

May 5, 2022

Q4FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	547		538	
Sales (Rs. m)	104,030	117,064	104,683	117,758
% Chng.	(0.6)	(0.6)		
EBITDA (Rs. m)	19,599	23,521	20,908	24,390
% Chng.	(6.3)	(3.6)		
EPS (Rs.)	10.9	13.0	11.8	13.6
% Chng.	(6.9)	(3.9)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	80,480	95,120	104,030	117,064
EBITDA (Rs. m)	15,910	16,810	19,599	23,521
Margin (%)	19.8	17.7	18.8	20.1
PAT (Rs. m)	11,610	12,230	14,118	16,808
EPS (Rs.)	9.0	9.5	10.9	13.0
Gr. (%)	8.3	5.3	15.4	19.1
DPS (Rs.)	7.5	9.3	9.5	11.0
Yield (%)	1.4	1.8	1.8	2.1
RoE (%)	37.1	37.1	41.0	45.7
RoCE (%)	41.8	42.3	47.7	55.1
EV/Sales (x)	8.2	7.0	6.4	5.6
EV/EBITDA (x)	41.4	39.4	33.7	28.0
PE (x)	57.8	54.8	47.5	39.9
P/BV (x)	20.7	20.0	18.9	17.6

Key Data

MRCO.BO | MRCO IN

52-W High / Low	Rs.608 / Rs.452
Sensex / Nifty	55,702 / 16,683
Market Cap	Rs.672bn/ \$ 8,811m
Shares Outstanding	1,293m
3M Avg. Daily Value	Rs.932.38m

Shareholding Pattern (%)

Promoter's	59.60
Foreign	25.11
Domestic Institution	8.76
Public & Others	6.54
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.4)	(6.8)	14.2
Relative	3.2	0.5	(0.2)

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Copra deflation to offset commodity Inflation

Quick Pointers:

- Copra prices remain soft which will help mitigate inflationary trend in other commodities
- Increase in ad spends to support growth in new products led by Saffola

We cut FY23/FY24 EPS by 6.9%/3.9% on the back of inflationary trend in a few commodities and increased ad spends to support new launches. 4Q volumes grew 1% (on a high base of 21%) which outpaced market growth rate of -4% (largely due to grammage cuts & lower consumption due to price hikes). However, we believe the company is better placed amongst peers due to 1) sustained softening of copra prices and proactive price correction to restore volume growth 2) launch of new products in mid-sized categories in foods 3) improved competitiveness of Saffola in edible oils 4) strong traction in non-oils food portfolio and 5) increased focus on digital brands with aspiration of Rs4.5-5bn topline by FY24. We believe any volatility in copra prices and other crude linked inputs remains a key risk given price correction taken by the company in Parachute coconut oil. We expect Sales/PAT CAGR of 10.9% and 17.2% over FY22-24. We value the stock at 42x FY24 EPS and assign a target price of Rs547 (538 based on 41x Dec23 EPS earlier). Retain Accumulate given healthy ROE/ROCE of 45.7%/55.1% and ~80% dividend payout.

Sales up 7.4%, GM expanded by 33bps: Revenues grew by 7.4% YoY to Rs21.6bn (PLe: Rs20.1bn). Gross margins expanded by 33bps YoY to 44.5% (PLe: 44.1%). EBITDA grew by 8.5% YoY to Rs3.5bn (PLe: Rs 3.2bn); Margins expanded by 16bps YoY to 16% (PLe:15.9%) mainly due to lower staff costs which offset higher inflation, advertising spends and other expenses. A&P Spends expanded by 84bps YoY to 9.4%. Adj PAT grew by 4.5% YoY to Rs2.6bn (PLe: Rs2.3bn)

Volume Growth of 1% YoY: Domestic volume growth came in at 1% YoY (PLe:4%) due to overall demand weakness. Parachute volumes were down 1%. IBD grew 12% in CCG terms led by 16% growth in Bangladesh, 20% in South Africa, 11% in MENA & 7% growth in Vietnam.

Concall takeaways: 1) Rural continues to lag growth in urban markets. Rural markets expected to recover by 2HFY23. 2) Demand trends to improve from Aug, Sept due to base effect. 3) Indonesia palm oil ban won't impact margins in international business drastically. 4) Significant inflation in edible oils has resulted in slower upgrade conversions. 5) VAHO demand in premium segments has been less impacted vs bottom of pyramid. 6) Beardo crossed Rs 1bn run rate on exit basis. Digital brands at Rs 1.8-2bn on exit basis. 7) Management will continue to prioritize brand building over short-term margins. 8) Medium term volume growth CAGR of 5-7% is intact. 9) Foods business will have a separate GTM in place to help support growth aspirations of Rs 4.5-5bn by FY24.

Exhibit 1: 4QFY22 Results: Sales grew 7.4%, Gross margins expanded 33bps

Consolidated	Q4FY22	Q4FY21	YoY gr. (%)	Q3FY22	FY22	FY21	YoY gr. (%)
Net Sales	21,610	20,120	7.4	24,070	95,120	80,480	18.2
COGS	12,000	11,240	6.8	13,550	54,320	42,680	27.3
<i>% of Net Sales</i>	<i>55.5</i>	<i>55.9</i>		<i>56.3</i>	<i>57.1</i>	<i>53.0</i>	
Gross Profit	9,610	8,880	8.2	10,520	40,800	37,800	7.9
<i>% of NS</i>	<i>44.5</i>	<i>44.1</i>		<i>43.7</i>	<i>42.9</i>	<i>47.0</i>	
Advt. & Prom.	2,040	1,730	17.9	2,230	8,020	7,010	14.4
<i>% of NS</i>	<i>9.4</i>	<i>8.6</i>		<i>9.3</i>	<i>8.4</i>	<i>8.7</i>	
Total Expenses	18,150	16,930	7.2	19,760	78,280	64,570	21.2
EBITDA	3,460	3,190	8.5	4,310	16,840	15,910	5.8
<i>Margins (%)</i>	<i>16.0</i>	<i>15.9</i>	<i>0.2</i>	<i>17.9</i>	<i>17.7</i>	<i>19.8</i>	<i>-2.1</i>
Depreciation	370	360	2.8	360	1,390	1,390	-
EBBIT	3,090	2,830	9.2	3,950	15,450	14,520	6.4
Interest	110	100	10.0	100	390	340	14.7
Other Income	240	290	(17.2)	220	930	940	(1.1)
PBT	3,220	3,020	6.6	4,070	15,990	15,120	5.8
Tax	650	560	16.1	900	3,460	3,240	6.8
<i>Effective tax rate (%)</i>	<i>20.2</i>	<i>18.5</i>		<i>22.1</i>	<i>21.6</i>	<i>21.4</i>	
Adjusted PAT	2,570	2,460	4.5	3,170	12,530	11,860	5.6

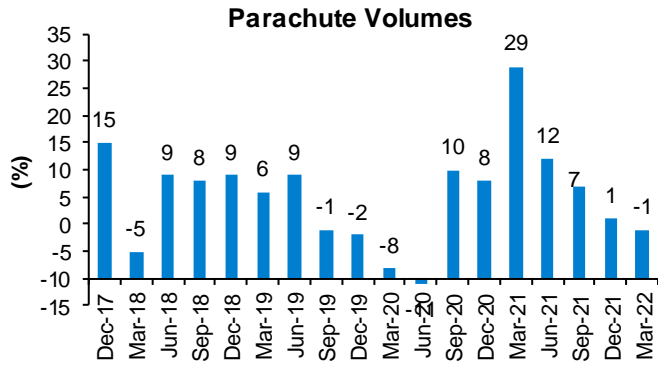
Source: Company, PL

Exhibit 2: Consolidated Segmental: IBD business posted strong double digit growth of 15.8%

(Rs m)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22
Net Sales	14,960	19,250	19,890	21,220	20,120	25,250	24,190	24,070	21,610
Domestic	11,460	14,800	15,080	16,270	15,740	19,920	18,700	18,170	16,540
International	3,500	4,450	4,810	4,950	4,380	5,330	5,490	5,900	5,070
Sales Growth %	-7.0	-11.1	8.7	16.3	34.5	31.2	21.6	13.4	7.4
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
EBIT	2,950	4,830	3,960	4,210	3,370	4,930	4,360	4,430	3,630
Domestic	2,380	3,580	2,920	3,250	2,540	3,540	3,130	3,080	2,680
International	570	1,250	1,040	960	830	1,390	1,230	1,350	950
EBIT Growth %	-1.7	2.5	10.9	9.9	14.2	2.1	10.1	5.2	7.7
Domestic	-0.8	-1.9	8.6	9.1	6.7	-1.1	7.2	-5.2	5.5
International	-5.0	17.9	18.2	12.9	45.6	11.2	18.3	40.6	14.5
EBIT Margins %	19.7	25.1	19.9	19.8	16.7	19.5	18.0	18.4	16.8
Domestic	20.8	24.2	19.4	20.0	16.1	17.8	16.7	17.0	16.2
International	16.3	28.1	21.6	19.4	18.9	26.1	22.4	22.9	18.7
Capital Employed	21,650	24,320	21,650	18,730	16,560	19,440	21,290	22,350	23,940
Domestic	14,320	16,080	14,320	11,340	8,950	10,670	12,660	13,470	14,300
International	7,330	8,240	7,330	7,390	7,610	8,770	8,630	8,880	9,640
International Sales Growth %									
Bangladesh (46%)	6.0	10.0	16.0	15.0	20.0	9.0	16.0	16.0	16.0
MENA (15%)	-50.0	-27.0	-6.0	-1.0	62.0	74.0	20.0	21.0	11.0
South Africa (8%)	-26.0	-25.0	16.0	7.0	48.0	52.0	8.0	6.0	20.0
SE Asia (26%)	5.0	-17.0	-4.0	3.0	13.0	16.0	-2.0	27.0	7.0

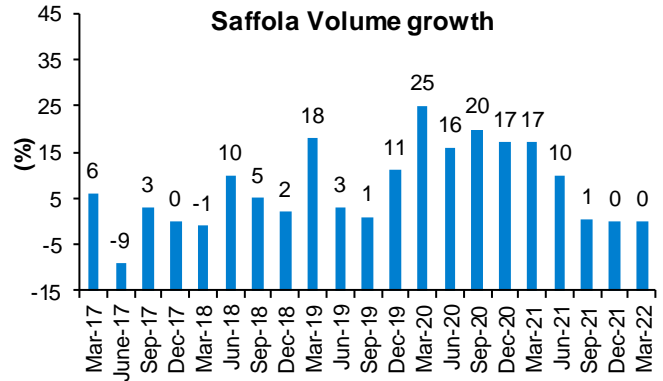
Source: Company, PL

Exhibit 3: Parachute volumes degrew 1% on high base



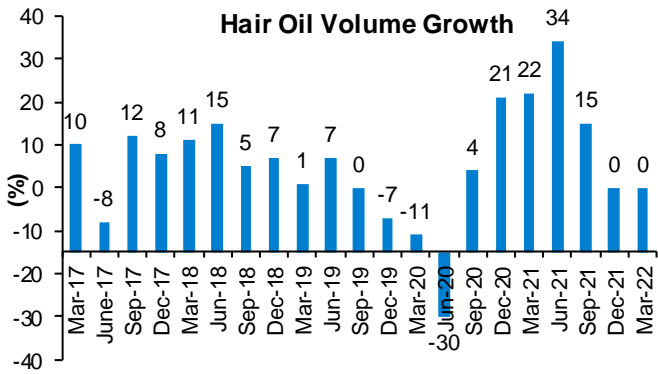
Source: Company, PL

Exhibit 4: Saffola volumes were flattish



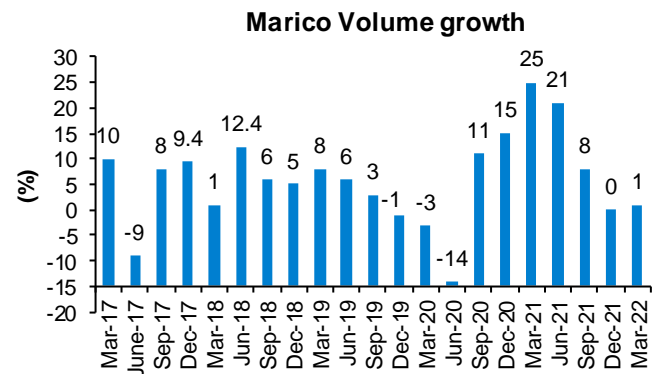
Source: Company, PL

Exhibit 5: VAHO volumes were flattish



Source: Company, PL

Exhibit 6: Volumes grew 1% on a high base



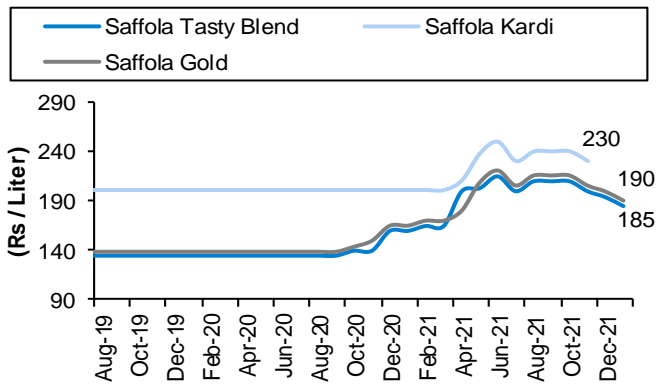
Source: Company, PL

Exhibit 7: 97%/94% portfolio winning market share/gaining penetration

Market Share (%)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	3QFY22	4QFY22
Coconut Oil	62	62	62	62	61	62	63	63	63
Saffola	76	77	77	76	81	82	82	83	83
Hair Oil VAHO	35	36	36	35	37	37	37	37	37
Livon & Silk and Shine	65	65	65	65	63	63	64	64	64
Hair Creams/Gel	59	59	59	59	57	58	58	57	57
Saffola Oats	33	34	34	33	38	39	41	42	42
Shanti Amla	47	NA	NA	NA	NA	NA	NA	NA	NA
Parachute Bangladesh	84	82	82	82	82	NA	NA	NA	NA
Hair Oils Bangladesh	22	23	23	23	23	NA	NA	NA	NA
X Men Shampoo Vietnam	37	37	37	37	38	NA	NA	NA	NA
x Men Deodorant Vietnam	31	31	31	31	31	NA	NA	NA	NA

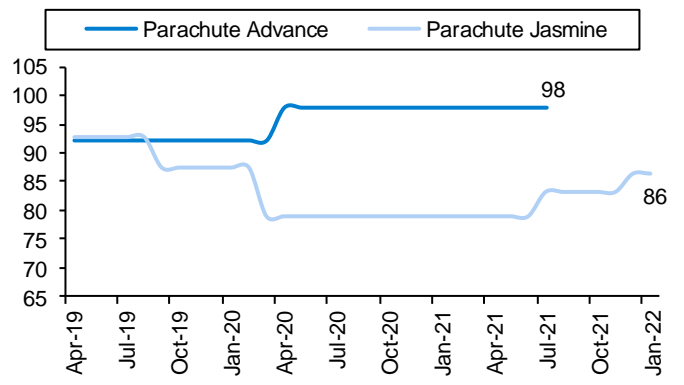
Source: Company, PL

Exhibit 8: Tactical price cuts taken since Nov'21



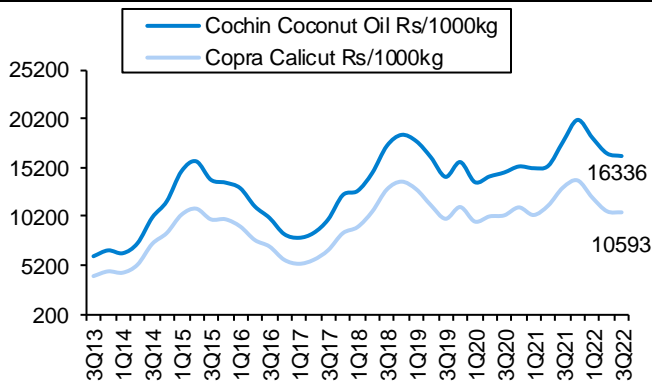
Source: Company, PL

Exhibit 9: No price change in 3Q



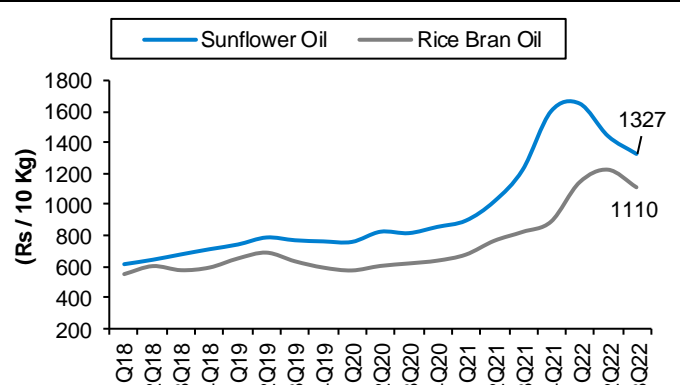
Source: Company, PL

Exhibit 10: Cochin/Calicut Copra Prices softened during 3Q



Source: Company, PL

Exhibit 11: Sunflower Oil price declined by 8% QoQ



Source: Company, PL

Exhibit 12: Saffola TAM expands to Rs 60bn with foray into nut butter and spreads



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	80,480	95,120	104,030	117,064
YoY gr. (%)	10.0	18.2	9.4	12.5
Cost of Goods Sold	42,700	54,360	56,135	61,760
Gross Profit	37,780	40,760	47,895	55,304
Margin (%)	46.9	42.9	46.0	47.2
Employee Cost	5,700	5,860	6,554	7,375
Other Expenses	-	-	-	-
EBITDA	15,910	16,810	19,599	23,521
YoY gr. (%)	8.3	5.7	16.6	20.0
Margin (%)	19.8	17.7	18.8	20.1
Depreciation and Amortization	1,390	1,410	1,642	1,763
EBIT	14,520	15,400	17,957	21,759
Margin (%)	18.0	16.2	17.3	18.6
Net Interest	340	390	370	378
Other Income	940	980	1,055	1,213
Profit Before Tax	15,120	15,990	18,642	22,594
Margin (%)	18.8	16.8	17.9	19.3
Total Tax	3,240	3,460	4,194	5,422
Effective tax rate (%)	21.4	21.6	22.5	24.0
Profit after tax	11,880	12,530	14,448	17,171
Minority interest	270	300	330	363
Share Profit from Associate	-	-	-	-
Adjusted PAT	11,610	12,230	14,118	16,808
YoY gr. (%)	8.3	5.3	15.4	19.1
Margin (%)	14.4	12.9	13.6	14.4
Extra Ord. Income / (Exp)	110	-	-	-
Reported PAT	11,720	12,230	14,118	16,808
YoY gr. (%)	12.4	4.4	15.4	19.1
Margin (%)	14.6	12.9	13.6	14.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,720	12,230	14,118	16,808
Equity Shares O/s (m)	1,290	1,290	1,290	1,290
EPS (Rs)	9.0	9.5	10.9	13.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	16,693	18,876	19,926	20,976
Tangibles	13,451	14,792	15,842	16,892
Intangibles	3,243	4,084	4,084	4,084
Acc: Dep / Amortization	8,503	9,596	10,769	12,016
Tangibles	7,561	8,572	9,663	10,829
Intangibles	942	1,024	1,106	1,187
Net fixed assets	8,190	9,280	9,157	8,960
Tangibles	5,890	6,220	6,178	6,063
Intangibles	2,300	3,060	2,978	2,897
Capital Work In Progress	240	390	250	250
Goodwill	6,130	6,540	6,540	6,540
Non-Current Investments	2,710	2,080	2,098	2,118
Net Deferred tax assets	1,020	780	430	73
Other Non-Current Assets	2,610	2,650	3,188	3,555
Current Assets				
Investments	6,280	6,410	7,802	8,780
Inventories	11,260	14,120	18,818	19,919
Trade receivables	3,880	6,520	4,988	5,613
Cash & Bank Balance	9,450	5,800	4,279	5,071
Other Current Assets	2,240	2,130	3,121	3,512
Total Assets	55,100	57,860	62,028	65,943
Equity				
Equity Share Capital	1,290	1,290	1,290	1,290
Other Equity	31,110	32,190	34,128	36,830
Total Networkth	32,400	33,480	35,418	38,120
Non-Current Liabilities				
Long Term borrowings	80	-	-	-
Provisions	10	10	-	-
Other non current liabilities	240	270	297	327
Current Liabilities				
ST Debt / Current of LT Debt	3,400	3,450	2,950	2,450
Trade payables	11,340	13,440	13,909	14,549
Other current liabilities	5,390	4,640	6,004	6,642
Total Equity & Liabilities	55,100	57,860	62,028	65,943

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	15,120	15,990	18,642	22,594
Add. Depreciation	1,390	1,410	1,642	1,763
Add. Interest	340	390	370	378
Less Financial Other Income	940	980	1,055	1,213
Add. Other	100	140	939	419
Op. profit before WC changes	16,950	17,930	21,593	25,153
Net Changes-WC	7,230	(3,990)	(3,749)	(1,824)
Direct tax	(3,240)	(3,460)	(4,194)	(5,422)
Net cash from Op. activities	20,940	10,480	13,649	17,907
Capital expenditures	(2,920)	(3,040)	(1,848)	(1,831)
Interest / Dividend Income	-	-	-	-
Others	(1,500)	390	-	-
Net Cash from Invt. activities	(4,420)	(2,650)	(1,848)	(1,831)
Issue of share cap. / premium	20	890	(188)	(206)
Debt changes	130	(30)	(500)	(500)
Dividend paid	(9,680)	(11,950)	(12,265)	(14,201)
Interest paid	(340)	(390)	(370)	(378)
Others	-	-	-	-
Net cash from Fin. activities	(9,870)	(11,480)	(13,322)	(15,285)
Net change in cash	6,650	(3,650)	(1,521)	791
Free Cash Flow	18,020	7,440	11,801	16,076

Source: Company Data, PL Research

Key Financial Metrics

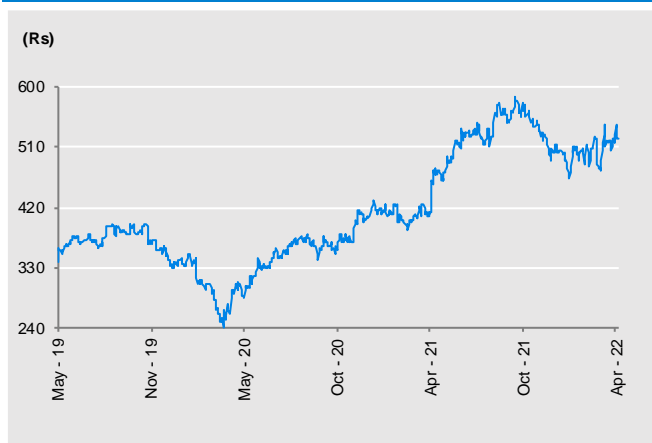
Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	9.0	9.5	10.9	13.0
CEPS	10.1	10.6	12.2	14.4
BVPS	25.1	26.0	27.5	29.6
FCF	14.0	5.8	9.1	12.5
DPS	7.5	9.3	9.5	11.0
Return Ratio(%)				
RoCE	41.8	42.3	47.7	55.1
ROIC	36.9	33.7	36.0	41.8
RoE	37.1	37.1	41.0	45.7
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	17	28	35	34
Valuation(x)				
PER	57.8	54.8	47.5	39.9
P/B	20.7	20.0	18.9	17.6
P/CEPS	51.6	49.2	42.5	36.1
EV/EBITDA	41.4	39.4	33.7	28.0
EV/Sales	8.2	7.0	6.4	5.6
Dividend Yield (%)	1.4	1.8	1.8	2.1

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Net Revenue	25,250	24,190	24,070	21,610
YoY gr. (%)	31.2	21.6	13.4	7.4
Raw Material Expenses	14,890	13,920	13,550	12,000
Gross Profit	10,360	10,270	10,520	9,610
Margin (%)	41.0	42.5	43.7	44.5
EBITDA	4,810	4,230	4,310	3,460
YoY gr. (%)	3.0	8.7	4.4	8.5
Margin (%)	19.0	17.5	17.9	16.0
Depreciation / Depletion	330	330	360	370
EBIT	4,480	3,900	3,950	3,090
Margin (%)	17.7	16.1	16.4	14.3
Net Interest	80	100	100	110
Other Income	270	250	220	240
Profit before Tax	4,670	4,050	4,070	3,220
Margin (%)	18.5	16.7	16.9	14.9
Total Tax	1,020	890	900	650
Effective tax rate (%)	21.8	22.0	22.1	20.2
Profit after Tax	3,650	3,160	3,170	2,570
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,650	3,160	3,170	2,570
YoY gr. (%)	12.7	3.3	1.6	4.5
Margin (%)	14.5	13.1	13.2	11.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,650	3,160	3,170	2,570
YoY gr. (%)	(5.9)	15.8	1.6	13.2
Margin (%)	14.5	13.1	13.2	11.9
Other Comprehensive Income	140	30	(30)	210
Total Comprehensive Income	3,790	3,190	3,140	2,780
Avg. Shares O/s (m)	1,291	1,291	1,290	1,291
EPS (Rs)	2.8	2.4	2.5	2.0

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-22	Accumulate	538	518
2	28-Jan-22	Accumulate	546	472
3	06-Jan-22	Hold	544	501
4	28-Oct-21	Hold	544	564
5	06-Oct-21	Hold	532	564
6	31-Jul-21	Hold	525	547
7	05-Jul-21	UR	-	520

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,542	3,206
2	Avenue Supermarts	Accumulate	5,345	4,146
3	Britannia Industries	BUY	3,770	3,385
4	Colgate Palmolive	Accumulate	1,664	1,565
5	Dabur India	Accumulate	603	556
6	Emami	Accumulate	607	464
7	Hindustan Unilever	BUY	2,384	2,145
8	ITC	BUY	285	268
9	Jubilant FoodWorks	Accumulate	3,230	2,792
10	Kansai Nerolac Paints	BUY	675	464
11	Marico	Accumulate	538	518
12	Mold-tek Packaging	BUY	793	797
13	Nestle India	Accumulate	19,426	18,203
14	Pidilite Industries	Hold	2,417	2,525
15	Restaurant Brands Asia	BUY	220	113
16	Titan Company	BUY	2,701	2,387
17	Westlife Development	BUY	645	497

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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