

25 February 2022

Marico Ltd. – BUY

CMP : Rs.493.0
Target Price : Rs.591.0
Upside : 20%+
Stop Loss : Rs.427.0 (Closing basis)

Investment Thesis

Recently, the stock price of Marico Ltd. (Marico) corrected by ~19% from 52-week high of Rs.607.70 as the company has reported lower-than-expected margins on higher raw material prices in the recent quarters.

Marico is a leading consumer goods companies in beauty and wellness categories. It offer leading brands across hair care, skin care, edible oils, healthy foods, male grooming and fabric care. It has expanded its presence in over 25 countries across emerging markets of Asia and Africa. Currently, 95% of Marico's brands are amongst top-5 in terms of market share. Its market share in various categories is Coconut oils (~62%), Hair oils (~35%), Super-premium Refined edible oils (~76%), Leave-in hair conditioners (~65%) and Hair creams/gels (~59%). It will continue to drive unbranded to branded conversions and penetration at the bottom of the pyramid, through attractive pricing as well as enhanced distribution reach. Furthermore, Marico also pursue opportunities for premiumisation in select pockets through product innovations by delivering enhanced value to the consumer. Saffola is on a healthy growth trajectory and further strengthening its market leadership position through new launches.

Recently, Marico has forayed into hygiene segment with Veggie Cleaner and Hand wash. As consumers are now increasingly conscious of nutrition, health, hygiene and immunity as a part of their lifestyle, Marico is realigning its portfolio to adapt to this trend. Marico's recent foray into the Hygiene segment is a step in this direction, and it is working on a pipeline of new products for a sustained and meaningful play in this segment. During and post Covid-19, hygiene is expected to be one of the key consumer needs. Marico has introduced Mediker Hand Sanitizer and Veggie Clean in India. A similar initiative in hygiene is also being driven in Bangladesh and other key markets.

Financials

- During the past 5 years, revenue of Marico grew at a CAGR of 6.0% while PAT grew at a CAGR of 10.5% in the same period.

Consol. (Rs.Mn.)	FY19	FY20	FY21	FY22E	FY23E
Revenue	73,340	73,150	80,480	96,576	111,062
EBITDA	13,260	14,660	15,910	18,297	21,041
% growth	17.0	10.6	8.5	15.0	15.0
PAT	11,140	10,210	11,720	13,384	15,258
EPS (INR)	8.6	7.9	9.1	10.4	11.8
P/E (x)	57.1	62.3	54.3	47.5	41.7
RoE (%)	37.7%	34.1%	36.2%	37.7%	39.2%

- Marico has reported 13.4% YoY growth in revenue to Rs.24,070mn in Q3FY22 mainly led by 13% growth in domestic business & 19% growth in international business in the quarter.

Stock Data

Market Cap (Rs. Mn)	6,37,965
Market Cap (\$ Mn)	8,449.0
Shares O/S (in Mn)	1293.0
Avg. Volume (3 month)	9,14,31,000
52-Week Range (Rs.)	607.70 / 379.10

Shareholding Pattern

Promoters	59.51%
FII's	25.55%
Institutions	8.67%
Others (incl. body corporate)	6.27%

Performance (%)	1M	6M	1Yr
Absolute	2.4%	-7.4%	13.7%
BSE FMCG	-4.2%	-10.3%	4.2%

Key Ratios

Div Yield	1.5%
TTM PE	53.6x
ROE	36.3%
TTM EPS (Rs.)	9.2/-

- Marico's Parachute saw growth of 8% led by 7% pricing growth while Saffola & VAHO witnessed growth of 19% & 3%, respectively.
- Marico's EBITDA grew by 4.5% YoY in Q3FY22 to Rs.4,310mn. However, EBITDA margin declined by 154bps YoY to 17.9% in Q3FY22 as Marico has increase its advertisement spends by 15.5% in the quarter.

Key Business Highlights

- Marico is one of India's leading consumer goods companies operating in global beauty and wellness categories. Marico is present in over 25 countries across emerging markets of Asia and Africa. It has 8 factories that are strategically located in India.
- Marico owns leading brands across categories of hair care, skin care, edible oils, healthy foods, male grooming and fabric care. The portfolio of brands includes well-known names like Parachute, Saffola, Nihar, Mediker, Set Wet, Livon, and Kaya to name a few.
- Other than India, Marico has presence in the Middle East, SAARC nations, Egypt, Myanmar, Malaysia, South Africa and Vietnam. Its international business accounts for ~23% of revenues.

Valuation

- Marico's Saffola witnessed a robust volume growth of 17% in FY21 with increasing penetration and consumer preference for healthy cooking. Similarly, foods category has touched a Rs.3,000mn sales in FY21 on the back of high growth in Oats & foray in new category (Honey, Chyawanprash and Soya Chunks) in health space. Marico has also launched 'Saffola Oodles' in healthier noodles space. Moreover, it has expanded its Soya Chunk distribution to MP, which was launched only in WB earlier. The management expects the food business to grow to ~Rs.8,000mn by FY24E. We believe edible oil and foods categories will gain the momentum with the change in consumer preferences for healthier foods.
- In the last two quarters, we have seen a very sharp increase in prices across commodities. Apart from copra & rice bran, price of liquid paraffin & HDPE has risen in the recent quarters. Further, post Russia-Ukraine crisis, commodity price is expected to remain elevated in the near future, which is going to affect margin of most of the companies including Marico. However, Marico had entered long-term contract for supply of raw materials, which will help to mitigate this crisis. Marico has also taken aggressive price hikes in last six months to mitigate increase in copra, vegetable & crude derivative prices.
- As consumers are now increasingly conscious of nutrition, health, hygiene and immunity as a part of their lifestyle, Marico is realigning its portfolio to adapt to this trend. Its recent foray into the Hygiene segment is a step in this direction, and it is working on a pipeline of new products for a sustained and meaningful play in this segment.
- With leading consumer goods companies in beauty and wellness categories, forayed into hygiene segment, Saffola witnessed a robust growth on consumer preference for healthy cooking, recent price hike and increasingly conscious of nutrition, health, hygiene and immunity, we value Marico at 50.0x FY23E EPS of Rs.11.80 to arrive at target price of Rs.591.00, an upside of ~20%.

Risk & Concern

- Any sharp price hike by Marico to counter raw material price hike may adversely impact volume growth going forward.
- Any steep rise in raw material price of Marico may have an impact on operating margin, going forward.
- Any pandemic outbreak like Covid-19 or government policy like demonetization or GST may have negative impact on consumer spending in India.

Graphs & Charts

Figure 1: Net Sales Trend

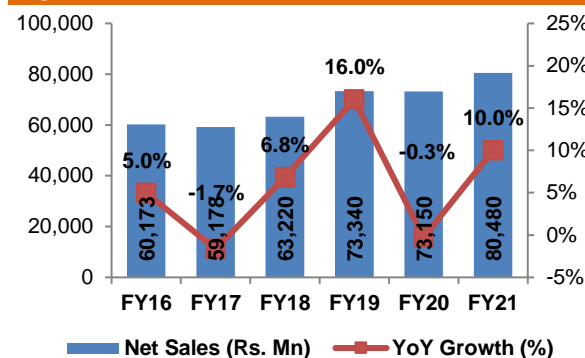


Figure 2: EBITDA & EBITDA Margin Trend

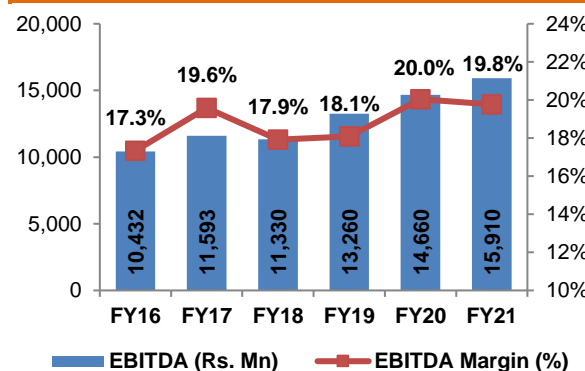


Figure 3: PAT Trend

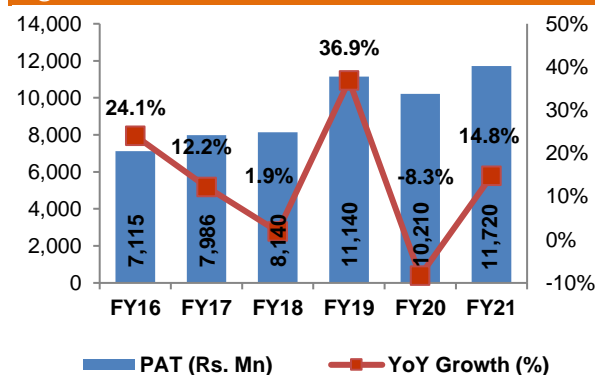
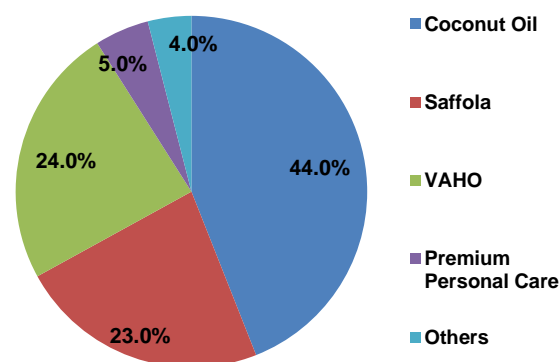


Figure 4: Product-wise Revenue (FY21)



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