

VISIT UPDATE

MID CAP

Share Data

Reuters code	EMAM.BO
Bloomberg code	HMN IN
Market cap. (US\$ mn)	1,367
6M avg. daily turnover (US\$ mn)	1.3
Issued shares (mn)	151
Target price (Rs)	443

Performance (%)	1M	3M	12M
Absolute	(12)	(17)	61
Relative	(13)	(17)	38

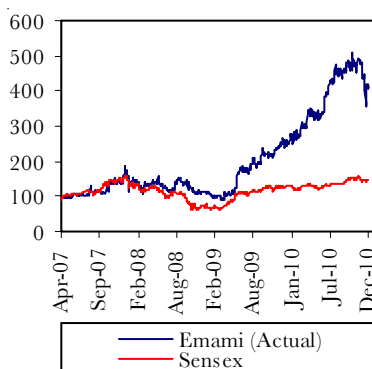
Valuation Ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	15.0	19.3
+/- (%)	26.7	28.0
PER (x)	27.1	21.2
PBV (x)	9.0	7.9
Dividend/Yield (%)	1.0	1.2
EV/Sales (x)	5.0	4.0
EV/EBITDA (x)	24.0	18.7

Major shareholders (%)

Promoters	73
FHIs	15
MFs	4
Public & Others	8

Relative performance



Emami

Maintain Outperformer

Price: Rs 408

BSE Index: 19,983

23 December 2010

Short-term pressures likely; long-term growth outlook intact

We met the management of Emami. Following are key takeaways:

Weak Boroplus sales due to delayed winter, but Zandu displays strong growth

A delayed winter is likely to result in a lower growth rate in 3Q for Emami's skin care portfolio although volumes are recovering in December. Key brands to be impacted are *Boroplus* (~70% of 3Q sales) and *Malai Kesar* cold cream. However, the company is confident of achieving more than 20% revenue growth in FY11 and sustaining similar growth rates in FY12. *Zandu* continues to perform above the company's expectations, recording more than 20% volume growth. Management is confident of maintaining the strong growth rate for the brand over the next two-three years led by increasing appeal to the youth and greater penetration through the recently launched Rs 2 SKU. Growth rate for larger packs is higher compared with smaller packs across brands, even in tier-2 and tier-3 cities, indicating increased spending power of the Indian consumer.

Cautious acquisition strategy

Emami continues to look at acquisitions in India and overseas. However, following the unsuccessful bid for Paras Pharma, management has indicated that opportunities in domestic space are limited with nothing on the company's radar at present. Management is cautious in evaluating acquisitions in overseas markets and is focused on emerging markets and on personal and herbal care brands having a strong growth profile.

Steep input cost pressures; initiating price increases in key brands

Input cost pressures, especially owing to menthol and LLP, are expected to continue impacting margins in 2HFY11. The company increased *Zandu* balm prices by 10% in December and is increasing prices of *Fair and Handsome* 7 ml pack from Rs 5 to Rs 7. Price increases in other key brands like *Navratna* and *Boroplus* are expected as the company looks to pass on increases in raw material costs through 6-7% average price increase.

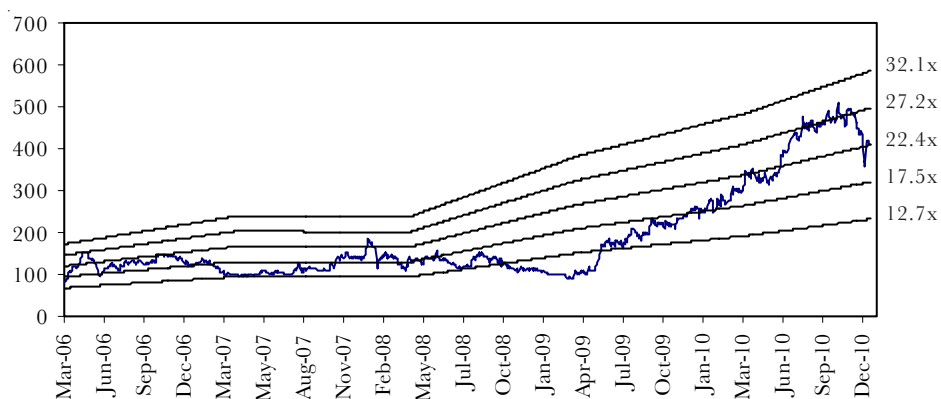
New launches to accelerate growth

Apart from *Boroplus* lotion, the company launched cream extensions of *Boroplus* (healthy and fair winter cream, intensive skin therapy cream), leveraging the *Boroplus* brand to enhance its skin care portfolio. The company also launched *Malai Kesar Cream* soap, which is the first cream soap in the company's portfolio and is priced attractively (~30% lower than the market leader). The company recently entered the hair colours space with its brand *Hair Life*, which is being test marketed.

Outlook and valuation

Emami's revenue growth continues to be strong. Growth is expected to be moderate in 3Q due to a delayed winter. Nevertheless, strong volume growth in *Navratna* and *Zandu* (~37% of total sales) and incremental growth in new launches would ensure ~18%+ volume growth in FY11, the highest among FMCG peers. Margin pressures for Emami are expected to continue through FY11. However, following stabilisation of prices of menthol and LLP and price increases in December and January, margins are expected improve gradually FY12 onwards. Further, higher interest income and a lower tax rate would keep profitability healthy over FY10-12E. To factor in steep input cost pressure, we reduce our earnings estimates for FY11 and FY12 by 8% and 4%, respectively. We remain positive on Emami's growth prospects. Furthermore, the stock corrected ~15% in the past one month and valuations are reasonable at 21x FY12E earnings. We maintain our **Outperformer** rating on the stock.

PER Band



Source: B&K Research

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net sales	7,474	10,217	12,552	15,406
Growth (%)	30.5	36.7	22.9	22.7
Operating expenses	(6,199)	(7,752)	(9,963)	(12,076)
Operating profit	1,275	2,465	2,589	3,329
EBITDA	1,275	2,465	2,589	3,329
Growth (%)	33.8	93.3	5.1	28.6
Depreciation	(84)	(154)	(190)	(206)
Other income	258	408	502	541
EBIT	1,450	2,718	2,901	3,664
Interest paid	(391)	(547)	(275)	(236)
Pre-tax profit	1,059	2,171	2,627	3,428
(before non-recurring)				
Non-recurring items	0	(121)	0	0
Pre-tax profit	1,059	2,049	2,627	3,428
(after non-recurring)				
Tax (current + deferred)	(141)	(352)	(349)	(513)
Net profit (before Minority Interest, Pref. Dividend, etc.)	917	1,697	2,277	2,915
Minority interests	1	0	0	0
Reported PAT	919	1,697	2,277	2,915
Adjusted net profit	919	1,798	2,277	2,915
Growth (%)	(1.0)	95.7	26.7	28.0

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Cash & marketable securities	468	2,164	3,328	4,507
Other current assets	2,256	2,646	3,227	3,953
Investments	67	66	67	67
Net fixed assets	6,495	5,673	4,871	4,115
Other non-current assets	32	(15)	—	—
Total assets	9,318	10,534	11,494	12,642
Current liabilities	1,764	1,620	2,101	2,577
Total debt	4,482	2,591	2,497	2,150
Other non-current liabilities	60	70	70	70
Total liabilities	6,305	4,280	4,668	4,796
Share capital	131	151	151	151
Reserves & surplus	2,881	6,103	6,675	7,695
Shareholders' funds	3,013	6,254	6,826	7,846
Total equity & liabilities	9,318	10,534	11,494	12,642
Capital employed	7,553	8,916	9,392	10,065

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	1,059	2,049	2,627	3,428
Depreciation	84	154	190	206
Change in working capital	784	(687)	(317)	(463)
Total tax paid	(159)	(276)	(323)	(477)
Cash flow from oper. (a)	1,768	1,240	2,176	2,694
Capital expenditure	(6,242)	(266)	(388)	(450)
Change in investments	636	(223)	(56)	(61)
Others	577	933	1,000	1,000
Cash flow from inv. (b) (5,055)	441	559	489	489
Free cash flow (a+b)	(3,287)	1,682	2,735	3,183
Equity raised/(repaid)	7	3,100	0	0
Debt raised/(repaid)	4,100	(1,892)	(94)	(347)
Dividend (incl. tax)	(327)	(398)	(531)	(708)
Others	(378)	(1,021)	(1,000)	(1,010)
Cash flow from fin. (c)	3,402	(211)	(1,625)	(2,065)
Net chg in cash (a+b+c)	114	1,471	1,110	1,118

Key Ratios

Yr end 31 Mar (%)	FY09	FY10	FY11E	FY12E
Adjusted EPS (Rs)	7.4	11.9	15.0	19.3
Growth	(1.0)	60.8	26.7	28.0
Book NAV/share (Rs)	24.2	41.3	45.1	51.9
Dividend/share (Rs)	2.7	3.0	4.0	5.0
Dividend payout ratio	43.4	29.5	31.1	30.4
Tax	13.3	17.2	13.3	15.0
EBITDA margin	17.1	24.1	20.6	21.6
EBIT margin	19.4	26.6	23.1	23.8
RoCE	26.7	33.0	31.7	37.7
Net debt/Equity	133.3	6.8	(12.2)	(30.0)

Valuations

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
PER	55.2	34.3	27.1	21.2
PCE	50.6	31.6	25.0	19.8
Price/Book	16.8	9.9	9.0	7.9
Yield (%)	0.7	0.7	1.0	1.2
EV/Net sales	8.3	6.1	5.0	4.0
EV/EBITDA	48.8	25.2	24.0	18.7

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
Net margin (%)	12.3	17.6	18.1	18.9
Asset turnover	1.1	1.0	1.1	1.3
Leverage factor	2.3	2.1	1.7	1.6
Return on equity (%)	31.1	38.8	34.8	39.7

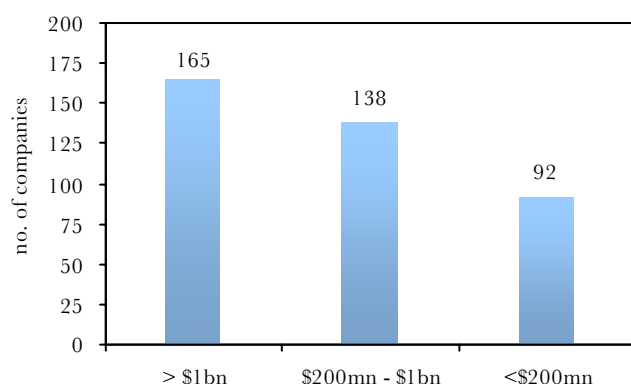
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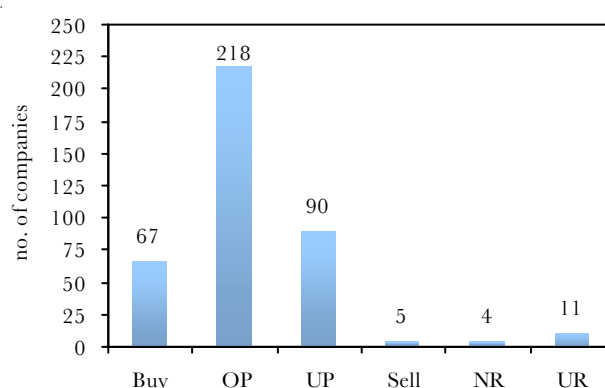
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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