

Revenue recovery; Concern on Input cost front

CMP: INR 411

Rating: Accumulate

Target Price: INR 466

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)	5,31,326
52w H/L (Rs)	433/ 277
Avg Yearly Vol (in 000')	3233

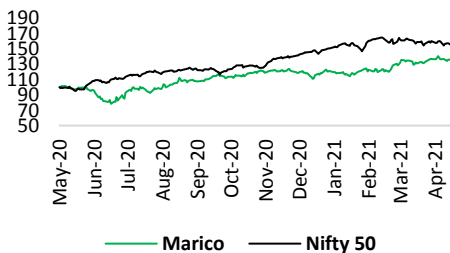
Shareholding Pattern %

(As on March, 2021)

Promoters	59.61
Public & Others	40.39

Stock Performance (%)	3m	6m	12m
Marico	14.7	14.7	20.5
Nifty	16.8	21.7	12.4

Marico Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Marico has reported a mixed set of numbers in Q4FY21. consolidated revenue stood above our estimates. while PAT is in line with our estimates. Disappointment on the EBITDA side. Consolidated revenue stood at INR 20,120 Mn, above our estimates of INR 17,179 Mn registering +34.49% YoY/-5.18% QoQ. Backed by robust volume growth of 25% in the domestic business and constant currency growth of 23% in the international business .EBITDA stood at INR 3,190 Mn, below our estimate of INR 3,205 Mn, registering + 13.12%YoY/-22.76%QoQ as tight cost controls and operating leverage kicked in to reduce the impact on EBITDA margins to 300 bps. On the margins front, EBITDA margin was down by -300bps YoY/-361bps QoQ to 15.9%, against our estimates -81bps YoY to 18.7%. The Gross margin was down 517 bps owing to the severe input cost pressure, as pricing interventions in the core portfolios were not commensurate to the inflation. Standalone PAT saw an increase of 14%YoY/-27.24% QoQ to INR 2,270 Mn vs above our estimate of INR 2,178 Mn.

Q4FY21 Segment Highlights

- **Coconut oil:** Parachute Rigids grew by 29% in volumes in Q4FY21 on a lockdown-affected base. The brand firmly held its ground, despite a pullback of consumer offers and MRP increase of 4% during the quarter, in response to the sharp inflation in copra prices. In H2, the cumulative increase in effective consumer prices has been ~9%.
- **Saffola Edible Oils** Saffola refined edible oils grew 17% in volumes in Q4FY21. The brand has delivered double-digit volume growth for the sixth consecutive quarter on the back of increased household penetration and growing relevance of healthy cooking.
- **Value Added Hair Oils** grew 22% in volumes with all of the key brands clocking double-digit growth in this quarter. The Company estimates steady market share gains in the overall hair oils category.
- **The Foods portfolio** grew 134% in value terms in Q4 and crossed INR 3000Mn in turnover in FY21.

Valuations

At CMP of INR 411, Marico is trading at a FY23 P/E of 35.3x to its EPS of INR 11.6. we believe Marico is gaining market share in the core domestic portfolio through new launches, scaling up the 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. Key risk: Any significant increase in key input prices from current levels.

We value the stock at a target P/E of 40x (unchanged) to its FY23E, which yields a target price of INR 466 per share. We maintain our Accumulate rating on the stock.

YE March	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY19	73,340	13,260	11,630	9.0	18.1%	38.8%	46.1
FY20	73,150	14,700	10,220	7.9	20.1%	33.7%	51.9
FY21	80,480	15,910	11,720	9.1	19.8%	36.2%	45.3
FY22E	93,357	17,831	13,071	10.1	19.1%	41.8%	40.6
FY23E	1,02,226	20,138	15,025	11.6	19.7%	48.0%	35.3

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

Q4 FY21 Financial Performance

INR Mn (consolidated)	Q4FY21	Q3FY21	Q4FY20	Q-o-Q	Y-o-Y
Net Revenue	20,120	21,220	14,960	-5.18%	34.49%
Material Cost	11,240	11,270	7,590	-0.27%	48.09%
Employee cost	1,500	1,480	1,080	1.35%	38.89%
Other Expenses	4,190	4,340	3,470	-3.46%	20.75%
EBITDA	3,190	4,130	2,820	-22.76%	13.12%
<i>EBITDA margin %</i>	<i>15.9%</i>	<i>19.5%</i>	<i>18.9%</i>	<i>-361bps</i>	<i>-300bps</i>
Other Income	290	240	320	20.83%	-9.38%
Depreciation	360	360	380	0.00%	-5.26%
EBIT	3,120	4,010	2,760	-22.19%	13.04%
Finance cost	100	70	130	42.86%	-23.08%
Share of P/L of joint ventures	-	-	-10	-	-
PBT before exceptional item	3,020	3,940	2,620	-23.35%	15.27%
Exceptional item	190	-	100		
PBT	2,830	3,940	2,520	-28.17%	12.30%
Tax Expense	560	820	530	-31.71%	5.66%
Effective tax rate %	18.5%	20.8%	20.2%	-227bps	-169bps
PAT	2,270	3,120	1,990	-27.24%	14.07%
MI & Associates	-80	-50	-50		
Consolidated PAT	2,190	3,070	1,940	-28.66%	12.89%
<i>PAT margin %</i>	<i>10.9%</i>	<i>14.5%</i>	<i>13.0%</i>	<i>-358bps</i>	<i>-208bps</i>
EPS (INR)	1.7	2.4	1.5	-	-

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

Note: Exceptional item for the quarter and year end March 2021 represent provision amounting INR 190mn towards impairment goodwill and consolidation arising out of investment in South Africa.

Q4FY21 Conference Call Highlights

- For the Company rural contribution to domestic sales has increased by 2% In FY21.
- E-commerce which contributes to the extent of 8% to the revenue continues to grow while modern trade posted yy drop due to pre-lockdown scenario and pantry loading in the base quarter also CSD grew on a low base.
- Copra prices have corrected by about 15-16% from April-21 from its peak in 40FY21.
- Witnessed consistent Increase In Input cost In 40FY21 which is been partly passed on to consumer through multiple price Increase In key portfolios. The Company took price Increase to the extent of 30% in 40FY21 on account of Inflation In the edible oils. Also took further price increase to the extent of 15-20% in two rounds In April, 21 on account or 20% increase In key edible oil prices In Mar 21.
- The Company continued to gain market share on core portfolios on MAT basis.
- General trade continues to have good year with rural market growing at 18x to urban.
- In Edible oil the company is chasing price hike with 3-4 week lag while expect edible oil to cool off in June – July 21.
- Saffola witnessed increased household penetration with the growing relevance of health.
- The company is witnessing supply chain disruption due to state lockdown while not seeing any change in consumption pattern.
- Expect touch revenue INR 100 cr from Saffola honey in coming year, MT and e-commerce contributed of 40% in the total market.
- Target to deliver revenue INR 450-500 cr in FY22 and INR 850 cr by 2024 from foods business.
- Tax rate of 22-23% in FY22 and 22-24% for 3-4 years;
- Inventory days are lower on account of reduction in distribution holding (which is currently at 2015-2016 level),rationalized 26% of SKUs and automation in supply chain. Expects to maintain the inventory at same level.

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

Income Statement (INR Mn)

Year End-March	FY19	FY20	FY21	FY22E	FY23E
Revenues	73,340	73,150	80,480	93,357	1,02,226
<i>Change (%)</i>	16.0%	-0.3%	10.0%	16.0%	9.5%
Raw materials	40,170	37,410	42,700	49,292	53,668
Gross Profit	33,170	35,740	37,780	44,064	48,557
Employee costs	4,660	4,780	5,700	5,415	5,520
Other expenses	15,250	16,260	16,170	20,819	22,899
Total Expenses	60,080	58,450	64,570	75,526	82,087
EBITDA	13,260	14,700	15,910	17,831	20,138
Other Income	1,030	1,240	940	1,214	1,533
Depreciation	960	1,400	1,390	1,931	1,914
Interest	240	500	340	356	370
PBT	13,090	14,040	15,120	16,758	19,387
Extra-ordinary	0	290	-130	0	0
PBT after ext-ord.	13,090	13,750	15,230	16,758	19,387
Tax	1,280	3,310	3,240	3,687	4,362
<i>Rate (%)</i>	9.8%	24.1%	21.3%	22.0%	22.5%
PAT	11,810	10,440	11,990	13,071	15,025
MI & Associates	-180	220	270	0	0
Consolidated PAT	11,630	10,220	11,720	13,071	15,025
<i>Change (%)</i>	42.8%	-12.1%	14.7%	11.5%	14.9%

Balance Sheet (INR Mn)

Year End-March	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Share Capital	1,291	1,290	1,290	1,290	1,290
Reserves & Surplus	28,700	29,000	31,110	30,008	30,008
Net Worth	29,991	30,290	32,400	31,298	31,298
Loan Funds	3,490	3,350	3,480	3,630	3,780
MI, Deferred Tax & other liabilities	430	400	1,260	1,260	1,260
Capital Employed	33,911	34,040	37,140	36,188	36,338
Application of Funds					
Gross Block	10,654	11,374	12,990	12,876	12,762
Less: Depreciation	3,531	4,931	6,321	8,252	10,166
Net Block	7,123	6,443	6,669	4,624	2,596
CWIP	450	580	240	240	240
Other non current assets	990	1,000	810	810	810
Deferred tax assets	1,880	1,590	1,860	1,860	1,860
Net Fixed Assets	10,443	9,613	9,579	7,534	5,506
Investments	4,250	7,040	8,540	8,540	8,540
Debtors	5,170	5,390	3,880	5,115	5,601
Inventories	14,110	13,800	11,260	12,965	14,116
Cash & bank balance	5,088	2,790	9,440	12,383	13,436
Loans & advances & other CA	3,330	3,430	2,680	7,319	8,060
Total Current Assets	27,698	25,410	32,101	37,781	41,213
Current liabilities	12,260	12,793	11,110	17,648	19,325
Provisions	1,250	610	210	210	210
Net Current Assets	14,188	12,007	20,781	19,923	21,678
Total Assets	33,911	34,040	37,140	36,188	36,338

Cash Flow Statement (Rs Mn)

Year End-March	FY19	FY20	FY21	FY22E	FY23E
PBT	13,090	13,750	15,230	16,758	19,387
Depreciation	960	1,400	1,390	1,931	1,914
Interest & others	-970	-520	-330	-858	-1,163
Cash flow before WC changes	13,080	14,630	16,290	17,831	20,138
(Inc)/dec in working capital	150	-437	3,497	-1,040	-702
Operating CF after WC changes	13,230	14,193	19,787	16,791	19,436
Less: Taxes	-1,280	-3,310	-3,240	-3,687	-4,362
Operating cash flow	11,950	10,883	16,547	13,104	15,074
(Inc)/dec in F.A + CWIP	-3,195	350	-376	114	114
(Pur)/sale of investment	980	-2,790	-1,500	0	0
Cash flow from investing	-2,215	-2,440	-1,876	114	114
Free cash flow (FCF)	10,905	11,303	17,001	13,218	15,188
Loan raised/(repaid)	400	-140	130	150	150
Equity raised	0	-1	0	0	0
Interest & others	688	-1,366	1,850	-1,281	-4,610
Dividend	-7,745	-9,675	-9,030	-9,675	-9,675
Cash flow from financing activities	-6,658	-11,182	-7,050	-10,806	-14,135
Net inc/(dec) in cash	3,078	-2,739	7,621	2,412	1,053
Opening balance of cash	2,011	5,088	2,350	9,970	12,383
Closing balance of cash	5,088	2,350	9,970	12,383	13,436

Key Ratios

Year End-March	FY19	FY20	FY21	FY22E	FY23E
Per Share (Rs)					
EPS	9.0	7.9	9.1	10.1	11.6
CEPS	9.8	9.0	10.2	11.6	13.1
BVPS	23.2	23.5	25.1	24.3	24.3
DPS	6.0	7.5	7.0	7.5	7.5
Payout (%)	66.6%	94.7%	77.0%	74.0%	64.4%
Valuation (x)					
P/E	46	52	45	41	35.3
P/CEPS	42.6	45.7	40.5	35.4	31.3
P/BV	17.9	17.5	16.4	17.0	17.0
EV/EBITDA	34.5	31.3	28.5	25.3	22.3
Dividend Yield (%)	1.4%	1.8%	1.7%	1.8%	1.8%
Return Ratio (%)					
EBIDTA Margin	18.1%	20.1%	19.8%	19.1%	19.7%
PAT Margin	15.9%	14.0%	14.6%	14.0%	14.7%
ROE	38.8%	33.7%	36.2%	41.8%	48.0%
ROCE	36.3%	39.1%	39.1%	43.9%	50.2%
Leverage Ratio (%)					
Total D/E	0.1	0.1	0.1	0.1	0.1
Net D/E	-0.1	0.0	-0.2	-0.3	-0.3
Turnover Ratios					
Asset Turnover (x)	2.2	2.1	2.2	2.6	2.8
Inventory Days	128	135	96	96	96
Receivable Days	26	27	18	20	20
Payable days	67	67	51	69	69

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880