Sharekhan
by BNP PARIBAS

Marico

On mode to recovery; Margin expansion to sustain

Sector: Consumer Goods
Result Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 350**	
Price Target: **Rs. 420**	↑

↑ Upgrade ↔ No change ↓ Downgrade

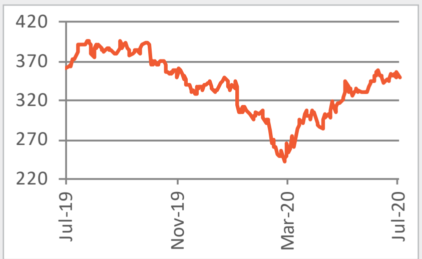
Company details

Market cap:	Rs. 45,246 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)	52.1 cr

Shareholding (%)

Promoters	59.6
FII	23.7
DII	10.0
Others	6.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.4	17.9	3.6	-3.9
Relative to Sensex	-7.1	-1.6	11.4	-4.5

Sharekhan Research, Bloomberg

Marico's Q1FY2021 consolidated results are better than expectation with revenue decline of ~11% and adjusted PAT growth of 4%. The better-than-expected performance can be attributed to relatively better performance in international markets and sharp 300 bps expansion in OPM. Performance of the domestic business was badly affected in April 2020 due to nationwide lockdown but saw strong recovery in May and June (sales volume growth stood at 3% in May-June). Saffola edible oil registered 16% volume growth. Growth would have been better if there was no disruption in sales for modern trade (MT)/canteen store department (CSD) channel. Parachute and value-added hair oil (VAHO) regained growth momentum in June 2020. On the international front, Bangladesh posted resilient performance, while Vietnam is in the recovery mode after earlier hiccups due to COVID-19 spread. Management is confident of achieving decent growth in the remaining fiscal. Benign copra prices and conservative ad spends would help OPM to stay 20%+ in the coming quarters. Food category (excluding edible oil) and newly entered hygiene category (contributed 1.5% to Q1 revenue) are expected to post revenue of Rs. 300 crore-350 crore and Rs. 80 crore-100 crore, respectively, in FY2021.

Key positives

- Domestic business volume growth stood at 3% in May-June period.
- More than 90% of the product portfolio gained market share.
- Primary sales are equal to secondary sales due to lower inventory levels with distributors.

Key negatives

- Parachute rigid packs and VAHO registered volume decline of 11% and 30%, respectively.
- Middle East (MENA) and South Africa region will take some time to see recovery in performance.

Our Call

View - Retain Buy with a revised PT of Rs. 420: We have revised upwards our earnings estimates for FY2021 and FY2022 to factor in better-than-expected margins in Q1FY2021. Marico has identified right strategies to achieve stable growth in the near to medium term. Gaining market share from shift to branded products in core categories and expanding into hygiene and foods category through relevant launches and media will be near-term growth drivers. This, along with steady expansion in direct distribution would help Marico to achieve its near-term volume growth aspiration of 8-10% (and mid-teens revenue growth). The stock is trading at 33.4x its FY2022E earnings. We maintain our Buy recommendation on the stock with a revised PT of Rs. 420.

Key Risks

Any frequent lockdown due to increased spread of Coronavirus would act as a key risk to revenue growth and earnings estimates in the near term.

Valuation Rs cr

Particulars	FY18	FY19	FY20	FY21E	FY22E
Revenue	6,333	7,334	7,315	7,492	8,478
OPM (%)	18.0	17.3	19.9	20.9	21.4
Adjusted PAT	828	939	1,069	1,141	1,354
Adjusted EPS (Rs.)	6.4	7.3	8.3	8.8	10.5
P/E (x)	54.6	48.1	42.2	39.6	33.4
P/B (x)	17.8	15.1	14.9	12.6	10.4
EV/EBIDTA (x)	39.3	35.0	30.6	28.3	24.0
RoNW (%)	34.0	33.9	35.5	34.6	34.1
RoCE (%)	41.0	40.6	41.3	41.8	43.5

Source: Company; Sharekhan estimates

Domestic volume declined by 14%; Margin expansion sustained: Consolidated revenue declined by 11% y-o-y to Rs. 1,925 crore as domestic sales volumes fell by 14%. India business declined by ~15% y-o-y, reporting revenue of Rs. 1,480 crore due to disruption in supply chain operations because of the continuing lockdown during the quarter. Underlying volume declined by 14%. The domestic business was severely impacted in April but was able to scale up sequentially in May and June as restrictions were relatively eased (volumes grew 3% in May-June on a y-o-y basis). Benign prices of certain key inputs such as LLP and HDPE helped consolidated gross margins to expand by 138 bps to 48.9%. This, along with rationalised advertisement spends and aggressive cost control, resulted in consolidated OPM to expand by 298 bps to 24.3%. OPM of India business improved to 25.7% in Q1FY2021 from 22.6% in Q1FY2020, aided by benign input costs and overall cost controls. Consolidated operating profit grew by 1.3% y-o-y to Rs. 467 crore. Profit before tax stood flat at Rs. 443 crore, whereas lower tax incidence led adjusted PAT to grow by 3.7% y-o-y to Rs. 340 crore in Q1FY2021 from Rs. 327.7 crore in Q1FY2020. Reported PAT came in at Rs. 388 crore, growing by 23.2% y-o-y.

Strong quarter for Saffola led by in-home consumption trend; VAHO and Parachute continue to remain affected due to the lockdown:

- **Coconut Oil – Parachute Rigids affected by the lockdown:** Parachute rigid pack sales declined by 11% in volume terms and 12% in value terms, affected by lockdown-led disruptions and heavily skewed sales in the base quarter, though it gained 180 bps in volume market share (including Nihar Naturals). The brand reinforced its hygienic processing and safety credentials in the minds of consumers with the launch of the "Untouched by hand" campaign. With mild deflation expected in copra prices, the company will pass on the benefit to consumers to maximise market share gains from branded coconut oil. The focus would be on availing value preposition to consumers in an uncertain environment. Rural penetration for Parachute stands at ~46%, driven by a shift towards branded products from local/unbranded products. The company intends to expand its direct distribution, especially in rural geographies. The company expects 5-7% volume CAGR in Parachute Rigids in the medium term.

- **Saffola registered robust growth:** Sales volume of Saffola refined edible oil grew by 16% in Q1FY2021, driven by in-home consumption trend. A significant decline in sales of CSD channel and disruption in modern trade led to lower-than-targeted growth of 20% during the quarter. Higher salience was witnessed in e-commerce channels (doubled sales during the quarter). Saffola consolidated its leadership position with a ~77% volume market share in the premium refined oils segment, expanding by 330 bps. The company tied up with Swiggy and Zomato to introduce Saffola store on their delivery platforms to improve availability. It leveraged digital media through targeted campaigns in the lockdown to engage with consumers. The company expects double-digit growth in FY2021, led by increased in-house consumption, stronger brand equity, and higher demand for healthy products.

- **VAHO saw a subdued quarter:** VAHO declined by 32% y-o-y in value terms, while sales volume fell by 30% due to primary sales falling drastically in April and muted demand for premium hair oils. Post the easing of the lockdown, the segment witnessed good traction in the bottom of the pyramid segment. Nihar Shanti Amla Badam led the recovery in May and June, while among the newer introductions, Parachute Advansed Aloe Vera Enriched Coconut Hair Oil witnessed encouraging trends in June. Volume market share expanded by ~130 bps to 36%, while value market share consolidated at 27%. 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 remain subdued; Good traction for hygiene products:** The foods category's revenue grew by 30% y-o-y, driven by strong ~41% growth in Saffola Oats franchise (value market share of Saffola Masala Oats increased to ~88% in flavoured oats because of low demand due to its discretionary nature). In response to heightened immunity boosting needs of consumers, the company launched Saffola Honey during the quarter. Premium hair nourishment, male grooming, and premium skin care categories recorded sharp declines, given the significant fall in discretionary sales. The company had forayed into the hygiene segment with the launch of Mediker hand sanitiser and Veggie Clean in April, which are gaining good traction. The company also launched indoor and outdoor surface disinfectants under new brands, House Protect and Travel Protect, respectively. Given the shift 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.

Good growth in Bangladesh market; Southeast Asia, MENA, and South Africa markets had a subdued quarter: International business revenue grew by 2% (declined by 4% in constant currency {CC} terms) mainly driven by 10% revenue growth in Bangladesh despite a lockdown in the country. Growth in Bangladesh was largely led by the non-coconut oil portfolio, which grew by 18% in CC terms Q1FY2021, while Parachute coconut oil grew by 6%. Marico launched Mediker SafeLife Veggie Wash and Parachute Naturale Shampoo in Bangladesh. Southeast Asia reported a revenue decline of 17% in CC terms due to a 14% decline in Vietnam. MENA and South Africa regions witnessed a sharp decline in revenue in CC terms of 27% and 25%, respectively, and due to continued volatile macro environment coupled with COVID-19 related restrictions and supply disruptions. OPM of the international business expanded to 29.8% in Q1FY2021 from 25.6% in Q1FY2020 on account of benign input cost in the Bangladesh business, rationalisation of advertisement spends, and tight cost management across all geographies. The company aims at reporting an organic broad-based double-digit CC growth over the medium term.

Key conference call highlights

- April was a complete washout month for Marico for most categories barring Saffola and foods with negligible sales and production restraints. The company witnessed recovery in May and June, with volumes increasing 3% y-o-y during the period. Saffola grew consistently throughout the quarter, whereas recovery was seen in Parachute and VAHO in May and June. The company gained market share in ~90% of its portfolio. Growth was also seen in July, but due to the localised lockdowns, Q2FY2021 is expected to remain volatile as compared to Q1FY2021. Discretionary categories are expected to take some time to recover. Moreover, the company started with 40% SKUs and is currently manufacturing 70-80% SKUs and intends to rationalise certain SKUs to make the supply chain more agile.
- Marico's foods business excluding edible oils registered strong growth of 40% in Q1FY2021, driven by in-home consumption trend and higher demand for healthy offerings. The company launched Saffola Honey in response to the heightened immunity boosting needs of consumers. The business reported revenue of Rs. 200 crore in FY2020. With 40% growth in the base portfolio, driven by Saffola oats and strong traction of new launches, it is expected to end FY2021 with revenue of about Rs. 300 crore (with newly launched honey expected to get some good traction) and targets to post revenue of Rs. 500 crore in FY2022. New launches such as Mediker hand sanitiser and Veggie Clean are gaining good response. The hygiene portfolio currently contributes ~1.5% to total revenue and expects to report revenue of Rs. 80 crore-100 crore going ahead. Margins of food products are higher than that of edible oils; and thus, they are expected to perform better than the edible oil portfolio.
- Secondary sales were in-line with primary sales, as the company maintained lower inventory levels with distributors to maintain higher return profile for them. General trade is doing exceptionally well, whereas CSD and modern trade were muted, impacted by supply disruptions due to the lockdown. CSD was down by ~48%. E-commerce channel reported robust growth and its contribution to total revenue improved to ~7% in Q1FY2021 from ~5% in FY2020. Growth in Saffola edible oil was impacted by loss of volumes in CSD/modern trade. Going ahead, general trade and e-commerce channels will continue to grow strongly. Rural is doing better than urban with ~120% growth on monthly average basis. Rural contribution has increased by 1-2% in Q1FY2021. Marico's direct distribution reach currently stands at 1 million outlets, and the company intends to expand it in the coming years.
- In terms of the international business, Bangladesh continued to register strong growth, driven by non-coconut hair oil portfolio; and growth momentum is expected to sustain. Vietnam is recovering faster. MENA region and South Africa are expected to remain soft and will take some time to recover.
- The copra cycle is expected to remain benign. This, along with softening prices of LLP and HDPE, will help gross margins to remain higher in the near term. The company expects to pass on the benefit of soft raw-material prices to consumers to gain market share. However, with prudent advertising spends (expected to be lower by 100-150 bps in the next three quarters), reduction in discretionary spends, and other cost rationalisation, margins are expected to be higher than 20% in the near term.

Result Snapshot (Consolidated) Rs cr

Particulars	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	q-o-q (%)
Net sales	1925.0	2166.0	-11.1	1496.0	28.7
Expenditure	1458.0	1705.0	-14.5	1214.0	20.1
Operating profit	467.0	461.0	1.3	282.0	65.6
Other income	19.0	28.0	-32.1	32.0	-40.6
Interest expenses	9.0	12.0	-25.0	13.0	-30.8
Depreciation	34.0	35.0	-2.9	38.0	-10.5
PBT	443.0	442.0	0.2	263.0	68.4
Tax	101.0	114.3	-11.6	55.5	82.0
PAT (before MI)	342.0	327.7	4.4	207.5	64.8
Minority Interest (MI)	-2.0	0.0	-	-1.0	-
Adjusted PAT (After MI)	340.0	327.7	3.7	206.5	64.6
Extraordinary items	-48.0	12.7	-	7.5	-
Reported PAT	388.0	315.0	23.2	199.0	95.0
Adjusted EPS (Rs.)	2.6	2.5	3.7	1.6	64.6
			BPS		**BPS**
GPM (%)	48.9	47.5	138	49.3	-38
OPM (%)	24.3	21.3	298	18.9	541

Source: Company; Sharekhan Research

Result Snapshot (Standalone) Rs cr

Particulars	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	q-o-q (%)
Net Sales	1516.0	1777.0	-14.7	1188.0	27.6
Operating profit	332.0	349.0	-4.9	218.0	52.3
Adjusted PAT	255.0	270.0	-5.6	227.0	12.3
			BPS		**BPS**
GPM(%)	44.5	43.9	56	45.9	-142
OPM(%)	21.9	19.6	226	18.4	355

Source: Company; Sharekhan Research

Value and Volume growth of key categories (%)

Particulars	Q1FY21		Revenue share (%)
	Value growth	Volume growth	
Parachute Coconut Oil (Rigid packs)	-12%	-11%	38%
Value Added Hair Oils	-32%	-30%	24%
Saffola (Refined Edible Oil)	16%	16%	20%

Source: Company; Sharekhan Research

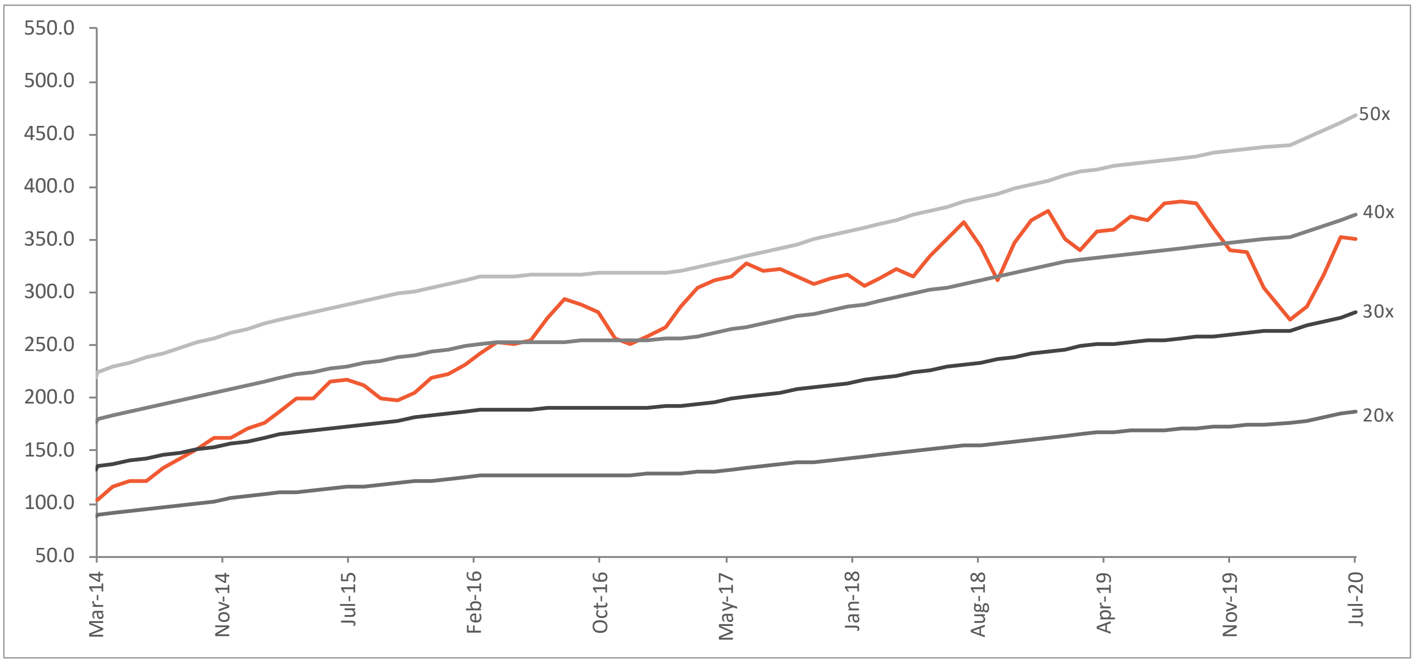
Outlook

Steady growth in rest of FY2021; OPM to remain 20%+: Marico registered strong recovery in May and June (with 3% volume growth) after April was the washed-out month for most categories (including VAHO and discretionary products). Parachute and VAHO (especially bottom-of-pyramid products) have seen recovery and are posting growth on a y-o-y basis since June 2020. Saffola edible oil is expected to maintain the growth momentum due to higher in-house consumption. Small domestic categories such as foods and hygiene products will continue to do well and are expected to report close to Rs. 350 crore and Rs. 100 crore of revenue, respectively. On the international front, Bangladesh is expected to post steady growth, while Vietnam is expected to post recovery in performance. Benign copra cycle, lower HDPE and LLP prices coupled with conservative ad spends would help OPM to stay ahead 20% in the coming quarters.

Valuation

Retain Buy with a revised PT of Rs. 420: We have revised upwards our earnings estimates for FY2021 and FY2022 to factor in better-than-expected margins in Q1FY2021. Marico has identified right strategies to achieve stable growth in the near to medium term. Gaining market share from shift to branded products in core categories and expanding into hygiene and foods category through relevant launches and media will be near-term growth drivers. This, along with steady expansion in direct distribution would help Marico to achieve its near-term volume growth aspiration of 8-10% (and mid-teens revenue growth). The stock is trading at 33.4x its FY2022E earnings. We maintain our Buy recommendation on the stock with a revised PT of Rs. 420.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Dabur	54.0	55.4	42.8	45.1	45.0	34.5	27.0	24.2	28.3
Hindustan Unilever	69.7	60.9	48.7	49.4	42.9	36.7	105.2	39.7	28.5
Marico	42.2	39.6	33.4	30.6	28.3	24.0	41.3	41.8	43.5

Source: Company, Sharekhan estimates

About company

Marico is one of India's leading consumer products companies in the domestic hair and wellness market with a turnover of over Rs. 7,000 crore. Marico is present 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 a leadership position in categories such as branded hair oil (~62% market share), value-added hair oil (~36% market share), and branded edible oil (~77% 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 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 their premium 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	First State Investment ICVC	5.3
2	First State Global Umbrella Fund	4.0
3	Life Insurance Corporation of India	3.7
4	Blackrock Inc	1.3
5	Vanguard Group Inc	1.3
6	Arisaig India Fund Limited	1.3
7	Mitsubishi UFJ Financial Group Inc	0.6
8	Aditya Birla Sunlife Asset Management	0.6
9	UTI Asset Management Co Ltd	0.6
10	Bajaj Allianz Life Insurance Co Ltd	0.4

Source: Bloomberg

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