



Powered by the Sharekhan 3R Research Philosophy

3R MATRIX

| | | | |
|----------------------|------------------|-----------------|------------|
| | + | = | - |
| Right Sector (RS) | Green | Grey with check | Red |
| Right Quality (RQ) | Green with check | Grey | Red |
| Right Valuation (RV) | Green with check | Grey | Red |
| | + Positive | = Neutral | - Negative |

What has changed in 3R MATRIX

| | | | |
|----|-------|---|-------|
| | Old | | New |
| RS | Green | ↓ | Grey |
| RQ | Green | ↔ | Green |
| RV | Green | ↔ | Green |

ESG Disclosure Score **NEW**

ESG RISK RATING
Updated Jan 08, 2022 **29.97**

Medium Risk

| | | | | |
|------|-------|------------|-------|--------|
| NEGL | LOW | MED | HIGH | SEVERE |
| 0-10 | 10-20 | 20-30 | 30-40 | 40+ |

Source: Morningstar

Company details

| | |
|-------------------------------|---------------|
| Market cap: | Rs. 19,192 cr |
| 52-week high/low: | Rs. 621 / 438 |
| NSE volume: (No of shares) | 5.2 lakh |
| BSE code: | 531162 |
| NSE code: | EMAMILTD |
| Free float: (No of shares) | 20.5 cr |

Shareholding (%)

| | |
|-----------|------|
| Promoters | 53.9 |
| FII | 12.8 |
| DII | 25.5 |
| Others | 7.8 |

Price chart



Price performance

| (%) | 1m | 3m | 6m | 12m |
|--------------------|-------|-------|-------|-------|
| Absolute | -12.8 | -16.1 | -25.6 | -12.5 |
| Relative to Sensex | -15.9 | -16.3 | -22.7 | -28.1 |

Sharekhan Research, Bloomberg

Consumer Goods

Sharekhan code: EMAMILTD

| | | | | |
|----------------|------------|--------------|-----------------------|---|
| Reco/View: Buy | ↔ | CMP: Rs. 432 | Price Target: Rs. 550 | ↓ |
| ↑ Upgrade | ↔ Maintain | ↓ Downgrade | | |

Summary

- Emami has acquired Dermicool, a leading brand in prickly heat and cool talc category, from Reckitt Benckiser (India) Ltd. for a consideration of Rs. 432 crore (~4x price/sales).
- Low penetration of prickly heat and cool talc category at 11-12%, combined market share of 45%; strong distribution synergies and growth opportunities in adjacent categories makes it a good acquisition from medium to long-term perspective.
- Slowdown in domestic market and raw material inflation remain key headwinds in the near term. We have reduced our earnings estimates for FY2023/24 by 10% and 7% respectively due to the near-term headwinds.
- Emami's stock price has corrected by ~13% in the past one month (26% in last six months) and trading at discounted valuations of 24.7x/20.3x its FY2023E/24E earnings. We maintain our Buy recommendation with revised PT of Rs. 550.

Emami has acquired the "Dermicool" brand, one of the leading brands in prickly heat and cool talc category (Rs. 760 crore) from Reckitt for a total consideration of Rs. 432 crores. Dermicool has a market share of 20% in the high growth category. Along with Navratna cool talc, the company will become market leader with market share of 45%. Synergistic benefits will help cost to reduce and would add on to the profitability in the long run. The acquisition is in-line with Emami's overall strategy to drive growth through organic and inorganic initiatives. However, slowdown in the demand environment (especially in the rural markets) and inflation in raw material prices will keep toll on business performance in the near term.

- Event – Emami acquires leading cool talc brand – Dermicool:** Emami has strengthened its summer portfolio with the acquisition of Dermicool, a prominent prickly heat and cool talc brand, from Reckitt for consideration of Rs. 432 crore. Dermicool has a 20% market share and together with Navratna cool talc it will command 45% of low penetrated prickly heat and cool talc category that is worth Rs. 760 crore. The funding of acquisition will be done through internal accruals with Emami having cash surplus of over Rs. 500 crore. Dermicool has turnover of over Rs. 100 crore and gross margins of 55% and EBITDA margins of 38% (vs. Emami's consolidated EBITDA margins of 30%). The acquisition of Dermicool brand will strengthen Emami's summer product portfolio.
- Acquisition to be margin-accretive in the long run:** Leadership position in a niche category with low penetration will provide lot of scope for Emami to grow in double digits (beating category growth of 10-11%). Provides opportunity for Emami to expand the brand in adjacent categories to expand portfolio in long run. Dermicool is a pan-India brand with direct reach of 1.25 lakh outlets and indirect reach of 1.8 million outlets. It can leverage on Emami's distribution of close to 5 million outlets to expand its visibility in medium to long run. In view of strong growth prospects and a higher margin profile, we expect the brand to be earnings accretive once it attains a certain scale (the management expects this to be from year one of consolidation i.e. FY2023).
- Demand slowdown and input inflation to affect performance in the near term:** Slowdown in the rural India and sustained high input cost inflation will affect the earnings of the company in the near term. In Q4FY2022, we expect revenues to remain almost flat while the gross margins to decline by ~100 bps y-o-y. The effect of sharp increase in the input prices will be felt in H1FY2023. Thus in view of slowdown in demand and sustained margin pressures, we have reduced our earnings estimates for FY2023 and FY2024 by 10% and 7%, respectively.

Our Call

View: Retain Buy with revised price target of Rs. 550: Emami's acquisition of Dermicool was in line with its strategy to strengthen portfolio with formidable brands, which provides visibility of consistent good growth in the medium to long term. The brand provides a lot of synergistic benefits and scope for margin improvement in the long run. The stock has corrected by 13% in the last one month (26% in last six months) factoring the near term uncertainties. The stock is currently trading at discounted valuations of 24.7x/20.3x its FY2023E/24E EPS. We maintain a Buy recommendation on the stock with revised price target of Rs. 550 (valuing it at 26x its FY2024E EPS).

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 | FY21 | FY22E | FY23E | FY24E |
|--------------------|-------|-------|-------|-------|
| Revenues | 2,881 | 3,158 | 3,402 | 3,971 |
| OPM (%) | 30.7 | 31.0 | 30.1 | 31.0 |
| Adjusted PAT | 673 | 735 | 776 | 946 |
| % YoY growth | 28.0 | 9.2 | 5.6 | 21.8 |
| Adjusted EPS (Rs.) | 15.1 | 16.5 | 17.5 | 21.3 |
| P/E (x) | 28.7 | 26.1 | 24.7 | 20.3 |
| P/B (x) | 10.9 | 9.7 | 8.6 | 7.2 |
| EV/EBIDTA (x) | 21.2 | 18.9 | 17.8 | 14.5 |
| RoNW (%) | 37.5 | 39.3 | 36.9 | 38.8 |
| RoCE (%) | 42.5 | 47.9 | 46.6 | 48.7 |

Source: Company; Sharekhan estimates;

* Earnings estimates for FY2023/24 are excluding the consolidation of Dermicool brand

A 'cool' addition to brand portfolio

The company has entered into an agreement to acquire 'Dermicool', one of the leading brands in the prickly heat and cool talc category from Reckitt Benckiser Healthcare India Pvt Ltd. for a total consideration of Rs. 432 crore (excluding taxes and duties), which will be funded through internal accruals. The company plans to amortise the acquisition of the brand over seven years and charge the same to P&L account during this period. Dermicool being a product in the niche category with high margins and low MNC presence is a strong strategic fit for Emami. The acquisition is in line with the company's strategy to obtain growth through the inorganic route and will lead to strong synergies for Emami in core as well as adjacent categories. Post the acquisition of Dermicool, Emami will have market leadership across six categories and eight brands with over Rs. 100 crore of revenues.

Dermicool portfolio



- ▶ Available in 4 variants - Menthol Regular, Soothing Lavender, Radiant Sandal and Fresh Aloe
- ▶ Variants available in 3 SKUs viz. 150 gm, 90 gm & 50 gm

Source: Company presentation

Attain leading position in prickly heat and cool talc category

After the acquisition of the Dermicool brand, Emami will emerge as the No. 1 player in the prickly heat and cool talc category with over a 45% market share, surpassing Nycil which has a market share of ~34%. Currently, Emami's Navratna Cool Talc (~25% market share) is the No. 2 player followed by Dermicool at No. 3 (~20% market share) in the prickly heat and cool talc category of ~Rs. 760 crore. Dermicool has a high consumer connect through its vastly popular jingle, Aaya Mausam Thande Thande Dermicool Ka. The acquisition provides a strong case for co-existence of Dermicool along with Emami's existing brands.

Comparison in terms of various parameters

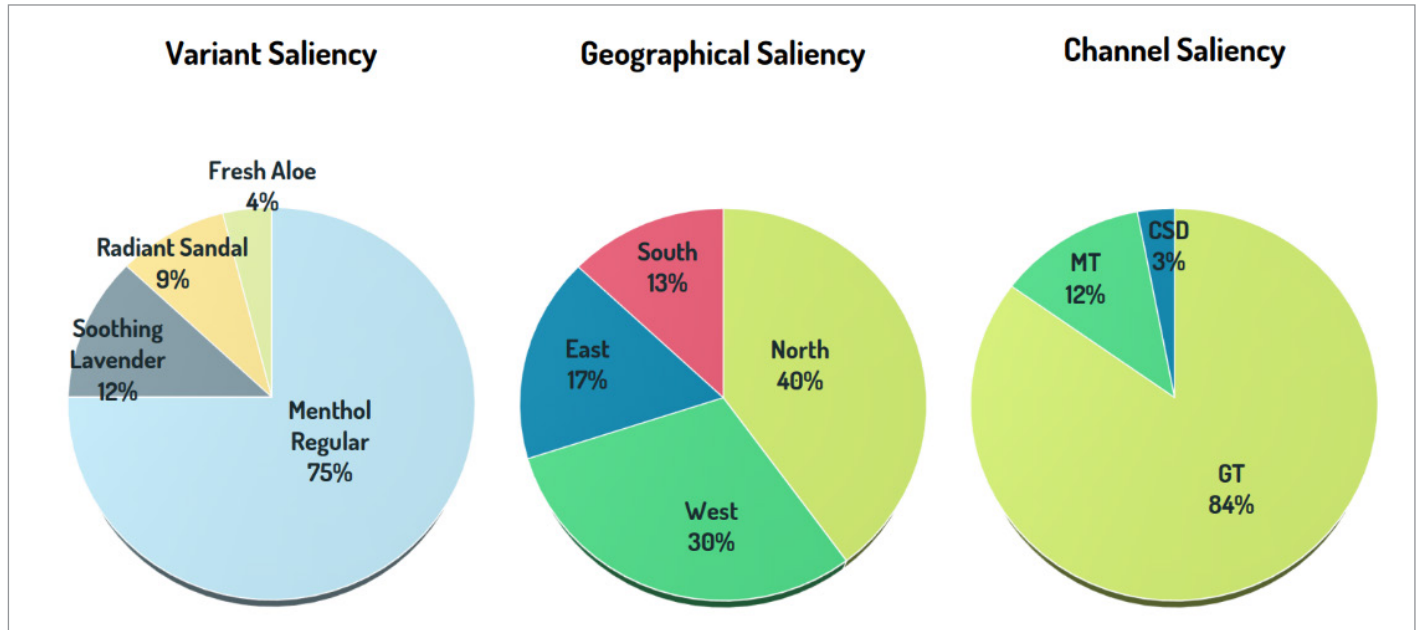
| Particulars | Emami (Navratna, Boroplus) | Dermicool |
|-----------------------------|--|---|
| Category | Cooling talc | Prickly heat talc |
| Caters to | Mass (~45% contribution from below Rs. 10 SKU) | Mid-premium (150 gm contributes ~80% of revenues) |
| Distribution reach | Direct reach of ~2 lakh outlets | Direct reach of ~1.25 lakh outlets |
| Modern trade penetration | Low penetration | Higher penetration |
| Contribution from wholesale | 38-40% of revenue | 35% of revenue |
| Rural penetration | ~70% | ~65% |
| Gross margin | 67% | 55% |
| EBITDA margin | - | 38% |

Source: Company; Sharekhan Research

Leverage distribution synergies

Dermicool has a strong presence in the e-Commerce, modern trade channels and among regions in South India. Emami's strength lies in rural and other regions. Dermicool is a pan-India brand with a direct reach of 1.25 lakh outlets and an indirect reach of ~1.8 million outlets, while Navratna network comprises direct reach of ~2 lakh outlets and an indirect reach of ~1.8 million outlets. Dermicool has a higher penetration in modern trade which Emami can leverage (currently, Navratna has small contribution from modern trade). Emami's overall direct reach is 8.4 lakh outlets and has an indirect reach close to 5 million outlets in the domestic market. The brand will be manufactured by a third-party player, who currently makes Navratna Cool Talc for the company.

Brand saliency



Source: Company presentation

Acquisition to be earnings accretive in long run

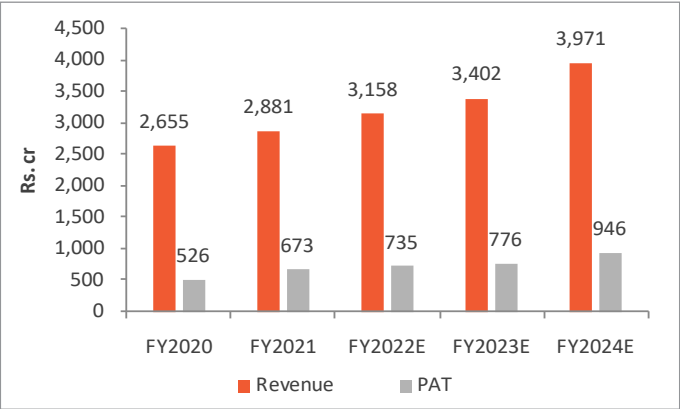
Dermicool had reported sales of Rs. 113 crore in CY2021 with gross margins of 55% and EBITDA of 38%. The brand recorded its highest revenues of Rs. 133 crore in CY2019. The company expects the brand to clock double-digit revenue growth in the next 5 years. Brand has a gross margins of 55% lesser as compared to Navratna Cool Talc gross margins of 67-68%. Emami's management is confident of improving the gross margins of Dermicool brand leveraging on the synergistic benefits of both the brands. Despite focus on spending heavily on media and promotional activities, Emami expects brands to achieve higher EBITDA margins in the coming years. We expect brand to be earnings accretive once it attains a certain scale led by improvement in the market share, expansion in new categories and increase in distribution reach in the coming years. Emami plans to amortise the acquisition of the brand over seven years and charge the same to P&L account during this period.

Funding of acquisition will be done through internal accruals

Emami is planning to fund the acquisition through internal accruals. It had cash of over Rs. 500 crore. Some portion of cash was utilised for Buyback. Post the acquisition of the brand, Emami will have a working capital debt of ~Rs. 200 crore and negligible cash balance.

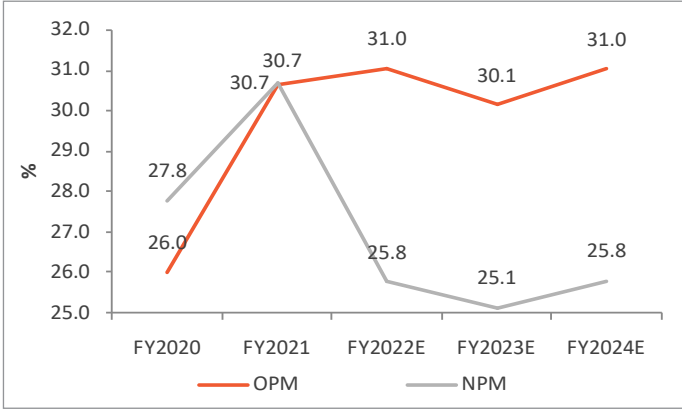
Financials in charts

Steady growth in revenue and PAT



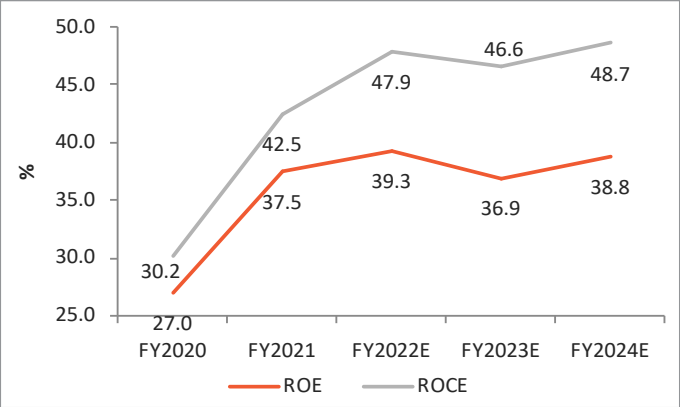
Source: Company, Sharekhan Research

Trend in margins



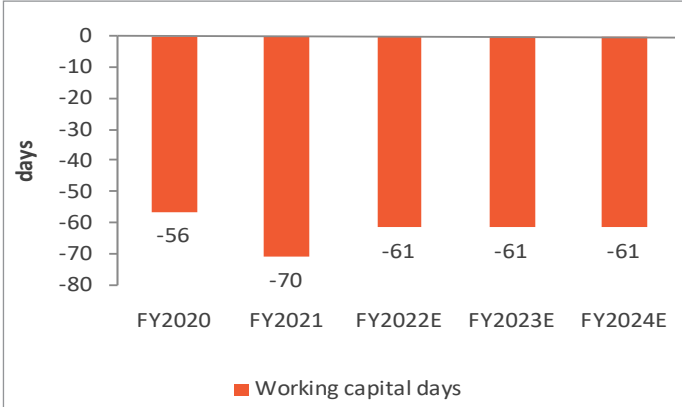
Source: Company, Sharekhan Research

Improvement in return ratios



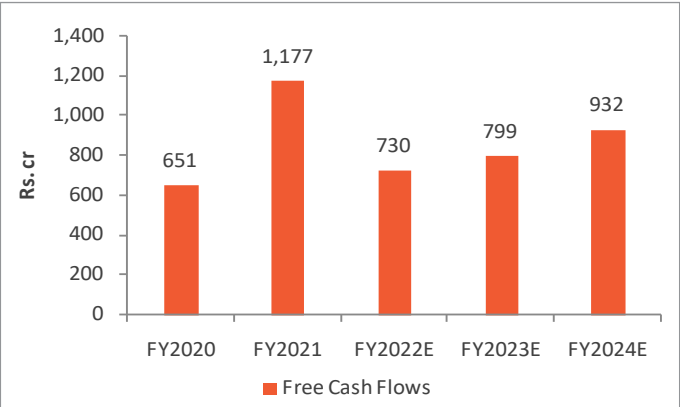
Source: Company, Sharekhan Research

Stable working capital days



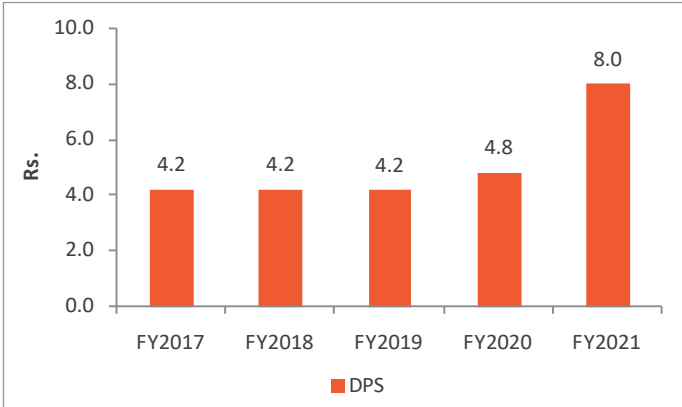
Source: Company, Sharekhan Research

Significant free cash flow generation



Source: Company, Sharekhan Research

Consistent dividend payout



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Near-term weakness; Long-term growth prospects intact

Slowdown in rural demand, consumer price inflation, and weakness in consumer sentiments will hamper overall consumption in the coming quarters. Further, easing of the third COVID-19 wave would affect recovery in out-of-home consumption. On the other hand, companies expect that raw-material inflation will take another 2-3 quarters to ease and would continue to put pressure on margins. Though near-term headwinds will take a toll on the performance of consumer goods companies, long-term growth prospects are intact. Low penetration levels in key categories (especially in rural India), lower per capita consumption compared to other countries, a large shift to branded products, and emergence of new channels such as e-commerce/D2C provide lot of opportunities for consumer goods companies to achieve sustainable growth in the medium to long run.

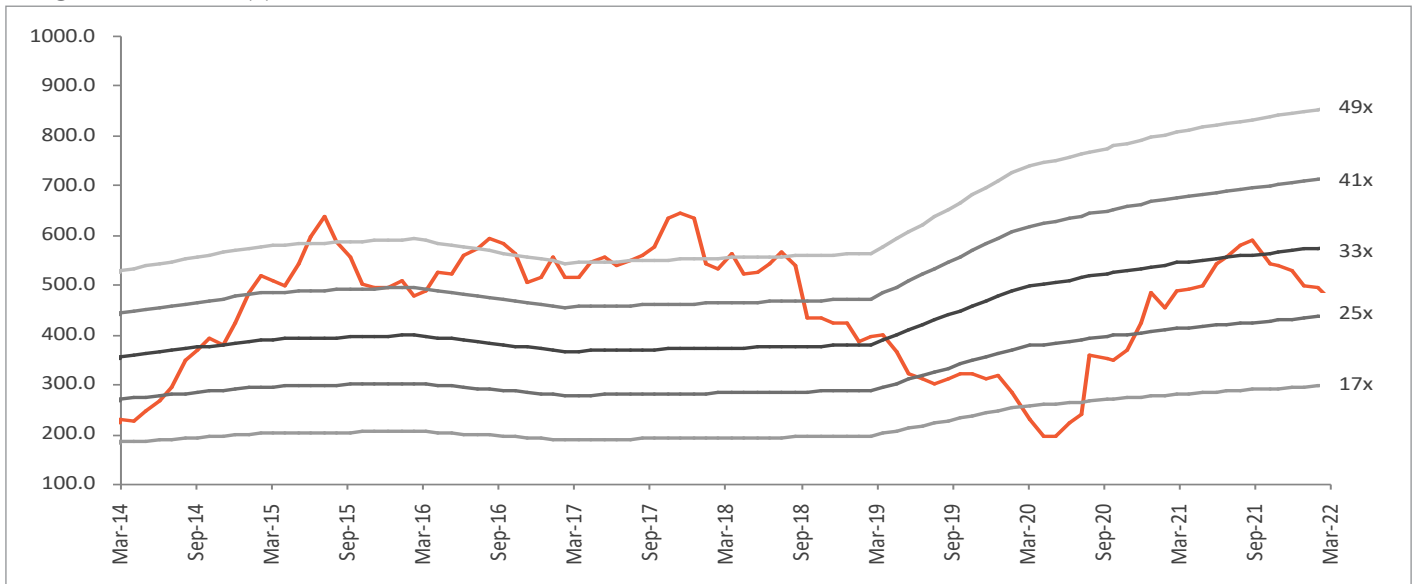
■ Company outlook - Eyeing double-digit growth in the medium term

Emami maintains its thrust on achieving double-digit revenue growth in medium term led by new product launches (2.5% of revenues), distribution expansion (especially in rural markets), market share gains in categories such as premium hair oils and growing strongly on alternate channels such as e-Commerce/direct to consumer. Raw material prices have reached the pick and is expected to remain high in the near term. The company has undertaken price increase of 3-4% to mitigate raw material inflation and would gradually increase the prices looking at movement in the input prices and demand environment. Gross margins are likely to remain lower on y-o-y basis. Acquisition of the Dermicool brand has strengthened the company's summer portfolio and is expected to earnings accretive once brand attain certain scale in the medium to long term.

■ Valuation - Maintain Buy with a revised price target of Rs. 550

Emami's acquisition of Dermicool was in line with its strategy to strengthen portfolio with formidable brands, which provides visibility of consistent good growth in the medium to long term. The brand provides a lot of synergistic benefits and scope for margin improvement in the long run. The stock has corrected by 13% in the last one month (26% in last six months) factors in the near term uncertainties. The stock is currently trading at discounted valuations of 24.7x/20.3x its FY2023E/24E EPS. We maintain a Buy recommendation on the stock with revised price target of Rs. 550 (valuing it at 26x its FY2024E EPS).

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

| Companies | P/E (x) | | | EV/EBIDTA (x) | | | RoCE (%) | | |
|-----------|---------|-------|-------|---------------|-------|-------|----------|-------|-------|
| | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E | FY21 | FY22E | FY23E |
| Dabur | 53.8 | 48.4 | 39.7 | 43.4 | 37.8 | 30.8 | 26.4 | 27.9 | 30.9 |
| Marico | 52.5 | 46.3 | 39.5 | 38.3 | 34.2 | 29.2 | 41.0 | 45.8 | 52.4 |
| Emami | 28.7 | 26.1 | 24.7 | 21.2 | 18.9 | 17.8 | 42.5 | 47.9 | 46.6 |

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 ~3,250 distributors. The company has a strong international presence in over 60 countries in GCC, Europe, Africa, CIS countries, and SAARC.

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.

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 | DSP Investment Managers Pvt. Ltd. | 3.65 |
| 2 | HDFC Asset Management Co. Ltd. | 2.87 |
| 3 | Mirae Asset Global Investments Co. Ltd. | 2.75 |
| 4 | L&T Mutual Fund Trustee Ltd. | 2.21 |
| 5 | Avees Trading and Finance | 2.14 |
| 6 | HDFC Life Insurance Co. Ltd. | 1.91 |
| 7 | Aditya Birla Sun Life Asset Management | 1.85 |
| 8 | Kotak Mahindra Asset Management | 1.8 |
| 9 | Franklin Resources Inc | 1.5 |
| 10 | Vanguard Group Inc | 1.41 |

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.