

January 29, 2024

**RESULT REPORT Q3 FY24** | Sector: Consumer Staples

# Marico Ltd.

## Volume improvement crucial in FY25 for double-digit growth

**Marico Ltd. (MRCO) 3QFY24 consolidated performance was a mixed bag. Revenue for the quarter was impacted by soft demand environment, stock reduction in general trade (GT) to support channel for better future growth, flow through of earlier price corrections taken in domestic core and transient macroeconomic headwinds in Bangladesh. While margins surprised us positively led by softer input costs and favourable portfolio mix. Management has further upped its FY24 margin expansion target and will now be touching highest ever FY EBITDA margin of ~21%. Even as management is confident of double-digit earnings growth in FY25, volume recovery becomes extremely crucial with margins at peak levels, signs of which are still not clearly visible. Maintain ADD rating with a revised target price (TP) of Rs605.**

### 3QFY24 Result Highlights (Consolidated)

- **Headline performance:** Revenue was down by 1.9% YoY to Rs24.2bn (vs est. Rs25.4bn). EBITDA grew by 12.5% YoY to Rs5.1bn (vs est. Rs4.9bn). Adjusted PAT (APAT) after MI was up 16.8% YoY to Rs3.8bn (vs est. Rs3.5bn).
- Domestic revenues were down 3.1% YoY (with 2% volume growth). EBITDA margin up by ~310bps YoY to 22.8%. International business posted growth of just 1.6% YoY (constant currency [CC] growth of 6%) with EBITDA margin up 320bps YoY to 26.1%.
- **Gross margin** surprised us positively and came in at 51.3% (+630bps YoY & +80bps QoQ) owing to moderation in RM prices and favourable portfolio mix. Higher operating overheads meant that EBITDA margin came in at 21.2% (up 270bps YoY; vs our est. 19.5%).
- **9MFY24** revenue down 2% YoY while EBITDA and APAT have grown by 11.8% and 15.2% YoY, respectively. Gross/EBITDA margin up 600bps/260bps YoY to 50.6%/21.5%, respectively.

### Near term outlook

- (1) Consolidated revenue growth is expected to move into positive territory in 4QFY24 as base catches up. Can expect low-teen profit growth with double digit revenue growth in FY25.
- (2) EBITDA margin now expected to expand by ~250bps in FY24 (led by ~450-500bps expansion in gross margin) and will reach highest ever level of ~21%.

### View & Valuation

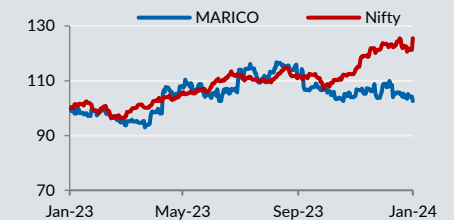
We are currently building ~10.8% revenue CAGR over FY24E-FY26E led by (a) Recovery in volume growth for the core portfolio. Current price corrections becoming hikes in FY25 with expected inflation. (b) Consistent uptick in revenue share of Foods, Premium Personal Care (including the Digital-first portfolio) driven by innovations, step-up in market development, brand building spends and focused GTM initiatives. (c) Healthy momentum in international business. We expect ~12.1% EBITDA CAGR over FY24E-FY26E (~50bps EBITDA margin expansion as we expect gross margin to expand by just 20-30bps over FY24E-FY26E on high base). While A&SP cost is being upped to build demand in core and support innovations, operating leverage & savings will provide some additional support to operating margin. Marico is currently trading at ~46x/40x/37x on FY24E/FY25E/FY26E EPS as we build in ~12% EPS CAGR over FY24E-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, signs of which are still not clearly visible. We continue to maintain our less than bullish rating of ADD with a revised TP of Rs605 (Rs625 earlier), valuing it at ~45x Sept'2025E EPS (3yr/5yr avg fwd. multiple: ~48x/45x).

Reco	: <b>ADD</b>
CMP	: Rs 517
Target Price	: Rs 605
Potential Return	: +17.1%

### Stock data (as on January 29, 2024)

Nifty	22,097
52 Week h/l (Rs)	595 / 463
Market cap (Rs/USD mn)	678853 / 8197
Outstanding Shares (mn)	1,293
6m Avg t/o (Rs mn):	802
Div yield (%):	0.9
Bloomberg code:	MRCO IN
NSE code:	MARICO

### Stock performance



	1M	3M	1Y
Absolute return	-5.8%	-3.9%	2.5%

### Shareholding pattern (As of Sep'23 end)

Promoter	59.4%
FII+DII	35.7%
Others	4.8%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	605	625

### Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	11.3	12.8	14.1
EPS (Old)	11.5	12.7	13.9
% change	-1.9	0.9	1.2

### Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Revenue	96,495	108,337	118,497
YoY Growth (%)	-1.2	12.3	9.4
EBIDTA	20,251	23,024	25,457
Margins (%)	21.0	21.3	21.5
PAT	14,554	16,525	18,138
EPS	11.3	12.8	14.1
YoY Growth (%)	11.7	13.5	9.8
Pre-tax RoCE (%)	43.6	48.9	53.7
ROE (%)	37.9	42.3	46.2
P/E (x)	45.8	40.3	36.7
EV/EBITDA (x)	32.3	28.4	25.7

### 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	24,220	25,371	24,689	(4.5)	(1.9)
EBITDA	5,130	4,947	5,178	3.7	(0.9)
EBITDA Margin (%)	21.2	19.5	21.0	1.7	0.2
Adjusted PAT	3,830	3,534	3,666	8.4	4.5

Source: Bloomberg, YES Sec

## Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs. Mn)	3QFY23	2QFY24	3QFY24	YoY (%)	QoQ (%)	9MFY23	9MFY24	YoY (%)
Net Sales	24,700	24,760	24,220	-1.9	-2.2	75,240	73,750	-2.0
COGS	13,600	12,260	11,800	-13.2	-3.8	41,730	36,450	-12.7
Gross margin %	44.9	50.5	51.3	6.3	0.8	44.5	50.6	6.0
Employee costs	1,600	1,870	1,890	18.1	1.1	4,820	5,570	15.6
% of sales	6.5	7.6	7.8	1.3	0.3	6.4	7.6	1.1
Advertising costs	2,200	2,680	2,460	11.8	-8.2	6,320	7,260	14.9
% of sales	8.9	10.8	10.2	1.3	-0.7	8.4	9.8	1.4
Other expenses	2,740	2,980	2,940	7.3	-1.3	8,200	8,630	5.2
% of sales	11.1	12.0	12.1	1.0	0.1	10.9	11.7	0.8
EBITDA	4,560	4,970	5,130	12.5	3.2	14,170	15,840	11.8
EBITDA margin %	18.5	20.1	21.2	2.7	1.1	18.8	21.5	2.6
Depreciation	390	390	420	7.7	7.7	1,120	1,170	4.5
EBIT	4,170	4,580	4,710	12.9	2.8	13,050	14,670	12.4
Interest expense	140	200	190	35.7	-5.0	390	560	43.6
Other income	400	380	430	7.5	13.2	760	1,130	48.7
PBT after minority interest	4,380	4,690	4,920	12.3	4.9	13,250	15,050	13.6
Tax	1,100	1,160	1,090	-0.9	-6.0	3,250	3,530	8.6
Effective tax rate %	25.1	24.7	22.2	-3.0	-2.6	24.5	23.5	-1.1
Adj. PAT	3,280	3,530	3,830	16.8	8.5	10,000	11,520	15.2
Adj. PAT margin %	13.3	14.3	15.8	2.5	1.6	13.3	15.6	2.3
EPS	2.5	2.7	3.0	16.8	8.5	7.8	8.9	15.2

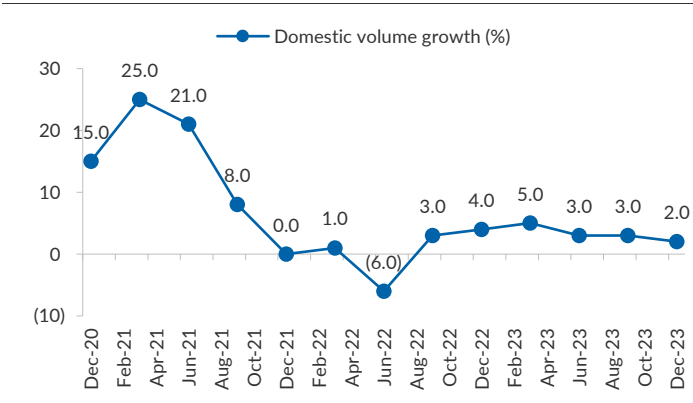
Source: Company, YES Sec

## TAKEAWAYS/EXCERPTS FROM 3QFY24 CONFERENCE CALL/PRESS RELEASE

- During the quarter, demand trends were stable with no visible improvement from the preceding quarter.
- Rural demand remained soft, while urban demand steadied its moderate growth trajectory.
- Within the FMCG sector, mass home and personal care categories aligned closely with the trajectory of rural demand, while packaged foods led the sector owing to higher urban salience and penetration-led growth.
- General Trade continued to drag as it grappled with liquidity and profitability constraints, while alternate channels grew healthily.
- Company remains optimistic of a gradual uptick in consumption trends over the course of the next 4-5 quarters.
- Domestic volumes dipped QoQ primarily due to a stock reduction undertaken across key portfolios as a part of the aforesaid initiatives to support GT channel partners.

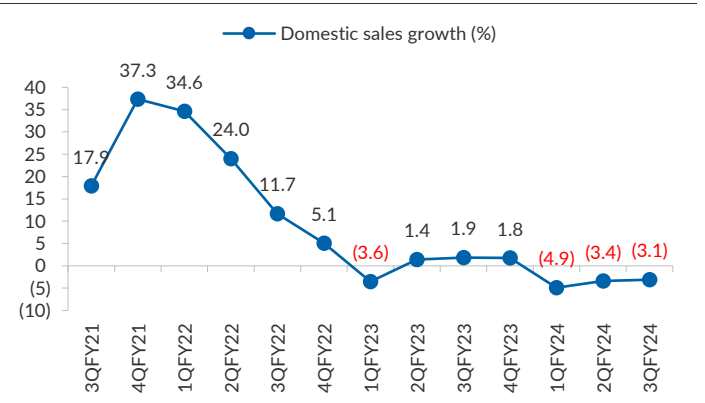
- In response to the extended slowdown witnessed in the GT channel, MRCO took revitalizing initiatives during the end of the 3QFY24 to alleviate ROI challenges faced by the channel, which could potentially pave the way for a structural recovery in the growth prospects of the channel. These changes will happen over the next couple of quarters which will benefit the core portfolio growth. Stock reduction is easiest way to support GT channel through better replenishment system. Channel inventory reduction at GT has already been initiated by the company. Change in margin structure is the last resort to manage the balance between distributor ROI and company's profitability. Removal of inefficient trade scheme is other measure that can be taken.
- International business 3QFY24 performance was dragged by transient macroeconomic headwinds in Bangladesh while other regions delivered a resilient performance. Expect business performance in Bangladesh to revert to a healthy trajectory from coming quarter. It aims to maintain the double-digit constant currency growth momentum on full year basis.
- Parachute Rigid: Loose to branded conversions picking up some pace. Can expect volume growth to continue its gradually improving trajectory as input costs exhibit an upward bias amid stable consumer pricing.
- Value-added Hair Oils (VAHO): The VAHO portfolio continued to exhibit divergent trends with bottom-of-the-pyramid (BOP) segments remaining subdued, while mid and premium segments grew in mid to high single digits.
- Saffola Edible Oils: Volume decline in 3QFY24 was attributable to a high base and extended sluggishness in trade sentiment resulting in lower inventory levels on a year-on-year basis, despite healthy offtakes.
- Core Foods saw MSD growth. From 4Q onwards, the foods portfolio growth will be back to 20%+. Foods maintained steady trajectory and should close at Rs7.5bn in FY24.
- Other category growths: Honey and Chyawanprash has not been doing well specially post Covid. Below normal winter has also had an impact on the Chyawanprash this year. Serums has been doing well. Male grooming smaller sku's (rural centric) not doing well. Body lotions has been impacted by delayed winter and some sales have flown to 4Q.
- Diversification efforts: Composite share of Foods and Personal Care portfolios in domestic revenues stood at 20% in 3QFY24. Management believes diversification journey has been reasonably good. It might have missed targets for some portfolio as it wanted to grow profitably.
- Commodity: Copra prices stayed at lower levels but exhibited some upward bias. Rice Bran Oil (RBO) trended downwards and exhibited lower volatility. Crude derivatives such as Liquid Paraffin (LLP) and HDPE also exhibited downward bias.
- Growth guidance: Consolidated revenue growth is expected to move into positive territory in 4QFY24 as base catches up. Company's endeavour will be to continue to deliver double digit bottomline growth in FY25. Can expect low-teen profit growth with double digit revenue growth in FY25. Anniversarization of price actions will also benefit growth staring 1QFY25.
- Margin guidance: Gross margin is expected to expand by 450-500bps in FY24, higher than earlier envisaged, owing to sustained input cost tailwinds and a favourable portfolio mix. EBITDA margin to expand by ~250 bps in FY24 and will reach highest ever level of ~21%.
- Pricing in FY25: Can expect Copra inflation from second half of FY25. Hence the company will take a price increase in the Parachute portfolio. Don't expect any further deflation in edible oils. Might take price increases in VAHO in FY25 depending on crude prices.
- Diversified business has gross margins now higher than the current average gross margins. Company is now targeting double digit EBITDA margin for this business.
- A&P spends: MRCO had cut down A&P spends on Saffola in 3QFY24. Premiumization and rationalization of A&P spends (moving to Saffola master brand strategy from investing in buckets) will support profitability in FY25.

**Exhibit 3: Domestic volumes grew just 2% YoY**



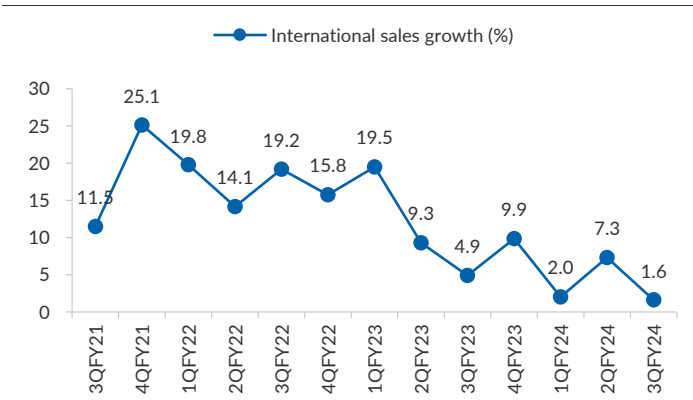
Source: Company, YES Sec

**Exhibit 4: Domestic sales were down 3.1% YoY largely due to earlier price interventions in core**



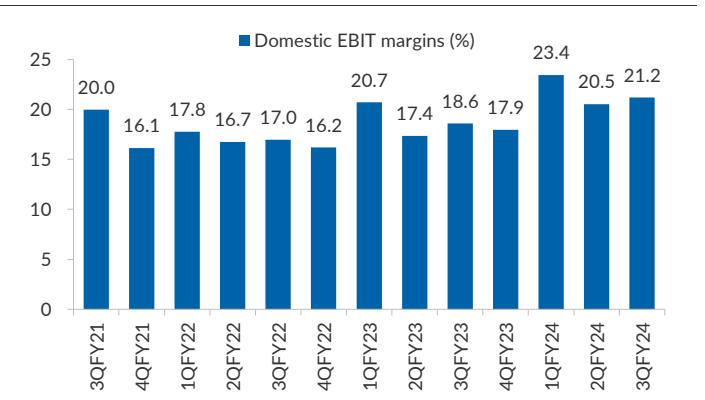
Source: Company, YES Sec

**Exhibit 5: International sales grew just 1.6% YoY with a constant currency growth of ~6%**



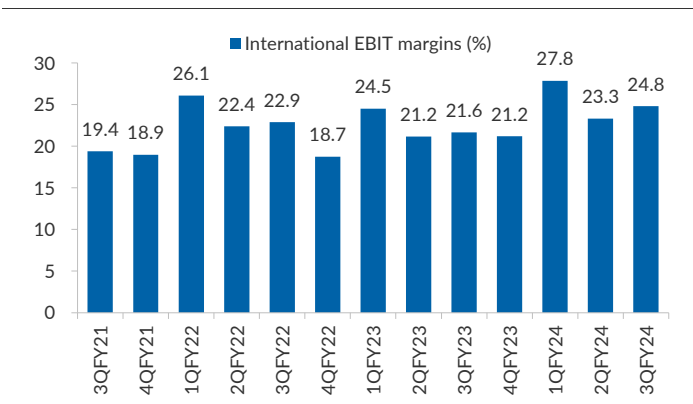
Source: Company, YES Sec

**Exhibit 6: Domestic EBIT margin up 260bps YoY**



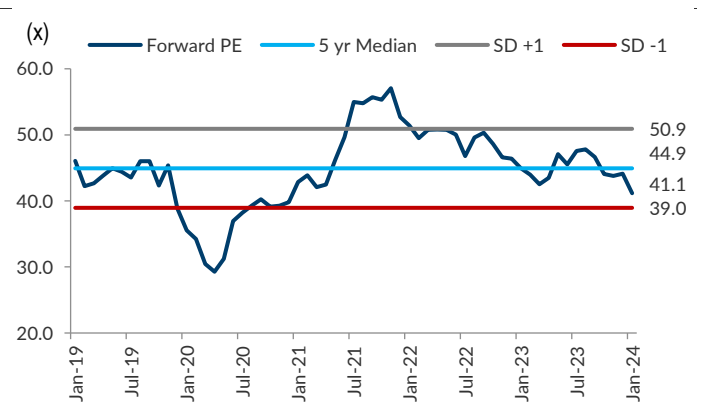
Source: Company, YES Sec

**Exhibit 7: International EBIT margin up 320bps 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	FY24E	FY25E	FY26E
Share capital	1,290	1,290	1,290	1,290	1,290
Reserves	32,190	36,670	37,567	38,066	37,922
Net worth	33,480	37,960	38,857	39,356	39,212
Minority Interest	570	1,570	1,570	1,570	1,570
Total debt	3,450	4,730	4,530	4,330	4,230
Other long term liabilities	1,790	1,730	1,695	1,661	1,628
<b>Total liabilities</b>	<b>39,290</b>	<b>45,990</b>	<b>46,652</b>	<b>46,918</b>	<b>46,640</b>
Gross block	14,300	17,770	18,770	19,770	20,770
Depreciation	5,240	5,840	7,445	9,175	11,030
Net block	9,060	11,930	11,325	10,595	9,740
Right of use assets	1,780	1,740	1,705	1,671	1,638
Capital work-in-progress	390	670	670	670	670
Goodwill	6,540	8,620	8,720	8,820	8,920
Investments	8,500	11,120	11,445	12,115	12,716
Inventories	14,120	12,250	12,062	13,434	14,694
Debtors	6,520	10,150	10,132	11,375	12,442
Cash	5,790	7,560	5,305	4,721	3,814
Other current assets	3,290	1,260	3,853	4,131	4,432
Total current assets	29,720	31,220	31,353	33,661	35,383
Creditors	13,440	14,520	13,681	15,361	16,728
Other current liabilities & provisions	4,040	4,470	4,564	4,933	5,378
Total current liabilities	17,480	18,990	18,246	20,294	22,106
Net current assets	12,240	12,230	13,107	13,367	13,277
Deferred tax asset	780	(320)	(320)	(320)	(320)
<b>Total assets</b>	<b>39,290</b>	<b>45,990</b>	<b>46,652</b>	<b>46,918</b>	<b>46,641</b>

Source: Company, YES Sec

### Exhibit 10: Income statement

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	95,120	97,640	96,495	108,337	118,497
<b>% Growth</b>	<b>18.2</b>	<b>2.6</b>	<b>-1.2</b>	<b>12.3</b>	<b>9.4</b>
COGS	54,540	53,710	48,012	53,807	58,694
Staff costs	5,860	6,530	7,244	7,803	8,603
Other expenses	17,830	19,290	20,988	23,703	25,743
Total expenses	78,230	79,530	76,245	85,313	93,040
EBITDA	16,890	18,110	20,251	23,024	25,457
<b>% growth</b>	<b>6.2</b>	<b>7.2</b>	<b>11.8</b>	<b>13.7</b>	<b>10.6</b>
<b>EBITDA margin (%)</b>	<b>17.8</b>	<b>18.5</b>	<b>21.0</b>	<b>21.3</b>	<b>21.5</b>
Other income	980	1,440	1,548	1,562	1,531
Interest costs	390	560	741	665	642
Depreciation	1,390	1,550	1,605	1,730	1,855
Profit before tax	16,090	17,440	19,453	22,192	24,491
Tax	-64	-320	110	0	0
Rate of Tax (%)	3,476	4,210	4,669	5,437	6,123
PAT	21.6	24.1	24.0	24.5	25.0
Adj PAT	12,250	12,710	14,664	16,525	18,138
<b>Adj PAT margin (%)</b>	<b>12,314</b>	<b>13,030</b>	<b>14,554</b>	<b>16,525</b>	<b>18,138</b>
<b>% Growth</b>	<b>12.9</b>	<b>13.3</b>	<b>14.8</b>	<b>15.0</b>	<b>15.1</b>

Source: Company, YES Sec

## Exhibit 11: Cash flow statement

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PAT	12,500	13,740	14,784	16,755	18,368
Depreciation	1,390	1,550	1,605	1,730	1,855
Other income	(110)	(1,070)	(1,548)	(1,562)	(1,531)
Interest paid	(200)	560	741	665	642
(Inc.)/dec. in working capital	(3,420)	(590)	(3,131)	(844)	(817)
<b>Cash flow from operations</b>	<b>10,160</b>	<b>14,190</b>	<b>12,451</b>	<b>16,743</b>	<b>18,517</b>
Capital expenditure (-)	(1,290)	(1,820)	(1,000)	(1,000)	(1,000)
<b>Net cash after capex</b>	<b>8,870</b>	<b>12,370</b>	<b>11,451</b>	<b>15,743</b>	<b>17,517</b>
Inc./(dec.) in investments	380	(5,000)	(1,155)	(1,594)	(1,557)
<b>Cash flow from investments</b>	<b>(910)</b>	<b>(6,820)</b>	<b>(2,155)</b>	<b>(2,594)</b>	<b>(2,557)</b>
Dividends paid (-)	(12,170)	(6,070)	(11,610)	(13,868)	(16,125)
Others	(730)	470	(941)	(865)	(742)
<b>Cash from financial activities</b>	<b>(12,900)</b>	<b>(5,600)</b>	<b>(12,551)</b>	<b>(14,732)</b>	<b>(16,867)</b>
Opening cash balance	9,440	5,790	7,560	5,305	4,721
Closing cash balance	5,790	7,560	5,305	4,721	3,814
Change in cash balance	(3,650)	1,770	(2,255)	(584)	(907)

## Exhibit 12: Growth and Ratio matrix

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
<b>Per share (Rs)</b>					
EPS	9.5	10.1	11.3	12.8	14.1
Book value	26.0	29.4	30.1	30.5	30.4
DPS	9.3	9.0	10.8	12.5	14.3
<b>Valuation (x)</b>					
EV/sales	6.9	6.7	6.8	6.0	5.5
EV/EBITDA	38.8	36.0	32.3	28.4	25.7
P/E	54.1	51.1	45.8	40.3	36.7
P/BV	19.9	17.6	17.2	16.9	17.0
<b>Return ratios (%)</b>					
RoCE*	42.6	42.2	43.6	48.9	53.7
RoE	37.4	36.5	37.9	42.3	46.2
RoIC*	70.0	64.6	66.7	72.6	80.2
<b>Profitability ratios (%)</b>					
Gross margin	42.7	45.0	50.2	50.3	50.5
EBITDA margin	17.8	18.5	21.0	21.3	21.5
PAT margin	12.9	13.3	15.1	15.3	15.3
<b>Liquidity ratios (%)</b>					
Current ratio	0.7	0.6	0.7	0.7	0.6
Quick ratio	0.9	1.0	1.1	1.0	0.9
<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	2.1	2.3	2.5
Fixed asset turnover ratio (x)	10.5	8.2	8.5	10.2	12.2
Inventory days	85	90	92	86	87
Debtors days	20	31	38	36	37
Creditor days	83	95	107	99	100

Source: Company, YES Sec

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