Emami Limited
Corporate Action on Acquisition

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ANALYST:	MR. SHIRISH PARDESHI - EXECUTIVE DIRECTOR AND HEAD OF RESEARCH - ANAND RATHI SHARES AND STOCK BROKERS LIMITED
MANAGEMENT:	MR. MOHAN GOENKA - DIRECTOR – EMAMI LIMITED MR. RAJESH SHARMA – SENIOR VP FINANCE, ACCOUNTS AND INVESTOR RELATIONS – EMAMI LIMITED MR. NARESH H. BHANSALI – CHIEF FINANCIAL OFFICER OF FINANCE, STRATEGY & BUSINESS DEVELOPMENT & – EMAMI LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Emami Conference Call on Corporate Action on Acquisition, hosted by Anand Rathi Shares & Stock Brokers. As a reminder all participant lines will be in the listen-only mode, there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shirish Pardeshi. Thank you and over to you Sir!

Shirish Pardeshi: Thanks Inba. Good evening friends. It is my pleasure to host this call. I am happy to announce that we have Mr. Mohan Goenka, Director from Emami. We are also having Mr. Naresh Bhansali who is CEO of Finance, Strategy & Business Development & CFO for the Company, also joined by Mr. Rajesh Sharma, Senior VP, Finance & Investor Relations. So I think we are all excited to listen from Mohan Ji. So Mohan Ji you can give the opening remarks.

Mohan Goenka: Thanks Shirish. Very good evening friends. I welcome you all to this conference call. I am pleased to share that Emami Limited has entered into an agreement with Mr. Sanjeev Juneja to acquire his Hair & Scalp Care business under the brand Kesh King. The acquisition marks Emami's foray into Ayurvedic Health & Scalp Care segment which is growing at a rapid pace.

The transaction envisages transfer of the business as going concern on a slump sale basis and will include brand portfolio of Ayurvedic medicinal oil, herbal shampoo & conditioner and Ayurvedic capsules along with its respective formulations and all related assets, rights and liabilities including working capital for a total consideration of Rs.1651 Crores.

The turnover of these products in FY 2015 was around Rs.300 Crores. This business enjoys superior gross margins and EBITDA margins than Emami. Kesh King Ayurvedic Medicinal Hair Oil is the number one player in the category with 32% market share.

Scalp and hair problems are on the rise due to hectic lifestyle and stress related problems as well as environmental issues. Hair fall is one of the most rising concerns today that affects an individual's confidence and consumers are constantly in search of effective solutions.

The business of Kesh King has established itself in the field of Ayurvedic Hair & Scalp care segment to address these concerns and we see a lot of opportunities to grow this category. So we are highly enthusiastic about this opportunity as it offers great synergy with our business and personal & healthcare products and hence a perfect strategic fit.

This acquisition is a part of our aggressive growth strategy and we plan to leverage the target business with our existing strength to make our presence stronger and deeper. The acquisition will be funded by a judicious mix of surplus fund short-term and long-term debt and the process is expected to be completed in a month's time.

With this brief, I now open the Q&A and invite your questions. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Abneesh Roy of Edelweiss. Please go ahead.

Abneesh Roy: Sir congrats on the acquisition. My first question is 61% CAGR for the last three years, so in the past you have seen acquisitions by some other companies I am not talking about Emami. Sir, post this expensive acquisition the growth rate falls down- so here how you see the next two, three years growth ? Will it remain at an exclusive growth rate or it will be the normal 15% - 20% and if you could tell us why it cannot be exclusive because distribution synergy is extremely high, your capability to do the marketing expenses also very high so why not target a very aggressive growth rate also for this going ahead?

Mohan Goenka: Abneesh, 61% CAGR growth is for last three years, but in the last year their growth was almost flat. As you have already said we expect a growth rate of around 15% to start with at least for the next two to three years. After understanding and after complete synergy with our distribution and getting all the benefits we might look for an aggressive growth, but for the first two to three years we are taking a growth rate of about 15%.

Abneesh Roy: Sir, I want to understand that in south and east currently the sales are low and the growth was flat YoY. I want to understand why it was flat. Why I am asking this is because the pricing of this hair oil is almost double of the other hair oils so how much is the stickiness of the customer because it is an expensive hair oil and the benefits which are talked about are not easy, the hair fall and all those, those are not easy to give so stickiness of customer is that an issue why was the sales flat YoY?

Mohan Goenka: It is a very new brand, Abneesh. So of course the stickiness is not that high for the brands. So we also have to understand this market because the category is new and in only five years the category has almost reached now 500 Crores to 600 Crores. So that definitely proves that there is a huge market for hair growth and treatment side. So I think there is a lot of opportunity with not just this oil, but a lot of extensions when I see the problem side, so let us see. I think also last year there were some issues with the brand because the management had changed from credit to cash so internally they had done a lot of changes, that also brought down the growth, but I think the strength that Emami has today both in terms of distribution, marketing and R&D we can take this brand much forward.

Abneesh Roy: Sir my last question is the distribution which is available in your universe can be 5x out of current distribution of Kesh King but realistically speaking how many outlets do you see this getting distributed say from a one year timeframe because it is a premium hair oil and especially if you see south and east currently the sales are low, so if you could elaborate on that part and who are the other players have 32% market share if you could give us color on the other market share an region wise who are the dominant players?

Mohan Goenka: Firstly, if you see in the oil market the majority of the market comes from SEC C&D so for Kesh King the price is 100ml Rs.140, which itself is very high and they do not have a smaller SKUs. So we feel that we have to come up with a lot of new SKUs to penetrate into the rural markets. That is one which I think to get a higher growth and secondly the the major competitors are again local players- one is Sesa -they have roughly 25% share and Ashwini- they have roughly 10% share and we have other small players. These are the two major players.

Abneesh Roy: I will come back later. Thanks for this.

Moderator: Thank you. Out next question is from Manish Poddar of Motilal Oswal Securities. Please go ahead.

Manish Poddar: A few questions. Could you actually elaborate let us with the MaKe versus Bio-Strategy. Why did not we not actually go ahead with launching the product by ourselves, because we entered in the light hair oils category why did not we actually launch a product rather than buying the product?

Mohan Goenka: Honestly, we did not have the idea of this scalp treatment or hair fall as such. This is absolutely a new category that they have developed, so it was a very fast growing brand. You have noticed in the last three years their growth has been almost 60% CAGR and it was an established brand so we thought we are getting it at a reasonable price and we tried and we got it, and we think that we can really strengthen the portfolio and grow the brand much faster than what they have been growing.

Manish Poddar: How much of the entire portfolio sales from the export business?

Mohan Goenka: No they do not have any export business at this point in time.

Manish Poddar: How could we leverage this brand for the export vertical this year do we have plans of that in the next coming two to three years?

Mohan Goenka: Yes absolutely so there are lots of opportunities. As I said to grow the brand - one is within India their majority of the business comes from only six states almost 80% business comes from six states.

Manish Poddar: Which were those states?

Mohan Goenka: The major states are UP, Maharashtra, New Delhi, Haryana, Rajasthan and Bihar. These are the key states, which contributes to almost 80% of their revenue so this itself gives us the room to grow in other parts of the country and besides this then international business like Bangladesh and Nepal is immediately we can get some benefit. Then they are not listed in CSD that is also a big market and then they are not even present in modern trade, so there are opportunities where we can with our strength we can grow the brand.

Manish Poddar: If I get it right, we are going to do the initial learning phase for the next two to three years and then actually lookup at scaling the brand rather than taking the distribution muscle and the international growth for the next two to three years?

Mohan Goenka: I do not think it will take so much time. Just in the next one year, because the first challenge is to integrate the distribution that is the big challenge because they also have their network. Of course every work will go simultaneously, but first we will merge their distribution to our distribution. We have to see how much time that takes.

Manish Poddar: Just one final question if I may, the underlying strategy of launching new products in the healthcare segment still on track right?

Mohan Goenka: Absolutely. Whatever plans we originally had will continue and for this we were eyeing for quite some time now but the deal has just been clicked.

Manish Poddar: I have a few questions. I will come back in the queue. Thanks.

Moderator: Thank you. Our next question is from Tejas Shah of Spark Capital. Please go ahead.

Tejas Shah: Thanks for the opportunity. I just wanted to check what is the noncompete clause with the entity?

Mohan Goenka: It is for five years.

Tejas Shah: Your press release continuously says that we have got vertical within the Kesh King brands so does the seller entity has any other accompanying products as of now in the same space?

Mohan Goenka: No he does not have any competing brands. He has other businesses but not into this category.

Tejas Shah: Sir what was the debt on the book of the acquired entity?

Mohan Goenka: They do not have any debt. They were debt free.

Tejas Shah: So it is only working capital that we have acquired.

Mohan Goenka: Yes, absolutely.

Tejas Shah: Sir what is this funding. We have already Zandu platform and this has been continuing with the previous question and was there an option to expand our portfolio into health or scalp care category before we actually reloaded on Kesh King as an inorganic growth opportunity?

Mohan Goenka: See, the opportunities are always there. As marketeers' we always look at opportunities, but as I said we have Navratna Oil which is a cooling oil, but at the same time because being in the oil category we have always felt it is difficult to create a new category and they have successfully done, so if we have got an opportunity which is readily available at a marvelous price then why not grab the opportunity.

Tejas Shah: Sir what are the creditor, debtor days or receivable days for the brand Kesh King?

Mohan Goenka: They have one month debtors.

Tejas Shah: They moved to cash last year?

Mohan Goenka: They tried but they could not move so still they have a 25 to 30 days debtor.

Tejas Shah: Thanks a lot. I will come back in the queue for more questions.

Moderator: Thank you. Our next question is from Ashish Upganlawar of Elara. Please go ahead.

Ashish Upganlawar: Sir if you could just explain us the gross margin to EBITDA margin picture of the firm how does it stand and once you do your steps in terms of integrating the businesses where all you think can efficiencies come in immediately and over a period of time maybe?

Mohan Goenka: Currently the gross margins are in the region of around 75% and then they have selling expenses, some administrative expenses and media and trade schemes. So all taken together they enjoy a superior EBITDA margin of around 45%.

Ashish Upganlawar: Sir A&P is it low as a percentage of sales compared to us?

Mohan Goenka: It is almost the same around 18%.

Ashish Upganlawar: Other part of the question as in what synergies can come in to better expenses here?

Mohan Goenka: The synergies would come from the distribution. Distribution synergies would be important and as I said the COGS the gross margins are already very high so you can still improve upon the efficacies and other things but we expect the synergies in terms of financial synergies from distribution mainly.

Ashish Upganlawar: So you look at margins overall for this business can move up even from here after all these synergies explore because we have a much higher platform actually?

Mohan Goenka: It may, but then we may also decide to invest more into the brand looking and expanding this further.

Ashish Upganlawar: Also I wanted to understand is the distribution commissions is much higher it being a new brand maybe five years so is that retailer distributor commission much higher than the normal FMCG practice just to push the brand into the space?

Mohan Goenka: Yes, currently they are higher.

Ashish Upganlawar: So what would it be approximately and would we try to address that and or what is the strategy going to be from Emami end from here?

Mohan Goenka: We will do it cautiously while the margins are higher there but we will ensure that we capitalized on these synergistic benefits as I said but over a period gradually.

Ashish Upganlawar: So we want tinker with this but do you think that this would be one of the bigger aspects that has led to the product reaching the retailer shelves and probably pull is the lesser factor and push is the major factor is it something like that?

Mohan Goenka: The reality is that they did not have that kind of a network which we have, so they had to resort to something. The network was completely different so they were working in their own way, so we have an established distribution network which is different so we have to work in it in a different way.

Ashish Upganlawar: One more question on the balance sheet, you mentioned the debtor days so can we get the net working capital figure the percentage of sales how would it looks in terms of may be number of days or something?

Mohan Goenka: As I said debtors would be around 30 to 40 days. Earlier it used to be around 60 days or so, they have reduced it to around 30 to 40 days and creditors are much lesser in fact even 10 days or so.

Ashish Upganlawar: So in an inventory so that we get a net working capital picture somewhere?

Mohan Goenka: Inventory is relatively much lesser around 10 to 15 days with them.

Ashish Upganlawar: So net-net it is a positive working capital maybe 20 days of positive working capital not negative working capital?

Mohan Goenka: Yes.

Ashish Upganlawar: So it is lesser than what Emami has as of now in terms of working capital and may be some efficiency can be built in here so that cash flows improve?

Mohan Goenka: Yes we can definitely.

Ashish Upganlawar: Sir finally one more thing on the cash flow side how much of cash did the company generate from the 300 Crores of sales last year and so on the operating cash and maybe free cash if you could give the number.

Mohan Goenka: See they do not have any debt in their books and as I said as an EBITDA margin of around 45% so this is the free cash flow there.

Ashish Upganlawar: Sure we can calculate that. Thank you so much I will come back with more questions. Thank you.

Moderator: Thank you. Our next question is from Shirish Pardeshi of Anand Rathi. Please go ahead.

Shirish Pardeshi: Sir I have received some questions. I think people are hesitating to talk. So the first question is broadly what is the cash as on now on the balance sheet of Emami?

Mohan Goenka: As on March 31, 2015 we had surplus funds of 800 Crores plus and with the accrual of cash month-on-month it is increasing, so 800 Crores plus kind of a surplus funds is available in the balance sheet of Emami itself and then as we had also mentioned in the press release we are raising debt. We will be funding this acquisition by a judicious mix of short and long-term debts .

Shirish Pardeshi: The next question is as you mentioned that the company has got lot of things to get, so you said business on slump sale so what are the businesses we are actually tangibly acquiring ? Is the manufacturing is also a part of it?

Mohan Goenka: Yes, see they are also doing manufacturing through third parties so those third party contracts are there, some manufacturing plant and machinery, some equipments are there, and whatever is required for the business debtors, creditors, intangibles all are a part of this and also their existing distribution network are all a part of this business which we acquired on a slump sale.

Shirish Pardeshi: So you are basically saying brands which are basically hair oil and capsules.

Mohan Goenka: Shampoos and conditioners as well.

Shirish Pardeshi: The next question is in the short-term what you see that what are the challenges you would face for while integrating. You already have one experience of Zandu acquisition so that is taken for a while. So do you think one year is good enough for integrating this new business within the existing team of Emami?

Mohan Goenka: Shirish, I do not think there is a great challenge because it is mostly present in those six states only where Emami also has a very significant strength and we have already planned. We have discussed with our distributors, our sales team if in some areas we find some difficulty, I think it will take a maximum six to eight months to integrate it completely with Emami. It is a complete synergy there is nothing new in this business.

Shirish Pardeshi: I have one more question, if you can highlight how the gross margins for this company have moved over last three years?

Mohan Goenka: It has remained in the similar levels. The gross margin is roughly 75% so from day one they had priced it very high.

Shirish Pardeshi: What was the ad spends if you can highlight of the percentage of sales or maybe absolute number last three years?

Mohan Goenka: Yes their sales percentage has also come down a bit but now it is in the range of about 17% to 18% which is in line with Emami. We think that we need to spend similar amount of money for sometime before we take any decision.

Shirish Pardeshi: I will come back again I have more questions.

Moderator: Thank you. Our next question is from Naveen Trivedi of Trust Capital. Please go ahead.

Naveen Trivedi: Sir my first question is on this Ayurvedic market. How this market basically has shown a growth in the last three years and in the FY 2015?

Mohan Goenka: See the size of the market this particular market is roughly about 700 Crores and they are the market leaders and they grew at almost 60% CAGR so the market has been growing in the range of about 30% to 32% for last three years, but last year the growth was only 6% in this market. I am not too sure what where the key reasons why this market growth was low but in my opening remarks I said we think we can grow at about 15% plus as far as Kesh King is concerned.

Naveen Trivedi: So in this market you said Sesa the second player with 25% market share if you can just give some highlight how they are basically gaining market share in the last three years and how many outlets they are available?

Mohan Goenka: Sesa has also not gained market share. Kesh King, since its launch has been the leader and the market has been more or less the same we are present in roughly 5 lakh outlets as far as Kesh King is concerned and we see a huge room to grow in distribution.

Naveen Trivedi: So Sesa is also levering the similar outlets?

Mohan Goenka: Yes absolutely they are also present in same markets.

Naveen Trivedi: I just want to understand one is that post Navratna and 7-Oils in One and now again one more hair oil, like almost like 44% to 45% of the mix will be among the hair oils category where the long-term growth is expected to be very slow as compared to the other categories that we have the presence. So how do you see this acquisition let us say from a medium-to-long-term perspective?

Mohan Goenka: That may be your view, but this I have been listening for the last five years, that our oil market will not grow, it will grow at in single digits and we have seen all the oils- whether our oil or all other oils the category has been growing very fast. So we think that this is a very niche category and it really falls into the treatment space so we think that with lot of innovations and a lot of changes in brand look and advertising we can make a significant difference to the whole category. Because the need is very high, if you see whether it is hair fall or hair growth or antidandruff - scalp treatment is a big opportunity.

Naveen Trivedi: Sir is it also doctor's prescribed hair oil also to me let us say from Ayurvedic doctor side?

Mohan Goenka: Not really, no this is an OTC product.

Naveen Trivedi: So how the channel is basically distribution channel in terms of chemist and general trade?

Mohan Goenka: No this sells across. This sells mostly through grocers actually.

Naveen Trivedi: So we also have good chemist distribution where we can basically replicate this brand?

Mohan Goenka: Absolutely so we have a very strong presence in chemists, grocers, wholesale, modern trade so we will leverage it across.

Naveen Trivedi: Sir my next question is on the deal specific details. How much gross block has been added through this deal?

Mohan Goenka: Not significant.

Naveen Trivedi: So the rest is the goodwill.

Mohan Goenka: Maximum, gross block then you have some current assets so major part is brand valuation and goodwill, we have the other intellectual rights.

Naveen Trivedi: Although it is very early days for the deal but can you just give some idea about suppose if we are having like 800 Crores kind of internal accruals so it is expected that we will have around another 800 to 1000 Crores for the debt raising so in that way what are the expected interest rate that we can see for this acquisition?

Mohan Goenka: It should be in and around 9% only.

Naveen Trivedi: There is no royalty kind of thing that we have to pay annually?

Mohan Goenka: No royalty.

Naveen Trivedi: So as it is a third party manufacturing, so what are the kind of manufacturing agreement is there with the third party?

Mohan Goenka: As it happens with other third parties also. It is as per the general terms as it happens with Emami. we also manufacture our products through many third parties there in the same way.

Naveen Trivedi: So is it only one supplier for this product or there are number of player's third party?

Mohan Goenka: We can get it manufactured through many, presently there are three.

Naveen Trivedi: So do we also have capability that we can manufacture in our own sources where we are also having third party this kind?

Mohan Goenka: Yes we can.

Naveen Trivedi: That is all from my side. Thank you so much.

Moderator: Thank you. We will take our next question from Abneesh Roy of Edelweiss. Please go ahead.

Abneesh Roy: Sir the brand currently writes Dr. Juneja so will you continue to do that?

Mohan Goenka: We have the right to use that.

Abneesh Roy: So you will continue.

Mohan Goenka: Yes, for some time.

Abneesh Roy: Sir you did not buy the Roop Mantra, and Dr. Ortho, was it your non-interest or they did not want to sell.

Mohan Goenka: They did not want to sell at first place.

Abneesh Roy: Because in their interview they have said that it became too large and they wanted to focus on new formulation so that does not dwell with not planning to sell Roop Mantra and Ortho, is it small in size that is why?

Mohan Goenka: I think you need to ask this question to them.

Abneesh Roy: Sir the next is if you could also talk about shampoo and the capsule part. We spoke so much in detail on the hair oil. So shampoo clearly is a hypercompetitive segment and there are herbal shampoos already two, three strong players, of course their attributes can be different so will this be a focus area or you will not focus much on this and may be even look at divesting at some stage.

Mohan Goenka: No, we would definitely focus on this also, because this is a complete hair and scalp care therapy, which includes oil, shampoo and capsules, so we would focus on this therapy itself.

Abneesh Roy: That is all from me.

Moderator: Thank you. Our next question is from Aman Batra of Goldman Sachs. Please go ahead.

Aman Batra: Sir, two questions from my side. One this product is a kind of a problem solution product. So do you foresee that it can become a kind of a regular usage product just like your other products?

Mohan Goenka: Presently also this is people use it regularly so and we think yes, this people will use it regularly.

Aman Batra: Okay so that is the kind of advertising platform you would have eventually that is a regular usage product?

Mohan Goenka: Yes absolutely.

Aman Batra: The second thing is for the goodwill created how would you treat you will again amortize it and take some tax benefit out of that how would you do that?

Mohan Goenka: We will do it as would be permitted as per the accounting standards aligned with the income tax.

Aman Batra: Can we assume that it would be similar to what was done last time?

Mohan Goenka: We will evaluate. In fact there has to have an amortization as to our understanding, but as per the existing accounting standard as you know this is something that you have to make an entry as per the accounting standard we would really not have any impact with the cash flow there.

Aman Batra: Thanks a lot.

Moderator: Thank you. Our next question is from Anirudh Joshi of ICICI Securities. Please go ahead.

Anirudh Joshi: Just one question, what is the payback period we see for this acquisition?

Mohan Goenka: Anirudh, it should not take more than two years, it would become an EPS accretive acquisition.

Anirudh Joshi: No not for EPS accretive. In terms of recovering the entire invested amount of 1650 Crores where do we see that achieving by sixth or seventh or eighth year kind of?

Mohan Goenka: See we go with this, we evaluate it on many aspects which we arrived from discount and cash flows through EPS accretion and other methodologies also but really when you acquire brand you would not calculate because you would be investing into those brands also subsequently.

Anirudh Joshi: Because on 300 Crores revenues assuming 50% EBIT margin we would be generating 150 odd Crores of EBITDA and we have paid 1651 Crores so that works out to ROCE of around 9%, 10%, so but we are not looking at in from this angle?

Mohan Goenka: Right.

Anirudh Joshi: Thank you.

Moderator: Thank you. Our next question is from Percy Panthaki of IIFL. Please go ahead.

Percy Panthaki: Sir just wanted to understand this non-oils portfolio which accounts for about 20% of the sales of Kesh King. How do you see that going forward, do you expect this contribution of 20% more or less to continue or you expect that contribution to increase, reduce etc?

Mohan Goenka: This 20% is mostly shampoo and capsule, but our major focus would of course be oil and shampoo as it is a competitive market but they have a significant size so we would leverage our distribution and other areas whatever we can incrementally get the benefit we will of course extract that but the key focus would be on oils.

Percy Panthaki: So you do not expect the contribution this 20% to change materially over the next three four years?

Mohan Goenka: It looks like that.

Percy Panthaki: That is it from me. Thanks a lot Sir.

Moderator: Thank you. Our next question is from Prakash Kapadia of iAlpha Enterprises. Please go ahead.

Prakash Kapadia: Congratulations on the acquisition. Two questions, if you could give us some pricing trends since the launch of Kesh King over the last four, five years; how have prices moved for the end product? Secondly how critical is **(indiscernible-35.43)** or a smaller packs relevant for Kesh King from our integration and growth perspective because this being an expensive product and new users could be difficult to happened so just if you could share your thoughts?

Mohan Goenka: For the last three years, they have not taken price rise. Price has been the same, and I had said earlier also that there is an opportunity in small size whether it is 50 ml or 25 ml or small sachets that we will have to study and then launch the different SKUs, but there is opportunity in small size for sure.

Prakash Kapadia: Currently the portfolio is only in 120 ml and higher there is no?

Mohan Goenka: Yes, they have only two sizes 120 ml and 300 ml, but mostly it is 120 ml only.

Prakash Kapadia: Thank you all the best.

Moderator: Thank you. Our next question is from Kunal Bhatia of Dalal & Broacha. Please go ahead.

Kunal Bhatia: Thanks for the opportunity. Sir just one clarification if you could divide the sales for 300 Crores into the hair oil, shampoo and capsules.

Mohan Goenka: Almost 225 Crores is oil and roughly 60-65 Crores is Shampoo and balance is capsules.

Kunal Bhatia: Sir just in regards to one of your comment when that person asked you the question on payback you said the brand will be PAT accretive by next two years so currently the brand is that positive, because it will become EPS accretive in the current year?

Mohan Goenka: You repeat your questions precisely?

Kunal Bhatia: You just mentioned in one comment stating that, when a person asked you about the payback period for this acquisition you mentioned one statement that it should become EPS accretive within two years, so just wanted to clarify I believe the brand is already PAT positive?

Mohan Goenka: Currently it is PAT positive without considering interest but when you consider the financial cost after considering this financial cost also it would be EPS accretive in the second year.

Kunal Bhatia: Thank you so much.

Moderator: Thank you. We will take our next question from Ashish Upganlawar of Elara. Please go ahead.

Ashish Upganlawar: Couple of follow-up questions. Gross margin of 75% is pretty high and probably possible in monopolies basically and I think this 30% is the kind of share do you think going ahead ever it is possible that the margins might suffer because competition from some new competitors may be a problem and have to sacrifice the margin somewhere?

Mohan Goenka: This is very difficult for me to answer. Of course we are always prepared for competition and we will see how we protect, as we have protected Navratna Oil and most of our categories so good that they also have a leadership position. So we will try very hard to grow the market share. There is a lot of room. They only have a 35% share where if you see our other categories we have almost 70% - 80% market share in most of the categories.

Ashish Upganlawar: So are the competition products here priced similarly to your 120ml for 136 similar pricing for competition also?

Mohan Goenka: Sesa is in the similar range and the others are even higher.

Ashish Upganlawar: So it can be safely assume they also have similar gross margins in the product?

Mohan Goenka: Others.

Ashish Upganlawar: The competitors would have similar gross margins on the products?

Mohan Goenka: Yes absolutely, because they are priced even higher.

Ashish Upganlawar: Sir one more question on the tax rate you mentioned that it is third party so does it impact our overall effective tax rate anywhere because it would not be manufactured from our facility for sometime maybe?

Mohan Goenka: No our tax rate will not change. We are in MAT so that will remain the same.

Ashish Upganlawar: So at the company level it would not change it will be say 21%?

Mohan Goenka: Absolutely. We will quickly want to manufacture it ourselves. We are setting up the plant. I think in the next two quarters we will be able to manufacture ourselves.

Ashish Upganlawar: Thank you so much.

Moderator: Thank you. Our next question is from Arnab Mitra of Credit Suisse. Please go ahead.

Arnab Mitra: Sir just on the production the third party, is there already excise exemption that the product is getting wherever it is getting manufactured? and is there any change that can happen on that count?

Mohan Goenka: Yes, so they also enjoy the excise benefits and which will continue. That is the kind of agreement we have with them.

Arnab Mitra: The second you said majority of the sales is in those five, six states. So is it mainly because they started from north and that is how they have grown or is there an issue in terms of other parts of the country where the product what I am trying to understand is the product opportunity is similar across the country or is there any specific reason why those five, six states are large for them?

Mohan Goenka: Yes, one of the key reasons is because it is a north based company so their focus was entirely in this side and in south there are many brands which are very small regional brands which are priced much higher and they do not have the distribution. So I think their whole focus was Hindi belt and I see the opportunity. our first challenge would be to take the 35% market share to 45% - 50% share because there are other small regional players and there are many players actually in this segment. So with our marketing acumen and strength we think we can grow the shares.

Arnab Mitra: Overall this category of 700 Crores is it also large in south and east or is the whole category also most skewed towards west and north?

Mohan Goenka: No, presently because the major players Sesa and Kesh King are in the north and west markets, so the categories skewed towards this, but there are some regional players in south also.

Arnab Mitra: Just last question although gross margin is very high but what are the main input cost here in making the product?

Mohan Goenka: The base material is Til so that is the main raw material.

Arnab Mitra: Packaging is in plastic for this?

Mohan Goenka: Yes, packaging is plastic.

Arnab Mitra: Thanks Sir. That is it from my side.

Moderator: Thank you. Our next question is from Jubil Jain of Phillip Capital. Please go ahead.

Jubil Jain: Congratulations for the acquisition. All of my questions have been answered. I have just one question left. Can you tell me what is the net profit margin and how it has moved over the years?

Mohan Goenka: Net profit margin is higher than compared to Emami. It is almost 28% to 30%.

Jubil Jain: Has it stayed stagnant over the years or has it move to 28% – 30%?

Mohan Goenka: The margins has been more or less the same because they have not taken price rise and they have maintained their advertising expenditure so the margins both EBITDA and net has been the same…

Jubil Jain: So actually ideally they should have declined right, because of inflations since they have not taken any price rise in spite of that they were able to maintain the raw material cost can you just throw some light on how they are now?

Mohan Goenka: But I think they have managed through some bit of advertising.

Jubil Jain: Thanks a lot Sir.

Moderator: Thank you. Our next question is from Percy Panthaki of IIFL. Please go ahead.

Percy Panthaki: Sir in this kind of a category there have been a lot of people who have tried bringing out products and they have failed, and this brand has basically become so big and the market leader in like five, six years, so what are the learning's what will they do which clicked so well apart from of course the product formulation itself what other things did they do which enable them to sort of become so successful?

Mohan Goenka: See what I understand is one is they identified this category which is the treatment and most of their users what we see is basically middle age so that they have really targeted the hardcore Hindi belt which sometimes we miss out this opportunity if you see right from the packaging to the brand name to their advertising to their pricing it is very unique what most of us cannot even think off so they identified this category treatment and they were successful. That is a great learning honestly for all of us that in five years when we think that the hair oil market or this market would be stagnant, a player like Kesh King can become a 300 Crores brand.

Percy Panthaki: Sir that question has been answered. Thanks a lot.

Moderator: Thank you. Our next question is from Tejas Shah of Spark Capital. Please go ahead.

Tejas Shah: Just wanted to understand what is gender wise mix of the users of this hair oil?

Mohan Goenka: I would not be knowing because they do not very specific research, but our understanding is 80% - 85% is female users.

Tejas Shah: Is it youth oriented product or is it more than above 30 years?

Mohan Goenka: Yes, so this is middle age. This is not a youth related category. This is mostly women above the age of 40.

Tejas Shah: That is it. Thanks a lot.

Moderator: Thank you. Ladies and gentlemen that was the last question I now hand the floor back to Mr. Shirish Pardeshi. Over to you Sir!

Shirish Pardeshi: Thanks Inba. Sir I have two more questions, which I have just received. The first question is that when you are saying that the brand is already available at about 5.5 lakh outlets so is that the brands where Kesh King is available we are present or we are not present, there will be some overlaps, of course?

Mohan Goenka: We will have to go into the details of the distribution but I think there is opportunity though they are present in 5.5 lakh and Navratna is available in almost 30-35 lakh outlets so as I said with new SKUs with new sizes we can reach to at least 10-15 lakh outlets.

Shirish Pardeshi: The next question is that the channel which Kesh King exploits, are the similar channels for Emami or they are different?

Mohan Goenka: Channel is similar only, very similar.

Shirish Pardeshi: What are the margins for the channel partner?

Mohan Goenka: They are higher than what Emami is offering.

Shirish Pardeshi: Is it significantly higher or double.

Mohan Goenka: Not double but it is much higher.

Shirish Pardeshi: So how you will, I mean you will then currently continue the distribution channel and over a period of time merge?

Mohan Goenka: Yes, while it has to be integrated with our distribution network we will do it cautiously as we discussed earlier.

Company Speaker: Shirish, we will not change anything at this point of time because they have been growing this way and the next nine months, we will bring it to our fold then the margins will be same what Emami gives it to its dealers.

Shirish Pardeshi: That is exactly where my point was. That is it from my side and I really thank all the participants for taking out a busy schedule from their time, and I really congratulate Emami management and Mohan Ji, thanks to you for attending this call. We would hear a lot of good news from your side in the next conference call. Thank you and over to you Mohan Ji for the closing remarks!

Mohan Goenka: We thank Anand Rathi for arranging this call and also all the participants for participating this call. Thank you.

Moderator: Thank you. On behalf of Anand Rathi Shares & Stock Brokers, that concludes this conference. Thank you for joining us. You may now disconnect your lines.