

# INITIATING COVERAGE REPORT

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## Brief Overview

CMP (INR) (As on 31st Dec 2020)	424
Target (INR)	576
Upside(%)	36
Recommendation	<b>Strong Buy</b>

BSE Code	531162
NSE Code	EMAMILTD
Reuters Ticker	EMAM.BO
Bloomberg Ticker	HMN IN

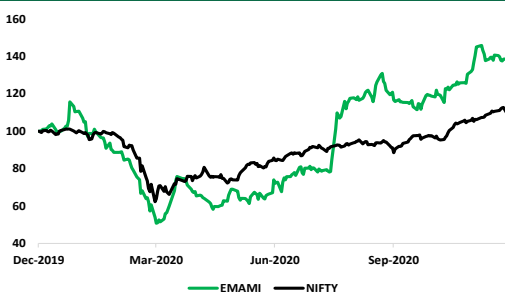
## Stock Scan

Market cap (INR Cr.)	18,834
Outstanding Shares (Cr.)	44.45
Face Value (INR)	1.00
Dividend Yield(%)	1.0
P/E (x)	58.1
P/B (x)	10.6
Debt/Equity (x)	0.11
Beta vs. Sensex	0.62
52 Week High/ Low (INR)	461/141
Avg. Daily Volume (NSE)/1yr	861,972

## Shareholding Pattern (%)

	Sep 2020	Jun 2020	Mar 2020
Promoters	53.86	53.38	52.74
Institutions	37.56	37.07	38.47
Non-Institution	8.58	9.55	8.79

## Stock vs. Nifty (Relative Returns)



Source: NSE

## Emami Ltd.: A story of strong power brands

**We initiate coverage on Emami Ltd. (Emami) with a Strong Buy rating.** Emami was promoted and founded by two friends, R.S. Agarwal and R.S. Goenka and commenced commercial operations in 1974. It is engaged in the manufacture and distribution of personal care and healthcare products (with an ayurvedic bias in most cases). The Company's Power Brands comprise **Navratna, BoroPlus, Zandu, Fair and Handsome, Kesh King and Mentho Plus, among others.** The key aspects which draw attention to Emami's business are:

- **Well diversified portfolio with leadership position across most segments:** Emami's product portfolio is well diversified with six power brands. These are Navratna, BoroPlus, Zandu, Fair and Handsome, Kesh King and Mentho Plus. These power brands coupled with stringent cost control initiatives helped Emami to navigate through the Covid-19 crisis.
- **Good presence in international markets:** Emami's international presence extends to 60+ countries with 12 major brands in the international portfolio. International business contributed to Rs 414 cr or 16% of total sales of FY20 and three brands – Fair and Handsome, Navratna and BoroPlus enjoyed the number one position in the respective categories across international markets.
- **Innovative brand extensions and foray into the home hygiene category:** Innovative brand extensions enable Emami to rejuvenate revenues and provide a growth platform as was seen in FY20 and H1FY21. Foray into the home hygiene category is a step in the right direction.
- **Commitment on reducing the promoters pledge to nil:** Currently, promoters pledge is around 40%. The promoters of Emami intends to reduce this to nil by FY22. In our view, the reduction of promoter pledge to nil is expected to re-rate the PE multiple associated with the stock.
- **Relaunch of Fair and Handsome:** The Company is re-looking brand positioning, product formulation, packaging and brand ambassador for the brand in FY21.

We have valued the stock at 35x FY23E EPS to arrive at a **Target Price of Rs 576**, which provides an upside of 36% based on the current market price. We thus recommend a **"Strong Buy"** rating on the stock.

## Financial Performance at a glance (Consolidated)

Particulars (INR mln)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales from ops.	26946	26549	27031	29721	32675
Growth %	6%	-1%	2%	10%	10%
EBITDA	7272	6905	7886	8411	9247
EBITDA Margin (%)	27.0%	26.0%	29.2%	28.3%	28.3%
Net Profit (Adjusted)	3106	3116	3948	4799	7326
Net Profit Margin (%)	11.5%	11.7%	14.6%	16.1%	22.4%
EPS (Adjusted)	7.0	7.0	8.9	10.8	16.5
BVPS	46.6	41.0	45.8	51.6	62.1
P/B (x)	9.1	10.4	9.3	8.2	6.8
P/E (x)	60.8	60.6	47.8	39.3	25.8
ROE (%)	15.0%	17.1%	19.3%	20.9%	26.5%
ROCE(%)	18.8%	18.8%	23.1%	22.7%	29.1%
ROE (%) (ex goodwill)	15.0%	17.1%	19.3%	20.9%	26.5%
ROCE(%) (ex goodwill)	18.8%	18.8%	23.1%	22.7%	29.1%

Source: Company Data, SMIFS Research

## Investment Rationales

Emami's product portfolio is well diversified with six power brands. These are Navratna, BoroPlus, Zandu, Fair and Handsome, Kesh King and Mentho Plus.

Navratna falls in the category of cooling oils. The category size is Rs 1,026 cr while the category penetration is 15% and Emami's market share as at the end of FY20 was 66.4%.

- Well diversified product portfolio with leadership position across most segments

*Emami's product portfolio is well diversified with six power brands. These are Navratna, BoroPlus, Zandu, Fair and Handsome, Kesh King and Mentho Plus. These power brands coupled with stringent cost control initiatives helped Emami to navigate through the Covid-19 crisis.* For instance, Balms reported a 130 bps growth in market share; Navratna Oil reported a 10 bps increase; Kesh King Scalp and Hair Medicinal Oil reported a 140 bps growth in market share and BoroPlus gained 30 bps market share. Fair and Handsome despite reporting a drop in offtake largely protected its market share. The Management is optimistic that there is significant growth left in the Power Brands like Navratna Oil, enjoying a market penetration of 10% and accounting for 66.4% market share in the therapeutic oil segment.

A review of Emami's portfolio is contained below.

**Navratna** – The category size of cooling oils in which Navratna falls is Rs 1,026 cr. *The category penetration is 15% and Emami's market share as at the end of FY20 was 66.4%.* Emami has done/ intends to do the following things in order to grow Navratna:

- ⇒ Increase user base and widen use among existing users in traditional markets.
- ⇒ Develop emerging markets by targeting new potential users to drive penetration.
- ⇒ **Launched brand extension – Navratna Ayurvedic Garam Tel to de-seasonalise the brand.**
- ⇒ Effective communication and activation programs through identified clusters.
- ⇒ Launch campaigns to tap young audience.
- ⇒ Engage Salman Khan to promote the brand as 'Rahat Raja'(addressing rural India).
- ⇒ Deepen salon program to increase activation.
- ⇒ **Invest in modern trade and e-commerce specific SKUs.**
- ⇒ **Enhanced caravan activity (Video on Wheels), leveraging local media print activations, wall paintings and rural sales vans.**

**Investment Rationales**

**BoroPlus falls in the category of creams. The category size is Rs 645 cr while the category penetration is 24% and Emami's market share as at the end of FY20 was 74.1%.**

**BoroPlus** - The category size of creams in which BoroPlus falls is Rs 645 cr. **The category penetration is 24% and Emami's market share as at the end of FY20 was 74.1%.** Emami has done/ intends to do the following things in order to grow BoroPlus:

- ⇒ **Gain market share; increase penetration by targeting other categories like petroleum jelly and cold creams.**
- ⇒ **Tap new markets.**
- ⇒ Highlight multi-purpose use.
- ⇒ Strengthen brand extensions and new product pipeline.
- ⇒ **Drive penetration through Rs 10 LUPs.**
- ⇒ Strengthen the brand through relevant extensions and targeted communication.
- ⇒ **Focus on the hygiene space by launching BoroPlus Advanced AntiGerm Hand Sanitizer, BoroPlus Antiseptic & Moisturizing Soaps.**

**Zandu and Mentho Plus Balms fall in the category of balms. The category size is Rs 1,262 cr while the category penetration is 37% and Emami's market share as at the end of FY20 was 54.9%.**

**Zandu and Mentho Plus Balms** - The category size of balms is Rs 1,262 cr. **The category penetration is 37% and Emami's market share as at the end of FY20 was 54.9%.** Emami has done/ intends to do the following things in order to grow Zandu and Mentho Plus Balms:

- ⇒ **Build and sharpen differentiation as an ayurvedic pain expert for headache, cold and body aches.**
- ⇒ Build preference for Zandu over local brands and economy players.
- ⇒ Highlight multipurpose use of Zandu Balm.
- ⇒ **Introduce low-priced packs to drive penetration launch new formats for targeted application.**
- ⇒ Highlight the side-effects of consuming painkillers.

**Kesh King falls in the category of special hair oils. The category size is Rs 991 cr while the category penetration is 9% and Emami's market share as at the end of FY20 was 26.6%.**

**Kesh King** - The category size of special hair oils is Rs 991 cr. **The category penetration is 9% and Emami's market share as at the end of FY20 was 26.6%.** Emami has done/ intends to do the following things in order to grow Kesh King:

- ⇒ **Re-launched Kesh King (revamped packaging with a special comb applicator) with 2x effectiveness in hair fall reduction and new hair growth.**
- ⇒ Continue to drive communication.
- ⇒ Focus on driving activation.
- ⇒ **Enhancing penetration by focusing on promotion through a rural van.**



Investment Rationales

Fair and Handsome falls in the category of men's fairness creams. The category size is Rs 401 cr while the category penetration is 4% and Emami's market share as at the end of FY20 was 65.3%.

- ⇒ **Modern trade and e-commerce specific SKU launch.**
- ⇒ **Drive medicinal shampoo through new campaign with new celebrity and larger size revamped SKU to own shelf space.**

**Fair and Handsome** - The category size of men's fairness creams is Rs 401 cr. **The category penetration is 4% and Emami's market share as at the end of FY20 was 65.3%.** Emami has done/ intends to do the following things in order to grow Fair and Handsome:

- ⇒ **Strategic price reduction in select SKUs for price parity with competition.**
- ⇒ **Relaunched Fair and Handsome cream with a new communication strategy and positioning.**
- ⇒ Sub-brand Laser 12 helped enhance premiumisation.

**Zandu Healthcare range** – **The category size, category penetration and Emami's market share for this range is not available.** Emami has done/ intends to do the following things in order to grow the Zandu Healthcare range:

- ⇒ Leverage the Indian healthcare opportunity.
- ⇒ Extend the goodness of Ayurveda in scientifically-proven products by providing long-term relief
- ⇒ Map health and wellness need areas – pain, digestion, geriatrics, women care and diabetes management etc.
- ⇒ **New strategy and insightful communication with Amitabh Bachchan as brand ambassador for Zandu Pancharishta helped arrest degrowth.**
- ⇒ Prototyped PET bottles to prevent breakage.
- ⇒ **Build superiority of Zandu Nityam through deeper consumer insights.**
- ⇒ Deliver growth in ethicals and generics by automating doctor retailing and detailing.
- ⇒ **Launch a range of immunity-boosting, problem-solution products and create new categories. Launched a unique and innovative ayurvedic cough syrup in a sachet.**
- ⇒ **Established ayurvedic care for the healthcare needs of today's women through Zandu StriVeda.**
- ⇒ Create a digital healthcare ecosystem to connect the doctor fraternity with consumers; set up an e-commerce platform of healthcare products – [www.zanducare.com](http://www.zanducare.com) - to engage with a back end panel of doctors.

## Investment Rationales

Despite the COVID-19 impact, the Company's International Business grew 16% in FY20, driven by various initiatives across geographies and the successful integration of the acquired German brand Creme 21.

Emami 7 Oils in One emerged as Emami's flagship brand for the international markets.

In FY20, the brand grew by 42% through range extensions and celebrity campaigns.

Emami's OTC range (Zandu Balm, Fast Relief and Menthoplus Balm) enjoys an expansion opportunity;

Emami plans to strengthen these brands in the international market.

In FY20, these brands grew 14%.

### ■ Good presence in international markets

In a business where scale translates into success, Emami's footprint needs to extend across the widest geographic footprint. In view of this, Emami did not just select to widen its presence across India but across the world as well. ***Despite the COVID-19 impact, the Company's International Business grew 16% in FY20, driven by various initiatives across geographies and the successful integration of the acquired German brand Creme 21. Emami's international presence extends to 60+ countries with 12 major brands in the international portfolio. Rs 414 cr or 16% of total sales of FY20 was contributed by international markets and three brands – Fair and Handsome, Navratna and BoroPlus enjoyed the number one position in the respective categories across markets.***

***The highlight of Emami's global success story during the year under review was its successful restructuring of distribution across key global markets and the effective integration of Creme 21 into the Company's global network. The brand integration was completed in record time and business was started on the day following the deal, facilitated by pre-planning.*** The Company introduced new products and re-launched products supported by strong trade marketing campaigns in key markets.

The use of hair oil as a habit existed for centuries within SAARC, GCC and ASEAN. ***Emami 7 Oils in One emerged as Emami's flagship brand for the international markets. In FY20, the brand grew by 42% through range extensions and celebrity campaigns.*** The new extensions are expected to provide growth headroom owing to geographic expansion, ingredient-benefit expansions and hair care adjacencies.

***Emami's OTC range (Zandu Balm, Fast Relief and Menthoplus Balm) enjoys an expansion opportunity; Emami plans to strengthen these brands in the international market. In FY20, these brands grew 14%.***

## Investment Rationales

***Growth in international revenues was led by Bangladesh.*** During the year under review, the Company launched variants of 7 Oils in One in Bangladesh and GCC countries. The Company launched a new range of BoroPlus products in Russia, engaged local celebrities for endorsement and extended direct distribution. ***During the latter part of the financial year, the COVID-19 pandemic impacted the Company's international exposure but the Management is optimistic that this business segment could emerge as a revenue-driver going forward.***

### ■ Own niche in Ayurveda category

Emami has a deep focus on Ayurveda working on the pharmacological studies of ayurvedic ingredients and reinforcing their efficacy, herb effectiveness, scientific data aggregation and global product acceptance. ***To strengthen its research, Emami collaborated with government research institutions and Ministry of AYUSH to introduce research based products that targeted lifestyle diseases.***

Emami has a deep focus on Ayurveda working on the pharmacological studies of ayurvedic ingredients and reinforcing their efficacy, herb effectiveness, scientific data aggregation and global product acceptance. Emami entered the Ayurvedic segment in 2008 with the acquisition of Zandu.

Emami recognises that it is more than just a Company; it is an evangelist in enhancing the acceptability of the wisdom of ayurveda. ***During the year under review, the Company made investments in a state-of-the-art bio assay lab to conduct traceability studies,*** making it possible to scientifically trace product efficacy to herb characteristics, enhancing its international acceptability. ***The Company commenced cell based efficacy studies, empowering it to conduct quick efficacy elevations during drug development, accelerating the process of new product drug development. It commenced multi-year working on two new phytopharmaceutical categories and entered into collaborations for widening herb cultivation*** with farmer buyback guarantees for sustainable procurement.

Emami entered the Ayurvedic segment in 2008 with the acquisition of Zandu. Subsequently, Emami collaborated with EY and Boston Consulting Group for a better understanding of Ayurveda opportunities and conducted clinical studies for products and developed products leveraging quality scientific tools and equipment. ***Emami was India's first to create a back-end panel of ayurveda doctors for addressing customers' needs. It also launched 250 Zandu Ayurveda Centres, connecting digitally with consumers.***



## Investment Rationales

*In FY20 Emami introduced a cough and cold syrup (Rs 3000 cr category) in sachets of Rs 5. Emami also introduced curated products (Zandu SwasthyaVeda Revitalizer for geriatrics) and launched a new brand StriVeda under which a lactation supplement was introduced. It also changed the Zandu Pancharishta proposition; it changed the packaging from glass to PET bottles.*

Going forward Emami wants to introduce products around the need gap of consumers, strengthen existing brands to drive revenues, extend the Zandu portfolio into international markets, invest in new formulations and formats and launch 500 Zandu Ayurvedic Centres across India.

### ■ Relaunch of Fair and Handsome

*Fair and Handsome was launched in 2005 with the objective to not merely launch a product but create a new category in India's personal care. Indian men, who until then had shied away from personal grooming other than shaving, found a new way to look trendy and presentable. **Being a first mover in the space, Emami carved out a market share of 65.3% (MAT Dec 2019) in the Men's Fairness Cream Category. The sector's penetration of only 4% indicates considerable multi-year headroom,** which could drive growth across the foreseeable future.*

*Fair and Handsome, however, faced some challenges in the recent past because of significant decline in discretionary spending, which adds to the category sluggishness, incidence of a beard growing trend increased from an average of 2% to 21% (25% in metro cities), which reduced facial area and the need of using a specialised cream, unlike female fairness creams used on daily, the Men's Fairness Creams are used on special occasions, indicating lower consumption. To overcome these challenges, the Company engaged a world-renowned consultant whose recommendation of price calibration was implemented with 360 degree consumer communication in Face Cream and Face Wash. **The Company is re-looking brand positioning, product formulation, packaging and brand ambassador in FY21 (Salman Khan is the new brand ambassador).** Large packs of Face Cream and Face Wash were identified as areas of improvement in general trade, modern trade and e-commerce.*

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## Investment Rationales

*Male grooming is indeed a growing market; an average man spends 16 minutes grooming his body, 14 minutes on his hair and 12 minutes on his face.*

### ■ Commitment of reducing the promoters pledge on shares to nil

Currently, promoters pledge is around 40%. The promoters of Emami intends to reduce this to nil by FY22. This would involve sale of land parcels, hospitals business, etc. The promoters expect the real estate situation to improve once the Covid-19 vaccines are invented and would prefer to sell the real estate and other businesses then. In our view, the reduction of promoter pledge to nil is expected to re-rate the PE multiple associated with the stock.

### ■ Cost optimisation programme across the company

Emami believes that the key to remain competitive in times of Covid when passing on cost increases to consumers is difficult lies in cost optimisation. In view of this, Emami deepened its focus on processes to moderate costs. ***The most decisive Emami initiative in this regard was the engagement of the global consultant AT Kearney to kick-start Project WOW (War on Waste).*** The Company consolidated media management outsourcing into a single agency, optimised its raw material costs, trade inputs and other costs connected with packaging and supply chain management. ***The stringent cost management measures helped in improvement of gross margins of FY20 by 130 bps.***

### ■ Revamped distribution strategy

***In response to Covid, Emami strengthened its distribution model by enhancing its presence across the modern trade and online retail channels to rationalise its dependence on general trade.*** Emami enhanced its direct reach, provided hand-held devices to its sales team members and strengthened its distribution coverage and analytics. ***In response to the growing need for modern trade formats (including e-commerce platforms), Emami launched platform-specific products and SKUs. Besides, Emami overhauled its global distribution channel in key geographies integrating the Creme 21 acquisition, consolidating key markets and strengthening its international business.***

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## Investment Rationales

**Distribution remained a key Emami focus area post GST implementation. Emami reduced dependence on the wholesale channel and increased direct reach by more than 3.3 lac outlets in three years. Emami's products are available in 4.5 million retail outlets across India. Emami's direct reach extends to 9.4 lac outlets. Emami took a conscious decision to create brands and products targeted at the modern trade channel. Emami's field force used shopper marketing principles and improved the on-shelf visibility of products.**

*Distribution remained a key Emami focus area post GST implementation. Emami strengthened its direct reach resulting in superior market understanding, customised product development, quicker responsiveness and stronger margins. Besides, Emami strengthened its presence in the modern trade format, where it collaborated with key modern trade brands and the result was enhanced shelf visibility and availability. Key Emami products were available across major e-commerce platforms, including marketplaces and portals (grocery and personal care).*

*Emami reduced dependence on the wholesale channel and increased direct reach by more than 3.3 lac outlets in three years. The result: the wholesale channel accounted for around 40% of the total revenue in FY20 against 46% in FY16.*

*Emami's products are available in 4.5 million retail outlets across India. Emami's direct reach extends to 9.4 lac outlets; it has direct presence across 20,000 villages and frontline sales force of 3400 personnel.*

*Emami took a conscious decision to create brands and products targeted at the modern trade channel. Larger packs were designed for certain brands to 'upsized' the modern trade shopper, provide better value and improve gross margins. The promotion budgets were reallocated towards the 'challenger' brands of Emami, where it was essential to be competitive and aggressive. Emami's field force in the modern trade channel was re-aligned as per the needs of each format/ account.*

*Emami's field force used shopper marketing principles and improved the on-shelf visibility of products. The Company designed a field force app, which enhanced real-time synergies between sales, trade marketing and account management teams. This app provided visibility in daily stock availability in stores, enabling data-led decision making to improve sales. Geo-tagged photographs from the app allowed Emami's sales managers to 'virtually' visit a number of stores, improving efficiency.*

## Investment Rationales

*In FY20, the Company commenced a van operation (Project Dhanush) with the objective to reach villages down to a population of 3000. The van-led distribution initiative was integrated with the core sales team to strengthen billing. The Company moderated costs in circumventing villages generating sub-optimal revenues from its distribution route plan. **Emami integrated the Dhanush Project with the core sales team, strengthening rural distribution by 6% over the previous year; deployed rural vans across ~30,000 villages across Maharashtra, Uttar Pradesh and Madhya Pradesh.***

### ■ Innovative brand extensions and foray into the home hygiene category

Emami believes that the successful introduction of new products makes it possible to rejuvenate revenues and provide a growth platform. During FY20, Emami sustained launches with the objective to explore new categories or de-seasonalise brands.

Emami believes that the successful introduction of new products makes it possible to rejuvenate revenues and provide a growth platform. *During FY20, Emami sustained launches with the objective to explore new categories or de-seasonalise brands. Emami launched an extension of the multi-year success of the Navratna brand with Navratna Garam Oil to target lapsers in winters, offering solutions for headache, numbness and lethargy. The Company also launched innovative products like Zandu Ayurvedic Cough Syrup, HE Magic Duo and Zandu Anand Balm in the domestic business. For the International markets, the Company launched new variants of Emami 7 Oils in One and a Perfect Derma Range under the BoroPlus brand. Emami also relaunched Navratna Cool Talc, Zandu Pancharishta and BoroPlus Lotions in FY20. The slew of new launches continued in Q1 and Q2FY21. BoroPlus Advanced Anti Germ Hand Sanitiser, BoroPlus Antiseptic Moisturising Soap, BoroPlus Aloe Vera Gel, Zandu Ayurvedic Hand Sanitiser, Zandu Ayush Kwath Powder and Zandu Single Herb Range were launched in Q1FY21. Besides these, there were ecommerce specific launches as well for the domestic market and launches within the Crème 21 Range, Gold Turmeric Range and BoroPlus Range in the international market. Further, **there were eight new launches in Q2FY21 – seven in Zandu Healthcare Range and one in BoroPlus Range.** The contribution from new products in H1FY21 revenue was 4%.*

**Investment Rationales**

*Emami has also entered into the home hygiene category within the brand umbrella of Emasol in November 2020. It will have presence across five categories, floor cleaner, toilet cleaner, bathroom cleaner, dish wash gel and surface sanitiser.* The total market size of these five categories is Rs 4,000 cr. Emami is very positive about the fact that home hygiene category would be a high growth segment in the post Covid world and believes this category has the potential to grow in double digits in the long run.



**Emami—Strategies for Growth**

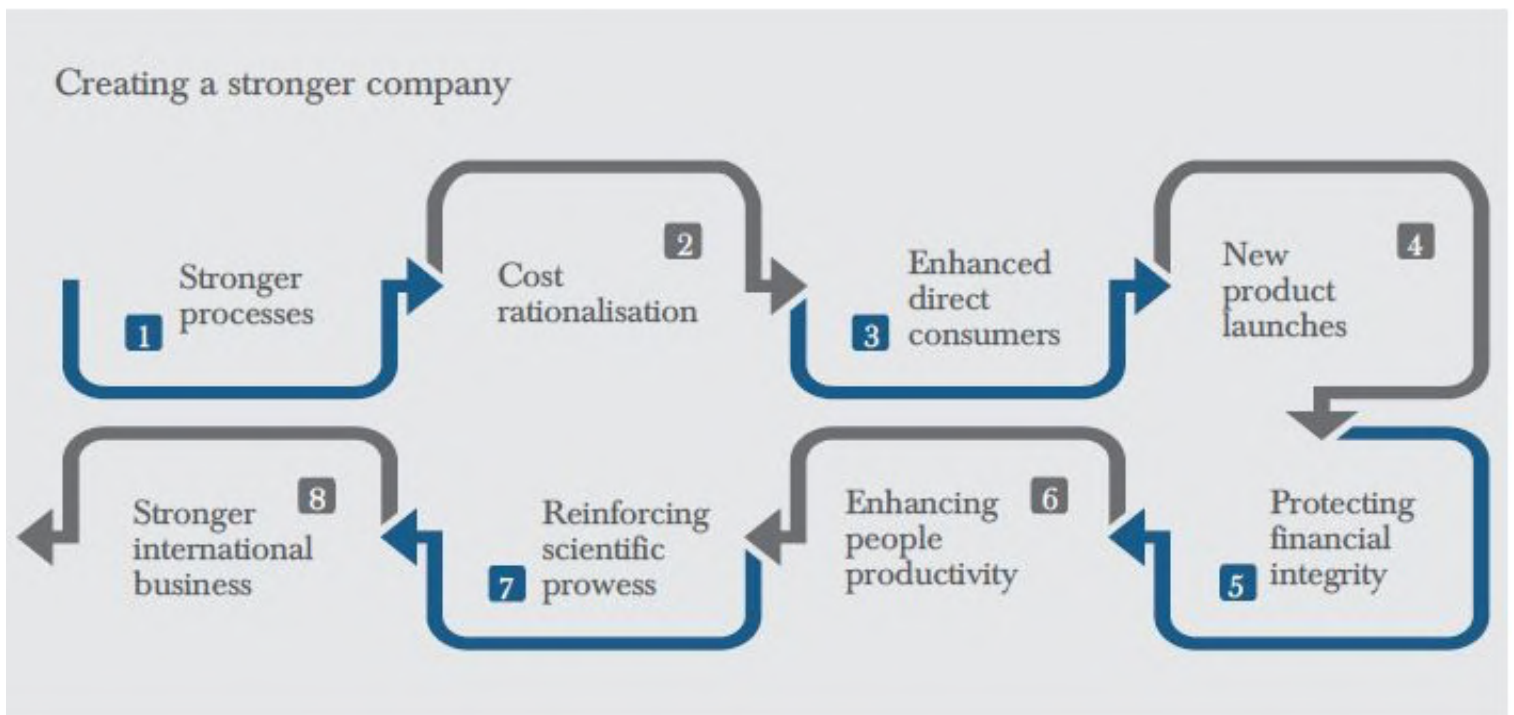


Source: Company Data

**Key Strengths of Emami**



Source: Company Data



Source: Company Data

## Industry Overview

India's FMCG sector is classified into three broad categories, namely Food and Beverages (F&B), Healthcare, and Household and Personal Care (HPC). HPC segment accounts for the largest share at 50% of total FMCG sales. In terms of market segmentation, rural accounts for a sizeable 36% of the total FMCG market. FMCG companies reach out to the final consumers primarily through two trade channels: general trade, comprising standalone Kirana stores; and modern trade, comprising supermarkets, hypermarkets, and E-commerce.

### ■ Basic background of the FMCG industry

India's FMCG sector is classified into three broad categories, namely Food and Beverages (F&B), Healthcare, and Household and Personal Care (HPC). HPC segment accounts for the largest share at 50% of total FMCG sales, followed by Healthcare segment at 31% and F&B at 19%.

In terms of market segmentation, rural accounts for a sizeable 36% of the total FMCG market. **Valued at USD 23.6 billion in FY 2017-18, it is projected to grow to become USD 220 billion by 2025 in the backdrop of pro-farmer government schemes and direct cash transfer benefits** with a consequent enhancement in rural disposable incomes and higher demand for consumption.

Additionally, **organised FMCG companies are investing heavily in supply chain management to strengthen its distribution network as well as focussing more on lower sized stock-keeping units (SKUs)** to ensure affordability. This is expected to fulfil rural aspirations and enhance its consumption levels even further.

FMCG companies reach out to the final consumers primarily through two trade channels: general trade, comprising standalone Kirana stores; and modern trade, comprising supermarkets, hypermarkets, and E-commerce. **The traditional general trade still dominates India's FMCG markets and contributes around 90% of the total sales. Though, in recent times, modern trade channels are evolving fast and outpacing their traditional counterparts. According to the Nielsen India estimates, the share of E-commerce in FMCG sales stood at 2% in 2019, up from 0.5% in 2016. It is estimated to command 5% of the total FMCG market by 2022.**

**The implementation of GST, large scale digitisation, a proliferation of smartphones with affordable data access, and advances in the digital payments have improved distributing infrastructure of the country.** The convenience offered to a time-sensitive generation has augured well for modern trade and is altering the landscape of Indian retail along with its rapid growth.

## Industry Overview

Even though consumption growth in the rural India has been low for the past few quarters, it is expected to display a strong revival.

The implementation of GST has significantly streamlined the logistics of India by abolishing all check-posts.

By removing the tax barriers across states, GST has made India a single market, making it more business efficient.

### ■ Rural market to enhance FMCG growth

FMCG companies have been increasingly targeting rural India, to fuel growth. Even though consumption growth in the rural India has been low for the past few quarters, it is expected to display a strong revival. ***This revival will be led by reverse migration of 40 million migrants amidst the crisis posed by the pandemic, good monsoon projections announced by the India Meteorological Department (IMD) and government stimulus to revive rural economic activity.*** Pro-farmer government policies are improving the purchasing power of the rural population. Digital India movement and strengthening distribution infrastructure is widening FMCG industry's rural reach. ***Low ticket size by offering smaller packs and better brand awareness by higher promotional spends is likely to drive FMCG companies' growth in rural India.***

### ■ Advancement in logistics

The implementation of GST has significantly streamlined the logistics of India by abolishing all check-posts. It has resulted in a significant reduction in transportation costs, time, and spoilage. ***The recent positive move by Union Transport Ministry of changing axle loading norms, permitting trucks to carry up to 20% more weight, as per the international standards will further enhance cost and time savings.*** Companies can invest these savings in improving distribution network and developing superior quality products, thus benefiting the final consumers.

### ■ Market share shift from unorganised to organised sector

By removing the tax barriers across states, GST has made India a single market, making it more business efficient and bringing the unorganised market under the tax gamut. This has curbed rampant tax evasion prevalent in the Indian economy and reduced the price gap between organised and unorganised market. ***As a result, consumers are shifting from unorganised to organised players owing to their better product quality and differentiation, price competitiveness and superior distribution strength.***

## Industry Overview

E-commerce is reshaping the global retail market. It has opened up a whole new shopping world, providing millions of consumers with access to greater assortment and value.

Per capita FMCG consumption in India is amongst the lowest in the world, giving the industry a big headroom for growth.

### ■ Revolution in the digitisation of India and e-commerce

E-commerce is reshaping the global retail market. It has opened up a whole new shopping world, providing millions of consumers with access to greater assortment and value opportunities satisfying their increasing demand for convenience. ***The e-commerce industry in India is projected to grow to USD 4 billion by 2022, drastically higher than USD 1.2 billion in 2019.*** The growth would be largely driven by affordable internet access and proliferation of smartphones across the country. ***The ongoing digital transformation is increasing India's total internet user base to 829 million by 2021 from 687.6 million in 2019.*** This is supporting the growth of organised FMCG sector growth.

### ■ Increasing per capita consumption

Per capita FMCG consumption in India is amongst the lowest in the world, giving the industry a big headroom for growth. FMCG companies are offering smaller size packs along with effective promotional activities for better brand awareness to capture a larger share of rural consumption. ***On the urban side, the middle-class segment in India is expected to rise to 550 million by 2025, up from the current 483 million in 2019.*** This will boost the organised FMCG sale on account of better brand awareness of urban population along with purchasing power beyond their basic needs.

### ■ Growing demand for organic products

Increasingly, consumers are looking to buy brands that not only offer great quality at the right price but are also natural, organic, and eco-friendly. ***According to the International Lifestyles Survey 2019 by Euro Monitor, eco-friendliness of brands were ranked as the highest parameter influencing shoppers followed by natural and organic ingredients.*** FMCG companies that are catering to the health-conscious segment are well-positioned to benefit from this trend.

### ■ Premiumisation

Rising disposable income of aspirational youths, increasing urbanisation, a greater assortment of value products and easy availability of credit are driving growth for premium products. ***Premiumisation is helping companies to move up a value chain and earn better margins.***



## Key Risks

- **Economic Risk** – Emami’s performance and growth are linked to the consumption levels, which in turn is connected to the overall economic growth of the country.
- **Supply Chain Risk** – A robust supply chain infrastructure and its smooth functioning is key to Emami’s successful operations. Any disruption in the supply chain can adversely impact production and finished goods distribution and thus impact its revenue.
- **Raw Material Risk** – Unavailability of key raw materials at the right time, in right quantity and at competitive prices may adversely impact sales margins.
- **Competition Risk** – FMCG sector’s lucrative growth opportunity and low entry barriers have attracted several strong global players and new competition. Emami faces the risk of declining market share and profitability on account of rising competition intensity.
- **Seasonal Risk** – Some of Emami’s products are seasonal. Unexpected seasonal changes remain an external risk that may impact Emami’s operations and its performance.
- **Compliance Risk** – Failing to adhere to the statutory rules and regulations set forth by the Indian regulatory bodies may lead to cancellation of licence and materially hamper the business.
- **Risk with regard to our estimates** - We have assumed revenue growth rates of 10% YoY and 11.3% YoY for Q3FY21E and Q4FY21E respectively. For FY22E and FY23E, we have assumed revenue growth rates of 10% YoY and 9.9% YoY respectively. If in case our assumptions do not converge in actual terms, our estimated target price may not be reached.

## SWOT Analysis

### Strengths

- Strong brand position.
- Resilient business model with well-diversified portfolio.
- High market shares in most categories of products.

### Weaknesses

- Cyclical nature of businesses.

### Opportunities

- Expansion of Zandu Range of products.
- Expansion of international operations.
- Foray into home hygiene category through new brand 'Emasol'.

### Threats

- Weak offtake of Fair and Handsome.
- Competition from peers.

**Company Overview**

Emami is engaged in the manufacture and distribution of personal care and healthcare products (with an ayurvedic bias in most cases). The Company's Power Brands comprise Navratna, BoroPlus, Zandu, Fair and Handsome, Kesh King and Mentho Plus, among others. The Company has established a reputation for creating product categories from scratch and carving out a disproportionate share of those markets. It is headquartered in Kolkata, West Bengal.

Emami was promoted and founded by two friends, R.S. Agarwal and R.S. Goenka and commenced commercial operations in 1974.

The Company is headed by the founders and the second generation promoters and is supported by a team of professionals.

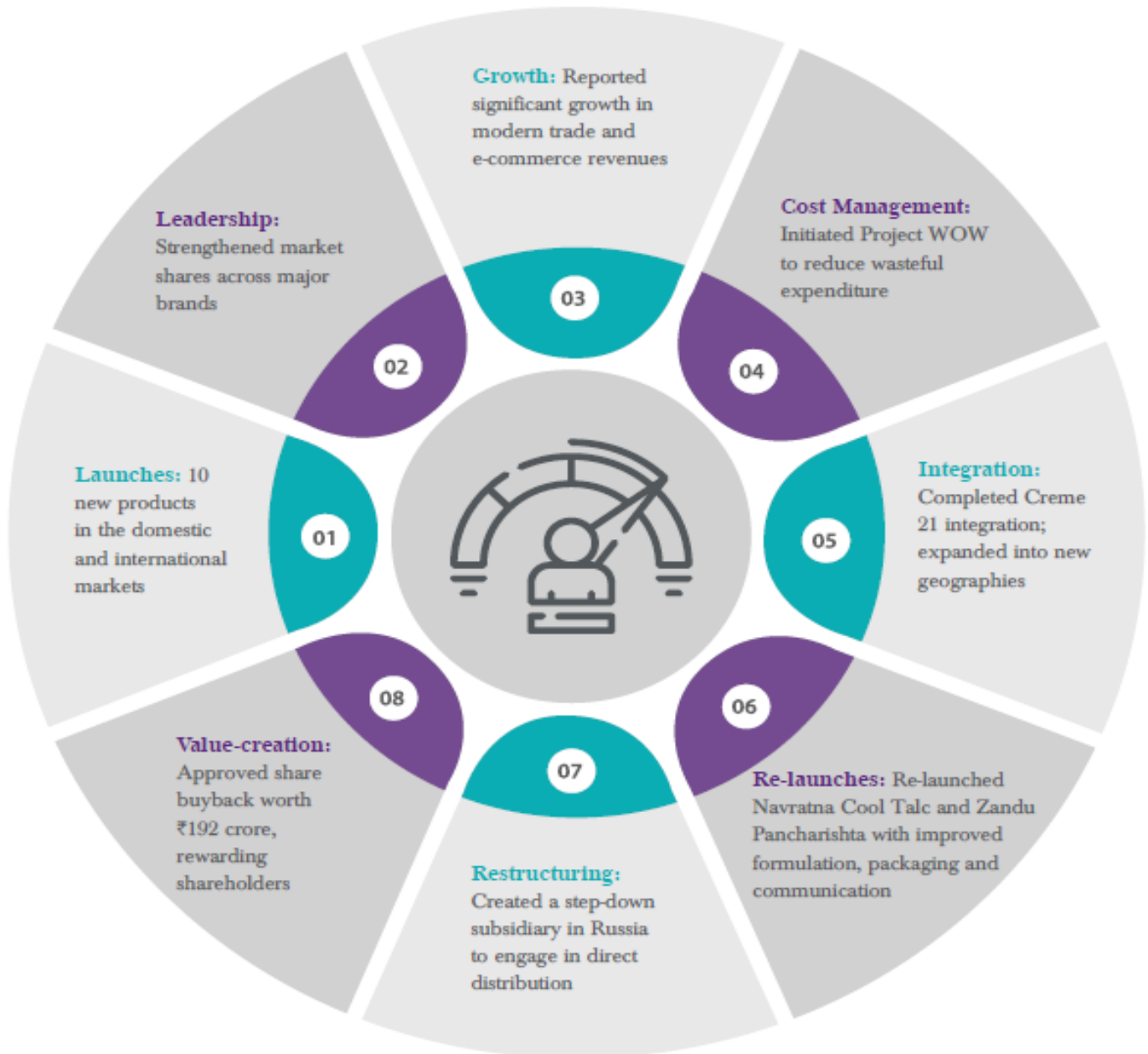
*Emami is engaged in the manufacture and distribution of personal care and healthcare products (with an ayurvedic bias in most cases). The Company's Power Brands comprise Navratna, BoroPlus, Zandu, Fair and Handsome, Kesh King and Mentho Plus, among others.* The Company has established a reputation for creating product categories from scratch and carving out a disproportionate share of those markets. It is headquartered in Kolkata, West Bengal and has seven manufacturing units across India and one overseas unit. It has 26 product storage depots across India and its products are sold in 60+ countries.

*The Company reported net sales from operations of Rs 26,106 mln in FY20. Domestic business comprised of 80% of net sales, International business made up 16% while the balance 4% was contributed by CSD.* Q4FY20 was impacted by the outbreak of Covid-19 and accordingly the revenue in that quarter took a severe hit. For 9MFY20 Navratna Range, Pain Management Range, BoroPlus Range, Kesh King Range, Healthcare Range, Male Grooming Range and 7 Oils in One grew by 4%, 5%, 0%, 12%, 1%, -25% and 39% respectively. For the full financial year these products grew by -2%, 3%, -7%, 1%, -2%, -29% and 29% respectively.

The market share of key Emami brands as at December 2019 are contained below.

Key Brands	Market Share Volume	Growth over PY
Navratna Oils	66.4%	+10 bps
Zandu + Mentho Plus Balms	54.9%	+130 bps
BoroPlus Antiseptic Cream	74.1%	+30 bps
Fair and Handsome Cream	65.3%	-30 bps
Kesh King Oil	26.6%	+140 bps

**How did Emami strengthen its performance in FY20?**



Source: Company Data

## Key Management Team

### ■ **Mr R.S. Agarwal, Founder and Executive Chairman.**

A Chartered Accountant, Company Secretary, LLB and a Master Degree holder in Commerce, Mr R S Agarwal, Founder of Emami Group, is considered as a present-day Management Guru with a great far-sight. An administrator par excellence, he possesses deep consumer insight and believes in the motto – ‘innovate to disrupt’.

### ■ **Mr R.S. Goenka, Founder and Wholetime Director.**

A Master of Commerce and Bachelor of Law. A taxation expert, a master in strategic planning, corporate affairs and finance, Mr R S Goenka, Co-Founder of Emami Group, recognises the need to go into details and gives significant premium on loyalty and commitment.

### ■ **Mr S.K. Goenka, Managing Director.**

One of the pillars of Emami Ltd. With rich industry experience, he drives production, factory operations, distribution, procurement and packaging among others. His leadership skills have led his team to achieve excellence in quality management, which have been recognised by winning various awards and accolades.

### ■ **Mr Mohan Goenka, Wholetime Director.**

A Management Graduate from Cardiff University, UK. A key member of Emami Group’s core Advisory Team. With his extensive knowledge and experience in brand development, sales, marketing and finance, Mohan Goenka co-leads the FMCG business along with other Promoter Directors of Emami Ltd. His strong people skills and team building capabilities make him a natural leader.

### ■ **Mr Aditya V Agarwal, Non-Executive Director.**

Being one of the eldest scions of the Emami family, Aditya V Agarwal has witnessed the growth of the company from its humble beginning to it being one of the leading FMCG companies in India today. A people’s person, he is well respected for his sharp strategic mindset and innovative approach to turning around businesses with his determination & vision. He has diverse experience in managing businesses across verticals like FMCG, cement, edible oil & bio-fuel, health care services and paper manufacturing businesses.



## Key Management Team

### ■ **Mr Harsha V Agarwal, Wholetime Director.**

A key member of Emami Group’s core Advisory Team responsible for the Group’s overall growth strategy, Harsha V Agarwal co-leads the FMCG business along with other Promoter Directors of Emami Ltd. Known for his leadership qualities, strategic mindset and indepth knowledge of various businesses, he had steered the acquisition of Zandu and Kesh King and more recently Creme 21, the iconic German Brand and many others.

### ■ **Ms Priti A Sureka, Wholetime Director.**

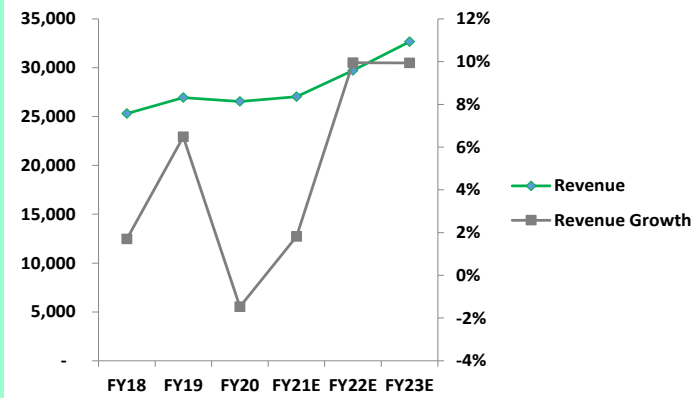
An alumna of the Harvard Business School, Priti A Sureka is an inspiring woman business leader. A key member of Emami Group’s core Advisory Team that is responsible for the Group’s overall strategy, Priti co-leads the FMCG business along with other Promoter Directors of Emami Ltd. With her deep understanding of the evolving needs of consumers resulting in dynamic changes to product lines across the globe, she passionately guides research to “innovate with purpose”.

### ■ **Mr Prashant Goenka, Wholetime Director.**

An MBA in International Marketing & Finance, from the University of Wales, Cardiff, UK, Prashant Goenka with his strategic vision and business acumen, coupled with a deep knowledge of the overseas markets, has been able to establish footprints of Emami brands in over 60 countries over the last two decades. He played a key role in the recent acquisition of the iconic German Brand Creme 21 and opened doors for Emami in few largest consumer markets.

## Key Performance Indicators

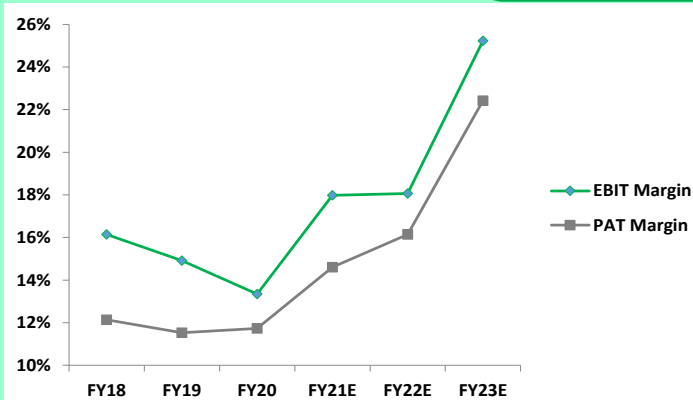
### Revenue & Revenue Growth



Source: Company Data, SMIFS Research

Revenue from operations is expected to grow at a CAGR of 7% between FY20 and FY23E.

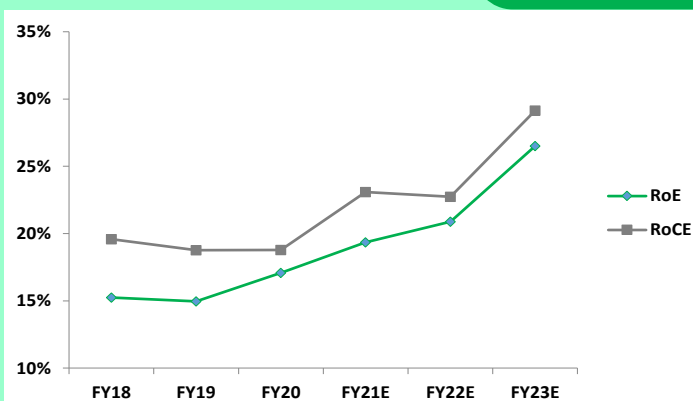
### Profit Margins



Source: Company Data, SMIFS Research

EBIT Margin is expected to improve from 13.3% in FY20 to 25.2% in FY23E. PAT Margin is expected to improve from 11.7% in FY20 to 22.4% in FY23E.

### RoE and RoCE

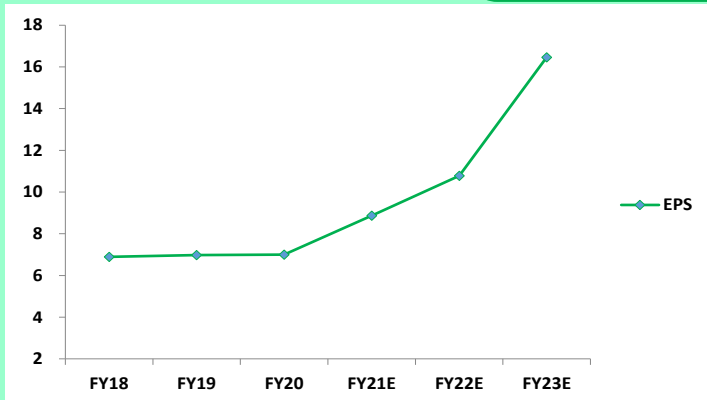


Source: Company Data, SMIFS Research

RoE changes from 17.1% in FY20 to 26.5% in FY23E while RoCE changes from 18.8% in FY20 to 29.1% in FY23E.

**Key Performance Indicators**

**EPS Growth**



Source: Company Data, SMIFS Research

EPS is expected to grow at a CAGR of 33% between FY20 and FY23E.

**Debt/Equity Ratio**



Source: Company Data, SMIFS Research

Our assumptions indicate a steady decrease in Debt/Equity ratio from 0.12 in FY20 to nil in FY23E.

**Free Cash Flow Generation**



Source: Company Data, SMIFS Research

Due to strong generation of Cash Flow from Operations between FY21E and FY23E, Free Cash Flow should improve significantly to Rs 8,045 mln, Rs 6,992 mln and Rs 7,213 mln in FY21E, FY22E and FY23E respectively from Rs 3,826 mln in FY20.

## Outlook and Valuation

**Emami is a renowned name in the FMCG space which commenced operations in 1974.** Throughout its existence, the Company has grown from strength to strength aided by acquisitions from time to time. Today, the Company is made up of six power brands, which enjoy high market shares in their respective categories. These are Navratna, BoroPlus, Zandu, Fair and Handsome, Kesh King and Mentho Plus. **These power brands coupled with stringent cost control initiatives helped Emami to navigate through the Covid-19 crisis.**

**Emami's presence in international markets is enviable as its products are available in 60+ countries and about 16% of FY20 revenues were contributed by international operations.** The highlight of Emami's global success story during the year under review was its successful restructuring of distribution across key global markets and the effective integration of Creme 21 into the Company's global network. **Emami entered the Ayurvedic segment in 2008 with the acquisition of Zandu.** Subsequently, Emami collaborated with EY and Boston Consulting Group for a better understanding of Ayurveda opportunities and conducted clinical studies for products and developed products leveraging quality scientific tools and equipment.

Emami believes that the key to remain competitive in times of Covid when passing on cost increases to consumers is difficult lies in cost optimisation. **The most decisive Emami initiative in this regard was the engagement of the global consultant AT Kearney to kick-start Project WOW (War on Waste). The stringent cost management measures helped in improvement of gross margins of FY20 by 130 bps.**

**In response to Covid, Emami strengthened its distribution model by enhancing its presence across the modern trade and online retail channels to rationalise its dependence on general trade. Emami enhanced its direct reach, provided hand-held devices to its sales team members and strengthened its distribution coverage and analytics.** In response to the growing need for modern trade formats (including e-commerce platforms), Emami launched platform-specific products and SKUs. **Emami reduced dependence on the wholesale channel and increased direct reach by more than 3.3 lac outlets in three years.** The result: the wholesale channel accounted for around 40% of the total revenue in FY20 against 46% in FY16.

**The promoters of Emami intends to reduce the promoters pledge on shares to nil by FY22. In our view, the reduction of promoter pledge to nil is expected to re-rate the PE multiple associated with the stock. The Company is re-looking brand positioning, product formulation, packaging and brand ambassador in FY21.**

We have valued the stock at 35x FY23E EPS to arrive at a **Target Price of Rs 576**, which provides an upside of 36% based on the current market price. We thus recommend a **"Strong Buy"** rating on the stock.

## Peer Comparison

Peers	Sales (Rs mln)			EBITDA (Rs mln)			EBITDA Margin			Market Cap (Rs mln)	P/E			P/CF			P/B			RoE(%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E		FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Emami	27031	29721	32675	7886	8411	9247	29.2%	28.3%	28.3%	187229	47.8	39.3	25.8	21.3	23.8	22.9	9.3	8.2	6.8	19.3%	20.9%	26.5%
Hindustan Unilever	454627	506071	561566	114645	135458	154397	25.2%	26.8%	27.5%	5617789	69.2	58.2	50.1	57.8	51.9	45.8	15.6	15.3	13.9	38.3%	33.7%	36.5%
Dabur	93125	103925	115551	19963	22763	26129	21.4%	21.9%	22.6%	930547	53.9	47.1	41.5	50.1	43.9	38.8	12.1	10.6	9.4	23.7%	23.7%	23.9%
Marico	75986	84492	92767	15932	17644	19513	21.0%	20.9%	21.0%	525032	45.4	41.0	36.9	40.6	37.4	34.2	15.3	13.9	12.7	35.5%	35.8%	36.4%

Source: SMIFS Research, Bloomberg.

**Financial Details**
**Income Statement Extract (Consolidated)**

Particulars (INR mln.)	FY19	FY20	FY21E	FY22E	FY23E
<b>Revenue from operations</b>	<b>26946</b>	<b>26549</b>	<b>27031</b>	<b>29721</b>	<b>32675</b>
Revenue Growth	6%	-1%	2%	10%	10%
Cost of goods sold	<b>9230</b>	<b>8761</b>	<b>8408</b>	<b>9511</b>	<b>10456</b>
Employee benefits expenses	<b>2797</b>	<b>2995</b>	<b>3115</b>	<b>3418</b>	<b>3758</b>
Other expenses	<b>7647</b>	<b>7887</b>	<b>7623</b>	<b>8381</b>	<b>9214</b>
<b>EBITDA</b>	<b>7272</b>	<b>6905</b>	<b>7886</b>	<b>8411</b>	<b>9247</b>
<b>EBITDA Margin</b>	<b>27.0%</b>	<b>26.0%</b>	<b>29.2%</b>	<b>28.3%</b>	<b>28.3%</b>
EBITDA Growth	1%	-5%	14%	7%	10%
Depreciation & Amortisation	3253	3363	3027	3041	1005
<b>EBIT</b>	<b>4019</b>	<b>3542</b>	<b>4858</b>	<b>5370</b>	<b>8242</b>
Interest Cost	214	210	200	14	14
Other Income	349	571	276	640	900
<b>PBT (Adjusted)</b>	<b>4132</b>	<b>3843</b>	<b>4894</b>	<b>5948</b>	<b>9080</b>
<b>PAT (Adjusted)</b>	<b>3106</b>	<b>3116</b>	<b>3948</b>	<b>4799</b>	<b>7326</b>
<b>PAT Margin</b>	<b>11.5%</b>	<b>11.7%</b>	<b>14.6%</b>	<b>16.1%</b>	<b>22.4%</b>
PAT Growth (Adjusted)	1%	0%	27%	22%	53%

**Balance Sheet (Consolidated)**

Particulars (INR mln.)	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	454	453	453	453	453
Reserves & Surplus	20305	17776	19944	22518	27174
<b>Networth</b>	<b>20759</b>	<b>18229</b>	<b>20397</b>	<b>22971</b>	<b>27628</b>
<b>Long term Borrowings</b>	-	-	-	-	-
Other Non-Current Liabilities	666	636	654	647	656
<b>Short term Borrowings</b>	<b>1099</b>	<b>2102</b>	<b>2002</b>	-	-
Other Current Liabilities	5701	5818	5098	5619	5976
<b>Total Equity &amp; Liabilities</b>	<b>28224</b>	<b>26785</b>	<b>28152</b>	<b>29237</b>	<b>34260</b>
<b>Net Tangible Asset</b>	<b>8390</b>	<b>8469</b>	<b>8442</b>	<b>8501</b>	<b>8646</b>
Other Non Current Assets	11340	7982	6341	4010	3724
<b>Inventories</b>	<b>2217</b>	<b>2446</b>	<b>2027</b>	<b>2293</b>	<b>2521</b>
<b>Trade Receivables</b>	<b>2164</b>	<b>3080</b>	<b>2000</b>	<b>2199</b>	<b>2417</b>
Cash and Cash Equivalents	1165	108	5420	2486	3156
Other Current assets	2948	4698	3922	9748	13796
<b>Total Assets</b>	<b>28224</b>	<b>26785</b>	<b>28152</b>	<b>29237</b>	<b>34260</b>

Source: Company Data, SMIFS Research

**Financial Details**
**Cash Flow Statement Extract (Consolidated)**

Particulars (INR mln.)	FY19	FY20	FY21E	FY22E	FY23E
<b>PBT</b>	<b>4034</b>	<b>3736</b>	<b>4894</b>	<b>5948</b>	<b>9080</b>
Depreciation & Amortisation	3253	3363	3027	3041	1005
Interest expense	214	210	200	14	14
(Increase)/Decrease in CA	-1370	-1443	2358	-496	-520
Increase/(Decrease) in CL	631	643	-701	513	367
Taxes Paid	-927	-760	-945	-1148	-1752
<b>Cash Flow from Operating Activities</b>	<b>5537</b>	<b>5307</b>	<b>8873</b>	<b>7920</b>	<b>8241</b>
Capital Expenditure	-1329	-1481	-828	-928	-1028
<b>Cash Flow Investing Activities</b>	<b>-234</b>	<b>-2277</b>	<b>-1481</b>	<b>-6612</b>	<b>-4887</b>
Increase/(Decrease) in Borrowings	-2189	174	-100	-2002	0
Dividend payments including tax	-1902	-4191	-1781	-2226	-2671
<b>Cash Flow from Financing Activities</b>	<b>-4277</b>	<b>-4054</b>	<b>-2081</b>	<b>-4242</b>	<b>-2685</b>
<b>Net Cash Flow</b>	<b>1027</b>	<b>-1023</b>	<b>5312</b>	<b>-2933</b>	<b>670</b>
<b>Closing Balance</b>	<b>1165</b>	<b>108</b>	<b>5420</b>	<b>2486</b>	<b>3156</b>

**Key Ratios (Consolidated)**

Particulars	FY19	FY20	FY21E	FY22E	FY23E
<b>Margins</b>					
Gross Margin	65.7%	67.0%	68.9%	68.0%	68.0%
EBITDA Margin	27.0%	26.0%	29.2%	28.3%	28.3%
PBT Margin (Adjusted)	15.3%	14.5%	18.1%	20.0%	27.8%
PAT Margin (Adjusted)	11.5%	11.7%	14.6%	16.1%	22.4%
DPS (INR)	4.00	4.00	4.00	5.00	6.00
<b>Solvency Ratios</b>					
Current Ratio	1.2	1.3	1.9	3.0	3.7
Debt/Equity	0.1	0.1	0.1	0.0	0.0
Net Debt/Equity	0.0	0.0	-0.2	-0.2	-0.2
Interest Coverage	18.8	16.9	24.3	394.2	605.0
<b>Profitability Ratios</b>					
RoE (ex goodwill)	15.0%	17.1%	19.3%	20.9%	26.5%
RoCE (ex goodwill)	18.8%	18.8%	23.1%	22.7%	29.1%
RoE	15.0%	17.1%	19.3%	20.9%	26.5%
RoCE	18.8%	18.8%	23.1%	22.7%	29.1%
<b>Valuation Ratios(x)</b>					
P/E	60.8	60.6	47.8	39.3	25.8
P/S	7.0	7.1	7.0	6.4	5.8
P/B	9.1	10.4	9.3	8.2	6.8
P/CFO	34.1	35.6	21.3	23.8	22.9

Source: Company Data, SMIFS Research



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