

November 5, 2022

Q2FY23 Result Update

■ Change in Estimates | ☒ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		HOLD	
Target Price	543		523	
Sales (Rs. m)	1,13,536	1,26,544	1,13,536	1,26,544
% Chng.	-	-	-	-
EBITDA (Rs. m)	22,359	25,609	22,359	25,609
% Chng.	-	-	-	-
EPS (Rs.)	12.0	13.9	12.0	13.9
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	95,720	1,01,632	1,13,536	1,26,544
EBITDA (Rs. m)	16,287	19,149	22,359	25,609
Margin (%)	17.0	18.8	19.7	20.2
PAT (Rs. m)	11,467	13,267	15,470	17,881
EPS (Rs.)	8.9	10.3	12.0	13.9
Gr. (%)	(1.2)	15.7	16.6	15.6
DPS (Rs.)	9.3	9.5	11.0	11.5
Yield (%)	1.7	1.8	2.0	2.1
RoE (%)	34.8	39.0	44.0	47.9
RoCE (%)	40.2	46.9	54.0	59.0
EV/Sales (x)	7.2	6.8	6.0	5.4
EV/EBITDA (x)	42.2	35.9	30.7	26.7
PE (x)	60.7	52.4	45.0	38.9
P/BV (x)	20.8	20.2	19.4	17.9

Key Data

MRCO.BO | MRCO IN

52-W High / Low	Rs.569 / Rs.456
Sensex / Nifty	60,950 / 18,117
Market Cap	Rs.697bn/ \$ 8,457m
Shares Outstanding	1,293m
3M Avg. Daily Value	Rs.804.51m

Shareholding Pattern (%)

Promoter's	59.59
Foreign	25.00
Domestic Institution	10.33
Public & Others	5.08
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.5	3.8	(3.3)
Relative	(2.4)	(5.2)	(4.7)

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Marico (MRCO IN)

Rating: HOLD | CMP: Rs539 | TP: Rs543

Expect volumes to inch up in 2H23

Quick Pointers:

- Copra prices are down 20% YoY and 4% QoQ, Saffola Edible Oil prices cut by ~18%, expect volume recovery in 2H23
- Innovations in foods to accelerate from 2H23.

We maintain our EPS estimates on account of no change in on-ground scenario and in-line performance vs our expectations. Volumes grew at 3% in 2Q23 but softness in copra prices & volatility in vegetable oil prices may entail further price corrections & disturb trade. We believe MRCO is well placed to accelerate growth due to 1) Price cuts in Parachute on 20% YoY reduction in Copra prices 2) Launch of new products in mid-sized but high growth categories of Peanut butter and Mayo 3) improved relative price value equation of Saffola in edible oils post recent price correction 4) Success of new launches in foods with objective of Rs8.5-10bn sales by FY24 and 5) Increased focus on digital brands in HPC with aspiration of Rs4.5-5bn topline by FY24 (Rs2-2.5bn in FY23). We believe any adverse movement in copra prices and other crude linked inputs can pose a risk given 8% price correction in Parachute coconut oil. We expect Sales/PAT CAGR of 9.8% and 16.0% over FY22-25. We value the stock at 42xSept24 EPS and assign a target price of Rs543 (523 based on 42xJune24 EPS earlier) given healthy ROE/ROCE of 44.0%/54.0% and 90+% dividend payout. Recommend Hold.

Sales up 3.2%, GM expanded by 117bps: Revenues grew by 3.2% YoY to Rs25bn (PLe: Rs24.9bn). Gross margins expanded by 117bps YoY to 43.6% (PLe: 44.5%). EBITDA grew by 2.4% YoY to Rs4.3bn (PLe: Rs4.4bn); Margins contracted by 14bps YoY to 17.3% (PLe:17.7%). A&P Spends expanded by 51bps YoY to 8.5%. Adj PAT declined by 2.8% YoY to Rs3.1bn (PLe: Rs3.2bn). Domestic volume grew 3% YoY led by high single digit growth in Saffola Edible Oils. Parachute volumes declined 3% while VAHO volumes were flattish. IBD grew 11% in CC led by a growth of 10% in Bangladesh, 10% in South East Asia, 16% in South Africa and 11% in MENA.

Concall takeaways: 1) Urban markets and premium discretionary portfolio saw healthier traction vs vs rural 2) GT remained weak with MT/E-comm growing in double digits. 3) Parachute volumes to stabilise in 2H as copra prices/ consumer prices harmonize in coming months.4) VAHO saw downtrading and company will compete at the cost of margins 5) Saffola Bhurji to be positioned as a snacking option similar to Saffola Oats. 6) Soya nuggets and Honey are the new growth levers in the Saffola brand after masala Oats. 7) Expects to achieve mid-single digit volume growth in Saffola Edible Oils in 2H23. 8) Premium personal care/Digital brands ARR at Rs3bn+/Rs~2.5bn in 2Q. 9) Gross margin expected to improve sequentially as copra prices remain soft while EBITDA margins are expected to remain within 18-19% band in FY23. 10) Expect recovery in rural markets on the back of favourable monsoons, govt subsidies and higher crop realisations.

Exhibit 1: 2QFY23 Results: Sales grew 3.2%, Gross margins expanded 117bps YoY

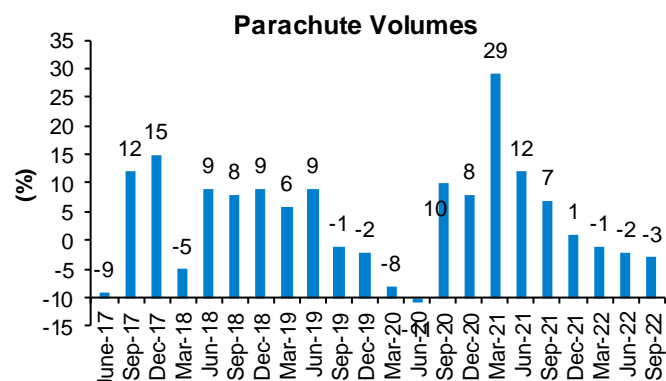
Consolidated	2QFY23	2QFY22	YoY gr. (%)	1QFY23	1HFY23	1HFY22	YoY gr. (%)
Net Sales	24,960	24,190	3.2	25,580	50,540	49,440	2.2
COGS	14,070	13,920	1.1	14,060	28,130	28,810	(2.4)
<i>% of Net Sales</i>	<i>56.4</i>	<i>57.5</i>	<i>-1.2</i>	<i>55.0</i>	<i>55.7</i>	<i>58.3</i>	<i>-2.6</i>
Gross Profit	10,890	10,270	6.0	11,520	22,410	20,630	8.6
<i>% of NS</i>	<i>43.6</i>	<i>42.5</i>	<i>1.2</i>	<i>45.0</i>	<i>44.3</i>	<i>41.7</i>	<i>2.6</i>
Advt. & Prom.	2,130	1,940	9.8	1,990	4,120	3,690	11.7
<i>% of NS</i>	<i>8.5</i>	<i>8.0</i>	<i>0.5</i>	<i>7.8</i>	<i>8.2</i>	<i>7.5</i>	<i>0.7</i>
Total Expenses	20,630	19,960	3.4	20,300	40,930	40,400	1.3
EBITDA	4,330	4,230	2.4	5,280	9,610	9,040	6.3
<i>Margins (%)</i>	<i>17.3</i>	<i>17.5</i>	<i>-0.1</i>	<i>20.6</i>	<i>19.0</i>	<i>18.3</i>	<i>0.7</i>
Depreciation	370	330	12.1	360	730	660	10.6
EEBIT	3,960	3,900	1.5	4,920	8,880	8,380	6.0
Interest	150	100	50.0	100	250	180	38.9
Other Income	190	250	(24.0)	170	360	520	(30.8)
PBT	4,000	4,050	(1.2)	4,990	8,990	8,720	3.1
Tax	930	890	4.5	1,220	2,150	1,910	12.6
<i>Effective tax rate (%)</i>	<i>23.3</i>	<i>22.0</i>	<i>1.3</i>	<i>24.4</i>	<i>23.9</i>	<i>21.9</i>	<i>2.0</i>
Adjusted PAT	3,070	3,160	(2.8)	3,770	6,840	6,810	0.4

Source: Company, PL

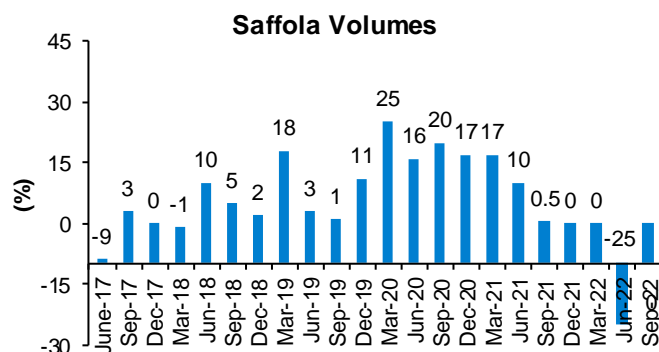
Exhibit 2: Consolidated Segmental: IBD business reported high single digit growth of 9.3%

(Rs m)	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Net Sales	19,890	21,220	20,120	25,250	24,190	24,070	21,610	25,580	24,960
Domestic	15,080	16,270	15,740	19,920	18,700	18,170	16,540	19,210	18,960
International	4,810	4,950	4,380	5,330	5,490	5,900	5,070	6,370	6,000
Sales Growth %	8.7	16.3	34.5	31.2	21.6	13.4	7.4	1.3	3.2
Domestic	7.9	17.9	37.3	34.6	24.0	11.7	5.1	-3.6	1.4
International	11.6	11.5	25.1	19.8	14.1	19.2	15.8	19.5	9.3
EBIT	3,960	4,210	3,370	4,930	4,360	4,430	3,630	5,540	4,560
Domestic	2,920	3,250	2,540	3,540	3,130	3,080	2,680	3,980	3,290
International	1,040	960	830	1,390	1,230	1,350	950	1,560	1,270
EBIT Growth %	10.9	9.9	14.2	2.1	10.1	5.2	7.7	12.4	4.6
Domestic	8.6	9.1	6.7	-1.1	7.2	-5.2	5.5	12.4	5.1
International	18.2	12.9	45.6	11.2	18.3	40.6	14.5	12.2	3.3
EBIT Margins %	19.9	19.8	16.7	19.5	18.0	18.4	16.8	21.7	18.3
Domestic	19.4	20.0	16.1	17.8	16.7	17.0	16.2	20.7	17.4
International	21.6	19.4	18.9	26.1	22.4	22.9	18.7	24.5	21.2
Capital Employed	21,650	18,730	16,560	19,440	21,290	22,350	23,940	27,150	26,380
Domestic	14,320	11,340	8,950	10,670	12,660	13,470	14,300	17,190	17,340
International	7,330	7,390	7,610	8,770	8,630	8,880	9,640	9,960	9,040
International Sales Growth %									
Bangladesh (46%)	16.0	15.0	20.0	9.0	16.0	16.0	16.0	10.0	10.0
MENA (15%)	-6.0	-1.0	62.0	74.0	20.0	21.0	11.0	27.0	11.0
South Africa (8%)	16.0	7.0	48.0	52.0	8.0	6.0	20.0	23.0	16.0
SE Asia (26%)	-4.0	3.0	13.0	16.0	-2.0	27.0	7.0	34.0	10.0

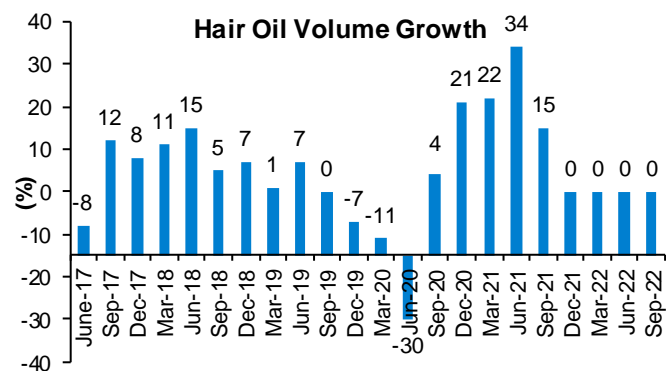
Source: Company, PL

Exhibit 3: Parachute volumes degrew 3%


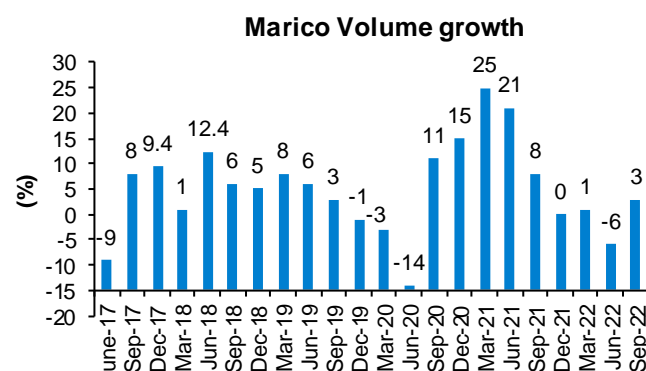
Source: Company, PL

Exhibit 4: Saffola volumes were flattish


Source: Company, PL

Exhibit 5: VAHO volumes were flattish


Source: Company, PL

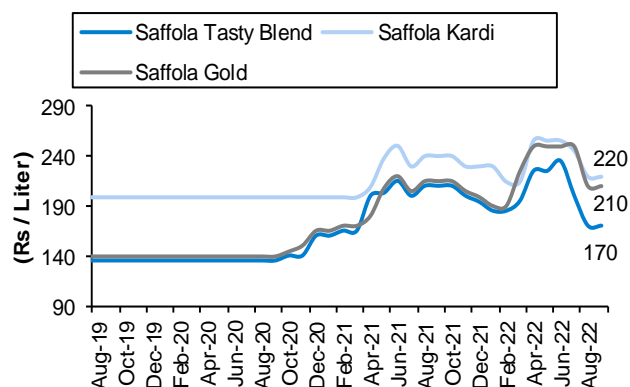
Exhibit 6: Volumes were up 3%


Source: Company, PL

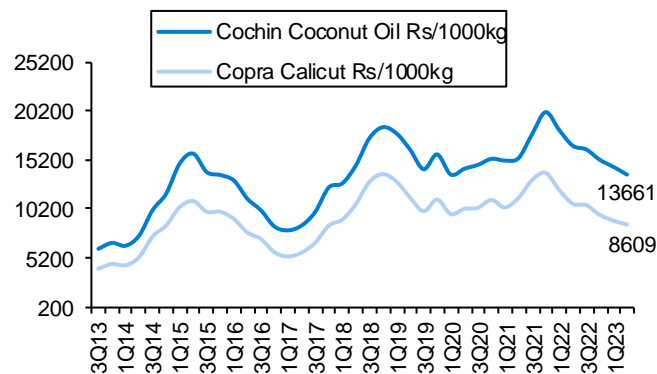
Exhibit 7: 90%+ portfolio winning market share

Market Share (%)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	3QFY22	4QFY22	1QFY23	2QFY23
Coconut Oil	62	62	61	62	63	63	63	62	62
Saffola	77	76	81	82	82	83	83	NA	NA
Hair Oil VAHO	36	35	37	37	37	37	37	37	37
Livon & Silk and Shine	65	65	63	63	64	64	64	63	62
Hair Creams/Gel	59	59	57	58	58	57	57	55	54
Saffola Oats	34	33	38	39	41	42	42	43	43
Shanti Amla	NA	NA	NA	NA	NA	NA	NA	NA	NA
Parachute Bangladesh	82	82	82	NA	NA	NA	NA	NA	NA
Hair Oils Bangladesh	23	23	23	NA	NA	NA	NA	NA	NA
X Men Shampoo Vietnam	37	37	38	NA	NA	NA	NA	NA	NA
x Men Deodorant Vietnam	31	31	31	NA	NA	NA	NA	NA	NA

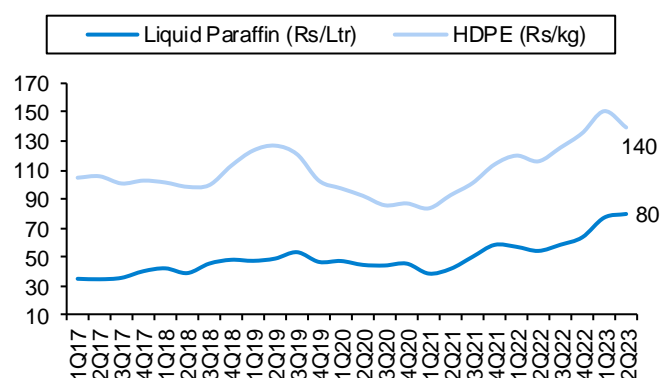
Source: Company, PL

Exhibit 8: Company has taken price cuts in edible oils


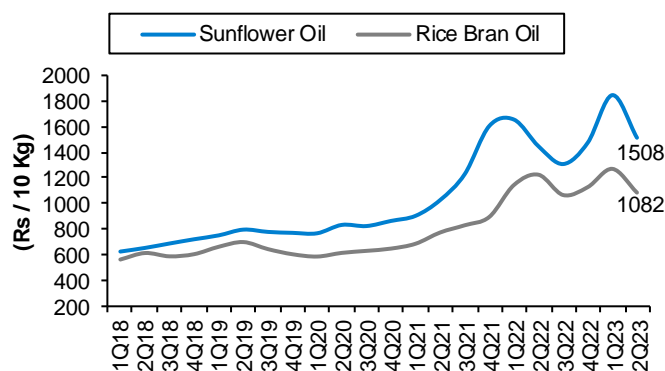
Source: Company, PL

Exhibit 9: Cochin/Calicut Copra prices continue to soften


Source: Company, PL

Exhibit 10: LLP/HDPE prices appears to have hit peak


Source: Company, PL

Exhibit 11: Oil prices correction QoQ helped pass on cuts


Source: Company, PL

Exhibit 12: Restages/Launches in Saffola Foods


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	95,720	1,01,632	1,13,536	1,26,544
YoY gr. (%)	18.9	6.2	11.7	11.5
Cost of Goods Sold	55,483	55,296	60,749	67,464
Gross Profit	40,237	46,335	52,787	59,080
Margin (%)	42.0	45.6	46.5	46.7
Employee Cost	5,860	6,403	7,153	7,972
Other Expenses	-	-	-	-
EBITDA	16,287	19,149	22,359	25,609
YoY gr. (%)	2.4	17.6	16.8	14.5
Margin (%)	17.0	18.8	19.7	20.2
Depreciation and Amortization	1,654	1,706	1,911	2,125
EBIT	14,633	17,443	20,448	23,484
Margin (%)	15.3	17.2	18.0	18.6
Net Interest	386	414	400	404
Other Income	980	863	923	1,132
Profit Before Tax	15,227	17,891	20,971	24,212
Margin (%)	15.9	17.6	18.5	19.1
Total Tax	3,460	4,294	5,138	5,932
Effective tax rate (%)	22.7	24.0	24.5	24.5
Profit after tax	11,767	13,597	15,833	18,280
Minority interest	300	330	363	399
Share Profit from Associate	-	-	-	-
Adjusted PAT	11,467	13,267	15,470	17,881
YoY gr. (%)	(1.2)	15.7	16.6	15.6
Margin (%)	12.0	13.1	13.6	14.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	11,467	13,267	15,470	17,881
YoY gr. (%)	(2.2)	15.7	16.6	15.6
Margin (%)	12.0	13.1	13.6	14.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,467	13,267	15,470	17,881
Equity Shares O/s (m)	1,290	1,290	1,290	1,290
EPS (Rs)	8.9	10.3	12.0	13.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	15,240	16,740	18,240	19,740
Tangibles	11,890	13,390	14,890	16,390
Intangibles	3,350	3,350	3,350	3,350
Acc: Dep / Amortization	5,960	7,197	8,576	10,095
Tangibles	5,670	6,840	8,152	9,604
Intangibles	290	357	424	491
Net fixed assets	9,280	9,543	9,664	9,645
Tangibles	6,220	6,550	6,738	6,786
Intangibles	3,060	2,993	2,926	2,859
Capital Work In Progress	390	400	400	400
Goodwill	6,540	6,540	6,540	6,540
Non-Current Investments	2,080	2,153	2,179	2,209
Net Deferred tax assets	780	430	73	(295)
Other Non-Current Assets	2,650	2,933	3,281	3,671
Current Assets				
Investments	6,410	6,098	5,677	7,593
Inventories	14,120	15,282	16,882	18,743
Trade receivables	6,520	6,961	7,465	7,974
Cash & Bank Balance	5,800	4,887	5,859	6,694
Other Current Assets	2,130	3,049	3,406	3,796
Total Assets	57,860	59,631	62,977	68,747
Equity				
Equity Share Capital	1,290	1,290	1,290	1,290
Other Equity	32,190	33,225	34,530	37,605
Total Network	33,480	34,515	35,820	38,895
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	10	-	-	-
Other non current liabilities	270	297	327	359
Current Liabilities				
ST Debt / Current of LT Debt	3,450	2,950	2,450	2,450
Trade payables	13,440	13,295	14,687	16,119
Other current liabilities	4,640	5,546	6,171	6,832
Total Equity & Liabilities	57,860	59,631	62,977	68,747

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	15,227	17,891	20,971	24,212
Add. Depreciation	1,654	1,706	1,911	2,125
Add. Interest	386	414	400	404
Less Financial Other Income	980	863	923	1,132
Add. Other	140	470	506	545
Op. profit before WC changes	17,407	20,481	23,787	27,286
Net Changes-WC	(3,990)	(1,481)	(31)	(2,591)
Direct tax	(3,460)	(4,294)	(5,138)	(5,932)
Net cash from Op. activities	9,957	14,706	18,619	18,763
Capital expenditures	(3,284)	(2,200)	(2,282)	(2,387)
Interest / Dividend Income	-	-	-	-
Others	390	-	-	-
Net Cash from Invt. activities	(2,894)	(2,200)	(2,282)	(2,387)
Issue of share cap. / premium	1,653	(241)	(264)	(290)
Debt changes	(30)	(500)	(500)	-
Dividend paid	(11,950)	(12,265)	(14,201)	(14,847)
Interest paid	(386)	(414)	(400)	(404)
Others	-	-	-	-
Net cash from Fin. activities	(10,713)	(13,419)	(15,366)	(15,540)
Net change in cash	(3,650)	(913)	971	835
Free Cash Flow	6,673	12,506	16,337	16,376

Source: Company Data, PL Research

Quarterly Financials (Rs m)

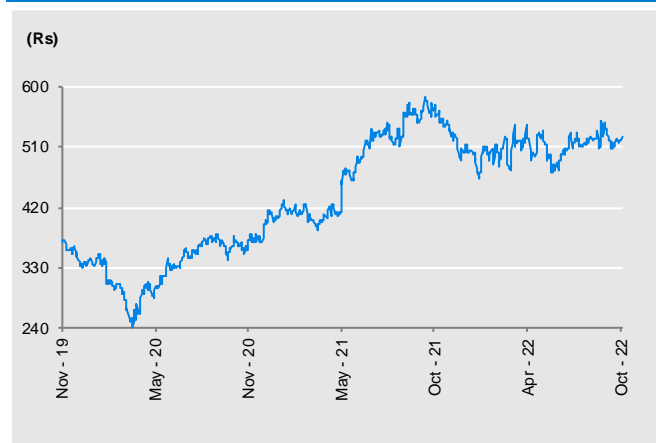
Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	24,070	21,610	25,580	24,960
YoY gr. (%)	13.4	7.4	1.3	3.2
Raw Material Expenses	13,550	12,000	14,060	14,070
Gross Profit	10,520	9,610	11,520	10,890
Margin (%)	43.7	44.5	45.0	43.6
EBITDA	4,310	3,460	5,280	4,330
YoY gr. (%)	4.4	8.5	9.8	2.4
Margin (%)	17.9	16.0	20.6	17.3
Depreciation / Depletion	360	370	360	370
EBIT	3,950	3,090	4,920	3,960
Margin (%)	16.4	14.3	19.2	15.9
Net Interest	100	110	100	150
Other Income	220	240	170	190
Profit before Tax	4,070	3,220	4,990	4,000
Margin (%)	16.9	14.9	19.5	16.0
Total Tax	900	650	1,220	930
Effective tax rate (%)	22.1	20.2	24.4	23.3
Profit after Tax	3,170	2,570	3,770	3,070
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,170	2,570	3,770	3,070
YoY gr. (%)	1.6	4.5	3.3	(2.8)
Margin (%)	13.2	11.9	14.7	12.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,170	2,570	3,770	3,070
YoY gr. (%)	1.6	13.2	3.3	(2.8)
Margin (%)	13.2	11.9	14.7	12.3
Other Comprehensive Income	(30)	210	(30)	-
Total Comprehensive Income	3,140	2,780	3,740	3,070
Avg. Shares O/s (m)	1,290	1,291	1,291	1,291
EPS (Rs)	2.5	2.0	2.9	2.4

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	8.9	10.3	12.0	13.9
CEPS	10.2	11.6	13.5	15.5
BVPS	26.0	26.8	27.8	30.2
FCF	5.2	9.7	12.7	12.7
DPS	9.3	9.5	11.0	11.5
Return Ratio(%)				
RoCE	40.2	46.9	54.0	59.0
ROIC	32.1	35.9	39.8	43.1
RoE	34.8	39.0	44.0	47.9
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.3)	(0.3)
Net Working Capital (Days)	27	32	31	31
Valuation(x)				
PER	60.7	52.4	45.0	38.9
P/B	20.8	20.2	19.4	17.9
P/CEPS	53.0	46.5	40.0	34.8
EV/EBITDA	42.2	35.9	30.7	26.7
EV/Sales	7.2	6.8	6.0	5.4
Dividend Yield (%)	1.7	1.8	2.0	2.1

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Oct-22	Hold	523	527
2	08-Aug-22	Hold	523	523
3	07-Jul-22	Accumulate	544	499
4	05-May-22	Accumulate	547	520
5	08-Apr-22	Accumulate	538	518
6	28-Jan-22	Accumulate	546	472
7	06-Jan-22	Hold	544	501

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	3,326	3,141
2	Avenue Supermarts	BUY	5,121	4,306
3	Britannia Industries	Hold	4,026	3,769
4	Colgate Palmolive	Accumulate	1,639	1,605
5	Dabur India	Accumulate	615	549
6	Emami	Accumulate	574	499
7	Hindustan Unilever	Accumulate	2,798	2,654
8	ITC	Accumulate	365	350
9	Jubilant FoodWorks	BUY	688	615
10	Kansai Nerolac Paints	Accumulate	563	465
11	Marico	Hold	523	527
12	Mold-tek Packaging	Accumulate	898	858
13	Nestle India	Accumulate	20,111	19,388
14	Pidilite Industries	Hold	2,691	2,656
15	Restaurant Brands Asia	Accumulate	156	132
16	Titan Company	Accumulate	2,608	2,433
17	Westlife Development	BUY	847	719

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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