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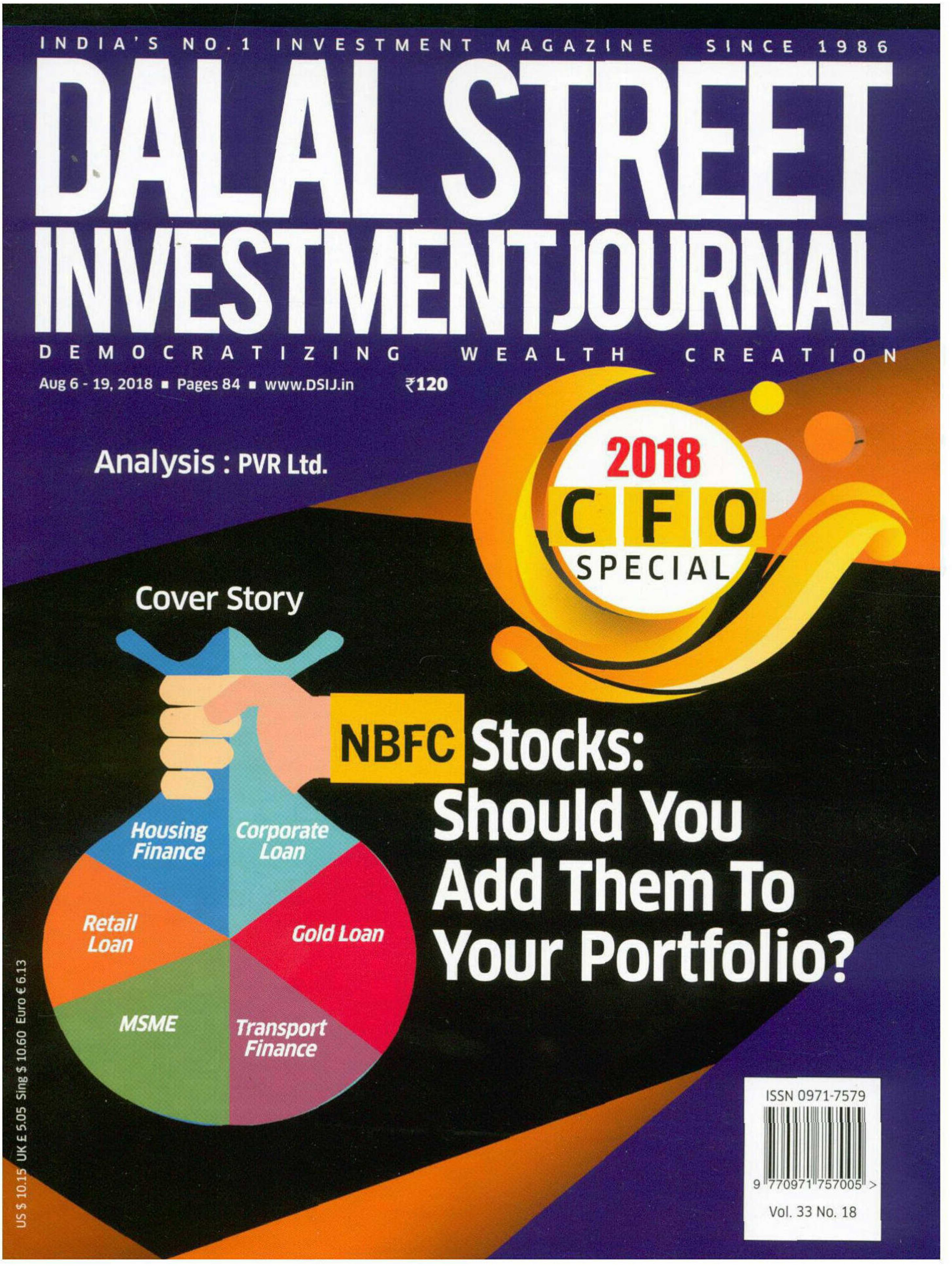

Interview

CFO SPECIAL

"When growth is priority, challenge is the growth driver"

Naresh H. Bhansali

CEO – Finance, Strategy and Business Development and CFO

Emami Limited

Mr. Naresh Bhansali, CEO - Finance, Strategy and Business Development and CFO, Emami Limited is a FCA with more than 2 decades of rich experience in the field of Finance & Accounting.

Currently, he is in – charge of the overall responsibility of Strategy & Business Development, Mergers & Acquisitions, Finance and Accounts, Legal & Taxation, Internal Audit and Information Technology verticals among others for Emami Limited.

Mr. Naresh H. Bhansali has been awarded the Best CFO in the 'Healthy Balance Sheet Management – Mid Size Corporate' category by YES BANK-BW BusinessWorld for the year 2018. For three years in a row since 2015-16, Mr Bhansali has been adjudged the BEST CFO by YES BANK-BW BusinessWorld, which is indeed a commendable achievement. He has also been awarded in the category of 'Winning Edge' in Cost Management – Revenue above Rs.1000 cr in 2013 for his exceptional contribution to corporate finance by CFO India Magazine. Back in 2012, he had also been chosen as the winner of ICAI Awards in the category CA CFO – FMCG.

As a CFO of Emami, what are your top three strategic priorities?

For any business, nowadays, the CFOs do not look only after finance. They are the enablers for the business, and in fact, they participate very actively in the growth and strategy of the business. So, the strategic priorities for the business becomes the priority for the CFO as well. The number one priority for any organisation and for us also is the growth, how to grow the business, and then if you are to grow the business, what are the building blocks challenging that growth and how the CFO and other top management team can help build that kind of ecosystem that facilitates growth. First, is the overall growth from the existing business, and second, is the inorganic growth from any JV or acquisition, etc. While growing the business faster than peers is the number one priority, growing profitability is another priority. CFOs play a vital role in balancing between growth and profitability. The world is changing around you, and using technology optimally for digitalization, efficiency enhancement and to reduce the cost of the business is yet another priority.

How has FY18 been for your company and what are your expectation in terms of volumes and profitability in FY19 & FY20?

The last two years FY17 and FY18 were impacted by the structural changes which have happened in the Indian economy in terms of demonetisation and GST. Though one can say that the primaries were impacted while the secondaries remained intact, there had been lot of challenges during this period because these changes demanded realignment of the ways of doing business, as the new business rules evolved. For instance, the wholesale channel, one of the important channels of the business, got impacted and that disruption lasted a little longer than expected. But, during this period, we actively engaged in increasing our network of direct retail distribution to smaller towns and villages and brought down our percentage of wholesale dependence. This helped us to hold on to the field and we could grow despite the disruption. To that extent, our performance has been satisfactory. Almost all our power brands have strengthened their respective market shares, new launches have also performed satisfactorily and international business has also started growing consistently. With the stabilisation of the above mentioned structural changes, normal monsoons, growing rural incomes and the increasing government outlays on infrastructure, among others, would help the consumer sector grow rapidly. Emami is poised to take benefit of this growing opportunity. We expect to return to our aggressive growth trajectory with double digit volume growth across all segments.

What are the key growth challenges faced by your company in the current market scenario?

When growth is the priority, then challenge is also the growth driver. We have grown very aggressively compared to the peers in the past and we still have an edge. But we would like to continue to grow further. In terms of the business model, the penetration of our products in all the categories is still very low, so the scope of growth is quite high. To achieve the desired result, we are ramping up our distribution, our marketing and our overall ecosystem to support that kind of an aggressive growth trajectory. Our brands enjoy handsome market shares with leadership positions in many categories. We now need to strategise on how to increase the market itself through further penetration and retain our leadership position. Increasing the relevance of the brand, increasing its usage, communicating it very clearly to the consumers, which will help increase penetration and the per person usage are the action areas for us. These are the things that drive the growth in the existing business and existing categories. To further this growth, brand extensions are good levers to drive it ahead. For example, we first came up with Navratna oil, and when it succeeded, we introduced Navratna cool talc on the same cooling proposition. Similarly, in Fair and Handsome, first we came up with the cream, followed by a facewash extension. Again, BoroPlus initially started with an antiseptic cream, which was later extended to body lotions, prickly heat powder, face washes, etc. This strategy has helped us deliver sustainable profitable growth while taking leadership positions in the niche categories.

What are the challenges you are facing?

Having made the right products, the challenge is to communicate to consumers and then make the products available, when and where the consumers want. All our products are made on the basis of the science of Ayurveda using modern laboratory practices. We then market them aggressively through ATL/BTL campaigns with celebrity endorsements for top of the mind recall. Our sales team then ensures that products are made available to every consumer through our well-entrenched distribution in general trade, modern trade, rural market, e-commerce and even defence supplies. We work relentlessly to improve on each of the areas to deliver superior results, better than the past and better than the peers.

Raw material prices are heading northward. How do you plan to mitigate this rise in input cost?

In the past years, the costs had been relatively benign, particularly the agri-products were at a lower level and the crude was also low, so that had an impact on the overall cost. However, despite the present rise in the cost of key materials like menthol and crude, we have been able to sustain the improved margins. We strategise our procurement plans through long term purchase contracts; use hedging mechanisms, develop new sources of procurement, and so on. Besides, we also take some moderate price increases Y-o-Y wherever we feel that there is a probability of raw material price hike. But we try to do that without impacting the consumers very hard. So, we always take around a 3-4 per cent kind of an annual price increase. We, therefore, expect that despite such cost increase, there would not be a significant material erosion in the gross margin.

Can you throw some light on your capex plan for the next two to three years?

If you look at the past, we have built up a lot of capacities across all our units, including our overseas units in Bangladesh and in North-East India, where we have built our largest plant last year. The plant is at Pacharia in Assam, which is a state-of-the-art, highly modern unit commissioned at an investment of around ₹300 crore. So, almost all the capacity expansion has happened and now there would be only some kind of regular and/or some upgradation capex. We, therefore, do not expect a lot of capex in the next two years in terms of the capacity expansion, but more towards investing in the technology and upgradation, which may not cost more than ₹100 crore of investment Y-o-Y in the next two years.

What kind of EBITDA margin are you looking for FY19?

As our EBIDTA margins are at the peak and we intend to capitalise on the evolving business opportunity by investing behind the brands and processes and also on introducing new products to the consumers, our margins may reduce by 100/200 bps, but that would be more than offset by growth in the business.

In your view, how will the ongoing trade war end and what will be its impact on the Indian economy?

While the world has become so unpredictable and things are changing on a daily basis, some day you may find that the things are changing for the better, but sometime one may feel that the things are becoming so negative. On an overall level, I don't think that there would be something which would impact us adversely. In-between, for a month or so, there could be some price increases for the crude, there could be import embargo or something else, but that should not last for long. Though I am not an expert, but that's my view.

Any message you would want to convey to your company's shareholders?

We are working relentlessly and the whole team is very excited to take up the opportunity of this evolving Indian economy. Consumerism is expected to increase substantially and we are placed very favourably to take advantage of this situation. We are an Ayurveda company, which is very relevant in present times, duly supported with most modern technology. We sell the products across all channels and markets. Our products have a very strong value-for-money proposition. So, I think we are very rightly placed with an optimistic business outlook. ■