FIRST LIGHT

27 September 2024

RESEARCH

MARICO | TARGET: Rs 532 | -23% | SELL

The Remittance Test: Dividend payout from Marico Bangladesh

BUILDING MATERIALS

Mixed trade flow: Positive for laminates; Negative for tiles

ACCENTURE | NOT RATED

Guidance conservative if macro holds up

SUMMARY

MARICO

- Marico Bangladesh's 1QFY25 DPS of BDT100 was recorded on 25 Aug'24. This equates to ~30% of MB's cash/share on balance sheet
- Subject to repatriation (30 days average), this would reduce MB's FY24 contribution to cash on the consolidated business from ~45% to ~30%
- The FY24 BDT20 DPS, recorded on 27 May'24, was paid out on 9-Sep'24. Cash repatriation risk is a key driver of our negative view

Click here **for the full report.**

BUILDING MATERIALS

- Domestic tiles realization to remain under pressure in Q2FY25 as tiles exports fell to a 13-month low level in Jul'24
- Despite steep decline in MDF imports, domestic MDF prices remained stable on QoQ basis in Q2FY25 due to local supply side issues
- Despite high ocean freight rate, laminate net export volume run rate up 17.1% YoY in Jul'24 on ramp up of newly commissioned capacities

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BOBCAPS Research
research@bobcaps.in

ACCENTURE

- 1.5% LC organic revenue growth at the midpoint FY25 (YE August) is conservative if the US soft landing plays out.
- CEO says demand conditions remained unchanged from previous quarters. Clients currently do not seem to expect a big pick up in 2025
- An acceleration in growth in FY26 for Indian IT services players is on the cards if macro holds up but by how much is a question.

Click here for the full report.

FLASH NOTE

SELL
TP: Rs 532 | ∀ 23%

MARICO | Consumer Staples | 26 September 2024

The Remittance Test: Dividend payout from Marico Bangladesh

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Lokesh Gusain
research@bobcaps.in

Marico Bangladesh (MB) 1QFY25 dividend: MB recorded BDT100 DPS on 25 Aug'24. This dividend implies a trailing 12M payout ratio of 76%, but reduces only 29% of the cash that is currently on the MB balance sheet. Even then, if the dividend comes through for MRCO, it would provide some comfort on the uncertainty around repatriation risk. Remittance risk from Bangladesh is a key driver of our SELL.

Partial relief from idle cash on balance sheet: The BDT100 DPS equates to ~30% of MB's cash/bank/treasury bills on balance sheet. Subject to repatriation and combined with the FY24 payout, this will reduce MB's FY24 contribution to cash on consolidated from ~45% to ~30%.

MB's track record on dividend payment dates vs record dates: From FY20 to date, MB's dividend payment date has lagged the dividend record date by 30 days on average. With the escalating FX crisis, the lag was 105 days for the FY24 final DPS of BDT20. The record date for 1QFY25 DPS of BDT100 was 25 Aug'24.

Implications of risk from cash repatriation: FX crisis is persisting in Bangladesh with consecutive YoY declines in FX reserves for more than two years now. Despite such a backdrop, combined with MB's trend in payout ratio, if MB is still able to complete the 1QFY25 committed payout to its Indian parent, we would view that as a positive development. On an annual basis, MRCO consolidated derives 11% of sales and 22% of EBITDA from Bangladesh and so a smooth repatriation system for a reasonable proportion of earnings is crucial for the company.

Rural update: Rural recovery comments from FMCG majors have been divergent – DABUR (Aug'24) is most optimistic while TCPL (Sep'24) is most conservative. For Marico, we expect the company is benefitting from rural recovery given its sales exposure to relatively elastic categories in HPC. We expect a revival in demand in the mass end of Value-Added Hair Oil on rural recovery.

Our view: While we are positive on the rural recovery theme and SETU's medium-term favourable impact on sales, mix and margins, the near-term sales volatility on SETU-driven destocking is uncharacteristic of an FMCG company. Bangladesh repatriation risk adds to uncertainty. SELL.

Key changes

Target	Rating
◄ ►	◄ ►

Ticker/Price	MRCO IN/Rs 694
Market cap	US$ 10.7bn
Free float	40%
3M ADV	US$ 20.4mn
52wk high/low	Rs 711/Rs 486
Promoter/FPI/DII	59%/25%/16%

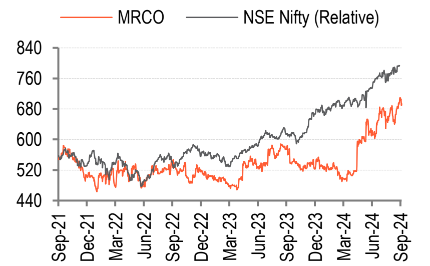
Source: NSE | Price as of 26 Sep 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	96,530	107,206	117,657
EBITDA (Rs mn)	20,260	22,548	24,304
Adj. net profit (Rs mn)	14,810	16,170	17,593
Adj. EPS (Rs)	11.5	12.5	13.6
Consensus EPS (Rs)	11.5	11.9	13.5
Adj. ROAE (%)	36.5	36.8	36.3
Adj. P/E (x)	60.4	55.3	50.9
EV/EBITDA (x)	44.2	39.7	36.8
Adj. EPS growth (%)	13.7	9.2	8.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUILDING MATERIALS

26 September 2024

Mixed trade flow: Positive for laminates; Negative for tiles

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- **Despite steep decline in MDF imports, domestic MDF prices remained stable on QoQ basis in Q2FY25 due to local supply side issues**
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Utkarsh Nopany
research@bobcaps.in

These are key takeaways from Ministry of Commerce trade statistics for the building material (BM) sector for the month of Jul'24.

Tiles: India's monthly net export value run rate fell to a 13-month low in Jul'24 (-31.8% YoY/ -5.9% MoM to Rs 13.3bn) due to high ocean freight rate. As a result, domestic tiles realization is likely to remain under pressure in Q2FY25. Going ahead, Indian tiles industry exports may remain weak if the US government imposes an anti-dumping duty on Indian tiles products (for which an investigation was initiated in May'24 based on a petition filed by a US tiles manufacturer to impose high tariffs of 408%-828%). The US comprised 8% of India's total tiles exports in FY24.

MDF: India's MDF monthly net import volume run rate was down sharply in Jul'24 (-77.2% YoY/ -44.7% MoM to 4,663 CBM) due to high ocean freight rate. However, our channel checks indicate that domestic MDF price has remained stable on QoQ basis in Q2FY25 due to local supply side issues. Furthermore, we believe the pace of MDF import may rise with normalization of ocean freight rate in near-future. Rising imports pressure along with the commissioning of large new MDF capacity (CPBI in Q1FY25 and GREENP in Q3FY25) are likely to keep the MDF industry's margin under pressure over the next 4-6 quarters, in our view.

Particleboard: India's particleboard monthly net import volume run rate fell sharply for the fifth consecutive month (-87.1% YoY in Jul'24) due to high ocean freight rate. However, in our view, the particleboard sector margin is likely to remain weak over the medium term due to large capacity additions (by GRLM and CPBI) over H2FY25.

Laminates: Despite high ocean freight rate, India's laminate monthly volume net export run rate grew by 17.1% YoY in Jul'24. This we believe is due to ramp up of newly commissioned capacities (GRLM and CPBI in H2FY24). Note that exports form roughly 30-50% share of total sales of major domestic laminates companies.

NOT RATED

ACCENTURE

| IT Services | 27 September 2024

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- **CEO says demand conditions remained unchanged from previous quarters. Clients currently do not seem to expect a big pick up in 2025**
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Girish Pai
research@bobcaps.in

Stable macro is the key pre-condition: While optically 1.5% Local currency (LC) organic revenue growth guidance at the midpoint for FY25 (YE August) may seem a tad disappointing, commentary suggests that it is conservative if US soft landing plays out. No major movement in discretionary spend is expected either way.

The upper end seems to be the base case: The 0-3% organic growth guidance assumes deterioration in discretionary spending at the lower end and no changes to current spending patterns at the upper end

Clients seem to indicate a steady 2025: Accenture CEO's recent interactions with customer CEOs suggests that any material increase in demand is not on the cards in 2025. But budgeting exercise will be done only by January-February 2025

Seems to be gaining share in managed services: While FY24 order bookings at US$81bn was up 12.5% in US terms, it was up 23% in Managed services and only 2% in consulting. We believe it is grabbing share.

Broad-based pick up indicated: Accenture indicated pickup in growth across all business segments in FY25, unlike FY24 when it was skewed towards certain verticals and towards managed services.

Sharpish pick-up for Indian players in FY26 expected by consensus: Current consensus expectations build in revenue going up to high-single-digit/low-teen USD revenue growth for Tier-1 players in FY26. While a pick up from the mid-single-digit growth of FY25 may be on the cards if macro holds up, we are not sure about a virtual doubling of growth rates especially when incremental demand in FY25 has been concentrated.

Gen AI leader's metrics: While Gen AI has been slower to take off versus expectations, Accenture seems to be ahead of peers with US$3bn in order inflows and US$900mn in revenue in FY24. This is against US$300mn and US$100mn respectively in FY23. It expects healthy revenue growth in this area in FY25 too.

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Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
CIN: **U65999MH1996GOI098009**

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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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