

02<sup>nd</sup> November 2021

CMP – ₹575/-

View – **Add on Dips**

**Q2FY22: Strong single digit volume growth**

**Important Statistics**

- Revenue from operations grew 22% YoY, led by 8% volume growth
- Gross margin continues to see a sharp contraction as edible oil and crude oil prices remained at elevated level
- Gross margin contracted from 48% to 42.5% YoY.
- EBITDA increased by 8.7% while margin was down to 17.5% (210 bps) YoY.

<b>M.CAP (₹ cr)</b>	<b>₹73,783</b>
52 Week H/L (₹)	₹606/₹357
NSE Code	MARICO
BSE Code	531642

**Key takeaways from Q2FY22 result**

➤ **Volumes & Sales Growth:**

- In Q2FY22, Revenue from Operations grew by 22% YoY to ₹2,419cr with underlying volume growth of 8% in the domestic business. The domestic business delivered a turnover of ₹1,870cr, up 24% on a YoY basis and constant currency growth of 13% in the international business.
- For H1FY22, revenue grew by 26.3% YoY to ₹4944cr.

Shareholding pattern (%)	Sept'21
Promoter	59.5
Institutions	34.5
Public &Others	05.9

➤ **Profitability Margin:**

- Gross margin contracted 550 bps to 42.5% and on half year basis it has down by 660 bps YoY to 41.7%. Gross margin improved sequentially by ~140 bps
- Copra price was down 11% sequentially and down 5% YoY. With the supply outlook improving, prices are expected to remain range bound in the near term.
- The reduction in the import duty on vegetable oils is yet to reflect in domestic vegetable oil prices, but management expect some correction in the coming quarters.
- EBITDA margin stood at 17.5%, down 210 bps YoY. EBITDA was up 9% YoY. Reported PAT was up 17%, due to an exceptional item in the base quarter.

➤ **Operational Efficiency:**

- Employee cost as a % of revenue was down 30bps; Ad spends as a % of revenue was down 150bps YoY , as the company maintained its investments in core franchises and recent foods innovations. Ad spends will rise in the forthcoming quarters and operating expenses as a % of revenue was down 150bps YoY.

➤ **Demand Trend:**

- With more than 90% of portfolio comprising daily-use items, witnessed healthy demand trends across these categories, while discretionary and out-of-home consumption also picked up to some extent.
- Traditional trade stayed firm on a high base

➤ **Categories:**

- Parachute Rigids grew 7% in volumes, backed by increasing penetration in both core and non-core markets. Extending its market leadership, volume market share of the brand rose by 180 bps in rigid packs.

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- Value Added Hair Oils delivered value growth of 16%, largely driven by volumes. Mid and premium segment brands gained salience during the quarter. The company gained 40 bps in volume market share.
- The Saffola franchise, comprising Refined Edible Oils and Foods, grew 46% in value terms. Saffola Edible Oils had a muted quarter, largely due to volatility in edible oil prices.
- Saffola Foods grew by ~70% in value term. The base Oats franchise grew by 36% in value terms backed by increased penetration and market share gains.
- Saffola Oodles and Saffola Mealmaker Soya Chunks also continued to scale up well. The new Saffola Chyawanprash, launched under the Immuniveda range.
- Premium Personal Care (contributing less than 5% of revenues) witnessed improving traction and posted double-digit growth. Livon Serums moved ahead of pre-COVID run rates, while Male Grooming is still to attain the pre-COVID run rates. Beardo and Just Herbs scaled up

➤ **International Business:**

- In the International business, Bangladesh clocked 16% constant currency growth. South East Asia was down 2% in constant currency terms, due to the severe COVID surge and strict lockdowns enforced in the region. MENA and South Africa grew 20% and 8% in constant currency terms.

➤ **Guidance:**

- The management expect to deliver double-digit revenue growth in the domestic business on the back of mid-single digit volume growth in H2. This will also translate to a healthy double-digit 2 year CAGR in volume terms. However, high-single digit volume growth is possible in Q4, if consumption trends do not worsen.
- Expect to deliver double-digit constant currency growth in the international business in H2
- Gross margin to improve sequentially in Q3 and Q4. However, an improvement in operating margins to play out only in Q4, given that ad spends will rise from Q3 itself and a large part of the benefits of a second round of cost rationalization measures will start accruing in Q4.
- Over the medium term, management hold aspiration to deliver 13-15% revenue growth on the back of 8-10% domestic volume growth in the domestic business and double-digit constant currency growth in the international business and will aim to maintain consolidated operating margin above the threshold of 19% over the medium term.

➤ **Other highlights:**

- Rural growth exceeded urban during the quarter and on a 2-year CAGR basis, but has slowed down sequentially
- Alternate channels grew in double digits and CSD recovered smartly on a low base.
- Gained market share in more than 90% of the portfolio in the India business on MAT basis.

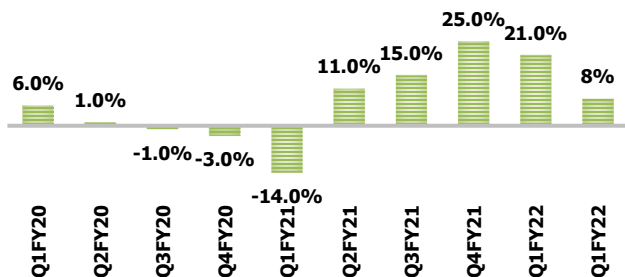
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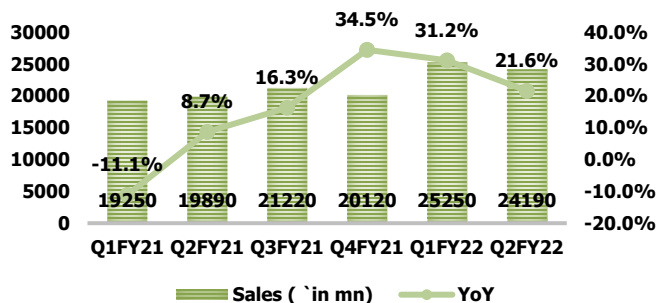
View – **Add on Dips**

**Story in charts**

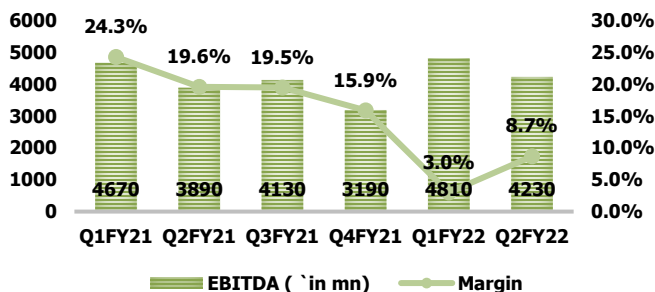
**DOMESTIC VOLUME UP 8% IN Q2FY22**



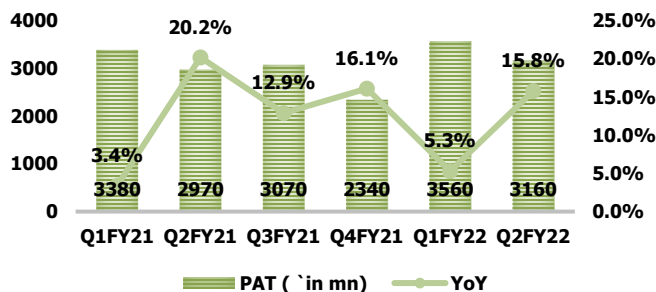
**SALES GREW 22% IN Q2FY22**



**9% GROWTH IN Q2FY22**

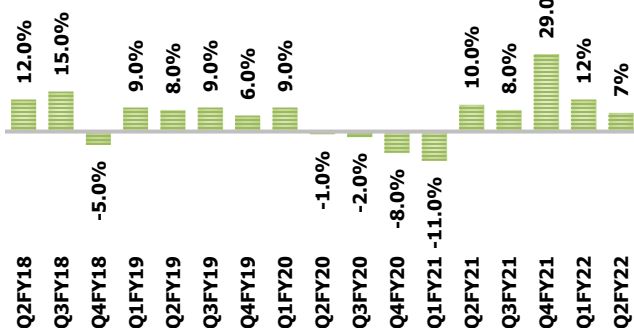


**16% GROWTH IN Q2FY22**



The table below summarize volume and value growths across key segments:

**PARACHUTE RIGID VOLUME & VALUE UP 7% / 18% YOY**



Categories	Q2FY22 Value Growth
Parachute Coconut Oil (Rigid packs)	18%
Value Added Hair Oils	16%
Saffola Franchise (Refined Edible Oils + Foods)	46%

Source: Company, Way2Wealth

**All geographies witnessed growth except Vietnam**

Q2FY22	Bangladesh	South East Asia	South Africa	MENA	Overall
<b>Constant Currency Growth</b>	16% (new launches scaling up well)	-2% (Vietnam subdued by COVID surge)	8%	20% (on low base)	13% International CCG

Source: Company, Way2Wealth


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 View – **Add on Dips**
**Risks**

- Inflation in raw material prices
- Slow down in the economy

**View**

Atleast 90% of Marico's portfolio of brands occupy leadership positions in their respective categories. With the raw material supply outlook improving, prices are expected to remain range bound in the near term, leading to sequential improvement in gross margin. The company holds its medium term aspiration of delivering 8-10% domestic volume growth and 13-15% revenue growth. .

We continue to remain positive on Marico's ability to deliver healthy earnings growth in the medium term considering its strong product portfolio, distribution network and healthy balance sheet.

**At the current price of ₹575 it is trading at 63.9 times P/E to its FY21 EPS of ₹9. We advise investors to buy this business on dips for the long term.**

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**Quarterly Performance**

(₹ Cr)

Particulars	Q2FY22	Q2FY21	VAR[%]	Q1FY22	VAR[%]	H2FY22	H2FY21	VAR[%]
Net Sales (Net of Excise Duty)	2,419.0	1,989.0	21.6%	2,525.0	-4.2%	4,944.0	3,914.0	26.3%
Other Income	25.0	27.0	-7.4%	27.0	-7.4%	52.0	46.0	13.0%
<b>TOTAL INCOME</b>	<b>2,444.0</b>	<b>2,016.0</b>	<b>21.2%</b>	<b>2,552.0</b>	<b>-4.2%</b>	<b>4,996.0</b>	<b>3,960.0</b>	<b>26.2%</b>
Cost Of Materials Consumed	1,345.0	1,010.0	33.2%	1,389.0	-3.2%	2,734.0	1,845.0	48.2%
Purchase of stock in trade	131.0	83.0	57.8%	118.0	11.0%	249.0	142.0	75.4%
Stock Adjustment	(84.0)	(59.0)	42.4%	(18.0)	366.7%	(102.0)	36.0	-383.3%
<i>RMC as a %age of sales</i>	<i>57.5%</i>	<i>52.0%</i>		<i>59.0%</i>		<i>58.3%</i>	<i>51.7%</i>	
Employee Benefit Expenses	153.0	137.0	11.7%	150.0	2.0%	303.0	272.0	11.4%
<i>EPC as a %age of sales</i>	<i>6.3%</i>	<i>6.9%</i>		<i>5.9%</i>		<i>6.1%</i>	<i>6.9%</i>	
Advertisement & Promotion	194.0	189.0	2.6%	175.0	10.9%	369.0	326.0	13.2%
<i>Advertisement Expenses as a %age of sales</i>	<i>8.0%</i>	<i>9.5%</i>		<i>6.9%</i>		<i>7.5%</i>	<i>8.3%</i>	
Other Expenses	257.0	240.0	7.1%	230.0	11.7%	487.0	437.0	11.4%
<i>Other Expenses as a %age of sales</i>	<i>10.6%</i>	<i>12.1%</i>		<i>9.1%</i>		<i>9.9%</i>	<i>11.2%</i>	
<b>TOTAL EXPENDITURE</b>	<b>1,996.0</b>	<b>1,600.0</b>	<b>24.8%</b>	<b>2,044.0</b>	<b>-2.3%</b>	<b>4,040.0</b>	<b>3,058.0</b>	<b>32.1%</b>
<b>EBIDTA</b>	<b>423.0</b>	<b>389.0</b>	<b>8.7%</b>	<b>481.0</b>	<b>-12.1%</b>	<b>904.0</b>	<b>856.0</b>	<b>5.6%</b>
<i>EBIDTA Margins %</i>	<i>17.5%</i>	<i>19.6%</i>		<i>19.0%</i>		<i>18.3%</i>	<i>21.9%</i>	
Finance Costs	10.0	8.0	25.0%	8.0	25.0%	18.0	17.0	5.9%
<b>PBDT</b>	<b>438.0</b>	<b>408.0</b>	<b>7.4%</b>	<b>500.0</b>	<b>-12.4%</b>	<b>938.0</b>	<b>885.0</b>	<b>6.0%</b>
Depreciation	33.0	33.0	0.0%	33.0	0.0%	66.0	67.0	-1.5%
<b>PBT before exceptional items</b>	<b>405.0</b>	<b>375.0</b>	<b>8.0%</b>	<b>467.0</b>	<b>-13.3%</b>	<b>872.0</b>	<b>818.0</b>	<b>6.6%</b>
<b>Share of Profit/(loss) of JV</b>							<b>(2.0)</b>	
<b>Profit before axception item</b>	<b>405.0</b>	<b>375.0</b>	<b>8.0%</b>	<b>467.0</b>	<b>-13.3%</b>	<b>872.0</b>	<b>816.0</b>	<b>6.9%</b>
Exceptional items		33.0	-100.0%		#DIV/0!	0.0	(31.0)	-100.0%
<b>PBT</b>	<b>405.0</b>	<b>342.0</b>	<b>18.4%</b>	<b>467.0</b>	<b>-13.3%</b>	<b>872.0</b>	<b>847.0</b>	<b>3.0%</b>
Tax	89.0	69.0	29.0%	102.0	-12.7%	191.0	186.0	2.7%
<i>Tax Rate</i>	<i>22.0%</i>	<i>20.2%</i>		<i>21.8%</i>		<i>21.9%</i>	<i>22.0%</i>	
<b>Reported Profit After Tax</b>	<b>316.0</b>	<b>273.0</b>	<b>15.8%</b>	<b>365.0</b>	<b>-13.4%</b>	<b>681.0</b>	<b>661.0</b>	<b>3.0%</b>
<i>PATM %</i>	<i>13.1%</i>	<i>13.7%</i>		<i>14.5%</i>		<i>13.8%</i>	<i>16.9%</i>	
Extra-ordinary Items			#DIV/0!	0.0	#DIV/0!			#DIV/0!
<b>Adjusted Profit After Extra-ordinary item</b>	<b>316.0</b>	<b>273.0</b>	<b>15.8%</b>	<b>365.0</b>	<b>-13.4%</b>	<b>681.0</b>	<b>661.0</b>	<b>3.0%</b>
Other Comprehensive Income (Net of tax)- net credit / (charge)	3.0	5.0		14.0		17.0	3.0	
<b>Total Comprehensive Income</b>	<b>319.0</b>	<b>278.0</b>	<b>14.7%</b>	<b>379.0</b>	<b>-15.8%</b>	<b>698.0</b>	<b>664.0</b>	<b>5.1%</b>
Basic:								
<b>EPS</b>	<b>2.4</b>	<b>2.1</b>	<b>15.8%</b>	<b>2.8</b>	<b>-13.4%</b>	<b>5.3</b>	<b>5.1</b>	<b>3.0%</b>
Equity	129.0	129.0		129.0		129.0	129.0	
Face Value	1.0	1.0		1.0		1.0	1.0	

Source: Company Filing, Way2wealth Research

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**Disclosure of Interest Statement Marico Ltd. as on November 02, 2021**

Name of the Security	Marico Ltd.
Name of the analyst	Ashwini Sonawane
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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