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# Forbes INDIA



DR PRATHAP C REDDY WITH DAUGHTERS (From left) PREETHA, SHOBANA, SANGITA & SUNEETA

India's **FAMILY** Businesses

## APOLLO'S CREED

LEAVING NO AMBIGUITY ON THEIR VISION, DR PRATHAP C REDDY AND HIS DAUGHTERS ARE PENNING A CONSTITUTION TO GUIDE GENERATIONS NEXT

PLUS

EMAMI • BPL • MID-SIZE MIGHT • FAMILY CONSTITUTIONS & THE ADI GODREJ INTERVIEW

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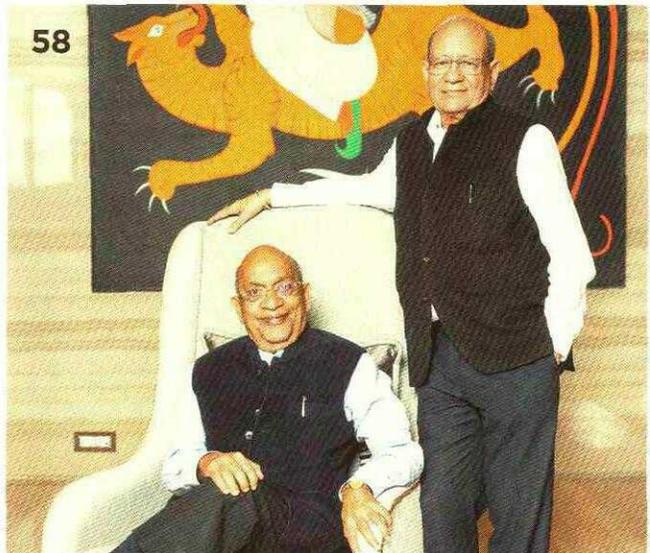
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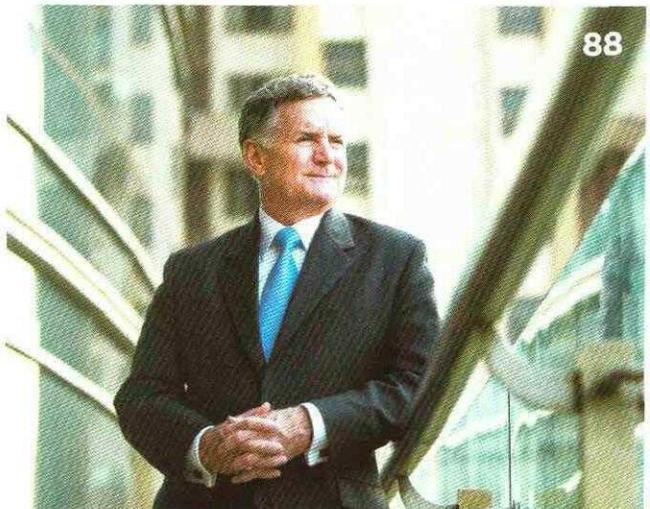
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A family constitution helped the Burmans grow Dabur's business



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Emami founders Radhe Shyam Agarwal (left) and Radhe Shyam Goenka



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**MANISH GOENKA**  
Heads group's non-FMCG businesses

**ADITYA V AGARWAL**  
Heads group's non-FMCG businesses

**PRITI A SUREKA**  
Handles Emami's Boroplus, Kesh King & Vasocare brands; heads R&D

**RS AGARWAL**  
Founder, Emami group

INDIA'S FAMILY BUSINESSES | EMAMI

# FAIR PLAY

By emphasising on equality and strong processes, the promoters of **Emami** have kept the families united and the businesses successful

BY N MADHAVAN

**MOHAN GOENKA**  
Handles Emami's pain management portfolio and men's grooming brands

**SUSHIL GOENKA**  
RS Goenka's brother; Emami MD; handles operations and CSR

**RS GOENKA**  
Founder, Emami group

**HARSHA V AGARWAL**  
Handles Emami's brands like Navratna, HE Deo; heads M&A, IT, HR and solar business

PHOTOGRAPHS: ARINDAM MUKHERJEE FOR FORBES INDIA

A meeting takes place on alternate Fridays at Advaita, the residence of Emami group founder Radhe Shyam Agarwal, on the upscale Ballygunge Circular Road in south Kolkata. Attendance is mandatory for all family members who are involved in the business and are, consequently, part of the family council—absentees have to inform in advance. Attendees have the right to speak freely and voice their opinion on the issues discussed. Outsiders—mostly advisors and senior company officials—can attend only on invitation.

The secretary to the council prepares an agenda and circulates it; members who are responsible for various businesses are expected to come prepared with their presentations. “We review everything. Performance of the businesses, new ideas and budgets,” says Agarwal, 72. The minutes of the previous meeting form the starting point for the next.

The discussion, which begins at 10 am and lasts for about three hours on the second-floor meeting room, can, at times, get heated. If there is no consensus on a particular issue, a deep-dive is ordered. This may involve reaching out to external experts.

When a decision is finally taken, it is unanimous. Family members bury their differences and support the proposal wholeheartedly. “Differences of opinion can happen in the mind, but not in the heart,” says Radhe Shyam Goenka, 71, founder, Emami group.

The closeness of this family is unique for many reasons, not the least of which is that its two statesmen—Agarwal and Goenka—are not related. They are, in fact, school friends who gave up comfortable jobs (Agarwal was with Aditya Vikram Birla while Goenka worked for KK Birla) to start Emami (as Kemco Chemicals) in 1974 as an upstart cosmetics manufacturer.

Their 62-year-old friendship has thrived even though they are poles apart in terms of their personalities. Agarwal is an extrovert while Goenka is reserved. Agarwal is often driven by emotion and intuition while Goenka's decision-making is rooted in logic and reason. In his interaction with *Forbes India*, Goenka restricted his views to Emami and the family behind it while Agarwal also spoke about philosophy, the Vedas and the values needed to lead a peaceful life.

“We complement each other,” says Goenka. “Don't they say opposites attract?”

However, that is a simplistic way to describe the relationship, say long-time associates. “What they have is great respect for each other,” says RK Agrawal, who retired as senior director at Ernst & Young and has been advising the family for 25 years. This ensures there is no room for ego.

Agarwal gives a philosophical spin to their friendship. “*Jo deta hai woh devta, jo rakhta hai woh rakshas* (one who gives is God and one who keeps is a demon),” he says. “Both of us have chosen to be givers and that is the foundation of our friendship.”

This bond has carried forward to the second generation which comprises six members who are fully involved in the business. “They have grown up observing how their fathers work and have developed similar love and respect for each other,” says RK Agrawal. “They aren't two different families but one.”

This has positively impacted the business as well. In a field dominated by multinational companies, Emami has not only held its ground but also dominated the niche segments it has created in the market. “Our five power bands—Fair and Handsome (market share 65 percent), Navratna Oil (61 percent), Zandu Balm/Mentho Plus (55 percent), Boroplus (77 percent) and Kesh King (35 percent)—are clear category leaders,” says Aditya V Agarwal, 42, non-executive director, Emami. He is Agarwal's eldest son and manages the group's non-FMCG businesses.

Emami Ltd—the FMCG company—had revenues of Rs 2,624 crore while had a profit of Rs 359 crore in 2015-16. Its operating profit margin is an enviable 26 percent while return on equity topped 43 percent.

Emami, whose products are available in over 4 million outlets across the country, is well-known for its innovative brand strategy. “We pioneered the use of Bollywood stars and in-film branding as early as 1980s to promote our products,” says Mohan Goenka, 44, whole-time

## THE GROWTH STORY

Emami has grown exponentially in the last 10 years



Amount in Rs crore

Source: Company Annual Report



(From left) Harsha Vardhan Agarwal, Manish Goenka, Priti A Sureka, Mohan Goenka and Aditya V Agarwal are carrying the Emami legacy forward

director at Emami and Goenka's younger son. He points to the army of stars such as Shah Rukh Khan (Fair and Handsome) and Amitabh Bachchan (Boroplus), to name a few, endorsing Emami's various products.

Its global play has also increased over the years with a presence in over 70 countries (international revenue for FY16 was Rs 365 crore). "We are in the process of implementing the international business strategy that McKinsey has drawn up for us and in the next five years, we expect revenues from outside India to be 25 percent of overall sales," says Prashant Goenka, 44, Mohan's cousin, who is also a whole-time director at Emami and looks after its international business.

The company generates strong cash flows of close to Rs 800 crore a year. "Despite paying out Rs 1,700 crore for the Kesh King acquisition in 2015 and spending another Rs 300 crore towards setting up an FMCG manufacturing unit earlier this fiscal, our debt is just Rs 300 crore," says NH Bhansali, group CFO and an Emami lifer who joined

the company 25 years ago when its revenue was just Rs 12 crore.

It follows that shareholders have been handsomely rewarded. To illustrate this, the early mover who had invested Rs 1,000 for 100 shares of Emami in 1979-80 has seen his investment grow 22,050 times in 36 years to over Rs 8.8 crore today.

**E**mami's success is rooted in the mutual respect and bond within the 'family'. But it is also a function of strong processes and clear rules, says RK Agrawal.

There are two sets of rules that govern the family members—family governance rules and business governance rules. "The rules, framed 15 years ago in consultation with family members, are recommendatory in nature. Each individual has the freedom to do things in his or her own way. These rules indicate what is expected of them," says Agarwal.

Family governance rules lay down a set of dos and don'ts. They stipulate that members should not be ostentatious: Women should not

splurge on jewellery or sarees, and there are clear guidelines on the type of cars the men can buy (this is linked to the years they have put in business). Members cannot act in a manner that brings disrepute to the family. Illicit or live-in relationships are frowned upon as they come in the way of a "good family atmosphere". While members are free to pursue interests outside the family business (no one has done that so far), rules specify the extent of support they will get—a funding of up to Rs 5 crore, but no financial guarantee from the group.

Equality is a byword in the family and this is enshrined in the rules. The shareholding in Emami and other ventures is equally split among the Agarwal and Goenka families, and both are equally represented in the board, with four members each. The non-FMCG business is managed by one member from each family. Money that family members draw is fixed and equal. In case a member has a special request, it is approved, but the same is then made available to all the other members. "I have

never seen an instance where one person got something that other members were deprived of," says Prashant. That has eliminated any scope for ill feelings. "Equality is the bedrock of unity," Goenka says.

The rules also lay a lot of emphasis on communication between members. Apart from the fortnightly Friday meetings, members of the second generation meet informally over lunch on a daily basis. Even holidays are predetermined. While the second and third generations have an annual summer vacation overseas, the entire family of about 50 members spends their Durga puja break together at any location in India. The latter practice has continued for over two decades. "Two weeks together is good enough time to strengthen our bond. It has helped the women in the family come close to each other and also the kids," says Richa Agarwal, Aditya's wife. Richa manages Emami Chisel Art, the family's art organisation which includes two large gallery

**W**hile the family members are hands-on in running the company, they do not hesitate to reach out to outside talent or seek advice available in the market. Most non-FMCG businesses are headed by professionals. Even in Emami, various verticals are independently headed by professionals. "The family members just oversee the operations and give enough space for the professionals to work," says RK Agrawal. "By doing so, they have been able to marry the long-term vision that family-run businesses bring and the professional expertise that independent companies possess." They also consult firms such as McKinsey on important issues such as improving the effectiveness of the sales force, reducing cost and improving margins, and growing the international business.

With a dividend payout of 40 percent at the flagship Emami, the family which owns over 70 percent of the business, generates substantial

has shut down businesses that have not worked. This includes the mono filament yarn business, ready-to-eat food business, furnace operations, photo paper manufacturing and, more recently, the sanitary napkin business.

By the same token, the group does not hesitate to expand and grow where they see profit. Its newsprint business is the largest in the country. The Emami group is also becoming a large player in the cardboard manufacturing business. Its foray into cement was a recent move and its current capacity of 5 million tonnes will rise to 20 million tonnes in three years as it has secured mining leases in Andhra Pradesh and Rajasthan. It is already the second largest player in edible oil (after Adani) and its 5,000-tonne refining plant at Haldia is the largest single location facility in the country. Their ball-point tip business is the fourth largest in the world. In bio-diesel, it is the only large player in the country. The family is also present in solar, retail, realty, ecommerce, hospital and art.

## EMAMI'S SUCCESS IS ROOTED IN THE MUTUAL RESPECT AND BOND WITHIN THE FAMILY

spaces, and seeks to promote art and artists, especially contemporary.

The business governance rules specify the businesses the family will not get into—alcohol, tobacco and non-vegetarian food. They also broadly lay down the business philosophy that Agarwal and Goenka have been practicing from the beginning. "Deliver good products in contemporary packaging at affordable prices," says Bhansali. "This is the cardinal rule." There are other norms, including embracing a conservative financial management, maintaining a high level of transparency with stakeholders and ensuring all commitments to them are met. "Goodwill of the family and brand value of the company are non-negotiable," says Agarwal.

cash every year which it deploys in attractive non-FMCG businesses. "It is a good de-risking strategy for the family. We are protected against changes in government policies and other global factors," says Harsha Vardhan, 41, Agarwal's younger son and whole-time director, Emami. There are other reasons as well. "We are a bunch of people with robust ambition. Varied businesses challenge us and whet our appetite to accomplish challenging things," says Priti A Sureka, 45, Agarwal's daughter and whole-time director, Emami.

Here too, there is a golden rule. "We have to be a meaningful player in the sector or we will not hesitate to exit," says Manish, 43, Goenka's younger son.

For instance, over the years, it

This long list of businesses underscores a deep desire to diversify. Reason: They want to create enough opportunities for the third generation to participate in the business. There are as many as nine members who could join the business over the years. And how they will work together is occupying the minds of the elders. "They bond very well. We see that. I am confident they will maintain the same spirit as their fathers and uncles," says Goenka. Agarwal, as is his wont, turns philosophical. "In life there are three things—things you see, those that are unforeseen and the unforeseeable," he says. "This falls under the unforeseeable category. We have offered the best possible environment for them to bond. We leave the rest to God." 🙏