



“Emami Limited  
Q4 FY2019 Earnings Conference Call”

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- Moderator:** Ladies and gentlemen, good day, and welcome to Emami Limited Q4 FY2019 Earnings Conference Call, hosted by IIFL. As a reminder all participant lines will be in the listen-only mode and 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Avi Mehta from IIFL. Thank you and over to you, Sir!
- Avi Mehta:** Thank you Neerav. Hi good evening everyone. On behalf of IIFL, I would like to welcome you all of you to the 4Q FY2019 conference call of Emami. From the company we have with Mr. Mohan Goenka, Director, and Mr. Rajesh Sharma. I would now like to hand over the call to management for their opening comments. Over to you Sir!
- Mohan Goenka:** Good evening friends. I welcome you all to this conference call on Emami’s result for the fourth quarter and the year ended March 31, 2019. The FMCG sector as you are well aware witnessed an overall demand slowdown due to an extended winter, adverse channel liquidity conditions and sluggish rural demand. Despite this, Emami closed the fourth quarter with net sales of 635 Crores with a growth of 5%. Domestic business grew by 3% due to a prolonged winter impacting the sales of our summer products, which accounts for more than 40% of the domestic business in this quarter. Notwithstanding these challenges, BoroPlus grew by 17%, Kesh King grew by 15%, 7 Oils in One grew by 24%, healthcare range by 9%, Pancharishta by 2% and pain management by 1%. As mentioned earlier, Navratna grew by just 1% due to delayed summer whereas male grooming range declined by 4%. We also continued to gain market shares for our key brands in Q4. Navratna Cool Oil volume market share at 66.3% grew by 140 basis points, balms volume market share at 54.8% grew by 140 basis points, Kesh King volume market share at 26.4% grew by 220 basis points and Fair and Handsome face wash volume market share at 14.7% grew by 90 basis points. BoroPlus and Fair and Handsome maintained their leadership in their respective categories with market share of 73.5% and 64.7%.
- In FY2019 domestic business grew by 7% on a like-to-like basis impacted by unfavorable seasonality in Q3 and Q4. During the year Navratna grew by 8%, Kesh King by 13%, pain management by 7%, healthcare range by 12%, Pancharishta grew by 10%, 7 Oils in One grew by 29%, BoroPlus grew by just 2% and male grooming range grew by 3%.

Our focus on modern trade has continued to yield positive results. The channel grew by 33% during the quarter and by 43% in FY2019. We also enhanced our direct reach to now over 9.4 lakh outlets increasing our reach further by 90000 outlets in this financial year.

International business sales net sales grew by 19% during the quarter and by 12% in FY2019. Excluding Creme 21 international business grew by 13% in Q4 and by 10% in FY2019.

During the quarter, gross margins at 60.8% and EBITDA margins at 24.2% declined by 440 basis points and 390 basis points respectively due to an increase in raw material cost. Due to this input cost pressure EBITDA declined by 11%. However, Adjusted PAT at 121 Crores grew by 1%.

For FY2019 our net sales at Rs. 2659 Crores grew by 7% on a like-to-like basis. Gross margins at 65.7% declined by 200 basis points and EBITDA margin at 26.9% declined by 140 basis points due to increase in raw material cost. Despite this EBITDA at 725 Crores grew by 1%. PAT (excluding exceptional item of 9.8 Crores paid as VRS) grew by 2%.

Now with the stable government at the center, we expect healthy demand from better rural sales on account of government stimulus and an upcoming favorable season. To sum it up with all these prospects we are optimistic to grow strongly in FY2020. With this brief I now open the Q&A. Thank you so much.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** Sir, my first question is on Kesh King, you are seeing sustained recovery in Q4 15% growth and 13% in FY2019, so my question is in terms of price and volume if you could break this up is most of the volume growth because of the new innovation of that comb, which you are giving, which already Indulekha kind of bands have and in terms of distribution what percentage of overall distribution now Kesh King is able to reach?

**Mohan Goenka:** So Abneesh, as far as Kesh King is concerned for the quarter our volume growth is roughly 12% and value is 15% and for the year it is about 13.5 % is volume and actually 11% is value and sorry what was your second question?

**Abneesh Roy:** What is driving the strong volume, because is this largely because now there is stability in the business and distribution and what percentage overall distribution we are able to reach now and what is the room available?

**Mohan Goenka:** So there is enough room for Kesh King as majority of the business still comes from wholesale market only and this is predominantly after the relaunch of the comb packaging, so I think presently if you see numbers then the wholesale contribution is still about 65% -67% so there is enough room from retail as far as Kesh King is concerned.

**Abneesh Roy:** My second question is on male grooming. In Q3 concall you had said male grooming, men's care is short-term opportunity in Q4 itself there is a 4% dip, so my question is what really happened here, second is Sir that HE Magic duo wherein you have launched this two fragrances one bottle competition ITC Engage has same thing at the lower LUP, so how will such a innovation from you really work because yours is at the larger pack size while already competition is offering at the LUP so could you elaborate on that?

**Mohan Goenka:** So male grooming I have been saying Abneesh we are reworking on the strategy and the work is already on. By and large I think we should be set by the month of August or September 2019 with the new strategy for male grooming; then hopefully we should see a rebound in the third and the fourth quarter; and as far as the HE duo is concerned we are also looking at lower SKU because it takes time for product to stabilize so we have launched with this pack, but very soon we will be coming with the smaller size also.

**Abhishek Roy:** One clarity here you said almost first half kind of stabilization, is it just a competitive intensity is that the main issue?

**Mohan Goenka:** No it is not competitive intensity, we are seeing this for the last four, five quarters now, so we need robust strategy as I have always said for the male grooming to rebound it actually and we are on the work so as I said the strategy would be ready by July, August so I am hopeful that we should get growth as far as the year is concerned.

**Abneesh Roy:** At the last question, Navratna got impacted totally we can understand so in Q1 now we are seeing very extensive and severe kind of summer so would you gain because of that so is Q1 likely to be a strong quarter for Navratna?

**Mohan Goenka:** Yes as far as Navratna is concerned we are seeing good traction in this quarter.

**Abneesh Roy:** Okay Sir. That is all from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Prakash Kapadia from Anived Portfolio Management Service. Please go ahead.

- Prakash Kapadia:** Thanks for taking my question. If you could give us some sense what was the growth rates from Navratna talcum powder for Q4 and FY2019?
- Mohan Goenka:** Yes. In FY2019 the growth was about 4% for Navratna talc and as far as this quarter is concerned there was degrowth of roughly 4.5%.
- Prakash Kapadia:** And this you would attribute to the same seasonality?
- Mohan Goenka:** Absolutely, this year if you would see the fourth quarter BoroPlus grew by almost 17% the season started only at the end of March or April we could not load the product.
- Prakash Kapadia:** Right and employee costs are up on a year-on-year basis any one-off in this?
- Mohan Goenka:** Employee cost has been stable now. For this quarter it is 17%, but for the year if you would see it is 10.4%.
- Prakash Kapadia:** No one-off in this?
- Mohan Goenka:** No.
- Prakash Kapadia:** The annual is more like quarter-end?
- Mohan Goenka:** Yes, so stabilized at these levels now I think.
- Prakash Kapadia:** You know in your opening remarks you mentioned about liquidity so if you could give us some sense what are we witnessing in terms of liquidity where is the issue is it wholesaler or at the retailer level and what is happening?
- Mohan Goenka:** So liquidity issue is across the board it is not just a rural phenomenon at the wholesale level. Overall there has been tightness even at the urban some of our distributors are facing the crunch, so because you all know that we sell on cash basis only, so there is pressure as far as the distributor finances are concerned and it is across the board.
- Prakash Kapadia:** Fine I will come back if I have more questions. Thank you.
- Moderator:** The next question is from the line of Koustub P from Sharekhan. Please go ahead.

**Koustub P:** Yes good evening Sir and thanks for giving me the opportunity. Sir my question is on the raw material cost. This year we have seen significant increase in the raw material cost and we have seen gross margins down on YoY basis, so your view on the next year where you do see mentha and LLP prices going ahead and have you taken any price increase to mitigate the impact of the higher raw material prices?

**Mohan Goenka:** So Koustub by now what we see that the prices are stable for as far as mentha or LLP is concerned. We do not definitely see a further increase on the COGS as far as FY2019-FY2020 is concerned and as a strategy what we have taken is that we are focusing more on volumes for FY2019-FY2020 rather than price led growth so if the prices are roughly we are estimating 2.5% to 3% price increase as far as FY2019-FY2020 is concerned.

**Koustub P:** Sir in terms of as you said that you are focusing more on the volume, our last two year if you consider the basic almost you know in low single digit if you consider growth for Emami as a whole so considering that as a base do you expect FY2020 to be in double digit in terms of revenues or still we are seeing it little bit on a double digit growth in terms of revenues will take time and there are further actions need to be taken to achieve a good growth in some of the categories?

**Mohan Goenka:** We always expect that the growth should be double digit because there is no reason the growth should not be at about 13%-14% because our penetration for most of our categories are still very, very low and we are not seeing enough competitive pressure on any of our categories. Of course I know that the growth has been slow and there are multiple reasons I have continuously been saying for whatever reasons our growth is slow, so I am by heart an optimist and we have taken enough measures to see that the growth comes, so of course the market is slow now, we all know that and once things rebound I am sure that Emami should also get back to the double digit growth.

**Koustub P:** Right Sir and Sir in terms of operating margins 27% kind of operating margins, is it sustaining or do we see some pain in terms of margins because advertisement spends would continue to go up as you will be for your new product launches?

**Mohan Goenka:** These margins are sustainable Koustub, margins have come down quite a bit and these are definitely sustainable.

**Koustub P:** Okay and Sir I just missed out your distribution reach, can you just help me out with your direct distribution reach?

- Mohan Goenka:** It is now almost 9.4 lakh outlets.
- Koustub P:** Okay. Thank you. I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Amit Sinha from Macquarie Group. Please go ahead.
- Amit Sinha:** Thanks for the opportunity. Sir FY2020 number, which you said 13%-14% is the guidance number, which you are giving?
- Mohan Goenka:** No, I am not giving any guidance. I have stopped giving guidance, but double digit growth if you would ask me I think once the market rebound, the seasonality is favourable we have taken enough actions to see that we get double digit growth, it could be 10%-11%, 11%-12%, 13%-14%, but we have to see markets bouncing back. Markets are presently a little on a duller side.
- Amit Sinha:** And it will be second half mostly the growth should be more loaded towards second half of the year right?
- Mohan Goenka:** These things are very difficult Amit you know, now the elections are over, all this while which was only election, so market can rebound anytime, so for at least for our categories we do not really see it is more seasonality, more of other issues then so much of this. So if monsoons are good or market conditions are good, we can easily see demand bouncing back.
- Amit Sinha:** Sure and if I can you ask you for the next year FY2020 what is the areas, which you are working on for clearly FY2019 you worked on the distribution strategy direct distribution was strengthened and also in terms of the Kesh King revival and Pancharishta revival there was a significant work, which was done in these two portfolios. For FY2020 apart from the men grooming portfolio what are the other areas of priority for the company?
- Mohan Goenka:** That is right, so our priorities are firstly to see that we get a growth on our male grooming, that is a biggest thing. Our focus continues to be on the international business to stabilize the Creme 21 acquisition. Cost reduction is a big driver as far as FY2020 is concerned then focus on some of our new and existing launches like 7 Oil in One, Fair and Handsome face wash, HE, these are growth drivers for the future, so we will continue our focus on these things. Healthcare we are seeing some rebound. You would have seen we have grown at 12% as far as healthcare is concerned so that continues to be in our focus and let us see what results we get.

- Amit Sinha:** Okay Sir. Thanks a lot. Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.
- Sameer Gupta:** Thanks for taking my question. Sir on the receivable part if we look at consolidated receivables they are up 38% on year-on-year basis, just wanted to understand what is driving this high increase?
- Mohan Goenka:** It is primarily on two counts one is the CSD because in Q4 the canteen stores department they did not pay a single penny, so it all was in the receivables and also some bit of it export because it has grown at almost 19% so that is why on these two counts the receivables have gone up.
- Sameer Gupta:** And Sir you mentioned that there are some liquidity issues in the channel across the board, so this has got nothing to do with that issue, right?
- Mohan Goenka:** No, we do not give credit. We have not given credit to the local distributors.
- Sameer Gupta:** Sir another question last one from me. Healthcare range has grown at 9% this quarter, but if you look at the overall trend from quarter-to-quarter, this seems very volatile, this was 1% in Q2 suddenly rose to 18% in 3Q now it is down to 9% so just wanted to understand why is it so volatile and what is it Pancharishta there have been quarters where they have been massive degrowth in Pancharishta and last two quarters that trend has reversed so how has that been now at Pancharishta and with Pancharishta?
- Mohan Goenka:** Actually this growth is a little volatile because of Pancharishta. Pancharishta in this quarter only grew by 2% so that is why the growth of healthcare has also come down a bit. It would depend on because of the majority of the business of healthcare is driven by Pancharishta sales.
- Sameer Gupta:** Is it like the growth is always volatile in this product?
- Mohan Goenka:** No, growth is not volatile, but previously it grew by last quarter Pancharishta grew by almost 20% or so and this quarter it grew by 2% that is why it dragged down the growth of healthcare. We are also trying to see how can we maintain the growth of Pancharishta if it stabilizes then healthcare should also stabilize.



- Sameer Gupta:** Got it Sir. Thanks.
- Moderator:** Thank you. The next question is from the line of Navin Trivedi from HDFC Securities Limited. Please go ahead.
- Navin Trivedi:** Yes good evening everyone, Sir my question is on the balm range where we already gained market share in the quarter also, however the segment is only grew by 1% in the quarter so what are the specific reasons for the slow growth in the category and what is the outlook there?
- Mohan Goenka:** No Sir we have gained market share from competition that category unfortunately has not grown much that is why we have taken shares from Amruntanjan, but now this is a little slow down in this quarter also you have seen we have just grown by a percent or so, but in balms honestly there is not much that we change, so it is more driven by the seasonality and the advertising factor. So now that the monsoons will start we will start advertising from the month of July then hopefully we should see some traction coming back.
- Navin Trivedi:** Even the near-term outlook remains subdued for this range?
- Mohan Goenka:** In our categories it is very difficult for me to say, it is not like a staple product where I can say something, if market seasonality, other things are right as I said penetration for most of our categories are low, now there was wholesale issue, there are also liquidity issues, so these factors just impact, but everything overwrites on seasonality, if there is a better season then immediately we see a bounce back, so it would be unfair for me to say it will be slow down for next quarter or in the third quarter. If there is a good monsoon then I will immediately see a bounce back.
- Navin Trivedi:** Mostly just for the clarity point of view for the balm range it needs to be a better summer or better winter?
- Mohan Goenka:** Change of season. Monsoon is a good season, summer is not the season, monsoons and winter, change of season is the main season.
- Navin Trivedi:** And on the international side, where if we remove the Creme 21 acquisition you reported 11% kind of growth, how do you see that growth trends will in the near term do you think that our target of achieving double digit in international we continue in the near term.

- Mohan Goenka:** Yes I am more confident on international because things have really stabilized and I am pretty much confident on double digit as far as international is concerned.
- Navin Trivedi:** Thank you so much Sir for your time.
- Moderator:** Thank you. The next question is from the line of Abul Fateh from GeeCee Ventures Limited. Please go ahead.
- Abul Fateh:** Good afternoon Sir. I have some question if you can give me the absolute revenue numbers that you had from Kesh King in FY2019 if you can share that number?
- Mohan Goenka:** Absolute numbers we do not share.
- Abul Fateh:** Okay and also when you said that the margins are sustainable what do you mean by that sustainable at the levels of 61% that you reported in Q4 or the 66% that you reported in FY2019?
- Mohan Goenka:** 27% is the margins, which is sustainable for the year.
- Abul Fateh:** No I am talking about the gross margins?
- Mohan Goenka:** Gross margins for the year has been
- Abul Fateh:** 66% reported number, I am just telling you that number to be precise 65.7% in FY2019, and 61% in Q4 and your margins vary quite a lot between the quarters, so this 65.7% that you reported in FY2019 that is a sustainable number?
- Mohan Goenka:** Yes.
- Abul Fateh:** This quarter you saw a huge dip in the margins?
- Mohan Goenka:** Yes that is one-off, there will be quarterly variations, but what I said for the year this is sustainable 66%.
- Abul Fateh:** Okay. Thank you so much.
- Mohan Goenka:** We will try to improve. We are working on cost reduction measures in all those areas also, but this is surely sustainable.

- Abul Fateh:** Okay. Thank you Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Thanks for the opportunity. Mohan Ji you call out that market scenario is very dull and it is not being done and that is largely said by other companies as well, but this dullness is in regard of retail offtake or you are seeing channel partners are down stocking and hence primary numbers are impacted?
- Mohan Goenka:** No, it is because of the retail wholesale rural everywhere; in fact channel partners stocks are going up though the demand scenario is poor across the board whether it is urban, rural, wholesale, retail wherever you call, but by and large it was because everyone was talking of election, election from all corners, but that event is over now, so let us see if there is liquidity coming in the market then hopefully we should see a bounce back because the season is a little bit favourable for now.
- Tejas Shah:** But looking at our last two years base and including this year now and this is a third year of relatively muted growth versus what we start with. I understand macro scenario is not that great, but we are also in advantage of poor base of last three years, so any initiatives you would like to call out, which we are trying to buck the trend on macro challenges?
- Mohan Goenka:** We have worked out if you would see. We can work on our retail strategy. We have already reached to 9.4 lakh outlets on direct reach, so whatever actions we had to take Kesh King is concerned we have taken action, some of the issues in our brands we have already taken action. Contribution from modern trade from 4% to 8% we have reached now, so by and large I do not think there are now much larger issues to be addressed. Of course we are working on strategies as far as skin care is concerned or new product launches are concerned, those we continuously look at those opportunities, so again I would put it that it is more of an external factor rather than so much of internal brand or competition issues are there. In none of our analysis we have found that there are issues internally so much.
- Tejas Shah:** Mohan ji in the same analysis is there any read that there are issues with the category itself because low penetration has been there for so many years now and we have no limiting factor in terms of resources and commitment to develop the categories?
- Mohan Goenka:** For the year also if you would see Navratna has grown by 8%, Kesh King by 13%, pain management by 7%, so it is not really some brands do still well as far as the year is concerned.

It is the mix of seasonality, it is the mix of many other factors what comes into play. We have done enough analysis to understand what is going right, what is going wrong.

**Tejas Shah:**

Got it. Thanks and all the best.

**Moderator:**

Thank you. The next question is from the line of Anubhav Sahu from M3 Global Research. Please go ahead. The participant has placed the line on hold. We move to the next question. The next question is from the line of Koustub P from Sharekhan. Please go ahead.

**Koustub P:**

Thanks for taking my question. Sir my question is on this quarter what would be the rural versus urban growth for you. Have you seen any dip in the rural sales for this quarter?

**Mohan Goenka:**

In Q4, there has been a slowdown in rural more than compared to the urban.

**Koustub P:**

Because most of the companies have in the past they were seeing rural growth to be higher than urban growth and now they are seeing the growth has more or less equaled Y-o-Y so for you it is the same trend or you have seen this?

**Mohan Goenka:**

For us the rural has been a slightly more pain than urban in the quarter.

**Koustub P:**

And this quarter what could be the volume growth for the domestic business or the entire growth is the volume led growth for you?

**Mohan Goenka:**

Sorry.

**Koustub P:**

Volume growth for domestic business is how much?

**Mohan Goenka:**

For this quarter?

**Koustub P:**

Yes.

**Mohan Goenka:**

This quarter we had grown 3%, which was mostly price led.

**Koustub P:**

Okay so the volumes have been flat?

**Mohan Goenka:**

Yes.

**Koustub P:**

And for entire year?

- Mohan Goenka:** Entire year the growth volume growth was 3% and value growth was 6%.
- Koustub P:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Nishita Joshi from Prabhudas Lilladher Pvt. Ltd. Please go ahead.
- Nishita Joshi:** Sir just one book keeping question what will be the tax rate going forward because if you see there are fluctuations in the quarterly tax rate numbers so if you could just give some guidance on the tax rate for FY2020?
- Mohan Goenka:** It would be MAT 20%.
- Nishita Joshi:** Because the tax rate over year in 4Q FY2019 was quite high?
- Rajesh Sharma:** Yes the tax rate this year was a little high because of the deferred tax component, but going ahead the normal taxes should be under MAT only, which roughly we can take 20% tax rate going ahead.
- Nishita Joshi:** Okay Sir. Thank you.
- Moderator:** The next question is from the line of Kunal Bohra from BNP Paribas Mutual Fund. Please go ahead.
- Kunal Bohra:** Thank you Sir. You have engaged BCG for certain categories such as male grooming. Can you talk about any inputs, which you received and any change in strategy and are you more optimistic about male grooming for the next year?
- Mohan Goenka:** They are working on the strategy. They said it would be ready by August so hopefully we will implement it by the third or the fourth quarter then you would see the results.
- Kunal Bohra:** So for the time being the current strategy continues in the next two quarters beyond that you might look at something else. You had a new person joined in to head e-Commerce. Can you share any new initiatives, which you are taking on the e-Commerce side and any e-Commerce?
- Mohan Goenka:** We have worked very robust strategy hopefully we are planning to double our e-Commerce business for this year and so we have had all meetings with all the channel partners we have

made the strategy with all brands also internally, so this sounds interesting more or less we should double our e-commerce business.

- Kunal Bohra:** Which categories are you seeing some traction in e-commerce?
- Mohan Goenka:** For all categories. Our base is small, so there is opportunity for everyone, but if you ask major brands it would be led by Kesh King, male grooming, HE, Fair and Handsome, all those products.
- Kunal Bohra:** In the Australian brand, which you had taken can you just update us what is happening with that one?
- Mohan Goenka:** We have taken a German brand, so that is now very much in our fold and we are getting good response, we have integrated it well in the Middle East, so we are very hopeful that the brand should do well. It is still by and large we are taking it into our fold only.
- Kunal Bohra:** Okay. That is it. Thank you.
- Prakash Kapadia:** Thank you. The next question is from the line of Dhiraj Mistrey from Emkay Global Financial Services. Please go ahead.
- Dhiraj Mistrey:** Thanks Sir. I missed out some volume growth for the quarter. Can you repeat again Sir?
- Mohan Goenka:** This quarter overall it was 2% volume growth and the domestic was flat.
- Dhiraj Mistrey:** Domestic was flat, okay, so for this quarter everything was price led growth.
- Mohan Goenka:** It is for domestic business yes.
- Dhiraj Mistrey:** Okay. Thank you. That is it.
- Moderator:** Thank you. The next question is from the line of Vishal Punia from Motilal Oswal Securities Ltd.. Please go ahead.
- Vishal Punia:** Just one question. Any reasons for the high other income during this quarter?
- Rajesh Sharma:** Hi Vishal, so we paid off all the debt and so whatever cash surplus we had so we had generated income mostly on that during this quarter.

- Dhiraj Mistrey:** So nothing and there is no one-off during this quarter?
- Mohan Goenka:** No.
- Dhiraj Mistrey:** Thank you.
- Moderator:** Thank you. As there are no further questions, I will hand over the conference to the management for closing comments.
- Rajesh Sharma:** Thank you Avi. Thank you all the participants and thank you IIFL for arranging this conference call for our fourth quarter results. Thank you.
- Moderator:** Thank you very much. On behalf of IIFL that concludes this conference. Thank you for joining us. You may now disconnect your lines.