

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

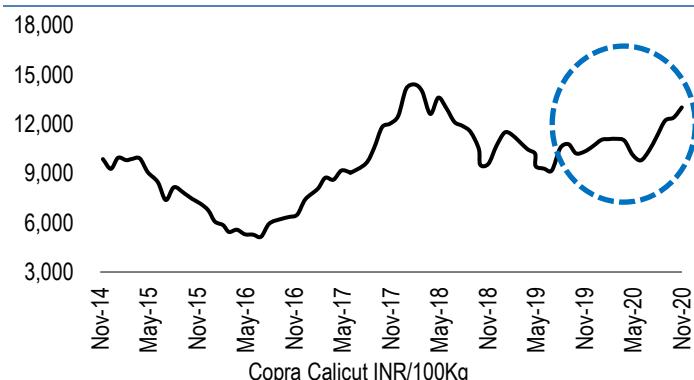
Segments	Near Term & Medium Term Outlook/Guidance
Marico India	
Parachute Rrigids	MRCO expects to grow volumes in the range of 5-7% over the medium term
Saffola Edible Oils	Company aims to sustain high single digit volume growth over the medium term
VAHO	Company aims to revive volume growth in this franchise 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

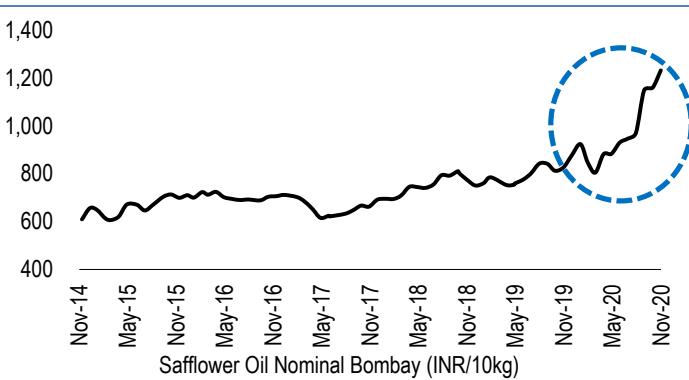
Exhibit 2: Domestic segmental quarterly trend

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)

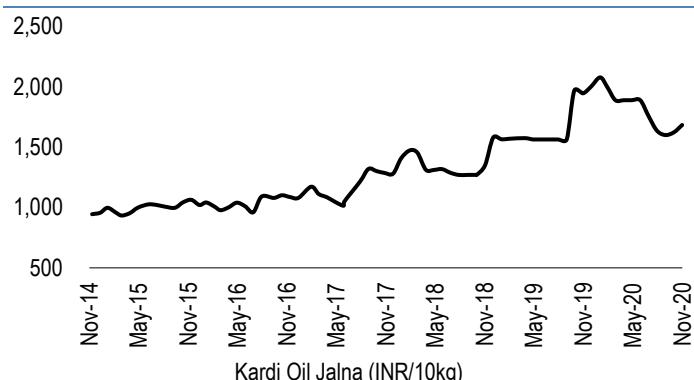
Source: Company, Nirmal Bang Institutional Equities Research; * our estimate

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


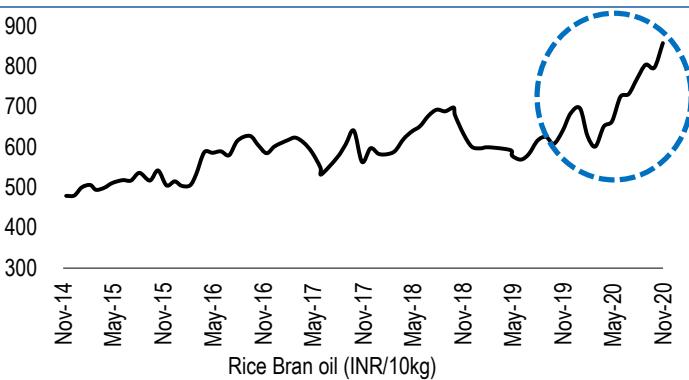
Source: Company, Nirmal Bang Institutional Equities Research

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


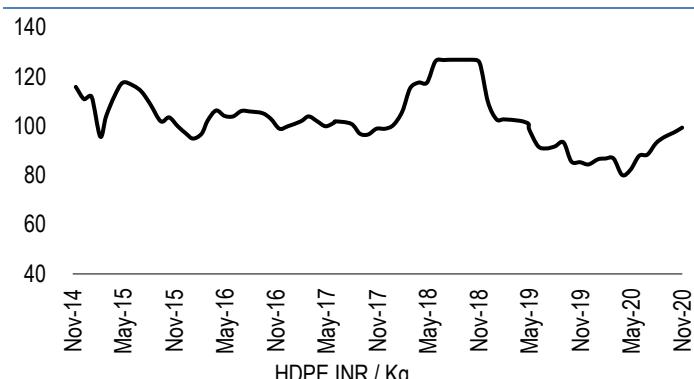
Source: Company, Nirmal Bang Institutional Equities Research

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


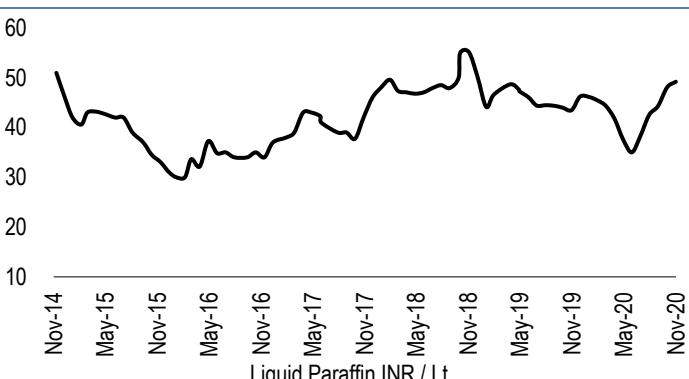
Source: Company, Nirmal Bang Institutional Equities Research

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

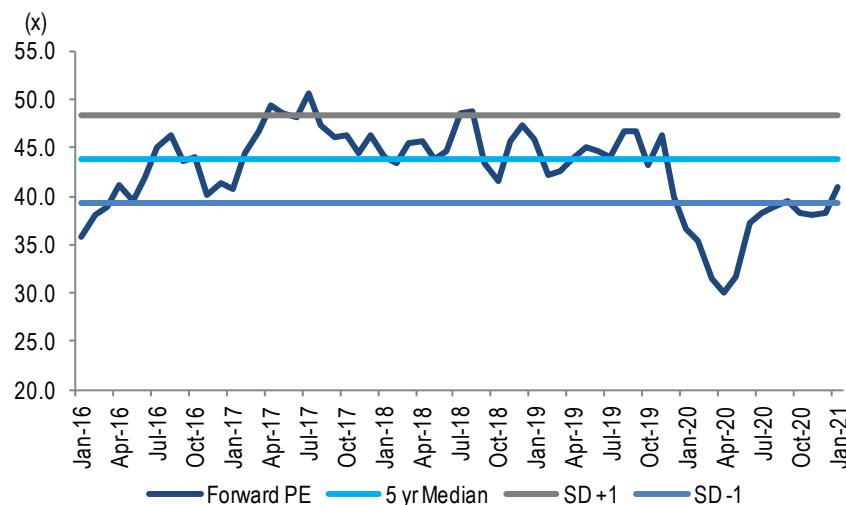
Exhibit 8: Avg. LLP price (Oct+Nov'20) up 9.1% YoY and 16.6% QoQ


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

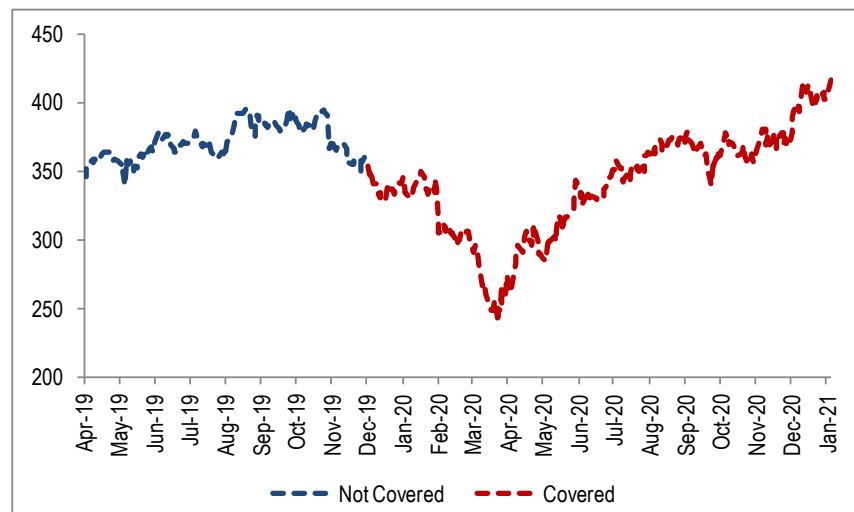
Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Per share (Rs)					
EPS	7.2	8.1	8.7	10.2	11.3
Book value	23.1	23.4	24.7	26.3	28.1
DPS	6.6	7.6	7.5	8.5	9.5
Valuation (x)					
EV/sales	7.2	7.3	6.8	5.9	5.4
EV/EBITDA	40.0	36.1	33.2	28.2	25.5
P/E	58.0	51.2	47.8	41.0	37.0
P/BV	18.1	17.8	16.9	15.8	14.8
Return ratios (%)					
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



DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as "NBEPL") for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I/We, Mr. Vishal Punmiya, the research analyst and Ms. Videesha Sheth, the research associate, the authors of this report, hereby certify that the views expressed in this research report accurately reflects my/our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst is principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

Our reports are also available on our website www.nirmalbang.com

Access all our reports on Bloomberg, Thomson Reuters and Factset.

Team Details:

Name	Email Id	Direct Line
Rahul Arora	rahul.arora@nirmalbang.com	-
Girish Pai	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing		
Ravi Jagtiani	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	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