

27 May 2019

Marico Ltd. – BUY

CMP : Rs.351.0
Target Price : Rs.435.0
Upside : 23%+
Stop Loss : Rs.294.0 (Closing basis)

Investment Thesis

Recently, the stock price of Marico Ltd. (Marico) corrected by ~12% from 52-week high of Rs.397.00 despite reporting good set of numbers in the recent quarters.

Marico has evolved into one of the leading Indian FMCG companies from a coconut oil manufacturer over the past few years. With the strong brand equity in its two flagship brands, viz., Parachute and Saffola, Marico has successfully extended its brands into higher growth and underpenetrated categories, like value added hair oil (VAHO) (Parachute Advanced), body lotions (Parachute body lotion) and breakfast cereals (Saffola Oats and muesli). On the skin and body care side, Marico has created a new sub-brand - Kaya Youth O2, which will combine Kaya's understanding of skin and body care with Marico's wide distribution. Marico has also extended Livon to the hair colour segment, which is experiencing robust growth in India. With Marico's strong brand equity and entry into higher growth segments, the growth outlook remains promising for the company.

Copra is a key raw material used for coconut hair oil and accounts for 45-50% of Marico's raw material costs. Its price has surged by 59% from Rs.90.48 per kg in June 2017 to a high of Rs.144.33 per kg in January 2018 due to lower crop impacted by deficient monsoons in previous years. To offset steep price rise of in copra, Marico increased Parachute prices by ~25% during the same period. However, average copra prices were down 18.7% YoY to Rs.111.3/kg in 4QFY19 in Calicut. Even other key commodity prices were lower during the past few months. Copra prices have been on a downtrend for the second consecutive month now, after a marginal increase in December and January 2019. Management also expects that copra prices to ease by 15-20% YoY in FY20E.

Financials

- During the past 5 years, revenue of Marico grew at a CAGR of 6.6% while PAT grew at a CAGR of 15.3% in the same period.

| Consol. (Rs. Mn) | FY16 | FY17 | FY18 | FY19E | FY20E |
|------------------|--------|--------|--------|--------|--------|
| Revenue | 60,173 | 59,178 | 63,222 | 72,705 | 83,611 |
| EBITDA | 10,432 | 11,593 | 11,378 | 13,084 | 15,047 |
| % growth | 19.9 | 11.1 | -1.9 | 15.0 | 15.0 |
| PAT | 7,239 | 8,120 | 8,276 | 9,501 | 10,916 |
| EPS (INR) | 5.6 | 6.3 | 6.4 | 7.4 | 8.5 |
| P/E (x) | 64.7 | 57.7 | 56.6 | 49.3 | 42.9 |
| RoE (%) | 36.0% | 35.0% | 32.7% | 34.3% | 35.9% |

- Marico has reported 14.6% YoY growth in consolidated revenue to Rs.18,610mn in Q3FY19 mainly on the back of price hike taken by the company in the parachute portfolio.

Stock Data

| | |
|-----------------------|-----------|
| Market Cap (Rs. Mn) | 467,745 |
| Market Cap (\$ Mn) | 6,727.7 |
| Shares O/S (in Mn) | 1,290.9 |
| Avg. Volume (3 month) | 1,918,000 |
| 52-Week Range (Rs.) | 397 / 283 |

Shareholding Pattern

| | |
|-------------------------------|--------|
| Promoters | 59.71% |
| FII's | 26.56% |
| Institutions | 5.64% |
| Others (incl. body corporate) | 8.09% |

| Performance (%) | 1M | 6M | 1Yr |
|-----------------|-------|-------|-------|
| Absolute | 0.1% | 0.8% | 15.6% |
| BSE FMCG | -2.9% | -0.2% | 3.2% |

Key Ratios

| | |
|---------------|-------|
| Div Yield | 1.2% |
| TTM PE | 51.8x |
| ROE | 33.4% |
| TTM EPS (Rs.) | 7.0/- |

- Marico's India business reported growth of 12.8% YoY with volume growth of 5% while the international business grew by 21.2% YoY.
- Marico's EBITDA has increased by 15.8% YoY to Rs.3,489mn in Q3FY19. However, EBITDA margin only grew by 20bps YoY to 18.8% due to 39bps higher raw material cost to sales on account of 21%, 18%, 10% increase in HDPE, LLP and Rice bran oil, respectively.
- Marico's net profit increased by 12.7% YoY to Rs.2,517mn in Q3FY19 driven by higher operating profit and other income.

Key Business Highlights

- Marico is a consumer company having presence in beauty and wellness space. It offers various brands in the categories of hair care, skin care, health foods, male grooming and fabric care.
- Marico manufactures and markets products under various brands, such as Parachute, Parachute Advanced, Nihar, Nihar Naturals, Saffola, Hair & Care, Revive, Mediker, Livon, Set-wet and Code 10. Its international portfolio includes brands, such as Fiancee, Hair Code, Caivil, Hercules, Black Chic, Ingwe, X-men and Thuan Phat.
- Other than India, Marico has presence in the Middle East, SAARC nations, Egypt, Myanmar, Malaysia, South Africa and Vietnam.

Valuation

- Marico's flagship product, Parachute coconut oil (25% of sales), Saffola refined oil (16% of sales) and VAHOs (21% of sales) have enabled it to clock robust volume growth in the recent past. We expect, the segments will be supported by the end of the deflationary cycle, demand shift from unorganized players with GST implementation and continued product innovations. Revival in discretionary demand and improving economic scenario will also drive growth. We expect, Marico will register double digit volume growth for both hair oil and edible oil categories over FY18-20E.
- Marico derives ~32% of its sales from rural markets and expects to increase it by 3-4% every year in the next three to five years on the back of improving penetration through price point packs and focused marketing initiatives. In Q4FY19, rural growth continued to outpace urban growth for a seventh consecutive quarter. We expect, government's spending to bolster rural development and hike of crop MSP will help regain the momentum in rural demand in the medium term. We expect Marico to report healthy double-digit revenue growth in FY19-21E.
- Marico has developed a nationwide distribution network of about 4.7 million retail outlets comprising 4-regional offices, 31 carrying & forwarding agents and about 5,600 distributors and stockists. Marico has increased its retail outlet reach by 30% in FY16-18. In order to ramp up its direct distribution network, Marico has initiated 'Project One' and through this, it has been able to add-up ~90,000 direct stores and envisages to ramp up direct distribution further.
- With strong brand equity and entry into higher growth segments, recent decline in copra prices, expected to revive rural demand, demand shift from unorganized players, and nationwide distribution network, we value Marico at 51.5x FY20E EPS of Rs.8.50 to arrive at target price of Rs.435.00, an upside of ~23%.

Risk & Concern

- Any sharp price hike by Marico to counter raw material price hike may adversely impact volume growth going forward.
- Any steep rise in raw material price of Marico may have an impact on operating margin, going forward.
- Government policy like demonetization or GST may have negative impact on consumer spending or business sentiments in India.

Graphs & Charts

Figure 1: Net Sales Trend

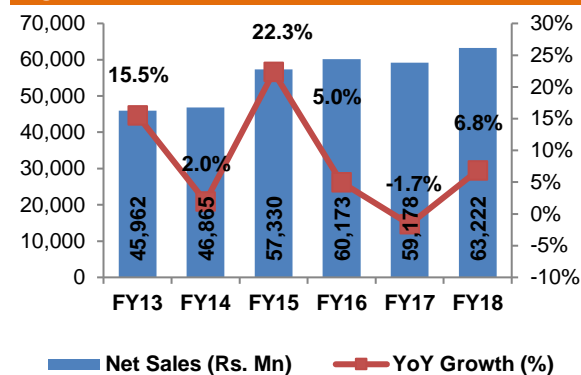


Figure 2: EBITDA & EBITDA Margin Trend

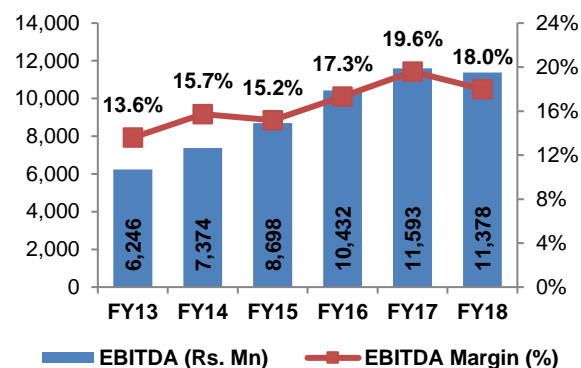


Figure 3: PAT Trend

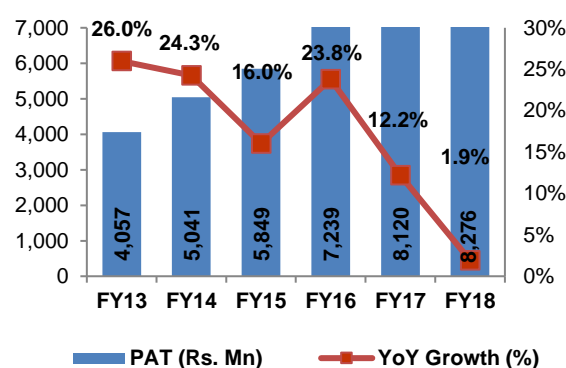
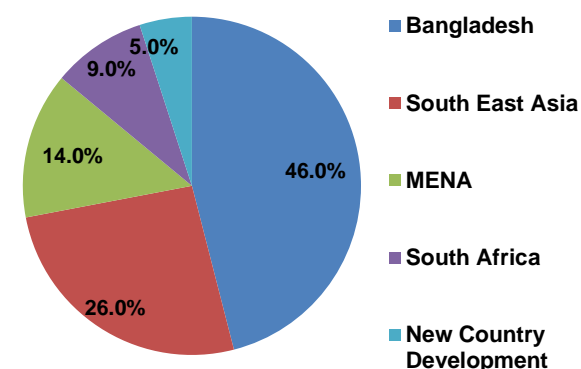


Figure 4: International Revenue Break-up



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|-------------------|------------------|
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