

Stellar performance continues; Upgrade to Buy

- Emami's Q3FY21 results were ahead of our estimates. Domestic business jumped 16%, while IB posted 26% revenue growth in Q3.
- Barring Navratna range, all other products posted positive growth, demonstrating encouraging performance. Healthcare range maintained strong acceleration with 38% growth.
- Emami launched 30 new products during 9MFY21. NPD contributes 4% of domestic revenues.
- IB posted 26% growth driven by 8% increase in SAARC and 82% growth in MENAP. The company launched immune booster, sanitizers and hygiene products in IB. NPD contribution stood at 6% in IB in 9MFY21.
- 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, especially in rural markets. Considering strong performance, we upgrade to BUY with TP of Rs 575 (30x FY23E CEPS).

Operational performance was a beat

Net sales jumped 14.9% YoY to Rs 9.3bn in Q3FY21 – came ahead of our estimate. Volume growth in the domestic business stood at 13%. GM expanded by 210bps driven by benign RM prices. In addition, 100/40/40 bps decline in employee/A&P spends/other expense resulted in 390bps increase in EBITDA margin to 36.4% highest ever. EBITDA increased 28.9% YoY to Rs 3.4bn – came ahead of our estimate. APAT increased 44.7% to Rs 2.1bn – came ahead of our estimate.

Continued growth momentum at category level

During the quarter, Healthcare products (+38%), Pain management products (+12%), BoroPlus (+21%), Male grooming products (+5%) and Kesh King (+16%) reported strong growth during the quarter. Better rural growth and increased demand for health and hygiene products augmented growth for these products. However, Navratna (-12%) posted significant de-growth due to seasonality. We are encouraged by the performance as the company posted strong volume growth despite 27% decline in CSD business. Going ahead, NPD pipeline would remain a key for future growth.

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	9,336	8,126	14.9	7,348	27.1
Total Expense	5,934	5,486	8.2	4,777	24.2
EBITDA	3,402	2,640	28.9	2,571	32.3
Depreciation	944	856	10.3	1,148	(17.8)
EBIT	2,458	1,785	37.7	1,423	72.8
Other Income	92	156	(41.1)	79	16.3
Interest	14	49	(72.2)	25	(44.8)
EBT	2,536	1,859	36.5	1,477	71.8
Tax	438	398	9.9	284	54.2
RPAT	2,090	1,444	44.7	1,184	76.5
APAT	2,090	1,477	41.5	1,184	76.5
			(bps)		(bps)
Gross Margin (%)	70.4	68.2	214	70.3	11
EBITDA Margin (%)	36.4	32.5	395	35.0	145
NPM (%)	22.4	17.8	461	16.1	627
Tax Rate (%)	17.3	21.4	(416)	19.2	(197)
EBIT Margin (%)	26.3	22.0	437	19.4	697

CMP	Rs 483
Target / Upside	Rs 575 / 19%
NIFTY	13,968

Scrip Details

Equity / FV	Rs 453mn / Rs 1
Market Cap	Rs 219bn
	USD 3bn
52-week High/Low	Rs 501/ 131
Avg. Volume (no)	8,33,848
Bloom Code	HMN IN

Price Performance	1M	3M	12M
Absolute (%)	13	30	49
Rel to NIFTY (%)	12	13	34

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	53.4	53.9	53.9
MF/Banks/FIs	35.8	32.5	27.4
FIIIs	5.7	9.0	9.6
Public / Others	5.1	4.7	9.2

Valuation (x)

	FY21E	FY22E	FY23E
P/E	51.5	47.9	44.0
EV/EBITDA	24.5	21.8	20.8
ROE (%)	22.0	21.0	20.4
RoACE (%)	20.5	19.9	19.5

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	29,262	32,391	34,658
EBITDA	8,853	9,799	10,139
PAT	4,258	4,576	4,975
EPS (Rs.)	9.4	10.1	11.0

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: Q3FY21 Actual V/s DART estimates

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	9,336	8,777	6.4	Better than estimated seasonal performance and consumption environment
EBITDA	3,402	3,009	13.0	
EBITDA margin %	36.4	34.3	210 bps	Lower than estimates RM cost and other expenses
APAT	2,090	1,557	34.2	Cascading effect of higher revenue and EBITDA

Source: Company, DART

Exhibit 2: Change in estimates

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Net Revenue	29,262	27,737	5.5	32,391	30,696	5.5	34,658	32,845	5.5
EBITDA	8,853	8,392	5.5	9,799	9,287	5.5	10,139	9,608	5.5
EBITDA Margin (%)	30.3	30.3	0bps	30.3	30.3	0bps	29.3	29.3	0bps
APAT	4,258	3,308	28.7	4,576	4,021	13.8	4,975	4,391	13.3
EPS	9.4	7.3	28.7	10.1	8.9	13.8	11.0	9.7	13.3

Source: Company, DART

We have upward revised our revenue growth for FY21E, FY22E and FY23E to factor in strong growth in Q3FY21 and ongoing investments in new products. However, we have maintained margin estimates as the increase in RM would be mitigated by operating efficiencies. In line with the revision in EBITDA, we have revised our APAT estimates.

Exhibit 3: 9MFY21 performance

Particulars (Rs.mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Net Revenue	9,336	8,126	14.9	7,348	27.1	21,498	21,222	1.3
Total Expenditure	5,934	5,486	8.2	4,777	24.2	14,295	15,302	(6.6)
RM Cost	2,766	2,582	7.1	2,185	26.6	6,564	6,905	(4.9)
Employee Cost	767	749	2.5	784	(2.1)	2,332	2,275	2.5
Ad spends	1,554	1,383	12.4	1,081	43.7	3,232	3,722	(13.2)
Other Exp	848	773	9.6	728	16.4	2,167	2,400	(9.7)
PBIDT (Excl OI)	3,402	2,640	28.9	2,571	32.3	7,203	5,920	21.7
Other Income	92	156	(41.1)	79	16.3	238	426	(44.2)
Depreciation	944	856	10.3	1,148	(17.8)	2,840	2,511	13.1
EBIT	2,550	1,941	31.4	1,502	69.8	4,600	3,835	20.0
Interest	14	49	(72.2)	25	(44.8)	86	186	(54.0)
Exceptional Items	0	-33	NM	0	NM	0	(33)	NM
PBT	2,536	1,859	36.5	1,477	71.8	4,515	3,616	24.8
Tax	438	398	9.9	284	54.2	817	786	3.8
RPAT	2,099	1,460	43.7	1,193	75.9	3,698	2,830	30.7
Minority Interest	9	16	(44.4)	9	3.5	28	33	(14.5)
APAT (After EI & OCI)	2,090	1,477	41.5	1,184	76.5	3,670	2,830	29.7
EPS (Rs)	4.6	3.1	45.7	2.6	77.0	8.0	6.1	30.8
			bps		bps			bps
Gross Profit (%)	70.4	68.2	210	70.3	10	69.5	67.5	200
Ad spends (%)	16.6	17.0	(40)	14.7	190	15.0	17.5	(250)
Employee cost (%)	8.2	9.2	(100)	10.7	(250)	10.8	10.7	10
Other Exp (%)	9.1	9.5	(40)	9.9	(80)	10.1	11.3	(120)
EBITDA (%)	36.4	32.5	390	35.0	150	33.5	27.9	560
PAT (%) Adj	22.4	18.2	420	16.1	630	17.1	13.3	370

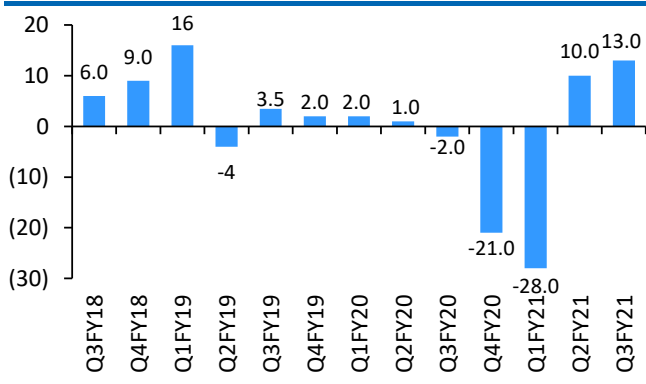
Source: Company, DART

Concall Key Takeaways

- Management indicated that margins are not under pressure currently. It is witnessing increase in RM since last 30 days. There is room for price increase in some categories and for further cost reduction.
- Emami launched 30+ new products and 60+ SKU's in 9MFY21. New launches contributed to 3% in Q3FY21 and 4% of domestic sales in 9MFY21. Emasol Range of home hygiene products (Floor Cleaner, Toilet Cleaner, Dishwash Gel & Surface Sanitizer), were launched during Q3. It has been receiving positive response. The company also launched Zandu Ortho Vedic Oil for knee and joint pain relief.
- Fair & Handsome is back on growth track and has been relaunched in markets in new differentiated packaging. This led to recovery in male grooming range (+5% YoY).
- Within Healthcare portfolio (+38% YoY), Chyavanprash portfolio grew by 24%, Zandu Honey by 2.5x and Pancharishta by 19% YoY. Despite stiff competition, company remains optimistic in Honey business.
- Modern trade, (~ 9% to sales) grew 51% in Q3, E-com channels contribution grew 210bps to 3.1%. Ecom grew 3.5x in Q3. Emami's recently launched own e-commerce portal- 'www.zanducare.com' has been growing strongly MoM. The CSD business declined by 27% during the quarter.
- Wholesale contribution currently stands at 40-42%. The company expects wholesale contribution to decline further.

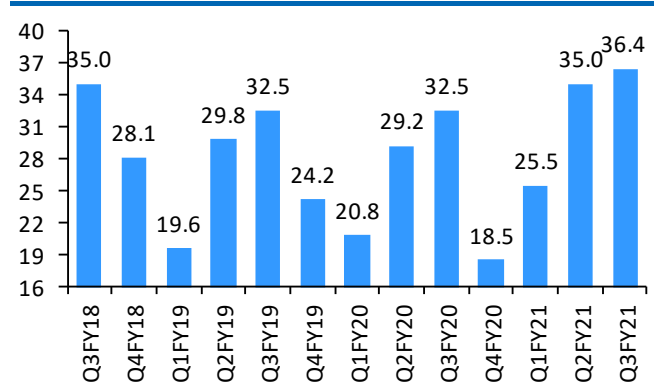
- While rural markets continued to perform better, growth in urban markets also picked up.
- Promoter pledge is at 36% now and is likely to become nil in next couple of months.
- Company expects EBITDA margin in the range of ~30% going ahead with judicious price increases and cost optimization initiatives.
- Management is optimistic to close the year with a high single-digit overall growth. It expects double digit volume growth in Q4FY21E.
- Ad-spends having returned to pre-COVID levels, the company will continue to invest in existing brand and categories, to increase penetration.
- The BOD declared second interim dividend of Rs. 4/- per equity share.

Trend in Domestic Volume Growth (YoY%)



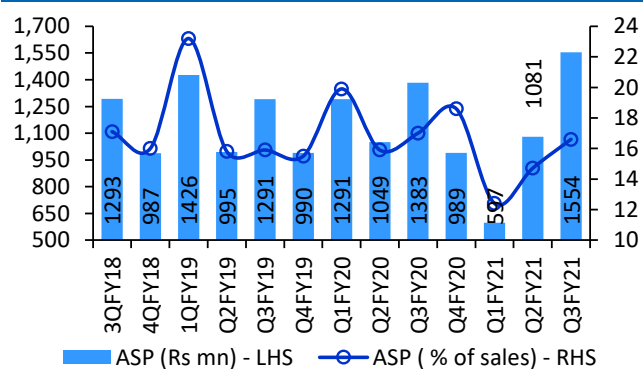
Source: Company, DART

Trend in EBITDA Margins (%)



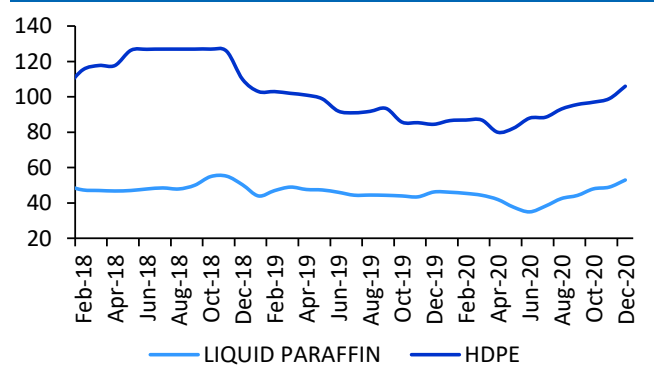
Source: Company, DART

Trend in A&P Spends



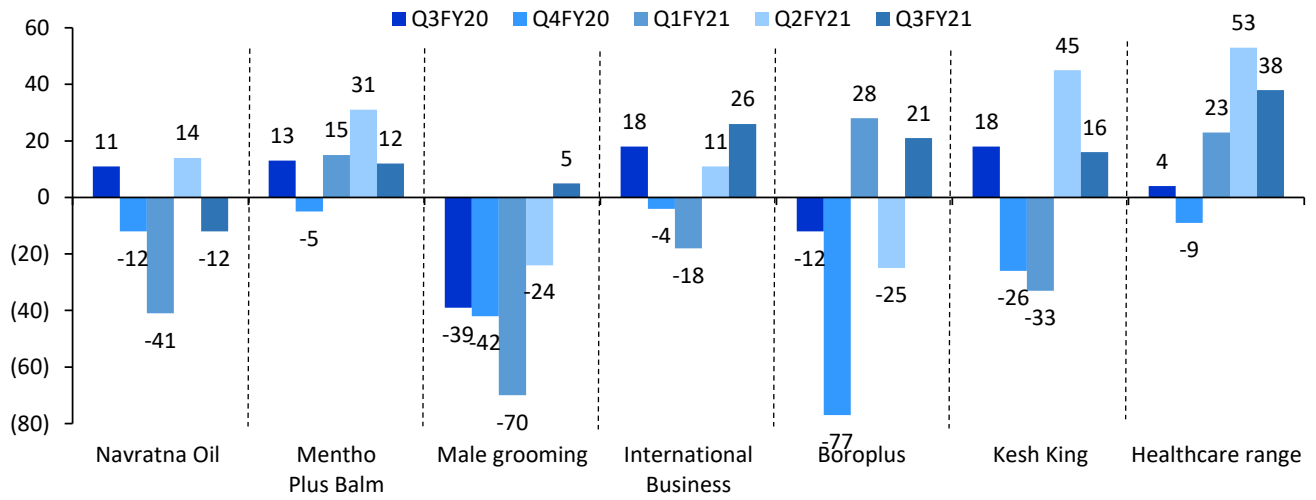
Source: Company, DART

Exhibit 7: RM Cost of Liquid Paraffin (Rs/l) & HDPE (Rs/kg)



Source: Company, DART

Exhibit 8: Category-wise Growth Trend (YoY%)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	26,549	29,262	32,391	34,658
Total Expense	19,643	20,409	22,591	24,519
COGS	8,761	9,364	10,365	11,091
Employees Cost	2,995	3,511	3,563	3,812
Other expenses	7,887	7,534	8,663	9,616
EBIDTA	6,905	8,853	9,799	10,139
Depreciation	3,363	3,779	4,461	4,587
EBIT	3,542	5,074	5,338	5,552
Interest	210	109	126	147
Other Income	571	303	525	838
Exc. / E.O. items	(107)	0	0	0
EBT	3,796	5,268	5,737	6,242
Tax	713	948	1,090	1,186
RPAT	3,030	4,258	4,576	4,975
Minority Interest	54	62	71	82
Profit/Loss share of associates	0	0	0	0
APAT	3,136	4,258	4,576	4,975

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	453	453	453	453
Minority Interest	(9)	53	124	205
Reserves & Surplus	17,784	20,106	22,601	25,314
Net Worth	18,238	20,559	23,055	25,767
Total Debt	2,102	2,102	2,102	2,102
Net Deferred Tax Liability	34	34	34	34
Total Capital Employed	20,365	22,749	25,315	28,109

Applications of Funds

Net Block	14,058	14,479	14,218	13,831
CWIP	69	70	70	70
Investments	668	668	668	668
Current Assets, Loans & Advances	10,611	13,567	16,857	20,377
Inventories	2,446	2,806	3,017	3,133
Receivables	3,080	3,447	3,550	3,798
Cash and Bank Balances	1,190	3,419	6,394	9,550
Loans and Advances	2,490	2,490	2,490	2,490
Other Current Assets	510	510	510	510
Less: Current Liabilities & Provisions	5,041	6,036	6,498	6,837
Payables	3,244	4,239	4,701	5,040
Other Current Liabilities	1,797	1,797	1,797	1,797
<i>sub total</i>				
Net Current Assets	5,570	7,531	10,358	13,540
Total Assets	20,365	22,749	25,315	28,109

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	67.0	68.0	68.0	68.0
EBIDTA Margin	26.0	30.3	30.3	29.3
EBIT Margin	13.3	17.3	16.5	16.0
Tax rate	18.8	18.0	19.0	19.0
Net Profit Margin	11.4	14.6	14.1	14.4
(B) As Percentage of Net Sales (%)				
COGS	33.0	32.0	32.0	32.0
Employee	11.3	12.0	11.0	11.0
Other	29.7	25.7	26.7	27.7
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	16.9	46.4	42.3	37.7
Inventory days	34	35	34	33
Debtors days	42	43	40	40
Average Cost of Debt	13.1	5.2	6.0	7.0
Payable days	45	53	53	53
Working Capital days	77	94	117	143
FA T/O	1.9	2.0	2.3	2.5
(D) Measures of Investment				
AEPS (Rs)	6.9	9.4	10.1	11.0
CEPS (Rs)	14.3	17.7	19.9	21.1
DPS (Rs)	9.2	4.3	4.6	5.0
Dividend Payout (%)	133.6	45.5	45.5	45.5
BVPS (Rs)	40.2	45.3	50.8	56.8
RoANW (%)	15.5	22.0	21.0	20.4
RoACE (%)	16.0	20.5	19.9	19.5
RoAIC (%)	18.1	26.4	27.9	29.6
(E) Valuation Ratios				
CMP (Rs)	483	483	483	483
P/E	69.9	51.5	47.9	44.0
Mcap (Rs Mn)	2,19,123	2,19,123	2,19,123	2,19,123
MCap/ Sales	8.3	7.5	6.8	6.3
EV	2,19,140	2,16,912	2,13,936	2,10,781
EV/Sales	8.3	7.4	6.6	6.1
EV/EBITDA	31.7	24.5	21.8	20.8
P/BV	12.0	10.7	9.5	8.5
Dividend Yield (%)	1.9	0.9	0.9	1.0
(F) Growth Rate (%)				
Revenue	(1.5)	10.2	10.7	7.0
EBITDA	(5.0)	28.2	10.7	3.5
EBIT	(11.9)	43.3	5.2	4.0
PBT	(6.4)	38.8	8.9	8.8
APAT	0.2	35.8	7.5	8.7
EPS	0.2	35.8	7.5	8.7

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	5,204	8,475	9,382	9,764
CFI	(2,649)	(4,201)	(4,200)	(4,200)
CFF	(3,398)	(2,045)	(2,207)	(2,409)
FCFF	3,723	4,274	5,182	5,564
Opening Cash	2,034	1,190	3,419	6,394
Closing Cash	1,190	3,419	6,394	9,550

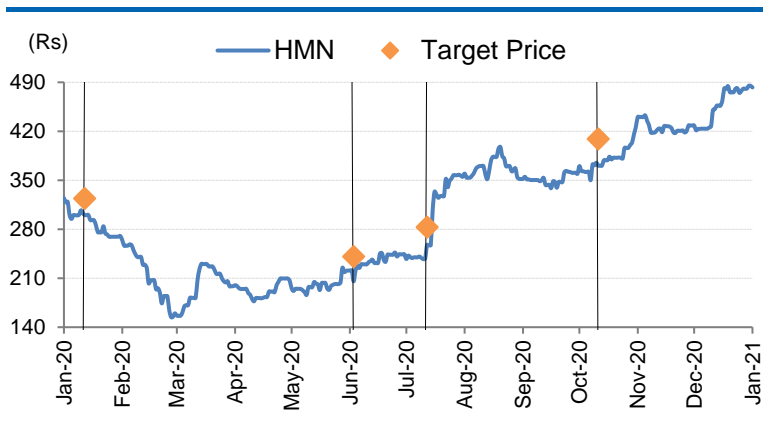
E – Estimates

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-20	Reduce	324	300
Jun-20	Accumulate	241	206
Aug-20	Accumulate	283	257
Nov-20	Accumulate	409	371

*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

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

SEBI Registration No: BSE – INZ000274132, NSE - INZ000274132, 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
