

Stock Update

Stable demand outlook; Margins to improve ahead

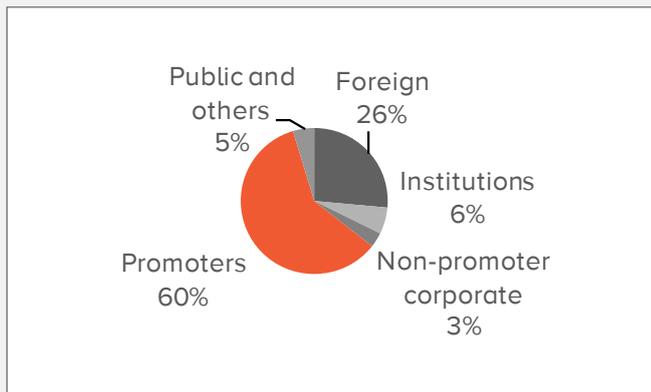
Marico

Reco: Buy | CMP: Rs355

Company details

Price target:	Rs425
Market cap:	Rs45,826 cr
52-week high/low:	Rs397/286
NSE volume: (No of shares)	18.1 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	3.5	-6.4	5.4	6.9
Relative to Sensex	-4.5	-14.1	-1.9	-10.1

Key points

- Company foresees decent performance in Q4FY2019; OPM to expand on easing raw-material pressure:** In Q4FY2019, Marico witnessed a stable demand environment and healthy offtake on account of competitive strength of its products. Rural growth stood ahead of urban growth. However, the same has to be keenly monitored in view of some sluggishness seen at wholesale level at the end of March 2019. Parachute rigid packs and Saffola edible oil performed in-line with the company's expectation, while value-added hair oil portfolio performance was muted during the quarter. The international business had a reasonable quarter, with Bangladesh and Vietnam performing well. OPM is expected to improve marginally due to easing input cost pressure (especially copra prices) and better operating leverage in Q4FY2019.
- Q4FY2019 preview – Revenue and PAT to grow by ~14% and ~20%, respectively:** In-line with Marico's stable demand outlook, we believe the company is well poised to post double-digit revenue and earnings growth in Q4FY2019. We expect Marico's revenue to grow by 13.7% with sales volume of Parachute rigid packs growing by 6% and Saffola edible oil to grow by 3-4% during the quarter. The international business is expected to post low double-digit revenue growth with Bangladesh, MENA and Vietnam region to deliver better performance largely on account of improved demand environment. Key inputs such as copra, LLP and HDPE have witnessed a decline in prices in Q4FY2019. Copra prices declined by 17% y-o-y. This would result in gross margins to expand by 163 BPS and OPM to expand by 108 BPS to 18.1% in Q4FY2019. Operating profit and adjusted PAT are expected to grow by 21% and 20%, respectively, in Q4FY2019.
- Slew of new launches done in Q4FY2019:** In-line with its innovation strategy, Marico launched many new products during Q4FY2019. The company launched a new range of skincare products under the new brand, *Kaya Youth Oz* (comprising face cream, face wash, micellar water and face wipes). In the food space, the company launched healthier versions of ready-to-cook poha and upma by including millets and quinoa. The company also launched organic food offerings under *Coco Soul* brand - coconut

sugar, coconut chips, coconut peanut butter and coconut almond butter in selected markets. New launches remain at the core of the company's growth strategy. We expect many more new launches in the value-added hair oil and food category in the coming quarters. New launches will be well supported by adequate media and promotional spends.

- ◆ **Remains a preferred pick in the FMCG space:** With stable demand outlook and better visibility of margin expansion, Marico is expected to post decent earnings growth in the quarters ahead. In addition, probability of deficient monsoon will have a lesser impact on Marico as rural

contribution is just 25-30% of overall domestic revenue unlike other large FMCG companies, which generate 50% of revenue from rural markets. The stock is currently trading at 34x its FY2021E earnings, which is at a discount compared to some of the large FMCG stocks. Thus, in view of decent earnings visibility and discounted valuations, we maintain Marico as one of our preferred picks in the mid-cap FMCG space. We maintain our Buy recommendation on the stock with an unchanged PT of Rs. 425. Any significant increase in copra prices from current levels would act as a key risk to our earnings estimate.

Valuation (Consolidated)

Particulars	Rs cr			
	FY2018	FY2019E	FY2020E	FY2021E
Net sales	6,333.1	7,442.5	8,618.4	9,832.5
OPM (%)	18.0%	17.6%	18.8%	19.0%
Adjusted PAT (Rs. cr)	827.7	958.8	1168.2	1350.7
EPS (Rs.)	6.4	7.4	9.1	10.5
PER (x)	55.3	47.7	39.2	33.9
EV/EBIDTA (x)	39.9	34.2	27.5	23.5
RoCE (%)	41.0	43.4	47.4	45.7
RoNW (%)	34.0	35.0	36.1	34.4

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