

Marico

Refer to important disclosures at the end of this report

Good volume-led growth

CMP: Rs 363
as of (October 27, 2020)

TP: Rs 380 (▲)
12 months

Rating: HOLD (■)

Upside: 4.7 %

- Marico's Q2 sales performance was in line with our estimates with 9% sales growth, driven by 11% domestic volume increase. EBITDA/APAT grew 10%/15%. Parachute/VAHO/Saffola grew 10%/4%/20%, while the international business grew 12%.
- Core portfolio growth has improved and new innovation pace also looks good though it is yet to see meaningful success. Saffola growth may moderate from Q4 but continued recovery in Parachute/VAHO and low comparables should lead to further improvement in growth.
- Management plans to absorb the impact of higher commodity prices in the near term, as it expects prices to soften by Q4. Though this may affect gross margins temporarily, Marico expects overall margin impact to be low on account of its increased cost-saving targets.
- We increase FY21-23E EPS by 3%, factoring in lower ETR. At 36x FY22E and 32x FY23E EPS, the stock offers only limited upside. We maintain Hold rating with a revised TP of Rs380 (Rs350 earlier), based on 35x Dec-22E EPS.

Strong volume performance led by Saffola and Parachute: Unlike Q1, Marico posted a strong Q2 performance with domestic business growing at 9%, driven by 11% volume growth. Parachute/VAHO clocked 10%/4% volume growth, while Saffola oil posted 20% volume growth and Saffola Oats clocked 45% value growth with an increase in market share and ad spends behind it. Growth in general trade was strong at 14-22%, whereas MT declined 12%. E-commerce grew 39% and now contributes 8% to turnover. Continued momentum in Saffola, strong recovery in Parachute supported by conversions from loose oils and market share gains, and further improvement in VAHO provide a steady domestic volume growth outlook going ahead. The international business grew 12% (7% in cc), with Bangladesh growing at 16% in cc terms, while Vietnam declined 6%. Marico expects to deliver high-single digit cc growth for H2FY21.

Rising input price inflation impact margins: Gross Margin contracted by 160bps to 48% due to an increase in input prices. Copra prices were up 9% qoq, while rice bran prices were up 26% yoy. Management believes that inflation will be transient and expects it to correct by Q4. EBITDA margin expansion was limited to 30bps with employee and other overhead costs going up by 8% and 4%, respectively, whereas ad spends saw a 4% decline yoy. With input inflation expected to come down, pricing actions have been limited and higher cost-saving efforts (Rs1.5bn) are expected to maintain margins in the near term.

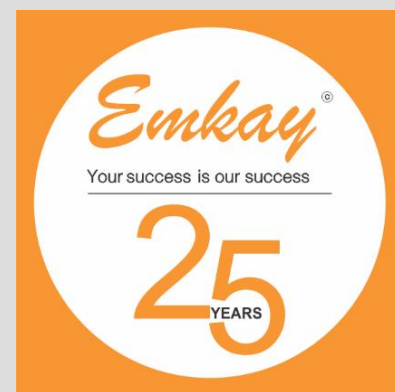
Steady growth outlook; maintain Hold: Core portfolio's growth has improved and new innovation pace also looks good though it is yet to see any meaningful success. Near-term margin pressure restricts upside though. We increase FY21-23E EPS by 3%, factoring in lower ETR. Maintain Hold rating with a revised TP of Rs380 (Rs350 earlier), based on 35x Dec-22E EPS.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Consumer Goods & Retail \(page 8\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	73,340	73,150	74,391	83,988	92,059
EBITDA	13,260	14,690	15,878	17,774	19,613
EBITDA Margin (%)	18.1	20.1	21.3	21.2	21.3
APAT	9,430	10,720	11,703	13,206	14,633
EPS (Rs)	7.3	8.3	9.1	10.2	11.3
EPS (% chg)	14.0	13.7	9.2	12.9	10.8
ROE (%)	34.2	35.7	36.2	36.9	37.8
P/E (x)	49.7	43.7	40.0	35.5	32.0
EV/EBITDA (x)	34.9	31.5	28.8	25.6	23.1
P/BV (x)	15.8	15.5	13.6	12.6	11.6

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	3/3.3
Target Price change (%)	8.6
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	9.1	10.2
Consensus	8.8	9.8
Mean Consensus TP (12M)	Rs 384	

Stock Details

Bloomberg Code	MRCO IN
Face Value (Rs)	1
Shares outstanding (mn)	1,291
52 Week H/L	392 / 234
M Cap (Rs bn/USD bn)	469 / 6.34
Daily Avg Volume (nos.)	30,55,885
Daily Avg Turnover (US\$ mn)	15.1

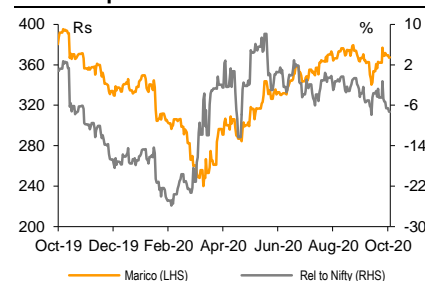
Shareholding Pattern Sep '20

Promoters	59.6%
FIIIs	23.7%
DIIIs	10.3%
Public and Others	6.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	-	25	(7)
Rel. to Nifty	(4)	(3)	-	(8)

Relative price chart



Source: Bloomberg

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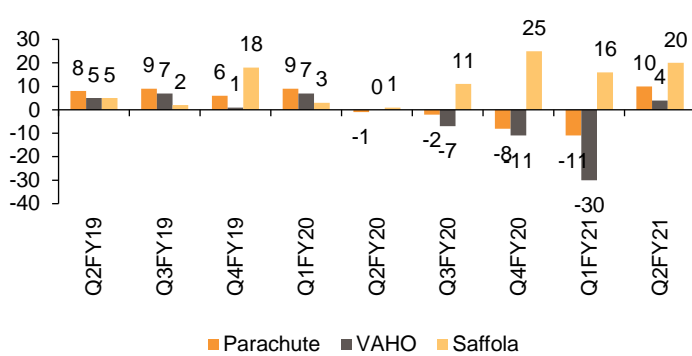
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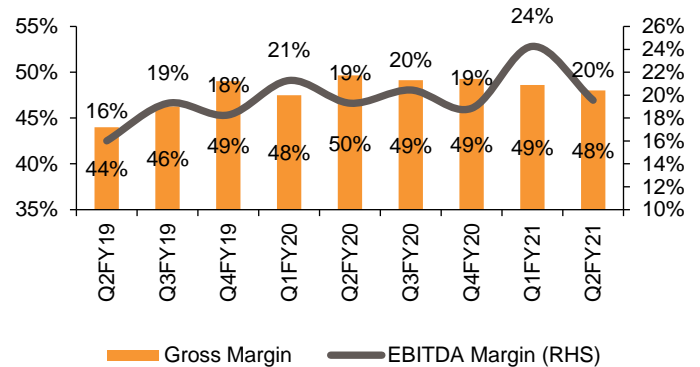
Story in Charts

Exhibit 1: Parachute and VAHO see good recovery after a steep decline in Q1



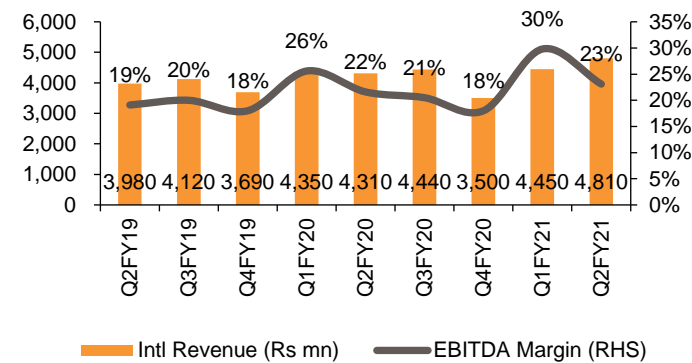
Source: Company, Emkay Research

Exhibit 2: Uptick in input costs reduces gross margin



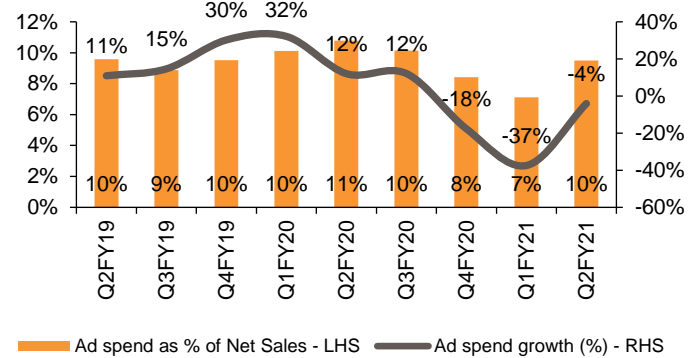
Source: Company, Emkay Research

Exhibit 3: Overhead cost management aids margin expansion



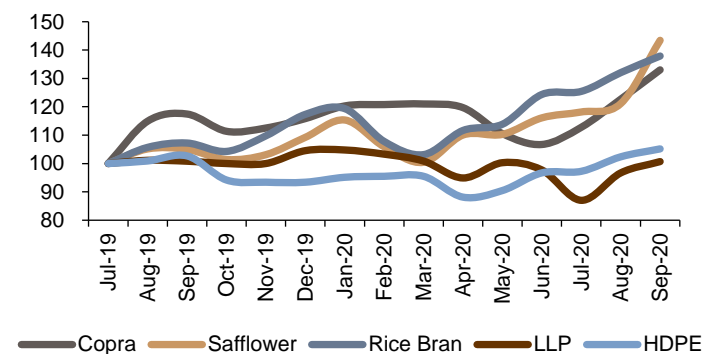
Source: Company, Emkay Research

Exhibit 4: Ad spends return to pre-Covid-19 levels



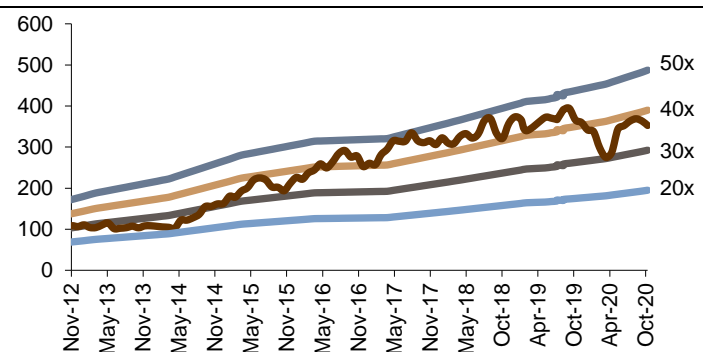
Source: Company, Emkay Research

Exhibit 5: Copra, safflower and rice bran prices rise by 11%/23%/26%



Source: Company, Emkay Research

Exhibit 6: One-year forward P/E band chart



Source: Company, Emkay Research

Exhibit 7: Actual vs. Estimates (Q2FY21)

Rs mn	Actual	Estimate		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenues	19,890	19,970	19,266	-0.4%	3.2%	Domestic volume growth of 11%
EBITDA	3,890	4,056	4,012	-4.1%	-3.0%	
EBITDA Margin (%)	19.6%	20.3%	20.8%	-75	-127	
APAT	3,060	2,871	2,830	6.6%	8.1%	Lower interest costs and ETR aid APAT growth

Source: Company, Emkay Research

Exhibit 8: Quarterly Performance (Consolidated)

Y/E, Mar (Rs mn)	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	YoY (%)	QoQ (%)	1HFY20	1HFY21	YoY (%)
Revenue	18,290	18,240	14,960	19,250	19,890	8.7	3.3	39,950	39,140	-2.0
Expenditure	14,760	14,510	12,140	14,580	16,000	8.4	9.7	31,810	30,580	-3.9
Consumption of RM	9,210	9,280	7,590	9,890	10,340	12.3	4.6	20,580	20,230	-1.7
as % of sales	50.4%	50.9%	50.7%	51.4%	52.0%			51.5%	51.7%	
Employee Cost	1,270	1,160	1,080	1,350	1,370	7.9	1.5	2,540	2,720	7.1
as % of sales	6.9%	6.4%	7.2%	7.0%	6.9%			6.4%	6.9%	
Advertising & SP	1,970	1,850	1,260	1,370	1,890	-4.1	38.0	4,160	3,260	-21.6
as % of sales	10.8%	10.1%	8.4%	7.1%	9.5%			10.4%	8.3%	
Other expenditure	2,310	2,220	2,210	1,970	2,400	3.9	21.8	4,530	4,370	-3.5
as % of sales	12.6%	12.2%	14.8%	10.2%	12.1%			11.3%	11.2%	
EBITDA	3,530	3,730	2,820	4,670	3,890	10.2	-16.7	8,140	8,560	5.2
Depreciation	350	320	380	340	330	-5.7	-2.9	700	670	-4.3
EBIT	3,180	3,410	2,440	4,330	3,560	11.9	-17.8	7,440	7,890	6.0
Other Income	350	290	320	190	270	-22.9	42.1	630	460	-27.0
Interest	130	120	130	90	80	-38.5	-11.1	250	170	-32.0
PBT	3,400	3,580	2,630	4,430	3,750	10.3	-15.3	7,820	8,180	4.6
Total Tax	880	820	530	1,170	690	-21.6	-41.0	1,960	1,860	-5.1
PAT	2,520	2,760	2,100	3,260	3,060	21.4	-6.1	5,860	6,320	7.8
(Profit)/loss from JV's/Ass/MI	-10.0	0.0	10.0	20.0	0.0			10	-20	-300.0
APAT after MI	2,530	2,760	2,090	3,240	3,060	20.9	-5.6	5,850	6,340	8.4
Extra ordinary items	0	0	-100	640	-330			-190	310	
Reported PAT	2,530	2,760	1,990	3,880	2,730	7.9	-29.6	5,660	6,650	17.5
Adjusted EPS	2.0	2.1	1.6	2.6	2.3	18.3	-11.7	4.5	4.9	9.6
Margins (%)						(bps)	(bps)			(bps)
Gross Margin	49.6	49.1	49.3	48.6	48.0	-160	-60	48.5	48.3	-20
EBIDTA	19.3	20.4	18.9	24.3	19.6	30	-470	20.4	21.9	150
EBIT	17.4	18.7	16.3	22.5	17.9	50	-460	18.6	20.2	150
EBT	18.6	19.6	17.6	23.0	18.9	30	-420	19.6	20.9	130
PAT	13.8	15.1	14.0	16.8	15.4	160	-140	14.6	16.2	160
Effective Tax rate	25.9	22.9	20.2	26.4	18.4	-750	-800	25.1	22.7	-230

Source: Company, Emkay Research

Exhibit 9: Revision in earnings estimates

Y/E, Mar (Rs mn)	FY21E			FY22E			FY23E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	74,391	74,391	0.0	83,988	83,988	0.0	92,059	92,059	0.0
EBITDA	15,863	15,878	0.1	17,785	17,774	-0.1	19,631	19,613	-0.1
EBITDA Margin (%)	21.3	21.3	0 bps	21.2	21.2	0 bps	21.3	21.3	0 bps
APAT	11,402	11,703	2.6	12,772	13,206	3.4	14,162	14,633	3.3
EPS (Rs)	8.8	9.1	3.0	9.9	10.2	3.3	11.0	11.3	3.0

Source: Company, Emkay Research

Exhibit 10: Revenue Assumptions

	FY19	FY20	FY21E	FY22E	FY23E
Parachute Growth	23.0%	-2.0%	-4.0%	14.0%	10.0%
Saffola Growth	10.0%	12.0%	13.0%	11.0%	11.0%
VAHO Growth	12.0%	-7.0%	-8.0%	16.0%	8.0%
International Revenue Growth	16.0%	7.9%	3.4%	11.8%	11.3%
Total Revenue (Rs mn)	73,340	73,150	74,391	83,988	92,059

Source: Company, Emkay Research

Exhibit 11: Relative Valuation

Companies	Price (Rs)	Mcap (Rs bn)	Reco	Target Price (Rs)	EPS (Rs)			P/E (x)			EV / EBITDA (x)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Asian Paints	2,160	2,071	Hold	1,920	29.4	37.7	43.6	73.4	57.3	49.6	46.4	37.2	32.2
Berger Paints	607	589	Sell	450	7.6	9.5	11.1	79.9	63.7	54.8	49.6	40.4	34.8
Britannia	3,542	853	Buy	4,500	79.7	85.2	98.8	44.4	41.6	35.8	33.7	31.8	27.8
Colgate	1,541	419	Buy	1,600	33.2	36.1	40.5	46.4	42.7	38.1	30.1	27.7	24.8
Dabur	517	913	Hold	500	10.0	11.7	13.2	51.6	44.3	39.1	41.7	34.9	30.6
Emami	364	162	Hold	270	11.4	12.6	13.9	31.8	28.9	26.2	21.7	19.4	17.2
GCPL	677	692	Hold	645	15.7	17.5	20.0	43.2	38.6	33.8	29.8	26.8	23.5
HUL	2,164	5,085	Hold	2,250	35.2	42.6	49.1	61.5	50.9	44.1	43.3	35.9	31.2
ITC	166	2,036	Buy	255	10.6	13.2	14.6	15.7	12.6	11.3	11.5	9.0	8.1
Marico	363	469	Hold	380	9.1	10.2	11.3	40.0	35.5	32.0	28.8	25.6	23.1
Nestle	17,119	1,651	Hold	15,800	229.6	269.3	310.6	74.6	63.6	55.1	51.3	44.0	38.3
Pidilite	1,518	772	Sell	1,200	21.9	27.8	31.5	69.5	54.6	48.2	49.1	38.7	34.0
Radico Khaitan	454	61	Buy	600	18.8	22.8	26.5	24.2	19.9	17.1	15.0	12.5	10.6
United Breweries	907	240	Buy	1,225	11.8	22.8	27.9	76.7	39.8	32.6	31.9	20.7	17.5
United Spirits	512	372	Buy	640	9.0	14.7	17.2	56.8	35.0	29.8	31.9	21.8	19.0

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	73,340	73,150	74,391	83,988	92,059
Expenditure	60,080	58,460	58,513	66,214	72,446
EBITDA	13,260	14,690	15,878	17,774	19,613
Depreciation	1,310	1,400	1,632	1,508	1,674
EBIT	11,950	13,290	14,246	16,265	17,940
Other Income	1,030	1,240	1,364	1,296	1,464
Interest expenses	400	500	500	400	390
PBT	12,580	14,030	15,110	17,161	19,014
Tax	3,140	3,310	3,398	3,945	4,371
Extraordinary Items	1,880	(290)	0	0	0
Minority Int./Income from Assoc.	10	0	10	10	10
Reported Net Income	11,310	10,430	11,703	13,206	14,633
Adjusted PAT	9,430	10,720	11,703	13,206	14,633

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	1,290	1,290	1,290	1,290	1,290
Reserves & surplus	28,460	28,940	33,084	35,958	38,977
Net worth	29,750	30,230	34,374	37,248	40,267
Minority Interest	120	130	203	203	203
Loan Funds	3,490	3,350	3,350	3,350	3,350
Net deferred tax liability	(1,670)	(1,240)	(1,387)	(1,299)	(1,202)
Total Liabilities	31,690	32,470	36,540	39,502	42,618
Net block	13,000	13,960	11,303	11,195	11,021
Investment	4,500	7,330	4,494	4,494	4,494
Current Assets	28,730	26,110	32,256	36,844	41,410
Cash & bank balance	5,520	2,790	10,641	12,523	14,813
Other Current Assets	3,550	3,740	2,796	3,111	3,377
Current liabilities & Provision	14,990	15,510	11,963	13,481	14,757
Net current assets	13,740	10,600	20,293	23,363	26,653
Misc. exp	0	0	0	0	0
Total Assets	31,690	32,470	36,540	39,502	42,618

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	11,550	12,790	13,746	15,865	17,550
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(10)	840	(1,989)	(1,100)	(902)
Operating Cashflow	13,010	13,170	11,846	14,015	15,794
Capital expenditure	(3,389)	(2,490)	1,155	(1,400)	(1,500)
Free Cash Flow	9,622	10,680	13,001	12,615	14,294
Investments	928	(2,830)	2,836	0	0
Other Investing Cash Flow	(858)	(890)	(1,714)	(1,296)	(1,464)
Investing Cashflow	(2,289)	(4,970)	3,641	(1,400)	(1,500)
Equity Capital Raised	(1)	0	0	0	0
Loans Taken / (Repaid)	363	(140)	0	0	0
Dividend paid (incl tax)	(7,020)	(10,020)	(9,037)	(10,328)	(11,619)
Other Financing Cash Flow	(145)	(270)	1,901	(5)	5
Financing Cashflow	(7,202)	(10,930)	(7,636)	(10,733)	(12,004)
Net chg in cash	3,519	(2,730)	7,851	1,882	2,290
Opening cash position	2,001	5,520	2,790	10,641	12,523
Closing cash position	5,520	2,790	10,641	12,523	14,813

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	18.1	20.1	21.3	21.2	21.3
EBIT Margin	16.3	18.2	19.2	19.4	19.5
Effective Tax Rate	25.0	23.6	22.5	23.0	23.0
Net Margin	12.9	14.7	15.7	15.7	15.9
ROCE	42.7	45.3	45.2	46.2	47.3
ROE	34.2	35.7	36.2	36.9	37.8
RoIC	56.1	61.8	66.7	75.7	79.9

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	7.3	8.3	9.1	10.2	11.3
CEPS	8.3	9.4	10.3	11.4	12.6
BVPS	23.0	23.4	26.6	28.9	31.2
DPS	4.7	6.8	7.0	8.0	9.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	49.7	43.7	40.0	35.5	32.0
P/CEPS	43.6	38.7	35.1	31.8	28.7
P/BV	15.8	15.5	13.6	12.6	11.6
EV / Sales	6.4	6.4	6.1	5.4	4.9
EV / EBITDA	34.9	31.5	28.8	25.6	23.1
Dividend Yield (%)	1.3	1.9	1.9	2.2	2.5

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	(0.2)	(0.2)	(0.3)	(0.4)	(0.4)
Net Debt/EBIDTA	(0.4)	(0.4)	(0.7)	(0.7)	(0.8)
Working Cap Cycle (days)	40.9	39.0	47.4	47.1	46.9

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	16.0	(0.3)	1.7	12.9	9.6
EBITDA	16.5	10.8	8.1	11.9	10.3
EBIT	14.0	11.2	7.2	14.2	10.3
PAT	36.7	(7.8)	12.2	12.9	10.8

Quarterly (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Revenue	18,290	18,240	14,960	19,250	19,890
EBITDA	3,530	3,730	2,820	4,670	3,890
EBITDA Margin (%)	19.3	20.4	18.9	24.3	19.6
PAT	2,510	2,760	2,110	3,280	3,060
EPS (Rs)	1.9	2.1	1.6	2.5	2.4

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoters	59.6	59.6	59.6	59.6	59.6
FIIIs	24.9	23.8	22.7	23.7	23.7
DIIIs	8.6	9.5	10.5	9.8	10.3
Public and Others	6.9	7.1	7.2	6.9	6.5

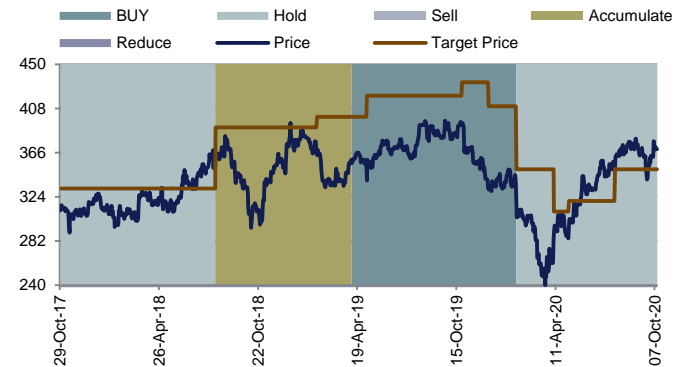
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
06-Oct-20	369	350	12m	Hold	Ashit Desai
27-Jul-20	350	350	12m	Hold	Ashit Desai
05-May-20	297	320	12m	Hold	Ashit Desai
14-Apr-20	291	310	12m	Hold	Ashit Desai
08-Apr-20	289	310	12m	Hold	Ashit Desai
31-Jan-20	315	350	12m	Hold	Ashit Desai
25-Dec-19	334	410	12m	Buy	Ashit Desai
12-Dec-19	331	410	12m	Buy	Ashit Desai
25-Oct-19	394	433	12m	Buy	Ashit Desai
20-Sep-19	380	420	12m	Buy	Ashit Desai
01-Aug-19	363	420	12m	Buy	Ashit Desai
20-Jun-19	367	420	12m	Buy	Ashit Desai
06-May-19	340	420	12m	Buy	Ashit Desai
09-Apr-19	356	400	12m	Buy	Ashit Desai
05-Feb-19	364	400	12m	Accumulate	Ashit Desai
01-Nov-18	320	390	12m	Accumulate	Ashit Desai
06-Aug-18	363	390	12m	Accumulate	Ashit Desai
03-May-18	312	332	12m	Hold	Ashit Desai
31-Oct-17	315	332	12m	Hold	Amit Purohit

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Consumer Goods & Retail



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Sector

Consumer Goods & Retail

Analyst bio

Ashit Desai holds a PGDM and FRM (US GARP) with 12 years of research experience on the sell side. His team currently covers 24 stocks in the Indian Consumer and Retail space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Consumer Goods & Retail	11.87	11.87	0%	0	100.00
Asian Paints	1.51	0.75	-50%	-76	6.33
Berger Paints	0.23	0.00	-100%	-23	0.00
Britannia Industries	0.64	0.92	43%	28	7.74
Colgate-Palmolive	0.31	0.38	20%	6	3.16
Dabur India	0.45	0.50	12%	5	4.23
Emami	0.12	0.00	-100%	-12	0.00
Godrej Consumer Products	0.40	0.47	19%	8	3.98
Hindustan Unilever	2.97	2.39	-19%	-57	20.16
ITC	2.23	2.47	11%	24	20.83
Marico	0.28	0.33	18%	5	2.81
Nestle India	0.94	0.76	-19%	-18	6.42
Pidilite Industries	0.36	0.00	-100%	-36	0.00
Radico Khaitan	0.00	0.38	NA	38	3.19
United Breweries	0.10	0.45	362%	35	3.75
United Spirits	0.00	0.29	NA	29	2.44
Varun Beverages	0.10	0.22	130%	13	1.89
ABFRL	0.08	0.28	252%	20	2.36
Jubilant FoodWorks	0.21	0.22	9%	2	1.89
Page Industries	0.18	0.00	-100%	-18	0.00
Shoppers Stop	0.00	0.00	NA	0	0.00
Titan Company	0.79	1.05	34%	26	8.83
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

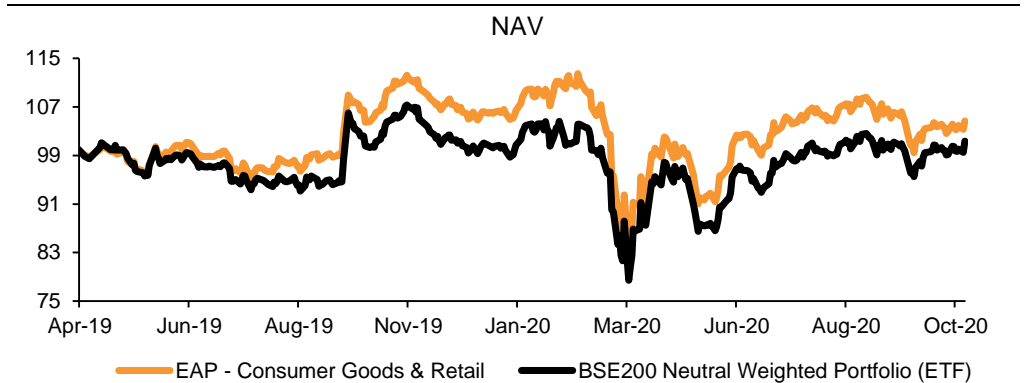
Sector portfolio NAV

	Base					Latest
	1-Apr-19	28-Jan-20	28-Apr-20	28-Jul-20	25-Sep-20	27-Oct-20
EAP - Consumer Goods & Retail	100.0	108.8	99.6	105.6	101.3	104.7
BSE200 Neutral Weighted Portfolio (ETF)	100.0	103.2	96.0	99.7	97.1	101.4

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 29 Oct 2020 02:51:03 (SGT)

Dissemination Date: 29 Oct 2020 02:52:03 (SGT)

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