

emami* limited

Performance report 2004-5

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Corporate Information

Chairman

Shri R. S. Agarwal

Managing Director

Shri Sushil Kr. Goenka

Directors

Shri R. S. Goenka

Shri Viren J. Shah

Shri S. K. Todi

Shri S. N. Jalan

Shri K. K. Khemka

Vaidya S. Chaturvedi

Shri S. N. Bihani

Shri Mohan Goenka

Shri A. V. Agarwal

Shri H. V. Agarwal

Secretary

Shri A. K. Joshi

Auditors

M/s Saxena & 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.

Contents

Highlights	2
Chairman's Statement	4
International Business	6
Management Discussion and Analysis	8
Risk Management	16
10-Year Highlights	18
Economic Value Added	20
Corporate Governance	21
Directors' Report	32
Auditors' Report	37
Balance Sheet	40
Profit and Loss Account	41
Schedules	42
Cash Flow Statement	56
Balance Sheet Abstract	58
Consolidated Accounts	59
Statement Pursuant to Section 212 and Subsidiary Accounts	71





Emami Limited is one of India's prominent personal and health care companies, effectively fusing age-old herbal and Ayurvedic wisdom with modern scientific practices to develop innovative and effective products.

Highlights, 2004-5

Financials

- 1% growth in revenue to Rs. 226 cr
- 36% growth in PAT to Rs. 29 cr
- 33% growth in exports to Rs. 28 cr
- 30% increase in EBITDA to Rs. 35 cr
- 350 basis point increase in EBITDA margin to 15.5%
- Rating of 'AA+' for long-term borrowings and 'PR1+' for short-term borrowings from CARE
- Recognition as a 'one-star export house' by the Director General of Foreign Trade

Brands

- Boroplus Antiseptic Cream maintained its number one status with an increased market share of 63%
- Navratna Oil continued to be the market leader with an increased market share of 48%
- Despite de-growth in its category, Sonachandi Chyawanprash grew its sales by 51% in India, which helped increase its market share to 11%
- Fast Relief and Menthoplus Pain Balm continued to grow aggressively while Boroplus Prickly Heat Powder maintained its sales and market share

Inside our plants

- First full-year of operations at the greenfield manufacturing unit in Amingaon (Guwahati)
- A tie-up with an outsourcing unit in Baddi (Himachal Pradesh), the fiscal benefits of which will be visible from 2005-6 onwards
- The commissioning of a pilot plant in the Kolkata unit to manufacture OTC products
- The initiation of a backward integration of plant biotechnology to cultivate medicinal plants/herbs



through organic means

- The automation of the manufacturing facility in Kolkata
- The ISO 9001:2000 certification and cGMP-compliance of the Company's manufacturing units

In the market place

- An entry into the baby care segment with the launch of Sona Chandi Healthy and Fair Baby Massage Oil
- Enhancement of the Company's presence in Africa, Europe and the CIS countries
- A stronger distribution network through 2200 distributors (1700 distributors in 2003-4) and 3.67 lacs retail outlets (3.3 lacs retail outlets in 2003-4)
- A tie-up with the Post and Telegraph Services and ITC Limited for product distribution through the postal network in Maharashtra and 440 e-chaupals respectively
- An extension of the direct rural marketing initiative in West-Bengal, Chattisgarh, Madhya Pradesh and Andhra Pradesh, increasing direct household coverage from 50,000 to 5 lac homes

In the board room

- A public offer of 50,00,000 equity shares at Rs. 70 per share (face value of Rs. 2 each) in line with Clause 40A of the listing agreement (minimum 10% non-promoter holding)
- Issue over-subscription by 36 times
- Public issue proceeds to be progressively invested in capital expenditure, strategic initiatives, brand acquisition and a new corporate headquarters



Chairman's statement



Sri R.S. Agarwal, Chairman

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Dear Shareholders

A slowdown in the fast-moving consumer goods sector is the last thing any industry analyst would have predicted for a country suffering from a vast product under-penetration during a year of economic growth as in 2004-5.

But, a slowdown did transpire — a

mere 1% to 1.5% annual growth rate in four years on account of some really un expected factors: as the telecom and entertainment boom transpired, consumer spending was progressively allocated towards low-cost mobile telephony and other consumer durables, staggering the offtake of FMCG products.

The year 2004-5 was a challenging one for your Company, characterised by unprecedented competition in the form of freebies, schemes, promotions and discounts in a stagnant market. Emami successfully dealt with this situation by not only increasing the sales and market shares of its power brands, but also by substantially

Looking ahead, a growing economy with higher disposable incomes, a young population and growing aspirations provide a huge opportunity for the FMCG sector in general and Emami in particular.

increasing its profits.

As an opportunity-focused organisation, Emami consolidated its operations and undertook strategic initiatives to exploit the full industry potential when growth revives, a trend that is already becoming visible.

- We identified power brands and consolidated our brand portfolio. This led to the discontinuation of some brands and a better resource allocation. Brands introduced in the recent past are expected to generate attractive returns over the near future
- We focused on research and development to create innovative and value-for-money products, many of which are in the pipeline and will be introduced at an appropriate junctures
- We invested heavily in enhancing the international quality of our packaging. Our brands are now available across all price points with introduction of low unit packs (LUPs) in almost all categories in sachets, dibbis and small tubes
- We increased our urban and rural market reach with the establishment of specialised teams for both our rural scheme — Emami Mobile Traders and Emami Small Village Shops —

combining the twin objectives of community development and rural penetration

- We built sufficient manufacturing capacity in strategic locations to facilitate the smooth supply of goods at a cheaper cost
- We installed ERP across all factories and offices for a faster dissemination of information, better decision-making as well as increased efficiency and cost rationalisation
- We put human resource development as the topmost priority of the enterprise in creating a young, dynamic and professional team geared to meet emerging challenges
- We reinforced our war chest by ploughing back profits and the proceeds of a recently concluded public offer aggregating Rs 35 crores, which will be progressively utilised in capital expenditure, strategic initiatives, brand development and acquisitions

As a Company with a long-term commitment, we are convinced that the need to look good and stay healthy is assuming importance, endorsing our long-term rationale for existence in the business.

Given this long-term bullishness, I am delighted that the prospects for the short-term too have improved. This is evident in the numbers. In February 2005, the industry recorded an 8% growth rate, outperforming the 12-month moving annual total of 6.3%. Besides, in the first quarter of 2005, the FMCG industry recorded a 6.43% growth in sales, the highest since March 2001.

Looking ahead, a growing economy with higher disposable incomes, a young population and growing aspirations provide a huge opportunity for the FMCG sector in general and Emami in particular. Interestingly, the penetration levels in several categories and consumption levels in most of our categories is low. In addressing its significant industry potential with a business that has drawn on the wisdom of the ages, Emami will exceed the aspirations of each of its stakeholders — shareholders, customers, suppliers, community, distributors and employees in a competent and comprehensive manner.

With best wishes,



R.S. Agarwal
Chairman



International business

International market

- Presence in 53 countries worldwide.
- Focus in CIS, SAARC, GCC and Africa.
- Subsidiary companies comprise Emami UK Limited and Emami Bangladesh Limited

- Will set up its first overseas manufacturing unit in Bangladesh in 2005-6
- Status of 'one star' export house

Global industry overview

The global market for herbal products (comprising health supplements, herbal beauty and toiletry products) is estimated at around USD 62 bn.

Performance

- Emami's international business

contributes around 12% of its total turnover.

- Launch of new products in the international market and efficient marketing lead to a 33 % growth over the previous year.

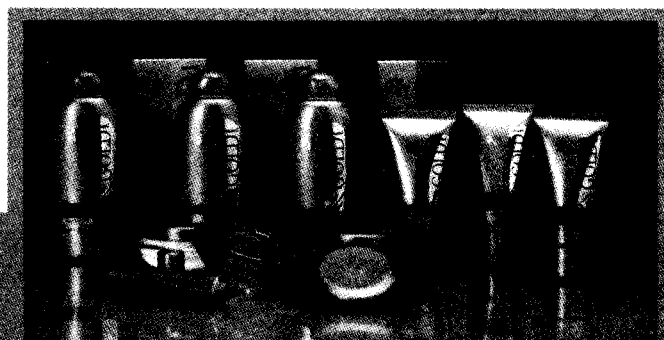
Strategy

- New brands were launched in select international markets, keeping in mind specific consumer requirements assessed through local

International brands

The Company identified four powerful brands for the international market:

Brands	Emami	Himani	Ayucare	Emma
Products	Cosmetic products pertaining mainly to the skin care range	Consists of products using principles of Ayurveda	Range of lifestyle enhancing products developed by Himani Ayurveda Science Foundation	Products as per regional preferences
Market	Across all regions	Across all regions	Europe & parts of GCC	Price sensitive markets across all regions
Target customer segment	Upper and Upper middle class	Middle income group	Niche segment	Mass markets



consumer research

- Each brand had a unique pricing strategy, customised for target segments. For instance, while 'Emma' was launched keeping in mind the choice of the masses, Ayucare products were positioned in a niche segment.

- The regional focus for each brand worked out as per each market characteristic. For instance, 'Emami' was promoted as a brand that reflected 'care' while 'Emma' was adapted to local market preferences.

- Having achieved a significant share in the international market, efforts are now on to strengthen the brands in key international markets.

Over the years, the Company strengthened its position in the international market due to its focus on the following:

- Quality, a business driver ensuring sustainability and existence. All Emami products were clinically tried and tested. Key manufacturing units

practiced cGMP norms and were ISO certified.

- Key products were promoted in select countries aggressively. For example, promotional campaigns like the 'Boroplus' Peace Rally in Nepal and sponsorship of the Miss Myanmar beauty pageant helped create visibility. Besides, advertisements in the regional mass print/visual media helped generate awareness while exhibitions/trade shows were useful in market penetration and new product introduction in Europe and GCC.

- Research and Development (R&D) widened product variety. Regional product requirements were met successfully. For instance, the 'Emma' range addressed new products according to regional demands through a strong research focus leading to a short product development cycle.

- Constant monitoring and research of market trends, customer preferences, competing strategy and price movements helped the company's products evolve as per

consumer requirements.

- Emami leveraged its deep understanding of the international markets developed over the years in evolving successful international business model with a respective regional focus.

- The Company gained expertise from the team of experts in the field of Ayurveda and packaging development, gathered from across the world, in terms of product development and a timely launch of new products ahead of competitors.

Outlook

Considering the huge international potential and strategic initiatives, the company's international business segment is expected to sustain its growth, enabling the company to emerge as a respected multinational company of Indian origin in the international arena.

Ayucare

FAO
Purify



Management

discussion and analysis

Industry overview

Indian FMCG industry

- India's Rs. 600 bn FMCG sector is its fourth largest industrial segment, accounting for 5% of its factory employment
- India's FMCG sector is dominated by low-priced products. More than 60% of the sector's offtake is driven by the low income and lower middle-income groups; 56% of the country's offtake is derived from rural markets
- India's FMCG business strength is influenced by supply chain efficiency, brand management, proactive recognition of dynamic consumer trends, active product development and effective marketing
- Advertisement and promotion costs range from 5% to 25% of revenues

Demand drivers

There has been no better time to be present in India's FMCG industry than the present. Advertising in the electronic media is affordable, liberalised and penetrating. As a

result, a number of companies widened and deepened their distribution networks, improved packaging and pricing, thus making an attractive proposition for them to drive sustainable growth.

What makes this business really attractive and lucrative is the huge potential that it has in India's rural and urban markets. For instance, with the positive change in lifestyle among India's rural population; affecting affluence and purchasing power, there has been the emergence of an entirely new generation of consumers. Understandably, marketing companies are no longer segmenting the market into a neat urban and rural divide. Instead, the divide is presently based on affordability and purchasing power. Steady migration from a low-income group to lower-middle and middle-income groups is a sure sign of India's vast and growing consumer base.

Rural industry

India's rural FMCG market is characterised by the following:

- Frequent product sales

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