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Q4FY21 result review
and ratings change

Consumer Staples & Discretionary

Target price Rs500

Earnings revision

(%)	FY22E	FY23E
Sales	↑ 8.3	↑ 8.3
EBITDA	↓ 4.4	↓ 1.7
PAT	↑ 1.4	↑ 4.4

Target price revision

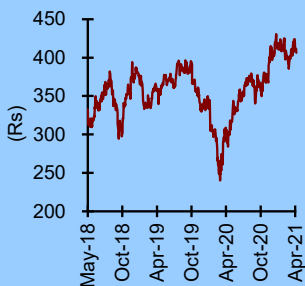
Rs500 from Rs450

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	59.6	59.6	59.6
Institutional investors	33.9	34.1	34.1
MFs and others	2.5	2.1	2.0
Banks, FI's	7.7	7.8	8.0
FII's	23.7	24.2	24.1
Others	6.5	6.3	6.3

Source: BSE

Price chart



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Penetration-driven growth and market share gains are DCF-accretive; BUY

Rs412

4Q volumes grew 25% (~20% adjusting for base) - an outperformance. Significant market share gains and sustained growth momentum in near-total portfolio is pleasing. We like its strategy of prioritising market share / volume growth over margins. In India, a “growth market”, investors tend to (rightly) ignore short-term profit sacrifice, provided the trajectory of volume outperformance is clear (as it's DCF-accretive). Also, we like the distribution expansion plans in both urban (chemist channel) and rural (indirect to direct conversion and expanding footprint by another 25%). New launches in (healthy) foods portfolio is likely to provide another leg to growth (targeting ~Rs4.5-5bn revenue in FY22 and ~Rs8.5-10bn in FY24 (target of ~Rs3bn in FY21 achieved)). A resilient international portfolio adds to potential outperformance in India. We stay believers. Our stock rating moves up a notch to BUY (from ADD); revised target price of Rs500.

- **Broad-based revenue growth:** Consolidated revenue / EBITDA / recurring PAT grew 34% / 13% / 17%. Domestic revenue grew 37% driven by 25% volume growth (2-year CAGR of 10%; management said adjusting for the lower base volume growth was ~18-20%) with continued improving consumer sentiment. This performance was led by strong GT performance in rural (+42% volume growth) growing 1.8x of urban (+23% volume growth). E-commerce grew by 81% (contributes to ~8% of business) while Modern Trade declined (-17% YoY) due to higher base driven by pantry stocking in Mar'20. CSD also grew by 59% on a lower base.
- **Segment performance:** Parachute revenue grew 38% with 29% volume growth driven by market share gains as it partially absorbed input cost inflation. Value added hair oils (VAHO) continued its third consecutive quarter of volume growth (+22% volume and value both). Saffola edible oils continued its strong performance (+17% volume, +43% value) on a high base, benefitting from increased penetration. In other categories, healthy foods grew 134% (oats grew ~84%) while Premium personal care segment witnessed sequential recovery with modest volume decline. Saffola Honey is also performing well with ~double-digit market shares in MT and ~25% market share in e-commerce where the category is over-indexed.
- **International business:** Revenue grew 23% in constant currency terms (+25% reported) driven by broad-based performance across geographies - Bangladesh (+20% in CC) and continued performance in South Africa (+48% in CC), South East Asia (+13% in CC), MENA (+62% in CC).

Market Cap	Rs532bn/US\$7.2bn	Year to March	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	MRCO.BO/MRCO IN	Revenue (Rs mn)	73,150	80,480	91,152	102,381
Shares Outstanding (mn)	1,291.4	Adj. Net Profit (Rs mn)	10,510	11,590	12,950	15,607
52-week Range (Rs)	430/284	Dil. Rec. EPS (Rs)	8.1	9.0	10.0	12.1
Free Float (%)	40.4	% Chg YoY	13.0	10.3	11.7	20.5
FII (%)	24.1	P/E (x)	50.5	45.8	41.0	34.0
Daily Volume (US\$'000)	13,916	CEPS (Rs)	9.0	10.2	11.1	13.3
Absolute Return 3m (%)	0.2	EV/EBITDA (x)	35.9	33.1	30.9	25.8
Absolute Return 12m (%)	46.2	Dividend Yield (%)	1.6	1.8	1.8	2.2
Sensex Return 3m (%)	5.6	RoCE (%)	30.7	32.5	33.0	37.4
Sensex Return 12m (%)	46.3	RoE (%)	34.9	37.0	38.0	41.4

- ▶ **Margin declined significantly – input cost headwinds mitigated partially by pricing actions and cost controls:** Consolidated gross margin declined 510bps to 44.1% driven by steep inflation in copra and rice bran oil. It implemented price hikes of ~9% and ~30% in coconut hair oil and Saffola edible oils (further ~15-20% hikes in April'21) portfolio in 2H. However, consolidated EBITDA margin declined by 300bps to 15.9% primarily driven by decline in other expenses (-260bps YoY) due to cost saving initiatives and operating leverage. Copra prices have now declined by ~15% and management expects prices for FY22 to be largely flat to slight inflationary YoY. Edible oil input cost is expected to decline in FY22. It expects operating margins to improve sequentially, however, remain lower on YoY basis with the consolidated margins guidance of ~18-19% for FY22.
- ▶ **Other highlights:** 1) OCF / FCF grew by 70% / 75% to Rs21bn / Rs18bn respectively, 2) Working capital days improved by ~25 days largely driven by lower inventory days and receivables days (we believe efficient working capital management with reduced inventory (driven by comprehensive SKU rationalisation) will also drive value creation), and 3) Capex is expected to be ~Rs1.25-1.5bn for FY22.
- ▶ **Valuation and risks:** We increase our earnings estimates by ~4%; modelling revenue / EBITDA / PAT CAGR of 13 / 13 / 16 (%) over FY21-23E. Upgrade to BUY (ADD earlier) with DCF-based revised target price of Rs500 (earlier Rs450). At our target price, the stock will trade at 41x P/E multiple Mar-23E. Key downside risk is higher-than-expected inflation in copra prices.

Table 1: Q4FY21 results review (consolidated)

(Rs mn)

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Revenues	20,120	14,960	34	21,220	(5)	80,480	73,150	10
COGS	(11,240)	(7,590)	48	(11,270)	(0)	(42,700)	(37,410)	14
Gross profit	8,880	7,370	20	9,950	(11)	37,780	35,740	6
Staff cost	(1,500)	(1,080)	39	(1,480)	1	(5,700)	(4,780)	19
A&SP	(1,730)	(1,260)	37	(1,930)	(10)	(6,980)	(7,330)	(5)
Other opex	(2,460)	(2,210)	11	(2,410)	2	(9,190)	(8,930)	3
Total opex	(5,690)	(4,550)	25	(5,820)	(2)	(21,870)	(21,040)	4
EBITDA	3,190	2,820	13	4,130	(23)	15,910	14,700	8
Other income	290	320	(9)	240	21	940	1,240	(24)
Finance cost	(100)	(130)	(23)	(70)	43	(340)	(500)	(32)
D&A	(360)	(380)	(5)	(360)	-	(1,390)	(1,400)	(1)
PBT	3,020	2,630	15	3,940	(23)	15,120	14,030	8
Tax	(560)	(530)	6	(820)	(32)	(3,240)	(3,310)	(2)
PAT	2,460	2,100	17	3,120	(21)	11,880	10,720	11
Minority Interest	(80)	(60)	-	(50)	-	(290)	(220)	-
PAT after MI	2,380	2,040	17	3,070	(22)	11,590	10,500	10
Extraordinary items	(190)	(100)	-	-	-	130	(290)	-
Net profit (reported)	2,190	1,940	13	3,070	(29)	11,720	10,210	15
EPS	1.8	1.6	17	2.4	(22)	9.0	8.1	10
Costs as a % of sales								
COGS	55.9	50.7	512 bps	53.1	275 bps	53.1	51.1	191 bps
Gross margin (%)	44.1	49.3	-513 bps	46.9	-276 bps	46.9	48.9	-192 bps
Staff cost	7.5	7.2	23 bps	7.0	48 bps	7.1	6.5	54 bps
A&SP	8.6	8.4	17 bps	9.1	-50 bps	8.7	10.0	-135 bps
Other opex	12.2	14.8	-255 bps	11.4	86 bps	11.4	12.2	-79 bps
EBITDA margin (%)	15.9	18.9	-300 bps	19.5	-361 bps	19.8	20.1	-33 bps
Income tax rate (%)	18.5	20.2	-161 bps	20.8	-227 bps	21.4	23.6	-217 bps

Source: Company data, I-Sec research

Table 2: Q4FY21 results review (standalone)

(Rs mn)

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Revenue	16,040	11,880	35	16,670	(4)	63,370	58,530	8
COGS	(9,830)	(6,430)	53	(9,670)	2	(36,760)	(32,060)	15
Gross profit	6,210	5,450	14	7,000	(11)	26,610	26,470	1
Staff cost	(950)	(680)	40	(970)	(2)	(3,740)	(3,080)	21
A&SP	(1,020)	(800)	28	(1,120)	(9)	(4,160)	(5,020)	(17)
Other opex	(1,900)	(1,780)	7	(1,870)	2	(7,170)	(7,170)	-
Total opex	(3,870)	(3,260)	19	(3,960)	(2)	(15,070)	(15,270)	(1)
EBITDA	2,340	2,190	7	3,040	(23)	11,540	11,200	3
Other income	1,080	1,020	6	770	40	3,460	3,060	13
Finance cost	(60)	(90)	(33)	(50)	20	(220)	(330)	(33)
D&A	(280)	(300)	(7)	(270)	4	(1,070)	(1,130)	(5)
PBT	3,080	2,820	9	3,490	(12)	13,710	12,800	7
Tax	(370)	(580)	(36)	(560)	(34)	(2,050)	(2,540)	(19)
Recurring PAT	2,710	2,240	21	2,930	(8)	11,660	10,260	14
Extraordinary items	(270)	-	-	-	-	(600)	(190)	-
Net profit (reported)	2,440	2,240	9	2,930	(17)	11,060	10,070	10
EPS	2.1	1.7	21	2.3	(8)	9.0	8.0	14
Costs as a % of sales								
COGS	61.3	54.1	715 bps	58.0	327 bps	58.0	54.8	323 bps
Gross margin (%)	38.7	45.9	-716 bps	42.0	-328 bps	42.0	45.2	-324 bps
Staff cost	5.9	5.7	19 bps	5.8	10 bps	5.9	5.3	63 bps
A&SP	6.4	6.7	-38 bps	6.7	-36 bps	6.6	8.6	-202 bps
Other expenditure	11.8	15.0	-314 bps	11.2	62 bps	11.3	12.3	-94 bps
EBITDA margin (%)	14.6	18.4	-385 bps	18.2	-365 bps	18.2	19.1	-93 bps
Income tax rate (%)	12.0	20.6	-856 bps	16.0	-404 bps	15.0	19.8	-490 bps

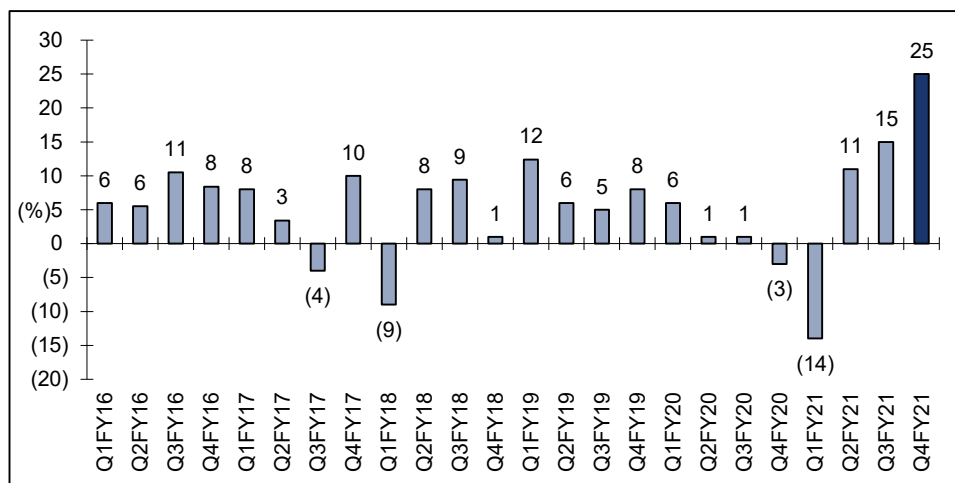
Source: Company data, I-Sec research

Business performance and conference call takeaways

India Business (77% of sales)

- Domestic revenue grew by 37% YoY driven by 25% volume growth.
- In terms of markets, rural general trade (GT) grew 42% YoY, while urban GT grew 23% YoY in volume terms.
- In terms of distribution channels, modern trade (MT) (14% contribution to Indian business in FY21) recovered declined by 17% on a high base due to pantry loading in Mar'20 and E-commerce (5% contribution to Indian business in FY20, now contributes 8%) grew 81% YoY. CSD recovered well and grew by 59% on a low base.

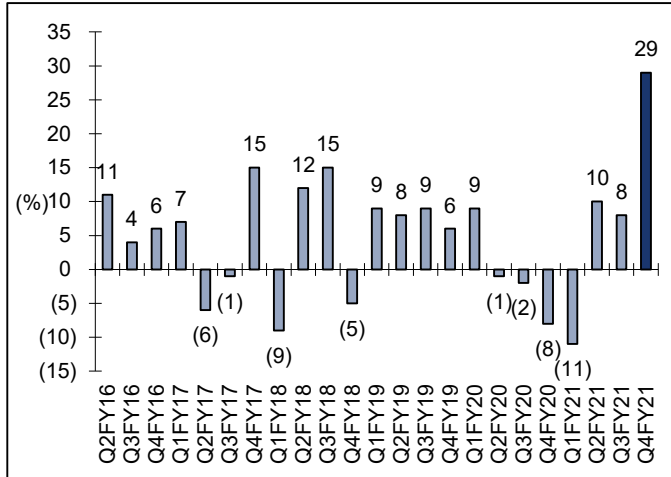
Chart 1: Domestic business volume growth



Source: Company data, I-Sec research

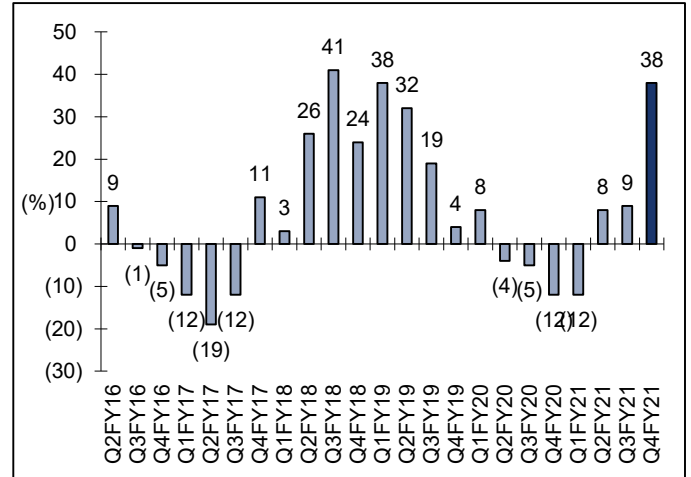
- Input costs are witnessing steep inflationary pressures, Average copra cost in Q4FY21 was up 25% YoY and 6% QoQ on account of leaner supplies and lower coconut to copra conversions. Copra prices have declined by ~15% now. Further Management expects copra prices to be largely flat or slightly inflationary on YoY basis for FY22.
- Prices of other key raw materials were also highly inflationary - Rice bran oil (+39% YoY), HDPE (+31% YoY) and LLP (+29% YoY).
- India business operating margin (ex-corporate overheads) declined significantly by 520bps YoY to 17.6% primarily led by input cost inflation largely offset by price hikes in select portfolio and cost savings accruals of Rs1.5bn in the current year.
- **Parachute** reported 29% growth in volume and 38% growth in revenue. Brand has continued momentum despite reduction in consumer offers and price hikes in MRP of ~4% in Q4 (~9% in H2FY21). The company gained volume market share and maintained its leadership position with ~61% market share (+120bps in Q4 and +20bps on MAT basis) in coconut oil category. GT and E-com led the growth while CSD recovered. Brand is placed well to perform well in FY22 driven by improving salience in both core & non-core markets.

Chart 2: Parachute volume growth



Source: Company data, I-Sec research

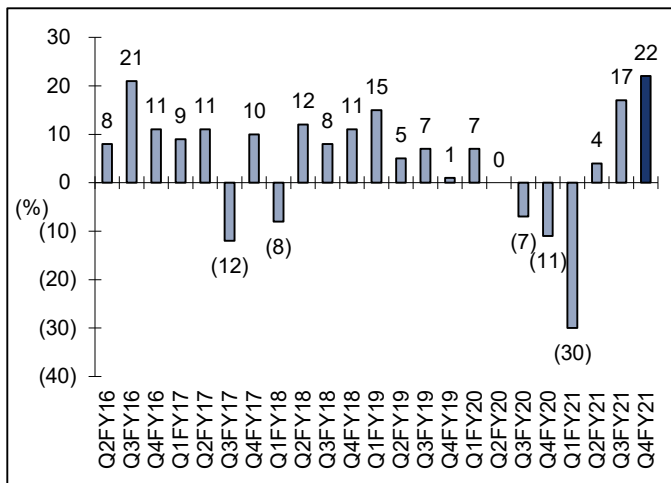
Chart 3: Parachute value growth



Source: Company data, I-Sec research

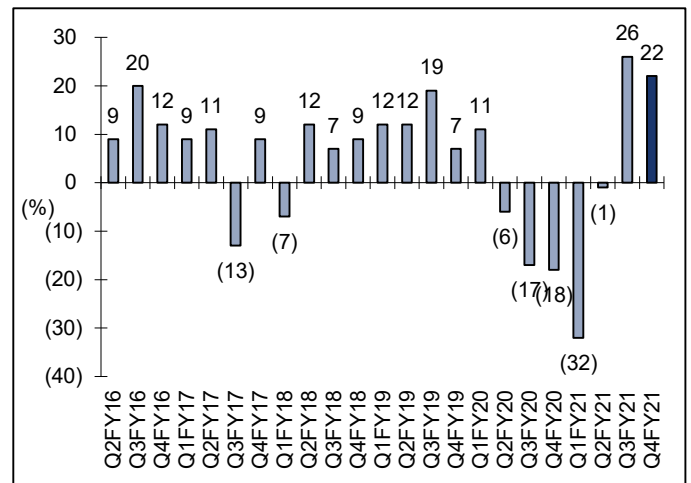
- **Value-Added Hair Oil (VAHO)** reported 22% growth in both value and volume driven by double-digit growth in most of the brands. GT outperformed driven by rural growth while E-com and CSD also grew. Marico gained ~200bps in volume market share in overall hair oil category on MAT basis.
- Management noted that *Nihar Naturals Shanti Amla* continued its growth momentum and grew across markets. *Parachute Advanced Jasmine* and *Nihar Naturals Perfumed Coconut Hair oil* registered strong double-digit volume growth during the quarter. *Hair & Care* re-staged with the new proposition of 'Damage Repair' supported by addition of Aloe Vera to enhance its nourishment credentials. *Parachute Advance Aloe Vera* continued to gain salience in key south and west markets.
- Growth in VAHO will be driven by (1) aggressively participating in economy segment with *Sarson Amla* and *Nihar Shanti Amla*, (2) pricing correction and brand renovation in mid segment and, (3) participating more aggressively in premium format (hair fall, almond etc.) with aim of gaining market share.

Chart 4: VAHO volume growth



Source: Company data, I-Sec research

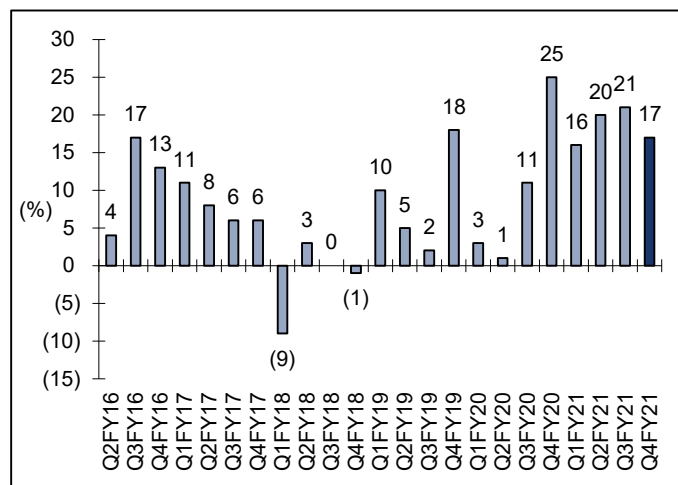
Chart 5: VAHO value growth



Source: Company data, I-Sec research

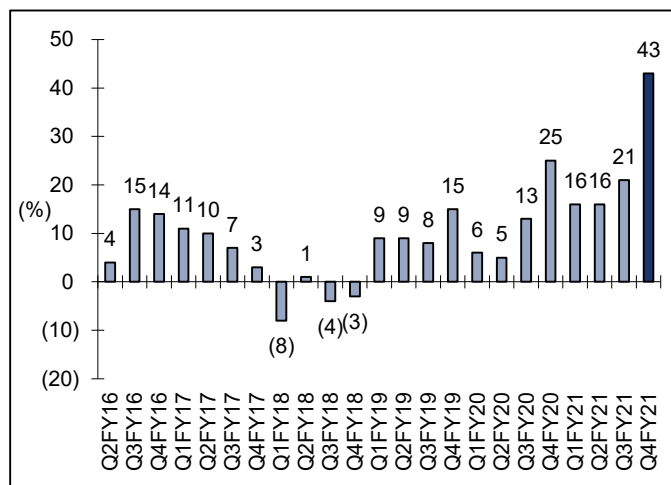
- Saffola** edible oils continue to grow at 43% driven by 17% volume growth (double digit volume growth for sixth consecutive quarter). Volume growth benefited from increased penetration. Inflationary input cost trends led to price hike by the company of ~30% in multiple rounds in H2FY21 (further ~15-20% hikes in April'21). Saffola gained ~450bps (to ~81% on MAT basis) in volume market share in Super Premium Refined Edible Oils category.

Chart 6: Saffola volume growth



Source: Company data, I-Sec research

Chart 7: Saffola value growth



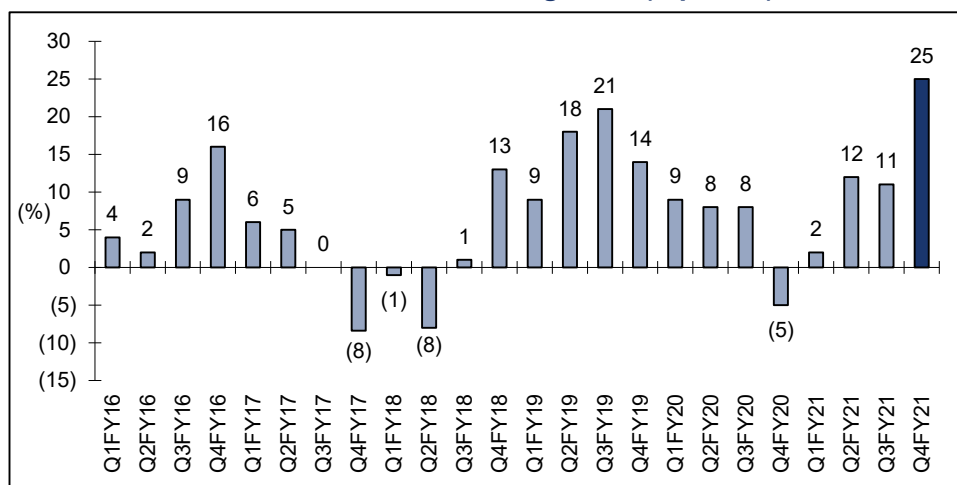
Source: Company data, I-Sec research

- New segments continued strong performance. **Healthy foods** segment (c.15% of Saffola franchise) grew 134% YoY and crossed the milestone of ~Rs3bn revenue in FY21 driven by Saffola Oats franchise (+84% YoY, gained ~800bps in value market share in flavored oats category), benefited from increased penetration and change in positioning from breakfast to mid-meal snacking option which increases the opportunity size. Management expects increase in in-home food consumption and preference towards healthier options within Foods. *Saffola Honey* (100% pure with no added sugar) is scaling across channels and has gained close to double-digit market share in key MT channel already and 25%+ market share in E-commerce where Honey category is over indexed. Launched table-top squeeze pack for Honey in Mar'21. *Saffola Soya Chunks* gained traction in select launch markets in GT and the brand has been expanded to newer markets, GT and MT as well. *Saffola Arogyam Chyawan Amrut* has had moderate performance since its launch, have launched TVC to increase awareness. Company also launched *Saffola Oodles* and the initial response has been encouraging. Total addressable market (TAM) of Saffola in various food categories is now ~Rs47bn. Management expects healthy food business of around target sales of Rs4.5-5bn by FY22 and Rs8.5-10bn by FY24.
- Male grooming and premium Hair Nourishment** reported a modest volume decline and **premium Skin Care** has a flat quarter. *Livon Serum* continued to witness positive traction leading to double-digit growth in Q4.

International Business (23% of sales)

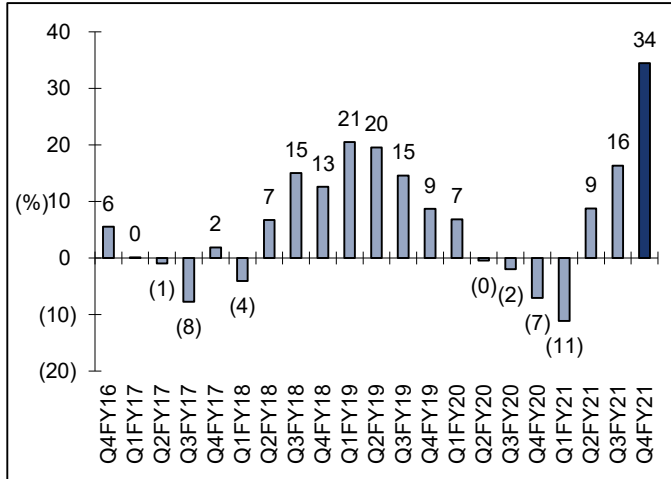
- International business revenue grew 23% in constant currency terms, 25% growth on a reported basis driven by broad-based growth.
- Operating margin (ex-corporate overheads) expanded 130bps YoY to 19.3% driven by overheads cost control across all geographies.
- **Bangladesh** reported 20% cc sales growth. Non-coconut oil business (~40% of Bangladesh sales) grew 29% in cc terms driven by growth in VAHO. New ranges of Baby, Skinpure and Naturale Shampoo has taken off well. Management continues to be confident of delivering double-digit constant currency growth in medium-term.
- **South East Asia** (mainly Vietnam and Myanmar) revenue grew by 13% in cc terms as Home and Personal care business recovered while foods business continued momentum in Vietnam. Management expects sustained growth trajectory driven by turnaround measures taken in Vietnam.
- **MENA** business bounced back with 62% in cc terms. Management remains cautious on outlook with challenging macros ahead and will be aggressive on cost management.
- **South Africa** business (including Isoplus) continued growth of 48% in constant current terms driven by robust growth in Health Care portfolio.

Chart 8: International business revenue growth (reported)



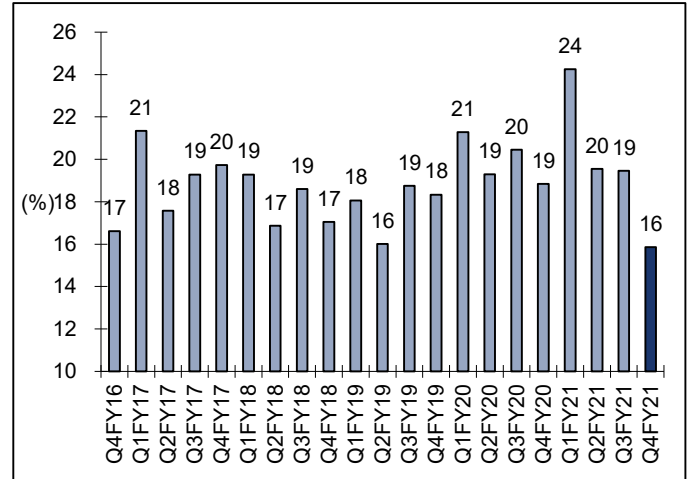
Source: Company data, I-Sec research

Chart 9: Consolidated revenue growth



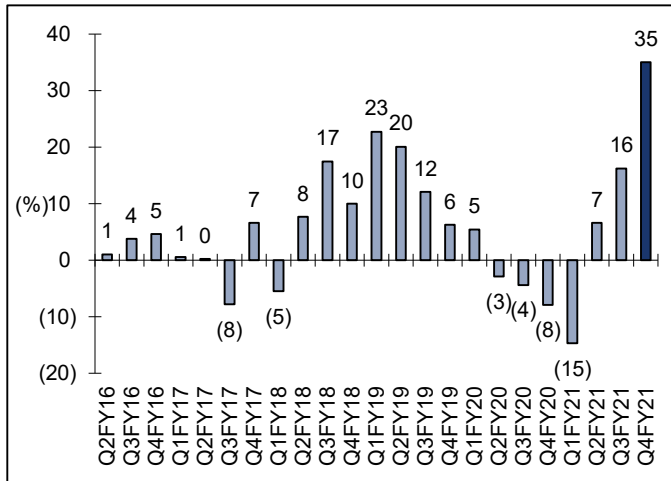
Source: Company data, I-Sec research

Chart 10: Consolidated EBITDA margin



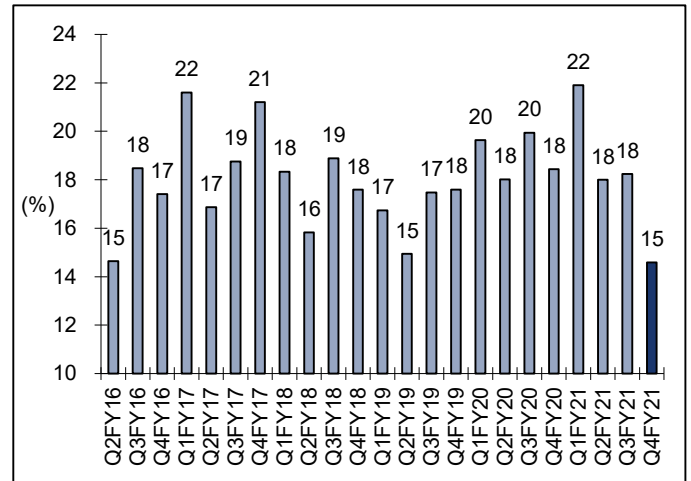
Source: Company data, I-Sec research

Chart 11: Standalone revenue growth



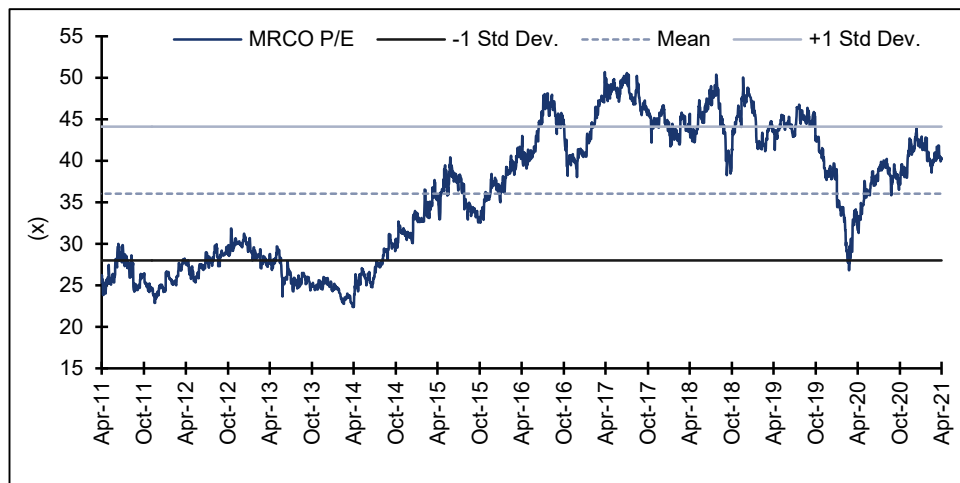
Source: Company data, I-Sec research

Chart 12: Standalone EBITDA margin



Source: Company data, I-Sec research

Chart 13: Mean P/E and standard deviations



Source: Company data, I-Sec research

Financial summary

Table 3: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Net Sales	73,150	80,480	91,152	102,381
Operating Expenses	58,450	64,570	74,123	81,961
EBITDA	14,700	15,910	17,029	20,420
% margins	20.1	19.8	18.7	19.9
Depreciation & Amortisation	1,400	1,390	1,424	1,543
Gross Interest	500	340	374	411
Other Income	1,240	940	1,902	2,148
Recurring PBT	14,040	15,120	17,133	20,613
Less: Taxes	3,310	3,240	3,855	4,638
Less: Minority Interest	(220)	(290)	(328)	(369)
Net Income (Reported)	10,220	11,720	12,950	15,607
Extraordinaries (Net)	(290)	130	-	-
Recurring Net Income	10,510	11,590	12,950	15,607

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Assets				
Total Current Assets	31,820	33,360	35,848	42,457
of which cash & cash eqv.	2,790	9,440	9,701	13,990
Total Current Liabilities & Provisions	14,600	16,730	19,011	21,423
Net Current Assets	17,220	16,630	16,837	21,035
Investments	2,240	3,690	3,857	4,033
Net Fixed Assets	13,790	15,950	15,894	16,091
Capital Work-in-Progress	580	240	240	240
Total Assets	33,830	36,510	36,828	41,399
Liabilities				
Borrowings	5,000	4,950	1,665	1,870
Deferred Tax Liability	(1,530)	(1,020)	(1,020)	(1,020)
Minority Interest	130	180	508	877
Equity Share Capital	1,290	1,290	1,290	1,290
Face Value per share (Rs)	1.00	1.00	1.00	1.00
Reserves & Surplus*	28,940	31,110	34,385	38,381
Less: Misc. Exp. n.w.o.				
Net Worth	30,230	32,400	35,675	39,671
Total Liabilities	33,830	36,510	36,828	41,399

Source: Company data, I-Sec research

Table 5: Quarterly trends

(Rs mn, year ending March 31)

	Jun 20	Sep 20	Dec 20	Mar 21
Net sales	19,250	19,890	21,220	20,120
% growth (YoY)	(11.1)	8.7	16.3	34.5
EBITDA	4,670	3,890	4,130	3,190
Margin (%)	24.3	19.6	19.5	15.9
Other income	190	270	240	290
Extraordinaries (Net)	495	(210)	-	(190)
Net profit	3,315	2,850	3,070	2,380

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Cashflow	11,860	13,380	13,174	15,782
Working Capital	330	7,300	82	120
Changes				
Capital Commitments	(1,940)	(2,740)	(1,367)	(1,740)
Free Cashflow	10,250	17,940	11,888	14,162
Cashflow from Investing Activities	(440)	(9,380)	535	407
Issue of Share Capital	-	(160)	-	-
Inc (Dec) in Borrowings	(1,210)	(740)	(3,854)	(411)
Dividend paid	(10,250)	(10,290)	(9,675)	(11,610)
Chg. in Cash & Bank balance	450	160	261	4,288
Closing cash & balance	930	1,090	1,351	5,640

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (Rs)				
EPS	8.1	9.0	10.0	12.1
Cash EPS	9.0	10.2	11.1	13.3
Dividend per share (DPS)	6.8	7.5	7.5	9.0
Book Value per share (BV)	23.4	25.1	27.7	30.8
Growth (%)				
Net Sales	(0.3)	10.0	13.3	12.3
EBITDA	14.8	8.2	7.0	19.9
PAT	13.0	10.3	11.7	20.5
DPS	42.1	11.1	-	20.0
Valuation Ratios (x)				
P/E	50.5	45.8	41.0	34.0
P/CEPS	45.7	40.5	36.9	30.9
P/BV	17.6	16.4	14.9	13.4
EV / EBITDA	35.9	33.1	30.9	25.8
EV / Sales	7.2	6.5	5.8	5.1
Operating Ratios				
Raw Material / Sales (%)	51.1	53.1	53.0	51.8
Employee cost / Sales (%)	6.5	7.1	6.5	6.5
Other exps / Sales (%)	22.2	20.1	21.8	21.8
Other Income / PBT (%)	8.8	6.2	11.1	10.4
Effective Tax Rate (%)	24.1	21.2	22.5	22.5
Working Capital (days)	37.5	3.2	2.5	1.8
Inventory Turnover (days)	68.9	51.1	50.9	50.7
Receivables (days)	26.9	17.6	17.3	17.1
Payables (days)	48.8	51.4	51.7	51.9
Net D/E (x)	(0.2)	(0.4)	(0.4)	(0.5)
Profitability Ratios (%)				
Net Income Margins	14.4	14.4	14.2	15.2
RoACE	30.7	32.5	33.0	37.4
RoAE	34.9	37.0	38.0	41.4
Dividend Payout	98.0	82.6	74.7	74.4
Dividend Yield	1.6	1.8	1.8	2.2
EBITDA Margins	20.1	19.8	18.7	19.9

Source: Company data, I-Sec research

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