

HOLD

TP: Rs 713 | ▲ 6%

MARICO

| Consumer Staples

| 06 August 2024

Focus on long term

- Compared to consensus, sales were in line and EBITDA 1% higher. Volumes were +4%, an acceleration vs +2% in the Mar'24 quarter
- HPC categories are recovering faster than Food for Marico. We expect Food growth to catch up with HPC as rural recovery accelerates
- Despite being a medium-term positive, SETU reduces short term visibility on volume growth. Retain HOLD and raise TP to Rs 713

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Broadly in-line result: MRCO reported 9% underlying EPS growth on 7% sales and 51bps EBITDA margin expansion to 23.7%. Compared to Bloomberg consensus, sales were in line (1% above our estimate), EBITDA 1% higher (in line with our estimate), and EPS 1% lower than our estimate.

Distributor ROI destocking is “one-off”: While the distributor ROI is regularly evaluated, the current phase of inventory destocking was on weak sales and volume profile – especially in the Value Added Hair Oil (VAHO) segment due to irrational discounting. This discounting anniversary is in Aug/Sep'24 and so there is possibly one more round of destocking in the Sep quarter.

Project SETU positive medium term, but low visibility on volumes in the short term: Project SETU is a medium to long term positive given increased visibility and control on sales, inventory, ranging, mix, pricing, and promotions. There is a potential to increase sales, mix and share. However, the transitory period will have low visibility on quarterly volume growth profile. The pace and progress of the project remains undisclosed which partly limits the ability to estimate the impact on inventory levels and volume growth. For instance, Project SETU-driven inventory corrections done in the Jun quarter resulted in a volume growth gap with retail offtake. This gap will be bridged in the Mar'25 quarter, which will also include the impact from additional destocking.

FY25 forecasts: On our estimates, 1QFY25 volumes increased +6% ex inventory adjustments in Parachute. For FY25, we forecast 11% sales growth on low single digit pricing and high single digit volumes. We expect 11% growth in EBITDA with margin pressure in 2H.

Our view and valuation: We acknowledge MRCO's strategy to increase direct distribution given above-mentioned benefits. Project SETU for now has reduced visibility on volume growth in the near term, while evidence of success is yet to be seen. We retain HOLD with a TP of Rs 713. We value MRCO at 51x 12M to Jun'26 EPS based on relative valuation vs NIFTY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MRCO IN/Rs 672
Market cap	US\$ 10.3bn
Free float	40%
3M ADV	US\$ 26.9mn
52wk high/low	Rs 691/Rs 486
Promoter/FPI/DII	59%/25%/16%

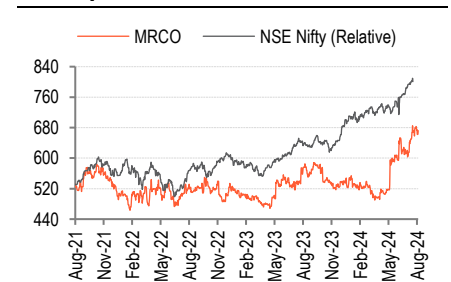
Source: NSE | Price as of 5 Aug 2024

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)	58.5	53.6	49.3
EV/EBITDA (x)	42.8	38.5	35.7
Adj. EPS growth (%)	13.7	9.2	8.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Marico’s 1QFY25 result summary

(Rs mn)	Q1FY24	Q1FY25	YoY (%)	Reported vs (%)	
				BOBCAPS	Consensus
Sales	24,770	26,430	7	(1)	0
EBITDA	5,740	6,260	9	0	1
EBITDA Margin (%)	23.2	23.7	51bps	10bps	23bps
Adj. EPS (Rs)	3.31	3.60	9	(1)	n/a

Source: Company, BOBCAPS Research

Summary of earnings

The strong +8% volume performance at retail for Parachute and two quarters volume catch-up imply full recovery in Mar quarter. Meanwhile, the distributor ROI destocking was partly due to irrational discounting in VAHO. This discounting anniversary is in Aug/Sep'24 and so the ROI-driven destocking trend will likely conclude in the Sep quarter as opposed to our earlier expectation of being an active trend for 2-3 quarters.

We forecast relatively flat EBITDA margins with 50bps higher gross margins largely offset by rising costs on higher A&P and negative operating leverage related to SETU-driven destocking and cost pressure buildup from 2QFY25. We summarise our forecasts below.

Fig 2 – Marico’s financial forecast summary

Rs mn	FY22	FY23	FY24E	FY25E	FY26E
Sales	95,120	97,640	96,530	107,206	117,657
...YoY (%)	-	3	(1)	11	10
EBITDA	16,810	18,100	20,260	22,548	24,304
...YoY (%)	-	8	12	11	8
EBITDA Margin (%)	17.7	18.5	21.0	21.0	20.7
...YoY (%)	-	87bps	245bps	4bps	(38bps)

Source: Company, BOBCAPS Research

Valuation

The stock is currently trading at 54x FY25E EPS. MRCO has historically traded at 2.2x vs the NSE NIFTY 50 1-year forward EPS. We value MRCO at 51x 12M to Jun'26 EPS – a 10% premium to its historical average vs NIFTY 50. We raise the TP to Rs 713 from Rs 699. Retain HOLD.

Risks

Key downside risks to our estimates are:

- delayed recovery in the rural market,
- increased volatility in edible oil prices,
- input cost inflation,
- rising competition in Health and Personal Care, and

- failure of Project SETU.

Key upside risks to our estimates are:

- quicker-than-expected recovery in the rural market,
- input cost deflation,
- reduced competition in Personal Care, and
- stronger-than-expected returns from Project SETU.

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	85,165
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	9.1	8.9	9.0	8.1	7.4
EV/EBITDA	51.6	47.9	42.8	38.5	35.7
Adjusted P/E	70.8	66.6	58.5	53.6	49.3
P/BV	25.5	21.9	20.8	18.8	17.1

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24A	FY25E	FY26E
Tax burden (Net profit/PBT)	76.5	74.7	76.5	75.5	75.8
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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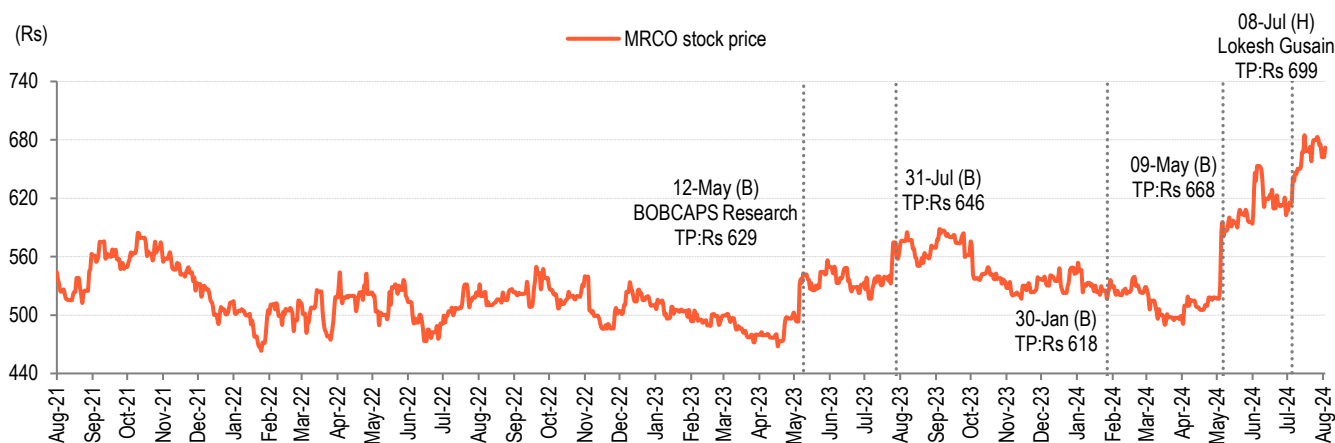
HOLD – Expected return from -6% to +15%

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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