Marico Limited – Q2FY23 Results

Consolidated Revenue up 3%
Domestic volume growth at 3%; H2 outlook more sanguine
Foods and Premium Personal Care portfolios lead growth in India
International business continues strong run; delivers 11% CCG
Ad spend up 10%; EBITDA up 2%

In Q2FY23, Revenue from Operations grew by 3% YoY to ₹2,496 crores with underlying volume growth of 3% in the domestic business and constant currency growth of 11% in the International business.

In India, as 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.

After a tepid Q1, the Company recovered to post reasonable growth in domestic volumes on the back of healthier traction among urban and premium discretionary portfolios. **On a 3-year CAGR basis, quarterly domestic volume growth stood at a healthy 7%.** More than 90% of the portfolio consolidated market shares. Among the sales channels, General Trade remained weak, while the divergence in rural and urban growth grew starker with the former reeling under persistent inflationary and liquidity pressures. MT and E-commerce grew in double digits.

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.

Gross margin expanded 115 bps YoY. A&P spends grew 10% on a year-on-year basis, as the Company maintained investments towards strategic brand building of core and new franchises. EBITDA margin stood at 17.3% and EBITDA was up 2% YoY. PAT was down 3% YoY, mainly due to losses on translation of foreign currency receivables and higher effective tax rate (ETR).

Domestic Business

Marico's India Business delivered a turnover of ₹ 1,896 crore, up 1% on a YoY basis.

Parachute Rigids was down 3% in volume terms (down 11% in value terms) mainly due to muted consumption trends and sluggishness in loose to branded conversions as softening in copra prices extended beyond expectations. In the given market context, Parachute held its market share in volume terms and gained 20 bps in value MS on MAT basis. The brand is witnessing better traction aided by the last round of pricing interventions and is contemplating passing on more value to consumers. We 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. 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. We 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, grew by 4% in value terms.

Saffola Oils recovered smartly to post high single digit volume growth on a normalizing base aided by consumer pricing interventions in key packs.

Foods grew 26% in value terms with healthy growth in the Oats franchise and sustained traction in some of the recent introductions. **Saffola Oats** maintained its strong leadership position in the Oats category with **320 bps value MS gai**n 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** (NMR tested – 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 INR 650 cr. in FY23 and INR 850-1000 cr. in FY24.

Premium Personal Care and **Digital-first portfolios** (ARR nearing INR 250 cr.) continued to clock high double-digit growths. **Beardo** and **Just Herbs** are scaling up in line with expectations.

International Business

The International business delivered a turnover of ₹ 600 crore with 11% constant currency (cc) growth.

Bangladesh clocked 10% growth in cc terms. The newer portfolios of Baby Care and Shampoos continued to supplement growth in the core franchises. **South East Asia** grew 10% in cc terms, led by strong HPC growth in Vietnam. **MENA** and **South Africa** grew 11% and 16% in cc terms.

Outlook

Near Term

In the domestic business, we will maintain sharp focus on driving penetration and market share gains across our portfolios aided by distribution expansion, aggressive cost controls, and sufficient investment in market development and brand building. We will closely watch rural growth and are hopeful of a recovery. We expect to deliver mid-single digit volume growth in H2.

In the International business, while there are macro risks in some markets, we are confident of maintaining the double-digit growth momentum in the coming quarters.

Gross margin should improve sequentially from Q3 as copra remains in the soft zone, while the recent volatility in vegetable oils keeps us watchful. Taking into account the quarterly gyrations of all cost line items, we would aim to deliver 18-19% EBITDA margin in FY23.

Medium Term

The Company holds its medium term aspiration of delivering 13-15% revenue growth on the back of 8-10% domestic volume growth and double-digit constant currency growth in the International business. The Company will aim to maintain operating margin above the threshold of 19%.

Saugata Gupta, MD & CEO, commented, *"The first half ended on a fairly positive note despite the operating environment bringing little cheer. We are hopeful of a much better performance in the core domestic portfolio in the second half of the year as macro indicators and the base turn more accommodative, while the new engines continue to deliver on their promise. We are confident of sustaining the strong and profitable growth trajectory in the international markets and staying resilient amidst uncertainty in some of the markets. We believe consistent investment in our brands and focus on execution will enable us to deliver competitive volume led growth and maintain healthy profitability over the near and medium term."*

Marico was ranked among the top 3 Most Sustainable Companies in India by BW Businessworld IMSC 2021-22

Marico was recognized as the 'Masters of Risk' in the ESG category in the 8th edition of the India Risk Management Awards 2022 by CNBC-TV18 & ICICI Lombard

Marico was the only FMCG company to be placed in the 'Leadership category' as per CRISIL's ESG ratings published in Yearbook 2022

Marico was recognized among the Top 5 Water Positive Companies in the 2021 Capri Global Capital Ltd. HURUN INDIA Impact 50 List

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