31st October 2023 | CMP – ₹532/- | View – **Accumulate on Dips**

Q2FY24: Decent Performance

- In Q2FY24, revenue from operations was at ₹2,476crs, down 1% YoY, with underlying volume growth of 3% in the domestic business and constant currency growth of 13% in the international business.
- Amidst the given operating environment, the India business posted volume growth of 3%. Domestic revenue at ₹1,832crs, was down 3%YoY, lagging volume growth due to price corrections in key portfolios in the last 12 months.
- Gross margin expanded by 685 bps YoY and 50 bps sequentially, reaching its highest level in 26 quarters given the moderation in key commodity prices and favorable portfolio mix in the India business.
- EBITDA margin stood at 20.1%, up 272 bps YoY. EBITDA grew by 15% and PAT was up 17% on a YoY basis.

Important Statistics

Nifty	19,141
Sensex	64,113
M.CAP (₹ Crs)	₹68,820
52 Week H/L (₹)	₹595/₹463
NSE Code	MARICO
BSE Code	531642
Bloomberg Code	MRCO:IN

Shareholding pattern (%)	Sep'23
Promoter	59.40
FIIs	25.91
DIIs	09.50
Public & Others	05.09

Key takeaways from Q2FY24 result

- **Volumes & Sales Growth:**
  - During the quarter, demand trends in the domestic FMCG sector stayed largely in line with the preceding quarter. While urban sentiment improved sequentially, instances of higher food inflation and uneven rainfall distribution led to a slower-than-expected pace of recovery in rural demand.
  - Majority of the portfolio witnessed healthy trends across offtakes with ~85% of the business either gaining or sustaining market share and penetration. Among the sales channels, MT and E-commerce registered high double-digit (20%+) growth, while General Trade declined in low single digits on a YoY basis.
- **Input cost/Profitability Margin:**
  - A&P spends was up 26% YoY, up 229 bps as a % of sales, as the Company remains committed towards strategic brand building of core and new businesses. Consequently, EBITDA margin stood at 20.1%, up 272 bps YoY. EBITDA grew by 15% and PAT was up 17% on a YoY basis.
  - Copra prices were up 1% sequentially and down 2% on a YoY basis aided by good supplies. However, as copra enters into an off-season ahead of the festive season, prices are expected to exhibit an upward bias in the near-term. Rice Bran Oil (RBO) stayed volatile during the quarter with a 6% QoQ increase, however, was down 23% YoY in-line with the correction in the vegetable oil complex in the last 12 months. Liquid Paraffin (LLP) was down 5% YoY, while HDPE was down 10% YoY.
- **Domestic Business:**
  - The India business posted volume growth of 3%. Domestic revenue at ₹1,832 crs, was down 3% on a year-on-year basis, lagging volume growth due to price corrections in key portfolios in the last 12 months
  - **Parachute Rigids** registered 1% volume growth amidst subdued consumer sentiment. Volume growth on a 4-year CAGR basis was at 4%. As copra enters into an off-season, company expect a gradual pick-up in loose to branded conversions to aid volume growth in the near term. With pricing cuts coming into the base, value growth should mirror volume growth from Q3.

Relative Performance

Return (%)	1 Yr	3Yr	5 Yr
Marico	**1%**	**14%**	**11%**
Nifty 50	6.1%	64.1%	83.9%
Sensex	5.4%	61.6%	85.8%

Source: Company, Way2Wealth

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W2W Lighthouse - A Quick Perspective

- **Value-Added Hair Oils** grew 1% YoY in value terms, due to slower recovery in mass personal care categories. Value growth on a 4-year CAGR basis was at 4%.
- **Saffola Edible Oils** registered a low single-digit volume growth, holding onto a strong base, despite vegetable oil prices remaining volatile during the quarter. Volume growth on a 4-year CAGR basis was in high single digits. The Saffola franchise, comprising Refined Edible Oils and Foods, declined 12% in value terms, owing to price cuts in Saffola Edible Oils over the last 12 months.
- **Foods** continued its steady growth trajectory with 25% YoY value growth. Saffola Oats grew in double digits and maintained its category leadership while Honey and Soya Chunks continued to scale up well. Newer categories of Peanut Butter, Mayonnaise and Munchiez have also been gaining traction. True Elements and Plix act as differentiated growth drivers to foods play.
- **Premium Personal Care** (including the Digital-first portfolio) delivered a healthy 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 momentum and delivered constant currency growth of 13% YoY amidst a challenging geo-political scenario and macroeconomic headwinds in select markets.
- Within the International business, **Bangladesh clocked 2% constant currency growth** amidst ongoing macroeconomic headwinds. **Vietnam grew by 13% in constant** currency terms with steady performance in HPC and Food portfolio. **MENA grew by 34%** with both Gulf region and Egypt growing in double-digits and **South Africa grew by 24%,** in constant currency terms. NCD and **Exports business grew 18%** in constant currency terms.
- Bangladesh's economic condition is expected to improve in the first quarter of next year. The dependency on Bangladesh for international business profitability has reduced.

➢ **Guidance:**

- **Near Term –** 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 to maintain the strong growth momentum in H2 on the back of the broad-based growth construct 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 350-400 bps and operating margin to move up by more than 200 bps 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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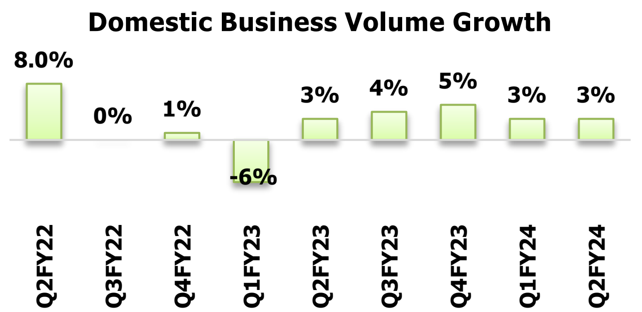
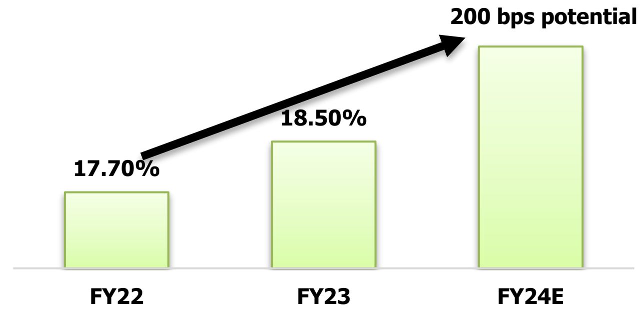
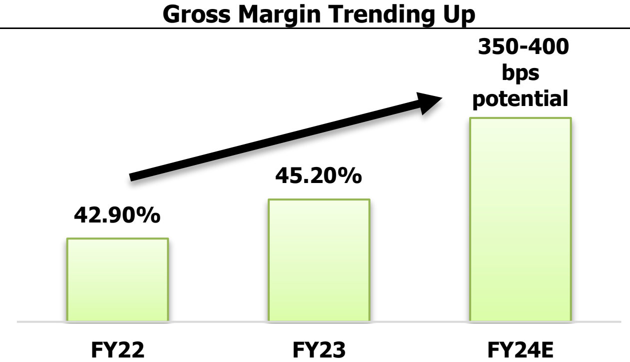
Story in charts

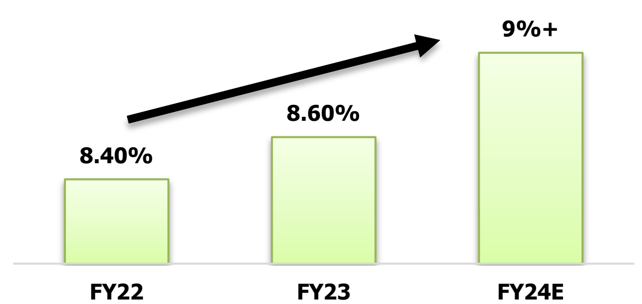
India Business Volume Growth	***EBITDA margin expected to expand by 200 bps***





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***

Source: Company, Way2Wealth

Risks

- Inflation in raw material prices
- Slowdown in the economy

View

The domestic business has delivered 3% volume growth in H1 amidst a challenging operating environment with sluggish demand sentiment in rural and company is continue to draw confidence from the resilient offtake growth, market share and penetration gains posted by key franchises and expect a gradual improvement in demand sentiment to reflect in the performance of domestic business in H2FY24.

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 stabilize in the band of 25-26% for FY24, compared to 24% in FY23. Management expects the demand momentum to improve gradually due to government spending and the festive season. Moderation in overall inflation and recovery in rural markets remain the key trigger for Marico's performance.

At the current price of ₹532 it is trading at 62.6 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)

Particulars	Q2FY24	Q2FY23	VAR	Q1FY24	VAR	H1FY24	H1FY23	VAR
Net Sales	2,476.0	2,496.0	-0.8%	2,477.0	0.0%	4,953.0	5,054.0	-2.0%
Other Income	38.0	19.0	100.0%	46.0	-17.4%	84.0	36.0	133.3%
TOTAL INCOME	**2,514.0**	**2,515.0**	**0.0%**	**2,523.0**	**-0.4%**	**5,037.0**	**5,090.0**	**-1.0%**
Cost Of Materials Consumed	1,106.0	1,246.0	-11.2%	989.0	11.8%	2,095.0	2,431.0	-13.8%
Purchase of stock in trade	228.0	183.0	24.6%	173.0	31.8%	401.0	322.0	24.5%
Stock Adjustment	(108.0)	(22.0)	390.9%	77.0	-240.3%	(31.0)	60.0	-151.7%
RMC as a %age of sales	*49.5%*	*56.4%*		*50.0%*		*49.8%*	*55.7%*	
Employee Benefit Expenses	187.0	166.0	12.7%	181.0	3.3%	368.0	322.0	14.3%
EPC as a %age of sales	*7.6%*	*6.7%*		*7.3%*		*7.4%*	*6.4%*	
Advertisement & Promotion	268.0	213.0	25.8%	212.0	26.4%	480.0	412.0	16.5%
Advertisement Expenses as a %age of sales	*10.8%*	*8.5%*		*8.6%*		*9.7%*	*8.2%*	
Other Expenses	298.0	277.0	7.6%	271.0	10.0%	569.0	546.0	4.2%
Other Expenses as a %age of sales	*12.0%*	*11.1%*		*10.9%*		*11.5%*	*10.8%*	
TOTAL EXPENDITURE	**1,979.0**	**2,063.0**	**-4.1%**	**1,903.0**	**4.0%**	**3,882.0**	**4,093.0**	**-5.2%**
EBIDTA	**497.0**	**433.0**	**14.8%**	**574.0**	**-13.4%**	**1,071.0**	**961.0**	**11.4%**
EBIDTA Margins %	***20.1%***	***17.3%***		***23.2%***		***21.6%***	***19.0%***	
Finance Costs	20.0	15.0	33.3%	17.0	17.6%	37.0	25.0	48.0%
PBDT	**515.0**	**437.0**	**17.8%**	**603.0**	**-14.6%**	**1,118.0**	**972.0**	**15.0%**
Depreciation	39.0	37.0	5.4%	36.0	8.3%	75.0	73.0	2.7%
PBT	**476.0**	**400.0**	**19.0%**	**567.0**	**-16.0%**	**1,043.0**	**899.0**	**16.0%**
Tax	116.0	93.0	24.7%	131.0	-11.5%	247.0	215.0	14.9%
Tax Rate	*24.4%*	*23.3%*		*23.1%*		*23.7%*	*23.9%*	
Reported Profit After Tax	**360.0**	**307.0**	**17.3%**	**436.0**	**-17.4%**	**796.0**	**684.0**	**16.4%**
PATM %	***14.5%***	***12.3%***		***17.6%***		***16.1%***	***13.5%***	
Other Comprehensive Income (Net of tax)- net credit / (charge)	**(23.0)**	**(27.0)**		**(18.0)**		(41.0)	(30.0)	
Total Comprehensive Income	**337.0**	**280.0**	**20.4%**	**418.0**	**-19.4%**	**755.0**	**654.0**	**15.4%**
Basic:								
EPS	**2.8**	**2.4**	**17.3%**	**3.4**	**-17.4%**	**6.2**	**5.3**	**16.4%**
Equity	129.0	129.0		129.0		129.0	129.0	
Face Value	1.0	1.0		1.0		1.0	1.0	

Source: Company, Way2wealth

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Disclosure of Interest Statement: Marico Ltd. as on 31st October 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 Analyst : Analyst's Relative : Yes / No Analyst's Associate/Firm : Yes/No	 No 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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