

News monitored for: Emami Group

# Dermicool to deliver good gross & Ebitda margins, says Emami

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**FMCG MAKER EMAMI** expects 'Dermicool' to deliver a 'good gross margin and Ebitda margin' going ahead in the prickly heat powder and cool talc category as the company will reap the benefits from the ₹432 crore acquisition 'gradually' from the beginning of the next financial year.

The high-margin category is likely to witness a double-digit growth in the current summer season after sales were impacted in the last two seasons due to pandemic.

Emami announced the acquisition of Dermicool, currently the No. 3 brand in the ₹750-800 crore category, from consumer giant Reckitt two days ago. After this acquisition, the Kolkata-based company will become market leader in this niche category, replacing Zydus Wellness' Nycil. Emami's own Navratna Cool Talc is No. 2 brand in this category.

Talking to *FE*, Naresh Bhansali, CEO-finance, strategy and business development and CFO, Emami, said gross margins in the prickly heat powder and cool talc category are high. The company would be investing behind the Dermicool brand in marketing. And despite investing behind the brands, it will command 'good' Ebitda margin.

At present Dermicool commands 20% market share. Navratna currently has around 25% market share. Combining these two brands, the FMCG maker will have a total market share of around 45% in the prickly heat powder and cool talc category.

"From the beginning of next fiscal, Emami will benefit from the Dermicool acquisition in terms of revenue and cost optimisation. We would promote both the products (Navratna Cool Talc and Dermicool) and we will make marketing investments in both the products. And, both the products are expected to deliver good gross margin and Ebitda margin," Bhansali said, adding category is likely to witness a 'double-digit' growth in the current summer season. Sales had been impacted in the last two seasons due to the spread of the Covid-19 pandemic.

According to Bhansali, the acquisition of Dermicool will help Emami optimising cost as consolidation of the two brands in the same category is expected to give the company 'more bargain power'. "When you consolidate with larger volumes, you can get more bargain power in terms of marketing inputs and materials. Because with the combined volumes, requirements increase. And, you can also judiciously use



■ The high-margin prickly heat powder and cool talc category is likely to witness a double-digit growth in the current summer season after sales were impacted in the last two seasons due to pandemic

■ Emami will have a total market share of around 45% in the prickly heat powder and cool talc category, post Dermicool's acquisition

trade inputs," he pointed out.

In a report on Emami, issued on March 27, Prabhudas Lilladher said the company's Dermicool acquisition, funded by internal accruals, will make it a market leader in cool talc category. "Assuming mid-single digit growth and synergy benefits, we believe it will add ₹0.16 and ₹0.22 to EPS (net of interest income loss and amortisation). We believe that the move is positive, but not a game changer as it does to change the seasonality impact in the company," the brokerage firm said.

"Dermicool had reported sales of ₹110 crore with gross margins of 55% and Ebitda of 36%. We factor in 7% CAGR in sales. Post netting off loss of interest income on surplus funds, we estimate that the acquisition will provide incremental PAT of ₹10.2 crore and EPS of ₹0.22, excluding the amortisation impact," Prabhudas Lilladher said in his report. It also said Dermicool will provide synergy in distribution with strong presence in e-commerce, modern trade and south India versus Emami's strength in rural and other regions.

"With Emami's strong rural footprint, direct coverage of 9.4 lakh retail outlets across 26,000 rural clusters, Emami will tap rural markets with the introduction of its small packs," it added.

On the consolidation of its newly-acquired brand with its own brands, the company said in this summer season (February-July) it would not make any changes and would continue with the Reckitt's plan.