

BUY

TP: Rs 618 | ▲ 18%

MARICO

| Consumer Staples

| 30 January 2024

Domestic business still lacklustre

- Dull Q3 performance in domestic as well as international markets amid a challenging operating environment
- Growth in rural markets, mass category and general trade yet to pick up, dampening volume growth at bottom of the pyramid
- TP reduced to Rs 618 (vs. Rs 646) as we roll valuations over to FY26E and cut our target P/E from 47x to 44x; maintain BUY

Vikrant Kashyap

research@bobcaps.in

Another soft quarter: MRCO's consolidated Q3FY24 revenue declined by 1.9% YoY to Rs 24.2bn as India business posted muted underlying volume growth of 2% for the third straight quarter. General trade remained under pressure as it grappled with liquidity and profitability constraints, while alternate channels remained healthy. International business grew only 6% YoY CC owing to persisting macroeconomic headwinds and geopolitical tensions in some markets.

Domestic business remains dull: India business posted slow 2% YoY volume growth due to weakness in the edible oil and hair oil categories, with domestic revenue down 3% YoY to Rs 17.9bn. *Parachute* coconut oil (34% of domestic business) posted 3% YoY volume growth, value-added hair oil (20%) had another flat quarter, and *Saffola* edible oil (18%) registered mid-single-digit volume growth and a 26% YoY decline in revenue owing to price corrections. The food business, however, continued to do well with value growth of 18% YoY largely driven by the Plix acquisition. Premium personal care products also delivered a steady quarter.

Margin expansion continues: Gross margin expanded 640bps YoY and 80bps QoQ to 51.3% on a favourable raw material base. EBITDA grew 12.5% YoY with a 270bps YoY rise in margin to 21.2% despite increased spending on brands that pushed up A&P spend by 12% YoY. Adj. PAT grew 17% YoY, shored up by a lower tax rate.

Maintain BUY: We pare our FY24/FY25 PAT estimates by 4%/8% as MRCO has continued to display a soft performance for the third straight quarter due to a difficult demand environment and increased regional competition. The stock is trading at 44.8x/41.6x FY24E/FY25E EPS. We roll valuations over to FY26E and now value the stock at 44x FY26E EPS (vs. 47x on FY25E) – in line with the long-term mean – to bake in the growth slowdown. Our TP thus reduces to Rs 618 (from Rs 646). We maintain BUY as we believe a continued focus on the food portfolio, product launches, and brand investments would aid volume recovery and profitable growth.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	MRCO IN/Rs 523
Market cap	US\$ 8.2bn
Free float	40%
3M ADV	US\$ 9.3mn
52wk high/low	Rs 595/Rs 463
Promoter/FPI/DII	59%/25%/16%

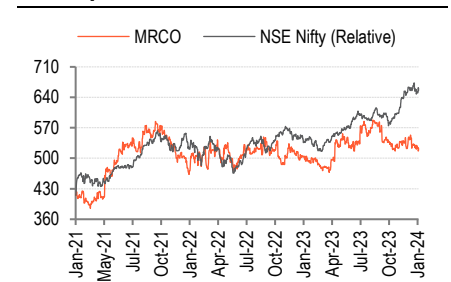
Source: NSE | Price as of 30 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	97,640	96,912	104,585
EBITDA (Rs mn)	18,100	20,519	22,563
Adj. net profit (Rs mn)	13,020	15,050	16,239
Adj. EPS (Rs)	10.1	11.7	12.6
Consensus EPS (Rs)	10.1	11.6	12.9
Adj. ROAE (%)	35.4	35.1	32.6
Adj. P/E (x)	51.8	44.8	41.6
EV/EBITDA (x)	37.3	32.9	29.9
Adj. EPS growth (%)	6.3	15.6	7.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

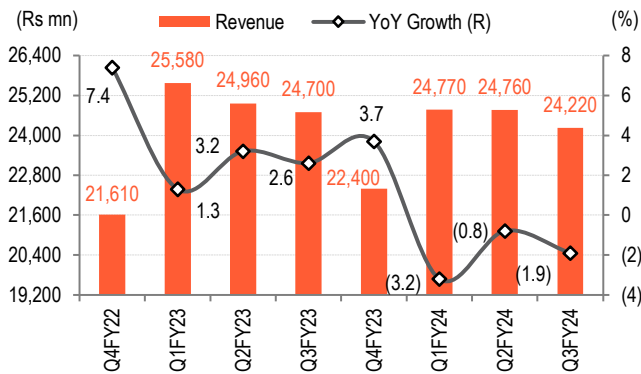


Fig 1 – Financial performance

(Rs mn)	Q3FY24	Q2FY24	Q3FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	24,220	24,760	24,700	(2.2)	(1.9)	24,181	0.2
EBITDA	5,130	4,970	4,560	3.2	12.5	5,172	(0.8)
Adj. PAT	3,830	3,530	3,280	8.5	16.8	3,753	2.1
Gross Margin (%)	51.3	50.5	44.9	80bps	640bps	49.2	210bps
EBITDA Margin (%)	21.2	20.1	18.5	110bps	270bps	21.5	(30bps)
Adj. PAT Margin (%)	15.8	14.3	13.3	150bps	250bps	15.6	20bps

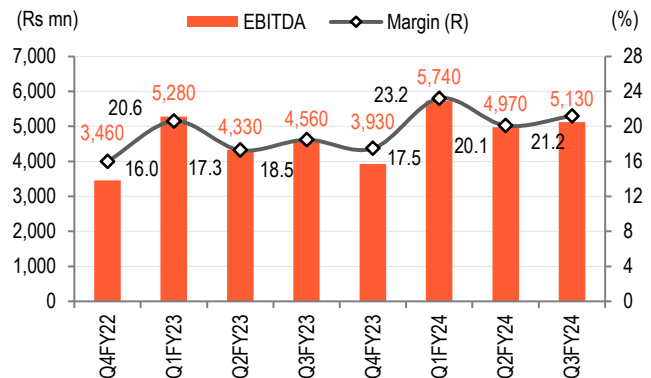
Source: Company, BOBCAPS Research

Fig 2 – Revenue and growth



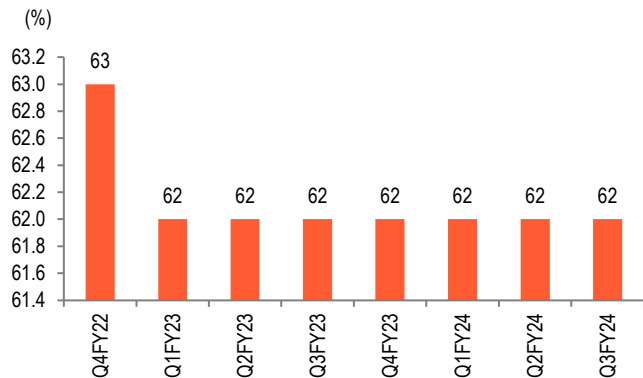
Source: Company, BOBCAPS Research

Fig 3 – EBITDA and margin



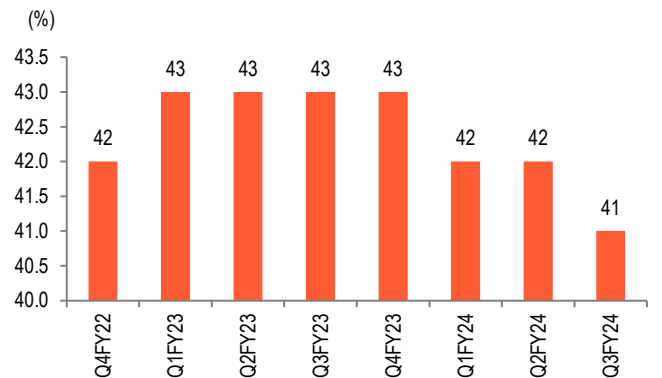
Source: Company, BOBCAPS Research

Fig 4 – Volume market share – Coconut oil franchise



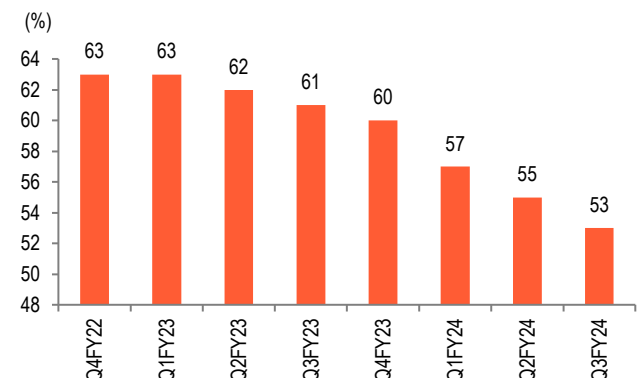
Source: Company, BOBCAPS Research

Fig 5 – Value market share – Saffola Oats



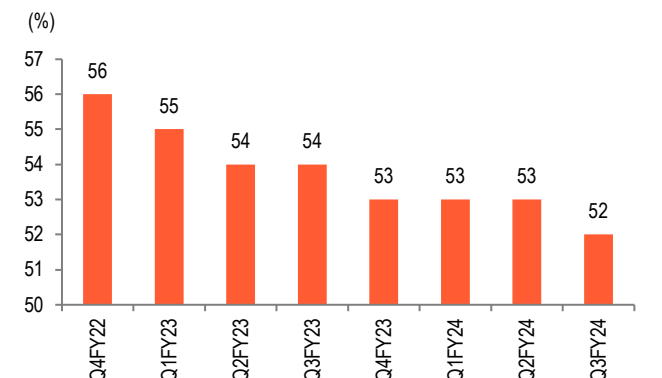
Source: Company, BOBCAPS Research

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

- MRCO posted a muted Q3FY24 as the operating environment remained challenging. FMCG volumes grew in low-single digits on a four-year CAGR basis, with the company's rural, mass and home & personal care (HPC) categories tracking lower than the urban, premium and food categories.
- The recovery in consumption has been slower than anticipated, but management remains optimistic of a gradual uptick in consumption trends over the next year.
- MRCO's organic domestic volume growth stood at 2% YoY in Q3 vs. 4% YoY in the year-ago quarter due to a voluntary reduction in primary sales to bring down inventory levels at distributors and enhance their return on investment.
- Volumes grew 5% on a four-year CAGR basis and secondary sales improved sequentially in the core portfolio. More than three-fourths of the business continued to gain or hold market share.
- Volume growth in *Parachute* improved sequentially in Q3 as loose-to-branded conversion appeared to regain some pace, which resulted in the brand strengthening its leadership position with a 40bps market share gain on MAT basis. MRCO expects a gradual upward trend in volumes to sustain in the quarters ahead.
- *Saffola* edible oil had a weak quarter with a mid-single-digit volume decline on a high base of last year. Given healthy offtake during Q3, the company expects the brand to revert to growth from Q4FY24 onwards.
- Value-added hair oils improved sequentially, with the mid and premium segments growing in mid- to high-single digits. Growth continued to be impacted by extended demand weakness and sustained competitive pressures at the bottom of the pyramid.
- The foods business maintained its steady growth trajectory and is guided to close FY24 with at least Rs 7.5bn in revenue. *Saffola Oats* maintained its position as the number one brand in the oats category. Honey and soya chunks continue to scale up and should each reach Rs 1bn in revenue in the coming years, per management.
- Premium personal care (PPC) sustained its double-digit growth momentum with the digital-first portfolio surpassing a Rs 4bn exit run-rate in Q3. The company is also actively working to build up profitability. Management expects *Beardo* to be EBITDA-positive this year and *Just Herbs* and *True Elements* to approach break even in FY25.
- In the international business, Bangladesh saw momentary weakness and uncertain business conditions. Southeast Asia also had a modest quarter marked by sluggishness in the HPC category in Vietnam. The MENA and South Africa business registered strong growth.
- General trade remained under pressure in Q3 and MRCO has initiated measures to reignite growth in the channel and in core mass consumption categories.
- The company expects to see the impact of earlier pricing interventions in the domestic portfolio and devaluation headwinds in certain international geographies, but we expect these effects to taper off and revenue growth to turn positive in Q4.
- Gross margin is guided to expand by 450-500bps in FY24 and the company aims to maintain a resilient margin profile in the quarters ahead.

Valuation methodology

MRCO has continued to display a soft performance for the third straight quarter due to a challenging demand environment and increased competition from regional players in select categories. The company is also seeing challenges to growth in some of its international markets. During Q3FY24, the India food business grew 18% YoY largely driven by the acquisition of Plix. Excluding Plix, growth was in mid-single digits.

Considering the difficult operating environment and stress in the general trade and mass categories, we reduce our revenue and EPS estimates for FY24/FY25 by 3%/6% and 4%/8% respectively. We now introduce FY26 forecasts for the company and roll valuations forward, resetting to a lower target P/E multiple of 44x on FY26E EPS (vs. 47x on FY25E) – in line with the long-term mean – to bake in the growth slowdown. Our TP thus reduces to Rs 618 (from Rs 646).

We maintain BUY despite near-term challenges in key categories as we believe management's continued focus on the food portfolio, product launches, and increased brand investments would support volume recovery and profitable growth over the medium term.

Fig 8 – Revised estimates

(Rs mn)	New			Old		Change (%)	
	FY24E	FY25E	FY26E	FY24E	FY25E	FY24E	FY25E
Revenue	96,912	104,585	116,244	99,696	111,267	(2.8)	(6.0)
EBITDA	20,519	22,563	24,963	21,496	24,677	(4.5)	(8.6)
PAT	15,050	16,239	18,119	15,632	17,735	(3.7)	(8.4)
EBITDA margin (%)	21.2	21.6	21.5	21.6	22.2	(40bps)	(60bps)
PAT margin (%)	15.5	15.6	15.6	15.7	15.9	(20bps)	(30bps)

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

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

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	14.9	5,092	5,844	BUY
Dabur India	DABUR IN	11.6	536	669	BUY
Hindustan Unilever	HUVR IN	70.3	2,459	2,895	BUY
ITC	ITC IN	66.5	438	532	BUY
Marico	MRCO IN	8.2	523	618	BUY
Nestle India	NEST IN	2.9	2,492	2,826	BUY
Zydus Wellness	ZYWL IN	1.2	1,602	1,556	HOLD

Source: BOBCAPS Research, NSE | Price as of 30 Jan 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	95,120	97,640	96,912	104,585	116,244
EBITDA	16,810	18,100	20,519	22,563	24,963
Depreciation	1,390	1,550	1,612	2,017	2,017
EBIT	15,420	16,550	18,907	20,546	22,946
Net interest inc./(exp.)	390	560	750	665	665
Other inc./(exp.)	980	1,440	1,704	1,789	1,879
Exceptional items	0	0	0	0	0
EBT	16,010	17,430	19,861	21,670	24,160
Income taxes	3,460	4,210	4,591	5,201	5,798
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	300	200	220	231	243
Reported net profit	12,250	13,020	15,050	16,239	18,119
Adjustments	0	0	0	0	0
Adjusted net profit	12,250	13,020	15,050	16,239	18,119

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	13,440	14,520	13,159	14,410	16,048
Other current liabilities	2,240	2,170	2,154	2,324	2,583
Provisions	220	480	480	483	488
Debt funds	3,450	4,750	4,770	4,770	4,770
Other liabilities	4,460	7,980	7,942	8,338	8,940
Equity capital	1,290	1,290	1,290	1,290	1,290
Reserves & surplus	32,760	38,270	44,962	52,175	60,209
Shareholders' fund	34,050	39,560	46,252	53,465	61,499
Total liab. and equities	57,860	69,460	74,757	83,791	94,329
Cash and cash eq.	5,790	7,560	13,984	20,257	26,907
Accounts receivables	6,520	10,150	10,074	10,872	12,084
Inventories	14,120	12,250	11,166	12,227	13,617
Other current assets	2,210	2,460	2,442	2,631	2,917
Investments	8,280	10,960	10,921	11,328	11,947
Net fixed assets	6,000	6,330	6,442	6,517	6,545
CWIP	390	670	670	670	670
Intangible assets	3,060	5,600	5,600	5,600	5,600
Deferred tax assets, net	1,870	1,460	1,449	1,564	1,738
Other assets	9,620	12,020	12,009	12,126	12,304
Total assets	57,860	69,460	74,757	83,791	94,329

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	10,160	14,190	17,501	18,693	20,585
Capital expenditures	(1,320)	(1,820)	(1,938)	(2,092)	(2,325)
Change in investments	3,370	(3,890)	0	0	0
Other investing cash flows	2,200	(3,580)	39	(407)	(619)
Cash flow from investing	4,250	(9,290)	(1,900)	(2,499)	(2,943)
Equities issued/Others	410	90	0	0	0
Debt raised/repaid	(30)	1,280	0	0	0
Interest expenses	(280)	(420)	(750)	(665)	(665)
Dividends paid	(12,170)	(6,070)	(8,579)	(9,256)	(10,328)
Other financing cash flows	(830)	(480)	151	0	0
Cash flow from financing	(12,900)	(5,600)	(9,178)	(9,921)	(10,993)
Chg in cash & cash eq.	1,510	(700)	6,424	6,273	6,649
Closing cash & cash eq.	2,760	2,070	8,494	14,767	21,417

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	9.5	10.1	11.7	12.6	14.0
Adjusted EPS	9.5	10.1	11.7	12.6	14.0
Dividend per share	9.4	4.7	6.7	7.2	8.0
Book value per share	26.4	30.7	35.9	41.4	47.7

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	7.1	6.9	7.0	6.5	5.8
EV/EBITDA	40.1	37.3	32.9	29.9	27.0
Adjusted P/E	55.1	51.8	44.8	41.6	37.2
P/BV	19.8	17.1	14.6	12.6	11.0

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	76.5	74.7	75.8	74.9	75.0
Interest burden (PBT/EBIT)	103.8	105.3	105.0	105.5	105.3
EBIT margin (EBIT/Revenue)	16.2	17.0	19.5	19.6	19.7
Asset turnover (Rev./Avg TA)	164.4	140.6	129.6	124.8	123.2
Leverage (Avg TA/Avg Equity)	1.7	1.8	1.6	1.6	1.5
Adjusted ROAE	36.0	32.9	32.5	30.4	29.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	18.2	2.6	(0.7)	7.9	11.1
EBITDA	5.7	7.7	13.4	10.0	10.6
Adjusted EPS	4.5	6.3	15.6	7.9	11.6
Profitability & Return ratios (%)					
EBITDA margin	17.7	18.5	21.2	21.6	21.5
EBIT margin	16.2	17.0	19.5	19.6	19.7
Adjusted profit margin	12.9	13.3	15.5	15.5	15.6
Adjusted ROAE	36.8	35.4	35.1	32.6	31.5
ROCE	30.9	28.0	27.3	25.9	25.5
Working capital days (days)					
Receivables	20	31	38	37	36
Inventory	85	90	88	80	80
Payables	83	95	104	95	94
Ratios (x)					
Gross asset turnover	1.5	1.3	1.2	1.1	1.1
Current ratio	1.6	1.6	1.9	2.1	2.3
Net interest coverage ratio	39.5	29.6	25.2	30.9	34.5
Adjusted debt/equity	10.1	12.0	10.3	8.9	7.8

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

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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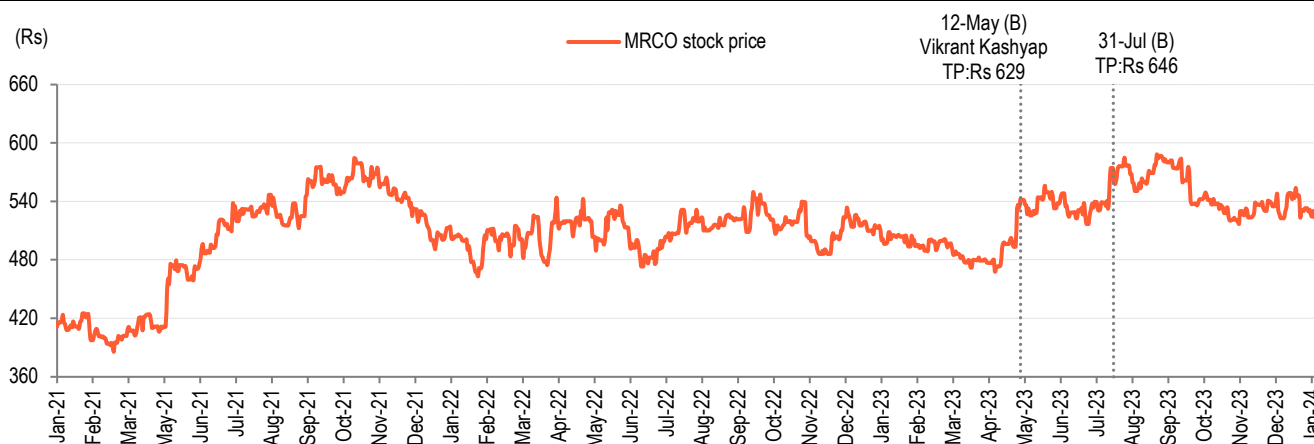
HOLD – Expected return from -6% to +15%

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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