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Marico net up 24% on other income, lower costs

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Aided by higher other income and lower finance costs, consumer products maker Marico reported 24 per cent growth in net profit for the quarter ended March this year at ₹110.03 crore. Net sales increased 14.31 per cent to ₹1,222.98 crore.

Growth in sales volume for the company's domestic business, which accounts for 75 per cent of its overall turnover, stood at seven per cent. Key brands Parachute and Saffola saw volume growth of nine per cent and three per cent, respectively, while the value-added hair oils segment recorded 10 per cent volume growth.

Overall, the company's domestic business grew 17 per cent during the quarter, while international business expanded six per cent, owing to challenges in markets such as Bangladesh, which contributes about half to the city-based firm's global revenue.

During the March quarter, Marico's total expenditure increased 14.4 per cent to ₹1,075 crore. But this was offset by a 43 per cent increase in other income at ₹18.76 crore and the fact that finance costs fell 17 per cent to ₹5.61 crore.

The company's tax outgo, however, increased 12 per cent to ₹52.77 crore.

For 2014-15, Marico's net profit increased 18.44 per cent to ₹573.45 crore, against ₹485.38 crore in 2013-14. Net sales for FY15 increased 22.32 per cent to ₹5,720.28. While the domestic business expanded 26 per cent during the year, international business grew 10 per cent. After the company announced its earnings on Thursday, the Marico stock fell to ₹399, before closing at ₹401.35.

'Urban consumption will drive growth in FY16'

Q&A

SAUGATA GUPTA
Managing Director & CEO, Marico

SAUGATA GUPTA, managing director and chief executive officer of Marico, the consumer goods company, talks of the outlook for FY16, in an interview with **Sheetal Agarwal**. Edited excerpts:

In the December quarter, you'd talked of a pricing correction in Saffola (its edible oil brand). That has not happened and volume growth remains under pressure. Do you think your margin focus is hitting volumes?

No. We decided, rather than taking a pricing call, on a few initiatives in Saffola. We have just launched a 500-ml one to expand the base. We are also doing a few other things. The idea is to try and protect our margins, while continuing to invest behind the brand, and do certain initiatives as opposed to only a pricing call. We are extremely confident about an eight to 10 per cent volume growth in Saffola in the June quarter itself.

Take us through the de-stocking you did this quarter and the benefits.

The reason we did this in our system is because we are moving to a state-of-art auto replenishment sales model. Meaning that based on the secondaries, there will be auto replenishment of the primaries of distributors. Distributors can then operate with much lower stock levels. It reduces inventory in the whole system because it integrates everything from secondary sales to forecasting to demand planning to production planning and material requirement planning. It leads us to better controls, much more forecasting accuracy and lower inventory.

The distributor will get incremental return on investment due to the lower inventory, which he can deploy in the market. And, our sales force will get to work with an increased bandwidth and not spend time discussing orders and primary sales with the distributors. That time can be used for demand generation. I think it is a win-win for everyone. We will stabilise in this new system over the next two quarters.

Throw some light on growth trends in the urban and rural markets, as well as your outlook on volume growth.

We believe we will achieve eight to 10 per cent volume growth at the group level in FY16. There are two things. One, we believe urban consumption is expected to move up, though it will be a gradual and not a steep recovery. We are very confident that there will be increased growth next year (FY16) in gross domestic product and this will translate into an uptick in urban consumption. On rural consumption, there are some hiccups in terms of unseasonal rain but I believe a 93 per cent monsoon is not going to have a big impact. It's too early to take a call on this but we are not unduly worried. Even in this quarter, rural growth has been quite good. We will wait and watch here but are much more confident about urban consumption picking up gradually over the next three to four quarters. I believe urban consumption will drive growth in FY16.

Outlook on margins in FY16?

We expect the operating margin to be 15-20 per cent. We have moved up from 12-14 per cent in the past two years. We continue to gain market share in more than 80 per cent of our portfolio and that is something we would like to maintain. Also, we are driving premiumisation in our hair nourishment portfolio, which will aid margins. You can expect at least three to five more prototypes over the next 12 months and with that, we will be able to scale up quite a bit.

How much growth do you expect in your value-added hair oils portfolio?

We are extremely confident of delivering 15-20 per cent growth in the segment. Our entire focus is on product participation strategy and giving specificity of benefits. All other players in this segment operate in only one space and one ingredient. We operate not on an ingredient base but on a consumer needs base. We have shifted gears in the past year to concentrate on not only gaining volume share but also value share. This year, (FY15) also, we have gained a 200 basis points value share. Our aspiration is to move our market share in value terms to 30 per cent and our volume share to 40 per cent over the next three years. You will see a significant amount of innovation in this category in the next couple of years.

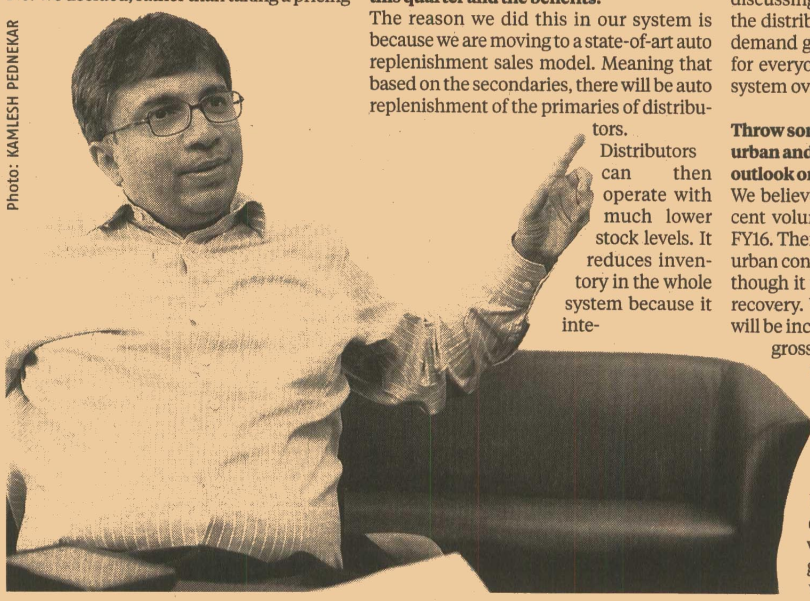

Photo: KAMLESH PEDNEKAR

For full interview, visit www.business-standard.com