



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. 483	
Price Target: Rs. 570	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

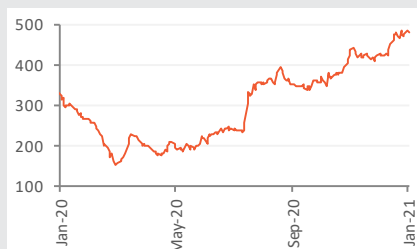
Company details

Market cap:	Rs. 21,470 cr
52-week high/low:	Rs. 505 / 141
NSE volume: (No of shares)	9.7 lakh
BSE code:	531162
NSE code:	EMAMILTD
Free float: (No of shares)	20.5 cr

Shareholding (%)

Promoters	53.9
FII	9.0
DII	28.6
Others	8.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	13.4	30.3	103.4	49.1
Relative to Sensex	13.2	13.3	78.4	33.9

Sharekhan Research, Bloomberg

Summary

- Emami posted strong performance in Q3FY2021. Revenue and PAT grew by 15% and 29%, respectively (OPM improved by 395bps to 36.4%), led by broad-based growth across key categories.
- Domestic business sales volume grew by 13% against our and street expectation of 11%-14% growth. International business revenue grew by 26%, led by strong performance of MENAP and SAARC regions.
- Healthcare range, Boroplus range, and 7-in-one oils registered strong growth of 38%, 21%, and 32%, respectively, in Q3.
- Management is confident of achieving double-digit volume growth with margin expansion in Q4. We maintain Buy with a revised PT of Rs. 570. The stock is currently trading at 23x its FY2023E EPS.

Emami's revenue grew by 15% to Rs. 933.6 crore in Q3FY2021, driven by 16% growth in domestic business and strong 26% growth in the international business. Domestic volumes grew by 13%, much better than 10% volume growth achieved in Q2FY2021. The quarter witnessed all-round growth across major brands; Healthcare range grew by 38%, Boroplus grew by 21%, Kesh King grew by 16%, pain management range grew by 12%, and 7-in-one oils grew by 32%. Male grooming range recovered and posted positive growth, led by the relaunch of *Fair and Handsome* range. Gross margin improved by 214bps to 70.4% due to benign input prices. OPM expanded by 395 bps to 36.4% mainly on account of stringent cost-control measures. Rural markets continued to perform better, growth in urban markets also picked up. All channels continued to perform well and posted convincing growth with the e-commerce channel (contributes 3.1% to overall revenue) growing by 3.5x during the quarter. Modern trade (contributes ~9% to overall revenue) also registered strong growth of 51% during the quarter. With penetration of most key categories improving by 3%-4%, strong traction in healthcare products (up 38% in Q3 and 39% in 9M), and premium hair oils and pain management products, management is confident of achieving double-digit volume growth in Q4FY2021. New product launches (3% of overall revenue), increased distribution reach, and market share gains in key categories remain key growth drivers in the near to medium term. Menth prices continue to remain benign, which along with cost-saving initiatives would help OPM to remain high in the coming quarters. The company has declared second interim dividend of Rs. 4 per share (1st interim dividend was of Rs. 4 per share).

Key positives

- Volume growth recovered to 13% in Q3 with strong growth in some key categories.
- Healthcare range, Boroplus range, and 7-in-one oils brand registered quarterly sales growth of 38%, 21%, and 32%, respectively.
- Zandu Pancharishta grew by 19%, while Chyawanprash sales grew by 24%.

Key negatives

- Navratna range revenue declined by 12% in Q3.

Our Call

View- Retain Buy with a revised PT of Rs. 570: We have revised upwards our earnings estimates for FY2021/FY2022/FY2023 to factor in better-than-expected operating performance in Q3FY2021. We expect Emami's revenue and PAT to post CAGR of 11% and 17%, respectively, over FY2020-FY2023. Promoters' pledge currently stands at 36% and the group is targeting to reduce it significantly by H1FY2022. Emami's consistent performance for the past two quarters, management's focus on improving growth prospects (launched 30 new products in 9MFY2021), and focus on improving shareholders' value make it a better pick in the mid-cap FMCG space. The stock is currently trading at 22.7x its FY2023E EPS. We maintain our Buy recommendation on the stock with a revised PT of Rs. 570.

Key risk

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

Valuations (Consolidated)

Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	2,693	2,841	2,967	3,415	3,925
OPM (%)	26.9	27.9	31.7	31.7	32.1
Adjusted PAT	513	596	692	822	964
% YoY growth	2.2	16.2	16.1	18.7	17.2
Adjusted EPS (Rs.)	11.3	13.1	15.3	18.1	21.2
P/E (x)	42.9	36.7	31.7	26.7	22.7
P/B (x)	10.6	9.9	9.1	7.9	6.7
EV/EBIDTA (x)	30.0	27.2	22.7	19.4	16.3
RoNW (%)	25.1	27.9	30.0	31.6	31.8
RoCE (%)	28.8	33.6	39.4	40.5	40.4

Source: Company; Sharekhan estimates

Revenue grew by 15%, lower input costs, and stringent cost measures boosted OPM: In Q3FY2021, consolidated revenue grew by 15% y-o-y to Rs. 933.6 crore, much better than our expectation of Rs. 939.2crore, driven by 13% growth in domestic sales volume. Consolidated gross margin expanded by 214 bps to 70.4% due to benign raw-material prices. This, along with stringent cost-controlled measures, resulted in a 395bps expansion in OPM to 36.4%. Thus, operating profit grew by 28.9% y-o-y to Rs. 340.2crore. Despite lower other income, lower finance costs led PBT to grow by 23.9% y-o-y to Rs. 313.9crore. Adjusted PAT grew by 29% y-o-y to Rs. 258.1crore as against our expectation of Rs. 243.5crore. Reported PAT came in at Rs. 209 crore due to exceptional items, which includes a post-tax amortisation cost of Rs. 48.2 crore. Depreciation charges grew by 60% to Rs. 34.1crore as the company has revised the useful life of tangible assets related to moulds from 10 years to 7 years in the current quarter, resulting in an increase of Rs. 12 crore in depreciation for the quarter and 9MFY2021.

Healthcare, Boroplus, Kesh King, and 7-in-one oil delivered strong performance: Emami continued its growth momentum in the third quarter with broad-based growth across its portfolio. Healthcare range grew by 38%, *Boroplus* grew by 21%, *Kesh King* grew by 16%, pain management range grew by 12%, and *7-in-one* oils grew by 32%. *Fair & Handsome* registered growth of 5% post its relaunch in the middle of Q3. Higher investment behind media and promotional spends helped Fair & Handsome to deliver growth after five quarters of decline. Rural has seen strong traction for the product. Emami has forayed into the homecare category with the launch of products such as floor cleaners, bathroom cleaners, and dishwashing gel under the brand name, *Emasol*, in the domestic market. With the launch of this brand, the company has extended its product portfolio from personal care and healthcare range of products to home care (contributes ~14% to overall domestic consumer goods market). The company also launched *Zandu Ortho Vedic Oil* for knee and joint pain relief (category size is around Rs. 250crore). *7-in-one oil* registered good growth across the Hindi belt, while *Kesh King* oil registered good growth across all states. Increasing demand is coming from international markets (including Bangladesh, SAARC, and Middle East). Good momentum in premium oils was seen in January as well. The company launched 30 new products (60 new SKUs) in 9MFY2021. Further, the company is committed to launch new products in the healthcare range of products in the coming quarters. In the international market, new launches under *Creme 21* range of products gained good traction. The brand registered growth of 80%+ in Q3.

Category/brand-wise growth

Key brands/Category	YoY (%)	
	Q3FY21	9MFY21
Healthcare range	38	39
Pain management range	12	19
Navratna range	-12	-22
Kesh King range	16	7
Boroplus range	21	7
Male groom range	5	-37
7-in-one oil	32	1

Source: Company; Sharekhan Research

Results (Consolidated)

				Rs cr	
Particulars	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Net revenue	933.6	812.6	14.9	734.8	27.1
Raw materials	276.6	258.2	7.1	218.5	26.6
Employee costs	76.7	74.9	2.5	78.4	-2.1
Ad promotions	155.4	138.3	12.4	108.1	43.7
Other expenses	84.8	77.3	9.6	72.8	16.4
Total expenditure	593.4	548.6	8.2	477.7	24.2
Operating profit	340.2	264.0	28.9	257.1	32.3
Other income	9.2	15.6	-41.1	7.9	16.3
Finance costs	1.4	4.9	-72.2	2.5	-44.8
Depreciation	34.1	21.4	59.4	21.6	57.8
Profit before tax	313.9	253.3	23.9	240.9	30.3
Tax	55.8	53.3	4.7	47.0	18.7
Adjusted PAT	258.1	200.0	29.0	193.8	33.1
Minority interest	-0.9	-1.6	-	-0.8	-
Adjusted PAT after MI	257.2	198.4	29.6	193.0	33.2
Extra-ordinary items	48.2	53.9	-10.6	74.6	-35.3
Reported PAT	209.0	144.4	44.7	118.5	76.4
Adjusted EPS (Rs.)	5.7	4.4	29.0	4.4	30.4
			bps		bps
GPM (%)	70.4	68.2	214	70.3	11
OPM (%)	36.4	32.5	395	35.0	145

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Growth momentum to sustain; Healthcare products continue to gain traction

The FMCG sector saw strong recovery in Q3FY2021, growing by 5% (as compared to a 1% in Q2FY2021), led by easing of lockdown norms and strong growth in rural markets. Rural growth stood at ~11% compared to double-digit decline in key top cities. Healthcare products and personal hygiene products registered strong demand due to spread of COVID-19 in India. The AYUSH (Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homeopathy) market is currently worth ~Rs. 76,000 crore and is projected to see strong growth with the government's support. Having ancient roots, the rural population of India has always looked to Ayurvedic home remedies, which further strengthens the base for Ayurveda-based healthcare products. Moreover, penetration of healthcare products is good in urban markets. We believe demand for immunity-boosting healthcare products will remain strong in the current pandemic environment.

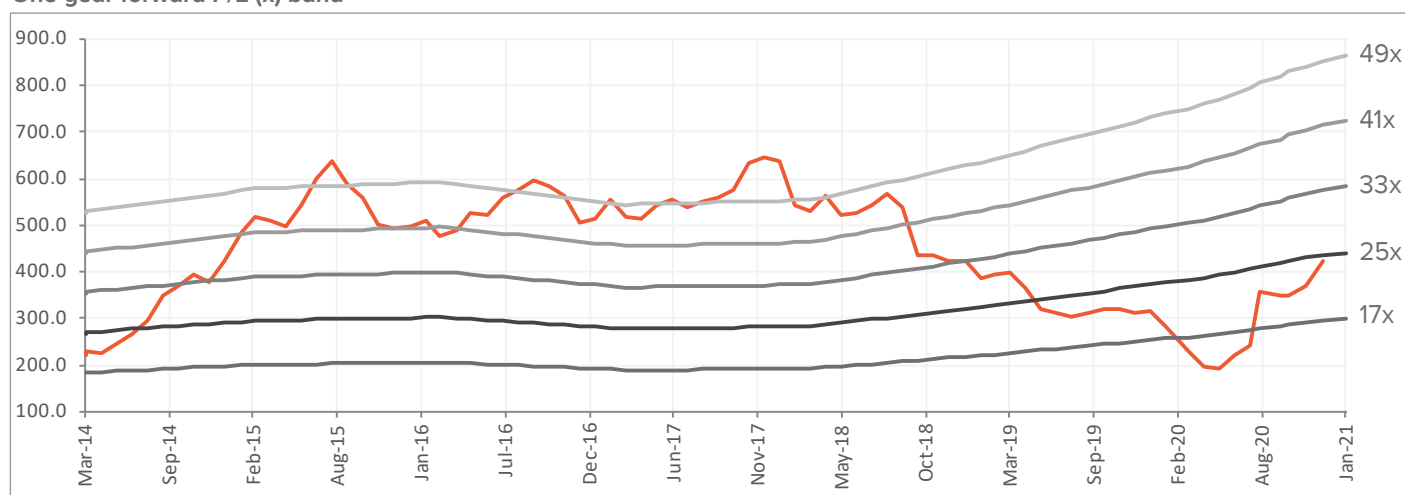
■ Company Outlook – Growth trajectory to improve and margin expansion to sustain in H2FY2021

With strong recovery in volume growth in Q2 and Q3 and expected double-digit volume growth in Q4, management is confident of achieving high single-digit growth in FY2021. With penetration of most key categories improving by 3%-4%, strong traction in healthcare products (up 38% in Q3 and 39% in 9M), premium hair oils, and pain management products, management is confident of achieving double-digit volume growth in Q4FY2021. New product launches (3% of overall revenue), increased distribution reach, and market share gains in key categories remain key growth drivers in the near to medium term. Mentha prices continue to remain benign, which along with cost-saving initiatives would help OPM to remain high in the coming quarters.

■ Valuation – Retain Buy with a revised PT of Rs. 570

We have revised upwards our earnings estimates for FY2021/FY2022/FY2023 to factor in better-than-expected operating performance in Q3FY2021. We expect Emami's revenue and PAT to register CAGR of 11% and 17%, respectively, over FY2020-FY2023. Promoters pledge currently stands at 36% and the group is targeting to reduce it significantly by H1FY2022. Emami's consistent performance for the past two quarters, management's focus on improving growth prospects (launched 30 new products in 9MFY2021), and focus on improving shareholders' value make it a better pick in the mid-cap FMCG space. The stock is currently trading at 22.7x its FY2023E EPS. We maintain our Buy recommendation on the stock with a revised PT of Rs. 570.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Dabur	55.7	45.6	38.6	45.1	36.7	30.7	26.9	29.2	29.4
Marico	45.9	38.5	34.0	33.0	28.1	24.8	44.5	52.3	54.1
Emami	31.7	26.7	22.7	22.7	19.4	16.3	39.4	40.5	40.4

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 haircare 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 give us an indication that 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 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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