

Sector: Consumer Goods

Result Update

	Change
Reco: Buy	↑
CMP: Rs. 258	
Price Target: Rs. 320	↑

↑ Upgrade ↔ No change ↓ Downgrade

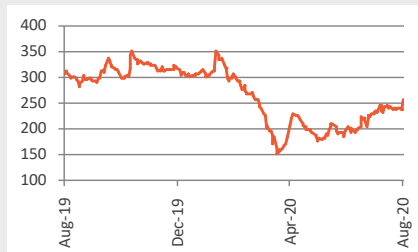
Company details

Market cap:	Rs. 11,554 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)	20.7 cr

Shareholding (%)

Promoters	53.9
FII	6.9
DII	29.8
Others	9.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.6	45.7	-14.2	-16.3
Relative to Sensex	6.9	24.7	-6.7	-20.0

Sharekhan Research, Bloomberg

Emami Limited's (Emami's) Q1FY2021 earnings performance was better than ours as well as the street's expectation with revenue and PAT declining by ~26% and ~6.5%, respectively, during the quarter. GPM and OPM expanded by 231 bps and 487 bps, respectively. Revenue was impacted by disruptions in the summer portfolio. June saw a recovery with revenue bouncing back to 6% and double-digit growth was witnessed in July 2020 largely led by the Zandu healthcare and pain management product range. International business, which declined by ~18% in Q1FY2021 also revived in June and July. The health and hygiene portfolio (contributing ~43% to overall revenue) saw a strong growth of 29%. Some new launches including immunity-boosting products under the Zandu healthcare range saw good traction. Overall NPD contribution stood at ~5% (~3% by sanitisers and ~2% by other products). Emami has a strong pipeline of new launches (~20-30 new launches) to be made in the coming quarters. The company also intends to enter the home hygiene segment by introducing a new brand by the end of August. Management expects growth in terms of revenue largely driven by strong demand in the health & hygiene portfolio, new launches and a recovery in rural markets. Benign input prices, reduction in advertisement costs and stringent management of other cost elements (company expects cost savings of Rs. 50-60 crore) would help the company to post better margins in the coming quarters. The group's exit from non-core businesses (including cement and solar power) has helped promoters to reduce pledged share significantly from 95% last quarter to ~55% currently, which is expected to be brought down to ~50% in the next few days (target is to bring it to zero by end of FY2021).

Key positives

- Gross margins improved by 231 bps to 66.5%, led by lower input prices whereas lower ad-spends resulted in OPM expansion of 487 bps.
- Strong recovery was seen in June and July with revenues bouncing back to double-digits in July 2020.
- New product launches gained good traction and contributed ~5% to topline in Q1

Key negatives

- Volumes declined by 28% affected by slower offtake of the summer portfolio due to supply disruptions.
- Navratna range, Kesh King range and male grooming range saw revenue decline by 41%, 33% and 70%, respectively.

Our Call

Valuation - Upgrade to Buy with revised price target of Rs. 320: Strong demand for health and hygiene portfolio, sustained new launches, recovery in rural markets and lower input costs would help company post better performance in the coming years. The company has appointed separate sales, international business and healthcare segment heads recently, which gives us an indication that the management is now getting back its focus on improving the growth prospects of its consumer business. Promoter pledges have been reduced by ~40% and the group's focus on reducing it further augurs well for the company. The stock is currently trading at 15.3x its FY2022E earnings, which is at a stark discount to its historical average. Thus, with favourable risk-reward ratio, we upgrade the stock to Buy from Hold with a revised price target of Rs. 320.

Key Risks

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

Valuation

Particulars	FY18	FY19	FY20	FY21E	FY22E	Rs cr
Revenues	2,541	2,693	2,841	2,926	3,366	
OPM (%)	28.3	26.9	27.9	29.6	30.2	
Adjusted PAT	502	513	596	633	765	
% YoY growth	-8.5	2.2	16.2	6.2	20.9	
Adjusted EPS (Rs.)	11.1	11.3	13.1	14.0	16.9	
P/E (x)	23.3	22.9	19.6	18.5	15.3	
P/B (x)	2.9	5.6	5.3	5.0	4.4	
EV/EBIDTA (x)	16.3	15.9	14.3	12.9	10.8	
RoNW (%)	26.7	25.1	27.9	27.7	30.5	
RoCE (%)	28.3	28.8	33.6	36.7	39.1	

Source: Company; Sharekhan estimates

Revenue declined by 26%, lower input costs and ad-spends boost margin expansion: In QFY2021, consolidated revenue declined by 25.8% y-o-y to Rs. 481.3 crore affected by supply disruptions impacting the sale of summer portfolio. Domestic revenue declined by 26% y-o-y, affected by the lockdown, whereas the international business was down by 18%. Domestic volumes slumped by 28%. Decline in secondary sales was much lower at 15%. April and May were impacted by the lockdown, but a recovery was witnessed in June. Consolidated revenue grew by 6% y-o-y in June whereas the domestic and international business registered growth of 8% and 7%, respectively. July saw double-digit growth. The pandemic led consumers to shift towards more essential items such as food, groceries, and hygiene products, thereby affecting sales of company's niche and discretionary products. Consolidated gross margins improved by 230 bps to 66.5% due to benign raw-material prices (including those of mentha oil). This, along with lower advertising spends resulted in a 487 bps expansion in OPM to 25.5%. Thus, operating profit declined by just 8.3% y-o-y to Rs. 123 crore. Lower other income and higher depreciation costs led to a 12.6% decline in profit before tax (PBT) to Rs. 105.6 crore. Lower tax incidence stemmed the decline in adjusted profit to 6.5% y-o-y to Rs. 83.9 crore. Reported PAT came in at Rs. 39.6 crore due to exceptional items, which includes a post-tax amortisation cost of Rs. 44.3 crore towards the Kesh King brand.

Hygiene portfolio performed well growing by 29%; discretionary portfolio remained impacted: Revenue of the Navratna range of cooling oils fell by 41% y-o-y in Q1FY2021, with the lockdown impacting the offtake of summer products. However, recovery was seen in June as revenue decline slowed to 10%. Revenue from the Kesh King hair oil declined by 33% y-o-y, but stood flat in June. Revenue from the pain management product range grew by 15% y-o-y in Q1 and 43% in June driven by its essential nature. The BoroPlus range of antiseptics grew by 28% in Q1 and saw strong recovery of 92% in June largely led by new launches. Revenue from the healthcare range increased by 23% y-o-y in Q1 and 59% in June driven by higher demand for hygiene products. Revenue from male grooming range slumped by 70% y-o-y due to weak discretionary demand. Overall, the health and hygiene portfolio comprising brands such as Zandu and BoroPlus hygiene (contributing ~43% to revenue) grew by 29% in Q1FY2021 whereas the discretionary portfolio comprising brands such as Navratna, Fair & Handsome, Kesh King, etc (contributing ~57% to revenue) declined by 44% in Q1FY2021. International business revenue fell by 18% y-o-y due to disruptions in key regions on account of lockdowns amidst COVID-19. Emami launched hygiene products such as hand sanitisers, sanitiser wipes, anti-bacterial handwash and soap in key geographies under Crème 21, Gold Turmeric and BoroPlus brands, which received good response.

New launches contributed ~5% to total revenue: 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 and BoroPlus anti-septic soap in June 2020 which received good response. New launches like BoroPlus aloe vera gel, Zandu Ayurvedic sanitiser and other immunity boosting products under the Zandu Healthcare range (Zandu Ayush Kwath Powder, single herbs range - Giloy, Neem, Tulsi, Ashwagandha, etc) also received encouraging response from consumers. The company has also done e-commerce specific launches, which are backed by digital promotions. In addition to these, the company has already lined up a slew of new launches (~20-30 new launches) in the health & hygiene category over the next few days. Moreover, the company is in the process of entering into the home hygiene segment by introducing a new brand by the end of August. Overall, Emami launched 12 new products in Q1FY2021 which contributed ~5% to overall revenue, which included ~3% contribution from sanitisers and ~2% from other products.

Other key conference call highlights

- ◆ Emami registered strong recovery in June-July by posting double-digit growth in July, driven by reduction in distributor stock (down from 27-28 days in June to 18-19 days in July) and correction in credit levels (down from 13-14 days earlier to 4-5 days now). The recovery was largely led by Zandu healthcare range and the pain management portfolio.
- ◆ Traditional channels were impacted due to the lockdown, whereas e-commerce channels doubled its revenue (grew by 108%) in Q1FY2021. CSD revenue was down by 38% in Q1 and 44% in June 2020. Wholesale channel also reported positive growth. Rural segment is growing faster than urban. The company listed itself on all e-commerce platforms and partnered with delivery channels to avoid loss of sales.

- ◆ Emami is re-focusing on products such as Chyawanprash (grew 7x in Q1) and honey (grew 5x in Q1). Zandu Pancharishta is growing in double-digits. Fair and Handsome continued to remain under stress and will take some time to recover.
- ◆ Moreover, management's current strategy is to enhance focus on the Zandu healthcare range given the higher demand for health & hygiene products. In line with its strategy, Emami has appointed a new healthcare head Mr. Bhatia (earlier healthcare head at Dabur India) to fill-in the gaps and strengthen its healthcare portfolio.
- ◆ Emami has planned third party manufacturing in key international geographies such as the Middle East and Sri Lanka, mostly for products under the Crème 21 brand.
- ◆ Raw material prices (such as mentha) are expected to remain benign in the near term. The company is focusing on cost reduction (expects savings of Rs. 50-60 crore in FY2021) and optimisation. Thus, the company expects OPM expansion to sustain in the near term.
- ◆ Emami intends to spend ~Rs. 80 crore on capex (largely maintenance) in FY2021.
- ◆ Promoters' pledged share is down by ~40% from 95% earlier to 55% now. The group intends to reduce it further to 50% over the next few days and targets to bring it down to zero by the end of FY2021.
- ◆ Emami completed a share buyback by acquiring 94.2 lakh shares worth Rs. 192 crore from the open market. The equity share capital post-buyback has reduced from Rs. 45.39 crore to Rs. 44.45 crore. The promoter stake increased from 52.74% to 53.86%.

Results (Consolidated)					Rs cr
Particulars	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	q-o-q (%)
Net revenue	481.3	648.6	-25.8	532.7	-9.6
Raw materials	161.3	232.4	-30.6	185.6	-13.1
Employee costs	78.1	77.3	1.1	72.1	8.4
Ad promotions	59.7	129.1	-53.7	98.9	-39.6
Other expenses	59.2	75.7	-21.9	77.6	-23.7
Total expenditure	358.4	514.5	-30.3	434.2	-17.5
Operating profit	123.0	134.1	-8.3	98.5	24.8
Other income	6.7	11.5	-41.7	14.5	-53.8
Finance costs	4.7	4.4	8.0	2.4	95.0
Depreciation	19.4	20.4	-5.0	21.9	-11.8
Profit before tax	105.6	120.9	-12.6	88.7	19.1
Tax	20.6	30.4	-32.2	6.8	-
Adjusted PAT	85.1	90.6	-6.1	81.9	3.9
Minority interest	-1.1	-0.8	-	-2.6	-
Adjusted PAT after MI	83.9	89.8	-6.5	79.3	5.8
Extra-ordinary items	44.3	50.6	-12.4	56.6	-21.6
Reported PAT	39.6	39.1	1.2	22.8	74.0
Adjusted EPS (Rs.)	1.9	2.0	-6.1	1.8	3.9
			bps		bps
GPM (%)	66.5	64.2	231	65.2	132
OPM (%)	25.5	20.7	487	18.5	705

Source: Company; Sharekhan Research

Results (Standalone)

Particulars	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	Rs cr
					q-o-q (%)
Net revenue	434.6	588.6	-26.2	460.5	-5.6
Operating profit	115.3	129.6	-11.0	20.9	-
Profit before tax	135.2	159.7	-15.3	12.6	-
Adjusted PAT	111.5	133.2	-16.3	13.6	-
Extra-ordinary items	44.3	50.6	-12.5	50.6	-12.5
Reported PAT	67.2	82.6	-18.6	-37.0	-
Adjusted EPS (Rs.)	2.5	2.9	-16.3	0.3	-
			bps		bps
GPM (%)	65.3	63.3	204	64.5	79
OPM (%)	26.5	22.0	452	4.5	-

Source: Company; Sharekhan Research

Domestic brands' performance in FY2020

Key brands	Q1FY21 Growth	June 2020 Growth
Healthcare range	23%	59%
Pain management range	15%	43%
Boroplus range	28%	92%
Navratna range	-41%	-10%
Kesh King range	-33%	0%
Male grooming range	-70%	-43%

Source: Company; Sharekhan Research

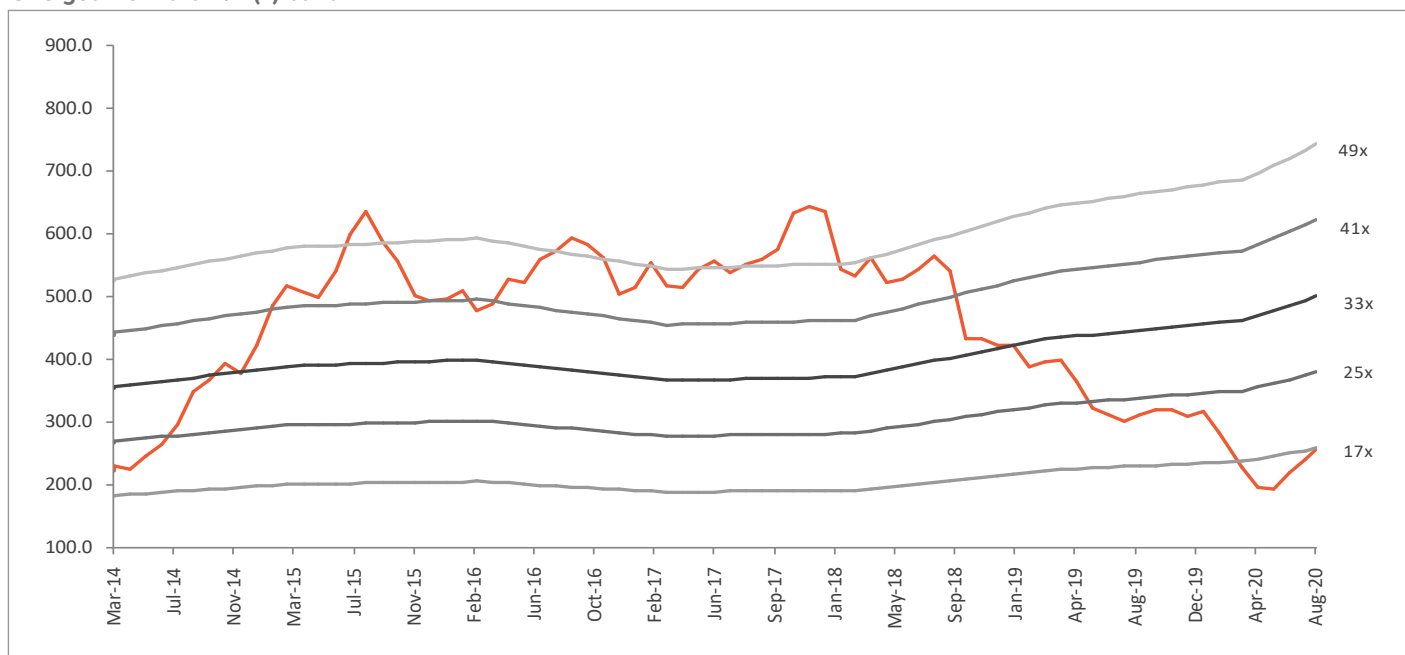
Outlook

Strong demand for healthcare products and new launches and 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 & hygiene space. Further, the company has a strong pipeline of new launches, especially under the Zandu brand, in the coming quarters. Management expects growth in terms of revenue largely driven by strong demand in the health & hygiene portfolio, new launches and recovery in rural markets. Benign input prices, reduction in advertisement costs and stringent management of other cost elements (company expects cost savings of Rs. 50-60 crore) would help the company to post better margins in the coming quarters.

Valuation

Upgrade to Buy with revised price target of Rs. 320: Strong demand for health and hygiene portfolio, sustained new launches, recovery in rural markets and lower input costs would help company post better performance in the coming years. The company has appointed separate sales, international business and healthcare segment heads recently, which gives us an indication that the management is now getting back its focus on improving the growth prospects of its consumer business. Promoter pledges have been reduced by ~40% and the group's focus on reducing it further augurs well for the company. The stock is currently trading at 15.3x its FY2022E earnings, which is at a stark discount to its historical average. Thus, with favourable risk-reward ratio, we upgrade the stock to Buy from Hold with a revised price target of Rs. 320.

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	59.3	55.0	43.7	49.6	44.6	35.2	27.0	26.5	29.5
Marico	44.6	41.8	35.3	32.4	30.0	25.4	41.3	41.8	43.5
Emami	19.6	18.5	15.3	14.3	12.9	10.8	33.6	36.7	39.1

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. 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. Strong demand for the Zandu healthcare portfolio is seen driven by heightened demand for health and hygiene products. The company has appointed a separate sales head, international business head and healthcare segment head recently which gives us an indication that the management is now getting back its focus on improving the growth prospects of its consumer business.

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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Pvt Ltd	6.4
2	DSP Investment Managers Pvt Ltd	3.5
3	L&T Mutual Fund Trustee Ltd	3.2
4	Mirae Asset Global Investments Co Ltd	3.1
5	Aditya Birla Sun Life Asset Management	2.3
6	HDFC Life Insurance Co Ltd	1.9
7	Avees Trading And Finance	1.7
8	UTI Asset Management Co Ltd	1.6
9	HDFC Asset Management Co Ltd	1.5
10	PI Opportunities Fund	1.3

Source: Bloomberg

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