

Marico Ltd.

21 February, 2023

Reuters: MRCO.NS; Bloomberg: MRCO IN

Inflationary pressure on volume easing out

We recently hosted the management of Marico Ltd. at our Virtual Investors' Conference to get an update on the overall operating environment and demand trends being witnessed on ground. High and sticky inflation, which has affected volume growth in the past few quarters, is showing signs of some moderation and the same is getting reflected in the overall lower pace of volume decline for the FMCG industry. In terms of categories, driven by low penetration and higher urban salience, the Foods business is doing much better compared to Home & Personal Care (HPC), which has a significant rural salience. Rural market, which has been lagging urban market growth for the last few quarters, is yet to give any concrete signs of improvement. However, the company is expecting 4QFY23 to be better in terms of overall demand compared to 3QFY23. The stock currently trades at ~49x/~41x/~37x FY23E/FY24E/FY25E EPS as we build in 11.9% earnings CAGR over FY22-FY25E. We value Marico at ~45x on Sept'24E EPS (similar to 3-year/5-year average historical multiple), giving us an unchanged target price (TP) of Rs570.

Domestic Core portfolio:

- Coconut Oil:** The company has taken ~8% price cut in PCNO from the peak level, which will take 1-2 quarters to reflect in the base. However, the management mentioned that pricing has stabilized, which can be seen from 2% YoY volume growth (6% YoY value decline) that the company registered in 3QFY23. Loose to Branded conversion, which had earlier slowed, is showing some uptick again as the company expects its PCNO portfolio to grow sequentially.
- Saffola Edible Oil:** The portfolio saw volume growth in low teens with 10% YoY value growth in 3QFY23. Marico has taken ~17-18% price correction from the peak levels. The price of Saffola Gold, which was earlier at Rs140/Litre, had gone up to Rs235/Litre at its peak and is now down to Rs190-195/Litre.
- Value Added Hair Oils (VAHO):** Being more rural-centric, this portfolio is seeing some pressure, which translated into 3% YoY value decline in 3QFY23. The company took price increases in 1HFY23 as crude oil prices remained elevated.

Other portfolio

- Foods:** The portfolio is clocking ~Rs6bn ARR and has grown 3x in the last three years. Overall, Foods segment growth in 3QFY23 was at 31% YoY, with the Oats portfolio growing at +20% YoY.
- Premium Personal Care:** The portfolio continued to register double-digit growth, with Livon Serums growing in double digits and the Set-Wet portfolio nearing pre-covid levels.
- Digital First Portfolio:** At ~Rs2.5bn expected exit ARR for FY23, the company has stated its medium term aspiration to reach ~Rs4.5-5bn turnover by FY24-end. It is consistently scouting for acquisition(s) of meaningful target companies in this part of the portfolio. Beardo is ~Rs1.5bn brand; primarily being a digital brand, it has some presence in general trade channel as well. Just Herbs is yet to reach a certain scale before entering the general trade channel.

Margins

- On gross margins, the management mentioned that every food product that is introduced under the Saffola franchise has a healthier gross margin profile vis-à-vis the current Saffola franchise.
- Premium Personal Care and Digital First portfolios have higher gross margins and will make up for the overall gross margins as the salience of the Foods business increases (having lower gross margins compared to Premium Personal Care and Digital First brands), along with increase in both Premium Personal Care and Digital First portfolios.

Channel specific

- Contribution from the E-commerce channel for the company is +10% while the Modern Trade channel is contributing 14-15%. The CSD channel contributes ~7%.

Other highlights

- International business margins, which have been under pressure for the past few quarters, will not see any further pressure, as per the management.
- Rural mix is ~30% for the company. Earlier, the mix was a bit higher at 32-33%. But, since the VAHO portfolio has remained under pressure and has higher salience in the rural market, there has been some decline in the mix from 32-33% to ~30%. Saffola Foods and Edible Oil are predominantly urban-centric brands and hence a large part of rural sales are attributable to the VAHO and PCNO portfolios.
- Newer portfolios i.e Foods, Premium Personal Care and Digital First, were contributing ~5% to the domestic business three years ago. The mix has now increased to +10%.
- Advertising spends will remain at ~9% of sales.

BUY (MAINTAIN)

Sector: FMCG

CMP: Rs489

Target Price: Rs570

Upside: 16.6%

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Key Data

Current Shares O/S (mn)	1,293.0
Mkt Cap (Rsbn/US\$bn)	646.5/7.8
52 Wk H / L (Rs)	554/469
Daily Vol. (3M NSE Avg.)	1,358,566

Price Performance (%)

	1 M	6 M	1 Yr
Marico Ltd.	(1.0)	(3.1)	(1.4)
Nifty Index	(1.0)	0.5	3.7

Source: Bloomberg

[FY22 Annual Report](#)
[3QFY23 Information Update & IP](#)

Exhibit 1: Financial summary

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net sales	80,480	95,120	1,00,265	1,11,632	1,22,371
YoY growth (%)	10.0	18.2	5.4	11.3	9.6
EBITDA	15,910	16,890	18,587	21,939	24,747
EBITDA margin (%)	19.8	17.8	18.5	19.7	20.2
Adj. PAT	11,641	12,314	12,924	15,286	17,274
EPS	9.0	9.5	10.0	11.8	13.4
YoY change (%)	11.1	5.8	5.0	18.3	13.0
Pre-tax ROCE (%)	41.8	42.6	45.8	54.9	63.2
ROE (%)	37.2	37.4	38.8	46.6	53.8
Pre-tax ROIC (%)	64.9	70.0	69.3	83.8	98.6
P/E (x)	54.2	51.2	48.8	41.3	36.5
P/B (x)	19.5	18.8	19.0	19.5	19.9
EV/EBITDA (x)	38.7	36.7	33.4	28.3	25.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Growth aspirations of Marico

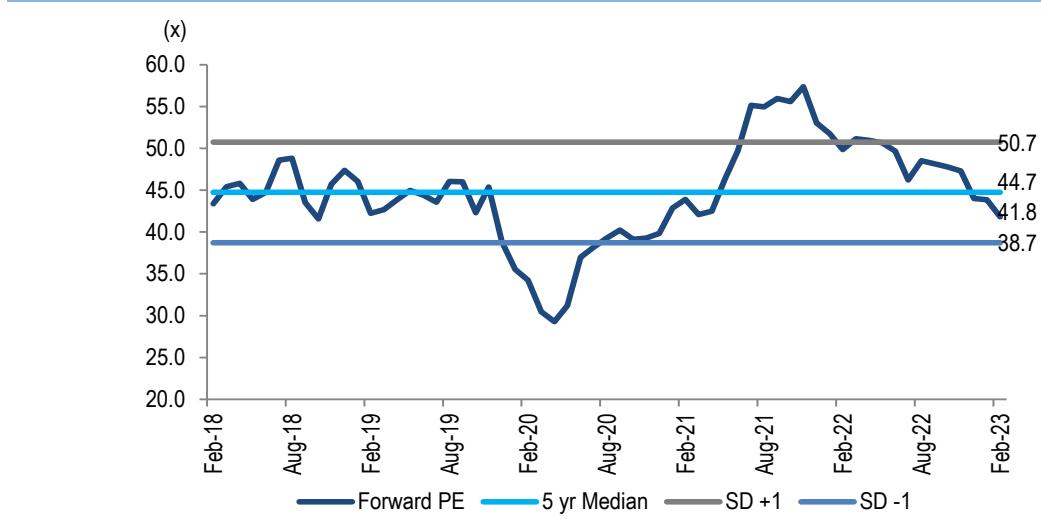
Segments	Near Term/Medium Term Outlook/Guidance
Marico India	8-10% domestic volume growth
Parachute Rigid	MRCO expects to grow volume in the range of 5-7% over the medium term
Saffola Edible Oils	Company aims to sustain high single digit volume growth over the medium term
VAHO	Company aims to sustain a double-digit growth trajectory over the medium term
Foods	Having crossed the Rs4.5bn mark in FY22, the company is aims to scale this to Rs8.5-10bn by FY24
Premium Personal Care	The company expects to deliver double-digit value growth over the medium term
Digital first brands	MRCO aims to accelerate its digital transformation journey by building a portfolio of at least three digital brands, either organically or inorganically, to reach a combined turnover of Rs4.5-5bn by FY24-end
Marico International	Double-digit constant currency (CC) growth
Bangladesh	Bangladesh is likely to continue with double-digit CC growth trajectory
Vietnam and MENA	The company is looking to replicate the strategy that has worked in Bangladesh in order to build a sustained growth momentum
Marico overall growth aspiration	13-15% revenue growth over the medium term
Operating margin	The company aims to deliver 18-19% EBITDA margin in FY23 and above the threshold of 19% over the medium term

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: No change in our estimates

Y/E March (Rs mn)	Earlier Estimates			New Estimates			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Sales	1,00,265	1,11,632	1,22,371	1,00,265	1,11,632	1,22,371	0.0	0.0	0.0
EBITDA	18,587	21,939	24,747	18,587	21,939	24,747	0.0	0.0	0.0
EBITDA margin (%)	18.5	19.7	20.2	18.5	19.7	20.2	0.0	0.0	0.0
Adj PAT	12,924	15,286	17,274	12,924	15,286	17,274	0.0	0.0	0.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: One-year forward P/E


Source: Company, Nirmal Bang Institutional Equities Research

Financials (Consolidated)

Exhibit 5: Income statement

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	80,480	95,120	1,00,265	1,11,632	1,22,371
% Growth	10.0	18.2	5.4	11.3	9.6
COGS	42,880	54,540	55,386	58,810	63,898
Staff costs	5,700	5,860	6,509	7,742	8,629
Other expenses	15,990	17,830	19,784	23,142	25,098
Total expenses	64,570	78,230	81,678	89,693	97,624
EBITDA	15,910	16,890	18,587	21,939	24,747
% growth	8.3	6.2	10.0	18.0	12.8
EBITDA margin (%)	19.8	17.8	18.5	19.7	20.2
Other income	940	980	950	1,070	1,070
Interest costs	340	390	533	426	385
Depreciation	1,390	1,390	1,604	1,802	2,000
Profit before tax	15,120	16,090	17,400	20,781	23,432
Exceptional items	69	-64	0	0	0
Tax	3,189	3,476	4,176	5,195	5,858
Rate of Tax (%)	21.1	21.6	24.0	25.0	25.0
PAT	11,710	12,250	12,924	15,286	17,274
Adj PAT	11,641	12,314	12,924	15,286	17,274
Adj PAT margin (%)	14.5	12.9	12.9	13.6	14.0
% Growth	11.1	5.8	5.0	13.7	14.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance sheet

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
Share capital	1,290	1,290	1,290	1,290	1,290
Reserves	31,110	32,190	31,837	31,127	30,470
Net worth	32,400	33,480	33,127	32,417	31,760
Minority Interest	180	570	570	570	570
Total debt	3,470	3,450	3,650	3,450	3,250
Other long-term liabilities	2,040	1,790	1,754	1,719	1,685
Total liabilities	38,090	39,290	39,101	38,156	37,265
Gross block	12,510	14,300	15,500	17,000	18,500
Depreciation	4,490	5,240	6,844	8,646	10,645
Net block	8,020	9,060	8,656	8,354	7,855
Right of use assets	1,800	1,780	1,744	1,710	1,675
Capital work-in-progress	240	390	390	390	390
Goodwill	6,130	6,540	6,640	6,740	6,840
Investments	8,710	8,500	8,925	9,212	9,907
Inventories	11,260	14,120	15,240	15,740	16,398
Debtors	3,880	6,520	6,668	7,424	7,954
Cash	9,440	5,790	5,392	4,905	4,481
Other current assets	3,750	3,290	3,553	3,853	4,131
Total current assets	28,330	29,720	30,853	31,922	32,964
Creditors	11,340	13,440	14,854	16,481	18,312
Other current liabilities & provisions	4,820	4,040	4,033	4,470	4,834
Total current liabilities	16,160	17,480	18,887	20,951	23,146
Net current assets	12,170	12,240	11,966	10,971	9,818
Deferred tax asset	1,020	780	780	780	780
Total assets	38,090	39,290	39,101	38,156	37,265

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Cash flow

Y/E March (Rsmn)	FY21	FY22	FY23E	FY24E	FY25E
PAT	12,380	12,500	13,224	15,586	17,574
Depreciation	1,390	1,390	1,604	1,802	2,000
Other income	-200	-110	-950	-1,070	-1,070
Interest paid	-250	-200	533	426	385
(Inc.)/dec. in working capital	6,750	-3,420	-124	508	729
Cash flow from operations	20,070	10,160	14,287	17,252	19,618
Capital expenditure (-)	-1,370	-1,290	-1,200	-1,500	-1,500
Net cash after capex	18,700	8,870	13,087	15,752	18,118
Inc./dec. in investments	-1,470	380	-532	-1,657	-1,290
Cash flow from investments	-2,840	-910	-1,732	-3,157	-2,790
Dividends paid (-)	-9,680	-11,950	-11,950	-13,287	-15,996
Others	-900	-950	-1,003	-1,296	-1,255
Cash from financial activities	-10,580	-12,900	-12,952	-14,583	-17,251
Opening cash balance	2,790	9,440	5,790	5,392	4,904
Closing cash balance	9,440	5,790	5,392	4,904	4,481
Change in cash balance	6,650	-3,650	-398	-488	-423

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Key ratios

Y/E March	FY21	FY22	FY23E	FY24E	FY25E
Per share (Rs)					
EPS	9.0	9.5	10.0	11.8	13.4
Book value	25.1	26.0	25.7	25.1	24.6
DPS	7.5	9.3	10.3	12.4	13.9
Valuation (x)					
EV/sales	7.7	6.5	6.2	5.6	5.1
EV/EBITDA	38.7	36.7	33.4	28.3	25.0
P/E	54.2	51.2	48.8	41.3	36.5
P/BV	19.5	18.8	19.0	19.5	19.9
Return ratios (%)					
RoCE*	41.8	42.6	45.8	54.9	63.2
RoE	37.2	37.4	38.8	46.6	53.8
RoIC*	64.9	70.0	69.3	83.8	98.6
Profitability ratios (%)					
Gross margin	46.7	42.7	44.8	47.3	47.8
EBITDA margin	19.8	17.8	18.5	19.7	20.2
PAT margin	14.5	12.9	12.9	13.7	14.1
Liquidity ratios (%)					
Current ratio	0.8	0.7	0.6	0.5	0.4
Quick ratio	1.1	0.9	0.8	0.8	0.7
Solvency ratio (%)					
Debt to Equity ratio	0.1	0.1	0.1	0.1	0.1
Turnover ratios					
Total asset turnover ratio (x)	2.1	2.4	2.6	2.9	3.3
Fixed asset turnover ratio (x)	10.0	10.5	11.6	13.4	15.6
Inventory days	107	85	97	96	92
Debtors days	21	20	24	23	23
Creditor days	89	83	93	97	99

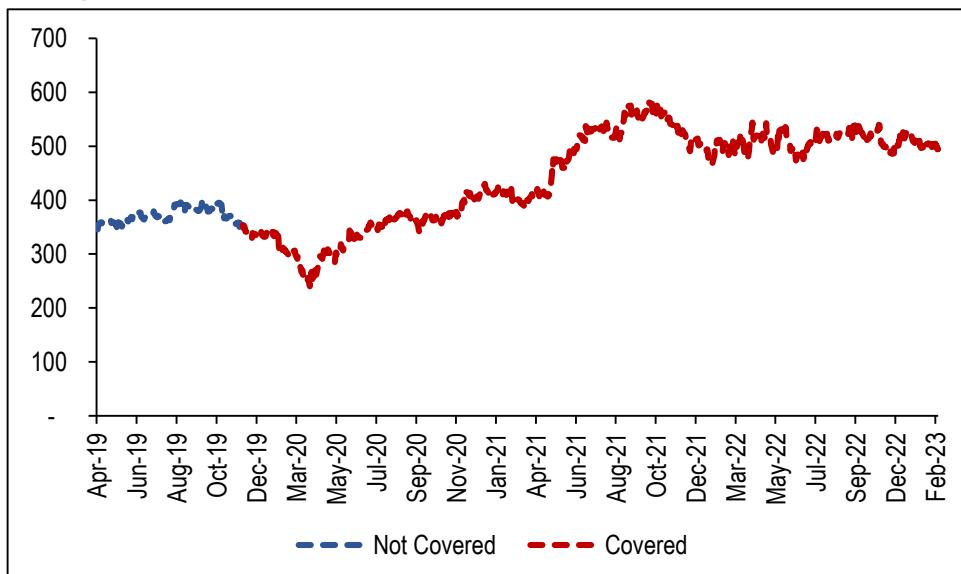
Source: Company, Nirmal Bang Institutional Equities Research

*pre-tax

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
2 December 2019	Buy	360	425
1 February 2020	Buy	315	400
30 March 2020	Buy	254	360
5 May 2020	Buy	284	345
6 July 2020	Accumulate	357	370
28 July 2020	Accumulate	351	385
18 September 2020	Accumulate	362	395
6 October 2020	Accumulate	377	400
29 October 2020	Accumulate	363	400
5 January 2021	Accumulate	417	435
8 January 2021	Accumulate	418	435
28 January 2021	Accumulate	411	435
6 April 2021	Accumulate	402	435
9 April 2021	Accumulate	415	435
2 May 2021	Accumulate	411	440
3 July 2021	Accumulate	520	505
31 July 2021	Accumulate	547	555
23 September 2021	Accumulate	565	605
5 October 2021	Accumulate	558	605
29 October 2021	Accumulate	564	605
29 January 2022	Buy	473	550
21 February 2022	Buy	507	585
6 April 2022	Accumulate	544	585
6 May 2022	Accumulate	520	580
6 July 2022	Accumulate	493	550
9 August 2022	Accumulate	523	550
14 September 2022	Accumulate	534	580
4 October 2022	Accumulate	530	580
05 November 2022	Accumulate	539	580
05 February 2023	Buy	493	570
21 February 2023	Buy	489	570

Rating chart



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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