

News monitored for: Emami Group



CORPFILE
Cash-rich Emami, after reducing its pledged shares, is on the hunt again for acquisitions and partnerships, says Harsha V Agarwal, Director **p7**

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COMEBACK STORY

Cash rich Emami flexes its muscles again

After a bad patch, the FMCG major is back in the game reducing its pledged shares and prowling for acquisitions

ABHISHEK LAW

Harsha V Agarwal, Director of the Kolkata-based Emami group, is quietly exultant about the FMCG major's cash position and ability to make big ticket acquisitions if the target is right. "There's cash in our books, funding has never been a problem," he says. "We can raise debt if required. If there is a right fit and at the right price, we will explore acquisitions. We are not new to big ticket acquisitions, as size of the acquisition is not really a driving factor," Agarwal elaborates. Its flagship company — Emami Ltd — remains "debt free" and promoter pledges are at a "comfortable level", he adds.

But this level of comfort has come about only in the past year. In February last year, just before the pandemic hit India, the Emami Group had announced the sale of its cement arm for a consideration of ₹5,500 crore — one of the largest deals of that year — to the Nirma Group arm, Nuvoco. The deal paved the way for reduction of promoters' pledged shares in its FMCG firm Emami.

Data from bourses show promoters of Emami Ltd — the Agarwal and Goenka families — hold 53.8 per cent of stake in the company while 30 per cent of the stake of Emami Ltd is still under pledge.

The percentage of pledged shares has been coming down over the quarters from a high 90 per cent sometime ago to 39 per cent last December and then to 36 per cent this February. A bullish capital market has also helped. Shares of the Kolkata-based company have risen nearly 23 per cent (approx) over



Health is wealth New launches in healthcare are gaining traction; (below) Emami director Harsha V Agarwal

a six-month period and is currently trading at ₹531.90.

One of the promoter-directors of Emami Ltd during a recent analyst concall said the company was "absolutely committed" to reducing pledges "significantly over the next few quarters". Emami would have brought down pledged shares to zero by end FY21, had the pandemic not hit the economy. Additional asset monetisation plans were on course.

"Apart from the hit in stock prices, the pledged shares did not impact operations of Emami Ltd in any way. Its gross margins and EBITDA margins have grown; new launches in healthcare are gaining traction; the company is turning out new products much faster than before. It is expanding the health portfolio and putting new dedicated teams in place. It is a more professionally-run company now," an analyst said requesting anonymity.



In fact, the management's decision to go for a near ₹200 crore share buy-back boosted not just investor confidence, but positively impacted share price. It also reiterated the strong cash position.

Cash generation improved driven by better earnings, a favourable working capital structure (mainly lower receivables) and lower cap-ex intensity. Operating cash flow grew 74 per cent; while free cash flow grew 139 per cent. Net cash surplus was ₹356 crore even after the share buyback and two dividends of ₹4 per fully paid equity share.

Improving cash flows means Emami can again scout for acquisitions or strategic investments and partnerships in India and overseas. Emami's last two big ticket acquisitions were Zandu (2009) and Kesh King (2015). Both continue to be profitable power brands

for the company. But the group is not averse to taking over small brands that fit into its portfolio.

Agarwal, 45, a fitness enthusiast as well as a foodie, has been instrumental in pushing for investments in start-ups and premiumisation of FMCG offerings. Investments in start-ups such as The Man Company, a male grooming platform, and Brillaire, a salon and spa brand, were his brainwaves. Emami picked up 33 per cent stake in the former and 35 per cent stake in the latter.

As Agarwal explains the growing FMCG market has many promising categories that offer potential to target GenZ and Millennials and hence the need to strike "winning partnerships with new players".

Childhood friendship blossoms

Emami was set up in the mid-seventies in West Bengal, when two childhood friends — RS Agarwal and RS Goenka — left their corporate jobs with the Birla Group to set up Kemco Chemicals, a cosmetic manufac-

turing unit in Kolkata. This company sold its products under the brand 'Emami' from the city's Burrabazar area, also known to be Asia's largest wholesale market.

In 1978, the company made its first acquisition — of Himani, a then 100-year old private entity with strong brand equity that had turned sick and was up for sale. Ten years after the acquisition, one of the first power brands of Emami, BoroPlus, was launched. By the 1990s, it had launched Navratna — the flagship cooling hair oil that went on to have Amitabh Bachchan as its brand ambassador.

Today, with the younger generation of the Agarwal and Goenka families at the helm, new avenues are being explored. Agarwal says that there is an active and conscious push by him and his siblings in areas where "Emami has a right to win"; which includes categories such as Ayurveda and natural-based offerings in health and personal care space.

Healthcare (including pain management) through brands under Zandu and Menthoplus (in pain relief) account for 30 per cent of its total turnover.

Pandemic Lessons

In Q4FY21 (Jan-March) Emami saw overall volumes grow by 39 per cent over Q4FY20 primarily led by healthcare and pain management offerings. Healthcare grew 67 per cent; pain management (by over 38 per cent) followed by Navratna (28 per cent), Kesh King (45 per cent) and BoroPlus (351 per cent). Discretionary items such as '7 Oils in one' have grown by a robust 39 per cent while male grooming grew by 26 per cent.

"We are more than ready for

competition in the healthcare portfolio," says Agarwal as the company ramps up the portfolio with new launches such as immunity boosters.

Like all others, the pandemic hastened digital transformation at Emami, too, which invested around ₹50 crore in setting up its own portal 'zanducare' — to sell exclusive healthcare items and promote its products across digital platforms.

"Digital first launches are happening and the zanducare portal is being leveraged for online consultation on health and wellness. In due course, some of the products will also make way to kirana stores, medical shops or modern trade," he says.

Offerings under Chyawanprash — one of the mainstays that has been facing intense competition from Dabur, Patanjali and Marico — have been ramped up with launches such as jaggery-based, zero-sugar and so on. At least three new variants are expected in FY22.

A new Emami

There were already 40 new launches between April 2020 and March 2021 contributing to 4 per cent of domestic business. Entry into new verticals such as homecare and hygiene and related adjacencies in personal care — soaps, aloe vera gels, among others — were fast forwarded as Emami looks at a more diverse portfolio.

The company ramped up its e-commerce play bringing in a dedicated team while rural distribution is being shored-up. Premiumisation of portfolios in categories such as hair oils continues to be a focus.

A resurgent Emami is ready to flex its muscles.