

Estimate changes	↔
TP change	↔
Rating change	↔

Bloomberg	MRCO IN
Equity Shares (m)	1290
M.Cap.(INRb)/(USDb)	638.3 / 7.8
52-Week Range (INR)	554 / 463
1, 6, 12 Rel. Per (%)	-1/-8/-13
12M Avg Val (INR M)	752

Financials & Valuations (INR b)

Y/E March	2023	2024E	2025E
Sales	97.6	108.3	121.4
Sales Gr. (%)	2.6	11.0	12.1
EBITDA	18.1	21.0	24.0
EBITDA Margin. %	18.5	19.4	19.8
Adj. PAT	13.0	14.8	17.0
Adj. EPS (INR)	10.1	11.5	13.2
EPS Gr. (%)	6.3	13.8	14.7
BV/Sh.(INR)	29.4	35.0	37.3

Ratios

RoE (%)	36.4	35.7	36.4
RoCE (%)	31.6	30.3	31.1
Payout (%)	44.6	80.6	82.2

Valuations

P/E (x)	48.9	43.0	37.5
P/BV (x)	16.8	14.1	13.2
EV/EBITDA (x)	34.6	29.6	25.8
Div. Yield (%)	0.9	1.9	2.2

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	59.4	59.5	59.5
DII	10.4	10.3	8.8
FII	25.1	25.2	25.2
Others	5.1	5.1	6.5

FII Includes depository receipts

CMP: INR494 TP: INR590 (+20%) Buy
Margin trajectory to improve going forward

- Marico's (MRCO) 4QFY23 sales was in line with our estimates, while the beat on profitability was on account of higher 'other income' which included a one-time gain of INR280m from the sale of land. Adjusting for this, profitability was also in line with our estimates.
- Employee expenses were up YoY, due to additional costs related to acquisitions and the base was low due to reversals of some management incentives. The management indicated that both gross and EBITDA margin are expected to improve in the future along with increase in ad-spends.
- The outlook on gross and EBITDA margins is gradually improving. The overall consumption trends are indicating improvement and it is likely that the rural sector has bottomed out as the declining volume trend reversed. This should lead to an improvement in MRCO's earnings growth prospects. Valuations are inexpensive at 43x/37.5x FY24/FY25 EPS. We reiterate our **BUY** rating on the stock.

In-line sales; higher 'other income' led to PAT beat
Consolidated

- Consolidated net sales remained flat YoY at INR22.4b (est. INR22.3b) in 4QFY23.
- EBITDA/PBT/Adj. PAT grew 13.6%/24.5%/20.8% YoY to INR3.9b/ INR4.0b/ INR3.0b (est. INR4.2b/INR3.8b/INR2.8b).
- Domestic volumes grew 5% YoY (est. up 1% YoY).
- Consolidated gross margin expanded by 290bp YoY/250bp QoQ to 47.4% (est. 46.0%).
- As a percentage of sales, higher staff (up 120bp to 7.6%), other expenditure (up 30bp to 12.9%), and stable A&P expenses at 9.4% led to EBITDA margin expansion of 150bp YoY to 17.5% in 4QFY23 (est. 18.7%).
- FY23 sales remained flat at INR97.6b and EBITDA/Adj. PAT grew 7.7%/6.3% to INR18.1b/INR13.0b.

Standalone

- Sales remained flat YoY at INR17.0b. EBITDA grew 13.0% YoY to INR2.8b while Adj. PAT declined 30.4% YoY to INR2.0b.
- EBITDA margin expanded 170bp YoY to 16.4%.
- FY23 sales/Adj. PAT remained flat at INR74.8b/INR11.8b. EBITDA grew 10.7% to INR13.1b.

Highlights from the management commentary

- Gross margin expanded on the back of moderation in input prices and favorable product mix. They have also passed on the decrease in prices to the consumers.
- In FY24E, while gross margin may increase by ~200-250bp, EBITDA margin is expected to increase by ~100bp YoY.
- The company aspires to clock a revenue of ~INR4b by FY24 from digital-first brands.

- VAHO started seeing an uptick from mid quarter and is expected to see further improvement due to a favorable environment going forward.
- MT and e-commerce grew in double digits.

Valuation and view

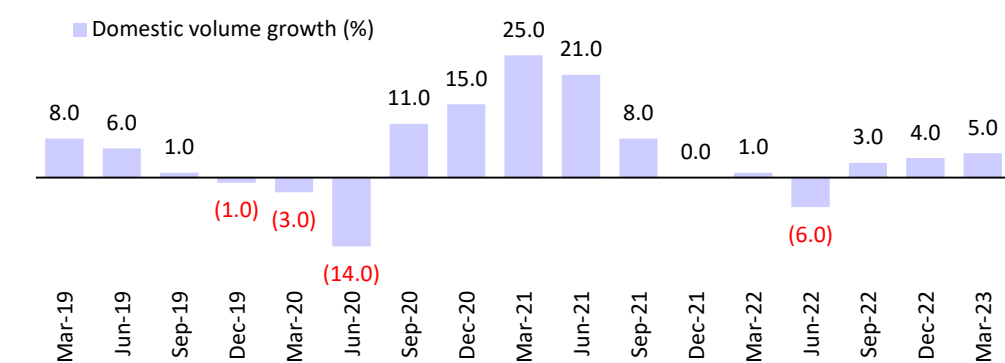
- There is no material change to our EPS forecasts for FY23 and FY24.
- The company's earnings growth prospects are healthy with expectations of a ~14-15% CAGR over FY23-25 and RoE of over 35%.
- The much-needed diversification is gathering momentum in the Foods and digital-first brands. If sustained, this can lead to higher multiples for MRCO as compared to the past. We reiterate our BUY rating on the stock with a **TP of INR590 (based on 45x FY25E EPS)**.

Quarterly Performance

Y/E March	FY22				FY23				FY22	FY23	FY23	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Domestic volume growth (%)	21.0	8.0	0.0	1.0	-5.0	3.0	4.0	5.0	7.0	1.8	1.0	
Net Sales	25,250	24,190	24,070	21,610	25,580	24,960	24,700	22,400	95,120	97,640	22,290	0.5%
YoY Change (%)	31.2	21.6	13.4	7.4	1.3	3.2	2.6	3.7	18.2	2.6	3.1	
Gross Profit	10,360	10,270	10,520	9,610	11,520	10,890	11,100	10,620	40,760	44,130	10,252	3.6%
Gross margin (%)	41.0	42.5	43.7	44.5	45.0	43.6	44.9	47.4	42.9	45.2	46.0	
EBITDA	4,810	4,230	4,310	3,460	5,280	4,330	4,560	3,930	16,810	18,100	4,163	-5.6%
Margins (%)	19.0	17.5	17.9	16.0	20.6	17.3	18.5	17.5	17.7	18.5	18.7	
YoY Change (%)	3.0	8.7	4.4	8.5	9.8	2.4	5.8	13.6	5.7	7.7	20.3	
Depreciation	330	330	360	370	360	370	390	430	1,390	1,550	440	
Interest	80	100	100	110	100	150	140	170	390	560	137	
Other Income	270	250	220	240	170	190	400	680	980	1,440	201	
PBT	4,670	4,050	4,070	3,220	4,990	4,000	4,430	4,010	16,010	17,430	3,786	5.9%
Tax	1,020	890	900	650	1,220	930	1,100	960	3,460	4,210	879	
Rate (%)	21.8	22.0	22.1	20.2	24.4	23.3	24.8	23.9	21.6	24.2	23.2	
Adjusted PAT	3,560	3,090	3,100	2,500	3,710	3,010	3,280	3,020	12,250	13,020	2,777	8.8%
YoY Change (%)	7.6	4.0	1.0	5.0	4.2	-2.6	5.8	20.8	5.5	6.3	11.1	

Key Performance Indicators

Y/E March	FY22				FY23			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
2Y average growth (%)								
Volume	3.5	9.5	7.5	13.0	8.0	5.5	2.0	3.0
Sales	10.0	15.2	14.9	20.9	16.2	12.4	8.0	5.5
EBITDA	2.1	9.5	7.5	10.8	6.4	5.6	5.1	11.0
PAT	5.5	12.1	6.9	10.6	5.9	0.7	3.4	12.9
% of Sales								
COGS	59.0	57.5	56.3	55.5	55.0	56.4	55.1	52.6
Operating Expenses	22.0	25.0	25.8	28.5	24.4	26.3	26.5	29.9
Depreciation	1.3	1.4	1.5	1.7	1.4	1.5	1.6	1.9
YoY change (%)								
COGS	50.6	34.6	20.2	6.8	-5.6	1.1	0.4	-1.8
Operating Expenses	18.3	6.7	6.7	8.1	12.4	8.6	5.3	8.8
Other Income	42.1	-7.4	-8.3	-17.2	-37.0	-24.0	81.8	183.3
EBIT	3.5	9.6	4.8	9.2	9.8	1.5	5.6	13.3

Exhibit 1: Domestic volumes grew 5% YoY

Source: MOFSL, Company

Exhibit 2: Consolidated segmental details

	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
Sales growth (%)									
Domestic	37.3	34.6	24.0	11.7	5.1	(3.6)	1.4	1.9	1.8
International	25.1	19.8	14.1	19.2	15.1	19.5	9.3	4.9	10.5
Total	34.5	31.2	21.6	13.4	7.3	1.3	3.2	2.6	3.8
EBIT margin (%)									
Domestic EBIT margin	16.1%	17.8%	16.7%	17.2%	16.2%	20.7%	17.4%	18.6%	17.9%
International EBIT margin	18.9%	26.1%	22.4%	22.9%	18.8%	24.5%	21.2%	21.6%	21.2%
Total	16.7%	19.5%	18.0%	18.6%	16.8%	21.7%	18.3%	19.4%	18.8%

Source: Company, MOFSL

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

Franchise	~MS%	Rank
▲ Coconut Oil Franchise	62%	1 st
▲ Parachute Rigids within Coconut Oils	53%	1 st
● Saffola Oats	43%	1 st
● Value Added Hair Oils	28%	1 st
▲ Post wash Leave-on Serums	60%	1 st
● Hair Gels/Waxes/Creams	53%	1 st

^ Volume market share, *Value market share

Source: Company

Exhibit 4: ESG initiatives by MRCOMarico launched its [ESG 2.0 framework](#) on June 5, 2022, commemorating the 50th anniversary of World Environment Day

Emissions & Energy

- 77.75% reduction in GHG emission intensity (Scope 1+2)
- 66.5% energy sourced from renewables

Water Stewardship

- 100% replenishment of water consumed in operations
- 119 farm ponds constructed; 292.92 crore liters of water conservation potential created till date

Circular Economy

- 95% recyclable packaging by weight
- 20% recycled PET in Nihar shanti amla bottles
- Fulfilment of EPR targets

Sustainable Coconut

- 0.311 Mn acreage enrolled covering 81,000 farmers till date
- 16% improvement in productivity in farms that have completed more than a year under the program

Social Value Creation

- 2.41lakhs+ teachers and 10.81 lakhs students impacted from Nihar Shanti Pathshala Funwala's WhatsApp-based English literacy program
- Marico Innovation Foundation (MIF) awarded 7 individuals & companies across technology, healthcare and social impact category in its 9th edition

The eight focus areas of ESG 2.0 are achievement of Climate change, Water stewardship, Circular economy, Responsible sourcing, Brands with purpose, Inclusion and diversity, Sustainable agriculture and Corporate governance.

Source: Company



Highlights from the management commentary

Business environment and outlook

- There has been a gradual recovery in FMCG consumption due to moderation in input costs.
- Food continues to drive the growth for the sector.
- The rural sector seems to have bottomed out during the quarter.
- Volume growth will be better in FY24 than FY23.
- In the overall FMCG space, food products tend to be geared toward urban consumers, while the HPC products tend to be more geared toward rural consumers. Whenever there is an impact on consumption, HPC tends to be more affected than foods.
- GT declined to low-single digits and management expects it to grow in FY24.
- MT and e-commerce grew in double digits.

Segmental performance

Parachute coconut oil

- Parachute coconut oil gained 70bp market share during the quarter.
- Branded coconut oil category turned positive this quarter.

Saffola edible oil

- Stability trends in the global oil market would help the category.
- Continues to witness a healthy uptick.
- Mid-high single-digit growth is expected, if the environment remains conducive.

VAHO

- It has significant rural salience.
- It has consistently been gaining value market share and has gained ~60bp market share in 4QFY23.
- The category started seeing an uptick from mid quarter and is expected to see further improvement due to a favorable environment going forward.
- Aloe crossed a revenue of INR1b.
- A few more launches are planned for FY24.
- The management aspires this segment to grow in double digits over the next three years; however, it depends on rural growth too.

Foods

- Revenue came in at ~INR6b in FY23. It is expected to reach INR8.5b in FY24.
- Masala Oats reaches 2,00,000 outlets.
- It is open to inorganic growth in the category.

Digital-first brands

- Digital-first brands are performing as per internal targets.
- It aspires to reach a revenue of ~INR4b by FY24.

International business

- Inflation has moderated a bit in Bangladesh.
- MENA delivered double-digit constant currency growth.

Material costs, margin and guidance

- Gross margin expanded on the back of moderation in input prices and favorable product mix.
- The company has also passed on the decrease in prices to the consumers.
- The company has increased its A&P spends and this will further increase going forward.
- Gross margin may increase by 200-250bp and EBITDA margin increase by ~100bp YoY in FY24E.
- Employee costs were up during the year due to additional cost related to acquisitions and the base was lower due to reversal of provision of management incentives for not reaching targets.

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 the 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 growth potential of the brands Livon, Set Wet, and Zatak acquired from Paras/Reckitt has not been realized as they have not scaled up as expected.
- Topline and earnings growth have been healthy for the past 10 years, with an ~8%/11%/13% CAGR in topline/EBITDA/PAT. Over the past five years, growth has been robust, but has decelerated when compared to previous years (sales/EBITDA/ PAT growth of ~9%/10%/~10%).

Our view on the stock

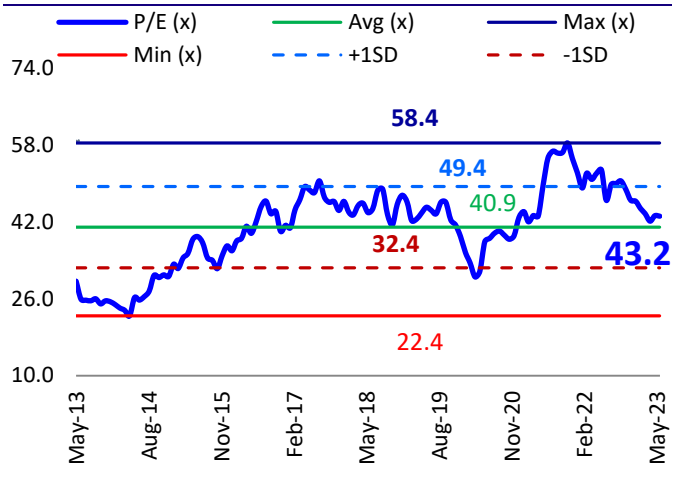
- There is no material change to our EPS forecasts for FY23 and FY24.
- The company's earnings growth prospects are healthy with expectations of a ~14-15% CAGR over FY23-25E and RoE of over 35%.
- The much-needed diversification is gathering momentum in the Foods and digital-first brands. If sustained, this can lead to higher multiples for MRCO as compared to the previous years. We reiterate our BUY rating on the stock with a **TP of INR590 (based on 45x FY25E EPS).**

Exhibit 5: We revise up our FY24E/FY25E EPS by 0.9%/2.4%

	Old		New		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	1,08,290	1,21,313	1,08,334	1,21,412	0.0%	0.1%
EBITDA	20,778	23,548	20,997	24,003	1.1%	1.9%
PAT	14,680	16,593	14,812	16,986	0.9%	2.4%

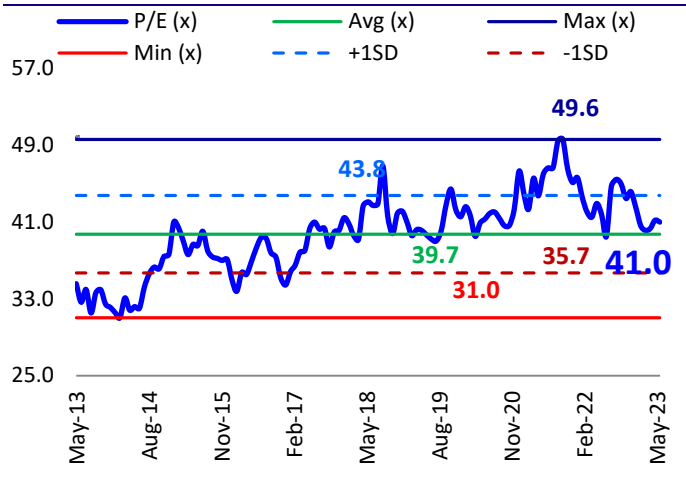
Source: Company, MOFSL

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	2023	2024E	2025E
Net Sales	63,220	73,340	73,150	80,480	95,120	97,640	1,08,334	1,21,412
Change (%)	6.8	16.0	-0.3	10.0	18.2	2.6	11.0	12.1
COGS	33,720	40,170	37,680	42,700	54,360	53,510	57,466	63,888
Gross Profit	29,500	33,170	35,470	37,780	40,760	44,130	50,868	57,524
Margin (%)	46.7	45.2	48.5	46.9	42.9	45.2	47.0	47.4
Operating Expenses	18,130	19,920	20,820	21,870	23,950	26,030	29,871	33,521
EBITDA	11,370	13,250	14,650	15,910	16,810	18,100	20,997	24,003
Change (%)	-1.9	16.5	10.6	8.6	5.7	7.7	16.0	14.3
Margin (%)	18.0	18.1	20.0	19.8	17.7	18.5	19.4	19.8
Depreciation	890	1,310	1,400	1,390	1,390	1,550	1,727	2,009
Int. and Fin. Charges	160	400	500	340	390	560	820	810
Other Income - Recurring	850	1,030	1,240	940	980	1,440	1,303	1,429
Profit before Taxes	11,170	12,570	13,990	15,120	16,010	17,430	19,752	22,613
Change (%)	-2.8	12.5	11.3	8.1	5.9	8.9	13.3	14.5
Margin (%)	17.7	17.1	19.1	18.8	16.8	17.9	18.2	18.6
Current Tax (excl MAT Ent)	2,840	3,310	3,470	3,350	3,430	3,770	4,642	5,314
Deferred Tax	60	-180	-160	-110	30	440	99	113
Tax Rate (%)	26.0	24.9	23.7	21.4	21.6	24.2	24.0	24.0
Profit after Taxes	8,140	9,260	10,460	11,610	12,250	13,020	14,812	16,986
Change (%)	0.4	13.8	13.0	11.0	5.5	6.3	13.8	14.7
Margin (%)	12.9	12.6	14.3	14.4	12.9	13.3	13.7	14.0
Reported PAT	8,140	11,140	10,170	11,720	12,250	13,020	14,812	16,986

Balance Sheet								(INR m)
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
Share Capital	1,290	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	36,700	43,814	46,839
Net Worth	25,430	29,990	30,230	32,400	33,480	37,990	45,104	48,129
Minority Interest	120	110	130	180	570	1,570	1,570	1,570
Loans	3,090	3,490	3,350	4,700	4,360	8,320	8,770	9,220
Capital Employed	28,640	33,590	33,710	37,280	38,410	47,880	55,444	58,919
Gross Fixed Assets	8,120	9,140	13,440	13,400	15,340	17,130	18,000	20,500
Intangibles	600	550	410	2,300	3,060	5,600	3,060	3,060
Less: Accum. Depn.	-2,480	-3,250	-5,270	-5,710	-7,340	-8,890	-10,617	-12,626
Net Fixed Assets	6,240	6,440	8,580	9,990	11,060	13,840	10,443	10,934
Capital WIP	270	450	580	240	390	670	670	670
Goodwill	4,860	5,030	5,380	6,130	6,540	8,620	8,720	8,820
Investments	5,430	4,500	7,330	8,540	8,280	10,960	12,000	12,000
Curr. Assets, L&A	23,920	29,120	26,560	28,340	29,720	33,910	44,607	49,680
Inventory	15,110	14,110	13,800	11,260	14,120	12,250	15,167	15,784
Account Receivables	3,400	5,170	5,390	3,880	6,520	10,150	12,458	12,141
Cash and Bank Balance	2,010	5,520	2,790	9,440	5,790	7,560	12,242	15,830
Others	3,400	4,320	4,580	3,760	3,290	3,950	4,740	5,925
Curr. Liab. and Prov.	11,880	13,710	16,250	16,980	18,360	19,800	20,676	22,865
Current Liabilities	10,560	12,260	14,920	15,750	17,230	18,380	19,078	21,112
Accounts Payable	8,220	9,440	9,780	11,340	13,440	14,520	14,885	16,586
Provisions	1,320	1,450	1,330	1,230	1,130	1,420	1,598	1,753
Net Current Assets	12,040	15,410	10,310	11,360	11,360	14,110	23,931	26,815
Deferred Tax Liability	-200	1,760	1,530	1,020	780	-320	-320	-320
Application of Funds	28,640	33,590	33,710	37,280	38,410	47,880	55,444	58,919

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
Basic (INR)								
EPS	6.3	7.2	8.1	9.0	9.5	10.1	11.5	13.2
Cash EPS	7.0	9.7	9.0	10.2	10.6	11.3	12.8	14.7
BV/Share	19.7	23.2	23.4	25.1	26.0	29.4	35.0	37.3
DPS	4.6	6.6	7.8	7.7	9.3	4.5	9.3	10.8
Payout %	72.4	76.3	98.5	84.4	97.4	44.6	80.6	82.2
Valuation (x)								
P/E	78.2	68.8	60.9	54.9	52.0	48.9	43.0	37.5
Cash P/E	70.5	51.1	55.0	48.6	46.7	43.7	38.5	33.5
EV/Sales	10.0	8.6	8.6	7.7	6.6	6.4	5.7	5.1
EV/EBITDA	55.6	47.6	43.0	39.2	37.3	34.6	29.6	25.8
P/BV	25.0	21.2	21.1	19.7	19.0	16.8	14.1	13.2
Dividend Yield (%)	0.9	1.3	1.6	1.6	1.9	0.9	1.9	2.2
Return Ratios (%)								
RoE	33.4	33.4	34.7	37.1	37.2	36.4	35.7	36.4
RoCE	30.8	31.3	32.9	34.2	34.0	31.6	30.3	31.1
RoIC	40.7	40.7	43.9	54.2	56.2	47.7	49.5	54.8
Leverage Ratio								
Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2

Cash Flow Statement

(INR m)

Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
OP/(loss) before Tax	11,170	12,570	13,740	15,230	16,010	17,430	19,752	22,613
Int./Div. Received	-280	-130	-270	-140	-110	-580	-1,303	-1,429
Depreciation	890	1,310	1,500	1,390	1,390	1,550	1,727	2,009
Interest Paid	-180	-140	-220	-250	-200	70	820	810
Direct Taxes Paid	-2,950	-3,200	-2,900	-2,850	-3,510	-3,690	-4,642	-5,314
(Incr)/Decr in WC	-3,490	210	330	7,300	-3,420	-590	-5,140	705
CF from Operations	5,160	10,620	12,180	20,680	10,160	14,190	11,215	19,393
(Incr)/Decr in FA	-1,280	-1,430	-1,860	-2,690	-1,840	-4,980	1,670	-2,500
Free Cash Flow	3,880	9,190	10,320	17,990	8,320	9,210	12,885	16,893
(Pur)/Sale of Investments	700	1,030	280	-4,270	3,370	-3,890	-1,040	0
Others	740	270	-1,870	4,120	-2,440	2,050	-778	-802
CF from Invest.	160	-130	-3,450	-2,840	-910	-6,820	-148	-3,302
Issue of Shares	0	0	0	60	410	90	0	0
(Incr)/Decr in Debt	0	110	-530	-310	-670	870	450	450
Dividend Paid	-6,360	-6,820	-10,250	-10,290	-11,950	-5,820	-5,805	-11,933
Others	690	-270	-680	-650	-690	-740	-1,030	-1,020
CF from Fin. Activity	-5,670	-6,980	-11,460	-11,190	-12,900	-5,600	-6,385	-12,502
Incr/Decr of Cash	-350	3,510	-2,730	6,650	-3,650	1,770	4,682	3,589
Add: Opening Balance	2,360	2,010	5,520	2,790	9,440	5,790	7,560	12,242
Closing Balance	2,010	5,520	2,790	9,440	5,790	7,560	12,242	15,830

E: MOFSL Estimates

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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
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