

Marico

High RM costs to impact margins in 2HFY25

Marico's 2QFY25 results were marginally above our estimates, driven by better-than-expected operating profits. Domestic volume growth of 5% during 2QFY25 was in line with expectations and was supported by the following factors: a) Parachute's secondary volume offtake grew in high single digits, aided by market share gains and accelerated conversion from loose to branded products, especially in an inflationary copra environment; b) Saffola reported flat volumes as the pricing cycle for the brand turned favourable after eight quarters; c) the Foods business reported 28% growth, supported by steady growth in the Saffola oats franchise and significant scale-up in new products (Plix and True Elements); and d) Premium personal care saw strong growth, driven by digital-first brands. However, value-added hair oil declined 8% due to increased competitive headwinds in the BOP segment, though mid and premium sub-segments continued to perform well. The international business maintained its double-digit constant currency growth momentum, with each key market delivering broad-based growth.

- 2QFY25 results summary:** Marico's 2QFY25 results were marginally above our estimates due to better-than-expected EBITDA. The consolidated gross margin expanded by approximately 30 bps YoY to 50.8%, despite inflationary pressure in the domestic business (GM down 65 bps YoY) due to a steep increase in copra prices (up 25%) and rice bran oil (up 7%). This was countered by a strong performance in the international business and an increased share of high-margin, digital-first brands. However, the EBITDA margin saw a contraction of around 48 bps to 19.6% due to higher employee costs (up 14% YoY) and increased operating overheads (up 10% YoY). Adjusted PAT grew 10% YoY.
- Outlook and valuation:** We maintain Marico as a BUY with a target price of INR 760 (50x Dec-26 EPS, a 20% premium to its 5-year average PE), given the expected Revenue/EBITDA/PAT CAGR of 10%/11%/11% over FY24-27. This outlook is supported by 1) the strong performance of the domestic business: (a) Parachute (35% of domestic sales) is expected to achieve mid-single-digit volume growth driven by market share gains and a shift from unbranded to branded products, particularly in an inflationary copra environment. Additionally, we expect double-digit revenue growth in FY25 on the back of mid-single-digit price hikes, (b) Saffola edible oil (20% of domestic sales) is projected to see double-digit revenue growth following a 15% price increase toward the end of 2Q, and (c) VAHO's easing competitive intensity in the BOP segment and an uptick in the mid-to-premium segment are expected to drive improved results; 2) Significant improvement in the profitability of the fast-growing Foods and digital-first business (20% of domestic sales); and 3) Sustained double-digit constant currency revenue growth momentum in the international business as the currency headwinds subside. However, in 2HFY25, the operating margin will likely remain under pressure due to higher raw material costs, particularly for copra and the edible oil basket. Key risks to our call include: 1) volatility in the RM index, as copra still accounts for 35% of the RM basket, and 2) increased competitive intensity in the VAHO segment.

Quarterly/annual financial summary

(INR mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	FY24	FY25E	FY26E	FY27E
Net Sales	26,640	24,760	7.6	26,430	0.8	96,530	1,05,833	1,16,563	1,27,316
EBITDA	5,220	4,970	5.0	6,260	(16.6)	20,260	21,790	24,701	27,583
APAT	3,880	3,530	9.9	4,640	(16.4)	14,810	15,819	18,013	20,197
Diluted EPS (Rs)	3.0	2.7	9.9	3.6	(16.4)	11.5	12.2	13.9	15.6
P/E (x)						55.3	51.8	45.5	40.6
EV/EBITDA (x)						40.1	37.0	32.5	28.9
Core RoCE (%)						56.1	54.4	64.8	72.6

Source: Company, HSIE Research

BUY

CMP (as on 29 Oct 2024)	INR 629
Target Price	INR 760
NIFTY	24,467

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 775	INR 760
	FY25E	FY26E
EPS %	-1.3%	-0.1%

KEY STOCK DATA

Bloomberg code	MRCO IN
No. of Shares (mn)	1,295
MCap (INR bn) / (\$ mn)	815/9,688
6m avg traded value (INR mn)	2,032
52 Week high / low	INR 720/486

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(7.9)	22.0	17.0
Relative (%)	(6.7)	14.4	(9.0)

SHAREHOLDING PATTERN (%)

	Jun-24	Sep-24
Promoters	59.28	59.20
FIs & Local MFs	11.30	11.21
FPIs	24.61	24.87
Public & Others	4.69	4.61
Pledged Shares	0.08	0.08

Source : BSE

Pledged shares as % of total shares

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2QFY25 Con call Takeaways

Domestic Business (74% of revenue, 69% of EBIT)

Parachute (35% of domestic revenue):

- Parachute volume growth was around 4%, despite the company absorbing the ml reduction in the key price point pack instead of a price increase. Additionally, volume offtakes grew in high single digits owing to market share gains.
- Parachute recorded double-digit revenue growth, aided by pricing interventions (6%) made at the start of the year. Over and above this price increase, the company implemented another round of price increases toward the end of the quarter (4%) due to continued inflation in copra prices.
- The brand continued to gain market share (+120 bps on a MAT basis) due to accelerated conversion from loose to branded products in an inflationary copra environment.
- After a 25% inflation in 1HFY25, copra prices continue to rise, potentially necessitating further price hikes if the trend persists.

Value Added Hair Oils (20% of domestic revenue):

- Declined 8% in value terms due to competitive headwinds and persistent sluggishness in the bottom-of-the-pyramid (BOP) segment. Most brands in this category have significantly reduced ad spends and are diverting their ATL budgets toward trade promotions, impacting revenue growth at the category level.
- The mid and premium segments fared better in comparison, gaining 110 bps in market share.
- Management stated it does not intend to engage in a "price war" in the value-for-money segment but will focus on gaining market share in the mid-to-premium segments, where it has a better opportunity for success. Roughly 15-18 months ago, most national value-added hair oil companies turned to shrinkflation (reducing grammage) to combat RM inflation challenges. However, BOP customers expect certain usage frequencies when purchasing LUPs of VAHO brands, leading some to shift to regional brands or national brands that avoid significant shrinkflation.
- Management believes the segment has bottomed out and expects gradually improving trends ahead due to (a) increased share of mid-to-premium segments, (b) shrinkflation coming into the base from 2HFY25, and (c) visible ATL investments and brand activation.

Saffola Edible Oils (18% of domestic revenue):

- Volume growth remained flat, while pricing growth was positive for the first time in eight quarters. Marico implemented a 15% price increase to counter the sharp hike in import duties on edible oil, helping protect margins.
- Management does not expect a material impact on Saffola volumes as long as the price of Saffola Gold remains below INR 200/ltr, currently retailing at around INR 185/ltr.
- Visibility increased through the "Step-Up for Your Heart" campaign on World Heart Day.

Foods Business (10% of domestic revenue):

- The Foods business reported 28% growth, crossing INR 10 bn in ARR, driven by mid-teen growth in Saffola oats and the scaling up of relatively new franchises (Plix and True Elements).
- Launched Saffola Masala Millets, a savoury option for consumers shifting toward healthier eating habits, available in two flavours (Masala Delight and Tomato Delight) at INR 20.

- Honey and soya chunks are the largest subcategories within the food segment after oats. However, Marico does not plan a major scale-up of soya chunks due to historically low margins and will only scale up this sub-segment if it identifies a niche within it.
- Management intends to be aggressive in quick commerce in the food category, leveraging the impulse-buy nature of the products.
- The food category is skewed toward the OT channel and will benefit from expansion into Marico's strong GT network.

Premium Personal Care (10% of domestic revenue):

- Premium personal care maintained its growth trajectory through its digital-first portfolio, with digital-first brands reaching INR 5.25 bn in ARR.
- Beardo continued to perform ahead of management's expectations and is on track to report a double-digit EBITDA margin in FY25.
- Just Herbs and the personal care portfolio of Plix continued gaining traction with minimal cash burn. Plix has potential for INR 5 bn revenue in the medium term, given its mix of nutraceuticals, skin food, and hair food products.
- Sales of Kaya products began in Sept'24 on select online channels. Management aims to achieve INR 1 bn in revenue from Kaya over the next 4-5 years.
- The "secret sauce" for taking digital brands offline involves maintaining price parity with online channels, selling at appropriate price points, limiting SKUs, and avoiding beauty advisors in the BPC category, as stores require an INR 75,000-100,000 sales throughput per store.

Outlook on Foods and Premium Personal Care:

- Targeting a 20-25% CAGR to double revenue by FY27, with Foods and Personal Care expected to contribute 25% of domestic business revenue, up from 20%.

Distribution:

- 2QFY25 marked the second quarter of Project SETU, a distribution expansion initiative. Marico aims to increase direct reach from 1 mn outlets in FY24 to 1.5 mn outlets by FY27.
- The project launched in six states (a mix of higher market share "Diversify" and lower market share "Transform" states) and has now expanded to ten states this quarter.
- Through FY25, Marico plans to scale up phase 1 and expand to more states, driving market share gains across urban and rural markets and enhancing assortment levels to enable diversification and premiumization.

International Business (26% of revenue, 31% of EBIT):

- The international business sustained double-digit constant currency growth momentum, with each key market delivering broad-based growth.
- International EBIT margin improved by 220 bps YoY to 25.5% due to a favourable country mix.

Bangladesh (40% of International business):

- Reported around 8% constant currency growth. Although the operating environment was challenging, conditions improved in the latter half of the quarter.

Other Regions (60% of international revenue):

- Vietnam reported 7% constant currency growth, driven by a recovery in HPC categories.
- MENA delivered 43% CCG, with strong performance in the Gulf region and Egypt.

- South Africa reported 20% constant currency growth due to robust growth in hair care and health care franchises.

Outlook:

- The international business will continue aiming for double-digit CCG on an aggregate level, focusing on geographical diversification.

Additional Comments:

- Management reported a significant increase in other income in 2QFY25 due to the sale of fixed assets and favourable settlements of past litigations amounting to INR 420 mn.
- Advertising spending was lower due to (a) not advertising VAHO in line with category trends, (b) rationalized spending in MT and e-commerce, and (c) using umbrella branding for Saffola rather than individual sub-brands.

Consolidated P&L

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	97,640	96,530	1,05,833	1,16,563	1,27,316
Growth (%)	13.2	10.9	11.1	12.1	12.2
Material Expenses	53,510	47,480	51,991	57,034	61,882
Employee Expense	6,530	7,430	8,359	9,111	9,931
Other Expenses	19,500	21,360	23,693	25,718	27,920
EBITDA	18,100	20,260	21,790	24,701	27,583
EBITDA Growth (%)	7.7	11.9	7.6	13.4	11.7
EBITDA Margin (%)	18.5	21.0	20.6	21.2	21.7
Depreciation	1,550	1,580	1,678	1,858	2,038
EBIT	16,550	18,680	20,113	22,843	25,546
Other Income	1,440	1,420	1,562	1,718	1,890
Interest	560	730	584	584	584
PBT	17,430	19,370	21,091	23,977	26,852
Tax	4,210	4,350	5,062	5,755	6,444
Profit from minority/associates	(200)	(210)	(210)	(210)	(210)
RPAT	13,020	14,810	15,819	18,013	20,197
Adjustment	-	-	-	-	-
Adjusted PAT	13,020	14,810	15,819	18,013	20,197
APAT Growth (%)	6.3	13.7	6.8	13.9	12.1
Adjusted EPS	10.1	11.5	12.2	13.9	15.6
EPS Growth (%)	6.3	13.7	6.8	13.9	12.1

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	40,194	43,796	47,836
Total Shareholders Funds	37,990	38,320	41,484	45,086	49,126
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	56,294	60,106	64,356
APPLICATION OF FUNDS					
Net Block	16,690	17,720	17,542	17,185	16,647
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	33,372	33,015	32,477
Inventories	12,250	13,360	14,647	16,133	17,621
Debtors	10,150	10,690	8,699	9,581	10,464
Other Current Assets	2,400	3,910	3,910	3,910	3,910
Cash & Equivalents	13,340	12,020	17,799	21,359	25,536
Total Current Assets	38,140	39,980	45,055	50,983	57,531
Creditors	14,520	15,810	17,334	19,091	20,852
Other Current Liabilities & Provns	5,040	4,800	4,800	4,800	4,800
Total Current Liabilities	19,560	20,610	22,134	23,891	25,652
Net Current Assets	18,580	19,370	22,921	27,092	31,879
TOTAL APPLICATION OF FUNDS	48,440	52,920	56,294	60,106	64,356

Source: Company, HSIE Research

Consolidated Cash Flow

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	17,430	19,370	21,091	23,977	26,852
Non-operating & EO Items	(580)	(510)	-	-	-
Interest Expenses	70	(40)	-	-	-
Depreciation	1,550	1,580	1,678	1,858	2,038
Working Capital Change	(590)	(2,260)	2,228	(610)	(611)
Tax Paid	(3,690)	(3,780)	(5,062)	(5,755)	(6,444)
OPERATING CASH FLOW (a)	14,190	14,360	19,934	19,471	21,834
Capex	(2,770)	(1,030)	(1,500)	(1,500)	(1,500)
Free Cash Flow (FCF)	11,420	13,330	18,434	17,971	20,334
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	18,434	17,971	20,334
Share Capital Issuance	90	340	-	-	-
Dividend	(5,820)	(12,290)	(12,655)	(14,410)	(16,158)
Others	(210)	(1,390)	-	-	-
FINANCING CASH FLOW (c)	(5,600)	(15,420)	(12,655)	(14,410)	(16,158)
NET CASH FLOW (a+b+c)	(60)	700	5,779	3,561	4,176
EO Items, Others	(630)	(490)	-	-	-
Closing Cash & Equivalents	2,070	2,280	8,059	11,619	15,796

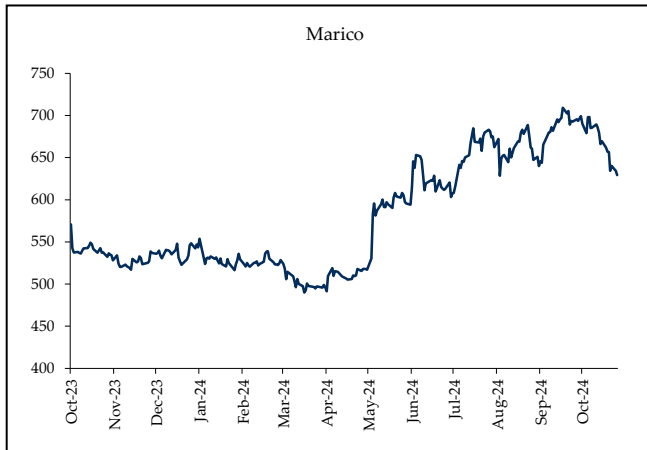
Source: Company, HSIE Research

Ratios

KEY RATIOS	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY (%)					
GPM	45.2	50.8	50.9	51.1	51.4
EBITDA Margin	18.5	21.0	20.6	21.2	21.7
EBIT Margin	17.0	19.4	19.0	19.6	20.1
APAT Margin	13.3	15.3	14.9	15.5	15.9
RoE	36.4	38.8	39.6	41.6	42.9
RoIC (or Core RoCE)	68.9	56.1	54.4	64.8	72.6
RoCE	33.1	32.7	33.2	35.2	36.7
EFFICIENCY					
Tax Rate (%)	24.2	22.5	24.0	24.0	24.0
Fixed Asset Turnover (x)	8.2	7.3	7.2	7.2	7.2
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	13.5	12.2	11.2
Payables (days)	54.3	59.8	59.8	59.8	59.8
Other Current Liab & Provns (days)	18.8	18.1	16.6	15.0	13.8
Cash Conversion Cycle (days)	19.6	27.8	17.7	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	34.4	39.1	43.7
PER SHARE DATA (Rs)					
EPS	10.1	11.5	12.2	13.9	15.6
CEPS	11.3	12.7	13.5	15.4	17.2
Dividend	4.5	9.5	9.8	11.1	12.5
Book Value	29.4	29.6	32.1	34.9	38.0
VALUATION					
P/E (x)	63.0	55.3	51.8	45.5	40.6
P/BV (x)	-	-	-	-	-
EV/EBITDA (x)	44.8	40.1	37.0	32.5	28.9
EV/Revenues (x)	8.3	8.4	7.6	6.9	6.3
OCF/EV (%)	1.7	1.8	2.5	2.4	2.7
FCF/EV (%)	1.4	1.6	2.3	2.2	2.5
FCFE/Mkt Cap (%)	0.6	2.2	2.2	2.2	2.5
Dividend Yield (%)	0.7	1.5	1.5	1.8	2.0

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

Disclosure:

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