



SANDIPAN CHATTERJEE

“We are open to buyouts in toiletries and soaps”

It was a business that came about ‘quite by accident’, joint managing directors and childhood friends **R S Agarwal** and **R S Goenka (far left)** like to say. For an accident, Emami, the company they founded in 1970, has done pretty well for itself. Starting out with a Rs 20,000 loan from Goenka’s father, the duo have turned Emami into a Rs 755 crore company with a stable of well known brands in categories as diverse as chyawanprash and skincare creams. The route to success was tough and demanding, but they stuck it out, remaining steadfast in pursuit of stable growth.

In 1978, they made their first acquisition – Himani (a sick 100-year-old company then), the maker of Himani glycerine soap. They turned around the company and launched some products, including Boroplus antiseptic cream, which in the 1980s cornered nearly 70 per cent of the market. In fact, even today, Emami ranks among the top three in nearly all its product categories.

Last year, Emami made its second notable acquisition – Zandu Pharmaceutical Works, which owns some strong and well-positioned brands – Zandu balm and Zandu Chyawanprash. On the face of it, paying Rs 700 crore for a company that boasts revenues of just Rs 165 crore and net profit of Rs 16 crore (FY09) may seem like an outrageous business decision. But then, Zandu has a 2.5 acre office in Prabhadevi, Mumbai, which Agarwal values at about Rs 400 crore. Even if you exclude this, the acquisition does not look as bizarre at 2.2 times FY09 sales. The fact still remains that this was a hostile takeover – shares were purchased over a protracted period from various promoter groups, some of who gave up their shares willingly while others put up a fight, making it a costly affair in the end. Agarwal acknowledges this.

Emami, itself, isn’t doing badly. The Kolkata-based company reported a sales growth of 28 per cent to Rs 755 crore in FY09 from a year ago, but interest costs hurt net profit, which was down by 11 per cent to Rs 79.8 crore. Interest costs at Rs 31 crore, amounted to 24 per cent of Ebit. Agarwal expects interest costs to fall significantly this year and aims to turn Emami into a debt-free firm soon. A fall in raw material prices coupled with lower ad rates and the transfer of Zandu’s production to Pantnagar (which will bring in some tax relief) are expected to improve consolidated Ebitda margins by as much as 490 basis points in FY10 to 24 per cent levels. EPS is expected to grow by 23-25 per cent levels after consolidation between FY11 and FY12. At the current market price of Rs 421, the stock trades at 18 times and 14 times its expected FY10 and FY11 earnings respectively. Excerpts from an interaction with the joint managing directors on the way forward.

How do you see Emami's sales and profitability changing after the Zandu takeover?

Agarwal: We expect to do about Rs 1,000 crore this year (30 per cent higher from FY08 revenues), while Ebitda should be around Rs 245 crore. We see sales growing by about 20 per cent in the next 2-3 years, led not only by our own brands but also by new initiatives and products that we plan to introduce. Zandu should contribute about 20 per cent to our turnover at the moment and should go higher as we bring in newer products in the Zandu brand too. On the profit side, we see interest costs going down significantly (interest costs at Rs 31 crore stood at 24 per cent of FY09 profit before interest and tax) as we have eliminated most of it by the QIP (qualified institutional placement) issue. Also we are in the process of shifting production of some of Zandu's products to Pantnagar which is tax-exempt, and will benefit from income tax and excise duty cuts. These measures will help net margin to go higher than what it was in FY08.

What is the opportunity you see in Zandu (revenues of Rs 165 crore in FY09) that you reportedly paid Rs 700 crore for it? How long will the payback period be?

Agarwal: Zandu has a very strong brand recall and position in the market. We see the potential of turning

Zandu into a Rs 500 crore brand in the next five years. We are looking not only at the existing products -- Zandu balm and Zandu Chyawanprash -- but also at new initiatives which are planned for the brand. As far as the payback period is concerned, I would not like to comment on specifics, but it is nowhere near that number. We would have liked to pay out less but that is how things go. Also, you have to remember that there are not too many acquisition opportunities available in the domestic market. We see value in Zandu today even after paying that price and

with Fast Relief which is a muscle pain, back ache balm. Because of various consumer needs, these brands will be kept separate.

How about in the chyawanprash category, where both Emami and Zandu have strong brands?

Agarwal: In the chyawanprash category there will also be two separate brands. No point merging them since Emami Sona Chandi and Zandu Kesari Jeevan are both well known. The brand name and brand recall value is very good for Zandu Kesari Jeevan.

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I think that the payback period should be less than 7 years as of now. That is what we are definitely sure of.

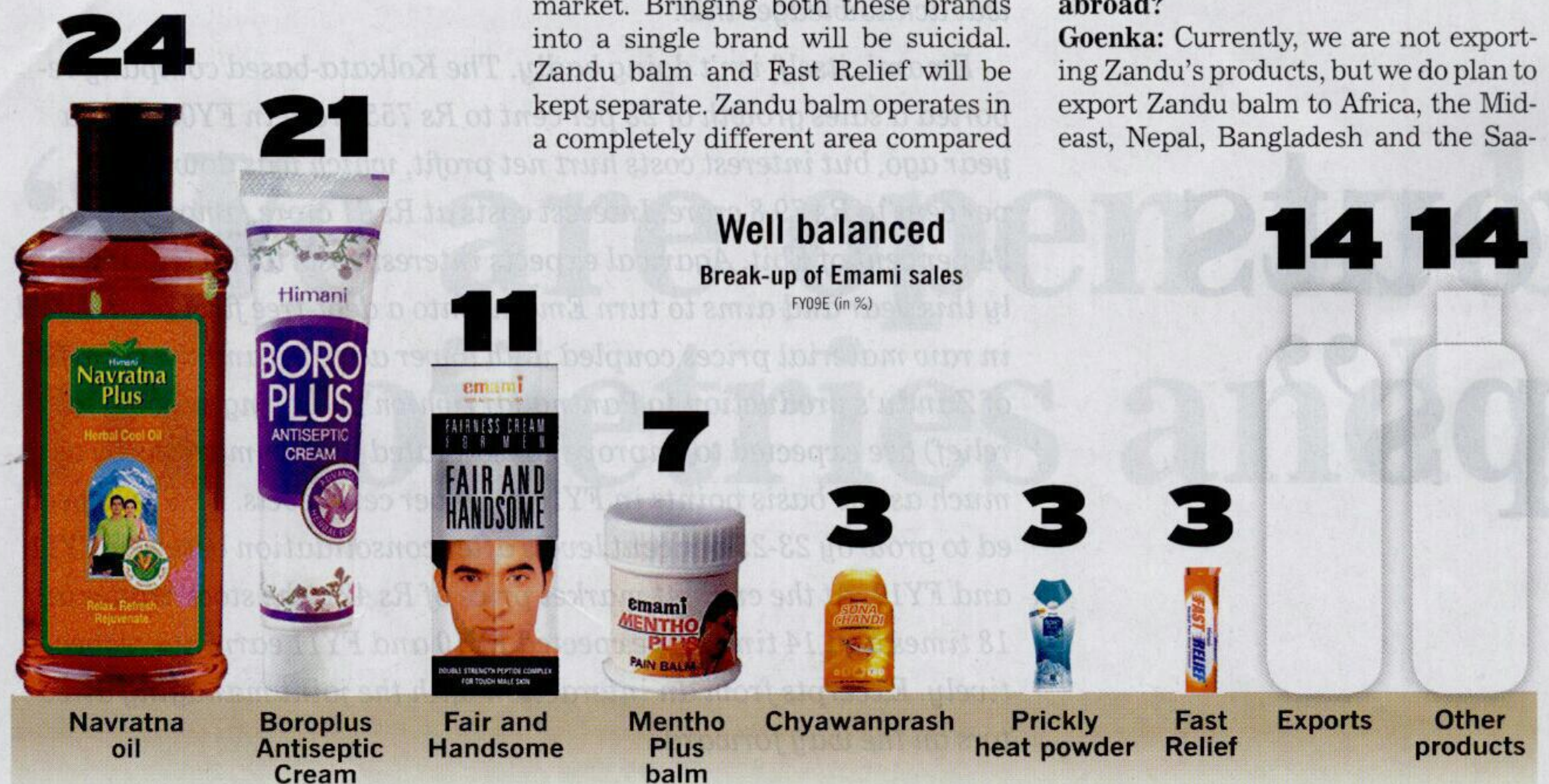
You have Fast Relief in your stable and you now have Zandu balm. Is there any plan to merge bring them under a common brand.

Agarwal: Balm is a multipurpose product used for headaches, cold, etc while rubs are used for muscle pain. In the Rs 450 crore market, Emami controls about Rs 245 crore - 50 per cent of the market. Bringing both these brands into a single brand will be suicidal. Zandu balm and Fast Relief will be kept separate. Zandu balm operates in a completely different area compared

At the moment, we have four chyawanprash variants: Zandu Chyawanprash, Zandu Kesari Jeevan, Sona Chandi Chyawanprash (Emami) and Sona Chandi Kesar Chyawanprash (Emami). All four are variants, but offer something different for consumers. We want to make chyawanprash an international brand though it is too early to say which of the two - Emami or Zandu - will sell abroad.

Any plans to take Zandu's brands abroad?

Goenka: Currently, we are not exporting Zandu's products, but we do plan to export Zandu balm to Africa, the Middle East, Nepal, Bangladesh and the Saa-



rc countries in the future. In the next three years, we aim to achieve 10-15 per cent of sales via exports from Zandu.

How is your debt position after the Zandu acquisition?

Goenka: We did the QIP for Rs 310 crore, we should now have only about Rs 100 crore remaining as debt. In November, we will pay down another Rs 50 crore and by the end of this year, we should be debt-free.

Boroplus, one of Emami's most well-known brands, is the leader in the antiseptic creams market. But it is a mature market. How do you envision the brand's future going forward?

Agarwal: The antiseptic product market is worth around Rs 250 crore and we have 70 per cent. The category has seen a growth of 10 per cent over the last few years but that category growth is coming only from Boroplus. None of our competitors are growing. In fact, we have been taking market share from competition every year. Our growth in the antiseptic market has been around 13-14 per cent in the last few years and we expect it to continue growing by 15 per cent in the coming years.

Fair and Handsome, your fairness brand for men, had the first-mover advantage, but with more players entering this market, do you see growth slowing down?

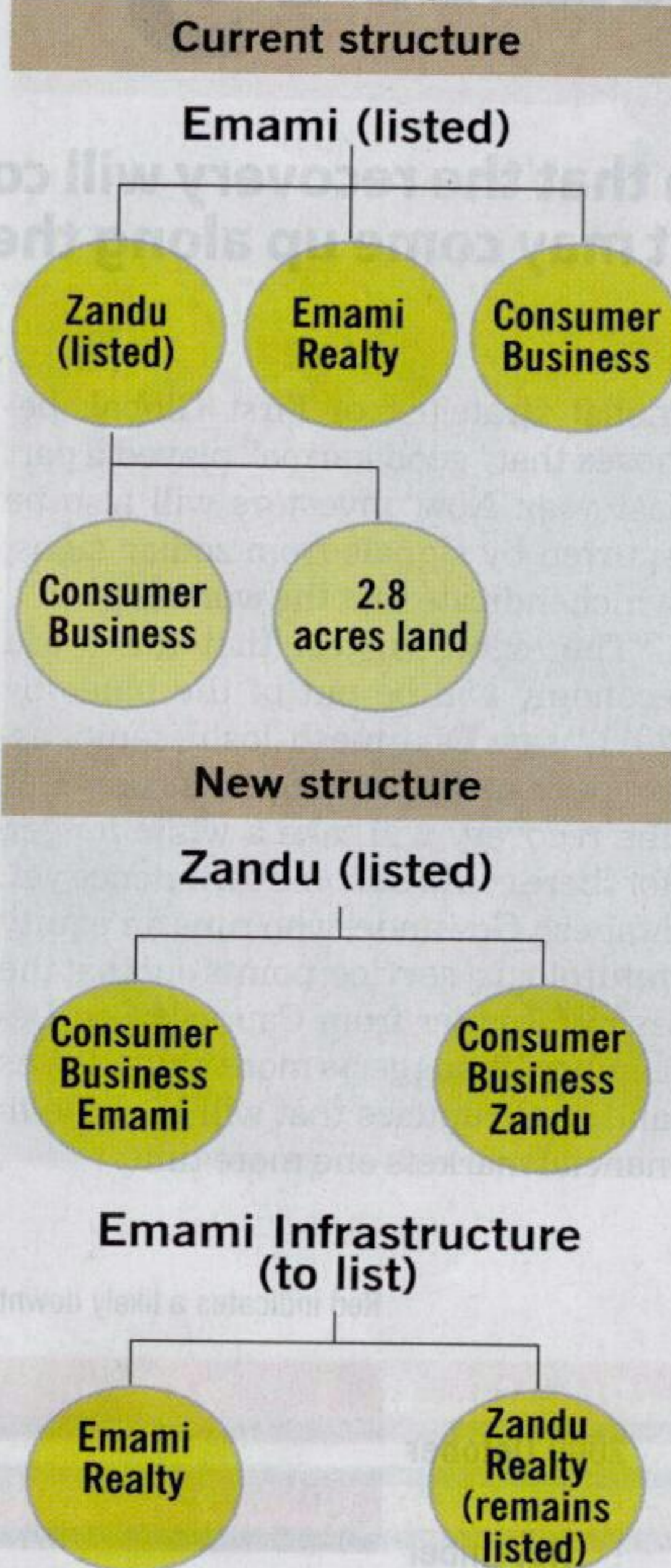
Agarwal: In this Rs 120 crore segment, we have managed to capture about 62 per cent of the market. Fair and Handsome now contributes 9 per cent to our revenues. Competition has actually helped us to grow the market. Earlier, we were the lone players and had to do a lot of advertising, but the new players are helping to grow the market. As far as Menz Active is concerned, it is not new competition. The brand has been around for three years now. Of course Garnier's men's fairness cream is new in India, but Garnier's products are priced at the premium end while our product is priced lower. We expect to continue seeing growth of 20-25 per cent in this category in the next few years.

Your Navratna brand has shown strong growth over the past few years? How is the brand positioned for growth?

Agarwal: Navratna is now a Rs 300 crore brand and we expect it to grow by

New look

Post the Zandu acquisition, Emami is undertaking restructuring



Source: Company, Anand Rathi

about 15 per cent in the next few years. We look at Navratna not simply as an oil product, but as a brand. So the question is, how do we maximise the potential of that brand? We have set a target of Rs 500 crore in the next three years. Currently, we have Navratna oil and Navratna talc. We are doing research to see if this can also include soaps and shampoos, though the final con-

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tours have not yet been decided yet.

Your exports have grown to about 14 per cent of revenues...

Agarwal: We expect the number to go up in the next two years as we launch more products abroad. We plan to sell more in the hair category, especially in the GCC and Africa markets where the demand for these products is strong. We don't have hair cream in our portfolio so we are planning to introduce it very shortly. We are also thinking of setting up a manufacturing base either in Dubai or Egypt, but it is still in the planning stage.

Any new products in the pipeline?

Agarwal: We are test marketing a glycerin soap and petroleum jelly, but not on a national level. We tested the soap in Andhra Pradesh and managed to get 8 per cent share of the market. Generally, if we achieve 2-3 per cent market share, we expect the product to have a fair chance of success.

How does Emami manage to compete against the FMCG biggies?

Agarwal: We are very aggressive. A lot of people think too much about the short term. When we launch a new product, we never think of profitability for the first five years. We concentrate on growing the brand. This was what we did with Fair and Handsome. All our brands compete against the FMCG biggies whether it is Malai Kesar against Ponds or Sona Chandi against Dabur Chyawanprash. We always try to be distinctive and innovative in our products. That is our strength.

Do you have plans for any more acquisitions?

Goenka: We are looking at acquisitions in cosmetics and toiletries but not in soaps, detergents or the toothpaste segments. We are in negotiations and don't want to comment further on this. But we are looking in India and at some brands in Egypt.

You want to acquire more? Don't you want to wait a while and fully integrate Zandu with Emami first?

Agarwal: Yes. *Business karogey toh sab samajh jaaogey, acquisitions koi badi baat nahin!* (If you do business, you will understand. Acquisitions are not such a big deal.) □