

August 05, 2024

RESULT REPORT Q1 FY25 | Sector: Consumer Staples

Marico Ltd.

Improving growth trajectory; margins to come-off

Marico Ltd. (MRCO) 1QFY25 domestic volume growth of 4% was supported by price hikes in the Coconut Oil portfolio, which more than offset the residual base impact of price cuts in the Saffola Oils portfolio. International business sustained its double-digit constant currency growth (CCG) momentum with each of the key markets delivering broad based growth. Gross margins were higher than our expectation (+230bps YoY & +70bps QoQ) led by benign input costs, favorable portfolio mix and strategic pricing gains in Copra & Edible oil. Improving trajectory in domestic core, fresh price hikes in Parachute, base normalization for Saffola edible oils, shrinkflation anniversary in VAHO, continued momentum on domestic diversification and healthy growth in International business should help improve revenue growth trajectory for rest of FY25 while maintaining margins at FY24 level. Maintain ADD rating with a revised target price (TP) of Rs745 (Rs620 earlier).

1QFY25 Result Highlights (Consolidated)

- **Headline performance:** Revenue was up by 6.7% YoY to Rs26.4bn (vs est. Rs26.3bn). EBITDA grew by 9.1% YoY to Rs6.3bn (vs est. Rs6.0bn). Adjusted PAT (APAT) after MI was up 11.5% YoY to Rs4.6bn (vs est. Rs4.5bn).
- **Domestic revenues** were up 7.4%YoY with underlying volume growth of 4% YoY. Domestic EBIT margin was down by ~80bps YoY to 22.6%. **International business** was up ~4.8% YoY (up 10% CCG) with EBIT margins up ~110bps YoY to 28.9%.
- **Gross margin** came in at 52.3% (+230bps YoY & +70bps QoQ; vs our est. 51%) driven by benign input costs and favorable portfolio mix. Higher overheads: Employee cost up 40bps YoY, advertisement and sales promotion (A&SP) up 50bps YoY and other overheads up 90bps YoY meant that EBITDA margin came in at 23.7% (up 50bps YoY; vs our est. 22.8%).

Near term outlook

- (1) Expect double digit consolidated revenue growth in FY25 on the back of improving domestic volume growth trajectory, favorable pricing cycle in key domestic portfolio going forward and healthy growth momentum in the International business.
- (2) Margin to come down over the next few quarters and hence the company aims to maintain margins at FY24 levels in FY25.

View & Valuation

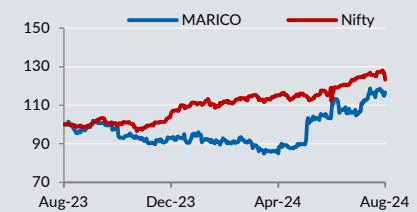
There is 0.7%/2.2% upwards revision in our FY25E/FY26E largely due to revision in tax rate in our model. We are now building ~10.3% revenue CAGR over FY24-FY26E led by (a) Improvement in volume growth for the core portfolio along with favorable pricing cycle. (b) Consistent uptick in revenue share of 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 11.2% 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 ~52x/46x on FY25E/FY26E EPS as we build in ~13.4% EPS CAGR over FY24-26E. Dividend payout remains high and return ratios are also expected to improve. With margins at peak levels, volume improvement becomes extremely crucial for earnings growth in FY25. We continue to maintain our rating ADD with a revised TP of Rs745 (Rs620 earlier), valuing it at ~48x Sep'2026E EPS (3yr/5yr avg fwd. multiple: ~47x/45x).

Reco	: ADD
CMP	: Rs 672
Target Price	: Rs 745
Potential Return	: +10.8%

Stock data (as on Aug 05, 2024)

Nifty	24,056
52 Week h/l (Rs)	691 / 486
Market cap (Rs/USD mn)	873749 / 10402
Outstanding Shares (mn)	1,295
6m Avg t/o (Rs mn):	1,297
Div yield (%):	1.4
Bloomberg code:	MRCO IN
NSE code:	MARICO

Stock performance



	1M	3M	1Y
Absolute return	+9.2%	+30.0%	+16.7%

Shareholding pattern (As of Jun'24 end)

Promoter	59.3%
FII+DII	35.9%
Others	4.7%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	745	620

Δ in earnings estimates

	FY25e	FY26e
EPS (New)	12.9	14.6
EPS (Old)	12.8	14.3
% change	+0.7	+2.2

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

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Exhibit 1: Actual vs estimate

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
26,430	26,257	26,404	0.7	0.1	26,430
6,260	5,987	6,219	4.6	0.7	6,260
23.7	22.8	23.6	0.9	0.1	23.7
4,640	4,454	4,644	4.2	(0.1)	4,640

Source: Bloomberg, YES Sec

Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs. Mn)	1QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)
Net Sales	24,770	22,780	26,430	6.7	16.0
COGS	12,390	11,030	12,620	1.9	14.4
Gross margin %	50.0	51.6	52.3	2.3	0.7
Employee costs	1,810	1,860	2,030	12.2	9.1
% of sales	7.3	8.2	7.7	0.4	-0.5
Advertising costs	2,120	2,260	2,400	13.2	6.2
% of sales	8.6	9.9	9.1	0.5	-0.8
Other expenses	2,710	3,210	3,120	15.1	-2.8
% of sales	10.9	14.1	11.8	0.9	-2.3
EBITDA	5,740	4,420	6,260	9.1	41.6
EBITDA margin %	23.2	19.4	23.7	0.5	4.3
Depreciation	360	410	410	13.9	0.0
EBIT	5,380	4,010	5,850	8.7	45.9
Interest expense	170	170	170	0.0	0.0
Other income	320	150	370	15.6	146.7
PBT after minority interest	5,550	3,970	5,950	7.2	49.9
Tax	1,280	790	1,310	2.3	65.8
Effective tax rate %	23.1	19.9	22.0	-1.0	2.1
Adj. PAT	4,160	3,180	4,640	11.5	45.9
Adj. PAT margin %	16.8	14.0	17.6	0.8	3.6
EPS	3.2	2.5	3.6	11.5	45.9

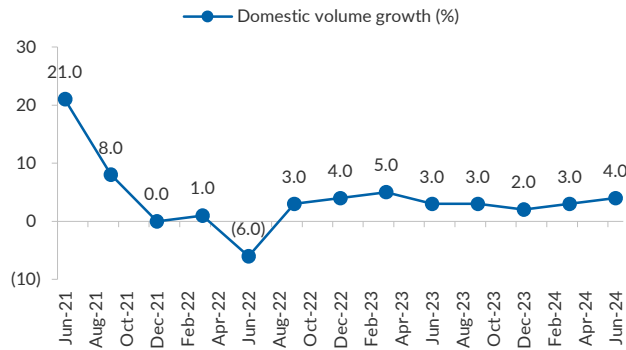
Source: Company, YES Sec

TAKEAWAYS/EXCERPTS FROM 1QFY25 CONFERENCE CALL/PRESS RELEASE

- Outlook:** MRCO expects a gradual uptick in the growth of its core categories in the domestic business through the ongoing initiatives to enhance the profitability of General Trade (GT) channel partners and transformative expansion in direct reach footprint under Project SETU. It expects double digit consolidated revenue growth in FY25 on the back of improving domestic volume growth trajectory, favorable pricing cycle in key domestic portfolio going forward and healthy growth momentum in the International business.
- Pricing:** As forecasts in edible and crude oil exhibit a mild upward bias, company will exercise the pricing power of its key franchises judiciously to alleviate any input cost pressures during the year. MRCO has already taken 6% price hike in Parachute and will take further hike depending on copra inflation in rest of the year. In Saffola edible oils, as the pricing base entirely catches up from 2QFY25, revenue growth will track in line with volume growth. Anniversarization of this shrinkflation in the VAHO portfolio will happen in the middle of FY25 as well.

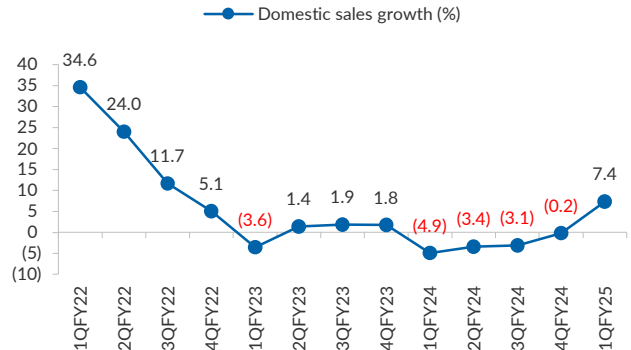
- **Margins:** Strategic pricing gains in Copra and Edible oil benefitted 1QFY25 margin expansion. Margin to come down over the next few quarters and hence the company aims to maintain margins at FY24 margin levels.
- **Inflation:** MRCO expects commodity inflation to inch up in H2FY25. Food inflation remained at elevated levels and will be a key monitorable to watch.
- **Volume growth:** After excluding the impact of stock correction, growth would have been around 6%. Plix is not included in the volume growth since it was not in the base.
- **Parachute:** Around 6% price hike taken by the company and will take further slight price hike in 2HFY25 due to rise in copra prices. Further, it expects mid-single digit volume growth in 2HFY25. Smaller and unbranded players are suffering due to deep discounting, but it doesn't affect Parachute.
- **Foods business:** Organic growth in Foods is high teens excluding low base impact. Endeavor is to grow foods business at 20-25% CAGR while being profitable. Last year took it took a pause in foods business to stabilize margins and delivered 800bps expansion. The growth in Plix and True elements is higher due to low base. Honey category has not done well. Soya chunks has done well, but currently margins are lower in this category. Hence, it is not growing Soya until it gets significant innovation. The company will launch more options in Masala Oats. MRCO is also prototyping snacking in GT. Food has significant journey in quick commerce as MRCO hasn't played it till now.
- **VAHO** – Certain competitive actions by a national player at the bottom of the pyramid through BTL activities have meant that value growth of the category has come down. Shrinkflation anniversarization will happen at the end of the year. By H2FY25, management expects positive value growth. At the bottom end the company has lost share. Aloe and Jasmine seeing green shoots. Off-take growth in VAHO was 3% in 1QFY25. MRCO is chasing value growth/share in hair oils. While BOP has decline, mid and premium has grown. Hence gross margins for the quarter has improved.
- **International business** There is significant pool available in Middle east to grow profitably. With scale, Africa will grow profitably too. These two markets margins are lower than international margins. The company's strategy to reduce dependance on Bangladesh business is working well. Share of Bangladesh business is expected to reduce to 40% in international business by FY27.
- **Premium Personal care:** Beardo continued to scale well and is on course to deliver double-digit EBITDA margin in FY25 with Rs5.5-6bn run rate. Just Herbs and the personal care portfolio of Plix continued to gain traction.
- **Kaya:** Marico has recently acquired exclusive rights to sell Kaya on their channel while Kaya will sell at their existing clinics. Currently the scale is not large but has the potential to scale to Rs1bn in 4-5 years. The company will pay royalty to Kaya.
- **Project SETU** focuses on expansion of direct reach footprint which indirectly increases assortment and reduces wholesale mix. It will take a couple of quarters for SETU impact (channel inventory) to normalize. There is opportunity to sell higher realization products through SETU. The company believes it is not completely discouraging wholesale distributors. Launch states comprise a mix of higher MS ('Diversify') and lower MS ('Transform') states. It has garnered positive response from General Trade channel partners. It expects Project SETU to drive market share gains across categories in urban and rural markets, as well as enhance assortment levels in urban stores.
- **Channels:** Food business has a significant opportunity on the Quick Commerce where the company was not actively present.

Exhibit 3: Domestic volumes grew 4% YoY



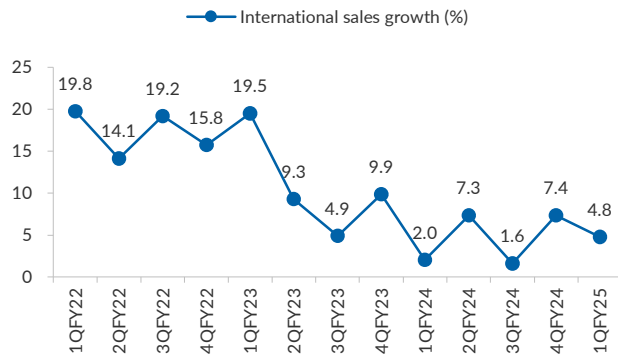
Source: Company, YES Sec

Exhibit 4: Domestic sales were up 7.4% YoY



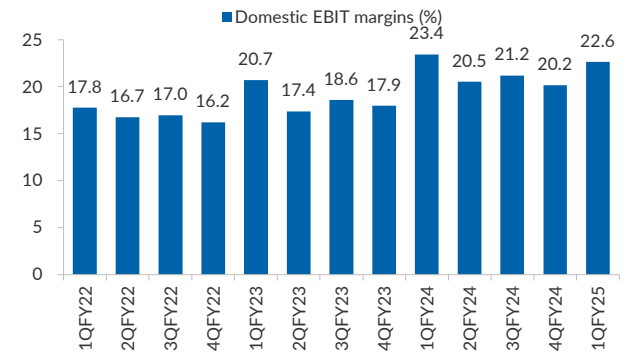
Source: Company, YES Sec

Exhibit 5: International sales grew 4.8% YoY with a constant currency growth of ~10%



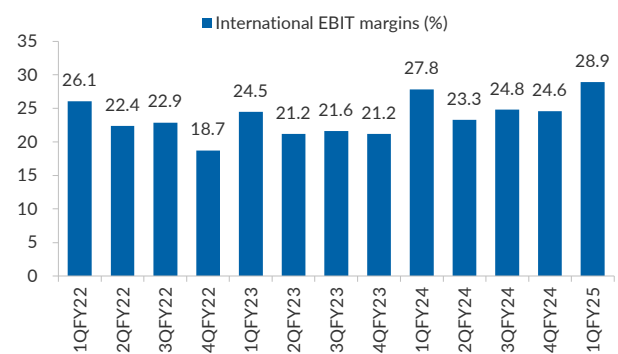
Source: Company, YES Sec

Exhibit 6: Domestic EBIT margin down 80bps YoY



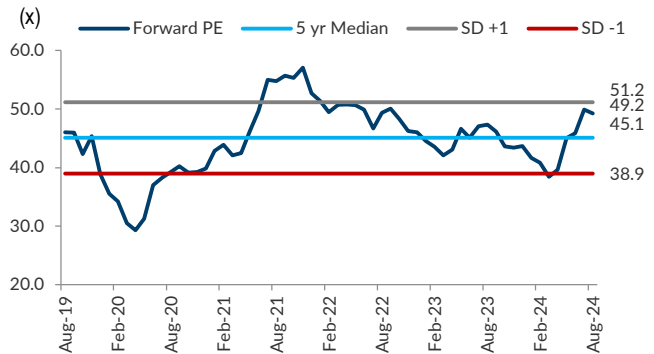
Source: Company, YES Sec

Exhibit 7: International EBIT margin up 110bps YoY



Source: Company, YES Sec

Exhibit 8: Currently trading at ~49x 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	37,820	40,149	43,665
Net worth	33,480	37,960	39,110	41,439	44,955
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
Total liabilities	39,290	45,990	48,350	50,438	53,814
Gross block	14,300	17,770	23,030	23,830	24,830
Depreciation	5,240	5,840	6,660	8,316	10,051
Net block	9,060	11,930	16,370	15,514	14,779
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	14,077	15,031
Debtors	6,520	10,150	10,690	10,984	11,508
Cash	5,790	7,560	9,430	11,135	13,827
Other current assets	3,290	1,260	7,140	6,464	7,104
Total current assets	29,720	31,220	40,620	42,660	47,470
Creditors	13,440	14,520	15,810	16,493	17,518
Other current liabilities & provisions	4,040	4,470	8,050	7,397	7,990
Total current liabilities	17,480	18,990	23,860	23,890	25,508
Net current assets	12,240	12,230	16,760	18,770	21,962
Deferred tax asset	780	(320)	(2,110)	(2,110)	(2,110)
Total assets	39,290	45,990	48,350	50,439	53,815

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	106,644	117,432
% Growth	18.2	2.6	-1.1	10.5	10.1
COGS	54,540	53,710	47,670	52,135	57,234
Staff costs	5,860	6,530	7,430	7,827	7,826
Other expenses	17,830	19,290	21,139	24,045	27,292
Total expenses	78,230	79,530	76,239	84,006	92,352
EBITDA	16,890	18,110	20,291	22,638	25,080
% growth	6.2	7.2	12.0	11.6	10.8
EBITDA margin (%)	17.8	18.5	21.0	21.2	21.4
Other income	980	1,440	1,280	1,462	1,917
Interest costs	390	560	730	634	609
Depreciation	1,390	1,550	1,580	1,656	1,735
Profit before tax	16,090	17,440	19,261	21,810	24,653
Tax	3,476	4,210	4,350	4,907	5,547
Rate of Tax (%)	21.6	24.1	22.6	22.5	22.5
PAT	12,250	12,710	14,811	16,693	18,896
Adj PAT	12,314	13,030	14,701	16,693	18,896
Adj PAT margin (%)	12.9	13.3	15.0	15.4	15.8
% Growth	5.8	5.8	15.2	15.7	16.1

Source: Company, YES Sec

Exhibit 11: Cash flow statement

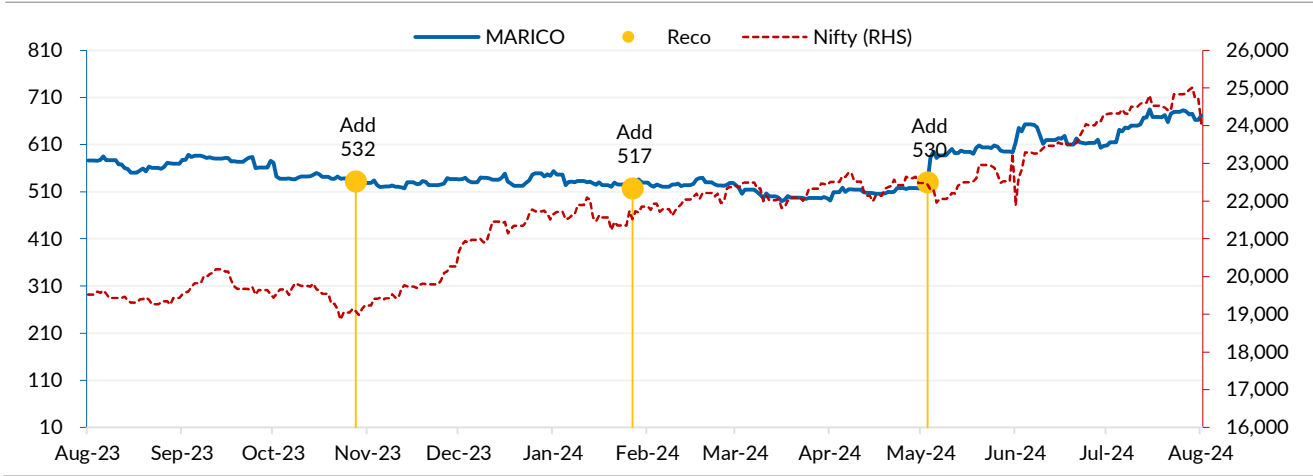
Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PAT	12,500	13,740	15,590	16,903	19,106
Depreciation	1,390	1,550	1,580	1,656	1,735
Other income	(110)	(1,070)	(1,280)	(1,462)	(1,917)
Interest paid	(200)	560	730	634	609
(Inc.)/dec. in working capital	(3,420)	(590)	(2,260)	(305)	(501)
Cash flow from operations	10,160	14,190	14,360	17,426	19,032
Capital expenditure (-)	(1,290)	(1,820)	(1,530)	(800)	(1,000)
Net cash after capex	8,870	12,370	12,830	16,626	18,032
Inc./(dec.) in investments	380	(5,000)	4,460	(422)	452
Cash flow from investments	(910)	(6,820)	2,930	(1,222)	(548)
Dividends paid (-)	(12,170)	(6,070)	(12,290)	(12,255)	(13,674)
Others	(730)	470	(3,130)	(2,244)	(2,119)
Cash from financial activities	(12,900)	(5,600)	(15,420)	(14,499)	(15,793)
Opening cash balance	9,440	5,790	7,560	9,430	11,135
Closing cash balance	5,790	7,560	9,430	11,135	13,827
Change in cash balance	(3,650)	1,770	1,870	1,705	2,692

Exhibit 12: Growth and Ratio matrix

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Per share (Rs)					
EPS	9.5	10.1	11.4	12.9	14.6
Book value	26.0	29.4	30.3	32.1	34.8
DPS	9.3	9.0	9.5	10.6	12.0
Valuation (x)					
EV/sales	9.0	8.7	8.9	8.0	7.2
EV/EBITDA	50.7	47.1	42.2	37.7	33.8
P/E	70.4	66.5	59.0	51.9	45.9
P/BV	25.9	22.8	22.2	20.9	19.3
Return ratios (%)					
RoCE*	42.6	42.2	42.4	45.4	48.5
RoE	37.4	36.5	38.1	41.4	43.7
RoIC*	70.0	64.6	63.5	65.4	73.6
Profitability ratios (%)					
Gross margin	42.7	45.0	50.6	51.1	51.3
EBITDA margin	17.8	18.5	21.0	21.2	21.4
PAT margin	12.9	13.3	15.2	15.7	16.1
Liquidity ratios (%)					
Current ratio	0.7	0.6	0.7	0.8	0.9
Quick ratio	0.9	1.0	1.1	1.2	1.3
Solvency ratio (%)					
Debt to Equity ratio	0.1	0.1	0.1	0.1	0.1
Turnover ratios					
Total asset turnover ratio (x)	2.4	2.1	2.0	2.1	2.2
Fixed asset turnover ratio (x)	10.5	8.2	5.9	6.9	7.9
Inventory days	85	90	98	96	93
Debtors days	20	31	39	37	35
Creditor days	83	95	116	113	108

Source: Company, YES Sec

Recommendation Tracker



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