Sharekhan by BNP PARIBAS

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Marico Limited

Good Q3; Focus sustains on delivering volume-led growth

Consumer Goods	Sharekhan code: MARICO	Result Update

Stock Update

Summary

- Marico registered steady performance with Q3FY2021 revenues growing by 16.3%y-o-y, driven by improved growth across the domestic portfolio.OPM decreased by 100 bps to 19.5% mainly on account of a sharp increase in copra and other edible oil prices.
- Domestic sales volumes grew by 15% in Q3FY2021, led by 8% volume growth in Parachuterigid packs, strong 21% volume growth in value-added hair oil (VAHO) portfolio, and 17% volume growth in Saffola edible oil.
- Management is targeting to achieve 8%-10% volume growth in the domestic business (Q4 will be in double digits due to lower base). Copra prices have corrected from their peak and are expected to remain flat on a y-o-y basis in FY2022. This along with judicious price hikes would aid margins to remain stable.
- We have fine tuned our earnings estimates for FY2021/FY2022/FY2023E. We retain Buy on the stock with an unchanged PT of Rs. 477.

3R MATRIX

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

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 412**	
Price Target: **Rs. 477**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

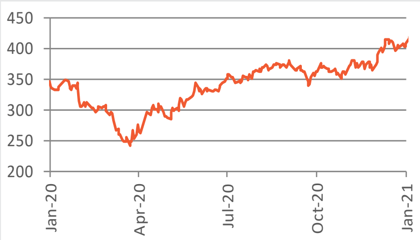
Company details

Market cap:	Rs. 53,199 cr
52-week high/low:	Rs. 421/234
NSE volume: (No of shares)	29.8 lakh
BSE code:	531642
NSE code:	MARICO
Free float: (No of shares)	52.2 cr

Shareholding (%)

Promoters	59.6
FII	24.5
DII	10.0
Others	5.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.86	15.61	17.71	21.9
Relative to Sensex	1.93	-1.39	-7.27	6.7

Sharekhan Research, Bloomberg

Marico's consolidated revenue grew by 16% in Q2FY2021, driven by 15% volume growth in the domestic business and 8% constant currency growth in the international business.With improving consumer sentiments and supply chain operations reaching near pre-COVID levels, 95% of the company's product portfolio witnessed robust demand during the quarter. General trade grew steadily with rural continuing to outpace urban growth. The momentum in e-commerce accelerated further (contributes 8% to overall sales) and modern trade recovered to pre-Covid levels in Q3. The core portfolio comprising Parachute rigid packs, Saffola edible oil, and value-added hair oils (VAHO) registered volume growth of 8%, 17%, and 21%, respectively, during the quarter. VAHO posted strong recovery on a q-o-q basis, with broad based double-digit growth across the portfolio, led by market share gains. The foodsportfolio continues to gain traction and grew by 74% in value terms. The business is likely to contribute Rs. 325 crore-350crore in FY2021 (and Rs. 450 crore-500crore in FY2022). Globally, Bangladesh registered constant currency growth of 15%, while South Africa posted strong recovery on a sequential basis and registered 7% constant currency growth. Consolidated gross margins decreased by 223 bps to 46.9% mainly on account of higher copra and other edible oil prices. However, lower advertising spends and cost-saving measures arrested the significant fall in OPM by 99 bps to 19.5%. Marico is targeting domestic volume growth of 8%-10%, with volume growth of 6%-8% in Parachute rigid pack, high single-digit volume growth in Saffola edible oils, and double-digit growth in VAHO portfolio. Copra prices have corrected from their peak by 10% and are expected to further correct by 10%-15% with the new flush season. The company expects copra prices to remain flat on a y-o-y basis. Further, the increase in other edible oil prices has been mitigated by ~15% price hike in Saffola edible oil portfolio. This along with cost-saving initiatives (expected cost saving of Rs. 150crore at domestic level and Rs. 50crore at international level) will help OPM to remain stable at 20%-21% in the coming years.

Key positives

- Saffola registered the fifth consecutive quarter of double-digit volume growth; VAHO recovered to double volume growth of 21%.
- Newly launched Saffola honey gained good traction and will be a Rs. 100crore brand by FY2022.
- Rationalising SKUs, supply chain efficiencies, and lowering credit period aided working capital days to reduce to 21 days from 32 days last year.

Key negatives

- Higher copra and edible oil prices led to a sharp decline of 223 bps in gross margin.

Our Call

View: Retain Buy with unchanged PT of Rs. 477: We have fine-tuned our earnings estimates for FY2022/FY2023 to factor in little higher-than-expected volume growth in the core portfolio and higher revenue for the foods business. Gaining market share in the core domestic portfolio through new launches, scaling up the food business, and improving growth prospects in countries such as Bangladesh and Vietnam are some of the key growth levers for Marico in the near to medium term. Raw-material headwinds will be mitigated by judicious cost-saving measures and careful price hikes in the near future. The stock is currently trading at 33.5x its FY2023E earnings. We maintain our Buy recommendation on the stock with an unchanged PT of Rs. 477.

Key Risks

Any significant increase in key input prices from current levels or heightened competition in core categories would act as a key risk to our earnings estimates.

Valuations (Consolidated) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	7,334	7,315	7,808	8,800	9,794
OPM (%)	17.3	19.9	20.8	21.2	21.8
Adjusted PAT	939	1,069	1,183	1,377	1,586
Adjusted EPS (Rs.)	7.3	8.3	9.2	10.7	12.3
P/E (x)	56.6	49.7	44.9	38.6	33.5
P/B (x)	17.7	17.6	16.6	15.2	13.6
EV/EBIDTA (x)	41.3	36.1	32.4	28.1	24.4
RoNW (%)	33.9	35.5	38.1	41.2	42.9
RoCE (%)	40.6	41.3	45.7	52.1	54.4

Source: Company; Sharekhan estimates

Domestic volumes grew by 11%; Higher input prices affected margins: Consolidated revenue grew by 16% y-o-y to Rs. 2,122 crore, driven by domestic volume growth of 16%. India business grew by 17% y-o-y, reporting revenue of Rs. 1,667 crore with broad-based growth across all categories. The international business grew by 8% y-o-y in constant currency terms. Rise in input prices of certain key inputs such as copra and other edible oils resulted in consolidated gross margins contracting by 223 bps to 46.9%. Rationalised advertisement spends in discretionary categories and aggressive cost-control measures resulted in OPM declining by just 99 bps y-o-y. OPM of India business was lower at 18.2% in Q3FY2021, affected by a sharp increase in input cost, while OPM of the international business stood at 21.3%. Consolidated operating profit grew by 10.7% y-o-y to Rs. 413crore and PAT grew by 13%y-o-y to Rs. 312crore

Strong across the portfolio with healthy recovery in VAHO; Foods continue to scale-up

- **Coconut Oil –Parachute Rigids packs recovered volume growth stood at 8%:**Parachute rigid pack sales grew by 8% in volume terms and 9% in value terms, driven by shift to trusted brands and its strong leadership position. Rationalisation of consumer offers enabled the brand to counter the inflationary trend in copra prices to a certain extent, with prices effectively increasing by ~5% in Q3.The brand reinforced its hygienic processing and safety credentials in the minds of consumers with the launch of the 'Untouched by hand' campaign. Marico intends to expand its direct distribution, especially in rural geographies. The company expects 5%-7% volume CAGR in Parachute Rigids in the medium term.

- **Saffola continued its robust growth momentum:** Sales volume of Saffola refined edible oil grew by 17% in Q2FY2021 (5th consecutive quarter of double-digit volume growth), driven by in-home consumption trend and an increase in household penetration. Two-thirds of volume growth came from enhanced penetration, while one-third of volume growth came from new recruiters. Owing to inflation in key raw materials, the company took price increases of ~15% in multiple rounds over Q3 to recover a part of the cost inflation. As consumption will normalise, the company expects to sustain high single-digit volume growth over the medium term. The recent price increase is unlikely to have any impact on volume growth, as consumers are shifting to trusted brands and the company has taken many corrective measures in terms of media activities and brand promotion, which will help in gaining good traction in the near term.

- **VAHO bounced back strongly:** VAHO registered strong volume growth of 21% after a soft H1, backed by double-digit volume growth in most brands in the franchise. General trade led the growth with rural outperforming urban. Modern trade also returned to pre-COVID levels. The company estimates a healthy market share gain in the portfolio. With rural demand expected to stay ahead of urban demand (with people migrating from urban to rural adding to growth) and non-sticky portfolio seeing strong traction, VAHO is expected to maintain the double-digit growth momentum in the coming quarters.

- **Foods portfolio grew by 75% in value terms:** The foods portfolio posted robust value growth of 74% y-o-y in Q3FY2021. The oats franchise continued to ride the health tailwind and posted value growth of 50%. Saffola Honey scaled up across channels. The brand has been tracking well ahead of expectations, despite facing intermittent capacity constraints during the quarter, exiting with close to double-digit market share in key modern trade chains and crossing a 20% market share in e-commerce. The company expects foods portfolio to report revenue of Rs. 325 crore-350crore in FY2021 and scale it up to Rs. 450 crore-500crore in FY2022. With increased scale of business, profitability of the business will improve in the coming years.

Good growth in Bangladesh and South Africa; Southeast Asia and MENA markets continue to remain soft

International business revenue grew by 11% y-o-y (8% growth in constant currency [CC] terms) mainly driven by 15% revenue growth in Bangladesh and 7% growth in South Africa. Growth in Bangladesh was largely led by the non-coconut oil portfolio (contributes 40% to revenue), which grew by 27% in CC terms in Q3FY2021. Newer ranges of Just for Baby and Parachute Naturale shampoos have met launch action standards. Steady growth in South Africa was driven by stable growth in the healthcare and hair care portfolios. Southeast Asia reported a revenue decline of 3% in CC terms due to the decline in Vietnam, as the home and personal care segment slowed down. The company has relevant steps to improve the growth prospects of the Vietnam business. MENA business recorded soft 1% decline in constant currency terms. While Middle East remained slow, Egypt was back on its growth trajectory. OPM of the international business expanded to 21.5% in Q3FY2021 from 20.5% in Q3FY2020 on account of tight cost management across all geographies. The company aims at reporting organic broad-based double-digit CC growth over the medium term.

Other key highlights

- Copra prices and other edible oils such as rice bran oil prices had increased during the quarter. However, copra prices have corrected by 10% from their peak; and with new flush coming in the market, prices are expected to further correct by 10%-15%. Overall, the company does not expect any inflation in copra prices for FY2022. The company has taken price hike of 5% in parachute coconut to mitigate the near-term pressure. Further, the company has taken price hike of 15% in Saffola edible portfolio to mitigate the impact of the sharp increase in edible oil prices.
- The company's medium term Go-to-Market (GTM) strategy focuses on improving the width and depth of its distribution. The company is investing behind upgrading its distribution infrastructure in urban general trade to ensure profitability of channel partners and expanding direct reach in rural markets. Continuous focus on expanding direct reach has enabled developing a network of 6,200 stockists in the rural market, growth of 30% since FY2019; and to further strengthen and tap deeper, the company aims to grow the network by ~20% in the next couple of years.
- General trade performed consistently with sales in urban and rural markets up by 10% and 24% in volume terms, respectively. Modern trade returned to pre-COVID levels with rising footfalls. E-commerce delivered exponential growth of 88% y-o-y, now contributing 8% to the overall turnover. CSD recovered sequentially, however posting a decline of 10% y-o-y.

Results (Consolidated) Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Net sales	2122.0	1824.0	16.3	1989.0	6.7
Expenditure	1709.0	1451.0	17.8	1600.0	6.8
Operating profit	413.0	373.0	10.7	389.0	6.2
Other income	24.0	29.0	-17.2	27.0	-11.1
Interest expenses	7.0	12.0	-41.7	8.0	-12.5
Depreciation	36.0	32.0	12.5	33.0	9.1
PBT	394.0	358.0	10.1	375.0	5.1
Tax	82.0	82.0	0.0	81.0	1.2
PAT (before MI)	312.0	276.0	13.0	294.0	6.1
Minority Interest (MI)	0.0	0.0	-	0.0	
Adjusted PAT (After MI)	312.0	276.0	13.0	294.0	6.1
Extraordinary items	0.0	0.0	-	21.0	-
Reported PAT	312.0	276.0	13.0	273.0	14.3
Adjusted EPS (Rs.)	2.4	2.1	13.0	2.3	6.2
			bps		bps
GPM (%)	46.9	49.1	-223	48.0	-112
OPM (%)	19.5	20.4	-99	19.6	-9

Source: Company; Sharekhan Research

Result snapshot (Standalone) Rs cr

Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Net Sales	1667.0	1434.0	16.2	1550.0	7.5
Operating profit	304.0	286.0	6.3	279.0	9.0
Adjusted PAT	293.0	269.0	8.9	339.4	-13.7
GPM(%)	42.0	45.7	-368	43.3	-130
OPM(%)	18.2	19.9	-171	18.0	24

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector outlook - Foods gaining strong traction; Hair care on recovery mode

The domestic FMCG market's growth recovered to 5% in Q3FY2021 from 1% in Q2FY2021. Strong pick in rural demand, general trade seeing normalisation in the business, and higher sales through online channels aided most consumer goods companies to recover sales to pre-Covid levels in most categories. Hair care products are re-gaining momentum (especially at the bottom of the pyramid). Consumers shifting from loose to branded hair oil would help large companies 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. Increased key input prices would be mitigated by judicious pricing and cost-saving initiatives in the coming quarters.

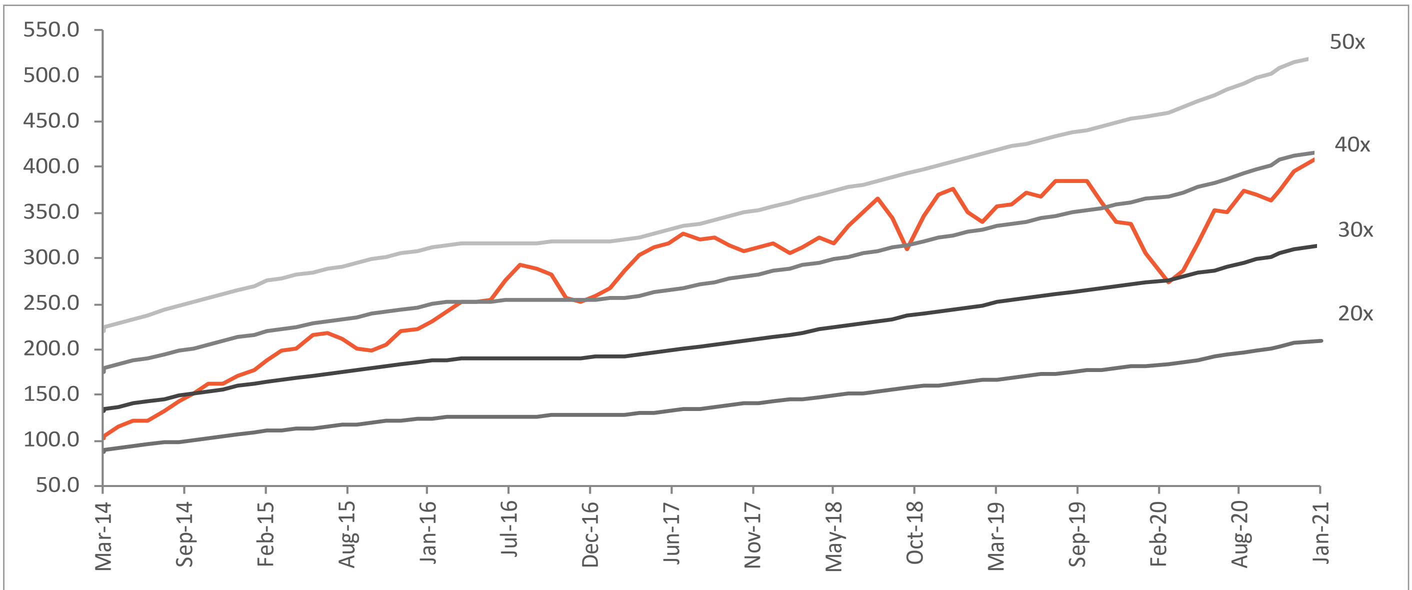
■ Company outlook - Domestic and international business to post better performance in the coming quarters

With recovery in sales volume of the core domestic portfolio, Marico posted 15% volume growth in the domestic business. The company expects Parachute rigid pack to achieve volume growth of 5%-7%; Saffola edible oil to achieve volume growth in high single digits; and VAHO to maintain double-digit volume growth momentum in the coming quarters. On the international front, Bangladesh continues to perform well, Vietnam has recovered, and MENA region is getting out of tough times. Copra prices have corrected from their peak by 10% and are expected to further correct by 10%-15% with the new flush season. The company expects copra prices to remain flat on a y-o-y basis. Further, the increase in other edible oil prices hasbeen mitigated by ~15% price hike in Saffola edible oil portfolio. This along with cost-saving initiatives (expected cost saving of Rs. 150crore at the domestic level and Rs. 50crore at the international level) will help OPM to remain stable at 20%-21% in the coming years.

■ Valuation - Retained Buy with an unchanged PT of Rs. 477

We have fine-tuned our earnings estimates for FY2022/FY2023 to factor in little higher-than-expected volume growth in the core portfolio and higher revenue for the foods business. Gaining market share in the core domestic portfolio through new launches, scaling up the food business, and improving growth prospects in countries such as Bangladesh and Vietnam are some of the key growth levers for Marico in the near to medium term. Raw-material headwinds will be mitigated with judicious cost-saving measures and careful price hikes in the near future. The stock is currently trading at 33.4x its FY2023E earnings. We maintain our Buy recommendation on the stock with an unchanged PT of Rs. 477.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Dabur	55.7	45.6	38.6	45.1	36.7	30.7	26.9	29.2	29.4
Hindustan Unilever	68.3	51.8	45.2	46.4	37.5	32.6	37.1	28.3	30.7
Marico	44.9	38.6	33.5	32.4	28.1	24.4	45.7	52.1	54.4

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 the niche category, and scaling 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& Non-Executive Director
Saugata Gupta	Managing Director and CEO
Pawan Agrawal	Chief Financial Officer
Hemangi Ghag	Company Secretary& Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	First State Investment ICVC	5.3
2	First State Global Umbrella Fund	4.0
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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