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CHOLA SECURITIES

Emami

BUY

Sector: FMCG /Mid-Cap | Earnings Update – 3QFY18

31 January 2018

Background: Emami is a FMCG company with niche focus on relatively under penetrated segments such as antiseptic cream, fairness cream, talcum powder, cooling oil, pain balm and pain reliever. Emami's power brands such as Navratna Oil, Boroplus Cream, Zandu & MenthoPlus Balm, Fair & Handsome, Boroplus Powder, Navratna Cool Talc, Fast Relief, SonaChandi & Zandu accounts for 75% of company's sales. Emami sales and cash PAT have grown at a CAGR of 11.4% and 11.3% respectively (FY12-17). Geographical breakup of sales: North (29%), West (27%), South (23%) and East (21%). Export contributes ~10.4% of total revenue. Company has 3,000+ distributors, 740,000+ retail outlets and brand reach of 4mn outlets. Most of the domestic sales are on cash basis.

Sensex	35,954
Nifty	11,049
Price	INR 1,142
Target Price	INR 1,476
Recommendation	BUY

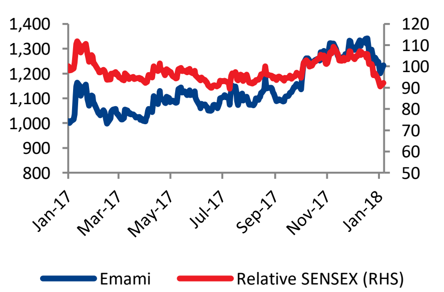
52 Week High/Low	INR 1,428/990.1
Bloomberg / Reuters	HMN IN /EMAM.BO
Equity (shares in mn)	226.97
Mkt. Cap in bn	INR 259.2/$ 4.1
Avg. Daily Vol. ('000)	168.41
Avg. Daily Vol. (mn)	INR 192.3/$ 3.0

Shareholding	**Dec 16**	**Sep 17**	**Dec 17**
Promoters (%)	72.74	72.74	72.74
FII (%)	16.33	14.43	13.92
DII (%)	2.77	4.19	4.86
Others (%)	8.16	8.64	8.48
Pledge (% of promoter holding)	28.93	29.53	29.07

Valuation Summary (INR bn)

Y/E March	**2018E**	**2019E**	**2020E**
Revenue	26.0	30.0	34.5
EBITDA	7.6	8.8	10.3
Adj PAT	3.4	4.1	4.9
Adj EPS	14.9	17.8	21.6
% growth	-0.7	19.8	21.0
PE	76.7	64.0	52.9
P/ BV	13.6	12.1	10.5
EV/EBITDA	34.7	29.9	25.5
EV/Sales	10.1	8.7	7.6
Div Yield (%)	0.8	0.9	1.1
ROE (%)	28.9	31.6	33.4

Performance %	**1M**	**3M**	**12M**
Emami	-6.1	-0.8	22.2
Sensex	6.5	9.4	30.1



Results below expectation, but outlook still positive

- Reported consolidated revenue grew by 4.2% YoY & 20.5% QoQ to INR 7,566mn; on like to like basis (including GST/VAT & excise duty), revenue grew 10% YoY aided by the volume growth of 6%.
- Domestic business grew 10% YoY, with volume growth of 6% YoY; International business grew by 16% YoY led by robust performance in MENAP, CIS and SEA market. CSD de-grew 2% YoY.
- In 3QFY18, Boroplus range grew 10% YoY led by double digit growth in antiseptic cream (despite high base) and maintained market share of 67.5%; Navratna range grew 15% YoY, led by double digit volume growth in cooling oils and market share increased by 130bps to 61.8%. Pain management business grew 17% YoY, due to double digit growth in Balm and new product launches.
- Male grooming range grew 22% YoY, led by double digit volume growth in F&H cream. Market share of F&H cream and face wash increased by 250bps and 210bps to 62.1% and 13.8% respectively. HE range witnessed a double digit volume growth. Zandu Healthcare (ZHC) revenue de-grew by 3% YoY due to subdued performance of Zandu Pancharishta. Kesh King declined 19% YoY in 3QFY18, due to higher exposure to wholesale channel (~75% of Kesh King revenue), In order to improve the Kesh King's performance, management are taking corrective measures such as introducing new schemes and increasing direct distribution. Management has reiterated that Kesh King sales has bounced back in the month of January 2018.
- Gross margin expanded 152bps YoY to 69.2%; EBITDA at INR 2,647mn up 2.4% YoY; EBITDA margin down 63bps YoY to 35%. A&P expense (% of sales) higher 130bps YoY to 17.1% and other operating expenses higher by 60bps YoY; Employee cost increased by 20bps YoY. Depreciation & amortization de-grew by 2.1% YoY to INR 800mn. Interest expense de-grew by 27.4% YoY to INR 92mn. Tax expense stood at INR 338mn down 11.2%. APAT grew by 9.6% YoY to INR 1,471mn; APAT margin stood at 19.4%.

Valuation: We introduce FY20E estimates Revenue/EPS 15% / 21% YoY. At CMP, Emami is trading at a P/E multiple of 64XFY19E and 52.9XFY20E. In terms of EV/Sales, Emami is quoting at 8.7XFY19E and 7.6XFY20E. We have valued Emami at EV/Sales of 9.8X FY20E with a **BUY** rating and a target price of INR 1,476. **Risks:** Sharp rise in the menthol price & crude derivatives could adversely impact the margin.

Results Summary 3QFY18

Y/E March (INR mn)	**3QFY18**	**3QFY17**	**YoY Growth**	**2QFY18**	**QoQ Growth**
Revenue	7,566	7,260	4.2%	6,281	20.5%
EBITDA	2,647	2,585	2.4%	2,013	31.5%
Depreciation	800	817	-2.1%	750	6.6%
Other Income	92	127	-27.4%	104	-11.0%
PBT	55	82	-32.4%	53	3.4%
Tax	338	381	-11.2%	227	49.3%
PAT	1,471	1,342	9.6%	987	49.0%
Adjusted PAT	1,471	1,342	9.6%	987	49.0%
EBITDA Margin	35.0	35.6		32.1	
Tax Incidence	18.7	22.1		18.7	
PAT Margin	19.4	18.5		15.7	

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