Uncertain growth outlook may get in Marico's hair

Stable price outlook for inputs like copra is a positive

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Cuts in earnings estimates and near-term volume outlook worries have weighed on the stock of Marico, which has slipped around 6 per cent from its weekly highs. Of this, around 3.5 per cent decline has happened after the March quarter results were announced last Thursday evening.

While the March quarter results were in line with expectations and market-share gains were positives, weak volume growth across key categories and sluggish rural sales are key concerns in the near term.

Marico, the home-grown fast-moving consumer goods major, is the leader in hair oil and has a strong presence in edible oil, through its Parachute and Nihar, and Saffola brands, respectively.

It sells its products through a vast distribution network of over 5 million, including direct reach of 1 million outlets. For the quarter ended March, while the overall Saffola franchise grew 17 per cent, led by a similar growth in its food business, the Saffola edible oil segment reported flat volume growth.

Parachute rigid hair oil volumes, too, were impacted, falling 1 per cent on weak rural demand. The company indicated that rural demand is lagging urban growth and a recovery is expected in the second half of the current fiscal year (2022-23), led by a good monsoon and government measures.

While the near-term outlook is uncertain, the company is expected to sustain market share gains as was the case in the hair oil category, although overall sector volumes are witnessing a decline.

The positive among weak growth trends is that copra prices, the key input in its raw material basket, are down 31 per cent over the year-ago period and 9 per cent sequentially. The company indicated that prices are expected to be stable and the price cuts taken in the March quarter will be visible on volume growth in the current quarter.

In addition to growth in its core categories, stock triggers, according to ICICI Securities, are robust growth in food, led by tailwinds of healthy eating habits.

The food portfolio reported ₹450-plus crore sales in 2021-22, and the target is to achieve ₹850-1,000 crore sales in two years. Scaling up the digital-only brand segment with the aim of achieving sales of ₹500 crore by 2023-24 (FY24) could also turn out to be another positive for the stock. Similarly, the international business reported double-digit growth in constant currency for the fifth consecutive quarter, say analysts at Motilal Oswal Securities (MOSL). And, the management expects the healthy growth to continue in this business.

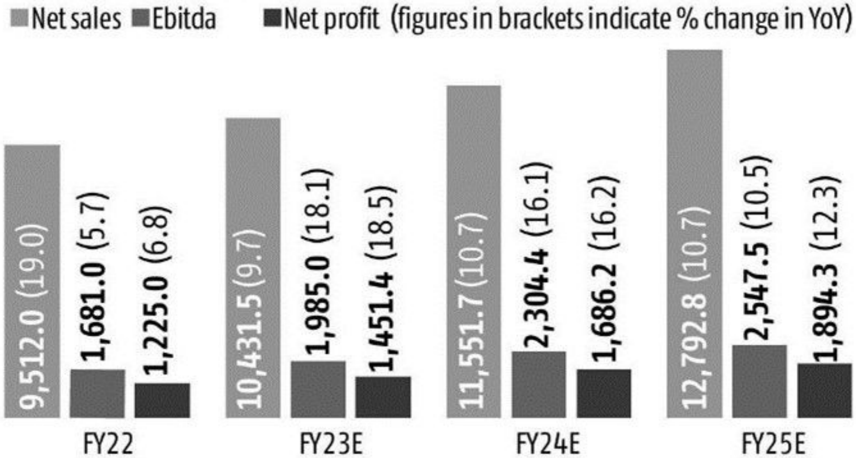
The much-needed diversification is picking up momentum in the food and digital-first brands. If sustained, this could lead to higher multiples for Marico, compared to the past. For now, Marico's earnings growth provides a safe haven in an uncertain environment for staples peers, the brokerage said.

MOSL has a 'buy' rating on the stock with a target price of ₹600.

However, a few brokerages are cautious about growth trends, although the company is better placed than peers on the raw material front.

MARICO'S FINANCIALS

Consolidated figures in (₹crore)



E: Estimates; Compiled by *BS* Research Burerau Source: *Bloomberg*