

HOLD
 TP: Rs 695 | ▲ 10%

MARICO

| Consumer Staples

| 30 October 2024

Urban stable, rural growing

- Versus consensus, sales miss 1%, EBITDA miss 2% on 15bps lower-than-expected margins. Parachute volumes +4% vs retail offtake +8%
- Rural recovery remains intact while urban is stable. On cost, vegetable oil and copra inflation are being passed on in a calibrated manner
- SETU continues to impact visibility on volumes and margin outlook is uncertain over the next 2-3 quarters. Retain HOLD

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Broadly in-line result: MRCO reported 5% underlying EBITDA growth despite 8% sales growth as EBITDA margin contracted 50bps to 19.6%. Compared to Bloomberg consensus, sales were 1% below both our and consensus estimates, while EBITDA 2% below consensus and in line with our estimate.

Pricing versus inflation: MRCO has taken 15% pricing in vegetable oils and is comfortable on elasticity. The demand sensitive band starts from Rs 200/pk while the company is currently at Rs 185/pk. Further pricing is required and will be taken in a calibrated manner. The company is guiding for a 40-50bps hit to FY25 margins. We think the margin percentage impact may be lower due to the combination of elasticity being in control over time, and inflation being a nationwide phenomenon.

SETU impact on volumes remains unpredictable but December quarter may provide some insights: In 2QFY25, Parachute volumes grew +4% vs measured retail offtake at +8%. MRCO indicated continued stock adjustments based on the pace of growth in direct and its impact on the sales in indirect channel. Shipments will align with retail offtake in two quarters. The December quarter should provide more clarity between stock adjustments and the extent of incremental changes in retail demand. Meanwhile, four more states were added to Project SETU, bringing the total to ten. The project is progressing to plan in terms of outlets expansion.

Earnings outlook: Our sales forecast is unchanged for FY25 – initial volume response may be weak until all players are onboard with pricing. For FY26, our sales forecasts are slightly higher with EBITDA up in line as pricing comes through. FY27 is largely unchanged.

Valuation and our view: FMCG is rational with inflation passed through in a phased manner. Margin hit near term but stabilisation over the next two quarters. Even then, Project SETU-driven unpredictability on sales growth is uncharacteristic of an FMCG company. Bangladesh also needs more evidence of smooth repatriation. We continue to use the P/E rel method, valuing MRCO in line with its historical average. At 49x P/E 12M to Sep'26, we derive our Rs 695 TP. HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MRCO IN/Rs 629
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%

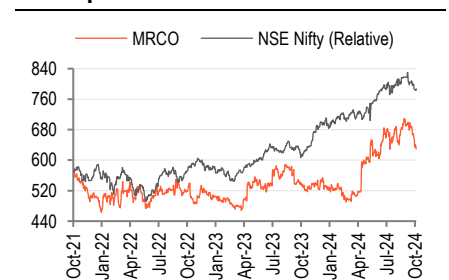
Source: NSE | Price as of 29 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	96,530	107,106	118,868
EBITDA (Rs mn)	20,260	22,101	24,655
Adj. net profit (Rs mn)	14,810	16,072	17,730
Adj. EPS (Rs)	11.5	12.5	13.7
Consensus EPS (Rs)	11.5	12.8	14.4
Adj. ROAE (%)	36.5	36.6	36.5
Adj. P/E (x)	54.8	50.5	45.8
EV/EBITDA (x)	40.1	36.7	32.9
Adj. EPS growth (%)	13.7	8.5	10.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



2QFY25 result review

Fig 1 – Marico’s 2QFY25 result summary

(Rs mn)	Q2FY24	Q2FY25E	YoY (%)	Reported vs (%)	
				BoBCaps	Consensus
Sales	24,760	26,640	8	(1)	(1)
EBITDA	4,970	5,220	5	(1)	(2)
EBITDA Margin (%)	20.1	19.6	(48bps)	16bps	(15bps)

Sources: Company, Bloomberg, BOBCAPS Research

Earnings revisions

Our sales forecast is unchanged for FY25 – initial volume response may be slightly weak until all players are onboard with pricing. For FY26, our sales forecasts are slightly higher and EBITDA is growing mostly in line as pricing comes through. FY27 forecasts are largely unchanged.

Fig 2 – Revised estimates

(Rs mn)	Actual	New			Old			Change (%)		
	FY24	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	96,530	107,106	118,868	129,566	107,206	117,657	129,423	0	1	0
EBITDA	20,260	22,101	24,655	26,060	22,331	24,304	25,927	(1)	1	1
EBITDA Margin (%)	21.0	20.6	20.7	20.1	20.8	20.7	20.0	(19bps)	9bps	8bps
Adj. PAT	14,810	16,072	17,730	18,859	16,003	17,458	18,755	0	2	1
Adj. EPS (Rs)	11.48	12.46	13.74	14.62	12.41	13.53	14.54	0	2	1

Source: BOBCAPS Research

Valuation

FMCG remains rational and inflation is being passed through in a phased manner. Margin hit in the near term but stabilisation over the next two quarters. Even then, Project SETU-driven unpredictability on sales growth is uncharacteristic of an FMCG company. Bangladesh still needs more evidence of smooth repatriation. We continue to use the P/E rel method, valuing MRCO in line with its historical average. At an implied 49x P/E 12M to Sep'26, we derive our Rs 695 TP with an 11% return. HOLD.

Conference call takeaways

Sales

- Targeting double-digit sales growth in 2H.
- Weak consumption in urban is mainly driven by lower income strata. There is potential upside from urban if food inflation settles. Premium portfolio focused on upper and upper middle-class section is doing well.
- Rural is continuing to accelerate sequentially driven by above-normal monsoons and higher MSPs.
- On Project SETU, there will be inventory corrections from time to time due to sales shift from indirect to direct channel.

- Irrational promotions in hair oil have continued despite the completion of anniversary in August 2024. MRCO is not participating in these promotions and will continue to drive A&P to improve category sales and keep gross margins.
- Digital First brands are largely online, with Brick & Mortar retail accounting for about 15%-20% of sales.
- The group is over-indexed in Organised Trade (Modern Trade, eComm) due to its early move into the channel.
- In its digital businesses, MRCO is focused on margins / profitable growth and is happy to maintain a lower but sustainable sales growth profile.

Cost

- Copra and vegetable oils are the main areas of inflation for MRCO. Pricing is put through on both, but are being done in a calibrated manner.
- Volume elasticity will hit vegetable oil at Rs 200/pk. Current pricing is at Rs 185/pk and MRCO is comfortable on elasticity at that level. The pace of any further pricing will be implemented based on consumer response to the current round of pricing.

Risks

Key upside/downside risks to our estimates are:

- increase / decrease in dividend payout ratios from Marico Bangladesh,
- expedition / delays in dividend repatriation from Bangladesh,
- lower- / higher-than-expected volatility in sales due to inventory destocking from Project SETU,
- earlier/delayed and/or higher-/lower-than-anticipated benefits from Project SETU, and
- stronger-/weaker-than-expected recovery from rural markets.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	97,640	96,530	107,106	118,868	129,566
EBITDA	18,100	20,260	22,101	24,655	26,060
Depreciation	1,550	1,580	1,768	1,896	1,896
EBIT	16,550	18,680	20,333	22,759	24,164
Net interest inc./(exp.)	560	730	500	652	652
Other inc./(exp.)	1,440	1,420	1,379	1,448	1,520
Exceptional items	0	0	0	0	0
EBT	17,430	19,370	21,212	23,555	25,033
Income taxes	4,210	4,350	4,740	5,418	5,758
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	200	210	400	408	416
Reported net profit	13,020	14,810	16,072	17,730	18,859
Adjustments	0	0	0	0	0
Adjusted net profit	13,020	14,810	16,072	17,730	18,859

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	14,520	15,810	14,223	15,654	17,062
Other current liabilities	2,170	2,110	2,341	2,598	2,832
Provisions	480	80	81	82	83
Debt funds	4,750	3,830	3,830	3,830	3,830
Other liabilities	7,980	10,690	11,525	12,453	13,298
Equity capital	1,290	1,290	1,290	1,290	1,290
Reserves & surplus	38,270	40,400	44,818	49,658	54,789
Shareholders' fund	39,560	41,690	46,108	50,948	56,079
Total liab. and equities	69,460	74,210	78,108	85,566	93,185
Cash and cash eq.	7,560	9,430	8,706	11,300	14,430
Accounts receivables	10,150	10,690	12,324	13,678	14,909
Inventories	12,250	13,360	15,085	16,602	18,097
Other current assets	2,460	3,960	4,385	4,858	5,288
Investments	10,960	6,020	6,396	6,814	7,194
Net fixed assets	6,330	7,000	7,061	7,786	8,396
CWIP	670	440	440	440	440
Intangible assets	5,600	9,370	9,370	9,370	9,370
Deferred tax assets, net	1,460	680	754	837	913
Other assets	12,020	13,260	13,522	13,813	14,078
Total assets	69,460	74,210	78,044	85,499	93,115

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	14,190	14,360	14,883	19,933	21,545
Capital expenditures	(1,820)	(1,530)	(2,678)	(2,972)	(3,239)
Change in investments	(3,890)	1,480	0	0	0
Other investing cash flows	(2,940)	1,810	(376)	(418)	(380)
Cash flow from investing	(8,650)	1,760	(3,053)	(3,390)	(3,619)
Equities issued/Others	90	340	0	0	0
Debt raised/repaid	1,280	(910)	0	0	0
Interest expenses	(420)	(540)	(500)	(652)	(652)
Dividends paid	(6,070)	(12,290)	(12,054)	(13,297)	(14,144)
Other financing cash flows	(480)	(2,020)	0	0	0
Cash flow from financing	(5,600)	(15,420)	(12,554)	(13,949)	(14,796)
Chg in cash & cash eq.	(60)	700	(724)	2,594	3,130
Closing cash & cash eq.	2,070	2,280	1,556	4,150	7,280

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	10.1	11.5	12.5	13.7	14.6
Adjusted EPS	10.1	11.5	12.5	13.7	14.6
Dividend per share	4.7	9.5	9.3	10.3	11.0
Book value per share	30.7	32.3	35.7	39.5	43.5

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	8.3	8.4	7.6	6.8	6.3
EV/EBITDA	44.8	40.1	36.7	32.9	31.1
Adjusted P/E	62.3	54.8	50.5	45.8	43.0
P/BV	20.5	19.5	17.6	15.9	14.5

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.7	76.5	75.8	75.3	75.3
Interest burden (PBT/EBIT)	105.3	103.7	104.3	103.5	103.6
EBIT margin (EBIT/Revenue)	17.0	19.4	19.0	19.1	18.7
Asset turnover (Rev./Avg TA)	140.6	130.1	137.2	139.0	139.1
Leverage (Avg TA/Avg Equity)	1.8	1.8	1.7	1.7	1.7
Adjusted ROAE	32.9	35.5	34.9	34.8	33.6

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	2.6	(1.1)	11.0	11.0	9.0
EBITDA	7.7	11.9	9.1	11.6	5.7
Adjusted EPS	6.3	13.7	8.5	10.3	6.4
Profitability & Return ratios (%)					
EBITDA margin	18.5	21.0	20.6	20.7	20.1
EBIT margin	17.0	19.4	19.0	19.1	18.7
Adjusted profit margin	13.3	15.3	15.0	14.9	14.6
Adjusted ROAE	35.4	36.5	36.6	36.5	35.2
ROCE	28.0	28.0	28.1	28.4	27.6
Working capital days (days)					
Receivables	31	39	39	40	40
Inventory	90	98	99	100	101
Payables	95	117	105	94	95
Ratios (x)					
Gross asset turnover	1.3	1.2	1.2	1.2	1.2
Current ratio	1.6	1.6	1.9	2.0	2.1
Net interest coverage ratio	29.6	25.6	40.7	34.9	37.1
Adjusted debt/equity	12.0	9.2	8.3	7.5	6.8

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

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BUY – Expected return >+15%

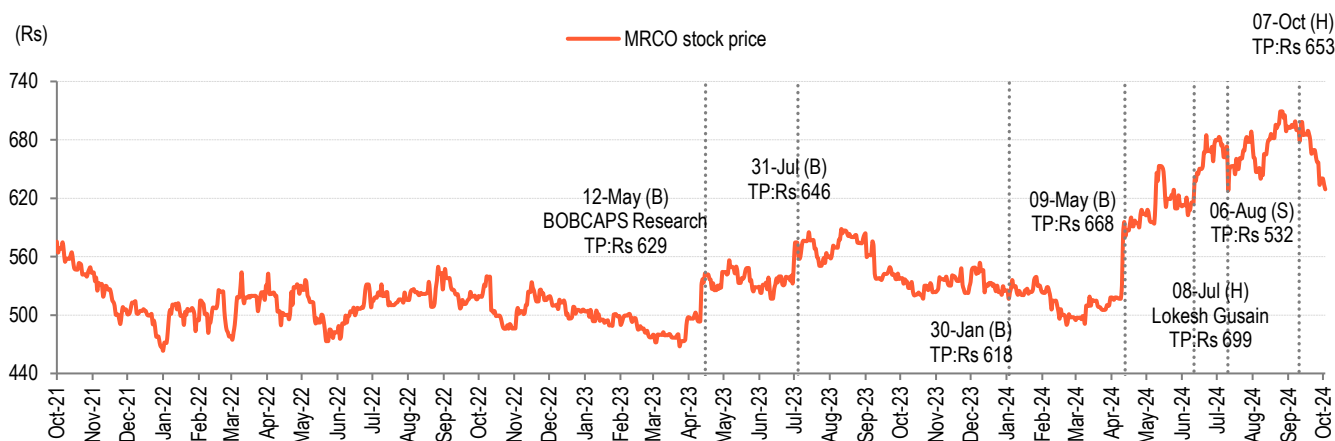
HOLD – Expected return from -6% to +15%

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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