

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) MNC (Multinational Company) Companies in Bangladesh. The Company manufactures and markets 17 branded FMCG products in the category of Branded Coconut Oil, Value Added Hair Oil (VAHO), Hair Dye, Hair Serum, 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, HairCode Powder, Set Wet Deodorant, Medi kar Plus, Parachute Advanced Body Lotion, Saffola Active etc.

Revenue Composition & Growth

	Composition		Growth		
	2017-18	2015-16	2016-17	2017-18	5-yr CAGR
Parachute Coconut Oil	74.3%	-3%	-5%	9%	1.7%
VAHO	19.2%	13%	14%	39%	18.8%
Parachute Body Lotion	0.9%	314%	-11%	12%	60.4%*
Saffola - Edible Oil	0.7%	-8%	92%	99%	38.3%
Others	4.4%	3%	3%	1%	86.5%
Total	99.5%	-3.9%	-2.1%	13.0%	5.0%

*3-yr CAGR (Compound Annual Growth Rate) for Parachute Body Lotion

In 2017-18, the Company registered 13% growth in revenue driven by the price growth in the branded coconut oil category led by Parachute Coconut Oil and volume growth in the Value Added Hair Oil (VAHO) portfolio. The growth in the VAHO category was driven by Parachute Advanced Beliphool and Parachute Advanced Extra Care. The "Others"/non-hair oil portfolio has also seen positive growth derived from brands like Parachute Advanced Body Lotion and Saffola Active Blended Edible Oil.

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.

Production Capacity

Particulars	Unit	Installed Capacity			
		2014-15	2015-16	2016-17	2017-18
Coconut Oil	KL	23,400	30,050	22,450	20,500
VAHO	KL	4,800	5,400	10,600	10,200
Copra	Ton	30,500	30,500	50,500	36,000
Refined Oil	Ton	--	--	--	18,000

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.

Shareholding Structure:

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

As on	Sponsor	Govt.	Instt.	Foreign	Public
31-Oct-18	90.00%	0.00%	2.76%	6.56%	0.68%
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%
31-Dec-15	90.00%	0.00%	0.00%	0.00%	10.00%

Company Fundamentals

Market Cap (BDT mn)	36,911.7
Market Weight	1.1%
No. of Shares Outstanding (BDT mn)	31.5
Free-float (Public + Institution + Foreign)	10.0%
Paid-up Capital (BDT mn)	315.0
3 Months Average Turnover (BDT mn)	0.9
3 Months Return	3.1%
Current Price (BDT)	1,168.3
52-Week Price Range (BDT)	1,076.0 - 1,293.7
Sector Forward P/E	17.4

	2015-16	2016-17	2017-18	2018-19 (6M Ann.)
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Financial Information (BDT mn):

Turnover*	7,066	6,916	7,815	9,284
Gross Profit	3,181	3,206	3,585	4,169
Operating Profit	1,807	1,867	2,145	2,630
Profit After Tax	1,414	1,440	1,643	2,074
Assets	3,467	3,752	4,458	5,134
CAPEX	92	193	83	34
Long Term Debt	-	-	-	-
Short Term Debt	-	-	300	-
Equity	1,709	1,580	1,493	1,742

Margin:

Gross Profit	45.0%	46.4%	45.9%	44.9%
Operating Profit	25.6%	27.0%	27.4%	28.3%
Pretax Profit	27.2%	27.9%	28.7%	30.2%
Net Profit	20.0%	20.8%	21.0%	22.3%

Growth:

Turnover	-3.9%	-2.1%	13.0%	18.8%
Gross Profit	-3.8%	0.8%	11.8%	16.3%
Operating Profit	4.6%	3.3%	14.9%	22.6%
Net Profit	5.2%	1.8%	14.1%	26.2%

Profitability:

ROA	41.5%	39.9%	40.0%	43.2%
ROE	82.7%	87.6%	106.9%	128.2%

Operating Efficiency Ratio:

Inventory Turnover	4.6	5.3	5.1	6.3
Receivable Turnover	-	-	-	-
A/C Payable Turnover	3.1	2.4	2.1	2.0
Total Asset Turnover	2.1	1.9	1.9	1.9
Fixed Asset Turnover	10.6	11.6	14.1	18.7

Leverage:

Debt Ratio	0.0%	0.0%	6.7%	0.0%
Debt-Equity	0.0%	0.0%	20.1%	0.0%
Int. Coverage	-	-	493.9	-

Dividend History

Dividend (C/B)%	450/0	500/0	600/-	-/-
Dividend Yield	3.7%	4.9%	4.9%	-/-
Dividend Payout	100.2%	109.4%	115.1%	-/-

Valuation:

Price/Earnings	26.1	25.6	22.5	17.7
Price/BV	21.6	23.4	24.7	21.1
EPS (BDT)	44.9	45.7	52.1	65.8
NAVPS (BDT)	54.2	50.2	47.4	55.3

*Turnover of FY 2016 and FY 2017 are reported with rearranged Accounting norms.

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. The sector grew at the rate of 10.3% in 2016-17 compared to 9% in 2015-16 in line with the steady growth of the GDP at 7.28%. FMCG includes personal care, house hold care, packaged foods and beverages, tobacco etc. which are frequently purchased.

Several factors affect 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 population and purchasing power of the consumers. Bangladesh is a very populated country, which is the eighth largest in the world. This large number of population of the country makes the FMCG segment more potential. Besides, Bangladesh's per capita income rose to USD 1,751 and gross domestic product (GDP) growth reached 7.86% in 2017-18 fiscal year.

Currently, more than 60 companies are operating in FMCG business. 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.

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

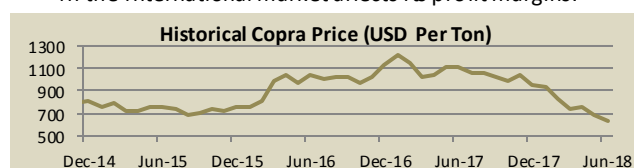
- **The Company is the market leader in the coconut oil segment with 82% market share as per annual report 2017-18. The flagship product of MBL, Parachute Coconut Oil registered 8.7% growth in 2017-18 over last year driven by price growth in the branded coconut oil category.** Parachute was also listed 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 comes to stand still with a 5-yr CAGR (compound annual growth rate) of 1.67%.

- **The value added hair oil (VAHO) portfolio secured 2nd position with a market share of 18% as per annual report 2017-18. The VAHO segment grew by 38.8% in 2017-18 over last year and registered 5-yr CAGR of 18.81%.** 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. The Company is concentrating more on increasing the revenue contribution of this segment which will ensure the product diversification.
- **The Company continues to expand its revenue sources by launching new products.** Marico launched Parachute Advanced Men's Hair Cream, Hair & Care Fruit Oils, stylish hair gel packs and HairCode Herbal Creme in 2017-18. MBL has been continuously introducing new products in the existing basket to present a differentiated product portfolio.
- **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.
- **Bangladesh is moving further to attain the status of middle income country by 2021. The country is achieving economic growth of over 7% over the last few years and 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.

Investment Negatives

- **The Company has to import around 82% of its raw materials consumption from international markets in foreign currency mostly USD and Indian Rupee. Recent depreciation of BDT against USD increased the production cost of the Company as Copra is the major raw materials for production.** As of October 2018, the Bangladeshi Taka has depreciated by 6.0% against USD since January 2017. The impact of Indian Rupee is not measurable due to unavailability of data. However, the Company has heightened to drive towards localized production and local sourcing of raw materials to insulate against the exchange risk.
- **Copra is the basic raw material for producing of coconut oil. Materials consumed accounted for around 93% of total costs of goods sold while 82% of materials consumed are imported.** Hence, fluctuation of Copra price in the international market affects its profit margins.



Source: Index Mundi

- Gross profit margin declined in 2017-198 as the government introduced custom duty in 2017-18 national budgets on Copra import by 5.0% which was 0.0% earlier.
- 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 for the Company's products can be adversely affected due to a shift in consumer preferences given the explosion and ever growing popularity of social media.

Latest Quarter Update – September 2018 (HY)

Particulars (BDT mn)	Apr-Sep 2018	Apr-Sep 2017	Jul-Sep 2018	Jul-Sep 2017
Net Turnover	4,642	4,237	2,172	1,974
Growth	9.6%	--	10.0%	--
Gross Profit	2,076	2,002	991	902
Margin	44.7%	47.3%	45.6%	45.7%
Growth	3.7%	--	9.9%	--
Operating Profit	1,314	1,279	598	571
Margin	28.3%	30.2%	27.5%	28.9%
Growth	2.7%	--	4.7%	--
Net Profit	1,037	951	482	456
Margin	22.3%	22.4%	22.2%	23.1%
Growth	9.0%	--	5.7%	--

- In the first half of 2018-19, turnover grew by 9.6% than that of last year mainly driven by the volume growth in the VAHO portfolio segment along with the other products of the Company. The VAHO segment grew by 50% in the reported period over the same period of last year.
- Gross profit margin has decreased to 44.7% in the reported period which was 47.3% in the same period of last year due to the increase in raw materials consumption. Raw materials consumption increased to 96% of total costs of goods sold which was 94% in same period of last year. Materials consumption increased by 17.9% in the period against 9.6% increase in turnover.

Particulars (BDT mn)	2015-16	2016-17	2017-18	2018-19 (HY)
Sales	7,066	6,916	7,815	4,642
% of Sales				
Materials Consumed	46.9	49.5	50.5	53.1
Factory Overhead	4.0	4.3	3.9	2.5
Marketing Expenses	12.4	7.8	7.4	6.7
Administrative Expenses	10.0	11.6	11.0	9.8

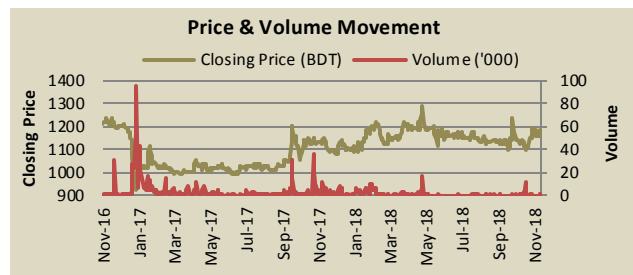
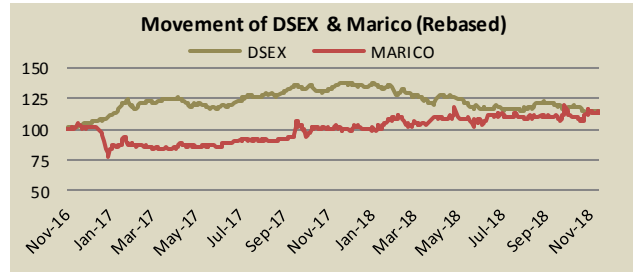
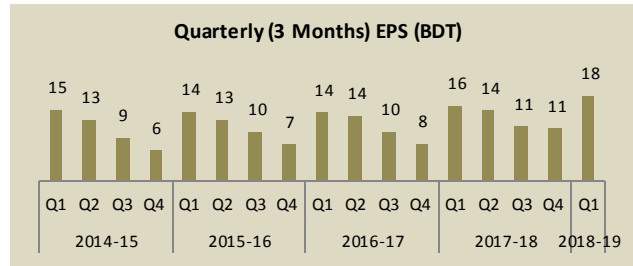
- Net profit has increased by 9% in the period over the same period of last year because of decrease of operating expenses in percentage of revenue over last year, increase of finance income and lower provisioning of income tax.

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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, the Financial Express, the Daily Star, World Bank data, Superbrands Bangladesh Website, ILSL Research

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