

Investment Ideas

EMAMI LTD

HOLD

Emami Ltd [Emami], a flagship company of the Kolkata based Emami group, is engaged in the business of manufacturing personal care and healthcare products for over 3 decades.

- The company is the leader in Ayurvedic segment and enjoys better margins due to minimal competition and enjoys a higher market share.
- Emami has strong international presence that includes 60 countries in the GCC, CIS, SAARC and African nation. International revenue contributes 14% of the topline.
- It has extensive distribution network with more than 2,700 distributors, 1,200 sub distributors, 60 super stockists and 4,00,000 direct outlets. It has a tie up with ITC to distribute its products through e-choupal ensuring a greater reach.
- Emami acquired 68.9% stake in Zandu Pharmaceuticals and has always been scouting for good acquisitions. The company is financially very stable with almost a debt free balance sheet. In the past Emami has bought companies which were in distress and have turn them around and generate profit.
- We expect the revenues to grow at CAGR of 22% from Rs 9.9bn to Rs 17.98bn for the period FY10-FY13E & PAT to grow at CAGR of 26% from Rs 1.65bn to Rs 3.3bn for the same period

Based on a standalone P/E multiple of 25, the fair value per share for the company works out to Rs546.

Financial Snapshot

Projections (Rs Mn)	FY09A	FY10A	FY11E	FY12E	FY13E
Revenue	7,223	9,906	12,214	14,320	17,980
Y-o-Y Growth %	26.1%	37.1%	23.3%	17.2%	25.6%
EBIDTA	1,416	2,707	3,059	3,514	4,164
Y-o-Y Growth %	19.8%	91.2%	13.0%	14.9%	18.5%
PAT	875	1,654	2,314	2,753	3,302
Y-o-Y Growth %	-6.2%	89.0%	39.9%	19.0%	19.9%
EPS Rs	6.6	10.4	15.3	18.2	21.8
BVPS Rs	24.0	40.9	51.6	64.4	79.7
EBIDTA %	19.6%	27.3%	25.0%	24.5%	23.2%
NPM %	12.2%	16.5%	18.9%	19.2%	18.4%
ROE (%)	27.4%	25.5%	29.6%	28.3%	27.4%
PER x			30.0	25.2	21.0
P/B Ratio			8.9	7.1	5.8

Recommendations	<= 1 year	1 - 2 yrs	2 - 5 yrs
Strong Buy			
Buy			
Hold			
Reduce			
Sell			

Strong Buy – Expected Returns > 20% p.a.

Buy – Expected Returns from 10 to 20% p.a.

Hold – Expected Returns from 0 % to 10% p.a.

Reduce – Expected Returns from 0 % to 10% p.a. with possible downside risk

Sell – Returns < 0 %



STOCK DATA

BSE / NSE Code	531162/ EMAMI LTD
Bloomberg Code	HMN IN Equity
No. of Shares (Mn)	151.30
Sensex / Nifty	18,217 / 5,468

PRICE DATA

CMP Rs (4th Aug '10)	458.1
Beta	0.8
Market Cap (Rs mn)	69,311
52 Week High-low	488.40 -182.50
Average Daily Volume	13,181

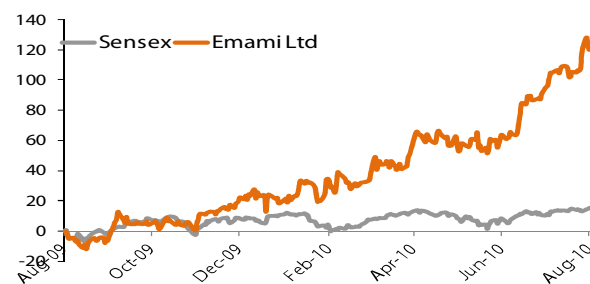
STOCK RETURN (%)

	30D	3M	6M	1Y
Emami Ltd	15%	40%	65%	120%
Sensex	4%	6%	12%	15%
Nifty	4%	6%	13%	17%

SHARE HOLDING PATTERN (%)

Promoter	71.0
Institution	12.8
Non Institution	16.2
Total	100.0

1 Year Price Performance (Rel. to Sensex)



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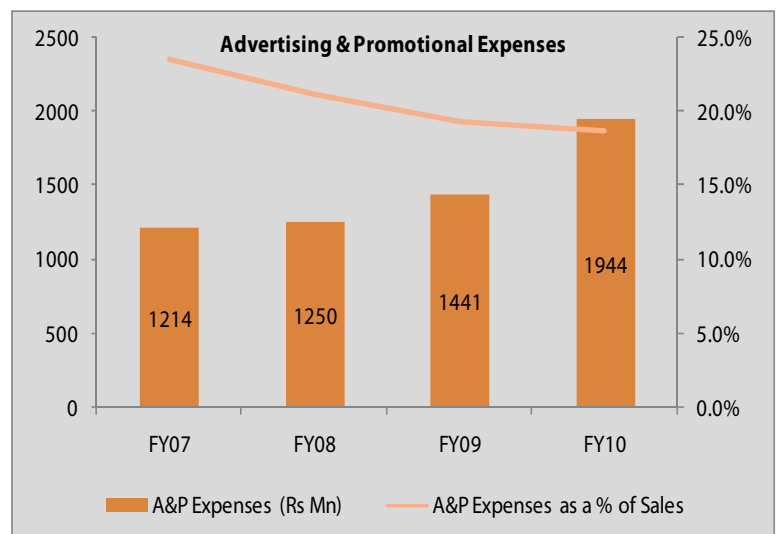
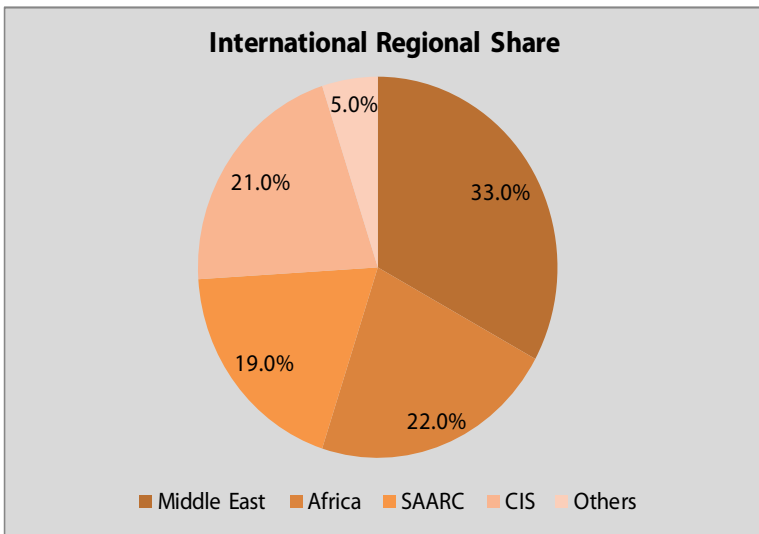


Investment Ideas

BUSINESS PROFILE

Emami Limited, the flagship company of Emami Group is a leading FMCG player in India. The company is promoted by Kolkata based Industrialists, Mr. R.S Agarwal and Mr. R.S. Goenka. Emami has been in the health, beauty and personal care products space since the last 30 years and has sustained its prominent position in Ayurvedic segments. Aided by state-of-the-art R&D cell, it has developed strong brands like 'Navratna', 'BoroPlus' and 'Fair and Handsome'. Around 80% of the Company's production is in tax exempt zones. Emami has strong international presence. International business contributes 14% of its total revenue. The international business is growing at a CAGR of 38% over the last 5 years. Its product portfolio includes Navratna Oil, Boroplus Antiseptic Cream, Fair and Handsome, Navratna Cool Talc, Sona Chandi Chyawanprash, Zandu Balm, Himani Fast Relief, Emami Healthy & Fair, Emami Malai Kesar Cold Cream, and Zandu Pancharishta.

The company plans to foray into new categories and International business is expected to drive revenue growth



Quality acquisitions to drive growth...

Emami has always been scouting for acquisitions and have acquired those companies which can contribute significantly to its topline. Some of its recent acquisitions include a big ticket acquisition of Zandu Pharma and acquisition of two smaller Bengal based companies – Lakshmi Bilas Hair Oil Company and a small homeopathy company. The company also plans to foray into personal and healthcare segment. It is currently in talks with edible oil plantations for possible inorganic growth in the form of acquisitions. The Calcutta High court had approved the scheme of arrangement of de-merger and merger of businesses between Emami Ltd, Zandu Pharma and Emami Infrastructure. Emami bought 68.9% stake in Zandu Pharma and took management control of the company. The company's advertising and promotional expenses have reduced from 23.5% in FY07 to 18.7% in FY10.

The Emami group aims to become an Rs50bn group by 2013.

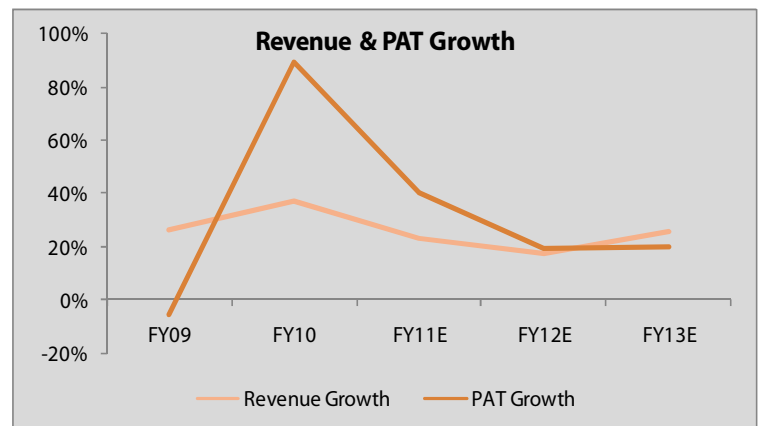
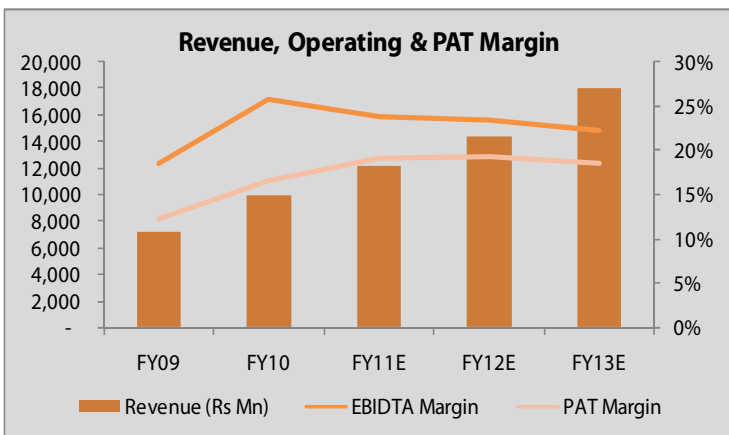
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BUSINESS PERFORMANCE

Strong Q1FY11 Performance

Emami posted strong Q1FY11 results with revenue and PAT growth of 28% and 127% Y-o-Y respectively. The revenue stood at Rs 2314.2mn and PAT stood at Rs 372.2mn. All the major brands witnessed strong growth with Navratna Oil and Zandu Balm witnessing growth of greater than 20% followed by Fair & Handsome, which saw 8% growth due to the recent price hike. The company witnessed some contraction in EBITDA margin due to rise in Menthol prices but have guided for better margins going forward due to softening of inflation and stabilization of crude prices.

Emami has been witnessing revenue growth of greater than 20 percent for the past eight consecutive quarters.



Peer Comparison

We believe Emami has a strong international presence and has made some acquisitions abroad to strengthen its presence. By acquisition of Zandu Pharma, it has got a very strong foothold in Western India. The company's main focus continues to remain: Product innovation, Product differentiation, cost control and excellent product quality. On the working capital front, inventory turnover has reduced from 35 days to 29 days and receivables turnover improved from 34 days to 27 days. The company enjoys better EBITDA margins as compared to its peers.

The company has been taking stringent measures on the working capital side

Peer Group Comparison

Companies	Revenue (Rs. mn)	EBIDTA Margin (%)	PAT Margin (%)	ROE (%)	P/E (x)	P/B (x)	CMP (Rs.)	FV (Rs.)
Emami Ltd	9,905.8	27%	16.5%	25.5	44.0	11.2	458.1	1.0
GCPL	12,678.0	25%	19.6%	36.4	31.2	8.2	345.7	1.0
Dabur India	28,568.7	20%	15.2%	57.8	40.0	23.0	198.4	1.0

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Investment Ideas

VALUATION

With strong distribution network, brand name and a bouquet of niche product offerings in the FMCG space we expect Emami Limited revenues to grow at CAGR of 22% from Rs 9,906mn to Rs 17,980mn for the period FY10-FY13E and PAT to grow at CAGR of 26% from Rs 1,654mn to Rs 3,302mn for the same period

Based on a standalone FY13 P/E multiple of 25, the fair value for the company works out to Rs 546.

Based on standalone P/E multiple of 25, the fair value per share for the company works out to Rs546.

We recommend a **'HOLD'** rating on the stock.

Financial Analysis and Projections					
Particulars (Rs Mn)	FY09A	FY10A	FY11E	FY12E	FY13E
Net Revenue	7,223	9,906	12,214	14,320	17,980
Other Income	310	391	437	523	638
Total Income	7,532	10,296	12,651	14,842	18,618
Operating Expenditure	6,117	7,590	9,593	11,328	14,454
Depreciation	82	154	156	166	178
EBIT	1,333	2,553	2,903	3,348	3,986
EBIT Margin (%)	18.5%	25.8%	23.8%	23.4%	22.2%
Interest	316	547	156	45	45
Profit Before Tax	1,018	2,006	2,747	3,303	3,941
Less: Tax	142	352	433	550	639
Profit After Tax	875	1,654	2,314	2,753	3,302
Extraordinary Items	-5	22	0	0	0
Adjusted PAT	881	1,632	2,314	2,753	3,302
PAT Margin (%)	12.2%	16.5%	18.9%	19.2%	18.4%
ROE (%)	27.4%	25.5%	29.6%	28.3%	27.4%
EPS (Rs)	6.6	10.4	15.3	18.2	21.8
BVPS (Rs)	24.0	40.9	51.6	64.4	79.7
Valuation Ratios (x)			FY10E	FY11E	FY12E
P/E			30.0	25.2	21.0
P/B			8.9	7.1	5.8

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Investment Ideas

Board Of Directors

Director Name	Current Position	Description
Sushil Kumar Goenka	Managing Director	Sushil Kumar Goenka serves as Managing Director, Executive Director of Emami Limited. He is a commerce graduate, who joined the Emami Group following graduation. He is Secretary of Aradhana Trust, Vishwa Jagriti Mission Trust (Kolkata) and Vivekananda Hospital and Research Centre, Kolkata. He is Former President of the Lions Club of North Calcutta and a member of Shri Ramkrishna Matrimangal Pratishtan, Ariadaha. He drives production, operation, human resource management, distribution and public relations of Emami Limited.
Mohan Goenka	Wholetime Director	Mohan Goenka serves as Wholetime Director of Emami Limited. He is a commerce graduate and an MBA from the Cardiff University (UK). He is a Director of several companies including the Director of Emami Infrastructure Ltd and Joint Managing Director of The Zandu Pharmaceutical Works Ltd. He Possesses knowledge and experience in marketing and brand development. He is also Vice Chairman of the Marketing Committee of Confederation of Indian Industry (CII), Eastern Region and member of Merchants' Chamber of Commerce (MCC). He is also the Honorary Consulate of Poland in Kolkata and former President of the Kolkata Chapter of Young Entrepreneurs' Organisation.
K.N Memani	Non Executive Independent Director	K.N. Memani serves as Non-Executive Independent Director of Emami Limited. He is a senior chartered accountant. He is former Chairman and country managing partner of Ernst & Young, India. He was the member of Ernst & Young Global Council for a decade. He specialises in business and corporate advisory, foreign taxation, financial consultancy, etc. and is consulted on corporate matters by several domestic and foreign companies. He was associated with several MNCs establishing businesses in India.
Viren J. Shah	Non Executive Independent Director	Viren J. Shah serves as Non-Executive Independent Director of Emami Limited. He has served as West Bengal Governor from December 1999 to December 2004. He was the Chairman of Mukund Limited for 27 years. He is former President of ASSOCHAM, IMC and other associations. He is member of the Parliament for 16 years in the Lok Sabha and Rajya Sabha and of several parliamentary committees. He has served as a Director on the Boards of several companies, besides being a member on the Board of Trustees of the Asiatic Society.

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Board Of Directors

Director Name	Current Position	Description
Shrawan Kumar Todi	Non Executive Independent Director	Shrawan Kumar Todi serves as Non-Executive Independent Director of Emami Limited. He is an M.Com. He is Chairman of the Shrachi Group of Companies and Board member of Advance Medicare & Research Institute Limited, Bengal NRI Complex Limited, Bengal Shrachi Housing Development Limited, Bengal Tools Limited, Emami Paper Mills Limited, Bhaskar Shrachi Alloys Limited, South City Kolkata Projects Limited, Khaitan (India) Limited, Pratinidhi Prakashani (P) Limited, Shrachi Securities Limited and Web Development Company Limited, among others
Radhe Shyam Agarwal	Executive Chairman	Radhe Shyam Agarwal serves as Executive Chairman of Emami Limited. He is a Chartered Accountant, Company Secretary and LLB. Started career as a senior executive of the Birla Group. He started a joint venture with Shri R.S. Goenka by setting up an ayurvedic medicine and cosmetic manufacturing unit in Kolkata, West Bengal. He is eminent industrialist with experience in strategic planning, corporate affairs and finance.
Aditya Vardhan Agarwal	Wholetime Director	Aditya Vardhan Agarwal serves as Wholetime Director of Emami Limited. He is a commerce graduate. Director of several companies and enjoys experience in brand development and marketing. He was the youngest President of the Merchants' Chamber of Commerce (MCC) and is a member of the Managing Committee of ASSOCHAM. He was on the board of West Bengal Industrial Development Corporation and is the Vice President of West Bengal Basketball Association. Besides, he is an advisor to the Academy of Ayurvedic Doctors of India, Kolkata and is the Honorary Consulate of Ethiopia in Kolkata
Harsh Vardhan Agarwal	Wholetime Director	Harsh Vardhan Agarwal serves as Wholetime Director of Emami Limited. He is a commerce graduate. He possesses knowledge in marketing and brand development and served as a Director of several companies including the Director of Emami Infrastructure Ltd and Joint Managing Director of The Zandu Pharmaceutical Works Ltd. He is a Member of CII National Committee on FMCG industry and the Board member of the Kolkata Chapter of Young Presidents' Organisation (YPO).

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