Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Emami

Dull Q4; focus on achieving good growth in the medium term

Consumer Goods	Sharekhan code: EMAMILTD		
Reco/View: Buy ↔	CMP: Rs. 427	Price Target: Rs. 550 ↔	

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 29.97

Updated Feb 08, 2022

Medium Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 18,850 cr
52-week high/low:	Rs. 621 / 430
NSE volume: (No of shares)	4.4 lakh
BSE code:	531162
NSE code:	EMAMILTD
Free float: (No of shares)	20.2 cr

Shareholding (%)

Promoters	54.3
FII	13.0
DII	24.3
Others	8.4

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-8.2	-14.2	-23.2	-14.5
Relative to Sensex	1.3	-5.0	-10.2	-22.8

Sharekhan Research, Bloomberg

Summary

- Q4FY2022 was affected by a slowdown in consumer demand and high base of Q4FY2021. Consolidated revenue grew by 5% y-o-y with a 4% rise in domestic business (2-year CAGR of 22%) and 8% growth in the international business.
- Moderate raw material inflation, judicious price hike and strategic procurement led to just 30 bps decline in gross margins in Q4. The management expects gross margins to decline by 200BPS Q1FY023 due to substantial raw material inflation. Any correction in the input prices would help profitability to improve.
- Rural slowdown will lead to single-digit revenue growth in the near term. The management is eyeing double-digit growth in the medium term through higher contribution from new products, improved growth in hair oil and skincare categories, and expansion in distribution network.
- Stock has corrected by 14% and is currently trading at 23.8x/19.4x its FY2023/FY2024E earnings. We maintain Buy with an unchanged PT of Rs. 550.

In Q4FY2022, Emami's revenue growth moderated to 5% y-o-y to Rs. 770.4 crore, largely due to slowing consumer demand and high base of Q4FY2021. Domestic business revenues grew by 4% y-o-y (22% on 2-year CAGR). International business grew by 8% y-o-y. Domestic sales volumes stood flat on high base of 36% volume growth. Moderate raw material inflation in Q4 led to gross margins decline of just 30 bps to 62.4%. However, higher advertising spends and other expenses resulted in 100 bps decline in OPM to 21.3%. Operating profit stood flat, while lower other income led to a ~8% fall in adjusted PAT to Rs. 122.2 crore. MAT credit entitlement of Rs. 288 crore for current and previous year resulted in reported PAT of Rs. 354 crore. For FY2022, revenues grew by 10.8%y-o-y to Rs. 3192.0 crore and adjusted PAT grew by 13.0%y-o-y to Rs. 760.8 crore.

Key positives

- Strong traction on channels such as modern trade and e-commerce, which registered of 9% and 20% y-o-y growth, respectively.
- Excluding CIS region, International business registered strong growth of 17% led by double digit growth in regions such as Bangladesh and UAE.
- The company added 8000 rural towns to 40,000 rural towns in FY2022.

Key negatives

- Kesh King oil and Boro Plus range of products registered decline in revenues due to high base.
- Despite flat gross margins, Consolidated OPM decreased by 100 bps y-o-y due to higher ad-spends.

Management Commentary

- Slowdown in demand environment will lead to slower volume growth in near term. However, easing overall inflationary environment will help volume growth trajectory to improve because of its strong brand portfolio. The company is anticipating good recovery from Q2FY2023 if monsoons are normal and inflationary environment eases in the coming months.
- The company maintains its thrust on achieving double-digit revenue growth in the medium term, led by product launches (2% of revenue), distribution expansion (especially in rural markets), market share gains in categories such as premium hair oils, and strong growth on alternate channels such as e-Commerce/ direct to consumers.
- Raw material inflation was moderate in Q4FY022. However, with inflation picking-up at the end of Q4, the gross margin decline will be ~200 bps in Q1FY2023 due to higher raw material prices. This is after factor-in price increase of 4.5%. The management expects gross margins to improve in H2FY2023 with expected cooling in key input prices.

Revision in estimates – We have broadly maintained our earnings estimates for FY2023 and FY2024 and will keenly monitor the performance in the quarters ahead before making any revision in estimates.

Our Call

View: Maintain Buy with an unchanged PT of Rs. 550 – Emami has a strong brand portfolio and its sustained focus on new product launches, distribution expansion, and scale-up on emerging channels will help to improve its growth prospects in the medium term. Further, we like the company's focus in rewarding shareholders with better dividend payout because of improved cash flows. Acquisition of Dermicool provides a lot of synergistic benefits and scope for margin improvement in the long run. Promoters pledging currently stands at 34% and the company is focusing reducing substantially in the coming years. The stock has corrected by 14% in the past three months and is currently trading at trading 23.8x and 19.4x its FY2023E and FY2024E earnings, respectively. We maintain Buy with an unchanged PT of Rs. 550.

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) Rs cr

Valuation	FY21	FY22	FY23E	FY24E
Revenues	2,881	3,192	3,488	4,014
OPM (%)	30.7	29.8	29.3	30.7
Adjusted PAT	673	761	792	969
% YoY growth	28.0	13.0	4.1	22.3
Adjusted EPS (Rs.)	15.1	16.9	18.0	22.0
P/E (x)	28.4	25.2	23.8	19.4
P/B (x)	10.8	9.1	8.0	6.7
EV/EBITDA (x)	21.0	19.4	17.7	14.4
RoNW (%)	37.5	39.6	35.8	37.7
RoCE (%)	42.4	44.4	42.3	47.0

Source: Company; Sharekhan estimates

Muted revenue growth; OPM declined y-o-y due to higher ad-spends

Emami's revenue grew by 5.4% y-o-y to Rs. 770 crore on a high base of 37% growth in Q4FY2021. Revenue came in higher than our expectation of Rs. 730 crore and in-line with and average street expectation of Rs.770 crore. Sequentially, revenue declined by 20.7%. Gross margin declined by just 30 bps y-o-y to 62.4% aided by judicious price hikes and strategic procurement while OPM declined by 100 bps y-o-y to 21.3% due to higher ad-spends. OPM came in lower than our and average street expectation of 23.0-23.3%. Operating profit stood flat at Rs. 163 crore. Adjusted PAT declined by 7.7% y-o-y to Rs. 122 crore, in-line with our and average street expectation of Rs. 118-128 crore. The company recognised MAT Credit entitlement amounting to Rs. 288 crore. Thus, the reported PAT stood at Rs. 354 crore.

Moderate growth across categories due to high base and slowdown in rural markets

Most of Emami's key product categories registered moderate growth due to slowdown in the rural markets and higher base of Q4FY2021. Pain management products saw a 9% y-o-y revenue growth with a two-year CAGR at 22%. Boro Plus range's revenues decreased by 18% y-o-y with a two-year CAGR at 97%. Kesh King portfolio registered a decline of 7% with a two-year CAGR of 16%. In the male grooming portfolio, revenue grew by 4% y-o-y and 14% on a two-year CAGR basis. The company is focusing on gaining good traction with new communication targeting female fairness cream users. Revenue of the Navratna range stood flat with 2-year CAGR of 13% in Q4FY22. In the healthcare portfolio, revenues grew by 4%, while two-year CAGR came in at 32%. Strong growth was registered in generics & ethicals portfolio and Zandu Ayurvedic Cough syrup. International Business grew by 8% over previous year, on a high base of 28% growth in the previous year. Excluding sales from CIS region which was affected due to the prevailing geopolitical uncertainties, International Business grew by 17% led by key geographies like Bangladesh and the UAE.

Sustained focus on expanding distribution reach

Emami added additional 8,000 rural towns through Project Khoj, taking the total to 40,000 towns in FY2022. Increase in people on ground by 50%. Further, the company increased both its presence and revenues in modern trade outlets with coverage expanding to 40 cities and more than 3,300 outlets. It also activated ~31,000 additional outlets for its healthcare products by focusing on ayurvedic bhandars and chemist outlets. Modern trade channel registered growth of 9% (salience improved by 60BPS to 8.4%) in Q4FY022. For FY2022 modern trade channel registered a growth of 17% with salience going-up to 7.3% (improved by 30 bps). E-commerce revenues grew by 90% in Q4FY022 with salience going up by 330 bps to 7.1%. E-Commerce revenues grew by 117% in FY2022.

Key Conference call takeaways

- Slowdown in demand will moderate volume growth in near term. However, easing overall inflationary environment will help volume growth trajectory to improve because of its strong brand portfolio. The company is anticipating a good recovery from Q2FY2023 if monsoons are normal and inflationary environment eases in the coming months. Summer products including Navratna cooling oil seen good sales in April and May.
- Product launches contributed 2% in FY2022. Some of the recent launches health juice range and ayurvedic cough syrup is gaining strong traction since its launch. The company will continue to launch new products (especially on the digital platforms) in the coming years.
- Brand amortisation in FY2023 will stand at Rs. 120 crore (including Rs. 85 crore for Dermicool brand amortization).
- Tax rate will stand at 18-19% in FY2023. It is likely to receive MAT credit in FY2023 as well.

Results (Consolidated) Rs cr

Particulars	Q4FY22	Q4FY21	y-o-y (%)	Q3FY22	q-o-q (%)
Net revenue	**770.4**	**730.8**	**5.4**	**971.9**	**-20.7**
Raw materials	289.9	272.8	6.3	317.0	-8.5
Employee costs	78.9	76.0	3.8	72.4	9.0
Ad promotions	149.5	135.0	10.7	158.3	-5.5
Other expenses	88.2	84.2	4.8	82.7	6.7
Total expenditure	606.5	568.0	6.8	630.3	-3.8
Operating profit	**163.9**	**162.8**	**0.7**	**341.5**	**-52.0**
Other income	30.3	46.5	-34.9	16.6	82.1
Finance costs	1.8	4.7	-61.4	1.8	-0.5
Depreciation	23.0	24.0	-4.2	24.2	-4.8
Profit before tax	**169.4**	**180.6**	**-6.2**	**332.2**	**-49.0**
Tax	47.2	48.2	-2.1	64.4	-26.8
Adjusted PAT	**122.2**	**132.4**	**-7.7**	**267.8**	**-54.4**
Minority interest	-5.9	0.0	-	-3.3	-
Extra-ordinary items	-237.8	44.6	-	45.0	-
Reported PAT	**354.1**	**87.8**	**-**	**219.5**	**-**
Adjusted EPS (Rs.)	2.8	2.9	-5.0	5.9	-53.0
			bps		bps
GPM (%)	62.4	62.7	-30	67.4	-501
OPM (%)	21.3	22.3	-100	35.1	-
NPM (%)	15.9	18.1	-225	27.6	-
Tax rate (%)	27.8	26.7	117	19.4	846

Source: Company, Sharekhan Research

Category/Brand wise performance

Key brands/category	Q4FY22 y-o-y growth (%)	2-year CAGR (%)	FY2022 y-o-y growth (%)
Healthcare range	4	32	9
Pain Management range	9	12	18
Navratna range	flat	13	5
Kesh King range	-7	16	11
Boroplus range	-18	97	5
Male Grooming range	4	14	16
7 Oils in One	4	32	9

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Despite near-term weakness; long-term growth prospects intact

Slowdown in rural demand, consumer inflation and weakness in overall consumer sentiments will continue to affect overall consumption in the coming quarters. Intense summer season might push demand for summer products during the quarter. However, overall demand would remain subdued. Revenue growth will be largely driven by price hikes in the respective portfolios to mitigate input cost inflation for the next two to three quarters. Global uncertainties will lead to volatile commodity prices. Commodity inflation is expected to settle in the next 6-8 months. Thus, margin pressure is likely to sustain in the near term. Better monsoon will play a major role in regaining momentum in rural demand and help in cooling off agri-commodity inflation. Though near-term headwinds will have a toll on the performance of consumer goods companies, long-term growth prospects remain intact. Low penetration levels in key categories (especially in rural India), lower per capita consumption as compared to other countries, a large shift to branded products, and emergence of new channels such as e-Commerce/D2C provide a number of opportunities for achieving sustainable growth in the medium to long run.

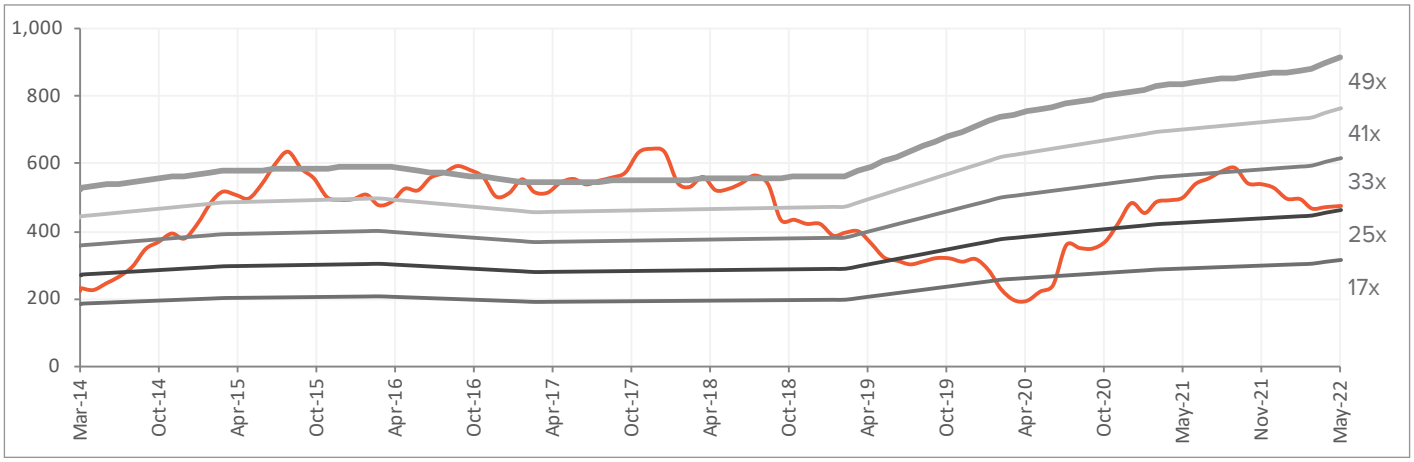
■ Company Outlook – Scouting double-digit growth in the medium term

Emami maintained its thrust on achieving double-digit revenue growth in the medium term, led by product launches (2.0% of revenue), distribution expansion (especially in rural markets), market share gains in categories such as premium hair oil, and growing strongly on alternate channels such as e-Commerce/direct to consumers. Management believes raw-material prices have reached their peak and expects input prices to moderate from current levels. The company has undertaken price increase of 4-5% to mitigate raw material inflation and is unlikely to take any significant price increase in the coming months. The fall in gross margins is likely to be ~200 bps in Q1FY023. However, the same is likely to gradually improve in the subsequent with expected stabilisation in key input prices.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 550

Emami has a strong brand portfolio and its sustained focus on new product launches, distribution expansion, and scale-up on emerging channels will help to improve its growth prospects in the medium term. Further, we like the company's focus in rewarding shareholders with better dividend payout because of improved cash flows. Acquisition of Dermicool provides a lot of synergistic benefits and scope for margin improvement in the long run. Promoters pledging currently stands at 34% and the company is focusing reducing substantially in the coming years. The stock has corrected by 14% in the past three months and is currently trading at trading 23.8x and 19.4x its FY2023E and FY2024E earnings, respectively. We maintain Buy with an unchanged PT of Rs. 550.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Company	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Dabur	48.4	41.7	34.0	39.2	34.5	28.1	26.3	27.8	31.3
Marico	51.4	40.9	34.8	37.7	30.0	25.9	41.4	51.5	55.2
Emami	25.2	23.8	19.4	19.4	17.7	14.4	44.4	42.3	47.0

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 though ~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
Mohan Goenka	Executive Director
N. H. Bhansali	CEO-Finance, Strategy and Business Development and CFO
A. K. Joshi	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	DSP investment managers Pvt Ltd	4.96
2	Mirae Asset Global Investments	3.22
3	HDFC AMC	2.95
4	Aves Trading and Finance	2.20
5	L & T Mutual Fund Trustee Ltd/India	1.78
6	HDFC Life Insurance Co Ltd	1.94
7	Aditya Birla Sun Life AMC	1.87
8	Kotak Mahindra AMC	1.78
9	Franklin Resources Inc	1.54
10	Invesco Ltd	1.46

Source: Bloomberg

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 detoriating 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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by BNP PARIBAS

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