

Limited portfolio of Covid-19 beneficiaries...

Marico reported an 11% decline in revenue with domestic business de-growing 15%. Manufacturing & supply chain operations only started in end-April for Parachute & value added hair oil (VAHO) resulting in substantial loss of sales for the month. Domestic volumes fell 14% with Parachute, VAHO down 11%, 30%, respectively. Saffola edible oil grew by 16% benefited by increase in-home consumption. The foods business, which contributes ~3% of revenues, saw 30% growth with Saffola Masala oats sales growing 41%. On the other hand, personal care category (hair serum, male grooming & Premium Skin care) was significantly impacted by discretionary nature of category. Within international business, except Bangladesh that saw 10% growth, all other major regions saw double digit sales decline. Operating margins expanded 300 bps largely due to the similar cut in A&P spends. PAT (before exceptional income) grew 2.8% to ₹ 324 crore.

Limited growth opportunity in hair oil

Hair oils contribute 62% of domestic sales. The category is saturated and major brands are only growing by gaining market share from unorganised sector. Though Marico aims to further gain market share in coconut oil by passing on benefit of lower copra prices, growth prospects remain limited as the organised market has already reached above 65%. VAHO performance has remain muted in the last four quarter (Q4 & Q1 have been impacted by lockdown). With expected down trading, Marico is expected to gain market share in the economy category with Nihar Shanti Amla brand.

Saffola, new launches to lead growth

With Saffola edible oil seeing volume growth of 16%, Q1FY21 is third consecutive quarter of high growth. Given changing consumption pattern due to higher in-home consumption, we believe Saffola will continue to grow for rest of FY21E. Moreover, with supply chain operations normalising, next few quarters should see re-stocking of pantry channel as well. Given strong growth in foods business & launch of Saffola Honey, the company is aiming to grow its food portfolio (currently ₹ 200 crore) to ~₹ 325 crore in FY21 & ~₹ 500 crore in FY22E. Honey category is seeing exceptional demand due to immunity boosting proposition. The multiple new launches in sanitisers & disinfectant space is likely to generate ₹ 80-100 crore in FY21E. With healthy growth in Saffola (edible oil & foods) & hygiene products, we expect overall revenue to grow at 11.8% in FY22 after estimating flat sales growth in FY21E.

Valuation & Outlook

Though growth prospects in Saffola edible oil & foods remain strong, it contributes only 20% to sales. A large part of portfolio (hair oils) remains a saturated category with limited growth opportunity. Also, edible oil remains a low margin category with extensive competition. The stock is trading at 37x FY22E earnings. We maintain **HOLD** with a revised TP of ₹ 380.

Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	6333.1	7334.0	7315.0	7388.1	8257.9	6.2%
EBITDA	1137.8	1281.0	1469.0	1532.5	1701.2	7.6%
EBITDA Margin %	18.0	17.5	20.1	20.7	20.6	
Net Profit	827.5	1135.0	1043.0	1097.0	1234.7	8.8%
Adjusted Net Profit	827.5	947.0	1043.0	1097.0	1234.7	8.8%
EPS (₹)	6.41	8.80	8.08	8.50	9.57	
P/E	54.7	39.9	43.4	41.3	36.7	
RoNW %	32.5	31.6	34.5	35.6	39.5	
RoCE (%)	38.9	38.0	41.0	42.3	46.2	

Source: Company, ICICI Direct Research



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	45,286.0
Total Debt (FY20)	325.0
Cash and Investments (FY20)	907.0
EV	44,704.0
52 week H/L (₹)	403 / 234
Equity capital	129.0
Face value (₹)	1.0

Key Highlights

- Parachute & VAHO segment volumes declined 11% & 30%, respectively
- Saffola posted strong 16% volume growth led by increased in-home consumption
- Operating margins inch up 300 bps led by similar cut down in A&P spend
- Maintain HOLD with revised target price of ₹ 380/share

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Exhibit 1: Variance Analysis

	Q1FY21	Q4FY20E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Net Sales	1,925.0	1,860.9	2,166.0	-11.1	1,496.0	28.7	Net sales witnessed a de-growth of 11.1% with 14.7% decline in domestic sales
Raw Material Expenses	984.0	850.3	1,137.0	-13.5	759.0	29.6	Gross margins expanded by 138 bps with sharp decline in liquid paraffin & HDPE
Employee Expenses	135.0	129.5	127.0	6.3	108.0	25.0	
SG&A Expenses	137.0	167.5	219.0	-37.4	126.0	8.7	A&P spend dipped by 300 bps to sales with reduction in media spends & sales promotions in April
Other operating Expenses	202.0	222.9	222.0	-9.0	221.0	-8.6	
EBITDA	467.0	390.6	461.0	1.3	282.0	65.6	
EBITDA Margin (%)	24.3	21.0	21.3	298 bps	18.9	541 bps	operating margins expanded by 298 bps with similar cut in A&P spend
Depreciation	34.0	35.0	35.0	-2.9	38.0	-10.5	
Interest	9.0	11.6	12.0	-25.0	13.0	-30.8	
Other Income	19.0	30.0	28.0	-32.1	32.0	-40.6	
Exceptional items	64.0	0.0	0.0	NA	0.0	NA	
Minority Interest	0.0	0.0	0.0	NA	0.0	NA	
PBT	507.0	374.0	442.0	14.7	253.0	100.4	
Tax Outgo	117.0	94.3	108.0	8.3	53.0	120.8	
PAT	386.0	279.8	315.3	22.4	199.0	94.0	Net profit (before exceptional income) grew by 2.8%
Key Metrics (%)							
Domestic Volume Growth	-14.0		6.0		-3.0		Domestic volume decline of 14% due to near washout of Aoril month
Parachute Volume Growth	-11.0		9.0		-8.0		Parachute witnessed 11% decline with manufacturing reassumed only in middle of April.
Saffola Volume Growth	16.0		3.0		25.0		Strong in-home consumption
VAHO Volume Growth	-30.0		7.0		-11.0		Billing started at the end of April

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY21E			FY22E			Comments
	Old	New	% change	Old	New	% change	
Gross Sales	6,997.3	7,388.1	5.6	8,246.1	8,257.9	0.1	We are changing FY21 estimate after considering hgiher growth from food & hyegeine category
EBITDA	1,418.0	1,532.5	8.1	1,683.0	1,701.2	1.1	
EBITDA Margin (%)	20.3	20.7	48 bps	20.4	20.6	19 bps	We are changing our margins estimates upwards after company reported strong margins in Q1 by cutting the A&P Spends
PAT	1,012.3	1,097.0	8.4	1,221.0	1,234.7	1.1	
EPS (₹)	7.9	8.5	8.3	9.5	9.6	1.2	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current					Earlier			Comments
	FY18	FY19	FY20	FY21E	FY22E	FY21E	FY22E		
Std. Sales (₹ crore)	4,969.0	5,756.0	5,853.0	5,853.0	6,615.4	5,579.2	6,686.2	We are changing our domestic sales estimates after considering higher sales from food & hyegeine products	
Subs. Sales (₹ crore)	1,364.1	1,578.0	1,462.0	1,535.1	1,642.6	1,418.1	1,560.0	We are changing our international business sales estimate with healthy sales trends from bangladesh	

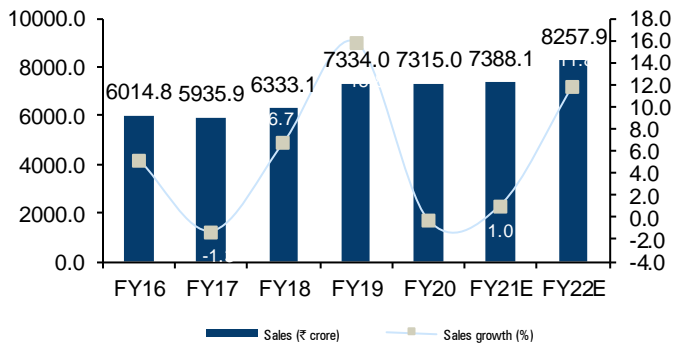
Source: Company, ICICI Direct Research

Conference Call Highlights

- Consolidated revenues declined 11% with domestic sales decline of 15%. Domestic volume were down 14%. Manufacturing & supply chain disruption led to significant loss of sales in April. In May-June, sales witnessed YoY growth of 3%
- Parachute revenues declined 12% in value terms & 11% in volume terms during the quarter. Manufacturing for the segment started in the second half of April, which resulted in loss of sales for the month. The company is aiming to gain market share from unorganised sector by taking price cuts to pass on the benefit of deflationary trend in Copra prices
- VAHO revenue dipped sharply by 32% in value terms & 30% in volume terms with billing started only at the end of April resulting in washout sales for a month. Further, demand for premium hair oil was muted during the quarter. The company is looking to grow economy brands with consumer increasing becoming value cautious
- Saffola (edible oil) segment witnessed strong growth of 16% on the back of higher in-home consumption. Pantry sales were impacted during the quarter due to stocking up in March quarter. The healthy growth in the category to sustain even after out of home consumption resumes. The recovery in pantry & modern trade will neutralise the lower in-house consumption after resumption of out of home consumption
- Food segment grew by 30% with Saffola masala oats growing 41% during the quarter. The company launched Saffola Honey. Moreover, it is planning to launch a few more products in the near future. The management aims to grow the foods segment sales to ₹ 300-350 crore in FY21 & ₹ 500 crore in FY22E
- Personal care portfolio, which includes hair nourishment, male grooming & skin care products witnessed a significant decline in sales. Small recovery was seen in June quarter through e-commerce channel but growth prospects remains muted in the near future. The category consumption largely depends on out of home activity
- Within the international business, Bangladesh (~11% of consolidated sales) grew 10% despite state of lockdown in the country. Even during lockdown, disruption in businesses was low. Parachute hair oil grew 6% and non-coconut oil portfolio witnessed strong 18% growth
- The company launched five brands i.e. 'Veggie Clean', 'Mediker Hand Sanitiser', 'House protect' & 'Travel Protect' and 'KeepSafe' in hygiene space. The company aims to generate sales of ₹ 80-100 crore from the segment
- General trade channel volume sales in urban, rural were down 17%, 10%, respectively. Modern trade & CSD witnessed steep decline in sales de-growing 17% & 48%, respectively. E-commerce sales grew 37% as the channel gained salience at an even faster pace. The company has not re-stocked channel with high inventory considering the better Rol of channel partners. However, if a localised lockdown is imposed, the company can restock channel heavily in that particular region
- After the resumption of operations in April end, the company has been able to operationalise 70% of SKUs. Rationalisation of SKUs would continue with long tail can be cut short. During the quarter, the company was selling larger packs but now demand for smaller SKUs is increasing

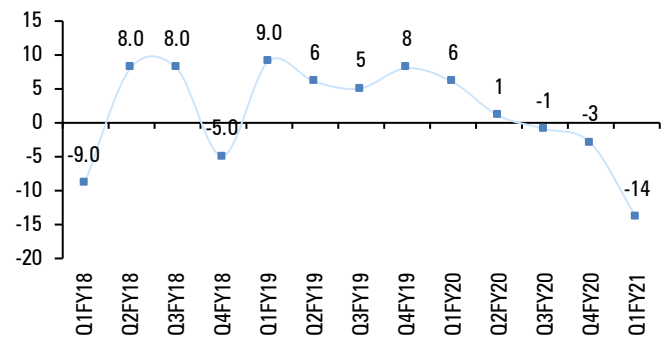
Key Metrics

Exhibit 4: Revenue to grow at 6.2% CAGR over FY20-22E



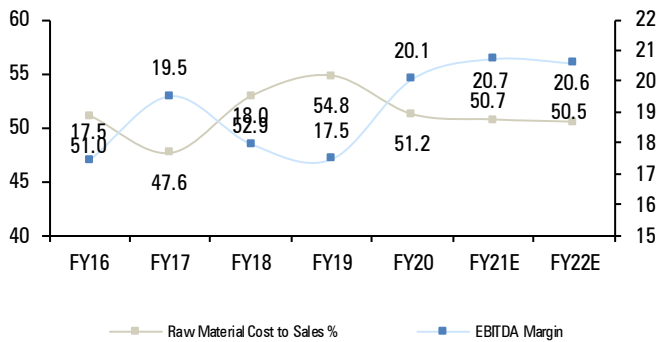
Source: ICICI Direct Research, Company

Exhibit 5: Domestic volume trend YoY (%)



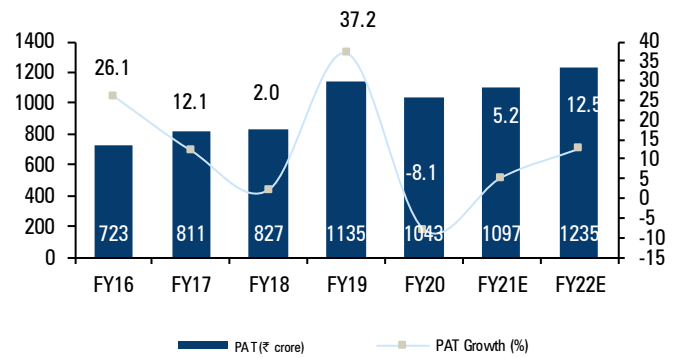
Source: ICICI Direct Research, Company

Exhibit 6: EBITDA margin and raw material trend



Source: Company, ICICI Direct Research

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



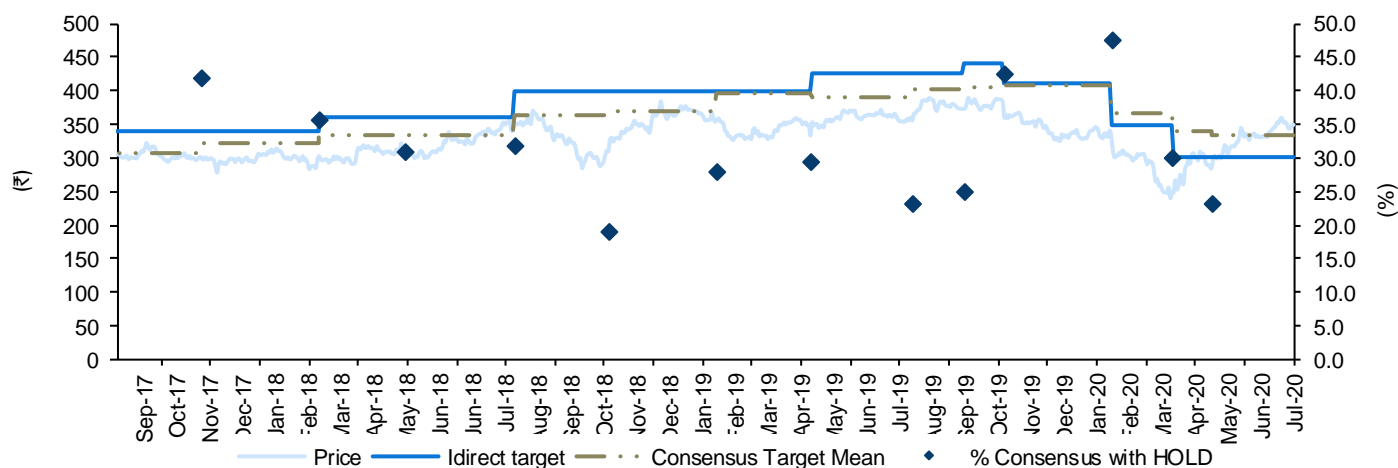
Source: Company, ICICI Direct Research

Exhibit 8: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	7334.0	15.8	8.8	37.2	39.9	34.9	31.6	38.0
FY20	7315.0	-0.3	8.1	-8.1	43.4	30.7	34.5	41.0
FY21E	7388.1	1.0	8.5	5.2	41.3	29.4	35.6	42.3
FY22E	8257.9	11.8	9.6	12.5	36.7	26.4	39.5	46.2

Source: Company, ICICI Direct Research

Exhibit 9: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 10: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (m)	Change (m)
1	Taurus Family Trst	31-Mar-20	11.5	148.5	0.0
2	Gemini Family Trust	31-Mar-20	11.5	148.5	0.0
3	Valentine Family Tru	31-Mar-20	11.5	148.5	0.0
4	Aquarius Family Trus	31-Mar-20	11.5	148.4	0.0
5	First State Investme	31-Dec-19	5.3	68.4	0.3
6	First State Global U	31-Dec-19	4.0	51.5	-4.7
7	Life Insurance Corp	31-Mar-20	3.7	47.3	6.9
8	Mariwala Rajvi Harsh	31-Mar-20	2.2	28.4	0.0
9	Mariwala Harsh Chara	31-Mar-20	2.2	28.1	0.0
10	Mariwala Rishabh Har	31-Mar-20	1.9	25.0	19.6

Source: Reuters, ICICI Direct Research

Exhibit 11: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	59.7	59.6	59.6	59.6	59.6
FII	25.7	24.9	23.8	23.8	23.7
DII	5.8	8.6	9.5	9.5	9.8
Others	8.8	6.9	7.1	7.1	6.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Income	7334.0	7315.0	7388.1	8257.9
Growth (%)	15.8	-0.3	1.0	11.8
Raw Material Expenses	4,017.0	3,745.0	3,746.3	4,170.1
Employee Expenses	466.0	478.0	506.1	553.3
Marketing Expenses	659.0	727.0	694.5	825.8
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	911.0	896.0	908.7	1,007.5
Total Operating Expenditure	6,053.0	5,846.0	5,855.7	6,556.7
EBITDA	1281.0	1469.0	1532.5	1701.2
Growth (%)	12.6	14.7	4.3	11.0
Depreciation	96.0	140.0	139.9	155.5
Interest	24.0	50.0	46.6	45.2
Other Income	103.0	124.0	136.4	150.0
Share of profit/(loss) of associates	-1.0	0.0	0.0	0.0
Total Tax	316.0	331.0	385.4	416.0
PAT	947.0	1072.0	1097.0	1234.7
Growth (%)	14.4	13.2	2.3	12.5
Adjusted PAT	947.0	1043.0	1097.0	1234.7
Adjusted EPS (₹)	7.3	8.1	8.5	9.6

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit before Tax	1,263.0	1,374.0	1,482.4	1,650.6
Add: Depreciation	96.0	150.0	139.9	155.5
(Inc)/dec in Current Assets	-141.0	-25.0	-190.4	-107.1
Inc/(dec) in CL and Provisions	162.0	38.0	-138.3	102.7
Others	-362.0	-338.0	-385.4	-416.0
CF from operating activities	1,018.0	1,219.0	908.2	1,385.8
(Inc)/dec in Investments	-240.0	70.0	-52.0	-52.0
(Inc)/dec in Fixed Assets	-143.0	-186.0	298.9	25.5
Others	32.0	73.0	-109.9	-125.5
CF from investing activities	-351.0	-43.0	137.0	-152.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	12.0	-50.0	-2.0	-2.0
Dividend paid & dividend tax	-682.0	-1,025.0	-1,038.5	-1,186.8
CF from financing activities	-653.0	-1,146.0	-1,040.5	-1,188.8
Net Cash flow	-2.0	45.0	4.7	45.0
Opening Cash	50.6	48.0	93.0	97.7
Cash in Bank	503.4	186.0	186.0	186.0
Closing Cash	552.0	279.0	283.7	328.7

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

Exhibit 14: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Share Capital	129.0	129.0	129.0	129.0
Reserve and Surplus	2,870.0	2,894.0	2,952.6	3,000.4
Total Shareholders funds	2,999.0	3,023.0	3,081.6	3,129.4
Long Term Borrowings	0.0	0.0	0.0	0.0
Provisions & other LTL	34.0	175.0	175.0	175.0
Minority Interest / Others	11.0	13.0	13.0	13.0
Deferred Tax Liability	12	6	4	2
Total Liabilities	3056.0	3217.0	3273.6	3319.4
Assets				
Gross Block	896.0	1,016.0	1,136.0	1,256.0
Less: Acc Depreciation	324.0	464.0	603.9	759.4
Net Block	572.0	841.0	532.1	496.6
Capital WIP	70.0	66.0	76.0	86.0
Goodwill on Consolidation	503.0	538.0	508.0	478.0
Non Current Investments	55.0	105.0	130.0	155.0
Other Non CA	342.0	278.0	305.0	332.0
Current Investments	391.0	628.0	688.0	748.0
Inventory	1,411.0	1,380.0	1,335.9	1,493.2
Debtors	517.0	539.0	708.5	588.2
Cash	552.0	279.0	283.7	328.7
Other CA	329.0	348.0	353.0	363.0
Total Current Assets	3,200.0	3,174.0	3,369.1	3,521.1
Creditors	944.0	978.0	809.7	882.4
Short Term Borrowings	335.0	325.0	340.0	355.0
Other Current Liabilities	407.0	482.0	497.0	512.0
Total Current Liabilities	1,686.0	1,785.0	1,646.7	1,749.4
Net Current Assets	1,514.0	1,389.0	1,722.4	1,771.8
Miscl. Exps. not w/o	0.0	0.0	0.0	0.0
Application of Funds	3056.0	3217.0	3273.6	3319.4

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS (Adjusted)	8.8	8.1	8.5	9.6
Cash EPS	9.5	9.2	9.6	10.8
BV	23.2	23.4	23.9	24.3
DPS	4.8	6.0	7.0	8.0
Cash Per Share	4.3	2.2	2.2	2.5
Operating Ratios (%)				
EBITDA Margin	17.5	20.1	20.7	20.6
PBT / Total Operating income	17.2	18.8	20.1	20.0
PAT Margin	15.5	14.3	14.8	15.0
Inventory dbcs	70	69	66	66
Debtor dbcs	26	27	35	26
Creditor dbcs	47	49	40	39
Return Ratios (%)				
RoE	31.6	34.5	35.6	39.5
RoCE	38.0	41.0	42.3	46.2
RoIC	48.3	50.4	47.1	52.7
Valuation Ratios (x)				
P/E	39.9	43.4	41.3	36.7
EV / EBITDA	34.9	30.7	29.4	26.4
EV / Net Sales	6.1	6.2	6.1	5.4
Market Cap / Sales	6.2	6.2	6.1	5.5
Price to Book Value	15.1	15.0	14.7	14.5
Solvency Ratios				
Debt/EBITDA	0.3	0.2	0.2	0.2
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	2.0	2.0	2.4	2.3
Quick Ratio	0.9	1.0	1.3	1.2

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (FMCG)

Sector / Company	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY21E	FY20	FY21E	FY22E	FY20	FY21E
Colgate (COLPAL)	1,386	1,350	Hold	37,620	30.0	29.3	33.6	46.2	47.2	41.2	8.4	8.2	7.5	60.7	66.2	77.5	51.2	50.8	59.5
Dabur India (DABIND)	466	520	Buy	83,283	8.2	8.8	10.3	56.9	52.9	45.4	9.6	9.5	8.2	26.1	25.7	28.3	21.9	22.5	24.8
Hindustan Unilever (HINLEV)	2,221	2,410	Hold	519,159	31.2	32.4	40.1	71.2	68.6	55.4	13.6	12.2	10.6	89.5	26.7	33.0	85.7	20.3	25.4
ITC Limited (ITC)	196	250	Buy	245,475	12.5	11.7	13.0	15.7	16.7	15.0	5.3	5.2	4.6	29.4	28.3	36.1	23.8	21.7	27.7
Jyothy Lab (JYOLAB)	121	115	Hold	4,535	4.3	4.1	5.7	28.2	29.3	21.0	2.7	2.9	2.4	24.3	23.3	28.8	21.7	18.8	23.8
Marico (MARLIM)	351	380	Hold	45,286	8.1	8.5	9.6	43.4	41.3	36.7	6.2	6.1	5.5	41.0	42.3	46.2	34.5	35.6	39.5
Nestle (NESIND)	17,350	18,000	Hold	166,145	204.3	230.9	269.4	84.9	75.1	64.4	13.5	12.5	11.0	56.9	59.3	65.9	101.9	114.1	123.1
Tata Consumer Products (TATGLC)	408	440	Buy	37,667	5.0	8.7	10.9	81.7	47.0	37.5	3.9	3.7	3.4	6.9	7.9	8.8	4.6	5.9	7.1
VST Industries (VSTIND)	3,180	4,000	Buy	4,942	196.9	124.8	216.3	16.1	25.5	14.7	4.0	4.5	3.5	52.1	32.9	45.6	38.6	24.3	33.7
Varun Beverage (VARBEV)	686	571	Reduce	20,122	16.4	9.7	17.8	41.9	70.5	38.5	2.8	3.3	2.7	15.5	11.3	16.3	14.2	8.8	14.2
Zydus Wellness (ZYDWEL)	1,576	1,530	Buy	9,445	24.6	31.6	50.3	64.1	49.8	31.4	5.3	5.7	4.6	5.9	5.7	7.4	5.4	5.1	7.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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