

Sticky inflation to elongate margin recovery...

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 million outlets and direct reach of ~1 million outlets. Through its stockist network, it reaches 58000 villages
- With high gross margins of 45-50%, the company is able to spend 8-9% of its sales on advertisements to support new categories and products

Q4FY22 Results: Marico posted decent results with 7.4% sales growth.

- Sales were up 7.4% YoY largely contributed by pricing; 1% volume growth
- EBITDA was at ₹ 346 crore, up 8.5% YoY, margins at 16% (up 16 bps)
- PAT was at ₹ 256.9 crore (up 13.2% YoY)

What should investors do? Marico's share price has given 60% return in the last five years (from ₹ 314 in May 2017 to ₹ 503 in May 2022).

- We cut our margin estimates due to high inflation in edible oils, crude derivatives
- We change our rating on the stock from BUY to **HOLD** rating

Target Price and Valuation: We value the stock at ₹ 530 on ascribing 45x FY24 earnings multiple.

Key triggers for future price performance:

- Robust growth in foods led by tailwinds of healthy eating habits. Foods portfolio reported ₹ 450+ crore sales in FY22
- Market share gains in Parachute given smaller, regional brands find it difficult to pass on sharp commodity price fluctuations (up or down)
- Incessant commodity inflation in edible oil, crude based derivatives like HDPE, liquid paraffin to keep margins below normalised levels of 19%
- Investing in digital only brands. Aims to achieve ₹ 500 crore sales by FY24

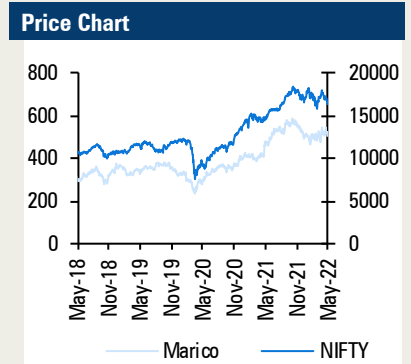
Alternate Stock Idea: We like Dabur in our FMCG coverage.

- Significant shift in consumption towards healthier, natural & Ayurveda based products and aggressively foray in many big categories would be driving growth for Dabur
- Value the business at 52x FY24 earnings. BUY with a TP of ₹ 680



Particulars	
Particulars (₹ crore)	Amount
Market Capitalization	64,929.3
Total Debt (FY22)	345.0
Cash and Investments (FY22)	1,220.0
EV	64,054.3
52 week H/L (₹)	606 / 455
Equity capital	129.0
Face value (₹)	1.0

Shareholding pattern				
(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	59.6	59.5	59.5	59.5
FII	25.0	25.9	25.6	25.1
DII	9.7	8.6	8.6	8.8
Others	5.7	6.0	6.4	6.6



- Recent event & key risks**
- Launched peanut butter & mayonnaise under Saffola Brand
 - **Key Risk:** (i) Incessant inflation in crude based RM to pressurise margins (ii) Strong agri exports can significantly improve consume sentiment

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Key Financial Summary

Key Financials	FY20	FY21	FY22	5 Year CAGR		FY23E	FY24E	CAGR (FY22-24E)
				(FY17 to FY22)				
Net Sales	7315.0	8048.0	9512.0	9.9		10371.2	11138.9	8.2%
EBITDA	1469.0	1591.0	1681.0	7.7		1896.6	2103.2	11.9%
EBITDA Margin %	20.1	19.8	17.7			18.3	18.9	
Net Profit	1043.0	1199.0	1254.9	9.1		1364.0	1511.7	9.8%
Adjusted Net Profit	1043.0	1199.0	1254.9	9.1		1364.0	1511.7	9.8%
EPS (₹)	8.08	9.29	9.73			10.57	11.72	
P/E	62.3	54.2	51.7			47.6	43.0	
RoNW %	34.5	37.0	37.5			41.4	47.4	
RoCE (%)	41.0	40.3	41.2			46.8	52.9	

Key takeaways of recent quarter

Q4FY22 Results: Margins still below historic averages; volumes growth remains dismal due to rural slowdown

- Marico reported 7.4% revenue growth to ₹ 2161 crore led by 5.1% growth in India business and 12% constant currency growth in international business. The growth in both domestic & international business was largely driven by price hikes taken in the last one year to pass on steep commodity inflation. Domestic volume growth was 1% during the quarter on a relatively high base of 25% growth. On a full year basis, volume growth was 7%
- Parachute (rigid pack) volumes de-grew 1% in Q4 on a high growth of 29% in base quarter. On a full year basis, value growth was 11% aided by 5% volume growth. We believe the company would have taken 5-10% price cuts in Parachute Coconut oil portfolio either through change in MRPs or consumer & trade promotions. This would have led to value de-growth in Parachute (rigid pack) in Q4. However, the company gained market share by 170 bps in FY22
- VAHO segment witnessed 3% value growth with similar volume growth during the quarter. The company has not taken any price hikes in the segment in the last one year. It has gained market share by 90 bps in Q4. It saw 14% value and volume growth during the year
- Saffola edible oil saw 17% value growth & flat volumes in Q4 as well as for the year. Steep inflation in edible oils has impacted volumes in the segment. We believe higher edible oil prices leads to down-trading to the regional, economy brands
- Saffola foods portfolio witnessed growth of 17% during the quarter even on a high base. It saw 50% value growth for the year. Foods portfolio clocked more than ₹ 450 crore of sales in FY22. Saffola Oats brand gained 512 bps market share with 42% value market share in FY22
- Saffola Honey & Saffola Mealmaker Soya chunks clocked ₹ 50-100 crore sales in first year of launch. The company launched Peanut Butter & Saffola Mayonnaise during the quarter at the e-commerce & online channel. The company would expand these brands in the offline channels as well
- With the expansion in multiple foods category under Saffola brand, total addressable market would be close to ₹ 6000 crore. The company would continue to expand in medium size food categories, which are largely urban centric. Marico is targeting sales of ₹ 850-1000 crore for Saffola Foods by FY24
- Premium personal care grew in double digit in FY22. Livon clocked double digit growth on a YoY basis, digital brands 'Beardo' has crossed ₹ 100 crore annual run rate on exit basis. Just Herbs has also met internal targets. Digital-first brands have delivered ₹ 180-200 crore run rate on an exit basis. The company plans to build a ₹ 450-500 crore portfolio by FY24
- In international business, Bangladesh, Vietnam, South Africa and MENA regions delivered constant currency growth of 16%, 7%, 20% and 11%, respectively. For FY22, revenue growth was 14%, 12%, 18% and 27%, respectively
- In the near term, due to inflationary headwinds, demand is expected to be uncertain. Hence, margins are expected to remain subdued. Both demand and margins are expected to improve from the second half of FY23
- With the stabilisation of copra prices & sharp price increase taken in Saffola edible oil last one year, gross margins were up 33 bps. Copra prices were down 9% YoY whereas rice-bran, liquid paraffin (LLP) & HDPE prices were up 26%, 9% & 19%, respectively. The employee spends were down (percentage to sales) by 102 bps whereas marketing & overhead spends increased 84 bps and 36 bps, respectively

- Operating profit grew 8.5% to ₹ 346 crore with 16 bps improvement in operating margins. However, operating margins are much lower than historical averages. Net profit saw growth of 13.2% to ₹ 256.9 crore
- The company increased advertisement spends to 9.4% of sales for the quarter. This is mainly to support core as well as new brands despite inflationary pressure adversely impacting margins
- In the medium term, the company aspires to grow revenue at 13-15% with 8-10% volume growth. It is targeting 5-7% volume growth in Parachute, double digit value growth in VAHO & high single digit volume growth in Saffola edible oil
- In the international business, the company expects to grow revenues in double digits with a stable geo-political environment
- Net working capital for the company improved from 19 days in FY21 to 12 days in FY22

Exhibit 1: Peer Comparison

Sector / Company	CMP	TP	M Cap	Sales growth (%)			EBITDA Margins (%)			P/E(x)			RoE (%)			RoCE (%)			
	(₹)	(₹) Rating		(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Hindustan Unilever (HINLEV)	2149	2200	Hold	503770	11.3	9.8	7.5	24.8	24.3	24.7	57.1	54.3	49.1	18.1	19.1	21.2	20.2	21.9	24.2
Dabur India (DABIND)	511	680	Buy	93515	13.9	10.2	11.2	20.7	20.5	20.9	53.7	45.6	40.6	20.8	22.5	22.8	24.9	25.5	26.4
Tata Consumer (TATGLO)	765	910	Buy	71514	7.1	9.7	9.7	13.8	15.6	16.1	70.4	51.8	44.4	7.0	8.8	9.8	8.4	10.3	11.3
Marico (MARLIM)	503	530	Hold	64929	18.2	9.0	7.4	17.7	18.3	18.9	51.7	47.6	43.0	37.5	41.4	47.4	41.2	46.8	52.9

Source: Company, ICICI Direct Research

Marico was impacted by high copra prices in FY21 and H1FY22. With the decline in copra prices in the last two quarters, gross margins were expected to improve considerably and return normal level of ~19%. However, incessant inflation in edible oil & crude derivative prices has adversely impacted gross margins & the subsequent expected improvement in operating margin trajectory. Similar to all other FMCG companies, volume growth was dismal due to adverse consumer sentiments specifically in rural & semi-urban regions. A sharp rise in edible oils is leading to down-trading towards economy brands. The only growth category for the company remains foods business, which has grown at 17% despite a high base. The company has achieved its ₹ 450 crore + sales target for the foods business in FY22. Going forward, we remain cautious on the volume growth trajectory as well as recovery in operating margins to normalised levels. We value the stock at 45x FY24 earnings with a target price of ₹ 530/share (earlier ₹ 550) and a **HOLD** recommendation.

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	
Net Sales	2,161.0	2,193.8	2,012.0	7.4	2,407.0	-10.2	Net sales witnessed growth of 7.4% led by 6.4% price hikes & 1% volume growth
Raw Material Expenses	1,200.0	1,227.2	1,124.0	6.8	1,355.0	-11.4	Gross margins improved 33 bps on account of 9% dip in copra prices. However, rice-bran oil & crude based commodities still remained elevated
Employee Expenses	139.0	163.9	150.0	-7.3	144.0	-3.5	The company was able to save 106 bps (percentage to sales) through a reduction in employee spends
SG&A Expenses	204.0	209.8	173.0	17.9	223.0	-8.5	It increased marketing spends to support volume growth in new & existing categories
Other operating Expenses	272.0	256.4	246.0	10.6	254.0	7.1	
EBITDA	346.0	336.5	319.0	8.5	431.0	-19.7	
EBITDA Margin (%)	16.0	15.3	15.9	16 bps	17.9	-190 bps	Operating margins were slightly up by 16 bps. However, it still remains much lower than its usual range of 18-19%
Depreciation	37.0	36.7	36.0	2.8	36.0	2.8	
Interest	11.0	10.2	10.0	10.0	10.0	10.0	
Other Income	24.0	21.9	29.0	-17.2	22.0	9.1	
Exceptional items	0.0	0.0	-19.0	NA	0.0	NA	
Minority Interest	0.0	-2.0	0.0	NA	0.0	NA	
PBT	321.9	309.4	283.0	13.8	407.0	-20.9	
Tax Outgo	65.0	68.4	56.0	16.1	90.0	-27.8	
PAT	256.9	240.9	227.0	13.2	317.0	-18.9	Net profit grew 13.2% led by growth in operating profit and lower tax provisioning in Q4

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% change	Old	New	% change	
Revenues	10,416.6	10,371.2	-0.4	11,188.3	11,138.9	-0.4	No major change in our revenue estimates
EBITDA	2,044.1	1,896.6	-7.2	2,215.2	2,103.2	-5.1	
EBITDA Margin (%)	19.6	18.3	-134 bps	19.8	18.9	-92 bps	Despite fall in copra prices, we are cutting our operating margins estimates due to incessant inflation in edible oils, liquid parafins & other crude related derivatives, which can continue to impact margins in the next two to three quarters
PAT	1,471.9	1,364.0	-7.3	1,592.6	1,511.7	-5.1	
EPS (₹)	11.4	10.6	-7.3	12.3	11.7	-5.1	

Source: ICICI Direct Research

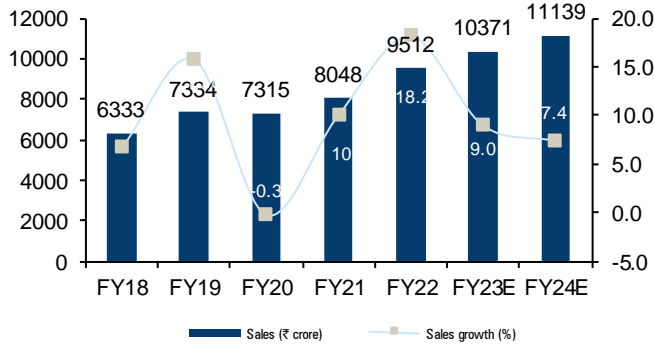
Exhibit 4: Assumptions

	Current						Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY23E	FY24E	
Std. Sales (₹ crore)	5,756.0	5,853.0	6,337.0	7,500.0	8,158.0	8,726.5	8,158.0	8,726.5	Small change in our international sales estimates
Subs. Sales (₹ crore)	1,578.0	1,462.0	1,711.0	2,012.0	2,213.2	2,412.4	2,183.2	2,379.7	

Source: ICICI Direct Research

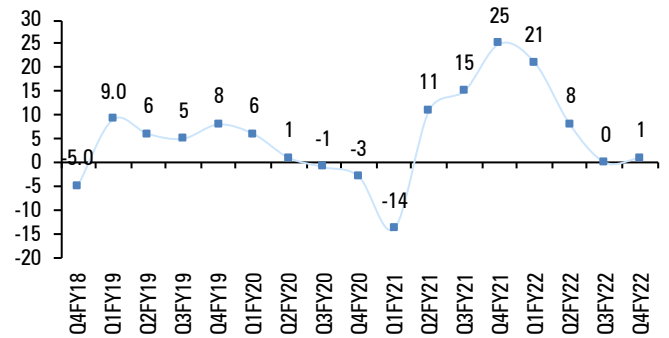
Key Metrics

Exhibit 5: Revenue to grow at 8.2% CAGR over FY22-24E



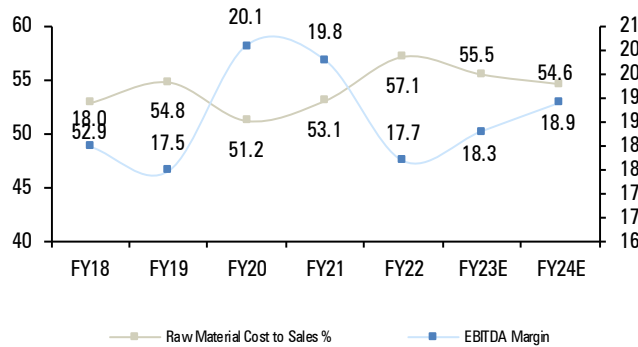
Source: ICICI Direct Research, Company

Exhibit 6: Domestic volume trend YoY (%)



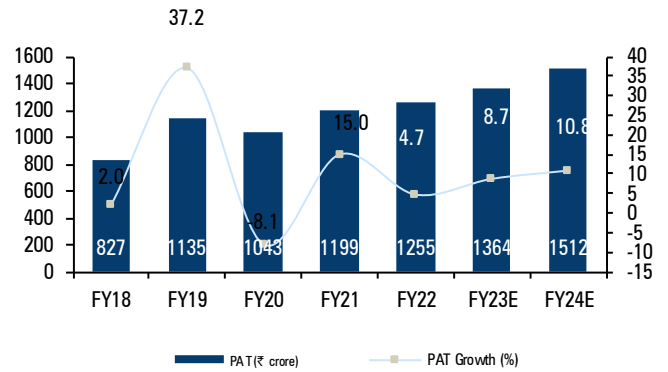
Source: ICICI Direct Research, Company

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 (%)
FY21	8048.0	10.0	9.3	15.0	54.2	40.1	37.0	40.3
FY22	9512.0	18.2	9.7	4.7	51.7	38.1	37.5	41.2
FY23E	10371.2	9.0	10.6	8.7	47.6	33.8	41.4	46.8
FY24E	11138.9	7.4	11.7	10.8	43.0	30.6	47.4	52.9

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Income	8048.0	9512.0	10371.2	11138.9
Growth (%)	10.0	18.2	9.0	7.4
Raw Material Expenses	4,270.0	5,436.0	5,757.4	6,084.0
Employee Expenses	570.0	586.0	674.1	735.2
Marketing Expenses	698.0	796.0	933.4	1,013.6
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	919.0	1,013.0	1,109.7	1,203.0
Total Operating Expenditure	6,457.0	7,831.0	8,474.6	9,035.8
EBITDA	1591.0	1681.0	1896.6	2103.2
Growth (%)	8.3	5.7	12.8	10.9
Depreciation	139.0	139.0	157.9	172.3
Interest	34.0	39.0	45.8	47.8
Other Income	94.0	98.0	101.9	106.0
Share of profit/(loss) of associates	0.0	0.0	0.0	0.0
Total Tax	324.0	346.0	430.7	477.4
PAT	1188.0	1255.0	1364.0	1511.7
Growth (%)	10.8	5.6	8.7	10.8
Adjusted PAT	1199.0	1254.9	1364.0	1511.7
Adjusted EPS (₹)	9.3	9.7	10.6	11.7

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit before Tax	1,523.0	1,601.0	1,794.8	1,989.1
Add: Depreciation	139.0	139.0	157.9	172.3
(Inc)/dec in Current Assets	480.0	-542.0	-129.1	-288.8
Inc/(dec) in CL and Provisions	250.0	200.0	-35.4	124.6
Others	-324.0	-382.0	-430.7	-477.4
CF from operating activities	2,068.0	1,016.0	1,357.5	1,519.9
(Inc)/dec in Investments	-664.0	615.0	-52.0	-52.0
(Inc)/dec in Fixed Assets	-274.0	-187.0	313.9	42.3
Others	0.0	0.0	-127.9	-142.3
CF from investing activities	-938.0	428.0	134.0	-152.0
Issue/(Buy back) of Equity	6.0	41.0	0.0	0.0
Inc/(dec) in loan funds	-170.0	-133.0	-2.0	-2.0
Dividend paid & dividend tax	-968.0	-1,195.0	-1,419.0	-1,612.5
CF from financing activities	-1,119.0	-1,290.0	-1,421.0	-1,614.5
Net Cash flow	16.0	156.0	70.5	-246.6
Opening Cash	93.0	109.0	276.0	346.5
Cash in Bank	835.0	303.0	303.0	303.0
Closing Cash	944.0	579.0	649.5	402.9

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Share Capital	129.0	129.0	129.0	129.0
Reserve and Surplus	3,111.0	3,219.0	3,164.0	3,063.2
Total Shareholders funds	3,240.0	3,348.0	3,293.0	3,192.2
Long Term Borrowings	0.0	0.0	0.0	0.0
Provisions & other LTL	130.0	91.0	91.0	91.0
Minority Interest / Others	18.0	57.0	57.0	57.0
Deferred Tax Liability	109	137	135	133
Total Liabilities	3497.0	3633.0	3576.0	3473.2
Assets				
Gross Block	1,136.0	1,256.0	1,376.0	1,496.0
Less: Acc Depreciation	603.0	742.0	899.9	1,072.2
Net Block	769.0	800.0	476.1	423.8
Capital WIP	24.0	39.0	49.0	59.0
Goodwill on Consolidation	613.0	654.0	624.0	594.0
Non Current Investments	271.0	208.0	233.0	258.0
Other Non CA	497.0	580.0	607.0	634.0
Current Investments	628.0	641.0	701.0	761.0
Inventory	1,126.0	1,412.0	1,420.7	1,586.9
Debtors	388.0	652.0	710.4	762.9
Cash & Bank	944.0	579.0	649.5	402.9
Other CA	250.0	221.0	223.0	233.0
Total Current Assets	3,336.0	3,505.0	3,704.6	3,746.8
Creditors	1,134.0	1,344.0	1,278.6	1,373.3
Short Term Borrowings	340.0	345.0	360.0	375.0
Other Current Liabilities	539.0	464.0	479.0	494.0
Total Current Liabilities	2,013.0	2,153.0	2,117.6	2,242.3
Net Current Assets	1,323.0	1,352.0	1,587.0	1,504.5
Miscl. Exps. not w/o	0.0	0.0	0.0	0.0
Application of Funds	3497.0	3633.0	3576.0	3473.2

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS (Adjusted)	9.3	9.7	10.6	11.7
Cash EPS	10.4	10.8	11.8	13.1
BV	25.1	25.9	25.5	24.7
DPS	7.5	9.2	11.0	12.5
Cash Per Share	7.3	4.5	5.0	3.1
Operating Ratios (%)				
EBITDA Margin	19.8	17.7	18.3	18.9
PBT / Total Operating income	18.9	16.8	17.3	17.9
PAT Margin	14.9	13.2	13.2	13.6
Inventory dbcs	51	54	50	52
Debtor dbcs	18	25	25	25
Creditor dbcs	51	52	45	45
Return Ratios (%)				
RoE	37.0	37.5	41.4	47.4
RoCE	40.3	41.2	46.8	52.9
RoIC	68.0	61.8	66.1	70.2
Valuation Ratios (x)				
P/E	54.2	51.7	47.6	43.0
EV / EBITDA	40.1	38.1	33.8	30.6
EV / Net Sales	7.9	6.7	6.2	5.8
Market Cap / Sales	8.1	6.8	6.3	5.8
Price to Book Value	20.0	19.4	19.7	20.3
Solvency Ratios				
Debt/EBITDA	0.2	0.2	0.2	0.2
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.4	1.6	1.7	1.8
Quick Ratio	0.8	0.8	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E		
Colgate (COLPAL)	1,581	1,575	Hold	37,937	38.5	40.8	45.0	41.1	38.7	35.2	7.4	6.8	6.2	109.6	112.7	116.7	84.9	86.6	89.7
Dabur India (DABIND)	511	680	Buy	93,515	9.9	11.6	13.0	51.8	44.0	39.2	8.6	7.8	7.0	24.9	25.5	26.4	20.8	22.5	22.8
Hindustan Unilever (HINLEV)	2,149	2,200	Hold	503,770	37.5	39.5	43.6	57.3	54.4	49.2	10.0	9.1	8.5	20.2	21.9	24.2	18.1	19.1	21.2
ITC Limited (ITC)	267	260	Hold	287,822	12.6	14.6	16.2	21.2	18.3	16.5	5.0	4.8	4.3	32.4	35.9	38.5	25.0	27.7	29.6
Jyothy Lab (JYOLAB)	148	150	Hold	5,133	4.2	6.2	6.5	34.9	23.8	22.7	2.3	2.2	2.0	19.1	26.6	28.0	16.5	23.1	23.7
Marico (MARLIM)	503	530	Hold	64,929	9.7	10.6	11.7	51.7	47.6	43.0	6.8	6.3	5.8	41.2	46.8	52.9	37.5	41.4	47.4
Nestle (NESIND)	16,995	19,050	Hold	175,243	222.4	252.9	291.6	76.4	67.2	58.3	12.0	10.8	9.8	58.7	58.8	62.9	111.3	110.4	111.8
Tata Consumer Products (TAT)	765	910	Buy	71,514	11.0	15.0	17.5	69.4	51.1	43.8	5.8	5.2	4.8	8.4	10.3	11.3	7.0	8.8	9.8
VST Industries (VSTIND)	3,169	3,425	Hold	4,986	229.3	252.9	290.5	13.8	12.5	10.9	4.2	3.9	3.6	39.2	44.6	50.6	30.0	33.4	37.8
Varun Beverage (VARBEV)	1,076	1,300	Buy	45,860	17.2	25.9	30.3	62.4	41.6	35.5	5.2	4.2	3.8	17.1	25.6	29.7	18.3	22.8	23.0
Zydus Wellness (ZYDWEL)	1,628	2,200	Buy	10,819	51.4	62.6	73.0	31.7	26.0	22.3	5.3	4.8	4.3	6.7	8.0	9.1	6.9	8.3	9.4

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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