

EMAMI SCRIP SLIPS 5.8%

Kesh King Goes to Emami for ₹1,651 cr

SBS Biotech's hair & scalp care products brand valued at five times its sales

Our Bureau

Kolkata: Mid-tier FMCG firm Emami Ltd on Tuesday acquired the 'Kesh King' brand of hair and scalp care products from SBS Biotech for ₹1,651 crore, one of the largest deals in the segment in recent times, after the seller agreed to lower the original asking price.

The valuation is pegged at 5.5 times Kesh King's sales, which are equivalent to about 15% of Emami's ₹2,030-crore turnover in the previous financial year.

Emami shares declined after the deal was announced and closed 5.8% lower at ₹1,066.15 on the BSE while the benchmark Sensex fell 2.37%.

The transaction envisages transfer of the business as a going concern on a slump-sale basis.

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Kingsize Deal

Emami-Kesh King deal is one of the largest in Indian FMCG space

Kesh King valuation is equivalent to about 15% of Emami's ₹2,030-cr turnover in FY15

₹7,178 crore

Size of the hair oil market, which grew 7% during 2014-15

The market is dominated by Marico followed by Dabur, Bajaj and Emami

Gross margin of Kesh King is around 70-75% and the oil contributes 80% of the total sales, according to Edelweiss Securities

The pricing has been reasonable. The margin of the acquired portfolio is higher than that of our existing portfolio

NH BHANSALI
Emami CEO (finance, strategy & biz development)

Emami Justifies Valuation

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It will include the Kesh King portfolio of hair oil, shampoo and ayurvedic capsules, along with its respective formulations and all related assets, rights and liabilities, including working capital, Kolkata-based Emami said in a statement.

The last major deal in the FMCG space was Reckitt Benckiser's acquisition of Paras Pharma in 2010 at ₹3,260 crore, which was valued at eight times Paras' sales. "Five times valuation for a brand whose sales mostly derive from smaller markets does not make sense at a time when the hair oil category is not growing at any big pace," said the chief of a leading FMCG firm, who had evaluated the deal.

Industry executives quoting Nielsen data said while the Rs 7,178 crore hair oil market grew 7% during 2014-15, Emami has not been able to capitalise on growth as much as Marico and Dabur.

Market leader Marico's share grew to 34% during the previous financial year from 31% a year earlier, while Emami's Navratna stagnated at 5.5%. While Navratna may be the market leader in cooling hair oil, the category grew at a slower rate of 1.6% during the year.

However, Societe Generale analyst Vivek Veda said Emami's scale combined with operational efficiencies should result in profitable growth from the acquisition, considering that the company has a good track record in integration. "The acquisition would add around 15% to Emami's top line," he said.

The purchase will be financed with surplus funds and borrowings and the process is expected to be completed in a month, Emami CEO (finance, strategy and business development) NH Bhansali said. As of March 31, Emami's had surplus funds of about Rs 800 crore.

Bhansali did not say how much of the surplus funds would be deployed. "It's a big-ticket deal but the pricing has been reasonable. The margin of the acquired portfolio is higher than that of our existing portfolio," he said. The gross margin of Kesh King is about 70-75% and oil contributes 80% of the total sales, followed by shampoo at 15% and the balance by hair vitalising capsules, Edelweiss Securities Ltd associate director Abneesh Roy said.

As per industry executives, Dabur, Marico and Bajaj Corp had also considered the Kesh King brand and, along with Emami, backed out due to the high valuation. Talks with Emami were revived recently after Sanjeev Juneja, the promoter of Himachal Pradesh-based SBS Biotech, agreed to lower the original asking price of over Rs 2,000 crore, industry executives said.