

May 5 2022

RESULT REPORT Q4 FY22 | Sector: Consumer Staples

Marico

Resilient performance on both growth and margin fronts; valuations also in favor; maintain BUY

Our view

The key positives for the quarter were market share gains in Parachute rigids despite category decline of 4% and strong performance from the International business. Saffola edible oil growth normalized from a high base while recovery momentum continued in premium personal care portfolio and foods business achieved the aspiration of Rs 5bn turnover in FY22. With launch of Saffola peanut butter and Mayonnaise, company expanded TAM to Rs 60bn for Foods portfolio aided by entry in new segments like honey, noodles and soya chunks. Company is also focusing on digital-first brands with an aspiration of reaching Rs 4.5-5bn revenue by FY24 via both organic and inorganic means. While management indicated that benefits of moderation in input costs like copra will be passed on to consumers, margins have already started improving despite an increase in ad spends led by tight control on SGA. International business also delivered strong performance led by improvement in Vietnam and MENA. We get comfort from the solid execution and aggressive brand investment from the company which should support medium-term growth aspirations. 2HFY23 is when the earnings trajectory should start picking up well. We find management's focus on expanding Foods portfolio and digital first brands, aggressive expansion in rural stockist network and eCom/MT channels encouraging and hence continue to remain positive on the stock believing that the company should deliver one of the highest earnings growth in the staples pack.

Result Highlights

- **Revenue** – 5% growth in domestic business with 1% volume growth, 12% CC growth in international business driving 7.4% consolidated revenue growth (2-yr CAGR of 20%); market share gains of 170bps in Parachute rigids and 90bps in VAHO.
- **Margins** – Gross margin improved 40bps/80bps YoY/QoQ. Higher gross margin QoQ indicates superior product mix. EBIDTA margin came in at 16% with higher A&P and other expenses. However ad spends lower by 9% QoQ.
- **Growth by verticals** – -1% volume growth in Parachute on base of 29, 3% value growth in VAHO on base of strong 22% growth and 17% value growth in Saffola on base of 43% value growth.

Valuation

We trim our estimates marginally to incorporate lower revenue growth and margins and now model in revenue/EBITDA/PAT CAGR of 11%/18%/19% over FY22-24E driven by multiple levers like further share gain possibilities in Parachute, premium VAHO and foods portfolio, strong momentum in international markets and continued strengthening of distribution and digital infrastructure. We maintain our BUY rating with revised PT of Rs 603 based on 45x FY24E EPS, a 10% premium to its 5-yr average multiple and in-line with the multiples given to peers like GCPL, Tata Consumer and Dabur.

Exhibit 1: Actual vs estimate

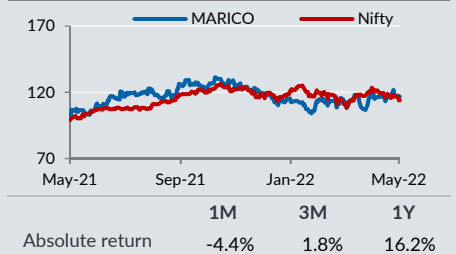
Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	21,610	21730	21751	(0.6)	(0.6)	In-line performance with strong momentum in International business, margins stable
EBITDA	3,460	3368	3592	2.7	(3.7)	
EBITDA Margin (%)	16.0	15.5	16.5	51.2 bps	(50.3) bps	
Adjusted PAT	2,570	2425	2582	6.0	(0.5)	

Reco	: BUY
CMP	: Rs 520
Target Price	: Rs 603
Potential Return	: +16.0%

Stock data (as on May 5, 2022)

Nifty	16,683
52 Week h/l (Rs)	608 / 452
Market cap (Rs/USD mn)	671926 / 8811
Outstanding Shares (mn)	1,293
6m Avg t/o (Rs mn):	780
Div yield (%):	2.4
Bloomberg code:	MRCO IN
NSE code:	MARICO

Stock performance



Shareholding pattern (As of Mar'21 end)

Promoter	59.5%
FII+DII	33.9%
Others	6.0%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	603	615

Δ in earnings estimates

	FY23e	FY24e
EPS (New)	11.4	13.4
EPS (Old)	11.6	13.7
% change	-1.7	-2.1

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Revenue	95,120	1,04,480	1,16,559
YoY Growth (%)	18.2	9.8	11.6
EBIDTA	16,810	20,060	23,545
Margins (%)	17.7	19.2	20.2
PAT	12,250	14,697	17,294
YoY Growth (%)	5.7	20.0	17.7
ROE	37.2	42.1	45.3
ROCE	42.6	48.4	55.4
EPS	9.5	11.4	13.4
P/E	54.8	45.6	38.8
EV/EBITDA	39.7	33.3	28.2

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- **International business** – 12% CC growth with 20bps EBIT margin shrinkage to 18.7% with 16% growth in Bangladesh, 7% growth in Vietnam, 20% in SA and 11% growth in MENA.

Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	% yoy	% qoq	FY22	FY21	% yoy
Sales	20,120	25,250	24,190	24,070	21,610	7.4	(10.2)	95,120	80,480	18.2
EBITDA	3,190	4,810	4,230	4,310	3,460	8.5	(19.7)	16,810	15,910	5.7
EBITDA Margin %	15.9	19.0	17.5	17.9	16.0	15.6 bps	(189.5) bps	17.7	19.8	(209.6) bps
Depreciation	360	330	330	360	370	2.8	2.8	1,390	1,390	-
EBIT	2,830	4,480	3,900	3,950	3,090	9.2	(21.8)	15,420	14,520	6.2
EBIT Margin %	14.1	17.7	16.1	16.4	14.3	23.3 bps	(211.2) bps	16.2	18.0	(183.1) bps
Interest charges	100	80	100	100	110	10.0	10.0	390	340	14.7
Other Income	290	270	250	220	240	(17.2)	9.1	980	940	4.3
PBT	3,020	4,670	4,050	4,070	3,220	6.6	(20.9)	16,010	15,120	5.9
Tax	560	1,020	890	900	650	16.1	(27.8)	3,460	3,240	6.8
Effective Tax Rate (%)	18.5	21.8	22.0	22.1	20.2			21.6	21.4	
PAT	2,460	3,650	3,160	3,170	2,570	4.5	(18.9)	12,550	11,880	5.6
PAT Margin %	12.2	14.5	13.1	13.2	11.9	(33.4) bps	(127.7) bps	13.2	14.8	(156.8) bps
EPS (Rs)	1.9	2.8	2.4	2.5	2.0	4.5	(18.9)	9.7	9.2	5.6

Source: Company, YES Sec

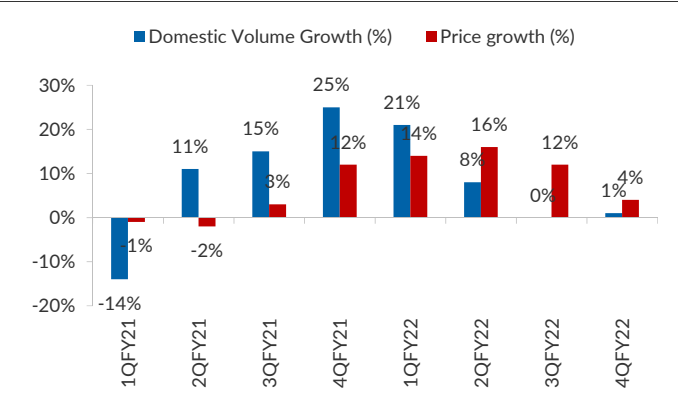
CONCALL TAKEAWAYS

- **Management commentary** - Focus on execution and brand investments in challenging environment, international business delivered double digit growth for 5th consecutive quarter, margins up for 3rd consecutive quarter helped by copra deflation, but higher brand building investments have impacted margins somewhat, inflation suppressed consumption sentiment despite normalized mobility, rural slowing down more than urban, volumes remain steady despite steep 25% base, Parachute maintaining dominant position in coconut oil helped by copra deflation, Saffola has help up volumes despite high base, foods met aspirational topline target for FY22, target 850-1000cr revenue in next 2-3 years, aim to build 450-500cr portfolio by FY24 in digital first brands, uncertain near-term demand outlook but Marico confident of growing ahead of market, 50% of commodity basket being copra should help protect margins, expect inflation to cool off from September onwards, medium term strategy remains unchanged led by portfolio diversification, premiumization, enhanced distribution and technological prowess.
- **Parachute business update** – Volumes have been subdued despite aggressive price cuts by the company, 170bps market share gain in rigid packs, category has declined by 4% while Marico has declined by 1%, price cuts take about 45 days to pass through to the consumer, conversion from unbranded to branded is a challenge in the current environment, confident of protecting market share and getting back to mid-single digit volume growth rate.
- **VAHO business update** – 3-yr value CAGR is 1% in VAHO, not much price increases in the category, significant rural contribution has also impacted growth, trends are not very different from the overall personal care category.
- **FY23 growth outlook** - Should see better growth in 2H than 1H of FY23, should achieve medium term growth aspiration in Parachute and Saffola, foods and digital first brands should

help drive strong growth starting 2HFY23; digital brands have reached about 200cr exit run rate while foods business did 450-500cr revenue in FY22.

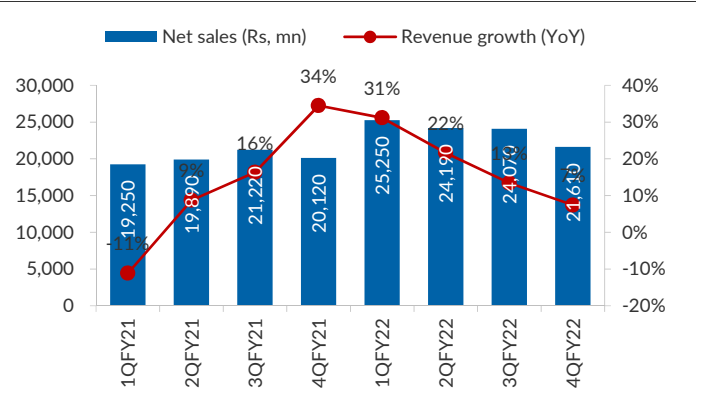
- **Change in volume disclosures** - Saffola and VAHO volume growth not being disclosed from this year as company has moved to value-led internal parameters, internal KPIs aligned with external KPIs, do not want to give out volume data for competitive reasons as well.
- **Copra price outlook** - Copra cycle is insulated from global volatility as imports are not allowed, current demand-supply scenario indicates stability in copra prices over the next 6-9 months.
- **Saffola business update** - Saffola volumes flattish for now despite significant inflation, there is need for some more price increase after 5% taken in March, currently not seeing much downtrading but can impact volumes if this situation continues.
- **4Q industry performance** - FMCG industry decline for 4Q was 4%, personal care decline was 9%, VAHO decline was 8-9%, PCNO decline was also 4%; e-commerce and MT sales have been quite resilient therefore Nielsen data shows higher decline in Bottom of Pyramid consumption.
- **Foods business drivers** - Oats and masala oats have seen increased penetration, honey has also done well, more work required on noodles and chyawanprash, looking to expand portfolio further with new launches in the in-between meals segment; focus remains on increasing distribution with a complete channel-wise assortment.
- **International business** - Bangladesh, Vietnam and MENA business doing quite well, have best among peers international business growth, margins and ROCEs, stable geographies helpful; inflation high in most countries but not much disruptive to the growth journey.
- **Saffola oil blends** - No change in Saffola blends because of inflation in particular oils, gap between variants has come down somewhat; Saffola Gold is the top-selling variant.

Exhibit 3: Flat volume growth on a base of 25%, 2-yr CAGR of 12%



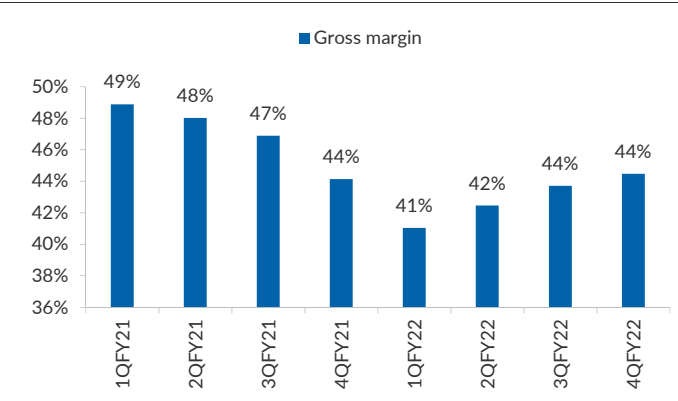
Source: Company, YES Sec

Exhibit 4: Sales growth moderated from a high base



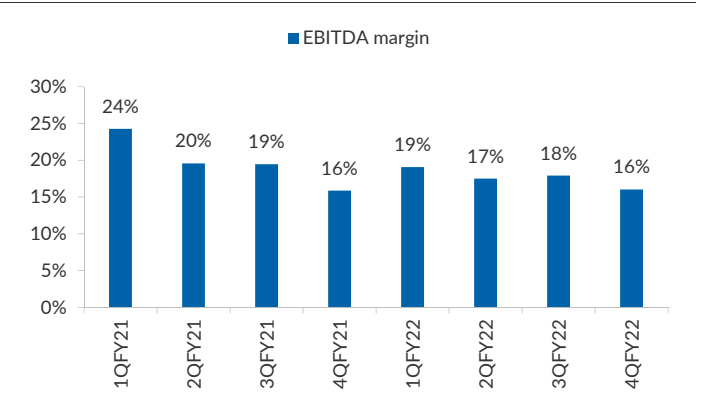
Source: Company, YES Sec

Exhibit 5: Gross margin improved sequentially as copra and edible oil prices moderated from its peak



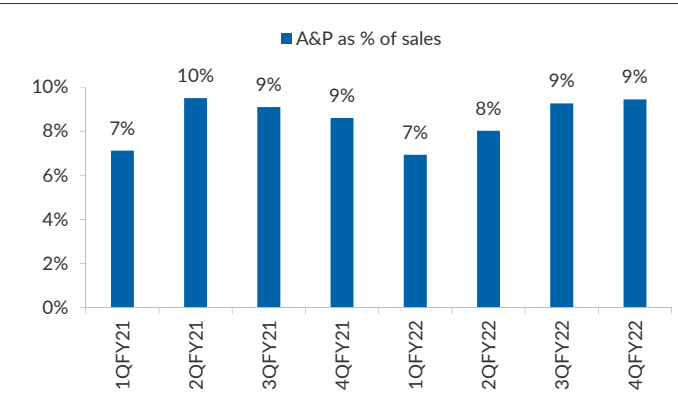
Source: Company, YES Sec

Exhibit 6: EBITDA margin at 16% lower QoQ due to higher other expenses



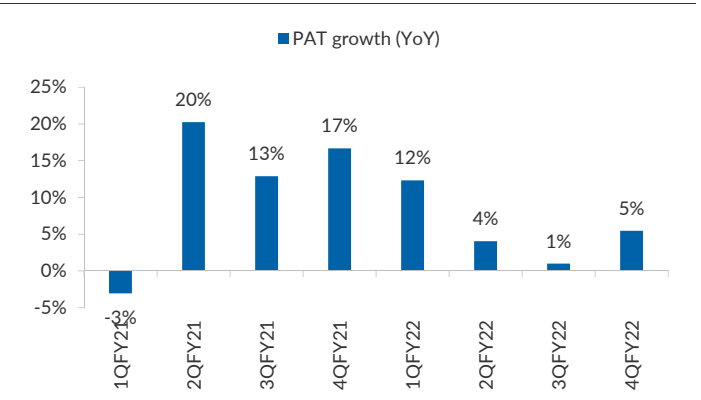
Source: Company, YES Sec

Exhibit 7: Upped A&P spend to invest behind brands and lift weaker consumer sentiment



Source: Company, YES Sec

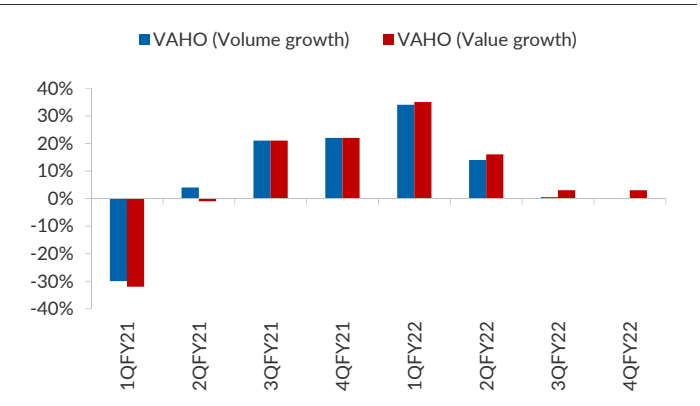
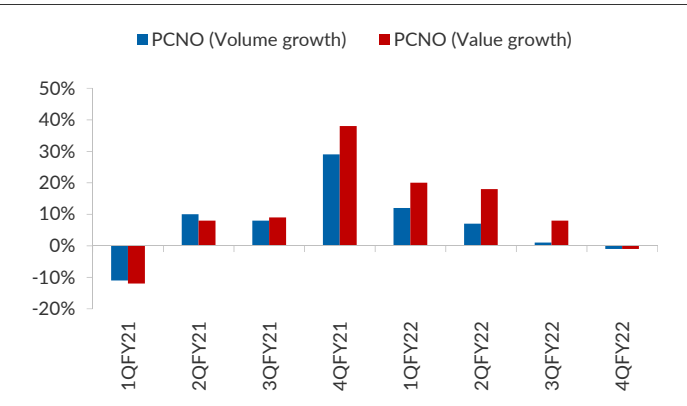
Exhibit 8: Subdued PAT growth of 5% due to lower margins YoY



Source: Company, YES Sec

Exhibit 9: 170bps market share gains in rigid packs, volume growth tapered off in a moderating consumption environment

Exhibit 10: VAHO recovery slowed down with sluggish rural demand and category slowdown

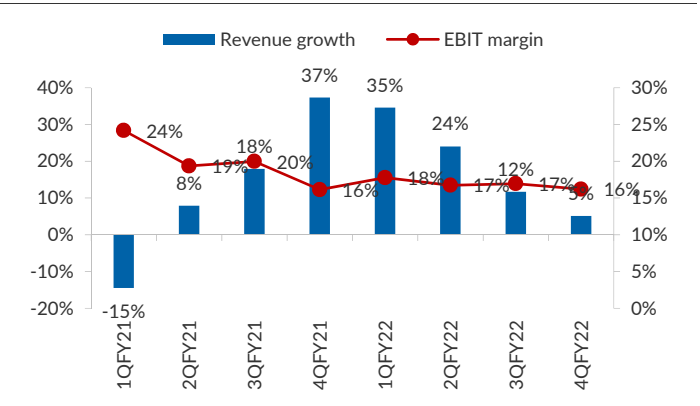
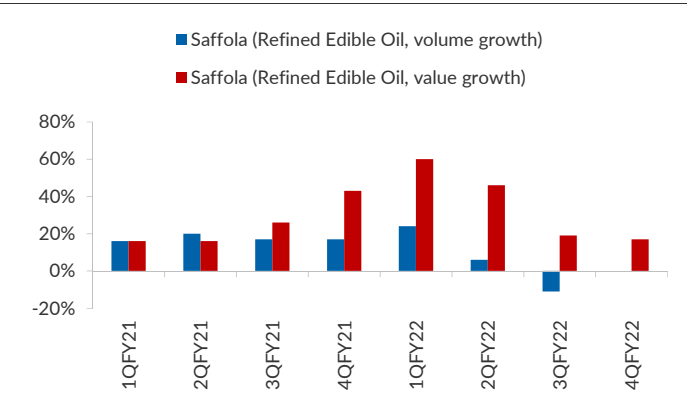


Source: Company, YES Sec

Source: Company, YES Sec

Exhibit 11: Saffola edible oil volume flattish with inflation soaring

Exhibit 12: India business performance resilient partially offset by inflationary pressure in input costs

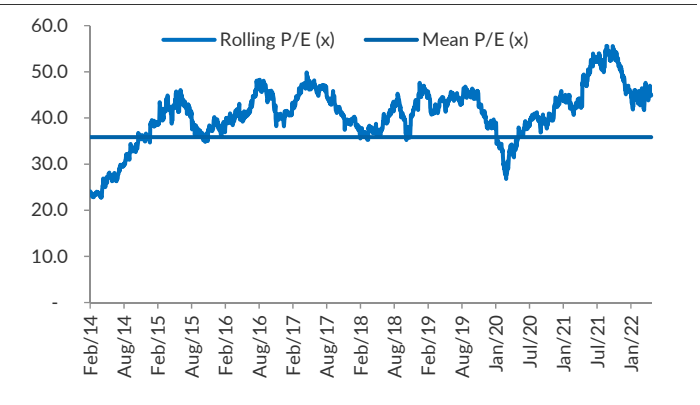
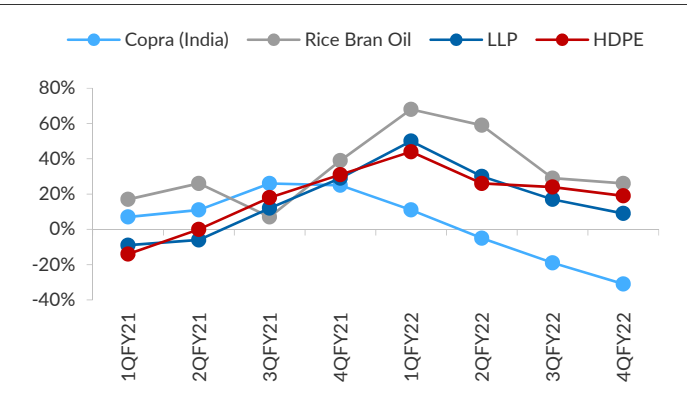


Source: Company, YES Sec

Source: Company, YES Sec

Exhibit 13: Commodity price trends - inflationary pressure started cooling off for RM basket

Exhibit 14: Currently trading at 44x 1-yr fwd earnings



Source: Company, YES Sec

Source: Company, YES Sec

FINANCIALS

Exhibit 15: Balance Sheet

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Equity capital	1,290	1,290	1,290	1,290	1,290
Reserves	28,940	31,110	33,633	36,636	40,165
Net worth	30,360	32,580	35,103	38,106	41,635
Debt	3,350	3,480	3,080	2,680	2,280
Deferred tax liab (net)	60	840	0	0	0
Other non current liabilities	1,650	1,470	1,617	1,779	1,957
Total liabilities	35,420	38,370	39,800	42,565	45,871
Fixed Asset	12,910	16,190	16,312	16,349	16,272
Investments	7,210	8,710	8,710	8,710	8,710
Other Non-current Assets	4,360	3,120	2,406	2,545	2,697
Net Working Capital	8,150	910	3,986	5,853	6,546
Inventories	13,800	11,260	14,213	17,175	19,160
Sundry debtors	5,390	3,880	5,168	5,725	6,387
Loans and Advances	3,480	2,360	3,101	3,435	3,832
Sundry creditors	9,780	11,340	12,921	14,312	15,967
Other current liabilities	3,700	4,410	4,651	5,152	5,748
Cash & equivalents	2,790	9,440	8,386	9,108	11,646
Total Assets	35,420	38,370	39,800	42,565	45,871

Source: Company, YES Sec

Exhibit 16: Income statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Revenue	73,150	80,480	94,320	1,04,480	1,16,559
Operating profit	14,690	15,910	17,261	20,374	23,895
Depreciation	1,400	1,390	1,378	1,463	1,576
Interest expense	500	340	385	295	274
Other income	1,240	940	968	1,046	1,129
Profit before tax	14,030	15,120	16,466	19,661	23,174
Taxes	3,310	3,240	3,540	4,276	5,098
Minorities and other	220	290	310	369	434
Adj. profit	10,500	11,590	12,615	15,015	17,642
Exceptional items	290	(130)	-	-	-
Net profit	10,210	11,720	12,615	15,015	17,642

Source: Company, YES Sec

Exhibit 17: Cash flow statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
PBIT	14,530	15,460	16,851	19,956	23,448
Depreciation	1,400	1,390	1,378	1,463	1,576
Tax paid	(3,310)	(3,240)	(3,540)	(4,276)	(5,098)
Working capital Δ	530	7,240	(3,076)	(1,868)	(693)
Other operating items					
Operating cashflow	13,150	20,850	11,613	15,275	19,233
Capital expenditure	(2,560)	(4,670)	(1,500)	(1,500)	(1,500)
Free cash flow	10,590	16,180	10,113	13,775	17,733
Equity raised	278	125	-	0	(0)
Investments	(2,790)	(1,500)	-	-	-
Debt financing/disposal	(140)	130	(400)	(400)	(400)
Interest Paid	(500)	(340)	(385)	(295)	(274)
Dividends paid	(10,008)	(9,675)	(10,092)	(12,012)	(14,114)
Other items	(160)	1,730	(289)	(346)	(408)
Net Δ in cash	(2,730)	6,650	(1,054)	722	2,537

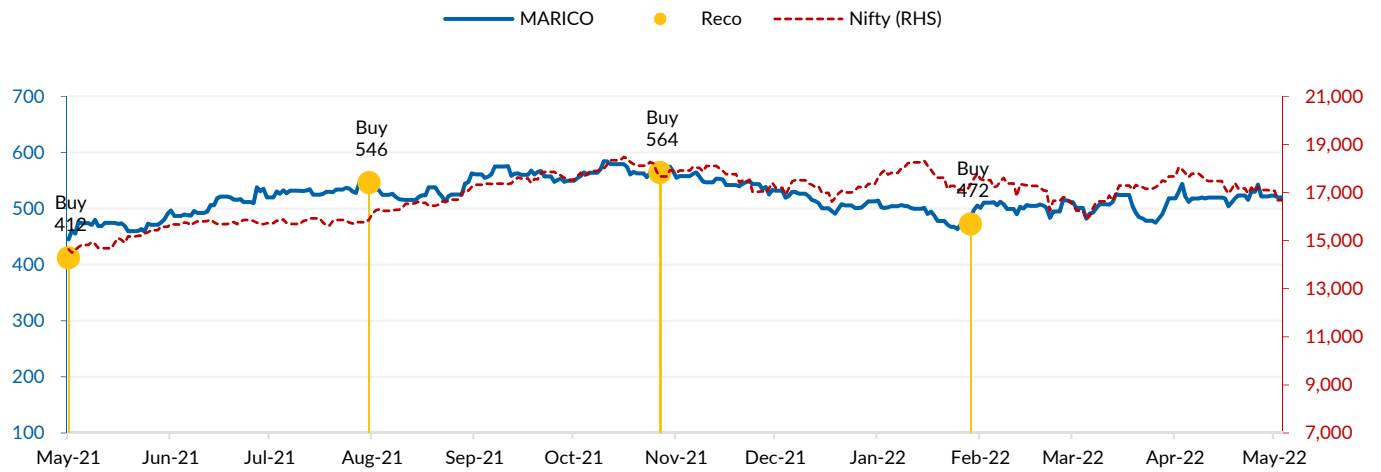
Exhibit 18: Growth and Ratio matrix

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
Growth matrix (%)					
Revenue growth	(0.3)	10.0	17.2	10.8	11.6
Op profit growth	10.8	8.3	8.5	18.0	17.3
EBIT growth	11.9	6.4	9.0	18.4	17.5
Net profit growth	(5.7)	10.4	8.8	19.0	17.5
Profitability ratios (%)					
OPM	20.1	19.8	18.3	19.5	20.5
EBIT margin	19.9	19.2	17.9	19.1	20.1
Net profit margin	14.4	14.4	13.4	14.4	15.1
RoCE	43.3	44.3	45.4	50.5	55.4
RoNW	35.0	37.0	37.5	41.2	44.4
RoA	21.2	22.1	22.2	24.7	26.7
Per share ratios					
EPS	8.1	9.0	9.8	11.6	13.7
Dividend per share	6.8	7.5	7.8	9.3	10.9
Cash EPS	9.2	10.1	10.8	12.8	14.9
Book value per share	23.5	25.3	27.2	29.5	32.3
Valuation ratios					
P/E	58.0	52.5	48.	40.6	34.5

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
P/CEPS	51.2	46.9	43.5	36.9	31.7
P/B	20.1	18.7	17.3	16.0	14.6
EV/EBIDTA	41.5	37.9	35.0	29.6	25.1
Payout (%)					
Dividend payout	95	83	80	80	80
Tax payout	24	21	22	22	22
Liquidity ratios					
Debtor days	27	18	20	20	20
Inventory days	69	51	55	60	60
Creditor days	49	51	50	50	50

Source: Company, YES Sec

Recommendation Tracker



Source: Company, YES Sec – Research

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Investments in securities market are subject to market risks, read all the related documents carefully before investing.

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