

emami*limited
Performance report 2005-6

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forward looking statements

Some of the statements in this report stating the Company's objectives, projections, estimates and expectation may be "forward looking statements" within the meaning of applicable laws and regulations. Actual results might differ substantially from those expressed or implied. Important developments which could affect the operation of the Company, include changes in industry structure, significant changes in economic environment in India, tax laws, duties and litigations.



contents

corporate information 2 founders' statement 4 management discussion and analysis 6
international business 16 risk management 18 economic value-added statement 20
10-year highlights 22 report on corporate governance 24 directors' report 35
auditors' report 39 balance sheet 42 profit and loss account 43 schedules 44
cash flow statement 55 balance sheet abstract 56 consolidated accounts 57
statement pursuant to section 212 and subsidiary accounts 68

Emami Limited is one of the fastest growing ayurveda-focused, health, beauty and personal care product companies in India today.

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new launches



Fair and Handsome
Fairness Cream for men



Navratna
Cool Talc



Boroplus
Antiseptic Light Cream and Boroplus Body Lotion



Sona Chandi
Healthy and Fair Baby Massage Oil



Good Morning
Ayurvedic Laxative Churna



Memoplus
Memory Booster Syrup



Sardi Ja
Cough Syrup

corporate information

Chairman

Shri R. S. Agarwal

Managing Director

Shri Sushil Kr. Goenka

Directors

Shri R. S. Goenka

Shri Viren J. Shah

Shri K. N. Memani

(Joined on 15th May 2006)

Shri S. K. Todi

Shri S. N. Jalan

Shri K. K. Khemka

Vaidya S. Chaturvedi

Shri S. N. Bihani

(Resigned on 15th May 2006)

Shri Mohan Goenka

Shri A. V. Agarwal

Shri H. V. Agarwal

Secretary

Shri A. K. Joshi

Auditors

M/s S. K. Agrawal & Co.

Chartered Accountants

Cost Auditors

M/s V. K. Jain & Co.

Cost Accountants

Bankers

Canara Bank

ICICI Bank Ltd.

State Bank of India

Works

Kolkata

Pondicherry

Guwahati

Registered Office

Stephen House

6A R. N. Mukherjee Road

Kolkata 700 001.

power brands



**Boroplus
Antiseptic Cream:**
Market share
66.5%;
market position 1



**Navratna
Oil:**
Market share
50.1%;
market position 1



**Boroplus Prickly
Heat Powder:**
Market share
21.8%;
market position 2



**Sona Chandi
Chyawanprash:**
Market share
8.6%;
market position 3



**Mentho Plus
Balm:**
Market share
13.6%;
market position 3



**Fast
Relief:**
Market share
8.4%;
market position 3

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Past

Flagship company of the Emami Group, headquartered in Kolkata

Products

Portfolio of over 20 products derived from select and effective ayurvedic herbal ingredients

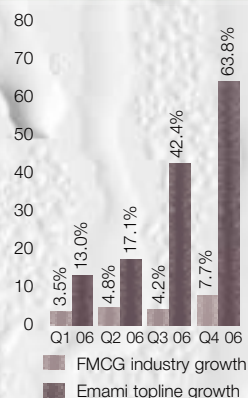
Ownership

- Promoted by industrialists Mr. R. S. Agarwal and Mr. R. S. Goenka
- Market capitalisation of over Rs. 1000 cr (as on March 31, 2006)
- Shares listed on the Bombay and Kolkata Stock exchanges

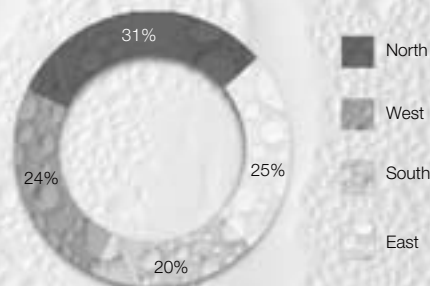
Presence

- 53 countries across the globe
- Manufacturing facilities in Kolkata, Pondicherry and Guwahati with cGMP and ISO 9001:2000 certifications
- Strong pan-India presence with dedicated sales channels for rural and urban markets
- Wide and deep Indian distribution network with 2100 distributors, 1200 sub-distributors and 3.8 lac retail outlets

**FMCG industry growth
vs. Emami growth**



**Turnover contribution from
different parts of India**





founders' statement

Dear Shareholders,

There used to be a theory that looking good and feeling healthier was a fundamental emotion that helped make the FMCG industry recession-proof; even as this theory was gaining currency, the industry lost its steam and slowed down inexplicably over the last five years.

Just when the other theory began to gain ground that even a feel-good in the present earnings environment and the emerging economic climate wouldn't enthuse people to buy more of personal and health care products, the FMCG industry made its sharpest rebound during the year. Buyout economy, consistently growing GDP, market sophistication, high disposable incomes and market penetration has helped the industry turnaround after half a decade.

Which is what makes the year under review a watershed in the recent history of India's FMCG industry:

- A majority of organised players registered a double-digit growth
- Prices began to inch up after years of decline
- Price cutting and freebies were progressively withdrawn

Turnaround reasons

For every significant turnaround there is a plausible reason, and so there are a number of them to explain this turnaround as well:

- GDP growth at 8.4% in 2005-6
- All sectors of the economy - agriculture, industry and services - growing
- Institutional foundation for the faster development of physical infrastructure
- Implementation of VAT helping curb competition from the unorganised sector
- Growing literacy making people more health conscious
- Increasing reach of the media helping brands reach far-flung areas
- Growing disposable incomes among the Indian middle-class leading to the increased consumption of consumables

Emami's growth

Emami capitalised on this improvement in industry fortunes. Emami's strong and innovative R&D supported by aggressive marketing and automated cost effective operations helped the Company beat all industry benchmarks and report:

- An increase in turnover by 37% to Rs. 301 cr

- An increase in net profit by 68% to Rs. 49 cr
- 200 basis points increase in EBITDA margin to 18%
- Increase in return on capital employed from 16% to 23%
- Increase in return on net worth from 20% to 27%

We are delighted that Economic Value Added, a key financial metric used to measure enhanced stakeholder value, strengthened from Rs. 16.70 cr in 2004-5 to Rs. 32.57 cr in 2005-6, indicating that your Company more than met shareholder expectations during the year under review.

Innovation, value-for-money and efficiency

Our growth, as always, was driven by a focus on innovating around a 'value for money' proposition while reconciling asset sweating and cost competitive manufacture without compromising quality.

The following was the result:

- Introduced brand extensions like Boroplus Antiseptic light cream and lotion and Navratna Cool Talc

- An innovative launch of men's fairness cream – India's first – was a spectacular event during the year
- Explored two new sales channels for better reach into the rural markets, which enhanced rural sales
- Initiated e-procurement and hedging mechanisms to optimise raw material prices
- Established cost-effective operations with about 70% of the production being procured from excise-free zones
- Rating of our long-term issue of paper by CARE as AA+ and short-term issue PR1+, the highest rating
- Recognition of the Company as 'One star export house' by DGFT (Director General of Foreign Trade)

Values

We are committed to responsible management and control while being consistently alert to emerging opportunities. The cornerstone of our Corporate Governance is mutual trust, efficient cooperation and transparent communication with the objective of safeguarding the interests of our stakeholders.

At the workplace we initiated 'WCM' norms, which will lead to the compliance of TQM practices across the organisation. We are installing SAP across different functions of the organisation for a better internal control, leading to streamlined processes and informed decision making.

Going forward

Today, Emami possesses a strong product range, superior processes, established distribution system and an exciting set of enthusiastic and motivated people. Going ahead, your Company has lined up the following for 2006-7:

- Aggressive marketing of power brands targeting a higher-than-category growth
- Increasing the contribution from new launches by at least 15%
- Planning new launches in the OTC category
- Reinforcing exports as a thrust area including plans for the introduction of new products and addition of new countries
- Strengthening of the urban distribution channel (modern trade channels) and rural sales network
- Introducing real-time connectivity within the organisation with the implementation of SAP

Looking ahead

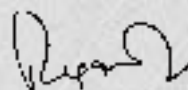
Robust economic growth and increasing urbanisation are driving aspiration levels and consumption. The categories we are present in are demonstrating strong growth, a trend expected to continue over the near future.

These developments bode well for your Company. We believe Emami will continue to outperform the sector through viable inorganic and organic initiatives.

We thank our team and our business partners for their support and contribution in our performance and look forward to continuing cooperation. To our esteemed shareholders, we extend our appreciation for the confidence you have shown in us.

It will be our prime objective to strengthen this confidence in the years to come.

Yours sincerely,



R. S. Agarwal



R. S. Goenka

management discussion and analysis

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industry overview



Global overview

- The global FMCG market is valued at USD 230 bn
- Almost 70% of the global FMCG market (by value) is accounted for by developed geographies like the US, Europe and Australia
- Interestingly, the top five contributors to the global market reported negative or nominal growth rates; the main industry driver was the attractive growth coming out of the developing market
- By 2010, consumer spending in developing and emerging markets will overtake the growth in developed countries in terms of purchasing power parity (PPP)
- According to projected growth rates, India is expected to be fourth largest economy after USA, China and Japan by 2005.

Composition of the global market (%) 2004



Source: Euromonitor 2003-4

There was an increase in retail prices indicating a return of the pricing power by brands. Margins expanded for almost all companies, partly as a result of an enrichment in the revenue mix and partly due to fiscal benefits.

An interesting demand transition was witnessed: Unbranded products yielded their demand base from around 40-50% (a few years ago) to 8-10% in 2005-6. Unlike earlier years, growth was attractive and sustained across product categories.

Indian industry

The Indian FMCG market is valued at USD 10 bn (Rs. 45,000 cr), growing at 7-8% per annum. The industry achieved an overall growth of 8-8.5% in 2005-6, up 2-2.5% over the growth in the previous year. Interestingly, as consumption revived, the FMCG segment recorded a 10.6% growth in February 2006, its highest in five years.

There is a secular under-current behind this rebound:

- An increased consumer demand from urban as well as rural markets
- Increased disposable incomes prompting an upgrade in the product value chain
- Increased media penetration and literacy levels enhancing aspirations for better life
- Stronger organised retail formats

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- Biscuits and shampoos grew 10% to 15%
- Personal care products reported 'excellent' (20% plus) to 'high growth' (10-20%) rates across 12 products
- Urban market growth was faster at about 7% even as there was a revival in the rural markets at a relatively slower 4%

Drivers of growth

Going ahead, a higher penetration (breadth) and per-capita consumption (depth) will influence sectoral performance.

Breadth: Number of people buying

FMCG products (from the organised sector as well as from rural markets)

Depth: Higher consumption by the existing consumer base (both in terms of moving up the value chain and increased usage)

The FMCG sector, therefore, is a play on 'India's consumption story', for which things are looking up due to higher disposable incomes and higher product realisations.

Higher disposable incomes

- Robust economic growth, coupled with good monsoons, catalysing FMCG growth across urban and rural India
- Higher incomes in the rural areas along with an increased availability of consumer credit, especially in tier-two cities
- Smooth transition to a value-added tax (VAT) regime for most consumer product manufacturers

Higher product realisations

- Attractive tax concessions due to manufacturing factories located in states