10th November 2022 CMP – ₹502.25/- View – **Accumulate on Dips**

Q2FY23: Soft quarter; expect growth to revive in H2

- Revenue from operations grew 3.2% YoY to ₹2,496 amidst a muted consumption trend and sluggishness in loose to branded conversions. Revenue from international business increased by 11% YoY constant currency growth
- Gross margin expanded 110 bps YoY basis, attributable mainly to benign copra prices, cost rationalizations and favorable mix impact.
- EBITDA increased by 2.4%; margin contracted 20 bps YoY to 20.6%.

Important Statistics

M.CAP (₹ cr)	₹64,909
52 Week H/L (₹)	₹566/₹456
NSE Code	MARICO
BSE Code	531642

Key takeaways from Q2FY23 result

- **Volumes & Sales Growth:**
  - In Q2FY23, Revenue from Operations grew by 3.2% YoY to ₹2,496Cr with 3% volume growth.
  - Retail inflation held firm, the FMCG sector witnessed a volume decline for the fourth quarter in a row, with growth led by pricing. Demand sentiment was largely on similar lines as the preceding quarter and improved slightly only in the last month of the quarter owing to the upcoming festive season.
  - Domestic revenues was at ₹1,896Cr, up 1% YoY, as price hikes in Hair Oils and Premium Personal Care portfolios were more than offset by price cuts in Parachute Coconut Oil and Saffola Oils.
- **Input cost/Profitability Margin:**
  - Copra prices were down 4% sequentially and 20% YoY. With seasonal supplies slowing down, prices should remain range-bound in the near term.
  - Rice Bran oil was down 15% sequentially and 11% YoY. However, vegetable oil prices have firmed up in the last fortnight of October and are likely to be volatile in the near term.
  - Crude derivatives such as Liquid Paraffin (LLP) and HDPE were up 48% and 20% YoY. Both are also likely to remain firm in the near term and trend in line with crude oil prices.
  - Gross margin expanded 115 bps YoY, but was lower sequentially due to consumption of higher cost inventories of raw materials and adverse cost impact of depreciating currencies in select international markets.
  - EBITDA margin of the domestic business was at 18.4%, up 54 bps YoY, and the International business was at 22.4%, down 171 bps YoY
  - PAT was down 3% YoY, mainly due to losses on translation of foreign currency receivables and higher effective tax rate (ETR)
- **Operational Efficiency:**
  - Employee cost as a % of revenue increased 40 bps; Ad spends as a % of revenue expanded 50 bps YoY as the company maintained investments towards strategic brand building of core and new franchises.

Shareholding pattern (%)	**Sep'22**
Promoter	59.5
Institutions	34.9
Public &Others	05.5

W2W Lighthouse - A Quick Perspective

- **Categories:**

  - **Parachute Rigids** was down 3% in volume terms owing to soft consumption trends and much slower conversion from loose to branded given the soft copra price environment. The brand gained 20 bps in volume MS on MAT basis. The management expect volumes to stabilize in H2 as copra prices and consumer pricing harmonize over the course of the next couple of months.
  - **Value Added Hair Oils** posted value growth of 2% owing to the downtrading and weak consumption sentiment, especially in rural. However, growth trends in the franchise remained largely in line with the overall HPC category. Within the category, mid and premium segments continued to fare better than the bottom of the pyramid segment, also reflecting in the 80 bps gain in value MS on MAT basis. The management expect the overall franchise to grow in line with the overall HPC category and regain fervor if rural recovery comes about on expected lines in H2.
  - **The Saffola franchise,** comprising Refined Edible Oils and Foods, declined by 4% in value terms subdued by substantial price cut.
  - Foods grew 26% in value terms. Saffola Oats maintained its strong leadership position in the Oats category with 320 bps value MS gain on MAT basis. During the quarter, Saffola Honey was restaged through the launch of two variants– Saffola Honey Active (made with Sundarban Forest Honey) and Saffola Honey Gold (made with Kashmir Honey), while Saffola Soya Bhurji (plant based protein) and Saffola Masala Oats Karara Crunch were introduced. Innovations in foods will continue in H2. The franchise is poised to reach revenues of ₹650Cr. in FY23 and ₹850-1000Cr in FY24.
  - Premium Personal Care and Digital-first portfolios clocked high double-digit growths. Digital first brands, Beardo and Just Herbs, are scaling up in line with expectations

- **International Business:**

  - The international business sustained its double-digit constant currency growth momentum for the seventh quarter in a row. Each of the markets exhibited strength amidst macroeconomic uncertainty and currency devaluation headwinds in some markets
  - Bangladesh clocked 10% constant currency growth. The newer portfolios of Baby Care and Shampoos continued to supplement growth in the core franchises. South East Asia grew 10% in constant currency terms, led by strong HPC growth in Vietnam. MENA and South Africa grew 11% and 16% in constant currency terms
  - EBITDA margin for the international business was at 22.4%, down 171 bps YoY.

- **Guidance:**

  - In the near term, management expect to deliver mid-single digit volume growth in H2. Gross margin should improve sequentially from Q3 as copra remains in the soft zone. Taking into account the quarterly gyrations of all cost line items, management maintain its aspiration to deliver 18-19% EBITDA margin in FY23.

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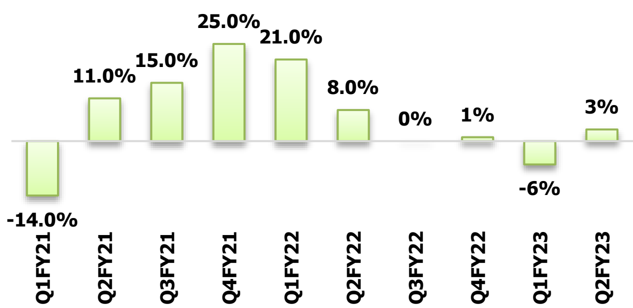
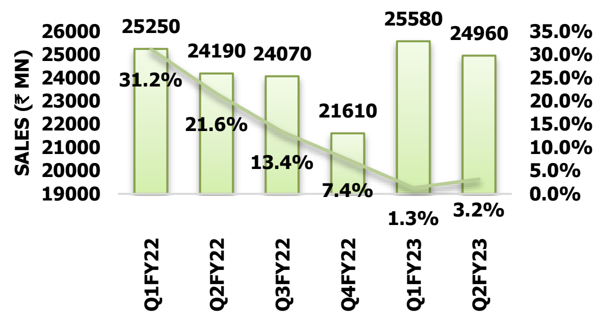
- Over the medium term, management hold aspiration to deliver 13-15% revenue growth on the back of 8-10% domestic volume growth in the domestic business and double-digit constant currency growth in the international business.
- Going ahead company will maintain sharp focus on driving penetration and market share gains across portfolios aided by distribution expansion, aggressive cost controls, and sufficient investment in market development and brand building and hopeful of a recovery in rural sentiment on the back of forecasted improvement in rainfall coverage in the heartlands, government subsidies and higher realizations for crops in the hands of rural consumer.

Story in charts

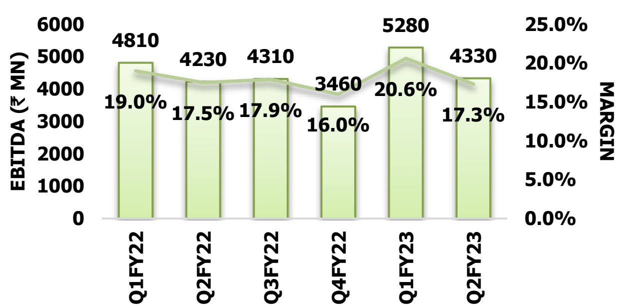
Q2 domestic volumes were up 3% YoY



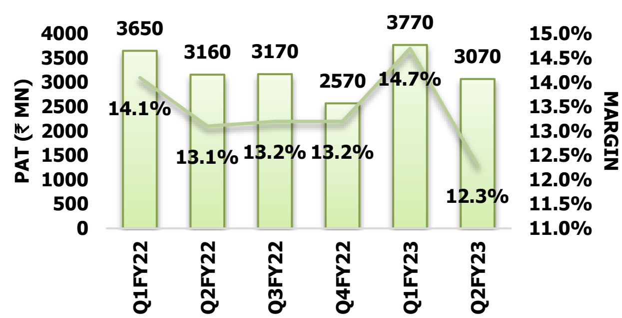
Sales grew 3% YoY



2.4% growth in Q1FY23

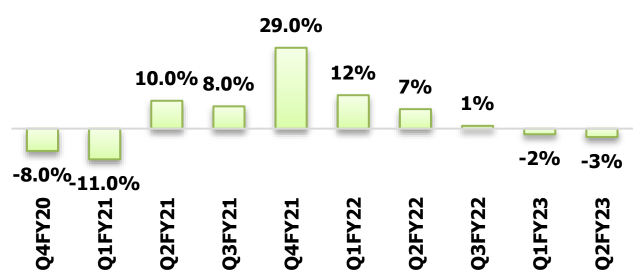


PAT Trend



Parachute Rigid volume was down by 3% in Q2 due to soft consumption trends

Parachute Rigid Volume & Value up 3%/11%



The table below summaries value growths

Categories	Q1FY23 Value Growth
Parachute Coconut Oil (Rigid packs)	-3% (volume)
Value Added Hair Oils	2%
Saffola Franchise (Refined Edible Oils + Foods)	4%

Source: Company, Way2Wealth

International Business delivers double-digit CCG for the sixth quarter in a row

Q2FY23	Bangladesh	Vietnam	South Africa	MENA	Overall
Constant Currency Growth	10% (new launches scaling up well)	10% (sharp recovery in HPC)	16% (driven by health care portfolio	11% (Middle Eat and Egypt grew in high double digit)	22.4% International CCG

Source: Company, Way2Wealth

Risks

- Inflation in raw material prices
- Slow down in the economy

View

Atleast 90% of Marico's portfolio of brands occupy leadership positions in their respective categories. Despite unfavourable environment, company maintained its medium term aspiration of delivering 8-10% domestic volume growth and 13-15% revenue growth.

Management remain confident of the medium term prospects of the FMCG sector once transient macro disturbances settle down and fundamental drivers of the India consumption story come to the fore.

We continue to remain positive on Marico's ability to deliver healthy earnings growth in the medium term considering its strong product portfolio, distribution network, market share gains without compromising on brand building investments to protect short-term margins and healthy balance sheet.

At the current price of ₹502.25 it is trading at 51.9 times P/E to its FY22 EPS of ₹9.7. We advise investors to Accumulate on dips for the long term.

Quarterly Performance

(₹ Cr)

	Q2FY23	Q2FY22	VAR [%]	Q1FY23	VAR [%]	H1FY23	H1FY22	VAR [%]
Net Sales	2,496.0	2,419.0	3.2%	2,558.0	-2.4%	5,054.0	4,944.0	2.2%
						0.0	0.0	
Other Income	19.0	25.0	-24.0%	17.0	11.8%	36.0	52.0	-30.8%
TOTAL INCOME	**2,515.0**	**2,444.0**	**2.9%**	**2,575.0**	**-2.3%**	**5,090.0**	**4,996.0**	**1.9%**
Cost Of Materials Consumed	1,246.0	1,345.0	-7.4%	1,185.0	5.1%	2,431.0	2,734.0	-11.1%
Purchase of stock in trade	183.0	131.0	39.7%	139.0	31.7%	322.0	249.0	29.3%
Stock Adjustment	(22.0)	(84.0)	-73.8%	82.0	-126.8%	60.0	(102.0)	-158.8%
RMC as a % of sales	*56.4%*	*57.5%*		*55.0%*		*55.7%*	*58.3%*	
Employee Benefit Expenses	166.0	153.0	8.5%	156.0	6.4%	322.0	303.0	6.3%
EPC as a % of sales	*6.7%*	*6.3%*		*6.1%*		*6.4%*	*6.1%*	
Advertisement & Promotion	213.0	194.0	9.8%	199.0	7.0%	412.0	369.0	11.7%
Advertisement Expenses as a % of sales	*8.5%*	*8.0%*		*7.8%*		*8.2%*	*7.5%*	
Other Expenses	277.0	257.0	7.8%	269.0	3.0%	546.0	487.0	12.1%
Other Expenses as a %age of sales	*11.1%*	*10.6%*		*10.5%*		*10.8%*	*9.9%*	
TOTAL EXPENDITURE	**2,063.0**	**1,996.0**	**3.4%**	**2,030.0**	**1.6%**	**4,093.0**	**4,040.0**	**1.3%**
EBIDTA	**433.0**	**423.0**	**2.4%**	**528.0**	**-18.0%**	**961.0**	**904.0**	**6.3%**
EBIDTA Margins %	***17.3%***	***17.5%***		***20.6%***		***19.0%***	***18.3%***	
Finance Costs	15.0	10.0	50.0%	10.0	50.0%	25.0	18.0	38.9%
PBDT	**437.0**	**438.0**	**-0.2%**	**535.0**	**-18.3%**	**972.0**	**938.0**	**3.6%**
Depreciation	37.0	33.0	12.1%	36.0	2.8%	73.0	66.0	10.6%
PBT before exceptional items	**400.0**	**405.0**	**-1.2%**	**499.0**	**-19.8%**	**899.0**	**872.0**	**3.1%**
PBT	**400.0**	**405.0**	**-1.2%**	**499.0**	**-19.8%**	**899.0**	**872.0**	**3.1%**
Tax	93.0	89.0	4.5%	122.0	-23.8%	215.0	191.0	12.6%
Tax Rate	*23.3%*	*22.0%*		*24.4%*		*23.9%*	*21.9%*	
Reported Profit After Tax	**307.0**	**316.0**	**-2.8%**	**377.0**	**-18.6%**	**684.0**	**681.0**	**0.4%**
PATM %	***12.3%***	***13.1%***		***14.7%***		***13.5%***	***13.8%***	
Other Comprehensive Income (Net of tax)- net credit / (charge)	**(27.0)**	**3.0**		**(3.0)**		(30.0)	17.0	
Total Comprehensive Income	**280.0**	**319.0**	**-12.2%**	**374.0**	**-25.1%**	**654.0**	**698.0**	**-6.3%**
Basic:								
EPS	**2.4**	**2.4**	**-2.8%**	**2.9**	**-18.6%**	**5.30**	**5.28**	**0.4%**
Equity	129.0	129.0		129.0		129.0	129.0	
Face Value	1.0	1.0		1.0		1.0	1.0	

Source: Company Filing, Way2wealth Research

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Disclosure of Interest Statement Marico Ltd. as on November 10, 2022

Name of the Security	Marico Ltd.
Name of the analyst	Ashwini Sonawane
Analysts' ownership of any stock related to the information contained Financial Interest Analyst : Analyst's Relative : Yes / No Analyst's Associate/Firm : Yes/No	NIL No No No
Conflict of Interest	No
Receipt of Compensation	No
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