

India

ADD (no change)

| | |
|--|---------------------------|
| Consensus ratings*: Buy 29 Hold 8 Sell 4 | |
| Current price: | Rs629 |
| Target price: | Rs715 |
| Previous target: | Rs745 |
| Up/downside: | 13.7% |
| InCred Research / Consensus: | -0.9% |
| Reuters: | |
| Bloomberg: | MRCO IN |
| Market cap: | US\$11,218m Rs814,587m |
| Average daily turnover: | US\$28.0m Rs2032.3m |
| Current shares o/s: | 1,291.2m |
| Free float: | 40.6% |
| *Source: Bloomberg | |

Key changes in this note

- Lower target price to Rs715 from Rs745.



| | | | |
|--------------------------|-------|-------|-------|
| Price performance | 1M | 3M | 12M |
| Absolute (%) | (9.1) | (7.9) | 17.0 |
| Relative (%) | (4.7) | (6.6) | (6.7) |

| | |
|---------------------------|--------|
| Major shareholders | % held |
| Promoter | 59.4 |
| LIC | 4.5 |
| First Sentier | 3.5 |

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Marico Ltd

Healthy sales growth outlook for 2HFY25F

- Domestic 2Q sales/volume grew 3.9%/5%, respectively. Rural markets continued to outpace urban markets. Focus remains on driving topline growth.
- 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 sales growth to remain healthy in 2HFY25F driven by distribution-led gains and moderate price hikes. Maintain ADD with a lower TP of Rs715.

Corrective actions taken over the last few quarters aid growth

Marico's domestic sales grew by 3.9% yoy in 2QFY25, with a 5% growth in volume, led by a sequential improvement in rural markets and alternate channels within urban markets. Parachute rigids registered 4%/10% volume/sales growth, respectively, led by pricing interventions done over the last few quarters. Another round of price hikes was implemented (+4%) at a brand level on account of higher copra prices. VAHO declined 8% on account of continued sluggishness and irrational competition. Saffola edible oils posted 2% value growth with flat volume. Pricing turned positive after eight quarters (15% taken at a brand level). The food portfolio continued its strong momentum, growing 28% yoy, led by mid-teen growth in Saffola Oats, Plix (plant-based food portfolio) and True Elements. Beardo is on course to deliver double-digit EBITDA margin in FY25F. Plix is expected to achieve EBITDA breakeven this year, led by its focus on differentiated offerings. The share of revenue from food and premium personal care segments (incl. D2C brands) inched up to 21% in 1HFY25.

Focus on taking corrective steps in urban GT & improve rural reach

Project SETU, its new route-to-market initiative, has been rolled out in 10 states (from six in 1QFY25) 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 channel, which has 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, and will tap into under-indexed channels (chemists, cosmetics, etc).

Improving trend to remain on sales growth front; retain 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 in 2HFY25F. While margin pressure is expected to sustain, Marico's core offerings have historically performed well (vs. smaller/unorganized players) during periods of inflation, which should gradually drive a reversal of the downtrading trend and aid core categories to recover. Retain ADD rating on Marico with a lower target price of Rs715 (50x Sep 2026F) from Rs745 earlier. Downside risk: Continued downtrading delaying the 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 | 22,447 | 25,010 | 27,780 |
| Net Profit (Rsm) | 11,580 | 13,390 | 15,698 | 17,419 | 19,412 |
| Core EPS (Rs) | 9.0 | 10.4 | 12.2 | 13.5 | 15.0 |
| Core EPS Growth | 2.8% | 15.6% | 17.2% | 11.0% | 11.4% |
| FD Core P/E (x) | 70.09 | 60.61 | 51.70 | 46.59 | 41.81 |
| DPS (Rs) | 6.0 | 5.5 | 6.1 | 6.8 | 7.6 |
| Dividend Yield | 1.12% | 1.03% | 1.13% | 1.27% | 1.42% |
| EV/EBITDA (x) | 44.45 | 39.82 | 35.66 | 31.81 | 28.46 |
| P/FCFE (x) | 120.59 | 67.75 | 615.18 | 66.64 | 60.17 |
| Net Gearing | (21.7%) | (19.6%) | (24.7%) | (29.4%) | (33.0%) |
| P/BV (x) | 21.36 | 21.18 | 14.61 | 12.95 | 11.50 |
| ROE | 32.5% | 35.1% | 33.5% | 29.5% | 29.1% |
| % Change In Core EPS Estimates | | | (3.10%) | (7.02%) | (8.38%) |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

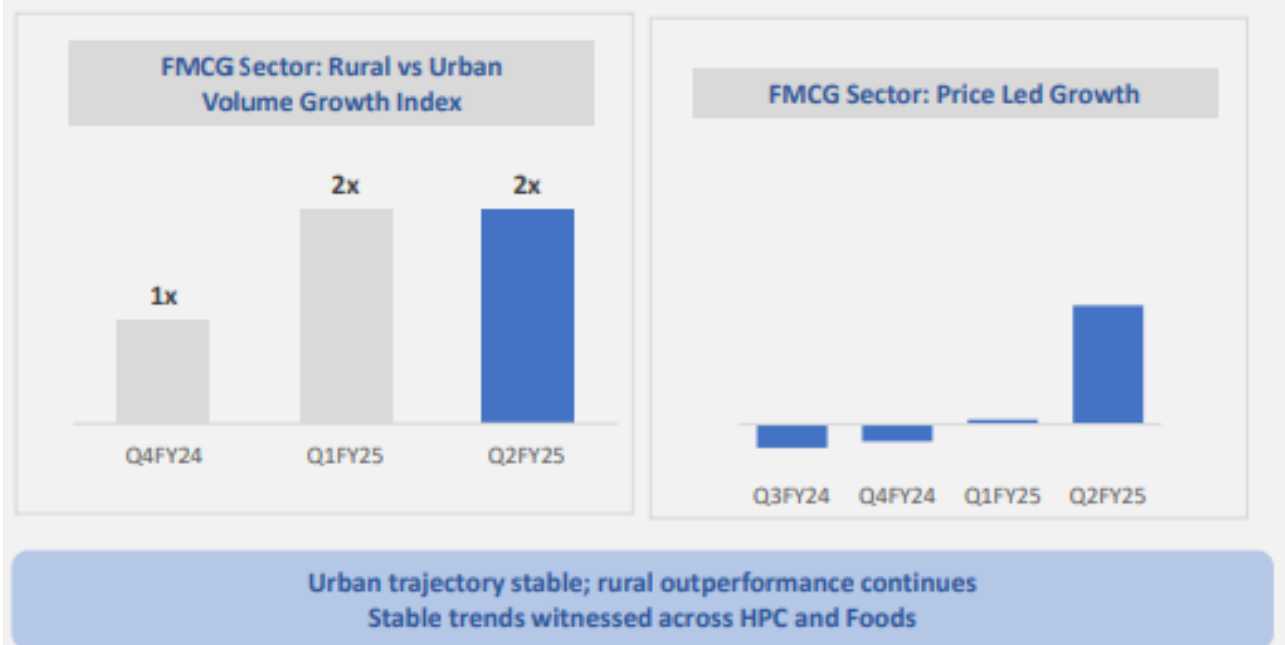
Healthy sales growth outlook for 2HFY25F

Figure 1: Quarterly result summary - consolidated

| Y/E Mar (Rs. m) | 2QFY24 | 1QFY25 | 2QFY25 | YoY (%) | QoQ (%) | 1HFY24 | 1HFY25 | Gr (%) |
|---------------------------------|---------------|---------------|---------------|-----------------|-----------------|---------------|---------------|-------------|
| Revenue | 24,760 | 26,430 | 26,640 | 7.6 | 0.8 | 49,530 | 53,070 | 7.1 |
| Expenditure | 19,790 | 20,170 | 21,420 | 8.2 | 6.2 | 38,820 | 41,590 | 7.1 |
| Consumption of RM | 12,260 | 12,620 | 13,110 | 6.9 | 3.9 | 24,650 | 25,730 | 4.4 |
| as % of sales | 49.5 | 47.7 | 49.2 | | | 49.8 | 48.5 | |
| Employee costs | 1,870 | 2,030 | 2,130 | 13.9 | 4.9 | 3,680 | 4,160 | 13.0 |
| as % of sales | 7.6 | 7.7 | 8.0 | | | 7.4 | 7.8 | |
| Other expenditure | 5,660 | 5,520 | 6,180 | 9.2 | 12.0 | 10,490 | 11,700 | 11.5 |
| as % of sales | 22.9 | 20.9 | 23.2 | | | 21.2 | 22.0 | |
| EBITDA | 4,970 | 6,260 | 5,220 | 5.0 | -16.6 | 10,710 | 11,480 | 7.2 |
| Depreciation | 390 | 410 | 410 | 5.1 | 0.0 | 750 | 820 | 9.3 |
| EBIT | 4,580 | 5,850 | 4,810 | 5.0 | -17.8 | 9,960 | 10,660 | 7.0 |
| Other income | 380 | 370 | 820 | 115.8 | 121.6 | 840 | 1,190 | 41.7 |
| Interest | 200 | 170 | 110 | -45.0 | -35.3 | 370 | 280 | -24.3 |
| PBT | 4,760 | 6,050 | 5,520 | 16.0 | -8.8 | 10,430 | 11,570 | 10.9 |
| Total tax | 1,160 | 1,310 | 1,190 | 2.6 | -9.2 | 2,470 | 2,500 | 1.2 |
| PAT | 3,600 | 4,740 | 4,330 | 20.3 | -8.6 | 7,960 | 9,070 | 13.9 |
| (Profit)/loss from JV's/Ass./MI | 70 | 100 | 100 | 42.9 | 0.0 | 160 | 200 | 25.0 |
| APAT after MI | 3,530 | 4,640 | 4,230 | 19.8 | -8.8 | 7,800 | 8,870 | 13.7 |
| Extraordinary items | 0 | 0 | 0 | NA | NA | 0 | 0 | NA |
| Reported PAT | 3,530 | 4,640 | 4,230 | 19.8 | -8.8 | 7,800 | 8,870 | 13.7 |
| EPS | 2.7 | 3.6 | 3.3 | 19.8 | -8.8 | 6.0 | 6.9 | 13.7 |
| Margins (%) | 2QFY24 | 1QFY25 | 2QFY25 | YoY (bp) | QoQ (bp) | 1HFY24 | 1HFY25 | (bp) |
| Gross margin | 50.5 | 52.3 | 50.8 | 30 | -150 | 50.2 | 51.5 | 130 |
| EBITDA | 20.1 | 23.7 | 19.6 | -50 | -410 | 21.6 | 21.6 | 0 |
| EBIT | 18.5 | 22.1 | 18.1 | -40 | -410 | 20.1 | 20.1 | 0 |
| EBT | 19.2 | 22.9 | 20.7 | 150 | -220 | 21.1 | 21.8 | 70 |
| PAT | 14.5 | 17.9 | 16.3 | 170 | -170 | 16.1 | 17.1 | 100 |
| Effective tax rate | 24.4 | 21.7 | 21.6 | -280 | -10 | 23.7 | 21.6 | -210 |

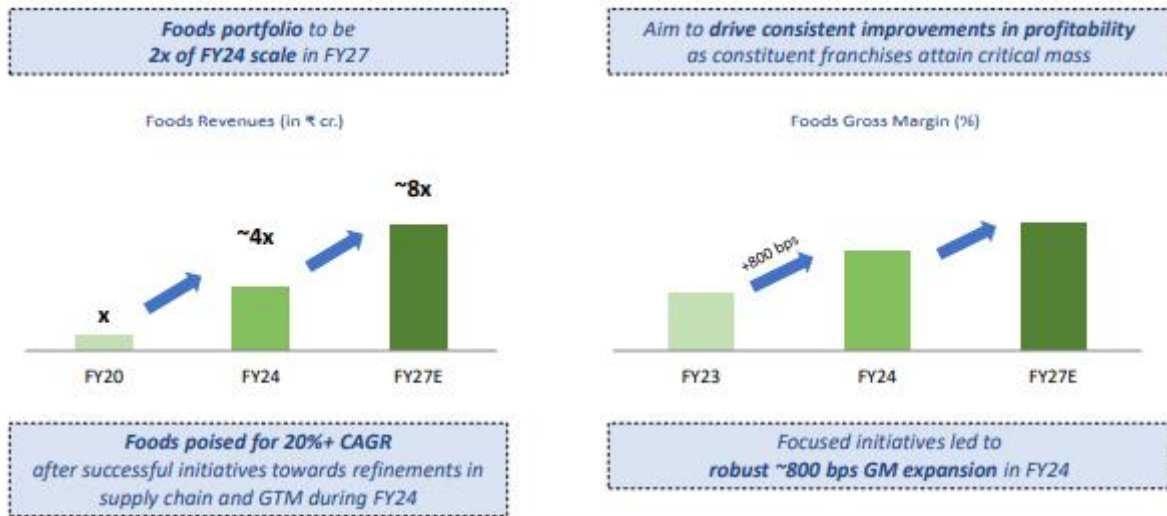
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Rural markets continue to outpace urban markets; higher commodity prices leading to pricing growth for the industry



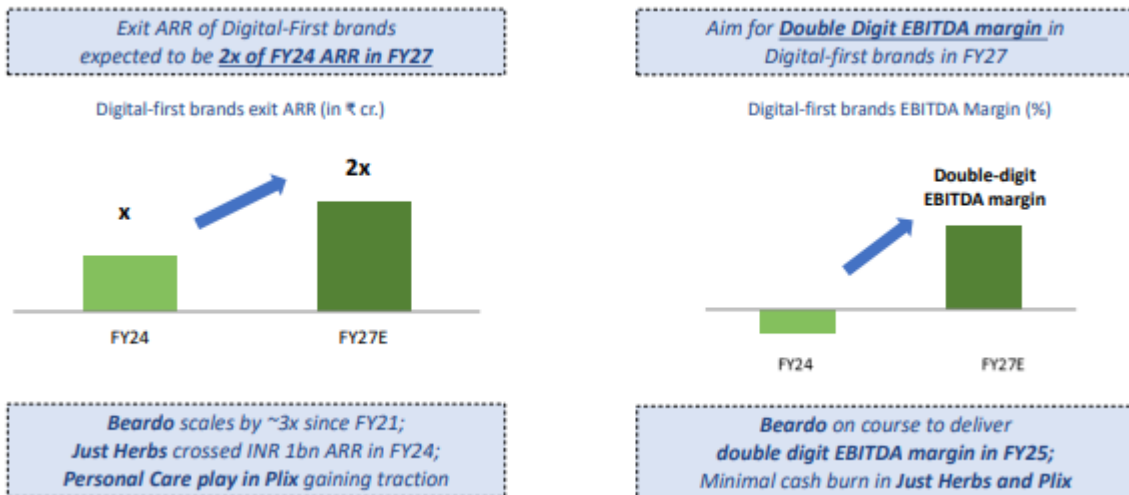
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Profitable scale-up of food business to continue



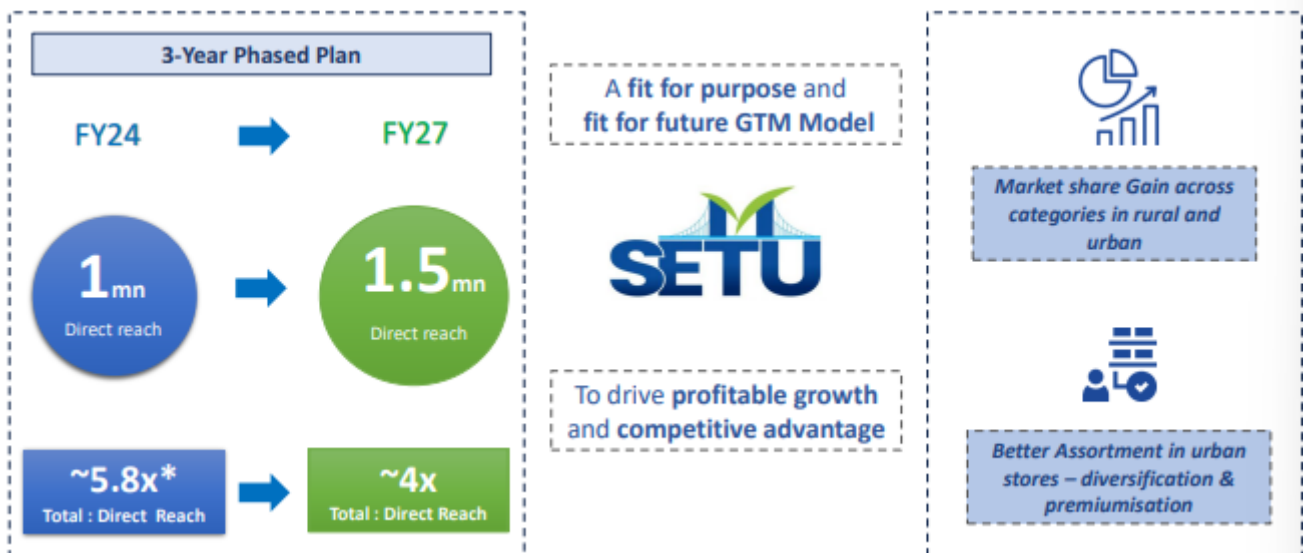
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Digital first brands to gradually scale up in offline channels as well



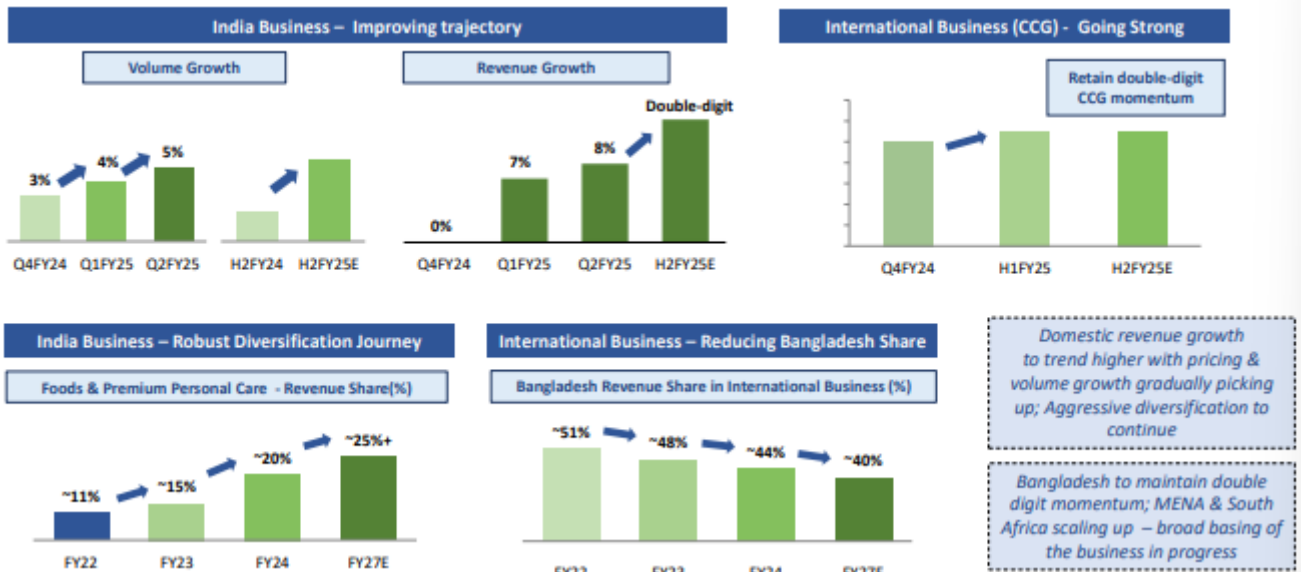
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Project SETU to drive growth in GT; focus remains on driving direct reach



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Targeting double-digit sales growth in 2HFY25F



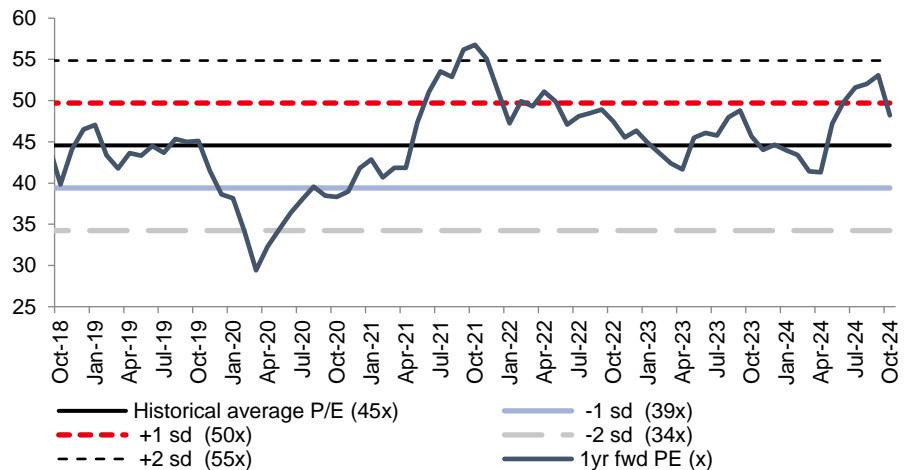
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Figure 7: Our revised earnings estimates

| Y/E Mar (Rs. m) | FY25F | | | FY26F | | | FY27F | | |
|---------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | Earlier | Revised | % Change | Earlier | Revised | % Change | Earlier | Revised | % Change |
| Net Sales | 1,05,287 | 1,05,287 | 0.0 | 1,15,822 | 1,15,822 | 0.0 | 1,27,574 | 1,27,574 | 0.0 |
| EBITDA | 22,470 | 22,447 | -0.1 | 25,040 | 25,010 | -0.1 | 27,840 | 27,780 | -0.2 |
| EBITDA Margin (%) | 21.3 | 21.3 | 0 bps | 21.6 | 21.6 | 0 bps | 21.8 | 21.8 | 0 bps |
| Net Income (before exceptional items) | 16,200 | 15,698 | -3.1 | 18,736 | 17,419 | -7.0 | 21,189 | 19,412 | -8.4 |
| EPS | 12.6 | 12.2 | -3.1 | 14.5 | 13.5 | -7.0 | 16.5 | 15.0 | -8.4 |

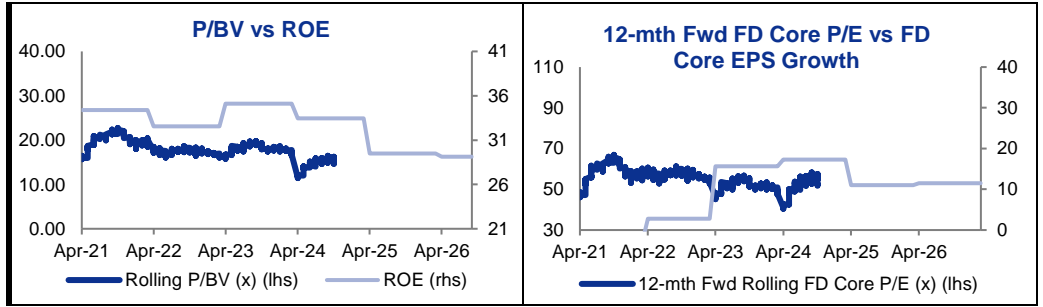
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Marico's one-year forward P/E trades close to +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 | 22,447 | 25,010 | 27,780 |
| Depreciation And Amortisation | (1,550) | (1,580) | (2,453) | (2,915) | (3,376) |
| Operating EBIT | 16,550 | 18,680 | 19,994 | 22,096 | 24,404 |
| Financial Income/(Expense) | (560) | (730) | 713 | 896 | 1,126 |
| Pretax Income/(Loss) from Assoc. | | | | | |
| Non-Operating Income/(Expense) | | | | | |
| Profit Before Tax (pre-EI) | 15,990 | 17,950 | 20,707 | 22,991 | 25,529 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 15,990 | 17,950 | 20,707 | 22,991 | 25,529 |
| Taxation | (4,210) | (4,350) | (4,809) | (5,372) | (5,917) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 11,780 | 13,600 | 15,898 | 17,619 | 19,612 |
| Minority Interests | (200) | (210) | (200) | (200) | (200) |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 11,580 | 13,390 | 15,698 | 17,419 | 19,412 |
| Recurring Net Profit | 11,580 | 13,390 | 15,698 | 17,419 | 19,412 |
| Fully Diluted Recurring Net Profit | 11,580 | 13,390 | 15,698 | 17,419 | 19,412 |

Cash Flow

| (Rs mn) | Mar-23A | Mar-24A | Mar-25F | Mar-26F | Mar-27F |
|----------------------------------|---------|----------|---------|----------|----------|
| EBITDA | 18,100 | 20,260 | 22,447 | 25,010 | 27,780 |
| Cash Flow from Invt. & Assoc. | | | | | |
| Change In Working Capital | 1,420 | (1,520) | (8,492) | (656) | (1,801) |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | 1,440 | 1,420 | 1,313 | 1,496 | 1,726 |
| Net Interest (Paid)/Received | (560) | (730) | (600) | (600) | (600) |
| Tax Paid | (4,210) | (4,350) | (4,809) | (5,372) | (5,917) |
| Cashflow From Operations | 16,190 | 15,080 | 9,859 | 19,878 | 21,188 |
| 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) | (9,211) | (10,295) | (11,507) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | | | | | |
| Cash Flow From Financing | (5,820) | (12,290) | (9,211) | (10,295) | (11,507) |
| Total Cash Generated | 910 | (310) | (7,892) | 1,884 | 1,980 |
| Free Cashflow To Equity | 6,730 | 11,980 | 1,319 | 12,178 | 13,488 |
| Free Cashflow To Firm | 7,290 | 12,710 | 1,919 | 12,778 | 14,088 |

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 | 18,398 | 23,282 | 28,262 |
| 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 | 61,506 | 68,375 | 76,643 |
| Fixed Assets | 15,620 | 16,070 | 22,328 | 24,113 | 25,437 |
| 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 | 33,106 | 34,891 | 36,215 |
| 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 | 21,697 | 23,014 | 24,487 |
| Other Current Liabilities | | | | | |
| Total Current Liabilities | 19,250 | 19,640 | 25,527 | 26,844 | 28,317 |
| 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 | 25,675 | 27,004 | 28,491 |
| Shareholders Equity | 37,990 | 38,320 | 55,537 | 62,662 | 70,567 |
| Minority Interests | 1,570 | 3,370 | 3,370 | 3,370 | 3,370 |
| Total Equity | 39,560 | 41,690 | 58,907 | 66,032 | 73,937 |

| 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% | 10.8% | 11.4% | 11.1% |
| Operating EBITDA Margin | 18.5% | 21.0% | 21.3% | 21.6% | 21.8% |
| Net Cash Per Share (Rs) | 6.66 | 6.35 | 11.28 | 15.06 | 18.92 |
| BVPS (Rs) | 29.45 | 29.71 | 43.05 | 48.58 | 54.70 |
| Gross Interest Cover | 29.55 | 25.59 | 33.32 | 36.83 | 40.67 |
| Effective Tax Rate | 26.3% | 24.2% | 23.2% | 23.4% | 23.2% |
| Net Dividend Payout Ratio | 78.6% | 62.2% | 58.7% | 59.1% | 59.3% |
| 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 | 142.18 | 138.90 |
| ROIC (%) | 50.6% | 49.3% | 41.6% | 43.7% | 45.5% |
| ROCE (%) | 40.6% | 41.6% | 36.9% | 33.3% | 33.1% |
| Return On Average Assets | 20.5% | 20.9% | 18.3% | 16.9% | 17.1% |

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.