Stock Update

Uptick in sales volume to sustain

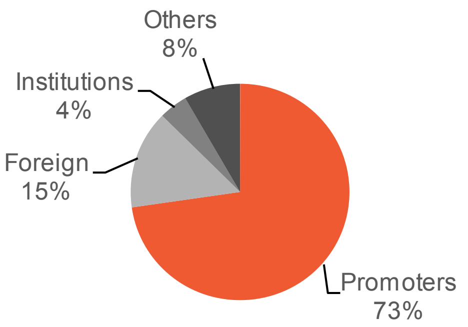
Emami

Reco: Buy | CMP: Rs1,209

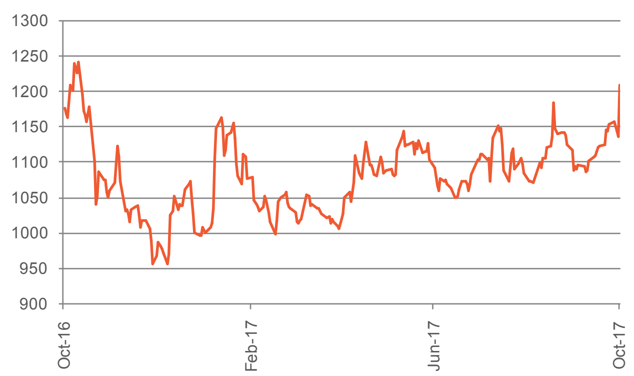
Company details

Price target:	Rs1,355
Market cap:	Rs27,439 cr
52-week high/low:	Rs1,261/937
NSE volume: (No of shares)	1.5 lakh
BSE code:	531162
NSE code:	EMAMILTD
Sharekhan code:	EMAMILTD
Free float: (No of shares)	6.19 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.2	6.5	15.3	0.0
Relative to Sensex	2.6	3.7	3.5	-16.0

Key points

- **Strong recovery-led performance in Q2FY2018:** In Q2FY2018, Emami witnessed 14% growth in its consolidated revenue (on comparable basis), driven by 10% volume growth. The domestic business (83% of consolidated revenue) grew by 14% on account of 10% volume growth (strong recovery from 18% volume decline in Q1FY2018). Further, the international business (14% of the consolidated revenue) grew by 22% on YoY basis during the quarter. On reported basis, revenue grew by ~8% YoY during the quarter. Gross margin on comparable basis improved by 82BPS YoY to 67.3% and OPM improved by 200BPS to 32.0% on account of lower other expenses. Operating profit grew by 14.9% YoY to Rs.201.3 crore. This along with lower interest cost and lower incidence of tax resulted in 22.0% YoY growth in adjusted PAT to Rs.146.9 crore (ahead of our expectation of Rs.102.2 crore).

- ***Boroplus* Cream and *7-in-one* oils continue to perform well; *Navratna* saw recovery in sales:** *Boroplus* range grew by 38%, driven by strong double-digit growth in *Boroplus* antiseptic cream. *Navratna* range grew by 16%, led by double-digit volume growth in cooling oil and cool talc. *7-in-one* oil continued to gain good traction and registered double-digit volume growth during the quarter. Male grooming range of products (including *Fair and Handsome*) grew by 12% in Q2FY2018. *Kesh King* range of products declined by 16% due to distribution-led issues, while volumes of *Zandu Pancharishtha* declined by 13% during the quarter.

- **Outlook – Revenue to grow in double digits in H2FY2018, profitability to be stable:** Post GST-led disruption, domestic business volume growth of Emami recovered to 10% in Q2FY2018, with about 75% of wholesale channels across the country back in business. Management expects restocking at the wholesale level to continue and expect it to get normalise by end of the current fiscal. In addition, recovery in rural demand should help in achieving revenue growth of 16-18% (driven by 11-13% volume growth) in H2FY2018. On the international front, revenue growth is expected to be at 16-18%, as SAARC and African markets are expected to perform well in the coming quarters. Operating margins are likely to be maintained in the coming quarters and should stand at about 30% in FY2018.

- **Earnings visibility intact; Retain Buy with a revised price target of Rs.1,355:** We have broadly maintained our earnings estimates and reiterate our stance that H2FY2018 will be much better than H1FY2018 in terms operating performance. Going ahead, the sustenance of new product additions in key categories, 10-15% increase in direct distribution reach, recovery in rural demand and improved category penetration would help Emami in achieving double-digit revenue and earnings growth in the near to medium term. In addition, the stock is trading at discounted valuations of 34x its FY2019E earnings to some of the mid and large-size FMCG companies. Hence, we maintain our Buy rating on the stock with a revised price target of Rs.1,355 (valuing the stock at 38x its FY2019E earnings).

Valuation (Consolidated) Rs cr

Particulars	FY2015	FY2016	FY2017	FY2018E	FY2019E
Net Sales	2217.2	2397.6	2532.6	2728.4	3269.5
Operating Profit	540.1	687.3	759.1	799.5	984.8
Adjusted PAT	484.8	533.7	549.8	625.2	809.1
EPS (Rs.)	21.4	23.5	24.2	27.5	35.6
OPM(%)	24.4	28.7	30.0	29.3	30.1
PE(X)	56.6	51.4	49.9	43.9	33.9
EV/EBIDTA (X)	49.3	40.7	36.6	34.1	27.2
RoE(%)	44.8	37.5	32.6	33.6	37.5
RoCE(%)	53.7	38.2	31.9	35.8	43.8

Results (Consolidated) Rs cr

Particulars	Q2FY18*	Q2FY17	YoY (%)	Q1FY18	QoQ (%)
Total revenue#	628.1	583.5	7.6	541.1	16.1
Total expenditure	426.8	411.9	3.6	460.9	-7.4
Operating profit	201.3	171.6	17.3	80.2	151.1
Other income	5.3	8.7	-38.3	6.5	-17.6
Interest expenses	10.4	16.0	-35.0	7.9	30.9
Depreciation	14.6	11.1	31.8	15.3	-4.3
Profit before tax	181.7	153.2	18.6	63.5	186.3
Tax	34.7	36.6	-5.0	14.7	135.6
Adjusted PAT	147.0	116.6	26.0	48.7	201.6
Extra-ordinary gain / loss	-48.4	-54.4	-	-47.8	
Reported PAT	98.6	62.2	58.4	0.9	-
Adjusted EPS (Rs.)	6.5	5.1	26.0	2.1	201.6
Gross margins (%)	67.3	66.5	82BPS	63.6	368BPS
OPM (%)	32.1	29.4	265BPS	14.8	-

*Q2FY2018 is the first quarter under GST implementation
#Under the GST regime, revenue is calculated net of GST and, hence, is not comparable on YoY basis

Q2FY2018 result snapshot (On comparable basis)

Particulars	Q2FY18	Q2FY17	YoY (%)
Total revenue	712.5	625.3	13.9
GST/VAT	84.4	41.8	101.9
Net revenue	628.1	583.5	7.6
Total expenditure	426.8	408.3	4.5
Operating profit	201.3	175.2	14.9
Profit before tax	181.6	156.8	15.8
Tax	34.688	36.4	-4.7
Adjusted PAT	146.912	120.4	22.0
Extra-ordinary gain / loss	48.32	54.4	-11.2
Reported PAT	98.6	66	49.4
Adjusted EPS (Rs.)	4.3	2.9	49.4
Gross margins (%)	67.3	66.5	82BPS
OPM (%)	32.0	30.0	202BPS

Key highlights of the conference call

- **Healthcare posted subdued growth but will see recovery ahead:** During Q2FY2018, the company's healthcare range grew by 2% due to subdued performance of *Panchrishtha* (volumes declined by 13%). However, general and ethicals posted double-digit volume growth. The company is coming up with new ad campaigns for *Panchrishtha* and will be revamping the brand. The company is planning to launch new products (largely OTC) in the next two quarters, mainly from the healthcare range (with supporting media campaigns), which would boost growth momentum.

- **Distribution shift to direct retail from wholesale continues:** In line with its strategy of reducing dependency on the wholesale channel, Emami increased its direct retail reach by 60,000 outlets in H1FY2018 and reached a total of 7.9 lakh direct retail outlets by the end of H1FY2018. The company wants to reach about 8.3 lakh direct retail outlets by the end of FY2018. By doing so, Emami wants to reduce business generated from the wholesale channel (which has gone down to 42% from 50% earlier) to 40% by FY2018 and 35% by FY2019. Modern trade currently contributes about 5% of Emami's overall revenues. The focus will be on increasing the dependence on modern trade in the medium to long term.

- **New product launches remain key growth drivers:** In Q2FY2018, Emami launched *BoroPlus Zero Oil Zero Pimple* face wash. Earlier launches such as *Zandu Spray, Zandu Gel* and *Zandu Roll* are also performing well and have seen good consumer traction. During Q2FY2018, the company also launched few SKUs in its *Navratna* range of products (cool oil, cool talc and i-COOL Blast). Moreover, Emami launched *Fair and Handsome Laser 12 Advanced Whitening and Multi Benefit* cream and an ammonia-free *Diamond Shine Luxury Crème* hair colour during the quarter. Management aims to launch more products in Q3FY2018/Q4FY2018, which will add to its overall revenue for FY2018.

- **International business grew in double digits:** The international business grew by 22% during Q2FY2018, led by robust performance in South Asian Association for Regional Cooperation (SAARC) and African markets. Middle East, North Africa and Pakistan (MENAP) posted high single-digit growth. The company has also gained market share across most of its portfolio. Performance of the international business during Q2FY2018 was ahead of the company's expectations. In H2FY2018, management expects the international business to grow by 16-17% YoY in the coming quarters.

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