

Beats Estimates; Saffola Oils and Foods category leading the way

CMP: Rs 351

Rating: Accumulate

Target Price: Rs 391

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 cr)	452457
52w H/L (Rs)	404/ 234
Avg Yearly Vol (in 000')	2723

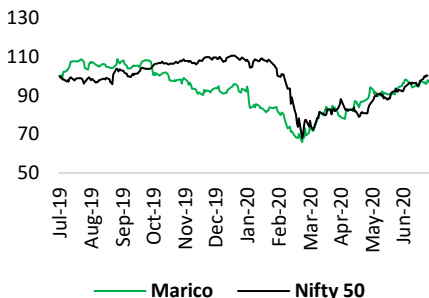
Shareholding Pattern %

(As on June, 2020)

Promoters	59.62
Public & Others	40.38

Stock Performance (%)	3m	6m	12m
Marico	20.9	3.78	-3.9
Nifty	16.5	-7.51	-0.51

Marico Vs Nifty



Marico's Q1FY21 earnings were above our estimates on all fronts. Consolidated revenue stood at Rs 19,250 mn, above our estimate of Rs 18,470 mn, registering a growth of +28.68% QoQ/-11.13% YoY. Reported EBITDA grew by +65.60% QoQ/+0.86% YoY to Rs 4,670 mn, above our estimate of Rs 3,694 mn, while EBITDA margin expanded by 541bps QoQ/288bps YoY, aggressive cost control and rationalization of A&P spends in few discretionary portfolios on a lower topline, will lead to expansion of operating margins compared to the corresponding quarter last year. PAT for the quarter grew by +94.97% QoQ/+25.16% YoY to Rs 3,880 mn, beating our estimate of Rs 2,741 mn.

Q1FY21 Segment Highlights

- **Parachute Rigid**s remained on a firm footing as lockdown restrictions eased in May and June and recorded sales at 111% of annual average monthly run rate of the last year. However, volumes declined by 11% on a year-on-year basis on a high base (9% volume growth in Q1FY20) and due to heavily skewed sales in the Q1FY20. The volume market share of the Coconut Oil franchise (includes Nihar Naturals and Oil of Malabar) strengthened by about 180bps to 62% (MAT Jun'20)
- **Saffola Edible** refined edible oils grew by 16% in volume terms, furthering its healthy growth journey and topped up by the in-home consumption tailwind. The volume market share of the brand in the Super Premium Refined Edible Oils segment has expanded by ~330 bps to 77% (MAT Jun'20).
- **Premium Personal Care** categories (Serums, Skin Care and Male Grooming), owing to their discretionary nature, remained under significant stress.
- The **Foods** franchise posted value growth of 30% in Q1FY21, led by 41% growth in the Saffola Oats franchise. Both the plain and savory offerings grew healthily. Saffola Masala Oats continued to fortify its stronghold in the flavoured oats segment as its value market share expanded to 88% (MAT Jun'20).
- **International Business** declined by 4% in constant currency terms in Q1FY21. The operating margin in the international business stood at 29.8% in Q1FY21 vs 25.6% in Q1FY20.

Valuations

At CMP of Rs 351, Marico currently trades at a FY20 P/E of 43.4x. We have upgraded our revenue and PAT estimates owing to good Q1FY21 performance. EBITDA and margin improved in this quarter due to lower advertisement spend and strict cost control measures. We value the stock at a target P/E of 38.5x to its FY22E, which yields a target price of Rs 391 per share. **We maintain our Accumulate rating on the stock.**

YE March (Rs Mn)	Net Sales	EBITDA	PAT EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY19	73,340	13,260	11,630	9.0	18.1%	39.0
FY20	73,150	14,690	10,430	8.1	20.1%	43.4
FY21E	79,734	15,548	11,612	9.0	19.5%	39.0
FY22E	89,302	17,491	13,117	10.2	19.5%	34.5

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

Q1FY21 Financial Performance

Rs Mn (consolidated)	Q1FY21	Q4FY20	Q1FY20	Q-o-Q	Y-o-Y
Net Revenue	19,250	14,960	21,660	28.68%	-11.13%
Material Cost	9,840	7,590	11,370	29.64%	-13.46%
Employee cost	1,350	1,080	1,270	25.00%	6.30%
Other Expenses	3,390	3,470	4,390	-2.31%	-22.78%
EBITDA	4,670	2,820	4,630	65.60%	0.86%
<i>EBITDA margin %</i>	<i>24.3%</i>	<i>18.9%</i>	<i>21.4%</i>	<i>541bps</i>	<i>288bps</i>
Other Income	190	320	280	-40.63%	-32.14%
Depreciation	340	380	350	-10.53%	-2.86%
EBIT	4,520	2,760	4,560	63.77%	-0.88%
Finance cost	90	130	120	-30.77%	-25.00%
Exceptional Item	-640	-100	-190		-
Share of P/L of joint ventures	-20	-10			
PBT	5,050	2,520	4,250	100.40%	18.82%
Tax Expense	1,170	530	1,080	120.75%	8.33%
Effective tax rate %	23.2%	21.0%	25.4%	214bps	-224bps
PAT	3,880	1,990	3,170	94.97%	22.40%
MI & Associates	-	-	-70		
Consolidated PAT	3,880	1,990	3,100	94.97%	25.16%
<i>PAT margin %</i>	<i>20.2%</i>	<i>13.3%</i>	<i>14.3%</i>	<i>685bps</i>	<i>584bps</i>
EPS (Rs)	3.0	1.5	2.4	-	-

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

Q1FY21 Conference Call Highlights

- The extension of the national lockdown in India, April was nearly a complete washout month for most categories, other than edible oil food and hand sanitizers and coconut oil to a certain extent, company could resume meaningful billing of value added hair oil much latter than in the month, and recorded almost no saving premium personal care.
- However, since then the business has seen a smart recovery. India volume growth going by 3% in these two months on a YoY basis and continue to show growth in July this year. Typically Marico cross a higher share of the annual revenue in Q1FY21 not due to any seasonality in the portfolio, but on account of certain drives taken to start off the year on a positive note and building in momentum for the balance part of the year.
- In FY20 the Q1 was further accentuated to about 31%, because of a good Q1FY21 and subdued performance during the rest of the quarter, which was a function of the external environment, and a few internal misses in our portfolio and pricing in Q2 and Q3.
- India Business clocked sales at 104% of FY20 average run rate for the quarter. While optically volumes were 14% lower on YoY basis. Marico continue to strengthen market position by gaining market share in more than 90% of portfolio.
- Marico will be extremely aggressive driving market share gain in all the products and some of the high new tailwind new portfolio this year.
- Company has experienced in the last few months that is May June and July, and management are confident that they can carry the momentum and deliver growth for the balance part of the year to provided, the COVID situation doesn't drastically worsen from the current position.

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

- Notably, company secondaries have been in line with the primaries and we have not resorted to the up stocking or distributors of the destocking in the last couple of weeks of March as well as in Q3 period even the tough macroeconomic environment Marico continue to operate at lower distributing will increase to ensure ROI of company channel partner is optimized, and Marico will remove the option of restocking if at all.
- When the situation improves heightened social distancing norm and travel restrictions neighborhood kirana stores and e-commerce by modern trade as company grow.
- Company are now beginning to see some improvement in foreign trade, but company would expect the channel to underperform if Covid-19 situation worsen.
- Personal care loss was offset by new hygiene portfolio.
- Indian volume degrowth of 14%, grew 3% YoY in May & June.
- Hair oil segment performance good inspire of not being essential.
- Strong performance from Saffola oil & oats.

Near to Medium Term Outlook (India + International)

- The Company holds its medium-term aspiration of delivering 8-10% volume growth and 13-15% revenue growth.
- Marico shall continue to invest behind brand building to support market growth initiatives in core categories and expansion into adjacent categories. In the near term, the Company will reallocate spends from nonmedia to media channels. Spends on the digital platforms will continue to rise.
- The current state of lockdown and work from home have created opportunities for a structural reset in certain costs. The Company is actively exploring the same to unlock a sustained improvement in the cost structure of the business.
- The Company would be comfortable maintaining operating margin at 19% plus over the medium term. However, the Company expects operating margins to be circa 20% for the rest of the year.

Income Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
Revenues	73,340	73,150	79,734	89,302
<i>Change (%)</i>	16.0%	-0.3%	9.0%	12.0%
Raw materials	40,170	37,450	41,860	46,883
Gross Profit	33,170	35,700	37,873	42,418
Employee costs	4,660	4,780	4,784	5,358
Other expenses	15,250	16,230	17,541	19,646
Total Expenses	60,080	58,460	64,185	71,888
EBITDA	13,260	14,690	15,548	17,414
Other Income	1,030	1,240	1,276	1,518
Depreciation	960	1,400	1,114	1,204
Interest	240	790	228	237
PBT	13,090	13,740	15,483	17,491
Extra-ordinary	0	0	0	1
PBT after ext-ord.	13,090	13,740	15,483	17,490
Tax	1,280	3,310	3,871	4,374
<i>Rate (%)</i>	9.8%	25.0%	25.0%	25.0%
PAT	11,810	10,430	11,612	13,117
MI & Associates	-180	0	0	0
Consolidated PAT	11,630	10,430	11,612	13,117
<i>Change (%)</i>	42.8%	-10.3%	11.3%	13.0%

Cash Flow Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
PBT	13,090	13,740	15,483	17,491
Depreciation	960	1,400	1,114	1,204
Interest & others	-970	-450	-1,048	-1,281
Cash flow before WC changes	13,080	14,690	15,548	17,414
(Inc)/dec in working capital	150	-836	3,978	-7,329
Operating CF after WC changes	13,230	13,854	19,526	10,084
Less: Taxes	-1,280	-3,310	-3,871	-4,374
Operating cash flow	11,950	10,544	15,655	5,711
(Inc)/dec in F.A + CWIP	-3,195	350	-1,000	-999
(Pur)/sale of investment	980	-2,790	0	0
Cash flow from investing	-2,215	-2,440	-1,000	-999
Free cash flow (FCF)	10,905	10,964	14,655	4,712
Loan raised/(repaid)	400	-140	150	150
Equity raised	0	-1	0	0
Interest & others	688	-1,876	6,119	-3,766
Dividend	-7,745	-8,385	-9,030	-9,675
Cash flow from financing activities	-6,658	-10,402	-2,761	-13,291
Net inc/(dec) in cash	3,078	-2,298	11,894	-8,579
Opening balance of cash	2,011	5,088	2,790	14,684
Closing balance of cash	5,088	2,790	14,684	6,105

Balance Sheet (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E
Sources of Funds				
Share Capital	1,291	1,290	1,290	1,290
Reserves & Surplus	28,700	29,000	29,180	30,008
Net Worth	29,991	30,290	30,470	31,298
Loan Funds	3,490	3,350	3,500	3,650
MI, Deferred Tax & other liabilities	430	400	400	400
Capital Employed	33,911	34,040	34,370	35,348
Application of Funds				
Gross Block	10,654	11,374	12,374	13,373
Less: Depreciation	3,531	4,931	6,044	7,248
Net Block	7,123	6,443	6,330	6,125
CWIP	450	580	580	580
Other non current assets	990	1,000	1,000	1,000
Deferred tax assets	1,880	1,590	1,590	1,590
Net Fixed Assets	10,443	9,613	9,500	9,295
Investments	4,250	7,040	7,040	7,040
Debtors	5,170	5,088	3,012	6,361
Inventories	14,110	13,800	13,800	16,184
Cash & bank balance	5,088	2,790	14,684	6,105
Loans & advances & other CA	3,330	3,270	4,261	7,858
Total Current Assets	27,698	24,948	35,757	36,509
Current liabilities	12,260	11,744	14,636	16,637
Provisions	1,250	1,198	1,198	1,198
Net Current Assets	14,188	12,006	19,923	18,674
Total Assets	33,911	34,040	34,370	35,348

Key Ratios

Year End-March	FY19	FY20	FY21E	FY22E
Per Share (Rs)				
EPS	9.0	8.1	9.0	10.2
CEPS	9.8	9.2	9.9	11.1
BVPS	23.2	23.5	23.6	24.3
DPS	6.0	6.5	7.0	7.5
Payout (%)	66.6%	80.4%	77.8%	73.8%
Valuation (x)				
P/E	39.0	43.4	39.0	34.5
P/CEPS	36.0	38.3	35.6	31.6
P/BV	15.1	14.9	14.9	14.5
EV/EBITDA	27.5	25.0	22.8	20.9
Dividend Yield (%)	1.7%	1.9%	2.0%	2.1%
Return Ratio (%)				
EBIDTA Margin	18.1%	20.1%	19.5%	19.5%
PAT Margin	15.9%	14.3%	14.6%	14.7%
ROE	38.8%	34.4%	38.1%	41.9%
ROCE	36.3%	39.0%	42.0%	45.9%
Leverage Ratio (%)				
Total D/E	0.1	0.1	0.1	0.1
Net D/E	-0.1	0.0	-0.4	-0.1
Turnover Ratios				
Asset Turnover (x)	2.2	2.1	2.3	2.5
Inventory Days	128	125	125	126
Receivable Days	26	25	14	26
Payable days	67	67	67	68

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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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