



## Emami Limited

### Eyeing strong growth ahead

Consumer Goods

Sharekhan code: EMAMILTD

Company Update

## 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

Reco: Buy	↔
CMP: Rs. 535	
Price Target: Rs. 635	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

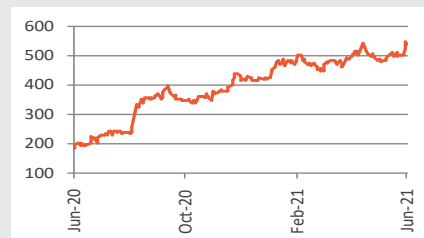
## Company details

Market cap:	Rs. 23,781 cr
52-week high/low:	Rs. 567 / 185
NSE volume: (No of shares)	7.1 lakh
BSE code:	531162
NSE code:	EMAMILTD
Free float: (No of shares)	20.5 cr

## Shareholding (%)

Promoters	53.9
FII	10.9
DII	26.4
Others	8.9

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	10.9	11.1	27.1	163.7
Relative to Sensex	4.5	7.4	11.9	111.4

Sharekhan Research, Bloomberg

## Summary

- We maintain a Buy on Emami with a revised price target of Rs. 635. Strong growth prospects and receding risk of promoter's pledging make it a better pick in the FMCG space.
- Healthcare category grew by 45% in FY2021; management confident of growing it by 20-22% in FY2022 on improved penetration and strong traction to new launches.
- Liquidity remains strong as Emami's cash & cash equivalents stand at Rs. 350 crore. Dividend payout improved to 78%. Return ratios remained strong with RoE and RoCE of 37.5% and 42.5%, respectively.
- Stock has given handsome returns of 2.6x, outperforming broader indices. Current valuations of 25x its FY2023E EPS remain attractive in FMCG space.

Emami has outperformed the broader indices in last one year by delivering handsome returns of 2.6x led by improving fundamentals and a reduction in promoter pledging. FY2021 earnings were boosted by a 460 bps improvement in OPM to 30.7% driven by benign mentha prices. Revenue growth stood at 8%, largely driven by strong growth of 45% in the healthcare category and a 23% growth in the pain management range. Despite a high base, the management is confident of achieving a 20-22% growth in the healthcare category due to expected improvement in penetration and strong traction to some new launches in this category. This will be supported by sustained good demand for pain management products (including balm) and recovery in hair oil sales post the easing out of the second wave of COVID-19. New product launches (~4% of overall revenue), increased distribution reach (under Project Khoj), and market share gains in key categories remain key growth drivers in the near to medium term. It has started with Project Khoj to expand its distribution in rural markets. The company has identified 13 states where it will be focusing on expanding its rural reach (especially in villages with a population of over 3,000). Initially, the company will run the project in four key states. Further, the company has identified 20,000 chemists, where it can sell its healthcare range and pain management products along with other products. Emami is selling its OTC and ethical products through Zandu portal. The portal is reporting sales of ~Rs. 2.5 crore per month. The company has hiked prices by an average of 4% in the product portfolio to pass on raw material inflation, which will help ease pressure on gross margins in the near term. The company has a net cash surplus of Rs. 367 crore despite higher dividend payout (of 78% of profits) in FY2021. Promoter pledging has reduced to 33% of promoters holding (reduced to ~18% of overall share capital).

## Our Call

**View: Maintain Buy with revised price target of Rs. 635** - We expect Emami's revenue and PAT to post a CAGR of 15% and 19%, respectively, over FY2021-FY2023. Promoters' pledge currently stands lower at 30% and the group is targeting to reduce it significantly by H1FY2022. Strong liquidity position (over Rs. 350 crore in cash), improved dividend payout of 78%, and management's focus on improving growth prospects by supporting key categories with new strategies make it a good pick in the FMCG space. The stock is currently trading at a 25x its FY2023E earnings, which is at a discount to some close peers. We maintain a Buy recommendation on the stock with a revised price target of Rs. 635.

## Key Risks

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.

## Valuation (consolidated)

Particulars	FY20	FY21	FY22E	FY23E
Revenues	2,655	2,881	3,283	3,843
OPM (%)	26.0	30.7	31.1	32.0
Adjusted PAT	526	673	769	943
% YoY growth	2.5	28.0	14.2	22.6
Adjusted EPS (Rs.)	11.5	15.1	17.3	21.2
P/E (x)	46.7	35.6	31.0	25.3
P/B (x)	13.3	13.5	11.9	9.8
EV/EBIDTA (x)	35.2	26.5	22.7	18.5
RoNW (%)	27.0	37.5	40.8	42.5
RoCE (%)	30.2	42.5	49.6	53.3

Source: Company; Sharekhan estimates

## Outlook and Valuation

### ■ Sector view - Long-term growth prospects intact

We believe the shift in demand for branded products, rural demand staying ahead of urban demand, gradual recovery in out-of-home categories, and new product launches remain key catalysts for revenue growth in the near to medium term. In the current environment, with rising COVID-19 cases and localised lockdown, demand for packaged food products is expected to increase. Consumer goods companies have adequately stocked up products at warehouse levels and with dealers/distributors to avoid any supply disruption. Sales of immunity-boosting products such as Chyawanprash, Ashwagandha, and Giloy grew by 2-5x, while sales of honey increased by 40-50% in the past six months. Growth in these categories is expected to sustain in the coming quarters due to the recent spike in COVID-19 cases. Raw-material prices have been rising in the recent past and sustenance of this trend will pressurise gross margins in FY2022. Consumer goods companies' ability to pass on input price rise, sustained benefits of cost-saving initiatives, and judicious media spends would determine the level of profitability growth in the coming quarters.

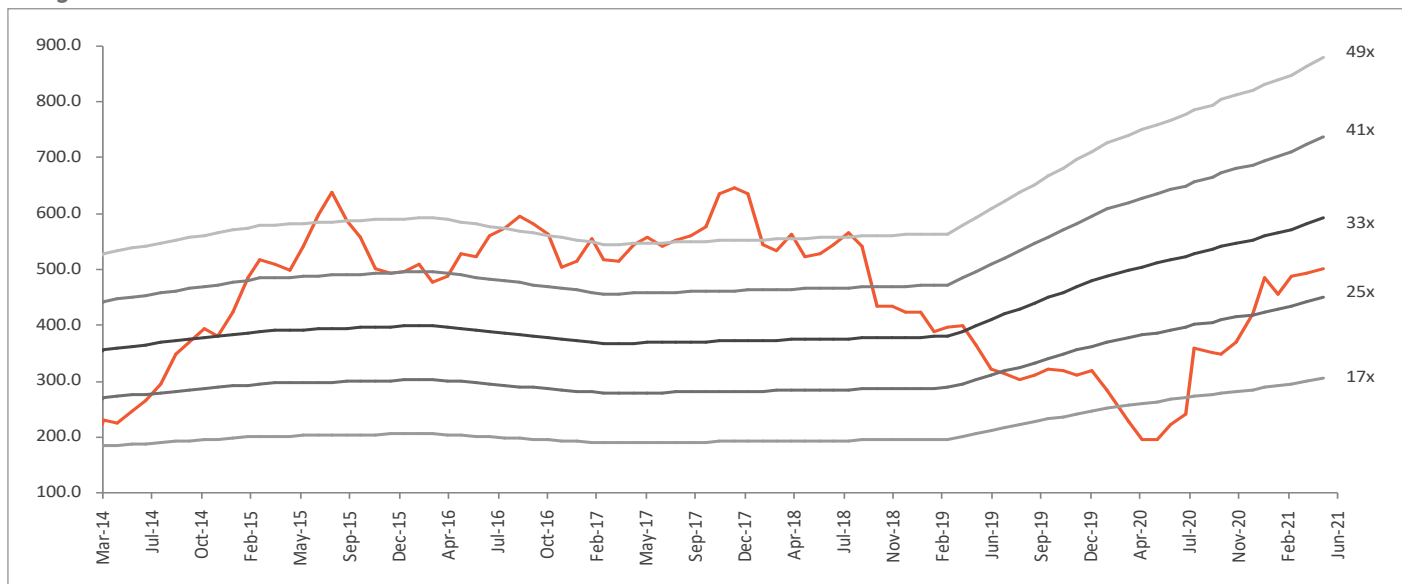
### ■ Company outlook - Healthcare, new launches, and hair oils to drive growth in the medium term

FY2021 earnings were boosted by a 460 bps improvement in OPM to 30.7%, while revenue growth stood at 8%, largely driven by a strong 45% growth in the healthcare range of products and a 23% growth in the pain management range. Despite a high base, the management is confident of a 20-22% growth in the healthcare range of products due to expected improvement in penetration and strong traction to some of the new launches made under the category. This will be supported by sustained good demand for pain management products (including balm) and recovery in hair oil sales post the easing out of the second wave of COVID-19. New product launches (~4% of overall revenue), increased distribution reach (under Project Khoj), and market share gains in key categories remain key growth drivers in the near to medium term. The company has taken average price hike of 4% in the product portfolio to pass raw-material inflation, which will help in releasing pressure on gross margins in the near term.

### ■ Valuation - maintain Buy with revised price target of Rs. 635

We expect Emami's revenue and PAT to post a CAGR of 15% and 19%, respectively, over FY2021-FY2023. Promoters' pledge currently stands lower at 30% and the group is targeting to reduce it significantly by H1FY2022. Strong liquidity position (over Rs. 350 crore in cash), improved dividend payout of 78%, and management's focus on improving growth prospects by supporting key categories with new strategies make it a good pick in the FMCG space. The stock is currently trading at a 25x its FY2023E earnings, which is at a discount to some close peers. We maintain a Buy recommendation on the stock with a revised price target of Rs. 635.

#### One year forward P/E band



Source: Sharekhan Research

#### Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE(%)		
	FY21	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Dabur	57.1	49.8	40.9	46.3	40.0	32.0	26.4	28.7	31.5
Marico	53.4	47.9	40.1	38.9	35.8	29.8	41.0	45.5	53.1
Emami	35.6	31.0	25.3	26.5	22.7	18.5	42.5	49.6	53.3

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 its 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 its focus back 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's 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 and Business Development and CFO
A. K. Joshi	Company Secretary

Source: Company

### 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 (Old data)

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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

# Sharekhan

by BNP PARIBAS

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