

Medium term performance to remain under pressure

CMP: INR 520

Rating: Hold

Target Price: INR 557

Stock Info

BSE	531642
NSE	MARICO
Bloomberg	MRCO:IN
Reuters	MRCO.BO
Sector	Personal Products
Face Value (INR)	1
Equity Capital (INR cr)	129
Mkt Cap (INR cr)	65,525
52w H/L (INR)	606/ 456
Avg Yearly Volume (in 000')	2,030

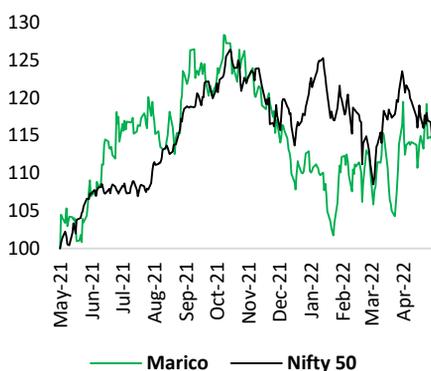
Shareholding Pattern %

(As on March, 2022)

Promoters	59.5
FII	25.1
DII	2.9
Public & Others	12.5

Stock Performance (%)	1m	3m	12m
Marico	(4.2)	2.1	14.4
Nifty 50	(6.3)	(3.9)	15.1

Marico Vs Nifty 50



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- The overall performance of the company was in line with our estimates on all fronts, marginally underperforming on some of them.
- Marico's Q4FY22 Net Revenue grew by 7.41% YoY to INR 2,161 Cr (-10.22% QoQ). This almost met our quarterly revenue estimate of INR 2,193 Cr by 7.46%.
- Q4FY22 Gross Margin grew by 33bps YoY 44.47% (76bps QoQ).
- Q4FY22 EBITDA grew by 8.76% YoY to INR 346 Cr (-19.72% QoQ). EBITDA Margin grew by 16bps YoY to 16.01% (-190bps QoQ). This missed our quarterly EBITDA estimate of INR 351 Cr by 1.42%, and our EBITDA Margin estimate of 16.01%.
- Q4FY22 Consolidated PAT grew 23.56% YoY to INR 278 Cr (-11.46% QoQ). PAT Margin grew by 168bps YoY to 12.86% (-18bps QoQ). This beat our quarterly PAT estimate of INR 250 Cr by 2.8%.

Q4FY22 Conference Call Highlights:

No market share loss expected in Parachute: Due to proactive pricing measures, and the protected nature of the Indian copra market, Marico does not expect to lose market shares to any unorganized competitors through down trading.

Product innovation and digital first brands: They are progressing well, with Beardo entering the INR 100 Cr club. Ecommerce has the potential to become an INR 450-500 Cr business up from the current run rate of INR 180-200Cr. Most of these products cater to the top of the pyramid- premium segment. Brand innovations and investments will continue to be a priority for Marico.

Distribution led growth: Will be the focus of Marico across all geographies. They have been setting up and developing an elaborate distribution network across its geographies to eliminate noise and confusion, and optimize reach. All channels have their own P/L approach and designated team.

Volumes remained soft: For the power brands like Saffola and Parachute, volumes remained subdued and growth was mostly price led. This is indicative of weakening consumer sentiment despite the economy opening up, due to the 17.5% inflation in India which has pinched their wallets.

Valuation & Outlook: We assign a TP of INR 557, valued at a P/E of 50x on the FY24E EPS of INR 11.3. Marico has been taking proactive pricing measures to offset the slowdown in volumes. However, the demand outlook for the company in the medium term is not great, as the inflationary trend will continue to persist into the foreseeable future. Input price volatility will also continue to remain in the medium term. Despite that, Marico has managed to gained market shares across most of its portfolio from the unorganized segment, and has expanded its addressable market through continuous product innovation and organized distribution network. At current levels, we recommend investors Hold the stock.

INR Cr	FY21	FY22	FY23E	FY24E
Revenues	8,048	9,512	10,354	10,814
yoy growth (%)	10.0	18.2	8.9	4.4
Operating profit	1,591	1,681	1,916	2,082
OPM (%)	19.8	17.7	18.5	19.3
Reported PAT	1,202	1,308	1,448	1,455
yoy growth (%)	3.3	8.8	10.8	0.5
EPS (Rs)	9.3	9.9	11.0	11.3
P/E (x)	56.1	52.8	47.5	46.1
Price/Book (x)	20.7	20.1	14.5	11.2
EV/EBITDA (x)	41.8	39.8	34.3	31.0
Debt/Equity (x)	0.2	0.2	0.1	0.1
RoE (%)	38.4	39.2	34.1	27.1

Source: Company & Arihant Research

Quarterly Result

INR Cr (consolidated)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
Net Revenue	2161	2407	2012	-10.22%	7.41%
Other Operating Income	24	22	29	9.09%	-17.24%
Raw Material Costs	1200	1355	1124	-11.44%	6.76%
Gross Profit	961	1,052	888	-8.65%	8.22%
Gross Margin	44.47%	43.71%	44.14%	76bps	33bps
Employee costs	139	144	150	-3.47%	-7.33%
Advertising and Promotion Expenses	204	223	173	-8.52%	17.92%
Other Expenses	272	254	246	7.09%	10.57%
EBITDA	346	431	319	-19.72%	8.46%
EBITDA margin %	16.01%	17.91%	15.85%	-190bps	16bps
Depreciation	37	36	36	2.78%	2.78%
EBIT	333	417	312	-20.14%	6.73%
Finance costs	11	10	10	10.00%	10%
Exceptional Items	-	-	-19		-100%
PBT	322	407	283	-20.88%	13.78%
Tax Expense	65	90	56	-27.78%	16%
Effective tax rate %	20%	22%	20%	-193bps	40bps
PAT	257	317	227	-18.93%	13.22%
Add: Other Comprehensive Income	21	-3	-2	-800.00%	50.00%
Consolidated PAT	278	314	225	-11.46%	23.56%
PAT margin %	12.86%	13.05%	11.18%	-18bps	168bps
EPS (INR)	1.95	2.40	1.70	-18.75%	14.71%

Source: Company & Arianth Research

Q4FY22 Conference Call Takeaways:
FY22 Highlights

- FY22 ended on a positive note despite the operating environment being rough- with political tensions and demand slowdown followed by rising volatility on input costs.
- 2-digit revenue growth on 2 years' basis.
- 2-digit cc growth on international business for the 5th quarter in a row.
- Healthy ROCE maintained.
- Managed gross margins with calibrated price hikes.
- Ramp up investment in brand building to maintain brand equity.
- Consistent inflation continues to suppress consumption. FMCG market continued to slow down with rural slowdown being more than urban.
- Growth was price led- sales were steady yoy on a steep base of 25%
- Rural consumption remained behind urban consumption. Expect recovery if monsoon is good and government support continues
- Parachute remained strong in the good copra environment. Passed on value to consumers successfully.
- Saffola grew 30%+ in FY22 on a high base of 17%. Will remain competitive going ahead.
- Saffola peanut butter and mayonnaise expanded the addressable market of the brand to INR 6,000 Cr.
- INR 850-1,000 Cr target in foods the next couple of years.
- VAHO will continue on premiumization to drive 2-digit growth in medium term.
- Beardo crossed the INR 100 Cr mark.
- Digital first brands have crossed INR 180-200 Cr annual run rate. Close to building them up to INR 450-500 Cr by FY24.
- Bangladesh's diversification journey worked well in food, hair care, baby care, etc. This will be replicated in Vietnam to build growth momentum. Aim for consistent medium term growth in south Africa as well.
- Confident of delivering healthy growth- but near term demand outlook is not great.
- Demand and margin trends improve in H2FY22- September.
- Medium term strategy is to continue with way of business though margins may be subdued. Marico will continue to maintain costs aggressively.
- Long term 2-digit value growth is the aim and so is the expansion of the addressable market in south east Asia.
- Premiumization of hair nourishment category is a WIP.

Q4FY22 Conference Call Takeaways:**FY22 Highlights**

- Marico is scaling up foods rapidly, with Sales 3.0 to enhance micro market focus.
- Distribution led growth in all geographies and international markets.
- Digital to drive organization to be future ready.
- India Business revenue +9% CAGR over 2012.
- Indian business EBITDA +8% CAGR over 2012.
- Medium term expectations: Volume growth 8-10%, revenue growth 13-15%, operating margins 20%+ levels.

Price volatility expected: Input prices are expected to be volatile from the next 2 quarters (H2FY23). Until then, they expect to see margin pressure.

Turnaround in international markets: The Vietnam and Bangladesh markets performed well this year with diversification in the hair care portfolio leading to healthy recoveries and regaining of market shares. There is inflation prevalent in these markets, but it is nothing too alarming.

Parachute:

- Price corrections were taken ahead of the curve, in order to not expect market share loss to small players, but despite this, the market was subdued. Here, the company gained market share of 170bps in volumes. The category decline (1%) was slightly lower than the FMCG decline (5%). The 1% decline was on a healthy base. A large reason for this was that it takes 40-50 days for price corrections to reflect in markets. Marico is still working to expand distribution in the rural market while trying to be proactive in pricing. They are fairly certain of protecting market share.
- Copra is a protected market, and prices are expected to be range bound as per demand- supply estimates. Prices of other edible oils won't impact them.
- Copra is currently on a deflationary trend.
- The bottom of the pyramid has contributed to decent growth of this segment and so has the premium offering. PCNO volumes grew at about 5%.

VAHO:

- The VAHO 3 year value CAGR was 1%. Volume CAGR was 0 to -1% vs Q4FY19. VAHO was affected because there is limited scope for them in Rural markets. However, the growth is in line with the personal care category growth
- Over next 2-3 quarters as input cost pressures persist, Marico will try to grow ahead of the market, and gain shares. They expect a better H2 than H1, but they are confident to meet medium term goals.
- Competitive intensity in the market has gone up significantly.

Saffola: Volumes have remained flattish for the quarter. The bottom of the pyramid continues to grow, and the company has taken some price increases of about 5-6% in March.

Industry decline: FMCG's overall decline in this quarter was 4%, and personal cares decline was 9%. VAHO decline was slightly more than FMCG, whereas copra was in line with FMCG.

Foods category distribution: Oats and masala oats are growing well. Honey's growth too, is in line with aspirations. Looking into growing chyawanprash and oodles. The company is looking into intermediaries to push penetration in low to medium areas via general trade and modern trade. But they are not looking into any mass or extreme rural distribution.

Financial Summary

Income Statement (INR Cr)	FY21	FY22	FY23E	FY24E
Revenue	8,048	9,512	10,354	10,814
Net Raw Materials	4,270	5,436	5,488	5,732
Advt & Promotion	698	796	932	973
Employee Cost	570	586	746	779
Other Expenses	919	1,013	1,274	1,249
Total Expenses	6,457	7,831	8,439	8,732
EBITDA	1,591	1,681	1,916	2,082
EBITDA %	19.8	17.7	18.5	19.3
Depreciation	(139)	(139)	(196)	(223)
Interest expense	(34)	(39)	(31)	(29)
Other income	94	98	100	11
Exceptional items	(13)	-	-	-
Profit before tax	1,519	1,619	1,807	1,860
Taxes	(324)	(346)	(393)	(405)
Minorities and other	(2)	-	-	-
Reported Net profit	1,197	1,273	1,413	1,455
Other Comprehensive income	5	35	35	0
Net profit	1,202	1,308	1,448	1,455
EPS (INR)	9.3	10.0	10.5	11.1

Consolidated Balance Sheet (INR Cr)	FY21	FY22	FY23E	FY24E
Equity capital	129	129	129	129
Reserves	3,111	3,219	4,496	5,843
Net worth	3,240	3,348	4,625	5,972
Minority Interest	18	57	57	57
Debt	552	524	499	449
Other non-current liabilities	24	27	27	27
Deferred tax liab (net)	156	176	176	176
Total liabilities	3,990	4,132	5,384	6,681
Fixed assets	572	600	700	724
Capital Work In Progress	24	39	47	55
Other Intangible assets	230	306	306	306
Goodwill	613	654	654	654
Investments	288	230	230	230
Other non current assets	447	452	518	541
Inventories	1,126	1,412	1,448	1,512
Sundry debtors	388	652	633	661
Loans & Advances	6	5	6	6
Other current assets	239	214	316	330
Sundry creditors	(1,134)	(1,344)	(1,477)	(1,528)
Other current liabilities & Prov	(386)	(310)	(489)	(511)
Cash	944	579	1,686	2,859
Other Financial Assets	633	643	805	841
Total assets	3,990	4,132	5,384	6,681

Source: Company & Arianth Research

Cash Flow Statement (INR Cr)	FY21	FY22	FY23E	FY24E
Profit before tax	1,519	1,619	1,807	1,860
Depreciation	139	139	196	223
Tax paid	(324)	(346)	(393)	(405)
Working capital Δ	726	(390)	192	(34)
Other operating items	(75)	(41)	-	-
Operating cashflow	1,985	981	1,801	1,644
Capital expenditure	(23)	(182)	(304)	(255)
Free cash flow	1,962	799	1,497	1,389
Equity raised	(982)	(1,187)	(158)	(95)
Investments	(135)	58	-	-
Others	(262)	(91)	(228)	(59)
Debt financing/disposal	(6)	(28)	(25)	(50)
Dividends paid	(3)	(13)	(13)	(13)
Other items	91	97	35	-
Net Δ in cash	665	(365)	1,107	1,173
Opening Cash Flow	279	944	579	1,686
Closing Cash Flow	944	579	1,686	2,859

Ratio analysis	FY21	FY22	FY23E	FY24E
Growth matrix (%)				
Revenue growth	10.0	18.2	8.9	4.4
Op profit growth	8.3	5.7	14.0	8.7
EBIT growth	6.4	6.1	10.9	2.7
Net profit growth	6.8	6.3	11.1	2.9
Profitability ratios (%)				
RoCE	33.0	33.5	31.6	25.3
RoNW	38.4	39.2	34.1	27.1
RoA	30.2	31.2	25.3	21.5
Per share ratios				
Dividend per share	0.0	0.1	0.1	0.1
Book value per share	25.1	26.0	35.9	46.3
Valuation ratios				
P/E	56.1	52.8	47.5	46.1
P/CEPS	50.3	47.6	41.7	40.0
P/B	20.7	20.1	14.5	11.2
EV/EBIDTA	41.8	39.8	34.3	31.0
Payout (%)				
Dividend payout	0.2	1.0	0.9	0.9
Tax payout	21.3	21.4	21.8	21.8
Liquidity ratios				
Debtor days	17.4	24.7	22.0	22.0
Inventory days	94.9	93.5	95.0	95.0
Creditor days	63.2	61.8	63.0	63.0
Leverage ratios				
Interest coverage	45.5	42.1	58.3	64.7
Net debt / equity	(0.1)	(0.0)	(0.3)	(0.4)
Net debt / op. profit	(0.2)	(0.0)	(0.6)	(1.2)

Source: Company & Arianth Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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