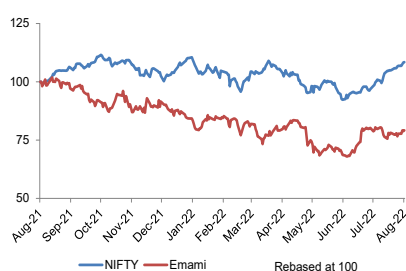


Newly-acquired Dermicool adds to growth; current valuations still attractive

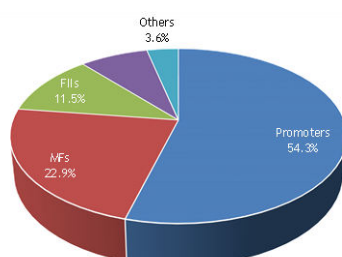
BUY

Sector	: FMCG
Target Price	: ₹ 595
Current Market Price	: ₹ 466
Market Cap	: ₹ 20,560 crores
52-week High/Low	: ₹ 622/393
Daily Avg Vol (12M)	: 4,88,317
Face Value	: ₹ 1
Beta	: 0.60
Pledged Shares	: 20.15%
Year End	: March
BSE Scrip Code	: 531162
NSE Scrip Code	: EMAMILTD
Bloomberg Code	: HMN IN
Reuters Code	: EMAM.NS
Nifty	: 17,957
BSE Sensex	: 60,298
Analyst	: Research Team

Price Performance



Shareholding Pattern



1Q FY23 Update

Outlook & Valuation

Emami delivered robust sales growth of ~18% y-o-y in 1Q FY23, driven by the Dermicool brand (acquired in March this year) to a large extent. Excluding Dermicool, sales growth was ~10% in the quarter. With 90% of Dermicool sales generated in 1Q and the remainder 10% in 2Q, revenues will be driven by other products in the coming quarters of the current financial year. Margins witnessed pressure due to higher raw material costs, which increased CoGS as a percentage of operating revenues by ~340 bps in 1Q FY23. We have marginally adjusted our margin assumptions based on the latest data-points. The Emami stock witnessed robust appreciation, followed by subsequent corrections to stand at 27% higher, since we initiated coverage on the company with a BUY rating on 23 September 2020. Since our last update report dated 18 May 2022, the stock has gained 6%. The Emami stock is currently trading at an attractive valuation of ~26x FY24E. We maintain a BUY rating on Emami with a price target of Rs 595 (reduced from Rs 601) based on P/E of 34x FY24E EPS, informing a 28% 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	990.2	1,134.6
EBITDA margin	27.0%	26.0%	30.7%	29.8%	27.6%	28.8%
PAT*	302.5	302.3	454.7	611.5	620.9	772.7
PAT margin*	11.2%	11.4%	15.8%	19.2%	17.3%	19.6%
Diluted EPS (₹)*	6.68	6.67	10.23	12.51	14.07	17.51

\*FY22A PAT, PAT margin and EPS adjusted for MAT credit (earlier years) and exceptional item  
 Source: Company data, Khambatta Research

Results Analysis

- Emami witnessed healthy growth in 1Q FY23 with operating revenues increasing by 17.8% y-o-y to Rs 778.3 crore from a high base of 37.3% growth in 1Q FY22. Volumes increased by 9.6% y-o-y with most of it contributed by Dermicool, accounting for 8% of domestic sales. Excluding Dermicool, domestic volume growth was 2.4% y-o-y.
- Domestic (85% of total sales) and international (15% of total sales) businesses grew by 13% y-o-y and 45% y-o-y, respectively in 1Q FY23.
- Modern channels saw healthy growth with modern trade increasing by 42% y-o-y while e-commerce growing by 55% in the quarter.
- Pain management recorded a slide of 30% y-o-y on back of 70% y-o-y growth in the base quarter. Healthcare saw a decline of 25% compared to 59% growth in the base quarter.

## Emami Limited

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- Navratna sales grew by 29% y-o-y while Kesh King registered 20% higher sales on a y-o-y basis. Male Grooming was up by 32% y-o-y as BoroPlus sales were flat. Dermicool, a recently addition to the portfolio, contributed 8% of domestic sales.
- EBITDA increased by a modest 2.1% y-o-y to Rs 173.3 crore as EBITDA margin declined by ~340 bps y-o-y to 22.3%, in line with lower gross margins resulting from higher raw material costs.
- PAT (adjusted for MAT credit entitlement for earlier years) was down 6.6% y-o-y to Rs 72.7 crore as PAT margin (adjusted) declined by ~240 bps to 9.3%. The margin decline at the PAT level was lower compared to at the operating level due to MAT credit (current year) of Rs 13.6 crore in 1Q FY23. Adjusted for amortisation of intangible assets relating to Kesh King and other brands, and other one-off items, PAT was flat on a y-o-y basis.

### Financial Performance (Consolidated)

₹ crore	1Q FY22	4Q FY22	1Q FY23	Y-o-Y	Q-o-Q
Operating revenue	661.0	770.4	778.3	17.8%	1.0%
EBITDA	169.7	163.9	173.3	2.1%	5.7%
EBITDA margin	25.7%	21.3%	22.3%	-341 bps	99 bps
PAT*	77.8	129.0	72.7	-6.6%	-43.6%
PAT margin*	11.8%	16.7%	9.3%	-243 bps	-740 bps
Diluted EPS (₹)*	1.75	2.92	1.65	-5.9%	-43.6%

\*4Q FY22 and 1Q FY23 PAT, PAT margin and EPS adjusted for MAT credit for earlier years 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.*

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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****19 August 2022**

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