EARNINGS

Marico: Outperformance likely to continue

Investors should look out for growth in foods portfolio and recovery in discretionary categories

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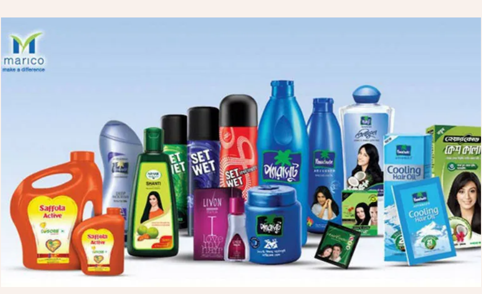

Marico

Marico

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549.30 ▲ 2.60 (0.48%)
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More

- Results in line with expectations
- All categories see double-digit growth
- Sequentially margins are likely to improve
- Outperformance likely to continue on the back of growth

Marico's (CMP: Rs 546; Market capitalisation: Rs 70,555 crore) June 2021 quarter results were in line with expectations. The management feels gross margins have bottomed out in the June 2021 quarter and are likely to recover from the September 2021 quarter.

June-quarter results

In the domestic market, Marico saw a volume growth of 21 per cent and a revenue growth of 35 per cent year on year, while in international markets revenues, in constant currency, grew by 21 per cent and by 20 per cent in reported currency.

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STANDALONE RESULTS

	Jun-21	Mar-21	Jun-20	YoY	QoQ
Sales	2,043	1,604	1,516	35%	27%
Cost of Good Sold	1,318	983	842	57%	34%
Gross margin	35.5%	38.7%	44.5%	-897 bps	-323 bps
Employee cost	99	95	95	4%	4%
Advertising expense	104	102	88	18%	2%
Other expenses	181	190	159	14%	-5%
EBIDTA	341	234	332	3%	46%
EBITDA margin	16.7%	14.6%	21.9%	-521 bps	210 bps
Adjusted Net profit	263	271	255	3%	-3%

Source: Company results. We have adjusted the Net profit for the exceptional items
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In the domestic market (India operations), general trade and e-commerce bucked the trend with a volume growth of 17 per cent (rural and urban growth) year on year and 61 percent year on year respectively. E-commerce now contributes almost 9 per cent of the revenues.

CONSOLIDATED RESULTS

	Jun-21	Mar-21	Jun-20	YoY	QoQ
Sales	2,525	2,012	1,925	31%	25%
Cost of Good Sold	1,489	1,124	984	51%	32%
Gross margin	41.0%	44.1%	48.9%	-785	-311 bps
Employee cost	150	150	135	11%	0%
Advertising expense	175	173	137	28%	1%
Other expenses	230	246	202	14%	-7%
EBITDA	481	319	467	3%	51%
EBITDA margin	19.0%	15.9%	24.3%	-521 bps	319 bps
Adjusted Net profit	356	238	331	8%	50%

Source: Company results. We have adjusted the Net profit for the exceptional items
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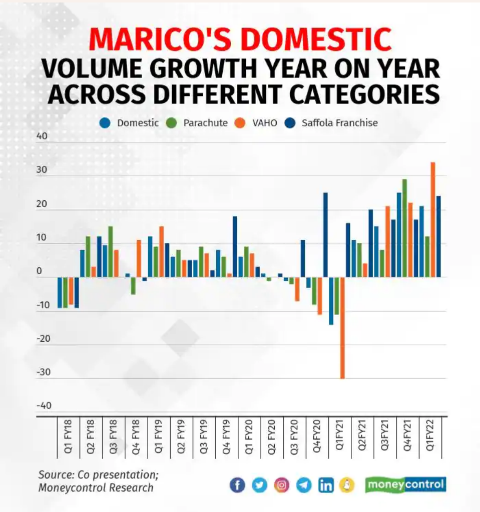
Market share in key categories in the India business (MAT-June 2021)

Franchise	~MS%	Rank
^Coconut Oils	62%	1st
^Parachute Rigids	52%	1st
^Saffola – Super Premium ROCP	82%	1st
*Saffola Oats	39%	2nd
*Saffola Masala Oats - Flavoured Oats	94%	1st
^Value Added Hair Oils	37%	1st
^Post wash Leave-on Serums	63%	1st
*Hair Gels/Waxes/Creams	58%	1st

^Volume Market Share *Value Market Share

Source: Co Presentation

The Parachute category, VAHO (value added hair oil) and Saffola grew by 12 per cent, 34 per cent and 24 per cent, respectively in volume terms, while it grew by 20 per cent, 35 per cent and 60 per cent, respectively, in value terms year on year.



The Saffola edible oil grew in low double digits while the Oats franchise saw a value growth of 59 per cent during the June quarter. Saffola foods saw 100 per cent plus growth. The foods portfolio is on course to reach the Rs 500 crore turnover in FY22 compared with Rs 300 crore in FY21. In terms of sales contribution, foods is only about 3-4 per cent, which is likely to see higher growth. Despite higher competition, Saffola honey is likely to report revenues of Rs 100 crore in FY22. Safolla Oodles is scaling up well in modern trade and general trade both. After launching Safolla mealmaker in eastern India, it was made available in parts of North India through the expansion of general trade.

The premium personal care category is reviving gradually with Livon serums now touching pre-Covid levels. As discretionary consumption picks up, we expect low penetration and leadership of categories to drive growth.

In the international markets, the year-on-year growth in Bangladesh, South East Asia, South Africa and MENA (Middle East and North Africa) was to the tune of 9 per cent, 16 per cent, 52 per cent (on low base) and 74 per cent (low base), respectively, in constant currency. In Bangladesh, non-coconut oil portfolio grew by 20 per cent in constant currency terms.

Copra prices were down 13 per cent sequentially in the June quarter due to seasonal arrivals of coconuts and lower demand. With supply outlook improving, prices are likely to remain range-bound in the near term. On the back of Covid-led disruptions and weather anomalies, rice bran oil prices were higher by 68 per cent year on year and 28 per cent sequentially. Marico expect prices to remain volatile in the short term with a downward bias in line with global markets. Crude derivatives such as liquid paraffin and HDPE were also up by 50 per cent and 44 per cent year on year respectively. Both are expected to remain firm in the near term.

Update on acquisition

In July, Marico announced a strategic investment in Apcos Naturals Private Limited with an acquisition of 60 per cent equity stake for an undisclosed consideration. Apcos Naturals Private Limited owns "Just Herbs", a line of pure, bespoke and Ayurvedic results-driven skin and hair care offerings, made from certified organic and wildcrafted ingredients collected across India. While the brand garners majority of its business through its own website, it is also available on online marketplaces (Amazon, Flipkart and Nykaa) and in its exclusive offline stores in select cities.

Outlook and Valuations

Marico will continue to maintain a sustained profitable volume-led growth by strengthening the franchise in core categories and driving new engines of growth towards gaining critical mass. The management has estimated a13-15 per cent revenue growth over the medium term on the back of a 8-10 per cent domestic volume growth and a double-digit constant currency growth in international markets. Markets such as Bangladesh and Vietnam have seen a resurgence of Covid and there was some political unrest in South Africa which has affected business in July and could impact the performance of the international business in the September quarter.

In the domestic markets, demand trends have improved. Marico expects rural consumption, which moderated due to the second wave, to bounce back and grow ahead of urban on the back of normal monsoon and government stimulus.

The management has indicated that gross margins have bottomed out and will improve sequentially going forward. The progress in the foods business has been commendable with Marico eyeing revenues of Rs 800-850 crore by FY2024. In the digital-first brand portfolio, which includes Beardo and Just Herbs, Marico will create another engine of growth where it targets revenues of Rs 450-500 crore by FY2024 from the current annual run rate of Rs 200 crore.

We expect a revenue growth of 15 per cent and 12 per cent in FY22 and FY23 respectively. Based on our projections, Marico is trading at a P/E multiple of 55x/47x FY22 and FY23 earnings, respectively, as against the last 10-year average valuation of around 36x. Investors with a long-term view can accumulate this stock and add on declines. The risk to our rationale is a slowdown or down-trading by consumers in the current economic environment.

PROJECTION AND VALUATION

Financials	FY19	FY20	FY21	FY22E	FY23E
Sales	7,334	7,315	8,048	9,255	10,366
EBITDA	1,326	1,469	1,591	1,805	2,073
EBITDA %	18%	20%	20.5%	19.5%	20.0%
Net profit	926	1,050	1,162	1277	1503
Net Profit margin	13%	14%	14%	14%	15%
EPS (in Rs)	7.2	8.1	9.0	9.9	11.7
P/E (x)	76	67	61	55	47

Source: Moneycontrol research.
(Rs in crore)
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