

BUY

TP: Rs 646 | ▲ 15%

MARICO

| Consumer Staples

| 31 July 2023

Soft performance; outlook remains strong

- Q1 revenue dipped 3% YoY owing to destocking and trade scheme rationalisation
- Margin expansion continues as prices of key commodities soften; A&P spend remains elevated
- TP revised to Rs 646 (vs. Rs 629) as we raise FY24/FY25 PAT by 6%/3%; retain BUY

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Subdued quarter: MRCO's consolidated Q1FY24 revenue dipped 3% YoY to Rs 24.8bn as India business posted muted underlying volume growth of 3% due to trade destocking in *Saffola* oil and trade scheme rationalisation by the company in core categories. International business grew 9% YoY CC despite persisting macroeconomic headwinds and currency devaluation in some economies. The food business continued to do well with value growth of 24% YoY driven by steady growth in core and newer franchises. Premium personal care products delivered a steady performance and are guided to contribute ~10% of domestic revenue in FY24.

Margins expansion continues: Gross margin expanded 500bps YoY and 260bps QoQ to 50% as prices of key inputs moderated. EBITDA grew 9% YoY with a 260bps rise in margin to 23.2% despite increased spending on brands that pushed up A&P spend by 7% YoY. MRCO's ongoing bid to strengthen brand equity and ensure strong execution translated into market share gains during the quarter, with ~85% of the portfolio either gaining or sustaining share as well as market reach.

Domestic business slows: India business posted revenue of Rs 18.3bn, down 5% YoY. *Parachute Rigid* saw a 2% YoY decline in volumes but maintained market share and recorded its highest-ever market penetration. Value-added hair oils saw a flat quarter owing to slower recovery in the mass personal care segment. *Saffola* edible oil registered low-double-digit volume growth while revenue growth declined to the low 20s due to destocking in edible oil and pricing interventions.

Maintain BUY, TP revised to Rs 646: MRCO had a soft quarter due to destocking and trade scheme rationalisation which management believes will correct in coming quarters. We expect a continued focus on the food portfolio, product launches, derisking the business, increased market penetration, and brand investments to result in higher volumes and profitable growth. The stock is trading at 45.3x/40.8x FY24E/FY25E EPS. Given volume growth visibility in domestic markets and sustained growth in international markets, we raise our FY24/FY25 earnings estimates by 6%/3% and revise our TP to Rs 646 (earlier Rs 629). We continue to value the stock at an unchanged 47x FY25E P/E multiple and maintain BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MRCO IN/Rs 561
Market cap	US\$ 8.8bn
Free float	40%
3M ADV	US\$ 10.1mn
52wk high/low	Rs 578/Rs 463
Promoter/FPI/DII	59%/25%/16%

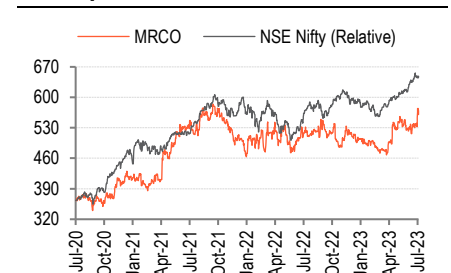
Source: NSE | Price as of 31 Jul 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	97,640	1,04,633	1,16,780
EBITDA (Rs mn)	18,100	22,084	24,968
Adj. net profit (Rs mn)	13,020	15,972	17,729
Adj. EPS (Rs)	10.1	12.4	13.7
Consensus EPS (Rs)	10.1	11.8	13.5
Adj. ROAE (%)	35.4	37.0	34.9
Adj. P/E (x)	55.5	45.3	40.8
EV/EBITDA (x)	40.0	32.7	29.0
Adj. EPS growth (%)	6.3	22.7	11.0

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

Stock performance



Source: NSE

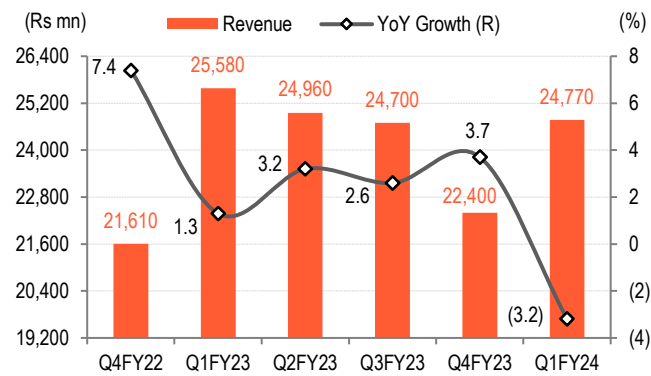


Fig 1 – Quarterly performance

(Rs mn)	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	24,770	22,400	25,580	10.6	(3.2)	24,966	(0.8)
EBITDA	5,740	3,930	5,280	46.1	8.7	5,817	(1.3)
Adj. PAT	4,270	3,020	3,710	41.4	15.1	4,090	4.4
Gross Margin (%)	50.0	47.4	45.0	260bps	500bps	50.2	(20bps)
EBITDA Margin (%)	23.2	17.5	20.6	570bps	260bps	23.3	(10bps)
Adj. PAT Margin (%)	17.2	13.5	14.5	370bps	270bps	16.4	80bps

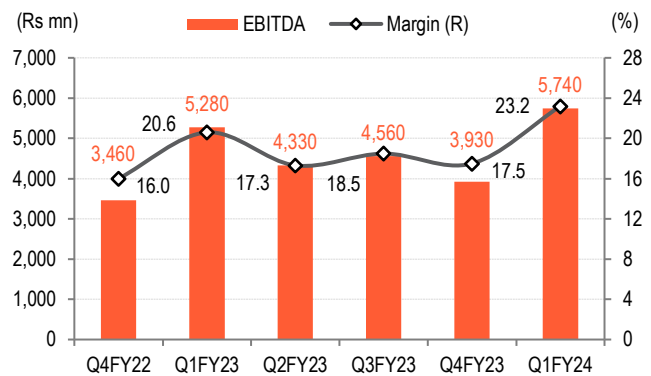
Source: Company, BOBCAPS Research

Fig 2 – Revenue and growth



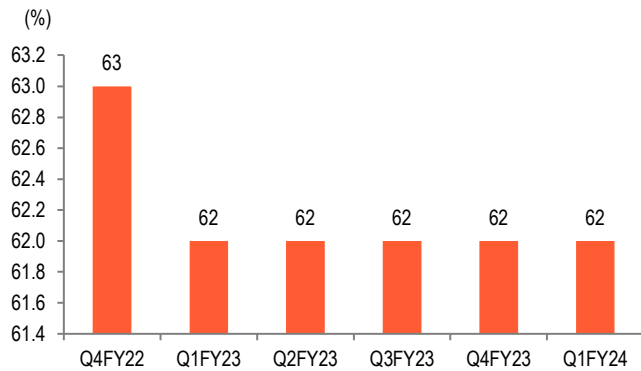
Source: Company, BOBCAPS Research

Fig 3 – EBITDA and margin



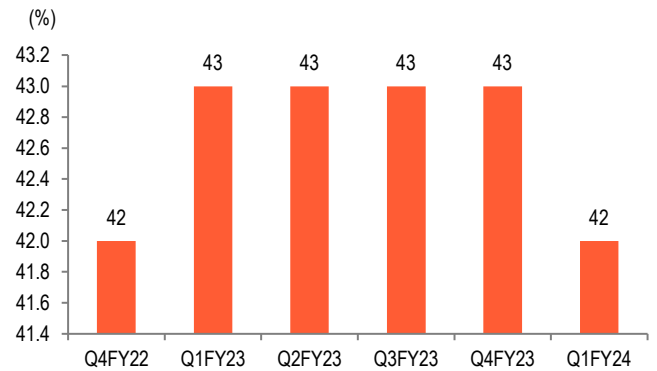
Source: Company, BOBCAPS Research

Fig 4 – Volume market share – Coconut oil franchise



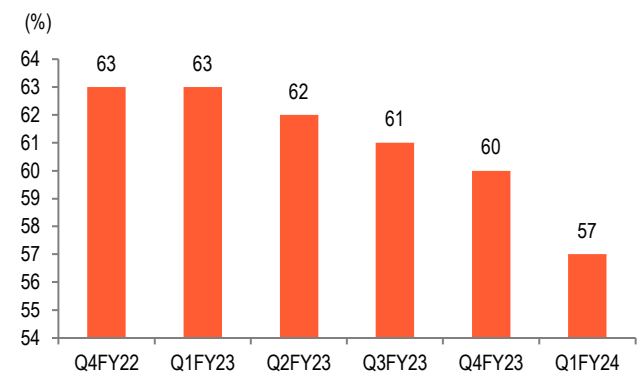
Source: Company, BOBCAPS Research

Fig 5 – Value market share – Saffola Oats



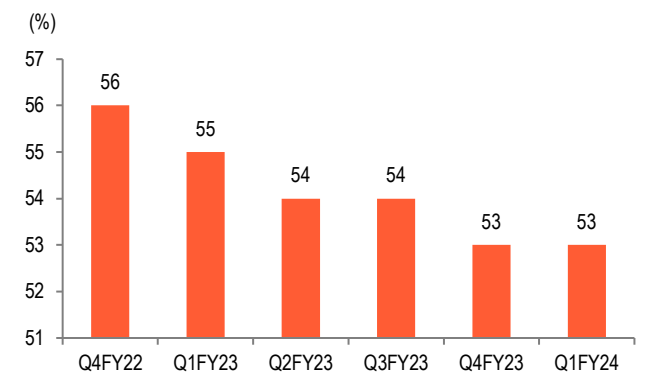
Source: Company, BOBCAPS Research

Fig 6 – Volume market share – Leave-on serum



Source: Company, BOBCAPS Research

Fig 7 – Value market share – Hair gel/waxes/creams



Source: Company, BOBCAPS Research

Earnings call highlights

- The FMCG sector saw volumes tick up for the second consecutive quarter led by steady growth in urban markets. However, green shoots are not yet visible in rural markets.
- Factors including lower retail inflation, monsoon pickup, price hikes, higher crop support prices and increased government spending continue to offer hope of a gradual recovery in rural sentiment, although the impact of rainfall distribution, erratic weather patterns and rural farm incomes will need to be monitored.
- Pricing growth has been tapering off sequentially as companies are taking price cuts given moderating costs of key inputs, which will result in volume growth in coming quarters.
- The food business continues to drive MRCO's performance with Q1FY24 revenue growth in the mid-20s while mass personal care categories still exhibit linkage to rural markets. In foods, MRCO saw healthy traction in oats, honey, plant-based protein spreads, and munchies.
- MRCO's domestic volume growth at 3% YoY in Q1 was below management's expectations largely due to channel inventory adjustments.
- A sharp month-on-month fall in edible oil prices resulted in significant destocking of inventory in *Saffola* edible oil. MRCO took multiple price cuts amounting to 30% YoY to pass on the benefits to consumers.
- Volume growth in coconut value oil and value-added oil was subdued in Q1FY24 due to muted rural sentiments, but management expects an uptick from Q2.
- MRCO expects overall volume recovery from Q2FY24 onwards owing to improved market penetration and stable-to-improving market share in 85% of the portfolio.
- Premium personal care delivered a steady performance and is guided to contribute 10% of domestic revenue in FY24.
- As the food and digital businesses achieve scale, MRCO is focusing on improved profitability and also reducing cash burn in the latter.
- The international business continued its momentum and delivered 9% YoY CC growth despite macroeconomic headwinds and currency devaluation in some of the geographies.
- Bangladesh extended its steady run and Vietnam faced some consumption headwinds but underlying business remains strong. South Africa and new country development (NCD) business have been consistent over the last couple of years. The company will continue to invest in growth and guides for double-digit CC growth in the international business in FY24.
- Modern trade and e-commerce revenues registered double-digit growth during the quarter while general trade declined in mid-single-digits.
- Gross margin expanded by 500bps YoY and 260bps sequentially owing to moderating input costs. A&P spends were up 7% YoY as the company continued to

invest towards strategic brand building of core and new businesses. EBITDA margin for the quarter expanded 260bps YoY to 23.2%. EBITDA grew 9% YoY and adjusted PAT was up 15% YoY.

- Management believes pricing deflation in the domestic portfolio has bottomed out and therefore expects positive revenue growth in H2FY24. The company further expects operating margin to expand to 20% in FY24, higher than envisaged earlier.
- The company has recently signed definitive agreements to acquire up to 58% of the paid-up share capital of Satiya Nutraceuticals Private Limited at a pre-money valuation of ~4x of its annualised revenue run-rate of ~Rs 1.5bn. Satiya Nutraceuticals owns *Plix – The Plant Fix*, a digital-first, clean-label, plant-based nutrition brand.

Valuation methodology

MRCO had a soft first quarter due to trade destocking and trade scheme rationalisation which management believes will correct in coming quarters. The company continues to drive growth through investments in brand and market development. We expect a continued focus on the food portfolio, product launches, derisking the business, increased market penetration, and brand investments to result in higher volumes and profitable growth.

Management aspires to grow revenue by 13-15% in medium term with domestic volume growth of 8-10% and double-digit CC growth in international business. Operating margin is targeted at around 19% levels in the medium term which looks achievable given softening commodity prices and the company's cost rationalisation initiatives.

The stock is trading at 45.3x/40.8x FY24E/FY25E EPS. Given volume growth visibility in domestic markets and sustained growth in international markets, we raise our FY24/FY25 earnings estimates by 6%/3% and revise our TP to Rs 646 (earlier Rs 629). We continue to value the stock at an unchanged 47x FY25E P/E multiple and maintain BUY.

Fig 8 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	104,633	116,780	108,052	120,565	(3.2)	(3.1)
EBITDA	22,084	24,968	21,151	24,457	4.4	2.1
EBITDA margin (%)	21.1	21.4	19.6	20.3	150bps	110bps
Adj. PAT	15,972	17,729	15,129	17,258	5.6	2.7
Adj. PAT margin (%)	15.3	15.2	14.0	14.3	130bps	90bps

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- continued volatility in edible oil prices,
- delayed rural recovery, and
- inflation in input cost.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	14.0	4,794	5,844	BUY
Dabur India	DABUR IN	12.4	576	669	BUY
Godrej Consumer Products	GCPL IN	12.9	1,036	1,159	BUY
Hindustan Unilever	HUVR IN	73.2	2,561	3,069	BUY
ITC	ITC IN	70.4	466	523	BUY
Marico	MRCO IN	8.8	561	646	BUY
Nestle India	NEST IN	26.5	22,553	26,430	BUY
Tata Consumer Products	TATACONS IN	9.7	859	994	BUY
Zydus Wellness	ZYWL IN	1.1	1,469	1,631	HOLD

Source: BOBCAPS Research, NSE | Price as of 31 Jul 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	80,480	95,120	97,640	1,04,633	1,16,780
EBITDA	15,910	16,810	18,100	22,084	24,968
Depreciation	1,390	1,390	1,550	1,699	2,065
EBIT	14,520	15,420	16,550	20,386	22,903
Net interest inc./(exp.)	340	390	560	680	665
Other inc./(exp.)	940	980	1,440	1,512	1,587
Exceptional items	130	0	0	0	0
EBT	15,250	16,010	17,430	21,217	23,825
Income taxes	3,240	3,460	4,210	4,886	5,718
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	270	300	200	360	378
Reported net profit	11,720	12,250	13,020	15,972	17,729
Adjustments	130	0	0	0	0
Adjusted net profit	11,590	12,250	13,020	15,972	17,729

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	11,340	13,440	14,520	14,581	16,154
Other current liabilities	2,870	2,240	2,170	2,325	2,595
Provisions	210	220	480	483	488
Debt funds	3,480	3,450	4,750	4,770	4,770
Other liabilities	4,620	4,460	7,980	8,341	8,968
Equity capital	1,290	1,290	1,290	1,290	1,290
Reserves & surplus	31,290	32,760	38,270	45,498	53,499
Shareholders' fund	32,580	34,050	39,560	46,788	54,789
Total liab. and equities	55,100	57,860	69,460	77,288	87,764
Cash and cash eq.	9,440	5,790	7,560	13,537	19,836
Accounts receivables	3,880	6,520	10,150	10,877	12,140
Inventories	11,260	14,120	12,250	12,372	13,706
Other current assets	2,500	2,210	2,460	2,632	2,930
Investments	8,540	8,280	10,960	11,331	11,975
Net fixed assets	5,720	6,000	6,330	6,578	6,849
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	1,565	1,746
Other assets	9,360	9,620	12,020	12,127	12,312
Total assets	55,100	57,860	69,460	77,288	87,764

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	20,070	10,160	14,190	18,058	20,049
Capital expenditures	(1,420)	(1,320)	(1,820)	(2,093)	(2,336)
Change in investments	(4,260)	3,370	(3,890)	0	0
Other investing cash flows	(3,700)	2,200	(3,580)	(371)	(644)
Cash flow from investing	(9,380)	4,250	(9,290)	(2,464)	(2,980)
Equities issued/Others	60	410	90	0	0
Debt raised/repaid	130	(30)	1,280	0	0
Interest expenses	(210)	(280)	(420)	(680)	(665)
Dividends paid	(9,900)	(12,170)	(6,070)	(9,104)	(10,106)
Other financing cash flows	(660)	(830)	(480)	166	0
Cash flow from financing	(10,580)	(12,900)	(5,600)	(9,618)	(10,771)
Chg in cash & cash eq.	110	1,510	(700)	5,977	6,299
Closing cash & cash eq.	1,090	2,760	2,070	8,047	14,346

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	9.1	9.5	10.1	12.4	13.7
Adjusted EPS	9.0	9.5	10.1	12.4	13.7
Dividend per share	37.5	9.4	4.7	7.1	7.8
Book value per share	25.3	26.4	30.7	36.3	42.5

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	9.0	7.6	7.4	6.9	6.2
EV/EBITDA	45.5	43.0	40.0	32.7	29.0
Adjusted P/E	62.4	59.0	55.5	45.3	40.8
P/BV	22.2	21.2	18.3	15.5	13.2

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	76.9	76.5	74.7	75.3	74.4
Interest burden (PBT/EBIT)	105.0	103.8	105.3	104.1	104.0
EBIT margin (EBIT/Revenue)	18.0	16.2	17.0	19.5	19.6
Asset turnover (Rev./Avg TA)	146.1	164.4	140.6	135.4	133.1
Leverage (Avg TA/Avg Equity)	1.7	1.7	1.8	1.7	1.6
Adjusted ROAE	36.0	36.0	32.9	34.1	32.4

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	10.0	18.2	2.6	7.2	11.6
EBITDA	8.3	5.7	7.7	22.0	13.1
Adjusted EPS	14.8	4.5	6.3	22.7	11.0
Profitability & Return ratios (%)					
EBITDA margin	19.8	17.7	18.5	21.1	21.4
EBIT margin	18.0	16.2	17.0	19.5	19.6
Adjusted profit margin	14.4	12.9	13.3	15.3	15.2
Adjusted ROAE	36.8	36.8	35.4	37.0	34.9
ROCE	31.0	30.9	28.0	29.2	28.2
Working capital days (days)					
Receivables	21	20	31	37	36
Inventory	107	85	90	84	80
Payables	90	83	95	99	94
Ratios (x)					
Gross asset turnover	1.4	1.5	1.3	1.2	1.2
Current ratio	1.7	1.6	1.6	1.8	2.1
Net interest coverage ratio	42.7	39.5	29.6	30.0	34.4
Adjusted debt/equity	10.7	10.1	12.0	10.2	8.7

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

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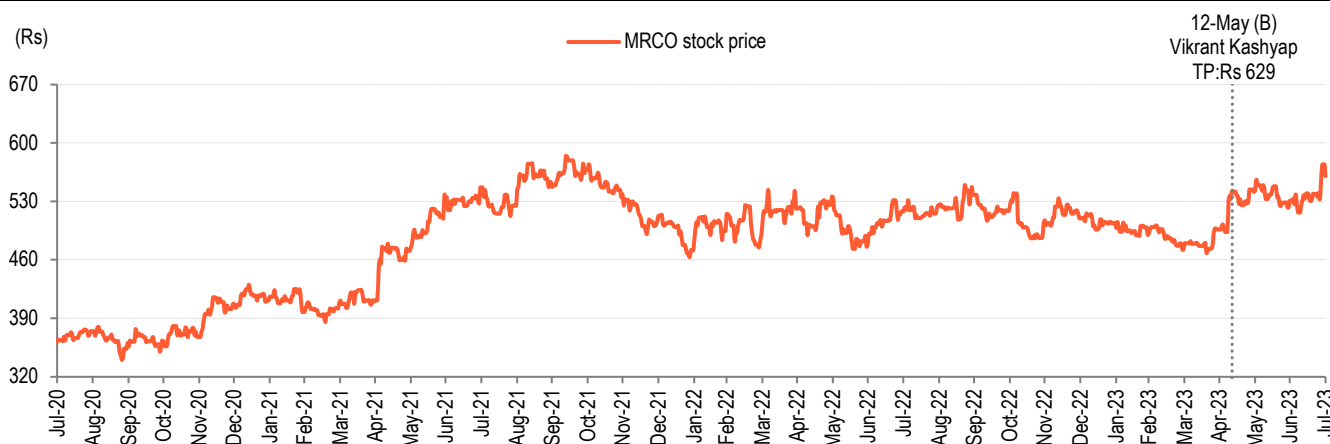
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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Ratings and Target Price (3-year history): MARICO (MRCO IN)



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

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