

Emami passes demo, GST hurdles

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Emami has shrugged off the previous quarter's blues by posting a 49 per cent surge in its net profit in July-September on a 10 per cent rise in sales volume and a 7 per cent increase in earnings.

This is in sharp contrast to a 98 per cent dip in the company's net profit on a 16 per cent decline in revenue during April-June in the aftermath of demonetisation and destocking by channel partners in the run-up to the goods and services tax (GST).

A key strategy, set in motion three quarters ago, has begun to pay off as Emami's dependence on the wholesale channel has decreased from 53 per cent to 42 per cent while its direct sales outlets increased to 800,000 from 640,000.

"We laid emphasis on reducing the wholesale channel and pushing more into rural markets with direct presence. Along with the increased focus on our power brands, we were able to make a turnaround," said Mohan Goenka, director, Emami.

Emami's dependence on the wholesale channel proved to be a bane during October-December when demonetisation was announced. Also, 53 per cent of its channel base resorted to massive destocking as the GST roll-out on July 1 approached. Emami



KEY FINANCIALS

	Q2 FY 2017	Q3 FY 2017	Q4 FY 2017	Q1 FY 2018	Q2 FY 2018
Revenue from operations	583.51	725.95	577.72	541.1	628.12
Net profit	65.87	134.34	83.32	0.89	98.6
Cash profit	145.15	216	159.68	76.08	173.72

All figures in ₹crore

Source: Emami

first tried to pull down its cost of operations to maintain margins, but eventually had to give up.

The company posted flat revenue and profits in October-December at ₹726 crore and ₹134.34 crore, respectively. Revenue declined by 4.3 per cent in January-March and by a further 16 per cent in April-June.

The crisis forced Emami to reorganise its channel base. This provided

the company better business possibilities, helped to curtail costs and pushed trailing brands through direct reach. It also cushioned Emami against the risks of destocking and restocking.

"Recovery has been good in the northern and eastern markets, particularly Uttar Pradesh, Rajasthan and Bihar, which together account for 55-60 per cent of our sales. Rural markets are

on the verge of recovery and restocking is taking place," Goenka said.

Predicting recovery in the September quarter, Emami had increased its focus on marketing initiatives, although its spending remained flat at around ₹100 crore.

Goenka said for the rest of the year, the company's strategy would be to limit its exposure to the wholesale channel, increase focus on rural sales and launch power brands. Emami's brands like BoroPlus, Navratna, Zandu, Fair and Handsome, and Kesh King account for over 75 per cent of the company's sales.

"Sentiments are improving and the growth momentum will be sustained in the coming quarters," Goenka said.

International sales, which account for 14 per cent of Emami's ₹2,533 crore top line, grew 22 per cent in the September quarter against a 19 per cent decline in the previous quarter.

The company has reduced its focus on middle-east Asia and increased its efforts in south Asia, particularly Bangladesh, which accounts for nearly 35 per cent of the total international sales.

The Bangladesh unit, set up in December 2012, caters to 25 per cent of Emami's international business volume and 80 per cent of its market in that country. Emami expects 38-40 per cent growth in Bangladesh in the near term.