

Commodity basket trending down; margin to inch up

About the stock: Marico is one of the major FMCG companies present in hair oil, edible oil, foods & personal care segment. Major brands include Parachute, Saffola, Nihar, Hair & Care, Set Wet, Livon & Beardo.

- Marico has an overall distribution network of more than 5.6 million (mn) outlets and direct reach of ~1 mn outlets. Through its stockist network, it reaches 59000 villages
- With high gross margins of 45-50%, the company is able to spend 8-9% of its sales on advertisements to support new categories and products

Q2FY23 Results: Marico posted dismal results with 3.2% sales growth.

- Sales were up 3.2% YoY led by 16% growth in international business
- EBITDA was at ₹ 433 crore, up 2.4% YoY, margins at 17.3% (down 14 bps)
- PAT was at ₹ 307.0 crore (down 2.9% YoY)

What should investors do? Marico's share price has given 73% return in the last five years (from ₹ 310 in October 2017 to ₹ 539 in October 2022).

- We believe hair oil product portfolio would grow at a slow pace considering highly penetrated category whereas foods, digital brands to drive growth
- We maintain our **HOLD** rating on the stock

Target Price & Valuation: We value Marico at ₹ 560 ascribing 50x PE on FY24 EPS.

Key triggers for future price performance:

- Foods portfolio has grown at a robust pace in last two years led by tailwinds of healthy eating habits & foray in multiple categories. Foods portfolio to grow to ₹ 650 crore sales in FY23
- Continuous price cuts are slowing down unorganised to organised conversion. Moreover, hair oil category growth is saturated
- Saffola edible oil three-year CAGR volume growth is 7%. With softening of inflation, volume growth is expected to come back to mid-single digit compared to a dip in the last one year
- Investing in digital only brands. Aims to achieve ₹ 500 crore sales by FY24

Alternate Stock Idea: We also like Dabur in our FMCG coverage.

- Significant shift in consumption towards healthier, natural & Ayurveda based products & aggressive foray in many big categories would be driving growth for Dabur
- Value the business at 55x FY24 earnings. BUY with a TP of ₹ 700



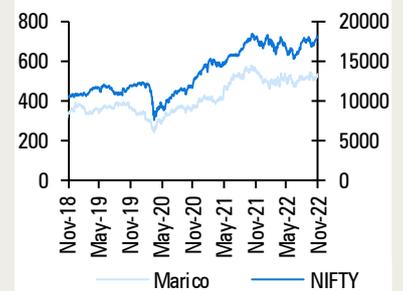
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	69,586.9
Total Debt (FY22)	345.0
Cash and Investments (FY22)	1,220.0
EV	68,711.9
52 week H/L (₹)	566 / 455
Equity capital	129.0
Face value (₹)	1.0

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	59.5	59.5	59.5	59.5
FII	25.6	25.1	25.2	25.0
DII	8.6	8.8	8.7	10.3
Others	6.4	6.6	6.7	5.2

Price Chart



Recent event & key risks

- Launched Saffola Soya Bhurji and new variants in oats & honey
- **Key Risk:** (i) Incessant inflation in crude based RM (ii) Strong agri exports can significantly improve rural consumer sentiment and, in turn, volume growth

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Key Financial Summary

Key Financials	FY20	FY21	5 Year CAGR		FY23E	FY24E	CAGR (FY22-24E)
			FY22	(FY17 to FY22)			
Net Sales	7315.0	8048.0	9512.0	9.9	9803.0	10709.9	6.1%
EBITDA	1469.0	1591.0	1681.0	7.7	1859.2	2047.4	10.4%
EBITDA Margin %	20.1	19.8	17.7		19.0	19.1	
Net Profit	1043.0	1199.0	1254.9	9.1	1317.7	1450.7	7.5%
Adjusted Net Profit	1043.0	1199.0	1254.9	9.1	1317.7	1450.7	7.5%
EPS (₹)	8.08	9.29	9.73		10.21	11.24	
P/E	66.7	58.0	55.5		52.8	48.0	
RoNW %	34.5	37.0	37.5		38.3	41.0	
RoCE (%)	41.0	40.3	41.2		43.6	46.7	

Key takeaways of recent quarter

Q2FY23 Results: Foods, digital first & international business to drive growth; hair oils category growth saturated...

- Marico reported muted revenue growth of 3.2% to ₹ 2496 crore on the back of 1% growth in domestic business and 11% constant currency growth in international business. Domestic volume growth of 3%. On a three-year CAGR basis, volume growth was 7%
- Parachute business saw 11% sales decline largely due to price cuts given copra prices have been benign in the last few quarters. Moreover, Parachute volume dipped 3% on the back of slower conversion from unbranded to branded & trade uncertainly on frequent price cuts
- The company maintained its volume market share in Parachute (rigid pack) and gained value market share by 20 bps. The price cut in Parachute coconut oil portfolio was 8%
- Despite the company cutting Parachute prices, the unorganised sector price dip was sharper due to favourable copra prices. Marico is taking another round of price cuts given copra prices are down 4% QoQ and 20% YoY. The frequent price changes impact trade sentiments. Hence, the expected stabilisation of prices would reflect in volume growth only from December 2022. There is a lag of six to eight weeks to reflect price changes with trade inventory
- Value added hair oils (VAHO) sales grew 2% on account of down-trading & lacklustre demand trend in rural regions. The company saw mid & premium products getting better traction compared to bottom of the pyramid brands
- There was a volume decline during the quarter given the company took price hike in terms of grammage reduction (given liquid paraffin prices remained elevated (48% higher YoY)). The company gained market share by 80 bps on a MAT basis. The three-year CAGR volume growth in VAHO was 6%
- Saffola edible oil & foods witnessed value growth of 4% with aggressive price cuts in edible oil by the company. Saffola edible oil saw high single digit volume growth aided by price cuts and grammage changes. Three-year CAGR volume in Saffola was 7%
- The company took a big price cut (~18% price cut) in Saffola edible Oil ahead of the market despite holding high cost inventory. This price cut covers ground stocks as well resulting in 75-100 bps adverse impact in operating profit
- Foods business continues to witness strong growth of 26% driven by strong growth in Saffola Oats reflected by 320 bps market share gain. With the current run rate, the company is poised to grow foods business to ₹ 650 crore in FY23 and ₹ 850-1000 crore in FY24
- The company introduced two new variants in Honey i.e. 'Saffola Honey Active' & 'Saffola Honey Gold'. It launched Saffola Soya Bhurji, a plant based protein product and 'Saffola Masala Oats Karara Crunch' a variant in the oats category
- Personal care business (Set-Wet & Livon) witnessed growth of 40% on a low base. Given discretionary categories were impact by Covid-19 for an extended period of time, these brands are witnessing stronger growth with high mobility as well (crossed pre-Covid sales). Gross margins are higher than overall business level margins. Set-Wet largely grows in general trade. The company is still driving penetration in this category
- Marico's digital first brands reached annual run rate of ₹ 250 crore comprising ₹ 150 crore run rate from Beardo itself. The company aspires to

grow digital first brand portfolio to ₹ 450-500 crore by FY24 with organic or inorganic growth

- The strong 11% growth in international business was contributed by 10% growth in Bangladesh (strong growth in baby products & shampoos along with core category growth) and South East Asia, 16% growth in South Africa & 11% growth in MENA region
- Gross margin inched up by 117 bps with benign copra prices & sharp drop in edible oil prices. Overhead & employee spends were higher by 33 bps & 47 bps, respectively. The company increased its advertisement spend by 10% to ₹ 213 crore (51 bps higher as percentage of sales)
- Operating profit grew 2.4% to ₹ 433 crore with small 17 bps contraction in operating margin to 17.3%. In Q2FY23, operating margin was 18.4% (up 54 bps) for domestic business & 22.4% (down 171 bps) for international business. Higher finance cost & lower other income resulted in 2.9% dip in net profit to ₹ 307 crore
- The introduction of ‘Saffola Soya Bhurji’ is part of the strategy where the company is launching value added soya products given it does not just want to play in plain & commoditised Soya Nuggets category. The opportunity in Soya is to convert it into a snacking option from main meal. Sale from Soya products is expected to touch ₹ 100 crore in FY23
- Within new products, soya nuggets, Oodles & Peanut butter are doing well whereas Mayonnaise has still not gained traction. The company would continue to launch new product in H2FY23

Exhibit 1: Peer Comparison

Sector / Company	CMP	TP	M Cap	Sales growth (%)			EBITDA Margins (%)			P/E(x)			RoE (%)			RoCE (%)			
	(₹)	(₹) Rating		(₹ Cr)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Hindustan Unilever (HINLEV)	2520	2800	Hold	623766	11.3	14.8	8.5	24.8	24.1	24.5	67.1	59.4	54.2	18.1	20.3	22.0	20.2	22.8	25.1
Dabur India (DABIND)	557	700	Buy	97076	13.9	9.8	13.1	20.7	19.8	20.7	56.6	51.3	44.0	20.8	21.4	22.6	24.9	24.6	26.5
Marico (MARLIM)	539	560	Hold	69587	18.2	3.1	9.3	17.7	19.0	19.1	55.5	52.8	48.0	37.5	38.3	41.0	41.2	43.6	46.7
Patanjali Foods (RUCSOY)	1363	1750	Buy	50721	48.3	21.3	11.6	6.1	6.1	6.7	50.0	44.1	31.4	13.1	11.3	14.2	13.2	15.6	17.3

Source: Company, ICICI Direct Research

Marico has been witnessing sluggish growth in its hair oil (Parachute & VAHO brands) product portfolio given hair oil category is highly penetrated. Moreover, high inflation has adversely impacted edible oil volumes in the last one year. The only growing part of product portfolio in India business is foods and digital first brands. We believe these segments would continue to grow at faster pace given the company is leveraging Saffola’s brand equity & Beardo’s e-commerce channel strength to its advantage. However, their contribution to sales is very small (less than 10%). With the softening of vegetable oils, Saffola edible oil volumes are expected to grow in mid-single digits, going forward. We believe a sharp decline in edible oil inflation would result in improvement in gross margins in the coming quarters. However, we remain cautious on hair oil (Parachute, VAHO) sales growth prospects on a longer term basis. We value the stock at 50x FY24 earnings with a target price of ₹ 560/share (earlier target price ₹ 530) and a **HOLD** recommendation.

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Net Sales	2,496.0	2,499.9	2,419.0	3.2	2,558.0	-2.4	Revenue growth remained muted during the quarter on account of price cuts in Parachute and Saffola. Moreover, volume growth was also muted in hair oils
Raw Material Expenses	1,407.0	1,420.1	1,392.0	1.1	1,406.0	0.1	Gross margins inched up by 117 bps given benign copra prices and sharp cut in edible oil prices
Employee Expenses	166.0	155.7	153.0	8.5	156.0	6.4	
SG&A Expenses	213.0	215.0	194.0	9.8	199.0	7.0	The company increased A&P spends to drive volumes
Other operating Expenses	277.0	268.7	257.0	7.8	269.0	3.0	Overhead spends were up by 51 bps (percentage to sales)
EBITDA	433.0	440.4	423.0	2.4	528.0	-18.0	
EBITDA Margin (%)	17.3	17.6	17.5	-14 bps	20.6	-329 bps	Operating margins was slightly lower by 17 bps
Depreciation	37.0	39.5	33.0	12.1	36.0	2.8	
Interest	15.0	11.5	10.0	50.0	10.0	50.0	
Other Income	19.0	19.6	25.0	-24.0	17.0	11.8	
Exceptional items	0.0	0.0	0.0	NA	0.0	NA	
Minority Interest	0.0	0.0	0.0	NA	0.0	NA	
PBT	400.0	409.0	405.0	-1.2	498.9	-19.8	
Tax Outgo	93.0	100.2	89.0	4.5	122.0	-23.8	
PAT	307.0	308.8	316.0	-2.9	376.9	-18.6	Net profit dipped by 2.9% due to higher finance cost & lower other income

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	New	New	change	Old	New	change	
Revenues	9,732.3	9,803.0	0.7	10,563.0	10,709.9	1.4	We change our sales estimate slightly due strong performance of International business
EBITDA	1,873.6	1,859.2	-0.8	2,074.8	2,047.4	-1.3	We cut our operating profit estimate slightly given the company is spending higher amount towards A&P to propel volume growth
EBITDA Margin (%)	19.3	19.0	-29 bps	19.6	19.1	-53 bps	
PAT	1,328.6	1,317.7	-0.8	1,471.6	1,450.7	-1.4	
EPS (₹)	10.3	10.2	-0.8	11.4	11.2	-1.4	

Source: ICICI Direct Research

Exhibit 4: Assumptions

	Current						Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY23E	FY24E	
Std. Sales (₹ crore)	5,756.0	5,853.0	6,337.0	7,500.0	7,469.1	8,095.9	7,519.1	8,150.6	We increase our domestic sales estimate slightly but international business performance is extremely good owing to strong growth in Bangladesh
Subs. Sales (₹ crore)	1,578.0	1,462.0	1,711.0	2,012.0	2,333.9	2,614.0	2,213.2	2,412.4	

Source: ICICI Direct Research

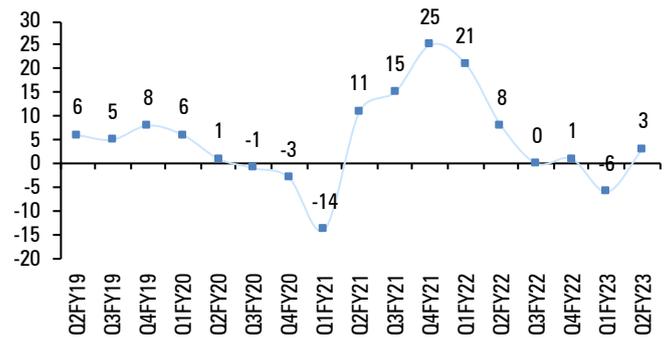
Key Metrics

Exhibit 5: Revenue to grow at 6.1% CAGR over FY22-24E



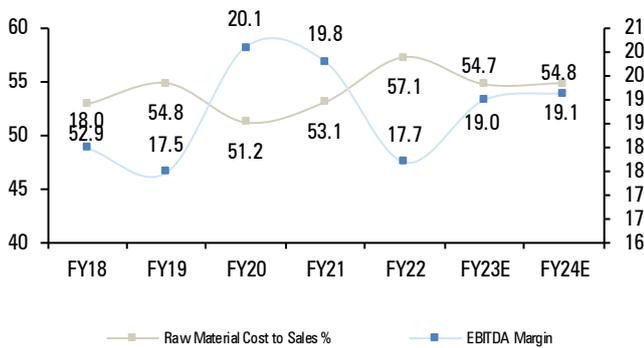
Source: ICICI Direct Research, Company

Exhibit 6: Domestic volume trend YoY (%)



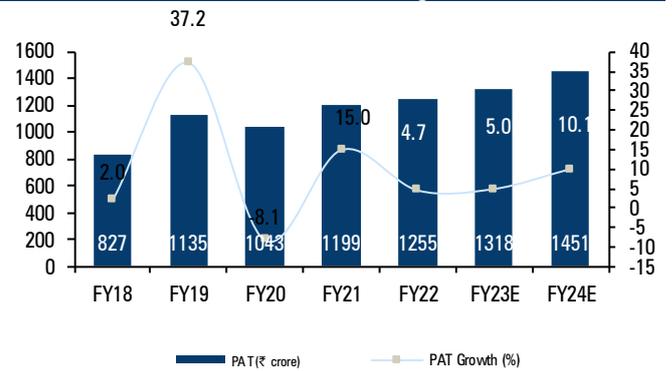
Source: ICICI Direct Research, Company

Exhibit 7: EBITDA margin and raw material trend



Source: Company, ICICI Direct Research

Exhibit 8: PAT (₹ crore) – LHS and PAT growth YoY (%) - RHS



Source: Company, ICICI Direct Research

Exhibit 9: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY21	8048.0	10.0	9.3	15.0	58.0	43.0	37.0	40.3
FY22	9512.0	18.2	9.7	4.7	55.5	40.9	37.5	41.2
FY23E	9803.0	3.1	10.2	5.0	52.8	36.8	38.3	43.6
FY24E	10709.9	9.3	11.2	10.1	48.0	33.5	41.0	46.7

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Income	8048.0	9512.0	9803.0	10709.9
Growth (%)	10.0	18.2	3.1	9.3
Raw Material Expenses	4,270.0	5,436.0	5,360.7	5,867.2
Employee Expenses	570.0	586.0	632.3	685.4
Marketing Expenses	698.0	796.0	862.7	963.9
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	919.0	1,013.0	1,088.1	1,146.0
Total Operating Expenditure	6,457.0	7,831.0	7,943.8	8,662.5
EBITDA	1591.0	1681.0	1859.2	2047.4
Growth (%)	8.3	5.7	10.6	10.1
Depreciation	139.0	139.0	157.9	172.3
Interest	34.0	39.0	45.8	47.8
Other Income	94.0	98.0	78.4	81.5
Share of profit/(loss) of associates	0.0	0.0	0.0	0.0
Total Tax	324.0	346.0	416.1	458.1
PAT	1188.0	1255.0	1317.7	1450.7
Growth (%)	10.8	5.6	5.0	10.1
Adjusted PAT	1199.0	1254.9	1317.7	1450.7
Adjusted EPS (₹)	9.3	9.7	10.2	11.2

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit before Tax	1,523.0	1,601.0	1,733.8	1,908.8
Add: Depreciation	139.0	139.0	157.9	172.3
(Inc)/dec in Current Assets	480.0	-542.0	-12.3	-315.0
Inc/(dec) in CL and Provisions	250.0	200.0	-105.4	141.8
Others	-324.0	-382.0	-416.1	-458.1
CF from operating activities	2,068.0	1,016.0	1,357.9	1,449.8
(Inc)/dec in Investments	-664.0	615.0	-52.0	-52.0
(Inc)/dec in Fixed Assets	-274.0	-187.0	313.9	42.3
Others	0.0	0.0	-127.9	-142.3
CF from investing activities	-938.0	428.0	134.0	-152.0
Issue/(Buy back) of Equity	6.0	41.0	0.0	0.0
Inc/(dec) in loan funds	-170.0	-133.0	-2.0	-2.0
Dividend paid & dividend tax	-968.0	-1,195.0	-1,225.5	-1,354.5
CF from financing activities	-1,119.0	-1,290.0	-1,227.5	-1,356.5
Net Cash flow	16.0	156.0	264.4	-58.7
Opening Cash	93.0	109.0	276.0	540.4
Cash in Bank	835.0	303.0	303.0	303.0
Closing Cash	944.0	579.0	843.4	784.7

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Share Capital	129.0	129.0	129.0	129.0
Reserve and Surplus	3,111.0	3,219.0	3,311.2	3,407.4
Total Shareholders funds	3,240.0	3,348.0	3,440.2	3,536.4
Long Term Borrowings	0.0	0.0	0.0	0.0
Provisions & other LTL	130.0	91.0	91.0	91.0
Minority Interest / Others	18.0	57.0	57.0	57.0
Deferred Tax Liability	109	137	135	133
Total Liabilities	3497.0	3633.0	3723.2	3817.4
Assets				
Gross Block	1,136.0	1,256.0	1,376.0	1,496.0
Less: Acc Depreciation	603.0	742.0	899.9	1,072.2
Net Block	769.0	800.0	476.1	423.8
Capital WIP	24.0	39.0	49.0	59.0
Goodwill on Consolidation	613.0	654.0	624.0	594.0
Non Current Investments	271.0	208.0	233.0	258.0
Other Non CA	497.0	580.0	607.0	634.0
Current Investments	628.0	641.0	701.0	761.0
Inventory	1,126.0	1,412.0	1,342.9	1,525.8
Debtors	388.0	652.0	671.4	733.6
Cash & Bank	944.0	579.0	843.4	784.7
Other CA	250.0	221.0	223.0	233.0
Total Current Assets	3,336.0	3,505.0	3,781.7	4,038.1
Creditors	1,134.0	1,344.0	1,208.6	1,320.4
Short Term Borrowings	340.0	345.0	360.0	375.0
Other Current Liabilities	539.0	464.0	479.0	494.0
Total Current Liabilities	2,013.0	2,153.0	2,047.6	2,189.4
Net Current Assets	1,323.0	1,352.0	1,734.1	1,848.7
Miscl. Exps. not w/o	0.0	0.0	0.0	0.0
Application of Funds	3497.0	3633.0	3723.2	3817.4

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS (Adjusted)	9.3	9.7	10.2	11.2
Cash EPS	10.4	10.8	11.4	12.6
BV	25.1	25.9	26.7	27.4
DPS	7.5	9.2	9.5	10.5
Cash Per Share	7.3	4.5	6.5	6.1
Operating Ratios (%)				
EBITDA Margin	19.8	17.7	19.0	19.1
PBT / Total Operating income	18.9	16.8	17.7	17.8
PAT Margin	14.9	13.2	13.4	13.5
Inventory dbcs	51	54	50	52
Debtor dbcs	18	25	25	25
Creditor dbcs	51	52	45	45
Return Ratios (%)				
RoE	37.0	37.5	38.3	41.0
RoCE	40.3	41.2	43.6	46.7
RoIC	68.0	61.8	65.8	69.1
Valuation Ratios (x)				
P/E	58.0	55.5	52.8	48.0
EV / EBITDA	43.0	40.9	36.8	33.5
EV / Net Sales	8.5	7.2	7.0	6.4
Market Cap / Sales	8.6	7.3	7.1	6.5
Price to Book Value	21.5	20.8	20.2	19.7
Solvency Ratios				
Debt/EBITDA	0.2	0.2	0.2	0.2
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.4	1.6	1.7	1.8
Quick Ratio	0.8	0.8	0.9	1.0

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹) Rating		(₹ Cr)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Colgate (COLPAL)	1,583	1,610	Hold	43,606	39.6	38.6	42.3	39.9	41.0	37.4	8.6	8.2	7.5	77.8	82.6	92.7	62.2	62.9	70.8
Dabur India (DABIND)	557	700	Buy	97,076	9.9	10.9	12.7	56.6	51.3	44.0	8.9	8.2	7.2	24.9	24.6	26.5	20.8	21.4	22.6
Hindustan Unilever (HINLEV)	2,520	2,800	Hold	6,23,766	37.5	42.4	46.5	67.1	59.4	54.2	12.4	10.8	9.9	20.2	22.8	25.1	18.1	20.3	22.0
ITC Limited (ITC)	354	405	Buy	4,29,858	12.4	14.2	16.7	28.5	24.8	21.2	7.3	6.1	5.7	31.4	35.3	38.8	24.5	27.1	29.7
Jyothy Lab (JYOLAB)	195	145	Hold	6,077	4.3	5.6	6.4	45.9	34.9	30.7	2.8	2.5	2.3	18.7	24.2	27.7	16.6	21.2	23.8
Marico (MARLIM)	539	560	Hold	69,587	9.7	10.2	11.2	55.5	52.8	48.0	7.3	7.1	6.5	41.2	43.6	46.7	37.5	38.3	41.0
Nestle (NESIND)	20,425	22,400	Hold	1,90,912	222.4	255.8	301.1	91.8	79.9	67.8	13.0	11.4	10.3	58.7	57.1	63.0	111.3	103.6	110.3
Patanjali Foods (RUCSOY)	1,363	1,750	Buy	50,721	27.3	30.9	43.5	50.0	44.1	31.4	2.1	1.7	1.5	13.2	15.6	17.3	13.1	11.3	14.2
Tata Consumer Products (TAT)	765	950	Buy	70,169	11.0	13.9	17.1	69.4	55.0	44.7	5.6	5.1	4.6	8.4	9.2	10.8	7.0	8.2	9.7
Varun Beverage (VARBEV)	1,138	1,235	Hold	71,889	17.2	23.2	26.8	66.1	49.0	42.5	8.1	5.6	5.0	17.1	30.3	33.5	18.3	29.0	29.4
VST Industries (VSTIND)	3,578	3,425	Hold	4,937	207.4	229.3	252.9	17.2	15.6	14.2	4.2	3.8	3.5	39.2	44.6	50.6	30.0	33.4	37.8
Zydus Wellness (ZYDWEL)	1,754	2,100	Buy	10,254	48.5	57.5	71.0	36.1	30.5	24.7	5.1	4.5	4.1	6.1	7.1	8.4	6.4	7.3	8.7

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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