UPGRADE

InCred Equities

India

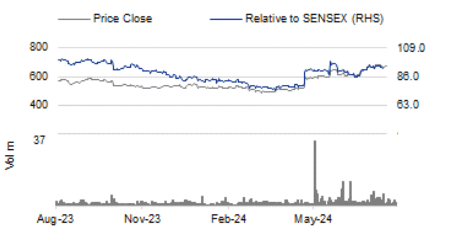
ADD *(previously HOLD)*

Consensus ratings*:	Buy 32 Hold 6 Sell 4
Current price:	Rs672
Target price: ▲	Rs745
Previous target:	Rs580
Up/downside:	10.9%
InCred Research / Consensus:	18.7%
Reuters:	
Bloomberg:	MRCO IN
Market cap:	US$11,984m
	Rs870,189m
Average daily turnover:	US$21.9m
	Rs1587.1m
Current shares o/s:	1,291.2m
Free float:	40.6%

**Source: Bloomberg*

Key changes in this note

- Upgrade to ADD rating with a higher target price of Rs745 from Rs580.
- Introduce FY27F estimates.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9.2	30.0	16.7
Relative (%)	10.9	22.0	(2.7)

Major shareholders	% held
Promoter	59.4
LIC	4.5
First Sentier	3.8

Marico Ltd

Charting the path to an accelerated recovery

- Domestic 1Q sales/volume grew 7%/4%. Rural markets continued to outpace urban markets. Guidance entails its focus on driving volume over margin.
- Structural measures taken to reduce inter-channel conflict and an improved route-to-market strategy should fuel a gradual uptick. GT channel to benefit.
- We expect volume growth to improve through FY25F driven by distribution-led gains and moderate price hikes. Upgrade to ADD rating with a TP of Rs745.

Corrective steps taken over last few quarters supported growth

Marico's domestic sales grew by 7% yoy in 1QFY25 with a 4% growth in volume, led by a sequential improvement in rural markets and alternate channels within urban markets. Volume growth in its core portfolio would have been higher, but due to inventory level corrections carried out across general trade channels over the past few quarters, the growth was lower. Parachute rigids registered a 2% volume growth (+8% ex-inventory corrections in GT) with volume market share of its coconut oil portfolio (including flanker brands) reaching the highest-ever level at 64% (on MAT basis). VAHO declined 5% in value terms due to continued sluggishness at the bottom of the pyramid and downtrading. Corrective actions have been set in place to revive growth led by project SETU, which led to a 3% offtake growth. Saffola edible oils posted mid-single digit volume growth however sales declined 1% yoy due to the last leg of price corrections not factoring in the base, which is expected to normalize from next quarter, after which the gap between revenue and volume growth will narrow. The food portfolio continued its strong momentum, growing 37% yoy, led by a 20% growth in Saffola Oats as well as improvement in recent launches.

Project SETU to aid in driving structural improvement of its network

Project SETU, its new route-to-market initiative, has been rolled out in six states and will be scaled up going ahead. The project entails improvement in the ability of direct distributors to be competitive and reduce the dependence on wholesale channels along with improvement in total/direct reach to 6m/1.5m by FY27F. Marico will also work towards improving RoI for GT channels, which have taken a hit due to acceleration of quick commerce in urban markets. This project is also expected to improve the service levels of its direct distribution, drive scale and allow for range selling in a more effective manner.

Structural improvements underway: upgrade to ADD rating

Marico's initiatives over the last few quarters around 1) channel inventory corrections, 2) new route to market strategy, and 3) driving diversification journey should deliver a gradual improvement in volume growth. While margin pressure is expected to sustain, Marico's core offerings have historically performed well (vs. smaller/unorganized players) during periods of moderate inflation, which should gradually drive a reversal of the downtrading trend and aid core categories recover. We upgrade Marico's rating to ADD (from HOLD) with a higher target price of Rs745 (48x Sep 2026F), as we roll forward. Downside risk: Continued downtrading delaying recovery of its core portfolio.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	97,640	96,530	105,287	115,822	127,574
Operating EBITDA (Rsm)	18,100	20,260	22,470	25,040	27,840
Net Profit (Rsm)	11,580	13,390	16,200	18,736	21,189
Core EPS (Rs)	9.0	10.4	12.6	14.5	16.4
Core EPS Growth	2.8%	15.6%	21.0%	15.7%	13.1%
FD Core P/E (x)	74.88	64.76	53.52	46.28	40.92
DPS (Rs)	6.0	5.5	6.7	7.8	8.9
Dividend Yield	1.05%	0.96%	1.16%	1.36%	1.54%
EV/EBITDA (x)	47.52	42.56	38.11	34.00	30.42
P/FCFE (x)	128.84	72.38	488.41	64.57	57.14
Net Gearing	(21.7%)	(19.6%)	(24.1%)	(28.9%)	(32.1%)
P/BV (x)	22.82	22.63	15.72	13.92	12.41
ROE	32.5%	35.1%	34.7%	31.9%	32.1%
% Change In Core EPS Estimates			1.64%	2.51%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Charting the path to an accelerated recovery

Highlights from 1QFY25 earnings conference call

Demand and operating environment

- The sector continued to witness a gradual improvement in demand, with rural markets growing ahead of urban markets, with the pricing turning flattish. Premium portfolios continued to outpace mass portfolios. Alternate channels continued their growth momentum.
- The volume growth of 4% was led by an uptick across portfolios. Improving trajectory in core portfolio would be better, but corrections in inventory levels in GT channels led to lower growth.

Project Setu

- Rolled out in six states. The initial results were positive.
- Will scale up Phase-1 markets and expand into more states.
- Expects to gain market share across urban and rural markets as well as improve assortment in urban markets.
- Quick commerce growth is pronounced in the top eight cities and hence, Marico will aim at protecting RoI for GT stores, which have been bearing the brunt of acceleration in quick commerce (and alternate channels).
- Marico is gradually taking Plix into GT channels.

Segment-wise commentary

- **Saffola edible oil**: From 2QFY25, pricing will move into the base. Revenue growth will track volume growth.
- **VAHO**: Sluggish growth due to lower growth at the bottom of the pyramid. Secondary sales and offtake grew in low single digits. Brands like Aloe and Jasmine grew ahead of the category.
  - Aiming to bring VAHO back to healthy growth this year, supported by improvement in rural markets.
  - For the category, due to competitive actions at the bottom of the pyramid, where due to pricing and BTL-driven growth, the average growth of the category has come down.
  - Seeing green shoots in the Aloe and Jasmine range. Management is chasing value share, which has started to improve. Should move into the positive territory towards the end of the year.
- **Parachute**: Volume offtake was up 8%, but reported growth was impacted by stock adjustments in GT channels. Flanker brands, which compete with regional players, grew in mid-teens. Management expects an uptick in Parachute for the rest of the year. Another round of price hikes can be expected if raw material prices continue to escalate.
- **Food**: Core Saffola oats grew 20%. The endeavour is to grow the food portfolio by 20-25% aided by improvement in Plix and True elements. The honey category last season wasn't performing for the industry. Soya is doing well, but margins are on the lower side and hence, not aggressively growing soya unless Marico finds an innovation that can address it (like Masala Oats for the oats segment). Marico will be aggressive in the breakfast segment and is prototyping snacking products in GT channels. Management believes that the food journey has an upside in quick commerce, where the focus wasn't very high earlier, and will double-down on this channel.
- **Digital portfolio** expected to exit at Rs5.5-6bn run rate, with double-digit EBITDA margin by FY27F.

- **On acquired brands:**
  - **Plix**: Expecting it to surpass internal expectations. Profitability is expected to improve.
  - **Beardo**: Expected to clock a double-digit EBITDA margin this year.
  - **True Elements:** Focusing on a few strong stock-keeping units or SKUs. Will expand into a Rs10 price-point snacking product. Organic growth is in high teens. Muesli is now growing faster than base cornflakes at the industry level.
  - **Kaya**: Collaboration with Kaya will aid in scaling efficacy-based products outside of its clinics. Can garner Rs1bn revenue over the next four-to-five years (high gross margin).
    - Last time around, Marico made a sub-brand called Kaya Youth but this time, Marico has exclusive rights to sell in all other channels, barring its own clinics.
    - Marico's digital capabilities are far superior this time around, which gives it a better chance to scale the brand.

International business

- **Bangladesh** - Held firm in a challenging market. Management will remain watchful of the ongoing situation but remains confident of being able to navigate the situation.
- **Vietnam** – The HPC segment is expected to see a gradual recovery.
- **MENA** – The focus will be on expanding the hair oil business in the MENA and Gulf regions.

Input costs and margins

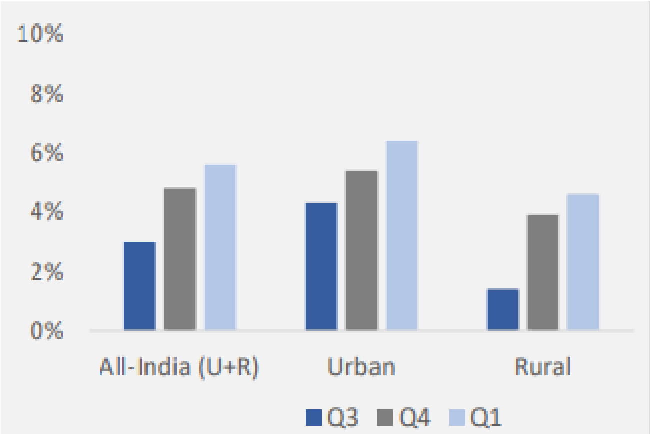
- **Outlook:** Management does not expect any margin expansion this year and will aim to maintain margins but believes there is a strong opportunity in growing its premium offerings structurally over the next few years, which will aid in improvement. The focus will be on getting back to double-digit revenue growth.

Figure 1: Quarterly results summary - consolidated

Y/E Mar (Rsm)	1QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)
Revenue	**24,770**	**22,780**	**26,430**	6.7	16.0
Expenditure	**19,030**	**18,360**	**20,170**	**6.0**	**9.9**
Consumption of raw materials	12,390	11,030	12,620	1.9	14.4
as % of sales	*50.0*	*48.4*	*47.7*		
Employee costs	1,810	1,860	2,030	12.2	9.1
as % of sales	*7.3*	*8.2*	*7.7*		
Other expenditure	4,830	5,470	5,520	14.3	0.9
as % of sales	*19.5*	*24.0*	*20.9*		
EBITDA	5,740	4,420	6,260	**9.1**	**41.6**
Depreciation	360	410	410	13.9	0.0
EBIT	**5,380**	**4,010**	**5,850**	**8.7**	**45.9**
Other income	320	150	370	15.6	146.7
Interest	170	170	170	0.0	0.0
PBT	**5,530**	**3,990**	**6,050**	**9.4**	**51.6**
Total tax	1,310	790	1,310	0.0	65.8
PAT	**4,220**	**3,200**	**4,740**	**12.3**	**48.1**
(Profit)/loss from JVs/Ass./MI	**90**	**20**	**100**	**11.1**	**400.0**
APAT after MI	**4,130**	**3,180**	**4,640**	**12.3**	**45.9**
Extraordinary items	**140**	**0**	**0**	**NA**	**NA**
Reported PAT	**4,270**	**3,180**	**4,640**	**8.7**	**45.9**
EPS	**3.2**	**2.5**	**3.6**	**12.3**	**45.9**
Margins (%)	**1QFY24**	**4QFY24**	**1QFY25**	**YoY (bp)**	**QoQ (bp)**
Gross margin	50.0	51.6	52.3	230	70
EBITDA	23.2	19.4	23.7	50	430
EBIT	21.7	17.6	22.1	40	450
EBT	22.3	17.5	22.9	60	540
PAT	17.0	14.0	17.9	90	390
Effective tax rate	23.7	19.8	21.7	-200	190

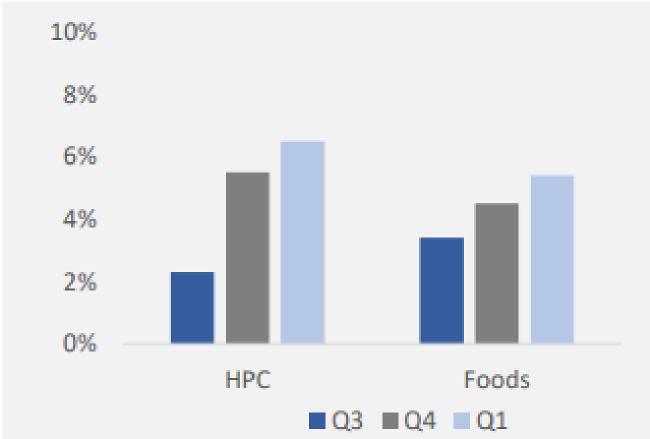
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Rural markets look promising on a two-year CAGR basis while urban markets remained stable



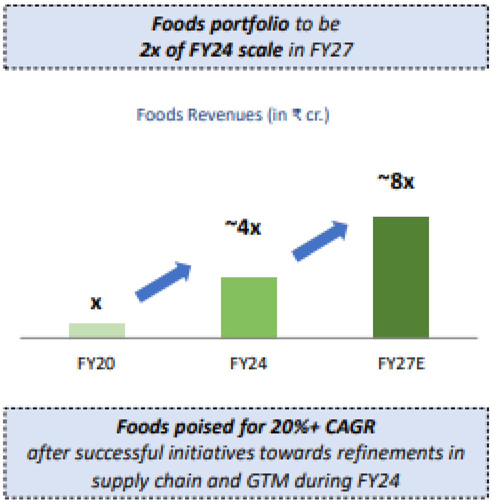
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: The pick-up in HPC is more pronounced in the last six months compared to foods

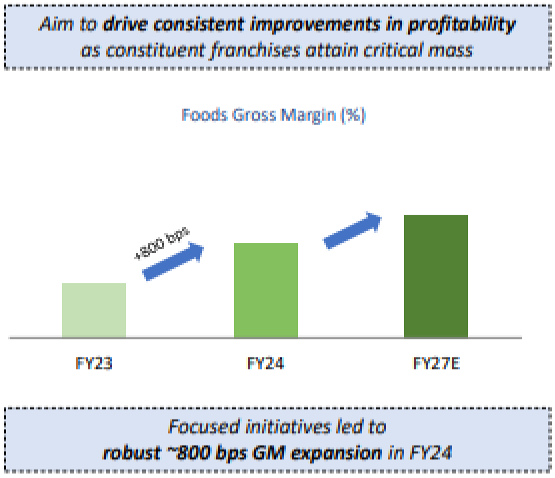


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Diversification remains a key focus area; profitable scale-up in foods to continue

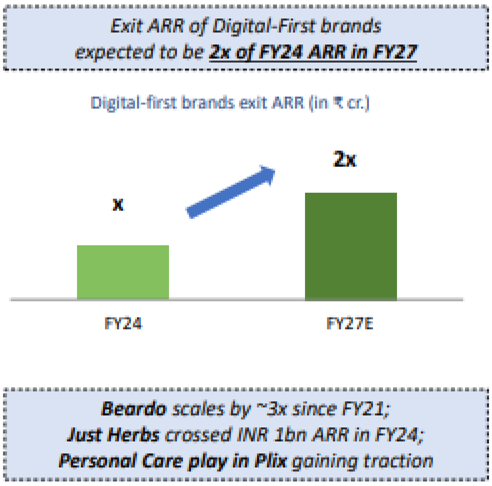


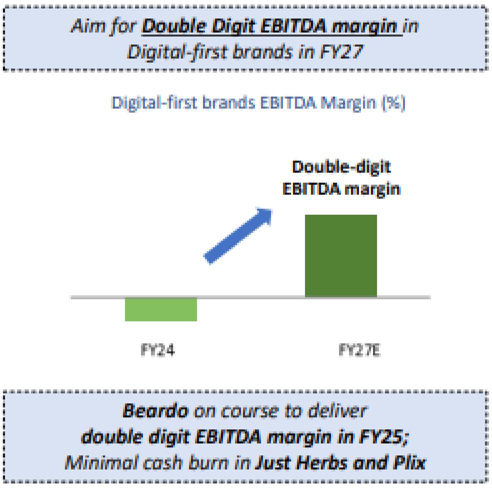
SOURCE: INCRED RESEARCH, COMPANY REPORTS



SOURCE: INCRED RESEARCH, COMPANY REPORTS

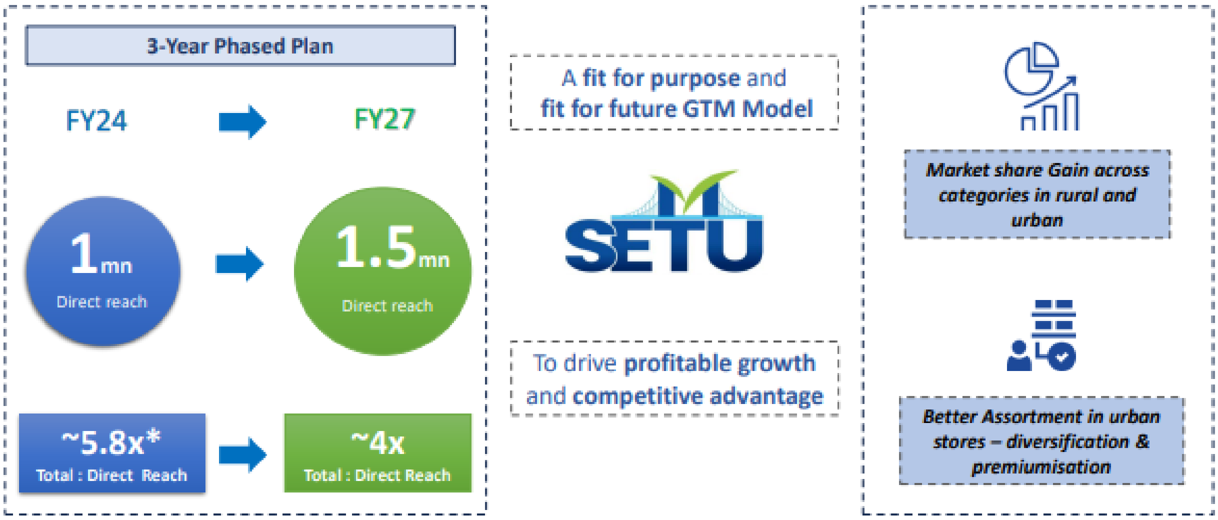
Figure 5: Digital business to be scaled up in a profitable manner





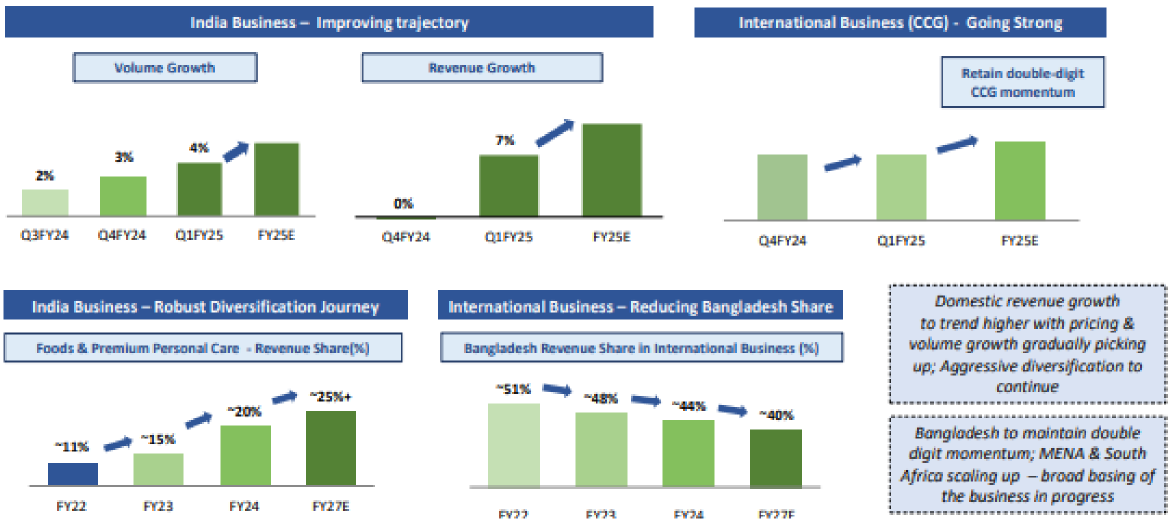
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Project SETU to drive a structural improvement in GT channels and direct reach



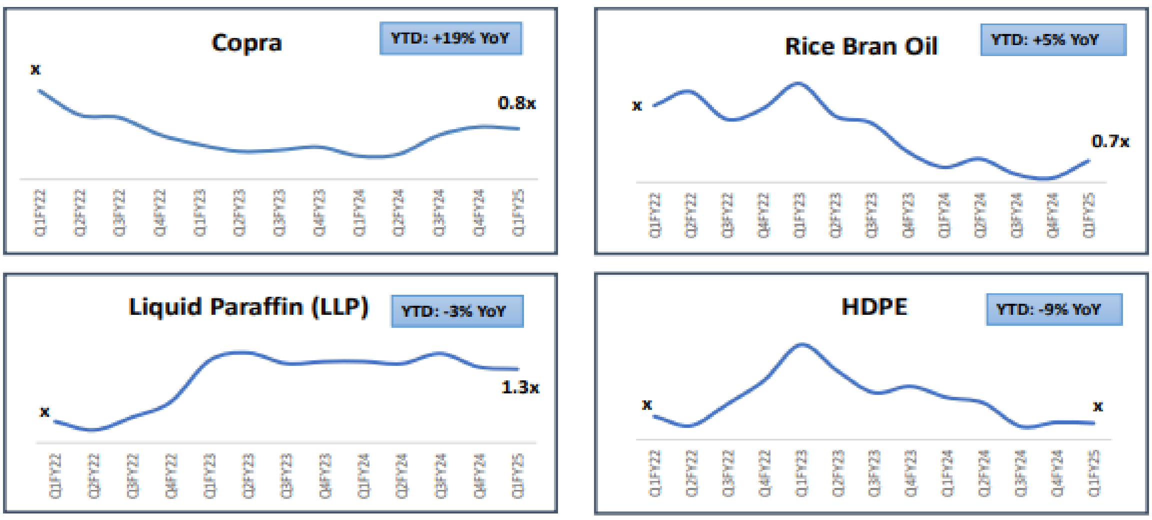
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Focus on driving sales growth back to double digits is in the right direction



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Key raw material prices are showing an upward bias; moderate price hikes expected in the near term



SOURCE: INCRED RESEARCH, COMPANY REPORTS

InCred Equities

Figure 9: Market share of coconut oil franchise at an all-time high

Franchise	~MS%	Rank
Coconut Oil Franchise	64%	1st
Parachute Rigids within Coconut Oil	55%	1st
Saffola Oats	41%	1st
Value Added Hair Oils	27%	1st
Post wash Leave-on Serums	49%	1st
Hair Gels/Waxes/Creams	51%	1st

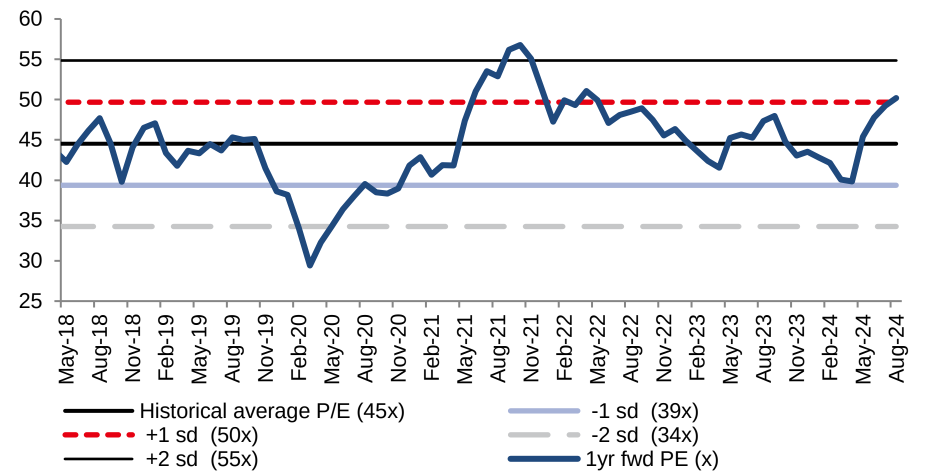
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Our revised earnings estimates

Y/E Mar (Rs.m)	FY25F			FY26F			FY27F
	Earlier	Revised	% Change	Earlier	Revised	% Change	Introduced
Net Sales	112,921	105,287	-6.8	124,076	115,822	-6.7	12,7574
EBITDA	23,665	22,470	-5.1	26,343	25,040	-4.9	27,840
EBITDA Margin (%)	21.0	21.3	40 bp	21.2	21.6	40 bp	21.8
Net Income (before exceptional items)	15,938	16,200	1.6	18,276	18,736	2.5	21,189
EPS	12.4	12.6	1.6	14.2	14.5	2.5	16.4

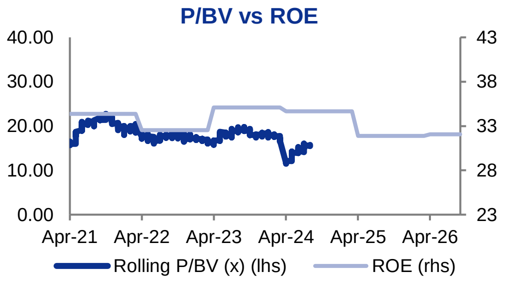
SOURCE: INCRED RESEARCH, COMPANY REPORTS

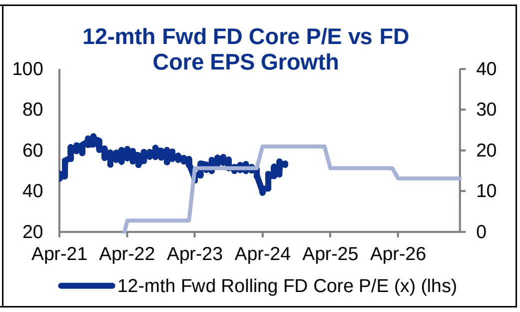
Figure 11: Marico's one-year forward P/E trades at +1SD



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	**97,640**	**96,530**	**105,287**	**115,822**	**127,574**
Gross Profit	**44,130**	**49,050**	**52,452**	**58,433**	**65,163**
Operating EBITDA	**18,100**	**20,260**	**22,470**	**25,040**	**27,840**
Depreciation And Amortisation	(1,550)	(1,580)	(2,409)	(2,849)	(3,289)
Operating EBIT	**16,550**	**18,680**	**20,060**	**22,191**	**24,551**
Financial Income/(Expense)	(560)	(730)	1,062	2,215	2,950
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	**15,990**	**17,950**	**21,122**	**24,407**	**27,501**
Exceptional Items					
Pre-tax Profit	**15,990**	**17,950**	**21,122**	**24,407**	**27,501**
Taxation	(4,210)	(4,350)	(4,722)	(5,471)	(6,113)
Exceptional Income - post-tax					
Profit After Tax	**11,780**	**13,600**	**16,400**	**18,936**	**21,389**
Minority Interests	(200)	(210)	(200)	(200)	(200)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**11,580**	**13,390**	**16,200**	**18,736**	**21,189**
Recurring Net Profit	11,580	13,390	16,200	18,736	21,189
Fully Diluted Recurring Net Profit	**11,580**	**13,390**	**16,200**	**18,736**	**21,189**

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	18,100	20,260	22,470	25,040	27,840
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,420	(1,520)	(8,495)	(657)	(1,804)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,440	1,420	1,662	2,815	3,550
Net Interest (Paid)/Received	(560)	(730)	(600)	(600)	(600)
Tax Paid	(4,210)	(4,350)	(4,722)	(5,471)	(6,113)
Cashflow From Operations	**16,190**	**15,080**	**10,315**	**21,128**	**22,874**
Capex	(6,780)	(5,800)	(4,919)	(4,700)	(4,700)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(2,680)	2,700	(3,620)	(3,000)	(3,000)
Cash Flow From Investing	**(9,460)**	**(3,100)**	**(8,539)**	**(7,700)**	**(7,700)**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(5,820)	(12,290)	(10,088)	(11,819)	(13,393)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	**(5,820)**	**(12,290)**	**(10,088)**	**(11,819)**	**(13,393)**
Total Cash Generated	910	(310)	(8,312)	1,609	1,780
Free Cashflow To Equity	**6,730**	**11,980**	**1,775**	**13,428**	**15,174**
Free Cashflow To Firm	**7,290**	**12,710**	**2,375**	**14,028**	**15,774**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	13,340	12,020	17,976	22,809	27,366
Total Debtors	10,150	10,690	17,631	19,376	23,855
Inventories	12,250	13,360	21,172	20,987	19,320
Total Other Current Assets	3,950	6,350	4,304	4,730	5,206
Total Current Assets	**39,690**	**42,420**	**61,084**	**67,902**	**75,746**
Fixed Assets	15,620	16,070	22,372	24,223	25,634
Total Investments	5,180	5,670	6,460	6,460	6,460
Intangible Assets	5,600	9,370	5,578	5,578	5,578
Total Other Non-Current Assets	(320)	(2,110)	(1,260)	(1,260)	(1,260)
Total Non-current Assets	**26,080**	**29,000**	**33,150**	**35,001**	**36,412**
Short-term Debt	4,730	3,830	3,830	3,830	3,830
Current Portion of Long-Term Debt					
Total Creditors	14,520	15,810	21,695	23,011	24,481
Other Current Liabilities					
Total Current Liabilities	**19,250**	**19,640**	**25,525**	**26,841**	**28,311**
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	480	80	128	140	154
Total Liabilities	**19,750**	**19,720**	**25,673**	**27,001**	**28,485**
Shareholders Equity	37,990	38,320	55,161	62,302	69,873
Minority Interests	1,570	3,370	3,370	3,370	3,370
Total Equity	**39,560**	**41,690**	**58,531**	**65,672**	**73,243**

Key Ratios

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	2.6%	(1.1%)	9.1%	10.0%	10.1%
Operating EBITDA Growth	7.7%	11.9%	10.9%	11.4%	11.2%
Operating EBITDA Margin	18.5%	21.0%	21.3%	21.6%	21.8%
Net Cash Per Share (Rs)	6.66	6.35	10.95	14.70	18.23
BVPS (Rs)	29.45	29.71	42.76	48.30	54.17
Gross Interest Cover	29.55	25.59	33.43	36.99	40.92
Effective Tax Rate	26.3%	24.2%	22.4%	22.4%	22.2%
Net Dividend Payout Ratio	78.6%	62.2%	62.3%	63.1%	63.2%
Accounts Receivables Days	31.16	39.40	49.09	58.31	61.84
Inventory Days	89.94	98.44	119.28	134.07	117.86
Accounts Payables Days	95.36	116.58	129.55	142.17	138.88
ROIC (%)	50.6%	49.3%	41.7%	43.8%	45.6%
ROCE (%)	40.6%	41.6%	37.2%	33.6%	33.5%
Return On Average Assets	20.5%	20.9%	18.5%	17.0%	17.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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