

Satisfactory Performance. Maintain Accumulate

- Marico's Q2FY21 revenues and EBITDA came in line, but APAT exceeded our estimates. India business posted 8% revenue growth with 11% volume increase.
- Barring VAHO (+4%), Parachute (+10%) and Saffola (+20%) reported double digit volume growths, was encouraging.
- Saffola continues to outperform with 16/20% value/volume growth. Consumer up-stocking helped the brand to post better growth during the quarter.
- GM contracted 160bps due to during the quarter due to 11% YoY increase in copra prices. Going ahead, copra prices are likely to remain firm in the near term, would have impact on GM.
- We believe that the growth in Saffola would normalize here on, while VAHO is expected to improve on favorable base.
- We have revised our FY21E and FY22E EPS estimates at Rs 9.3 and Rs 9.6 respectively and introduced FY23E EPS at Rs 10.2. Valuing the stock at 38x FY23E EPS to arrive at a TP of Rs 388. Maintain Accumulate.**

Operational performance was in line

Revenues declined 8.7% YoY to Rs 19.9bn. Domestic business reported 8% revenue growth whereas IB exhibited 12% growth. Marico reported 11% volume growth in Domestic Business. EBITDA increased by 10.2% YoY to Rs 3.9bn - came in line with our estimate. EBITDA margin expanded by 30bps to 19.6% as 160bps increase in RM cost was completely offset by 130/10/60 bps decline in ad spends/employee cost/ other expense respectively. APAT grew by 20.9% to Rs 3.1bn- came ahead of our estimate

Parachute performance was encouraging

Parachute grew by 8% in value with 10% volume growth. The performance was encouraging considering (1) persistent lockdown in select markets during and (2) Non-essential nature of the category. Consequently, we believe that Parachute growth would remain firm compared to other hair oil brands once market conditions normalize. However, as copra prices have started increasing from lows, GM margins are least likely to sustain hereon.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	19,890	18,290	8.7	19,250	3.3
Total Expense	16,000	14,760	8.4	14,580	9.7
EBITDA	3,890	3,530	10.2	4,670	(16.7)
Depreciation	330	350	(5.7)	340	(2.9)
EBIT	3,560	3,180	11.9	4,330	(17.8)
Other Income	270	350	(22.9)	190	42.1
Interest	80	130	(38.5)	90	(11.1)
EBT	3,420	3,400	0.6	5,070	(32.5)
Tax	690	880	(21.6)	1,170	(41.0)
RPAT	2,730	2,530	7.9	3,880	(29.6)
APAT	3,060	2,530	20.9	3,240	(5.6)
			(bps)		(bps)
Gross Margin (%)	48.0	49.6	(163)	48.6	(61)
EBITDA Margin (%)	19.6	19.3	26	24.3	(470)
NPM (%)	13.7	13.8	(11)	20.2	(643)
Tax Rate (%)	20.2	25.9	(571)	23.1	(290)
EBIT Margin (%)	17.9	17.4	51	22.5	(460)

CMP	Rs 363
Target / Upside	Rs 388 / 7%
NIFTY	11,730

Scrip Details

Equity / FV	Rs 1,291mn / Rs 1
Market Cap	Rs 469bn
	USD 6bn
52-week High/Low	Rs 389/ 234
Avg. Volume (no)	2,921,020
Bloom Code	MRCO IN

Price Performance

	1M	3M	12M
Absolute (%)	1	0	(8)
Rel to NIFTY (%)	(4)	(3)	(10)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	59.6	59.6	59.6
MF/Banks/FIs	22.7	23.7	23.7
FIIIs	12.9	12.0	12.4
Public / Others	4.8	4.6	4.4

Valuation (x)

	FY21E	FY22E	FY23E
P/E	39.0	37.7	35.6
EV/EBITDA	28.9	28.4	27.0
ROE (%)	37.0	33.5	31.4
RoACE (%)	36.2	32.3	30.4

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	75,724	81,680	88,260
EBITDA	15,922	16,095	16,727
PAT	12,025	12,419	13,180
EPS (Rs.)	9.3	9.6	10.2

VP Research: Sachin Bobade

Tel: +91 22 40969731

E-mail: sachinb@dolatcapital.com

Associate: Nikhat Koor

Tel: +91 22 40969764

E-mail: nikhatk@dolatcapital.com

Other segments posted improved performance

Other segments posted improved performance during the quarter – (1) Value added hair oils (VAHO) declined by 1% in value, but increased by 4% in volume terms during the quarter, (2) Saffola posted 16% value and 20% volume growth. The brand was benefited from up-stocking by the consumers, (3) Premium hair nourishment and male grooming portfolio exhibited sequential improvement.

Foods business gaining traction

Marico's foods business posted 55% growth during the quarter led by 45% increase in Saffola Oats franchise. Increase in household penetration is helping the brand to grow in the domestic market. Further, Saffola honey gained 8% market share in the MT within 3 months of launch. During the quarter, Marico launched Saffola Arogyam Chyawan Amrut and Kadha Mix & Golden Turmeric Milk Mix in the immunity segment, are expected to report faster growth in respective categories.

Gains in Bangladesh were offset due to pandemic

IB posted 7% CC growth as -6%/-4% decline in MENA and South East Asia respectively (cc terms) was completely offset by +16%/+16% growths in Bangladesh/ South Africa respectively. In Bangladesh, Parachute reported 8% growth and is expected to maintain single digit growth in the geography due to maturity of the brand. Non-coconut oil portfolio reported 31% growth in Bangladesh. Marico is confident of delivering double digit growth in the geography going ahead.

Exhibit 1: Actual V/s DART estimates

(Rs mn)	Actual	Estimates	Variance (%)	Comments
Revenue	19,890	19,324	2.9	
EBITDA	3,890	4,030	(3.5)	
EBITDA margin %	19.6	20.9	(130)	Higher than estimated RM and other expenses
APAT	3,060	2,752	11.2	Exceptional items of Rs 330mn due to partial rationalization of capacities in one of the units necessitating impairment of fixed assets and inventory

Source: Company, DART

Exhibit 2: Change in estimate

Rs Mn	FY21E			FY22E		
	New	Previous	Chg. (%)	New	Previous	Chg. (%)
Net Revenue	75,724	73,594	2.9	81,680	79,418	2.8
EBITDA	15,922	14,649	8.7	16,095	15,307	5.2
EBITDA Margin (%)	21.0	19.9	110 bps	19.7	19.3	40 bps
APAT	12,025	11,028	9.0	12,419	11,811	5.2
Adj EPS (Rs)	9.3	8.5	9.0	9.6	9.2	5.2

Source: DART, Company

We have revised our FY21E and FY22E revenue estimates to factor in improvement in VAHO and Food portfolio. We have also increased our margin estimates to factor in better operational efficiencies. However, we believe that the EBITDA margins would decline going ahead with the increase in RM.

Exhibit 3: Half yearly - Consolidated

Particulars (Rs.mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Net Sales	19,890	18,290	8.7	19,250	3.3	39,140	39,950	(2.0)
Total Expenditure	16,000	14,760	8.4	14,580	9.7	30,580	31,810	(3.9)
RM Cost	10,340	9,210	12.3	9,890	4.6	20,230	20,580	(1.7)
Employee Exp	1,370	1,270	7.9	1,350	1.5	2,720	2,540	7.1
Selling & Admin	1,890	1,970	(4.1)	1,370	38.0	3,260	4,160	(21.6)
Other Exp	2,400	2,310	3.9	1,970	21.8	4,370	4,530	(3.5)
PBIDT (Excl OI)	3,890	3,530	10.2	4,670	(16.7)	8,560	8,140	5.2
Other Income	270	350	(22.9)	190	42.1	460	630	(27.0)
Depreciation	330	350	(5.7)	340	(2.9)	670	700	(4.3)
EBIT	3,830	3,530	8.5	4,520	(15.3)	8,350	8,070	3.5
Interest	80	130	(38.5)	90	(11.1)	170	250	(32.0)
Exceptional Items	(330)	-	NA	640	(151.6)	310	(190)	NA
PBT	3,420	3,400	0.6	5,070	(32.5)	8,490	7,630	11.3
Tax	690	880	(21.6)	1,170	(41.0)	1,860	1,960	(5.1)
RPAT	2,730	2,530	7.9	3,880	(29.6)	6,610	5,680	16.4
APAT	3,060	2,530	20.9	3,240	(5.6)	6,300	5,870	7.3
EPS (Reported PAT)	2.4	2.0	20.9	2.5	(5.6)	4.9	4.5	7.3
			bps		bps			bps
Gross Profit (%)	48.0	49.6	(160)	48.6	(60)	48.3	48.5	(20)
Ad spends (%)	9.5	10.8	(130)	7.1	240	8.3	10.4	(210)
Employee Cost (%)	6.9	6.9	(10)	7.0	(10)	11.2	11.3	(20)
Other Exp (%)	12.1	12.6	(60)	10.2	180	11.2	11.3	(20)
EBITDA (%)	19.6	19.3	30	24.3	(470)	21.9	20.4	150
PAT (%) Adj	15.4	13.8	160	16.8	(140)	16.1	14.7	140

Source: Company, DART

Exhibit 4: 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 5: Various brands performance

Key businesses	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
(Vol growth)									
Parachute Coconut Oil	8	9	6	9	(1)	(2)	(8)	(11)	10
Value Added Hair Oil (VAHO)	5	7	1	7	0	(7)	(11)	(30)	4
Saffola	5	2	18	3	1	11	25	16	20

Source: DART, Company

Exhibit 6: Summary of growth: Reported value growth (%)

Category / Business	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Indicative share to Group's Turnover basis FY20 results
Group	20	15	9	7	0	(2)	(7)	(11)	(9)	100
India business (incl youth brands)	20	13	7	6	(3)	(5)	(8)	(15)	8	77
Parachute Coconut Oil (rigid packs)	32	19	4	8	(4)	(5)	(12)	(12)	8	38
Value added hair oil	12	19	7	11	(6)	(17)	(18)	(32)	(1)	24
Saffola (refined edible oil)	9	8	15	6	5	13	25	16	16	20
International business	18	21	14	9	8	8	(5)	2	12	23

Source: DART, Company

Exhibit 7: YoY growth across international business in CC (%)

Region	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	% of overseas business (in FY20)
Bangladesh	10	16	12	11	15	15	6	10	16	49
MENA	19	8	5	2	(3)	(4)	(50)	(27)	(6)	12
South Africa	18	0	0	6	(2)	3	(26)	(25)	16	7
South East Asia	14	13	4	8	1	3	5	(17)	(4)	26

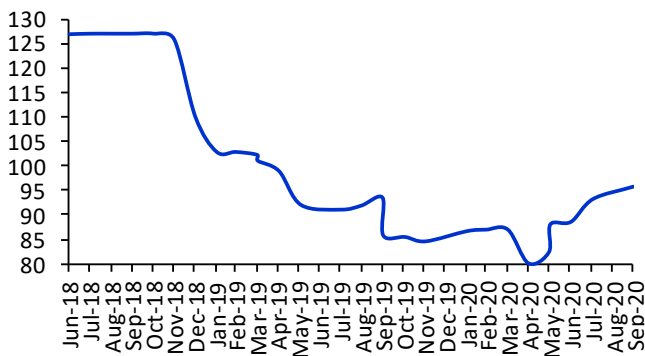
Source: DART, Company

Concall highlights

- During Q2FY21, general trade sales in urban and rural grew by 14% and 22% in volume terms, respectively. Modern Trade de-grew by 12% in Q2 and is likely to pick up gradually with no further lockdowns.
- E-Commerce grew by 39%. CSD declined by 29%, due to scaled down operations during Q2FY21. E- com contributed 8% in Q2FY21 compared to 5% last year.
- Copra prices increased 11% YoY in Q2FY21. For the rest of the year, the company expects copra prices to remain firm. Rice bran oil was up 26% YoY, it is expected to soften in Q4. LLP de-grew 6% YoY and HDPE was flat.
- The company does not expect to do any significant pricing intervention, and will absorb input costs in the short term. It has taken a price increase in Saffola edible oil in September'20.
- With its aggressive cost optimization initiative, Marico expects to deliver Rs 1.5bn in structured savings in FY21E. It is targeting EBITDA margin of 20%+ in FY21E.
- Marico targets domestic volume growth of 8-10% in H2FY21E.
- For Parachute, Rural market share (MS) is 46% while urban MS stands at 60%.
- Ex-CSD, VAHO volumes grew by 7%, led by strong rural growth in bottom of the pyramid segment and urban returning to pre COVID levels.
- Advertising spend at 9.5% is almost back to pre-COVID levels. Marico will continue to spend on digital platforms.
- Marico reaches 5.1 mn retail outlets by its nationwide distribution network, of which 0.9-1 mn outlets are serviced directly.

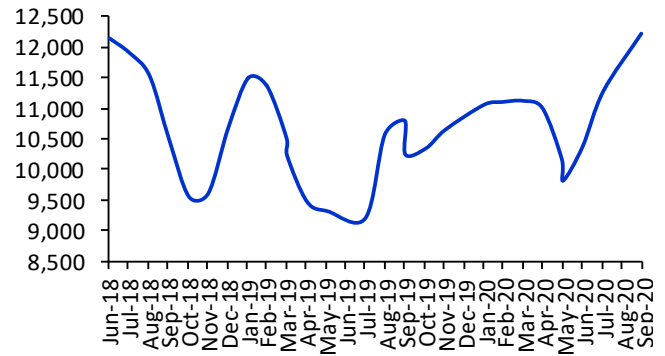
- Hygiene portfolio contributed ~1.5% to the turnover in H1FY21, currently demand is tapering off. Food business is likely to clock Rs 3-3.5bn in FY21E and Rs 4.5-5.0bn by FY22E.
- The Foods portfolio registered an exponential value growth of 55% in Q2FY21, led by 45% growth in the Saffola Oats . About 60% of the growth came from increased household penetration.
- Saffola Honey has garnered 8% market share in Modern Trade within three months of launch. In October'20, Marico launched chyawanprash, Saffola Arogyam Chyawan Amrut, which will be gradually scaled up across channels.
- Marico has kept a very tight control on receivables, and credit in the market. Moreover, contribution of MT and CSD was low in Q2FY21. Consequently, debtor turnover decreased from 37 in Q2FY20 to 26 days in Q2FY21. Inventory days came down due to automated replenishment system. Increase in payables was on account of supply finance program. Going ahead, the company expects working capital to be in same range as current 31-32 days.
- Current pipeline in the distributor stock is lowest in last 3-4 years. Also, with measures like SKU rationalization, Marico ensures healthy distributor ROI.
- The capex is estimated to be ~ 1.25-1.5bn in FY21E.

Exhibit 8: Price trend of HDPE Rs / kg



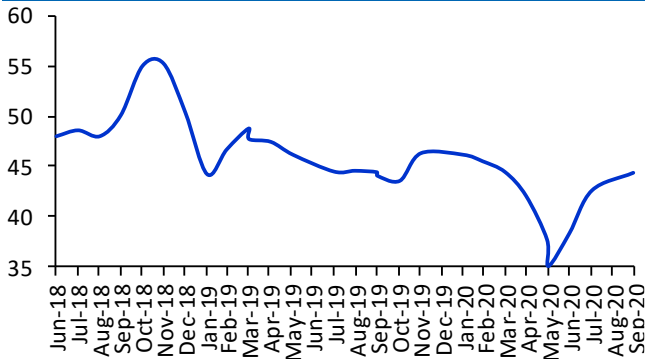
Source: DART, Company

Exhibit 9: Price trend of copra Rs /100kg



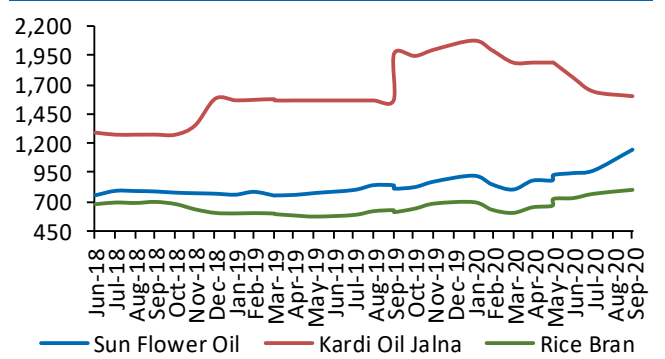
Source: DART, Company

Exhibit 10: Price trend of liquid paraffin Rs /Lt



Source: DART, Company

Exhibit 11: Other key raw materials price trend Rs/10kg



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	73,150	75,724	81,680	88,260
Total Expense	58,460	59,801	65,585	71,533
COGS	37,450	38,753	42,485	46,118
Employees Cost	4,780	5,017	5,280	5,564
Other expenses	16,230	16,031	17,820	19,852
EBIDTA	14,690	15,922	16,095	16,727
Depreciation	1,400	1,611	1,693	1,764
EBIT	13,290	14,312	14,402	14,963
Interest	500	564	588	612
Other Income	1,240	1,807	2,227	2,672
Exc. / E.O. items	(290)	0	0	0
EBT	13,740	15,556	16,042	17,022
Tax	3,310	3,332	3,414	3,624
RPAT	10,210	12,025	12,419	13,180
Minority Interest	220	198	208	219
Profit/Loss share of associates	0	0	0	0
APAT	10,500	12,025	12,419	13,180

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	1,291	1,291	1,291	1,291
Minority Interest	130	328	537	756
Reserves & Surplus	28,940	33,511	38,153	43,234
Net Worth	30,230	34,801	39,444	44,524
Total Debt	3,350	3,490	3,490	3,490
Net Deferred Tax Liability	(1,530)	(78)	(81)	(86)
Total Capital Employed	32,180	38,542	43,390	48,684

Applications of Funds

Net Block	13,760	13,899	14,207	14,442
CWIP	580	450	450	450
Investments	1,050	590	590	590
Current Assets, Loans & Advances	33,410	35,468	41,064	47,194
Inventories	13,800	15,266	16,297	17,121
Receivables	5,390	4,918	5,021	5,387
Cash and Bank Balances	2,790	7,385	11,714	16,316
Loans and Advances	5,150	3,990	4,123	4,460
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	16,619	11,866	12,921	13,993
Payables	9,780	10,124	10,920	11,800
Other Current Liabilities	6,839	1,742	2,000	2,192
		<i>sub total</i>		
Net Current Assets	16,791	23,602	28,143	33,201
Total Assets	32,180	38,542	43,390	48,684

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	48.8	48.8	48.0	47.7
EBIDTA Margin	20.1	21.0	19.7	19.0
EBIT Margin	18.2	18.9	17.6	17.0
Tax rate	24.1	21.4	21.3	21.3
Net Profit Margin	14.0	15.9	15.2	14.9
(B) As Percentage of Net Sales (%)				
COGS	51.2	51.2	52.0	52.3
Employee	6.5	6.6	6.5	6.3
Other	22.2	21.2	21.8	22.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	26.6	25.4	24.5	24.4
Inventory days	69	74	73	71
Debtors days	27	24	22	22
Average Cost of Debt	14.6	16.5	16.8	17.5
Payable days	49	49	49	49
Working Capital days	84	114	126	137
FA T/O	5.3	5.4	5.7	6.1
(D) Measures of Investment				
AEPS (Rs)	8.1	9.3	9.6	10.2
CEPS (Rs)	9.2	10.6	10.9	11.6
DPS (Rs)	7.9	5.8	6.0	6.3
Dividend Payout (%)	97.6	62.0	62.6	61.5
BVPS (Rs)	23.4	27.0	30.6	34.5
RoANW (%)	33.9	37.0	33.5	31.4
RoACE (%)	35.1	36.2	32.3	30.4
RoAIC (%)	47.7	47.3	45.8	46.7
(E) Valuation Ratios				
CMP (Rs)	363	363	363	363
P/E	44.6	39.0	37.7	35.6
Mcap (Rs Mn)	468,560	468,560	468,560	468,560
Mcap/ Sales	6.4	6.2	5.7	5.3
EV	462,840	460,756	456,427	451,825
EV/Sales	6.3	6.1	5.6	5.1
EV/EBITDA	31.5	28.9	28.4	27.0
P/BV	15.5	13.5	11.9	10.5
Dividend Yield (%)	2.2	1.6	1.7	1.7
(F) Growth Rate (%)				
Revenue	(0.3)	3.5	7.9	8.1
EBITDA	10.8	8.4	1.1	3.9
EBIT	11.2	7.7	0.6	3.9
PBT	(5.0)	13.2	3.1	6.1
APAT	13.4	14.5	3.3	6.1
EPS	13.4	14.5	3.3	6.1

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	12,160	11,262	14,694	15,314
CFI	(3,780)	1,210	(2,000)	(2,000)
CFF	(11,110)	(7,878)	(8,364)	(8,712)
FCFF	10,300	9,642	12,694	13,314
Opening Cash	5,520	2,790	7,385	11,714
Closing Cash	2,790	7,385	11,714	16,316

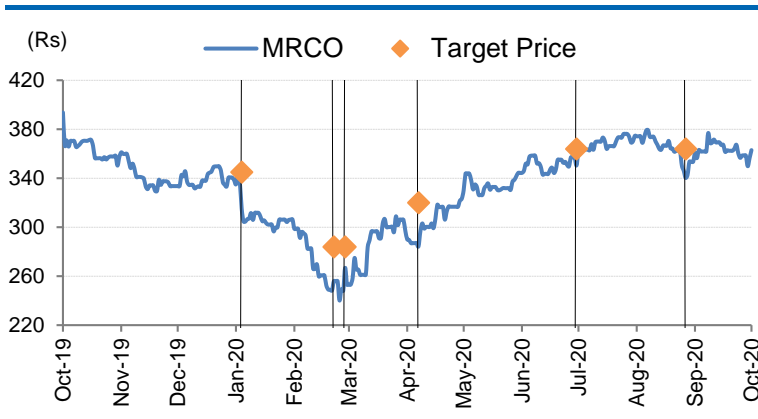
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jan-20	Accumulate	345	315
Mar-20	Accumulate	284	256
Mar-20	Reduce	284	267
May-20	Accumulate	320	284
Jul-20	Accumulate	364	350
Sep-20	Accumulate	364	340

*Price as on recommendation date

DART Team

Purvag Shah **Managing Director** **purvag@dolatcapital.com** **+9122 4096 9747**

Amit Khurana, CFA **Head of Equities** **amit@dolatcapital.com** **+9122 4096 9745**

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

Analyst(s) Certification

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
