

October 28, 2020

Q2FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		HOLD	
Target Price	378		359	
Sales (Rs. m)	86,218	96,501	85,516	95,719
% Chng.	0.8	0.8		
EBITDA (Rs. m)	17,275	19,533	17,455	19,830
% Chng.	(1.0)	(1.5)		
EPS (Rs.)	9.5	10.8	9.5	11.0
% Chng.	(0.8)	(1.8)		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	73,150	77,058	86,218	96,501
EBITDA (Rs. m)	14,690	15,852	17,275	19,533
Margin (%)	20.1	20.6	20.0	20.2
PAT (Rs. m)	10,720	11,230	12,208	13,925
EPS (Rs.)	8.3	8.7	9.5	10.8
Gr. (%)	13.6	4.8	8.7	14.1
DPS (Rs.)	(6.9)	(7.0)	(7.5)	(8.5)
Yield (%)	(1.9)	(1.9)	(2.1)	(2.3)
RoE (%)	35.7	35.8	36.2	38.2
RoCE (%)	39.8	41.9	43.4	46.6
EV/Sales (x)	6.3	6.0	5.3	4.7
EV/EBITDA (x)	31.5	29.0	26.5	23.4
PE (x)	43.7	41.7	38.4	33.6
P/BV (x)	15.5	14.4	13.4	12.3

Key Data

MRCO.BO | MRCO IN

52-W High / Low	Rs.392 / Rs.234
Sensex / Nifty	39,922 / 11,730
Market Cap	Rs.469bn/ \$ 6,345m
Shares Outstanding	1,291m
3M Avg. Daily Value	Rs.2192.23m

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	0.7	25.1	(7.2)
Relative	(4.2)	0.7	(8.7)

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Nothing to get excited about

We cut FY21/22/23 EPS estimates of MRCO by 2.3%, 0.8%, 1.8% even as MRCO remains optimistic on growth led by Edible oil, Foods portfolio, Bangladesh and Vietnam. Parachute and VAHO seem well poised for growth but Saffola Oils and Oats is expected to see moderation as in-house consumption normalizes. MRCO is adopting aggressive strategy to gain share by keeping prices flat in 3Q despite 10% increase in prices of Copra and 26% in Rice bran oil, which can backfire if the expected softening of input costs does not materialize in 4Q. MRCO is betting big on Foods and Hygiene, however aspiration of Rs4.5-5bn by FY22 looks stretched given that Hygiene sales have started coming off and its entry in modern Ayurveda products through Immuniveda brand will face strong competition from established brands like Dabur, Zandu, Patanjali and Baidyanath etc. We estimate 10% PAT CAGR over FY20-23. We value the stock at 35x FY23 EPS with a target price of Rs378 (Rs359 based on 35x Sept22 EPS earlier). Retain Hold.

Volumes grew 11%: Net Sales increased 8.7% YoY to Rs19.9bn (Est Rs19.66bn). Gross margins declined 160bps YoY to 48% (Est 48.6%). EBITDA increased 10.2% YoY to Rs3.9bn (Est Rs4.17bn). EBITDA Margins expanded by 30bps to 19.6% (Est 21.2%) as lower GRM were offset by lower Ad spends and other expenses. PBT increased 10.3% YoY to Rs3.75bn. Adj. PAT increased 20.9% YoY to Rs3.06bn due to lower tax (18.4% vs 25.9%) in Q2FY20 (Est Rs2.92bn). Standalone sales increased 6.6% at Rs15.5bn, EBITDA up 6.5% at Rs2.79bn, margins were flat, Adj PAT increased 33.6% to Rs3.46bn. India sales grew 7.9% to Rs15.08bn and EBIT grew 8.6% while margins remained flat. IBD reported increase of 11.6% in sales to Rs4.81bn while EBIT grew 18.2% to Rs1.04bn.

Saffola volumes grow 20%, overall volumes up 11%: Domestic volume grew by 11% (Est 10%). Parachute and VAHO volumes grew 10% (Est 8%) and 4% (Est 5%) respectively while Saffola volumes grew 20% (Est 13%) on back of increased in-home consumption. Saffola foods franchise grew 55% led by 45% growth in Oats. Male Grooming and Premium Hair Nourishment witnessed QoQ growth, although down YoY. IBD sales grew 11.6% led by 16% growth in Bangladesh & South Africa, however MENA and SE Asia de-grew by 6% and 4% respectively.

Concall takeaways: 1) Traditional channels continue to outperform with rural growing ahead of urban. Rural volume growth and revenue contribution stood at 22% and 35% 2) E-Com contribution stood at 8% however MT and CSD remained subdued 3) Saffola edible oils retained high growth with 62% of growth from enhanced penetration and retention 4) Foods portfolio grew by 55% led by growth in oats due to continued ad-spends and increase in share of healthy in-house snacking. 5) MRCO is targeting FY22 sales of Rs3-3.5bn from foods. 6) Market share in honey is 8% in Modern trade channels. 7) Despite increase in input prices MRCO has not taken any price increase as they expect to offset price increase through cost saving measures and expects soft input costs from 4Q. 8) MRCO Forayed into modern Ayurveda products under Immuniveda brand, expect these segments to grow despite tapering of growth in health and hygiene segments 9) MRCO looking to replicate growth of Bangladesh in Vietnam

Exhibit 1: 2QFY21 Results: Sales grew 8.7%, PAT increased by 20.9%

Consolidated	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Sales	19,890	18,290	8.7	19,250	39,140	39,950	(2.0)
COGS	10,340	9,210	12.3	9,890	20,230	20,580	(1.7)
<i>% of Net Sales</i>	52.0	50.4		51.4	51.7	51.5	
Gross Profit	9,550	9,080	5.2	9,360	18,910	19,370	(2.4)
<i>% of NS</i>	48.0	49.6		48.6	48.3	48.5	
Advt. & Prom.	1,890	1,970	(4.1)	1,370	3,260	4,160	(21.6)
<i>% of NS</i>	9.5	10.8		7.1	8.3	10.4	
Total Expenses	16,000	14,760	8.4	14,580	30,580	31,810	(3.9)
EBITDA	3,890	3,530	10.2	4,670	8,560	8,140	5.2
<i>Margins (%)</i>	19.6	19.3		24.3	21.9	20.4	
Depreciation	330	350	(5.7)	340	670	700	(4.3)
EBIT	3,560	3,180	11.9	4,330	7,890	7,440	6.0
Interest	80	130	(38.5)	90	170	250	(32.0)
Other Income	270	350	(22.9)	190	460	630	(27.0)
PBT	3,750	3,400	10.3	4,430	8,180	7,820	4.6
Tax	690	880	(21.6)	1,170	1,860	1,960	(5.1)
<i>Effective tax rate (%)</i>	18.4	25.9		26.4	22.7	25.1	
Adjusted PAT	3,060	2,530	20.9	3,240	6,300	5,870	7.3

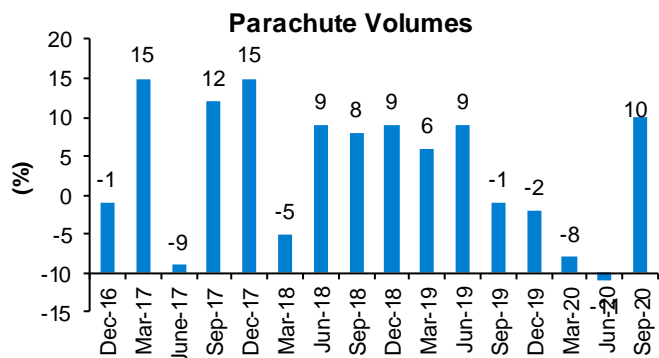
Source: Company, PL

Exhibit 2: Consolidated Segmental: Domestic sales grew 7.9%, IBD sales grew 11.6%

(Rs m)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
Net Sales	18,368	18,610	16,090	21,660	18,290	18,240	14,960	19,250	19,890
Domestic	14,389	14,494	12,400	17,310	13,980	13,800	11,460	14,800	15,080
International	3,980	4,116	3,690	4,350	4,310	4,440	3,500	4,450	4,810
Sales Growth %	19.6	14.6	8.7	6.9	-0.4	-2.0	-7.0	-11.1	8.7
Domestic	19.9	12.8	7.2	6.4	-2.8	-4.8	-7.6	-14.5	7.9
International	18.4	21.2	14.2	9.0	8.3	7.9	-5.1	2.3	11.6
EBIT	3,162	3,639	3,000	4,710	3,570	3,830	2,950	4,830	3,960
Domestic	2,457	2,852	2,400	3,650	2,690	2,980	2,380	3,580	2,920
International	705	787	600	1,060	880	850	570	1,250	1,040
EBIT Growth %	14.4	15.5	9.6	25.0	12.9	5.3	-1.7	2.5	10.9
Domestic	12.7	5.3	0.1	22.7	9.5	4.5	-0.8	-1.9	8.6
International	21.0	78.3	76.7	33.6	24.8	8.1	-5.0	17.9	18.2
EBIT Margins %	17.2	19.6	18.6	21.7	19.5	21.0	19.7	25.1	19.9
Domestic	17.1	19.7	19.4	21.1	19.2	21.6	20.8	24.2	19.4
International	17.7	19.1	16.3	24.4	20.4	19.1	16.3	28.1	21.6
Capital Employed	20,071	18,892	20,850	18,930	19,610	19,910	21,650	24,320	21,650
Domestic	12,401	11,206	13,920	11,910	12,740	12,380	14,320	16,080	14,320
International	7,670	7,686	6,930	7,020	6,870	7,530	7,330	8,240	7,330
International Sales Growth %									
Bangladesh (46%)	10.0	16.0	12.0	11.0	15.0	15.0	6.0	10.0	16.0
MENA (15%)	19.0	8.0	5.0	-20.0	-3.0	-4.0	-50.0	-27.0	-6.0
South Africa (8%)	18.0	0.0	0.0	6.0	-2.0	3.0	-26.0	-25.0	16.0
SE Asia (26%)	14.0	13.0	4.0	8.0	1.0	3.0	5.0	-17.0	-4.0

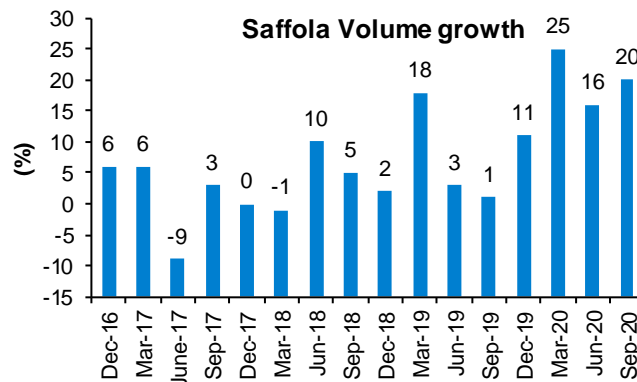
Source: Company, PL

Exhibit 3: Parachute volumes grew 10%



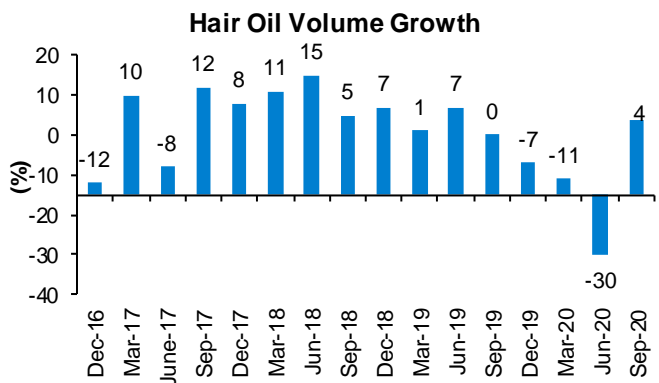
Source: Company, PL

Exhibit 4: Saffola: Volumes grew 20%



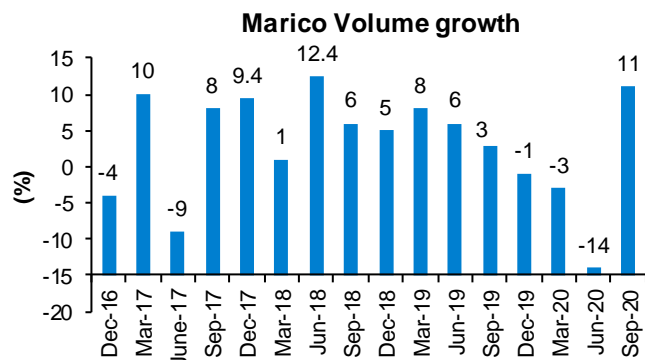
Source: Company, PL

Exhibit 5: VAHO volumes grew 4%



Source: Company, PL

Exhibit 6: Domestic FMCG Volume grew 11%



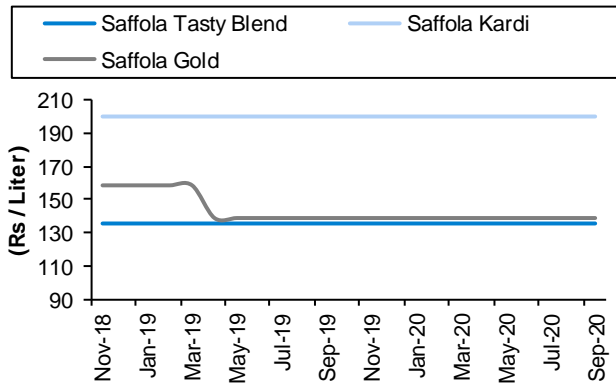
Source: Company, PL

Exhibit 7: Marico has maintained its market share in various products

Market Share (%)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Coconut Oil	59	59	59	60	60	61	62	62	62
Saffola	71	72	73	73	75	76	76	77	77
Hair Oil VAHO	34	34	34	34	35	35	35	36	36
Livon & Silk and Shine	78	76	75	63	64	65	65	65	65
Hair Creams/Gel	62	61	60	60	60	59	59	59	59
Saffola Oats	29	29	29	30	31	32	33	34	34
Shanti Amla	NA	40	42	44	45	47	47	NA	NA
Parachute Bangladesh	87	87	86	84	84	84	82	82	82
Hair Oils Bangladesh	22	23	23	22	22	22	23	23	23
X Men Shampoo Vietnam	39	40	39	38	37	37	37	37	37
x Men Deodorant Vietnam	30	30	31	31	31	31	31	31	31

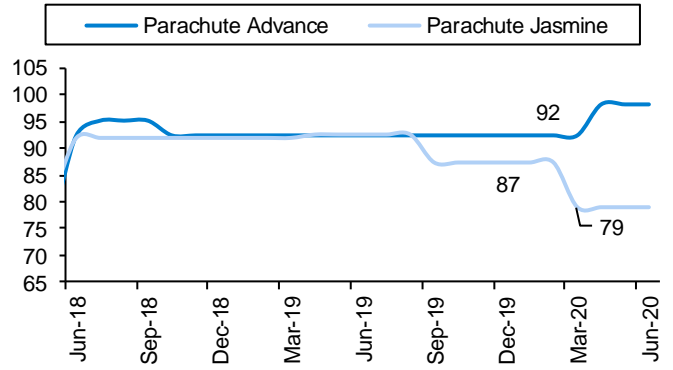
Source: Company, PL

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



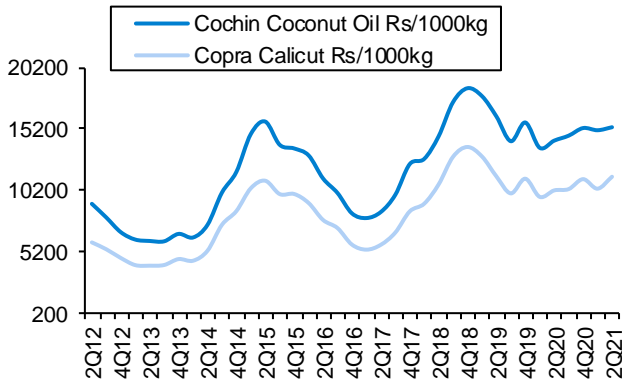
Source: Company, PL

Exhibit 9: No price change in 2Q



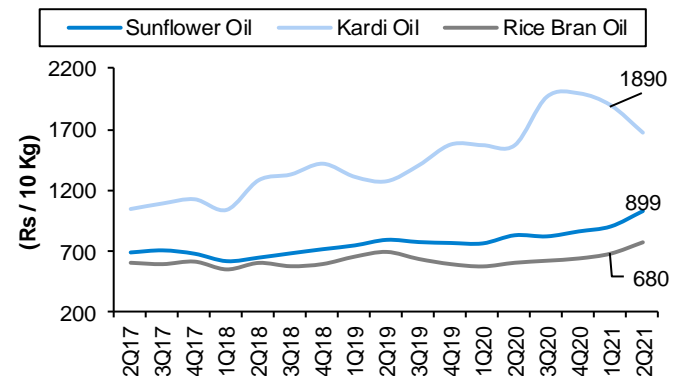
Source: Company, PL

Exhibit 10: Cochin/Calicut Copra Prices up 7.6% / 10.9% YoY



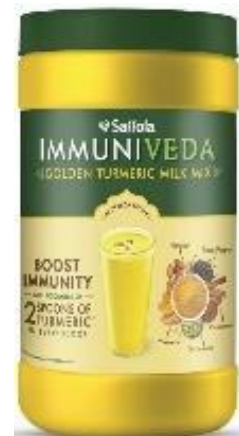
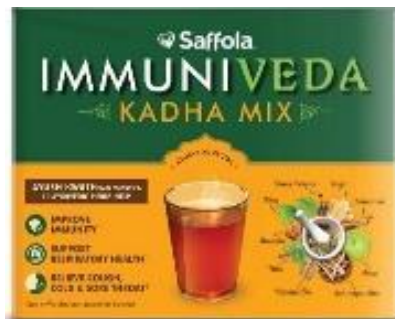
Source: Company, PL

Exhibit 11: Sunflower Oil price up 23.4% / 13.7% YoY / QoQ



Source: Company, PL

Exhibit 12: New launches focused on Modern Ayurveda



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	73,150	77,058	86,218	96,501
YoY gr. (%)	(0.3)	5.3	11.9	11.9
Cost of Goods Sold	37,450	40,169	45,319	50,719
Gross Profit	35,700	36,889	40,899	45,782
Margin (%)	48.8	47.9	47.4	47.4
Employee Cost	4,780	5,317	5,777	6,369
Other Expenses	8,960	-	-	-
EBITDA	14,690	15,852	17,275	19,533
YoY gr. (%)	10.8	7.9	9.0	13.1
Margin (%)	20.1	20.6	20.0	20.2
Depreciation and Amortization	1,400	1,442	1,529	1,613
EBIT	13,290	14,410	15,746	17,920
Margin (%)	18.2	18.7	18.3	18.6
Net Interest	500	360	321	296
Other Income	1,240	912	1,043	1,131
Profit Before Tax	14,030	14,962	16,469	18,756
Margin (%)	19.2	19.4	19.1	19.4
Total Tax	3,310	3,501	4,018	4,576
Effective tax rate (%)	23.6	23.4	24.4	24.4
Profit after tax	10,720	11,461	12,450	14,179
Minority interest	-	231	243	255
Share Profit from Associate	-	-	-	-
Adjusted PAT	10,720	11,230	12,208	13,925
YoY gr. (%)	13.6	4.8	8.7	14.1
Margin (%)	14.7	14.6	14.2	14.4
Extra Ord. Income / (Exp)	(290)	-	-	-
Reported PAT	10,430	11,230	12,208	13,925
YoY gr. (%)	(7.9)	7.7	8.7	14.1
Margin (%)	14.3	14.6	14.2	14.4
Other Comprehensive Income	430	-	-	-
Total Comprehensive Income	10,860	11,230	12,208	13,925
Equity Shares O/s (m)	1,290	1,290	1,290	1,290
EPS (Rs)	8.3	8.7	9.5	10.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	15,363	15,863	16,913	17,963
Tangibles	14,071	14,571	15,621	16,671
Intangibles	1,293	1,293	1,293	1,293
Acc: Dep / Amortization	8,243	9,305	10,443	11,656
Tangibles	7,361	8,396	9,506	10,693
Intangibles	882	909	937	964
Net fixed assets	7,120	6,558	6,470	6,307
Tangibles	6,710	6,175	6,114	5,978
Intangibles	410	383	356	329
Capital Work In Progress	580	220	230	230
Goodwill	5,380	5,470	5,470	5,470
Non-Current Investments	1,360	1,379	1,411	1,445
Net Deferred tax assets	1,530	1,365	1,212	1,072
Other Non-Current Assets	2,170	2,353	2,464	2,590
Current Assets				
Investments	6,280	9,247	9,915	10,615
Inventories	13,800	14,783	16,637	18,620
Trade receivables	5,390	4,222	4,724	5,288
Cash & Bank Balance	2,791	2,364	2,393	2,364
Other Current Assets	3,400	3,468	3,449	3,860
Total Assets	50,021	51,585	54,547	58,051
Equity				
Equity Share Capital	1,290	1,290	1,290	1,290
Other Equity	28,940	31,152	33,691	36,659
Total Networkth	30,230	32,442	34,981	37,949
Non-Current Liabilities				
Long Term borrowings	100	83	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	9,666	10,160	10,661
Other current liabilities	4,820	4,787	5,289	5,863
Total Equity & Liabilities	50,020	51,584	54,546	58,050

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	14,030	14,962	16,469	18,756
Add. Depreciation	1,400	1,442	1,529	1,613
Add. Interest	500	360	321	296
Less Financial Other Income	1,240	912	1,043	1,131
Add. Other	310	(30)	(5)	(48)
Op. profit before WC changes	16,240	16,734	18,313	20,617
Net Changes-WC	(1,840)	(2,927)	(2,015)	(2,591)
Direct tax	(3,310)	(3,501)	(4,018)	(4,576)
Net cash from Op. activities	11,090	10,305	12,280	13,450
Capital expenditures	(2,530)	(623)	(1,467)	(1,470)
Interest / Dividend Income	-	-	-	-
Others	(420)	10	-	-
Net Cash from Inv. activities	(2,950)	(613)	(1,467)	(1,470)
Issue of share cap. / premium	40	(205)	(215)	(223)
Debt changes	(140)	(517)	(566)	(517)
Dividend paid	(10,270)	(9,037)	(9,683)	(10,974)
Interest paid	(500)	(360)	(321)	(296)
Others	-	-	-	-
Net cash from Fin. activities	(10,870)	(10,119)	(10,784)	(12,009)
Net change in cash	(2,730)	(427)	29	(29)
Free Cash Flow	8,560	9,682	10,813	11,980

Source: Company Data, PL Research

Quarterly Financials (Rs m)

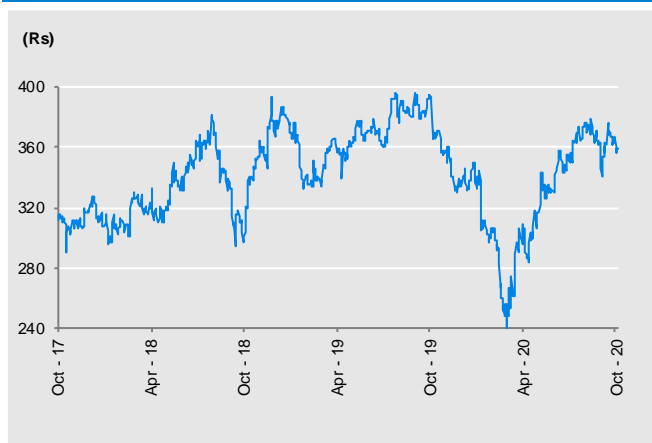
Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	18,240	14,960	19,250	19,890
YoY gr. (%)	(2.0)	(7.0)	(11.1)	8.7
Raw Material Expenses	9,280	7,590	9,890	10,340
Gross Profit	8,960	7,370	9,360	9,550
Margin (%)	49.1	49.3	48.6	48.0
EBITDA	3,730	2,820	4,670	3,890
YoY gr. (%)	6.9	(0.4)	1.3	10.2
Margin (%)	20.4	18.9	24.3	19.6
Depreciation / Depletion	320	380	340	330
EBIT	3,410	2,440	4,330	3,560
Margin (%)	18.7	16.3	22.5	17.9
Net Interest	120	130	90	80
Other Income	290	320	190	270
Profit before Tax	3,580	2,630	4,430	3,750
Margin (%)	19.6	17.6	23.0	18.9
Total Tax	820	530	1,170	690
Effective tax rate (%)	22.9	20.2	26.4	18.4
Profit after Tax	2,760	2,100	3,260	3,060
Minority interest	-	10	20	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,760	2,090	3,240	3,060
YoY gr. (%)	9.7	(3.7)	(3.0)	20.9
Margin (%)	15.1	14.0	16.8	15.4
Extra Ord. Income / (Exp)	-	(100)	640	(330)
Reported PAT	2,760	1,990	3,880	2,730
YoY gr. (%)	9.7	(50.9)	23.2	7.9
Margin (%)	15.1	13.3	20.2	13.7
Other Comprehensive Income	420	50	(20)	50
Total Comprehensive Income	3,180	2,040	3,860	2,780
Avg. Shares O/s (m)	1,291	1,291	1,291	1,291
EPS (Rs)	2.1	1.6	2.5	2.4

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	8.3	8.7	9.5	10.8
CEPS	9.4	9.8	10.6	12.0
BVPS	23.4	25.1	27.1	29.4
FCF	6.6	7.5	8.4	9.3
DPS	(6.9)	(7.0)	(7.5)	(8.5)
Return Ratio(%)				
RoCE	39.8	41.9	43.4	46.6
ROIC	32.5	36.0	37.3	39.8
RoE	35.7	35.8	36.2	38.2
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	47	44	47	50
Valuation(x)				
PER	43.7	41.7	38.4	33.6
P/B	15.5	14.4	13.4	12.3
P/CEPS	38.6	37.0	34.1	30.1
EV/EBITDA	31.5	29.0	26.5	23.4
EV/Sales	6.3	6.0	5.3	4.7
Dividend Yield (%)	(1.9)	(1.9)	(2.1)	(2.3)

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Oct-20	Hold	359	372
2	27-Jul-20	Hold	355	350
3	08-Jul-20	Hold	337	352
4	04-May-20	Hold	318	284
5	15-Apr-20	Hold	329	303
6	31-Jan-20	Accumulate	357	315
7	03-Jan-20	Reduce	340	335

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	2,000	2,100
2	Avenue Supermarts	BUY	2,316	1,988
3	Bajaj Electricals	BUY	564	498
4	Britannia Industries	BUY	4,301	3,553
5	Colgate Palmolive	Hold	1,445	1,427
6	Crompton Greaves Consumer Electricals	BUY	346	305
7	Dabur India	Hold	469	522
8	Emami	Hold	424	353
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Reduce	571	688
11	Hindustan Unilever	BUY	2,502	2,173
12	ITC	BUY	244	167
13	Jubilant FoodWorks	Hold	2,255	2,330
14	Kansai Nerolac Paints	BUY	550	477
15	Marico	Hold	359	372
16	Nestle India	Hold	15,122	15,865
17	Pidilite Industries	Hold	1,415	1,487
18	Titan Company	Accumulate	1,352	1,254
19	Titan Company	Accumulate	1,352	1,254
20	Voltas	Accumulate	702	672

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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