Emami

BUY

INDUSTRY	FMCG
CMP *(as on 3 Aug 2017)*	Rs 1,141
Target Price	Rs 1,301
Nifty	10,014
Sensex	32,238

KEY STOCK DATA	
Bloomberg	HMN IN
No. of Shares (mn)	227
MCap (Rs bn)/(US$ mn)	259/4,069
6m avg traded value (Rs mn)	214

STOCK PERFORMANCE (%)			
52 Week high / low	Rs 1,261 / 935		
	3M	6M	12M
Absolute (%)	6.7	(2.9)	(0.9)
Relative (%)	(1.2)	(17.0)	(17.3)

SHAREHOLDING PATTERN (%)	
Promoters	72.74
FIs & Local MFs	3.47
FPIs	14.89
Public & Others	8.90

Source : BSE

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Optimisum continues

Emami's net revenues contracted by a sharp 16% to Rs 5.4bn (vs. expectations of -8%). Domestic business (85% of total) declined by 16%, with an 18% volume decline. International was under pressure, and contracted by 19%. EBITDA/APAT up by -46/-55%.

Domestic biz was impacted by channel destocking. Management is confident of a strong growth recovery in 9MFY18 (July recovery was inspiring). We remain optimistic for Emami's domestic business, and expect 14% revenue CAGR over FY17-20.

International biz (IBD) remained under pressure (19% YoY decline), owing to macro issues in MENA and reduction in channel inventory. On account of slow recovery in some geographies, we reduced IBD revenue CAGR to 15% over FY17-20 vs. 18% earlier.

Emami is one of the leading Personal and Healthcare companies. The success of the company's strategy (focus on low penetration and high-margin categories) is reflected by its revenue/EBITDA/APAT CAGR of 17/28/24% in the last 10 years.

We like Emami on account of (1) Leadership in ~70% domestic portfolio and gaining market share gain, (2) Focus on low penetration and high-margin categories, (3) New launches, (4) Distribution expansion (direct reach to be 0.8mn by FY18 vs. 0.73mn in FY17) and (5) Improving core RoCE.

We expect EPS CAGR of 19% over FY17-20. We value Emami based on P/E of 35x on Jun-19 EPS. Our TP is Rs 1,301. We maintain our BUY rating.

Highlights of the quarter

- **Revenue pressure**: In domestic, *Boroplus* range and *7 Oils in One,* clocked 20% and 16% growth. While *Navratana* range, *Fair & Handsome*, *Kesh King* and HCD clocked -11%, -19%, -28% and -23%.
- **EBITDA contracted:** GM was down by 93bps to 63.6%. Employee, ASP and other expenses grew by 6% (+260bps), -7% (262bps) and -4% (+460bps). EBITDA margin was down by 816bps to 14.8%. APAT was down 55% to Rs 489mn vs. expectation of Rs 946mn.
- **Short-term outlook:** Healthy underlying demand and channel restocking should result in healthy earnings in the coming quarter. The stock can provide a healthy upside in the near term too.

Financial Summary

(Rs mn)	1QFY18	1QFY17	*YoY (%)*	4QFY17	*QoQ (%)*	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	5,411	6,454	*(16.2)*	5,777	*(6.3)*	23,970	25,326	28,750	33,265	38,287
EBITDA	802	1,483	*(45.9)*	1,781	*(55.0)*	6,873	7,591	8,441	10,197	11,895
APAT	489	1,083	*(54.9)*	1,385	*(64.7)*	5,326	5,511	6,281	7,864	9,305
Diluted EPS (Rs)	2.15	4.77	*(54.9)*	6.10	*(64.7)*	23.5	24.3	27.7	34.6	41.0
P/E (x)						48.6	47.0	41.2	32.9	27.8
EV / EBITDA (x)						38.5	34.6	30.8	25.2	21.4
Core RoCE (%)						27.9	16.4	19.5	26.9	33.9

Source: Company, HDFC sec Inst Research

Domestic business (85% of total) has posted 16% decline with 18% volume contraction. Channel destocking pressure was higher than expected. Higher dependence on the wholesale channel has impacted Emami more

International business remained under pressure and witnessed 19% fall. Macro issues and unfavourable currency movements continues to impact

Gross margin contraction and unabsorbed fixed costs have impacted EBITDA margin

Quarterly Financials

Year to March (Rs mn)	1QFY18	1QFY17	% Change	4QFY17	% Change
Net Revenue	**5,411**	**6,454**	***(16.2)***	**5,777**	***(6.3)***
Material Expenses	1,967	2,287	*(14.0)*	2,184	*(9.9)*
Employee Expenses	643	598	*7.4*	456	*41*
ASP Expenses	1,428	1,534	*(6.9)*	759	*88.1*
Other Operating Expenses	572	552	*3.5*	598	*(4.4)*
EBITDA	**802**	**1,483**	***(45.9)***	**1,781**	***(55.0)***
Depreciation & amortisation	750	715	*4.9*	764	*(1.7)*
EBIT	**51**	**768**	***(93.3)***	**1,018**	***(95.0)***
Other Income	65	51	*27.6*	92	*(29.4)*
Interest Cost	79	125	*(36.6)*	168	*(52.8)*
Exceptional item	-	-		-	
PBT	**37**	**693**	***(94.7)***	**942**	***(96.1)***
Tax	28	117	*(76.2)*	108	*(74.2)*
RPAT	**9**	**576**	***(98.5)***	**833**	***(98.9)***
Adjustment	480	507	*(5.3)*	552	*(13.0)*
APAT	**489**	**1,083**	***(54.9)***	**1,385**	***(64.7)***
EPS (Adjusted)	**2.15**	**4.77**	***(54.9)***	**6.10**	***(64.7)***
As % Of Net Revenue					
Material Expenses % Net Sales	36.4	35.4	*93*	37.8	*(144)*
Employee Expenses % Net Sales	11.9	9.3	*260*	7.9	*398*
ASP % Net Sales	26.4	23.8	*262*	13.1	*1,325*
Other Operating Expenses % Net Sales	10.6	8.6	*201*	10.3	*22*
EBITDA Margin (%)	14.8	23.0	*(816)*	30.8	*(1,602)*
Tax Rate (%)	75.8	16.9	*5,894*	11.5	*6,431*
APAT Margin (%)	9.0	16.8	*(775)*	24.0	*(1,494)*

Source: Company, HDFC sec Inst Research

Business Breakup

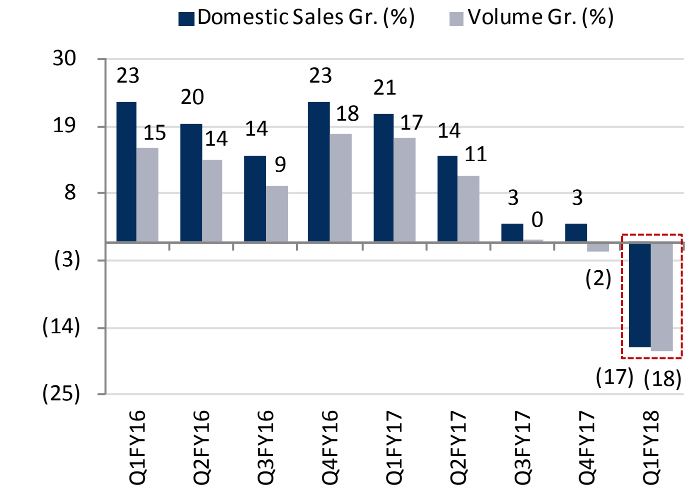
Revenue Mix (%)	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
Domestic	84.0	83.0	83.0	82.0	84.0	84.0	85.0	87.6	85.0
IMD	13.0	14.0	13.0	14.0	12.0	12.0	11.0	8.5	11.0
CSD	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0

Source: Company, HDFC sec Inst Research

Sharp 18% volume decline impacted domestic revenue. Channel restocking and healthy underlying demand to recover growth momentum in the ensuing quarters

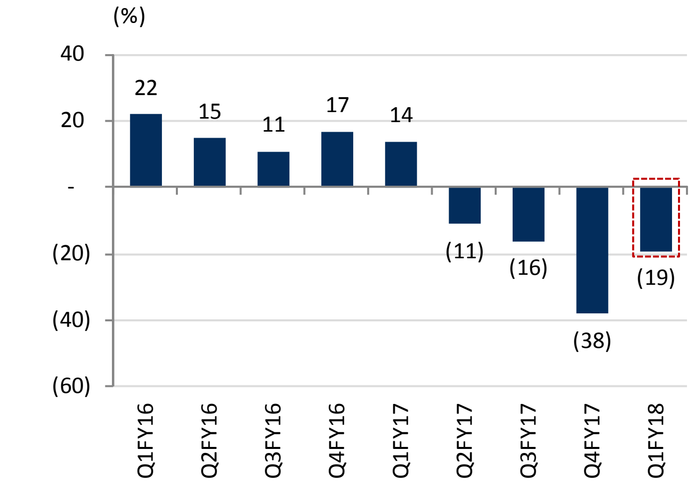
International business remained under pressure

Domestic Revenue Performance



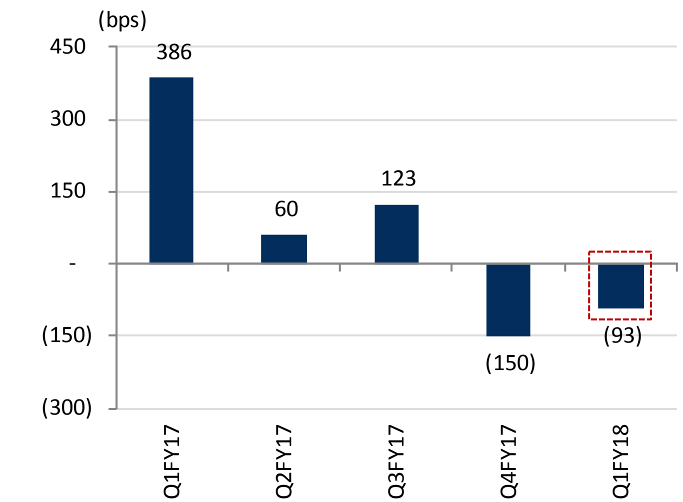
Source: Company, HDFC sec Inst Research

International Revenue Performance



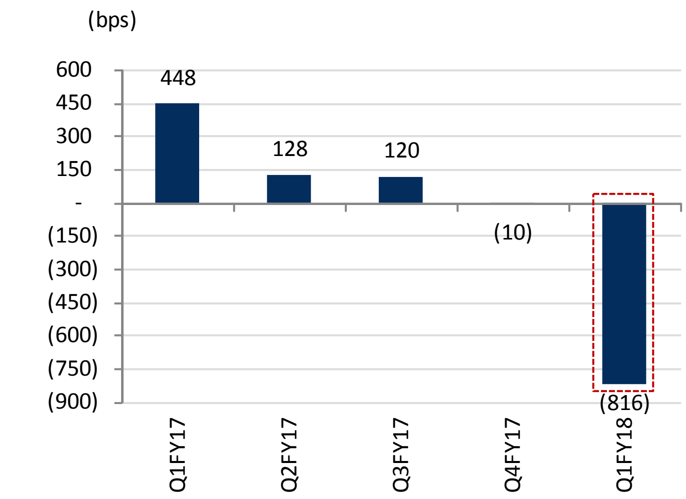
Source: Company, HDFC sec Inst Research

Gross Margin Change



Source: Company, HDFC sec Inst Research

EBITDA Margin Change



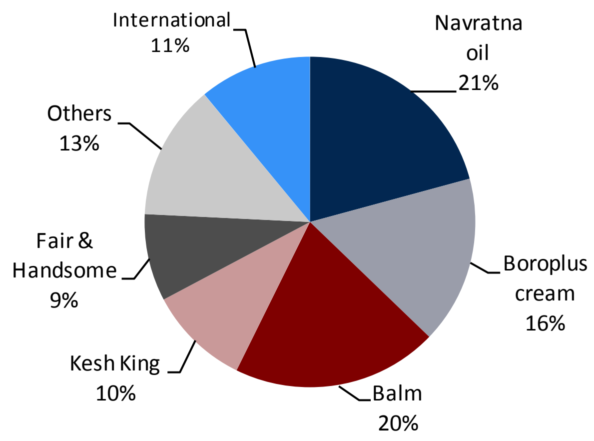
Source: Company, HDFC sec Inst Research

Emami has leadership in ~70% product portfolio

The company focusses on low penetration and high-margin categories, resulting in it having one of the highest gross margins in the consumer space

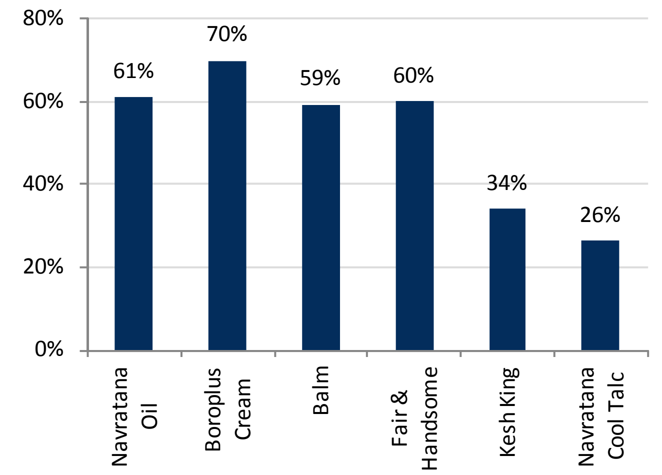
Emami's Core Strength And Past Performance

Revenue Break-up



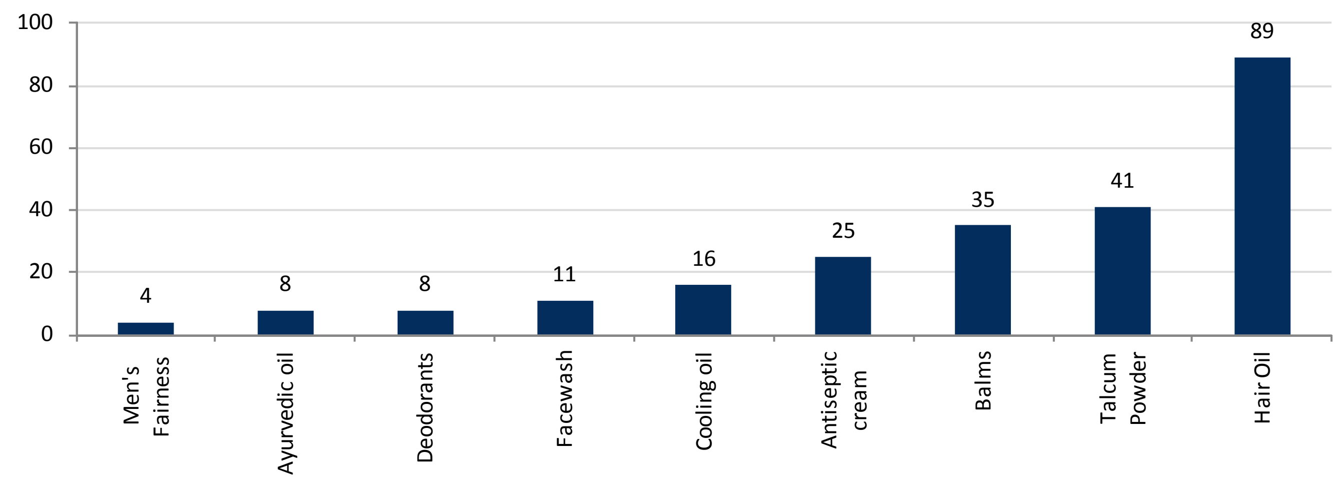
Source: Company, HDFC sec Inst Research

Domestic Market Share



Source: Company, HDFC sec Inst Research

Presence In Low Penetration Categories



Source: Company, HDFC sec Inst Research

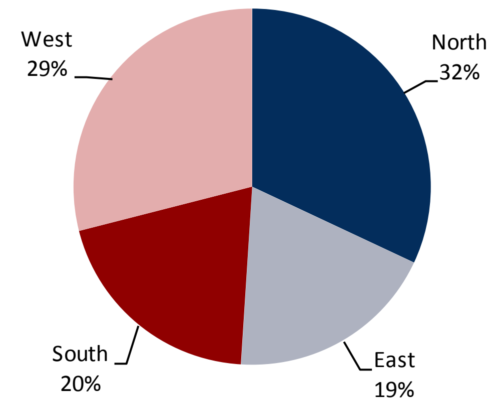
Emami has high dependence on SAARC and MENAP as they contribute ~75% of Emami's international sales

Brand-wise Performance

Domestic Brands Gr. (%)	FY14	FY15	FY16	FY17
Navratna Cooling Oil	3	18	6	3
Boroplus Cream	(2)	11	8	15
Zandu & Mentho plus balm	2	16	12	6
Fair & Handsome	11	15	9	(6)
Navratna Cool Talc	7	32	4	26
HCD	36	25	34	(1)
Kesh King	na	na	na	48
Total	**5**	**19**	**20**	**10**

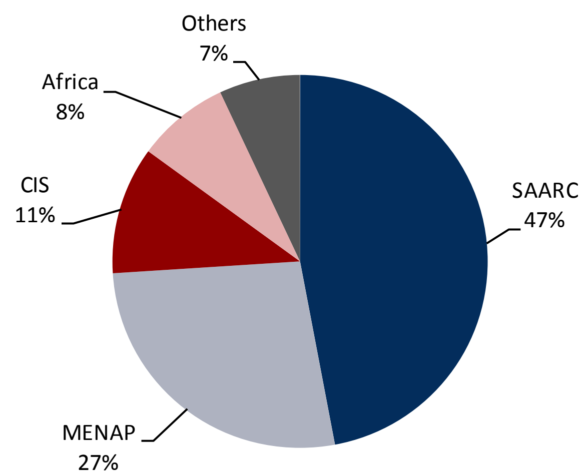
Source: Company, HDFC sec Inst Research

Regional Breakup



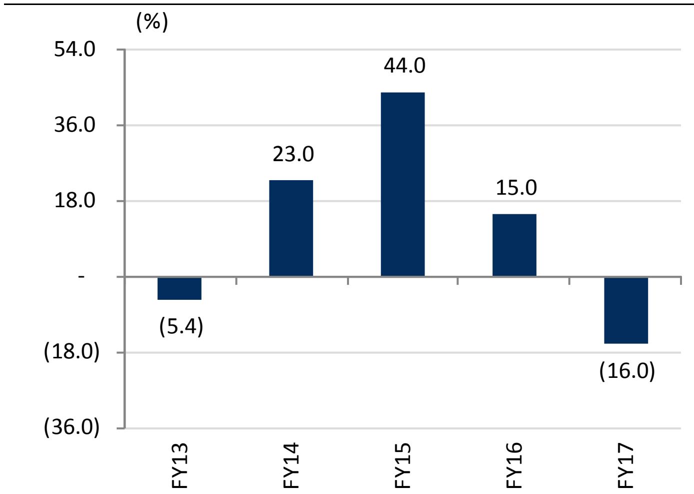
Source: Company, HDFC sec Inst Research

Geographic Breakup



Source: Company, HDFC sec Inst Research

International Performance



Source: Company, HDFC sec Inst Research

Assumptions

Year to March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Revenue Growth (%)					
Domestic	18	10	14	15	15
Navratna oil	6	3	6	14	14
Boroplus cream	8	15	12	13	13
Zandu & Mentho plus balm	12	6	11	14	14
Fair & Handsome	9	(6)	12	18	15
Kesh King		48	12	15	14
International Business	18	(16)	11	18	18
Gross Margin (%)	65	66	66	66	66
ASP (% of sales)	18	17	18	17	18
Distribution (% of sales)	3	3	3	3	3
EBITDA Margin (%)	29	30	29	31	31
Tax Rate (%)	14	20	20	20	20
NPM (%)	22	22	22	24	24

Source: Company, HDFC sec Inst Research

Income Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	**23,970**	**25,326**	**28,750**	**33,265**	**38,287**
Growth (%)	***8.1***	***5.7***	***13.5***	***15.7***	***15.1***
Material Expense	8,507	8,731	9,719	11,379	12,920
Employee Expense	2,078	2,336	2,623	3,016	3,438
ASP Expense	4,305	4,428	5,086	5,809	6,739
Distribution Expense	611	646	733	848	976
Other Expense	1,595	1,594	2,147	2,017	2,319
EBITDA	**6,873**	**7,591**	**8,441**	**10,197**	**11,895**
EBITDA Growth (%)	***28.4***	***10.4***	***11.2***	***20.8***	***16.7***
EBITDA Margin (%)	***28.7***	***30.0***	***29.4***	***30.7***	***31.1***
Depreciation & Amortisation	2,550	3,086	3,172	3,283	3,416
EBIT	**4,324**	**4,505**	**5,270**	**6,913**	**8,479**
Other Income (Including EO Items)	444	311	296	372	552
Interest	539	580	306	61	5
PBT	**4,229**	**4,236**	**5,260**	**7,225**	**9,026**
Tax	598	836	1,071	1,445	1,805
RPAT	**3,635**	**3,400**	**4,190**	**5,780**	**7,220**
Adjustement	1,691	2,111	2,091	2,084	2,084
APAT	**5,326**	**5,511**	**6,281**	**7,864**	**9,305**
APAT Growth (%)	***10.7***	***3.5***	***14.0***	***25.2***	***18.3***
Adjusted EPS (Rs)	**23.5**	**24.3**	**27.7**	**34.6**	**41.0**
EPS Growth (%)	***10.7***	***3.5***	***14.0***	***25.2***	***18.3***

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	227	227	227	227	227
Reserves	15,889	17,320	19,048	21,093	23,393
Total Shareholders Funds	**16,116**	**17,547**	**19,275**	**21,320**	**23,620**
Minority interest	41	14	14	14	14
Long Term Debt	3,000	-	-	-	-
Short Term Debt	3,714	4,619	2,019	0	0
Total Debt	**6,714**	**4,619**	**2,019**	**0**	**0**
Net Deferred Taxes	9	422	422	422	422
Non Current Liabilities	327	368	368	368	368
TOTAL SOURCES OF FUNDS	**23,208**	**22,970**	**22,098**	**22,124**	**24,424**
APPLICATION OF FUNDS					
Net Block	4,706	7,504	8,989	10,974	13,109
CWIP (Including capital advances)	671	129	-	-	-
Goodwill	15,088	12,532	9,926	7,321	4,715
Non Current Investments	355	944	944	944	944
Other Non Current Assets	1,103	451	451	451	451
Total Non-current Assets	**21,923**	**21,559**	**20,310**	**19,689**	**19,218**
Inventories	1,505	1,792	2,034	2,353	2,708
Debtors	1,309	970	1,062	1,183	1,309
Other Current Assets	889	972	1,072	1,172	1,272
Cash & Equivalents	1,204	834	1,181	1,888	4,653
Total Current Assets	**4,907**	**4,567**	**5,348**	**6,596**	**9,942**
Creditors	2,477	1,847	2,056	2,407	2,733
Other Current Liabilities	1,145	1,310	1,504	1,754	2,004
Total Current Liabilities	**3,622**	**3,157**	**3,560**	**4,161**	**4,737**
Net Current Assets	**1,285**	**1,410**	**1,788**	**2,435**	**5,205**
TOTAL APPLICATION OF FUNDS	**23,208**	**22,969**	**22,098**	**22,124**	**24,424**

Source: Company, HDFC sec Inst Research

Cash Flow Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	4,171	4,236	5,260	7,225	9,026
Non-operating & EO Items	663	-	-	-	-
Interest Expenses	539	580	306	61	5
Depreciation	2,101	3,086	3,172	3,283	3,416
Working Capital Change	(542)	139	(2,775)	(2,458)	(505)
Tax Paid	(957)	(836)	(1,071)	(1,445)	(1,805)
OPERATING CASH FLOW (a)	**5,312**	**7,205**	**4,892**	**6,666**	**10,137**
Capex	(18,153)	(2,786)	(1,922)	(2,663)	(2,946)
Free Cash Flow (FCF)	*(12,841)*	*4,419*	*2,970*	*4,003*	*7,191*
Investments	4,260	(589)	-	-	-
Non-operating Income	823	435	-	-	-
INVESTING CASH FLOW (b)	**(13,070)**	**(2,940)**	**(1,922)**	**(2,663)**	**(2,946)**
Debt Issuance/(Repaid)	3,357	(3,000)	-	-	-
Interest Expenses	(519)	(580)	(306)	(61)	(5)
FCFE	(4,921)	685	2,665	3,942	7,186
Share Capital Issuance	3,000	-	-	-	-
Dividend	(818)	(1,867)	(2,462)	(3,735)	(4,921)
Others	13	648	0	-	-
FINANCING CASH FLOW (c)	**5,032**	**(4,799)**	**(2,767)**	**(3,796)**	**(4,926)**
NET CASH FLOW (a+b+c)	**(2,726)**	**(534)**	**203**	**207**	**2,265**
EO Items, Others	(269)	50	56	0	-
Closing Cash & Equivalents	**1,084**	**501**	**648**	**855**	**3,120**

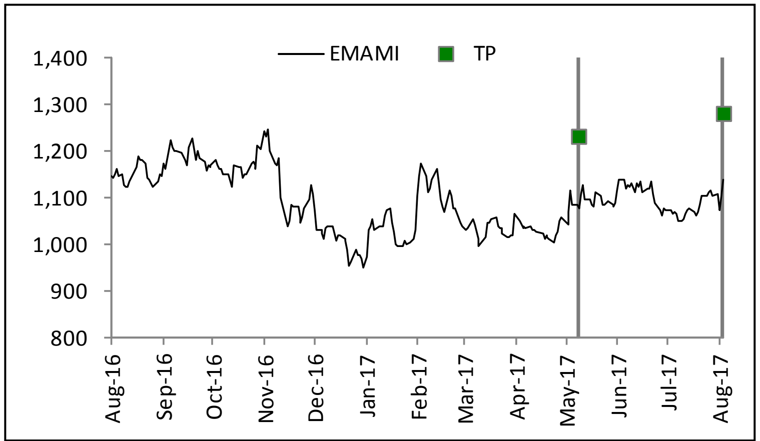
Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	64.5	65.5	66.2	65.8	66.3
ASP (% of sales)	18.0	17.5	17.7	17.5	17.6
EBITDA Margin	28.7	30.0	29.4	30.7	31.1
EBIT Margin	18.0	17.8	18.3	20.8	22.1
APAT Margin	22.2	21.8	21.8	23.6	24.3
RoE	37.5	32.7	34.1	38.7	41.4
RoIC (or Core RoCE)	27.9	16.4	19.5	26.9	33.9
RoCE	20.5	15.7	18.6	25.0	29.1
EFFICIENCY					
Tax Rate (%)	14.1	19.7	20.4	20.0	20.0
Fixed Asset Turnover (x)	5.1	3.4	3.2	3.0	2.9
Inventory (days)	*22.9*	*25.8*	*25.8*	*25.8*	*25.8*
Debtors (days)	*19.9*	*14.0*	*13.5*	*13.0*	*12.5*
Other Current Assets (days)	*13.5*	*14.0*	*13.6*	*12.9*	*12.1*
Payables (days)	*37.7*	*26.6*	*26.1*	*26.4*	*26.1*
Other Current Liab & Provns (days)	*17.4*	*18.9*	*19.1*	*19.2*	*19.1*
Cash Conversion Cycle (days)	1.2	8.3	7.7	6.0	5.3
Net D/E (x)	0.3	0.2	0.0	(0.1)	(0.2)
Interest Coverage (x)	8.0	7.8	17.2	114.1	1,691.0
PER SHARE DATA (Rs)					
EPS	23.5	24.3	27.7	34.6	41.0
CEPS	25.3	26.3	30.2	37.6	44.6
Dividend	7.0	7.0	9.2	14.0	18.4
Book Value	71.0	77.3	84.9	93.9	104.1
VALUATION					
P/E (x)	48.6	47.0	41.2	32.9	27.8
P/BV (x)	16.1	14.8	13.4	12.1	11.0
EV/EBITDA (x)	38.5	34.6	30.8	25.2	21.4
EV/Revenues (x)	11.0	10.4	9.0	7.7	6.6
OCF/EV (%)	2.0	2.7	1.9	2.6	4.0
FCF/EV (%)	(4.9)	1.7	1.1	1.6	2.8
FCFE/Mkt Cap (%)	(1.9)	0.3	1.0	1.5	2.8
Dividend Yield (%)	0.6	0.6	0.8	1.2	1.6

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
9-May-17	1,080	BUY	1,231
3-Aug-17	1,141	BUY	1,301

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:
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