

Marico Q4FY20

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)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	1293	1387	-6.78%	1510	-14.37%	6161	6272	-1.77%
PBT	284	285	-0.35%	328	-13.41%	1258	1183	6.34%
PAT	227	429*	-47.09%	269	-15.61%	1006	1129*	-10.89%
Consolidated Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	1528	1637	-6.66%	1853	-17.54%	7439	7437	0.03%
PBT	252	270	-6.67%	358	-29.61%	1374	1257	9.31%
PAT	199	403*	-50.62%	276	-27.90%	1043	1131*	-7.78%

* Contains negative tax adjustments of Rs 188 Cr.

Detailed Results:

1. Consolidated revenues declined 7% YoY for Q4 and were flat for the year.
2. EBITDA margins were up 58 bps YoY at 18.9% for Q4 and 200 bps YoY at 20.1% for FY20.
3. PAT for Q4 declined 0.3% YoY disregarding the above-mentioned tax adjustment in Q4FY19.
4. In Q4, sales volumes were down 3% YoY for domestic operations while total volumes were down 4% YoY.
5. In FY20, sales volumes were up 1% YoY for domestic operations while total volumes were up 3% YoY.
6. The company had sales of largely Saffola Oils and foods portfolio in the last week of March.
7. The company saw stress in personal care categories before the onset of COVID-19. It also saw demand uptick in food and allied categories during the same period.
8. In international business, MENA (the Middle East & North Africa) & South Africa saw sharp drops (50% & 25% respectively in cc terms) while Bangladesh and Vietnam remained positive (6% & 1% respectively in cc terms) for the company in FY20.
9. In Parachute Rigids, volumes fell 8% YoY but the brand managed to increase market share by 250 bps to 62% in Q4.
10. In value-added oils, volumes declined 11% YoY but the segment maintained its market share of 35% in Q4.
11. Saffola Edible Oils saw good volume growth of 25% YoY with market share at 76% in Q4.

12. The food portfolio saw growth of 22% in value terms which was led by the oats portfolio which increased value market share by 354 bps YoY to 33% in Q4.
13. Premium Hair nourishment & male grooming portfolio fell 19% and 9% in volumes mainly due to fall in demand during the lockdown period.
14. Ad & promo spending for Q4 was at 8.4% of sales which is down 109 bps YoY.
15. In raw materials, the prices of copra remained flat YoY. Rice bran oil prices were up 7% YoY, liquid paraffin prices were down 3% YoY & HDPE prices were down 15% YoY.
16. In sales 7 distributions, the company reached a milestone of 5.1 million retail outlets with direct distribution to 0.9 million outlets. The company also has a rural reach of 58000 villages.
17. The company also joined up with Zomato & Swiggy to use their platforms to provide direct delivery of its products to customers.
18. In FY20, urban & rural sales fell 8% & 3% YoY respectively in volumes terms. Rural contributed to 31% of total sales. Modern trade grew 27% YoY while e-commerce grew 43% YoY.
19. The international revenue breakup is:
 1. Bangladesh: 49%
 2. SE Asia: 26%
 3. MENA: 12%
 4. South Africa: 7%
 5. Others: 6%
20. The company improved its ROCE in FY20 by 40 bps to 42.4%. The debt to equity was maintained at 0.11 times.
21. The net surplus for the company was at Rs 607 Cr. after a gross debt of Rs 340 Cr.

Investor Conference Call Details:

1. The management is observing resilience in the mass market brands for the company with the majority of the declines in volumes coming from the premium segments. It believes that given the company's strong presence in the bottom of the pyramid segment in the personal care sector, the company will be able to achieve good sales growth post-COVID-19 as customers go for more value saving products.
2. The company is also well placed to capitalize on the health foods wave especially with its oats portfolio.
3. The company will scale down investment in declining categories and channel its resources towards the core and emerging categories both through traditional sales channels and e-commerce.
4. The management is confident of recovery in MENA and growth in Bangladesh and Vietnam in FY21.
5. The company will continue to boost promotions in digital platforms to promote e-commerce sales which accounts for 5% of total sales currently. The management will also look into furthering the new channel mechanism of using food delivery platforms for sales and distribution even after the COVID-19 situation gets resolved.
6. The management expects the prices of copra prices to go down due to an increase in the supply of coconuts from the reduced sales due to the lockdown.

7. The management expects to use its learnings from developing personal care products in India to grow its business in Bangladesh, especially for the hair oils business.
8. The management expects the non-parachute component of hair oils to be 40% in the next 2 years. It is currently at 30% and it was 10% at the start 2 years ago.
9. The company expects Bangladesh GDP to remain subdued this year and it will aim to maintain volumes and gain market share.
10. The management believes that the key in bottom categories is reducing costs and passing on the reduction to enhance the value proposition of the company's products.
11. The management aims to drive market share by passing on all cost reductions to customers and by driving rural distribution for the company.
12. The management expects the wholesale channels to remain subdued and direct distribution and Kirana shops to gain in the year.
13. The company is looking at ad & promo spending of 100 bps in terms of sales.
14. In the food business, the company believes that the high-end health foods segment should not suffer and should see better pickup from its customer segment given the increasing focus on health and wellbeing.
15. The management is expecting a drop in category growth in almost all its businesses and it aims to maintain volume growth and gain market share in all categories.
16. The company will aim to drive sales of large packs of Saffola instead of small packs as home cooking has boomed due to the lockdown and COVID-19. The management also stated that productivity in making large packs is greater than making small packs.
17. The company is not seeing panic buying and pantry loading since the start of the lockdown and customers continue to buy large packs to prevent shortage at home and reduce physical transactions as much as possible.
18. The input costs have been volatile but the management does not expect them to vary greatly.
19. The management believes that disposable income will not be affected as significantly in rural areas as in urban areas. The keys to success in rural areas will be the direct distribution and value proposition.
20. The management sees 3 structural changes coming in which are the revival of Kirana stores, rise of e-commerce for modern trade players, and significant change in urban order taking/filling mechanism. Another large expected change is the sale of premium personal care products through chemist shops.
21. The capacity utilization is around 75%-80% before the lockdown.
22. The food portfolio had sales of Rs 200 Cr for FY20.
23. The company has also provided support to distributors like credit extension, COVID insurance, one-month cash support to the distributor sales force, etc in light of the current COVID-19 disruption.

24. The management states that it does not see much drop in the premium problem-solving solutions category in the mid and premium personal care segments.
25. The management has admitted that beyond the stockist level, the visibility of activities on the ground is limited currently. The outlets should be working at 50-60% capacity.
26. The management has good expectations form the Fittify portfolio but it will take some time for this product segment to establish its niche in the market.
27. The credit cycle should come back to normalized levels once the COVID-19 situation goes away.
28. The management has also clarified that e-commerce receivable days are just a little bit longer than those of modern trade channels.
29. The last pricing action the company took was on Parachute in Jan-Feb.

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 volume growth in its core Saffola brand and is showing encouraging performance in the food category. The company has seen a decline in volumes in its hair oil categories but has maintained or gained market share in its specific categories highlighting good brand resilience. In light of the COVID-19 disruption, the company has done well to develop alternative distribution channels for its products through Zomato and Swiggy. The company's focus on enhancing the value proposition of its products and its push for rural expansion and consolidation should reap a lot of benefits in the near future. 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 behavior. Nonetheless, given the company's solid standing in core categories of cooking and hair oils and its robust distribution network, Marico looks like a pivotal FMCG stock to watch out for.

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