Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 370**	
Price Target: **420**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 47,796 cr
52-week high/low:	Rs. 404/234
NSE volume: (No of shares)	23.3 lakh
BSE code:	531642
NSE 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	1.2	12.0	47.7	-2.9
Relative to Sensex	-1.1	-4.7	24.2	-7.3

Sharekhan Research, Bloomberg

Stock Update

Marico

Core brands recovering; Discretionary portfolio next

Consumer Goods | Sharekhan code: MARICO | Company Update

Summary

- Revenue is expected to recover to mid-to-high single digits in Q2FY2021 from 3% in May-June (and an 11% decline in Q1FY2021).
- Core brands Parachute coconut oil have recovered and registered sales that is better than pre-COVID levels (in July-August); Saffola edible oil continues to get good demand and is expected to register an 8-12% volume growth.
- Conservative ad-spends and stringent cost-saving measures would help company save Rs. 150 crore in FY2021; consolidated OPM to remain at over 20%.
- Stock is trading at 36x its FY2022E earnings, which is at discount to large-cap stocks. We maintain our Buy recommendation on the stock with unchanged PT of Rs. 420.

Marico's domestic revenue growth recovered to 3% in May-June 2020 after a dismal April that was affected by supply disruptions caused by the COVID-19 led lockdown. Our interaction with the company's management suggests that growth in core brands (Parachute and bottom-of-the-pyramid value added hair oil [VAHO] portfolio) have recovered month-on-month and registered sales better than the pre-COVID levels in July-August. Some of the premium hair oils under the VAHO category and discretionary products such as male grooming and premium hair-care products (contributing 5-6%) of revenues are yet to see a substantial recovery. Saffola edible oil continues to register good demand and is expected to grow by 8-12% in volume terms in the near term. The newly-launched Saffola Honey is gaining good acceptance in the domestic market. This along with strong traction to Saffola Oats would help foods portfolio to clock revenues of Rs. 200-250 crore in FY2021 (Rs. 500 crore portfolio by FY2022). Hygiene products (including Veggie Clean) are also very well-accepted and expected to contribute ~Rs. 90-100 crore. Rural is performing better than urban for Marico driven by good reach. In urban areas, general trade is doing better than modern trade whereas e-Commerce has registered good growth. On the international front, Bangladesh and Vietnam is performing well, while the MENA region is in course of recovery. We expect revenue to grow at a CAGR of 8.3% over FY2020-23. Raw material prices have remained mix with copra prices remaining stable, HDPE remaining low and edible oils (including kardi and rice bran) have seen some spike in the recent times. The company has not increased the prices but decided to discontinue the promotional offerings in the domestic market. Conservative ad-spends and cost saving initiatives would aid in cost savings of ~Rs. 150 crore, which would help consolidated OPM to stay ahead of 20% in FY2021 and is expected to expand to 21.2% and 22.2% in FY2022 and FY2023 respectively.

Our Call

View: Maintain Buy with unchanged price target of Rs. 420: Though FY2021 is expected to be subdued year (affected by disrupted Q1FY2021); Marico is expected to see a strong recovery in FY2022 with double-digit growth in revenues and PAT. Gaining market share from a shift to branded products in core categories, expanding into hygiene and foods category through relevant launches, expanding the reach in the rural market and scaling-up of international business (especially in Bangladesh and MENA) will be medium-term growth drivers. We have introduced FY2023 estimates in this note. We expect revenue and earnings to grow at a CAGR of 8.3% and 13.4% over FY2020-23. The stock is currently trading at 36x its FY2022E earnings, which is at a discount to some of the large-cap FMCG stocks. We maintain our Buy recommendation on the stock with an unchanged price target of Rs. 420.

Key risk

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

Valuation (Consolidated) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	7,334	7,315	7,381	8,393	9,292
OPM (%)	17.3	19.9	20.6	21.2	22.2
Adjusted PAT	939	1,069	1,104	1,325	1,560
Adjusted EPS (Rs.)	7.3	8.3	8.6	10.3	12.1
P/E (x)	50.9	44.7	43.3	36.1	30.6
P/B (x)	15.9	15.8	13.5	11.1	9.1
EV/EBIDTA (x)	37.1	32.4	30.9	25.9	22.0
RoNW (%)	33.9	35.5	33.6	33.8	32.7
RoCE (%)	40.6	41.3	40.7	43.1	41.9

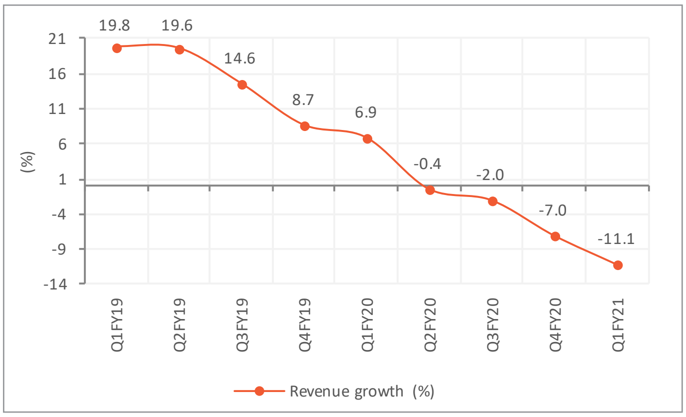
Source: Company; Sharekhan estimates

Key highlights of our interaction with Ms. Ruby Ritolia - Head Investor Relations and Merger & Acquisitions

- Marico had witnessed a 3% growth in sales May and June. However, a recovery was witnessed in July and August (growth would be in mid-to-high single digit) driven by good growth in edible oils and essentials.
- Rural areas are performing better than urban areas for Marico driven by good reach. In urban areas, general trade and is doing better than modern trade whereas e-Commerce has registered good growth. The company is looking to leverage the increasing digital penetration for brand-building.
- Healthy growth is coming back in Parachute. *Parachute* recruiter packs are gaining good traction due to advantageous pricing. The company expects 5-7% volume growth in parachute in Q2FY2021.
- Growth is back in the bottom of pyramid products in VAHO whereas premium category products are witnessing slower recovery. The company has a 35-40% market share in the anti-hairfall category in the South and the company is looking at gaining market share in the rest of India. Various new launches have been planned for bottom-of-pyramid and mid-category products (contribute 70% to segment revenue) in the coming year. VAHO is expected to get back on track by Q3-Q4.
- *Saffola* registered good growth despite poor performance in modern trade and CSD, driven by increase in penetration, higher in-home consumption and shift to trusted brands. Increased traction was also seen in foods due to higher in-home consumption. Saffola's Q1 growth momentum might not sustain but the management expects high single-digits to low double digit growth to continue.
- Contribution from foods is expected to increase and the company is targeting Rs. 350 crore of revenue by FY2021 and Rs. 500 crore revenue by FY2022. Saffola Honey has also witnessed good traction across channels.
- The hygiene portfolio has performed well and the company is targeting revenues of Rs. 80-90 crore in FY2021 from the hygiene portfolio. Marico expects the hygiene portfolio to contribute ~1.5% to total turnover. Contribution from new launches stands at 3-4% of total turnover. The company has changed its strategy of entering into niche categories. Now the company plans to enter into larger categories.
- Lower traction was seen in premium personal care and hair nourishment portfolio (5-6% contribution to total revenue) and recovery will take some time considering its discretionary nature.
- The company has rationalised ~25% of its tail SKUs to make supply chain more agile and improve efficiency. Consumption of larger packs has increased as people have reduced number of grocery visits and consumption of small SKUs have increased as people are moving from unbranded to branded products.
- *Copra* prices have been bearish earlier and have slightly risen now. Overall, they are expected to remain flattish for the year. The company expects savings of 100 bps in advertising spends, largely reduction in premium part of portfolio. However, the company will continue to invest in core brands to gain market share. The company is also targeting overall savings of Rs. 150 crore in FY2021. OPM is expected to sustain at over 20%.
- Marico has tied up with last mile delivery partners, rationalised SKUs to improve supply chain, started direct delivery to sub-stockists and retailers and started tele-calling for ordering to enhance distribution. The company's distribution reach stands at 5.1 million outlets out of which direct reach is at 1 million outlets.
- In terms of international business, Bangladesh registered good growth in Q1 and the momentum is expected to continue driven by good brand recall for *Parachute* (85% market share). Growth is gradually coming back in Vietnam and Middle East. Egypt and South Africa had a higher impact and will take some time to recover. Margins in the international business are expected to remain high.

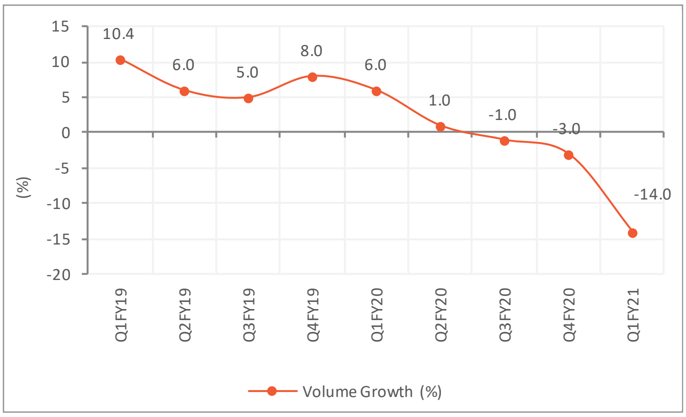
Financials in charts

Revenue declined by 11% in Q1FY21



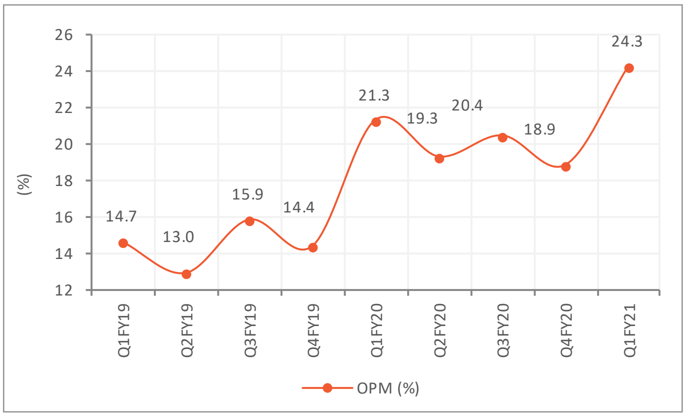
Source: Company, Sharekhan Research

Volumes declined by 14% in Q1FY21 due to disruptions



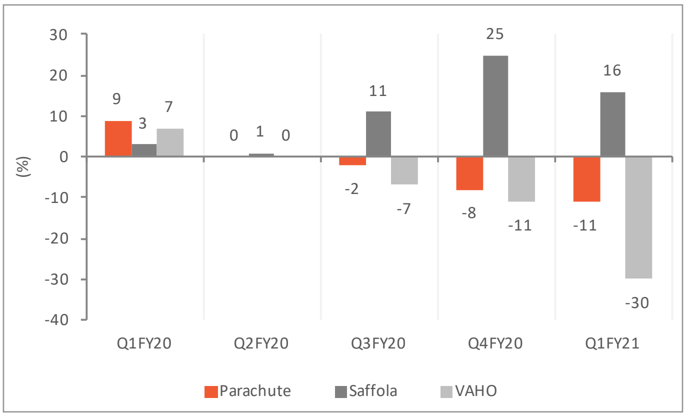
Source: Company, Sharekhan Research

OPM improved y-o-y to 24.3%



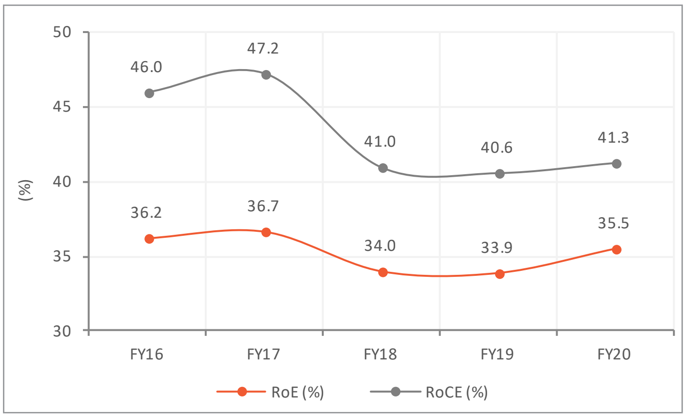
Source: Company, Sharekhan Research

Q1FY21 was a subdued for key categories except Saffola



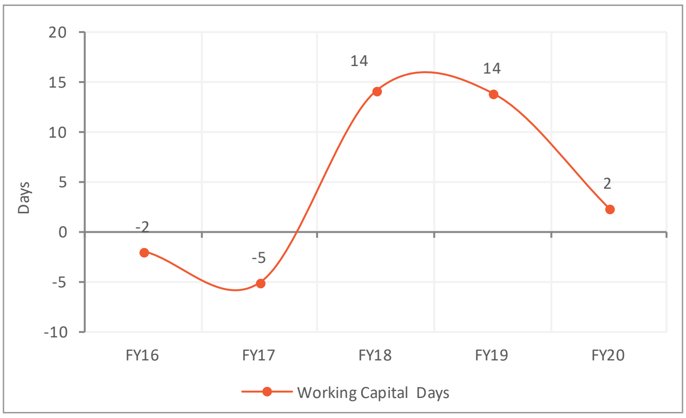
Source: Company, Sharekhan Research

Return ratios remained healthy in double digits



Source: Company, Sharekhan Research

Working capital cycle improved



Source: Company, Sharekhan Research

Outlook and Valuation

■ **Sector View – Supply chain back to normal; foods gaining strong traction; hair care on recovery mode**

Consumer goods companies saw a strong revival in June with production and supply recovering to 90% of pre-COVID levels. With a strong pick in rural demand, general trade normalising and higher sales through online channels, we expect a normalisation in business performance from Q2FY2021. Hair care products are re-gaining momentum (especially at the bottom-of-the pyramid). The consumer shifting from unbranded to branded hair oil would help large companies to gain market share. 1) Sustained demand for branded foods, hygiene and HI products; 2) pick-up in rural demand; 3) new launches and 4) focus on expansion of distribution reach are some of the near-term growth catalysts. Most of the key input prices (barring palm oil, raw tea and coffee) have remained benign. This along with cost-saving initiatives would help consumer goods companies post better margins in the coming quarters.

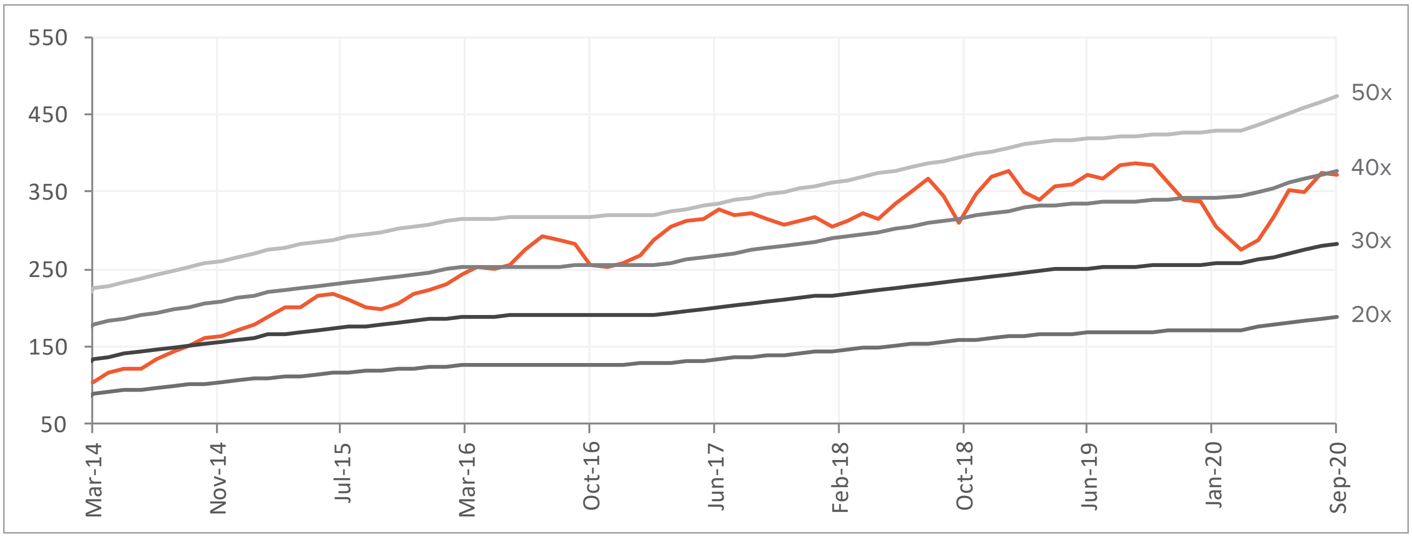
■ **Company Outlook – Core brands seeing good recovery; discretionary will take time to revive**

With a recovery in core brand such as Parachute (to mid-single-digit volume growth) and sustained good growth in Saffola (at ~8-12% volume growth), we expect Marico's domestic business to post better volume growth in Q2FY2021 compared with low single-digit volume growth achieved during May-June. Bangladesh continues to perform well, Vietnam has recovered and MENA region is getting out of tough times. On the margin front the management is confident of achieving OPM of ~20%+ at a consolidated level. New launches, scale-up of male grooming and hair nourishment, market share gains from conversion of loose to branded oils, double-digit growth in VAHO (focus on premium end), higher contribution from hygiene portfolio and higher sales target in foods are some of the medium-term revenue drivers for Marico. The improvement in revenue mix along with cost-saving initiatives would help company achieve gradual improvement in margins.

■ **Valuation – Retain Buy with unchanged price target of Rs. 420**

Though FY2021 is expected to be subdued year (affected by disrupted Q1FY2021); Marico is expected to see a strong recovery in FY2022 with double-digit growth in revenues and PAT. Gaining market share from a shift to branded products in core categories, expanding into hygiene and foods category through relevant launches, expanding the reach in the rural market and scaling-up of international business (especially in Bangladesh and MENA) will be medium-term growth drivers. We have introduced FY2023 estimates in this note. We expect revenue and earnings to grow at a CAGR of 8.3% and 13.4% over FY2020-23. The stock is currently trading at 36x its FY2022E earnings, which is at a discount to some of the large-cap FMCG stocks. We maintain our Buy recommendation on the stock with an unchanged price target of Rs. 420.

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 India	58.4	54.2	43.1	48.9	43.9	34.6	27.0	26.5	29.5
Hindustan Unilever	66.6	58.2	46.9	47.2	40.9	35.0	105.2	39.7	28.4
Marico	44.7	43.3	36.1	32.4	30.9	25.9	41.3	40.7	43.1

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
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

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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