NARNOLIA
Advance Strategy Simple Solutions
SEBI Registered Portfolio Manager

Emami Ltd

"The niche advantage…"

"BUY"
8th May' 13

Result update	BUY
CMP	680
Target Price	750
Previous Target Price	625
Upside	10%
Change from Previous	20%

Market Data	
BSE Code	531162
NSE Symbol	EMAMI
52wk Range H/L	743/425
Mkt Capital (Rs, Cr)	10290
Average Daily Volume	125402
Nifty	6044

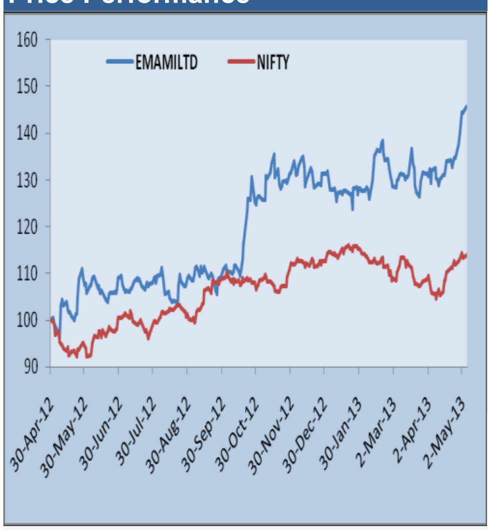
Stock Performance-%

	1M	1yr	YTD
Absolute	12.3	37.3	54.9
Rel. to Nifty	3.5	16.7	42.1

Share Holding Pattern-%

	Current	4QFY13	3QFY1
Promoters	72.7	72.7	72.7
FII	14.5	14.3	14.6
DII	3.5	4.0	3.7
Others	9.4	8.9	9.0

Price Performance



Surprised the street once again with a better numbers;

Emami Ltd witnessed better earnings for 4QFY13 with 12%(YoY) sales growth, the growth was led by Boroplus Antiseptic cream aided by good winter season. The company reported PAT growth by 25%(YoY).

Menthol prices have since corrected and are now 10% lower than FY13's average prices. We expect EBITDA margins to expand by 240 bp over FY13-15E

Margin Pickup: Company's EBITDA margin improved by 120bps (YoY) to 22.2% because of low Ad spend burden. Company's raw material increased from 29.4% of sales (4QFY12) to 28.7%, while it declined from 33.7% on YoY basis. Ad spend was almost unchanged on YoY, while sequentially, it decreased to Rs49cr from Rs102cr, accounts for 11% of sales.

Enjoying lower menthol prices: Thanks to the ban on paan masala and gutkha in many states, FMCG player Emami has now started enjoying lower menthol prices(20ms low). Price of menthol, which accounts for 20% of its raw material costs, has started easing with signs of dropping further as the usage of the throat cooling oil has reduced in chewing tobacco products. But Emami is still carrying some high cost menthol inventory and the benefit of lower prices would start accruing only from the first quarter of 2013-14,

Expansion of distribution network: Emami is on the way to achieve its outlet expansion of 600000 outlet of direct coverage compared with 500,000 in FY12. This expansion will be carried forward in FY14, and would be a key driver of all products. Emami derives half its sales from rural India and believes this could further increase through promotion and distribution increase. Emami, with its dominant position in rural landscape, will be an even bigger beneficiary amongst FMCG companies.

Attractive Valuations: Emami is the cheapest stock on a P/E among our consumer staple coverage universe, despite having one of the highest net cash positions, dividend payout ratios and ROE among mid-cap peers. Emami is quoting at a P/E of 24.5x on FY14E earnings. We believe, Emami, with its strong return ratios, clean balance sheet, high cash generation and dominant market position will be best pick for investment prospects. We recommend "BUY" on the stock with a target price of Rs750.

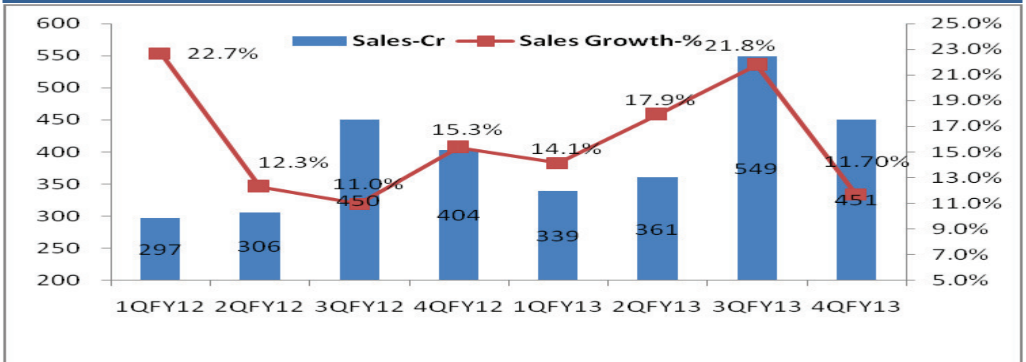
Financials Rs, Crore

	4QFY13	3QFY13	(QoQ)-%	4QFY12	(YoY)-%
Revenue	450.95	548.65	**(17.8)**	403.6	**11.7**
EBITDA	100	136.9	**(27.0)**	82.3	**21.5**
PAT	94	114.9	**(18.2)**	72.4	**29.8**
EBITDA Margin	22.2%	25.0%	**(280bps)**	20.4%	**180bps**
PAT Margin	20.8%	20.9%	**(10bps)**	17.9%	**190bps**

(Source: Company/Eastwind)

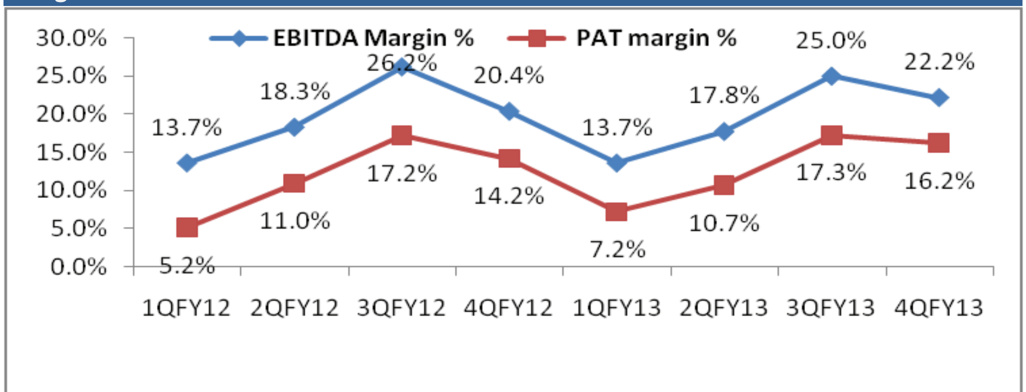
Emami Ltd.

Sales Growth and PAT Growth(%) -USD term



(Source: Company/Eastwind)

Margin-%



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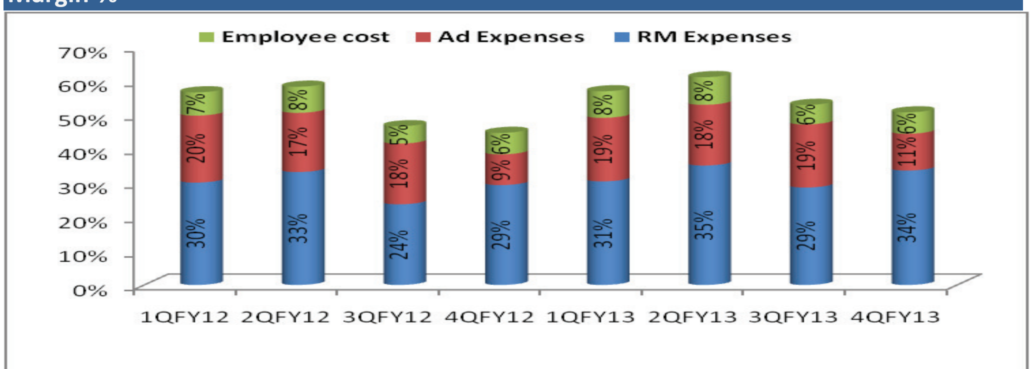
Margin-%



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