

May 4, 2020

Q4FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	HOLD		HOLD	
Target Price	318		329	
Sales (Rs. m)	78,947	87,444	78,947	87,444
% Chng.	-	-	-	-
EBITDA (Rs. m)	15,342	16,792	15,342	16,792
% Chng.	-	-	-	-
EPS (Rs.)	8.2	9.1	8.3	9.1
% Chng.	(1.0)	(0.5)	-	-

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	73,340	73,150	78,947	87,444
EBITDA (Rs. m)	13,260	14,690	15,342	16,792
Margin (%)	18.1	20.1	19.4	19.2
PAT (Rs. m)	9,440	10,720	10,548	11,747
EPS (Rs.)	7.3	8.3	8.2	9.1
Gr. (%)	16.0	13.5	(1.6)	11.4
DPS (Rs.)	(4.6)	(6.8)	(7.0)	(7.0)
Yield (%)	(1.6)	(2.4)	(2.5)	(2.5)
RoE (%)	34.2	35.7	34.2	35.8
RoCE (%)	38.7	39.8	40.9	43.1
EV/Sales (x)	4.9	4.9	4.5	4.1
EV/EBITDA (x)	27.2	24.6	23.4	21.3
PE (x)	38.9	34.2	34.8	31.2
P/BV (x)	12.3	12.1	11.7	10.7

Key Data

MRCO.BO | MRCO IN

52-W High / Low	Rs.404 / Rs.234
Sensex / Nifty	31,715 / 9,294
Market Cap	Rs.367bn/ \$ 4,848m
Shares Outstanding	1,291m
3M Avg. Daily Value	Rs.2170.04m

Shareholding Pattern (%)

Promoter's	59.67
Foreign	23.84
Domestic Institution	9.47
Public & Others	7.02
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.9	(22.2)	(20.1)
Relative	(3.0)	(1.5)	(1.7)

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Nothing to get excited about

MRCO 4Q results displayed the impact of COVID lockdown and pantry stocking in Saffola even as VAHO and Parachute suffered. MRCO has extended several incentives to trade and expects strong growth in Saffola and gradual stabilization in Parachute and VAHO. Input costs and benign and provide a lever to MRCO to reduce prices and gain share from unorganized players. However, we believe that current momentum in Saffola is led by sustained pantry stocking by consumers and is unsustainable. We believe non-essential products like Parachute, VAHO and personal care will recover after a while and impact of lockdown will be visible in IBD for 1HFY21. We estimate 7.2% PAT CAGR over FY20-22 and 11.3% PAT growth in FY22. MRCO is currently trading at 31.1x FY22 EPS which reflects uncertainty over growth and limited new product success over the years. We value the stock at 35x FY22 EPS and arrive at target price of Rs318 (Rs329 based on 36x FY22 EPS earlier). Retain Hold.

Adj. PAT increased 6.2%: Net Sales declined 7% YoY to Rs 14.9bn. Gross margins expanded 20bps to 49.3% YoY. EBITDA decreased 4.1% YoY to Rs 2.8bn. EBITDA Margins expanded by 60bps to 18.9% led by gross margin expansion and decrease in ad spends by 110bps. PBT at Rs 2.6bn. Adj. PAT decreased 2.8% YoY to Rs 2.1bn due significantly lower tax rate (20.2% vs PLE 27.1%). Standalone sales declined 7.9% at Rs11.9bn, EBITDA flat at Rs 2.2bn, margins expanded 140bps and Adj PAT down 6.2% to Rs 2.3bn. India business sales declined 7.6% to Rs 11.5bn and EBIT de-grew 0.8% while margins expanded 140bps. IBD reported decline of 5% in sales to Rs3.5bn and 5% in EBIT to Rs570mn

Volumes dip across categories except Saffola: Parachute volumes declined 8%. Saffola volumes grew 25% due to upsurge in demand for essential items prior to the lockdown and increase in sales through modern trade and e-commerce channels. Saffola foods franchise grew 22%. Masala oats market share increased to 86%. VAHO volume declined 11% while premium Hair Nourishment declined 19%. Male Grooming declined 5%. International sales decreased by 6% in constant currency as MENA and South Africa businesses posted decline of 50% and 2% respectively while Bangladesh (6%) and Vietnam (1%) grew marginally.

Concall takeaways: 1) If not for Covid, business would have delivered low to mid-single digit volume growth in 4Q, 2) Production running at 75-80% of FY20 levels 3) Lower levels of inventory with distributors due to supply chain disruption, rural trade inventory lower than urban 4) During 4Q, Modern Trade grew by 44%, while E-Commerce grew 29%, 5) No issues in availability of labour in green zones and orange zones, 6) Raw material prices are expected to be benign. 7) MRCO may take pricing actions to enhance value for customers and increase volume share of its products, 8) Discretionary products to suffer for short term however not much impact on VAHO portfolio as premium non sticky oil is very small part of the total portfolio, 9) MRCO has extended credit for distributors, provided them with insurance and immediate cash support for 1 month, 10) Expects to deliver 5-7% volume CAGR in Parachute Rigid over the medium term. 11) Saffola brand is likely to grow in double digits in FY21 on back of increase in in-home eating and healthy eating, 12) EBITDA margins to sustain at FY20 levels i.e at 20% in FY21 due to tight cost management.

Exhibit 1: 4QFY20 Results: Sales declined 7%, Domestic volume down 3%

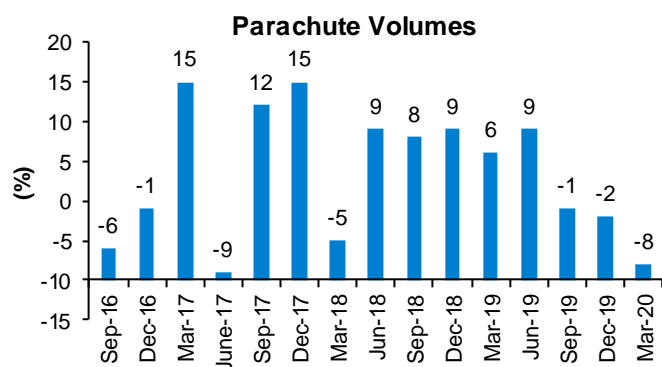
Consolidated	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Net Sales	14,960	16,090	(7.0)	18,240	73,150	73,336	(0.3)
COGS	7,590	8,200	(7.4)	9,280	37,450	40,183	(6.8)
<i>% of Net Sales</i>	<i>50.7</i>	<i>51.0</i>		<i>50.9</i>	<i>51.2</i>	<i>54.8</i>	
Gross Profit	7,370	7,890	(6.6)	8,960	35,700	33,153	7.7
<i>% of NS</i>	<i>49.3</i>	<i>49.0</i>		<i>49.1</i>	<i>48.8</i>	<i>45.2</i>	
Advt. & Prom.	1,260	1,530	(17.6)	1,850	7,270	5,065	43.5
<i>% of NS</i>	<i>8.4</i>	<i>9.5</i>		<i>10.1</i>	<i>9.9</i>	<i>6.9</i>	
Total Expenses	12,140	13,150	(7.7)	14,510	58,460	60,091	(2.7)
EBITDA	2,820	2,940	(4.1)	3,730	14,690	13,246	10.9
<i>Margins (%)</i>	<i>18.9</i>	<i>18.3</i>		<i>20.4</i>	<i>20.1</i>	<i>18.1</i>	
Depreciation	380	390	(2.6)	320	1,400	1,330	5.3
EBIT	2,440	2,550	(4.3)	3,410	13,290	11,916	11.5
Interest	130	120	8.3	120	500	400	25.0
Other Income	320	280	14.3	290	1,240	1,032	20.1
PBT	2,630	2,710	(3.0)	3,580	14,030	12,548	11.8
Tax	530	550	(3.6)	820	3,310	3,139	5.4
<i>Effective tax rate (%)</i>	<i>20.2</i>	<i>20.3</i>		<i>22.9</i>	<i>23.6</i>	<i>25.0</i>	
Adjusted PAT	2,090	2,150	(2.8)	2,760	10,720	9,409	13.9

Source: Company, PL

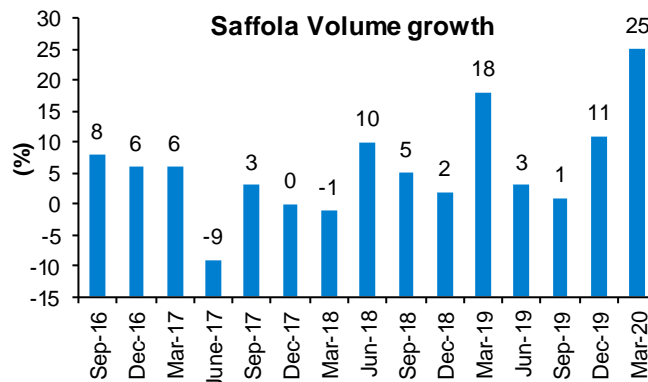
Exhibit 2: Consolidated Segmental: Domestic sales declined 7.6%, IBD sales down 5.1% led by de-growth in MENA and SA

(Rs m)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20
Net Sales	14,801	20,268	18,368	18,610	16,090	21,660	18,290	18,240	14,960
Domestic	11,569	16,276	14,389	14,494	12,400	17,310	13,980	13,800	11,460
International	3,232	3,992	3,980	4,116	3,690	4,350	4,310	4,440	3,500
Sales Growth %	11.9	19.8	19.6	14.6	8.7	6.9	-0.4	-2.0	-7.0
Domestic	11.7	22.6	19.9	12.8	7.2	6.4	-2.8	-4.8	-7.6
International	12.7	9.4	18.4	21.2	14.2	9.0	8.3	7.9	-5.1
EBIT	2,738	3,769	3,162	3,639	3,000	4,710	3,570	3,830	2,950
Domestic	2,398	2,976	2,457	2,852	2,400	3,650	2,690	2,980	2,380
International	340	793	705	787	600	1,060	880	850	570
EBIT Growth %	0.4	8.1	14.4	15.5	9.6	25.0	12.9	5.3	-1.7
Domestic	-4.4	8.2	12.7	5.3	0.1	22.7	9.5	4.5	-0.8
International	56.9	7.6	21.0	78.3	76.7	33.6	24.8	8.1	-5.0
EBIT Margins %	18.5	18.6	17.2	19.6	18.6	21.7	19.5	21.0	19.7
Domestic	20.7	18.3	17.1	19.7	19.4	21.1	19.2	21.6	20.8
International	10.5	19.9	17.7	19.1	16.3	24.4	20.4	19.1	16.3
Capital Employed	20,488	20,280	20,071	18,892	20,850	18,930	19,610	19,910	21,650
Domestic	13,013	13,108	12,401	11,206	13,920	11,910	12,740	12,380	14,320
International	7,475	7,172	7,670	7,686	6,930	7,020	6,870	7,530	7,330
International Sales Growth %									
Bangladesh (46%)	17.0	9.0	10.0	16.0	12.0	11.0	15.0	15.0	6.0
MENA (15%)	61.0	17.0	19.0	8.0	5.0	-20.0	-3.0	-4.0	-50.0
South Africa (8%)	23.0	7.0	18.0	0.0	0.0	6.0	-2.0	3.0	-26.0
SE Asia (26%)	-3.0	0.0	14.0	13.0	4.0	8.0	1.0	3.0	5.0

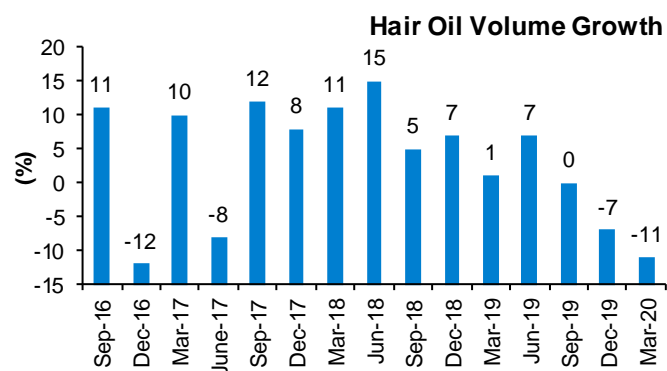
Source: Company, PL

Exhibit 3: Parachute volumes declined 8%


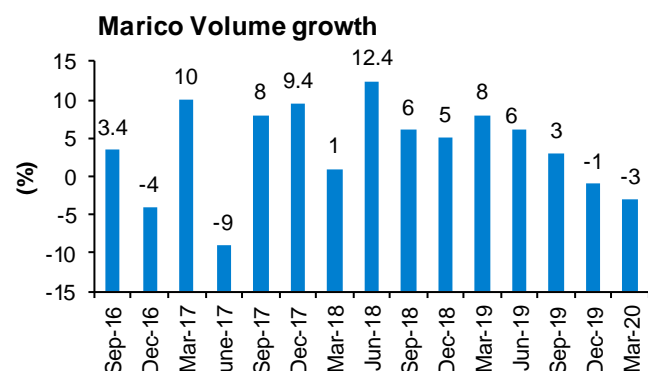
Source: Company, PL

Exhibit 4: Saffola: Volumes grew at 25%


Source: Company, PL

Exhibit 5: Low personal care demand led to 11% vol decline


Source: Company, PL

Exhibit 6: Domestic FMCG Volume down 3% due to Covid


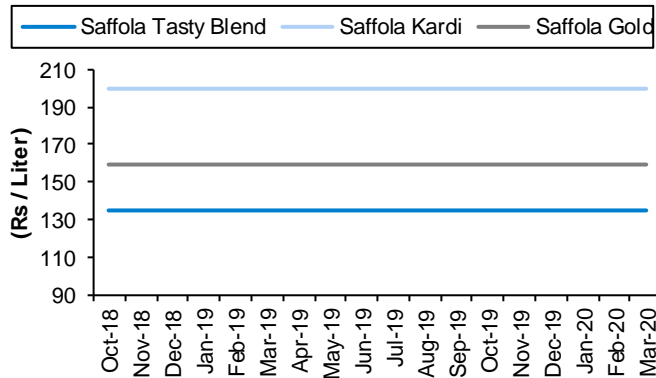
Source: Company, PL

Exhibit 7: Marico has registered market share gains in Coconut oil and Saffola

Market Share (%)	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Coconut Oil	59	59	59	59	59	60	60	61	62
Saffola	69	70	71	72	73	73	75	76	76
Hair Oil VAHO	34	34	34	34	34	34	35	35	35
Livon & Silk and Shine	82	81	78	76	75	63	64	65	65
Hair Creams/Gel	63	63	62	61	60	60	60	59	59
Saffola Oats	28	29	29	29	29	30	31	32	33
Shanti Amla	45	NA	NA	40	42	44	45	47	47
Parachute Bangladesh	87	87	87	87	86	84	84	84	82
Hair Oils Bangladesh	21	21	22	23	23	22	22	22	23
X Men Shampoo Vietnam	39	39	39	40	39	38	37	37	37
x Men Deodorant Vietnam	28	29	30	30	31	31	31	31	31

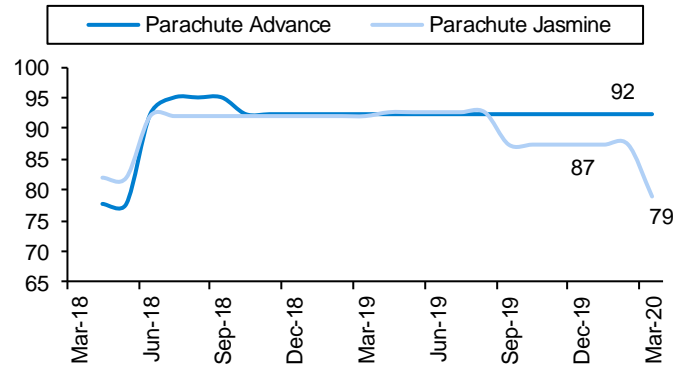
Source: Company, PL

Exhibit 8: Saffola: No price change for 1-year plus



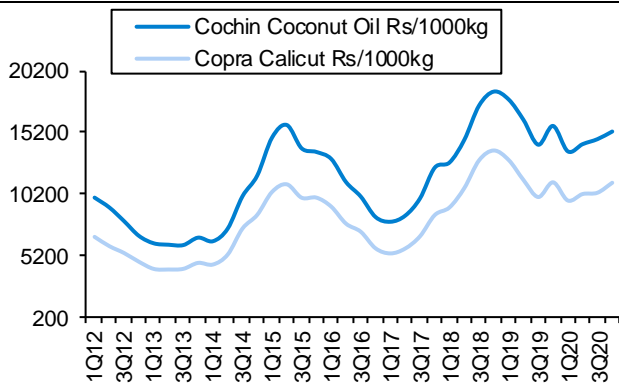
Source: Company, PL

Exhibit 9: 10% price reduction in Jasmine prices in Mar-20



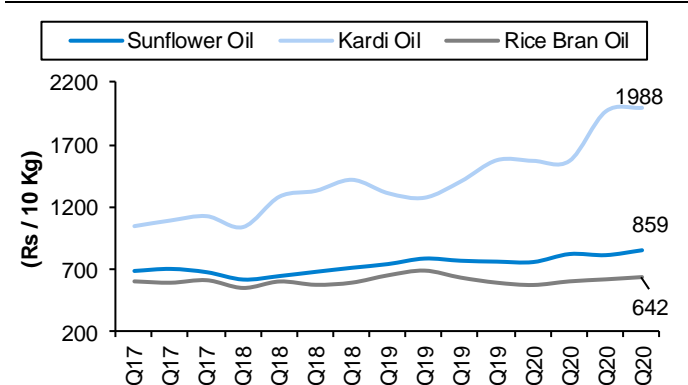
Source: Company, PL

Exhibit 10: Copra: Prices up 7.8% YoY



Source: Company, PL

Exhibit 11: Kardi Oil price up 26.6% YoY and 1.5% QoQ



Source: Company, PL

Exhibit 12: New launches – Sanitizer and Veggie Clean



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	73,340	73,150	78,947	87,444
YoY gr. (%)	16.0	(0.3)	7.9	10.8
Cost of Goods Sold	40,170	37,450	42,040	46,817
Gross Profit	33,170	35,700	36,907	40,628
Margin (%)	45.2	48.8	46.7	46.5
Employee Cost	4,660	4,780	5,329	5,771
Other Expenses	8,660	8,960	-	-
EBITDA	13,260	14,690	15,342	16,792
YoY gr. (%)	16.5	10.8	4.4	9.4
Margin (%)	18.1	20.1	19.4	19.2
Depreciation and Amortization	1,310	1,400	1,478	1,573
EBIT	11,950	13,290	13,864	15,219
Margin (%)	16.3	18.2	17.6	17.4
Net Interest	400	500	461	410
Other Income	1,030	1,240	908	1,110
Profit Before Tax	12,580	14,030	14,310	15,919
Margin (%)	17.2	19.2	18.1	18.2
Total Tax	3,130	3,310	3,563	3,964
Effective tax rate (%)	24.9	23.6	24.9	24.9
Profit after tax	9,450	10,720	10,747	11,955
Minority interest	10	-	198	208
Share Profit from Associate	-	-	-	-
Adjusted PAT	9,440	10,720	10,548	11,747
YoY gr. (%)	15.9	13.6	(1.6)	11.4
Margin (%)	12.9	14.7	13.4	13.4
Extra Ord. Income / (Exp)	1,880	(290)	-	-
Reported PAT	11,320	10,430	10,548	11,747
YoY gr. (%)	39.0	(7.9)	1.1	11.4
Margin (%)	15.4	14.3	13.4	13.4
Other Comprehensive Income	(180)	430	-	-
Total Comprehensive Income	11,140	10,860	10,548	11,747
Equity Shares O/s (m)	1,290	1,291	1,291	1,291
EPS (Rs)	7.3	8.3	8.2	9.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	13,803	15,883	16,383	17,433
Tangibles	12,391	14,571	15,071	16,121
Intangibles	1,413	1,313	1,313	1,313
Acc: Dep / Amortization	7,363	8,763	9,862	11,036
Tangibles	6,501	7,861	8,932	10,078
Intangibles	863	903	930	958
Net fixed assets	6,440	7,120	6,521	6,397
Tangibles	5,890	6,710	6,139	6,042
Intangibles	550	410	382	355
Capital Work In Progress	450	580	220	230
Goodwill	5,030	5,380	5,030	5,030
Non-Current Investments	880	1,360	1,139	1,175
Net Deferred tax assets	1,890	1,530	1,365	1,212
Other Non-Current Assets	2,270	2,170	395	437
Current Assets				
Investments	3,910	6,280	4,421	4,372
Inventories	14,110	13,800	15,258	17,184
Trade receivables	5,170	5,390	4,326	4,791
Cash & Bank Balance	5,520	2,791	6,343	7,499
Other Current Assets	3,080	3,400	3,158	3,235
Total Assets	49,090	50,021	48,334	51,738
Equity				
Equity Share Capital	1,290	1,291	1,291	1,291
Other Equity	28,460	28,940	30,159	32,880
Total Networth	29,750	30,231	31,450	34,171
Non-Current Liabilities				
Long Term borrowings	140	100	58	17
Provisions	-	-	-	-
Other non current liabilities	200	210	231	254
Current Liabilities				
ST Debt / Current of LT Debt	3,350	3,250	2,750	2,250
Trade payables	9,440	9,780	9,155	9,838
Other current liabilities	4,450	4,820	4,488	4,982
Total Equity & Liabilities	49,090	50,021	48,334	51,738

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	12,643	13,554	14,310	15,919
Add. Depreciation	960	1,760	1,478	1,573
Add. Interest	240	510	461	410
Less Financial Other Income	1,030	1,240	908	1,110
Add. Other	(2,209)	440	(147)	97
Op. profit before WC changes	11,634	16,264	16,102	17,999
Net Changes-WC	2,027	(1,840)	817	(1,249)
Direct tax	(3,164)	(3,375)	(3,563)	(3,964)
Net cash from Op. activities	10,497	11,049	13,356	12,787
Capital expenditures	(1,557)	(2,960)	(170)	(1,459)
Interest / Dividend Income	-	-	-	-
Others	28	(420)	420	-
Net Cash from Inv. activities	(1,529)	(3,380)	250	(1,459)
Issue of share cap. / premium	1,657	816	(485)	(184)
Debt changes	363	(140)	(542)	(541)
Dividend paid	(6,820)	(10,504)	(9,036)	(9,036)
Interest paid	(240)	(510)	(461)	(410)
Others	-	-	-	-
Net cash from Fin. activities	(5,040)	(10,338)	(10,524)	(10,172)
Net change in cash	3,929	(2,669)	3,082	1,156
Free Cash Flow	8,940	8,089	13,187	11,328

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	7.3	8.3	8.2	9.1
CEPS	8.3	9.4	9.3	10.3
BVPS	23.1	23.4	24.4	26.5
FCF	6.9	6.3	10.2	8.8
DPS	(4.6)	(6.8)	(7.0)	(7.0)
Return Ratio(%)				
RoCE	38.7	39.8	40.9	43.1
ROIC	30.1	32.5	36.9	38.2
RoE	34.2	35.7	34.2	35.8
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.2)	(0.3)	(0.3)
Net Working Capital (Days)	49	47	48	51
Valuation(x)				
PER	38.9	34.2	34.8	31.2
P/B	12.3	12.1	11.7	10.7
P/CEPS	34.1	30.3	30.5	27.6
EV/EBITDA	27.2	24.6	23.4	21.3
EV/Sales	4.9	4.9	4.5	4.1
Dividend Yield (%)	(1.6)	(2.4)	(2.5)	(2.5)

Source: Company Data, PL Research

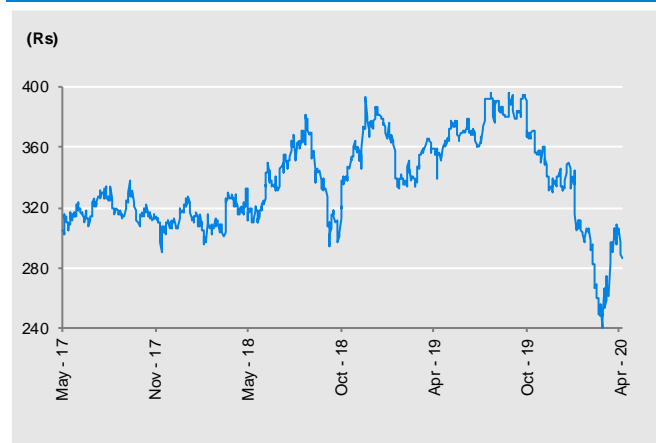
Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	21,660	18,290	18,240	14,960
YoY gr. (%)	6.9	(0.4)	(2.0)	(7.0)
Raw Material Expenses	11,370	9,210	9,280	7,590
Gross Profit	10,290	9,080	8,960	7,370
Margin (%)	47.5	49.6	49.1	49.3
EBITDA	4,610	3,530	3,730	2,820
YoY gr. (%)	29.9	20.0	6.9	(0.4)
Margin (%)	21.3	19.3	20.4	18.9
Depreciation / Depletion	350	350	320	380
EBIT	4,260	3,180	3,410	2,440
Margin (%)	19.7	17.4	18.7	16.3
Net Interest	120	130	120	130
Other Income	280	350	290	320
Profit before Tax	4,420	3,400	3,580	2,630
Margin (%)	20.4	18.6	19.6	17.6
Total Tax	1,080	880	820	530
Effective tax rate (%)	24.4	25.9	22.9	20.2
Profit after Tax	3,340	2,520	2,760	2,100
Minority interest	-	(10)	-	10
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,340	2,530	2,760	2,090
YoY gr. (%)	30.8	15.9	9.7	(3.7)
Margin (%)	15.4	13.8	15.1	14.0
Extra Ord. Income / (Exp)	(190)	-	-	(100)
Reported PAT	3,150	2,530	2,760	1,990
YoY gr. (%)	23.3	15.9	9.7	(50.9)
Margin (%)	14.5	13.8	15.1	13.3
Other Comprehensive Income	10	(50)	420	50
Total Comprehensive Income	3,160	2,480	3,180	2,040
Avg. Shares O/s (m)	1,291	1,291	1,291	1,291
EPS (Rs)	2.6	2.0	2.1	1.6

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	15-Apr-20	Hold	329	303
2	31-Jan-20	Accumulate	357	315
3	03-Jan-20	Reduce	340	335
4	25-Oct-19	Reduce	339	394
5	03-Oct-19	Hold	339	384
6	01-Aug-19	Hold	357	363
7	04-Jul-19	Hold	351	374
8	06-May-19	Hold	351	340

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,687	1,651
2	Avenue Supermarts	Reduce	1,875	2,393
3	Britannia Industries	BUY	3,744	2,837
4	Colgate Palmolive	Reduce	1,206	1,388
5	Crompton Greaves Consumer Electricals	BUY	291	224
6	Dabur India	Hold	431	503
7	Emami	Hold	285	227
8	Future Retail	Under Review	-	332
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Reduce	521	551
11	Hindustan Unilever	Hold	2,017	2,195
12	ITC	BUY	250	189
13	Jubilant FoodWorks	Accumulate	1,490	1,423
14	Kansai Nerolac Paints	BUY	486	379
15	Marico	Hold	329	303
16	Nestle India	Reduce	11,886	17,326
17	Pidilite Industries	Hold	1,327	1,349
18	Titan Company	Hold	1,264	1,273
19	Voltas	Accumulate	553	509

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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