

India

**HOLD** (previously ADD)

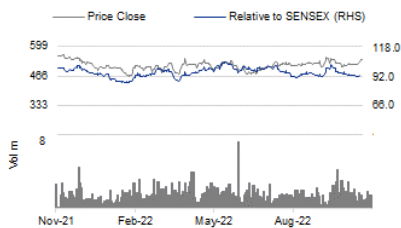
Consensus ratings\*: Buy 32 Hold 8 Sell 3

Current price:	Rs539
Target price:	Rs545
Previous target:	Rs545
Up/downside:	1.1%
InCred Research / Consensus:	-4.1%
Reuters:	MRCO.NS
Bloomberg:	MRCO IN
Market cap:	US\$8,457m
	Rs697,163m
Average daily turnover:	US\$9.9m
	Rs812.4m
Current shares o/s:	1,291.2m
Free float:	40.5%

\*Source: Bloomberg

**Key changes in this note**

- Downgrade our rating to HOLD from ADD.
- Reduce FY23F-24F EPS by 9.5%/5.9%.
- Introduce FY25F estimates.

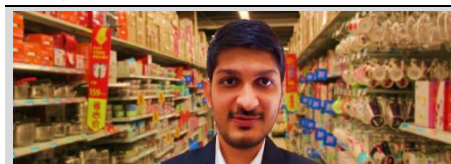


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.5	1.4	(3.3)
Relative (%)	(2.1)	(2.8)	(4.7)

Major shareholders	% held
Promoter	59.5
First State Investments ICVC	5.6
LIC	4.0

**Analyst(s)**



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# Marico Ltd

## Fairly priced

- Marico's 2QFY23 consolidated sales grew 3.2% yoy (3-year CAGR of 10.9%). Domestic value/volume growth was flat/3% yoy. IBD reported 11% CC growth.
- Growth expectations in 2HFY23F remain subdued with mid-single volume growth (lower value growth) and 18-19% EBITDA margin for FY23F.
- Current valuation limits the upside. Downgrade to HOLD (from ADD) with an unchanged target price of Rs545 (43x Sep 2024F EPS).

### Subdued growth expectations for 2HFY23F

Marico's domestic business posted flat yoy sales growth and 3% yoy volume growth in 2QFY23. Urban and premium discretionary (off a low base) consumption categories did well while rural markets reeled under pressure. Parachute posted volume/value decline of 3%/11% yoy, respectively, as continued copra price corrections (frequent price cuts affect trade as channel inventory is 6-8 weeks) led to lower conversion to branded products. Weakness in value-added hair oil (VAHO) continues (up just 2% yoy) due to stress in rural markets. Vegetable oil price correction led to a decline of 2% in Saffola edible oils, as per our estimate. Foods portfolio grew 26% yoy, contributing 8.5% to standalone sales. With new launches likely in 2HFY23F, Marico remains confident of achieving Rs6.5bn sales in FY23F. Premium personal care and digital first brands grew on a low base, contributing 3.9%/3.3%, respectively, to standalone sales. While management expects volume growth to recover to mid-single digit (vs. double-digit expected earlier) in 2HFY23F, price cuts in Parachute and volatility in edible oil prices to result in lower value growth.

### IBD sustains momentum; Bangladesh growth trajectory tapers off

International business division (IBD) posted a broad-based constant currency (CC) growth of 11% yoy. Notably, Bangladesh's pace of growth (on CC basis) slowed to 10% (for the second consecutive quarter) from mid-teens earlier. South-East Asia grew 10% (CC) led by strong growth in Vietnam. MENA region and South Africa grew 11%/16% in CC terms, respectively. Absolute ad spends in IBD were highest (at Rs1bn) in 2QFY23 dragging down subsidiary's EBITDA margin by 400bp yoy to 21.3% (gross margin down 150bp to 61.2%).

### Margins to remain rangebound

Consolidated gross margin expanded by 120bp yoy to 44.3% in 2QFY23. Domestic ad spends fell 3.4% yoy (down 20bp yoy) while consolidated ad spends grew 9.8% yoy. EBITDA grew 2.4% yoy while EBITDA margin contracted 10bp yoy to 17.3% (1H EBITDA margin at 19%) with management giving guidance of a 18-19% EBITDA margin for FY23F.

### Fairly priced; downgrade to HOLD

With subdued expectations from 2HFY23F and limited upside given the current valuation, we downgrade Marico to HOLD (ADD earlier) with unchanged target price of Rs545 (43x Sep 2024F EPS). Downside risks: Input cost volatility, and slower-than-expected ramp-up in food, personal care & D2C portfolios. Upside risk: Faster recovery in rural markets.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	80,480	95,120	97,430	108,382	119,497
Operating EBITDA (Rsm)	15,920	16,810	17,833	20,690	23,261
Net Profit (Rsm)	11,620	11,270	13,371	15,370	17,113
Core EPS (Rs)	9.0	8.7	10.4	11.9	13.3
Core EPS Growth	10.7%	(3.0%)	18.6%	15.0%	11.3%
FD Core P/E (x)	59.86	61.72	52.02	45.25	40.65
DPS (Rs)	6.0	6.0	6.5	7.5	8.3
Dividend Yield	1.29%	1.29%	1.42%	1.62%	1.79%
EV/EBITDA (x)	42.94	40.89	38.03	32.58	28.76
P/FCFE (x)	38.41	73.53	33.07	56.26	47.65
Net Gearing	(37.6%)	(25.7%)	(47.7%)	(52.8%)	(58.6%)
P/BV (x)	21.47	20.78	18.81	16.93	15.21
ROE	37.1%	34.2%	38.0%	39.4%	39.4%
% Change In Core EPS Estimates			(9.46%)	(5.90%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## Fairly priced

### Key takeaways from the earnings call

#### Demand and operating environment

- Barring an uptick in Sep 2022, FMCG industry volume declined for the fourth consecutive quarter. Home and personal care (HPC) categories witnessed high single-digit decline while foods category reported minor growth.
- In the HPC category, owing to inflation, bottom-of-the-pyramid customers are seen downtrading. Categories with higher market penetration levels like soaps, hair oils and shampoos don't typically witness tightening but see downtrading.
- Rural markets have been lagging urban markets (rural demand has started shrinking in 3QFY22) but are expected to grow in 2HFY23F. Due to high food inflation, both urban and rural customers typically tighten FMCG spending (visible more in rural markets currently). Premium discretionary categories continue to perform well, which were impacted more during the Covid-19 pandemic, leading to optically higher growth now.

#### India business

- **Parachute:** Sluggishness seen in conversion from loose coconut oils due to the continuous correction in copra prices, despite this being an off-season for copra (as demand is lower). Marico has been catching up with pricing and is in the midst of further price cuts (takes 6-8 weeks for price cuts to land in the market vs. 8-10 days for Saffola edible oils). In 2QFY23, Parachute rigids declined 3%/11% yoy in volume/value terms, respectively.
- **Edible oils:** Saffola's volume recovered smartly after a dip in 1QFY23 driven by smaller packs and a correction in vegetable oil prices. The focus is on penetration-led market share gains.
- **VAHO** posted subdued growth (up just 2% yoy) owing to stress in rural markets (downtrading visible). **Mid and premium categories performed better.** Overall hair oil sales growth tracks HPC growth. Marico will continue to remain competitive at the bottom of the pyramid, but will also protect margins.
- **Foods:**
  - **Oats and soya chunks performed well.** Oodles and peanut butter are growing well while mayonnaise is yet to catch up. Fittify is another brand which can be scaled up.
  - Soya bhurji (Rs15/35gm trial pack) and millet oats were launched during the quarter. **Soya bhurji** is expected to grow using learnings from oats (conversion of category from breakfast to snacking between meals). Larger packs of soya bhurji will be rolled out once the pilot phase is completed. Within plant proteins, Marico will focus on nutrition vs. meat alternatives.
  - **Saffola Honey Gold** (at the premium end) was also launched. In Sep 2022, when the company phased out old products of Honey, there was a market share dip which normalized once the new range was rolled out.
  - Saffola has evolved into a 'healthy' brand, with healthy offerings across categories. The **focus will remain on healthy categories** in the food portfolio.
  - At the current revenue run-rate for the food franchise, **FY23F revenue is expected to close at Rs6.5bn.**
  - Marico will **not be focusing on the hotel, restaurant and café (HORECA)** segment in foods category in the near term **as it isn't as profitable** (lower margin than Saffola edible oils) unless the focus is on scale.
- **Digital first brands** are performing well. The company continues to look for inorganic opportunities in this segment.

- **Premium personal care** categories provide significantly higher gross margin (despite A&P spends) and are now ahead of pre-Covid levels (largely impacted due to the pandemic). The company now has a portfolio of brands in male grooming (Breardo is majorly offline; being rolled out gradually in offline channels), hair gels are largely general trade (GT) channel-led. In serums and male grooming, the focus will be on innovation to compete on online channels and in modern trade channels.
- **Outlook: Management expects to deliver mid-single digit volume growth in 2HFY23F** (earlier, double-digit expected) **and targets 18-19% EBITDA margin in FY23F**. Management does not plan to gain volume or value market share at an unsustainable margin. Once pricing of Parachute settles down (price drops in line), then volume is expected to pick up. VAHO is expected to mirror overall HPC growth. The focus will be on growing foods business and diversifying digital brands while edible oils are expected to deliver high single-digit growth in the medium term.

### International business

- Delivered 11% CC growth.
- Bangladesh was resilient despite a challenging environment.
- Vietnam saw good growth in the HPC category.
- MENA region and South Africa saw stable growth. The company is investing in growth in the MENA region.

### Input cost and margin

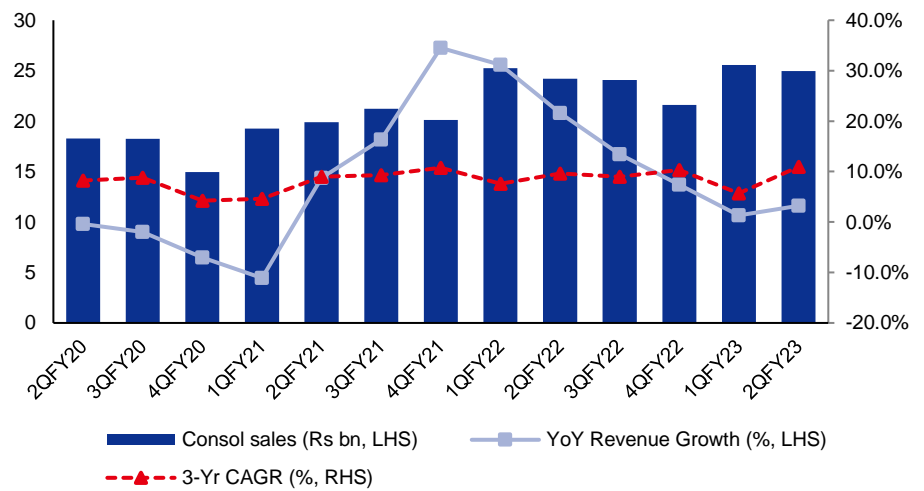
- Copra prices are expected to normalize in Dec 2022F. Parachute will continue to see some deflation (and price cuts) as prices are cooling off.
- Edible oil prices were cut ahead of the market to avoid multiple pricing changes (even as the company consumed high-priced inventory) which caused a 170bp impact on margins.
- International business registered a healthy EBITDA level and hence, the focus will be on key markets. Currency-related gains can aid in offsetting margin pressure on an overall basis. Vietnam and MENA region are reasonably insulated from currency fluctuations.

**Figure 1: Quarterly results summary – consolidated**

Y/E, Mar (Rs. m)	2QFY22	1QFY23	2QFY23	YoY (%)	QoQ (%)	1HFY22	1HFY23	Gr (%)
<b>Revenue</b>	<b>24,190</b>	<b>25,580</b>	<b>24,960</b>	3.2	-2.4	<b>49,440</b>	<b>50,540</b>	2.2
<b>Expenditure</b>	<b>19,960</b>	<b>20,300</b>	<b>20,630</b>	3.4	1.6	<b>40,400</b>	<b>40,930</b>	1.3
Consumption of RM	13,920	14,060	14,070	1.1	0.1	28,810	28,130	-2.4
as % of sales	57.5	55.0	56.4			58.3	55.7	
Employee cost	1,530	1,560	1,660	8.5	6.4	3,030	3,220	6.3
as % of sales	6.3	6.1	6.7			6.1	6.4	
Other expenditure	4,510	4,680	4,900	8.6	4.7	8,560	9,580	11.9
as % of sales	18.6	18.3	19.6			17.3	19.0	
<b>EBITDA</b>	<b>4,230</b>	<b>5,280</b>	<b>4,330</b>	<b>2.4</b>	<b>-18.0</b>	<b>9,040</b>	<b>9,610</b>	<b>6.3</b>
Depreciation	330	360	370	12.1	2.8	660	730	10.6
<b>EBIT</b>	<b>3,900</b>	<b>4,920</b>	<b>3,960</b>	<b>1.5</b>	<b>-19.5</b>	<b>8,380</b>	<b>8,880</b>	<b>6.0</b>
Other income	250	170	190	-24.0	11.8	520	360	-30.8
Interest	100	100	150	50.0	50.0	180	250	38.9
<b>PBT</b>	<b>4,050</b>	<b>4,990</b>	<b>4,000</b>	<b>-1.2</b>	<b>-19.8</b>	<b>8,720</b>	<b>8,990</b>	<b>3.1</b>
Total tax	890	1,220	930	4.5	-23.8	1,910	2,150	12.6
<b>PAT</b>	<b>3,160</b>	<b>3,770</b>	<b>3,070</b>	<b>-2.8</b>	<b>-18.6</b>	<b>6,810</b>	<b>6,840</b>	<b>0.4</b>
(Profit)/loss from JV's/Ass./MI	70	60	60	NA	0.0	160	120	-25.0
<b>APAT after MI</b>	<b>3,090</b>	<b>3,710</b>	<b>3,010</b>	<b>-2.6</b>	<b>-18.9</b>	<b>6,650</b>	<b>6,720</b>	<b>1.1</b>
Extraordinary items	0	0	0	NA	NA	0	0	NA
<b>Reported PAT</b>	<b>3,090</b>	<b>3,710</b>	<b>3,010</b>	<b>-2.6</b>	<b>-18.9</b>	<b>6,650</b>	<b>6,720</b>	<b>1.1</b>
<b>EPS</b>	<b>2.4</b>	<b>2.9</b>	<b>2.3</b>	<b>-2.6</b>	<b>-18.9</b>	<b>5.2</b>	<b>5.2</b>	<b>1.1</b>
<b>Margins (%)</b>	<b>2QFY22</b>	<b>1QFY23</b>	<b>2QFY23</b>	<b>YoY (bp)</b>	<b>QoQ (bp)</b>	<b>1HFY22</b>	<b>1HFY23</b>	<b>(bp)</b>
Gross margin	42.5	45.0	43.6	120	-140	41.7	44.3	260
EBIDTA	17.5	20.6	17.3	-10	-330	18.3	19.0	70
EBIT	16.1	19.2	15.9	-30	-340	16.9	17.6	60
EBT	16.7	19.5	16.0	-70	-350	17.6	17.8	20
PAT	13.1	14.7	12.3	-80	-240	13.8	13.5	-20
Effective tax rate	22.0	24.4	23.3	130	-120	21.9	23.9	200

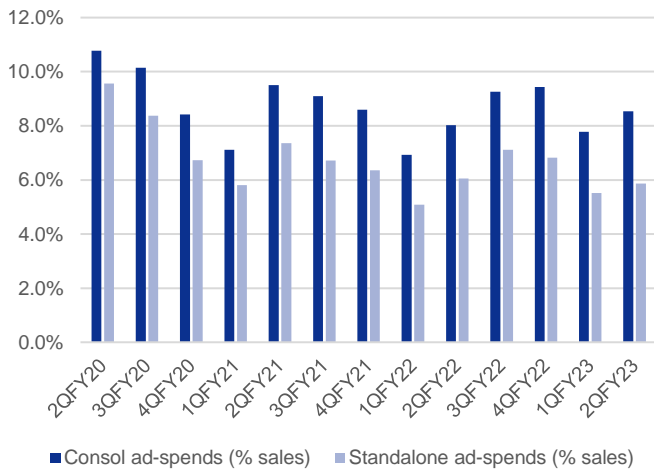
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Revenue grew 10.9% on a three-year CAGR basis in 2QFY23**



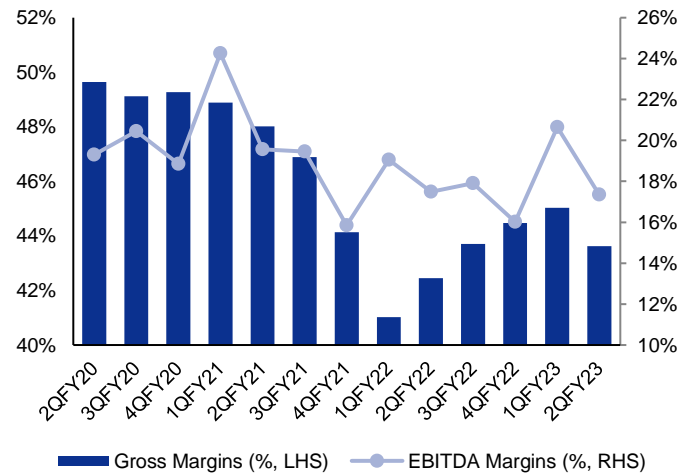
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: Trend in ad spends (% of sales)**



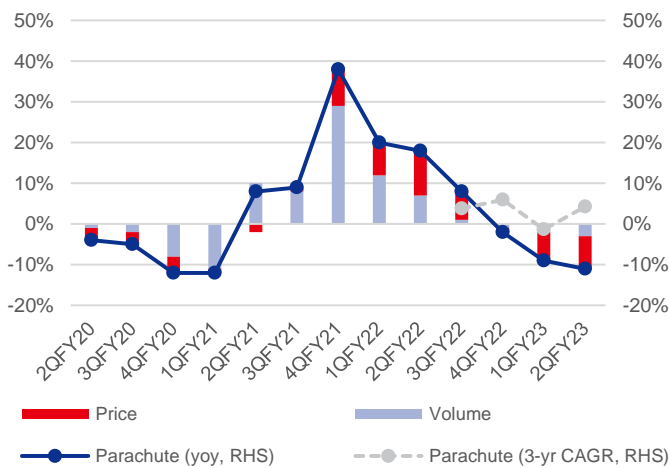
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 4: Consolidated EBITDA margin stood at 17.3% in 2QFY23**



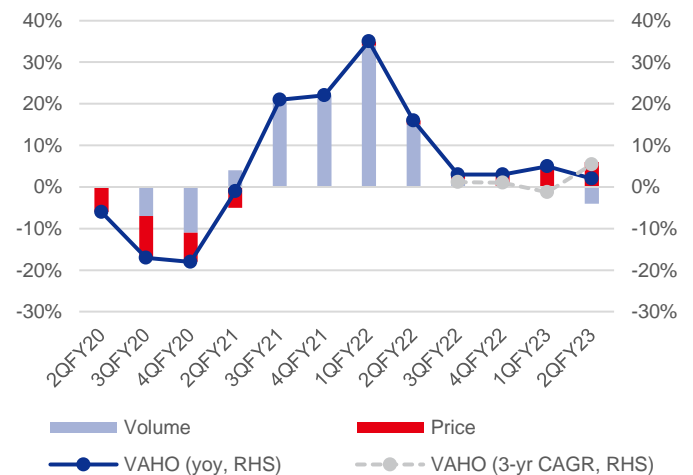
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 5: Parachute rigids declined 11% yoy in 2QFY23 driven by price cuts owing to softening copra prices**



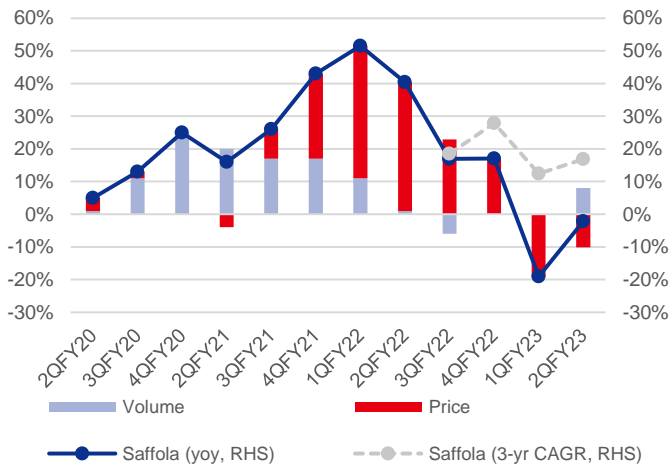
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 6: VAHO grew 2% in 2QFY23 led by pricing**



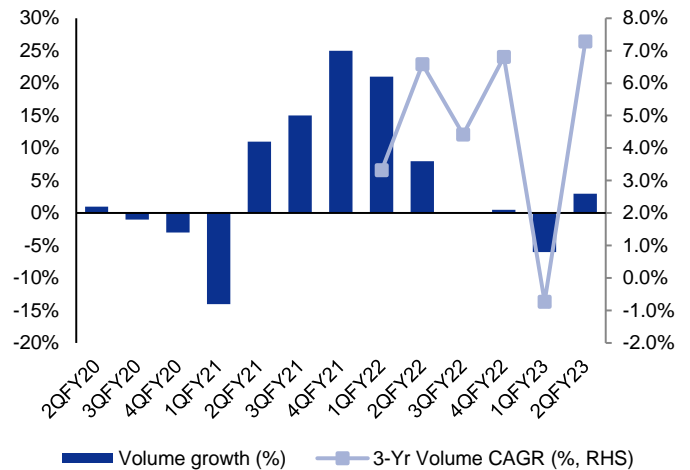
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 7: Saffola portfolio declined 2% yoy in 2QFY23 driven by +8%/-10% volume/pricing growth, respectively**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 8: Overall sales volume grew 3% in 2QFY23**



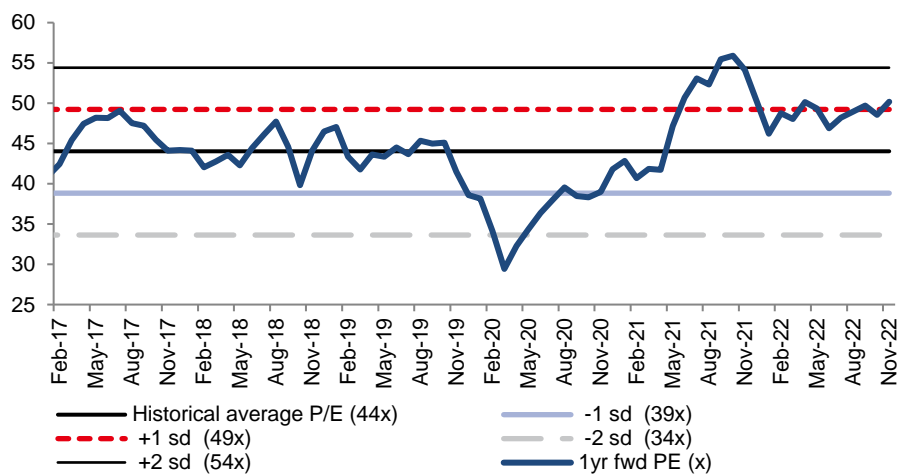
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 9: Our revised earnings estimates**

Y/E, Mar (Rs. m)	FY23F			FY24F			FY25F
	Earlier	Revised	% Change	Earlier	Revised	% Change	Introduced
Net sales	1,06,407	97,430	-8.4	11,91,146	1,08,382	-91	1,19,497
EBITDA	20,245	17,833	-11.9	23,120	20,690	-11	23,261
EBITDA margin (%)	19.0	18.3	-70 bp	19.4	19.1	-30 bp	19.5
APAT	14,775	13,371	-9.5	16,340	15,370	-6	17,113
EPS	11.5	10.4	-9.5	12.7	11.9	-5.9	13.3

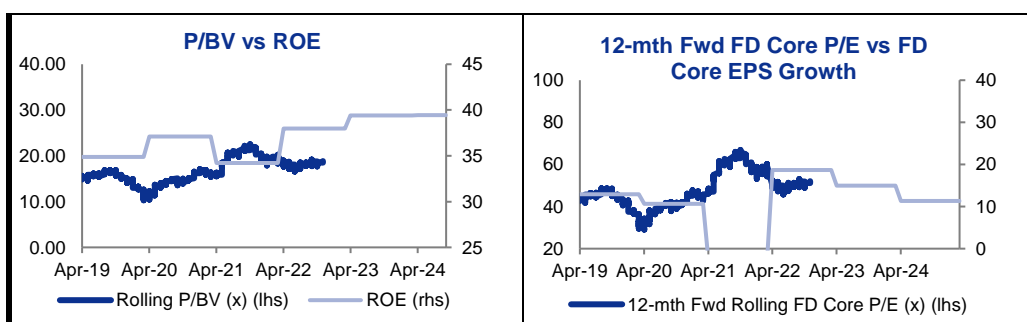
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 10: Marico trades above its +1SD P/E**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>Total Net Revenue</b>	<b>80,480</b>	<b>95,120</b>	<b>97,430</b>	<b>108,382</b>	<b>119,497</b>
<b>Gross Profit</b>	<b>37,780</b>	<b>40,760</b>	<b>43,737</b>	<b>50,012</b>	<b>56,231</b>
<b>Operating EBITDA</b>	<b>15,920</b>	<b>16,810</b>	<b>17,833</b>	<b>20,690</b>	<b>23,261</b>
Depreciation And Amortisation	(1,390)	(1,390)	(1,576)	(1,763)	(1,949)
<b>Operating EBIT</b>	<b>14,530</b>	<b>15,420</b>	<b>16,256</b>	<b>18,927</b>	<b>21,311</b>
Financial Income/(Expense)	600	(390)	850	814	788
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
<b>Profit Before Tax (pre-EI)</b>	<b>15,130</b>	<b>15,030</b>	<b>17,106</b>	<b>19,741</b>	<b>22,100</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>15,130</b>	<b>15,030</b>	<b>17,106</b>	<b>19,741</b>	<b>22,100</b>
Taxation	(3,240)	(3,460)	(3,435)	(4,071)	(4,687)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>11,890</b>	<b>11,570</b>	<b>13,671</b>	<b>15,670</b>	<b>17,413</b>
Minority Interests	(270)	(300)	(300)	(300)	(300)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>11,620</b>	<b>11,270</b>	<b>13,371</b>	<b>15,370</b>	<b>17,113</b>
Recurring Net Profit	11,620	11,270	13,371	15,370	17,113
<b>Fully Diluted Recurring Net Profit</b>	<b>11,620</b>	<b>11,270</b>	<b>13,371</b>	<b>15,370</b>	<b>17,113</b>

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>15,920</b>	<b>16,810</b>	<b>17,833</b>	<b>20,690</b>	<b>23,261</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	6,580	(3,720)	5,706	(120)	184
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	940	980	1,350	1,314	1,288
Net Interest (Paid)/Received	(340)	(390)	(500)	(500)	(500)
Tax Paid	(3,240)	(3,460)	(3,435)	(4,071)	(4,687)
<b>Cashflow From Operations</b>	<b>19,860</b>	<b>10,220</b>	<b>20,954</b>	<b>17,314</b>	<b>19,547</b>
Capex	(540)	(1,020)	(1,918)	(1,950)	(1,950)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(1,210)	260	2,000	(3,000)	(3,000)
<b>Cash Flow From Investing</b>	<b>(1,750)</b>	<b>(760)</b>	<b>82</b>	<b>(4,950)</b>	<b>(4,950)</b>
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(10,290)	(12,170)	(9,871)	(11,273)	(12,455)
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	<b>(10,290)</b>	<b>(12,170)</b>	<b>(9,871)</b>	<b>(11,273)</b>	<b>(12,455)</b>
Total Cash Generated	7,820	(2,710)	11,165	1,091	2,141
<b>Free Cashflow To Equity</b>	<b>18,110</b>	<b>9,460</b>	<b>21,036</b>	<b>12,364</b>	<b>14,597</b>
<b>Free Cashflow To Firm</b>	<b>18,450</b>	<b>9,850</b>	<b>21,536</b>	<b>12,864</b>	<b>15,097</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs m)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	15,720	12,200	21,365	25,456	30,597
Total Debtors	3,880	6,520	4,444	4,943	5,445
Inventories	11,260	14,120	15,685	16,302	16,715
Total Other Current Assets	3,760	3,290	3,667	4,079	4,487
<b>Total Current Assets</b>	<b>34,620</b>	<b>36,130</b>	<b>45,161</b>	<b>50,780</b>	<b>57,244</b>
Fixed Assets	7,930	12,930	13,284	13,471	13,471
Total Investments	2,260	1,870	1,870	1,870	1,870
Intangible Assets	8,430	3,060	3,048	3,048	3,048
Total Other Non-Current Assets	780	730	730	730	730
<b>Total Non-current Assets</b>	<b>19,400</b>	<b>18,590</b>	<b>18,932</b>	<b>19,119</b>	<b>19,119</b>
Short-term Debt	3,400	3,450	3,450	3,450	3,450
Current Portion of Long-Term Debt					
Total Creditors	11,340	13,440	19,100	20,494	21,988
Other Current Liabilities	4,950				
<b>Total Current Liabilities</b>	<b>19,690</b>	<b>16,890</b>	<b>22,550</b>	<b>23,944</b>	<b>25,438</b>
Total Long-term Debt	80				
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,460				
<b>Total Non-current Liabilities</b>	<b>1,540</b>				
Total Provisions	210	220	133	146	160
<b>Total Liabilities</b>	<b>21,440</b>	<b>17,110</b>	<b>22,683</b>	<b>24,091</b>	<b>25,598</b>
Shareholders' Equity	32,400	33,480	36,980	41,078	45,736
Minority Interests	180	570	570	570	570
<b>Total Equity</b>	<b>32,580</b>	<b>34,050</b>	<b>37,550</b>	<b>41,648</b>	<b>46,306</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	10.0%	18.2%	2.4%	11.2%	10.3%
Operating EBITDA Growth	8.4%	5.6%	6.1%	16.0%	12.4%
Operating EBITDA Margin	19.8%	17.7%	18.3%	19.1%	19.5%
Net Cash Per Share (Rs)	9.49	6.78	13.89	17.06	21.04
BVPS (Rs)	25.12	25.95	28.67	31.84	35.45
Gross Interest Cover	42.73	39.54	32.51	37.85	42.62
Effective Tax Rate	21.4%	23.0%	20.1%	20.6%	21.2%
Net Dividend Payout Ratio	77.5%	79.7%	73.8%	73.3%	72.8%
Accounts Receivables Days	21.02	19.95	20.54	15.81	15.87
Inventory Days	107.11	85.21	101.31	100.01	95.24
Accounts Payables Days	90.27	83.19	110.60	123.80	122.55
ROIC (%)	73.6%	56.7%	74.7%	85.7%	97.3%
ROCE (%)	41.6%	41.9%	41.4%	44.0%	44.9%
Return On Average Assets	21.7%	22.0%	21.6%	22.2%	22.7%

<b>Key Drivers</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Domestic revenue growth	8.3%	18.4%	0.3%	11.2%	9.9%
EBIDTA margin	19.8%	17.7%	18.3%	19.1%	19.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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