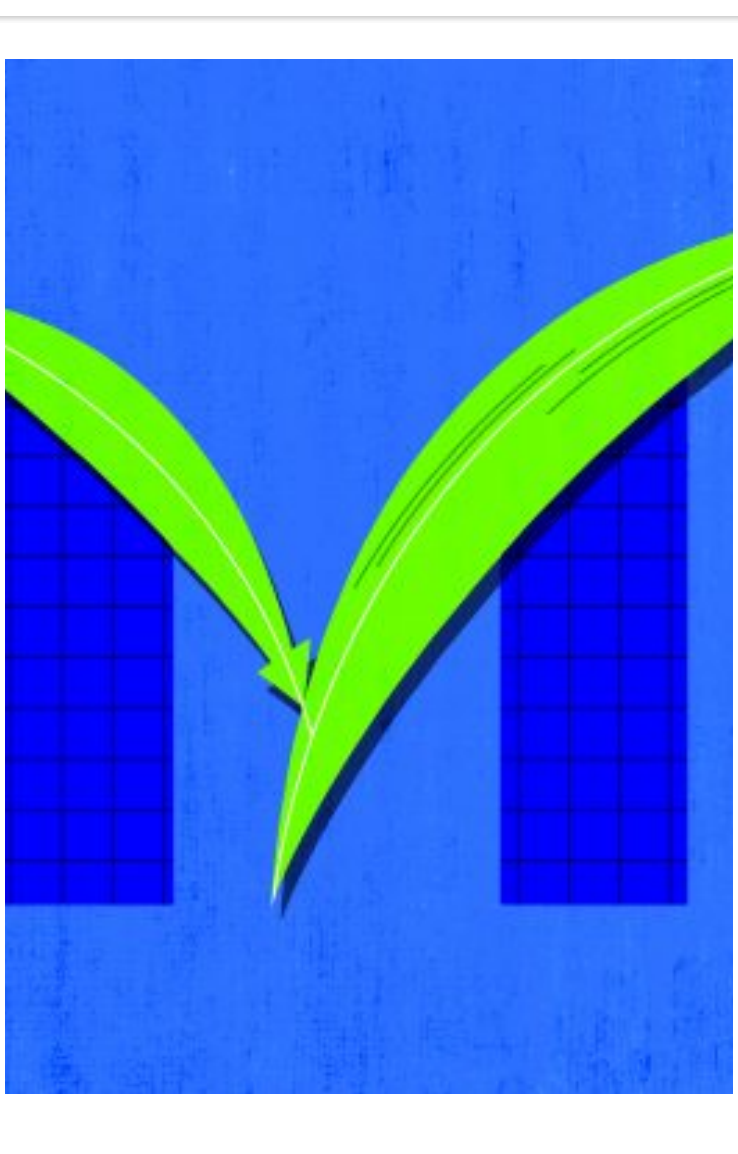


BUSINESS

What explains Marico's new-found aggression?

From launching products in segments with clear market leaders to nurturing startups, the objective is to get to Marico 2.0 in three years. Will CEO Saugata Gupta's speed pay off?

Prince M. Thomas · Mumbai

11 November 2021

Unlocked story

At Marico, the refrain seems to be about punching above one's weight. In the 1990s, founder and chairman Harsh Mariwala managed to ward off competition and a near-hostile offer from packaged consumer goods biggie Hindustan Lever (now Hindustan Unilever Ltd, or HUL) to buy Parachute, Marico's mainstay coconut hair oil brand. As Mariwala recounts in the recently released book, then Hindustan Lever chairman Keki Dadiseth even issued a not-so-veiled threat—"Marico will be history"—if the deal didn't happen. Mariwala did not budge. Instead, later in 2006, he bought out Hindustan Lever's Nihar hair oil brand in a stunning reversal of fortunes.

Saugata Gupta, who was then two years into his stint at Marico as head of marketing, would have learnt a lesson or two from Mariwala's unexpected victory over the industry goliath. Gupta had joined the company after stints at Cadbury (now Mondelez) and ICICI Prudential Life Insurance. At Marico, he had made an immediate impression, which saw him get elevated as the India CEO in 2007, and eventually take over from Mariwala as MD and CEO in 2014.

Gupta may not have had a Nihar moment yet in his seven-year stint at the helm, but the MD and CEO has his reasons for telling The Morning Context in an interview earlier this week: "We have been successful by punching above our weight." Such has been the last two years.

From September 2019 to March 2020, Marico's stock tanked 30%. It was a shock because the company's shares had till then outperformed the indices. But suddenly doubts had crept into the minds of investors. ICICI Securities' Manoj Menon, Aniket Sethi and Karan Bhuwania, in their note in July this year, listed the reasons for the slide in Marico's stock:

1. Growth concerns in existing categories (Marico's two big cash churners are hair oil and cooking oil);

2. Concerns on sustainable growth and profitability ramp-up in the food business (under the Saffola brand, where Marico has had at least one false start);

3. Low confidence on new products from Marico; and

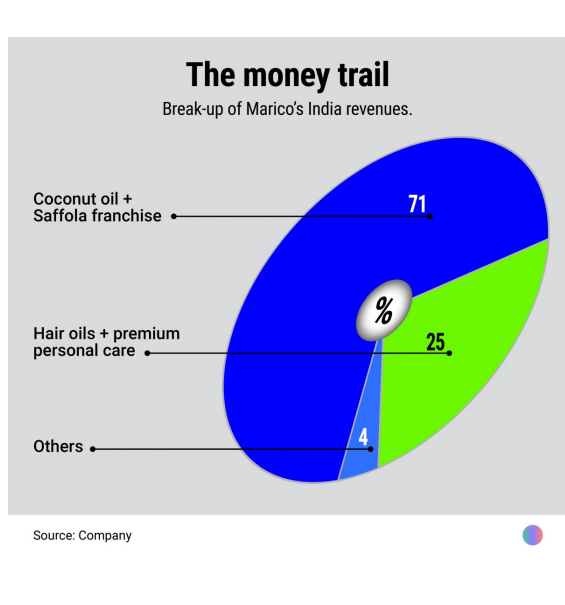
4. Under-appreciated investments in distribution expansion, market-leading capability-building in e-commerce, etc.

That was then. These doubts seem to have evaporated. For a year and more, Marico's stock has rallied faster than all its peers, including the likes of HUL, Godrej Consumer Products and Dabur, and hit lifetime highs in October. It may have corrected a bit in the last fortnight, but is still up 50.47% as on 10 November. In comparison, stocks of HUL and Dabur have risen 12.34% and 17.52% in the last year, respectively.

Is it because Gupta has been able to address the four concerns that ICICI Securities' analysts listed? The recent second quarter results do give some indications. The same three analysts had this to say about Marico in their 29 October report, a day after the company announced its results.

They liked Marico's "intent to drive growth in the premium hair oil portfolio… 2Q volumes grew 8% YoY (on an underlying basis) on a good broad-based performance (except Saffola edible oil). Market share gains and sustained growth momentum in near-total portfolio is pleasing. While there was significant pressure on gross margins, we like its strategy of prioritising market share / volume growth."

They added that Marico's healthy food portfolio under the Saffola brand "continues to trend well" and "increased focus on D2C brands (Marico's new products that are expected to touch a top line of Rs 500 crore by 2023-24) and focus on the premium personal care segment are other positives".



Source: Company

That's only half the story. There's another reason why the stock market is excited about Marico. The company, as Gupta puts it, may be one "with very middle class values" and "understated". But, of late, it has shown an aggressiveness that has surprised investors and caught competitors, especially Dabur, off guard.

In 2020, Marico launched two products—honey and chyawanprash—in segments dominated by Dabur. It was not a quiet launch, especially after a study found that Marico's honey passed purity tests, and Dabur's didn't. Marico was quick to pounce on the advantage. Dabur didn't step away from the duel either. The stakes went up further when it came to the chyawanprash segment in which it has an over 60% market share. Multiple legal suits later and after alterations in packaging, Marico relaunched its chyawanprash under the name of Saffola Immuniveda Chyawanprash in September this year. In between all of this, Marico added one more product—an instant noodles brand called Saffola Oodles. While honey and noodles are scaling up satisfactorily, Gupta hopes that the relaunch of the chyawanprash product will be successful too.

The Marico MD & CEO acknowledges the aggression underlying these launches. "We can be aggressive but we believe in playing fairly and playing for the long term. And doing things right. That doesn't take away the aggression. It's speed with purpose," he says. Gupta then indicates why all this is part of a bigger plan. Or, a bigger challenge.

"We have to continuously deliver. For me it's just not a battle every quarter, but long term. By 2024-25 the Marico 2.0 picture will be different in terms of profile, portfolio, capability, talent. That is my and my team's job—to make Marico future-ready by 2024-2025." What he doesn't spell out is that in the run up to 2024-25, Marico may well displace Dabur as the country's third largest packaged consumer goods company. Under Gupta, Marico has grown its top line and profitability faster than its rival from Ghaziabad, Uttar Pradesh.

But it's not going to be an easy task, especially given the new found aggression in Dabur too. Abnessh Roy of Edelweiss Securities alluded to the same in his 28 October note. "Overall, we like Marico from a long-term standpoint. However, given the company is entering a period of high base, not to mention more aggression from Dabur under its new MD (Mohit Malhotra), we would wait before getting constructive on Marico," he said, before recommending a "Hold" on the Marico stock. In fact, four out of the six brokerages that The Morning Context checked with had either a "Hold" or "Add" recommendation on the Marico stock. Two had a "Buy" recommendation. Surely, they want Gupta to punch even higher.

The two engines

To get to Marico 2.0 in another three years, Gupta and his team will have to pull off something that hasn't happened yet. The new businesses that he is nurturing will have to more than double their contribution to the company's top line to the "mid-teens". And, in turn, reduce the share of the traditionally dominant Parachute. This means that the new products will have to grow by 20-25% every year. And here's the intriguing part—one part of this transformation is not even in the hands of Gupta and his team. It hinges on a set of startups.

In 2017, Marico acquired a 45% stake in the holding company of men's grooming brand Beardo. Last year, it bought the rest of the equity. Despite the complete ownership, and even though Sujot Malhotra, who was earlier heading Parachute at Marico and is now the CEO of Beardo, the brand functions as a separate entity. "It continues to operate out of Ahmedabad. I meet the CEO once every three months. The only things we bring in are capital, compliance and quality. The last two because they have reputational risk to Marico as a brand," explains Gupta. Beardo even has a separate compensation system and its hiring strategy is different to Marico's.

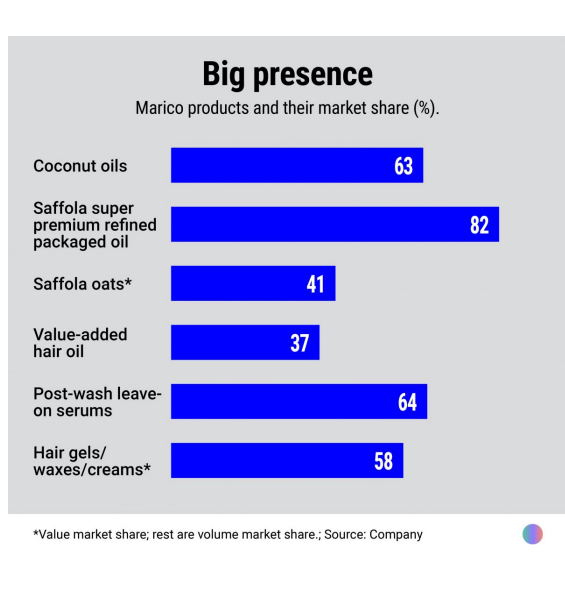
By having such a model, Gupta is hoping that Beardo doesn't get burdened by the bureaucracy of a much larger organization like Marico. And, at the same time, it can function like a startup and create access for Marico to segments that it otherwise wouldn't have entered on its own. "It's difficult to create and do everything on your own. Large FMCG companies are geared to do scale business…So these new brands are not impacting your current growth. Instead, they are grabbing future growth opportunities for you," he added. Beardo, after making a splash online, is now available in brick and mortar stores too.

He has now replicated the Beardo model in ayurveda brand Just Herbs, acquiring a 60% stake in the latter's parent Apcos earlier this year. The brand continues to operate out of Chandigarh.

Gupta created the model after suffering setbacks. "Our own people wanted to create digital brands. We realized they are not cut out for that," he says, adding that appetite to take risks and handle failure is low in those used to working in a large corporate set-up. "I'm also of the same breed, but I tell people at Beardo not to let five MBAs descend upon you." At the same time, Gupta is using the Beardo and Just Herbs experience to seed organic digital brands internally. At present, Marico has beauty brand Pure Sense and virgin coconut oil Coco Soul. All digital brands cater to the premium end of the market.

The longer term plan is to keep the likes of Beardo and Just Herbs operating separately. But once these digital brands scale to about Rs 500 crore in combined revenue (the target is 2024-25), Gupta plans to have all of them on a common platform, with a common backend, tech stack, CRM and logistics. "I almost become a house of digital brands where Marico is a strategic investor," he says.

The challenge here is this: Can the startups under Marico operate as freely as their peers who have a PE-backed, free-flowing cash tap? And, who also don't necessarily need to meet profitability targets? "There are minuses (in the model). But also pluses. We as Marico help them achieve scale and put in processes and systems," Gupta counters.



*Value market share; rest are volume market share.; Source: Company

These premium, digital-only brands will bring in the margins for Marico. For volume, the company will have to depend on its second transformation engine – the food business.

Here too, Gupta had to first contend with failure when Saffola's entry into baked snacks didn't click with customers. The team realized that when it came to Indian customers, taste is a far more important factor than health. At the same time, Marico also found success in Saffola oats, and later in masala oats. That too came with a realization that creating a market and then expanding it (masala oats was the first in its category) takes time. Gupta now doesn't have the luxury of time to meet the Marico 2.0 target. Thus the foray into honey, chyawanprash and noodles, segments in which the leaders enjoyed supernormal profits. "We want to launch products in two-three more categories in the next two years. We will enter two new categories in the next financial year," says Gupta.

Even as the Marico chief is scouting for categories with "lazy incumbents", Dabur CEO Mohit Malhotra has mounted an attack on his rival's dominance in the coconut oil market. Though smaller than Marico in the coconut and value-added hair oil segments, Dabur's brands in the segment have been growing faster. Gupta, however, reiterates that Marico's market share in all oil segments is intact, indicating a consolidation in the market towards organized players.

Malhotra is doing more. He has also deepened the company's dominance in honey, expanding the range earlier this year with Honey Tasties spreads and syrups. And, like his counterpart at Marico, Malhotra is also betting big on foods, including its brand Hommade, which is adding to its portfolio in the ready-to-cook segment. Overall, the company continues to aggressively push new products into the market. In 2020-21, in just the first half of the financial year, Dabur had launched 35 new products, said a recent study by HDFC Securities. In comparison, Marico had less than 10. That said, the study found that when it comes to the success rate of launches, Marico is at 30% and Dabur at 20%.

Given the increasing competition between the two, it's not surprising that investors are keeping a watch on how the race pans out. "Both the companies are exciting and proactive," says Vipul Prasad, founder and CEO of Magadh Capital, an investment management firm. "Marico is well run and it's difficult to get a company at its valuation with no issues regarding operations or corporate governance. On the other hand, Dabur is doing well in terms of expanding its products' addressable market," he adds. Adding intrigue to the competition between the two is a narrowing gap in the valuation of the two companies' stocks. How long can Marico maintain an edge on this front?

If Mariwala is bothered about this, he doesn't show it. Instead, he is happy that Gupta's team has bettered the benchmark he set. "I strongly believe that it's ok to fail as long as there is some learning out of it. Every launch is not going to be successful. If we are able to crack two out of 10 launches, I would be very happy. Once you become a market leader, it's very difficult for other players to disrupt us," the Marico chairman says.

Mariwala knows a thing or two about breaking hierarchies. Like when he surprised many in his family, and peers in the corporate world, by not anointing son Rishabh Mariwala as his successor in 2014. Attaining Marico 2.0 by 2024-25 will also be a vindication of the new structure he created at the company.

Beating stereotypes

Many have drawn parallels between what Mariwala has done at Marico to what the Burmans did at Dabur: separating ownership from management. But there is a key difference. By the time the Burmans brought in a professional CEO, there were many claimants to the corner office. That's not the case at the Mariwala household.

"A lot of these expectations [on succession] are driven by the Indian society, and the hierarchical way of thinking. And this has influenced the way we do our business and how we do succession," says Mariwala. "But given what has happened in the corporate world in the last 10-20 years and how businesses have become more complex and competitive, it's futile to expect this hierarchical mindset to continue," he adds.

It also mattered that his children—Rishabh and daughter Rajvi—wanted to do something of their own instead of filling his shoes. While Rishabh, a director at Marico, also heads the family office, Rajvi works at the Mariwala Health Initiative, which works with organizations involved in mental health. .

The move resulted in Marico making the transition from being entrepreneur-driven to one where the board calls the shots. The board, in 2014, even asked Mariwala and Gupta to jot down their respective future roles in detail to avoid conflicts. For instance, Mariwala no longer addresses analysts or answers questions on Marico's quarterly performance and outlook. In the last seven years, he has chaired only a couple of investor meetings, limiting himself to meeting those with whom he has had a long relationship. Overall, as Mariwala himself admits, this has helped limit his role in Marico's daily affairs, something many promoters are unable to do even after passing the baton.

"I'm not a mentor of the company," he insists. "I'm a strategic investor in Marico. And my and my son's interest is to protect the stakes the family holds. And I have the role as the chairman," he adds. That means he now spends a quarter of his time on Marico and meets Gupta for monthly reviews. But it's the board that has the overall responsibility of evaluating the performance of its senior management. "The board's role is to have the right team and the right CEO and make them perform better. Saugata and his team are active participants in the board meetings. And the board evaluates their performance in the board meeting and outside. My role is to make sure this [exercise] happens," says Mariwala.

While he says that the last seven years have "been a win-win situation from all angles; company has done well, Saugata has done well," he adds that "we need to have the hunger to grow and the hunger to make a difference. And this should continue till perpetuity… but till 2024-25, we have clarity on these two big initiatives – food and direct to consumer brands."

Needless to say, all eyes—those of investors and the Marico board's—are on Gupta.

Lead illustration by Chetan Singh/The Morning Context.

Chyawanprash Dabur Digital

FMCG Harsh Mariwala