

Marico Ltd.

05 January 2021

Reuters: MRCO.NS; Bloomberg: MRCO IN

3QFY21 sees strong performance across portfolio; cost-saving initiatives to absorb input cost pressures

Marico Ltd. (MRCO) released an update to provide a summary of the operating performance and demand trends witnessed in 3QFY21. The company witnessed a faster-than-expected recovery in consumer sentiment in the domestic business, led by festive season and a declining Covid-19 graph. The domestic business (75%+ of the company's revenue), has recorded double-digit volume & revenue growth during the quarter. International business has registered high single-digit constant currency (cc) growth, led by double-digit growth in Bangladesh (in cc terms) along with recovery in few other markets. Pricing action, cost-saving initiatives along with judicious A&P spends will lead to a healthy profit growth in 3QFY21 even though the company is witnessing input cost headwinds. The stock currently trades at 41x/37x FY22/FY23 EPS as we build in 11.4% earnings CAGR over FY20-23. We value the company at ~38.5x and also roll forward our valuation to FY23E EPS, giving us a target price (TP) of Rs435, implying an upside of 4% from the current market price (CMP). We maintain our Accumulate rating and continue to remain positive on MRCO's prospects of delivering healthy earnings growth in the medium term.

Strong performance across portfolio: During the quarter, domestic revenue grew in double digits, in-line with the volume growth for the quarter - (i) *Parachute Coconut Oil* delivered ahead of its medium-term aspiration (viz. 5-7% volume growth) (ii) *Saffola Edible Oils* continued its growth momentum even in 3QFY21, delivering double-digit volume growth (iii) *Value Added Hair Oils (VAHO)* also saw broad-based sharp recovery across sub-segments, leading to overall double-digit growth for the category. We note that VAHO has a favorable base this quarter (7% YoY volume decline in 3QFY20). The Foods portfolio, led by strong performance in base business and new product launches, recorded exponential growth, in tandem with near-term aspiration. There was a steady revival in the discretionary part of the India business, with the Premium Personal Care portfolio witnessing improving trend sequentially. But, it still posted a modest decline on a YoY basis. The International business had a resilient quarter, with high single-digit CC growth, led by double-digit CC growth in Bangladesh along with recovery in few other markets.

Expect healthy profit growth: Inflationary pressure in key raw materials (both Copra and Edible Oil) meant that the company had to cut back on some promotions and take price increases across both *Parachute* and *Saffola edible oil* portfolios. These actions combined with various cost optimization initiatives and judicious A&P spends are expected to drive healthy profit growth for the quarter.

General trade channel remains strong: As per the company, the general trade (GT) channel continued to grow at a healthy rate with Modern Trade (MT) channel seeing sequential improvement after being affected in 1HFY21. Rural demand continues to remain ahead of demand in urban areas. The E-Commerce channel, which grew by ~39% in 2QFY21, continued its stellar run in 3QFY21 as well. Despite witnessing sequential improvement, CSD continues to decline.

Outlook and valuation: There are minor changes to our FY21/FY22/FY23 estimates. The company continues to make efforts and has multiple levers in place to meet its medium term growth aspirations - (1) Focus on increasing the pace of market share gains in the *Parachute* portfolio (2) Change in strategy, leading to change in momentum for the *Saffola Edible Oils* portfolio (3) Diversification of the domestic portfolio with increased support from the Foods and Hygiene portfolios (4) International business well supported by Bangladesh and Vietnam markets (5) Distribution expansion, especially in rural areas through direct reach and (6) Leveraging alternate distribution channels. Even though there are near term input cost pressures, cost-reduction programs would support operating margins. The stock currently trades at 41x/37x FY22/FY23 EPS as we build in 11.4% earnings CAGR over FY20-23. We value the company at ~38.5x and also roll forward our valuation to FY23E EPS, giving us a TP of Rs435, implying an upside of 4% from the CMP. We maintain our Accumulate rating.

ACCUMULATE

Sector: FMCG

CMP: Rs417

Target Price: Rs435

Upside: 4%

Vishal Punmiya

Research Analyst

vishal.punmiya@nirmalbang.com

+91-22-6273 8064

Videesha Sheth

Research Associate

videesha.sheth@nirmalbang.com

+91-22-6273 8188

Key Data

Current Shares O/S (mn)	1,291.3
Mkt Cap (Rsbn/US\$bn)	538.7/7.4
52 Wk H / L (Rs)	421/234
Daily Vol. (3M NSE Avg.)	3,375,858

Price Performance (%)

	1 M	6 M	1 Yr
Marico Ltd.	5.6	16.4	24.7
Nifty Index	6.6	33.2	15.6

Source: Bloomberg

[FY20 Annual Report](#)
[3QFY21 Information Update](#)

Y/E March (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	73,340	73,150	77,451	89,143	97,789
YoY growth (%)	16.0	-0.3	5.9	15.1	9.7
EBITDA	13,260	14,690	15,967	18,714	20,624
EBITDA margin (%)	18.1	20.1	20.6	21.0	21.1
Adj. PAT	9,260	10,500	11,247	13,097	14,519
EPS	7.2	8.1	8.7	10.2	11.3
YoY change (%)	13.8	13.4	7.1	16.5	10.9
ROCE (%)	29.7	31.4	32.7	36.4	38.4
ROE (%)	33.7	35.0	36.3	39.8	41.4
ROIC (%)	38.3	41.2	44.3	49.4	52.8
P/E (x)	58.0	51.2	47.8	41.0	37.0
P/B (x)	18.1	17.8	16.9	15.8	14.8
EV/EBITDA (x)	40.0	36.1	33.2	28.2	25.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Segment-wise outlook

Segments	Near Term & Medium Term Outlook/Guidance
Marico India	
Parachute Rigid	MRCO expects to grow volumes in the range of 5-7% over the medium term
Saffola Edible Oils	Company aims to sustain high single digit volume growth over the medium term
VAHO	Company aims to revive volume growth in this franchise in the near term with focused pricing and marketing initiatives
Foods	Food business, which stood at Rs1.8-1.9bn in FY20, is expected to clock Rs3.0-3.5bn in FY21 and Rs4.5-5.0bn by FY22. MRCO expects to maintain 20%+ CAGR over the medium term through innovation and broaden its play in the category.
Hygiene	In 1QFY21, revenue from the Health & Hygiene portfolio contributed ~1.5% to the domestic turnover and the company expects to generate Rs0.75-1bn from the portfolio in FY21. Management believes that this segment offers significant potential to build a suitable growth portfolio and the company will continue to invest in this play through innovation and brand building.
Premium Personal Care	In the near term, expectations remain muted. However, the company expects to deliver double digit value growth over the medium term in this portfolio.
Marico International	
Bangladesh	Bangladesh is likely to continue the momentum as the medium-term macro prospects look promising.
Vietnam	The company remains optimistic of recovery going forward in this region and will continue to invest in the male grooming category and strive for excellence in sales & distribution systems.
Myanmar and rest of South East Asia	These geographies are expected to be the growth engines of the future.
MENA	Company will focus on getting the basics right by judiciously investing in brands and Go-to-Market initiatives.
Middle East	MRCO will work towards strengthening the Coconut Oils and Hair Oils play
Egypt	Management believes that cost-management initiatives will enable the business to weather the persistent macro headwinds.

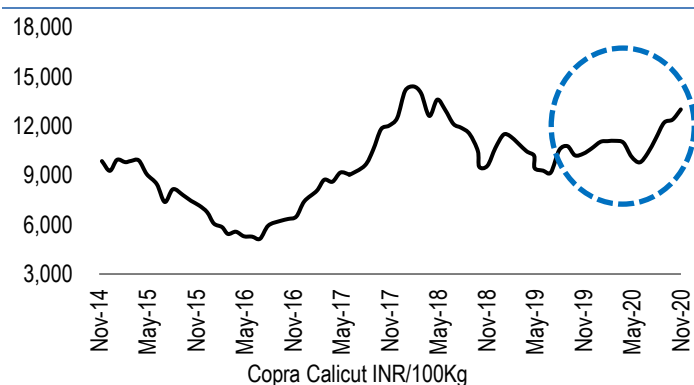
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Domestic segmental quarterly trend

Volume growth (%)	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Parachute rigid volume growth (%)	8.0	9.0	6.0	9.0	(1.0)	(2.0)	(8.0)	(11.0)	10.0
Saffola (Refined Edible Oil) volume growth (%)	5.0	2.0	18.0	3.0	1.0	11.0	25.0	16.0	20.0
VAHO volume growth (%)	5.0	7.0	1.0	7.0	0.0	(7.0)	(11.0)	(30.0)	4.0
Domestic volume growth (%)	6.0	5.0	8.0	6.0	1.0	(1.0)	(3.0)	(14.0)	11.0
Overall volume growth (%)	6.0	6.0	8.0	6.0	3.0	2.0	(4.0)	(12.0)	10.0*
Value growth (%)	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Parachute rigid value growth (%)	32.0	19.0	4.0	8.0	(4.0)	(5.0)	(12.0)	(12.0)	8.0
Saffola (Refined Edible Oil) value growth (%)	9.0	8.0	15.0	6.0	5.0	13.0	25.0	16.0	16.0
VAHO value growth (%)	12.0	19.0	7.0	11.0	(6.0)	(17.0)	(18.0)	(32.0)	(1.0)
Domestic value growth (%)	20.0	13.0	7.0	6.0	(3.0)	(5.0)	(8.0)	(15.0)	8.0
Overall value growth (%)	19.6	14.7	8.5	6.7	(0.6)	(2.1)	(7.3)	(11.1)	8.7
Realisation growth (%)	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Parachute rigid realisation growth (%)	24.0	10.0	(2.0)	(1.0)	(3.0)	(3.0)	(4.0)	(1.0)	(2.0)
Saffola (Refined Edible Oil) realisation growth (%)	4.0	6.0	(3.0)	3.0	4.0	2.0	0.0	0.0	(4.0)
VAHO realisation growth (%)	7.0	12.0	6.0	4.0	(6.0)	(10.0)	(7.0)	(2.0)	(5.0)
Domestic realisation growth (%)	14.0	8.0	(1.0)	0.0	(4.0)	(4.0)	(5.0)	(1.0)	(3.0)
Overall realisation growth (%)	13.6	8.7	0.5	0.7	(3.6)	(4.1)	(3.3)	0.9	(1.3)

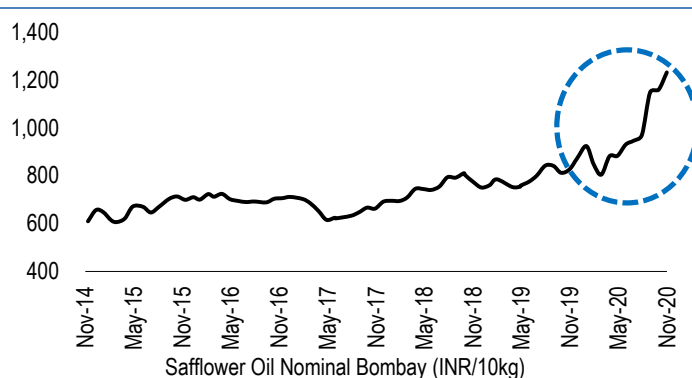
Source: Company, Nirmal Bang Institutional Equities Research; * our estimate

Exhibit 3: Avg. Copra Calicut prices (Oct+Nov'20) up 22.3% YoY and 12.7% QoQ



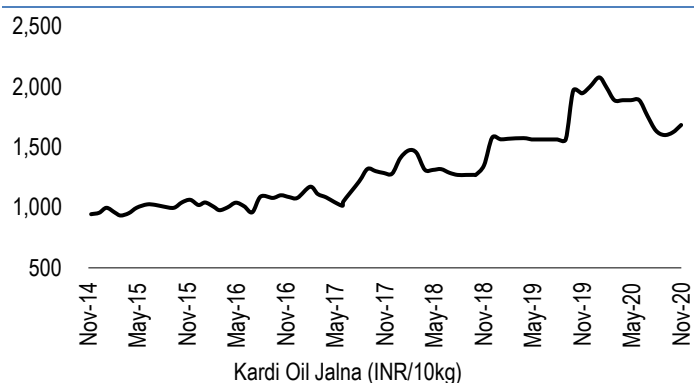
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Avg. Safflower oil prices (Oct+Nov'20) up 42.8% YoY and 17.1% QoQ



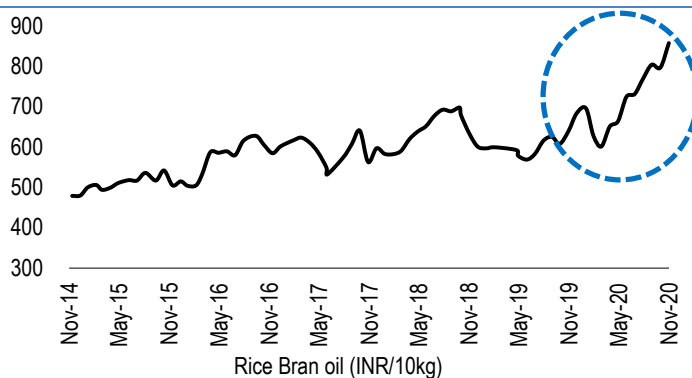
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Avg. Kardi oil prices (Oct+Nov'20) down 16.2% YoY and 0.8% QoQ



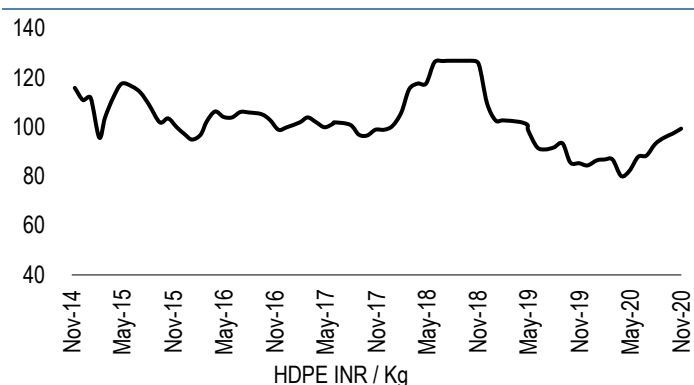
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Avg. Rice bran oil (Oct+Nov'20) up 28.5% YoY and 7.7% QoQ



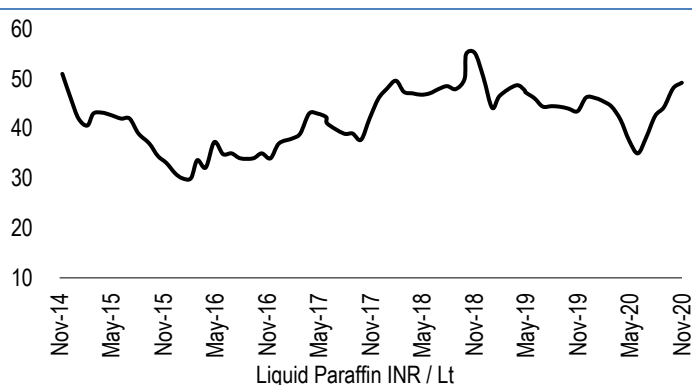
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Avg. HDPE price (Oct+Nov'20) up 15.5% YoY and 6.5% QoQ



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Avg. LLP price (Oct+Nov'20) up 9.1% YoY and 16.6% QoQ



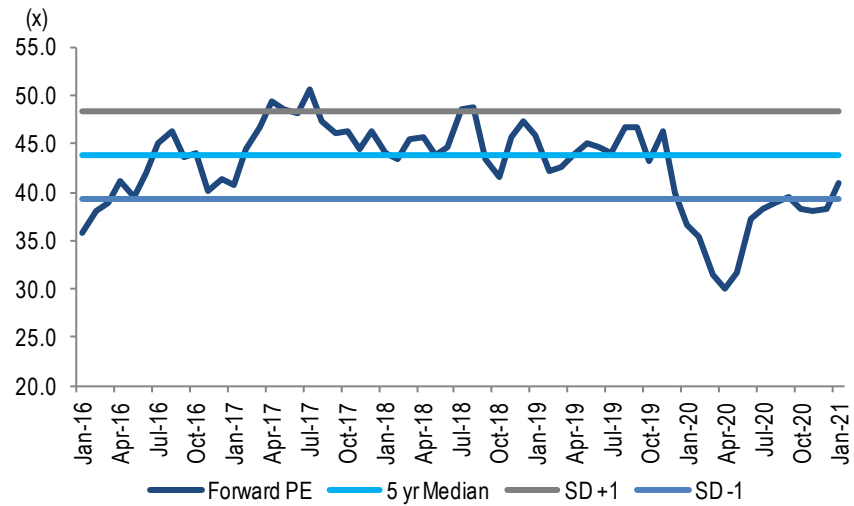
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Change in our estimates

Y/E March (Rsmn)	Earlier estimates			New estimates			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net sales	77,088	88,656	97,330	77,451	89,143	97,789	0.5	0.5	0.5
EBITDA	15,838	18,544	20,483	15,967	18,714	20,624	0.8	0.9	0.7
EBITDA margin (%)	20.5	20.9	21.0	20.6	21.0	21.1	0.1	0.1	0.0
Adj. PAT	11,136	12,967	14,406	11,247	13,097	14,519	1.0	1.0	0.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: One-year forward P/E



Source: Company, Nirmal Bang Institutional Equities Research

Financials (Consolidated)

Exhibit 11: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	73,340	73,150	77,451	89,143	97,789
% Growth	16.0	-0.3	5.9	15.1	9.7
COGS	40,400	37,680	40,123	45,762	49,967
Staff costs	4,660	4,780	5,208	5,750	6,293
Other expenses	15,020	16,000	16,153	18,917	20,905
Total expenses	60,080	58,460	61,484	70,429	77,165
EBITDA	13,260	14,690	15,967	18,714	20,624
% growth	16.6	10.8	8.7	17.2	10.2
EBITDA margin (%)	18.1	20.1	20.6	21.0	21.1
Other income	1,030	1,240	950	1,053	1,184
Interest costs	400	500	338	270	220
Depreciation	1,310	1,400	1,433	1,682	1,877
Profit before tax	12,580	14,030	15,146	17,815	19,710
Exceptional items	1,880	-290	0	0	0
Tax	3,140	3,310	3,635	4,454	4,928
Rate of Tax (%)	25.0	23.6	24.0	25.0	25.0
PAT	11,140	10,210	11,247	13,097	14,519
Adj PAT	9,260	10,500	11,247	13,097	14,519
Adj PAT margin (%)	12.6	14.4	14.5	14.7	14.8
% Growth	13.8	13.4	7.1	16.5	10.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Share capital	1,290	1,290	1,290	1,290	1,290
Reserves	28,460	28,940	30,522	32,654	34,918
Net worth	29,750	30,230	31,812	33,944	36,208
Minority Interest	110	130	130	130	130
Total debt	3,490	3,350	2,800	2,100	1,900
Other long-term liabilities	1,890	1,830	1,793	1,758	1,722
Total liabilities	35,240	35,540	36,535	37,932	39,960
Gross block	9,650	11,210	12,510	13,510	15,010
Depreciation	3,350	4,260	5,693	7,375	9,252
Net block	6,300	6,950	6,817	6,135	5,758
Right of use assets	1,530	1,460	1,431	1,402	1,374
Capital work-in-progress	450	580	580	580	580
Goodwill	5,030	5,380	5,480	5,580	5,680
Investments	4,670	7,500	8,437	9,421	9,892
Inventories	14,110	13,800	14,328	16,491	17,798
Debtors	5,170	5,390	5,576	6,418	7,041
Cash	5,520	2,790	2,278	1,492	2,656
Other current assets	4,320	4,580	5,068	5,550	5,906
Total current assets	29,120	26,560	27,251	29,952	33,400
Creditors	9,440	9,780	10,489	12,071	13,226
Other current liabilities & provisions	4,310	4,640	4,501	4,596	5,027
Total current liabilities	13,750	14,420	14,990	16,667	18,253
Net current assets	15,370	12,140	12,261	13,284	15,147
Deferred tax asset	1,890	1,530	1,530	1,530	1,530
Total assets	35,240	35,540	36,535	37,932	39,961

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
PAT	9,360	10,850	11,511	13,361	14,783
Depreciation	1,310	1,500	1,433	1,682	1,877
Other income	-120	-270	-950	-1,053	-1,184
Interest paid	-140	-220	338	270	220
(Inc.)/dec. in working capital	210	330	-632	-1,811	-699
Cash flow from operations	10,620	12,190	11,700	12,449	14,998
Capital expenditure (-)	-1,430	-1,860	-1,300	-1,000	-1,500
Net cash after capex	9,190	10,330	10,400	11,449	13,498
Inc./(dec.) in investments	1,290	-1,600	657	-722	-78
Cash flow from investments	-140	-3,460	-643	-1,722	-1,578
Dividends paid (-)	-6,820	-10,250	-9,810	-9,675	-10,965
Others	-150	-1,210	-1,758	-1,840	-1,290
Cash from financial activities	-6,970	-11,460	-11,569	-11,515	-12,255
Opening cash balance	2,010	5,520	2,790	2,278	1,491
Closing cash balance	5,520	2,790	2,278	1,491	2,656
Change in cash balance	3,510	-2,730	-512	-787	1,164

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Key ratios

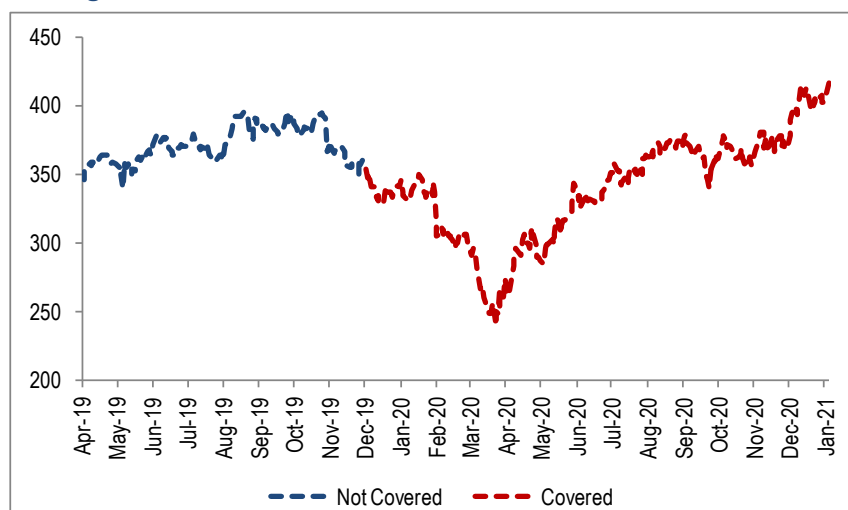
Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Per share (Rs)					
EPS	7.2	8.1	8.7	10.2	11.3
Book value	23.1	23.4	24.7	26.3	28.1
DPS	6.6	7.6	7.5	8.5	9.5
Valuation (x)					
EV/sales	7.2	7.3	6.8	5.9	5.4
EV/EBITDA	40.0	36.1	33.2	28.2	25.5
P/E	58.0	51.2	47.8	41.0	37.0
P/BV	18.1	17.8	16.9	15.8	14.8
Return ratios (%)					
RoCE	29.7	31.4	32.7	36.4	38.4
RoE	33.7	35.0	36.3	39.8	41.4
RoIC	38.3	41.2	44.3	49.4	52.8
Profitability ratios (%)					
Gross margin	44.9	48.5	48.2	48.7	48.9
EBITDA margin	18.1	20.1	20.6	21.0	21.1
PAT margin	12.6	14.4	14.5	14.7	14.8
Liquidity ratios (%)					
Current ratio	1.1	0.8	0.8	0.8	0.8
Quick ratio	1.1	0.9	0.9	0.8	0.9
Solvency ratio (%)					
Debt to Equity ratio	0.1	0.1	0.1	0.1	0.1
Turnover ratios					
Total asset turnover ratio (x)	2.1	2.1	2.1	2.4	2.4
Fixed asset turnover ratio (x)	11.6	10.5	11.4	14.5	17.0
Inventory days	73	70	66	63	64
Debtors days	21	26	26	25	25
Creditor days	44	48	48	46	47

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
2 December 2019	Buy	360	425
1 February 2020	Buy	315	400
30 March 2020	Buy	254	360
5 May 2020	Buy	284	345
6 July 2020	Accumulate	357	370
28 July 2020	Accumulate	351	385
18 September 2020	Accumulate	362	395
6 October 2020	Accumulate	377	400
29 October 2020	Accumulate	363	400
5 January 2021	Accumulate	417	435

Rating chart



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,

Nr. Peninsula Corporate Park,

Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010