

BUY

TP: Rs 646 | ▲ 21%

MARICO

Consumer Staples

30 October 2023

Muted revenue growth; margins expanded

- Q2 revenue flattish YoY owing to a subdued demand environment and regional competition in select categories
- Margin expansion continued as softer raw material prices offset higher brand investments
- Steady focus on the food portfolio paying off; maintain BUY with an unchanged TP of Rs 646

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Another muted quarter: MRCO's consolidated Q2FY24 revenue was flattish YoY at Rs 24.8bn as India business posted muted underlying volume growth of 3% for the second straight quarter. International business grew 13% YoY CC despite persisting macroeconomic headwinds and geopolitical tensions in some markets.

Domestic business remains soft: India business posted a 3% YoY decline in revenue to Rs 18.3bn owing to weakness in the edible oil and hair oil categories. *Parachute Rigid* posted just 1% YoY volume growth, value-added hair oils saw a flat quarter, and *Saffola* edible oil registered low-single-digit volume growth while revenue growth declined to the low 20s owing to price corrections. The food business, however, continued to do well with value growth of 25% YoY driven by double-digit growth in *Saffola Oats* and continued traction in newer categories. Premium personal care products also delivered a steady performance and are on track to contribute ~10% of domestic revenue in FY24.

Margins expansion continues: Gross margin expanded 690bps YoY and 500bps QoQ to 50.5% as prices of key inputs moderated in Q2. EBITDA grew 15% YoY with a 280bps YoY expansion in margin to 20.1% despite increased spending on brands that pushed up A&P spend by 26% YoY. EBITDA margin stood at 21.6% for the domestic business, rising 320bps YoY, and at 25.1% for the international business, up 270bps YoY.

Maintain BUY, TP Rs 646: MRCO continued to display a soft performance for the second straight quarter due to a challenging demand environment and increased competition from regional players in select categories. Management expects a relatively better performance in H2FY24. In our view, a continued focus on the food portfolio, product launches, and increased brand investments will result in higher volumes and profitable growth. The stock is trading at 43.9x/38.7x FY24E/ FY25E EPS. We maintain our TP at Rs 646 and continue to value the stock at an unchanged 47x FY25E P/E multiple – in line with long-term mean; BUY.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	MRCO IN/Rs 532
Market cap	US\$ 8.4bn
Free float	40%
3M ADV	US\$ 10.7mn
52wk high/low	Rs 595/Rs 463
Promoter/FPI/DII	59%/25%/16%

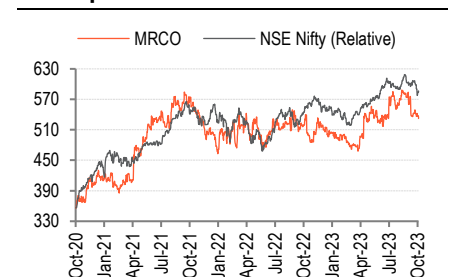
Source: NSE | Price as of 30 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	97,640	99,696	111,267
EBITDA (Rs mn)	18,100	21,496	24,677
Adj. net profit (Rs mn)	13,020	15,632	17,735
Adj. EPS (Rs)	10.1	12.1	13.7
Consensus EPS (Rs)	10.1	11.8	13.5
Adj. ROAE (%)	35.4	36.3	35.1
Adj. P/E (x)	52.7	43.9	38.7
EV/EBITDA (x)	37.9	31.9	27.8
Adj. EPS growth (%)	6.3	20.1	13.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

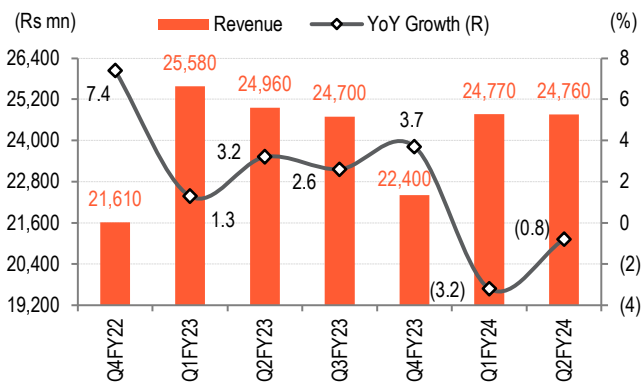


Fig 1 – Financial performance

(Rs mn)	Q2FY24	Q1FY24	Q2FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	24,760	24,770	24,960	0.0	(0.8)	24,636	0.5
EBITDA	4,970	5,740	4,330	(13.4)	14.8	4,952	0.4
Adj. PAT	3,530	4,270	3,010	(17.3)	17.3	3,403	3.7
Gross Margin (%)	50.5	50.0	43.6	50bps	690bps	49.2	130bps
EBIDTA Margin (%)	20.1	23.2	17.3	(310bps)	280bps	20.1	0bps
Adj. PAT Margin (%)	14.3	17.2	12.1	(290bps)	220bps	13.8	50bps

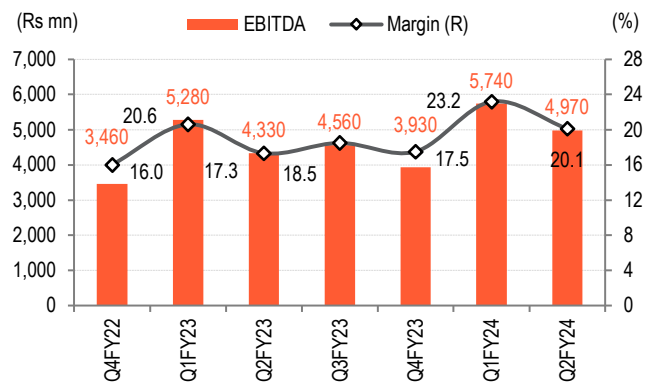
Source: Company, BOBCAPS Research

Fig 2 – Revenue and growth



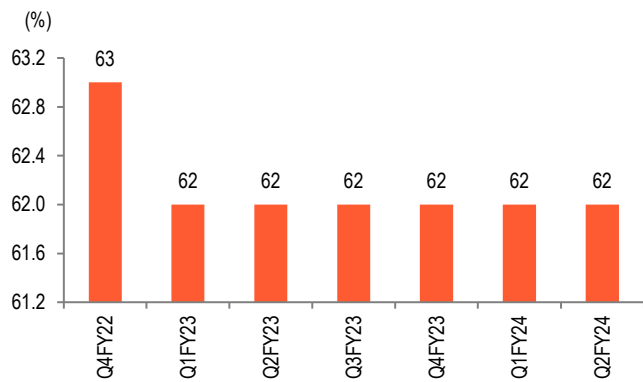
Source: Company, BOBCAPS Research

Fig 3 – EBITDA and margin



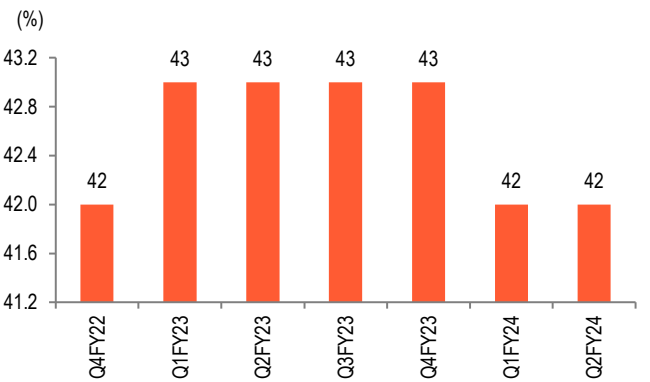
Source: Company, BOBCAPS Research

Fig 4 – Volume market share – Coconut oil franchise



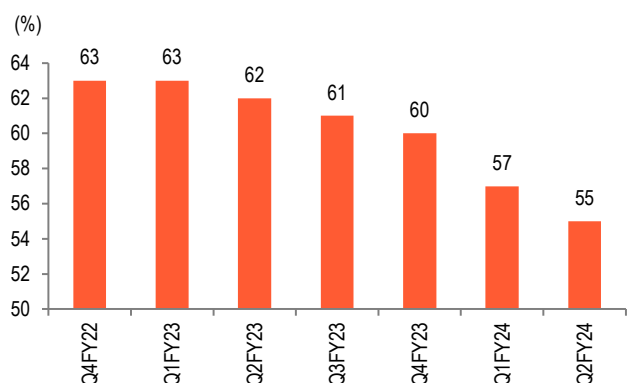
Source: Company, BOBCAPS Research

Fig 5 – Value market share – Saffola Oats



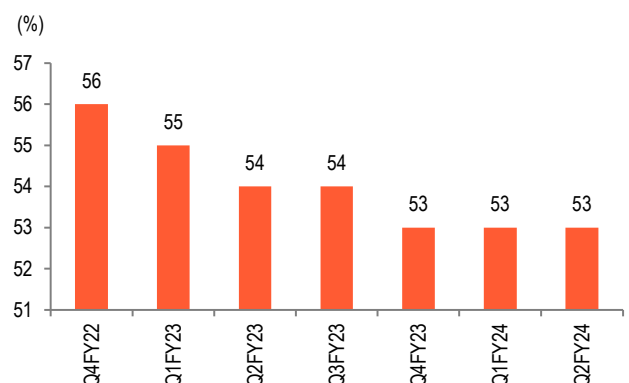
Source: Company, BOBCAPS Research

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

- In Q2FY24, demand trends mirrored the performance of the preceding quarter. The quarter began on a positive note with encouraging demand in both rural and urban markets for the month of July; however, there was a noticeable drop-off in rural sentiment during August and early September due to deficient rainfall in August, followed by a spike in food prices.
- Factors including some recovery in rural markets since the second half of September, range-bound retail and food inflation, and increased government spending continue to offer hope of a gradual recovery in rural sentiment.
- Amidst the current softening of commodity costs, the sector witnessed active participation from smaller regional players in select categories during Q2. However, pricing cuts taken by large FMCG companies to pass on the benefits of lower inflation should aid recovery in volume growth over the next few quarters.
- MRCO registered low-single-digit volume growth in domestic markets across core categories. Even so, the company remains on course to achieving its FY24 revenue target with food and premium personal care contributing 20% of the domestic business in Q2.
- Modern trade and e-commerce witnessed 20%+ volume growth in Q2, but growth in General Trade declined YoY.
- *Parachute* had another muted quarter and the four-year volume CAGR was at 4%. The franchise gained 35bps market share on a MAT basis.
- With the onset of off-season, copra prices are likely to inch up and management expects a gradual pickup in loose-to-branded edible oil conversions, which will aid volume growth in the near term.
- The value-added hair oils (VAHO) portfolio reflected muted trends in the mass category amid subdued rural sentiment and higher competition from local players.
- In *Saffola* edible oils, MRCO registered low-single-digit volume growth on a high base. Volume growth on a four-year CAGR basis was in high single digits. Trade inventory remains low in edible oils due to price volatility.
- The foods business continued its steady trajectory and is largely on track to meet FY24 revenue targets.
- Digital-first brands including *Beardo* and *Just Herbs* clocked Rs 3.5bn in annual recurring revenue (ARR) in Q2.
- International business continued its strong momentum and delivered double-digit constant currency growth despite macroeconomic headwinds in some geographies.
- On a consolidated basis, revenue growth was subdued by pricing cuts in the domestic business and currency headwinds in some overseas businesses. About two-thirds of the impact was from pricing cuts and the rest due to currency translation.
- MRCO expects revenue growth to move into positive territory in the second half of the year as pricing deflation in the domestic business likely tapers off.

Valuation methodology

MRCO continued to display a soft performance for the second straight quarter due to a challenging demand environment and increased competition from regional players in select categories. Management expects a relatively better performance in H2FY24. In our view, a continued focus on the food portfolio, product launches, and increased brand investments will result in higher volumes and profitable growth.

The stock is trading at 43.9x/38.7x FY24E/ FY25E EPS. We maintain our TP at Rs 646 and continue to value the stock at an unchanged 47x FY25E P/E multiple – in line with long-term mean; maintain BUY.

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	13.1	4,462	5,844	BUY
Dabur India	DABUR IN	11.3	523	669	BUY
Godrej Consumer Products	GCPL IN	12.2	978	1,159	BUY
Hindustan Unilever	HUVR IN	70.9	2,479	3,069	BUY
ITC	ITC IN	65.1	430	523	BUY
Marico	MRCO IN	8.4	532	646	BUY
Nestle India	NEST IN	28.4	24,172	28,260	BUY
Tata Consumer Products	TATACONS IN	10.1	894	994	BUY
Zydus Wellness	ZYWL IN	1.2	1,541	1,556	HOLD

Source: BOBCAPS Research, NSE | Price as of 30 Oct 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	80,480	95,120	97,640	99,696	111,267
EBITDA	15,910	16,810	18,100	21,496	24,677
Depreciation	1,390	1,390	1,550	1,636	2,040
EBIT	14,520	15,420	16,550	19,859	22,637
Net interest inc./(exp.)	340	390	560	770	665
Other inc./(exp.)	940	980	1,440	1,694	1,779
Exceptional items	130	0	0	0	0
EBT	15,250	16,010	17,430	20,783	23,750
Income taxes	3,240	3,460	4,210	4,851	5,700
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	270	300	200	300	315
Reported net profit	11,720	12,250	13,020	15,632	17,735
Adjustments	130	0	0	0	0
Adjusted net profit	11,590	12,250	13,020	15,632	17,735

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	11,340	13,440	14,520	13,598	15,150
Other current liabilities	2,870	2,240	2,170	2,216	2,473
Provisions	210	220	480	481	486
Debt funds	3,480	3,450	4,750	4,770	4,770
Other liabilities	4,620	4,460	7,980	8,086	8,683
Equity capital	1,290	1,290	1,290	1,290	1,290
Reserves & surplus	31,290	32,760	38,270	45,292	53,233
Shareholders' fund	32,580	34,050	39,560	46,582	54,523
Total liab. and equities	55,100	57,860	69,460	75,732	86,085
Cash and cash eq.	9,440	5,790	7,560	13,948	20,347
Accounts receivables	3,880	6,520	10,150	10,364	11,567
Inventories	11,260	14,120	12,250	11,538	12,855
Other current assets	2,500	2,210	2,460	2,511	2,795
Investments	8,540	8,280	10,960	11,069	11,683
Net fixed assets	5,720	6,000	6,330	6,491	6,676
CWIP	240	390	670	670	670
Intangible assets	2,300	3,060	5,600	5,600	5,600
Deferred tax assets, net	1,860	1,870	1,460	1,491	1,664
Other assets	9,360	9,620	12,020	12,051	12,228
Total assets	55,100	57,860	69,460	75,732	86,085

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	20,070	10,160	14,190	18,020	20,013
Capital expenditures	(1,420)	(1,320)	(1,820)	(1,994)	(2,225)
Change in investments	(4,260)	3,370	(3,890)	0	0
Other investing cash flows	(3,700)	2,200	(3,580)	(109)	(614)
Cash flow from investing	(9,380)	4,250	(9,290)	(2,103)	(2,839)
Equities issued/Others	60	410	90	0	0
Debt raised/repaid	130	(30)	1,280	0	0
Interest expenses	(210)	(280)	(420)	(770)	(665)
Dividends paid	(9,900)	(12,170)	(6,070)	(8,910)	(10,109)
Other financing cash flows	(660)	(830)	(480)	151	0
Cash flow from financing	(10,580)	(12,900)	(5,600)	(9,529)	(10,774)
Chg in cash & cash eq.	110	1,510	(700)	6,388	6,399
Closing cash & cash eq.	1,090	2,760	2,070	8,458	14,857

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	9.1	9.5	10.1	12.1	13.7
Adjusted EPS	9.0	9.5	10.1	12.1	13.7
Dividend per share	37.5	9.4	4.7	6.9	7.8
Book value per share	25.3	26.4	30.7	36.1	42.3

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	8.5	7.2	7.0	6.9	6.2
EV/EBITDA	43.2	40.8	37.9	31.9	27.8
Adjusted P/E	59.2	56.0	52.7	43.9	38.7
P/BV	21.1	20.2	17.4	14.7	12.6

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	76.9	76.5	74.7	75.2	74.7
Interest burden (PBT/EBIT)	105.0	103.8	105.3	104.7	104.9
EBIT margin (EBIT/Revenue)	18.0	16.2	17.0	19.9	20.3
Asset turnover (Rev./Avg TA)	146.1	164.4	140.6	131.6	129.3
Leverage (Avg TA/Avg Equity)	1.7	1.7	1.8	1.6	1.6
Adjusted ROAE	36.0	36.0	32.9	33.6	32.5

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	10.0	18.2	2.6	2.1	11.6
EBITDA	8.3	5.7	7.7	18.8	14.8
Adjusted EPS	14.8	4.5	6.3	20.1	13.5
Profitability & Return ratios (%)					
EBITDA margin	19.8	17.7	18.5	21.6	22.2
EBIT margin	18.0	16.2	17.0	19.9	20.3
Adjusted profit margin	14.4	12.9	13.3	15.7	15.9
Adjusted ROAE	36.8	36.8	35.4	36.3	35.1
ROCE	31.0	30.9	28.0	28.5	28.1
Working capital days (days)					
Receivables	21	20	31	38	36
Inventory	107	85	90	87	80
Payables	90	83	95	102	94
Ratios (x)					
Gross asset turnover	1.4	1.5	1.3	1.2	1.2
Current ratio	1.7	1.6	1.6	1.9	2.1
Net interest coverage ratio	42.7	39.5	29.6	25.8	34.0
Adjusted debt/equity	10.7	10.1	12.0	10.2	8.7

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

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BUY – Expected return >+15%

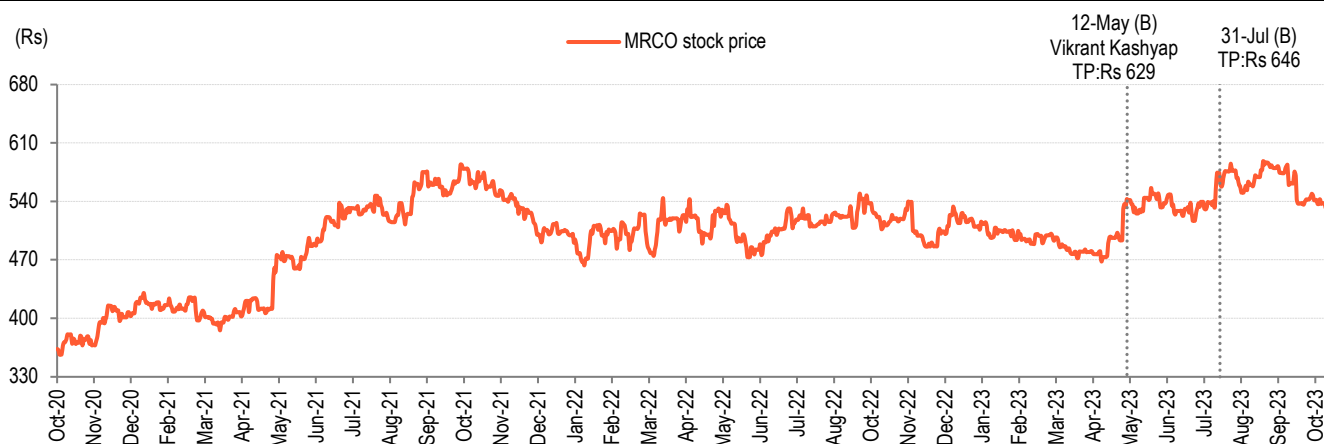
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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