As copra prices dip, Marico to squeeze out more margins

To invest more in advertising and new products

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Homegrown FMCG major Marico Ltd is investing in new products, including premium ones, in a bid to drive volumes.

The company is looking to improve margins amid copra prices entering a deflationary cycle. Copra accounts for nearly 50 per cent of its raw material cost.

Marico's brands include hair-care offerings under the Parachute and Livon brands, edible oil and oats under Saffola, and male grooming product under Set Wet, among others.

According to Vivek Karve, Chief Financial Officer, Marico's new products will include segments such as food, haircare (including value added hair oils) and male grooming. For instance, in the male grooming segment, it will look to extend the scope of its 'Set Wet Studio X' brand of offerings to modern trade. Set Wet Studio X was an online-only brand.

Similarly, Marico is working on the 'healthy snacking' segment, with plans to ramp up the masala oats portfolio through new launches.

"The new product development story is moving in the right direction. This includes premiumisation of portfolio," Karve told *BusinessLine*, adding that "the premium portfolio is being scaled up".

The company reported an 18 per cent rise in net profit for the quarter ended September 30 to ₹218 crore, while value sales rose 20 per cent YoY. Volume sale grew 6 per cent.

Marico, Karve said, intends to reinvest a part of its savings from lower input costs in advertising to drive sales in both India and abroad. In Q2 FY19, material cost to sales stood at 56 per cent, up from the 53 per cent in the year-ago-period.

Vivek Karve, Chief Financial Officer, Marico

"In the current year, copra prices have started coming down. From ₹140/kg, copra prices are hovering at around ₹100/kg. We are watching the space," he said.

Greater ad spend

According to the CFO, part of the benefit from lower copra price will be ploughed into higher advertisement spends.

For instance, the advertisement sales promotion cost to total revenues has moved up sequentially to 9.6 per cent in Q2 FY19 (July to September) from 8.2 per cent in Q1 FY19.

"What we are doing is invest a little more to build the brand. We would like to operate at 10 per cent (advertising sales promotion ratio), given the velocity of the innovation that we are rolling out in the market, both in core and new products," Karve said.

The resultant impact will lead to a "gradual increase" in margins from the current level. EBITDA (earning before interest, tax, depreciation and amortisation) margins slipped to 16 per cent in Q2 FY19 from 16.9 per cent in the year-ago period, driven primarily by raw material headwinds.

"Our overall guidance would be to have an operating margin band between 17 and 18 per cent. We are working towards that," said Karve.