

August 8, 2022

Q1FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	HOLD		ACCUMULATE	
Target Price	523		544	
Sales (Rs. m)	1,01,632	1,13,536	1,04,030	1,17,064
% Chng.	(2.3)	(3.0)		
EBITDA (Rs. m)	19,149	22,359	19,599	23,521
% Chng.	(2.3)	(4.9)		
EPS (Rs.)	10.3	12.0	10.7	12.9
% Chng.	(4.1)	(7.3)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	80,480	95,720	1,01,632	1,13,536
EBITDA (Rs. m)	15,910	16,287	19,149	22,359
Margin (%)	19.8	17.0	18.8	19.7
PAT (Rs. m)	11,610	11,467	13,267	15,470
EPS (Rs.)	9.0	8.9	10.3	12.0
Gr. (%)	8.3	(1.2)	15.7	16.6
DPS (Rs.)	7.5	9.3	9.5	11.0
Yield (%)	1.4	1.8	1.8	2.1
RoE (%)	37.1	34.8	39.0	44.0
RoCE (%)	41.8	40.2	46.9	54.0
EV/Sales (x)	8.2	7.0	6.6	5.9
EV/EBITDA (x)	41.7	40.9	34.8	29.8
PE (x)	58.2	58.9	50.9	43.6
P/BV (x)	20.8	20.2	19.6	18.8

Key Data

MRCO.BO | MRCO IN

52-W High / Low	Rs.608 / Rs.456
Sensex / Nifty	58,853 / 17,525
Market Cap	Rs.677bn/ \$ 8,496m
Shares Outstanding	1,293m
3M Avg. Daily Value	Rs.813m

Shareholding Pattern (%)

Promoter's	59.59
Foreign	25.16
Domestic Institution	8.67
Public & Others	6.58
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.9	3.5	(0.2)
Relative	(3.8)	1.6	(7.9)

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Lacks triggers given volume pressures

Quick Pointers:

- Copra prices are down 20-25% YoY and 6% QoQ, Parachute prices cut by ~8%, expect volume recovery from 2Q23
- Saffola and Foods portfolio under pressure due to nutrition focus, Innovations to accelerate from 2H23. VAHO to grow in double digits in remainder of FY23

We cut FY23/FY24 EPS by 4.1%/7.3% and rating from Accumulate to Hold on account of weak volume expectations in Saffola Edible oils and Nutrition based food products. Although volume de-growth at 6% for 1Q23 has bottomed out, however sustained pressure on Saffola and price reduction across Saffola and Parachute will impact sales growth. We believe MRCO is well placed to accelerate growth due to 1) Price cuts in Parachute on 20-25% YoY reduction in Copra prices 2) Launch of new products in mid-sized but high growth categories of Peanut butter and Mayo 3) improved relative price value equation of Saffola in edible oils post recent price correction 4) Success of new launches in foods with objective of Rs8.5-10bn sales by FY24 and 5) Increased focus on digital brands in HPC with aspiration of Rs4.5-5bn topline by FY24 (Rs2-2.5bn in FY23). We believe any adverse movement in copra prices and other crude linked inputs can pose a risk given 8-9% price correction in Parachute coconut oil. We expect Sales/PAT CAGR of 8.9% and 16.2% over FY22-24. We value the stock at 42xJun24 EPS and assign a target price of Rs523 (544 based on 42xMar24 EPS earlier) given healthy ROE/ROCE of 44.0%/54.0% and 90+% dividend payout. Recommend Hold.

Sales up 1.3%, GM expanded by 401bps: Revenues grew by 1.3% YoY to Rs25.6bn. Gross margins expanded by 401bps YoY to 45%. EBITDA grew by 9.8% YoY to Rs5.3bn; Margins expanded by only 159bps YoY to 20.6% due to higher other expenses & advertising spends. A&P Spends expanded by 85bps YoY to 7.8%. Adj PAT grew by 3.3% YoY to Rs3.8bn. Domestic volume declined 6% YoY led by double digit decline in Saffola Edible Oils. Parachute volumes declined 2% while VAHO volumes were flattish. IBD grew 18% in CC led by a growth of 10% in Bangladesh, 34% in South East Asia, 23% in South Africa and 27% in MENA.

Concall takeaways: 1) Macro headwinds, rise in input cost, currency depreciation, subdued consumption led to softening up of FMCG demand 2) Parachute oil branded conversion slowed, market share gains continued 3) Management will continue to prioritize brand building over short-term margins 4) Saffola edible oil witnessed more than 20% volume decline due to down trading in super premium category. Volume likely to normalized from 2H23. 5) VAHO: took 5% price hike and plans to go for another round of price hikes. 6) Digital brands aims to add Rs 500mn every quarter in its annual run rate. 7) Gross margin expected to remain range bound in near term and expect it to improve in 2H23 with stability in copra & vegetable oil prices. 8) Management expects double digit growth in Bangladesh with strong competitive positioning, proactive steps by government & focus on the core categories.9) MRCO is open to drive growth via inorganic/organic opportunities.

Exhibit 1: 1QFY23 Results: Sales grew 1.3%, Gross margins expanded 401bps

Consolidated	1QFY23	1QFY22	YoY gr. (%)	4QFY22	FY22	FY21	YoY gr. (%)
Net Sales	25,580	25,250	1.3	21,610	95,120	80,480	18.2
COGS	14,060	14,890	(5.6)	12,000	54,320	42,680	27.3
<i>% of Net Sales</i>	<i>55.0</i>	<i>59.0</i>	<i>-4.0</i>	<i>55.5</i>	<i>57.1</i>	<i>53.0</i>	<i>4.1</i>
Gross Profit	11,520	10,360	11.2	9,610	40,800	37,800	7.9
<i>% of NS</i>	<i>45.0</i>	<i>41.0</i>	<i>4.0</i>	<i>44.5</i>	<i>42.9</i>	<i>47.0</i>	<i>-4.1</i>
Advt. & Prom.	1,990	1,750	13.7	2,040	8,020	7,010	14.4
<i>% of NS</i>	<i>7.8</i>	<i>6.9</i>	<i>0.8</i>	<i>9.4</i>	<i>8.4</i>	<i>8.7</i>	<i>-0.3</i>
Total Expenses	20,300	20,440	(0.7)	18,150	78,280	64,570	21.2
EBITDA	5,280	4,810	9.8	3,460	16,840	15,910	5.8
<i>Margins (%)</i>	<i>20.6</i>	<i>19.0</i>	<i>1.6</i>	<i>16.0</i>	<i>17.7</i>	<i>19.8</i>	<i>-2.1</i>
Depreciation	360	330	9.1	370	1,390	1,390	-
EBBIT	4,920	4,480	9.8	3,090	15,450	14,520	6.4
Interest	100	80	25.0	110	390	340	14.7
Other Income	170	270	(37.0)	240	930	940	(1.1)
PBT	4,990	4,670	6.9	3,220	15,990	15,120	5.8
Tax	1,220	1,020	19.6	650	3,460	3,240	6.8
<i>Effective tax rate (%)</i>	<i>24.4</i>	<i>21.8</i>	<i>2.6</i>	<i>20.2</i>	<i>21.6</i>	<i>21.4</i>	<i>0.2</i>
Adjusted PAT	3,770	3,650	3.3	2,570	12,530	11,860	5.6

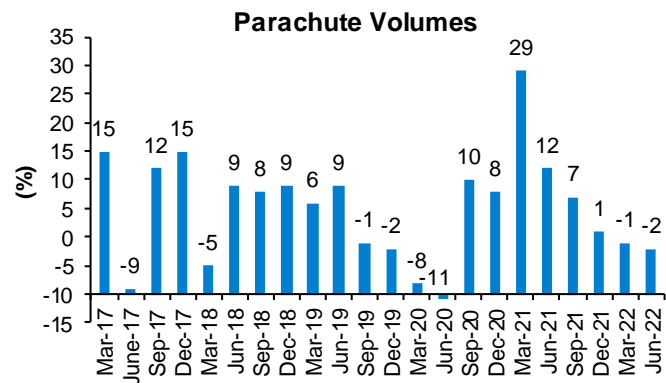
Source: Company, PL

Exhibit 2: Consolidated Segmental: IBD business posted strong double digit growth of 19.5%

(Rs m)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Net Sales	19,250	19,890	21,220	20,120	25,250	24,190	24,070	21,610	25,580
Domestic	14,800	15,080	16,270	15,740	19,920	18,700	18,170	16,540	19,210
International	4,450	4,810	4,950	4,380	5,330	5,490	5,900	5,070	6,370
Sales Growth %	-11.1	8.7	16.3	34.5	31.2	21.6	13.4	7.4	1.3
Domestic	-14.5	7.9	17.9	37.3	34.6	24.0	11.7	5.1	-3.6
International	2.3	11.6	11.5	25.1	19.8	14.1	19.2	15.8	19.5
EBIT	4,830	3,960	4,210	3,370	4,930	4,360	4,430	3,630	5,540
Domestic	3,580	2,920	3,250	2,540	3,540	3,130	3,080	2,680	3,980
International	1,250	1,040	960	830	1,390	1,230	1,350	950	1,560
EBIT Growth %	2.5	10.9	9.9	14.2	2.1	10.1	5.2	7.7	12.4
Domestic	-1.9	8.6	9.1	6.7	-1.1	7.2	-5.2	5.5	12.4
International	17.9	18.2	12.9	45.6	11.2	18.3	40.6	14.5	12.2
EBIT Margins %	25.1	19.9	19.8	16.7	19.5	18.0	18.4	16.8	21.7
Domestic	24.2	19.4	20.0	16.1	17.8	16.7	17.0	16.2	20.7
International	28.1	21.6	19.4	18.9	26.1	22.4	22.9	18.7	24.5
Capital Employed	24,320	21,650	18,730	16,560	19,440	21,290	22,350	23,940	27,150
Domestic	16,080	14,320	11,340	8,950	10,670	12,660	13,470	14,300	17,190
International	8,240	7,330	7,390	7,610	8,770	8,630	8,880	9,640	9,960
International Sales Growth %									
Bangladesh (46%)	10.0	16.0	15.0	20.0	9.0	16.0	16.0	16.0	10.0
MENA (15%)	-27.0	-6.0	-1.0	62.0	74.0	20.0	21.0	11.0	27.0
South Africa (8%)	-25.0	16.0	7.0	48.0	52.0	8.0	6.0	20.0	23.0
SE Asia (26%)	-17.0	-4.0	3.0	13.0	16.0	-2.0	27.0	7.0	34.0

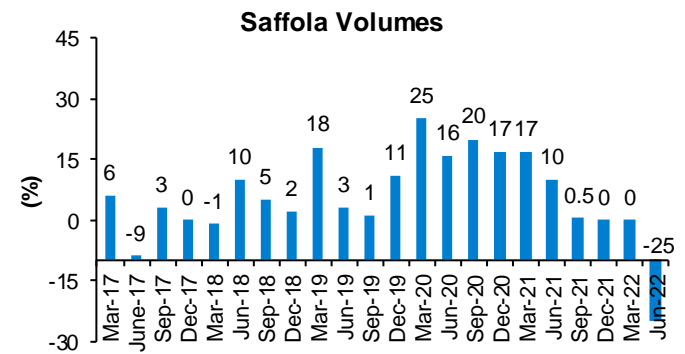
Source: Company, PL

Exhibit 3: Parachute volumes degrew 2% on high base



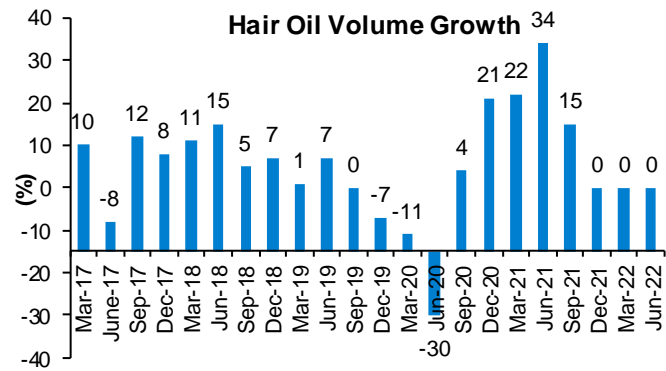
Source: Company, PL

Exhibit 4: Saffola volumes declined in mid 20's



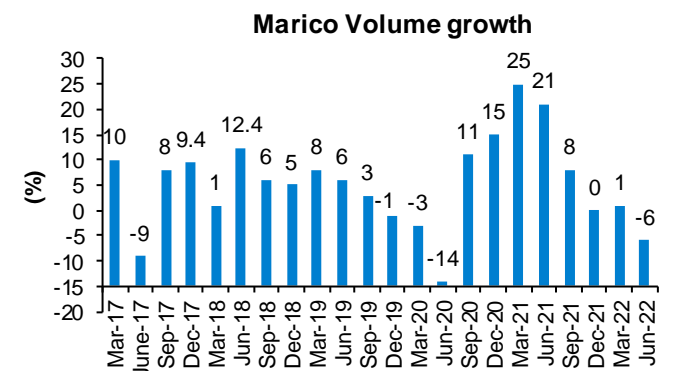
Source: Company, PL

Exhibit 5: VAHO volumes were flattish



Source: Company, PL

Exhibit 6: Volumes were down 6% on a high base



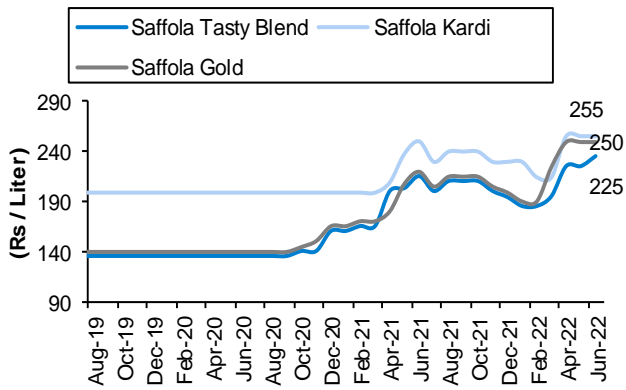
Source: Company, PL

Exhibit 7: 96%/93% portfolio winning market share/gaining penetration

Market Share (%)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	3QFY22	4QFY22	1QFY23
Coconut Oil	62	62	62	61	62	63	63	63	62
Saffola	77	77	76	81	82	82	83	83	NA
Hair Oil VAHO	36	36	35	37	37	37	37	37	37
Livon & Silk and Shine	65	65	65	63	63	64	64	64	63
Hair Creams/Gel	59	59	59	57	58	58	57	57	55
Saffola Oats	34	34	33	38	39	41	42	42	43
Shanti Amla	NA	NA	NA	NA	NA	NA	NA	NA	NA
Parachute Bangladesh	82	82	82	82	NA	NA	NA	NA	NA
Hair Oils Bangladesh	23	23	23	23	NA	NA	NA	NA	NA
X Men Shampoo Vietnam	37	37	37	38	NA	NA	NA	NA	NA
x Men Deodorant Vietnam	31	31	31	31	NA	NA	NA	NA	NA

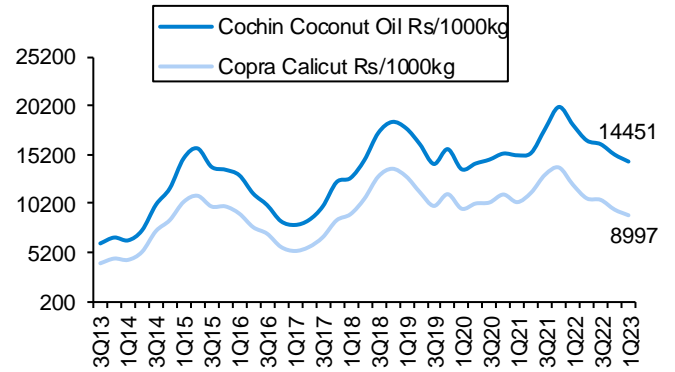
Source: Company, PL

Exhibit 8: Company yet to take price cuts



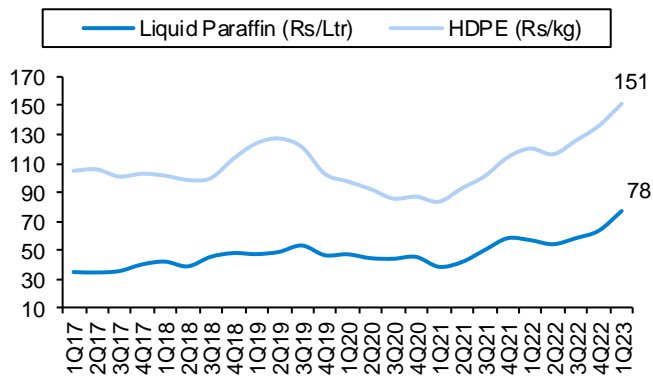
Source: Company, PL

Exhibit 9: Cochin/Calicut Copra prices continue to soften



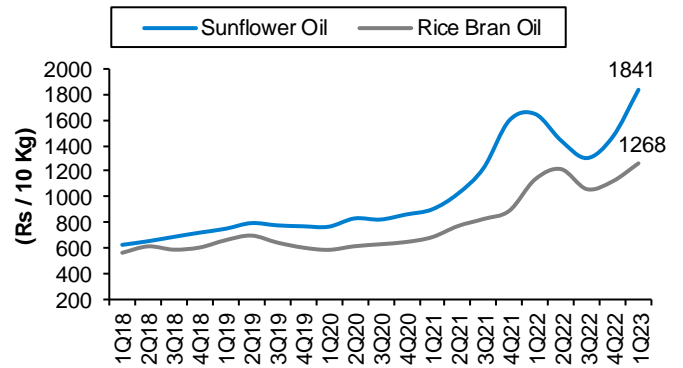
Source: Company, PL

Exhibit 10: LLP/HDPE prices yet to peak out



Source: Company, PL

Exhibit 11: Oil prices move up due to Ukraine-Russia war



Source: Company, PL

True Elements investment to help expand healthy breakfast play



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	80,480	95,720	1,01,632	1,13,536
YoY gr. (%)	10.0	18.9	6.2	11.7
Cost of Goods Sold	42,700	55,483	55,296	60,749
Gross Profit	37,780	40,237	46,335	52,787
Margin (%)	46.9	42.0	45.6	46.5
Employee Cost	5,700	5,860	6,403	7,153
Other Expenses	-	-	-	-
EBITDA	15,910	16,287	19,149	22,359
YoY gr. (%)	8.3	2.4	17.6	16.8
Margin (%)	19.8	17.0	18.8	19.7
Depreciation and Amortization	1,390	1,654	1,706	1,911
EBIT	14,520	14,633	17,443	20,448
Margin (%)	18.0	15.3	17.2	18.0
Net Interest	340	386	414	400
Other Income	940	980	863	923
Profit Before Tax	15,120	15,227	17,891	20,971
Margin (%)	18.8	15.9	17.6	18.5
Total Tax	3,240	3,460	4,294	5,138
Effective tax rate (%)	21.4	22.7	24.0	24.5
Profit after tax	11,880	11,767	13,597	15,833
Minority interest	270	300	330	363
Share Profit from Associate	-	-	-	-
Adjusted PAT	11,610	11,467	13,267	15,470
YoY gr. (%)	8.3	(1.2)	15.7	16.6
Margin (%)	14.4	12.0	13.1	13.6
Extra Ord. Income / (Exp)	110	-	-	-
Reported PAT	11,720	11,467	13,267	15,470
YoY gr. (%)	12.4	(2.2)	15.7	16.6
Margin (%)	14.6	12.0	13.1	13.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,720	11,467	13,267	15,470
Equity Shares O/s (m)	1,290	1,290	1,290	1,290
EPS (Rs)	9.0	8.9	10.3	12.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	13,413	15,240	16,740	18,240
Tangibles	10,170	11,890	13,390	14,890
Intangibles	3,243	3,350	3,350	3,350
Acc: Dep / Amortization	5,222	5,960	7,197	8,576
Tangibles	4,280	5,670	6,840	8,152
Intangibles	942	290	357	424
Net fixed assets	8,190	9,280	9,543	9,664
Tangibles	5,890	6,220	6,550	6,738
Intangibles	2,300	3,060	2,993	2,926
Capital Work In Progress	240	390	400	400
Goodwill	6,130	6,540	6,540	6,540
Non-Current Investments	2,710	2,080	2,153	2,179
Net Deferred tax assets	1,020	780	430	73
Other Non-Current Assets	2,610	2,650	2,933	3,281
Current Assets				
Investments	6,280	6,410	6,098	5,677
Inventories	11,260	14,120	15,282	16,882
Trade receivables	3,880	6,520	6,961	7,465
Cash & Bank Balance	9,450	5,800	4,887	5,859
Other Current Assets	2,240	2,130	3,049	3,406
Total Assets	55,100	57,860	59,631	62,977
Equity				
Equity Share Capital	1,290	1,290	1,290	1,290
Other Equity	31,110	32,190	33,225	34,530
Total Networkth	32,400	33,480	34,515	35,820
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	13,295	14,687
Other current liabilities	5,390	4,640	5,546	6,171
Total Equity & Liabilities	55,100	57,860	59,631	62,977

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	15,120	15,227	17,891	20,971
Add. Depreciation	1,390	1,654	1,706	1,911
Add. Interest	340	386	414	400
Less Financial Other Income	940	980	863	923
Add. Other	100	140	470	506
Op. profit before WC changes	16,950	17,407	20,481	23,787
Net Changes-WC	7,230	(3,990)	(1,481)	(31)
Direct tax	(3,240)	(3,460)	(4,294)	(5,138)
Net cash from Op. activities	20,940	9,957	14,706	18,619
Capital expenditures	(2,920)	(3,284)	(2,200)	(2,282)
Interest / Dividend Income	-	-	-	-
Others	(1,500)	390	-	-
Net Cash from Invt. activities	(4,420)	(2,894)	(2,200)	(2,282)
Issue of share cap. / premium	20	1,653	(241)	(264)
Debt changes	130	(30)	(500)	(500)
Dividend paid	(9,680)	(11,950)	(12,265)	(14,201)
Interest paid	(340)	(386)	(414)	(400)
Others	-	-	-	-
Net cash from Fin. activities	(9,870)	(10,713)	(13,419)	(15,366)
Net change in cash	6,650	(3,650)	(913)	971
Free Cash Flow	18,020	6,673	12,506	16,337

Source: Company Data, PL Research

Key Financial Metrics

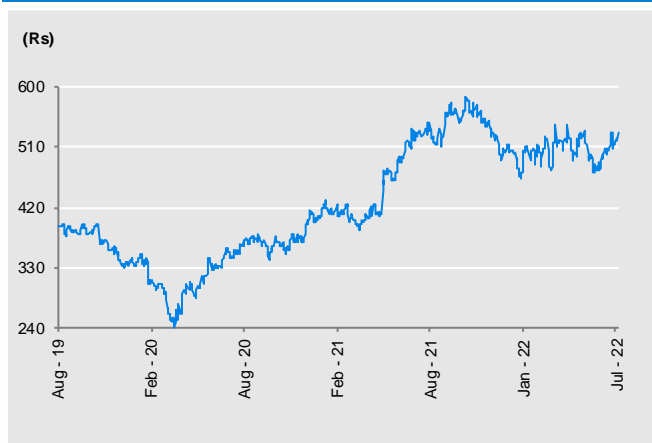
Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	9.0	8.9	10.3	12.0
CEPS	10.1	10.2	11.6	13.5
BVPS	25.1	26.0	26.8	27.8
FCF	14.0	5.2	9.7	12.7
DPS	7.5	9.3	9.5	11.0
Return Ratio(%)				
RoCE	41.8	40.2	46.9	54.0
ROIC	36.9	32.1	35.9	39.8
RoE	37.1	34.8	39.0	44.0
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.3)	(0.2)	(0.3)
Net Working Capital (Days)	17	27	32	31
Valuation(x)				
PER	58.2	58.9	50.9	43.6
P/B	20.8	20.2	19.6	18.8
P/CEPS	51.9	51.5	45.1	38.8
EV/EBITDA	41.7	40.9	34.8	29.8
EV/Sales	8.2	7.0	6.6	5.9
Dividend Yield (%)	1.4	1.8	1.8	2.1

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	24,190	24,070	21,610	25,580
YoY gr. (%)	21.6	13.4	7.4	1.3
Raw Material Expenses	13,920	13,550	12,000	14,060
Gross Profit	10,270	10,520	9,610	11,520
Margin (%)	42.5	43.7	44.5	45.0
EBITDA	4,230	4,310	3,460	5,280
YoY gr. (%)	8.7	4.4	8.5	9.8
Margin (%)	17.5	17.9	16.0	20.6
Depreciation / Depletion	330	360	370	360
EBIT	3,900	3,950	3,090	4,920
Margin (%)	16.1	16.4	14.3	19.2
Net Interest	100	100	110	100
Other Income	250	220	240	170
Profit before Tax	4,050	4,070	3,220	4,990
Margin (%)	16.7	16.9	14.9	19.5
Total Tax	890	900	650	1,220
Effective tax rate (%)	22.0	22.1	20.2	24.4
Profit after Tax	3,160	3,170	2,570	3,770
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,160	3,170	2,570	3,770
YoY gr. (%)	3.3	1.6	4.5	3.3
Margin (%)	13.1	13.2	11.9	14.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,160	3,170	2,570	3,770
YoY gr. (%)	15.8	1.6	13.2	3.3
Margin (%)	13.1	13.2	11.9	14.7
Other Comprehensive Income	30	(30)	210	(30)
Total Comprehensive Income	3,190	3,140	2,780	3,740
Avg. Shares O/s (m)	1,291	1,290	1,291	1,291
EPS (Rs)	2.4	2.5	2.0	2.9

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-22	Accumulate	544	499
2	05-May-22	Accumulate	547	520
3	08-Apr-22	Accumulate	538	518
4	28-Jan-22	Accumulate	546	472
5	06-Jan-22	Hold	544	501
6	28-Oct-21	Hold	544	564
7	06-Oct-21	Hold	532	564

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,363	3,109
2	Avenue Supermarts	BUY	4,636	4,239
3	Britannia Industries	Hold	3,880	3,775
4	Colgate Palmolive	Accumulate	1,701	1,564
5	Dabur India	Accumulate	603	574
6	Emami	Accumulate	611	452
7	Hindustan Unilever	Accumulate	2,699	2,568
8	ITC	Accumulate	327	308
9	Jubilant FoodWorks	BUY	700	565
10	Kansai Nerolac Paints	Accumulate	558	499
11	Marico	Accumulate	544	499
12	Mold-tek Packaging	Accumulate	830	765
13	Nestle India	Accumulate	19,721	19,112
14	Pidilite Industries	Hold	2,389	2,237
15	Restaurant Brands Asia	UR	-	111
16	Titan Company	Accumulate	2,608	2,433
17	Westlife Development	BUY	781	589

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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