Detailed Report on MARICO Limited.

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1) <u>Introduction</u> :

Marico Limited is an Indian multinational consumer goods company . Founded in 1990 by Harsh Mariwala, the company has emerged as a key player in the fast-moving consumer goods (FMCG) sector , Marico has about 1777 employees as of now it has 8 factories in India located at Puducherry, Perundurai, Kanjikode, Jalgaon, Paldhi, Dehradun, Baddi and Paonta Sahib. Marico holds a diverse range of products, including edible oils, hair care, skincare. Notable brands under the Marico umbrella include Parachute, Saffola, Livon, and Set Wet , Beardo. Marico had total revenue of 9764 crores and a total profit of 1521 crores as of 2023 annual reports.

2) <u>History</u> :

1971 : Harsh Mariwala, a young graduate joins the family Business - Bombay Oil industries.

1974 : Harsh envisions a market for coconut and refined edible oil in smaller consumer packs and sets up a national distribution chain for Parachute.

1980 : Traditional tin packs are replaced by plastic packs, pioneering a Industry wide shift.

1990 : Marico is Born. Marico Limited was established on October 13, 1988, under the name Marico Foods Limited as a part of Bombay Oil Industries Limited. However, in 1990, the company separated from Bombay Oil Industries to establish its independent identity.

1992-1994 : Marico goes from being an exporter to an International marketer , sets up its first overseas office in Dubai.

1996 : Marico went Public. Lists on the Indian stock exchange.

2002 : Marico ventures into Skin care solution with Kaya Skin clinic.

2013 : Kaya demerger happens from Marico and becomes a separate entity.

2015 : Marico market cap tops INR 25,000 crores.

3) Overcoming Initial Challenges and Key Growth Strategies of Marico Limited.

3.1)Initial challenges :

-The initial challenge was to establish a consumer-products division within the parent company and create a distinct identity. This required breaking away from traditional **bulk sales** and venturing into the consumer-packaged goods and directly selling to the consumers.

-Hiring: As a family business before, most of the top level management were family members only and Harsh mariwala knew this had to change as they were entering a whole different market and Hiring was crucial, and a challenge in its own.

-Market Entry and Recognition: The fast moving consumer goods sector was highly competitive, and Marico had to contend with established players. Gaining recognition for a new brand in a market dominated by well-known names posed a significant challenge.

-Additionally, the organisation lacked systems and processes, operating more as a hierarchy based on age and seniority rather than a merit based.

3.2)Growth Strategies and Overcoming challenges

“ **Most important, we encourage new ideas, experimentation, calculated risk-taking, and the questioning of conventional wisdom** ”

- Harsh mariwala (Said in harvard business review article)

-Initially Mariwala focused on factory automation, modern finance and sales systems, new HR processes, and eventually a business model shift—from bulk sales to consumer packaged goods.

-**Constant Innovation**

- Marico Focused on constant Innovation through its journey. Initially with product and packaging , later with corporate and hiring , using a very large amount of profit in Research and development, innovating with a room for failure.

Innovations in Packaging : Marico continued to innovate in packaging and product development. The introduction of plastic bottles with rounded designs allowed for lower prices, few years earlier another coconut oil producer had tried square plastic bottles, which leaked, attracting rats that chewed through the corners Marico solution- Rounded containers, With no edges to leak or to chew at, they even tested the new design by putting oil-filled bottles in cages with rodents for two days with a camera trained on them ,nothing happened.

Decentralised decision-making : Mr.mariwala saud " I was also clear about the organisation I wanted: one with decentralised decision-making and professionals filling the ranks from the top team to the front lines. I knew that my first Marico hire had to be an HR leader who would add credibility and value to our hiring strategy. We quickly recruited a strong team of experts who knew much more than I did about their respective fields. I told them all, from executives to labourers, to call me Harsh."

Innovative Business Models: Marico explored selling services as well as products, leading to the creation of Kaya—a subsidiary offering skin-care treatments. Kaya later became a platform for launching a range of skin-care products, demonstrating adaptability and innovation in business models.

Strategic Fund for Innovation: To ensure continuous innovation, Marico earmarked 20% of annual profits for a strategic fund, driving the development of new products, brands, and constant innovation in Research and development.

Three Ps Approach: Marico cultivated a corporate culture around three Ps: people, products, and profits. The focus on empowering people, delivering quality products, and reinvesting profits in the business.

Failure-born insights: Learning from failures and gaining valuable insights That why this strategy failed or why this product did not perform according to the plans. Learning from failures and having room to fail and evaluate the mistake,

Innovation in Advertising and Branding: Marico initiated creative advertising campaigns for Parachute and Saffola, highlighting health benefits and unique selling propositions. The ads not only created buzz but positioned Marico as an innovative and exciting company.

Marketing Campaigns :

asked a marketing agency to develop a short but striking ad campaign to announce Marico's arrival.

"200 Employees Walk Out of Bombay Oil"

Headlined article and went on to reveal that they were doing so to launch Marico.

"Mass Killer Nabbed"
detailed Saffola's contribution (according to the medical data then available) to lowering the risk of heart disease.

"Lalitaji Boycotts Coconut Oil"
explained why a fictional cost- and quality-conscious housewife famous across India rejected any coconut oil other than Parachute.

These ads created excitement among Indian consumers and appealed to a new, exciting company willing to try out-of-the-box ideas.

4)<u>Brands under Marico</u>

Marico has diverse brands such as Parachute, Saffola, Hair & Care, and SetWet, catering to varied consumer needs in the FMCG sector. The company's success also lies in acquiring the right brands at the right moment.

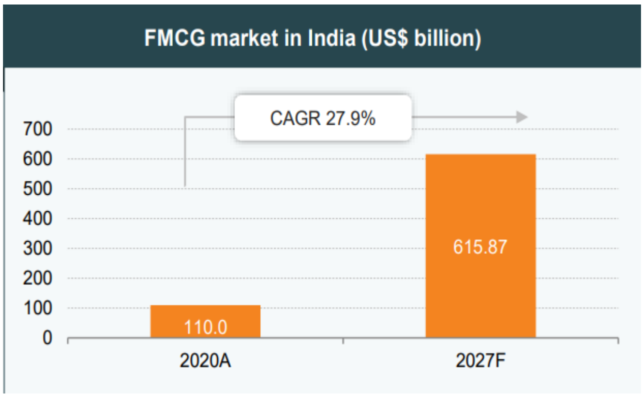
- Parachute Coconut Oil
- Parachute Advansed
- Parachute Advansed Body Lotion
- Saffola
- Hair & Care
- Livon
- Nihar Naturals
- Mediker
- Revive
- Mediker Anti Lice Treatment
- Coco Soul Foods
- Saffola ImmuniVeda
- Pure Sense
- Saffola Honey
- Coco Soul Beauty
- Jataa Hair Growth Oil
- Saffola FITTIFY Gourmet
- Set Wet

5)Industry Overview and Analysis :

The **FMCG** (fast moving consumer goods) industry comprises a wide array of consumer products characterised by frequent purchase and quick turnover, relatively low cost. These goods include food and beverages, personal care products, cleaning and hygiene products, and other household items.

The growing FMCG market of India:

-The FMCG market is growing exponentially in India due to many reasons.
-FMCG market reached US$ 56.8 billion as of December 2022.
-Total revenue of FMCG market is expected to grow at a Compound annual growth rate (CAGR) of **27.9%** through 2021 to 2027, reaching nearly US$ 615.87 billion.



Source: India brand equity foundation.

- FMCG sector provides employment to around 3 million people accounting for approximately 5% of the total factory employment in India.
-Rural households play an important role, contributing **35-36%** of India's FMCG market.

5.1)Growth drivers for India's FMCG sector:

Shift Towards organised market : Consumers in India's metro cities are increasingly shifting to supermarket chains, and even ordering their groceries online, prompting the two organized retail formats accounting for roughly 30% of FMCG sales in the country's metro cities.

Increase in penetration : FMCG sector is more money making because of low penetration levels, well-established distribution network, low operating cost, large consumer base and simple manufacturing processes for most products resulting in fairly low capital investments. And a high demand for the product and increased opportunity to make money for business owners.

Rural consumption: Rural households, contributing **35-36%** of India's FMCG market.With increasing disposable income in rural India as well as low penetration levels, the rural market provides huge growth opportunities for FMCG business owners.

Easy access: Due to e-commerce accessibility throughout the nation, whether in rural or urban areas. It offers greater consumer convenience because customers can easily choose and buy the products of their choice using apps and websites. Moreover, the home delivery option will deliver the goods to their homes.

5.2)Industry Demand Determinants and Profitability Drivers :

Demand determinants :

Consumer Income Levels: The purchasing power of consumers is a fundamental determinant of FMCG demand. Higher income levels often result in increased spending more on items like food, personal care, and household products.

Population Growth: As the population expands, the demand for essential FMCG products rises proportionally.

Consumer Preferences and Trends: Evolving consumer preferences, influenced by factors such as health consciousness, sustainability, and convenience, shape the demand for specific FMCG categories. Companies that align with these trends experience increased demand.

Distribution Network Efficiency: The efficiency of distribution networks plays a crucial role in ensuring product availability across diverse geographic areas. A well-managed distribution system positively correlates with increased demand.

Seasonal Factors: Certain FMCG products witness fluctuating demand based on seasonal factors. For example, there may be increased demand for cold beverages during summer season.

Economic Conditions: Economic indicators, including inflation rates and employment levels, influence consumer confidence and spending habits. Economic downturns may lead to a shift in consumer preferences toward more affordable FMCG options.

Profitable drivers :

-Brand Equity: Strong brand recognition and consumer loyalty contribute to more consumption and higher profitability. Established brands often command premium prices and enjoy a competitive edge in the market.

-Supply Chain Efficiency: Efficient supply chain management minimizes costs, ensures timely product availability. Streamlining the supply chain enhances overall operational efficiency and positively impacts profitability.

-Cost Management and Operational Excellence: Effective cost management practices, including economies of scale in production and distribution, contribute to improved profitability. Controlling operational costs ensures sustained financial health. Implementing efficient operational practices, including lean manufacturing and streamlined logistics, reduces cost directly influencing profitability.

-Innovation and Product Differentiation: Continuous innovation in product formulations, packaging, and marketing helps FMCG companies differentiate their offerings. Unique and appealing products attract consumers.

-Marketing and Advertising: marketing and advertising campaigns enhance brand visibility, influence consumer preferences, and drive sales.

-Distribution Network Optimization: An extensive and well-managed distribution network ensures products reach a wide consumer base..

-Digital Transformation: Using digital technologies for marketing, distribution, and customer engagement enhances operational efficiency. Leveraging digital platforms can lead to cost-effective strategies, positively impacting the bottom line.

-Product Portfolio Optimization: diversifying and optimizing the product portfolio ensures that companies focus on high-margin products. A well-balanced product mix supports profitability.

In summary, a combination of brand strength, operational efficiency, marketing, and adaptability to market trends forms the foundation for sustained profitability in the FMCG industry. Companies that effectively manage costs, innovate, and focus on quality consumer needs are well-positioned to thrive in this competitive sector.

6) Financial Analysis : Marico

Revenue and Sales Growth:
- In 2023, Marico made 9764 crores.
- the company has nearly doubled its revenue in the last ten years.
- Marico made a year on year steady growth in the FMCG market.

Profitability:
- Marico has nearly tripled its Net Profit in the last ten years.
- Year on year steady growth is the reason for the huge profit.
- Marico has a 13% profit margin in the year 2023.

Assets and liabilities:
- The company's current liabilities during 2023 stood at Rs 24 billion as compared to Rs 22 billion in FY22, thereby witnessing an increase of 12.8%.
- Current assets rose 9% and stood at Rs 38 billion, while fixed assets rose 42% and stood at Rs 30 billion in FY23.

Return on Investment:
- The ROE for the company declined and down at 35.2% during FY23, from 37.8% during FY23.
- The Return on Assets measures how efficiently the company uses its assets to generate earnings.The Return on assets of the company declined and down at 20.3% during FY23, from 23.1% during FY22.

Return to ShareHolders :
- For year 2023, MARICO declared a dividend of Rs 4.5 per share. At the current price of Rs 523.0, this results in a dividend yield of 0.9%.

Source: Marico 2023 annual report.

(₹ in Crore)

Year ended March 31,	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Income from Operations	4,687	5,733	6,024	5,936	6,333	7,334	7,315	8,048	9,512	9,764
EBITDA	748	870	1,051	1,159	1,138	1,326	1,469	1,591	1,681	1,810
Profit before Interest & Tax (PBIT)	729	845	1,050	1,166	1,133	1,298	1,453	1,546	1,640	1,799
Profit before Tax (PBT)	695	822	1,029	1,149	1,117	1,257	1,374	1,523	1,601	1,743
"Net Profit attributable to Owners of the Company"	485	573	711	799	814	926	1,043	1,162	1,225	1,280
Cash Profits (Profit after Current Tax + Depreciation + Amortisation)	592	668	873	947	922	1,057	1,167	1,327	1,397	1,521
Economic Value Added	**332**	**419**	**558**	**610**	**550**	**589**	**704**	**845**	**894**	**910**
Goodwill on consolidation	254	489	497	479	486	503	538	613	654	862
Net Fixed Assets	638	590	620	616	801	842	916	1,023	1,145	1,451
Investments	311	284	513	608	543	450	733	854	828	1,096
Net Current Assets	671	749	655	846	1,105	1,420	1,094	1,034	1,056	1,286
Net Non Current Assets	213	163	35	41	(82)	(68)	(63)	(20)	(11)	34
Deferred Tax Asset (Net)	-	-	65	10	20	202	159	186	187	146
Total Capital Employed	**2,086**	**2,274**	**2,386**	**2,600**	**2,873**	**3,349**	**3,377**	**3,690**	**3,859**	**4,875**
Equity Share Capital	64	65	129	129	129	129	129	129	129	129
Reserves	1,296	1,760	1,888	2,197	2,394	2,846	2,894	3,111	3,219	3,670
Net Worth	**1,361**	**1,825**	**2,017**	**2,326**	**2,523**	**2,975**	**3,023**	**3,240**	**3,348**	**3,799**
Minority interest	36	14	14	13	12	12	13	18	57	157
Borrowed Funds	680	428	331	239	309	349	335	348	345	475
Deferred Tax Liability	10	8	23	22	29	13	6	84	109	178
Other Financial Liabilities										266
Total Funds Employed	**2,086**	**2,274**	**2,386**	**2,600**	**2,873**	**3,349**	**3,377**	**3,690**	**3,859**	**4,875**
EBITDA Margin (%)	16.0	15.2	17.5	19.5	18.0	18.1	20.1	19.8	17.7	18.5
Profit before Tax to Turnover (%)	14.8	14.3	17.1	19.4	17.6	17.1	18.8	18.9	16.8	17.8
Profit after Tax to Turnover (%)	10.4	10.0	11.8	13.5	12.9	12.6	14.3	14.4	12.9	13.3
Return on Net Worth (%) (PAT / Average Net Worth $)	**30.1**	**36.0**	**37.0**	**36.8**	**33.5**	**33.7**	**34.8**	**37.1**	**37.2**	**36.4**
Return on Capital Employed (PBIT / Average Total Capital Employed @)	**30.4**	**38.7**	**45.1**	**46.8**	**41.3**	**42.0**	**42.4**	**44.3**	**44.6**	**44.0**
Net Cash Flow from Operations per share (₹) (Refer Cash Flow Statement)	10.2	10.3	6.5	5.0	4.0	8.2	9.4	15.5	7.9	11.0
Earning per Share (EPS) (₹) (PAT / No. of Equity Shares)	**7.5**	**8.9**	**5.5**	**6.2**	**6.3**	**7.2**	**8.1**	**9.0**	**9.5**	**10.1**
Economic Value Added per share (₹)	5.1	6.5	4.3	4.7	4.3	4.6	5.5	6.5	6.9	7.0
Dividend per share (₹)	3.5	2.5	3.4	3.5	4.3	4.8	6.8	7.5	9.3	4.5
Debt / Equity	**0.5**	**0.2**	**0.2**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Book Value per share (₹) (Net Worth / No. of Equity Shares)	**21.1**	**28.3**	**15.6**	**18.0**	**19.5**	**23.0**	**23.4**	**25.1**	**25.9**	**29.4**
Sales to Average Capital Employed @	2.0	2.6	2.6	2.4	2.3	2.4	2.2	2.3	2.5	2.2
Sales to Average Net Working Capital #	6.6	8.1	8.6	7.9	6.5	5.8	5.8	7.6	9.1	8.3

@ Average Capital Employed = (Opening Capital Employed + Closing Capital Employed)/2

$ Average Net Worth = (Opening Net Worth + Closing Net Worth)/2

Average Net Working Capital = (Opening Net Current Assets + Closing Net Current Assets)/2

Note 1: FY14 onwards, financials do not include Kaya as it has been demerged from Marico Group effective April 1,2013.

Note 2: FY16 onwards, per share numbers are calculated on the post bonus number of shares

Note 3: FY16 onwards, financials are as per IND - AS and hence not comparable with earlier years.

Note 4: P&L for FY19, FY20, FY21, FY22 and FY23 and Balance Sheet for FY19, FY20, FY21, FY22 and FY23 are as per Ind-AS 116 and hence not comparable with earlier years.

Source: Marico annual report 2023.

7)Marico's Brand Strategy :

Marico’s evolving brand strategy through these changing times is shifting their operations towards sustainability. Their vision is to achieve net-zero emissions across global operations by 2040.

“to transform in a sustainable manner, the lives of those we touch, by nurturing and empowering them to maximise their true potential.”

Strategic Pillars :

Grow the Core:
- Strengthening and expanding Marico's existing core business segments, optimising operations.

New Growth Engines:
- Exploring and developing innovative products for growth, diversifying product lines, and entering new markets to drive sustained expansion.

Create Shared Value:
- Focusing on initiatives that simultaneously benefit society and the company, aligning business goals with social and environmental responsibility to create value for both stakeholders and the broader community.

How to achieve this:

R&D and Innovations:
- Investing in research and development to drive continuous innovation, fostering the creation of cutting-edge products and solutions.

Go-to-Market Models:
- Implementing strategic distribution and sales approaches to enhance market penetration and optimise product reach.

Digital and Technology:
- Leveraging digital platforms and technology to enhance operational efficiency, customer engagement, and overall business performance.

Talent and Culture:
- Nurturing a positive organisational culture and attracting top talent to drive innovation, collaboration, and overall business success.

Sustainability:
- Integrating environmentally and socially responsible practices into business operations, aligning with sustainable development goals for long-term viability.

9)Threats :

" In 2014 I handed the reins of Marico to an able successor (and not a family member), Saugata Gupta. "

- Harsh mariwala (Said in harvard business review article)

The decision to hand over the leadership of Marico to Saugata Gupta, a capable successor outside the family, underscores Marico's commitment to a robust and merit based system. This strategic move is indicative of the company's proactive approach in embracing talent beyond familial ties, ensuring a diverse and skilled leadership that contributes to Marico's consistent growth year on year. By prioritising competence over familial connections, Marico demonstrates a commitment to innovation and adaptability.

This in no way makes them prone to market threats but this is a reason they show year and year steady growth.

Risk management :

Changing Consumer Preferences:
- Evolving consumer preferences, influenced by cultural shifts and technology, pose a risk. Rapid shifts, intensified by digital media, necessitate continual portfolio evolution to stay competitive.

Increasing Competitive Intensity:
- Growing competition, both online and offline, requires maintaining brand relevance and pricing power.

Underperformance of New Product Launches:
- The inherent risk of low success rates in new FMCG product launches can impact growth. Rigorous prototyping and a well-defined new product development process are crucial for mitigating this risk.

Underachievement of Acquisition Deliverables:
- Acquisitions may pose financial burdens if performance falls short.

Risk Mitigation Strategies:

Adapting to Changing Preferences:
- Invest in consumer insights, monitor social media trends, and conduct frequent awareness campaigns. Shape brand communication to convey quality, safety, and nutritional value.

Managing Competitive Intensity:
- Diversify product offerings, invest in brand building, Maintain resilience during volatility and protect consumer franchise through responsible marketing.

Ensuring New Product Success:
- Implement a robust new product development process, including prototyping and rigorous governance. Invest in scalable ideas and continuously monitor progress to drive growth.

Optimising Acquisition Outcomes:
- Follow a well-defined playbook for acquisitions, conduct thorough market norms and by experts..

10) Recommendations :

Innovative Product Development:
Continue fostering a culture of innovation in product development. Leverage consumer insights to introduce high-quality offerings that align with evolving preferences.

Data-Driven Decision Making:
Strengthen data analytics capabilities for informed decision-making. Utilise data insights to optimise supply chain management, identify market trends, and enhance overall operational efficiency.

Talent Development and Freshers:
Prioritise talent development strategies to ensure a skilled and motivated workforce. Foster a culture of continuous learning and innovation to drive long-term success.
Betting on fresh talent has high return on very low investment comparatively and a high chance of Innovation and lots of energy in workspace.

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Risk Type and Description	Mitigation Strategies
Changing consumer preferences Consumer tastes, preferences and behaviours have been evolving over the years, due to various factors, such as cultural shifts, demographic changes, technological advancements, or emerging trends.. This trend has only accelerated after unexpected events post the outbreak of the pandemic. WithIn addition, with increasing social media/digital media penetration penetration, brand awareness levels and deepening reach of branded goods , the speed of the pace of shifts in consumer preferences has dramatically risen. It is, therefore, an imperative that our portfolio and brand communication also evolvess in line with consumer expectations demand so that we continue to remain relevant and competitive in our categories.	• Investment in consumer in-sighting to adapt to changing consumer preferences • Actively monitor social media trends to spot early consumer trends; quickly respond to these trends with innovative offerings that lead with quality, safety and nutritional quotient • Shape a brand communication to effectively reach the consumer and convey its proposition and purpose • Frequent consumer awareness campaigns and outreach initiatives to demonstrate the nutritional value of products and the use of safe ingredients to enhance product responsibility
Increasing Competitive intensity With the increasing number of competing brands across offline and online marketplaces, counter campaigning and aggressive pricing by competitors, maintaining brand relevance, market shares and pricing power is critical to sustained growth.	• Diversification in product offerings and ensuring availability in relevant channels, thereby leading to wider presence and reach • Protect consumer franchise during periods of short-term volatility or headwinds • Invest in brand building through responsible marketing campaigns • Building agile marketing response mechanisms to counter competitive moves
Underperformance of new product launches Given that the success rate for new product launches in the FMCG sector is typically low, new products may not gain traction among consumers or may fail to scale up as planned.	• Invest in a new product development process with a funnel approach to ensure continuous flow of new ideas, coupled with rigorous governance around scalable ideas • Prototyping approach to new product introductions for accelerated learning and adjustment • Identify and invest in big-ticket new ideas in the chosen categories for driving growth • Resilient presence in marketplace with adequate investments in brand building
Underachievement of acquisition deliverables Acquisitions may impose a financial burden on the parent entity, if the acquired business significantly underperforms vis-a-vis expectations. The integration of operations and cultural harmonisation may also take time, thereby deferring benefits of synergies.	• A well-defined playbook for selection of targets, due diligence, value finalisation and integration • Well-defined performance tracking systems for monitoring progress periodically • Cross-application of governance practices of the parent organisation soon after take over to ensure controls

Source: Marico's annual report 2023.

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