Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Marico Ltd

Falling copra prices bode well

Consumer Goods		Sharekhan code: MARICO	
Reco/View: Buy	↔	CMP: **Rs. 512**	Price Target: **Rs. 645** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 32.03

Updated Jan 08, 2022

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

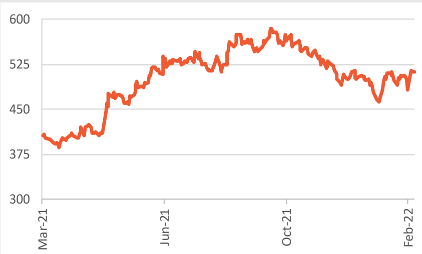
Company details

Market cap:	Rs. 66,208 cr
52-week high/low:	Rs. 606 / 379
NSE volume: (No of shares)	17.3 lakh
BSE code:	531642
NSE code:	MARICO
Free float: (No of shares)	52.3 cr

Shareholding (%)

Promoters	59.5
FII	25.9
DII	8.6
Others	6.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.9	-3.7	-8.9	25.2
Relative to Sensex	9.3	0.8	-4.2	18.1

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy recommendation on Marico with unchanged price target of Rs. 645. Better margin visibility, strong medium term growth prospects and decent valuations at 36x its FY2024E earnings makes it a good pick in the FMCG space.
- Copra prices are down by ~7% m-o-m in February 2022 (down by 36% y-o-y) and Kardi oil down by ~8% on y-o-y basis. The company has undertaken price-off of 5-11% in Parachute brand and 4-5% in Saffola edible oil in key markets to improve its sales volume.
- Consistent fall in copra prices will help the company post higher margins in FY2023 as compared to other FMCG companies and will also help regain volume growth through prudent pricing actions.
- The company is focusing on de-risking its business model by scaling up high margin businesses such as foods business (will contribute Rs. 800-1,000 crore in FY2024) and digital brands (Rs. 450-500 crore by FY2024).

In the current commodity inflationary environment, Marico is better placed compared to other FMCG companies due to consistent fall in the copra prices since its high of Rs. 140 per kg (Calicut copra) in February 2021 to around Rs. 90-95 per kg in the recent times. Vegetable oil prices (including Kardi oil and Rice bran oil) reached its peak and saw some weakness in the month of January 2022. Gross margins and OPM are expected to improve sequentially and will trend higher on y-o-y basis in FY2023. The company has undertaken timely price intervention in Parachute and Saffola edible oil brand to improve sales volume in the coming quarters. The company has guided for mid-teens revenue growth with volume growth of 8-10% in the medium term.

- **Consistent fall in copra prices augurs well for profitability:** Copra prices have corrected by 36% y-o-y from its high of Rs. 140 per kg in February 2021 to Rs. 90-95 per kg. Copra prices are expected to correct further in the advent of new flush season. On the other hand, vegetable prices reached in its peak in Q3 and saw some weakness in the start of Q4. We expect the gross margins to improve by 80-90 bps on sequential basis (and by 50-60 bps y-o-y) in Q4FY2022. The consistent fall in key input prices would help margins to be higher in FY2023. However, any volatility caused by recent spike in the crude oil prices have to be keenly monitored.
- **Proactive price corrections to help sales volume:** Marico proactively passed on the benefits of consistent fall in the copra prices to consumers by providing price-off of 5-11% in key SKUs. This will help Parachute rigid pack sales volume to pick-up in the coming quarters. The company targets Parachute volumes to grow by 5-7% in the medium term. Further, it has cut prices by 4-5% in the Saffola edible oil portfolio and will try to reduce the pricing premium with calibrated price cuts in the quarters ahead. The management expects Saffola edible oil sales volume to come back on track in quarter or two.
- **Focus on fast scaling-up of foods business and Digital brands:** Saffola's foods business crossed Rs. 300 crore in FY2021 and is well-poised to cross over Rs. 500 crore revenues in FY2022 with strong traction to some of the products such as Saffola Oats (No.1 player with 42% market share), Saffola Honey (consistent market share gains in key channels), Saffola Mealmaker Soya chunks, Chyawanprash and Saffola Oodles. The extension portfolio in healthy foods for breakfast, in-between meals, super food nutrition and immunity boosting foods will help the business revenues to reach Rs. 800-1,000 crore (7-9% of total revenues) in FY2024. Digital first brands to contribute Rs. 450-500 crore (Beardo to reach Rs. 100 crore in FY2022).

Our Call

View: Retain Buy with an unchanged price target of Rs. 645: Marico is better-placed amongst the consumer goods companies with consistent fall in the copra prices, which will help the company to post a faster recovery in sales volumes driven by relevant pricing actions in key SKUs. While core portfolio (Parachute Coconut oil, Saffola Edible Oil and Value added Hair oil portfolio) is expected to achieve steady volume growth in the medium term led by market share gains, the food business and digital first brands are expected to scale-up fast due to improved penetration in key markets/ channels. Thus the company is well-poised to achieve consistent double-digit earnings growth over FY2021-24. Recent correction in the stock price makes valuation attractive at 36x its FY2024E EPS. We maintain our Buy recommendation on the stock with an unchanged price target of Rs. 645.

Key Risks

A sharp increase in the crude oil prices due to global turmoil might lead to volatility in the edible oil prices, which affect the margins in the near term.

Valuation (Consolidated) Rs cr

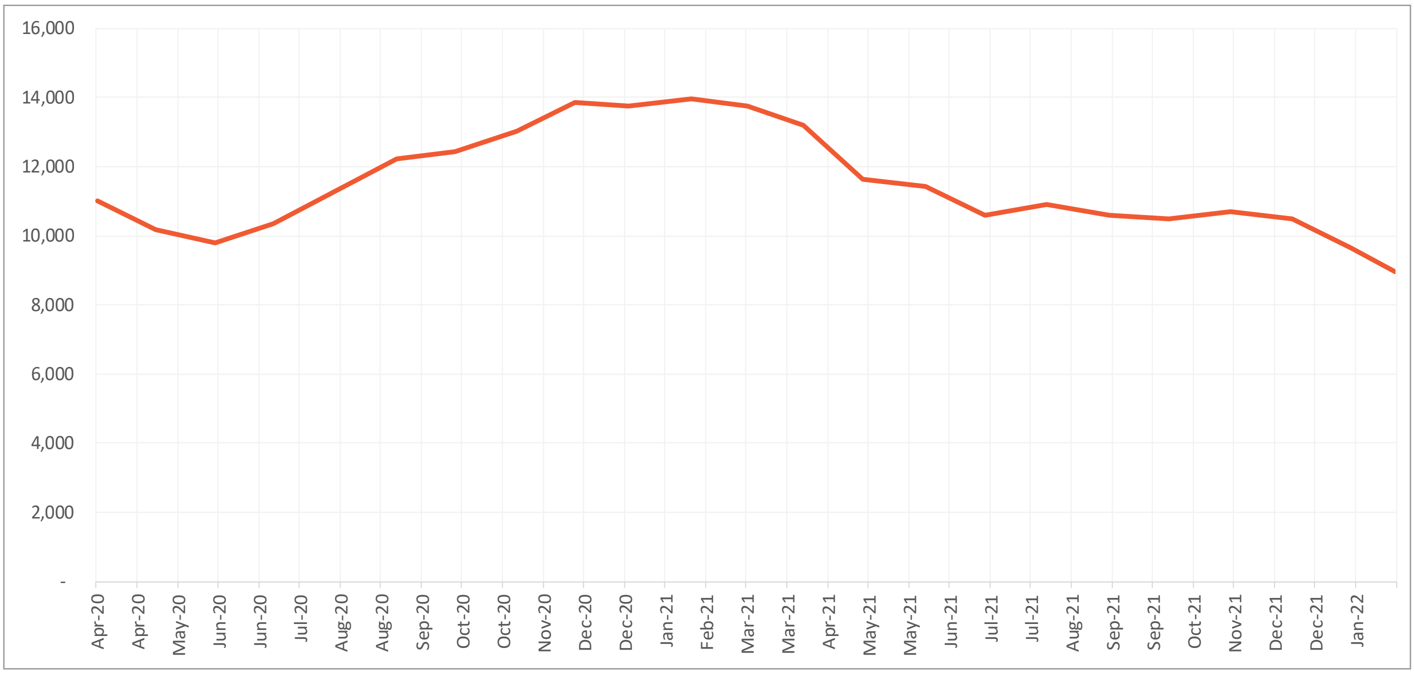
Particulars	FY21	FY22E	FY23E	FY24E
Revenue	8,048	9,467	10,384	11,602
OPM (%)	19.7	18.8	20.0	20.6
Adjusted PAT	1,183	1,341	1,572	1,822
Adjusted EPS (Rs.)	*9.2*	*10.4*	*12.2*	*14.1*
P/E (x)	55.9	49.3	42.0	36.3
P/B (x)	20.4	18.9	16.9	14.5
EV/EBIDTA (x)	40.8	36.5	31.1	26.8
RoNW (%)	37.8	39.8	42.5	43.1
RoCE (%)	41.0	45.8	52.4	53.4
RoCE (%)	41.0	45.8	52.4	53.4

Source: Company; Sharekhan estimates

Copra prices corrected by ~36% from its high in February 2021

Copra prices have corrected by 36% y-o-y from its high of Rs. 140 per kg in February 2021 to Rs. 90-95 per kg. Marico's gross margins saw consistent improvement on q-o-q basis to ~44% in Q3FY2022 from 41.0% in Q1FY2022. Copra prices are expected to correct further in the advent of new flush season. On the other hand, vegetable prices reached in its peak in Q3 and saw some weakness in the start of Q4FY22. In view of a consistent correction in the copra prices, we expect the gross margins to improve by 80-90 bps sequentially (and by 50-60 bps y-o-y) in Q4FY2022. A consistent fall in the key input prices would help margins to be higher in FY2023. However, any volatility in vegetable oil prices caused the recent spike in the crude oil prices led by the global turmoil have to be keenly monitored.

Copra prices corrected from its peak



Source: Sharekhan Research

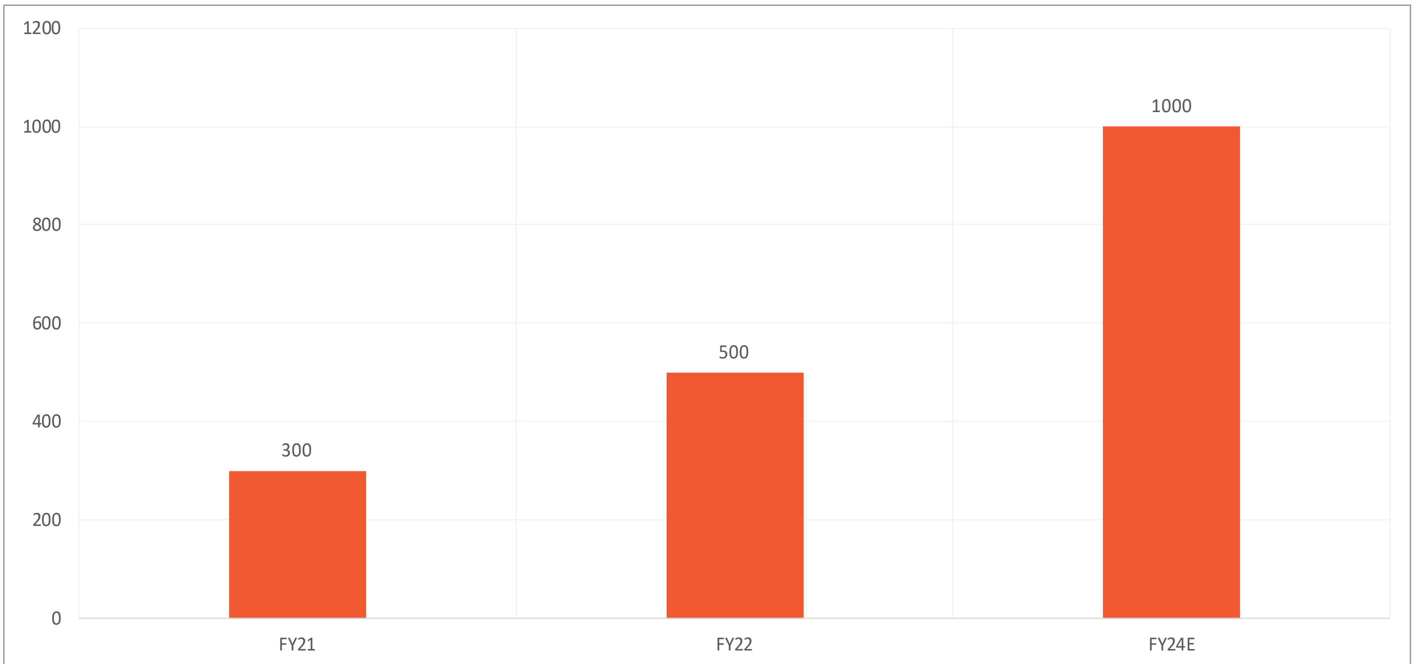
Saffola foods business is scaling up fast

Saffola Foods grew by 28% in value terms in Q3FY2022, with both core and new franchises registering healthy growth. The *Saffola Oats* franchise became the No. 1 player with ~42% value market share (gained ~560 bps in value share) in the overall oats category on a MAT basis. Saffola Honey continued to gain traction across all channels, with the brand's market share has reaching ~13% in key modern trade chains and 23% in the e-Commerce channel. *Saffola Mealmaker* Soya Chunks continued to scale up well. *Saffola Oodles* saw slower pickup versus expectations and the company continues to expand general trade distribution and drive awareness through media investments. The company targets revenues of Rs. 500 crore for the foods franchise in FY2022 and further scale it up to Rs. 850-1,000 crore by FY2024 with new product launches and strong market development activities.

Saffola Foods to reach Rs. 500 crore in FY22...

Source: Company presentation

...and Rs. 1,000 crore in FY24 **Revenue (Rs. Cr)**



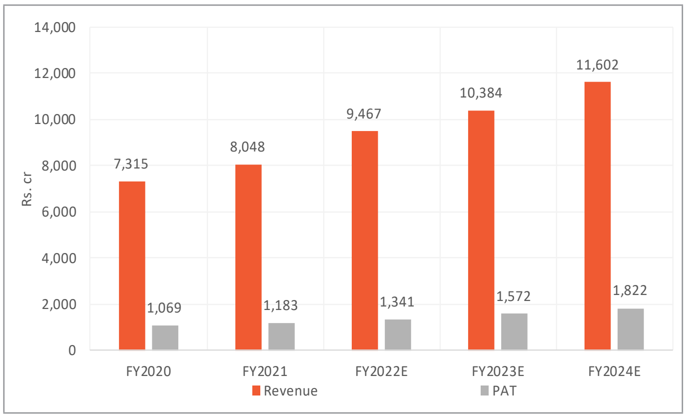
Source: Company; Sharekhan Research

Premium personal care and Digital brands to be future growth engines

The premium Personal Care portfolio will be one of the key growth engines of the future and deliver double-digit value growth over the medium term. The company aim to accelerate our digital transformation journey by building a portfolio of at least three digital brands, either organically or inorganically, with a combined turnover of Rs. 450-500 crores by FY2024.

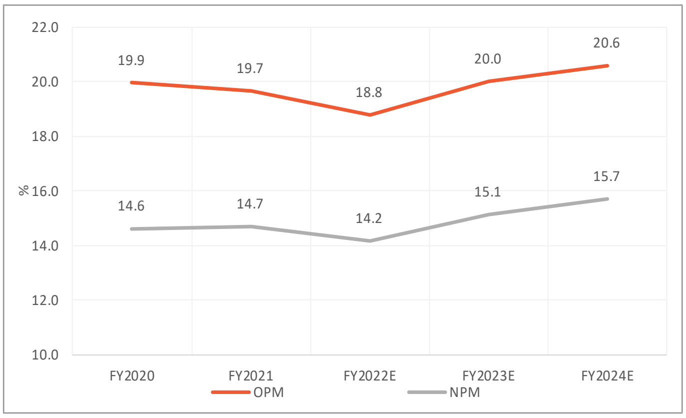
Financials in charts

Steady growth in revenue and PAT



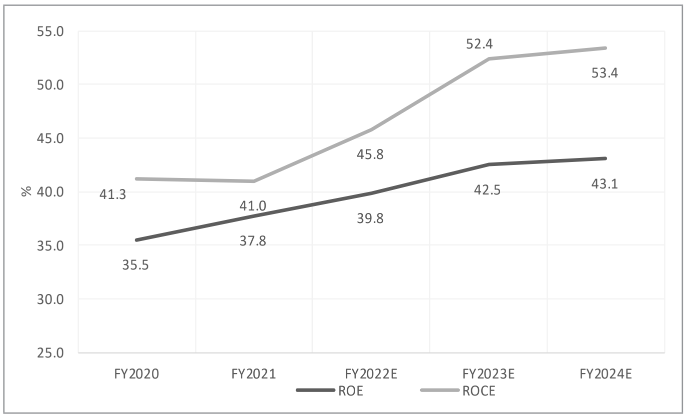
Source: Company, Sharekhan Research

Margins to improve going ahead



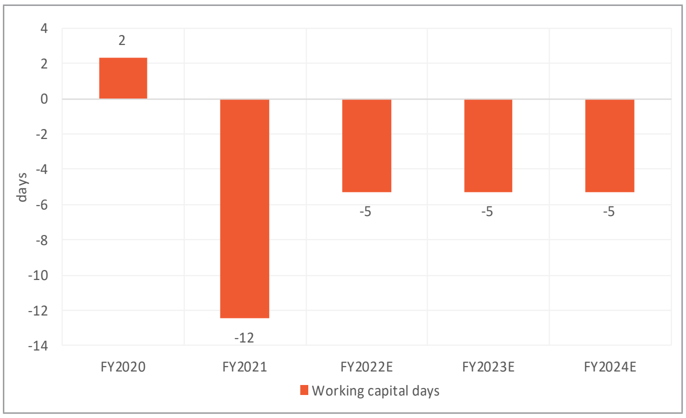
Source: Company, Sharekhan Research

Return ratios to increase



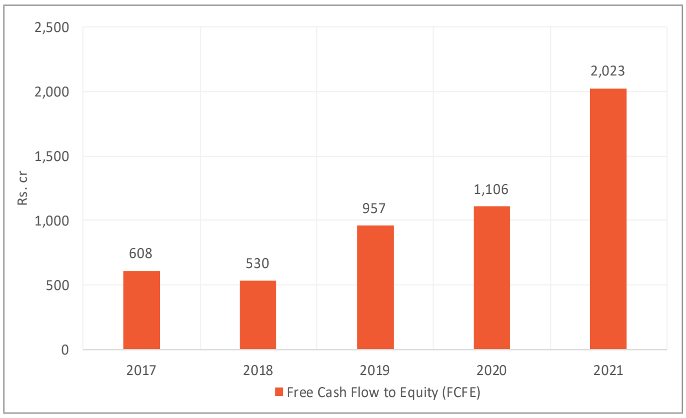
Source: Company, Sharekhan Research

Working capital days to remain stable



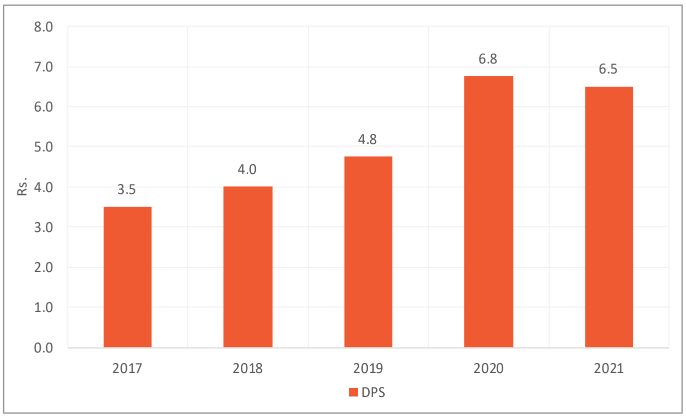
Source: Company, Sharekhan Research

Trend in free cash flows



Source: Company, Sharekhan Research

Consistent dividend payout



Source: Company, Sharekhan Research

Outlook and Valuation

Sector outlook – Near term weakness; long term growth prospects intact

A slowdown in rural demand, consumer inflation and weakness in consumer sentiments will hamper overall consumption in the coming quarters. Further, the consumer good companies expect that raw material inflation will take another 5-6 months to ease and would continue to put pressure on the margins. However, price hikes undertaken in the product portfolio would help in reducing the input cost pressure. Though near-term headwinds will take a toll on the performance of consumer goods companies, the long-term growth prospects are intact. Low penetration levels in key categories (especially in rural India), lower per capita consumption compared to other countries, large shift to branded products, emergence of new channels such as e-Commerce/D2C provide lot of opportunities for consumer goods companies to achieve sustainable growth in the medium to long run.

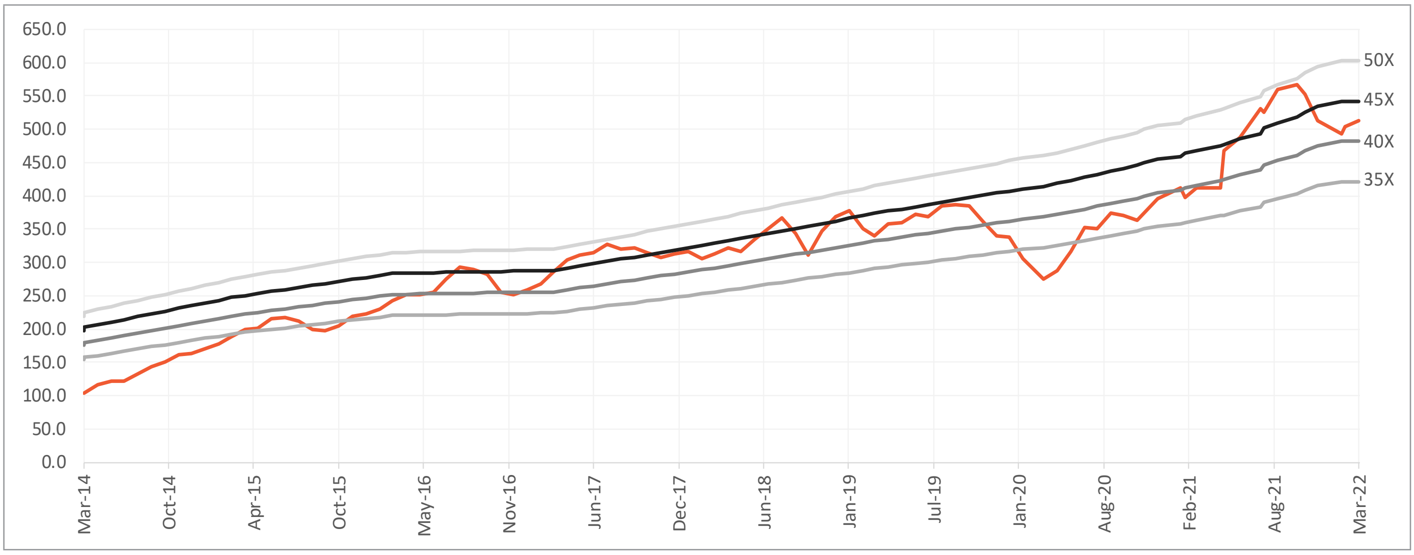
Company outlook – Maintain volume growth target of 8-10% for the medium term

The company aims to deliver a 13-15% revenue growth due to 8-10% domestic volume growth in the domestic business and double-digit constant currency growth in the international business in the medium term. The core portfolio is expected to witness strong growth in the medium term with Parachute Rigids expected to deliver 5-7% volume growth, VAHO portfolio to sustain double-digit value growth momentum, and Saffola oils to deliver high single-digit volume growth. Saffola Foods expected to achieve turnover of Rs. 850-1,000 crore by FY2024. Market share gains and increased distribution in rural India would help the company achieve steady growth in the medium term. Copra prices corrected by 1% q-o-q and 19% y-o-y and are expected to further drop because of better supply in the market. Further, edible oil prices are expected to stabilise and fall in the quarters ahead. This would lead to flat raw-material inflation in FY2022 and be lower in FY2023. OPM would stand at 19-20% in the medium term.

Valuation – Retain Buy with an unchanged price target of Rs. 645

Marico is better-placed amongst the consumer goods companies with consistent fall in the copra prices, which will help the company to post a faster recovery in sales volumes driven by relevant pricing actions in key SKUs. While core portfolio (Parachute Coconut oil, Saffola Edible Oil and Value added Hair oil portfolio) is expected to achieve steady volume growth in the medium term led by market share gains, the food business and digital first brands are expected to scale-up fast due to improved penetration in key markets/channels. Thus, the company is well-poised to achieve consistent double-digit earnings growth over FY2021-24. Recent correction in the stock price makes valuation attractive at 36x its FY2024E EPS. We maintain a Buy recommendation on the stock with an unchanged price target of Rs. 645.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Dabur	58.5	52.6	43.2	47.4	41.3	33.7	26.4	27.9	30.9
Hindustan Unilever	60.4	54.3	45.5	42.9	38.2	32.7	36.5	24.9	30.0
Marico	55.9	49.3	42.0	40.8	36.5	31.1	41.0	45.8	52.4

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. 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 P*arachute, 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 over 5 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 (~37% 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
Saugata Gupta	Managing Director and CEO
Pawan Agrawal	Chief Financial Officer
Vinay M A	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	4.0
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)

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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by BNP PARIBAS

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

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