

## Sector: Consumer Goods

## Result Update

	Change
Reco: Hold	↔
CMP: Rs. 221	
Price Target: Rs. 240	↑
↑ Upgrade   ↔ No change   ↓ Downgrade	

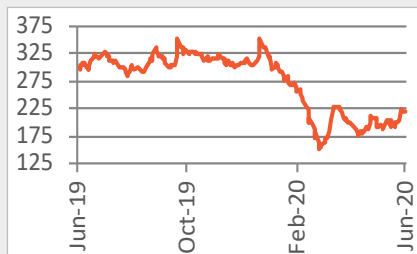
## Company details

Market cap:	Rs. 10,032 cr
52-week high/low:	Rs. 357/141
NSE volume: (No of shares)	4.9 lakh
BSE code:	531162
NSE code:	EMAMILTD
Sharekhan code:	EMAMILTD
Free float: (No of shares)	21.5 cr

## Shareholding (%)

Promoters	52.7
FII	7.0
DII	31.5
Others	8.8

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	13.3	34.8	-28.0	-25.6
Relative to Sensex	8.5	12.0	-12.0	-13.3

Sharekhan Research, Bloomberg

Emami Limited's (Emami's) Q4FY2020 performance was below our as well as street expectation with revenue and PAT declining by ~17% and ~25%, respectively, during the quarter. Lockdown at the end of the quarter affected pre-season sales of the summer portfolio, resulting in a sharp decline of 19% in domestic revenue (international business decreased by just 4%). Post acquiring required approvals, the company started manufacturing essential products from April 10, 2020, and gradually scaled up its operations to 100% in some of its plants. Trade and supply chain have normalised in few regions (especially tier-III and rural markets). Sensing big opportunity in the health and hygiene space, the company launched new products in the hand sanitiser, personal wash, and immunity booster categories. Further, it has a strong pipeline of new launches to be made in the coming quarters. The slew of new launches, recovery in rural markets, and enhanced distribution reach would help Emami to achieve strong double-digit revenue growth in FY2022. Benign input prices, reduction in advertisement costs and stringent management of other cost elements (company expects cost saving of Rs. 50 crore-60 crore) would help the company to post better margins in the coming quarters. Group exiting from non-core businesses (including cement and solar power) would help promoters to reduce its pledge share significantly in the coming quarters (target is to zero it down by the end of FY2021).

## Key positives

- Gross margin improved by 436 bps to 65.2%, led by lower input prices.
- Most facilities are 100% operating; supply chain and distribution are improving on month-on-month basis.

## Key negatives

- Summer products performance was affected by the lockdown during March and April.
- Lower operating leverage led to a 569 bps decline in OPM to 18.5%.

## Our Call

**Valuation - Maintain Hold with revised target price of Rs. 240:** We have reduced our earnings estimates for FY2021 and FY2022 to factor in the impact of supply disruption caused by lockdown in the domestic market. Sustained new launches and expansion in distribution reach would help the company to post improved performance in the coming years. Groups focus on reducing promoters pledged shares augurs well for the company. We will keenly monitor the performance in the coming quarters. Any consistent improvement in the performance and reduction in the pledged share would act as a key re-rating trigger for the stock. Thus, we maintain our Hold recommendation with a revised price target (PT) of Rs. 240.

## Key Risks

Emami's product portfolio is seasonal. Hence, any weather vagaries would affect performance in the near to medium term.

## Valuation (Consolidated)

	Rs cr				
Particulars	FY18	FY19	FY20	FY21E	FY22E
Revenues	2,541	2,693	2,655	2,500	2,960
OPM (%)	28.3	26.9	26.0	26.3	26.2
Adjusted PAT	502	513	524	475	573
% YoY growth	-8.5	2.2	2.0	-9.3	20.6
Adjusted EPS (Rs.)	11.1	11.3	11.4	10.5	12.6
P/E (x)	19.9	19.6	19.4	21.1	17.5
P/B (x)	2.5	4.8	5.5	5.3	5.3
EV/EBIDTA (x)	13.9	13.6	14.5	14.9	12.6
RoNW (%)	26.7	25.1	26.8	25.6	30.4
RoCE (%)	28.3	28.8	30.2	29.9	36.1

Source: Company; Sharekhan estimates

**Revenue declined significantly, lower operating leverage impacted margins:** In Q4FY2020, consolidated revenue declined by 16.8% y-o-y to Rs. 532.7 crore, severely affected by supply chain disruption from mid-March 2020 due to COVID-19. Operations came to a complete halt during the last week of March due to nationwide lockdown affecting the pre-season sale of the summer portfolio, thus impacting Q4FY2020 performance. Consolidated sales volumes declined by 19%, lower than our as well as the street's expectation of 4-5%. Domestic revenue (including CSD) declined by 19% y-o-y, affected by the lockdown, whereas the international business was down by 4%. The pandemic led the consumer shift towards more essential items such as food, groceries, and hygiene products, thereby affecting sale of the company's niche and discretionary line of products. Consolidated gross margin improved by 432 bps to 65.2% due to benign raw-material prices (including those of mentha oil). However, higher employee costs, advertising spends, and other expenses resulted in a 578 bps decline in OPM to 18.5%. Operating profit declined by 36.6% y-o-y to Rs. 98.5 crore due to lower operating leverage. Lower other income and higher depreciation costs along with lower revenue led to a 40.8% decline in profit before tax (PBT). Lower incidence of tax limited the decline in adjusted profit to 26.6% y-o-y to Rs. 79.3 crore. Reported PAT came in at Rs. 22.8 crore due to exceptional items, which includes a post-tax amortisation cost of Rs. 56.6 crore towards the Kesh King brand.

**Key brands gained market share:** The Navratna range of cooling oils fell by 12% y-o-y in Q4FY2020 and maintained its leadership position with volume market share 66.4%. Kesh King hair oil declined by 26% y-o-y, but its volume market share grew by 140 bps to 26.6%. The 7-oils-in-one brand registered growth of 5%, supported by media campaigns. Revenue from the pain management product range fell by 5% with 130 bps improvement in market share to 54.9%. The BoroPlus range of antiseptics declined significantly by 77%, affected by unfavourable seasonality. However, market share of BoroPlus Ayurvedic Antiseptic Cream increased by 30 bps to 74.1%. The healthcare range declined by 9%. Revenue from the male grooming range declined by 42% y-o-y due to weak demand and Fair and Handsome cream lost market share by 30 bps to 65.3%. Revenue of the international business fell by 4% y-o-y in Q4FY2020 due to disruptions in key regions on account of lockdowns amidst COVID-19. The recent acquisition, Crème 21 was fully operational and its distribution team aligned and integrated during the year. The brand performed well and was introduced in key international markets. Emami continued to gain market share for the Navratna and Fair & Handsome brands in Bangladesh and UAE.

**New launches done to leverage the health and hygiene trend:** Emami recognised the importance of health and hygiene, which was the need of the hour, and launched BoroPlus Advanced Anti-Germ hand sanitiser in April 2020. This was followed by the launch of an ayurvedic sanitiser under the Zandu brand. Zandu Ayush Kwath Powder, an ayurvedic immunity booster was also launched, expanding the company's naturals range. The company has also recently expanded its BoroPlus range of hygiene products to antiseptic and moisturising soaps and hand washes in two variants. In addition to these, the company has already lined up a slew of new launches in the health and hygiene category over the next few months. In Q4FY2020, the company launched BoroPlus organic aloe vera gel, whereas Navratna Cool talc was relaunched with modernised packaging. Emami also collaborated with delivery partners such as Swiggy and Zomato to directly reach out to consumers.

**Focus on zeroing promoters pledging by March 2021:** The Emami group sold its cement business for an enterprise value of Rs. 5,500 crore. Cement business has debt of ~Rs. 2,200 crore and rest of the funds will be received by the group by mid of July 2020. These funds will be immediately utilised to reduce promoters pledging to 45% from the current 90%. Further, the group is planning to zero down promoters pledging by the end of FY2021 through sale of non-core assets (including land parcels and other non-focused businesses).

### Other key conference call highlights

- ◆ Post gaining required approvals, Emami commenced operations in most of its plants from April 10, 2020. Capacity utilisation has reached pre-COVID levels in most of its plants. Trade and supply chain has normalised in some of the regions. Out of 2,300 on-field sales team, 1,900 sales people in the market are servicing 90% of general trade. Since May 15, 2020, normal sales have been achieved in brands such as Navratna and seven-in-one oil. Dependence on wholesale channels aided the company to supply products in the market despite the company's sales team was not available in the market.
- ◆ Mentha oil prices continued to remain soft; and with crude oil prices remaining lower, management expects gross margins to remain high by 100 bps in FY2021.
- ◆ The company will reduce its advertisement spends and focus on reducing other cost elements through suggestions given by external consultants, AT Kearney (planning to reduce cost by Rs. 50 crore-60 crore in FY2021).
- ◆ On the channel front, modern trade channel grew by 27% in Q4FY2020 (12% in FY2020) and online channel (1% of sales) grew by 167% in Q4FY2020 (120% in FY2020). The company is focusing on doubling its sales from online channels in the coming years. The company has formed a separate team for online business and is planning to launch new SKUs/differentiating pricing for online products.
- ◆ In the lockdown phase, the company maintained its thrust on innovations. The company launched many new products in the health and hygiene space. Going ahead, the company is planning to launch immunity boosting products and will launch home hygiene products by Q2FY2021. In the international market, the company will launch new products under Crème 21 brand in the coming years. New launches will contribute 3.5% to 4.0% in FY2021.

**Result (consolidated)**

	Rs cr				
Particulars	Q4FY20	Q4FY19	Y-o-Y (%)	Q3FY20	Q-o-Q (%)
Net revenue	532.7	639.6	-16.7	812.6	-34.5
Raw materials	185.6	250.8	-26.0	258.2	-28.1
Employee costs	72.1	68.1	5.8	74.9	-3.7
Ad promotions	98.9	99.0	-0.1	138.3	-28.5
Other expenses	77.6	67.1	15.7	77.3	0.3
Total expenditure	434.2	484.9	-10.5	548.6	-20.9
Operating profit	98.5	154.7	-36.3	264.0	-62.7
Other income	14.5	17.3	-16.0	15.6	-7.0
Finance costs	2.4	6.2	-61.2	4.9	-51.1
Depreciation	21.9	16.0	37.4	21.4	2.6
Profit before tax	88.7	149.8	-40.8	253.3	-65.0
Tax	6.8	41.0	-83.5	53.3	-87.3
Adjusted PAT	81.9	108.8	-24.7	200.0	-59.0
Minority interest	-2.6	-0.7	-	-1.6	-
Adjusted PAT after MI	79.3	108.1	-26.6	198.4	-60.0
Extra-ordinary items	56.6	52.0	8.7	53.9	4.9
Reported PAT	22.8	56.1	-59.4	144.4	-84.2
Adjusted EPS (Rs.)	1.8	2.4	-24.7	4.4	-59.0
			bps		Bps
GPM (%)	65.2	60.8	436	68.2	-307
OPM (%)	18.5	24.2	-569	32.5	-

Source: Company, Sharekhan Research

**Result Snapshot (Standalone)**

	Rs cr				
Particulars	Q4FY20	Q4FY19	YoY%	Q3FY20	QoQ%
Net revenue	460.5	582.0	-20.9	748.3	-38.5
Total expenditure	439.6	438.1	0.3	492.8	-10.8
Operating profit	20.9	143.9	-85.5	255.5	-91.8
Other income	14.0	14.8	-5.4	15.0	-6.5
Finance costs	2.0	5.6	-63.6	4.1	-49.8
Depreciation	20.3	14.8	37.8	19.4	4.5
Profit before tax	12.6	138.4	-90.9	247.0	-94.9
Tax	-1.0	37.6	-102.7	45.3	-102.3
Adjusted PAT	13.6	100.8	-86.5	201.7	-93.3
Extra-ordinary items	50.6	51.9	-2.5	53.8	-5.9
Reported PAT	-37.0	48.9	-175.7	147.9	-125.0
Adjusted EPS (Rs.)	0.3	2.2	-86.5	4.4	-93.3
			BPS		BPS
GPM (%)	64.5	59.4	517	67.5	-298
OPM (%)	4.5	24.7	-2019	34.1	-2961

Source: Company, Sharekhan Research

**Domestic brands performance in FY2020**

Key brands	FY20 Growth	Q4FY20 Growth	9MFY20 Growth
Navratna range	-2%	-12%	4%
Pain management range	3%	-5%	5%
Boroplus range	-7%	-77%	0
Kesh King range	1%	-26%	12
Healthcare range	-2%	-9%	1%
Male grooming range	-29%	-42%	-25%
7-in-one oils	29%	5%	39%

Source: Company, Sharekhan Research

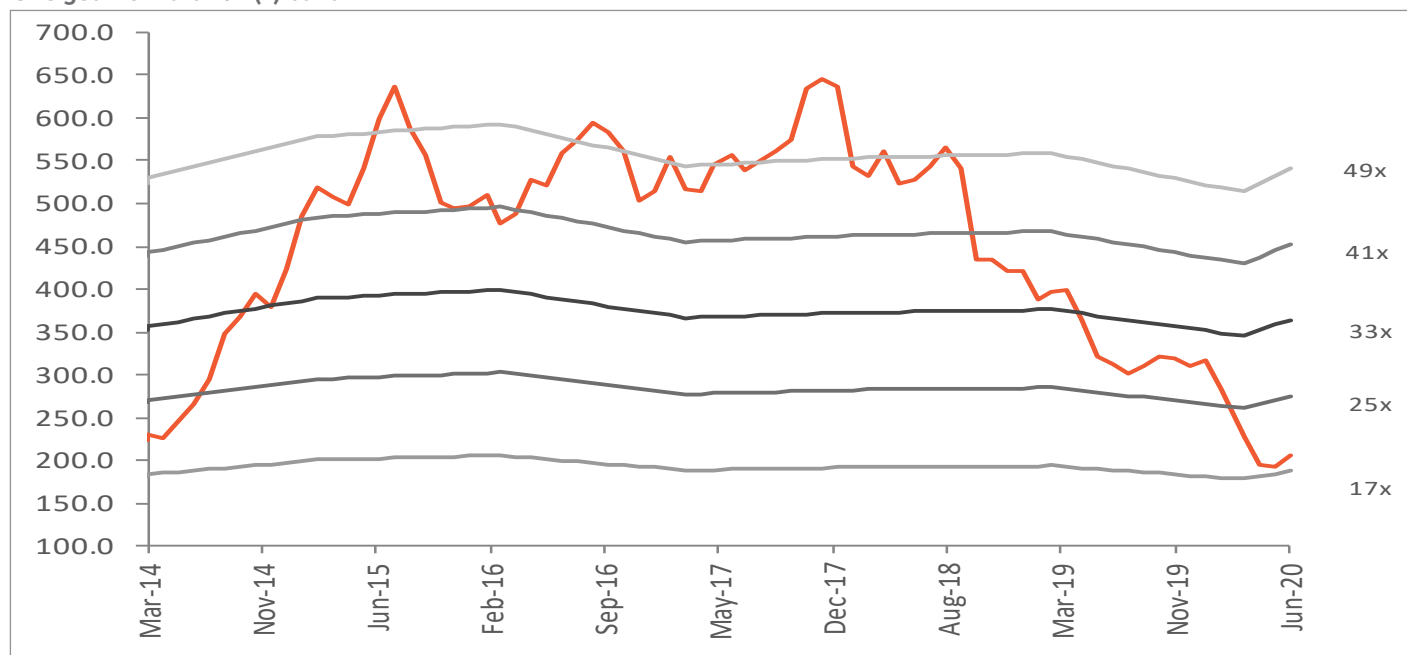
## Outlook

**New launches and recovery in the rural market to drive growth in FY2022:** The company launched various products in the hand sanitiser, personal wash, and immunity booster categories, sensing big opportunity in the health and hygiene space. Further, the company has a strong pipeline of new launches to be made in the home care and immunity boosting products in the coming quarters. The slew of new launches, recovery in rural markets, and enhanced distribution reach would help Emami to achieve strong double-digit revenue growth in FY2022. Benign input prices, reduction in advertisement cost, and stringent management of other cost elements (expects cost saving of Rs. 50 crore-60 crore) would help the company to post better margins in the coming quarters.

## Valuation

**Maintain Hold with revised target price of Rs. 240:** We have reduced our earnings estimates for FY2021 and FY2022 to factor in the impact of supply disruption caused by lockdown in the domestic market. Sustained new launches and expansion in distribution reach would help the company to post improved performance in the coming years. Groups focus on reducing promoters pledged shares augurs well for the company. We will keenly monitor the performance in the coming quarters. Any consistent improvement in the performance and reduction in the pledged share would act as a key re-rating trigger for the stock. Thus, we maintain our Hold recommendation with a revised price target (PT) of Rs. 240.

One year forward P/E (x) band



Source: Sharekhan Research

## Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Dabur	54	55.4	42.7	45.1	44.9	34.4	27	24.2	28.3
Marico	42.5	47.4	37	30.8	33.7	26.7	41.3	36.2	42.1
Emami	19.4	21.1	17.5	14.5	14.9	12.6	30.2	29.9	36.1

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 strong brand portfolio, 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 Zandu healthcare portfolio is yet to recover. Thus, in view of near-term headwinds, Emami's revenue and PAT growth will be lower than some of its mid-cap peers.

## Key Risks

- ♦ Slowdown in 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 a 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
N H Bhansali	CEO-Finance, Strategy & Business Development and CFO
A K Joshi	Company Secretary

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Pvt Ltd	6.9
2	DSP Investment Managers Pvt Ltd	3.7
3	L&T Mutual Fund Trustee Ltd	3.2
4	Aditya Birla Sun Life Asset Management	2.6
5	Mirae Asset Global Investments Co Ltd	1.9
6	Avees Trading And Finance	1.7
7	UTI Asset Management Co Ltd	1.7
8	PI Opportunities Fund	1.2
9	BMO Financial Group	1.2
10	Sundaram Asset Management Co Ltd	1

Source: Bloomberg

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