8th August 2024 | CMP – ₹649/- | View – **Accumulate**

Q1FY25 Performance

- In Q1FY25, revenue from operations was at ₹2,643 crore, up 7% YoY, with underlying volume growth of 4% in the domestic business and constant currency growth of 10% in the international business.
- Gross margin expanded by 227 bps YoY to 52.2% given the moderation in key commodity prices and favorable portfolio mix in the India business.
- EBITDA margin stood at 23.7%, up 50 bps YoY. EBITDA grew by 9% and PAT was up 9% on a YoY basis, as the impact of lower other Income was offset by lower tax charges.
- The international business delivered strong broad-based growth led by Bangladesh recovering quickly after facing transient headwinds in the preceding quarter and sustained momentum in most of other markets
- More than 90% of the domestic business either gained or sustained market share and penetration on a MAT basis.

Important Statistics

Nifty	24,297
Sensex	79,468
M.CAP (₹ Crs)	₹85,739
52 Week H/L (₹)	₹691/₹487
NSE Code	MARICO
BSE Code	531642
Bloomberg Code	MRCO:IN

Shareholding pattern (%)	Jun'24
Promoter	59.28
FIIs	24.61
DIIs	11.30
Public & Others	04.81

Key takeaways from Q1FY25 result

- During the quarter, overall FMCG volume trends in India continued to exhibit gradual improvement on a 2-year CAGR basis, with the trajectory in rural bearing more promise, while urban was stable. Pricing growth for the sector turned flattish on a YoY basis. Both HPC and Foods witnessed an uptick, although the pickup over the last 6 months has been more pronounced in the former. Premium segments continued to outpace mass segments, while alternate channels gained salience vis-à-vis General Trade (GT).
- Domestic revenue was ₹1,962crs, up 7% YoY, as volume growth was supplemented by price hikes in the Coconut Oil portfolio, which more than offset the residual base impact of pricing cuts in the Saffola Oils portfolio.
- **Project SETU- renewed focus on General Trade:**
  - The company aims to grow its direct reach by 50% to 1.5 mn outlets by FY27.
  - Q1FY25 marked the execution of Phase 1 of Project SETU in six states representing a mix of stronghold and opportunity markets. The initial results have been very promising with direct coverage expansion in urban and rural markets. These new outlets have responded well to the core and new portfolios. During FY25, Marico will scale up Phase 1 markets as well as expand into more states. In addition to the improved direct reach and weighted distribution, the company expects Project SETU to drive market share gains across categories in urban and rural markets, as well as enhance assortment levels in urban stores, thereby enabling diversification & premiumisation in the domestic business
- **Profitability Margin:**
  - Gross margin expanded by 230 bps YoY, owing to benign input costs and favorable portfolio mix. A&P spending was up 13% YoY, as the Company sustained focus on strategic brand building of core and new businesses.
  - Copra prices stayed firm in line with forecasts, while edible oil and crude oil derivatives remained range bound. As forecasts in edible and crude oil exhibit a mild upward bias, Marico will exercise the pricing power of

Financials

(₹ cr)

Particulars	FY22	FY23	FY24
Revenues	9,512	9,764	9,653
YoY Growth	18%	3%	-1%
EBITDA	1,681	1,810	2,026
EBITDA Margin	18%	19%	21%
PAT	1,255	1,322	1,502
PAT Margin	13%	14%	16%
EPS	9.48	10.07	11.6

Source: Company, Way2Wealth

Relative Performance

Absolute Return (%)	1 Yr	3Yr	5 Yr
Marico	**11**	**26**	**66**
Nifty 50	23	46	119
Sensex	20	43	112

Source: Company, Way2Wealth

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key franchises judiciously to alleviate any input cost pressures during the year.

- EBITDA margin stood at 23.7%, up 50 bps YoY and EBITDA grew by 9%. PAT (excluding one-offs) was up 12% due to a lower Effective Tax Rate (ETR) in the quarter and also after excluding the one-off gain on the sale of fixed assets (classified under 'Other Income') in the base quarter. Reported PAT growth was at 9%. ETR is expected to be at ~22.5% in FY25.

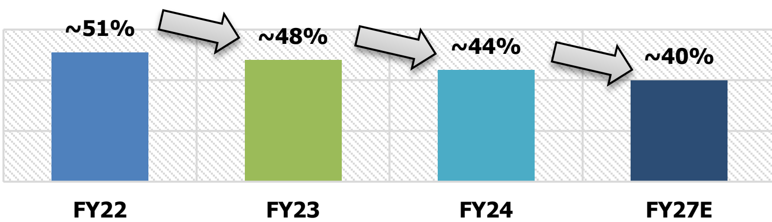
- **Domestic Business:**
  - **Parachute Coconut Oil (30% of domestic revenue): Parachute Rigids** registered a 2% volume growth with a 6% value growth. Volume offtakes grew 8% during the quarter, which was reflective of the consistent market share and penetration gains witnessed by the brand. The reported volume growth, however, was impacted by the aforesaid stock adjustments in GT. The brand asserted its stronghold in the category with a ~100 bps gain in market share during the quarter and expects a pickup through the rest of the year in view of the visibly encouraging trends in market share, penetration, and offtakes. The volume market share of the composite Coconut oil portfolio (including flanker brands) reached highest-ever levels at ~64% on a MAT basis.
  - **Value-Added Hair Oils (22% of domestic revenues)** declined 1% YoY in value terms on a high base with mid-single digit volume growth. Mid and premium segments of VAHO continued to fare relatively better. The value market share of the franchise was up ~60 bps during the quarter and consolidated at 27% on a MAT basis.
  - **Saffola Edible Oils (16% of domestic revenues)** registered a mid-single-digit volume growth. Revenue declined marginally on a year-on-year basis, due to the last leg of pricing corrections not factoring in the base. As the pricing base entirely catches up from the next quarter, revenue growth will track in line with volume growth
  - **Foods** continued its robust growth trajectory with 37% YoY value growth. Saffola Oats maintained its category leadership and delivered 20% growth. During the quarter, the brand launched Saffola Muesli with Flavour Pops.
  - Premium Personal Care sustained its strong growth trajectory during the quarter, led by the Digital-first portfolio. Beardo continued to scale well and is on course to deliver a double-digit EBITDA margin this year. Just Herbs and the personal care portfolio of Plix continued to gain traction.
  - Beardo has scaled ~3x since FY21 and achieved positive EBITDA this year. Just Herbs has crossed ₹1bn ARR in FY24, while the traction in the Personal Care portfolio of Plix has been encouraging.

- **International Business – Reducing Bangladesh Share:** Marico, however, has a significant local presence in Bangladesh and has experienced strong growth in its international business in FY24 due to a steady recovery in the region. Over the past few years, Marico has been diversifying its dependence on the Bangladesh market.

- In recent years, Marico has seen a strong ramp-up in MENA (Middle East and North Africa) through the expansion of its Hair Oils portfolio, as well as healthy traction in the Hair Care and Health Care portfolios in South Africa. This growth momentum and profitability in MENA and South Africa have structurally strengthened the business, providing margin upside over the medium term. Additionally, in Vietnam, expansion into female personal care has created new growth levers for the business.

- The company's international business revenue, which was 51% dependent on its operations in Bangladesh in FY22, has reduced to 44% in FY24. The company plans to further decrease this share to about 40% by FY27.

Bangladesh Revenue Share in International Business (%)



Source: Company, Way2Wealth Research

- **International Business:**
  - Within the International business, Bangladesh registered 10% CCG (constant currency growth) as the business stayed resilient and sustained its momentum. South-East Asia was flat in CC terms, as the recovery in HPC demand in Vietnam was offset by a weak quarter in Myanmar. MENA delivered 20% CCG with both the Gulf region and Egypt faring well. South Africa registered 28% CCG driven by the ethnic hair care segment. NCD and Exports posted 14% growth.
  - Management remains watchful of the on-ground situation in Bangladesh. That said, it believes that strong brands will become stronger, and current events will not change the long-term outlook of the business
  - International business margin was at 31.6%, up ~200 bps YoY.
- Earlier this month, the company announced that it will collaborate with renowned dermatological solutions provider, **Kaya Limited**, to advance its play in science-backed personal care. Under this arrangement, the Company will have exclusive rights to scale up Kaya's range of efficacy-based personal care products outside of its clinics. This key strategic initiative presents a ₹100crs. Revenue opportunity over the next 4-5 years and will add another growth lever to Marico's Premium Personal Care-led Digital Business, thereby further accelerating the portfolio diversification agenda of the India business.
- **Guidance:**
  - In the medium term, Marico aims to deliver double-digit revenue growth through consistent outperformance vis-à-vis the category and market share gains in the domestic core portfolios, accelerated growth in the Foods and Premium Personal Care and double-digit constant currency growth in the International business.
  - Also, aim to grow Foods at 20-25%+ CAGR to 2x of FY24 revenues in FY27 with a domestic revenue share of the Foods and Premium Personal Care portfolios to expand to ~25% by FY27.
  - Expect the operating margin to inch up over the next few years with leverage benefits as well as premiumisation of the portfolios across both the Indian and International businesses.

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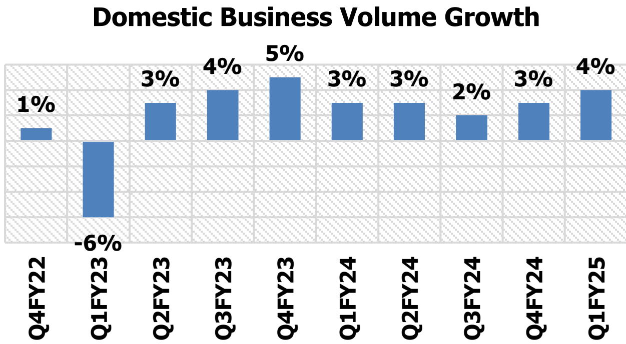
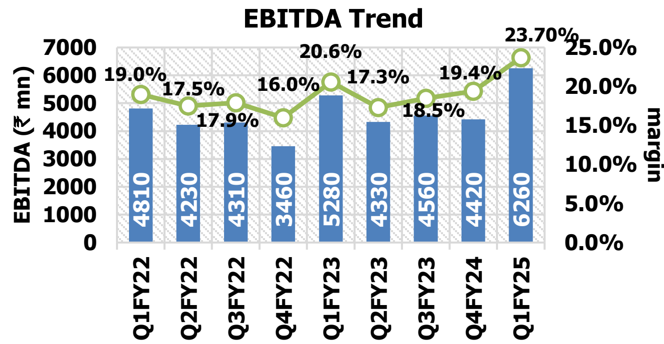
Story in charts

India Business Volume Growth | *EBITDA margin expanded by 430 bps QoQ in Q1*





Source: Company, Way2Wealth

Risks

- Inflation in raw material prices
- Slowdown in the economy

View

Overall FMCG volume trends in India continued to exhibit gradual improvement on a 2-year CAGR basis, with the trajectory in rural bearing more promise, while urban was stable. Premium segments continued to outpace mass segments, while alternate channels gained salience vis-à-vis General Trade (GT). The sequential uptick in volume growth in the domestic business reflected the improving demand context.

Marico expects a gradual uptick in the growth of core categories through the ongoing initiatives to enhance the profitability of General Trade (GT) channel partners and transformative expansion in direct reach footprint with the rollout of Project SETU.

Overall international business, reflecting in the reducing dependence on the Bangladesh business and management is planning to reduce its share to 40% to FY27 from 44% in FY24. Marico will continue to invest aggressively towards diversifying the portfolio, expanding the total addressable market driving market share gains in each of the markets and aiming to maintain the double-digit constant currency growth momentum over the medium term.

At the current price of ₹649, it is trading at 55.9 times P/E to its FY24EPS of ₹11.6. We advise long-term investors to Accumulate the stock.

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Quarterly Performance

(₹ Cr)

Particulars	Q1FY25	Q1FY24	VAR	Q4FY24	VAR	FY24
Net Sales	2,643.0	2,477.0	6.7%	2,278.0	16.0%	9,653.0
Other Income	37.0	46.0	-19.6%	15.0	146.7%	142.0
TOTAL INCOME	**2,680.0**	**2,523.0**	**6.2%**	**2,293.0**	**16.9%**	**9,795.0**
Cost Of Materials Consumed	1,107.0	989.0	11.9%	938.0	18.0%	3,941.0
Purchase of stock in trade	207.0	173.0	19.7%	119.0	73.9%	752.0
Stock Adjustment	(52.0)	77.0	-167.5%	46.0	-213.0%	55.0
RMC as a %age of sales	*47.7%*	*50.0%*		*48.4%*		*49.2%*
Employee Benefit Expenses	203.0	181.0	12.2%	186.0	9.1%	743.0
EPC as a %age of sales	*7.7%*	*7.3%*		*8.2%*		*7.7%*
Advertisement & Promotion	240.0	212.0	13.2%	226.0	6.2%	952.0
Advertisement Expenses as a %age of sales	*9.1%*	*8.6%*		*9.9%*		*9.9%*
Other Expenses	312.0	271.0	15.1%	321.0	-2.8%	1,184.0
Other Expenses as a %age of sales	*11.8%*	*10.9%*		*14.1%*		*12.3%*
TOTAL EXPENDITURE	**2,017.0**	**1,903.0**	**6.0%**	**1,836.0**	**9.9%**	**7,627.0**
EBIDTA	**626.0**	**574.0**	**9.1%**	**442.0**	**41.6%**	**2,026.0**
EBIDTA Margins %	*23.7%*	*23.2%*		*19.4%*		*21.0%*
Finance Costs	17.0	17.0	0.0%	17.0	0.0%	73.0
PBDT	**646.0**	**603.0**	**7.1%**	**440.0**	**46.8%**	**2,095.0**
Depreciation	41.0	36.0	13.9%	41.0	0.0%	158.0
PBT	**605.0**	**567.0**	**6.7%**	**399.0**	**51.6%**	**1,937.0**
Tax	131.0	131.0	0.0%	79.0	65.8%	435.0
Tax Rate	*21.7%*	*23.1%*		*19.8%*		*22.5%*
Reported Profit After Tax	**474.0**	**436.0**	**8.7%**	**320.0**	**48.1%**	**1,502.0**
PATM %	*17.9%*	*17.6%*		*14.0%*		*15.6%*
Other Comprehensive Income	**(59.0)**	**(18.0)**		**(36.0)**		(73.0)
Total Comprehensive Income	**415.0**	**418.0**	**-0.7%**	**284.0**	**46.1%**	**1,429.0**
EPS	**3.67**	**3.38**	**8.7%**	**2.48**	**48.1%**	**11.64**
Equity	129.0	129.0		129.0		129.0
Face Value	1.0	1.0		1.0		1.0

Source: Company, Way2wealth

Segmental Performance

(₹ Cr)

Particulars	Q1FY25	Q1FY24	VAR	Q4FY24	VAR	FY24
Segment Revenue	**2643**	**2477**	**6.7%**	**2278**	**16.0%**	**9653**
India	1962	1827	**7.4%**	1680	**16.8%**	7132
Mix	**74%**	**74%**		**74%**		**74%**
International	681	650	**4.8%**	598	**13.9%**	2521
Mix	**26%**	**26%**		**26%**		**26%**
Segment Result (PBIT)						
India	444	428	**3.7%**	339	**31.0%**	1523
Margin	22.6%	23.4%		20.2%		21.4%
International	197	181	**8.8%**	147	**34.0%**	624
Margin	28.9%	27.8%		24.6%		24.8%
Total PBIT	**641**	**609**	**5.3%**	**486**	**31.9%**	**2147**

Source: Company, Way2wealth

W2W Lighthouse - A Quick Perspective

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Disclosure of Interest Statement: Marico Ltd. as on 08th August 2024

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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