

FIRST LIGHT

RESEARCH

BOB ECONOMICS RESEARCH | MONSOON UPDATE

Monsoon and Sowing progress

MARICO | TARGET: Rs 646 | +15% | BUY

Soft performance; outlook remains strong

SUMMARY

INDIA ECONOMICS: MONSOON UPDATE

The intensity of rainfall has pushed South-West monsoon higher at 6% (above LPA) till 30 Jul 2023. Region wise, Eastern and North Eastern region has received lower rainfall, while North Western region have recorded higher rainfall. Erratic rains has resulted in lower kharif sowing this year with pulses registering much lower sowing compared with last year. This is expected to translate in to higher inflation in the near term. IMD expects El Nino conditions will develop in the middle of the monsoon with global models projecting a possible peak through Nov'23-Jan'24. Moreover, in order to gauge the impact on kharif sowing, region wise distribution of rainfall needs to be tracked carefully.

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MARICO

- 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

[Click here for the full report.](#)

Daily macro indicators

Ticker	27-Jul	28-Jul	Chg (%)
US 10Y yield (%)	4.00	3.95	(5bps)
India 10Y yield (%)	7.12	7.16	4bps
USD/INR	81.94	82.26	(0.4)
Brent Crude (US\$/bbl)	84.2	85.0	0.9
Dow	35,283	35,459	0.5
Hang Seng	19,639	19,917	1.4
Sensex	66,267	66,160	(0.2)
India FII (US\$ mn)	26-Jul	27-Jul	Chg (\$ mn)
FII-D	2.6	31.6	28.9
FII-E	137.9	(152.4)	(290.4)

Source: Bank of Baroda Economics Research



MONSOON UPDATE

31 July 2023

Monsoon and Sowing progress

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Jahnvi Prabhakar
Economist

Where does Kharif sowing stand?

As of 28 Jul 2023, the overall kharif sown area has declined by 0.3% (was up by 1.2% in the previous week) compared with last year. Rice sowing has improved by 1.9% for the same period. Sown area of oilseeds, sugarcane remain higher this year. Marginal improvement in the acreage of Bajra and Maize has pushed overall sown area of coarse cereals higher. However, Pulses acreage has declined by double digits (-11.3%) compared with last year. Both Arhar and Urad, registered a dip of (-) 16% and (-) 14.1% respectively for the same period. Cotton sowing (-1%) too remain much lower than last year.

Table 1: Kharif Sowing

	Area sown in 2023-24 (Lakh ha)	Area sown in 2022-23 (Lakh ha)	Change (YoY %)
Coarse Cereals	145.8	143.5	1.6
Jowar	10.6	10.6	0.2
Bajra	60.6	58.1	4.3
Maize	69.4	68.9	0.6
Rice	237.6	233.2	1.9
Pulses	96.8	109.1	(11.3)
Oilseeds	171.0	167.6	2.0
Cotton	116.7	117.9	(1.0)
Sugarcane	56.0	54.5	2.7
Jute and Mesta	6.4	6.9	(8.1)
All Crops	830.3	832.8	(0.3)

Source: CEIC, Bank of Baroda | Data as of 28 Jul 2023

Monsoon:

For the period 1 Jun 2023 to 30 Jul 2023, South West Monsoon is 6% above LPA compared with last year.

- Northern and Western part of the country has received excessive rainfall. These include states such as Rajasthan, Punjab, Haryana, Gujarat, Himachal Pradesh and Jammu & Kashmir.



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

Vikrant Kashyap
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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%

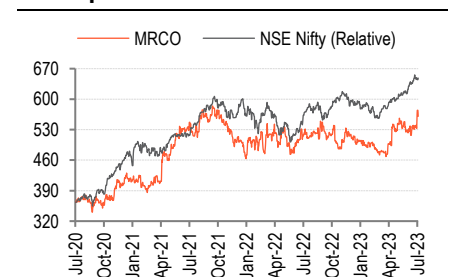
Source: NSE | Price as of 31 Jul 2023

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



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BUY – Expected return >+15%

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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