

# Emami: Promising growth

Despite recent erosion in profits and high input costs, analysts give Emami a thumbs up due to its strong volume growth across top brands.

**A** higher earnings visibility, coupled with a more than 25% correction in its stock price in the past six months, makes Emami an attractive buy. The company reported a good volume growth of 12-15% for some of its top brands in the previous quarter, enabling it to post a revenue growth of 16% compared with the corresponding quarter last year. However, the volume growth was lower than that in the first quarter of 2011-12 as the onset of monsoon played spoilsport and reduced the demand for summer products such as talcum powder. However, the company's flagship brands Zandu Balm and Navratna witnessed a strong 25% and 20% surge in revenues, respectively. Though Fair & Handsome saw a lower growth at 14%, the company's international business clocked a healthy 30% growth in revenue.

## Bottom line hit by falling rupee

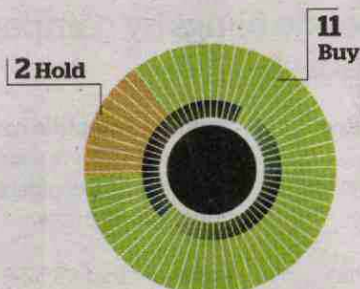
The company's profitability suffered a strain in the September quarter (despite price hikes of around 8%) due to the weakening rupee and the rising input costs. In this quarter, the company incurred a forex loss of ₹66 million due to the mark-to-market provisions towards US dollar-denominated loans of around ₹2 billion. As a result, the company's net profit fell by 5.1% to ₹506 million. Without this forex loss, the net profit would have risen 10% over the corresponding quarter last year. The rise in prices of mentha oil led to a 19% increase in the input costs, which further hurt its margins. As such, the EBITDA margins during the quarter contracted by around 330 basis points to 18%.

## Winter boost to volumes and margins expected

Emami is expected to deliver a stronger set of numbers in the

second half of the fiscal year due to the onset of winter. A higher contribution from winter creams is expected to drive its volumes in the third quarter of 2011-12. EBITDA margins are also likely to improve primarily because of the favourable base last year and also because the input prices were fixed in advance. The company has already stocked up on mentha oil till March 2012 to counter inflation.

## Analysts' views



Strong volume growth has led the analysts to recommend a 'buy' for the shares of Emami.

## Counter impact of falling rupee

The management has indicated that it is likely to achieve cost efficiency by looking for domestic substitutes, wherein it could source raw material locally instead of importing it. Simultaneously, the company is focusing on premium products to boost its margins. While it enjoys leadership in niche segments, such as cooling talc, men's fairness cream and headache balms, the management seems to be strengthening the premium category of its personal and healthcare segment.

## Selection methodology

We pick up the stock that has shown the maximum increase in consensus rating by analysts in the past one month. It is arrived at by averaging all analyst recommendations after attributing weightages to each of them—5 for strong buy, 4 for buy, 3 for hold, 2 for sell and 1 for strong sell. An improvement in consensus rating indicates that analysts are bullish on the stock. To make sure that we pick only companies with a decent analyst coverage, this search is restricted to stocks that have been covered by at least 10 analysts. For similar analyst consensus rating changes during the past week, see the ETW 100 table (page 27).

## Fundamentals

	Actual		Consensus estimate	
	2009-10	2010-11	2011-12	2012-13
Revenues (₹ cr)	1,037.98	1,277.77	1,523.43	1,813.09
EBITDA (₹ cr)	246.08	256.12	299.58	369.01
Net profit/loss (₹ cr)	169.72	228.71	270.54	328.87
Adjusted EPS (₹)	11.63	15.12	18.06	21.83

## Relative valuation

	PE	PB	Dividend yield (%)
Marico	31.8	9.98	0.45
Dabur	29.46	12.04	1.25
Hindustan Unilever	36.13	30.33	1.85
Godrej Consumer Products	23.94	7.23	1.16
Emami	26.66	8.84	0.88

## Latest brokerage calls

Recomm date	Research house	Advice	Target price (₹)
10 Nov	Religare	Buy	520
9 Nov	SBI Capital Markets	Buy	512
9 Nov	Tata Securities	Buy	496
8 Nov	IIFL	Buy	550

## Relative performance



Performance of shares of Emami compared with the Sensex. The figures were normalised at the beginning of the year.

— Sanket Dhanorkar