by 15/2% YoY, while International revenue/EBIT grew by 2/18% YoY. The domestic performance was impacted by weak demand in VAHO (-32% YoY) and PCNO (-12% YoY). Saffola continued its strong trajectory with 16% YoY growth. The company has witnessed a sequential recovery in demand in May and June, recording a 3% YoY growth. In international, Bangladesh posted healthy 10% YoY cc growth while the lockdowns in MENA (-27% YoY cc) and South Africa (-25% YoY cc) impacted international revenue (-4% YoY cc). There is a beat at the EBITDA level, led by lower A&P. Benign copra prices and A&P rationalisation will maintain operating margins at a healthy level in FY21. While we expect the discretionary portfolio to remain muted, PCNO and Saffola are expected to drive recovery. We maintain our EPS for FY21/FY22/FY23. We value Marico at 35x P/E on Jun-22E EPS and derive a target price of Rs 351. Maintain REDUCE.

- **Saffola continues to drive revenue:** Revenue declined by 11% YoY (+7% in 1QFY20 and -7% in 4QFY20). The decline was due to a dip in domestic business of 15% YoY (+6% in 1QFY20 and +8% in 4QFY20). The International business, on the other hand, grew 2% YoY, driven by forex gains. CC revenue declined by 4% YoY for the company as lockdowns severely impacted some markets. PCNO clocked value/volume decline of 12/11% YoY, while VAHO clocked value/volume decline of 32/30% YoY. Marico achieved 111/94% of the average monthly run rate of FY20 in PCNO/VAHO. Saffola value/volume grew by 16% YoY, although the loss of sales in CSD (-48% YoY) and MT (-17% YoY) stunted its growth.
- **Margins resilient:** Gross margin expanded by 138bps YoY to 48.9% (+522bps in 1QFY20 and +23bps in 4QFY20) vs. our expectation of 19bps YoY expansion. ASP/other expenses declined by 37/9% YoY while employee expenses grew by 6% YoY, leading to an EBITDAM expansion of 298bps YoY to 24.3% (+377bps in 1QFY20 and +58bps in 4QFY20). EBITDA grew by 1% YoY vs our expectation of 8% YoY decline. APAT grew by 3% YoY.
- **Call takeaways:** (1) Consumer offtake in June has returned to pre-COVID levels, with some parts of the portfolio witnessing growth, and the trend continued in July; (2) the company saw market share gains in 90% of its portfolio; (3) management is optimistic of achieving 20% operating margin in the rest of the year; (4) the company is now able to service 75% of its total outlets; (5) its foods business is expected to grow to Rs 3-3.5bn in FY21; (6) rural revenue was 120% of the average monthly run rate of FY20 while urban revenue was flat.

#### Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	19,250	21,660	(11.1)	14,960	28.7	73,150	74,145	81,881	89,252
EBITDA	4,670	4,610	1.3	2,820	65.6	14,690	15,557	17,361	19,225
APAT	3,330	3,224	3.3	1,950	70.8	10,364	10,892	12,587	13,988
Diluted EPS (Rs)	2.58	2.50	3.3	1.51	70.8	8.03	8.44	9.75	10.84
P/E (x)						42.8	40.7	35.2	31.7
EV / EBITDA (x)						30.3	28.5	25.6	23.0
RoCE (%)						42.4	42.9	47.9	52.6

Source: Company, HSIE Research

### REDUCE

CMP (as on 27 Jul 2020)	Rs 350
Target Price	Rs 351
NIFTY	11,132

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 351	Rs 351
EPS %	FY21E	FY22E
	0%	0%

#### KEY STOCK DATA

Bloomberg code	MRCO IN
No. of Shares (mn)	1,291
MCap (Rs bn) / (\$ mn)	452/6,052
6m avg traded value (Rs mn)	1,115
52 Week high / low	Rs 404/234

#### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	17.9	3.6	(2.9)
Relative (%)	(1.6)	11.4	(3.1)

#### SHAREHOLDING PATTERN (%)

	Mar-20	June-20
Promoters	59.60	59.62
FIs & Local MFs	10.50	9.75
FPIs	22.70	23.72
Public & Others	7.20	6.91
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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