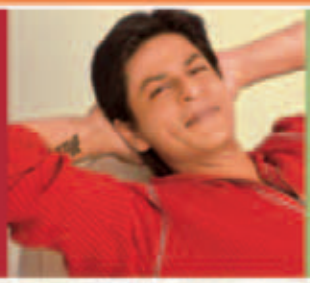
emami

The fame game: why brands need celebrities



Our perspective
Stay healthy, feel good and look better

Performance Report

EMAMI

Shareholders' copy. Not for sale

www.emamigroup.com

India's FMCG success story and Emami

Emami and a global footprint

Why does a nation of 1.1 billion consumers trust Emami?

emami limited
Performance report
2006-2007

www.reportjunction.com

FIRST TIME EVER

INSTANT HAIR PACK

BEAUTIFUL HEALTHY HAIR IN 10 MINUTES

Emami Hair Life - a ready to use Instant Hair Pack. No soaking, grinding or even mixing. Just open, apply and wash off after 10 minutes.

Enriched with the goodness of Soya Proteins, Multivitamins and KERAHERB11™, its a perfect balance of rare herbs that dramatically vitalizes & strengthens your hair roots.

Get healthy and beautiful hair in 10 minutes.

emami HAIRLIFE™

INSTANT HAIR PACK

No Jhanjhat

Report Junction.com

HERBAL

Total Hair Solution

- **Amla:** Prevents Greying
- **Mehendi:** Strengthens & Conditions
- **Shikakai:** Promotes Hair Growth
- **Methi:** Checks Dandruff
- **Soya Proteins:** Nourishes & Revitalizes
- **Green Almond:** Prevents Hair Fall
- **Lemon:** Gives Silk & Shine



We guarantee 100% Satisfaction or your money back.

www.reportjunction.com

Contents


Cover story | 30 Why does a nation of 1.1 billion consumers trust Emami?

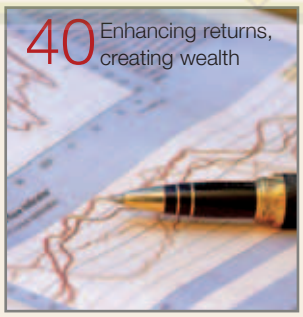

10 Yesterday's wisdom, tomorrow's products


12 The fame game: why brands need celebrities


18 India's FMCG success story and Emami


26 Wealth at the bottom of the pyramid


28 Emami and its global footprint


40 Enhancing returns, creating wealth


42 Indian realty sector: Gaining visibility

Forward looking statement

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

Readers should bear in mind that we cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and estimates taken as assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected.

05 Inauguration of the new corporate office



Also

Opinions. Appreciation 02 Emami as a Group 46 10 Years at a glance 49 Corporate Governance 50 Directors' Report 60 Auditors' Report 67 Balance Sheet 70 Profit and Loss Account 71 Schedules 72 Cash Flow Statement 85 Balance Sheet Abstract 86 Consolidated Accounts 87 Statement pursuant to section 212 and Subsidiary Accounts 98

Our perspective 06



www.reportjunction.com

Publisher's note

This performance report of Emami Limited is intended primarily for circulation among the Company's shareowners. This document also intends to address the information needs of other stakeholders, associates, industry analysts, fund managers and the media.

Emami Limited is the flagship outfit of the Kolkata-headquartered Emami Group. Promoted by Mr. R.S. Agarwal and Mr. R.S. Goenka, around 30 years back, with a meagre capital of Rs. 20,000 has now grown to over Rs. 500 cr in revenues in 2006-7.

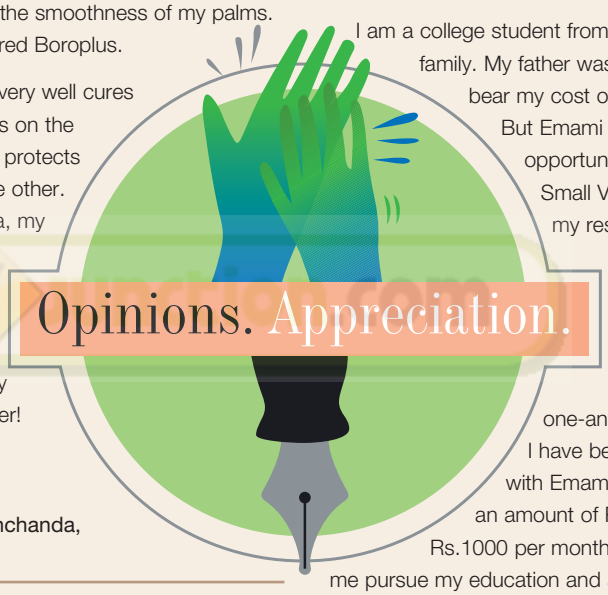
Emami Limited is not just a beauty care company. It is one of India's most visible and popular health and personal care companies. What makes Emami special is that it has blended age-old ayurvedic concepts with modern laboratory practices.

Emami's product portfolio comprises over 20 products marketed across 59 countries. **Its popular brands like Boroplus, Navratna, Mentho Plus, Fast Relief, Sona Chandi and Fair & Handsome are established names in the consumer market.** The Company's manufacturing locations in Kolkata, Pondicherry and Guwahati are safety and consistency enhancing cGMP and ISO 9001:2000 compliant.

Emami's wide and deep pan-Indian distribution network comprises approximately 2600 distributors and 4 lac retail outlets and all the big retail chains.

The Company is listed on the BSE, NSE and the Calcutta Stock Exchange and enjoys a market capitalisation of Rs. 1300 cr.

Letters to the editor



To,
The R&D Head, Emami Limited

Dear Sir,

Why do people always talk about the challenge of street pollution? Is the challenge addressed by a housewife in the kitchen any less?

I spend nine hours in the kitchen – every single day. The humidity, the heat, the occasional burns and bruises take a toll on the skin.

Across time, the lustre on my skin dulled. Cuts affected the smoothness of my palms. Until I discovered Boroplus.

Your product very well cures cuts and burns on the one hand and protects my skin on the other. Even Susheela, my neighbour, commented the other day about how I was suddenly looking younger!

Sincerely,

Mrs. Rita Manchanda,
Chhattisgarh

To
Mr. S.K. Goenka
The Managing Director
Emami Limited

Dear Sir,

These days I read in the papers of how investors who invest in public issue inevitably erode their capital as the stock, post-listing, declines.

I have a slightly different story to tell. I invested in the Emami public issue in 2005, paying Rs. 70 per share. The share had appreciated to Rs. 200 towards the close of March 2007.

Considering that I had invested Rs. 7,000 in the scrip, my Emami holding is now worth Rs. 20,000.

When I have a management as dynamic as yours working for me, why sell?

Regards,

Anurag Gupta,
Kolkata

Emami Limited
Dear Sir,
My grateful greetings to Emami.

I am a college student from a very poor family. My father was unable to bear my cost of education. But Emami offered me an opportunity to open a Small Village Shop in my residence and also sell products to households in my village. Over the last one-and-a- half years I have been associated with Emami and earning an amount of Rs. 800 to Rs.1000 per month, which helps me pursue my education and also meet some family expenses. Once I complete my education and get a job, my mother will take over the shop for extra earnings.

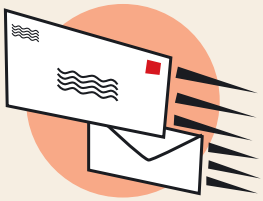
Thanks to Emami. May God bless it.

Gautam Das,
West Bengal

Dear Sir,

I am a student of Class V at Delhi Public School, Ranchi. I used to run away from chyawanprash everyday but mummy would eventually catch me and force it down my throat. But last month something interesting happened. An uncle from Emami came to our school with the new chocolate-flavoured

www.reportjunction.com



Sona Chandi Chyawanprash and invited us to try it. It tasted yum. When I went home I told mummy about it. Now we have reversed our roles – I chase her for my Chocoprash!

Sunidhi Chowhan,
Ranchi

To
The Joint Chairman
Emami Limited

Dear Sir,

We have been servicing Emami Group since last seven years and I must say that it has been a real pleasure working with you for one good reason: You value relationships. While you are conscious about costs, you have always been transparent and faster on decision making.

We find Emami Group to be a very aggressive, diversified and governance-friendly dynamic business house of Eastern India.

I wish Emami all the very best in its endeavour to excel.

Yours faithfully,

Ajay Saraf,
Senior General Manager and Country Head
Major Clients Group
ICICI Bank Ltd.

The year 2006-7 in a snapshot

Highlights

Financials

(Note: Since Emami's financial results for the financial year 2006-7 also include the performance of the amalgamating company, J.B. Marketing and Finance Limited, they are not comparable with previous year's figures. Hence, for comparison and better understanding, previous year's figures are also consolidated to derive growth numbers in this performance report)

- 26% growth in net sales to Rs. 516 cr
- 40% growth in exports to Rs. 56 cr
- 33% growth in PAT to Rs. 66 cr
- 28% increase in EBIDTA to Rs. 68 cr
- 22 basis point increase in EBIDTA margin to 13.2%

Brands

- Navratna Oil continued to be the market leader with an increased market share of 55.2%
- Boroplus Antiseptic Cream maintained its number one status with an increased market share of 69.7%
- Fast Relief and Menthoplus Balm continued to grow aggressively
- Sona Chandi grew reasonably well despite having the stagnant category growth
- Fair and Handsome fairness cream, launched in 2005, grew aggressively
- New products launched in 2005-6 and 2006-7 contributed 17% of domestic turnover during the year under review

Operations

- R&D continued to deliver innovative and effective products
- Aggressive marketing through celebrity endorsements continued. Initiatives taken to extend 'Boroplus' to a global brand platform
- SAP implemented; led to a better control across all functions and locations in India
- Project 'Kaya kalp'; implemented in 24 depots, resulted in a decline in direct sales staff and increase in the distributors' field staff
- Institutional sales extended to Border Security Force (BSF), Central Reserve Police Force (CRPF) and Indian Naval Canteen Service (INCS)
- Around 80% of production was sourced from excise exempt zones
- More automated processes led to enhanced efficiency
- Units at all locations were cGMP and ISO 9001:2000 compliant



Continued on page 5



www.reportjunction.com

Twacha ka suraksha kawach



report junction.com

Bruised. Healed.

Boroplus Antiseptic Cream

An antiseptic cream to prevent dryness and protect the skin from cuts, burns, scratches, nappy rash, insect bites and itchiness.

Brand performance, 2006-7

- Retained its market leader position with 69.7% market share in a total market size of Rs. 165.0 cr
- Growth of 12.6% as against growth of 6.9% for the category (as per ACN 2006-7 report)
- The largest selling antiseptic cream in India as well as in Ukraine, Russia and Nepal
- Introduced packaging changes in line with changing consumer preferences
- Tied up with Bengali TV channel STAR Ananda for the Shardotsav programme during Durga Puja and with Kolkata TV for a Kishore Kumar retrospective called *Guru ke janai pranam*

Brand ambassadors

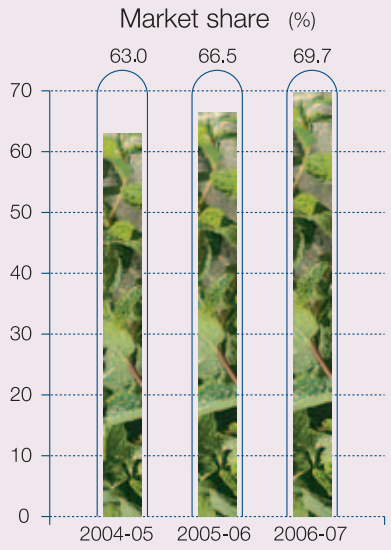
- Amitabh Bachchan
- Kareena Kapoor
- Rituparna Sengupta

Brand competitor

- Boroline

Brand extensions

- Boroplus Prickly Heat Powder
- Boroplus Antiseptic Light Cream
- Boroplus Body Lotion



www.reportjunction.com

- Initiation of Total Productive Maintenance (TPM) practices
- The plant at Kolkata got Hazard Analysis and Critical Control Points (HACCP) certification.

Corporate

- Listing on National Stock Exchange (NSE)
- Merger of a marketing company with wide distribution network
- Long-term rating of 'AA+' and short-term rating of "PR1+"
- Inauguration of the new corporate office in Kolkata

Board room

- Equity share capital of Emami increased from 611.5 lac to 621.45 lac shares of Rs. 2 each consequent to the merger of J.B. Marketing and Finance Limited
- Dividend increased from 100% to 200% (Rs. 2 to Rs. 4 per share)
- Return of over 190% to investors of the Company following a public issue in March 2005
- Market capitalisation touched Rs. 1800 cr in October 2006



Inauguration of the new corporate office

Emami Tower, the Emami's corporate office in Kolkata, was inaugurated by Amitabh Bachchan in March 2007, endorser of some of Emami's power brands. The 90,000 sq. ft office on the Eastern Metropolitan bypass is a modern hi-tech office designed by the renowned Hafeez Contractor.

Corporate information

Performance Report

For the year ended March 31, 2007

Released on June 29, 2007

Chairman

Shri R.S. Agarwal

Managing Director

Shri Sushil Kr. Goenka

Directors

Shri R.S. Goenka
Shri Viren J. Shah
Shri K.N. Memani
Shri S.K. Todi
Shri S.N. Jalan
Shri K.K. Khemka
Vaidya S. Chaturvedi
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
The Hongkong and Shanghai Banking Corporation Limited

Registered Office

687, Anandapur, EM Bypass
Kolkata 700 107, West Bengal
Phone: +91-33-6613 6264
Fax: +91-33-6613 6600
E-mail: emami@emamigroup.com

Works

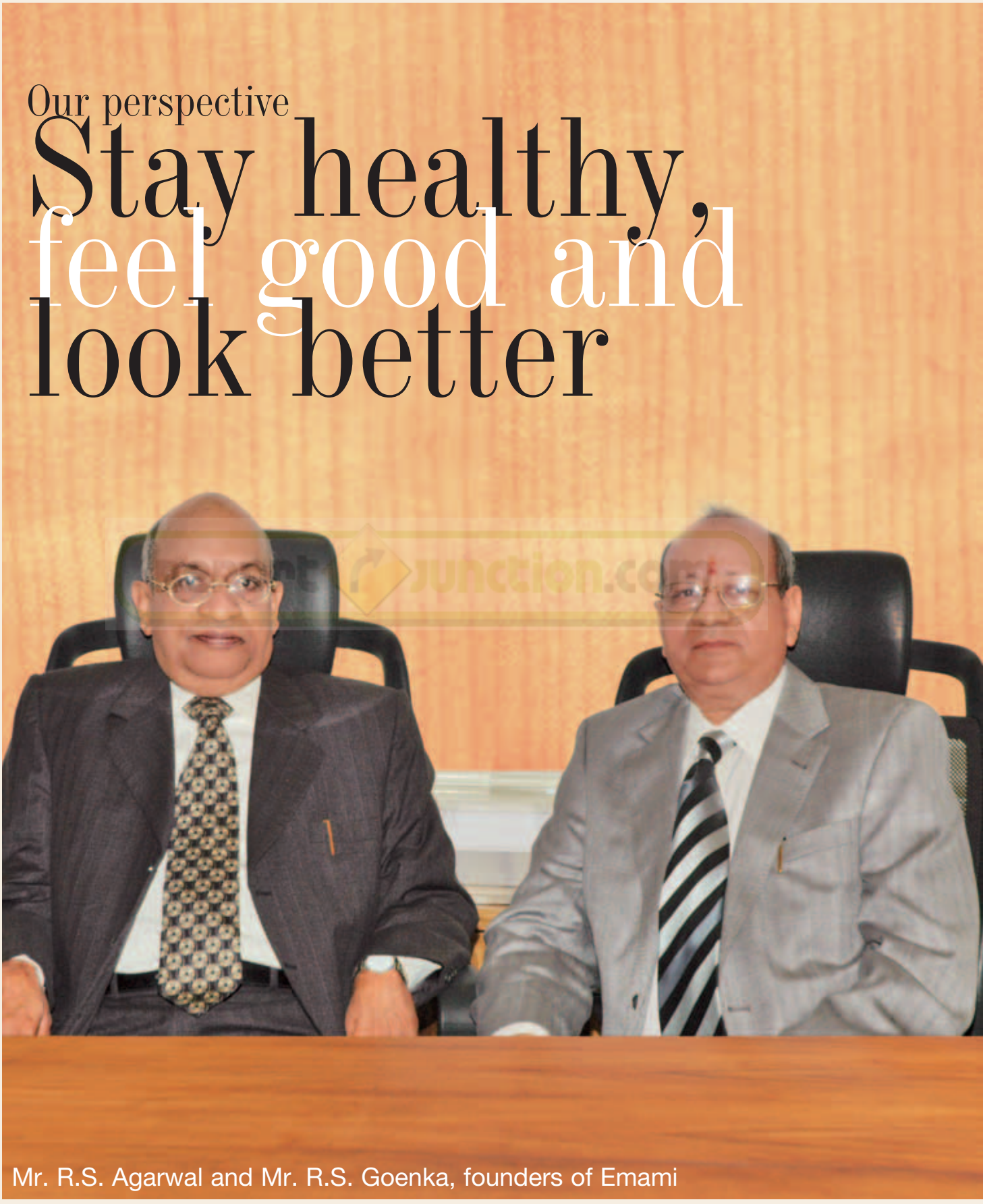
Kolkata
Pondicherry
Guwahati

www.reportjunction.com

In India, there is an increasing brand consciousness as consumers gradually move away from loose and unbranded alternatives.

Our perspective

Stay healthy, feel good and look better



Mr. R.S. Agarwal and Mr. R.S. Goenka, founders of Emami

www.reportjunction.com

Our perception of health is changing dramatically. In the past, health was a state of 'no-illness'; today it is defined holistically and is a function of lifestyle, diet, fitness, physical, emotional and even spiritual well-being. The consumer is looking for a health and wellness quotient in each aspect of his/her life and this is a deciding factor influencing consumer choice: from the food they eat to, where they live to the products they use.

This preoccupation with wellness is especially witnessed within the personal care space, where health and beauty are now coming together. People are no longer satisfied with products that just make them look good or feel good, but also want them to 'do-good'. Moreover, the do-good aspect is understood in terms of a health rather than a cosmetic benefit. Another trend signaling the merging of health and beauty is the emergence of herbal, natural and organic products within personal care, which are considered safe, sensitive to the skin and free of side-effects by consumers. Since consumers actively seek health benefits from personal care products, they spend a lot of time researching the product before making a purchase decision. They want to know how a product works, what ingredients it contains, the properties and actions of these ingredients and results.

People still love to pamper themselves with silky smooth creams and lotions, but they also make sure that their favourite personal care products are not just making them feel good but are also keeping them healthy.

It is the convergence of these supposedly disparate developments that is growing the market for India's fast-moving consumer goods sector in general and Emami Limited in particular.

This is the result: Emami Limited reported a 26% increase in its topline and a 33% increase in its post-tax bottomline in 2006-7 over the previous year.

The fact that these numbers were achieved on a larger base reflected the strength of the industry rebound and the depth in the Company's performance.

Industry and the economy

The Indian FMCG sector with a market size of USD13.1 billion is the fourth largest sector in the economy. A well-established distribution network and intense competition between the organised and unorganised segments characterise the sector. According to an HSBC report, the FMCG sector is expected to grow by over 60% by 2010.

The FMCG industry primarily consists of food products, personal care, hair care and fabric care. According to a 2006 Datamonitor study titled Wellness Trends in Personal Care, 45% of consumers believe, "Skin care products provide nutrition for the skin in the way that food and drinks provide nutrition internally," and that 50% of the respondents reported they viewed themselves as being "conscious of skin nutrition."

Consumer trends are blurring the line between beauty and health by viewing both industries as a part of an overall holistic approach to maintaining good health. India's beauty industry is worth around than USD 2 billion. It will grow due to the growing consciousness about looks and health amongst the Indian consumers. India will spend USD 45.76 billion on healthcare in the next five years as the country, on an economic upsurge, is witnessing changes in its demographic profile accompanied with lifestyle diseases and increasing medical expenses, says a CII-Mckinsey study on 'Health in India'.

There is another point worth considering. India's FMCG sector is an important GDP contributor. At present, much of this sectoral growth is coming out of the country's urban pockets (but as India's prosperity spreads wider and deeper across its B and C class centres as well as villages, we expect the skew to correct. This is not a far-fetched estimation: rural India accounts for 41% of India's middle-class and 58% of its total disposable income; in the personal care, fabric care and hot beverage categories, rural India accounts for more than 40% of the country's consumption. It is our understanding that as prosperity percolates across the lower levels of India's income pyramid, the FMCG industry will outperform its erstwhile annual growth average.

A basis for optimism

As the Indian economy is reporting highest-ever growth, there are a number of pockets of optimism:

- **Urban demand:** We feel that a 6-7% annual growth will continue to drive FMCG sector growth, especially in value terms.
- **Rural demand:** Around 12% of the world's population lives in Indian villages; the per capita consumption in these pockets is among the lowest. In our opinion, we have reached the tipping point and annual demand is now soaring.

> We see modern retail stores accelerating FMCG offtake and leading to a greater proportion of the offtake of branded and value-added products.

- **Infrastructural development:** We feel that planned infrastructure development - roads, ports, railways and airports – will accelerate FMCG growth.
- **Low manufacturing base:** We foresee that India's low-cost manufacturing base will enable it to address the growing FMCG demand in Bangladesh, Sri Lanka, Middle East, Pakistan and similar countries; besides, non-resident Indians in the UK and the USA represent a prospective market.
- **Brand consciousness:** We see increasing brand consciousness as consumers gradually move away from loose and unbranded alternatives.
- **Favourable tax structure:** We feel that the introduction of VAT will reduce longstanding tax ambiguities; Companies in tax-exemption zones will benefit. The fringe benefit tax rationalisation on brand ambassadors, celebrity endorsement as well

www.reportjunction.com





as tours and travels will strengthen the FMCG sector.

• **Modern retail formats:** We see modern retail stores accelerating FMCG offtake and leading to a greater proportion of the offtake of branded and value-added products.

Emami's initiatives

We must inform our shareholders that Emami stands to capitalise on these industry opportunities through the following initiatives:

• **Aggressive marketing and distribution:** Emami continues to market its products aggressively. While huge resources are spent on new launches, existing power brands are marketed through endorsements from celebrities like super star Amitabh Bachchan, Shah Rukh Khan, Chiranjeevi, Kareena Kapoor, Govinda and Dharmendra. Distribution is also being strengthened and new channels of sales are being established to take care of rural markets and emerging new retail stores.

• **New product launches:** The Company continues to launch new products like Fair and Handsome fairness cream for men, Navratna cool talc, Boroplus light cream and lotion, Mr. and Mrs. Black kesh kala, Malai Kesar Cold Cream and Ayurvedic OTC products like Good Morning (an Ayurvedic laxative churna), Sardi Ja (a cough syrup and Vaporub) and Memo-plus (a memory booster).

• **Continuous innovation:** Emami's strong R&D and aggressive marketing capabilities enable it to identify emerging needs and aspirations of consumers and convert them into opportunities. Fairness cream for men, the first of its kind in India and the branding of Chyawanprash as 'Sona Chandi' Chyawanprash are results of such innovative R&D and marketing efforts.

• **Entry into new segments:** Emami forayed into hair care and baby care segments through the introduction of products like Mr. and Mrs. Black kesh kala and hair dye powder and Sona Chandi baby massage oil. It plans to come out with a full range of male grooming products as well.

• **Fresh capacity being commissioned:** The Company is in the process of commissioning another state-of-the-art factory in north-east India, enjoying fiscal benefits.

• **Wider international footprint:** The Company will widen the presence of its Fair and Handsome fairness brand in Asia and Africa; it will expand the global reach of its Naturally Fair brand in the Middle East and Asia. It has initiated efforts to globalise its power brands. Boroplus Antiseptic cream is the largest selling antiseptic cream not only in India but also in Ukraine, Russia and Nepal.

• **Emami Realty - another business opportunity:** While Emami Limited is on the lookout for acquisitions in India and abroad for inorganic growth in the FMCG sector, it has identified realty as a potential business opportunity leveraging its resources. A wholly-owned subsidiary, Emami Realty Pvt. Limited, was formed in May 2007 to drive this business through an independent focus since it would be a 100% subsidiary of Emami Ltd. While aggressive growth in the FMCG business will continue, the realty segment will enhance profitability and shareholders wealth.

We must conclude on a note of unmistakable optimism. As a result of increased capacity, upcoming launches, product extensions, wider geographic coverage and growing servicisation, we expect to accelerate our topline and strengthen our margins.

In widening our revenue spread and climbing the value-chain, we expect to enhance value for our shareholders as well as other stakeholders in a more emphatic way over the foreseeable future.

R.S. Agarwal R.S. Goenka

www.reportjunction.com