

EMAMI LTD.

Emami Ltd witnessed inline numbers than street expectations with 18% YoY sales growth (**Figure:1.1**) led by 22% of robust growth in domestic business, while export revenue(contributes 13% of revenue) were largely flat on YoY basis. Across the various brand fronts, Company reported 14% in Cooling Oil, 53% in Boroplus, 26% in Fair & Handsome and 10% growth in Balm on YoY basis. Company’s EBITDA margin contracted by 60bps to 17.8% YoY primarily, because of higher employee cost and Ad Spend. PAT margin by 45 bps and affected by higher tax rate.

Company’s growth remains strong in domestic market with revenue growth of 22% on the back of 16% volume growth. Volume Growth across the different brands are: Navratna by 6%, Boroplus Antiseptic Cream (74% market share) by 51%, Navratna Cooling talc by 80%, Balm portfolio by 6% (43% of market Share) and Fair & Handsome (57% of market share) by 14% on YoY basis. Because of strong distribution network, and strong focus from the company towards advertising & promotions, volume growth of Borplus was seen at 50%. Company’s dealer have reduced inventory of Balm as they have started stocking up of winter

Distribution enhancement and mass approach continue to yield opportunities. The company now directly covers 560,000 outlets (500,000 outlets last year). Company’s International Business and Canteen business should also be sluggish in 3Q FY13, but Bangladesh will help revive growth from 4QFY13. The company plans to revisit its plans of starting a new unit in Egypt, which should be operational in nine months or so. In addition, in India, it will open a new unit in North East, which will take 18 months or

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

Company’s major raw material Mentha Oil’s prices are trading at a “Super Cycle”. The company’s procurement prices continue to remain high due to contracts at INR1,900/kg. CMP is ~INR1,500/kg and the company would benefit when the current contract expires. Softening Mentha prices would only be discernible from 4QFY13 onwards, and margin picture could expand to 20%+ level.

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 (**Figure:1.3**), 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.

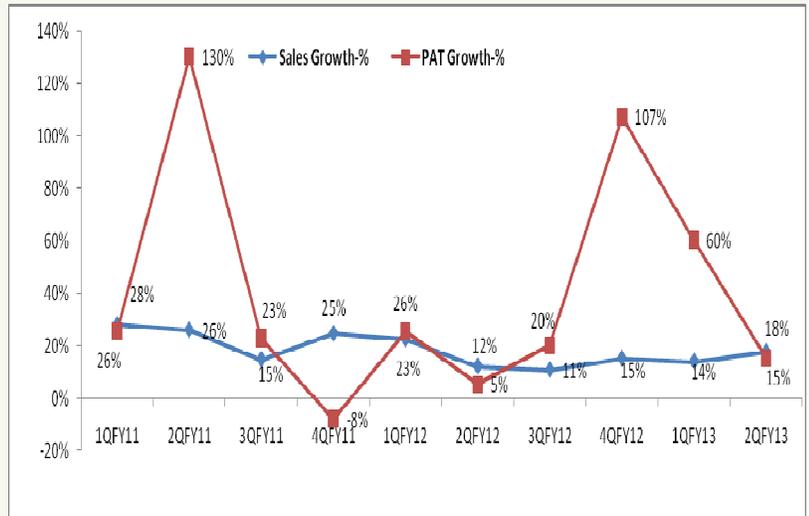


Figure: 1.1

(Source: Eastwind)

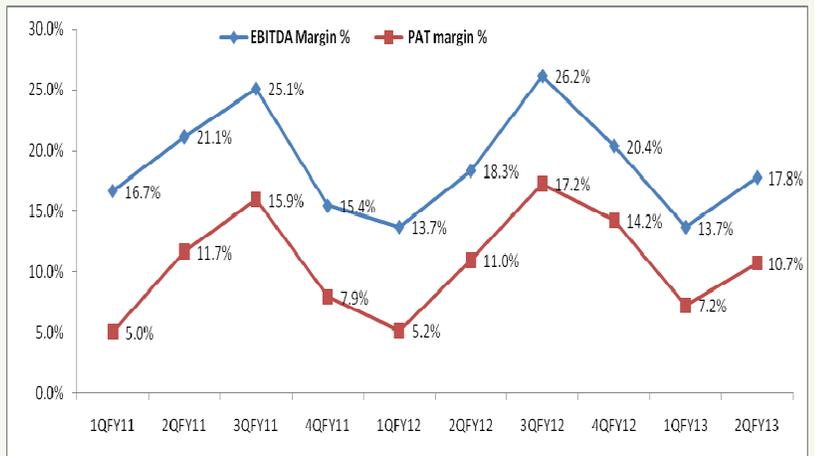


Figure: 1.2

(Source: Eastwind)

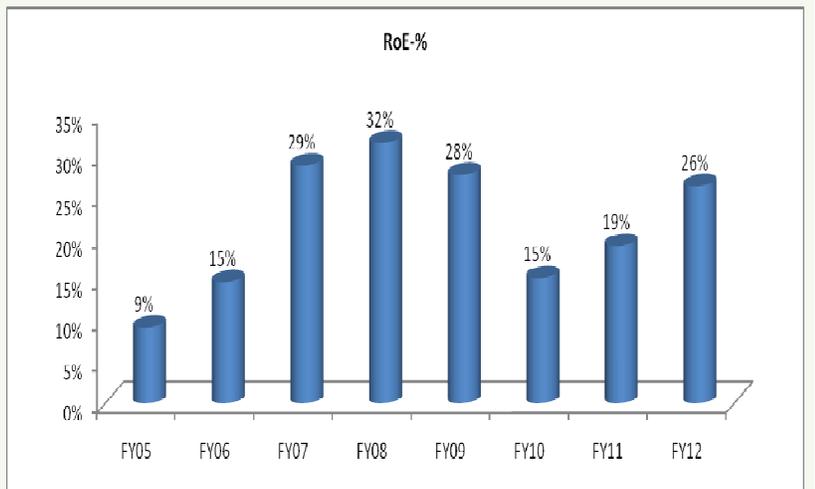


Figure: 1.3

(Source: Eastwind)