

Emami: Fairly handsome future

Due to a strong presence in under-penetrated segments, Emami is a better play in mid-cap FMCG space

In the recent past, the stock market has punished Emami because of the company's bad quarterly numbers. A delayed winter, among other things, resulted in a reduced revenue growth and a 27% fall in net profit in the third quarter of 2015-16.

However, Emami is a fast-growing company and its domestic and international businesses have shown an annualised growth rate of 16% and 18% respectively during the past five years. Analysts believe that Emami should be able to maintain its high growth rate because it is operating in relatively under-penetrated segments such as antiseptic cream, men's fairness cream, talcum powder and hair oil with cooling effects, etc. To illustrate, the men's fairness cream market has just a 5% penetration. Emami, with its *Fair and Handsome* brand, has a strong presence in this under-served segment. Ayurvedic health care product is another under-penetrated segment and Emami's Zandu range of products has shown an annualised growth of 26% over the past five years. Though the entry of Patanjali has increased the competition in this segment, a sudden increase in consumer interest in ayurvedic products, because of Patanjali's entry, will help Emami increase its market size. The company also has several other powerful brands—Navratna, Boroplus, Methoplus, etc.

Emami has a wide domestic distribution network and reaches out to around 40 lakh retail outlets across the country. The company's future domestic growth is expected to come both from organic and inorganic routes. The company has started selling honey under its Zandu brand. Though

the product is priced at a 25% premium to competing products, the management expects to get a good response because of its 'no sugar' positioning.

With a cash balance of ₹354 crore, Emami also has acquisitions plans. Since its debt to equity ratio is just 0.5, it can finance acquisitions through debt as well—*Kesh King* oil's acquisition was done through debt. *Kesh King*, a strong brand in ayurvedic hair oil, with a 32% market share, is expected to be the next pillar of growth for Emami.

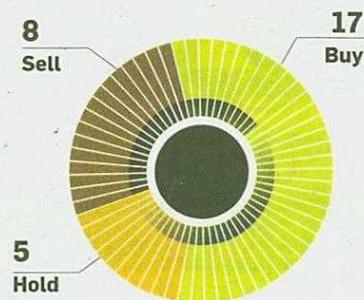
With a 63-country reach, Emami also has a strong international business. The international business primarily focuses on first targeting the Indian diaspora with relevant product and then gradually spreading the product reach to the locals. With one of the highest margins in the industry, 42%—before advertising and promotion—Emami is a better play in the mid-cap FMCG segment.

Selection methodology: We pick the stock that has shown the maximum increase in 'consensus analyst rating' in the past one month. Consensus rating is arrived at by averaging all analyst recommendations after attributing weights to each of them (5 for strong buy, 4 for buy, 3 for hold, 2 for sell and 1 for strong sell)

and any improvement in consensus analyst rating indicates that the analysts are getting more bullish on the stock. To make sure that we pick only companies with decent analyst coverage, this search is restricted to stocks that are covered by at least 10 analysts. You can see similar consensus analyst rating changes during the past week in the ETW 50 table.

—Narendra Nathan

Analysts' views



A strong presence in under-penetrated segments, focus on organic and inorganic growth, and high margins have made Emami analysts' top pick.

Fundamentals

	Actual		Consensus estimate	
	2013-14	2014-15	2015-16	2016-17
Revenues (₹ cr)	1,820.77	2,217.25	2,648.56	3,171.33
Operating profit (₹ cr)	406.89	507.15	623.65	797.73
Net profit / loss (₹ cr)	402.47	485.61	421.45	525.24
EPS (₹)	17.73	21.40	21.63	26.71

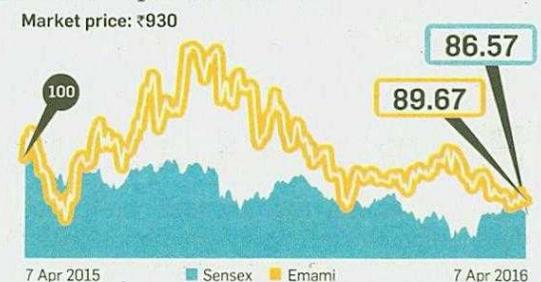
Valuation

	PBV	PE	Dividend yield (%)
Emami	17.16	43.48	0.75
Marico	17.47	55.63	1.01
Godrej Consumers Products	10.69	50.81	0.41
Dabur India	12.99	40.88	0.81
Bajaj Corp	11.35	27.98	3.06

Latest brokerage calls

Reco date	Research house	Advice	Target price (₹)
4 Apr '16	HSBC	buy	1,400
4 Apr '16	UBS	buy	1,200
15 Mar '16	Sharekhan	buy	1,250
15 Mar '16	Nomura	buy	1,125
3 Mar '16	Phillip Securities	buy	1,200

Relative performance



Performance of Emami compared with the Sensex. Figures are normalised to a base of 100. Source: ETIG Database & Bloomberg