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Emami's young brigade of next gen directors: (*Left to right back*) Prashant Goenka, Aditya V. Agarwal, Mohan Goenka; (*Left to right front*) Harsh V. Agarwal, Priti Sureka & Manish Goenka

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EMAMI GROUP: GROWTH PLANS

A question in time... of time!

In this well entrenched analysis, *B&E's* ANGSHUMAN PAUL goes inside the legacy organization of Emami and breaks down various issues the group is addressing... most to do with succession planning and strategic orientation.

When you visit the Kolkata Head Office of Emami Group at EM Bypass, you get an immediate feel of a penchant for tradition. Exactly 15 large statues (*or statuettes, if you may*) of the elephant God Ganesha jump out to catch your attention in the lobby of Emami's corporate office. It's obvious that they've been placed in that order to make a very definitive point to the critical visitor – and a point that reaffirms the essence of this organization, the family way of doing business. It's quite obvious that this penchant is as prevalent in the management philosophy of the corporation, from the structure, to leadership, to the way span and scope of control has been built, and obviously, to how succession planning has been laid out in this well and truly Indian corporation.

Entrepreneurship Professor John Davies at Harvard Business School wrote in one of his papers that "in family businesses (*companies whose ownership is controlled by a single family*)... the lack of effective governance is a major cause of organizational problems." Strangely, however much the world of self-fulfilling analysts and business correspondents like I might wish to the contrary, Emami seems to be an anti-thesis to John Davies' argument, the outlier, or the exception that remains as a symbol of positive performance for statistical distributions. Emami has remained committed through decades to governance benchmarks that have promoted and encouraged transparency, open communication and almost a matrix approach to behavioural management.

At the same time, unlike their rival company Dabur, which has been particularly keen on trying out almost each and every new jargon in the stream of professional management, Emami has stuck steadfast to the belief that the family-way to run a business, is the right way. Uniquely, theirs is a closely knit group despite the business currently being run by the chil-

Relative stock movement (*5 years*)

Shareholder sentiments have fluctuated

Source: BSE

Relative stock movement (*2 years*)

Emami has changed its course in the last two years

Source: BSE

"WE WILL RAISE EQUITY"

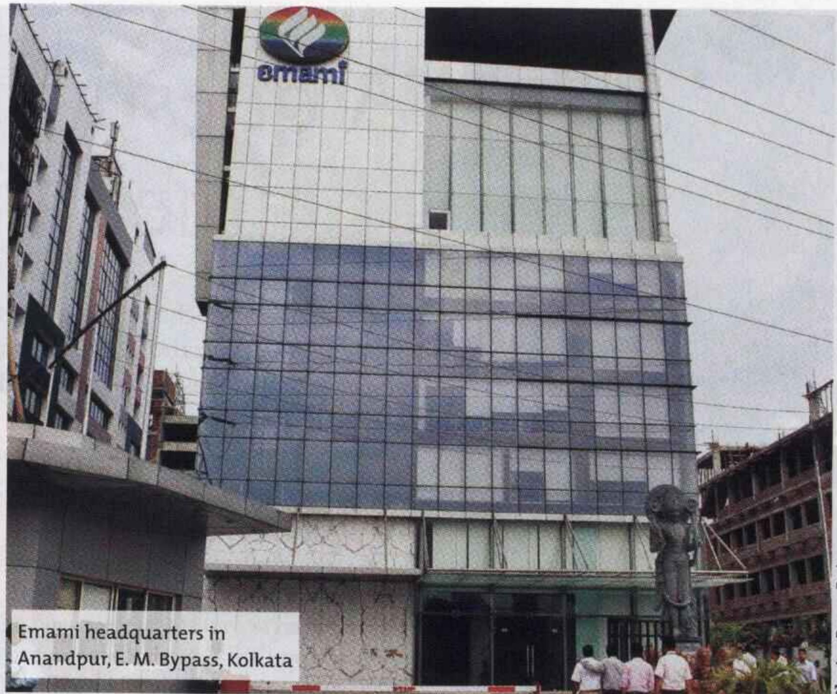
Priti Surekha
Director, Emami

***B&E*: Emami Group has been on an expansion drive – foraying into new business areas. What are the major bottlenecks that the group will have to overcome in coming years?**

PS: We have an ambitious target to grow Emami's turnover by 30% by 2013. For any business, such targets are always there; but we believe in targets which we can achieve and such beliefs are after considering all the bottlenecks. But there are certain macro-level challenges to grow; like the right understanding of the market, because today's marketing world is changing so fast that it's difficult to predict. The right amount of investment on R&D is also a bottleneck as the amount invested may not be worth it compared to the return.

***B&E*: The company's debt-equity ratio has increased from 0.33 in March 2006 to 0.41 in March 2010. Don't you think compared to FMCG companies like Dabur, there is scope for improvement when it comes to Emami's D/E ratio?**

PS: I don't think so, as I think that having debt and borrowed capital in a business like ours helps a lot in financial leverage. But yes, we are also aware that the debt capital is increasing. That is the reason we got the approval to raise equity capital, and we are specifically waiting for the right opportunity to execute our plans to raise Rs.20 billion for the group through the sale of equity. And this would be implemented by FY 2011-12.



Emami headquarters in Anandpur, E. M. Bypass, Kolkata

Photo: Rana Patra

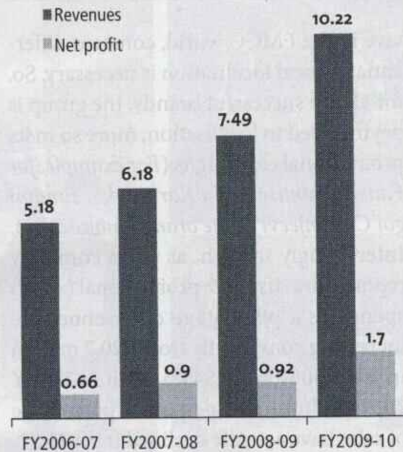
dren of the two founders – R. S. Agarwal and R. S. Goenka – who are in fact unrelated by blood, though they have an identical first name of Radhe Shyam, and apparently even schooled together.

From the early 1970s, when Emami started manufacturing cosmetic products from just one small factory in Kolkata and distributed products through hand pulled rickshaws, today, when Emami is in a position to create products that can be game changers in the Indian FMCG world, the growth has been superlative – some opportunistic, some opportune. For example, when Fair & Handsome was launched, the first year generated Rs.270 million, and resultantly created a market of men's fairness creams worth Rs.2 billion. Today, the Emami brand occupies a turnover of around Rs.1 billion, purely driven by a well timed opportune exploitation of the Indian male's cosmetic sentiments. At the same time, Navratna and Boroplus are the undisputed front runners for the company at an annual turnover of Rs.3 billion each. Today, the company has factories in Kolkata, Abhoypur, Amingaon, Panthnagar, Baddi, Dongri, Silvassa & Vapi. From undertaking exercises in brand extensions, the company has now set up an R&D division, which spends about Rs.400 million on research into FMCG products. It is now increasing presence by at least 10,000 stores per year. If that's how family-businesses are run, then perhaps the antithesis to Davis's theorem is truer in India than the truism purported in his original conjecture.

But still, there are questions to be answered. And they start with the six exuberant and clearly passionate next generation members (*three each from both families, in their 20s and 30s respectively*) at the helm of the group as directors. The main question arises about how well do these discrete individuals coordinate with each other; especially as each one is a power centre on their own. Leaving more of this for later, what cannot be denied at this point is that the 27-year old and Rs.30 billion Emami Group is younger in its DNA today than ever before. Under the leadership of this youthful bunch, the group has been on an expansion drive beyond domestic boundaries, and is also gearing up to make forays into new business areas such as real estate, hospitals, beauty services & spas. The new generation has an ambitious target to grow Emami's turnover by 30% till 2013 from currently pro-

Financial performance of Emami

Revenues & margins have seen a steady climb



Source: Company reports ; in Rs. billion

jected 20% in the financial year ending 2010-11. So far, for the nine months ended December 2010, the FMCG flagship Emami Ltd. has posted a turnover of Rs.8.9 billion with a growth of 20.6% y-o-y. Profit after tax has been impressive as well, growing at a CAGR of some 43% over the past five years to reach Rs.1.7 billion by FY 2009-10. The expansions being planned within the FMCG space as well as into new areas are indicative of yet another paradigm shift for Emami. The directors are unanimous that their diversifications are carefully planned to enhance the existing businesses only and with consensus of each one of them.

Consensus is a factor that is known to shift even in the most tight knit groups; but here, there is at least one factor that is non-negotiable – the directors themselves realise that the key to enhancing the growth rate of the group to 30% will still largely hinge on their core competency – the FMCG business. A lot hinges on their growth in this segment. In its current form, the business is doing extremely well. The acquisition of Zandu for Rs.7 billion has been particularly value accretive. The company's major brands – Navratna Oil, Fair & Handsome and Zandu Balm – have been growing at a rate of some 20% plus.

In various interactions, I'm told that the company religiously believes that to sur-

"NO AGGRESSIVE DIVERSIFICATION"

Mohan Goenka, Director, Emami Group of Companies

B&E: The new generation has an ambitious target to grow Emami's turnover by 30% from 2013 onwards. How do you plan to achieve this target?

***Mohan Goenka* (*MG*):** Yes, it's a hectic task for all six of us to manage the FMCG business and simultaneously grow a diversified portfolio that ranges from real estate to bio-diesel. The six of us don't work individually; we work with the team, which creates a force that is strong enough to manage the group... and then, we are not aggressively diversifying. We acquired a steel manufacturing unit, and gradually within a frame of time, we converted it into the country's largest ball point pen steel manufacturing unit. So, we are going slow in new businesses but for our existing businesses, we are setting high targets.

Mohan Goenka, Director, Emami Ltd.

B&E: Compared to the two founder-members, what are the strategic value additions that your generation has brought in the group?

***MG*:** I feel that we have brought in lots of dynamism and fresh thinking that's fueling the growth for Emami as a conglomerate. It's not that the founder members couldn't do these things, but at that point of time, the business just started and we could not have imagined entering into a new business. Now we can, but at the same time, the business environment is now more complex as well. The first pillar for successful diversification is that you need to understand that there is no business, which is not profitable. In addition, we also try to find out at least one way in which that new business will help our existing businesses.

B&E: But, when compared to big business houses like Reliance, which is also being taken ahead by the second generation, aren't your diversification plans a bit slow?

***MG*:** We don't believe in being too aggressive; there has to be a need for the growth and such need is determined on basis of the requirement of our existing business. Right now, the group feels the need for a cement manufacturing unit to meet the needs of the growing real estate and hospital business. So, we are setting up a 3 million ton cement manufacturing plant in Raipur. Aggressive diversification is a strict no no. Say for instance, with the cement manufacturing unit, we will expand production capacity only after eight long years of its operations. You might call it going too slow. But, as we have been going ahead cautiously, we have not had to roll back on any business investments till now.

B&E: Do you have any succession plan in place for the third generation as yours is not just one family running the business. Doesn't that imply that the chances of conflict are more in the future?

***MG*:** The idea hasn't even crossed our minds as we find that the business is very well managed by all of us together and all the business are being headed by two members, one each from both the families. We have been one of the few instances of family-run businesses in India Inc. that have defied both the changing times and the conventional perceptions with respect to family run enterprises. The cultural and religious beliefs of ours have created a tightly knit corporation that has religiously clung on to age-old systems of legacy management. And now, such beliefs on entrepreneurship and strategy will define the shift to new generation.

"WE TAKE DECISIONS IN FAMILY GATHERINGS"

Aditya V. Agarwal, Director, Emami Group of Companies

B&E: Whenever it comes to decision making for important growth strategies like acquisitions, or entering into a new business, how do you carry it out?

Aditya V Agarwal, Dir., Emami Group

Aditya V. Agarwal (AVA): It's a bit difficult to believe but, since all our crucial decisions are taken after consulting with all the directors, we all take such decisions in family gatherings. Like last year, the family was holidaying in a Thai beach resort town. In the middle of a relaxing holiday, the core agenda of our discussion was buying Paras Pharmaceuticals. Similarly in October 2008, when we traveled to Sohna near Delhi, we did a brainstorming session on acquiring Zandu and Zandu has been contributing very well in our business.

B&E: But, what if there's a conflict of interest? Say for instance, not all the directors are convinced on the decision to enter into a certain business. How do you manage?

AVA: In that case, we don't enter into such a business. For instance, all of us are convinced that we should not enter into the liquor business and we shall not enter into the liquor business. Similarly, there are many businesses, which we all are not convinced about. Even if it has immense potential, we will not enter into it. Often, the directors pass their judgment not only by seeing the growth potential of the new business, but also on how it will enhance the existing business. So, if any director has said 'no' to any new business entry, the view has its own reasons.

B&E: From your first diversification fifteen years ago to now, the group's turnover has grown by leaps and bounds. With so many diversifications happening now, how much can we expect the turnover to be by 2025?

AVA: We first diversified by buying two sick paper manufacturing units and since then, the turnover has grown from mere Rs.700 million to more than Rs.10 billion. That was way back in 1996 and at that point of time, the paper manufacturing unit was utilised only to enhance our FMCG business, and we could not think of diversification unless the company was financially secured enough. Till date, the FMCG business has been the major contributor to the group's ascent. Now that our FMCG business is doing well, we are diversifying and it's wrong to have too much expectation from any business. FMCG might take five years to reach break even, cement might take 10 years... so it's wrong to announce any such turnover.

B&E: In fact, when it comes to diversification, Dabur has been following a very slow game; it's only major shift being towards forward integration into retail. But you are suddenly focusing too much on acquisitions. Don't you think it might disturb your existing FMCG business?

AVA: We are not compromising with the FMCG business. But, apart from FMCG, wherever we see a business opportunity we would be entering into that industry. And, such business should be enhancing our existing business. At the same time, we are also looking at growth opportunities for our FMCG business. In fact, we have acquired a personal-care products manufacturing unit in Egypt for Rs.1.5 billion. And even in our diversification, we are looking for synergistic effects wherever possible. For instance, Starmark stores also have a corner where all Emami products are displayed.

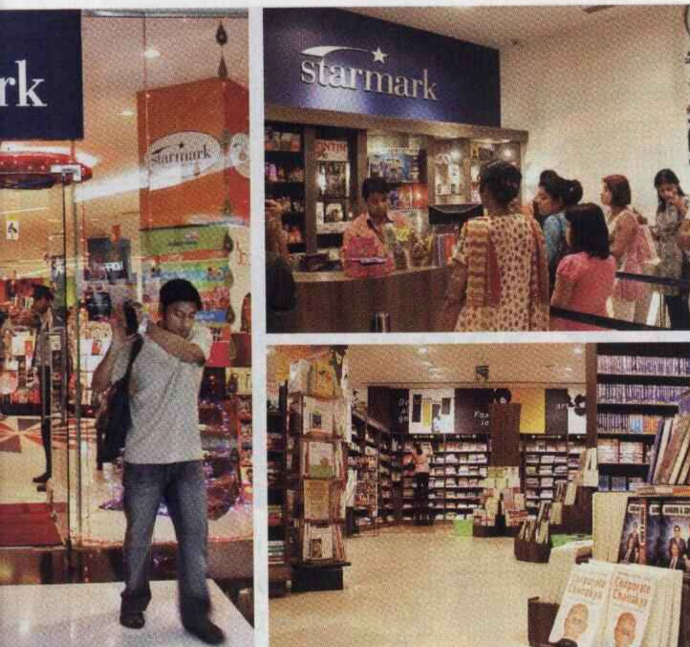
Pictures of Starmark, the elite retailing store of Emami, located in South City, the real-estate property of Emami .

Photos: Rana Patra

vive in the FMCG world, constant differentiation and localisation is necessary. So, for all the successful brands, the group is paying heed to localisation; more so in its promotional campaigns (*For example, for Fair & Handsome in Karnataka, Emami got Chiranjeevi as the brand ambassador*). Interestingly though, as per a company report, advertising & promotional (*A&P*) spends as a percentage of revenues are increasing consistently from \$20.7 million in FY 2005-06 to \$41.3 million in FY 2009-10. But A&P spends as a percentage of sales have actually declined from 23.8% to 18.7% in that period.

In a move panned by some critics, last year, the group had entered the retail rodeo; the panning happened because instead of the time-tested spaces of food, groceries or even clothing, Emami entered into pharmacy retailing under the name of Frank Ross Ltd. But with an initial growth rate of 25%, Frank Ross is one of the fastest growing chains of its kind in India, putting paid to the initial admonition. In another expected rampaging by analysts, Emami is implementing a major extension of the 'Fair & Handsome' brand by the end of 2011, and this would be routed out through Emami's entry into the service industry – the beauty & spa business line. Emami is trailing the route of Marico, which launched certain categories of products to enhance its service business, like Kaya. But Marico unleashed its beauty-care products in Kaya outlets once the brand of Kaya had been established. On the contrary, Emami plans to roll out its products (*including a new brand launch titled Pure Skin*) right from the beginning of its venture into the beauty & spa business. That's taking a big risk – unless of course the group is planning to ensure that unlike the Frank Ross outing (*where one wouldn't connect the name to the original organisation*), this time the service business takes the full benefit of the Emami brand name.

But if one were to be honest, the fact is that perhaps for the whole group, the most



Key financial indicators of Emami Ltd.

Rising debt, in particular is a cause for concern with the company

Valuation Ratios	Company	Industry	S&P 500
P/E Ratio (*TTM*)	29.38	21.74	18.21
Beta	0.82	0.44	1.31
Growth Rates			
Sales (*MRQ*) vs Qtr. 1 Yr. Ago	15.83	12.6	10.03
Sales – 5 Yr. Growth Rate	36.63	10.35	7.42
EPS (*MRQ*) vs Qtr. 1 Yr. Ago	9.61	3.49	76.92
EPS – 5 Yr. Growth Rate	35	10.44	4.58
Capital spending – 5 Yr. Growth Rate	37.62	9.02	3.52
Balance Sheet			
Total Debt to Equity (*MRQ*)	26.6	0.7	163.99
Management Effectiveness			
Return on Assets – 5 Yr. Avg.	15.87	13.35	5.63
Return on Investment – 5 Yr. Avg.	19.12	24.32	7.34
Return on Equity – 5 Yr. Avg.	28.79	31.51	14.7

Source: Company reports

critical of all strategic moves for the group is here and now. Even as the company deepens its penetration into the hinterland, the most important leg for Emami's growth – a global expansion drive – is testing their management orientation and consensus skills to the hilt. Currently, the group's global business operations account for just about 14% of its turnover. For the fiscal year 2011-12, the group plans to strengthen its global business, and is also looking for acquisitions of targets within the country that can fuel their growth engine. They started the year with the acquisition of a Rs.1.5 billion personal care products manufacturing unit in Egypt. Earlier, the group's attempt to acquire Paras Pharmaceuticals went in vain, as Reckitt Benckiser stole the show with a much higher bid. Similarly, they were in the race to acquire Henkel until recently, but opted out, again due to the high price of the deal. Emami is now looking for options in the African market to enhance the production capacity of the FMCG business.

However, shareholders are not supporting these acquisitions. According to FICCI's FMCG report published in 2009, 20% of acquisitions in the Indian FMCG have failed to create a synergy because of the excess cost of debt capital (*for instance, HUL's acquisition of Modern Dairy*). Mirroring the report, stock analysis shows that Emami's return on capital employed (*ROCE*) for the past three years has been declining at an average of 15%. Its ROCE has gone down from 39.63% for FY 2005-06 to 17.93% for FY 2009-10. In fact, the shares of the company jumped by around 20% when it came to light that they were not acquiring Paras, which finally went for a steep Rs.32.6 billion. Of course, to fund such acquisitions, if the equity market is closed, borrowed funds could have been an option. But in the FMCG category, when it comes to acquisitions, organisations like Dabur have set a classic example by undertaking acquisitions through the equity route as far as possible (*in fact, Dabur has also been bidding to buy Henkel*). Naturally, Emami's debt-equity ratio has been rising from 0.33% in March 2006 to 0.41% in March 2010. As a remedy, the group is planning to raise Rs.20 billion through the sale of equity by this fiscal year. Considering its declining ROCE, such an achievement looks like an arduous task. But Emami's directors dismiss this issue. They strongly believe that they can mint the required funds – both from the debt & the equity market.

"We have our own strategies to achieve our fund target & it would be transparent"

At this juncture, the band of family directors face a situation they might have seen many times before; but this time the issues are larger, and the moneys being dealt with exponentially higher than what it was a few years back. The test of management, leadership and team skills is truest when done during tough times. While the past years were more or less good growth times, with a good dose of commitment from those at the top and certain help from India's growing prospective customer base, the future is where Emami's family group would find it harder to gain consensus within the team. But harder doesn't mean that the same cannot be found. It just means that where various family businesses in India – ranging from the biggest to the mightiest – have fallen at the relationship management level, Emami presents a unique hallmark of perseverance and consistency in coordination which, if it sees through the current times, could well give India one of its first global consumer brands. But how much time would it take to do that, is the question we started this article with... B&E