Remaking Marico

Decades ago, Marico founder Harsh Mariwala disrupted the FMCG market with hair oil. Now, MD Saugata Gupta wants to do it again in a host of new categories

Saugata Gupta, MD, Marico

*Close to half of the international revenue come from Bangladesh

Source: Company, HDFC Securities Institutional Research

:: Suman Layak

Corporate transformations are best not done during an economic slowdown. But Marico Ltd is unperturbed as it has been a company in transition for most of its life. After all, the Mumbai-based FMCG company with sales exceeding $1 billion (consolidated total income of ₹7,437 crore in 2018-19) had created a branded safflower and coconut oil business out of a commodity play in the 1970s and made an equally bold move into value-added products in the late 1990s.

Innovation has been the credo for the company, says Chairman and promoter of Marico Harsh Mariwala, and it can also help the company sail through the choppy waters of a slowdown in demand growth. Last week, as his interview with *ET Magazine* came to an end, Mariwala insisted on displaying his favourite PowerPoint slides on corporate transformation. Organised in pairs of words, the slides showed how the mindset in Marico had shifted from "conservative" to "risk-taker" or from "steady growth" to "fast-track". It explained how business transformation meant moving from "low margin" to "high margin", "local" to "global" and "oils" to "FMCG". Soon Mariwala was creating new pairs of words as he spoke about corporate transformation: "products" to "services" or "unlisted" to "listed".

The changes afoot today are around new categories such as healthy snacks and men's grooming products. However, the biggest move happened in 2014 when Saugata Gupta, then CEO of the consumer products business at Marico, was anointed managing director. The services business under beauty solutions provider Kaya were demerged into a separate company and Mariwala's daughter Rajvi, 39, and son Rishabh, 37, took up roles outside Marico. Mariwala's children have since incubated newer businesses and also help him manage the family office.

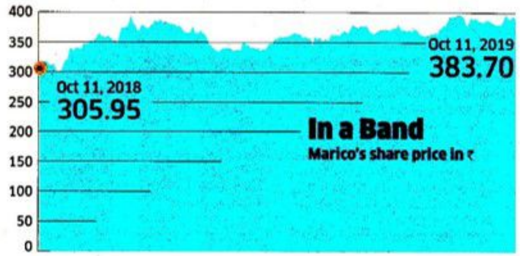
Gupta points out that while Marico was always an "insurgent", it is also an "incumbent" today because it is the market leader in many categories. He would like to keep the company close to its "insurgent" roots.

Mariwala says: "The key challenge is to identify the right categories, where we can dominate either by being a pioneer or through disruptive innovation."

'Total Displacement'

Marico has had an association with strategic brand expert Shombit Sengupta. In 1998, Mariwala had engaged Sengupta, who was based in France then, to help with Marico's innovative push into FMCG skincare products. That was the second wave. In the 1970s, Mariwala, 68, himself had moved away from the family business of selling coconut oil and safflower oil in large containers to making Parachute and Saffola household consumer brands. He had disrupted the market with innovative branding and packaging.

Sengupta points out that the challenge of selling to the millennial is vastly different today. "The GAFA impact (GAFA = Google, Amazon, Facebook, Apple) means the whole idea of disruption, change, rupture are finished, obsolete and old fashioned. Now you need a displacement strategy."

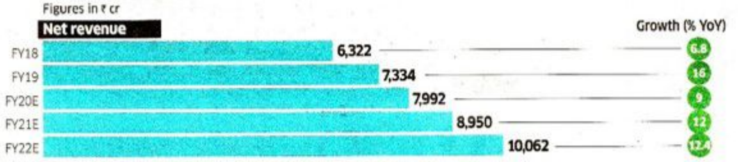


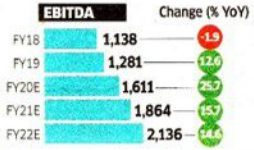
In a Band

Marico's share price in ₹

Growth Path

Figures in ₹ cr





E is estimate

Source: Company, HDFC Securities Institutional Research

Explaining the point that consumers today can desire anything they dream of and can purchase it from anywhere in the world, Sengupta says: "In the digital era, consumer attitude and behaviour have become extremely intuitive. The innovation metaphor is like an old Roman aqueduct – a breakthrough at that time but displaced today. I am not sure Indian companies have understood this requirement of total displacement."

Managing Director Gupta is aware of these challenges. What took Marico to $1 billion in sales will not take it to $2 billion, he says. "We have to create new avenues of growth."

The innovation cycle worldwide has shrunk to barely 60 days now, he says, from several months during the earlier years. "So we have to be more entrepreneurial and agile with a higher innovation velocity." He explains how private equity-funded FMCG startups do not feel the need to scale up, are comfortable with putting 5,000-plus items on ecommerce portals, and quickly withdraw products that do not work. Further, trends originating abroad do not take time to travel to India as startups pick up ideas from global trade shows like Cosmoprof and execute them quickly in India. "When it comes to distribution, there too you do not need to do it yourself but just buy the capacity," says the managing director.

This is why Gupta wants Marico to hold on to its "insurgent" genes of the 1970s.

In the late 1990s, Hindustan Unilever (HUL) under Keki Dadiseth had famously offered to buy out the company as Marico's Parachute was dominating the Indian coconut oil market. HUL had acquired Nihar hair oil and was looking to have a dominant foothold in the segment. But Mariwala was not willing to sell. Marico survived the battle of distribution muscle-flexing and advertising blitz and actually bought out Nihar from HUL around 2006 through a bidding process.

Today, domestic sales of Parachute and Saffola brands make up for 43% of Marico's turnover. Growth is expected to be in low single digits in these two categories.

Gupta is, however, pegging his revenue growth plans for the next few years on two other engines. The premium skincare and male grooming products are the first. The second one is foods, under the Saffola Fittify brand umbrella. The company has already launched products such as protein shakes, green tea and green coffee.

A part of the plan is to also reduce the company's dependence on Saffola and Parachute and make the business model more sustainable and less dependent, especially on coconut oil and safflower oil commodity cycles. For that, Gupta explains, the foods business has to grow from ₹200 crore now to ₹500 crore in sales and the skincare business, now at ₹30-40 crore, has to grow to ₹300 crore in sales. For male grooming, his target is ₹500 crore from ₹200 crore at present.

FMCG: Estimates for a Tough Quarter

Q2 FY20 snapshot for 16 companies (growth in % YoY)

	Revenue	EBITDA	2-year avg. volume
Bajaj Corp	7	10.9	1.3
Britannia	5.2	3.4	7.3
Dabur	4.3	3.7	5.8
Emami	1.6	-17.4	-2.5
Future Consumer	20*	62.2	27.3
GSK Consumer	7.5	9	9.1
Hindustan Unilever	4.8	13.1	6.5
Marico	3	13.9	4
Nestle India	6.6*	2.8	11.7

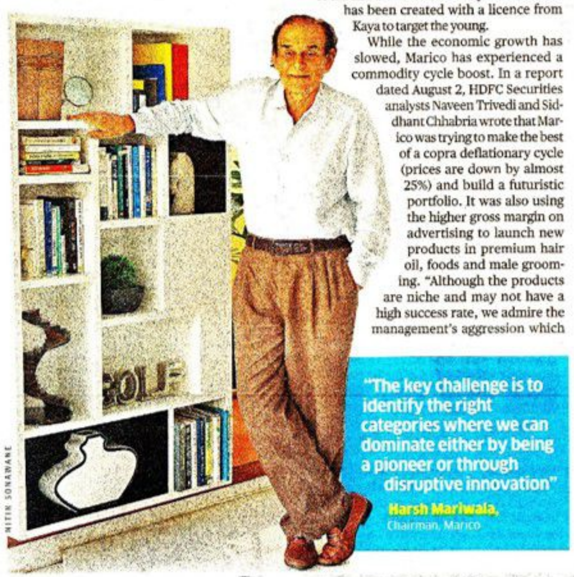
*2-year average revenue growth

Source: Edelweiss

Along with growth in these categories, Gupta wants the rural segment to contribute 40% of the turnover instead of the 35% it brings in today.

Much of this will also mean answering the question of how does one sell to millennials or the mid-teens. The new Kaya Youth brand has been created with a licence from Kaya to target the young.

While the economic growth has slowed, Marico has experienced a commodity cycle boost. In a report dated August 2, HDFC Securities analysts Naveen Trivedi and Sidhant Chhabria wrote that Marico was trying to make the best of a copra deflationary cycle (prices are down by almost 25%) and build a futuristic portfolio. It was also using the higher gross margin on advertising to launch new products in premium hair oil, foods and male grooming. "Although the products are niche and may not have a high success rate, we admire the management's aggression which will aid in driving product diversification and long-term growth," the report added.



"The key challenge is to identify the right categories where we can dominate either by being a pioneer or through disruptive innovation"

Harsh Mariwala, Chairman, Marico

An October 3 report by Edelweiss that focused on the entire FMCG market saw a 3% growth in turnover at Marico for the second quarter of 2019-20, with 13.9% growth in EBITDA and a 12% growth in net profit.

A Reliance Securities report on October 7, on the other hand, referred to the higher crude palm oil prices to forecast a drop in profitability. It, however, said turnover would growth 4% in the second quarter.

The Edelweiss report gave a 25% weight on Marico in an FMCG portfolio that it recommended, with the other stocks being HUL (30%), Britannia (25%), Godrej Consumer Products Limited (10%) and Colgate (10%). The Reliance Securities report, on the other hand, only picked ITC and HUL as sector winners.

A part of the growth for Marico is also coming from its international business, and it seems the company has cracked the Bangladesh market that accounts for 46% of its international business. Vietnam, too, is expected to bring in higher growth. Southeast Asia accounts for 26% of international business.

Clearly, the trick for Marico here will be to keep the margin moving up even as turnover growth slows down. Gupta is optimistic of that as he expects a revival in growth in the third quarter of 2019-20.

Mariwala says the government is aware of the economic slowdown and will initiate action to ease the situation. But innovation alone can help industry. He adds that it could be pricing innovation that does the trick during a difficult time. "Either you grow the market or grow your own market share."

Marico has, Mariwala says, created a market in the past by launching products like Revive, Mediker or newer Safolla blends and at other times expanded its portfolio by acquired brands like Livon and Set Wet.

As the interview with *ET Magazine* came to an end, Mariwala pulled out one last slide that plotted the company's new category entries, the listing of its Bangladesh arm and the multiple acquisitions over the last decade, along with Marico's steep turnover growth.

Owning the Game

The task now will be to plot these innovations against its share price that has been hovering in a band of ₹300-400 band for the last two years. It closed Friday at ₹383.70. HDFC Securities had in August set the stock price target at ₹395.

Gupta is betting on Marico's blue ocean strategy – enter a less crowded area and own it, instead of fighting tooth and nail in a market with dominant players. This will push the FMCG company deep into the "in-between meal" snacks categories – the turf of unbranded players. He mentions "idli-dosa" mix as one such play.

"In a large company, risk-taking is often lower. We need to create that environment internally," Gupta says, adding that he sees Marico play the role of a "scaled insurgent", with executives operating with an "owner's mindset". ■

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