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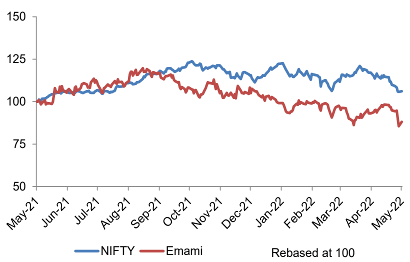
Emami Limited

18 May 2022

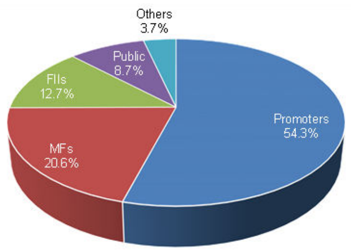
Banking on rural demand revival, current valuations are attractive — BUY

Sector	: FMCG
Target Price	: **₹ 601**
Current Market Price	: **₹ 438**
Market Cap	: **₹ 19,318 crores**
52-week High/Low	: **₹ 622/418**
Daily Avg Vol (12M)	: 6,10,410
Face Value	: ₹ 1
Beta	: 0.51
Pledged Shares	: 19.11%
Year End	: March
BSE Scrip Code	: 531162
NSE Scrip Code	: EMAMILTD
Bloomberg Code	: HMN IN
Reuters Code	: EMAM.NS
Nifty	: 16,259
BSE Sensex	: 54,318
Analyst	: Research Team

Price Performance



Shareholding Pattern



4Q FY22 Update

Outlook & Valuation

During 4Q FY22, the FMCG sector was affected by rising inflation, high raw material costs, and, to a certain extent, by the Omicron wave of Covid-19, impacting both volume growth and margins. Going forward, the near-to-medium term growth outlook looks positive for Emami, given the hot summer and healthy traction in the company's summer portfolio, strong growth momentum in modern channels, and expected improvement in rural consumer sentiment. The company's acquisition of leading prickly heat/cool talc brand 'Dermicool' in March 2022 will add weight to its summer portfolio. We expect growth to accelerate by ~1-1.5 percentage points in FY23, primarily driven by improved rural consumer confidence and the abatement of the Covid pandemic. Operating margins are likely to witness some pressure due to raw material cost inflation. We have adjusted our forecasts based on the latest data-points and our updated outlook. The Emami stock witnessed robust appreciation, followed by recent corrections to stand at 19% higher since we initiated coverage on the company with a BUY rating on 23 September 2020. The stock is currently trading at an attractive valuation of under 25x FY24E. We maintain a BUY rating on Emami with a price target of Rs 601 (reduced from Rs 657) based on P/E of 34x FY24E EPS, informing a 37% upside from current levels.

Key Financial Metrics (Consolidated)

₹ crore	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E
Operating revenue	2,694.6	2,654.9	2,880.5	3,192.0	3,587.8	3,939.5
Growth		*-1.5%*	*8.5%*	*10.8%*	*12.4%*	*9.8%*
EBITDA	727.2	690.5	883.1	952.4	1,040.5	1,158.2
EBITDA margin	*27.0%*	*26.0%*	*30.7%*	*29.8%*	*29.0%*	*29.4%*
PAT*	302.5	302.3	454.7	553.8	654.3	779.6
*PAT margin**	*11.2%*	*11.4%*	*15.8%*	*17.3%*	*18.2%*	*19.8%*
Diluted EPS (₹)*	6.68	6.67	10.23	12.47	14.83	17.67

**FY22A PAT, PAT margin and EPS adjusted for MAT credit and exceptional item*
Source: Company data, Khambatta Research

Results Analysis

- Emami witnessed moderate growth in 4Q FY22 with operating revenues increasing by 5.4% y-o-y to Rs 770.4 crore from a high base of 37.2% growth in 4Q FY21. Quarterly volumes were flat at the domestic segment, going from a high base of 36% y-o-y growth in 4Q FY21. The company registered healthy double-digit growth during the full year as FY22 operating revenues expanded 10.8% to Rs 3,192 crore.
- The domestic (82% of annual sales), international (15% of annual sales) and institutional (3% of annual sales) businesses grew by 11%, 5% and 26%, respectively in FY22.

- Modern channels saw healthy growth with modern trade increasing by 17% while e-commerce growing by 117% in FY22.
- Pain management recorded a healthy growth rate of 18% in FY22. The Navratna and BoroPlus ranges witnessed muted growth of 5% each. However, ex-hygiene range, BoroPlus returned a growth of 11%. The Kesh King, male grooming, and healthcare ranges grew by 11%, 16% and 9%, respectively in FY22. 7 Oils in One sales increased by 9%.
- FY22 EBITDA margin declined by ~80 bps y-o-y to 29.8% due to proportionately higher increases in CoGS and A&P expense vis-à-vis sales growth.
- 4Q FY22 and FY22 PAT benefitted from a MAT credit entitlement amounting to Rs 288.1 crore. Excluding the MAT credit and an exceptional item of Rs 5.2 crore relating to FX loss arising out of the Sri Lanka and Russia crises, 4Q FY22 and FY22 PAT were Rs 71.2 crore (-18.8% y-o-y) and Rs 553.8 crore (+21.8%), respectively.

Financial Performance (Consolidated)

₹ crore	4Q FY21	3Q FY22	4Q FY22	Y-o-Y	Q-o-Q	FY21	FY22	Y-o-Y
Operating revenue	730.8	971.9	770.4	5.4%	-20.7%	2,880.5	3,192.0	10.8%
EBITDA	162.8	341.5	163.9	0.7%	-52.0%	883.1	952.4	7.8%
EBITDA margin	*22.3%*	*35.1%*	*21.3%*	*-100 bps*	*-1386 bps*	*30.7%*	*29.8%*	*-82 bps*
PAT*	87.7	219.5	71.2	-18.8%	-67.6%	454.7	553.8	21.8%
*PAT margin**	*12.0%*	*22.6%*	*9.2%*	*-276 bps*	*-1335 bps*	*15.8%*	*17.3%*	*156 bps*
Diluted EPS (₹)*	1.97	4.94	1.61	-18.2%	-67.3%	10.23	12.47	21.9%

4Q FY22 and FY22 PAT, PAT margin and EPS adjusted for MAT credit and exceptional item
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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