



stock update



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May 06, 2016

Emami

Reco: Buy

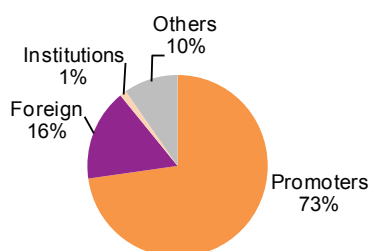
Better monsoons to improve prospects in FY2017; Buy retained

CMP: Rs1,039

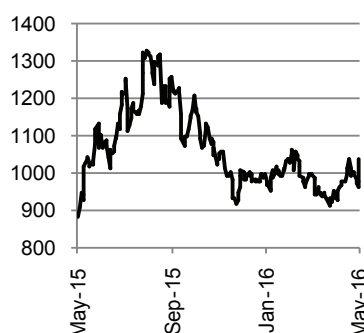
Company details

Price target:	Rs1,250
Market cap:	Rs23,585 cr
52-week high/low:	Rs1,368/875
NSE volume: (No of shares)	1.7 lakh
BSE code:	531162
NSE code:	EMAMILTD
Sharekhan code:	EMAMILTD
Free float: (No of shares)	6.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.8	-4.8	-5.8	6.1
Relative to Sensex	3.2	-7.5	-2.3	13.4

Key points

- Sales volume improves; high GPM leads to strong operating performance:** Emami registered a double-digit revenue growth of 21.2% in Q4FY2016 (driven by a volume growth of 17.6%). The *Kesh King* brand contributed about Rs60 crore during the quarter. The organic sales growth stood at 10% (driven by a 6.5% volume growth, which improved from almost flat sales volume in Q3FY2016). The gross profit margin (GPM) improved by 417BPS YoY to 68.5%. About 80-90BPS of GPM expansion was led by the consolidation of the *Kesh King* brand and rest of the GPM expansion was due to reduction in the raw material prices. The OPM improved by 184BPS YoY to 27.2% and the operating profit grew by about 30% to Rs182.3 crore (our expectation of Rs184.5 crore). The lower other income, higher interest expense and depreciation charges led to a 7% decline in adjusted PAT to Rs134.5 crore.
- Boroplus and healthcare portfolio delivered a strong performance:** The revenues from *Boroplus* antiseptic cream grew by 41% due to extended winters, while the *Zandu* healthcare portfolio continued to register a strong performance with 30% growth during the quarter (driven by a strong performance of *Zandu Pancharishta*, grew by 20%). Balms portfolio grew in double digit (at 12%) during the quarter. The summer portfolio of *Navratna* cool oil, cool talc and *Boroplus* prickly heat powder registered a single-digit growth due to extended winter. The international business registered a 17% growth on the back of a strong performance in the South Asian Association for Regional Cooperation (SAARC) and the Middle East, North Africa and Pakistan (MENAP) regions.
- Outlook-Targets double-digit volume growth; margins to improve by 50-60BPS:** With summer season double started on a good note and monsoon expected to be better, the management is expecting the existing portfolio to perform well in the coming quarters. Also, the company has renewed the packaging and advertisement for some of the key brands, such as *Navratna* cool, *Kesh King*, balms and *He* deodorant, which should help it to achieve better growth in the coming years. The company has a target of 15-16% revenue growth at the organic level (driven by 12-13% volume growth). The advertisement spends are expected to remain high, which might result in a flat to marginal increase in OPM in FY2017. Its international business is expected to grow by 15-17% in the coming years.
- Buy retained:** We have broadly maintained our earnings estimates for FY2017 and FY2018. The strong portfolio of brands catering to under penetrated categories and the company's continuous focus on launching new products/brand extension under existing categories will act as key growth drivers in the near to medium term. We expect Emami's earnings to grow at a CAGR of above 20% over FY2016-18E. The stock is currently trading at 29.1x its FY2018E earnings. We have maintained our Buy recommendation on the stock with an unchanged price target of Rs1,250.

Results (consolidated)

Particulars	Q4FY16	Q4FY15	YoY (%)	Rs cr	
				Q3FY16	QoQ (%)
Net sales	669.0	552.1	21.2	787.5	-15.0
Other operating income	1.8	1.5	16.2	1.1	70.5
Total revenues	670.8	553.7	21.2	788.5	-14.9
Operating profit	182.3	140.3	29.9	249.5	-26.9
Other income	6.0	29.7	-79.7	5.0	20.9
Interest expenses	13.5	1.0	-	17.1	-20.8
Depreciation	17.0	11.0	53.9	9.9	70.8
Adjusted PAT	134.5	144.4	-6.9	183.1	-26.5
Extra-ordinary gain/(loss)	(58.2)	9.9	-	(49.4)	-
Reported PAT	76.4	154.4	-50.5	133.8	-42.9
Adjusted EPS (Rs)	5.9	6.1	-2.6	8.1	-26.5
Gross margins (%)	68.5	64.4	417BPS	70.8	(224)BPS
OPM (%)	27.2	25.3	184BPS	31.6	(447)BPS

Brand-wise performance

- ◆ **Navratna cool oil maintains leadership position; expect to grow in double digit in FY2017:** *Navratna* cool oil grew by 4% in Q4FY2016 as extended winters affected the sales of cooling portfolio in Q4. The brand registered a subdued growth of 6% in FY2016 due to abnormal weather conditions, which affected the brand's performance (along with a slowdown in the category). The company has maintained its leadership position in the cooling oil segment with 60.5% market share (improved by 30 basis points [BPS] in FY2016). The company has further improved formulation (with the goodness of brahmi and amla) and also renewed the packaging. Also, recently, the company has launched *Navratna* almond cooling hair oil in the domestic market. All these efforts along with strong summer should allow *Navratna* cool oil to achieve double-digit volume growth in the coming quarters. The expected improvement in the rural economy on the back of better monsoons should add on to the overall sales volume (as 37% of *Navratna* cool sales come from 1 rupee sachets).
- ◆ **Boroplus antiseptic cream-Strong performance in Q4FY2016:** *Boroplus* antiseptic cream grew by 41% in Q4 due to extended winters and registered a growth of 8% in FY2016. The brand has maintained its leadership position with 76.9% market share in FY2016. We expect the brand to grow at 8-10% in the near to medium term.
- ◆ **Fair & Handsome-Q4 performance was affected by one-time supply issue:** *Fair & Handsome* registered flat sales in Q4FY2016, as the sales were affected by one-off non-supply of product for 15-20 days in Q4FY2016. However, the product has been relaunched with new formulation and packaging (in April 2016) and is expected to achieve double-digit growth in the near to medium term. The brand has maintained its leadership position with a volume market share of 64.6% in FY2016. On the other hand, *Fair & Handsome's* instant fairness facewash performed well with an improvement of 100BPS in the market share to 11.9% in FY2016.
- ◆ **Zandu healthcare portfolio-Strong growth momentum sustains:** *Zandu's* healthcare portfolio registered a strong growth of 30% in Q4FY2016 (grew by 34% in FY2016). The growth was driven by a 20% growth in the key portfolio brand, *Zandu Pancharishta*, during the quarter (grew by 56% in FY2016). We expect *Zandu's* healthcare portfolio to grow at above 20% in the coming years.
- ◆ **Kesh King & 7 Oils in One cooling oil-Performance on track:** *Kesh King* ayurvedic hair oil's revenues stood at Rs60 crore (9% of total sales) in Q4FY2016 and about Rs185 crore in FY2016. Its market share improved by 370BPS to 35.4%. Emami has launched a new ad-campaign (both for print and television media) focusing strongly on the products and its benefits. With distribution in place, the management is confident of achieving Rs70-75 crore of revenues per quarter from the brand (targets to clock Rs300 crore revenues in FY2017). *7 Oils in One* damage control hair oil is performing well and clocked revenue of Rs15 crore in FY2016. The company has modified the print communication and expects brand to contribute around Rs25 crore in FY2017.
- ◆ **Balms-Maintain the leadership position:** Balms portfolio grew by 12% in Q4FY2016 and FY2016 (*Zandu* balm grew by 8% and *Mentho Plus* balm has grown by 15%). The balms portfolio has maintained the leadership position with 55.2% market share in the domestic market. The company has launched Rs2 SKU of *Zandu Balm* ultra power to induce trials. The management expects the portfolio to grow in double digits in the coming years.
- ◆ **Other products:** *Navratna* cool talc and *Boroplus* prickly heat powder are expected to post better performance and clock double-digit growth on the backdrop of strong summers. Also, the company has recently launched *Navratna* i-cool talc with new formulation in the domestic market. Further, the company has relaunched *He* deodorants with easy premium package and also forayed into the no-gas category that should help the brand to achieve good recognition in the domestic deodorant segment.

Other key conference call highlights

- ◆ **International business-Grew in strong double digit:** Emami's international business performed well in Q4FY2016 with a 17% revenue growth (revenue growth stood at 15% in FY2016). The double-digit revenue growth is attributable to better performance by the MENAP and SAARC regions (Bangladesh registered a strong growth). On the other hand, Commonwealth of Independent States (CIS) & Africa regions' performance was affected by economic crisis and currency volatility. Most of Emami's brands have a strong positioning in various international markets. With political and macro-environment improving in most of the markets, we expect Emami's international business revenues to grow at 18-20% in the coming years.

- ◆ **Focus to become debt-free company by FY2018:** The debt on consolidated books currently stands reduced at Rs671.4 crore (reduced from Rs963 crore in H1FY2016) and the management is targeting to become a debt-free company by the end of FY2018. The management is confident of repaying debt through its internal cash flows. The interest cost is expected to be about 8.5%.
- ◆ **Capital expenditure of Rs150-170 crore in FY2017:** A new manufacturing facility has already been established at Guwahati, Assam for an investment of Rs300 crore. The management has guided for a capital expenditure (capex) of Rs150-170 crore for FY2017.
- ◆ **Distribution expansion continues:** Emami's direct distribution reach currently stands at 6.5 lakh outlets at the end of FY2016. The management is targeting distribution reach to enhance to 7.5 lakh outlets by FY2017. Navratna brand is currently sold through 4 million outlets (including the indirect reach).

Outlook and valuation

We have broadly maintained our earnings estimates for FY2017 and FY2018. The strong portfolio of brands catering to under-penetrated categories and the company's continuous focus on launching new products/brand extension under existing categories will act as key growth drivers in the near to medium. We expect Emami's earnings to grow at a compounded annual growth rate (CAGR) of above 20% over FY2016-18E. The stock is currently trading at 29.1x its FY2018E earnings. We have maintained our Buy recommendation on the stock with an unchanged price target of Rs1,250.

Valuations	Rs cr				
Particulars	FY14	FY15	FY16	FY17E	FY18E
Net sales	1,820.8	2,217.2	2,623.8	3,121.6	3,684.9
Adjusted PAT	350.4	484.8	526.9	617.3	808.1
EPS (Rs)	15.4	21.4	23.2	27.2	35.6
OPM (%)	24.2	24.4	26.1	26.5	27.4
PE (x)	67.0	48.5	44.6	38.1	29.1
RoE (%)	41.0	44.8	40.0	40.8	44.4
RoCE (%)	44.7	53.7	40.7	38.7	47.5

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