

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

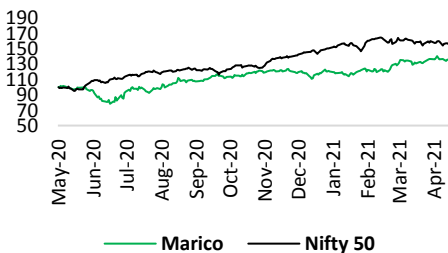
**Shareholding Pattern %**

(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**



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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)
<b>FY19</b>	73,340	13,260	11,630	9.0	18.1%	38.8%	46.1
<b>FY20</b>	73,150	14,700	10,220	7.9	20.1%	33.7%	51.9
<b>FY21</b>	80,480	15,910	11,720	9.1	19.8%	36.2%	45.3
<b>FY22E</b>	93,357	17,831	13,071	10.1	19.1%	41.8%	40.6
<b>FY23E</b>	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
<b>Net Revenue</b>	<b>20,120</b>	<b>21,220</b>	<b>14,960</b>	<b>-5.18%</b>	<b>34.49%</b>
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%
<b>EBITDA</b>	<b>3,190</b>	<b>4,130</b>	<b>2,820</b>	<b>-22.76%</b>	<b>13.12%</b>
<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%
<b>EBIT</b>	<b>3,120</b>	<b>4,010</b>	<b>2,760</b>	<b>-22.19%</b>	<b>13.04%</b>
Finance cost	100	70	130	42.86%	-23.08%
Share of P/L of joint ventures	-	-	-10	-	-
<b>PBT before exceptional item</b>	<b>3,020</b>	<b>3,940</b>	<b>2,620</b>	<b>-23.35%</b>	<b>15.27%</b>
<b>Exceptional item</b>	<b>190</b>	<b>-</b>	<b>100</b>		
<b>PBT</b>	<b>2,830</b>	<b>3,940</b>	<b>2,520</b>	<b>-28.17%</b>	<b>12.30%</b>
Tax Expense	560	820	530	-31.71%	5.66%
Effective tax rate %	18.5%	20.8%	20.2%	-227bps	-169bps
<b>PAT</b>	<b>2,270</b>	<b>3,120</b>	<b>1,990</b>	<b>-27.24%</b>	<b>14.07%</b>
MI & Associates	-80	-50	-50		
<b>Consolidated PAT</b>	<b>2,190</b>	<b>3,070</b>	<b>1,940</b>	<b>-28.66%</b>	<b>12.89%</b>
<i>PAT margin %</i>	<i>10.9%</i>	<i>14.5%</i>	<i>13.0%</i>	<i>-358bps</i>	<i>-208bps</i>
<b>EPS (INR)</b>	<b>1.7</b>	<b>2.4</b>	<b>1.5</b>	<b>-</b>	<b>-</b>

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
<b>Revenues</b>	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
<b>Gross Profit</b>	<b>33,170</b>	<b>35,740</b>	<b>37,780</b>	<b>44,064</b>	<b>48,557</b>
Employee costs	4,660	4,780	5,700	5,415	5,520
Other expenses	15,250	16,260	16,170	20,819	22,899
<b>Total Expenses</b>	<b>60,080</b>	<b>58,450</b>	<b>64,570</b>	<b>75,526</b>	<b>82,087</b>
<b>EBITDA</b>	<b>13,260</b>	<b>14,700</b>	<b>15,910</b>	<b>17,831</b>	<b>20,138</b>
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
<b>PBT</b>	<b>13,090</b>	<b>14,040</b>	<b>15,120</b>	<b>16,758</b>	<b>19,387</b>
Extra-ordinary	0	290	-130	0	0
<b>PBT after ext-ord.</b>	<b>13,090</b>	<b>13,750</b>	<b>15,230</b>	<b>16,758</b>	<b>19,387</b>
Tax	1,280	3,310	3,240	3,687	4,362
<i>Rate (%)</i>	9.8%	24.1%	21.3%	22.0%	22.5%
<b>PAT</b>	<b>11,810</b>	<b>10,440</b>	<b>11,990</b>	<b>13,071</b>	<b>15,025</b>
<b>MI &amp; Associates</b>	<b>-180</b>	<b>220</b>	<b>270</b>	<b>0</b>	<b>0</b>
<b>Consolidated PAT</b>	<b>11,630</b>	<b>10,220</b>	<b>11,720</b>	<b>13,071</b>	<b>15,025</b>
<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
<b>Sources of Funds</b>					
Share Capital	1,291	1,290	1,290	1,290	1,290
Reserves & Surplus	28,700	29,000	31,110	30,008	30,008
<b>Net Worth</b>	<b>29,991</b>	<b>30,290</b>	<b>32,400</b>	<b>31,298</b>	<b>31,298</b>
<b>Loan Funds</b>	<b>3,490</b>	<b>3,350</b>	<b>3,480</b>	<b>3,630</b>	<b>3,780</b>
MI, Deferred Tax & other liabilities	430	400	1,260	1,260	1,260
<b>Capital Employed</b>	<b>33,911</b>	<b>34,040</b>	<b>37,140</b>	<b>36,188</b>	<b>36,338</b>
<b>Application of Funds</b>					
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
<b>Net Fixed Assets</b>	<b>10,443</b>	<b>9,613</b>	<b>9,579</b>	<b>7,534</b>	<b>5,506</b>
<b>Investments</b>	<b>4,250</b>	<b>7,040</b>	<b>8,540</b>	<b>8,540</b>	<b>8,540</b>
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
<b>Total Current Assets</b>	<b>27,698</b>	<b>25,410</b>	<b>32,101</b>	<b>37,781</b>	<b>41,213</b>
Current liabilities	12,260	12,793	11,110	17,648	19,325
Provisions	1,250	610	210	210	210
<b>Net Current Assets</b>	<b>14,188</b>	<b>12,007</b>	<b>20,781</b>	<b>19,923</b>	<b>21,678</b>
<b>Total Assets</b>	<b>33,911</b>	<b>34,040</b>	<b>37,140</b>	<b>36,188</b>	<b>36,338</b>

**Cash Flow Statement (Rs Mn)**

Year End-March	FY19	FY20	FY21	FY22E	FY23E
<b>PBT</b>	<b>13,090</b>	<b>13,750</b>	<b>15,230</b>	<b>16,758</b>	<b>19,387</b>
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
<b>(Inc)/dec in working capital</b>	<b>150</b>	<b>-437</b>	<b>3,497</b>	<b>-1,040</b>	<b>-702</b>
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
<b>Operating cash flow</b>	<b>11,950</b>	<b>10,883</b>	<b>16,547</b>	<b>13,104</b>	<b>15,074</b>
(Inc)/dec in F.A + CWIP	-3,195	350	-376	114	114
(Pur)/sale of investment	980	-2,790	-1,500	0	0
<b>Cash flow from investing</b>	<b>-2,215</b>	<b>-2,440</b>	<b>-1,876</b>	<b>114</b>	<b>114</b>
<b>Free cash flow (FCF)</b>	<b>10,905</b>	<b>11,303</b>	<b>17,001</b>	<b>13,218</b>	<b>15,188</b>
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
<b>Cash flow from financing activities</b>	<b>-6,658</b>	<b>-11,182</b>	<b>-7,050</b>	<b>-10,806</b>	<b>-14,135</b>
<b>Net inc/(dec) in cash</b>	<b>3,078</b>	<b>-2,739</b>	<b>7,621</b>	<b>2,412</b>	<b>1,053</b>
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
<b>Per Share (Rs)</b>					
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%
<b>Valuation (x)</b>					
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%
<b>Return Ratio (%)</b>					
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%
<b>Leverage Ratio (%)</b>					
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
<b>Turnover Ratios</b>					
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

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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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