Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Marico

Low base to fuel revenues; OPM to improve q-o-q in Q1FY22

Consumer Goods | Sharekhan code: MARICO | Company Update

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. 520**	
Price Target: **Rs. 610**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

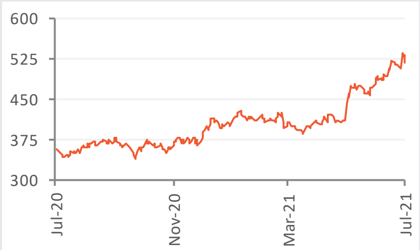
Company details

Market cap:	Rs. 67,079 cr
52-week high/low:	Rs. 544 / 333
NSE volume: (No of shares)	25.4 lakh
BSE code:	531642
NSE code:	MARICO
Free float: (No of shares)	52.2 cr

Shareholding (%)

Promoters	59.6
FII	24.4
DII	10.1
Others	5.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.0	29.0	24.8	45.0
Relative to Sensex	4.8	22.3	16.5	-1.4

Sharekhan Research, Bloomberg

Summary

- Marico's India business grew strongly by 30%, while the international business rose 20%, which will lead to a ~26% revenue growth in Q1FY2022 led by a low base of Q1FY21.
- Though OPM will decline by 387 bps to 20.5% y-o-y on raw material inflation and low ad-spends in base quarter. However, drop in copra prices from peak would help them improve q-o-q.
- Management is seeing demand improve as the second COVID-19 wave recedes. It stuck to its medium term outlook of double-digit profit growth and an 8-10% rise in domestic volumes.
- Stock trades at decent valuation of 41x FY2023E earnings. We maintain a Buy with a revised price target of Rs. 610.

Marico released a pre-quarter update to give a sense of operating performance and demand trends seen in Q1FY2022. The company witnessed a healthy momentum till the first few weeks of April until the second wave of COVID-19 surged, leading to state-wise regional lockdowns that hit business. However, the impact was lesser as compared to the first wave, as Marico focused on supply chains to cope with localised and staggered lockdowns and retail stores were allowed to operate for limited number of hours during the day. Demand in South and West India (salience is higher to domestic business) was slower due to higher case load in some of the key states. As the case rate dropped substantially in June, overall demand trends are better than June 2020. Thus, in Q1FY22, Marico's domestic business grew robustly by 30% on a low base (15% decline in revenues in Q1FY21 amid the stringent lockdown in April 2020). Parachute rigid packs saw better volume growth as compared to medium aspirations of a 5-7% rise (volumes had fallen by 11% in Q1FY2021). Saffola edible oil registered low double-digit volume growth despite a high base of a 16% growth in Q1FY2021. With a price hike to cover up raw material inflation, Saffola edible oil is expected to clock strong double-digit value growth. Value-added hair oils (VAHO) recovered strongly on a low base of a 30% decline in volumes a year ago. The international business posted constant currency growth of low twenties on the back of sustained momentum in Bangladesh and a broad-based recovery across other markets. As input prices have corrected from their highs, OPM is expected to improve q-o-q by 400-450 bps in Q1FY2022. However, the same is expected to fall 350-400 bps y-o-y due to inflation in input prices on y-o-y basis and lower ad-spends in base quarter. Thus, overall PAT growth is expected to be in low teens compared to strong topline growth. The management has maintained its medium-term target of an 8-10% growth in domestic volumes, with a volume growth of 5-7% in Parachute rigid pack, high single-digit volume growth in Saffola edible oils, and double-digit growth in the VAHO portfolio. International business is expected to grow in double digit with non-coconut oil portfolio is expected to perform well in Bangladesh and a recovery in growth in markets such as South East Asia and South Africa. Further, expected correction in copra prices would drive up OPM sequentially. It is expected to remain flat on y-o-y basis at around 19.5% in FY2022. However we expect significant improvement in the OPM in FY2023.

Our Call

View: Maintain Buy with a revised price target of Rs. 610: Gaining market share in core domestic portfolio through new launches, scaling up 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. Inflationary trends are receding and OPM is expected to see improvement from H2FY2022. The company is focusing on becoming strong play in the foods spaces and targets revenues of Rs. 800-1000 crore by FY2025. The stock is currently trading at decent valuations of 41x its FY2023E earnings. Strong earning visibility, scale-up in the foods business and a stable balance sheet remain key re-rating triggers. We maintain a Buy recommendation on the stock with a revised price target of Rs. 610.

Key risk

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) Rs cr

Particulars	FY20	FY21	FY22E	FY23E
Revenue	7,315	8,048	9,171	10,296
OPM (%)	19.9	19.7	19.5	20.7
Adjusted PAT	1,069	1,183	1,369	1,637
Adjusted EPS (Rs.)	*8.3*	*9.2*	*10.6*	*12.7*
P/E (x)	62.9	56.8	49.1	41.1
P/B (x)	22.2	20.8	19.1	16.8
EV/EBIDTA (x)	45.7	41.5	36.8	30.8
RoNW (%)	35.5	37.8	40.5	43.6
RoCE (%)	41.3	41.0	46.9	53.7
RoE (%)	22.4	21.0	21.4	23.6

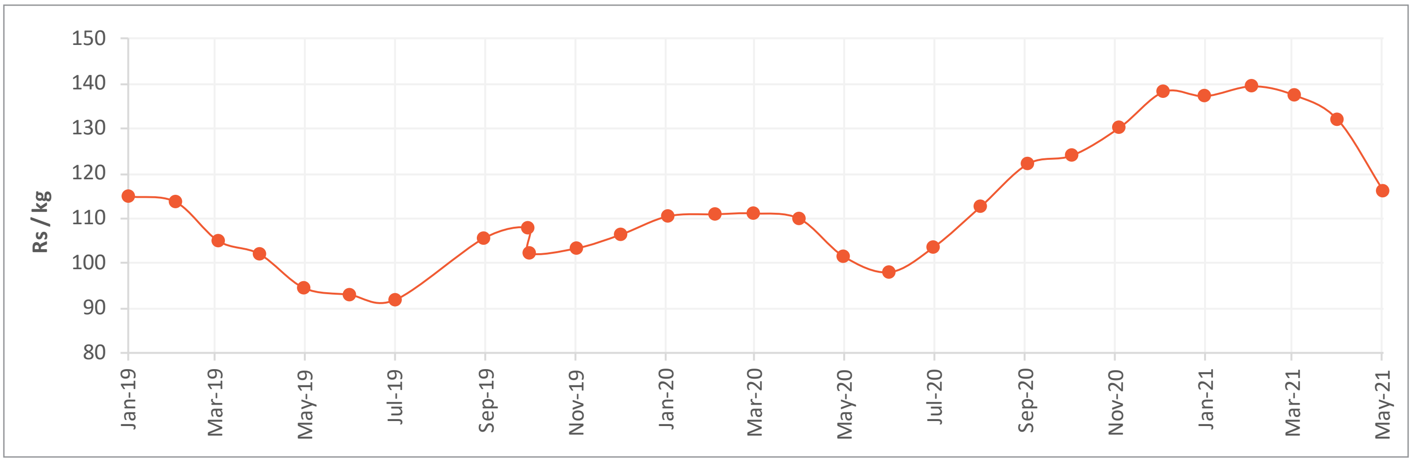
Source: Company; Sharekhan estimates

Staying put – Management retains medium term outlook of 8-10% volume growth: Marico is witnessing improving demand trend, as the second wave of COVID-19 appears to be receding and the vaccination drive is progressing steadily. Further the company is adequately prepared to tackle any disruptions in business resulting from the same, as a lot of the company's given members and all extended third-party resources have received the first dose of vaccination. Thus with better demand the revenue growth is expected to sequentially improve in the coming quarters. The company has maintained its medium term outlook of 8-10% volume growth. Parachute rigid pack volumes are expected to grow by 5-7% riding on brand strength. Value-added hair oils and Saffola edible oil are expected to maintain double digit growth in the medium term backed by sustained market share gains and shift of consumers to branded products.

Foods business to clock Rs. 800-1000 crore in revenue by FY2024: Foods business crossed Rs. 300 crore marked in FY2021. The company will continue to innovate and broaden its play in the Foods category to reach the Rs. 450-500 crore mark in FY22. Saffola Honey has gained considerable salience since launch this year. It has exited FY2021 just shy of double-digit market share in key modern trade chains and crossing 25% market share in e-Commerce segment. The brand will continue to build consumer trust and is likely to touch Rs. 100 crores in revenues in FY2022. The Company will aggressively invest behind Saffola Chyawan Amrut, Saffola Mealmaker Soya Chunks and Saffola Oodles to gain scale. The company is confident that the food business with clock revenues of Rs800-1000crore by FY2024 and will act as a key revenue driver from a long-term perspective.

Copra prices fall from high; OPM to be better off from H2FY2022: Copra prices corrected by 17% from their peaks in February and are expected further correct due to better supply. Further, edible oil prices expected to stabilise and correct in the quarters ahead. The company expects gross margins to substantially improve in Q1FY2022 on a sequential basis due to drop in the copra prices. The company expects this trend to continue in the coming quarters. We expect margins to be better-off from Q3FY2021 and stay high y-o-y in H2FY2022. Overall, we expect gross margins to remain flat in FY2022 and would improve in FY2023 resulting in a strong improvement in OPM.

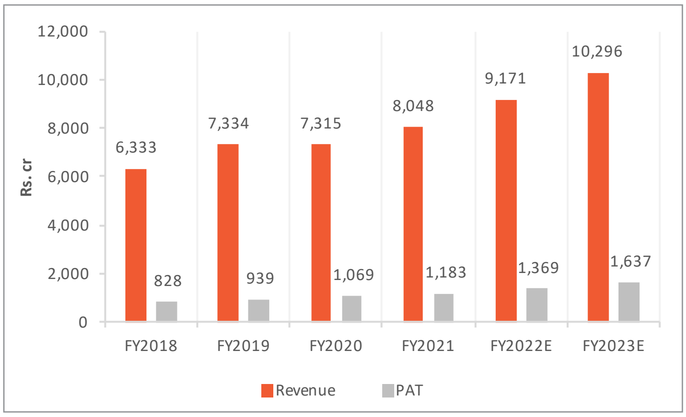
Trend in *copra* prices



Source: Sharekhan Research

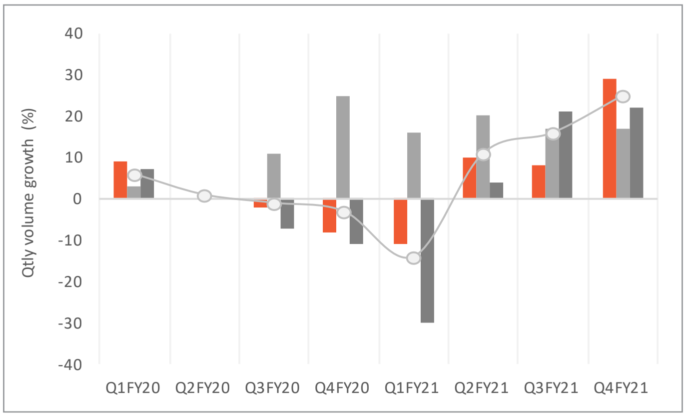
Financials in charts

Trend in revenues and PAT



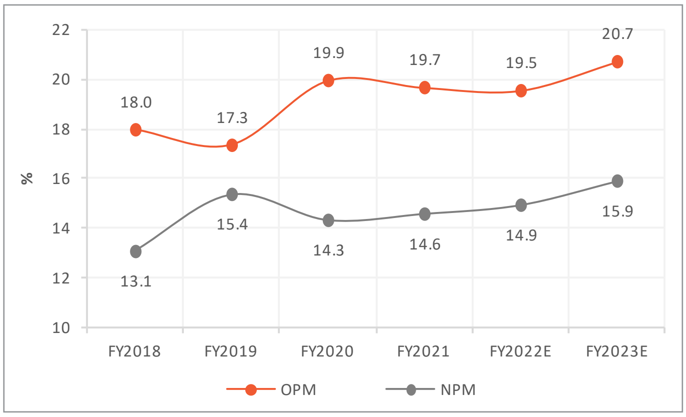
Source: Company, Sharekhan Research

Trend in volume growth



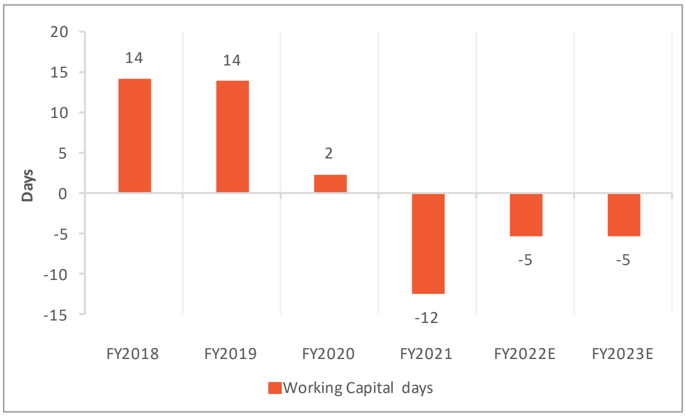
Source: Company, Sharekhan Research

OPM to improve in FY2023



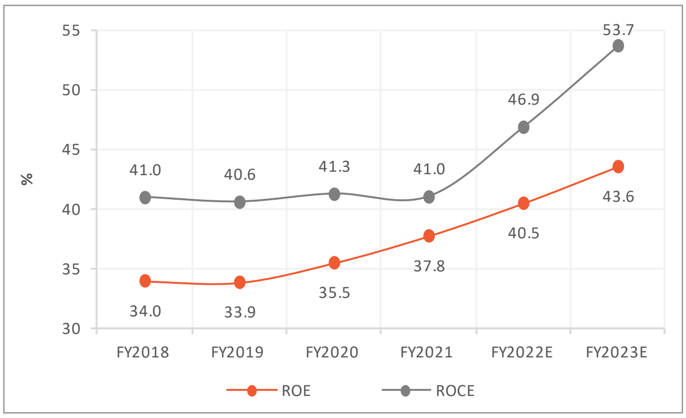
Source: Company, Sharekhan Research

Working capital days improved in FY2021



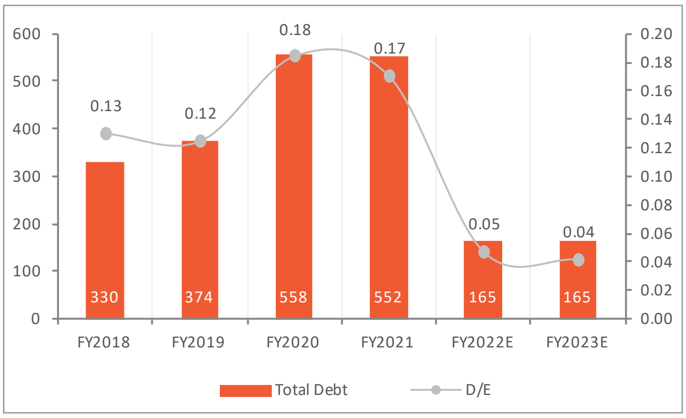
Source: Company, Sharekhan Research

Consistent improvement in the return ratios



Source: Company, Sharekhan Research

Debt: equity ratios improved consistently



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Long-term growth prospects intact

We believe that a shift in demand for branded products, higher rural demand versus 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. Consumer goods 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.

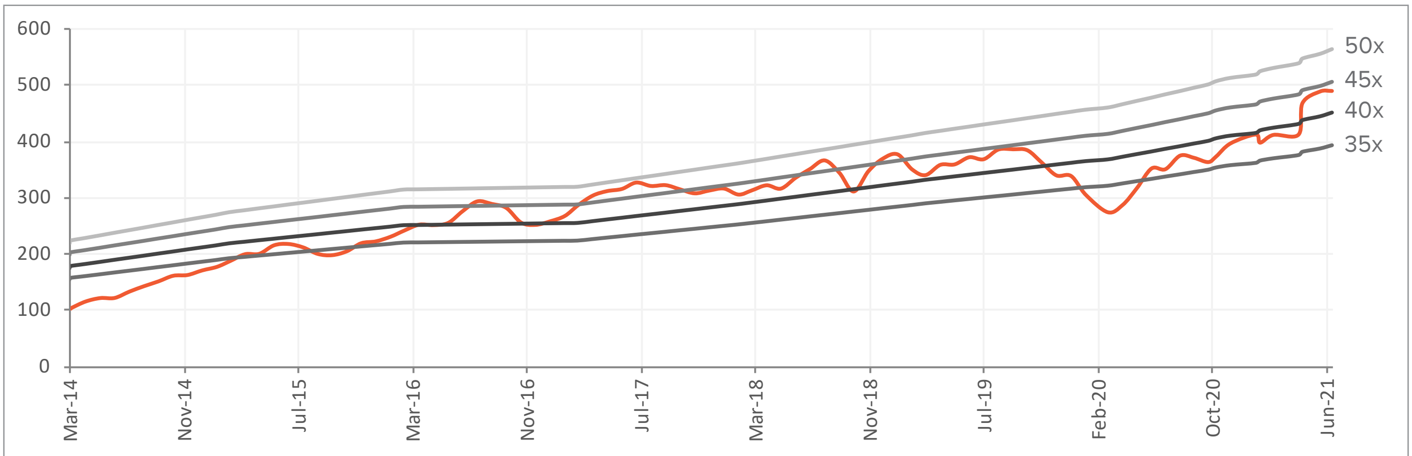
■ Company Outlook – Maintain volume growth target of 8-10% for the medium term

The company has maintained its medium-term target of an 8-10% domestic volume growth with volume growth of 5%-7% 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 17% from their peaks in April and are expected to further correct as supply improves. Further, edible oil prices are expected to stabilise and correct in the quarters ahead. This would help raw material inflation stay flat in FY2022 and be lower in FY2023. OPM to stand at 19-20% in the medium term.

■ Valuation – Maintain Buy with revised price target of Rs. 610

Gaining market share in core domestic portfolio through new launches, scaling up 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. Inflationary trends are receding and OPM is expected to see improvement from H2FY2022. The company is focusing on becoming strong play in the foods spaces and targets revenues of Rs. 800-1000 crore by FY2025. The stock is currently trading at decent valuations of 41x its FY2023E earnings. Strong earning visibility, scale-up in the foods business and a stable balance sheet remain key re-rating triggers. We maintain a Buy recommendation on the stock with a revised price target of Rs. 610.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Dabur	61.5	53.7	44.2	50.0	43.2	34.6	26.4	28.7	31.5
Hindustan Unilever	71.9	58.8	50.1	51.2	42.6	36.5	36.5	27.3	31.5
Marico	56.8	49.0	41.2	41.5	36.7	30.9	41.0	46.9	53.5

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. 8,000 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 5.0+ 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 (~63% market share), value-added hair oil (~38% market share), and branded edible oil (~81% 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	First State Investment ICVC	5.3
2	First State Global Umbrella Fund	4
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)

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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