"Emami Q4 FY 2016 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to Emami Q4 FY 2016 earning conference call hosted by Anand Rathi. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal for 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. Ajay Thakur from Anand Rathi. Thank you and over to you!

Ajay Thakur: I welcome you all to Q4 FY2016 results earnings conference call for Emami. From the company side, we had Mr. Mohan Goenka – Director at Emami, Mr. Rajesh Sharma – Senior VP, Finance and Investor Relations. We shall begin with the brief on Q4 FY2016 results and after that I shall ask Mr. Goenka Ji to takeover. Mr. Goenka Ji, you can proceed with the Q4 FY2016 results.

Mohan Goenka: Thank you Ajay for the introduction. A very good evening friends. I welcome you all to this conference call and Emami's Fourth Quarter and year ended audited results for FY2016. Our revenues at Rs.671 Crores grew by 21.2% with volume growing by 17.6% in Q4 FY2016.

In FY2016 revenues grew by 18.3% at Rs.2624 Crores with volume growing by 12.4%. Organic sales grew by 10% during the quarter and in FY2016 each. Kesh King contributed to around 9% of total consolidated sales during the quarter and 7% in FY2016. Overall the domestic business delivered a strong top-line growth of 23% with a volume growth of 18% in this quarter. For the year the domestic business grew by 20% with volume growth at 14%.

Boroplus grew by 41% during the quarter due to extended winter and Balms grew by 12% in this quarter. However Navratna Cool Oil grew by just 4% and Navratna Cool Talc was flat in this quarter. Fair and Handsome cream registered a flat growth during the quarter. Zandu Health care product grew by 30% led by Zandu Pancharishta in this quarter.

For the year Navratna Cool Oil grew by 6% Balms portfolio grew by 12% Boroplus Antiseptic Cream grew by 8%, Fair and Handsome grew by 9% and Navratna Cool Talc grew by 4%. Zandu Healthcare grew by 34%.

The company relaunched its HE range of deodorants with an improved packaging and a no gas variant. We also launched a new variant under Navratna Cool Talc. We continue to maintain leadership in our key categories in FY2016.

Navratna Cooling Oil at 60.5% market share, Balms at 55% market share, Boroplus antiseptic cream at 77% and Fair and handsome maintained its leadership position at 65%. International business grew by 17% during the quarter and by 15% in FY2016. This growth was led by SAARC and MENA region.

Our gross margin at 68.5% improved by 500-basis points year-on-year in Q4 FY2016. EBITDA margin have grown despite high A&P spend at Rs.127 Crores, which increased by 460 basis points to 19% in this quarter. Despite the high increase in Ad spend the company's EBITDA margin at 27.2% rose by 190-basis points in this quarter mainly on account of gross margin expansion.

During the quarter the amortization of Kesh King and She intangibles amounted to Rs.73 Crores. Interest paid increased by 13 Crores and other income reduced by Rs.17 Crores on account of the acquisition. For the full year our gross margins grew by 420 basis points year-on-year at 69%. A&P spends at 20.2% grew by 250 basis points on account of sustained investments in new launches.

EBITDA margins have improved by 170-basis points at 26.1% for the full year. Our net debt has come down to 550 Crores from 875 Crores from June 2015. Cash profit at Rs.166 Crores grew by 10.8% during the quarter and by 18.1% for FY2016 with cash profits at Rs.614 Crores. However PAT at Rs.76 Crores and 359 Crores was lesser compared to corresponding periods of previous year because of amortization of Kesh King intangibles.

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

Moderator: Thank you very much members of the management. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Percy Panthaki from IIFL. Please proceed.

Percy Panthaki: Sir congrats on a good set of numbers. I just wanted to know your plans for FY2017 especially what measures you are taking to improve the volume growth and top-line growth for FY2017 in terms of either new launches or any sort of measures you are taking on the existing brand in terms of re-launch or any other activities that you can think off?

Mohan Goenka: FY2017, of course we have made our firm plans and we are looking at a topline growth of almost 15% to 16% that is the target that we have taken and we are hopeful that we would be able to achieve those numbers. As far as the new launches are concerned we would focus mostly on brand extension under most of our key categories. So those plans are also firm. We will come to you once we are about to launch the brands.

Percy Panthaki: Right Sir, and any particular activity to boost the growth in the core or the existing SKUs?

Mohan Goenka: This year we have planned to almost relaunch most of our portfolio to start with Navratna Cooling Oil we have relaunched with a better packaging and a new advertising same we have done for Fair & Handsome also where we have changed the packaging and formula. Also we have done that for Balms and also for Kesh King so we have more or less revamped our entire portfolio. So we are bullish that all this should go down well with the consumers.

Percy Panthaki: With this kind of launch and launch schedule what kind of A&P to sales should we expect for FY2017 Sir?

Mohan Goenka: This year we have done almost 20.3% and next year we are looking at increased by about 1% - 1.5%.

Percy Panthaki: Oh! I see, and that will be funded out of gross margin completely?

Mohan Goenka: Some bit of it may be about 50-basis points or so but other we will have to see how it progresses with our new launches so we will try to maintain our margins but there may be 75 basis points here and there. It is very difficult for me to say right now.

Percy Panthaki: Just some couple of accounting questions, one is your depreciation and amortization for Q3 was about 72 Crores and that has moved up to 90 Crores in Q4 so what is the reason for that and secondly your tax rate this quarter is quite low so what could be the possible reason for that?

Rajesh Sharma: Percy, we have amortized the goodwill portion of the Kesh King also entirely this quarter so additional amortization has come in this quarter and going ahead we should expect 60 Crores per quarter as we have discussed earlier and on the tax rates there were some dividend incomes on our mutual fund investments so as a result of which our tax rate is lower in this particular quarter.

Percy Panthaki: Sir can you just explain that why the dividend income reduces the tax rate?

Rajesh Sharma: Because there is no MAT on dividend income.

Percy Panthaki: That is all from me. Thank you.

Moderator: Thank you. The next question is from the line of Amit Sachdeva from HSBC. Please proceed.

Amit Sachdeva: Thank you for taking my question. Sir first question on Navratna, so clearly Navratna growth obviously it was a partly winter quarter but the growth obviously has slow down if we look at the categories last five six years cooling oil category that has been growing in volume in 5% to 6% and while you have gained market share your growth has been higher but increasingly since you own more and more category the market share gains may be lesser and lesser if at all so how are you seeing this category as a whole, was the summer which has started really well has helped you channel filling at least this quarter and when we look at this 4% number how do you make sense of it in this quarter and what do you expect for the remaining of the year given season has already started?

Mohan Goenka: Amit you are right, that the category growth has been high single digit but if you see last five years Navratna CAGR growth has been about 13% - 13.5% despite of lower category growth so and you have rightly said that summer has begun with the good note and we have also relaunched our portfolio so we are hopeful that we will be do a double digit growth for Navratna for the year.

Amit Sachdeva: Do you see because we know that my doubt is when you are so dominant in the category gains had to be penetration led and largely responsibility remains on the leaders shoulder to run it so how do you make sure that the consumption increases for this category which is such a large pool of the revenue and what are you doing, where the revenue mix is coming from like are you seeing some rural urban consumption picking up or more adoption increasing what steps are you taking that consumption picks up for that as a category as a whole?

Mohan Goenka: As I said this is primarily driven by the season and it has almost good penetration we have relaunched we have changed a bit of our packaging formula advertising that the whole combination also increases the penetration so of course the major penetration comes from a Re.1 sachets which contributes to almost 37%-38% business of Navratna and with the kind of season that we are in if it continues then we are hopeful to achieve the numbers or the target that I have shared.

Amit Sachdeva: Sir very quickly on Kesh King it seems that although its like 9% of the quarter consolidated revenue which means that run rate about 60 Crores or so which has obviously sequentially come down but are you seeing some competitive intensity sort of helping you constrain they are or what is sort of run rate you are seeing in FY2017 or what is that you are doing that you know new entrant like Patanjali etc., are contained all they are stronger in some region weak in other but what sort of, how confident and how are you feeling on the ground that Kesh King could do a run rate off whatever envisaged earlier like 330-320 Crores so how are we seeing that and in the light of new positioning new brands launch and new formulation as well if you could give us some guidance on that?

Mohan Goenka: We are very clear. We have again re-formulated Kesh King Oil and also the Shampoo so we are very hopeful we have signed some new celebrities for Kesh King that we have made a new advertising also so we are very hopeful to do 25 Crores every month so 300 Crores looks to be feasible for this year that is our plan and we are sure of achieving those numbers.

Amit Sachdeva: In terms of when you look at EBITDA margins you saying that it could be like same as last year and is it not margin in Kesh King is not helping you raise this margin expectations a little bit considering this had 45% margin are you comfortable about maintaining this margins or do you think that let the margins drop or while maximize the revenue growth, why hold on to 45% margins how we should really anticipate and model as the revenue for Kesh King is being consolidated what the margin profile trajectory will be helpful or do you think that it should be now margins at the peak and you do not need to increase margins any further and whatever has to come as to come from the revenue? If you can answer this very quickly.

Mohan Goenka: So if you would see this year's number actually nine month Kesh King has already come here for nine months, so the reflection of the margin for nine months are there so I think that this point of time we are of course looking at achieving 300 Crores for Kesh King whatever needs to be done to achieve those we will do that but even before acquisition the margins were 45% EBITDA margins were 45% after that advertising of 20%-25%, that we will be maintain that so whatever margins are come in is we are not seeing expansion of margins from Kesh King from here.

Amit Sachdeva: No what I mean to say was at an overall level. I will come back in the queue.

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

Arnab Mitra: I have couple of questions, one is could you just repeat actually on depreciation what we wanted to understand is excluding amortization is a pure depreciation part also seems to have seen a big jump in this quarter so is there any one off there are there is an increase in depreciation which will be sustained and tax rate what should be build for the next FY2017 and FY2018?

Mohan Goenka: What I said earlier was on the amortization because amortization has also increased in this quarter and depreciation has also increased slightly because the one-off; we discarded some of our moulds so due to which depreciation has increased in this quarter and tax rate going ahead for next two years very comfortably we can consider MAT at around 20% kind of tax rate.

Arnab Mitra: Just one more question on the debt side so is the idea to use the incremental cash flow to pay down the debt from here on because you are already at 550 Crores net debt and what is the kind of interest rate that we are likely to see on the interest cost line?

Mohan Goenka: So the interest cost should be around 8.5% kind of and you are right we would use our cash flows to reduce our debt next year and by FY2018 we should be able to pay those completely.

Arnab Mitra: And just one last question you have mentioned that 7 Oils in One- you have been mentioning for the last two three quarters in your presentation that its seeing some good traction so if you could show a bit more light on what this brand what is the size of the brand, how do you want to scale it up now because initially it was a slow, you are going slow on it but with the traction coming there what is the kind of plans that you have for 7 Oils in One-?

Mohan Goenka: Yes, so 7 Oils in One- oil remains to be a focussed brand and this year we have done almost 15 Crores of sales for the year and we have taken aggressive numbers for this brand because we have almost grown by 55%-60% for the year. Let us see, if we keep on continuing it should be about 25-30 Crores brand next year.

Arnab Mitra: Just one just last question if I may what is the kind of price increase you think you will be in a position to take next year in the growth that you are targeting?

Mohan Goenka: So we have estimated roughly about 2% – 2.5% price increase for next year.

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

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

Abneesh Roy: Sir Congrats good set of sales and margins. Sir my first question is on the Skin Cream, Boroplus antiseptic saw extremely a strong 41% growth so have other industry plus also seeing similar growth but on the other hand if you see Fair & Handsome seeing 0% growth so what happened there?

Mohan Goenka: It was primarily due to winter that is why you would see that the summer brands have not done so well in the fourth quarter the impact was on Navratna, Navratna Cool Talc all of these brands. Fair & Handsome it as one off because of some non supplies so we would see numbers coming in actually because we were relaunching the brand so there was 15-20 days delay that is the only reason why we could not do at 7%-8% growth.

Abneesh Roy: Sir Balms you have done reasonably well for most part of the year so if you could tell us between the two brands how the growth is and how much is the Rs.2 SKU's Zandu Ultra done in terms of the sales?

Mohan Goenka: Zandu Ultra we launched for Rs.2 we have just started this month in the month of April.

Abneesh Roy: Earlier also you have done something on the Rs.2 SKU right?

Mohan Goenka: That was for Zandu Balm the green color. Ultra is the red color balm so this we have just launched and the green one we have done reasonably well for Rs.2. As far as the balm portfolio has concerned it is Mentho Plus pain balm has grown at almost 16% whereas Zandu Balm has grown at 10%. So the total growth is roughly 12%.

Abneesh Roy: Sir one follow up on the Kesh King the sales have fallen quarter-on-quarter so obviously you had filed the lawsuit also against Patanjali. Now if I see packaging pricing name everything very similar. I see Patanjali being omni present on the in terms of advertising while Kesh King is the much lesser in terms of advertising do how do you plan to get back market share because everything is similar here, name, price, packaging, everything is similar and they offer 21 herbs versus you are much lesser so that is the way forward here?

Mohan Goenka: Way forward is very clear. As I have said that we are looking at 75 Crores business per quarter and if you see market share we have gained market share in Kesh King by 4% in the last quarter.

Abneesh Roy: That is not possible. I agree you would have gained in terms of Nielsen but if I see Pathanjali claims 350 Crores of Kesh Kanti, my sense is $1/3^{rd}$ is oil $2/3^{rd}$ is shampoo so you would have gained at someone's expense. Nielsen's market share could be directional but going by that number I think you are not getting the full picture?

Mohan Goenka: But I am seeing number for this month also. I am hopeful of achieving the targets that we have set in.

Abneesh Roy: I will come back in the queue. Thank you.

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

Tejas Shah: Thank you. Sir last when we spoke you were worried about rural market demand scenario and even international business so if you can throw some light on both the markets and how both are panning out?

Mohan Goenka: Now because we have started the new year and the season is favourable so I would not say that the demand is across every category and the rural demand has picked up but definitely there are signs of revival whether it is from rural or from urban but again I am saying because we are season driven company at this point of time it all depends on season and some of the summer brands have done reasonably well.

Tejas Shah: Sir international business?

Mohan Goenka: International business we have grown in mainly two regions one is the SAARC, which is led by Bangladesh and MENA, which is GCC. So we have taken aggressive numbers for international though we have grown it only 15% but we have taken 20% growth for this year.

Tejas Shah: Sir that assumption is based on revival and which geographies?

Mohan Goenka: So that assumption is of course revival in these markets and of course we are relying a little bit on the Africa market.

Tejas Shah: Sir when we started a FY2016 we had a very promising pipeline on Zandu portfolio, Zandu platform so just wanted to know how the pipeline is looking for FY2017?

Mohan Goenka: If you see the healthcare we have grown at almost 35% for the year, which is of course led by Pancharishta so we still have the pipeline for the Zandu portfolio we are still focusing on one market, this is result of that market we will take it nationally.

Tejas Shah: Sir lastly one book-keeping question in your balance sheet long terms loans and advances have moved from 44 Crores to 110 Crores that pertains to what item?

Rajesh Sharma: We are setting a new manufacturing facility in Guwahati so towards that capex some bit of advances is there which have increased this year.

Tejas Shah: Sir total capex Sir?

Rajesh Sharma: Total capex next year we are expecting somewhere around 150 Crores – 170 Crores kind off.

Tejas Shah: In addition to this already advances which have been paid?

Rajesh Sharma: This is including the advances we have already paid.

Tejas Shah: That is it from my side and all the best.

Moderator: The next question is from the line of Ashish Upganlawar from Elara Capital. Please proceed.

Ashish Upganlawar: Sir I missed the number of volume growth that you shared on organic basis and overall basis for the company this quarter?

Mohan Goenka: The organic growth was 10% this quarter as well as for the full year and the volume growth for this quarter organic was 6.5%.

Ashish Upganlawar: Overall volume growth was how much?

Mohan Goenka: Overall volume growth was roughly 4.5% for the full year, organic.

Ashish Upganlawar: Sir is there any implication of amortization on tax that you pay or is it not at all relevant for tax purpose?

Rajesh Sharma: No we are under MAT so we pay minimum alternate tax so whatever is debited in our P&L; we pay tax on profit before tax.

Ashish Upganlawar: So the amortization that gets deducted also as a tax implication?

Rajesh Sharma: Yes.

Ashish Upganlawar: Thank you.

Moderator: Thank you. The next question is from the line of Chanchal Khandelwal from Birla Mutual Fund. Please proceed.

Chanchal Khandelwal: Congrats on a good set of numbers. A few things, when you are making a budget for the next you said 2% to 3% price increase and the rest is the volume growth so what is the kind of growth you are targeting is it a 15% growth and what about the He/She and Zandu portfolio which launches you wanted to take this get some new categories or extend the brand is that included in this growth number or those are the extra growth numbers you will be targeting?

Mohan Goenka: We have earmarked 15%-16% growth of course this includes the price increase and also new launches. The price increase and new launches should be about 4% and the balance would be all volume growth. And as far as HE is concerned we have already relaunched the entire portfolio and we have also launched the no gas variant. You must be seeing advertising, also it is on TV. I already clarified that Zandu we are still focusing on one market basis result of that market we would take it nationally. But as the healthcare is already growing at 30%-35% year-on-year we are still focusing on taking Pancharishta and growing that brand even stronger.

Chanchal Khandelwal: So Honey we have just entered as a category so I am just trying to understand what is the mindset when new categories you enter and how do you extend the brand to the next level of growth, is it a food as a category you will also try or that it just the extension wherever fit that you will do it?

Mohan Goenka: No so not that we would enter the food category. Honey is a natural extension as far as ayurveda is concerned and it fits very well under the Zandu portfolio so we have launched and we also have created a niche because it is a costly honey it is a pure honey so we have tried last year. This year of course it will be a full year and we are hopeful on our honey because we have received some very good feedback from consumers as far as the quality is concerned. So Honey is definitely a focus brand. This year we are going very aggressive. If you would see our advertisement on this size is gone up from 17% to almost 20%. This year I am sharing it will go up further by a percent, percent and a half, so you can imagine on the total turnover I am ready to spend 22%. That is all because we are expecting good growth coming in and also on some new extensions that we are planning to launch this year.

Chanchal Khandelwal: I was interesting to see but I am want to figure out that the cost side cost of margin or will you be able to maintain the margin that was the next question I was alluding into, because gross margin is almost at 59% which is way above the company in three four years your gross margin you have improved your margin tremendously so next two years would you like to maintain the gross margin or will you sacrifice some bit of gross margin for additional growth or will you maintain the gross margin when the ad spends may go up and growth will come in?

Mohan Goenka: No, so we would definitely try to maintain our gross margins and our focus for the next few quarters or for the next year, this year is topline growth that is where our focus is because we are having quite strong margins but as I said **(inaudible) 33.38** coming in for the input cost so it looks like we would be able to maintain gross margins and also EBITDA margins I think we would be able to maintain. See 0.75 basis points to 1% it becomes very difficult for me to say this point of time but it looks like our plans are to maintain margins.

Chanchal Khandelwal: Wish you all the best.

Moderator: Thank you. The next question is from the line of Prakash Kapadia from Anived Portfolio Management. Please proceed.

Prakash Kapadia: Thanks for taking my question. Congrats on good set of numbers. Sir couple of questions, historically Zandu had a very large product portfolio of almost 150 to 200 products so just wanted to get your longer term sense on the potential of Zandu as a brand given that lot of acceptance of these Ayurveda and natural products are gaining acceptance so can Zandu as a overall portfolio from 22% of overall company sales go to 30%-35% what are some of the potential products we are looking at because the Honey is really very good which you have launched in terms of efficacy and the taste is really pure and very healthy so just wanted to get some sense on the Zandu product portfolio. Is it right to think over the long run the contribution of Zandu will increase in overall company sales?

Mohan Goenka: As far as the base is concerned the Zandu is very small it is only about the healthcare is only about 10%,

Prakash Kapadia: I was talking including the balm portfolio so I was talking overall Zandu Sir?

Mohan Goenka: Balm we normally do not take into the healthcare. We take it in the consumer care so the healthcare is 10% of course the growth is 30%-35% on a lower base and. This is mostly led by Pancharishta so as I said our plan is to ensure that we keep on growing on Pancharishta and some of the brands that are already there so we have estimated roughly a 25% to 30% growth on the healthcare portfolio for this year. This of course includes some of the new launches that would be doing under Zandu.

Prakash Kapadia: So no real aggressive plans to increase the overall pie in a lot of products because I think historically there were many, many products in the Zandu product portfolio?

Mohan Goenka: They are still there but I do not see them that they become a 100 Crores or 200 Crores brands overnight. If the next leg of growth has to come it is only through new launches under the Zandu portfolio.

Prakash Kapadia: What is the response you know some of the markets I think down south we have launched some diabetes product and some of the new products which we have launched and we were test marketing in certain regions so what is the response in some of these products?

Mohan Goenka: So we have launched. We have got some consumer feedback and we are working on that so as I said it would take about two to three quarters to take it nationally.

Prakash Kapadia: Sir on the international business what kind of growth we are forecasting because I think we ended the year with around 15% growth in international business so now I think with the team in place will that growth the higher going forward because I think this should be slightly lower than what we were anticipating?

Mohan Goenka: So if you would see on some markets the challenges were mostly in the Russia market. That is why we could not grow and we have taken a target of 20% growth because in international the markets where we are present they are sometimes politically or whatever you can say they get disturbed. They are not a very matured market so those challenges are beyond our control. So we have taken a 20% target let us see how it progresses.

Moderator: Thank you. Our next question is from the line of Kunal Jagda from Karvy Stock Broking. Please proceed.

Kunal Jagda: Sir during acquisition of SHE you sounded very aggressive but last year you were slightly on a back foot because some strategies you were planning to rollout across the market so have we now done with the strategy so what is the strategy now going forward to rollout across the market for SHE?

Mohan Goenka: I think I had mentioned in my last meeting that we have earmarked one state for SHE if it works in that market then we will roll it out nationally. It is a little different market than what we operate in we have to understand the nuances of the market then only we would invest big money under the sanitary napkin business.

Kunal Jagda: Sir can you just share the revenue contribution of Navratna and Zandu, Boroplus and Fair & Handsome?

Mohan Goenka: That is not handy with me right now, but overall these four portfolios almost 70% or 65% because now Kesh King is also there.

Kunal Jagda: Sir how you look at Patanjali now because they have entered directly into your portfolio entering into some creams and they have also changed the definition of brand ambassadors and branding and all. Recently they have come up with the new brand ambassador Lalu Prasad Yadav so how do you look at Pathanjali entering directly into your portfolio product portfolio as a competition Sir?

Mohan Goenka: As of now we do not directly compete barring a very few products and as far as I think we are concerned I think the whole market will grow that is what how we look at we are seeing a lot of traction in the ayurvedic market so we are on this point of time it is wait and watch.

Kunal Jagda: Sir what was the reason for the dip in the net profit I just keep that point you had mentioned earlier?

Rajesh Sharma: If you look at our results there has been amortization impact on our numbers and also interest for this debt, which we have taken for this Kesh King acquisition. So if you look at cash profit that is PAT plus depreciation and amortization that has grown by around 11% in this quarter and 18% in this year.

Kunal Jagda: That is it from my side. Thank you.

Moderator: Thank you. Our next question is from the line of Nikhil Updhayay from Securities Investments Management. Please proceed.

Nikhil Updhayay: Good evening Sir. Thanks for the opportunity. Sir two questions one is a bookkeeping question, if you can give me a rough split of between Zandu Balm and Mentho Plus in terms of percentage revenue will they would be contributing towards the Balm and secondly how large would be our talc segment as a whole in terms of our total revenue? That is the first question. Second question is Sir, if we look at Emami as of now we are a 2600 Crores topline company so over the next three or five year if we look at doubling our revenue from here where do you see the key drivers would be because most of the categories which we are present in the growth have been in most of them have been in single digit in terms of volume so I am removing the pricing part so most of the volume has been in single digit growth so and most of the mass categories which we have tried to enter is not be able to actually scale up like HE or SHE or even the body lotion segment which we have been working on so if you can just highlight which would be the key drivers where you see that it will bounce our revenue to doubling from here over a three or five year period?

Mohan Goenka: See as far as the balms are concerned, Mentho plus is almost 25% and balance is Zandu Balm. Talcum is roughly about 5% to 6% of our total sales.

Nikhil Updhayay: Sir this would be both Boroplus antiseptic and Navratna Cool?

Mohan Goenka: No so if you include Boroplus and it will be about 6.5% - 7%. As far as the growth is concerned if you would see last five year CAGR we have grown at 16% - 17%. If we have to double our turnover though of course we have an aggressive number then what we have said we want to grow faster so it would come from of course the main key five brands only because they have to grow at double digit and if you would see this year we are planned a lot of extension in most of our category. We are doing exceedingly well as far as the Face Wash is concerned under Fair & Handsome also 7 Oils in One- looks to be promising. Pancharishta seems to be very promising, Zandu Honey seems to be promising, so out of many launches even if one or two brands do exceedingly well then the additional 2%-3% volume comes in so and we have healthy margin so there we can always invest on brands if we get good ideas. Also in the last six years we have done two three acquisitions also whether it was Zandu in 2008-2009 and of course Kesh King these were two big acquisitions.

Nikhil Updhayay: But sorry to interrupt you Sir, but if we look at the growth over the last 12 quarters based on the volumes and the pricing which we generally give in our presentation although we have grown significantly so from a quarterly runrate of 400 Crores in June 2013 and March 2013 we are almost at 700 Crores now but a large part has already also been helped by a pricing which has been a very beneficial but in terms of volume if you see for the category the volume has not been so significant that they have been able to become a mass category as such so that is where my main concern is?

Mohan Goenka: That is why this year if you would see we have earmarked just two to three percent price increase so we are focusing more on that topline or on the volume growth, let us see, because see we are ultimately a seasonal driven brands if summer, winter there are challenges in our portfolio. If the season is good then you have seen Boroplus growing at 41% in the last quarter so we have taken a target of 15%-16%. We have a robust plan. We are very hopeful this year. We are seeing all good numbers whether it is monsoon whether it is summer or whether it is whatever numbers you can see we are hopeful we will be able to do numbers for this year.

Nikhil Updhayay: So you do not feel that you have to directly enter into any of the larger categories and compete on the mass scale whether we can continue in the same categories and grow our revenue?

Mohan Goenka: No, absolutely. I think the opportunity is huge in the categories which are already is there the penetration levels are low in most of the categories whether it is cooling oil, talc, antiseptic cream or Fair & Handsome this itself are interesting categories to look at. Kesh King is also interesting, shampoo is there, HE, we have relaunched we are very aggressive plan for deodorants and there are couple of launches under the HE brand. So there are a lot of things that we are doing for this year.

Nikhil Updhayay: Thanks. Best of luck, Sir.

Moderator: Thank you. The next question is from the line of Manish Poddar from Religare. Please proceed.

Manish Poddar: Can you actually give us the gross margin breakup primarily because of Kesh King the Emami brand and the price hike which is taken for the fiscal year 2016?

Rajesh Sharma: Manish if you look at the Emami products all our brands have high gross margins ranging from 55% to 70%

Manish Poddar: No Sir, I am talking about year-on-year let say FY2015 to FY2016 the gross margin split between three things the pricing, Emami and Kesh King?

Rajesh Sharma: Kesh King have led to improving the gross margin by around 80 basis points to 90 basis points kind off this year and the rest is because of the price increase and some bit of reduction in the cost of input price materials.

Manish Poddar: Is there anything callout of the offtake of the summer portfolio, Mohan Ji?

Mohan Goenka: Summer has started with a good note if it continues like this then we are hopeful to surpass our target.

Manish Poddar: Could you just give us the split of the Healthcare roughly about of the 200-odd Crores how much would be the top three brands contributing let us say?

Mohan Goenka: So it is almost 85%.

Manish Poddar: How much is the Pancharishta actually?

Mohan Goenka: Pancharishta is almost 51% .

Manish Poddar: Which should be the other two if I may?

Mohan Goenka: The other two brands are Vigogrex, Nityam, Parag, these are the three other brands.

Manish Poddar: That is great. Thank you so much.

Moderator: Thank you. Our next question is from the line of Pranshant Kutty from Emkay Global. Please proceed.

Pranshant Kutty: Thank you for the opportunity. Sir just one question over here, you said that you were looking at hike in your Ad spend numbers also when most of the relaunches are lined up just want to understand here what will be the gross margin levers over here. Why did not you highlight about a price increase to be taken. You said most of the Kesh King has actually come into the base so just trying to wonder over here what is the gross margin lever that you are looking at that could actually help us sustain our margins?

Rajesh Sharma: Pranshant, if you look at the current raw material prices and also additional three months of Kesh King next year so we see some possibility of improvement in gross margins for the next year so it can be anywhere between 50 basis points 60 basis points kind of.

Pranshant Kutty: But Sir even if I take that into account you are looking at almost about a 150-odd BPS increase in my Ad spend numbers so you feel that this along with your price increases should be able to still make up with the Ad spend increase?

Rajesh Sharma: No as I said gross margin may go up by 50-60 basis points kind off and advertisements we may increase it by a percent or one and a half percent depending on the need so if we ultimately spend a percent and a half additional next year then obviously the gross margin expansion would not make it up so we would have to sacrifice some bit of our EBITDA margin for the increase in A&P spends.

Pranshant Kutty: Sir if you could just give us some trends as to how has the rural growth been and how has been the urban growth?

Mohan Goenka: So for as of now the growth is the same but going forward we are expecting a better revival in the rural market is of course what we are seeing is the IMD predictions are all right for monsoon.

Pranshant Kutty: Thank you Sir and all the very best.

Moderator: Thank you. The next question is from the line of Jubil Jain from Philip Capital. Please proceed.

Jubil Jain: Just wanted to understand how Zandu Chyawanprash is doing I mean what is the size of the portfolio and how it is caring versus competition specifically from Pathanjali and Dabur?

Mohan Goenka: It is a small brand. In Chyawanprash we have Sona Chandi Chyawanprash, which is bigger than the Zandu Chyawanprash. So the total sales is about 25 Crores for our Chyawanprash.

Jubil Jain: Sir two questions Sir basically a repetition but I forgot to note them so the topline growth is budgeted as 15% to 16% does that include Kesh King and second what is the tax rate for FY2017 and 2018?

Mohan Goenka: So the 15%-16% is again organic so the nine months of Kesh King is there so three months of Kesh King would be additional.

Jubil Jain: Okay and what tax rate should I build into FY2017-2018?

Mohan Goenka: 20%.

Jubil Jain: Thank you.

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Share Khan. Please proceed.

Kaustubh Pawaskar: Thanks for giving me the opportunities Sir. My question is on the your distribution reach what is your current distribution reach and what are your targets going ahead in terms of distribution expansion both direct and indirect?

Rajesh Sharma: So as far as direct distribution is concerned presently we are reaching roughly 6.5 lakh outlets and our target would be to take it to 7.5 lakh outlets by the end of this financial year. Indirectly if you look at our brands like Navratna is reaching to roughly around 4 million outlets but that is to the indirect channel also network.

Kaustubh Pawaskar: Thanks.

Moderator: Thank you. The next question is a follow-up question from the line of Amit Sachdeva from HSBC. Please proceed.

Amit Sachdeva: Sir my question is little bit on the growth rate so some part of the clarification is already there that you are getting about 15%-16%, which is a nine month to nine month organic growth so Sir if I were to assume that the healthcare portfolio would grow at 30 and Kesh King on the lower base is also growing then are we not conservative on the rest of the portfolio where we may be talking about only 10%-12% growth rate despite we are seeing good summer and monsoon expectation is good, is not it little bit conservative revenue guidance, given the A&P you are trying to spend so I am just trying to understand the logic of 2015-2016?

Mohan Goenka: It is very difficult to earmark the season we do not know the seasonality. We are all saying that monsoon will be good, winter will be good, summer will continue like this forever for three four months we are not too sure about all this because brands have already reached a scale, of course if the summer continues then if I get a good set of number then I will also increase my targets.

Amit Sachdeva: It is more like a ballpark number that you see going into?

Mohan Goenka: What we have budgeted at the beginning of the year is what I am sharing.

Amit Sachdeva: Thank you so much.

Moderator: Thank you. The next question is the follow up question from the line of Abneesh Roy from Edelweiss. Please proceed.

Abneesh Roy: Sir Pancharishta saw 56% full year growth only 20% last quarter so is the base now catching up?

Mohan Goenka: Yes slightly the base is catching up and let us see how this goes but we are of course 56% is not that we have budgeted for this year. We have budgeted much less growth for this year. So let us wait and watch.

Abneesh Roy: Sir some confusion, so Pancharishta is present in most parts of the country or in some part of the country only?

Mohan Goenka: No mostly it sells in northern, it is of course present in all parts of the country but it sells mostly in northern western India.

Abneesh Roy: Sir then what were you referring to when you said that you are doing the test pilot stage in one state which product was that?

Mohan Goenka: That is for our heart diabetes all those products.

Abneesh Roy: Sir now coming to Deo again you are trying a brave attempt now no gas is not something only you are doing some other players are also doing and of course the packaging is definitely is much better this time so how is the confidence level this time because you are clearly competing against too many players and some of which have much larger budget so what is the confidence level this time?

Mohan Goenka: See one thing let me make it very clear if we come out with any product or anything of course our confidence levels are very high. We have certain things in mind and I have made it very clear that the purpose of HE is to get into male grooming category, you would see some launches coming under HE category of course the starting point is the deo and we have also good budgets earmarked for the HE portfolio for this year.

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

Moderator: Ladies and gentlemen that was the last question, I now hand the conference over to Mr. Thakur for closing comments. Over to you!

Shirish Pardeshi: Hi Mohan Ji this Shirish. I have three questions. The first question is that about four years before we created Andhra Pradesh as a model state and we tried to bring in lot of channel checks and lot of attempt to revive the distribution can you say what is the achievement level today is Andhra Pradesh is the largest contributor to our business today?

Mohan Goenka: No for us the biggest market is Uttar Pradesh.

Shirish Pardeshi: Again the second question is that about four quarters before we have introduced lot of incentives for the retail scheme or to retail offtake. What is the outcome of this? Has it worked or has it not worked or may be you can share what is your learning?

Mohan Goenka: No but that is an ongoing process Shirish, it is not one time because every quarter every month we have incentive for our field force, for everybody actually.

Shirish Pardeshi: No that I understand but what was achieved, is the sales growth is faster because of that or is the inventory which is come down?

Mohan Goenka: No I am not very clear on the question.

Shirish Pardeshi: I am saying you introduced this incentive scheme what has resulted is the offtake or retail position faster or the inventory is brought down?

Mohan Goenka: We corrected our inventory. I do not remember when I think six or seven quarters back that was one off but it is not that we have done something for the first time because or schemes or incentives has been an on-going process.

Shirish Pardeshi: Okay, next question is on Kesh King, you said that about two quarters before the trend was correcting the inventory what could be the inventory level at for Kesh King right now?

Mohan Goenka: Right now it is come down to almost 16 -17 days as per our standard.

Shirish Pardeshi: Would you have any number on STR?

Mohan Goenka: I would not have it handy Shirish you can of course check it with Rajesh later on.

Shirish Pardeshi: The last question, if we look at Navratna and the five brands what you have spoken all contributes roughly about 75%, what you just mentioned now say in the hair oil space what is the lowest penetrated category is Navratna is the lowest penetrated category out of the five which is the lowest penetrated?

Mohan Goenka: Navratna is much more penetrated than Kesh King or Seven 7 Oils in One-.

Shirish Pardeshi: Now what could be the penetration for Navratna?

Mohan Goenka: Navratna cooling oil penetration is roughly about 17%-18%.

Shirish Pardeshi: I just referring because on the call you mentioned somewhere that most of the categories are not penetrated so high so naturally there is a growth.

Mohan Goenka: Of course this is only 17%-18% penetration.

Shirish Pardeshi: What kind of further **(inaudible) 1.02.05** extension can happen in Navratna portfolio?

Mohan Goenka: That is difficult for me to share we have just this month we have launched on Almond Cool Oil under Navratna so which we have just launched just about a weeks back.

Shirish Pardeshi: That is which state you have launched?

Mohan Goenka: We have launched across India.

Shirish Pardeshi: Okay, just last question what is the modern trade contribution is moved on a YoY basis?

Mohan Goenka: Modern trade contributes to about 4% of our total turnover and this is gradually moving up because of two brands one is of course the deodorant and one is face wash.

Shirish Pardeshi: Thank you.

Ajay Thakur: Just one question from my side. Sir can you please share the volume growth number for Q4 across our key brands, which is Boroplus, Balms, Navratna, Fair & Handsome?

Mohan Goenka: We have shared the value growth numbers and the price hike is just 3% kind of in this quarter so it is more as same for most of the brands.

Ajay Thakur: Thanks for that.

Ajay Thakur: Would you like to make any closing comments Mohan Ji?

Rajesh Sharma: Thank you Ajay, thank you Shirish, thank you Anand Rathi for organizing this call and all the participants who patiently participated in this conference call. Thank you.

Moderator: Thank you very much members of the management and Mr. Thakur. Ladies and gentlemen on behalf of Anand Rathi Shares and Stock Brokers that concludes this conference call. Thank you for joining us. You may now disconnect your lines.