

ICICI Securities Limited
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Company update

Consumer Staples & Discretionary

Target price: Rs560

Shareholding pattern

	Jun '22	Sep '22	Dec '22
Promoters	59.5	59.5	59.5
Institutional investors	33.8	33.9	34.9
MFs and others	2.7	2.9	2.9
Banks, FI's	5.8	5.9	6.9
FII's	25.3	25.1	25.1
Others	6.7	6.7	5.6

Source: BSE

ESG disclosure score

Year	2021	2022	Chg
ESG score	56.0	55.5	(0.6)
Environment	31.6	30.2	(1.7)
Social	45.2	45.2	-
Governance	91.1	91.1	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Research Analysts:

Manoj Menon

manoj.menon@icicisecurities.com
+91 22 6807 7209

Varun Singh

varun.singh@icicisecurities.com
+91 22 6807 7649

Karan Bhuwania

karan.bhuwania@icicisecurities.com
+91 22 6807 7351

Akshay Krishnan

akshay.krishnan@icicisecurities.com
+91 22 6807 7632

INDIA

Marico



ADD
Maintain
Rs490

Problems > Solutions

Consensus (including us) has four expectations from Marico – (1) drive market share gains led volume growth in coconut oil portfolio, (2) consistency in the performance of VAHO (value added hair oil) with expansion into premium segment, (3) drive penetration-led volume growth in Saffola edible oil, and (4) continued revenue momentum in Foods (to provide comfort on the expansion of Saffola franchise). While Marico has been consistently taking steps (proactive pricing actions, launch of premium VAHO) towards delivering these expectations, macro headwinds (commodity prices volatility, rural slowdown etc.) have led to undesirable outcomes in the near term for core segments. There are lingering questions about structural growth deceleration for hair oil too (as observed in performance of all hair oil players).

We believe improvement of operating environment is important as it may provide enabling conditions for Marico's expansion into new segments (Foods and premium VAHO). Marico should also start seeing the benefits of distribution expansion in both urban (chemist channel) and rural regions. Healthy foods and digital-first brands' portfolios continue to trend well and are likely to provide another leg to growth). We continue to believe that Marico's leadership which has a strong track record of outperformance will find solutions in long term. ADD.

- **Macro headwinds weigh on PCNO volume growth:** Volume growth for coconut oil is largely driven through conversion from unorganised (loose segment) (~30% of overall market) to organized (packaged). Marico being the market leader with ~62% market share in organised segment also has to gain market share from unorganised players. However, conversion from loose to organised requires a) favourable demand environment, especially in rural India and b) stability in input prices (copra) - unorganised players are able to react (pricing actions) faster than organised players (it takes 6-8 weeks for MRCO's pricing interventions to translate in the market place).
 - Rural demand has been under stress in the last few months due to significant inflation. Real rural wage growth continues to be under pressure hurting rural demand. There are expectations of rural demand recovery but any result is yet to be seen. Sustained real rural wage growth and easing off of inflation is required for favourable demand environment.
 - Any overshooting (inflationary/deflationary) in copra prices (vs expectations) constricts MRCO's ability to gain volume market share in PCNO, as it takes longer (6-8 weeks) for the company to translate pricing-actions at the market place compared to un-organized players. Hence, during the month of Sept'22, Oct'22 and Nov'22, higher than expected deflation in copra price impacted loose to branded conversion in PCNO. However, revival in volume growth (and market share gains from loose) during Dec'22 due to right-pricing and favourable firming-up of copra prices is comforting. However, while copra prices are expected to be range bound in near term, macro slowdown may impact volume growth in the category.

Market Cap	Rs634bn/US\$7.6bn	Year to March	FY21	FY22	FY23E	FY24E
Reuters/Bloomberg	MRCO.BO/MRCO IN	Revenue (Rs mn)	80,480	95,120	98,246	111,535
Shares Outstanding (mn)	1,293.0	Adj. Net Profit (Rs mn)	11,590	12,250	13,158	16,034
52-week Range (Rs)	549/463	Dil. Rec. EPS (Rs)	9.0	9.5	10.2	12.4
Free Float (%)	40.5	% Chg YoY	10.3	5.7	7.4	21.9
FII (%)	25.1	P/E (x)	54.5	51.6	48.0	39.4
Daily Volume (US\$'000)	9,152	CEPS (Rs)	10.2	10.6	11.3	13.7
Absolute Return 3m (%)	0.3	EV/EBITDA (x)	39.3	37.2	33.8	28.2
Absolute Return 12m (%)	(3.3)	Dividend Yield (%)	1.5	1.9	2.0	2.2
Sensex Return 3m (%)	(0.1)	RoCE (%)	32.5	32.5	33.9	40.2
Sensex Return 12m (%)	6.7	RoE (%)	37.0	37.2	39.1	46.3

Please refer to important disclosures at the end of this report

- **Steep competition at mass end coupled with rural sluggishness and low presence in premium segment are constricting growth in VAHO:** Category growth of VAHO has been impacted due to rural stress and price competition in the mass segment. Marico's VAHO segment is also struggling due to these reasons. Marico has also decided to not participate in price competition and will not operate at unsustainable gross margins. Marico has taken price increases (through pack size reduction) to improve realisations in VAHO segment. Therefore, recovery of volumes in this category will be driven by improvement in rural sentiment and rationalisation of competitive intensity.

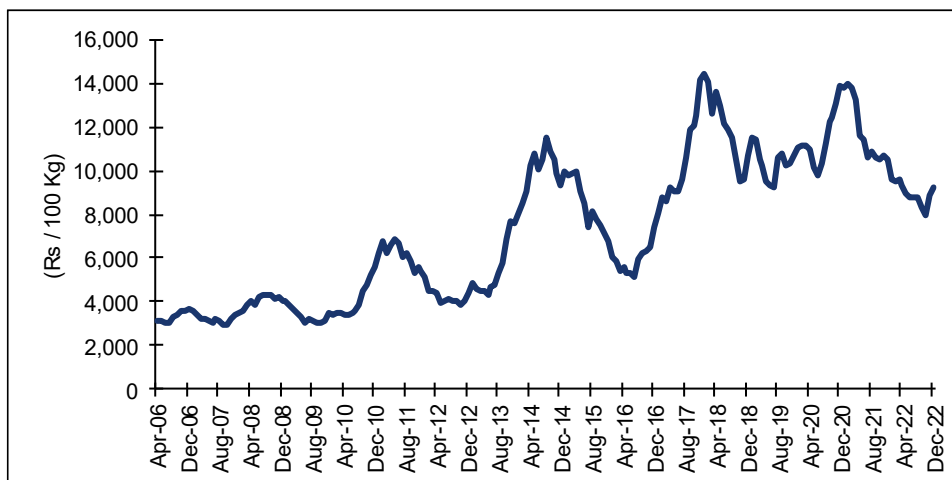
Mid and premium segment with VAHO is growing well, in line with the trend of premium HPC brands growing well as this section of consumer has not been impacted from worries of inflation. However, minimal presence of Marico in this sub-segment does not help them capture this growth trend. Marico has been taking initiatives to participate in premium and super premium segments of VAHO through launches like Parachute Advanced Onion Hair Oil, Jataa Ayurvedic Hair Oil for Men, Parachute Advanced Curry Leaves Hair Oil, etc.

Premium personal care brands that were struggling during covid are growing well as consumers of premium brands are relatively insulated to inflation-led consumption decline.

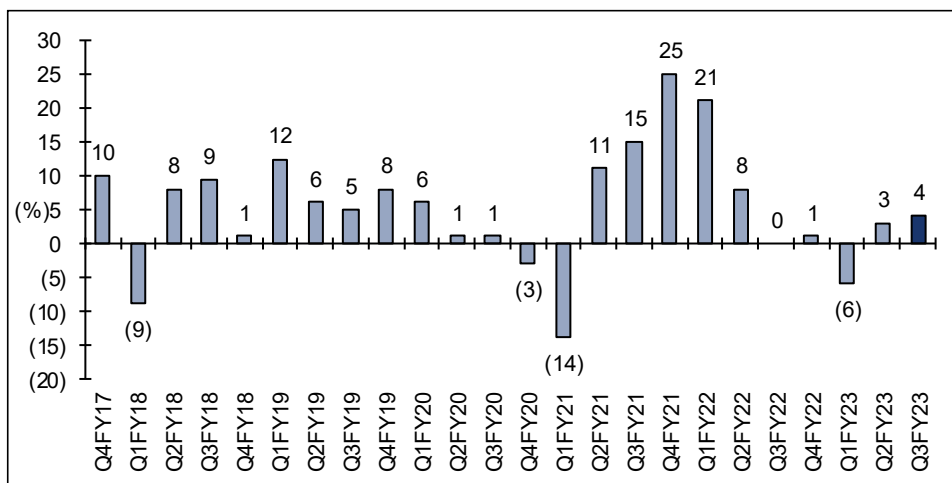
- **Volatility in edible oil prices:** Edible oil segment had witnessed a surge in household penetration during covid as consumer was cooking at home. The segment witnessed volume decline post covid as consumers started to venture out again. However, volatility in edible oil prices led to frequent changes in pricing leading to de-stocking of channel inventory. Edible oil prices have witnessed significant correction in Q2FY23 which led to volume uptick. However, post Q2 edible oil prices witnessed inflationary trend again which may again impact volumes.
- **Healthy foods and digital-first brands continue to track well:** Healthy foods business continues to grow and gains shares in oats and soya chunks category. It further restaged its honey portfolio to gain market share with the launch of two variants – Saffola Honey Active (accessible price point) and Saffola Honey Gold (premium price point). Further, it continues to increase its presence in foods with expansion into plant-based protein offerings. Overall, healthy foods franchise has annual revenue run rate (ARR) of Rs6.5bn for FY23 with aspirations to have revenue of Rs8.5-10bn by FY24.

Digital-first brands have also continued to track well and continue to meet internal targets. Digital-first brands have ARR of Rs2.5bn with aspirations to reach Rs4.5-5bn by FY24.

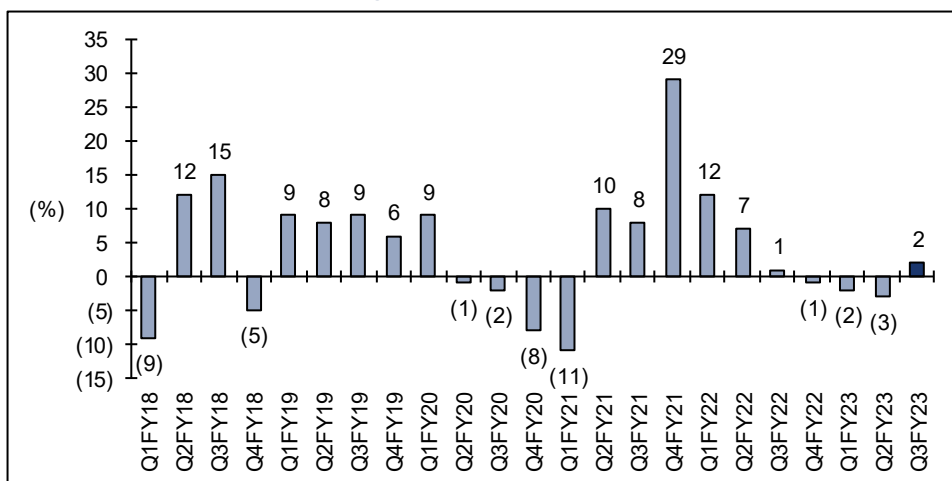
- **Valuation and risks:** Our earnings estimates remain unchanged, modelling revenue / EBITDA / PAT CAGR of 8 / 15 / 14 (%) over FY22-24E. Maintain **ADD** with DCF-based unchanged target price of Rs560. At our target price, the stock will trade at 45x P/E multiple Mar-24E. Key downside risk is higher-than-expected inflation in copra prices.

Chart 1: Copra prices correction continues

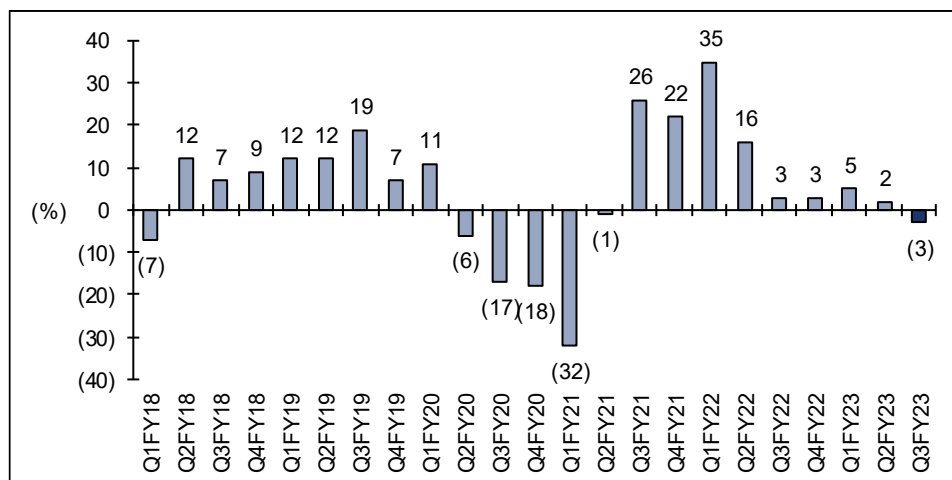
Source: Company data, I-Sec research

Chart 2: Domestic business volume growth

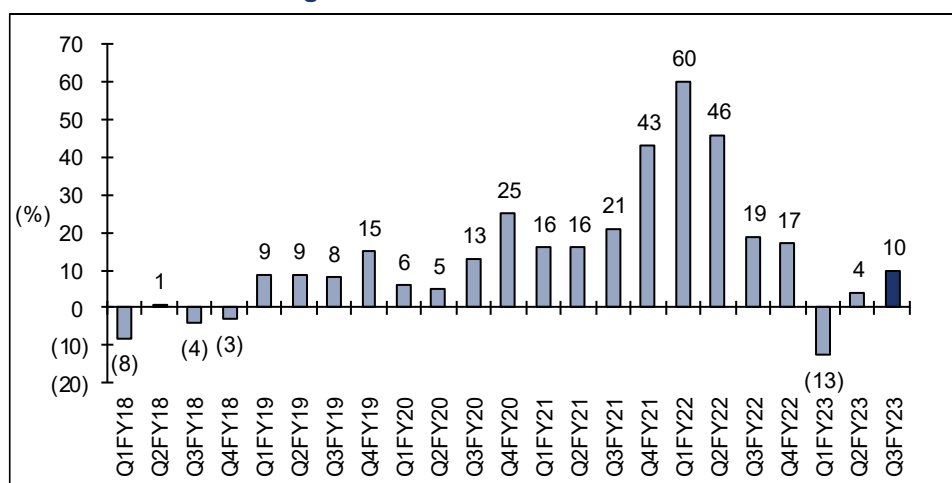
Source: Company data, I-Sec research

Chart 3: Parachute volume growth

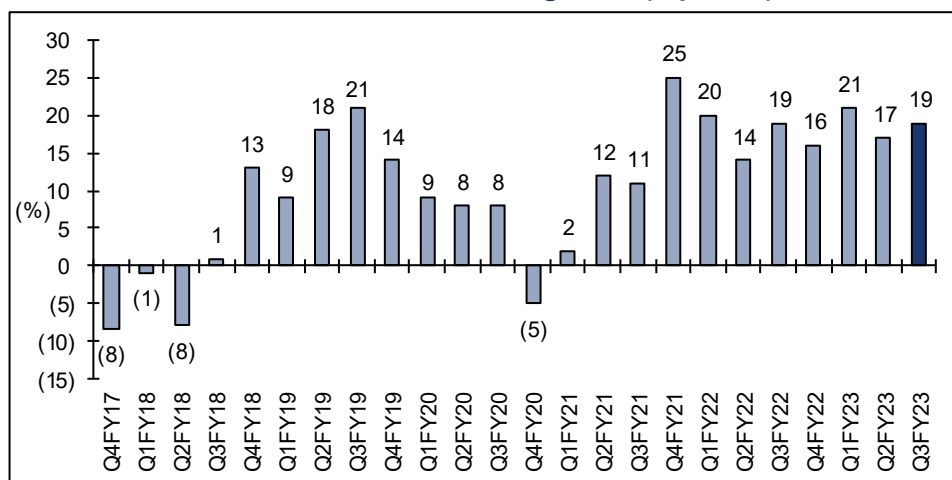
Source: Company data, I-Sec research

Chart 4: VAHO value growth

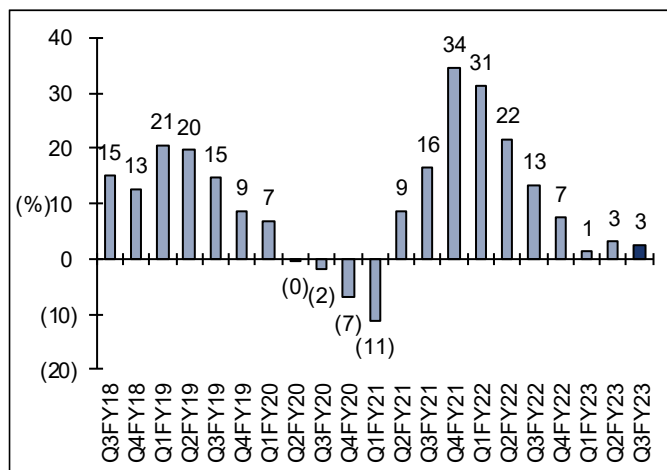
Source: Company data, I-Sec research

Chart 5: Saffola value growth

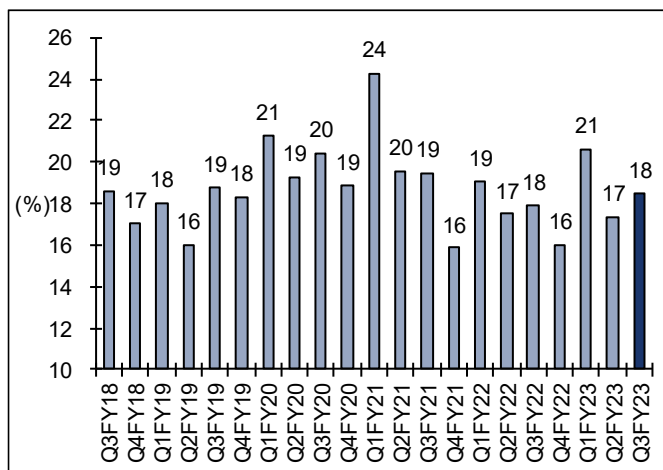
Source: Company data, I-Sec research

Chart 6: International business revenue growth (reported)

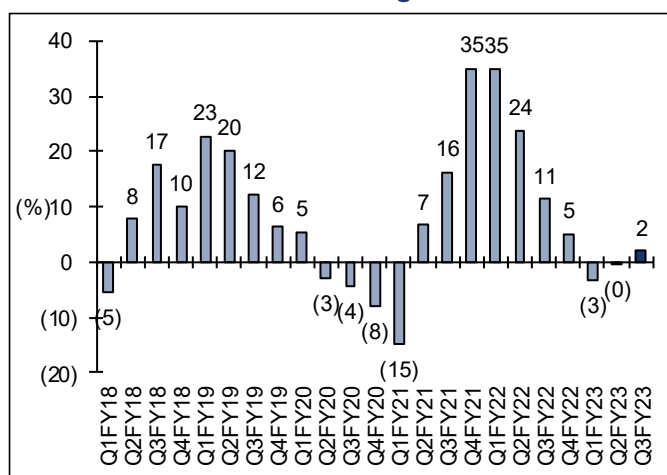
Source: Company data, I-Sec research

Chart 7: Consolidated revenue growth

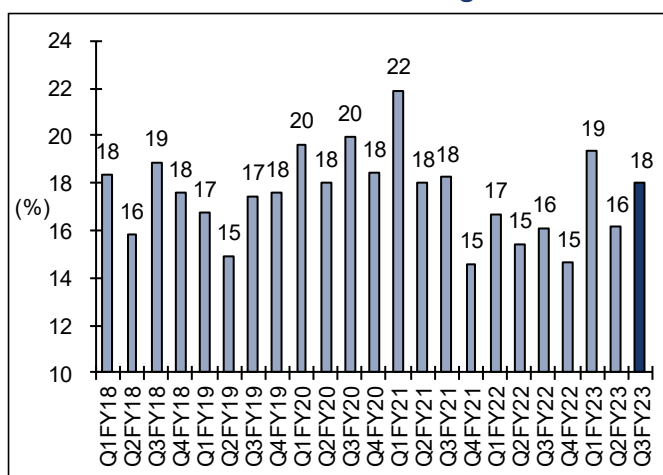
Source: Company data, I-Sec research

Chart 8: Consolidated EBITDA margin

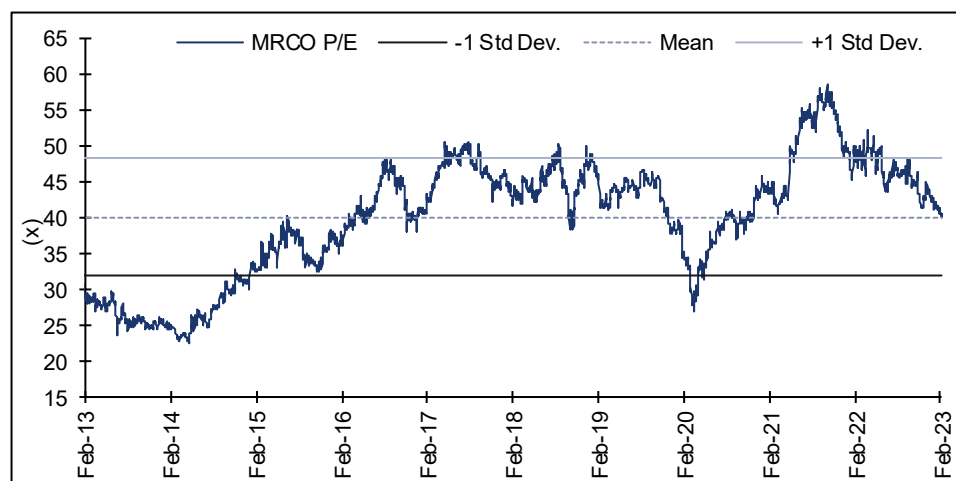
Source: Company data, I-Sec research

Chart 9: Standalone revenue growth

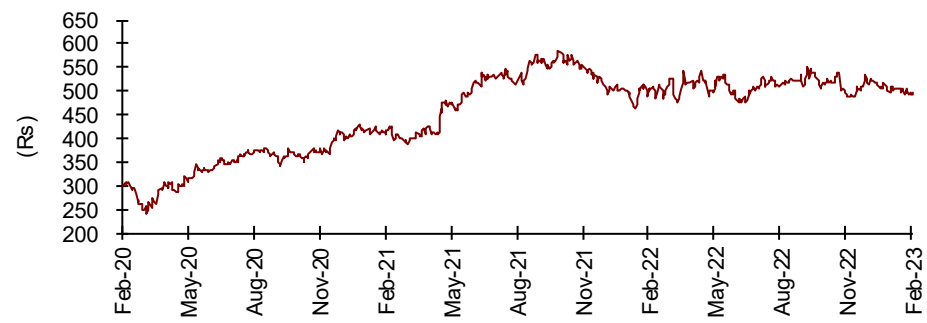
Source: Company data, I-Sec research

Chart 10: Standalone EBITDA margin

Source: Company data, I-Sec research

Chart 11: PE Band

Source: Company data, I-Sec research

Price chart

Source: Bloomberg

Financial summary

Table 1: Profit & Loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Net Sales	80,480	95,120	98,246	111,535
Operating Expenses	64,570	78,310	79,754	89,366
EBITDA	15,910	16,810	18,493	22,169
% margins	19.8	17.7	18.8	19.9
Depreciation & Amortisation	1,390	1,390	1,474	1,650
Gross Interest	340	390	527	579
Other Income	940	980	1,136	1,100
Recurring PBT	15,120	16,010	17,629	21,040
Less: Taxes	3,240	3,460	4,231	4,734
Less: Minority Interest	(290)	(300)	(240)	(272)
Net Income (Reported)	11,720	12,250	13,158	16,034
Extraordinaries (Net)	130	-	-	-
Recurring Net Income	11,590	12,250	13,158	16,034

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Assets				
Total Current Assets	33,360	35,050	36,530	40,930
of which cash & cash eqv.	15,720	12,200	13,050	14,457
Total Current Liabilities & Provisions	16,730	18,080	18,741	21,368
Net Current Assets	16,630	16,970	17,788	19,562
Investments	3,690	3,170	3,205	3,356
Net Fixed Assets	15,950	17,380	17,063	17,421
Capital Work-in-Progress	240	390	390	390
Total Assets	36,510	37,910	38,447	40,729
Liabilities				
Borrowings	4,950	4,640	4,679	4,845
Deferred Tax Liability	(1,020)	(780)	(780)	(780)
Minority Interest	180	570	810	1,082
Equity Share Capital	1,290	1,290	1,290	1,290
Face Value per share (Rs)	1.00	1.00	1.00	1.00
Reserves & Surplus*	31,110	32,190	32,448	34,291
Less: Misc. Exp. n.w.o.				
Net Worth	32,400	33,480	33,738	35,581
Total Liabilities	36,510	37,910	38,447	40,729

Source: Company data, I-Sec research

Table 3: Quarterly trends

(Rs mn, year ending March 31)

	Mar 22	Jun 22	Sep 22	Dec 22
Net sales	21,610	25,580	24,960	24,700
% growth (YoY)	7.4	1.3	3.2	2.6
EBITDA	3,460	5,280	4,330	4,560
Margin (%)	16.0	20.6	17.3	18.5
Other income	240	170	190	400
Extraordinaries (Net)	-	-	-	-
Net profit	2,510	3,710	3,010	3,280

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Operating Cashflow	13,380	13,580	14,262	17,435
Working Capital	7,300	(3,420)	35	(351)
Changes				
Capital Commitments	(2,740)	(1,870)	(1,157)	(2,008)
Free Cashflow	17,940	8,290	13,140	15,076
Cashflow from Investing Activities	(9,380)	4,280	(21)	(907)
Issue of Share Capital	(160)	410	-	-
Inc (Dec) in Borrowings	(740)	(1,140)	(527)	(579)
Dividend paid	(10,290)	(12,170)	(12,900)	(14,190)
Chg. in Cash & Bank balance	160	1,560	850	1,407
Closing cash & balance	9,440	5,790	6,640	8,047

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
Per Share Data (Rs)				
EPS	9.0	9.5	10.2	12.4
Cash EPS	10.2	10.6	11.3	13.7
Dividend per share (DPS)	7.5	9.3	10.0	11.0
Book Value per share (BV)	25.1	26.0	26.2	27.6
Growth (%)				
Net Sales	10.0	18.2	3.3	13.5
EBITDA	8.2	5.7	10.0	19.9
PAT	10.3	5.7	7.4	21.9
DPS	11.1	23.3	8.1	10.0
Valuation Ratios (x)				
P/E	54.5	51.6	48.0	39.4
P/CEPS	48.2	46.3	43.2	35.7
P/BV	19.5	18.9	18.7	17.8
EV / EBITDA	39.0	36.9	33.5	28.0
EV / Sales	7.7	6.5	6.3	5.6
Operating Ratios				
Raw Material / Sales (%)	53.1	57.1	54.5	53.8
Employee cost / Sales (%)	7.1	6.2	6.3	6.3
Other exps / Sales (%)	20.1	19.0	20.3	20.1
Other Income / PBT (%)	6.2	6.1	6.4	5.2
Effective Tax Rate (%)	21.2	21.6	24.0	22.5
Working Capital (days)	3.2	17.9	17.2	16.3
Inventory Turnover (days)	51.1	54.2	54.0	53.7
Receivables (days)	17.6	25.0	24.8	24.5
Payables (days)	51.4	51.6	51.8	52.1
Net D/E (x)	(0.4)	(0.3)	(0.3)	(0.3)
Profitability Ratios (%)				
Net Income Margins	14.4	12.9	13.4	14.4
RoACE	32.5	32.5	33.9	40.2
RoAE	37.0	37.2	39.1	46.3
Dividend Payout	82.6	97.4	98.0	88.5
Dividend Yield	1.5	1.9	2.0	2.2
EBITDA Margins	19.8	17.7	18.8	19.9

Source: Company data, I-Sec research

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