

**Operator**

Ladies and gentlemen, good day and welcome to the Emami Limited Q2 FY13 Results Conference Call hosted by Anand Rathi Share and Stock Brokers Limited. As a reminder, for the duration of the conference all participants' lines will be in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. [Operator Instructions]. Please note that this conference is being recorded. I would like to hand the conference over to Mr. Shirish Pardeshi, of Research at Anand Rathi. Thank you. And over to you, sir.

**Shirish Pardeshi**

Yeah. Thanks, Lavina and I welcome all and a very good morning. On behalf of Anand Rathi Research, I welcome the Senior Management of Emami Limited. We are joined by Mr. Mohan Goenka, Director in the company and we also have Mr. Rajesh Sharma, VP Finance, Accounts and Investor Relations.

In the opening remarks, there are few questions which was been forwarded and I've already handed over to Mr. Mohand Goenka. So, Mr. Mohan you will start with the beginning giving the overview of the quarterly results.

**Mohan Goenka, Wholetime Director**

Profit before taxes were at 68 crores and grew by 21.4%. Where as profit after tax was at 59 crores which grew by 16.9% in this quarter. For the first half of the year turn over was at 699 crores which grew by 16.1%. EBITDA was at 110 crores grew by 14.2%.

Profit before tax was at 118 crores and profit after tax was at 106 crores. Our growth in domestic business has again been robust at 22% this quarter. In which volume growth was at 16%. All our power brands registered very good growth. Navratna Oil grew by 14%, Navratna Cool Talc and Boroplus Prickly Heat Powder combined grew by 90%. Boroplus Antiseptic Cream also grew by 50% in this quarter.

Fair and Handsome also grew by 26% and Balms grew at 11% for the quarter. The Zandu OTC Ethical and Generic business grew by 28% during the quarter led by a very strong growth of Zandu Pancharishta and Zandu Lalima.

Navratna Oil market share increased around 300 basis points to 57.7% during the first half. This year Navratna became the market leader in UP with 45.6% market share, a jump of around 900 basis points in UP.

The relaunch of Fast Relief with Superfast Cheetah formula with improved formulation and new packaging is witnessing increasing response. We signed five sports celebrities which has yielded a very positive result for the brand.

In fact after the launch in this quarter the brand grew by almost 40%. Overall we had a robust growth in domestic business. However, the international business just grew by 3%. And CSD sales were flat in this quarter which brought down the overall growth to 18%.

Investments made for increasing organized coverage and distribution is continuing to yield very positive results. With 1,600 front line sales people in place we currently have a direct reach of 5.6 lakh outlets, vis-a-vis 5 lakh outlets last year along with a distributor strength of 3,000. With increased emphasis improved visibility and focused execution the modern trade business has registered a convincing 33% growth over last year same period.

Like modern trade the direct rural business has also shown a strong value growth during the first half of current year. The channel has registered a growth of 31% over last year, thereby contributing around 24% of total sales. Our gross margins in the second quarter improved 50 basis points to 58.6%.

Despite year-on-year in menthol prices by over 50%. Due to judicious price hikes and effective cost reduction measures however we are now witnessing reduction in menthol prices which if stabilized will further improve our margins going ahead. Overall the businesses performed better than our expectations and with this I now open the Q&A and invite your questions. Thank you.

# Questions And Answers

## Operator

Thank you sir. Participants we will begin the question-and-answer session. [Operator Instructions]. Our first question from the line of Prakash Kapadia from IAlpha Enterprises. Please go ahead.

## Prakash Kapadia

Thanks for taking my question. Congrats on good set of numbers.

## Mohan Goenka, Wholetime Director Prakash Kapadia

Sir, if you could give us some sense of the international business we've seen a tepid first half performance when do we see growth coming back last quarter also you hinted there was some issues in CIS countries some counterfeiting issues, Africa we've discontinued some businesses. So, what's the game plan because you've hired senior people and which areas in international geographies, is it Middle East, is it SAARC which is going to be the focus area, that's the first part.

And secondly on the domestic side our balm growth has been lowered, so is it some cannibalizing by the Fast Relief Ointment and where do we see longer-term balm growth given that we have leadership in the category?

## Mohan Goenka, Wholetime Director

Yes, you are right that international business has been a slight concern for us and we had initially thought that this quarter should be slightly better than our first quarter but unfortunately the problem of CIS is still not resolved.

## Prakash Kapadia

Okay.

## Mohan Goenka, Wholetime Director

And so the international business in fact the team has revised their targets for the year.

## Prakash Kapadia

Right.

## Mohan Goenka, Wholetime Director

I don't see very immediate positive results from CIS at least even in this quarter because this is a problem which we are unable to find solution

## Prakash Kapadia

Okay.

## Mohan Goenka, Wholetime Director

So, might be international would not grow as per our expectations. So, let us see I mean if the CIS position improves then it would only be in the fourth quarter.

## **Prakash Kapadia Mohan Goenka, Wholetime Director**

But overall if we see at least this quarter we have grown by 3%.

## **Prakash Kapadia**

Right.

## **Mohan Goenka, Wholetime Director**

Compared to last quarter where we have declined. So, there has been some positive signs from SAARC, in this particular quarter we have grown in SAARC particularly Bangladesh.

## **Prakash Kapadia**

Right.

## **Mohan Goenka, Wholetime Director**

So, that is a positive sign. We have to honestly wait and watch for the international business.

## **Prakash Kapadia**

Okay.

## **Mohan Goenka, Wholetime Director**

And the balm growth was at 11% for the quarter which again I would say it was not the best performance but overall as you know we sell on cash, so there is always a pressure on our distributors...

## **Prakash Kapadia**

Right.

## **Mohan Goenka, Wholetime Director**

Time to time. So the distributors, yeah so the distributors have reduced the inventories at their level. When they see the growth of the winter products increasing so they divert funds that is slight issue with the balm growth. But overall I think balm and the other products are doing very well as far as the domestic business is concerned.

## **Prakash Kapadia Mohan Goenka, Wholetime Director**

This is too early for us to say. See the Ointment is a very Fast Relief Ointment is a very small base.

## **Prakash Kapadia**

Right.

## **Mohan Goenka, Wholetime Director**

So the growth of 40% that we have seen in this quarter and if you compare it to Zandu Balm or even Menthoplus Pain Balm I don't see it is cannibalizing because the markets are also very different.

## **Prakash Kapadia**

Okay.

## **Mohan Goenka, Wholetime Director**

Balm sales mostly in West and South and whereas Fast Relief for our sales mostly in the Northern and the Eastern area. So there is not much of cannibalization issues.

## **Prakash Kapadia**

Okay

## **Mohan Goenka, Wholetime Director**

It is as I said this year the summer was quite extended.

## **Prakash Kapadia**

Right

## **Mohan Goenka, Wholetime Director**

So it had an impact on Balms.

## **Prakash Kapadia**

Right right.

And also the financial position of our distributors.

## **Prakash Kapadia**

And sir lastly if you could give us some sense on CSD it continues to be mix bag for most of the FMCG companies do you see that changing soon or there again the outlook is not so robust.

## **Mohan Goenka, Wholetime Director**

See as you would be knowing CSD is not in the control of companies

## **Prakash Kapadia**

Right

## **Mohan Goenka, Wholetime Director**

That is the government policy. So if they get funds the growth will come. But yes at least we have got the positive signs that most likely the growth should come because they have got, they have got more funds compared to the earlier two quarters.

## **Prakash Kapadia**

Okay

## **Mohan Goenka, Wholetime Director**

So, that is a positive sign so again when the rule changes for them it is very difficult for us to say.

## **Prakash Kapadia**

Thank you, sir. All the best.

## **Mohan Goenka, Wholetime Director**

Thank you.

## **Operator**

Thank you. [Operator Instructions]. Our next question from the line of Mr. Kunal Bhatia from Dalal & Broacha. Please go ahead.

## **Kunal Bhatia Mohan Goenka, Wholetime Director**

The average, see because we had a long-term contract for Menthol so the prices were quite high even for this quarter.

## **Kunal Bhatia**

Okay.

## **Mohan Goenka, Wholetime Director**

So, average prices for us would be in the tune of about Rs.1,900. Currently the prices in the market are in the tune of Rs.1,500 or Rs.1,550 but the good sign is that the prices are now stabilized at 1,500 to 1,600 range.

## **Kunal Bhatia**

Okay.

## **Mohan Goenka, Wholetime Director**

Yeah.

## **Kunal Bhatia**

Sir, and as a percentage of raw materials how much would be Menthol?

## **Mohan Goenka, Wholetime Director**

It's roughly about 20%.

## **Kunal Bhatia**

20%?

## **Mohan Goenka, Wholetime Director**

Yeah.

## **Kunal Bhatia**

Sir and going forward are we looking at any new product launches say for FY13 and '14?

I'll not be able to comment on new launches but surely we are going a bit slow on new launches. That's why you would see even for this first half we have focused more on our existing products and they have grown faster than the new launches that we had done earlier. So, we would be focusing more on the existing products.

## **Kunal Bhatia**

Okay, okay. Fine sir. Thank you.

## **Mohan Goenka, Wholetime Director**

Thank you.

## **Operator**

[Operator Instructions]. Our next question from the line of Grishma Shah from Envision Capital. Please go ahead.

## **Grishma Shah**

Good morning, sir.

## **Mohan Goenka, Wholetime Director**

Good morning.

## **Grishma Shah**

Sir, just wanted to know how is the second half pan out as we have a portfolio mix in terms of winter products also so how are you seeing that panning out?

## **Mohan Goenka, Wholetime Director**

Initial response is good so I am very hopeful. As you know for us the second half is very important.

## **Grishma Shah**

Correct.

## **Mohan Goenka, Wholetime Director**

And also the base is high for us every time for this quarter.

## **Grishma Shah Mohan Goenka, Wholetime Director**

But, yes the winter has set in most parts in the North so we are very hopeful that we will be able to deliver good set of numbers at least but this is too early for me to comment, this is just October which has passed.

## **Grishma Shah**

Okay.

**Mohan Goenka, Wholetime Director**

Now November, December, January these three are the most important months.

**Grishma Shah**

Correct.

**Mohan Goenka, Wholetime Director**

We have to wait and watch after Diwali how is the response.

**Grishma Shah**

Okay. And sir you did mention that international business if at all should see some signs of improvement in quarter four onwards. Could you highlight some of our initiatives to support that?

**Mohan Goenka, Wholetime Director**

See, for us the spite would be Bangladesh honestly because as I said I'm not seeing a very positive response from the CIS market.

**Grishma Shah**

Okay.

**Mohan Goenka, Wholetime Director**

So, we have more or less decided to focus on the SAARC and GCC.

**Grishma Shah**

Okay.  
So, in the first half even these markets had not performed as per our expectations. But this quarter SAARC grew by almost 60%.

**Grishma Shah**

Okay.

**Mohan Goenka, Wholetime Director**

I'm sorry Bangladesh grew by almost 60%.

**Grishma Shah**

Okay.

**Mohan Goenka, Wholetime Director**

In this quarter.

**Grishma Shah**

Okay.

**Mohan Goenka, Wholetime Director**

So, that was a very positive sign. So, we have revised as I said our numbers for international business.

**Grishma Shah**

Okay. And I cannot really give a very, I would say a positive or a..

**Grishma Shah**

Okay.

**Mohan Goenka, Wholetime Director**

Large picture for international businesses.

**Grishma Shah**

Okay. Could you tell us what percentage of this sales is international business?  
See, now it is 13%

**Grishma Shah**

Okay.

**Mohan Goenka, Wholetime Director**

And CSD is about 4%

**Grishma Shah**

Okay.

**Mohan Goenka, Wholetime Director**

Yeah.

**Grishma Shah**

And any I mean how is the competitive intensity on the ground have you seen new players entering into any of your segments and how do you think it is panning out?

**Mohan Goenka, Wholetime Director**

See not really, we have not seen much competitive activities in most of our major brands except for of course Fair and Handsome

**Grishma Shah**

Yes.

**Mohan Goenka, Wholetime Director**

Where we have seen intense competition from newers. But besides that not really in any of the categories.

**Grishma Shah**

Okay.

**Mohan Goenka, Wholetime Director**

But at least I am very happy to see that this quarter our market shares in the Men's Fairness Cream have not fallen.  
Okay.

**Mohan Goenka, Wholetime Director**

Yeah so that is a positive sign and you have seen that we have grown at 26% for this quarter.

**Grishma Shah**

Yes.

**Mohan Goenka, Wholetime Director**

In Fair and Handsome so that's a positive sign.

**Grishma Shah**

And all the growth rates that you mentioned in the beginning of your opening remarks et cetera what I mean largely would it be volume lead or value lead how was it any price increases that we have taken this quarter?

**Mohan Goenka, Wholetime Director**

No for the quarter as I mentioned our growth value growth was 22%.

**Grishma Shah**

Okay.

**Mohan Goenka, Wholetime Director**

For domestic business and volume growth was 16%.

**Grishma Shah**

Okay.

**Mohan Goenka, Wholetime Director**

Yeah of course brand wise it varies but overall it was 16% volume growth.

**Grishma Shah**

Okay okay and I mean any CapEx plans that you could tell us for FY13, FY14 going ahead?  
So, in FY13, FY14 we have got this Egypt plant.

**Grishma Shah**

Yes.

**Mohan Goenka, Wholetime Director**

Which we are planning to revisit that.

**Grishma Shah**

Okay.

**Mohan Goenka, Wholetime Director**

And one unit in Northeastern state.

**Grishma Shah**

Okay.

**Mohan Goenka, Wholetime Director**

These two more or less put together would be a CapEx of about 50 crores to 60 crores not very significant.

**Grishma Shah**

Okay. But, why are you revisiting your Egypt plant?

**Mohan Goenka, Wholetime Director**

We had drop the idea because of the political issue.

**Grishma Shah**

Sure, so now you are again thinking of...

**Mohan Goenka, Wholetime Director**

Yes, the things have stabilized what we have found out from there.  
Okay.

**Mohan Goenka, Wholetime Director**

So, now again we are revisiting it, we are seriously thinking of starting that unit.

**Grishma Shah**

Okay. And any plans to reduce the debt or we'll continue to have that I know we have net debt positive but by enlarge we don't need that debt right?

**Mohan Goenka, Wholetime Director**

No, but that would stay for the time being.

**Grishma Shah**

Okay.

**Mohan Goenka, Wholetime Director**

That's a very minor debt which will remain in the books.

**Grishma Shah**

Okay, okay fine. Thank you and good luck.

**Mohan Goenka, Wholetime Director**

Thank you.

**Operator**

Our next question from the line of Sagarika Mukherjee from SBICap. Please, go ahead.

**Sagarika Mukherjee**

Hi sir, thanks for taking my questions. Sir, I had a couple of questions here. I just wanted to know how much percentage of your international business is Russia right now or CIS?

**Mohan Goenka, Wholetime Director**

International business is roughly about 20%.

Okay. And Russia out of that would be how much percentage of sales?

**Mohan Goenka, Wholetime Director**

Russia is almost 75% of that.

**Sagarika Mukherjee**

Okay, okay. And sir regarding those Menthol contracts that you were saying that they are long-term so hence you are buying at a rate which is probably higher than the market, just want to understand that how frequently can you go back to your suppliers and talk to them or revise the prices during the year and when is the next time that you can probably talk to them and try to bring down the prices of Menthol for you.

**Mohan Goenka, Wholetime Director**

See, the negotiations are not possible.

**Sagarika Mukherjee**

Okay.

**Mohan Goenka, Wholetime Director**

Because the prices move on both directions. So we might get benefit also at times.

**Sagarika Mukherjee**

Okay.

**Mohan Goenka, Wholetime Director**

You don't revise the price once the contract is finalized. But the benefit you will be seeing from the fourth quarter onwards.

**Sagarika Mukherjee**

Okay. Sir, could you just explain exactly why you think that fourth quarter onwards you'll see the benefit like do you think the prices will come below the fixed price that you are thinking of?

**Mohan Goenka, Wholetime Director**

No. What I mean is that we already have stock for now at the higher prices.  
Yeah.

**Mohan Goenka, Wholetime Director**

If the prices remain at these levels and the benefits would start coming from the fourth quarter I'm saying.

**Sagarika Mukherjee**

Okay.

**Mohan Goenka, Wholetime Director**

Because now the prices are lower.

**Sagarika Mukherjee**

Yeah

**Mohan Goenka, Wholetime Director**

Compared to our buying prices.

**Sagarika Mukherjee**

Yeah. Okay. And sir just one fundamental thing that I want to understand that lets say CSD has reduced your CSD in general has reduced the budget and such things the purchase from all the FMCG companies then why is this demand of those people who are buying from CSD not getting diverted traditional or modern retail trades like why I mean ultimately that secondary purchase has to happen. So why is it not getting directed like overall then your the domestic business shouldn't get affected because of CSD. Is that understanding right I just want to understand that.

**Mohan Goenka, Wholetime Director**

See CSD business is just 4%.

## **Sagarika Mukherjee**

Right.

## **Mohan Goenka, Wholetime Director**

Of the domestic business all right. So it is I even if 0.5% or people would from CSD would buy it from the civil market it will not make a very big difference. And it is difficult for us to say how many consumers from CSD are buying from modern trade or from the Civil market. Because the market has not declined in CSD and the trend that we have seen normally the Jawans buy only from Canteens whatever product is available.

## **Sagarika Mukherjee**

Right.

## **Mohan Goenka, Wholetime Director**

Because the price, there is a very big price differential from civil market to CSD.

## **Sagarika Mukherjee**

Yes.

## **Mohan Goenka, Wholetime Director**

So, they make this is my feeling that they reduce their usage.

## **Sagarika Mukherjee**

Okay.

## **Mohan Goenka, Wholetime Director**

Yeah, instead of buying it from the market.

## **Sagarika Mukherjee**

Okay, okay.

## **Mohan Goenka, Wholetime Director**

Yeah.

## **Sagarika Mukherjee**

Okay. Sir, relating Fair and Handsome I understand that we did fantastically well in this quarter 26% growth is fantastic. I just want to understand that between the SKUs, the smaller SKUs we're seeing sort of a degrowth in FY11 and '12 so want to understand how is the volume growth panning out in smaller SKUs versus the large one?

## **Mohan Goenka, Wholetime Director**

See, out of this 26% the volume growth for Fair and Handsome is about 14% for the quarter.

## **Sagarika Mukherjee Mohan Goenka, Wholetime Director**

Right?

## **Sagarika Mukherjee**

Yeah.

## **Mohan Goenka, Wholetime Director**

And in this quarter we have seen good volume growth in the larger packs rather than the small packs.

## **Sagarika Mukherjee**

Okay.

## **Mohan Goenka, Wholetime Director**

So, small packs are still challenging, if the small packs grow faster than I would say the growth will even be more stronger.

## **Sagarika Mukherjee**

Right. But there is no degrowth in these smaller SKUs, we have at least contained that?

## **Mohan Goenka, Wholetime Director**

Absolutely.

## **Sagarika Mukherjee**

Okay, great. And sir one last question is that sir what is your pricing outlook going ahead, I understand that on an average we can easily in the domestic business do something like 15% to 16% volume growth and I think right now instead of taking new fresh price hikes that you have seen in this quarter we have seen the follow through of the previous price hikes.

So, going ahead which all brands out of your portfolio you feel that you can easily take a pricing action without the fear of loosing anything to the market or as a player?

## **Mohan Goenka, Wholetime Director**

No, that is for almost all categories. If you see Navratna Oil, Boroplus, Navratna Cool Talk or Balm or Fair and Handsome, so these are the major brands in our portfolio.

Yeah.

## **Mohan Goenka, Wholetime Director**

And for every brand depending on the price input and the market situation we take a price hike. So, I don't find it very difficult to take a price hike if it is needed.

## **Sagarika Mukherjee**

Okay. So, you are...

## **Mohan Goenka, Wholetime Director**

But price hikes have already been taken in for this year.

## **Sagarika Mukherjee**

Okay.

## **Mohan Goenka, Wholetime Director**

There can not be anymore price hikes for the year.

## **Sagarika Mukherjee**

Okay. And given the level of Menthol and other input cost that you have, that you are seeing, you feel you are comfortable with those price hikes, there would not be any further requirement to hike prices?

## **Mohan Goenka, Wholetime Director**

Absolutely.

## **Sagarika Mukherjee**

Okay, great. Thanks a lot for taking my all the questions sir.

## **Mohan Goenka, Wholetime Director**

Thank you Sagarika.

## **Operator Arnab Mitra**

Yeah. Mohanji couple of questions. One on the Winter Care range, last couple of years we have seen a bit of muted growth on Boroplus and what we hear is in the market that consumers are moving to lotions and that's why creams are not growing well.

So, what are the key initiatives you have taken this year, any kind of extensions on Boroplus also on Vasocare and Malai Kesar Cream the other two products. How they are they doing, how large are they and key initiatives there from your side?

## **Mohan Goenka, Wholetime Director**

See Arnab, the season has just begin for winter. So again it is very difficult for me to say which brand will fare how much you know. But as far as Boroplus is concerned the initial response has been very good. Even in the second quarter you would have noticed that Boroplus grew by almost 51% volume growth. So and that is primarily due to our strong distribution network that we had set up for these brands. So I am very hopeful the way the statistics that are coming in for the winter for this year and also the ground reality that I'm seeing at this point of time I think Boroplus and Vasocare in particular should do very well.

Also Boroplus has one extension which is the Boroplus lotion which also is doing well so overall I am, I am bullish for at least the Boroplus range and Vasocare range. The cold cream, the Malai Kesar Cold Cream market is slightly shrinking what initial feedback that we are getting. Because Cold Cream users are shifting to the other lotions and the value added Cold Creams so a Fairness Cold Cream or something, so that category might shrink but I am not seeing any negatives on the Antiseptic Cream or the Petroleum Jelly.

## **Arnab Mitra**

Right and just on Menthol prices with the current market prices being lower some of your local competitors are they starting to discount or give more trade promotions and is there any pressure on that count? Because they might have been starting to buy at lower prices, on the cooling oil?

## **Mohan Goenka, Wholetime Director**

Not really. As you have seen that in UP we have increased our market share almost 900 basis points so 9% market share has improved in UP. See, we have been very clear that we will fight out competition, if it is on price battle, we will fight it out with Navratna Extra Thanda. So, I am not really worried and we have seen the results over the last two years for Navratna but yeah in the market we have not seen any discounting from our competitors which is in particular Himgange.

## **Arnab Mitra**

Right. And just last question on staff cost because obviously you've had people in international and distribution expansion has happened, the staff cost growth in the last few quarters has been ahead of the sales growth. So, do you think this will be a continuing feature in the years ahead or this is more like a one year thing where you have hired lot of people in international which is why the staff cost increase is much higher than the sales growth?

No, you are right that we have increased significant big numbers for international business and also for R&D but going forward I don't see this increasing at this rate. This would stabilize henceforth. So, there would not be any increase from here.

## **Arnab Mitra**

Sure. Thanks so much.

## **Mohan Goenka, Wholetime Director**

Thank you.

## **Operator**

Thank you. Our next question from the line of Nikhil Gaggar from Nirmal Bang. Please, go ahead.

## **Nikhil Gaggar**

Yeah, morning sir. Sir, can you give some clarity on how is the Navratna Mix grown as and how has Navratna Extra Thanda contributed to overall Navratna sales?

## **Mohan Goenka, Wholetime Director**

Just give me a second. Navratna Extra Thanda has grown at almost 50%.

## **Nikhil Gaggar**

Okay.

## **Mohan Goenka, Wholetime Director**

Compared to Navratna which has grown at about 10%.

## **Nikhil Gaggar**

And these are volume numbers right?

## **Mohan Goenka, Wholetime Director**

These are no values numbers.

## **Nikhil Gaggar Mohan Goenka, Wholetime Director**

Yeah.

## **Nikhil Gaggar**

Okay. And for Boroplus lotion sir what is the value growth?

## **Mohan Goenka, Wholetime Director**

No, Boroplus lotion the season has just started.

## **Nikhil Gaggar**

Okay.

## **Mohan Goenka, Wholetime Director**

So, Boroplus lotion the sales starts only from October onwards.

## **Nikhil Gaggar**

Precisely. And one of the things, can you give me a breakup of your top four brands that is Navratna, Fair and Handsome, Balms and Boroplus as a percentage of sales how are the contribution been this quarter?

## **Mohan Goenka, Wholetime Director**

Percentage of.. just a minute.. for the quarter Navratna sales would be in the tune of about 20%.

## **Nikhil Gaggar**

Yes.

## **Mohan Goenka, Wholetime Director**

No for the quarter... for the quarter Navratna would be around 20%.

## **Nikhil Gaggar**

Right.

## **Mohan Goenka, Wholetime Director Nikhil Gaggar**

Yes.

## **Mohan Goenka, Wholetime Director**

And Balms would be about 20%.

## **Nikhil Gaggar**

And lastly Fair and Handsome sir?

## **Mohan Goenka, Wholetime Director**

Fair and Handsome, yeah Fair and Handsome is about 10%.

## **Nikhil Gaggar**

Alright, alright. Thank you so much, sir.

## **Mohan Goenka, Wholetime Director**

Yeah.

## **Operator**

Thank you. Our next question from the line of Varun Lochab from Religare. Please go ahead.

## **Varun Lochab**

Yeah thanks for the opportunity. Sir, my first question was on the margins. If I go couple of years back you were doing 22%, 23% EBITDA margin and obviously post that raw material inflation was very sharp. Now with that sort of stabilizing and as you said employee cost also, the impact which has been there in last few quarters should also normalize. Do you see a chance of EBITDA margins again going back to that levels? And could there be some A&P leverage as well because your A&P and sales has remained at that 18%-19% levels. Is there any scope to bring it down marginally?

## **Mohan Goenka, Wholetime Director**

No, you are right, see it will all depend on the price of Menthol, if the prices stabilized at these levels I am sure that the margins would improve from the fourth quarter onwards. But again this is not in our control. But as far as the advertising is concerned, I don't see big scope in advertising. We will be the last company to reduce advertising spends for margins. So advertising should be in the range of about 17% plus minus 0.5% here and there.

## **Varun Lochab**

Like on advertisement what I meant was maybe you are not trying to reduce it to bump up margins but you go largely towards the celebrity based sort of A and B, is there any chance that over next few years as lot of brands are now kind of very well-known and you may not need all these celebrities to endorse the brand, but any change in thought process how would there next two-three years would you try to reduce the sort of celebrity led A&P or you will continue it that way?

## **Mohan Goenka, Wholetime Director**

See, Varun celebrities are very small cost in A&P, I'd not say it's a substantial cost. So, mostly it is the new launches and the existing products.

## **Varun Lochab**

Okay.

## **Mohan Goenka, Wholetime Director**

Yeah, but as we have decided to focus on our existing products and extensions and we are seeing the benefit of the domestic growth, so I don't see any scope of reducing advertising spends.

## **Varun Lochab**

Okay.

## **Mohan Goenka, Wholetime Director**

But with the scale if it reduces by a 1% or 2% in the next one or two years that is possible, but even at that time if you see that the market is growing and the rural market is developing then we might not reduce advertising expenses.

## **Varun Lochab**

Okay. And sir secondly, when I look at the portfolio and when I look at the share of rural in the overall mix it seems very low given the sort of portfolio you have. So, do you think that there is a huge room for expansion in rural India and within rural, say next couple of years are you targeting some sort of increase in direct coverage, where would be your rural direct coverage right now, say till what population villages are you reaching right now? And how would that change over next two years, sir specifically rural I saw the full number like 6.5 lakh direct reach, but within the rural what's the game plan?

## **Mohan Goenka, Wholetime Director**

Varun if you see the growth, I would contribute it to our distribution. So the growth that we are seeing over the last three, four quarters in the domestic business is because of our investment in the rural distribution network. And we have gone up to the extent of 8,000 population towns. So, we have more or less covered quite significantly these towns.

## **Varun Lochab**

Okay.

## **Mohan Goenka, Wholetime Director**

You know. So, that...

## **Varun Lochab**

So, overall is 50%?

## **Mohan Goenka, Wholetime Director**

Yeah, overall it is 50%. These 24% is the distributors who are in our SAP classified as rural distributors only.

## **Varun Lochab**

Okay.

## **Mohan Goenka, Wholetime Director**

Yeah. And there we have grown at 31% so that is good sign because this is the completely new network we had set up last two years.

## **Varun Lochab**

True. Yeah. And sir just lastly in terms of the new products like you said that the focus right now is more on the existing products but within that say next couple of years you already have those three or four established brands but within say the new introductions like your Boroplus Lotion, Vasocare and all. Which has probably today in the 22 to 40-50 crore sort of brands which one look most promising and where would you be kind on concentrating your energies on not just two or three brands where you see a good skill of potential next two to three years which could cross at 100 crores sort of?

## **Mohan Goenka, Wholetime Director**

Right

## **Varun Lochab**

Sure.  
Three four brands. Navratna Cool Talc I think has a huge potential again Boroplus Lotion has a huge potential. Fair and Handsome as a brand has a very big potential. Zandu Pancharishta and Lalima are doing exceedingly well. So, these are certain brands which I think can easily grow at about 50%-60%.

## **Varun Lochab**

Okay. Sir, Talcum Powder as a market is still growing well or do you think that's a category where probably our people are shifting from talc to more like deos and all?

## **Mohan Goenka, Wholetime Director**

No, for us this Navratna Cool Talc has been a good brand and we have grown at almost about 90% in this first half also. So, see Navratna Cook Talc...

## **Varun Lochab**

The category don't you see a big problem in Talcum Powder?

## **Mohan Goenka, Wholetime Director**

The category size is so large, the category size is almost I think about 800-900 crore size.

## **Varun Lochab**

Yeah.

## **Mohan Goenka, Wholetime Director**

So, and this is a value-added talc. So, and see deos can't come at Rs.5 or Rs.10, so the consumer who wants to smell good, he cannot buy a Deo. The rural consumers are those consumers they buy a Rs.5 or Rs.10 Talc so that's a very big market.

## **Varun Lochab**

Okay. Okay, sir thanks a lot and all the best.

## **Mohan Goenka, Wholetime Director**

Yeah. Thank you, Varun.

## **Operator**

Thank you. [Operator Instructions]. Our next question from the line of Mr. Anshul Mishra from ING Mutual Fund. Please go ahead.

## **Anshul Mishra**

Yeah, Mohanji, had a question on your brands if you can share with us what is the volume growth that you have seen this quarter in your various brands the prominent one be?

## **Mohan Goenka, Wholetime Director**

See, the Navratna portfolio, the volume growth was about 6%, I'm talking about the volume growth and the value growth was at 14%. Boroplus Antiseptic Cream grew at 51% volume and 53% value. Navratna Cool Talc grew at almost 80% volume and value was at 85%. Balms grew at about 6% volume and 11% value and Fair and Handsome grew at about 40% volume and 26% value.

## **Anshul Mishra**

And the OTC would be?

## **Mohan Goenka, Wholetime Director**

The HCD the Zandu HCD volume growth was about 25% and value growth was 28%.

## **Anshul Mishra**

Okay. And also if you can please share the numbers for various geographies within international market. How is the growth been in SAARC, CIS and Africa?

## **Mohan Goenka, Wholetime Director**

That detail I would not have very specific, but as I said SAARC has grown for this quarter and CIS is still struggling. So rest other markets are actually struggling except for SAARC and particularly Bangladesh in SAARC has been growing very well. As I said this quarter we almost grew by about 60% in Bangladesh or in fact 70% I think in Bangladesh.

## **Anshul Mishra**

Thirdly on your plant that you were planning in Egypt you mentioned something that you will have a relook if you can share with us what exactly is the thought process there and your Assam plant when does it...

## **Mohan Goenka, Wholetime Director**

Sorry I was answering Mr. Anshul's question.

## **Operator**

Yes sir you may go ahead.

Yeah so I was talking about Guwahati yeah so Guwahati would take almost about 18 months from here. And Egypt around nine months. Is that fine?

## **Operator**

Sir Mr. Anshul has been dropped.

## **Mohan Goenka, Wholetime Director**

Okay.

## **Operator**

Should we go for the next question?

## **Mohan Goenka, Wholetime Director**

Yeah yeah please.

## **Operator**

Yes sure. [Operator Instructions]. Our next question from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

## **Kunal Bhatia**

Yes sir thank you. Sir just wanted to get a sense on your on geographic sales mix in India domestic.

## **Mohan Goenka, Wholetime Director**

See more or less mix is same for us North contributes to almost about 28%, East would be about 22%-23% and West and South is almost equal.

## **Kunal Bhatia**

Okay, fine sir. Thank you.

## **Mohan Goenka, Wholetime Director**

Yeah.

## **Operator Ravi Baid**

Good morning sir.

## **Mohan Goenka, Wholetime Director**

Good morning.

## **Ravi Baid**

Sir, did you guide for ASPs at 17% for the year and going forward, is that right sir?

## **Mohan Goenka, Wholetime Director**

Yeah absolutely.

## **Ravi Baid**

But that will be a sharp increase from 15.7 last year?

## **Mohan Goenka, Wholetime Director**

Yeah, but... No, last year was slightly lower because of the bad summer and also not very encouraging winter.

## **Ravi Baid**

Okay.

## **Mohan Goenka, Wholetime Director**

So, this year because we are seeing a domestic demand coming in and market shares are also increasing.

**Ravi Baid**

Okay.

**Mohan Goenka, Wholetime Director**

So, we have increased intensity in some of our brands.

**Ravi Baid**

Okay and that is a very sustainable number as you said?

**Mohan Goenka, Wholetime Director**

Yeah, absolutely.

**Ravi Baid**

Okay. Thank you.

**Operator**

Thank you. [Operator Instructions].

**Mohan Goenka, Wholetime Director**

If there are no questions, we can have closing comments.

**Shirish Pardeshi**

Hello?

**Mohan Goenka, Wholetime Director**

Yeah, Shirish.

**Shirish Pardeshi**

Yeah, I have some questions sir. See, last conference call we had said that we are trying to put up a manufacturing in the Bangladesh.

**Mohan Goenka, Wholetime Director**

Right.

**Shirish Pardeshi**

What's the status right now and when do we see the operation?

**Mohan Goenka, Wholetime Director**

No, the operation were suppose to start honestly last month but still there is one license which we haven't got. So see, it can be any day. I mean we are ready with plant, we are ready with our facility, manpower is intact, everything is ready. So again I think let's see.. But hopeful for this month end.

So what products we are planning to manufacture?

**Mohan Goenka, Wholetime Director**

Initially we are planning to manufacture the Creams, Fair and Handsome, Boroplus and Oil Navratna Oil.

**Shirish Pardeshi**

Okay. The other question I have can you tell me something about the Ethical portfolio. I mean you did mentioned Lalima and Zandu Pancharishta and especially you have a bigger larger portfolio. When do we see that the entire portfolio getting deployed and what's your plan for next two three years?

**Mohan Goenka, Wholetime Director**

So we always see these categories are driven by three, four brands. You can't because there are more than 150 products in this portfolio. So, like Pancharishta and Lalima and also Nityam Churna and Vigorex, so these are the four products which would drive this whole category, this whole division sorry.

**Shirish Pardeshi**

Okay.

**Mohan Goenka, Wholetime Director**

So, and we have started advertising for at least the three brands and we are seeing the results. So, the distributor, the field force, the market is now ready for this growth.

**Shirish Pardeshi**

Okay.

**Mohan Goenka, Wholetime Director**

So, we are happy with the way things are moving and these are not very large categories. So, I cannot say the categories would become a 300 crores or 400 crores in the next five years, ten years.

**Shirish Pardeshi**

Okay.

**Mohan Goenka, Wholetime Director**

You have to go as and when, how it goes.

Okay. In terms of Bangladesh, do you think that next three, four years we will be able to do a turnover about 100 crores in Bangladesh?

**Mohan Goenka, Wholetime Director**

Yeah, yeah surely. This year also we have a target of almost about 60 crores in Bangladesh.

**Shirish Pardeshi**

Okay. And you see that these four categories what you are now trying to get locally manufactured, it will be the focus area or you

will launch something else there?

### **Mohan Goenka, Wholetime Director**

No, the products would be same, the products would be same, what we have in the Indian market and that's what we even export now to Bangladesh. So, the categories would be the same.

### **Shirish Pardeshi**

Okay. Next question is that just assuming that if the winter goes right and we have seen the initial response from the loading in the market for the winter products, do you think that we would have a surprise in terms of top-line more than 20% growth over Y-O-Y?

### **Mohan Goenka, Wholetime Director**

Yeah, I can't really estimate Shirish, these three months are very, very important at least November, December and January. So, as I said see initially the feedback is good. The distributors are buoyant, the market is ready. Winter has more or less set in. So, and this the base very high for this quarter. So, a growth of 20% if it happens, I'll be more than satisfied. But the season changes, in one week if the season falls then the distributors and the market becomes dull.

### **Shirish Pardeshi**

Okay.

### **Mohan Goenka, Wholetime Director**

So, I don't want to give any numbers at this point.

### **Shirish Pardeshi**

Last question is on the tax rate, we have seen the jump in tax rate in this quarter. So, Rajeshji what will be the final I mean, what will be the overall blended for the year '13?

Yeah, Shirishji for this current financial year we expect our tax rate to around 15% kind of.

### **Shirish Pardeshi**

Okay. And but you also mentioned that this Guwahati what you are doing the extension will have any benefit or it's full tax?

### **Rajesh Sharma, Associate Vice President- Accounts. & Finance**

No the plant which we are planning to set up in Guwahati will have will enjoy tax benefits for next 10 years. So, we still have the tax benefits in Guwahati.

### **Shirish Pardeshi**

Okay. So, that means you will remain at least between 15%, 17% in next two, three years?

### **Rajesh Sharma, Associate Vice President- Accounts. & Finance**

No tax rate will go up a little bit in say FY14 and from FY15, we'll see our tax at 20%.

### **Shirish Pardeshi**

Okay. Thank you very much.

## **Rajesh Sharma, Associate Vice President- Accounts. & Finance**

Thank you, Shirishji.

## **Aniruddha Joshi**

Yes, sir. Aniruddha here, just two more question. Can you give some more updates in terms of most of the raw material such as light liquid paraffin, wax and as well as packaging material. Of course you have mentioned about Menthol but about these raw materials? And also about the Winter Care portfolio in terms of Pure Cream soap or Malai Kesar soap what are the updates on that?

## **Rajesh Sharma, Associate Vice President- Accounts. & Finance**

Yeah, Aniruddha, the other raw materials and packaging materials are in line and there are no material variations in pricing, if we compare the last year prices, some have increase little bit and some are reduced. So, overall it has no material impact. So, the only material which is impacting is Menthol only.

## **Aniruddha Joshi**

Okay.

## **Rajesh Sharma, Associate Vice President- Accounts. & Finance**

In H1 and the project prices are as Mohanji mentioned earlier has come down. So, this is a good sign.

## **Aniruddha Joshi**

Okay.

## **Rajesh Sharma, Associate Vice President- Accounts. & Finance**

And on the Winter Care portfolio as he mentioned earlier, the focus would be Boroplus Antiseptic Cream, Body Lotions and the Vasocare portfolio. Soaps we are not that, it will be kind of flat or not very aggressive on that.

## **Aniruddha Joshi**

Okay, okay sir.

## **Shirish Pardeshi**

Lavina, is there any questions?

## **Operator**

I'll just check with the participants once again. [Operator Instructions].

## **Shirish Pardeshi**

I think we will close then. On behalf of Anand Rathi Research, I thank all the participants and the management of Emami Limited. We will see a better quarter in this winter products. I will now hand over to Mr. Mohan Goenka for the closing remarks. Over to you, sir.

## **Mohan Goenka, Wholetime Director**

Thank you, Shirish and thank you Anand Rathi for organizing this conference and thank you all participants for participating. Thank you. Bye-bye.

## **Shirish Pardeshi**

Thank you.

## **Operator**

Thank you, sir. On behalf of Anand Rathi Share & Stock Brokers, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.