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Emami: All-weather products get Street's thumbs up

Strong presence in rural, wholesale markets has boosted prospects

RAM PRASAD SAHU

A robust second quarter (Q2) performance, steady outlook, and entry into the home hygiene segment helped Emami gain over 9 per cent this month.

The most recent trigger has been the firm's entry into the ₹3,500-crore home hygiene segment under the Emasol brand, which includes disinfectants, sanitizers, and dish wash gels.

Analysts at Centrum Broking believe that enhancing the firm's presence in all-weather categories and attempting to cut the seasonality impact on revenue is the right strategy. The home hygiene segment was growing in double digits prior to Covid-19, and is expected to grow at a faster rate in the future, with reports indicating 40 per cent growth for some categories such as floor cleaners. Emami's health and home hygiene portfolio is expected to contribute about 5 per cent to the firm's revenue.

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The company has been underperforming its peers over the past five years, with average operating profit and revenue in the 0-3 per cent range. Phillip Capital Research believes that Covid-19 has helped the company gain market share as local and unorganised players find it difficult to sustain in the current situation. Further, its strong presence in rural and wholesale markets has added to its advantage. Its Kesh King (hair oil, shampoo) brand sales were up 45 per cent year-on-year (YoY) in the quarter, led by market share gains, primarily from local players and to a smaller extent, from bigger brands.

Led by the rural market and healthy sales performance across segments, the company posted a 11 per cent growth in revenue in the September quarter. Operating profit grew 33 per cent because of flattish input costs, lower advertising expenses, and cost-control measures. The company expects to expand margins in the second half on the back of improving product mix, benign input costs, and lower staff costs. How sales in its high-margin winter portfolio pan out will also have an impact on its revenue in the December and March quarters.

Given the lack of consistent revenue growth, investors should wait for the Q2 sales trend to sustain. Further, stock gains depend on reduction of promoter pledging, which stands at 46 per cent, along with increase in the dividend ratio.