

October 30, 2023

RESULT REPORT Q2 FY24 | Sector: Consumer Staples

Marico Ltd.

With margins at peak levels, volume recovery becomes crucial hereon

Marico Ltd. (Marico's) 2QFY24 consolidated revenue saw a drop of 0.8% YoY owing to price cuts implemented across categories over last few quarters, stable demand vs 1Q, lower trade inventory, and currency devaluation. Domestic volumes grew by 3% YoY as demand trends in the domestic FMCG sector stayed largely in-line with 1QFY24. While urban sentiment improved sequentially, higher food inflation and patchy rainfall distribution led to a slower than expected pace of recovery in rural demand. Margins surprised us positively led by gross margin improvement (+50bps/+690bps QoQ/YoY) reaching highest level in 26 quarters, owing to softer input costs. Management has upped its FY24 margin expansion target by 100bps. With FY24 margins expected to end at peak levels, volume recovery becomes extremely crucial for earnings growth beyond FY24, signs of which are still not clearly visible. We continue to maintain our ADD rating with a revised target price (TP) of Rs625.

2QFY24 Result Highlights (Consolidated)

- **Headline performance:** Revenue was down by 0.8% YoY to Rs24.8bn (vs est. Rs24.8bn). Overall EBITDA grew by 14.8% YoY to Rs4.97bn (vs est. Rs4.8bn). Adjusted PAT (APAT) after MI was up 17.3% YoY to Rs3.5bn (vs est. Rs3.4bn).
- Domestic revenues were down 3.4% YoY (with 3% volume growth). Domestic EBITDA margin up by ~320bps YoY to 21.6%. International business posted growth of 7.3% YoY (constant currency [CC] growth of 13%) with EBITDA margin up 270bps YoY to 25.1%.
- **Gross margin** surprised us positively and came in at 50.5% (+690bps YoY & +50bps QoQ). Higher operating overheads: Employee cost up 90bps YoY, advertisement and sales promotion (A&SP) up 230bps YoY and other operating expense up 90bps YoY meant that EBITDA margin came in at 20.1% (up 270bps YoY; vs our est. 19.5%).
- **1HFY24** revenue down 2% YoY while EBITDA and APAT have grown by 11.4% and 14.4% YoY, respectively. Gross/EBITDA margin up 590bps/260bps YoY to 50.2%/21.6%, respectively.

Near term outlook

- (1) Gradual uptick expected in domestic volume growth starting 2HFY24.
- (2) International business double-digit CCG momentum to continue.
- (3) EBITDA margin now expected to expand by ~200bps in FY24 led by ~350-400bps expansion in gross margin.

View & Valuation

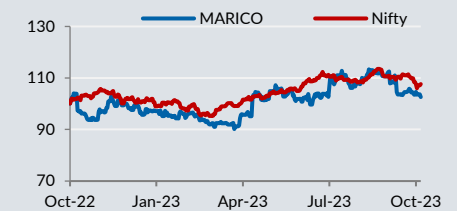
We are currently building ~8.1% revenue CAGR over FY23-FY26E led by (a) Recovery in volume growth for the core portfolio. This along with pricing interventions coming into the base in 1HFY24 should translate in better revenue growth. (b) Consistent uptick in revenue share of Foods, Premium Personal Care (including the Digital-first portfolio) driven by innovations, step-up in market development, brand building spends and focused GTM initiatives. (c) International business to continue to maintain double-digit CCG momentum in FY24. At operating level, we expect ~11.7% EBITDA CAGR over FY23-FY26E (~190bps EBITDA margin expansion as we expect gross margin to expand by 370bps over FY23-FY26E led by easing input cost and mix improvement). 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/42x/38x on FY24E/FY25E/FY26E EPS as we build in ~11.3% EPS CAGR over FY23-26E. Dividend payout remains high and return ratios are also expected to improve over the next few years. With FY24 margins expected to end at peak levels, volume recovery becomes extremely crucial for earnings growth beyond FY24, signs of which are still not clearly visible. We continue to maintain our ADD rating with a revised TP of Rs625 (Rs635 earlier), valuing it at ~47x Sept'2025E EPS (3yr/5yr avg fwd. multiple: 47.6x/44.8x).

Reco	: ADD
CMP	: Rs 532
Target Price	: Rs 625
Potential Return	: +17.4%

Stock data (as on Oct 30, 2023)

Nifty	19,141
52 Week h/l (Rs)	595 / 463
Market cap (Rs/USD mn)	694886 / 8347
Outstanding Shares (mn)	1,292
6m Avg t/o (Rs mn):	781
Div yield (%):	0.8
Bloomberg code:	MRCO IN
NSE code:	MARICO

Stock performance



	1M	3M	1Y
Absolute return	-5.2%	-7.3%	2.6%

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	625	635

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	11.5	12.7	13.9
EPS (Old)	11.6	13.1	NA
% change	-0.7	-2.9	NA

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Revenue	100,824	113,057	123,204
YoY Growth (%)	3.3	12.1	9.0
EBIDTA	20,631	22,904	25,211
Margins (%)	20.5	20.3	20.5
PAT	14,836	16,439	17,960
EPS	11.5	12.7	13.9
YoY Growth (%)	13.9	10.8	9.3
Pre-tax RoCE (%)	44.3	48.4	53.2
ROE (%)	38.5	41.8	45.6
P/E (x)	46.3	41.8	38.2
EV/EBITDA (x)	32.6	29.4	26.7

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Exhibit 1: Actual vs estimate

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	24,760	24,843	24,995	(0.3)	(0.9)
EBITDA	4,970	4,844	4,979	2.6	(0.2)
EBITDA Margin (%)	20.1	19.5	19.9	0.6	0.2
Adjusted PAT	3,530	3,402	3,570	3.8	(1.1)

Source: Bloomberg, YES Sec

Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs. Mn)	2QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	1HFY23	1HFY24	YoY (%)
Net Sales	24,960	24,770	24,760	-0.8	0.0	50,540	49,530	-2.0
COGS	14,070	12,390	12,260	-12.9	-1.0	28,130	24,650	-12.4
Gross margin %	43.6	50.0	50.5	6.9	0.5	44.3	50.2	5.9
Employee costs	1,660	1,810	1,870	12.7	3.3	3,220	3,680	14.3
% of sales	6.7	7.3	7.6	0.9	0.2	6.4	7.4	1.1
Advertising costs	2,130	2,120	2,680	25.8	26.4	4,120	4,800	16.5
% of sales	8.5	8.6	10.8	2.3	2.3	8.2	9.7	1.5
Other expenses	2,770	2,710	2,980	7.6	10.0	5,460	5,690	4.2
% of sales	11.1	10.9	12.0	0.9	1.1	10.8	11.5	0.7
EBITDA	4,330	5,740	4,970	14.8	-13.4	9,610	10,710	11.4
EBITDA margin %	17.3	23.2	20.1	2.7	-3.1	19.0	21.6	2.6
Depreciation	370	360	390	5.4	8.3	730	750	2.7
EBIT	3,960	5,380	4,580	15.7	-14.9	8,880	9,960	12.2
Interest expense	150	170	200	33.3	17.6	250	370	48.0
Other income	190	320	380	100.0	18.8	360	700	94.4
PBT after minority interest	3,940	5,550	4,690	19.0	-15.5	8,870	10,130	14.2
Tax	930	1,280	1,160	24.7	-9.4	2,150	2,440	13.5
Effective tax rate %	23.6	23.1	24.7	1.1	1.7	24.2	24.1	-0.2
Adj. PAT	3,010	4,160	3,530	17.3	-15.1	6,720	7,690	14.4
Adj. PAT margin %	12.1	16.8	14.3	2.2	-2.5	13.3	15.5	2.2
EPS	2.3	3.2	2.7	17.3	-15.1	5.2	6.0	14.4

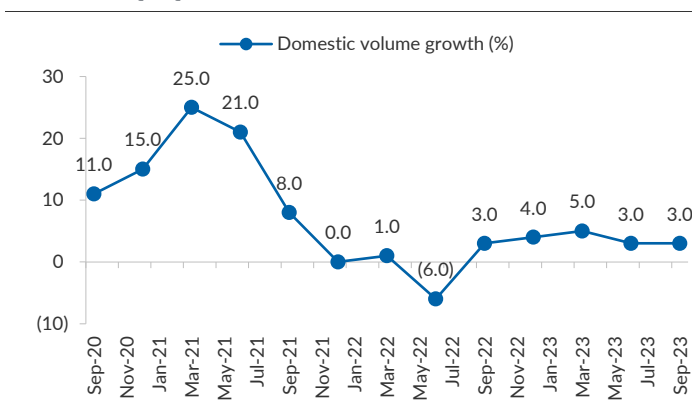
Source: Company, YES Sec

TAKEAWAYS/EXCERPTS FROM 2QFY24 CONFERENCE CALL/PRESS RELEASE

- 2QFY24 consolidated revenue was flattish owing to price cuts, lower trade inventory, and currency devaluation.
- Demand largely in-line with preceding quarter. 2Q started positive, however there was noticeable drop in consumption for rest of the quarter especially in rural due to deficient rainfall. Company has seen some positive signs at exit of the quarter.
- Expect a gradual improvement in demand sentiment to reflect in the performance of domestic business in the second half of the year.
- Among the sales channels, MT and E-commerce registered high double-digit (20%+) growth, while General Trade declined in low single digits on a YoY basis.
- Difference in value and volume growth has led to higher working capital requirement for trade thus impacting their returns. This led to inventory going down. There was 3-4 days drop in stock turnover ratio (STR) at retailers due to credit squeeze. Thus, while offtakes continued to remain healthy, trade inventory remained at lower levels.
- Seeing competitive intensity from local players.

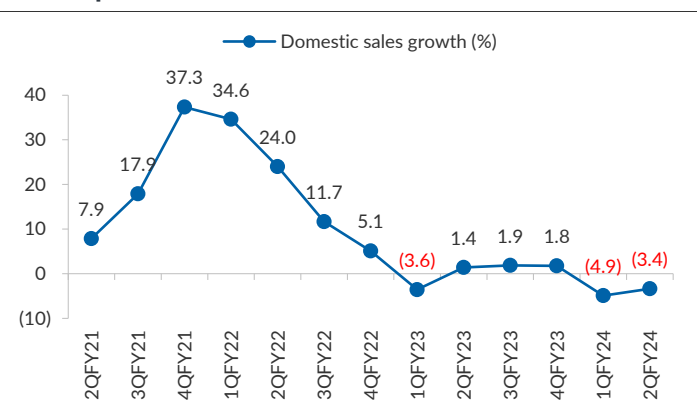
- Looking at sustainable profitable growth in Foods.
- Owing to the ongoing scale-up of Foods and Premium Personal Care, the composite share of these portfolios was at ~20% of domestic revenues in 2Q.
- 2/3rd impact from pricing cut and 1/3rd impact from currency.
- As copra enters an off-season ahead of the festive season, prices are expected to exhibit an upward bias in the near-term.
- Parachute Rigid: With pricing cuts coming into the base, value growth should mirror volume growth from 3QFY24.
- VAHO
 - VAHO is under-indexed in alternate channels.
 - Premiumization drivers in VAHO: Sensorial and Problem Solving. MRCO does not participate in Rs300-350 price points.
 - Consumer downgrading seen due to significant activity at bottom-of-pyramid (BoP), not just from local players but even from larger players.
 - Anniversarization of shrinkflation is largely over.
- Some of the conversion from unbranded to branded have slowed down in Parachute coconut hair oil.
- Saffola Foods: Managements key learnings on the portfolio - Taste is of utmost importance, have to Indianize the western concept & have to target in-between meal snacking. Within Foods, Plant protein (Soya) is the next thing the company is focusing on.
- Marico will soon break-even in one or two digital first brands. *Beardo* should get into profitability this year. True elements will likely reach profitability in FY25.
- Bangladesh registered 2% CCG (constant currency growth) amidst ongoing macroeconomic headwinds. Management mentioned dependence on Bangladesh has reduced in terms of profitability. Marico operates in Bangladesh with certain amount of scale. Have taken aggressive cost management initiative in Bangladesh to not dilute margins during downturn.

Exhibit 3: Domestic volumes grew 3% YoY due to stable demand QoQ



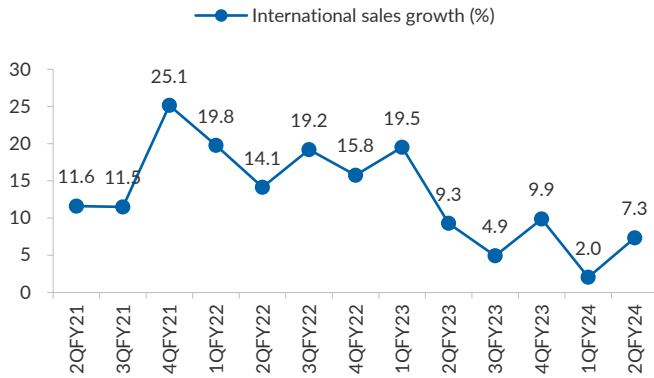
Source: Company, YES Sec

Exhibit 4: Domestic sales was down 3.4% YoY due to earlier price interventions in core



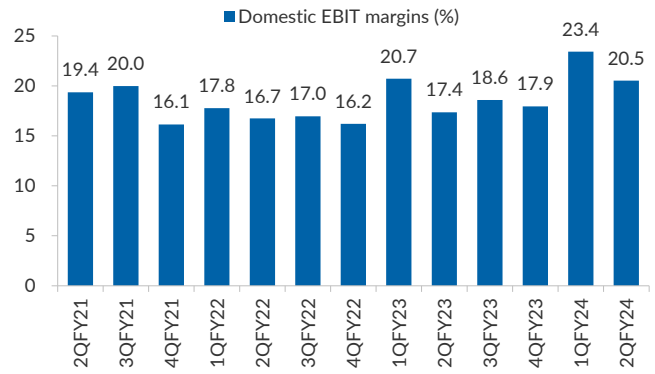
Source: Company, YES Sec

Exhibit 5: International sales grew just 7.3% YoY with a constant currency growth of 13%



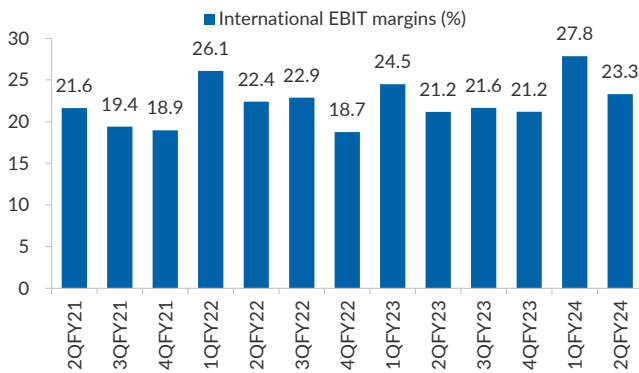
Source: Company, YES Sec

Exhibit 6: Domestic EBIT margin up 320bps YoY



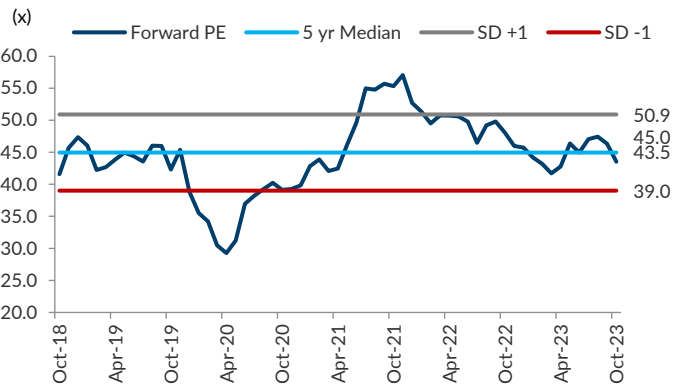
Source: Company, YES Sec

Exhibit 7: International EBIT margin up 210bps YoY



Source: Company, YES Sec

Exhibit 8: Currently trading at ~44x 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	37,849	38,263	37,940
Net worth	33,480	37,960	39,139	39,553	39,230
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
Total liabilities	39,290	45,990	46,934	47,114	46,658
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	13,107	14,697	16,017
Debtors	6,520	10,150	10,082	11,306	12,320
Cash	5,790	7,560	6,124	5,488	4,927
Other current assets	3,290	1,260	3,853	4,131	4,432
Total current assets	29,720	31,220	33,167	35,622	37,697
Creditors	13,440	14,520	15,200	17,128	19,032
Other current liabilities & provisions	4,040	4,470	4,577	4,930	5,371
Total current liabilities	17,480	18,990	19,778	22,059	24,402
Net current assets	12,240	12,230	13,389	13,564	13,294
Deferred tax asset	780	(320)	(320)	(320)	(320)
Total assets	39,290	45,990	46,934	47,114	46,658

Source: Company, YES Sec; Note: Through this note we introduce FY26 estimates.

Exhibit 10: Income statement

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	95,120	97,640	100,824	113,057	123,204
% Growth	18.2	2.6	3.3	12.1	9.0
COGS	54,540	53,710	51,434	58,212	63,237
Staff costs	5,860	6,530	7,149	7,916	8,714
Other expenses	17,830	19,290	21,610	24,025	26,043
Total expenses	78,230	79,530	80,193	90,153	97,993
EBITDA	16,890	18,110	20,631	22,904	25,211
% growth	6.2	7.2	13.9	11.0	10.1
EBITDA margin (%)	17.8	18.5	20.5	20.3	20.5
Other income	980	1,440	1,565	1,595	1,566
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	19,850	22,105	24,279
Tax	3,476	4,210	4,764	5,416	6,070
Rate of Tax (%)	21.6	24.1	24.0	24.5	25.0
PAT	12,250	12,710	14,946	16,439	17,960
Adj PAT	12,314	13,030	14,836	16,439	17,960
Adj PAT margin (%)	12.9	13.3	14.5	14.3	14.4
% Growth	5.8	5.8	14.7	14.5	14.6

Source: Company, YES Sec

Exhibit 11: Cash flow statement

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PAT	12,500	13,740	15,086	16,689	18,210
Depreciation	1,390	1,550	1,605	1,730	1,855
Other income	(110)	(1,070)	(1,565)	(1,595)	(1,566)
Interest paid	(200)	560	741	665	642
(Inc.)/dec. in working capital	(3,420)	(590)	(2,595)	(810)	(292)
Cash flow from operations	10,160	14,190	13,272	16,679	18,849
Capital expenditure (-)	(1,290)	(1,820)	(1,000)	(1,000)	(1,000)
Net cash after capex	8,870	12,370	12,272	15,679	17,849
Inc./(dec.) in investments	380	(5,000)	(1,158)	(1,582)	(1,543)
Cash flow from investments	(910)	(6,820)	(2,158)	(2,582)	(2,543)
Dividends paid (-)	(12,170)	(6,070)	(11,610)	(13,868)	(16,125)
Others	(730)	470	(941)	(865)	(742)
Cash from financial activities	(12,900)	(5,600)	(12,551)	(14,732)	(16,867)
Opening cash balance	9,440	5,790	7,560	6,123	5,488
Closing cash balance	5,790	7,560	6,123	5,488	4,927
Change in cash balance	(3,650)	1,770	(1,437)	(635)	(561)

Exhibit 12: Growth and Ratio matrix

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Per share (Rs)					
EPS	9.5	10.1	11.5	12.7	13.9
Book value	26.0	29.4	30.3	30.7	30.4
DPS	9.3	9.0	10.8	12.5	14.3
Valuation (x)					
EV/sales	7.1	6.9	6.7	6.0	5.5
EV/EBITDA	40.0	37.1	32.6	29.4	26.7
P/E	55.8	52.7	46.3	41.8	38.2
P/BV	20.5	18.1	17.5	17.4	17.5
Return ratios (%)					
RoCE*	42.6	42.2	44.3	48.4	53.2
RoE	37.4	36.5	38.5	41.8	45.6
RoIC*	70.0	64.6	68.8	73.6	81.7
Profitability ratios (%)					
Gross margin	42.7	45.0	49.0	48.5	48.7
EBITDA margin	17.8	18.5	20.5	20.3	20.5
PAT margin	12.9	13.3	14.7	14.5	14.6
Liquidity ratios (%)					
Current ratio	0.7	0.6	0.7	0.6	0.5
Quick ratio	0.9	1.0	1.0	0.9	0.9
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	2.1	2.4	2.6
Fixed asset turnover ratio (x)	10.5	8.2	8.9	10.7	12.6
Inventory days	85	90	90	87	89
Debtors days	20	31	37	35	35
Creditor days	83	95	105	101	104

Source: Company, YES Sec

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7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.