

Expect gradual improvement; upgrade to Accumulate

- Emami's Q4FY20 results were below our estimate. Domestic business declined 19%, while IB posted 4% revenue de-growth. Weak rural demand coupled with liquidity concerns prior to lockdown; and supply chain disruption from mid-March due to Covid-19 resulted in sales decline.
- Though GT was under pressure, MT grew by 26% and E-com jumped 167% during the quarter. MT/e-com contribution increased from 9/0.5% last year to 12/1%+ in FY20. The company plans to double E-com contribution in FY21E with distinct products and SKU's.
- Management expects to sustain IB momentum with double digit growth in FY21E led by new launches.
- We believe that competition in Emami's key product categories, such as skin, health care, and hair oil, will continue to remain high. Although, we remain optimistic about the favorable base, we believe that the business environment for Emami will remain challenging, given intense competition. Although RM costs are expected to remain stable, liquidity crunch at the wholesale level may hamper performance. As most of the negatives are factored in the stock price, we upgrade the rating to Accumulate with TP of Rs 241 (17x FY22E CEPS).

Results below estimate

Net sales fell 16.8% YoY to Rs 5.3bn in Q4FY20. A 430 bps decline in RM costs was completely offset by 310/290/410bps increase in A&P/employee expense/other exp respectively. Consequently, EBITDA margin contracted 580bps to 18.5%. EBITDA declined 36.6% YoY to Rs 985mn. RPAT declined 58.4% to Rs 234mn. Excluding exceptional item related to unrecoverable assets of Rs 74mn on account of closure of operations of subsidiary Fravin Pty Ltd, the APAT declined 45.2% YoY to Rs 308mn.

Gain in market share

In Q4FY20, Emami gained (10bps, 140bps, 130bps, and 30bps) market share in key categories, Navratna oils, Kesh King, Pain management and Boroplus to 66.4%, 26.6%, 54.9%, and 74.1%, respectively. Further, the company continues to gain market share in Bangladesh (Navratna, F&H, 7 Oils in one), UAE (Navratna, F&H) and Russia (Boroplus). The company has reached almost 75% of its outlets during June, we believe that the growth would increase significantly in the near term.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	5,327	6,404	(16.8)	8,126	(34.5)
Total Expense	4,342	4,849	(10.5)	5,486	(20.9)
EBITDA	985	1,554	(36.6)	2,640	(62.7)
Depreciation	852	810	5.2	856	(0.4)
EBIT	133	744	(82.1)	1,785	(92.6)
Other Income	145	166	(12.4)	156	(7.0)
Interest	24	62	(61.2)	49	(51.1)
EBT	180	848	(78.8)	1,859	(90.3)
Tax	(74)	280	(126.3)	398	(118.5)
RPAT	234	561	(58.4)	1,444	(83.8)
APAT	308	561	(45.2)	1,477	(79.2)
			(bps)		(bps)
Gross Margin (%)	65.2	60.8	432	68.2	(307)
EBITDA Margin (%)	18.5	24.3	(578)	32.5	(1399)
NPM (%)	4.4	8.8	(438)	17.8	(1339)
Tax Rate (%)	(41.1)	33.0	(7407)	21.4	(6248)
EBIT Margin (%)	2.5	11.6	(913)	22.0	(1947)

CMP	Rs 206
Target / Upside	Rs 241 / 17%
BSE Sensex	34,969
NSE Nifty	10,312

Scrip Details

Equity / FV	Rs 453mn / Rs 1
Market Cap	Rs 93bn
	USD 1bn
52-week High/Low	Rs 358/Rs 131
Avg. Volume (no)	908,342
NSE Symbol	EMAMILTD
Bloomberg Code	HMN IN
Shareholding Pattern Mar'20(%)	
Promoters	52.7
MF/Banks/FIs	25.5
FII's	12.1
Public / Others	9.7

Valuation (x)

	FY20A	FY21E	FY22E
P/E	29.8	31.2	26.2
EV/EBITDA	13.5	13.4	11.4
ROE (%)	15.5	15.7	17.1
RoACE (%)	16.0	15.5	16.8

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	26,549	26,130	28,928
EBITDA	6,905	6,896	7,953
PAT	3,136	2,992	3,568
EPS (Rs.)	6.9	6.6	7.9

VP Research: Sachin Bobade

Tel: +91 22 40969731

E-mail: sachinb@dolatcapital.com

Associate: Nikhat Koor

Tel: +91 22 40969764

E-mail: nikhatk@dolatcapital.com

Exhibit 1: Q4FY20 Actual V/s DART estimates

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	5,327	5,757	(7.5)	Disruption due to lockdown was higher than our estimate
EBITDA	985	1,375	(28.4)	
EBITDA margin %	18.5	23.9	(540)	Advertisement and other expenses were higher than our estimates
APAT	308	503	(38.8)	

Source: Company, DART

Exhibit 2: Change in estimate

Rs Mn	FY21E			FY22E		
	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenue	26,130	29,764	(12.2)	28,928	31,798	(9.0)
EBITDA	6,896	8,108	(14.9)	7,953	8,789	(9.5)
EBITDA Margin	26.4	27.2	-80bps	27.5	27.6	-10bps
APAT	2,992	3,906	(23.4)	3,568	4,232	(15.7)
EPS	6.6	8.6	(23.4)	7.9	9.3	(15.7)

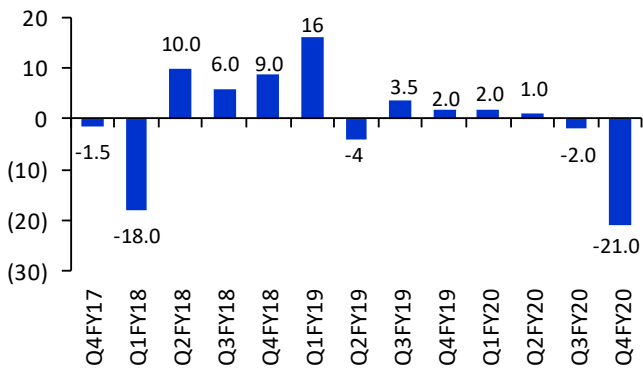
Source: DART, Company

We have downward revised our revenue estimates to factor in extended lockdown and anticipated slow recovery in the wholesale channels. Despite stable RM environment, we have lowered our EBITDA margin estimates to factor in lower operating leverage in challenging business environment in FY21E. Nevertheless, we have broadly maintained FY22E EBITDA margins.

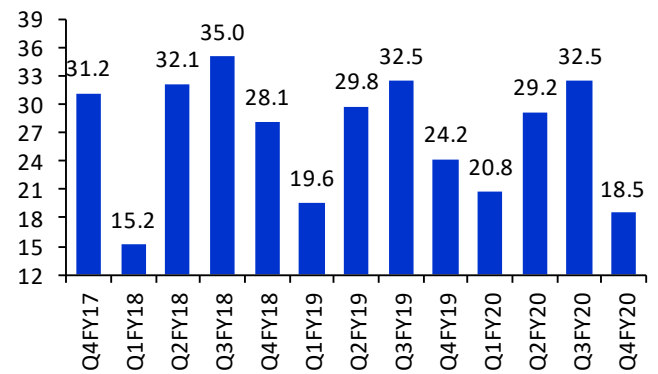
Concall Key Takeaways

- Softening RM costs (menthol) and cost control measures are expected to aid margins. Management expects 100bps gross margin expansion in FY21E.
- Traditional channel continued to be impacted in domestic business. However, Modern trade/ E-com grew 26% and 167% YoY respectively in Q4FY20. MT accounted for 12% sales in Q4FY20. E-com contribution increased to >1% in FY20 from 0.5% in FY19.
- Company expects to double the E-com contribution in FY21E. It has launched specific SKU's and formed a separate team for E-com.
- Company has higher exposure in rural and expects government schemes like MGNREGA and good harvest to augur well for rural. Smaller towns are currently growing faster than urban.
- Emami launched BoroPlus Hand Sanitizer in April 2020 and recently expanded BoroPlus range of hygiene products to Antiseptic & Moisturizing Soaps and Handwashes. Over the next few months, company plans to launch more products in health and hygiene category.
- It also launched Ayurvedic Sanitizer under the Zandu brand especially for the southern market. It also launched immunity booster kadha Zandu Ayush Kwath Powder in June'20.
- New products are expected to contribute 3.5-4% of sales.
- Most of new products would be manufactured by third party, hence would not incur additional capex.

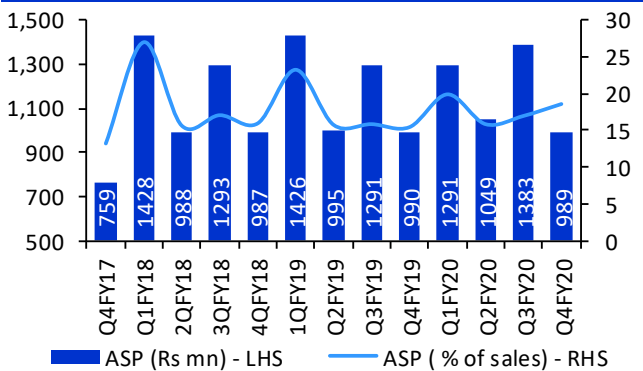
- Company will not go for test marketing products in different states, but will launch Pan India.
- Nationwide lockdown affected the pre-season sale of the summer portfolio impacting Q4 performance.
- Company is in the process of studying all implications regarding Fair and Handsome cream and will may relaunch the cream in next few months.
- Finalization of sale of Group's cement business is in last stage and is likely to be completed in next 15 days. Promoter pledge is likely to reduce to 45% from 90%. With further 1-2 disinvestments, it is expected to come down to nil, mostly by March 2021.
- Management expects consumption demand to improve by Q2FY20.
- International business was impacted more in Q1FY21 than domestic business. June witnessed higher orders for IB business. Company will be launching new products under Crème 21 in most geographies. Management expects International business to sustain FY20 numbers for FY21E.
- Company has partnered with A.T. Kearney for supply chain cost optimization which is expected to lead to benefit of Rs 500-600mn in FY21E.
- Capacity utilization is at pre lockdown level currently. Company has witnessed significant improvement in June'20 with numbers closer to last year for the month.
- Barring Fair and Handsome, all brands are performing at Pre covid levels.

Exhibit 3: Trend in Domestic Volume Growth (YoY%)


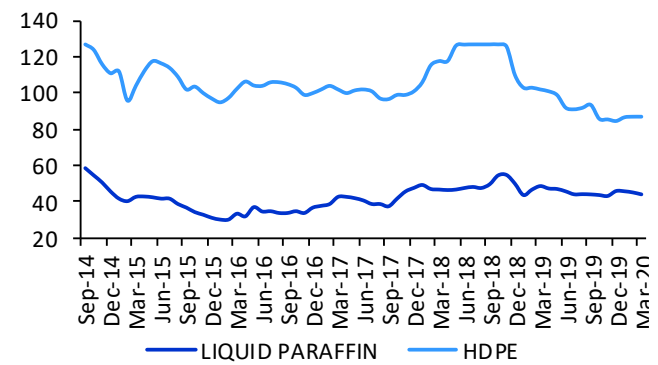
Source: DART, Company

Exhibit 4: Trend in EBITDA Margins (%)


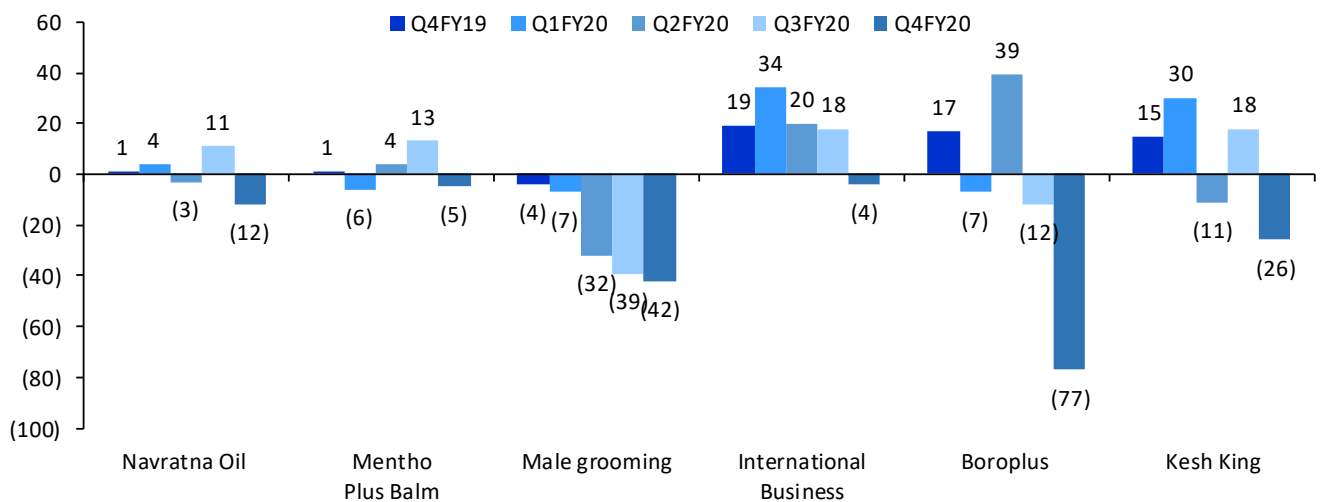
Source: DART, Company

Exhibit 5: Trend in A&P Spends and A&P as % of Sales


Source: DART, Company

Exhibit 6: RM Cost of Liquid Paraffin & HDPE (Rs /unit)


Source: DART, Company

Exhibit 7: Category-wise Growth Trend (YoY%)


Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	26,946	26,549	26,130	28,928
Total Expense	19,674	19,643	19,234	20,975
COGS	9,230	8,761	8,362	9,257
Employees Cost	2,797	2,995	3,136	3,182
Other expenses	7,647	7,887	7,737	8,536
EBIDTA	7,272	6,905	6,896	7,953
Depreciation	3,253	3,363	3,151	3,571
EBIT	4,019	3,542	3,745	4,381
Interest	214	210	231	242
Other Income	349	571	303	408
Exc. / E.O. items	(98)	(107)	0	0
EBT	4,056	3,796	3,817	4,548
Tax	1,009	713	763	910
RPAT	3,033	3,030	2,992	3,568
Minority Interest	14	54	62	71
Profit/Loss share of associates	0	0	0	0
APAT	3,131	3,136	2,992	3,568

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	454	453	453	453
Minority Interest	(2)	(9)	53	124
Reserves & Surplus	20,307	17,784	19,416	21,361
Net Worth	20,761	18,238	19,869	21,814
Total Debt	1,099	2,102	2,102	2,102
Net Deferred Tax Liability	160	34	34	34
Total Capital Employed	22,017	20,365	22,058	24,074

Applications of Funds

Net Block	16,801	14,058	15,107	15,736
CWIP	352	69	70	70
Investments	1,630	668	668	668
Current Assets, Loans & Advances	9,084	10,611	11,795	13,596
Inventories	2,217	2,446	2,506	2,695
Receivables	2,163	3,080	3,078	3,170
Cash and Bank Balances	2,034	1,190	2,316	3,836
Loans and Advances	2,000	2,490	2,490	2,490
Other Current Assets	432	510	510	510
Less: Current Liabilities & Provisions	5,849	5,041	5,582	5,996
Payables	4,433	3,244	3,785	4,199
Other Current Liabilities	1,416	1,797	1,797	1,797
sub total				
Net Current Assets	3,235	5,570	6,213	7,601
Total Assets	22,017	20,365	22,058	24,074

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	65.7	67.0	68.0	68.0
EBIDTA Margin	27.0	26.0	26.4	27.5
EBIT Margin	14.9	13.3	14.3	15.1
Tax rate	24.9	18.8	20.0	20.0
Net Profit Margin	11.3	11.4	11.4	12.3
(B) As Percentage of Net Sales (%)				
COGS	34.3	33.0	32.0	32.0
Employee	10.4	11.3	12.0	11.0
Other	28.4	29.7	29.6	29.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	18.8	16.9	16.2	18.1
Inventory days	30	34	35	34
Debtors days	29	42	43	40
Average Cost of Debt	9.8	13.1	11.0	11.5
Payable days	60	45	53	53
Working Capital days	44	77	87	96
FA T/O	1.6	1.9	1.7	1.8
(D) Measures of Investment				
AEPS (Rs)	6.9	6.9	6.6	7.9
CEPS (Rs)	14.1	14.3	13.5	15.7
DPS (Rs)	4.2	9.2	3.0	3.6
Dividend Payout (%)	60.7	133.6	45.5	45.5
BVPS (Rs)	45.7	40.2	43.8	48.0
RoANW (%)	14.8	15.5	15.7	17.1
RoACE (%)	14.8	16.0	15.5	16.8
RoAIC (%)	18.8	18.1	19.2	21.9
(E) Valuation Ratios				
CMP (Rs)	206	206	206	206
P/E	29.8	29.8	31.2	26.2
Mcap (Rs Mn)	93,320	93,320	93,320	93,320
MCap/ Sales	3.5	3.5	3.6	3.2
EV	92,147	93,337	92,211	90,691
EV/Sales	3.4	3.5	3.5	3.1
EV/EBITDA	12.7	13.5	13.4	11.4
P/BV	4.5	5.1	4.7	4.3
Dividend Yield (%)	2.0	4.5	1.5	1.7
(F) Growth Rate (%)				
Revenue	6.5	(1.5)	(1.6)	10.7
EBITDA	1.1	(5.0)	(0.1)	15.3
EBIT	(1.6)	(11.9)	5.7	17.0
PBT	3.0	(6.4)	0.5	19.2
APAT	1.9	0.2	(4.6)	19.3
EPS	1.9	0.2	(4.6)	19.3
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	6,195	5,204	6,919	7,584
CFI	(1,232)	(2,649)	(4,201)	(4,200)
CFF	(3,725)	(3,398)	(1,592)	(1,864)
FCFF	4,963	3,723	2,718	3,384
Opening Cash	795	2,034	1,190	2,316
Closing Cash	2,034	1,190	2,316	3,836

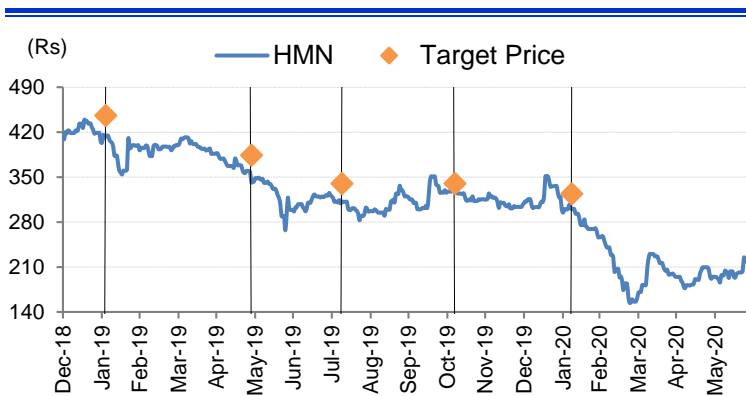
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-19	Reduce	446	415
May-19	Reduce	384	342
Aug-19	Reduce	340	312
Nov-19	Reduce	340	327
Feb-20	Reduce	324	300

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
--------------------	--------------------------	--------------------------------	------------------------

Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
--------------------------	-------------------------	------------------------------	------------------------

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740

Equity Trading	Designation	E-mail	Direct Lines
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**II. Disclaimer:**

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.

Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
