

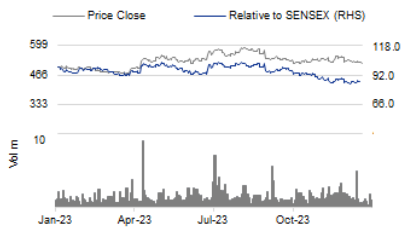
India

HOLD (no change)

Consensus ratings*: Buy 23 Hold 14 Sell 6	
Current price:	Rs517
Target price:	Rs550
Previous target:	Rs550
Up/downside:	6.4%
InCred Research / Consensus:	-7.6%
Reuters:	MRCO.NS
Bloomberg:	MRCO IN
Market cap:	US\$8,039m Rs668,404m
Average daily turnover:	US\$10.5m Rs873.1m
Current shares o/s:	1,291.2m
Free float:	40.6%
*Source: Bloomberg	

Key changes in this note

- Lower FY24F/25F sales by 2.3%/2.2%.
- Lower FY24F/25F EBITDA margin by 10bp each.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.8)	(3.9)	2.5
Relative (%)	(6.6)	(15.7)	(14.2)

Major shareholders	% held
Promoter	59.4
First State Investments ICVC	4.7
LIC	3.9

Research Analyst(s)



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Marico Ltd

Corrective measures in the right direction

- Domestic 3Q sales volume/value remained subdued at 2%/ (8.4%) yoy, impacted by weak consumption and increased aggression from local players.
- FY24F gross/EBITDA margin guidance was upgraded further by 100/50bp, respectively. The diversified biz now clocks a higher blended gross margin.
- Marico is fairly priced at 48x/43x FY24F/25F P/E, respectively. We maintain our HOLD rating on it with a target price of Rs550 (41x Dec 2025F EPS).

Positive growth trajectory expected from 4QFY24F

Marico's 3QFY24 domestic sales declined by 8.4% yoy, which its management attributed to lower consumption, aggression by smaller payers in mass categories and a drop in sell-through rate or STR in retail channels. Volume growth stood at 2%. Parachute rigids reported +3%/flat volume/value growth, respectively, while the Saffola edible oils range declined by 26%. VAHO posted a 3% yoy value growth. The foods business grew by 18% yoy in 3Q and is expected to close FY24F at around Rs7.5bn. Marico has been taking corrective steps to alleviate challenges in its general trade channel by inventory reduction and it plans to further boost the channel going ahead through trade schemes, promotions, etc. Management highlighted its diversification journey in two avenues - driving up gross margin in the foods business and reducing cash burn in digital channels, with one or two of its digital brands set to achieve breakeven by the end of FY24F.

Bangladesh drags IBD sales growth; better growth likely in 4QFY24F

The international business division or IBD posted a 6% constant currency (CC) growth in 3QFY24. Bangladesh sales declined by 6% yoy in constant currency or CC terms owing to elections. Vietnam business grew 4% yoy in CC terms while South Africa and the MENA region grew 33%/26% yoy in CC terms, respectively. Management is confident of driving double-digit CC growth for the IBD in FY24F. Reported sales were affected by currency depreciation in key markets.

Upgrades margin guidance once again for FY24F

Consolidated gross margin/EBITDA margin expanded by 630bp/270bp yoy to 51.3%/21.2%, respectively, in 3QFY24, benefitting from deflationary commodity prices. Prices of copra are likely to remain firm, with an upward bias. Management has upgraded its guidance on gross margin to 450-500bp yoy expansion in FY24F (from 350-400bp yoy expansion earlier). The rising contribution of high-growth portfolio (foods, personal care & D2C) may restrict the EBITDA margin expansion, in our view.

Fairly priced; maintain HOLD rating with a target price of Rs550

At the current level, Marico looks fairly priced. We retain our HOLD rating on the stock with an unchanged target price of Rs550 (41x Dec 2025F EPS). Upside risks: Faster recovery in the core portfolio and sustained higher margins. Downside risk: Slower-than-expected sales growth.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	95,120	97,640	99,810	112,921	124,076
Operating EBITDA (Rsm)	16,810	18,100	20,656	22,596	25,175
Net Profit (Rsm)	11,270	11,580	14,258	15,483	17,270
Core EPS (Rs)	8.7	9.0	11.1	12.0	13.4
Core EPS Growth	(3.0%)	2.8%	23.1%	8.6%	11.5%
FD Core P/E (x)	59.13	57.55	46.74	43.04	38.59
DPS (Rs)	6.0	6.0	6.3	6.7	7.4
Dividend Yield	1.35%	1.37%	1.43%	1.51%	1.67%
EV/EBITDA (x)	39.16	36.43	31.17	28.23	25.06
P/FCFE (x)	68.56	99.02	30.08	51.86	44.04
Net Gearing	(25.9%)	(21.7%)	(54.7%)	(60.4%)	(66.3%)
P/BV (x)	20.09	17.54	15.60	13.84	12.27
ROE	34.4%	32.5%	35.3%	34.1%	33.7%
% Change In Core EPS Estimates			(4.65%)	(5.50%)	(5.35%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Corrective measures in the right direction

Key takeaways from the earnings call

Demand and operating environment

- **Demand:** The FMCG industry's four-year volume CAGR was in the low single digits. The pace of recovery in consumption hasn't been on the anticipated lines. The consumption growth pattern seems to be K-shaped, as per management.
- Volume growth was up 2%. Primary levels were lowered to improve distributors' Return on Investment or RoI. More than 75% of the business gained market share.
- **Initiatives in general trade channel:** The focus is on improving distributors' RoI and ensure that they can pass on better credit to trade so that trade STRs can go up. The focus now is to reduce inventory and drive offtakes. The channel inventory correction is the first step. More initiatives are planned over the next few quarters (like trade schemes, promotions or retailer programs). Resource allocation will be done to ensure the trade channel delivers better service levels and expands the distribution reach.
- The core portfolio posted mid-single digit growth. Honey is the only category not doing well, largely due to a delayed winter.
- **Diversification journey:** It has been reasonably good. 1) Marico wanted to scale in a profitable manner. 2) Urban growth rate (which was strong during the Covid-19 pandemic) has tapered off. Aiming at 2x the scale over the next few years from the current level.

Segment-wise commentary

- **Saffola edible oil:** The brand exercised caution across channels to maintain its margin threshold. Edible oils are expected to revert to a growth trajectory in 4QFY24F.
- **VAHO:** Mid-to-high single digit growth in the range excluding the mass-end. The focus is on growing the mid-premium and premium-end going ahead.
- **Parachute:** Loose to branded conversions picked up pace as copra prices demonstrated an upward bias. The positive volume trend is expected to sustain for the next few quarters.
- **Food:** Should close the year at Rs7.5bn in revenue, as per management.
 - Going ahead, the food play will be strengthened with True Elements at the premium- end, Saffola at the masstige-end and Plix in the wellness space.
 - Management expects c.15-20% growth in the food business going ahead.
- **Digital portfolio and premium personal care:** This segment sustained its double-digit growth momentum. Male grooming and body lotion products dragged the overall sales growth.
- **Acquired brands:** Beardo will be EBITDA-positive by FY24F, and Just Herbs & True Elements will move towards breakeven.
 - **True Elements:** Packaged foods have a significant opportunity. True Elements operates in the healthy food segment. Once Marico takes over a brand, the trajectory of growth improves as the brand gets a distribution bump (not yet done in True Elements). Going ahead, Saffola Food will play at the masstige-end while True Elements will operate at the premium-end.
 - **Plix:** This brand operates in the wellness space, where there are multiple vectors of growth like gut health, bone health, etc. Management believes it's a Rs2bn opportunity.
 - There is enough general trade or GT potential to scale digital brands in the future in a profitable manner, as per management.

International business:

- **Bangladesh** - Newer portfolios fared better in 3QFY24 while the core portfolio was impacted due to elections in the country.
- Vietnam – A modest quarter due to sluggish growth in the HPC category.
- MENA - Both Egypt and Gulf regions drove growth.
- Margins: There were some issues around currency deflation. Marico is doing well in MENA and African markets. The endeavour is to deliver double-digit bottom-line growth.

Input costs and margins

- The diversified part of the business now has a higher blended gross margin than the core portfolio. With better efficiency in spending, Marico is able to drive double-digit EBITDA margin in newer businesses.
- Copra prices are likely to remain firm, with an upward bias. Edible oils aren't expected to decline further. From 1QFY25F, anniversarization of edible oils will be over. VAHO may see price hikes depending on the movement in crude oil prices.

Outlook

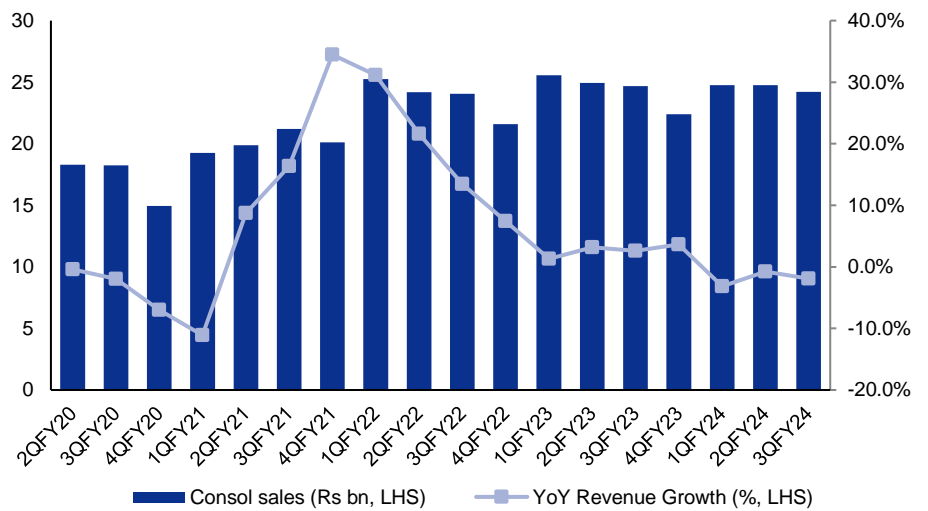
- Marico initiated corrective measures to improve growth in the general trade or GT channel to bring it back on track and drive volume growth in the core (mass) categories. The improving offtake growth will be led by growth in both primary and secondary channels (the Parachute brand is now demonstrating a similar trend).
- A slight revenue uptick is likely in 4QFY24F. Pricing growth may taper further in 4QFY24F. Some pricing interventions were done in Parachute to drive the volume higher.
- Gross/EBITDA margins guidance has been upgraded by 100/50bp yoy, respectively, for FY24F. The focus will be on delivering sustainable volume-led growth. Management expects positive all-round growth from 3QFY25F.

Figure 1: Quarterly results summary - consolidated

Y/E Mar (Rs. m)	3QFY23	2QFY24	3QFY24	YoY (%)	QoQ (%)	9MFY23	9MFY24	Gr (%)
Revenue	24,700	24,760	24,220	-1.9	-2.2	75,240	73,750	-2.0
Expenditure	20,140	19,790	19,090	-5.2	-3.5	61,070	57,910	-5.2
Consumption of RM	13,600	12,260	11,800	-13.2	-3.8	41,730	36,450	-12.7
as % of sales	55.1	49.5	48.7			55.5	49.4	
Employee Costs	1,600	1,870	1,890	18.1	1.1	4,820	5,570	15.6
as % of sales	6.5	7.6	7.8			6.4	7.6	
Other Expenditure	4,940	5,660	5,400	9.3	-4.6	14,520	15,890	9.4
as % of sales	20.0	22.9	22.3			19.3	21.5	
EBITDA	4,560	4,970	5,130	12.5	3.2	14,170	15,840	11.8
Depreciation	390	390	420	7.7	7.7	1,120	1,170	4.5
EBIT	4,170	4,580	4,710	12.9	2.8	13,050	14,670	12.4
Other Income	400	380	430	7.5	13.2	760	1,270	67.1
Interest	140	200	190	35.7	-5.0	390	560	43.6
PBT	4,430	4,760	4,950	11.7	4.0	13,420	15,380	14.6
Total Tax	1,100	1,160	1,090	-0.9	-6.0	3,250	3,560	9.5
PAT	3,330	3,600	3,860	15.9	7.2	10,170	11,820	16.2
(Profit)/loss from JVs/Asso./MI	50	70	30	-40.0	-57.1	170	190	11.8
APAT after Minority Interest	3,280	3,530	3,830	16.8	8.5	10,000	11,630	16.3
Extraordinary items	0	0	0	NA	NA	0	0	NA
Reported PAT	3,280	3,530	3,830	16.8	8.5	10,000	11,630	16.3
EPS	2.5	2.7	3.0	16.8	8.5	7.8	9.0	16.3
Margins (%)	3QFY23	2QFY24	3QFY24	YoY (bp)	QoQ (bp)	9MFY23	9MFY24	(bp)
Gross margin	44.9	50.5	51.3	630	80	44.5	50.6	600
EBITDA	18.5	20.1	21.2	270	110	18.8	21.5	260
EBIT	16.9	18.5	19.4	260	90	17.3	19.9	250
EBT	17.9	19.2	20.4	250	120	17.8	20.9	300
PAT	13.5	14.5	15.9	250	140	13.5	16.0	250
Effective Tax Rate	24.8	24.4	22.0	-280	-230	24.2	23.1	-110

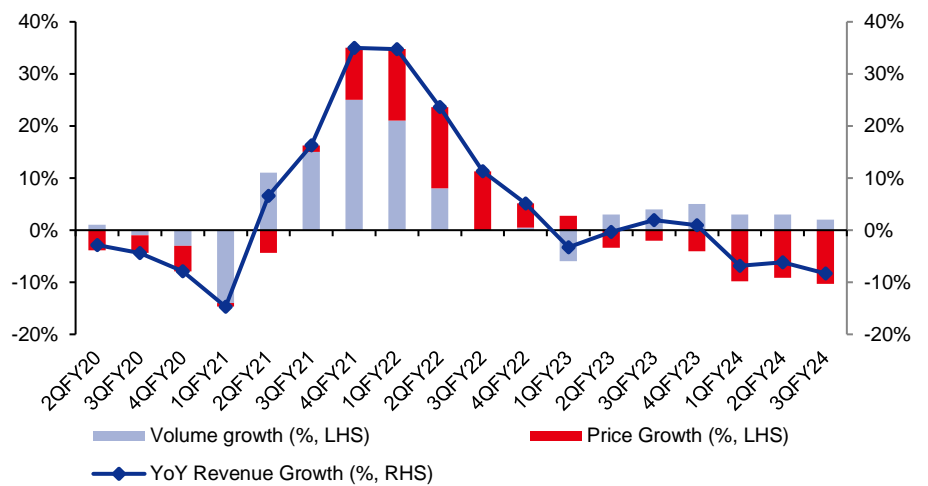
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Consolidated sales decline by 1.9% yoy in 3QFY24



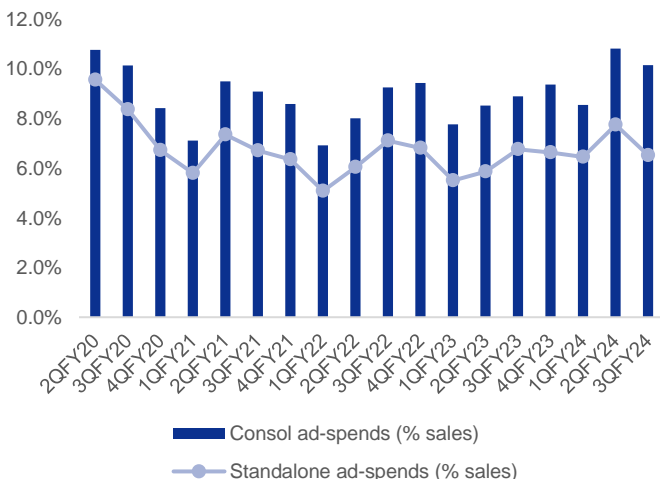
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Volume growth at 2% in 3QFY24



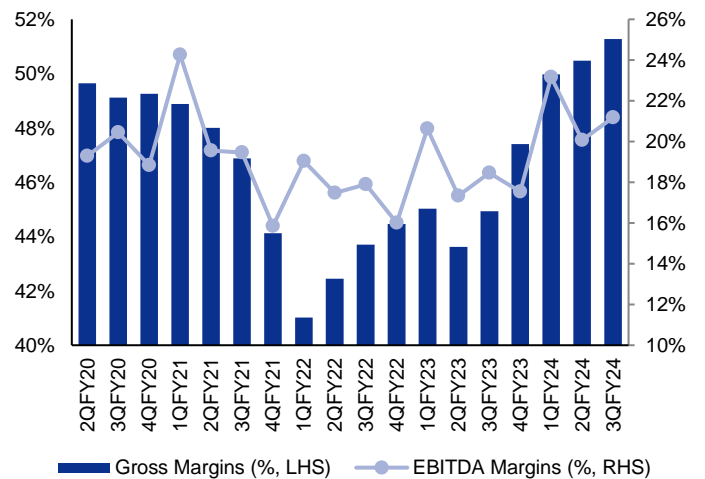
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Consolidated/standalone advertising expenditure stood at 10.2%/6.5% of sales, respectively, in 3QFY24



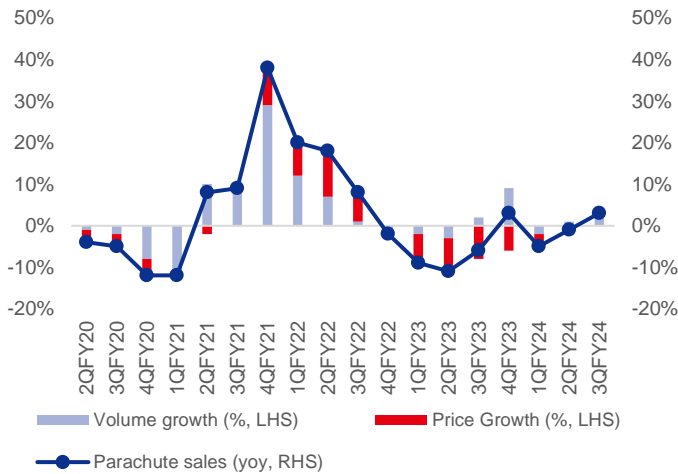
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Consolidated gross margin expanded by 630bp yoy to 51.3% in 3QFY24



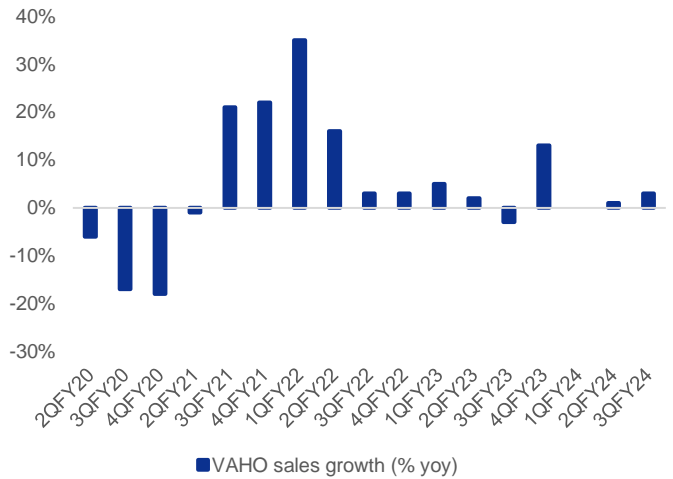
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Parachute brand grew by 3% yoy in volume terms in 3QFY24



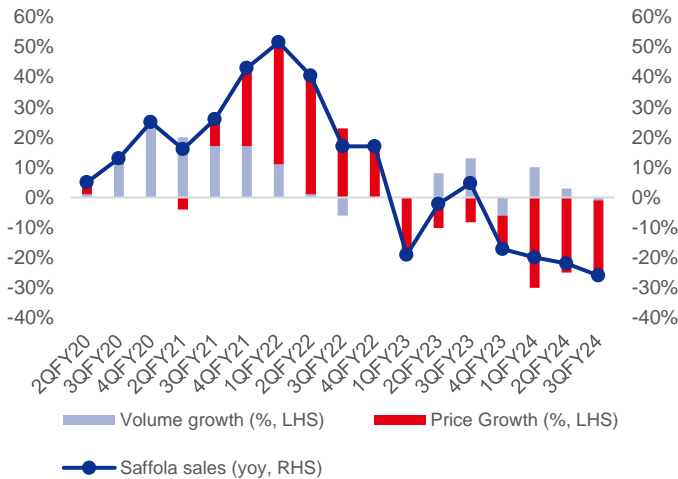
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: VAHO sales grew by 3% yoy in 3QFY24



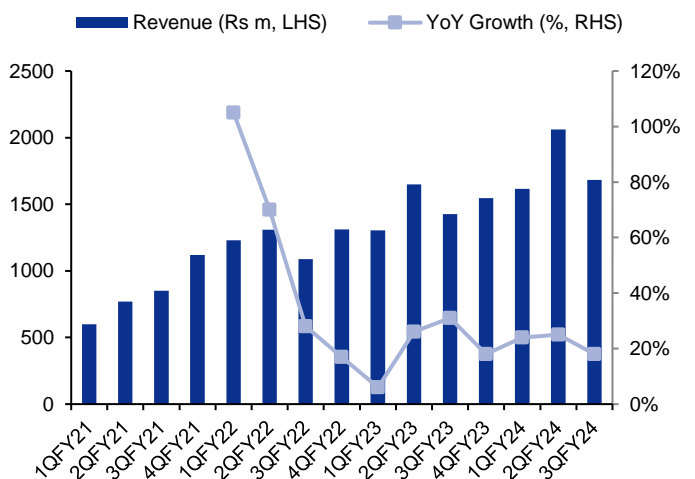
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Saffola edible oil sales declined by 26% yoy in 3QFY24



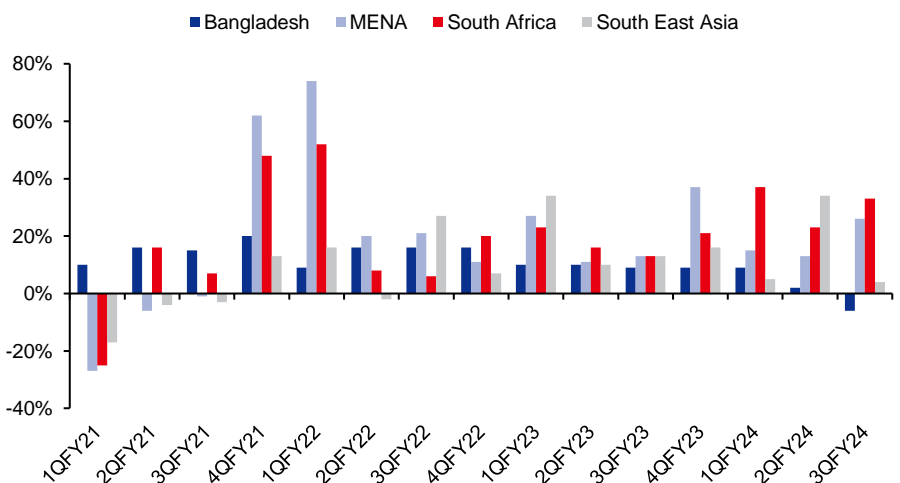
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Food segment's revenue grew by 18% yoy in 3QFY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: International business grew 6% yoy in CC terms in 3QFY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Gross/EBITDA margin guidance upgraded by 100/50bp yoy, respectively for FY24F

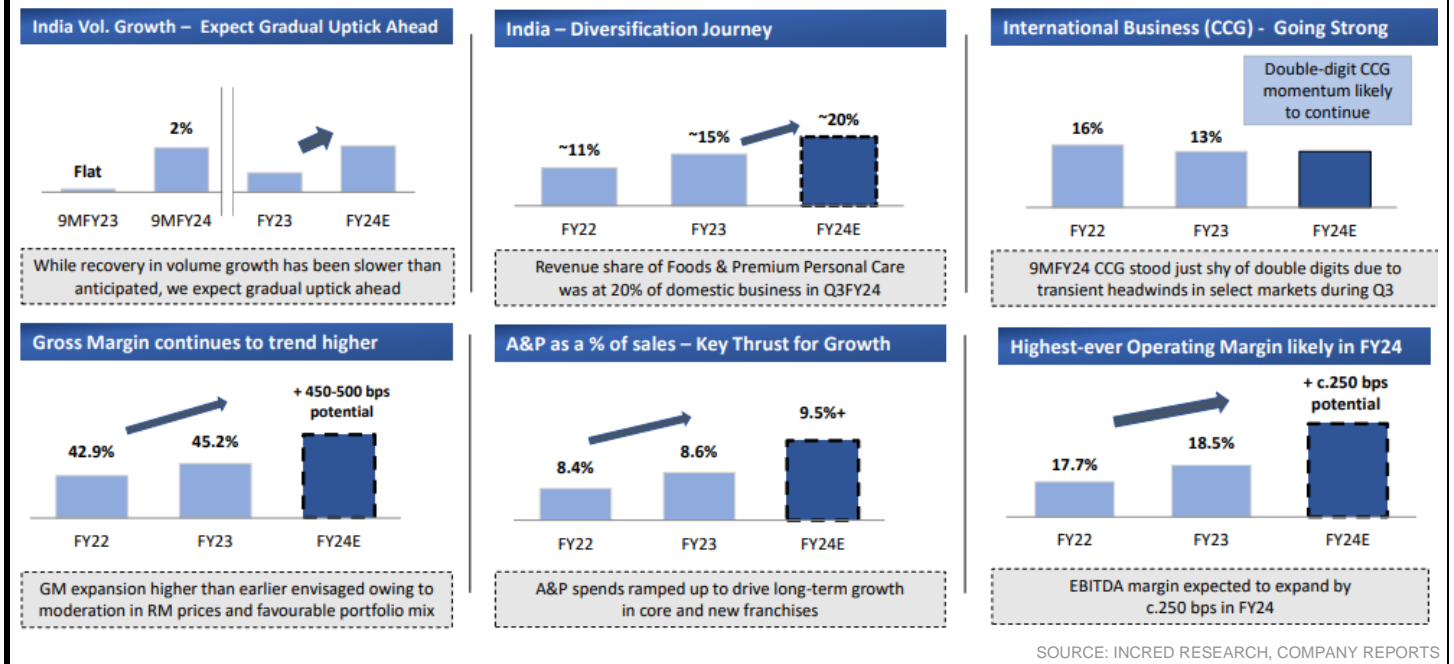
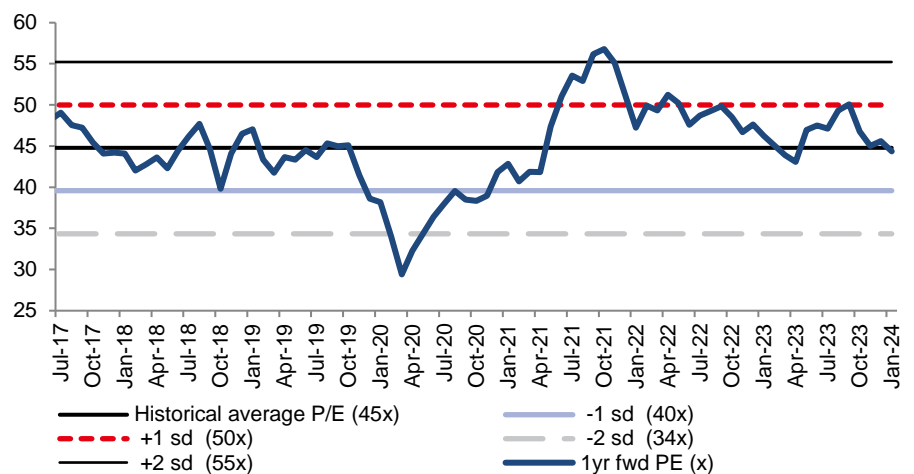


Figure 12: Our revised earnings estimates

Y/E, Mar (Rs. M)	FY24F			FY25F			FY26F		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Net Sales	102,127	99,810	-2.3	115,450	112,921	-2.2	126,796	124,076	-2.1
EBITDA	21,235	20,656	-2.7	23,196	22,596	-2.6	25,827	25,175	-2.5
EBITDA Margin (%)	20.8	20.7	-10 bp	20.1	20.0	-10 bp	20.4	20.3	-10 bp
Net Income (before exceptional items)	14,954	14,258	-4.7	16,383	15,483	-5.5	18,247	17,270	-5.4
EPS	11.6	11.1	-4.7	12.7	12.0	-5.5	14.1	13.4	-5.4

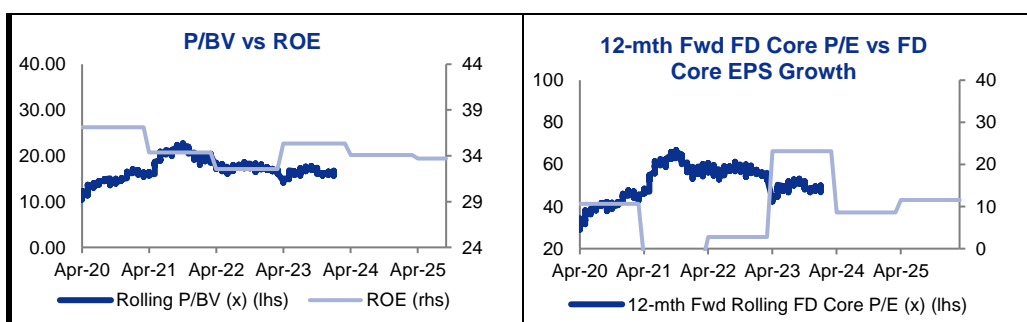
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Marico's one-year forward P/E trades at its five-year average



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	95,120	97,640	99,810	112,921	124,076
Gross Profit	40,760	44,130	49,311	55,515	61,796
Operating EBITDA	16,810	18,100	20,656	22,596	25,175
Depreciation And Amortisation	(1,390)	(1,550)	(1,753)	(1,957)	(2,160)
Operating EBIT	15,420	16,550	18,903	20,640	23,015
Financial Income/(Expense)	(390)	(560)	291	131	183
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	15,030	15,990	19,194	20,771	23,198
Exceptional Items					
Pre-tax Profit	15,030	15,990	19,194	20,771	23,198
Taxation	(3,460)	(4,210)	(4,636)	(4,988)	(5,628)
Exceptional Income - post-tax					
Profit After Tax	11,570	11,780	14,558	15,783	17,570
Minority Interests	(300)	(200)	(300)	(300)	(300)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	11,270	11,580	14,258	15,483	17,270
Recurring Net Profit	11,270	11,580	14,258	15,483	17,270
Fully Diluted Recurring Net Profit	11,270	11,580	14,258	15,483	17,270

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	16,810	18,100	20,656	22,596	25,175
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,460)	1,420	10,711	61	351
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	980	1,440	1,011	851	903
Net Interest (Paid)/Received	(390)	(560)	(720)	(720)	(720)
Tax Paid	(3,460)	(4,210)	(4,636)	(4,988)	(5,628)
Cashflow From Operations	10,480	16,190	27,022	17,800	20,082
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)	(9,528)	(10,047)	(11,105)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(12,170)	(5,820)	(9,528)	(10,047)	(11,105)
Total Cash Generated	(2,450)	910	12,626	2,803	4,026
Free Cashflow To Equity	9,720	6,730	22,154	12,850	15,132
Free Cashflow To Firm	10,110	7,290	22,874	13,570	15,852

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	28,966	34,769	41,796
Total Debtors	6,520	10,150	4,499	5,090	5,590
Inventories	14,120	12,250	15,024	15,847	16,153
Total Other Current Assets	3,290	3,950	3,648	4,127	4,530
Total Current Assets	36,130	39,690	52,138	59,834	68,069
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	22,406	24,342	25,889
Other Current Liabilities					
Total Current Liabilities	16,890	19,250	27,136	29,072	30,619
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	126	144	158
Total Liabilities	17,110	19,750	27,282	29,236	30,797
Shareholders Equity	33,170	37,990	42,720	48,155	54,321
Minority Interests	570	1,570	1,570	1,570	1,570
Total Equity	33,740	39,560	44,290	49,725	55,891

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	18.2%	2.6%	2.2%	13.1%	9.9%
Operating EBITDA Growth	5.6%	7.7%	14.1%	9.4%	11.4%
Operating EBITDA Margin	17.7%	18.5%	20.7%	20.0%	20.3%
Net Cash Per Share (Rs)	6.78	6.66	18.77	23.27	28.72
BVPS (Rs)	25.71	29.45	33.12	37.33	42.11
Gross Interest Cover	39.54	29.55	26.25	28.67	31.97
Effective Tax Rate	23.0%	26.3%	24.2%	24.0%	24.3%
Net Dividend Payout Ratio	79.7%	78.6%	66.8%	64.9%	64.3%
Accounts Receivables Days	19.95	31.16	26.79	15.50	15.71
Inventory Days	85.21	89.94	98.57	98.14	93.77
Accounts Payables Days	83.19	95.36	133.45	148.62	147.19
ROIC (%)	56.7%	50.6%	86.8%	95.0%	108.7%
ROCE (%)	42.1%	40.6%	40.5%	39.9%	40.0%
Return On Average Assets	22.0%	20.5%	19.8%	19.0%	19.3%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Domestic revenue growth	18.4%	(0.3%)	(0.8%)	13.1%	9.7%
EBIDTA margin	17.7%	18.5%	20.7%	20.0%	20.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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