

Sector: Consumer Goods

Company Update

	Change
Reco: Buy	↔
CMP: Rs. 338	
Price Target: Rs. 395	↓
↑ Upgrade	↔ No change
↓ Downgrade	

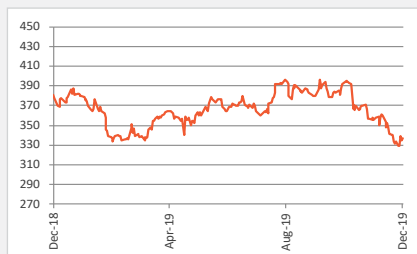
Company details

Market cap:	Rs. 43,634 cr
52-week high/low:	Rs. 404/325
NSE volume: (No of shares)	18.2 lakh
BSE code:	531642
NSE code:	MARICO
Sharekhan code:	MARICO
Free float: (No of shares)	52.2 cr

Shareholding (%)

Promoters	59.6
FII	25.2
DII	8.6
Others	6.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.0	-10.6	-7.3	-9.9
Relative to Sensex	-7.4	-18.5	-12.4	-22.2

Sharekhan Research, Bloomberg

Marico saw revenue grow by 3.4% in H1FY2020, with sales volumes rising by just 2-3% owing to weak domestic demand and stiff competition from cheaper products in categories such as value-added hair oils and edible oils. In Q2FY2020, a sharp slowdown of 1% was seen in Parachute rigid pack sales volumes, while sales of value-added hair oils and Saffola edible oil were almost flat. The company has taken required pricing action in December 2019 for Parachute (providing a price-off of Rs. 5 in 100 ml and 250 ml packs) and for Saffola edible oil (it offered a discount of Rs. 20 on Saffola Gold in December 2019). Historical evidence suggests that price cuts in Parachute has helped sales volumes of rigid packs to revive in subsequent quarters but value growth has been lower due to lower realisations. A recovery in sales volumes of value-added hair oil and Saffola edible oil will take time as these are premium product categories. Overall, we expect demand to revive by H1FY2021-end, which will further boost sales volumes in key categories. A rise in OPM in the coming quarters depends on an improvement in the sales volumes, stable input prices and judicious advertising spends.

Pricing actions would help in gradual improvement in sales but will keep check on margin expansion: With copra prices remaining stable y-o-y, Marico decided to cut prices by Rs. 5 per pack in the 100 ml and 250 ml SKU of Parachute rigid packs to reduce competition from regional low-priced products. This will help sales volumes improve gradually due to sustained market share gains in India. The company has maintained its thrust of achieving a 5-7% volume growth in Parachute rigid packs amid stable demand as it continues to gain market share due to shift from unorganised to organised products. The recovery in the growth of value-added hair oils depends upon an overall recovery in the hair oil category which has been affected by slowdown in the consumer demand (especially in rural markets). With price off of Rs. 20 in Saffola Gold, the price premium over other key brands have reduced which will help this product's sales volumes to gradually improve in the quarters ahead (large improvement in sales volume could be seen in stable demand environment expected in the middle of FY2021). However, the recent price cuts would keep check on margin expansion in Q4FY2020 unless the company decides to trim its advertising spends. A recovery in sales volumes, benign input prices and check on adequate media spends would provide some room for margin expansion (coupled with sustenance of higher margins in the international business) in the coming quarters.

Our Call

View: Retained Buy with revised price target of Rs. 395: We have reduced our earnings estimates for FY2020 and FY2021, by 4% and 9%, respectively to factor in little lower than earlier expected revenue growth and lower OPM (due to recent price cuts). We have introduced FY2022 earnings estimates in this note. Marico will continue to gain market share in categories such as coconut oil and edible oil due to shift from non-branded to branded products happening in the domestic market. The revival in the sales of premium portfolio (including the youth portfolio and foods) would help in realisation improvement in the near to medium term. Thus, the company is well-poised to achieve double digit growth in a stable demand environment. The stock has corrected by ~14% in last three months and is trading at 35.6x its FY2021E EPS, which factors-in the near term headwinds. Thus, we maintain our Buy recommendation on the stock with revised price target of Rs. 395 (valuing the stock at 39x its average of FY2021-22 earnings).

Key Risks

Any slow recovery in volume growth of key categories and increase in the key input prices would act as a key risk to our earnings estimates in the near term.

Valuation (Consolidated)

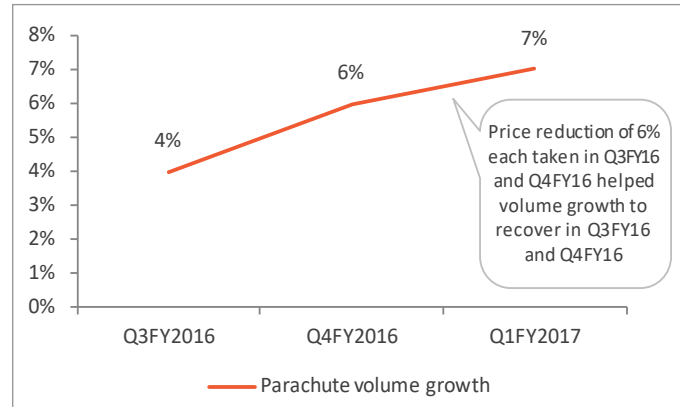
Particulars	Rs cr				
	FY18	FY19	FY20E	FY21E	FY22E
Revenue	6,333	7,334	7,574	8,347	9,597
OPM (%)	18.0	17.3	19.1	19.2	19.1
Adjusted PAT	828	939	1,095	1,226	1,406
Adjusted EPS (Rs.)	6.4	7.3	8.5	9.5	10.9
P/E (x)	52.7	46.5	39.8	35.6	31.0
P/B (x)	17.2	14.5	12.4	10.5	8.8
EV/EBIDTA (x)	38.0	33.8	29.1	25.9	22.3
RoNW (%)	34.0	33.9	33.6	32.0	30.8
RoCE (%)	41.0	40.6	40.9	40.5	39.4

Source: Company; Sharekhan estimates

Price offs had helped Marico recover volumes in Parachute earlier

Marico had cut prices in H2FY2016. The company had taken a 6% price reduction in Q3FY2016 due to a steep reduction in the commodity prices (27% decline in copra prices). The effect of a price cut was witnessed in Q4FY2016, where volume growth improved to 6%, higher than 4% in Q3FY2016. The company had taken another 6% price cut in Q4FY2016, effective price reduction for FY2016 being 12% where the prices of Parachute Coconut Oil packs of 100 ml, 250 ml and 500 ml came down to Rs. 31, Rs. 75 and Rs. 150, respectively, from Rs. 34, Rs. 87 and Rs. 173 earlier. The further price cut resulted in a 7% volume growth for Q1FY2017.

Effect of price-offs on sales volumes of Parachute rigid packs



Source: Company, Sharekhan Research

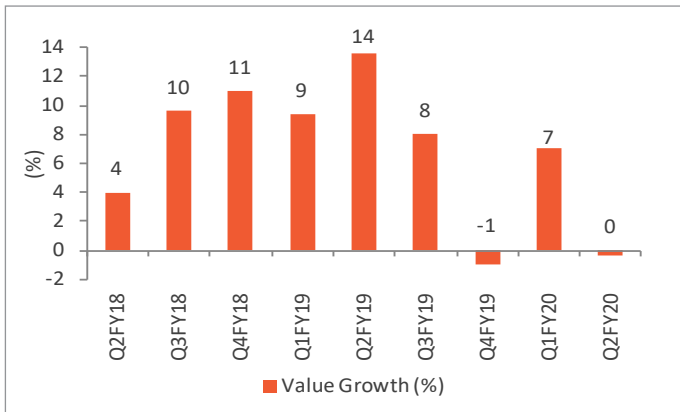
Price reductions/consumer offers for December 2019

Particulars	Consumer offer
100 ml Parachute Coconut Oil	Rs. 5 off
250 ml Parachute Coconut Oil	Rs. 5 off
500 ml Parachute Coconut Oil	100 ml free
80 ml Nihar Shanti Amla	12 ml free
175 ml Nihar Shanti Amla	50 ml free
100 ml Nihar Naturals	20% free
200 ml Nihar Naturals	45 ml free
Saffola Gold 1 litre	Rs. 20 off
Saffola Oats 1 kg	400 gram free
Livon Hairgain 150 ml	Branded Shampoo free

Source: Company

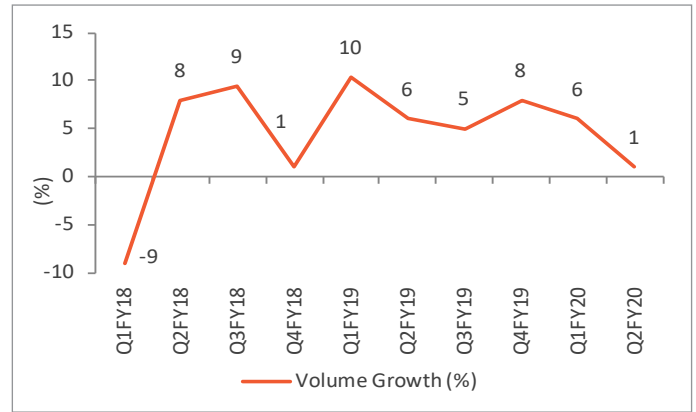
Financials in charts

Revenue growth stood at flat in Q2FY20



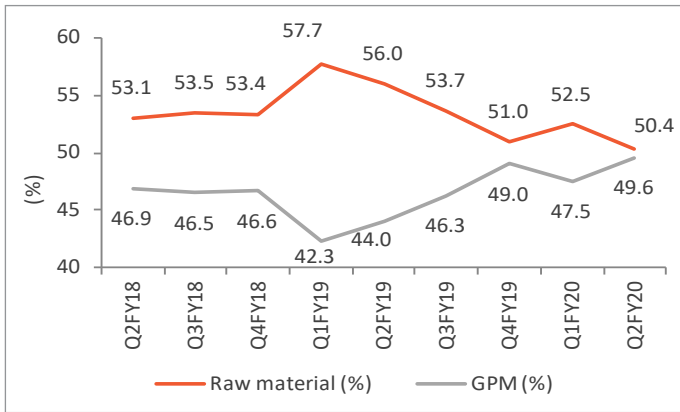
Source: Company, Sharekhan Research

Volume growth came in at just 1% in Q2FY20



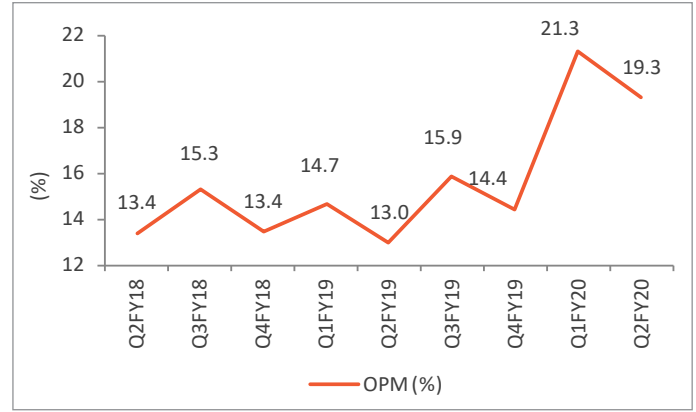
Source: Company, Sharekhan Research

Declining copra prices led to GPM expansion y-o-y



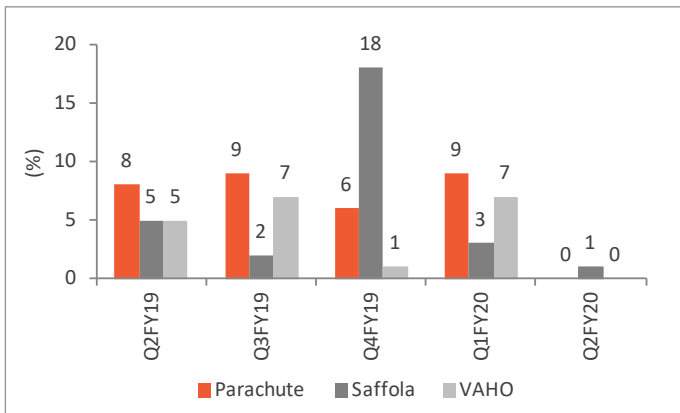
Source: Company, Sharekhan Research

OPM improved y-o-y to 19.3%



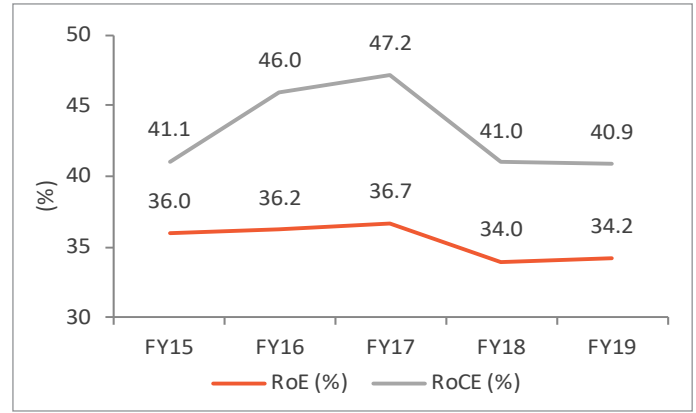
Source: Company, Sharekhan Research

Q2FY20 was a soft quarter for key categories



Source: Company, Sharekhan Research

Return ratios to remain in double digits



Source: Company, Sharekhan Research

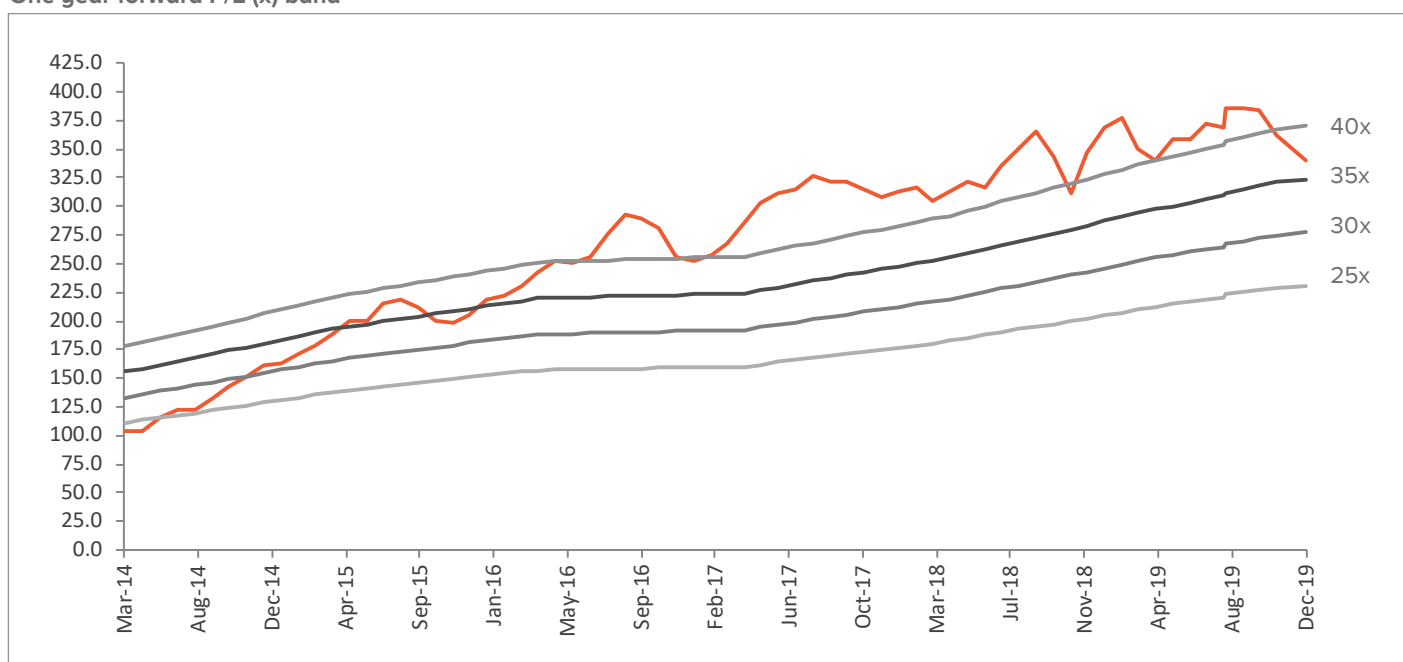
Outlook

H2FY2020 performance to remain muted; revival expected in H1FY2021: Sustained slowdown in domestic demand environment would continue to affect sales volumes of Marico's domestic business in Q3FY2020. The company has undertaken decisive pricing action in Parachute rigid packs at the fag-end of Q3FY2020 and the positive impact of same on sales volumes would start flowing in from Q4FY2020. The value-added hair oil and Saffola edible oil portfolio will see better volumes in the improving demand environment. On the other hand the raw material prices have remained benign with copra prices remaining flat and HDPE and liquid paraffin seeing a substantial reduction in prices would help margin to remain high (but margin expansion will curtail by recent price cuts) in H2FY2020. Rabi crop production is expected to remain high, which will help in higher farm income in the coming quarters. This, along with government actions to improve macro environment will help in posting better consumer demand in H1FY2021.

Valuation

Retained Buy with revised PT of Rs. 395: We have reduced our earnings estimates for FY2020 and FY2021, by 4% and 9%, respectively to factor in little lower than earlier expected revenue growth and lower OPM (due to recent price cuts). We have introduced FY2022 earnings estimates in this note. Marico will continue to gain market share in categories such as coconut oil and edible oil due to shift from non-branded to branded products happening in the domestic market. The revival in the sales of premium portfolio (including the youth portfolio and foods) would help in realisation improvement in the near to medium term. Thus, the company is well-poised to achieve double digit growth in a stable demand environment. The stock has corrected by ~14% in last three months and is trading at 35.6x its FY2021E EPS, which factors-in the near term headwinds. Thus, we maintain our Buy recommendation on the stock with revised price target of Rs. 395 (valuing the stock at 39x its average of FY2021-22 earnings).

One year forward P/E (x) band



Source: Company; Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Dabur	54.6	49.2	41.0	45.6	40.4	33.8	28.1	29.4	30.0
Hindustan Unilever	67.9	57.3	48.6	48.0	41.2	35.3	113.2	114.2	106.4
Marico	46.5	39.8	35.6	33.8	29.1	25.9	40.6	40.9	40.5

Source: Company, Sharekhan estimates

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. 7,000 crore. Marico has a presence in the categories of hair care, skin care, edible oils, health foods and male grooming with a vast portfolio of brands 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 constitutes 22% of the total revenue. It has a retail reach of 4.9 million outlets in the domestic market.

Investment theme

Marico is a leading player in the domestic hair and wellness market with leadership positioning in categories such as branded hair oil (~59% market share), value-added hair oil (~26% market share) and branded edible oil (~70% market share). The company has three-pronged strategy of driving growth through key categories, innovations/entrance into niche category and scale up its presence in the key international geographies. In recent times it has entered into niche categories such as male grooming, premium hair nourishment and healthy foods, which will not only improve the revenue growth trajectory but would help in boosting margins in long run due to premium in nature. Consistent innovations, 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

- ◆ **Slowdown in demand:** Slowdown in key categories would affect overall demand and revenue growth.
- ◆ **Higher input prices:** A significant increase in prices of key raw materials such as copra (~40% of the input cost) would affect profitability and earnings growth.
- ◆ **Increased competition in highly penetrated categories:** Increased competition in highly penetrated categories such as VAHO and edible oils would threaten revenue growth.

Additional Data

Key management personnel

Harsh Mariwala	Chairman
Saugata Gupta	Managing Director and CEO
Vivek Karve	Chief Financial Officer
Hemangi Ghag	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Taurus Family Trust	11.5
2	Gemini Family Trust	11.5
3	Valentine Family Trust	11.5
4	Aquarius Family Trust	11.5
5	Commonwealth Bank Of Australia	4.8
6	Mariwala Harsh Charandas	2.5
7	Mariwala Rajvi Harsh	2.2
8	Arisaig India Fund Limited	2.0
9	Mariwala Rishabh Harsh	1.9
10	Mariwala Archana	1.8

Source: Bloomberg

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