



“Emami Limited  
Q3 FY2019 Earnings Conference Call”

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*Emami Limited*  
*January 31, 2019*

**Moderator:** Ladies and gentlemen, good day, and welcome to Emami Limited Q3 FY2019 Earnings Conference Call, hosted by IIFL Securities Limited. 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. Percy Panthaki from IIFL Securities Limited. Thank you and over to you, Sir!

**Percy Panthaki:** Good afternoon everyone. Welcome to the Emami Q3 conference call. We have with us, Mr. Mohan Goenka, Director, and Mr. Rajesh Sharma, Senior VP Finance & IR to take you through this result. So without further ado, I will hand over the call to Mr. Goenka. Over to you, Sir!

**Mohan Goenka:** Thank you, Percy and very good evening friends. I welcome you all to this conference call on Emami results for the third quarter and nine months ended December 31, 2018. The company closed the quarter with net sales of Rs.800 Crores with a growth of around 8%. Domestic business grew by 7% during the quarter. We are happy to inform you that the actions taken by us to address the past performance of Kesh King, Zandu Pancharishta and international business have all yielded positive results. While Kesh King grew by 26% during the quarter, Zandu Pancharishta and international business grew by 30% and 18%, respectively. However, an overall delay in setting of the winter season, in the current quarter led to a subdued performance of winter brands, which accounts for over 45% of the domestic business during the quarter. Our non-winter portfolio grew by 10% with Navratna growing by 10%, health care range growing by 18% and pain management range growing by 6%. As mentioned earlier, BoroPlus grew by just 4% due to delayed winter, whereas male grooming range declined by 2% in this quarter. We continued to gain market shares for our key brands in Q3 FY2019. Navratna Cool Oil volume market share at 66.1% grew by 340 basis points, Kesh King volume market share at 29.8% grew by 260 basis points and Fair and Handsome face wash volume market share at 15.2% grew by 50 basis points.

BoroPlus, Fair and Handsome and balms maintained their leadership in their respective categories with market share of 72.7%, 63.7% and 54.4% respectively. Growth of 18% in international business was contributed by SAARC and MENAP regions, which grew by 40% and 26%, respectively.

Our focus on modern trade has continued to yield positive results. The channel grew by 30% in Q3 FY2019, now contributing 8% of our domestic revenues. We also enhanced our direct reach to over 9.25 lakh outlets, increased our reach by 75,000 outlets in 9 months of FY 2019.

During the quarter, gross margins at 67% declined by 380 basis points, and EBITDA margins at 32.9% declined by 210 basis points due to sharp increase in raw material costs. Despite this, EBITDA grew by 1% and profit before tax, before exceptional items grew by 3%. However PAT declined by 6% due to an exceptional cost of Rs.9.8 Crores pertaining to VRS paid to one of our units.

For the 9 months of this fiscal year, our net sales at Rs.2,024 Crores grew by around 8% on a like-to-like basis. Gross margins at 67.3% declined by 120 basis points, and EBITDA margins at 28.2% declined by just 20 basis points and that was primarily due to the increase in raw material costs.

We are sure that you are aware of our recent acquisition in the international market, we announced last Friday. We are very happy to have acquired the iconic German brand, Creme 21, which has a high brand recall and would add value to our growth trajectory in the international business. The brand offers skin care and body care products, such as creams and lotions, shower gels, sun care range, men care range. This acquisition has a strong business fit, as it operates in Emami's focus market and chosen categories. We plan to leverage our existing network of distributors and infrastructure to grow the brand.

To sum it up, we are very happy that the correctional step undertaken for leading brands in their domestic market and strategic initiatives in the international business have resulted in an encouraging growth in the respective sectors. This healthy demand expected from rural sales due to the government stimulus along with the prospects of an upcoming favorable season, we are optimistic to close the year on a positive note.

Before we start the Q&A on over Q3 results, I would also like to share with you an update on status of pledge share, as the subject of pledge promoter holding has become quite a talking point in the market this week. We have always maintained a policy to ensure that our pledge should not go beyond 30% to 35% of the total promoter holding, but unfortunately, the pledge percentage has gone up to 47%, primarily due to share price correction. The promoter money has been invested wisely and in good assets, like cement, where we have an 8.3 million ton capacity in Eastern India. Real estate, where we have a

very large land bank edible oils, hospital and pharmacy business. As you all know, we have already filed a DRHP for our cement business. Further, as a matter of prudence, we are now also working on alternate plans towards reducing the pledge soon, and are very confident of striking a deal with private equity firms for investment in our private businesses as well as realigning the promoter debt at the earliest. As I have already updated on our pledge position, I would appreciate that we restrict the purpose of this concall to the discuss Q3 performance only. With this brief, I now open the Q&A. Thank you very much.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Abneesh Roy from Edelweiss Securities. Please go ahead.

**Abneesh Roy:** Sir, good to see recovery in the non-winter portfolio and promoter de-leveraging steps. My first question is on Kesh King, very good market share expansion. So is it largely because Patanjali has lost market share and would the reason for loss of Patanjali's market share be lower ad spends? So if you could talk about ad intensity in that subcategory? And how is the margin in the applicator, which you have launched? Is it lower margin? Is it largely similar to your Kesh King portfolio?

**Mohan Goenka:** So Abneesh, on Kesh King, yes you are right. We are very happy with numbers of Kesh King. So we had engaged BCG and this is basis the recommendations of the BCG, we have implemented the new strategy for Kesh King, which has yielded results. It is not just primarily that it is the impact of Patanjali. We have also been very aggressive on launching the applicator. So both the strategy on oil and shampoo with the marketing initiatives along with introduction of applicator, led to these results.

**Abneesh Roy:** And how are the margins in the applicator pack?

**Mohan Goenka:** No, we have increased our prices, so margins remain the same. We have increased our prices from Rs.140 to Rs.160. So the margins remain the same.

**Abneesh Roy:** And how has Kesh King's shampoo done? Any numbers on that?

**Mohan Goenka:** Kesh King shampoo has done exceedingly well, so that was also primarily on the strategy of reducing the prices of shampoo. So the growth of shampoo in this quarter has been - that is how much?

**Rajesh Sharma:** Over 100%.

- Mohan Goenka:** Yes. It has almost doubled in this quarter, the Kesh King shampoo.
- Abhishek Roy:** You call it a success? It is a very low base, so 100% number is doable, but it is a success?
- Mohan Goenka:** Of course, 100% growth even at any basis of success. It was not that lower a base also and doubling the numbers is quite encouraging, honestly.
- Abneesh Roy:** Sir second question, you mentioned Q4, you would like to end on a much stronger note now. Winter, whenever we have seen delay, then it also means the inventory levels go down. So does it work now in advantage for you, if it is a strong winter, but it is a delayed winter and why did the market leader report a very strong winter portfolio, but we could not see the same thing?
- Mohan Goenka:** First off, I do not know about market leader because our portfolio is almost 45% of winter and our dealers, it was very delayed winter. We are seeing some upswing in the winter portfolio in the month of January, which what you asked, is not very good as far as we are concerned, because now the stocking is for the summer season. So it would not really help much, but overall, where we were struggling as far as Kesh King, Pancharishta, international businesses, those have bounced back very strongly. So I am very happy about that, and now it is mostly the seasonality issues, which would affect the brands. So BoroPlus is very widely available in 40 lakh outlets, and whenever there is delayed winter, our stockists, they do not stock it.
- Abneesh Roy:** Okay Sir. That is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.
- Arnab Mitra:** Hi Mohan Ji, on the Fair and Handsome, that has been one area where there is no seasonality, but you had a soft quarter, has it got anything to do with the recent aggression from H1 in the men's category and therefore, how do you look at this brand going ahead over the next few quarters?
- Mohan Goenka:** You are right, Arnab. We have been struggling on the men's range, particularly on Fair and Handsome for some time and we have engaged an agency to look at the strategy for Fair and Handsome. We have seen the success of Kesh King, now we have engaged BCG to give us a strategy on Fair and Handsome.

**Arnab Mitra:** Okay, the second question on the gross margin. So you had a reasonably large dip in the gross margin year-on-year. So have since then commodity cost cooled off, or have you been able to take commensurate pricing, so how would you see the year-on-year trend on gross margin in the coming quarters?

**Mohan Goenka:** Yes, so the prices have softened in this quarter. So hopefully the gross margins, we would be able to maintain what we had in the last quarter, of Q4. This was one-off. Prices are cooling off, input prices.

**Arnab Mitra:** Okay, and which is the specific input where you saw significant inflation? Was it largely the crude basket or it was other inputs also where there was a big inflation?

**Mohan Goenka:** No. It was primarily crude and menthol.

**Arnab Mitra:** Okay and last question was on this acquisition internationally, so till now you have largely stayed away from international acquisitions and this is the first kind of major acquisition you are doing internationally. So just wanted to understand the thought process, these brands, will you be able to value add in terms of improving the margin profile or launching it in more markets or bringing it into India. What is the broad thought process of international acquisition?

**Mohan Goenka:** Yes, this is an excellent acquisition as far as we are concerned, it serves many purposes. Though the brand is German, but most of the sales comes from Middle East, where we want to have a strong foothold in the modern trade and with the local consumers. 80% of the business is from Middle East. In Middle East also from a few countries and not all countries, so we would extend this brand in some of the countries where we are relatively strong. The promoters wanted to exit this business for quite sometime, so they have not invested much on the brand. So with our getting into this, I think there is huge potential in some of the Middle Eastern countries, also in some other countries like CIS, where we have a very strong foothold. So for first few years, we would extend this brand to wherever we are strong in international market. As far as margins are concerned, they have presently 9%, 10% of EBITDA margins, but coming into Emami, with just a little bit of restructuring and pricing, I think the margins can go up to 15% to 16%, EBITDA margins. and they also have in excess of 50% gross margin, it is in line with our overall strategy and finally, yes, long-term how premiumization, everything is happening in India that we would surely want to bring it to India, but not very soon.

**Arnab Mitra:** Okay. Thanks and that is it from my side. All the best.

**Moderator:** Thank you. The next question is from the line of Prakash Kapadia from Anived Portfolio Management Services. Please go ahead.

**Prakash Kapadia:** Thanks for taking my question. VRS at Kolkata, was it some manufacturing unit, what was the employee strength and anymore, one-off there seen?

**Rajesh Sharma:** Yes, Prakash, this VRS was given for our manufacturing facility in Kolkata, it was an old plant and most of the workers have taken VRS in this quarter itself and there are few who have not taken VRS, but are nearing their retirement age. So let us see, if going ahead they also opt for VRS in this current quarter.

**Prakash Kapadia:** Okay, okay, but it would not be so large, it will be..

**Rajesh Sharma:** Yes. It would not be that significant.

**Mohan Goenka:** Almost, I think, 90% of it is solved. Hardly, few people are left.

**Prakash Kapadia:** Okay, understood. The current acquisition of Creme 21, which you just mentioned, what is the agreement with the current promoter, is there some lock-in or some continuity for certain years and the size of €8 million, what is the trajectory in terms of sales over the last 3, 4 years? If you could give some color?

**Mohan Goenka:** Yes. So, see, the broad agreement is because they want to retire. They have been running this brand for few years, but for the next few quarters they would work as consultant that is what is the broad agreement with them, well we want some continuity from them. Also there is of course a non-complete clause with them and I am sorry, what was your last question, Prakash?

**Prakash Kapadia:** In terms of their trajectory, in terms of how the sales have grown from €8 million over the last 3, 4 years, has there been growth, you said, they have not really invested in the business, so has there been growth or has it is been on kind of...

**Mohan Goenka:** Last few years, they have not grown. The brand has been stagnant for last few years, but they have not invested also on the brands for last few years.

**Prakash Kapadia:** Yes. In that context only I was trying to clarify and just one thought, Sir. On given, are margin profile being one of the best in the industry, do not you think it is high time we focus on double-digit volume growth. You mentioned about stronger Q4, but taking it to a

slightly midterm view, let go of some margins and grow our power brands because some of the channel feedback suggests that prices have become too expensive in some of our products. So your thoughts on having double-digit volume growth at the cost of slightly lower margin if that is the way to scale in our business?

**Mohan Goenka:** Prakash Ji, I think that strategy is definitely, company will look at all kinds of strategy. If you would have noticed, the three brands, which were struggling, we have really gone into the growth path.

**Prakash Kapadia:** Yes, absolutely. I think you were very confident about the Kesh King turnaround few quarters ago, so...

**Mohan Goenka:** Absolutely, so we are working on all the brands. As I said even for men's range we have appointed an agency. It is not just pricing, I think after many, many quarters, I am also feeling that it was primarily the winter, which dragged us down. It is not brand specific, it is primarily seasonality, so by and large we have covered all the pillars that we were supposed to strengthen now, whether it is the modern trade, whether it is rural trade or the general trade, if seasonality is favorable and these brands are doing fine, I think we will definitely grow it back to the double-digit growth what you are saying.

**Prakash Kapadia:** Understood. That is helpful.

**Mohan Goenka:** If need be, then only we should sacrifice our margin. Unnecessarily just, I do not think it is a question right now that we are doing less advertising, and we can grow by investing more. That is not the point.

**Prakash Kapadia:** Okay, okay. So you do not think that is the core, this thing of...

**Mohan Goenka:** Not really, not really. No.

**Prakash Kapadia:** And we seem confident about some of the other, these things also of growth bouncing back very soon.

**Mohan Goenka:** 100%. Why there should be any doubt?

**Prakash Kapadia:** Understood, because, Sir, size for us seems far favorable as compared to others at a company level?



- Mohan Goenka:** Absolutely, absolutely. I appreciate that.
- Prakash Kapadia:** Great. I will come back in the queue if I have more questions. Thank you.
- Moderator:** Thank you. The next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.
- Vivek Maheshwari:** Hi, good evening Sir. My first question is on the seasonality bit, and we have discussed this issue in the past also. So what are your thoughts on, let us say, reducing the seasonal dependence in the portfolio as we go ahead?
- Mohan Goenka:** As a policy, we do not look at categories that we have to reduce seasonality. Wherever we feel that there is an opportunity, we launch brands accordingly so there is no strategy. We have just acquired an international brand, which is nonseasonal that way, in those markets and because we have a large seasonal portfolio, almost 70%, 75%, whatever I launch it cannot happen overnight. It would take years for me to not depend on seasonality. If I see gaps in consumer then only I can launch a brand, so nothing to do with seasonality.
- Vivek Maheshwari:** Okay and second on, what will be the volume growth in this quarter?
- Mohan Goenka:** Volume growth is around 3.5%.
- Vivek Maheshwari:** Okay, and on the A&P spend, Sir, what is level of competitive intensity because your A&P spends are flat on a Y-on-Y basis in absolute rupees terms. Of course, as a percentage of revenues have gone down, could you elaborate on that part?
- Mohan Goenka:** We would try to maintain expenses on advertising. It would be anywhere in the range of about 17% to 18%, as of now and when we see market conditions improving or need be then we might increase, but as I said, we are seeing some signs of improvement in some of our core categories. So hopefully, we would want to maintain at 18% to 19% of advertising.
- Vivek Maheshwari:** Okay, got it and last thing, Pancharishta, 30% in this quarter and 14% in the 9-month period. What is now the thought process on expansion of healthcare range, a project that you undertook a few years back, do you think it is the right time to start focusing beyond Pancharishta?

**Mohan Goenka:** That is a continuous endeavor, but presently, right now is, we are extensively focusing on Pancharishta to see that if it grows further. I think the opportunity is still big on Pancharishta.

**Vivek Maheshwari:** Okay. Got it. Thank you and wish you all the best.

**Moderator:** Thank you. The next question is from the line of Percy Panthaki from IIFL Securities Limited.

**Percy Panthaki:** Sir, just a question on this Creme 21 acquisition. So this 10% kind of EBITDA margin is in a situation where the promoters have not invested in the brand in the recent past. So assuming that you would want to grow the brand and therefore increase the advertisement expenditure, is there a risk that in the near term the margins could be adversely impacted on this?

**Mohan Goenka:** Percy, we have worked up on it. The expansion would be a little difficult because we want to invest. There are certain opportunities of price correction in some markets and in some portfolio, so we have worked around that and as I said, because they have on the management side, some expenditures would be reduced significantly that would also help with the margins. So we would invest more on advertising, take up some-price rise and try to maintain margins for the time being. In the long run, there is good opportunity of increasing margins.

**Percy Panthaki:** Okay and what segment does this product fall in right now. Would you call it a mass market, mid market or premium and who are the main competitors for this brand?

**Mohan Goenka:** So as I said, it mostly sells in the Arab world. The main competitors are NIVEA, Dove, all those players in those markets, and the pricing is by and large close to Dove.

**Percy Panthaki:** Okay, okay because Sir, again, I do not know if in international markets, the situation is different. But in India, in skin care, for sort of reasonably strong brands; my understanding is gross margins are close to 70%. So why is the gross margin here just in the 50s?

**Mohan Goenka:** Because their manufacturing is in Germany, so that entails a little higher cost. The entire production is from Germany.

**Percy Panthaki:** So that does not change, right. You will continue to manufacture in Germany?

- Mohan Goenka:** For now, for now, definitely.
- Percy Panthaki:** Okay. Sir, second question was on your India distribution business. If you could just give some data on the direct coverage today versus two years back, and your wholesale exposure as a percentage of sales today versus two years back and what is the plan for the next two years on both these?
- Mohan Goenka:** So our direct coverage about 2, 2.5 years back was 6.25 lakh outlets and now as of now, it is 9.25 lakh outlets. If I remember correctly, the wholesale business was in the tune of 50% to 53%, about two years back. Now it is in the tune of 38% to 39%. Our modern trade was about 4%, now it is 8%.
- Percy Panthaki:** Okay and any plans you can share for the next two years in terms of distribution targets or wholesale dependence, etc?
- Mohan Goenka:** Wholesale, I had already given my target that it should be at 35%, by and large we achieved that. Modern trade also 8% to 10% is what was the target. Every quarter-on-quarter we are growing at 30%, 35%, so we should be 10%, 12%, I think, modern trade also. One area where we are focusing now is on the e-commerce side, where we are very weak and we have hired a new resource on e-commerce, who has just joined about 10 days back, so I think he would bring in good growth in e-commerce, but by and large, it is done with our retail distribution, this was the target, and we have achieved this target.
- Percy Panthaki:** Okay and you are comfortable at this 9 lakh level or you think there would be further increase on this number as well?
- Mohan Goenka:** For now, I think we are done 10,000, 20,000 here and there, but this was our target, and we will stick to this for some time.
- Percy Panthaki:** Okay. Great. Thanks Sir and all the best.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Thanks for the opportunity. Mohan Ji you have called out the steps taken to revive Kesh King, but even our international business has also revived, so if you can elaborate on what steps we would have taken and is the momentum sustainable now from here on?

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**Mohan Goenka:** As I mentioned, it was based on the recommendations of BCG, and we introduced the applicator, We have highlighted the hair growth instead of just focusing on hair fall. We reduced the prices of shampoo. So for the combination of everything what led to the growth of Kesh King, we also became aggressive because we saw the momentum coming in and as of now, what I see that the momentum is still continuing.

**Tejas Shah:** And overseas business, Mohan ji? There also we are seeing recovery, so any steps we have taken, which has helped us or market itself is reviving for dollars?

**Mohan Goenka:** What has happened is, it was also specific in some markets, Saudi Arabia distribution issues are there. All those issues have been corrected. The new guy Mr. Vivek Dhir is doing an excellent job and on his recommendation, we have acquired these brands also. So I think international, we were pretty small compared to some of our peers. We want to strengthen this business. It looks like this growth of 15%, 16% internationally is sustainable going forward.

**Tejas Shah:** Second, we have been talking about this direct reach for now last two years, and we have done a commendable job in that count. Now winter has been volatile for the last two, three winters and then our direct reach has also increased substantially in the same period. So just wanted to know with a direct control, better control on distribution, our ability to respond to such volatility in winter should improve, right? The delayed winter, it has been there for now last two winters, so just wanted to understand, can we respond better to such situations in future with some better direct reach or they are not correlated?

**Mohan Goenka:** It is slightly correlated, because primarily even in winter, if you see the portfolio in BoroPlus antiseptic cream, which reaches to almost 40 lakh retail outlets, okay? I may reach to 8 lakh, 9 lakh retail outlets. Ultimately the demand from the rural has to be there, but I think that we in BoroPlus still, despite of such a bad winter and delayed winter, we could still manage to grow at 4% in this quarter. If we would not have that, I do not know the numbers could have been a little smaller also. So I think the distribution has helped in achieving the numbers that we have achieved for winter portfolio. What has dragged down in winter is the lotions, the Vasocare, Malai Kesar those brands. That has dragged down a little bit.

**Tejas Shah:** Sure and lastly Mohan Ji, is there any IL&FS exposure in any of the group companies?

**Mohan Goenka:** I'm sorry?

- Tejas Shah:** Is there any IL&FS exposure in any of the group companies and business, do you have investments in their loan book or in their treasury, do we have exposure to IL&FS?
- Mohan Goenka:** No. There is no exposure to IL&FS in any of our business.
- Tejas Shah:** Okay. That is it from my side and all the best Sir.
- Moderator:** Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan Limited.
- Kaustubh Pawaskar:** Good evening Sir. Thanks for giving me the opportunity. Most of my questions have been answered. Just one on CSD part, we have seen just 5% growth for the 9 months and 2% for the Q3. So for you, CSD is yet to revive while others, some of the companies have already started seeing a pickup in the CSD sales. So can you throw some light on it?
- Mohan Goenka:** Yes, you are right and what has happened that unfortunately in CSD, we have been unable to introduce any of our new brands. This time, that is why we have not grown much. I am not too sure if other companies have grown on new brands or on the existing brands. So for last two years, we have not introduced any new brand in sales.
- Kaustubh Pawaskar:** Okay, so what are your plans in terms of CSD because modern trade is doing exceptionally well for you, so in terms of CSD, what exactly are you planning to do?
- Mohan Goenka:** So our plan is also to introduce new brands. We have applied for some brands. Hopefully, they introduce them. Our team is well in place. So there is some seasonality impact also, they have also changed some of their strategies from local to head office ordering, all those things. They have reduced some bit of inventory as far as winter brands are concerned in our case.
- Kaustubh Pawaskar:** And Sir, in your initial comments, you mentioned that you are confident that you are going to end current fiscal on good note. So that means you are expecting Q4 to be better, but considering the seasonality and delayed winters, will the summer portfolio be impacted in Q4? Will it have any impact because winters are delayed, so obviously it should have an impact on the summer portfolio for Q4?
- Mohan Goenka:** It is difficult for me to answer at this point of time. You are right that this is not the best season for us. I want summers to come early. So let us hope even if after February 14 or 15

that is when summer start setting in and distributors stock our summer portfolio. So let us see, I have to wait and watch. I wish summer comes now.

**Kaustubh Pawaskar:** Okay. Thanks.

**Moderator:** Thank you. The next question is from the line of Naveen Trivedi from HDFC Securities. Please go ahead.

**Naveen Trivedi:** Good evening everyone. Mohan Ji, there is a loss of volatility in the Kesh King's performance, even this quarter also, we had a favorable base. So can you share what are the underlying demands for Kesh King?

**Mohan Goenka:** Underlying demand also, indeed only has increased from all quarters. I can see that, even in this month I am seeing a good number from Kesh King. Of course, there is some base effect, but at this growth, this has been a tremendous growth, what we are seeing and the growths will continues. Now once, where we were struggling and it has rebounded, so their strategy has definitely worked, right?

**Naveen Trivedi:** Yes, sorry. You just continue.

**Mohan Goenka:** So I am saying, for now, why should we have any apprehension where this is or, at least we are going by 20% to 30% or at least I can see that demand even in this month that is okay that everything is growing and also this will grow.

**Naveen Trivedi:** Because it is like, at the time of acquisition, I think the Kesh King size is around Rs.300 Crores, so the thing that the next year, in FY2020, those levels, you will be able to achieve?

**Rajesh Sharma:** Yes, the Rs.300 Crores level what you are talking about Naveen, was the gross revenues and if we compare that with today's net sales as per IndAS that would be roughly Rs.240 Crores.

**Naveen Trivedi:** Fair point. Thank you so much Sir.

**Moderator:** Thank you. The next question is from the line of Abneesh Roy from Edelweiss Securities. Please go ahead.

**Abneesh Roy:** Thanks for the opportunity. A few follow-up questions. One is, Sir, e-commerce. You have hired the new head, could give more detail? Second, e-commerce now FDI new regulation

kick in, what would be your view in the very high growth of FMCG companies because of cash back and discount that will ease off because those things will be difficult, the cash backs and discounts?

**Mohan Goenka:** We are almost negligible in e-commerce. So I think we have all the room to grow from here and the new boy has just come in, he has to of course formulate a strategy and we are working with some consultant also in e-commerce where we see good opportunity as far as Kesh King is concerned, as far as some of our 7 Oils in One or face wash, men's range. I think there are opportunities in e-commerce. Today there is nothing. Our sales is hardly Rs.10 Crores.

**Abneesh Roy:** But where has he come from?

**Mohan Goenka:** Where has he come from?

**Abneesh Roy:** Yes, the profile in the e-commerce...

**Mohan Goenka:** He has come from multiple organizations. I do not remember last organization.

**Abneesh Roy:** Sir, second question is one common theme you have mentioned today was, use of consultants. That was a third time I heard, so you mentioned that in the men's cream, you mentioned that in the Kesh King and then you mentioned it in the e-commerce. So one was, Sir, you are regarded as a very big expert, your company is regarded a big expert on FMCG. So in the Kesh King, what exactly did the consultant add value? You mentioned on the hair growth part, price cut part, the applicator anyway Indulekha was doing because why I am asking this, normally consultants are being used by FMCG companies for cost cutting or for ERP implementation. On the brand rejuvenation, you are the expert, so does the consultant really add much value?

**Mohan Goenka:** In one particular case they have added value, and I have seen the benefit. So why should I assume they cannot get value? And till now that we were not growing. So you need the help of somebody who can, every time it happens that we do not know, where the growth will come from. Of course, we are expert, we are doing day and night, but we miss out something and we are looking on a day-to-day basis. Because they have proved it, I think why not engage in some other areas where we are struggling.

**Abneesh Roy:** Sir, one bookkeeping question. Amortization FY 2020, 2-21, what is the guidance, Sir?

- Mohan Goenka:** I am sorry.
- Abneesh Roy:** On the amortization of the Kesh King. So essentially what will be the amount of amortization in FY 2020 and 2021?
- Rajesh Sharma:** So, Abneesh, till June 20, we would be amortizing roughly Rs.60 Crores per quarter and post June 20 quarter, for another five years, around Rs.90 Crores would get amortized every year.
- Abneesh Roy:** And, Sir, last question, you had also acquired Fravin in Australia, any update on that, this was done around three years back?
- Rajesh Sharma:** Yes. That has been closed down now. We are on the verge of closing it down.
- Abneesh Roy:** So we invested and now closing in three years, what was the reason, what is the learning?
- Mohan Goenka:** Learning has not worked, hence the closing down, why spend more money, if it does not work.
- Abneesh Roy:** Three years is a very short time, Sir to buy a business and close it, so that is why I am asking, it is a small amount, but within three years buying and closing?
- Mohan Goenka:** That has not come to our expectation because we did not feel that from there we can bring the inorganic products and sell it in India because it was a small business, we thought let us close it.
- Rajesh Sharma:** And also it was primarily an R&D kind of an acquisition, so whatever R&D integration was to be done that we have already done.
- Abneesh Roy:** Would you need to take any write-off there?
- Rajesh Sharma:** We have to evaluate and see.
- Abneesh Roy:** Okay Sir. That is all. Thank you.
- Moderator:** Thank you. The next question is from the line of Jinal Sheth from Multi Act. Please go ahead.



**Jinal Sheth:** Good evening. Sir, I just wanted to understand one thing that I am hearing among the FMCG company that in the last couple two, three quarters, there has been a volume growth pickup across the board. So one thing that I wanted to understand, is this, especially on the rural side, are we seeing growth come back or also this is some added benefit from the GST implementation that we are able to grab share from the unorganized, any thoughts and views on that?

**Mohan Goenka:** Jinal, okay. So Jinal, see overall, we have grown at 3.5% in this quarter and as I said it contributed because of winter, some of our other portfolios have done quite well, Navratna or the others. So overall demand, rural may has slightly improved, if you ask me honestly, okay. But whether this would continue, because elections are nearing. I am very bullish that rural should shine. So to be very honest, I am slightly positive now, if the things continues this way, and rural also performs the way, wholesale is also slightly back on track. So looking at all perspective, I feel that the FMCG companies should do well, going forward.

**Jinal Sheth:** Sir, my only question there is that, are we seeing this, has GST helped in any of this? Because now GST has been some time that is coming to implementation and so any benefits from their aiding the growth?

**Mohan Goenka:** I cannot really comment whether because of the GST implementations the small players has been wiped out and that is coming to us. No, it is too early for me to tell.

**Jinal Sheth:** Okay. Thank you.

**Moderator:** Thank you. The next question is from the line of Kunal Bora from BNP Paribas. Please go ahead.

**Kunal Bora:** Thanks for the opportunity. First question, for Creme 21, are you acquiring a manufacturing facility in Germany and do they also have a R&D facility?

**Mohan Goenka:** No. This is only a brand acquisition. The entire manufacturing is from a third party. We have not acquired any of the manufacturing and R&D facility. It is just a brand.

**Kunal Bora:** Sure, okay. So there would not be any plans to shift the manufacturing in India at some point in time. It will continue to be manufactured by the third party, which you are currently doing it?

- Mohan Goenka:** Yes. Absolutely.
- Kunal Bora:** And any possibility of introducing those products in India at least on the e-commerce platform or even now you do not think it is viable?
- Mohan Goenka:** I think it is available in Amazon, but it is of course very small. But now our focus would be primarily to focus on Middle East and CIS countries.
- Kunal Bora:** Sure, sure Sir. Second one, Sir. Beginning of the year, you were expecting for this year double-digit volume growth 4%, 5% price increase, mid-teens revenue growth. What went wrong? I mean, seasonality is one, but otherwise, what went wrong and like we end up with like only 7%, 8% revenue growth for the whole year?
- Mohan Goenka:** So 9 months has passed away, some of the portfolios have not done well. The way the wholesale needed to do, it did not happen, those were some of the main reasons. Kesh King also started delivering in from the last four, five months only, okay? Though overall, I feel that now that things are well on track. Our coverage is also expanded, everything is, now most of the seasonality. Navratna is doing quite well as the product, we have grown at 13%, for 9 months. So Navratna if it continues like this, and the main season is going to be coming, if it does well, then we would be very happy to do a double-digit growth.
- Kunal Bora:** Sure, sure. Last one on capex. Sir, What is the like number, which we will have this year? I mean, like where do you end up?
- Rajesh Sharma:** It would be roughly Rs.100 Crores.
- Kunal Bora:** Rs.100 Crores, okay, great. That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Amit Singhal from Macquarie. Please go ahead.
- Amit Singhal:** Hi Sir. Thanks for the opportunity. Sir my question is on your BoroPlus range. While you have highlighted the impact was because of delayed winters, just wanted your commentary on the competition on both the creams and non-cream portfolio?
- Mohan Goenka:** On BoroPlus cream, as I said, we have grown at 4%

- Rajesh Sharma:** So lotions have also grown. The growth would be roughly 16% this quarter and also if you look at the BoroPlus portfolio, cream also in particular, we have gained market share. If we compare all the winter cream kind of things like all petroleum jellies, cold creams and antiseptic creams all put together, so there also, we have gained market share in this quarter.
- Amit Singhal:** Okay, no I understand that in your type of portfolio, you have gained market share, compared to the third quarter FY208, but at the same time, Sir, I mean, is there any other format of product from the competition, which is growing in relevance and is broadly taking away market share from the overall winter skin care portfolio?
- Rajesh Sharma:** No, no. What I was saying was, I am not comparing our market share only in the antiseptic cream category. If I look at the entire emollient category, which includes petroleum jelly, cold cream and these antiseptic creams, there also we have gained market share. So it is not a question that another format has come in which is taking shares.
- Amit Singhal:** Sure. Sir, my question was in the perspective of the market leader commentary that their winter skin care has done pretty well, but any which ways, I mean, you have gained market share, so that answers my question. Thanks a lot. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Mehul Desai from IDFC Securities. Please go ahead.
- Harit Kapoor:** Hi, Sir. This is Harit here, so just two questions. Firstly on the domestic piece, you have said that you are looking at double-digit growth hopefully going forward. Just wanted to understand, from a new product perspective, the pipeline for the next one year, would the majority of the growth you are talking about still be from existing products or what is the thought process in terms of category pipeline for new products for the next 12, 18 months?
- Mohan Goenka:** We do not really comment on the new categories that we would be launching. Of course, the majority of the growth would come from existing products only, and we always see where we can leverage. I think the men's range has been struggling for quite some time. there I feel it seems to be a good opportunity there. Also in terms of the pain management, there are some opportunities for new brands or new launches in those areas. These two are immediate short-term opportunities. As and when things improve, we will be keep on launching or extending our brand.

- Harit Kapoor:** Understood Sir. Similar thing on the international side, now that this acquisition also is more focused on the MENA portfolio. Would it be fair to assume that SAARC and MENA are going to be immediate focus markets for international over next, say, 12, 18 months?
- Mohan Goenka:** Also CIS. The SAARC, MENA and CIS.
- Harit Kapoor:** The export portfolio...
- Mohan Goenka:** Yes, with this brand has potential in CIS also.
- Harit Kapoor:** Okay, so for the foreseeable future now, international would be SAARC, MENA, CIS, which it currently also is right now?
- Mohan Goenka:** Apart from this Africa is there also.
- Harit Kapoor:** Yes, I mean, it is still a small proportion Sir.
- Mohan Goenka:** Yes.
- Harit Kapoor:** Got it, okay. That is it from me. Thanks.
- Moderator:** Thank you. The next question is from the line of Vishal Gutka from PhillipCapital. Please go ahead.
- Vishal Gutka:** Hi, Sir, I have just one question. I just wanted to know, in how many year do you plan to amortize the amount paid for Crème 21?
- Rajesh Sharma:** Vishal, we are evaluating the intangible assets, which we have acquired and the amortization, if any, is still under evaluation stage.
- Vishal Gutka:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Gaurang Kakkdad from Haitong Securities. Please go ahead.
- Gaurang Kakkdad:** Hi Sir. Thanks for the opportunity. So Sir, given that we faced raw material inflation in this quarter largely crude and menthol head, any price increases which have happened in this quarter?

- Rajesh Sharma:** No. Overall, we have taken roughly 3.5%, 4% price increase.
- Gaurang Kakkad:** So that is the carry over or it is in this quarter?
- Rajesh Sharma:** We have taken some price increase in smaller brands, like Malai Kesar cream, Vasocare, petroleum jelly.
- Gaurang Kakkad:** So this 3.5%, 4% will be therefore another quarter even in Q4?
- Rajesh Sharma:** Yes, yes.
- Gaurang Kakkad:** Okay and secondly, I do not know if I missed on the rural part, so out of this 7% domestic growth, what would be rural and urban growth? So would rural have grown faster?
- Mohan Goenka:** Rural is slightly ahead of urban growth.
- Gaurang Kakkad:** Thanks a lot and all the best.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Hi, Sir, just one follow up. Sir, in spite of raw material pressure for 9-month period, we protected our margins for 9 months at around 28%. So just wanted some sense on where do we see margin settling for FY 2020?
- Mohan Goenka:** You mean for this quarter?
- Tejas Shah:** For this quarter, even what visibility you can offer in terms of looking at raw material scenario and pricing interventions that we have taken. Do you see that pressure on margins going forward? Or you believe that we can move...
- Mohan Goenka:** Now, there is no pressure on margins, Tejas because the prices are slightly easing off at input side. So some of you have also suggested let us spend on the brand. We are working on our budget for next year. What comes up obviously this side, I do not see there is pressure on margin for the whole year.
- Tejas Shah:** Great Sir. Thanks and all the best.

**Moderator:** Thank you. The next question is from the line of Naveen Trivedi from HDFC Securities. Please go ahead.

**Naveen Trivedi:** So considering the trade channel disruption is behind, if you look at your average growth rate in the last 9, 10 quarters, it is close to 6% and moreover, you have not lost market share for most of your products. So considering, you have not lost market share in the growth rates in the single digit, is it that the category's growth itself is a barrier for your portfolio? And going ahead also double-digit growth rate will be difficult to achieve?

**Mohan Goenka:** , Because we almost have 70%, 75% market share in most of these categories. If we do not grow, the category also does not grow, but now that the distribution disruption is - over last two years, we all know the disruption was wholesale post the GST and demonetisation. Now those things are over, we will also be slightly aggressive in pushing our stock to all channels and if we start growing, then the category would also grow.

**Naveen Trivedi:** So can you expect that like considering the rural is also improving, and your own initiatives are also kicking up, so growth rates can be on a consistent basis, can be around 10%, 11% kind of thing?

**Mohan Goenka:** Idea is that only Mr. Naveen, but our entire effort is towards that. Our penetration in most of our categories are still very low.

**Naveen Trivedi:** So that is the, always the thesis for Emami's that the penetration levels are very low and the competition pressure in your portfolio, relatively is very low versus others?

**Mohan Goenka:** We have been struggling on our wholesale retail portion overall. We are the only players who advertise in most of our categories. So we have to advertise to grow the category.

**Naveen Trivedi:** Correct, so bullish positioning also because of we expect that considering the portfolio which we have or bounce back will also be faster, so that is why I was trying to understand when can we expect that the bounce back will start?

**Mohan Goenka:** We have done it in Kesh King, and Pancharishta many a times, every category would have this, Mr. Naveen.

**Naveen Trivedi:** All the very best for your coming quarters performance.

**Mohan Goenka:** Thank you.

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**Moderator:** Thank you. Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to the management for closing comments.

**Rajesh Sharma:** We thank all the participants for attending this call and thank you, Percy, thank you IIFL for arranging the call for us. Thank you.

**Mohan Goenka:** Thank you so much. Thank you/

**Moderator:** Thank you very much, Sir. Ladies and gentlemen, on behalf of IIFL Securities Limited that concludes this conference. Thank you for joining us, and you may now disconnect your lines.