

EMAMI

Lacklustre show; FY18 hinges on innovation, distribution

India Equity Research | Consumer Goods

Emami's Q4FY17 revenue (fell 4.4% YoY), EBITDA (fell 4.7% YoY) and PAT (grew 1.5% YoY) came in line with our estimates. Domestic sales grew 3% YoY with volume dip of 1.5% YoY (grew 0.2% YoY in Q3FY17) impacted by trade disruption post DeMon, especially wholesale and rural where Emami has higher salience. Consolidated sales saw 4.4% YoY dip as international business (IB) declined 38% YoY, owing to weak MENA region. Gross margin slipped 150bps YoY, while EBITDA margin dip was contained at 10bps YoY due to rationalisation of A&P which resulted in 239bps YoY savings. Going ahead, Emami's growth will be led by ramp up in new launches and it remains key beneficiary of recovery in rural demand (rural contributes ~50% to revenue). Maintain 'BUY'.

Channel disruption takes toll on growth

Key positives: (i) *Navratna Oil* grew 5% YoY post 2 quarters of negative growth (up 4% YoY and 3% YoY decline in both Q3FY17 and Q2FY17) and gained 140bps market share; (ii) *Navratna Cool Talc* and *Boroplus Prickly Heat Powder* grew 42% and 24% YoY, respectively; (iii) *Fair & Handsome (F&H) Facewash* gained 170bps YoY market share; and (iv) *7 Oils in One* logged 46% YoY growth; **Key negatives:** (i) *Boroplus Antiseptic Cream* sales dipped 2% YoY (13% YoY growth in Q3FY17 and 16% in Q2FY17) with value market share of 70.3%; (ii) *Kesh King* sales grew 1% YoY; (iii) *F&H Cream* sales declined 5% YoY; (iv) healthcare sales fell 11% YoY (*Pancharishtha* sales slipped 20% YoY); and (v) IB revenues declined 38% YoY - ex-MENA, IB grew 4% YoY.

Q4FY17 conference call: Key takeaways

Emami is targeting double digit volume growth in FY18, aided by strong growth in H2FY18. New products will contribute 2-3% of overall sales. The company has launched major revamp of distribution channel, which will lower salience of its wholesale channel – wholesale dependence has reduced to 52% from earlier 55%. GST can lead to disruption for 2-3 months. *HE* and *7 Oil in One* are INR250-300mn in size.

Outlook and valuations: Positive; maintain 'BUY'

Emami will see better growth going ahead led by robust innovation pipeline and on account of being key beneficiary of rural recovery. Lowering of overall reliance on wholesale channel will result in better control over sales. At CMP, the stock is trading at 22.1x FY19E EV/EBITDA. We recommend 'BUY/SO' with a target price of INR1,202.

Financials

(INR mn)

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY16	FY17E	FY18E
Net rev.	5,777	6,043	(4.4)	7,260	(20.4)	23,976	25,326	29,283
EBITDA	1,781	1,869	(4.7)	2,585	(31.1)	6,873	7,591	9,078
Net profit	833	821	1.5	1,343	(38.0)	3,635	3,404	4,879
Dil. EPS (INR)	3.7	3.6	1.5	5.9	(38.0)	16.0	15.0	21.5
Diluted P/E (x)						67.8	72.4	50.5
EV/EBITDA (x)						36.6	32.7	26.9
ROAE (%)						27.6	22.8	28.5

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	High
Sector Relative to Market	Underweight

MARKET DATA (R: EMAM.BO, B: HMN IN)

CMP	: INR 1,085
Target Price	: INR 1,202
52-week range (INR)	: 1,261 / 935
Share in issue (mn)	: 227.0
M cap (INR bn/USD mn)	: 246 / 3,835
Avg. Daily Vol.BSE/NSE('000)	: 193.7

SHARE HOLDING PATTERN (%)

	Current	Q2FY17	Q1FY17
Promoters *	72.7	72.7	72.7
MF's, FI's & BK's	2.7	2.8	2.3
FII's	15.6	16.3	16.7
Others	8.9	8.2	8.2
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Consumer goods Index
1 month	4.9	0.9	2.0
3 months	(2.9)	5.9	4.9
12 months	3.8	20.1	23.0

Abneesh Roy

+91 22 6620 3141
abneesh.roy@edelweissfin.com

Tanmay Sharma, CFA

+91 22 4040 7586
tanmay.sharma@edelweissfin.com

Alok Shah

+91 22 6620 3040
alok.shah@edelweissfin.com

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Table 1: Trends...At a glance!

Growth (% YoY)	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Consolidated sales	(1.2)	25.6	11.0	18.4	24.2	22.4	17.4	13.9	21.0	19.9	10.2	0.2	(4.4)
Domestic volume	(10.0)	13.0	11.0	11.0	12.0	15.0	1.0	-	6.5	6.4	11.0	0.2	(1.5)
Navratna Oil (value)	(6.0)	14.0	22.0	27.0	14.0	17.0	-	(6.0)	6.0	8.0	(3.0)	(4.0)	5.0
Balm (value)	(5.0)	13.0	12.0	15.0	10.0	27.0	3.0	10.0	12.0	6.0	19.0	(5.0)	1.0
Fair & Handsome (value)	(2.0)	14.0	16.0	21.0	9.0	20.0	10.0	8.0	-	1.0	1.0	(18.0)	(5.0)
Boroplus (value)	(2.0)	NA	NA	19.0	43.0	12.0	16.0	2.0	8.0	38.0	16.0	13.0	(2.0)
Zandu Healthcare range(value)	52.0	32.0	29.0	18.0	24.0	28.0	45.0	25.0	34.0	14.0	-	(6.0)	(11.0)
Kesh King (INRmn)	NA	NA	NA	NA	NA	NA	NA	680	600	740	784	694	594
International sales growth	9.0	104.4	33.0	21.0	44.0	22.0	11.5	11.0	15.0	14.0	(11.0)	(16.0)	(38.0)
Ad spends as % of sales	11.1	21.3	18.4	17.2	14.9	24.1	17.5	19.0	15.5	23.8	17.0	15.7	13.1
EBITDA margin	26.5	15.6	23.1	30.6	25.3	18.4	28.7	31.6	30.6	22.9	30.0	35.6	30.8

Source: Company, Edelweiss research

Emami Q4FY17 conference call | Key Takeaways

Overall demand growth & outlook

- **Overall growth:** Domestic Sales grew 10% in FY17 and 3% in Q4FY17. Domestic volume declined 1.5% YoY. Trade channel disruption in Q3FY17 and Q4FY17 impacted both wholesale and rural businesses. Consolidated Sales grew 6% in FY17, but declined 4% in Q4FY17. Exports were impacted by the ongoing global economic slowdown and volatile currencies.
- Sales through direct reach grew in double digits, while MT grew at 20% YoY.
- **Outlook:** Emami is targeting back-ended double digit volume growth in FY18.
- Post demonetisation, market continues to remain subdued since trade channels continue to reel under stress.
- The company has embarked on massive distribution channel revamp and hence salience of wholesale channel will fall. This is under *Project Race* and *Project Dhanush*. Target is to reach 0.8mn outlets by FY19.
- Even as the prevailing summer season is harsh, summer-related products have been witnessing some pressure owing to stress in wholesale channels.
- **GST:** Emami does not expect margins to get impacted in the upcoming GST regime. Under GST, there could be disruption of only 2-3 months post which things are expected normalise and gather pace. If GST rates are 12% for ayurvedic and 18% for personal care products, the company could benefit by ~100bps.
- Plans are afoot to invest heavily in *7 in 1* hair oil and *He* brand, which remains the company's focused brands. Both brands are in the range of INR250-300mn each.

Business segments

- **Navratna cool oil:** Cool oils grew 5% during the quarter and 3% for FY17. Gained market share (in value terms) by 140bps to 61.1% (MAT Dec'16). A new TVC for the product was launched featuring superstar Amitabh Bachchan in a new avatar as 'Raahat Raja' establishing *Navratna Oil* as a multi-purpose oil providing relief from the problems of headache, stress, sleeplessness and body-ache.

- **Navratna talc:** Cool talc segment grew 42% during the quarter and 26% for FY17. Market share (in value terms) stood at 26.3% (MAT Dec'16). The segment contributes 30% to overall *Navratna* brand.
- **Boroplus:** Antiseptic cream segment declined 2% during the quarter, but grew 15% in FY17. A new variant was launched - *BoroPlus Perfect Touch*, a non-sticky, non-oily, deep moisturising cream, with the goodness of ayurvedic herbs and antiseptic action. Maintained leadership with market share (in value terms) of 70.3% (MAT Dec'16). Prickly heat powder grew 24% during the quarter and 6% in FY17. Moisturising lotions grew 11% in FY17.
- **F&H:** Fairness cream gained market share (in value terms) by 140bps to 60.3% (MAT Dec'16). However, sales fell 5% during the quarter and 6% annually. Facewash gained market share (in value terms) by 170bps to 11.0% (MAT Dec'16). Launched a new variant, *Fair And Handsome 100% Oil Clear Instant Fairness Facewash*.
- **Healthcare:** *Pancharishtha* sales declined 20% during the quarter and 10% annually, high base (growth of 56% in FY16) and muted demand due to disruption in trade channels. With this decline in *Pancharishtha*, HCD sales declined 1% annually and 11% during the quarter. Ex-*Pancharishtha*, HCD grew 8% annually. *Nityam* (churna & tablets): Sales doubled in both Q4FY17 and FY17. To revive *Pancharishtha*, the company has tweaked its distribution strategy.
- **7 in 1 hair oil:** Sales grew 46%, both during the quarter and FY17.
- **Balms:** Sales grew 1% during the quarter and 6% in FY17. Entered high-growth modern formats in April'17 to strengthen *Zandu's* position as a pain reliever by launching *Zandu Gel* and *Zandu Spray*. Maintained leadership with market share (in value terms) of 59.4% (MAT Dec'16).
- **HE:** Emami is optimistic about *HE* brand. Sales grew more than 1.5x during the quarter and nearly doubled in FY17. Introduced *HE-On the Go* waterless face wash in Apr'17. Manufactured with the goodness of aloe vera and minerals from marine extracts, this revolutionary product lets one wash their face without the use of water. *F&H* along with *HE* facewash are both set to gain market share jointly.
- **Kesh King:** Sales grew 1% during the quarter and 48% in FY17. Gained market share (value) by 100bps to 34.0% (MAT Dec'16). Emami believes it has not lost market share to Patanjali. Pre-demonetisation this brand was growing at healthy rate. However, post demonetisation customers have downgraded to cheaper oils. Wholesale dependence in *Kesh King* is 70%. *Kesh King* is ~10% of revenues and expects to grow it at 13-15% YoY.
- **International:** Weak economic conditions and slowdown in the Middle East countries impacted overall performance of the segment. International business declined 38% during the quarter and 16% annually. International business, excluding MENAP region, grew 4% in FY17. Emami undertook inventory correction (primary in Russia), which was also a reason for sales decline. The company is positive on growth coming back in the segment. If the MENA region ramps up then the company is confident of achieving 15-18% growth in international business.

Others

- **Distribution:** Wholesale contribution was 52% (declined from 55%). Once direct distribution is ramped up, wholesale segment will contribute ~40-45%. However, wholesale channel continues to see some pressure. Going ahead, in June 2017 there

could be one more round of disruption due to GST. Direct distribution helps in new product launches.

- **New launches:** Many more brands apart from *He* will come under the male grooming segment. Three new products will be launched under the *Zandu* brand, viz., spray, gel and roll on. New launches are set to contribute 2-3% of overall sales. However, it is too early to disclose whether it would be premium/ normal ayurvedic products under the *Zandu* brand.
- **A&P spends:** New launches will lead to incremental A&P spend of mere 1-1.5%. Overall A&P is 17%, of this, 70% is media advertisement. To expand men's category, Emami will improvise digital marketing, etc.
- **Margins:** Gross margins stood at ~65% and Emami hopes to maintain such margin levels in spite of raw material prices going up. Margins in FY18, before A&P spends, will broadly rule in the same range as in FY17.
- **Capex:** The new unit at Pacharia, Guwahati commenced operations in Feb'17. Capex was INR3bn. The unit will avail fiscal benefits for 10 years– nil income tax and refund of excise duty. FY18 capex will be INR1.5bn.
- **Tax rate:** For the next 5 years, Emami will be under MAT regime. On ayurvedic products, the company pays 11-11.5% tax and on personal care products it pays 20-22% tax.
- **Debt:** Debt should be repaid by FY18. Net interest cost will dip in FY18.

Outlook and valuations: Positive; maintain 'BUY'

We like Emami's focus on enhancing its innovation pipeline in lower penetrated categories (more brands will be launched under male grooming segment and 3 new products to be launched in *Zandu*), which will help propel growth. Also, the focus on improving salience of direct distribution will bring in better control overall sales. However, the company's performance in *Navratna Oil*, *F&H* and *IB* needs to be closely monitored. It is also taking measures to revive its existing portfolio – launched new communication in *F&H* with focus on making *Navratna* a multi-purpose oil (will provide relief from headaches, stress, sleeplessness and body-aches), has expanded *Zandu* to gel and spray formats to position it as a pain reliever, etc. These moves will ensure that the company's power brands revert to strong growth trajectory.

Anticipated recovery in rural demand should be amply led by better monsoon, Seventh Pay Commission, OROP payouts and improving liquidity scenario in wholesale channel. Further, we expect Emami to benefit from further penetration in most segments that it is present in. We expect the company to exploit the strong brand equity of *Kesh King* by launching new variants (launched shampoo in sachets). However, competition from Patanjali remains a concern.

We assign a target multiple of 32x on FY19E adjusted EPS to arrive at a target price of INR1,202. We maintain 'BUY' and rate the stock 'Sector Outperformer' on relative returns basis.

Chart 1: One year forward PE band

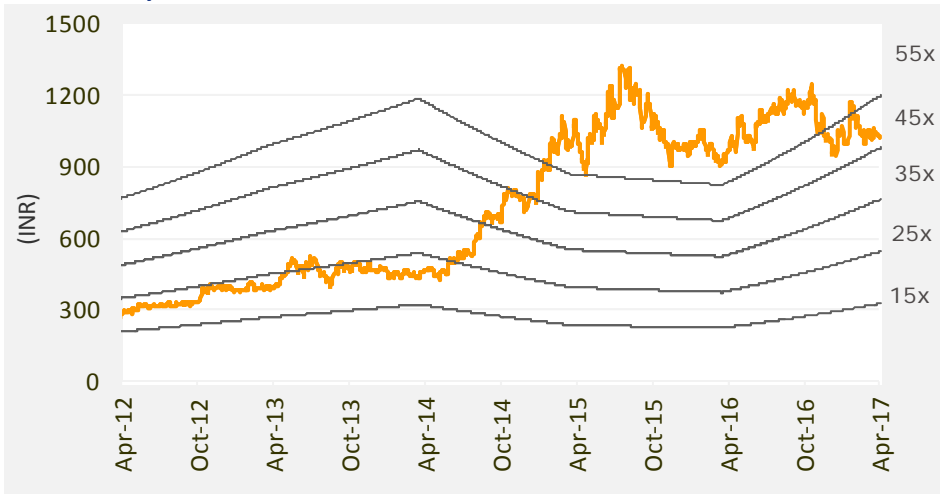


Chart 2: Sales split (consolidated)

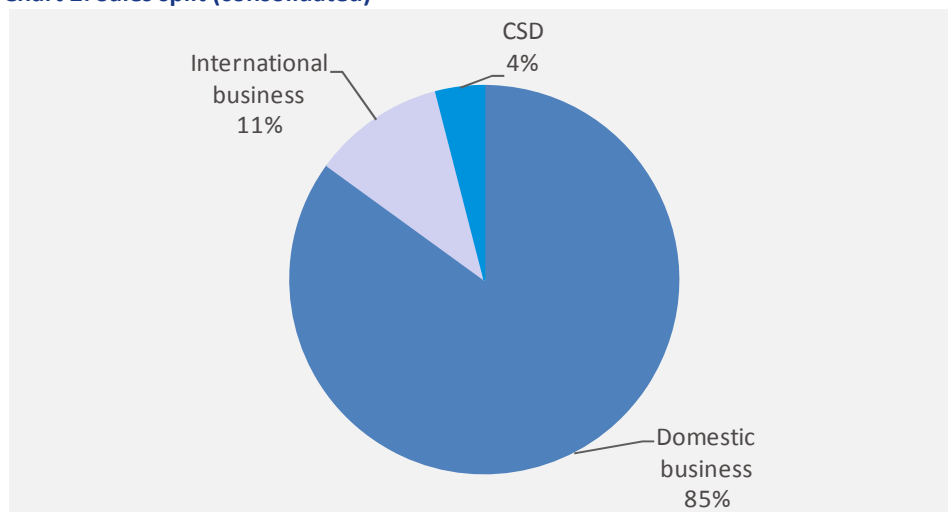
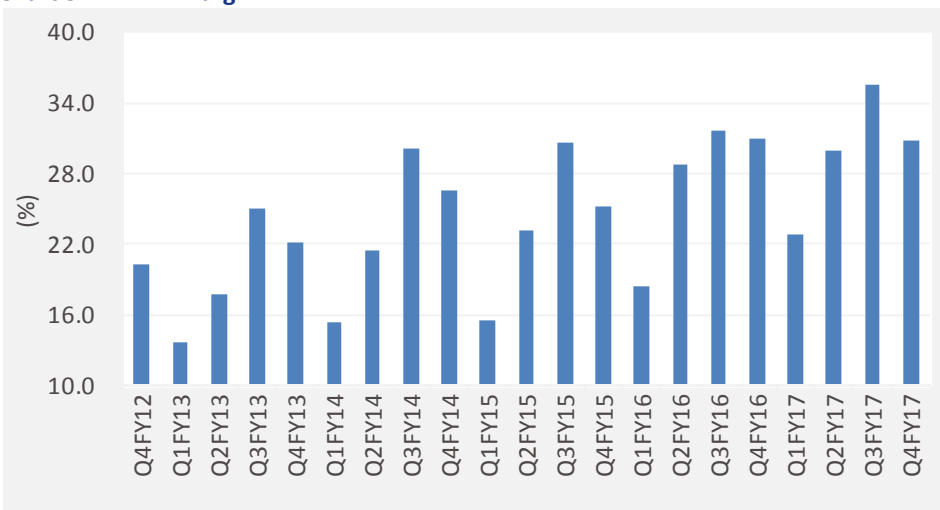
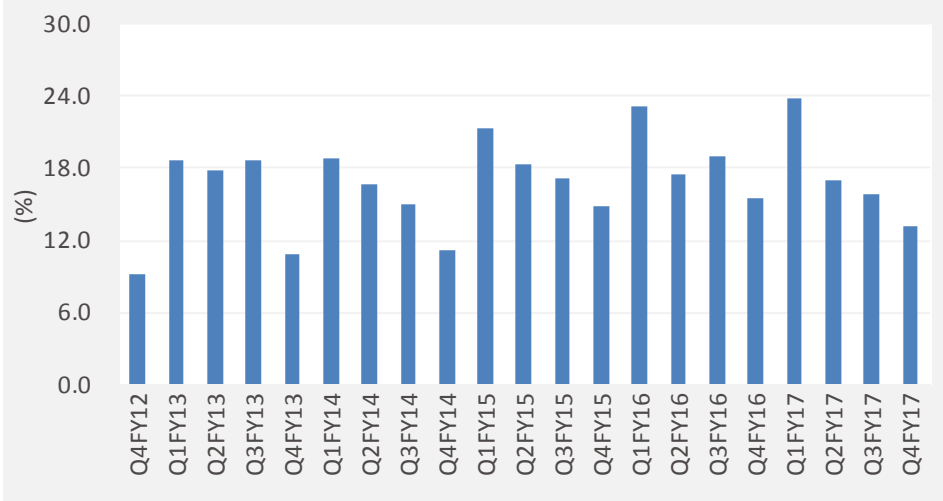


Chart 3: EBITDA margin



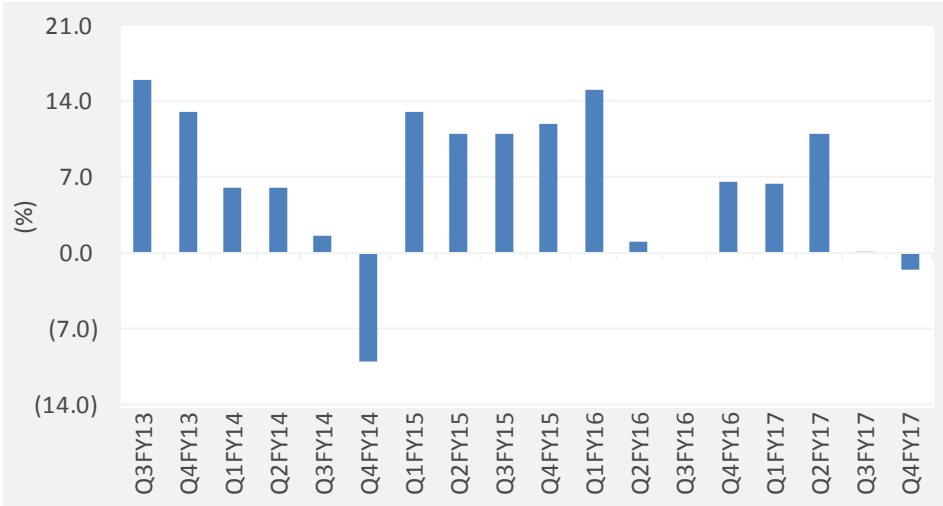
Source: Company, Edelweiss research

Chart 4: A&P spend as a % of sales



Source: Company, Edelweiss research

Chart 5: Domestic volume growth



Source: Company, Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY16	FY17E	FY18E
Net revenues	5,777	6,043	(4.4)	7,260	(20.4)	23,976	25,326	29,283
Cost of goods sold	2,184	2,193	(0.4)	2,331	(6.3)	8,513	8,731	9,986
Gross profit	3,594	3,850	(6.7)	4,928	(27.1)	15,462	16,595	19,298
Staff costs	456	461	(1.2)	654	(30.3)	2,078	2,336	2,606
Advt. sales & promotions	759	938	(19.1)	1,143	(33.6)	4,305	4,428	5,095
Other expenses	598	581	2.8	546	9.5	2,207	2,240	2,518
Total expenditure	1,812	1,981	(8.5)	2,343	(22.6)	8,589	9,004	10,220
EBITDA	1,781	1,869	(4.7)	2,585	(31.1)	6,873	7,591	9,078
Depreciation	764	897	(14.8)	817	(6.5)	2,549	3,086	3,012
EBIT	1,018	973	4.6	1,769	(42.5)	4,323	4,506	6,066
Other income	92	83	10.5	82	12.4	445	311	228
Interest	168	133	26.1	127	32.1	540	580	200
Add: Prior period items								
Add: Exceptional items								
Profit before tax	941	923	2.0	1,723	(45.4)	4,228	4,236	6,094
Provision for taxes	108	97	11.8	381	(71.6)	597	836	1,219
Minority interest	-	5	NA	(1)	NA	5	4	4
Associate profit share								
Reported net profit	833	821	1.5	1,343	(38.0)	3,635	3,404	4,879
Adjusted Profit	833	821	1.5	1,343	(38.0)	3,635	3,404	4,879
Diluted shares (mn)	227	227		227		227	227	227
Adjusted Diluted EPS	3.7	3.6	1.5	5.9	(38.0)	16.0	15.0	21.5
Diluted P/E (x)	-	-		-		67.8	72.4	50.5
EV/EBITDA (x)	-	-		-		36.6	32.7	26.9
ROAE (%)	-	-		-		27.6	22.8	28.5
As % of net revenues	-	-		-		2	-	-
COGS	37.8	36.3		32.1		35.5	34.5	34.1
Employee cost	7.9	7.6		9.0		8.7	9.2	8.9
Adv. & sales promotions	13.1	15.5		15.7		18.0	17.5	17.4
Other expenditure	10.3	9.6		7.5		9.2	8.8	8.6
EBITDA	30.8	30.9		35.6		28.7	30.0	31.0
EBIT	17.6	16.1		24.4		18.0	17.8	20.7
PBT	16.3	15.3		23.7		17.6	16.7	20.8
Reported net profit	14.4	13.6		18.5		15.2	13.4	16.7
Tax rate	11.5	10.5		22.1		14.1	19.7	20.0

Change in Estimates

	New	FY18E Old	% change	New	FY19E Old	% change	Comments
Net Revenue	29,283	34,427	(14.9)	34,022	41,435	(17.9)	The cut in numbers look optically large due to shift from IGAAP to IND-AS. Actual cut is ~6% due to lower than expected volumes and impact in the international business in Q4FY17.
EBITDA	9,078	10,067	(9.8)	10,785	12,303	(12.3)	Gross margins pressure impacting the overall margins.
EBITDA Margin	31.0	29.2		31.7	29.7		
Adjusted Profit After Tax	4,879	5,690	(14.3)	6,454	7,526	(14.3)	PAT growth impacted by higher amortization impact.
Net Profit Margin	16.7	16.5		19.0	18.2		
Capex	(1,500)	(1,500)	0.0	(1,500)	(1,500)	0.0	

Company Description

Emami is the flagship company of Emami group. It is a leading FMCG player in India, operating in certain attractive segments such as skin care and hair oil. The company is promoted by Kolkata-based industrialists, Mr. R. S. Agarwal and Mr. R. S. Goenka. The company has been operating in health, beauty and personal care products for the past 30+ years and has sustained a prominent position in therapeutic and Ayurvedic based products, ensuring strong entry barriers for competition.

Over the years, Emami has innovated and built block-buster brands such as Navratna, Boroplus, and Fair and Handsome. With the acquisition of 'Zandu', another strong Ayurvedic brand was added to the portfolio. The company has entered the deodorant market with the brand HE and the same is now being expanded to male grooming segment.

Investment Theme

Emami's product portfolio provides a play on Indian FMCG spend by virtue of its strong presence in less penetrated and high growth categories. More than 80% of Emami's products have Ayurvedic base. The therapeutic usage gives customer loyalty leading to high gross margins, high barriers to entry, strong brand equity, mass acceptance and superior growth opportunities. Emami has a superior track record of launching new brands (Fair & Handsome captures ~60% market share of men's fairness cream market) and transforming them into blockbusters.

Introduction of lower SKUs for Zandu balm and rejuvenating more than 200 of Zandu's Ayurvedic-based prescription products will be another growth driver for Emami. Emami is slowly diversifying its portfolio (with foray into face wash, hair oils, deodorants, female hygiene care) to insulate itself from seasonal impact. Though we are enthused by Emami's new launch aggression it needs to sustain investment on innovation and ad spends to remain competitive in the newer segments (MNC competition high).

Key Risks

Seasonality risk is one of the biggest risks to Emami. Summer products' (like Talc and cooling oil) and winter products' (like Boroplus) sales depend upon the weather conditions. Any disruption in weather conditions can result in volatile sales of some of these products.

Ayurvedic products are produced by more than a thousand small companies in India, though only about a dozen are big national players. Given Emami's success, entry of new competitors cannot be ruled out. Hence, Emami, like other FMCG players, will need to continuously invest in A&P to build superior brand equity and gain customer loyalty.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.0	5.8	5.8
USD/INR (Avg)	65.0	67.5	69.0	69.0
Company				
Revenue growth (Y-o-Y %)				
Overall growth	18.3	7.2	14.2	16.2
Growth in Navratna Oil	6.0	3.0	8.0	12.0
Boroplus	8.0	15.0	15.0	15.0
Prickly Heat Powder	10.0	20.0	20.0	15.0
Mentho Plus Balm	14.0	6.0	15.0	15.0
Growth in Fast Relief	8.0	6.0	10.0	12.0
Fair & Handsome	9.0	(6.0)	8.0	12.0
Growth in Exports	15.0	(16.0)	10.0	14.0
Growth in Other Products	8.0	5.0	12.0	12.0
Growth in CSD products	8.0	1.0	15.0	15.0
Growth in ZANDU	30.0	(1.0)	18.0	20.0
Navratna Cool Talc	4.0	12.0	20.0	20.0
Growth in Kesh King	8.0	30.0	18.0	18.0
Other inc as % of sales	1.3	1.1	0.7	1.5
EBITDA margin assumpn				
COGS as % of sales	31.0	34.5	34.1	33.8
Staff costs (% of rev)	7.9	9.2	8.9	8.8
A&P as % of sales	20.2	17.5	17.4	17.2
F&F as a % of sales	2.2	2.2	2.2	2.2
EBITDA mar (Kesh King)	97.4	97.4	97.4	97.4
Financial assumptions				
Tax rate (%)	14.3	19.7	20.0	20.0
Capex (INR mn)	(17,802)	(1,134)	(1,500)	(1,500)
Debtor days	62	64	64	63
Inventory days	16	28	20	20
Payable days	99	130	120	120
Cash conversion cycle	(20)	(38)	(36)	(37)
Dep. (% gross block)	16.7	11.5	11.4	11.1
Dividend payout	44.2	40.0	40.0	40.0
Yield on cash	9.5	22.5	16.0	15.0

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Gross revenues	23,976	25,326	29,283	34,023
Net revenue	23,976	25,326	29,283	34,023
Materials costs	8,513	8,731	9,986	11,500
Gross profit	15,462	16,595	19,298	22,523
Employee costs	2,078	2,336	2,606	2,994
Other Expenses	1,486	1,582	1,757	2,007
Ad. & sales costs	4,305	4,428	5,095	5,852
Commission and Discount	109	101	117	136
Freight and forwarding	611	557	644	748
EBITDA	6,873	7,591	9,078	10,785
Depreciation	2,549	3,086	3,012	3,099
EBIT	4,323	4,506	6,066	7,686
Add: Other income	444.6	310.8	228.36	570.44
Less: Interest Expense	540	580	200	194
Profit Before Tax	4,228	4,236	6,094	8,062
Less: Provision for Tax	597	836	1,219	1,612
Less: Minority Interest	5	4	4	4
Reported Profit	3,635	3,404	4,879	6,454
Adjusted Profit	3,635	3,404	4,879	6,454
Shares o /s (mn)	227	227	227	227
Adjusted Basic EPS	16.0	15.0	21.5	28.4
Diluted shares o/s (mn)	227	227	227	227
Adjusted Diluted EPS	16.0	15.0	21.5	28.4
Adjusted Cash EPS	27.2	28.6	34.8	42.1
Dividend per share (DPS)	7.0	6.0	8.6	11.4
Dividend Payout Ratio(%)	52.6	47.2	47.2	47.2

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Materials costs	35.5	34.5	34.1	33.8
Staff costs	8.7	9.2	8.9	8.8
S G & A expenses	9.2	8.8	8.6	8.5
Ad. & sales costs	18.0	17.5	17.4	17.2
Depreciation	10.6	12.2	10.3	9.1
Interest Expense	2.3	2.3	0.7	0.6
EBITDA margins	28.7	30.0	31.0	31.7
Net Profit margins	15.2	13.4	16.7	19.0

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	18.3	5.6	15.6	16.2
EBITDA	26.6	10.5	19.6	18.8
PBT	(31.6)	0.2	43.8	32.3
Adjusted Profit	(25.8)	(6.4)	43.3	32.3
EPS	(25.8)	(6.4)	43.3	32.3

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	227	227	227	227	
Reserves & Surplus	13,804	15,602	18,178	21,585	
Shareholders' funds	14,031	15,829	18,405	21,812	
Minority Interest	41	37	33	29	
Short term borrowings	3,714	2,025	765	765	
Long term borrowings	3,000	1,189	449	449	
Total Borrowings	6,714	3,214	1,214	1,214	
Long Term Liabilities	445	445	445	445	
Def. Tax Liability (net)	(9)	(9)	(9)	(9)	
Sources of funds	21,223	19,517	20,089	23,492	
Gross Block	24,172	25,672	27,172	28,672	
Net Block	4,706	3,120	1,608	9	
Capital work in progress	616	250	250	250	
Intangible Assets	15,097	15,097	15,097	15,097	
Total Fixed Assets	20,420	18,468	16,956	15,356	
Non current investments	66	66	66	66	
Cash and Equivalents	1,204	1,427	3,803	8,810	
Inventories	1,505	1,531	1,751	1,985	
Sundry Debtors	1,301	1,943	1,605	1,864	
Loans & Advances	2,133	2,133	2,133	2,133	
Other Current Assets	7	7	7	7	
Current Assets (ex cash)	4,947	5,614	5,495	5,989	
Trade payable	2,465	3,110	3,283	3,781	
Other Current Liab	2,948	2,948	2,948	2,948	
Total Current Liab	5,413	6,058	6,231	6,729	
Net Curr Assets-ex cash	(466)	(445)	(736)	(740)	
Uses of funds	21,223	19,517	20,089	23,492	
BVPS (INR)	61.8	69.7	81.1	96.1	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	3,635	3,404	4,879	6,454	
Add: Depreciation	2,549	3,086	3,012	3,099	
Interest (Net of Tax)	464	466	160	155	
Others	(1,232)	110	36	35	
Less: Changes in WC	19	(22)	291	4	
Operating cash flow	5,435	7,044	8,379	9,747	
Less: Capex	(17,802)	(1,134)	(1,500)	(1,500)	
Free Cash Flow	(12,366)	5,911	6,879	8,247	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Emami	3,835	50.5	38.2	26.9	22.1	28.5	32.1
Bajaj Corp	864	22.6	21.9	18.0	16.0	49.1	49.7
Dabur	7,476	33.1	28.3	28.4	23.9	27.5	27.7
Godrej Consumer	9,371	39.5	32.6	27.7	23.0	23.4	23.6
Hindustan Unilever	32,141	42.6	36.7	29.3	25.2	103.3	107.2
Marico	6,129	41.4	36.2	28.0	24.3	38.1	37.1

Source: Edelweiss research

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Operating cash flow		5,435	7,044	8,379	9,747
Investing cash flow		(17,802)	(1,134)	(1,500)	(1,500)
Financing cash flow		5,032	(5,687)	(4,503)	(3,240)
Net cash Flow		(7,334)	224	2,376	5,007
Capex		17,802	1,134	1,500	1,500
Dividend paid		(1,912)	(1,607)	(2,303)	(3,046)

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	27.6	22.8	28.5	32.1
ROACE (%)	28.5	24.2	32.5	38.7
Inventory Days	62	64	64	63
Debtors Days	16	28	20	20
Payable Days	99	130	120	120
Cash Conversion Cycle	(20)	(38)	(36)	(37)
Current Ratio	1.1	1.2	1.5	2.2
Gross Debt/EBITDA	1.0	0.4	0.1	0.1
Gross Debt/Equity	0.5	0.2	0.1	0.1
Adjusted Debt/Equity	0.5	0.2	0.1	0.1
Interest Coverage Ratio	8.0	7.8	30.3	39.6

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	1.4	1.2	1.5	1.6
Fixed Asset Turnover	2.0	1.3	1.7	2.1
Equity Turnover	1.8	1.7	1.7	1.7

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	16.0	15.0	21.5	28.4
Y-o-Y growth (%)	(25.8)	(6.4)	43.3	32.3
Adjusted Cash EPS (INR)	27.2	28.6	34.8	42.1
Diluted P/E (x)	67.8	72.4	50.5	38.2
P/B (x)	17.6	15.6	13.4	11.3
EV / Sales (x)	10.5	9.8	8.3	7.0
EV / EBITDA (x)	36.6	32.7	26.9	22.1
Dividend Yield (%)	0.6	0.6	0.8	1.0

Additional Data

Directors Data

Shri R.S. Agarwal	Chairman	Shri Sushil Kr. Goenka	Managing Director
Shri R.S. Goenka	Non – Executive Director	Shri K.N. Memani	Non – Executive Independent Director
Shri Y.P. Trivedi	Non – Executive Independent Director	Shri Sajjan Bhajanka	Director
Shri Amit Kiran Deb	Non – Executive Independent Director	Shri S.B. Ganguly	Non – Executive Independent Director
Shri M.D. Mallya	Non – Executive Independent Director	Shri Mohan Goenka	Executive Director
Shri Aditya Vardhan Agarwal	Executive Director	Shri Harsha Vardhan Agarwal	Executive Director
Smt. Priti Sureka	Executive Director	Shri P.K. Khaitan	Non – Executive Independent Director
Ms. Rama Bijapurkar	Non – Executive Independent Director	Shri Prashant Goenka	Wholetime Director

Auditors - M/s S.K. Agrawal & Co - Chartered Accountants

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Matthews International Capital Management	2.23	Avees Trading And Finance	1.45
Amansa Holdings Private	1.27	Bank Of Montreal	1.13
Aberdeen Investment Services Sa	0.91	Jo Hambro Capital Management	0.78
Sbi Funds Management	0.75	Vanguard Group Inc	0.71
Capital Group Companies Inc	0.67	T Rowe Price Group Inc	0.66

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
27 Mar 2017	Priti Sureka	Sell	1400000	1030.00

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
07 Apr 2017	Suntrack Commerce Pvt Ltd	Buy	22500.00
07 Apr 2017	Diwakar Viniyog Private Limited	Buy	22500.00
07 Apr 2017	Bhanu Vyapaar Pvt Ltd	Buy	27000.00
07 Apr 2017	TMT VINIYOGAN LIMITED	Sell	90000.00
06 Apr 2017	TMT VINIYOGAN LIMITED	Sell	90000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Asian Paints	BUY	SO	M	Bajaj Corp	HOLD	SU	H
Berger Paints	BUY	SO	L	Britannia Industries	BUY	SO	L
Colgate	HOLD	SP	M	Dabur	BUY	SO	M
Emami	BUY	SO	H	GlaxoSmithKline Consumer Healthcare	HOLD	SU	M
Godrej Consumer	BUY	SO	H	Hindustan Unilever	HOLD	SP	L
ITC	BUY	SO	M	Marico	BUY	SO	M
Nestle Ltd	HOLD	SP	L	Pidilite Industries	BUY	SO	M
United Spirits	HOLD	SP	H				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect



Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.

Board: (91-22) 4009 4400, Email: research@edelweissfin.com

Aditya Narain

Head of Research

aditya.narain@edelweissfin.com

Coverage group(s) of stocks by primary analyst(s): Consumer Goods

Asian Paints, Bajaj Corp, Berger Paints, Britannia Industries, Colgate, Dabur, Godrej Consumer, Emami, Hindustan Unilever, ITC, Marico, Nestle Ltd, Pidilite Industries, GlaxoSmithKline Consumer Healthcare, United Spirits

Recent Research

Date	Company	Title	Price (INR)	Recos
03-May-17	Marico	Strong volume growth; GST, inflationary scenario to bode well; <i>Result Update</i>	315	Buy
02-May-17	Dabur India	Volumes in revival mode; GST key monitorable; <i>Result Update</i>	287	Buy
27-Apr-17	Consumer Goods	Prognosis: Sector Gauge; <i>Sector Update</i>		

Distribution of Ratings / Market Cap

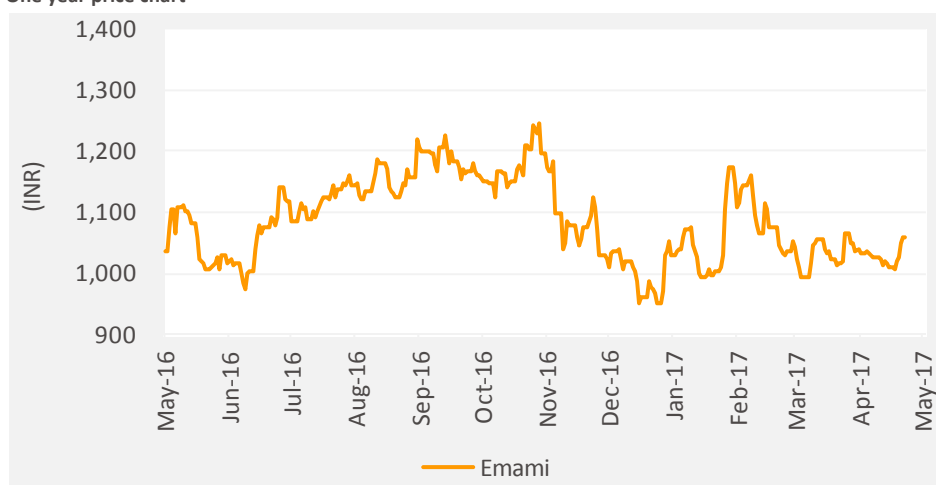
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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