

Emami: Margin gains boost earnings

Healthy growth across key segments in December quarter

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Robust volume growth, continued traction in the international business and margin gains helped Emami post a good operational performance in the December quarter. While net sales of ₹692 crore, up 18.4 per cent year-on-year (y-o-y), were in-line with the Bloomberg consensus estimates of ₹690 crore, net profit came in 9.9 per cent ahead of expectations at ₹184 crore. Although non-core other income, largely of treasury income, grew 176.7 per cent y-o-y to ₹34 crore, the gains were offset by the 55 per cent rise in tax expense to ₹47 crore.

Operationally, lower raw material costs and judicious price rises by Emami led to an Ebitda (earnings before interest, taxes, depreciation and amortisation) margin expansion of 40 basis points to 30.6 per cent. Weak commodity prices led to a 232 basis points contraction in raw material costs to 25.8 per cent of sales. The margin gains would have been higher but for the 220-basis point expansion in advertising and sales promotion to 17.2 per cent of sales. These investments were towards recently-launched products such as HE deodorant, Fair and Handsome Facewash and Zandu Balm Ultra Power.

Although partly a function of lower base in the corresponding quarter of last year, when volumes grew only 1.5 per cent, Emami's volume growth in the December 2014 quarter was 12 per cent fuelled by double-digit growth in key brands Navratna Oil, Boroplus cream, Zandu



Balm, Mentho Plus Balm, Fair & Handsome and Zandu HCD Range.

International business grew at a healthy clip of 20.6 per cent. Emami expects international revenues to grow at 25 per cent-plus over the next three-five years and form a sizeable part of overall revenues.

N H Bhansali, chief executive officer - finance strategy and business development at Emami, says, "Fravin is strong on R&D and has managed to get a lot of certifications from Australia, the US and other developed countries for its organic products. It offers us a platform to expand to developed countries first and then take the products to emerging countries."

He believes Ebitda margins should hover at similar levels in the medium term, despite the firm's plans to invest aggressively in new launches and advertising and promotion activities. Benign input costs and range-bound mentha oil should support margins.

The scrip hit a new high of ₹966.5 on Wednesday and now trades at 39.7 times the FY16 estimated earnings. While analysts remain positive on its growth prospects, current valuations appear full.