

February 3, 2023

Q3FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		HOLD	
Target Price	532		531	
Sales (Rs. m)	1,09,679	1,22,284	1,10,722	1,23,437
% Chng.	(0.9)	(0.9)		
EBITDA (Rs. m)	21,582	24,356	21,953	25,141
% Chng.	(1.7)	(3.1)		
EPS (Rs.)	11.5	13.1	11.7	13.6
% Chng.	(1.9)	(3.8)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	95,720	98,152	1,09,679	1,22,284
EBITDA (Rs. m)	16,287	18,497	21,582	24,356
Margin (%)	17.0	18.8	19.7	19.9
PAT (Rs. m)	11,467	13,011	14,852	16,837
EPS (Rs.)	8.9	10.1	11.5	13.1
Gr. (%)	(1.2)	13.5	14.1	13.4
DPS (Rs.)	9.3	9.5	11.0	11.5
Yield (%)	1.9	1.9	2.2	2.3
RoE (%)	34.8	38.4	42.9	46.8
RoCE (%)	40.2	45.7	52.7	57.9
EV/Sales (x)	6.6	6.4	5.7	5.1
EV/EBITDA (x)	38.6	34.0	29.1	25.7
PE (x)	55.6	49.0	42.9	37.8
P/BV (x)	19.0	18.6	18.2	17.2

Key Data

MRCO.BO | MRCO IN

52-W High / Low	Rs.554 / Rs.469
Sensex / Nifty	60,842 / 17,854
Market Cap	Rs.639bn/ \$ 7,804m
Shares Outstanding	1,293m
3M Avg. Daily Value	Rs.738.81m

Shareholding Pattern (%)

Promoter's	59.57
Foreign	25.07
Domestic Institution	10.26
Public & Others	5.10
Promoter Pledge (Rs bn)	0.13

Stock Performance (%)

	1M	6M	12M
Absolute	(3.3)	(5.1)	(1.5)
Relative	(2.6)	(9.0)	(4.8)

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Marico (MRCO IN)

Rating: HOLD | CMP: Rs494 | TP: Rs532

Green shoots visible as rural trends improve

Quick Pointers:

- Copra prices are down 18% YoY but up 1% QoQ, PCO priced right.
- Innovations in Foods/HPC over the next 9-12 months.

We change our EPS estimates by 0.1%/-1.9%/-3.8% on account of lower realisations and milder margin expansion. Volume growth at 4% in 3Q23 was enabled by price stability across trade & sequentially improved rural demand. We believe rural demand should turn positive in 4Q and new launches in Foods/HPC over the 12 months will also aid volumes. We believe MRCO is well placed to accelerate growth due to 1) price cuts in Parachute on range bound Copra prices 2) launch of new products in mid-sized but high growth categories of Peanut butter and Mayo 3) improved 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 expect Sales/PAT CAGR of 8.5% and 13.7% over FY22-25. We value the stock at 42xDec24 EPS and assign a target price of Rs532 (531 based on 42xSept24 EPS earlier) given healthy ROE/ROCE of 43.0%/53.0% and 90+% dividend payout. Recommend Hold.

Sales up 2.6%, GM expanded by 131bps QoQ: Revenues grew by 2.6% YoY to Rs24.7bn (PLe: Rs24.8bn). Gross margins expanded by 123bps YoY/131bps QoQ to 44.9% (PLe: 45.0%). EBITDA grew by 5.8% YoY to Rs4.6bn (PLe:Rs 4.6bn); Margins expanded by 56bps YoY/111bps QoQ to 18.5% (PLe:18.5%). A&P Spends contracted by 36bps YoY to 8.9%. Adj PAT grew by 5% YoY to Rs3.3bn (PLe: Rs3.3bn). Domestic volume grew 4% YoY led by 2% growth in Parachute. IBD grew 8% in CC, led by a growth of 9% in Bangladesh, 13% in South East Asia, 13% in South Africa and 13% in MENA.

Concall takeaways: 1) Rural market had declined for 6 consecutive quarters, which has now been arrested 2) GT declined in mid-single digits with MT/E-comm grew in double digits 3) Parachute volumes have begun to stabilize with correct pricing and expect to meet medium term targets 4) VAHO category impacted by rural weakness but have better traction in mid & premium segment 5) Saffola Munchies priced at mild premium but offers health & taste 6) More innovations ahead for Foods/HPC over the next 9-12 months 7) Focus to improve cost structure of foods and digital brands 8) Premium personal care/Digital brands ARR at Rs3bn+/Rs~2.5bn in 3Q 9) Open to acquire D2C startups which fulfill unmet needs, deliver unit economics & right cultural fit 10) Gross margin expected to improve sequentially as copra remains range bound while EBITDA margins are expected to remain within 18-19% band in FY23 11) Expect to increase EBITDA margins upwards of 19% over the medium term 12) Expect recovery in rural markets on the back of rabi crop, govt spends towards rural infrastructure

Exhibit 1: 3QFY23 Results: Sales grew 2.6%, EBITDA margins expanded 56bps YoY/111bps QoQ

Consolidated	3QFY23	3QFY22	YoY gr. (%)	2QFY23	9MFY23	9MFY22	YoY gr. (%)
Net Sales	24,700	24,070	2.6	24,960	75,240	73,510	2.4
COGS	13,600	13,550	0.4	14,070	41,730	42,360	(1.5)
<i>% of Net Sales</i>	<i>55.1</i>	<i>56.3</i>	<i>-1.2</i>	<i>56.4</i>	<i>55.5</i>	<i>57.6</i>	<i>-2.2</i>
Gross Profit	11,100	10,520	5.5	10,890	33,510	31,150	7.6
<i>% of NS</i>	<i>44.9</i>	<i>43.7</i>	<i>1.2</i>	<i>43.6</i>	<i>44.5</i>	<i>42.4</i>	<i>2.2</i>
Advt. & Prom.	2,200	2,230	(1.3)	2,130	6,320	5,920	6.8
<i>% of NS</i>	<i>8.9</i>	<i>9.3</i>	<i>-0.4</i>	<i>8.5</i>	<i>8.4</i>	<i>8.1</i>	<i>0.3</i>
Total Expenses	20,140	19,760	1.9	20,630	61,070	60,160	1.5
EBITDA	4,560	4,310	5.8	4,330	14,170	13,350	6.1
<i>Margins (%)</i>	<i>18.5</i>	<i>17.9</i>	<i>0.6</i>	<i>17.3</i>	<i>18.8</i>	<i>18.2</i>	<i>0.7</i>
Depreciation	390	360	8.3	370	1,120	1,020	9.8
EBBIT	4,170	3,950	5.6	3,960	13,050	12,330	5.8
Interest	140	100	40.0	150	390	280	39.3
Other Income	400	220	81.8	190	760	740	2.7
PBT	4,430	4,070	8.8	4,000	13,420	12,790	4.9
Tax	1,100	900	22.2	930	3,250	2,810	15.7
<i>Effective tax rate (%)</i>	<i>24.8</i>	<i>22.1</i>	<i>2.7</i>	<i>23.3</i>	<i>24.2</i>	<i>22.0</i>	<i>2.2</i>
Adjusted PAT	3,330	3,170	5.0	3,070	10,170	9,980	1.9

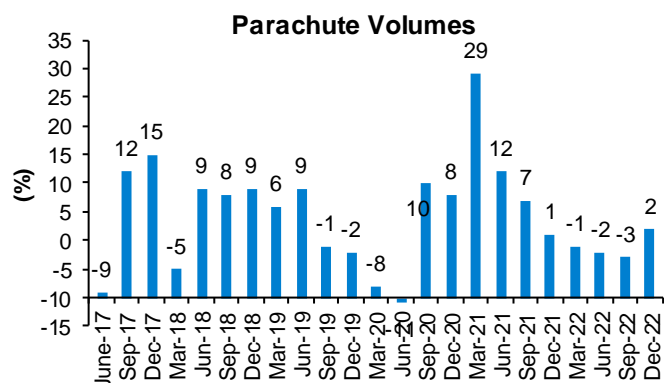
Source: Company, PL

Exhibit 2: Consolidated Segmental: IBD business reported mid-single digit growth at 4.9%

(Rs m)	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Net Sales	21,220	20,120	25,250	24,190	24,070	21,610	25,580	24,960	24,700
Domestic	16,270	15,740	19,920	18,700	18,170	16,540	19,210	18,960	18,510
International	4,950	4,380	5,330	5,490	5,900	5,070	6,370	6,000	6,190
Sales Growth %	16.3	34.5	31.2	21.6	13.4	7.4	1.3	3.2	2.6
Domestic	17.9	37.3	34.6	24.0	11.7	5.1	-3.6	1.4	1.9
International	11.5	25.1	19.8	14.1	19.2	15.8	19.5	9.3	4.9
EBIT	4,210	3,370	4,930	4,360	4,430	3,630	5,540	4,560	4,780
Domestic	3,250	2,540	3,540	3,130	3,080	2,680	3,980	3,290	3,440
International	960	830	1,390	1,230	1,350	950	1,560	1,270	1,340
EBIT Growth %	9.9	14.2	2.1	10.1	5.2	7.7	12.4	4.6	7.9
Domestic	9.1	6.7	-1.1	7.2	-5.2	5.5	12.4	5.1	11.7
International	12.9	45.6	11.2	18.3	40.6	14.5	12.2	3.3	-0.7
EBIT Margins %	19.8	16.7	19.5	18.0	18.4	16.8	21.7	18.3	19.4
Domestic	20.0	16.1	17.8	16.7	17.0	16.2	20.7	17.4	18.6
International	19.4	18.9	26.1	22.4	22.9	18.7	24.5	21.2	21.6
Capital Employed	18,730	16,560	19,440	21,290	22,350	23,940	27,150	26,380	26,750
Domestic	11,340	8,950	10,670	12,660	13,470	14,300	17,190	17,340	17,200
International	7,390	7,610	8,770	8,630	8,880	9,640	9,960	9,040	9,550
International Sales Growth %									
Bangladesh (46%)	15.0	20.0	9.0	16.0	16.0	16.0	10.0	10.0	9.0
MENA (15%)	-1.0	62.0	74.0	20.0	21.0	11.0	27.0	11.0	13.0
South Africa (8%)	7.0	48.0	52.0	8.0	6.0	20.0	23.0	16.0	13.0
SE Asia (26%)	3.0	13.0	16.0	-2.0	27.0	7.0	34.0	10.0	13.0

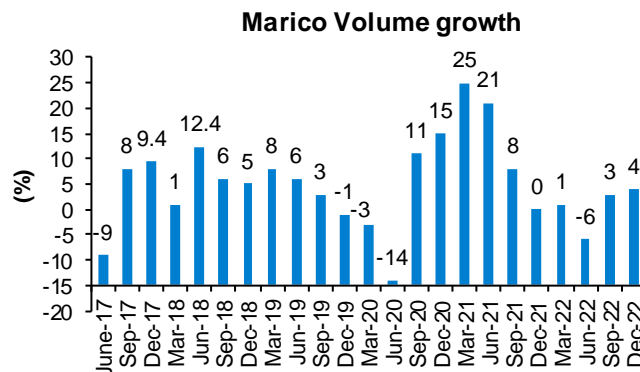
Source: Company, PL

Exhibit 3: Parachute volumes grew 2%



Source: Company, PL

Exhibit 4: Volumes were up 4%



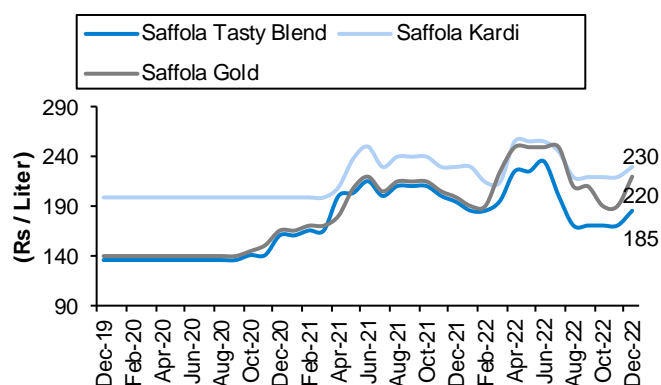
Source: Company, PL

Exhibit 5: Market share remains strong across brands (ex-VAHO)

Market Share (%)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Coconut Oil	62	61	62	63	63	63	62	62	62
Saffola	76	81	82	82	83	83	NA	NA	NA
Hair Oil VAHO	35	37	37	37	37	37	37	37	28
Livon & Silk and Shine	65	63	63	64	64	64	63	62	61
Hair Creams/Gel	59	57	58	58	57	57	55	54	54
Saffola Oats	33	38	39	41	42	42	43	43	43
Shanti Amla	NA	NA	NA	NA	NA	NA	NA	NA	NA
Parachute Bangladesh	82	82	NA	NA	NA	NA	NA	NA	NA
Hair Oils Bangladesh	23	23	NA	NA	NA	NA	NA	NA	NA
X Men Shampoo Vietnam	37	38	NA	NA	NA	NA	NA	NA	NA
x Men Deodorant Vietnam	31	31	NA	NA	NA	NA	NA	NA	NA

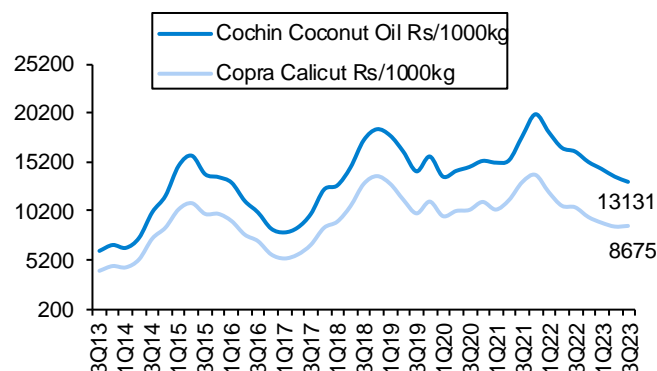
Source: Company, PL

Exhibit 6: Company has increased prices in edible oils



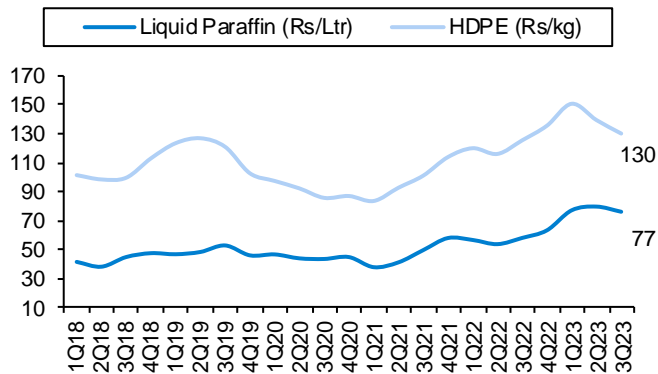
Source: Company, PL

Exhibit 7: Cochin/Calicut Copra prices continue to soften



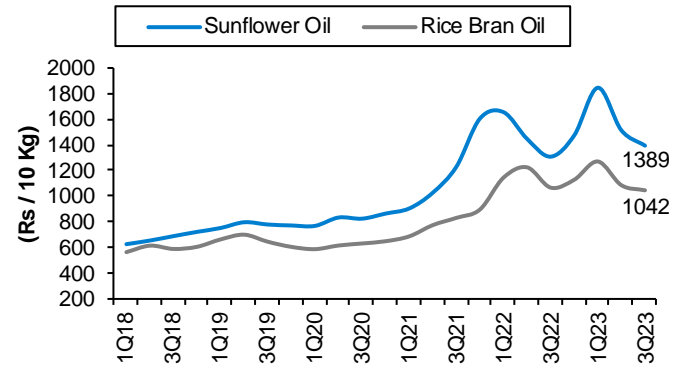
Source: Company, PL

Exhibit 8: LLP/HDPE prices appear to have peaked out



Source: Company, PL

Exhibit 9: Oil prices appear to have peaked out



Source: Company, PL

Exhibit 10: Entry into Ready to Eat category



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	95,720	98,152	1,09,679	1,22,284
YoY gr. (%)	18.9	2.5	11.7	11.5
Cost of Goods Sold	55,483	53,890	58,484	64,972
Gross Profit	40,237	44,261	51,195	57,312
Margin (%)	42.0	45.1	46.7	46.9
Employee Cost	5,860	6,184	6,910	7,704
Other Expenses	-	-	-	-
EBITDA	16,287	18,497	21,582	24,356
YoY gr. (%)	2.4	13.6	16.7	12.9
Margin (%)	17.0	18.8	19.7	19.9
Depreciation and Amortization	1,654	1,545	1,911	2,125
EBIT	14,633	16,952	19,671	22,232
Margin (%)	15.3	17.3	17.9	18.2
Net Interest	386	502	463	450
Other Income	980	1,104	944	1,048
Profit Before Tax	15,227	17,554	20,153	22,830
Margin (%)	15.9	17.9	18.4	18.7
Total Tax	3,460	4,213	4,937	5,593
Effective tax rate (%)	22.7	24.0	24.5	24.5
Profit after tax	11,767	13,341	15,215	17,236
Minority interest	300	330	363	399
Share Profit from Associate	-	-	-	-
Adjusted PAT	11,467	13,011	14,852	16,837
YoY gr. (%)	(1.2)	13.5	14.1	13.4
Margin (%)	12.0	13.3	13.5	13.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	11,467	13,011	14,852	16,837
YoY gr. (%)	(2.2)	13.5	14.1	13.4
Margin (%)	12.0	13.3	13.5	13.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,467	13,011	14,852	16,837
Equity Shares O/s (m)	1,290	1,290	1,290	1,290
EPS (Rs)	8.9	10.1	11.5	13.1

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	7,035	8,414	9,933
Tangibles	5,670	6,678	7,990	9,442
Intangibles	290	357	424	491
Net fixed assets	9,280	9,705	9,826	9,807
Tangibles	6,220	6,712	6,900	6,948
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	2,922	3,269	3,658
Current Assets				
Investments	6,410	5,889	5,484	7,337
Inventories	14,120	14,827	16,254	18,053
Trade receivables	6,520	6,723	7,212	7,706
Cash & Bank Balance	5,800	4,953	5,329	5,216
Other Current Assets	2,130	2,945	3,290	3,669
Total Assets	57,860	58,840	61,406	66,073
Equity				
Equity Share Capital	1,290	1,290	1,290	1,290
Other Equity	32,190	32,969	33,656	35,687
Total Network	33,480	34,259	34,946	36,977
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	12,899	14,141	15,525
Other current liabilities	4,640	5,407	6,020	6,670
Total Equity & Liabilities	57,860	58,840	61,406	66,073

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	15,227	17,554	20,153	22,830
Add. Depreciation	1,654	1,545	1,911	2,125
Add. Interest	386	502	463	450
Less Financial Other Income	980	1,104	944	1,048
Add. Other	140	480	507	546
Op. profit before WC changes	17,407	20,081	23,033	25,950
Net Changes-WC	(3,990)	(1,007)	(9)	(2,497)
Direct tax	(3,460)	(4,213)	(4,937)	(5,593)
Net cash from Op. activities	9,957	14,861	18,086	17,860
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)	(502)	(463)	(450)
Others	-	-	-	-
Net cash from Fin. activities	(10,713)	(13,507)	(15,428)	(15,586)
Net change in cash	(3,650)	(847)	376	(114)
Free Cash Flow	6,673	12,661	15,804	15,473

Source: Company Data, PL Research

Quarterly Financials (Rs m)

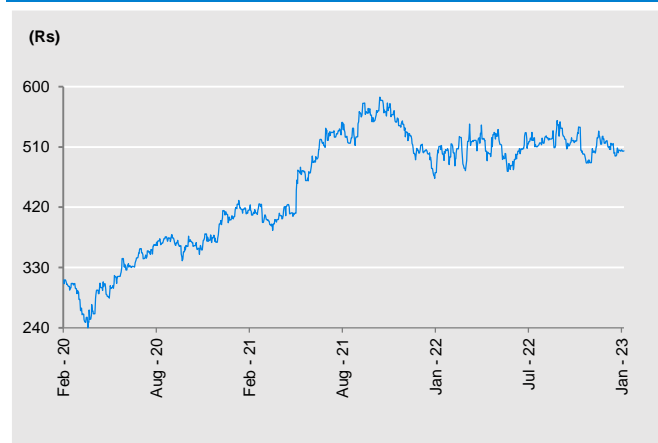
Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	21,610	25,580	24,960	24,700
YoY gr. (%)	7.4	1.3	3.2	2.6
Raw Material Expenses	12,000	14,060	14,070	13,600
Gross Profit	9,610	11,520	10,890	11,100
Margin (%)	44.5	45.0	43.6	44.9
EBITDA	3,460	5,280	4,330	4,560
YoY gr. (%)	8.5	9.8	2.4	5.8
Margin (%)	16.0	20.6	17.3	18.5
Depreciation / Depletion	370	360	370	390
EBIT	3,090	4,920	3,960	4,170
Margin (%)	14.3	19.2	15.9	16.9
Net Interest	110	100	150	140
Other Income	240	170	190	400
Profit before Tax	3,220	4,990	4,000	4,430
Margin (%)	14.9	19.5	16.0	17.9
Total Tax	650	1,220	930	1,100
Effective tax rate (%)	20.2	24.4	23.3	24.8
Profit after Tax	2,570	3,770	3,070	3,330
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,570	3,770	3,070	3,330
YoY gr. (%)	4.5	3.3	(2.8)	5.0
Margin (%)	11.9	14.7	12.3	13.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,570	3,770	3,070	3,330
YoY gr. (%)	13.2	3.3	(2.8)	5.0
Margin (%)	11.9	14.7	12.3	13.5
Other Comprehensive Income	210	(30)	-	220
Total Comprehensive Income	2,780	3,740	3,070	3,550
Avg. Shares O/s (m)	1,291	1,291	1,291	1,291
EPS (Rs)	2.0	2.9	2.4	2.6

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	8.9	10.1	11.5	13.1
CEPS	10.2	11.3	13.0	14.7
BVPS	26.0	26.6	27.1	28.7
FCF	5.2	9.8	12.3	12.0
DPS	9.3	9.5	11.0	11.5
Return Ratio(%)				
RoCE	40.2	45.7	52.7	57.9
ROIC	32.1	35.3	38.9	41.5
RoE	34.8	38.4	42.9	46.8
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	27	32	31	31
Valuation(x)				
PER	55.6	49.0	42.9	37.8
P/B	19.0	18.6	18.2	17.2
P/CEPS	48.6	43.8	38.0	33.6
EV/EBITDA	38.6	34.0	29.1	25.7
EV/Sales	6.6	6.4	5.7	5.1
Dividend Yield (%)	1.9	1.9	2.2	2.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	Hold	531	513
2	05-Nov-22	Hold	543	539
3	04-Oct-22	Hold	523	527
4	08-Aug-22	Hold	523	523
5	07-Jul-22	Accumulate	544	499
6	05-May-22	Accumulate	547	520
7	08-Apr-22	Accumulate	538	518

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	3,150	2,866
2	Avenue Supermarts	BUY	4,675	3,864
3	Britannia Industries	Hold	4,580	4,573
4	Colgate Palmolive	Hold	1,578	1,459
5	Dabur India	Accumulate	609	554
6	Emami	Accumulate	521	420
7	Hindustan Unilever	Accumulate	2,800	2,650
8	ITC	Accumulate	365	335
9	Jubilant FoodWorks	BUY	567	456
10	Kansai Nerolac Paints	Accumulate	563	419
11	Marico	Hold	531	513
12	Mold-tek Packaging	Hold	940	983
13	Nestle India	Accumulate	20,201	19,890
14	Pidilite Industries	Hold	2,500	2,315
15	Restaurant Brands Asia	Accumulate	156	111
16	Titan Company	BUY	2,905	2,308
17	Westlife Foodworld	BUY	852	735

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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