

Emami takes a big leap

The company strikes its biggest deal ever; now time to deliver

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Last week amidst forecasts of a weak monsoon that had the corporate world fretting about weak consumer demand, one of India's oldest FMCG majors announced its biggest acquisition ever. Kolkata-based Emami Ltd acquired the hair and scalp care brand Kesh King for ₹1,651 crore from SBS Biotech, a company based in Himachal Pradesh. The price which is 5.5 times the sales value did not deter Emami. And the deal, one of the largest since the ₹3,260-crore-buyout of Paras Pharmaceuticals by Reckitt Benckiser in 2010 (eight times the sales value at that time), has set the market buzzing with renewed energy.

The acquisition marks Emami's entry into the ayurvedic hair and scalp-care segment, estimated at ₹800 crore by Edelweiss Securities. It is Emami's fourth buy in the last one year. It acquired 66 per cent stake in Australian organic personal care firm Fravin. This was preceded by the buy-out of sanitary napkin brand She Comfort for around ₹50 crore and vanaspati oil brand Rasoi (by group company Emami Biotech) for close to the same amount last year. Unlike the previous three, this is a big ticket acquisition – the biggest in the company's history. (Emami acquired Zandu in 2008 for ₹750 crore)

Given the steep price, many question Emami's strategic sagacity in striking such a deal. Their logic: Kesh King is not available in all parts of India and hence such a valuation is surprising. According to an ear-



With Kesh King, Emami adds to its hair oils portfolio of Navratna and Seven Oils in One

lier report in Business Standard, buyout talks for Kesh King had failed because numerous players including Dabur, Bajaj and Marico had walked out over what they said was a valuation mismatch. The promoter of Kesh King Sanjeev Juneja had allegedly sought about ₹2,200 crore for the brand according to reports but he found no buyers.

"At a time when earnings of FMCG companies will be under pressure due to tepid consumer demand, such a decision is surprising," an analyst with a leading brokerage said. But, Emami says that its acquisition strategies have always raised eyebrows. The company believes that its strength lies in being able to identify categories with high potential very successfully. In fact, its strategy has a salient feature: enter underpenetrated, niche categories and turn them into blockbuster businesses. "We have always planned our investments with an eye on the future growth potential of categories," Harsh Agarwal, director

at Emami had earlier told Business Standard.

Brand experts believe that Emami, with its high advertisement spending can make Kesh King a household name. "A lot of thinking goes behind every ad campaign, so that customers can identify themselves with it; I believe with successful campaigns, the company can turn this into a multi-million brand," said Alyque Padamsee who has been advising Emami for the last 15 years. The latest acquisition will make Emami the biggest player in the ayurvedic hair oil category, estimated at about ₹300 crore.

SBS Biotech first introduced Kesh King as a consumer brand in 2009, before which it was sold as a home remedy product. It is available in oil, shampoo and capsule formats. Hair oil comprises 80 per cent of the brand's sales, shampoos almost 15 per cent while the rest is from capsules. "Emami is now in a

dominant position in the ayurvedic and herbal space. In the Ayurvedic hair oil segment, Kesh King is the market leader with over 40 per cent market share and this will help Emami consolidate its position," said Abneesh Roy, associate director, institutional equities, research, Edelweiss Securities.

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According to a report by Motilal Oswal, Emami with a share of 5.5 per cent is far behind Marico with 35 per cent in the traditional hair oil market, but growth has slowed in that category. However the value-added hair oil market is growing faster due to premiumisation and speciality of benefits being offered. In the cooling oil segment, Emami has 72.7 per cent of the share of the market due to its first-mover advantage. Roy says that it would enjoy a similar advantage in the ayurvedic hair oil category now.

BUILDING AN EMPIRE

- Emami buys Kesh King for ₹1, 651 crore, adding to its portfolio of Navratna Oil and Seven Oils in One
- Its biggest purchase so far, it last bought Zandu in 2008 for ₹750 crore
- Fourth buy in a year: Bought 66 per cent in Fravin (undisclosed amount); She Comfort and Rasoi for ₹40-50 crore each

Source: Company and industry reports

Emami which sells herbal, healthcare and natural products under the Zandu brand sees Kesh King as a natural extension of these products. "Though headline acquisition multiple looks high, Kesh King products are based on an ayurvedic platform, which is similar to Emami. There is definitely a synergy," brokerage firm Nomura said. Roy believes that with Emami's distribution channel, it was a low hanging fruit and they would now expand the brand across India. Kesh King's FY 15 sales was ₹300 crore and with an operating margin of close to 50 per cent and analysts believe that the acquisition could add about 15 per cent to Emami's revenues. It could also stretch Emami's financials in the immediate term (analysts at Prabhudas Lilladher believe the brands will post a net loss of ₹99 crore and ₹50 crore in FY16 and FY17, respectively); but, with a cash pile of more than ₹800 crore, Emami is not losing its hair over this deal, at least not yet.