Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Emami Ltd

Muted Q3; eyeing double-digit growth in FY24

Consumer Goods	Sharekhan code: EMAMILTD

Reco/View: Buy	↔	CMP: Rs. 419	Price Target: Rs. 500	↓

↑ 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 29.24
Updated Dec 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. 18,497 cr
52-week high/low:	Rs. 525 / 394
NSE volume: (No of shares)	2.3 lakh
BSE code:	531162
NSE code:	EMAMILTD
Free float: (No of shares)	20.2 cr

Shareholding (%)

Promoters	54.3
FII	11.5
DII	27.0
Others	7.3

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-0.6	-13.0	-8.5	-15.6
Relative to Sensex	-0.9	-12.9	-12.7	-19.1

Sharekhan Research, Bloomberg

Summary

- Emami's Q3FY2023 numbers were muted, affected by weak rural demand and a delayed winter. Revenue stood flat while operating profit decreased by 14% y-o-y during the quarter.
- The management is expecting a 10-12% revenue growth in FY2024 with expected recovery in the rural demand and improved growth in some key categories such as healthcare products and pain management.
- With raw material prices correcting from its highs, OPM is expected to improve substantially in Q4. It expects OPM to stand at 27% for FY2023 and improve consistently in the coming years as the mix will improve.
- The stock trades at 24.4x/20.8x/17.2x its FY2023E/FY2024E/FY2025E earnings. We maintain Buy with a revised PT of Rs. 500.

In Q3FY2023, Emami posted muted performance with revenues standing flat while PAT declined in single digit affected by weak demand in the rural India and delayed winter. The company's consolidated revenues grew by 1% y-o-y to Rs. 982.7 crore. Domestic business grew by 1% while international business revenues grew by 7%. Recently acquired Helios Lifestyle contributed 2.8% to the consolidated revenues. All key categories (except for 7-in-one oils) registered decline in revenues in Q3. Gross margin decreased by 153 bps y-o-y to 65.9%. This along with higher other expenses and employee expenses led to a sharp decline in OPM to 29.9% from 35.1% in Q3FY2022. Operating profit decreased by 14% y-o-y to Rs. 294.3 crore. However, a lower incidence of tax led to a 5.3% decline in adjusted PAT to Rs.250.4 crore. In 9MFY2023, consolidated revenue grew by ~6% to Rs. 2,574.8 crore. Operating profit decreased by 16% to Rs.663.0 crore and PAT decreased by ~8% to Rs. 574.7 crore.

Key positives

- Modern trade (salience of 10.5%) and e-commerce (salience of 7.9%) grew by 20% and 45%, respectively.
- Contribution of NPD's to overall domestic business revenues stood at 4%.
- The company has declared second interim dividend of Rs. 4 per share.

Key negatives

- *Boroplus*, Healthcare, Pain management, Kesh King oil, *Navratna* range and male grooming registered decline in revenues in Q3.
- Gross margins and OPM decreased by 153 bps and 520 bps y-o-y in Q3.

Management Commentary

- The management eyes double-digit growth in the medium term (10-12% in FY2024) through improved growth in the hair oil and skincare categories, new recruitments through bridge packs in key categories, expansion in distribution network (especially in rural markets) and sustained strong growth in key channels such as modern trade/e-commerce.
- The company has not witnessed competitive intensity in any of its product category. Thus with base getting stabilised, the company expects categories such as Healthcare range of products and pain management to achieve good revival in sales in FY2024.
- The management expects Q3 to be the last quarter for margin reduction as key commodity prices corrected from its highs. It expects margins to substantially improve in Q4 and expect FY2023 to end with OPM at 27%. The company expects OPM to consistently improve in the coming years with raw material prices expected to remain stable.
- Project Khoj currently present in 42,000 villages and towns will continue its growth trajectory by attaining the target of 50,000 by the end of the year. Investments will continue to be made in the project as the management has saved subsidy costs and optimized the network.

Revision in estimates – We have reduced our earnings estimates for FY2023, FY2024 and FY2025 to factor in lower-than-expected revenue growth in some of the key domestic categories.

Our Call

View: Maintain Buy with a revised PT of Rs. 500 – Emami has a strong brand portfolio and its sustained focus on product launches, distribution expansion, and scale-up of emerging channels will help to improve its growth prospects in the medium term. Further, the company is focusing on scaling up the D2C platform to improve revenue streams in the medium to long term. The OPM is expected to improve in the coming years with raw material prices stabilising. The stock is currently trading at 24.4x, 20.8x and 17.2x its FY2023E, FY2024E and FY2025E earnings, respectively. We maintain our Buy recommendation with a revised price target of Rs. 500.

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

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenues	2,881	3,192	3,403	3,829	4,496
OPM (%)	30.7	29.8	27.1	27.4	28.1
Adjusted PAT	673	761	758	888	1,077
% YoY growth	28.0	13.0	-0.4	17.2	21.2
Adjusted EPS (Rs.)	15.1	16.9	17.2	20.1	24.4
P/E (x)	27.8	24.8	24.4	20.8	17.2
P/B (x)	10.6	8.9	8.0	6.9	5.9
EV/EBITDA (x)	20.6	19.1	19.4	16.7	13.5
RoNW (%)	37.5	39.6	34.5	35.5	36.9
RoCE (%)	42.4	44.4	38.0	40.5	41.9

Source: Company; Sharekhan estimates

Muted performance in Q3

Revenues grew marginally by 1.1% y-o-y to Rs. 982.7 crore, slightly better than our expectation of Rs. 952.4 crore. Domestic business grew by 1% while international business revenues grew by 7%. Recently-acquired Helios Lifestyle contributed 2.8% to the consolidated revenues. While rural markets remained muted, urban-centric new age channels like Modern Trade continued to grow strongly by 20% and e-Commerce by 45% during the quarter. Both Modern Trade and e-Commerce put together now contributes to 18.4% of domestic revenues against 13.8% in Q3 last year. All key categories (except for 7-in-one oils) registered a decline in revenues in Q3. Gross margins decreased by 153 bps y-o-y to 65.9%. This along with higher other expenses and employee expenses led to a sharp decline in OPM to 29.9% from 35.1% in Q3FY2022. Operating profit decreased by 14% y-o-y to Rs. 294.3 crore. However, a lower tax incidence led to a 5.3% decline in adjusted PAT to Rs. 250.4 crore.

Key brands witnessed muted performance in Q3FY2023

In Q3FY2023, the *Navratna* range, male grooming range, *Boroplus* range and Kesh King range registered sales decline of 6%, 1%, 3% and 1%, respectively, due to muted demand (especially in the rural market) and a delayed winter. On the other hand, pain management range and healthcare range or products witnessed flat sales in revenues due to the high Covid base.

Results (Consolidated) Rs cr

Particulars	Q3FY23	Q3FY22	y-o-y (%)	Q2FY23	q-o-q (%)
Net revenue	**982.7**	**971.9**	**1.1**	**813.8**	**20.8**
Raw materials	335.5	317.0	5.8	271.6	23.6
Employee costs	93.4	72.4	29.1	93.5	0.0
Ad promotions	153.3	158.3	-3.2	141.5	8.3
Other expenses	106.3	82.7	28.4	111.9	-5.0
Total expenditure	688.5	630.3	9.2	618.4	11.3
Operating profit	**294.3**	**341.5**	**-13.8**	**195.4**	**50.6**
Other income	6.9	16.6	-58.7	42.0	-83.7
Finance costs	1.8	1.8	-3.3	1.8	0.6
Depreciation	23.8	24.2	-1.7	24.5	-2.8
Profit before tax	**275.6**	**332.2**	**-17.0**	**211.1**	**30.5**
Tax	24.5	64.4	-62.0	11.5	-
Adjusted PAT	251.1	267.8	-6.2	199.6	25.8
Minority interest	-0.6	-3.3	-	-2.2	-
Adjusted PAT after MI	**250.4**	**264.5**	**-5.3**	**197.4**	**26.9**
Extra-ordinary items	17.5	45.0	-61.1	17.5	0.0
Reported PAT	233.0	219.5	6.1	180.0	29.5
Adjusted EPS (Rs.)	5.7	5.9	-3.5	4.5	25.8
			bps		**bps**
GPM (%)	65.9	67.4	-153	66.6	-77
OPM (%)	29.9	35.1	-520	24.0	593
NPM (%)	28.0	34.2	-614	25.9	209
Tax rate (%)	8.9	19.4	-	5.5	342

Source: Company, Sharekhan Research

Category/Brand-wise performance

Key brands/category	y-o-y growth (%)	9MFY2023
Healthcare range	2	-12
Pain Management range	-2	-15
Navratna range	-6	11
Kesh King range	-1	1
Boroplus range	-3	3
Male Grooming range	-1	10
7 Oils in One	45	45

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – H2FY2023 to be better compared to H1

A sustained slowdown in rural demand will continue to put a toll on sales volume of consumer goods companies in Q3FY2023. However, uptick in the festive season, sustained demand for premium categories along with stable demand in urban markets will lead to a sequential improvement in sales volume. Overall, we expect H2FY2023 to be much better compared to H1FY2023, with expected recovery in sales volumes. OPM is also expected to improve from Q4FY2023. Low penetration in key categories (especially in rural India), lower per capita consumption compared with other countries, a large shift to branded products, and emergence of new channels such as e-Commerce/D2C provide several opportunities for achieving sustainable growth in the medium to long run.

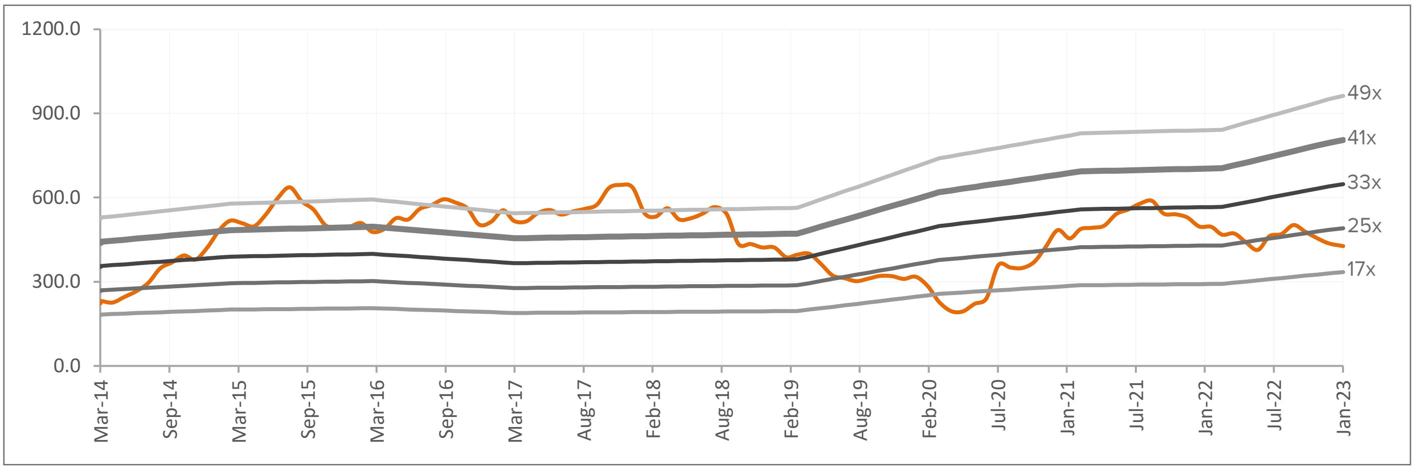
■ Company Outlook – Eyeing double-digit growth in FY2024

Emami maintained its thrust on achieving double-digit revenue growth in the medium term, led by product launches (4% of revenue), distribution expansion (especially in rural markets), market share gains in categories such as premium hair oil, launch of bridge-gap packs to add more customers, and growing strongly on alternate channels such as e-commerce/ modern trade. The management believes raw-material prices have reached their peak and expects input prices to moderate from current levels. This should help margins to consistently improve in the coming quarters. The company expects OPM to end at 27% in FY2023 and consistently improve in the coming years.

■ Valuation – Maintain Buy with revised PT of Rs. 500

Emami has a strong brand portfolio and its sustained focus on product launches, distribution expansion, and scale-up of emerging channels will help to improve its growth prospects in the medium term. Further, the company is focusing on scaling up the D2C platform to improve revenue streams in the medium to long term. The OPM is expected to improve in the coming years with raw material prices stabilising. The stock is currently trading at 24.4x, 20.8x and 17.2x its FY2023E, FY2024E and FY2025E earnings, respectively. We maintain our Buy recommendation with a revised price target of Rs. 500.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Dabur	51.7	48.8	39.3	41.8	40.7	33.0	26.3	25.6	29.8
Marico	50.8	45.7	38.1	37.4	32.8	28.1	41.4	46.4	52.7
Emami	24.8	24.4	20.8	19.1	19.4	16.7	44.4	38.0	40.5

Source: Company; Sharekhan Research

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 has 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
N. H. Bhansali	CEO-Finance, Strategy and Business Development and CFO
A. K. Joshi	Company Secretary & Compliance Officer & Vice President (Legal)

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	DSP investment managers Pvt Ltd	5.36
2	Mirae Asset Global Invesments	4.33
3	HDFC AMC	2.98
4	L & T Mutual Fund Trustee Ltd/India	2.15
5	Aves Trading and Finance	2.10
6	HDFC Life Insurance Co Ltd	1.96
7	Kotak Mahindra AMC	1.78
8	Aditya Birla Sun Life AMC	1.68
9	Franklin Resources Inc	1.59
10	Vanguard Group Inc	1.50

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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Compliance Officer: Ms. Binkle Oza; Tel: 022-61150000; email id: complianceofficer@sharekhan.com;

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

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. 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.