



3R MATRIX	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive    = Neutral    - Negative

### What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

ESG Disclosure Score		NEW		
<b>ESG RISK RATING</b>		<b>26.21</b>		
Updated Aug 08, 2023				
<b>Medium Risk</b>				
NEGL	LOW	<b>MED</b>	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

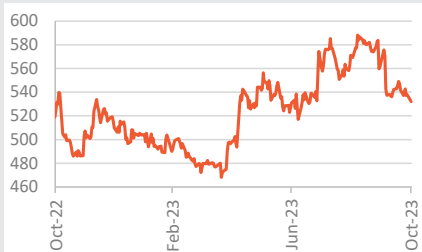
### Company details

Market cap:	Rs. 68,832 cr
52-week high/low:	Rs. 595 / 463
NSE volume: (No of shares)	15.4 lakh
BSE code:	531642
NSE code:	MARICO
Free float: (No of shares)	52.5 cr

### Shareholding (%)

Promoters	59.4
FII	26.2
DII	9.8
Others	4.6

### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	-5.3	-4.6	6.5	2.5
Relative to Sensex	-2.7	-1.1	2.0	-4.4

Sharekhan Research, Bloomberg

## Marico Ltd

### Soft Q2; performance to better off in H2

Consumer Goods	Sharekhan code: MARICO	
Reco/View: Buy	↔	CMP: Rs. 532    Price Target: Rs. 645
↑ Upgrade	↔ Maintain	↓ Downgrade

#### Summary

- Marico's Q2FY2024 performance mirrored Q1 with sluggish rural demand and inflationary pressures affecting the offtake. Consolidated revenues stood flat at Rs. 2,476 crore; OPM rose 272 bps y-o-y to 20.1% led to 17% y-o-y PAT growth to Rs. 360 crore.
- Volume offtake is expected to gradually improve in H2 as demand picks up prior to the festive season coupled with market share and penetration gains in key categories. Marico has maintained its medium-term guidance of 8-10% volume growth.
- Consolidated OPM is eyed at over 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.
- Stock has corrected by 10% from its recent high and trades at 44x/38x its FY2024E/FY2025E earnings. We retain a Buy rating on the stock with an unchanged PT of Rs. 645.

Marico's Q2FY2024 performance was mirror image of Q1 with revenue growth being affected by one-offs such as 1) Lower consumer offtake due to weak consumer demand in the rural India and 2) price cuts in key categories resulting in lower value growth. Consolidated revenues stood flat y-o-y at Rs. 2,476 crore, with volume growth of 3% in the domestic business, while the international business grew by 13% y-o-y on a constant currency (CC) basis. Gross margins improved by 685 bps y-o-y due to lower input prices (including Copra and edible oil prices). Despite higher advertisement spends, OPM expanded by 272 bps y-o-y to 20.1%. Operating profit grew by 14.8% y-o-y to Rs. 497 crore and adjusted PAT grew by 17.3% y-o-y to Rs. 360 crore. H1FY2024 performance stood relatively muted with consolidated revenues declining by 2% y-o-y, while margin expansion led to double digit y-o-y PAT growth of 16%. Management is confident of growth recovering in H2FY2024 with an expected recovery in demand, market share gains in key categories and scale-up in new businesses.

#### Key positives

- Foods business grew by 25% y-o-y.
- Saffola Edible registered low single digit volume despite strong base on the backdrop of volatile edible oil prices.
- Globally, the MENA and South African region registered strong growth of 34% and 23% y-o-y, respectively.
- Gross margins/OPM improved by 685/272 bps y-o-y, aided by moderation in key commodity prices and a favourable portfolio mix in India business.

#### Key negatives

- Value-added hair oil revenues grew in single digit due to slow recovery in mass personal categories.
- Bangladesh registered muted y-o-y growth of 2% amid ongoing macroeconomics headwinds.

#### Management Commentary

##### Near-term outlook

- Management expects a good recovery in the volume growth in domestic market supported by a pick-up in demand prior to the festive season, market share gains and penetration improvement in key categories.
- Revenue growth is expected to get back to the positive trajectory in H2FY2024 as pricing deflation in the domestic portfolio has bottomed-out.
- International business will maintain its double-digit growth in FY2024. MENA and Vietnam will achieve double digit growth due to change in business model.
- Gross margins will remain upwards of 400 bps while OPM is expected to remain high by 200 bps in FY2024.

##### Medium-term outlook

- Company has maintained its medium-term guidance of 13-15% revenue growth in the domestic business with volume growth of 8-10%.
- Parachute portfolio is likely to grow by 5-7%; VAHO portfolio is likely to grow in double digits and the company expects increased contribution from new ventures. Volumes of Saffola edible oil are expected to grow in high single digits.
- New businesses such as food and premium personal care together contributed ~20% to revenues in Q2. Strong scale-up in the performances of both the business will help the contribution to further improve in the coming years.
- Better revenue mix with increased contribution from new ventures and operating efficiencies will help consistent improvement in OPM in stable raw material environment.

**Revision in estimates** – We broadly maintain our earnings estimates for FY2024E/FY2025E, as Q2FY2024 performance was largely in line with expectations.

#### Our Call

**View: Retain Buy with an unchanged PT of Rs. 645:** 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 has corrected by ~10% from its recent high and is currently trading at 44x/38x its FY2024E/FY2025E earnings. We retain a 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)

Particulars	FY22	FY23	FY24E	FY25E
Revenue	9,512	9,764	10,228	11,556
OPM (%)	17.7	18.5	20.6	20.9
Adjusted PAT	1,255	1,322	1,572	1,809
% YoY growth	5.4	5.3	18.9	15.1
Adjusted EPS (Rs.)	9.7	10.2	12.2	14.0
P/E (x)	54.7	51.9	43.7	38.0
P/B (x)	20.5	18.1	16.3	14.2
EV/EBIDTA (x)	40.5	37.6	31.7	27.6
RoNW (%)	38.1	37.0	39.3	39.9
RoCE (%)	41.6	40.8	43.8	47.1

Source: Company; Sharekhan Estimates

## Soft Q2 – Revenue stood flat y-o-y; sharp margin expansion led to double-digit PAT growth

Marico's Q2FY2024 revenues largely stood flat y-o-y at Rs. 2,476 crore, in line with our and average street expectation of Rs. 2,489 crore and Rs. 2,495 crore, respectively. Domestic revenues, at Rs. 1,832 crore, were down 3% y-o-y, lagging volume growth of 3% due to price corrections in key portfolios in the last 12 months, while the international business posted 13% y-o-y CC growth, amidst a challenging geo-political scenario and macroeconomic headwinds in select markets. While urban sentiment improved q-o-q, instances of higher food inflation and uneven rainfall distribution led to a slower-than-expected pace of recovery in rural demand. Packaged foods, given its high urban salience, maintained a healthy growth trajectory and continued to outpace mass home and personal care categories. Majority of the portfolio witnessed healthy trends across segments with ~85% of the business either gaining or sustaining market share and penetration. Among sales channels, modern trade and E-commerce registered high double-digit (20%+) growth, while general trade declined in low single digits y-o-y. Within the international business, Bangladesh reported 2% y-o-y CC growth, Vietnam grew by 13% y-o-y in CC terms, while MENA and South Africa grew by 34% and 23% y-o-y, respectively, in CC terms. Aided by moderation in key commodity prices, gross margins improved by 685 bps y-o-y to 50.5%, while OPM increased by 272 bps y-o-y to 20.1% as the company maintained its investments towards the strategic brand building of core and new businesses resulting in 25.8% y-o-y rise in A&P spends. OPM came largely in-line with ours and the average street expectation of 19.7-20.2%. EBITDA margin of the domestic business was at 21.6%, up 320 bps y-o-y, and that of the international business was at 25.1%, up 270 bps y-o-y. Operating profit grew by 14.8% y-o-y to Rs. 497 crore. Adjusted PAT grew by 17.3% y-o-y to Rs. 360 crore, largely in line with our and the average street expectation of Rs. 355-363 crore. In H1FY2024, revenue declined by 2% y-o-y to Rs. 4,953 crore, OPM improved by 261 bps y-o-y to 21.6% and adjusted PAT grew by 13.9% y-o-y to Rs. 779 crore. The board has declared an interim dividend of Rs. 3 per share for FY2024.

## Muted performance by core categories; composite share of foods and premium personal care at ~20% of domestic revenues

- ♦ **Coconut Oil – Parachute Rigid packs posted a 1% y-o-y volume growth:** Parachute Rigid packs posted a 1% y-o-y volume growth in Q2FY2024 (4% on four-year CAGR basis). As copra enters an off-season, gradual pick-up is expected in loose to branded conversions to aid volume growth in the near term. With pricing cuts coming into the base, value growth should mirror volume growth from Q3. In the medium term, volume growth in Parachute Rigid packs is expected to grow by 5-7%.
- ♦ **Muted Q2 for VAHO:** VAHO grew by 1% in value terms, reflective of a slower recovery in mass personal care categories. Value growth on a four-year CAGR basis was at 4%. While growth in bottom of the pyramid franchises was muted, the company continued to witness healthier traction in the mid and premium segments. Consequently, the franchise consolidated its market share leadership on a MAT basis. In VAHO, the company aims to deliver double-digit value growth over the medium term, with focus on driving value share gains ahead of volume share in the overall portfolio through mix improvement and innovations in the premium segment.
- ♦ **Saffola Foods grows by double digits; low single-digit volume growth in Saffola Edible Oils:** Saffola franchise, comprising refined edible oils and foods, declined by 12% y-o-y in value terms, owing to price cuts in Saffola Edible Oils over the last 12 months.
  - ♦ **Foods business reported 25% y-o-y growth:** Foods delivered 25% value growth y-o-y, aided by steady growth in core and newer franchises. Saffola Oats grew in double digits and maintained its category leadership while Honey and Soya Chunks continued to scale up well. Newer categories of Peanut Butter, Mayonnaise and Munchiez have also been gaining traction. True Elements and Plix act as differentiated growth drivers to the company's foods play. Marico 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 single-digit volume growth:** Saffola Edible Oils registered low single-digit volume growth, holding onto a strong base, despite vegetable oil prices remaining volatile. Volume growth, on a 4-year CAGR basis, was in high single-digits. Revenue decline was in the low twenties y-o-y due to pricing corrections over the last 12 months. Offtakes continued to remain healthy, although trade inventory remained at lower levels. 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 delivered healthy growth and is well on track to contribute ~10% of the domestic revenues in FY2024. Digital-first portfolio clocked exit annual-run-rate (ARR) of over Rs. 350 crore in Q2.

### **International business posted 13% y-o-y CC revenue growth; margin rose by 270 bps y-o-y to 25.1%**

International business delivered 13% y-o-y CC growth in Q2FY2024. Within the International business, Bangladesh registered a 2% CC growth amidst ongoing macroeconomic headwinds. Vietnam grew 13% in CC terms with a steady performance in both the HPC and Foods portfolios. MENA delivered 34% CC growth with both the Gulf region and Egypt growing in double-digits. South Africa posted 23% CC growth led by the ethnic haircare segment. NCD and exports segments posted 18% 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.

### **Correction in input costs led to sharp gross margin expansion; higher ad-spends limited OPM expansion**

Gross margins rose by 685 bps y-o-y to 50.5% aided by correction in input costs y-o-y. Copra prices were down 2% y-o-y (up 1% q-o-q) aided by good supplies. However, as copra enters an off-season ahead of the festive season, prices are expected to exhibit an upward bias in the near term. Rice Bran Oil (RBO) stayed volatile during the quarter with a 6% q-o-q increase, however, it was down 23% y-o-y in-line with the correction in the vegetable oil complex in the last 12 months. Liquid Paraffin (LLP) was down 5% y-o-y, while HDPE was down 10% y-o-y. However, sharp rise in the advertisement expenses (up by 227 bps y-o-y as a percentage of sales) restricted the expansion in OPM to 272 bps y-o-y to 20.1%.

### **Key management commentary**

- ◆ **Demand remained subdued in Q2; expected to recover in H2:** Consumer offtake witnessed an uptick in July with a visible recovery in the rural demand. However, same took a setback in August due to deficient rainfall. Demand slightly improved post second half of September 2023 and momentum has been maintained since then. Management expects uptick to improve prior to the festive season and likely to sustain with expected government support to rural India prior to election. Thus, with better consumer offtake, volume growth will recover in the coming quarters.
- ◆ **Parachute Rigid pack volumes to witness improvement in volumes:** Parachute rigid pack volume growth improved to 1% in Q2. Shift from unbranded to branded slowed down in H1 as the mass/regional competitors got active in the market. The company has taken required price cuts and it is optimal for various SKUs. With copra prices expected to move up during off-season, Parachute will gain from adequate cuts in the product portfolio.
- ◆ **VAHO – Focus is on premiumisation and share gains:** In VAHO category, the competition has enhanced in the bottom-of-the-pyramid portfolio. Marico is focusing on gaining market share in the mid-price portfolio to drive volumes. Further, it is also focusing on improving the penetration of premium products by giving thrust on alternate channels. This will help the company to achieve double digit volume growth in VAHO in the coming years.
- ◆ **Foods and D2C profitability to improve:** Marico's foods business has gross margins ahead of Saffola Edible oil margins. On the other hand, D2C portfolio cash burn has reduced substantially, and it will be a profitable business in the coming years. Management expects D2C business OPM to be in line with India business margins. Beardo is expected to be a profitable brand in FY2024, while other brands in the portfolio are expected to become profitable in the coming years.

Results (Consolidated)				Rs cr	
Particulars	Q2FY24	Q2FY23	y-o-y (%)	Q1FY24	q-o-q (%)
<b>Net sales</b>	<b>2,476.0</b>	<b>2,496.0</b>	<b>-0.8</b>	<b>2,477.0</b>	<b>0.0</b>
Raw Material Consumed	1,226.0	1,407.0	-12.9	1,239.0	-1.0
Employee Expenses	187.0	166.0	12.7	181.0	3.3
Ad & Sales promotion expenses	268.0	213.0	25.8	212.0	26.4
Other Expenses	298.0	277.0	7.6	271.0	10.0
Total Expenditure	1,979.0	2,063.0	-4.1	1,903.0	4.0
<b>Operating profit</b>	<b>497.0</b>	<b>433.0</b>	<b>14.8</b>	<b>574.0</b>	<b>-13.4</b>
Other income	38.0	19.0	-	32.0	18.8
Interest expenses	20.0	15.0	33.3	17.0	17.6
Depreciation	39.0	37.0	5.4	36.0	8.3
<b>PBT</b>	<b>476.0</b>	<b>400.0</b>	<b>19.0</b>	<b>553.0</b>	<b>-13.9</b>
Tax	116.0	93.0	24.7	133.8	-13.3
PAT (before MI)	360.0	307.0	17.3	419.2	-14.1
Minority Interest (MI)	0.0	0.0	-	0.0	
<b>Adjusted PAT (After MI)</b>	<b>360.0</b>	<b>307.0</b>	<b>17.3</b>	<b>419.2</b>	<b>-14.1</b>
Extraordinary items	0.0	0.0	-	-11.2	-
<b>Reported PAT</b>	<b>360.0</b>	<b>307.0</b>	<b>17.3</b>	<b>430.4</b>	<b>-16.4</b>
Adjusted EPS	2.8	2.4	17.3	3.2	-14.1
			<b>bps</b>		<b>bps</b>
GPM (%)	50.5	43.6	685	50.0	50
OPM (%)	20.1	17.3	272	23.2	-310
NPM (%)	14.5	12.3	224	16.9	-238
Tax rate (%)	20.1	17.3	272	23.2	-310

Source: Company, Sharekhan Research

Result snapshot (Standalone)				Rs cr	
Particulars	Q2FY24	Q2FY23	y-o-y (%)	Q1FY24	q-o-q (%)
Net Sales	1,791.0	1,909.0	-6.2	1,841.0	-2.7
Operating profit	342.0	308.0	11.0	403.0	-15.1
Adjusted PAT	258.0	334.0	-22.8	307.0	-16.0
			<b>bps</b>		<b>bps</b>
GPM (%)	45.2	38.2	693	45.2	-2
OPM (%)	19.1	16.1	296	21.9	-279

Source: Company, Sharekhan research

## Outlook and Valuation

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

With food inflation easing and an expected stable kharif crop, managements of most consumer goods companies are confident of witnessing a pick-up in rural demand in H2FY2024. This will also be supported by the upcoming festive season and higher government spending prior to the general elections. Overall, we expect a gradual improvement in volume growth of consumer goods companies in the quarters ahead. Crude oil prices moved up from its low but continue to remain in a comfortable zone. Other input prices are yet to see a significant jump and will provide lesser stress on the profitability in the near term. Thus, we expect gross margin expansion to sustain in the quarters ahead. Despite higher media spends, OPM is expected to remain elevated y-o-y in the near term. Most of the consumer goods companies are optimistic about medium-term growth outlook aided by low penetration in most categories, emerging distribution channels, and improving per-capita income

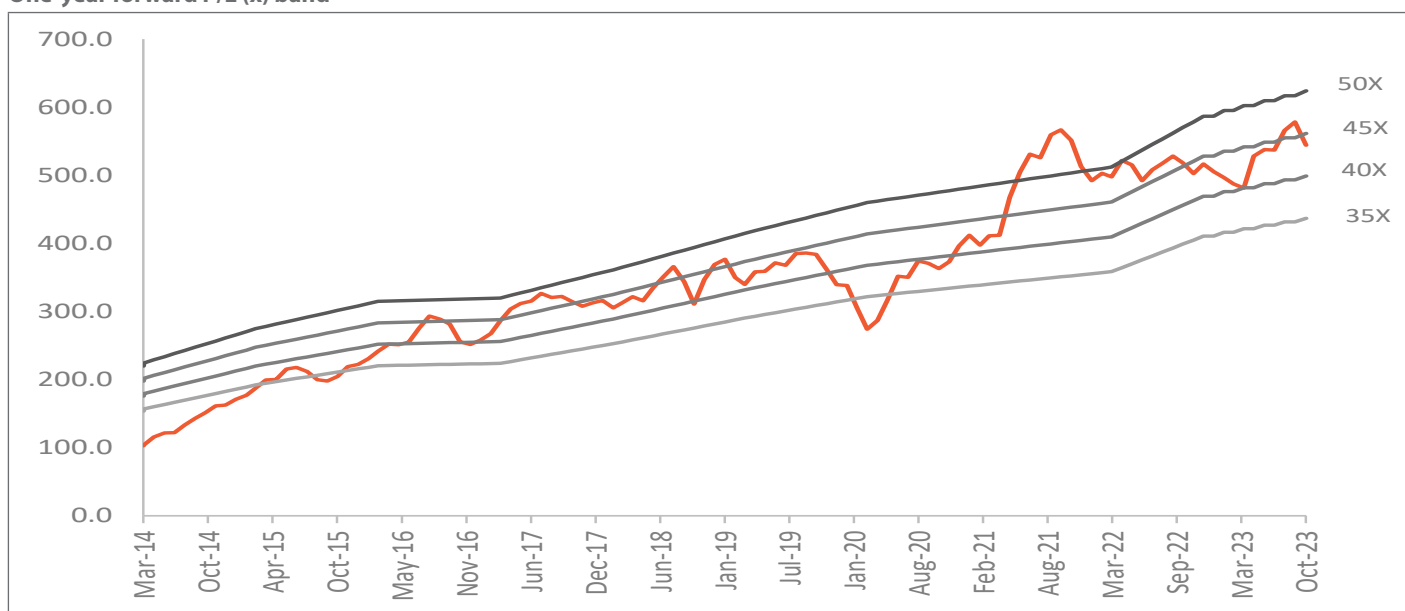
### ■ Company Outlook – Maintain volume growth target of 8-10% for the medium term

Marico's H1FY2024 performance was affected by weak demand in the rural. Management expects good recovery in performance H2FY2024. 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 a 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 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 has corrected by ~10% from its recent high and is currently trading at 44x/38x its FY2024E/FY2025E earnings. We retain a Buy rating on the stock with an unchanged price target (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	54.5	43.0	35.8	43.1	35.5	29.7	22.1	25.5	28.1
Hindustan Unilever	58.1	53.5	46.8	42.3	38.3	33.1	25.6	28.0	31.1
Emami	30.0	24.1	20.8	25.5	20.7	17.5	34.9	41.1	41.3
Marico	51.9	43.7	37.9	37.6	31.7	27.6	40.8	43.8	47.2

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 (~27% 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	5.3
2	Life Insurance Corp of India	3.7
3	Blackrock Inc	2.4
4	Vanguard Group Inc	1.6
5	UTI Asset Management Co Ltd	1.0
6	FIL Ltd	1.0
7	Norges Bank	0.8
8	Franklin Resources Inc	0.7
9	First Sentler Global umbrella Fund PLC/Ireland	0.5
10	Royal Bank Of Canada	0.5

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

<b>Right Sector</b>	
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.
<b>Right Quality</b>	
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 deteriorating balance sheet
<b>Right Valuation</b>	
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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