

**Company Overview**

Marico Bangladesh Limited (MBL), a subsidiary of Marico Limited India, was incorporated in September 1999 and started its commercial operation in January 2000. The Company is amongst the top 3 FMCG (Fast Moving Consumer Goods) MNCs (Multinational Company) in Bangladesh. The Company manufactures and markets 24 branded FMCG products in the category of Branded Coconut Oil, Value Added Hair Oil (VAHO), Male Grooming Product (Deo), Shampoo, Edible oil & food, Skin Care and Body Lotion. Some of the flagship brand names are Parachute, Parachute Advanced Beliphool, Nihar Natural Shanti Badam Amla, Set Wet Deodorant, Parachute Advanced Body Lotion, Saffola Active etc.

The Company's main raw material is Copra (dried coconut kernels) mainly procured from India and some other raw materials are imported from Indonesia, Sri Lanka and Philippines.

Marico Bangladesh has two factories, both of which are located in Gazipur, Dhaka. The Company distributes its products with its own distribution channel comprising of sales depots located in Dhaka, Chittagong, Bogra and Jessore.

**Revenue Composition & Growth**

Composition	Growth				
	2018-19	2016-17	2017-18	2018-19	5-yr CAGR
Parachute Coconut Oil	69.0%	-5%	9%	4%	1.5%
VAHO	23.9%	14%	39%	40%	25.7%
Parachute Body Lotion	0.6%	-11%	12%	-27%	31.6%*
Saffola - Edible Oil	1.2%	92%	99%	108%	74.7%
Others	5.3%	3%	1%	19%	68.5%
<b>Total</b>	<b>99.5%</b>	<b>-2.1%</b>	<b>13.0%</b>	<b>12%</b>	<b>6.4%</b>

\*3-yr CAGR (Compound Annual Growth Rate) due to unavailability of data

In 2018-19, MBL registered 12% growth in revenue driven by volume growth among all categories. The growth in the VAHO category was driven by Parachute Advanced Beliphool and Parachute Advanced Extra Care. The "Others" category has been boosted by the start of export business along with the growth from the launch of new brands in skin care and baby segment.

**Production Capacity**

Particulars	Unit	Installed Capacity			
		2015-16	2016-17	2017-18	2018-19
Coconut Oil	KL	30,050	22,450	20,500	20,500
VAHO	KL	5,400	10,600	10,200	10,200
Copra	Ton	30,500	50,500	36,000	36,000
Refined Oil	Ton	--	--	18,000	18,000

Capacity utilization data is not available.

**Shareholding Structure:**

The Firm enlisted in the DSE and CSE in November 2009.

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Dec-19	90.00%	0.00%	2.78%	6.03%	1.19%
31-Dec-18	90.00%	0.00%	2.74%	6.54%	0.72%
31-Dec-17	90.00%	0.00%	2.81%	6.20%	0.99%
31-Dec-16	90.00%	0.00%	9.35%	0.00%	0.65%

**Company Fundamentals**

Market Cap (BDT mn)	51,937.2
Market Weight   Sector Weight	1.9%   11.2%
Free-float (Public + Inst. + Foreign)	10.0%
No. of Shares Outstanding (mn)	31.5
Paid-up Capital (BDT mn)	315.0
3 Months Average Turnover (BDT mn)	5.8
3-month Return (Dividend & Free-float Adjusted)	-0.7%
Current Price (BDT)	1,648.8
52-Week Price Range (BDT)	1,300.0 - 1,899.5
Sector Forward P/E	15.1

	2016-17	2017-18	2018-19	2019-20 (9M Ann.)
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Financial Information (BDT mn):				
Sales	6,916	7,815	8,768	10,254
Gross Profit	3,206	3,585	4,295	5,957
Operating Profit	1,867	2,145	2,590	3,651
Profit After Tax	1,440	1,643	2,023	2,850
Cash & Cash Equiv.	167	270	383	329
Assets	3,752	4,458	4,576	5,641
CAPEX	193	83	89	248
Long Term Debt	-	-	-	153
Short Term Debt	-	300	200	366
Equity	1,580	1,493	1,302	1,838
Retained Earnings	1,013	926	735	1,271

Margin:				
Gross Profit	46.4%	45.9%	49.0%	58.1%
Operating Profit	27.0%	27.4%	29.5%	35.6%
Pretax Profit	27.9%	28.7%	31.4%	37.7%
Net Profit	20.8%	21.0%	23.1%	27.8%

Growth:				
Sales	-2.1%	13.0%	12.2%	16.9%
Gross Profit	0.8%	11.8%	19.8%	38.7%
Operating Profit	3.3%	14.9%	20.7%	41.0%
Net Profit	1.8%	14.1%	23.2%	40.9%

Profitability:				
ROA	39.9%	40.0%	44.8%	55.8%
ROE	87.6%	106.9%	144.8%	181.5%

Operating Efficiency:				
Inventory Turnover	5.3	5.1	6.2	8.9
Receivable Turnover	-	-	-	-
A/C Payable Turnover	2.5	2.1	1.9	1.7
Total Asset Turnover	1.9	1.9	1.9	2.0
Fixed Asset Turnover	11.6	14.1	17.9	19.4

Leverage:				
Debt Ratio	0.0%	6.7%	4.4%	6.5%
Debt-Equity	0.0%	20.1%	15.4%	19.9%
Int. Coverage	-	493.9	193.5	141.8

Dividend History:				
Dividend (C/B)%	500/-	600/-	650/-	750*/-
Dividend Yield	5.0%	4.9%	4.5%	--
Dividend Payout	109.4%	115.1%	101.2%	--

Valuation:				
Price/Earnings	35.4	31.0	25.2	18.2
Price/BV	32.2	34.1	39.1	28.3
EPS (BDT)	45.7	52.1	64.2	90.5
NAVPS (BDT)	50.2	47.4	41.3	58.4

\*The Company has declared 750% interim Cash Dividend for the year ending on March 31, 2020 based on 9 months financials for the period ended on December 31, 2019.

## Industry Overview

The FMCG (Fast Moving Consumer Goods) industry is one of the largest sectors in the economy and creates employment for millions of people. FMCG includes personal care, house hold care, toiletries, packaged foods and beverages, tobacco etc. which are frequently purchased.

**FMCG Companies:** Currently, more than 60 companies are operating in FMCG business. The popular FMCG firms in the country are - Unilever Bangladesh, Nestle Bangladesh, Square Foods & Beverages, Square Toiletries, Pran RFL Group, City Group, ACI Group, Sajeeb Group, Meghna Group, Kazi Firms, Olympic Industries, Keya Cosmetics, Marico Bangladesh, Reckitt Benckiser Bangladesh, Kohinoor Chemical Co. (BD), Bashundhara Food and Beverage, British American Tobacco, Coca-cola Bangladesh etc. The industry is an emerging sector with vast local demand for its segregated products line. In Bangladesh, the industry is mostly controlled by a small number of large Multinational Companies (MNCs). Low capital requirements and simple manufacturing process lead the growing of local entrepreneurs in the industry. Generally, local producers used to produce beauty soap, laundry soap, detergent powder, coconut oil and other cosmetics & toiletries products.

**Drivers of the Business:** Several factors to drive the business of FMCG industry, such as, increase in the working age population, increasing disposable income, Government's continual spending on social sectors and shift toward value added products as well as mobility of funds and growth of overall financial sectors. The growth of FMCG sector is commonly correlated with the population and purchasing power of the consumers. Bangladesh is a highly populated country, which is the eighth largest in the world. This large number of population of the country makes the FMCG segment more potent. Besides, Bangladesh's per capita income rose to USD 1,900 and gross domestic product (GDP) growth reached 8.13% in 2018-19 fiscal year. Characteristic of this category of population pyramids, the vast majority of people are below the age of 35. As of 2018, 43% of the total population is below the age of 25. According to the Boston Consulting Group, 2.0 million Bangladeshis are joining the ranks of the middle income class every year. By the year 2025, the number of people belonging to middle income class is expected to nearly triple to 34.0 million from 12.0 million in 2017.

**Abundant Raw Materials and Cheap Labor:** FMCG products in Bangladesh mainly include livestock, fruits, vegetables and other staples of the Bengali lifestyle. Due to its climate and geographic positioning, Bangladesh represents a gold mine of raw materials for companies in the FMCG industry. Cheap labor has additionally allowed the industry to grow further. Urban population of the country, growing middle class, labor force & participation rate, growth in rural consumption, availability of raw materials & low labor cost may make Bangladesh a favorable investment destination for new FMCG entrants or may witness further investment by existing players.

**FMCG Market Segment:** The FMCG market can be divided into two segments – urban and rural. The urban segment is characterized by high penetration levels and high spending tendency of the urban resident. The rural segment is mainly agrarian, with relatively lower levels of penetration and a large unorganized sector. The FMCG industry caters to the needs of the consumers both in urban and rural segments with a well-

developed and efficient supply chain model. During the last decades, growing of urban economy in the country helps to the growth of the sector. Increasing purchasing power of the rural people together with perception of branded FMCG products in this market have provided the Industry players an opportunity for driving growth.

The growth of urban population of the country is remarkable and represents 35% of the total population. Like urban population, growth of middle income people is also contributing to the FMCG industry of the country. Consumption expenditure in rural areas is also another growth driver of FMCG industry. According to BBS, expenditure of rural consumption was 103% of total income in 2015 where urban consumption was 86% of the total consumption.

## Investment Positives

- **The Company is the market leader in the coconut oil segment with 82% market share as per annual report 2017-18. The flagship product of MBL, Parachute Coconut Oil registered 4.2% growth in 2018-19 over last year and contributes 70% to total turnover.** Parachute was listed among the top-five Consumer Goods brands in Bangladesh by the Kantar Global Consumer Panel (*Kantar Worldpanel is an international company dealing in consumer knowledge and insights based on continuous consumer panels*). Meanwhile, the growth of the flagship product registered a 5-year CAGR (compound annual growth rate) and 3-year CAGR of 1.50% & 2.45% respectively.
- **The value added hair oil (VAHO) portfolio secured 2<sup>nd</sup> position with a market share of 18% as per annual report 2017-18. The VAHO segment grew by 40.0% in 2018-19 over last year and registered 5-yr CAGR of 25.7%. The VAHO portfolio is a key source of diversification and volume growth for the Company.** The VAHO portfolio includes - Parachute Advanced Beliphool, Nihar Naturals Shanti Badam Amla, Parachute Advanced Extra Care, Parachute Advanced Ayurvedic Gold, Parachute Advanced Enriched Hair Oil, Parachute Advanced Cooling Hair Oil and Hair & Care Fruit Oils, Nihar Naturals Coconut Enriched Hair Oil & Parachute Advanced Aloe Vera. The Company is concentrating more on increasing the revenue contribution of this segment which will ensure the product diversification. Parachute Advanced recognized as a SUPERBRAND by Bangladesh Brand Forum.
- **The Company's gross profit and net profit margin has improved significantly to 58% & 28% respectively in the nine months of 2019-20 which was 49% & 23% respectively in the FY 2018-19.** This was primarily due to the volume growth and favorable topline impact and fall of copra (basic raw material) price in international market, lower operating expense and increase in finance income. Meanwhile, **the Company has heightened its drive towards localized production and local sourcing of raw materials** to insulate it against the exchange risk.
- **The Company has commenced construction of a new factory at its factory locations at Mouchak to enhance good manufacturing practices and bring greater agility in its operation. This will require an estimated amount of BDT 294 million which would be provided from the available funds of the Company (Source: DSE news, March 2019).**

- **The Company is looking to expand the size of the non-coconut oil portfolio.** MBL is exploring untapped business opportunities with wings to cater institutional FMCG product buyers, strong presence in E-commerce, exclusive distribution of Marico international products and multi-product sales drives with other FMCG brands. **MBL has been continuously introducing new products in the existing basket to bring diversity to its product portfolio.** Marico launched Parachute Advansed Aloe Vera, Nihar Natural Enriched Coconut Hair Oil, Parachute Advansed Petroleum Jelly, Set Wet No Gas Deo, Set Wet Sachet Hair Gel, and Parachute Just for Baby in 2018-19. **The Company is currently exporting to India and Nepal and is keen to expand its export market in other countries to strengthen its topline growth.**
- **Bangladesh is moving forward to attain the status of middle income country by 2021. The country is achieving economic growth of over 7% over the last few years. Growth in consumer durables industry of Bangladesh will speed up the growth of the Company.** Huge population and increasing per capita income of the population in the country will be the key growth drivers for the Company.
- MBL touches the lives of 1 out of every 2 Bangladeshis with its flagship brand Parachute and through a strong distribution network that reaches more than 900,000 outlets throughout the country (Annual report 2018-19). The Company has rolled out initiatives to enhance its distribution coverage and range selling to support the portfolio expansion included Split Calling of outlets and upgradation of stockiest to direct distribution. This upgradation enabled MBL to increase direct distribution significantly and ensured 85% of business through direct coverage.

### Investment Negatives

- Copra is the basic raw material for producing of coconut oil. **The Company has to import around 62% of its consumed raw materials in 2018-19 which was 82% in last year from international markets mainly India.** Hence, fluctuation of Copra price in international market affects its profit margins.

### Imported Materials Consumed to Cost of Sales

Particulars (BDT mn)	2015-16	2016-17	2017-18	2018-19
Materials consumed	2,064	2,431	3,238	2,688
Growth	-47%	18%	33%	-17%
Costs of Goods Sold	3,885	3,710	4,230	4,473
% of COGS	53%	66%	77%	60%

- **Barriers to entry in the FMCG industry of Bangladesh still remain low.** Manufacturing processes are quite simple, start-up capital requirements are not significantly high and numerous sub-contractors to carry out manufacturing operations are available throughout the country. The ease of operations has resulted in the emergence of threat in the FMCG industry from an illegal, unorganized sector which competes through fake and counterfeit products.
- Demand can be adversely affected by a shift in consumer preferences. **Given the emergence of new sales channels with e-commerce and ever growing popularity of social media, the speed of such a shift could be very swift.** Marico invests significantly in consumer and technical

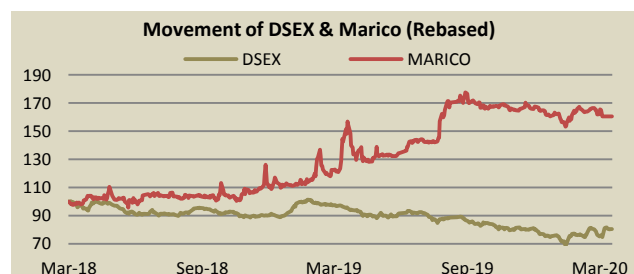
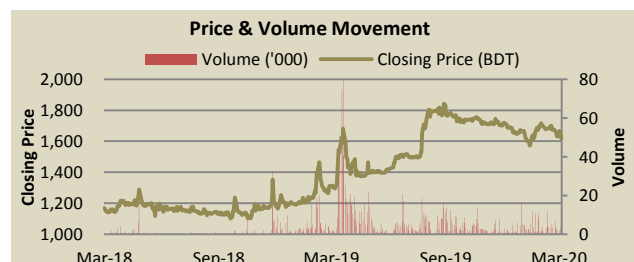
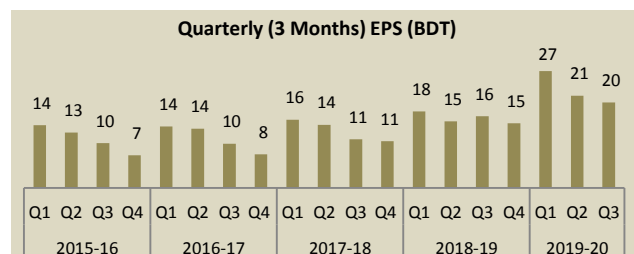
insighting to adapt to changing preferences and purchase patterns.

- **The government has increased gas price by 38% in industry level with effect from July 2019.** This initiative will push up the factory overhead cost that will have a negative impact on the profit margins.

### Latest Quarter Update – December 2019 (Q3)

Particulars (BDT mn)	Apr-Dec 2019	Apr-Dec 2018	Oct-Dec 2019	Oct-Dec 2018
<b>Turnover</b>	<b>7,690</b>	<b>6,787</b>	<b>2,452</b>	<b>2,145</b>
Growth	13.3%	--	14.3%	--
<b>Gross Profit</b>	<b>4,471</b>	<b>3,200</b>	<b>1,378</b>	<b>1,120</b>
Margin	58.1%	47.2%	56.2%	52.2%
Growth	39.7%	--	23.1%	--
<b>Operating Profit</b>	<b>2,737</b>	<b>1,990</b>	<b>804</b>	<b>677</b>
Margin	35.6%	29.3%	32.8%	31.6%
Growth	37.6%	--	18.8%	--
<b>Net Profit</b>	<b>2,138</b>	<b>1,556</b>	<b>620</b>	<b>519</b>
Margin	27.8%	22.9%	25.3%	24.2%
Growth	37.4%	--	19.5%	--
<b>EPS (BDT)</b>	<b>67.88</b>	<b>49.39</b>	<b>19.68</b>	<b>16.47</b>

- In the nine months of 2019-20, turnover grew by 13.3% than that of last year mainly driven by VAHO category along with the newly launched products in the last year.
- Gross profit margin has significantly increased to 58.1% during the reported period which was 47.2% over the same period of last year due to the decrease in raw materials price in international market.
- Net profit has increased by 37.4% during the period over the same period of last year because of increase in operating profit, increase of finance income over the same period of last year.



### Concluding Remark

Marico Bangladesh Ltd. maintained major market share in the branded coconut oil segment and increasing its market share in non-coconut oil segment. The Company is continuously

launching of new products which will not only strengthen its topline potential but also help the Company to secure its market position.

Source: Annual Reports, Company Website, newspaper news and ILSL Research

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