



**“Emami Limited Q4 & Year Ended FY2021
Earnings Conference Call”**

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Moderator: Ladies and gentlemen, good day and welcome to the Emami Limited's Q4 FY2021 Conference Call hosted by IIFL Capital 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 Capital Limited. Thank you and over to you Sir!

Percy Panthaki: Good afternoon everyone. It is my pleasure to host the Q4 FY2021 results call for Emami. Emami is represented by Rajesh Sharma – President (Finance) and Mr. Mohan Goenka – Director. So, without further ado, I will give over the call to Mohan Ji.

Mohan Goenka: Thank you Percy. A very good evening friends. I welcome you all to this conference call on Emami results for Q4 and year ended March 31, 2021. I hope all of you and your loved ones are safe and keeping good health in the midst of the second wave of the pandemic.

I really do not need to tell you about the second wave of the pandemic, severity of which has caught the nation off guard. While the entire country may not be in lockdown, parts of it are and the spiraling effect of the spread of COVID-19 is practically affecting every family today. As a result, the momentum of industry recovery has somewhat been affected for obvious reasons. Being better prepared this time around to handle the dynamic situation, we are working on various strategies to overcome the sudden roadblocks that we are facing. Like last year, the second wave of the pandemic has hit the peak summer months which is likely to have some impact on our summer portfolio. With the graph of COVID-19 at this moment have started a slide downward trend we are confident of all our brands performing strongly in the coming quarters.

Coming to our Q4 results, I am very happy to share that we have continued with our growth momentum and consistently delivered broad-based growth across brands, channels, and businesses. Our sales and profitability have continued to improve quarter-on-quarter basis.

During the quarter, our domestic business grew by 44% and the international business also posted a strong growth of 28%. Institutional business despite posting a sequential recovery declined by 3%.

On a consolidated level, our revenue at Rs. 731 Crores grew by 37% over previous year. Since the base quarter was impacted due to COVID-19 and lockdown, our performance if compared with the base quarter of last-to-last year also, you will observe that we have

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delivered a double-digit growth of 14% over Q4 FY2019 which we believe is healthy considering the challenges we faced during the period.

All our major brands grew by more than 30% during the quarter. If we compare our growth against Q4 FY2019, the Healthcare range grew by 48%, Pain Management grew by 33%, Navaratna by 13%, Kesh King by 7%, Boroplus by 5% and 7 oils in 1 by 45%.

As you all know, the pandemic has put consumer focus more on health and wellness and is today a necessary lifestyle requirement with a strong focus on Ayurveda. Our Healthcare business which has a basket of Ayurveda based innovative products as well as digital first products have been doing quite well. Our own e-commerce portal, Zanducare has been doing much better than what we had envisaged. It is today the number one portal in India with the health and alternative health and remedy category which offers free doctor consultation for consumers.

Further, we have added new consumers for many of the Zandu Healthcare products such as Chyawanprash, Kesari Jivan, Pancharishta, Honey, Cough Syrup, health Juices and single herb tablets. We are continuously working on other NPDs across brands and categories and plan to launch differentiated products offering in the generic and ethical segments where we see high market growth potential and where we have gaps in our current portfolio.

The Healthcare category offers good headroom for growth and we are working towards relevant and meaningful proposition and products for consumers to achieve this and are very optimistic about the business. We kept our innovation wheels churning during quarter and introduced the jaggery based variants of Zandu Chyawanprash for the first time in India. We also launched Kesh King Ayurvedic Onion range and Navaratna Gold Ayurvedic cool oil in the e-commerce channel. Overall, our new launches contributed to nearly 3% of our domestic sales in Q4 and 4% in FY2021.

During this quarter, both the urban and rural market performed well. Retail channel also picked up momentum, while modern trade grew by 46% and e-commerce continued its robust run growing by almost three times. In Q4 FY2021, our e-commerce business increased its contribution by 200-basis points to 3.7% of domestic revenues. We also completed digitization of rural sales force successfully during the quarter. Additionally, we have also embarked on a focus rural expansion drive under project Khoj by increasing our rural footprints in the top four potential rural contributing states.

We have been consistently taking steps to strengthen our existing team across functions focusing especially on sales and distribution to bring an increased professionalism and

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result-oriented approach. As I had mentioned in our earlier call, we are creating a separate organizational structure and activation program to leverage the opportunity of standalone modern trade, in other words, independent modern trade stores that are going very well post COVID. This will help us drive offtakes of NPDs as well as higher margin large packs.

Our international business grew by 28% aided by robust performance in markets of SAARC, GCC and Africa during the quarter. While the performance of Kesh King in new geographies has been encouraging and 7 oils in 1 continues to exceed and outperform our expectations. Creme 21 the German brand that we have acquired in 2019 has since then consolidated its position to become the leading brand contributing significantly to our international brands.

In this quarter, our input cost pressures increased due to inflation in key commodities which led to a gross margin decline of 250 basis points. However, EBITDA at 163 Crores grew by 65% and PAT at 88 Crores grew by nearly four times. Cash profits at 171 Crores also grew by 57%.

As we look back as the years gone by, I strongly believe that Emami has performed exceptionally well by delivering broad based growth amidst difficult circumstances. Despite Q1 being a complete washout due to the nationwide lockdown, we bounced back strongly and consistently by delivering double-digit growth every quarter-on-quarter basis.

We closed the year, with revenue of Rs. 2881 Crores which grew by 8%. Our gross margins for the full year at 67.7% increased by 70 basis points on account of benign raw material prices in the earlier parts of the year coupled with stringent cost control measures. EBITDA at 883 Crores grew by 28%, EBITDA margin which are at an all-time high of 30.7% grew by 460 basis points.

PAT at Rs.455 Crores grew by 50% with a margin at 15.8% increasing by 440-basis points and cash profits at Rs. 822 Crores also grew by 29% with margins at 28.5% increasing by 440-basis points.

Emami also rewarded its shareholders handsomely during the year with two interim dividends of Rs.4 each, cumulatively amounting to Rs.356 Crores,i.e. a. payout of 43% on cash profits and also completed buyback of its shares amounting to Rs.221 Crores including taxes. Despite these outflows, we closed the year with a net cash surplus of Rs.357 Crores.

With our renewed focus on digitization and future-ready business strategy, we are confident of all our brands performing strongly in the coming years. Our summer brands despite the surprise and renewed onslaught of the pandemic are performing better than the last season.

We will continue to take our business strategy to keep up with the fast-changing dynamic environment. We are satisfied that all our commitments on various initiatives have delivered good results. With this brief, I now open the floor for Q&A.

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

Abneesh Roy: Congrats on good **(audio cut) 12:07** and volume growth. My first question is on the immunity products, so Chyawanprash and other immunity products, if I see Q2 and Q3 you and industry and market leader all did really well and Q4 it came off, so if you could discuss some color on how was Q4 versus Q2, Q3 run rate for Chyawanprash and immunity and related question is so whenever COVID cases go up, the consumption of these products goes up and vice-a-versa, so what can you do proactively to really inculcate more regular consumption of these products the longer term? That is the first question.

Mohan Goenka: Abneesh, you would appreciate that immunity still is a small pie in our total sales, so the growth has to be led by the leader. But still Q4 is relatively a very small sales of immunity products. Though the COVID numbers were small in Q4 even in the second wave what we have seen and noticed, Abneesh is that we have not seen that kind of a momentum in the second wave for immunity range. So, it would take its own time for these to be built but as I said we still are relatively very small.

Abneesh Roy: And what would you attribute wave to different trend, is it because of the rural impact or more of a shock to the consumer in terms of either sentiment and is own personal whatever cases happening and may be some level of the shops being closed or is it consumer behavior which has changed this time?

Mohan Goenka: What we have seen one is very, very clear like last time how sanitizer business took off, this time almost it is negligible that is definitely a trend. As I said, immunity also the way people had jumped on immunity products whatever they were getting this time we have not seen that kind of a momentum. So, people also have found a lot of homecare remedies this time and they are doing that than jumping on some of the branded goods.

Abneesh Roy: Sure, that is useful. Second related question to immunity is Honey portfolio. I understand here again it is a launch which has happened in the past two years and you are relatively small player versus the market leader, my question is when you see the other new launch, they are now claiming a 100 Crores run rate for next year for just a Honey portfolio, so if you could discuss how has been your Honey portfolio growth and is there any learning, you can take from the new launch which happened this year in Honey by the industry?

- Mohan Goenka:** Again, it is the same point Abneesh, for honey we are very small compared to the size. Although we have doubled our numbers from last year but on an overall basis, we are not even 1% of our total sales, we are much smaller.
- Abneesh Roy:** Last question, Kesh King any comment, how do you see the outlook there? When I see two-year number, the growth is a bit more moderate for this quarter and how do you see the outlook for FY2022 in Kesh King?
- Mohan Goenka:** On a two-year basis you would see we have grown at almost 7% as far as Kesh King is concerned, and as I said unfortunately the second wave has taken a toll on some of these brands., We were doing exceedingly well in the month of April but as we set in, in May we saw slight fall in these brands particularly the summer products and Kesh King and Fair and Handsome per se. But I think as we go under unlocking, I am very, very confident of achieving a double digit growth in almost every portfolio because in the last nine months post lockdown, we have seen a lot of new consumers coming into the Kesh King portfolio and also in some of the other brands, so we are very confident post June 1 or may be June 10, we are confident that we will run with the same strategy what we have done last time and confident of achieving double digit growth.
- Abneesh Roy:** But are you able to track the new customers. How do you track that, you said lot of new customers has come, so is it for the new products of Kesh King?
- Mohan Goenka:** We get the data, so how many new consumers have tried the products, of course.
- Abneesh Roy:** That is all from me. That is very helpful and thanks a lot.
- Moderator:** Thank you. The next question is from the line of Arnav Mitra from Credit Suisse. Please go ahead.
- Arnav Mitra:** My first question was on healthcare again so while your portfolio is not immunity driven in a sense, you had a very strong healthcare here in FY2021, so on that strong year, do you expect to grow in FY2022 given the high base that you have and if that is to happen would it be through the core categories of balms itself or it is driven by a lot of NPD plan that you may have for in the FY2022 for healthcare?
- Mohan Goenka:** Arnav, when we say healthcare, we exclude the balm. So excluding the balm also we are very confident of at least achieving a 20% to 22% even on a higher base, so it would of course be with new launches, with Zandu care the portal that we have launched with our expansion on distribution only for the Healthcare range, it is quite an aggressive plan we have taken for the Healthcare business for FY2022.

Arnav Mitra: Specifically on Pain Management also where you have had a very strong year any sense of how sequentially that business is trending, is it holding onto the strong numbers that you have been doing last few quarters or are you sensing some moderation in the Pain Management business?

Mohan Goenka: Interestingly Arnav, Pain we have seen in the second wave, it is much more stronger than what we had seen in the first wave. That is the only portfolio which is really holding on and which is going much aggressive than what we have envisaged. So, these are trends but it is very difficult for me to understand, suddenly Pain Management has really taken off in the second wave and not so much of immunity. The only reason what we sense is because of the stress level that have gone up would be one of the reasons.

Arnav Mitra: Right, Mohan Ji, just on June quarter I know we are still like in very, very volatile times and months to go and last year of course you have a low base but if you similarly had to compare with the two-year old June quarter which is Q1 FY2020, how do you think the quarter could, are you looking at definitely a decline which could happen on the two-year old number given the impact or given that some parts of your portfolio are doing well you could actually see some growth on the two-year old Q1 also?

Mohan Goenka: Arnav, we would let us see if unlock happens, when does it happens, if it happens in June 1 or may be June 10 or June 15 then we are definitely confident of doing much better but as of now I think we would be able to touch our FY2020 numbers what it looks like, may be a slight growth on those numbers.

Arnav Mitra: Mohan Ji, my last question is on margins, if you could just articulate which are the key commodities where you are seeing very high inflation at an overall level how much is inflation for RM basket and also the pricing that you have taken and generally given that you do have high ad spends, do you feel that at an EBITDA level there is any risk to margin for FY2022 or it is within the range where you between pricing and other cost lines you would be able to broadly manage full year EBITDA margins?

Mohan Goenka: That is a good one because when we started the year with our budgets, we have taken an aggressive number in concall also I think I had mentioned that we will go aggressive on advertising but as I said we have to rework on our strategies in Q1 we have of course cut our advertising depending on the sales numbers and due to lockdowns, so I do not see there should be much impact as far as EBITDA margins are concerned what we had planned, of course we would have to see how the numbers go in Q2, Q3 and Q4 but Q1 advertising would be low compared to last to last year, last year was a washout, we did not do advertising at all. I do not see much pressure on the margins even on the gross margins we

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have taken aggressive price increase for a lot of our portfolio almost I think about a 4% price increases we have passed because of increased inflation on raw materials. So, I do not see any pressure as far as gross margins or EBITDA margins are concerned.

Arnav Mitra: A follow up to that, so other than the crude derivative packaging LLP, is there also inflation in Menthol or Menthol prices are reasonably fairly steady right now?

Mohan Goenka: Menthol are very steady, there is no pressure on Menthol, only on Rice Bran Oil, edible oils are at an all-time high, so that is also a little worry some but as I said Arnav, I do not see any pressure on the gross margins because we have been aggressively taking price increases.

Arnav Mitra: Thanks, and that is it from my side. 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 numbers. Firstly, on Fair and Handsome despite the relaunch, the sales has not recovered fully, so what is the issue there, is it the industry wide issue or is it competitive issue or is it like male grooming like not really coming back, if you can share your thoughts on that first?

Mohan Goenka: Kunal, if you would had seen our Q4 number, we had grown handsomely in Fair and Handsome sequentially but unfortunately as I said that because of the lockdown and most men are staying indoors and there are not much social events, so this category is badly hit, so it is to do with the category nothing to do much regarding Fair and Handsome.

Kunal Vora: Okay, secondly, you mentioned that Zandu portal is doing well, would it be possible to provide some numbers, how many downloads that are seeing, sales contribution like how do you plan to leverage it, will get more products available there, if you can share your thoughts on that?

Mohan Goenka: Every month-on-month I think I had mentioned in last time, we are doing almost a business of 2 Crores or 2.5 Crores every month and every month almost about 55000 to 60000 consumers are buying products directly from only Zandu portal now. Since the time we have launched, we have almost got a database of 42 lakh consumers on this portal, so I think it is quite remarkable achievement I would say we have done over the last seven to eight months and we are continuously strengthening this portal to see how consumers benefit directly, we would launch lot of products only on this portal going forward.

- Kunal Vora:** Are you looking to leverage base into other brands like are there opportunities available for the other brands as well from the learning which you had on the Zandu portal?
- Mohan Goenka:** Of course, it is too early for me to say. As I said Zandu itself has a lot of potential. We would first leverage the entire Zandu product portfolio plus lot of new launches only we will be doing on this portal and then we would see whether we can do it for other brands but as of now the entire focus is on healthcare.
- Kunal Vora:** Just one last question, will it be possible to provide revenue split by brands or category for FY2021 you have given the growth numbers but the contribution mix if you can provide for FY2021?
- Mohan Goenka:** Those numbers we are not discussing Kunal.
- Kunal Vora:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Prakash Kapadia from Anived Portfolio Managers. Please go ahead.
- Prakash Kapadia:** Couple of questions from my end. Navaratna you mentioned summer season demand could get affected, is it because rural city belts are affected in the second wave, alone or is it when the before the second wave started channel pipeline was lower in terms of billing?
- Mohan Goenka:** Prakash, I think we had done exceedingly well in Q4 to fill in the pipeline because none of us expected this kind of second wave coming in the month of April-May but because migrant laborers they started leaving, the factory started closing down, most of the sales come from rural which goes through the wholesale and you know almost 80% to 90% of the wholesale market is shut now and this time, the wave has been badly impacted in the rural areas which we all know and Navaratna being a rural brand, definitely does have an impact, people are not moving out, they are not stepping out of their houses, so the sales is course impacted both for Navaratna Cooling Oil and for Navaratna Cooling Talc but we still have one month to go, let us see how if God willingly from June 1 if market starts opening up then would be able to make some bit of it.
- Prakash Kapadia:** In Zandu website has almost five kinds of products, are these OTC products only where consumer can buy for health and hygiene you mentioned in your opening remarks about doctor support program or consultation, some more about that?
- Mohan Goenka:** No, not that every product is OTC. Some of it are ethical and generic which are prescribed by the doctors, but the large proposition of sales of course come from the OTC range.

Prakash Kapadia: So, if somebody has a doubt, he calls in at a particular call centre number to ask for convey a doubt and say I want this product, how will this help me that is the kind of support system we are trying over here?

Mohan Goenka: Yes, absolutely they have to go to the portal and then you have to of course give all the data, then they will guide you, if you want to order you can order, if you want consultancy of the doctor, they will guide you and take you to a doctor.

Prakash Kapadia: Lastly on Almond Cooling Oil, we have tried earlier and have not prepared some new formulation or specific target for the women segment or a specific we are again trying this month?

Mohan Goenka: We have only launched it in the e-com platform, the Navaratna Gold. We are trying it out again as I said in the e-commerce platform.

Prakash Kapadia: Thanks, I will join back in the queue. Thank you, all the best.

Moderator: Thank you. The next question is from the line of Percy Panthaki from IIFL Securities. Please go ahead.

Percy Panthaki: Sir, I just wanted to understand a little bit more about this Zandu portal, a few questions on that, so firstly how does the delivery happen from your own warehouse using some delivery partners or does the order just direct to some nearby retail Kirana and he delivers it?

Mohan Goenka: No, we have two centres Percy, in India it is done through us. We have of course tied up with delivery partners, but the orders come to us and we deliver it.

Percy Panthaki: So, basically you would require intracity transport for this?

Mohan Goenka: As I said we have two centres, one in Delhi and one in Calcutta from there we distribute it across India.

Percy Panthaki: Okay, but would not the cost be prohibitive for someone in Bombay ordering it maybe it would get shipped all the way from Delhi, so would not the entire cost of this business model be too high?

Mohan Goenka: At this point of time Percy, of course the costs are little higher as the businesses grow, we can easily open centres in almost 27 locations, because we have depots everywhere. But we ourselves did not know that how this portal would work out, we are learning every day, we are implementing strategies there. As I said, today we have data of almost 42 lakh

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customers with their phone numbers and details. So, let us see. I do not see it is difficult to open, we are strengthening the team there almost on daily basis and of course we have edge to open more centres that is what I can say.

Percy Panthaki: But any thoughts about whether a hyperlocal kind of model will work, so in my pin code only if some retailer who is having that stock if that order is just directed to him, is that something that you would consider or you think this centralized system would work better?

Mohan Goenka: I told Percy that it has to be centralized because you have lot of products which are not being serviced by the local retailers these are exclusively only sold through the general portal.

Percy Panthaki: Secondly, I just wanted to know that since you have the data of so many customers, are you planning to popularize more of subscription model that every month you would get so and so list of products whatever you subscribe for and if you subscribe on an annual basis, you get X-amount of discount rather than buying piecemeal?

Mohan Goenka: Percy you would appreciate I will not be able to share the entire strategy what we will do with the Zandu portal. As I said we have intensive plans. We are investing aggressively behind this portal. We have got the benefit out of it. So every quarter you will get some data from us.

Percy Panthaki: Okay, understood. That is all from me. Thanks.

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

Shirish Pardeshi: Good evening Mohan Ji and Rajesh Ji. Hearty congratulations for solid growth of 39% volume growth. Mohan Ji, I have got few questions, I think you have done the right things in the pandemic time and I think there is a rethinking of strategy on healthcare and of course you have also strengthened this Senior Management Team working around that. What I wanted to understand, now what is the healthcare product gap which you are thinking, which can fill in the new product team and also if you can give some colour what is the penetration which has gone up in the last one year maybe in terms of touch point, what are the teams you said that you have reorganized the strategy. So, maybe some more colour what this Healthcare look like maybe a year from now?

Mohan Goenka: Shirish, unfortunately I will not be able to discuss what are the new product launches we have planned for under Healthcare, as I said there would be exclusive products for the portal and of course there are new range which is coming under Zandu Healthcare, but most

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of it would come in the Juices, Squash, Single Herbs or Cough Syrup, so these are some of the categories where we have increased our focus in the last six months and we would continue to focus on these products other than Chyawanprash and Pancharishta and Nityam, and all the products whether it is Juices, Cough Syrups, Single Herbs or even Honey on a small base we have almost either doubled or tripled in almost every category. So, we are strengthening it as I said we would keep on launching new products also.

Shirish Pardeshi: Thank you. Mohan Ji, one related question I had is that is this a penetration led growth or is it an offtake growth and the reason why I am asking is if you can split whether OTC which is driven by penetration/distribution and ethical which more of an offtake driven. I am looking for some more understanding what this Healthcare means for us now?

Mohan Goenka: You would appreciate Shirish, that still we are very-very small in the total size of the Healthcare market, our total business is around 300 crores, which includes even Chyawanprash and other products. So, we have a long way to go. I can hardly say that we have even penetrated 1% of the total market with so much of diversion in this total Healthcare business. As I said we have started getting aggressive due to pandemic of course we got the benefit and we are strengthening our team in the Healthcare very aggressively and there is lot of room to grow what you call offtake or I do not know, inorganic or penetration led, the only focus is to grow.

Shirish Pardeshi: My next question is on international business, so in this quarter we have shown that international contribution is around 17%. Now would you tell what the contribution for FY2021 is and what is the international growth and one follow up on that this Creme 21, how much is the business contributing to overall international business map?

Mohan Goenka: In FY2021 our contribution from international is 16% and going forward we have slightly aggressive plans in international business growth, so it might touch about 17.5% to 18% by FY2024 and Creme 21 of the total international business is about 18% or so.

Shirish Pardeshi: Would you talk something about on the profitability part in international business or any further acquisition you are planning to do now?

Mohan Goenka: Right now, of course we do not have plans for acquisition in the international market and international profitability is much lower compared to the domestic business.

Shirish Pardeshi: So, is it safe to assume that it will have about 40% odd plus gross margin?

Mohan Goenka: Gross margins are similar to the domestic market, but there are higher costs, there is huge infrastructure plus even the advertising that we are doing now in some of the markets which

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is much higher. But if you see last three years Shirish, the profitability has increased tremendously in the international business also. I think three years back our EBITDA was I do not have the numbers right now we can discuss it offline.

Shirish Pardeshi: Okay, my last question if I heard correctly, you said 4% price increase, we have already taken, is that right?

Mohan Goenka: Yes, for a year it would be because we will take some price increase in the month of June end, so it would be about 4% for the year.

Shirish Pardeshi: Okay, what I am more interested after April 1, you have taken any price increase so far?

Mohan Goenka: Post April 1, we taken some price increase in the Pain portfolio and even in the Summer Brands portfolio.

Shirish Pardeshi: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Shantanu Basu from SMIFS Limited. Please go ahead.

Shantanu Basu: Thank you for the opportunity Mohan Ji and Rajesh Ji. I would like to know about your Emasol scale, so how has Emasol as a category done and which subcategory did the highest sales, so that is my first question? The second question, maybe I think I missed it, so I would like to clarify the traction, so how has the e-commerce channel grown in Q4 and FY2021 and what is the contribution of e-commerce to FY2021 domestic sales?

Mohan Goenka: So, e-com contribution is roughly 3.7% of the domestic sales which has almost increased 3x in the fourth quarter.

Shantanu Basu: And this is for the full year, 3.7%?

Mohan Goenka: Yes, 3.7% is for the fourth quarter. As far as Emasol brand is concerned of course two brands are showing some promise one is the toilet cleaner and one is the dish wash, though we are reworking on the strategy because it is a challenging market, we would have to consolidate we cannot run across India. So, we are seeing which markets are showing some signs and we would only focus on certain markets instead of focusing it all India.

Shantanu Basu: Okay, and what are those markets?

Mohan Goenka: It is difficult for me to tell.

- Shantanu Basu:** Okay, and any idea or any ballpark number on the quantum of sales generated by Emasol in Q4?
- Mohan Goenka:** It is very, very small. It is not even a percent. It is much smaller.
- Shantanu Basu:** Okay, not even a percent of total domestic sales?
- Mohan Goenka:** Yes, it is.
- Shantanu Basu:** Thank you, Sir. Thank you very much Mohan Ji.
- Moderator:** Thank you. The next question is from the line of Harit Kapoor from Investec. Please go ahead.
- Harit Kapoor:** Good evening. My first question was on your distribution expansion plan Project Khoj you just spoke up, so if you can talk about little bit Mohan Ji on how FY2021 will go on the distribution side and what kind of expansion plans we are looking for in FY2022?
- Mohan Goenka:** Harit, I think in my last concall also we had mentioned that there are four areas which we had identified, unfortunately the plans got little delayed because of the second wave, but still the plan remains intact. The four points were of course strengthening further on e-commerce, which you are seeing the numbers what we are getting even in this quarter we are doing well as far as e-commerce is concerned. We have strengthened our team at the head office for e-commerce. Second is on the standalone modern trade. I had said in my opening remarks also, that is one area where we have tied up with a lot of single standalone stores and we are seeing significant growth there. There also we have hired new team who would look to this. Third is on the chemist outlet expansion. We have identified almost 20,000 chemist outlets with high potential chemists which would be covered by exclusive team and fourth is on the rural expansion which is Project Khoj we have identified 13 states where we would go very deep into 3000 population villages, but we would start with only four high potential states as of now. This is the only project which has got little delayed unfortunately because of the second wave, I think most likely we would start by June 15 or June 30.
- Harit Kapoor:** So would you say that of speeds over probably the number four one which is the 13 states plan could probably be the largest in terms of impact on sales for the business over two-year period?
- Mohan Goenka:** No, it would strengthen because you know that the distribution is part of our overall strategy and strengthening distribution is key for the size of our business particularly where

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rural plays a significant role and it has always been our endeavour to reduce the wholesale contribution and reach directly to the selling points, right. But I do not know how much it would come out of wholesale, but the only benefit we will get that the business stabilizes we do not have to really depend on the wholesale channel. That is very, very important, and we have seen the benefits coming in the last three quarters, you would have also seen our numbers because of such large distribution base we could grow what we grew, and now it is high time for us to invest behind distribution, advertising and other stuff.

Harit Kapoor: One bookkeeping question was we have seen increase in other income in this quarter so, anything one-off there to point out?

Rajesh Sharma: Harit I think there were couple of one offs, there are two investments which we have where we got valuation gains of roughly Rs.11 Crores each.

Harit Kapoor: Okay, so that is the Rs.22 Crores one-off there as you said earlier, and third thing was, if you could just add, probably you may be used to get market share data every quarter but if that is not something we would like to do at the end of the year presentation if you could just add market share data that will be very helpful.

Mohan Goenka: Yes, from this year on quarter end you will get the market share, because unfortunately last year we did not subscribe to Nielsen data.

Harit Kapoor: Perfect.

Mohan Goenka: Now we have subscribed. From this quarter you will get the data.

Harit Kapoor: Thank you very much Mohan Ji. Thank you.

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

Abneesh Roy: Sir, there are two questions. First is you have professionalized the company in the last two years and wanted to understand on that if you could give an update. Second is also on Tech the other companies talk about SAP/4HANA continuous replenishment system and many other initiatives, would you also discuss what are the plans, what have done in the last two years for tech side?

Mohan Goenka: Abneesh, your voice was not very clear on the second part.

Abneesh Roy: I will repeat the second part, so essentially on the tech part if you could tell us other companies speak about SAP/4HANA, they speak about continuous replenishment system, could you also say what are the plans for the next two, three years and what have you done on the tech side of distribution and production and overall forecasting and all the stuff what have you done?

Mohan Goenka: Abneesh, as far as IT is concerned, most of it is now technology driven. We have also moved to HANA and though I am not an expert I can talk much on this but working from home last time post that we had really implemented our IT infrastructure, and which is working beautifully now. So, almost every live data we have today. As far as professional management is concerned you are right that the aggression that you are seeing today and the numbers what we have been able to deliver it would not have been possible if we did not get right people at the right place. So, I would say that at the top level whether it is CEO of the International, CEO of the Healthcare division or even our Sales Head or every HOD who is today, even the e-com new head, everything is contributed to this growth and the aggression what we are going for next year also is basis discussions with these people only.

Abneesh Roy: Sure, my second and last question is on Zandu portal, I will not ask the question which were asked till now on that part, but my question is, why do exclusive products for Zandu portal for example every other company is doing e-commerce only products. So, why do not you offer those Zandu portal products on the e-commerce companies also, because customer foot fall will far-far higher there and unit economics will also be much, much easier for the customer and you also, because he will be ordering across the board from all companies and all categories, while for Zandu it will be very limited?

Mohan Goenka: Abneesh, you right we would have to think operate but we also want to popularize the Zandu portal. If there is some exclusivity we want people to come to this portal, right. So, depending on the demand and if you see that there is lot of opportunity going outside we would of course we can take any product outside any time when we want. But let us first grow the portal to a significant size and then we can decide on the strategies, but right now we want to popularize this.

Abneesh Roy: So, you will spend on the advertising bit on the portal also otherwise how do you get portal popularized?

Mohan Goenka: Surely, yes, as I said we have taken aggressive numbers for the Zandu portal for this year, FY2022.

Abneesh Roy: That is all from me. That is very useful. Thank you.

- Moderator:** Thank you. The next question is from the line of Gaurang from Haitong Securities. Please go ahead.
- Gaurang:** Congrats on very good volume numbers. Sir, my question is on the Dubai subsidiary, last year we have taken some provision impairment of around Rs.58 Crores and this year also there is an addition of another Rs.8 Crores odd to that number, so can you through some light on what is it issue is, is it some receivables issue or what is this all?
- Rajesh Sharma:** Sorry, Gaurang can you come again?
- Gaurang:** Yes, on the Dubai wholly owned subsidiary there was impairment of Rs.58 Crores last year in other incentives and another Rs.8 Crores this year roughly, so can you throw some light on what this issue is, is it some receivables that are being written off?
- Mohan Goenka:** Because one of our subsidiaries, Dubai subsidiary in particular was not earning profits, so we had taken some provision of the receivables last year, but this year since it has earned some profits this year, we have written back the provisions by Rs.8 Crores, we have not provided further.
- Gaurang:** Okay, because notes to statement says that company has further created provisions of around Rs.7.73 Crores and some amount is coming back in the other income also which is around Rs.6 Crores?
- Rajesh Sharma:** Yes, Rs.6 Crores is written back of the provision which we did last year.
- Gaurang:** Okay, so are we expecting anything more or this is largely done?
- Rajesh Sharma:** No, this is largely done.
- Gaurang:** Okay and just one more thing on the tax rate what will be the effective tax rate for FY2022 and FY2023?
- Rajesh Sharma:** We would safely take around 20%.
- Gaurang:** 20%. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Aditya Gupta from Goldman Sachs. Please go ahead.

- Aditya Gupta:** Good evening. If you can give some more colour on what happens with the gross margins, I think we mentioned menthol prices were largely stable, but the swing even on QoQ or a YoY basis is fairly significant, so if you could share some more colour as to say the product mix in play over here or was it are just raw materials?
- Mohan Goenka:** Aditya, as I said we have taken because seeing at the increase in inflation in some of the raw materials we have taken price increases. So, if the same continues like this then we are confident we should be able to do a gross margin of about 66.5% or 67% only.
- Aditya Gupta:** That is for the next year?
- Mohan Goenka:** Yes, that is for the next year.
- Aditya Gupta:** Okay, and second question just on the promoter pledge again going by the March filings around a third of the shareholding, so any further progress we have made since then or what is the plan over the next year or so?
- Mohan Goenka:** Aditya, as of now I think the pledge is about 30%. We have reduced in the last one and half month or two months and as I have been continuously saying we are absolutely committed to reduce it further and hopefully in the next few quarters you will see a significant reduction.
- Aditya Gupta:** Thank you so much. All the best.
- Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.
- Shirish Pardeshi:** Mohan Ji thanks for the opportunity. I just wanted to have some clarification, during the cement sale we had created our pledge cover for Nuvoco 8%, is that is going to get released because now that transaction is quite old?
- Mohan Goenka:** Shirish, of course it would be reduced but as there is some mining case going on once that is only sorted then only, they would release this share.
- Shirish Pardeshi:** Do you think it will happen very soon or it will take a little longer time?
- Mohan Goenka:** At current level it is about 5% not 8%. We had given 6%, so they have released 1% share.

- Shirish Pardeshi:** Second question is now, we have generated lot of cash, but natural there is expectation are we going to have a stable, steady growing dividend policy or it is a really thought the board has taken or is there any such policies in place?
- Mohan Goenka:** Shirish, I think what dividends we have given this year we would expect these kinds of dividends for next year also.
- Shirish Pardeshi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Abul Fateh from Baroda Mutual Fund. Please go ahead.
- Abul Fateh:** Good afternoon everyone and congratulations for decent recovery and good set of numbers. I had a question on the pledge, you mentioned that the current pledge is 30% and you have reduced some pledge in the last one and half months, so this is because of the repayment of the promoter debt or is because of the share price moving up?
- Mohan Goenka:** It is a mix of both, but primarily because of the share prices going up.
- Abul Fateh:** Thank you so much. Thank you. That is it from my side.
- Moderator:** Thank you. That was the last question. I would now like to hand the conference over to Mr. Rajesh Sharma, for closing comments.
- Rajesh Sharma:** Thank you Percy. Thank you IIFL and thank you all the participants for joining us on our conference call on Q4 results. Thank you again.
- Mohan Goenka:** Thank you everyone. Please stay safe. Thank you.
- Moderator:** Thank you. On behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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