NARNOLIA
Advance Strategy Simple Solutions
SEBI Registered Portfolio Manager

Emami Ltd

"The niche advantage."

"BUY"
2nd Dec' 13

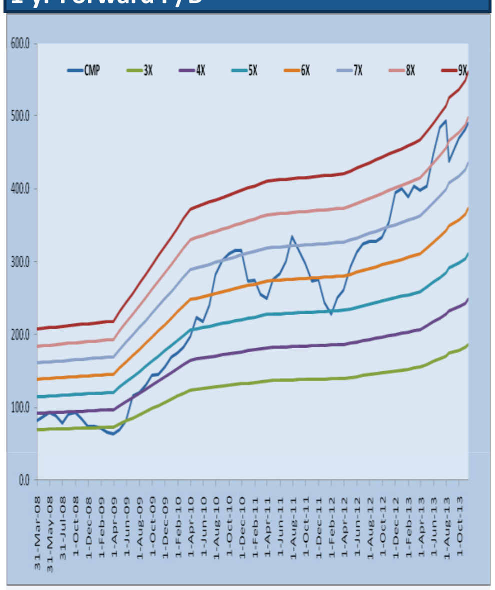
Results update	BUY
CMP	498
Target Price	635
Previous Target Price	500
Upside	28%
Change from Previous	27%

Market Data	
BSE Code	531162
NSE Symbol	EMAMI
52wk Range H/L	539/368
Mkt Capital (Rs Crores)	11288
Average Daily Volume	37072
Nifty	6176

Stock Performance			
	1M	1yr	YTD
Absolute	0.6	26.3	50.6
Rel. to Nifty	0.1	18.5	33

Share Holding Pattern-%			
	Current	1QFY14	4QFY13
Promoters	72.74	72.74	72.74
FII	16.68	15.46	14.46
DII	2.18	3.27	3.45
Others	8.4	8.53	9.35

1 yr Forward P/B



Emami witnessed marginally better numbers than street expectations;

The net sales for 2QFY14 have increased by 13%(YoY). Overall volume grew by 6%. Domestic business reported 11% growth, with volume growth of 6%. International business grew by 27% led by the Middle East and SAARC region.

As the company has already forward contracted menthol for the year, menthol prices continue to trend lower and price hikes for the year have been taken. Margin

We expect revenue growth could be seen in 2HFY14 as the weather related headwinds for cooling oils is behind us and pricing on balms stabilize. Visibility of margin expansion remains high because of benign cost of Menthol.

Margin Picked up: The OPM has increased by 370 bps to 21.5 % due to fall in RM cost by180 bps to 31.74%, purchases of finished goods by 350 bps to 7.07% and ASP cost by 100 bps to 16.11% of adjusted net sales. The mgmt said that the prices are likely to remain soft for the remainder of the fiscal year. The company has covered the Menthol prices for the whole year.

Volume growth: The volume of Navratna oil grew by 3%, Boroplus was 28%, Fair and Handsome was 9% while balm de-grown by 5%. Balm saw decline due to price hike in Zandu Balm (de-grown by 8%) from Rs 25 to Rs 27. Mentho Plus however has shown growth of 5%-6%.

The value growth for Boroplus was 30%, Fair and Handsome was 6%, Navratna oil was 6% while Balm was flat. Healthcare category grew by 28%. Boroplus growth was due to overstocking for winter.

Distribution Reach: Although rural continues to grow ahead of urban markets, the growth for Emami has tapered off in both urban and rural areas. While urban markets grew 8%, rural markets by 11% growth. Direct rural business was up by 17%. The company's direct outlet reach is 6 lakh. The company has added 20000 outlets in Q2 and expects to add 75000 – 100000 in FY14.

Product expansion: The company has launched Boroplus face-wash last month and there will be new launches in Q4 also. The mgmt said that for next 2 – 3 years it has strong pipeline of products to be launch.

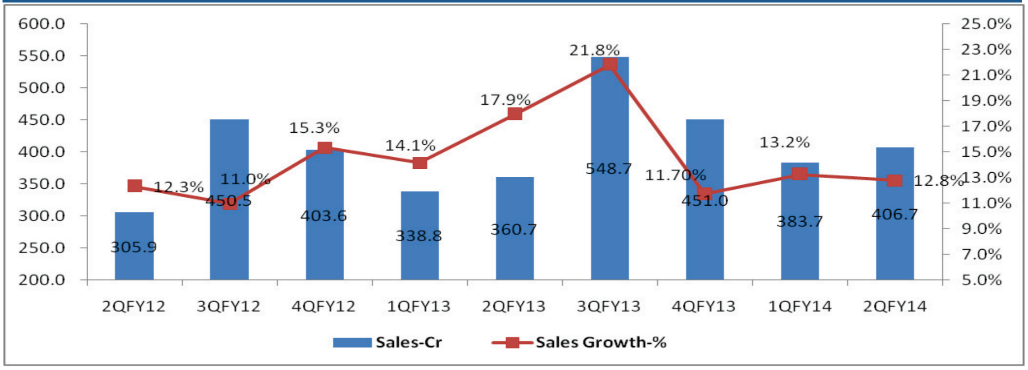
View and Valuation: Considering Emami's focus on increasing rural penetration, favorable monsoon, continuous strengthening of its brand equity and new product funnel strongly in next 2- 3 years, we are positive on the stock. We recommend "Buy" on the stock with a target price of Rs 635 (revised from Rs 500). At a CMP of Rs 498 , the stock is trading at P/BV of 10.6x and 8.1x on FY14E and FY15E, respectively.

Financials — Rs, Cr

	2QFY14	1QFY14	(QoQ)-%	2QFY13	(YoY)-%
Revenue	406.7	383.7	**6.0%**	360.7	**12.8%**
EBITDA	87.4	59.2	**47.6%**	64.1	**36.3%**
PAT	80	60.7	**31.8%**	59.2	**35.1%**
EBITDA Margin	21.5%	15.4%	**610bps**	17.8%	**370bps**
PAT Margin	19.7%	15.8%	**390bps**	16.4%	**330bps**

(Source: Company/Eastwind)

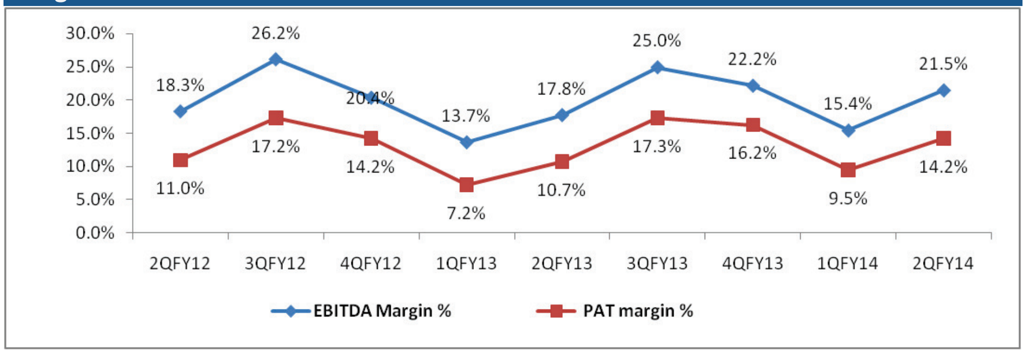
Sales and Sales Growth(%)



(Source: Company/Eastwind)

Sales for 2QFY14E increased by 13%(YoY). Overall volume grew by 6%.

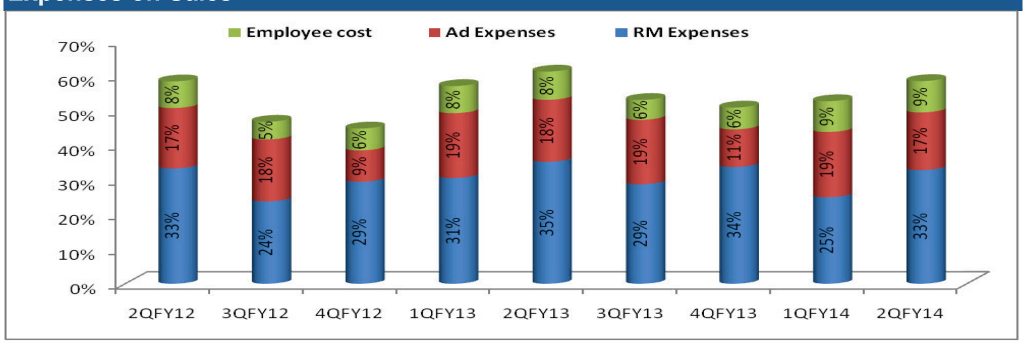
Margin-%



(Source: Company/Eastwind)

The OPM has increased by 370 bps to 21.5 % due to fall in RM cost by180 bps to 31.74%,

Expenses on Sales



(Source: Company/Eastwind)

Ad spends: The ad spends in Q2FY14 have declined by 125bps YoY to 16.6% as a percentage of sales. The ad spends, as a percentage of sales, are expected to be in the range of 16-17% in FY14 and FY15.

Tax: The tax outgo has increased by 108% to Rs 18.31 crore. The effective tax rate increased from 13% to 18.6%. After considering minority interest, the net profit increased by 35% to Rs 79.96 crore due to rise in margin.

(Source: Company/Eastwind)

Emami Ltd

Key facts from Conference Call

▪ The management has lowered its annual revenue growth guidance from 16% - 18% to 13% - 15% while PAT guidance continues to stand at 18% - 20% aided by strong gross margin expansion on the back of lower Mentha Oil prices.

▪ Contribution from power brands is ~65%. The company plans to grow these brands by 15-16% in FY14.

▪ The mgmt has guided for a capex of Rs 70 – 75 crore each during FY14 and FY15. ASP for FY14 will be 16% - 17%.

▪ The company has already taken price hikes and no further hikes are expected in FY14E. Total annualized price hike for FY14 is 4% YoY.

▪ Emami has a good cash balance of Rs3bn which it expects to utilize for acquisition.

Financials

Rs in Cr,	FY10	FY11	FY12	FY13	FY14E	FY15E
Sales	1037.98	1247.08	1453.51	1699.09	1936.23	2211.18
Raw Materials Cost	380.53	346.76	415.12	539.83	580.87	685.47
Purchases of stock-in-trade	0	204.9	189.13	182.14	203.30	221.12
WIP	0	-28.48	22.17	-6.52	-7.37	-8.42
Employee Cost	57.91	72.87	92.31	115.55	135.54	165.84
Advertisement and Publicity	194.42	219.41	228.99	279	319.48	353.79
Other expenses	158.66	178.17	209.02	241.82	281.65	321.64
Total expenses	791.52	993.63	1156.74	1351.82	1513.46	1739.44
EBITDA	246.46	253.45	296.77	347.27	422.76	471.74
Depreciation and Amortisation	117.52	116.09	120.89	124	131.63	150.32
Other Income	7	33.1	54.12	56	58.09	66.34
Exceptional Items	89.97	113.9	84.15	96	109.82	125.41
EBIT	128.94	137.36	175.88	223.2	291.14	321.42
Interest	20.98	15.23	15.21	6.6	6.86	5.14
PBT	204.93	269.13	298.94	368.69	452.18	508.03
Tax Exp	35.21	40.41	40.12	54	66.24	74.42
PAT	169.72	228.72	258.82	314.68	385.94	433.61
Growth-% (YoY)						
Sales	35.5%	20.1%	16.6%	16.9%	14.0%	14.2%
EBITDA	91.0%	2.8%	17.1%	17.0%	21.7%	11.6%
PAT	85.0%	34.8%	13.2%	21.6%	22.6%	12.4%
Expenses on Sales-%						
RM Cost	36.7%	27.8%	28.6%	31.8%	30.0%	31.0%
Ad Spend	18.7%	17.6%	15.8%	16.4%	16.5%	16.0%
Employee Cost	5.6%	5.8%	6.4%	6.8%	7.0%	7.5%
Other expenses	15.3%	14.3%	14.4%	14.2%	14.5%	14.5%
Margin-%						
EBITDA	23.7%	20.3%	20.4%	20.4%	21.8%	21.3%
EBIT	12.4%	11.0%	12.1%	13.1%	15.0%	14.5%
PAT	16.4%	18.3%	17.8%	18.5%	19.9%	19.6%
Valuation:						
CMP	197.7	249.4	260.8	397.4	498	498
No of Share	15.1	15.1	15.1	15.1	22.7	22.7
NW	625.4	689.9	706.6	777.5	1070.5	1397.9
EPS	11.2	15.1	17.1	20.8	17.0	19.1
BVPS	41.3	45.6	46.7	51.4	47.2	61.6
RoE-%	27.1%	33.2%	36.6%	40.5%	36.1%	31.0%
Dividend payout-%	23.4%	23.2%	23.8%	44.6%	24.1%	24.5%
P/BV	4.8	5.5	5.6	7.7	10.6	8.1
P/E	17.6	16.5	15.2	19.1	29.3	26.1

(Source: Company/Eastwind)