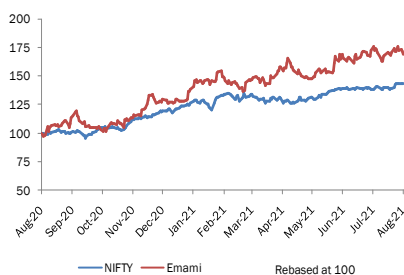


Fair performance in spite of covid 2.0 and input cost inflation

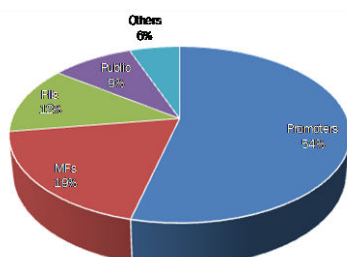
BUY

Sector	: FMCG
Target Price	: Rs 657
Current Market Price	: Rs 553
Market Cap	: Rs 24,588 crore
52-week High/Low	: Rs 583/309
Daily Avg Vol (12M)	: 7,37,552
Face Value	: Re 1
Beta	: 0.82
Pledged Shares	: 16.65%
Year End	: March
BSE Scrip Code	: 531162
NSE Scrip Code	: EMAMILTD
Bloomberg Code	: HMN IN
Reuters Code	: EMAM.NS
Nifty	: 16,282
BSE Sensex	: 54,526
Analyst	: Ritwik Bhattacharjee

Price Performance



Shareholding Pattern



1Q FY22 Update

Result Analysis

Emami's 1Q FY22 growth rate appears high as a result of the lower base of 1Q FY21 owing to the national lockdown during the first wave of covid-19. 1Q FY22 revenues were marginally higher (+2%) than that registered in 1Q FY20 as the second wave of covid impacted the company's performance, especially the summer portfolio and in rural markets. Compared to 1Q FY20, the domestic business recorded 5% growth while the international business de-grew by 9% owing to lockdowns across several markets including the Middle East. Healthcare, Pain Management and the BoroPlus range returned the strongest growth rates vis-à-vis 1Q FY20. Profitability improved strongly from 1Q FY20 levels (gross margin +180 bps; EBITDA margin +500 bps; PAT margin +570 bps) and to a lesser extent over 1Q FY21 (gross margin -50 bps; EBITDA margin +20 bps; PAT margin +350 bps). The company reported record profits and margins in spite of covid 2.0 and the consequent lockdown, coupled with high input costs.

Outlook & Valuation

The company undertook pricing action in 1Q FY22 as it witnessed input cost pressures. Raw material prices are witnessing some signs of easing off in 2Q FY22. Management expects e-commerce contribution to reach 7.0% to 7.5% in the next 1 to 2 years (5% in 1Q FY22). Management indicated improved performance from Kesh King in July as the brand gained share from Patanjali and Indulekha over the past few months. A&P spend is expected to be around 17% to 18% of operating revenues. We believe the overall growth prospect for Emami remains intact as the company faces near-term challenges from further covid waves, especially in rural markets and input cost inflation. That said, the impact of covid 2.0 was significantly less intense while management has been successful in preserving margins. We marginally raise our sales forecast while revising PAT margin estimates upward, driven by lower interest expense. The Emami stock has appreciated by 11% since our 4Q FY21 update report of 26 May 2021 and by 51% 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 657 as we maintain a BUY rating with an upside of 19% 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	3,276.1	3,649.5
Growth		-1.5%	8.5%	13.7%	11.4%
EBITDA	727.2	690.5	883.1	986.1	1,113.1
EBITDA margin	27.0%	26.0%	30.7%	30.1%	30.5%
PAT	302.5	302.3	454.7	565.3	729.9
PAT margin	11.2%	11.4%	15.8%	17.3%	20.0%
Diluted EPS (Rs)	6.68	6.67	10.23	12.72	16.42

Source: Company data; Khambatta Research

Emami Limited

12 August 2021

Financial Performance (Consolidated)

Rs crore	1Q FY21	1Q FY22	Y-o-y
Operating revenue	481.3	661.0	37.3%
EBITDA	123.0	169.7	38.0%
EBITDA margin	25.5%	25.7%	13 bps
PAT	39.6	77.8	96.5%
PAT margin	8.2%	11.8%	355 bps
Diluted EPS (Rs)	0.88	1.75	98.9%

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.

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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**12 August 2021**

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