

# Stretched Valuations Likely to Keep Emami Stock Under Pressure

## Calculus

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**ET Intelligence Group:** What makes a consumer goods company appealing to its investors? Strong brands, presence in fast-growing categories, rural reach, emerging markets exposure, consistent growth, high profitability and dividend payouts.

Kolkata-based Emami scores high on these counts. It has been one of the best performing stocks in the fast-moving consumer goods (FMCG) space in India — doubling in the past one year, even as the sectoral index ET FMCG Index rose 19%.

At a time celebrity endorsements have come under fire amidst the Maggi controversy, it remains a key growth strategy for the ₹2,200-crore Emami. Indeed, Emami has built its consumer business largely through celebrities endorsing its brands. Amitabh Bachchan, Shah Rukh Khan, Hrithik Roshan and Sachin Tendulkar to Karisma Kapoor, Malaika Arora and Yami Gautam — all of them have endorsed the company's personal care products. From spending over ₹2 crore (2% of revenues) on advertising and promotion ten years ago, Emami invested nearly ₹400 crore (18% of revenues) in FY2014-15, higher than the industry level.

The stock gained 4% in the past one month, little impacted by the Maggi controversy. Besides, its flagship brands like Boro Plus antiseptic cream, Navratna hair oil, Zandu Balm and Fair and Handsome men fairness cream, the company has a clutch of new

## ON AD SPEND

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brands launched and acquired in the past one year. These new products — HE Deodorant, She Comfort sanitary napkins, Fair & Handsome face wash and Kesh King hair oil — would be new drivers of growth in the fast growing category of wellness and personal products.

Revenues have risen at a compound annual growth rate of 15% in the past five years. During this period, its operating margin has been at an average 27%. It bucked the industry trend of low volume growth, posting double-digit increase in FY 2014-15. The company pays around 40% of its profit as dividend and has net cash of ₹800 crore.

Given the company's past performance and the growth potential of personal products market in India, the future of this small-sized personal products company looks promising. But, stretched valuations — with market capitalisation at 11 times the sales and stock price at 49 times the earnings — and high investments in new brands, which are putting pressure on operating margins, may spoil the party for the stock in the near-term.