Marico looks at cost savings of ₹150 cr

Company cuts back on over 100 SKUs

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Homegrown fast-moving consumer goods (FMCG) major Marico Ltd has cut back on over 100 stock-keeping units (SKUs) — across its core and niche brands — as it looks to optimise cost and maintain margins. The company is eyeing cost savings to the tune of ₹150 crore as it partly absorbs the price increase in key raw materials like copra, sunflower and rice bran.

Proceeds of the cost rationalisation will be redeployed toward advertisement and promotion investments in new focus categories like immunity, healthy foods, in-between meal snacking and so on. Advertising spends for Marico are already at pre-Covid levels, at 9.5 per cent of turnover.

Pawan Agrawal, CFO, Marico

According to Pawan Agrawal, CFO, Marico, the 100-odd SKUs that the company cut back on were contributing "nearly 1 per cent of turnover", and hence, it made "no sense to continue with such a long tail". There was a hidden cost of complexity and unnecessary inventory accumulation too.

The decision to cut back was taken in the April-June period of the fiscal, when the company was operating at reduced capacities; the need of the hour was to ensure availability of fast-moving high-velocity SKUs into stores. Around June, when the situation started normalising — post the Unlock — the company identified the opportunity of permanently rationalising some SKUs.

Cost and margins

According to Agrawal, there is a "transient cost pressure" across categories like copra, as well as in the non-coconut oil raw material prices, including sunflower and rice bran.

For instance, the cumulative price rise in rice bran has been more than 25 per cent over the last few months. However, in comparison, price hikes in Saffola edible oil were made only in Q3 (October-November) to the tune of 7-8 per cent. Another price hike could be looked at, if raw material prices continue to move upwards.

"We will absorb the majority of the raw material price hikes. We believe these are transient cost pressures and should ease out over the coming quarters," Agrawal said, adding that EBITDA margins are expected at 20 per cent levels for the fiscal — one of its best in recent times.

"The second half of the fiscal (October-March) should see us grow at around 10 per cent in volume terms, provided the pandemic does not worsen," he said.