

Marico

BUY

Inflation worries now in rear-view mirror; upgrade to BUY

Summary

Marico (MRCO) 2QFY21 result was in line with our estimates. Revenue growth continued strong double digit growth momentum driven by high double digit value growth in core portfolio (PCNO, VAHO SAFFOLA). MRCO positively gained volume market share in c. 90% portfolio. In PCNO and VAHO MARCO gained 180bp and 40bp market share respectively. Input cost pressure impacted gross margins. However, management expects gross margins to improve sequentially going forward as copra price has declined c. 5%YoY. New engines of growth (food portfolio and digital first brands) are tracking well. As per revised business outlook; we have adjusted our EPS estimates upward by 4-5% during FY22-23E. We have introduced FY24E in our forecast. We value MRCO at 50x FY24E EPS. Our revised TP stands at Rs 673 (vs previous TP of Rs 450). We upgrade our rating to BUY.

Key Highlights and Investment Rationale

Revenue sustains double digit growth momentum

Revenue grew 22% driven by 24% value growth (8% volume growth) in domestic business (77% of revenue) while international business (23% of revenue) grew 13%YoY in CC terms. Revenue from Parachute rigids, VAHO and Saffola franchise grew 18%, 16% and 46% YoY. MRCO gained 180bp and 40bp market share in Parcahute and Saffola respectively. In International business; revenue from Bangladesh grew 16% YoY CC, MENA 20% YoY CC, South Africa 8% YoY CC while South East Asia recorded 2%YoY decline. MRCO continues to gain market share in 90% portfolio.

Input cost pressure impacts operating profit margins

Gross margin contracted 556bp YoY (for 5rth consecutive quarter) to 42% due to input cost pressure. However, tight cost control reduced the impact on EBITDA margin contraction to 207bp YoY to 18%. EBITDA and APAT grew 9%YoY and 3%YoY respectively. EPS stands at Rs 2.4.

TP	Rs673		
CMP	Rs564		
Potential upside / downside	+19%		
Previous Rating	SELL		

V/s Consensus

EPS (Rs)	FY22E	FY23E	
IDBI Capital	10.2	11.7	13.5
Consensus	10.2	12.0	13.6
% difference	(0.2)	(2.3)	(0.6)

Shareholding Pattern (%)

Promoters	59.5
FII	25.9
DII	8.4
Public	6.2

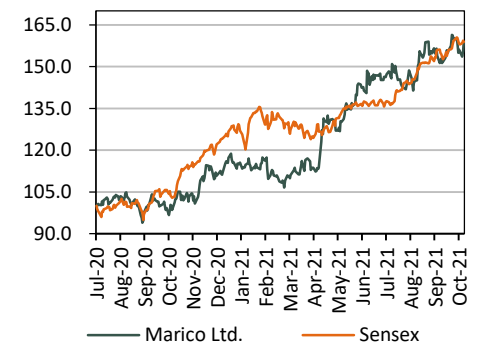
Price Performance (%)

	-1m	-3m	-12m
Absolute	2.4	6.4	55.3
Rel to Sensex	1.8	(8.0)	5.1

Key Stock Data

Bloomberg / Reuters	MRCO IN /MRCO.BO
Sector	FMCG
Shares o/s (mn)	1,292
Market cap. (Rs mn)	728,591
Market cap. (US\$ mn)	9,720
3-m daily average value (Rs mn)	114.8
52-week high / low	Rs606 / 355
Sensex / Nifty	59,985 / 17,857

Relative to Sensex (%)



Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	73,150	80,480	93,639	1,03,823	1,15,194
EBITDA	14,690	15,880	17,878	20,616	23,780
EBITDA (%)	10.8	8.1	12.6	15.3	15.3
Adj. PAT	10,210	11,710	13,174	15,120	17,366
EPS (Rs)	8	9.1	10.2	11.7	13.5
EPS Growth (%)	(8.4)	14.7	12.5	14.8	14.9
PE (x)	71.3	62.1	55.2	48.1	41.9
Dividend Yield (%)	1.4	1.3	1.2	1.5	1.7
EV/EBITDA (x)	49.6	45.4	40.1	34.6	29.8
RoE (%)	34.0	37.4	38.0	38.6	39.5
RoCE (%)	37.6	39.3	40.5	42.1	43.9

Source: IDBI Capital Research;

Conference Call Highlights

Business Performance

- Saffola reported muted volume growth during 2QFY22
- Government support and less impact of pandemic led to rural outperforming urban areas. Rural grew by 24% YoY while urban grew by 10%.
- Food portfolio is tracking well and is likely to reach Rs 5bn mark by end of FY22
- In Honey; MRCO enjoys 20% market share in e-commerce while 10% market share in modern trade channel. Honey will now be pushed through general trade also to drive aggressive growth.
- MRCO expects to clock c. Rs 1bn revenue at the exit of FY22 in Beardo. Company aims to achieve Rs 450-500cr revenue from digital first brands like; Beardo, Just Herbs, Pure Sense and Coco Soul
- In VAHO; mid to premium segment brands are growing at healthy rate.
- MRCO holds on to its aspiration of maintaining 8-10% domestic volume growth in the domestic business and double-digit constant currency growth in the international business
- Copra price has declined 5% QoQ and 11%YoY. Management expect copra price to be range bound going forward
- In Saffola; MRCO expects price of raw materials to correct by the end of 3QFY22.
- Crude derivatives such as Liquid Paraffin (LLP) and HDPE were up 30% and 26% YoY respectively and is likely to firm in near term
- However, management expect sequential improvement in gross margin going forward
- Advertisement and promotion expenses are likely to be stepped-up. Hence, improvement in EBITDA margin will ensue from 4QFY22 onwards.
- MRCO expects to be able to maintain its mid-term guidance of more than 19% EBITDA margin going forward

Exhibit 1: Consolidated Quarterly Snapshot

(INR m)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	YTFY22	YTFY21	YoY (%)
Revenues	24,190	19,890	21.6	25,250	-4.2	49,440	39,140	26.3
COGS	13,920	10,340	34.6	14,890	-6.5	28,810	20,180	42.8
Gross profit	10,270	9,550	7.5	10,360	-0.9	20,630	18,960	8.8
<i>Gross Margin (%)</i>	<i>42.5</i>	<i>48.0</i>	<i>-556bps</i>	<i>41.0</i>	<i>143bps</i>	<i>41.7</i>	<i>48.4</i>	<i>-671bps</i>
Employee expenses	1,530	1,370	11.7	1,500	2.0	3,030	2,720	11.4
<i>% of net sales</i>	<i>6.3</i>	<i>6.9</i>	<i>-56bps</i>	<i>5.9</i>	<i>38bps</i>	<i>6.1</i>	<i>6.9</i>	<i>-82bps</i>
Advertisement expenses	1,940	1,890	2.6	1,750	10.9	3,690	3,260	13.2
<i>% of net sales</i>	<i>8.0</i>	<i>9.5</i>	<i>-148bps</i>	<i>6.9</i>	<i>109bps</i>	<i>7.5</i>	<i>8.3</i>	<i>-87bps</i>
Other Expenses	2,570	2,400	7.1	2,300	11.7	4,870	4,420	10.2
<i>% of net sales</i>	<i>10.6</i>	<i>12.1</i>	<i>-144bps</i>	<i>9.1</i>	<i>152bps</i>	<i>9.9</i>	<i>11.3</i>	<i>-144bps</i>
EBITDA	4,230	3,890	8.7	4,810	-12.1	9,040	8,560	5.6
<i>EBITDA Margin (%)</i>	<i>17.5</i>	<i>19.6</i>	<i>-207bps</i>	<i>19.0</i>	<i>-156bps</i>	<i>18.3</i>	<i>21.9</i>	<i>-359bps</i>
Depreciation	330	330	0.0	330	0.0	660	670	-1.5
EBIT	3,900	3,560	9.6	4,480	-12.95	8,380	7,890	6.21
Other Income	250	270	-7.4	270	-7.4	520	460	13.0
Interest Expenses	100	80	25.0	80	25.0	180	170	5.9
PBT	4,050	3,750	8.0	4,670	-13.3	8,720	8,180	6.6
Taxes	890	690	29.0	1,020	-97.2	1,910	1,860	2.7
Adjusted PAT	3,160	3,060	3.3	3,650	-13.4	6,810	6,320	7.8
Extra-ordinary items	0	-330	-100.0	0		0	310	-100.0
Share in profit/loss of associate	0	0		0		0	-20	-100.0
Minority Interest	70	90	-22.2	90	-22	160	160	0.0
Reported PAT	3,090	2,640	17.0	3,560	-13.2	6,650	6,450	3.1
EPS	2.4	2.0	19.7	2.76	-11.2	5.2	5.0	4.2

Source: Company; IDBI Capital Research

Exhibit 2: Segmental revenue & EBIT break-up

Segmental Revenue	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	YTFY22	YTFY21	YoY (%)
India	18,700	15,080	24.0%	19,920	-6.1%	38,620	29,880	18,700
International	5,490	4,810	14.1%	5,330	3.0%	10,820	9,260	5,490
Segmental EBIT								
India	3,130	2,920	7.2%	3,540	-11.6%	6,670	6,500	3,130
International	1,230	1,040	18.3%	1,390	-11.5%	6,670	6,500	1,230
EBIT Margin (%)								
India	16.7%	19.4%	-263 bps	17.8%	-103 bps	17.3%	21.8%	16.7%
International	22.4%	21.6%	78 bps	26.1%	-367 bps	61.6%	70.2%	22.4%

Source: Company; IDBI Capital Research

Exhibit 3: Standalone Quarterly Snapshot

(INR m)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	FY21	FY20	YoY (%)
Revenues	19,160	15,500	23.6	20,430	-6.2	39,590	63,370	-37.5
COGS	12,040	8,790	37.0	13,180	-8.6	25,220	36,710	-31.3
Gross profit	7,120	6,710	6.1	7,250	-1.8	14,370	26,660	-46.1
<i>Gross Margin (%)</i>	<i>37.2</i>	<i>43.3</i>	<i>-613 bps</i>	<i>35.5</i>	<i>167 bps</i>	<i>36.3</i>	<i>42.1</i>	<i>-577 bps</i>
Employee expenses	960	870	10.3	990	-3.0	1,950	3,740	-47.9
<i>% of net sales</i>	<i>5.0</i>	<i>5.6</i>	<i>-60 bps</i>	<i>4.8</i>	<i>16 bps</i>	<i>4.9</i>	<i>5.9</i>	<i>-98 bps</i>
Advertisement expenses	1,160	1,140	1.8	1,040	11.5	2,200	4,160	-47.1
<i>% of net sales</i>	<i>6.1</i>	<i>7.4</i>	<i>-130 bps</i>	<i>5.1</i>	<i>96 bps</i>	<i>5.6</i>	<i>6.6</i>	<i>-101 bps</i>
Other Expenses	2,040	1,910	6.8	1,810	12.7	3,850	7,270	-47.0
<i>% of net sales</i>	<i>10.6</i>	<i>12.3</i>	<i>-168 bps</i>	<i>8.9</i>	<i>179 bps</i>	<i>9.7</i>	<i>11.5</i>	<i>-175 bps</i>
EBITDA	2,960	2,790	6.1	3,410	-13.2	6,370	11,490	-44.6
<i>EBITDA Margin (%)</i>	<i>15.4</i>	<i>18.0</i>	<i>-255 bps</i>	<i>16.7</i>	<i>-124 bps</i>	<i>16.1</i>	<i>18.1</i>	<i>-204 bps</i>
Depreciation	230	260	-11.5	240	-4.2	470	1,070	-56.1
EBIT	2,730	2,530	7.9	3,170	-13.88	5,900	10,420	-43.4
Other Income	1,280	1,450	-11.7	290	341.4	2,852	3,490	-18.3
Interest Expenses	80	50	60.0	60	33.3	140	220	-36.4
PBT	3,930	3,930	0.0	3,400	15.6	8,612	13,690	-37.1
Taxes	640	470		770		3,373	2,040	
Adjusted PAT	3,290	3,460	-4.9	2,630	25.1	5,239	11,650	-55.0
Extra-ordinary items	0	-330		0		0	-60	
Reported PAT	3,290	3,130	5.1	2,630	25.1	5,239	11,590	-54.8
EPS	2.6	2.4	5.1	2.04	25.1	3.1	8.6	-64.2

Source: Company; IDBI Capital Research

Exhibit 4: Actual vs. Estimates

(Rs mn)

Particulars	Actual	IDBI Estimate	% variation IDBI
Revenue	24,190	24140	0.2%
EBITDA	4,230	4225	0.1%
Margin (%)	17.5%	17.5%	
PAT	3,160	3188	-0.9%

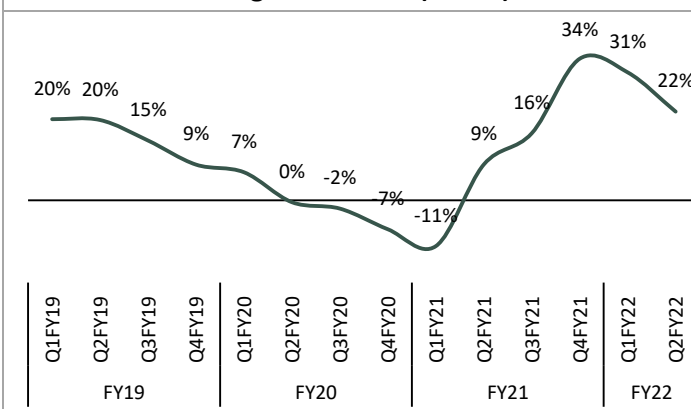
Source: Company; IDBI Capital Research

Exhibit 5: Change in estimates

	FY22E			FY23E			FY24E
	New	Old	(%) Chg	New	Old	(%) Chg	New
Revenue (Rs mn)	93,639	88,343	6.0%	1,03,823	97,886	6.1%	1,15,194
EBITDA (Rs mn)	17,878	17,127	4.4%	20,616	19,840	3.9%	23,780
EBITDA margin (%)	19.1%	19.4%		19.9%	20.3%		20.6%
Net profit (Rs mn)	13,174	12,612	4.5%	15,120	14,544	4.0%	17,366
EPS (Rs)	10.2	9.8	4.5%	11.7	11.3	4.0%	13.5

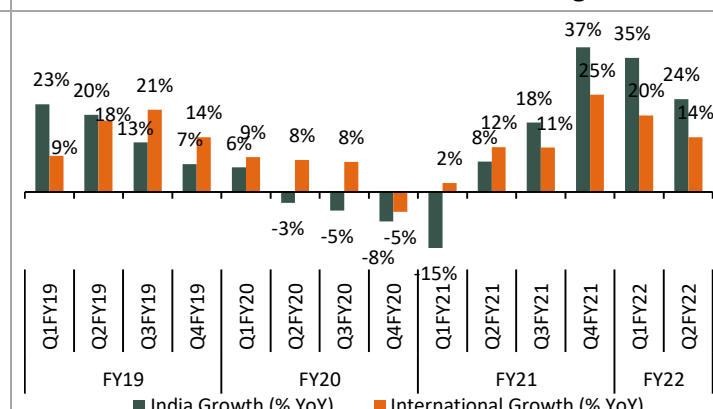
Source: Company; IDBI Capital Research

Exhibit 6: Revenue growth trend (% YoY)



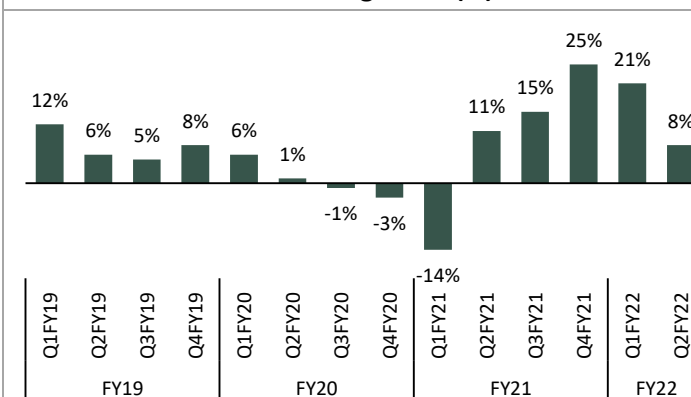
Source: Company; IDBI Capital Research

Exhibit 7: Domestic & International Revenue growth



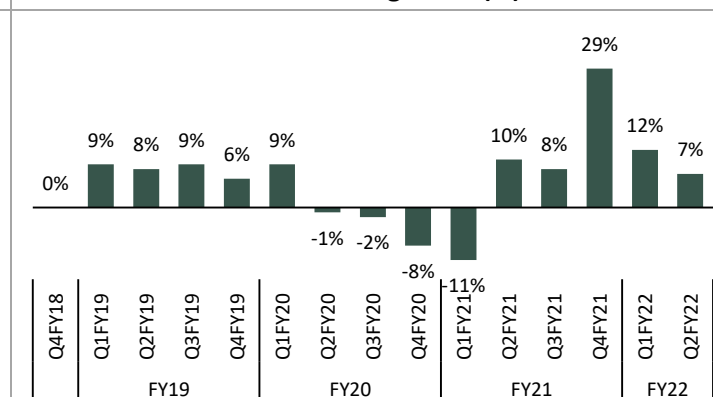
Source: Company; IDBI Capital Research

Exhibit 8: Domestic Volume growth (%)



Source: Company; IDBI Capital Research

Exhibit 9: Coconut oil volume growth (%)



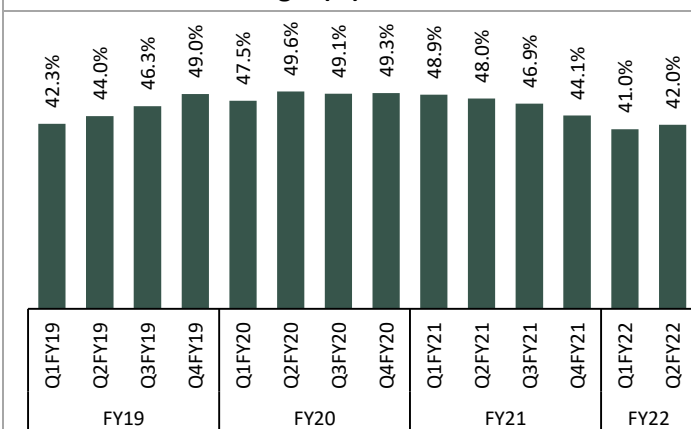
Source: Company; IDBI Capital Research

Exhibit 10: Market share trend in key categories

Market share trends in Key categories	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Coconut oil	60%	60%	61%	62%	62%	62%	62%	62%	62%	63%
Saffola-Super premium ROCP	73%	75%	76%	76%	77%	77%	76%	76%	82%	82%
VAHO	34%	35%	35%	35%	36%	36%	35%	35%	37%	37%
Saffola Oats	30%	31%	32%	33%	34%	34%	33%	33%	39%	41%
Post wash leave on serum	63%	64%	65%	65%	65%	65%	65%	65%	63%	64%
Hair gels/wax/creams	60%	60%	59%	59%	59%	59%	59%	59%	58%	58%

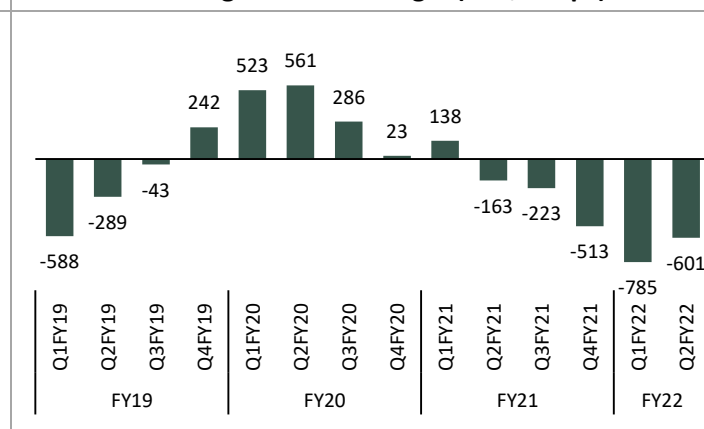
Source: Company; IDBI Capital Research

Exhibit 11: Gross Margin (%)



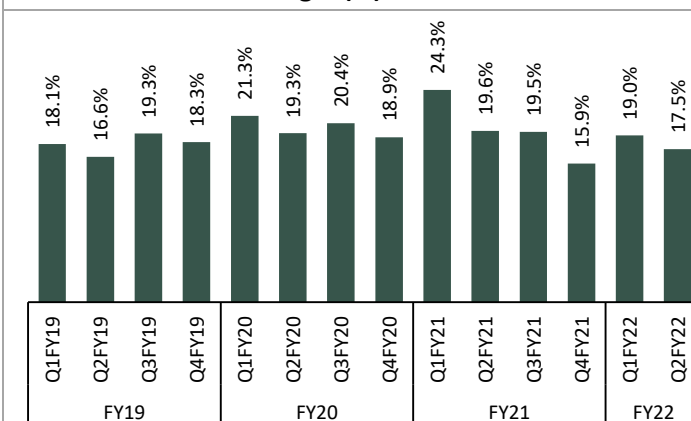
Source: Company; IDBI Capital Research

Exhibit 12: Change in Gross Margin (YoY, in bps)



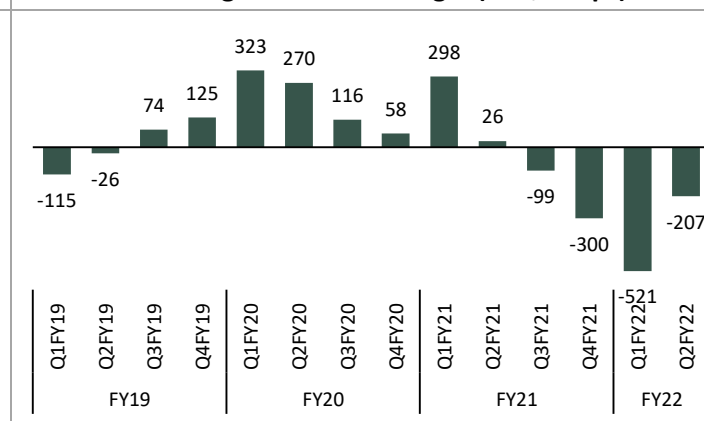
Source: Company; IDBI Capital Research

Exhibit 13: EBITDA Margin (%)

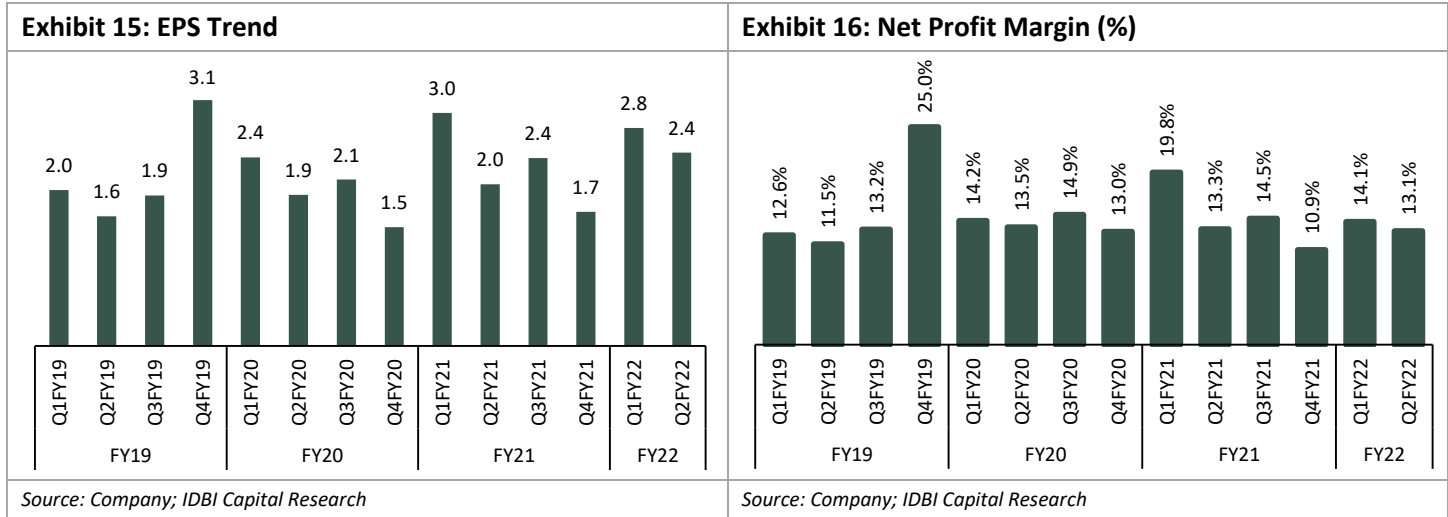


Source: Company; IDBI Capital Research

Exhibit 14: Change in EBITDA Margin (YoY, in bps)



Source: Company; IDBI Capital Research



Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net sales	80,480	93,639	1,03,823	1,15,194
<i>Growth (%)</i>	<i>10.0</i>	<i>16.4</i>	<i>10.9</i>	<i>11.0</i>
Operating expenses	(64,600)	(75,760)	(83,207)	(91,414)
EBITDA	15,880	17,878	20,616	23,780
<i>Growth (%)</i>	<i>8.1</i>	<i>12.6</i>	<i>15.3</i>	<i>15.3</i>
Depreciation	(1,390)	(1,425)	(1,630)	(1,865)
EBIT	14,490	16,453	18,987	21,915
Interest paid	(340)	(340)	(340)	(340)
Other income	990	1,314	1,353	1,395
Pre-tax profit	15,140	17,427	20,000	22,970
Tax	(3,240)	(3,921)	(4,500)	(5,168)
<i>Effective tax rate (%)</i>	<i>21.4</i>	<i>22.5</i>	<i>22.5</i>	<i>22.5</i>
Minority Interest	(310.0)	(331.2)	(380.1)	(436.5)
Net profit	11,590	13,174	15,120	17,366
Exceptional items	(120)	-	-	-
Adjusted net profit	11,710	13,174	15,120	17,366
<i>Growth (%)</i>	<i>14.7</i>	<i>12.5</i>	<i>14.8</i>	<i>14.9</i>
<i>Shares o/s (mn nos)</i>	<i>1,290</i>	<i>1,290</i>	<i>1,290</i>	<i>1,290</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Pre-tax profit	15,260	17,427	20,000	22,970
Depreciation	1,390	1,425	1,630	1,865
Tax paid	(2,850)	(3,921)	(4,500)	(5,168)
Chg in working capital	5,830	(621)	(301)	(537)
Other operating activities	1,910	340	(900)	340
Cash flow from operations (a)	21,540	14,650	15,929	19,470
Capital expenditure	(1,420)	(2,106)	(1,358)	(2,140)
Chg in investments	(7,960)	1,040	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(9,380)	(1,066)	(1,358)	(2,140)
Equity raised/(repaid)	60	-	-	-
Debt raised/(repaid)	-	-	-	-
Dividend (incl. tax)	(9,680)	(8,708)	(10,584)	(12,156)
Chg in minorities	-	-	-	-
Other financing activities	(1,570)	(671)	(720)	(777)
Cash flow from financing (c)	(11,190)	(9,379)	(11,304)	(12,932)
Net chg in cash (a+b+c)	970	4,205	3,267	4,398

Balance Sheet (Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net fixed assets	16,360	17,041	16,769	17,045
Investments	2,260	1,220	1,220	1,220
Other non-curr assets	3,120	3,120	3,120	3,120
Current assets	33,360	40,040	46,283	52,819
Inventories	11,260	13,101	14,526	16,117
Sundry Debtors	3,880	4,514	5,005	5,554
Cash and Bank	9,440	13,645	16,911	21,309
Total assets	55,100	61,421	67,392	74,204
Shareholders' funds	32,400	36,867	41,403	46,613
Share capital	1,290	1,290	1,290	1,290
Reserves & surplus	31,110	35,577	40,113	45,323
Total Debt	3,480	3,480	3,480	3,480
Secured loans	3,480	3,480	3,480	3,480
Other liabilities	2,310	2,310	2,310	2,310
Curr Liab & prov	16,730	18,584	20,019	21,621
Current liabilities	16,530	18,384	19,819	21,421
Provisions	200	200	200	200
Total liabilities	22,520	24,374	25,809	27,411
Total equity & liabilities	55,100	61,421	67,392	74,204
Book Value (Rs)	25	29	32	36

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY21	FY22E	FY23E	FY24E
Adj. EPS (Rs)	9.1	10.2	11.7	13.5
Adj. EPS growth (%)	14.7	12.5	14.8	14.9
EBITDA margin (%)	19.7	19.1	19.9	20.6
Pre-tax margin (%)	18.8	18.6	19.3	19.9
ROE (%)	37.4	38.0	38.6	39.5
ROCE (%)	39.3	40.5	42.1	43.9
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.5	1.6	1.6	1.6
Leverage factor (x)	1.7	1.7	1.6	1.6
Net margin (%)	14.6	14.1	14.6	15.1
Net Debt/Equity (x)	(0.2)	(0.3)	(0.3)	(0.4)
Working Capital & Liquidity ratio				
Inventory days	51	51	51	51
Receivable days	18	18	18	18
Payable days	64	64	64	65

Valuation

Year-end: March	FY21	FY22E	FY23E	FY24E
P/E (x)	62.1	55.2	48.1	41.9
Price / Book value (x)	22.5	19.7	17.6	15.6
PCE (x)	55.5	49.8	43.4	37.8
EV / Net sales (x)	9.0	7.7	6.9	6.2
EV / EBITDA (x)	45.4	40.1	34.6	29.8
Dividend Yield (%)	1.3	1.2	1.5	1.7



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578**Compliance Officer:** Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907**Disclaimer**

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