Business Standard

Emami: Healthy momentum

Date: 05/08/2016 | Edition: Mumbai | Page: 14 | Source: Sheetal Agarwal | Clip size (cm): W: 14 H: 1

India Media Monitor

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Current valuations leave little scope for gains

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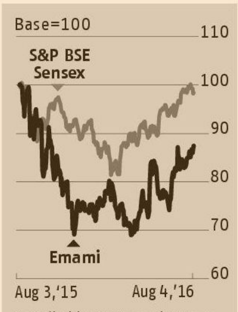
Emami, producer of goods in personal care and health care, posted healthy operating results in the June quarter (Q1). While headline numbers are lower than estimates, some of this can be attributed to new Ind-AS accounting standards. Thus, though consolidated revenue of ₹644 crore missed the *Bloomberg* consensus expectation of ₹709 crore, volume growth was impressive at 17 per cent, at the higher end of the nine to 18 per cent growth in recent quarters.

It also comes on a high base (volume growth of 15 per cent a year before). Hence, it indicates continued momentum in Emami's key products and benefits from the Kesh King acquisition. Organic volumes grew at a decent 6.4 per cent.

One-time amortisation costs associated with the Kesh King acquisition and sharp surge in the tax rate also impacted net profit. Consequently, this metric fell 34.6 per cent over a year to ₹57 crore, lower than the expectation of ₹83 crore.



Compiled by BS Research Bureau

However, the scrip was up 1.5 per cent over two days against a one per cent fall in the Sensex.

The earnings before interest, tax, depreciation, and amortisation margin was 22.9 per cent in Q1, ahead of the *Bloomberg* consensus estimate and ahead of the year-ago number. Of the 450-basis-point (bp) expansion in margin, 200 bps came from the Kesh King acquisition and the rest from the existing portfolio aided by lower input costs and select price increase, said the firm.

Among its key brands, 7 Oils In One and Boroplus grew 38 per cent each, followed by Navratna Cool talc (15 per cent). Its international and health care business (honey and *chyawanprash*) grew 14 per cent each. The Kesh King portfolio grew at a healthy clip. Largely, the strategy of re-launching nearly the entire portfolio seems to have worked well. "Summer remains a key trigger for Emami's volume growth. A good monsoon will help drive growth in rural areas, where it has 45-50 per cent salience," says Abneesh Roy of Edelweiss Securities.

The firm has maintained its FY17 revenue growth forecast of 17 per cent in the domestic business and expects international revenues to grow 20 per cent. However, the market valuation of 44 times the FY17 estimated earnings could cap the gains for the stock.