

HOLD

TP: Rs 699 | ▲ 14%

MARICO

Consumer Staples

08 July 2024

Business update: Distributor response to Project SETU

- Marico noted continued improving demand trend with likely further acceleration through FY25. Volume trend improved despite destocking
- Despite a medium to long-term positive for Marico, Project SETU implies sales cannibalisation between channels
- Indirect channel destocking may continue and remain a drag on rural recovery over the next 2-3 quarters. Retain HOLD

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1QFY25 business update: MRCO issued its 1QFY25 business update last week on Friday after market close. Sales were up in High-Speed Digits (HSD) with operating profit growth slightly ahead of sales. MRCO's FY25 outlook is for sales growth to accelerate further during the year on improving demand in the domestic market and favourable pricing.

Positives: (1) Sequential demand improved reflecting slight improvement in volume growth post distributor destocking. Parachute up in low single digits and Saffola up in mid-single digits. (2) Gross margins to improve on favourable mix – copra prices in line with forecasts, while edible oil and crude oil derivatives remained rangebound.

Negatives: (1) Value Added Hair Oil (VAHO) volumes remained negative with continued pressures in the Bottom of The Pyramid (BoP) segment, even as the mid and premium fared better. (2) Distributor destocking negatively impacted volumes. (3) Operating profit growth to be only slightly ahead of revenue growth despite gross margin expansion given business reinvestments.

FY25 outlook: Consolidated revenue growth to accelerate through the year on improving volume trend and higher price realisation on favourable pricing cycle. The 1QFY25 sales run rate is at high single digits. For FY25, we are at sales of +10% (Bloomberg consensus at +10%) and EBITDA of +11% (consensus +14%).

Valuation and our view: We value MRCO based on P/E relative to the NIFTY 50 index and apply a 10% premium. We use 51x FY26E P/E to derive the TP of Rs 699. Project SETU is aimed at increasing direct reach by 50% by FY27. In our view, the distributor reaction is natural given sales cannibalisation – destocking remains a risk over the next two to three quarters. While rural recovery may reflect in consumer offtake, we expect both margin and inventory stocking pressure on MRCO from the indirect channel. We maintain our HOLD rating.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	MRCO IN/Rs 615
Market cap	US\$ 9.7bn
Free float	40%
3M ADV	US\$ 23.9mn
52wk high/low	Rs 667/Rs 486
Promoter/FPI/DII	59%/25%/16%

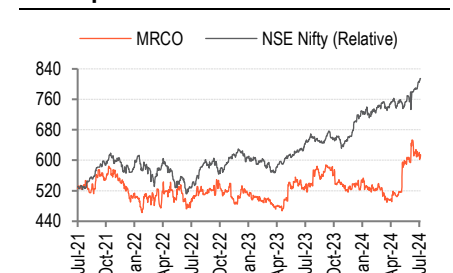
Source: NSE | Price as of 5 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	96,530	106,242	116,640
EBITDA (Rs mn)	20,260	22,471	24,229
Adj. net profit (Rs mn)	14,810	16,281	17,679
Adj. EPS (Rs)	11.5	12.6	13.7
Consensus EPS (Rs)	11.5	12.9	14.4
Adj. ROAE (%)	36.5	37.1	36.6
Adj. P/E (x)	53.6	48.8	44.9
EV/EBITDA (x)	39.2	35.3	32.8
Adj. EPS growth (%)	13.7	9.9	8.6

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

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	106,242	116,640
EBITDA	16,810	18,100	20,260	22,471	24,229
Depreciation	1,390	1,550	1,580	1,894	1,894
EBIT	15,420	16,550	18,680	20,577	22,336
Net interest inc./(exp.)	390	560	730	652	652
Other inc./(exp.)	980	1,440	1,420	1,491	1,566
Exceptional items	0	0	0	0	0
EBT	16,010	17,430	19,370	21,417	23,250
Income taxes	3,460	4,210	4,350	4,926	5,347
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	300	200	210	210	223
Reported net profit	12,250	13,020	14,810	16,281	17,679
Adjustments	0	0	0	0	0
Adjusted net profit	12,250	13,020	14,810	16,281	17,679

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Accounts payables	13,440	14,520	15,810	14,148	15,505
Other current liabilities	2,240	2,170	2,110	2,322	2,550
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	11,457	12,277
Equity capital	1,290	1,290	1,290	1,290	1,290
Reserves & surplus	32,760	38,270	40,400	44,680	49,323
Shareholders' fund	34,050	39,560	41,690	45,970	50,613
Total liab. and equities	57,860	69,460	74,210	77,808	84,857
Cash and cash eq.	5,790	7,560	9,430	8,567	11,193
Accounts receivables	6,520	10,150	10,690	12,225	13,422
Inventories	14,120	12,250	13,360	15,005	16,444
Other current assets	2,210	2,460	3,960	4,350	4,768
Investments	8,280	10,960	6,020	6,365	6,735
Net fixed assets	6,000	6,330	7,000	7,042	7,720
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	748	822
Other assets	9,620	12,020	13,260	13,500	13,758
Total assets	57,860	69,460	74,210	77,814	84,673

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash flow from operations	10,160	14,190	14,360	15,000	19,822
Capital expenditures	(1,320)	(1,820)	(1,530)	(2,656)	(2,916)
Change in investments	3,370	(3,890)	1,480	0	0
Other investing cash flows	2,200	(2,940)	1,810	(345)	(369)
Cash flow from investing	4,250	(8,650)	1,760	(3,001)	(3,285)
Equities issued/Others	410	90	340	0	0
Debt raised/repaid	(30)	1,280	(910)	0	0
Interest expenses	(280)	(420)	(540)	(652)	(652)
Dividends paid	(12,170)	(6,070)	(12,290)	(12,211)	(13,259)
Other financing cash flows	(830)	(480)	(2,020)	0	0
Cash flow from financing	(12,900)	(5,600)	(15,420)	(12,862)	(13,911)
Chg in cash & cash eq.	1,510	(60)	700	(863)	2,626
Closing cash & cash eq.	2,760	2,070	2,280	1,417	4,043

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24A	FY25E	FY26E
Reported EPS	9.5	10.1	11.5	12.6	13.7
Adjusted EPS	9.5	10.1	11.5	12.6	13.7
Dividend per share	9.4	4.7	9.5	9.5	10.3
Book value per share	26.4	30.7	32.3	35.6	39.2

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24A	FY25E	FY26E
EV/Sales	8.3	8.1	8.2	7.5	6.8
EV/EBITDA	47.2	43.9	39.2	35.3	32.8
Adjusted P/E	64.8	61.0	53.6	48.8	44.9
P/BV	23.3	20.1	19.0	17.3	15.7

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24A	FY25E	FY26E
Tax burden (Net profit/PBT)	76.5	74.7	76.5	76.0	76.0
Interest burden (PBT/EBIT)	103.8	105.3	103.7	104.1	104.1
EBIT margin (EBIT/Revenue)	16.2	17.0	19.4	19.4	19.1
Asset turnover (Rev./Avg TA)	164.4	140.6	130.1	136.9	137.8
Leverage (Avg TA/Avg Equity)	1.7	1.8	1.8	1.7	1.7
Adjusted ROAE	36.0	32.9	35.5	35.4	34.9

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24A	FY25E	FY26E
YoY growth (%)					
Revenue	18.2	2.6	(1.1)	10.1	9.8
EBITDA	5.7	7.7	11.9	10.9	7.8
Adjusted EPS	4.5	6.3	13.7	9.9	8.6
Profitability & Return ratios (%)					
EBITDA margin	17.7	18.5	21.0	21.2	20.8
EBIT margin	16.2	17.0	19.4	19.4	19.1
Adjusted profit margin	12.9	13.3	15.3	15.3	15.2
Adjusted ROAE	36.8	35.4	36.5	37.1	36.6
ROCE	30.9	28.0	28.0	28.2	28.1
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	31.6	34.3
Adjusted debt/equity	10.1	12.0	9.2	8.3	7.6

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

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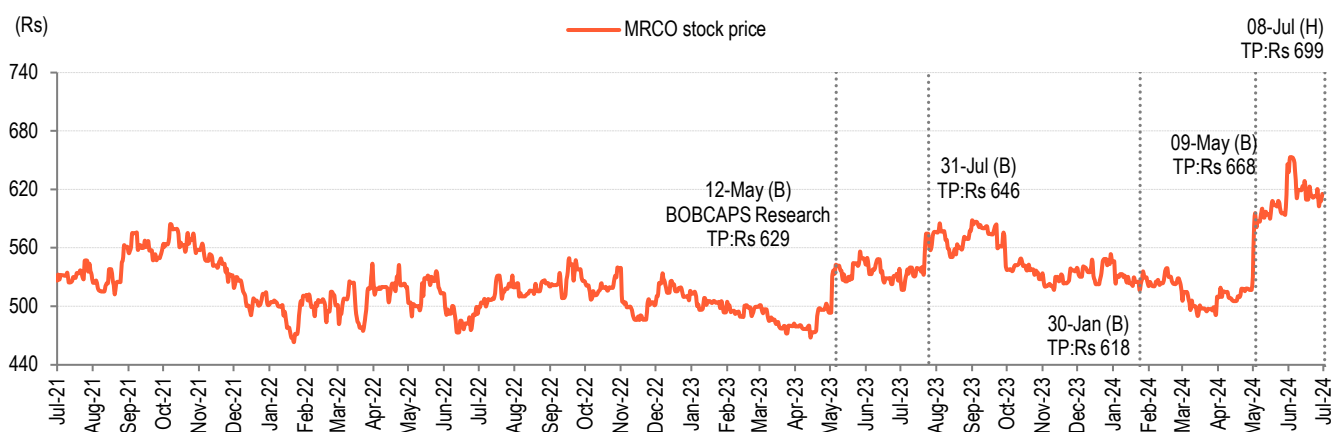
HOLD – Expected return from -6% to +15%

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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