

31 October 2023

India | Equity Research | Q2FY24 results review

Marico

Consumer Staples & Discretionary

Improving trajectory; that's the base case

Continued weakness (in 2QFY24) across key segments (PCNO, VAHO and Saffola edible oil) is underwhelming as demand conditions remain under pressure. However, management expects a gradual improvement as offtakes remain healthy and pricing actions largely coming into base. Further, we like the continued execution-driven outperformance in the food and premium personal care segments (~20% revenue share of domestic business in 2QFY24). International business maintains healthy revenue growth trajectory. Margins remained healthy led by input cost deflation. Marico (in our view) has been likely impacted significantly higher (vs peers) due to external reasons (weak demand environment and commodity deflation) and could witness stronger recovery (vs peers) with improving external environment and aggressive growth ambitions. We recently upgraded the stock with a long-term view ([report link](#)). **BUY**.

Volumes continue to be under pressure

Consolidated revenue declined 1% YoY, while EBITDA grew 15% YoY to INR 5bn (both in line with estimates). Domestic revenue declined 3% YoY, while volume growth remained subdued at 3% YoY as demand conditions didn't improve (due to uneven rainfall distribution and high food inflation). General trade declined by low-single digits (further pressure on credit leading to inventory correction in retail channel and resurgence of local players), while MT and E-com grew in high double-digits (+20% YoY). Management highlighted that green shoots were visible in the second half of September, and with offtakes remaining healthy, uptick in volume growth will follow gradually. International business continued its trajectory with 13% YoY CC growth.

Segment performance

Parachute volume growth was muted at 1% YoY with deceleration in conversion from unbranded to branded segment. Management expects uptick in volumes here driven by cost advantage of Marico as copra enters off season. VAHO value growth was largely flat (+1% YoY) due to continued pressure at mass end while mid and premium segment performed better as the company is disproportionately improving its presence in these segments.

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	95,120	97,640	99,406	1,11,715
EBITDA	16,810	18,100	20,410	23,472
EBITDA Margin (%)	17.7	18.5	20.5	21.0
Net Profit	12,250	13,020	14,713	16,865
EPS (Rs)	9.5	10.1	11.4	13.1
EPS % Chg YoY	5.6	5.3	13.2	14.6
P/E (x)	54.7	51.9	45.9	40.0
EV/EBITDA (x)	40.2	37.2	32.9	28.5
RoCE (%)	32.9	30.7	31.9	36.1
RoE (%)	36.8	35.4	36.8	41.3

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Market Data

Market Cap (INR)	688bn
Market Cap (USD)	8,269mn
Bloomberg Code	MRCO IN
Reuters Code	MRCO.BO
52-week Range (INR)	595 /463
Free Float (%)	40.0
ADTV-3M (mn) (USD)	11.7

Price Performance (%)	3m	6m	12m
Absolute	(7.3)	7.2	3.5
Relative to Sensex	(4.6)	1.2	(4.8)

ESG Disclosure	2021	2022	Change
ESG score	56.1	58.2	2.1
Environment	31.9	38.2	6.3
Social	45.2	45.2	-
Governance	91.1	91.1	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(3.7)	(3.7)
EBITDA	(3.6)	(3.5)
EPS	(3.7)	(3.6)

Previous Reports

01-10-2023: [Company update](#)

29-07-2023: [Q1FY24 results review](#)

Saffola brand revenue declined 12% YoY, impacted by ~30% price cut in Saffola Edible oil (low-single digit volume growth). Saffola Foods franchise continues to grow strongly at 25% YoY with good performance in the oats business and sustained traction in Honey and Soya chunks. Premium personal care and digital-first brands delivered healthy growth. It is confident to reach Rs8.5bn revenues in foods by FY24E and Rs 4bn in digital first brand segment. It plans to further accelerate growth in foods segment after investment behind market development, strengthening the cost structure, and refining supply chain and GTM strategies.

Strong international business performance

Revenue grew 13% YoY in constant currency terms despite underperformance in Bangladesh market (+2% in CC) driven by broad-based performance across other geographies - Vietnam (+13% in CC), MENA (+34% in CC) and South Africa (+23% in CC). Bangladesh is expected to improve perform from Jan'24 while currency headwinds is likely to continue.

Deflationary input cost drives margin expansion

Consolidated gross margin expanded 685bps YoY to 50.5% (up 50bps QoQ) driven by input cost deflation. Management expects gross margin to remain steady with upward bias.

Copra prices declined 2% YoY and were up 1% QoQ. Rice bran oil was down 23% YoY. LLP and HDPE prices declined by 5% YoY and 10% YoY. The management expects copra prices (domestic) to face inflation as it enters off season.

Consolidated EBITDA margin was up 270bps YoY to 20.1%. Ad-spends were up 26% YoY. EBITDA grew by 15% YoY while PAT was up 17% YoY. Management expects gross margin to improve by ~350-400bps and operating margin to improve by >200bps to 20% in FY24.

Valuation and risks

We have cut our earnings estimates by 3-4% for FY24-25E; modelling revenue / EBITDA / PAT CAGR of 7 / 14 / 14 (%) over FY23-25E. Maintain BUY with a DCF-based revised target price of INR 650 (vs previous TP at INR 670). At our target price, the stock will trade at 50x P/E multiple Mar-25E. Key downside risk is higher-than-expected inflation in copra prices.

Exhibit 1: Q2FY24 results review (consolidated)

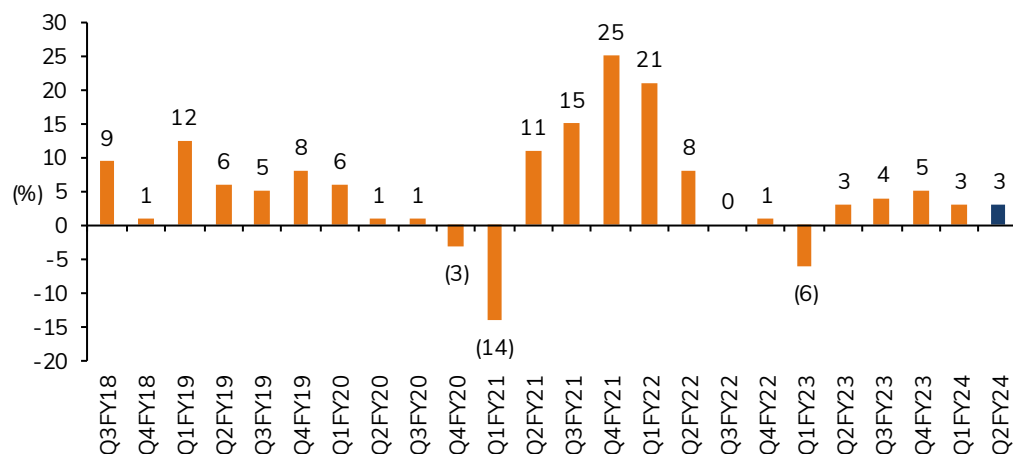
INR mn	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	YTD FY24	YTD FY23	YoY (%)
Net Revenues	24,760	24,960	(1)	24,770	(0)	49,530	50,540	(2)
COGS	(12,260)	(14,070)	(13)	(12,390)	(1)	(24,650)	(28,130)	(12)
Gross profit	12,500	10,890	15	12,380	1	24,880	22,410	11
Staff cost	(1,870)	(1,660)	13	(1,810)	3	(3,680)	(3,220)	14
A&SP	(2,680)	(2,130)	26	(2,120)	26	(4,800)	(4,120)	17
Other opex	(2,980)	(2,770)	8	(2,710)	10	(5,690)	(5,460)	4
Total opex	(7,530)	(6,560)	15	(6,640)	13	(14,170)	(12,800)	11
EBITDA	4,970	4,330	15	5,740	(13)	10,710	9,610	11
Other income	380	190	100	460	(17)	840	360	133
Finance cost	(200)	(150)	33	(170)	18	(370)	(250)	48
D&A	(390)	(370)	5	(360)	8	(750)	(730)	3
PBT	4,760	4,000	19	5,670	(16)	10,430	8,990	16
Tax	(1,160)	(930)	25	(1,310)	(11)	(2,470)	(2,150)	15
PAT	3,600	3,070	17	4,360	(17)	7,960	6,840	16
Minority Interest	(70)	(60)		(90)		(160)	(120)	
PAT after MI	3,530	3,010	17	4,270	(17)	7,800	6,720	16
Extraordinary items	-	-		-		-	-	
Net profit (reported)	3,530	3,010	17	4,270	(17)	7,800	6,720	16
EPS	2.7	2.3	17	3.3	(17)	6.0	5.2	16
Costs as a % of sales								
COGS	49.5	56.4	-686 bps	50.0	-51 bps	49.8	55.7	-590 bps
Gross margin (%)	50.5	43.6	685 bps	50.0	50 bps	50.2	44.3	589 bps
Staff cost	7.6	6.7	90 bps	7.3	24 bps	7.4	6.4	105 bps
A&SP	10.8	8.5	229 bps	8.6	226 bps	9.7	8.2	153 bps
Other opex	12.0	11.1	93 bps	10.9	109 bps	11.5	10.8	68 bps
EBITDA margin (%)	20.1	17.3	272 bps	23.2	-311 bps	21.6	19.0	260 bps
Income tax rate (%)	24.4	23.3	111 bps	23.1	126 bps	23.7	23.9	-24 bps

Source: Company data, I-Sec research

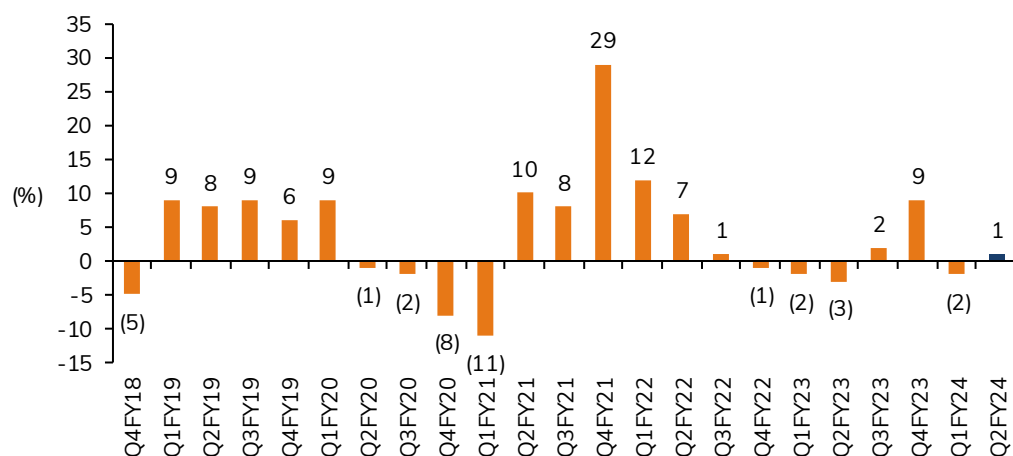
Exhibit 2: Q2FY24 results review (standalone)

INR mn	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	YTD FY24	YTD FY23	YoY (%)
Net Revenue	17,910	19,090	(6)	18,410	(3)	36,320	38,850	(7)
COGS	(9,820)	(11,790)	(17)	(10,090)	(3)	(19,910)	(23,570)	(16)
Gross profit	8,090	7,300	11	8,320	(3)	16,410	15,280	7
Staff cost	(1,150)	(1,000)	15	(1,140)	1	(2,290)	(2,030)	13
A&SP	(1,390)	(1,120)	24	(1,190)	17	(2,580)	(2,210)	17
Other opex	(2,130)	(2,100)	1	(1,960)	9	(4,090)	(4,140)	(1)
Total opex	(4,670)	(4,220)	11	(4,290)	9	(8,960)	(8,380)	7
EBITDA	3,420	3,080	11	4,030	(15)	7,450	6,900	8
Other income	350	1,310	(73)	370	(5)	720	2,630	(73)
Finance cost	(100)	(100)	-	(70)	43	(170)	(180)	(6)
D&A	(260)	(250)	4	(250)	4	(510)	(500)	2
PBT	3,410	4,040	(16)	4,080	(16)	7,490	8,850	(15)
Tax	(830)	(700)	19	(1,010)	(18)	(1,840)	(1,640)	12
Recurring PAT	2,580	3,340	(23)	3,070	(16)	5,650	7,210	(22)
Extraordinary items	-	-		-		-	-	
Net profit (reported)	2,580	3,340	(23)	3,070	(16)	5,650	7,210	(22)
EPS	2.0	2.6	(23)	2.4	(16)	4.4	5.6	(22)
Costs as a % of sales								
COGS	54.8	61.8	-694 bps	54.8	2 bps	54.8	60.7	-586 bps
Gross margin (%)	45.2	38.2	693 bps	45.2	-3 bps	45.2	39.3	585 bps
Staff cost	6.4	5.2	118 bps	6.2	22 bps	6.3	5.2	107 bps
A&SP	7.8	5.9	189 bps	6.5	129 bps	7.1	5.7	141 bps
Other expenditure	11.9	11.0	89 bps	10.6	124 bps	11.3	10.7	60 bps
EBITDA margin (%)	19.1	16.1	296 bps	21.9	-280 bps	20.5	17.8	275 bps
Income tax rate (%)	24.3	17.3	701 bps	24.8	-42 bps	24.6	18.5	603 bps

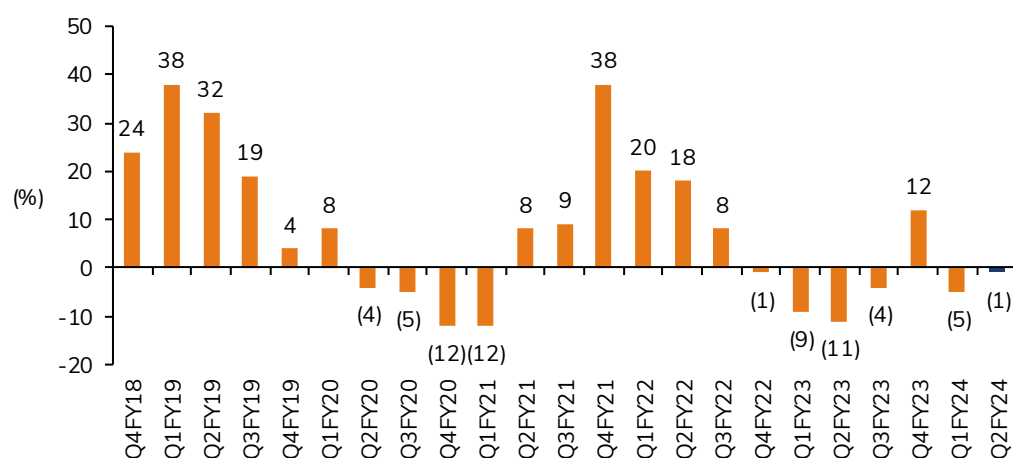
Source: Company data, I-Sec research

Exhibit 3: Domestic business volume growth

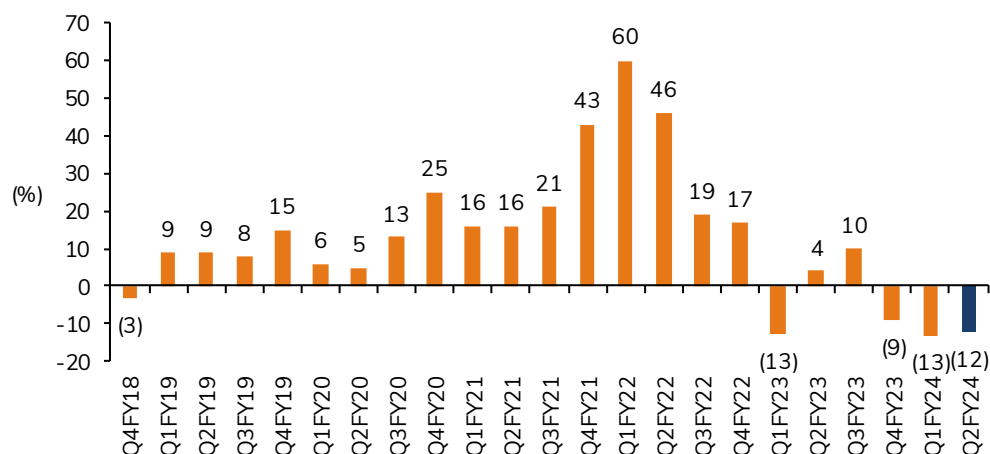
Source: Company data, I-Sec research

Exhibit 4: Parachute volume growth

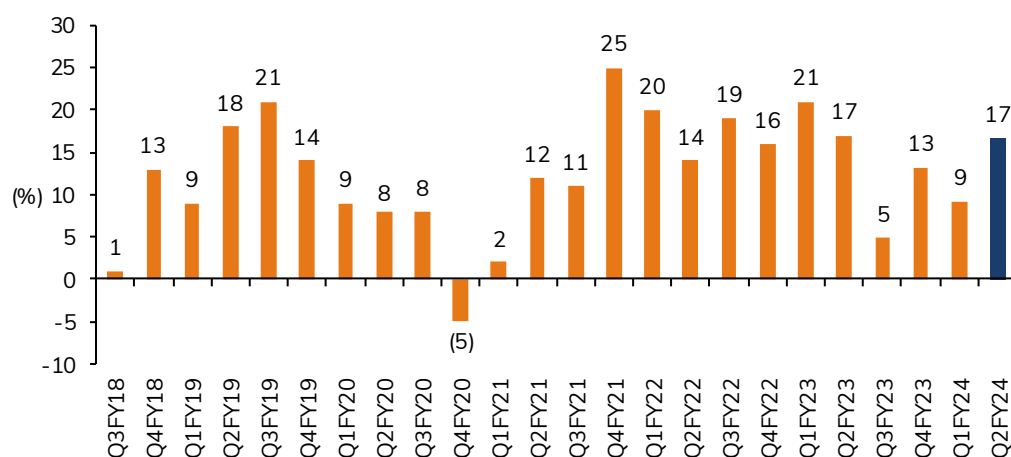
Source: Company data, I-Sec research

Exhibit 5: VAHO value growth

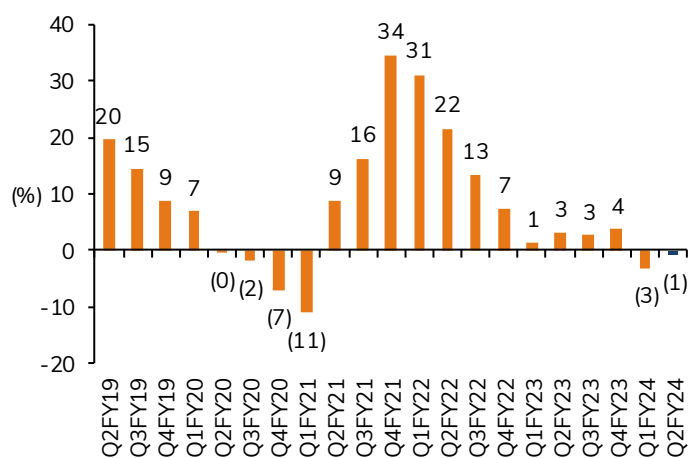
Source: Company data, I-Sec research

Exhibit 6: Saffola value growth

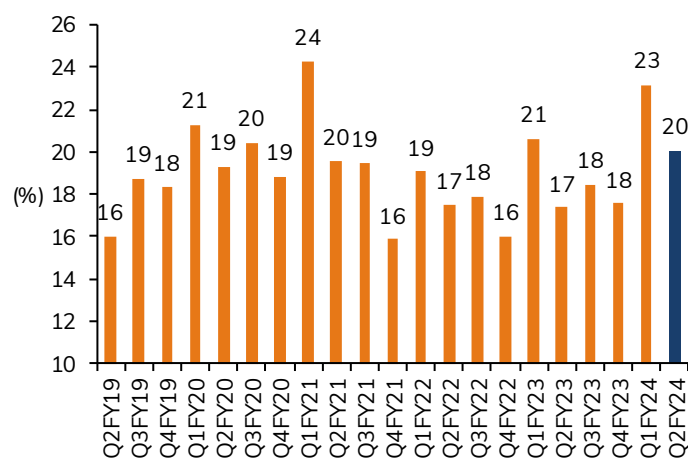
Source: Company data, I-Sec research

Exhibit 7: International business revenue growth (reported)

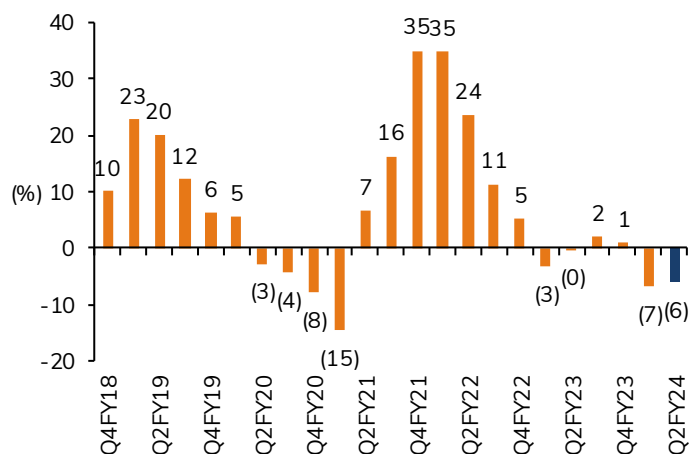
Source: Company data, I-Sec research

Exhibit 8: Consolidated revenue growth

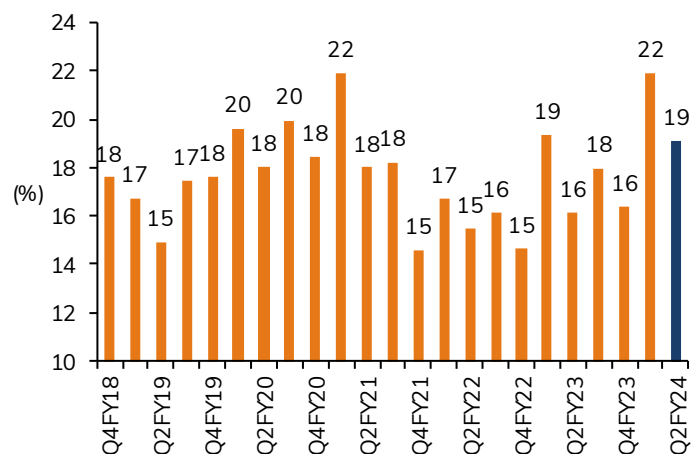
Source: Company data, I-Sec research

Exhibit 9: Consolidated EBITDA margin

Source: Company data, I-Sec research

Exhibit 10: Standalone revenue growth

Source: Company data, I-Sec research

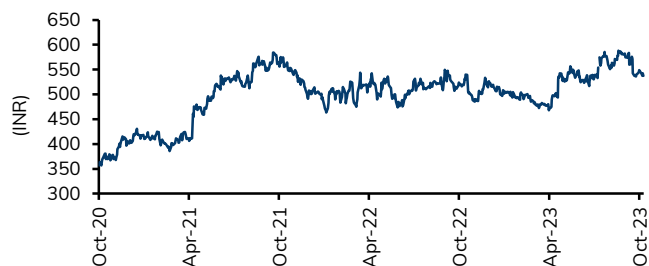
Exhibit 11: Standalone EBITDA margin

Source: Company data, I-Sec research

Exhibit 12: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	59.4	59.4	59.4
Institutional investors	35.4	35.5	35.8
MFs and other	3.3	3.3	3.0
FIs/ Banks	5.5	5.6	5.5
FIIIs	26.6	26.6	27.3
Others	5.2	5.1	4.8

Source: Bloomberg, I-Sec research

Exhibit 13: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	95,120	97,640	99,406	1,11,715
Operating Expenses	78,310	79,540	78,996	88,243
EBITDA	16,810	18,100	20,410	23,472
EBITDA Margin (%)	17.7	18.5	20.5	21.0
Depreciation & Amortization	1,390	1,550	1,613	1,740
EBIT	15,420	16,550	18,797	21,732
Interest expenditure	390	560	672	739
Other Non-operating Income	980	1,440	1,609	1,620
Recurring PBT	16,010	17,430	19,734	22,613
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	3,460	4,210	4,766	5,462
PAT	12,550	13,220	14,967	17,151
Less: Minority Interest	(300)	(200)	(255)	(286)
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	12,550	13,220	14,967	17,151
Net Income (Adjusted)	12,250	13,020	14,713	16,865

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	35,050	38,200	39,927	44,326
of which cash & cash eqv.	12,200	13,340	14,781	16,250
Total Current Liabilities & Provisions	18,080	19,560	19,996	22,563
Net Current Assets	16,970	18,640	19,931	21,763
Investments	2,090	5,340	5,340	5,340
Net Fixed Assets	6,000	6,330	5,858	5,345
ROU Assets	1,780	1,750	1,750	1,750
Capital Work-in-Progress	390	670	670	670
Total Intangible Assets	9,600	14,220	14,220	14,220
Long Term Loans & Advances	210	360	367	412
Deferred Tax assets	-	-	-	-
Total Assets	37,910	48,440	49,286	50,792
Liabilities				
Borrowings	3,450	4,750	4,750	4,750
Deferred Tax Liability	(780)	320	320	320
Provisions	280	240	244	275
Other Liabilities	910	3,570	3,635	4,085
Equity Share Capital	1,290	1,290	1,290	1,290
Reserves & Surplus	32,190	36,700	37,223	37,963
Total Net Worth	33,480	37,990	38,513	39,253
Minority Interest	570	1,570	1,825	2,111
Total Liabilities	37,910	48,440	49,286	50,792

Source Company data, I-Sec research

Exhibit 16: Quarterly trend

(INR mn, year ending March)

	Dec 22	Mar 23	Jun 23	Sep 23
Net Sales	24,700	22,400	24,770	24,760
% growth (YOY)	2.6	3.7	(3.2)	(0.8)
EBITDA	4,560	3,930	5,740	4,970
Margin %	18.5	17.5	23.2	20.1
Other Income	400	680	460	380
Extraordinaries	-	-	-	-
Adjusted Net Profit	3,280	3,020	4,270	3,530

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	10,160	14,190	15,835	17,940
Working Capital Changes	(3,420)	(590)	191	(70)
Capital Commitments	(1,870)	(5,230)	(1,141)	(1,227)
Free Cashflow	8,290	8,960	14,693	16,713
Other investing cashflow	6,150	(4,060)	1,609	1,620
Cashflow from Investing Activities	4,280	(9,290)	468	393
Issue of Share Capital	410	90	-	-
Interest Cost	(390)	(530)	(672)	(739)
Inc (Dec) in Borrowings	(110)	1,320	-	-
Dividend paid	(12,170)	(6,070)	(14,190)	(16,125)
Others	(640)	(410)	-	-
Cash flow from Financing Activities	(12,900)	(5,600)	(14,862)	(16,864)
Chg. in Cash & Bank balance	1,540	(700)	1,441	1,469
Closing cash & balance	2,650	1,320	2,761	4,230

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	9.7	10.2	11.6	13.3
Adjusted EPS (Diluted)	9.5	10.1	11.4	13.1
Cash EPS	10.6	11.3	12.7	14.4
Dividend per share (DPS)	9.3	10.0	11.0	12.5
Book Value per share (BV)	26.0	29.4	29.9	30.4
Dividend Payout (%)	95.1	97.6	94.8	94.0
Growth (%)				
Net Sales	18.2	2.6	1.8	12.4
EBITDA	5.7	7.7	12.8	15.0
EPS (INR)	5.6	5.3	13.2	14.6
Valuation Ratios (x)				
P/E	54.7	51.9	45.9	40.0
P/CEPS	50.3	47.1	42.1	36.9
P/BV	20.5	18.1	17.8	17.5
EV / EBITDA	40.2	37.2	32.9	28.5
P / Sales	7.2	7.0	6.9	6.1
Dividend Yield (%)	1.7	1.9	2.1	2.3
Operating Ratios				
Gross Profit Margins (%)	42.9	45.2	49.1	49.3
EBITDA Margins (%)	17.7	18.5	20.5	21.0
Effective Tax Rate (%)	21.6	24.2	24.2	24.2
Net Profit Margins (%)	13.2	13.5	15.1	15.4
Net Debt / Equity (x)	(0.3)	(0.4)	(0.4)	(0.4)
Net Debt / EBITDA (x)	(0.6)	(0.8)	(0.8)	(0.7)
Fixed Asset Turnover (x)	9.1	8.6	8.0	8.2
Working Capital Days	20	20	19	19
Inventory Turnover Days	59	46	46	48
Receivables Days	27	38	38	40
Payables Days	56	55	55	58
Profitability Ratios				
RoCE (%)	32.9	30.7	31.9	36.1
RoE (%)	36.8	35.4	36.8	41.3
RoIC (%)	35.0	33.4	34.6	38.8

Source Company data, I-Sec research

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