Marico sees near-term headwinds on margins, but sales outlook is decent

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The Marico Ltd stock has also participated in the so-called catch-up rally in recent months. Since October-end, the stock has risen nearly 13%. What's more, valuations don't appear expensive vis-à-vis some other consumer shares, point out analysts. The stock currently trades at 41 times estimated earnings for FY22, based on *Bloomberg* data.

Marico has performed reasonably well so far in FY21. For the half year ending September (H1FY21), consolidated revenue fell 2% year-on-year and earnings before interest, taxes, depreciation and amortization (Ebitda) margin stood at 21.9%. Ebitda margin in the June quarter was robust at 24.3%, which dropped to 19.6% in the September quarter.

Even so, margins are expected to moderate in second half of the fiscal (H2FY21) compared to H1FY21, primarily due to an increase in key raw material prices. Pawan Agrawal, chief financial officer at Marico said, "Over the past two-three months, copra and edible oil prices have seen significant inflation, in the range of 20-30% on a year-on-year basis. To be able to cope with this to some extent, we have reduced some of the promotional offers on the flagship brand, Parachute, and taken selective price increases in the Saffola Oils portfolio."

Margins are likely to moderate in the fiscal second half, primarily due to an increase in prices of key raw materials

Nonetheless, the company has maintained its Ebitda margin guidance of 20% for FY21. That's not bad at all.

In the September quarter, gross profit margin declined by 163 basis points year-on-year owing to high input costs. One basis point is one-hundredth of a percentage point. However, Ebitda margin had expanded marginally as Marico kept a check on operating costs.

Overall, it is encouraging that volume outlook for H2FY21 is better. Recall that India business volumes had declined by 3% in H1FY21. According to Agrawal, this measure is likely to grow in double digits in the second half, provided that India doesn't witness a second wave of covid-19.

A favourable base helps here, as domestic volumes had declined in the December and March quarters of FY20.

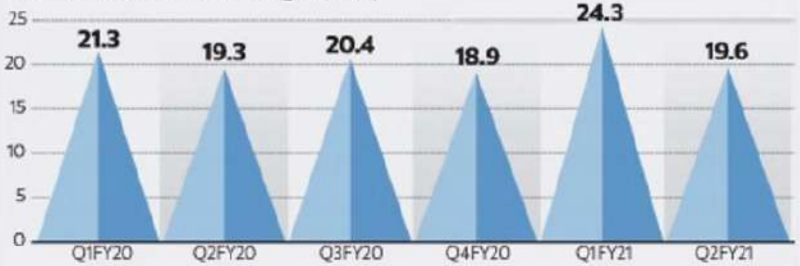
Meanwhile, the outlook on Marico's foods portfolio is strong with the company seeing healthy traction helped by entry into newer categories. The foods category is poised to clock revenues worth ₹450-500 crore by FY22, up from less than ₹200 crore in FY20. What also augurs well is that medium term outlook on copra prices is better. "More recently, copra prices have corrected from the highs and we expect further easing in prices from Q4FY21 onwards," says Agrawal.

Having said that, given the stock's recent appreciation, it appears like investors are factoring in some of the good news into the price, at least for now.

Sturdy performance

Marico's Ebitda margins have been strong in the first half of the current fiscal but are expected to moderate by H2 owing to cost pressures.

Consolidated Ebitda margin (in %)



Note: Ebitda is earnings before interest, tax, depreciation and amortization.

Source: Company, JM Financial

PARAS JAIN/MINT

Marico eyes buy in the digital space; plans to strengthen e-comm categories

ABHISHEK LAW

Kolkata, December 4

Home-grown fast moving consumer goods company, Marico Ltd, is eyeing acquisition in the digital space as it looks to strengthen its presence across online and e-commerce categories.

The move comes after the company's successful acquisition and integration of male-grooming start-up Beardo. Incidentally, Beardo continues on with independent operations, but with the latter (Marico) having a small management team.

According to Pawan Agrawal, Chief Financial Officer, Marico Ltd, acquisitions are being mulled over in "categories such as hair care, skin care, male grooming and healthy foods".

Acquisition of dominant entrepreneur-driven digital brands offers tremendous potential "to understand the segment" and gain "user insights" especially in the e-commerce space.

It will also "strengthen" Marico's existing presence in the given categories and accelerate growth.

Since the pandemic and subsequent unlocking, FMCG companies like Marico have been strengthening their online play, including the introduction of a direct-to-consumer platform, across segments like health and hygiene, foods, value-added hair oils and premium personal care. E-commerce sales have now crossed 8 per cent of the company's turnover.

Looking at 'right fit'

"We are looking at potential acquisitions in the digital space. The pattern will be similar to what we did with Beardo. There are few brands under consideration and we are looking at the right fit," he told *BusinessLine*.

"We are happy if the acquisitions help to top up the 8-10 per cent volume growth that we aim to deliver over the medium term. We are also focussed on nurturing the newer categories such as foods, hygiene, immunity and premium personal care which should help drive sustainable and incremental growth," Agrawal said, without revealing the target acquisition size.

Pawan Agrawal, Chief Financial Officer, Marico Ltd

'Strong sales driver'

Marico has already done large ticket buyouts in India which include acquisition of Nihar from HUL and acquisition of Livon, Set Wet and other allied brands from Paras. The company also made sizeable acquisitions internationally, in Vietnam, among other markets.

According to Abneesh Roy, Executive V-P, Research, Edelweiss Securities, it makes sense "to opt for acquisition of digital brands especially if one takes a 5-10 year view of growth". Digital as a channel will be a strong sales driver.

"It makes more sense to acquire a digital brand doing well rather than invest heavily in creating a brand which may not click. Even discretionary spends are seeing a rebound and acquisitions will be made keeping the medium term in view," he said.

For Marico, discretionary categories are witnessing recovery since Q2 (July to September) of FY-21. There has been a sequential improvement over Q1 (April to June) for male grooming and value added hair oil categories.

Marico to ramp up business in Bangladesh

ABHISHEK LAW

Kolkata, December 11

Following the success of its non-coconut oil portfolio in Bangladesh, home-grown fast moving consumer goods major, Marico Ltd, is looking to ramp up offerings in the neighbouring country.

The company forayed into baby care in Bangladesh under 'Parachute Just for Baby' brand. Over the last few years, it has started playing in personal care categories like shampoo, value-added hair oils and male grooming categories.

Bangladesh continues to be Marico's largest overseas market (outside India), accounting for 49 per cent of its international business turnover. The company operates in Bangladesh through its subsidiary, Marico Bangladesh Ltd.

According to Pawan Agrawal, CFO, Marico Ltd has been consciously diversifying its portfolio in Bangladesh over the last half a decade. From largely a coconut oil-only portfolio under Parachute, the company ramped up non-coconut oil offerings in its largest market outside India.

Pawan Agrawal, CFO, Marico Ltd

In Q2 FY21 Bangladesh operations grew by 16 per cent in constant currency terms, led by growth in the non-coconut oil business. Parachute coconut oil grew healthily and now accounts for 65 per cent of the turnover and the non coconut oil offerings accounting for the remaining 35 per cent (up from 25 per cent in FY18).

"Over the next couple of years, the coconut oil portfolio should contribute less than 60 per cent of the turnover of our Bangladesh operations. We are ramping up the non-coconut oil portfolio there to include baby care, personal care and male grooming products," Agrawal told *BusinessLine*.

Vietnam operations

For Q2 FY21, Marico's international business grew by 7 per cent while the operating margin in the international business expanded to 23.1 per cent for the period (versus 21.5 per cent in Q2 FY20).

Amongst international businesses, South-East Asia including Vietnam, which accounts for 26 per cent of the international business turnover, degrew by 6 per cent for the September quarter following a slowdown in the personal care segment.

"South-East Asia, particularly Vietnam, is seeing signs of revival and the company is optimistic of exiting the year with meaningful growth," Agrawal said, adding that "learnings from Bangladesh will be replicated in the geography."