

Strong demand revival across categories. Maintain Accumulate

- Marico's Q3FY21 revenues and EBITDA exceed, but APAT came in line with our estimates. India business posted 18% revenue growth with 15% volume increase.
- VAHO reported 21% value and volume growth – double digit volume growth after ten consecutive quarters. Sustainability of double digit growth would be key for margin performance, going ahead.
- Saffola continues to outperform with 26/17% value/volume growth. Consumer up-stocking helped the brand to post better growth during the quarter.
- GM contracted 220bps during the quarter due to sharp increase in copra prices. The company has implemented 5% price hike to mitigate inflation.
- We believe that the growth in Saffola would normalize here on, while VAHO is expected to improve on favorable base.
- We have tweaked our FY21/22/23E EPS estimates at Rs 9.2/9.8/10.4 respectively to factor in Q3 performance. Valuing the stock at 43x FY23E EPS to arrive at a TP of Rs 440. Maintain Accumulate.

APAT was in line; Revenue and EBITDA was a beat

Marico's revenue grew 16.3% YoY to Rs 21.2bn with robust demand trends across >95% of its portfolio. Domestic business reported 18% revenue growth with 15% volume increase. IB posted 11% surge in revenues. EBITDA increased by 10.7% YoY to Rs 4.1bn. EBITDA margin contracted by 100bps to 19.5% as 220bps increase in RM cost and 60bps rise in employee cost was partially offset by 100/80 bps decline in ad spends/ other expense respectively. APAT grew by 13.0% to Rs 3.1bn.

Price hike in Parachute to counter inflation

Parachute grew by 9% in value with 8% volume growth. The company has implemented price hikes to mitigate increase in copra prices. As the price hikes are implemented in the latter part of the quarter, actual impact on revenues would be visible in the ensuing quarters. We believe that the value growth in Parachute would increase sequentially due to prices hikes, however, GM should remain under pressure due to partial price pass-on in the near term.

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	21,220	18,240	16.3	19,890	6.7
Total Expense	17,090	14,510	17.8	16,000	6.8
EBITDA	4,130	3,730	10.7	3,890	6.2
Depreciation	360	320	12.5	330	9.1
EBIT	3,770	3,410	10.6	3,560	5.9
Other Income	240	290	(17.2)	270	(11.1)
Interest	70	120	(41.7)	80	(12.5)
EBT	3,940	3,580	10.1	3,420	15.2
Tax	820	820	0.0	690	18.8
RPAT	3,120	2,760	13.0	2,730	14.3
APAT	3,120	2,760	13.0	3,060	2.0
			(bps)		(bps)
Gross Margin (%)	46.9	49.1	(223)	48.0	(112)
EBITDA Margin (%)	19.5	20.4	(99)	19.6	(9)
NPM (%)	14.7	15.1	(43)	13.7	98
Tax Rate (%)	20.8	22.9	(209)	20.2	64
EBIT Margin (%)	17.8	18.7	(93)	17.9	(13)

CMP	Rs 411
Target / Upside	Rs 440 / 7%
NIFTY	13,818

Scrip Details

Equity / FV	Rs 1,291mn / Rs 1
Market Cap	Rs 531bn
	USD 7bn
52-week High/Low	Rs 433/ 234
Avg. Volume (no)	2,920,500
Bloom Code	MRCO IN

Price Performance	1M	3M	12M
Absolute (%)	1	13	23
Rel to NIFTY (%)	2	(4)	8

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	59.6	59.6	59.6
MF/Banks/FIs	23.7	23.7	24.2
FIIIs	12.0	12.4	10.2
Public / Others	4.6	4.4	6.1

Valuation (x)

	FY21E	FY22E	FY23E
P/E	44.7	41.8	39.6
EV/EBITDA	31.7	30.0	28.6
ROE (%)	36.6	34.2	31.8
RoACE (%)	35.8	33.0	30.8

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	78,407	85,121	91,988
EBITDA	16,519	17,328	18,007
PAT	11,880	12,702	13,416
EPS (Rs.)	9.2	9.8	10.4

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Other segments posted improved performance

Other segments posted improved performance during the quarter – (1) Value added hair oils (VAHO) grew 21% both in Value and volume terms with likely market share gains, (2) Saffola posted 26%/17% in value/volume growth, helped by increased penetration, (3) Premium hair nourishment and male grooming portfolio exhibited gradual revival QoQ. VAHO posted double growth after 10 consecutive quarters.

Foods business gaining traction

Marico's foods business posted 74% growth during the quarter led by 50% increase in Saffola Oats franchise. Increase in household penetration is helping the brand to grow in the domestic market. Further, Saffola honey gained double digit market share in the MT and 20% in e-com channels within six months of launch. In Q2, Marico had launched Saffola Arogyam Chyawan Amrut and Kadha Mix and Golden Turmeric Milk Mix in the immunity segment, which are expected to report faster growth in respective categories.

Gains in Bangladesh and Africa

IB posted 8% CC growth as -1%/-3% decline in MENA and South East Asia respectively (cc terms) was completely offset by +15%/+7% growths in Bangladesh/ South Africa respectively. In Bangladesh, non-coconut oil portfolio reported 27% growth and is expected to maintain double digit growth in the geography, going ahead. Non-Coconut oil portfolio now contributes 40% compared to 25% in FY18.

Exhibit 1: Actual V/s DART estimates

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	21,220	20,298	4.5	Strong demand trends across >95% of the portfolio amidst improving consumer confidence and decline in Covid-19 cases
EBITDA	4,130	3,883	6.4	
EBITDA margin %	19.5	19.1	30	
APAT	3,120	3,002	3.9	

Source: Company, DART

Exhibit 2: Change in estimates

	FY21E			FY22E			FY22E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Net Revenue	78,407	75,724	3.5	85,121	81,680	4.2	91,988	88,260	4.2
EBITDA	16,519	15,922	3.7	17,328	16,095	7.7	18,007	16,727	7.7
EBITDA Margin (%)	21.1	21.0	0 bps	20.4	19.7	70 bps	19.6	19.0	60 bps
APAT	11,880	12,025	(1.2)	12,702	12,419	2.3	13,416	13,180	1.8
EPS	9.2	9.3	(1.2)	9.8	9.6	2.3	10.4	10.2	1.8

Source: Company, DART

We have revised our FY21/22/23E revenue estimates to factor in increase in product prices. However, we have increased margins for FY22/23E to factor in anticipated decline in copra prices. EPS estimates have declined as we have reduced our other income estimates, which was significantly lower in Q3.

Exhibit 3: 9MFY21 - Consolidated

Particulars (Rs.mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Net Sales	21,220	18,240	16.3	19,890	6.7	60,360	58,190	3.7
Total Expenditure	17,090	14,510	17.8	16,000	6.8	47,670	46,320	2.9
RM Cost	11,270	9,280	21.4	10,340	9.0	31,500	29,860	5.5
Employee Exp	1,480	1,160	27.6	1,370	8.0	4,200	3,700	13.5
Selling & Admin	1,930	1,850	4.3	1,890	2.1	5,190	6,010	(13.6)
Other Exp	2,410	2,220	8.6	2,400	0.4	6,780	6,750	0.4
PBIDT (Excl OI)	4,130	3,730	10.7	3,890	6.2	12,690	11,870	6.9
Other Income	240	290	(17.2)	270	(11.1)	700	920	(23.9)
Depreciation	360	320	12.5	330	9.1	1,030	1,020	1.0
EBIT	4,010	3,700	8.4	3,830	4.7	12,360	11,770	5.0
Interest	70	120	(41.7)	80	(12.5)	240	370	(35.1)
Exceptional Items	-	-	NA	(330)	NA	310	(190)	NA
PBT	3,940	3,580	10.1	3,420	15.2	12,430	11,210	10.9
Tax	820	820	0.0	690	18.8	2,680	2,780	(3.6)
RPAT	3,120	2,760	13.0	2,730	14.3	9,730	8,440	15.3
APAT	3,120	2,760	13.0	3,060	2.0	9,420	8,630	9.2
EPS (Reported PAT)	2.4	2.1	13.0	2.4	2.0	7.3	6.7	9.2
			bps		bps			bps
Gross Profit (%)	46.9	49.1	(220)	48.0	(110)	47.8	48.7	(90)
Ad spends (%)	9.1	10.1	(100)	9.5	(40)	8.6	10.3	(170)
Employee Cost (%)	7.0	6.4	60	6.9	10	11.2	11.6	(40)
Other Exp (%)	11.4	12.2	(80)	12.1	(70)	11.2	11.6	(40)
EBITDA (%)	19.5	20.4	(100)	19.6	(10)	21.0	20.4	60
PAT (%) Adj	14.7	15.1	(40)	15.4	(70)	15.6	14.8	80

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)	35	1
Saffola	Super Premium refined Edible Oils	76	1
VAHO (Parachute Beliphool, Parachute Advanced Cooling Oil, Nihar Naturals)	Value added Hair oil (Bangladesh)	23	2
Saffola Oats *	Oats (India)	33	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	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
(Vol growth)									
Parachute Coconut Oil	9	6	9	(1)	(2)	(8)	(11)	10	8
Value Added Hair Oil (VAHO)	7	1	7	0	(7)	(11)	(30)	4	21
Saffola	2	18	3	1	11	25	16	20	17

Source: DART, Company

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

Category / Business	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Indicative share to Group's Turnover basis FY20 results
Group	15	9	7	0	(2)	(7)	(11)	9	16	100
India business (incl youth brands)	13	7	6	(3)	(5)	(8)	(15)	8	18	77
Parachute Coconut Oil (rigid packs)	19	4	8	(4)	(5)	(12)	(12)	8	9	38
Value added hair oil	19	7	11	(6)	(17)	(18)	(32)	(1)	21	24
Saffola (refined edible oil)	8	15	6	5	13	25	16	16	26	20
International business	21	14	9	8	8	(5)	2	12	11	23

Source: DART, Company

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

Region	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	% of overseas business (in FY20)
Bangladesh	16	12	11	15	15	6	10	16	15	49
MENA	8	5	2	(3)	(4)	(50)	(27)	(6)	(1)	12
South Africa	0	0	6	(2)	3	(26)	(25)	16	7	7
South East Asia	13	4	8	1	3	5	(17)	(4)	(3)	26

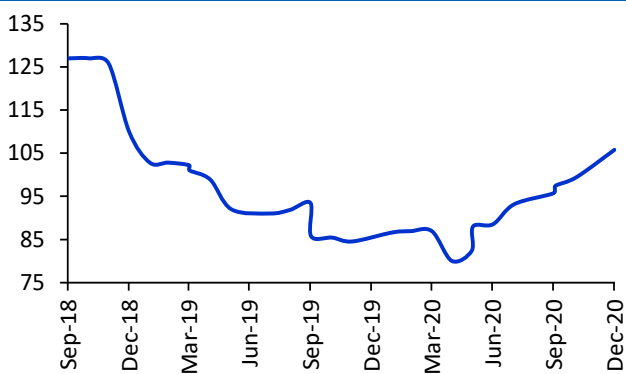
Source: DART, Company

Concall highlights

- During Q3FY21, general trade sales in urban and rural grew by 10% and 24% in volume terms, respectively. Marico expects to increase rural stockist by +30% with a focus on expanding direct reach. Marico reaches 5.1 mn retail outlets by its nationwide distribution network, of which 0.9-1 mn outlets are serviced directly.
- Modern Trade returned to pre-COVID levels with rising footfalls (flat YoY). CSD recovered sequentially, however registering a decline of 10% YoY. E-Commerce grew exponentially at 88% YoY, contributing 8% to the overall turnover, compared to 5% last year.
- Copra prices increased 26% YoY and 16% QoQ in Q3FY21. To counter the inflationary trend in copra prices to a certain extent, Marico increased prices effectively by ~5% in Q3FY21. Marico is witnessing early signs of prices cooling off 10% from peak in December end and expects 10-15% correction as the season sets in. In FY22E, the company expects copra prices to be flat on an annualized basis owing to a healthy crop outlook.
- Rice bran oil grew 28% YoY. Liquid Paraffin (LLP) and HDPE were up by 12% and 18% respectively on a YoY basis. Owing to inflation in key raw materials, the company took price increases of ~15% in Saffola oil in multiple rounds over Q3FY21. Company believes that the inflation is transient and expect pricing to come down over the next few months.
- Marico continued to operate at reduced distributor inventory levels in Q3 driven by SKU rationalization. Inventory turnover days reduced from 61 in Q3FY20 to 49 days in Q3FY21. Debtor turnover improved from 36 days in Q3FY20 to 23 days in Q3FY21 due to reduced modern trade and CSD contribution and stricter credit control in GT. Increase in payables was on account of supply finance program. Consequently, net working capital days improved to 21 from 32 days and is expected to remain ~24-25 days.

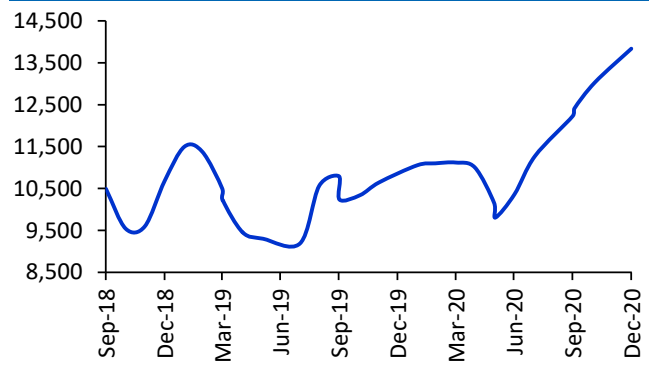
- Saffola Honey, with its differentiated positioning, has been scaling up across channels. Within 6 months of launch, it exhibited close to digit market share in key modern trade chains and > 20% market share in E-Commerce. Saffola Honey is likely to clock Rs 1bn revenue next year. Management indicated that it will have fair understanding of performance of Saffola Arogyam Chyawan Amrut (launched in Oct'20), by May'21.
- Foods portfolio grew 74% YoY in Q3FY21. The Oats franchise grew by 50% in value terms backed by increased penetration and a superior value proposition. Marico also entered the plant-based protein category with the launch of Saffola Mealmaker Soya Chunks in select markets. Foods business is likely to clock Rs 3.5bn by FY21E and Rs 4.5-5bn by FY22E.
- Employee costs grew 28% YoY in Q3 as employee cost pertaining to acquisition of Beardo is not in the base. Also, there was higher incentive provision due to better performance, whereas in the base quarter, it was negligible.
- The capex is estimated to be ~ 1.25-1.5bn in FY21E.
- Saffola refined edible oils delivered double digit volume growth for the fifth consecutive quarter (17% in Q3FY21). 65% of the growth was attributable to increase in overall penetration. The company expects to sustain high single digit volume growth on high base.
- Marico is confident of delivering double-digit growth in VAHO portfolio over the medium-term with healthy share gains.

Exhibit 8: Price trend of HDPE Rs / kg



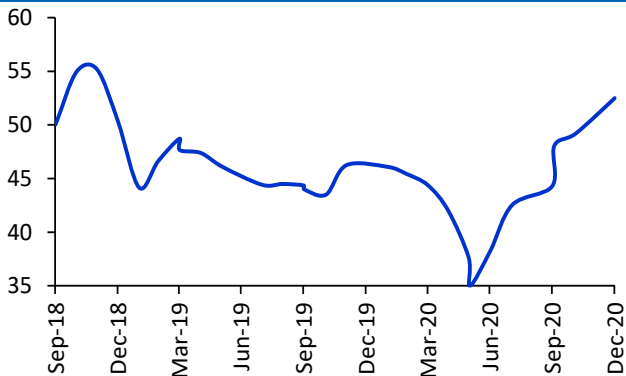
Source: DART, Company

Exhibit 9: Price trend of copra Rs /100kg



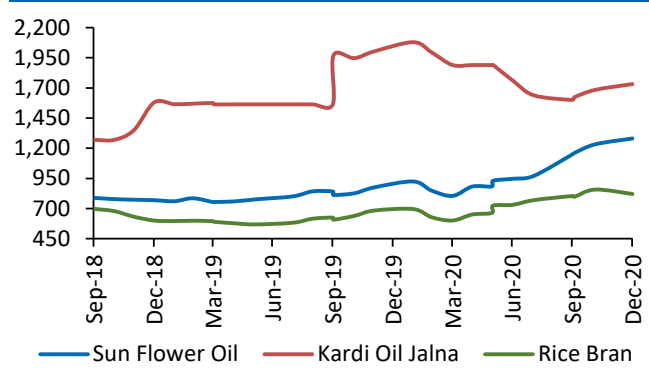
Source: DART, Company

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	78,407	85,121	91,988
Total Expense	58,460	61,887	67,793	73,981
COGS	37,450	40,526	44,259	48,060
Employees Cost	4,780	5,017	5,280	5,564
Other expenses	16,230	16,344	18,255	20,357
EBIDTA	14,690	16,519	17,328	18,007
Depreciation	1,400	1,611	1,693	1,764
EBIT	13,290	14,908	15,635	16,242
Interest	500	564	588	612
Other Income	1,240	1,030	1,347	1,686
Exc. / E.O. items	(290)	0	0	0
EBT	13,740	15,374	16,394	17,316
Tax	3,310	3,296	3,484	3,682
RPAT	10,210	11,880	12,702	13,416
Minority Interest	220	198	208	219
Profit/Loss share of associates	0	0	0	0
APAT	10,500	11,880	12,702	13,416

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	33,366	38,291	43,608
Net Worth	30,230	34,656	39,582	44,898
Total Debt	3,350	3,490	3,490	3,490
Net Deferred Tax Liability	(1,530)	(77)	(83)	(88)
Total Capital Employed	32,180	38,397	43,525	49,056

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	35,673	41,569	47,976
Inventories	13,800	15,835	16,712	17,653
Receivables	5,390	5,097	5,150	5,553
Cash and Bank Balances	2,790	6,662	11,529	16,220
Loans and Advances	5,150	4,170	4,268	4,640
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	16,619	12,215	13,291	14,402
Payables	9,780	10,483	11,381	12,299
Other Current Liabilities	6,839	1,732	1,910	2,104
		<i>sub total</i>		
Net Current Assets	16,791	23,458	28,278	33,574
Total Assets	32,180	38,397	43,525	49,056

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	48.8	48.3	48.0	47.8
EBIDTA Margin	20.1	21.1	20.4	19.6
EBIT Margin	18.2	19.0	18.4	17.7
Tax rate	24.1	21.4	21.3	21.3
Net Profit Margin	14.0	15.2	14.9	14.6
(B) As Percentage of Net Sales (%)				
COGS	51.2	51.7	52.0	52.2
Employee	6.5	6.4	6.2	6.0
Other	22.2	20.8	21.4	22.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	26.6	26.5	26.6	26.5
Inventory days	69	74	72	70
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	109	121	133
FA T/O	5.3	5.6	6.0	6.4
(D) Measures of Investment				
AEPS (Rs)	8.1	9.2	9.8	10.4
CEPS (Rs)	9.2	10.5	11.2	11.8
DPS (Rs)	7.9	5.8	6.0	6.3
Dividend Payout (%)	97.6	62.7	61.2	60.4
BVPS (Rs)	23.4	26.8	30.7	34.8
RoANW (%)	33.9	36.6	34.2	31.8
RoACE (%)	35.1	35.8	33.0	30.8
RoAIC (%)	47.7	48.8	49.1	50.1
(E) Valuation Ratios				
CMP (Rs)	411	411	411	411
P/E	50.6	44.7	41.8	39.6
Mcap (Rs Mn)	531,100	531,100	531,100	531,100
Mcap/ Sales	7.3	6.8	6.2	5.8
EV	525,380	524,018	519,150	514,460
EV/Sales	7.2	6.7	6.1	5.6
EV/EBITDA	35.8	31.7	30.0	28.6
P/BV	17.6	15.3	13.4	11.8
Dividend Yield (%)	1.9	1.4	1.5	1.5
(F) Growth Rate (%)				
Revenue	(0.3)	7.2	8.6	8.1
EBITDA	10.8	12.5	4.9	3.9
EBIT	11.2	12.2	4.9	3.9
PBT	(5.0)	11.9	6.6	5.6
APAT	13.4	13.1	6.9	5.6
EPS	13.4	13.1	6.9	5.6

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	12,160	10,540	15,232	15,402
CFI	(3,780)	1,210	(2,000)	(2,000)
CFF	(11,110)	(7,878)	(8,364)	(8,712)
FCFF	10,300	8,920	13,232	13,402
Opening Cash	5,520	2,790	6,662	11,529
Closing Cash	2,790	6,662	11,529	16,220

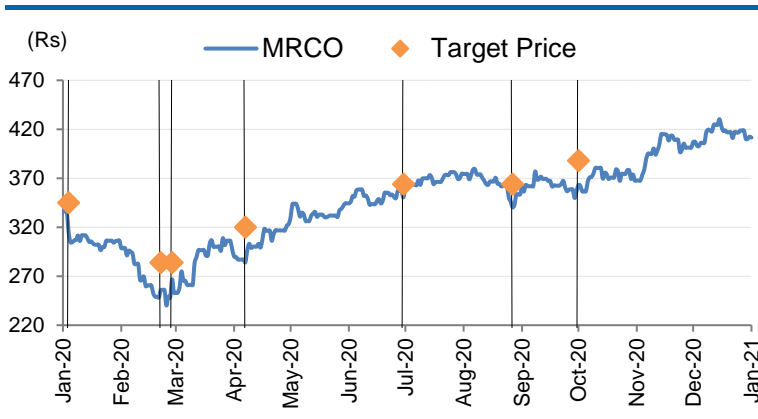
E – Estimates

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
Oct-20	Accumulate	388	363

*Price as on recommendation date

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