

Emami: Looking brighter on all-round growth

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Unlike most fast-moving consumer goods (FMCG) companies, Emami's performance in the December quarter got a boost from strong volumes in the domestic market. While the operating profit margin (OPM) continued to suffer, analysts expect this to improve or stabilise around 21-22 per cent levels in FY14, driven by robust top line growth.

The stock, which had seen strong gains in 2012, has tracked broader markets year-to-date (YTD) in the current year. Post-results, it has risen 3.5 per cent to ₹595 levels, wherein it trades at an attractive one-year forward valuation of 23 times. Most analysts remain bullish on the stock, given strong growth and reasonable valuations. Says Shirish Pardeshi, analyst, Anand Rathi, in a note, "Less competition and market share gains could help it retain premium valuations."

Strong volume growth

Emami's consolidated sales growth of 21.3 per cent (highest in past five quarters) was led by brands like Boroplus anti-septic cream (aided by the win-

BETTER OUTLOOK FOR FY14

In ₹ crore	Q3'FY13	FY13E	FY14E
Revenues	549	1,669	1,975
% change y-o-y	21.3	14.8	18.4
Operating profit	162	359	432
% change y-o-y	13.3	17.6	20.4
Net profit	115	313	376
% change y-o-y	21.6	20.7	20.2
EPS (₹)	-	20.8	24.8
P/E (x)	-	28.6	23.9

E: Estimates

All figures are consolidated

Source: Company, Analysts reports



ter season), Navratna, Zandu, Fair & Handsome (together forming 70 per cent of revenues) and the healthcare division in the domestic market.

Despite price hikes (six per cent YTD in FY13), it reported strong volume growth with market share improving year-on-year in Navratna Oil and Boroplus. Emami's effort to increase the share of modern trade and rural businesses is also yielding results (sales up 50 per cent and 31 per cent, respectively, in the quarter). The international business (a tenth of December quarter consolidated revenues) also reported a higher growth of 25 per cent. However, OPM fell 210 basis points to 30 per cent,

mainly due to higher employee costs and ad-spends.

Says Naresh Bhansali, chief executive officer-finance, strategy and business development, Emami, "With sustained sales momentum, judicious price increases and effective cost management initiatives, we have been able to moderate the impact of high input costs and inflationary pressures. For the next quarter, our focus will be on pursuing similar aggressive and profitable growth strategy. Consumer sentiment in both the rural and the urban sectors continued to be positive."

Outlook & valuation

Menthol prices, which form 20 per cent of the raw material, are

off 44 per cent from the peak and expected to remain depressed. In a January 30 visit note on Emami, an Axis Capital note says, "Gutkha manufacturers are estimated to consume 30 per cent of India's menthol production. The recent gutkha ban across 18 Indian states has increased the tradable menthol surplus in the market. Further, with a 40 per cent increase in menthe crop this year (flush season in May-July) and rising synthetic menthol availability, we expect menthol prices to remain under pressure in FY14."

Even liquid paraffin prices (10 per cent of the raw material) are down by about 10 per cent year-on-year. While there are gains on the raw material front,

the gains in OPMs would depend on how much the company spends on advertising to sustain or improve market share. That apart, analysts at Axis Capital also expect the tax rate to rise to 18 per cent in FY14 from 14 per cent in FY13, as goodwill amortisation from Zandu acquisition will be exhausted. Nevertheless, they expect profits to grow by 20 per cent.

At current levels, the stock valuation is in between its historical price to earnings multiple band of 16-30 times one-year forward earnings (lower than its target multiple of 25 times). Analysts believe it could re-rate further if the company manages to improve margins, since top line growth is not a worry.