RESULT UPDATE

Emami Ltd: The niche advantage..

Emami Ltd witnessed better earnings for 3QFY13 with 22%(YoY) sales growth, the growth was led by Boroplus Antiseptic cream aided by good winter season. Other major brands like Navratna, Zandu and Fair & Handsome also showed good growth. The company reported PAT growth by 22.5%(YoY).

Company's EBITDA margin slipped by 110bps (YoY) to 25% because of high raw material cost and Ad spend burden. Company's raw material increased from 23.8% of sales (3QFY12) to 28.7%, while it declined from 35.2% on sequentially basis. Ad spend increased by 27%(YoY), accounts for 19% of sales.

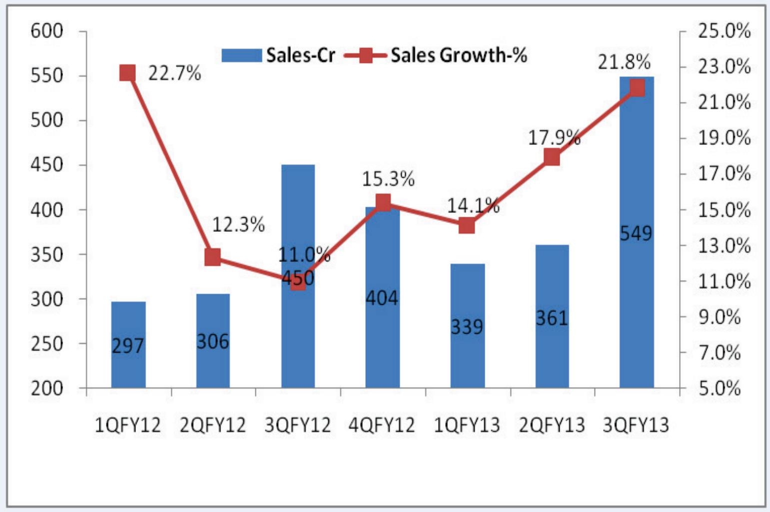
Thanks to the ban on paan masala and gutkha in many states, FMCG player Emami has now started enjoying lower menthol prices. Price of menthol, which accounts for 20% of its raw material costs, has started easing with signs of dropping further as the usage of the throat cooling oil has reduced in chewing 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, The average menthol prices during the second quarter were high at Rs1,900 a tonne. Currently, Mentha Oil prices are hovering around Rs 1,550-1,600 per kg, and the management has adopted a wait-and-watch approach as prices could see some moderation going ahead. Emami has aggressive plans for the healthcare products division comprising OTC, ethical and generic in the near future.

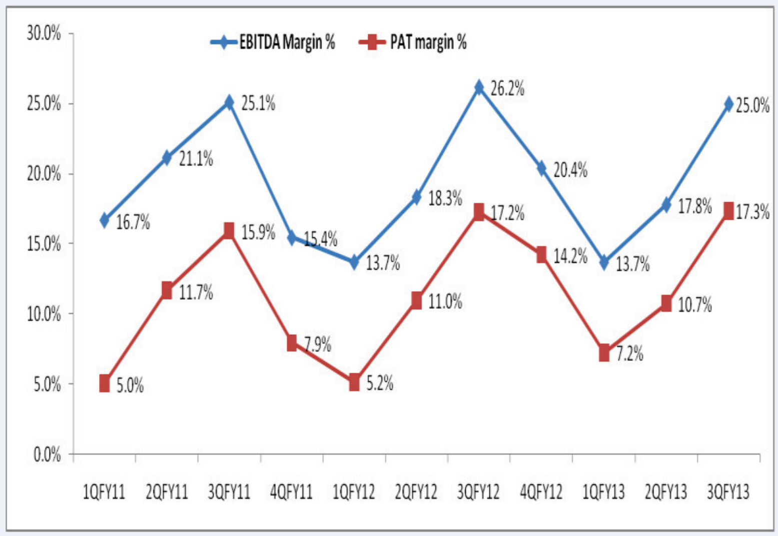
Considering the past track of sales numbers and seasonality impact, we expect better sales trends in H2FY13 than H1FY13. Because of high Boroplus sales in the winter as well as stocking up on cool hair oil in 4QFY13 (summer ahead). As per the management, initial consumer demand in winter season has been very impressive. The Company is hopeful to witness good growth over the next couple of quarters.

Emami is on the way to achieve its outlet expansion for FY13E of 600000 outlet of direct coverage 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.**

Emami is quoting at a P/E of 27x and 23x on FY13E and 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 Rs625.



(Source: Company/Eastwind)



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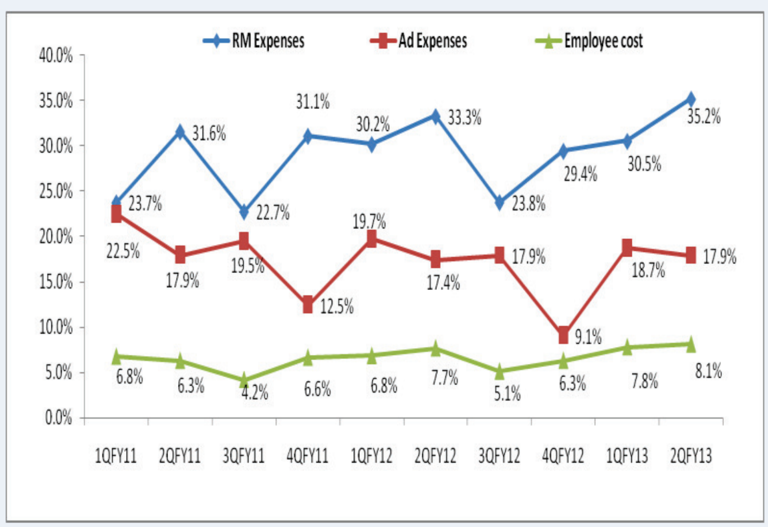

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