YES SECURITIES
INSTITUTIONAL EQUITIES

October 29, 2024

RESULT REPORT Q2 FY25 | Sector: Consumer Staples

Marico Ltd.

2H to see double-digit growth; EBITDA to lag

Marico Ltd. (MRCO) 2QFY25 domestic business saw some improvement in its volume trajectory (+5% YoY volume growth) driven by core as well as new franchises. Realizations have turned positive (price hikes + reversal in pricing cycle) this quarter supporting domestic revenue growth of ~8%. Incremental currency headwinds in some overseas markets restrained consolidated growth to 7.6%. Impact of inflation in domestic core portfolios was more than offset by margin improvements in domestic digital-first franchises and International businesses. Improving trajectory in domestic core, fresh price hikes in *Parachute* & *Saffola edible oils*, likely bottoming-out of VAHO, continued momentum on domestic diversification and healthy CCG in International business should lead to robust revenue growth in 2HFY25 while inflationary pressure restricts EBITDA growth. Earnings change and roll-forward to FY27E EPS gives us a slightly revised target price (TP) of Rs750 (Rs745 earlier), implying an upside of ~19%. We thus upgrade our rating to BUY.

2QFY25 Result Highlights (Consolidated)

- **Headline performance:** Topline was up by 7.6% YoY to Rs26.6bn (vs est. Rs26.9bn). EBITDA grew by 5% YoY to Rs5.2bn (vs est. Rs5.3bn). Adjusted PAT (APAT) after MI was up ~10% YoY to Rs3.9bn (vs est. Rs4bn).
- Domestic revenues were up 8%YoY with underlying volume growth of 5% YoY. Domestic EBIT margin was down by ~70bps YoY to 19.8%. International business was up ~6.4% YoY (13% CCG) with EBIT margins up ~230bps YoY to 25.5%.
- **Gross margin** came in at 50.8% (+30bps YoY but -150bps QoQ; vs our est. 50%) as the impact of higher input costs in the core portfolios of the domestic business was more than offset by healthy margin improvements in the digital-first franchises in India and international businesses. Higher overheads: Employee cost up 40bps YoY, advertisement and sales promotion (A&SP) up 10bps YoY and other overheads up 30bps YoY, meant that EBITDA margin came in at 19.6% (down 50bps YoY; vs our est. 19.9%).
- **1HFY25** revenue, EBITDA & APAT were up 7.1%, 7.2% & ~11% YoY. Gross margin was up by 130bps YoY to 51.5% while EBITDA margin was flattish YoY to 21.6%.

Near term outlook: (1) Rural growing at 2x the pace of urban on a YoY basis. (2) MRCO will focus on volume led value growth while EBITDA growth might lag revenue in near term due to inflation. (3) It has implemented price hikes in *Parachute Rigids* (another round of ~4% increase at brand level) and *Saffola Edible Oils* (~15%) at the end of 2QFY25. (4) Company will try to hold EBITDA margins for FY25, at worse EBITDA margin will see a decline of ~50bps in FY25.

View & Valuation

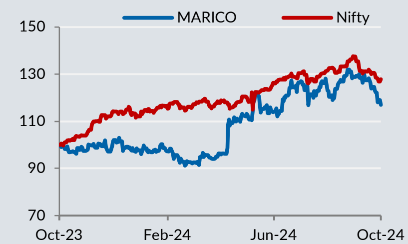
Improving trajectory in domestic core, fresh price hikes in *Parachute* & *Saffola edible* oils, likely bottoming-out of VAHO, continued momentum on domestic diversification and healthy CCG in International business should lead to robust revenue growth in 2HFY25 while inflationary pressure restricts EBITDA growth. We are now building ~10% revenue CAGR over FY24-FY27E led by (a) Improvement in volume growth for the core portfolio along with favorable pricing cycle. (b) Consistent uptick in revenue share of Foods, Premium Personal Care (including the Digital-first portfolio) driven by innovations, step-up in market development, brand building spends and focused GTM initiatives. (c) Healthy momentum in international business. (d) Distribution expansion through Project SETU. We expect ~11% EBITDA CAGR over FY24-FY27E (~40bps EBITDA margin expansion as we expect gross margin to expand by just ~140bps). Earnings change and roll-forward to FY27E EPS gives us a slightly revised TP of Rs750 (Rs745 earlier), implying an upside of ~19%. We thus upgrade our rating to BUY.

Reco	:	**BUY**
CMP	:	Rs 629
Target Price	:	Rs 750
Potential Return	:	+19.2%

Stock data (as on Oct 29, 2024)

Nifty	24,467
52 Week h/l (Rs)	720 / 486
Market cap (Rs/USD mn)	820867 / 9769
Outstanding Shares (mn)	1,295
6m Avg t/o (Rs mn):	1,604
Div yield (%):	1.4
Bloomberg code:	MRCO IN
NSE code:	MARICO

Stock performance



	1M	3M	1Y
Absolute return	-9.1%	-7.9%	17.0%

Shareholding pattern (As of June'24 end)

Promoter	59.3%
FII+DII	35.9%
Others	4.7%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	ADD
Target Price	750	745

Δ in earnings estimates

	FY25e	FY26e	FY27e
EPS (New)	12.6	14.3	16.0
EPS (Old)	12.9	14.6	NA
% change	(2.9)	(3.9)	NA

Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenue	105,691	116,402	128,346
YoY Growth (%)	9.5	10.1	10.3
EBIDTA	21,986	24,505	27,521
Margins (%)	20.8	21.1	21.4
PAT	16,215	18,153	20,602
EPS	12.6	14.1	16.0
YoY Growth (%)	10.3	12.0	13.5
Pre-tax RoCE (%)	44.4	47.7	51.1
ROE (%)	40.5	42.9	45.6
P/E (x)	50.1	44.7	39.4
EV/EBITDA (x)	36.4	32.5	28.9

VISHAL PUNMIYA
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Exhibit 1: Actual vs estimate

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	26,640	26,865	26,842	(0.8)	(0.8)
EBITDA	5,220	5,346	5,301	(2.4)	(1.5)
EBITDA Margin (%)	*19.6*	*19.9*	*19.7*	*(0.3)*	*(0.2)*
Adjusted PAT	3,880	3,950	3,893	(1.8)	(0.3)

Source: Bloomberg, YES Sec

Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs. Mn)	2QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	1HFY24	1HFY25	YoY (%)
Net Sales	**24,760**	**26,430**	**26,640**	***7.6***	***0.8***	**49,530**	**53,070**	***7.1***
COGS	12,260	12,620	13,110	*6.9*	*3.9*	24,650	25,730	*4.4*
Gross margin %	***50.5***	***52.3***	***50.8***	***0.3***	***-1.5***	***50.2***	***51.5***	***1.3***
Employee costs	1,870	2,030	2,130	*13.9*	*4.9*	3,680	4,160	*13.0*
% of sales	*7.6*	*7.7*	*8.0*	*0.4*	*0.3*	*7.4*	*7.8*	*0.4*
Advertising costs	2,680	2,400	2,900	*8.2*	*20.8*	4,800	5,300	*10.4*
% of sales	*10.8*	*9.1*	*10.9*	*0.1*	*1.8*	*9.7*	*10.0*	*0.3*
Other expenses	2,980	3,120	3,280	*10.1*	*5.1*	5,690	6,400	*12.5*
% of sales	*12.0*	*11.8*	*12.3*	*0.3*	*0.5*	*11.5*	*12.1*	*0.6*
EBITDA	**4,970**	**6,260**	**5,220**	**5.0**	**-16.6**	**10,710**	**11,480**	**7.2**
EBITDA margin %	***20.1***	***23.7***	***19.6***	***-0.5***	***-4.1***	***21.6***	***21.6***	***0.0***
Depreciation	390	410	410	*5.1*	*0.0*	750	820	*9.3*
EBIT	4,580	5,850	4,810	*5.0*	*-17.8*	9,960	10,660	*7.0*
Interest expense	200	170	110	*-45.0*	*-35.3*	370	280	*-24.3*
Other income	380	370	400	*5.3*	*8.1*	700	770	*10.0*
PBT after minority interest	4,690	5,950	5,042	*7.5*	*-15.3*	10,130	10,950	*8.1*
Tax	1,160	1,310	1,120	*-3.4*	*-14.5*	2,440	2,430	*-0.4*
Effective tax rate %	*24.7*	*22.0*	*22.2*	*-2.5*	*0.2*	*24.1*	*22.2*	*-1.9*
Adj. PAT	**3,530**	**4,640**	**3,880**	***9.9***	***-16.4***	**7,690**	**8,520**	***10.8***
Adj. PAT margin %	***14.3***	***17.6***	***14.6***	***0.3***	***-3.0***	***15.5***	***16.1***	***0.5***
EPS	**2.7**	**3.6**	**3.0**	***9.9***	***-16.4***	**6.0**	**6.6**	***10.8***

Source: Company, YES Sec

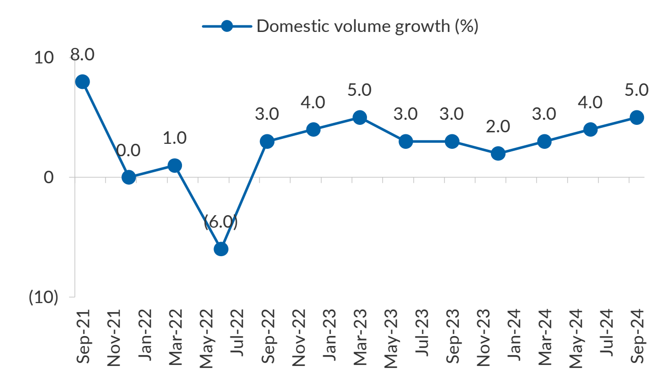
TAKEAWAYS/EXCERPTS FROM 2QFY25 CONFERENCE CALL/PRESS RELEASE

- **Outlook:** Marico's consolidated revenue growth is likely to move into double digits in the second half of the year. Elevated food and retail inflation will be key factors to be monitored in the near term. With 15% hike in Saffola edible oil prices, the revenue growth will remain stable even with muted volumes. MRCO will focus on volume led value growth while EBITDA growth might lag revenue in near term due to inflation.
- **Demand environment:** It witnessed stable demand trends in India with rural growing at 2x the pace of urban on a YoY basis. Buoyancy is seen at the upper end while middle and lower middle consumption was impacted due to high inflation. BOP also seeing similar sentiments but supported by government schemes. The company expects sequential volume trajectory improvement in the next quarter. At the top end, the company doesn't see any declining trends.

- **Pricing:** Saffola brand implemented a price increase of ~15% in response to the sharp hike in import duties on vegetable oils. Parachute Rigids has seen another round of price increase (~4% at a brand level) at the end of 2QFY25 in response to the sequential rise in copra prices.
- **Margins:** Input cost pressures are higher than anticipated in near-term especially on copra. Company will try to hold EBITDA margins for FY25, at worse EBITDA margin will see a decline of ~50bps in FY25.
- **Inflation:** The company saw higher than expected inflation in commodities like copra and vegetable oil (import duty hike). Forecasts for most commodities indicate an upward bias in the near term.
- **Volume growth:** The company expects volume growth improvement in 2HFY25.
- **Parachute:** Healthy pickup seen in volume growth in Parachute rigids. Flanker brands growing in mid-teens.
- **Edible oil:** Management believes volumes get affected when price goes beyond Rs200 for Saffola Gold, currently it is Rs185.
- **VAHO –** Value-Added Hair Oils declined 8% YoY in value terms amidst persistent sluggishness and irrational competitive headwinds in the bottom of the pyramid segment. It expects gradually improving trends ahead on the back of visible ATL investments and brand activations leading into the festive season. It will play in upper end of the portfolio and not chase the bottom end. Company believes it is not ideal for category growth as competitors are pulling back ATL spends and diverting towards trade inputs & BOGO's. MRCO has started investing behind middle-end portfolio. The decline is largely due to the bottom end negative pricing. VAHO performance has bottomed out and will improve from hereon. Shrinkflation and downtrading is happening in this category.
- **Foods business** crossed Rs10bn in ARR in Q2. Saffola Oats delivered mid teen growth. Substantial growth in Plix food business. In 5-7 years, Saffola might contribute 60% of the foods business. Saffola foods will continue to grow in double digits. Honey and soya are seeing steady growth.
- **Digital brands**: Offline contribution is marginal in digital first brands. To go in offline channel, the company needs to have right pricing strategy. If there is a heavy discounting on E-commerce for a product, consumers will shift from GT to E-commerce. The company will take calibrated actions into putting digital brands to GT as it could impact long term profitability. It expects double digit EBITDA margins by FY27.
- **Channels:** The company will expand into new channels like pharmacies for its digital first brands. Foods business is skewed towards OT channel. Just distribution expansion of digital brands in GT channel could improve volumes. The company's share is higher in OT than its peers since they invested early and was ahead of the curve. OT saliency is higher than GT saliency.
- **Premium Personal care:** Premium Personal Care continued its strong run during the quarter, led by the Digital-first portfolio. The Digital first brands crossed Rs5.25bn in ARR in Q2. Beardo and Plix have the potential to reach Rs5bn for each brand. Beardo is hitting double digit EBITDA growth.
- **Plix:** Plix is placed as good for you brand focusing on hair food, skin and body food. It is keeping an eye on to not stretch the brand. It is doing marginally positive operating margins. Company believes it has potential to become a Rs5bn brand.
- **International business**: Bangladesh displayed resilient performance despite headwinds. The management continued to be convinced about medium term opportunities in the country and accelerating the pace of innovation. It is gaining market share in Middle East. Non-Bangladesh business could grow by 20-25% over the next 3 years.
- **SETU:** Project SETU was extended to 4 more states, taking the tally to 10 states. It expects to reach direct distribution to 1.5mn outlets by FY27.

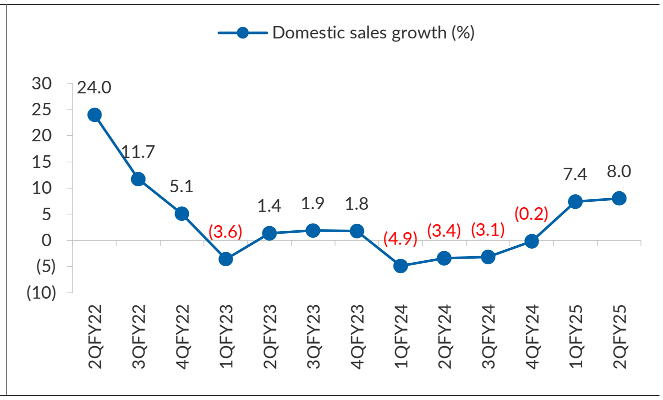
- **Employee costs** were higher as a % of sales as new business employee cost are higher in this quarter. There is impact of higher stock price in 2Q. It expects it to lower down once it sees double digit revenue growth.
- **A&SP:** Up trends are expected in A&SP spends.
- **Other income** was higher owing to higher dividends from Bangladesh business and gain on sale of fixed assets.
- **Innovation:** The company is prototyping and planning to launch masala millets and muesli.
- **Alternate channels**: Share of alternate channel on rise in tier-1 markets.
- **Inventory correction:** Some B2B inventory correction might happen in quarters to come in the offline channels.

Exhibit 3: Domestic volumes grew 5% YoY



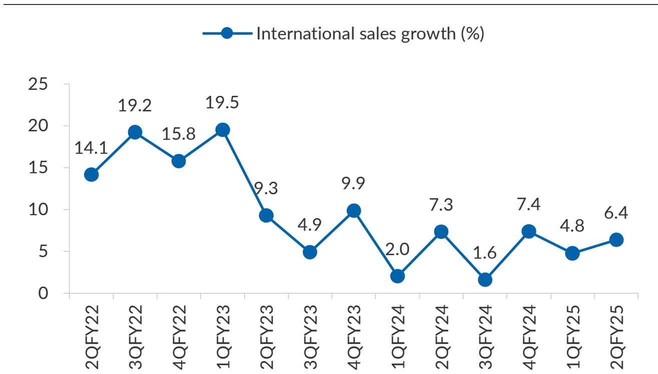
Source: Company, YES Sec

Exhibit 4: Domestic sales were up 8% YoY owing to improving volumes and favorable pricing



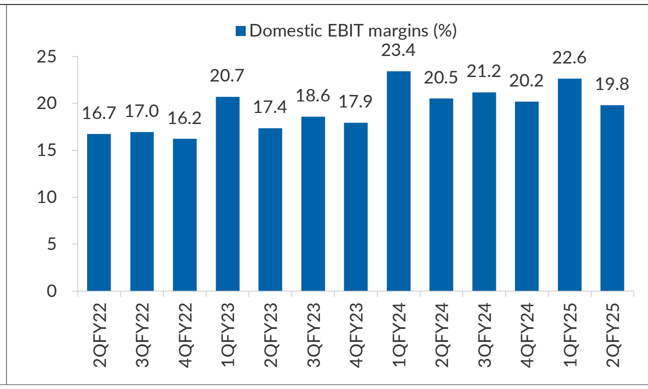
Source: Company, YES Sec

Exhibit 5: International sales grew 6.4% YoY with a constant currency growth of ~13%



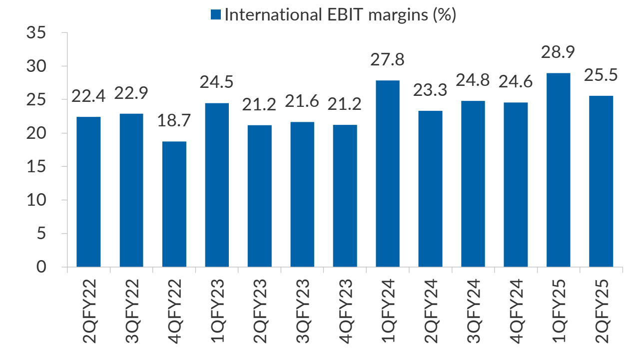
Source: Company, YES Sec

Exhibit 6: Domestic EBIT margin down 70bps YoY



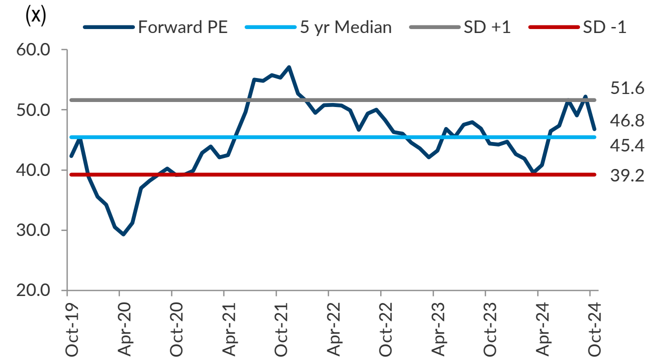
Source: Company, YES Sec

Exhibit 7: International EBIT margin up 230bps YoY



Source: Company, YES Sec

Exhibit 8: Currently trading at ~47x 1-yr fwd earnings



Source: Company, YES Sec

FINANCIALS

Exhibit 9: Balance Sheet

Y/E March (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Share capital	1,290	1,290	1,290	1,290	1,290
Reserves	36,670	37,820	39,671	42,444	45,409
Net worth	37,960	39,110	40,961	43,734	46,699
Minority Interest	1,570	3,370	3,370	3,370	3,370
Total debt	4,730	3,830	3,630	3,530	3,430
Other long term liabilities	1,730	2,040	1,999	1,959	1,920
Total liabilities	**45,990**	**48,350**	**49,960**	**52,593**	**55,419**
Gross block	17,770	23,030	23,830	24,830	25,830
Depreciation	5,840	6,660	8,316	10,051	11,902
Net block	11,930	16,370	15,514	14,779	13,928
Right of use assets	1,740	2,090	2,048	2,007	1,967
Capital work-in-progress	670	440	440	440	440
Goodwill	8,620	8,630	8,730	8,830	8,930
Investments	11,120	6,170	7,046	7,906	8,875
Inventories	12,250	13,360	14,268	15,714	17,327
Debtors	10,150	10,690	12,154	13,386	14,760
Cash	7,560	9,430	8,481	9,922	11,189
Other current assets	1,260	7,140	6,464	7,104	7,808
Total current assets	31,220	40,620	41,368	46,126	51,083
Creditors	14,520	15,810	15,710	17,418	19,083
Other current liabilities & provisions	4,470	8,050	7,367	7,968	8,613
Total current liabilities	18,990	23,860	23,077	25,386	27,696
Net current assets	12,230	16,760	18,291	20,740	23,388
Deferred tax asset	(320)	(2,110)	(2,110)	(2,110)	(2,110)
Total assets	**45,990**	**48,350**	**49,960**	**52,593**	**55,418**

Source: Company, YES Sec

Exhibit 10: Income statement

Y/E March (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Net Sales	97,640	96,530	105,691	116,402	128,346
% Growth	***2.6***	***-1.1***	***9.5***	***10.1***	***10.3***
COGS	53,710	47,670	51,689	56,405	61,561
Staff costs	6,530	7,430	7,827	7,826	8,639
Other expenses	19,290	21,139	24,190	27,665	30,624
Total expenses	79,530	76,239	83,705	91,896	100,825
EBITDA	18,110	20,291	21,986	24,505	27,521
% growth	***7.2***	***12.0***	***8.4***	***11.5***	***12.3***
EBITDA margin (%)	***18.5***	***21.0***	***20.8***	***21.1***	***21.4***
Other income	1,440	1,280	1,493	1,671	1,917
Interest costs	560	730	522	501	487
Depreciation	1,550	1,580	1,656	1,735	1,851
Profit before tax	17,440	19,261	21,301	23,940	27,100
Tax	4,210	4,350	4,686	5,386	6,097
Rate of Tax (%)	24.1	22.6	22.0	22.5	22.5
PAT	12,710	14,811	16,215	18,153	20,602
Adj PAT	13,030	14,701	16,215	18,153	20,602
Adj PAT margin (%)	**13.3**	**15.0**	**15.1**	**15.4**	**15.8**
% Growth	***5.8***	***15.2***	***15.3***	***15.6***	***16.1***

Source: Company, YES Sec

Exhibit 11: Cash flow statement

Y/E March (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
PAT	13,740	15,590	16,615	18,553	21,002
Depreciation	1,550	1,580	1,656	1,735	1,851
Other income	(1,070)	(1,280)	(1,493)	(1,671)	(1,917)
Interest paid	560	730	522	501	487
(Inc.)/dec. in working capital	(590)	(2,260)	(2,480)	(1,009)	(1,381)
Cash flow from operations	**14,190**	**14,360**	**14,820**	**18,110**	**20,043**
Capital expenditure (-)	(1,820)	(1,530)	(800)	(1,000)	(1,000)
Net cash after capex	**12,370**	**12,830**	**14,020**	**17,110**	**19,043**
Inc./(dec.) in investments	(5,000)	4,460	(581)	16	(299)
Cash flow from investments	**(6,820)**	**2,930**	**(1,381)**	**(984)**	**(1,299)**
Dividends paid (-)	(6,070)	(12,290)	(12,255)	(13,674)	(15,480)
Others	470	(3,130)	(2,132)	(2,011)	(1,997)
Cash from financial activities	**(5,600)**	**(15,420)**	**(14,387)**	**(15,685)**	**(17,477)**
Opening cash balance	5,790	7,560	9,430	8,482	9,922
Closing cash balance	7,560	9,430	8,482	9,922	11,189
Change in cash balance	1,770	1,870	(948)	1,441	1,266

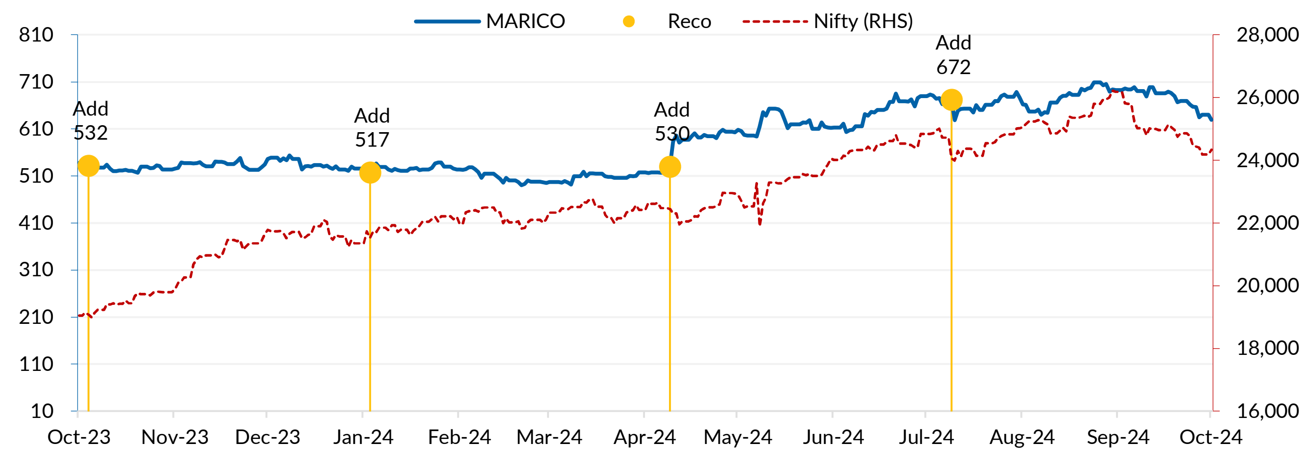
Source: Company, YES Sec

Exhibit 12: Growth and Ratio matrix

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Per share (Rs)					
EPS	10.1	11.4	12.6	14.1	16.0
Book value	29.4	30.3	31.8	33.9	36.2
DPS	9.0	9.5	10.6	12.0	13.8
Valuation (x)					
EV/sales	8.2	8.3	7.6	6.8	6.2
EV/EBITDA	44.0	39.4	36.4	32.5	28.9
P/E	62.3	55.2	50.1	44.7	39.4
P/BV	21.4	20.8	19.8	18.6	17.4
Return ratios (%)					
RoCE*	42.2	42.4	44.4	47.7	51.1
RoE	36.5	38.1	40.5	42.9	45.6
RoIC*	64.6	63.5	61.3	66.7	74.1
Profitability ratios (%)					
Gross margin	45.0	50.6	51.1	51.5	52.0
EBITDA margin	18.5	21.0	20.8	21.1	21.4
PAT margin	13.3	15.2	15.3	15.6	16.1
Liquidity ratios (%)					
Current ratio	0.6	0.7	0.8	0.8	0.8
Quick ratio	1.0	1.1	1.2	1.2	1.2
Solvency ratio (%)					
Debt to Equity ratio	0.1	0.1	0.1	0.1	0.1
Turnover ratios					
Total asset turnover ratio (x)	2.1	2.0	2.1	2.2	2.3
Fixed asset turnover ratio (x)	8.2	5.9	6.8	7.9	9.2
Inventory days	90	98	98	97	98
Debtors days	31	39	39	40	40
Creditor days	95	116	111	107	108

Source: Company, YES Sec

Recommendation Tracker



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VISHAL SURESHKUMAR PUNMIYA

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