

Brief Overview

CMP (INR) (As at 18th Feb 2021)	468
Previous Target (INR)	576
Current Target (INR)	612
Upside(%)	31%
Recommendation	Strong Buy

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

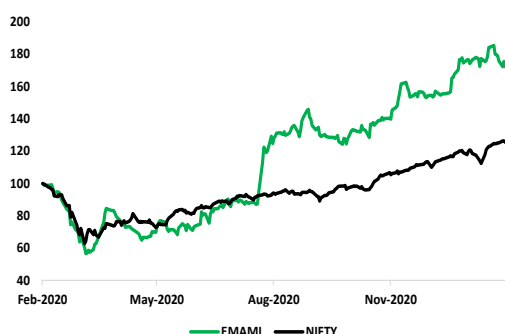
Stock Scan

Market cap (INR Cr.)	20,819
Outstanding Shares (Cr.)	44.45
Face Value (INR)	1.00
Dividend Yield(%)	1.7
TTM P/E (x)	53.3
P/B (x)	11.0
Debt/Equity	0.1
Beta	0.62
52 Week High/ Low (INR)	520/141
Avg. Daily Vol. (NSE)/1 yr.	905,663

Shareholding Pattern (%)

	Dec2020	Sep-2020	Jun-2020
Promoters	53.86	53.86	53.38
Institutions	36.99	37.56	37.07
Non-institutions	9.15	8.58	9.55

Stock vs. Nifty (Relative Returns)



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Source: NSE

Result Summary

Emami reported a splendid quarter with EBITDA margins rising to all time high of 36.4% helped by stringent cost control measures and benign raw material prices. **Topline growth was also superb at 15% YoY on a consolidated level.** Domestic Business grew by 16% YoY led by 13% volume growth. International revenues grew by 26% YoY while Institutional Business declined by 27% YoY. The growth was broad based across all categories except for Navratna, which reported a 12% YoY decline in India. Healthcare range led by Zandu Ayurvedic products continued to perform extremely well with 38% YoY growth in India. Emami expects the Healthcare segment to be a high growth vertical with 25-30% YoY growth in India. 30+ new products and 60+ SKUs were launched in 9MFY21, which contributed to 4% of 9MFY21 domestic revenue.

Key Highlights

- Q3FY21 Consolidated Revenues were up by 15% YoY to Rs 9,336 mln. Domestic Business grew by 16% YoY, International Business grew by 26% YoY, Institutional Business declined by 27% YoY. Volumes in domestic business were up by 13%.
- Q3FY21 Gross margin increased by 210 bps YoY to 70.4%.
- Q3FY21 EBITDA increased by 29% YoY to Rs 3,402 mln. EBITDA margin increased by 390bps YoY to 36.4%.
- Q3FY21 PAT increased by 44.7% YoY to Rs 2,090 mln. PAT margin increased by 460bps YoY to 22.4%. Cash Profit increased by 32% YoY to Rs 3,033 mln. Cash Profit Margin increased by 420bps to 32.5%.

We have valued the stock at 35x FY23E EPS to arrive at a **Target Price of Rs 612**, which provides an upside of 31% based on the current market price. We thus maintain a **“Strong Buy”** rating on the stock.

Exhibit 1: Financial Performance at a glance (Consolidated)

Particulars (INR mln)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales from ops.	26946	26549	27546	30495	33709
Growth %	6%	-1%	4%	11%	11%
EBITDA	7272	6905	8770	8935	9877
EBITDA Margin (%)	27.0%	26.0%	31.8%	29.3%	29.3%
Net Profit (Adjusted)	3106	3116	4294	5000	7778
Net Profit Margin (%)	11.5%	11.7%	15.6%	16.4%	23.1%
EPS (Adjusted)	7.0	7.0	9.6	11.2	17.5
BVPS	46.6	41.0	42.6	45.8	55.3
P/B (x)	10.0	11.4	11.0	10.2	8.5
P/E (x)	67.1	66.9	48.5	41.7	26.8
ROE (%)	15.0%	17.1%	22.6%	24.5%	31.6%
ROCE (%)	18.8%	18.8%	26.0%	26.7%	34.8%
ROE (%) (ex goodwill)	15.0%	17.1%	22.6%	24.5%	31.6%
ROCE (%) (ex goodwill)	18.8%	18.8%	26.0%	26.7%	34.8%

Source: Company Data, SMIFS Research

Key Highlights contd.

- In terms of segments in Domestic Business for the quarter, Healthcare Range grew by 38% YoY, Pain Management Range grew by 12% YoY, Navratna Range de-grew by 12% YoY, Kesh King Range grew by 16% YoY, BoroPlus Range grew by 21% YoY, Male Grooming Range grew by 5% YoY, 7 Oils in One grew by 32% YoY.
- Emasol Range of products comprising of bathroom cleaner, toilet cleaner, floor cleaner, dishwash gel and all purpose sanitiser was launched in Q3FY21. Zandu Ortho Vedic Oil for knee and joint pain was also launched during the quarter along with Zandu Giloy Tulsi Juice. Overall, there was 30 + new launches in 9MFY21 in the domestic market —These contributed 4% to Domestic Business of 9MFY21. New launches in the international market contributed 6% to International Business of 9MFY21.
- Fair and Handsome was relaunched during the quarter. Fair and Handsome Fairness Cream and Fair and Handsome Instant Fairness Face Wash have been renamed as Fair and Handsome Radiance Cream and Fair and Handsome Radiance Face Wash.
- During the quarter when rural market continued to perform better, growth in urban markets has also picked up. All the channels posted convincing growth and E-commerce channel grew by 3.5 times during the quarter and increasing its contribution by 210 basis points to 3.1% of domestic business. The modern trade channel registered a strong growth of 51% in this quarter increasing its contribution by 200 basis points to almost 9% of domestic business in this quarter.
- Emami has outlined a clear strategy to drive growth aggressively in rural markets. It is mapping potential of villages to increase its direct rural coverage. It has also built a model of direct coverage and has evaluated the current brand markets. It will invest in adding manpower to the top four states to aggressively increase its coverage in these four markets. Subsequently, the plan will be extended to twelve more states and thereby 75% of rural India will be covered.
- The Management is of the opinion that there would be a 150bps pressure on Q4FY21 margin because of increased raw material (LLP) prices. Price increases for the products will be taken in the beginning of next financial year and for the next financial year and beyond an EBITDA margin of around 30% is achievable taking into account some permanent cost reductions.
- Emami plans to grow the Zandu Range of Healthcare Products by 25-30% going forward. There are a lot of new launches that are going to happen in the near future. R&D and Innovation pipeline is very strong.
- As a strategy, Emami will never get into any product range for which the gross margin will be below 50%.
- The current level of pledge stands at 36%. Management is fully committed to reduce it to zero through asset sales at the right prices.

Exhibit 2: Financial Performance
INR Mln.

Particulars	Quarter Ended (Consolidated)					9 Months Ended (Consolidated)		
	Dec-20	Dec-19	YoY(%)	Sep-20	QoQ(%)	Dec-20	Dec-19	YoY(%)
Revenue from Operations	9,336	8,126	14.9%	7,348	27.1%	21,498	21,222	1.3%
Cost of materials consumed	2,181	2,012	8.4%	2,024	7.8%	5,183	5,641	-8.1%
Purchases of stock in trade	509	164	210.9%	504	1.1%	1,448	883	64.0%
Changes in inventories of F/G, SIT and WIP	76	406	-81.4%	(343)	NA	(67)	382	NA
Gross Profit	6,570	5,545	18.5%	5,163	27.2%	14,934	14,317	4.3%
Gross Profit Margin	70.4%	68.2%	2.1%	70.3%	0.1%	69.5%	67.5%	2.0%
Employee Expense	767	749	2.5%	784	-2.1%	2,332	2,275	2.5%
Advertisement and Sales Promotion	1,554	1,383	12.4%	1,081	43.7%	3,232	3,722	-13.2%
Other Expenses	848	773	9.6%	728	16.4%	2,167	2,400	-9.7%
EBITDA	3,402	2,640	28.9%	2,571	32.3%	7,203	5,920	21.7%
EBITDA Margin	36.4%	32.5%	3.9%	35.0%	1.5%	33.5%	27.9%	5.6%
Depreciation & Amortisation	944	856	10.3%	1,148	-17.8%	2,840	2,511	13.1%
EBIT	2,458	1,785	37.7%	1,423	72.8%	4,363	3,409	28.0%
EBIT Margin	26.3%	22.0%	4.4%	19.4%	7.0%	20.3%	16.1%	4.2%
Finance Costs	14	49	-72.2%	25	-44.8%	86	186	-54.0%
Other Income	92	156	-41.1%	79	16.3%	238	426	-44.2%
Profit before share of profit/(loss) in equity associates and joint ventures and exceptional items	2,536	1,891	34.1%	1,477	71.8%	4,515	3,649	23.7%
Exceptional items	-	(33)	NA	-	NA	-	(33)	NA
Share of (loss)/profit in equity accounted investees	(9)	(16)	-44.4%	(8)	8.5%	(28)	(35)	-17.7%
PBT	2,527	1,843	37.2%	1,469	72.1%	4,487	3,582	25.3%
PBT Margin	27.1%	22.7%	4.4%	20.0%	7.1%	20.9%	16.9%	4.0%
Tax Expense	438	398	9.9%	284	54.2%	817	786	3.8%
PAT before minority interest	2,090	1,444	44.7%	1,185	76.4%	3,670	2,796	31.3%
Minority Interest	-	-	NA	0	-100.0%	0	-	NA
PAT	2,090	1,444	44.7%	1,184	76.5%	3,670	2,796	31.3%
PAT Margin	22.4%	17.8%	4.6%	16.1%	6.3%	17.1%	13.2%	3.9%

Source: Company Data

Change in Estimates

- After taking into account Q3FY21 performance and strong commentary from the Management, particularly with regard to the Healthcare segment our Revenue estimates for FY21E, FY22E and FY23E have been upped. Revenue from Operations for FY21E, FY22E and FY23E now stand at Rs 27,546 mln, Rs 30,495 mln and Rs 33,709 mln respectively. EBITDA estimates for FY21E, FY22E and FY23E are Rs 8,770 mln, Rs 8,935 mln and Rs 9,877 mln respectively. PAT estimates for FY21E, FY22E and FY23E are Rs 4,294 mln, Rs 5,000 mln and Rs 7,778 mln respectively.

Outlook & Valuation

Results reported by Emami was very encouraging both on the growth and margins front and we believe that a major part of the growth momentum should continue in Q4FY21 albeit with some margin pressure as the Management believes that there would be a reduction in gross margin by 150 bps given the upward movement in LLP prices. **EBITDA margins for FY22E and FY23E should however hover around 30%, as per Management guidance**, given the price hikes and cost rationalization programme and we have accordingly factored it in our estimates.

New launches for any FMCG company fuel the growth engine and Emami is no exception, so it is satisfying to note that Emami will continue with its pace of new product launches, particularly in the Healthcare Range. **The growth potential of the Ayurveda based Zandu Healthcare Range is huge as organized Ayurveda is still in its nascent phase in India and with increasing preference of people for Ayurveda and organic products, Zandu Healthcare Range is bound to grow strongly over the long term and we are encouraged by the Management's expectation of 25-30% growth in this vertical in the medium term.** Emasol Range falls in a category, the size of which is Rs 40,000 mln, and thus the headroom for Emami is immense.

The recovery of the Fair and Handsome Range is indeed heartwarming given the fact that it continued to report YoY degrowth over the last eight quarters. The value proposition of the product has been enhanced and we are hopeful that growth will continue in the positive trajectory in the medium to long term as the category is very underpenetrated and there is huge room for growth. **We are not unnecessarily worried with the degrowth in Navratna Range and believe that it happened because of the winter season and that growth will return for the category in the summer months.**

Increase in contribution by Modern Trade and Ecommerce channels to 3% and 9% of total domestic revenues respectively goes to show the relevance of these two trade channels over the long run. The story of modern trade and ecommerce have been prevalent in India over the last 7-8 years and we believe that there is exponential growth connected with these two segments and thereby the reliance on wholesale channel will continue to steadily decline over the medium to long term. A dedicated ecommerce website for Zandu products by Emami is a step in the right direction and we believe that it contains a lot of growth potential.

Management's thrust on increasing manpower to drive rural growth in four states of India as a pilot project and thereafter increasing the scope of the project to twelve more states in India is again a step in the right direction to bring in more rural sales. **Management's commitment to reduce the pledge level to zero from the current level of 36% is noteworthy** and we believe the Management will be able to deliver on its promise by the end of FY22.

We have valued the stock at 35x FY23E EPS and our **Target Price** works out as **Rs 612**, which provides an upside of 31%. Accordingly, we maintain a **"Strong Buy"** on the stock.

Please find below the link to our previous report:

Date: 1st Jan 2021

CMP: Rs 424

Target Price: Rs 576

[Emami Ltd. — Initiating Coverage Report](#)

Financials
Income Statement Extract (Consolidated)

Particulars (INR mln.)	FY19	FY20	FY21E	FY22E	FY23E
Revenue from operations	26946	26549	27546	30495	33709
Revenue Growth	6%	-1%	4%	11%	11%
Cost of goods sold	9230	8761	8469	9454	10450
Employee benefits expenses	2797	2995	3092	3507	3877
Other expenses	7647	7887	7214	8600	9506
EBITDA	7272	6905	8770	8935	9877
EBITDA Margin	27.0%	26.0%	31.8%	29.3%	29.3%
EBITDA Growth	1%	-5%	27%	2%	11%
Depreciation & Amortisation	3253	3363	3674	3316	1075
EBIT	4019	3542	5097	5619	8802
Interest Cost	214	210	99	14	14
Other Income	349	571	303	640	900
PBT (Adjusted)	4132	3843	5261	6197	9640
PAT (Adjusted)	3106	3116	4294	5000	7778
PAT Margin	11.5%	11.7%	15.6%	16.4%	23.1%
PAT Growth (Adjusted)	1%	0%	38%	16%	56%

Source: Company Data, SMIFS Research

Balance Sheet (Consolidated)

Particulars (INR mln.)	FY19	FY20	FY21E	FY22E	FY23E
Share Capital	454	453	453	453	453
Reserves & Surplus	20305	17776	18509	19949	24167
Networth	20759	18229	18962	20402	24620
Long term Borrowings	-	-	-	-	-
Other Non-Current Liabilities	666	636	654	647	656
Short term Borrowings	1099	2102	2002	-	-
Other Current Liabilities	5701	5818	5119	5600	5974
Total Equity & Liabilities	28224	26785	26737	26649	31251
Net Tangible Asset	8390	8469	8288	8272	8347
Other Non Current Assets	11340	7982	5850	3319	3033
Inventories	2217	2446	2042	2279	2519
Trade Receivables	2164	3080	2038	2256	2494
Cash and Cash Equivalents	1165	108	4598	775	1061
Other Current assets	2948	4698	3922	9748	13796
Total Assets	28224	26785	26737	26649	31251

Source: Company Data, SMIFS Research

Financials
Cash Flow Statement Extract (Consolidated)

Particulars (INR mln.)	FY19	FY20	FY21E	FY22E	FY23E
PBT	4034	3736	5261	6197	9640
Depreciation & Amortisation	3253	3363	3674	3316	1075
Interest expense	214	210	99	14	14
(Increase)/Decrease in CA	-1370	-1443	2305	-486	-551
Increase/(Decrease) in CL	631	643	-681	474	383
Taxes Paid	-927	-760	-966	-1196	-1861
Cash Flow from Operating Activities	5537	5307	9731	8367	8748
Capital Expenditure	-1329	-1481	-828	-928	-1028
Cash Flow Investing Activities	-234	-2277	-1481	-6612	-4887
Increase/(Decrease) in Borrowings	-2189	174	-100	-2002	0
Dividend payments including tax	-1902	-4191	-3562	-3562	-3562
Cash Flow from Financing Activities	-4277	-4054	-3761	-5577	-3575
Net Cash Flow	1027	-1023	4490	-3823	286
Closing Balance	1165	108	4598	775	1061

Source: Company Data, SMIFS Research

Key Ratios (Consolidated)

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Margins					
Gross Margin	65.7%	67.0%	69.3%	69.0%	69.0%
EBITDA Margin	27.0%	26.0%	31.8%	29.3%	29.3%
PBT Margin (Adjusted)	15.3%	14.5%	19.1%	20.3%	28.6%
PAT Margin (Adjusted)	11.5%	11.7%	15.6%	16.4%	23.1%
DPS (INR)	4.00	4.00	8.00	8.00	8.00
Solvency Ratios					
Current Ratio	1.2	1.3	1.8	2.7	3.3
Debt/Equity	0.1	0.1	0.1	0.0	0.0
Net Debt/Equity	0.0	0.0	-0.2	-0.1	-0.1
Interest Coverage	18.8	16.9	51.4	412.5	646.1
Profitability Ratios					
RoE (ex goodwill)	15.0%	17.1%	22.6%	24.5%	31.6%
RoCE (ex goodwill)	18.8%	18.8%	26.0%	26.7%	34.8%
RoE	15.0%	17.1%	22.6%	24.5%	31.6%
RoCE	18.8%	18.8%	26.0%	26.7%	34.8%
Valuation Ratios(x)					
P/E	67.1	66.9	48.5	41.7	26.8
P/S	7.7	7.8	7.6	6.8	6.2
P/B	10.0	11.4	11.0	10.2	8.5
P/CFO	37.6	39.3	21.4	24.9	23.8

Source: Company Data, SMIFS Research

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