



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✓	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✗	↔	✗
RV	✓	↔	✓

Reco/View

Change

Reco: Buy	↔
CMP: Rs. 351	
Price Target: Rs. 440	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

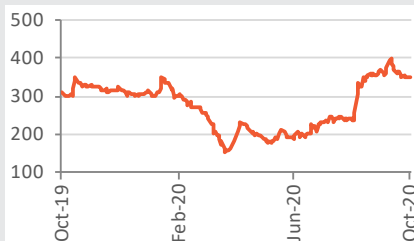
Company details

Market cap:	Rs. 15,720 cr
52-week high/low:	Rs. 407 / 141
NSE volume: (No of shares)	4.9 lakh
BSE code:	531162
NSE code:	EMAMILTD
Free float: (No of shares)	20.7 cr

Shareholding (%)

Promoters	53.9
FII	8.2
DII	29.1
Others	8.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.3	52.5	69.0	16.8
Relative to Sensex	-3.7	45.7	39.3	12.9

Sharekhan Research, Bloomberg

Summary

- We re-iterate our Buy rating on Emami with a PT of Rs. 440; receding risk of promoter pledging and better growth prospects make Emami a better pick in mid-cap FMCG space with discounted valuations of 21x FY22E earnings.
- Promoters' pledging has reduced to 47% from 95% in Q1FY2021; Group aims to reduce pledging by selling non-core assets (hospitals and real-estate property) in another 8-10 months.
- Sustained demand for health and immunity products and recovery in rural demand will help Q2 performance be sequentially better with a rise in margins due to benign raw material prices. Revenues likely to grow by 0-2%; OPM to expand by 268 bps in Q2FY2021.
- Strong traction in new products, focus on enhancing distribution reach and recovery in rural demand are key growth drivers in the near to medium term.

Emami is expected to regain growth momentum in Q2FY2021E with 45% of portfolio (largely health and hygiene portfolio) maintaining its growth momentum on the back of sustained high demand, while rest of the portfolio is recovering from Q1 lows (barring skin care products and deodorants). Further, a recovery in rural India (52% of domestic sales) is also supporting the overall domestic business performance. The international business, which registered 18% decline in Q1, is expected to post better performance on the back of good recovery in Bangladesh and MENA region. Overall, we expect Emami's revenues to remain flat in Q2FY2021E (compared to ~26% decline in Q1FY2021). The management is confident of achieving positive revenue growth for the remaining nine months of the fiscal (with sequential improvement). New launches are gaining good traction and currently contribute ~5% of overall revenue. The company is planning to launch new products under the home hygiene space in October. Mentha oil prices remain lower y-o-y (down by ~20%), which will help gross margins expand 150-170 bps y-o-y. This along with stringent managed media spends would result in 268 bps improvement in OPM to 31.9%. Further, promoters pledging has come down to 47% from 95% in Q1FY2021. The group plans to reduce it to zero by selling non-core assets over the next 8-10 months.

Our Call

View: Retain Buy with unchanged price target of Rs. 440: Recovery in rural market, new launches and expansion in the distribution reach remains one of the key growth drivers in the near to medium term. Further, the company is also focusing on reducing the seasonality in the business by revamping its portfolio. The stock is currently trading at discounted valuation of 21x its FY2022E EPS as compared to close peers. Improving growth prospects and receding risk of promoters pledging makes it a better pick in the mid-cap FMCG space. We maintain our Buy recommendation on the stock with an unchanged price target of Rs. 440.

Key Risks

Emami's product portfolio is seasonal. Hence, any weather vagaries or supply disruptions due to frequent lockdowns would affect performance in the near to medium term.

Valuations (Consolidated)

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenues	2,693	2,841	2,902	3,339	3,866
OPM (%)	26.9	27.9	29.4	30.0	31.1
Adjusted PAT	513	596	623	754	915
% YoY growth	2.2	16.2	4.4	21.1	21.3
Adjusted EPS (Rs.)	11.3	13.1	13.7	16.6	20.2
P/E (x)	31.1	26.7	25.5	21.1	17.4
P/B (x)	7.7	7.2	6.8	6.0	5.1
EV/EBIDTA (x)	21.7	19.6	18.1	15.1	12.3
RoNW (%)	25.1	27.9	27.4	30.2	31.9
RoCE (%)	28.8	33.6	36.2	38.8	40.6

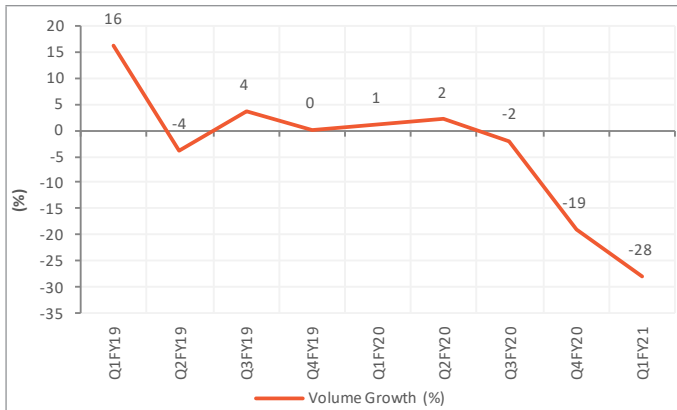
Source: Company; Sharekhan estimates

Key highlights of our interaction with Mr. Rajesh Sharma (Senior Vice President, Finance & Investor Relations)

- ◆ Emami registered a 26% decline in revenues in Q1FY2021 led by supply disruption during the lockdown affecting sales of some seasonal products (including Navratna cooling oil and cool talc). However, with easing of lockdown norms, growth recovered to 6% in June and improved to double digit in July. The management has indicated that the growth momentum has sustained in August and September.
- ◆ We expect flat to low single-digit growth in Q2FY2021E aided by sustained growth in health & hygiene portfolio (45% of portfolio; grew by 29% in Q1), recovery in rural demand (52% of domestic business) and gradual recovery in the rest of the portfolio (barring skin care and deodorants).
- ◆ Emami is re-focusing on products such as Chyawanprash (grew 7x in Q1) and honey (grew 5x in Q1). Though the contribution of these products to overall revenue is lower currently, they will support the revenue growth in the near to medium term. Zandu Pancharishta is growing in double-digits. New launches are gaining good traction and currently contribute ~5% of overall revenue.
- ◆ Mentha oil prices have remained benign and stood lower by ~20% y-o-y in Q2FY2021, which will help gross margins to remain high on y-o-y basis. This will also be supported by lower HDPE prices. Industry sources also suggest that the Mentha oil prices are expected to remain benign due to lesser demand in the coming quarters.
- ◆ The company has maintained its target of cost saving of Rs. 50-60 crore per-annum. Benign input prices and lower operating cost will help OM to remain high y-o-y.
- ◆ Overall, we expect Emami's revenue to remain flat or to grow by low single digit. Gross margins are likely to improve by 150-170 bps, while OPM is expected to improve by 250-270 bps to 32% in Q2FY2021E. The management is confident that the company will achieve revenue growth in remaining nine months of FY2021 (with an improvement in performance on quarter-on-quarter basis).
- ◆ Emami has a wide distribution reach of 4.5 million outlets and the company is currently focusing on improving the presence in these outlets. Sales from e-Commerce channels are gaining strong traction, which has improved to 1.5% of sales from mere 0.5% in FY2020. The company is targeting the contribution from e-Commerce to improve to 2-3% over the next 2-3 years.
- ◆ Promoters' pledging has come down to 47% from 95% in Q1FY2021. The group plans to reduce it to zero by selling non-core assets (including hospitals and other real estate projects) over the next 8-10 months.

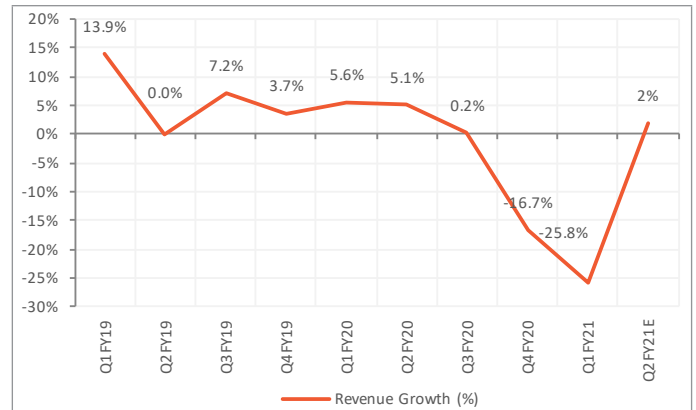
Financials in charts

Volumes slumped due to lockdowns in Q1FY2021



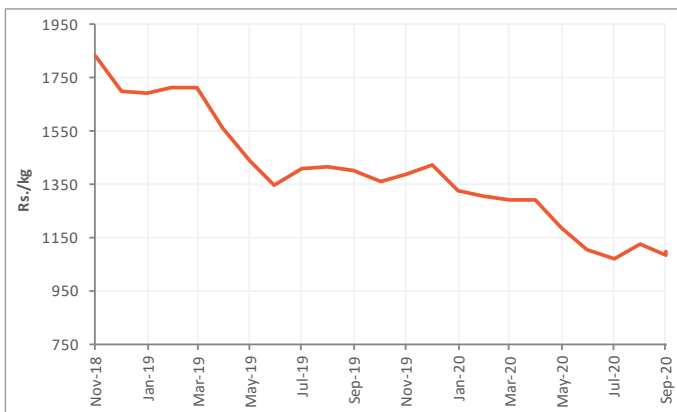
Source: Company, Sharekhan Research

Revenue expected to post strong recovery in Q2



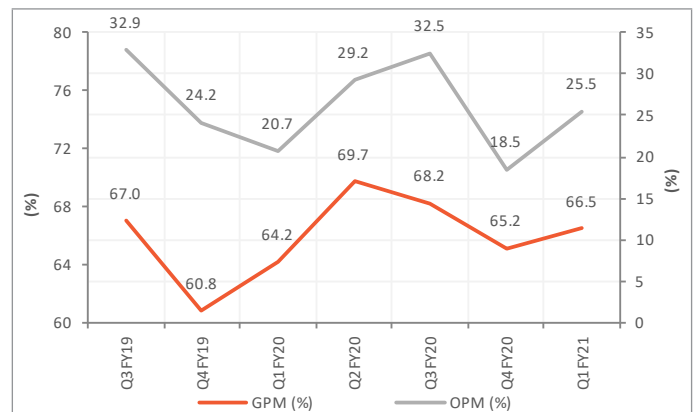
Source: Company, Sharekhan Research

Mentha prices have remained soft....



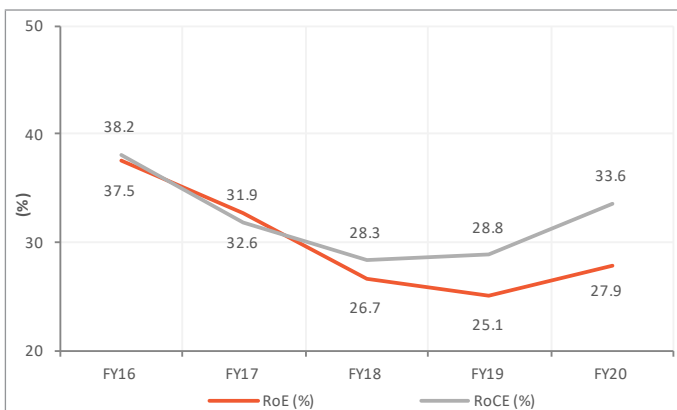
Source: Bloomberg

...GPM and OPM expanded y-o-y in Q1FY2021



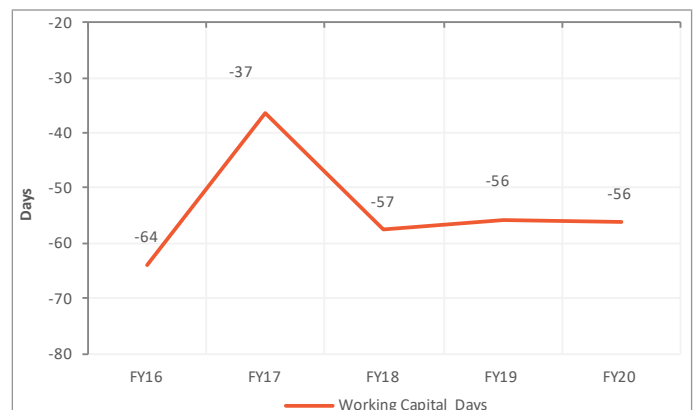
Source: Company, Sharekhan Research

Return ratios to improve



Source: Company, Sharekhan Research

Stable working capital cycle



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector outlook - Demand for personal hygiene and healthcare products remained strong

A nation-wide lockdown in April-May severely impacted supply chain of consumer goods companies. Strong recovery was seen in June and continued in July and August. Healthcare products and personal hygiene products registered strong demand due to spread of Coronavirus in India. The AYUSH (Ayurveda, Yoga & Naturopathy, Unani, Siddha and Homeopathy) market currently stands at ~ Rs. 760 billion and is projected to see strong growth with the support of the government. Having ancient roots, the rural population of India has always looked to Ayurvedic home remedies which further strengthen the base for Ayurveda-based healthcare products. Also, penetration of healthcare products is good in the urban markets. We believe that in the current pandemic environment, the demand for immunity boosting healthcare products will remain strong.

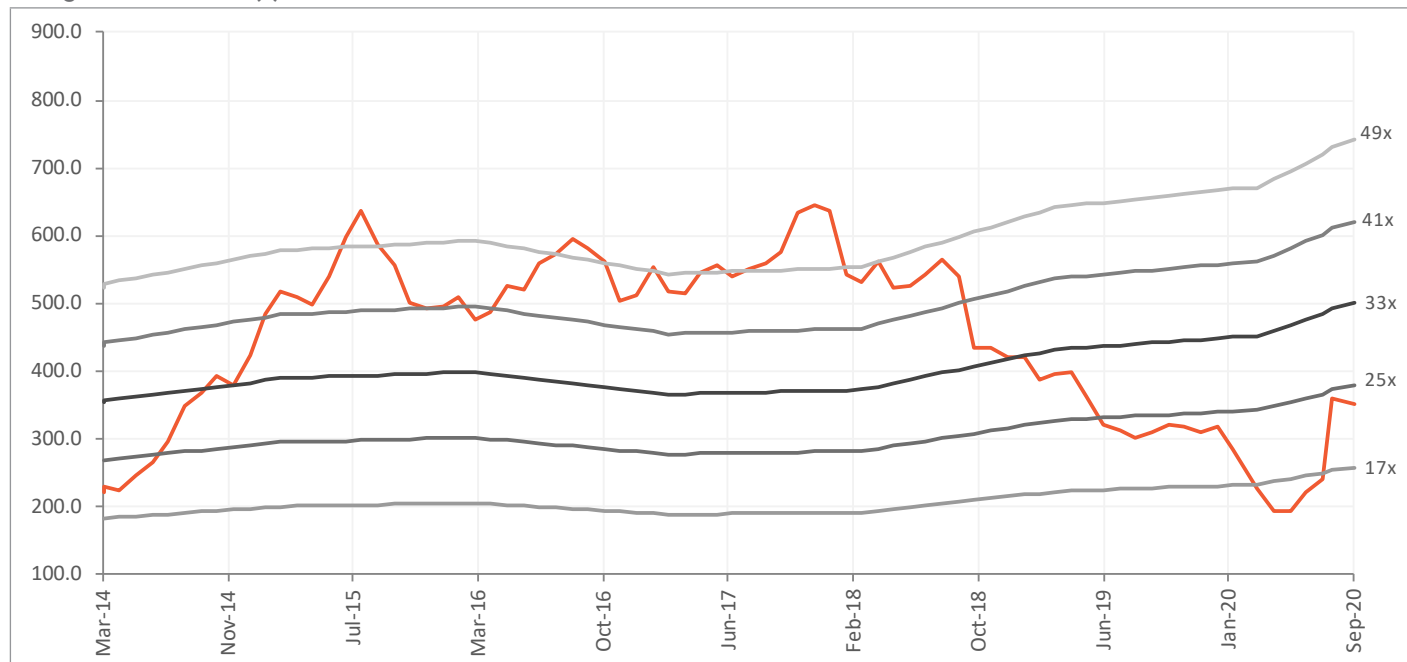
■ Company outlook - Management regained focus on growth

Revenue grew in mid-single digits in FY2019 and FY2020 affected by seasonality of product portfolio, heightened competition in some key categories and muted growth in healthcare portfolio. Q1FY2021 was affected by supply disruptions caused by lockdown resulting in an over 20% decline in revenue. However, health and hygiene portfolio (43% of revenue) registered strong double-digit revenue growth. Also, new product launches under healthcare categories are gaining good traction. The company expects to achieve revenue growth in next nine months of the fiscal (with sequential improvement in performance). Benign input prices (Mentha oil prices continue to remain lower by ~20%) and cost cutting measures (expecting cost savings of Rs. 50-60 crore) would help OPM to remain high on y-o-y basis in FY2021. Recovery in rural demand, strong traction in healthcare products and sustenance of new launches remain key growth drivers in the near term.

■ Valuation - Discounted valuations and receding risk of promoters pledging makes it better pick

Recovery in rural market, new launches and expansion in the distribution reach remains one of the key growth drivers in the near to medium term. Further, the company is also focusing on reducing the seasonality in the business by revamping its portfolio. The stock is currently trading at discounted valuation of 21x its FY2022E EPS as compared to close peers. Improving growth prospects and receding risk of promoters pledging makes it a better pick in the mid-cap FMCG space. We maintain our Buy recommendation on the stock with an unchanged price target of Rs. 440.

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	60.2	55.9	44.4	50.4	45.3	35.8	27.0	26.5	29.5
Marico	45.5	44.1	36.7	33.0	31.5	26.4	41.3	40.7	43.1
Emami	26.7	25.5	21.1	19.6	18.1	15.1	33.6	36.2	38.8

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 Website

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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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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