

HOLD

TP: Rs 653 | ▲ 3%

MARICO

Consumer Staples

28 October 2024

Bangladesh update: Start of something good?

- Marico Bangladesh (MB), ~22% of Marico's Consolidated (MC) EBITDA, reported 2QFY25 sales +8%, est EBITDA +10%. Dividend payout 97%
- On a YoY basis, MB's constant FX contribution to MC's Sep'24 quarter growth is 1ppts on sales and 2ppts on est EBITDA
- Using FY24 MC B/S cash, the 2QFY25 payout will bring MB's cash contribution to MC to 25% vs its 22% EBITDA contribution

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MB performance remains robust in Sep'24 quarter: MB, which accounts for 20+% of MC EBITDA, reported Sep'24 quarter results over the weekend. Sales increased +8% while estimated EBITDA was +10%.

What is MB's growth contribution to MC, which reports results on 28 Oct, and how does it compare with consensus and MC's medium-term aspirations? In terms of YoY growth for the Sep'24 quarter, MB's constant FX contribution to MC is 1ppts on sales and 2ppts on EBITDA. Bloomberg consensus is expecting +8% on sales and +7% on EBITDA. As at 1QFY25, the trailing 12-month MB contribution to International was 41% on sales. We remind investors that in the medium term, MC is targeting to reduce MB's contribution to consolidated from 51% in FY22 to 40% by FY27.

Debt paydown and a high dividend payout ratio is a good start: MB's dividend payout ratio of 97% is a good start towards increasing repatriation. This needs to be improved over the next two quarters to create comfort on repatriation mechanism. MB also paid down all its debt – a reasonable move given the macro issues around repatriation. This debt paydown reduced MB's cash exposure to MC by 2ppts.

What kind of payout ratio is required? MB's annual contribution to consolidated is 22% on EBITDA. Adjusting MC's Mar'24 cash/equivalents for the dividend payouts from MB for FY24, 1QFY25 and planned 2QFY25 dividends along with the debt paydown, MB's cash share of MC stands at 25%. To even this out by FY25 end, assuming 1HFY25 EPS growth run rate for FY25, we estimate MB needs to maintain a payout ratio of ~130%. This seems high given the current 97% but a move in this direction will be viewed as a positive.

Our view: The 97% payout and expected repatriation is a positive development on the Bangladesh exposure. This payout trend needs to improve to reduce the consolidated business's above-normal cash exposure. We have a HOLD rating on the stock with a 12-month TP of Rs 653, implying a return of 3%.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	MRCO IN/Rs 634
Market cap	US\$ 9.7bn
Free float	40%
3M ADV	US\$ 19.2mn
52wk high/low	Rs 720/Rs 486
Promoter/FPI/DII	59%/25%/16%

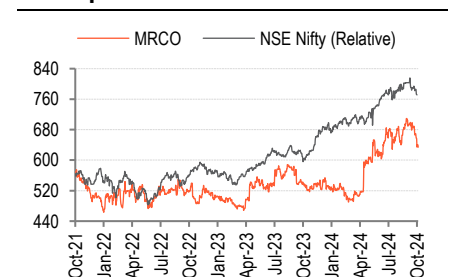
Source: NSE | Price as of 28 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	96,530	107,206	117,657
EBITDA (Rs mn)	20,260	22,331	24,304
Adj. net profit (Rs mn)	14,810	16,003	17,458
Adj. EPS (Rs)	11.5	12.4	13.5
Consensus EPS (Rs)	11.5	11.9	13.5
Adj. ROAE (%)	36.5	36.5	36.0
Adj. P/E (x)	55.2	51.1	46.8
EV/EBITDA (x)	40.4	36.6	33.7
Adj. EPS growth (%)	13.7	8.1	9.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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	22,331	24,304
Depreciation	1,390	1,550	1,580	1,832	1,896
EBIT	15,420	16,550	18,680	20,499	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	21,197	23,203
Income taxes	3,460	4,210	4,350	4,794	5,337
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	300	200	210	400	408
Reported net profit	12,250	13,020	14,810	16,003	17,458
Adjustments	0	0	0	0	0
Adjusted net profit	12,250	13,020	14,810	16,003	17,458

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Accounts payables	13,440	14,520	15,810	14,229	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	44,801	49,573
Shareholders' fund	34,050	39,560	41,690	46,091	50,863
Total liab. and equities	57,860	69,460	74,210	78,107	85,224
Cash and cash eq.	5,790	7,560	9,430	8,738	11,463
Accounts receivables	6,520	10,150	10,690	12,336	13,539
Inventories	14,120	12,250	13,360	15,091	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	78,107	85,225

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash flow from operations	10,160	14,190	14,360	15,050	19,783
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)	(12,002)	(13,094)
Other financing cash flows	(830)	(480)	(2,020)	0	0
Cash flow from financing	(12,900)	(5,600)	(15,420)	(12,682)	(13,745)
Chg in cash & cash eq.	1,510	(60)	700	(692)	2,725
Closing cash & cash eq.	2,760	2,070	2,280	1,588	4,313

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24A	FY25E	FY26E
Reported EPS	9.5	10.1	11.5	12.4	13.5
Adjusted EPS	9.5	10.1	11.5	12.4	13.5
Dividend per share	9.4	4.7	9.5	9.3	10.2
Book value per share	26.4	30.7	32.3	35.7	39.4

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24A	FY25E	FY26E
EV/Sales	8.6	8.4	8.5	7.6	7.0
EV/EBITDA	48.7	45.2	40.4	36.6	33.7
Adjusted P/E	66.8	62.8	55.2	51.1	46.8
P/BV	24.0	20.7	19.6	17.7	16.1

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24A	FY25E	FY26E
Tax burden (Net profit/PBT)	76.5	74.7	76.5	75.5	75.2
Interest burden (PBT/EBIT)	103.8	105.3	103.7	103.4	103.5
EBIT margin (EBIT/Revenue)	16.2	17.0	19.4	19.1	19.0
Asset turnover (Rev./Avg TA)	164.4	140.6	130.1	137.3	138.1
Leverage (Avg TA/Avg Equity)	1.7	1.8	1.8	1.7	1.7
Adjusted ROAE	36.0	32.9	35.5	34.7	34.3

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	10.2	8.8
Adjusted EPS	4.5	6.3	13.7	8.1	9.1
Profitability & Return ratios (%)					
EBITDA margin	17.7	18.5	21.0	20.8	20.7
EBIT margin	16.2	17.0	19.4	19.1	19.0
Adjusted profit margin	12.9	13.3	15.3	14.9	14.8
Adjusted ROAE	36.8	35.4	36.5	36.5	36.0
ROCE	30.9	28.0	28.0	28.2	28.0
Working capital days (days)					
Receivables	20	31	39	39	40
Inventory	85	90	98	99	101
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	30.1	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%

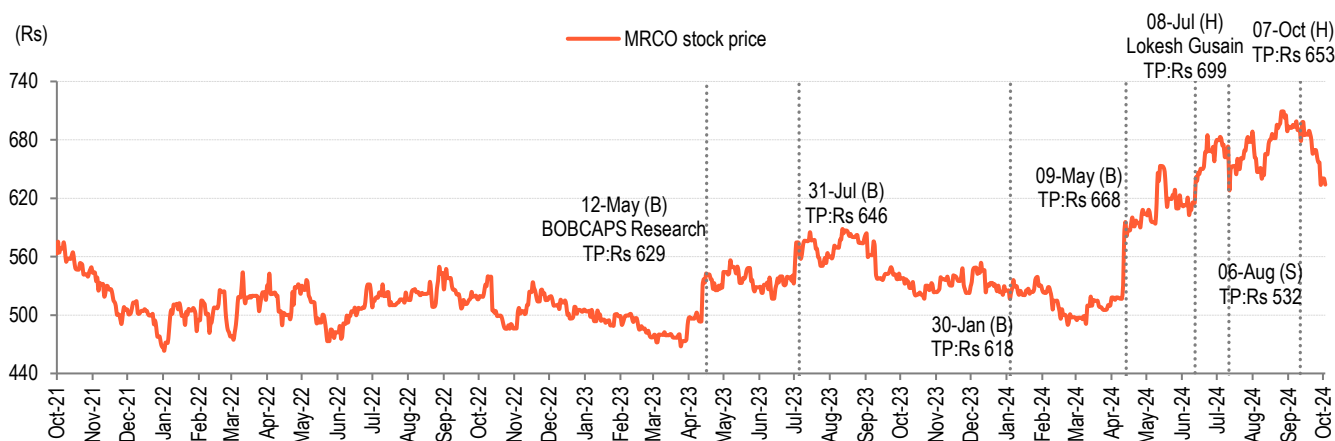
HOLD – Expected return from -6% to +15%

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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