

Core hair oil category saturated; foods to drive growth

About the stock: Marico is one of the major FMCG companies present in hair oil, edible oil, foods & personal care segment. Major brands include Parachute, Saffola, Nihar, Hair & Care, Set Wet, Livon & Beardo.

- Marico has an overall distribution network of more than 5.6 million outlets and direct reach of ~1 million outlets. Through its stockist network, it reaches 59000 villages
- With high gross margins of 45-50%, the company is able to spend 8-9% of its sales for advertisements to support new categories & products

Q3FY23 Results: Marico posted 2.6% sales growth; domestic volumes up 4%.

- Sales growth was led by 8% growth in international business
- EBITDA was at ₹ 456 crore, up 5.8% YoY, margins at 18.5% (up 56 bps)
- Consequently, PAT was at ₹ 332.9 crore, growth of 5%

What should investors do? Marico's share price has given 66% return in the last five years (from ₹ 297 in February 2018 to ₹ 494 in February 2023).

- Foods, digital brands, edible oil are growing at faster pace, which is likely to offset the slower growth in hair oil business. The company is likely to post mid-single digit volume growth until these high growth businesses scale up
- We maintain our **HOLD** rating on the stock

Target Price & Valuation: We value stock at ₹ 555 ascribing 45x PE on FY25 EPS.

Key triggers for future price performance:

- Foods portfolio has grown at a robust pace in last two years led by tailwinds of healthy eating habits. It is likely to grow to ₹ 850-1000 crore by FY24. Investing in digital brands. Aims to achieve ₹ 450-500 crore sales by FY24
- Hair oil category is highly penetrated and growth has become saturated. Moreover, market share gains from unorganised have slowed down with high volatility in RM prices & rural slowdown
- With a significant decline in vegetable oil prices, Saffola volumes are growing in double digits. The company expects to achieve sustainable high single digit volume growth in the medium term in Saffola Edible Oil

Alternate Stock Idea: We also like Dabur in our FMCG coverage.

- Significant shift in consumption towards healthier, natural & Ayurveda based products & aggressively foray in many big categories would be driving growth for Dabur
- Value the business at 52x FY25 earnings. BUY with a TP of ₹ 700



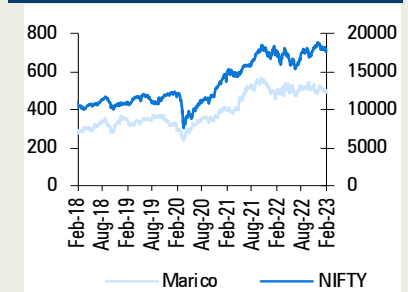
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	63,710.1
Total Debt (FY22)	345.0
Cash and Investments (FY22)	1,220.0
EV	62,835.1
52 week H/L (₹)	554/ 468
Equity capital	129.0
Face value (₹)	1.0

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	59.5	59.5	59.5	59.5
FII	25.1	25.2	25.0	25.1
DII	8.8	8.7	10.3	10.3
Others	6.6	6.7	5.2	5.2

Price Chart



Recent event & key risks

- Launched Saffola Munchiez in ragi chips & roasted makhana category
- **Key Risk:** (i) Volatility in key RM prices derails pricing & consumer demand (ii) High agri commodity prices may boost rural growth, in turn, volumes

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Key Financial Summary

Key Financials	FY21	FY22	5 Year CAGR				CAGR (FY22-25E)
			(FY17 to FY22)	FY23E	FY24E	FY25E	
Net Sales	8048.0	9512.0	9.9	9797.5	10534.2	11303.9	5.9%
EBITDA	1591.0	1681.0	7.7	1845.8	1996.8	2223.9	9.8%
EBITDA Margin %	19.8	17.7		18.8	19.0	19.7	
Net Profit	1199.0	1254.9	9.1	1329.6	1435.5	1599.1	8.4%
Adjusted Net Profit	1199.0	1254.9	9.1	1329.6	1435.5	1599.1	8.4%
EPS (₹)	9.29	9.73		10.31	11.13	12.39	
P/E	53.1	50.8		47.9	44.4	39.8	
RoNW %	37.0	37.5		38.5	40.6	43.8	
RoCE (%)	40.3	41.2		44.0	46.2	49.9	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q3FY23 Results: Focus on food, digital first brands to grow revenues

- Marico posted revenue growth of 2.6% to ₹ 2470 led by 8% growth in international business. Domestic sales grew at 2% led by 4% volume growth. On three-year CAGR basis, consolidated sales and operating profit growth was 11% & 7%, respectively, whereas domestic volume growth was 6% on a three-year CAGR basis
- Parachute sales de-grew 6% but volume growth was 2% during the quarter. With a significant decline in copra prices, unorganised to organised conversion slowed down considerably in the last one year. However, with some increase in copra prices last quarter, Parachute gained small 30 bps market share, largely from the unorganised market
- VAHO segment sales de-grew 3%, adversely impacted by a adverse rural demand conditions. Within the product portfolio, mid & premium oil segment is growing better than mass segment
- VAHO has seen a trend of down trading with unorganised segment gaining market share. The company is focusing on gaining value market share with focus on growing mid & premium hair oil brands. With a decline in commodity inflation, long term unorganised to organised trend is expected to resume
- Saffola sales (edible oil & foods) witnessed growth of 10% with edible oil witnessing ~13% volume growth in Q3. Trade as well as consumer sentiment improved with some stabilisation in prices
- Foods business continued to witness strong growth of 31% led by 20% growth in Saffola Oats & scale up of newly launched products. Saffola Oats maintained its leadership position in oats category. The company launched Saffola Munchiez in snacks category with 'Ragi Chips' & 'Roasted Makhana'
- The company is rapidly scaling up food GTM in eight to 10 cities and also concentrating on its strength in modern trade and e-commerce. With the scaling up of foods brands, Marico is looking to improve the profitability in the foods business
- Food products at higher price points can also be scaled up while Saffola Masala oats was launched at ₹ 50 price point. The business is clocking ₹ 300 crore revenue now
- Premium personal care brands (Livon, Set-Wet) witnessed growth of 50%+ on a low base of last two years. The category is clocking sales of ₹ 300 crore annualised run rate. The management is looking to grow these brands by 20%+ growth by leveraging cosmetics and chemist channel network
- Digital first brands (Beardo, Coco Soul, Just herbs, Pure sense) are expected to exit FY23 sales run rate of ₹ 250 crore. The company would be looking for acquisition in digital brands with headroom for growth, right unit economics
- International business growth was led by 13% constant currency growth in Vietnam, South Africa and MENA regions whereas Bangladesh market witnessed growth of 9% with steady growth in core & new product portfolio. Myanmar business declined due to adverse currency movements. The company acquired two brands 'Purete de Provence' & 'Oliv' in Vietnam market in the premium skin care product category
- Copra prices were down 18% YoY and up 1% sequentially. Rice bran oil was down 2% YoY & 4% sequentially. Liquid paraffin & HDPE prices were up 31% & 4% YoY, respectively

- Gross margins improved 123 bps with continued benign copra prices and decline in vegetable oil prices. Crude-based RM was still up YoY but came down from its peak
- Overhead & employee spends were up 54 bps & 50 bps, respectively. Advertisement spends were cut by 36 bps during the quarter. Operating profit grew 5.8% to ₹ 456 crore with operating margin expansion of 56 bps to 18.5%. PAT grew 5% to ₹ 332.9 crore
- Currency depreciation in Bangladesh has impacted profitability by 2-3% with both transactional & translation impact. Operating margin of domestic business was at 19.4% (134 bps up) & international business at 22.9% (121 bps down)

Exhibit 1: Peer Comparison

Sector / Company	CMP	TP	M Cap	Sales growth (%)			EBITDA Margins (%)			P/E(x)			RoE (%)			RoCE (%)			
	(₹)	(₹) Rating		(₹ Cr)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Hindustan Unilever (HINLEV)	2649	2800	Hold	604971	11.3	16.3	9.5	24.8	23.5	24.0	70.6	63.0	56.8	18.1	20.3	22.4	20.2	22.9	25.6
Dabur India (DABIND)	534	700	Buy	97880	13.9	6.8	10.6	20.7	19.6	20.7	54.2	52.0	44.3	20.8	20.5	22.2	24.9	23.9	26.1
Marico (MARLIM)	494	555	Hold	63710	18.2	3.0	7.5	17.7	18.8	19.0	50.8	47.9	44.4	37.5	38.5	40.6	41.2	44.0	46.2

Source: Company, ICICI Direct Research

The hair oil category is clearly on a declining path with high penetration levels & muted consumer demand. Given, saturated hair oil (Parachute & VAHO) category contributes more than 50% of the company’s revenue, the growth would be driven by Saffola, Foods, digital first brands & international business. Though foods & digital first brands are growing at a faster pace, it is still contributing only ~10% to the sales. We believe the company would be able to maintain its margins territory of 18-19% in the medium term with benign input cost & focus on profitability in foods, digital brands. We remain cautions on growth prospects considering its high dependence on hair oil category. We value the stock at 45x FY25 earnings with a target price of ₹ 555/share (earlier ₹ 560) and a **HOLD** recommendation.

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Net Sales	2,470.0	2,480.2	2,407.0	2.6	2,496.0	-1.0	Net sales witnessed growth of 2.6% led by international business sales growth of 8%
Raw Material Expenses	1,360.0	1,130.0	1,355.0	0.4	1,407.0	-3.3	Gross margin expanded by 123 bps on account of benign copra, vegetable oil & crude based raw materials
Employee Expenses	160.0	161.2	144.0	11.1	166.0	-3.6	
SG&A Expenses	220.0	210.8	223.0	-1.3	213.0	3.3	Marketing spends were slightly lower
Other operating Expenses	274.0	265.5	254.0	7.9	277.0	-1.1	Overhead spends were down 104 bps (percentage to sales)
EBITDA	456.0	467.6	431.0	5.8	433.0	5.3	Operating profit grew 5.8%
EBITDA Margin (%)	18.5	18.9	17.9	56 bps	17.3	111 bps	Operating margin was up 56 bps on account of higher gross margins
Depreciation	39.0	39.5	36.0	8.3	37.0	5.4	
Interest	14.0	11.5	10.0	40.0	15.0	-6.7	
Other Income	40.0	19.6	22.0	81.8	19.0	110.5	Other income was up 81.8% on account of higher yields on surplus cash by 230 bps
Exceptional items	0.0	0.0	0.0	NA	0.0	NA	
Minority Interest	0.0	0.0	0.0	NA	0.0	NA	
PBT	442.9	436.1	407.0	8.8	400.0	10.7	
Tax Outgo	110.0	100.7	90.0	22.2	93.0	18.3	
PAT	332.9	335.4	317.0	5.0	307.0	8.5	PAT grew 5% in line with operating profit growth

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E	Comments
	New	New	change	Old	New	change	New	
Revenues	9,803.0	9,797.5	-0.1	10,709.9	10,534.2	-1.6	11,303.9	We largely maintain our sales estimates. We are introducing FY25E numbers
EBITDA	1,859.2	1,845.8	-0.7	2,047.4	1,996.8	-2.5	2,223.9	We slightly change our gross margin & operating margin estimate for FY24E considering expected uptick in copra prices in H2FY24
EBITDA Margin (%)	19.0	18.8	-13 bps	19.1	19.0	-16 bps	19.7	
PAT	1,317.7	1,329.6	0.9	1,450.7	1,435.5	-1.0	1,599.1	
EPS (₹)	10.2	10.3	0.9	11.2	11.1	-1.0	12.4	

Source: ICICI Direct Research

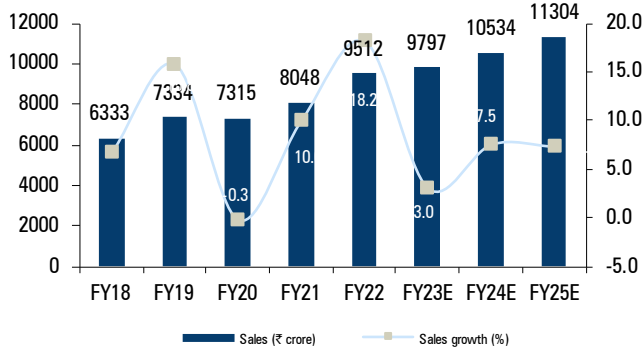
Exhibit 4: Assumptions

	Current						Earlier		Comments
	FY20	FY21E	FY22E	FY23E	FY24E	FY25	FY23E	FY24E	
Std. Sales (₹ crore)	5,853.0	6,337.0	7,500.0	7,544.0	8,078.0	8,626.6	7,469.1	8,095.9	We slightly change our domestic sales estimate for FY23E & FY24E. We cut our international business sales estimate by 3% & 6% for FY23E & FY24E, respectively
Subs. Sales (₹ crore)	1,462.0	1,711.0	2,012.0	2,253.4	2,456.2	2,677.3	2,333.9	2,614.0	

Source: ICICI Direct Research

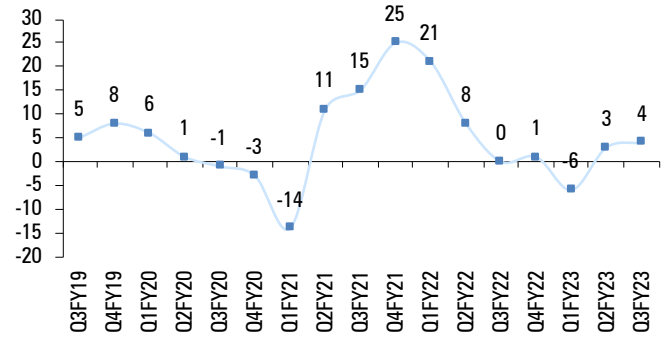
Key Metrics

Exhibit 5: Revenue to grow at 5.9% CAGR over FY22-25E



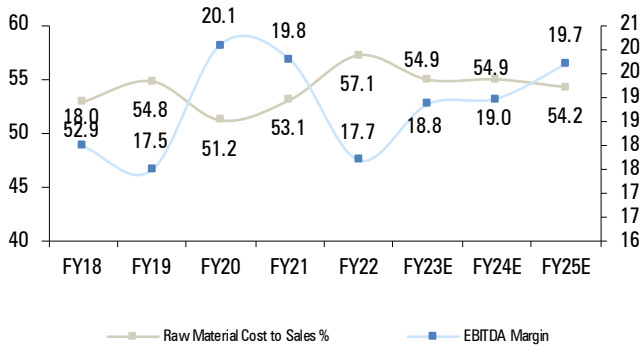
Source: ICICI Direct Research, Company

Exhibit 6: Domestic volume trend YoY (%)



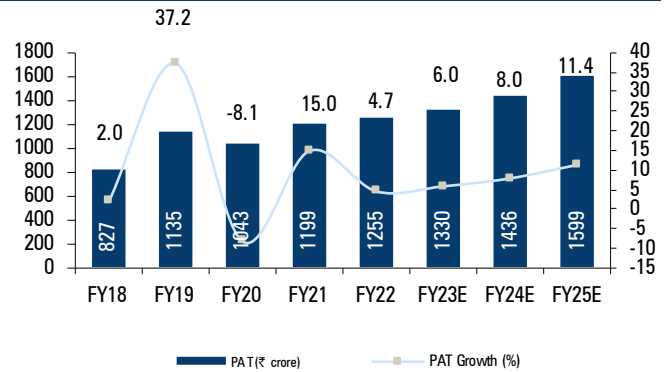
Source: ICICI Direct Research, Company

Exhibit 7: EBITDA margin and raw material trend



Source: Company, ICICI Direct Research

Exhibit 8: PAT (₹ crore) – LHS and PAT growth YoY (%) - RHS



Source: Company, ICICI Direct Research

Exhibit 9: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY22	9512.0	18.2	9.7	4.7	50.8	37.4	37.5	41.2
FY23E	9797.5	3.0	10.3	6.0	47.9	34.0	38.5	44.0
FY24E	10534.2	7.5	11.1	8.0	44.4	31.5	40.6	46.2
FY25E	11303.9	7.3	12.4	11.4	39.8	28.3	43.8	49.9

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total Operating Income	9512.0	9797.5	10534.2	11303.9
Growth (%)	18.2	3.0	7.5	7.3
Raw Material Expenses	5,436.0	5,379.8	5,788.0	6,129.7
Employee Expenses	586.0	646.6	674.2	723.5
Marketing Expenses	796.0	842.6	948.1	1,017.4
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	1,013.0	1,082.6	1,127.2	1,209.5
Total Operating Expenditure	7,831.0	7,951.6	8,537.4	9,080.0
EBITDA	1681.0	1845.8	1996.8	2223.9
Growth (%)	5.7	9.8	8.2	11.4
Depreciation	139.0	151.3	172.3	186.7
Interest	39.0	52.9	47.8	49.7
Other Income	98.0	107.8	112.1	116.6
Share of profit/(loss) of associates	0.0	0.0	0.0	0.0
Total Tax	346.0	419.9	453.3	505.0
PAT	1255.0	1329.6	1435.5	1599.1
Growth (%)	5.6	5.9	8.0	11.4
Adjusted PAT	1254.9	1329.6	1435.5	1599.1
Adjusted EPS (₹)	9.7	10.3	11.1	12.4

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit before Tax	1,601.0	1,749.4	1,888.8	2,104.0
Add: Depreciation	139.0	151.3	172.3	186.7
(Inc)/dec in Current Assets	-542.0	-151.2	-419.1	-372.4
Inc/(dec) in CL and Provisions	200.0	-106.1	120.8	124.9
Others	-382.0	-419.9	-453.3	-505.0
CF from operating activities	1,016.0	1,223.6	1,309.5	1,538.3
(Inc)/dec in Investments	615.0	-52.0	-52.0	-52.0
(Inc)/dec in Fixed Assets	-187.0	307.3	42.3	56.7
Others	0.0	-121.3	-142.3	-156.7
CF from investing activities	428.0	134.0	-152.0	-152.0
Issue/(Buy back) of Equity	41.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-133.0	-2.0	-2.0	-2.0
Dividend paid & dividend tax	-1,195.0	-1,225.5	-1,354.5	-1,483.5
CF from financing activities	-1,290.0	-1,227.5	-1,356.5	-1,485.5
Net Cash flow	156.0	130.1	-199.0	-99.2
Opening Cash	109.0	276.0	406.1	207.2
Cash in Bank	303.0	303.0	303.0	303.0
Closing Cash	579.0	709.1	510.2	411.0

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Liabilities				
Share Capital	129.0	129.0	129.0	129.0
Reserve and Surplus	3,219.0	3,323.1	3,404.1	3,519.6
Total Shareholders funds	3,348.0	3,452.1	3,533.1	3,648.6
Long Term Borrowings	0.0	0.0	0.0	0.0
Provisions & other LTL	91.0	91.0	91.0	91.0
Minority Interest / Others	57.0	57.0	57.0	57.0
Deferred Tax Liability	137	135	133	131
Total Liabilities	3633.0	3735.1	3814.1	3927.6
Assets				
Gross Block	1,256.0	1,376.0	1,496.0	1,616.0
Less: Acc Depreciation	742.0	893.3	1,065.7	1,252.4
Net Block	800.0	482.7	430.3	363.6
Capital WIP	39.0	49.0	59.0	69.0
Goodwill on Consolidation	654.0	624.0	594.0	564.0
Non Current Investments	208.0	233.0	258.0	283.0
Other Non CA	580.0	607.0	634.0	661.0
Current Investments	641.0	841.0	1,041.0	1,241.0
Inventory	1,412.0	1,342.1	1,500.8	1,610.4
Debtors	652.0	671.1	721.5	774.2
Cash & Bank	579.0	709.1	510.2	411.0
Other CA	221.0	223.0	233.0	243.0
Total Current Assets	3,505.0	3,786.3	4,006.5	4,279.7
Creditors	1,344.0	1,207.9	1,298.7	1,393.6
Short Term Borrowings	345.0	360.0	375.0	390.0
Other Current Liabilities	464.0	479.0	494.0	509.0
Total Current Liabilities	2,153.0	2,046.9	2,167.7	2,292.6
Net Current Assets	1,352.0	1,739.4	1,838.7	1,987.0
Miscl. Exps. not w/o	0.0	0.0	0.0	0.0
Application of Funds	3633.0	3735.1	3814.1	3927.6

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS (Adjusted)	9.7	10.3	11.1	12.4
Cash EPS	10.8	11.5	12.5	13.8
BV	25.9	26.8	27.4	28.3
DPS	9.2	9.5	10.5	11.5
Cash Per Share	4.5	5.5	4.0	3.2
Operating Ratios (%)				
EBITDA Margin	17.7	18.8	19.0	19.7
PBT / Total Operating income	16.8	17.9	17.9	18.6
PAT Margin	13.2	13.6	13.6	14.1
Inventory dbcs	54	50	52	52
Debtor dbcs	25	25	25	25
Creditor dbcs	52	45	45	45
Return Ratios (%)				
RoE	37.5	38.5	40.6	43.8
RoCE	41.2	44.0	46.2	49.9
RoIC	61.8	62.1	61.1	64.1
Valuation Ratios (x)				
P/E	50.8	47.9	44.4	39.8
EV / EBITDA	37.4	34.0	31.5	28.3
EV / Net Sales	6.6	6.4	6.0	5.6
Market Cap / Sales	6.7	6.5	6.0	5.6
Price to Book Value	19.0	18.5	18.0	17.5
Solvency Ratios				
Debt/EBITDA	0.2	0.2	0.2	0.2
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.6	1.8	2.0	2.0
Quick Ratio	0.8	1.0	1.1	1.2

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (FMCG)

	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Colgate (COLPAL)	1,461	1,440	Hold	39,473	39.6	37.7	40.3	36.9	38.7	36.3	7.8	7.6	7.1	77.8	79.3	84.2	62.2	60.4	64.1
Dabur India (DABIND)	534	700	Buy	97,880	9.9	10.3	12.0	54.2	52.0	44.3	9.0	8.5	7.7	24.9	23.9	26.1	20.8	20.5	22.2
Hindustan Unilever (HINLEV)	2,649	2,800	Hold	6,04,971	37.5	42.0	46.7	70.6	63.0	56.8	12.0	10.3	9.4	20.2	22.9	25.6	18.1	20.3	22.4
ITC Limited (ITC)	381	450	Buy	4,67,841	12.4	14.7	16.0	30.7	25.9	23.7	7.9	6.8	6.2	31.4	36.0	37.5	24.5	27.7	28.7
Jyothy Lab (JYOLAB)	209	215	Hold	7,485	4.3	6.7	7.8	49.1	31.4	26.8	3.5	3.1	2.8	18.7	27.5	31.4	16.6	24.2	27.0
Marico (MARLIM)	494	555	Hold	63,710	9.7	10.3	11.1	50.8	47.9	44.4	6.7	6.5	6.0	41.2	44.0	46.2	37.5	38.5	40.6
Nestle (NESIND)	19,004	22,400	Hold	1,90,912	222.4	255.8	301.1	85.4	74.3	63.1	13.0	11.4	10.3	58.7	57.1	63.0	111.3	103.6	110.3
Patanjali Foods (RUCSOY)	911	1,750	Buy	50,721	27.3	30.9	43.5	33.4	29.5	21.0	2.1	1.7	1.5	13.2	15.6	17.3	13.1	11.3	14.2
Tata Consumer Products (TAT)	726	950	Buy	66,879	11.0	14.3	15.8	65.9	50.6	45.9	5.4	4.9	4.4	8.4	8.8	10.3	7.0	7.6	9.0
Varun Beverage (VARBEV)	1,155	1,235	Hold	71,889	17.2	23.2	26.8	67.0	49.7	43.1	8.1	5.6	5.0	17.1	30.3	33.5	18.3	29.0	29.4
VST Industries (VSTIND)	2,970	3,300	Hold	4,807	207.4	214.1	229.4	14.3	13.9	12.9	4.1	3.6	3.4	39.2	41.8	49.1	30.0	31.9	36.9
Zydus Wellness (ZYDWEL)	1,397	2,000	Buy	8,979	48.5	55.0	67.4	28.8	25.4	20.7	4.5	4.0	3.6	6.1	6.8	8.1	6.4	7.1	8.3

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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