



“Emami Limited
Q1 FY 23 Earnings Conference Call”

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MANAGEMENT:

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MR. VIVEK DHIR - CEO, INTERNATIONAL BUSINESS, EMAMI LIMITED

MR. VINOD RAO - PRESIDENT, SALES, EMAMI LIMITED

MR. GULRAJ BHATIA - PRESIDENT, HEALTHCARE DIVISION, EMAMI LIMITED

MR. RAJESH SHARMA - PRESIDENT, FINANCE AND IR, EMAMI LIMITED

MODERATOR:

MR. PERCY PANTHAKI - IIFL SECURITIES LIMITED

Moderator: Ladies and gentlemen, good day. And welcome to Emami Limited Q1 FY '23 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 touch-tone 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: Hi, good evening, everyone. Thank you for participating in this conference call for Emami's Q1 FY '23 results. I have with me from the company Mr. Mohan Goenka, Director; Mr. Vivek Dhir, CEO, International Business; Mr. Vinod Rao, President, Sales; and Mr. Gulraj Bhatia, President, Healthcare; and Mr. Rajesh Sharma, President, Finance and IR.

I'll hand over the call for -- to Mr. Mohan Goenka for his initial comments. Over to you, sir.

Mohan Goenka: Thank you, Percy. Very good evening, friends. I welcome you all to this conference call on Emami's result for the first quarter of FY '23.

As you all are aware, the environment continues to remain challenging, with the FMCG sector impacted by an unprecedented inflation, leading to subdued consumer sentiments and lower margins in this quarter. Despite the challenges, I'm happy that we have reported a resilient performance and profitable growth in Q1 FY '23.

On a high base of 37% growth in the last quarter, our revenues at INR778 crore have grown by 18% in this quarter. Our domestic sales grew by 13% on a high base of 42%, with a volume growth of 8%, with our newly acquired brand Dermicool contributing around 8% to the domestic sales. International business grew strongly by 45% on a base of 17%. Our overall volume growth has been around 10% in this quarter.

The quarter has been challenging for us where we have seen significant correction in two categories- Pain management by 30% and healthcare range by 25%, led by immunity portfolio. This correction has been due to a very high base of 70% growth in pain management range, and 59% growth in healthcare range last year. However, despite such huge corrections, our diverse portfolio of products helped us to deliver a robust performance at an overall company level.

This quarter, some of our leading brands like Navratna, Kesh King, Fair and Handsome, etc., as well as our international business helped not only recover the lost sales due to correction in pain management in healthcare range, but also helped to deliver an overall revenue growth of 10%, excluding Dermicool.

Navratna range grew by 29%, Kesh King range grew by 20%, Male Grooming grew by 32%, and 7 Oils in One grew by 45%. While BoroPlus range posted flat growth during this quarter. It grew by 6% on a three year CAGR basis. Pain management and healthcare range, despite corrections during the quarter, grew by 10% and 13% respectively on a three year CAGR basis. So, if we exclude the pain management healthcare range, and the acquired brand Dermicool, our rest of the domestic portfolio grew strongly by 30% in value and 24% in volume terms.

During the quarter, modern trade grew by 42% and e-com grew by 55%. In this quarter, the contributions of e-commerce channel increased to 7.6% and modern trade increased to 8.2% of the domestic sales. CSD grew by 23% during the quarter.

Our rural penetration continued to progress steadily with project Khoj, in line with our plans. Our international business marked by a strong performance, especially by MENA and SAARC regions witnessed 45% growth in sales during the quarter. All our major brands, 7 Oils in One, Navratna, Fair and Handsome, Kesh King and BoroPlus performed well in the international markets.

With a high base of previous year and an unprecedented inflationary pressure that impacted the consumer spends across urban and rural markets, we posted a resilient profitable performance during the quarter. Our gross margins at 62.6% contracted by 340 basis points due to inflationary pressures, combined with unfavorable portfolio mix due to extraordinary high sales of pain management range last year.

EBITDA at INR173 crore grew by 2% and adjusted PAT at INR138 crore was flat compared to last year. Recent corrections in crude prices and the forecast of a normal monsoon are encouraging. Fiscal measures taken by government also augurs well. We are optimistic of witnessing an upward curve in the consumer sentiments in the near future.

As you are perhaps aware that today the Board of Directors, based on the recommendations of the Nomination & Remuneration Committee appointed five new independent Directors in view of completion of the full term of appointment of the other veteran Independent Directors, Mr. K.N. Memani, Mr. Y.P. Trivedi, Mr. P.K. Khaitan, Mr. S.B. Ganguly, and Mr. Amit Kiran Deb. The new Independent Directors come from diverse professional backgrounds, each bringing to the board their industry experience and wide knowledge.

Mr. Anand Rathi needs no introduction, he is one of the leading financial and investment expert, and founder of AnandRathi Group; Mr. Anjani Agarwal, former Senior Partner of EY for 26 years; Mr. Anjan Chatterjee, he is a founder of specialty group chains of restaurants; Mrs. Avani Davda, the founding CEO Tata Starbucks, and she is presently working as advisor to Bain & Company; and Mr Rajiv Khaitan, Senior Partner of Khaitan & Company. We are very excited to welcome the new members to our Board, who will bring much value to our organization with their rich experience and guidance.

With this brief, I now open the floor for Q&A. Thank you.

- Moderator:** Thank you very much. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** Yes, thanks. First question is on Dermicool. So we have seen a very strong summer even in Q2 in UP, Bihar, Jharkhand, and Bengal, given the deficit. So could you talk about that, do you see a good Q2 at least in these key states for Dermicool?
- Mohan Goenka:** So Abneesh, as of now we are not expecting great numbers from Dermicool in this quarter. So practically the sales become almost negligible. And prickly heat quickly there is no season, honestly.
- Abneesh Roy:** And this would also apply for your cooling hair oil for Q2?
- Mohan Goenka:** No, cooling hair oil doesn't apply, the two are very different products. So Navratna Cool Talc, in general, we are seeing an uptake -- upsales in talc, but not so much for Dermicool.
- Abneesh Roy:** Right. And my second --
- Mohan Goenka:** It's a specific prickly heat powder.
- Abneesh Roy:** Right. My second question is on Dermicool, what are the key changes you've already done? Are you happy with the first quarter performance of around INR63 crore sale?
- Mohan Goenka:** We haven't done any changes as of now, Abneesh, because we are just taking the product in our fold from 1st August, till now it was still with them. Post transition then whatever changes have to be done, we will do.
- Abneesh Roy:** Right. My second and last question is on Q2 margins, other companies are saying Q2 margins could remain under pressure on the -- versus Q1 given rupee depreciation and lagged impact. What would be the sense in your portfolio, do you see Q2 margins Y-o-Y pressure being lesser? I understand seasonality bit, but if you could tell us on Y-o-Y basis, will the Q2 pressure be lower?

- Mohan Goenka:** In H2 we will be seeing the pressure easing, Abneesh. But Q2 still we are seeing the pressure would be there, because the stocks that we have bought, the raw material and everything is at a higher cost. So, maybe Q2 would be a little pressure, but it would definitely ease in second half.
- Moderator:** Thank you. The next question is from the line of Prakash Kapadia from Anived Portfolio Managers Private Limited. Please go ahead.
- Prakash Kapadia:** Yes, thanks for the opportunity. On Dermicool, given that it's so fairly summer season product. When do we expect the brand to clock pre-COVID sales of around INR110 crore, INR115 crore? In the PPT you mentioned some initiatives, or it's too early? Once it comes under your fold in August and then we'll have some more game plan and clarity?
- Vinod Rao:** The Dermicool arrangement, I don't know if you know about it, it's been a distribution agreement with Reckitt. So their system continues to sell it this quarter, and the brand actually tapers off, so this become zero -- close to zero sales in August. So what we will really see is the true benefit coming out when we start loading, which is the JFM and April, May, June quarter, that's when we'll start realizing the true potential of that brand.
- Prakash Kapadia:** And on the pain management and Zandu Healthcare, obviously, the high base was there last year. Because I think last year, especially North had seen lot of traction on the balm portfolio. We had seen lot of new customer additions. So, what's the game plan for these two categories for the balance of '23? What initiatives are we taking to ensure growth comes back? Because if two of these power brands face this high base impact, it will be difficult for us to grow on a sustainable basis for the year.
- Mohan Goenka:** Prakash ji, it's not that way -- this quarter also you would have seen that despite of such a decline in these two categories, we have still managed to grow in other portfolios. So, definitely due to COVID induced -- those were absolutely due to the COVID this thing. Now we are seeing good traction in all the other categories. So there would be a challenge, as far as this is concerned, not that we are leaving it, we would still advertise, we are still going aggressive. But it is not possible to match the numbers of last year. And we haven't taken that in our targets also, honestly. Overall, we are still confident, at the company level we would be able to grow at good single-digit, despite a very high base of last year.
- Prakash Kapadia:** Okay. And lastly for Rajesh, what kind of amortization can we expect for Dermicool and Kesh King on a quarterly basis? Because I think Kesh King is now tapering off, much of it is done. But on Dermicool, this quarter also we've seen amortization figures. If you could give some sense for the balance quarters of '23 and onwards.
- Rajesh Sharma:** Right. So this June quarter was the last quarter for Kesh King amortization. So going ahead, roughly INR 22-odd crore should be the amortization for Dermicool and other brands which we have.
- Prakash Kapadia:** INR 22 crore.
- Moderator:** The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.
- Shirish Pardeshi:** Yes. Hi Mohan Ji, Rajesh ji. Thanks for the opportunity. I have four questions, starting with international division. It is very astonishing to see the growth is very strong. Could you please elaborate what is driving this growth? I mean, if I look at last two, three years, we've had Russia and Ukraine problem which has just started. But before that when we checked, we had a distributor arrangement which we have revised. So all those pain points is behind and we can expect this kind of growth going forward?
- Vivek Dhir:** Thank you. I'm Vivek this side. International business growth, fundamental growth is coming from almost every market on account of brand-building activities that have stepped up. Also some of the distribution issues which we are facing in certain geographies, that is also behind us. But still we are seeing certain type of issues which are macroeconomic in nature, they still need to be sorted out. So despite the macroeconomic issues in Russia and Ukraine, we have been able to register a growth in quarter one.

The adjacent region of Uzbekistan was not good for us, which is going to be sorted in this month itself, most likely. And apart from that, we're still facing issues in Sri Lanka counted for currency, and that should also be behind us in maybe a couple of months. Nepal is facing extremely tight liquidity situation.

We are also working on asking our distribution partners to expand their investments into the market. So even that can't be behind us. So most of the issues are team -- so that we continue to deliver a decent growth.

Some of the growth which we are observing in this quarter on account of a slightly lower base also of last year. It was a growth base, but not as big a base, so hence this number of 45% I think may not be there, but we will be in decent double-digit growth in every quarter.

Shirish Pardeshi: Vivek, that was very helpful. Just -- I have just one sub question. In Bangladesh, we have taken lot of steps in terms of distribution enhancement. So could you tell me how much was the growth in last two, three years and this year?

Vivek Dhir: In Bangladesh, we took distribution steps and also automation of the entire system and processes over there, so that now we have visibility. We have mapped close 130,000-odd outlets in to our system. The daily productivity, that is also visible. So actions are being taken based on that. So, last two, three years we have been growing in double-digit.

Even this quarter we have registered a decent growth despite Ramadan and Eid, both Eids falling in this quarter. Despite that growth has been visible. But I think the portion over there is far bigger than what we are displaying the numbers as on date. We see bigger opportunities over there. And hence, I think management time and direction on Bangladesh, we are going to invest more in this particular area.

Shirish Pardeshi: Yes. Wonderful. Thank you. Mohan ji, my second question is on rural. Last two, three quarters you have been highlighting that there is a pain in rural segment. How this quarter or maybe going forward any qualitative comments you would like to offer, whether the growth has improved or it's still lagging?

Vinod Rao: Vinod here. So rural, we are seeing those headwinds, which is the economic headwinds and the slowdown that -- we are surely seeing that. But we've not stopped any of our initiatives that we've made, so the investments that we're making in terms of all the expansion that is going in full steam. We are well ahead of our plans on addition of towns, and all the productivity measures we're hitting that.

And if you really look at the -- at a company level with the balms base, we are still growing in rural, which is faster than our wholesale. And we will continue to do that. So the net of portfolio without balms, without pain portfolio, our rural is actually growing at 21%. So, it's doing well for us.

We will continue to grow, the balm base will slightly ease out as we move in the forward quarters and our investments will go up. And towards the second half we have a further expansion where we'll add close to another 10,000, 11,000 towns. So we stand to get incremental out of those.

Shirish Pardeshi: So, just one follow-up here. You've mentioned that 11,000 towns you will add, so what is the current coverage in the quarter which has gone by?

Mohan Goenka: So we've added close to -- this quarter we've added very minimal, so we kind of -- the last quarter and that the second half we've added close to 8,000. So we are actually building in repeat purchases in this quarter. So the bulk of the expansion for this financial year will be in the second half. And till last year we were at 32,000-odd villages, we added 8,500 last year. We've reached 41,000 now. By the end of the year we'll be close to 50,000 towns and villages.

Shirish Pardeshi: Okay. Just since you are there, let me make an attempt to ask. Can you qualify saying, last two, three quarters we have made lot of investments under the project Khoj. So, any quantitative data points you can offer in terms of distribution or in terms of quality, in terms of growth or something like that?

Mohan Goenka: Sure. So growth -- so we're measuring growths in two ways. We look at even total rural, and therefore the Khoj project which is in 13 states, what are the growth levels there. So we're delivering more than 1% growth than total rural in these Khoj towns.

Two is, from a -- like an expansion in the footprint, we have gone from 32,000 to now 41,000 towns and villages.

Three, we are getting our repeat purchase. So what we also track is the frequency at which the towns are buying. We're getting -- more than 90% of the towns we've added are repeat purchase every month. And this is a monthly phenomenon, it's not like a YTD repeat purchase.

And if you look at all of these parameters put together, plus the productivity of the people that we've put in, we've added around 400-odd -- 453 people on ground, which has taken our rural footprint manpower presence from close to 900 to almost now 1,300. And we are seeing high productivity levels. Our cost to serve is also in well below budget. So overall, we're very happy with the project and the progress we're making.

Shirish Pardeshi: Okay. That's really helpful. My third question is on the healthcare business. What we have seen, the growth obviously on a high base has tapered off. But just wanted to understand the initiatives what we have taken in terms of the new product launches and in terms of penetration. I did have some discussion last time where we are trying to cover the front-end with the doctor, and the back-end with the availability. So maybe if there is any -- some update, how this programs, what we have run around, if you can share?

Gulraj Bhatia: So in healthcare basically, as you know, we have two parts of the business. One is the FMCG/OTC part, and the other is medico part where we reach out to doctors. So, regarding the doctor point you mentioned, I think our medico business has done reasonably well. Despite the high base we had last year we've done well because of the extra headcount we've added in terms of reaching out to more doctors to both -- and to more retailers.

And both in the branded ethical business and then the generics classical business, we are on course to deliver the numbers which we had projected for this year. Of course in the generic business there was pressure on the immunity range, but the ethics business has done very well for us compared to the last year.

As far as OTC is concerned, basically we did, as I said, have a challenge on the immunity range even for OTC. But we have planned to add about 20% outlets and increase our rural footprint also by 20%. So, we will see the results of that in the second half given the initial seeding time it takes to build that infrastructure.

Shirish Pardeshi: That's really helpful, Gulraj sir. My last question, Mohan ji, on the Dermicool part. When we did the acquisition, we said that one quarter we will continue the distribution agreement with Reckitt, and the season has panned out. I just wanted to understand two updates. Whether you have already taken Dermicool pan-India because it is having a base of prickly heat, so whether that has happened?

And second, if you can say, what are the initiatives we said, because in the call when we did the acquisition you did mention that we are looking for a larger category. So maybe if you can help me what are the initiatives already taken or maybe will be taken in the future.

Mohan Goenka: So Shirish, Dermicool was already a pan-India presence product even when it was at Reckitt. And as I mentioned that it is coming to our fold from 1st of August. Now the season has gone, that's why we did not take it in the peak season. We did not wanted to do the transition in the peak season, so we are doing it in off season. Now the season comes only in the month of February, March. Before that whatever steps need to be taken, we will take those steps.

As far as new extensions or brands or products are concerned, that we are working upon it. It will take a while for us to launch some of the categories under Dermicool. But the entire distribution will come under our fold from 1st of August.

Shirish Pardeshi: So that will, Mohan ji, include the manufacturing in-house? Or we will have third-party?

- Mohan Goenka:** Third-party. Anyway, it was manufactured by a third-party, we will continue with that.
- Moderator:** The next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.
- Gaurav Jogani:** Thank you for the opportunity, sir. And sir, one question is with regards to the Dermicool business acquisition. So sir, how much of that impact have we seen in terms of the gross margin here, given that the gross margin profile there was around 55%, 50% odd, and our overall company margins are north of 60%, so how much of the impact is due to Dermicool?
- Rajesh Sharma:** So, Gaurav, Dermicool contributes to roughly 8% of our domestic sales, so that is not significant. The impact on gross margins came because of adverse mix was primarily on account of pain management portfolio, which Mohan ji discussed earlier that pain management grew significantly in the base quarter last year and we saw correction this year.
- Gaurav Jogani:** But sir, is the assumption right that the margins there is around 55-odd-percent for Dermicool?
- Rajesh Sharma:** Yes, Dermicool has slightly lower gross margins, right.
- Gaurav Jogani:** Okay. Okay. And sir, just related question to Dermicool again. I mean, what would be the contribution of Q1 and Q4 to the annual Dermicool? I'm sorry, sir.
- Mohan Goenka:** So, as Rajesh said, almost 1.5% difference came due to the mix, not just because of the price increase. Last year, higher margin products, whether it was immunity or pain management, sales were very, very high, which has much higher margins than even 67%, 68%, okay?
- Gaurav Jogani:** Right.
- Mohan Goenka:** So almost 1.5%, is due to the mix.
- Gaurav Jogani:** Sure, sure. So sir, 3.5% I think the remaining would be around 0.5% or 1% would be due to Dermicool, due to this lower margin?
- Mohan Goenka:** No, no, not so much.
- Gaurav Jogani:** Okay. So the rest would be like RM inflation, I think?
- Mohan Goenka:** Yes, mostly it is RM inflation.
- Gaurav Jogani:** Okay, got it sir. And sir, with regards to Dermicool only, like your annual sales how much would be the contribution in Q1 and Q4 for Dermicool in that sense?
- Vinod Rao:** It will be 90-plus, because your Q2 is hardly nothing. So it will be 90-plus-percent. Q2 -- in fact, Q3 is zero, Q2 is 10%. Yes, it's around 90% plus.
- Gaurav Jogani:** Okay. And sir, just one last thing, sir, on the tax rate bit. I mean, we again this quarter had received some MAT credit entitlement. So, now how much of this is less and what should be the tax rate percentage that we should assume going ahead?
- Rajesh Sharma:** Gaurav, we would -- since last quarter March quarter we started accounting for MAT credit. And there would be MAT credits in the remaining quarters also. So, difficult to give an exact average tax percentage for me. But it should be roughly, I would say, around 18% kind of tax rate should be there. Not more than 18%, it looks like that.
- Gaurav Jogani:** 18% if I account for the MAT credit entitlement as well, right?
- Rajesh Sharma:** Right.
- Moderator:** The next question is from the line of Harit Kapoor from Investec Capital Services India. Please go ahead.

- Harit Kapoor:** Yes. Hi, good evening. So, I just had a few questions, one was on the base effect in pain management and healthcare. So, if you just do the math t basis your three year CAGR and apply to maybe Q2 also, the decline on a Y-o-Y basis in Q2 would look much lower, maybe close to about 5%, 6% for the pain management business and maybe 15% odd for the healthcare business. Is that the right way to kind of look at it? Or am I missing something?
- Mohan Goenka:** No. Harit, in Q1 last year we had seen a significant -- in fact, extraordinary growth for pain management as well as healthcare because of the COVID impact. So, from Q2 onwards, we don't have that significantly higher base.
- Harit Kapoor:** Right. It'll be much lower, right? I understand pain management --
- Mohan Goenka:** Compared to Q1 it will be much lower, but still Q2 was relatively good, I would say, we had a decent base for pain management and healthcare in Q2. But compared to Q1 it would be lower, from H1 it normalized last year.
- Harit Kapoor:** Got it. The second question is on the -- two questions on rural actually. The first one was on the packs that you have -- or the new launches that you have done in certain brands, a INR20 bridge pack in Navratna, a 30 ml bridge pack in Kesh King, 30 gram shelf-ready pack for Fair and Handsome.
- Is that kind of to leverage the kind of distribution expansion that you are doing in rural and hence try and improve the throughput, I mean, just wanted to understand your thought process behind it. Or is it that you're seeing that the market is -- rural is slow and small towns are slow, so you just want to kind of drive growth in smaller packs?
- Vinod Rao:** So the bridge pack truly will have a role both to play even in urban as well as rural. See, rural are LUP, which is your sachet we sell significant quantities. So we've been -- we have a healthy mix between the base pack, large pack, as well as sachet, or roughly it's around 35% is they are LUP.
- So what we're trying to do also is leverage some of these bridge packs to actually bring down certain contributions of our LUP in rural, this gives us a bit more profitable mix even in rural. And actually the sweet spot in terms of our put-down price suits both the customers in urban as well as the rural customers.
- Harit Kapoor:** Got it. Very clear. On the rural side only, I just also wanted to understand, we have seen a slowish kind of demand trend. But as we are exiting June quarter or early July, is there anything to suggest that there is some better pickup or improvement from a demand trend perspective? This is ex of what you guys are doing in the market.
- Vinod Rao:** Not really, we are not seeing anything. Say, whether it is July or even probably end of June, we're not seeing that uptick. I think a lot of our growth is also being -- also led by a few 1.2% is on the entire Khoj projects. So that's helping us probably deliver a better rural performance than we would have -- than what the market scenario is today.
- Harit Kapoor:** Got it, got it. And the last one was on Navratna. So, we had a good season of course, but if I would apply the same CAGR logic to Navratna, in still seems like there is a little bit of a decline there. We just wanted to get your sense that, what's happening, is it again the demand - - rural demand issue or anything else? Or if you could deconstruct maybe talc versus cooling oil, just some more color there, please.
- Mohan Goenka:** So you are right, Harit, on a three year basis Navratna is still on a decline, and that is primarily because last two seasons it was at a steep decline, unfortunately, like so. So hopefully if the trend continues, the way we have grown in this quarter, if it continues and we are seeing growth in Navratna even in the month of July. So if it continues, then maybe in one or two years we will be able to make it up.
- Harit Kapoor:** Got it, got it. And last thing, if I may, was on the hair oils part. So, also Kesh King has recovered smartly, I think three year CAGR is also at about 7%, 8% as per my calculation, 7 in One continues to do very well. I just wanted to get your sense on whether this growth in both

these businesses is more distribution-led, it's more of your -- or is it more kind of -- just generally even in the same-store market share-led, I mean, could you just give a sense on that?

Mohan Goenka: So it is -- see, in Kesh King we have taken a lot of initiatives, particularly in the shampoo front. In my opening remark also I said, we are putting a lot of effort on sachets, and there are other initiatives also. So, it is not just distribution-led, it is an overall trust on the brand.

The larger point is what Vinod and everyone is pointing out is that despite of so much challenges we are investing on all fronts, whether in healthcare distribution or in consumer care distribution, and same is in Bangladesh and other international markets. The results, unfortunately, we have not seen today, because of the market conditions. But I'm very, very optimistic once the scenario improves we would see significant benefits coming in.

Harit Kapoor: One data point, how large is shampoo now in the overall in Kesh King portfolio?

Mohan Goenka: Shampoo is almost, 25% in Kesh King portfolio.

Moderator: The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Hi, Manoj ji. Thanks for the opportunity. A couple of questions. First, if I see our modern trade and e-commerce saliency, even sequentially and Y-o-Y both, there is a decent improvement. In fact, in FY '20 we were at somewhere around 12.8%. And if I do the math, then somewhere we are now at 15% plus.

So just wanted to know, is there any specific effort that we are putting on this side? A. And B, last year same time we are very bullish on zanducare.com, so what percentage of our online saliency is coming from Zanducare? And any thoughts on Zanducare's expansion as well?

Vinod Rao: Vinod here. I'll just address the MT and e-com part. So yes, you're right, we are making significant investments on modern trade. So, we've done two things, one is, we've added a lot of these standalone stores. So our earlier presence was slightly muted, we've added close to -- we are covering close to 6,000 stores which are standalone modern stores. And these are growing at a significant higher rate, we are growing at almost 80% levels.

We've also done significant investment in stores in the large hyper, and we are under a project called Midas where we are looking at the entire visibility initiatives in store. And that is giving us good growth points and they're significantly higher growth rates than total modern trade. So these two, three initiatives is really helping the modern trade growth where we are investing behind promoters and in-store visibility.

On e-com also, a lot of our large packs, as a trend we are seeing e-com specific SKU and portfolio growing at a much faster rate, and which is helping driving e-com growth. So we began e-com at -- so we continued to grow at almost 80-odd-percent on the base e-com, and that's delivering good growth for us. We've invested in the team, we have strengthened the team, we've almost doubled our team from what we began in the first quarter of last year, and that's helping us and we're doing critical account management listed in most of the accounts and that's helping driving growth.

I'll just give it to Gulraj to address the Zanducare part.

Gulraj Bhatia: Hi. So, regarding Zanducare, basically, I think in the last three, four months there has been the same, I think, high base of last year, similar to what we've seen in healthcare and pain management, given the fact that we did particularly well in the pandemic period last year. But we have taken on pretty aggressive growths for this year in the -- especially in the second half of the year, which will be led definitely by a number of new launches we are doing of digital-first brands.

So, along with the existing base brands and the new digital-first brands we are launching, which many of -- which will be new to the market, new to the industry, led by strong R&D development. We do see a strong growth potential for Zanducare, given the fact that many consumers are now moving to buying online, etc., and we are addressing the millennials, the digital natives.

So we do foresee strong performance coming, of course, in the small base. Related to the overall business, it would be smaller. But we are obviously investing for the future, not necessarily for this year, but for the next many years to come.

Tejas Shah: Sure. Thanks for the detailed answers. Just one follow-up on that. So, are there any of our brands which are actually clocking better market share in any of these channels versus, let's say, GT or the traditional ones?

Gulraj Bhatia: I think, across our portfolio if you look at the respiratory, if you look at immunity, if you look at digestives, and other segments such as sexual wellness. From whatever we know of, obviously, there is no industry tracking which happens like Nielsen, but whatever we've been able to understand from our competitors, companies in the market, we seem to have better in terms of growth, if you see imports in the last couple of years and even in this quarter, our relative performance has been better than theirs. So we have been market-driven most of the segment we are present in.

Tejas Shah: Sure, that's helpful. And the last one for Mohan ji. Mohan ji, you have shared the details of the new Board Members and visibility -- and visibly the new Board has a good mix of experience and energy. But just curious to know, is this a routine rotation, or we actually wanted to use this opportunity to hit certain specific talent or experience gap in our portfolio -- sorry, in our Board members in terms of what they bring to the table in terms of the think tank that we have?

Mohan Goenka: So, of course, the five Directors, they had completed their term, okay, so we had to appoint five new directors. It was a good opportunity, I think we have got a very good mix of experienced Directors now, I'm sure they would add a lot of value.

Moderator: The next question is from the line of Vishal Gutka from PhillipCapital. Please go ahead.

Vishal Gutka: Most of my questions have been answered, but one more question is there. On the bridge pack, if you can just highlight how bridge pack from, what do you call, for Navratna, Kesh King, and Fair and Handsome has helped the growth in this quarter? And for Kesh King specifically, INR49 bridge pack we have launched, so in that are you providing applicator as well? Because then how the margins will look because if you have to provide the cost of applicator and the bottle, I just wanted to understand on that front.

Vinod Rao: The bridge pack, so we have not gone full hog on the bridge packs, but they're contributing significantly. We just about launched it, we were testing waters in some sense, but they're contributing significantly, it's around 2%, 3% as of today. But what we're seeing is the market acceptance was phenomenal. And we've seen us gain actually distribution, we've almost reached 60%, 70% of the core brand distribution because of these bridge packs.

And what we will continue to do is then keep investing behind this. And looking at this, we will be also looking at other brands of ours where we could launch bridge packs. Because this just helps arrest any consumers moving out of category. And if there is any downtrading that is happening, that stays within our category.

Vishal Gutka: Okay. And for Kesh King, if you can comment upon?

Vinod Rao: Sorry, what is the question on Kesh King?

Vishal Gutka: Yes. Sir, because Kesh King has to provide the applicator as well, right, for INR49 bridge pack, so how the margins will look? It will be margin dilutive in that case or how it will look on that -- in that front?

Vinod Rao: No, the margins are not at all dilutive on this pack.

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

Abneesh Roy: A few follow-on questions. So first is a structural question, I remember saying that Emami wants to reduce the seasonality which is there in your businesses. Now if I see Dermicool, in

fact, it increases the seasonality because Q1, Q3 -- Q1, Q4 will be higher indexed, while Q2, Q3 almost negligible. So, will you now proactively try to address, again, the increase in seasonality? Or it is now much larger business, so it is okay?

Mohan Goenka: Abneesh, if it is addressed on its own, it is fine. We don't have a deliberate plan to address it, okay? Because brand building or brand buying is not in our control. If we like something or if it fits within our overall scheme of things, we will keep on acquiring those products, even if it is seasonal.

Abneesh Roy: Second is on immunity, because of COVID, Chyawanprash, etc. saw huge increase in penetration. But Indians are extremely focused on current theme, so the new customer also got added because of higher penetration. Any sense, Mohan ji, you have that they will remain? Because clearly all companies are seeing that now sales have completely come off. This is not peak season, but how do you retain the new customers who had come? I understand penetration has increased sharply.

Gulraj Bhatia: Gulraj here. So you are right that ideally a certain number of customers should have been retained. But what we're seeing of the category and the industry as a whole, across all the immunity categories the level seemed to have gone back to the pre-COVID levels. If anything, there seems to be even more pressure there. While we don't have research data to prove it.

At the same time, we do believe that in certain segments there will be a certain retention, which is higher than what it was earlier. But currently what we are seeing for the industry as a whole, the -- we are not seeing any uptick compared to what it was pre-COVID levels. The reason could be that many people would have bought these products in last year in October, December, and they are carrying stocks.

So right now, people have gone to the other extreme where they're not really sort of -- the drop is far higher than what one would have thought it is. Now, we don't have data across segments on how many are the existing versus new customers at this point. Very difficult to judge that actually.

Abneesh Roy: And one question on bridge pack, so one is INR20 -- I was a bit surprised on that pricing, because normally bridge pack is something INR13, INR17, something like that. So, my question is, are you giving more value to customers on more grammage for that? So why will customer shift from the LUP to the INR20 pack?

Vinod Rao: On which were you saying, which pack specifically?

Abneesh Roy: The example you have given in the presentation, the INR20 bridge pack.

Vinod Rao: So we have -- in fact, across our portfolio we do have a wide range. So whether it's a sachet, we also have a INR50 pack, we have a 50 ml pack, we have across the brands. So the bridge pack actually is playing between the smallest pack which is in bottles for each of these brands and the sachet. So, we don't -- you're right, you don't see complete switch, you won't see the switch between a sachet user who is also an infrequent user in that sense to bridge pack. But what we're trying to do is look at driving the salience of these packs which builds profitability for us for those channels as well going forward.

Abneesh Roy: So essentially grammage you are not really offering more to the customer versus a sachet, will that be correct?

Vinod Rao: No. In a cost point of view, in the price for ml, no, but grammage definitely, yes, per 100 ml.

Abneesh Roy: And last question is on quick commerce, any data you can share, how relevant is it for your category? And have you tied up with all the key players?

Vinod Rao: In e-commerce?

Abneesh Roy: No, quick commerce, 10, 20 minutes, 30 minutes delivery.

Vinod Rao: So we are present on all these platforms.

- Abneesh Roy:** But how is the exposure, as in, any number you can quote, how much of sales is coming from quick commerce?
- Vinod Rao:** It is very less, because they also operate with a very limited portfolio and they largely follow a very essential purchase kind of a model. They are also building, they are also reinventing the model as channels, and they are trying to look at delivery times which are slightly longer, which actually brings in a bit more planned purchase. So we have really very limited SKU presence in these channels, and we're just participating in that, the numbers are small.
- Moderator:** The next question is from the line of Kaustub Pawaskar from Sharekhan by BNP Paribas. Please go ahead.
- Kaustubh Pawaskar:** Thanks for giving me the opportunity. Sir, I just want to understand that how much was the raw material inflation for this quarter? And whether if we have taken any price increase in this quarter?
- Rajesh Sharma:** So we have taken roughly 4%, 4.5% kind of a price increase, blended price increase across the portfolio. And the inflation has also been very significant, and as a result of which our gross margins are impacted. So, two primary reasons as we discussed earlier for our gross margins getting impacted. One is the high inflation and second is the mix impact. Because last year in the base quarter we had high margin categories getting sold.
- Kaustubh Pawaskar:** So 4%, 5% price increase was taken into this quarter or it is a blended average?
- Rajesh Sharma:** It is a blended average price increase.
- Kaustubh Pawaskar:** Okay. And going ahead, are there any plans to increase the price considering the inflation? Because as you said that you have an inventory of high-cost raw material for another quarter or two. So are we looking at taking further price hike in portfolio or there would be -- there won't be any significant price increase?
- Rajesh Sharma:** So we expect our average price increase in the range of 4% to 4.5% for the full financial year as well, with similar kind of a price increase impact.
- Moderator:** The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.
- Shirish Pardeshi:** Yes, thanks for the opportunity again. Mohan ji, I've got two sub questions on the margin front. Last time you have guided that there will be a decline in gross margin because of the raw material and investment in the ad spend. So, I'm not asking for the next quarter, but how one should look at FY '23? How much ad spend do you think you would do will be in the range of 18% to 20% of net sales or it will go up?
- And second, as Rajesh ji has mentioned that there will be mix change, which is not helping in this quarter. But do you think confident that second half your mix change will not require to take that kind of aggressive price increases?
- Mohan Goenka:** Shirish, so on a yearly basis, I don't think we should have an impact more than 2% as far as gross margin is concerned, okay. And we would -- and A&P we would try to be almost in the range of about 17% to 18%, not more than that. That is what we have planned. And sorry, what was your last question, Shirish?
- Shirish Pardeshi:** No, I'm saying, so you said that 200 basis point improvement -- the decline in gross margin which will happen. But I was more keen on if you have any plans, because you mentioned that Dermicool will come in quarter four. So, is that the ad spend you will be able to manage within that range?
- Mohan Goenka:** Yes, we would be able to manage in 17% to 18%.
- Moderator:** As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Rajesh Sharma: Thank you, Percy. Thank you, IIFL. And thank you all the participants for joining us for our quarter one FY '23 results concall. Thank you.

Moderator: Thank you. On behalf of IIFL Securities Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.

Disclaimer - The following transcript has been edited for language, errors and grammar and therefore, it may not be a verbatim representation of the call