

SELL

TP: Rs 532 | ▼ 18%

MARICO

Consumer Staples

15 August 2024

Back in play, but exposure is high and cash remains stuck. Sell

- Marico Bangladesh (MB) facility has resumed operations at its usual run rate. Bulk of the sales and distribution team is back to work
- 64% of MB’s FY24 assets were in cash/cash equivalents. Dividend payout has declined from 100+% run rate in FY15-FY20 to 14% in FY24
- We retain SELL on Marico given its high exposure and continued uncertainty on FX repatriation from Bangladesh

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Uncertainty amidst high cash exposure: While the Bangladesh situation is gradually improving, full operational recovery will take time. Despite high sales, EBITDA and asset contribution to consolidated, dividend payout ratio has decreased for MB. The cash repatriation status continues to deteriorate and warrants a cautious stance. Refer page 2 for FY20-FY24 trend on multiple metrics.

Gradual return to normal: MB’s manufacturing operations have resumed at their usual scale with the bulk of sales force and distributors also back to work.

No clarity on FX repatriation status: While general conditions in Bangladesh are sequentially better than the events over 5-7 Jul’24, there is no clarity yet on FX repatriation. Given the unfavourable balance of payment situation, high inflation, a volatile currency, and change in political regime, we remain cautious.

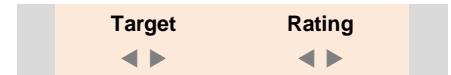
What is at stake as of FY24? As a percentage of consolidated, MB accounted for 11% of sales and 22% of EBITDA. Of MB’s total assets, cash and equivalents accounted for 64%. This is 11% of consolidated total assets. See page 3 in our [downgrade note](#) for financials and EBITDA sensitivity to the Bangladesh situation.

How has dividend payout trended at Bangladesh vs Consolidated? The FX crisis in Bangladesh had an adverse impact on MB’s dividend payout – a decline from 100+% in FY15-FY20 to 61% in FY23 and 14% in FY24. We do not see the situation changing given the current level of uncertainty.

Our view on business in India: Project SETU is a great positive for Marico. There is potential for share, mix, and margin improvement. However, in the transitory phase, sales will remain volatile with inventory adjustments through the duration of the project. Lack of clarity on the pace, and milestones/timeline for project SETU restricts visibility on volume performance. This is uncharacteristic of a typical FMCG company, where investors seek stability/reliability in sales and earnings.

Our view and valuation: Our TP of Rs 532 is based on a 38x P/E 12M to Jun’26. We continue to use the P/E rel method with a 15% discount to historical average given high exposure to Bangladesh combined with uncertainty and potential risk on cash repatriation. Retain SELL.

Key changes



Ticker/Price	MRCO IN/Rs 650
Market cap	US\$ 10.0bn
Free float	40%
3M ADV	US\$ 22.6mn
52wk high/low	Rs 691/Rs 486
Promoter/FPI/DII	59%/25%/16%

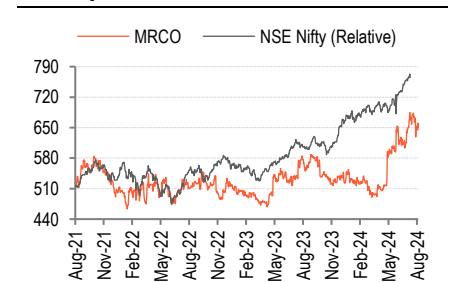
Source: NSE | Price as of 14 Aug 2024

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)	56.6	51.9	47.7
EV/EBITDA (x)	41.4	37.2	34.5
Adj. EPS growth (%)	13.7	9.2	8.8

Source: Company, Bloomberg, BOBCAPS Research

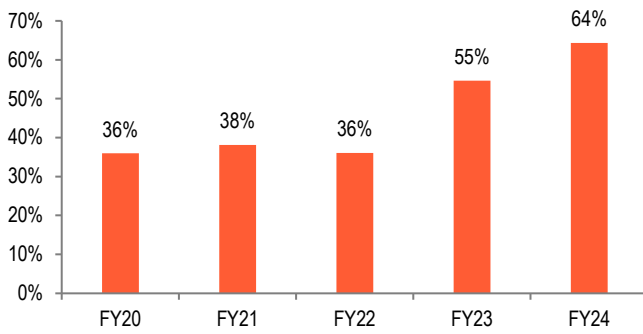
Stock performance



Source: NSE

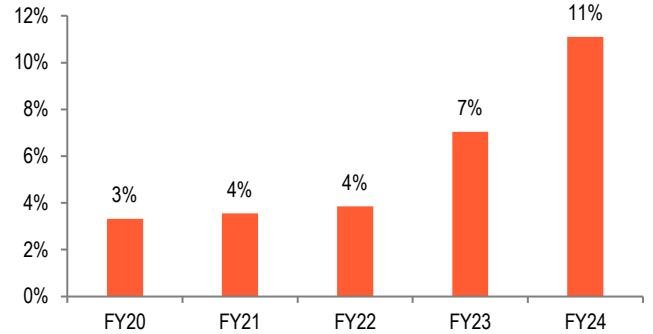


Fig 1 – MB cash/equivalents as a % of its total assets: FY20 to FY24



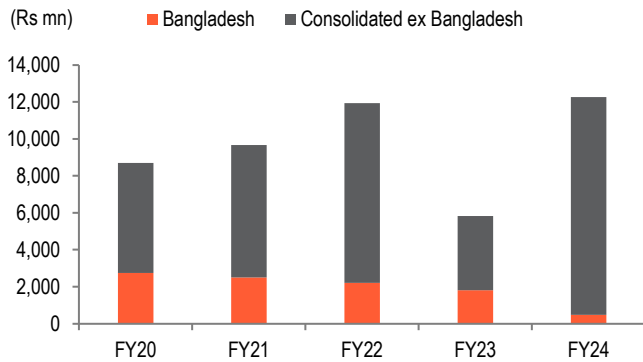
Sources: Company, BOBCAPS Research | Exchange rates as of 31 Mar

Fig 2 – MB cash/equivalents as a % to Marico's consolidated total assets



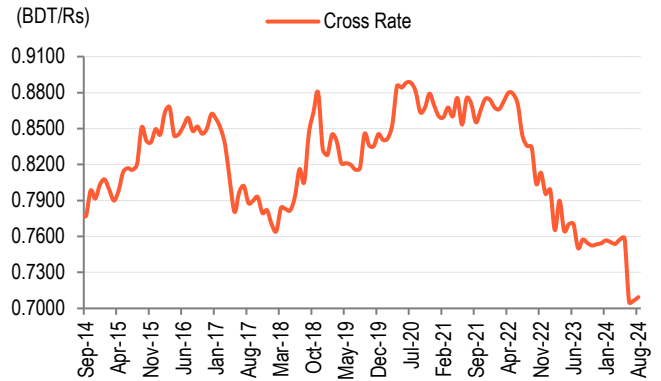
Sources: Company, BOBCAPS Research | Exchange rates as of 31 Mar

Fig 3 – MB's contribution to Marico's consolidated dividends (FY20-FY24)



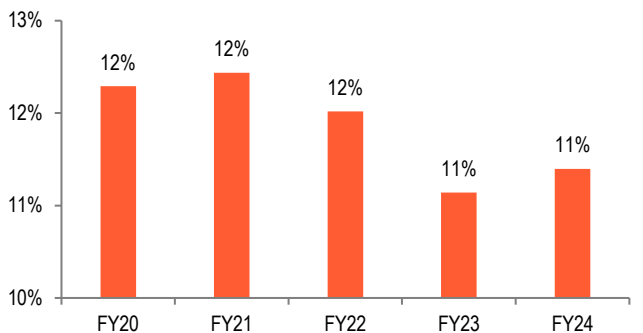
Sources: Company, BOBCAPS Research | Exchange rates as of 31 Mar

Fig 4 – Bangladesh Taka vs India rupees (Sep'14 to Aug'24)



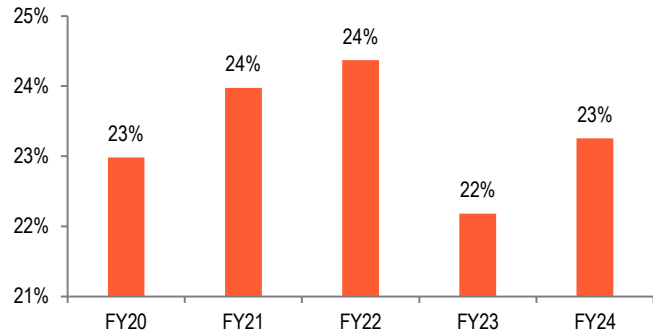
Sources: Company, BOBCAPS Research | Exchange rates as of 31 Mar

Fig 5 – MB's contribution to Marico's consolidated dividends (FY20-FY24)



Sources: Company, BOBCAPS Research | Exchange rates as of 31 Mar

Fig 6 – MB's contribution to Marico's consolidated EBITDA (FY20-FY24)



Sources: Company, BOBCAPS Research | Exchange rates as of 31 Mar

Valuation

Our TP of Rs 532 is based on a 38x P/E 12M to Jun'26. We continue to use the P/E rel method with a 15% discount to historical average given the high exposure to Bangladesh combined with uncertainty and potential risk on cash repatriation.

Risks

Key upside risks to our estimates are:

- Quicker-than-expected recovery in the rural market
- Input cost deflation
- Reduced competition in Personal Care
- Stronger-than-expected returns from Project SETU
- Favourable FX repatriation policy in Bangladesh
- Faster-than-expected return to normal business routine in Bangladesh

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Total revenue	95,120	97,640	96,530	107,206	117,657
EBITDA	16,810	18,100	20,260	22,548	24,304
Depreciation	1,390	1,550	1,580	1,832	1,896
EBIT	15,420	16,550	18,680	20,716	22,408
Net interest inc./(exp.)	390	560	730	680	652
Other inc./(exp.)	980	1,440	1,420	1,378	1,447
Exceptional items	0	0	0	0	0
EBT	16,010	17,430	19,370	21,414	23,203
Income taxes	3,460	4,210	4,350	4,844	5,337
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	300	200	210	400	273
Reported net profit	12,250	13,020	14,810	16,170	17,593
Adjustments	0	0	0	0	0
Adjusted net profit	12,250	13,020	14,810	16,170	17,593

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Accounts payables	13,440	14,520	15,810	14,170	15,519
Other current liabilities	2,240	2,170	2,110	2,343	2,572
Provisions	220	480	80	81	82
Debt funds	3,450	4,750	3,830	3,830	3,830
Other liabilities	4,460	7,980	10,690	11,533	12,358
Equity capital	1,290	1,290	1,290	1,290	1,290
Reserves & surplus	32,760	38,270	40,400	44,843	49,514
Shareholders' fund	34,050	39,560	41,690	46,133	50,804
Total liab. and equities	57,860	69,460	74,210	78,090	85,166
Cash and cash eq.	5,790	7,560	9,430	8,783	11,404
Accounts receivables	6,520	10,150	10,690	12,336	13,539
Inventories	14,120	12,250	13,360	15,029	16,459
Other current assets	2,210	2,460	3,960	4,389	4,809
Investments	8,280	10,960	6,020	6,399	6,771
Net fixed assets	6,000	6,330	7,000	7,064	7,761
CWIP	390	670	440	440	440
Intangible assets	3,060	5,600	9,370	9,370	9,370
Deferred tax assets, net	1,870	1,460	680	755	829
Other assets	9,620	12,020	13,260	13,524	13,783
Total assets	57,860	69,460	74,210	78,090	85,166

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash flow from operations	10,160	14,190	14,360	15,221	19,779
Capital expenditures	(1,320)	(1,820)	(1,530)	(2,680)	(2,941)
Change in investments	3,370	(3,890)	1,480	0	0
Other investing cash flows	2,200	(2,940)	1,810	(379)	(371)
Cash flow from investing	4,250	(8,650)	1,760	(3,060)	(3,313)
Equities issued/Others	410	90	340	0	0
Debt raised/repaid	(30)	1,280	(910)	0	0
Interest expenses	(280)	(420)	(540)	(680)	(652)
Dividends paid	(12,170)	(6,070)	(12,290)	(12,128)	(13,195)
Other financing cash flows	(830)	(480)	(2,020)	0	0
Cash flow from financing	(12,900)	(5,600)	(15,420)	(12,808)	(13,846)
Chg in cash & cash eq.	1,510	(60)	700	(647)	2,620
Closing cash & cash eq.	2,760	2,070	2,280	1,633	4,254

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24A	FY25E	FY26E
Reported EPS	9.5	10.1	11.5	12.5	13.6
Adjusted EPS	9.5	10.1	11.5	12.5	13.6
Dividend per share	9.4	4.7	9.5	9.4	10.2
Book value per share	26.4	30.7	32.3	35.8	39.4

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24A	FY25E	FY26E
EV/Sales	8.8	8.6	8.7	7.8	7.1
EV/EBITDA	49.9	46.3	41.4	37.2	34.5
Adjusted P/E	68.5	64.4	56.6	51.9	47.7
P/BV	24.6	21.2	20.1	18.2	16.5

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24A	FY25E	FY26E
Tax burden (Net profit/PBT)	76.5	74.7	76.5	75.5	75.8
Interest burden (PBT/EBIT)	103.8	105.3	103.7	103.4	103.5
EBIT margin (EBIT/Revenue)	16.2	17.0	19.4	19.3	19.0
Asset turnover (Rev./Avg TA)	164.4	140.6	130.1	137.3	138.2
Leverage (Avg TA/Avg Equity)	1.7	1.8	1.8	1.7	1.7
Adjusted ROAE	36.0	32.9	35.5	35.1	34.6

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24A	FY25E	FY26E
YoY growth (%)					
Revenue	18.2	2.6	(1.1)	11.1	9.7
EBITDA	5.7	7.7	11.9	11.3	7.8
Adjusted EPS	4.5	6.3	13.7	9.2	8.8
Profitability & Return ratios (%)					
EBITDA margin	17.7	18.5	21.0	21.0	20.7
EBIT margin	16.2	17.0	19.4	19.3	19.0
Adjusted profit margin	12.9	13.3	15.3	15.1	15.0
Adjusted ROAE	36.8	35.4	36.5	36.8	36.3
ROCE	30.9	28.0	28.0	28.5	28.0
Working capital days (days)					
Receivables	20	31	39	39	40
Inventory	85	90	98	99	100
Payables	83	95	117	105	95
Ratios (x)					
Gross asset turnover	1.5	1.3	1.2	1.2	1.2
Current ratio	1.6	1.6	1.6	1.9	2.0
Net interest coverage ratio	39.5	29.6	25.6	30.5	34.4
Adjusted debt/equity	10.1	12.0	9.2	8.3	7.5

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

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BUY – Expected return >+15%

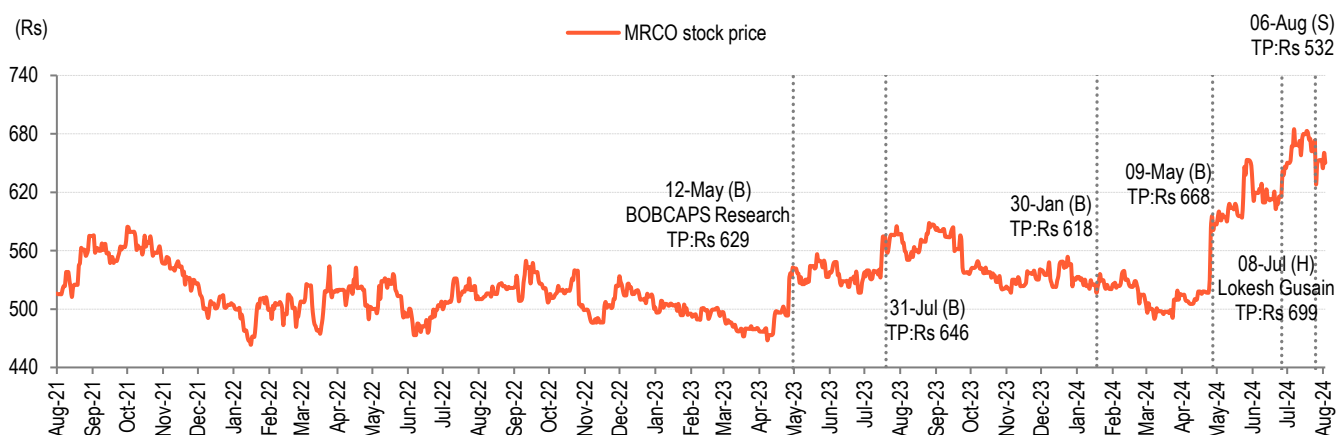
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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



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

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