16th August 2022 | CMP – ₹510/- | View – **Accumulate on Dips**

Q1FY23: Soft quarter for domestic performance | Strong International Business

- Revenue from operations grew 1.3% YoY to ₹2,558 Cr amidst a challenging consumption environment coupled with category specific headwinds in Saffola Edible Oils. Revenue from international business increased by 18% YoY
- Gross margin expanded 401 bps YoY basis, attributable mainly to benign copra prices, cost rationalizations and favorable mix impact.
- EBITDA increased by 9.8%; margin expanded to 20.6%, 159 bps YoY.

Important Statistics

M.CAP (₹ cr)	₹65,943
52 Week H/L (₹)	₹606/₹456
NSE Code	MARICO
BSE Code	531642

Key takeaways from Q4FY22 result

Shareholding pattern (%)	Jun'22
Promoter	59.5
Institutions	33.8
Public &Others	06.6

- **Volumes & Sales Growth**
  - In Q1FY23, Revenue from Operations grew by 1.3% YoY to ₹2,558 Cr with decline of 6% volume growth which dragged by a double-digit decline in Saffola Oils.
  - Ex-Saffola Oils, domestic volume growth was 1%. Domestic revenues at ₹1921Cr was down 4%, with overall pricing growth being minimal as price hikes in Hair Oils and Saffola Oils were largely offset by price cuts in Parachute Coconut Oil, owing to deflationary copra.
- **Input cost/Profitability Margin:**
  - Copra prices were down 6% sequentially and down 26% YoY. With seasonal supplies slowing down and onset of the festival season, prices should remain range-bound in the near term.
  - Rice Bran oil was up 11% YoY and 13% sequentially. There are early signs of correction in the broader international vegetable oil complex. Crude derivatives such as Liquid Paraffin (LLP) and HDPE were up 36% and 26% YoY. Both are also likely to remain firm in the near term and track in line with crude oil prices
  - EBITDA margin stood at 20.6%, up 159 bps YoY, and EBITDA was up 10% YoY. PAT was up 4% YoY
- **Operational Efficiency:**
  - Employee cost as a % of revenue increased 20 bps; Ad spends as a % of revenue expanded 90 bps YoY as the company consciously ramped up investments to combat the current weaker consumer sentiment and prioritize brand building for the longer term.
- **Demand Trend:**
  - Rural continued to underperform urban on a year-on year basis due to the accentuated impact of inflation on disposable incomes. On the other hand, premium discretionary categories fared relatively better given the lower base and lesser impact of inflation on the upper income consumer segment.
  - The FMCG sector witnessed volume decline in Q1FY23 for the third quarter in a row as rising retail inflation continued to exert pressure on demand and value growth continued to be price-led.
- **Categories:**
  - **Parachute Rigids** was down 2% 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 90 bps in volume MS and 170 bps in value MS. The Management is confident of

posting volume growth from Q2 as company drive growth in core markets through small pack activation and continue to take calibrated pricing actions.

- **Value Added Hair** Oils posted value growth of 5% and flattish volumes year-on year despite weak consumption sentiment, especially in rural.
- **The Saffola franchise,** comprising Refined Edible Oils and Foods, declined by 13% in value terms. Saffola Edible Oils declined sharply given high in-home consumption in the base and visible downgrading from super premium to mass segments. Management expect volume trends to improve from Q2 and aim to deliver growth in H2 as the base normalizes.
- Foods had a slow quarter due to the high in-home consumption base in Oats and sharp decline in immunity-led categories like honey, among others. Saffola Oats maintained its strong leadership position in the Oats category with 420 bps value MS gain on MAT basis. Peanut Butter and Mayonnaise had an encouraging start. The franchise should witness growth picking up gradually from Q2.
- 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:**

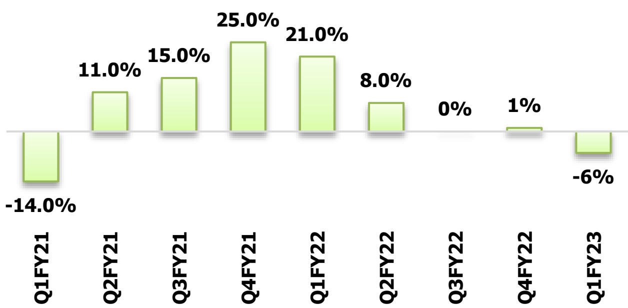
- The International business sustained its strong momentum of predictable and profitable growth. The business delivered 18% constant currency growth in the quarter with each market contributing handsomely, making it the sixth consecutive quarter of double-digit constant currency growth.
- Bangladesh clocked 10% constant currency growth. The newer portfolios of Baby Care and Shampoos continued to ramp up, thereby supporting steady growth in the core franchises. South East Asia grew 34% in constant currency terms, led by strong resurgence in the HPC category in Vietnam. MENA and South Africa grew 27% and 23% in constant currency terms.
- EBITDA margin for the international business was at 25.5%, down 210 bps YoY.

➢ **Guidance:**

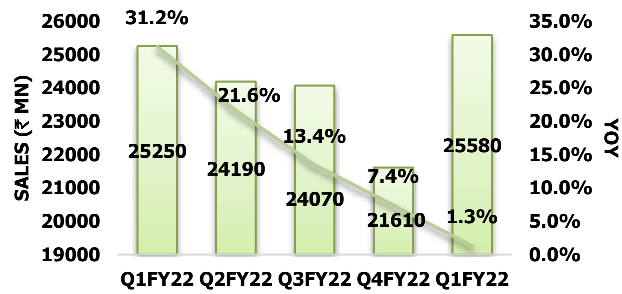
- In the near term, management expect volume growth to be in the positive zone from Q2 under current demand condition and hope to accelerate volume growth to medium term target levels in H2, provided inflation cools off and eases pressure on demand. Management also aim to deliver 18-19% EBITDA margin in FY23.
- 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

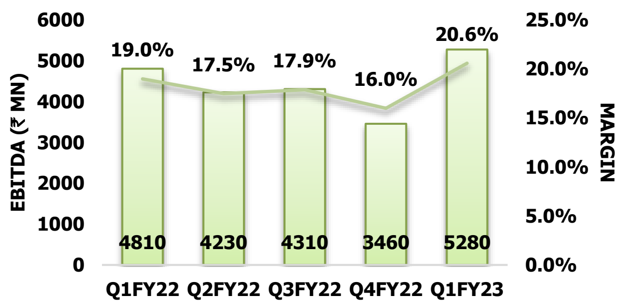
Q1 domestic volumes down 6% YoY



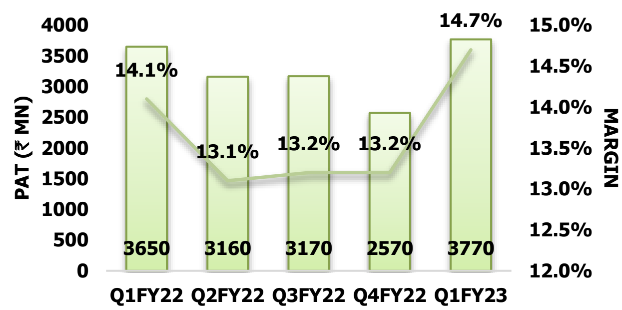
Sales grew 1.3% YoY



10% growth in Q1FY23

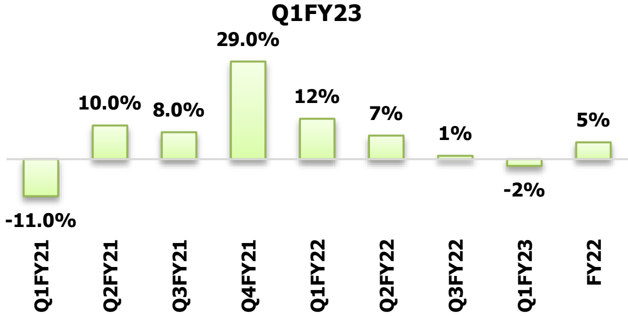


3.3% growth in Q1FY23



Parachute Rigid volume was down by 2% in Q1 due to soft consumption trends

Parachute Rigid Volume declined 2% in Q1FY23



The table below summaries value growths

Categories	Q1FY23 Value Growth
Parachute Coconut Oil (Rigid packs)	-2% (volume)
Value Added Hair Oils	5%
Saffola Franchise (Refined Edible Oils + Foods)	-13%

Source: Company, Way2Wealth

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

Q1FY23	Bangladesh	Vietnam	South Africa	MENA	Overall
Constant Currency Growth	10% (new launches scaling up well)	34% (sharp recovery in HPC)	23% (driven by health care portfolio	27% (Middle Eat and Egypt grew in high double digit)	18% International CCG

Source: Company, Way2Wealth

Risks

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

View

Atleast 97% 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. Marico has seen down trading in the super-premium category of saffola edible oil while the mass segment grew by 30 percent. The company has chosen to protect margins as against boosting volumes in the current high raw material price environment.

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 ₹510 it is trading at 52.6 times P/E to its FY22 EPS of ₹9.7. We advise investors to Accumulate on dips for the long term.

16th August 2022 CMP – ₹510/- View – **Accumulate on Dips**

Quarterly Performance

(₹ Cr)

	Q1FY23	Q1FY22	VAR [%]	Q4FY22	VAR [%]	FY22
Net Sales (Net of Excise Duty)	2,558.0	2,525.0	1.3%	2,161.0	18.4%	9512
Other Operating Income	0.0	0.0	#DIV/0!	0.0	#DIV/0!	0
						0
Other Income	17.0	27.0	-37.0%	24.0	-29.2%	98
TOTAL INCOME	**2,575.0**	**2,552.0**	**0.9%**	**2,185.0**	**17.8%**	**9610**
Cost Of Materials Consumed	1,185.0	1,389.0	-14.7%	1,116.0	6.2%	5061
Purchase of stock in trade	139.0	118.0	17.8%	126.0	10.3%	491
Stock Adjustment	82.0	(18.0)	-555.6%	(42.0)	-295.2%	-116
RMC as a %age of sales	*55.0%*	*59.0%*		*55.5%*		*57.1%*
Employee Benefit Expenses	156.0	150.0	4.0%	139.0	12.2%	586
EPC as a %age of sales	*6.1%*	*5.9%*		*6.4%*		*6.2%*
Advertisement & Promotion	199.0	175.0	13.7%	204.0	-2.5%	796
Advertisement Expenses as a %age of sales	*7.8%*	*6.9%*		*9.4%*		*8.4%*
Other Expenses	269.0	230.0	17.0%	272.0	-1.1%	1013
Other Expenses as a %age of sales	*10.5%*	*9.1%*		*12.6%*		*10.6%*
TOTAL EXPENDITURE	**2,030.0**	**2,044.0**	**-0.7%**	**1,815.0**	**11.8%**	**7831**
EBIDTA	**528.0**	**481.0**	**9.8%**	**346.0**	**52.6%**	**1681**
EBIDTA Margins %	***20.6%***	***19.0%***		***16.0%***		***17.7%***
Finance Costs	10.0	8.0	25.0%	11.0	-9.1%	39
PBDT	**535.0**	**500.0**	**7.0%**	**359.0**	**49.0%**	**1740**
Depreciation	36.0	33.0	9.1%	37.0	-2.7%	139
PBT	**499.0**	**467.0**	**6.9%**	**322.0**	**55.0%**	**1601**
Tax	122.0	102.0	19.6%	65.0	87.7%	346
Tax Rate	*24.4%*	*21.8%*		*20.2%*		*21.6%*
Reported Profit After Tax	**377.0**	**365.0**	**3.3%**	**257.0**	**46.7%**	**1255**
PATM %	***14.7%***	***14.5%***		***11.9%***		***13.2%***
Extra-ordinary Items			-		-	0
Adjusted Profit After Extra-ordinary item	**377.0**	**365.0**	**3.3%**	**257.0**	**46.7%**	**1255**
Other Comprehensive Income (Net of tax)- net credit / (charge)	**(3.0)**	**14.0**		**21.0**		35
Total Comprehensive Income	**374.0**	**379.0**	**-1.3%**	**278.0**	**34.5%**	**1290**
Basic:						
EPS	**2.9**	**2.8**	**3.3%**	**2.0**	**46.7%**	**9.7**
Equity	129.0	129.0		129.0		129
Face Value	1.0	1.0		1.0		1

Source: Company Filing, Way2wealth Research

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Disclosure of Interest Statement Marico Ltd. as on August 16, 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
Way2Wealth ownership of any stock related to the information contained	NIL
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