Marico Ltd

Margins are the only silver lining

- Marico's guidance on domestic sales recovery lags expectation, with growth expected only in 2HFY24F. Core portfolio may remain muted in the near term.
- Higher margins in 1QFY24 are a result of deflationary commodity prices, with mean reversion expected during the rest of the year.
- Concerns are over delayed recovery in core & execution risk in emerging categories. Valuation also doesn't offer much respite. Downgrade to REDUCE.

India

REDUCE *(previously HOLD)*

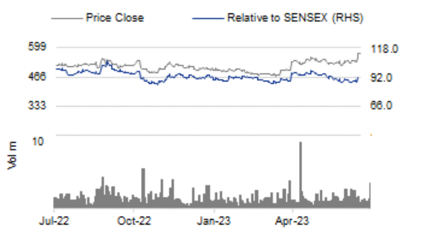
Consensus ratings*:	Buy 31	Hold 9	Sell 3

Current price:	Rs574
Target price: ▲	Rs542
Previous target:	Rs520
Up/downside:	-5.6%
InCred Research / Consensus:	-7.2%
Reuters:	MRCO.NS
Bloomberg:	MRCO IN
Market cap:	US$9,030m
	Rs742,736m
Average daily turnover:	US$9.2m
	Rs753.6m
Current shares o/s:	1,291.2m
Free float:	40.5%

Source: Bloomberg

Key changes in this note

- Downgraded the rating to REDUCE from HOLD.
- Lowered FY25F EPS by 1.6%.
- Introduced FY26F estimates.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.2	15.7	10.9
Relative (%)	5.8	6.9	(3.5)

Major shareholders	% held
Promoter	59.5
First State Investments ICVC	5.4
LIC	3.7

Muted 2Q performance likely; sales growth to recover from 2HFY24F

Marico's 1QFY24 domestic sales declined by 6.8% yoy, which its management attributed to 1) trade destocking, and 2) trade scheme rationalization. Volume growth stood at 3%. Parachute rigids reported 2%/5% volume/value fall, respectively, while the Saffola edible oils range declined by c.20-22% (c.10% volume growth). VAHO was flat yoy. Foods business grew 24%. 1Q did not witness any green shoots of a recovery in rural areas, while the hope remains on moderating inflation to drive volume recovery. Contrary to expectations of a strong 2Q (after one-offs affecting 1Q), management has given guidance of domestic sales recovering (positive territory) only in 2HFY24F (though we factor in the possibility of under-guide but over-deliver). Core portfolio is expected to remain muted in the near term. International business reported a 9% constant currency (CC) growth as the Bangladesh market reported its third consecutive quarter of single-digit growth.

Inorganic foray into nutrition/wellness space via Plix acquisition

Marico has signed an agreement to buy a 58% stake in Satiya Nutraceuticals (The Plant Fix - Plix) for Rs3.68bn. Plix is a plant-based nutrition brand operating in nutrition, skincare, body care & hair care categories. The company clocked sales of Rs416m/Rs1.06bn in FY22/FY23, respectively. Plix will contribute c.1% to Marico's overall sales in FY24F. The category is still nascent and needs substantial market development efforts.

Margins are transient; 1Q margins will not sustain

Consol. gross margin/EBITDA margin rose by 490bp/250bp yoy to 50%/23.2%, respectively, in 1Q benefitting from deflationary commodity prices. These levels are not sustainable. Even the management's FY24F EBITDA margin guidance (of 20%+) largely entails margins to revert to c.19% in 9M (rest of FY24F). Moreover, maintaining margins at a higher level may also come at the cost of market share loss. The rising contribution of high-growth portfolio (foods, personal care & D2C) may restrict EBITDA margin expansion.

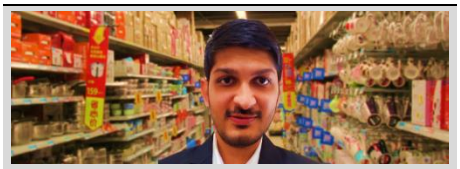
Downgrade the rating to REDUCE

Management's guidance entails delayed recovery of core portfolio and heavy lifting to be done by emerging categories, which involves execution risk. Margins should revert to the normal level in FY25F. We downgrade our rating to REDUCE (from HOLD) with a new target price of Rs542 (41x Jun 2025F EPS). Upside risk: Faster recovery in core portfolio and sustained higher margins.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	95,120	97,640	104,198	118,331	130,941
Operating EBITDA (Rsm)	16,810	18,100	21,570	23,496	26,393
Net Profit (Rsm)	11,270	11,580	15,141	16,549	18,616
Core EPS (Rs)	8.7	9.0	11.7	12.8	14.4
Core EPS Growth	(3.0%)	2.8%	30.8%	9.3%	12.5%
FD Core P/E (x)	65.74	63.98	48.93	44.77	39.80
DPS (Rs)	6.0	6.0	6.6	7.0	7.9
Dividend Yield	1.21%	1.23%	1.35%	1.43%	1.60%
EV/EBITDA (x)	43.59	40.55	33.31	30.31	26.70
P/FCFE (x)	76.23	110.09	33.09	53.45	45.27
Net Gearing	(25.9%)	(21.7%)	(53.6%)	(59.7%)	(65.7%)
P/BV (x)	22.34	19.50	17.18	15.10	13.27
ROE	34.4%	32.5%	37.3%	35.9%	35.5%
% Change In Core EPS Estimates			0.99%	(1.57%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Analyst(s)



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Margins are the only silver lining

Key takeaways from the earnings call

Demand and operating environment

- Volume growth for the sector was in the positive territory for the second consecutive quarter. Rural markets remained subdued.
- Pricing growth has been tapering off sequentially and hence, growth will be led by volume going ahead.
- Domestic volume was up 3%, but below management expectations.
- Trade schemes have been adjusted to correct the historical 1Q skew.
- Secondary sales are a few percentage points higher than primary sales. Management expects this to be corrected from 2QFY24F.
- Modern trade and e-commerce channels grew in double digits while general trade channels declined in mid-single digits.

Segment-wise commentary

- **Saffola oil:** Saw multiple price cuts (30% price cut overall), which led to a partial recovery on a low base last year. Management expects the growth to be steady going ahead. The offtake was good, and the pricing premium is at an optimal level. Once raw material volatility softens, the growth rate is expected to improve.
- **VAHO**: Had a flat quarter owing to a slower recovery in mass personal care categories (which mirrors rural markets). Market share was up 20bp yoy led by the focus on the premium range. Management expects the VAHO segment to pick up in 2HFY24F.
- **Parachute**: Volume declined by 2%, but the offtake remained healthy.
- **Food**: Grew 24% yoy led by a steady rise across core portfolios and recent product launches. Marico will invest in millets in a large way in the foods business.
- **Premium personal care:** Delivered a steady performance and is expected to close FY24F with Rs4bn (exit ARR) - premium personal care (incl. digital portfolio and excl. Paras pharma portfolio). The premium personal care category requires higher A&P spending, but also has better margins. At a weighted average level, gross margins are better than the core portfolio.

International business

- **Bangladesh** posted 9% CC growth with a broad-based growth across core and newer portfolios. Management expects double-digit growth (in CC terms) in FY24F.
- **Vietnam** (up 5% in CC terms) saw consumption headwinds in the HPC segment, but business remained strong. Expansion into the female personal care category is expected to aid growth in the medium term.
- **MENA** was up 15% in CC terms led by double-digit growth in the Gulf region and Egypt.
- **South Africa** grew 37% yoy in CC terms, led by the hair care segment. The focus will be on driving the core portfolios (hair care and health care).
- The EBITDA margin expanded by 401bp yoy to 29.6%, led by gains from copra prices in Bangladesh. Should revert to the 25-26% range.

Input costs and margins

- No pricing actions have been taken in 1Q.
- Gross margin is expected to expand by 250-300bp yoy while the EBITDA margin is likely to be above 20% in FY24F.

Acquisition of Plix – foray into nutrition and wellness space

Marico entered into a definitive agreement to **acquire a 58% stake** in Satiya Nutraceuticals Pvt Ltd, which owns the plant-based nutrition brand Plix for a **total consideration of Rs3.68bn**. As a part of the deal:

- Marico acquired 32.75% of the paid-up share capital on a fully diluted basis with majority control over the company, making Plix its subsidiary.
- The remaining 25.25% of the paid-up capital will be acquired in one or more tranches by May 2025F.
- Marico has the right to acquire the remaining 42% of the company by Jul 2026.

About Plix

- **About the company:** Plix is a plant-based nutrition brand that was founded in India in 2018. Plix offers a wide range of products, including effervescent tablets, gummies, powders, and capsules among others.
- **Product offerings:** The company operates in nutrition, skincare, body care and hair care categories. All its products are vegan, non-GMO, and free of artificial colours, flavours and preservatives, catering to common concerns like weight loss, hair loss, women's health, acne care and others through the company website.
- **Revenue:** The company clocked sales of Rs100m/Rs416m/Rs1.06bn in FY21/FY22/FY23, respectively
- **Funding history:** As per news reports, Plix has raised total funds of US$5.56m over two rounds, with its most recent round being a Series A in Oct 2021 for US$5m, where four investors participated in the last round, led by Guild Capital and RPSG Capital Ventures.

Recap of Hindustan Unilever's acquisitions – Zywie (Oziva) and Nutritionlab (Wellbeing Nutrition)

Zywie (Oziva):

- **Deal structure -** The 51% stake acquired by Hindustan Unilever or HUL in the company is for a sum of Rs2.64bn through a combination of primary infusion and secondary buyouts. The remaining 49% stake will be acquired after 36 months, based on a predetermined valuation.
- As per media reports, Series B funding of US$12m (in 2021) was done at a valuation of US$80m.
- The company clocked sales of Rs210m/Rs721m/Rs1.24bn in FY20/FY21/FY22, respectively.
- **Product offerings:** OZiva is a plant-based consumer wellness brand focused on the need spaces such as lifestyle protein, hair & beauty supplements and women's health. It is a digital-first brand with an omnichannel approach that is available on its website, digital marketplace, and a growing presence across offline retail stores.

Nutritionlab (Wellbeing Nutrition)

- **Deal structure:** The 19.8% stake acquired by HUL is via a combination of primary infusion and buyout for a cash consideration of Rs700m. Management termed the investment as 'strategic' in nature but did not comment on the roadmap to acquire the majority stake/buyout, if any.
- The company clocked sales of Rs21m/Rs53m/Rs194m in FY20/FY21/FY22, respectively.
- **Product offerings:** Wellbeing Nutrition has pioneered disruptive formats in benefit-led products in the health and wellbeing space. Its product range includes Melts (oral thin strips), slow-release capsules and Marine Collagen powder focused on beauty, everyday health, gut health and sleep. It is a D2C brand that is expanding into the offline retail channel space.

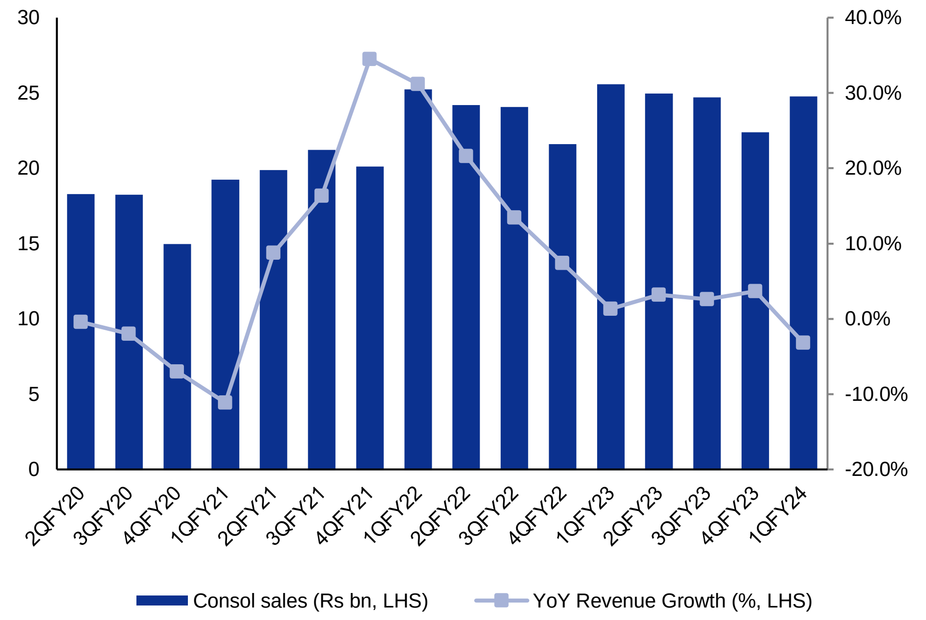
InCred Equities

Figure 1: Quarterly results summary - consolidated

Y/E Mar (Rs. m)	1QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Revenue	**25,580**	**22,400**	**24,770**	-3.2	10.6
Expenditure	**20,300**	**18,470**	**19,030**	**-6.3**	**3.0**
Consumption of Raw Materials	14,060	11,780	12,390	-11.9	5.2
as % of sales	*55.0*	*52.6*	*50.0*		
Employee Cost	1,560	1,710	1,810	16.0	5.8
as % of sales	*6.1*	*7.6*	*7.3*		
Other expenditure	4,680	4,980	4,830	3.2	-3.0
as % of sales	*18.3*	*22.2*	*19.5*		
EBITDA	5,280	3,930	5,740	**8.7**	**46.1**
Depreciation	360	430	360	0.0	-16.3
EBIT	**4,920**	**3,500**	**5,380**	**9.3**	**53.7**
Other Income	170	680	320	88.2	-52.9
Interest	100	170	170	70.0	0.0
PBT	**4,990**	**4,010**	**5,530**	**10.8**	**37.9**
Total Tax	1,220	960	1,310	7.4	36.5
PAT	**3,770**	**3,050**	**4,220**	**11.9**	**38.4**
(Profit)/Loss from JV's/Ass/MI	**60**	**30**	**90**	**NA**	**200.0**
APAT after MI	**3,710**	**3,020**	**4,130**	**11.3**	**36.8**
Extraordinary Items	**0**	**0**	**140**	**NA**	**NA**
Reported PAT	**3,710**	**3,020**	**4,270**	**15.1**	**41.4**
EPS	**2.9**	**2.3**	**3.2**	**11.3**	**36.8**
Margins (%)	**1QFY23**	**4QFY23**	**1QFY24**	**YoY (bp)**	**QoQ (bp)**
Gross margin	45.0	47.4	50.0	490	260
EBITDA	20.6	17.5	23.2	250	560
EBIT	19.2	15.6	21.7	250	610
EBT	19.5	17.9	22.3	280	440
PAT	14.7	13.6	17.0	230	340
Effective Tax Rate	24.4	23.9	23.7	-80	-30

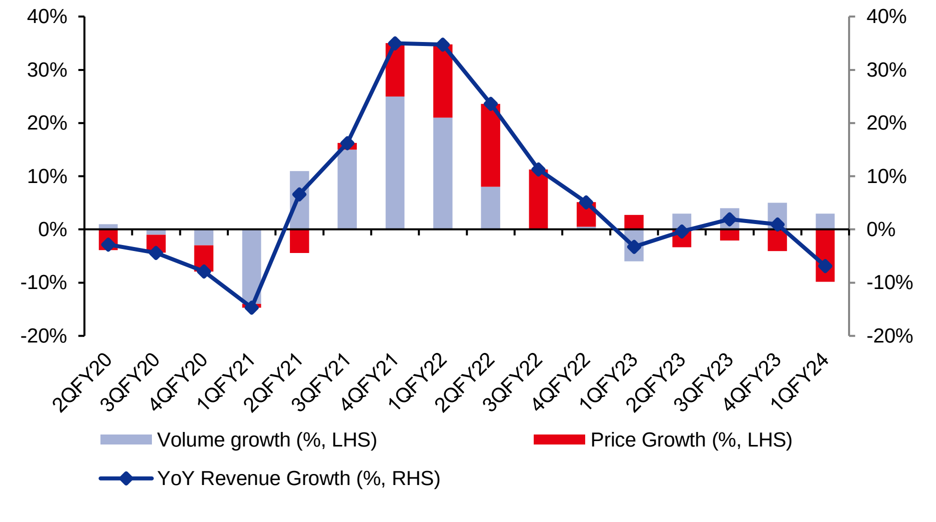
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Consolidated sales declined by 3.2% yoy in 1QFY24



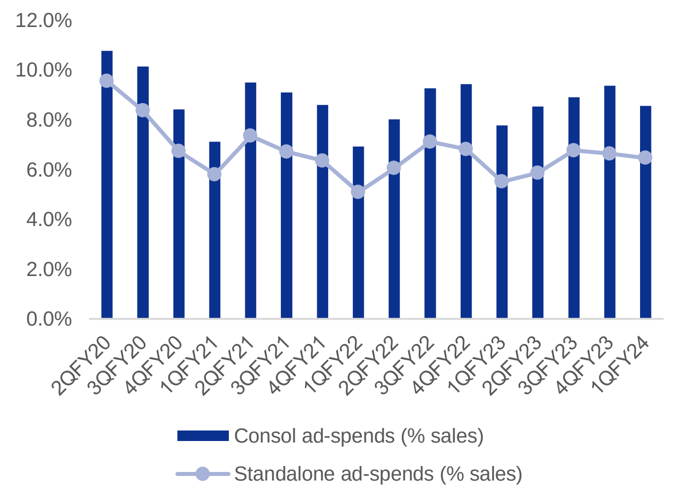
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Domestic volume/value on a four-year CAGR basis was flat/1%, respectively



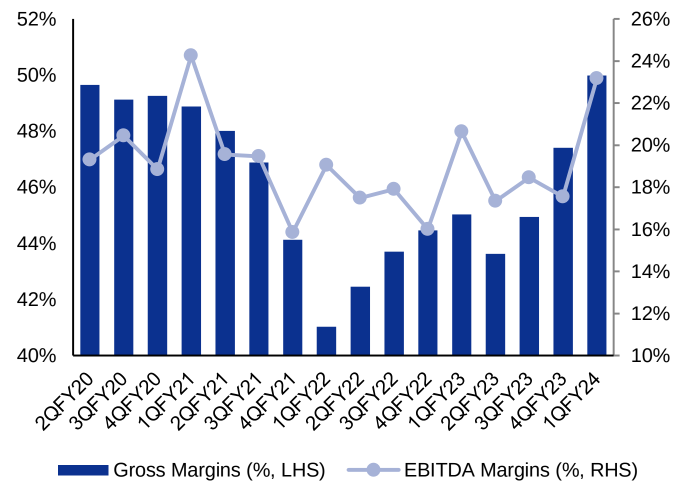
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Consolidated/standalone advertising expenses stood at 8.6%/6.5% of sales, respectively, in 1QFY24



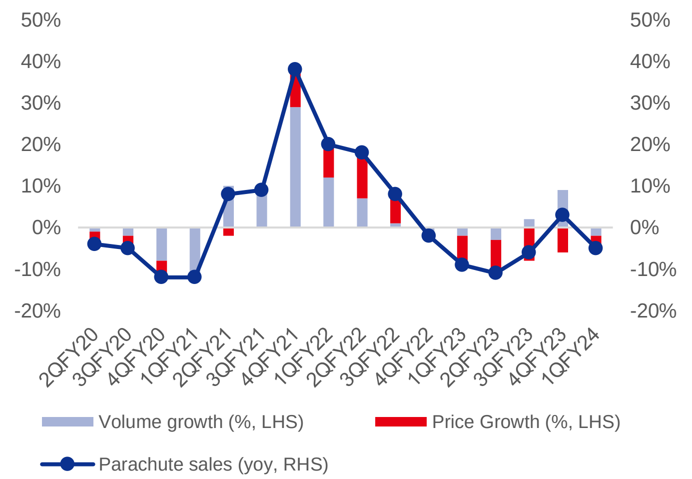
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Consolidated gross/EBITDA margins, which benefitted from deflationary commodity prices, should normalize going ahead



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Parachute volume/value on a four-year CAGR basis stood at (-)2.3%/(-)1.1%, respectively, in 1QFY24

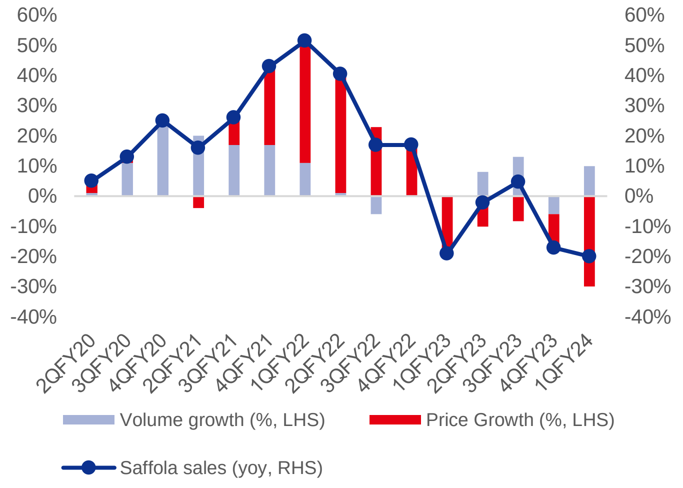


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: VAHO segment's sales growth on yoy/four-year CAGR basis was flat/ (-)1%, respectively, in 1QFY24

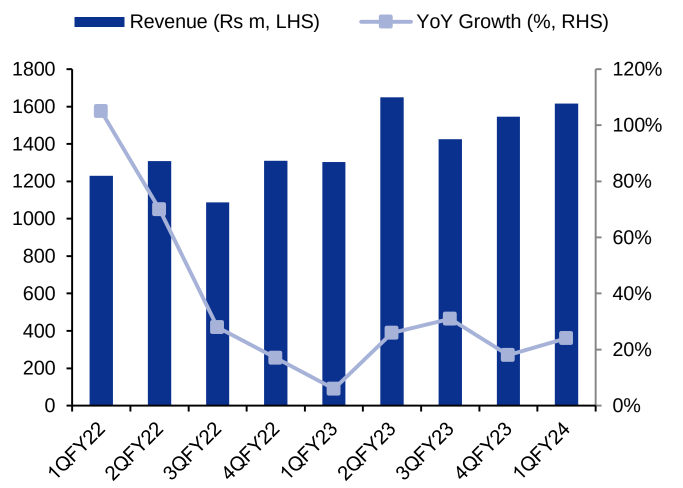
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Saffola oils' sales declined by c.20-22% in 1QFY24; value/volume growth on a four-year CAGR basis stood at c.3%/9%, respectively



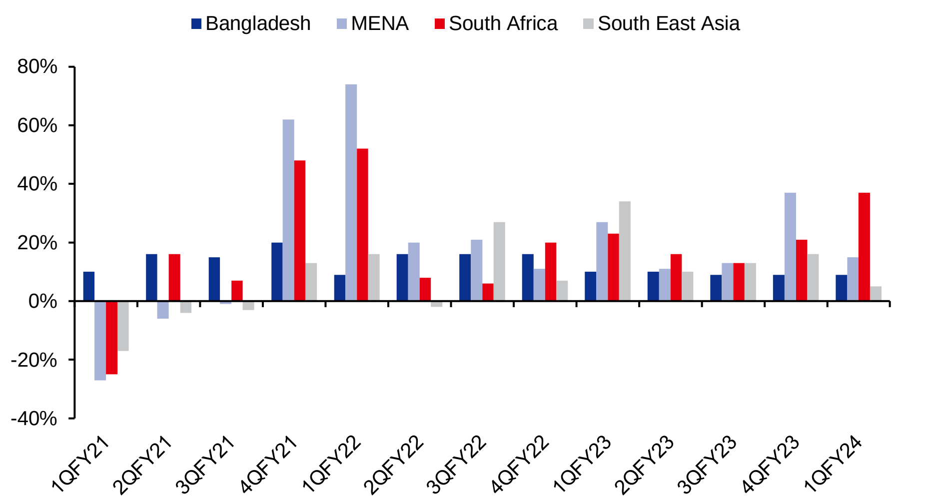
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Foods segment's revenue was up 24% yoy in 1QFY24



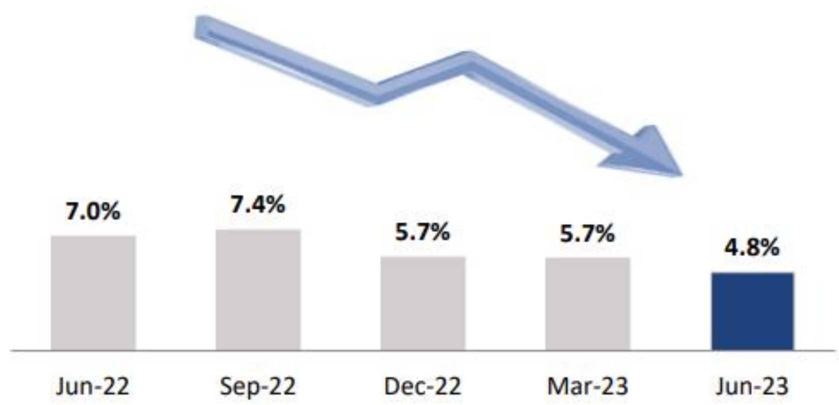
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: International business grew 9% yoy in CC terms



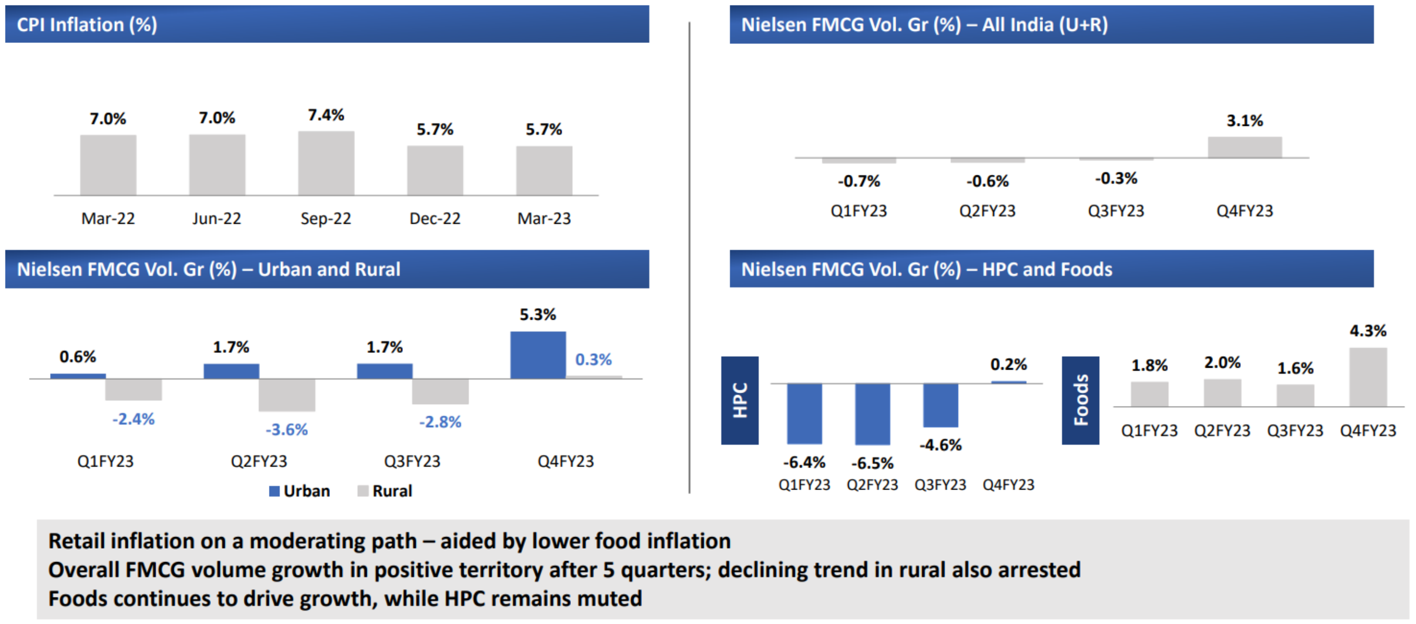
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Retail inflation is now below 5%



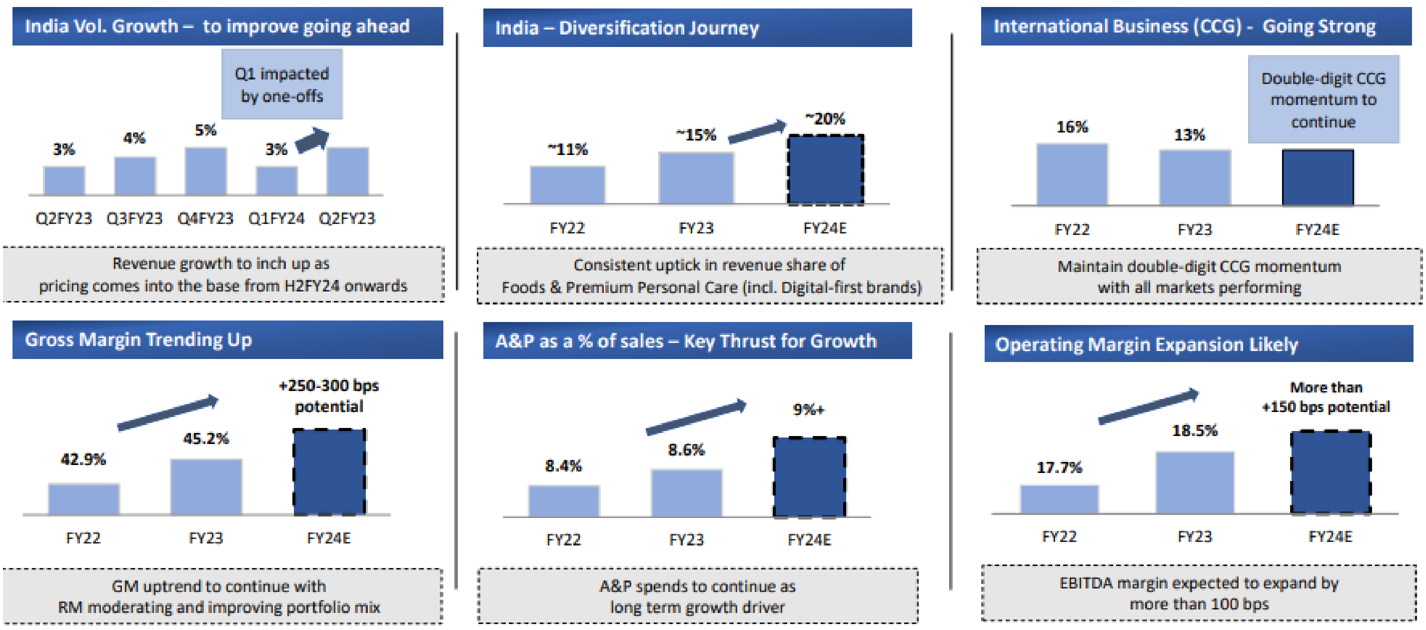
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Overall operating environment



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Expectation for FY24F



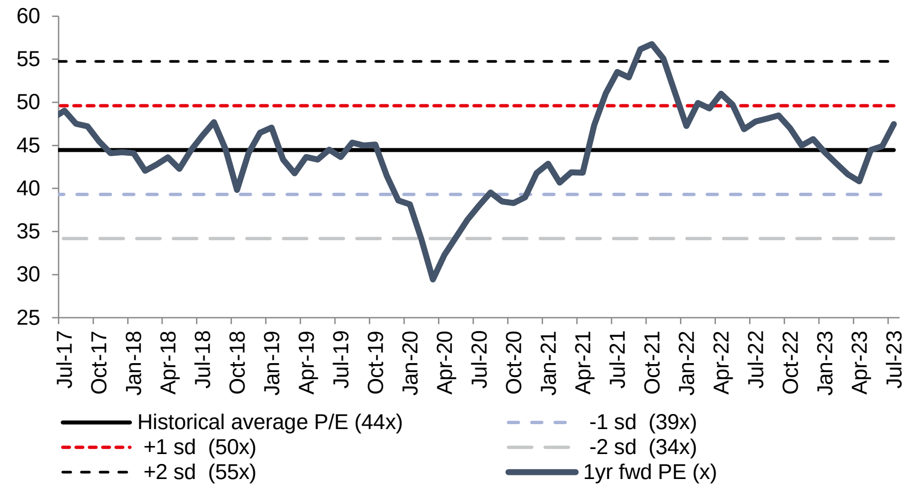
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 14: Our revised earnings estimates

Y/E Mar (Rs. m)	FY24F			FY25F			FY26F
	Earlier	Revised	% Change	Earlier	Revised	% Change	Introduced
Net Sales	1,06,782	1,04,198	-2.4	1,18,408	1,18,331	-0.1	1,30,941
EBITDA	20,993	21,570	2.7	23,714	23,496	-0.9	26,393
EBITDA Margin (%)	19.7	20.7	100 bp	20.0	19.9	-10 bp	20.2
APAT	14,993	15,141	1.0	16,814	16,549	-1.6	18,616
EPS	11.6	11.7	1.0	13.0	12.8	-1.6	14.4

SOURCE: INCRED RESEARCH, COMPANY REPORTS

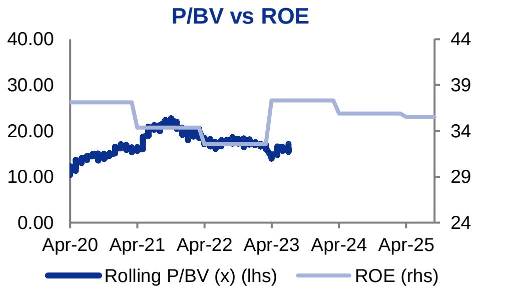
Figure 15: Marico's one-year forward P/E trades between its historical average P/E and +1SD

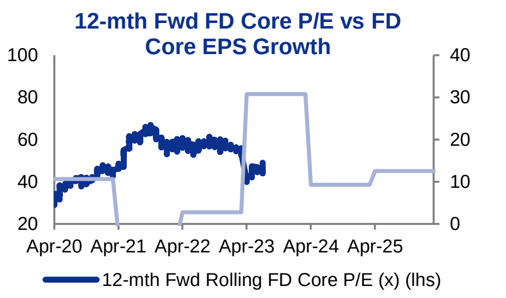


SOURCE: INCRED RESEARCH, COMPANY REPORTS

InCred Equities

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	**95,120**	**97,640**	**104,198**	**118,331**	**130,941**
Gross Profit	**40,760**	**44,130**	**51,062**	**57,224**	**64,124**
Operating EBITDA	**16,810**	**18,100**	**21,570**	**23,496**	**26,393**
Depreciation And Amortisation	(1,390)	(1,550)	(1,753)	(1,957)	(2,160)
Operating EBIT	**15,420**	**16,550**	**19,816**	**21,540**	**24,233**
Financial Income/(Expense)	(390)	(560)	593	673	773
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	**15,030**	**15,990**	**20,409**	**22,213**	**25,007**
Exceptional Items					
Pre-tax Profit	**15,030**	**15,990**	**20,409**	**22,213**	**25,007**
Taxation	(3,460)	(4,210)	(4,967)	(5,364)	(6,090)
Exceptional Income - post-tax					
Profit After Tax	**11,570**	**11,780**	**15,441**	**16,849**	**18,916**
Minority Interests	(300)	(200)	(300)	(300)	(300)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**11,270**	**11,580**	**15,141**	**16,549**	**18,616**
Recurring Net Profit	11,270	11,580	15,141	16,549	18,616
Fully Diluted Recurring Net Profit	**11,270**	**11,580**	**15,141**	**16,549**	**18,616**

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	16,810	18,100	21,570	23,496	26,393
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,460)	1,420	10,062	5	242
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	980	1,440	1,253	1,333	1,433
Net Interest (Paid)/Received	(390)	(560)	(660)	(660)	(660)
Tax Paid	(3,460)	(4,210)	(4,967)	(5,364)	(6,090)
Cashflow From Operations	**10,480**	**16,190**	**27,257**	**18,811**	**21,318**
Capex	(1,020)	(6,780)	(1,868)	(1,950)	(1,950)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	260	(2,680)	(3,000)	(3,000)	(3,000)
Cash Flow From Investing	**(760)**	**(9,460)**	**(4,868)**	**(4,950)**	**(4,950)**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(12,170)	(5,820)	(9,994)	(10,616)	(11,864)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	**(12,170)**	**(5,820)**	**(9,994)**	**(10,616)**	**(11,864)**
Total Cash Generated	(2,450)	910	12,394	3,245	4,504
Free Cashflow To Equity	**9,720**	**6,730**	**22,389**	**13,861**	**16,368**
Free Cashflow To Firm	**10,110**	**7,290**	**23,049**	**14,521**	**17,028**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	12,200	13,340	28,734	34,979	42,483
Total Debtors	6,520	10,150	4,712	5,353	5,925
Inventories	14,120	12,250	15,681	16,589	17,005
Total Other Current Assets	3,290	3,950	3,838	4,363	4,832
Total Current Assets	**36,130**	**39,690**	**52,966**	**61,284**	**70,245**
Fixed Assets	12,930	15,620	15,747	15,740	15,530
Total Investments	1,870	5,180	5,180	5,180	5,180
Intangible Assets	3,060	5,600	5,588	5,588	5,588
Total Other Non-Current Assets	730	(320)	(320)	(320)	(320)
Total Non-current Assets	**18,590**	**26,080**	**26,195**	**26,188**	**25,978**
Short-term Debt	3,450	4,730	4,730	4,730	4,730
Current Portion of Long-Term Debt					
Total Creditors	13,440	14,520	22,810	24,868	26,551
Other Current Liabilities					
Total Current Liabilities	**16,890**	**19,250**	**27,540**	**29,598**	**31,281**
Total Long-term Debt		20	20	20	20
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities		**20**	**20**	**20**	**20**
Total Provisions	220	480	134	154	170
Total Liabilities	**17,110**	**19,750**	**27,694**	**29,772**	**31,471**
Shareholders Equity	33,170	37,990	43,137	49,070	55,822
Minority Interests	570	1,570	1,570	1,570	1,570
Total Equity	**33,740**	**39,560**	**44,707**	**50,640**	**57,392**

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	18.2%	2.6%	6.7%	13.6%	10.7%
Operating EBITDA Growth	5.6%	7.7%	19.2%	8.9%	12.3%
Operating EBITDA Margin	17.7%	18.5%	20.7%	19.9%	20.2%
Net Cash Per Share (Rs)	6.78	6.66	18.59	23.43	29.25
BVPS (Rs)	25.71	29.45	33.44	38.04	43.27
Gross Interest Cover	39.54	29.55	30.02	32.64	36.72
Effective Tax Rate	23.0%	26.3%	24.3%	24.1%	24.4%
Net Dividend Payout Ratio	79.7%	78.6%	66.0%	64.1%	63.7%
Accounts Receivables Days	19.95	31.16	26.03	15.52	15.72
Inventory Days	85.21	89.94	95.93	96.38	91.76
Accounts Payables Days	83.19	95.36	128.21	142.40	140.44
ROIC (%)	56.7%	50.6%	88.3%	96.0%	110.1%
ROCE (%)	42.1%	40.6%	42.3%	41.1%	41.2%
Return On Average Assets	22.0%	20.5%	20.5%	19.4%	19.8%

Key Drivers

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Domestic revenue growth	18.4%	(0.3%)	4.7%	13.7%	10.8%
EBIDTA margin	17.7%	18.5%	20.7%	19.9%	20.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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