

### Expect gradual improvement; Maintain Accumulate

- Emami's Q1FY21 revenues came in line but EBITDA and APAT was a beat. Domestic business declined 26%, while IB posted 18% revenue de-growth in Q1. Supply chain disruption in April due to Covid-19 resulted in sales decline.
- Secondary sales decline was ~15% during the quarter vs 26% primary sales decline. Distributor inventory days declined from 29-30 days in March to ~27 days in June and ~19-20 days in July end. This signifies that the secondary sales growth in July was better than primary sales.
- Emami reported double digit growth in July, which was a key positive.
- IB gained momentum in July. Crème-21 is expected to maintain strong growth going ahead.
- We believe that competition in Emami's key product categories such as skin, and hair oil, will continue to remain high. Nevertheless, we remain optimistic about the favorable base, and growth in health and hygiene market. As most of the negatives are factored in the stock price, we maintain Accumulate rating with TP of Rs 283 (20x FY22E CEPS).

### Operational performance beat our estimates

Net sales fell 25.9% YoY to Rs 4.8bn in Q1FY21 – came in line with our estimate. Domestic consumer business reported 28% volume de-growth during the quarter. A 230/750 bps decline in RM costs/A&P spends was partially offset by 430/60bps increase in employee expense/other exp respectively. Consequently, EBITDA margin expanded by 480bps to 25.5%. EBITDA declined 8.9% YoY to Rs 1.2bn. APAT increased 1% to Rs 396mn – beat our estimate.

### Mixed performance at category level

During the quarter Healthcare products (+23%), Pain management products (+15%) and BoroPlus (+28%) reported strong double digit growths with favorable season and Covid threat. However, other key categories/brands Navratna (-41%), Kesh King (-33%) and Male grooming products (-70%) posted high double digit de-growth during Q1 due to discretionary nature. New products contributed ~5% of sales in Q1. The company launched new products in health care range during the quarter, is likely to gain traction in the near term.

### Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	4,813	6,495	(25.9)	5,327	(9.6)
Total Expense	3,584	5,145	(30.3)	4,342	(17.5)
EBITDA	1,230	1,350	(8.9)	985	24.8
Depreciation	748	837	(10.6)	852	(12.3)
EBIT	482	513	(6.1)	133	262.6
Other Income	67	106	(36.9)	145	(53.8)
Interest	47	44	8.0	24	95.0
EBT	502	576	(12.9)	180	179.6
Tax	95	177	(46.4)	(74)	(228.6)
RPAT	396	393	1.0	234	69.7
APAT	396	393	1.0	308	28.8
			(bps)		(bps)
Gross Margin (%)	66.5	64.2	227	65.2	132
EBITDA Margin (%)	25.5	20.8	476	18.5	705
NPM (%)	8.2	6.0	219	4.4	385
Tax Rate (%)	18.9	30.7	(1182)	(41.1)	5995
EBIT Margin (%)	10.0	7.9	211	2.5	752

CMP	Rs 257
Target / Upside	Rs 283 / 10%
BSE Sensex	38,047
NSE Nifty	11,214

### Scrip Details

Equity / FV	Rs 453mn / Rs 1
Market Cap	Rs 117bn
	USD 2bn
52-week High/Low	Rs 358/Rs 131
Avg. Volume (no)	1,187,810
NSE Symbol	EMAMILTD
Bloomberg Code	HMN IN

### Shareholding Pattern Jun'20(%)

Promoters	52.7
MF/Banks/FIs	25.5
FIIIs	12.1
Public / Others	9.7

### Valuation (x)

	FY20A	FY21E	FY22E
P/E	37.2	39.0	32.7
EV/EBITDA	16.9	16.8	14.4
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: Q1FY21 Actual V/s DART estimates**

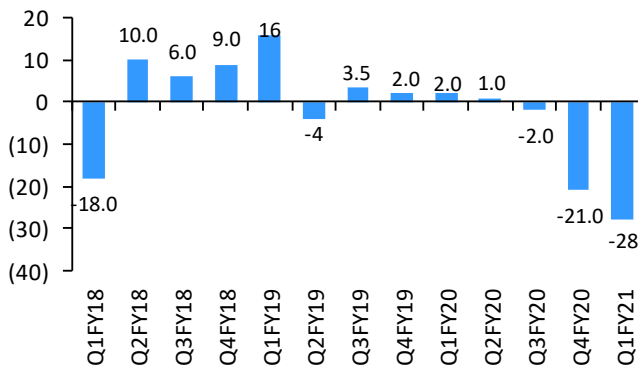
Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	4,813	4,946	(2.7)	
EBITDA	1,230	929	32.3	
EBITDA margin %	25.5	18.8	680	Advertisement and other expenses were lower than our estimates
APAT	396	171	131.3	Variation due to higher than estimated EBITDA and lower tax rates

Source: Company, DART

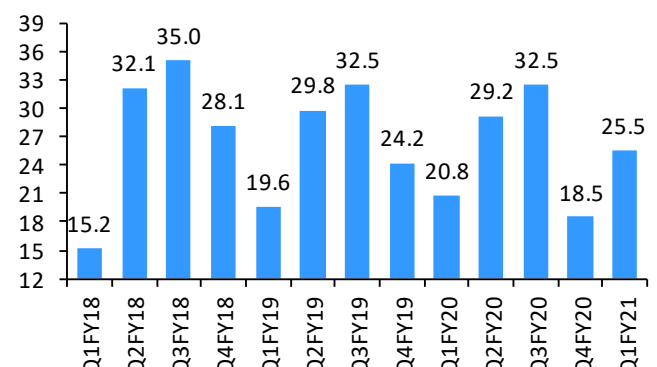
**Concall Key Takeaways**

- Emami registered 26% de-growth in domestic in Q1 as offtakes in summer portfolio were significantly impacted due to lockdown coupled with weak discretionary consumption.
- While traditional sales channel and MT were impacted due to lockdown, E-com grew 108% YoY. CSD business declined 38% YoY. Wholesale channel witnessed growth in Q1 as well as in July.
- Rural grew in double digits in Q1FY21. Sachet contribution did not increase, continues to remain 32-33%.
- Margins increased due to stringent cost control measures and benign raw material prices (mentha). Company expects gross margins to expand going ahead.
- Pancharishta declined 10-11% in Q1. June and July have witnessed growth.
- Emami has partnered with A.T. Kearney for supply chain cost optimization which is expected to lead to saving of Rs 500-600mn in FY21E. Moreover, if momentum of June-July is sustained, company expects EBITDA margin expansion in FY21E.
- Health & Hygiene Portfolio which contributed 43% to topline, grew 29% YoY. The company launched distinct products in E-com channel in Healthcare space and is advertising via digital media.
- New launches like BoroPlus Aloe Vera Gel, Zandu Ayurvedic Sanitizer and other immunity boosting products under the Zandu Healthcare range received encouraging consumer traction.
- BoroPlus grew significantly in Q1 mainly due to sanitizer sales. Chyawanprash and Honey grew 7x and 5x respectively compared to last year.
- Emami is likely to launch 20-30 new products going ahead under BoroPlus and Zandu brands, which are not necessarily seasonal products. New launches contributed 5% to domestic revenues in Q1. Of this, 3% is contributed by sanitizers and 2% by other new launches.
- Emami is set to foray into Home Hygiene space soon. Management believes that Home hygiene market is expected to grow significantly, going ahead.
- The company expects to scale down A&SP spends for the year (~17-18% in FY21).
- With renewed focus on Zandu, the brand currently generates ~Rs 240mn/month from Rs 150mn/month earlier.
- Volume growth declined 28%, realization growth was ~1.5%. Management does not expect price increases in FY21.
- International portfolio performed well in July mainly by Crème 21 brand. The company has planned 3P manufacturing in Middle east and Srilanka mainly for Crème 21.

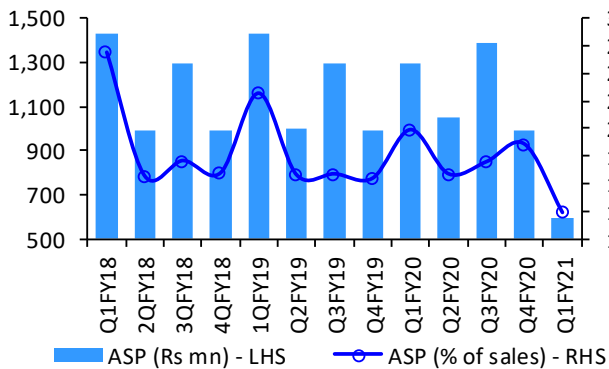
- The company is targeting positive sales growth for FY21E, provided pandemic is not heightened.
- The company expects Male grooming (Fair and handsome range) to remain under stress for few more months.
- The company has corrected its distribution pipeline during Covid. In March'20 distributor stock was 29-30 days which reduced to 26-27 days in beginning of June, and further reduced to 19-20 days in July end. Also, domestic debtor days came down to 4-5 days from 13-14 days earlier.
- Tax rate expected ~19-20% (consol) for Q1FY21E.
- Sale of cement business led to reduction in promoter Pledge to ~55% currently, which will reduce to ~50% in next few days.
- Amortization in Kesh King reduced to Rs 250mn/quarter compared to Rs 600mn/quarter earlier.
- Capex is likely to be ~800mn in FY21E, majorly maintenance capex.
- The BOD completed Buyback of Shares worth Rs. 1920mn (9.42mn shares purchased at an average price of Rs. 203.78). Promoter stake increased from 52.74% to 53.86%. We believe that buyback by the promoter would reinstall confidence of shareholders.

**Exhibit 2: Trend in Domestic Volume Growth (YoY%)**


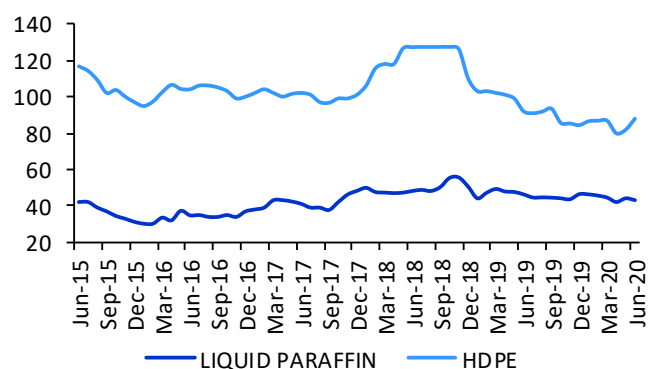
Source: DART, Company

**Exhibit 3: Trend in EBITDA Margins (%)**


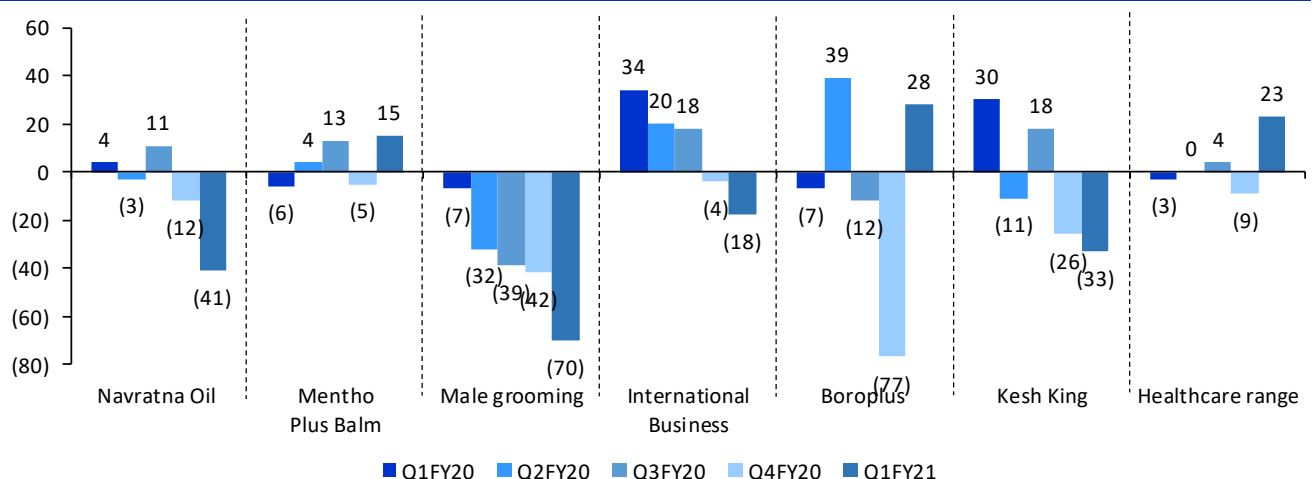
Source: DART, Company

**Exhibit 4: Trend in A&P Spends and A&P as % of Sales**


Source: DART, Company

**Exhibit 5: RM Cost of Liquid Paraffin & HDPE (Rs /unit)**


Source: DART, Company

**Exhibit 6: Category-wise Growth Trend (YoY%)**


Source: DART, Company

### Profit and Loss Account

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

### Balance Sheet

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

### Applications of Funds

Net Block	16,801	14,058	15,107	15,736
CWIP	352	69	70	70
Investments	1,630	668	668	668
<b>Current Assets, Loans &amp; Advances</b>	<b>9,084</b>	<b>10,611</b>	<b>11,795</b>	<b>13,596</b>
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
<b>Less: Current Liabilities &amp; Provisions</b>	<b>5,849</b>	<b>5,041</b>	<b>5,582</b>	<b>5,996</b>
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
<b>Total Assets</b>	<b>22,017</b>	<b>20,365</b>	<b>22,058</b>	<b>24,074</b>

E – Estimates

### Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
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>(B) As Percentage of Net Sales (%)</b>				
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
<b>(C) Measure of Financial Status</b>				
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
<b>(D) Measures of Investment</b>				
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
<b>(E) Valuation Ratios</b>				
CMP (Rs)	257	257	257	257
P/E	37.3	37.2	39.0	32.7
Mcap (Rs Mn)	116,814	116,814	116,814	116,814
MCap/ Sales	4.3	4.4	4.5	4.0
EV	115,641	116,832	115,705	114,185
EV/Sales	4.3	4.4	4.4	3.9
EV/EBITDA	15.9	16.9	16.8	14.4
P/BV	5.6	6.4	5.9	5.4
Dividend Yield (%)	1.6	3.6	1.2	1.4
<b>(F) Growth Rate (%)</b>				
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

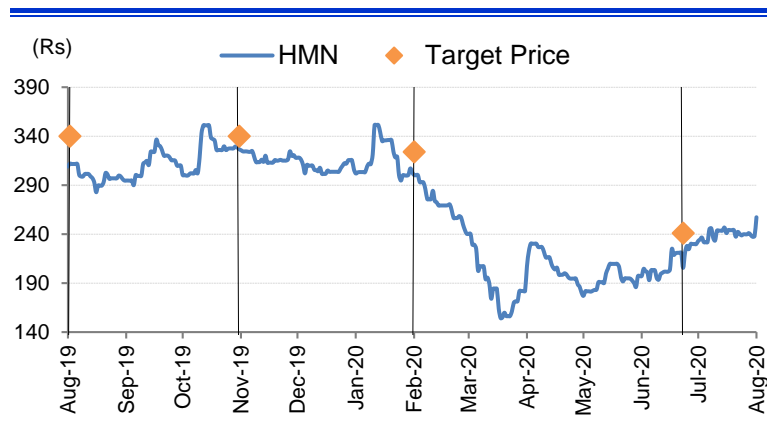
E – Estimates

### 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.)
Aug-19	Reduce	340	312
Nov-19	Reduce	340	327
Feb-20	Reduce	324	300
Jun-20	Accumulate	241	206

\*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	
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](mailto:research@dolatcapital.com) | [www.dolatresearch.com](http://www.dolatresearch.com)

---