

Sector: Consumer Goods
Result Update

	Change
Reco: Hold	↔
CMP: Rs. 312	
Price Target: Rs. 352	↓

↑ Upgrade ↔ No change ↓ Downgrade

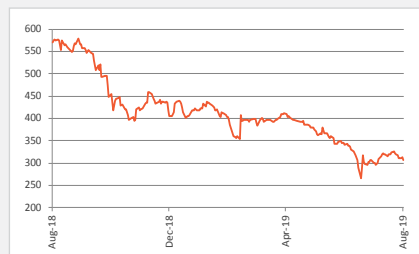
Company details

Market cap:	Rs. 14,072 cr
52-week high/low:	Rs. 586/246
NSE volume: (No of shares)	9.0 lakh
BSE code:	531162
NSE code:	EMAMILTD
Sharekhan code:	EMAMILTD
Free float: (No of shares)	21.5 cr

Shareholding (%)

Promoters	52.7
FII	12.2
DII	25.1
Others	9.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.6	-16.5	-21.3	-45.4
Relative to Sensex	9.1	-13.5	-21.4	-44.6

Sharekhan Research, Bloomberg

Emami's consolidated revenue grew by ~6% in Q1FY2020, as international business grew by a strong ~34% (organic growth was 10%), while the domestic business grew by just 2%. Healthcare and male grooming categories continued to underperform and Boroplus saw a non-seasonal dip in revenue. Kesh King and 7-in-one oils saw strong double-digit growth in revenue led by company initiatives undertaken in the past 3-4 quarters. Recovery in monsoon might help Emami recover its performance in H2FY2020. Promoter pledged shares amounting to ~25% of share capital remain a key headwind. We maintain our Hold recommendation on the stock.

Key positives

- Kesh King and 7-in-one-oils grew by 30% and 31%, respectively, as they gained market share.
- International business grew by 34% with organic business growing by 10%, led by strong growth in SAARC and MENAP regions.
- OPM improved by 109 bps to 20.7%, mainly on account of lower advertisement and promotional spends.

Key negatives

- Domestic business grew by just 2% as categories such as male grooming, antiseptic creams, healthcare and pain management categories saw decline in revenue.
- Higher input prices dragged down gross margins by 209 bps.
- Promoter's pledged shares stands at about 25% of overall share capital.

Our Call

Valuation: We have reduced earnings estimates by 2.4% and 2.2% respectively for FY2020 and FY2021, to factor in the lower growth in the domestic business. Ayurveda oil brand Kesh King has seen a strong recovery in performance post strategic initiatives undertaken by the company. However, growth in healthcare and male grooming categories is yet to revive. Also, seasonality remains one of the key decisive factors for Emami's product portfolio to perform well. Hence, we expect that a revival will take some time and maintain our Hold recommendation with a revised price target (PT) of Rs. 352, valuing the stock at 22x its FY2021E earnings.

Key Risks

Emami's product portfolio is seasonal in nature and hence any seasonal vagaries would affect the performance in the near to medium term.

Valuation (Consolidated)

Particulars	Rs cr				
	FY17	FY18	FY19	FY20E	FY21E
Revenues	2,533	2,541	2,693	2,969	3,495
OPM (%)	30.0	28.3	26.9	27.1	27.6
Adjusted PAT	549	502	513	595	727
% YoY growth	3.0	-8.5	2.2	15.9	22.3
Adjusted EPS (Rs.)	12.1	11.1	11.3	13.1	16.0
P/E (x)	25.8	28.1	27.7	23.8	19.5
P/B (x)	4.0	3.5	6.8	6.4	6.0
EV/EBIDTA (x)	19.1	19.7	19.3	17.2	14.0
RoNW (%)	32.6	26.7	25.1	27.8	31.9
RoCE (%)	31.9	28.3	28.8	33.4	40.3

Source: Company, Sharekhan Estimates

Revenue grows in single digits, volumes stay flat; lower ad spends helped margin expansion: In Q1FY2020, consolidated revenue grew by 6% y-o-y to Rs. 648.6 crore, largely driven by 34% growth in the international market with significant contribution from the SAARC and MENAP regions and the recently-acquired German brand – Crème 21 (organic growth stood at 10%). Domestic revenue grew by just 2% y-o-y, completely led by prices as volumes remained flat due to sluggishness in the wholesale channel, weak rural sentiments and adverse liquidity conditions. Gross margins declined by 209 bps y-o-y to 64.2% as raw material prices increased (including those of menthol and LLP). However, lower advertisement spends (down by 332 bps y-o-y as a percentage of sales) led to a 109 bps rise in OPM to 20.7%, which was ahead of our expectation of 18.7%. Operating profit increased by 11.4% y-o-y to Rs. 134.1 crore. Other income jumped from Rs. 5 crore in Q1FY2019 to Rs. 11.5 crore in Q1FY2020, as a rise in cash balances drove up interest income. A substantial rise in other income and lower depreciation expenses led to a 20% growth in adjusted profit to Rs. 89.8 crore (ahead of ours as well as the street's expectation). Reported PAT came in at Rs. 39.1 crore due to exceptional items, which include a post-tax amortisation cost of Rs. 50.6 crore towards the Kesh King brand.

Kesh King grew strongly, other key categories declined; International business continues to grow in double digits: The Navratna range of cooling oils grew by 4% y-o-y in Q1FY2020 backed by new TV commercials with volume market share increasing by 60 bps to 66.8%. Kesh King hair oil registered a strong growth of 30% y-o-y in revenue, with volume market share growing by 190 bps to 26%. The 7-oils-in-one brand also grew by 31% supported by the launch of a new 300ml SKU. Revenue from pain management products declined by 6%. However, Mentho Plus balm reached the number two position in the market during the quarter. The healthcare range declined by 3% y-o-y. The Boroplus range of antiseptics declined by 7% y-o-y, Q1 being seasonally weak for the brand. Revenue from the male grooming range declined by 7% y-o-y, during the quarter. However, fairness creams maintained a leadership position with a volume market share of 64.6%. The company launched the HE Magic Duo, a unique deodorant that packs two fragrances in one bottle recently supported by new thematic campaigns. Revenue from canteen stores department (CSD) declined by 4%. International business revenue grew by 34% y-o-y in Q1FY2020, largely on account of a strong performance in the SAARC and MENAP regions. Excluding the recently-acquired German brand – Crème 21 - growth stood at 10%. Emami continued to gain market share for the Navratna and Fair & Handsome brands in Bangladesh and UAE.

Other conference call highlights:

- ◆ The modern trade channel which contributes ~9% to total revenue grew by 17% in Q1FY2020. Urban grew by 2.5 times the rural.
- ◆ The management expects input cost pressure to ease gradually with softening crude and mentha prices. Thus, GPM is expected to sustain on y-o-y basis in Q2 and improve in H2FY2020.
- ◆ Kesh King has bounced back after its relaunch and is expected to grow in the range of ~15-17%.
- ◆ The balms category is expected to grow by ~6-7% as the monsoon has set in and the company expects to push the category with consumer offers.
- ◆ Zandu Pancharisht declined by 12% in Q1FY2020 and is not expected to bounce back in the coming quarters.
- ◆ Crème 21 contributes ~17% to the international business, which is expected to grow by ~15% in FY2020.
- ◆ The company expects the promoter's pledge to decline significantly in the next 6-9 months which stands at 25% of total share capital as on date.

Results (Consolidated)

Particulars	Rs cr				
	Q1FY20	Q1FY19	Y-o-Y (%)	Q4FY19	Q-o-Q (%)
Net revenue	648.6	614.3	5.6	639.6	1.4
Raw materials	232.4	207.3	12.1	250.8	-7.3
Employee costs	77.3	70.4	9.8	68.1	13.5
Ad promotions	129.1	142.6	-9.5	99.0	30.4
Other expenses	75.7	73.6	2.9	67.1	12.9
Operating profit	134.1	120.4	11.4	154.7	-13.3
Other income	11.5	5.0	128.0	17.3	-33.4
Finance costs	4.4	4.6	-5.0	6.2	-30.0
Depreciation	20.4	23.0	-11.2	16.0	27.6
Tax	30.4	22.4	35.2	41.0	-26.0
Minority interest	-0.8	-0.5	-	-0.7	-
Adjusted PAT after MI	89.8	74.9	19.8	108.1	-17.0
Extra-ordinary items	50.6	48.6	4.3	52.0	-2.7
Reported PAT	39.1	26.4	48.3	56.1	-30.3
Adjusted EPS (Rs.)	2.0	3.3	-39.9	2.4	-16.8
			BPS		BPS
GPM (%)	64.2	66.3	-209	60.8	337
OPM (%)	20.7	19.6	109	24.2	-351

Source: Company; Sharekhan Research

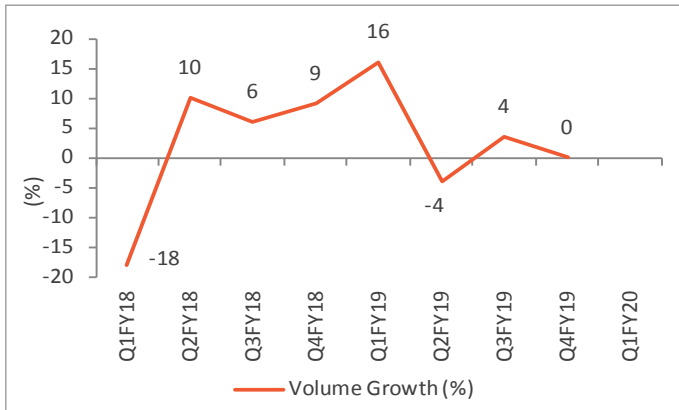
Result Snapshot (Standalone)

Particulars	Rs cr				
	Q1FY20	Q1FY19	Y-o-Y (%)	Q4FY19	Q-o-Q (%)
Net revenue	588.6	574.9	2.4	578.0	1.8
Operating profit	129.6	123.9	4.6	139.9	-7.4
Adjusted PAT	133.2	88.9	49.9	100.4	32.6
Extra-ordinary items	50.6	48.5	4.3	51.9	-2.5
Reported PAT	82.6	40.3	104.8	48.5	70.1
Adjusted EPS (Rs.)	2.9	2.0	49.9	2.2	32.6
			BPS		BPS
GPM (%)	63.3	65.4	-216	59.1	420
OPM (%)	22.0	21.6	46	24.2	-219

Source: Company; Sharekhan Research

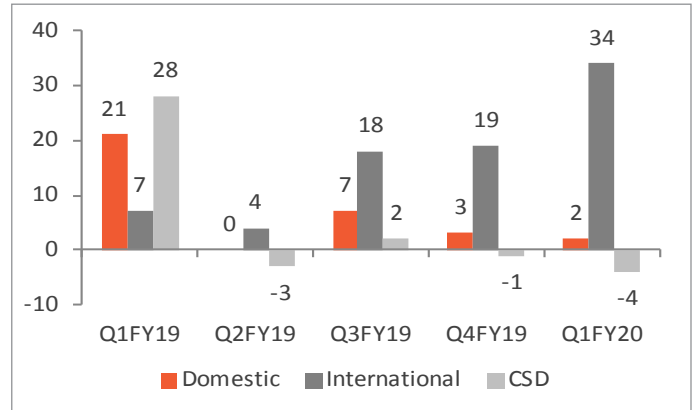
Financials in charts

Domestic volumes stood flat in Q1



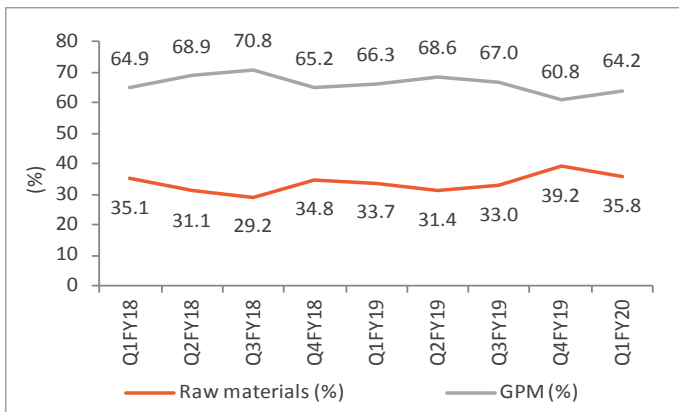
Source: Company, Sharekhan Research

International business grew by 34%



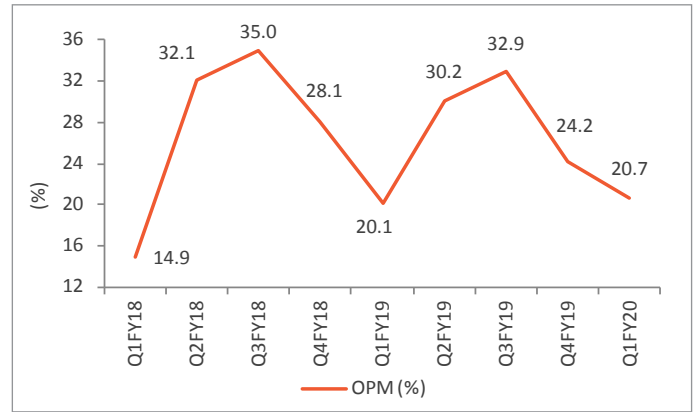
Source: Company, Sharekhan Research

GPM declined by 209 BPS y-o-y



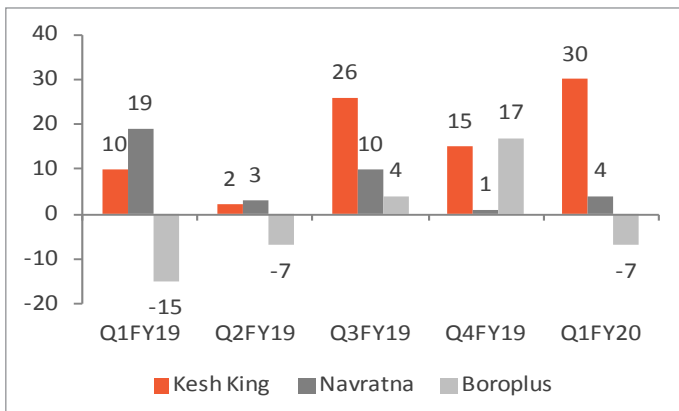
Source: Company, Sharekhan Research

OPM came in at 20.7%



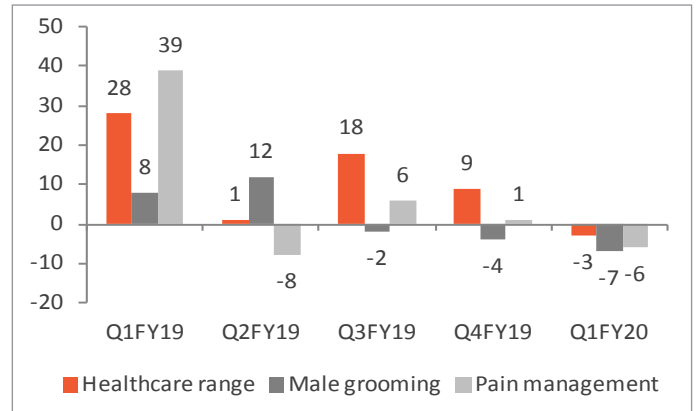
Source: Company, Sharekhan Research

Kesh King registered strong growth of 30%



Source: Company, Sharekhan Research

Other key categories had a subdued quarter



Source: Company, Sharekhan Research

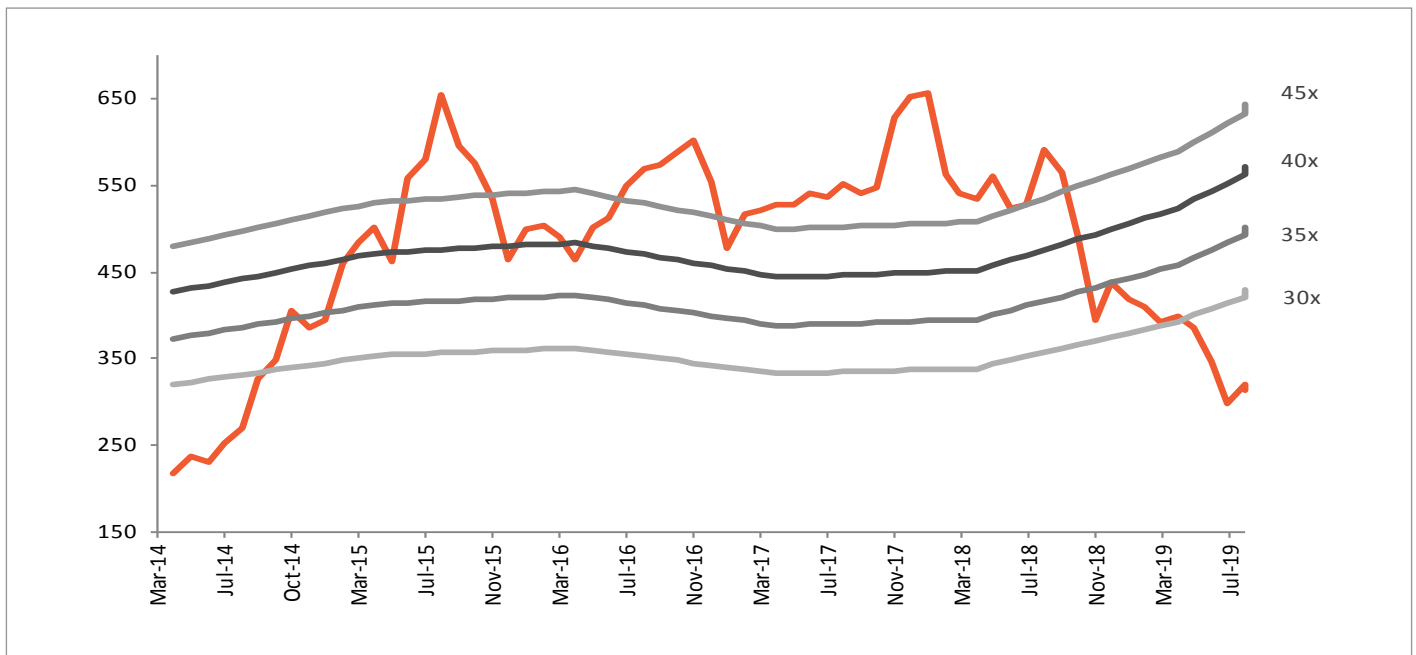
Outlook

Consolidated revenue grew by just 6%, owing to mere 2% growth in the domestic market. Though the international business performed well, key categories including male grooming and pain management products had a subdued quarter. Going ahead, the management is focusing on redefining strategies for male grooming products (recovery expected in H2FY2020), improving growth prospects of the international business, strategic cost reduction and regaining strong growth in healthcare categories. However, the initiatives undertaken will take some time to result in desired results due to a slowdown in domestic demand. The management expects a recovery in rural growth in the coming quarters. Declining raw material prices, a better revenue mix and cost-saving initiatives would help OPM remain at 27-28% in FY2020. Improvement in domestic volume growth would be a key monitorable.

Valuation

We have reduced earnings estimates by 2.4% and 2.2% respectively for FY2020 and FY2021, to factor in the lower growth in the domestic business. Ayurveda oil brand Kesh King has seen a strong recovery in performance post strategic initiatives undertaken by the company. However, growth in healthcare and male grooming categories is yet to revive. Also, seasonality remains one of the key decisive factors for Emami’s product portfolio to perform well. Hence, we expect that a revival will take some time and maintain our Hold recommendation with a revised price target (PT) of Rs. 352, valuing the stock at 22x its FY2021E earnings.

One year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Dabur	51.7	45.8	38.4	43.2	37.0	30.9	28.1	30.6	31.1
Marico	52.1	42.4	36.4	38.1	30.2	25.8	40.9	44.3	44.4
Emami	27.7	23.8	19.5	19.3	17.2	14.0	28.8	33.4	40.3

Source: Company, Sharekhan estimates

About company

Emami is one of the leading FMCG companies that manufactures and markets personal care and healthcare products. With over 300 diverse products, the company's portfolio includes brands such as Navratna, Boroplus, Fair & Handsome and Zandu Balm. With the acquisition of Kesh King, the company forayed into the ayurvedic hair care segment. Emami has a wide distribution reach in over 4.5 million retail outlets through 3,200 distributors. The company has a strong international presence in over 60 countries in Europe, Africa, Middle East and SAARC regions.

Investment theme

Emami has a portfolio of strong brands largely catering to low penetrated categories in the domestic market. However, most of these are prone to seasonal vagaries, affecting growth in the domestic business. The company has taken various initiatives for key categories to improve growth prospects. Ayurvedic hair oil brands Kesh King and 7-in-one oil have seen a revival in performance but the Zandu healthcare portfolio is yet to recover. Thus, in view of the near-term headwinds, Emami's revenue and PAT growth will be lower than some of its mid-cap peers.

Key Risks

- ◆ Slowdown in the domestic consumption demand (especially in the rural market) would result in muted numbers for Emami in the near to medium term.
- ◆ Emami's product portfolio is prone to seasonal vagaries and hence remains key risk to the category performance.
- ◆ Promoters have pledged shares of ~25% of share capital.

Additional Data

Key management personnel

R S Agarwal	Chairman
Sushil K Goenka	Managing Director
R S Goenka	Executive Director
A K Joshi	Vice President and Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Diwakar Viniyog Pvt Ltd	10.9
2	Suntrack Commerce Pvt Ltd	10.8
3	Prabhakar Viniyog Pvt Ltd	9.8
4	Bhanu Vyapaar Pvt Ltd	9.6
5	SBI Funds Management Pvt Ltd	8.7
6	Raviraj Viniyog Pvt Ltd	4.7
7	Suraj Viniyog Pvt Ltd	4.4
8	Aditya Birla Sun Life Asset Management	3.1
9	L&T Mutual Fund Trustee Ltd	3.0
10	Sureka Priti A	2.6

Source: Bloomberg

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