The Resource Centre

Business Standard

Date: 21/08/2014 Page No: 15 Location: Main Circulation: 28469

Edition: Mumbai

Diversification, new launches to give a boost to Emami's growth

Entry into new and high-growth categories will also help diversify from a seasonal portfolio

SHEETAL AGARWAL

Emami, the maker of Fair & Handsome, Navratna Cool Oil, Boroplus, Zandu, etc, has seen its share price rise almost 16 per cent in the past eight sessions, seven of which saw gains. And, if analysts are to be believed, investors can expect more gains in the medium term.

This optimism follows the company's better-than-expected June quarter results that reflect all-round gains and, importantly, its aggressive expansion initiatives both in existing and new business categories that are yielding results.

The firm recently entered the high-growth segments of deodorants, face wash, light hair oil and sanitary napkins. Its recent launches (SHE, Emami 7 Oils in one, Boroplus – Oil Control, Fair & Handsome – Instant Fairness face wash) contributed six per cent to total sales in the June quarter. SHE, a recent acquisition in the feminine hygiene category (fourth-largest with volume market share of 1.1 per cent) also grew by a strong 19 per cent. In fact, quite a few of Emami's products witnessed market share gains in the quarter.

Over the next few years, Emami plans to scale up its Zandu Health Care division (Zandu and Menthoplus balm, Himani Fast Relief), which grew 32 per cent year-on-year in the quarter. It plans to launch a new product in this category in the last quarter of this financial year, which should support growth. In the international business, Emami is aiming for revenue growth of 25-30 per cent, which will see its share in revenue rise from 13 per cent to 19-20 per cent over the next five years.

All these measures will drive growth in revenues and profits in the medium term, leading to a potential re-rating of its stock, believe some analysts.

Credit Suisse estimates Emami's FY16 earnings per share at ₹24.39, which translates to a price-to-earnings (P/E) ratio of 25.2 times. The research house, however believes that P/E can increase to 27 times, going forward. It has also raised its target price to ₹700 from ₹630 earlier.

"We see Emami at the same point in its life cycle as Dabur was 10 years back, when the latter moved beyond its core segments into competitive categories and international markets, delivering a 24 per cent profit CAGR (compounded average growth rate) over 10 years," says Arnab Mitra of Credit Suisse.

According to a Bloomberg poll of analysts, the target price is ₹610 and the stock trades at 26.6 times the FY16 estimated earnings. While valuation is higher than Emami's historical average one-year forward P/E of 21 times, it is largely in line with peers. Long-term investors could well wait for a correction for a good entry in the stock.

There are some concerns as well, especially the stiff competition from the likes of Marico/Bajaj Corp (hair oils), Dabur (Chyawanprash), HUL and P&G (personal care), among others. High competition and relatively low entry barriers in new and existing categories are significant risks. So, the going may not always be smooth. A key concern around Emami has so far been the seasonal nature of its key products such as cooling oil, talc and Boroplus creams. While the company's aggressive diversification plans should address this concern to some extent, it will only happen over a period of time.

The company had launched new innovations successfully in the past. Given that most of the categories Emami has entered are highly competitive, success of new products will be crucial. However, analysts seem confident.

Abneesh Roy of Edelweiss Securities, says: "Emami has a superior track record of launching new brands (Fair & Handsome captures 64 per cent market share of the men's fairness cream market) and transforming these into blockbusters. We appreciate the company's aggression and investments in new launches."

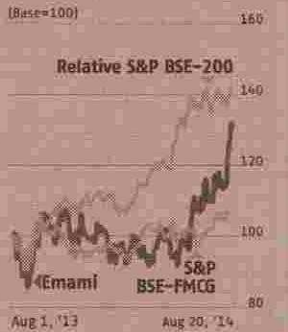
"Aggressive new launch strategy should catalyse high-teen revenue growth and aid Emami's long-term target of 18 per cent revenue CAGR over the next five years, with 3-4 per cent coming from new launches," adds Gautam Duggad, analyst, Motilal Oswal Securities.

Emami also stands to gain from the pick-up in urban demand going forward, given its leadership position in cooling hair oil, balm, antiseptic cream and men's fairness cream categories. Tuesday's directive from the Advertising Standards Council of India for companies not to show discriminatory ads against dark-skinned individuals is unlikely to have a significant impact on Emami's fairness cream portfolio, say analysts.

Although margins were stable in June quarter even as ad spends increased, given that Emami will have to spend aggressively on advertisement and marketing of its new launches, margins could see some pressure in the near term, at least till revenue growth accelerates and the new products stabilise, say analysts.

File photo of Emami's beauty and whitening product Fair and Handsome at a Big Bazaar outlet in Mumbai BLOOMBERG

TRIGGERS AHEAD



PROFITABLE GROWTH

	FY14	FY15E	FY16E
Revenues (₹ cr)	1,821	2,168	2,553
% change y-o-y	7.2	19.0	17.8
Ebitda (%)	24.2	24.0	24.7
Bps change y-o-y	384	-27	69
Net profit (₹ cr)	403	454	554
% change y-o-y	25.6	12.8	22.0

E: Estimates; Figures on consolidated basis Source: Company, Credit Suisse