

May 06, 2024

**RESULT REPORT Q4 FY24** | Sector: Consumer Staples

# Marico Ltd.

## Volumes to improve + Pricing cycle to reverse

Marico Ltd. (MRCO) 4QFY24 headline performance was in-line. Revenue for the quarter continued to be impacted by soft demand environment and flow through of earlier price corrections taken in domestic core. Gross margins (+30bps QoQ & +420bps YoY) surprised us positively led by softer input costs and favourable portfolio mix but was offset by higher overheads. Below EBITDA, impact of lower other income was offset by lower tax charge. Improving trajectory in domestic core, fresh price hikes in Parachute, base normalization for Saffola edible oils and shrinkflation anniversarization in VAHO along with continued momentum on domestic diversification and healthy growth in International business should help improve revenue growth performance in FY25. Maintain ADD rating with a revised target price (TP) of Rs620.

### 4QFY24 Result Highlights (Consolidated)

- **Headline performance:** Revenue was up by 1.7% YoY to Rs22.8bn (vs est. Rs22.6bn). EBITDA grew by 12.5% YoY to Rs4.4bn (vs est. Rs4.5bn). Adjusted PAT (APAT) after MI was up 10.3% YoY to Rs3.2bn (vs est. Rs3.2bn).
- Domestic revenues were flattish YoY with volume growth of 3% YoY (in-line). Domestic EBIT margin was up by ~220bps YoY to 20.2%. International business posted growth of ~7% YoY (10% CC growth) with EBIT margins up ~340bps YoY to 24.6%.
- **Gross margin** came in at 51.6% (+420bps YoY & +30bps QoQ; vs our est. 50.6%). Employee cost up 50bps YoY, advertisement and sales promotion (A&SP) up 50bps YoY and other overheads up 120bps YoY meant that EBITDA margin came in at 19.4% (up 190bps YoY; vs our est. 19.7%).
- **FY24** revenue was down 1.1% YoY while EBITDA and APAT have grown by 11.9% and 14.1% YoY, respectively. Gross/EBITDA margin up 560bps/250bps YoY to 50.8%/21.0%, respectively.

### Near term outlook

- (1) Expect domestic revenue growth to outpace volume growth from 1QFY25, in light of the upward bias in prices of some of the key commodities.
- (2) Core will see far better rural growth in second half of FY25.
- (3) MRCO believes it might not see any EBITDA margin improvement in FY25.

### View & Valuation

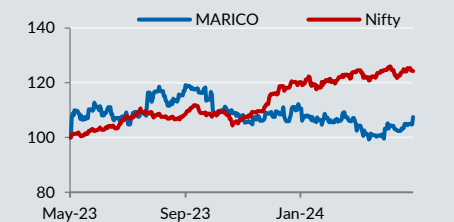
We are currently building ~11% revenue CAGR over FY24-FY26E led by (a) Recovery in volume growth for the core portfolio. Current price corrections becoming hikes in FY25 with expected inflation. (b) Consistent uptick in revenue share of Foods, Premium Personal Care (including the Digital-first portfolio) 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 11.8% EBITDA CAGR over FY24-FY26E (~30bps EBITDA margin expansion as we expect gross margin to expand by just ~60bps over FY24-FY26E on high base). While A&SP cost is being upped to build demand in core and support innovations, operating leverage, savings and favorable mix, will provide some additional support to operating margin. Marico is currently trading at ~41x/37x on FY25E/FY26E EPS as we build in ~12% EPS CAGR over FY24-26E. Dividend payout remains high and return ratios are also expected to improve. With margins at peak levels, volume recovery becomes extremely crucial for earnings growth in FY25. We continue to maintain our less than bullish rating of ADD with a revised TP of Rs620 (Rs605 earlier), valuing it at ~44x March'2026E EPS (3yr/5yr avg fwd. multiple: ~47.5x/44.5x).

Reco	: ADD
CMP	: Rs 530
Target Price	: Rs 620
Potential Return	: +16.9%

### Stock data (as on May 06, 2024)

Nifty	22,443
52 Week h/l (Rs)	595 / 486
Market cap (Rs/USD mn)	668921 / 8013
Outstanding Shares (mn)	1,294
6m Avg t/o (Rs mn):	794
Div yield (%):	0.9
Bloomberg code:	MRCO IN
NSE code:	MARICO

### Stock performance



	1M	3M	1Y
Absolute return	+4.1%	+1.8%	+7.4%

### Shareholding pattern (As of March'24 end)

Promoter	59.4%
FII+DII	35.6%
Others	4.9%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	620	605

### Δ in earnings estimates

	FY25e	FY26e
EPS (New)	12.8	14.3
EPS (Old)	12.8	14.1
% change	+0.2	+1.7

### Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	96,530	108,300	118,897
YoY Growth (%)	-1.1	12.2	9.8
EBIDTA	20,260	22,872	25,320
Margins (%)	21.0	21.1	21.3
PAT	14,700	16,566	18,446
EPS	11.4	12.8	14.3
YoY Growth (%)	12.8	12.7	11.4
Pre-tax RoCE (%)	42.7	46.0	47.9
ROE (%)	38.5	41.2	41.7
P/E (x)	46.5	41.3	37.1
EV/EBITDA (x)	33.2	29.2	26.2

### VISHAL PUNMIYA

Lead Analyst

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## Exhibit 1: Actual vs estimate

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	22,780	22,628	22,864	0.7	(0.4)
EBITDA	4,420	4,461	4,446	(0.9)	(0.6)
EBITDA Margin (%)	19.4	19.7	19.4	(0.3)	(0.0)
Adjusted PAT	3,180	3,170	3,250	0.3	(2.2)

Source: Bloomberg, YES Sec

## Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs. Mn)	4QFY23	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Net Sales	22,400	24,220	22,780	1.7	-5.9	97,640	96,530	-1.1
COGS	11,780	11,800	11,030	-6.4	-6.5	53,510	47,480	-11.3
Gross margin %	47.4	51.3	51.6	4.2	0.3	45.2	50.8	5.6
Employee costs	1,710	1,890	1,860	8.8	-1.6	6,530	7,430	13.8
% of sales	7.6	7.8	8.2	0.5	0.4	6.7	7.7	1.0
Advertising costs	2,100	2,460	2,260	7.6	-8.1	8,420	9,520	13.1
% of sales	9.4	10.2	9.9	0.5	-0.2	8.6	9.9	1.2
Other expenses	2,880	2,940	3,210	11.5	9.2	11,080	11,840	6.9
% of sales	12.9	12.1	14.1	1.2	2.0	11.3	12.3	0.9
EBITDA	3,930	5,130	4,420	12.5	-13.8	18,100	20,260	11.9
EBITDA margin %	17.5	21.2	19.4	1.9	-1.8	18.5	21.0	2.5
Depreciation	430	420	410	-4.7	-2.4	1,550	1,580	1.9
EBIT	3,500	4,710	4,010	14.6	-14.9	16,550	18,680	12.9
Interest expense	170	190	170	0.0	-10.5	560	730	30.4
Other income	400	430	150	-62.5	-65.1	1,160	1,280	10.3
PBT after minority interest	3,837	4,920	3,970	3.5	-19.3	16,950	19,020	12.2
Tax	817	1,090	790	-3.3	-27.5	4,067	4,320	6.2
Effective tax rate %	21.3	22.2	19.9	-1.4	-2.3	24.0	22.7	-1.3
Adj. PAT	2,883	3,830	3,180	10.3	-17.0	12,883	14,700	14.1
Adj. PAT margin %	12.9	15.8	14.0	1.1	-1.9	13.2	15.2	2.0
EPS	2.2	3.0	2.5	10.3	-17.0	10.0	11.4	14.1

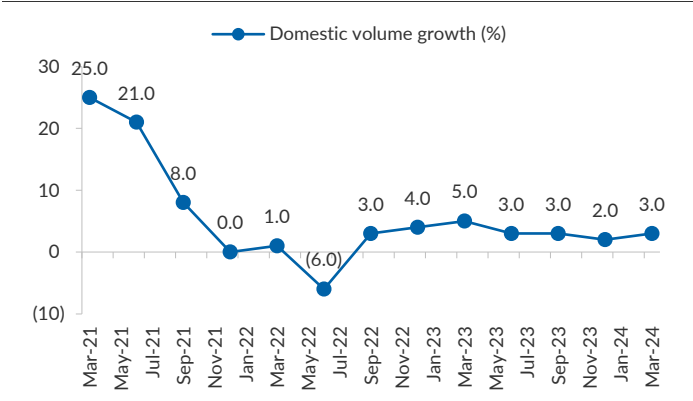
Source: Company, YES Sec

## TAKEAWAYS/EXCERPTS FROM 4QFY24 CONFERENCE CALL/PRESS RELEASE

- Operating Environment:** FMCG sector was resilient in challenging environment. Premium and urban-centric segments stayed ahead of rural and mass segments. Urban growth moderated while rural saw uptick at the end of 4QFY24. Alternate channels continued to gain salience vis-à-vis General Trade (GT) as the latter has been contending with subdued realizations and profitability headwinds.
- Near-term growth outlook:** Expect domestic revenue growth to outpace volume growth from 1QFY25, in light of the upward bias in prices of some of the key commodities. Core will see far better rural growth in second half of FY25. MRCO international business will maintain the double-digit constant currency growth momentum in FY25 and beyond. MRCO believes it might not see any margin improvement in FY25.
- Commodity outlook:** Copra prices are on the rise, as expected, and are likely to keep going up. Rice Bran Oil (RBO) prices haven't changed much and are expected to stay within a certain range in the near future. Liquid Paraffin (LLP) and HDPE have hardened QoQ and may trend upwards in direction of crude oil prices.

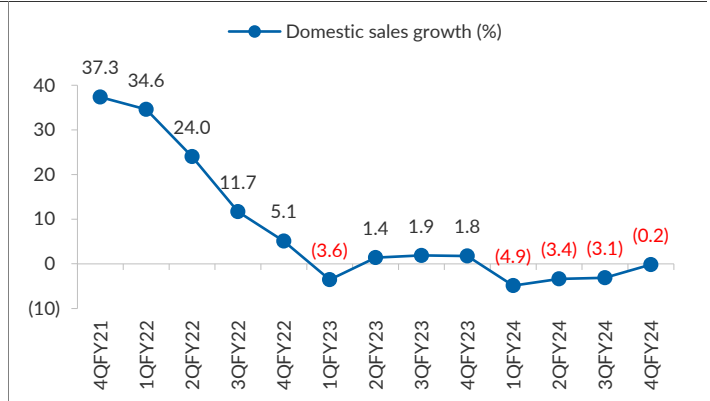
- **FY27 aim:** MRCO aims to double its Foods business by FY27 profitably. The domestic share of Foods and Premium personal care will expand from ~20% in FY24 to 25%+ by FY27. Bangladesh's share in International business to come down to ~40% by FY27 versus ~44% in FY24 even while it is expected to grow in double-digits in near term, as MENA & South Africa scales up.
- **Structural levers for margins over 2-3 years:** Foods margin improvement, digital-first brands margin improvement, optimization of A&SP spends, operating leverage and premiumization.
- **Pricing:** Pricing cycle has turned positive, and the management expects it to continue in FY25. It expects revenue growth to outpace volume growth from 1QFY25.
- **Parachute** still has a significant market share gap between rural and urban markets. Parachute had seen ~50bps market share improvement on MAT basis. Owing to the rise in copra prices, MRCO has already implemented price hikes in select packs in April'2024, resulting in ~6% increase at a brand level.
- **Saffola** price decline will annersarize in 2QFY25. MRCO doesn't see too much volatility in this portfolio.
- **Value added hair oil (VAHO):** There is competitive intensity at the bottom end of the pyramid. The decline in topline was led primarily led by volume impact in the BOP segment. Mid and premium segments of VAHO continued to fare relatively better. Shrinkflation annersarization of this category will play out in FY25.
- **Food's business:** Gross margin improvement in Foods' business of ~800bps in FY24 was structural in nature and was led by improved the relative price index, move to in-house production, reconfigured the supply chain, scale advantage and some benefit from commodity price. Food's business has a higher potential to penetrate GT easily.
- **Beardo** has scaled ~3x since FY21 and achieved positive EBITDA this year. MRCO to have double digit EBITDA margins for Beardo in FY25.
- **Just Herbs** crossed Rs1bn ARR in FY24.
- **Digital-first brands:** ARR of digital-First brands expected to be 2x in FY27 with double digit EBITDA margin.
- **International business:** Bangladesh business have started to recover and has diversified from the core hair oil portfolio. The company expects currency risks to subdue in Bangladesh. It sees good traction of VAHO in western countries. International business is expected to grow in double-digits (CC terms) in FY25 and beyond.
- **Project SETU:** Project SETU is aimed at transformative expansion in direct reach footprint from ~1mn outlets currently to 1.5mn outlets in a 3-year phased roadmap. Post Covid, MRCO had not seen increase in distribution. Project SETU will be focused on certain states where MRCO is under-indexed. The project will cost around Rs800mn to Rs1bn, will be funded internally and will be cost neutral. In addition to improved direct reach and weighted distribution, MRCO expects Project SETU to drive market share gains across categories in urban and rural, as well as enhance assortment levels in urban stores, thereby enabling diversification & premiumisation in the domestic business.
- **Others:**
  - 4QFY24 overheads does include some cost related to *Plix* acquisition.
  - MRCO will continue to scout for inorganic growth opportunities.

**Exhibit 3: Domestic volumes grew 3% YoY**



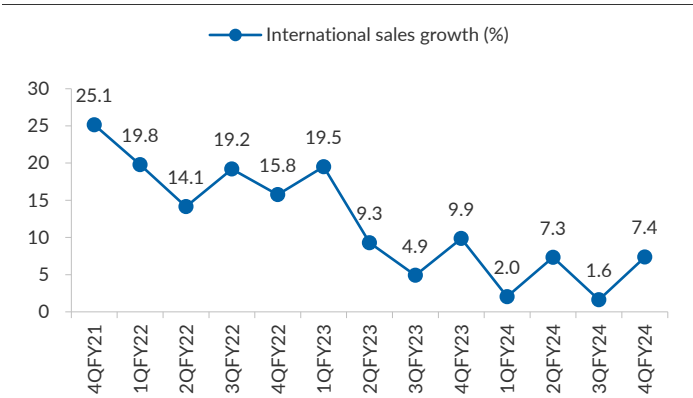
Source: Company, YES Sec

**Exhibit 4: Domestic sales were flattish YoY largely due to earlier price interventions in core**



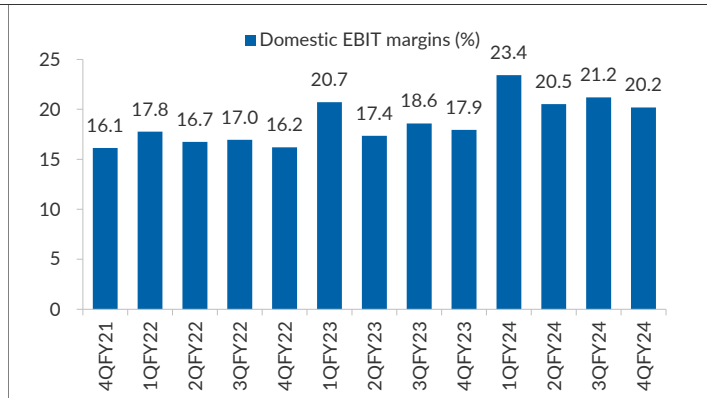
Source: Company, YES Sec

**Exhibit 5: International sales grew 7.4% YoY with a constant currency growth of ~10%**



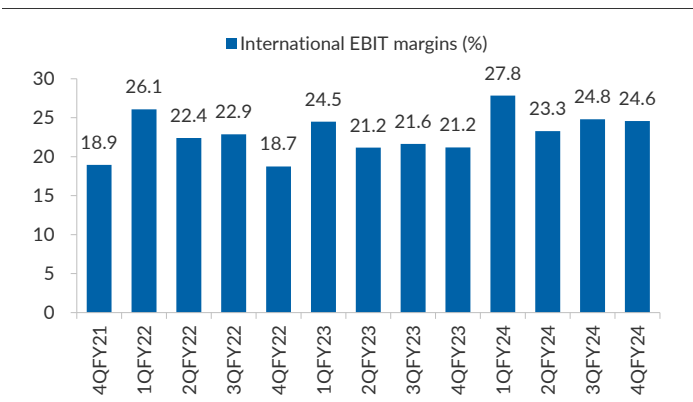
Source: Company, YES Sec

**Exhibit 6: Domestic EBIT margin up 220bps YoY**



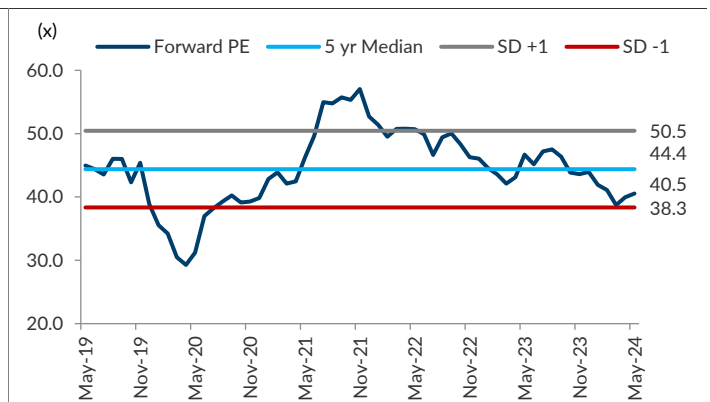
Source: Company, YES Sec

**Exhibit 7: International EBIT margin up 340bps YoY**



Source: Company, YES Sec

**Exhibit 8: Currently trading at ~41x 1-yr fwd earnings**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 9: Balance Sheet

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	1,290	1,290	1,290	1,290	1,290
Reserves	32,190	36,670	37,030	40,796	45,152
Net worth	33,480	37,960	38,320	42,086	46,442
Minority Interest	570	1,570	3,370	3,370	3,370
Total debt	3,450	4,730	3,830	3,630	3,530
Other long term liabilities	1,790	1,730	2,040	1,999	1,959
<b>Total liabilities</b>	<b>39,290</b>	<b>45,990</b>	<b>47,560</b>	<b>51,085</b>	<b>55,301</b>
Gross block	14,300	17,770	23,790	24,590	25,590
Depreciation	5,240	5,840	7,420	9,049	10,784
Net block	9,060	11,930	16,370	15,541	14,806
Right of use assets	1,780	1,740	2,090	2,048	2,007
Capital work-in-progress	390	670	440	440	440
Goodwill	6,540	8,620	8,630	8,730	8,830
Investments	8,500	11,120	6,170	7,046	7,906
Inventories	14,120	12,250	13,360	14,296	15,219
Debtors	6,520	10,150	10,690	11,155	11,652
Cash	5,790	7,560	9,430	11,772	15,165
Other current assets	3,290	1,260	6,350	6,455	7,096
Total current assets	29,720	31,220	39,830	43,677	49,132
Creditors	13,440	14,520	15,810	16,837	17,628
Other current liabilities & provisions	4,040	4,470	8,050	7,451	8,082
Total current liabilities	17,480	18,990	23,860	24,288	25,710
Net current assets	12,240	12,230	15,970	19,389	23,422
Deferred tax asset	780	(320)	(2,110)	(2,110)	(2,110)
<b>Total assets</b>	<b>39,290</b>	<b>45,990</b>	<b>47,560</b>	<b>51,085</b>	<b>55,301</b>

Source: Company, YES Sec

### Exhibit 10: Income statement

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	95,120	97,640	96,530	108,300	118,897
<b>% Growth</b>	<b>18.2</b>	<b>2.6</b>	<b>-1.1</b>	<b>12.2</b>	<b>9.8</b>
COGS	54,540	53,710	47,480	52,817	57,796
Staff costs	5,860	6,530	7,430	7,860	8,665
Other expenses	17,830	19,290	21,360	24,751	27,115
Total expenses	78,230	79,530	76,270	85,428	93,577
EBITDA	16,890	18,110	20,260	22,872	25,320
<b>% growth</b>	<b>6.2</b>	<b>7.2</b>	<b>11.9</b>	<b>12.9</b>	<b>10.7</b>
<b>EBITDA margin (%)</b>	<b>17.8</b>	<b>18.5</b>	<b>21.0</b>	<b>21.1</b>	<b>21.3</b>
Other income	980	1,440	1,280	1,463	1,899
Interest costs	390	560	730	634	609
Depreciation	1,390	1,550	1,580	1,629	1,736
Profit before tax	16,090	17,440	19,230	22,073	24,875
Tax	3,476	4,210	4,320	5,298	6,219
Rate of Tax (%)	21.6	24.1	22.5	24.0	25.0
PAT	12,250	12,710	14,810	16,566	18,446
Adj PAT	12,314	13,030	14,700	16,566	18,446
<b>Adj PAT margin (%)</b>	<b>12.9</b>	<b>13.3</b>	<b>15.0</b>	<b>15.1</b>	<b>15.3</b>
<b>% Growth</b>	<b>5.8</b>	<b>5.8</b>	<b>15.2</b>	<b>15.3</b>	<b>15.5</b>

Source: Company, YES Sec

## Exhibit 11: Cash flow statement

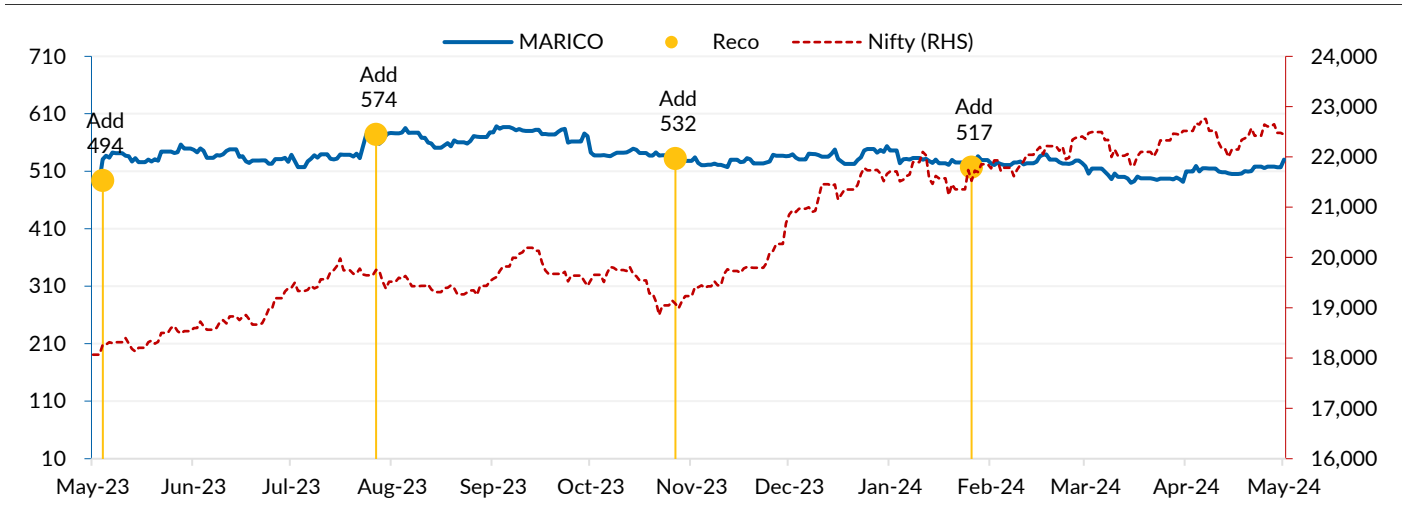
Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PAT	12,500	13,740	14,910	16,776	18,656
Depreciation	1,390	1,550	1,580	1,629	1,736
Other income	(110)	(1,070)	(1,280)	(1,463)	(1,899)
Interest paid	(200)	560	730	634	609
(Inc.)/dec. in working capital	(3,420)	(590)	(1,870)	(1,078)	(639)
<b>Cash flow from operations</b>	<b>10,160</b>	<b>14,190</b>	<b>14,070</b>	<b>16,497</b>	<b>18,463</b>
Capital expenditure (-)	(1,290)	(1,820)	(5,790)	(800)	(1,000)
<b>Net cash after capex</b>	<b>8,870</b>	<b>12,370</b>	<b>8,280</b>	<b>15,697</b>	<b>17,463</b>
Inc./(dec.) in investments	380	(5,000)	6,830	(267)	(460)
<b>Cash flow from investments</b>	<b>(910)</b>	<b>(6,820)</b>	<b>1,040</b>	<b>(1,067)</b>	<b>(1,460)</b>
Dividends paid (-)	(12,170)	(6,070)	(11,610)	(12,255)	(12,900)
Others	(730)	470	(1,630)	(834)	(709)
<b>Cash from financial activities</b>	<b>(12,900)</b>	<b>(5,600)</b>	<b>(13,240)</b>	<b>(13,089)</b>	<b>(13,609)</b>
Opening cash balance	9,440	5,790	7,560	9,430	11,772
Closing cash balance	5,790	7,560	9,430	11,772	15,166
Change in cash balance	(3,650)	1,770	1,870	2,341	3,394

## Exhibit 12: Growth and Ratio matrix

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
<b>Per share (Rs)</b>					
EPS	9.5	10.1	11.4	12.8	14.3
Book value	26.0	29.4	29.7	32.6	36.0
DPS	9.3	9.0	9.5	10.0	11.0
<b>Valuation (x)</b>					
EV/sales	7.1	6.9	7.0	6.2	5.6
EV/EBITDA	39.9	37.0	33.2	29.2	26.2
P/E	55.6	52.5	46.5	41.3	37.1
P/BV	20.4	18.0	17.9	16.3	14.7
<b>Return ratios (%)</b>					
RoCE*	42.6	42.2	42.7	46.0	47.9
RoE	37.4	36.5	38.5	41.2	41.7
RoIC*	70.0	64.6	64.2	67.1	74.1
<b>Profitability ratios (%)</b>					
Gross margin	42.7	45.0	50.8	51.2	51.4
EBITDA margin	17.8	18.5	21.0	21.1	21.3
PAT margin	12.9	13.3	15.2	15.3	15.5
<b>Liquidity ratios (%)</b>					
Current ratio	0.7	0.6	0.7	0.8	0.9
Quick ratio	0.9	1.0	1.1	1.2	1.3
<b>Solvency ratio (%)</b>					
Debt to Equity ratio	0.1	0.1	0.1	0.1	0.1
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	2.4	2.1	2.0	2.1	2.1
Fixed asset turnover ratio (x)	10.5	8.2	5.9	7.0	8.0
Inventory days	85	90	98	96	93
Debtors days	20	31	39	37	35
Creditor days	83	95	117	113	109

Source: Company, YES Sec

## Recommendation Tracker



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