

Industry Consum. Staples
Bloomberg MRCO IN
BSE CODE 531642

Foods and Hygiene portfolio will drive growth in medium term.

RATING	ACCUMULATE
CMP	350
Price Target	389
Potential Upside	11%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	404/234
Mkt Capital (Rs Cr)	45,246
Free float (%)	40%
Avg. Vol 1M (,000)	202
No. of Shares (Cr)	129
Promoters Pledged %	NA

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1QFY21 Result Update

- MARICO reported mixed set of numbers; Revenue de-grew by 11.1% YoY to Rs. 1925 cr (vs. expect. Rs 1947 cr.) Impacted on account of decline in volumes due to supply chain disruption amidst nation-wide lockdown in April-20.
- The Company's domestic volumes de-grew by 14% YoY. Parachute rigid and Hair oil portfolio de-grew by 11%/30% YoY impacted on account of higher base and lower discretionary spends while Saffola volumes grew by 16% YoY led by higher in-home consumption.
- The Company's International business declined by 4% in Q1FY21 in cc terms, due to COVID-19 led restrictions affecting growth and weak macros in some of the markets. Bangladesh grew by 10% while Vietnam markets, MENA and South Africa de-grew by 14%/27%/25% in cc terms impacted by weak macros and COVID-19 led restrictions.
- Gross margin expanded by 138 bps to 48.9% YoY led by benign input prices while EBITDA margin expanded by 298 bps YoY to 24.3% YoY led by rationalization of Ad & P spends and cost saving measures undertaken by the company.
- PAT grew by 3.5% to Rs. 326 cr. (vs. expect. Rs. 309 cr.) with PAT margin was at 16.9% improvement of 239 bps YoY.

View and Valuation

1QFY21, volumes remained impacted led by supply chain disruption amidst COVID-19. The company's food portfolio Saffola is expected to grow led by increased home consumption while Parachute rigid is also showing good traction post the lock down is eased and VAHO portfolio is expected to remain impacted due to lower discretionary spends. On the margin front, low input prices coupled with cost rationalization initiatives will ensure margin expansion. The company will continue focusing on its strategies which are gaining market share in the premium segment, driving value in the mid segment and aggressive pricing in the bottom segment. Thus, we remain positive on the stock in long run but considering the current volatile scenario of rising number of cases, stress in CSD and MT channels, lower discretionary spends, supply chain disruption due to vertical lock downs we have kept our estimates unchanged and maintain our ACCUMULATE rating with a target price of Rs. 389.

Key Risks to our rating and target

- Sharp increase in copra prices.
- High Volatility in currencies & its impact on International business.

Conso/Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20	FY21E
Net Sales	5936	6322	7334	7315	7314
EBITDA	1159	1138	1328	1469	1595
EBIT	1069	1049	1196	1329	1456
PAT	811	827	1132	1043	1121
EPS (Rs)	6	6	9	8	9
EPS growth (%)	12%	2%	37%	-8%	7%
ROE (%)	35%	33%	38%	35%	32%
ROCE (%)	46%	41%	40%	44%	42%
BV	18	20	23	25	27
P/B (X)	18.2	16.9	14.9	11.4	13.1
P/E (x)	52.2	52.1	39.4	35.1	40.4

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1QFY21 Results

Mixed numbers

Conso/Fig in Rs Cr

FINANCIALS	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	2,166	1,829	1,824	1,496	1,925	-11.1%	28.7%	7,334	7,315	-0.3%
Other Income	28	35	29	32	19	-32.1%	-40.6%	103	124	20.4%
COGS	1,137	921	928	759	984	-13.5%	29.6%	4,017	3,745	-6.8%
Gross Margin	48%	50%	49%	49%	49%	1.4%	-0.4%	45%	49%	3.6%
Empl. Cost	127	127	116	108	135	6.3%	25.0%	466	478	2.6%
Ad. Expense	219	197	185	126	137	-37.4%	8.7%	659	659	0.0%
Other Exp.	222	231	222	221	202	-9.0%	-8.6%	864	864	0.0%
EBITDA	461	353	373	282	467	1.3%	65.6%	1,328	1,469	10.6%
EBITDA Mar.	21%	19%	20%	19%	24%	3.0%	5.4%	18%	20%	2.0%
Depreciation	35	35	32	38	34	-2.9%	-10.5%	132	140	6.1%
EBIT	426	318	341	244	433	1.6%	77.5%	1,196	1,329	11.1%
Interest	12	13	12	13	9	-25.0%	-30.8%	40	50	25.0%
PBT	442	340	358	263	443	0.2%	68.4%	1,258	1,403	11.5%
Excep. Item	19	-	-	10	-	-	-	-	(29)	-
Tax	108	88	82	53	117	8.3%	120.8%	126	331	162.7%
PAT	315	253	276	199	326	3.5%	63.8%	1,132	1,043	-7.9%
PAT Margin	15%	14%	15%	13%	17%	2.4%	3.6%	15%	14%	-1.2%

Concall Highlights

- The Company's domestic business remained impacted in April for all categories except edible oil, foods, hand sanitizers and coconut oil.
- The Company continued to operate at lower distributor inventory levels after the drop at the end of Q4FY20, in order to protect channel partner ROIs in the current environment.
- CSD business (contributes 7% to the business) de-grew by ~50% impacting 3% volume growth in 1QFY21.
- As of now hair oil category is growing ahead of Pre-COVID level.
- In 1QFY21, the company's hygiene portfolio comprising of Mediker Hand Sanitizer, Veggie Clean, House and Travel Protect contributed to more than 1.5% of standalone revenue.
- Saffola growth remained bit low due to impact of CSD and Modern trade channels. Saffola share is higher in Modern trade than general trade.
- The Company is now operating at 70-80% of SKUs.
- Both rural and e-commerce contributed to the extent of percentage point in 1QFY21.

Management Guidance:

- The Company will focus on smaller packs in discretionary part of business considering lower disposable incomes in the hands of consumers
- The Company will continue to manufacture all SKU in its core business.
- The Company will continue bringing in differentiation in the hygiene category and targets a revenue of Rs. 80-100 cr. from Hygiene portfolio in FY21. The Company expects its foods business to clock revenue of Rs. 300-350 cr. in FY21 and increase it further to Rs. 500 cr. in FY22. The Company expects further 100-150 bps cut in Ad & P line for the balance of FY21 led by savings in media expenses in discretionary spends, visibility and print spends etc.
- The Company will come up with some new launches in foods in next 3 months.
- The Company will shift from non-media to media channels while spends on the digital platforms will continue to rise.
- The Company expects to maintain operating margin at 20% plus in remaining quarters of FY21.

International Business:

- Bangladesh grew by 10% in Q1FY21 in cc terms, despite the state of lockdown in the country. The Company has also launched Mediker SafeLife Veggie Wash and Parachute Naturale Shampoo in three variants.
- Vietnam markets have opened up completely and business is gradually getting back to normal and the company is optimistic of some recovery in discretionary personal care categories.
- MENA and South Africa continues to remain weak on the back of weak macros and COVID-19 led restrictions.

Exhibit: Parachute Rigid Volume Growth (%)

Volumes declined on the back of higher base (9% in 1QFY20) and also on account of lock down in April.

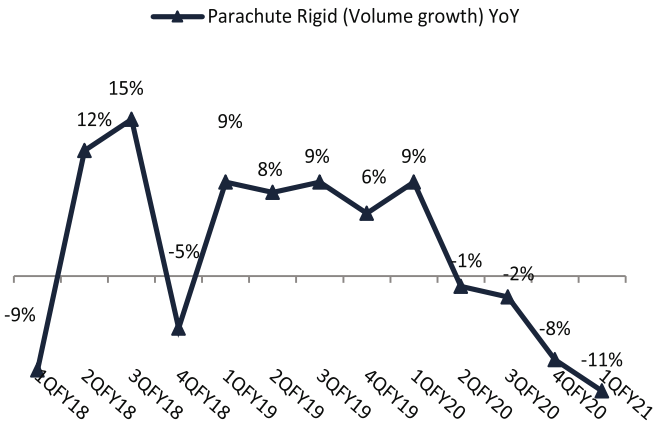


Exhibit: Saffola Volume Growth (%)

Saffola volume growth remained slow due to impact of CSD and Modern trade channels.

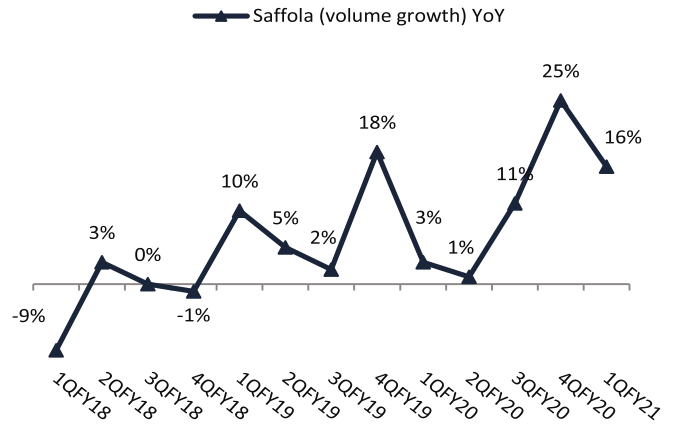


Exhibit: Internationa Business (CC growth %)

IB de-grew by 4% in cc terms impacted by weak macro scenario due to COVID-19 in MENA and South Africa.

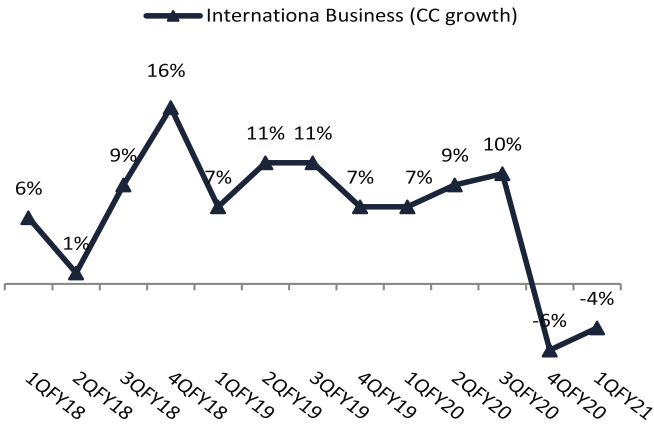


Exhibit: Sales and Sales Growth (%)

Sales remained impacted on account of lower volumes from Parachute rigid and Hair oil portfolio.

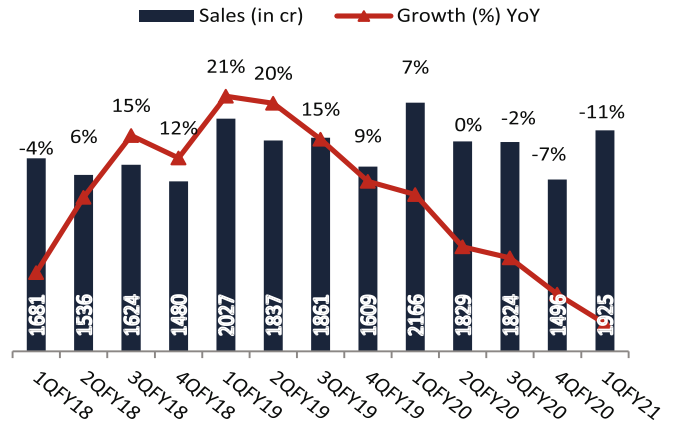


Exhibit: Gross and EBITDA Margin (%)

Gross margin expansion led by benign input prices while EBITDA margin expanded on account of A&P rationalization.

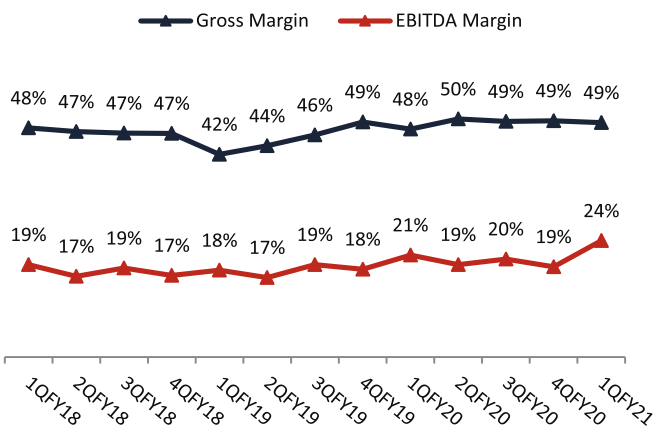
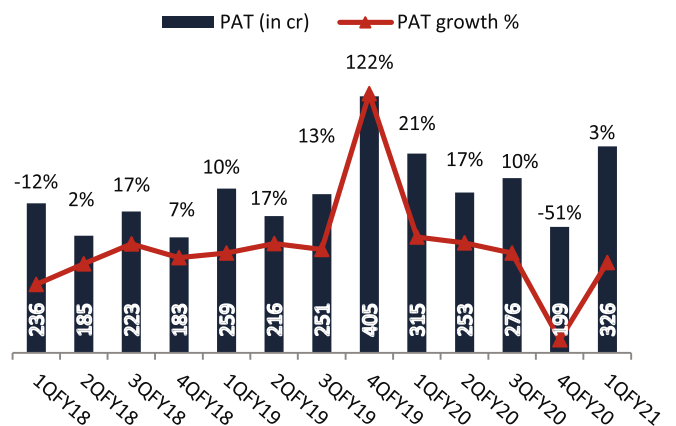


Exhibit: PAT and PAT Growth (%)

PAT grew by 3.49% to Rs. 326 cr. With PAT margin at 16.9%.



Financial Details

Balance Sheet

Conso/Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Share Capital	64	65	129	129	129	129	129	129
Reserves	1,296	1,760	1,888	2,197	2,414	2,920	2,894	3,320
Networth	1,361	1,825	2,017	2,326	2,543	3,049	3,023	3,449
Debt	526	334	153	239	309	349	335	262
Other Non Current Liab	-	-	-	-	-	-	-	-
Total Capital Employed	1,612	1,994	2,017	2,326	2,563	3,013	3,033	3,459
Net Fixed Assets (incl CWIP)	638	590	590	586	622	672	899	605
Non Current Investments	50	46	43	58	37	34	76	76
Other Non Current Assets	155	121	31	18	32	35	26	26
Non Current Assets	1,158	1,296	1,274	1,218	1,288	1,542	1,820	1,526
Inventory	796	995	926	1,253	1,511	1,411	1,380	1,380
Debtors	223	177	252	247	341	517	539	539
Cash & Bank	406	205	93	34	51	48	93	792
Other Current Assets	34	36	116	98	250	308	340	340
Current Assets	1,807	1,829	2,107	2,382	2,793	3,200	3,182	3,685
Creditors	503	564	669	697	822	944	978	978
Provisions	82	95	51	56	57	57	58	58
Other Current Liabilities	445	277	140	120	161	196	217	217
Curr Liabilities	1,030	936	1,161	984	1,168	1,351	1,460	1,460
Net Current Assets	777	893	946	1,398	1,625	1,849	1,722	2,225
Total Assets	2,965	3,125	3,381	3,600	4,081	4,742	5,002	5,211

Income Statement

Conso/Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Revenue from Operation	4,687	5,733	6,024	5,936	6,322	7,334	7,315	7,314
Change (%)	2%	22%	5%	-1%	7%	16%	0%	0%
EBITDA	748	870	1,051	1,159	1,138	1,328	1,469	1,595
Change (%)	20%	16%	21%	10%	-2%	17%	11%	9%
Margin (%)	16%	15%	17%	20%	18%	18%	20%	22%
Depr & Amor.	77	84	95	90	89	132	140	139
EBIT	671	786	957	1,069	1,049	1,196	1,329	1,456
Int. & other fin. Cost	34	23	21	17	16	40	50	51
Other Income	58	59	93	97	85	103	124	99
EBT	695	822	1,029	1,150	1,117	1,258	1,403	1,505
Exp Item	-	-	-	-	-	-	(29)	-
Tax	190	237	305	338	290	126	331	384
Minority Int & P/L share of Ass.	19	11	1	1	-	-	-	-
Reported PAT	485	573	723	811	827	1,132	1,043	1,121
Adjusted PAT	485	573	723	811	827	1,132	1,065	1,121
Change (%)	0	18%	26%	12%	2%	37%	-8%	7%
Margin(%)	10%	10%	12%	14%	13%	15%	15%	15%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
ROE	36%	31%	36%	35%	33%	38%	35%	32%
ROCE	42%	39%	47%	46%	41%	40%	44%	42%
Asset Turnover	2	2	2	2	2	2	1	1
Debtor Days	17	11	15	15	20	26	27	27
Inv Days	62	63	55	77	87	70	69	69
Payable Days	39	36	40	43	47	47	49	49
Int Coverage	19	34	46	64	65	30	27	29
P/E	28	44	47	52	52	39	35	41
Price / Book Value	10	14	16	18	17	15	11	13
EV/EBITDA	9	14	32	36	38	34	25	28
FCF per Share	9	9	6	4	3	7	8	10
Div Yield	4%	1%	1%	1%	1%	1%	2%	2%

Cash Flow Statement

Conso/Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
PBT	695	822	1,034	1,149	1,117	1,258	1,374	1,505
(inc)/Dec in Working Capital	88	(17)	(0)	(270)	(306)	22	32	8
Non Cash Op Exp	68	78	84	82	49	111	152	139
Int Paid (+)	34	23	20	17	16	40	50	51
Tax Paid	(181)	(210)	(246)	(296)	(295)	(320)	(289)	(384)
others	(43)	(31)	(59)	(32)	(26)	(45)	(72)	-
CF from Op. Activities	660	665	833	649	555	1,066	1,218	1,319
(inc)/Dec in FA & CWIP	(77)	(59)	(101)	(87)	(128)	(162)	(194)	13
Free Cashflow	583	606	732	562	427	904	1,024	1,332
(Pur)/Sale of Inv	(197)	41	(118)	1	70	103	(189)	28
others	70	(161)	(17)	(6)	75	65	123	(5)
CF from Inv. Activities	(204)	(179)	(235)	(92)	17	(351)	(44)	36
inc/(dec) in NW	1	1	1	0	0	-	-	-
inc/(dec) in Debt	(145)	(269)	(46)	(67)	69	40	(15)	(73)
Int. Paid	(35)	(23)	(20)	(17)	(16)	(23)	(34)	(51)
Div Paid (inc tax)	(142)	(300)	(502)	(509)	(636)	(682)	(1,025)	(888)
others	(18)	(34)	(11)	19	15	12	(18)	-
CF from Fin. Activities	(339)	(625)	(580)	(574)	(567)	(653)	(1,146)	(1,011)
Inc(Dec) in Cash	117	(140)	17	(17)	4	62	29	344
Add: Opening Balance	105	224	77	93	43	51	48	279
Closing Balance	224	77	91	43	51	97	93	623

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