

Marico

Well oiled for growth

We upgrade Marico to BUY from ADD with TP of Rs 650 (45x FY26 EPS, 10% premium to its 5 year Average PE) and move it to high conviction list within staples pack as worst is behind us wr.t muted volume growth, pricing correction, loss related to new business and transient currency headwinds. We expect Marico to see Revenue/ Ebitda / PAT Cagr of 6/13/13% respectively over FY23-26 as 1) Domestic business fires on all cylinders –(a) Parachute (35% of domestic sales) expected to see mid-single volume growth on back of market share gains and conversion from unbranded to branded, as we have always seen in inflationary copra environment. Moreover, we expect double digit revenue growth in FY25 on back of mid to single digit price hikes (b) Saffola edible oil (20% of domestic sales) expected to see volume led mid single digit value growth in FY25, courtesy pricing correction anniversarian (down 20% in FY24) (c) VAHO – easing competitive intensity in BOP segment along with uptick in mid to premium end segment shall drive much better outcomes. 2) Significant improvement in profitability of fast-growing foods and digital first business (20% of domestic sales) 3) Sustaining double digit constant currency revenue growth momentum in International business as worst related to currency headwinds is behind us. Key risks to our call – 1) Volatility in RM index, as copra still forms 35% of RM basket 2) Increased competitive intensity in VAHO segment.

- Domestic business to fire on all cylinders** : Parachute (35% of domestic sales) expected to see mid-single volume growth (after seeing 1% volume growth in FY23) on back of market share gains and conversion from unbranded to branded, as we have always seen in inflationary copra environment. We have penciled in 11% revenue growth in FY25 on pack of 6% price hikes taken till date. Mgmt. intends to take more price hikes, if inflation in RM index sustains (b) Saffola edible oil (20% of domestic sales) expected to see volume led mid single digit value growth (declined 19% in FY24) in FY25, courtesy pricing correction anniversarian (down 20% in FY24) (c) VAHO – easing competitive intensity in BOP segment (shanti amla, Nihar naturals sarson kesh tel) along with uptick in mid to premium end segment shall drive much better profitability outcome. Incrementally, Marico has embarked upon project SETU, where it intends to increase direct reach from 1 mn outlets in FY24 to 1.5 mn outlets in FY27 and will involve an outlay of Rs 0.8-1 bn over a span of 3 years; with majority of the investments for the project coming from optimizing wholesale channel spends and savings from reducing supply chain costs. Notably, Project SETU shall help to drive market share gains across categories in urban and rural, as well as enhance assortment levels in urban stores, thereby enabling diversification & premiumization in the domestic business.
- Substantial improvement in margin profile of fast growing foods and digital first brands (20% of total sales)** : Foods business (10% of domestic sales) has seen c800bps gross margin improvement in FY24; courtesy benign RM index, increased share of in-house manufacturing, supply chain re-configuration and economies of scale from soya chunks and honey business. Similarly, mgmt. is gunning for double digit EBITDA margin by FY27 for its digital first brand business (10% of domestic sales) on back of improving scale and premiumization. At an aggregate basis, mgmt. intends to increase contribution of fast growing business from 20% of domestic sales in FY24 to 25% of sales in FY27

BUY
CMP (as on 6 May 2024) INR 530

Target Price INR 650

NIFTY 22,443

KEY CHANGES	OLD	NEW
Rating	ADD	BUY
Price Target	INR 650	INR 650
EPS %	FY25E 1%	FY26E -1%

KEY STOCK DATA

Bloomberg code	MRCO IN
No. of Shares (mn)	1,294
MCap (INR bn) / (\$ mn)	686/8,215
6m avg traded value (INR mn)	812
52 Week high / low	INR 595/486

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.8	(0.7)	7.4
Relative (%)	(0.5)	(14.5)	(13.6)

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	59.39	59.39
FIs & Local MFs	9.96	10.09
FPIs	25.69	25.54
Public & Others	4.96	4.98
Pledged Shares	0.00	0.00

Source : BSE

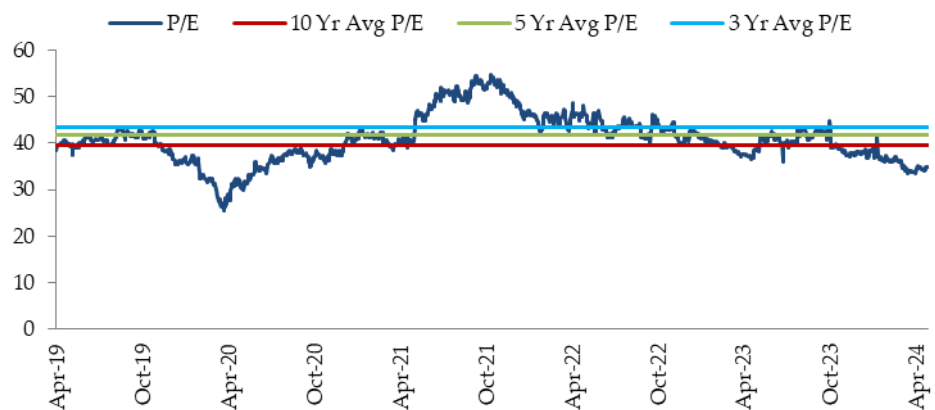
Pledged shares as % of total shares

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- Improved confidence in revenue momentum of International business :**
 Management is gunning for constant currency double digit revenue growth for FY25 as macro headwinds related to Bangladesh (40% of international business) behind us and strong revenue growth construct for MENA and South Africa business. Marico will continue to invest aggressively towards diversifying the portfolio, expanding the total addressable market and driving market share gains in each of the markets

Marico trades at 35x, almost at significant discount to its 3 year Average PE of 43x



4QFY24 Concall Takeaways

(1) Despite moderate uptick in rural growth, premiumization was leading over mass category. (2) Revival in PCNO category accompanied by uptick in ‘loose to branded conversion’ and ~6% price hike from Q1FY25 as copra prices are firming up. (3) Saffola edible oil volume/value grew mid-single digit/revenue decline, price correction to bottom out from Q2FY25 (4) VAHO remained weak on account of high base, competitive intensity and shrinkflation. It will recover gradually in FY25. (5) International revenue growth was broad based across the regions however, reduced dependence in Bangladesh from 51% in FY22 to ~44% in FY24. (6) Digital first portfolio to grow 2x from current level in FY27 followed by Beardo, Plix and Just herbs (7) Food category gained ~800bps margin led by i) in-house manufacturing; ii) reconfigured supply chain; iii) scale up of Honey and Soya chunks; and iv) softening of input cost. (8) Marico has launched Project Setu movement to increase direct distribution reach to focus on increasing assortments and product range

Quarterly/annual financial summary

(INR mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	22,780	22,400	1.7	24,220	(5.9)	95,120	97,640	96,530	1,07,840	1,17,909
EBITDA	4,420	3,930	12.5	5,130	(13.8)	16,810	18,100	20,260	22,914	25,895
APAT	3,180	3,020	5.3	3,830	(17.0)	12,250	13,020	14,810	16,586	18,856
EPS (INR)	2.5	2.3	5.3	3.0	(17.0)	9.5	10.1	11.5	12.8	14.6
P/E (x)						54.5	51.2	45.0	40.2	35.4
EV / EBITDA (x)						39.5	36.7	32.5	28.6	25.1
RoCE (%)						55.7	48.2	54.3	63.8	72.5

Consolidated P&L (INR mn)

Year End	FY22	FY23	FY24	FY25E	FY26E
Net Revenues	95,120	97,640	96,530	1,07,840	1,17,909
Growth (%)	18.2	2.6	(1.1)	11.7	9.3
Material Expenses	54,360	53,510	47,480	53,059	57,304
Employee Expense	5,860	6,530	7,430	8,173	8,990
ASP Expense	7,960	8,420	9,520	10,662	11,729
Other expenses	10,130	11,080	11,840	13,032	13,992
EBITDA	16,810	18,100	20,260	22,914	25,895
EBITDA Growth (%)	5.7	7.7	11.9	13.1	13.0
EBITDA Margin (%)	17.7	18.5	21.0	21.2	22.0
Depreciation	1,390	1,550	1,580	1,646	1,796
EBIT	15,420	16,550	18,680	21,268	24,099
Other Income (Including EO Items)	980	1,440	1,420	1,562	1,718
Interest	390	560	730	730	730
PBT	16,010	17,430	19,370	22,100	25,087
Tax	3,460	4,210	4,350	5,304	6,021
RPAT	12,250	13,020	14,810	16,586	18,856
adjustment	-	-	-	-	-
Adjusted PAT	12,250	13,020	14,810	16,586	18,856
APAT Growth (%)	5.7	6.3	13.7	12.0	13.7
Adjusted EPS (Rs)	9.5	10.1	11.5	12.8	14.6
EPS Growth (%)	5.6	6.3	13.7	12.0	13.7

Consolidated Balance Sheet (INR mn)

Year End	FY22	FY23	FY24	FY25E	FY26E
SOURCES OF FUNDS					
Share Capital - Equity	1,290	1,290	1,290	1,290	1,290
Reserves	32,190	36,700	39,228	42,887	47,522
Total Shareholders' Funds	33,480	37,990	40,518	44,177	48,812
Minority Interest	570	1,570	1,780	1,990	2,200
Long Term Debt	-	20	20	20	20
Short Term Debt	3,450	4,730	4,730	4,730	4,730
Total Debt	3,450	4,750	4,750	4,750	4,750
Net Deferred Taxes	(780)	320	320	320	320
Long Term Provisions & Others	1,190	3,810	3,810	3,810	3,810
TOTAL SOURCES OF FUNDS	37,910	48,440	51,178	55,047	59,892
APPLICATION OF FUNDS					
Net Block	14,320	16,690	16,360	15,964	15,418
CWIP	390	670	670	670	670
Other Non-current Assets	6,230	12,500	12,500	12,500	12,500
Total Non-current Assets	20,940	29,860	29,530	29,134	28,588
Inventories	14,120	12,250	12,111	13,530	14,793
Debtors	6,520	10,150	7,934	8,864	9,691
Other Current Assets	8,620	8,180	8,180	8,180	8,180
Cash & Equivalentents	5,790	7,560	12,819	16,416	21,214
Total Current Assets	35,050	38,140	41,043	46,989	53,878
Creditors	13,440	14,520	14,355	16,037	17,534
Other Current Liabilities & Provns	4,640	5,040	5,040	5,040	5,040
Total Current Liabilities	18,080	19,560	19,395	21,077	22,574
Net Current Assets	16,970	18,580	21,648	25,912	31,304
TOTAL APPLICATION OF FUNDS	37,910	48,440	51,178	55,047	59,892

Consolidated Cash Flow (INR mn)

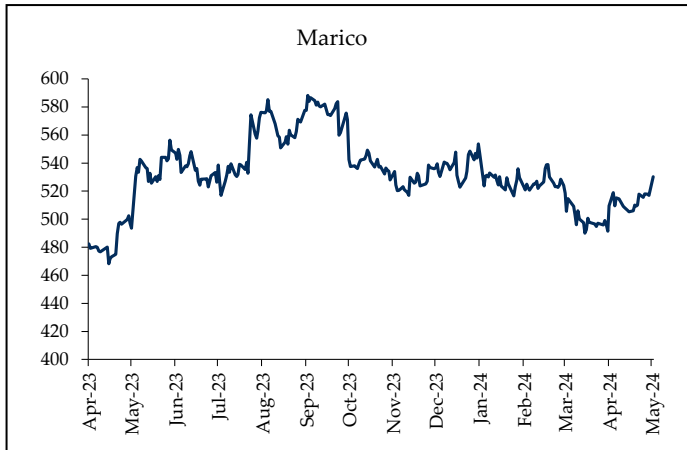
Year End	FY22	FY23	FY24	FY25E	FY26E
Reported PBT	16,010	17,430	19,370	22,100	25,087
Non-operating & EO Items	(110)	(580)	-	-	-
Interest Expenses	(200)	70	-	-	-
Depreciation	1,390	1,550	1,580	1,646	1,796
Working Capital Change	(3,420)	(590)	2,190	(667)	(593)
Tax Paid	(3,510)	(3,690)	(4,350)	(5,304)	(6,021)
OPERATING CASH FLOW (a)	10,160	14,190	18,790	17,775	20,269
Capex	(550)	(3,410)	(1,250)	(1,250)	(1,250)
Free Cash Flow (FCF)	9,610	10,780	17,540	16,525	19,019
Investments & Acquisition	690	(2,200)	-	-	-
Non-operating Income	4,110	(3,680)	-	-	-
INVESTING CASH FLOW (b)	4,250	(9,290)	(1,250)	(1,250)	(1,250)
Debt Issuance/(Repaid)	(30)	1,280	-	-	-
Interest Expenses	(1,030)	(940)	-	-	-
FCFE	15,470	4,560	17,540	16,525	19,019
Share Capital Issuance	410	90	-	-	-
Dividend	(11,950)	(5,820)	(12,282)	(12,928)	(14,221)
Others	(280)	(840)	-	-	-
FINANCING CASH FLOW (c)	(12,880)	(6,230)	(12,282)	(12,928)	(14,221)
NET CASH FLOW (a+b+c)	1,530	(1,330)	5,259	3,597	4,798
EO Items, Others	1,069	2,599	1,269	6,528	10,125
Closing Cash & Equivalents	2,599	1,269	6,528	10,125	14,923

Ratios

Year End	FY22	FY23	FY24	FY25E	FY26E
PROFITABILITY (%)					
GPM	42.9	45.2	50.8	50.8	51.4
EBITDA Margin	17.7	18.5	21.0	21.2	22.0
EBIT Margin	16.2	17.0	19.4	19.7	20.4
APAT Margin	12.9	13.3	15.3	15.4	16.0
RoE	37.2	36.4	37.7	39.2	40.6
RoIC (or Core RoCE)	55.7	48.2	54.3	63.8	72.5
RoCE	33.3	31.8	32.2	33.7	35.3
EFFICIENCY					
Tax Rate (%)	21.6	24.2	22.5	24.0	24.0
Fixed Asset Turnover (x)	8.7	8.2	7.4	7.5	7.6
Inventory (days)	54.2	45.8	45.8	45.8	45.8
Debtors (days)	25.0	37.9	30.0	30.0	30.0
Other Current Assets (days)	33.1	30.6	30.9	27.7	25.3
Payables (days)	51.6	54.3	54.3	54.3	54.3
Other Current Liab & Provs (days)	17.8	18.8	19.1	17.1	15.6
Cash Conversion Cycle (days)	42.9	41.2	33.4	32.1	31.2
Net D/E (x)	(0.1)	(0.1)	(0.2)	(0.3)	(0.3)
Interest Coverage(x)	39.5	29.6	25.6	29.1	33.0
PER SHARE DATA (Rs)					
EPS	9.5	10.1	11.5	12.8	14.6
CEPS	10.6	11.3	12.7	14.1	16.0
Dividend	9.2	4.5	9.5	10.0	11.0
Book Value	25.9	29.4	31.3	34.2	37.8
VALUATION					
P/E (x)	54	51	45	40	35
P/BV (x)	19.9	17.6	16.5	15.1	13.7
EV/EBITDA (x)	39.5	36.7	32.5	28.6	25.1
EV/Revenues (x)	7.0	6.8	6.8	6.1	5.5
OCF/EV (%)	1.5	2.1	2.9	2.7	3.1
FCF/EV (%)	1.4	1.6	2.7	2.5	2.9
FCFE/Mkt Cap (%)	2.3	0.7	2.6	2.5	2.9
Dividend Yield (%)	1.8	0.9	1.8	1.9	2.1

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

Disclosure:

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