



“Emami Limited  
Q3 FY2021 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Emami Limited Q3 FY2021 Conference Call hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Percy Panthaki from IIFL Securities Limited. Thank you and over to you Sir!

**Percy Panthaki:** Good evening everyone. Welcome to the Emami Q3 call. Emami has reported very good results with topline growing at about 15% and EBITDA growing at about 30%. So, without further ado to take you through the story behind the numbers, I would like to hand over the call to Mr. Mohan Goenka who is also accompanied by Sr. VP, Finance, and IR, Mr. Rajesh. Over to you Mohan ji!

**Mohan Goenka:** Thank you Percy. Very good evening friends. I welcome you all to this conference call on Emami results for the Q3 and nine months ended December 31, 2020. I hope all of you and your loved ones are safe and healthy.

I am very happy to inform you that our company’s growth momentum has continued in Q3 FY2021 with a broad-based growth across brands, channels and businesses. Robust performance has led to achievement of double-digit volume led revenue growth and improved margins in this quarter. The company, led by good seasonality and a favorable consumption environment posted a very strong growth of 15% in revenue from operations and 16% in net sales.

The domestic business grew by 16% with 13% growth in volumes across brands and channels. During the quarter, Zandu Healthcare range grew by 38%, Boroplus grew by 21%, Kesh King by 16%, Pain management range grew by 12%, 7 oils in One grew by 32% and Male Grooming range grew by 5%. In the Healthcare range, Chyawanprash portfolio grew by 24%, Zandu Honey grew by 2.5x times and Zandu Pancharishta grew by 19%. However, Navaratna declined by 12% due to a strong winter season and CSD also declined by 27%.

I am happy to inform you that Fair & Handsome is now back on its growth track and has been relaunched in the market in new packaging as Fair & Handsome radiance cream and Fair & Handsome instant radiance face wash. During the quarter, the company forayed into the home hygiene category and launched a new brand Emasol which offers a complete

range of home hygiene products. The initial consumer response to the just launched brand looks to be promising.

The current pandemic has also bought heightened awareness and relevance of Healthcare categories like Chyawanprash, Honey etc., and have led to increased consumer household penetration in consumption. The change in lifestyle and consumer focus on personal health and wellness has bought Zandu offering to the fore. We have recently launched multiple new products in these new segments.

We plan to continue launching NPDs in the OTC generic and ethical segments where we see high market growth potential and where there are gaps in our current portfolio, thereby adding value to our consumers. Overall, new launches contributed to 3% of domestic sales in Q3 and 4% in nine months.

During the quarter when rural market continued to perform better, growth in urban markets has also picked up. All the channels posted convincing growth and E-commerce channel grew by 3.5 times during the quarter and increasing its contribution by 210 basis points to 3.1% of domestic business.

Our very own E-commerce portal [www.zanducare.com](http://www.zanducare.com) which was launched during the last quarter has been very well accepted and is growing strongly on a month-on-month basis. The modern trade channel registered a strong growth of 51% in this quarter increasing its contribution by 200 basis points to almost 9% of domestic business in this quarter. Modern trade independent stores also known as standalone modern trade grew very well in this quarter. We are creating a separate organization structure and activation programs to leverage this opportunity. This will help us drive off takes of NPDs as well as higher margin larger packs.

You would also be happy to learn that we have outlined a clear strategy to drive growth aggressively in rural markets. We are mapping potential of villages to increase our direct rural coverage. We have also built a model of direct coverage and have evaluated the current brand markets. We will invest in adding manpower to the top four states to aggressively increase our coverage in these four markets.

The company's international business grew strongly by 26% led by MENAP and SAARC regions. Special focus on immunity boosting products and launch of hygiene range during the ongoing COVID pandemic helped in boosting sales. Further, the strategy of identifying and tapping opportunities in markets with high hair oil usage with brands like Kesh King

and 7 oils in One paid off well in this quarter. Creme 21 did exceedingly well with a growth of almost 82% in this quarter.

During the quarter, both profits and margins increased significantly. Stringent cost control measures and benign raw material prices helped the company to improve its margins. Gross margins at 70.4% grew by 210 basis points. EBITDA grew by 29%, EBITDA margins were at all time high at 36.4% which grew by 390 basis points.

Profit after tax increased by 45% and PAT margins at 22.4% increased by 460 basis points. Cash profits at 303 Crores also increased by 32% and cash profit margin at 32.5% increased by 420 basis points. We are very confident that our strategies and the growth momentum will reap dividends in the times to come.

With our renewed focus on digitization and future evolving business strategies the coming quarters look promising and we are satisfied that our commitment on various initiatives have delivered. We are optimistic to close the year with an overall high single digit growth.

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

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abnish Roy from Edelweiss. Please go ahead.

**Abnish Roy:** Congrats for good set of numbers. The first thing is because of the recent controversy in Honey, do you see this as an opportunity I see that in advertisement also there is a tweak, do you see the current market leader using market shares is a big opportunity for you or may be even in this, any comment on that?

**Mohan Goenka:** Abnish, that controversy has died down now. Honey any with the market has been growing very aggressively for all the players, so we are also riding this growth momentum. I do not see this controversy will last long.

**Abnish Roy:** On Emasol, are you still as excited as what you were five months back and this was more underground stage, I am asking this is the sanitizer sales are cooling off rest of the cleaning and hygiene product, there are multinational companies and very strong incumbent, so would you have more of a niche strategy of e-commerce or may be some modern trade or would you look at some regional focus, could you clarify on that?

**Mohan Goenka:** Abnish, you are very right. Of course, this category is challenging but market size is very huge. Of course, after launch we are learning, we are focusing on few markets, few

channels, because it is a tricky category, I would surely say that the initial response has been good, you would have also seen advertising. We are doing it in some channels now. Pricing place are very important role in this particular segment, so we are playing some pricing game also, so let us see we would have to wait, we have just launched the brand about two months back. I am optimistic about some categories; of course sanitizers and all as you rightly said markets have died down now, so we would not focus so much on them but there are other brands where I think we have some room to go.

**Abnish Roy:** Sir two follow-ups that you said some market, so could you elaborate is it e-commerce or is it regional, second, you are in the normally the tier in terms of gross margins and may be even EBITDA margins, so playing this pricing is it more of an increased strategy?

**Mohan Goenka:** There are three-four channels which we think we can get into. One is of course the e-com and standalone modern trade and modern trade and also some rural markets which we are trying to tap in, so that is one and secondly as far as margins are concerned of course these products have slightly lower margins compared to some of the other brands of Emami but this is too small that the margins would come down at a overall level, we would have to see and we will have to wait which brands take off out of this range then only we will be able to comment.

**Abnish Roy:** One last follow-up, out of the 30 new products which are the ones you are getting more confidence not looking at the last six months – nine months data only but more in terms of different positioning, different niche and the upfront in terms of the numbers because sanitizer would have been great early but now it has cooled off so any leading similar which will not work anything in is in highlight?

**Mohan Goenka:** Some of the products are in the BoroPlus range where we have increased our focus that is definitely, we are very hopeful. Secondly as I also mentioned in Emasol also we have identified two categories where we would go a little aggressive. In the Zandu portfolio, we would be far more aggressive compared to the BoroPlus and Emasol range, there we see a lot of promise, so after launching so many products we have rightly said not that all the 30 brands will do as well but even if 5 or 6 of the brands take off to our satisfaction, we would be able to invest and take it forward.

**Abnish Roy:** Okay Sir, that is all from me. Thanks a lot, and all the best.

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

**Kunal Vora:** Thanks for the opportunity and congrats for the good quarter. First is on Fair & Handsome, so just wanted to get some sense how has the relaunch impacted the sales, so if you can just share some insights on the numbers which you see in after the relaunch and before and also if you can talk about key suggestions which you have received from the consultant which you incorporated during the relaunch?

**Mohan Goenka:** You would have seen Fair & Handsome or the male grooming after almost four quarters or five quarters, we have finally grown and we are seeing that traction in the month of January; of course we relaunched the product in the month of November, mid-November is when we relaunched the product and since then we have seen this traction with the new campaign of Salman and it is almost a 360 degree campaign we have also invested a lot of money behind the new campaign which I think has paid off, so rural market after the long time has shown good growth as far as Fair & Handsome is concerned.

**Kunal Vora:** Why you were negative till November and after November you have stucked on positive or the growth has come back?

**Mohan Goenka:** So, pre-November of course we were at a decline or you would say -1% or 2% but post November the growth has been very robust.

**Kunal Vora:** Okay, second question if you can share some thoughts on cost realization in FY2022 like if you can quantify the extent of savings, which might trigger next year because ad spends were lower this year and like you said you will have another cost savings as well, so if you can share your thoughts on how to look at the opex and generally the margins for FY2022?

**Mohan Goenka:** As we have seen that we are at all time high margins; we would of course see how we protect these margins. The costs have slightly inflated in the last one month or so but as far as Menthol and the key raw materials are concerned, they are still benign, so it has to be a right mix of price increase we would have to wait and watch once we set our budget for next year but as of now, I am not seeing any much pressure I would say on margins because there is some room of price increase going forward in some of our categories.

**Kunal Vora:** But would not serve the cost which have been low during FY2021 normalize in itself will cause some sort of margin pressure?

**Mohan Goenka:** There might be a slight margin decline because as I said it has been at all-time high, so 100-150 basis points we would have to wait for some time once we get the final budgets, but it will not be like a big difference or what margins you are seeing this year or next year.

**Kunal Vora:** Just one last question, you had like 60 new launches but contribution from new launches at 3% could be little like new, would having a high like wholesale dependency does that impact your regulatory to trial sales of new product and would you expect this 3% to increase in forward?

**Mohan Goenka:** We said 30 new products and 60 new SKUs but most of the products are you would say they are niche and are under Zandu brands like Tulsi Drops, Giloy and all these things market size is still small so I would say 4% contribution in nine months is not very small and very recently only we have launched Emasol which is not even two months which is a big market.

**Kunal Vora:** But this having high wholesale dependence impact ability to drive sales of new products and how do you counter that?

**Mohan Goenka:** Our wholesale contribution is about 40% to 42% and sees we do not launch new products in the wholesale market; we only launch new products mostly in the retail markets and rural markets. Once the demand for these products comes then only, we take it to the wholesale.

**Kunal Vora:** Understood. That is, it from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Vivek Maheshwari from Jefferies. Please go ahead.

**Vivek Maheshwari:** Couple of questions Mohan ji, one from the earlier participant about the margin, so let us say this year the margin should be North mark of 31% which is significantly higher than what you have done in the last three years, what is your medium-term outlook on margins because there is always this type of between growth and margin, how do you think about from the next two years to three years perspective on the margin versus growth equation?

**Mohan Goenka:** Vivek as I said what it looks like of course there is some increase in the raw material prices in the last 30 day or so particularly LLP and some other products but there is some room of price increase, so we would have to wait and watch. I do not see much pressure on margins as of now even if there is 100 basis points margins here and there, it does not make much difference but there will not be a significant slide in margins going forward. If you want the number, I think you should take about 30% as the margin going forward.

**Vivek Maheshwari:** Basically, that suggests that some of the cost savings that you have seen in FY2021, some of these are going to continue in that because 30% mark still will be higher than the average what you have done in the last three years, is that fair way of looking at it?

**Mohan Goenka:** Yes, we would have to wait and see how the raw material behaves but there is still room of cost reduction, the “WoW” project is still on, some of those benefits are still yet to come in, so it would balance out, this quarter has been phenomenal high or these 7 months – 8 months have been phenomenally high, see we have also launched some new brands. We would appreciate if we got good momentum, we would want to reinvest this margin in the categories, so there is no worry from the investors or some anyone, I am saying that margins they would not be a big difference in the margins going forward, 100 basis points here and there it is very difficult for me to comment.

**Vivek Maheshwari:** Sure, I mean from our side obviously between growth and margins most will or all of us would want growth being better than the margins?

**Mohan Goenka:** These margins are not on reduction of the A&P expenses; this quarter also our A&P expenses have been growing at 12% in this quarter. Our whole idea is because we have launched so many products and broad-based growth is happening, so we want to invest behind these products now.

**Vivek Maheshwari:** Sure, and the other bit is on the Zandu Healthcare portfolio, so what are your expectations, I know it is still these are early days, it is a small part of the overall topline, but the growth has been obviously phenomenal in the last three quarters, what is your again like say medium term expectation from this and could you elaborate on the website launch that you mentioned how does that sitting to the overall story?

**Mohan Goenka:** Healthcare has been doing exceedingly well. This quarter also we grew by 38%. Our idea is that it should grow at between 25% and 30% going forward. There are still a lot of new launches products in the pipeline which R&D and the marketing is working on, you would continuously see launches coming up in every quarter, some of would only be sold through the e-commerce portal and some through the markets. We are expanding our retail reach in now the Healthcare division also seeing the last growth in the six months – eight months. There is still lot of headroom to grow as far as Zandu Healthcare portfolio is concerned. The portal is doing exceedingly well. This has exceeded our own expectations, so let us see as I said there would be products specific products only for the portal. I am very optimistic as far as Zandu Healthcare is concerned. We also have got the strength seeing the numbers of Zandu to be very honest.

**Vivek Maheshwari:** Sure and the last one on Fair & Handsome, two things, one if I look at the base the last 7-8 quarters the decline has been fairly sharp, so a 5% growth while it is in positive it is in the context of let us say even this quarter base of -40 that is an okayish number, number one;

number two, is there an since you mentioned the second half of this quarter did see an improvement that was around the time when you also launch or relaunch the products, there will also be placement and the primary inventory filling and so and so can you just talk about, from an FY2021 perspective where do you see Fair & Handsome?

**Mohan Goenka:** No Vivek, as far as Fair & Handsome is concerned there is no inventory filling, this is the demand coming in from across the board, even in the month of January, and we have seen good numbers for Fair & Handsome some, so the brand has come to the growth momentum after the new relaunch or the new campaign.

**Vivek Maheshwari:** No but there will be some channel filling, right when you relaunch the products?

**Mohan Goenka:** No, it is an ongoing product, there is no channel filling for these products. These are ongoing products.

**Vivek Maheshwari:** Okay, you think it is out of the woods now and FY2022 what is your because this is the part of the portfolio which has been most under pressure in the last few years?

**Mohan Goenka:** Yes, it is completely out of the troubled waters I would say, and the first three weeks have been phenomenal for Fair & Handsome.

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

**Tejas Shah:** Thanks for the opportunity and congrats on good set of numbers. We launched 30+ brands and 60 SKUs and then we have it now plans of OTC channel aggressive launches also, so is there a defined skill set in terms of categories of choice or margins profile that we prefer in new launches or as you mentioned that you will try everything and whatever works you will see if that works out and whole will give later on?

**Mohan Goenka:** Tejas, all the new launches as far as healthcare is concerned, they are at a similar margin profile only the Emasol range and some of the Boroplus like soaps and others, they are slightly lower, but we never get into any category where gross margins is below 50%, that is one of the criteria then only we will launch the product.

**Tejas Shah:** Okay even in-home care we are going ahead with this profile?

**Mohan Goenka:** Yes, homecare also we have strong margins. We have almost in the range of 47%-48% margins.

- Tejas Shah:** Second, what will be our overall revenue side in modern trade, and which will be our top three brands in modern trade?
- Mohan Goenka:** Modern trade I mentioned in my opening remark. Our modern trade contribution is about almost 9% now and e-commerce is about 3%.
- Tejas Shah:** Okay and last one, staying with the Fair & Handsome of question on earlier participant and this is very academic also, earlier Fair & Handsome have a very huge, oriented customer base and but we replaced Shahrukh Khan and Salman Khan, so that is millennial consumer resonate it to 50+ brand ambassador in our side?
- Mohan Goenka:** Yes, absolutely. He has a very mass appeal and we have seen significant growth coming in, in Fair & Handsome. We always wanted a celebrity with mass appeal.
- Tejas Shah:** Okay, even in urban centers that works?
- Mohan Goenka:** Everywhere it works, globally it works. Please understand, they also sale through Bangladesh, SAARC, Middle East everywhere, it is not just one market.
- Tejas Shah:** Okay, fair enough. Sir lastly on pledge we had some guidance for March reduction in pledge where we are on that?
- Mohan Goenka:** We are presently 36% and in my last call also I had said that the promoters are committed to bring it down to zero. We want to dilute some of our other assets, and we are very optimist that we are getting some traction for some of our assets. As that happens the first thing is, we would reduce our pledge.
- Tejas Shah:** Great Sir. Once again congrats on good set of numbers and all the best.
- Moderator:** Thank you. The next question is from the line of Arnav Mitra from Credit. Please go ahead.
- Arnav Mitra:** Congratulations on a very good set quarter. My first question was on Honey and which was the category where you had entered but then you had taken a bit of our sure approach here, can you change a strategy now that which you have also started?
- Mohan Goenka:** Honey market, Arnav has done exceedingly well though our base is very, very small and Zandu can play a significant role as far as Honey is concerned of course we have increased our focus in the last two months – three months and even in this quarter we would keep the focus on Honey. We would have to wait and watch how the market behaves. It is slightly

seasonal because it is a winter product but now after pandemic it is looking like it has become almost all-round year product, so yes you are right that after COVID, we have increased our focus on Honey, this has seen in our focus.

**Arnav Mitra:** So, would you now look to be player like a mainstream player because initially our strategy was to price premium and being that initially it did not look like that so, would you think that we would be a little bit mainstream now and also related question on the ortho oil is that a segment where the absolute size of the category can be reasonable or is it a very niche product because, again I saw that you have seen you have launched a TVC on that?

**Mohan Goenka:** So, in Honey would we still wait and watch, we have launched, we are capitalizing on the brand Zandu here, we are doing some advertising on Zandu, we still believe it is a competitive space. But yes, with our price reduction and at the same price of Zandu of Dabur, we think we can get some consumers from them, that is one on Honey. As far as Zandu ortho oil is concerned, this market has grown phenomenally over the last few quarters and Zandu being a very strong player in the pain management we thought we should capitalize it. There is less competition in this particular category so, we launched the Zandu Ortho Vedic oil. The total size of the market is roughly about Rs.250 Crores or so.

**Arnav Mitra:** Okay, and my last question is on Kesh King that what you answered on the current handsome so, Kesh King had a tough period and then of course COVID happened. So, now again are seeing clearly the casting is out of the board then any sense on what is happening in that Premium Hair Fall category we had Indulekha, we had Patanjali, as the other players. So, any sense of market share or how you would bring relative to the category and are completely out of the wood that comes out any issues?

**Mohan Goenka:** Right now, it looks like as because month-on-month we are seeing good traction of Kesh King. Month of January also has gone quite well for Kesh King. So, till the growth is there let us see till when the growth is coming, we have increased our budgets across some of the brands and Kesh King is one of them because it is a very high margin and very critical important brand for us. So, we have increased our focus across oils, whether it is Kesh King, seven oils in one because, we are seeing opportunity in this.

**Arnav Mitra:** Okay, thanks so much Mohan ji, all the best.

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

**Prakash Kapadia:** Thank you for the opportunity and congratulations on a good set of numbers. Two questions or three questions from me. Of the launches we have done over the last six months to eight months, which have achieved your desired scale, Aloe vera gel is definitely doing well. Any plans of scaling it further and some of the other brands if you could give some insights, and on e-commerce any specific digital launches or are we taking the mother brands also on right now?

**Mohan Goenka:** As I said Prakash, is out of all the launches some of the launches are very niche in Zandu, in that we would have to wait and watch which products seems to be promising. I told in the past also in Emasol I think two products are achieving our desired targets. As far as Boroplus is concerned of course the Aloe vera Gel and Soap in certain markets is doing well. So, out of the 30 we feel that at least 5 or 6 products have some promise we would have to wait and watch. We cannot give up so quickly that is not the strategy of Emami and if there would be need to re-launch or re-strategize for some markets, we would do that. But it is too early for me to say that what is going to happen, the only market which we think will not go forward is the Sanitizers, that honestly, we have given up. Other than that, every brand would stay, or every product would stay for some time and we will take a call only after three quarter or four quarters. As there are so many products are still to come, we are not worried about what is going to happen here, some of the product would only for as I told in Zandu care.

**Prakash Kapadia:** Yes, but on e-commerce are we taking Mother brands online or these are again specific digital launches which is what have done at the initial stage?

**Mohan Goenka:** No, we are taking our main products on e-commerce but, we have certain SKU's only for e-commerce. Large sizes which are very e-commerce specific.

**Prakash Kapadia:** As it seems some while we had invested in two startups in Male grooming- The Man Company and Brillare. So, any plans of having the whole 33% to 35% there is any plans of increasing, there have been some learning and quite some time has parked in this plan?

**Mohan Goenka:** These investments have done well for us, so in the recent past we have just increased our investment in one of the companies. They are promising; in terms of post-COVID they are doing well now.

**Prakash Kapadia:** Okay and you mentioned you are seeing pockets and opportunities in Hair Oil specifically and you mentioned there was focused market approach specifically in Hair Oil and we have seen result in Seven in One hair oil and Kesh king has been doing well over the last couple of months now. So, what are these markets if you could comment or give some insight for

these non-UP, Bihar markets, specific markets there is it South, North any geographical color on that?

**Mohan Goenka:** Seven Oils in One is across the boards and as far as Kesh King is concerned it is primarily driven by the Hindi belt.

**Prakash Kapadia:** Fine, and is there that lower SKU which is helping in it and the marketing testing which was not there earlier?

**Mohan Goenka:** No, not this one it is a big SKU is which is actually helping us.

**Prakash Kapadia:** Okay.

**Mohan Goenka:** Margins are always in big SKU's is that Prakash ji.

**Prakash Kapadia:** Okay Sir, all the best.

**Moderator:** Thank you. The next question is from the line of Harit from Investec. Please go ahead.

**Harit:** Good evening Mohan Goenka ji. Just one question from my end, in your opening remark you did mentioned about rural coverage which finding specifically in four states and you are going to increase manpower. Just wanted to get some more sense on any targets that you can currently share in terms of what kind of expansion you can see rural coverage over the next one year or two years? Thank you.

**Mohan Goenka:** Harit, we have specific plans for rural markets, and these are four states in four different geographies, east, west, north and south. This is a pilot that we are doing in these four states and then we have identified 12 other states which contribute to almost 75% of the rural size. So, we would incur almost a cost of about Rs. 7 Crores - Rs.8 Crores is what we have budgeted for this exercise and we have already started it rolling it out. Let us see what the results in these four states are and then we will roll it out in the other 12 states.

**Harit:** Okay, got it. Mohan Goenka ji, one more question if I may, it is a follow up based on what somebody else had asked. If you look at Kesh king as well as 7 Oils in one, you have seemed very good growth on base of good growth. So, it is not like you had a low base of growth in both these brands in first quarter last year. We have also seen one of other companies that they have quoted very strong holds in the value-added hair oil. So, just give some comments on why or what you are seeing in these states and what might be the

reasons now for accelerated growth once again in this category. Would it be this pent-up demand, or this is general buoyancy any terms would be helpful? Thank you.

**Mohan Goenka:** Harit, it is a little early because we have gone into research to understand why suddenly there this demand over the last few months has been but, you are right that across the board we are seeing pent up demand and it is not interestingly only in India for 7 Oils in one and Kesh King we have seen increasing demand coming from the international markets, yes entire Middle East, Bangladesh, SAARC. So, what has happened we would have to wait and watch to understand from the consumers? But even the month January has been pretty well for both the brands. Being these high MRP products, it is not small thing but still month-on-month there is demand.

**Harit:** Great. Wish you the entire best Sir. Thank you so much.

**Mohan Goenka:** Interestingly penetration for every category of our which was very niche that has increased post-pandemic. Whether it is Kesh king, whether it is 7 oils in one, whether it is Balm's, Boroplus, every brand penetration has gone up by 3%-4% it is very encouraging I would say.

**Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

**Shirish Pardeshi:** Mohan Goenka ji, congratulations on good set of numbers. Just one broad thought, after long time we are seeing the consistent growth on a quarter-on-quarter basis also. Bit more color I was expecting on the volume growth, I mean it is a very good growth which is broad based across all categories we have seen. How would you relate this a large growth which has come from winter, so do you think this volume growth which is sustainable?

**Mohan Goenka:** Yes Shirish, I think it is sustainable because of two things, one you would also notice that Navaratna Oil has degrown by 12%, Navaratna is not very small in the third quarter and CSD has also de-grown by 27% okay, so this is despite we have got this growth and this growth is not just led by winter portfolio, you would see Kesh King, Fair and Handsome, Seven Oils in one, the Health care range. So, it is broad based growth, okay Boroplus has grown by 16% but there 6-7 products more wherein there is growth. I surely feel this momentum will continue and what we are also seeing in the month of January at least for the first three week-four weeks.

**Shirish Pardeshi:** Yes, I was just trying to look at from the modeling perspective; even the international has really done this quarter exceedingly well. So, do you think for a full year because we have a

base quarter which is also is beneficiary which is, I am talking about Q4 do you think that this growth if it is continued there is a significant upside in terms of revenue growth because, you have just harped on there are four states which you are doing the pilot in terms of distribution and rural growth and it is rural naturally it is firing well from you. Do you think we will do exceedingly well in terms of our topline and even profitability?

**Mohan Goenka:** So Shirish, as far as rural distribution is concerned you only get benefit after four month-five months, we will just start now, it does not happen overnight okay, the benefits of this should only start coming in the second quarter onwards. But, as far as ongoing projects are concerned yes, I definitely feel fourth quarter should be a good quarter, it should be a double-digit volume growth that is what we are expecting, and it is just we will have to wait and watch.

**Shirish Pardeshi:** Any short term triggers you think other than your raw material which you have just mentioned, can we expect similar kind of gross margin or if there is profitability in the Q4?

**Mohan Goenka:** No, for growth margins we will, as I said there is some pressure as far as LLP is concerned. In that 150 basis points to some extent, we might have to take a hit, but we are also evaluating price increases which we do in the first quarter normally. We are just waiting to see where the prices stabilize for the raw materials then we will take a call.

**Shirish Pardeshi:** Have you increased any prices in recent past?

**Mohan Goenka:** Not really, not done till now.

**Shirish Pardeshi:** So, you are saying you will wait for another one month and then try?

**Mohan Goenka:** Yes, where the prices stabilize for raw material then we will take a call.

**Shirish Pardeshi:** But you are optimistic that there is a room for price increase you can take?

**Mohan Goenka:** In some of the categories for sure.

**Shirish Pardeshi:** Sure, just last question on the depreciation, though there is a note which says that there was life cycle which is brought down. So, this is one off or we will expect some more price hiking depreciation in the next quarter also?

**Rajesh Sharma:** No, Shirish ji, this is one off since we have re-visited the life from 10 years to 7 years, so one-off impact has been taken in Q3.

- Shirish Pardeshi:** Right, okay. Alright thank you and all the best Mohan Goenka Ji.
- Moderator:** Thank you. The next question is from the line of Shree Aggarwal from First State Investments. Please go ahead.
- Shree Aggarwal:** Mohan Goenka Ji, thank you for taking the time. Couple of questions from me, the first one is you referred to some organizational changes that had taken place and also some strategy changes regarding rural markets and accelerating the growth there. So, could you elaborate a little bit more on that and give some details on what exactly have happened here?
- Mohan Goenka:** That was some time back Shree, we had recruited, one was the Head of Sales and one was the head of Healthcare division, Gururaj and Vinod, they have settled quite well now they are driving the Healthcare and as far as our Sales is concerned. We are not doing any more changes as far as the organizational structure is concerned of course we are recruiting a lot of people now for rural market sales development and some of the other areas where we see some potential. Now, these would-be new recruits, we are strengthening organization wherever we think for future growth it is mostly in sales and distribution I would say that is one it is in analytics since this stand-alone modern trade, rural sales development these are some of the areas where we would put in resources. So, that is one other than this there is not major change I would say.
- Shree Aggarwal:** Okay, the other question I had was on the penetration comment that you just made that is not very interesting that for every brand our penetration will increase by between 2% to 4%, I guess. How does this compare to previous years typically every year and what has driven this in your view is it the distribution coverage that you have increased in recent years or is it you are seeing some changes in consumer behavior or?
- Mohan Goenka:** Now, this is led by the pandemic I would say, because we have been trying, every company tries to increase the penetration and it does not happen so rapidly so, because increased interest in Healthcare products and Ayurvedic Natural Care products and because of availability of our products in almost every outlet, that help in penetration. We also increased our advertising for some of the brands, winter portfolio helped. The Zandu brand itself is very powerful and the products were available thus it helped in penetration. The penetration from Balm's increased and every products penetration has gone up definitely. The consumer interest has come up in these categories.
- Shree Aggarwal:** Right, thank you.

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

**Amnish Agarwal:** Mohan Goenka ji, just couple of questions from my side. One being that as the immunity boosters and health care is doing well so, how Chyawanprash has done and what is our planning that and secondly, the trend and the timeline now in the further reduction of promoter pledge? Thanks.

**Mohan Goenka:** I had said that Chyawanprash portfolio grew by almost 24% in this quarter and I am still seeing some momentum coming up even in this quarter as far as Chyawanprash, honey is concerned and as far as pledge is concerned, I said we are very committed to bring it down to zero we have enough assets which we can liquidate. So, as and when it happens you would come to know I cannot really give timelines but, commitment is 100% there.

**Amnish Agarwal:** Which means what are the current rates I think 38%?

**Mohan Goenka:** It is at 36%.

**Amnish Agarwal:** 36% and has a latest reduction happened due to increase in the stock price or because some money has been repaid by the promoters?

**Mohan Goenka:** It is primarily because of the increase in the share price.

**Amnish Agarwal:** Okay Sir. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Dipan Mehta from Elixir Equities. Please go ahead.

**Dipan Mehta:** Sir, congratulations on very good set of numbers. Just a quick refresher as to why our tax rate is so low, that is question number one and second, questions is that in terms of amortization of acquired brands how does the tax work over there in the sense that do you take it as a deduction and then calculate the tax rates if you could just clarify on these two points, please?

**Rajesh Sharma:** Dipan, we have been paying MAT and our major manufacturing facility in Assam which is Pacharia enjoys tax holiday for ten years. So, as I say we pay MAT for the full organization and hence the tax rates are lower and whatever amortization we do that is chargeable to our profits and the book profits whatever comes we take MAT on that. So, MAT is given on book profits, so we get benefit of the amortization.

- Dipan Mehta:** Okay, on this ten-year period get over when Sir?
- Rajesh Sharma:** Till FY26.
- Dipan Mehta:** Okay, because then beyond that after 2026, we will come into the 25. Whatever the tax is applicable that time and you will start taking the MAT credit which you have paid?
- Rajesh Sharma:** Yes, so we also have MAT guide of more than Rs.250 Crores today which has not been accounted in our books. So, once we get a visibility of taking the benefit of MAT credit, we would start taking the MAT credit also and though the tax amount may increase in our books, but the payout would be only 20% to the government and we can take the credit of the MAT credit for the balance amount.
- Dipan Mehta:** Okay, and second Sir, you have been speaking about the increased demand, but you have been in this business for decades do you think that there is a structural change under way because of which the growth has improved or is it more in your opinion cyclical in nature that this is a good cycle, consumer behavior, higher incomes in the hands of people that is what is driving near term growth rate?
- Mohan Goenka:** Dipan Ji I think it is little early for us to say that or course this is definitely to do with pandemic as far as we are concerned. The Healthcare range consumer's interest has really come in into the Healthcare and Zandu being a very significant brand in this whole we have benefited out of it. We also became aggressive over the last few months as far as distribution, people everything was concerned that also helped I think particularly yes, we would have to wait and watch to see how long does it last. It is very difficult for anyone to say.
- Dipan Mehta:** Okay Sir, let us hope it is a structural lapsing. All the best.
- Moderator:** Thank you. The next question is from the line of Sonaal Kohli from Bowhead. Please go ahead.
- Sonaal Kohli:** Thank you for this opportunity. I have two questions, first relates to your pledge, do you see a scope for reduction of pledge, if your stock price remained at this level for may be a quarter or so and how does it translate into pledge reduction, secondly while you maintain about selling your assets to pay for the pledge, you also had some pledge because of the cement deal what do you see the status of that would it go away in a quarter or two and thirdly on the?

**Mohan Goenka:** That still remains at 8% the pledge with Nuvoco out of 36%, 8% is pledged with Nuvoco and your first question was if the share price remains the same would there be reduction in pledge? Yes, if there is any asset sell because we are looking at some land deals or something like those if something happens of course our first endeavor is to reduce our pledge.

**Sonaal Kohli:** Sir, what I was referring to you Emami stock price remaining the same because there may be league lag relationship there may be taking a three month-six-month average?

**Mohan Goenka:** No, if the prices remain the same there is some room of reduction of 2.5% to 3% at this price.

**Sonaal Kohli:** And Sir, when do you expect the cement related pledge to come down if you have any visibility on that front?

**Mohan Goenka:** Not really that case is going on. Once we get some visibility from the court only then only, we would know.

**Sonaal Kohli:** And Sir, as far as your hospital registered business is concerned are you hopeful that within six months you would be able to close something so when we meet for let us Q1 results there would be something on the table or are you looking at much longer time horizon like you may want to wait for 12 months to get the right price?

**Mohan Goenka:** No, we are not waiting for 12 months for the right price or anything like that. These assets are there, and we are expecting sooner some bids to come in. Let us see I think in six-month time we should be hopeful that something should materialize.

**Sonaal Kohli:** Sir, lastly, we are all trying to get the structural growth drivers of this company. Could you tell us at least about it might be difficult for you it may be led by low base of last few years or if its nominal income growth. But on the internal side how things have changed for you, how the pledge reduction did lead to change the momentum and is it like momentum leading to further growth and therefore, while the analyst could think that the last three year-four years and the next three year-four years could be different your own thoughts and learning from the last experience and how internal growth drivers could be from a three year-four-year perspective? Thank you.

**Mohan Goenka:** You are right, once we get into the growth mode the entire organization the gear shifts to the growth and there is lot of motivation amongst the team and the distributors everyone and we start investing, re-investing behind brands everything changes that is one. Secondly,

post-COVID or pre-COVID the whole mind set of ours also changed, we launched so many brands which we have never done in the history of Emami in one year six months' time. So, launching a brand is now much easier than what it was pre-COVID and I have mentioned in the opening remark we would also see a lot of new launches coming in as far as the Healthcare range is concerned. That has definitely changed and what else of course reduction of pledge has helped promoters as mindset there will be some changes would come, our risk-taking ability goes up everything might have changed.

**Sonaal Kohli:** So, did the new team make a difference like last two year-three years did you make significant hires?

**Mohan Goenka:** No, the new team over the last six months-eight months that made the significant difference I would say the two new recruits of Vinod and Gururaj that really helped us.

**Sonaal Kohli:** Great, thank you Sir, and wish you all the best.

**Mohan Goenka:** International Head is Vivek Dhir; international has been doing very well since he has come on board.

**Sonaal Kohli:** Thank you.

**Moderator:** Thank you. The next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.

**Gaurav Jogani:** Thank you for the opportunity Sir. My first question is with regards to how the season Q4 has been panning out in that sense that we see an extended winter now in the Northern belt could that have an impact on the sales of Navaratna oil in Q4?

**Mohan Goenka:** Gaurav Ji let us wait as I said first three weeks have been good our winter, summer at least the brands are selling that is more important. Summer can set in any time even if it sets in by third week of February or fourth week of February, we should be able to do good numbers for Navaratna oil. So, I really cannot comment on summer right now. Yes, now pressure is there on summer products.

**Gaurav Jogani:** Okay, and Sir with regards to the amortization, one off amortization can you quantify what was the amount this quarter and what can be steady state amortization rate that we can build going ahead?

- Rajesh Sharma:** At present it is around Rs.60 Crores every quarter which would continue for the next five quarters.
- Gaurav Jogani:** Okay, and for the one-off amount that this time Sir had informed about the one-off amount is there because of the changeable life of assets, what that must be?
- Rajesh Sharma:** This quarter because of the change in useful life of mould we have take additional hit of around Rs.11 Crores. This is one off.
- Gaurav Jogani:** Okay Sir. Thank you so much Sir.
- Moderator:** On behalf of IIFL Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.
- Rajesh Sharma:** Thank you Percy. Thank you IIFL for arranging this call and we thank all the participants for joining us for today's our Earning's Call. Thank you.

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