

Another upgrade to FY24E margin guidance

Marico's Sep-Q earnings were c.2-3% better vs what we were expecting. Topline performance was mostly inline. GPM recovery was again much better, and drove the beat in earnings. Volume trajectory remained soft, though – a sector-wide issue at present, and was due to rural weakness given erratic rainfall patterns in the country, increased competitive activities from smaller players, and inventories being lowered in the general trade channel. Management sounded hopeful of a gradual improvement from H2 and given a benign costs outlook, has also upped its FY24 margin guidance once again - now looking at a potential gross margin gain of 350-400bps in FY24E (vs 250-300bps in July, 200-250bps in May) and EBITDA margin expansion of >200bps (vs >100bps at the start of the year). Newer businesses are growing well and there is a sharp focus on profitability here. We expect the stock to do better hereonwards - price-corrections-led drag on topline would be lower going forward, which, along with continued RM-cost benefits, provides some comfort on earnings visibility. **Maintain BUY.**

- Profitability better than expectations driven by strong beat on gross margin:** Marico's 2QFY24 revenue fell 0.8% to INR24.8bn, but EBITDA and net profit grew well by 14.8% and 19.6% to INR4.97bn and INR3.6bn. Revenue performance was inline with what management stated in its pre-result operational update. Domestic volumes grew 3% overall (mostly helped by strong growth in the newer businesses) but was offset by pricing-softness (Saffola edible oils prices down by >20% yoy) in the core categories. On profitability front, gross margin expanded 685bps yoy (also 50bps higher qoq) to settle at a rare >50% threshold – this is much better than what we had forecasted. However, overall scale-deleverage, given lower topline vs year-ago level, plus higher A&P (+25.8% - to support strategic brand-building of core and new businesses) led to lower flow-through to operating margin (+272bps); EBITDA still grew in mid-teens - c.2% better than our expectation, and also better vs 'low double-digit operating profit growth' guided by the company.
- Domestic volumes muted, International business held well:** 1) **Saffola edible-oils'** volumes grew in low single-digit which along with continued impact of steep price-corrections in the past quarters led to value-sales declining in low-20s. 2) **Parachute rigids'** volumes grew 1%, impacted by overall weak consumer sentiments, slower loose-to-branded conversion and channel-stock reduction - price-cuts in the segment led to a 1% decline in Parachute's revenue. Management is looking at improvement in H2 due to expectation of uptick in loose-to-branded conversions as copra prices are expected to move up during off-season, and price-cuts taken earlier would be anniversarizing. 3) **VAHO** sales grew 1% - issues pertaining to more muted consumption and competitive activities at mass-end continued to persist. 4) **Newer businesses** continued to do well, given the higher urban-salience therein. Foods grew 25% and the Premium Personal-care segment is also growing well. The Digital-First brands clocked an ARR of INR 3.5bn. Profitability is a key priority here, viz. improve Foods GPM and accelerate growth to >30% thereafter, further reduce cash-burn in the D2C brands. 5) **International business** continues to outperform and grew 13% CC despite macro headwinds in the key market of Bangladesh – Vietnam and MENA helped in this regard.

Richard Liu
richard.liu@jmfl.com | Tel: (91 22) 66303064

Mehul Desai
mehul.desai@jmfl.com | Tel: (91 22) 66303065

Sumanyu Saraf
sumanyu.saraf@jmfl.com | Tel: (91 22) 66303077

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	600
Upside/(Downside)	12.8%
Previous Price Target	600
Change	0.0%

Key Data – MRCO IN

Current Market Price	INR532
Market cap (bn)	INR688.5/US\$8.3
Free Float	37%
Shares in issue (mn)	1,290.0
Diluted share (mn)	1,290.0
3-mon avg daily val (mn)	INR976.9/US\$11.7
52-week range	595/463
Sensex/Nifty	64,113/19,141
INR/US\$	83.2

Price Performance

%	1M	6M	12M
Absolute	-5.2	7.2	2.6
Relative*	-2.7	2.2	-2.8

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	94,520	96,890	99,152	111,990	124,697
Sales Growth (%)	18.3%	2.5%	2.3%	12.9%	11.3%
EBITDA	16,810	18,100	20,747	23,083	25,554
EBITDA Margin (%)	17.8%	18.7%	20.9%	20.6%	20.5%
Adjusted Net Profit	12,250	13,020	14,809	16,412	18,051
Diluted EPS (INR)	9.5	10.1	11.5	12.7	14.0
Diluted EPS Growth (%)	5.4%	6.3%	13.7%	10.8%	10.0%
ROIC (%)	59.8%	53.3%	57.2%	59.4%	62.1%
ROE (%)	37.2%	36.4%	36.8%	36.6%	36.4%
P/E (x)	56.0	52.7	46.3	41.8	38.0
P/B (x)	20.5	18.1	16.2	14.5	13.2
EV/EBITDA (x)	40.2	37.2	32.3	28.9	25.9
Dividend Yield (%)	1.7%	0.8%	1.5%	1.7%	2.0%

Source: Company data, JM Financial. Note: Valuations as of 30/Oct/2023

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. 2Q & 1HFY24 consolidated snapshot: Margin beat led by a much sharper-than-expected gross margin recovery (INR mn)								
	2QFY24	2QFY23	YoY chg	2QFY24E	% Var	1HFY24	1HFY23	YoY chg
Net Sales	24,760	24,960	-0.8%	24,757	0.0%	49,530	50,540	-2.0%
Gross Profit	12,500	10,890	14.8%	11,934	4.7%	24,880	22,410	11.0%
Gross Profit Margin %	50.5%	43.6%	685 bps	48.2%	228 bps	50.2%	44.3%	589 bps
Staff Cost	1,870	1,660	12.7%	1,783	4.9%	3,680	3,220	14.3%
Ad & Sales Promotion	2,680	2,130	25.8%	2,401	11.6%	4,800	4,120	16.5%
Other Expenses	2,980	2,770	7.6%	2,896	2.9%	5,690	5,460	4.2%
EBITDA	4,970	4,330	14.8%	4,855	2.4%	10,710	9,610	11.4%
EBITDA margin %	20.1%	17.3%	272 bps	19.6%	46 bps	21.6%	19.0%	261 bps
Depreciation	390	370	5.4%	396	-1.5%	750	730	2.7%
EBIT	4,580	3,960	15.7%	4,458	2.7%	9,960	8,880	12.2%
Interest Expense	200	150	33.3%	150	33.3%	370	250	48.0%
Financial Other Income	380	190	100.0%	384	-1.0%	700	360	94.4%
PBT pre-exceptionals	4,760	4,000	19.0%	4,692	1.4%	10,290	8,990	14.5%
PBT post exceptionals	4,760	4,000	19.0%	4,692	1.4%	10,430	8,990	16.0%
Taxes	1,160	930	24.7%	1,150	0.9%	2,470	2,150	14.9%
Minority Interest	0	60	NM	50	NM	90	120	NM
Reported Net Profit	3,600	3,010	19.6%	3,493	3.1%	7,870	6,720	17.1%
Adjusted Net Profit	3,600	3,010	19.6%	3,493	3.1%	7,762	6,720	15.5%

Source: Company, JM Financial

Exhibit 2. 2Q & 1HFY24 costs breakdown					
% of revenue	2QFY24	2QFY23	2QFY24E	1HFY24	1HFY23
Cost of Goods Sold	49.5%	56.4%	51.8%	49.8%	55.7%
Staff Cost	7.6%	6.7%	7.2%	7.4%	6.4%
Ad & Sales Promotion	10.8%	8.5%	9.7%	9.7%	8.2%
Other Expenses	12.0%	11.1%	11.7%	11.5%	10.8%

Source: Company, JM Financial

Exhibit 3. Volumes across categories remained largely muted; International business performed well										
	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Domestic Consumer Vol Growth	21%	8%	0%	1%	-6%	3%	4%	5%	3%	3%
Parachute Volume growth - Rigid Packs	12%	7%	1%	-1%	-2%	-3%	2%	9%	-2%	1%
Saffola Volume Growth	11%	1%	-5%	0%	-23%	7%	13%	-5%	11%	3%
Value Added Hair Oil Volume Growth	34%	16%	0%	-4%	0%	-3%	-5%	9%	-3%	1%
International Revenue growth %	20%	14%	19%	16%	20%	9%	5%	10%	2%	7%

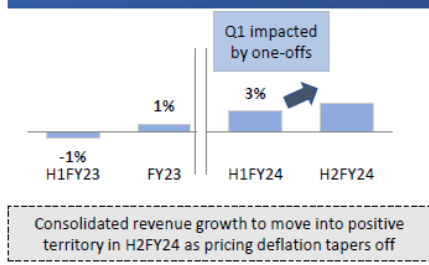
Source: Marico, JM Financial. *Represents reported growth including the impact of currency translation. Note: Saffola volume growth from 1QFY22 onwards, and VAHO volume growth from 2QFY22 onwards are based on our estimates due to discontinuation of disclosures for the same.

Exhibit 4. 2Q & 1HFY24 Segment Break-up: International and Domestic margins expanded by >200-300bps yoy respectively (INR mn)						
	2QFY24	2QFY23	YoY chg	1HFY24	1HFY23	YoY chg
Domestic & International Break-up						
Domestic Consumer Business						
Revenue	18,320	18,960	-3.4%	36,590	38,170	-4.1%
EBIT (Before unallocable exp)	3,760	3,290	14.3%	8,040	7,270	10.6%
Margin %	20.5%	17.4%	317 bps	22.0%	19.0%	293 bps
International Business						
Revenue	6,440	6,000	7.3%	12,940	12,370	4.6%
EBIT (Before unallocable exp)	1,500	1,270	18.1%	3,310	2,830	17.0%
Margin %	23.3%	21.2%	213 bps	25.6%	22.9%	270 bps

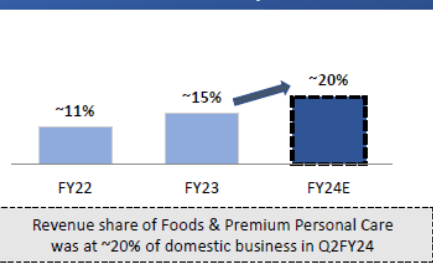
Source: Company, JM Financial

Exhibit 5. Management expects all-round improvement in FY24; gross margin and operating margin guidance upped again

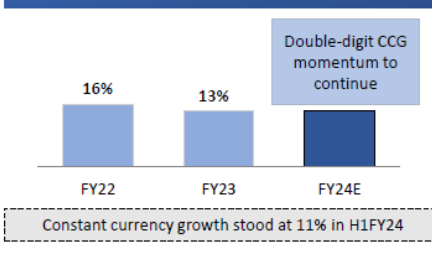
India Vol. Growth – gradual uptick expected



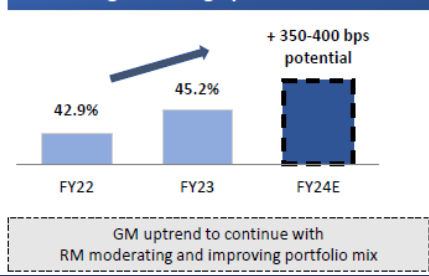
India – Diversification Journey



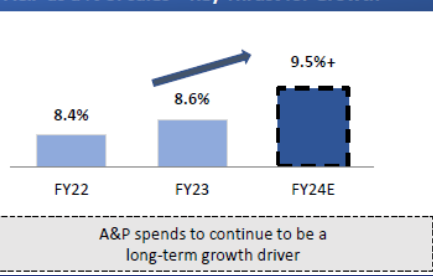
International Business (CCG) - Going Strong



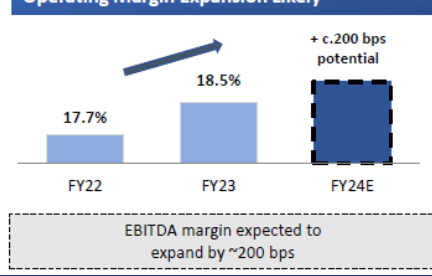
Gross Margin Trending Up



A&P as a % of sales – Key Thrust for Growth

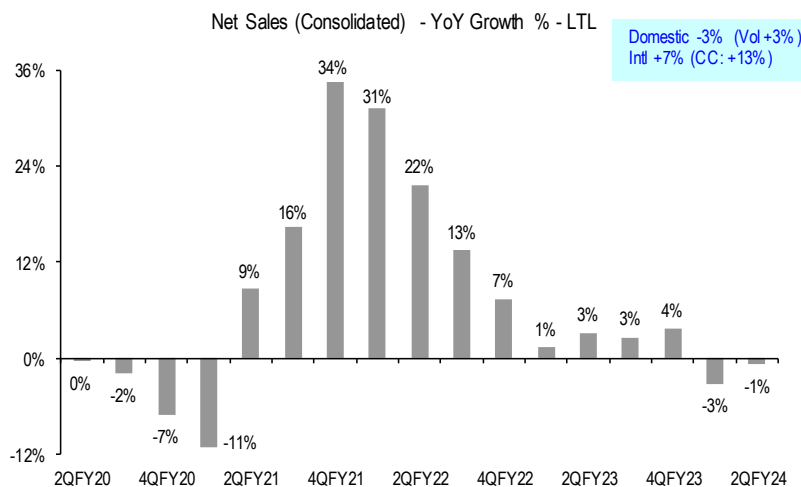


Operating Margin Expansion Likely



Source: Company presentation, JM Financial

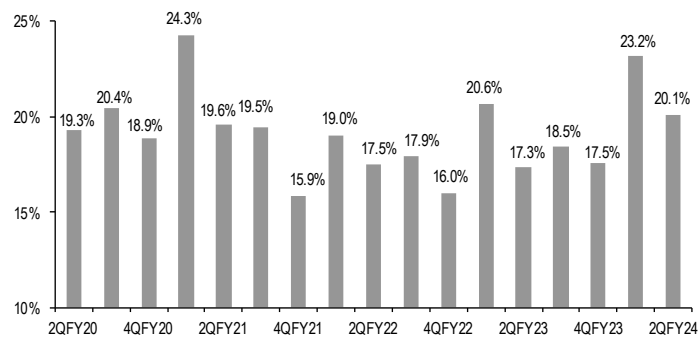
Exhibit 6. Consolidated revenue growth trend



Source: Company, JM Financial

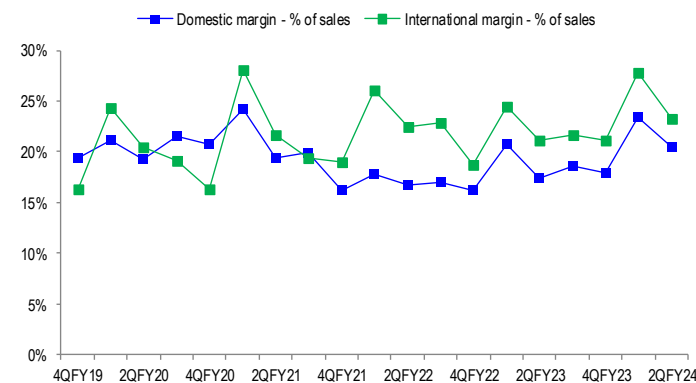
Exhibit 7. Consolidated EBITDA margin expanded 272bps yoy

Consolidated EBITDA Margin %



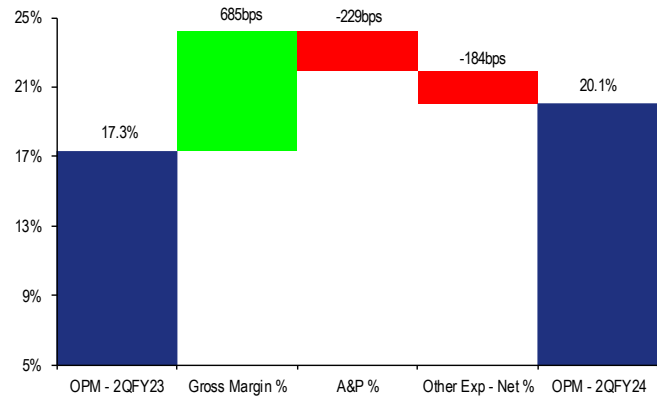
Source: Company, JM Financial

Exhibit 8. Domestic margin expanded 317bps yoy and International margin expanded 213bps yoy



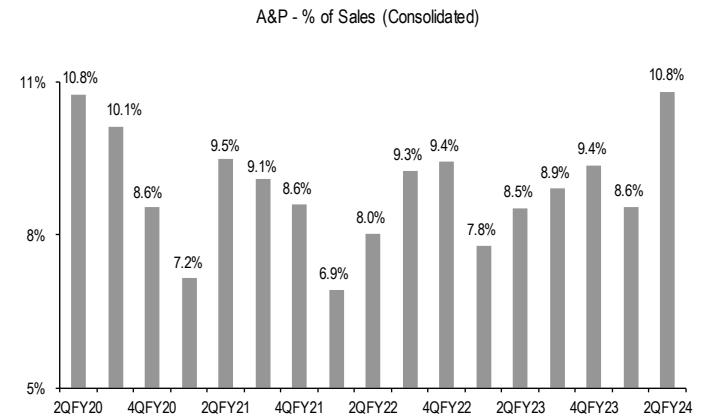
Source: Company, JM Financial

Exhibit 9. Strong GPM expansion was partially offset by higher A&P and Staff Costs and overall scale-deleverage given lower topline



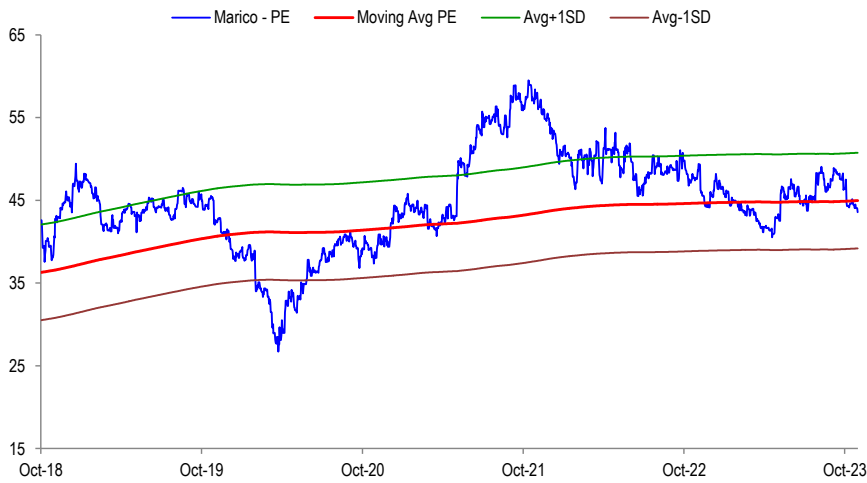
Source: Company, JM Financial

Exhibit 10. Ad-spendis grew 25.8% yoy during Sep-Q



Source: Company, JM Financial

Exhibit 11. Marico: one-year forward PE Band



Source: Company, Bloomberg, JM Financial

Financial Tables (Consolidated)

Profit & Loss statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net sales (Net of excise) - IGAAI	94,520	96,890	99,152	111,990	124,697
Sales Growth	18.3%	2.5%	2.3%	12.9%	11.3%
Other Operating Income	600	750	768	867	965
Total Revenue	95,120	97,640	99,920	112,857	125,662
Cost of Goods Sold/Op. Exp.	54,360	53,510	50,870	58,298	65,223
Personnel cost	5,860	6,530	7,189	8,063	8,941
Other expenses	18,090	19,500	21,115	23,412	25,944
EBITDA	16,810	18,100	20,747	23,083	25,554
EBITDA (%)	17.7%	18.5%	20.8%	20.5%	20.3%
Growth (%)	5.7%	7.7%	14.6%	11.3%	10.7%
Depreciation and amort.	1,390	1,550	1,690	1,938	2,209
EBIT	15,420	16,550	19,057	21,145	23,345
Other Income	980	1,440	1,369	1,520	1,690
Finance Cost	390	560	527	499	473
Pre tax profit	16,010	17,430	19,899	22,167	24,563
Excep & forex Inc/Loss(-)	0	0	0	0	0
PBT	16,010	17,430	19,899	22,167	24,563
Taxes	3,460	4,210	4,862	5,503	6,234
Extraordinary Inc/Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	-300	-200	-227	-252	-277
Reported net profit	12,250	13,020	14,809	16,412	18,051
Adjusted net profit	12,250	13,020	14,809	16,412	18,051
Net Margin (%)	12.9%	13.3%	14.8%	14.5%	14.4%
Diluted share capital (mn)	1,290	1,290	1,290	1,290	1,290
Diluted EPS (INR)	9.5	10.1	11.5	12.7	14.0
Growth (%)	5.4%	6.3%	13.7%	10.8%	10.0%
Total Dividend + Tax	11,953	5,805	10,367	11,489	13,538
Dividend Per Share (Rs)	9.3	4.5	8.0	8.9	10.5

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	33,480	37,990	42,433	47,356	51,869
Share capital	1,290	1,290	1,290	1,290	1,290
Reserves & Surplus	32,190	36,700	41,143	46,066	50,579
Preference Share Capital	0	0	0	0	0
Minority Interest	570	1,570	1,797	2,050	2,327
Total Loans	3,450	4,750	4,275	3,848	3,463
Def. Tax Liab / Assets (-)	-780	320	828	1,403	2,055
Sources of Funds	36,720	44,630	49,333	54,657	59,714
Net Fixed Assets	16,650	21,800	23,094	24,502	26,005
Gross Fixed Assets	15,240	18,000	20,975	24,312	28,015
Intangible Assets	6,540	8,620	8,620	8,620	8,620
Less: Deprn. & Amort.	5,960	5,910	7,600	9,537	11,747
Capital WIP & Net Lease Asset	830	1,090	1,099	1,108	1,116
Investments	8,280	10,960	13,152	15,782	18,939
Current Assets	29,720	33,910	32,984	36,876	39,842
Inventories	14,120	12,250	13,583	15,341	17,082
Sundry Debtors	6,520	10,150	8,150	9,205	10,249
Cash & Bank Balances	5,790	7,560	7,434	8,018	7,711
Loans & Advances	860	1,130	1,091	1,232	1,372
Other Current Assets	2,430	2,820	2,727	3,080	3,429
Current Liab. & Prov.	17,930	22,040	19,897	22,504	25,072
Current Liabilities	16,130	19,750	17,353	19,676	21,941
Provisions & Others	1,800	2,290	2,543	2,827	3,131
Net Current Assets	11,790	11,870	13,087	14,372	14,770
Application of Funds	36,720	44,630	49,333	54,657	59,714

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	16,010	17,430	19,899	22,167	24,563
Deprn. & Amort.	1,390	1,550	1,690	1,938	2,209
Net Interest Exp. / Inc. (-)	-590	-880	-842	-1,022	-1,217
Inc (-) / Dec in WCcap.	-3,420	-590	-1,478	-834	-856
Others	280	370	0	0	0
Taxes Paid	-3,510	-3,690	-4,219	-4,795	-5,432
Operating Cash Flow	10,160	14,190	15,050	17,455	19,266
Capex	-1,290	-1,570	-2,975	-3,337	-3,703
Free Cash Flow	8,870	12,620	12,075	14,117	15,563
-Inc/dec in investments	4,970	-8,200	-2,192	-2,630	-3,156
Other current assets	600	480	1,369	1,520	1,690
Investing Cash Flow	4,280	-9,290	-3,798	-4,447	-5,170
Inc/(dec) in capital	410	90	0	0	0
Dividend+Tax Thereon	-11,950	-5,820	-10,367	-11,489	-13,538
Inc/dec in loans	-250	1,030	-475	-428	-385
Other assets	-1,110	-900	-536	-507	-481
Financing Cash Flow	-12,900	-5,600	-11,378	-12,423	-14,404
Inc / Dec (-) in Cash	1,540	-700	-126	584	-308
Opening cash balance	4,250	8,260	7,560	7,434	8,018
Closing cash balance	5,790	7,560	7,434	8,018	7,711

Source: Company, JM Financial

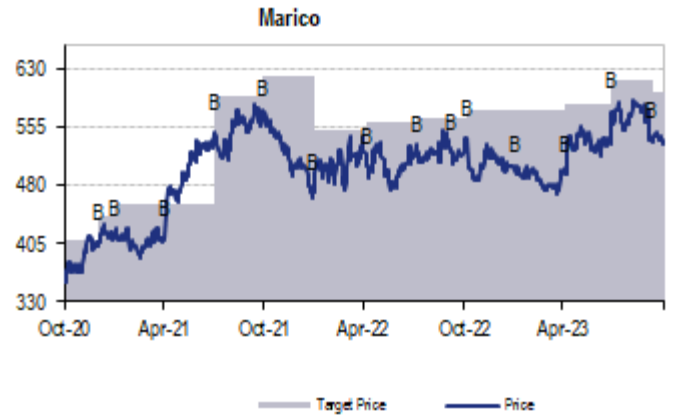
Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	12.9%	13.3%	14.8%	14.5%	14.4%
Asset Turnover (x)	2.6	2.4	2.1	2.2	2.2
Leverage Factor (x)	1.1	1.1	1.2	1.2	1.2
RoE	37.2%	36.4%	36.8%	36.6%	36.4%
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	26.0	29.4	32.9	36.7	40.2
ROIC	59.8%	53.3%	57.2%	59.4%	62.1%
ROE	37.2%	36.4%	36.8%	36.6%	36.4%
Net Debt/Equity (x)	-0.3	-0.4	-0.4	-0.4	-0.4
P/E (x)	56.0	52.7	46.3	41.8	38.0
P/B (x)	20.5	18.1	16.2	14.5	13.2
EV/EBITDA (x)	40.2	37.2	32.3	28.9	25.9
EV/Sales (x)	7.1	6.9	6.8	5.9	5.3
Debtor days	25	38	30	30	30
Inventory days	55	46	50	50	50
Creditor days	75	91	80	80	80

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
14-Apr-20	Buy	375	
4-May-20	Buy	375	0.0
8-Jul-20	Buy	375	0.0
27-Jul-20	Buy	390	4.0
8-Oct-20	Buy	390	0.0
29-Oct-20	Buy	410	5.1
1-Jan-21	Buy	440	7.3
28-Jan-21	Buy	455	3.4
30-Apr-21	Buy	455	0.0
30-Jul-21	Buy	595	30.8
28-Oct-21	Buy	620	4.2
28-Jan-22	Buy	550	-11.3
6-May-22	Buy	560	1.8
6-Aug-22	Buy	565	0.9
7-Oct-22	Buy	565	0.0
5-Nov-22	Buy	575	1.8
3-Feb-23	Buy	575	0.0
5-May-23	Buy	585	1.7
28-Jul-23	Buy	615	5.1
9-Oct-23	Buy	600	-2.4

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com

Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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