Marico

Growing, naturally

The company's value additions to its portfolio should stand it in good stead

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Good volume growth in value-added segments, market share gains and low prices of raw materials such as copra and liquid paraffin favour Marico right now. The pick up in urban consumption should continue to support prospects too.

But at 43 times its trailing 12-month earnings, the stock seems to have captured much of the upside from these factors.

The valuation is almost on par with behemoth Hindustan Unilever and at a premium to Godrej Consumer (40 times) and Dabur (37 times). Existing investors can continue to hold the stock.

Fresh investments can be considered on sharp corrections.

Focus on premium products

From focusing predominantly on plain coconut oil (Parachute rigid packs) and safflower oil (Saffola), Marico has made several value additions to its portfolio over the last few years. Rigid packs now contribute only 27 per cent to revenues, while value-added hair oils such as Parachute Advansed, Nihar Naturals and their variants bring 20 per cent.

Thus, while the rural slowdown has hit the sale of Parachute (rigid), the value-added segment has chipped in with higher growth. Since the first quarter of FY15, the rigid segment has shown a volume growth of 5-8 per cent. Falling copra prices this fiscal also meant that the company had to take a price cut of 6 per cent in the December 2015 quarter in this segment. But volume growth went further down to 4 per cent.

On the other hand, the value-added hair oils segment clocked double-digit volume growth in most quarters beginning fiscal 2015, with volumes in the latest quarter rising 21 per cent year-on-year . The company now has a 30 per cent market share in value added hair oil space in India.

Offerings in the food category under the Saffola brand such as Saffola Oats and Saffola Museli have continued to gain market share too. Saffola oil, which had seen a slowdown in the last few quarters, picked up in the December 2015 quarter, with 17 per cent volume growth. The reduction in pricing premium in this segment due to a run up in prices of other edible oils helped growth. Whether this trend will continue remains to be seen. But Marico's focus on the fast growing breakfast cereal category should stand the company in good stead.

Growth driver

With two third of the company's sales coming from urban areas, these products along with value added hair oils are expected to drive growth in the coming quarters. Other under-penetrated and high-margin products such as hair gels and leave-in serums/conditioners (Set Wet and Livon brands) also hold promise.

Marico is also focusing on such under-penetrated and premium segments in its international markets. It gets 20-25 per cent of its consolidated revenue from markets such as Bangladesh, West Asia, Africa and South East Asia. For the quarter ended December 2015, consolidated net sales grew 7.1 per cent year-on-year to ₹1,555 crore. This was supported by a volume growth of 10 per cent across domestic and international markets.

Although ad spends inched up, softer raw material costs helped operating margins move up from 16.2 per cent a year ago to 18.8 per cent. In the near-to-medium term, the company expects volume growth of 8-10 per cent and margins at 16-17 per cent.

Why

- High valuation
- Good growth in value-added segments
- Beneficiary of low input prices