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Emami hopes for fair growth with buying spree

Defying slowdown, it has made three acquisitions in the past six months with the aim of becoming a ₹5,000-crore company in five years

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Three weeks ago, Kolkata-based FMCG major Emami took a controlling stake in Australian firm Fravin. The 66-per cent acquisition marks the company's entry into the niche segment of organic personal care that commands a global market of ₹47,000 crore. As and when the company brings its products to India, it will have a largely open field before it.

"We have always planned our investments with an eye on the future growth potential of categories," says Harsh Agarwal, director, Emami. "We firmly believe that organic products will become a big category."

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Director, Emami

Identifying categories with high potential is something the strategists at Emami Towers, the company's headquarters, have done rather successfully. The company, which is eyeing a turnover of ₹5,000 crore in the next five years from ₹1,821 crore now, has made a habit of entering niche segments and developing them into lucrative businesses after spending big on advertising and marketing. It did just that with its men's fairness cream, Fair and Handsome. It was a virgin segment facilitated by Emami's ample R&D resources, and has now become a ₹1,400-crore market in India. Analysts now say that Fravin could give Emami the edge in this business.

It was in 2008 that Emami, then just a ₹600-crore company, acquired Zandu Pharmaceuticals after a protracted legal battle with the Parikh family. The acquisition cost ₹750 crore, and was almost four times higher than the total valuation of that company. However, within two years, Emami became debt-free, and the acquisition and Zandu's turnaround became case studies across business schools. The company subsequently brought its herbal, healthcare and natural products under the Zandu umbrella. Today, Zandu accounts for 44 per cent of the ₹700-crore balm market and is a clear leader in the category.

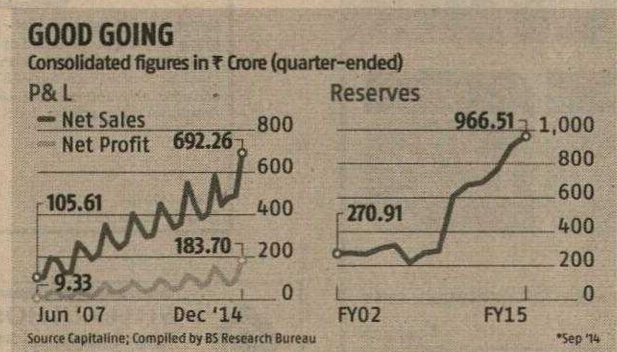
Two years later, Emami decided on another acquisition that raised eyebrows. It put up a bid of ₹3,400 crore for Paras Pharmaceuticals, maker of products like Moov, Krack and Dermicool. Emami ultimately lost out to British firm Reckitt Benckiser, but the failure did not discourage the company. Emami Director Aditya Agarwal had then told the media, "We had Plan A if we had been able to buy Paras, and Plan B if we hadn't. So that continues."

Change of plan

After the failure to buy out Paras in 2010, the group hasn't undertaken any big-ticket acquisition, focusing instead on small brands. An analyst who has been tracking the company says, "The company learnt its lessons from the Paras bid and decided to put its cash in the right areas." Harsh Agarwal nuances Emami's decisions: "Acquisitions happen at the right price. The smaller acquisitions are a part of our growth strategy. It's a long-term strategy. We only want to be present in those categories where the penetration level is not high, so that we have ample opportunities for growth."

The decision to acquire Fravin was Emami's third in the past six months after the buyout of sanitary napkin brand She Comfort in July last year and vanaspati oil brand Rasoi (by group company Emami Biotech) in October. What binds the three purchases is the fact that these small companies have helped mark Emami's presence in fairly open territories.

She Comfort, which has a 1.1 per cent market share, came from Mumbai-based Royal Hygiene Care and was valued at ₹40-50 crore. The company is optimistic of its prospects in the ₹2,100-crore women's hygiene category, currently crowded with deep-pocketed multinationals like Procter & Gamble, Johnson & Johnson and Kimberley-Clark Lever. "We have some aggressive plans for the brand in the current financial year," says Harsh Agarwal. An analyst points out that with Emami's robust distribution network, it can penetrate the rural areas and gain a sizeable market share.



In a similar foray, Rasoi, a Kolkata-based hydrogenated oil brand, was acquired for ₹50 crore in keeping with Emami's line of thinking that "small is big". The acquisition, experts say, gives Emami Biotech a presence in the ₹8,000-crore *vanaspati* market. "*Vanaspati* is a big category in the country and we intend to take Rasoi into the business-to-consumer space and launch it in markets in the north as well as the east," Aditya Agarwal had said earlier.

Promoting the new

While the company has relied on acquisitions for strategic growth, it has not lost focus on its own new products. Just before it brought She Comfort into its portfolio, Emami launched He, a range of deodorants that would complement its men's fairness cream in the male grooming business. The company also plans to launch haircare and skincare products under the He brand. Leveraging the value of its highly successful group marks — Zandu, Navratna and Fair & Handsome — the company has extended them into newer categories and products. "Our power brands have been able to create high recall in the minds of the consumers, The success of the brand extensions also complement and strengthen the mother brand," says Harsh Agarwal.

At a time when the FMCG sector is struggling with low consumer sentiment, Emami was able to post double digit growth of 14 per cent in the October-December 2014 quarter over the same quarter the previous year. With margins set to improve due to fall in raw material costs, the firm plans to invest aggressively in new launches and advertising and promotion activities. And with a cash pile of ₹900 crore, it is depending on smart investments to enter the big boy's league in the sector. As Harsh Agarwal puts it, "For Emami, the sky is the limit."

STANDING TALL: The Emami headquarters in Kolkata. The company has more than doubled its turnover since 2008