

Estimate changes 

TP change 

Rating change 

Bloomberg	MRCO IN
Equity Shares (m)	1,290
M.Cap.(INRb)/(USD\$b)	672.8 / 8.8
52-Week Range (INR)	606 / 452
1, 6, 12 Rel. Per (%)	3/1/0
12M Avg Val (INR M)	1131

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Sales	95.1	103.2	116.6
Sales Gr. (%)	18.2	8.5	13.0
EBITDA	16.8	20.2	23.7
EBITDA Margin. %	17.7	19.5	20.3
Adj. PAT	12.3	14.5	17.1
Adj. EPS (INR)	9.5	11.2	13.3
EPS Gr. (%)	5.5	18.1	18.3
BV/Sh.(INR)	26.0	29.0	30.3

Ratios

RoE (%)	37.2	40.8	44.8
RoCE (%)	34.0	37.2	40.6
Payout (%)	97.4	91.4	90.5

Valuations

P/E (x)	54.8	46.4	39.2
P/BV (x)	20.1	17.9	17.2
EV/EBITDA (x)	39.3	32.7	27.8
Div. Yield (%)	1.8	2.0	2.3

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	59.5	59.5	59.6
DII	8.8	8.7	10.2
FII	25.2	25.7	24.1
Others	6.5	6.2	6.0

FII Includes depository receipts

CMP: INR520

TP: INR600 (+15%)

Buy

Result in line; material cost outlook benign

- MRCO's 4QFY22 result was in line our estimates.
- With: a) key raw material, Copra, likely to be stable in FY23E; b) likelihood of 5-7% domestic volume growth in FY23E; c) continued healthy outlook on its international business sales and margins; and d) inexpensive valuation of 39x FY24E, we remain positive on MRCO from a one-year perspective amid an uncertain outlook for peers, especially given its high-teens earnings growth potential in FY23E, which is much higher than peers. **Maintain BUY.**

Performance in line with our estimates

- Consolidated net sales grew 7.4% YoY to INR21.6b (in line) in 4QFY22. The domestic business grew 5% YoY. Consolidated EBITDA/PBT rose 8.5%/6.2% YoY to INR3.5b/INR3.2b (in line), respectively. Adj. PAT rose 5.5% YoY to INR2.5b.
- The consolidated gross margin expanded 35bp YoY to 44.5%. As a percentage of sales, lower staff costs (-100bp to 6.4%), higher other expenditure (+40bp to 12.6%) and higher A&P expenses (+80bp to 9.4%) led to marginally higher **EBITDA margin at 16% YoY in 4QFY22.**
- **Business segments:** Sales for VAHO/Saffola grew 3%/17% YoY in 4QFY22. Parachute volumes were marginally lower YoY.

Highlights from the management commentary

- International business reported double-digit growth in constant currency (CC) for the fifth consecutive quarter. Management expects healthy growth to continue in international business going forward as well.
- Medium-term domestic volume growth targets are 5-7% and management believes that FY23E should have equivalent volume growth despite immediate volume growth pressures in the overall FMCG space.
- Management will continue to target INR8.5-10.0b sales in Foods in the next two years. FY22 Food sales were INR4.5-5.0b, which was in line with the stated targets. MRCO's Oats portfolio is doing well along with its Honey and Soya Chunks portfolios. More efforts are needed on Chyawanprash though.
- Among digital first brands, Beardo's FY22 exit rate is tracking an INR1b run rate on an annualized basis. Total digital first brands are tracking an INR1.8-2b run rate on an annualized basis and the management maintains its target of INR 4.5-5b in sales by FY24E.
- Margins are likely to be subdued in the near term and improve in 2HFY23E. Management expects Copra prices to be soft for a large part of FY23 as harvest season has been pretty good so far.

Valuation and view

- There is no material change to our FY23E/FY24E EPS.
- Earnings growth prospects are healthy at ~18% CAGR over FY22-24E and ROEs are healthy at ~40% levels.
- The much-needed diversification is picking up momentum in Foods and Digital first brands. If sustained, this could lead to higher multiples for MRCO compared to the past. For now, its earnings growth provides a safe haven in an uncertain environment for Staples peers. We maintain our target multiple of 45x FY24E EPS to arrive at our TP of INR600. We reiterate our **BUY** rating on the stock.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly Performance

(INR m)

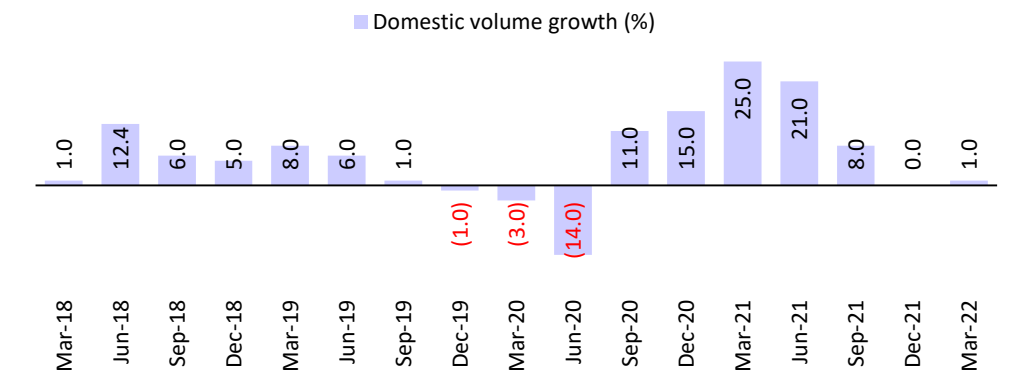
Y/E March	FY21				FY22				FY21	FY22E	FY22 4QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Domestic volume growth (%)	-14.0	11.0	15.0	25.0	21.0	8.0	0.0	1.0	9.3	7.0	1.0	
Net Sales	19,250	19,890	21,220	20,120	25,250	24,190	24,070	21,610	80,480	95,120	21,859	-1.1%
YoY Change (%)	-11.1	8.7	16.3	34.5	31.2	21.6	13.4	7.4	10.0	18.2	8.6	
Gross Profit	9,360	9,550	9,950	8,880	10,360	10,270	10,520	9,610	37,780	40,760	9,746	-1.4%
Gross margin (%)	48.6	48.0	46.9	44.1	41.0	42.5	43.7	44.5	46.9	42.9	44.6	
EBITDA	4,670	3,890	4,130	3,190	4,810	4,230	4,310	3,460	15,910	16,810	3,459	0.0%
Margins (%)	24.3	19.6	19.5	15.9	19.0	17.5	17.9	16.0	19.8	17.7	15.8	
YoY Change (%)	1.3	10.2	10.7	13.1	3.0	8.7	4.4	8.5	8.6	5.7	8.4	
Depreciation	340	330	360	360	330	330	360	370	1,390	1,390	382	
Interest	90	80	70	100	80	100	100	110	340	390	80	
Other Income	190	270	240	290	270	250	220	240	940	980	270	
PBT	4,430	3,750	3,940	3,020	4,670	4,050	4,070	3,220	15,120	16,010	3,268	-1.5%
Tax	1,030	690	820	560	1,020	890	900	650	3,240	3,460	803	
Rate (%)	23.3	18.4	20.8	18.5	21.8	22.0	22.1	20.2	21.4	21.6	24.6	
Minority Interest	90	90	50	80	90	70	70	60	270	300	40	
Adjusted PAT	3,310	2,970	3,070	2,380	3,560	3,090	3,100	2,510	11,610	12,250	2,425	3.5%
YoY Change (%)	3.4	20.2	12.9	16.1	7.6	4.0	1.0	5.5	11.0	5.5	1.9	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY21				FY22			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
2Y average growth (%)								
Volume	-4.0	6.0	7.0	11.0	3.5	9.5	7.5	13.0
Sales	-2.1	4.2	7.2	13.7	10.0	15.2	14.9	20.9
EBITDA	13.6	13.0	7.3	4.5	2.1	9.5	7.5	10.8
PAT	14.5	18.4	11.7	6.6	5.5	12.1	6.9	10.8
% of Sales								
COGS	51.4	52.0	53.1	55.9	59.0	57.5	56.3	55.5
Operating Expenses	24.4	28.5	27.4	28.3	22.0	25.0	25.8	28.5
Depreciation	1.8	1.7	1.7	1.8	1.3	1.4	1.5	1.7
YoY change (%)								
COGS	-13.0	12.3	21.4	48.3	50.6	34.6	20.2	6.8
Operating Expenses	-17.4	2.0	11.3	24.8	18.3	6.7	6.7	8.1
Other Income	-32.1	-22.9	-17.2	-9.4	42.1	-7.4	-8.3	-17.2
EBIT	1.6	11.9	10.6	16.0	3.5	9.6	4.8	9.2

Exhibit 1: Domestic volumes grew 1% YoY



Source: MOSL, Company

Exhibit 2: Consolidated segmental details

	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22
Sales growth (%)									
Domestic	(7.6)	(14.5)	7.9	17.9	37.3	34.6	24.0	11.7	5.1
International	(5.1)	2.3	11.6	11.5	25.1	19.8	14.1	19.2	15.8
Total	(7.0)	(11.1)	8.7	16.3	34.5	31.2	21.6	13.4	7.4
EBIT margin (%)									
Domestic EBIT margin	20.8	24.2	19.4	20.0	16.1	17.8	16.7	17.2	16.2
International EBIT margin	16.3	28.1	21.6	19.4	18.9	26.1	22.4	22.9	18.7
Total	19.7	25.1	19.9	19.8	16.7	19.5	18.0	18.6	16.8

Source: Company, MOFSL

**Highlights from the management commentary****Business environment and outlook**

- Focus on brands and execution resulted in double-digit, two-year CAGR sales growth with market share gains as well.
- International business reported double-digit CC growth for the fifth consecutive quarter. Management expects healthy growth to continue in international business going forward as well.
- Consumption environment is affected adversely as inflation is pinching customer wallet, which led to 1% volume growth for the quarter.
- Rural continues to be behind urban for MRCO as well and management expects recovery in second half of the year led by government initiatives and good monsoon. Inflation impact on consumer demand is also likely to abate by 2QFY22.
- Near-term demand outlook is uncertain but management is confident on market share gains and new initiatives are tracking targets.
- Medium-term domestic volume growth targets are 5-7% and management believes that FY23 should have equivalent volume growth despite immediate volume growth pressures in FMCG space.

Costs and margins

- Margins are likely to be subdued in the near term and improve in second half.
- Key RM i.e. Copra prices continue to be soft and MRCO has taken price reductions in Parachute. Management expects Copra prices to be soft for a large part of FY23 as harvest season has been pretty good so far.
- Management does not see margin risks on international business either.

Growth drivers

- Addressable brand for Saffola foods is now INR60b after addition of peanut butter and mayonnaise recently.
- Management will continue to target INR8.5b to INR10b sales in foods in the next two years. FY22 sales were between INR4.5-5b, in line with targets. Oats and masala oats are doing well as are honey and soya chunks. More efforts are, however, needed on Chyawanprash.
- Management would not look at rural-focused products or cold chain products in foods.
- Among digital first brands, Beardo exit is tracking INR1b on an annualized basis. Total digital first brands are tracking 1.8-2b on annualized basis and management maintains target of INR 4.5-5b by FY24.
- 4 D growth drivers – Diversification, distribution expansion, digital and diversity are on track.

Valuation and view

What has happened in the last 10 years?

- In key categories such as Coconut Oil and VAHO, MRCO reported healthy sales growth, with volume growth for Parachute actually improving in recent years.
- In Saffola Foods (Oats), the company was able to strengthen its market share. It grew significantly in the Masala Oats category.
- Growth in Saffola (Edible Oil brand) has tapered off in recent years because of: a) strategic mistakes in terms of pricing, and b) the company being unable to cater to the recently emerged Super Premium market segment.
- Similarly, the brands acquired from Paras/Reckitt – Livon, Set Wet, and Zatak – have not scaled up as expected despite their higher growth potential.
- Topline and earnings growth have been healthy over the past 10 years, with ~11%/15%/16% CAGR in topline/EBITDA/PAT, respectively. Over the past five years, growth has been healthy, but has tapered off v/s the past (sales/EBITDA/PAT growth of ~5%/11%/~13%, respectively).

Our view on the stock

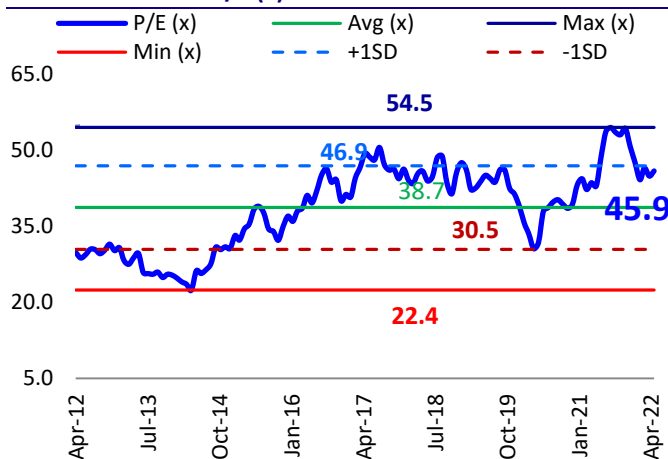
- There is no material change to our FY23E/FY24E EPS.
- Earnings growth prospects are healthy at ~18% CAGR over FY22–24E and ROEs are healthy at ~40% levels.
- The much-needed diversification is picking up momentum in Foods and Digital first brands. If sustained, this could lead to higher multiples for MRCO compared to the past. For now, its earnings growth provides a safe haven in an uncertain environment for Staples peers. We maintain our target multiple of 45x FY24E EPS to arrive at our TP of INR600. We reiterate our **BUY** rating on the stock.

Exhibit 3: We revise our FY23E/FY24E EPS by -0.1%/0.8%

INR m	Old estimate		New estimate		Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	1,02,472	1,15,735	1,03,206	1,16,597	0.7%	0.7%
EBITDA	19,851	23,115	20,176	23,713	1.6%	2.6%
PAT	14,470	16,974	14,462	17,111	-0.1%	0.8%

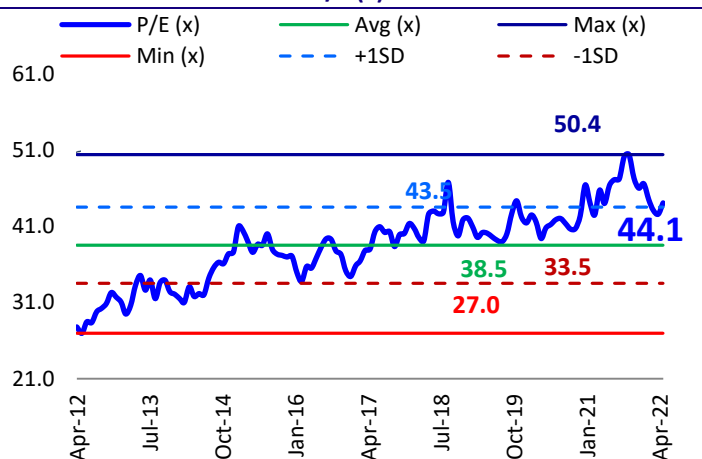
Source: Company, MOFSL

Exhibit 4: MRCO's P/E (x)



Source: Company, MOFSL

Exhibit 5: Consumer sector P/E (x)



Source: Company, MOFSL

Financials and valuations

Income Statement								(INR m)
Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E
Net Sales	59,178	63,220	73,340	73,150	80,480	95,120	1,03,206	1,16,597
Change (%)	-1.7	6.8	16.0	-0.3	10.0	18.2	8.5	13.0
COGS	28,472	33,720	40,170	37,680	42,700	54,360	56,010	60,413
Gross Profit	30,706	29,500	33,170	35,470	37,780	40,760	47,196	56,183
Margin (%)	51.9	46.7	45.2	48.5	46.9	42.9	45.7	48.2
Operating Expenses	19,113	18,130	19,920	20,820	21,870	23,950	27,020	32,470
EBITDA	11,593	11,370	13,250	14,650	15,910	16,810	20,176	23,713
Change (%)	10.3	-1.9	16.5	10.6	8.6	5.7	20.0	17.5
Margin (%)	19.6	18.0	18.1	20.0	19.8	17.7	19.5	20.3
Depreciation	903	890	1,310	1,400	1,390	1,390	1,560	1,641
Int. and Fin. Charges	166	160	400	500	340	390	459	483
Other Income - Recurring	973	850	1,030	1,240	940	980	1,014	1,171
Profit before Taxes	11,497	11,170	12,570	13,990	15,120	16,010	19,172	22,759
Change (%)	11.7	-2.8	12.5	11.3	8.1	5.9	19.7	18.7
Margin (%)	19.4	17.7	17.1	19.1	18.8	16.8	18.6	19.5
Current Tax (excl MAT Ent)	2,922	2,840	3,310	3,470	3,350	3,430	4,314	5,235
Deferred Tax	455	60	-180	-160	-110	30	96	114
Tax Rate (%)	29.4	26.0	24.9	23.7	21.4	21.6	23.0	23.5
Minority Interest	-10	-130	-180	-220	-270	-300	-300	-300
Profit after Taxes	8,110	8,140	9,260	10,460	11,610	12,250	14,462	17,111
Change (%)	12.1	0.4	13.8	13.0	11.0	5.5	18.1	18.3
Margin (%)	13.7	12.9	12.6	14.3	14.4	12.9	14.0	14.7
Extraordinary items	0	0	1,880	-290	130	0	0	0
Reported PAT	8,110	8,140	11,140	10,170	11,740	12,250	14,462	17,111

Balance Sheet								(INR m)
Y/E March	2017	2018	2019	2020	2021	2022	2023E	2022E
Share Capital	1,291	1,290	1,290	1,290	1,290	1,290	1,290	1,290
Reserves	21,966	24,140	28,700	28,940	31,110	32,190	36,130	37,760
Net Worth	23,257	25,430	29,990	30,230	32,400	33,480	37,420	39,050
Minority Interest	133	120	110	130	180	570	570	570
Loans	2,388	3,090	3,490	3,350	4,700	4,360	4,810	5,260
Capital Employed	25,778	28,640	33,590	33,710	37,280	38,410	42,800	44,880
Gross Fixed Assets	7,440	8,120	9,140	13,440	14,180	15,830	17,140	18,440
Intangibles	361	600	550	410	2,300	3,060	3,060	3,060
Less: Accum. Depn.	-1,749	-2,480	-3,250	-5,270	-6,660	-8,050	-9,610	-11,251
Net Fixed Assets	6,053	6,240	6,440	8,580	9,820	10,840	10,590	10,249
Capital WIP	112	270	450	580	240	390	390	390
Goodwill	4,795	4,860	5,030	5,380	6,130	6,540	6,640	6,740
Investments	6,082	5,430	4,500	7,330	8,710	8,500	13,000	12,000
Curr. Assets, L&A	19,191	23,920	29,120	26,560	28,340	29,720	31,365	36,766
Inventory	12,534	15,110	14,110	13,800	11,260	14,120	13,623	15,391
Account Receivables	2,470	3,400	5,170	5,390	3,880	6,520	5,573	6,296
Cash and Bank Balance	2,360	2,010	5,520	2,790	9,440	5,790	4,430	5,854
Others	1,828	3,400	4,320	4,580	3,760	3,290	7,738	9,225
Curr. Liab. and Prov.	10,329	11,880	13,710	16,250	16,980	18,360	19,966	22,045
Current Liabilities	9,040	10,560	12,260	14,920	15,750	17,230	18,472	20,366
Accounts Payable	6,966	8,220	9,440	9,780	11,340	13,440	14,355	15,922
Provisions	1,289	1,320	1,450	1,330	1,230	1,130	1,494	1,679
Net Current Assets	8,862	12,040	15,410	10,310	11,360	11,360	11,399	14,721
Deferred Tax Liability	-125	-200	1,760	1,530	1,020	780	780	780
Application of Funds	25,778	28,640	33,590	33,710	37,280	38,410	42,800	44,880

Financials and valuations

Ratios

Y/E March	2017	2018	2019	2020	2021	2022	2023E	2022E
Basic (INR)								
EPS	6.3	6.3	7.2	8.1	9.0	9.5	11.2	13.3
Cash EPS	6.8	7.0	9.7	9.0	10.2	10.6	12.4	14.5
BV/Share	18.0	19.7	23.2	23.4	25.1	26.0	29.0	30.3
DPS	4.3	4.6	6.6	7.8	7.7	9.3	10.3	12.0
Payout %	67.6	72.4	76.3	98.5	84.2	97.4	91.4	90.5
Valuation (x)								
P/E	82.8	82.5	72.5	64.2	57.8	54.8	46.4	39.2
Cash P/E	76.0	74.4	53.9	58.0	51.1	49.2	41.9	35.8
EV/Sales	11.2	10.6	9.1	9.1	8.2	7.0	6.4	5.7
EV/EBITDA	57.4	58.7	50.2	45.4	41.4	39.3	32.7	27.8
P/BV	28.9	26.4	22.4	22.2	20.7	20.1	17.9	17.2
Dividend Yield (%)	0.8	0.9	1.3	1.5	1.5	1.8	2.0	2.3
Return Ratios (%)								
RoE	37.3	33.4	33.4	34.7	37.1	37.2	40.8	44.8
RoCE	33.3	30.8	31.3	32.9	34.2	34.0	37.2	40.6
RoIC	47.4	40.7	40.7	43.9	54.5	56.7	58.9	65.4
Leverage Ratio								
Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Cash Flow Statement

(INR m)

Y/E March	2017	2018	2019	2020	2021	2022	2023E	2022E
OP/(loss) before Tax	11,487	11,170	12,570	13,740	15,230	16,010	19,172	22,759
Int./Div. Received	-43	-280	-130	-270	-140	-110	-1,014	-1,171
Depreciation	903	890	1,310	1,500	1,390	1,390	1,560	1,641
Interest Paid	-197	-180	-140	-220	-250	-200	459	483
Direct Taxes Paid	-2,964	-2,950	-3,200	-2,900	-2,850	-3,510	-4,314	-5,235
(Incr)/Decr in WC	-2,698	-3,490	210	330	7,300	-3,420	-1,399	-1,898
CF from Operations	6,487	5,160	10,620	12,180	20,680	10,160	14,463	16,580
(Incr)/Decr in FA	-815	-1,280	-1,430	-1,860	-2,690	-1,840	-1,310	-1,300
Free Cash Flow	5,673	3,880	9,190	10,320	17,990	8,320	13,153	15,280
(Pur)/Sale of Investments	15	700	1,030	280	-4,270	3,370	-4,500	1,000
Others	-760	740	270	-1,870	4,120	-2,440	2,228	-1,301
CF from Invest.	-1,560	160	-130	-3,450	-2,840	-910	-3,582	-1,601
Issue of Shares	0	0	0	0	60	410	0	0
(Incr)/Decr in Debt	0	0	110	-530	-310	-670	450	450
Dividend Paid	-5,088	-6,360	-6,820	-10,250	-10,290	-11,950	-11,933	-13,223
Others	-652	690	-270	-680	-650	-690	-759	-783
CF from Fin. Activity	-5,740	-5,670	-6,980	-11,460	-11,190	-12,900	-12,241	-13,556
Incr/Decr of Cash	-812	-350	3,510	-2,730	6,650	-3,650	-1,360	1,424
Add: Opening Balance	3,171	2,360	2,010	5,520	2,790	9,440	5,790	4,430
Closing Balance	2,360	2,010	5,520	2,790	9,440	5,790	4,430	5,854

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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