

Estimate changes	↔
TP change	↔
Rating change	↔



Bloomberg	MRCO IN
Equity Shares (m)	1,290
M.Cap.(INRb)/(USDb)	705.5 / 9.5
52-Week Range (INR)	553 / 333
1, 6, 12 Rel. Per (%)	3/18/10
12M Avg Val (INR M)	1161

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Sales	80.5	91.7	101.0
Sales Gr. (%)	10.0	14.0	10.1
EBITDA	15.9	17.5	20.7
EBITDA Margin. %	19.8	19.1	20.5
Adj. PAT	11.6	12.9	15.3
Adj. EPS (INR)	9.0	10.0	11.8
EPS Gr. (%)	10.4	10.9	18.7
BV/Sh.(INR)	25.1	35.3	37.5
Ratios			
RoE (%)	37.0	33.0	32.5
RoCE (%)	34.2	30.3	30.0
Payout (%)	84.4	83.4	81.6
Valuations			
P/E (x)	60.8	54.8	46.2
P/BV (x)	21.8	15.5	14.6
EV/EBITDA (x)	43.5	39.2	33.2
Div. Yield (%)	1.4	1.5	1.8

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	59.6	59.6	59.6
DII	9.7	10.2	10.0
FII	25.1	24.1	23.8
Others	5.7	6.0	6.6

FII Includes depository receipts

CMP: INR546 TP: INR635 (+16%) Buy

In line result; gross margin likely to have troughed

- MRCO's 1QFY22 result was in line with our expectations. Sales momentum continues to remain healthy. With Copra prices sharply declining from their peak in recent months, coupled with price increases taken, the management said gross margin is likely to revive in 2Q before increasing significantly in 2HFY22.
- It maintained its strong growth guidance for the Foods business, with sales targeted at INR5b by the end of FY22 and INR8.5-10b by FY24. Honey, Noodles, and Soya Chunks are doing very well.
- Allied with sales of INR5b now targeted from e-commerce focused brands by FY24 (target shared for the first time in its 1QFY22 result call), there is a much required diversification of the portfolio, boosting its medium-to-long-term topline growth prospects.
- With sustained healthy topline momentum in its core brands now allied with newer revenue streams, higher P/E multiples compared to the past are justified. We maintain our **Buy** rating on the stock.

Sales beat; margin weaker than expected

- Consolidated net sales grew 31.2% YoY to INR25.3b** (est. INR24.6b) in **1QFY22**. The domestic business grew 34.8% YoY. Consolidated EBITDA grew 3% YoY to INR4.8b (in line). PBT grew 5.4% YoY to INR4.7b (in line). Adjusted PAT grew 7.6% YoY to INR3.6b (in line).
- Consolidated gross margin contracted by 760bp YoY to 41%** (est. 45.4%). As a percentage of sales, lower staff (-110bp YoY to 5.9%), other expenditure (-110bp YoY to 9.15), and A&P expenses (-20bp YoY to 6.9%) meant EBITDA margin contracted by 520bp to 19% in 1QFY22.
- Business Segments:** Sales for Parachute/VAHO/Saffola grew 20%/35%/60% YoY in 1QFY22 on the back of 12%/34%/24% growth in volumes.

Highlights from the management commentary

- The management feels gross margin (GM) has bottomed out in 1Q and ought to recover in 2Q, with performance likely to be much better in 2HFY22. GM in FY22 may be slightly lower than FY21 levels.
- The management plans to undertake aggressive cost rationalization in FY22 as well (saved INR1.5-2b last year). Better Analytics, inventory efficiencies (reduced 26% of SKUs in FY21), and a hybrid way of working will lead to structural cost savings.
- Update on new products:** It has done very well in Honey and Noodles, with an encouraging response. Saffola Oodles is among the top five selling Pasta and Noodle brands on Amazon, while MealMaker Soya Chunks already has 14% market share in Modern Trade and is now available nationally.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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

Valuation and view

- Sustained topline momentum, with improving margin prospects over the trough seen in 1QFY22, has led to a 1.9%/4.4% increase in FY22E/FY23E EPS.
- a) Ongoing topline growth momentum in each of its core segments, b) significantly higher growth rates as well as targets in the Foods portfolio, and c) INR4.5-5b now targeted from its 'Digital-first' range of products are highly encouraging developments for a business that had only ~6% sales CAGR over FY15-20, before reporting double-digit growth in FY21.
- The much required diversification could lead to higher multiples compared to the past. Valuations at 46.2x FY23E EPS appear inexpensive, given the promise of strong earnings growth compared to the past. We target 50x Sep'23E EPS to arrive at our TP of INR635/share, implying a 16% upside. We maintain our **Buy** rating.

Quarterly performance

Y/E March	(INR m)											
	FY21				FY22				FY21	FY22E	FY22	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Domestic volume growth (%)	-14.0	11.0	15.0	25.0	21.0	9.0	5.0	2.0	9.3	9.3	19.0	
Net Sales	19,250	19,890	21,220	20,120	25,250	23,072	23,342	20,078	80,480	91,742	24,640	2.5%
YoY Change (%)	-11.1	8.7	16.3	34.5	31.2	16.0	10.0	-0.2	10.0	14.0	28.0	
Gross Profit	9,360	9,550	9,950	8,880	10,360	10,386	10,735	10,017	37,780	41,498	11,182	
Gross margin (%)	48.6	48.0	46.9	44.1	41.0	45.0	46.0	49.9	46.9	45.2	45.4	
EBITDA	4,670	3,890	4,130	3,190	4,810	4,420	4,520	3,799	15,910	17,549	4,869	-1.2%
Margin (%)	24.3	19.6	19.5	15.9	19.0	19.2	19.4	18.9	19.8	19.1	19.8	
YoY Change (%)	1.3	10.2	10.7	13.1	3.0	13.6	9.4	19.1	8.3	10.3	4.3	
Depreciation	340	330	360	360	330	353	364	401	1,390	1,448	357	
Interest	90	80	70	100	80	81	78	77	340	315	91	
Other Income	190	270	240	290	270	292	288	301	920	1,150	266	
PBT	4,430	3,750	3,940	3,020	4,670	4,278	4,366	3,622	15,100	16,937	4,687	-0.4%
Tax	1,030	690	820	560	1,020	963	982	846	3,240	3,811	1,055	
Rate (%)	23.3	18.4	20.8	18.5	21.8	22.5	22.5	23.3	21.5	22.5	22.5	
Minority Interest	90	90	50	80	90	70	50	60	270	270	80	
Adjusted PAT	3,310	2,970	3,070	2,380	3,560	3,245	3,334	2,717	11,590	12,856	3,552	0.2%
YoY Change (%)	3.4	20.2	12.9	16.1	7.6	9.3	8.6	14.1	10.4	10.9	7.3	

E: MOSFL estimates

Key performance indicators

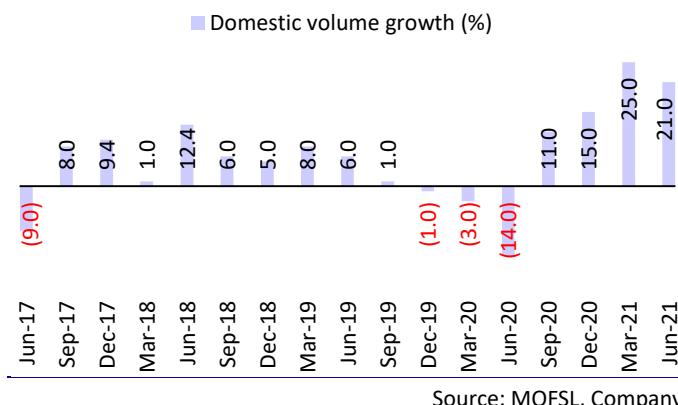
Y/E March	FY21				FY22
	1Q	2Q	3Q	4Q	1Q
Volume growth (%)					
Parachute rigid	-11.0	10.0	8.0	29.0	12.0
Saffola (Refined Edible Oil)	16.0	20.0	17.0	17.0	24.0
VAHO	-30.0	4.0	21.0	22.0	34.0
Domestic	-14.0	11.0	15.0	25.0	21.0
International	-8.0	-8.0	10.0	20.0	20.0
Overall	-12.6	6.6	13.9	23.9	20.8
Value growth (%)					
Parachute rigid	-12.0	8.0	9.0	38.0	20.0
Saffola (Refined Edible Oil)	16.0	16.0	26.0	43.0	60.0
VAHO	-32.0	-1.0	21.0	22.0	35.0
Domestic	-15.0	8.0	18.0	27.3	26.6
International	2.0	12.0	11.0	25.0	20.0
International cc	-4.0	7.0	8.0	23.0	21.0
Overall	-11.1	8.9	16.5	26.8	25.1
Average growth (%) for the last two-years					
Volume	-4.0	6.0	7.0	11.0	3.5
Sales	-2.1	4.2	7.2	13.7	10.0
EBITDA	13.6	13.0	7.3	4.5	2.1
PAT	14.5	18.4	11.7	6.6	5.5
% of Sales					
COGS	51.4	52.0	53.1	55.9	59.0
Operating Expenses	24.4	28.5	27.4	28.3	22.0
Depreciation	1.8	1.7	1.7	1.8	1.3
YoY change (%)					
COGS	-13.0	12.3	21.4	48.3	50.6
Operating Expenses	-17.4	2.0	11.3	24.8	18.3
Other Income	-32.1	-22.9	-17.2	-9.4	42.1
EBIT	1.6	11.9	10.6	16.0	3.5

Exhibit 1: Overall/India business volume up 20.8%/21% in 1QFY22

Segment growth (%)	1QFY21		2QFY21		3QFY21		4QFY21		1QFY22	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Parachute rigid	(11.0)	(12.0)	10.0	8.0	8.0	9.0	29.0	38.0	12.0	20.0
Saffola (Refined Edible Oil)	16.0	16.0	20.0	16.0	17.0	26.0	17.0	43.0	24.0	60.0
Value Added Hair Oils	(30.0)	(32.0)	4.0	(1.0)	21.0	21.0	22.0	22.0	34.0	35.0
Domestic business	(14.0)	(15.0)	11.0	8.0	15.0	18.0	25.0	37.0	21.0	35.0

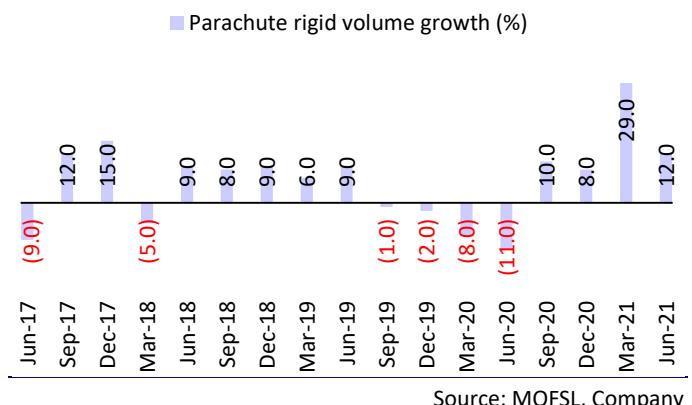
Source: Company, MOFSL

Exhibit 2: Domestic volumes up 21% in 1QFY22

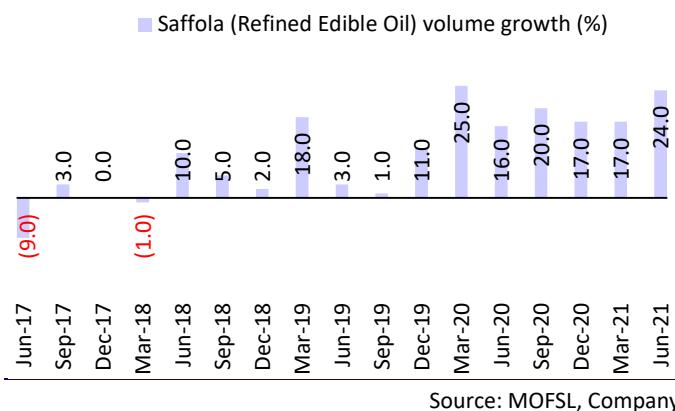
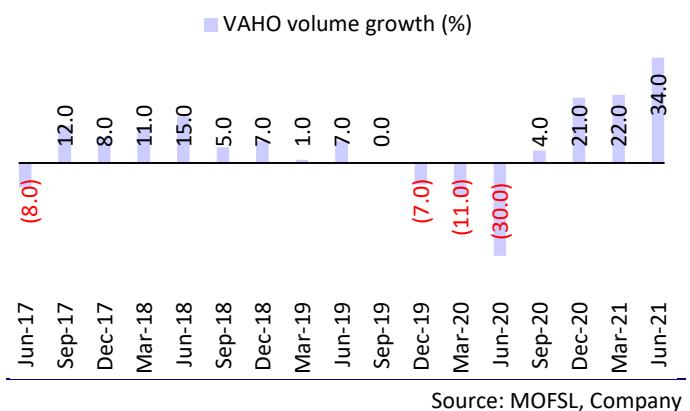


Source: MOFSL, Company

Exhibit 3: Parachute rigid volumes up 12%



Source: MOFSL, Company

Exhibit 4: Saffola (Refined Edible Oil) volumes up 24%**Exhibit 5: VAHO volumes up 34%****Exhibit 6: Consolidated segmental details**

	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Sales growth (%)									
Domestic	6.3	(2.8)	(4.8)	(7.6)	(14.5)	7.9	17.9	37.3	34.6
International	9.0	8.3	7.9	(5.1)	2.3	11.6	4.7	25.1	19.8
Total	6.9	(0.4)	(2.0)	(7.0)	(11.1)	8.7	14.7	34.5	31.2
EBIT margin (%)									
Domestic EBIT margin	21.1	19.2	21.6	20.8	24.2	19.4	20.0	16.1	17.8
International EBIT margin	24.4	20.4	19.1	16.3	28.1	21.6	20.6	18.9	26.1
Total	21.7	19.5	21.0	19.7	25.1	19.9	20.1	16.7	19.5

Source: Company, MOFSL

**Highlights from the management commentary****Performance and outlook**

- 1QFY22 started off on a good note until the second COVID wave affected business towards the latter part of Apr'21.
- The supply chain was not as affected unlike last year.
- 21% volume growth was reported in 1QFY22 in the domestic business, despite South India (a key market for MRCO) being more affected by COVID-19.
- Bangladesh and Vietnam, however, saw a surge in COVID-19 cases towards the end of 1QFY22. South Africa did well YoY in 1QFY22, but there has been some impact from the recent political unrest. The management remains hopeful of double-digit sales growth in FY22 from the international business, despite the likely impact in 2Q.
- Around 90% of the portfolio gained market share in India.
- Rural growth continued to exceed urban growth and the outlook remains positive.

Material cost and margin

- Unprecedented increases in material costs was witnessed in 1QFY22.
- The management feels GM has bottomed out in 1Q and ought to recover in 2Q, with performance likely to be much better in 2HFY22.
- GM in FY22 may be slightly lower than FY21 levels.
- The management plans to undertake aggressive cost rationalization in FY22 as well. It saved INR1.5-2b last year.
- Better Analytics, inventory efficiencies (reduced 26% of SKUs in FY21), and a hybrid way of working will lead to structural cost savings.
- It is also rolling out a cost rationalization exercise in the international business.

Comments on key segments

- VAHO can deliver double-digit growth for the remaining three quarters, despite being flattish on a two-year basis in 1QFY22.
- Saffola's Edible Oil business can deliver higher single-digit volume growth over the medium term.
- Livon and Set Wet are likely to recover in FY22 and the targeted growth for these brands are over 20% going forward. Livon's growth path is clearer, while Set Wet's growth depends on people's mobility. e-commerce is a significant incremental opportunity, but MT and GT also provide large opportunities for growth as penetration is low. Sachets of Livon Serum could help.

New product performance

- MRCO has done very well in Honey and Noodles, with an encouraging response. Saffola Oodles is among the top five selling Pasta and Noodle brands on Amazon, while MealMaker Soya Chunks already has 14% market share in Modern Trade and is now available nationally.
- Honey, Noodles, and Soya Chunks are products that can achieve INR1b in sales.
- *Chyawanprash* has not performed to its expectations, and the management is hopeful of success with some tweaks over the next 2-3 months.
- It expects the Foods business to clock INR5b/INR8.5-10b in sales by FY22/FY24.
- The management is targeting 4-5 exclusively digital brands, with total sales of INR4.5-5b by FY24. This will be driven by organic and inorganic growth. Apart from 'Beardo' (which is likely to achieve INR1b sales in FY22) that they acquired a few years ago, it acquired 'Just Herbs' earlier in Jul'21. Margin could be significantly higher on this platform.

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 in 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 as a result of strategic mistakes in terms of pricing and due to 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 a higher growth potential.
- Topline and earnings growth have been healthy over the past 10 years, with ~11%/15%/16% topline/EBITDA/PAT CAGR. 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%).

Our view on the stock

- Sustained topline momentum, with improving margin prospects over the trough seen in 1QFY22, has led to a 1.9%/4.4% increase in FY22E/FY23E EPS.
- a) Ongoing topline growth momentum in each of its core segments, b) significantly higher growth rates as well as targets in the Foods portfolio, and c) INR4.5-5b now targeted from its 'Digital-first' range of products are highly

encouraging developments for a business that had only ~6% sales CAGR over FY15-20, before reporting double-digit growth in FY21.

- The much required diversification could lead to higher multiples compared to the past. Valuations at 46.2x FY23E EPS appear inexpensive, given the promise of strong earnings growth compared to the past. We target 50x Sep'23E EPS to arrive at our TP of INR635/share, implying a 16% upside. We maintain our **Buy** rating.

Exhibit 7: Revise our FY22E/FY23E EPS estimate by 1.9%/4.4%

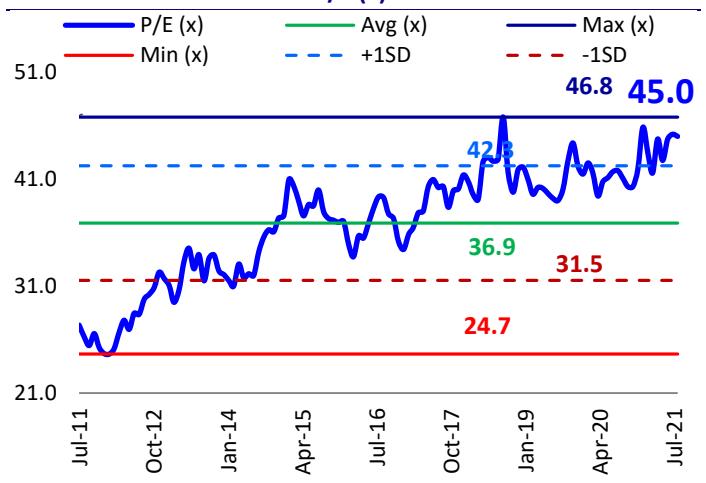
INR m	Old estimate		New estimate		Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Sales	90,913	98,223	91,742	1,01,030	0.9%	2.9%
EBITDA	17,357	19,889	17,549	20,676	1.1%	4.0%
PAT	12,620	14,618	12,856	15,266	1.9%	4.4%

Source: Company, MOFSL

Exhibit 8: MRCO's P/E (x)



Exhibit 9: Consumer sector P/E (x)



Financials and valuations

Income Statement							(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Sales	59,178	63,220	73,340	73,150	80,480	91,742	1,01,030
Change (%)	-1.7	6.8	16.0	-0.3	10.0	14.0	10.1
COGS	28,472	33,720	40,170	37,680	42,700	50,244	54,543
Gross Profit	30,706	29,500	33,170	35,470	37,780	41,498	46,487
Margin (%)	51.9	46.7	45.2	48.5	46.9	45.2	46.0
Operating Expenses	19,113	18,130	19,920	20,780	21,870	23,949	25,811
EBITDA	11,593	11,370	13,250	14,690	15,910	17,549	20,676
Change (%)	10.3	-1.9	16.5	10.9	8.3	10.3	17.8
Margin (%)	19.6	18.0	18.1	20.1	19.8	19.1	20.5
Depreciation	903	890	1,310	1,400	1,390	1,448	1,604
Int. and Fin. Charges	166	160	400	500	340	315	296
Other Income - Recurring	973	850	1,030	1,240	920	1,150	1,400
Profit before Taxes	11,497	11,170	12,570	14,030	15,100	16,937	20,176
Change (%)	11.7	-2.8	12.5	11.6	7.6	12.2	19.1
Margin (%)	19.4	17.7	17.1	19.2	18.8	18.5	20.0
Current Tax (excl. MAT Ent)	2,922	2,840	3,310	3,470	3,350	3,726	4,540
Deferred Tax	455	60	-180	-160	-110	85	101
Tax Rate (%)	29.4	26.0	24.9	23.6	21.5	22.5	23.0
Minority Interest	-10	-130	-180	-220	-270	-270	-270
Profit after Taxes	8,110	8,140	9,260	10,500	11,590	12,856	15,266
Change (%)	12.1	0.4	13.8	13.4	10.4	10.9	18.7
Margin (%)	13.7	12.9	12.6	14.4	14.4	14.0	15.1
Extraordinary items	0	0	1,880	-290	130	0	0
Reported PAT	8,110	8,140	11,140	10,210	11,720	12,856	15,266
Balance Sheet							(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Share Capital	1,291	1,290	1,290	1,290	1,290	1,290	1,290
Reserves	21,966	24,140	28,700	28,940	31,110	44,250	47,064
Net Worth	23,257	25,430	29,990	30,230	32,400	45,540	48,354
Minority Interest	133	120	110	130	180	180	180
Loans	2,388	3,090	3,490	3,350	4,700	5,150	5,600
Capital Employed	25,778	28,640	33,590	33,710	37,280	50,870	54,134
Gross Fixed Assets	7,440	8,120	9,140	13,440	14,180	15,240	16,540
Intangibles	361	600	550	410	2,300	2,300	2,300
Less: Accum. Depn.	-1,749	-2,480	-3,250	-5,270	-6,660	-8,108	-9,712
Net Fixed Assets	6,053	6,240	6,440	8,580	9,820	9,432	9,128
Capital WIP	112	270	450	580	240	240	240
Goodwill	4,795	4,860	5,030	5,380	6,130	6,230	6,330
Investments	6,082	5,430	4,500	7,330	8,710	13,000	13,000
Curr. Assets, L&A	19,191	23,920	29,120	26,560	28,340	40,865	45,964
Inventory	12,534	15,110	14,110	13,800	11,260	17,615	19,398
Account Receivables	2,470	3,400	5,170	5,390	3,880	7,339	8,082
Cash and Bank Balance	2,360	2,010	5,520	2,790	9,440	9,417	10,746
Others	1,828	3,400	4,320	4,580	3,760	6,494	7,738
Curr. Liab. and Prov.	10,329	11,880	13,710	16,250	16,980	18,897	20,528
Current Liabilities	9,040	10,560	12,260	14,920	15,750	17,539	19,004
Accounts Payable	6,966	8,220	9,440	9,780	11,340	12,752	13,836
Provisions	1,289	1,320	1,450	1,330	1,230	1,359	1,525
Net Current Assets	8,862	12,040	15,410	10,310	11,360	21,968	25,436
Deferred Tax Liability	-125	-200	1,760	1,530	1,020	0	0
Application of Funds	25,778	28,640	33,590	33,710	37,280	50,870	54,134

E: MOSFL estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)							
EPS	6.3	6.3	7.2	8.1	9.0	10.0	11.8
Cash EPS	6.8	7.0	9.7	9.0	10.2	11.1	13.1
BV/Share	18.0	19.7	23.2	23.4	25.1	35.3	37.5
DPS	4.3	4.6	6.6	7.8	7.7	8.3	9.7
Payout (%)	67.6	72.4	76.3	98.1	84.4	83.4	81.6
Valuation (x)							
P/E	86.9	86.6	76.1	67.1	60.8	54.8	46.2
Cash P/E	79.8	78.1	56.6	60.7	53.8	49.3	41.8
EV/Sales	11.8	11.1	9.5	9.5	8.6	7.5	6.8
EV/EBITDA	60.3	61.6	52.7	47.5	43.5	39.2	33.2
P/BV	30.3	27.7	23.5	23.3	21.8	15.5	14.6
Dividend Yield (%)	0.8	0.8	1.2	1.4	1.4	1.5	1.8
Return Ratios (%)							
RoE	37.3	33.4	33.4	34.9	37.0	33.0	32.5
RoCE	33.3	30.8	31.3	33.0	34.2	30.3	30.0
RoIC	47.4	40.7	40.7	44.0	54.4	53.0	50.3
Leverage Ratio							
Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(loss) before Tax	11,487	11,170	12,570	13,740	15,230	16,937	20,176
Int./Div. Received	-43	-280	-130	-270	-140	-1,150	-1,400
Depreciation	903	890	1,310	1,500	1,390	1,448	1,604
Interest Paid	-197	-180	-140	-220	-250	315	296
Direct Taxes Paid	-2,964	-2,950	-3,200	-2,900	-2,850	-3,726	-4,540
(Incr.)/Decr. in WC	-2,698	-3,490	210	330	7,300	-10,630	-2,140
CF from Operations	6,487	5,160	10,620	12,180	20,680	3,193	13,997
(Incr.)/Decr. in FA	-815	-1,280	-1,430	-1,860	-2,690	-1,060	-1,300
Free Cash Flow	5,673	3,880	9,190	10,320	17,990	2,133	12,697
(Pur.)/Sale of Investments	15	700	1,030	280	-4,270	-4,290	0
Others	-760	740	270	-1,870	4,120	12,196	-497
CF from Invest.	-1,560	160	-130	-3,450	-2,840	6,846	-1,797
Issue of Shares	0	0	0	0	60	0	0
(Incr.)/Decr. in Debt	0	0	110	-530	-310	450	450
Dividend Paid	-5,088	-6,360	-6,820	-10,250	-10,290	-9,886	-10,716
Others	-652	690	-270	-680	-650	-625	-606
CF from Fin. Activity	-5,740	-5,670	-6,980	-11,460	-11,190	-10,061	-10,872
Incr./Decr. in Cash	-812	-350	3,510	-2,730	6,650	-23	1,329
Add: Opening Balance	3,171	2,360	2,010	5,520	2,790	9,440	9,417
Closing Balance	2,360	2,010	5,520	2,790	9,440	9,417	10,746

E: MOSFL estimates

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

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