

Clip: 1 of 1

# Emami: In an expansion mode

A new product line-up, strong international demand and improving margins make this FMCG major a good buy.

**E**mami reported muted volumes in the first quarter of the new fiscal year, which was in line with the trend in the FMCG industry. However, this figure inched up 6% on a year-on-year basis primarily because of the early onset of the monsoon, and the resultant fall in demand for its cooling products in hair oil and talcum powder, which is highest during summer. The local body tax (LBT)-related issues also created temporary supply chain bottlenecks in Maharashtra, affecting its Zandu Balm sales. However, this was partly offset by the robust growth in its international business, where the revenue surged 25% in the same period. The volume is expected to pick up in the coming quarters as, traditionally, the first quarter has reported the slowest growth for the company.

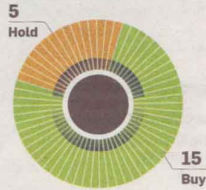
**Margin expansion on the cards:** The company has reported a robust margin expansion, driven by the fall in price of menthol oil, a key ingredient, as well as price hike in some products. The gross margins expanded by 370 basis points on a year-on-year basis, though this was offset partially by a jump in staff costs, resulting in an operating margin expansion of 177 basis points. The company has locked in the current price of menthol oil for the rest of the year, which is likely to keep margins buoyant for some time even after accounting for an expected increase in advertising spend.

**Power brands show momentum:** Most of the power brands in

the company's product suite continue to witness strong growth and market share gains. Despite the monsoon impact, Navratna oil and Cool talc saw 9% and 32% revenue growth, respectively, and also gained market share. After a re-launch of its skincare product, Fair and Handsome, in June, the brand saw a 16% jump in revenue. Its flagship brand, Zandu

Balm's, sales also grew 8%. Fast Relief grew the most with a 55% jump in revenue. The strong performance of its Pancharishta and Lalima brands also helped its healthcare segment clock a 27% growth. The brands and their extensions are expected to continue to do well. The company has also announced new launches in the second half of the current fiscal year, which should drive revenue.

### Analysts' views



With the slowest quarter out of the way, analysts are bullish on the firm's performance in the coming quarters.

**Selection methodology:** We pick the stock that has shown the maximum increase in consensus analyst rating during the past month. Consensus rating 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) and any improvement in the rating indicates that the analysts are becoming more bullish on the stock. To ensure that we pick only those

companies that have a decent analyst coverage, this search is restricted to stocks that have been covered by at least 10 analysts. You can see similar consensus analyst rating changes during the past week in ETW 50 table (see page 21).

—Sanket Dhanorkar

### Fundamentals

	Actual		Consensus estimate	
	2011-12	2012-13	2013-14	2014-15
Net revenue (₹ cr)	1,453.5	1,899.1	1,990.8	2,339.5
EBITDA (₹ cr)	304.2	348.7	435.8	521.1
Net profit (₹ cr)	258.8	314.7	385.7	456.9
EPS (₹)	11.4	13.9	17.9	20.8

### Relative valuation

	PBV	PE	Dividend yield (%)
Emami	12.67	29.95	1.84
Dabur India	13.49	35.73	0.79
Godrej Consumers Products	8.39	34.82	0.61
GlaxoSmithKline Consumers	13.29	38.12	1.05

### Latest brokerage calls

Recomm date	Research house	Advice	Target price (₹)
2 Sep '13	Credit Suisse	Outperform	560
29 Aug '13	IIFL	Buy	515
8 Aug '13	Macquarie	Outperform	560
8 Aug '13	SBI Capital Markets	Hold	490
8 Aug '13	Anand Rathi Securities	Buy	490

### Relative performance



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