

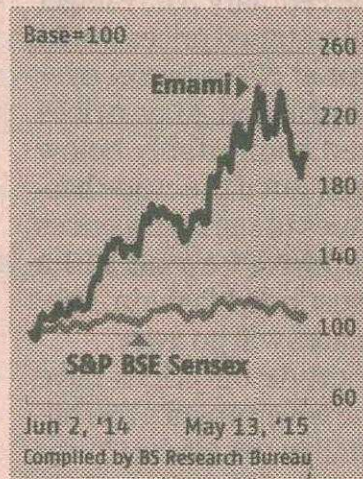
Healthy growth ahead for Emami

Analysts could raise FY16 earnings estimates on strong Q4 show

SHEETAL AGARWAL

Emami reported a good set of numbers for the March 2015 quarter with consolidated net sales growth of 24.2 per cent year-on-year (y-o-y) to ₹554 crore (3.2 per cent higher than Bloomberg consensus estimate of ₹537 crore). Robust volume growth of 13.3 per cent along with healthy performance of both domestic and international business aided top line in the quarter. The new launches contributed about six per cent to total revenues. A low base in the year-ago quarter wherein net sales and volumes fell 1.2 per cent and 10 per cent, respectively, also aided topline growth. Consolidated net profit growth came in at a healthy 24.5 per cent y-o-y at ₹138 crore and was helped by a 60.9 per cent y-o-y increase in other income to ₹30 crore in the quarter. Net profit was 9.7 per cent higher than Bloomberg estimates of ₹126 crore.

Benign mentha oil prices led to a 1,095-basis point fall in input costs to 25.5 per cent of sales in the quarter. However, these gains were more than offset by 378 basis points increase in advertising and promotion spends to 14.9 per cent of sales in the quarter. Most of these spends were towards new launches such as HE deodorants, Fair and Handsome facewash, among others. Consequently, operating margins contracted 113 basis points y-o-y to 25.3 per cent in the quarter. Given the beat on both rev-



enues and net profit, analysts could raise their FY16 estimates for the company.

Going ahead, management expects consolidated revenues to grow 17-18 per cent over the next three-five years and believes it is on track to achieve annual revenues of ₹5,000 crore in this period. New launches will continue to contribute 5-6 per cent to revenues in FY16 as well. Given that ad spends are likely to remain elevated in FY16, some analysts believe margins could come under pressure. While Emami is looking at test-marketing new launches in the healthcare portfolio in the next two months, it has stopped investments in Boroplus face wash due to weak show of the product.

In the quarter gone by, Emami's key brands namely Navratna Oil, Boroplus antiseptic cream, Zandu Balm, Mentho Plus Balm, Fair and Handsome, Navratna Cool talc and Zandu healthcare range (Pancharishta, Vigorex, Nityam) posted double-digit growth. Domestic revenues grew 20.5 per cent in the quarter (17 per cent growth excluding new launches) driven by continued momentum in both rural and urban markets.