

H2 looks promising but valuations 'RICH'

CMP: INR 547

Rating: HOLD

Target Price: INR 559

Stock Info

BSE	531642
NSE	MARICO
Bloomberg	MRCO:IN
Reuters	MRCO.BO
Sector	Personal Products
Face Value (INR)	1
Equity Capital (INR cr)	129
Mkt Cap (INR cr)	70,555
52w H/L (INR)	4,004/ 3,318
Avg Yearly Volume (in 000')	36

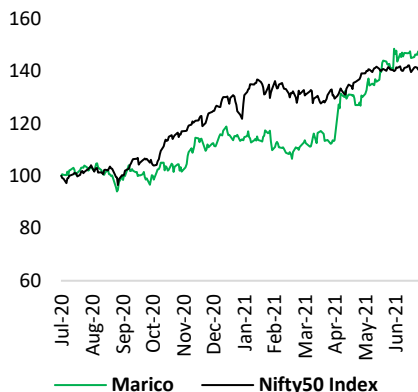
Shareholding Pattern %

(As on June, 2021)

Promoters	59.6
FII	24.9
DII	9.6
Government	0.1
Public & Others	5.8

Stock Performance (%)	3m	6m	12m
Marico	29	29	46
Nifty 50	6	16	42

Marico Vs Nifty



Marico performance was broadly in-line with our estimates. Its Revenue of INR2,525cr was slightly lower by 0.3% of our estimates to INR2,532cr. Domestic business saw 21% volume growth on account of favourable base (14% volume decline) and broad-based performance across key segments (particularly Saffola and VAHO franchisee. All three core segments (Saffola edible oil - 12%; VAHO - 34%; Parachute - 12%) delivered strong volume led performance on back of favourable base, market share gains from unorganized sector and increased in-home consumption (more applicable to Saffola).

International business reported 21% CC revenue growth driven by favorable base as MENA/South Africa grew 74%/52% respectively. However, with rising covid cases in Bangladesh and Vietnam disappointed with 9%/16% growth on a favorable base. As per management, South Africa will witness a slowdown going forward on the back of political unrest and rising covid cases.

Gross Margin contraction (760bps) to 41% continues to increase vs 311bps contraction QoQ on account of RM inflation (Copra up 21%, Rice brand oil up 68%, LLP up 51%, HDPE up 47% YoY). However, management has guided that gross margin will improve sequentially on account of copra prices expected to remain range-bound in FY22 on YoY basis and company is intent to take price hikes in Saffola edible oil portfolio.

Marico reported EBITDA margin of 19%, a decline of 521bps YoY but 65bps better than our estimate of 18.4%. Despite higher A7P spends, decline in EBITDA margin was controlled by tight lid on operating costs and employee costs.

During FY21, the company had taken number of initiatives and has been able to save INR1.5-2bn via focussing on analytics, better resource allocation in sales and market department, SKU rationalization (25% reduction), cost transformation exercise, which it now plans to take to overseas markets (Egypt and Vietnam). Management guided to continue the same initiatives in FY22 with similar target.

Valuation & Outlook: Marico continues to consolidate its leadership position with market share gains across its core segments: coconut oil, value added hair oils, and super premium refined edible oils. We believe these segment possess significant headroom for category growth as well as market share gains, the short-term rural demand slowdown notwithstanding. We opine that, through attractive pricing and enhanced distribution reach, the company has the ability to drive unbranded to branded conversions and penetration at the bottom of the pyramid. In addition, the company can also experiment the premiumization category in select pockets through product innovations by delivering enhanced value to the consumer.

Marico management suggested a few critical shifts in short-term focus areas – (1) renewed focus on the core portfolio, (2) aggressiveness at the value end of the market as opposed to premium, (3) accelerated NPDs in foods and entry in the hygiene space, and (4) higher thrust on ramping up direct distribution in the rural markets.

Given the well diversified product portfolio and a strong presence of Marico in some key emerging markets that are growing faster than the domestic market and with new launches lined up, we believe the company has significant growth potential for a long term perspective.

We expect Marico to report a Revenue/EBITDA/PAT CAGR of 21%/19.1%/17.4% to INR11,775cr/INR2,255cr/INR1,658cr, over FY21-FY23E, respectively. We believe that going forward, 1) Saffola portfolio volume growth to moderate as covid tailwind recedes, 2) Foods business (INR8bn) and Digital brands (INR5bn) to have lower margin (on the account of increasing A&P spends & lower entry barrier), 3) increasing competitive intensity in the hair oil category and 4) company is entering at high base & is trading at rich valuations. We maintain HOLD rating with a TP of INR559per share (PE of 43x on FY23E). We would 'wait and watch' for more constructive entry point and comfortable valuations.

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Key Concall takeaways**Business Performance**

➤ The core business continues to gain market share on MAT basis on the back of market leadership and strengthening equity. More than 90% of the portfolio gained market share on MAT basis.

➤ Urban and rural traditional channel continue to grow healthy at 17% in volume terms. E-comm grew 61%, MT 10% and CSD 56% YoY, respectively.

➤ Quarter started on a strong note but due to covid, April end when the mobility was impacted. This time, rural demand was impacted unlike last year.

➤ Marico to deliver 8-10% volume growth for the next 3 quarters and international business to register double digit growth on CC basis.

➤ A deflation starts in edible oil, company will manage margins and volume.

➤ The company will reverse price hikes once downward trajectory in edible oils happens.

➤ Prices difference evident in Copra in India and International.

➤ Gross margin will improve QoQ and should settle down in H2FY22.

➤ Company is looking to achieve 19% operating margins.

➤ No pricing action in Parachute.

➤ Digital brands operate like start-ups. Lot of learning curve for the company.

➤ Company targets INR4.5-5bn top-line by FY24 under the digital brand driven by 4-5 brands.

➤ Beardo to work in the combination of E-comm, D2C and MT. GT will be avoided at the moment.

➤ Saffola's incremental is due to 60% new consumers and 40% from existing consumers increasing their consumption.

➤ To drive growth in Saffola Gold and Saffola Total.

➤ Company will be happy with high single digit growth in Saffola.

➤ Focus on Personal care brands for building digital care business.

➤ Inventory management, SKU management and WFH will save costs.

➤ Company has the aspiration to grow Livon and Set Wet at 20% plus levels and will increase penetration.

➤ Company is planning to expand rural distribution by 25% in next 2 years.

➤ Company have started appointing specialized chemist based stockists / distributors in metro cities as it now broad based product portfolio (premium hair oil, skin care, honey and immunity boosting products) to offer to chemist based stores.

Parachute

➤ Parachute Rigids grew by 12% YoY in volumes in Q1FY22, albeit on a low base. Brand continues to strengthened its presence in both core and non-core markets. However, the extended lockdowns in the core markets of South and West regions affected growth during the quarter.

➤ The branded coconut oil with the rigid packs gained volume market share of 80bps (MAT June 21)

➤ General Trade & E-Com led the growth, while CSD also recovered.

➤ The brand is well poised to sustain its good run over the medium term with focused distribution drives and improving salience in both core & non-core markets.

VAHO

➤ Value Added Hair Oils grew 34% YoY in volume terms in Q1FY22, on a weak base, which was due to billing constraints in April last year.

➤ All key brands in the franchise posted high double-digit volume growth.

➤ The segment gained ~70 bps in volume market share in overall hair oils category on a MAT basis.

➤ The company aims to sustain a double digit growth trajectory over the medium term: 1) Bottom Pyramid: on the back of continued aggressive participation, 2) Mid-Segment: driving growth through right pricing & brand renovation and, 3) Premium Segment: market share gains through innovation.

Saffola

➤ The Saffola franchise, comprising Refined Edible Oils and Foods, had a robust quarter. The portfolio delivered 24% YoY volume growth and 60% YoY growth in value terms.

➤ Saffola refined edible oils delivered low double-digit volume growth for the seventh consecutive quarter on the back of increased household penetration and growing relevance of healthy cooking.

➤ The brand gained 450bps in volume market share to ~82% on MAT basis in the Super Premium Refined Edible Oils category.

➤ Saffola Foods grew by more than 100% YoY in value terms in Q1FY22. The Oats franchise continued to ride on the increasing consciousness towards healthy eating and posted a value growth of 59% YoY in Q1FY22. The value market share of Saffola Masala Oats strengthened by ~650bps to ~94% in the flavored oats category on MAT basis.

➤ Company have an aim to achieve INR500cr in FY22E.

➤ As per management, most of the new launches in the Foods portfolio continued to gain traction. **Saffola Honey** has been gaining salience across channels. The brand is gaining market share in key MT chains, has hit double-digits and consolidated above 25% in the E-Com channel. The brand continues to grow sequentially in GT as well. The company has launched a 100gm trial pack to expand distribution and aid trials.

Saffola Mealmaker: Soya Chunks has gained healthy traction since launch. The brand has tasted success in West Bengal in GT and it was extended to the rest of East and select regions in the North in Q1FY22. The brand has garnered ~14% share in MT since launch in Q3FY21.

Saffola Arogyam Chyawan Amrut: The brand has not scaled up as expected. The management is strategising by revamping the mix and expects to make some headway going forward.

Saffola Oodles has been witnessing an encouraging response on all channels. The brand is scaling up well in GT & MT, and is among the top 5 Bestsellers in the Pasta and Noodles category on Amazon. The category is INR100bn, and management is targeting 2-3% market share, can be meaningful for the company.

Male grooming and premium hair care

➤ The Premium Personal Care portfolio, comprising Premium Hair Nourishment and Male Grooming, recovered smartly on a YoY basis.

➤ Male Grooming came back strongly on a weak base, but still below pre-Covid levels.

➤ **Beardo:** The brand is tracking in line of internal aspirations and gaining tractions after the initial covid induced headwinds. The target is to close the year at a run rate of INR1bn. The company will continue brand investments and strengthening equity over the medium term.

➤ Livon Serums continued to witness positive traction post covid headwinds.

➤ Management expects these portfolios to be growth engines of the future, given the leadership position of our brands and low penetration of these categories.

International Business

Bangladesh

- The business reported 9% CC growth YoY.
- Parachute Coconut oil grew 4% in CC terms. Non-coconut oil portfolio grew by 20% in CC terms led by VAHO. The new product Just for Baby (baby care) and Naturale Shampoos are trending well.
- As per management, Bangladesh is witnessing a rise in covid cases which can impact the business in near term.

South East Asia

- The business grew % YoY on CC terms on low base.
- Vietnam saw a recovery on Home & Personal care on YoY basis and food business continued its positive momentum.
- In June, the company had launched a hair body wash range under the brand name X-Men Clean and Fresh, including ingredients like Himalyan Salts and Korean Aloe Vera.

MENA

- The business reported 74% growth in CC terms led by a weak base.
- South Africa business grew 52% YoY in CC terms led by low base, driven by Health Care portfolio.
- The company remains cautiously optimistic about the growth outlook. The company will drive the growth through aggressive cost management strategy.

Quarter Result

Q1FY22 Result Analysis

Y/E March (Rscr)	Q1FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
Net sales	1,925	2,012	2,525	31.2	25.5
Net raw material & Purchase of finished goods	989	1,124	1,489	50.6	32.5
% of sales	51.4	55.9	59.0		
Employee expenses	135	150	150	11.1	-
% of sales	7.0	7.5	5.9		
Advertisement Expenses	137	173	175	27.7	1.2
% of sales	7.1	8.6	6.9		
Other expenses	197	246	230	16.8	(6.5)
% of sales	10.2	12.2	9.1		
Total expenditure	1,458	1,693	2,044	40.2	20.7
Operating Profit	467	319	481	3.0	50.8
OPM(%)	24.3	15.9	19.0		
Interest	9	10	8	(11.1)	(20.0)
PBDT	458	309	473	3.3	53.1
Depreciation	34	36	33	(2.9)	(8.3)
Other income	19	29	27	42.1	(6.9)
Exceptional item	(64)	-	-		
Share of JV/Associate less minority interest	(2)	19	-		
PBT	505	321	467	(7.5)	45.5
Tax	117	56	102		
Effective tax rate (%)	23.2	17.4	21.8		
Reported PAT	388	265	365	(5.9)	37.7
Comprehensive income	(2)	(2)	14		-
Adjusted PAT	386	263	379	(1.8)	44.1
NPM(%)	20.1	13.1	15.0		
EPS (Rs.)	3.0	2.0	2.9	(1.8)	44.1
Equity	129	129	129	-	-

Source: Company & Arihant Research

Result declared vs Our estimates

Y/E Mar (Rscr)	Q1FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)	Arihant Capital estimates	Variation (%)
Net Sales	1,925	2,012	2,525	31.2	25.5	2,532	(0.3)
EBITDA	467	319	481	3.0	50.8	466	3.2
EBITDA (%)	24.3	15.9	19.0	(521)	319	18.4	65
Reported PAT	388	265	365	(5.9)	37.7	356	2.4

Source: Company & Arihant Research

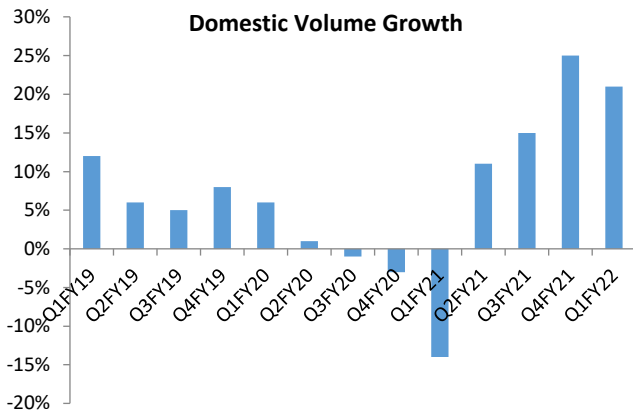
Quarterly Result

Geography Break-up

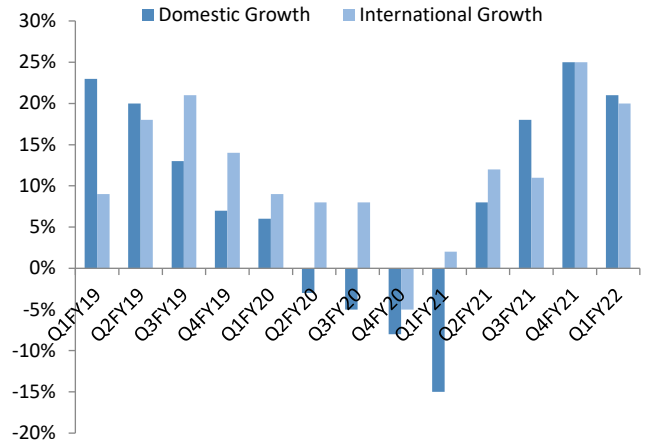
Y/E Mar (Rscr)	Q1FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
Sales					
India	1,480	1,574	1,998	35.0	26.9
International	445	438	534	20.0	21.9
Total	1,925	2,012	2,532	31.5	25.8
% of Sales Contribution					
India	76.9	78.2	78.9	203	68
International	23.1	21.8	21.1	(203)	(68)
EBIT					
India	358	254	354	(1.1)	39.4
International	125	83	139	11.2	67.5
Total	483	337	493	2.1	46.3
EBIT (%)					
India	24.2	16.1	17.7	(647)	158
International	28.1	18.9	26.0	(206)	708
Total	25.1	16.7	19.5	(562)	272

Source: Company & Arihant Research

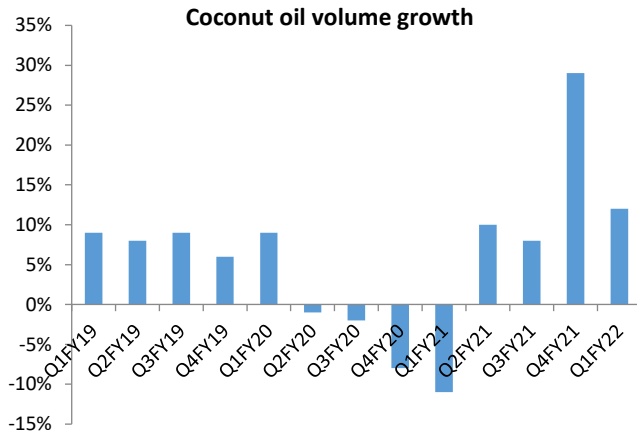
Quarter Result



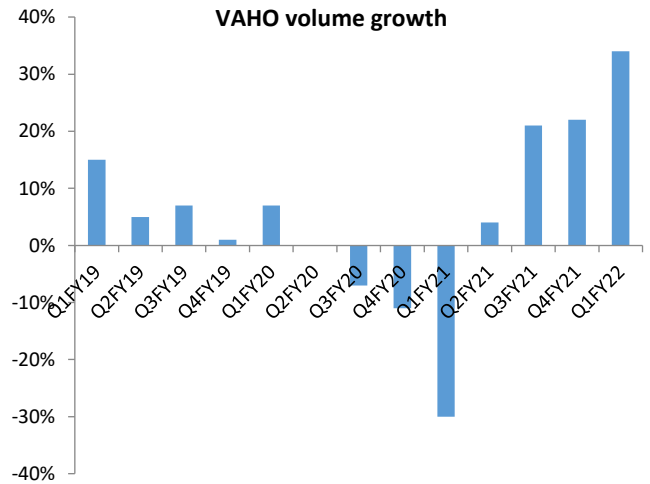
Source: Company & Aриhant Research



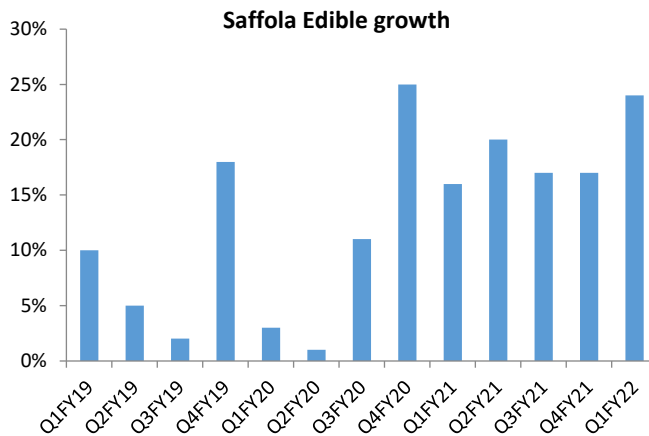
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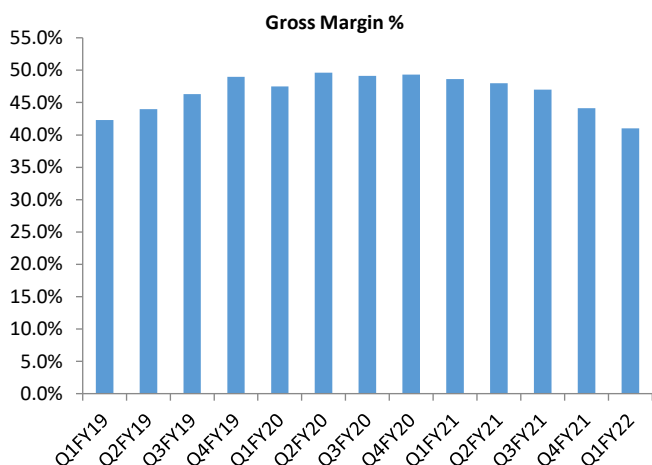


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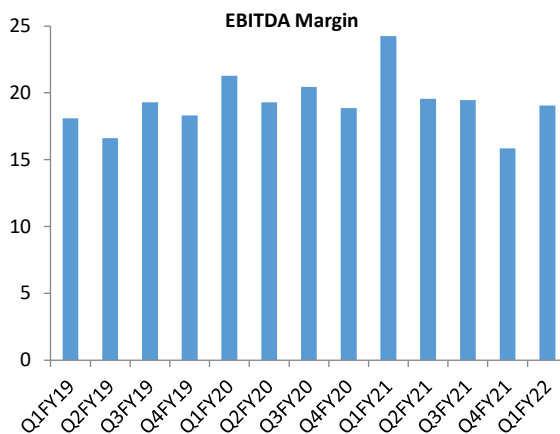


Source: Company & Aриhant Research

Quarterly Result



Source: Company & Arianth Research



Source: Company & Arianth Research

Market Share trends	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Coconut Oil	59%	59%	59%	60%	60%	61%	62%	62%	62%	62%	61%	62%
Saffola Super premium ROCP	71%	72%	73%	73%	75%	76%	76%	77%	77%	76%	81%	82%
VAHO	34%	34%	34%	34%	35%	35%	35%	36%	36%	35%	37%	37%
Saffola Oats	29%	29%	29%	30%	31%	32%	33%	34%	34%	33%	38%	39%
Post wash leave on serum	78%	76%	75%	63%	64%	65%	65%	65%	65%	65%	63%	63%
Hair gels/wax/creams	62%	61%	60%	60%	60%	59%	59%	59%	59%	59%	57%	58%

Source: Company & Arianth Research

Income statement summary

Y/e 31 Mar (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Revenue	7,334	7,315	8,048	10,239	11,775
Net Raw Materials	4,017	3,745	4,270	5,478	6,241
Advt & Promotion	659	727	698	922	1,060
Employee Cost	466	478	570	717	795
Other Expenses	866	896	919	1,249	1,425
Total Expenses	6,008	5,846	6,457	8,366	9,520
EBITDA	1,326	1,469	1,591	1,874	2,255
EBITDA %	18.1	20.1	19.8	18.3	19.2
Depreciation	(131)	(140)	(139)	(166)	(196)
Interest expense	(40)	(50)	(34)	(32)	(30)
Other income	103	124	94	95	97
Exceptional items	-	29	(13)	-	-
Profit before tax	1,276	1,452	1,519	1,789	2,145
Taxes	(126)	(331)	(324)	(389)	(468)
Minorities and other	(1)	-	(2)	-	-
Reported Net profit	1,151	1,121	1,197	1,399	1,677
Comprehensive income	-18	42	5	0	0
Net profit	1,133	1,163	1,202	1,399	1,677
EPS (INR)	8.6	8.4	9.3	10.7	12.9

Ratio analysis

Y/e 31 Mar (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Growth matrix (%)					
Revenue growth	15.8	(0.3)	10.0	27.2	15.0
Op profit growth	16.5	10.8	8.3	17.8	20.3
Net profit growth	36.1	(2.6)	6.8	16.9	19.9
Profitability ratios (%)					
RoCE	36.4	31.0	33.0	32.2	29.9
RoNW	40.3	36.2	38.4	35.9	32.3
RoA	30.5	29.4	30.2	26.8	25.6
Per share ratios					
Book value per share	23.1	23.4	25.1	34.4	45.0
Valuation ratios					
P/E	61.3	62.9	59.0	50.4	42.1
P/CEPS	55.0	56.0	52.8	45.1	37.7
P/B	23.7	23.3	21.8	15.9	12.1
EV/EBIDTA	53.1	48.1	43.9	36.9	30.2
Payout (%)					
Dividend payout	0.2	0.3	0.2	0.9	0.8
Tax payout	9.9	22.8	21.3	21.8	21.8
Liquidity ratios					
Debtor days	25.4	26.5	17.4	22.0	22.0
Inventory days	126.5	132.7	94.9	95.0	95.0
Creditor days	56.6	60.2	63.2	63.0	63.0

Balance sheet summary

Y/e 31 Mar (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	129	129	129	129	129
Reserves	2,846	2,894	3,111	4,314	5,682
Net worth	2,975	3,023	3,240	4,443	5,811
Minority Interest	12	13	18	18	18
Debt	563	558	552	502	477
Other non-current liabilities	20	21	24	24	24
Deferred tax liab (net)	74	80	156	156	156
Total liabilities	3,644	3,695	3,990	5,143	6,486
Fixed assets	572	654	572	630	674
Capital Work In Progress	45	58	24	40	47
Other Intangible assets	55	41	230	230	230
Goodwill	503	538	613	613	613
Investments	105	153	288	288	288
Other non current assets	429	376	447	512	589
Inventories	1,411	1,380	1,126	1,446	1,647
Sundry debtors	517	539	388	626	720
Loans & Advances	5	5	6	6	7
Other current assets	320	348	239	313	360
Sundry creditors	(944)	(978)	(1,134)	(1,464)	(1,666)
Other current liabilities & Prov	(321)	(329)	(386)	(484)	(556)
Cash	552	279	944	1,592	2,619
Other Financial Assets	395	631	633	796	916
Miscellaneous Exp	0	0	0	0	0
Total assets	3,644	3,695	3,990	5,143	6,486

Cashflow summary

Y/e 31 Mar (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Profit before tax	1,276	1,452	1,519	1,789	2,145
Depreciation	131	140	139	166	196
Tax paid	(126)	(331)	(324)	(389)	(468)
Working capital Δ	21	23	726	(203)	(68)
Other operating items	(17)	(35)	(75)	-	-
Operating cashflow	1,285	1,249	1,985	1,362	1,805
Capital expenditure	(187)	(235)	(23)	(240)	(247)
Free cash flow	1,098	1,014	1,962	1,122	1,558
Equity raised	(698)	(1,112)	(982)	(183)	(297)
Investments	1	(48)	(135)	-	-
Others	(257)	(169)	(262)	(228)	(196)
Debt financing/disposal	233	(5)	(6)	(50)	(25)
Dividends paid	(3)	(3)	(3)	(13)	(13)
Equity Buy back	-	-	-	-	-
Capital subsidy	-	-	-	-	-
Other items	(23)	50	91	-	-
Net Δ in cash	351	(273)	665	648	1,027
Opening Cash Flow	201	552	279	944	1,592
Closing Cash Flow	552	279	944	1,592	2,619

Source: Company & Arihant Research

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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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