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KESH KING ACQUISITION

Emami plans to be debt-free in 2 years

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KOLKATA

Emami Ltd, which acquired ayurvedic hair oil Kesh King and allied brands from SBS Biotech Ltd for around ₹1,684 crore last year, said on Monday that it will reduce the debt it raised to fund the acquisition by the end of this fiscal year.

The skin and healthcare firm has raised around ₹950 crore to partially fund the acquisition, which cost 5.5 times the turnover Kesh King reported in 2014-15. The company expects to reduce it to ₹600 crore by this fiscal end and will be debt-free in the next two years.

However, Emami has to write off ₹62 crore every quarter towards amortization cost of the Kesh King intangibles over the next six to seven years, as it did in the December quarter, according to Naresh Bhansali, CEO of finance, strategy and business development.

However, Bhansali said this is "just" amortization of the brand, which will have no impact on overall cash profit. Emami reported 6.3% growth in its cash profit to ₹206 crore during the October-December quarter.

In June last year, the Kolkata-based consumer goods firm accquired Kesh King from erstwhile promoter Sanjeev Juneja. Though Kesh King has a market share of 36.9% in the ayurvedic hair care segment, the deal has been consistently termed as "expensive" by analysts. At the time of the acquisition, Emami said Kesh King has reported 61% compound annual growth over three years, with a turnover of around ₹300 crore in 2014-15.

However, post-acquisition, Emami garnered sales of around ₹52 crore from Kesh King in the quarter ended September and ₹68 crore in the December quarter. Sales this quarter are expected to be similar to the third quarter's.

Kesh King's Ebitda (earnings before interest, taxes, depreciation and amortization) margin is 40-45%, compared to the normal 25-30% margin for consumer packaged goods, Bhansali said. "Valuation is not only the function of turnover," he added.

According to an analyst, who asked not to be named, the acquisition has fallen short of initial expectations.

While Bhansali did not share how much the return on investment would be, he said the brand would be EPS accretive in the fiscal year 2016-17, which means the Kesh King acquisition will increase Emami's earnings per share.

Analysts say that this achievable because Kesh King is a high gross margin product, but that Emami will have to scale up its sales to be EPS accretive.

The company also expects sales of ₹330-350 crore from Kesh King in the next fiscal year.

Earlier, the company said the low sales revenue was on account of underreporting of the stock lying with stockists. The huge unsold stock which was lying with distributors pushed down Emami's sales.