

**SELL**

TP: Rs 532 | ▼ 15%

**MARICO**

| Consumer Staples

| 06 August 2024

**Downgrade to SELL on Bangladesh – 22% EBITDA contribution**

- Marico Bangladesh (MB), operating in Household and Personal Care, accounts for 11% of MRCO’s consolidated sales
- The HPC skew enables higher EBITDA contribution at 22% with margins at 42.8% vs consolidated at 21.0%. Asset base is 23% of consolidated
- Downgrade to SELL on lower P/E (51x to 38x: 15% discount to historical P/E Rel / NIFTY) on Bangladesh situation and high EBITDA contribution

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**Profiling Bangladesh as of FY24:** Given the situation in Bangladesh, we do a profile of MB. MRCO Consolidated holds a 90% stake in MB, which contributes 11% of MRCO’s consolidated sales. MRCO products have 90% household penetration in Bangladesh. On earnings, MB accounts for 22% of EBITDA and 22% of NPAT. We downgrade MRCO to SELL on uncertainty in Bangladesh and the potential risk around cash repatriation.

**A different sales mix:** While sales contribution is only 11%, the mix is quite different with operations only in Household and Personal Care (HPC). Between FY19 and FY24, MB sales CAGR was +8% while EBITDA CAGR was +17%.

**FY24 margin profile is much stronger than consolidated:** Gross margin at MB is 720bps above consolidated while EBITDA margin is 22 percentage points higher at 42.8%. The sales mix is part of the reason but we also note a low operating cost base with Marketing, Selling & Distribution expenses at 7% and General & Administrative Expenses at 9% of sales.

**What is the sensitivity to any potential losses from Bangladesh?** Hypothetically, a 25% reduction in MRCO’s Bangladesh business translates to a reduction of 3% on sales and 6% on EBITDA for MRCO consolidated. Every month of operational shutdown will have an adverse 1% impact on sales and 2% impact on EBITDA on a consolidated basis. If the situation turns for the worse, we are more concerned on the risk around cash repatriation from the region.

**Our view:** The situation in Bangladesh is fluid and it is hard to predict the political or ease of business outcome at this stage. Even then, uncertainty will prevail in the region in the near term. We keep our earnings unchanged at this stage pending clarity. However, given the uncertainty with a negative bias we review valuation. We continue to use the P/E rel method, but use a 15% discount to historical average given uncertainty and potential risk on repatriable cash from the region. On a 38x P/E 12M to Jun’26, we derive our Rs 532 TP and downgrade the stock to SELL with -15% return. On any related update, we will review our valuation and estimates.

**Key changes**

| Target | Rating |
|--------|--------|
| ▼      | ▼      |

|                  |                |
|------------------|----------------|
| Ticker/Price     | MRCO IN/Rs 629 |
| Market cap       | US\$ 9.7bn     |
| Free float       | 40%            |
| 3M ADV           | US\$ 27.6mn    |
| 52wk high/low    | Rs 691/Rs 486  |
| Promoter/FPI/DII | 59%/25%/16%    |

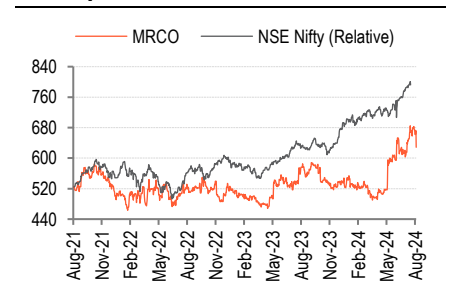
Source: NSE | Price as of 6 Aug 2024

**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)            | 54.7   | 50.1    | 46.1    |
| EV/EBITDA (x)           | 40.0   | 36.0    | 33.4    |
| Adj. EPS growth (%)     | 13.7   | 9.2     | 8.8     |

Source: Company, Bloomberg, BOBCAPS Research

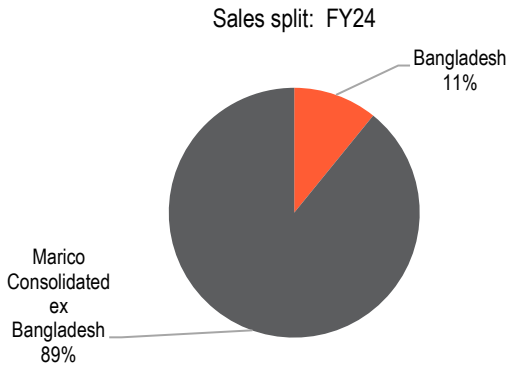
**Stock performance**



Source: NSE

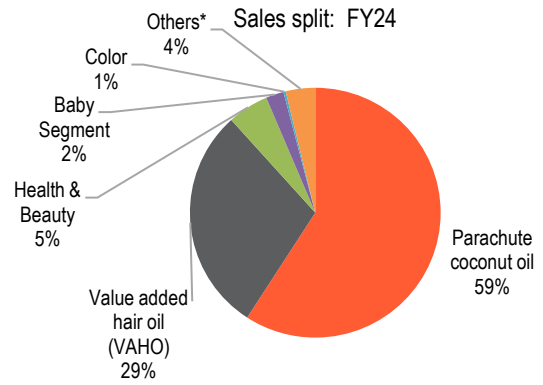


**Fig 1 – Marico’s consolidated operations sales mix (FY24)**



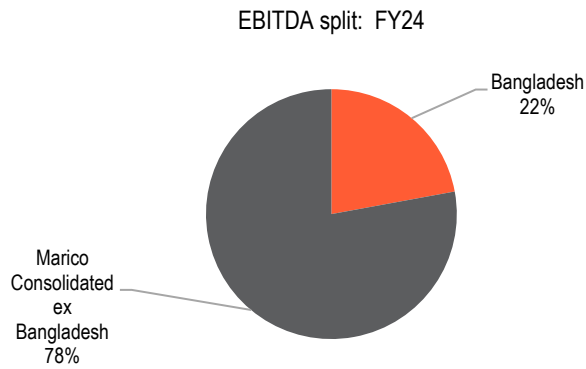
Source: Company, BOBCAPS Research

**Fig 2 – Bangladesh sales mix (FY24)**



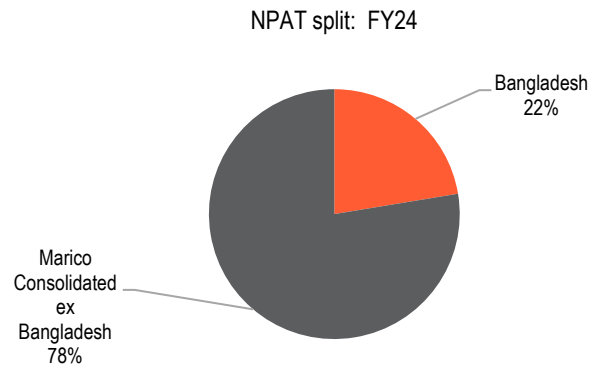
\*Others include male grooming, byproduct & others; Source: Company, BOBCAPS Research

**Fig 3 – Marico’s consolidated operations-EBITDA mix (FY24)**



Source: Company, BOBCAPS Research

**Fig 4 – Marico’s consolidated operations-NPAT mix (FY24)**



Source: Company, BOBCAPS Research

## What is the market factoring in? What is the sensitivity to potential operational shutdown in Bangladesh?

MRCO's share price was down 6% on 6 August 2024. If we consider the share price deterioration to be a function of concerns in Bangladesh, we estimate the market is assuming ~3 months of shut down in operations and business as usual post that or a shorter duration of shutdown and moderate business disruption yielding annual sales 25% below normal run rate.

We show MRCO's financials in the table below – consolidated ex Bangladesh, consolidated and Bangladesh.

**Fig 5 – MRCO's Financials including and excluding Bangladesh**

| Marico financials                          | FY20   | FY21   | FY22   | FY23   | FY24   | Impact on consolidated if we exclude Bangladesh: FY24 (%) |
|--------------------------------------------|--------|--------|--------|--------|--------|-----------------------------------------------------------|
| <b>Consolidated ex Bangladesh - Rs mn</b>  |        |        |        |        |        |                                                           |
| Sales                                      | 66,094 | 72,337 | 85,738 | 87,459 | 86,076 | (11)                                                      |
| Gross profit                               | 31,625 | 33,008 | 35,670 | 38,854 | 42,985 | (12)                                                      |
| Gross margin (%)                           | 47.8   | 45.6   | 41.6   | 44.4   | 49.9   | (87bps)                                                   |
| EBITDA                                     | 12,040 | 12,777 | 13,448 | 14,342 | 15,782 | (22)                                                      |
| EBITDA margin (%)                          | 18.2   | 17.7   | 15.7   | 16.4   | 18.3   | (265bps)                                                  |
| <b>Consolidated - Rs mn</b>                |        |        |        |        |        |                                                           |
| Sales                                      | 73,150 | 80,480 | 95,120 | 97,640 | 96,530 |                                                           |
| Gross profit                               | 35,710 | 37,810 | 40,760 | 44,130 | 49,050 |                                                           |
| Gross margin (%)                           | 48.8   | 47.0   | 42.9   | 45.2   | 50.8   |                                                           |
| EBITDA                                     | 14,690 | 15,880 | 16,810 | 18,100 | 20,260 |                                                           |
| EBITDA margin (%)                          | 20.1   | 19.7   | 17.7   | 18.5   | 21.0   |                                                           |
| <b>Bangladesh - Rs mn (Rs/TAKA - 0.72)</b> |        |        |        |        |        |                                                           |
| Sales                                      | 7,056  | 8,143  | 9,382  | 10,181 | 10,454 |                                                           |
| Gross profit                               | 4,085  | 4,802  | 5,090  | 5,276  | 6,065  |                                                           |
| Gross margin (%)                           | 57.9   | 59.0   | 54.3   | 51.8   | 58.0   |                                                           |
| EBITDA                                     | 2,650  | 3,103  | 3,362  | 3,758  | 4,478  |                                                           |
| EBITDA margin (%)                          | 37.6   | 38.1   | 35.8   | 36.9   | 42.8   |                                                           |

Source: Company reports, BOBCAPS Research

In terms of sensitivity, every month of operational shut down will have an adverse 1% impact on sales and 2% impact on EBITDA on a consolidated basis. Our downgrade is a function of risk on the political stability and the potential risk around the inability of MRCO to repatriate cash from Bangladesh to India.

## Financials

### Income Statement

| Y/E 31 Mar (Rs mn)         | FY22A         | FY23A         | FY24A         | FY25E          | FY26E          |
|----------------------------|---------------|---------------|---------------|----------------|----------------|
| <b>Total revenue</b>       | <b>95,120</b> | <b>97,640</b> | <b>96,530</b> | <b>107,206</b> | <b>117,657</b> |
| 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            |
| <b>Reported net profit</b> | <b>12,250</b> | <b>13,020</b> | <b>14,810</b> | <b>16,170</b>  | <b>17,593</b>  |
| Adjustments                | 0             | 0             | 0             | 0              | 0              |
| <b>Adjusted net profit</b> | <b>12,250</b> | <b>13,020</b> | <b>14,810</b> | <b>16,170</b>  | <b>17,593</b>  |

### 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        |
| <b>Total liab. and equities</b> | <b>57,860</b> | <b>69,460</b> | <b>74,210</b> | <b>78,090</b> | <b>85,166</b> |
| 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        |
| <b>Total assets</b>             | <b>57,860</b> | <b>69,460</b> | <b>74,210</b> | <b>78,090</b> | <b>85,166</b> |

### Cash Flows

| Y/E 31 Mar (Rs mn)                 | FY22A           | FY23A          | FY24A           | FY25E           | FY26E           |
|------------------------------------|-----------------|----------------|-----------------|-----------------|-----------------|
| <b>Cash flow from operations</b>   | <b>10,160</b>   | <b>14,190</b>  | <b>14,360</b>   | <b>15,221</b>   | <b>19,779</b>   |
| 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)           |
| <b>Cash flow from investing</b>    | <b>4,250</b>    | <b>(8,650)</b> | <b>1,760</b>    | <b>(3,060)</b>  | <b>(3,313)</b>  |
| 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               |
| <b>Cash flow from financing</b>    | <b>(12,900)</b> | <b>(5,600)</b> | <b>(15,420)</b> | <b>(12,808)</b> | <b>(13,846)</b> |
| <b>Chg in cash &amp; cash eq.</b>  | <b>1,510</b>    | <b>(60)</b>    | <b>700</b>      | <b>(647)</b>    | <b>2,620</b>    |
| <b>Closing cash &amp; cash eq.</b> | <b>2,760</b>    | <b>2,070</b>   | <b>2,280</b>    | <b>1,633</b>    | <b>4,254</b>    |

### 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       | 8.5   | 8.3   | 8.4   | 7.6   | 6.9   |
| EV/EBITDA      | 48.2  | 44.8  | 40.0  | 36.0  | 33.4  |
| Adjusted P/E   | 66.2  | 62.3  | 54.7  | 50.1  | 46.1  |
| P/BV           | 23.8  | 20.5  | 19.4  | 17.6  | 16.0  |

### 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 |
|----------------------------------------------|-------|-------|-------|-------|-------|
| <b>YoY growth (%)</b>                        |       |       |       |       |       |
| 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   |
| <b>Profitability &amp; Return ratios (%)</b> |       |       |       |       |       |
| 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  |
| <b>Working capital days (days)</b>           |       |       |       |       |       |
| Receivables                                  | 20    | 31    | 39    | 39    | 40    |
| Inventory                                    | 85    | 90    | 98    | 99    | 100   |
| Payables                                     | 83    | 95    | 117   | 105   | 95    |
| <b>Ratios (x)</b>                            |       |       |       |       |       |
| 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%

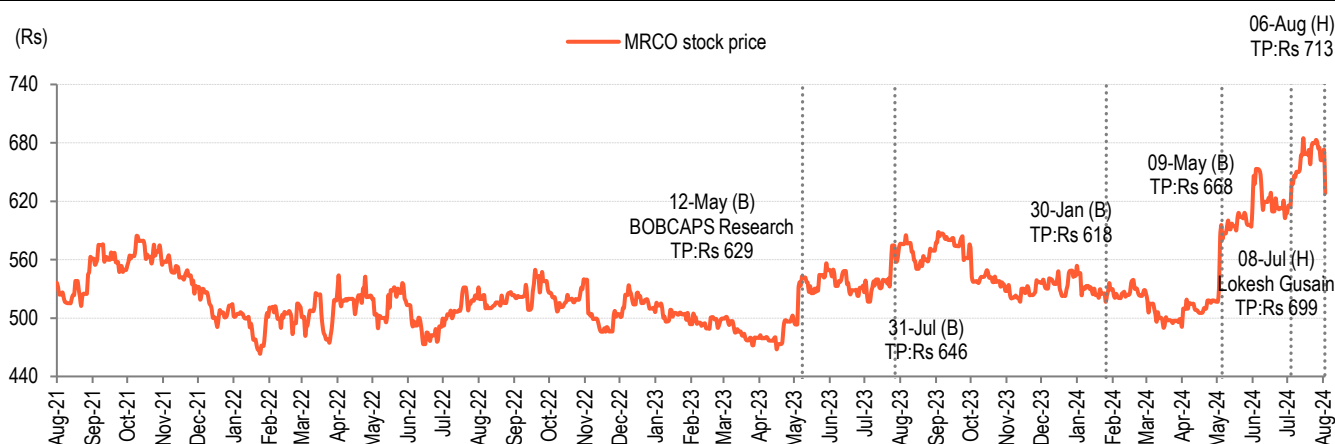
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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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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