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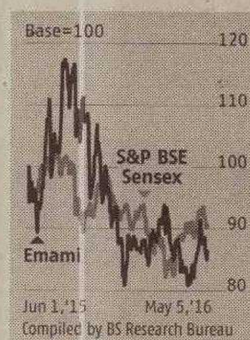
THE COMPASS

Emami: Robust volumes aid margin expansion

Organic volumes grow 6.5% in March quarter; management expects to push revenue 15% in FY17

SHEETAL AGARWAL



The key takeaway from Emami's March quarter results is that the company has been able to grow its organic volumes 6.5 per cent, ahead of analysts' expectations of three-four per cent. Both sales and Ebitda (earnings before interest, taxes, depreciation, and amortisation) margin grew slightly better than expected, but its net profit was pulled down by one-off amortisation costs worth ₹73 crore towards Kesh King acquisition. As a result, net profit fell 45.2 per cent year-on-year (y-o-y) to ₹79 crore in the March quarter. Ebitda margin expanded 184 basis points to 27.2 per cent despite the fact that most of the input cost savings were re-invested in advertising, which stood at 19.1 per cent of sales, up 470 basis points y-o-y. Rationalisation of administration and other expenses aided margins in the quarter.

The management forecast for FY17 is expected to bring cheer to shareholders. Against a 10 per cent organic growth (excluding acquisition of Kesh King) in FY16 consolidated revenues, the management said it would deliver 15-16 per cent growth in the current financial year (FY17). The company plans to increase advertising spends by 100-150 basis points in FY17 from 20 per cent of revenue last year, and grow its five brands: Navratna, Fair and Handsome, Boroplus, Zandu, and Kesh King, which together account for about 75 per cent of its revenues. Despite this increase in ad spends, the management remains confident of maintaining its Ebitda margins at current levels. In brands, Emami has maintained its market positioning across most categories.

International business (14 per cent of revenue) grew at a robust pace in the quarter on continued traction in South Asia, West Asia, and North Africa. Sales declined in eastern Europe and Commonwealth of Independent States (an association of former Soviet republics), restricting overall growth in global markets.

The company will focus on launches and brand extensions in existing categories. The firm is striving to achieve double-digit volume growth in brands with price hikes and launches adding four per cent to FY17 revenues. Despite Patanjali, the management is confident of achieving ₹300-crore revenue in its Kesh King portfolio, though analysts are not ruling out risk from Patanjali just as yet. While summer has started on a strong note, continuation of this trend will be key, given the seasonal nature of Emami's hair oil and talcum powder brands.