

Beats Estimates; Driving growth on sustainable metrics

CMP: Rs 416

Rating: Accumulate

Target Price: Rs 467

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)	5,36,650
52w H/L (Rs)	433/ 234
Avg Yearly Vol (in 000')	3227

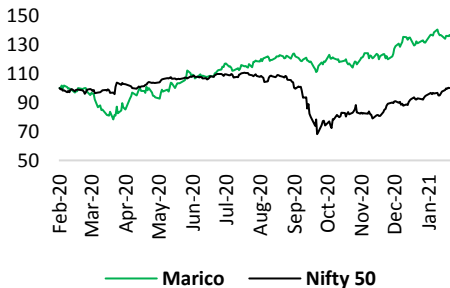
Shareholding Pattern %

(As on Dec, 2020)

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's Q3FY21 earnings were above our estimates on all fronts. Strong recovery is witnessed across all categories (essential and discretionary). Consolidated revenue stood at Rs 21,220 mn, above our estimate of Rs 20,300 mn, registering a growth of +6.69% QoQ/16.34% YoY led by value growth of 18% YoY and volume growth of 15% YoY in the domestic business. Domestic sales growth was led by 21% volume growth in value-added hair oil (VAHO) based on low base, down 7% YoY in Q3FY21. Reported EBITDA grew by +6.17% QoQ/+10.72% YoY to Rs 4,130 mn, above our estimate of Rs 4,120 mn, while EBITDA margin contracted by 9bps QoQ/99bps YoY. PAT for the quarter grew by +14.29% QoQ/+13.04% YoY to Rs 3,120 mn, beating our estimate of Rs 2,930 mn.

Q3FY21 Segment Highlights

- **In the India business** more than 95% of the portfolio grow well ahead of medium-term aspirations.
- **Saffola Edible Oils** continued its growth momentum, delivering double-digit volume growth.
- **Value Added Hair Oils** also exhibited strength with a broad-based sharp recovery across sub segments leading to overall double-digit growth for the category.
- **The Foods portfolio** The company is on track to report Rs3250-3500Mn revenue from foods portfolio in FY21 and Rs4500-5000Mn revenue in FY22. High growth in Saffola oats is due to (i) increased penetration and (ii) investment behind the brand and (iii) shift in the category from breakfast to in between meals.
- **The International business** reported growth of 11% YoY in Q3FY21 and 8% in CC terms. The operating margins for International business expanded by 138bps to 25.3% led by strong control on overhead costs. Bangladesh reported 15% YoY growth in Q2FY21 in CC terms with non-coconut oil portfolio (~40% of business) growing at 27%. Over medium term, company aims to clock double digit CC growth in international business.

Valuations

At CMP of Rs 416, Marico is trading at a FY23 P/E of 36x. Considering, strong Q3FY21 result, we believe Marico growth momentum will continue led by traditional trade and E-commerce continued to outperform while modern trade reached pre-covid level. Marico's new launches of Honey and Arogyam Chyawan Amrut are tracking well. Management expects near term demand to remain favorable. We have reduce our Revenue for FY21/FY22 estimates by 3%/1% due to Input inflation. Increase our EPS estimates for FY21/FY22 by 2% each.

We value the stock at a target P/E of 40x to its FY23E, which yields a target price of Rs 467 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	18.1%	39%	46
FY20	73,150	14,690	10,430	8	20.1%	34%	51
FY21E	77,539	15,895	11,917	9	20.5%	39%	45
FY22E	86,068	17,902	13,371	10	20.8%	43%	40
FY23E	96,396	20,050	15,052	12	20.8%	48%	36

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

Q3 FY21 Financial Performance

Rs Mn (consolidated)	Q3FY21	Q2FY21	Q3FY20	Q-o-Q	Y-o-Y
Net Revenue	21,220	19,890	18,240	6.69%	16.34%
Material Cost	11,270	10,340	9,280	8.99%	16.57%
Employee cost	1,480	1,370	1,160	8.03%	7.87%
Other Expenses	4,340	4,290	4,070	1.17%	0.23%
EBITDA	4,130	3,890	3,730	6.17%	10.20%
<i>EBITDA margin %</i>	<i>19.5%</i>	<i>19.6%</i>	<i>20.4%</i>	<i>-9bps</i>	<i>26bps</i>
Other Income	240	270	290	-11.11%	-22.86%
Depreciation	360	330	320	9.09%	-5.71%
EBIT	4,010	3,830	3,700	4.70%	8.50%
Finance cost	70	80	120	-12.50%	-38.46%
PBT before exceptional item	3,940	3,750	3,580	5.07%	9.97%
Exceptional item	-	330			
PBT	3,940	3,420		15.20%	0.29%
Tax Expense	820	690	820	18.84%	-21.59%
Effective tax rate %	20.8%	18.4%	22.9%	241bps	-741bps
PAT	3,120	2,730	2,760	14.29%	7.91%
MI & Associates	-50	-90	-		
Consolidated PAT	3,070	2,640	2,760	16.29%	6.88%
<i>PAT margin %</i>	<i>14.5%</i>	<i>13.3%</i>	<i>15.1%</i>	<i>119bps</i>	<i>-23bps</i>
EPS (Rs)	2.4	2.1	2.1	-	-

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

Q3FY21 Conference Call Highlights

- **Business Performance:** 95% of the company portfolio grew ahead of its medium term aspiration. In medium term, company expects domestic volumes to be in the range of 8-10% while international business to clock double digit growth. In near term, due to favorable demand conditions, the company is expected to outperform medium term expectations.
- Rural markets continue to outperform growing a 24% semi-urban market and mid grow by 10%. Growth in rural in heartening Trend given that these regions have been less affected by the pandemic has been a focus on also been a focus of government-led stimulus. Management expects the strength to continue with the Union budget just around the corner and hope for a good monsoon season this year as well.
- Management is seeing early signs of Copra prices cooling off by 10 % from its peak in end December and believe that it should correct another 10-15% as the season sets in, management also expect no Copra price inflation next year on an annualized basis going to a healthy crop Outlook. Company believe parachute will extend its relatively higher growth trajectory over the next few quarters before reverting to medium term growth levels.
- **Cost and Margins:** Gross margin contraction is due to inflationary trend in copra (+26% YoY) rice bran (+28% YoY), HDPE (+18%YoY), LLP (+12%YoY) and vegetable oil prices. The company has taken price hike of ~15% in Saffola portfolio and 5% in Parachute to mitigate raw material pressure.
- Employee costs were higher by 28% YoY on account of (i) integration of Beardo (not in the base quarter), (ii) higher share based payout and (iii) higher incentive payout owing to better performance. Employee expenses are expected to be at elevated levels in Q4 as well
- **Outlook**
- Continue double-digit growth in YoY while maintaining growth in the core parachute.
- The company is on track to report Rs3250-3500Mn revenue from foods portfolio in FY21 and Rs4500-5000Mn revenue in FY22.
- The foods portfolio posted a 74% YoY growth with Saffola oats registering 50% growth. High growth in Saffola oats is due to (i) increased penetration and (ii) investment behind the brand and (iii) shift in the category from breakfast to in between meals. ☑ Saffola Honey has seen good traction since its launch with double digit market share in modern trade and more than 20% in ecommerce. MRCO aims to reach a run rate of Rs1000Mn in honey by next year.

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

Income Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E	FY23E
Revenues	73,340	73,150	77,539	86,068	96,396
<i>Change (%)</i>	16.0%	-0.3%	6.0%	11.0%	12.0%
Raw materials	40,170	37,450	39,855	44,239	49,548
Gross Profit	33,170	35,700	37,684	41,829	46,849
Employee costs	4,660	4,780	4,652	4,734	5,302
Other expenses	15,250	16,230	17,136	19,193	21,496
Total Expenses	60,080	58,460	61,644	68,166	76,346
EBITDA	13,260	14,690	15,895	17,902	20,050
Other Income	1,030	1,240	1,163	1,291	1,446
Depreciation	960	1,400	1,485	1,605	1,725
Interest	240	790	315	335	350
PBT	13,090	13,740	15,259	17,253	19,422
Extra-ordinary	0	0	0	0	0
PBT after ext-ord.	13,090	13,740	15,259	17,253	19,422
Tax	1,280	3,310	3,342	3,882	4,370
<i>Rate (%)</i>	9.8%	25.0%	21.9%	22.5%	22.5%
PAT	11,810	10,430	11,917	13,371	15,052
MI & Associates	-180	0	0	0	0
Consolidated PAT	11,630	10,430	11,917	13,371	15,052
<i>Change (%)</i>	42.8%	-10.3%	14.3%	12.2%	12.6%

Cash Flow Statement (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E	FY23E
PBT	13,090	13,740	15,259	17,253	19,422
Depreciation	960	1,400	1,485	1,605	1,725
Interest & others	-970	-450	-848	-956	-1,096
Cash flow before WC changes	13,080	14,690	15,895	17,902	20,050
(Inc)/dec in working capital	150	-836	1,427	-3,948	-1,431
Operating CF after WC changes	13,230	13,854	17,322	13,954	18,619
Less: Taxes	-1,280	-3,310	-3,342	-3,882	-4,370
Operating cash flow	11,950	10,544	13,980	10,072	14,249
(Inc)/dec in F.A + CWIP	-3,195	350	-1,000	-999	-998
(Pur)/sale of investment	980	-2,790	0	0	0
Cash flow from investing	-2,215	-2,440	-1,000	-999	-998
Free cash flow (FCF)	10,905	10,964	12,980	9,073	13,251
Loan raised/(repaid)	400	-140	150	150	150
Equity raised	0	-1	0	0	0
Interest & others	688	-1,876	6,336	-4,169	-4,705
Dividend	-7,745	-8,385	-9,030	-9,675	-9,675
Cash flow from financing activities	-6,658	-10,402	-2,544	-13,694	-14,230
Net inc/(dec) in cash	3,078	-2,298	10,437	-4,621	-978
Opening balance of cash	2,011	5,088	2,790	13,227	8,607
Closing balance of cash	5,088	2,790	13,227	8,607	7,628

Balance Sheet (Rs Mn)

Year End-March	FY19	FY20	FY21E	FY22E	FY23E
Sources of Funds					
Share Capital	1,291	1,290	1,290	1,290	1,290
Reserves & Surplus	28,700	29,000	29,485	30,008	30,008
Net Worth	29,991	30,290	30,775	31,298	31,298
Loan Funds	3,490	3,350	3,500	3,650	3,800
MI, Deferred Tax & other liabilities	430	400	400	400	400
Capital Employed	33,911	34,040	34,675	35,348	35,498
Application of Funds					
Gross Block	10,654	11,374	12,374	13,373	14,371
Less: Depreciation	3,531	4,931	6,416	8,020	9,745
Net Block	7,123	6,443	5,958	5,353	4,626
CWIP	450	580	580	580	580
Other non current assets	990	1,000	1,000	1,000	1,000
Deferred tax assets	1,880	1,590	1,590	1,590	1,590
Net Fixed Assets	10,443	9,613	9,128	8,523	7,796
Investments	4,250	7,040	7,040	7,040	7,040
Debtors	5,170	5,088	5,311	6,131	7,131
Inventories	14,110	13,800	13,649	15,150	16,968
Cash & bank balance	5,088	2,790	13,227	8,607	7,628
Loans & advances & other CA	3,330	3,270	4,261	7,689	8,491
Total Current Assets	27,698	24,948	36,448	37,577	40,218
Current liabilities	12,260	11,744	14,233	16,035	18,223
Provisions	1,250	1,198	1,198	1,198	1,198
Net Current Assets	14,188	12,006	21,017	20,345	20,797
Total Assets	33,911	34,040	34,675	35,348	35,498

Key Ratios

Year End-March	FY19	FY20	FY21E	FY22E	FY23E
Per Share (Rs)					
EPS	9.0	8.1	9.2	10.4	11.7
CEPS	9.8	9.2	10.4	11.6	13.0
BVPS	23.2	23.5	23.9	24.3	24.3
DPS	6.0	6.5	7.0	7.5	7.5
Payout (%)	66.6%	80.4%	75.8%	72.4%	64.3%
Valuation (x)					
P/E	46	51	45	40	36
P/CEPS	42.6	45.3	40.0	35.8	32.0
P/BV	17.9	17.7	17.4	17.1	17.1
EV/EBITDA	34.5	31.3	28.3	25.4	22.7
Dividend Yield (%)	1.4%	1.6%	1.7%	1.8%	1.8%
Return Ratio (%)					
EBITDA Margin	18.1%	20.1%	20.5%	20.8%	20.8%
PAT Margin	15.9%	14.3%	15.4%	15.5%	15.6%
ROE	38.8%	34.4%	38.7%	42.7%	48.1%
ROCE	36.3%	39.0%	41.6%	46.1%	51.6%
Leverage Ratio (%)					
Total D/E	0.1	0.1	0.1	0.1	0.1
Net D/E	-0.1	0.0	-0.3	-0.2	-0.1
Turnover Ratios					
Asset Turnover (x)	2.2	2.1	2.2	2.4	2.7
Inventory Days	128	125	125	125	125
Receivable Days	26	25	25	26	27
Payable days	67	67	67	68	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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