

Marico Ltd.

07 June, 2023

Reuters: MRCO.NS; Bloomberg: MRCO IN

RM prices stable; Monsoon remains a key monitorable

We recently hosted Mr. Harsh Rungta, Head - IR and Mr. Nitish Purohit, Manager - IR, Marico Ltd. to get an overall business update. Key highlights from the conference: (1) Overall, the demand environment is better due to stable raw material prices, but monsoon remains a key monitorable going forward. (2) No meaningful recovery has been seen in the rural market, but it seems to have bottomed out. (3) Out of overall ~11mn outlets universe, the company is reaching out to 5.6mn, of which 1mn is direct reach. (4) Margin profile in the international business is now higher than India business and the company expects double-digit constant currency (CC) growth of 10-12% owing to steady demand trends in the international business. (5) Foods business is likely to double from the current ~Rs6bn levels by FY27. (6) The company expects FY24 to be better than FY23. While MRCO's core portfolio delivered a healthy performance in 4QFY23 and the company continues to make efforts towards meeting its medium-term growth aspirations, we believe the stock currently trades at fair valuations of ~48x/44x FY24E/FY25E EPS as we build in 11% earnings CAGR over FY23-FY25E. We value Marico at ~43x on March'25E EPS, giving us an unchanged target price (TP) of Rs535.

Key takeaways from the Marico management meeting hosted by Nirmal Bang on 29th May, 2023 as part of the NBIE conference.

Operating environment and outlook

- Overall, the demand environment is improving with stable raw material prices.
- Rural outlook is better but recovery is not meaningful as yet, although it seems to have bottomed out
- Monsoon remains a key monitorable going forward.
- In FY24, the company expects gross margin to increase by 200-250bps. Marico would utilise the higher GM buffer to boost A&P spends, which are likely to witness an increase to 9-9.5% of sales (from the current level of 8.6%). Operating margin is expected to rise by at least 100bps. Overall, the company expects FY24 to be better than FY23.

Parachute and VAHO

- 30% of the oil market is still loose and the company is betting on conversion from loose to branded. Parachute coconut oil is likely to witness 5-7% volume growth annually for the next 8-10 years (6% 4-year volume CAGR in 4QFY23).
- VAHO is tracking growth in the Personal Care category.
- In the Hair Oil category, Marico has good presence in mid and mass markets. It is now focusing on mid premium and premium portfolios.
- While the company is not likely to enter the Shampoo category, it can potentially innovate hair nourishment products with functional benefits such as anti-damage, anti-breakage and frizz free.

ACCUMULATE (MAINTAIN)

Sector: FMCG

CMP: Rs543

Target Price: Rs535

Downside: 1%

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Key Data

Current Shares O/S (mn)	1,293.2
Mkt Cap (Rsbn/US\$bn)	701.9/8.5
52 Wk H / L (Rs)	559/463
Daily Vol. (3M NSE Avg.)	1,484,749

Price Performance (%)

	1 M	6 M	1 Yr
Marico Ltd.	10.0	6.3	8.8
Nifty Index	3.4	0.7	13.8

Source: Bloomberg

[FY22 Annual Report](#)
[4QFY23 Information Update & IP](#)

Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net sales	80,480	95,120	97,640	1,06,177	1,16,256
YoY growth (%)	10.0	18.2	2.6	8.7	9.5
EBITDA	15,910	16,890	18,100	20,702	22,766
EBITDA margin (%)	19.8	17.8	18.5	19.5	19.6
Adj. PAT	11,641	12,314	13,020	14,591	16,053
EPS	9.0	9.5	10.1	11.3	12.4
YoY change (%)	11.1	5.8	5.7	12.1	10.0
Pre-tax ROCE (%)	41.8	42.6	42.2	44.2	51.3
ROE (%)	37.2	37.4	36.4	38.4	45.1
Pre-tax ROIC (%)	64.9	70.0	64.5	68.4	80.3
P/E (x)	60.1	56.9	53.8	48.0	43.6
P/B (x)	21.6	20.9	18.4	18.5	21.1
EV/EBITDA (x)	43.1	40.8	37.9	33.2	30.2

Source: Company, Nirmal Bang Institutional Equities Research

Foods

- The company is fairly confident of achieving revenue target of Rs8.5bn in FY24. Foods business is likely to double from the current ~Rs6bn levels by FY27.
- Within Foods, the major growth areas that Marico is looking at are Oats, Millets (Ragi Chips), Healthy Snacking (Roasted Makhana), Nuts, Honey and Plant-based Protein Products (Soya Chunks and Soya Bhurji).
- Soya Chunks and Honey are expected to reach Rs1bn in value each by FY24-FY25.
- The company may look at inorganic growth opportunities within the Foods business.
- Oats distribution strength is currently at 2.5-3 lakh outlets. Dedicated Foods GTM is a strategic priority and is currently present in 20+ cities
- The contribution of E-commerce and MT channels in Foods and Premium Personal Care business is higher than the overall business.
- The company has discontinued 'Chyawanprash'.
- 'Ready-to-eat' and 'Ready-to-cook' segments have a huge growth potential.
- Frozen Food requires a different supply chain and the company is not likely to enter this category. It is also likely to avoid the Non-veg category.

International Business

- Marico expects double-digit CC growth of 10-12% owing to steady demand trends in the international business.
- Bangladesh and Vietnam together contribute ~75% to the international business.
- Marico has launched a number of Haircare products in the MENA region over the last 6-9 months.
- South Africa has small proportion and is performing well. The company had invested in the region ahead of growth and hence there is no need for further capital infusion.
- Margin profile in the international business is now higher than India business.
- 5% of the overall international business is in the Foods segment.
- Marico has witnessed good growth in Shampoo, Skin Care and Baby Care in Bangladesh.
- In Bangladesh, currency headwinds remain a challenge and are likely to abate in a couple of years. VAHO is growing in double digits. The HPC category is performing well in spite of inflation.

Men's Grooming

- Deodorant as a category is not a focus area currently.
- Set Wet continues to be leader in styling.
- Beard Grooming accounts for ~30% of sales for Beardo brand while Fragrances, Face Washes and other Personal Care products account for the remaining 70%.
- Beardo is now a Rs1.5bn brand and is expected to grow by 20-25%. annually. The brand has 60-65% gross margin and is near break-even at EBITDA level.
- Beardo is tracking ahead of expectations even after 100% acquisition by Marico in 2020.

Private Label

- Marico does not see threat from private players as it is the No1 and No2 player in the categories it operates in.
- Its product portfolio involves a lot of customer engagement in Skin Care and Hair Care categories and thus disruption by private players is likely to be much lower in these categories.

Others

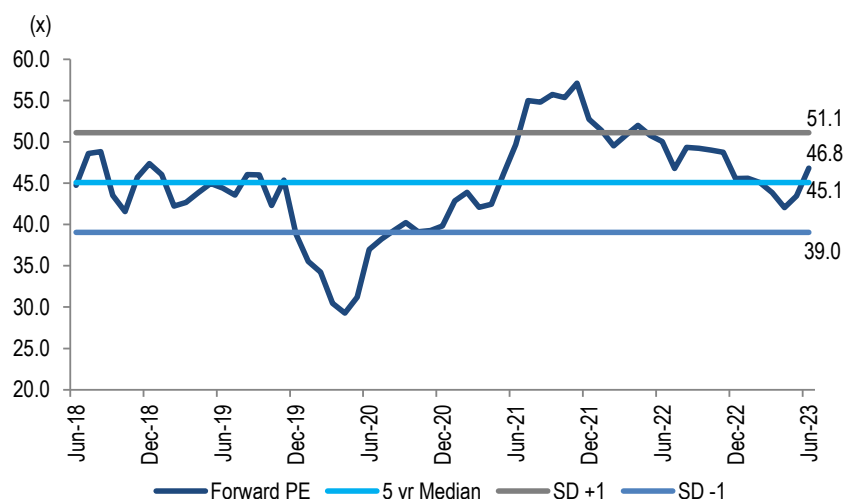
- In FY23, Foods, Premium Personal Care and Digital First categories combined was ~15% of India business and is likely to be 20% in FY24.
- Out of the overall A&P spends, Digital First currently accounts for 20% compared to less than 10% overall 4-5 years ago.
- Out of the overall ~11mn outlets universe, the company is reaching out to 5.6mn, of which 1mn is direct reach.
- Marico is leveraging technology for tech and analytics.
- The company may get into the Nutraceuticals category since it has low penetration and high growth potential.

Exhibit 1: Growth aspirations of Marico

Segments	Near Term/Medium Term Outlook/Guidance
Marico India	8-10% domestic volume growth
Parachute RIGIDS	MRCO expects to grow volume in the range of 5-7% over the medium term
Saffola Edible Oils	Company aims to deliver high single-digit volume growth over the medium term
VAHO	Company aims to sustain a double-digit growth trajectory over the medium term
Foods	The company aims to scale this to Rs8.5bn by FY24
Premium Personal Care	The company expects to deliver double-digit value growth over the medium term
Digital first brands	MRCO aims to accelerate its digital transformation journey by leveraging the capabilities and scale of the overall business coming through digital channels and ramping up the current portfolio of digital-first brands to ~Rs40bn in revenue run-rate (on exit basis) in FY24
Marico International	Double-digit constant currency growth
Bangladesh	Bangladesh is likely to continue with double-digit CC growth trajectory
Vietnam and MENA	The company is looking to replicate the strategy that has worked in Bangladesh in order to build a sustained growth momentum
Marico overall growth aspiration	13-15% revenue growth over the medium term
Operating margin	The company aims to deliver EBITDA margin above the threshold of 19% over the medium term

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: One-year forward P/E



Source: Company, Nirmal Bang Institutional Equities Research

Financials (Consolidated)

Exhibit 3: Income statement

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	80,480	95,120	97,640	1,06,177	1,16,256
% Growth	10.0	18.2	2.6	8.7	9.5
COGS	42,880	54,540	53,510	55,922	60,691
Staff costs	5,700	5,860	6,530	7,640	8,513
Other expenses	15,990	17,830	19,500	21,913	24,286
Total expenses	64,570	78,230	79,540	85,475	93,490
EBITDA	15,910	16,890	18,100	20,702	22,766
% growth	8.3	6.2	7.2	14.4	10.0
EBITDA margin (%)	19.8	17.8	18.5	19.5	19.6
Other income	940	980	1,440	1,379	1,416
Interest costs	340	390	560	558	512
Depreciation	1,390	1,390	1,550	1,802	2,000
Profit before tax	15,120	16,090	17,430	19,722	21,670
Exceptional items	69	-64	0	0	0
Tax	3,189	3,476	4,210	4,930	5,418
Rate of Tax (%)	21.1	21.6	24.2	25.0	25.0
PAT	11,710	12,250	13,020	14,591	16,053
Adj PAT	11,641	12,314	13,020	14,591	16,053
Adj PAT margin (%)	14.5	12.9	13.3	13.6	13.6
% Growth	11.1	5.8	5.7	13.7	13.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Balance sheet

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	1,290	1,290	1,290	1,290	1,290
Reserves	31,110	32,190	36,700	36,653	31,912
Net worth	32,400	33,480	37,990	37,943	33,202
Minority Interest	180	570	1,570	1,570	1,570
Total debt	3,470	3,450	4,750	4,550	4,350
Other long-term liabilities	2,040	1,790	1,730	1,695	1,661
Total liabilities	38,090	39,290	46,040	45,759	40,784
Gross block	12,510	14,300	18,720	20,220	21,720
Depreciation	4,490	5,240	6,790	8,592	10,592
Net block	8,020	9,060	11,930	11,628	11,128
Right of use assets	1,800	1,780	1,750	1,715	1,681
Capital work-in-progress	240	390	670	670	670
Goodwill	6,130	6,540	8,620	8,720	8,820
Investments	8,710	8,500	11,120	11,712	12,689
Inventories	11,260	14,120	12,250	14,971	15,578
Debtors	3,880	6,520	10,150	11,037	7,557
Cash	9,440	5,790	7,560	4,768	4,328
Other current assets	3,750	3,290	3,950	4,285	4,593
Total current assets	28,330	29,720	33,910	35,062	32,056
Creditors	11,340	13,440	14,520	15,604	17,437
Other current liabilities & provisions	4,820	4,040	7,120	7,825	8,504
Total current liabilities	16,160	17,480	21,640	23,428	25,940
Net current assets	12,170	12,240	12,270	11,634	6,116
Deferred tax asset	1,020	780	-320	-320	-320
Total assets	38,090	39,290	46,040	45,759	40,783

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Cash flow

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
PAT	12,380	12,500	13,740	14,791	16,253
Depreciation	1,390	1,390	1,550	1,802	2,000
Other income	-200	-110	-580	-1,379	-1,416
Interest paid	-250	-200	70	558	512
(Inc.)/dec. in working capital	6,750	-3,420	-590	-2,156	5,078
Cash flow from operations	20,070	10,160	14,190	13,616	22,426
Capital expenditure (-)	-1,370	-1,290	-1,570	-1,500	-1,500
Net cash after capex	18,700	8,870	12,620	12,116	20,926
Inc./((dec.) in investments	-1,470	380	-5,250	-1,503	-5,299
Cash flow from investments	-2,840	-910	-6,820	-3,003	-6,799
Dividends paid (-)	-9,680	-11,950	-5,820	-13,287	-15,996
Others	-900	-950	220	-118	-72
Cash from financial activities	-10,580	-12,900	-5,600	-13,405	-16,068
Opening cash balance	2,790	9,440	5,790	7,560	4,769
Closing cash balance	9,440	5,790	7,560	4,769	4,328
Change in cash balance	6,650	-3,650	1,770	-2,791	-441

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Key ratios

Y/E March	FY21	FY22	FY23	FY24E	FY25E
Per share (Rs)					
EPS	9.0	9.5	10.1	11.3	12.4
Book value	25.1	26.0	29.4	29.4	25.7
DPS	7.5	9.3	10.3	12.4	13.9
Valuation (x)					
EV/sales	8.5	7.2	7.0	6.5	5.9
EV/EBITDA	43.1	40.8	37.9	33.2	30.2
P/E	60.1	56.9	53.8	48.0	43.6
P/BV	21.6	20.9	18.4	18.5	21.1
Return ratios (%)					
RoCE*	41.8	42.6	42.2	44.2	51.3
RoE	37.2	37.4	36.4	38.4	45.1
RoIC*	64.9	70.0	64.5	68.4	80.3
Profitability ratios (%)					
Gross margin	46.7	42.7	45.2	47.3	47.8
EBITDA margin	19.8	17.8	18.5	19.5	19.6
PAT margin	14.5	12.9	13.3	13.7	13.8
Liquidity ratios (%)					
Current ratio	0.8	0.7	0.6	0.5	0.2
Quick ratio	1.1	0.9	1.0	0.9	0.6
Solvency ratio (%)					
Debt to Equity ratio	0.1	0.1	0.1	0.1	0.1
Turnover ratios					
Total asset turnover ratio (x)	2.1	2.4	2.1	2.3	2.9
Fixed asset turnover ratio (x)	10.0	10.5	8.2	9.1	10.4
Inventory days	107	85	90	89	92
Debtors days	21	20	31	36	29
Creditor days	89	83	95	98	99

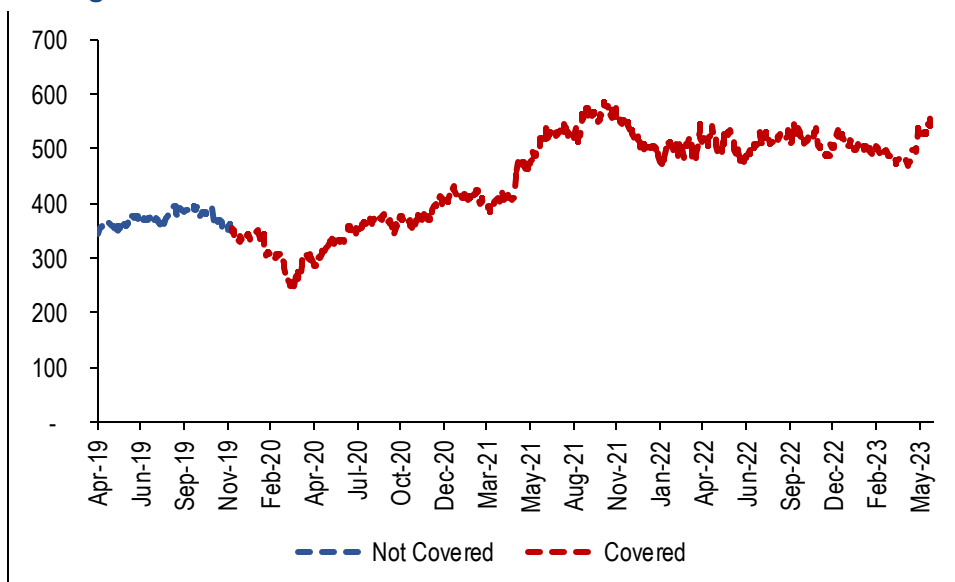
Source: Company, Nirmal Bang Institutional Equities Research

*pre-tax

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
2 December 2019	Buy	360	425
1 February 2020	Buy	315	400
30 March 2020	Buy	254	360
5 May 2020	Buy	284	345
6 July 2020	Accumulate	357	370
28 July 2020	Accumulate	351	385
18 September 2020	Accumulate	362	395
6 October 2020	Accumulate	377	400
29 October 2020	Accumulate	363	400
5 January 2021	Accumulate	417	435
8 January 2021	Accumulate	418	435
28 January 2021	Accumulate	411	435
6 April 2021	Accumulate	402	435
9 April 2021	Accumulate	415	435
2 May 2021	Accumulate	411	440
3 July 2021	Accumulate	520	505
31 July 2021	Accumulate	547	555
23 September 2021	Accumulate	565	605
5 October 2021	Accumulate	558	605
29 October 2021	Accumulate	564	605
29 January 2022	Buy	473	550
21 February 2022	Buy	507	585
6 April 2022	Accumulate	544	585
6 May 2022	Accumulate	520	580
6 July 2022	Accumulate	493	550
9 August 2022	Accumulate	523	550
14 September 2022	Accumulate	534	580
4 October 2022	Accumulate	530	580
05 November 2022	Accumulate	539	580
05 February 2023	Buy	493	570
21 February, 2023	Buy	489	570
22 March 2023	Buy	482	605
6 May 2023	Accumulate	494	535
7 June 2023	Accumulate	543	535

Rating chart



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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