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Emami Ltd (Emami) is one of the leading players engaged in manufacturing and marketing of health, beauty and personal care products based entirely on ayurvedic formulation. The company has a wide portfolio of more than 300 products.

### Investor's Rationale

The strong part of the company is its powerful brands that include a range of product portfolios. Strong branding is important for continuous success in the FMCG business. Emami has realized it early in its business and has established some powerful brands in the FMCG space. The company's leading brands, including Boroplus, Navratna, Zandu and Fair & Handsome, make around 60-70% to the total sales. These brands are some of the market leaders in their respective categories.

Another strength of the company is its capability of ascertaining new brands and positioned categories at the correct time. It has paid good dividends to the company. Emami boasts of being the first company to identify and create a segment, men fairness product, after realizing that due to a lack of men fairness products, men regularly use women's fairness products to get a lighter skin tone. In the same way, the identification of the fact that the need for prickly heat powders remains seasonal, on the other hand, the need for talcum powders remains constant throughout the year compelled the company to create a category exclusively for cooling talcum powders. Hence, the company has consistently presented innovations in building fresh segments.

The company has succeeded in consistently maintaining robust returns ratios in the past few years. Due to development in its power brands, the profits have boosted in the past two years. As a result, the return ratios have improved. The company has reduced the debt in FY'12 and current debt/ equity is ~ 0.16x.

Emami is consistently working towards an improved distribution network and stronger presence throughout India with a focus on rural parts of India. The share of the rural market in the company revenues is ~50%. In totality, the company has managed to escalate its retail stretch to ~560,000 outlets by the end of 9MFY'13 from ~500,000 outlets a year back. The company maintains a strong team of ~3500 distributors, ~4,000 sub-distributors, and a sales force of ~1600 personnel.

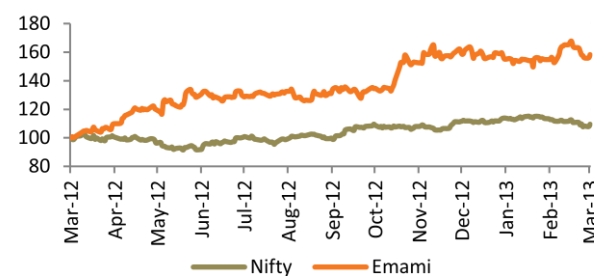
### Market Data

Rating	<b>BUY</b>
CMP (₹)	602
Target (₹)	<b>690</b>
Potential Upside	~14.6%
Duration	Medium Term
52 week H/L (₹)	658/387
All time High (₹)	884
Decline from 52WH (%)	8.5
Rise from 52WL (%)	55.5
Beta	0.8
Mkt. Cap (₹ bn)	91.1
Enterprise Value (₹ bn)	89.0

### Fiscal Year Ended

Y/E	FY'11A	FY'12A	FY13E	FY14E
Revenue (₹bn)	12.0	13.9	16.9	20.7
Net Profit(₹bn)	2.3	2.6	3.3	4.2
Share Capital (₹bn)	151	151	151	151
EPS (₹)	15.0	17.0	22.1	27.6
P/E (x)	40.0	35.5	27.3	21.8
P/BV (x)	13.3	13.1	10.2	7.8
EV/EBITDA (x)	34.2	32.4	23.1	17.6
ROCE (%)	36.4	40.2	43.4	41.8
ROE (%)	33.3	36.8	37.5	35.8

### One year Price Chart



### Shareholding Pattern

	Dec'12	Sep'12	Diff.
Promoters	72.7	72.7	-
FII	14.3	14.6	(0.3)
DII	4.0	3.7	0.3
Others	9.0	9.0	-

*Performance improves continuously on the back of growth in power brands, namely, Boroplus Antiseptic Cream, Fair & Handsome, Navratna Oil and Zandu Balm.*

*Revenue grew 16.6% YoY to ₹14,540 mn, EBITDA rose 17.1% YoY to ₹2,970 mn, net profit surged 13.2% YoY to ₹259 mn in FY'12.*

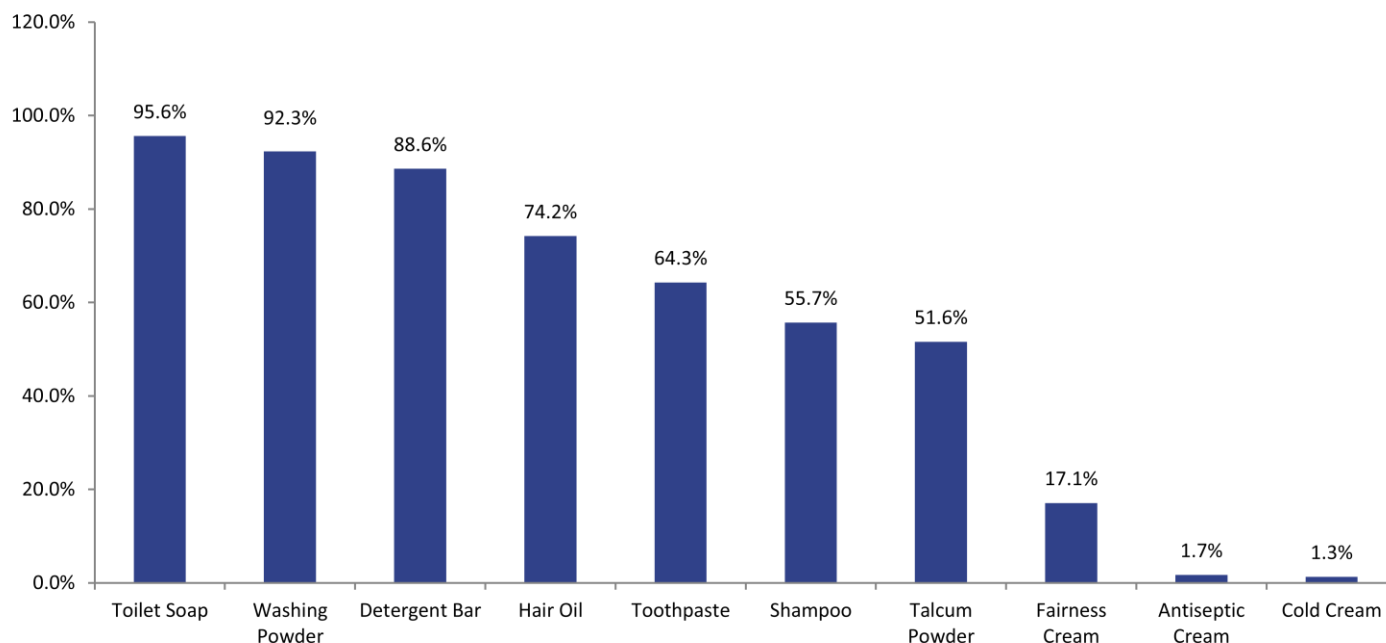
### A leading Indian conglomerate in FMCG industry

Emami Ltd, a leading Indian player in the personal and healthcare consumer products, was incorporated on March 11, 1983. It is engaged in the manufacturing and marketing of health, beauty and personal care products that are based entirely on ayurvedic formulation. With more than 30 brands under its portfolio, Emami's product categories consists of hair care, skin creams, soaps and lotions, talcum powder and ayurvedic healthcare products with its power brands - Boroplus Antiseptic Cream, Fair & Handsome, Navratna Oil and Zandu Balm. With market presence across 60 countries and subsidiaries in Bangladesh, Egypt, the UAE and UK, Emami has five overseas subsidiaries, namely, Emami UK Ltd, Emami Bangladesh Ltd, Emami International FZE, Emami Overseas FZE (100% subsidiary of Emami International FZE) and Pharma Derm SAE Co, Egypt (90.59% subsidiary of Emami Overseas FZE).

Emami has a network of over 425,000 retail outlets, 2,800 distributors, 1,500 sub-distributors, 30 depots and six regional sales offices. The company has manufacturing units in Kolkata (West Bengal), Guwahati (Assam), Pantnagar (Uttaranchal), Vapi (Gujarat), Silvassa (Dadra & Nagar Haveli) and Talasari (Maharashtra).

During FY'13, Emami outperformed the Indian FMCG industry growth. Revenue grew 16.6% YoY to ₹14,540 mn; EBITDA at ₹2,970 mn grew 17.1% during the year and net profit augmented 13.2% YoY to ₹259 mn in FY'12. Correspondingly, its book value increased from ₹45.6 to ₹46.7 towards the close of the year. As a result, the Board recommended a dividend of 800% including a special dividend of 400%.

### Low penetration of major segments indicates long term growth opportunities



Currently rural market contributes ~50% to the company's overall sales.

Emami is looking at an overseas acquisition, in the markets where it already has presence.

### An improved grasp in rural markets and expanding presence in overseas markets

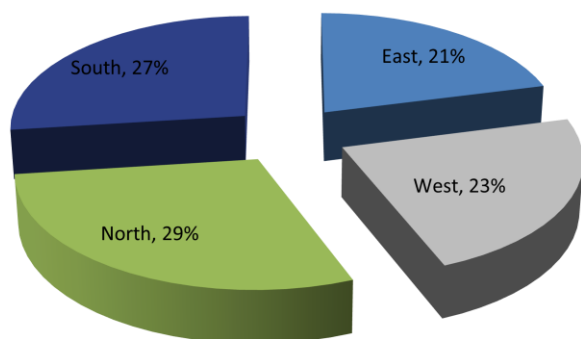
Under 'Project Swadesh', Emami is trying to develop its grasp in rural markets. The company has implemented a hub-and-spoke model by appointing super-stockists and sub-stockists in the rural areas. At the present time, rural market comprises almost ~50% to the company's total sales. In comparison to the urban areas, rural markets provide better chances to increase the volumes as infiltration of the branded products is relatively low.

Further, Emami is also spreading its presence in foreign nations. For example, Boroplus is one of the market leaders in Russia, Ukraine, and Nepal. Navratna Oil also enjoys a leadership position in Bangladesh and Nepal. Fair & Handsome continues to be one of the leading players in Bangladesh, Nepal, and UAE.

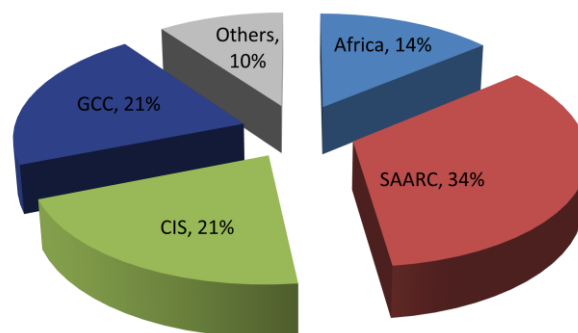
### Emami scouts for foreign acquisitions

The company has shown a constant interest in expanding its presence in foreign markets. There were signs that the company is planning overseas acquisitions that include trade in West Asia, where it already occupies a market share. In addition, Emami has established projects in Bangladesh. The company's intent of starting a unit in Egypt was re-examined due to current instable conditions in Egypt. The company has strategized to invest ₹1.25 bn in FY'13 to develop its capacity and bear market expenses to improve its sales in excess of 15%. As the company has already established and commenced a plant in Bangladesh, it plans to set up plants in Assam and Egypt in this fiscal year. Emami is keen on investing close to ₹500 mn in Greenfield expansion for its personal and health care products in Assam. Its proposed Egyptian project is planned to serve the North African and the Gulf region markets.

**Domestic Sales Break-up**



**International Sales Break-up**



*Fair and Hand-some has carved out a virgin segment from within ₹14,000 mn fairness cream market in India.*

*Navratna cool talc, another innovation by Emami, was created on an insight that even as demand for prickly heat powders remains seasonal, need for talc remains stable.*

*Emami's witnessed a 19.9% YoY rise in revenue driven by growth in power brands, while EBITDA margin contracted by 198bps YoY on higher operating expenses.*

*PAT grew 21.3% YoY on lower interest charges and a marginal rise in depreciation cost*

## Strengthening the brands through aggressive marketing

The company's expenditure on advertisements and other brand promotion cost remain the highest in the FMCG industry. The high cost on brand promotions through innovative campaigns has resulted in a strong volume growth, despite passive macroeconomic scenario.

During the period under review, Emami has hugely advertised in national media. The company has maintained a focused approach in the promotional campaigns by directly addressing the intended target segments, such as adults, housewives, and children based on product relevance. To make a direct and effective connect with the consumers, it has signed prominent and famous national and regional personalities from various industries, including film stars, sport personalities, and cultural figures. The efforts have led to good volume growth for its main brands.

## Product innovation: Establishing elite product brands

Emami has successfully created a number of innovative product categories with strong differentiation. In addition, it has been able to at par with the consumer demands that has been one of its primary strengths. However, Hindustan Uniliver (HUL) was the market leader for a long time in women fairness products, which were broadly used by men as well, Emami ventured out to create an entirely fresh segment of men fairness products. Similarly, Navratna cool talcum powder was another innovation as the company understood the concept of seasonal demand of prickly heat talcum powders and built a new segment for all-season talcum powders. Both segments are performing remarkably well in urban markets and vicinities. This shows the company's intelligent consumer insight, which has supported the business' continuous volume growth.

## Q3FY'13 Highlights: Impressive performance driven by domestic volume growth and lower financial expenses

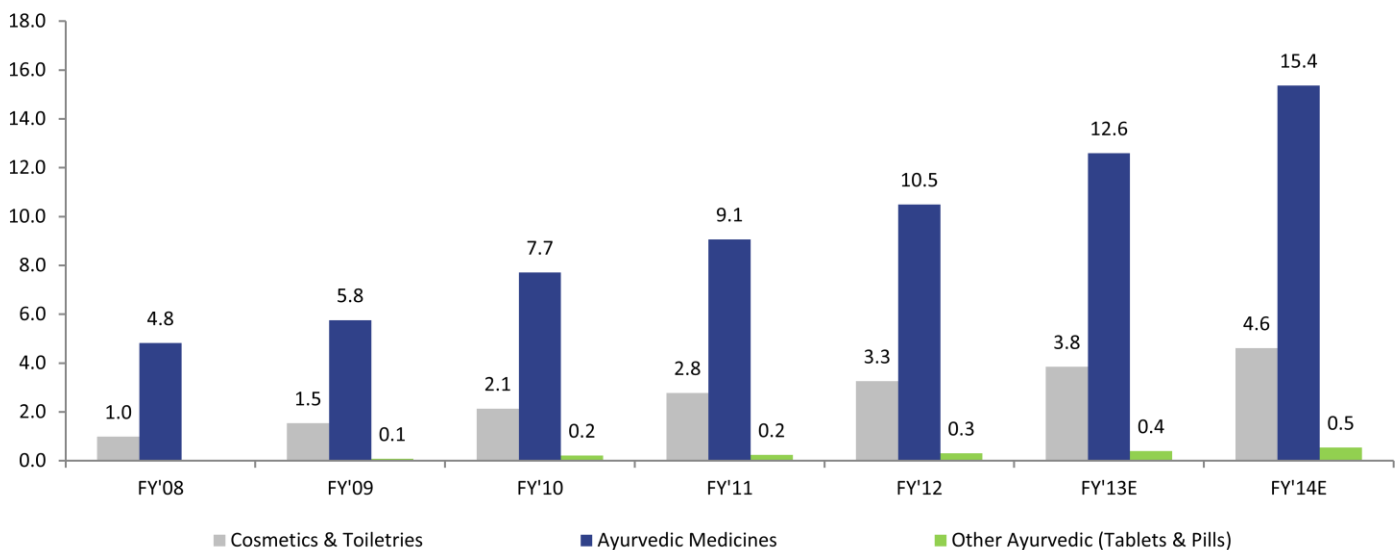
**Revenue surged 19.9% YoY:** The company's standalone revenue grew 19.9% YoY to ₹5,293 mn in Q3FY'13 steered by robust domestic volume growth for its power brands backed by early onset of winter. The company reported healthy growth in domestic market by 21.7% YoY. Boroplus antiseptic cream, Zandu Pancharishta, Zandu balm category and Fair and Handsome grew ~30%, 3x, 17% and 19%, YoY, respectively. OTC and ethical healthcare segments grew 25% YoY. Navratna portfolio rose 13% with 300bps market share gain (to 58%) on a YoY basis. International business surged 25% YoY with robust growth in SAARC, particularly Bangladesh (up 90% YoY) and Africa (up 30% YoY).

**EBITDA Margin plummeted 198bps YoY:** EBITDA margin declined primarily due to high raw material costs due to high menthe prices. However, significant decline in the interest cost due to decline in the debt on a YoY basis helped the net profit to register YoY growth.

**PAT expanded 21.3% YoY:** Emami registered a 21.3% YoY growth in its standalone PAT at ₹1,229 mn during the quarter mainly on account of a huge decline in financial cost by 73.4% YoY at ₹15 mn and a marginal rise in depreciation cost by 2.3% YoY to ₹309 mn. However, it was reported that other income fell 10.4% YoY to ₹105 mn, while taxation grew 20.1% YoY to ₹234 mn.

₹ In mn	Q3FY'13	Q3FY'12	YoY (%)	9MFY'13	9MFY'12	YoY (%)
<b>Net Revenue</b>	<b>5,293.4</b>	<b>4,415.6</b>	<b>19.9</b>	<b>12,039.7</b>	<b>10,181.9</b>	<b>18.2</b>
<b>EBITDA</b>	<b>1,694.3</b>	<b>1,500.7</b>	<b>12.9</b>	<b>3,334.8</b>	<b>2,935.1</b>	<b>13.6</b>
<b>EBITDA Margin (%)</b>	<b>32.0</b>	<b>34.0</b>	-	<b>27.7</b>	<b>28.8</b>	-
Other Income	104.8	117.0	-10.4	378.3	369.2	2.5
Depreciation	308.6	301.6	2.3	924.2	899.7	2.7
Interest	14.8	55.7	<b>(73.4)</b>	58.1	140.2	(58.6)
<b>PBT</b>	<b>1,462.4</b>	<b>1,207.9</b>	<b>21.1</b>	<b>2,485.9</b>	<b>2,264.4</b>	<b>9.8</b>
Tax	233.5	194.5	20.1	351.6	249.1	41.1
<b>PAT</b>	<b>1,228.9</b>	<b>1,013.4</b>	<b>21.3</b>	<b>2,326.3</b>	<b>1,911.9</b>	<b>21.7</b>
<b>PAT Margin %</b>	<b>22.8</b>	<b>22.4</b>	-	<b>18.7</b>	<b>18.1</b>	-
<b>EPS (₹)</b>	<b>8.1</b>	<b>6.7</b>	<b>21.3</b>	<b>15.4</b>	<b>12.6</b>	<b>21.7</b>

### Sales Trend (₹ bn)



### Key Challenges

- Key challenge for the company is to keep on innovating with regards to new product launches. Also the brands grow in size, marinating the market share will become crucial as other FMCG players will also enter the lucrative product segments and increase competitive pressure. The company is already facing pressure from likes of HUL, P&G in the men fairness segment where Emami continues to be a market leader.
- Higher inflation and volatility in the key raw material prices like mentha, oil paraffins exert pressure on the margins.
- Seasonality of some of the product categories like talcum powder, winter season toiletries can also impact the sales growth.

*Emami' return ratios are expected to improve going forward due to the benefit of improved margins and robust revenue growth.*

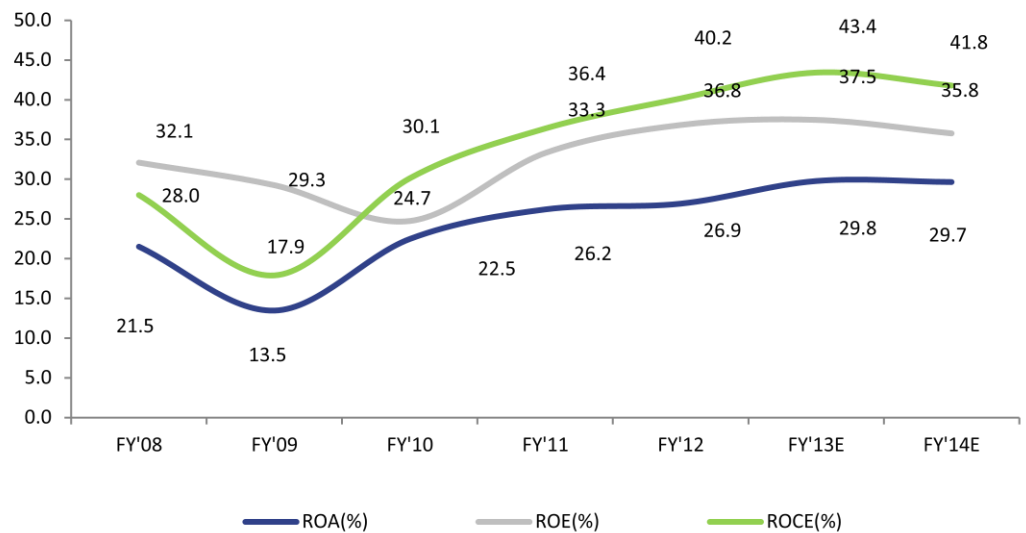
**Financial:**

We expect revenues to grow at a CAGR of 21.8% and earnings to grow at ~37% CAGR over FY'12-FY'14E. Emami' return ratios are expected to improve going forward due to the benefit of improved margins and robust revenue growth. The margins will improve as key raw materials like mentha and oil paraffins which contribute ~30% to the total raw material composition has corrected significantly on YoY basis and the impact as yet to reflect in the margins.

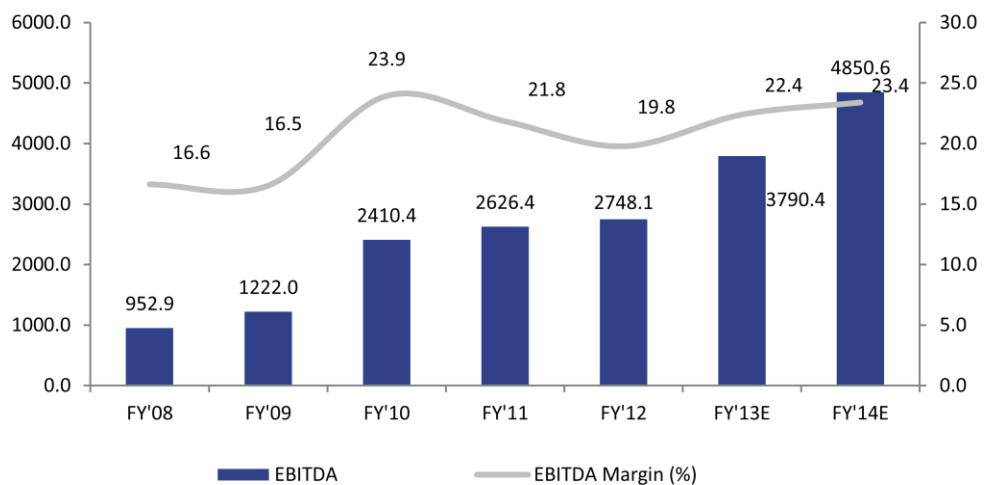
**Accounting practice:** We have one key concern over the accounting practice which inflates the net profit significantly. The company is reporting lower overall expenses by taking an amount from general reserve to P&L. The amount in FY'12 was ~₹1 bn. The similar amount is appropriated from reported profit in P&L to the general reserve netting the impact.

The net impact on P&L and balance sheet is nil. However, it inflates the profit by ~₹1bn and the EPS are being calculated on the inflated profits. This raises a serious concern.

**Return Ratios**



**EBITDA/EBITDA Margin Trend**



**Balance Sheet (Standalone)**

Y/E (₹million)	FY11A	FY12A	FY13E	FY14E
Share Capital	151	151	151	151
Reserve and surplus	6,679	6,821	8,754	11,529
<b>Net Worth</b>	<b>6,830</b>	<b>6,973</b>	<b>8,906</b>	<b>11,680</b>
Long term debt	697	527	277	227
Other Long term Liabilities	76	75	75	75
Deferred tax liability	137	145	145	145
Long term provisions	37	39	46	57
Current Liabilities	3,021	3,816	4,333	4,993
<b>Capital Employed</b>	<b>10,798</b>	<b>11,575</b>	<b>13,782</b>	<b>17,177</b>
Fixed Assets	4,889	4,666	4,449	4,759
Investment	71	808	808	808
Loans & Advances	662	545	695	852
Current Assets	5,176	5,556	7,829	10,757
<b>Capital Deployed</b>	<b>10,798</b>	<b>11,575</b>	<b>13,782</b>	<b>17,177</b>

**Key Ratios (Standalone)**

Y/E	FY11A	FY12A	FY13E	FY14E
EBITDA Margin (%)	21.8	19.8	22.4	23.4
EBIT Margin (%)	23.5	22.4	24.3	24.6
NPM (%)	18.9	18.5	19.7	20.2
ROCE (%)	36.4	40.2	43.4	41.8
ROE (%)	33.3	36.8	37.5	35.8
EPS (₹)	15.0	17.0	22.1	27.6
P/E (x)	40.0	35.5	27.3	21.8
BVPS(₹)	45.1	46.1	58.9	77.2
P/BVPS (x)	13.3	13.1	10.2	7.8
EV/Operating Income (x)	30.3	26.9	20.1	15.8
EV/EBITDA (x)	34.2	32.4	23.1	17.6

**Profit & Loss Account (Standalone)**

Y/E (₹million)	FY11A	FY12A	FY13E	FY14E
<b>Net Sales</b>	<b>12,024</b>	<b>13,898</b>	<b>16,922</b>	<b>20,731</b>
Expenses	9,397	11,150	13,132	15,880
<b>EBITDA</b>	<b>2,626</b>	<b>2,748</b>	<b>3,790</b>	<b>4,851</b>
<i>EBITDA margin (%)</i>	<i>21.8</i>	<i>19.8</i>	<i>22.4</i>	<i>23.4</i>
Other Income	343	555	560	560
Depreciation	1,160	1,207	1,267	1,339
<b>EBIT</b>	<b>2,830</b>	<b>3,117</b>	<b>4,104</b>	<b>5,093</b>
Interest	155	156	83	59
<b>Profit Before Tax</b>	<b>2,675</b>	<b>2,961</b>	<b>4,021</b>	<b>5,034</b>
Tax	400	393	684	856
<b>Net Profit</b>	<b>2,275</b>	<b>2,568</b>	<b>3,337</b>	<b>4,179</b>
<i>NPM (%)</i>	<i>18.9</i>	<i>18.5</i>	<i>19.7</i>	<i>20.2</i>

**Valuation and view**

The company's performance was satisfactory in FY'12 and moreover, it is currently undertaking a number of initiatives that will drive growth over the coming years. It has institutionalized cost efficiency program in the organization, covering all functions and expenses. Further, the company is investing in rural distribution network and has plans to add more sales force that will be beneficial for the company. Moreover, Emami's focus on the healthcare and Zandu's OTC portfolio coupled with expected new launches augurs well for the sustained performance in the future.

At current market price, stock is trading at a P/E of 27.3x and 21.8x, FY'13E and FY'14E earnings. We recommend "BUY" on the stock with medium term perspective and the target price of ₹690 based on 25x FY'14E earnings which implies a potential upside of ~14.6% from the current market price of ₹602.



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