

1st Aug 2023

CMP – ₹561/-

View – **Accumulate on Dips**

Q1FY24: Decent Performance

- Consolidated revenue from operations declined 3.2% YoY to ₹2,477Cr with underlying volume growth of 3% in the domestic business and constant currency growth of 9% in the international business
- Gross margin expanded by 294 bps YoY and 247 bps sequentially, given the moderation in key commodity prices and favorable portfolio mix in the India business.
- EBITDA grew by 14% YoY, with EBITDA margin expanding 153 bps to 17.5%. Reported PAT was up 20%YoY, aided by higher other income, which includes one-time gain of ₹28Cr on sale of land in one of the overseas locations.

Important Statistics

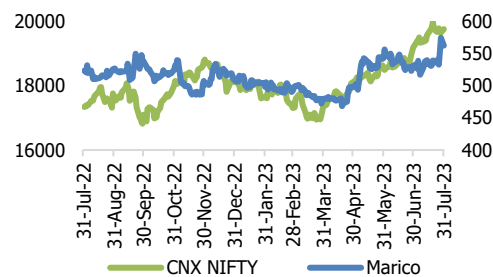
M.CAP (₹ Cr)	₹72,735
52 Week H/L (₹)	₹577/₹463
NSE Code	MARICO
BSE Code	531642

Shareholding pattern (%)	Jun'23
Promoter	59.41
FIIs	24.96
DIIs	10.21
Public & Others	05.41

Key takeaways from Q1FY24 result

- **Volumes & Sales Growth:**
 - **Domestic** volume growth was subdued by one-off channel inventory adjustments on account of two factors: i) destocking by trade in Saffola Oils owing to a sharp fall in vegetable oil prices, and; ii) the last phase of trade scheme rationalization in core categories, implemented by the company to correct the historical Q1 revenue skew.
 - However, offtake growth remained healthy, ~85% of the portfolio either sustained or gained market share and penetration on MAT basis
 - **Strategic Investment in Satiya Nutraceuticals Pvt Ltd:** The Company has recently signed definitive agreements to acquire upto 58% of the paid-up share capital of Satiya Nutraceuticals Private Limited at a pre-money valuation of ~4x of its annualized revenue run-rate (ARR) of ~`150cr. Satiya Nutraceuticals Pvt Ltd owns "The Plant Fix – Plix", a digital-first, clean label, plant-based nutrition brand. With its portfolio of non-GMO, Vegan, Gluten-free and Cruelty-free offerings, spanning across Weight Management, Hair & Beauty, Sleep and Lifestyle Nutrition categories, Plix has established itself as one of the leading players in the online plant-based nutrition segment.
- **Input cost/Profitability Margin:**
 - Consolidated gross margin expanded ahead of internal expectations, by 494 bps YoY and 257 bps sequentially, owing to incrementally softer input costs. A&P spends were up 7% YoY. EBITDA margin was at 23.2%, up 253 bps YoY. EBITDA grew by 9%, while Recurring PAT was up 12%. Reported PAT was up 15%, due to a one-time gain (~`14 cr. pre tax) from the sale of fixed assets, classified under 'Other Income'.
 - Copra prices declined by 8% QoQ and 7% YoY, and rice bran oil prices declined by 16% QoQ and 38% YoY. HDPE (High-density polyethylene) was down by 15% YoY, while liquid paraffin remained flat.
- **Domestic Business:**
 - The India business delivered a turnover of ₹ 1,827 crore, down 5% on a YoY basis.
 - **Parachute Rigids** posted volume decline of 2%, as offtakes remained healthy with the brand holding its market share on MAT basis and recording highest-ever penetration levels.
 - **Value-Added Hair Oils** had a flat quarter amidst slower recovery in mass personal care categories. The franchise logged value MS gains of

Relative Performance



Source: Company, Way2Wealth

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~20 bps, reflective of the focus towards the mid and premium segments of the portfolio.

- **Saffola Edible Oils** registered a low double-digit volume growth, on a negative base, mainly due to trade further reducing inventory levels as vegetable oil prices experienced a sharp downturn. Revenue decline was in the low twenties on a yearly basis, due to pricing interventions through last year as well as during the current quarter.
- **Foods** continued its healthy scale up with 24% value growth YoY, aided by steady growth in core and newer franchises. Saffola Oats maintained its market leadership, while newer categories of Honey and Soya Chunks gained scale. Peanut Butter, Mayo and Munchiez have also seen encouraging traction so far. Marico expects to reach ` 850 crore in revenue in foods in FY24, compared to ` 600 crore in FY23.
- **Premium Personal Care** (including the Digital-first portfolio) delivered a steady performance in the quarter. The composite portfolio is on course to contribute ~10% of domestic revenues in FY24

➤ **International Business:**

- The International business continued its strong growth momentum and delivered constant currency growth of 9%, amidst macroeconomic and currency devaluation headwinds in some of the geographies.
- Within the International business, **Bangladesh clocked 9% constant currency growth** with a broad-based performance across core and newer portfolios. **Vietnam grew by 5% in constant** currency terms subdued by the impact of the economic slowdown on the HPC category in the region. **MENA grew by 15%** and **South Africa grew by 37%**, in constant currency terms. NCD and **Exports business grew 24%** in constant currency terms.

➤ **Guidance:**

- **Near Term:** While the performance of the domestic business in Q1 was marred by one-offs, management expect to resume an improving trajectory in volume growth in the near-term, given the sustained healthy trends in offtakes, market share and penetration across key franchises. We expect revenue growth to move into positive territory in H2, as pricing deflation in the domestic portfolio has bottomed out and will now taper off through the rest of the year. Management expect double-digit growth momentum for International business in FY24.
- In view of softening input costs, institutionalized cost management initiatives and a more favorable portfolio mix, management expect gross margin to expand by 250-300 bps and operating margin to move up by more than 150 bps to 20%+ levels in FY24
- **Medium Term:** The Company holds its medium-term aspiration of delivering 13-15% revenue growth on the back of 8-10% domestic volume growth and double-digit constant currency growth in the international business. The company will aim to maintain consolidated operating margin above the threshold of 19% over the medium term.
- Going ahead company will maintain sharp focus on driving penetration and market share gains across portfolios aided by distribution expansion, aggressive cost controls, and sufficient investment in market development and brand building.

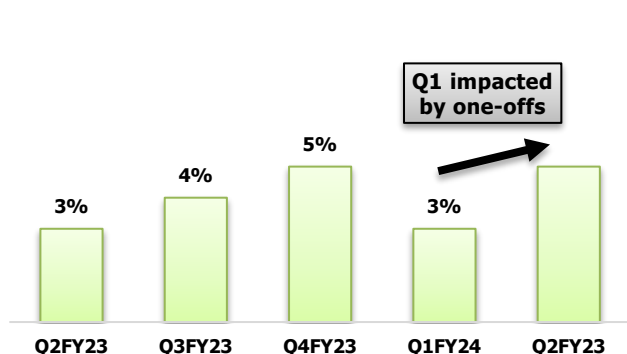
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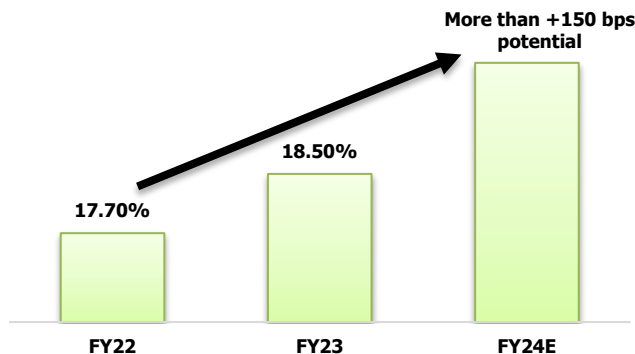
View – Accumulate on Dips

Story in charts

India Volume Growth – to improve going ahead



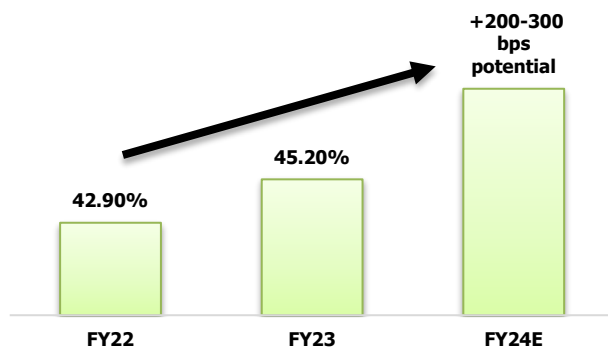
Operating Margin Expansion Likely



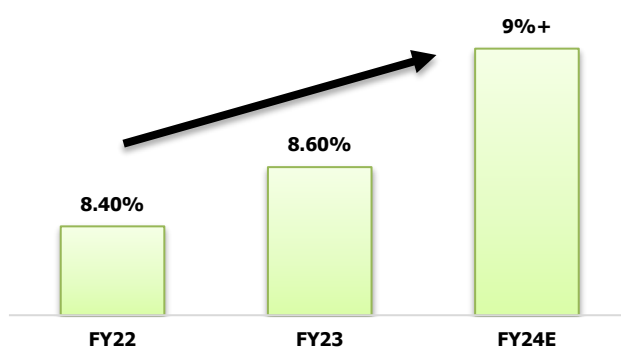
Revenue Growth to inch up as pricing comes into the base from H2FY24 onwards

EBITDA margin expected to expand by more than 100 bps

Gross Margin Trending Up



A&P as a % of sales - Key Thrust for Growth



GM uptrend to continue with RM moderating and improving portfolio mix

A&P spends to continue as long term growth driver

Working Capital

Particulars	Q4FY23	Q1FY24
Debtors Turnover (Days)	41	39
Inventory Turnover (Days)	48	44
Net Working Capital (Days)	25	20

The table below summaries market share

Categories	MAT Jun'23
Parachute Rigids within coconut oils	53%
Value Added Hair Oils	28%
Saffola Oats	42%
Premium Personal Care	57%
Hair Gels/Waxes/creams	53%

Source: Company, Way2Wealth

International Business

Q1FY24	Bangladesh	Vietnam	South Africa	MENA	Overall
Constant Currency Growth	9%	5% (Economic slowdown impacts HPC category))	37%	15% (Double digit in Gulf region and Egypt)	9% International CCG

Source: Company, Way2Wealth

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View – **Accumulate on Dips**

Risks

- Inflation in raw material prices
- Slowdown in the economy

View

The company has maintained its medium term aspiration of delivering 8-10% domestic volume growth and 13-15% revenue growth. On the international business front, the management is targeting double-digit revenue growth in constant currency and expects margins to stabilise in the band of 25-26% for FY24, compared to 24% in FY23.

Management remain confident of the medium term prospects of the FMCG sector once transient macro disturbances settle down and fundamental drivers of the India consumption story come to the fore.

We continue to remain positive on Marico's ability to deliver healthy earnings growth in the medium term considering its strong product portfolio, distribution network, market share gains without compromising on brand building investments to protect short-term margins and healthy balance sheet.

At the current price of ₹561 it is trading at 66 times P/E to its TTM EPS of ₹8.5. We advise long-term investors to Accumulate on dips.

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Quarterly Performance

(₹ Cr)

	Q1FY24	Q1FY23	VAR [%]	Q4FY23	VAR [%]	FY23
Net Sales	2,477.0	2,558.0	-3.2%	2,240.0	10.6%	12,241.0
Other Operating Income	0.0	0.0	-	0.0	-	0.0
Other Income	46.0	17.0	170.6%	68.0	-32.4%	190.0
TOTAL INCOME	2,523.0	2,575.0	-2.0%	2,308.0	9.3%	12,431.0
Cost Of Materials Consumed	989.0	1,185.0	-16.5%	1,060.0	-6.7%	5,638.0
Purchase of stock in trade	173.0	139.0	24.5%	113.0	53.1%	714.0
Stock Adjustment	77.0	82.0	-6.1%	5.0	1440.0%	238.0
<i>RMC as a %age of sales</i>	<i>50.0%</i>	<i>55.0%</i>		<i>52.6%</i>		<i>53.8%</i>
Employee Benefit Expenses	181.0	156.0	16.0%	171.0	5.8%	834.0
<i>EPC as a %age of sales</i>	<i>7.3%</i>	<i>6.1%</i>		<i>7.6%</i>		<i>6.8%</i>
Advertisement & Promotion	212.0	199.0	6.5%	210.0	1.0%	1,054.0
<i>Advertisement Expenses as a %age of sales</i>	<i>8.6%</i>	<i>7.8%</i>		<i>9.4%</i>		<i>8.6%</i>
Other Expenses	271.0	269.0	0.7%	288.0	-5.9%	1,379.0
<i>Other Expenses as a %age of sales</i>	<i>10.9%</i>	<i>10.5%</i>		<i>12.9%</i>		<i>11.3%</i>
TOTAL EXPENDITURE	1,903.0	2,030.0	-6.3%	1,847.0	3.0%	9,857.0
EBIDTA	574.0	528.0	8.7%	393.0	46.1%	2,384.0
<i>EBIDTA Margins %</i>	<i>23.2%</i>	<i>20.6%</i>		<i>17.5%</i>		<i>19.5%</i>
Finance Costs	17.0	10.0	70.0%	17.0	0.0%	73.0
PBDT	603.0	535.0	12.7%	444.0	35.8%	2,501.0
Depreciation	36.0	36.0	0.0%	43.0	-16.3%	191.0
PBT	567.0	499.0	13.6%	401.0	41.4%	2,310.0
Tax	131.0	122.0	7.4%	96.0	36.5%	552.0
<i>Tax Rate</i>	<i>23.1%</i>	<i>24.4%</i>		<i>23.9%</i>		<i>23.9%</i>
Reported Profit After Tax	436.0	377.0	15.6%	305.0	43.0%	1,758.0
<i>PATM %</i>	<i>17.6%</i>	<i>14.7%</i>		<i>13.6%</i>		<i>14.4%</i>
Other Comprehensive Income	(18.0)	(3.0)		(24.0)		(50.0)
Total Comprehensive Income	418.0	374.0	11.8%	281.0	48.8%	1,708.0
Basic:						
EPS	3.4	2.9	15.6%	2.4	43.0%	13.6
Equity	129.0	129.0		129.0		129.0
Face Value	1.0	1.0		1.0		1.0

Source: Company, Way2wealth

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Disclosure of Interest Statement Marico Ltd. as on 1st August 2023

Name of the Security	Marico Ltd.
Name of the analyst	Ashwini Sonawane
Analysts' ownership of any stock related to the information contained	
Financial Interest	No
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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