

Marico Q2FY21

Financial Results & Highlights

Brief Company Introduction

Marico Limited is one of India's leading consumer goods companies providing consumer products and services in the areas of health, beauty and wellness. With its headquarters in Mumbai, Maharashtra, India, Marico is present in over 25 countries across emerging markets of Asia and Africa. It owns brands in categories of hair care, skin care, edible oils, health foods, male grooming, and fabric care.

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1695	1555	9.00%	1535	10.42%	3230	3358	-3.81%
PBT	360*	327	10.09%	319	12.85%	679	646	5.11%
PAT	313	259	20.85%	255	22.75%	568	510	11.37%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	2016	1864	8.15%	1944	3.70%	3960	4058	-2.41%
PBT	342*	341	0.29%	505**	-32.28%	847	764	10.86%
PAT	273	253	7.91%	388	-29.64%	661	568	16.37%

*Contains provision for impairment of inventory of Rs 33 Cr

**Contains Exceptional item of income of Rs 64 Cr.

Detailed Results:

1. Consolidated revenues grew 8% YoY in Q2.
2. EBITDA margins were up 30 bps YoY at 19.6% for Q2.
3. PAT for Q2 rose 8% YoY.
4. The exceptional item in Q2 includes a provision against impairment of inventory for Rs 33 Cr.
5. In Q2, sales volumes were up 11% YoY.
6. The domestic business clocked sales at Rs 1,508 Cr which was up 8% YoY.
7. Traditional channels continued to outperform with rural growing ahead of urban, while in the new-age channels, strong acceleration continued in E-Commerce. MT remained subdued and CSD continued to witness a steep decline.
8. Parachute Rigids registered 10% volume growth during the quarter.
9. Value-Added Hair Oils registered a smart recovery and posted a resilient 4% volume growth. The premium segment in this division continued to face headwinds.
10. Saffola Edible Oils continued its stellar run with 20% growth in volume terms. 62% of the growth was attributed to increased penetration on account of new users and increased retention.
11. The Foods portfolio grew by 55% in value terms, riding the tailwind on health and convenience with the base Oats franchise posting a strong 45% value growth. The brand continued to attract new consumers with 60% of the growth coming from increased household penetration.
12. The company launched Kadha Mix & Golden Turmeric Milk Mix under the Saffola ImmuniVeda brand. It also launched its own Saffola Arogyam Chyawan Amrut, a value-added Chyawanprash.

13. Advertising & Sales Promotions spend was back to pre-COVID levels at 9.5% of sales.
14. Livon Serums regained traction and delivered marginal volume growth in Q2FY21.
15. The volume market share of various divisions is at:
 1. Coconut Oils: 62%
 2. Saffola –Super Premium ROCP: 77%
 3. Saffola Oats: 34%
 4. Value-Added Hair Oils: 36%
 5. Post wash Leave-on Serums: 65%
 6. Hair Gels/Waxes/Creams: 59%
16. In Q2FY21, the market price of copra was up 11% YoY and up 9% sequentially.
17. Rice bran oil was up 26%YoY. It is expected to soften from the middle of Q3 as the on-season begins. Liquid Paraffin (LLP) was down 6% YoY, while HDPE was flat.
18. During the quarter, Modern Trade declined by 12% but has started faring better more recently. E-Commerce grew by 39% and now contributes 8% to the total turnover. CSD declined by 29%, due to scaled-down operations during the quarter.
19. International business grew by 7% YoY in Q2 in constant currency terms.
20. The operating margin in the international business expanded to 23.1% in Q2FY21 vs 21.5% in Q2FY20.
21. The international revenue breakup is:
 1. Bangladesh: 49% (up 16% YoY)
 2. SE Asia: 26% (down 4% YoY)
 3. MENA: 12% (down 6% YoY)
 4. South Africa: 7% (up 16% YoY)
 5. Others: 6% (down 5% YoY)
22. Marico's International business grew by 7% in Q2FY21 in constant currency terms. The operating margin in the international business expanded to 23.1% in Q2FY21 vs 21.5% in Q2FY20.
23. Market share in Bangladesh for Parachute coconut oil was at 82%. Parachute Coconut Oil grew by 8% in constant currency terms. The non-Coconut oil portfolio in Bangladesh grew by 31% and 25% in Q2FY21 and H1FY21. The non-Coconut Oil portfolio in Bangladesh constitutes 35%of the total business.
24. The Capex for FY21 is expected to be around Rs 125-150 Cr.
25. The current MAT credit stands at Rs 144 Cr as of 30th Sep 2020.
26. The company improved its ROCE in Q2 by 220 bps YoY to 39.3%. The debt to equity was maintained at 0.09 times.
27. The net surplus for the company was at Rs 1358Cr after a gross debt of Rs 329Cr as of 30th Sep 2020.
28. The company is targeting 8-10% volume growth in H2 and 13-15% revenue growth.
29. It aims to reach Rs 450-500 Cr Markin Foods category by FY22.
30. The company is looking to maintaining an operating margin at 19%+ over the medium term. It is expecting operating margins to be above 20% for the rest of the year.

Investor Conference Call Details:

1. The premium segment in VAHO continued to face headwinds given the current macroeconomic situation, both mid-and Bottom of the Pyramid segment recovered. Nihar Shanti Amla led the growth for the franchise.

2. Saffola Honey, launched in the previous quarter, has already garnered a market share of 8% in modern trade within 3 months of its launch.
3. The company is on track to deliver INR 300 crores to INR 350 crores of food turnover this fiscal.
4. South Africa had a good quarter on the back of buoyancy in the healthcare portfolio.
5. Vietnam posted a decline in the quarter due to sluggishness in demand in the Personal Care segment.
6. With an aggressive cost optimization initiative of delivering INR 150 crores plus in structured savings, the management is confident of maintaining a threshold operating margin of 20% this year.
7. 75% of our international business comes from high growth, high potential countries like Vietnam and Bangladesh, and Marico is ready to replicate the successful Bangladesh playbook in Vietnam according to the management.
8. The management believes that the share of healthy products in in-home snacking is increasing.
9. In VAHO, Marico's objective is to have a broad participation strategy and maintain a market presence in all segments in the category. The major opportunity for big players in this category is to take market share from smaller players.
10. In coconut oil, the market share in urban is close to 60%, and the market share in rural is 46%.
11. The management believes that there is at least a runway for 8 to 10 years before saturation happens just like in Bangladesh.
12. Despite normalization in eating habits, Saffola saw sustained growth momentum mainly on the back of branding exercises and a shift in consumer preferences towards healthy oil brands.
13. The company is looking to maintain the image of Healthy better-for-you brand for Saffola and that's why it has extended into honey and ayurvedic products.
14. The company will adopt a wait and watch approach for Parachute Advanced Gold will look to drive this product once the premium segment in the VAHO category gains momentum.
15. The pandemic has brought about an accelerated move towards digital adoption of consumers and the company has done well to stay ahead of its peers in this. This is also expected to help the general trade channel see consolidation and automation.
16. The company has indeed done a price increase in Saffola but this increase has not been proportional to the RM cost rise as the rise was transient and has been cooling down. They can absorb transient input costs for a few months and thus maximize volumes and drive the penetration of the brand.
17. The aspirational period for any brand to solidify is around 3 years for the company. The company is looking to leverage its learnings with Beardo to build new digital brands.
18. The impairment in capacity is mainly due to shifting some machinery to more in demand zones and reconfiguration of the manufacturing footprint.

19. The medium-term aspiration for VAHO is to grow >10%. This should be led by Marico filling empty spaces in the value spectrum like hair fall or some of the premium end or other spaces in the mid or bottom segments.
20. The management remains confident of delivering INR 150-crore plus of structural cost savings in FY21.
21. The company has done a lot of work in tightening inventory norms and SKU rationalization and has put in a lot of automated systems which has resulted in inventory turnover days coming down from 66 to 58. The new working capital requirements will be determined by the new manufacturing footprint, the reduced inventory days at the depots or at the distributor and the aggressive SKU rationalization exercise.
22. The management has stated that if there are opportunities in the Middle East and North Africa to gain market share versus someone, Marico will definitely go ahead with that.

Analyst's View:

Marico is one of India's leading FMCG companies with many market-leading brands like Saffola and Parachute. The company has done well to maintain value growth on a YoY basis in almost all categories and sustain growth momentum in domestic business. It is showing encouraging performance in the food category. The company has seen decent growth in overall volumes and has maintained its leadership position in all categories highlighting good brand resilience. In light of the COVID-19 disruption, the company has done well to develop direct distribution channels and rationalize its SKUs. The company's focus on expanding into new health food categories under the Saffola brand and the in-demand hygiene looks shows good room for growth in these segments. It remains to be seen how long the COVID-19 situation lasts and what second-order effects it has on the company and general consumer behaviour. Nonetheless, given the company's solid standing in its core categories, its expansion plans for high margin food categories, and its robust distribution network, Marico looks like a pivotal FMCG stock to watch out for.

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