# naya emami

EMAMI LIMITED | ANNUAL REPORT 2017-18

Cover Story
PAGE 18

IN A RAPIDLY-CHANGING WORLD, THE ONLY INSURANCE IS THE NEED FOR COMPANIES TO MOVE FASTER. AT EMAMI, WE ARE EVOLVING AS A NEW PERSONALITY.

**Young. Contemporary. Innovative.**



PAGE 60

**INNOVATING FOR THE FUTURE**

WHY IS CHEMICAL-FREE THE NEW NORMAL?

PAGE 24

**RURAL INDIA THE NEXT BIG THING**

WITH THE GOVERNMENT EXPECTED TO BOLSTER RURAL LIVELIHOODS AND OPPORTUNITIES, RURAL CONSUMPTION IS POISED TO GROW WELL.

emami

For a digital copy of the Annual Report and other related information, scan this QR Code.

# Corporate Information

**Chairman**
R.S. Agarwal

**Managing Director**
Sushil K. Goenka

**CEO-Finance, Strategy & Business Development and CFO**
N.H. Bhansali

**Company Secretary & VP-Legal**
A.K. Joshi

**Auditors**
S.R. Batliboi & Co. LLP
Chartered Accountants

**Directors**
R.S. Goenka
K.N. Memani
Y.P. Trivedi
M.D. Mallya
Rama Bijapurkar
P.K. Khaitan
C.K. Dhanuka
S.B. Ganguly
Amit Kiran Deb
Mohan Goenka
Aditya V. Agarwal
Harsha V. Agarwal
Priti A Sureka
Prashant Goenka

## Our Presence

60+ Countries | 8 Factories | 1 Overseas Unit | 4 Regional Offices | 27 Depots | 9 Overseas Subsidiaries.

## Bankers

ICICI Bank Ltd. | HDFC Bank Ltd. | HSBC Ltd. | Citi Bank N.A. | DBS Bank Ltd. | Yes Bank Ltd.

## Registrar & Transfer Agent

Maheswari Datamatics Private Limited,
23, R.N. Mukherjee Road, Kolkata 700 001,
West Bengal, India,
Tel: +91-33-2248 2248, Fax: +91-33-2248 4787,
Email: mdpl@cal.vsnl.net.in

## Registered Office:

Emami Tower, 687, Anandapur,
EM Bypass, Kolkata 700 107, West Bengal, India.
Tel : +91-33-6613 6264, Fax: +91-33-6613 6600,
Email: contact@emamigroup.com

Website: www.emamiltd.in

CIN: L63993WB1983PLC036030

## Board committees

Audit Committee
S.B. Ganguly, Chairman
R.S. Goenka
C.K. Dhanuka
Amit Kiran Deb

Nomination and Remuneration Committee
Amit Kiran Deb, Chairman
C.K. Dhanuka
S.B. Ganguly

Share Transfer Committee
Mohan Goenka, Chairman
Aditya V. Agarwal
Harsha V. Agarwal
Priti A Sureka

Stakeholders' Relationship Committee
C.K. Dhanuka, Chairman
S.B. Ganguly
Mohan Goenka
Harsha V. Agarwal
Prashant Goenka

Finance Committee
R.S. Goenka, Chairman
Sushil K. Goenka
Mohan Goenka
Aditya V. Agarwal
Harsha V. Agarwal
Priti A Sureka

Risk Management Committee
R.S. Goenka, Chairman
S.B. Ganguly
Sushil K. Goenka
Mohan Goenka
Harsha V. Agarwal
Priti A Sureka

Corporate Governance Committee
S.B. Ganguly, Chairman
R.S. Goenka
Y.P. Trivedi
Amit Kiran Deb

Corporate Social Responsibility Committee
Sushil K. Goenka, Chairman
Amit Kiran Deb
Mohan Goenka
Harsha V. Agarwal
Priti A Sureka
Prashant Goenka

# CONTENTS




**Founders' statement**
The new rules of the game — 04

**Q & A**
A conversation with the Managing Director — 12





| | |
|---|---|
| Highlights, FY18 | 8 |
| 10-year highlights | 10 |
| Emami's Board of Directors | 16 |
| Emami – banking on the rural | 28 |





**Perspective** — 30
"Every bit of household income and every consumer, whether rich or poor, is a real opportunity." **– Rama Bijapurkar,** Eminent Marketing Consultant

| | |
|---|---|
| **Optimism** 'More optimistic about India than any other country' (interview excerpts of Ray Dalio) | 30 |
| **Perspective** "I believe that when brands price attractively, new markets will be created." – Mohandas Pai | 35 |
| Looking good | 36 |
| **Feature \| Kesh King** 'Hairnessing' potential | 40 |
| **Q&A** **Nilesh Shah,** Managing Director, Kotak Mahindra Asset Management Company Ltd. | 42 |
| Analyst Speak | 42 |





**Brand review–BoroPlus Guardian *Angel*** — 32

| | |
|---|---|
| Healing the pain of India | 50 |
| **Interview** "More companies should aggressively start promoting ayurveda." – Dr. M.S. Baghel, | 54 |

**Cover Story**
Naya Emami
PAGE 18








**Living naturally** — 56

| | |
|---|---|
| Turning into a truly global herbal and natural company | 58 |
| Innovating for the future | 60 |
| Growing together | 62 |






**the next big thing** — 24

| | |
|---|---|
| Innovating for the future | 60 |
| Growing together | 62 |
| Growing the e-way | 66 |
| Rolling with the changes | 68 |
| New Launches in FY18 | 70 |
| Emami making headlines | 90 |





**Management discussion and analysis** — 72






**Emami's A&P canvas** — 48





**Young leadership** — 15

**Statutory Reports**

| | |
|---|---|
| Directors' Report | 92 |
| Corporate Governance Report | 130 |
| Business Responsibility Report | 162 |
| Standalone Financial Statements | 176 |
| Consolidated Financial Statements | 232 |




**EDITORIAL BOARD**
N H Bhansali
Rajesh Sharma
Mahasweta Sen
Arpit Shah
Pritha Roy Chakrabarti



# Editors' note

*To all our stakeholders,*

Welcome to the 2017-18 edition of Emami Limited's Annual Report.

You have known this Company for decades. Our strength lies in creating sustainable competitive advantage – from products to practices and processes.

As India's business environment becomes increasingly disruptive with phases marked by increased digitalisation, we welcome the change with future-readiness.

In doing so, we are offering new products for new times through new marketing channels delivered to new territories entailing investments in new and young ventures.

In view of this intent, we believe Emami is attractively placed to enhance value for its shareholders.

**Welcome to Naya Emami!**

**Forward-looking statement**
In this Annual report, we have disclosed the Company's objectives, expectations and forecasts to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements – written and oral – that we periodically make may be forward-looking within the meaning of applicable securities laws and regulations. We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes' and words of similar substance in connection with any discussion of future performance. Although we believe that we have been prudent in our assumption, actual results may differ materially from those expressed in the statement. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions.




Additional details, investor information and the latest financials can be accessed at www.emamiltd.in across devices

# Readers' speak

The Annual Report of Emami Limited, since the past few years, have become informative and knowledge-enhancing. The report gives me a feeling of reading a quality business magazine. From the cover story, one can make out how intricately the subjects are handpicked to showcase the Company in a topical and relevant way. The vibrant layout provides a relief that makes it easy to read hardcore business information. Every year, the benchmark is getting raised.

**Biswanath Bhansali,** *shareholder*

The annual report by Emami Limited is a class in its own. From the annual report, we not only get the details of the Company's future but also get a glimpse into the Company's values, ethos and other achievements. The magazine styled look makes it a good read and we keep it on our living room table.

**Sunil Kumar Maheshwari,** *shareholder*

Emami's annual report is not just a Balance Sheet but provides a readable insight into the operations of the Company. Its unique format generates interest not only for shareholders but for consumers as well. The reports like Management Discussion & Analysis and Brand overviews help assess business prospects of not just of the Company but also for the category and industry. My best wishes are with the Company.

**Poonam Gandhi,** *Shareholder*

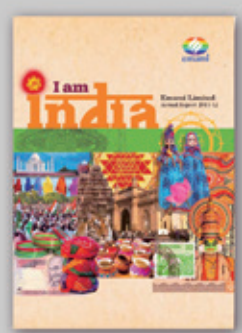
Business, The Emami Way" – The Annual Report of 2016-17 was a collector's item. Emami has its own unique way of functioning. Pioneering categories, introducing niches, differentiating from the clutter – all these represent the Emami Way of doing business. An annual report of a Company is one platform and one voice where a company can share not only its financials but also showcase values, traditions, business excellence and foresight. Last year's Annual Report of Emami Limited was bang on with that – a document that instantly instilled confidence in an investor that the Company's roadmap stands on the firm ground of tradition woven around innovation.

**Vijay Kothari,** *Shareholder*

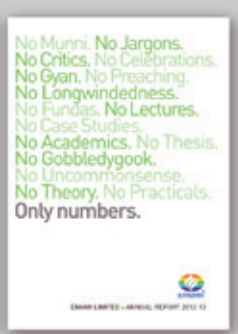



2016-**17**

## ANNUAL REPORTS OVER THE YEARS




2011-**12**




2012 -**13**




2013 -**14**




2014 -**15**




2015-**16**

FOUNDERS' STATEMENT

# The *new* rules of the game

Dear Shareholders

India is passing through an exciting transformation. One of the most decisive developments has been the wave of digitalisation sweeping across the nation. With a few clicks you can:

- Buy without touching physical cash
- Get your daily grocery delivered to your doorstep
- Book a cab
- Transfer money without writing a cheque
- Book a doctor's appointment and order medicines
- Plan an entire holiday
- Book train seats, hotel rooms and film tickets
- Access world news in real-time

The big message is that the digital revolution transpiring in the country is touching countless lives.

It would be naive to believe that this all-encompassing change would only be limited to IT companies.

The reality is that every single industry in India is being influenced and affected.

This is warranting businesses to work faster, map consumer trends deeper and distribute products wider.

This reality is prompting companies to transform their business models and reinvent their personalities.



## *Naya* Emami

Emami is attractively placed to capitalise this opportunity. The Company has invested aggressively and proactively to ride the digital curve with the objective to emerge younger. The Company has always been an early adopter of new technologies from the early days of barcode scanning to the today's world of robotics and self-service. Besides, new retail technologies offer Emami an opportunity to innovate service consistency and back-office management.

There are several new rules of the game, warranting not just a change in the way we see things but a completely new set of eyes. We derive a deep understanding of consumer preferences through formal and informal engagements. We examine how different customer categories – housewives, farmers, bankers and students – consume. This consistent understanding of grassroot realities did something important for Emami: it helped us focus on the power of ayurvedic formulations, our biggest competitive advantage. Besides, Emami recognises that in a new business environment, there is a premium on the need to specialise. This understanding prompted us to acquire focused companies as opposed to growing those capabilities patiently from within.

## Making the most of the digital revolution

In retail, more than almost any other sector, the move to a digital economy is bringing about a paradigm shift. There is an increasing need to blend traditional operating models with new-age technologies. With the advent of 4G data networks, a number of consumers have found an ideal purchase reference point through the digital media. The result is that India's digital commerce market is expected to exceed US$50 billion in revenues by the end of this year. As e-commerce grows, so should the country's ayurvedic and natural e-commerce segment. While most e-commerce platforms can expect a seven to ten-fold increase in revenue generation, the e-commerce market for ayurvedic and natural products would not only ride the digital wave but will also benefit from changes in consumer behaviour.

## The country is transforming

India stands at an inflection point. The country is marked by growing per capita disposable incomes. Most citizens have grown their aspirations. Consumers are willing to pay higher for value-added products. The digital age is creating disruptive business opportunities.

## And...Emami is transforming

Emami is leveraging the strengths of the past and addressing the challenges of the day. We are investing in cutting-edge technologies. We are mining data more extensively. We are strengthening our retail connect. We are exploring different delivery formats.

For instance, by deciding to market Nityam Churna in a tablet form, we virtually transformed a decade-old legacy into a modern application.

The Company is also investing in startups; it acquired a strategic stake in Helios Lifestyle, an online premium male grooming company widely known for it's 'The Man Company" brand. We took this move forward by acquiring a strategic stake in Brillare, which offers natural and premium professional salon products.

We invested >₹300 crore in an international standard state-of-the-art manufacturing facility at Pacharia (Assam), one of the largest in the country's FMCG sector.

The big message is that Emami is virtually reinventing itself across every dimension to accelerate its growth momentum.



"WE BELIEVE THAT MOST CONSUMER SEGMENTS WE ARE PRESENT IN ARE UNDERPENETRATED, OFFERING SUBSTANTIAL ROOM FOR GROWTH."

RS AGARWAL



"THE BIG MESSAGE IS THAT EMAMI IS VIRTUALLY REINVENTING ITSELF ACROSS EVERY DIMENSION TO ACCELERATE ITS GROWTH MOMENTUM."

RS GOENKA

## Strengthening our core brands

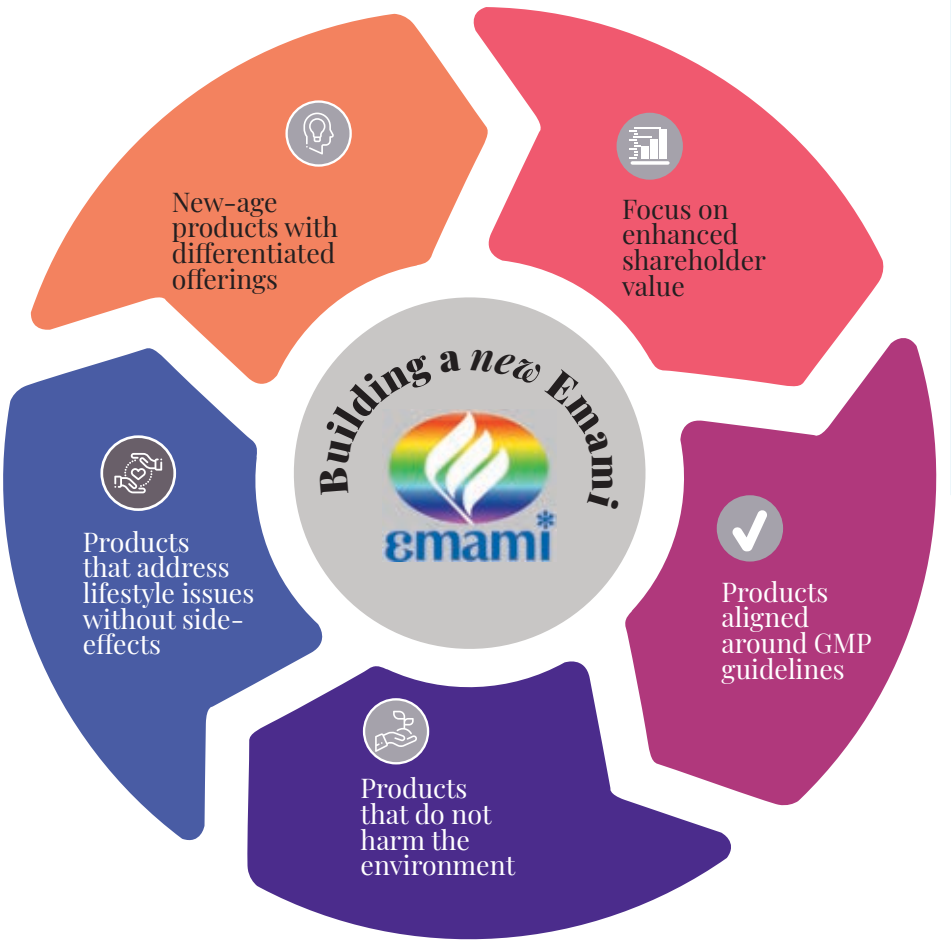
In the modern world, the strength of a brand is being increasingly manifested through an ever-widening array of media options. Emami is attractively placed in this regard. Our core brands continue to be active revenue generators enjoying market leadership despite being present for years. We believe that most consumer segments we are present in are underpenetrated, offering our brands substantial room for growth. We are continuously investing in our brands to enhance their relevance. We are focusing on brand extensions to carve out larger market shares. We are investing in cutting-edge packaging technologies to enhance aesthetic appeal.

## Enhancing market reach

The lean-manufacturing revolution has prompted companies to reinvent how they build efficiently. Emami has extended this commitment to sales and marketing. When growth was elusive, we made strategic investments in our sales infrastructure. We widened and deepened our market presence. This is the result: Emami's products are not only available in all Indian cities but even in more than 25,000 villages with a population of <5,000 across the country. We enjoy a direct coverage via 8.5 lac retailers and an indirect coverage via 4.3 million retailers. Our distributor network comprises 3,150 dealers. We sharpened our focus on the modern trade channel as a key growth driver, increasing its contribution from 4% of revenues in FY17 to 6% in FY18.

## Building on corporate governance

The modern world warrants a firm commitment towards enhancing business transparency and credibility. Hence, a seamless governance mechanism separates the successful from the rest. Over the years, Emami established a robust governance framework. The Company's Board comprises eminent personalities from diverse industry spaces; the various Board Committees oversee specific responsibilities that enhance understanding and compliance.




## Outlook for FY19

Emami's new-age products comprise differentiated offerings based on the age-old wisdom of ayurveda. Thanks to our aggressive marketing campaigns and continuously expanding distribution network, we made the most of incipient trends and intend to sustain this across the years that lie ahead. As the world transforms and new opportunities emerge, Emami is equipped to surge ahead.


## Acknowledgements

We are thankful to all our stakeholders for being a part of the Emami journey and look forward to their continued support as we advance towards realising our vision of a ***'Naya Emami'.***


**RS Agarwal | RS Goenka**

# Highlights, FY18

## Turnover

- Consolidated Net sales* grew by 5%
- Revenue from operations grew by 1%
- Domestic sales* grew by 4%
- International business grew by 14%

## Costs

- Cost of goods sold at 32.3% of sales, decreased by 60 bps
- Staff costs at 10.0% of sales, increased by 80 bps
- Advertisement and sales promotion increased from ₹ 443 cr in FY17 to ₹ 470 cr FY18. Investments in new launches increased by 5.5 times to ₹ 63 cr
- Admin & other expenses at 10.9% of sales, increased by 50 bps

## Profits

- EBIDTA margin at 28.3%
- Cash profit margin at 24.3%.
- PAT margin at 12.1%.
- EPS at ₹ 13.5; Cash EPS at ₹ 27.2
- ROCE at 26.2% (on Cash Profit)
- ROE at 30.7% (on Cash Profit)

## New launches

- Emami Diamond Shine Luxury Crème Hair Colour
- Fair and Handsome Laser 12 Advanced Whitening and Multi Benefit Cream
- BoroPlus Zero Oil Zero Pimple Face Wash
- BoroPlus Healthy White Fairness Cream
- Zandu Kesari Jivan Sugarfree
- Zandu Chyawanprashad
- Zandu Pancharishta Sugar Free
- Zandu Gel, Zandu Spray & Zandu Roll On
- Navratna i-Cool Talc – Dynamite Variant

## Capital Market

- Market capitalisation of nearly ₹ 24,300 cr. (as on 31st March 2018)
- The initial shareholder who invested ₹1,000 for 100 shares and invested ₹ 4,000 in a rights issue would presently own Emami shares worth around ₹ 8.9 crore – 22,470-fold return across 37 years
- Shareholders' wealth increased >46X and >10X following the public issue in March 2005 and QIP in July 2009 respectively.
- Around 35 brokerage houses covering Emami's stock included BNP Paribas, Bank of America Merill Lynch, CLSA, Credit Suisse, Deutsche Bank, Edelweiss, ICICI Securities, IIFL, Jefferies, Macquarie, Motilal Oswal Nomura and UBS.
- Board approved issue of Bonus shares in the ratio of 1:1

## Brand Performance *

**BoroPlus**
- Sales grew by 15%
- Antiseptic Cream continued to maintain leadership with a market share of 74.4%

**Pain Management**
- Sales grew by 9%
- Balms maintained leadership with a market share of 53.3%.

**Navratna**
- Sales grew by 5%
- Cool Oil increased market share by 190 bps at 63.8%

**Male Grooming**
- Sales grew by 3%
- Fair and Handsome Cream grew market share by 110 bps to 65.7%
- Fair and Handsome Facewash grew market share by 230 bps to 15.9%

**Kesh King**
- Ayurvedic Medicinal Oil continued to be the market leader with a market share of 27.9%

**Healthcare Range**
- Chyawanprash range grew by 43%
- Nityam range grew by 11%

** Like to like revenue (i.e. including GST/VAT)*
*Note: All market shares mentioned in this Annual Report pertain to MAT March 2018 in volume terms*