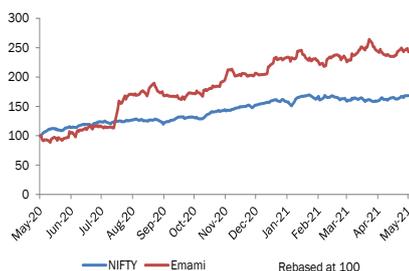


Growth momentum expected to uphold despite momentary blip

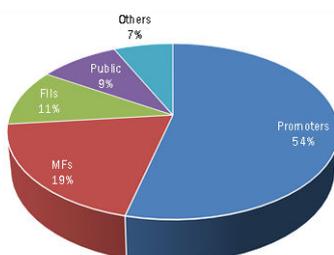
BUY

Sector	: FMCG
Target Price	: Rs 575
Current Market Price	: Rs 500
Market Cap	: Rs 22,218 crore
52-week High/Low	: Rs 547/184
Daily Avg Vol (12M)	: 9,05,771
Face Value	: Rs 1
Beta	: 0.83
Pledged Shares	: 18%
Year End	: March
BSE Scrip Code	: 531162
NSE Scrip Code	: EMAMILTD
Bloomberg Code	: HMN IN
Reuters Code	: EMAM.NS
Nifty	: 15,208
BSE Sensex	: 50,638
Analyst	: Ritwik Bhattacharjee

Price Performance



Shareholding Pattern



4Q FY21 and FY21 Update

Result Analysis

Emami's FY21 results were broadly in line with our expectations with all quarters barring the first returning healthy growth in spite of the covid pandemic. Fourth quarter growth was especially strong, partly due to a lower 4Q FY20 base when the pandemic began. Healthcare and Pain Management grew the strongest with healthy performances from the BoroPlus and Kesh King ranges in FY21. New launches contributed 4% of FY21 revenues. EBITDA margins benefitted from benign raw material prices during the earlier part of the year and a lower percentage of operating expenses. This, along with lower finance cost, resulted in robust PAT growth in FY21.

Outlook & Valuation

Following the consistent improvement through FY21, covid 2.0 has impacted the momentum of recovery to some extent, affecting the summer portfolio. That said, the current business environment is better and in greater control compared to 1Q FY21. Management expects 1Q FY22 revenues to be in line or marginally higher than 1Q FY20 (which is the latest pre-covid comparable period). Management sees the Healthcare and Pain Management categories offering good headroom for growth going forward. The company looks to launch certain products exclusively on the Zandu portal in the coming quarters with the e-commerce channel contributing 3.7% of domestic sales in FY21. Raw material prices, especially that of edible oils, are witnessing all-time high levels. With lower A&P spend in 1Q FY22 vs 1Q FY20, and the upcoming quarters expected to regain momentum as covid cases taper off, EBITDA margin is seen to hold out in FY22. Management effected some price increases to offset higher raw material prices and is willing to take further price actions if required. We maintain our forecasts for FY22 and FY23 at broadly unchanged levels. The Emami stock has appreciated by 36% since our intro research note dated 23 September 2020. Based on an unchanged target P/E multiple of 40.0x, our price target is Rs 575 as we maintain a BUY rating with an upside of 15% from current levels.

Key Financial Metrics (Consolidated)

Rs crore	FY19A	FY20A	FY21A	FY22E	FY23E
Operating revenue	2,694.6	2,654.9	2,880.5	3,193.1	3,522.0
Growth		-1.5%	8.5%	10.9%	10.3%
EBITDA	727.2	690.5	883.1	983.5	1,091.8
EBITDA margin	27.0%	26.0%	30.7%	30.8%	31.0%
PAT	302.5	302.3	454.7	542.3	639.0
PAT margin	11.2%	11.4%	15.8%	17.0%	18.1%
Diluted EPS (Rs)	6.68	6.67	10.23	12.20	14.37

Source: Company data; Khambatta Research

Emami Limited**26 May 2021****Financial Performance (Consolidated)**

Rs crore	4Q FY20	4Q FY21	Y-o-y	FY20	FY21	Y-o-y
Operating revenue	532.7	730.8	37.2%	2,654.9	2,880.5	8.5%
EBITDA	98.5	162.8	65.3%	690.5	883.1	27.9%
<i>EBITDA margin</i>	18.5%	22.3%	379 bps	26.0%	30.7%	465 bps
PAT	22.8	87.7	285.6%	302.3	454.7	50.4%
<i>PAT margin</i>	4.3%	12.0%	773 bps	11.4%	15.8%	440 bps
Diluted EPS (Rs)	0.51	1.97	287.0%	6.67	10.23	53.4%

Source: Company data; Khambatta Research

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Guide to Khambatta's research approach**Valuation methodologies**

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

DCF: The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

ERE: The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

Relative valuation: In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.

Stock ratings

Buy recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

Hold recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

Sell recommendations are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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Emami Limited**26 May 2021**

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