

Foods to leverage healthier consumption trend

With healthy 15% volume growth, Marico continued the growth momentum across categories. Saffola saw fifth consecutive quarter of double digit volume growth at 17%. Parachute & VAHO witnessed 8% & 21% volume growth primarily due to low base quarter numbers & renewed traction from rural regions. Foods category which includes Oats, Honey & newly launched Chyawanprash & Soya Chunks saw 74% revenue growth during the quarter. The category has seen splendid growth in last three quarter with the consumption trends towards healthier food. Overall business witnessed a revenue growth of 16.3% to ₹ 2122 crore. With the 26% increase in copra prices, 28% increase in rice bran oil prices, gross margins contracted 223 bps. Further employee spends to sales also increased 61 bps mainly on account of inclusion of Beardo's workforce after the full integration. The savings in overhead spends & marketing cost by 81 bps & 105 bps respectively restricted the operating margin contraction by 99 bps to 19.5%. Operating profit grew 10.7% to ₹ 413 crore. Led by higher operating profit & lower interest cost, net profit grew by 13% to ₹ 312 crore.

Foods segment becomes major growth driver

The category has been growing at a robust pace from last three quarters mainly due to heightened health awareness. The Oats sub-category saw 50% growth with the strategy of driving penetration. The company has been creating a proposition of in-between means rather than break-fast for oats / masala oats. Saffola Honey, which was launched in July has gained ~20% market share in Ecommerce channel. Honey expect to generate ₹ 100 crore sales by FY22E. The company launched Saffola Arogyam Chawan Amrut in Chyawanprash category & Saffola soya Chunks in Q3FY21. Overall, the management expect to generate revenue of ₹ 325-350 crore sales in FY21 & ₹ 450-500 crore in FY22E. We believe the company is leveraging the trend of healthier consumption by foraying into sub-categories in foods, which would drive the growth going forward.

Parachute, VAHO back on the growth path

The hair oil categories has been saturated and seen a cyclical growth trends with inflationary price movement. Parachute & VAHO is expected to witness strong volume growth in medium term largely due to low base effect in next few quarters. Moreover, with the promotional offers taken off (effective price increase of 5%), prices are also likely to contribute to the revenue growth. Further, the management indicated impact of tapering down of copra prices would not result in any prices hikes & the company would be able to maintain its current margins. We expect overall revenue growth of 9.5% CAGR during FY20-23E with sustainable margins above 20%.

Valuation & Outlook

We believe both mature as well as emerging categories are likely to witness strong growth in medium term with no major inflationary headwinds. Moreover, scaling up of foods has created long term growth lever. We maintain **BUY** rating with revised target price of ₹ 490/share (earlier ₹440).

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	7334.0	7315.0	7824.9	8649.7	9601.2	9.5%
EBITDA	1281.0	1469.0	1629.1	1778.8	1984.8	10.6%
EBITDA Margin %	17.5	20.1	20.8	20.6	20.7	
Net Profit	1135.0	1043.0	1173.8	1260.9	1410.3	10.6%
Adjusted Net Profit	947.0	1043.0	1173.8	1260.9	1410.3	10.6%
EPS (₹)	8.80	8.08	9.10	9.77	10.93	
P/E	46.8	51.0	45.3	42.2	37.7	
RoNW %	31.6	34.5	37.1	38.6	40.9	
RoCE (%)	38.0	41.0	42.9	45.4	48.2	

Source: Company, ICICI Direct Research

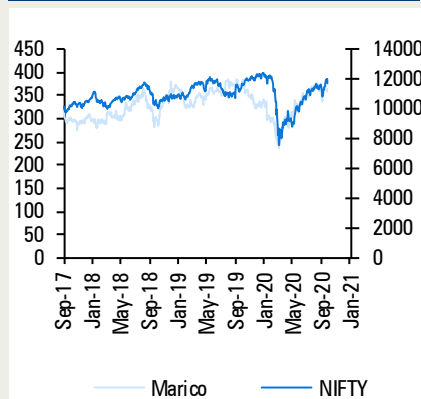


Particulars	Amount
Market Capitalization	53,156.2
Total Debt (FY20)	325.0
Cash and Investments (FY20)	907.0
EV	52,574.2
52 week H/L (₹)	434.8 / 233.8
Equity capital	129.0
Face value (₹)	1.0

Key Risk

- Sharp upsurge in copra or any other key commodity prices may negatively impact operating margins
- High growth in foods business can taper down with increasing out of home activity

Price Chart



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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Net Sales	2,122.0	2,037.7	1,824.0	16.3	1,989.0	6.7	Net sales witnessed a growth of 16.3% to ₹2122 crore led by domestic volume growth of 15% & constant currency international business growth of 8%
Raw Material Expenses	1,127.0	1,055.3	928.0	21.4	1,034.0	9.0	Gross margins contracted by 223 bps mainly on account of 26% jump in copra prices & 28% increase in rice bran oil
Employee Expenses	148.0	134.5	116.0	27.6	137.0	8.0	
SG&A Expenses	193.0	197.1	185.0	4.3	189.0	2.1	The company reduced media spends by 105 bps to protect operating margins
Other operating Expenses	241.0	240.2	222.0	8.6	240.0	0.4	Overhead spends comes down by 81 bps with various cost cutting measures taken after pandemic
EBITDA	413.0	410.6	373.0	10.7	389.0	6.2	
EBITDA Margin (%)	19.5	20.2	20.4	-99 bps	19.6	-9 bps	Despite sharp increase in raw material prices, operating margins contracted by 99 bps
Depreciation	36.0	0.0	32.0	12.5	33.0	9.1	
Interest	7.0	0.0	12.0	-41.7	8.0	-12.5	
Other Income	24.0	26.1	29.0	-17.2	27.0	-11.1	
Exceptional items	0.0	0.0	0.0	NA	-33.0	NA	
Minority Interest	0.0	0.0	0.0	NA	0.0	NA	
PBT	394.0	436.7	358.0	10.1	342.0	15.2	
Tax Outgo	82.0	104.8	82.0	0.0	69.0	18.8	
PAT	312.0	331.9	276.0	13.0	273.0	14.3	Led by higher operating profit, lower interest cost & depreciation provisioning, net profit grew by 13% to ₹ 312 crore
Key Metrics (%)							
Domestic Volume Growth	15%		-1.0		11.0		Strong domestic volume growth mainly on account of negative growth in base quarter
Parachute Volume Growth	8%		-2.0		10.0		Parachute witnessed a volume growth of 8% led by market share gains from unorganised sector
Saffola Volume Growth	17%		11.0		20.0		Saffola continued the growth momentum with volume growth of 17% led by strong 74% in foods business
VAHO Volume Growth	21%		-7.0		4.0		VAHO saw volume growth of 21% on the back of negative growth in base quarter

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ (Crore)	FY21E			FY22E			FY23E			Comments
	Old	New	change	Old	New	change	Old	New	change	
Gross Sales	7,552.7	7,824.9	3.6	8,336.1	8,649.7	3.8	8,752.7	9,601.2	9.7	We change our revenue estimates upwards mainly on account of strong growth momentum across categories
EBITDA	1,577.2	1,629.1	3.3	1,720.8	1,778.8	3.4	1,785.7	1,984.8	11.2	
EBITDA Margin (%)	20.9	20.8	-6 bps	20.6	20.6	-8 bps	20.4	20.7	27 bps	
PAT	1,135.8	1,173.8	3.3	1,229.2	1,260.9	2.6	1,273.5	1,410.3	10.7	
EPS (₹)	8.8	9.1	3.4	9.5	9.8	2.9	9.9	10.9	10.4	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current					Earlier			Comments
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	
Std. Sales (₹ crore)	5,756.0	5,853.0	6,172.9	6,799.4	7,565.9	5,944.5	6,615.4	6,911.5	Given strong growth momentum across categories (specifically saffola), we change our category growth estimates
Subs. Sales (₹ crore)	1,578.0	1,462.0	1,652.1	1,850.3	2,035.3	1,608.2	1,841.2	1,841.2	

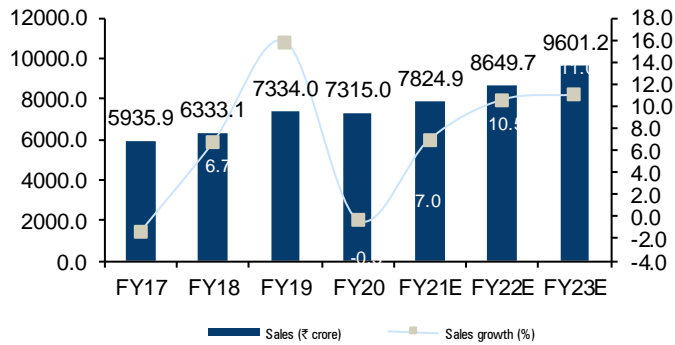
Source: Company, ICICI Direct Research

Conference Call Highlights

- Marico posted strong 16.3% revenue growth led by 15% domestic volume growth & 8% constant currency growth in International businesses. Parachute, VAHO & Saffola brands witnessed strong 8%, 21% & 17% volume growth during the quarter
- The company has taken off promotional offers in parachute which resulted in effective price hikes of 5%. Copra prices has been higher by YoY 26%. However, with the expectation of robust new crops, copra prices are likely to taper down in next few months. This may not require any price hikes in medium term
- Saffola Edible oil continue the growth momentum with 26% revenue growth led by 17% volume growth. This is fifth consecutive quarter of double digit growth for Saffola. However, with high base, the company expect high single digit growth in FY22E. Two-third of the growth in Saffola has been contributed by higher penetration
- After the muted growth in H1FY21, VAHO segment witnessed strong 21% revenue growth entirely led by volumes. All major brands 'Nihar Naturals Shanti Amla', Parachute Jasmine, Hair & Care witnessed strong growth. The company has been investing behind these brands through TV & Print Ads to push larger packs. The company would be participating in bottom of the pyramid, drive growth in mid segment through pricing & new variants & aim to gain market share in premium end of category
- Foods category saw 74% revenue growth led by 50% growth in Oats & new product launches in last one year (Honey, Chawayanprash & Soya Chunks). Saffola honey gained 20% market share in ecommerce channels & double digit market share in select modern trade. One-third of the category sales is contributed by modern trade & ecommerce. The company expect to scale honey to ₹ 100 crore by FY22E. The company expect ₹450-500 crore sales from foods segment by FY22E
- Soya Chunks category size is ₹ 2000 crore with ₹ 800 crore contributed by organised segment, which is growing at 20% pa. Saffola would be participating in growth where it could be relatively stronger brand
- With the cost cutting measures & advertisement efficiency, the company expect to save ₹ 150 crore in current year & ₹ 100 crore in FY22E. The company is operating with 26% less SKUs, which contributes ~2% to the sales
- The company aims to generate revenue of ₹ 100 crore in Beardo by FY22E. The higher employees spends in Q3 can be attributed to consolidation of Beardo workforce after full integration
- In International business, Bangladesh sustained growth momentum with 15% CC revenue growth. The non-coconut oil portfolio witnessed a growth of 26% during the quarter. South East Asia, MENA regions & South Africa saw muted revenues during the quarter
- General trade channel grew by 10% & 24% in urban & rural regions. Modern trade returned to pre-Covid levels & ecommerce witnessed 88% growth with contribution to sales touching 8%. CSD channel seen 10% decline during the quarter
- Net working capital days have come down to 21 days from 32 days mainly on account of lower sales in modern trade channel and low inventory at the distributors point to increase its ROI. The company has been implementing automated supply chain to gain efficiency. With modern trade coming back on growth path, net working capital can settle at 25 days

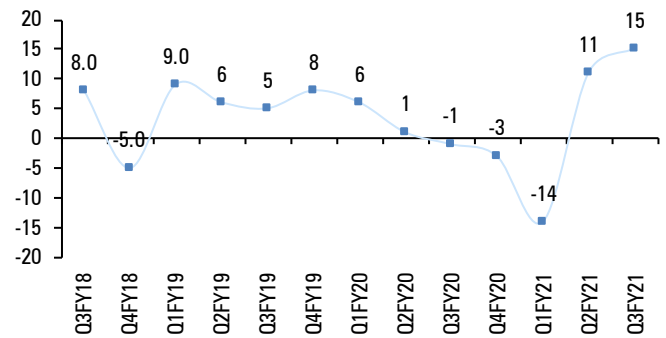
Key Metrics

Exhibit 4: Revenue to grow at 9.6% CAGR over FY20-23E



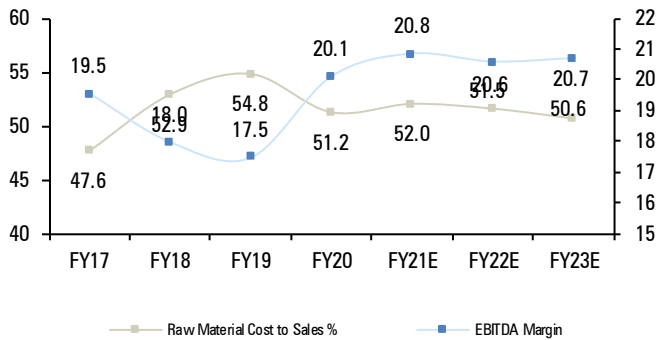
Source: ICICI Direct Research, Company

Exhibit 5: Domestic volume trend YoY (%)



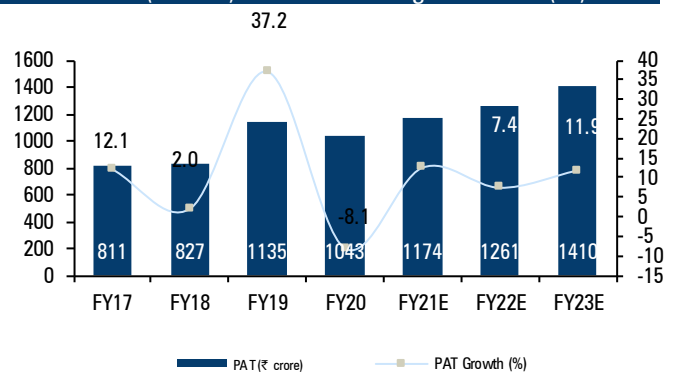
Source: ICICI Direct Research, Company

Exhibit 6: EBITDA margin and raw material trend



Source: Company, ICICI Direct Research

Exhibit 7: PAT (₹ crore) – LHS and PAT growth YoY (%) - RHS



Source: Company, ICICI Direct Research

Exhibit 8: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	7315.0	-0.3	8.1	-8.1	51.0	36.0	34.5	41.0
FY21E	7824.9	7.0	9.1	12.5	45.3	32.5	37.1	42.9
FY22E	8649.7	10.5	9.8	7.4	42.2	29.7	38.6	45.4
FY23E	9601.2	11.0	10.9	11.9	37.7	26.6	40.9	48.2

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total Operating Income	7315.0	7824.9	8649.7	9601.2
Growth (%)	-0.3	7.0	10.5	11.0
Raw Material Expenses	3,745.0	4,067.4	4,457.7	4,860.9
Employee Expenses	478.0	555.6	588.2	643.3
Marketing Expenses	727.0	688.6	821.7	960.1
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	896.0	884.2	1,003.4	1,152.1
Total Operating Expenditure	5,846.0	6,195.8	6,870.9	7,616.4
EBITDA	1469.0	1629.1	1778.8	1984.8
Growth (%)	14.7	10.9	9.2	11.6
Depreciation	140.0	139.9	149.5	157.9
Interest	50.0	33.3	45.2	47.1
Other Income	124.0	96.7	101.6	105.6
Share of profit/(loss) of associates	0.0	0.0	0.0	0.0
Total Tax	331.0	378.9	424.8	475.1
PAT	1072.0	1173.8	1260.9	1410.3
Growth (%)	13.2	9.5	7.4	11.9
Adjusted PAT	1043.0	1173.8	1260.9	1410.3
Adjusted EPS (₹)	8.1	9.1	9.8	10.9

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit before Tax	1,374.0	1,552.7	1,685.6	1,885.4
Add: Depreciation	150.0	139.9	149.5	157.9
(Inc)/dec in Current Assets	-25.0	-311.3	-61.2	-254.6
Inc/(dec) in CL and Provisions	38.0	-90.5	1.9	42.3
Others	-338.0	-378.9	-424.8	-475.1
CF from operating activities	1,219.0	912.0	1,351.0	1,355.9
(Inc)/dec in Investments	70.0	-52.0	-52.0	-52.0
(Inc)/dec in Fixed Assets	-186.0	298.9	19.5	27.9
Others	73.0	-109.9	-119.5	-127.9
CF from investing activities	-43.0	137.0	-152.0	-152.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-50.0	-2.0	-2.0	-2.0
Dividend paid & dividend tax	-1,025.0	-1,032.0	-1,161.0	-1,225.5
CF from financing activities	-1,146.0	-1,034.0	-1,163.0	-1,227.5
Net Cash flow	45.0	15.0	36.0	-23.6
Opening Cash	48.0	93.0	108.0	144.0
Cash in Bank	186.0	186.0	186.0	186.0
Closing Cash	279.0	294.0	330.0	306.4

Source: Company, ICICI Direct Research *includes cash in bank

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Share Capital	129.0	129.0	129.0	129.0
Reserve and Surplus	2,894.0	3,035.8	3,135.7	3,320.5
Total Shareholders funds	3,023.0	3,164.8	3,264.7	3,449.5
Long Term Borrowings	0.0	0.0	0.0	0.0
Provisions & other LTL	175.0	175.0	175.0	175.0
Minority Interest / Others	13.0	13.0	13.0	13.0
Deferred Tax Liability	6	4	2	0
Total Liabilities	3217.0	3356.8	3454.7	3637.5
Assets				
Gross Block	1,016.0	1,136.0	1,256.0	1,376.0
Less: Acc Depreciation	464.0	603.9	753.4	911.3
Net Block	841.0	532.1	502.6	464.7
Capital WIP	66.0	76.0	86.0	96.0
Goodwill on Consolidation	538.0	508.0	478.0	448.0
Non Current Investments	105.0	130.0	155.0	180.0
Other Non CA	278.0	305.0	332.0	359.0
Current Investments	628.0	688.0	748.0	808.0
Inventory	1,380.0	1,414.9	1,540.4	1,683.5
Debtors	539.0	750.3	616.1	657.6
Cash	279.0	294.0	330.0	306.4
Other CA	348.0	353.0	363.0	373.0
Total Current Assets	3,174.0	3,500.3	3,597.5	3,828.5
Creditors	978.0	857.5	829.4	841.8
Short Term Borrowings	325.0	340.0	355.0	370.0
Other Current Liabilities	482.0	497.0	512.0	527.0
Total Current Liabilities	1,785.0	1,694.5	1,696.4	1,738.8
Net Current Assets	1,389.0	1,805.7	1,901.1	2,089.8
Miscl. Exps. not w/o	0.0	0.0	0.0	0.0
Application of Funds	3217.0	3356.8	3454.7	3637.5

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS (Adjusted)	8.1	9.1	9.8	10.9
Cash EPS	9.2	10.2	10.9	12.2
BV	23.4	24.5	25.3	26.7
DPS	6.7	8.0	9.0	9.5
Cash Per Share	2.2	2.3	2.6	2.4
Operating Ratios (%)				
EBITDA Margin	20.1	20.8	20.6	20.7
PBT / Total Operating income	18.8	19.8	19.5	19.6
PAT Margin	14.3	15.0	14.6	14.7
Inventory dbcs	69	66	65	64
Debtor dbcs	27	35	26	25
Creditor dbcs	49	40	35	32
Return Ratios (%)				
RoE	34.5	37.1	38.6	40.9
RoCE	41.0	42.9	45.4	48.2
RoIC	50.4	49.2	53.1	56.1
Valuation Ratios (x)				
P/E	51.0	45.3	42.2	37.7
EV / EBITDA	36.0	32.5	29.7	26.6
EV / Net Sales	7.2	6.8	6.1	5.5
Market Cap / Sales	7.3	6.8	6.1	5.5
Price to Book Value	17.6	16.8	16.3	15.4
Solvency Ratios				
Debt/EBITDA	0.2	0.2	0.2	0.2
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	2.0	2.4	2.4	2.6
Quick Ratio	1.0	1.3	1.3	1.3

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E		
Colgate (COLPAL)	1,564	1,700	Buy	38,812	33.4	35.4	37.8	46.9	44.2	41.3	8.4	7.7	7.2	83.5	100.8	123.9	64.2	78.0	96.5
Dabur India (DABIND)	527	595	Buy	90,864	9.6	10.7	11.8	55.1	49.2	44.8	9.5	8.6	7.8	25.9	26.7	27.1	22.3	22.7	22.9
Hindustan Unilever (HINLEV)	2,304	2,600	Hold	561,507	33.6	40.5	45.0	68.5	56.9	51.2	12.4	10.8	10.0	25.3	29.4	31.7	19.1	22.5	24.3
ITC Limited (ITC)	207	225	Buy	213,884	11.2	12.0	13.4	18.5	17.2	15.4	4.7	4.2	3.8	27.2	30.5	35.7	20.9	23.4	27.5
Jyothy Lab (JYOLAB)	157	175	Hold	5,728	5.9	6.4	7.1	26.8	24.5	22.0	3.1	2.8	2.6	30.6	31.1	31.6	26.0	25.9	26.3
Marico (MARLIM)	413	490	Buy	53,156	9.1	9.8	10.9	45.4	42.3	37.8	6.8	6.1	5.5	42.9	45.4	48.2	37.1	38.6	40.9
Nestle (NESIND)	17,437	18,000	Hold	152,970	223.4	253.4	284.2	78.0	68.8	61.4	11.5	10.4	9.5	59.9	66.6	73.7	119.1	139.2	160.6
Tata Consumer Products (TATGLO)	564	605	Buy	52,158	12.0	13.5	15.1	47.1	41.7	37.3	4.8	4.4	4.1	9.8	10.5	11.1	7.8	8.6	9.3
VST Industries (VSTIND)	3,511	4,200	Hold	5,809	202.4	218.7	235.2	17.3	16.1	14.9	5.1	4.7	4.3	44.7	47.4	52.8	33.2	35.2	39.0
Varun Beverage (VARBEV)	868	730	Hold	19,429	11.3	21.7	26.6	76.8	40.0	32.6	3.0	2.5	2.3	12.3	18.6	20.7	10.1	16.7	17.6
Zydus Wellness (ZYDWEL)	1,930	2,300	Buy	11,359	27.8	65.7	71.7	69.5	29.4	26.9	6.1	5.4	5.0	6.9	8.3	8.9	5.9	8.6	9.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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