

# MARICO INDUSTRIES LIMITED



*Marico is one of the well-known FMCG companies in India that have successfully created brands in the largely commoditised business of hair oils and edible oils.*

## Background

Marico is a leading Indian company with business interests in manufacturing and retailing personal consumer products as well as providing services in the beauty space. The company's history can be traced back to 1948 when the Mumbai-based Mariwala family having a presence in the trading business set up Bombay Oil Industries Ltd (BOIL). The manufacturing facilities of BOIL comprised of a coconut oil extraction plant, vegetable oil refinery and a chemical plant. Over the years, BOIL expanded and diversified into branded consumer products. The promoter family then went on to incorporate a company called Marico Foods Limited (subsequently called Marico Industries Limited and later Marico Limited) in 1988 and transferred BOIL's consumer products division to this company.

In 1990 Marico entered into an agreement with BOIL for the use of its coconut oil brand Parachute and vegetable oil brand Saffola. It also purchased a unit at Jalgaon, Maharashtra, for using it as a manufacturing base. Thereafter, to add to its product portfolio, the company made several acquisitions. The prominent amongst these is the acquisition of Procter & Gamble's anti-lice treatment business branded under the name Mediker in 1999, followed by acquisition of the facilities of Kanmoor Foods at Saswad, Maharashtra for manufacture of jams, sauces and other fruit and vegetable products in the 2000. In 2001, Marico acquired the Parachute and Saffola brands from BOIL.



Marico ventured into skin care products in 2003 through the acquisition of Sundari LLC in the USA, a manufacturer of luxury ayurvedic products and having a turnover of approximately US\$ 1.1 million. This entry in the skin care products market represents Marico's first acquisition in a developed country. In 2004, Marico commenced operations under the banner of Kaya Skin Clinics; offering scientific, unisex dermatological procedures as well as

Company	Products	Established	Founder	Distribution	Production plants
Marico	Hair care, foods, edible oils, fabric care, personal care	1988	Mariwala family	India, USA, Canada, Middle East, Asia Pacific	India, Bangladesh



skin care products. In January 2006, Marico made a direct entry into the soap market in India through the acquisition of the herbal bath soap brand Manjal from Kerala-based Oriental Extractions. Manjal has an annual turnover of US\$ 2 million through sales primarily in Kerala.

In the Indian market Marico's key strength is its extensive distribution network that reaches out to about 1.7 million retail outlets spread across the country. The distribution network comprises of 5 regional offices, 30 company depots and 6 consignment sales agents that supply to 850 distributors in the urban areas and 11 super distributors in the rural areas. The super distributors service more than 2600 stockists. Marico has a marketing and distribution alliance with Indo Nissin Foods for Top Ramen.

Marico's manufacturing facilities are located at Jalgaon, Saswad and Sewree in Maharashtra, Palakkad (Kerala), Ponda (Goa) and Dehradun (Uttaranchal). It also gets its products manufactured through subcontractors. The company has three subsidiaries. These include Marico Bangladesh Limited that manufactures and sells branded coconut oil in Bangladesh, Kaya Skin Care Limited that provides skin care services and retails products and Sundari LLC, USA for carrying on Ayurvedic skin care products business.

The promoters are the majority stakeholders in the company with 66.6 per cent share. Foreign

institutional investors own 12.1 per cent of the shares and Indian financial institutions have 11.1 per cent share. Indian public, non-promoter corporates, trusts and non-resident Indians hold the remaining shares.

## Products and brands

Over the years Marico has progressed into a consumer focussed FMCG company in the beauty and wellness space through 12 well-established brands. It has three business segments - Consumer Products (comprising the consumer products business of Marico Limited, Marico Bangladesh Limited and MBL Industries Limited), Skin Care (services and products retailed through Kaya Skin Clinics) and Global Ayurvedics (Sundari).

### Marico's products and brands

<b>Hair care</b>	<ul style="list-style-type: none"> <li>• Parachute</li> <li>• Oil of Malabar</li> </ul>
<b>Hair Oils</b>	<ul style="list-style-type: none"> <li>• Parachute Lite, Parachute Jasmine, Parachute Rose, Parachute Advanced, Parachute Sampoorna</li> <li>• Hair &amp; Care</li> <li>• Shanti Amla</li> </ul>
<b>Hair care</b>	<ul style="list-style-type: none"> <li>• Silk-n-Shine conditioner, Parachute after shower hair cream</li> </ul>
<b>Anti-lice treatment</b>	<ul style="list-style-type: none"> <li>• Mediker</li> </ul>
<b>Processed foods</b>	<ul style="list-style-type: none"> <li>• Sil (jams, sauces, baked beans, Chinese vinegar, sweet corn soup, mayonnais)</li> <li>• Saffola salt</li> </ul>
<b>Edible oil</b>	<ul style="list-style-type: none"> <li>• Saffola and its extensions - Saffola Kardi, Saffola Tasty Blend, Saffola Gold</li> <li>• Sweekar</li> </ul>
<b>Fabric care</b>	<ul style="list-style-type: none"> <li>• Revive instant starch</li> </ul>
<b>Skin care services</b>	<ul style="list-style-type: none"> <li>• Kaya Clinic, Sundari</li> </ul>

Source: Company website, IMAcS analysis



Product lines in the Consumer Products segment include coconut oil, hair care, anti-lice treatment, refined edible oil, fabric care, processed foods as well as its distribution alliance with Indo Nissin Foods. The brands in this segment and their extensions occupy leadership positions with significant market shares in their respective product categories. The flagship brand Parachute has maintained its market share at over 50 per cent in India in the coconut oil category.

In the skin care services segment, Kaya Skin Clinics offer US FDA approved dermatological procedures like anti-ageing services, permanent hair reduction, face rejuvenation, pimple removal, etc as well as beauty products. Beauty products include skin lightening complex, under-eye gel, moisturising sunscreen and night creme. There are 42 Kaya clinics in India and 2 in Dubai, AU. Kaya targets high-income customers in the age group of 16-60 years across metros and mini metros in India. Its products are a result of extensive skin-care research in derma-cosmetic laboratories based in France, UK and USA. The Global Ayurvedics segment comprises the Sundari skin care line that has 28 products including cleansers, moisturisers and essential oils with formulations using plants and floral extracts sourced from India.

In the international markets the company's product offerings include Parachute coconut oil and its extensions (Parachute Gold, Parachute Lite, Parachute Sampoorna, Parachute Amla, Parachute Jasmine, Parachute Beliphool), after shower cream (Parachute Advansed), hair cream (Style On) and hair conditioner (Silk-n-Shine). In foods, its offerings include refined edible oils (Sweekar and Saffola) and functional foods aimed at prevention of chronic lifestyle disorders like diabetes (Saffola Daily Health).

### Financial analysis

In 2005 the consolidated turnover of the company (inclusive of the turnover of its subsidiaries and Sundari LLC) crossed the US\$ 200 million mark as it ventured into new businesses and new geographies. The revenues of the International Business Group, including the revenues of the two subsidiaries in Bangladesh, crossed the US\$ 20 million mark.

On a standalone basis the company has notched a sustained revenue growth up from US\$ 130 million in 1999 to US\$ 218 million in 2005, an impressive CAGR of 10 per cent. Raw / refined oils contribute nearly 70 per cent to the revenue, hair oils contribute about 13 per cent, with the rest being contributed by other products and services. The operating margin and net margin were 9.7 per cent and 7.7 per cent respectively in the year 2005 having witnessed an increase over the previous year mainly on account of a fall in raw material prices (mainly copra and karadi oil). Net profitability grew at a CAGR of 12 per cent between 1999 and 2005, despite both Sundari and Kaya being at a development phase and thereby unable to contribute to their fullest potential.

The company continues to remain low on debt, with a debt-equity ratio of 0.24. It has also consistently shown a return on capital employed higher than 25 per cent over the years.

## Marico's contribution in making 'Made in India' global

Marico has developed a significant franchise across countries in the Middle East, Asian sub-continent, Australia and USA. Its initial globalisation efforts were targeted at the Indian diaspora in the Gulf. Its International Business Group formed in early 1990's to cater mainly to the demand of the non-resident Indians has over the years assumed a phenomenal top line growth rate and is currently more than US\$ 20 million in size. It represents 10 per cent of the company's turnover and is ranked among the top three export divisions amongst Indian consumer goods companies. It has also gone on to obtain Export House status. While Marico commenced its export business with only Parachute coconut oil, it currently exports a wide offering in hair oils, hair creams etc.

To enable country focus, Marico incorporated a 100 per cent subsidiary in Bangladesh called Marico Bangladesh Limited in the year 1999 for manufacturing of coconut oil. Marico Bangladesh has a retail reach of more than 2600 thousand outlets. To focus further on its business in Bangladesh, in the year 2003 Marico Bangladesh floated MBL Industries Limited as a wholly owned subsidiary. MBL's principal activities are to manufacture, market and sell coconut oils, hair oils and other consumer products.

The market shares of Marico's brands overseas have been rising over the years. Parachute coconut oil is the market leader in



## Global presence

Americas	Asia-Pacific	Middle east
USA Canada	Afghanistan Australia Bangladesh Bhutan Malaysia Nepal Pakistan Singapore Sri Lanka	Bahrain Iran Israel Kuwait Lebanon Oman Qatar Saudi Arabia Sudan UAE Yemen

Bangladesh with almost half the market share, while hair oils and hair care products have been consolidating their share of the market. The company continued to strengthen its position in the Bangladesh market, acquiring a soap brand Aromatic that had a 5 per cent market share and annual sales of Taka 300 million (US\$ 4.8 million). This complements Marico's earlier acquisitions in

Bangladesh of two soap brands, Camelia and Magnolia. Hair cream in the Gulf is increasingly growing into a big brand.

The acquisition of the Sundari range of beauty products provides a huge opportunity to target the spa market, especially in the backdrop of the back-to-nature movement in the US and developed markets. Sundari products and treatments are retailed in USA, Canada, UK, New Zealand, Spain, Philippines and Japan. They are available at some of the leading spas in the US and other countries like Canyon Ranch, JW Marriott StarrPass, Ritz Carlton Battery Park, Spatio Geneva, Chi Spa Madrid, Four Seasons - Maldives and Langkawi, the Oberoi Mauritius, among others.

## Factors fuelling Marico's global initiatives

Marico's has adopted a methodical approach towards building its business—after strengthening its core business, the company has concentrated on building new growth drivers like Kaya Skin Clinic, new avenues in personal care segment, Sundari ayurvedic business. Marico has demonstrated its ability to stay invested in businesses that have a long gestation period. Revenue generated from new products has increased from 2 per cent in 2002 to 19 per cent in 2005.

Marico's core competence lies in its ability to innovatively brand and package commodity items. In the domestic market Parachute and Saffola are among the two most well known brands. Even in a highly saturated branded coconut oil market, Parachute has maintained a market share of nearly 50 per cent by coming up with regular packaging innovations, increasing user base with low-cost blister packs targeted at lower income classes and with focused micro-marketing initiatives. The learning from the domestic market have been leveraged to target the Indian diaspora in the global markets. Historically coconut oil was sold loose in India as a commodity. Marico was the first company to brand this commodity with Parachute, which has been the main stay of the company in the past. The brand extensions in the value-added coconut oil segment have already grown to command 34 per cent share in the segment in India and are extremely popular with the users in the international markets.

In the international markets Marico has strategically catered to customers who belong to diverse cultures and consumer habits by customising its products. For example, it offers perfumed oils to consumers in Bangladesh and less sticky hair



creams and hair oils to Arabs in the Gulf.

Marico has demonstrated its ability to create new niche categories for growth. It has identified categories that do not have any product offering to serve the customer's . For example, the age-old habit of is of starching fabric in hot water nted an opportunity to create a new ory of instant cold water starch and o launched its brand Revive to serve market opportunity. Similarly with ediker, the company created another w category of anti-lice oil. Both ivate and Mediker have gone on to come dominant players in their spective categories and face limited competition.

## Future plans

Marico's future plans include acquiring brands in the consumer and skincare products. Mr Milind Sarwate, CFO of Marico, says, "This is part of the company's target to achieve turnover of US\$ 450 million in the next four years, the focus of which will be both on inorganic and organic growth. Exports that currently constitute 10 per cent of our total revenues are expected to go up to around 25 per cent of revenues". Kaya and Sundari are expected to be the future growth engines for the top line as well as the bottom line. Kaya is expected to grow to US\$ 13 million by 2007 and help Marico to move up the value chain in the personal care business through high value add services and products in the skin care space. Focussed efforts are on to expand the Sundari net in the global spa channel, especially destination spas, and also develop new products by leveraging Marico's R&D in India. After the acquisition by Marico, Sundari has been able to roll out five new

products in the US market and has commenced appointing full service distributors in the Asian markets.

The International Business Group is expected to grow by over 20 per cent for the next two years. This would be largely due to Marico's strong understanding of customer needs in countries like Bangladesh and other SAARC nations, which have a huge presence of people of Indian origin. Sarwate also adds, "We plan to launch new products on a national basis in the coming days. These include Sparsh baby oil, Health low cholesterol atta mix and Manjal soap. We also plan to explore Egypt and South east Asian countries as new markets for our products. While sales of Parachute and Saffola are expected to grow at a CAGR of 6-8 per cent over the next 3-4 years, new products like Sparsh baby oil, Health atta mix, Silk and Shine, Mediker and Shanti Amla are expected to grow at a CAGR of 15-20 per cent in the same period".

#### **Globalisation at a glance**

- *International Business Division has a turnover of US\$ 20 million, comprising of 10 per cent of the company's total turnover*
- *Strong franchise across USA, Middle East, Asia and Australia*
- *Presence in the US skin care market as well as the spa market in leading hotels globally after the acquisition of Sundari LLC*
- *Operating subsidiary in Bangladesh, which is the market leader in coconut oils in the country*
- *Acquisitions of three soap brands in Bangladesh in the last two years*