

July 27, 2020

Q1FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		HOLD	
Target Price	355		337	
Sales (Rs. m)	83,746	93,690	87,444	98,136
% Chng.	(4.2)	(4.5)		
EBITDA (Rs. m)	17,823	19,393	16,792	18,613
% Chng.	6.1	4.2		
EPS (Rs.)	9.7	10.6	9.1	10.2
% Chng.	6.1	4.3		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	73,150	75,726	83,746	93,690
EBITDA (Rs. m)	14,690	16,003	17,823	19,393
Margin (%)	20.1	21.1	21.3	20.7
PAT (Rs. m)	10,720	11,013	12,468	13,699
EPS (Rs.)	8.3	8.5	9.7	10.6
Gr. (%)	13.5	2.7	13.2	9.9
DPS (Rs.)	(6.8)	(7.0)	(7.0)	(8.0)
Yield (%)	(1.9)	(2.0)	(2.0)	(2.3)
RoE (%)	35.7	35.4	37.1	37.0
RoCE (%)	39.8	42.7	45.1	45.6
EV/Sales (x)	6.1	5.9	5.3	4.7
EV/EBITDA (x)	30.4	27.7	24.7	22.6
PE (x)	42.2	41.1	36.3	33.0
P/BV (x)	15.0	14.2	12.8	11.7

Key Data

MRCO.BO | MRCO IN

52-W High / Low	Rs.404 / Rs.234
Sensex / Nifty	37,935 / 11,132
Market Cap	Rs.452bn/ \$ 6,046m
Shares Outstanding	1,291m
3M Avg. Daily Value	Rs.2288.04m

Shareholding Pattern (%)

Promoter's	59.68
Foreign	22.69
Domestic Institution	10.51
Public & Others	7.12
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.8	3.6	(2.9)
Relative	(5.7)	12.4	(3.1)

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Nothing to get excited about

MRCO seems cautiously optimistic on medium term prospects led by market share gain across portfolio and strong growth in Foods and Bangladesh. Although some of the trends like double digit volume growth in edible oils and Oats and significant pressure on VAHO looks temporary, some near term gains from unorganized players looks likely as MRCO looks to cut Parachute prices given moderately benign Copra price outlook. MRCO is betting big on Foods and Hygiene, however aspiration of Rs5bn sales looks stretched target. We expect margin expansion to moderate in coming quarters as ad spends savings would be 100-150bps in balance year as against 300bps in 1Q. We estimate 11.1% PAT CAGR over FY20-23 as we tweak our estimates by 4-6%. We value the stock at 35x FY22 EPS with a target price of Rs355 (Rs337 based on 35x Sept22 EPS earlier). Retain Hold.

Volumes decline 14%, Margins expanded by 300bps: Net Sales declined 11.1% YoY to Rs 19.25bn (Est Rs 18.41bn). Gross margins expanded 140bps to 48.9% YoY. EBITDA increased 1.3% YoY to Rs 4.67bn (Est Rs 4.05bn). EBITDA Margins expanded by 300bps to 24.3% (Est 22%) led by gross margin expansion and decrease in ad spends by 300bps which was partially offset by increase in staff cost and other expenses by 115bps and 24bps. PBT increased 0.2% YoY to Rs 4.43bn. Adj. PAT decreased 3% YoY to Rs 3.24bn due to higher tax rate at 26.4% vs 24.4% in Q1FY20 (Est Rs 2.86bn). Standalone sales declined 14.7% at Rs15.2bn, EBITDA down 4.9% at Rs 3.3bn, margins expanded 226bps and Adj PAT down 3.4% to Rs 2.6bn. India business sales declined 14.5% to Rs 14.8bn and EBIT de-grew 1.9% while margins expanded 310bps. IBD reported decline of 2.3% in sales to Rs4.5bn while EBIT grew 17.9% to Rs1.3bn.

Saffola franchise witnessing robust growth: Domestic volume contracted by 14% (Est -13%). Parachute and VAHO volumes declined 11% (Est -15%) and 30% (Est -25%) respectively while Saffola volumes grew by 16% (Est 20%) on back of increased in-home consumption. Saffola foods franchise grew 30% led by 41% growth in Oats portfolio. Male Grooming and Premium Hair Nourishment witnessed sharp declines on poor demand for discretionary products. IBD sales declined by 4% in CC as MENA, South Africa and SE Asia posted decline of 27%, 25% and 17% respectively while Bangladesh grew 10% in cc terms led by 18% increase in sales of non-coconut oil portfolio and 6% growth in parachute oils.

Concall takeaways: 1) Volumes de-grew in April while grew 3% YoY in May-June. 2) Ramped up manufacturing from 40% SKUs to currently 70-80%. 3) Gained market share in 90% of the portfolio. 4) Mild deflation in copra prices, MRCO likely to cut prices to gain market share. 5) Saffola Edible Oils missed 20% growth due to 50% decline in CSD sales and Modern trade. Expect to sustain growth of 10% in edible oils with normalization of CSD and modern trade. 6) Management targets food bn revenue to reach Rs 3bn in FY21 and Rs 5bn by FY23. 7) Health and hygiene portfolio is 1.5% of sales, MRCO expects revenues of Rs 800-1000m in FY21. 8) NO significant investment in personal care during FY21. 9) GT volumes de-grew by 17% in urban and 10% rural. 10) MRCO will enter new product categories enjoying tailwinds in the food segment rather than creating niches. 11) Launched Saffola Honey, House Protect, Travel Protect, Keep Safe, Veggie Wash in India

Exhibit 1: 1QFY21 Results: Sales declined 11.1%, Domestic volumes down 14%

Consolidated	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY20	FY19	YoY gr. (%)
Net Sales	19,250	21,660	(11.1)	14,960	73,150	73,336	(0.3)
COGS	9,840	11,370	(13.5)	7,590	37,450	40,183	(6.8)
<i>% of Net Sales</i>	<i>51.1</i>	<i>52.5</i>		<i>50.7</i>	<i>51.2</i>	<i>54.8</i>	
Gross Profit	9,410	10,290	(8.6)	7,370	35,700	33,153	7.7
<i>% of NS</i>	<i>48.9</i>	<i>47.5</i>		<i>49.3</i>	<i>48.8</i>	<i>45.2</i>	
Advt. & Prom.	1,370	2,190	(37.4)	1,260	7,270	5,065	43.5
<i>% of NS</i>	<i>7.1</i>	<i>10.1</i>		<i>8.4</i>	<i>9.9</i>	<i>6.9</i>	
Total Expenses	14,580	17,050	(14.5)	12,140	58,460	60,091	(2.7)
EBITDA	4,670	4,610	1.3	2,820	14,690	13,246	10.9
<i>Margins (%)</i>	<i>24.3</i>	<i>21.3</i>	<i>3.0</i>	<i>18.9</i>	<i>20.1</i>	<i>18.1</i>	<i>2.0</i>
Depreciation	340	350	(2.9)	380	1,400	1,330	5.3
EBIT	4,330	4,260	1.6	2,440	13,290	11,916	11.5
Interest	90	120	(25.0)	130	500	400	25.0
Other Income	190	280	(32.1)	320	1,240	1,032	20.1
PBT	4,430	4,420	0.2	2,630	14,030	12,548	11.8
Tax	1,170	1,080	8.3	530	3,310	3,139	5.4
<i>Effective tax rate (%)</i>	<i>26.4</i>	<i>24.4</i>		<i>20.2</i>	<i>23.6</i>	<i>25.0</i>	
Adjusted PAT	3,240	3,340	(3.0)	2,090	10,720	9,409	13.9

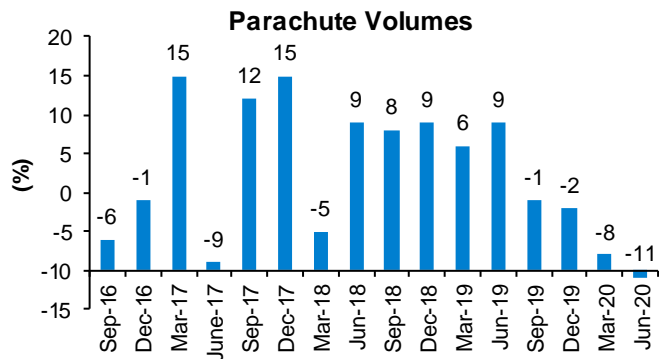
Source: Company, PL

Exhibit 1: Consolidated Segmental: Domestic sales declined 14.5%, IBD sales grow 2.3% led by Bangladesh

(Rs m)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Net Sales	20,268	18,368	18,610	16,090	21,660	18,290	18,240	14,960	19,250
Domestic	16,276	14,389	14,494	12,400	17,310	13,980	13,800	11,460	14,800
International	3,992	3,980	4,116	3,690	4,350	4,310	4,440	3,500	4,450
Sales Growth %	19.8	19.6	14.6	8.7	6.9	-0.4	-2.0	-7.0	-11.1
Domestic	22.6	19.9	12.8	7.2	6.4	-2.8	-4.8	-7.6	-14.5
International	9.4	18.4	21.2	14.2	9.0	8.3	7.9	-5.1	2.3
EBIT	3,769	3,162	3,639	3,000	4,710	3,570	3,830	2,950	4,830
Domestic	2,976	2,457	2,852	2,400	3,650	2,690	2,980	2,380	3,580
International	793	705	787	600	1,060	880	850	570	1,250
EBIT Growth %	8.1	14.4	15.5	9.6	25.0	12.9	5.3	-1.7	2.5
Domestic	8.2	12.7	5.3	0.1	22.7	9.5	4.5	-0.8	-1.9
International	7.6	21.0	78.3	76.7	33.6	24.8	8.1	-5.0	17.9
EBIT Margins %	18.6	17.2	19.6	18.6	21.7	19.5	21.0	19.7	25.1
Domestic	18.3	17.1	19.7	19.4	21.1	19.2	21.6	20.8	24.2
International	19.9	17.7	19.1	16.3	24.4	20.4	19.1	16.3	28.1
Capital Employed	20,280	20,071	18,892	20,850	18,930	19,610	19,910	21,650	24,320
Domestic	13,108	12,401	11,206	13,920	11,910	12,740	12,380	14,320	16,080
International	7,172	7,670	7,686	6,930	7,020	6,870	7,530	7,330	8,240
International Sales Growth %									
Bangladesh (46%)	9.0	10.0	16.0	12.0	11.0	15.0	15.0	6.0	10.0
MENA (15%)	17.0	19.0	8.0	5.0	-20.0	-3.0	-4.0	-50.0	-27.0
South Africa (8%)	7.0	18.0	0.0	0.0	6.0	-2.0	3.0	-26.0	-25.0
SE Asia (26%)	0.0	14.0	13.0	4.0	8.0	1.0	3.0	5.0	-17.0

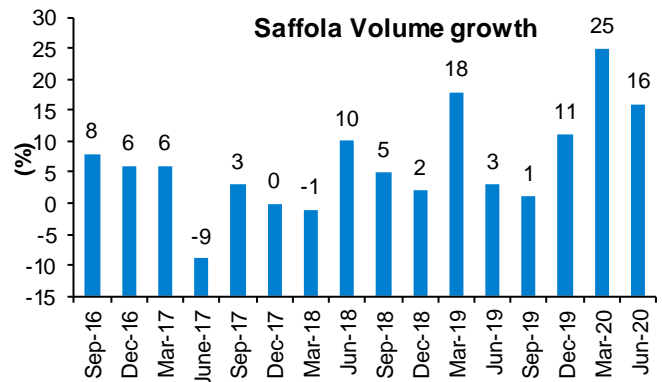
Source: Company, PL

Exhibit 2: Parachute volumes declined 11%



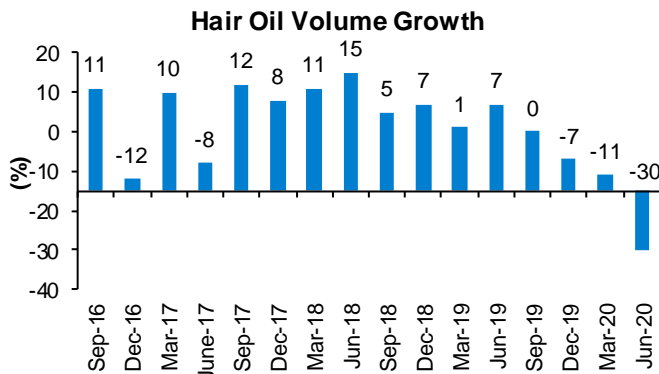
Source: Company, PL

Exhibit 3: Saffola: Volumes grew 16%



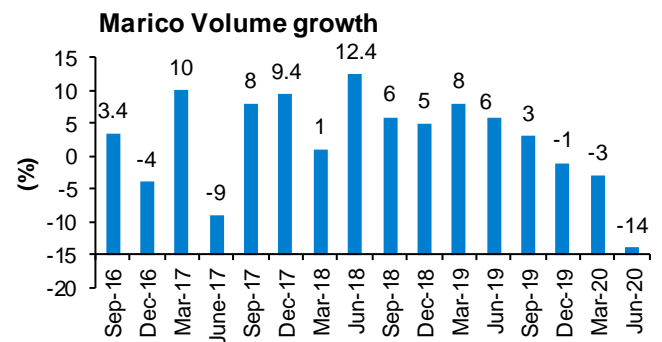
Source: Company, PL

Exhibit 4: Low personal care demand led to 30% vol decline



Source: Company, PL

Exhibit 5: Domestic FMCG Volume down 14% due to Covid



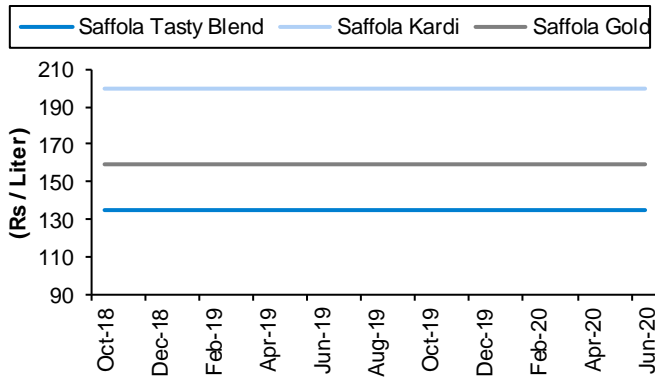
Source: Company, PL

Exhibit 6: Marico has registered market share gains in Saffola and VAHO

Market Share (%)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Coconut Oil	59	59	59	59	60	60	61	62	62
Saffola	70	71	72	73	73	75	76	76	77
Hair Oil VAHO	34	34	34	34	34	35	35	35	36
Livon & Silk and Shine	81	78	76	75	63	64	65	65	65
Hair Creams/Gel	63	62	61	60	60	60	59	59	59
Saffola Oats	29	29	29	29	30	31	32	33	34
Shanti Amla	NA	NA	40	42	44	45	47	47	NA
Parachute Bangladesh	87	87	87	86	84	84	84	82	82
Hair Oils Bangladesh	21	22	23	23	22	22	22	23	23
X Men Shampoo Vietnam	39	39	40	39	38	37	37	37	37
x Men Deodorant Vietnam	29	30	30	31	31	31	31	31	31

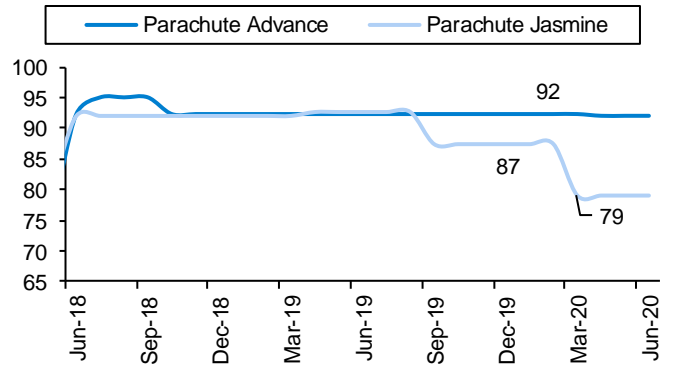
Source: Company, PL

Exhibit 7: Saffola: No price change for 1-year plus



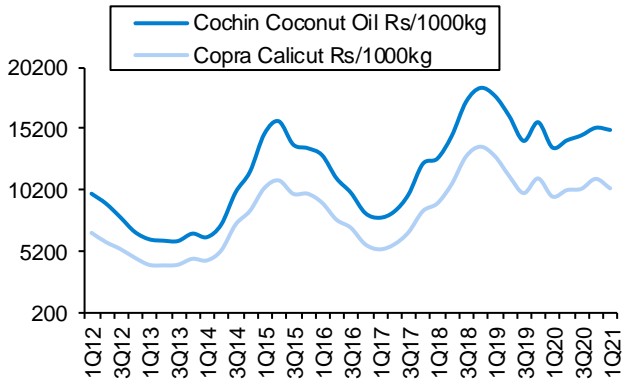
Source: Company, PL

Exhibit 8: No price change in 1Q



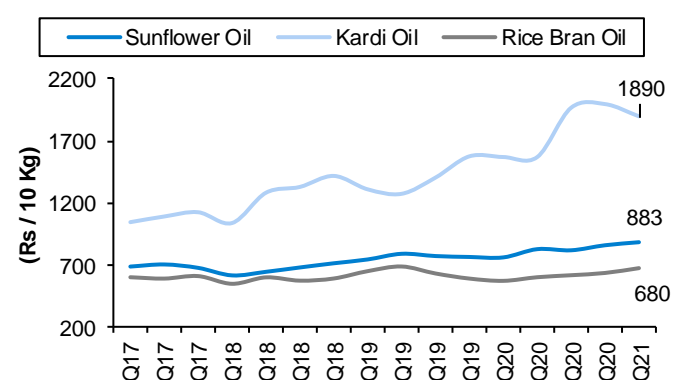
Source: Company, PL

Exhibit 9: Copra: Prices up 10.5% YoY



Source: Company, PL

Exhibit 10: Kardi Oil price up 20.8% YoY but down 4.8% QoQ



Source: Company, PL

Exhibit 11: New launches focus on Hygiene and health



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	73,150	75,726	83,746	93,690
YoY gr. (%)	(0.3)	3.5	10.6	11.9
Cost of Goods Sold	37,450	39,850	43,615	49,253
Gross Profit	35,700	35,876	40,132	44,437
Margin (%)	48.8	47.4	47.9	47.4
Employee Cost	4,780	5,225	5,527	6,090
Other Expenses	8,960	-	-	-
EBITDA	14,690	16,003	17,823	19,393
YoY gr. (%)	10.8	8.9	11.4	8.8
Margin (%)	20.1	21.1	21.3	20.7
Depreciation and Amortization	1,400	1,406	1,497	1,589
EBIT	13,290	14,597	16,327	17,804
Margin (%)	18.2	19.3	19.5	19.0
Net Interest	500	429	377	336
Other Income	1,240	761	930	1,065
Profit Before Tax	14,030	14,928	16,880	18,533
Margin (%)	19.2	19.7	20.2	19.8
Total Tax	3,310	3,717	4,203	4,615
Effective tax rate (%)	23.6	24.9	24.9	24.9
Profit after tax	10,720	11,211	12,677	13,918
Minority interest	-	198	208	219
Share Profit from Associate	-	-	-	-
Adjusted PAT	10,720	11,013	12,468	13,699
YoY gr. (%)	13.6	2.7	13.2	9.9
Margin (%)	14.7	14.5	14.9	14.6
Extra Ord. Income / (Exp)	(290)	-	-	-
Reported PAT	10,430	11,013	12,468	13,699
YoY gr. (%)	(7.9)	5.6	13.2	9.9
Margin (%)	14.3	14.5	14.9	14.6
Other Comprehensive Income	430	-	-	-
Total Comprehensive Income	10,860	11,013	12,468	13,699
Equity Shares O/s (m)	1,291	1,291	1,291	1,291
EPS (Rs)	8.3	8.5	9.7	10.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	15,883	16,383	17,433	18,483
Tangibles	14,571	15,071	16,121	17,171
Intangibles	1,313	1,313	1,313	1,313
Acc: Dep / Amortization	8,763	9,862	11,036	12,286
Tangibles	7,861	8,932	10,078	11,300
Intangibles	903	930	958	985
Net fixed assets	7,120	6,521	6,397	6,197
Tangibles	6,710	6,139	6,042	5,870
Intangibles	410	382	355	327
Capital Work In Progress	580	220	230	230
Goodwill	5,380	5,030	5,030	5,030
Non-Current Investments	1,360	1,139	1,175	1,215
Net Deferred tax assets	1,530	1,365	1,212	1,072
Other Non-Current Assets	2,170	379	419	468
Current Assets				
Investments	6,280	4,241	4,187	4,684
Inventories	13,800	14,334	16,013	18,123
Trade receivables	5,390	4,149	4,589	5,134
Cash & Bank Balance	2,791	7,572	9,589	11,007
Other Current Assets	3,400	3,029	3,099	3,467
Total Assets	50,021	48,136	52,112	56,818
Equity				
Equity Share Capital	1,291	1,291	1,291	1,291
Other Equity	28,940	30,624	34,066	37,451
Total Networkth	30,231	31,914	35,357	38,742
Non-Current Liabilities				
Long Term borrowings	100	58	17	-
Provisions	-	-	-	-
Other non current liabilities	210	231	254	280
Current Liabilities				
ST Debt / Current of LT Debt	3,250	2,750	2,250	1,750
Trade payables	9,780	8,601	9,168	10,376
Other current liabilities	4,820	4,380	4,840	5,418
Total Equity & Liabilities	50,021	48,136	52,112	56,818

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	13,554	14,928	16,880	18,533
Add. Depreciation	1,760	1,406	1,497	1,589
Add. Interest	510	429	377	336
Less Financial Other Income	1,240	761	930	1,065
Add. Other	310	(1,121)	100	76
Op. profit before WC changes	16,134	15,642	18,853	20,534
Net Changes-WC	(1,840)	1,566	(1,112)	(1,741)
Direct tax	(3,375)	(3,717)	(4,203)	(4,615)
Net cash from Op. activities	10,919	13,491	13,537	14,178
Capital expenditures	(2,890)	1,363	(1,383)	(1,389)
Interest / Dividend Income	-	-	-	-
Others	(420)	420	-	-
Net Cash from Inv. activities	(3,310)	1,783	(1,383)	(1,389)
Issue of share cap. / premium	816	(485)	(184)	(191)
Debt changes	(140)	(542)	(541)	(517)
Dividend paid	(10,504)	(9,036)	(9,036)	(10,327)
Interest paid	(510)	(429)	(377)	(336)
Others	-	-	-	-
Net cash from Fin. activities	(10,338)	(10,492)	(10,138)	(11,371)
Net change in cash	(2,729)	4,781	2,017	1,418
Free Cash Flow	8,029	14,854	12,155	12,789

Source: Company Data, PL Research

Key Financial Metrics

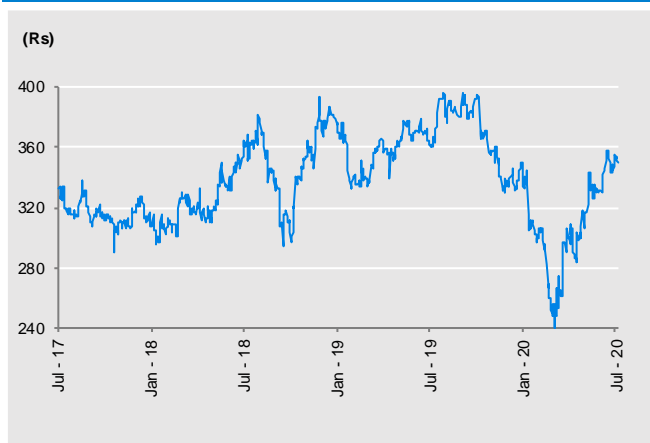
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	8.3	8.5	9.7	10.6
CEPS	9.4	9.6	10.8	11.8
BVPS	23.4	24.7	27.4	30.0
FCF	6.2	11.5	9.4	9.9
DPS	(6.8)	(7.0)	(7.0)	(8.0)
Return Ratio(%)				
RoCE	39.8	42.7	45.1	45.6
ROIC	32.5	40.2	42.6	43.3
RoE	35.7	35.4	37.1	37.0
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.3)	(0.3)	(0.4)
Net Working Capital (Days)	47	48	50	50
Valuation(x)				
PER	42.2	41.1	36.3	33.0
P/B	15.0	14.2	12.8	11.7
P/CEPS	37.3	36.4	32.4	29.6
EV/EBITDA	30.4	27.7	24.7	22.6
EV/Sales	6.1	5.9	5.3	4.7
Dividend Yield (%)	(1.9)	(2.0)	(2.0)	(2.3)

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	18,290	18,240	14,960	19,250
YoY gr. (%)	(0.4)	(2.0)	(7.0)	(11.1)
Raw Material Expenses	9,210	9,280	7,590	9,840
Gross Profit	9,080	8,960	7,370	9,410
Margin (%)	49.6	49.1	49.3	48.9
EBITDA	3,530	3,730	2,820	4,670
YoY gr. (%)	20.0	6.9	(0.4)	1.3
Margin (%)	19.3	20.4	18.9	24.3
Depreciation / Depletion	350	320	380	340
EBIT	3,180	3,410	2,440	4,330
Margin (%)	17.4	18.7	16.3	22.5
Net Interest	130	120	130	90
Other Income	350	290	320	190
Profit before Tax	3,400	3,580	2,630	4,430
Margin (%)	18.6	19.6	17.6	23.0
Total Tax	880	820	530	1,170
Effective tax rate (%)	25.9	22.9	20.2	26.4
Profit after Tax	2,520	2,760	2,100	3,260
Minority interest	(10)	-	10	20
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,530	2,760	2,090	3,240
YoY gr. (%)	15.9	9.7	(3.7)	(3.0)
Margin (%)	13.8	15.1	14.0	16.8
Extra Ord. Income / (Exp)	-	-	(100)	640
Reported PAT	2,530	2,760	1,990	3,880
YoY gr. (%)	15.9	9.7	(50.9)	23.2
Margin (%)	13.8	15.1	13.3	20.2
Other Comprehensive Income	(50)	420	50	(20)
Total Comprehensive Income	2,480	3,180	2,040	3,860
Avg. Shares O/s (m)	1,291	1,291	1,291	1,291
EPS (Rs)	2.0	2.1	1.6	2.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	Hold	337	352
2	04-May-20	Hold	318	284
3	15-Apr-20	Hold	329	303
4	31-Jan-20	Accumulate	357	315
5	03-Jan-20	Reduce	340	335
6	25-Oct-19	Reduce	339	394
7	03-Oct-19	Hold	339	384
8	01-Aug-19	Hold	357	363

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,829	1,717
2	Avenue Supermarts	Reduce	1,695	2,323
3	Bajaj Electricals	BUY	500	384
4	Britannia Industries	BUY	4,316	3,785
5	Colgate Palmolive	Reduce	1,277	1,392
6	Crompton Greaves Consumer Electricals	BUY	287	241
7	Dabur India	Hold	451	479
8	Emami	Hold	287	233
9	Future Retail	Under Review	-	332
10	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
11	Havells India	Reduce	521	598
12	Hindustan Unilever	Hold	2,304	2,249
13	ITC	BUY	262	200
14	Jubilant FoodWorks	UR	-	1,746
15	Kansai Nerolac Paints	BUY	529	444
16	Marico	Hold	337	352
17	Nestle India	Reduce	14,609	16,912
18	Pidilite Industries	Hold	1,418	1,399
19	Titan Company	Hold	1,025	1,016
20	Voltas	Accumulate	600	575

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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