

Margin led beat

GM expanded sharply to a multi-quarter high on input cost correction along with mix change. Ad-spends grew in D/D despite which Ebitda margin expanded smartly. Revenues declined but are less relevant given high commodity dependence (GP grew D/D). Volume growth remained weak. Marico is set to end FY24 with best ever op. margins. Moderation in growth in foods & PC appears a bit worrisome but mgmt. sounded confident on FY25 as it expects low teens EPS growth.

Slight beat: 3Q Ebitda grew 13% YoY to Rs5.1bn, slightly above JEFc. Growth was led by a sharp YoY margin expansion (+270bps), which offset a 2% revenue decline (in-line). Pre-ex EPS grew 17% YoY, 4% above JEFc, further aided by a lower tax rate.

India volumes: India volumes remained sluggish at 2% YoY (vs. 3% in 1H), with mgmt. highlighting similar demand trends as prior quarters (weak rural & HPC). 3Q was also impacted by a structural correction in trade inventory undertaken to improve GT distributor ROI in urban market facing liquidity & profitability issues. India rev. declined 3%, led by product price reduction in *Saffola* oil & *Parachute*.

Portfolio split: *Parachute* saw 3% vol. growth with flattish revenue. VAHO saw 3% value growth (mid-to-high single digits excl. BOP). *Saffola* oil declined MSD in vol. due to weak trade sentiment, high base, and mgmt efforts to balance profitability vs. vol (revenue: -26%).

Growth categories: Foods saw a MSD organic growth, a disappointment which mgmt. attributed to efforts to improve product freshness along with better GM. Reported growth benefited from Plix acquisition (+18%). For FY24, foods revenue is likely to be Rs7.5bn vs. earlier guidance of Rs8.5bn. Premium personal care grew double-digits led by digital-first brands and Livon, even as there was a decline in male grooming (weak rural) and body lotions (delayed winters). Mgmt. expects 20%+ organic growth level in FY25.

Strong margin: Marico continued to see GM expansion of 630bps YoY, led by softer RM and better mix. This enabled a 13% Ebitda growth despite decline in revenue and higher ad-spends (+12%). Marico upgraded its FY24 guidance to 450-500bps GM expansion translating into 250bps+ Ebitda margin expansion (200bps earlier).

International: Int'l was up 6% in c/c, albeit +2% in INR due to adverse FX impact. Growth was impacted in Bangladesh due to elections (-6% c/c). Vietnam was also sluggish (+4%) while MENA (+26%) and South Africa (+33%) did well.

Outlook: Marico expects a gradual vol. recovery, led by better macro and GT distribution initiatives (near-term impact likely). Val. growth will turn positive in 4Q and accelerate to double-digits in FY25, as per mgmt, as price cuts anniversarise and modest inflation in copra also helps. It expects to expand margins further, led by premiumisation and better margin in some int'l markets. It targets to deliver low-teens bottom-line growth in FY25.

Retain BUY: We slightly moderate est. on lower revenues but retain BUY with a slightly lower PT of Rs650 (Rs660 earlier).

(FY Mar)	2023A	2024E	2025E	2026E
Rev. (MM)	96,890.0	95,740.0	104,923	116,025
EBITDA (MM)	18,100.0	20,362.8	22,726.9	25,763.8
EPS	9.88	11.45	12.76	14.47
FY P/E	53.2x	45.9x	41.2x	36.3x

TARGET | ESTIMATE CHANGE

RATING	BUY
PRICE	INR525.15*
PRICE TARGET % TO PT	↓ INR650 (INR660) +24%
52W HIGH-LOW	INR595.00 - INR462.95
FLOAT (%) ADV MM (USD)	40.9% 9.54
MARKET CAP	INR677.4B \$8.1B
TICKER	MRCO IN

*Prior trading day's closing price unless otherwise noted.

	CHANGE TO JEFc		JEF vs CONS	
	2024	2025	2024	2025
REV	<-1%	-2%	-4%	-6%
EPS	<1%	-2%	-2%	-2%

2024 (INR)	Q1	Q2	Q3	Q4	FY
EPS	-	-	-	-	↑11.45
PREV					11.35

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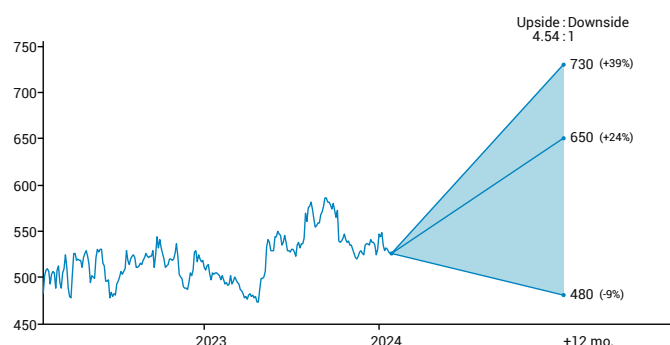
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The Long View: Marico Limited

Investment Thesis / Where We Differ

We are in-line with consensus on FY25E and FY26E earnings. After a weak FY22/23, Marico is on track to deliver improved earnings performance going forward as core portfolio recovers and new growth categories (food, premium personal care, digital-first brands etc.) continue to deliver.

Risk/Reward - 12 Month View



Base Case, INR650, +24%

In our base case, we forecast a c.6% CAGR in revenue over FY23-26E with 350bps margin expansion on a low base. We forecast EPS to rise at 14% CAGR over FY23-26E. We value Marico at 45x Mar-26 earnings to arrive at a price target of Rs650/sh.

Upside Scenario, INR730, +39%

In the upside scenario, we forecast c.9% annual growth in revenues over FY23-26E with 400bps margin expansion. We forecast EPS to rise at 17% CAGR over FY23-26E and value Marico at 46x Mar-26 earnings to arrive at a price target of Rs730/sh.

Downside Scenario, INR480, -9%

In the downside scenario, we forecast c.3% annual growth in revenues over FY23-26E with a 250bps expansion in margins. We forecast EPS to rise at 9% CAGR over FY23-26E and value Marico at 38x Mar-26 earnings to arrive at a price target of Rs480/sh.

Sustainability Matters

Top Material Issue(s): Packaging lifecycle management, GHG emissions, and energy management, responsible sourcing, water management

Company Target(s): 1) ESG 2.0 launched in May-22, which highlights Marico's ESG targets for 2030, across 50 key performance indicators 2) Marico intends to achieve net zero emissions in global ops by 2040 and in India by 2030 3) Achieve water neutral operations across all manufacturing facilities by offsetting 100% of consumption with harvesting capacity 4) Shift to 100% recyclable packaging by 2025; phase PVC from packaging and introduce at least 30% r-PCR in packaging 5) Enroll 4+ Lakh acres of coconut plantation by 2025 under sustainable coconut farming and achieve cumulative productivity improvement rate of 16%

Qs to Mgmt: 1) How do you engage with suppliers to ensure responsible sourcing under Marico's Samyut framework? What have been the achievements to date? 2) What capex outlay do you envisage for achieving these ESG targets? Do you foresee any margin implications, both on the positive and negative side?

Catalysts

Upside catalysts

- Recovery in volume growth in the core portfolio
- Better-than-expected margin recovery as inflation abates
- Strong traction in foods and digital-first brands

Downside catalysts

- Sharp rise in input prices (although can be offset through product price hikes).
- Increase in price-led competition, especially from the unorganised players.

Exhibit 1 - Marico 3QFY24 consolidated earnings summary

Consolidated (Rs m)	3QFY23	2QFY24	3QFY24	YoY	QoQ
Net Sales	24,700	24,760	24,220	(2)	(2)
Input costs	(13,600)	(12,260)	(11,800)	(13)	(4)
Gross profit	11,100	12,500	12,420	12	(1)
% of net revenues	44.9	50.5	51.3	634bps	80bps
A&P	(2,200)	(2,680)	(2,460)	12	(8)
% of net revenues	8.9	10.8	10.2	125bps	-67bps
Other op costs	(4,340)	(4,850)	(4,830)	11	(0)
Ebitda	4,560	4,970	5,130	13	3
% of net revenues	18.5	20.1	21.2	272bps	111bps
Depreciation	(390)	(390)	(420)	8	8
Ebit	4,170	4,580	4,710	13	3
% of net revenues	16.9	18.5	19.4	256bps	95bps
Interest	(140)	(200)	(190)	36	(5)
Other Income	400	380	430	8	13
PBT	4,430	4,760	4,950	12	4
Taxes	(1,100)	(1,160)	(1,090)	(1)	(6)
Rate (%)	24.8	24.4	22.0	-281bps	-235bps
Minority/Associate inc	(50)	(70)	(30)	(40)	(57)
Pre-ex PAT	3,280	3,530	3,830	17	8
Exceptional	-	-	-	-	-
PAT	3,280	3,530	3,830	17	8

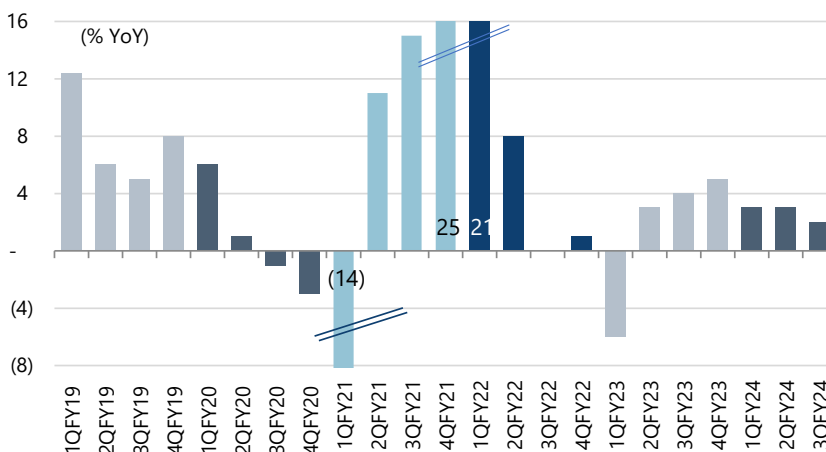
Source: Company data, Jefferies

Exhibit 2 - Break-up of expenditure

Consolidated (Rs m)	3QFY23	2QFY24	3QFY24	YoY	QoQ
Raw materials	13,600	12,260	11,800	(13)	(4)
% of revenues	55.1	49.5	48.7	-634bps	-80bps
Staff costs	1,600	1,870	1,890	18	1
% of revenues	6.5	7.6	7.8	133bps	25bps
Advertisement	2,200	2,680	2,460	12	(8)
% of revenues	8.9	10.8	10.2	125bps	-67bps
Other expenses	2,740	2,980	2,940	7	(1)
% of revenues	11.1	12.0	12.1	105bps	10bps
Total expenses	20,140	19,790	19,090	(5)	(4)
% of revenues	81.5	79.9	78.8	-272bps	-111bps

Source: Company data, Jefferies

Exhibit 3 - Trend in India volume growth



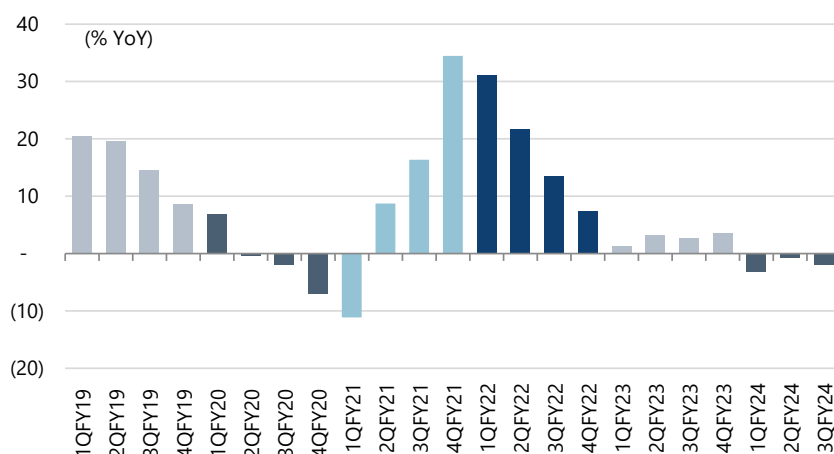
Source: Company data, Jefferies

Ebitda slightly above JEFe, led by better-than-expected margins. EPS was also better, aided by lower tax rate

Gross margins improved sharply YoY, which drove EBITDA margin expansion despite higher ad-spends

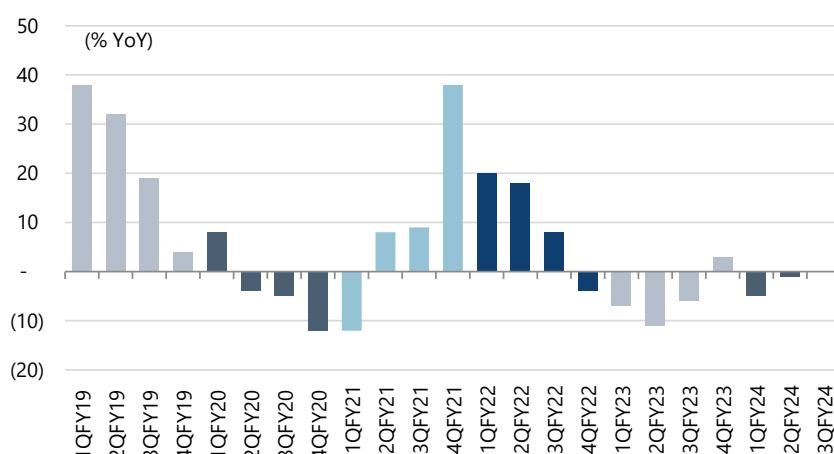
India volume growth remained muted at 2% YoY, which mgmt. partly attributed to inventory correction taken in GT channel to improve RoI. Demand environment remained similar to 2Q, with rural and HPC lagging

Exhibit 4 - Trend in consolidated sales growth



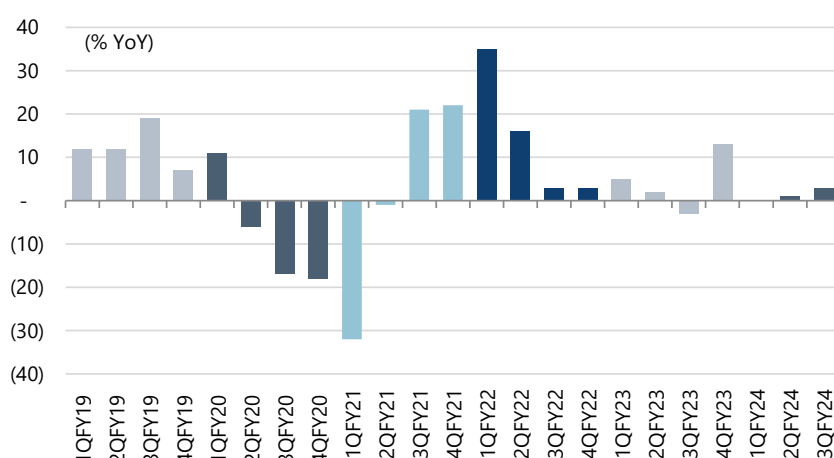
Source: Company data, Jefferies

Exhibit 5 - Trend in Parachute sales growth



Source: Company data, Jefferies

Exhibit 6 - Trend in VAHO sales growth



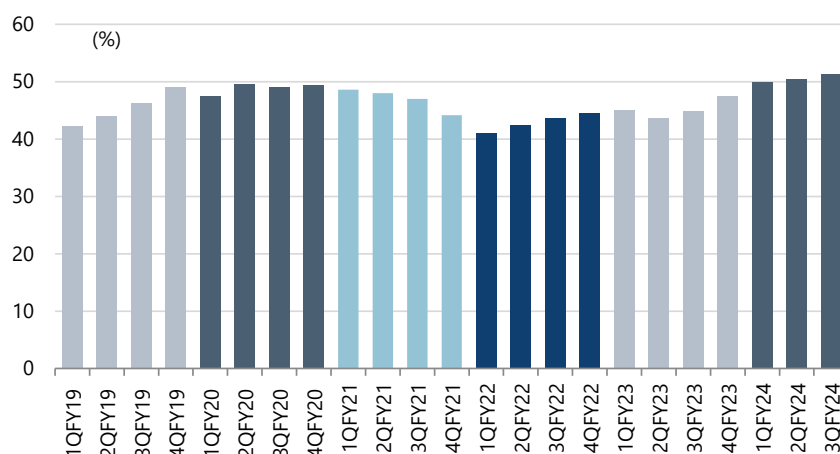
Source: Company data, Jefferies

India revenue declined 3% YoY, given price reductions in Parachute and Saffola edible oils. International business grew 6% in c/c, although only 2% in reported terms. Consolidated sales hence declined 2% YoY

Parachute volume growth improved to 3% YoY, albeit value growth was lower due to pricing interventions taken by Marico. Mgmt. expect volume and value growth to improve starting 4QFY24

VAHO portfolio grew 3% YoY, with mid and premium doing better

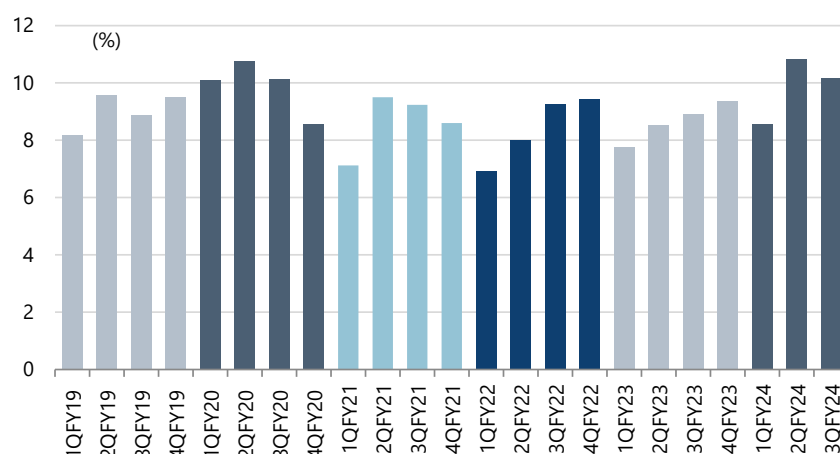
Exhibit 7 - Trend in gross margin



Source: Company data, Jefferies

Gross margin improved >6ppt YoY to multi-year highs, led by soft RM and better mix

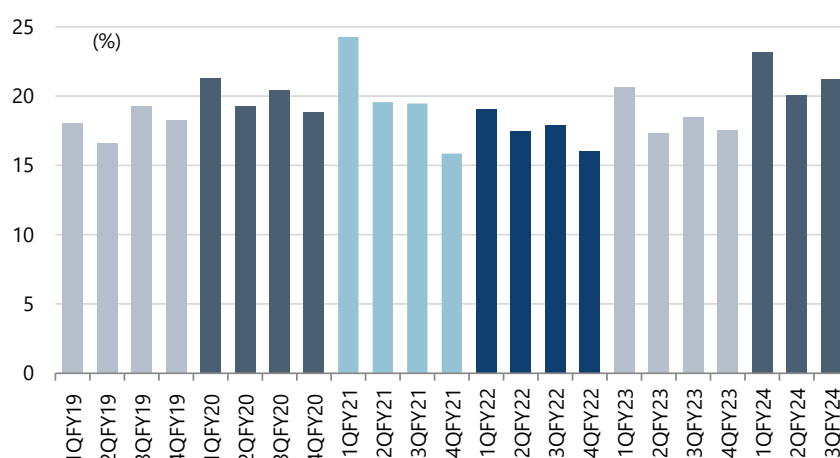
Exhibit 8 - Trend in ad-spends as % of revenues



Source: Company data, Jefferies

Ad spends grew YoY, albeit was slightly lower QoQ

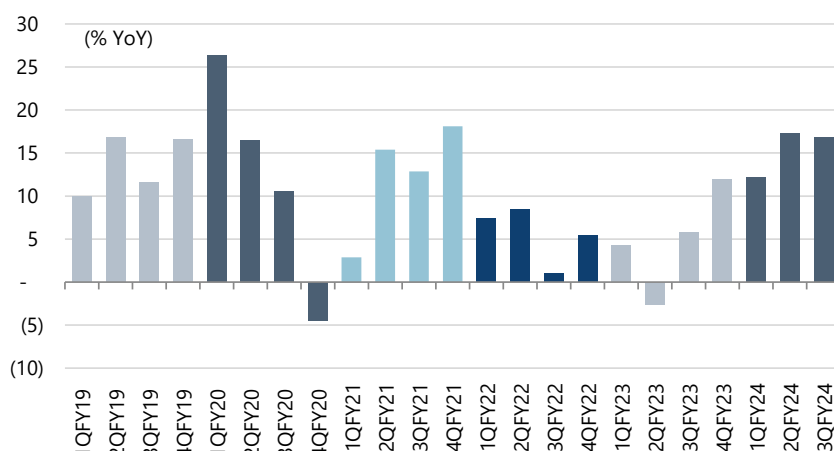
Exhibit 9 - Trend in Ebitda margin



Source: Company data, Jefferies

EBITDA margin improved YoY despite higher ad-spends; Marico raised its margin guidance to 250bps YoY expansion vs. 200bps shared earlier

Exhibit 10 - Trend in EPS growth



Pre-ex EPS grew 17% YoY, 4% above estimates, aided by lower tax rate

Source: Company data, Jefferies

Key Management Comments

- Demand trend remained similar to 2Q with no uptick evident. Rural was weaker than urban, with recovery not happening on anticipated lines. HPC category was weaker than foods, as the latter has higher urban skew and lower penetration.
- From a channel perspective, GT continues to be under pressure while MT and e-commerce are growing well. This has created specific issues for Marico, as GT distributor liquidity and profitability has been impacted. While this was an issue earlier too, it was shielded by inflation-led product price hikes and MT facing headwinds during Covid. The issue has come to the fore since 3QFY23.
- Marico is doing several structural initiatives to revive the GT channel and improve distributor ROI. First of these steps was to reduce trade pipeline, which was done in this quarter through a voluntary reduction in primary sales. More such steps will be taken in the next two quarters, which will help improve performance in 2HFY25.
- In Parachute, loose to branded conversion is gathering pace as slight uptick in input costs is helping. With offtake and secondary recovering, Marico expects primary growth to improve going forward. Bulk of the price cuts taken in the portfolio will also anniversary in 4Q, and the portfolio should start to grow in volume terms.
- In VAHO, mid-priced and premium segments have done well while bottom of pyramid is impacted by weak demand and high competition.
- Saffola edible oil continues to see weak trade sentiments. Trade inventory is hence 4 days lower than usual. Mgmt. was also cautious on volumes to ensure a threshold profitability. Volume declined MSD also due to a high base. These factors should correct partly in 4Q, which will help the brand revert to YoY volume growth.
- Foods grew mid-single-digits in LFL terms. Reported growth of 18% includes Plix acquisition. Growth was impacted by steps taken to improve freshness and gross margins of the business. Mgmt. expects 20%+ growth in the foods business on an organic basis in FY25. Aspiration is to take the foods business to Rs14-15bn over the next three years (FY27e).
- In premium personal care, male grooming was dented due to weak rural which impacts the Rs10 hair gel pack. Body lotion was impacted by a delayed winter. Serum and digital first brands continue to do well.
- While oats has seen entry of new competition which may result in share loss, it is good from a category standpoint given low penetration.
- In International, Bangladesh business was weak due to elections and this is a transient issue. Mgmt. expects strong growth in 4Q with positive trends in January, as election is completed. For the full year, int'l business should see double-digit CC growth. Currency depreciation in the business will anniversary in 2HFY25.
- In digital first brands, mgmt sees improving profitability going forward. Beardo is already Ebitda positive while Just Herbs and True Elements will achieve break even next year. Plix is a large opportunity, with Rs2bn revenue likely in FY25.
- FY25 will see price growth resume for Parachute (copra slight inflation), while declines for Saffola will also anniversary. This should enable Marico achieve a double-digit topline growth led by 5-6% vol. growth. Bottomline growth should be in low teens, as per mgmt., with slight margin expansion enabled by premiumisation, profitability improvement in certain international markets, better profitability in foods and digital first brands and calibration of A&P spends.
- 4Q itself will see a slight revenue uptick as price cuts in parachute normalises.
- India ad-spends were lower in 3Q due to cutback in Saffola, shift from ATL to BTL in VAHO and calibrated spends in MT and e-commerce through NRM.

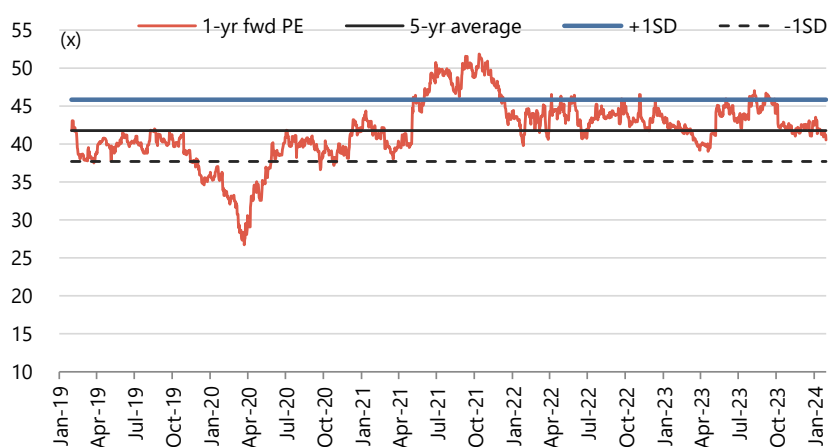
Exhibit 11 - Key assumptions - Marico

Expect a 16% EPS growth in FY24 and low-double digit growth over the next two years

Key assumptions - Marico	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue growth (% YoY)	15.6	(0.3)	10.2	18.3	2.5	(1.2)	9.6	10.6
Gross margins (%)	44.8	48.4	46.6	42.5	44.8	50.2	50.7	51.1
A&P (% of revenues)	9.1	10.0	8.7	8.4	8.7	9.9	10.4	10.8
Ebitda margin (%)	17.5	20.1	19.8	17.7	18.5	21.1	21.5	22.0
Ebitda growth (% YoY)	12.7	14.7	8.3	5.7	7.7	12.5	11.6	13.4
Tax rate (%)	25.0	24.1	21.4	21.6	24.5	23.3	24.5	24.5
EPS (Rs/sh)	7.2	8.1	9.0	9.5	9.9	11.4	12.8	14.5
EPS (% YoY)	14.3	12.1	11.2	5.7	4.0	15.9	11.5	13.5

Source: Company data, Jefferies estimates

Exhibit 12 - 1-year forward PE band chart (based on consensus earnings)



Source: Factset, Jefferies

Marico trades at 40x 1-yr fwd EPS, slightly below 5-year average

Exhibit 13 - Consolidated income statement

(Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	72,740	72,540	79,910	94,520	96,890	95,740	104,923	116,025
Input costs	(40,170)	(37,450)	(42,700)	(54,360)	(53,510)	(47,647)	(51,752)	(56,736)
Gross profit	32,570	35,090	37,210	40,160	43,380	48,093	53,171	59,289
% of net revenues	44.8	48.4	46.6	42.5	44.8	50.2	50.7	51.1
A&P	(6,590)	(7,270)	(6,980)	(7,960)	(8,420)	(9,520)	(10,876)	(12,481)
% of net revenues	(9.1)	(10.0)	(8.7)	(8.4)	(8.7)	(9.9)	(10.4)	(10.8)
Other op costs	(13,770)	(13,740)	(14,890)	(15,990)	(17,610)	(18,960)	(20,394)	(21,951)
Ebitda	12,210	14,080	15,340	16,210	17,350	19,613	21,902	24,856
% of net revenues	16.8	19.4	19.2	17.1	17.9	20.5	20.9	21.4
Operating other income	600	610	570	600	750	750	825	908
Op. Ebitda	12,810	14,690	15,910	16,810	18,100	20,363	22,727	25,764
% of Op income	17.5	20.1	19.8	17.7	18.5	21.1	21.5	22.0
Depreciation	(960)	(1,400)	(1,390)	(1,390)	(1,550)	(1,650)	(1,800)	(1,950)
Ebit	11,850	13,290	14,520	15,420	16,550	18,713	20,927	23,814
% of Op income	16.2	18.2	18.0	16.2	17.0	19.4	19.8	20.4
Interest	(240)	(500)	(340)	(390)	(560)	(730)	(550)	(550)
Other Income	1,030	1,240	940	980	1,160	1,570	1,727	1,813
PBT	12,640	14,030	15,120	16,010	17,150	19,553	22,104	25,077
Exceptionals	-	-	-	-	-	-	-	-
Reported PBT	12,640	14,030	15,120	16,010	17,150	19,553	22,104	25,077
Taxes	(3,160)	(3,383)	(3,240)	(3,460)	(4,210)	(4,556)	(5,415)	(6,144)
Rate (%)	25.0	24.1	21.4	21.6	24.5	23.3	24.5	24.5
PAT before minority	9,480	10,647	11,880	12,550	12,940	14,997	16,688	18,933
Minority	(180)	(220)	(290)	(300)	(200)	(232)	(232)	(263)
PAT	9,300	10,427	11,590	12,250	12,740	14,765	16,456	18,670

Source: Company data, Jefferies estimates

Exhibit 14 - Consolidated balance sheet

(Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Networth	29,990	30,231	32,400	33,480	37,990	39,855	42,121	45,311
Debt	3,520	3,380	3,510	3,450	4,750	4,750	4,750	4,750
Deferred taxes	(1,760)	(1,590)	(1,020)	(780)	320	320	320	320
Minority	110	130	180	570	1,570	1,802	2,034	2,297
Total	31,860	32,151	35,070	36,720	44,630	46,727	49,225	52,679
Net fixed assets	6,890	8,990	10,060	11,230	14,350	14,300	14,500	14,550
Goodwill	5,030	5,380	6,130	6,540	8,620	8,620	8,620	8,620
Investments	590	1,220	2,430	2,090	5,340	7,340	8,840	8,840
Cash & liquid	9,430	9,070	15,720	12,200	13,340	13,659	13,789	16,368
Net current assets	9,920	7,491	730	4,660	2,980	2,808	3,476	4,300
Total	31,860	32,151	35,070	36,720	44,630	46,727	49,225	52,679

Source: Company data, Jefferies estimates

Company Description

Marico Limited

Marico is the market leader in the Indian hair oil industry, which forms about 60% of its domestic revenues, and a major player in premium refined edible oils (20% of domestic revenues). Marico also has operations outside India with presence in more than 25 countries across Asia and the African continent. Marico's international business forms 25% of group revenues.

Company Valuation/Risks

Marico Limited

We value Marico at 45x Mar-26 earnings to arrive at a price target of Rs650/sh. Key risks: Inflation in input materials, pressures in rural demand, increase in competition.

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(Article 3(1)e and Article 7 of MAR)

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Buy - Describes securities that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

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The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

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Valuation Methodology

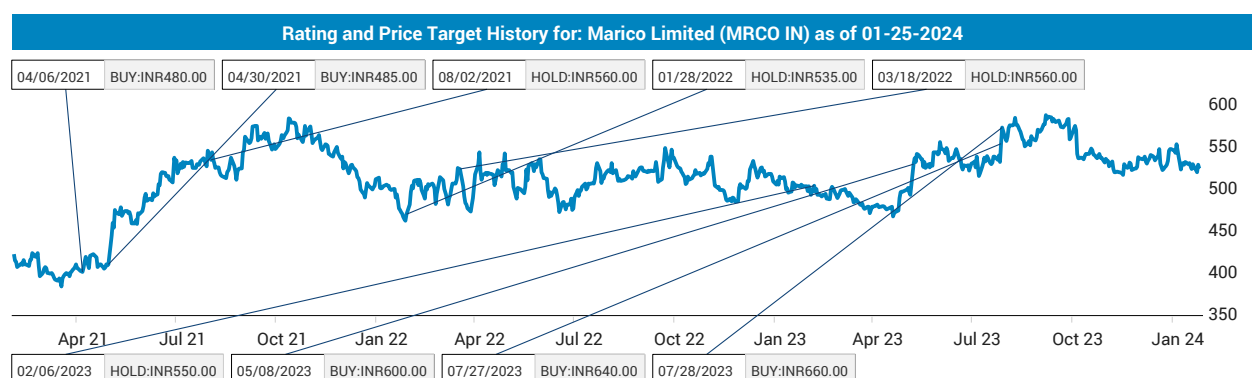
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