

**BUY**

TP: Rs 629 | ▲ 16%

**MARICO**

Consumer Staples

12 May 2023

## Healthy volume-led growth; improved visibility

- Q4 volume growth of 5% YoY in domestic markets backed by diversification and market development
- Margin expansion continues, driven by softening input prices and a favourable portfolio mix
- We assume coverage with BUY and a TP of Rs 629, based on 47x FY25E EPS

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**Strong performance:** MRCO's consolidated Q4FY23 revenue grew 4% YoY to Rs 22.4bn. India business continued to improve, posting underlying volume growth of 5%. MRCO's diversification strategy for India is progressively yielding results with the share of revenue from foods, premium personal care, and digital first brands combined rising to ~15% in FY23 from ~11% in FY22. The target is to have 20% share from these segments in FY24. International business maintained its strong growth trajectory with 16% CC growth in Q4 and 13% CC growth in FY23 despite persisting macroeconomic headwinds and currency devaluation in some economies.

**Sustained margin expansion:** Gross margin expanded by 290bps YoY and 250bps QoQ to 47.4% led by moderation in key input prices and a favourable portfolio mix in the India business. EBITDA grew 14% YoY with a 150bps rise in margin to 17.5% despite increased spending on brands. During the quarter, MRCO's ongoing bid to strengthen brand equity and ensure strong execution translated into market share gains, with ~90% of the portfolio either gaining or sustaining share and ~85% of the portfolio enhancing or maintaining market penetration.

**Broad-based growth across categories:** *Parachute* has registered a 4Y volume CAGR of 6% and gained 70bps YoY volume share during the quarter, with *Parachute Rigid* recording 9% YoY volume growth. Value-added hair oils reported 13% value growth with a 60bps gain in value market share. The *Saffola* franchise, comprising refined edible oils and foods, declined 9% YoY in value terms, whereas the premium personal care segment ended the quarter with 20%+ growth.

**BUY, TP Rs 629:** MRCO continues to drive growth through investments on brand and market development. We expect product launches, premiumisation trends, rising penetration, and brand investments to result in higher volumes, profitable growth and market share gains. The stock is trading at 46.2x/40.5x FY24E/FY25E EPS. We assume coverage on MRCO with BUY and value the stock at 47x FY25E EPS, in-line with the long-term mean, translating to a TP of Rs 629.

Ticker/Price	MRCO IN/Rs 542
Market cap	US\$ 8.5bn
Free float	40%
3M ADV	US\$ 8.7mn
52wk high/low	Rs 554/Rs 463
Promoter/FPI/DII	59%/25%/16%

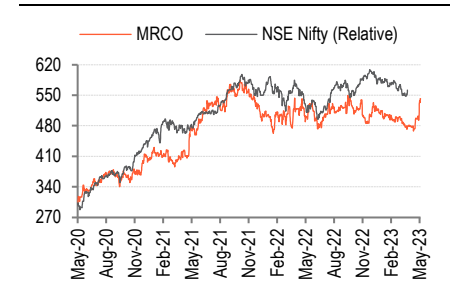
Source: NSE | Price as of 12 May 2023

### Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	97,640	1,08,052	1,20,565
EBITDA (Rs mn)	18,100	21,151	24,457
Adj. net profit (Rs mn)	13,020	15,129	17,258
Adj. EPS (Rs)	10.1	11.7	13.4
Consensus EPS (Rs)	10.1	11.8	13.5
Adj. ROAE (%)	35.4	35.3	34.5
Adj. P/E (x)	53.7	46.2	40.5
EV/EBITDA (x)	38.6	33.0	28.6
Adj. EPS growth (%)	6.3	16.2	14.1

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

### Stock performance



Source: NSE

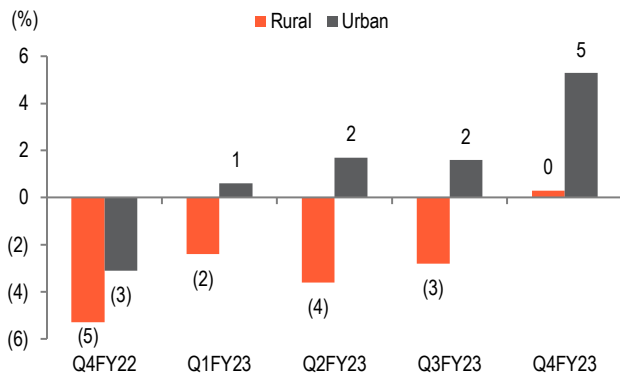


**Fig 1 – Quarterly performance**

(Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	FY23	FY22	YoY (%)
Revenue	22,400	24,700	21,610	(9.3)	3.7	97,640	95,120	2.6
EBITDA	3,930	4,560	3,460	(13.8)	13.6	18,100	16,810	7.7
Adj. PAT	3,020	3,280	2,510	(7.9)	20.3	13,020	12,250	6.3
Gross Margin (%)	47.4	44.9	44.5	250bps	290bps	45.2	42.85	235bps
EBITDA Margin (%)	17.5	18.5	16.0	(100bps)	150bps	18.54	17.67	87bps
Adj. PAT Margin (%)	13.5	13.3	11.6	20bps	190bps	13.33	12.88	45bps

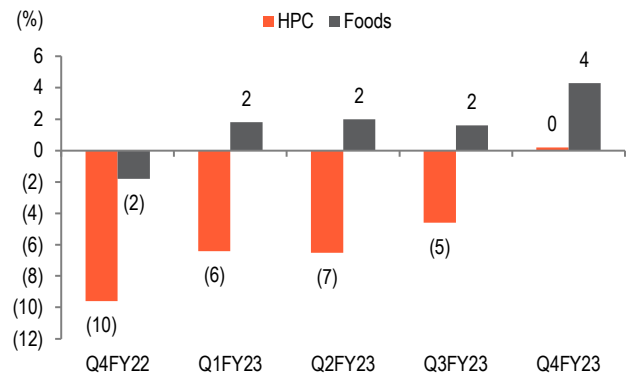
Source: Company, BOBCAPS Research

**Fig 2 – Urban and rural growth, YoY**



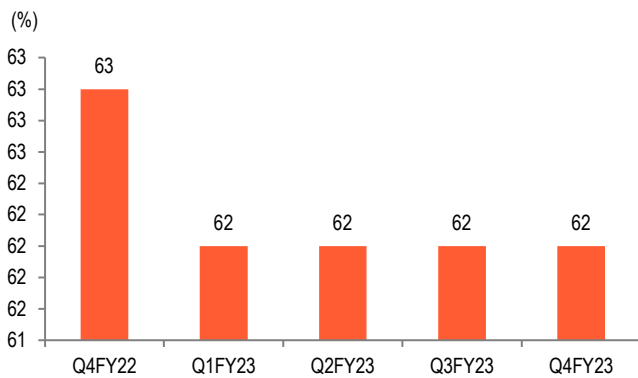
Source: Company, BOBCAPS Research

**Fig 3 – Sector growth YoY – HPC and Foods**



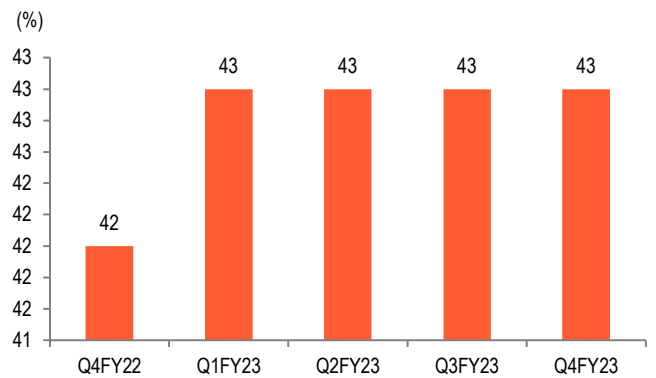
Source: Company, BOBCAPS Research

**Fig 4 – Volume market share – Coconut oil franchise**



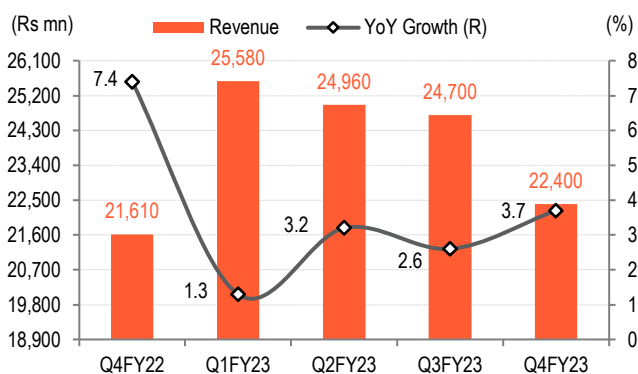
Source: Company, BOBCAPS Research

**Fig 5 – Value market share – Saffola Oats**



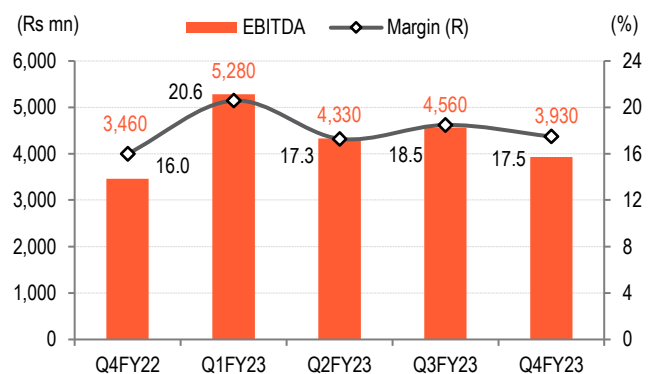
Source: Company, BOBCAPS Research

**Fig 6 – Revenue and growth (YoY)**



Source: Company, BOBCAPS Research

**Fig 7 – EBITDA and margin**



Source: Company, BOBCAPS Research

## Earnings call highlights

- Over the past 6-9 months, prices of key commodities as well as overall retail inflation have moderated, which has resulted in a gradual recovery in FMCG consumption. During the quarter, urban consumption remained steady while rural markets showed signs of bottoming out. Tapering retail inflation, a potentially normal monsoon and stable crude oil prices bode well for a sustained revival in consumption.
- The foods business continues to be the growth driver for MRCO even as the home and personal care segment has also entered positive territory after an extended slowdown.
- During Q4FY23, MRCO saw a sequential uptick in domestic volumes and strong growth in the international business. The company delivered a four-year volume CAGR of 6% in the domestic market and 11% CC in international markets.
- Gross margin expanded sequentially as well as YoY due to moderation in input prices and a favourable product mix in domestic business. The company passed on the benefits of lower input prices to consumers despite maintaining higher advertisement spends.
- *Parachute* recorded a four-year volume CAGR of 6% in Q4 led by increased market penetration and customer conversion from loose to branded packs. *Parachute* gained 70bps YoY volume market share.
- The branded coconut oil category turned positive during the quarter and, with stability in copra oil prices, management expects FY24 volume growth to be in line with its medium-term aspirations of 5-7%.
- Value added hair oil (VAHO) delivered double-digit growth after five subdued quarters owing to an extended slowdown in rural markets. Management expects a gradual uptick in VAHO growth during FY24.
- *Saffola* edible oils delivered high-single-digit volume growth on a four-year CAGR basis due to a high volume base last year.
- The foods business crossed Rs 6bn in revenue for FY23 with high-teens growth in the fourth quarter. MRCO expects to cross Rs 8.5bn in FY24.
- The oats portfolio continues to grow and maintained its strong leadership position with 43% market share.
- Products such as Honey and Soya Chunks have been scaling up well while new launches, including mayonnaise, peanut butter and munchies, are beginning to get traction.
- MRCO's continued focus on market development, brand building, foods GTM expansion and sustained innovation is expected to extend the addressable market in the value-added packaged foods segment.
- The premium personal care business reached Rs 3.5bn in revenue for the year and, being high-margin, the company aims to grow the portfolio at more than 20% going ahead.

- The international market reported 16% CC growth despite the prevailing weak macroeconomic situation and currency headwinds in some countries. MENA delivered 37% CC growth, and MRCO sees a sizeable opportunity in terms of the addressable market share and topline pool.
- Going ahead in FY24, the company expects to improve domestic volume and revenue growth trajectory and sustain double-digit growth momentum in international markets. Gross margin is guided to improve by 200-250bps and operating margin by 100bps.
- MRCO expects to maintain investments in brand building and will continue to focus on cost rationalisation initiatives. The company also intends to keep scouting for inorganic opportunities.
- Over the medium term, MRCO aspires to deliver 13-15% revenue growth on the back of 8-10% domestic volume growth and double-digit CC growth in the international business. Consolidated operating margin is targeted to hold above 19% for the medium term.

## Valuation methodology

MRCO continues to drive growth through investments on brand and market development. We expect product launches, premiumisation trends, rising market penetration, and brand building to result in higher volumes, profitable growth, and market share gains.

Management aspires to grow revenue in the mid-teens with high-single-digit volume growth and operating margin around 19% in the medium term. Rural demand remains the key for volume growth and has shown signs of recovery in Q4FY23. On the profitability front, we expect operating margin expansion on the back of softening commodity prices and the company's cost rationalisation initiatives.

The stock is trading at 46.2x/40.5x FY24E/FY25E EPS. We assume coverage on MRCO with BUY and value the stock at 47x FY25E EPS, in-line with the long-term mean, translating to a TP of Rs 629.

## Key risks

Key downside risks to our estimates are:

- delayed recovery in rural markets, and
- continued inflation in key commodities.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	13.5	4,617	5,623	BUY
Dabur India	DABUR IN	11.2	518	628	BUY
Godrej Consumer Products	GCPL IN	12.4	999	1,159	BUY
Hindustan Unilever	HUVR IN	84.6	2,623	3,069	BUY
ITC	ITC IN	63.5	420	459	BUY
Marico	MRCO IN	8.5	542	629	BUY
Nestle India	NEST IN	25.6	21,794	24,670	BUY
Tata Consumer Products	TATACONS IN	8.9	789	924	BUY

Source: BOBCAPS Research, NSE | Price as of 12 May 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Total revenue</b>	<b>80,480</b>	<b>95,120</b>	<b>97,640</b>	<b>1,08,052</b>	<b>1,20,565</b>
EBITDA	15,910	16,810	18,100	21,151	24,457
Depreciation	1,390	1,390	1,550	1,793	2,082
EBIT	14,520	15,420	16,550	19,358	22,375
Net interest inc./(exp.)	340	390	560	665	665
Other inc./(exp.)	940	980	1,440	1,227	1,289
Exceptional items	130	0	0	0	0
EBT	15,250	16,010	17,430	19,920	22,999
Income taxes	3,240	3,460	4,210	4,582	5,520
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	270	300	200	210	221
<b>Reported net profit</b>	<b>11,720</b>	<b>12,250</b>	<b>13,020</b>	<b>15,129</b>	<b>17,258</b>
Adjustments	130	0	0	0	0
<b>Adjusted net profit</b>	<b>11,590</b>	<b>12,250</b>	<b>13,020</b>	<b>15,129</b>	<b>17,258</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	11,340	13,440	14,520	15,414	17,032
Other current liabilities	2,870	2,240	2,170	2,401	2,679
Provisions	210	220	480	484	489
Debt funds	3,480	3,450	4,750	4,770	4,770
Other liabilities	4,620	4,460	7,980	8,517	9,163
Equity capital	1,290	1,290	1,290	1,290	1,290
Reserves & surplus	31,290	32,760	38,270	44,985	52,627
Shareholders' fund	32,580	34,050	39,560	46,275	53,917
<b>Total liab. and equities</b>	<b>55,100</b>	<b>57,860</b>	<b>69,460</b>	<b>77,863</b>	<b>88,051</b>
Cash and cash eq.	9,440	5,790	7,560	12,692	18,528
Accounts receivables	3,880	6,520	10,150	11,232	12,533
Inventories	11,260	14,120	12,250	13,079	14,451
Other current assets	2,500	2,210	2,460	2,716	3,023
Investments	8,540	8,280	10,960	11,512	12,176
Net fixed assets	5,720	6,000	6,330	6,567	6,896
CWIP	240	390	670	670	670
Intangible assets	2,300	3,060	5,600	5,600	5,600
Deferred tax assets, net	1,860	1,870	1,460	1,616	1,803
Other assets	9,360	9,620	12,020	12,179	12,370
<b>Total assets</b>	<b>55,100</b>	<b>57,860</b>	<b>69,460</b>	<b>77,863</b>	<b>88,051</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Cash flow from operations</b>	<b>20,070</b>	<b>10,160</b>	<b>14,190</b>	<b>16,982</b>	<b>19,414</b>
Capital expenditures	(1,420)	(1,320)	(1,820)	(2,161)	(2,411)
Change in investments	(4,260)	3,370	(3,890)	0	0
Other investing cash flows	(3,700)	2,200	(3,580)	(552)	(664)
<b>Cash flow from investing</b>	<b>(9,380)</b>	<b>4,250</b>	<b>(9,290)</b>	<b>(2,713)</b>	<b>(3,075)</b>
Equities issued/Others	60	410	90	0	0
Debt raised/repaid	130	(30)	1,280	0	0
Interest expenses	(210)	(280)	(420)	(665)	(665)
Dividends paid	(9,900)	(12,170)	(6,070)	(8,623)	(9,837)
Other financing cash flows	(660)	(830)	(480)	151	0
<b>Cash flow from financing</b>	<b>(10,580)</b>	<b>(12,900)</b>	<b>(5,600)</b>	<b>(9,137)</b>	<b>(10,502)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>110</b>	<b>1,510</b>	<b>(700)</b>	<b>5,132</b>	<b>5,837</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,090</b>	<b>2,760</b>	<b>2,070</b>	<b>7,202</b>	<b>13,038</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	9.1	9.5	10.1	11.7	13.4
Adjusted EPS	9.0	9.5	10.1	11.7	13.4
Dividend per share	37.5	9.4	4.7	6.7	7.6
Book value per share	25.3	26.4	30.7	35.9	41.8

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	8.7	7.3	7.2	6.5	5.8
EV/EBITDA	43.9	41.6	38.6	33.0	28.6
Adjusted P/E	60.3	57.0	53.7	46.2	40.5
P/BV	21.4	20.5	17.7	15.1	13.0

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	76.9	76.5	74.7	75.9	75.0
Interest burden (PBT/EBIT)	105.0	103.8	105.3	102.9	102.8
EBIT margin (EBIT/Revenue)	18.0	16.2	17.0	17.9	18.6
Asset turnover (Rev./Avg TA)	146.1	164.4	140.6	138.8	136.9
Leverage (Avg TA/Avg Equity)	1.7	1.7	1.8	1.7	1.6
<b>Adjusted ROAE</b>	<b>36.0</b>	<b>36.0</b>	<b>32.9</b>	<b>32.7</b>	<b>32.0</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	10.0	18.2	2.6	10.7	11.6
EBITDA	8.3	5.7	7.7	16.9	15.6
Adjusted EPS	14.8	4.5	6.3	16.2	14.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	19.8	17.7	18.5	19.6	20.3
EBIT margin	18.0	16.2	17.0	17.9	18.6
Adjusted profit margin	14.4	12.9	13.3	14.0	14.3
Adjusted ROAE	36.8	36.8	35.4	35.3	34.5
ROCE	31.0	30.9	28.0	27.9	27.8
<b>Working capital days (days)</b>					
Receivables	21	20	31	36	36
Inventory	107	85	90	81	80
Payables	90	83	95	96	94
<b>Ratios (x)</b>					
Gross asset turnover	1.4	1.5	1.3	1.3	1.2
Current ratio	1.7	1.6	1.6	1.8	2.0
Net interest coverage ratio	42.7	39.5	29.6	29.1	33.6
<b>Adjusted debt/equity</b>	<b>10.7</b>	<b>10.1</b>	<b>12.0</b>	<b>10.3</b>	<b>8.8</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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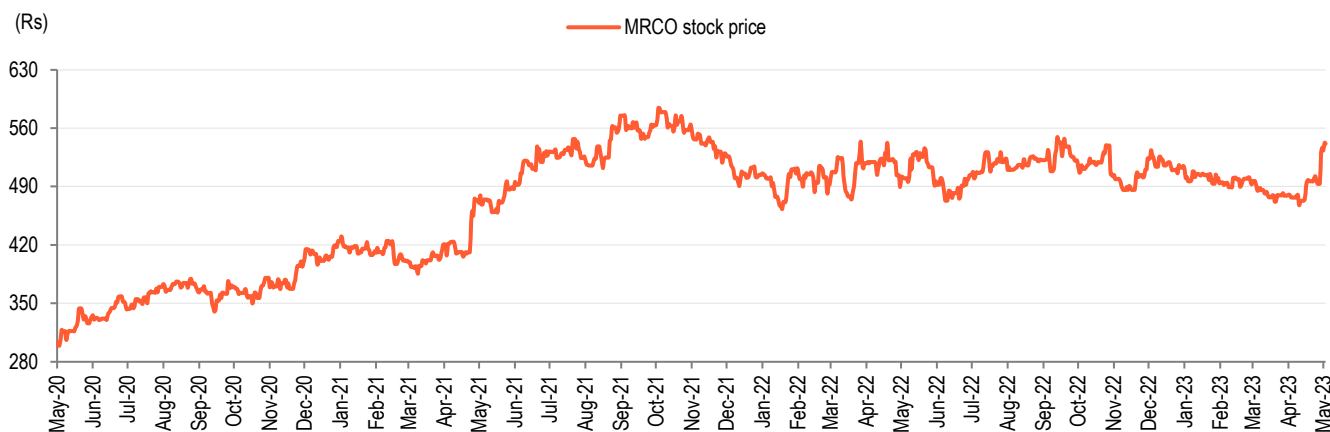
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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