8 August 2022

1QFY23 Results Update | Sector: Consumer

Marico

Estimate changes	⟷
TP change	⟷
Rating change	⟷

Bloomberg	MRCO IN
Equity Shares (m)	1,290
M.Cap.(INRb)/(USDb)	676.5 / 8.5
52-Week Range (INR)	606 / 456
1, 6, 12 Rel. Per (%)	-4/2/-9
12M Avg Val (INR M)	996

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Sales	95.1	101.1	114.2
Sales Gr. (%)	18.2	6.2	13.0
EBITDA	16.8	19.2	22.8
EBITDA Margin. %	17.7	19.0	20.0
Adj. PAT	12.2	13.7	16.4
Adj. EPS (INR)	9.5	10.6	12.7
EPS Gr. (%)	5.5	11.7	19.9
BV/Sh.(INR)	26.0	26.3	27.0
Ratios			
RoE (%)	37.2	40.6	47.7
RoCE (%)	34.0	36.9	42.7
Payout (%)	97.4	96.7	94.4
Valuations			
P/E (x)	55.2	49.4	41.2
P/BV (x)	20.2	19.9	19.4
EV/EBITDA (x)	39.7	34.5	29.0
Div. Yield (%)	1.8	2.0	2.3

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	59.5	59.5	59.6
DII	8.8	8.8	9.7
FII	25.3	25.2	25.1
Others	6.5	6.5	5.7

FII Includes depository receipts

CMP: INR524 TP: INR605 (+15%) Buy

Margin surprise, volume growth to recover gradually

- MRCO's 1QFY23 earnings were in line on the volume, sales, and gross profit front, but surprised positively at the EBITDA and PAT level. The margin base gets less challenging from 2QFY23.
- The company is witnessing less intense margin pressures as compared to its peers. Over an FY22 base, it is likely to report an EBITDA and earnings growth of 15-16% CAGR over FY22-24. **We maintain our Buy rating.**

Sales and gross margin in line; EBITDA margin ahead of our estimate

Consolidated

- Consolidated net sales remained flat YoY at INR25.6b (inline) in 1QFY23. EBITDA grew 9.8% YoY to INR5.3b (est. INR4.9b). PBT grew 6.9% YoY to INR5b (est. INR4.7b). Adjusted PAT grew 4.2% YoY to INR3.7b (est. INR3.5b).
- Domestic volumes declined by 6% YoY.
- Consolidated gross margin expanded by 400bp YoY to 45%.
- As a percentage of sales, higher staff (up 20bp to 6.1%), other expenditure (up 140bp to 10.5%), and A&P expenses (up 80bp to 7.8%) restricted **EBITDA margin (up 160bp YoY) to 20.6% in 1QFY23**.

Standalone

- Sales declined by 3.3% YoY to INR19.8b, while EBITDA/adjusted PAT grew 12%/47.1% to INR3.8b/INR3.9b 1QFY23.
- EBITDA margin expanded by 260bp YoY to 19.3%.

Highlights from the management commentary

- Volume decline in 1QFY23 was below the management's expectations. Saffola volumes declined by ~20% due to the high base of in home consumption.
- Excluding Saffola oil, volumes were marginally (1.4%) higher.
- Around 50% of the RM basket is witnessing a deflation. Hence, MRCO is less impacted by inflation v/s its peers. The management said it will be able to maintain its FY23 margin guidance, even with increased A&P spends.
- The third and fourth quarter has a soft volume base and should see good traction. The management expects to deliver double-digit value growth in 9MFY23.

Valuation and view

- Due to the more gradual than expected recovery in volumes and some price corrections taken to boost growth, we have cut our FY23 and FY24 EPS forecasts by 4-5%.
- Its earnings growth prospects are nevertheless healthy ~16% CAGR over FY22-24, with 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. For now, its earnings growth provides a safe haven v/s it's Staples peers in an uncertain environment. We maintain our target multiple of 45x Jun'24E EPS to arrive at our TP of INR605. We reiterate our **Buy** rating on the stock.

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Quarterly Performance

(INR m)

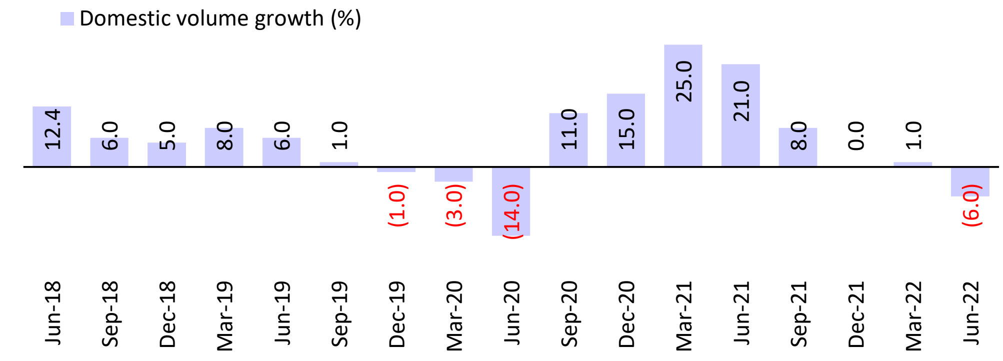
Y/E March	FY22				FY23E				FY22	FY23E	FY23	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Domestic volume growth (%)	21.0	8.0	0.0	1.0	-6.0	2.0	4.0	4.0	7.0	1.3	-5.0	
Net Sales	**25,250**	**24,190**	**24,070**	**21,610**	**25,580**	**26,004**	**26,116**	**23,355**	**95,120**	**1,01,055**	**25,755**	-0.7
YoY Change (%)	31.2	21.6	13.4	7.4	1.3	7.5	8.5	8.1	18.2	6.2	2.0	
Gross Profit	**10,360**	**10,270**	**10,520**	**9,610**	**11,520**	**11,702**	**11,961**	**10,747**	**40,760**	**45,930**	**11,590**	-0.6
Gross margin (%)	41.0	42.5	43.7	44.5	45.0	45.0	45.8	46.0	42.9	45.5	45.0	
EBITDA	**4,810**	**4,230**	**4,310**	**3,460**	**5,280**	**4,837**	**4,753**	**4,352**	**16,810**	**19,222**	**4,945**	6.8
Margins (%)	19.0	17.5	17.9	16.0	20.6	18.6	18.2	18.6	17.7	19.0	19.2	
YoY Change (%)	3.0	8.7	4.4	8.5	9.8	14.3	10.3	25.8	5.7	14.4	2.8	
Depreciation	330	330	360	370	360	380	396	424	1,390	1,560	380	
Interest	80	100	100	110	100	111	117	131	390	459	108	
Other Income	270	250	220	240	170	250	264	269	980	953	275	
PBT	**4,670**	**4,050**	**4,070**	**3,220**	**4,990**	**4,596**	**4,504**	**4,066**	**16,010**	**18,157**	**4,733**	5.4
Tax	1,020	890	900	650	1,220	1,034	1,013	908	3,460	4,176	1,112	
Rate (%)	21.8	22.0	22.1	20.2	24.4	22.5	22.5	22.3	21.6	23.0	23.5	
Adjusted PAT	**3,560**	**3,090**	**3,100**	**2,500**	**3,710**	**3,492**	**3,421**	**3,058**	**12,250**	**13,681**	**3,531**	5.1
YoY Change (%)	7.6	4.0	1.0	5.0	4.2	13.0	10.3	22.3	5.5	11.7	-0.8	

E: MOFSL Estimates

Key Performance Indicators

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

Exhibit 1: Domestic volumes declined 6% YoY



Source: MOFSL, Company

Exhibit 2: Consolidated segmental details

	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Sales growth (%)									
Domestic	(14.5)	7.9	17.9	37.3	34.6	24.0	11.7	5.1	(3.6)
International	2.3	11.6	11.5	25.1	19.8	14.1	19.2	15.1	19.5
Total	**(11.1)**	**8.7**	**16.3**	**34.5**	**31.2**	**21.6**	**13.4**	**7.3**	**1.3**
EBIT margin (%)									
Domestic EBIT margin	24.2%	19.4%	20.0%	16.1%	17.8%	16.7%	17.2%	16.2%	20.7%
International EBIT margin	28.1%	21.6%	19.4%	18.9%	26.1%	22.4%	22.9%	18.8%	24.5%
Total	**25.1%**	**19.9%**	**19.8%**	**16.7%**	**19.5%**	**18.0%**	**18.6%**	**16.8%**	**21.7%**

Source: Company, MOFSL

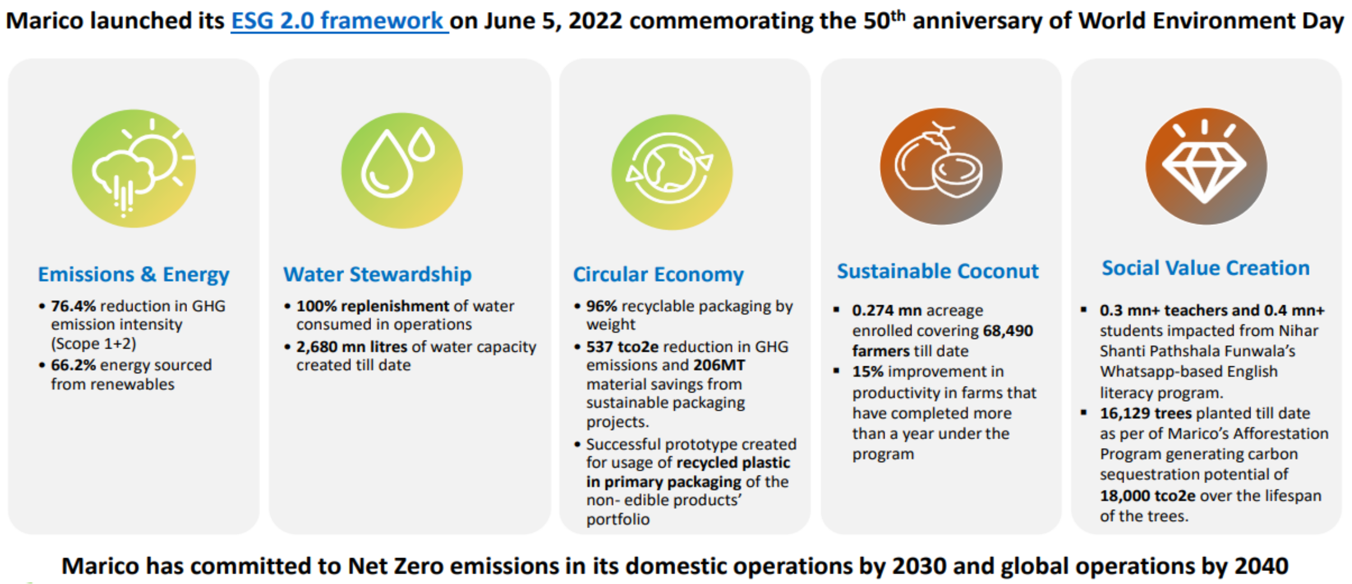
Exhibit 3: Market share of key categories in the India business

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	63%	1st
* Hair Gels/Waxes/Creams	55%	1st

^ Volume market share, *Value market share

Source: Company

Exhibit 4: ESG initiatives by MRCO



Source: Company

Highlights from the management commentary

Business environment and outlook

- The FMCG sector continues to face some headwinds led by high CPI inflation.
- Consumers are downtrading as well as downgrading across categories.
- Volume decline in 1QFY23 was below the management's expectations. Saffola volumes declined by ~20% due to the high base of in home consumption.
- Excluding Saffola oil, volumes were marginally (1.4%) higher.
- Overall three year volume CAGR (after normalizing the base) was 5-6%.

Costs and margins

- 2QFY23 will not see an improvement in margin. Since MRCO has chosen to pass on value to Saffola consumers even as they have higher value inventory of finished goods and RM.
- If RM prices remain stable, there could be an improvement from 2HFY23 onwards.
- Around 50% of the RM basket is witnessing a deflation. Hence, MRCO is less impacted by inflation v/s its peers. The management said it will be able to maintain its FY23 margin guidance, even with increased A&P spends.
- The third and fourth quarter has a soft volume base and should see good traction. The management expects to deliver double-digit value growth in 9MFY23.

Segmental performance

Parachute coconut oil

- Volumes were down 2% in rigid packs. There was slower conversion from unbranded to branded given the soft copra prices (down 6% YoY).
- In Parachute, MRCO continued to gain market share (highest amongst all organized players).
- It is confident of delivering volume growth in 2QFY23.
- MRCO took a 2% of price reduction towards the end of 1QFY23 in addition to the 6% price cut taken last year. There is a 60 days lag due to channel inventories and post that the true impact of price cuts will be seen by consumers.

Saffola edible oils

- Saffola downtrading was evident in the super-premium category.
- Mass segment grew in the ~30% while premium and super-premium declined in high teens.
- The management consciously choose to protect margins v/s boosting volumes in the high RM inflation environment.
- It aims to improve volumes in 2Q and deliver growth in 2HFY23.

VAHO

- Flat volumes YoY for this category.
- MRCO continues to take price hikes and pack size rationalization to counter higher RM prices.
- Market share gains in VAHO were the highest amongst all organized players.
- Overall HPC volume decline has been 1% this quarter and VAHO is in line with that.
- It is witnessing significant downtrading in VAHO and increased competitive intensity in the mass market segment.
- MT and e-com would have a high salience for the super-premium VAHO segment.

Foods

- It continued to gain share in oats and soya chunks.
- Honey as a category has moderated its growth. MRCO held its market share in Honey which is currently at 7-8%. Its market share in the ecom channel is 22%, double-digits in MT and mid-high in GT. Market share loss over the last 2 quarters has would be ~1%.
- Continue to hold its INR8.5b-10b aspiration in Foods.
- MRCO's Food portfolio is skewed towards in-home, health, and immunity. Out of home sale (HORECA) sales for MRCO is nil. Therefore, this was a weaker quarter for the Foods business.

Digital first brands

- Slight overlap between TruElements and MRCO's Saffola oats portfolio. But have carved out areas where each will operate. TruElements more tilted towards the premium category.
- Last year CACs had gone up which resulted in higher cash burn across digital business.
- Digital brands currently have an annual run rate of INR2b. Confident of crossing INR2.5b in 2QFY23 and target to add INR500m every quarter until the digital business' annual run rate reaches INR5b in FY24. The growth will be led by 'Beardo'.

International business

- 6th consecutive quarter of double-digit CC growth for MRCO's international business.
- Bangladesh: Good run in core despite recent macro developments of inflation and currency deprecation. Things are expected to remain in control as the government has taken proactive steps. MRCO's position is strong in Bangladesh. The business doubled down on the core business and is focusing on 2-3 meaningful innovation. Confident of delivering double-digit growth in Bangladesh despite the situation. Taking some pricing action. There will be some currency translation losses which will have to be absorbed.
- Vietnam: Strong growth in the region led by resurgence in the HPC category. Moved into female grooming and expanded the TAM. Confident of driving double-digit top-line and bottom-line over the next few quarters.
- MENA and South Africa saw healthy momentum and strong growth in CC terms.

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, but has tapered off v/s the past (sales/EBITDA/ PAT growth of ~5%/11%/~13%, respectively).

Our view on the stock

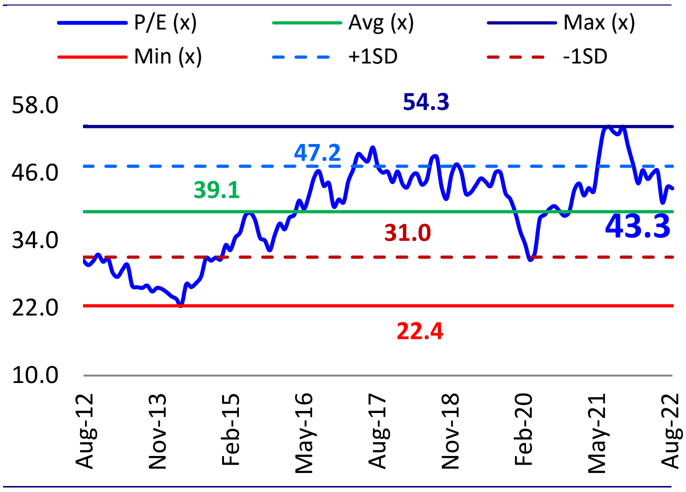
- Due to the more gradual than expected recovery in volumes and some price corrections taken to boost growth, we have cut our FY23 and FY24 EPS forecasts by 4-5%.
- Its earnings growth prospects are nevertheless healthy ~16% CAGR over FY22-24, with RoE of over 40%.
- The much-needed diversification is gathering momentum in the Foods and digital-first brands. If sustained, this can lead to higher multiples for MRCO as compared to the past. For now, its earnings growth provides a safe haven v/s its Staples peers in an uncertain environment. We maintain our target multiple of 45x Jun'24E EPS to arrive at our TP of INR605. We reiterate our **Buy** rating on the stock.

Exhibit 5: We revise our FY23E/FY24E EPS by -5.4%/-4.1%

INR m	Old estimate		New estimate		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	1,03,206	1,16,597	1,01,055	1,14,177	-2.1	-2.1
EBITDA	20,176	23,713	19,222	22,824	-4.7	-3.7
PAT	14,462	17,111	13,681	16,403	-5.4	-4.1

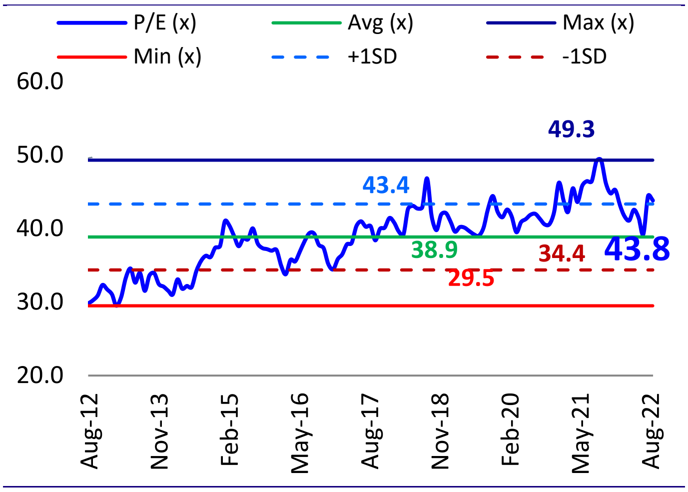
Source: Company, MOFSL

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**	**1,01,055**	**1,14,177**
Change (%)	6.8	16.0	-0.3	10.0	18.2	6.2	13.0
COGS	33,720	40,170	37,680	42,700	54,360	55,125	59,282
Gross Profit	**29,500**	**33,170**	**35,470**	**37,780**	**40,760**	**45,930**	**54,895**
Margin (%)	46.7	45.2	48.5	46.9	42.9	45.5	48.1
Operating Expenses	18,130	19,920	20,820	21,870	23,950	26,708	32,070
EBITDA	**11,370**	**13,250**	**14,650**	**15,910**	**16,810**	**19,222**	**22,824**
Change (%)	-1.9	16.5	10.6	8.6	5.7	14.4	18.7
Margin (%)	18.0	18.1	20.0	19.8	17.7	19.0	20.0
Depreciation	890	1,310	1,400	1,390	1,390	1,560	1,641
Int. and Fin. Charges	160	400	500	340	390	459	483
Other Income - Recurring	850	1,030	1,240	940	980	953	1,134
Profit before Taxes	**11,170**	**12,570**	**13,990**	**15,120**	**16,010**	**18,157**	**21,834**
Change (%)	-2.8	12.5	11.3	8.1	5.9	13.4	20.3
Margin (%)	17.7	17.1	19.1	18.8	16.8	18.0	19.1
Current Tax (excl MAT Ent)	2,840	3,310	3,470	3,350	3,430	4,085	5,022
Deferred Tax	60	-180	-160	-110	30	91	109
Tax Rate (%)	26.0	24.9	23.7	21.4	21.6	23.0	23.5
Minority Interest	-130	-180	-220	-270	-300	-300	-300
Profit after Taxes	**8,140**	**9,260**	**10,460**	**11,610**	**12,250**	**13,681**	**16,403**
Change (%)	0.4	13.8	13.0	11.0	5.5	11.7	19.9
Margin (%)	12.9	12.6	14.3	14.4	12.9	13.5	14.4
Extraordinary items	0	1,880	-290	110	0	0	0
Reported PAT	**8,140**	**11,140**	**10,170**	**11,720**	**12,250**	**13,681**	**16,403**

Balance Sheet							(INR m)
Y/E March	**2018**	**2019**	**2020**	**2021**	**2022**	**2023E**	**2022E**
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	32,658	33,581
Net Worth	**25,430**	**29,990**	**30,230**	**32,400**	**33,480**	**33,948**	**34,871**
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**	**39,328**	**40,701**
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**	**28,178**	**32,764**
Inventory	15,110	14,110	13,800	11,260	14,120	13,339	15,071
Account Receivables	3,400	5,170	5,390	3,880	6,520	5,457	6,166
Cash and Bank Balance	2,010	5,520	2,790	9,440	5,790	5,433	6,790
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**	**19,620**	**21,593**
Current Liabilities	10,560	12,260	14,920	15,750	17,230	18,157	19,943
Accounts Payable	8,220	9,440	9,780	11,340	13,440	14,040	15,499
Provisions	1,320	1,450	1,330	1,230	1,130	1,463	1,650
Net Current Assets	**12,040**	**15,410**	**10,310**	**11,360**	**11,360**	**8,558**	**11,171**
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**	**39,328**	**40,701**

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2018	2019	2020	2021	2022	2023E	2022E
Basic (INR)							
EPS	**6.3**	**7.2**	**8.1**	**9.0**	**9.5**	**10.6**	**12.7**
Cash EPS	7.0	9.7	9.0	10.2	10.6	11.8	14.0
BV/Share	19.7	23.2	23.4	25.1	26.0	26.3	27.0
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	96.7	94.4
Valuation (x)							
P/E	83.1	73.0	64.7	58.3	55.2	49.4	41.2
Cash P/E	74.9	54.3	58.5	51.6	49.6	44.4	37.5
EV/Sales	10.6	9.1	9.2	8.2	7.0	6.6	5.8
EV/EBITDA	59.1	50.6	45.7	41.7	39.7	34.5	29.0
P/BV	26.6	22.6	22.4	20.9	20.2	19.9	19.4
Dividend Yield (%)	0.9	1.3	1.5	1.5	1.8	2.0	2.3
Return Ratios (%)							
RoE	33.4	33.4	34.7	37.1	37.2	40.6	47.7
RoCE	30.8	31.3	32.9	34.2	34.0	36.9	42.7
RoIC	40.7	40.7	43.9	54.2	56.2	61.2	77.1
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	2022E
OP/(loss) before Tax	11,170	12,570	13,740	15,230	16,010	18,157	21,834
Int./Div. Received	-280	-130	-270	-140	-110	-953	-1,134
Depreciation	890	1,310	1,500	1,390	1,390	1,560	1,641
Interest Paid	-180	-140	-220	-250	-200	459	483
Direct Taxes Paid	-2,950	-3,200	-2,900	-2,850	-3,510	-4,085	-5,022
(Incr)/Decr in WC	-3,490	210	330	7,300	-3,420	2,446	-1,257
CF from Operations	**5,160**	**10,620**	**12,180**	**20,680**	**10,160**	**17,583**	**16,545**
(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**	**17,123**	**15,245**
(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	-518	-1,333
CF from Invest.	**160**	**-130**	**-3,450**	**-2,840**	**-910**	**-5,698**	**-1,633**
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	-759	-783
CF from Fin. Activity	**-5,670**	**-6,980**	**-11,460**	**-11,190**	**-12,900**	**-12,241**	**-13,556**
Incr/Decr of Cash	**-350**	**3,510**	**-2,730**	**6,650**	**-3,650**	**-357**	**1,356**
Add: Opening Balance	2,360	2,010	5,520	2,790	9,440	5,790	5,433
Closing Balance	**2,010**	**5,520**	**2,790**	**9,440**	**5,790**	**5,433**	**6,790**

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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