



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. 488	
Price Target: Rs. 562	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

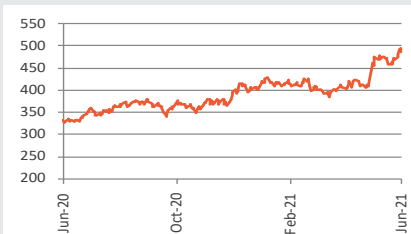
Company details

Market cap:	Rs. 63,012 cr
52-week high/low:	Rs. 498/320
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	24.0
DII	10.1
Others	6.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.2	21.8	21.8	47.0
Relative to Sensex	-3.2	18.1	6.7	-5.3

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy on Marico with revised PT of Rs. 562. Recent correction in copra prices, steady growth in core categories and a scale up in foods business improves earning visibility.
- Management has maintained its medium term target of achieving 8-10% volume growth in the domestic business. This will be driven by deepening penetration in rural market, market share gains in core categories and new product launches.
- Copra prices have corrected by 15% from their recent peak and are expected to remain flat along with softness in other edible oils in FY2022. Consolidated OPM would stay at 19-20%.
- Stock saw a healthy run-up of ~19% post Q4 results and positive management commentary. It is currently trading at 40x its FY2023E earnings.

Revenues grew at CAGR of 6% over FY2016-21 affected by multiple events such as demonetisation, implementation of GST and the COVID-19 outbreak which put regular break on the growth in past few years. To achieve steady growth, the company took several strategic initiatives 1) build a strong value-added hair portfolio (straddling the pyramid) 2) branded Saffola edible oil as one of the healthier cooking oils in India and 3) scaled up foods business with sustained new product launches, 4) enhanced its focus on improving penetration in the rural market and 5) better growth prospects in key international markets (including Bangladesh and South East Asia). These initiatives played a key role in strong recovery post disrupted in Q1FY2021, helping Marico to achieve 10% revenue growth. Parachute coconut oil and Saffola edible oil registered a volume growth of 6% and 17%, respectively in FY2021. The foods business crossed Rs. 300-crore mark and is continuing its journey to become a Rs. 500-crore business by FY2023. Value-added hair oil sales stood flat in FY2021. However, the medium-term outlook is strong with market share gains and strong traction in new launches. - VAHO category is expected to clock double-digit growth in the medium term. The management has maintained its medium-term target of 8-10% domestic volume growth, with volume growth of 5-7% in the Parachute rigid pack, high single-digit volume growth in Saffola edible oils, and double-digit growth in the VAHO portfolio. Market share gains and wider distribution in rural India (scaling distribution reach by 25% p.a.) would help the company to achieve steady growth in the medium term. International business is expected to grow in double digit with non-coconut oil portfolio is expected to perform well in Bangladesh and recovery in growth in the markets such as South East Asia and South Africa. Copra prices corrected by 15% from its peak in April and are expected further correct because of better supply in the market. Further, edible oil prices are expected to stabilise and correct in the quarters ahead. This would lead to raw-material inflation stay flat in FY2022 and be lower in FY2023. This along with price hike of 9% in Parachute and 50% in Saffola edible oil would lead to sequential improvement in OPM. On the balance sheet front, the company's net working capital days reduced by 18 days and cashflows from operation improved by Rs. 712 crore to Rs. 1,682 crore in FY2021. Cash & cash equivalents stood at Rs. 1,707 crore.

Our Call

View: Maintain Buy with revised target price of Rs. 562 - Marico is the market leader in seven out of eight categories in presence. It is a dominant player in the domestic hair market and edible oils market on back of its strong brands. The company is focusing on becoming strong play in the foods spaces and targets revenues of Rs. 800-1,000crore by FY2025. Gaining market share in the core domestic portfolio through new launches, scaling up the foods business, and improving growth prospects in countries such as Bangladesh and Vietnam are somekey growth levers for Marico in the near to medium term. Inflationary trends are receding and OPM is expected to see improvement from H2FY2022. We expect Marico's revenues and PAT to grow at CAGR of 11% and 14% over FY2021-23. The stock is currently trading at 40.1x its FY2023E earnings. We maintain a Buy recommendation on the stock with a revised price target of Rs. 562.

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.

Valuation (consolidated)

Particulars	FY20	FY21E	FY22E	Rs cr FY23E
Revenue	7,315	8,048	8,996	10,147
OPM (%)	19.9	19.7	19.2	20.3
Adjusted PAT	1,069	1,183	1,318	1,575
Adjusted EPS (Rs.)	8.3	9.2	10.2	12.2
P/E (x)	59.0	53.4	47.9	40.1
P/B (x)	20.9	19.5	18.2	16.3
EV/EBIDTA (x)	42.9	38.9	35.8	29.8
RoNW (%)	35.5	37.8	39.3	42.9
RoCE (%)	41.3	41.0	45.5	53.1

Source: Company; Sharekhan estimates

Outlook and Valuation

■ Sector view - Long-term growth prospects intact

We believe the shift in demand for branded products, rural demand staying ahead of urban demand, gradual recovery in out-of-home categories, and new product launches remain key catalysts for revenue growth in the near to medium term. In the current environment, with rising COVID-19 cases and localised lockdown, demand for packaged food products is expected to increase. Consumer good companies have adequately stocked up products at warehouse levels and with dealers/distributors to avoid any supply disruption. Raw-material prices have been rising in the recent past and sustenance of this trend will put pressure on margins in the near term. The ability of consumer goods companies to pass on input price increase, sustained benefits of cost-saving initiatives, and judicious media spends would determine the level of profitability growth in the coming quarters. The structural growth story of the domestic consumer goods market is intact with lower per capita consumption of products as compared to other countries, lower penetration in rural markets, opportunities to launch new differentiated products, and gaining market share from smaller players.

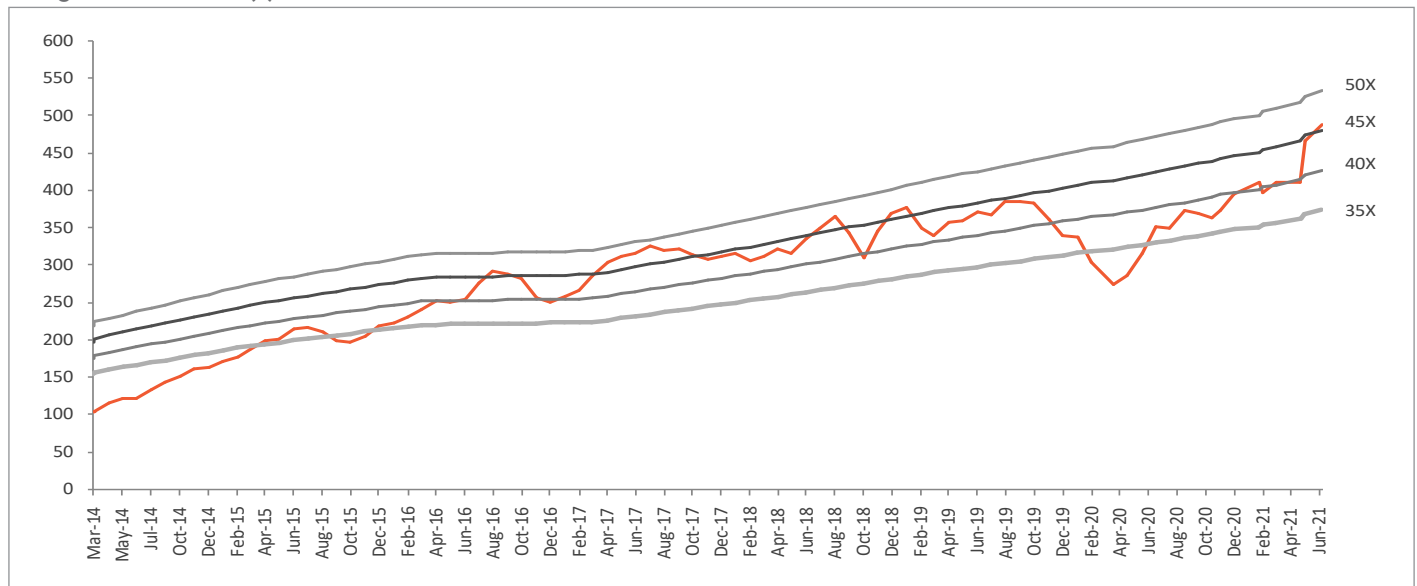
■ Company outlook - Maintain volume growth target of 8-10% for the medium term

The company has maintained its medium-term target of 8%-10% domestic volume growth 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. Market share gains and increased distribution in rural India (scaling distribution reach by 25% per annum) would help the company achieve steady growth in the medium term. Copra prices corrected by 15% from their peak in April and are expected further correct because of better supply in the market. Further, edible oil prices are expected to stabilise and correct in the quarters ahead. This would lead to rawmaterial inflation staying flat in FY2022 and be lower in FY2023. OPM is likely to be at 19-20% in the medium term.

■ Valuation - maintain Buy with revised target price of Rs. 562

Marico is the market leader in seven out of eight categories in presence. It is a dominant player in the domestic hair market and edible oils market on back of its strong brands. The company is focusing on becoming strong play in the foods spaces and targets revenues of Rs. 800-1,000 crore by FY2025. Gaining market share in the core domestic portfolio through new launches, scaling up the foods business, and improving growth prospects in countries such as Bangladesh and Vietnam are some key growth levers for Marico in the near to medium term. Inflationary trends are receding and OPM is expected to see improvement from H2FY2022. We expect Marico's revenues and PAT to grow at CAGR of 11% and 14% over FY2021-23. The stock is currently trading at 40.1x its FY2023E earnings. We maintain a Buy recommendation on the stock with a revised price target of Rs. 562.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE(%)		
	FY21	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Dabur	57.1	49.8	40.9	46.3	40.0	32.0	26.4	28.7	31.5
Marico	53.4	47.9	40.1	38.9	35.8	29.8	41.0	45.5	53.1
Emami	35.6	31.0	25.3	26.5	22.7	18.5	42.5	49.6	53.3

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 (Old data)

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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 deteriorating 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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