

January 28, 2021

Q3FY21 Result Update

☑ Change in Estimates | ☑ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		HOLD	
Target Price	440		410	
Sales (Rs. m)	88,102	98,942	86,218	96,501
% Chng.	2.2	2.5		
EBITDA (Rs. m)	17,789	20,822	17,275	19,533
% Chng.	3.0	6.6		
EPS (Rs.)	9.8	11.6	9.5	10.8
% Chng.	3.3	7.1		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	73,150	78,244	88,102	98,942
EBITDA (Rs. m)	14,690	16,095	17,789	20,822
Margin (%)	20.1	20.6	20.2	21.0
PAT (Rs. m)	10,720	11,420	12,607	14,914
EPS (Rs.)	8.3	8.9	9.8	11.6
Gr. (%)	13.6	6.5	10.4	18.3
DPS (Rs.)	(6.9)	(7.0)	(7.5)	(8.5)
Yield (%)	(1.7)	(1.7)	(1.8)	(2.1)
RoE (%)	35.7	36.3	37.0	39.7
RoCE (%)	39.8	42.4	44.4	48.6
EV/Sales (x)	7.2	6.7	5.9	5.2
EV/EBITDA (x)	35.7	32.4	29.3	24.9
PE (x)	49.5	46.5	42.1	35.6
P/BV (x)	17.6	16.3	14.9	13.4

Key Data

MRCO.BO | MRCO IN

52-W High / Low	Rs.435 / Rs.234
Sensex / Nifty	46,874 / 13,818
Market Cap	Rs.531bn/ \$ 7,274m
Shares Outstanding	1,291m
3M Avg. Daily Value	Rs.2418.11m

Shareholding Pattern (%)

Promoter's	59.71
Foreign	24.16
Domestic Institution	9.99
Public & Others	6.13
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.1	13.7	22.8
Relative	2.2	(6.7)	7.3

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All growth levers in place; Accumulate

Quick Pointers:

- Volumes up 15%, momentum to sustain in coming quarters.
- Foods bn revenues to reach Rs 3.5bn in FY21 and Rs 4.5-5.0bn in FY22, Saffola honey and Beardo to cross revenues of Rs 1bn each, in FY22.

We are increasing FY21/22/23 EPS estimates marginally by 1.8/3.3/7.1% and our rating from Hold to Accumulate. MRCO has given optimistic outlook based on 1) Double digit volume growth in VAHO, 2) steady growth in parachute and Saffola and 3) scalability in oats and Honey with a target of Rs4.5-5bn sales by FY22 4) integration of Beardo acquisition 5) Structural cost savings of Rs 1.5bn in domestic business and 6) Improving growth outlook in Bangladesh and recovery in MENA. Although MRCO is near term input cost pressure in edible oils, LLP and Parachute, it has taken 15-20% price increase in Saffola and reduced promotions in VAHO while it expects softer copra prices in coming season. We estimate 14.3% PAT CAGR over FY21-23. We value the stock at 38x FY23 EPS (ROE of ~40% and dividend payout of 75%) and assign target price of Rs440. Upgrade to Accumulate.

Sales up 16.3%, adj PAT up 13.0%: Net Sales increased 16.3% YoY to Rs 21.22bn (Est Rs 20.25bn). Gross margins declined 220bps to 46.9% YoY (Est 48%) due to input cost inflation. EBITDA increased 10.7% YoY to Rs 4.13bn (Est Rs 4.37bn). EBITDA Margins contracted by 100bps to 19.5% (Est 21.6%) due to lower GRMs. Adj. PAT increased 13.0% YoY to Rs 3.12bn (Est Rs 3.18bn). Standalone sales increased 16.2% at Rs16.7bn, EBITDA up 6.3% at Rs3.04bn, margins were down 170bps, Adj PAT increased 8.9% to Rs2.93bn. India sales grew 17.9% to Rs16.27bn and EBIT grew 9.1% while contracted 160bps. IBD reported increase of 11.5% in sales to Rs4.95bn while EBIT grew 12.9% to Rs960mn.

Volumes grew 15% led by core portfolio: Domestic volume up 15% (Est 10%). Parachute volumes up 8% (Est 8%), VAHO up 21% (Est 5%) while Saffola volumes grew by 17% (Est 13%). Saffola foods franchise grew 74% led by 50% growth in Oats. Male Grooming and Premium Hair Nourishment witnessed 4% volume decline YoY though improved sequentially. IBD sales grew 8% in cc terms led by 15% growth in Bangladesh & 7% in South Africa, however MENA and SE Asia de-grew by 1% and 3% respectively.

Concall takeaways: 1) Saffola oils grew in double digits for 5th consecutive qtr (even on a high base) due to increased penetration and is expected to grow in high single digit. 2) Took 15-20% price increase in Saffola portfolio to counter high oil prices 3) Planning to take 5% price increase in parachute portfolio in 4Q. The management expects copra prices to cool off by April thereby reducing pressure on margins. 4) VAHO is expected to register double digit volume growth over medium term. 5) Oats franchise grew by 50% in value terms backed by increased penetration and a superior value proposition offered by the brand. 6) Saffola honey has double digit market share overall and 20%+ market share in e-com platforms. Sales likely to reach Rs 1bn next year in market of Rs 8-9bn. 7) E-Com continue (8% of topline) to witness high growth, while MT recovered sequentially (flat YoY). GT grew steadily with rural continuing to outpace urban growth. CSD declined YoY but recovered sequentially. 8) Reduced focus on hygiene segment as demand has

peaked 9) Beardo revenues to be around Rs 1bn by next year. 10) Plans to increase rural stockists by 33% and increase urban chemists by 6x. 11) Employee costs higher due to Beardo acquisition, provision for employee benefits and will remain at similar levels in 4Q.

Exhibit 1: 3QFY21 Results: Sales grew 16.3%, PAT increased by 13.0%

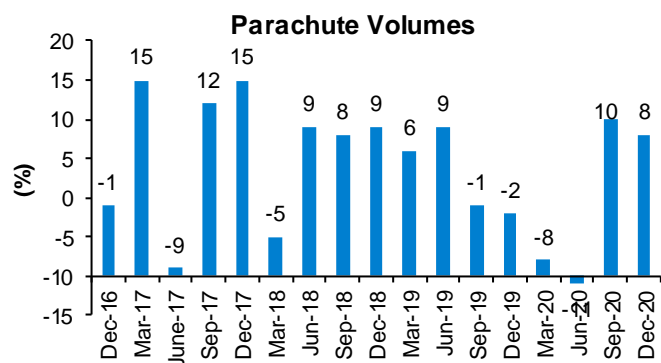
Consolidated	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
Net Sales	21,220	18,240	16.3	19,890	39,140	39,950	(2.0)
COGS	11,270	9,280	21.4	10,340	20,230	20,580	(1.7)
<i>% of Net Sales</i>	53.1	50.9	2.2	52.0	51.7	51.5	0.2
Gross Profit	9,950	8,960	11.0	9,550	18,910	19,370	(2.4)
<i>% of NS</i>	46.9	49.1	-2.2	48.0	48.3	48.5	-0.2
Advt. & Prom.	1,930	1,850	4.3	1,890	3,260	4,160	(21.6)
<i>% of NS</i>	9.1	10.1	-1.0	9.5	8.3	10.4	-2.1
Total Expenses	17,090	14,510	17.8	16,000	30,580	31,810	(3.9)
EBITDA	4,130	3,730	10.7	3,890	8,560	8,140	5.2
<i>Margins (%)</i>	19.5	20.4	-1.0	19.6	21.9	20.4	1.5
Depreciation	360	320	12.5	330	670	700	(4.3)
EBIT	3,770	3,410	10.6	3,560	7,890	7,440	6.0
Interest	70	120	(41.7)	80	170	250	(32.0)
Other Income	240	290	(17.2)	270	460	630	(27.0)
PBT	3,940	3,580	10.1	3,750	8,180	7,820	4.6
Tax	820	820	-	690	1,860	1,960	(5.1)
<i>Effective tax rate (%)</i>	20.8	22.9	-2.1	18.4	22.7	25.1	-2.3
Adjusted PAT	3,120	2,760	13.0	3,060	6,300	5,870	7.3

Source: Company, PL

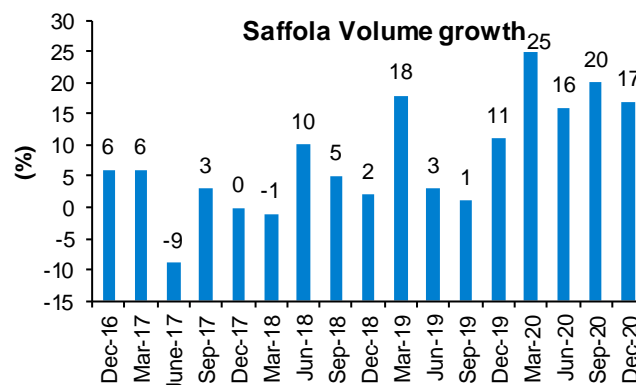
Exhibit 2: Consolidated Segmental: Domestic sales grew 17.9%, IBD sales grew 11.5%

(Rs m)	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21
Net Sales	18,610	16,090	21,660	18,290	18,240	14,960	19,250	19,890	21,220
Domestic	14,494	12,400	17,310	13,980	13,800	11,460	14,800	15,080	16,270
International	4,116	3,690	4,350	4,310	4,440	3,500	4,450	4,810	4,950
Sales Growth %	14.6	8.7	6.9	-0.4	-2.0	-7.0	-11.1	8.7	16.3
Domestic	12.8	7.2	6.4	-2.8	-4.8	-7.6	-14.5	7.9	17.9
International	21.2	14.2	9.0	8.3	7.9	-5.1	2.3	11.6	11.5
EBIT	3,639	3,000	4,710	3,570	3,830	2,950	4,830	3,960	4,210
Domestic	2,852	2,400	3,650	2,690	2,980	2,380	3,580	2,920	3,250
International	787	600	1,060	880	850	570	1,250	1,040	960
EBIT Growth %	15.5	9.6	25.0	12.9	5.3	-1.7	2.5	10.9	9.9
Domestic	5.3	0.1	22.7	9.5	4.5	-0.8	-1.9	8.6	9.1
International	78.3	76.7	33.6	24.8	8.1	-5.0	17.9	18.2	12.9
EBIT Margins %	19.6	18.6	21.7	19.5	21.0	19.7	25.1	19.9	19.8
Domestic	19.7	19.4	21.1	19.2	21.6	20.8	24.2	19.4	20.0
International	19.1	16.3	24.4	20.4	19.1	16.3	28.1	21.6	19.4
Capital Employed	18,892	20,850	18,930	19,610	19,910	21,650	24,320	21,650	18,730
Domestic	11,206	13,920	11,910	12,740	12,380	14,320	16,080	14,320	11,340
International	7,686	6,930	7,020	6,870	7,530	7,330	8,240	7,330	7,390
International Sales Growth %									
Bangladesh (46%)	16.0	12.0	11.0	15.0	15.0	6.0	10.0	16.0	15.0
MENA (15%)	8.0	5.0	-20.0	-3.0	-4.0	-50.0	-27.0	-6.0	-1.0
South Africa (8%)	0.0	0.0	6.0	-2.0	3.0	-26.0	-25.0	16.0	7.0
SE Asia (26%)	13.0	4.0	8.0	1.0	3.0	5.0	-17.0	-4.0	3.0

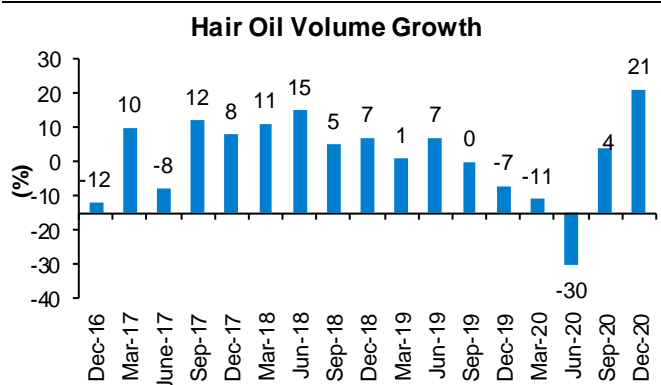
Source: Company, PL

Exhibit 3: Parachute volumes grew 8%


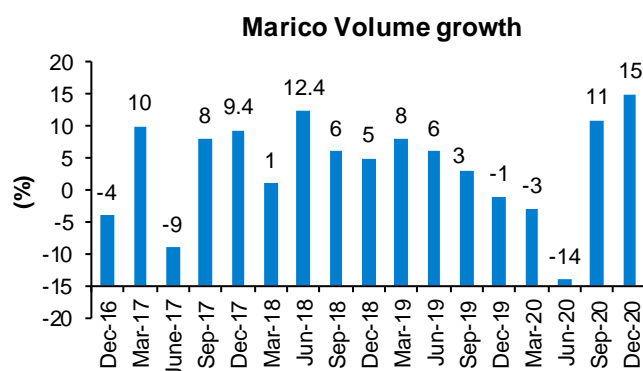
Source: Company, PL

Exhibit 4: Saffola: Volumes grew 17%


Source: Company, PL

Exhibit 5: VAHO volumes grew 21%


Source: Company, PL

Exhibit 6: Domestic FMCG Volume grew 15%


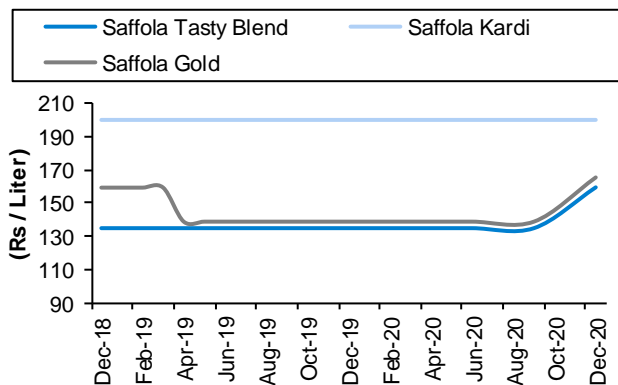
Source: Company, PL

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

Market Share (%)	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Coconut Oil	59	59	60	60	61	62	62	62	62
Saffola	72	73	73	75	76	76	77	77	76
Hair Oil VAHO	34	34	34	35	35	35	36	36	35
Livon & Silk and Shine	76	75	63	64	65	65	65	65	65
Hair Creams/Gel	61	60	60	60	59	59	59	59	59
Saffola Oats	29	29	30	31	32	33	34	34	33
Shanti Amla	40	42	44	45	47	47	NA	NA	NA
Parachute Bangladesh	87	86	84	84	84	82	82	82	82
Hair Oils Bangladesh	23	23	22	22	22	23	23	23	23
X Men Shampoo Vietnam	40	39	38	37	37	37	37	37	37
x Men Deodorant Vietnam	30	31	31	31	31	31	31	31	31

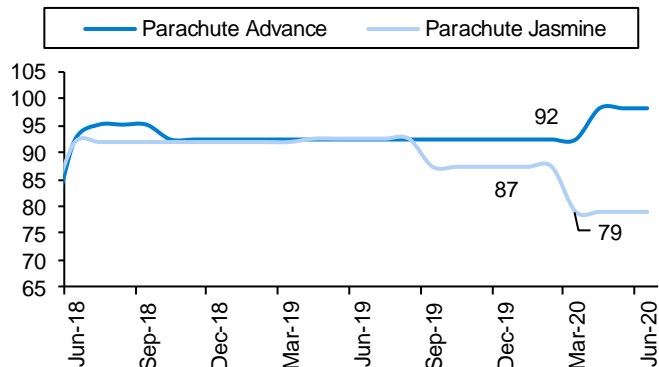
Source: Company, PL

Exhibit 8: Price increase to the tune of 15-20%



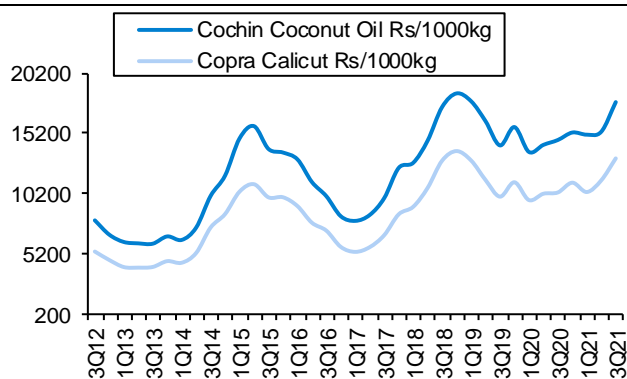
Source: Company, PL

Exhibit 9: No price change in 3Q



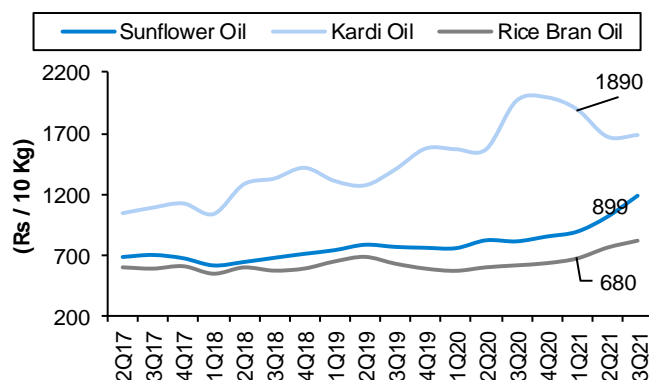
Source: Company, PL

Exhibit 10: Cochin/Calicut Copra Prices up 21.4%/16.0% YoY



Source: Company, PL

Exhibit 11: Sunflower Oil price up 46.1%/17.1% YoY / QoQ



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	73,150	78,244	88,102	98,942
YoY gr. (%)	(0.3)	7.0	12.6	12.3
Cost of Goods Sold	37,450	40,788	46,173	51,208
Gross Profit	35,700	37,456	41,929	47,734
Margin (%)	48.8	47.9	47.6	48.2
Employee Cost	4,780	5,399	5,903	6,530
Other Expenses	8,960	-	-	-
EBITDA	14,690	16,095	17,789	20,822
YoY gr. (%)	10.8	9.6	10.5	17.1
Margin (%)	20.1	20.6	20.2	21.0
Depreciation and Amortization	1,400	1,442	1,529	1,613
EBIT	13,290	14,653	16,260	19,209
Margin (%)	18.2	18.7	18.5	19.4
Net Interest	500	360	321	296
Other Income	1,240	918	1,059	1,152
Profit Before Tax	14,030	15,211	16,997	20,065
Margin (%)	19.2	19.4	19.3	20.3
Total Tax	3,310	3,559	4,147	4,896
Effective tax rate (%)	23.6	23.4	24.4	24.4
Profit after tax	10,720	11,651	12,850	15,169
Minority interest	-	231	243	255
Share Profit from Associate	-	-	-	-
Adjusted PAT	10,720	11,420	12,607	14,914
YoY gr. (%)	13.6	6.5	10.4	18.3
Margin (%)	14.7	14.6	14.3	15.1
Extra Ord. Income / (Exp)	(290)	-	-	-
Reported PAT	10,430	11,420	12,607	14,914
YoY gr. (%)	(7.9)	9.5	10.4	18.3
Margin (%)	14.3	14.6	14.3	15.1
Other Comprehensive Income	430	-	-	-
Total Comprehensive Income	10,860	11,420	12,607	14,914
Equity Shares O/s (m)	1,290	1,290	1,290	1,290
EPS (Rs)	8.3	8.9	9.8	11.6

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	2,359	2,474	2,602
Current Assets				
Investments	6,280	9,389	10,132	10,884
Inventories	13,800	15,051	16,972	18,818
Trade receivables	5,390	4,287	4,828	5,421
Cash & Bank Balance	2,791	2,240	2,520	3,440
Other Current Assets	3,400	3,521	3,524	3,958
Total Assets	50,021	51,997	55,414	59,838
Equity				
Equity Share Capital	1,290	1,290	1,290	1,290
Other Equity	28,940	31,342	34,282	38,239
Total Network	30,230	32,632	35,572	39,529
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	9,841	10,364	10,774
Other current liabilities	4,820	4,833	5,361	5,956
Total Equity & Liabilities	50,020	51,996	55,413	59,837

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	14,030	15,211	16,997	20,065
Add. Depreciation	1,400	1,442	1,529	1,613
Add. Interest	500	360	321	296
Less Financial Other Income	1,240	918	1,059	1,152
Add. Other	310	(36)	(9)	(50)
Op. profit before WC changes	16,240	16,977	18,839	21,923
Net Changes-WC	(1,840)	(3,236)	(2,161)	(2,629)
Direct tax	(3,310)	(3,559)	(4,147)	(4,896)
Net cash from Op. activities	11,090	10,182	12,531	14,399
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)	(551)	279	920
Free Cash Flow	8,560	9,559	11,063	12,929

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	14,960	19,250	19,890	21,220
YoY gr. (%)	(7.0)	(11.1)	8.7	16.3
Raw Material Expenses	7,590	9,890	10,340	11,270
Gross Profit	7,370	9,360	9,550	9,950
Margin (%)	49.3	48.6	48.0	46.9
EBITDA	2,820	4,670	3,890	4,130
YoY gr. (%)	(0.4)	1.3	10.2	10.7
Margin (%)	18.9	24.3	19.6	19.5
Depreciation / Depletion	380	340	330	360
EBIT	2,440	4,330	3,560	3,770
Margin (%)	16.3	22.5	17.9	17.8
Net Interest	130	90	80	70
Other Income	320	190	270	240
Profit before Tax	2,630	4,430	3,750	3,940
Margin (%)	17.6	23.0	18.9	18.6
Total Tax	530	1,170	690	820
Effective tax rate (%)	20.2	26.4	18.4	20.8
Profit after Tax	2,100	3,260	3,060	3,120
Minority interest	10	20	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,090	3,240	3,060	3,120
YoY gr. (%)	(3.7)	(3.0)	20.9	13.0
Margin (%)	14.0	16.8	15.4	14.7
Extra Ord. Income / (Exp)	(100)	640	(330)	-
Reported PAT	1,990	3,880	2,730	3,120
YoY gr. (%)	(50.9)	23.2	7.9	13.0
Margin (%)	13.3	20.2	13.7	14.7
Other Comprehensive Income	50	(20)	50	40
Total Comprehensive Income	2,040	3,860	2,780	3,160
Avg. Shares O/s (m)	1,291	1,291	1,291	1,291
EPS (Rs)	1.6	2.5	2.4	2.4

Source: Company Data, PL Research

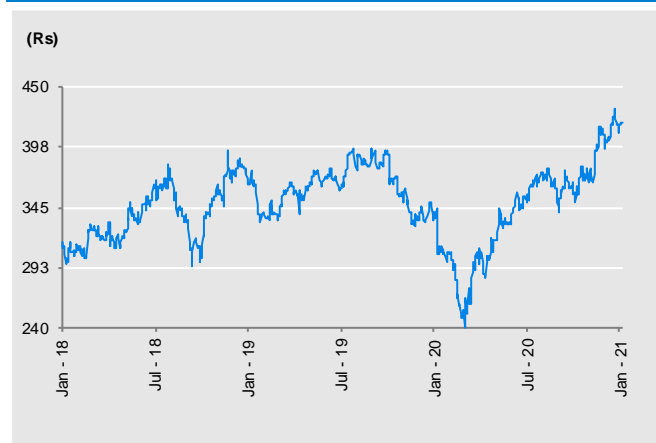
Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	8.3	8.9	9.8	11.6
CEPS	9.4	10.0	11.0	12.8
BVPS	23.4	25.3	27.6	30.6
FCF	6.6	7.4	8.6	10.0
DPS	(6.9)	(7.0)	(7.5)	(8.5)
Return Ratio(%)				
RoCE	39.8	42.4	44.4	48.6
ROIC	32.5	36.3	38.0	42.2
RoE	35.7	36.3	37.0	39.7
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	49.5	46.5	42.1	35.6
P/B	17.6	16.3	14.9	13.4
P/CEPS	43.8	41.3	37.5	32.1
EV/EBITDA	35.7	32.4	29.3	24.9
EV/Sales	7.2	6.7	5.9	5.2
Dividend Yield (%)	(1.7)	(1.7)	(1.8)	(2.1)

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jan-21	Hold	410	419
2	28-Oct-20	Hold	378	363
3	08-Oct-20	Hold	359	372
4	27-Jul-20	Hold	355	350
5	08-Jul-20	Hold	337	352
6	04-May-20	Hold	318	284
7	15-Apr-20	Hold	329	303
8	31-Jan-20	Accumulate	357	315

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	2,829	2,740
2	Avenue Supermarts	BUY	3,296	2,968
3	Bajaj Electricals	BUY	647	637
4	Britannia Industries	BUY	4,301	3,540
5	Colgate Palmolive	Hold	1,570	1,598
6	Crompton Greaves Consumer Electricals	BUY	447	412
7	Dabur India	Accumulate	539	534
8	Emami	BUY	568	483
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Hold	1,126	1,131
11	Hindustan Unilever	BUY	2,502	2,391
12	ITC	BUY	254	205
13	Jubilant FoodWorks	UR	-	2,789
14	Kansai Nerolac Paints	UR	-	613
15	Marico	Hold	410	419
16	Nestle India	Hold	17,640	18,515
17	Pidilite Industries	UR	-	1,795
18	Polycab India	BUY	1,247	1,278
19	Titan Company	UR	-	1,573
20	Voltas	UR	-	882

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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