

# Stock Update

## Earnings visibility improves with receding copra prices

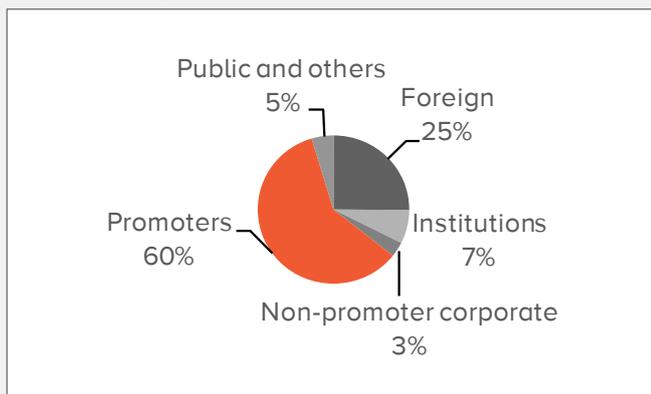
### Marico

Reco: Buy | CMP: Rs360

#### Company details

Price target:	Rs425
Market cap:	Rs46,471 cr
52-week high/low:	Rs388/284
NSE volume: (No of shares)	2.9 lakh
BSE code:	531642
NSE code:	MARICO
Sharekhan code:	MARICO
Free float: (No of shares)	52.0 cr

#### Shareholding pattern



#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	20.4	-2.7	13.1	17.1
Relative to Sensex	12.3	5.7	10.3	8.9

#### Key points

- Stock price run-up by 14% in one month; Margins to enhance in the coming quarters on account of receding copra prices:** The stock price of Marico has moved up by ~14% in the past one month due to positive commentary by management on demand environment and margin improvement due to declining copra prices. Despite the recent run-up, the stock is trading at decent valuations of ~35x its FY2021E earnings, which is at a discount to some of the large FMCG stocks. The correction in copra prices gives us visibility of strong earnings growth in H2 and provides scope for Marico to enhance focus on improving sales volume in the coming quarters. Thus, we maintain Marico as one of our top picks in the FMCG space because of double-digit earnings growth visibility.
- Correction in copra prices to drive margins in H2FY2019; Volume growth to improve:** Copra price (40-45% of Marico's raw-material cost) has corrected by ~30% from its high (and 25% from its average price in H2FY2018). The benefit of correction in copra prices would start flowing in from the latter half of H2FY2019 and would continue in FY2020. However, we expect the company to pass on some portion of benefits to consumers in the form of price cut/discounts in the coming quarters. This will help in improving sales volume growth of Parachute rigid pack; growth is likely to be 6-8% in the coming quarters. Thus, we expect OPM to remain stable/marginally improve in FY2019 and expect 100 BPS improvement in FY2020. Domestic business volume growth stood at 6% in Q2FY2019. We expect volume growth to improve in H2FY2019 because of pick-up in rural demand and stable demand environment in urban markets. High single-digit growth in parachute rigid packs, double-digit growth in the value-added hair category and scale in the business of youth portfolio are some of the key volume growth drivers in the near term.
- International business on recovery mode:** Marico's international business is gaining momentum with Bangladesh and MENA region posting improvement in revenue growth in the past few quarters. The non-coconut portfolio (constitutes 26% of Bangladesh revenue), which includes value hair oil, Saffola edible oil and hair care products, is growing in upwards of

40% in the past two quarters and is helping Bangladesh business to achieve decent revenue growth in the backdrop of flat performance by core Parachute coconut oil. Contribution of non-coconut oil portfolio is expected to go up to 30-35% over the next 2-3 years. This will also help in improving profitability of the Bangladesh business. Despite tough business conditions, MENA region is posting strong performance and has posted double-digit revenue growth in the past four quarters. This is mainly on account of go-to-market initiatives and change in distribution strategy, which helps markets such as Egypt and Middle East post double-digit volume growth. Marico's Vietnam business posted positive revenue growth of 13% (post lacklustre performance for the past five quarters), helping Southeast Asian markets post double-digit revenue growth in Q2FY2019. The company is focusing on developing other

international markets such as Sri Lanka, Bhutan and Nepal in the coming years.

- ◆ **Maintain Buy with a revised PT of Rs. 425:** Marico will be one of the key beneficiaries of correcting copra prices in the coming years. Though there is threat of inflation in other input prices, improvement in volume growth of the domestic business, recovery in the international business and operating efficiencies would mitigate the impact of hike in the other input prices in the coming years. We expect Marico's earnings to generate a CAGR of 18% over FY2018-FY2021E (introduced FY2021E earnings in this note). The stock is currently trading at ~35x its FY2021E earnings. With strong earnings growth visibility in the near term, we maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 425 (rolling it over to FY2021E earnings).

#### Valuation (Consolidated)

Particulars	Rs cr			
	FY2018	FY2019E	FY2020E	FY2021E
Net sales	6333.1	7469.3	8653.9	9825.0
OPM (%)	18.0	18.1	19.2	19.4
Adjusted PAT (Rs. cr)	827.7	990.1	1191.9	1367.3
EPS (Rs.)	6.4	7.7	9.2	10.6
PER (x)	57.1	47.7	39.6	34.5
EV/EBIDTA(x)	41.2	34.2	27.6	23.8
RoCE (%)	41.0	44.6	48.1	45.9
RoNW (%)	34.0	36.0	36.4	34.3

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