

07 April 2024

India | Equity Research | Company Update

## Marico

Consumer Staples &amp; Discretionary

### Acceleration in diversified portfolio while core stabilises; preferred pick in Consumer Staples

Over the last few years, Nestle and Jyothy Labs delivered volume outperformance thanks to activating the sales growth vector effectively (numeric distribution expansion and improved line selling). Marico, with its new urban distribution (expansion) strategy and likely outperformance in D2C brands, has material potential to outperform in FY24-26E. Apart from this, it is focusing on improving distributor ROI, better credit terms, range, assortment, etc. Multiple initiatives such as reduction in channel inventory, discontinuation of inefficient trade schemes etc. are being undertaken. Within core categories a) PCNO's volume growth trajectory is likely to improve with stability in copra prices, b) competitive intensity remains high in VAHO (we expect it to get better), and c) calibrated growth in Saffola edible oil with threshold margin.

Diversified portfolio of premium personal care, foods (low penetration) and digital-first brand portfolio (offline expansion) is expected to grow at 20% in the medium term. Further, it plans to achieve double-digit EBITDA margin in its digital-first brands portfolio in the medium term. BUY.

### Focus on GT returns

Marico akin to industry had increased its focus on organised trade (MT and e-commerce) to diversify its product portfolio (premium personal care and foods segment). Meanwhile, GT was under pressure with distributor partners struggling for both growth and RoI. Marico is pivoting its focus and resources back to GT. Its margins in GT are better as segments of edible oil and foods are currently highly skewed towards organised trade. Firstly, it is focusing primarily on improving the RoI of the distributor through reducing channel inventory over next few quarters, as RoI was impacted due to lower sales (price deflation across portfolio) over the last couple of years. Further, it will take other initiatives like discontinuing inefficient trade schemes as well. These initiatives are focused towards improving the viability of distributors, which will lead to better service of retail outlets (distribution expansion, better credit terms, better range and assortment selling etc.). On the other hand, it will continue to drive its premiumisation through organised trade. In our view, investments in improving RoI of GT is important; however, given the current conditions, it may take longer time to return to growth trajectory.

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#### Market Data

|                     |          |
|---------------------|----------|
| Market Cap (INR)    | 659bn    |
| Market Cap (USD)    | 7,915mn  |
| Bloomberg Code      | MRCO IN  |
| Reuters Code        | MRCO.BO  |
| 52-week Range (INR) | 595 /463 |
| Free Float (%)      | 40.0     |
| ADTV-3M (mn) (USD)  | 9.7      |

| Price Performance (%) | 3m    | 6m     | 12m    |
|-----------------------|-------|--------|--------|
| Absolute              | (6.7) | (6.1)  | 5.6    |
| Relative to Sensex    | (9.8) | (19.2) | (18.8) |

### Financial Summary

| Y/E March (INR mn) | FY23A  | FY24E  | FY25E    | FY26E    |
|--------------------|--------|--------|----------|----------|
| Net Revenue        | 97,640 | 97,424 | 1,08,949 | 1,21,781 |
| EBITDA             | 18,100 | 20,448 | 22,999   | 26,249   |
| EBITDA Margin (%)  | 18.5   | 21.0   | 21.1     | 21.6     |
| Net Profit         | 13,020 | 14,824 | 16,794   | 19,260   |
| EPS (INR)          | 10.1   | 11.5   | 13.0     | 14.9     |
| EPS % Chg YoY      | 5.3    | 14.0   | 13.3     | 14.6     |
| P/E (x)            | 49.7   | 43.6   | 38.5     | 33.6     |
| EV/EBITDA (x)      | 35.5   | 31.4   | 27.8     | 24.3     |
| RoCE (%)           | 30.7   | 31.7   | 34.6     | 38.4     |
| RoE (%)            | 35.4   | 36.8   | 40.1     | 44.3     |

#### Previous Reports

30-01-2024: [Q3FY24 results review](#)

31-10-2023: [Q2FY24 results review](#)

### Volume trajectory to improve for PCNO

Stability in copra prices is likely to drive gradual improvement in volume growth trajectory for PCNO. Further, impact of price cuts will also anniversarise from Q4FY24. Competitive intensity has been higher in both GT (unbranded players) and MT (organised competition) for last few quarters with falling copra prices. Competition in GT is likely to reduce with stability in copra prices driving conversion from loose / unbranded to PCNO. On the other hand, MT competition appears to be unsustainable given the higher discounting by organised competition.

### High competitive intensity continues in VAHO

Growth in bottom of the pyramid VAHO is likely to be unexciting given the continued high competitive intensity in VAHO segment which has further intensified with increased in trade schemes and pricing competition. However, the focus is to grow faster in mid and premium VAHO sub-segment where it is currently under indexed. Overall, VAHO segment should continue to witness subdued growth given the underperformance in BoP VAHO segment.

### Packaged foods portfolio to grow ~20%

Saffola edible oils' growth will likely be calibrated, since it requires input cost prices stability and the company works with threshold margins in this category. On the other hand, packaged foods portfolio (having low-single digit penetration) is likely to grow at ~20% in the medium term. In foods, it will continue to focus on these emerging demand spaces – breakfast, in-between meals, immunity, plant protein and healthy snacking.

### Acquired digital-first brands to scale with expansion into MT and GT

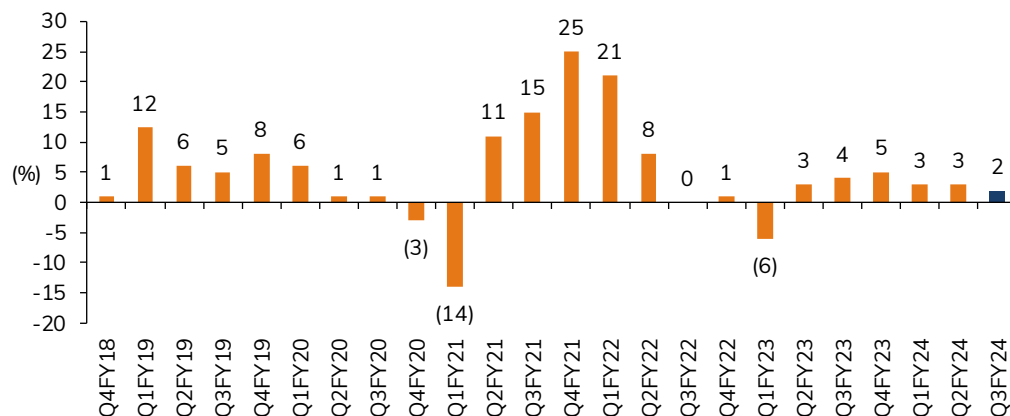
Marico is likely to scale up digital-first brands (have performed well over last couple of years) well with its strategy to expand these brands into MT and GT. Marico is likely to scale up the offline distribution for these brands faster than other digital first brands given its experience. Further, it has plans to improve the operating margins of this portfolio to double-digit in the medium term which should drive margin expansion as well. Further, Marico expects to be able to capture new emerging consumer demand trends (for e.g. onion hair oil) faster than competition and is investing on building this capability. Plix and Beardo have best-in-class capability in digital marketing and e-commerce channel, as per management. It expects to deliver ~20% growth in premium personal care, foods and digital-first brands portfolio (~20% of the revenues) in the medium term.

### Increasing digital capabilities

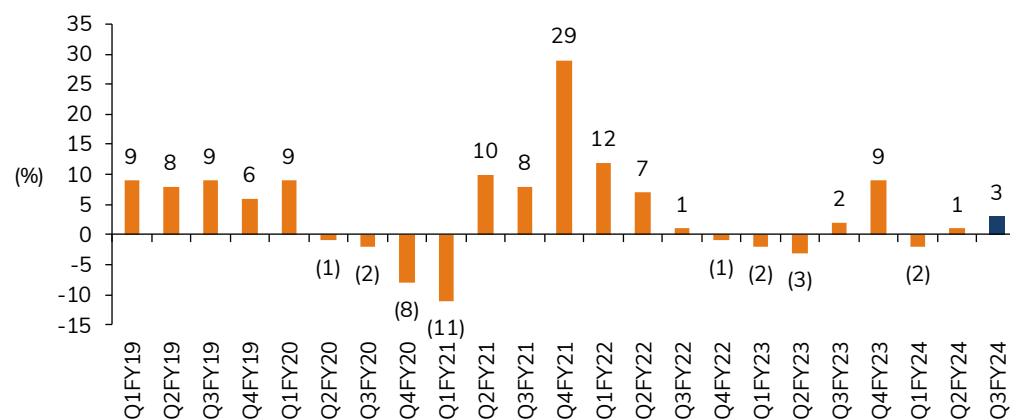
Management believes that these three capabilities are critical to its success – distribution, mass marketing and digital. The company continues to improve its digital capability with the appointment and creation of two new responsibilities of: 1) Executive Vice President – Premium Personal Care, Media and Digital Transformation – Akash Banerjee (20 years of experience spanning across organisations like Disney Star India/Hotstar, Viacom 18, Amazon India, Tata Digital); and 2) Executive Vice President & Head Digital Business – Koteswar L N (21 years of experience spanning across organisations like The Coca-Cola Company and Flipkart).

### Valuation and risks

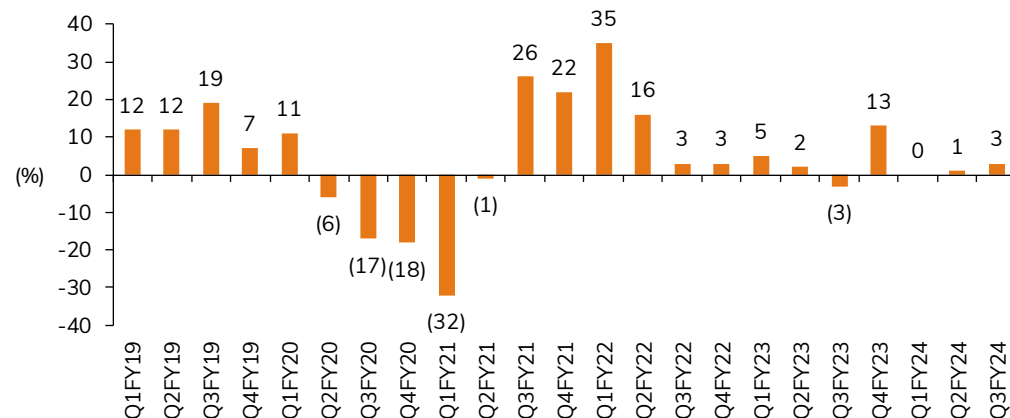
Our revenue estimates are unchanged, modelling revenue/EBITDA/PAT CAGR of 12/13/14 (%) over FY24-26E. Maintain BUY with a DCF-based unchanged target price of INR 600. At our target price, the stock will trade at 40x P/E multiple Mar'26E. Key downside risk is higher-than-expected inflation in copra prices.

**Exhibit 1: Domestic business volume growth**

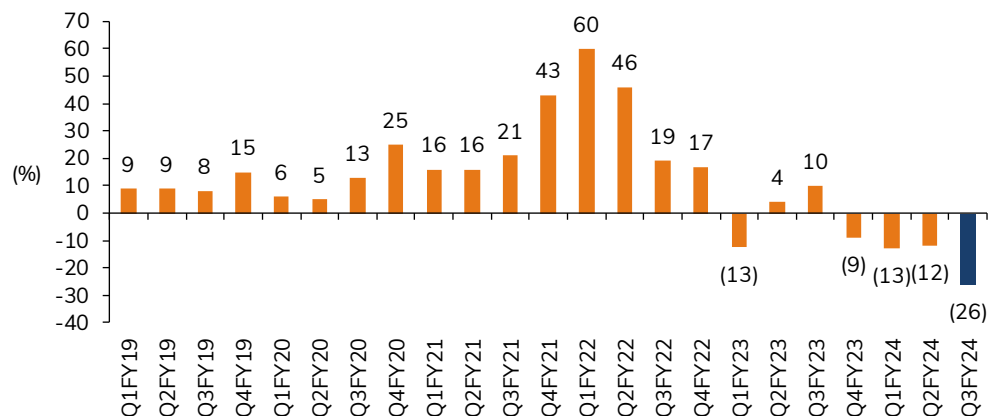
Source: Company data, I-Sec research

**Exhibit 2: Parachute volume growth**

Source: Company data, I-Sec research

**Exhibit 3: VAHO value growth**

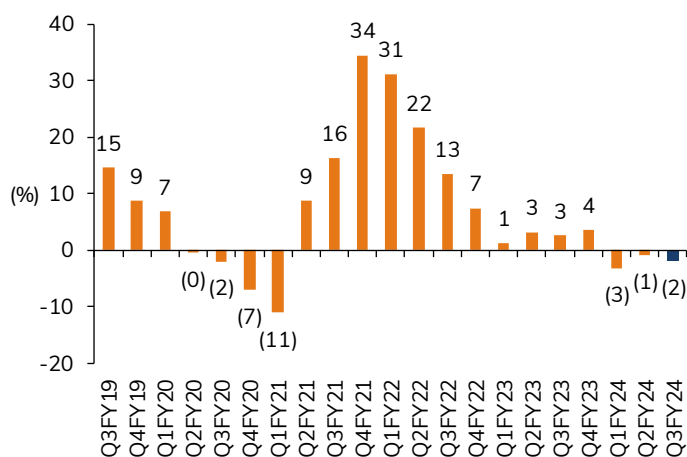
Source: Company data, I-Sec research

**Exhibit 4: Saffola value growth**

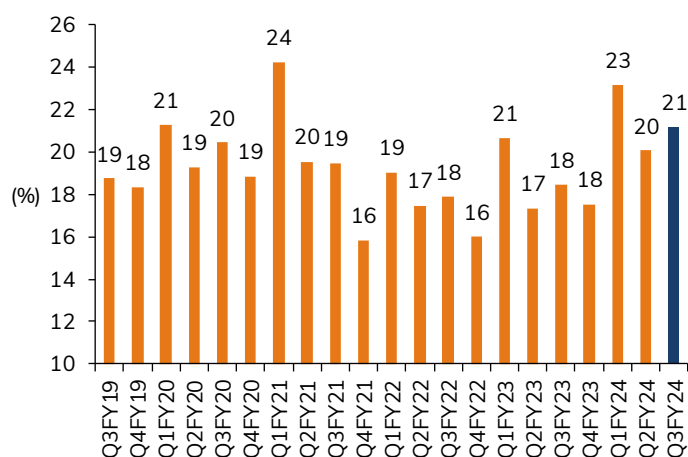
Source: Company data, I-Sec research

**Exhibit 5: International business revenue growth (reported)**

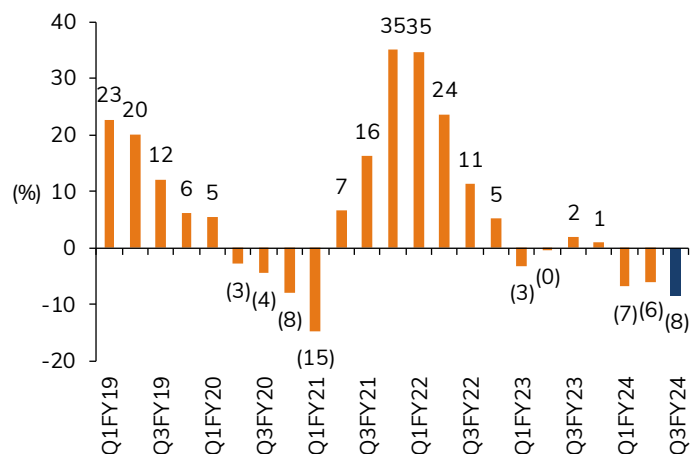
Source: Company data, I-Sec research

**Exhibit 6: Consolidated revenue growth**

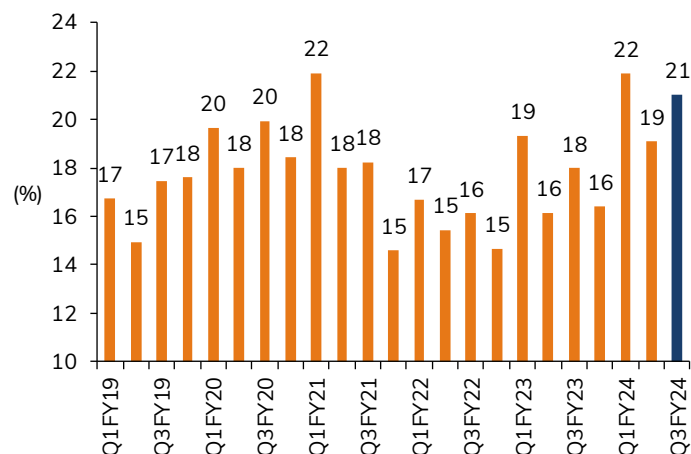
Source: Company data, I-Sec research

**Exhibit 7: Consolidated EBITDA margin**

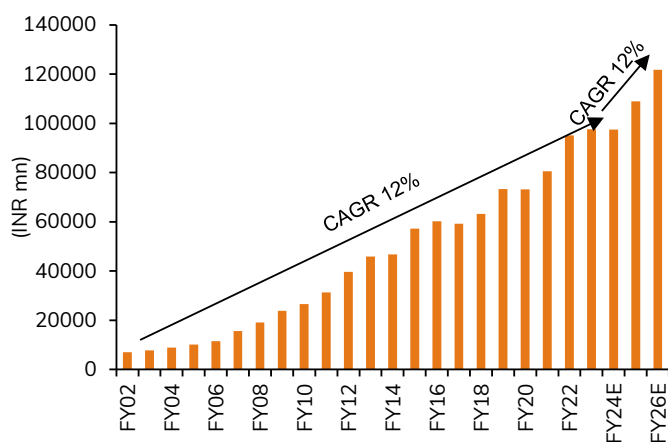
Source: Company data, I-Sec research

**Exhibit 8: Standalone revenue growth**

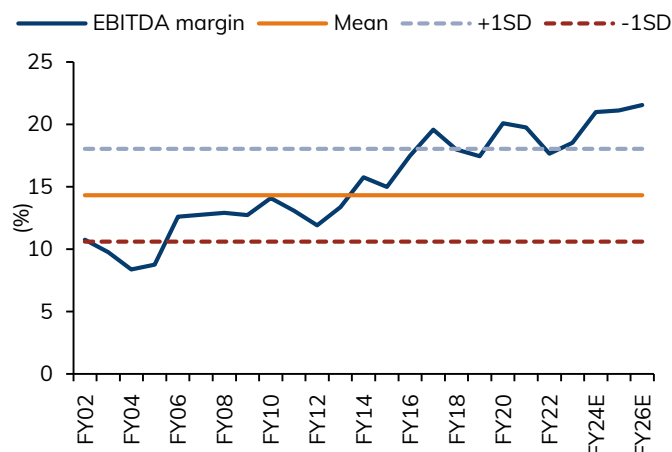
Source: Company data, I-Sec research

**Exhibit 9: Standalone EBITDA margin**

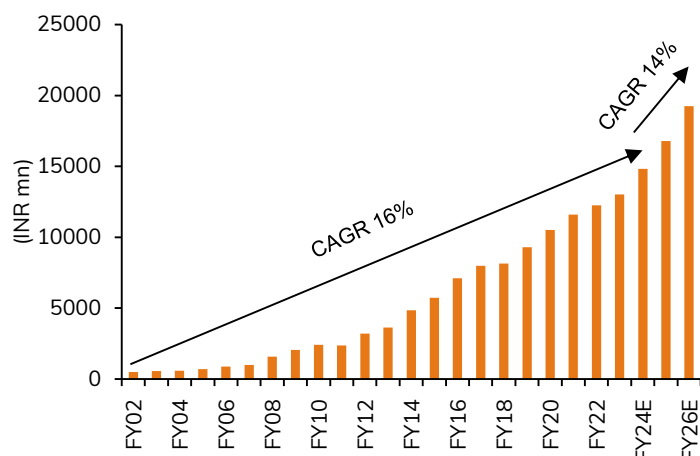
Source: Company data, I-Sec research

**Exhibit 10: Revenues and growth rates**

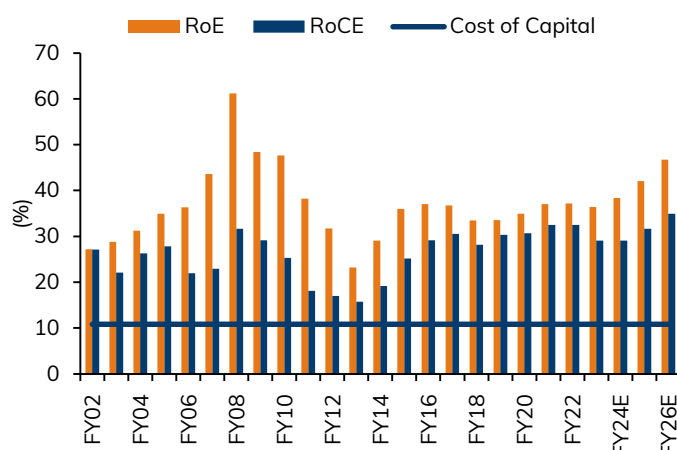
Source: Company data, I-Sec research

**Exhibit 11: EBITDA margin**

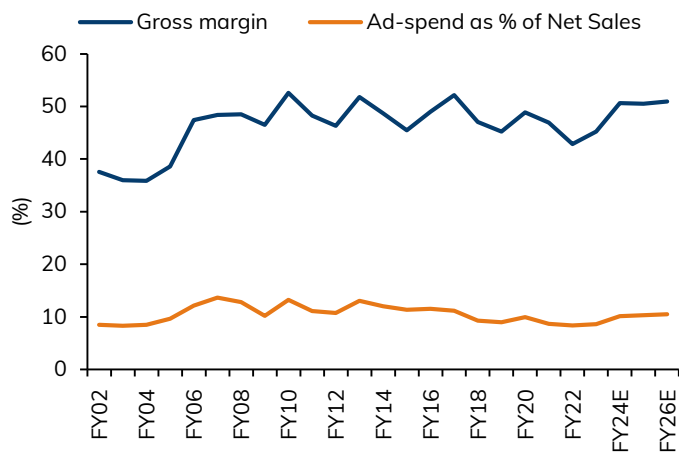
Source: Company data, I-Sec research

**Exhibit 12: Net profit and growth rates**

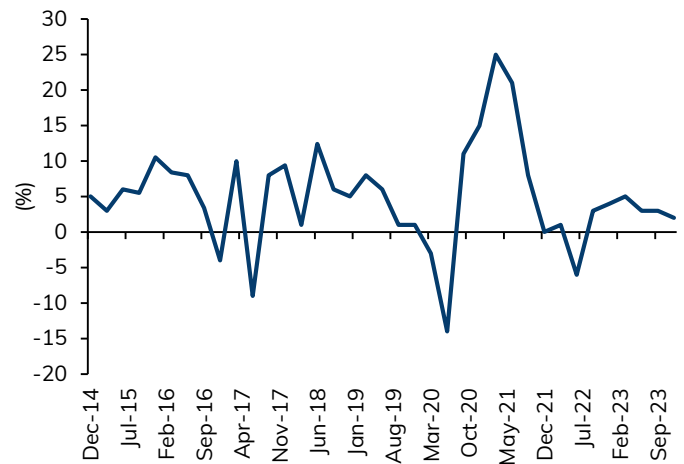
Source: Company data, I-Sec research

**Exhibit 13: Return ratios and cost of capita**

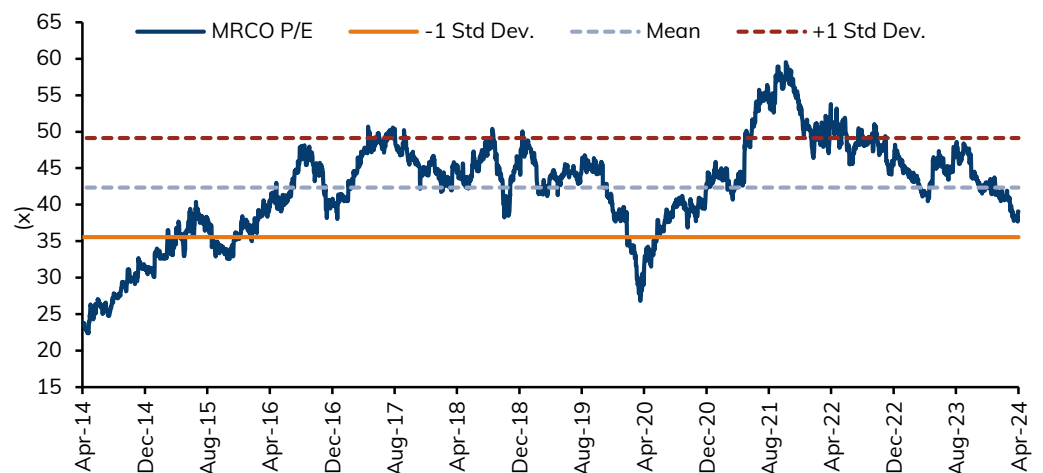
Source: Company data, I-Sec research

**Exhibit 14: Gross margins and Ad-spend as % of sales**

Source: Company data, I-Sec research

**Exhibit 15: Volume growth (Quarterly)**

Source: Company data, I-Sec research

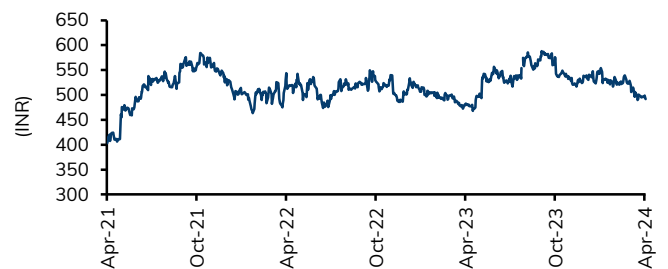
**Exhibit 16: Mean P/E and standard deviations**

Source: Company data, I-Sec research

**Exhibit 17: Shareholding pattern**

| %                       | Jun'23 | Sep'23 | Dec'23 |
|-------------------------|--------|--------|--------|
| Promoters               | 59.4   | 59.4   | 59.4   |
| Institutional investors | 35.5   | 35.8   | 35.6   |
| MFs and other           | 3.3    | 3.0    | 3.1    |
| FIs/ Banks              | 5.6    | 5.5    | 5.7    |
| FIIIs                   | 26.6   | 27.3   | 26.8   |
| Others                  | 5.1    | 4.8    | 5.0    |

Source: Bloomberg, I-Sec research

**Exhibit 18: Price chart**

Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 19: Profit & Loss

(INR mn, year ending March)

|  | FY23A         | FY24E         | FY25E           | FY26E           |
|--|---------------|---------------|-----------------|-----------------|
| <b>Net Sales</b>                       | <b>97,640</b> | <b>97,424</b> | <b>1,08,949</b> | <b>1,21,781</b> |
| Operating Expenses                     | 79,540        | 76,976        | 85,950          | 95,533          |
| <b>EBITDA</b>                          | <b>18,100</b> | <b>20,448</b> | <b>22,999</b>   | <b>26,249</b>   |
| EBITDA Margin (%)                      | 18.5          | 21.0          | 21.1            | 21.6            |
| Depreciation & Amortization            | 1,550         | 1,624         | 1,749           | 1,879           |
| EBIT                                   | 16,550        | 18,823        | 21,250          | 24,370          |
| Interest expenditure                   | 560           | 728           | 619             | 681             |
| Other Non-operating Income             | 1,440         | 1,738         | 1,833           | 2,063           |
| <b>Recurring PBT</b>                   | <b>17,430</b> | <b>19,833</b> | <b>22,465</b>   | <b>25,752</b>   |
| <b>Profit / (Loss) from Associates</b> | -             | -             | -               | -               |
| Less: Taxes                            | 4,210         | 4,760         | 5,392           | 6,181           |
| PAT                                    | 13,220        | 15,073        | 17,073          | 19,572          |
| Less: Minority Interest                | (200)         | (249)         | (279)           | (312)           |
| Extraordinaries (Net)                  | -             | -             | -               | -               |
| <b>Net Income (Reported)</b>           | <b>13,220</b> | <b>15,073</b> | <b>17,073</b>   | <b>19,572</b>   |
| <b>Net Income (Adjusted)</b>           | <b>13,020</b> | <b>14,824</b> | <b>16,794</b>   | <b>19,260</b>   |

Source Company data, I-Sec research

### Exhibit 20: Balance sheet

(INR mn, year ending March)

|   | FY23A         | FY24E         | FY25E         | FY26E         |
|---|---------------|---------------|---------------|---------------|
| <b>Total Current Assets</b>                       | <b>38,200</b> | <b>40,265</b> | <b>45,093</b> | <b>50,203</b> |
| of which cash & cash eqv.                         | 13,340        | 15,621        | 17,712        | 19,797        |
| <b>Total Current Liabilities &amp; Provisions</b> | <b>19,560</b> | <b>19,597</b> | <b>22,005</b> | <b>24,696</b> |
| <b>Net Current Assets</b>                         | <b>18,640</b> | <b>20,669</b> | <b>23,088</b> | <b>25,507</b> |
| Investments                                       | 5,340         | 5,340         | 5,340         | 5,340         |
| Net Fixed Assets                                  | 6,330         | 5,824         | 5,272         | 4,670         |
| ROU Assets  | 1,750         | 1,750         | 1,750         | 1,750         |
| Capital Work-in-Progress                          | 670           | 670           | 670           | 670           |
| <b>Total Intangible Assets</b>                    | <b>14,220</b> | <b>14,220</b> | <b>14,220</b> | <b>14,220</b> |
| Long Term Loans & Advances                        | 360           | 359           | 402           | 449           |
| Deferred Tax assets                               | -             | -             | -             | -             |
| <b>Total Assets</b>                               | <b>48,440</b> | <b>49,960</b> | <b>52,003</b> | <b>54,015</b> |
| <b>Liabilities</b>                                |               |               |               |               |
| <b>Borrowings</b>                                 | <b>4,750</b>  | <b>4,750</b>  | <b>4,750</b>  | <b>4,750</b>  |
| <b>Deferred Tax Liability</b>                     | <b>320</b>    | <b>320</b>    | <b>320</b>    | <b>320</b>    |
| Provisions  | 240           | 239           | 268           | 299           |
| Other Liabilities                                 | 3,570         | 3,562         | 3,983         | 4,453         |
| Equity Share Capital                              | 1,290         | 1,290         | 1,290         | 1,290         |
| Reserves & Surplus                                | 36,700        | 37,979        | 39,293        | 40,493        |
| <b>Total Net Worth</b>                            | <b>37,990</b> | <b>39,269</b> | <b>40,583</b> | <b>41,783</b> |
| Minority Interest                                 | 1,570         | 1,819         | 2,098         | 2,410         |
| <b>Total Liabilities</b>                          | <b>48,440</b> | <b>49,960</b> | <b>52,003</b> | <b>54,015</b> |

Source Company data, I-Sec research

### Exhibit 21: Quarterly trend

(INR mn, year ending March)

|                            | Mar-23       | Jun-23       | Sep-23       | Dec-23       |
|----------------------------|--------------|--------------|--------------|--------------|
| Net Sales                  | 22,400       | 24,770       | 24,760       | 24,220       |
| % growth (YOY)             | 3.7          | (3.2)        | (0.8)        | (1.9)        |
| EBITDA                     | 3,930        | 5,740        | 4,970        | 5,130        |
| Margin %                   | 17.5         | 23.2         | 20.1         | 21.2         |
| Other Income               | 680          | 460          | 380          | 430          |
| Extraordinaries            | -            | -            | -            | -            |
| <b>Adjusted Net Profit</b> | <b>3,020</b> | <b>4,270</b> | <b>3,530</b> | <b>3,830</b> |

Source Company data, I-Sec research

### Exhibit 22: Cashflow statement

(INR mn, year ending March)

|  | FY23A          | FY24E         | FY25E         | FY26E         |
|--|----------------|---------------|---------------|---------------|
| <b>Operating Cashflow</b>              | <b>14,190</b>  | <b>15,935</b> | <b>17,553</b> | <b>20,040</b> |
| Working Capital Changes                | (590)          | 247           | (55)          | (28)          |
| Capital Commitments                    | (5,230)        | (1,119)       | (1,197)       | (1,277)       |
| <b>Free Cashflow</b>                   | <b>8,960</b>   | <b>14,816</b> | <b>16,356</b> | <b>18,763</b> |
| <b>Other investing cashflow</b>        | <b>(4,060)</b> | <b>1,738</b>  | <b>1,833</b>  | <b>2,063</b>  |
| Cashflow from Investing Activities     | (9,290)        | 619           | 637           | 786           |
| Issue of Share Capital                 | 90             | -             | -             | -             |
| Interest Cost                          | (530)          | (728)         | (619)         | (681)         |
| Inc (Dec) in Borrowings                | 1,320          | -             | -             | -             |
| Dividend paid                          | (6,070)        | (13,545)      | (15,480)      | (18,060)      |
| Others                                 | (410)          | -             | -             | -             |
| Cash flow from Financing Activities    | (5,600)        | (14,273)      | (16,099)      | (18,741)      |
| <b>Chg. in Cash &amp; Bank balance</b> | <b>(700)</b>   | <b>2,281</b>  | <b>2,091</b>  | <b>2,086</b>  |
| Closing cash & balance                 | 1,320          | 3,601         | 5,692         | 7,777         |

Source Company data, I-Sec research

### Exhibit 23: Key ratios

(Year ending March)

|                             | FY23A | FY24E | FY25E | FY26E |
|-----------------------------|-------|-------|-------|-------|
| <b>Per Share Data (INR)</b> |       |       |       |       |
| Reported EPS                | 10.2  | 11.7  | 13.2  | 15.2  |
| Adjusted EPS (Diluted)      | 10.1  | 11.5  | 13.0  | 14.9  |
| Cash EPS                    | 11.3  | 12.8  | 14.4  | 16.4  |
| Dividend per share (DPS)    | 4.5   | 10.5  | 12.0  | 14.0  |
| Book Value per share (BV)   | 29.4  | 30.4  | 31.5  | 32.4  |
| Dividend Payout (%)         | 43.9  | 89.9  | 90.7  | 92.3  |
| <b>Growth (%)</b>           |       |       |       |       |
| Net Sales                   | 2.6   | (0.2) | 11.8  | 11.8  |
| EBITDA                      | 7.7   | 13.0  | 12.5  | 14.1  |
| EPS (INR)                   | 5.3   | 14.0  | 13.3  | 14.6  |
| <b>Valuation Ratios (x)</b> |       |       |       |       |
| P/E                         | 49.7  | 43.6  | 38.5  | 33.6  |
| P/CEPS                      | 45.1  | 40.0  | 35.4  | 31.1  |
| P/BV                        | 17.3  | 16.7  | 16.2  | 15.7  |
| EV / EBITDA                 | 35.5  | 31.4  | 27.8  | 24.3  |
| P / Sales                   | 6.7   | 6.7   | 6.0   | 5.4   |
| Dividend Yield (%)          | 0.9   | 2.1   | 2.4   | 2.7   |
| <b>Operating Ratios</b>     |       |       |       |       |
| Gross Profit Margins (%)    | 45.2  | 50.6  | 50.5  | 50.9  |
| EBITDA Margins (%)          | 18.5  | 21.0  | 21.1  | 21.6  |
| Effective Tax Rate (%)      | 24.2  | 24.0  | 24.0  | 24.0  |
| Net Profit Margins (%)      | 13.5  | 15.5  | 15.7  | 16.1  |
| Net Debt / Equity (x)       | (0.4) | (0.4) | (0.4) | (0.5) |
| Net Debt / EBITDA (x)       | (0.8) | (0.8) | (0.8) | (0.8) |
| Fixed Asset Turnover (x)    | 8.6   | 7.9   | 8.0   | 8.2   |
| Working Capital Days        | 20    | 19    | 19    | 18    |
| Inventory Turnover Days     | 46    | 45    | 48    | 47    |
| Receivables Days            | 38    | 38    | 39    | 39    |
| Payables Days               | 55    | 55    | 58    | 58    |
| <b>Profitability Ratios</b> |       |       |       |       |
| RoCE (%)                    | 30.7  | 31.7  | 34.6  | 38.4  |
| RoE (%)                     | 35.4  | 36.8  | 40.1  | 44.3  |
| RoIC (%)                    | 33.4  | 34.7  | 37.6  | 41.7  |

Source Company data, I-Sec research

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