

Volume growth & Stability in Margin likely to continue.

CMP: Rs 356

Rating: Accumulate

Target Price: Rs 407

Stock Info

BSE	531642
NSE	MARICO
Bloomberg	MRCO IN
Reuters	MRCO.BO
Sector	Personal care
Face Value (Rs)	1
Equity Capital (Rs mn)	1290
Mkt Cap (Rs mn)	460388
52w H/L (Rs)	383/ 234
Avg Yearly Vol (in 000')	2968

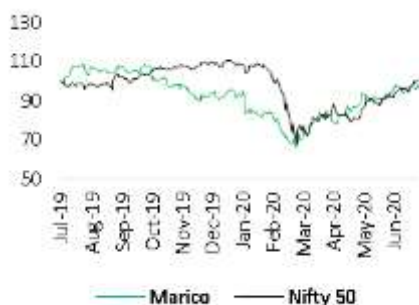
Shareholding Pattern %

(As on September, 2020)

Promoters	59.61
Public & Others	40.39

Stock Performance (%)	3m	6m	12m
Marico	-1.7	25.4	-3.8
Nifty	6.9	25.3	-1.7

Marico Vs Nifty



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Marico reported a strong set of numbers in Q2FY21 with 11% YoY domestic volume growth led by continued robust growth in Saffola. Revenue from operation increased by 8.7% YoY to Rs 19,890 mn with domestic, international business seeing growth of 8%, 12%YoY respectively. With improving consumer sentiment and supply chain operations at near pre-COVID levels, majority of the company's portfolio came back to healthy growth on YoY basis. Input costs witnessed inflationary trend amid rise in copra and rice bran prices, which have increased by 11% and 26% respectively. However the impact was contained through aggressive cost saving initiatives. EBIDTA increased by 10.2% YoY to Rs 3890 mn. Saving in Advertisement and overhead expenses by 127 bps and 56 bps YOY respectively helped the EBIDTA margin to be stable despite rise in Input cost. EBIDTA margin expanded by 26 bps YoY to 19.3% in Q2FY21. PAT increased by 7% YOY to Rs 2640mn on the back of healthy revenue growth and operating profit.

Q2FY21 Segment Highlights

- **Parachute Rigids** posted a robust 10% YoY volume growth backed by strong brand equity and accelerated loose to branded conversions. The brand also reinforced its hygienic processing on safety credentials in the minds of consumers with the "Untouched by Hand" campaign launched in the previous quarter.
- Saffola refined edible oils grew by a stellar 20%YoY in volume terms, building significantly on increased penetration and strong brand values, coupled with increased relevance of healthy cooking. The brand has seen a significant impetus with 62% of the growth coming from enhanced penetration.
- **Value Added Hair Oils category** has returned to growth trajectory after a lockdown-affected Q1. The portfolio posted a resilient 4% YoY volume growth. Nihar Naturals Shanti Amla Badam led the growth, while recent innovations Parachute Advanced Aloe Vera Enriched Coconut Hair Oil and Nihar Naturals Shanti Jasmine saw healthy traction.
- **Marico's International business** grew by 7% in Q2FY21 in constant currency terms. The operating margin in the international business expanded to 23.1% in Q2FY21 vs 21.5% in Q2FY20, given aggressive cost management across all geographies.

Valuations

At CMP of Rs 356, Marico currently trades at P/E of 44x to its FY20 earnings. The sector has witnessed some green shoots of revival in consumer sentiment with the gradual easing of lockdown restrictions. Moreover, the inherent strength of company's trusted franchises and deep distribution network have led the company to deliver a strong Q2 results. We believe the company is aggressive in its approach to grow foods & other new product portfolio, which will help top line to grow. With single digit growth in hair oil & high growth in foods and new launches, the company would be able to grow volumes by 8-10%, going forward as guided by the management. Further, we believe the company would be able to maintain its margins as guided by the management with cost rationalisation measures & lower advertisement spends (due to lower ad-rates). We value the stock at a target P/E of 40x to its FY22E EPS, which yields a target price of Rs 407 per share. **We maintain our Accumulate rating on the stock.**

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q2FY21 Financial Performance

Rs Mn (consolidated)	Q2FY21	Q1FY21	Q2FY20	Q-o-Q	Y-o-Y
Net Revenue	19,890	19,250	18,290	3.32%	8.75%
Material Cost	10,340	9,890	9,210	4.55%	12.27%
Employee cost	1,370	1,350	1,270	1.48%	7.87%
Other Expenses	4,290	3,340	4,280	28.44%	0.23%
EBITDA	3,890	4,670	3,530	-16.70%	10.20%
<i>EBITDA margin %</i>	<i>19.6%</i>	<i>24.3%</i>	<i>19.3%</i>	<i>-470bps</i>	<i>26bps</i>
Other Income	270	190	350	42.11%	-22.86%
Depreciation	330	340	350	-2.94%	-5.71%
EBIT	3,830	4,520	3,530	-15.27%	8.50%
Finance cost	80	90	130	-11.11%	-38.46%
Share of P/L of joint ventures		-20	10		
Profit Before Exceptional item	3,750	4,410	3,410	-14.97%	9.97%
Exceptional Item	330	-640			
Profit Before Tax	3,420	5,050	3,410	-32.28%	0.29%
Tax Expense	690	1,170	880	-41.03%	-21.59%
Effective tax rate %	18.4%	26.5%	25.8%	-813bps	-741bps
PAT	2,730	3,880	2,530	-29.64%	7.91%
MI & Associates	-90	-70	-60		
Consolidated PAT	2,640	3,810	2,470	-30.71%	6.88%
<i>PAT margin %</i>	<i>13.3%</i>	<i>19.8%</i>	<i>13.5%</i>	<i>-652bps</i>	<i>-23bps</i>
EPS (Rs)	2.5	3.0	1.9	-	-

Q2FY21 Conference Call Highlights

- Consolidated revenue grew 8.7%YoY with domestic sales up 8% YoY, international business up 12%YoY. However, on a constant currency basis, international business grew 7% YoY. Domestic volume growth was 11%YoY.
- The growth in domestic sales was led by strong growth in Saffola & Parachute. Saffola witnessed growth of 16% YOY with 20% volume growth whereas parachute saw 8% YOY revenue growth with 10% volume growth. Value added hair oil (VAHO) segment revenue saw 1% YOY decline with volumes growing by 4%.
- With the cost cutting measures implemented, its impact on margin would start showing from Q3 onwards. The company has forayed in Ayurveda, immunity boosting products given demand for such brands have increased significantly in a post-Covid19 world. Marico is looking to leverage this demand trend.
- Foods business witnessed robust growth of 55%YoY in Q2FY21 led by 45% growth in Saffola Oats. The company scaled up Saffola Honey across channels & garnered market share of 8% in modern trade. The strong growth was led by 60% increase in household penetration. Many new consumers are shifting towards healthier foods given significant increase in consumption of 'at-home' products. A 62% growth in Saffola was contributed by enhanced penetration.
- Copra and rice bran prices have started moving upwards with 11% & 26% increase in prices, respectively. The company has not taken price increase in Q2 considering the new crop would cool off copra prices by January-February 2021. Liquid paraffin prices were down 6% whereas HDPE prices were flat.
- In the international business, Bangladesh saw robust sales growth of 16%YoY led by 31% growth in non-coconut hair oil business. Coconut hair oil revenue grew 8% YoY. However, Vietnam & MENA region revenue declined 6%YoY. South African business registered growth of 16% YoY.

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

- E-commerce channel has become prominent with 39% growth. It is now contributing 8% to sales. General trade in urban & rural India grew 14% & 22%, respectively. Modern trade channels sales de-grew 12% while canteen store department (CSD) channel sales de-grew 29%. Channel shift in favour of e-commerce is a permanent reset.
- With lockdown restrictions having significantly eased across the country, the company will strive to sustain the momentum and aim to deliver an 8-10% volume growth in the balance part of the year. The Company expects operating margins to be 20% plus for FY21. Over the medium term, the company shall endeavour to deliver an 8-10% growth, growing the core franchises and scaling up the Foods business. With focus on gaining and defending market share, we expect to maintain threshold operating margin of 19% over the medium term.
- The management is working on a four point agenda: (1) grow the core brand optimally, (2) food business sales targeting Rs 4500-5000 mn in FY22, (3) Two, three digital only brand development , (4) grow the other international business implementing similar growth strategies as Bangladesh.
- The Hygiene segment has contributed about 1.5% to the turnover in H1, while the Company has witnessed some cooling off in the accelerated demand in this category immediately following the onset of the pandemic.
- The Foods portfolio delivered an exponential growth of 55% in value terms with the base business of Oats franchise growing by 45% year-on-year. The brand continues to attract new consumers and drive higher retention as about 60% of the growth came from increased household penetration.

Near to Medium Term Outlook (India + International)

- The Company holds its medium term aspiration of delivering 8-10% volume growth and 13-15% revenue growth.
- Marico shall continue to invest behind brand building to support market growth initiatives in core categories and expansion into adjacent categories as advertising spends are expected to reach pre-COVID levels. Spends on the digital platforms will continue to rise.
- The Company would be comfortable maintaining a threshold operating margin of 19% over the medium term. However, the Company expects operating margins to be 20% plus for FY21.

Income Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
Revenues	73,340	73,150	79,734	89,302
<i>Change (%)</i>	16.0%	-0.3%	9.0%	12.0%
Raw materials	40,170	37,450	41,860	46,883
Gross Profit	33,170	35,700	37,873	42,418
Employee costs	4,660	4,780	4,784	5,358
Other expenses	15,250	16,230	17,541	19,646
Total Expenses	60,080	58,460	64,185	71,888
EBITDA	13,260	14,690	15,548	17,414
Other Income	1,030	1,240	1,276	1,518
Depreciation	960	1,400	1,114	1,204
Interest	240	790	228	237
PBT	13,090	13,740	15,483	17,491
Extra-ordinary	0	0	0	1
PBT after ext-ord.	13,090	13,740	15,483	17,490
Tax	1,280	3,310	3,871	4,374
<i>Rate (%)</i>	9.8%	25.0%	25.0%	25.0%
PAT	11,810	10,430	11,612	13,117
MI & Associates	-180	0	0	0
Consolidated PAT	11,630	10,430	11,612	13,117
<i>Change (%)</i>	42.8%	-10.3%	11.3%	13.0%

Cash Flow Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
PBT	13,090	13,740	15,483	17,491
Depreciation	960	1,400	1,114	1,204
Interest & others	-970	-450	-1,048	-1,281
Cash flow before WC changes	13,080	14,690	15,548	17,414
(Inc)/dec in working capital	150	-836	3,978	-7,329
Operating CF after WC changes	13,230	13,854	19,526	10,084
Less: Taxes	-1,280	-3,310	-3,871	-4,374
Operating cash flow	11,950	10,544	15,655	5,711
(Inc)/dec in F.A + CWIP	-3,195	350	-1,000	-999
(Pur)/sale of investment	980	-2,790	0	0
Cash flow from investing	-2,215	-2,440	-1,000	-999
Free cash flow (FCF)	10,905	10,964	14,655	4,712
Loan raised/(repaid)	400	-140	150	150
Equity raised	0	-1	0	0
Interest & others	688	-1,876	6,119	-3,766
Dividend	-7,745	-8,385	-9,030	-9,675
Cash flow from financing activities	-6,658	-10,402	-2,761	-13,291
Net inc/(dec) in cash	3,078	-2,298	11,894	-8,579
Opening balance of cash	2,011	5,088	2,790	14,684
Closing balance of cash	5,088	2,790	14,684	6,105

Balance Sheet (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
Sources of Funds				
Share Capital	1,291	1,290	1,290	1,290
Reserves & Surplus	28,700	29,000	29,180	30,008
Net Worth	29,991	30,290	30,470	31,298
Loan Funds				
MI, Deferred Tax & other liabilities	3,490	3,350	3,500	3,650
Capital Employed	33,911	34,040	34,370	35,348
Application of Funds				
Gross Block	10,654	11,374	12,374	13,373
Less: Depreciation	3,531	4,931	6,044	7,248
Net Block	7,123	6,443	6,330	6,125
CWIP	450	580	580	580
Other non current assets	990	1,000	1,000	1,000
Deferred tax assets	1,880	1,590	1,590	1,590
Net Fixed Assets	10,443	9,613	9,500	9,295
Investments				
Debtors	4,250	7,040	7,040	7,040
Inventories	5,170	5,088	3,012	6,361
Cash & bank balance	14,110	13,800	13,800	16,184
Loans & advances & other CA	5,088	2,790	14,684	6,105
	3,330	3,270	4,261	7,858
Total Current Assets	27,698	24,948	35,757	36,509
Current liabilities	12,260	11,744	14,636	16,637
Provisions	1,250	1,198	1,198	1,198
Net Current Assets	14,188	12,006	19,923	18,674
Total Assets	33,911	34,040	34,370	35,348

Key Ratios

Year End-March	FY19	FY20	FY21E	FY22E
Per Share (Rs)				
EPS	9.0	8.1	9.0	10.2
CEPS	9.8	9.2	9.9	11.1
BVPS	23.2	23.5	23.6	24.3
DPS	6.0	6.5	7.0	7.5
Payout (%)	66.6%	80.4%	77.8%	73.8%
Valuation (x)				
P/E	39.5	44.0	39.5	35.0
P/CEPS	36.5	38.8	36.1	32.1
P/BV	15.3	15.2	15.1	14.7
EV/EBITDA	34.5	31.3	28.8	26.2
Dividend Yield (%)	1.7%	1.8%	2.0%	2.1%
Return Ratio (%)				
EBITDA Margin	18.1%	20.1%	19.5%	19.5%
PAT Margin	15.9%	14.3%	14.6%	14.7%
ROE	38.8%	34.4%	38.1%	41.9%
ROCE	36.3%	39.0%	42.0%	45.9%
Leverage Ratio (%)				
Total D/E	0.1	0.1	0.1	0.1
Net D/E	-0.1	0.0	-0.4	-0.1
Turnover Ratios				
Asset Turnover (x)	2.2	2.1	2.3	2.5
Inventory Days	128	125	125	126
Receivable Days	26	25	14	26
Payable days	67	67	67	68

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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