Motilal Oswal Investment Services

5 November 2022
2QFY23 Results Update | Sector: Consumer

Marico

Estimate changes	↔
TP change	↔
Rating change	↔

Bloomberg	MRCO IN
Equity Shares (m)	1,290
M.Cap.(INRb)/(USDb)	697.4 / 8.5
52-Week Range (INR)	566 / 456
1, 6, 12 Rel. Per (%)	-2/-6/-5
12M Avg Val (INR M)	812

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Sales	95.1	98.3	111.1
Sales Gr. (%)	18.2	3.3	13.0
EBITDA	16.8	17.7	22.3
EBITDA Margin. %	17.7	18.1	20.1
Adj. PAT	12.2	12.2	16.0
Adj. EPS (INR)	9.5	9.5	12.4
EPS Gr. (%)	5.5	-0.3	30.8
BV/Sh.(INR)	26.0	25.2	25.6
Ratios			
RoE (%)	37.2	37.0	48.8
RoCE (%)	34.0	33.9	43.4
Payout (%)	97.4	108.3	97.0
Valuations			
P/E (x)	56.8	57.0	43.6
P/BV (x)	20.8	21.4	21.1
EV/EBITDA (x)	40.8	38.5	30.7
Div. Yield (%)	1.7	1.9	2.2

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	59.5	59.5	59.5
DII	10.3	8.8	8.6
FII	25.1	25.3	26.0
Others	5.1	6.5	5.9

FII Includes depository receipts

CMP: INR539 TP: INR620 (+15%) Buy

Result in line; better volume traction ahead

- Marico (MRCO) reported an in line set of numbers in its 2QFY23 result. Management guided for mid-single digit domestic volume growth in 2HFY23 v/s -5% and 3% in 1QFY23 and 2QFY23, respectively.
- Material cost outlook is likely to get better in subsequent quarters. We expect better earnings growth prospects in FY24. Maintain **BUY** with a TP of INR620.

Performance in line with estimates

Consolidated

- MRCO's consolidated net sales remained flat YoY at INR25b (est. INR24.9b) in 2QFY23.
- EBITDA/PBT/Adj. PAT too remained flat YoY at INR4.3b/INR4.0b/INR3.0b (est. INR4.4b/INR4.2b/INR3.0b), respectively.
- Domestic volumes grew 3% YoY.
- Consolidated gross margin expanded 110bp YoY; however, it contracted 140bp QoQ to 43.6% (est. 45%).
- As a percentage of sales, higher staff cost (up 30bp to 6.7%), other expenditure (up 50bp to 11.1%), and A&P expenses (up 50bp to 8.5%) restricted EBITDA margin (down 20bp YoY) to 17.3% in 2QFY23 (est. 17.7%).
- The 1HFY23 sales remained flat at INR50.5b. EBITDA grew 6.3% to INR9.6b. Adj. PAT also remained flat at INR6.7b.

Standalone

- Sales/EBITDA/Adj. PAT remained flat at INR19.1b/3.1b/3.3b, respectively.
- EBITDA margin expanded 70bp YoY to 16.1% in 2QFY23.

Highlights from the management commentary

- The Foods business is likely to have an annualized sales of INR6.5b based on 2QFY23. Management is targeting sales of INR8.5-INR10b from this business in FY24E.
- The FY23 margin guidance of 18-19% remains intact.
- Gross margin outlook is gradually improving.
- Management indicated that MRCO has surpassed the pre-Covid level sales in its premium portfolio.

Valuation and view

- While numbers were broadly in line, due to the more gradual-than-expected recovery in volumes and some price corrections taken to boost growth, we have cut our FY23E EPS by 5% but there is no material change in our FY24E EPS.
- The company's earnings growth prospects are nevertheless healthy with ~16% CAGR likely over FY22-24E and an RoE of over 40%.
- The much-needed diversification is gathering momentum in the Foods and Digital-first brands. If sustained, this can lead to higher multiples for MRCO as compared to the past. We maintain our target multiple of 45x Sep'24E EPS to arrive at our TP of INR620. **We reiterate our BUY rating on the stock.**

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Quarterly Performance

(INR m)

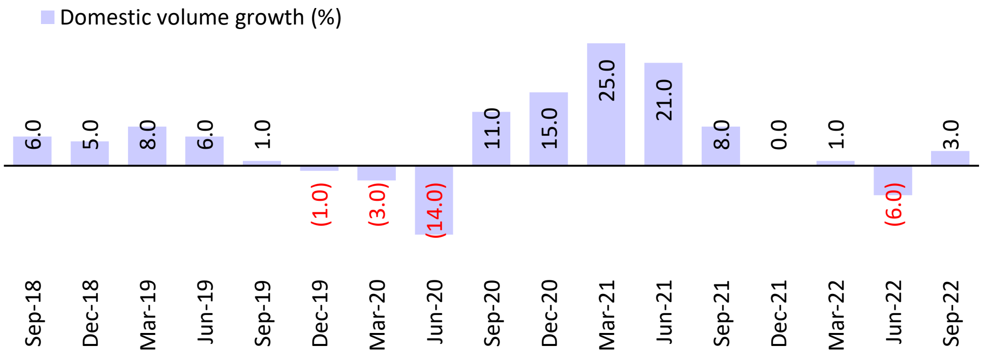
Y/E March	FY22				FY23E				FY22	FY23E	FY23	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Domestic volume growth (%)	21.0	8.0	0.0	1.0	-5.0	3.0	6.0	5.0	**7.0**	**2.3**	2.0	
Net Sales	**25,250**	**24,190**	**24,070**	**21,610**	**25,580**	**24,960**	**25,274**	**22,445**	**95,120**	**98,258**	**24,916**	0.2%
YoY Change (%)	31.2	21.6	13.4	7.4	1.3	3.2	5.0	3.9	18.2	3.3	3.0	
Gross Profit	**10,360**	**10,270**	**10,520**	**9,610**	**11,520**	**10,890**	**11,247**	**10,218**	**40,760**	**43,875**	**11,212**	-2.9%
Gross margin (%)	41.0	42.5	43.7	44.5	45.0	43.6	44.5	45.5	42.9	44.7	45.0	
EBITDA	**4,810**	**4,230**	**4,310**	**3,460**	**5,280**	**4,330**	**4,499**	**3,635**	**16,810**	**17,744**	**4,410**	-1.8%
Margins (%)	19.0	17.5	17.9	16.0	20.6	17.3	17.8	16.2	17.7	18.1	17.7	
YoY Change (%)	3.0	8.7	4.4	8.5	9.8	2.4	4.4	5.1	5.7	5.6	4.3	
Depreciation	330	330	360	370	360	370	396	434	1,390	1,560	380	
Interest	80	100	100	110	100	150	130	147	390	527	111	
Other Income	270	250	220	240	170	190	198	246	980	804	250	
PBT	**4,670**	**4,050**	**4,070**	**3,220**	**4,990**	**4,000**	**4,171**	**3,300**	**16,010**	**16,461**	**4,170**	-4.1%
Tax	1,020	890	900	650	1,220	930	1,001	800	3,460	3,951	1,001	
Rate (%)	21.8	22.0	22.1	20.2	24.4	23.3	24.0	24.2	21.6	24.0	24.0	
Adjusted PAT	**3,560**	**3,090**	**3,100**	**2,500**	**3,710**	**3,010**	**3,100**	**2,391**	**12,250**	**12,210**	**3,099**	-2.9%
YoY Change (%)	7.6	4.0	1.0	5.0	4.2	-2.6	0.0	-4.4	5.5	-0.3	0.3	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY22				FY23	
	1Q	2Q	3Q	4Q	1Q	2Q
2Y average growth (%)						
Volume	3.5	9.5	7.5	13.0	8.0	5.5
Sales	10.0	15.2	14.9	20.9	16.2	12.4
EBITDA	2.1	9.5	7.5	10.8	6.4	5.6
PAT	5.5	12.1	6.9	10.6	5.9	0.7
% of Sales						
COGS	59.0	57.5	56.3	55.5	55.0	56.4
Operating Expenses	22.0	25.0	25.8	28.5	24.4	26.3
Depreciation	1.3	1.4	1.5	1.7	1.4	1.5
YoY change (%)						
COGS	50.6	34.6	20.2	6.8	-5.6	1.1
Operating Expenses	18.3	6.7	6.7	8.1	12.4	8.6
Other Income	42.1	-7.4	-8.3	-17.2	-37.0	-24.0
EBIT	3.5	9.6	4.8	9.2	9.8	1.5

Exhibit 1: Domestic volumes declined 6% YoY



Source: MOFSL, Company

Exhibit 2: Consolidated segmental details

	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Sales growth (%)									
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	15.1	19.5	9.3
Total	**8.7**	**16.3**	**34.5**	**31.2**	**21.6**	**13.4**	**7.3**	**1.3**	**3.2**
EBIT margin (%)									
Domestic EBIT margin (%)	19.4	20.0	16.1	17.8	16.7	17.2	16.2	20.7	17.4
International EBIT margin (%)	21.6	19.4	18.9	26.1	22.4	22.9	18.8	24.5	21.2
Total (%)	**19.9**	**19.8**	**16.7**	**19.5**	**18.0**	**18.6**	**16.8**	**21.7**	**18.3**

Source: Company, MOFSL

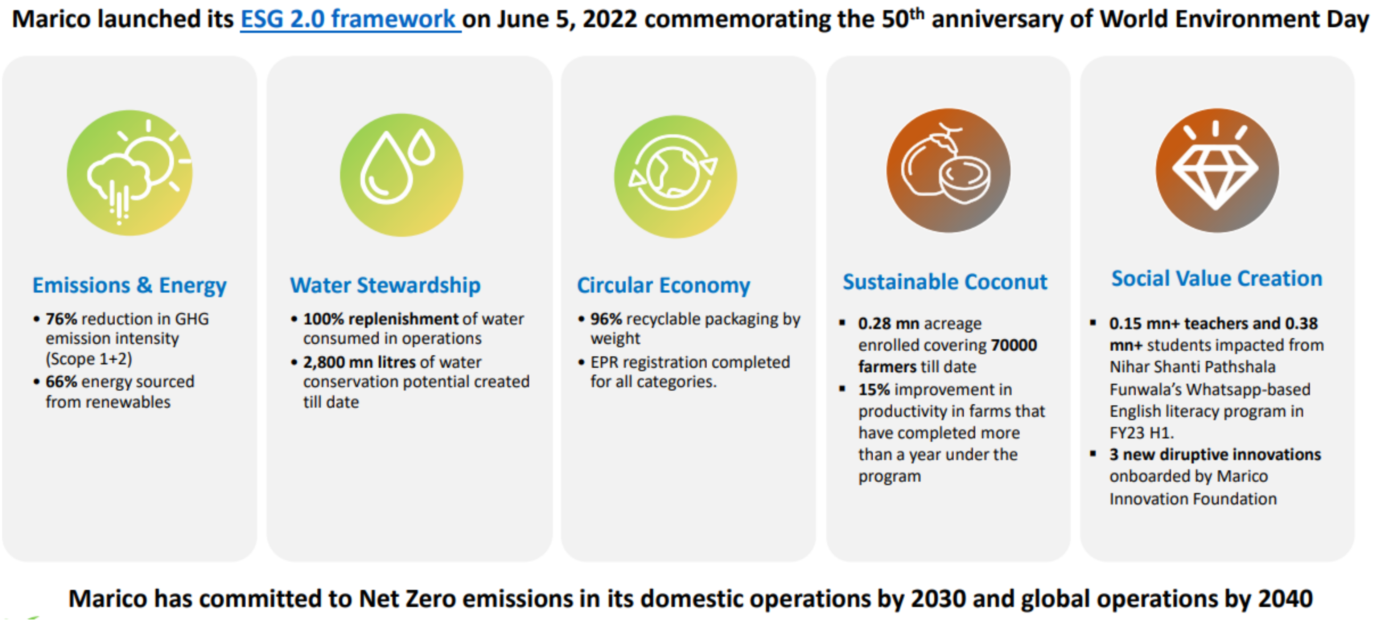
Exhibit 3: Market share of key categories in the India business

Franchise	~MS%	Rank
^ **Coconut Oil Franchise**	62%	1st
^ **Parachute Rigids within Coconut Oils**	53%	1st
* **Saffola Oats**	43%	1st
^ **Value Added Hair Oils**	37%	1st
^ **Post wash Leave-on Serums**	62%	1st
* **Hair Gels/Waxes/Creams**	54%	1st

^ Volume market share, *Value market share

Source: Company

Exhibit 4: ESG initiatives by MRCO



Source: Company

CONFERENCE CALL

Highlights from the management commentary

Business environment and outlook

- The management is seeing an improvement in the consumer sentiments only from last month. Retail inflation holding firm and currency depreciation is affecting the sentiments adversely.
- The sector saw high single-digit volume decline in HPC category whereas the Foods category grew marginally. Due to various options available in HPC, mass category has seen downtrading; however, premium category is stable.
- For MRCO, 1% volume decline is attributable to the change in pack sizes.

- The management is hopeful of rural to recover in 2HFY23 on the back of low base of rural and elections commencing in a few states.
- The three-year volume CAGR would be in high-single digits in the near term.
- Ex-current year, rural has outperformed urban over the last five years.

Segmental performance

Parachute coconut oil

- The company has taken another round of price cut (8%). However, there is a lag of 6-8 weeks.
- Volumes to stabilize in 2HFY23.
- Correction in copra was higher than expectation of management.

Saffola edible oil

- Management is seeing moderation in edible oil prices.
- MRCO took price cuts in one go (18% from its peak) in this segment and was ahead of the market. This cut adversely impacted EBITDA margin by 75-100bp.
- Once the prices of raw materials stabilize, both margin and volume will also be stable.

VAHO

- Volumes in this category would have been flat if not for pack size reduction.
- Downtrading is highly evident in this category.
- The management is focused on expanding in premium and luxury segments in this category.

Foods

- Launched Soya Bhurji; the strategy is to replicate what the management did in Oats business. Initially, price pack is at INR15 and once consumer loyalty is developed, management may think of revising the prices. Oats is on track to achieve INR1b in revenue in FY23.
- The company has launched honey active (affordable) and honey gold (premium) during the quarter.
- MRCO is growing significantly in noodles and peanut butter. It needs to scale up in Mayo too.
- MRCO is on track to achieve INR6.5b in FY23E and aspires to reach INR8.5-10.0b in FY24E.

Digital first brands

- Beardo is meeting internal growth target. Beardo is a 90-95% digital brand.
- The segment has crossed the pre-COVID level during the quarter.
- Gross margin in the segment is significantly better compared to other segments.
- The INR10 gel (Set Wet) pack has seen significant growth in the last 5-7 years.
- The management is also looking at inorganic opportunities.

International business

- Bangladesh: Resilient performance; hair care and baby care portfolio doing well. It may moderate in the near term due to macro headwinds.

- MENA and South Africa: stable growth in the last 18 months.

Material costs, margin and guidance

- The management is expecting mid-single digit volume growth in 2HFY23.
- A&P will not be curtailed.
- Gross margin to improve significantly going forward.
- The management highlighted that MRCO will be able to deliver 18-19% EBITDA margin in FY23.

Valuation and view

What has happened in the last 10 years?

- In key categories such as Coconut Oil and VAHO, MRCO reported healthy sales growth, with volume growth for Parachute actually improving in recent years.
- In Saffola Foods (Oats), the company was able to strengthen its market share. It grew significantly in the Masala Oats category.
- Growth in Saffola (Edible Oil brand) has tapered off in recent years because of: a) strategic mistakes in terms of pricing, and b) the company being unable to cater to the recently emerged Super Premium market segment.
- Similarly, the brands acquired from Paras/Reckitt – Livon, Set Wet, and Zatak – have not scaled up as expected despite their higher growth potential.
- Topline and earnings growth have been healthy over the past 10 years, with ~11%/15%/16% CAGR in topline/EBITDA/PAT, respectively. Over the past five years, growth has been healthy too, but has tapered off as compared with the past (sales/EBITDA/ PAT growth of ~5%/11%/~13%, respectively).

Our view on the stock

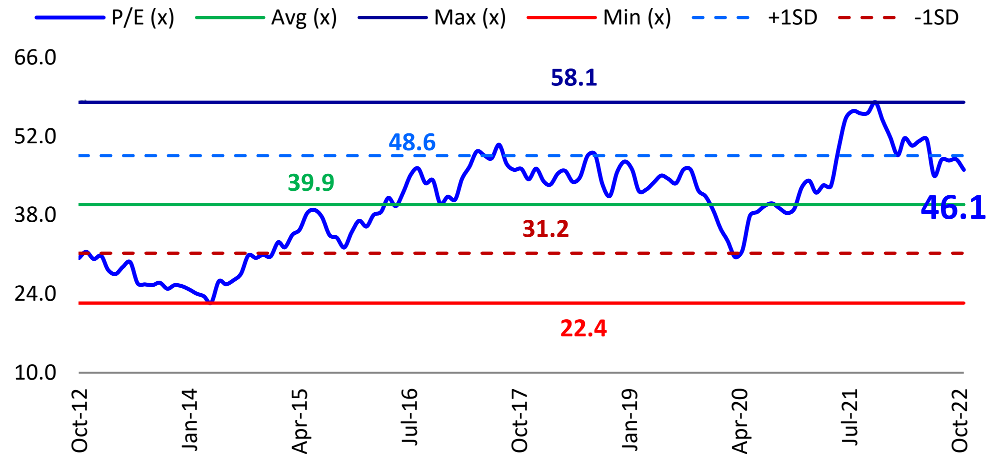
- While numbers were broadly in line, due to the more gradual-than-expected recovery in volumes and some price corrections taken to boost growth, we have cut our FY23E EPS by 5% but there is no material change in our FY24E EPS.
- The company's earnings growth prospects are nevertheless healthy with ~16% CAGR likely over FY22-24 and an RoE of over 40%.
- The much-needed diversification is gathering momentum in the Foods and Digital-first brands. If sustained, this can lead to higher multiples for MRCO as compared to the past. We maintain our target multiple of 45x Sep'24E EPS to arrive at our TP of INR620. **We reiterate our BUY rating on the stock**.

Exhibit 5: We revise our FY23E/FY24E EPS by -5.3%/-0.5%

INR m	Old estimate		New estimate		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	98,787	1,11,673	98,258	1,11,062	-0.5%	-0.5%
EBITDA	18,441	22,393	17,744	22,303	-3.8%	-0.4%
PAT	12,900	16,053	12,210	15,967	-5.3%	-0.5%

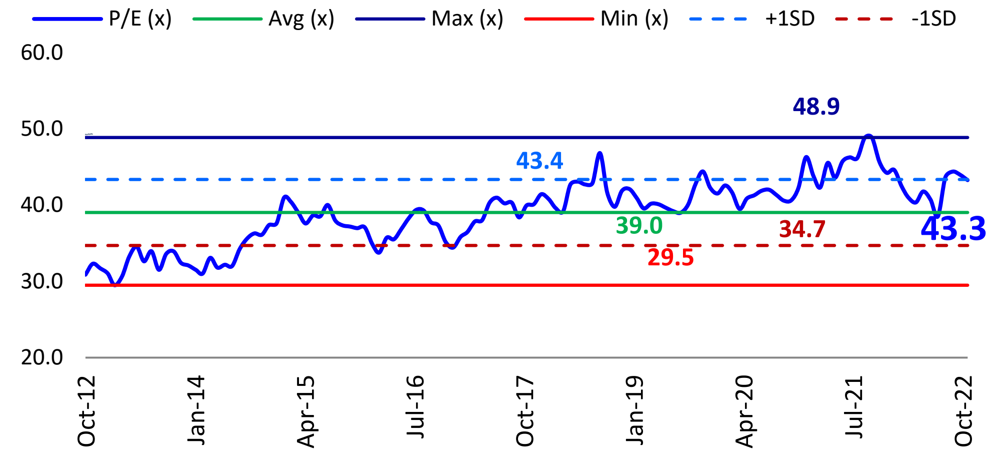
Source: Company, MOFSL

Exhibit 6: MRCO's P/E (x)



Source: Company, MOFSL

Exhibit 7: Consumer sector P/E (x)



Source: Company, MOFSL

Financials and valuations

Income Statement

(INR m)

Y/E March	2018	2019	2020	2021	2022	2023E	2024E
Net Sales	**63,220**	**73,340**	**73,150**	**80,480**	**95,120**	**98,258**	**1,11,062**
Change (%)	6.8	16.0	-0.3	10.0	18.2	3.3	13.0
COGS	33,720	40,170	37,680	42,700	54,360	54,384	58,255
Gross Profit	**29,500**	**33,170**	**35,470**	**37,780**	**40,760**	**43,875**	**52,806**
Margin (%)	46.7	45.2	48.5	46.9	42.9	44.7	47.5
Operating Expenses	18,130	19,920	20,820	21,870	23,950	26,131	30,504
EBITDA	**11,370**	**13,250**	**14,650**	**15,910**	**16,810**	**17,744**	**22,303**
Change (%)	-1.9	16.5	10.6	8.6	5.7	5.6	25.7
Margin (%)	18.0	18.1	20.0	19.8	17.7	18.1	20.1
Depreciation	890	1,310	1,400	1,390	1,390	1,560	1,641
Int. and Fin. Charges	160	400	500	340	390	527	483
Other Income - Recurring	850	1,030	1,240	940	980	804	1,085
Profit before Taxes	**11,170**	**12,570**	**13,990**	**15,120**	**16,010**	**16,461**	**21,264**
Change (%)	-2.8	12.5	11.3	8.1	5.9	2.8	29.2
Margin (%)	17.7	17.1	19.1	18.8	16.8	16.8	19.1
Current Tax (excl MAT Ent)	2,840	3,310	3,470	3,350	3,430	3,868	4,891
Deferred Tax	60	-180	-160	-110	30	82	106
Tax Rate (%)	26.0	24.9	23.7	21.4	21.6	24.0	23.5
Minority Interest	-130	-180	-220	-270	-300	-300	-300
Profit after Taxes	**8,140**	**9,260**	**10,460**	**11,610**	**12,250**	**12,210**	**15,967**
Change (%)	0.4	13.8	13.0	11.0	5.5	-0.3	30.8
Margin (%)	12.9	12.6	14.3	14.4	12.9	12.4	14.4
Extraordinary items	0	1,880	-290	110	0	0	0
Reported PAT	**8,140**	**11,140**	**10,170**	**11,720**	**12,250**	**12,210**	**15,967**

Balance Sheet

(INR m)

Y/E March	2018	2019	2020	2021	2022	2023E	2024E
Share Capital	1,290	1,290	1,290	1,290	1,290	1,290	1,290
Reserves	24,140	28,700	28,940	31,110	32,190	31,188	31,675
Net Worth	**25,430**	**29,990**	**30,230**	**32,400**	**33,480**	**32,478**	**32,965**
Minority Interest	120	110	130	180	570	570	570
Loans	3,090	3,490	3,350	4,700	4,360	4,810	5,260
Capital Employed	**28,640**	**33,590**	**33,710**	**37,280**	**38,410**	**37,858**	**38,795**
Gross Fixed Assets	8,120	9,140	13,440	13,400	15,340	15,800	17,100
Intangibles	600	550	410	2,300	3,060	3,060	3,060
Less: Accum. Depn.	-2,480	-3,250	-5,270	-5,710	-7,340	-8,900	-10,541
Net Fixed Assets	**6,240**	**6,440**	**8,580**	**9,990**	**11,060**	**9,960**	**9,619**
Capital WIP	270	450	580	240	390	390	390
Goodwill	4,860	5,030	5,380	6,130	6,540	6,640	6,740
Investments	**5,430**	**4,500**	**7,330**	**8,540**	**8,280**	**13,000**	**12,000**
Curr. Assets, L&A	**23,920**	**29,120**	**26,560**	**28,340**	**29,720**	**26,453**	**30,389**
Inventory	15,110	14,110	13,800	11,260	14,120	12,970	14,660
Account Receivables	3,400	5,170	5,390	3,880	6,520	5,306	5,997
Cash and Bank Balance	2,010	5,520	2,790	9,440	5,790	4,229	4,994
Others	3,400	4,320	4,580	3,760	3,290	3,948	4,738
Curr. Liab. and Prov.	**11,880**	**13,710**	**16,250**	**16,980**	**18,360**	**19,365**	**21,124**
Current Liabilities	10,560	12,260	14,920	15,750	17,230	17,932	19,492
Accounts Payable	8,220	9,440	9,780	11,340	13,440	13,815	15,048
Provisions	1,320	1,450	1,330	1,230	1,130	1,433	1,632
Net Current Assets	**12,040**	**15,410**	**10,310**	**11,360**	**11,360**	**7,088**	**9,265**
Deferred Tax Liability	-200	1,760	1,530	1,020	780	780	780
Application of Funds	**28,640**	**33,590**	**33,710**	**37,280**	**38,410**	**37,858**	**38,795**

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2018	2019	2020	2021	2022	2023E	2024E
Basic (INR)							
EPS	**6.3**	**7.2**	**8.1**	**9.0**	**9.5**	**9.5**	**12.4**
Cash EPS	7.0	9.7	9.0	10.2	10.6	10.7	13.6
BV/Share	19.7	23.2	23.4	25.1	26.0	25.2	25.6
DPS	4.6	6.6	7.8	7.7	9.3	10.3	12.0
Payout %	72.4	76.3	98.5	84.4	97.4	108.3	97.0
Valuation (x)							
P/E	85.5	75.1	66.5	59.9	56.8	57.0	43.6
Cash P/E	77.1	55.9	60.1	53.1	51.0	50.5	39.5
EV/Sales	10.9	9.4	9.4	8.5	7.2	7.0	6.2
EV/EBITDA	60.8	52.0	47.0	42.9	40.8	38.5	30.7
P/BV	27.4	23.2	23.0	21.5	20.8	21.4	21.1
Dividend Yield (%)	0.8	1.2	1.4	1.4	1.7	1.9	2.2
Return Ratios (%)							
RoE	33.4	33.4	34.7	37.1	37.2	37.0	48.8
RoCE	30.8	31.3	32.9	34.2	34.0	33.9	43.4
RoIC	40.7	40.7	43.9	54.2	56.2	55.7	75.9
Leverage Ratio							
Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1	0.1	0.2

Cash Flow Statement **(INR m)**

Y/E March	2018	2019	2020	2021	2022	2023E	2024E
OP/(loss) before Tax	11,170	12,570	13,740	15,230	16,010	16,461	21,264
Int./Div. Received	-280	-130	-270	-140	-110	-804	-1,085
Depreciation	890	1,310	1,500	1,390	1,390	1,560	1,641
Interest Paid	-180	-140	-220	-250	-200	527	483
Direct Taxes Paid	-2,950	-3,200	-2,900	-2,850	-3,510	-3,868	-4,891
(Incr)/Decr in WC	-3,490	210	330	7,300	-3,420	2,711	-1,413
CF from Operations	**5,160**	**10,620**	**12,180**	**20,680**	**10,160**	**16,587**	**15,999**
(Incr)/Decr in FA	-1,280	-1,430	-1,860	-2,690	-1,840	-460	-1,300
Free Cash Flow	**3,880**	**9,190**	**10,320**	**17,990**	**8,320**	**16,127**	**14,699**
(Pur)/Sale of Investments	700	1,030	280	-4,270	3,370	-4,720	1,000
Others	740	270	-1,870	4,120	-2,440	-658	-1,378
CF from Invest.	**160**	**-130**	**-3,450**	**-2,840**	**-910**	**-5,838**	**-1,678**
Issue of Shares	0	0	0	60	410	0	0
(Incr)/Decr in Debt	0	110	-530	-310	-670	450	450
Dividend Paid	-6,360	-6,820	-10,250	-10,290	-11,950	-11,933	-13,223
Others	690	-270	-680	-650	-690	-827	-783
CF from Fin. Activity	**-5,670**	**-6,980**	**-11,460**	**-11,190**	**-12,900**	**-12,310**	**-13,556**
Incr/Decr of Cash	**-350**	**3,510**	**-2,730**	**6,650**	**-3,650**	**-1,561**	**765**
Add: Opening Balance	2,360	2,010	5,520	2,790	9,440	5,790	4,229
Closing Balance	**2,010**	**5,520**	**2,790**	**9,440**	**5,790**	**4,229**	**4,994**

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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