

# Marico earnings outlook improves

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Mumbai, 6 November

At a time when inflationary pressure weighs on the earnings of most fast-moving consumer goods (FMCG) companies, Marico stands out.

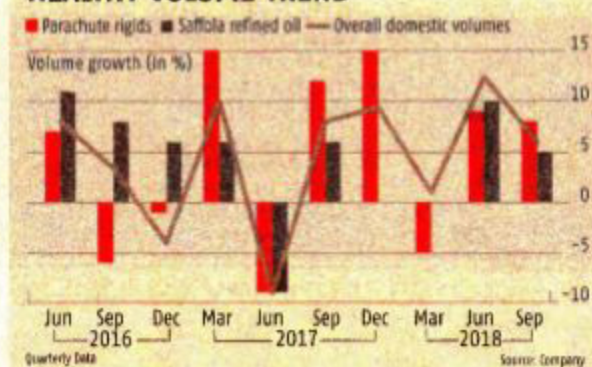
Marico's products and services are in the area of grooming and health care.

The price of copra, its key raw material, is down by around 35 per cent from January, helping the profitability and volumes of the company's key hair oils portfolio — Parachute Rigids (coconut oil packs in blue bottles).

Copra prices had surged from around ₹55 a kg in July 2016 to over ₹140 a kg in early 2018 but are now down to about ₹90 a kg, estimates JM Financial. With the high earlier price, the company had raised those in Parachute, affecting volumes and margins in earlier quarters. With copra prices declining on a sequential basis, these operational parameters are improving, as reflected in the September 2018 quarter (Q2) numbers.

Gross profit margin at 44 per cent in Q2, although down 293 basis points (bps) over a year, was up 171 bps over the April-June quarter. Analysts at Emkay Global also believe that lower copra prices should help Marico offset inflation in other input prices, such as rice bran and packing materials. Coupled with recent price

## HEALTHY VOLUME TREND



hikes in Parachute, some expect the gross profit margin to improve in the rest of 2018-19, and then by around 100 bps in 2019-20.

In Q2, lower operating expenses (other than raw material costs) fell 60-76 bps as a percentage of operating income, year on year. Consequently, the earnings before interest, tax, depreciation and amortisation (Ebitda) margin of 16 per cent in Q2, though down 82 bps over a year, was better than expectations. Overall, revenue growth over a year was 20 per cent at ₹18.4 billion; net profit rose 18 per cent to ₹2.2 billion, ahead of analyst expectations.

The Street celebrated the results, announced on Friday last week, with the Marico stock rising about five per cent in the past three trading sessions, versus a 0.5 per cent rise in the FMCG index on the

BSE exchange. With lower copra rates, Marico is expected to see a 17-18 per cent Ebitda margin in FY19, rising to 18-19 per cent in FY20. Vivek Karve, chief financial officer, says: "Our medium-term guidance (forecast) for the Ebitda margin is 17-18 per cent at a consolidated level." Further comfort comes from Marico's eight per cent volume growth in Q2 on the Parachute Rigids portfolio. This was despite a strong 12 per cent increase in volumes in the year-ago quarter. Analysts say part of the benefits from lower copra prices would be passed on to consumers, which would further push Parachute's volumes.

Karve confirms: "As copra prices recede, we will pass on commensurate value to consumers, to protect and grow the franchise. We'll target to maintain a five to seven per

cent volume growth for our flagship brand, Parachute Rigids."

Volume growth in value-added hair oils was only five per cent, affected due to lower offtake from the Canteen Stores Department (CSD), under the defence ministry. However, analysts expect this to recover in the coming quarters, aided by improvement in Kerala sales (normalisation after the floods) and the CSD channel.

In Saffola, its edible oil business, Marico's management is targeting volume growth in a high single-digit in the second half of FY19 and then in double-digit in the medium term.

Consequently, with the recovery in key portfolios, the firm is expected to achieve its overall volume growth target of eight to 10 per cent, as compared to 3.5 per cent in FY18. This would also be aided by market expansion. Some of the gains in input costs could also be invested in higher advertising spending. The management says investment on brand building is to be ramped up, to support market growth initiatives in core categories, expansion into adjacent ones and a visibly strong innovation pipeline for the next two to three years.

Also, Marico plans to scale up market penetration for new product categories, one being Advanced Aloe Vera Enriched Coconut Hair Oil.