

Marico

On an improving trajectory

We recently engaged with Marico's management and conducted comprehensive channel checks across India to assess underlying demand trends. Based on these findings, we maintain our high-conviction BUY rating within the staples sector, with a target price of INR 775 (50x Dec-26 EPS, reflecting a 20% premium to the 5-year average P/E). We believe the worst is behind us, with factors such as muted volume growth, pricing corrections, challenges in the new business segment, and temporary currency headwinds. We expect Marico to achieve revenue/EBITDA/PAT CAGRs of 9%/11%/11% respectively over FY24-27, given the following: (1) the domestic business is firing on all cylinders – (a) *Parachute* (35% of domestic sales) is expected to see mid-single-digit volume growth on the back of market share gains and conversion from unbranded to branded products, as we have consistently seen in inflationary copra environments. Moreover, we expect double-digit revenue growth in 2HFY25, driven by mid-to-high single-digit price hikes; (b) *Saffola edible oil* (20% of domestic sales) is projected to deliver volume-led mid-high single-digit growth in the medium term. In our view, any likely pricing action undertaken in H2FY25 to offset the recent increase in customs duty on selected edible oils should further aid revenue growth; (c) in the *VAHO* segment, focus on strengthening brand equity in the value segment, along with an uptick in the mid-to-premium segment, is expected to drive improved outcomes. (2) We anticipate a significant improvement in the profitability of fast-growing foods and digital-first businesses, which currently contribute 20% of domestic sales. (3) Distribution expansion initiatives aimed at expanding reach through project SETU, along with actions to enhance ROI for distributors across India, should further support growth. (4) On the global front, we expect the company to sustain its double-digit constant currency revenue growth momentum. Key risks to our outlook: (1) volatility in the raw material index, as copra still accounts for 35% of the RM basket; (2) increased competitive intensity in the *VAHO* segment; and (3) recent political unrest in Bangladesh.

- **Domestic business (74% of total sales):** Management expects revenue growth to accelerate, driven by an uptick in volume growth resulting from brand-building initiatives undertaken to further strengthen equity in *VAHO*, pricing anniversarization in *Saffola edible oils*, market share gains from unorganised players in the coconut oil segment, and the scaling up of the foods, digital-first, and premium personal care portfolios. Additionally, the anticipated rural recovery starting in 2H FY25 is expected to further boost growth.
- **Parachute (35% of domestic sales):** Management expects volume growth to pick up, as historically observed during inflationary copra cycles. Although copra prices have risen sequentially, management may take further price hikes, if required, while prioritising volume growth and maintaining profitability within a certain range. However, our ground checks with distributors indicate that volume growth remained soft during 2QFY25, due to (a) ongoing structural interventions aimed at improving distributor ROI and (b) the reduction in grammage implemented in 1QFY25 to offset inflationary copra prices.
- **VAHO (20% of domestic sales):** *VAHO* performance has been subdued over the past few quarters due to increased competitive intensity in the value segment (primarily from *Nihar Shanti Amla*) by a large national player. Meanwhile, the mid-to-premium *VAHO* segment continues to post mid to high-single-digit revenue growth. In our view, *Nihar Shanti Amla*, which accounts for approximately 50% of *VAHO* sales, is likely to see a turnaround starting from 3QFY25, driven by a favourable base, expected reduction in competitive intensity as rivals operate on wafer-thin margins, and management's focus on strengthening brand equity to enhance consumer pull. Mid-to-premium brands (*Hair Care*, *Parachute Advansed Jasmine*, *Parachute Advansed Aloe Vera*, and *Parachute Advansed Ayurvedic*) are expected to perform well over FY25-27, supported by distribution expansion initiatives, new product launches, and market share gains.

BUY

CMP (as on 24 Sep 2024)	INR 705
Target Price	INR 775
NIFTY	25,940

KEY STOCK DATA

Bloomberg code	MRCO IN
No. of Shares (mn)	1,295
MCap (INR bn) / (\$ mn)	913/10,911
6m avg traded value (INR mn)	1,872
52 Week high / low	INR 711/486

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	13.2	41.7	22.9
Relative (%)	3.4	25.1	(5.8)

SHAREHOLDING PATTERN (%)

	Mar-24	Jun-24
Promoters	59.39	59.28
FIs & Local MFs	10.09	11.30
FPIs	25.54	24.61
Public & Others	4.98	4.69
Pledged Shares	0.08	0.08

Source : BSE

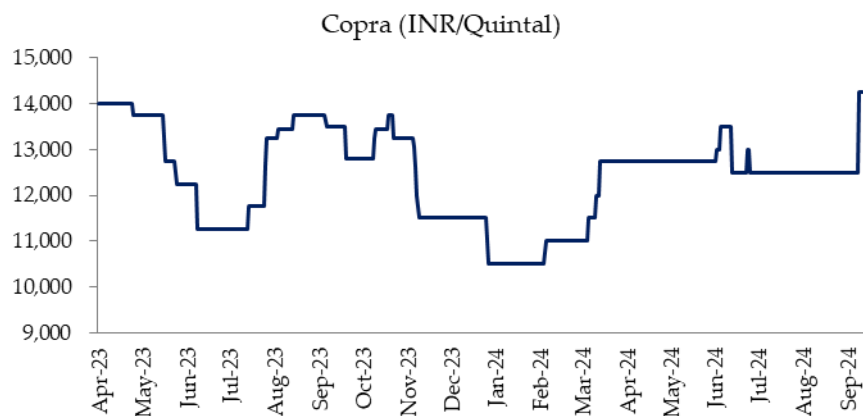
Pledged shares as % of total shares

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- **Saffola edible oils (18% of domestic revenue):** It is expected to see volume-led mid-high single-digit growth over FY24-27, courtesy of pricing correction anniversary (down 20% in FY24). However, any pricing action undertaken in H2FY25 to offset the recent increase in custom duty on selected edible oil shall further aid revenue growth. Recently, the government of India has raised custom duty on refined palm oil, soya oil and sunflower oil from 13.75% to 35.75%. Moreover, management highlighted that it is focusing on improving the share of the revenue from the foods side, which has a higher margin vs edible oil and a less volatile margin profile.
- **Saffola Foods (10% of domestic revenue):** The food business revenue stood at Rs c.7 bn in FY24. The company aims to grow this by at least 20-25% over the next three years. Honey and Soya chunks are key sub-segments within business after oats (which is 50% of foods business).
- **Digital-first brands:** Management suggested that digital brands are expected to reach ARR of Rs 5.5-6 bn by the end of FY25 and the focus remains on turning around this brand as far as profitability is concerned. Beardo is on course to report a double-digit EBITDA margin in FY25.
- **Distribution network:** Marico is making a lot of effort to improve efficiency and expand direct reach. For its existing distributors, the focus is on improving ROI, which has taken a knock owing to price correction across key categories (since distributor margins are % of revenue) and increased competition from modern trade and e-commerce channels. Marico is trying to address the same via optimising inventory levels at the distributor end. At the same time, it is focusing on increasing direct reach from 1 mn outlets to 1.5 mn outlets through project SETU – which in turn shall help in selling the entire assortment (since wholesale focuses on only hero brands as well as SKUs).
- **International business (26% of total sales):** Management is targeting double-digit constant currency revenue growth in FY25. Bangladesh’s (c45% of International sales) business is operating at a normal scale, although currency depreciation on YoY is likely to hamper reported growth on a YoY basis. The Vietnam business (20-25% of International sales) is likely to see a gradual recovery but as of now, the market is facing macro challenges there. MENA and SA markets are scaling up well.



Source: Bloomberg, HSIE Research

Consolidated P&L

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	97,640	96,530	1,05,170	1,14,851	1,25,694
Growth (%)	13.2	10.9	11.1	12.1	12.2
Material Expenses	53,510	47,480	51,041	55,379	60,087
Employee Expense	6,530	7,430	8,173	8,827	9,533
Other Expenses	19,500	21,360	23,693	25,718	27,920
EBITDA	18,100	20,260	22,263	24,927	28,155
EBITDA Growth (%)	7.7	11.9	9.9	12.0	12.9
EBITDA Margin (%)	18.5	21.0	21.2	21.7	22.4
Depreciation	1,550	1,580	1,720	1,904	2,089
EBIT	16,550	18,680	20,543	23,023	26,066
Other Income	1,440	1,420	1,562	1,718	1,890
Interest	560	730	730	730	730
PBT	17,430	19,370	21,375	24,011	27,226
Tax	4,210	4,350	5,130	5,763	6,534
Profit from minority/associates	(200)	(210)	(210)	(210)	(210)
RPAT	13,020	14,810	16,035	18,038	20,482
Adjustment	-	-	-	-	-
Adjusted PAT	13,020	14,810	16,035	18,038	20,482
APAT Growth (%)	6.3	13.7	8.3	12.5	13.5
Adjusted EPS	10.1	11.5	12.4	14.0	15.8
EPS Growth (%)	6.3	13.7	8.3	12.5	13.5

Source: Company, HSIE Research

Consolidated Balance Sheet

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS					
Share Capital - Equity	1,290	1,290	1,290	1,290	1,290
Reserves	36,700	37,030	40,237	43,845	47,941
Total Shareholders Funds	37,990	38,320	41,527	45,135	49,231
Minority Interest	1,570	3,370	3,580	3,790	4,000
Long Term Debt	20	-	-	-	-
Short Term Debt	4,730	3,830	3,830	3,830	3,830
Total Debt	4,750	3,830	3,830	3,830	3,830
Net Deferred Taxes	320	2,110	2,110	2,110	2,110
Other Non-current Liabilities & Provns	3,810	5,290	5,290	5,290	5,290
TOTAL SOURCES OF FUNDS	48,440	52,920	56,337	60,155	64,461
APPLICATION OF FUNDS					
Net Block	16,690	17,720	17,500	17,096	16,508
CWIP	670	440	440	440	440
Other Non Current Assets	12,500	15,390	15,390	15,390	15,390
Total Non-current Assets	29,860	33,550	33,330	32,926	32,338
Inventories	12,250	13,360	14,556	15,896	17,396
Debtors	10,150	10,690	8,644	9,440	10,331
Other Current Assets	2,400	3,910	3,910	3,910	3,910
Cash & Equivalents	13,340	12,020	17,922	21,593	25,872
Total Current Assets	38,140	39,980	45,032	50,839	57,510
Creditors	14,520	15,810	17,225	18,811	20,587
Other Current Liabilities & Provns	5,040	4,800	4,800	4,800	4,800
Total Current Liabilities	19,560	20,610	22,025	23,611	25,387
Net Current Assets	18,580	19,370	23,007	27,228	32,123
TOTAL APPLICATION OF FUNDS	48,440	52,920	56,337	60,155	64,461

Source: Company, HSIE Research

Consolidated Cash Flow

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	17,430	19,370	21,375	24,011	27,226
Non-operating & EO Items	(580)	(510)	-	-	-
Interest Expenses	70	(40)	-	-	-
Depreciation	1,550	1,580	1,720	1,904	2,089
Working Capital Change	(590)	(2,260)	2,265	(550)	(616)
Tax Paid	(3,690)	(3,780)	(5,130)	(5,763)	(6,534)
OPERATING CASH FLOW (a)	14,190	14,360	20,230	19,602	22,164
Capex	(2,770)	(1,030)	(1,500)	(1,500)	(1,500)
Free Cash Flow (FCF)	11,420	13,330	18,730	18,102	20,664
Investments	(2,200)	5,800	-	-	-
Non-operating Income	(3,680)	(3,010)	-	-	-
INVESTING CASH FLOW (b)	(8,650)	1,760	(1,500)	(1,500)	(1,500)
Debt Issuance/(Repaid)	1,280	(910)	-	-	-
Interest Expenses	(940)	(1,170)	-	-	-
FCFE	5,200	18,200	18,730	18,102	20,664
Share Capital Issuance	90	340	-	-	-
Dividend	(5,820)	(12,290)	(12,828)	(14,431)	(16,385)
Others	(210)	(1,390)	-	-	-
FINANCING CASH FLOW (c)	(5,600)	(15,420)	(12,828)	(14,431)	(16,385)
NET CASH FLOW (a+b+c)	(60)	700	5,902	3,672	4,279
EO Items, Others	(630)	(490)	-	-	-
Closing Cash & Equivalents	2,070	2,280	8,182	11,853	16,132

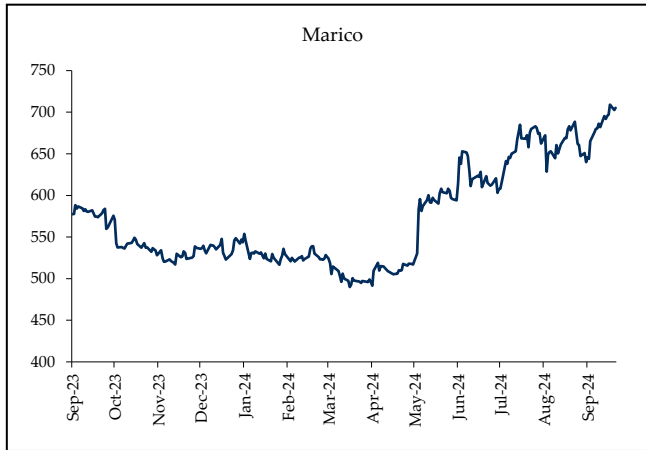
Source: Company, HSIE Research

Ratios

KEY RATIOS	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY (%)					
GPM	45.2	50.8	51.5	51.8	52.2
EBITDA Margin	18.5	21.0	21.2	21.7	22.4
EBIT Margin	17.0	19.4	19.5	20.0	20.7
APAT Margin	13.3	15.3	15.2	15.7	16.3
RoE	36.4	38.8	40.2	41.6	43.4
RoIC (or Core RoCE)	68.9	56.1	55.7	65.6	74.6
RoCE	33.1	32.7	33.8	35.4	37.4
EFFICIENCY					
Tax Rate (%)	24.2	22.5	24.0	24.0	24.0
Fixed Asset Turnover (x)	8.2	7.3	7.1	7.1	7.1
Inventory (days)	45.8	50.5	50.5	50.5	50.5
Debtors (days)	37.9	40.4	30.0	30.0	30.0
Other Current Assets (days)	9.0	14.8	13.6	12.4	11.4
Payables (days)	54.3	59.8	59.8	59.8	59.8
Other Current Liab & Provsns (days)	18.8	18.1	16.7	15.3	13.9
Cash Conversion Cycle (days)	19.6	27.8	17.6	17.9	18.2
Net D/E (x)	(0.2)	(0.2)	(0.3)	(0.4)	(0.4)
Interest Coverage (x)	29.6	25.6	28.1	31.5	35.7
PER SHARE DATA (Rs)					
EPS	10.1	11.5	12.4	14.0	15.8
CEPS	11.3	12.7	13.7	15.4	17.5
Dividend	4.5	9.5	9.9	11.2	12.7
Book Value	29.4	29.6	32.1	34.9	38.1
VALUATION					
P/E (x)	69.0	60.7	56.1	49.8	43.9
P/BV (x)	-	-	-	-	-
EV/EBITDA (x)	49.2	44.0	39.7	35.3	31.1
EV/Revenues (x)	9.1	9.2	8.4	7.7	7.0
OCF/EV (%)	1.6	1.6	2.3	2.2	2.5
FCF/EV (%)	1.3	1.5	2.1	2.1	2.4
FCFE/Mkt Cap (%)	0.6	2.0	2.1	2.0	2.3
Dividend Yield (%)	0.6	1.4	1.4	1.6	1.8

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

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