

Buy Emami on strong rural growth

Nomura

THE Emami management has attributed the soft performance in Q3FY14 to market conditions and an erratic winter. Rural growth has remained strong with value growth of 13%. Urban growth, however, was flat. It seems like there is no major slowdown in rural India.

In the Canteen Sales Department (CSD), there was a 14% value decline due to one-off issues. As much as 30% of revenues are derived from Chyawanprash in this channel, which could not be registered with the CSD office because of some procedural delays. Now, that seems to be back on track.

Menthol prices are likely to remain steady (₹1,100/KG); hence, the management is not concerned. Typically, in the fourth quarter, the winter portfolio comprises only 10% of revenues. So, while the winter may be harsh, there is no additional delta in the near term from these products.

Following are the key points on FY15E guidance from the management: Revenue growth target of 15% y-o-y. Balms portfolio: sustainable 7-8% volume growth y-y. Gross margins of 62-63% sustainable despite not having the benefit of lower menthol prices as seen in the first nine months of FY14F. A&P Spend: FY14F should be c.15.5-16%. The company will likely become aggressive in FY15F on both new launches and advertising spend.