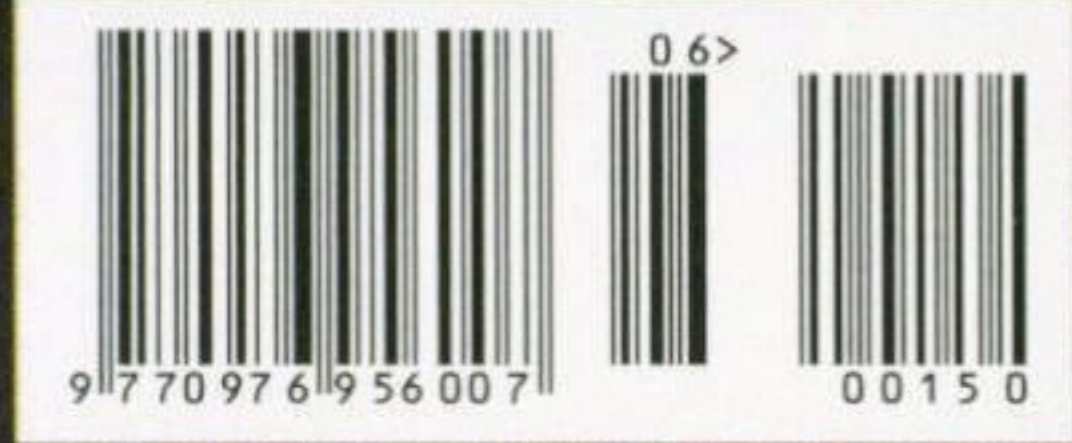


AMAZON GETS FRESH + FACEBOOK'S FIX-IT TEAM

FORTUNE

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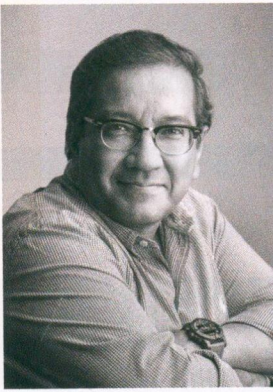
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WHO WILL WIN FORTIS?

THE BATTLE
FOR INDIA'S
SECOND-LARGEST
HOSPITAL CHAIN
IS PITCHED, BUT
THERE'S NO CLEAR
WINNER YET.



HAVELLS
CHARTING
A NEW
COURSE
P.52



ALL EYES ON THE PRIZE

FEW CORPORATE BATTLES have been as unpredictable and as dramatic as the one currently playing out for Fortis Healthcare, the hospital chain once owned by the Singh brothers Malvinder and Shivinder. Ever since it became clear that the company would be opened up for bidding and the Singhs were no longer in charge, it's been a series of endless twists and turns, a story which is a continuous work in progress. The cast of characters includes some of the biggest names in India and overseas—the Munjal-Burman combine, representing two of India's best-known business families, Ranjan Pai of the Manipal Group with TPG Capital, IHH Healthcare of Malaysia, and the KKR-backed Radiant Life Care. Chinese giant Fosun has also been sniffing around. Much has happened at the time of going to press. After the erstwhile Fortis board declared the Munjal-Burman combine as the winners in an earlier round of bidding, the board itself was reconstituted after four members resigned or were voted out. It was then natural that the entire bidding process would have to start all over again. And that's exactly what has happened. All bidders are now back to the starting line.

What is it about Fortis that makes it so attractive to so many? For one, Fortis is a well-known hospital chain—India's second largest—with 31 hospitals in 15 cities and three overseas. Despite being in frail financial health, Fortis has the potential to add enough muscle to each of the bidders. Not surprisingly, the three which have been so far ahead in the race—the Munjal-Burman combine, Manipal-TPG, and IHH—have come up with various permutations and combinations which each of them feels is best suited to nursing the hospital chain back to health. Fortis' average revenue per bed and gross margins make it very attractive to potential owners and ramping up bed count is also easy owing to the structure of its hospitals. In our cover story, *Fortune India's* Delhi bureau chief Ashish Gupta and Bengaluru-based senior assistant editor Debojyoti Ghosh assiduously track the bidders' every move and dive into the engrossing and nail-biting Fortis drama. One thing, they say, is obvious: The bidding war and its outcome are only the first big step in what is arguably a multi-layered story. Whoever wins Fortis eventually will then have the arduous task of getting it back on track and also finding the best possible solution for Fortis subsidiary SRL Diagnostics. Even after this issue hits the stands, the story will be playing out and we at *Fortune India* will be bringing you the developments both in the magazine and on our digital platform. But for now, it's the story so far.

Moving away from Fortis, we discuss how two business families are in the midst of fine-tuning their strategies to stay ahead of competition. Arnika Thakur tells the

story of Anil Rai Gupta, son of the legendary Qimat Rai Gupta, founder of Havells. The son is busy transforming the electricals company he inherited into a consumer durables challenger after the acquisition of Lloyd's consumer durables business. Elsewhere, Debojyoti Ghosh tells of how the second generation of two friends-turned-business partners, Radhe Shyam Agarwal and Radhe Shyam Goenka of consumer goods major Emami, is seamlessly working to get into new areas like male grooming and professional salon products to take on startups and newer entrants. There's lots to read in the next few pages. So read on.

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SPRUCING



From left: Emami Limited's directors Priti A. Sureka, Harsha V. Agarwal, Mohan Goenka, and Prashant Goenka.

UP ITS ACT



WITH COMPETITION
NIPPING AT ITS
HEELS, **EMAMI** IS
ENTERING NEW
SEGMENTS
AND PUMPING UP
ITS E-COMMERCE
BUSINESS.

BY DEBOJYOTI GHOSH

PHOTOGRAPHS BY
NARENDRA BISHT



When Harsha Vardhan Agarwal, a second-generation scion at Emami Limited, spearheaded two deals in the last six months to invest in young consumer goods companies, he wasn't just thinking in terms of picking up a stake.

His rationale was simple. "We have to be present where we don't exist. Across the consumer space, there have been big disruptions led by startups and smaller companies. It is important for us to be part of that," says the 42-year-old director of Emami Limited.

In December last year, the Kolkata-headquartered consumer goods company picked up a 30% equity stake in Gurugram-based Helios Lifestyle, which sells men's grooming products under The Man Company brand, for an undisclosed amount. Within two months, Emami invested in Ahmedabad-based Brillare Science, a manufacturer of hair and skincare products for professional salons. The financials of the deal were not disclosed.

Harsha Agarwal's decisions made business sense. With competition from startups and



EMAMI IS GIVING ITS EXISTING BRANDS AN EDGIER LOOK AS IT LOOKS TO GROW IN THE RURAL MARKET.

deep-pocketed multinationals nipping at the heels of traditional family-run businesses in India, the second generation of leaders can't afford to be complacent. Emami is no exception. It began as an Ayurvedic medicine and cosmetic manufacturing company founded in 1974 by Radhe Shyam Agarwal and his childhood friend-turned-business-partner, Radhe Shyam Goenka. Today, Emami is an established skincare and healthcare company with a string of big brands such as Boro Plus and Zandu Balm, and a market capitalisation of around Rs 24,000 crore. As the company looks to grow in an increasingly crowded market, the next generation of leaders has stepped on the gas: Apart from looking at new businesses, they are also focussing on the rural market, refurbishing their product line, investing in IT infrastruc-



Manish Goenka (left) and Aditya V. Agarwal, directors of Emami Group.

ture, and embracing e-commerce.

Today, Emami remains a family-owned enterprise (with promoters' holdings at 72.74%), and is run by the children of Agarwal and Goenka. But there is no rivalry between them. The current directors of Emami Limited are Radhe Shyam Agarwal's son, Harsha Agarwal, who focusses on the Zandu healthcare business and Navratna Oil, among other brands, and daughter Priti A. Sureka, who manages a few Emami brands, and its R&D wing. Mohan Goenka (son of founder and whole-time director Radhe Shyam Goenka) oversees Emami's pain-relief portfolio and the Fair And Handsome brand. Prashant Goenka (Radhe Shyam Goenka's nephew) heads the company's international business division. Aditya Vardhan Agarwal (Radhe

Shyam Agarwal's son) and Manish Goenka (Radhe Shyam Goenka's son) are directors of Emami Group, and head businesses such as cement, paper, edible oil, and biodiesel.

Emami's investments in the men's grooming and professional salon products businesses are a well-planned strategy. Harsha Agarwal is bullish about these investments. The reason: Men's grooming in India is a rapidly evolving space estimated to be an over Rs 5,000 crore market. According to market research firm Euromonitor International, the men's grooming market in India is expected to rise to more than Rs 10,000 crore in the next three years. Even for Emami's peers, such as Marico, male grooming is expected to be one of the key growth drivers over the next few years. Last year, Marico acquired a 45% stake in Ahmedabad-based Zed Lifestyle, which owns Beardo, a men's grooming brand. "India is an under-penetrated market with respect to grooming, haircare, skincare, and cosmetics," says Devangshu Dutta, chief executive of retail consultancy Third Eyesight. "The investments in Helios and Brillare will enable Emami to tap into segments that are growing rapidly—male grooming and professional salon products. In time, Emami could also completely acquire these businesses to widen its own portfolio."

Harsha Agarwal knows it is important to spot trends and act fast. He points out that Emami will only look at companies in the consumer space that can have an impact on the existing business. "For us, Brillare was a perfect fit because we didn't have a presence in the salon product business. In future, we might look at collaborative products with them. We are in talks with the [Brillare] founder to develop some products for us," he says. Emami made the investment through compulsory convertible preference shares, which on conversion in three years, will result in a 26% stake in Brillare.

Despite operating in a crowded market dominated by global giants such as Hindustan Unilever (HUL), Garnier, and Beiersdorf, Emami's Ayurveda and herbal-focussed product portfolio has given it an edge. Backed by a strong distribution network and a product line of household names including Navratna Oil and Fair And Handsome, the company has a dominant position in rural markets and tier 3

and IV cities, say market analysts.

Even when Emami launched Fair And Handsome in 2004, it disrupted the market and created a new product category—men's fairness creams. The first-mover advantage helped the company capture a dominant share in the domestic men's fairness products market. Fair And Handsome enjoys a leading market share of about 65%, followed by India's largest consumer goods company HUL's Fair and Lovely Max Fairness for men at about 30%.

To stand out as a disruptor has worked in Emami's favour. "However, Emami realised that what brought them here will not take them there. The consumer today is different, competition is different, and the way of doing business is different," says Christo Popov, founder-CEO of FastTrack Europe, a consulting and management coaching firm. He adds that Emami has adopted a holistic approach to innovation, which is not just the product. "It also includes the market they target and the way they market the product to reach the audience. In the next two-three years, the market will see a new, agile, innovative, and forward-looking Emami," says Popov, who is helping the company in some of its new initiatives.

With the changing market dynamics, Emami is consciously giving some of its existing brands an edgy look. Take Kesh King, for example. Priti Sureka, 46, says the company is refurbishing the entire Kesh King hair oil range to give it a more new-age look. "We have fortified the formula of the hair oil keeping Ayurveda as the base. The product design, packing and communication, are all undergoing a change," she says.

In 2015, Emami acquired Kesh King's hair- and scalp-care business from Himachal Pradesh-based SBS Biotech for Rs 1,651 crore, in one of the largest deals in the Indian consumer goods sector in recent times. According to a May 2018 report by Edelweiss Securities, Kesh King—which now contributes about 10% to the company's consolidated revenue—has a leading 27.9% share in the Ayurvedic oil market. "We expect Emami to exploit the strong brand equity of Kesh King by launching variants," says Abneesh Roy, an analyst with Edelweiss Securities.

Analysts are confident about the Emami brand. A 2017 report by investment bank UBS pointed out that although around 40%

of Emami's portfolio overlaps with Patanjali in terms of broadly-defined categories, "substitution risk for Emami's products is low. That is due to the niche positioning of products it has achieved through innovation and acquisitions". Until Patanjali entered the Indian consumer goods market in a big way in 2014 with its product line solely focussed on Ayurvedic ingredients, Emami was among the few home-grown players to have traditionally gained from its Ayurvedic and herbal positioning.

But Emami can't afford to sit back and let the competition win the race even though it posted a profit of Rs 307 crore on revenue of Rs 2,541 crore in 2017-18. That's why it is expanding to newer categories. Six months ago, it forayed into the hair colour segment with its brand Diamond Shine targeting smaller cities and towns with a lower price point. "Hair dye is a huge category and has a lot of growth potential. Ayurveda is the core of all our products. It always was, but now it finds a stronger play across segments," says Priti Sureka.



Besides hair colour, Emami has a pipeline of products as part of its brand extension for Fair And Handsome (mostly in the men's face and skincare category). Today,

men's grooming is not restricted to urban markets; it has expanded to rural areas and towns with small-size packs at lower prices, fuelling growth. For Fair And Handsome, 60% of its sales come from smaller packs.

Retail consultants believe that with changing lifestyle, work environment and higher income levels, there is a "greater consciousness" about appearance among consumers. "Media and entertainment also have a role in this. Even the rural consumer today is impacted by marketing messages, and product choices that are prevalent in the larger cities," says Dutta of Third Eyesight.

Over the years, Emami's strategy of aggressive advertising and promotion backed by celebrity endorsements has resonated with India's price-sensitive market with a large rural base. This year, the company plans to advertise and promote smaller-size packs to tap rural markets, which account for about 52% of company revenue. The rural game plan is key to the company's success. A CRISIL report states that 40% to 45%

"ACROSS THE CONSUMER SPACE, THERE HAVE BEEN BIG DISRUPTIONS LED BY STARTUPS AND SMALLER COMPANIES. IT IS IMPORTANT FOR US TO BE PART OF THAT."

HARSHA VARDHAN AGARWAL,
DIRECTOR, EMAMI LIMITED



of revenue for the consumer goods industry is from rural areas. Rural revenue was forecast to grow upwards of 16% in FY18, almost double predicted urban revenue growth of 8%, which has remained constant over the past few years.

The company is leaving no stone unturned. More than 25,000 villages with population of under 5,000 were covered in the last 18 months as part of Emami's rural expansion and penetration drive, which concentrated mainly on Bihar, Uttar Pradesh, and Andhra Pradesh. About 250 vans—the bulk of which have been added in the last one year—served these markets, driving trial and adoption of Emami products. The results speak for themselves: About 15% of sales came from van-operated regions. Emami says van operation sales stood at Rs 61 crore in FY18. "It is one of the biggest revamps of our distribution network. Before vans, our sales people used to visit shops to take orders. Now our vans reach the local retailer directly. Typically, our margins are about 60%," says Mohan Goenka. The 45-year-old adds that the overhead costs for vans are higher at about 8% to 9% compared to 3% to 4% for just order booking by the sales team.

Emami is also expanding its sales and distribution network. The company hired more than 500 frontline sales executives, who are typically on a distributor's payroll, to ramp up its direct retail sales presence. Emami products reach 850,000 retail outlets across the country directly, up from 650,000 outlets earlier. "Our wholesale contribution was very high compared to some of our peers," says Mohan Goenka. "And post-demonetisation and the implementation of GST, the wholesale business started declining. Companies that had direct reach with retailers didn't suffer too much. We changed the equation and added 200,000 outlets. Our plan is to reach out to one million outlets through direct distribution channel."

He also has plans for his portfolio within the Emami business. Mohan Goenka—who oversees Emami's pain relief portfolio comprising Zandu Balm, Fast Relief, and Mentho Plus brands—understands that small packaging is big in the rural market. "The strategy is simple. Consumers don't like too many changes in formulation, look and smell of healthcare products," he says. "The only

STAYING FOCUSED ON HEALTH, SKIN & HAIR

PROFITTING

With a market capitalisation of more than Rs 24,000 crore (as of March 31, 2018), Emami posted a profit of Rs 307 crore in FY18 on a revenue of Rs 2,541 crore during the same period.

THE MARKET

The male grooming market in India is expected to be more than Rs 10,000 crore in the next three years.

BABA EFFECT

Around 40% of Emami's portfolio overlaps with Patanjali.

RURAL DRIVE

More than 25,000 villages with a population under 5,000 were covered in the last 18 months as part of Emami's rural expansion and penetration drive.

HI-TECH

Emami has invested Rs 70-80 crore in building IT infrastructure and technology.

way the brand can grow is by launching small variants of the product. We have launched a Rs 2 pack of Zandu and Mentho Plus balm. This will boost our penetration in the rural markets." He adds that in the pain-relief category, painkillers priced at 50 paise or Re 1—such as Aspirin, Saridon, and Disprin—are the biggest sellers. "Our aim is to replace tablets with small-size balm packs, a safer alternative for aches and pains," he says.

The company isn't just focussed on its distribution channels. Though it might be a tad late to the game, Emami realised that embracing e-commerce was unavoidable. After all, all the big players in the industry have clambered aboard the online selling bandwagon. "Currently, online play in consumer goods is very small compared to its overall size. The way online for consumer goods shapes up will depend on how industry majors respond to it. In this backdrop, there is no question that Emami is late," says Ankur Bisen, senior vice-president, retail and consumer products division at Technopak, a management consulting firm.

Emami has been listening. It has big hiring plans for its e-commerce vertical, and is focussing on selling its products on online platforms. The spend on digital media and advertising has also gone up. The company has invested in building IT infrastructure and technology. In the last two years, it has invested about Rs 70-80 crore in ramping up its backend technology, and in areas such as data analytics. Emami is aware of the changing business environment, customer demography, and the competition it is up against. "Every brand is potentially at the risk of substitution by other domestic brands as well as international brands, and an incumbent market leadership position can be a liability rather than an asset, if it makes the brand complacent," says Dutta.

At the end of the day, Emami isn't resting on its laurels. In a space where first mover advantages and product differentiation are not enough to maintain dominance, the company's focus on ramping up its product portfolios and distribution holds the key to the next level of growth. The Emami vision for success seems fairly straightforward: Build on the present and invest for the future. ■