

BUY

TP: Rs 668 | ▲ 15%

MARICO

| Consumer Staples

| 09 May 2024

Volume growth to pick up on improving demand scenario

- **Stable performance in domestic markets with consistent improvement in gross margins**
- **Digital first portfolio maintains growth trajectory; international business too rebounded in Q4**
- **Continued focus on innovation, brand building, and penetration bode well for MRCO; maintain BUY with revised TP of Rs 668 (earlier Rs 618)**

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Positive revenue growth in Q4: MRCO's consolidated Q4FY24 revenue increased by 1.7% YoY to Rs 22.8bn in a challenging demand environment. Domestic underlying volume growth inched up 3% compared to 2% for the preceding three quarters. Premium segment continued to grow ahead of mass; urban demand stayed ahead of rural, however, rural demand witnessed revival towards the end of the quarter.

International business rebounded in Q4: International business recovered strongly during the quarter, growing at 10% YoY in constant currency (CC) terms. Bangladesh bounced back during the quarter and reported 8% CC growth, South-East Asia remained flat, however, MENA posted 19% CC growth and South Africa 13%.

Margin expansion continues: Gross margin expanded 420bps YoY and 30bps QoQ to 51.6% on a favourable raw material base. EBITDA grew 12.5% YoY with a 190bps YoY rise in margin to 19.4% despite increased spending on brands that pushed up advertising and promotions (A&P) spend by 7.6% YoY.

Domestic business remained flat: India business posted 3% YoY volume growth; however, domestic revenue was flat at Rs 16.8bn owing to price cuts taken during the year. Parachute coconut oil posted 2% YoY volume growth, value-added hair oil declined by 7% on a high base, and Saffola edible oil registered mid-single-digit volume growth.

Maintain BUY: We increase our FY25/FY26 PAT estimates by 2.1%/3.4% as MRCO has shown stability in the domestic market and strong rebound in international markets in Q4, despite a difficult demand environment and increased regional competition. The stock is trading at 45.2x/40x FY25E/FY26E EPS. We now value the stock at 46x (earlier 44x) FY26E EPS – in line with the long-term mean. Our TP thus increases to Rs 668 (from Rs 618). We maintain BUY as we believe a continued focus on the food portfolio, product launches, normalisation of price cuts, and brand investments would aid volume recovery and profitable growth.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MRCO IN/Rs 581
Market cap	US\$ 9.1bn
Free float	40%
3M ADV	US\$ 15.3mn
52wk high/low	Rs 599/Rs 486
Promoter/FPI/DII	59%/25%/16%

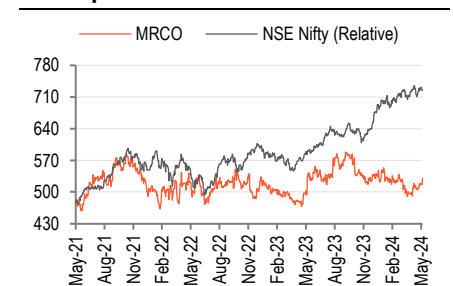
Source: NSE | Price as of 9 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	96,530	106,643	120,026
EBITDA (Rs mn)	20,260	23,008	25,776
Adj. net profit (Rs mn)	14,810	16,575	18,738
Adj. EPS (Rs)	11.5	12.8	14.5
Consensus EPS (Rs)	11.6	12.9	14.4
Adj. ROAE (%)	36.5	36.5	35.2
Adj. P/E (x)	50.6	45.2	40.0
EV/EBITDA (x)	37.0	32.6	29.1
Adj. EPS growth (%)	13.7	11.9	13.0

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

Stock performance



Source: NSE

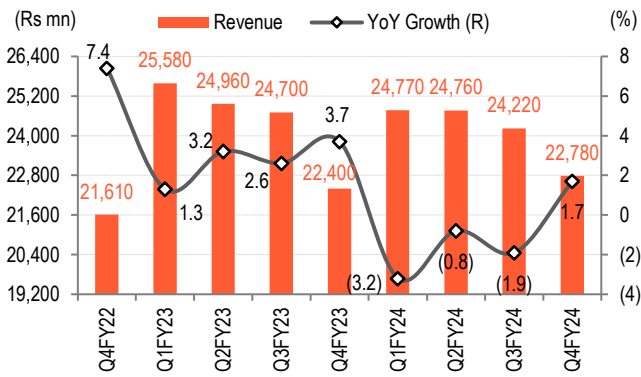


Fig 1 – Financial performance

(Rs mn)	Q4FY24	Q3FY24	Q4FY23	QoQ (%)	YoY (%)	FY24	FY23	YoY (%)
Revenue	22,780	24,220	22,400	(5.9)	1.7	96,530	97,640	(1.1)
EBITDA	4,420	5,130	3,930	(13.8)	12.5	20,260	18,100	11.9
Adj. PAT	3,180	3,830	3,020	(17.0)	5.3	14,810	13,020	13.7
Gross Margin (%)	51.6	51.3	47.4	30bps	420bps	50.8	45.2	560bps
EBITDA Margin (%)	19.4	21.2	17.5	(180bps)	190bps	21.0	18.5	246bps
Adj. PAT Margin (%)	14.0	15.8	13.5	(180bps)	50bps	15.7	13.3	237bps

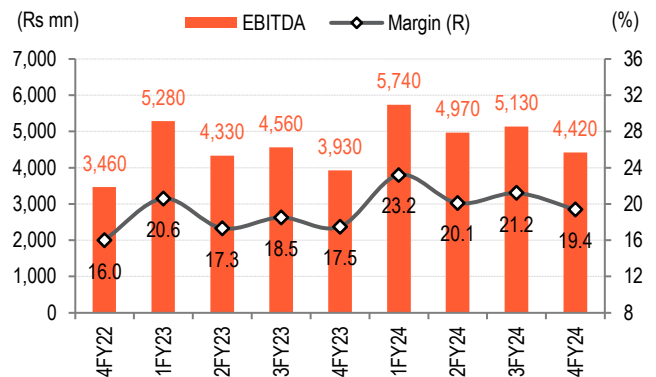
Source: Company, BOBCAPS Research

Fig 2 – Revenue and growth



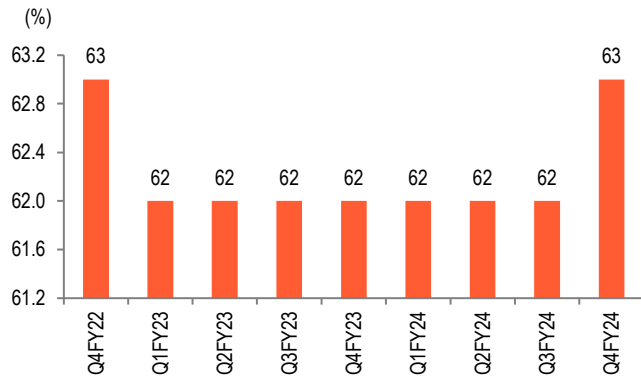
Source: Company, BOBCAPS Research

Fig 3 – EBITDA and margin



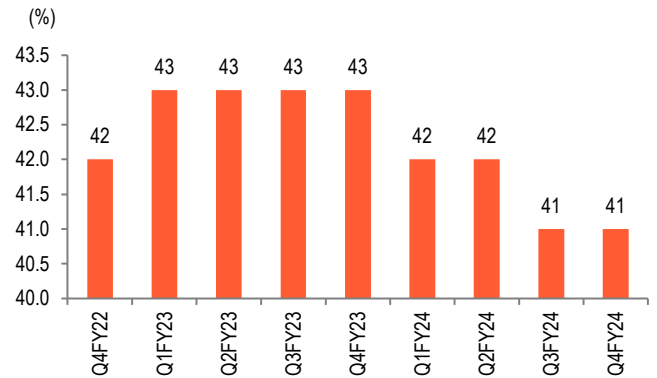
Source: Company, BOBCAPS Research

Fig 4 – Volume market share – Coconut oil franchise



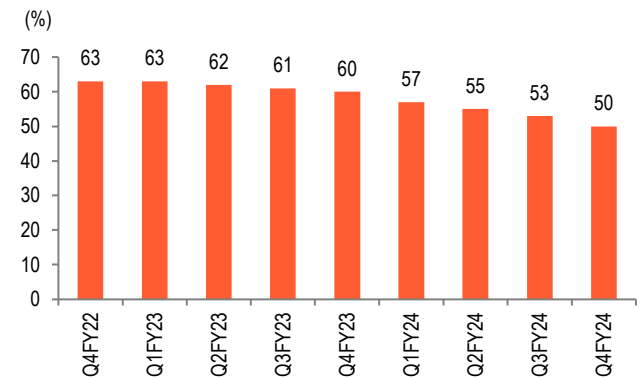
Source: Company, BOBCAPS Research

Fig 5 – Value market share – Saffola Oats



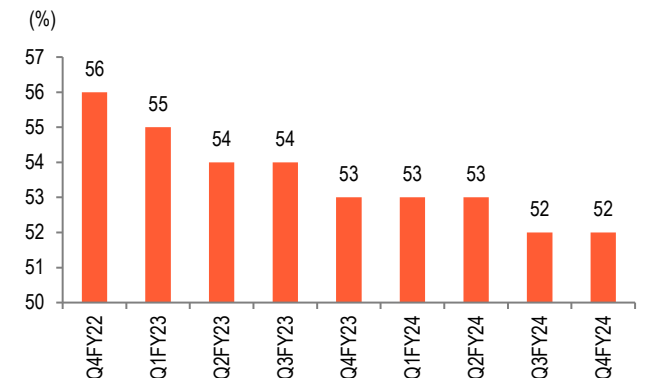
Source: Company, BOBCAPS Research

Fig 6 – Volume market share – Leave-on serum



Source: Company, BOBCAPS Research

Fig 7 – Value market share – Hair gel/waxes/creams



Source: Company, BOBCAPS Research

Earnings call highlights

- The FMCG sector has been resilient amidst a challenging environment and volume growth for the sector remained stable despite volatile input prices, subdued growth in general trade, and slower-than-anticipated recovery in rural markets.
- In Q4FY24, the demand environment remained relatively similar to the preceding quarters of the year. Rural demand witnessed uptick during the quarter while urban demand slightly moderated.
- Consumption across both urban and rural markets is expected to pick up gradually owing to a favourable monsoon forecast, moderate retail inflation, enhanced government spending, and reduced volatility in commodity prices.
- The premium segment continued to grow ahead of the mass segments across FMCG categories.
- In Q4, MRCO's domestic volume growth inched up sequentially with a steady trend across the majority of the portfolio. The company expects consistent volume uptick from Q1FY25.
- In the international business, the company witnessed double-digit CC growth in Q4 and expects to maintain the momentum in FY25 and beyond.
- Going ahead in FY25, MRCO expects double-digit revenue growth and market share gains in domestic markets and double-digit CC growth in international business. The company further expects to maintain margins at current levels and inch up structurally in the medium term.
- The company's 75% business either gained or sustained market share and its 100% portfolio sustained or enhanced penetration.
- Parachute has seen a steady recovery over the last three quarters and the company expects volume trajectory to improve driven by a favourable trend in copra prices.
- Towards the end of Apr, the company increased prices by 6% at the brand level in response to the rise in copra prices. If copra prices continue to rise MRCO will hike prices again during the year.
- With stabilisation in input and consumer prices, Saffola oil has also exhibited stability.
- Value-added oil had an optically weak quarter on a high base, however, there have been sluggish demand and increased competitive intensity at the bottom of the pyramid.
- Food had a strong quarter with organic food portfolio growing in double digits. The company expects to deliver 20%+ CAGR in foods over the medium term. The company expects to double the size of the food business by FY27.
- The company was able to expand gross margin of the food business by 800bps in FY24 which is structural in nature.

- True Elements and Plix have also sustained accelerated growth momentum. Premium personal care too has maintained a healthy growth trajectory driven by the digital first portfolio clocking an exit ARR of ~Rs 4.5bn.
- Beardo scaled up to ~3x since FY21 and achieved positive EBITDA in FY24. The company is aiming for double-digit EBITDA margin in Beardo in FY25.
- MRCO expects double-digit ARR growth in digital brands and to achieve double-digit EBITDA margin in the portfolio. Beardo and Plix have the potential to reach a revenue of Rs 5bn each in the next four to five years.
- Food and premium personal care now contribute 20% of the domestic revenue and the company intends to increase the share of foods and premium personal care including the digital portfolio to 25% by FY27.
- Through the rollout of project SETU, the company expects to expand its direct distribution reach to 1.5mn outlets by FY27 from the current level of 1mn.

Valuation methodology

MRCO posted soft performances in Q4 and FY24 due to a challenging demand environment and increased competition from regional players in select categories. However, management believes improvement in rural demand, strong performance in the digital first brand, robust growth and margin improvement in the food business and strong rebound in the international market will result in volume and revenue growth in FY25 and FY26.

We increase our FY25/FY26 PAT estimates by 2.1%/3.4% as MRCO has shown stability in the domestic market and strong rebound in international markets during Q4. The stock is trading at 45.2x/40x FY25E/FY26E EPS. We now value the stock at 46x (earlier 44x) FY26E EPS – in line with the long-term mean. Our TP thus increases to Rs 668 (from Rs 618).

We maintain BUY as we believe a continued focus on the food portfolio, product launches, normalisation of price cuts, and brand investments would aid volume recovery and profitable growth.

Fig 8 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	106,643	120,026	104,585	116,244	2.0	3.3
EBITDA	23,008	25,776	22,563	24,963	2.0	3.3
Adj. PAT	16,575	18,738	16,239	18,119	2.1	3.4

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- continued volatility in edible oil prices,
- delayed rural recovery, and
- input cost inflation.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	14.9	5,070	5,980	BUY
Dabur India	DABUR IN	11.9	553	673	BUY
Godrej Consumer Products	GCPL IN	16.6	1,331	1,363	HOLD
Hindustan Unilever	HUVR IN	66.5	2,326	2,617	BUY
ITC	ITC IN	64.5	425	532	BUY
Marico	MRCO IN	9.1	581	668	BUY
Nestle India	NEST IN	29.5	2,513	2,826	HOLD
Tata Consumer Products	TATACONS IN	12.6	1,085	1,330	BUY
Zyklus Wellness	ZYWL IN	1.3	1,700	1,531	HOLD

Source: BOBCAPS Research, NSE | Price as of 9 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	95,120	97,640	96,530	106,643	120,026
EBITDA	16,810	18,100	20,260	23,008	25,776
Depreciation	1,390	1,550	1,580	1,979	1,979
EBIT	15,420	16,550	18,680	21,029	23,797
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	21,869	24,711
Income taxes	3,460	4,210	4,350	5,072	5,747
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	300	200	210	222	226
Reported net profit	12,250	13,020	14,810	16,575	18,738
Adjustments	0	0	0	0	0
Adjusted net profit	12,250	13,020	14,810	16,575	18,738

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	13,440	14,520	15,810	14,694	16,571
Other current liabilities	2,240	2,170	2,110	2,331	2,624
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	11,488	12,545
Equity capital	1,290	1,290	1,290	1,290	1,290
Reserves & surplus	32,760	38,270	40,400	47,749	56,033
Shareholders' fund	34,050	39,560	41,690	49,039	57,323
Total liab. and equities	57,860	69,460	74,210	81,463	92,974
Cash and cash eq.	5,790	7,560	9,430	11,629	17,501
Accounts receivables	6,520	10,150	10,690	12,271	13,811
Inventories	14,120	12,250	13,360	15,585	17,575
Other current assets	2,210	2,460	3,960	4,366	4,904
Investments	8,280	10,960	6,020	6,379	6,855
Net fixed assets	6,000	6,330	7,000	7,161	7,819
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	751	846
Other assets	9,620	12,020	13,260	13,510	13,842
Total assets	57,860	69,460	74,210	81,463	92,964

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	10,160	14,190	14,360	15,324	20,681
Capital expenditures	(1,320)	(1,820)	(1,530)	(2,666)	(3,001)
Change in investments	3,370	(3,890)	1,480	0	0
Other investing cash flows	2,200	(2,940)	1,810	(359)	(476)
Cash flow from investing	4,250	(8,650)	1,760	(3,025)	(3,476)
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)	(9,448)	(10,681)
Other financing cash flows	(830)	(480)	(2,020)	0	0
Cash flow from financing	(12,900)	(5,600)	(15,420)	(10,100)	(11,332)
Chg in cash & cash eq.	1,510	(60)	700	2,199	5,873
Closing cash & cash eq.	2,760	2,070	2,280	4,479	10,351

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	9.5	10.1	11.5	12.8	14.5
Adjusted EPS	9.5	10.1	11.5	12.8	14.5
Dividend per share	9.4	4.7	6.5	7.3	8.3
Book value per share	26.4	30.7	32.3	38.0	44.4

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	7.9	7.7	7.8	7.0	6.2
EV/EBITDA	44.6	41.4	37.0	32.6	29.1
Adjusted P/E	61.2	57.6	50.6	45.2	40.0
P/BV	22.0	19.0	18.0	15.3	13.1

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	76.5	74.7	76.5	75.8	75.8
Interest burden (PBT/EBIT)	103.8	105.3	103.7	104.0	103.8
EBIT margin (EBIT/Revenue)	16.2	17.0	19.4	19.7	19.8
Asset turnover (Rev./Avg TA)	164.4	140.6	130.1	130.9	129.1
Leverage (Avg TA/Avg Equity)	1.7	1.8	1.8	1.7	1.6
Adjusted ROAE	36.0	32.9	35.5	33.8	32.7

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	18.2	2.6	(1.1)	10.5	12.5
EBITDA	5.7	7.7	11.9	13.6	12.0
Adjusted EPS	4.5	6.3	13.7	11.9	13.0
Profitability & Return ratios (%)					
EBITDA margin	17.7	18.5	21.0	21.6	21.5
EBIT margin	16.2	17.0	19.4	19.7	19.8
Adjusted profit margin	12.9	13.3	15.3	15.5	15.6
Adjusted ROAE	36.8	35.4	36.5	36.5	35.2
ROCE	30.9	28.0	28.0	28.0	27.5
Working capital days (days)					
Receivables	20	31	39	39	40
Inventory	85	90	98	98	99
Payables	83	95	117	103	93
Ratios (x)					
Gross asset turnover	1.5	1.3	1.2	1.2	1.1
Current ratio	1.6	1.6	1.6	2.0	2.2
Net interest coverage ratio	39.5	29.6	25.6	32.3	36.5
Adjusted debt/equity	10.1	12.0	9.2	7.8	6.7

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

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BUY – Expected return >+15%

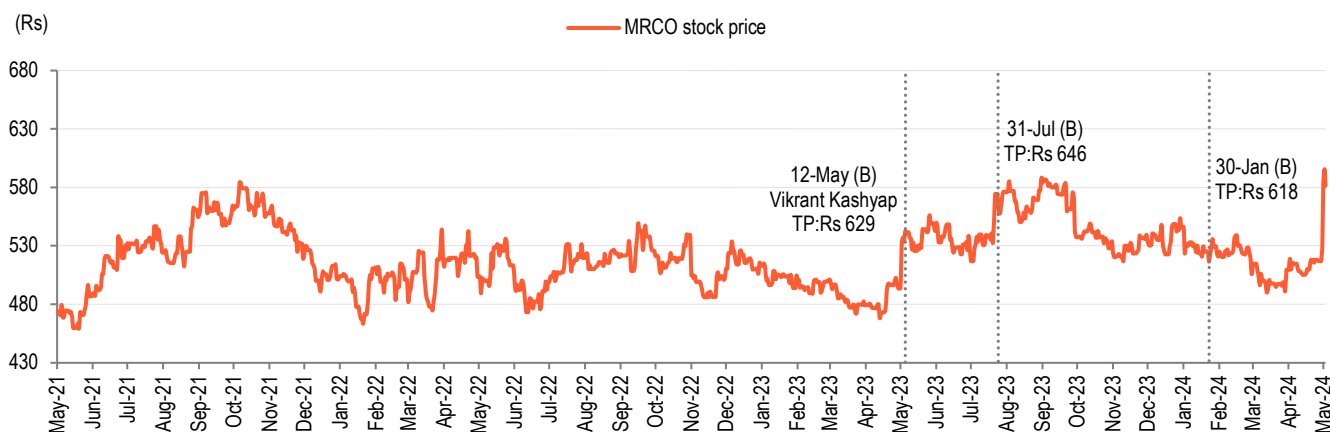
HOLD – Expected return from -6% to +15%

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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