"Emami Limited Q1 FY 2016 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Emami Q1 FY16 Earnings Conference Call hosted by Anand Rathi Shares & Stock Brokers. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shirish Pardeshi. Thank you and over to you Sir!

Shirish Pardeshi: Thank you Lizann and good evening to everyone for people who have logged in on this call. I know it is an exciting call and an impressive number declared by Emami. So there is much more excitement left for the next 45 minutes, so I will hand over the call to Mr. Mohan Goenka. He is joined by Mr. Rajesh Sharma. So Mohan Ji., you can give opening remarks.

Mohan Goenka: Thank you Shirish and very good evening friends. I welcome you all to this conference call on Emami's First Quarter Results. Our revenue at 590 Crores grew robustly by 22.4% with volumes going by 14.8% led by a stellar growth in domestic business with a top-line growth of 23.4% and volume growth of 15.4%. Despite a subdued market environment and deficient rainfall, the company successfully overcame the seasonal and macro challenges led by double-digit growth in all its power brands, which attributed to the strong top-line growth. Modern trade grew by 27% in this quarter. Cooling oils grew by 16.5%, balms including the new launched Ultra Power grew robustly by 27.1%, Fair and Handsome grew by 20.4% and Boroplus Antiseptic Cream grew by 11.9% in the quarter. Navratna Cool Talc grew by 12%. Zandu Healthcare Division continued its strong run with a 24.5% growth led by Zandu Pancharishta which grew by 54.6%. During the quarter the company launched Zandu Gel Balm Junior India's first mild gel balm for children, which is clinically proven to give relief for kid's body ache, cold and headache. Other new launches like Fair and Handsome Face Wash, Zandu Ultra Power, 7 Oils in One performed very well. Overall, the new launches and extensions contributed around 7% of domestic sales. We continued to gain market share for key categories. Navratna Cooling Oil has gained 1132 basis points year-on-year with our volume market share at 73.8%, Balms volume market share at 57.1% gained by 160 basis points, Boroplus Antiseptic Cream and Fair and Handsome maintained their leadership positions with volume market shares at 80.3% and 64.3% respectively. During the quarter Emami forayed into the rapidly growing Ayurvedic Hair and Scalp Care category with the acquisition of Kesh King Brand. We completed the acquisition on June 12, 2015, Kesh King contributed to around 2.4% of the growth in this quarter.

The international business continued to grow robustly at 21.8% led by strong growth in SAARC and MENAP region. CSD sales grew by 6.4% in this quarter. Our profits and margins have grown in line with the topline despite high A&P spends. Gross margins at 65.8% continued to improve year on year improving by 440 basis points in this quarter. Advertising expenses increased by 280 basis points, due to investments in new launches. Despite this our EBITDA margins at 16.9% expanded by 130 basis points.

During the quarter the amortization of Kesh King Brand and its intangible assets amounting to 12.6 Crores interest paid increased by 3.5 Crores and other income reduced by 3.8 Crores on account of this acquisition. Net profit margins at 14.9% increased by 20 basis points. EBITDA at 100 Crores grew by 32.9% and PAT at 88 Crores grew by 23.9% respectively over the corresponding quarter in previous years. With this brief I now open the Q&A and invite the questions. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Prakash Kapadia from iAlpha Enterprises. Please go ahead.

Prakash Kapadia: Sir, if you could give us some sense, in the current deflationary environment what do you think will be sustainable sales growth for us for FY16, last few quarters we have been doing very well and you are very confident of achieving a 17%, 18% growth so do you think that holds true for FY16 as a whole?

Mohan Goenka: Absolutely, if you see our first quarter numbers also this is above our own expectations and with last three four years of changes internally and aggressive marketing I think 16% to 18% topline growth is possible.

Prakash Kapadia: I was just trying to understand in the deflationary environment where input cost where across segments, categories we are seeing raw material deflation so in that context I was just trying to understand.

Mohan Goenka: Yes, but 16% to 18% growth is possible in this condition also.

Prakash Kapadia: Are kids going to be your target segment for us in the near future across portfolios given our natural and wellness proposition because some of our products have very good efficacy so is that going to be a focus area for us?

Mohan Goenka: Not really, kids are not independently a big focus area, but if we see any opportunity if certain brands can be focused for kids we will do that.

Prakash Kapadia: Lastly sir on an annualized basis what kind of an amortization figure should hit P&L on account of Kesh King and over the next two years given the amortization what kind of tax rate should we expect at a consolidated level?

Rajesh Sharma: This year the amortization on account of Kesh King would be roughly around 200 Crores for roughly nine-months kind of a period and tax rate going ahead would be around 20%, 21% MAT after the amortization amount, so whatever profits are there after the amortization, 20%, 21% kind of tax rate would be there.

Moderator: The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Sir, my question is on the She brand, it has been some time since we have acquired and I understand we just want to do it right from scratch properly and not just make it available in the stores, so just wanted to understand what is the progress on that journey, when can we see a real big push on this brand?

Mohan Goenka: Percy, on She as I said this is a challenging category both the He and She and as you also rightly pointed out we do not want to do something which we cannot sustain, so still we are working on the strategy and we have not really found a breakthrough strategy for She at this point of time and we are not at all in a hurry to do something and then correct it, so let us see, unless we find a very unique proposition we would not want to go aggressively, it needs more time to firm up the strategy for sanitary napkin.

Percy Panthaki: Have you identified or recruited a new head of business for this?

Mohan Goenka: Not really, there is no different head of business; the existing team is looking after the brand.

Percy Panthaki: Secondly on the consumer healthcare basically I just wanted to understand what is the strategy there, we have been talking about launching new products since the last one year or so but have not seen any significant launches on that, so have the launches been pushed back and if so what is the reason or if there is something impending in the pipeline can you give an idea as to whether it will be a slew of products and then you will basically run them for sometime and then push two or three of them, which seem to show promise or will you go slow on the number of launches and concentrate all your efforts on them, what is the strategy there?

Mohan Goenka: Zandu Healthcare is a very important growth driver for us in the long run and if you see every quarter we have grown faster than the consumer care business, even in this quarter our growth has been 25%, so as far as the new products are concerned in the Healthcare we are test marketing it in South India in some markets, based on the success or learning from those markets we will rollout nationally.

Percy Panthaki: Sir can you give some idea as to how many products are being test launched right now and in what kind of areas these products are?

Mohan Goenka: So these are the new on the lifestyle product areas and we have launched one product in the diabetes space, one in the heart care and one for stress related. These are the three products which we are test marketing now in South India.

Percy Panthaki: Sir, if you have any info on these three areas in which we have launched what is the market size or the market opportunity of these three put together?

Mohan Goenka: These are new areas, I do not really see whether we are competing with existing brands, so these are supplements and we think there is huge potential and we can create a market because the consumer need is there, but there is no organized market as such for these brands as of now.

Moderator: Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: First question on the Zandu Balm growth, this category, you had seen some kind of moderation in growth in last one or two years so how does one read this 27% growth and is there a big pricing element here or is it largely volume led?

Mohan Goenka: On the volumes as far as balms are concerned we have grown at about 18.5%, and this has mostly come from actually Ultra Power the new variant that we have launched that has shown good traction. I am not too sure whether this is sustainable. This first quarter is anyway low base for balms; the second quarter and the third quarter are important quarter for balms.

Arnab Mitra: And on Fair and Handsome again that category you had seen slowdown now suddenly the growth has again come back, again if you could give me, is that volume led or price led growth and like in balms do you think is it a sustainable pickup or are there still challenges in the overall category growth there?

Mohan Goenka: So Fair and Handsome also this quarter yes our volume growth has been almost 16.7%, which is very interesting now it is very difficult for me to say whether it is sustainable or not. We do not earmark 20%, 25% growth in all these categories, this growth has mostly come from the small size the 10-rupee pack this time so I have to see because this quarter has definitely been a very, very interesting quarter for us, let us see if we can sustain these numbers but I will be very happy with the 16% to 18% topline as far as our company is concerned.

Arnab Mitra: You mentioned 7 Oils in one you are quite satisfied with the performance there so what kind of annualized size can this brand become based on what you are seeing till now?

Mohan Goenka: As you all know oil is always a challenging category and consumer switches are difficult in hair oils so 7 Oils in one in the last three, four months have shown good traction I think would be able to do above Rs. 20 Crores in this year.

Arnab Mitra: On the input cost side we have seen menthol move up and at least from the data that we see there has been again a correction in last two three years if you could give some sense of what is happening on menthol price and secondly with the crude continuing to go down is your packaging LLP and those cost still coming down or is the full impact of those lower prices already there in the 1Q numbers?

Mohan Goenka: Yes menthol in the last two three months prices have gone up but because we have stock still our input cost is lower, so we will wait for another two, three months to buy fresh in menthol and if crude remains at this level that benefit we have already seen in our COGS, I do not see much scope going forward as far as the gross margins are concerned. Of course the Kesh King benefit has not come in because Kesh King has better gross margin so that will we have to factor in.

Arnab Mitra: Lastly on Kesh King wanted to understand any feel you have of how much sales can happen in FY16 because now you would have a good feel of the pipeline inventory in the market and those kind of things, so any initial sense of how we should look at this brand contributing to sales in FY16 in the remaining nine months?

Mohan Goenka: Now that the brand is fully integrated in our distribution and July has been the first month that we have sold Kesh King so I am sure with this run rate and with the corrections with identifying some weak areas we would be able to do the last year numbers what they have done on a monthly basis. Then to take it to the next level we will have to firm up our marketing plans and then take it forward.

Arnab Mitra: And just one small question on amortization over how many years are you amortizing the goodwill and secondly is there any impact when the new accounting code comes in next year on how you are going to amortize?

Rajesh Sharma: We are amortizing the brand and the trademarks over a period of ten years and the other intangible assets of Kesh King are getting amortized over a period of five years and from next year onwards also we should be able to amortize it.

Arnab Mitra: Because the total value was 1600 Crores but you are talking of almost a 250 Crores a year run rate of that.

Rajesh Sharma: Right, so the majority of the asset which is brand is getting amortized over a period of ten years but then the smaller intangibles like formulations, copyrights, distribution networks, these are getting amortized at five year period.

Arnab Mitra: But for FY17 we should build in about 250 Crores kind of number.

Rajesh Sharma: Right.

Moderator: Thank you. The next question is from the line of Mehernosh Panthaki from HDFC Securities. Please go ahead.

Mehernosh Panthaki: Sir can you just share your volume growth data of your other brands like Navratna Cooling Oil and Boroplus?

Mohan Goenka: Navratna Oil volume growth has been 8% and Navratna Cool Talc is roughly 3%, Boroplus Antiseptic Cream was 9.2%, Zandu Balm I mentioned it is 18.8%, and Fair and Handsome is 16.7%.

Mehernosh Panthaki: And sir as far as your amount of amortization is concerned you just said that it will be around close to 200 Crores for nine months so if I multiply it will become 250 Crores for full year from next year, so this 12.5 Crores in this quarter it was for 18 days.

Rajesh Sharma: Right it was for 18 days.

Mehernosh Panthaki: Okay it was not for full quarter it was for 18 days.

Rajesh Sharma: Right because we completed the acquisition on June 12, 2015.

Mehernosh Panthaki: I just got a sense that even if the consolidation happens in between the quarter the amortization takes place for full quarter actually.

Rajesh Sharma: No this is not a question of consolidation we just bought the business.

Mehernosh Panthaki: And I just read that you have raised some 950 Crores of debt to part fund the acquisition of Kesh King so that 950 Crores is entirely domestic debt which we have taken?

Rajesh Sharma: Yes all domestic.

Mehernosh Panthaki: So at what interest rate it has been taken?

Rajesh Sharma: Our average interest rate for the full year should be around 9% per annum.

Mehernosh Panthaki: And I get a sense that the balance of the amount has been funded through internal accruals so you had some cash and cash equivalent of close to around 850 Crores for full year, so I am assuming that around 700 Crores has been utilized for the balance of the cost. So my assumption is that your other income will be substantially lower this year so that 18 Crores run rate which was there in this quarter will also not arise right?

Rajesh Sharma: Right because for the majority of the quarter we enjoyed the other income, interest income and surplus cash but going ahead it will not be there and our outgo will increase on the debt of 950 Crores which we have taken.

Mehernosh Panthaki: Currently what is the cash balance right now as on June?

Rajesh Sharma: Currently we have roughly 100 Crores kind of cash.

Mehernosh Panthaki: And what is your gross debt?

Rajesh Sharma: Gross debt is 950 Crores as I said.

Mehernosh Panthaki: Okay as on March it was around 17 Crores of that has been greater.

Rajesh Sharma: Yes.

Mehernosh Panthaki: Sir just last question I just wanted to understand the logic behind your one time reversal of deferred tax liability of 12 Crores I could not understand that logic why you have reversed it right now when you are expanding your facilities going ahead?

Rajesh Sharma: Since we have now manufacturing units in tax holiday period and we are also setting our new manufacturing facility in tax holiday zone and along with that we also have now this acquisition of Kesh King business so we are now expected to remain in MAT, so we are not expected to pay normal income tax. So under the provisions of the accounting standard 22 we need not book any deferred tax liability. So whatever opening deferred tax liability was there in our books has got now reversed in this quarter.

Mehernosh Panthaki: Should I assume that going ahead in the coming quarters there will be no deferred tax liability created.

Rajesh Sharma: Right at least for two three years and then we have to see how our tax liability is there in the other units.

Mehernosh Panthaki: And you said your normalized tax rates will be around 20% to 21%.

Rajesh Sharma: Right.

Moderator: Thank you. The next question is from the line of Sujit Jain from Yes Securities. Please go ahead.

Sujit Jain: Sir in our presentation regarding the Kesh King acquisition we have spoken about gross margins, EBITDA margins being higher than Emami so should one assume that probably northwards of 23%, 24% in this business?

Mohan Goenka: Kesh King enjoys better margins. What is the question sorry?

Sujit Jain: It would be higher than what we earn in our business that is 23%, 24% and higher than that.

Mohan Goenka: Absolutely.

Sujit Jain: And you explained the funding arrangement just now internal accruals and debt is there a thought process of eventually replacing the debt with equity?

Mohan Goenka: That we cannot discuss of course the company keeps on evaluating those proposals so if anything will come up, you will come to know in due course.

Sujit Jain: And in terms of pricing of Kesh King where exactly is it priced, is it priced in some of the other brands that are available like for example Anoop et cetera or 7 Oils in One that we have or some of the other things that are available in the market, is it premium category like Biotique et cetera or is it slightly below that?

Mohan Goenka: The Kesh King price for 100ml is Rs.136 whereas Navratna oil is roughly Rs.65 and 7 Oils in One is Rs.60 for 100ml.

Sujit Jain: And when we do acquisition for example for this acquisition what kind of payback period we envisaged with the kind of growth that has experienced in the past 60%, 65% CAGR and whatever growth we would have projected, what kind of payback period we expect from this acquisition?

Mohan Goenka: When it comes to brand honestly payback is not something we calculate that way because brands are eternal it just goes on and on as much as we can grow, but looking at the numbers for this the EBITDA was almost 150 Crores we paid 1650 Crores.

Sujit Jain: So you mean to say that probably 45%, 50% EBITDA margin in this business.

Mohan Goenka: Absolutely yes and in second year itself it will be EPS accretive, it is a very interesting business.

Sujit Jain: And we have done acquisitions either small or large Kesh King before that Fravin, She enter into He et cetera how do we see to it that we do not spread ourselves too thin where we have actually gone ahead and acquired or entered into new categories without consolidating our earlier expansion into new categories?

Mohan Goenka: Now we have five key brands including Kesh King and with couple of small brands it is part of our growth strategy entering into the sanitary napkin business as I said in my opening remarks also that we will go very judicious when it comes to competitive categories so it will always be a mix because large categories where we dominate market shares to grow those categories would always be challenging so we have to get into some newer categories.

Sujit Jain: Sir one last question is about some of the interviews that have appeared in the media regarding a new family advisory committee that has been appointed, what kind of role this committee will play and if it is going to handle the succession issue how it is going to lead us to that?

Mohan Goenka: See on that I will not be able to comment too much but because it is a family driven business so we keep on evaluating on succession planning, but I am not the right person to comment on this.

Moderator: Thank you. The next question is from the line of Rajiv Veolia from Edelweiss. Please go ahead.

Abneesh Roy: Sir this is Abneesh here thanks for the opportunity and good set of numbers. Sir Vigorex is one of the laggards this quarter last year 56% growth this quarter 10% growth any one off in this for the full year what is the number you are targeting?

Mohan Goenka: Yes, Zandu Vigorex has grown at just about 10% and but we have aggressive numbers though it had low base it started up with a very sound numbers but let us see I am sure we are working on the strategy to bring it to about 20%, 25% growth.

Abneesh Roy: So has it now reached a stage wherein the initial low-hanging fruit was easy so now growth will be more difficult because of your slightly critical size so maybe competition has also taken that into cognizance, so have you reach that stage any market share data you can share in this versus the number one player?

Mohan Goenka: I do not have the market share number for Vigorex, it is too early and we are very unhappy with 10% growth so we will be aggressive as far as Vigorex is concerned and let us see if we can end up at as I said 20% to 25%.

Abneesh Roy: Sir you have done quite well in the new innovation Fair and Handsome face wash this 13.3% market share is in what sub segment when you calculate 340 bps expansion in market share which sub segment of face wash are you talking about?

Mohan Goenka: This is men's face wash only.

Abneesh Roy: And the key player will be here again Fair and Lovely.

Mohan Goenka: No the key player is Garnier.

Abneesh Roy: Their market share will be how much sir?

Mohan Goenka: Their market share is roughly about 55%.

Abneesh Roy: Sir next question is when I see what other companies are doing for example Dabur in order to target its healthcare division it is going slightly pharma way appointing MR, Yoke, segments also can get huge benefits in diabetes, heart these kind of new segments you are focusing so are you also planning to appoint MR at some stage if at all if you can discuss that?

Mohan Goenka: Yes so the test marketing that we are doing we have already appointed MR's- medical representatives and yes that is the way to go because they will cover the doctors and if that model is successful then we will roll it out nationally.

Abneesh Roy: And when do we get the evidence of this test pilot project succeeding when do we get that.

Mohan Goenka: We have some guardrails so once we see that we are crossing the internal targets then we will roll it out nationally.

Abneesh Roy: See Balm segment has done quite well so Zandu Gel Balm and this Fast Relief has also done well this time after a few quarters so what has gone there and kids specific balm does it really make sense I understand from a brand perspective it does make sense but the consumer does he really buy like that or is it more of a you are the first mover in this so it will take some time for this category to become strong?

Mohan Goenka: As far as kids Zandu Junior is concerned we saw an opportunity and the only product what is available now is Vicks and Zandu being a dominant player in the pain balm segment with increasing stress levels in kids our research showed there is an inherent need so let us see you are right that it would not have the same traction as Ultra Power, but in the long run we see a good potential in Zandu Junior.

Abneesh Roy: And what happened in Fast Relief sir good growth here?

Mohan Goenka: Fast Relief is one-off growth I am not too sure whether it is sustainable.

Abneesh Roy: No, sir I wanted to understand this one off, I see your growth numbers being really good in the past few quarters I am sure we are doing the right thing but when you say one off what does it mean.

Mohan Goenka: See with so many projects going on whether it is distribution or McKenzie effect or IT effect it has come from all around. If you see our numbers every brand has done well in this quarter though we were little worried because the early rains and all those but we have seen good traction but we have seen this in the past also some years where we have done exceptionally well but at by the end of the year it comes back to 16%, 18% growth level.

Abneesh Roy: Sir very last one He Deo did well I understand this is the one of the key quarters so will it be fair to extrapolate this as a success now of He Deo or this was a peak quarter so anyway Deo will do well in this at least in the initial part what is the confidence level now versus earlier say in Q4 when we spoke versus now are you now far more confident of HE deo?

Mohan Goenka: Not really I would say we had expected much more from the deodorant sector and unfortunately the entire growth of the deodorant sector is subdued so I am not happy with the way HE Deo is doing.

Abneesh Roy: Because you said it did well.

Mohan Goenka: Yes, it did well but the amount of investment we have done in deo we have not got the same return.

Abneesh Roy: What does it mean when will you start downscaling or up scaling whatever make sense?

Mohan Goenka: No let us see for some few quarters, this year is important then we will pickup.

Abneesh Roy: Because now peak quarter is behind us, so now in the coming quarter anyway.

Mohan Goenka: Yes, so now the advertising would not be as peak so let us see it is a challenging category we have invested a lot over the last one year and we will take a call in the next three quarters.

Moderator: Thank you. The next question is from the line of Jinal Sheth from Multi-Act. Please go ahead.

Jinal Sheth: Sir you mentioned that in Navratna the market share that you gained was almost close to 11% over the last year and you explained such a sharp increase, is not that a sharp increase and is it that normal?

Mohan Goenka: No, this had come in the last quarter also where we had shared that we have gained such market shares and this is not normal because we had de-grown in this category but with very aggressive plans for the Extra Thanda in Navratna which led to this market shares. So we have gained mostly in the UP and Bihar belt, where we were losing in the last three, four years, but I think from here to gain further market shares would be challenging.

Jinal Sheth: The number two player what would his market share be, sorry we are not aware of the same zone, just asking the same.

Mohan Goenka: Our competition is from Himgange and their market share is not handy it would be roughly about 15%, 16%.

Jinal Sheth: Secondly out of the total hair oil category I am assuming value added hair oil would be growing faster is that right, and within that which would be the fastest category?

Mohan Goenka: Cooling oil is definitely fast growing category plus Kesh King also as far as Nielsen is concerned they are amongst the fastest growing.

Jinal Sheth: No I am just trying to understand the industry as a whole so within that is our category the fastest or then other categories are growing there is a category which is growing faster than us.

Mohan Goenka: This you can take off line from Rajesh because I do not have category figures for all other brands.

Jinal Sheth: But just do you believe that they basically going forward that the value added hair oil category would grow faster than the coconut for times to come?

Mohan Goenka: No we are confident that what we have seen for cooling oil or whether it is for the Kesh King we are confident of growing double-digit growth.

Moderator: Thank you. The next question is from the line of Ankit Aggarwal from Argonaut Private Equity. Please go ahead.

Ankit Aggarwal: Sir what was the rural and urban split this quarter and what is the growth in those segments?

Mohan Goenka: Our urban-rural split is the same more or less as far as sales is concerned this quarter our rural growth was almost about 25% or so.

Ankit Aggarwal: Our rural is about 40%, 45% right.

Mohan Goenka: Yes about 50%, but when I say 25% growth that is on because our rural distributors contribute to 30% of our sales, 50% is basically household panel and all those.

Ankit Aggarwal: And sir I noticed that the promoter pledge had increased this quarter was it for any particular reason?

Mohan Goenka: Yes so that is for the other group funding but it is not very high.

Ankit Aggarwal: Yes, I know it was 26% of the promoter holdings and sir the A&P this quarter is there a breakup between the advertising spend and promotional spend?

Mohan Goenka: It is almost 80% is ATL and 20% is BTL below the line that is the total ATL.

Moderator: Thank you. The next question is from the line of Jubil Jain from Phillip Capital. Please go ahead.

Jubil Jain: First question is on the competitive activity how do you see the competitive activity panning out in the key categories in which you operate, will we see the A&P expenses as a proportion of sales going up so for example this time we saw the ratio going up by 280 bps so will we be seeing this trend in FY16?

Mohan Goenka: I am not seeing any competitive activity as far as our core brands are concerned that is not the cause of worry and also A&P with Kesh King coming in on a consolidated basis I do not think it will go up it would be in the range of about 18% only.

Jubil Jain: Sir our overall sales growth is 22.4% and volume growth 14.8% so the remainder would be approximately 7.6% so what is the split up of mix and price growth in this?

Rajesh Sharma: The price growth is roughly 4%and balance 3.5% is on account of change in our trade schemes accounting and the policy which we changed last year so till quarter one last year we were giving schemes on primary sales but now we are giving on secondary sales.

Jubil Jain: Sir so will we be seeing this 3.5% change going forward for FY15.

Rajesh Sharma: No only for this quarter, quarter two last year we changed the policy.

Jubil Jain: So was there any change in the mix this quarter.

Rajesh Sharma: Not significantly.

Jubil Jain: Sir going forward due to the low inflation environment will we be seeing any price hike in the portfolio or will the prices be stagnated for at least the next one year?

Rajesh Sharma: Yes whatever hikes we have taken we have already taken so next one year we do not expect further significant price hike.

Jubil Jain: So can we assume the price growth for FY16 to be approximately 4.5%?

Rajesh Sharma: Yes.

Jubil Jain: Sir can you just repeat the volume growth numbers for Navratna and Boroplus.

Rajesh Sharma: Navratna volume growth is 8% and Boroplus is 9%.

Moderator: Thank you. The next question is from the line of Naveen Trivedi from Trust Group. Please go ahead.

Naveen Trivedi: My question is in the last con call we were saying that the contribution from the new launches will be around 5% of the FY16 sales however in the quarter first it was 7% so are we changing any guidance or you think that the quarter first was benefited because of the more distribution expansion of your products.

Mohan Goenka: Not really I think for the year it would be not more than 5%.

Naveen Trivedi: And my second question is on the CSD sales despite we had base effect benefit in this quarter the growth was 6% so any comment on anything to read in this on these numbers?

Mohan Goenka: Not really CSD has been only 6% I think I do not know why this business is growing at 6% I think it can grow at about 10%, 12% because now there are no challenges as far as business is concerned.

Moderator: Thank you. The next question is from the line of Amnish Aggarwal from Prabhudas Lilladher. Please go ahead.

Amnish Aggarwal: Sir my first question is on Kesh King, you just said that the acquisition will be accretive from next year that is the FY17, now if I look at the fact that we would be providing say roughly around 60, 70 Crores at least of interest plus 250 Crores of amortization given the 47%, 48% EBITDA margin and what sort of growth we are looking at next year for it to become actually accretive?

Rajesh Sharma: Yes Amnish, we are not considering the amortization amount in that because that is a non-cash item so we are not considering that so barring amortization it should be accretive.

Amnish Aggarwal: And the second thing is regarding Kesh King only you see the distribution earlier was around hardly half a million outlets whereas Emami's distribution is much stronger so are you looking at some, you can say very high growth in this brand because now once the product goes in to your distribution so the gains should be disproportionate for Emami?

Mohan Goenka: No it is not the right way to look at that because though they were not having a distribution network with themselves and depending on the distributors so now we have taken it over we also integrating with our own distribution they have some pipeline stock so this year we are not factoring much growth but going ahead from next year onwards we should see good growth and we have couple of plans and let us see how it does going ahead.

Amnish Aggarwal: But looking at the fact that the brand was growing at 50%, 60% for few years until last year, so can it again start growing at 25%, 30% kind of a number or you much more cautious in giving guidance on this.

Rajesh Sharma: 20%, 25% is a bit aggressive numbers to factor as of now, it was growing at 50%, 60% earlier because it is a very new brand so for a new brand to grow at those kind of rates for initially is fine but going ahead to maintain aggressive double-digit growth may not be the right way to do it.

Amnish Aggarwal: So you would be more comfortable say around 15 odd percent.

Rajesh Sharma: Right.

Amnish Aggarwal: And my next question is regarding tax rate because we are going to set up some facilities now in the North East also so do you expect that you will still remain at 20%, 21% or you see a possibility of the tax rate being lower than that in any chance.

Mohan Goenka: No it will not be lower because 20%, 21% is the MAT rate. MAT is 21% so you have to pay MAT on the book profits whatever profits you earn so that is the minimum rate you have to pay.

Amnish Aggarwal: Net of any adjustments of deferred tax or anything of it.

Rajesh Sharma: No since as I said we will not be providing any deferred tax now so whatever book profits PBT is there we pay 21% or 20%, some tax benefits on dividend etc. may be there.

Moderator: Thank you. The next question is from the line of Sanjay Singh from Axis Capital. Please go ahead.

Sanjay Singh: Just wanted to know this amortization of the brand you get a tax benefit on that also?

Rajesh Sharma: Yes we are charging this amortization in our books and our profits are reducing so we pay tax on whatever PBT is there .w.

Sanjay Singh: Because then it is technically, I mean, I have not seen this before that is why I am a little confused, because otherwise it means one third of the acquisition cost is paid by the government.

Rajesh Sharma: No but as per the accounting standards you have to amortize your intangibles and charge that against your profit so we are doing the same only, so whatever profit remains after amortization you pay tax on that only.

Sanjay Singh: But have you done that in any of your previous acquisitions, in Zandu I do not recall if I am correct?

Rajesh Sharma: No in Zandu also the goodwill was amortized over a period of five years.

Sanjay Singh: and you had a tax benefit on that also.

Rajesh Sharma: Right, yes.

Sanjay Singh: May be I am little confused that is one and secondly can you explain the deferred tax part of it what happened this quarter?

Rajesh Sharma: This year as I said we are setting one more manufacturing facility in tax exempt zone and further with the acquisition of Kesh King business our deferred tax liability in respect of timing differences is expected to get reversed during the tax holiday we are enjoying. So as per the provisions of accounting standard 22 deferred tax liability need not be recognized and we had 12.39 Crores of opening deferred tax liability and hence we had to reverse this in this quarter. It is a onetime reversal.

Sanjay Singh: Going forward you are saying it will be a 21% on the PBT which includes the amortization of Kesh King.

Rajesh Sharma: Right.

Sanjay Singh: And the new plant you said in North East does it have only income tax benefit or even excise benefit.

Rajesh Sharma: Excise benefits also for ten years.

Sanjay Singh: I think in Himachal and Uttaranchal the window is closed right.

Rajesh Sharma: Yes.

Sanjay Singh: So it will be only there in North East as of now.

Rajesh Sharma: Right.

Sanjay Singh: Any idea when is the window closing for North East.

Rajesh Sharma: North East has couple of years time.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Emkay Global. Please go ahead.

Prashant Kutty: Sir firstly you give us the rural growth it is about 25% growth for pretty strong number over there but from the commentary that we have been hearing of let's say other FMCG companies what is your take as far as rural growth is concerned going forward given the fact that we have been hearing about income growth slowing over there?

Mohan Goenka: As I said this growth is from our sub stockists and the channels expanding we are appointing new and new sub stockists that is why we are seeing this growth, but yes I am with all others that we are seeing same sub stockist growth not as aggressive, there is a slowdown definitely in rural markets.

Prashant Kutty: And you also been seeing among the existing stockists we have been seeing some pressure on the credit days as well.

Mohan Goenka: Sorry on same sub stockiest.

Prashant Kutty: Have we been seeing any pressure on the credit days as well they asking for more anything of that sort?

Mohan Goenka: No, we sell on cash to our sub stockiest.

Prashant Kutty: And on the contrary have we also been seeing urban demand seeing a fairly sharper up move in the past few quarters and specifically in this quarter?

Mohan Goenka: We have seen this demand coming in from both urban, rural and modern trade as far as our brands are concerned but as I have said I will be cautious going forward this has been an extraordinary quarter for us but let's see what happens in the next quarters.

Prashant Kutty: And sir given the fact that we were actually seen a fairly sharp up move in our ad spend numbers when you did highlight that you are looking at about 18% number but given Kesh King coming in and also we have not much finalized on the She front do we expect this A&P spends to move up as we move towards the end of the year or something.

Mohan Goenka: No nothing above 18% I think it would be in the range of 18%.

Prashant Kutty: So in the sense and obviously we are looking at a margin improvement number as well because of Kesh King.

Mohan Goenka: Absolutely.

Prashant Kutty: Any sense as to what that number could be for FY16?

Mohan Goenka: I think you will get a better idea in the next quarter.

Moderator: Thank you. The next question is from the line of Sanjay Singh from Axis Capital. Please go ahead.

Sanjay Singh: Sorry for repeating another question the A&P spend which has increased for of 270 bps year-on-year should we adjust this with 3.5% you said schemes which had moved from the primary level to the secondary level is that the right way of looking at it.

Rajesh Sharma: Yes that includes that also.

Sanjay Singh: So adjusted it would be down 100 bps or so.

Rajesh Sharma: Kind of…

Moderator: Thank you. The next question is from the line of Punit Jain from Goldman Sachs. Please go ahead.

Punit Jain: There used to be some seasonality in Q1 in the past whereas revenues in the first quarter typically used to be lower than fourth quarter because of your salience of the winter products, that is not visible in this quarter at all, what could be the reason for that and does it mean that going forward it will not be the case, where third and fourth quarter will be higher than first and second quarter?

Mohan Goenka: Not really because if you see Navratna and Navratna Cooling Talc they have not grown as how we have grown in the other categories, there the growth has been Cool Talc it has been hardly 3% volume and Navratna Oil is 8% volume so let's see I think this quarter because of some initiatives we had taken over the last few months that has shown the benefit but I think all brands at 12% to 14%, 15% growth is what I am looking at.

Punit Jain: Sorry for repeating this question again, because you mentioned that your overall target for full year is 16% and you have grown 24% in this quarter, which remains that your target growth in subsequent quarters becomes 13%, 14%.

Mohan Goenka: See just that it is not possible for us to change every quarter the guidance so let us see because our brands are very seasonal, we will see this quarter then we will see what because I am more concerned for yearly numbers and long-term numbers so as I said I am confident of achieving 16% to 17% topline numbers for the year as far as year is concerned. If the next quarter also we get similar numbers then we may grow even better than 16%, 17% in the year, but first quarter cannot be representation for the whole year actually.

Punit Jain: Just two follow-ups on this, does that includes Kesh King 16%, 17% growth and are you seeing some trends right now which are making you more conservative in terms of giving this guidance post this quarter.

Mohan Goenka: Yes, so Kesh King is not included in 16%, 17% and you are right seeing the last few days I am being a little cautious.

Moderator: Thank you. Ladies and gentlemen that was the last question I would now like to hand the floor over to Mr. Shirish Pardeshi for closing comments.

Shirish Pardeshi: Yes Mohan Ji., I have received some questions I thought that I will ask at the end. Basically the first question is on Balm range you mentioned that 27% growth has come primarily from Junior so what is the base balm businesses growth?

Mohan Goenka: The stronger variant Ultra Power not Junior, Junior we have just launched last month only.

Shirish Pardeshi: But what would be that growth?

Rajesh Sharma: Around 15% kind of growth is from the Ultra Power.

Shirish Pardeshi: The next question on the balm category, what could be the distribution today for Balm?

Mohan Goenka: Number of outlets you mean.

Shirish Pardeshi: Yes, I mean basically what is the bigger representative I mean direct; indirect your reach would be what 2 – 2.5 million.

Mohan Goenka: Zandu Balm is roughly 20 Lakh outlets.

Shirish Pardeshi: And how much it further can grow in terms of your distribution reach?

Mohan Goenka: See now it has to be all indirect because we only reach to 6.5 lakh outlets so if the demand is there from the rural markets or from upcountry towns then only it can go wider than 20 lakhs which is beyond our control.

Shirish Pardeshi: Basically by the thing that sub stockiest and rural stockiest were drive the next level of growth.

Mohan Goenka: Absolutely.

Shirish Pardeshi: And you will support through the advertising.

Mohan Goenka: Yes.

Shirish Pardeshi: The next question is on Boroplus, what further expansion you have done in Face Wash in next two to three quarters you would expect to launch?

Mohan Goenka: That is a difficult one Shirish we will not be able to share our plans for new launches.

Shirish Pardeshi: When you say Boroplus Antiseptic has grown, which it is not the season but which part of country is has grown is it rural or urban?

Mohan Goenka: No it is a very small base this quarter the sales is hardly 10 Crores so it sells only in few pockets in this season.

Shirish Pardeshi: The next question is on healthcare range. We have seen that Pancharisht has been main growth driver but when can we see in the last call you have spoken that there are at least four to five new products under trial and I think with reorganizing the business how many new products can come obviously you have launched Nityam Tablets now so what is the strategy the growth would be basically driven by the product launches or will be growing in the same pockets?

Mohan Goenka: No I have answered this before that we are test marketing some of the products in South India looking at the success and our parameters we will roll it out nationally so and we are very happy with this growth what we are seeing whether it is led by Pancharisht or Nityam or Vigorex or whatever as long as we can grow at 25%, 30% in the healthcare space we are very satisfied with new brands coming in I am not too sure whether they would be launched in the second or the third quarter or the fourth quarter but definitely I have always been maintaining this that we are very bullish on the healthcare business.

Shirish Pardeshi: There was one question somebody wanted to ask on acquisition of Kesh King in the Kesh King segment now you have taken off on a completely the brand so when you have taken off which are the pockets you think Kesh King is weaker or not so strong as north?

Mohan Goenka: Presently Kesh King is available, most of their business comes from eight states, almost 80% business comes in eight states and now we will launch it nationally wherever we have our presence so let us see because as I said it is too early. We have just taken over the brand we have now rolled it out nationally not that the brand is not available across India, they are not strong in certain parts, so we will have to build the consumer franchisee in those parts which is always challenging in our business.

Shirish Pardeshi: So in your hindsight do you think Kesh King would be successful in South India, which is the stronger hair oil market?

Mohan Goenka: It may take time but there are already existing brands in South India so we would have to compete with them.

Shirish Pardeshi: One last question on CSD business what is the thing one should know at this time and what is the growth we are expecting.

Mohan Goenka: CSD has grown at only 6% but for the year I am sure they can grow at above 10% because CSD see we grew only if there are new product listings happening and all those things so which has not happened so existing business growth of 10%, 12% can be challenging.

Shirish Pardeshi: I think I have exhausted all the questions I have received and I really thank all the participants and management of Emami including Mr. Mohan Goenka and Rajesh Ji., we will see you in next quarterly conference call. So Mohan Ji., maybe you can add some closing remarks.

Mohan Goenka: Thank you Shirish, thank you all the participants for this conference call, thank you Anand Rathi for arranging this. Thank you.

Moderator: Ladies and gentleman, on behalf of Anand Rathi Shares & Stock Brokers, that concludes this conference. Thank you for joining us and you may now disconnect your lines.