Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Company Update

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 Aug 08, 2023

Medium Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 24,859 cr
52-week high/low:	Rs. 582/341
NSE volume: (No of shares)	6.2 lakh
BSE code:	531162
NSE code:	EMAMILTD
Free float: (No of shares)	20.0 cr

Shareholding (%)

Promoters	54.5
FII	11.7
DII	26.2
Others	7.6

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	9.5	48.3	52.9	10.0
Relative to Sensex	6.3	41.1	35.7	-1.4

Sharekhan Research, Bloomberg

Emami Ltd

Long-term prospects intact; promoters' pledge to reduce significantly by FY2025

Consumer Goods	Sharekhan code: EMAMILTD

Reco/View: Buy	↔	CMP: Rs. 566	Price Target: Rs. 655	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We reiterate our Buy rating on Emami with a revised PT of Rs. 655. Discounted valuation of 27x/23x its FY2024E/FY2025E EPS, reducing promoters' pledge, and improving growth prospects make it a good pick in the mid-cap FMCG space.
- With AMRI sell-off getting the required approval, promoters' pledge in Emami will be reduced to 15% by FY2024-end. The company's is focusing on further reducing promoters' pledge to low single-digit by H1FY2025 by selling other assets.
- Emami is likely to achieve high single-digit revenue growth in FY2024. However, if winter is strong, revenue growth might be 10-12%; EBIDTA margin is likely to expand by 200-250 bps y-o-y.
- The focus remains on achieving revenue growth of 12-14% with expanding reach in the rural market, scale-up in acquired and new ventures (including The Man Company) and strong double-digit growth in the international business. EBITDA margin will remain at 27-28%.

Emami's management has the vision to make the company a consistent business model by expanding its reach in key markets (especially in rural markets), increasing its presence in modern trade and e-commerce, and launching innovative products in the therapeutic platform (in the healthcare and hair oil category) in the coming years. This will help the company achieve revenue growth of 12-14% in the coming years, which will be predominantly driven by 8-10% volume growth. Double-digit growth in premium hair oils (Kesh King and 7-in-one oils), scale-up in the acquired startup such as The Man Company (expected to report revenue of Rs. 140-150 crore), and strong double-digit growth in the international business would take its contribution to revenue to over 20% from 17-18% currently over the next two to three years. EBIDTA margin is expected to remain at 27-28% (barring any significant volatility in input prices). Promoters' pledge is expected to reduce to low single-digit by H1FY2025 from 32-33% currently, with required steps initiated at the group level (including sale of AMRI Hospital).

- **Revenue to grow by 7-8% in FY2024; striving for 12-14% growth in the near term:** Emami's revenue registered a CAGR of 5-6% in the last five to six years, affected by multiple headwinds such as demonetisation and implementation of GST (affecting channel mix with wholesalers coming under pressure), Covid-led disruption, and a spike in inflation affecting rural demand. The company is striving to achieve revenue growth of 12-14% (with volume growth of 8-10%), driven by focused strategies of expanding reach in rural India and increased presence in modern trade/e-commerce and general trade, driving strong growth in categories such as hair oil, men's fairness cream, and healthcare products in the coming years. FY2024 is expected to see high single-digit revenue growth as Q1 was affected by abnormal summers. However, if winters are strong, the company is likely to deliver 10-12% revenue growth in FY2024.
- **EBIDTA margin to be 27-28% in the near term; will gradually expand with better mix:** Emami has seen linear margin expansion over the past 15 years, driven by good acquisitions, cost efficiencies, prudent pricing actions, and better mix. FY2023 was impacted by high raw-material prices and lower operating leverage. The company expects 200-250 bps y-o-y margin expansion to 27% in FY2024. Emami expects OPM to remain at 27-28% in the near term and gradually improve with better mix and efficiencies in the coming years. However, the company endeavours to invest a large part of its margin savings in improving the growth prospects of key brands to achieve higher revenue growth.
- **Promoters' pledge will be reduced to nil in the coming years:** Emami group has received regulatory approval for the sale of AMRI Hospital, which is likely to be completed in another two months. This will help promoters' pledge to reduce to 15% by FY2024-end from 32-33% currently. The group is focusing on reducing the pledge to low single-digit by H1FY2025 and gradually bring it down to nil by selling some of the unused assets in the near term.

Our Call

View: Retain Buy with a revised PT of Rs. 655: Emami has a strong brand portfolio and its sustained focus on product launches, distribution expansion, scale-up of emerging channels, strong pipeline of D2C brands, growth in international business, and improved penetration will help to improve its growth prospects in the medium term. OPM is expected to improve in the coming years with raw-material prices stabilising. Emami continues to trade at discounted valuations of 27x/23x its FY2024E/FY2025E earnings. With likely reduction in the promoters' pledge over the next two years, we expect a re-rating in valuation with the expectation of consistent earnings growth in the coming years. We retain our Buy rating on the stock with a revised price target (PT) of Rs. 655 (rolling over our PT to September 2025 earnings).

Key Risks

Emami's product portfolio is seasonal in nature. Hence, any weather vagaries or supply disruption due to frequent lockdowns would affect its performance in the near to medium term.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenues	3,192	3,406	3,764	4,331
OPM (%)	29.8	25.3	27.0	27.3
Adjusted PAT	761	755	927	1,078
% YoY growth	13.0	-0.8	22.8	16.3
Adjusted EPS (Rs.)	16.9	16.9	21.0	24.4
P/E (x)	33.5	33.4	26.9	23.2
P/B (x)	12.0	10.8	9.2	7.9
EV/EBITDA (x)	26.1	28.5	23.3	19.7
RoNW (%)	39.6	34.5	37.0	36.6
RoCE (%)	44.4	34.9	41.1	41.3

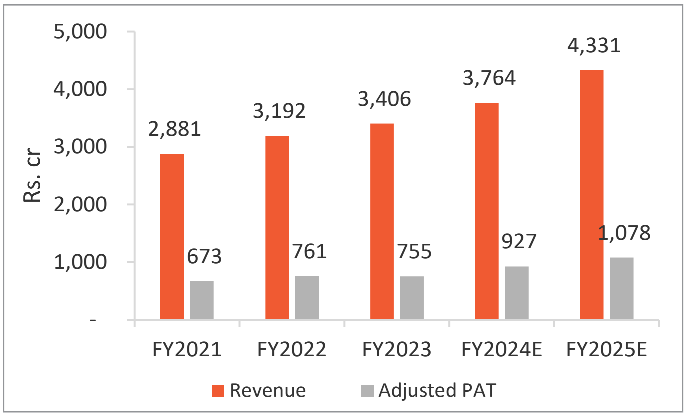
Source: Company; Sharekhan estimates

Key pointers of business outlook

- **Demand to gradually pick up:** As per the latest Kantar report, the top 20% of consumers were not affected by inflation, the next 40% of consumers were somewhat impacted by inflation, however, the bottom 40% of consumers had a significant impact due to inflation. Emami's target audience is mainly rural or urban poor. Thus, the company faced challenges leading to lower demand for the company's products. However, demand is likely to pick up gradually in the coming months if winters are good and if the government comes up with multiple benefits for the rural population prior to elections.
- **Eyeing double-digit revenue growth in the medium term:** The company's revenue has registered a CAGR of 5-6% in the last five to six years affected by multiple headwinds such as demonetisation and implementation of GST (affecting the channel mix with wholesalers coming under pressure), Covid-led disruption, and a spike in inflation affecting rural demand. Emami's growth was impacted in FY2023 due to high consumer inflation and category correction post Covid (high base of FY2022). FY2024 is expected to see high single-digit revenue growth, as Q1 was affected by abnormal summers. However, if winters are strong, the company is likely to deliver 10-12% revenue growth in FY2024. However, in the medium term, the company is striving to achieve revenue growth of 12-14% (with volume growth of 8-10%), driven by focused strategies of expanding reach in rural India and increased presence in modern trade/e-commerce and general trade, driving strong growth in categories such as hair oil, men's fairness cream, and healthcare products in the coming years.
- **Margins expected to improve from FY2023 levels:** Emami's margins have been improving consistently over the past 15 years, driven by good acquisitions, cost efficiencies, prudent pricing actions, and better mix. FY2023 was impacted by high raw-material prices and lower operating leverage. The company expects 200-250 bps y-o-y margin expansion to 27% in FY2024, aided by correction in raw-material prices. The company expects OPM to remain in the range of 27-28% in the near term and gradually improve with better mix and efficiencies in the coming years. However, the company endeavours to invest a large part of its margin savings in improving the growth prospects of its key brands to achieve higher revenue growth.
- **Continues to expand its distribution reach:** The company is working on laying a good foundation in rural regions. Therefore, the company has improved its reach from 32,000 villages to 52,000 villages and targets to add 8,000 villages by FY2024-end or early FY2025.
- **Increasing contribution from modern trade (MT) and e-commerce:** The company's modern trade contribution has risen from 3% pre-Covid to 9.0-9.5% at present, while the e-commerce channel, which was not present pre-Covid, has grown to 9.0-9.5%. These channels are expected to continue to grow in the coming quarters.
- **Balanced revenue mix across regions and channels:** In India, north and west contribute 30-32% each, while south and east contribute 18-20% each. In terms of channels, wholesale contributes ~40%, MT and e-commerce contribute ~10% each, and contribution of the international business stands at ~17%.
- **Confident about performance of the hair oil category:** The company is positioned comfortably in the hair oil category as the company's brands are therapeutic. Performance of 7 oils in 1 is decent in India, while it is delivering good performance in Bangladesh.
- **Male grooming picking up momentum:** Male grooming is currently at a very nascent stage. Fair and Handsome is expected to gain momentum in the coming months once macro-economic factors improve. The company is planning to increase its investment in The Man Company from 51% to 90% in the coming 1-2 quarters and targets Rs. 140 crore revenue from The Man Company in FY2024.
- **International business expected to deliver mid-teen growth:** Emami expects its international business to grow in mid-teens (~15%) in the medium term, driven by double-digit growth in the Middle East and Bangladesh. Contribution of the international business currently stands at ~17% and is expected to increase by 1-2%.
- **No major capex planned in the coming years:** The company's investment in distribution is completed and now the focus would be on increasing the throughput. The company would continue its annual maintenance capex, but it does not plan to do any other major capex in the near term.
- **Aim to reduce promoters' pledge to nil in the coming years:** Emami group has received regulatory approval from West Bengal government for the sale of AMRI Hospital and expects to complete the transaction in another two months. This will help promoters' pledge to reduce to 15% by FY2024-end from 32-33% currently. The group is focusing on reducing the pledge to low single-digit by H1FY2025 and gradually bring it down to nil by selling some of the unused assets in the near term.

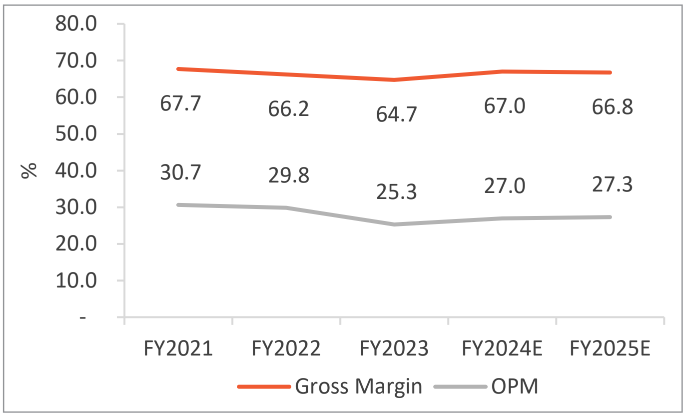
Financials in charts

Steady growth in revenue and PAT



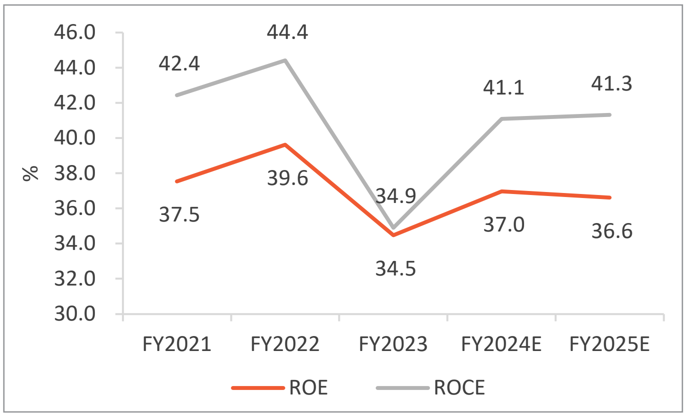
Source: Company, Sharekhan Research

Margins to improve from the current level



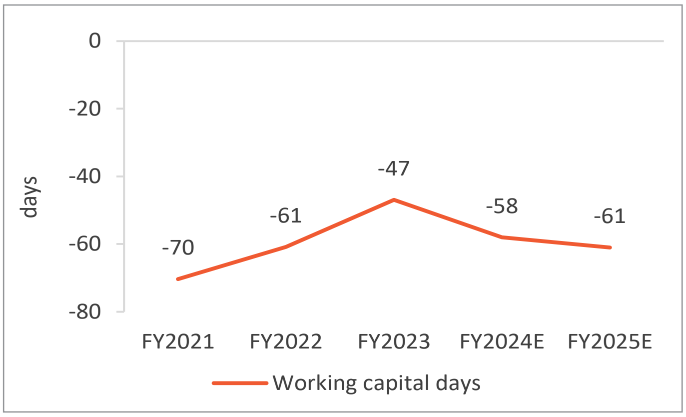
Source: Company, Sharekhan Research

Return ratios to rise going ahead



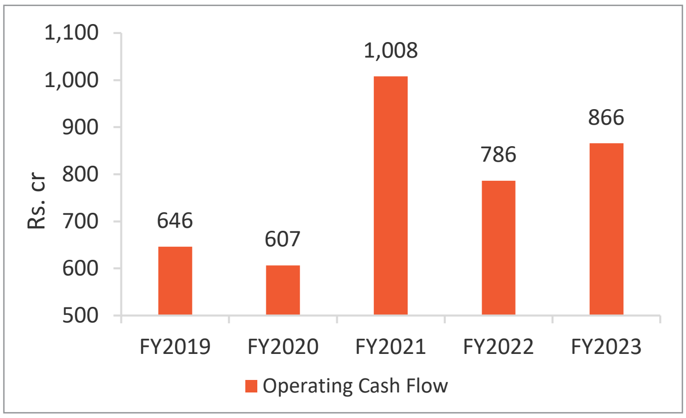
Source: Company, Sharekhan Research

Trend in working capital days



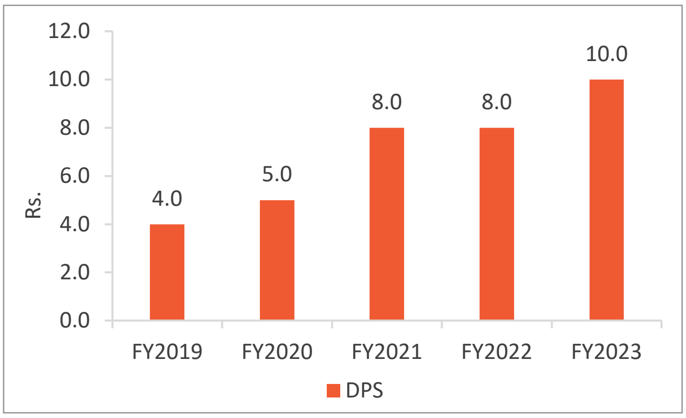
Source: Company, Sharekhan Research

Strong operating cash flows



Source: Company, Sharekhan Research

Consistent dividend payout history



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Rural recovery on cards; margin improvement to sustain

Rural demand bottomed out with sales returning to the positive growth path in Q4FY2023. With price inflation stabilising and a decline in key input prices, managements of most companies are confident of witnessing a gradual pick-up in rural demand in the quarters ahead. Moreover, expectation of a well spread-out monsoon and the government offering some incentives prior to the budget might provide some boost to rural sentiments in the coming quarters. In FY2024, revenue growth is expected to be volume-led growth, with companies focusing on passing on the benefits of the decline in input cost to customers going ahead. The drop in input prices will drive gross margins in the near future. Despite higher media spends, OPM is expected to remain high on a y-o-y basis in the near term.

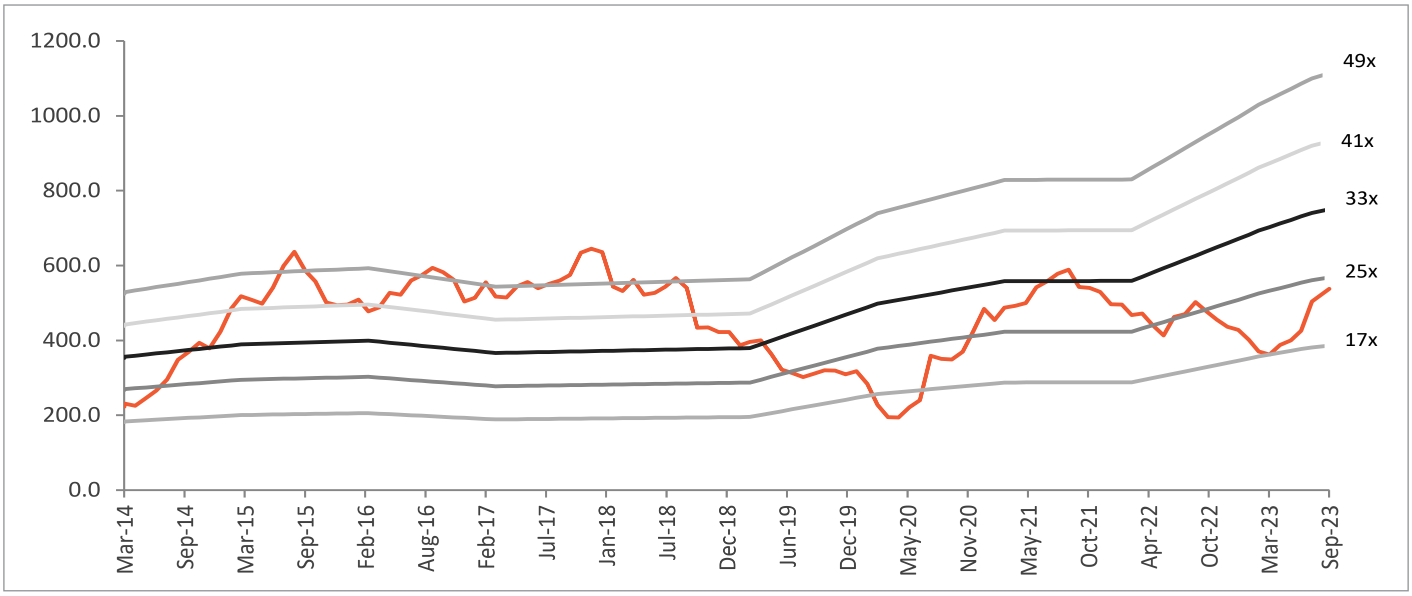
■ Company outlook - Better performance expected in FY2024

Emami's Q1FY2024 was better than our expectations mainly on account of higher-than-expected revenue growth (higher by 4%) and lower incidence of tax, which led to 25% y-o-y growth in adjusted PAT. PAT grew by 6% y-o-y and OPM expanded by 74 bps y-o-y. Strong growth in the newly acquired businesses and steady performance by key categories would help the domestic business to grow by 8-10% in FY2024. OPM is likely to rise y-o-y in FY2024, driven by gross margin expansion due to softening of raw-material prices. With strategies in place, we expect the company's revenue and PAT to report a 15% and 19% CAGR, respectively, over FY2023-FY2025E.

■ Valuation - Maintain Buy with a revised PT of Rs. 655

Emami has a strong brand portfolio and its sustained focus on product launches, distribution expansion, scale-up of emerging channels, strong pipeline of D2C brands, growth in international business, and improved penetration will help to improve its growth prospects in the medium term. OPM is expected to improve in the coming years with raw-material prices stabilising. Emami continues to trade at discounted valuations of 27x/23x its FY2024E/FY2025E earnings. With likely reduction in the promoters' pledge over the next two years, we expect a re-rating in valuation with the expectation of consistent earnings growth in the coming years. We retain our Buy rating on the stock with a revised price target (PT) of Rs. 655 (rolling over our PT to September 2025 earnings).

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Dabur	58.9	43.7	35.9	46.5	35.6	29.0	22.1	27.0	30.0
Marico	57.0	47.7	41.8	40.9	34.6	30.3	40.8	44.0	46.9
Emami	33.4	26.9	23.2	28.5	23.3	19.7	34.9	41.1	41.3

Source: Company; Sharekhan Research

About company

Emami is one of the leading FMCG companies that manufacture and market personal care and healthcare products. With over 300 diverse products, the company's portfolio includes brands such as Navratna, Boroplus, Fair & Handsome, Zandu Balm, Mentho Plus, and Kesh King. With the acquisition of Kesh King in 2015, the company has forayed into the ayurvedic hair and scalp care segment. Following the acquisition of Creme 21, a German brand with strong roots and brand recall in 2019, Emami went on to acquire Dermicool, one of the leading prickly heat and cool talc brands of India in 2022. Emami has a wide distribution reach in over 4.9 million retail outlets through ~4,000 distributors. The company has a strong international presence in over 70 countries, including SAARC, MENAP, SEA, Africa, Eastern Europe, and CIS countries.

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. The company has appointed a separate sales head, international business head, and healthcare segment head recently, indicating that management is now getting its focus back on improving the growth prospects of its consumer business. The company's revenue and PAT are expected to report a 15% and 19% CAGR, respectively, over FY2023-FY2025E, driven by its focus on product launches, distribution expansion, scale-up of the emerging channels, strong pipeline of D2C brands, growth in the international business, and improved penetration.

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. Goenka	Chairman
Harsha Vardhan Agarwal	Managing Director
N. H. Bhansali	CEO-Finance, Strategy, and Business Development and CFO
Sandeep Kumar Sultania	Company Secretary and Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	DSP investment managers Pvt. Ltd.	5.88
2	Mirae Asset Global Investments	3.63
3	HDFC AMC	2.98
4	Avees Trading and Finance	2.11
5	Franklin Resources	1.74
6	Kotak Mahindra AMC	1.73
7	HDFC Life Insurance Co. Ltd.	1.69
8	Vanguard Group Inc.	1.52
9	Aditya Birla Sun Life AMC	1.49
10	L & T Mutual Fund Trustee Ltd.	1.38

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

Sharekhan

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