Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Marico Ltd

Soft Q1; growth trajectory to improve in H2

Consumer Goods	Sharekhan code: MARICO
Reco/View: Buy ↔	CMP: **Rs. 573**	Price Target: **Rs. 645** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Marico's Q1FY2024 performance was soft, affected by significant trade destocking in Saffola Edible Oils and channel inventory adjustments in core portfolios. Revenue declined by 3% y-o-y, while adjusted PAT grew by 11% y-o-y, led by sharp margin expansion.
- Volume offtake is expected to improve from Q2 with improved consumer demand. Growth is likely to recover in the positive trajectory in H2FY2024 (we expect growth to be in low double digits).
- Consolidated OPM is expected to be >20% in FY2024 with strong expansion in gross margins. Premiumisation and scale-up in the food business are expected to drive consistent improvement in the medium term.
- The stock trades at 47x/41x its FY2024E/FY2025E earnings. We retain our Buy rating on the stock with an unchanged PT of Rs. 645.

Marico's Q1FY2024 performance was affected by one-offs such as 1) significant trade destocking in Saffola Edible Oils in reaction to sharply falling vegetable oil prices and 2) channel inventory adjustments in core portfolios. Consolidated revenue decreased by 3% y-o-y to Rs. 2,477 crore, with volume growth of 3% in the domestic business, while the international business grew by 9% on constant currency basis. A sharp decline in key input prices resulted in a 494-bps y-o-y improvement in gross margins to 50% and a 253-bps y-o-y improvement in OPM to 23.2%. Operating profit grew by 8.7% y-o-y to Rs. 574 crore and adjusted PAT grew by 11.2% y-o-y to Rs. 419.2 crore. Management expects the volume growth trajectory to continue in the coming quarters. Margins are likely to remain high in a deflationary raw-material environment.-

Key positives

- The foods business grew by 24% y-o-y; premium personal care is scaling up well.
- About 85% of the portfolio either gained or sustained market share and penetration on MAT basis.
- The international business grew by 9% (CC terms) despite a challenging macro environment in some of the regions.
- Gross margin/OPM improved by 494/253 bps y-o-y, aided by moderation in key commodity prices and a favourable portfolio mix in India business.

Key negatives

- *Parachute rigid volume* decreased by 2%.
- Value added-hair oils had a flat quarter due to slow recovery in mass personal categories.

Management Commentary

- Q1 was affected by one-offs. The company expects a good recovery in the volume growth trajectory on account of healthy off-takes, market share gains, and penetration improvement. Revenue growth is expected to get back to the positive trajectory in H2FY2024 as pricing deflation in the domestic portfolio has bottomed-out.
- The international business will maintain its double-digit growth in FY2024. Vietnam and MENA have replicated the Bangladesh model and benefit of the same on revenue and profitability will be visible in the coming years.
- The company has maintained its medium-term guidance of 13-15% revenue growth in the domestic business with volume growth of 8-10%.
- Gross margin and OPM are expected to improve by 250-300 bps and by >150 bps to >20%, respectively, in FY2024, aided by easing raw-material prices, aggressive cost management, and a favourable mix. OPM will consistently improve in the coming years, driven by 1) strong scale-up in the food business, 2) premiumisation, and 3) likely margin improvement in Vietnam and MENA region margins with change in the business model.
- The company made investment in plant-based nutrient brand – Plix – by acquiring majority stake at Rs. 369 crore. It is a digital brand and has annual revenue run rate of Rs. 150 crore. Gross margin of the brand is better than the gross margin of Marico's core business.
- Food and premium personal care businesses will scale up well and achieve their medium-term targets. Management will focus on improving the OPM of these businesses in the coming years with steady growth of 15-20%.

Revision in estimates – We have broadly maintained our earnings estimates for FY2024/FY2025, as Q1FY2024 performance was largely in-line with expectations. Management expects the growth trajectory to improve in H2FY2024.

Our Call

View: Retain Buy with an unhanged PT of Rs. 645: Marico's Q1 performance was affected by one-offs. The company is confident of achieving good recovery in the performance in the quarters ahead. Marico aims to improve domestic volume growth, strengthen its market share across categories, and sustain growth momentum in the international business to drive growth in the medium term. Margin expansion will be driven by easing raw-material prices, aggressive cost management, and a favourable mix. The stock is currently trading at 47x/41x its FY2024E/FY2025E earnings. We retain our Buy rating on the stock with an unchanged price target (PT) of Rs. 645.

Key Risks

A sharp rise in key input prices from current levels or heightened competition in core categories would act as a key risk to our earnings estimates.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	9,512	9,764	10,408	11,711
OPM (%)	17.7	18.5	20.4	20.6
Adjusted PAT	1,255	1,322	1,579	1,802
% YoY growth	*6.1*	*5.3*	*19.4*	*14.2*
Adjusted EPS (Rs.)	9.7	10.2	12.2	14.0
P/E (x)	59.0	56.0	46.9	41.1
P/B (x)	22.1	19.5	17.6	15.3
EV/EBIDTA (x)	43.5	40.3	34.0	29.7
RoNW (%)	38.1	37.0	39.4	39.8
RoCE (%)	41.4	40.8	44.0	46.9

Source: Company; Sharekhan Estimates

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS	Neutral	↑	Positive
RQ	Positive	↔	Positive
RV	Positive	↔	Positive

ESG Disclosure Score NEW

ESG RISK RATING 26.21

Updated Jul 08, 2023

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

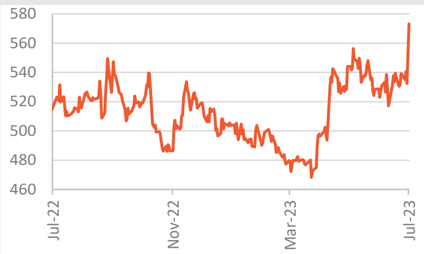
Company details

Market cap:	Rs. 74,138 cr
52-week high/low:	Rs. 577 / 463
NSE volume: (No of shares)	13.5 lakh
BSE code:	531642
NSE code:	MARICO
Free float: (No of shares)	52.5 cr

Shareholding (%)

Promoters	59.4
FII	25.3
DII	10.6
Others	4.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.6	15.1	13.8	11.4
Relative to Sensex	6.1	6.1	2.3	-4.9

Sharekhan Research, Bloomberg

Soft Q1 – One-offs impacted revenue growth; sharp improvement in margins

Marico posted a 3.2% y-o-y decline in revenue to Rs. 2,477 crore, impacted by a 4.9% y-o-y dip in India business to Rs. 1,827 crore, while the international business posted 2% y-o-y growth to Rs. 650 crore. Revenue came in lower than our and average street expectation of Rs. 2,524 crore and Rs. 2,605 crore, respectively. The domestic business registered muted 3% y-o-y volume growth, subdued by one-off channel inventory adjustments on account of destocking by trade in Saffola Oils, owing to a sharp fall in vegetable oil prices, and the last phase of trade scheme rationalisation in core categories, implemented by the company to correct the historical Q1 revenue skew. Parachute Coconut Oil posted a 2% y-o-y volume decline, value-added hair oils had a flat quarter, while Saffola franchise declined by 13% (value terms) y-o-y. Foods continued to scale up well and reported 24% y-o-y value growth, while premium personal care (including the digital-first portfolio) delivered a steady performance in Q1FY2024. During the quarter, ~85% of the portfolio either gained or sustained market share and penetration on MAT basis. Among sales channels, modern trade and e-commerce grew in double digits, while general trade declined in mid-single digits. Within the international business, Bangladesh reported 9% y-o-y constant currency growth, Vietnam grew by 5% y-o-y in CC terms, while MENA and South Africa grew by 15% and 37% y-o-y, respectively, in CC terms. Aided by moderation in key commodity prices, gross margin improved by 494 bps y-o-y to 50%, while OPM increased by 253 bps y-o-y to 23.2% as the company maintained its investments towards the strategic brand building of core and new businesses resulting in 6.5% y-o-y rise in A&P spends. OPM came largely in-line with average street and our expectation of 23.1-23.9%. EBITDA margin of the domestic business came in at 23.7%, up 205 bps y-o-y, and that of the international business came in at 29.6%, up 401 bps y-o-y. Operating profit grew by 8.7% y-o-y to Rs. 574 crore. Adjusted PAT grew by 11.2% y-o-y to Rs. 419.2 crore, largely in line with average street and our expectation of Rs. 413-419 crore. Exceptional items include one-time gain of Rs. 14 crore on the sale of fixed assets. Reported PAT came in at Rs. 430.4 crore.

Muted performance by core categories; margin expanded 205 bps y-o-y to 23.7%

- **Coconut Oil –** Parachute Rigid packs posted a 2% y-o-y volume decline: Parachute Rigids posted a 2% y-o-y volume decline during the quarter. However, offtakes remained healthy with the brand holding its market share on MAT basis and recording the highest-ever penetration levels. The company expects to grow volumes of Parachute Rigids at 5-7% over the medium term, given the market structure and strengthening brand equity.
- **Flat Q1 for VAHO portfolio:** Slower recovery in mass personal care categories led to flat growth in the VAHO portfolio. The franchise logged value market share gains of ~20 bps, reflective of the focus on the mid and premium segments of the portfolio. The company aims to deliver double-digit value growth in VAHO over the medium term by focusing on driving value share gains ahead of volume share in the overall portfolio through mix improvement and innovations in the premium segment.
- **Weak quarter for Saffola franchise:** Saffola franchise, comprising refined edible oils and foods, declined by 13% y-o-y in value terms.
    - **Foods business reported 24% y-o-y growth:** Foods delivered 24% value growth y-o-y, aided by steady growth in core and newer franchises. Saffola Oats maintained its market leadership while strengthening its presence with the launch of Saffola Oats Gold. Newer categories of honey and soya chunks are gaining scale, while peanut butter, mayo and Munchiez have seen encouraging traction so far. The company is focused on market development, brand-building, and go-to-market initiatives and expects to reach the Rs. 850 crore revenue mark in foods in FY2024.

    - **Saffola Edible Oils registered low double-digit volume growth:** Saffola Edible Oils registered low double-digit volume growth on a negative base, mainly due to trade further reducing inventory levels as vegetable oil prices experienced a sharp downturn. Revenue decline on a y-o-y basis was in low twenties due to pricing interventions through FY2023 and Q1FY2024 (amounting to the price decline of ~30% y-o-y). In Saffola Edible Oils, the company expects to deliver high single-digit volume growth over the medium term.

- **Strong scale-up in premium personal care and digital-first portfolios:** Premium personal care (including the digital-first portfolio) delivered a steady performance in Q1FY2024. The composite portfolio is on course to contribute ~10% to domestic revenue in FY2024. The company plans to build the premium personal care portfolio into future growth engines and expects to deliver double-digit value growth over the medium term in serums and male grooming portfolios. The digital-first portfolio has scaled up well in line with expectations and is on course to report ~Rs. 400 crore revenue run rate on exit basis in FY2024.

International business posted 9% y-o-y CC revenue growth; margin rose by 401 bps y-o-y to 23.7%

The international business delivered 9% y-o-y CC growth in Q1FY2024. Within the international business, Bangladesh reported 9% constant currency (CC) growth y-o-y with broad-based performance across core and newer portfolios. Vietnam registered 5% y-o-y growth (CC terms), subdued by the impact of the economic slowdown on the HPC category. MENA delivered 15% y-o-y CC growth, with both the Gulf region and Egypt registering double-digit growth and South Africa posting 37% y-o-y CC growth, driven by the haircare segment. NCD and Exports business registered 24% y-o-y growth. Over the medium term, the company expects to deliver double-digit CC growth in Bangladesh, given its competitive position and significant growth headroom in the market. Expansion into the female personal care category will provide a fillip to the Vietnam business in the medium term. The MENA market presents an attractive growth opportunity and the company will invest to grow in this market. In South Africa, Marico expects to protect the core franchise of ethnic hair care and health care over the medium term.

Strategic investment in Satiya Nutraceuticals Private Limited

Marico recently signed definitive agreements to acquire up to 58% share in Satiya Nutraceuticals Private Limited (Satiya Nutraceuticals) at a pre-money valuation of ~4x of its annualised revenue run-rate (ARR) of ~Rs. 150 crore. Satiya Nutraceuticals owns The Plant Fix-Plix, a digital-first, clean-label, plant-based nutrition brand. As part of the transaction, Marico has acquired a 32.75% stake in Satiya Nutraceuticals and requisite majority control over its board composition/total voting rights on July 26, 2023, and accordingly it has become a subsidiary of the company. The acquisition of the remaining stake of 25.25% will be completed in tranches by May 2025.

Results (Consolidated) Rs cr

Particulars	Q1FY2024	Q1FY2023	y-o-y (%)	Q4FY2023	q-o-q (%)
Net sales	**2,477.0**	**2,558.0**	**-3.2**	**2,240.0**	**10.6**
Raw Material Consumed	1,239.0	1,406.0	-11.9	1,178.0	5.2
Employee Expenses	181.0	156.0	16.0	171.0	5.8
Ad & Sales promotion expenses	212.0	199.0	6.5	210.0	1.0
Other Expenses	271.0	269.0	0.7	288.0	-5.9
Total Expenditure	1,903.0	2,030.0	-6.3	1,847.0	3.0
Operating profit	**574.0**	**528.0**	**8.7**	**393.0**	**46.1**
Other income	32.0	17.0	88.2	40.0	-20.0
Interest expenses	17.0	10.0	70.0	17.0	0.0
Depreciation	36.0	36.0	0.0	43.0	-16.3
PBT	**553.0**	**499.0**	**10.8**	**373.0**	**48.3**
Tax	133.8	122.0	9.7	90.4	48.0
Adjusted PAT	**419.2**	**377.0**	**11.2**	**282.6**	**48.3**
Extraordinary items	-11.2	0.0	-	-22.4	-
Reported PAT	**430.4**	**377.0**	**14.2**	**305.0**	**41.1**
Adjusted EPS (Rs.)	3.2	2.9	11.2	2.2	48.3
			bps		**bps**
GPM (%)	50.0	45.0	494	47.4	257
OPM (%)	23.2	20.6	253	17.5	563
NPM (%)	16.9	14.7	219	12.6	431
Tax rate (%)	23.2	20.6	253	17.5	563

Source: Company, Sharekhan Research

Result snapshot (Standalone) Rs cr

Particulars	Q1FY24	Q1FY23	y-o-y (%)	Q4FY23	q-o-q (%)
Net Sales	1,841.0	1,976.0	-6.8	1,702.0	8.2
Operating profit	403.0	382.0	5.5	279.0	44.4
Adjusted PAT	307.0	387.0	-20.7	204.0	50.5
			bps		**bps**
GPM (%)	45.2	40.4	481	42.2	301
OPM (%)	21.9	19.3	256	16.4	550

Source: Company, Sharekhan research

Outlook and Valuation

■ Sector View – Rural recovery on cards; margin improvement to sustain

Rural demand bottomed out with sales returning to the positive growth path in Q4FY2023. With price inflation stabilising and a decline in key input prices, managements of most companies are confident of witnessing a gradual pick-up in rural demand in the quarters ahead. Moreover, expectation of a well spread-out monsoon and the government offering some incentives prior to the budget might provide some boost to rural sentiments in the coming quarters. In FY2024, revenue growth is expected to be volume-led growth with companies focusing on passing on the benefits of the decline in input cost to customers in the coming quarters. The drop in input prices will drive gross margins in the coming quarters. Despite higher media spends, OPM is expected to remain high on a y-o-y basis in the near term.

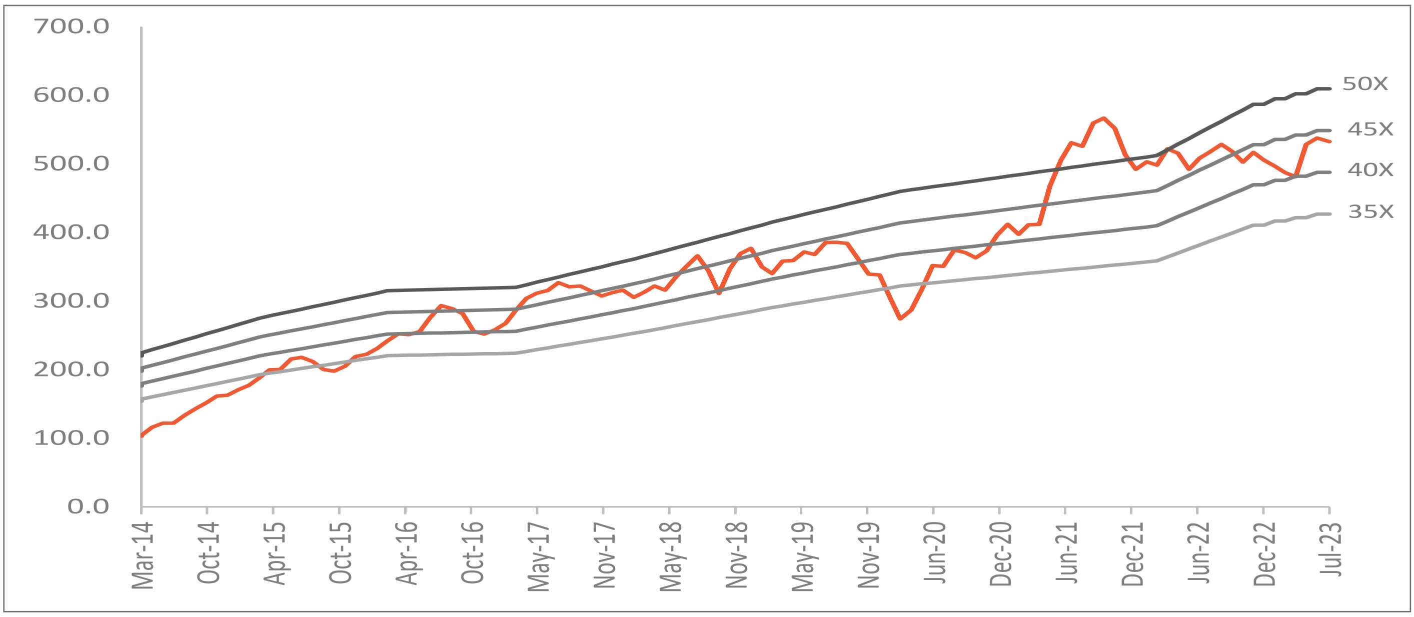
■ Company Outlook – Maintain volume growth target of 8-10% for the medium term

In Q1FY2024, one-offs impacted Marico's revenue growth, while margins sharply improved, with cooling of input cost inflation. The company is firm on its aspiration to deliver 13-15% revenue growth, aided by 8-10% domestic volume growth in the domestic business and double-digit CC growth in the international business in the medium term. Parachute Rigids is expected to deliver 5-7% volume growth, while the VAHO portfolio is expected to sustain double-digit value growth momentum. Saffola oils is expected to deliver high single-digit volume growth. Saffola Foods is expected to achieve a turnover of Rs. 850 crore by FY2024 and digital brands are expected to achieve a combined turnover of Rs. 400 crore by FY2024. On the profitability front, Copra prices are expected to remain range bound, while other key inputs are expected to remain firm in the near term. Gross margin and OPM are expected to improve by 250-300 bps and by >150 bps, respectively, in FY2024, aided by easing raw-material prices, aggressive cost management, and a favourable mix. Management has maintained its OPM guidance of 19% over the medium term.

■ Valuation – Retain Buy with an unchanged PT of Rs. 645

Marico's Q1 performance was affected by one-offs. The company is confident of achieving good recovery in the performance in the quarters ahead. Marico aims to improve domestic volume growth, strengthen its market share across categories, and sustain growth momentum in the international business to drive growth in the medium term. Margin expansion will be driven by easing raw-material prices, aggressive cost management, and a favourable mix. The stock is currently trading at 47x/41x its FY2024E/FY2025E earnings. We retain our Buy rating on the stock with an unchanged PT of Rs. 645.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Dabur	60.6	43.9	36.1	47.8	35.7	29.2	22.1	27.5	30.5
Hindustan Unilever	60.6	55.3	47.5	44.1	39.2	33.5	25.6	28.2	31.9
Emami	26.2	22.3	18.4	20.8	18.0	14.6	38.0	40.5	41.9
Marico	56.0	46.9	41.0	40.2	34.0	29.7	40.8	44.0	46.9

Source: Company, Sharekhan estimates

About the company

Marico is one of India's leading consumer products companies in the domestic hair and wellness market with a turnover of over Rs. 9,500 crore. The company is present in the categories of hair care, skin care, edible oils, health foods, and male grooming, with a vast portfolio of brands such as Parachute, Saffola, Hair & Care, Nihar, Livon, Kaya Youth, and Coco Soul. The company is currently present in 25 countries across emerging markets of Asia and Africa, including Middle East, Bangladesh, Vietnam, Egypt, and South Africa, which constitute 25% of the total revenue. The company has a retail reach of over 5 million outlets in the domestic market.

Investment theme

Marico is a leading player in the domestic hair and wellness market with a leadership position in categories such as coconut oil (~62% market share), value-added hair oil (~28% market share), and Parachute Rigids within coconut oil (~53% market share). Marico has a three-pronged strategy of driving growth through key categories, innovations/entrance into the niche category, and scaling up its presence in international geographies. In recent times, the company has entered into niche categories such as male grooming, premium hair nourishment, and healthy foods, which will not only improve the company's revenue growth trajectory but would also help in boosting margins in the long run due to their premium nature. Consistent innovations, wide distribution network, and expansion in new-age channels like modern trade and e-commerce would be key platforms to achieve good growth in the near term.

Key Risks

- **Demand slowdown:** A slowdown in key product categories would affect overall demand and revenue growth.
- **Higher input prices:** A significant increase in prices of key raw materials such as copra (~40% of input costs) would affect profitability and earnings growth.
- **Increased competition in highly penetrated categories:** Increased competition in highly penetrated categories such as VAHO and edible oils would threaten revenue growth.

Additional Data

Key management personnel

Harsh Mariwala	Chairman
Saugata Gupta	Executive Director, Chief Executive Officer, and Managing Director
Pawan Agrawal	Chief Financial Officer
Vinay M A	Company Secretary and Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	First State Investment ICVC	5.4
2	Life Insurance Corp. of India	3.6
3	Blackrock Inc.	2.4
4	Bombay Oil Industries Ltd.	1.4
5	Vanguard Group Inc.	1.4
6	UTI Asset Management Co. Ltd.	1.1
7	Government Pension Fund	1.0
8	FIL Ltd.	0.9
9	Norges Bank	0.8
10	Franklin Resources Inc.	0.6

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-61169602; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022- 33054600