

Results in-line; Maintain Buy;

Q2FY24 Result Update | Sector: FMCG | October 31, 2023

BUY

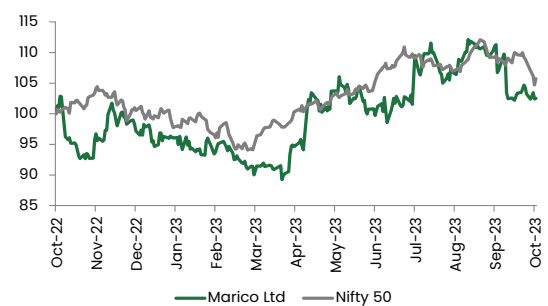
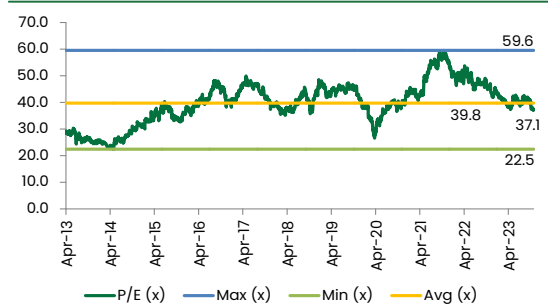
CMP (Rs)	532
Target Price (Rs)	666
Potential Upside	25.2%
Sensex	64,113
Nifty	19,141

Key Stock data

BSE Code	531642
NSE Code	MARICO
Bloomberg	MRCO IN
Shares o/s, Cr (FV 1)	129.0
Market Cap (Rs Cr)	68,845
3M Avg Volume	15,31,002
52 week H/L	595/463

Shareholding Pattern

(%)	Mar-23	Jun-23	Sep-23
Promoter	59.4	59.4	59.4
FII	25.0	25.0	25.9
DII	10.4	10.5	9.8
Others	5.2	5.1	4.9

1 Year relative price performance

1 year P/E Forward (x)

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Domestic volume growth in single digit, in-line with expectation: Marico reported marginal de-growth of 0.8% YoY while flat revenue growth sequentially to Rs 2,476cr. The decline in revenue was largely because of drop in prices of its key products in domestic markets and currency headwinds in international markets. Further, the demand trend was largely in-line with management expectation of growing in single digit like last quarter due to slower than expected pace of recovery in the rural areas while urban saw pickup sequentially. In terms of volumes amongst businesses, domestic volume grew by 3% YoY and international business grew by 13% CC.

Significant improvement in margin YoY: Gross profit of Marico for Q2FY24 came in at Rs 1,250cr, a growth of 14.8% YoY and 1% QoQ and margin stood at 50.5%, an increase of 685bps YoY and 50bps QoQ because of moderation in raw material cost by 12.9% YoY and 1% QoQ and portfolio mix. Further, EBITDA too grew by 14.8% YoY with an improvement in EBITDA margin by 272bps YoY to 20.1%, despite substantial increase in advertising spends by the company. Advertisement spends was 10.8% of revenue in Q2FY24 as compared to 8.6% and 8.5% in Q1FY24 and Q2FY23. Besides, sequentially, the EBITDA de-grew by 13.4% while margin declined by 310bps due to subdued revenue growth, increase in advertising and other expenses. PAT too saw mixed sentiments with growth of 17.3% YoY and decline of 17.4% QoQ to Rs 360cr while margin came in at 14.5%, increase of 224bps YoY but a decline of 306bps QoQ.

Mixed sentiments for business growth: Marico's India business reported revenue of Rs 1,832cr (74% of revenue) which increased marginally by 0.3% sequentially but de-grew by 3.4% YoY. Its volume grew in single digit by 3% due to challenging operating environment with sluggish demand sentiment in rural as higher food inflation and uneven rainfall distribution impacted sentiments. On the international business constant currency grew strong by 13% in CC terms while revenue in rupee grew by 7.3% YoY but de-grew by 0.9% QoQ to Rs 644cr. The growth was largely because of regions like MENA which delivered 34% CC, Vietnam grew by 13% CC terms with steady performance in home & personal care and food portfolio while in South Africa hair care segment led the growth of 23% however ongoing headwinds and macro challenges impacted growth in Bangladesh region which grew just by 2% in CC terms.

Large part of the domestic portfolio witnessed gradual pickup: Marico earned ~80% of revenue from the oil segment wherein its Parachute coconut oil (~31% of revenue) volume grew by 1% but in terms of value its de-grew by 1%. For Saffola oil portfolio (29% of revenue) volume was in lower single digit while value growth declined by 12% because of correction in prices of the products over the last 12 months. Further, its value added hair oil segment maintains market share in key areas while value share grew just by 1% due to slower recovery in mass personal care categories while its mid-premium segments gained share. Also, new launches for premium products continued in the quarter. Besides, its food portfolio of Saffola brand and premium personal care segments is gaining strong traction. Further, foods portfolio saw a growth of 25% in value terms as the company continues to grow strong for products such as oats, soya chunks, honey while its newer categories of Peanut Butter, Mayonnaise, Munchiez, True Elements and Plix are scaling up and gaining strength.

Outlook and Valuation: We believe management strategy of focusing on growing its foods and premium digital brands along with maintaining share of core would bode well for growth. Besides, easing raw material prices along with its plan of spending on advertisement for brand building and at the same time maintaining margin will continue to strengthen its operating performance. Going ahead, pickup in rural sentiments will be a key for further improvement in growth. On the financial front, we expect its Revenue/EBITDA/PAT to grow by 11.5%/18.7%/18.9% CAGR over FY23 -25E and continue to maintain our **Buy** rating and a target price of **Rs 666**.

Financial Summary - consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net revenue	9,512.0	9,764.0	10,740.4	12,136.7
EBITDA	1,681.0	1,810.0	2,191.0	2,548.7
EBITDAM (%)	17.7	18.5	20.4	21.0
APAT	1,255.0	1,322.0	1,604.4	1,868.2
APATM (%)	13.2	13.5	14.9	15.4
EPS (Rs)	9.7	10.2	12.4	14.5
PE (x)	54.7	51.9	42.8	36.7
RoE (%)	37.5	34.8	33.7	31.3

Source : RBL Research

Key highlights: 1) Among the sales channels, MT and E-commerce registered high double-digit growth of ~20%+, while General Trade declined in low single digits on a YoY basis. 2) ~85% of the business either gaining or sustaining market share and penetration. 3) The company is not present in Hair-fall category and this is the big market for both in general & modern trade. In the near term they have no plans for any expansion in it. 4) Revenue share of Foods & Premium Personal Care was at ~20% of domestic business in Q2FY24 from 15% in FY23. 5) Besides, the company expects Premium Personal Care to contribute ~10% of domestic business in FY24. 6) New product such as Herbs India Hair Oils and Parachute Advanced Shampoo Range was launched in Middle East. 7) Also, in premium personal care it launched Parachute Advanced Body Wash and Shower Gel Range as well as livon Style Pro range products.

Optimistic growth guidance for the medium term: 1) Management believe 2HFY24 will see gradual improvement in demand sentiment in domestic market while international market is expected to grow at a decent pace. 2) Additionally they believe moderation in RM cost, improving product mix, spending on advertisement by investing behind brands and building them as well as to maintain EBITDA margin at around 19-20% levels in FY24E (an improvement of 200bps YoY) will be the growth drivers. 3) In the medium term, their plan is to grow by 8-10% domestic volume and double digit in international market which would translate to 13-15% in revenue and operating margins to be above 19%.

Revenue decline marginally because of drop in prices of its key products in domestic markets and currency headwinds in international markets

Gross Margin improved led by decline in RM Cost & portfolio mix

Despite higher spends on Advertisement cost, EBITDA saw improvement

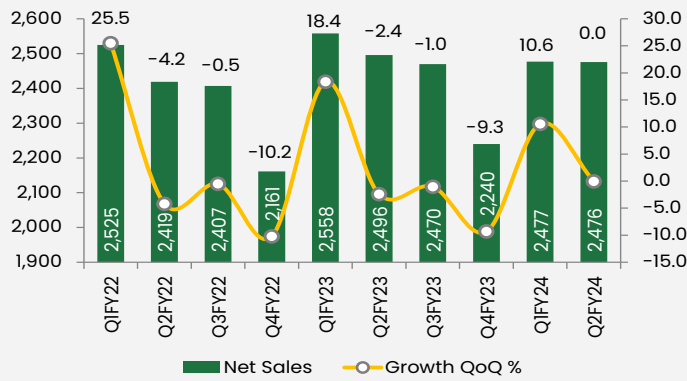
P&L Account Quarterly – consolidated

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Net Sales	2,476.0	2,496.0	(0.8)	2,477.0	(0.0)
Cost of Raw Materials	1,106.0	1,246.0	(11.2)	989.0	11.8
Purchase of Finished Goods	228.0	183.0	24.6	173.0	31.8
(Increase) / Decrease In Stocks	(108.0)	(22.0)	390.9	77.0	(240.3)
Total Raw material cost	1,226.0	1,407.0	(12.9)	1,239.0	(1.0)
Gross Profit	1,250.0	1,089.0	14.8	1,238.0	1.0
Gross Margins %	50.5	43.6	685bps	50.0	50bps
Employee Cost	187.0	166.0	12.7	181.0	3.3
Advertisement Cost	268.0	213.0	25.8	212.0	26.4
Other Expense	298.0	277.0	7.6	271.0	10.0
Total Expenditure	753.0	656.0	14.8	664.0	13.4
EBITDA	497.0	433.0	14.8	574.0	(13.4)
EBITDA Margins (%)	20.1	17.3	272bps	23.2	-310bps
Depreciation	39.0	37.0	5.4	36.0	8.3
EBIT	458.0	396.0	15.7	538.0	(14.9)
Other Income	38.0	19.0	100.0	46.0	(17.4)
Interest	20.0	15.0	33.3	17.0	17.6
PBT	476.0	400.0	19.0	567.0	(16.0)
Tax	116.0	93.0	24.7	131.0	(11.5)
PAT	360.0	307.0	17.3	436.0	(17.4)
PAT Margin (%)	14.5	12.3	224bps	17.6	-306bps
EPS (Rs)	2.8	2.4	17.3	3.4	(17.4)

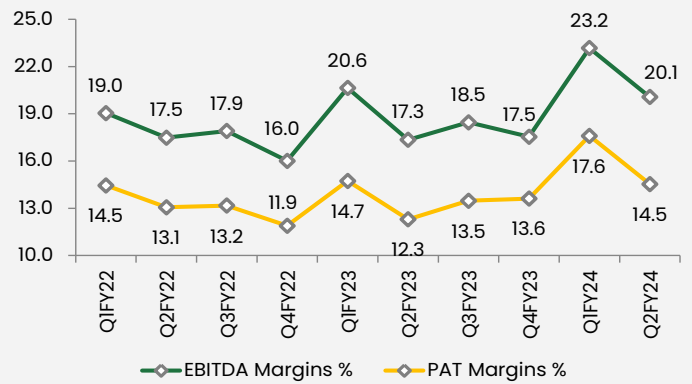
Source : RBL Research

Story in charts

Net Sales de-grew by 0.8% YoY while was flat sequentially

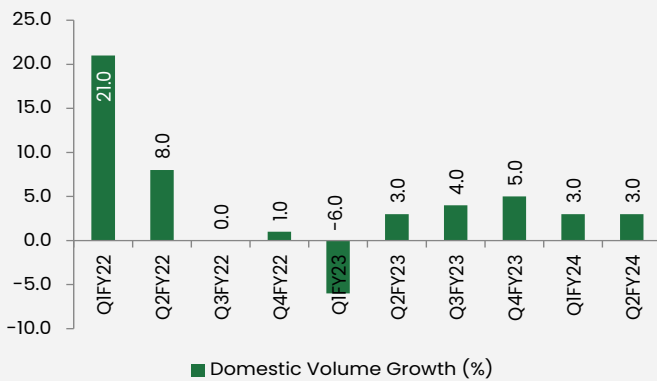


EBITDA & PAT margins at 20.1% & 14.5% in Q2FY24

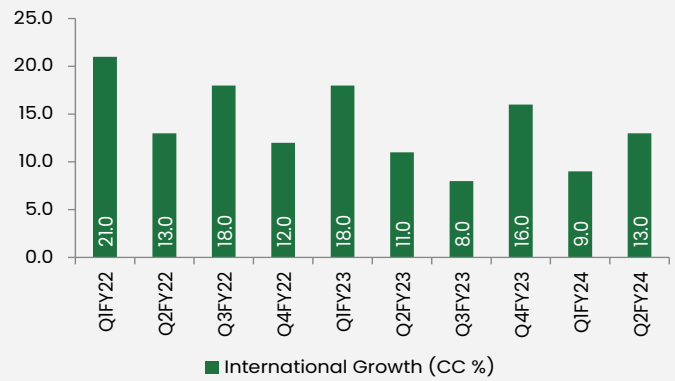


Source : RBL Research

India business volume was 3% in Q2FY24

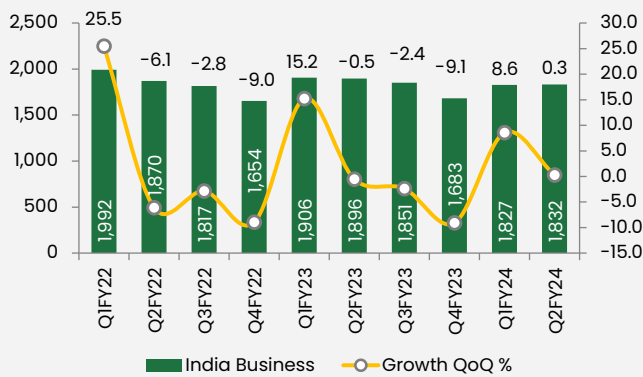


International business grew by 13% in CC terms in Q2FY24

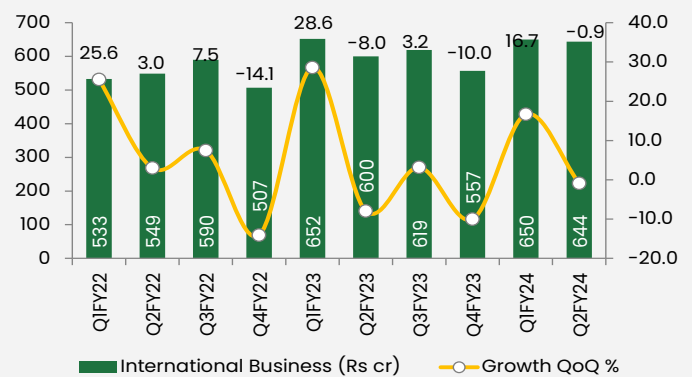


Source : RBL Research

India business de-grew by 3.4% YoY but grew marginally by 0.3% QoQ

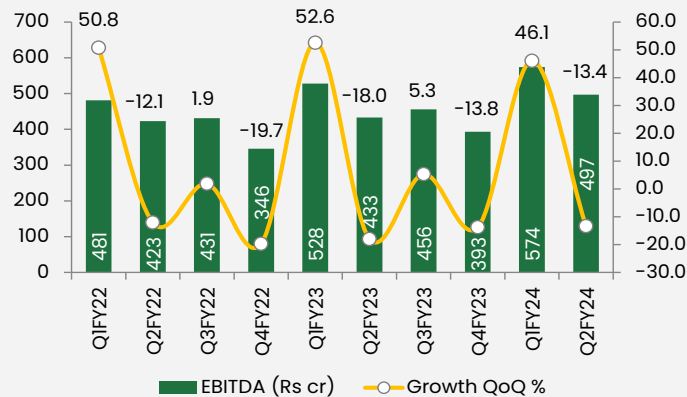


International business grew by 7.3% YoY but declined by 0.9% QoQ

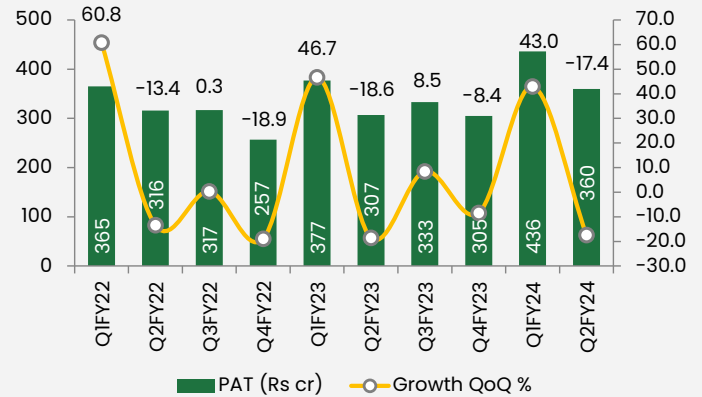


Source : RBL Research

Mixed performance operationally, with YoY growth while sequentially a decline



PAT too performed mixed with YoY growth while sequentially a decline



Source : RBL Research

P&L Account – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net sales	9,512	9,764	10,740	12,137
Expenditure				
Cost of materials	5,061	4,649	5,048	5,656
Purchase of stock in trade	491	541	537	607
(Increase) / Decrease In Stocks	(116)	161	140	158
Total raw materials	5,436	5,351	5,725	6,420
Gross Profit	4,076	4,413	5,016	5,716
Employee cost	586	653	698	789
Advertisements cost	796	842	924	1,044
Other expenses	1,013	1,108	1,203	1,335
Total expenditure	7,831	7,954	8,549	9,588
EBITDA	1,681	1,810	2,191	2,549
EBITDAM (%)	18	19	20	21
Depreciation	139	155	171	193
EBIT	1,542	1,655	2,021	2,356
Other income	98	144	158	179
Interest expenses	39	56	64	72
PBT	1,601	1,743	2,115	2,463
Tax	346	421	511	595
Reported PAT	1,255	1,322	1,604	1,868
Exceptional Income / Expenses	-	-	-	-
PAT (after Exceptional)	1,255	1,322	1,604	1,868
PAT Margin (%)	13.2	13.5	14.9	15.4
EPS (Rs)	9.7	10.2	12.4	14.5

Source : RBL Research

Balance Sheet – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Share Capital	129.0	129.0	129.0	129.0
Reserves & Surplus	3,219.0	3,670.0	4,625.4	5,844.7
Total Shareholder's Fund	3,348.0	3,799.0	4,754.4	5,973.7
Minority Interest	57.0	157.0	157.0	157.0
Long term borrowings	-	2.0	2.2	2.5
Short term borrowing	345.0	473.0	537.0	606.8
Total Debt	345.0	475.0	539.2	609.3
Deferred tax liabilities	109.0	178.0	195.8	221.3
Loans & advances	-	-	-	-
Long term provision	1.0	4.0	4.4	5.0
Other long term liabilities	118.0	377.0	414.7	468.6
Total	228.0	559.0	614.9	694.8
Current Liabilities				
Trade payables	1,344.0	1,452.0	1,597.2	1,804.8
Short term provisions	21.0	44.0	48.4	54.7
Other current liabilities	443.0	460.0	506.0	571.8
Total	1,808.0	1,956.0	2,151.6	2,431.3
Total liabilities	5,786.0	6,946.0	8,217.1	9,866.1
Application of Assets				
Net Block	906.0	1,193.0	1,372.0	1,646.3
Current work in process	39.0	67.0	67.0	67.0
Goodwill on consolidation	654.0	862.0	862.0	862.0
Non current investment	209.0	534.0	751.8	1,031.6
Tax assets	187.0	146.0	160.6	181.5
Long term loans and advances	4.0	4.0	4.4	5.0
Other non-current assets	282.0	320.0	352.0	397.8
Total	2,281.0	3,126.0	3,569.8	4,191.2
Current Assets				
Current investments	641.0	578.0	698.1	849.6
Inventories	1,412.0	1,225.0	1,347.5	1,522.7
Trade receivables	652.0	1,015.0	1,116.5	1,261.6
Cash balance	276.0	207.0	601.6	1,122.3
Bank balance	303.0	549.0	613.0	613.0
Short term loans and advances	5.0	4.0	4.4	5.0
Other current assets	216.0	242.0	266.2	300.8
Total	3,505.0	3,820.0	4,647.4	5,675.0
Total assets	5,786.0	6,946.0	8,217.1	9,866.1

Source : RBL Research

Cashflow – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Profit before tax	1,601.0	1,743.0	2,115.4	2,463.2
Add: Depreciation	139.0	155.0	170.5	192.7
Add: Interest cost	39.0	56.0	63.6	71.8
Less: Other Income /Interest Rec	(59.0)	(49.0)	-	-
Others	(11.0)	(58.0)	-	-
Operating profit before working capital changes	1,709.0	1,847.0	2,349.4	2,727.7
Changes in working capital	(342.0)	(59.0)	(44.1)	(63.1)
Cash from Operations	1,367.0	1,788.0	2,305.3	2,664.6
Less: Taxes	(351.0)	(369.0)	(510.9)	(595.0)
Cash flow from Operations	1,016.0	1,419.0	1,794.4	2,069.7
Net cash used in Investing				
Purchase of fixed assets	(132.0)	(182.0)	(349.5)	(467.1)
Purchase of investments	(146.0)	(130.0)	(338.0)	(431.2)
Sales of fixed assets	3.0	25.0	-	-
Dividend Income	57.0	48.0	-	-
Others	643.0	(690.0)	-	-
Cash flow from investing	425.0	(929.0)	(687.4)	(898.3)
Cash flow from Financing				
Proceeds from Equity shares	41.0	9.0	-	-
Proceeds of borrowings	-	128.0	64.2	70.1
Sales of borrowings	(3.0)	-	-	-
Dividend (Incl dividend tax)	(1,245.0)	(649.0)	(649.0)	(649.0)
Others	(83.0)	(48.0)	(63.6)	(71.8)
Cash flow from Financing	(1,290.0)	(560.0)	(648.4)	(650.7)
Net cash Inflow/Outflow	151.0	(70.0)	458.6	520.7
Opening cash	109.0	276.0	143.0	601.6
Exchange gain/loss	2.0	(63.0)	-	-
Other Investments	14.0	64.0	-	-
Closing Cash	276.0	207.0	601.6	1,122.3

Source : RBL Research

Key ratios – consolidated

Particulars	FY22	FY23	FY24E	FY25E
Per share Data				
EPS (Rs)	9.7	10.2	12.4	14.5
Book value per share (Rs)	26.0	29.4	36.9	46.3
Dividend per share (Rs)	9.7	5.0	5.0	5.0
Dividend Payout (%)	99.2	49.1	40.5	34.7
Dividend Yield (%)	1.8	0.9	0.9	0.9
Profitability Ratios				
EBITDAM(%)	17.7	18.5	20.4	21.0
PBTM (%)	16.8	17.9	19.7	20.3
NPM (%)	13.2	13.5	14.9	15.4
RoE (%)	37.5	34.8	33.7	31.3
RoCE (%)	41.8	38.7	38.2	35.8
Efficiency Data				
Debt-Equity Ratio	0.1	0.1	0.1	0.1
Interest Cover Ratio	39.5	29.6	31.8	32.8
Fixed Asset Ratio	0.1	0.1	0.1	0.1
Debtors (Days)	25.0	37.9	37.9	37.9
Inventory (Days)	54.2	45.8	45.8	45.8
Payable (Days)	51.6	54.3	54.3	54.3
WC (Days)	27.6	29.5	29.5	29.5
Valuation				
P/E (x)	54.7	51.9	42.8	36.7
P/BV	20.5	18.1	14.4	11.5
EV/EBITDA	40.9	38.1	31.3	26.7
EV/Sales	7.2	7.1	6.4	5.6

Source : RBL Research

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Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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