



## “Emami Limited Q2 FY 2016 Results Conference Call”

**October 29, 2015**



**ANAND RATHI**



**ANALYST: MR. AJAY THAKUR - ANAND RATHI SHARES AND STOCK BROKERS LIMITED**

**MANAGEMENT: MR. MOHAN GOENKA – DIRECTOR – EMAMI LIMITED  
MR. RAJESH SHARMA – SENIOR VP, FINANCE AND INVESTOR RELATIONS – EMAMI LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Emami Q2 FY2016 Results Conference Call hosted by Anand Rathi Shares and Stock Brokers 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 would now like to hand the conference over to Mr. Ajay Thakur. Thank you and over to you Sir!

**Ajay Thakur:** Hi everyone. I welcome you all to Emami’s Q2 FY2016 results conference call. We have with us from the company Mr. Mohan Goenka Ji who is the Director at Emami. We also have Mr. Rajesh Sharma who is the Senior VP, Finance and Investor Relations in the call. We will begin the call with a brief results detail from the company management and we will follow it up with the Q&A session. Mr. Mohan Goenka Ji you can take it over from here.

**Mohan Goenka:** Thank you Ajay and a very good evening friends. I welcome you all to this conference call of Emami Limited on the second quarter and half yearly results. Our revenue at Rs.575 Crores grew by Rs.17.4% with volume growing by 10.4% in this quarter. In H1 revenues grew by 19.9% at Rs.1165 Crores with volumes growing by 12.6%. Kesh King contributed to around 10% of the growth during the quarter and 6% of the growth in H1 FY2016.

Domestic business registered a top line growth of 19.5% and a volume growth of 13.5%. In H1, the domestic business grew by 21.5% and volume growth by 14.5%. Early and erratic monsoons and deflationary environment along with lower rural wage growth and minimum support price and an overall sluggish consumer environment continued to affect the industry during the quarter.

Early monsoon impacted the sales of summer brands. Cooling oil registered flat growth during the quarter whereas Navratna Cool Talc degrew by 20%. Balms grew by 3% during the quarter due to deficit of monsoon in western India, which is a major market for balms.

Fair and Handsome grew by 10% and Boroplus antiseptic cream grew by 16% during the quarter. Zandu Healthcare products grew by 45% during the quarter with Zandu Pancharishta more than doubled in this quarter.

In H1 FY2016, cooling oil grew by 10% and Navratna Talc grew by 6%, balms grew by 13%, Fair and Handsome growth was at 15% and Boroplus antiseptic cream grew by 16%. In H1, Zandu Healthcare products grew by 37%. We continue to maintain leadership in our

key categories in Q2 of FY2016. Cooling oils grew its volume market share by 560 basis points at 73.2%.

Balms and Boroplus antiseptic cream and also Fair and Handsome maintained their leadership positions with volume market shares at 55.7%, 75.5% and 62% respectively. The international business grew by 12% in Q2 FY 2016. In H1 FY 2016, it grew by 16%. The business was impacted by geopolitical and economic challenges in the overseas market like Africa and Russia.

MENAP region performed well led by robust growth in GCC region. Our profit and margins have grown ahead of the topline growth despite higher A&P spends. Gross margin at 70.6% are at all time high improving by 440-basis points year-on-year in the quarter.

Advertising expenses increased by 100-basis points in Q2 FY2016. Despite this our EBITDA margins at 26.5% are also at an all time high for Q2 improving by 340-basis points in this quarter.

During the quarter, the amortization of Kesh King and SHE intangibles amounted to Rs.62 Crores. Interest paid increased by Rs.18 Crores and other income reduced by Rs.2 Crores on account of the acquisition.

Cash profit at Rs.133 Crores grew by 30.3% in the second quarter and by 37.2% in first half at Rs.243 Crores; however, PAT at Rs.61 Crores degrew by 33% during the quarter and by 8.9% in H1 FY2016 at Rs.149 Crores on account of amortization of Kesh King intangibles.

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 Percy Pantaki from IIFL. Please go ahead.

**Percy Pantaki:** Good evening Sir. My first question is on Kesh King, if I look at your presentation it seems to denote that about Rs.57 Crores of sales came from Kesh King this quarter. That seems to be low compared to the last year full year run rate of about Rs.300 Crores. So, can you just run us through the reasons why this quarter sales was lower than the last year's run rate?

**Mohan Goenka:** The major reason of Kesh King not growing was because of heavy stocking by the earlier distributors, which impacted the business and still we are facing a lot of difficulty in the market, because their stocks still carry a huge inventory.

**Percy Pantaki:** How long will it take for this earlier inventory to run down?

**Mohan Goenka:** Our market feedback suggests that most of the markets have now been dried up except for UP, Ahmedabad and Maharashtra. So, which I think should be over in the next one or two months, because we have been trying to negotiate with these distributors so that they can sell the stocks to us and hygiene levels can be improved. Because, we are unable to control the price of Kesh King, there is a difference in the price at what they sell and what we sell, which is disturbing the market at the moment.

**Percy Pantaki:** In your estimate, do you have any idea as to how much would be the secondary sales growth this quarter I mean the figure like would it be in line with the last year full year about Rs.75 Crores quarter?

**Mohan Goenka:** No, we do not have any secondary numbers from them, so we do not know what their numbers, but unless we improve our primaries, we would not know exactly, but I think it is a matter of time, let us see if we can improve in one month or two months, we are trying and negotiating very hard with them and I am very hopeful it should stabilize in the next one or two months.

**Percy Pantaki:** Right. Sir, secondly on Navratna, was it only because of the season that we have seen this slowdown in growth or is there any other factor?

**Mohan Goenka:** Primarily is because of the season, but definitely like I am not too sure if the growth could had been 13%, 14% as I have always maintained that Navratna and some of our brands are very high seasonal brands, so like we had early monsoon in some markets, so we saw sudden degrowth of the cooling oils and also the talcum powder. But otherwise I am very confident that at least 10%, 12% in Navratna is possible if we get a good season.

**Percy Pantaki:** Right Sir and lastly just wanted to understand your other income for the half year you have exceeded about Rs.30 Crores in other income and this is at a time when basically you had have spent a lot on the acquisition and your cash balances would be depleted. So I just wanted to understand how to model this going forward and is it only the interest on the cash balances or is there some higher proportion of export benefits that we have booked this time around I mean just to understand for the next two quarters how should I look at your other income line?

**Rajesh Sharma:** Hi Percy. This quarter it includes one off gain of around Rs.5 Crores and also some forex fluctuations. So going ahead I think we can look at around Rs. 5 Crores kind of the income every quarter.

- Percy Pantaki:** Rs.5 Crores of other income every quarter. Okay Sir. Thanks. I will come back in the queue if I have further questions.
- Moderator:** Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** My first question is you saw seasonality in the sense early rainfall, but cooling oils I saw flat numbers while cooling talcs show 20% decline. Is there share loss in cooling talc?
- Mohan Goenka:** No, there has been a market share gain in cooling talc also.
- Abneesh Roy:** Why will two segments behave so differently because of the same reason?
- Mohan Goenka:** No, because cooling talc almost 95% of the business comes from pure summer. Navratna sells round the year.
- Abneesh Roy:** Sir, first month I understand there was very heavy rainfall, but next two months it was extreme opposite, then what happened, did not cooling oils come back in those two months and you said it say around the season anyway and then when again temperature rises, do not you get that growth at least I understand losses does not come back, but growth should come back in the next two months, right?
- Mohan Goenka:** But temperatures were not like that it would the summer was not so intense that it would give us growth.
- Abneesh Roy:** Kesh King, could you elaborate, you have given the growth numbers but just to have a number, what was the sales, how were the margins in the first quarter and you mentioned that there were very high inventory levels, was this known that this will be such an issue this problem will be, I understand initially any acquisition inventory levels will be high, but it will be this high were you aware of this?
- Mohan Goenka:** No, we were aware, because the numbers were shared with us by the earlier promoter that this would be the inventory at the dealer's place which was calculated, but it was much, much more than what was shared. So, as I said we are trying our best to see that how can we stabilize the price, see we do not mind whether they sell or resell, but if they sell at a lower price then what we sell that disturbs the market. So I think it is a matter of time it is just month or two, which is our estimate, and then it would stabilize.

- Abneesh Roy:** Sir, this price difference, how much is it and could you elaborate again what was the real sales, actual sales and the kind of margin profile if you could discuss this quarter of Kesh King. You had mentioned growth number but just to be specific?
- Mohan Goenka:** Sorry on the margin profile of what? I am not very clear.
- Abneesh Roy:** Now what was the sale Sir? First let us start with sales; what were the Kesh King sales this quarter?
- Mohan Goenka:** The Kesh King sales were about Rs.52 Crores in this quarter.
- Abneesh Roy:** Right and initially you had mentioned this is 45% kind of EBITDA margin and may be 75% gross margin. Are you still maintaining that?
- Mohan Goenka:** Yes, absolutely. There is no change. In fact the margins are 76% and 45%.
- Abneesh Roy:** So, why I am asking this is you mentioned that the price difference. So, if customer gets accustomed to a lower price and what is the price difference, which you are selling, and the current stockiests are selling?
- Mohan Goenka:** No, there is no difference in the price for customer. The difference in the prices sales by their distributor and by our distributor and that price difference is about 7%, 8%. So, they are selling 7%, 8% lower than what we are selling to the trade.
- Abneesh Roy:** Sir my last question is on segments which you have done well, so healthcare has done exceedingly well this quarter, so if you could take us what is the size you are discussing and it has stepped up quarter-on-quarter also and Pancharishta also is it possible to share the size, because it is more than doubled, but on what base that will be helpful Sir?
- Mohan Goenka:** Pancharishta in this quarter, the sales is about Rs.33 Crores compared to Rs.16 Crores.
- Abneesh Roy:** Similarly healthcare is how much?
- Mohan Goenka:** Healthcare is about Rs.53 Crores. Last year was Rs.37 Crores.
- Abneesh Roy:** 7 Oils in One anything structurally it has changed? I understand base is quite small, but are you finally calling this as a successful new innovation or is it still early?

- Mohan Goenka:** No, we are happy with the numbers of 7 Oils in One and this remains one of our key investment brands, but I think as I have always maintained that oil is not a very easy market, it will still take some time for us to reach the threshold.
- Abneesh Roy:** Acquisition of Kesh King does not change your amount of focus on this?
- Mohan Goenka:** Not at all.
- Abneesh Roy:** Both are different?
- Mohan Goenka:** Yes, both are. Navratna, 7 Oils in One and Kesh King are all three very different oils.
- Abneesh Roy:** I will come back in the queue. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Amit Sachdeva from HSBC. Please go ahead.
- Amit Sachdeva:** Good evening and thank you for taking my question. I just wanted to understand this gross margin bit, there is a very good expansion relative to if you look at the trajectory there. So could you tell us that how sustainable is that and how if you could split the impact of Kesh King although we can work it out a bit, but if you could help us to understand how the margin outlook looks like for coming quarters during the year and how you are looking at sort of adding the two?
- Rajesh Sharma:** Hi Amit. We have seen a good expansion in the first half and for the full year also we expect at least I think now 250-basis points to 300-basis points minimum, so we should see good expansion at that front.
- Amit Sachdeva:** Is it because of Kesh King or general expansion because the lower commodity or is it a mix of two, how it is playing out for you in aggregate?
- Rajesh Sharma:** It is mix of two, so Kesh King would contribute roughly 80-basis points to 100-basis points and balance would be because of benign cost.
- Amit Sachdeva:** That continues for a while?
- Rajesh Sharma:** And judicious increase in price because we have also taken price hikes.
- Amit Sachdeva:** How much price hike was taken and where?

- Rajesh Sharma:** If you look at the 12-month period on an annualized basis, we have taken around 3% to 4% kind of price hikes.
- Amit Sachdeva:** Okay, so looks like margin trajectory is here to stay if I am reading you correctly?
- Rajesh Sharma:** It looks like, yes, sure.
- Amit Sachdeva:** Other things are international bit, because as well as I understand international strategy was in the making and we were looking to actual rate international growth and looking at several ways sort of augment this by company initiatives as well. Could you give us what is really happening there and what sort of new plants are there for hiring people and I thought the impetus on international was intensifying?
- Rajesh Sharma:** You are right, so that impetus is there and we are hiring good resources, we have appointed cluster heads, we are keeping market team in key geographies and looking at investments in some of these key geographies. So we look at the major focus areas in international for us is the neighboring countries Bangladesh and the SAARC region, GCC, CIS and Africa. So, we look good growth coming from Bangladesh and Middle East going ahead. Overall, international should grow at 20%, 25% kind of a range.
- Amit Sachdeva:** Is it for FY2016?
- Rajesh Sharma:** It is for three year kind of period three year, five year minimum, average growth we are looking at so, quarter-on-quarter it may be a little higher or little lower. Annualized I think we should be able to deliver 20%, 25% kind of a growth rate.
- Amit Sachdeva:** Okay, understand. In terms of the Kesh King bit, so do you see that Kesh King coming back to growth trajectory next year and what are the relaunched plans and is there any sort of repositioning of the product or efficacy and where are we on that sort of relaunch phase I see some news clipping Sruthi Haasan that has been appointed for the south market as a brand ambassador, but what are the sort of in terms of repositioning plans and when do you expect some new action around this?
- Mohan Goenka:** On Kesh King, we are working extremely hard on all the factors that you have just mentioned, we need some more time to really understand the consumer and all these changes will take about six to nine months, but we are extremely bullish on this category and we are going to spend aggressively to grow this market, but as I had mentioned in my last concall that there are many opportunities in this brand. First we have to stabilize the price, all the inventory in the market, take everything in control and then we will go a little aggressive, so I think next year should be a good year for Kesh King.



- Amit Sachdeva:** Are you looking at also fortifying the formulation and is there anything else that you see that must be sort of work more on it. Is there any issue that you see that, because several brands are now coming in the market place organic and this and that all claiming to be sort of curing this thing? How do you make sure that you stay differentiated in this and are you sort of working on any formulation changes as well there?
- Mohan Goenka:** Yes, as I said we are working on all parameters whether it is formulation, packaging or new launches under the Kesh King brand. We are working on a complete remodeling of the product, which would take some time.
- Amit Sachdeva:** Okay sure, and any comment on the new healthcare launches which are obviously in the pipeline and could you give us little bit more colour where we are on that and what should we expect and what timeframe as you see one more quarter forward?
- Mohan Goenka:** The Zandu Healthcare you have seen the numbers are very good even in this quarter and so we maintain our focus on the existing range, which is led by of course Pancharishta, Nityam tablets and all the products under the healthcare and so the new product might take some time maybe next one or two quarters, we would launch some more products under the healthcare.
- Amit Sachdeva:** Some diabetic and are we sort of very close to sort of somewhere because I guess that was in test phase somewhere?
- Mohan Goenka:** So, we are still in the test phase in South India.
- Amit Sachdeva:** Thank you so much. That is it from me.
- Moderator:** Thank you. The next question is from the line of Arnav Mitra from Credit Suisse. Please go ahead.
- Arnav Mitra:** Hi Mohan Ji. Firstly on the growth in the organic business, if I get it correctly, so basically your non Kesh King business has grown at about 7% or so, so of that how much will be volume and price in that mix?
- Mohan Goenka:** Volume is about a percent and balance 6% is the price, but if you would see what has happened in this quarter, the major degrowth or flattish growth has been in oil and balms which contributes to almost 45% of the business in this quarter which we still strongly believe it is due to the weather. I am not ruling out some bit of a slowdown, but if the weather would have been favorable then the growth number could have been 8% to 10%, this is what is our estimate.

- Arnav Mitra:** In terms of on Kesh King I just wanted to understand, so basically now Kesh King is going to be sold by your distributors and these are the old distributors who were appointed by the company who are still holding stock.
- Mohan Goenka:** Right absolutely.
- Arnav Mitra:** So is it that you are lowering the trade margin because there is a pricing difference?
- Mohan Goenka:** No, we are not lowering the trade margins, but we have a standard price, what a distributor can sell. So say if Kesh King gives 8% distributor margin, I am giving you an example. Our distributors cannot pass 7% to the trade. They have to retain to get their ROIs, but the earlier distributors can give even 7%, 7.5% at whatever rate they want to sell, that is the price difference here.
- Arnav Mitra:** Is there a situation where while the market is little disrupted, is the presence of the brand in terms of retail still there or are we losing consumers also in this period when the brand is not fully available at retail points or is that not a big problem as of now?
- Mohan Goenka:** No, brand is available at the retail level. In fact, in Kesh King also we have gained market share in this quarter whether we sell or they sell, the consumer is getting the product.
- Arnav Mitra:** Right Sir that is what I was asking, so the consumer availability is not a problem?
- Mohan Goenka:** We have gained market share in this quarter.
- Arnav Mitra:** Okay and is this category of hair fall which had grown so fast, is the category now stagnant or is it still growing this year?
- Mohan Goenka:** The category is stagnant for which we have to now plan aggressively to bring back to the growth levels.
- Arnav Mitra:** Just one question on the other income, Sir I just wanted to know what is the exact gross debt and cash on book on the end of the second quarter?
- Rajesh Sharma:** Hi Arnav. The total gross debt is roughly Rs.950 Crores and we have cash of around Rs.150 Crores kind of, so net would be Rs.800 Crores kind of net debt.
- Arnav Mitra:** I am just trying to understand the other income, so if the cash is 150 and you said that possibly we can look at Rs.14 Crores, Rs.15 Crores of other income, there is a significant portion coming out of non-financial income, other income?

- Rajesh Sharma:** Right.
- Arnav Mitra:** What would be the main thing here it will be export incentives?
- Rajesh Sharma:** Right, major portion is that only.
- Arnav Mitra:** On the tax rate, this quarter has come a little below 20, so is 20 the normal rate or because of the international, it will be more like 18%, 19%?
- Rajesh Sharma:** Yes, it should be around 19% kind of, little below 20% for the next two quarters as well.
- Arnav Mitra:** Okay and lastly on the raw material side, how have menthol price been, because they had initially moved up and I think they have again come down, so if you could give some colour on how menthol prices have moved in the last three, four months?
- Rajesh Sharma:** We are now very at a benign as you rightly said earlier increase was corrected very soon and now the prices are at reasonable levels.
- Arnav Mitra:** Just lastly on the third quarter, which is the strong quarter for winter. Do you think the base is high or normal this year, because last year you did have good growth, so do you think it is a tough quarter given that last year we had good winters or are you reasonably confident that if the season is normal you should get decent growth in the winters?
- Rajesh Sharma:** Winter has not yet started, I do not think there is any base effect if the winter goes all well and I am sure of doing a 13%, 14% growth in this quarter.
- Arnav Mitra:** Thanks so much and all the best.
- Moderator:** Thank you. The next question is from the line of Prakash Kapadiya from Anvil. Please go ahead.
- Prakash Kapadiya:** Thanks for taking my question. Sir, if you could give some sense on the health care OTC products, some insights as to which therapies are we targeting, how easy is this business to scale against aggressive domestic pharma players, what is our current chemist channel reach and over the next two years what kind of reach are we planning to expand?
- Mohan Goenka:** As we have said we are extremely bullish on the healthcare area and you have seen quarter-on-quarter, we have maintained the growth even in this quarter, the growth has been almost 37, 38%. As I said we are test marketing some products in the south seeing the success and learning we would rule it out nationally.

- Prakash Kapadiya:** These would be diabetes, heart, and hypertension?
- Mohan Goenka:** Some of the products are for diabetes and for heart care and mostly for digestion. As I said seeing on the results we would take it nationally. Very difficult at this point to really give numbers or scale up on these products, because these are very niche products and our competition I would not say would be directly with the pharma companies. These are all 100% herbal products and Zandu has a very, very powerful imagery in the minds of consumers.
- Prakash Kapadiya:** So guy like maybe Himalaya or Hamdard would be real competition is that fair to say?
- Mohan Goenka:** Even they do not have brands like these in these categories, but there are some local brands. Let us see once we launch, we will get a fair idea.
- Prakash Kapadiya:** Here the distribution would be primarily the chemist channel?
- Mohan Goenka:** One is the chemist plus in India, there are exclusive ayurvedic bhandars who sell these products, so this is a separate channel altogether. We already have a reach because as I said even our present healthcare is Rs.200 plus Crores range, so we have a substantial good reach.
- Prakash Kapadiya:** If you could share some numbers on his ayurvedic channel or chemist channel reach as of today for us?
- Mohan Goenka:** Chemist we reach significantly, because Zandu Balm or Boroplus, all of these products sell through the chemist channel. So there we reach to I think about a lakh chemists. So, I do not think distribution is a big challenge for this.
- Prakash Kapadiya:** Any update on the SHE is the roadmap ready we were evaluating, we were studying the market, we were coming up with the game plans, so any update on SHE you have to share?
- Mohan Goenka:** We have some plan on SHE, so we will share at the right time, not at this time.
- Prakash Kapadiya:** Lastly Sir, how much dividend distribution perspective, is there stated payout policy for the next two years given you know the debt because of the Kesh King acquisition you acquired, so can we assume like 25% payout is there a policy?
- Mohan Goenka:** We have maintained it almost 40% payout, we would decide in the last quarter depending on the numbers, but we are confident that we would try to maintain at those levels.

- Prakash Kapadiya:** Thank you. All the best.
- Moderator:** Thank you. The next question is from the line of Ashish Upananlawar from Elara Capital. Please go ahead.
- Ashish Upananlawar:** Sir I just wanted to understand, I mean the performance of the company has been pretty volatile. I mean the last three, four quarters have been good before that we had a lull period and volumes and again the macro is becoming much more weaker compared to that period and so do you see quarters of under performance as such in terms of volume growth on the core side because adding Kesh King gives a different color to the overall growth, but core is it under some kind of difficulty going forward?
- Mohan Goenka:** As I said I am not seeing that much of a difficulty. If the season would had been good because if you go to very specific where we have degrown in balms or in Navratna oil then I can purely see there is a seasonal impact, otherwise easily we could have done 8% to 10% growth. Normally it could had been 12% to 13%, but as I said I am not ruling out some slow down, but 8% to 10% is absolutely no difficulty, but Maharashtra because there was a drought in certain areas, the balm sales simply went extremely low and south we grew in balms, but Maharashtra was almost 20% minus, which is 45% contribution to the balm sales, so on a very specific note I see I would still attribute it to the seasonal variations, but as I have maintained we would try to do a 13%, 14% growth in this year, let us see because these next two quarters are also very important for us.
- Ashish Upananlawar:** Sir, it is 13%, 14% excluding Kesh King?
- Mohan Goenka:** Excluding Kesh King absolutely.
- Ashish Upananlawar:** The macro will remain the same, is not it, I mean, you said Maharashtra there is a problem, but for the next two, three quarters everything probably is expected to remain on similar zone, so seasonality I understand for your business, but compared to historical levels, I mean seasonality combined with this thing still can be I mean kind of a lower number, it cannot be rule out is not it?
- Mohan Goenka:** Oh yes, absolutely you are right and there is sluggishness in the market, so we are hoping that the winter is very good, so that we can get a 13%, 14% growth, if the winter is poor then to give growth number would be difficult honestly.
- Ashish Upananlawar:** Sir actually winter channel filling would not it have already started given the fact that I mean it almost should have started right now, the channel filling?

- Mohan Goenka:** They have still not started for us at least I can tell.
- Ashish Upaganlawar:** Sir secondly on the revenue mix, I understand Navratna has summer season and for Boroplus in the winter season, but otherwise has the revenue mix changed a lot in other quarters in the last couple of years?
- Mohan Goenka:** No the revenue mix has not changed. It has remained the same.
- Ashish Upaganlawar:** Sir are we looking for any dilution in equity going forward?
- Mohan Goenka:** Not at the present.
- Ashish Upaganlawar:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Jubil Jain from Phillip Capital. Please go ahead.
- Jubil Jain:** Thanks for giving me the opportunity. My first question is can you throw some light on how the products categorized and the new launches have done this quarter?
- Mohan Goenka:** We have not launched any new.
- Jubil Jain:** No, the products, which you categorize under new launches, HE, SHE, Zandu, the new Zandu product, basically the products, which you normally categorize under new launches.
- Mohan Goenka:** This time we have merged with our existing products because the products have already been like a year now whether it is Fair And Handsome face wash or HE or SHE and also 7 Oils in One, these were the main four products.
- Jubil Jain:** Sir the reason I was asking this was because normally 5% to 7% of the growth is contributed by these products, the products, which you used to categorize under new launches and the organic growth is around 7% so just trying to reconcile whether the established brands have they been flattish if you look at them overall, I mean if you remove the products, which you used to categorize under new launches.
- Mohan Goenka:** Now since it is more than a year that these brands were launched and some of the brands are not doing as well like HE and SHE while others are doing well which is Fair And Handsome Face Wash and 7 Oils, so I think if you look at the revenue, it is no additional growth has come from these new launches this quarter.

- Jubil Jain:** Okay, can you throw some light on the difference between rural growth and urban growth, some of the FMCG companies have said that rural growth has been slowing down, have you seen, observed this for Emami as well, if you remove the seasonality aspect, the weather aspect?
- Mohan Goenka:** Not significantly, so we are seeing urban and rural both in same kind of a direction. We do not see significant difference between the two.
- Jubil Jain:** Okay and last question is there any seasonality of sales of Kesh King particularly?
- Mohan Goenka:** No, not really.
- Jubil Jain:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Puneet Jain from Goldman Sachs. Please go ahead.
- Puneet Jain:** Thanks for taking my question. So like in the sales growth in Q1 was 20%, organic sales growth and in this quarter, sales growth is 7%, so but you will attribute it just maybe primarily to season or possibly there has been some slowdown in consumer sentiment in this quarter?
- Mohan Goenka:** In my opening remarks I had mentioned that there is definitely a slow down, but as I said looking into the details and state wise numbers I would attribute that at least we could had done 4%, 5% more business, if the seasonality would have been favorable on an overall, so this 7% could had been 12% to 13%.
- Puneet Jain:** So and would you be able to pinpoint any geography where you have seen larger slowdown?
- Mohan Goenka:** See majorly the slowdown has been in two categories, our sluggish sales has been in two categories one is the balms, which is almost flat and oils also which is also flat, which contributes 45% of our revenue in this quarter and these in certain markets they have slowed down significant that is why on an all India basis we see these numbers and this year because the monsoons in some places, there were early monsoon in some places, there was drought and some there was excess rainfall, so this year there was very erratic weather patterns and I have always said that our products are highly seasonal, so this I think again that I would attribute it to the seasonal factors, some bit of too slow down and some bit to the seasonal factors.

- Puneet Jain:** You just mentioned that certain regions saw significant slow down, will you be able to highlight some of those regions?
- Mohan Goenka:** There has been an overall slowdown across the country, but where we have suffered most is in the north and in the west, so Navratna mostly in the north and for balms in the west.
- Puneet Jain:** That is helpful. Second thing is that on gross margins, possibly your gross margins in 3Q will further expand because 3Q is clearly a better season and the so will the EBITDA margins, so your EBITDA margins possibly could go into say something like, say low 30s, EBITDA margin could be in 3Q?
- Rajesh Sharma:** Margins are obviously better in Q3, so this will obviously improve next quarter, if you look at quarter-on-quarter numbers.
- Puneet Jain:** So there will be certain products, who will be earning margins possibly in the 40s at this point of time?
- Rajesh Sharma:** It is difficult to specify product wise margins at this point of time. The product mix is such that in quarter three we have good margins historically.
- Puneet Jain:** Possibly you have given the fact that you have certain amount of new brands in which you are investing and you will have a overall margin of 32.5%, your top margin brand should go into late 30s kind of margin that possibly will be correct?
- Rajesh Sharma:** That now with the investments into new launches is now being done for more than a year, so that investment was there last year as well, so same will be the case this year also in third quarter.
- Puneet Jain:** Finally so you get full tax credit for the amortization of brands you are doing?
- Rajesh Sharma:** Right.
- Puneet Jain:** So there is no issue with respect to that at all?
- Rajesh Sharma:** Yes.
- Puneet Jain:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Avneesh Agarwal from Prabhudas Lilladhar. Please go ahead.



- Avneesh Agarwal:** Mohan Ji and Rajesh, just couple of questions, one being the tax rate in the first half is just around 10.7%, so what should we be taking for the full year?
- Mohan Goenka:** For the next half you can take it around 18%, 19%.
- Avneesh Agarwal:** So it means the aggregate would be around 15 odd percent.
- Mohan Goenka:** Yes because first quarter we had one-off deferred tax write back, so that is the reason it is taken 11% for the first half.
- Avneesh Agarwal:** What is the outlook then for FY 2017?
- Mohan Goenka:** It should be around 20%.
- Avneesh Agarwal:** It should be around 20.
- Mohan Goenka:** Yes.
- Avneesh Agarwal:** Secondly if you look at say the Kesh King acquisition, now we have a Rs.52 Crores of topline in this quarter, so possibly we might end this year with something 175, 180 or may be maximum say Rs.200 Crores whereas initially we were thinking that the sales are say around Rs.350 Crores for this brand, beyond FY2016 if you look, say in FY2017, so would we be growing on a base of Rs.350 Crores or then we should, what sort of numbers are you people looking at for Kesh King next year because this year due to the distributor problems and all things are there, but it is also reality that there was more inventory in the system, which would have resulted in the reported sales being propped up because 350 might not have been the sales actually happening in the market, so based on the new you can say the reality which is there, so what sort of numbers you are looking at in FY2017 for this brand?
- Mohan Goenka:** I think we can safely look at around Rs.330 Crores kind of revenues, so what directly will come by next quarter.
- Avneesh Agarwal:** Okay, so it means that on the current run rate of Rs.50 Crores, Rs.55 Crores you believe it will go to around Rs.80 Crores at least?
- Mohan Goenka:** Yes.
- Avneesh Agarwal:** Will there be any change in the margin profile particularly at the EBITDA level due to this?
- Mohan Goenka:** No.

- Avneesh Agarwal:** Okay, but are there any clauses build in the agreement, which we did with erstwhile promoter of Kesh King that in case of higher inventory in the system or any such things, can there be something to consider?
- Mohan Goenka:** No.
- Avneesh Agarwal:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Manish Poddar from Motilal Oswal Securities. Please go ahead.
- Manish Poddar:** I just had one question, I just wanted to know, do you have a revised revenue or a volume guidance for FY2016?
- Rajesh Sharma:** We do not revise the guidance very quarter.
- Manish Poddar:** We stand by the 15 to 18 %?
- Rajesh Sharma:** Yes, 15% kind of growth can still assume.
- Manish Poddar:** 15%.
- Rajesh Sharma:** But, yes, given the current circumstances, I think if winter goes well that is not a challenge.
- Manish Poddar:** That is great. Thank you.
- Moderator:** Thank you. The next question is from the line of Naveen Trivedi from Trust Group. Please go ahead.
- Naveen Trivedi:** Good evening to all of you. I have two questions, first is on the Kesh King, can you share, how has been the offtick growth in the quarter two?
- Mohan Goenka:** We have grown our market share in quarter two in Kesh King.
- Naveen Trivedi:** I am talking about the growth rate if you have any number?
- Mohan Goenka:** We do not have the numbers for the last quarter as such and it is difficult also to compare because as I said earlier promoters, distributors also selling for which we do not have idea how much they really sold.

- Naveen Trivedi:** How much market share we have gained.
- Mohan Goenka:** Around a percent.
- Naveen Trivedi:** One bookkeeping question in the balance sheet we have seen the kind of debt we have taken for the acquisition that is into the short term in the nature, any specific reason for this thing?
- Mohan Goenka:** So we are presently financing through short-term, by next quarter we would convert some of that into long-term.
- Naveen Trivedi:** I think last time, last concall you said the debt interest cost will be around 9%, so that will be in the long-term in the nature, do you see any change in the interest rate?
- Mohan Goenka:** So this year the cost should be lower because till now we are financing through short-term debt, which is at a cheaper cost, so for this year I do not think we will be having a cost above 8% on an average.
- Naveen Trivedi:** Next year any estimate?
- Mohan Goenka:** 9% kind of we can take it.
- Naveen Trivedi:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Shirish Pardeshi. Please go ahead.
- Shirish Pardeshi:** Mohan Ji and Rajesh Ji, just two, three questions. The first broad question in a first half you have reported 20% consolidated revenue growth, what would be the volume growth in first half and price led growth?
- Mohan Goenka:** The first half volume growth is 14% for the domestic business.
- Shirish Pardeshi:** The balance 6% is your price?
- Mohan Goenka:** Yes.
- Shirish Pardeshi:** Okay and the second question is on international, I mean we were building up international and we were restructuring the business and I think we have seen some momentum in last two quarters, what happened in this quarter actually, I mean internationally we thought that the business is back on track that the numbers are not coming in?

**Mohan Goenka:** Right, so this quarter we have seen some problems again in CIS countries and which is primarily because of the big currency devaluation in those regions, so that market has degrown and also Bangladesh was flat this quarter, so there also growth was impacted primarily on account of Navratna, so same regions earlier rainfalls there as well, so these two markets did not do well and hence the lower growth compared to the first quarter in international this year.

**Shirish Pardeshi:** My next question on Navratna, which is your flagship brand and I am seeing that you reported some 500, 600 basis points incremental market share gain. The whole point is that my broad question is that, is the category is declining or you being number one, you need to do a lot of things to expand the category?

**Mohan Goenka:** We being the number one and, the onus to grow the categories lies on us only, you are right and since the season was not conducive, obviously we did not grow in, that is also true for the category as well for this quarter.

**Shirish Pardeshi:** Yes, what is it that we are trying to do now?

**Mohan Goenka:** Now wait for the season to arrive.

**Shirish Pardeshi:** One more thing we have seen significantly Himgange is losing the market share, so do you have any significant player at number two, number three, who might come back when the season is back?

**Mohan Goenka:** I think that Himgange has lost significantly and now their market share is about 17%, 18%, which used to be almost 30%, so I do not think any new player, it would be very easy for them to gain market shares.

**Shirish Pardeshi:** My biggest worry is that, they have done huge capacity expansion, so is that a threat for us that they will come and compete with us in some other categories of oil?

**Mohan Goenka:** In our industry, it is nothing to do with capacity, it is to gain consumers through differentiation, so if they come up with some differentiation idea then we will see what we have to do, but I think we have gained a substantial consumer base in almost all of our categories, if we get good seasonality because I think we have a good distribution, very robust processes in IT, so it is just some bit of slowdown and good weather would get us back to 13%, 14% growth level easily.

**Shirish Pardeshi:** My last question on Kesh King, I think when we have acquired we were quite positive and we were quite saying that things are going to happen very quickly so you just gave one

surprise that inventory mismanagement was one issue, is there any more surprises you have encountered in last two, three quarters or two, three months, other than inventory?

**Mohan Goenka:** Not really, so we remain extremely bullish because we have acquired it at Rs.1650 Crores and so we have robust plans for Kesh King, it is very difficult to implement plans month-on-month basis, any plan that we are doing it would take some time for us to implement in the market, but and to get ideas to understand the category to do research with the consumer, everything takes time, but as we have said that I think Rs.325 Crores, 350 Crores is not difficult in Kesh King and it has very good margins. I am not in a hurry and we do not want to do something grossly wrong in the category, okay, so I am not in a hurry that I want to make it a Rs.500 Crores in the next two years, or I am losing out substantial money on this brand, so we have some ideas and we would implement when the time comes.

**Shirish Pardeshi:** Okay. Thank you.

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

**Sujit Jain:** Good evening Rajesh Ji and Mohan Ji, I just missed the gross debt and the net debt number, if you could please say that again?

**Rajesh Sharma:** So gross debt is roughly Rs.950 Crores and around Rs.800 Crores is the net debt.

**Sujit Jain:** Sir in terms of the strategy when we launched new categories in hair oils now that we have acquired Kesh King and already we had 7 Oils in One oil though in terms of pricing I am sure these are in two different buckets, but in terms of consumer's mind the functional benefit how do we ensure that these do not cannibalize on each other?

**Rajesh Sharma:** So these are completely two different market segments, so the Kesh King oil is targeted to women above 40 years kind of and whereas 7 Oils in One is targeted towards young girls as a light hair oil primarily having benefits of 7 oils and Kesh King is purely an ayurvedic oil addressing hair and scalp problems for the 40 plus women consumers, so completely two different market segments.

**Sujit Jain:** That is from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Chanchal Khandelwal from Birla Mutual Fund. Please go ahead.

**Chanchal Khandelwal:** Hi Mohan Ji. Thanks for this opportunity. My few questions is on the sales growth, we had, I know few innovations will work for us, few will not work for us, still we have not been able to take it to the level we wanted to, SHE you had said you have some plan going forward, so my question is if you can elaborate on the plan as to how and what you want to do that, second 7 Oils in One you have seen a good growth and you sound a little confident there, what is the plan of 7 Oils in One and lastly on the healthcare range you are doing some test marketing, what gives you confidence that you can launch that and be successful in the healthcare range?

**Mohan Goenka:** On all the new brands as I have said in my last concall also that the sanitary napkin business has been a little tricky market and we have understood and we have a game plan, it is difficult for me to share the game plan, but we will go a little slow, not very aggressively on the category if we are successful in certain markets then we will role out in other markets that for the sanitary napkin business.

**Chanchal Khandelwal:** So you have acquired a plan policy, if I am not wrong, you have acquired a manufacturing plant also, right?

**Mohan Goenka:** No we have not. We only acquired the brand.

**Chanchal Khandelwal:** Somebody asking, you are doing a test marketing now or you are?

**Mohan Goenka:** We are going slow; we would do test in some markets and seeing the results we will go nationally.

**Chanchal Khandelwal:** Yes sure.

**Mohan Goenka:** And 7 Oils in One, we are extremely confident in all the new brands other than the deodorant, which has not worked as well as we expected, so all these brands remain as investment brands, SHE would be in certain markets, not all across, 7 Oils in One very differentiated product, which we are spending good amount of money and we would keep on spending good amount of money on 7 Oils in One, healthcare we are test marketing in South India, seeing on the results of the test and if there are any improvement that needs to be done we will do and then take it in some other markets, these are differentiated products, so whether it is heart care or diabetic care or digestive products, so seeing on the results we will take it to the national level.

**Chanchal Khandelwal:** Is there focus of health care more because of the higher gross margin this category has or is it that Zandu you think has a lot of Ayurvedic portfolio, which you can associate with so you want to focus there?

- Mohan Goenka:** We do not really go by which product has got a higher gross margin, it is the consumer need what drives our business, so we see a bigger opportunity because these are niche categories and once you establish in the niche categories then we have a long term play, so Zandu as it is a very established brand in the minds of consumers when it comes to health, so it is a very logical extension of Zandu going into life style disorder products, so we are extremely bullish on the health care side and we are seeing the numbers also, we have the team in place in the healthcare now, so once the test results number comes we will see what we have to do nationally.
- Chanchal Khandelwal:** Thank you. Wish you all the best.
- Moderator:** Thank you. The next question is from the line of Percy Pantaki from IIFL. Please go ahead.
- Percy Pantaki:** Sir again on healthcare just wanted to understand see right now Pancharishta is may be 60% to 70% of your overall sales of healthcare, so if you look three, four years down the line, what kind of product diversification do you foresee, I mean do you stop two or three brands, they will go down to what percentage because the other brands will become sort of, will start showing up in the topline, I just wanted to understand your three, four year journey because right now, all your growth is completely dependent on Pancharishta to a very large extent?
- Mohan Goenka:** Yes because that is the key brand in the healthcare presently, but as we are test marketing some brands in South, so seeing on the results of those brand I can give you a number because it is very difficult, these categories are very large whether it is to do with heart or diabetes, but I cannot really at this point of time give you a number that how much would be heart care or diabetic care or digestive care.
- Percy Pantaki:** Or if there is another way to put it like few questions back Rajesh Ji had said that you can take for international 20% to 25% CAGR growth for next three years, so like that what is your target for the CAGR growth for the healthcare business for the next three years?
- Mohan Goenka:** It would be around 30% to 35%.
- Percy Pantaki:** Sir secondly just wanted to understand on the 7 Oils in One you just mentioned that you are doing fair amount of spend on that, what kind of spend is it because it is not very visible on T.V., so is it more of trade promotions or some other type of spend?
- Mohan Goenka:** No we spend substantial amount of money on T.V., also but to give you a number the spend would be roughly about Rs.15 Crores or so in a year.

- Percy Pantaki:** Okay and in T.V., is it again on vernacular channels or in the GEC?
- Mohan Goenka:** It is a mix of both.
- Percy Pantaki:** Mix of both, okay and basically you think it has reached the threshold where you can support it by a mass media or this is just an experiment that you are doing some ads and if it works you will continue or otherwise you will drop off?
- Mohan Goenka:** No, I do not think we will drop off in 7 Oils in One, this seems to have an interesting category and we would try it for some more time and as I said we are happy with the results of 7 oil in one, it has created its own niche.
- Percy Pantaki:** So would you be able to share any numbers on monthly run rate etc., on the topline?
- Mohan Goenka:** It would be about a Crore-and-a-half per month.
- Percy Pantaki:** That is all from me Sir.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Good evening Sir. My question pertains to your HCD, healthcare division initiatives that we are taking, now I believe that our portfolio is entering into a space where it has slightly chronic part of OTC offerings and one of the competitors is also trying to expand its portfolio on that side has started approaching or marketing initiatives have started to reach out to doctors also and Ayurvedic hair doctors as well because this medicines are slightly prescriptive in nature, so just wanted your take on the same, are we doing any of those initiatives along with it?
- Mohan Goenka:** Yes, in South India we are test marketing, we have a doctor channel, some of the products you are right, these are not OTC products, these are mostly prescription products, so we have a doctor channel and if they prescribe then the consumer will take.
- Tejas Shah:** So this will be pan India initiative or we will restrict this initiative also to South India as of now?
- Mohan Goenka:** As of now at least for two quarters we would stick to South India.
- Tejas Shah:** Sir secondly if you follow your comments on HE and SHE for last few quarters you have been very transparent to share that things are challenging on the respective categories, but



just wanted to understand from the perspective of you are trying many initiatives obviously something will work and some would not, so when do you call it a day on some of these initiatives or you will keep on continuing because gross margin benefit allows us to do that?

**Mohan Goenka:** No it is nothing to do with gross margin benefit, so if the consumer response is not positive then we do not invest behind the brands, so we try for a year, year and a half and if you see there is no traction then of course we call it a day.

**Tejas Shah:** Where would you qualify HE and SHE in that scale?

**Mohan Goenka:** SHE, definitely we have a very robust plan I have said earlier also and we have identified certain markets, we have robust plan for the sanitary napkin business, I am still very, very bullish because this was a new area for us, it took some time for us to understand, so we are going ahead with the sanitary napkin business, but for the deodorant which has not worked well for us, we are still on the drawing board as to what do we do with HE.

**Tejas Shah:** If I recall correctly Sir, HE was supposed to be a male grooming product umbrella?

**Mohan Goenka:** Yes, that is the idea still, so we tried through deodorant, which did not work, but still we see a potential in the brand HE in some other categories, so that when the time comes we will share some more information.

**Tejas Shah:** And Sir lastly just on observation , CSD degrew by a percentage point in this quarter, anything to share there?

**Mohan Goenka:** Not really, the CSD has not grown, but because we have not introduced any new categories also in CSD over the last one year that is also one of the reasons, but let us see if we can on a yearly basis I think a 10% growth looks feasible to me.

**Tejas Shah:** Thanks a lot Sir.

**Moderator:** Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Ajay Thakur for closing comments.

**Ajay Thakur:** Thank. I will hand over the floor back to Mr. Mohan Goenka for his closing remarks. Mohan Ji if you have any closing remarks. Please share.

**Mohan Goenka:** Thanks Ajay and we also thank Anand Rathi for arranging this conference call post our Q2 results. We thank all the participants for participating in this call. Thank you.



*Emami Limited*  
*October 29, 2015*

**Moderator:** Ladies and gentlemen on behalf of Anand Rathi Shares and stockbrokers that concludes this conference. Thank you for joining us. You may now disconnect your lines.