Stock Update

Company Update

MIRAE ASSET Sharekhan

Marico Ltd

Good volume growth; margins stressed

Consumer Goods	Sharekhan code: MARICO
Reco/View: Buy ⇔	CMP: **Rs. 716** / Price Target: **Rs. 825** ⇔

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↑	
RQ		⇔	
RV		⇔	

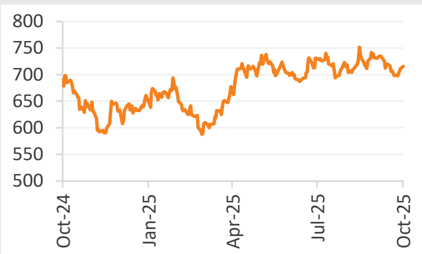
Company details

Market cap:	Rs. 92,761 cr
52-week high/low:	Rs. 761/578
NSE volume: (No of shares)	22.4 lakh
BSE code:	531642
NSE code:	MARICO
Free float: (No of shares)	53.1 cr

Shareholding (%)

Promoters	59.0
FII	24.0
DII	12.7
Others	4.3

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-2.2	-1.9	8.0	3.7
Relative to Sensex	-3.5	0.1	-3.8	3.6

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Demand trends were stable in Q2FY26, with domestic business reporting high single-digit volume growth. The management expects upcoming festive season, easing inflation, above-average monsoons, healthy crop outlook and policy stimulus to aid gradual growth.
- Consolidated revenue growth seen at ~30% led by pricing intervention and mix improvement. This puts Marico on track to post double-digit revenue growth in FY26.
- Despite input cost pressures and continued A&P investments, Marico has guided for modest y-o-y operating profit growth in Q2. It expects gross margin pressure to ease from H2FY26.
- We retain a Buy rating with an unchanged PT of Rs. 825. Stock trades at 54x/45x its FY26E/FY27E EPS, respectively.

Marico's Q2FY26 business update provides a glimpse of the company's operating performance and demand trends witnessed during the quarter. Demand was stable in July and August, while trade channels and purchases by the Canteen Stores Department were disrupted ahead of the implementation of new GST rates in September. Thus, domestic business volume growth is expected to be in high single-digits in Q2, moderating sequentially. Parachute recorded low single digit decline in volumes, Saffola Oils delivered flattish volumes with a high base and revenue growth in the high teens, Value Added Hair Oils delivered high teens growth, and Foods and Premium Personal Care (incl. digital-first brands) maintained the accelerated scale up. International business maintained its robust momentum with constant currency growth at ~20% y-o-y led by outperformance in Bangladesh and MENA businesses. Overall, consolidated revenue growth to be at ~30% y-o-y. The company expects gross margins to be under incremental pressure in Q2, on a high base of Q2FY25 and partly due to pricing-led high denominator effect. However, despite input cost pressure and continued commitment toward A&P investments, Marico expects to post modest operating profit growth y-o-y.

- **Demand stable; GST rate cuts to aid consumption:** Demand was stable for most of the quarter. The company expects sentiment to gradually improve in the coming months aided by - 1) Upcoming festive season, 2) Easing inflation, 3) Above-average monsoons, 4) Healthy crop outlook and 5) Policy stimulus. Further, GST rate cuts will help stimulate demand and long-term growth for the sector. Management highlighted that ~30% of its India business is likely to benefit from the rate rationalization.
- **High single-digit volume growth in domestic business; international business momentum persists:** Consolidated revenue growth is seen at ~30% led by pricing interventions and mix improvement, with high single-digit volume growth in the India business and International business reporting constant currency growth at ~20%. In the domestic business, 1) Parachute Coconut Oil reported low single digit volume decline due to hyperinflationary input costs and pricing conditions. Adjusting for ml-age reduction due to price cuts, the brand saw flat volumes in the quarter. 2) Saffola Oils delivered flattish volumes with a high base and revenue growth in the high teens. 3) Value Added Hair Oils delivered high teens growth. 4) Foods and Premium Personal Care (including digital-first brands) maintained the accelerated scale up and kept up the pace of diversification. In the international market, Bangladesh and MENA businesses visibly outperformed, while other markets reported steady performance.
- **Margin pressure to sustain:** Among key inputs, copra prices remained rangebound, vegetable oil prices sustained high levels, while crude oil derivatives were benign. As a result, gross margin is expected to come under incremental pressure, on a relatively high base and partly due to the pricing-led high denominator effect. The company extended discounts on the pipeline inventory to its channel partners during the two weeks leading up to the effective date of the GST rate changes. This coupled with sustained brand-building investments would lead to modest operating profit growth in Q2. Management expects gross margin pressure to ease in H2.

Our Call

View – Retain Buy with an unchanged PT of Rs. 825: Marico is eyeing double-digit earnings growth in the near to medium term as core portfolio volume growth improves, new businesses see strong double-digit growth, and there is a consistent improvement in profitability with an increase in salience of new higher-margin businesses. Portfolio diversification to premium foods and personal care products categories will improve revenue growth trajectory in the long run. The stock trades at 54x and 45x its FY26E and FY27E EPS, respectively. We retain a Buy rating on the stock with an unchanged PT of Rs. 825.

Key Risks

A sharp rise in key input prices from current levels or heightened competition in core categories would act as key risks to our earnings estimates.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25	FY26E	FY27E
Revenue	9,764	9,653	10,831	12,513	13,974
OPM (%)	18.5	21.0	19.7	18.0	19.3
Adjusted PAT	1,322	1,502	1,658	1,721	2,074
% YoY growth	5.3	13.6	10.4	3.8	20.5
Adjusted EPS (Rs.)	10.2	11.6	12.8	13.3	16.1
P/E (x)	69.9	61.5	55.7	53.7	44.6
P/B (x)	24.3	24.1	23.2	19.5	15.8
EV/EBIDTA (x)	50.7	45.5	42.6	40.0	33.0
RoNW (%)	37.0	39.4	42.5	39.6	39.3
RoCE (%)	41.0	41.4	43.2	42.2	44.4

Source: Company; Mirae Asset Sharekhan estimates

Outlook and Valuation

■ Sector Outlook – Better times ahead

Most companies are expected to pass on the benefits of GST rate cuts to the consumers either through increased grammage or price reductions. In the near term, there may be some trade related challenges, however, these steps are structural changes that will boost consumption. Consumer demand is expected to improve from H2FY26 with a likely reduction in tax on consumer goods. Market share gains, distribution expansion, and new product launches should help volume growth to improve in the medium to long run. We expect margins to have bottomed out in Q1 and see margins rise from H2FY26 aided by easing RM inflation, new inventory coming in and better operating leverage through higher volumes. Focus on improving product mix, operating efficiencies and cost saving initiatives will help to improve OPM in the medium to long term.

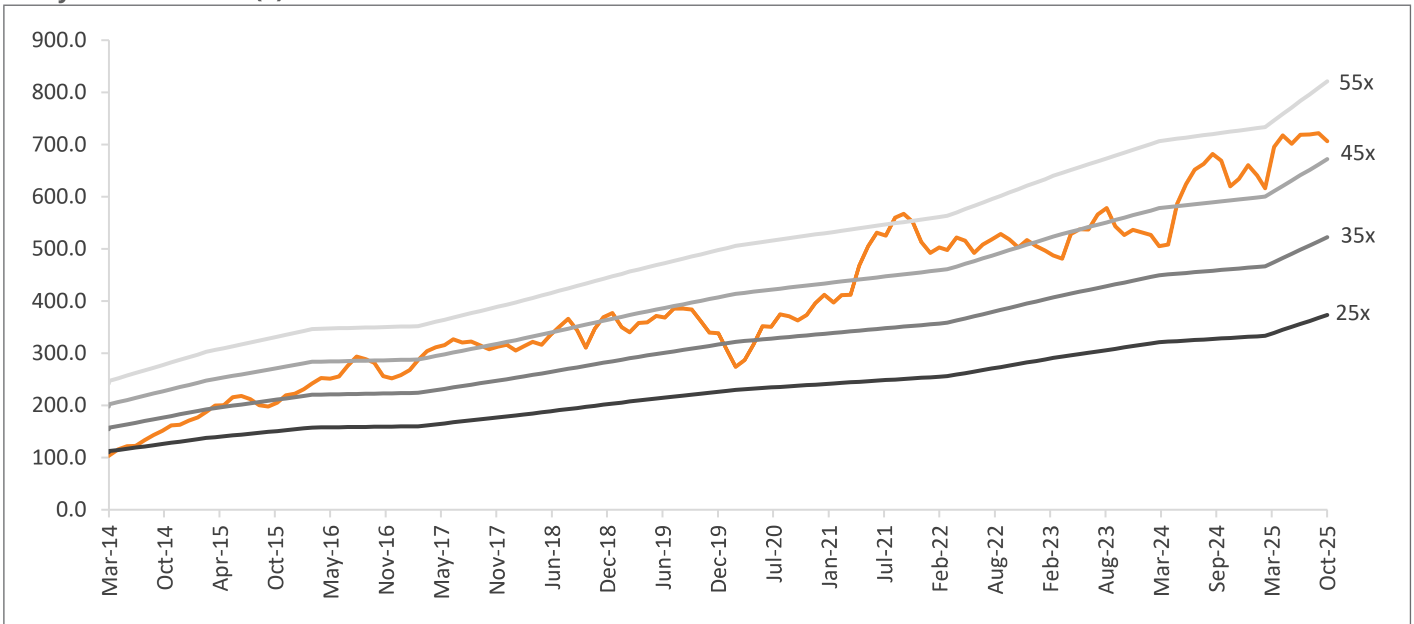
■ Company Outlook – Expects double-digit revenue growth trajectory to continue

FY25 consolidated revenues grew by 12.2% y-o-y (5% volume growth), OPM fell by 124 bps y-o-y to 19.7% and PAT rose 10.4% y-o-y. Despite input cost headwinds in the near term, Marico expects to sustain the double-digit revenue growth momentum and will strive to deliver double-digit operating profit growth in FY26. Consistent growth in the core portfolio, str0ong double-digit growth in the foods and premium personal care portfolio, and double-digit growth in the international business will help revenue to grow in double digits in the medium term. Increased contribution from high-margin products and cost efficiencies will drive consistent margin expansion in the medium term.

■ Valuation – Retain Buy with an unchanged PT of Rs. 825

Marico is eyeing double-digit earnings growth in the near to medium term as core portfolio volume growth improves, new businesses see strong double-digit growth, and there is a consistent improvement in profitability with an increase in salience of new higher-margin businesses. Portfolio diversification to premium foods and personal care products categories will improve revenue growth trajectory in the long run. The stock trades at 54x and 45x its FY26E and FY27E EPS, respectively. We retain a Buy rating on the stock with an unchanged PT of Rs. 825.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E
Dabur	50.2	44.5	39.6	38.0	34.1	30.5	19.5	20.8	22.1
Hindustan Unilever	58.4	56.7	51.2	41.2	39.5	35.6	26.9	28.6	32.7
Emami	27.8	25.7	23.5	22.9	20.7	18.6	37.6	36.2	34.4
Marico	55.7	53.7	44.6	42.6	40.0	33.0	43.2	42.2	44.4

Source: Company; Mirae Asset Sharekhan Research

About company

Marico is one of India's leading consumer products companies in the domestic hair and wellness market with a turnover of over Rs. 10,500 crore. The company is present in the categories of hair care, skin care, edible oils, health foods, and male grooming, with a vast portfolio of brands such as Parachute, Saffola, Hair & Care, Nihar, Livon, Kaya Youth, and Coco Soul. The company is currently present in 25 countries across emerging markets of Asia and Africa, including Middle East, Bangladesh, Vietnam, Egypt, and South Africa, which constitute ~25% of the total revenue. The company has a retail reach of over 5 million outlets in the domestic market.

Investment theme

Marico is a leading player in the domestic hair and wellness market with a leadership position in categories such as coconut oil (~63% market share), VAHO (~28% market share), and Parachute Rigids within coconut oil (~54% market share). Marico has a three-pronged strategy of driving growth through key categories, innovations/entrance into the niche category, and scaling up its presence in international geographies. In recent times, the company has entered into niche categories such as male grooming, premium hair nourishment, and healthy foods, which will not only improve the company's revenue growth trajectory but would also help boost margins in the long run due to their premium nature. Consistent innovations, a wide distribution network, and expansion in new-age channels like modern trade and e-commerce would be key platforms to achieve good growth in the near term.

Key Risks

- A slowdown in key product categories would affect overall demand and revenue growth.
- A significant increase in prices of key raw materials such as copra (~40% of input costs) would affect profitability and earnings growth.
- Increased competition in highly penetrated categories such as VAHO and edible oils would threaten revenue growth.

Additional Data

Key management personnel

Name	Designation
Harsh Mariwala	Chairman
Saugata Gupta	Chief Executive Officer and Managing Director
Pawan Agrawal	Chief Financial Officer
Vinay M A	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	3.00
2	Blackrock Inc.	2.27
3	First Sentier Investors ICVC	2.21
4	HDFC Asset Management Co. Ltd.	1.84
5	Vanguard Group Inc.	1.69
6	Quant Money Managers Ltd.	1.39
7	Royal Bank of Canada	1.25
8	Norges Bank	1.03
9	SBI Pension Funds Pvt. Ltd.	1.01
10	Edelweiss Asset Management Ltd.	0.77

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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