

Marico

BUY

De-coupled from inflation!

Summary

Marico (MRCO) 4QFY22 result was in line with our estimates. Volume growth remained soft at 1% for domestic business, -1% for Parachute Rigids and flattish for Saffola Edible oil. However, value growth remained healthy at 5%YoY driven by price hikes and market share gains in PCNO and VAHO. International market continues to maintain double digit predictable growth momentum at 12% CC. Contrary to other FMCG companies; gross margin of MRCO expanded 33bp YoY (after 6 consecutive quarters of contractions) due to soft copra prices (c.50% of raw material basket). As per current harvest and nature of usage, MRCO expects copra price to remain benign in FY23E. Positively; food category has reached Rs 4.5-5bn mark. We maintain our EPS estimates for FY23-24E. Our revised target price stands at Rs 610 with BUY rating.

Key Highlights and Investment Rationale

- **Steady revenue growth driven by price hikes:** Revenue grew 7.4%YoY driven by 1%YoY volume growth in domestic business while international business grew 12%YoY in CC terms. Revenue from VAHO and Saffola franchise grew 3% and 17%YoY respectively. In International market; revenue from Bangladesh, Vietnam, South Africa and MENA grew 16%/7%/20%/11%YoY (in CC).
- **Decline in copra price supported margin:** Gross margin expanded 33bp YoY to 44.5% due to decline in copra price (-9%QoQ,-31%YoY). As a consequence EBITDA margin expanded 16bp YoY to 16%. EBITDA and APAT grew 8.5%YoY and 4.5%YoY respectively. EPS stands at Rs 1.9.
- **Maintain BUY:** We maintain our EPS estimates for FY23-24E. However, we have cut our valuation multiple to 45x due to increase in cost of capital assumption. We maintain our BUY rating with a revised TP of Rs 610.

TP	Rs 610
CMP	Rs 520
Potential upside/downside	+17%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	(4.3)	2.0	14.3
Rel to Sensex	3.1	7.0	(0.1)

V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	11.8	13.6
Consensus	11.4	13.2
% difference	3.4	3.3

Key Stock Data

Bloomberg/Reuters	MRCO IN / MRCO.BO
Sector	FMCG
Shares o/s (mn)	1,293
Market cap. (Rs mn)	672,831
3-m daily average value (Rs mn)	114.8
52-week high / low	Rs 606 / 452
Sensex / Nifty	55,702 / 16,683

Shareholding Pattern (%)

Promoters	59.5
FII	25.1
DII	8.7
Public	6.7

Financial snapshot

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	73,150	80,480	95,120	1,05,644	1,17,191
Change (yoy, %)	(0)	10	18	11	11
EBITDA	14,690	15,880	16,810	21,305	24,557
Change (yoy, %)	11	8	6	27	15
EBITDA Margin(%)	20.1	19.7	17.7	20.2	21.0
Adj.PAT	10,210	11,660	12,260	15,189	17,485
EPS (Rs)	7.9	9.0	9.5	11.8	13.6
Change (yoy, %)	(8.4)	14.2	5.1	23.9	15.1
PE(x)	65.7	57.5	54.7	44.2	38.4
Dividend Yield (%)	1.5	1.4	1.8	1.6	1.8
EV/EBITDA (x)	45.7	41.9	39.8	31.2	26.9
RoE (%)	34.0	37.2	37.2	42.5	43.0
RoCE (%)	37.6	39.3	39.5	46.8	48.3

Source: IDBI Capital Research

Conference call highlights:

- MRCO took c. 5-6% price hike in March'22 for VAHO
- Rural growth was lower compared to urban in 4QFY22. Company expects rural demand to recover in 2HFY23
- In 4QFY22, FMCG category declined 5%YoY in volumes. Coconut oil category declined 4%YoY while for Marico, PCNO decline was 1%YoY
- VAHO category (high presence in rural markets) witnessed hardly any price hike
- Company expects copra prices to remain stable despite Indonesia's ban on palm oil exports since copra has different end usage
- Saffola volumes were muted in 4QFY22 due to downtrading by consumers. Saffola Gold oil has highest contribution in MRCO edible oil segment
- MRCO aims to expand categories under Saffola through ecommerce, modern trade and some extent through general trade (excluding rural)
- Foods business has an exit run rate of Rs 450-500 crs whereas digital has a turnover of Rs180-200 crs
- Masala Oats has expanded the category and increased penetration. Soya and honey reached turnover of Rs50crs each
- For food business, MRCO plans for separate vertical with distinct national head
- Company plans to foray in categories with low to medium penetration (eg. Peanut butter and Mayonnaise). Mayonnaise sales grew 17% like-to-like in April'22 (recently launched)
- MRCO has been able to freeze SKU discrimination between different channels to avoid channel conflict

Exhibit 1: Consolidated Quarterly Snapshot

(INR m)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Revenues	21,610	20,120	7.4	24,070	-10.2	95,120	80,480	18.2
COGS	12,000	11,240	6.8	13,550	-11.4	54,360	42,690	27.3
Gross profit	9,610	8,880	8.2	10,520	-8.7	40,760	37,790	7.9
<i>Gross Margin (%)</i>	<i>44.5</i>	<i>44.1</i>	<i>33bps</i>	<i>43.7</i>	<i>76bps</i>	<i>42.9</i>	<i>47.0</i>	<i>-410bps</i>
Employee expenses	1,390	1,500	-7.3	1,440	-3.5	5,860	5,700	2.8
<i>% of net sales</i>	<i>6.4</i>	<i>7.5</i>	<i>-102bps</i>	<i>6.0</i>	<i>45bps</i>	<i>6.2</i>	<i>7.1</i>	<i>-92bps</i>
Advertisement expenses	2,040	1,730	17.9	2,230	-8.5	7,960	6,920	15.0
<i>% of net sales</i>	<i>9.4</i>	<i>8.6</i>	<i>84bps</i>	<i>9.3</i>	<i>18bps</i>	<i>8.4</i>	<i>8.6</i>	<i>-23bps</i>
Other Expenses	2,720	2,460	10.6	2,540	7.1	10,130	9,290	9.0
<i>% of net sales</i>	<i>12.6</i>	<i>12.2</i>	<i>36bps</i>	<i>10.6</i>	<i>203bps</i>	<i>10.6</i>	<i>11.5</i>	<i>-89bps</i>
EBITDA	3,460	3,190	8.5	4,310	-19.7	16,810	15,880	5.9
<i>EBITDA Margin (%)</i>	<i>16.0</i>	<i>15.9</i>	<i>16bps</i>	<i>17.9</i>	<i>-190bps</i>	<i>17.7</i>	<i>19.7</i>	<i>-206bps</i>
Depreciation	370	360	2.8	360	2.8	1,390	1,390	0.0
EBIT	3,090	2,830	9.2	3,950	-21.77	15,420	14,490	6.42
Other Income	240	290	-17.2	220	9.1	980	990	-1.0
Interest Expenses	110	100	10.0	100	10.0	390	340	14.7
PBT	3,220	3,020	6.6	4,070	-20.9	16,010	15,140	5.7
Taxes	650	560	16.1	900	-98.2	3,460	3,240	6.8
Adjusted PAT	2,570	2,460	4.5	3,170	-18.9	12,550	11,900	5.5
Extra-ordinary items	0	-190		0		0	120	
Share in profit/loss of associate	0	0		0		0	-20	
Minority Interest	60	80	-25.0	70	-14	290	290	0.0
Reported PAT	2,510	2,190	14.6	3,100	-19.0	12,260	11,710	4.7
EPS	1.9	1.7	14.6	2.40	-19.0	9.5	9.1	4.7

Source: Company; IDBI Capital Research

Exhibit 2: Segmental revenue & EBIT break-up

Segmental Revenue	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
India	16,540	15,740	5.1%	18,170	-9.0%	73,330	61,890	18.5%
International	5,070	4,380	15.8%	5,900	-14.1%	21,790	18,590	17.2%
Segmental EBIT								
India	2,680	2,540	5.5%	3,080	-13.0%	12,430	12,290	1.1%
International	950	830	14.5%	1,350	-29.6%	12,430	12,290	1.1%
EBIT Margin (%)								
India	16.2%	16.1%	7 bps	17.0%	-75 bps	17.0%	19.9%	-291 bps
International	18.7%	18.9%	-21 bps	22.9%	-414 bps	57.0%	66.1%	-907 bps

Source: Company; IDBI Capital Research

Exhibit 3: Standalone Quarterly Snapshot

(INR m)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY21	FY20	YoY (%)
Revenues	16,860	16,040	5.1	18,550	-9.1	75,000	63,370	18.4
COGS	10,280	9,830	4.6	11,410	-9.9	46,910	36,710	27.8
Gross profit	6,580	6,210	6.0	7,140	-7.8	28,090	26,660	5.4
<i>Gross Margin (%)</i>	<i>39.0</i>	<i>38.7</i>	<i>31bps</i>	<i>38.5</i>	<i>54bps</i>	<i>37.5</i>	<i>42.1</i>	<i>-462bps</i>
Employee expenses	850	950	-10.5	920	-7.6	3,720	3,740	-0.5
<i>% of net sales</i>	<i>5.0</i>	<i>5.9</i>	<i>-88bps</i>	<i>5.0</i>	<i>8bps</i>	<i>5.0</i>	<i>5.9</i>	<i>-94bps</i>
Advertisement expenses	1,150	1,020	12.7	1,320	-12.9	4,670	4,160	12.3
<i>% of net sales</i>	<i>6.8</i>	<i>6.4</i>	<i>46bps</i>	<i>7.1</i>	<i>-30bps</i>	<i>6.2</i>	<i>6.6</i>	<i>-34bps</i>
Other Expenses	2,110	1,900	11.1	1,910	10.5	7,870	7,270	8.3
<i>% of net sales</i>	<i>12.5</i>	<i>11.8</i>	<i>67bps</i>	<i>10.3</i>	<i>222bps</i>	<i>10.5</i>	<i>11.5</i>	<i>-98bps</i>
EBITDA	2,470	2,340	5.6	2,990	-17.4	11,830	11,490	3.0
<i>EBITDA Margin (%)</i>	<i>14.7</i>	<i>14.6</i>	<i>6bps</i>	<i>16.1</i>	<i>-147bps</i>	<i>15.8</i>	<i>18.1</i>	<i>-236bps</i>
Depreciation	240	280	-14.3	260	-7.7	970	1,070	-9.3
EBIT	2,230	2,060	8.3	2,730	-18.32	10,860	10,420	4.2
Other Income	1,260	1,080	16.7	740	70.3	3,570	3,490	2.3
Interest Expenses	80	60	33.3	80	0.0	300	220	36.4
PBT	3,410	3,080	10.7	3,390	0.6	14,130	13,690	3.2
Taxes	480	370	29.7	610	-21.3	2,500	2,040	22.5
Adjusted PAT	2,930	2,710	8.1	2,780	5.4	11,630	11,650	-0.2
Extra-ordinary items	0	270		0		0	-60	
Reported PAT	2,930	2,980	-1.7	2,780	5.4	11,630	11,590	0.3
EPS	2.3	1.9	20.1	2.16	5.4	9.0	8.6	5.2

Source: Company; IDBI Capital Research

Exhibit 4: Actual vs. Estimates

(Rs mn)

Particulars	Actual	IDBI Estimate	% variation IDBI
Revenue	21,610	21822	-1.0%
EBITDA	3,460	3486	-0.8%
<i>Margin (%)</i>	16.0%	16.0%	
PAT	2,570	2605	-1.3%

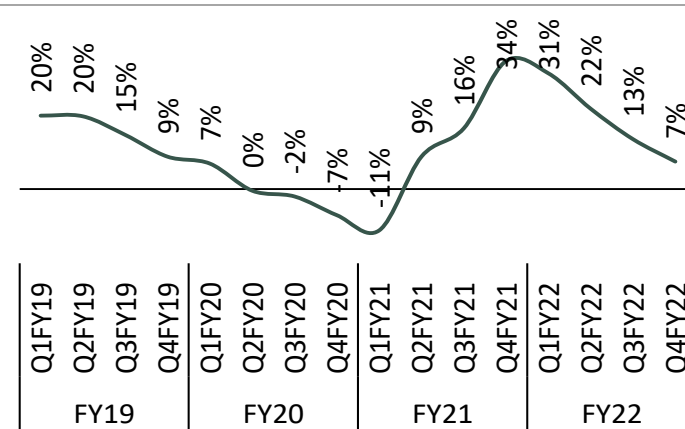
Source: Company; IDBI Capital Research

Exhibit 5: Change in estimates

	FY23E			FY24E		
	New	Old	(%) Chg	New	Old	(%) Chg
Revenue (Rs mn)	1,05,644	1,04,353	1.2%	1,17,191	1,15,788	1.2%
EBITDA (Rs mn)	21,305	20,746	2.7%	24,557	23,932	2.6%
<i>EBITDA margin (%)</i>	20.2%	19.9%		21.0%	21%	
Net profit (Rs mn)	15,189	15,189	0.0%	17,485	17,450	0.2%
EPS (Rs)	11.8	11.8	0.0%	13.6	13.5	0.2%

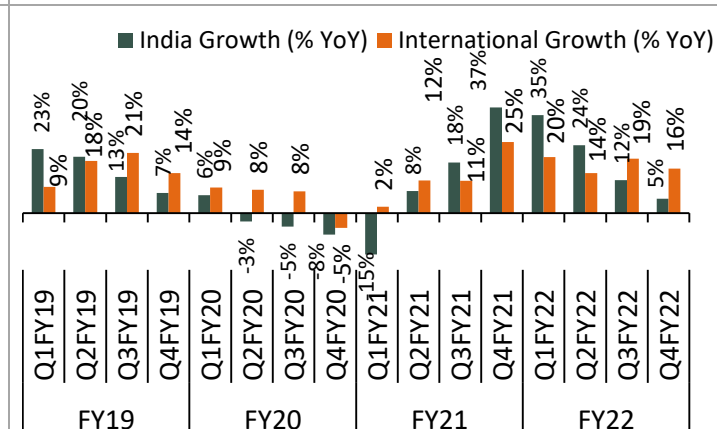
Source: Company; IDBI Capital Research

Exhibit 6: Revenue growth trend (% YoY)



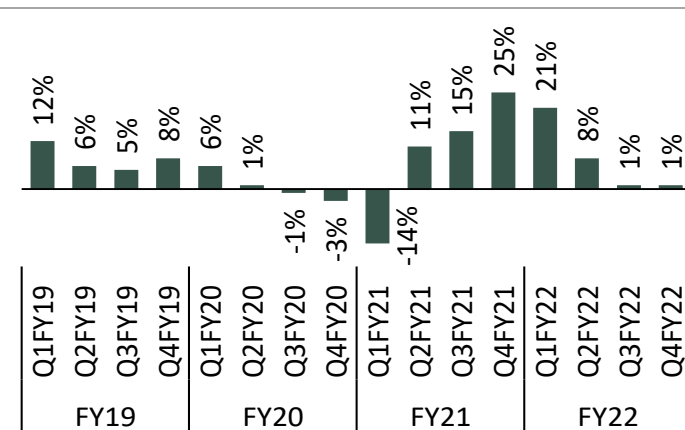
Source: Company; IDBI Capital Research

Exhibit 7: Domestic & International Revenue growth



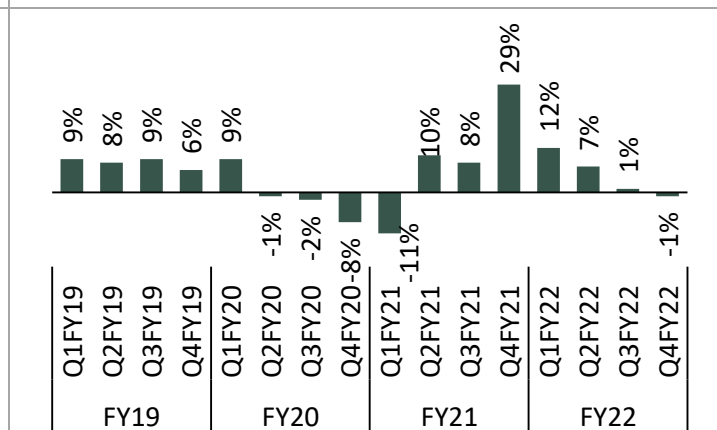
Source: Company; IDBI Capital Research

Exhibit 8: Domestic Volume growth (%)



Source: Company; IDBI Capital Research

Exhibit 9: Coconut oil volume growth (%)



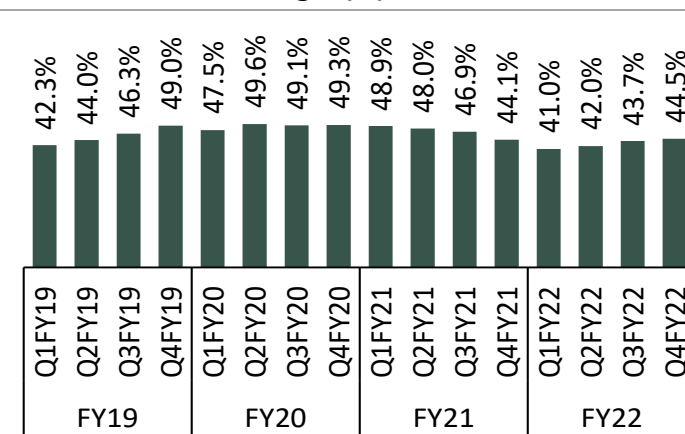
Source: Company; IDBI Capital Research

Exhibit 10: Market share trend in key categories

Market share trends in Key categories	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Coconut oil	60%	60%	61%	62%	62%	62%	62%	62%	62%	63%	63%	63%
Saffola-Super premium ROCP	73%	75%	76%	76%	77%	77%	76%	76%	82%	82%	83%	83%
VAHO	34%	35%	35%	35%	36%	36%	35%	35%	37%	37%	37%	37%
Saffola Oats	30%	31%	32%	33%	34%	34%	33%	33%	39%	41%	42%	42%
Post wash leave on serum	63%	64%	65%	65%	65%	65%	65%	65%	63%	64%	64%	63%
Hair gels/wax/creams	60%	60%	59%	59%	59%	59%	59%	59%	58%	58%	57%	56%

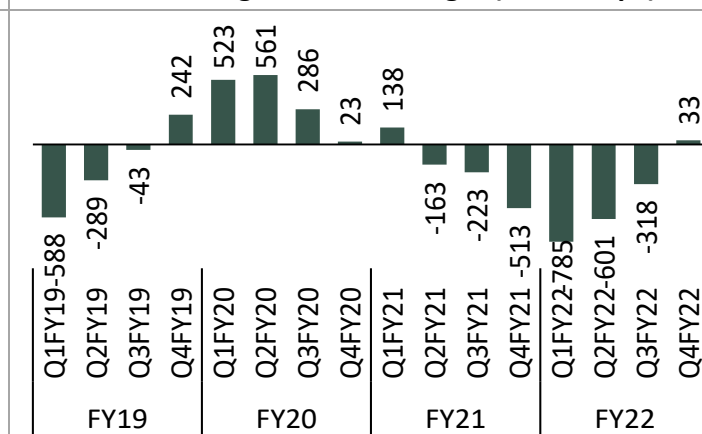
Source: Company; IDBI Capital Research

Exhibit 11: Gross Margin (%)



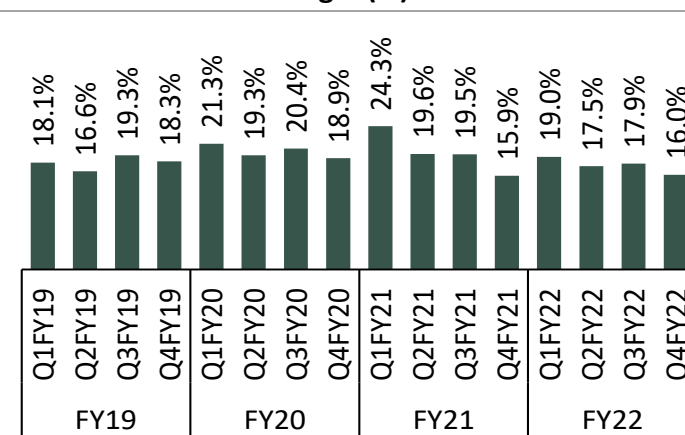
Source: Company; IDBI Capital Research

Exhibit 12: Change in Gross Margin (YoY, in bps)



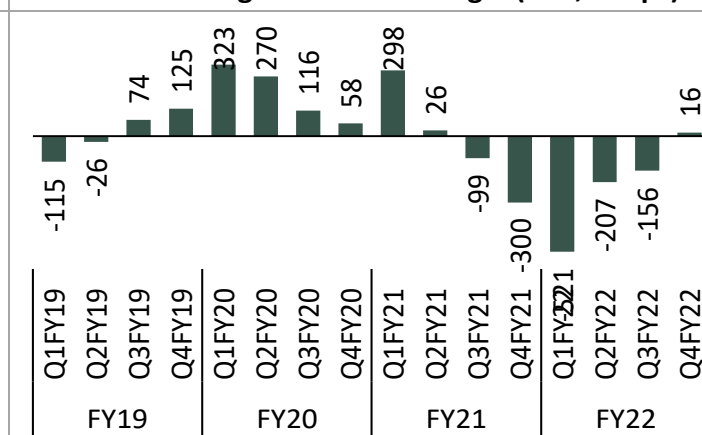
Source: Company; IDBI Capital Research

Exhibit 13: EBITDA Margin (%)



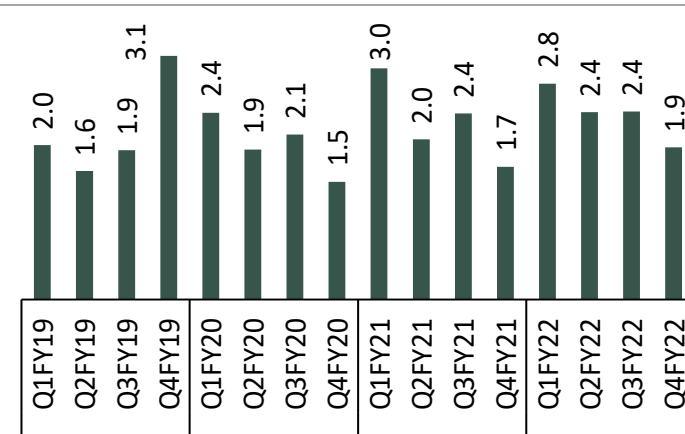
Source: Company; IDBI Capital Research

Exhibit 14: Change in EBITDA Margin (YoY, in bps)



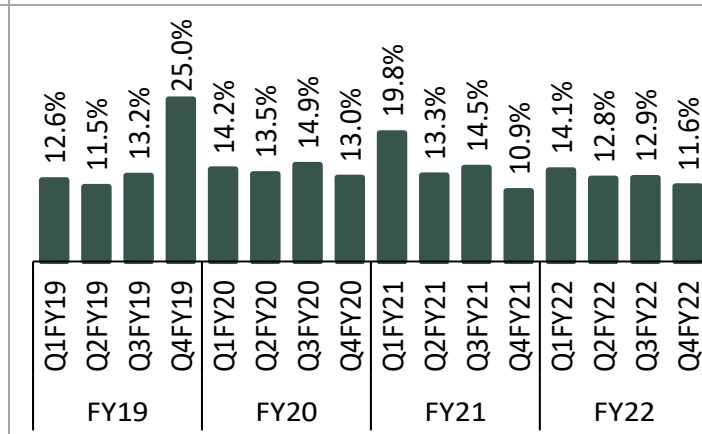
Source: Company; IDBI Capital Research

Exhibit 15: EPS Trend



Source: Company; IDBI Capital Research

Exhibit 16: Net Profit Margin (%)



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	73,340	73,150	80,480	95,120	1,05,644	1,17,191
<i>Change (yoy, %)</i>	15.8	(0.3)	10.0	18.2	11.1	10.9
Operating expenses	(60,080)	(58,460)	(64,600)	(78,310)	(84,339)	(92,634)
EBITDA	13,260	14,690	15,880	16,810	21,305	24,557
<i>Change (yoy, %)</i>	16.6	10.8	8.1	5.9	26.7	15.3
<i>Margin (%)</i>	18.1	20.1	19.7	17.7	20.2	21.0
Depreciation	(1,310)	(1,400)	(1,390)	(1,390)	(1,624)	(1,868)
EBIT	11,950	13,290	14,490	15,420	19,680	22,689
Interest paid	(400)	(500)	(340)	(390)	(383)	(383)
Other income	1,030	1,240	940	980	770	794
Pre-tax profit	12,580	14,030	15,090	16,010	20,067	23,101
Tax	(1,260)	(3,310)	(3,240)	(3,460)	(4,515)	(5,198)
<i>Effective tax rate (%)</i>	10.0	23.6	21.5	21.6	22.5	22.5
Minority Interest	(170.0)	(220.0)	(310.0)	(290.0)	(363.5)	(418.4)
Net profit	11,150	10,500	11,540	12,260	15,189	17,485
Exceptional items	-	290	(120)	-	-	-
Adjusted net profit	11,150	10,210	11,660	12,260	15,189	17,485
<i>Change (yoy, %)</i>	36.9	(8.4)	14.2	5.1	23.9	15.1
EPS	8.6	7.9	9.0	9.5	11.8	13.6
Dividend per sh	4.6	7.9	7.5	9.3	8.2	9.5
<i>Dividend Payout %</i>	52.8	100.4	83.0	97.5	70.0	70.0

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Shareholders' funds	29,750	30,230	32,400	33,480	38,037	43,282
Share capital	1,290	1,290	1,290	1,290	1,290	1,290
Reserves & surplus	28,460	28,940	31,110	32,190	36,747	41,992
Total Debt	3,490	3,350	3,480	3,450	3,480	3,480
Other liabilities	1,840	1,710	2,310	2,280	2,280	2,280
Curr Liab & prov	13,890	14,600	16,730	18,080	19,567	21,198
Current liabilities	13,320	14,020	16,530	17,870	19,357	20,988
Provisions	570	580	200	210	210	210
Total liabilities	19,220	19,660	22,520	23,810	25,327	26,958
Total equity & liabilities	49,090	50,020	55,100	57,860	63,934	70,810
Net fixed assets	11,750	12,910	16,190	17,770	18,063	18,406
Investments	760	1,220	2,430	2,090	2,420	2,420
Other non-curr assets	4,580	4,070	3,120	2,950	2,910	2,910
Current assets	32,000	31,820	33,360	35,050	40,541	47,075
Inventories	14,110	13,800	11,260	14,120	15,682	17,396
Sundry Debtors	5,170	5,390	3,880	6,520	7,241	8,033
Cash and Bank	5,520	2,790	9,440	5,790	8,837	12,866
Loans and advances	-	-	-	-	-	-
Total assets	49,090	50,020	55,100	57,860	63,934	70,810

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	12,630	13,740	15,210	16,010	20,067	23,101
Depreciation	960	1,500	1,390	1,390	1,624	1,868
Tax paid	(3,200)	(2,890)	(2,850)	(3,510)	(4,515)	(5,198)
Chg in working capital	840	470	5,830	(3,480)	(597)	(874)
Other operating activities	(1,050)	(640)	1,910	(220)	23	383
Cash flow from operations (a)	10,180	12,180	21,490	10,190	16,603	19,279
Capital expenditure	(1,620)	(1,940)	(1,420)	(1,320)	(1,917)	(2,210)
Chg in investments	(2,380)	770	(7,960)	5,600	(290)	-
Other investing activities	490	730	-	-	-	-
Cash flow from investing (b)	(3,510)	(440)	(9,380)	4,280	(2,207)	(2,210)
Equity raised/(repaid)	-	-	60	410	-	-
Debt raised/(repaid)	400	(150)	-	-	30	-
Dividend (incl. tax)	(5,890)	(10,250)	(9,680)	(11,950)	(10,632)	(12,239)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(1,040)	(1,060)	(1,570)	(1,360)	(616)	(801)
Cash flow from financing (c)	(6,530)	(11,460)	(11,190)	(12,900)	(11,218)	(13,040)
Net chg in cash (a+b+c)	140	280	920	1,570	3,177	4,029

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	23	23	25	26	29	34
Adj EPS (Rs)	8.6	7.9	9.0	9.5	11.8	13.6
Adj EPS growth (%)	36.9	(8.4)	14.2	5.1	23.9	15.1
EBITDA margin (%)	18.1	20.1	19.7	17.7	20.2	21.0
Pre-tax margin (%)	17.2	19.2	18.8	16.8	19.0	19.7
Net Debt/Equity (x)	(0.1)	0.0	(0.2)	(0.1)	(0.1)	(0.2)
ROCE (%)	36.4	37.6	39.3	39.5	46.8	48.3
ROE (%)	40.6	34.0	37.2	37.2	42.5	43.0

DuPont Analysis

Asset turnover (x)	1.6	1.5	1.5	1.7	1.7	1.7
Leverage factor (x)	1.7	1.7	1.7	1.7	1.7	1.7
Net margin (%)	15.2	14.0	14.5	12.9	14.4	14.9

Working Capital & Liquidity ratio

Inventory days	70	69	51	54	54	54
Receivable days	26	27	18	25	25	25
Payable days	57	61	64	63	65	65

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	60.2	65.7	57.5	54.7	44.2	38.4
Price/Book value (x)	22.6	22.2	20.7	20.0	17.6	15.5
EV/Net sales (x)	9.1	9.2	8.3	7.0	6.3	5.6
EV/EBITDA (x)	50.5	45.7	41.9	39.8	31.2	26.9
Dividend Yield (%)	0.9	1.5	1.4	1.8	1.6	1.8

Source: Company; IDBI Capital Research



Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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