

### EBITDA margin expansion was a key positive

- Marico's Q1FY21 revenues came in line, but EBITDA and APAT exceed our estimates. India business posted 15% revenue decline with 14% volume de-growth.
- Barring VAHO (-4.9%), Parachute (+1.9%) and Saffola (+9.5%) reported positive volume CAGR over last 3 years, was encouraging.
- Saffola continues to outperform with 16% value/volume growth. Consumer up-stocking helped the brand to post better growth during the quarter.
- A +140bps YoY improvement in GM and 300bps decline in A&P spends helped operating margins to expand. Going ahead, we expect mild inflation in copra prices but A&P spends are likely to remain low.
- We also believe that Parachute volumes would recover faster, as the secondary sales continue to remain positive.
- We maintain our FY21E and FY22E EPS estimates at Rs 8.5 and Rs 9.1 respectively. Valuing the stock at 40x FY22E EPS to arrive at a TP of Rs 364. Maintain Accumulate (Buy on Dips).

### Operational performance was ahead of our estimate

Revenues declined 11.1% YoY to Rs 19.3bn. Domestic business reported 15% revenue de-growth whereas IB posted 2% growth. Marico reported 14% volume de-growth in Domestic Business. EBITDA increased by 1.3% YoY to Rs 4.7bn - came ahead of our estimate. EBITDA margin expanded by 300bps to 24.3% as 110/20bps increase in employee cost/other expenses was completely offset by 300/140bps decline in A&P spends/RM costs respectively. APAT declined by 3.0% to Rs 3.2bn- came ahead of our estimate.

### Parachute performance was satisfactory

Parachute de-grew by 12% in value with 11% volume de-growth. The performance was encouraging considering (1) lockdown in the beginning of the quarter (2) Non-essential nature of the category and (3) unfavourable volume base of the brand (+9%). Consequently, we believe that Parachute growth would normalize faster compared to other hair oil brands once market conditions normalize. However, as there is less room for further decline in copra price, GM expansion would remain a challenge.

### Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	19,250	21,660	(11.1)	14,960	28.7
Total Expense	14,580	17,050	(14.5)	12,140	20.1
EBITDA	4,670	4,610	1.3	2,820	65.6
Depreciation	340	350	(2.9)	380	(10.5)
EBIT	4,330	4,260	1.6	2,440	77.5
Other Income	190	280	(32.1)	320	(40.6)
Interest	90	120	(25.0)	130	(30.8)
EBT	5,070	4,230	19.9	2,530	100.4
Tax	1,170	1,080	8.3	530	120.8
RPAT	3,880	3,150	23.2	1,990	95.0
APAT	3,240	3,340	(3.0)	2,090	55.0
			(bps)		(bps)
Gross Margin (%)	48.9	47.5	138	49.3	(38)
EBITDA Margin (%)	24.3	21.3	298	18.9	541
NPM (%)	20.2	14.5	561	13.3	685
Tax Rate (%)	23.1	25.5	(246)	20.9	213
EBIT Margin (%)	22.5	19.7	283	16.3	618

CMP	Rs 350
Target / Upside	Rs 364 / 4%
BSE Sensex	37,920
NSE Nifty	11,132

### Scrip Details

Equity / FV	Rs 1,291mn / Rs 1
Market Cap	Rs 452bn
	US\$ 6bn
52-week High/Low	Rs 404/Rs 234
Avg. Volume (no)	3,423,700
NSE Symbol	MARICO
Bloomberg Code	MRCO IN

### Shareholding Pattern Jun'20(%)

Promoters	59.6
MF/Banks/FIs	9.7
FII	23.7
Public / Others	7.0

### Valuation (x)

	FY20A	FY21E	FY22E
P/E	43.1	41.0	38.3
EV/EBITDA	30.4	30.4	28.9
ROE (%)	33.9	34.4	33.0
RoACE (%)	35.0	33.8	31.8

### Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	73,150	73,596	79,419
EBITDA	14,690	14,646	15,304
PAT	10,501	11,028	11,809
EPS (Rs.)	8.1	8.5	9.1

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### Other segments posted mixed performance

Other segments posted mixed performance during the quarter – (1) Value added hair oils (VAHO) declined by 32% in value, 30% in volume terms during the quarter, (2) Saffola posted 16% value and volume growth. The brand was benefited from up-stocking by the consumers, (3) Premium hair nourishment and male grooming portfolio was impacted during the lock down period, however, better offtake during June, assures improvement in sales.

### Gains in Bangladesh were offset due to pandemic

IB posted 4% decline as MENA, South Africa and South East Asia declined by 27%, 25% and 17% (in cc terms) respectively was partially restricted by 10% growth in Bangladesh (in cc terms). In Bangladesh, Parachute reported 6% growth and is expected to maintain single digit growth in the geography due to maturity of the brand. Non-coconut oil portfolio reported 18% growth in Bangladesh. Covid-19 outbreak hampered sales in other markets.

### Exhibit 1: Actual V/s DART estimates

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	19,250	18,629	3.3	
EBITDA	4,670	4,150	12.5	
EBITDA margin %	24.3	22.3	200	EBITDA margin was higher than estimate due to lower A&SP and other expenses
APAT	3,240	2,902	11.6	Variation due to cascading effect of higher EBITDA

Source: Company, DART

### Exhibit 2: Change in estimate

Rs Mn	FY21E			FY22E		
	New	Previous	Chg. (%)	New	Previous	Chg. (%)
Net Revenue	73,596	73,596	0.0	79,419	79,419	0.0
EBITDA	14,646	14,646	0.0	15,304	15,304	0.0
EBITDA Margin (%)	19.9	19.9	0 bps	19.3	19.3	0 bps
APAT	11,028	11,028	0.0	11,809	11,809	0.0
Adj EPS (Rs)	8.5	8.5	0.0	9.1	9.1	0.0

Source: DART, Company

We have maintained our revenue estimates for FY21E and FY22E as Q1FY21E revenues were in line with our forecast. Though OPM was marginally ahead of our estimate, we have maintained our estimate to factor in slight increase in RM and A&P spends going ahead. We also remain cautious about fresh lock downs in select states in July'20.

**Exhibit 3: Key presence across product portfolio**

Brands	Category	Indicative market share range %	Rank
Parachute and Nihar	Coconut Oil (India)	62	1
Hair Oil (Hair & Care, Parachute Jasmine, Parachute Advanced, Nihar Naturals, Nihar Shanti Amla, Parachute Advanced Ayurvedic hair oil, Parachute Advanced Cooling oil)	Hair Oils (India)	36	1
Saffola	Super Premium refined Edible Oils	77	1
VAHO (Parachute Beliphool, Parachute Advanced Cooling Oil, Nihar Naturals)	Value added Hair oil (Bangladesh)	23	2
Saffola Oats *	Oats (India)	34	2
Livon and Silk & Shine	Post wash Leave- On Serums	65	1
Setwet and Parachute after shower*	Hair Creams/Gels (India)	59	1
Parachute (Bangladesh)	Coconut Oil (Bangladesh)	82	1
X-Men*	Men's shampoo (Vietnam)	37	1

Source: DART, Company (\* Value market share)

**Exhibit 4: Various brands performance**

Key businesses	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
<b>(Vol growth)</b>									
Parachute Coconut Oil	9	8	9	6	9	(1)	(2)	(8)	(11)
Value Added Hair Oil (VAHO)	15	5	7	1	7	0	(7)	(11)	(30)
Saffola	10	5	2	18	3	1	11	25	16

Source: DART, Company

**Exhibit 5: Summary of growth: Reported value growth (%)**

Category / Business	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Indicative share to Group's Turnover basis FY20 results
Group	20	20	15	9	7	0	(2)	(7)	(11)	100
India business (incl youth brands)	23	20	13	7	6	(3)	(5)	(8)	(15)	77
Parachute Coconut Oil (rigid packs)	38	32	19	4	8	(4)	(5)	(12)	(12)	38
Value added hair oil	12	12	19	7	11	(6)	(17)	(18)	(32)	24
Saffola (refined edible oil)	9	9	8	15	6	5	13	25	16	20
International business	9	18	21	14	9	8	8	(5)	2	23

Source: DART, Company

**Exhibit 6: YoY growth across international business in CC (%)**

Region	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	% of overseas business (in FY20)
Bangladesh	9	10	16	12	11	15	15	6	10	49
MENA	17	19	8	5	2	(3)	(4)	(50)	(27)	12
South Africa	7	18	0	0	6	(2)	3	(26)	(25)	7
South East Asia	0	14	13	4	8	1	3	5	(17)	26

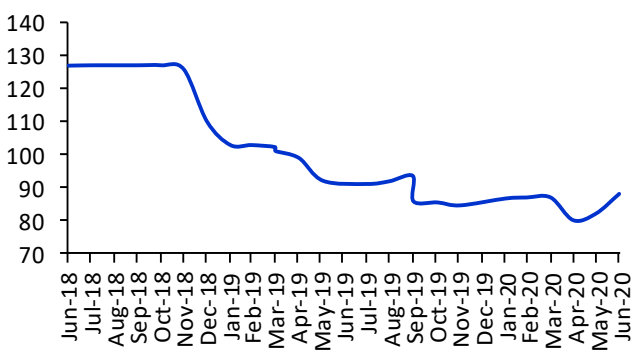
Source: DART, Company

## Concall highlights

- During Q1FY21, general trade sales in urban and rural declined by 17% and 10% in volume terms, respectively. Modern Trade de-grew by 17% in Q1 and is likely to pick up gradually with no further lockdowns.
- E-Commerce grew by 37%. CSD declined by 48%, due to scaled down operations during Q1FY21. E- com contributed 7% in Q1FY21 compared to 5% last year.
- More than 90% of the portfolio gained market share on a MAT June'20 basis. Except discretionary, Marico's portfolio is growing well.
- Copra prices increased 7% in Q1FY21. Company expects mildly bearish trends in copra prices for rest of the year. Rice bran oil was up 17% YoY, while LLP and HDPE prices were down by 9% and 14% YoY respectively.
- Marico will focus on SKU rationalization especially in discretionary portfolio going ahead to bring about incremental efficiencies in its supply chain operations. Some SKU's will be permanently discontinued. It is currently working with 70-80% of SKU's.
- Marico reaches 5.1 mn retail outlets by its nationwide distribution network, of which 0.9-1 mn outlets are serviced directly. Company was able to service only 70-75% outlets regularly.
- Company could resume meaningful billing of VAHO in last week of April'20 and witnessed healthy traction, especially in the bottom of the pyramid segment. Marico recorded no sale in premium personal care in the month.
- Company saw recovery in May and June, with overall India volume growth of 3% YoY in the 2 months.
- Company has taken a 5-6% cut in pricing (net) in Parachute through promotional pricing. We believe this will help the category gain market share.
- Company is working at low distributor inventory levels to ensure ROI of channel partners is optimized. It will go for restocking after the situation improves.
- Potential 20% Saffola growth was stunted due to CSD and MT channels.
- There was a shift in spends from non-media to media channels, a trend that will continue in the near term. Core portfolio spends in May and June were at 90%, A&SP cuts were in discretionary part of the portfolio. Company expects 100-150bps reduction in A&SP spends in rest of FY21 compared to 10% in FY20.
- The Foods franchise posted value growth of 30% in Q1FY21, led by 41% growth in the Saffola Oats franchise. The company expanded the Foods portfolio with the launch of Saffola Honey.
- Company expects operating margins ~20%+ for 9MFY21 with rationalization in A&SP spends.
- As per the management, hygiene portfolio is likely to reach Rs 0.8-1.0bn in FY21E. Food business is likely to clock Rs 3-3.5bn in FY21E and Rs 5bn by FY22E.
- Company expects Q2FY21 to be more volatile than Q1 due to localized lockdowns.

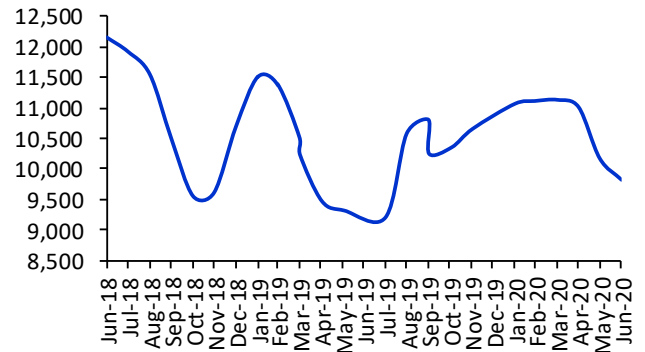
- In the hair oil category, organized players are likely to benefit going ahead due to better supply chain, distribution and trust factor for branded products.
- For Parachute, Rural market share (MS) is 46% while urban MS stands at 60%.
- Mediker Hand Sanitizers and Veggie Clean are available across all channels and received encouraging response due to Covid threat. Sanitizers have contributed 1.5% to entire portfolio. Surface disinfectants- House Protect and Travel Protect are currently restricted to E-com and MT.
- The capex is estimated to be ~ 1.25-1.5bn in FY21E.

**Exhibit 7: Price trend of HDPE Rs / kg**



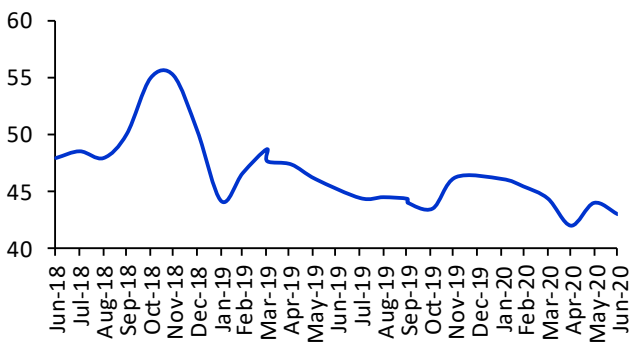
Source: DART, Company

**Exhibit 8: Price trend of copra Rs /100kg**



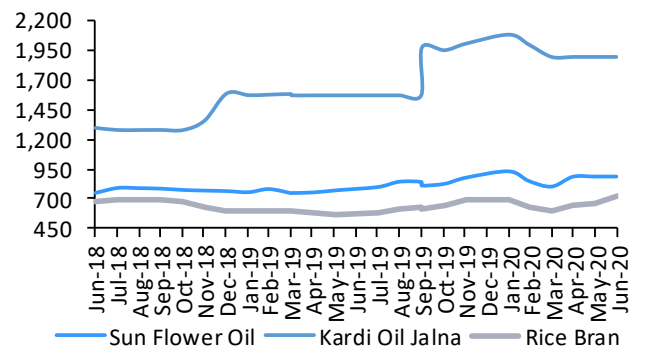
Source: DART, Company

**Exhibit 9: Price trend of liquid paraffin Rs /Lt**



Source: DART, Company

**Exhibit 10: Other key raw materials price trend Rs/10kg**



Source: DART, Company

**Profit and Loss Account**

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>73,340</b>	<b>73,150</b>	<b>73,596</b>	<b>79,419</b>
<b>Total Expense</b>	<b>60,080</b>	<b>58,460</b>	<b>58,949</b>	<b>64,115</b>
COGS	40,170	37,450	38,289	41,434
Employees Cost	4,660	4,780	4,951	5,212
Other expenses	15,250	16,230	15,709	17,469
<b>EBIDTA</b>	<b>13,260</b>	<b>14,690</b>	<b>14,646</b>	<b>15,304</b>
Depreciation	1,310	1,400	1,611	1,693
<b>EBIT</b>	<b>11,950</b>	<b>13,290</b>	<b>13,036</b>	<b>13,611</b>
Interest	400	500	564	588
Other Income	1,030	1,241	1,805	2,224
Exc. / E.O. items	1,880	(290)	0	0
<b>EBT</b>	<b>14,460</b>	<b>13,741</b>	<b>14,277</b>	<b>15,247</b>
Tax	3,140	3,310	3,050	3,230
RPAT	11,140	10,211	11,028	11,809
Minority Interest	180	220	198	208
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>9,260</b>	<b>10,501</b>	<b>11,028</b>	<b>11,809</b>

**Balance Sheet**

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Sources of Funds</b>				
Equity Capital	1,291	1,291	1,291	1,291
Minority Interest	110	130	328	537
Reserves & Surplus	28,692	28,940	32,514	36,546
<b>Net Worth</b>	<b>29,983</b>	<b>30,230</b>	<b>33,804</b>	<b>37,836</b>
Total Debt	3,520	3,350	3,520	3,520
Net Deferred Tax Liability	(1,760)	(1,530)	(72)	(78)
<b>Total Capital Employed</b>	<b>31,853</b>	<b>32,180</b>	<b>37,581</b>	<b>41,816</b>

**Applications of Funds**

Net Block	<b>11,476</b>	<b>13,760</b>	<b>13,899</b>	<b>14,207</b>
CWIP	450	580	450	450
Investments	590	1,050	590	590
<b>Current Assets, Loans &amp; Advances</b>	<b>33,030</b>	<b>33,410</b>	<b>34,305</b>	<b>39,183</b>
Inventories	14,110	13,800	14,844	16,028
Receivables	5,170	5,390	4,781	4,932
Cash and Bank Balances	5,520	2,790	6,882	10,253
Loans and Advances	4,320	5,150	3,888	4,060
Other Current Assets	0	0	0	0
<b>Less: Current Liabilities &amp; Provisions</b>	<b>13,693</b>	<b>16,619</b>	<b>11,664</b>	<b>12,614</b>
Payables	9,470	9,780	9,840	10,618
Other Current Liabilities	4,223	6,839	1,824	1,996
sub total				
Net Current Assets	19,337	16,791	22,641	26,569
<b>Total Assets</b>	<b>31,853</b>	<b>32,180</b>	<b>37,581</b>	<b>41,816</b>

E – Estimates

**Important Ratios**

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
Gross Profit Margin	45.2	48.8	48.0	47.8
EBIDTA Margin	18.1	20.1	19.9	19.3
EBIT Margin	16.3	18.2	17.7	17.1
Tax rate	21.7	24.1	21.4	21.2
Net Profit Margin	15.2	14.0	15.0	14.9
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	54.8	51.2	52.0	52.2
Employee	6.4	6.5	6.7	6.6
Other	20.8	22.2	21.3	22.0
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	29.9	26.6	23.1	23.2
Inventory days	70	69	74	74
Debtors days	26	27	24	23
Average Cost of Debt	12.0	14.6	16.4	16.7
Payable days	47	49	49	49
Working Capital days	96	84	112	122
FA T/O	6.4	5.3	5.3	5.6
<b>(D) Measures of Investment</b>				
AEPS (Rs)	7.2	8.1	8.5	9.1
CEPS (Rs)	8.2	9.2	9.8	10.5
DPS (Rs)	5.3	7.9	5.8	6.0
Dividend Payout (%)	73.7	97.6	67.6	65.9
BVPS (Rs)	23.2	23.4	26.2	29.3
RoANW (%)	40.2	33.9	34.4	33.0
RoACE (%)	32.4	35.0	33.8	31.8
RoAIC (%)	44.9	47.7	43.4	43.7
<b>(E) Valuation Ratios</b>				
CMP (Rs)	350	350	350	350
P/E	48.9	43.1	41.0	38.3
Mcap (Rs Mn)	452,361	452,361	452,361	452,361
MCap/ Sales	6.2	6.2	6.1	5.7
EV	446,451	446,641	445,089	441,718
EV/Sales	6.1	6.1	6.0	5.6
EV/EBITDA	33.7	30.4	30.4	28.9
P/BV	15.1	15.0	13.4	12.0
Dividend Yield (%)	1.5	2.3	1.6	1.7
<b>(F) Growth Rate (%)</b>				
Revenue	16.0	(0.3)	0.6	7.9
EBITDA	16.7	10.8	(0.3)	4.5
EBIT	14.1	11.2	(1.9)	4.4
PBT	29.5	(5.0)	3.9	6.8
APAT	13.8	13.4	5.0	7.1
EPS	13.8	13.4	5.0	7.1
<b>Cash Flow</b>				
<b>(Rs Mn)</b>	<b>FY19A</b>	<b>FY20A</b>	<b>FY21E</b>	<b>FY22E</b>
CFO	10,968	14,834	10,730	13,736
CFI	(630)	(6,644)	1,210	(2,000)
CFF	(6,820)	(10,920)	(7,848)	(8,364)
FCFF	9,368	11,020	9,110	11,736
Opening Cash	2,002	5,520	2,790	6,882
Closing Cash	5,520	2,790	6,882	10,253

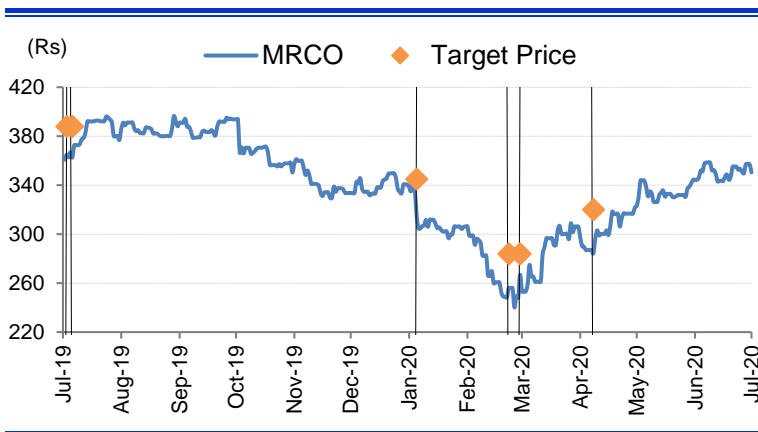
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-19	Accumulate	388	365
Aug-19	Accumulate	388	363
Jan-20	Accumulate	345	315
Mar-20	Accumulate	284	256
Mar-20	Reduce	284	267
May-20	Accumulate	320	284

\*Price as on recommendation date

### DART Team

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**Analyst(s) Certification**

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