



## “Emami Limited Q3 FY 2016 Earnings Conference Call”

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**ANAND RATHI**



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**Moderator:** Good day and welcome to the Emami Q3 FY2016 Results Conference Call hosted by Anand Rathi Shares and Stock Brokers Limited. 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 call please signal an operator by pressing “\*” then “0” on your touchtone phone. I now hand the conference over to Mr. Ajay Thakur. Thank you and over to you Sir!

**Ajay Thakur:** Thanks. I welcome you all to Emami’s Q3 earnings conference call. We have with us from the management, Mr. Mohan Goenka who is the Director at Emami. We also have Mr. Rajesh Sharma who is the Senior VP, Finance and Investor Relations. We will start the call with a brief on the Q3 results and after that we will open the floor for Q&A session. Over to you Mr. Goenka!

**Mohan Goenka:** Thank you Ajay. A very good evening friends. I welcome you all to this conference call on Emami’s third quarter and nine-month results for FY2016. Our revenue at Rs.789 Crores grew by 13.9% with volume growth by 8.6% in this quarter. In nine months revenue grew by 17.4% at Rs.1953 Crores with volume growth growing by 10.9%. Kesh King contributed to around 10% of total sales during the quarter and 7% in nine months.

Domestic business registered a topline growth of 14.3% and a volume growth of 9.3%. In nine months, the domestic business grew by 18.4% and volume growth of 12.6%. Sales were impacted due to delayed winters as Emami’s winter portfolio contributes nearly 40% of the domestic sales in this quarter. Further lower rural wage growth muted increase in minimum support price and an overall sluggish consumer sentiment kept rural consumption demand in check.

Boroplus Antiseptic Cream grew by 2% during the quarter impacted by delayed winters. Balms grew by 10% and Fair and Handsome grew by 8% during the quarter. Cooling oils degrew by 6% during the quarter due to subdued rural demand and a high base of quarter three FY 2015.

Zandu Healthcare products grew by 25% during the quarter, which was led by Zandu Pancharishta. In nine months FY2016 Boroplus Antiseptic Cream grew by 5% balms grew by 12%, cooling oils grew by 7% and Fair and Handsome grew by 12%. Cool talc grew by 7% and Zandu Healthcare products grew by 30%.

During the quarter, the company launched Zandu Pure Honey with no added sugar. We continue to maintain leadership in our key categories. Cooling oils, Balms, Boroplus

Antiseptic Cream and Fair and Handsome maintained their leadership positions with nine months FY2016 volume market shares at 60.5%, 56.2%, 77.7% and 62.6% respectively.

During the quarter, we witnessed a correction in the market share of Navratna cool oils due to a rectification in the cool oil category by AC Nielsen. Since quarter four FY2015 it was observed that volume market share of a key competitor was showing a steep drop. We cross checked this drop with field force distributors and retailers and found inconsistency with the data shared by AC Nielsen. This was reported to AC Nielsen, which acknowledged the same and rectified the data in January 2016 as it had classified one of the sachets of the competitor in the hair oil category and not under the cool oil category. However even in this scenario of Navratna cool oils have gained volume market share by 40 basis points from 60.1% to 60.5% in nine months.

The international business grew by 11% in Q3. In the nine months it grew by 14%. The business was impacted by geopolitical and economic challenges in the overseas market like Russia and Nepal.

SAARC and SEA region grew by 30% led by a stellar performance in Bangladesh and MENAP grew by 16% led by a 23% growth in GCC.

Our profits and margins have grown despite high A&P spends. Gross margins at 70.8% are at all time high improving by 350-basis points year-on-year in the quarter.

Advertising expenses at Rs.150 Crores increased by 180-basis points in Q3 FY2016. Despite high A&P our EBITDA margins at 31.6% improved by 100 basis points in this quarter.

During the quarter, the amortization of Kesh King and SHE intangibles amounted to Rs.62 Crores. Interest paid increased by Rs.15 Crores and other income reduced by Rs.26 Crores on account of the acquisition.

Cash profit at Rs.206 Crores grew by 6.3% in the third quarter and by 21% in nine months at Rs.449 Crores; however, PAT at Rs.134 Crores and Rs.283 Crores was lesser compared to corresponding periods of previous year because of amortization of Kesh King intangibles by Rs.62 Crores and Rs.137 Crores for the third quarter and nine months respectively.

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

**Moderator:** Thank you. We will now begin the question and answer session. The first question is from the line of Prakash Kapadiya from Anived Portfolio Management. Please go ahead.

**Prakash Kapadiya:** Thanks for taking my question. I had two questions. On Kesh King you are launching smaller products. So if you could give us some sense how will this help as I guess this will be a more specific solution based product and currently how much of a sales are from rural markets? What is the plan for rural markets? That was the first question. Secondly Sir on the rural demand side what do you think will be important variable from our demand coming back? Is it the government direct benefit transfers? Is it pay commission hikes? Will it be monsoon if you could give us some sense on the rural side?

**Mohan Goenka:** On Kesh King, you have seen, this quarter we have come back to the original number almost we have touched 70 Crores in this quarter, which is more or less in line with our expectations and we have not yet got the benefit of the small size that we have just launched which is the 60 ml pack. So if you see the oil business, most of the business comes from the sachets, which still we do not have and the smaller size is 60 ml, which is priced I think at almost Rs.60 to Rs.70. So this brand is still not for the rural markets. This is more an urban market brand and we intend to focus on the urban as far as this brand is concerned.

**Prakash Kapadiya:** But Sir this will be a more specific solution based kind of a product wherein case there is a problem somebody would buy it you think people are willing to experiment at a lower price point therefore the lower SKU?

**Mohan Goenka:** Absolutely because at Rs.140., entry price point is a very difficult entry point. So though 60 is at a higher side but below this it would be difficult at this point. We are experimenting at a small size.

**Prakash Kapadiya:** May be if the volume growth or this was then may be could look at even lower SKU?

**Mohan Goenka:** Absolutely.

**Prakash Kapadiya:** Your thoughts on rural side what will drive?

**Mohan Goenka:** This is a difficult question for me to answer because we have to wait for the budget to see what the government comes up for the rural market, because all across we have seen a muted demand from the rural side. So whether it is the direct transfer or whether it is the income on the agriculture side or the MSP prices this is a very, very difficult question for me to answer.

**Prakash Kapadiya:** Thank you.

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

**Amit Sachdeva:** Good evening Sir. Thank you for taking my question. Sir I have a question on the newly launched honey which has been just launched in the quarter and if I notice the price point has been kept quite high at if I am corrected it is Rs.75 for 100 grams and so it might be super premium kind of category and maybe positioned at that way as well but when you look at the variants which are available in the market place and so you see obviously a large so you are chosen to play the real premium end. So can you share what is the thought here and how do you so see in the category helping in this sort of positioning is this the way Zandu you going to be position as a premium ayurveda brand versus some people are playing in the mass and so is it the portfolio thought process is shifting? Can you give us some light or what is the strategy here?

**Mohan Goenka:** The strategy is very, very clear. It is nothing to do with premium or as such. Our idea is that whatever we do in Zandu has to be pure or authentic that is the starting point. So if we have to be in the honey business, we cannot give pure honey at the prices what you get the other products. So this is 100% pure honey and if it comes at a premium it comes at a premium.

**Amit Sachdeva:** I totally understand that Sir but other players would also claim that this is pure honey and our price is low. How does a consumer sort of it is up to consumer to sort of trust whoever they want to trust. Is it like a bet you are taking? All I am saying is that for example for Patanjali Honey would be at Rs.60 to Rs.65 for 250 gram and our ruled for 90 and just to give a reference price curve here. So I am just trying to think that is it like how they are managing? I mean I do not know is quality is the perception of consumer in terms of trust they have in the brand but is not it something like a very different strategy from what reference pricing is available in the market place. I understand your logic that is the purest honey takes this much of cost and we need this much of margin. So I was wondering what kind of growth rate you have assumed then how you see this category for you becoming sizable or not and would it have a some of effect on other launches also you want to launch that. What I am asking is that is it a conscious strategy to sort of even if we copy others it have to be take the other end of the positioning where you take the Zandu brand as the super premium offer existing successful category made by other players. Is it something of that thought process driving there?

**Mohan Goenka:** The idea is that as I said that we do not want to position Zandu as the super premium ayurveda brand that of course not the thinking point but whatever products we launch under Zandu has to be at the purest form. That is the point. Now if others are at a discount whether whatever they do I cannot comment on that. I can only claim and you have seen our advertisement where we have said this is the purest honey with no sugar added so and there are enough consumers at the upper level or a higher band who would always want to pay a premium to buy the purest products.

**Amit Sachdeva:** Sir where are you launching right now this product in only modern trade?

**Mohan Goenka:** No we have launched across.

**Amit Sachdeva:** Across the channels okay. Sir very quickly on Kesh King?

**Mohan Goenka:** I think I am happy to report we have got very good despite this competition from Dabur and Patanjali we have got good results.

**Amit Sachdeva:** Sir second one very quickly on Kesh King so this quarter obviously seems like a very good quarter and looks like the issues of channel things are behind you already. So looks like Q4 is also going in the similar direction if you are to look at because we are already one month in the quarter. So are you are seeing that same momentum has continued and Q4 should be another normal quarter or you are seeing sales now pick up from even this quarter?

**Mohan Goenka:** As I said that Kesh King is now fully under control and we are seeing the same momentum what we have seen in the last quarter and we are hopeful with the kind of input that we are giving. We would see a good growth going forward in Kesh King.

**Amit Sachdeva:** Next year target we have talked about 330 odd Crores in general?

**Mohan Goenka:** I am very hopeful to do this.

**Amit Sachdeva:** Thank you so much Mohan Ji. This is all from my side.

**Moderator:** Thank you. The next question is from the line of Tanul Shankushal from Vantage Securities. Please go ahead.

**Tanul Shankushal:** Good evening Sir. I wanted to know regarding Kesh King. In the last call you mentioned that reformulation is supposed to be done and you are planning some reformulation for Kesh King, so any lights on that context?

**Mohan Goenka:** So we have already done that in the last quarter. So now the product, which is available in the market, is with the new formulation.

**Tanul Shankushal:** The new manufacturing set up which has been mentioned in the quarterly results?

**Mohan Goenka:** Yes. So that has also.

**Tanul Shankushal:** What is the purpose of this I mean any lights on why the set up?

**Mohan Goenka:** So it is now already manufactured in our factory, which earlier we used to buy it from the earlier promoter. That has already been done now.

**Tanul Shankushal:** Sir last question this 950 Crores of debt which was raised I mean which was taken for Kesh King acquisition. Any repayment plans I mean if you can disclose how are you going to repay the debt?

**Mohan Goenka:** We should be able to repay the debt in two years time. So we have already repaid some of that. So by end of this year you should see some repayment of roughly more than 200 Crores, 300 Crores.

**Tanul Shankushal:** Thank you Sir. That is it from my side.

**Moderator:** Thank you. The next question is from the line of Shirish.

**Shirish:** Mohan Ji, there are two questions. Off late most of the consumer company's results, which has come in, has been challenged by the volume growth. Is that a true sense if you see that what is happening in rural or may be if you can show the highlight what is your growth in urban and rural?

**Mohan Goenka:** For us the urban growth has been slightly higher mostly led by Kesh King in this quarter and you know because the winter has been pretty poor and Boroplus sachets and some of the brands, small sachets sell very well in the rural markets and also Navratna. So the urban growth is slightly higher compared to the rural growth in this quarter.

**Shirish:** Is there any pockets of rural may be in the central states, which are weaker, or the phenomenon is across.

**Mohan Goenka:** Phenomenon is across also more or less it is across the border. Rural demand is poor across India.

**Shirish:** My next question is on the international business though we have grown about 14% in nine months but this quarter is slightly muted. Is that problems are different than what are you faced in first six months or it is generally the same the sentiments are weaker across all the markets?

**Mohan Goenka:** This is primarily because of CIS and Nepal. You know Nepal because the stocks are not going from here because of the border there is a blockade and also CIS has been degrowth mostly led by Russia and Ukraine, which is -20%. Otherwise once these countries revised then I am sure the business can be plus 20%.

**Shirish:** How big is Nepal contribution in terms of international?

**Mohan Goenka:** Nepal is almost roughly about 6%.

**Shirish:** But I think I have been told that now things are happening, so may be you will have effect in this quarter coming in?

**Mohan Goenka:** Hopefully, because Nepal has almost degrew by 55% in this quarter.

**Shirish:** But winter is slightly steep in Nepal at this time?

**Mohan Goenka:** I am sorry.

**Shirish:** Winter is slightly steep in Nepal at this time?

**Mohan Goenka:** It is nothing to do with winter. As I said because the stocks are lying at the border, because we export from India to Nepal and the borders are all sealed. That is the only problem. The stocks are lying for almost three months now at the border. Now it is started to going, so let see that this quarter revives.

**Shirish:** I will come back again.

**Moderator:** Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

**Arnab Mitra:** I joined a little late, so pardon me if I am repeating the question. I just wanted to know what is the sales of Kesh King in absolute Crores in this quarter and other distribution related issues of the old stock in the market is that completely behind now and if that is the case



what kind of run rate on a quarterly basis, could you expect going forward from the next quarter onwards on Kesh King?

**Mohan Goenka:** Kesh King in this quarter, we did Rs.68 Crores and all those issues are over now, so this is completely in our control, manufacturing is also now done in our own Emami plant, we have also changed the formulation. So going forward as I said next year it looks like we would be able to do Rs.330 Crores, which is what seems to be possible.

**Arnab Mitra:** This 60 ml pack that you have launched what is the pricing of this pack?

**Mohan Goenka:** The price is Rs.70.

**Arnab Mitra:** So idea behind is to increase the number of outlets?

**Mohan Goenka:** Idea is for penetration.

**Arnab Mitra:** The second question I wanted to ask is on the other two products like Fair and Handsome face wash and 7 Oils In One, which are ramping up. So, we just wanted a kind of sense of annualized turnover, if you want to annualize the quarters number, what kind of revenue annualize to these two products now have?

**Mohan Goenka:** Face wash most likely we would be doing about Rs.30 Crores and 7 Oils In One should be about Rs.18 Crores to Rs.20 Crores for the year.

**Arnab Mitra:** Any update on the SHE test marketing which you start this quarter in South India, is it underway and when do you kind of feel confident enough to roll it out in the other part of the country?

**Mohan Goenka:** That has also been done in Andhra Pradesh. We have just done about two months back. So, we need to wait for some more time as I said I think in my earlier concall also, we are in no hurry to do anything where we might go wrong. We will wait for another six to eight months to see the result and then we will take a decision.

**Arnab Mitra:** Just one question on the margin side, your ad spend even on a high base, because you had increased ad spends last year, again it has gone up by this quarter itself again is 26% year-on-year, the absolute ad spend. So do you see further increase in ad spend in FY2017 as a percentage of sales or we are now at levels there at least as a percentage of sales we will hold those kinds of levels?

- Rajesh Sharma:** This quarter ASP has gone up Arnab you rightly said, but for the full year as a whole we should be able to maintain within 18% to 19% kind of levels.
- Arnab Mitra:** Lastly on the winter impacts, is there a follow through impact in fourth quarter also winter, because although most Boroplus sales probably would be in December quarter, but will it also impact the fourth quarter in terms of pipeline that might be there in the market anything like that?
- Mohan Goenka:** Fortunately, at least we have got some winter in the month of January, so the stocks in the pipeline should be liquidated that is the sense I am getting from the market.
- Arnab Mitra:** But in terms of your own primary sales does it impact fourth quarter also, because week or fourth quarter should be like in we should look at it like a normal quarter.
- Mohan Goenka:** Winter sales, is very, very low in the fourth quarter even we less than 10%. So it does not matter too much to us.
- Arnab Mitra:** Thanks and that is from my side. I will come back if I have more questions.
- Moderator:** Thank you. The next question is from the line of Ajay Thakur. Please go ahead.
- Ajay Thakur:** Thanks. I just wanted to check on the healthcare foray OTC space that we have done in the sometime back, we are doing some test marketing in the south, so I just wanted to get more color on that. How it is panning out? How many retail points we have added to that? If you can share some details on that it will be great?
- Mohan Goenka:** We have done some checks in again Andhra Pradesh as well as healthcare and the new Zandu healthcare is concerned, but we need to revive a bit basis some feedback we have got from those markets, so we are yet to roll it out nationally, it would take another two quarters for us to learn from that market and then roll it out nationally.
- Ajay Thakur:** Secondly, on the new product pipeline, what kind of product we can expect going ahead from Emami's table which all categories you will be targeting?
- Mohan Goenka:** Sorry, we would not be able to share new product pipeline strategy on the concall.
- Ajay Thakur:** Thank you.

- Moderator:** Thank you. The next question is from the line of Ashish from Elara Capital. Please go ahead.
- Ashish U:** We missed the initial commentary that you would have given. I just wanted to request if you could let us know the numbers of volume growth across brands that as happened in this quarter?
- Mohan Goenka:** Boroplus antiseptic cream grew by 2%, the balms portfolio grew by 10%, Navratna degrew by 6% and Fair and Handsome grew by 8%.
- Ashish U:** These are volume growth?
- Mohan Goenka:** These are all price growths.
- Ashish U:** Can we get the volume number for this?
- Mohan Goenka:** Boroplus volume is -3%, Fair and Handsome volume is 6% growth and balms volume growth is roughly 3% and Navratna has degrown by 6%.
- Ashish U:** How are you reading the outlook for business performance for your company, because it recovered a bit after a year back and then again it is kind of slipping on the core business growth, so your comments would be helpful to gauge the outlook over the next 12 months if it is visible to you?
- Mohan Goenka:** As I have said in my opening remarks also that overall the demand cycle is on the weaker side, though we are geared up for the next level of growth. We have gained market share in almost of our key categories. So, we just have to wait for the revival, so some brands if you see the balm category, which has also done well despite of the Chennai floods, which is a big market for balms. So, Fair and Handsome has also done pretty well. As far as winter is concerned where we have degrown in the other products like Chyawanprash, Vasocare, cold creams and also Boroplus did not grow at all in this quarter, which contributes to 40%. So, if you see I do not think there is any kind of risk. I am still very positive, because in the last at least I can confidently say in the last 40, 45 days I have seen some kind of a spurt. If this momentum continues for another three, four, six months then I am sure we would be able to do a double-digit growth figures for the next year.
- Ashish U:** I wanted to understand the raw material situation and how you look at gross margin going ahead?

**Mohan Goenka:** So, there has been an expansion almost 350-basis points in this quarter and the prices are quite buoyant, so it looks like it should remain at these levels and if these remains at these levels, the next year we would be do 68%, 69% gross margin looks visible.

**Ashish U:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Jubil Jain from Phillip Capital. Please go ahead.

**Jubil Jain:** Congratulations on a good set of results. Unfortunately I missed the start of the call, so pardon me if I am repeating the questions. I first wanted to know the rural growth outlook, how is rural growth doing versus urban growth?

**Mohan Goenka:** Rural growth is pretty subdued compared to the urban side for this quarter and it is actually for nine months. We are seeing weak rural market.

**Jubil Jain:** Is it slower than urban growth?

**Mohan Goenka:** Yes, it is slower than the urban market.

**Jubil Jain:** Second, what is the size of the winter portfolio for this quarter, if we compare it?

**Mohan Goenka:** 40%.

**Jubil Jain:** Including Kesh King?

**Mohan Goenka:** Kesh King is not a winter brand.

**Jubil Jain:** If you look at the consolidated sales excluding Kesh King it will be 40% right?

**Mohan Goenka:** Only the winter portfolio.

**Jubil Jain:** Winter portfolio upon consolidated sales of Kesh King?

**Mohan Goenka:** Yes.

**Jubil Jain:** My last question on the increase on staff cost, what is the reason for such a high spurt 26%, is it related to Kesh King?

**Mohan Goenka:** No. Staff cost nothing to do with Kesh King. Staff cost has been going up for quite some. If you see last eight to ten quarters, so this is an investment, because as I said company is geared up for the next level of growth.

**Jubil Jain:** Should we assume the staff costs going forward will actually increase by such high percentage more than 15%, 20%?

**Mohan Goenka:** It is now more or less we have come to I do not think it will grow at these levels going forward, so it should be at least 10%, 15% growth would be there.

**Jubil Jain:** Thanks a lot Sir.

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

**Chanchal Khandelwal:** On the comment that in the last 45 days you have seen some traction. Can you elaborate is it mostly in the urban side you are seeing or is it because the winter has picked up in the northern geography. Is there where you have seen the growth or can you talk a little more about this?

**Mohan Goenka:** One is definitely the winter has set in, so that has given some demand for the winter products particularly the Boroplus, but also we are seeing some traction in the balms in the last 40, 45 days. As I said, it is too early days for me to say whether the same trend continues for another six months. We are so dependent on the winter and the seasonality then whenever we see some traction stocks moving from the market or from the dealers or from our side. So, I would say it is purely driven by setting of winter at this point of time.

**Chanchal Khandelwal:** Assume some part of the winter portfolio of December goes to January that means that the gross profit for winter portfolio has a higher gross profit margin correct me if I am wrong. So that is January you can see better gross, profit margin growth right?

**Mohan Goenka:** Yes, it looks like that at least for first 25 days.

**Chanchal Khandelwal:** Firstly on the Zandu portfolio a bit see a lot of plan on the healthcare part of the business you had lot of plans and now Patanjali is very active and you have heard a lot about it. Now, how do you to take it up and do you think it can complement and grow with Patanjali, what is your uptake here?

**Mohan Goenka:** We have our plans intact. We would focus on the south market at this point of time and you have seen our healthcare this quarter also has grown by above 30%. So, we would go by our initial plants go slow on the national launch as far as new Zandu is concerned. Let us see as long as we are going at 25%, 30%, we are very happy about it.

**Moderator:** Thank you. The next question is from the line of Dhaval Mehta from Emkay Global. Please go ahead.

**Dhaval Mehta:** Thank you for the opportunity Sir. I joined the call a bit late, so I just wanted to know that last quarter, we faced some stocking issue with Kesh King, so has that issue been resolved or what is the status of that particular issue?

**Mohan Goenka:** That is now resolved and we have already across Rs.68 Crores in this quarter, now it is completely in our control.

**Dhaval Mehta:** Rs.68 Crores of Kesh King revenue this quarter. So, that can be the run rate, which can be maintained in subsequent quarters?

**Mohan Goenka:** I am very confident of achieving more than Rs.70 Crores, Rs.75 Crores.

**Dhaval Mehta:** Regarding HE and SHE portfolio, how that has that two brands have been shaping, because it has not been mentioned in the presentation.

**Mohan Goenka:** As far as SHE is concerned as I told earlier that we are test marketing it in one state in south and that is already rolled out. We will wait for the results to come in for another two quarters, then we would launch it nationally and as far as HE deodorants are concerned, we have different plans for He which you will see in this season.

**Dhaval Mehta:** Can we expect that because of HE and SHE, new launches, which is there in the pipeline, will our A&P spends, will increase or how it will be Sir?

**Mohan Goenka:** The advertising expenses will not increase from the current levels, it would be in the range of 18% to 19%.

**Dhaval Mehta:** Regarding our new product launch of honey, so if you see that nearest competitors will be Dabur Honey and the Patanjali. Patanjali is eating up decent amount of share in this particular category. So, what was the thought process behind the launching a product like this?

- Mohan Goenka:** We have positioned Zandu has a pure honey at a premium to of course Patanjali and Dabur and we think there is a market at the upper end, because a lot of consumers look for the purest of products when it comes to everyday consumption and when it comes to health benefits and we have got good traction even at this price. So, we are positioned very differently than Patanjali and Dabur.
- Dhaval Mehta:** What is the price premium of our product let us say vis-à-vis Patanjali and Dabur product?
- Mohan Goenka:** It is almost double the price, it is almost 100% higher than Patanjali.
- Dhaval Mehta:** I am assuming that it will be around 20%, 25% higher than Dabur price?
- Mohan Goenka:** Absolutely.
- Dhaval Mehta:** Thanks a lot Sir. I will join back the queue, if I have any questions. Thank you and all the best Sir.
- Moderator:** Thank you. The next question is from the line of Rohit Kadam from Credit Suisse. Please go ahead.
- Rohit Kadam:** Follow up question on honey. So, this is a pan India launch or this is regional launch than you ramp it up?
- Mohan Goenka:** No, it is pan India launch, because we are advertising it nationally and initial response has been good I would say.
- Rohit Kadam:** Another thing was in the other income this is down about 85% YOY, so any one-offs there and how it should be looked at it going forward?
- Rajesh Sharma:** Till last year, we were earning lot of other income, because of the cash surplus which we had, but now after Kesh King we do not have much cash surplus, so around Rs.5 Crores kind of other income should be factored going ahead per quarter.
- Rohit Kadam:** Lastly, if you could share your current cash and gross debt numbers as of December 2015?
- Rajesh Sharma:** Our net debt would be roughly Rs.600 Crores kind.
- Rohit Kadam:** Thanks. That is it from my side.

**Moderator:** Thank you. The next question is from the line of Sujit Jain from Yes Securities. Please go ahead.

**Sujit Jain:** Good afternoon Rajesh and Mohan Ji. Sir, in honey what kind of monthly revenue run rate eventually you would target?

**Mohan Goenka:** We have just launched. It is not even a month. Let us see what response we get. It is too early. Market is competitive and we are priced at a premium, so let us wait for another three, four months, though we are late in the season, but still I cannot give any numbers at this point of time, it is too early.

**Sujit Jain:** Could you give us the volume and value number for the quarter for cooling talcs and I missed the volume number for Navratna cooling oil as well?

**Mohan Goenka:** Cooling talc does not sell in this quarter. It is almost zero and for Navratna oil there has been degrowth of 6% and volume degrowth is roughly 7%.

**Sujit Jain:** In terms of HE you said that the probably this year we will see it getting launch, relaunch etc., what is the plan there? Can you spell out the plan? Are we getting out of some categories reentering into some new categories? How is it that will be rolled out during this quarter?

**Mohan Goenka:** We have to wait for sometime, but we definite plan for HE, I can only share this much.

**Sujit Jain:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Puneet Jain from Goldman Sachs. Please go ahead.

**Puneet Jain:** Thanks for taking my question. The growth of Kesh King is very marginal in this quarter. So, any outlook like this year, the season and the weather has been very adverse. But Q4 winter has been quite harsh at least in north even in west the winter has been quite harsh in Q4. So any signs of better growth in this quarter and Kesh King had a very strong revival, so anything to take into that?

**Mohan Goenka:** In the third quarter, our winter portfolio is almost 40% which did not grow, which has actually degrown that is one of the reasons why the growth was less in the third quarter. If you see balms and Fair and Handsome, which has done, quite well and Kesh King also is back in action. I am sure achieving Rs.70 Crores, Rs.75 Crores in the quarter going forward



and as far as winter is concerned this is hardly 10% in the fourth quarter contribution. So, now for us the benefit would come only when we get summer quickly. The stocks, which are in the pipeline that would definitely be liquidated if the winter is there for sometime that is what the sense that I get from the market, but some bit of demand has been there for winter products, which is unprecedented. So let see how much we can supply, but Q4 looks to be better to be at least at this point of time.

**Puneet Jain:** So to that extent if winter is normal in Q4, should there be at least 10% in non Kesh King portfolio in Q4?’

**Mohan Goenka:** As I said winter is only 10% in the fourth quarter, so the 90% of the portfolio has to grow, so for me I am waiting for the summer rather than prolonging the winter.

**Puneet Jain:** Any specific measures which led to the sharp improvement in Kesh King on a quarter-on-quarter basis?

**Mohan Goenka:** I had clearly spelled out the reasons why it was lower in the second quarter, so those issues are over and it is completely in our control now and so this is the full quarter where the dealers have been able to sell the products. Let see now going forward as I said I am confident of doing Rs.70 Crores to Rs.75 Crores in a quarter.

**Puneet Jain:** Thank you. All the best.

**Moderator:** Thank you. The next question is from the line of Gautam Duggad from Motilal Oswal. Please go ahead.

**Gautam Duggad:** Thanks for taking the question. Just one question I missed it in the beginning I guess. The overall volume growth segment, overall volume growth both in urban and rural if we can spell it out excluding Kesh King?

**Mohan Goenka:** The total volume growth, you mean for the company or for?

**Gautam Duggad:** For Emami excluding Kesh King for urban as well as rural in total?

**Mohan Goenka:** There has been no volume growth. I do not have urban rural wise growth numbers, but there has been no volume growth.

**Gautam Duggad:** You made some comments on green shoots with some spurts in last 50 days, do you think this can revive going forward, because the double digit number that you mentioned is it

pertaining to the volume growth or was it about revenue growth, because I believe price hikes would not have been very meaningful?

**Mohan Goenka:** Let us wait because now the demand has been for the winter products even in this month, so we will have to wait and see, because ultimately the summer brands have to take off if you have to grow double digits in this quarter. So, let us wait for another 20, 25 days to know the real demand scenario.

**Gautam Duggad:** A quarter back, a lot of companies you are talking about liquidity stress for some of the dealers, distributors, has that situation eased in the market now or is it still very stressful?

**Mohan Goenka:** I think I have not sensed any liquidity crunch if you see including of Kesh King, we have grown at 14%, 15%. So, it is a question of demand.

**Gautam Duggad:** Thank you. That is all I had.

**Moderator:** Thank you. Next is a follow up question from the line of Amit Sachdeva from HSBC. Please go ahead.

**Amit Sachdeva:** A very quick follow up on Kesh King. In terms of EBITDA margin we have always been talking about 45%, now since the brand is in-house and things are being re-looked at very differently, so what is the trajectory that you are confident and do you see that 45% EBITDA margin is the kind of margin this category can give considering the small packs as well and considering you want to penetrate it higher. Are you seeing it let us grow faster and let the margin come down or 45% there is still something, which is very easily doable?

**Mohan Goenka:** We have maintained the margins, so 45% margin is achievable and we have got this in this quarter also. So, this looks like very, very feasible to me.

**Amit Sachdeva:** Great. All the best Sir. Thank you very much.

**Moderator:** Thank you. The next is a follow-up question from Tanul Shankushal from Vantage Securities. Please go ahead.

**Tanul Shankushal:** I needed to know regarding Fravin acquisition, are we in position to disclose some strategy however we going about it?

**Mohan Goenka:** As I told primary reason of Fravin was R&D, so that will take sometime.

- Tanul Shankushal:** May be in two quarters or so?
- Mohan Goenka:** No, it will take some more time.
- Tanul Shankushal:** Do you see any demand slow down from the MENA region regarding this oil prices falling. Do you see any business outlook from that front?
- Mohan Goenka:** MENA has degrown by almost 16%, 17% in this quarter. So, let see how go in nine months it has grown at 4%.
- Moderator:** Thank you. The next question is from the line of Hardik Bohra from Union KBC Mutual Fund. Please go ahead.
- Hardik Bohra:** Thank you for the opportunity. Just wanted to understand if you can help me get this better. You indicated at a delayed winter will not help you as much as early summer would, but can I understand why would it be because your portfolio kind of caters to both seasons?
- Mohan Goenka:** The winter contribution is only 10% in the fourth quarter.
- Hardik Bohra:** That is typically to the season you are saying.
- Mohan Goenka:** That is primarily because of the season and we do not keep inventories, for the winter also, even if the demand comes to forgo the demand. Because the winter would last only for another three, four, five days and it abruptly ends. We do not want our dealers to keep extra inventory for winter.
- Hardik Bohra:** One follow-up on the Kesh King again. You indicated at Rs.70 Crores, Rs.75 Crores for quarter sales is what you are expecting over the next few quarters. Now, trying to understand the more long-term outlook for the brand, you acquired it at Rs.300 Crores.
- Mohan Goenka:** No, acquired Rs.1650 Crores.
- Hardik Bohra:** I mean the sales number. So where do you see this going in a long term, is there something that you already targeted that you can share with us right now?
- Mohan Goenka:** Of course the idea is not to stay at Rs.70 Crores, Rs.75 Crores. The idea is much bigger than Rs.70 Crores, Rs.75 Crores, but any acquisition takes time even to launch a 60ml we have to develop a mould, so which took almost six seven months. So of course there are plan for Kesh King and let us wait and watch, because it is too early, we have changed the

formulation, we have to change the advertising, we have to do so much in Kesh King, but of course I am not happy at Rs.70 Crores, Rs.75 Crores.

**Moderator:** Thank you. The next question is from the line of Jubil Jain from Phillip Capital. Please go ahead.

**Jubil Jain:** One follow-up question on international business. You said if MENA region, degrowth was 16%, 17%, now the international business grew by 11%. So, I just wanted to know which are the countries, which actually contributed very high growth in the international business?

**Mohan Goenka:** Mostly the growth has come from Bangladesh, so SAARC countries have grown except for Nepal by almost 40% and GCC has grown by 23%.

**Jubil Jain:** Unfortunately, actually I could not enter the call earlier, you were talking something about some Nepal issue, so could you just repeat that and it will be very helpful, I am very sorry.

**Mohan Goenka:** We export from India to Nepal. There was some blockage at the border, so goods could not reach Nepal, so there has been degrowth of almost 55% in Nepal in this quarter. Now, I have been said that the blockage is over; the trucks are going through some other routes. Let us see this quarter I think it would be some revival.

**Moderator:** Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

**Nikhil Upadhyay:** Good evening Sir and thanks for the opportunity. First question is like I think six or eight months back we had relaunched Boroplus Body Lotion. I just wanted to know how has the traction being not for this quarter itself but over the periods since the relaunch how have we fared?

**Mohan Goenka:** Boroplus Body Lotion is a winter brand so we have not relaunched Boroplus Body Lotion. It is the same.

**Nikhil Upadhyay:** But I think we changed the marketing?

**Mohan Goenka:** Advertising.

**Nikhil Upadhyay:** Also the product packaging and all. This year the winter has been pretty poor as I mentioned.

- Mohan Goenka:** The brand has not grown in this quarter, which is true for almost every winter portfolio.
- Nikhil Upadhyay:** Secondly Sir in Ayurveda product segment, generic medicine part, so just wanted to know what part of our portfolio could be completely mapped with Patanjali wherein we would be directly competing with Patanjali and secondly with the discounting or the pricing differential with Patanjali has maintained in this segment. Do you see that we could be impacted to some extent?
- Mohan Goenka:** Not really, because this quarter also if you see our healthcare has grown by 30%, so we have some brands where we do not compete with Patanjali and I had told earlier in my concall that we are happy that the market should go with the entry of Patanjali, but we have very less competition with Patanjali.
- Moderator:** Thank you. The next question will be from the line of Shirish. Please go ahead.
- Shirish:** Mohan Ji last question from my side. Basically I just wanted to understand where the debt level stands now and what is the debt repayment plan you have chalked out?
- Rajesh Sharma:** As I said our net debt roughly is Rs.600 Crores at the end of December and this should get repaid in next two years time.
- Shirish:** Are you trying to say that the interest cost steadily will sharply come down in the next four quarters. Is there anything, different thought that you will repay the debt before that?
- Rajesh Sharma:** No, entire debt may not be repaid in next financial year I think it will take another two quarters so around six-seven quarters it will take to repay the debt.
- Shirish:** Just last one question on the healthcare portfolio. In the last call, we say that there are two, three new products, which are there in pipeline. Have you done the test launch and prototype or it is yet to be done?
- Rajesh Sharma:** This quarter we have not done any further addition to the new launches of the healthcare portfolio, we have done a few in the first two quarters and going ahead we have some in the pipeline, so you will see some more launches / test marking by next year beginning.
- Shirish:** That means you are saying that healthcare portfolio we will see higher momentum next year?

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**Rajesh Sharma:** These test marketing which we are doing will not see very big numbers per se because as Mohan Ji said earlier, these would be primarily in the test launch phase for the major portion of the next year as well. So we will take a call for national launch in the second half of next year, so financially we may not see a big number from these launches.

**Moderator:** Thank you. I now hand the conference over to Mr. Ajay Thakur for closing comments.

**Ajay Thakur:** Thanks everyone for your participation. I would like to hand over to Mr. Mohan Goenka Ji for his closing remarks. Sir over to you!

**Rajesh Sharma:** Thank you Ajay. Thank you Anand Rathi for organizing this call. Thank you all the participants for joining us. Thank you.

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