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BUY Emami

Thrust to improve fundamentals; rural boost key for growth

Consumer Goods ▸ Initiating Coverage ▸ **September 25, 2023**

TARGET PRICE (Rs): 625

Emami's post-Covid 19 recovery has been contingent on portfolio relevance and Management execution, further accentuated by hiring of skilled professionals. With inflationary pressure ebbing and all eyes on Rural recovery, we see Emami well-fitted to uphold topline growth. Its healthy margin profile will further enable it to explore various growth avenues & initiatives. Emami has balanced its rural dependence (was 55%; 52% now) with higher thrust on urban markets (where modern retail contribution is now ~19%). However, seasonal effects across the core portfolio remain a key risk. We expect high single-digit topline CAGR and margin-driven 14% earnings CAGR over FY23-26E. The promoter is gradually addressing concerns on pledge, which it aims to reduce to low double digits. We initiate coverage on Emami with BUY and TP of Rs625, on 31x PER.

Emami: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	31,872	34,057	37,084	40,256	43,643
EBITDA	9,524	8,628	10,001	11,188	12,255
Adj. PAT	7,245	6,401	7,570	8,392	9,273
Adj. EPS (Rs)	16.4	14.5	17.3	19.2	21.2
EBITDA margin (%)	29.9	25.3	27.0	27.8	28.1
EBITDA growth (%)	7.9	(9.4)	15.9	11.9	9.5
Adj. EPS growth (%)	9.1	(11.7)	19.5	10.9	10.5
RoE (%)	37.7	29.2	29.6	28.1	27.6
RoIC (%)	43.9	35.4	43.5	50.6	57.5
P/E (x)	32.0	36.2	30.3	27.3	24.7
EV/EBITDA (x)	24.5	26.8	22.2	19.5	17.5
P/B (x)	11.1	10.1	8.2	7.2	6.4
FCFF yield (%)	0.7	3.0	3.6	3.8	4.3

Source: Company, Emkay Research

Rural recovery is key; strategy for scaling-up the urban play is reassuring

Emami generates ~52% of its revenue from rural markets, where it has product offerings that are seasonal and discretionary. Most of its core categories have limited competition and higher gross margin. With rural economic slowdowns affected by macro events, Emami's structural growth factors have been impacted. Going ahead, Company expects to benefit from any demand acceleration in Rural, where it has expanded its village and outlet reach (indirect channel contribution reduced to ~35% vs. 60% in the past). To bridge the portfolio gap in urban markets, Emami has been innovatively revamping its portfolio which has aided faster growth in modern retail channels (now entail ~19% of revenue vs. ~6% pre-Covid 19). Aligning with the needs of the new-age consumer, Emami has launched direct-to-consumer websites for key brands.

Healthy margin profile to support Management attention to growth

Emami has one of the best margin profiles in the sector, given its discretionary portfolio and low competitive intensity. As raw material prices are witnessing deflationary effects, the company expects margin to see steady expansion going ahead. Unlike in the past when its EBITDA margin peaked at ~30%, the company is now looking to expand margin to 26-27% and redeploy any further benefit towards category-development initiatives. Interestingly, in Emami-focused categories, there is no need for affordable SKUs (as these are not essential products); rather, with affluence, demand for the category rises.

Valuations remain attractive; re-rating to follow, as issues get addressed

Given the double-digit earnings growth momentum resuming and promoter shareholding pledge reducing, we see risk-reward turning favorable for Emami. The last 10-year average forward PER of 31x rightly echoes Emami's growth potential, with Emami leading initiatives for expanding product relevance, rural slowdown and addressing corporate governance concerns. The recent run-up in the stock has been a factor of gradual easing in business concerns and Company guidance of reduction in the promoter pledge position, and is likely to strengthen, as the rural demand setting revives.

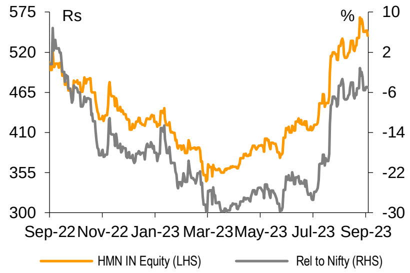
Target Price – 12M	Sep-24
Change in TP (%)	**NA**
Current Reco.	BUY
Previous Reco.	NA
Upside/(Downside) (%)	19.1
CMP (21-Sep-23) (Rs)	524.9

Stock Data	**Ticker**
52-week High (Rs)	583
52-week Low (Rs)	341
Shares outstanding (mn)	440.4
Market-cap (Rs bn)	231
Market-cap (USD mn)	2,782
Net-debt, FY14E (Rs mn)	-2,034
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	350.3
ADTV-3M (USD mn)	4.2
Free float (%)	45.5
Nifty-50	19,742
INR/USD	83.1
Shareholding, Jun-23	
Promoters (%)	54.5
FPIs/MFs (%)	11.5/26.2

Price Performance

(%)	1M	3M	12M
Absolute	(2.0)	26.5	4.0
Rel. to Nifty	(3.7)	20.2	(7.2)

1-Year share price trend (Rs)



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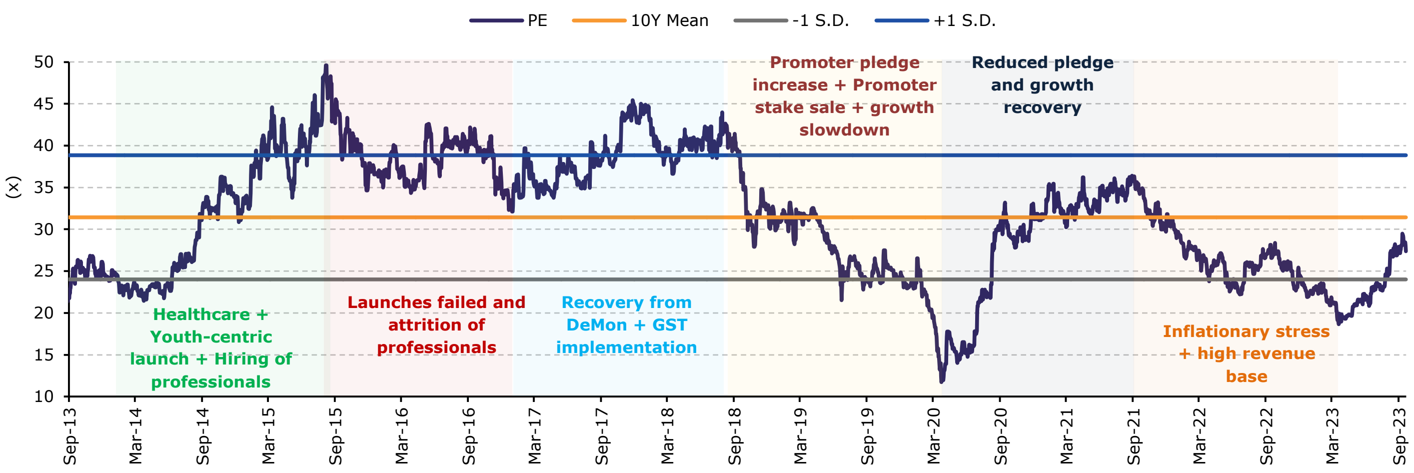
Improving fundamentals to aid valuation

We see 9% topline and 14% EPS growth over FY23-26E

We see valuation catch-up (seen from Mar-2023) sustaining for Emami, given that it has been addressing most business issues and is now ready to leverage the rural demand opportunity. The company has seen growth slowdown, from the 20% average over FY10–15 to around 4% during FY16-20. Barring the rural slowdowns and external factors, reduced focus from promoter-led Management has seen business prospects waning in the past. However, since Covid-19, the company has got back its mojo and, with the leadership transition to the next generation, has addressed business issues — this is reflected in the 9% average growth over FY21–23. Additionally, the promoter group has been tackling the share pledge issue and, with buybacks, is seeing expansion in shareholding.

Exhibit 1: Emami — One-year forward PER (on Consensus) over the last 10 years



Source: Company, Bloomberg, Emkay Research

We have Emami at 31x PER, which is in-line with its last 10 year average forward PER

What led to recent stock re-rating?

A. The recent re-rating in the stock, from 19x one-year forward PER in Apr-23 to 27x now, has been a factor of gradual easing in business concerns and Company guidance of reduction in the pledge position. Exhibit 1 highlights factors for a stock valuations re-rating and de-rating over the last decade.

Will rural slowdown hurt valuations?

A. While we see near term pressure sustaining in rural, expect recovery in demand over the medium term. The company has been expanding its reach in rural under *Project Khoj*, where we see added benefit for the company, as throughput focus getting enhanced. As the demand setting recover, we see Emami is better placed with low revenue base to chart faster growth.

What is the right valuation approach for Emami?

A. Our primary valuation methodology across our universe is PER-based, as it captures Company growth better and allows investors to easily compare stocks across sub-sectors. Our adjusted earnings estimates add back an amortization amount that the company charges to the P&L, to account for the inorganic acquisition.

What is the apt valuation multiple for valuing Emami?

A. We see that the last 10-year average forward PER of 31x is a true reflection of Emami's growth potential, given that it captures initiatives for expanding product relevance, rural slowdown and addressing corporate governance concerns.

What is Emkay's 12-month target price and return expectations?

A. We arrive at Sep-24E TP of Rs625/share, on 31x adjusted EPS for Sep-25E. We initiate coverage on Emami with a BUY recommendation.

What are the key risks to our call on the stock?

A. Slower-than-expected recovery, sharp rise in input cost, adverse climate and heightened competition are key risks to our BUY call.

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Exhibit 2: Emkay's FMCG coverage valuation snapshot

	Rating	TP	Upside	Mcap	P/E (x)			Avg. hist. fwd. PER (x)			FY25 PER vs		Emkay valuation	
		(Rs/sh)	(%)	(USD bn)	FY24E	FY25E	FY26E	3Y	5Y	10Y	5Y avg P/E	10Y avg P/E	P/E (x)	vs. 5Y avg P/E
ITC	BUY	535	20	67.2	27.45	24.83	22.49	19	20	23	25%	8%	NA	NA
Hindustan Unilever	HOLD	2,850	15	70.2	53.73	46.80	41.49	55	55	48	-15%	-2%	50	-9%
Britannia Industries	BUY	5,350	17	13.2	52.39	44.56	37.86	47	47	43	-6%	5%	48	2%
Godrej Consumer Products	BUY	1,225	24	12.2	48.34	38.81	33.11	43	41	38	-6%	1%	46	12%
Marico	HOLD	565	-2	9.0	50.03	44.39	38.46	44	42	39	5%	14%	42	0%
Colgate-Palmolive India	SELL	1,720	-14	6.5	44.83	41.54	37.84	39	40	39	5%	8%	35	-20%
Emami	BUY	625	19	2.8	30.26	27.30	24.70	28	27	31	1%	-13%	31	15%

Source: Company, Bloomberg, Emkay Research
Note: Priced based on close of business on 21-Sep-2023

Exhibit 3: Emkay Universe — Valuations

	EV/Sales (x)			EV/EBITDA (x)			Dividend payout (%)			Dividend yield (%)		
	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26
ITC	8.0	7.3	6.6	22.0	19.3	17.5	86	83	83	3.1	3.4	3.7
Hindustan Unilever	10.0	9.0	8.1	41.5	36.2	32.2	93	94	95	1.7	2.0	2.3
Britannia Industries	6.0	5.4	4.9	33.6	29.0	25.2	98	98	95	1.9	2.2	2.5
Godrej Consumer Products	7.1	6.3	5.6	35.2	28.5	24.4	15	24	27	0.3	0.6	0.8
Marico	6.7	5.9	5.3	33.2	29.5	25.9	70	69	67	1.4	1.6	1.7
Colgate-Palmolive India	8.7	8.1	7.5	27.9	25.9	23.6	95	96	95	2.1	2.3	2.5
Emami	4.8	4.3	3.9	17.5	15.3	13.6	52	52	52	1.7	1.9	2.1

Source: Company, Bloomberg, Emkay Research
Note: Priced based on close of business on 21-Sep-2023

Exhibit 4: Emkay Universe — Return profile and free cash conversion

	ROE (%)			ROCE (%)			FCF yield (%)			FCF/PAT (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
ITC	29.9	31.7	32.6	35.8	39.1	39.9	3.0	3.3	3.6	82	82	81
Hindustan Unilever	21.4	24.3	27.0	27.8	31.5	35.1	1.8	2.1	2.3	99	98	97
Britannia Industries	59.5	67.0	71.1	44.5	54.5	62.4	1.4	2.0	2.5	74	91	96
Godrej Consumer Products	14.0	15.5	16.1	16.5	17.9	19.3	-0.5	2.6	3.1	-25	101	102
Marico	37.7	38.0	38.8	41.2	42.0	42.7	2.0	2.1	2.3	99	93	86
Colgate-Palmolive India	68.5	70.0	72.4	85.5	87.2	90.1	2.4	2.5	2.8	109	106	106
Emami	29.4	27.9	27.4	34.0	32.7	32.0	3.6	3.7	4.1	110	102	102

Source: Company, Bloomberg, Emkay Research
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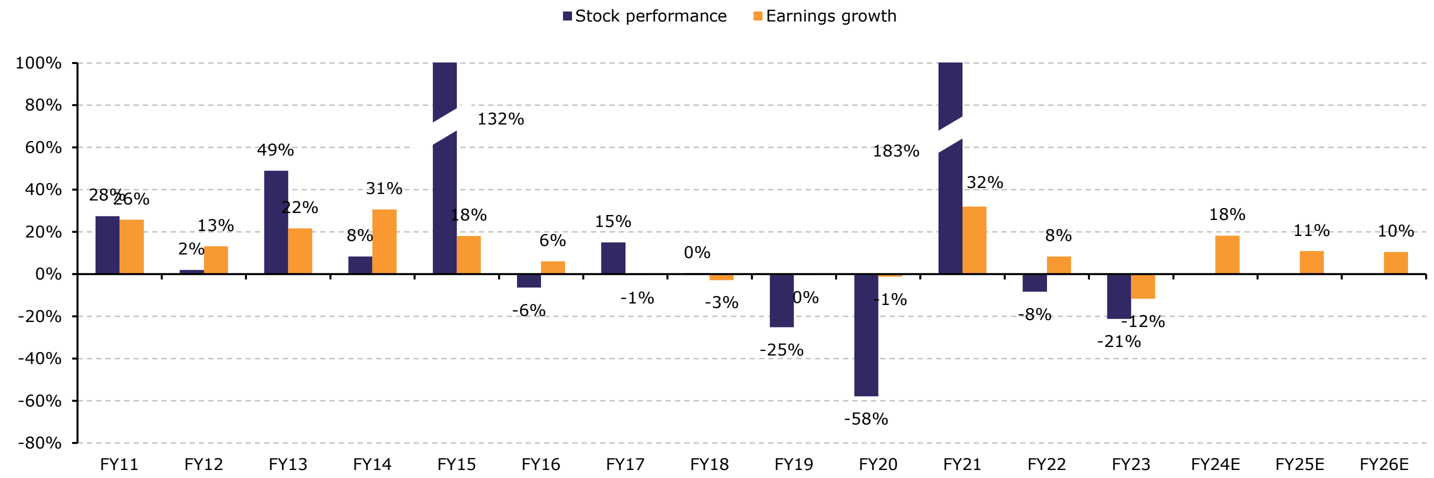
Exhibit 5: Stock price performance vs earnings growth



Source: Bloomberg, Emkay Research

Exhibit 6: Key assumptions

	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth						
Domestic sales growth	8.5%	7.0%	4.4%	8.7%	8.5%	8.3%
- Volume growth	7.8%	10.9%	1.2%	5.0%	8.0%	8.0%
- Realization growth	0.7%	-3.5%	3.2%	3.5%	0.5%	0.3%
International sales growth	13.3%	7.0%	19.1%	10.0%	9.0%	9.0%
- International sales contribution	17.0%	15.0%	16.9%	17.1%	17.1%	17.2%
Consolidated revenue growth	9.2%	7.0%	6.6%	8.9%	8.6%	8.5%
Consolidated EBITDA growth	27.9%	7.9%	-9.4%	15.9%	11.9%	9.5%
Consolidated earnings growth	31.9%	8.3%	-11.7%	18.3%	10.9%	10.5%
As a % of sales						
Gross margin	67.7%	66.3%	64.7%	66.5%	67.0%	67.0%
Employee costs	10.7%	10.0%	10.8%	10.6%	10.5%	10.3%
A&P spends	15.9%	16.4%	16.5%	17.0%	17.0%	17.0%
Other operating expenses	10.4%	10.1%	12.1%	11.9%	11.8%	11.6%
EBITDA margin	30.7%	29.9%	25.3%	27.0%	27.8%	28.1%
Per share data						
EPS (Rs)	15.1	16.4	14.5	17.3	19.2	21.2
DPS (Rs)	8.0	8.0	8.0	9.0	10.0	11.0
Pay-out	53%	49%	55%	52%	52%	52%
Balance sheet assumptions						
Capex (Rs mn)	337	4,836	405	1,000	1,200	1,200
Receivable days (no. of)	34	32	39	38	38	38
Inventory days (no. of)	35	38	37	36	35	35
Payable days (no. of)	43	43	44	45	45	45
Avg ROE	37%	38%	29%	30%	28%	28%
Avg ROCE	40%	41%	32%	34%	33%	32%
Avg ROIC	42%	43%	32%	39%	46%	52%

Source: Company, Emkay Research

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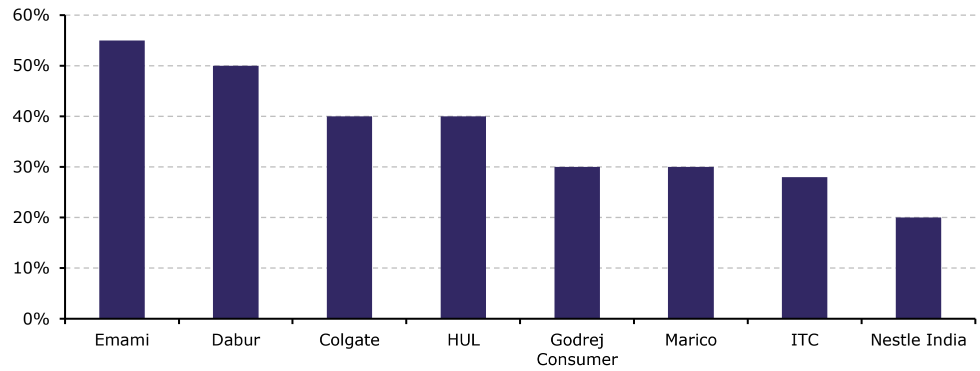
Recovery in rural, key for fundamentals

As the rural market stages a recovery, Emami is well placed (with ~52% revenue concentration in Rural) to accelerate growth across core segments. The company has addressed supply-chain concentration and revamped its SKUs to reposition itself in modern retail channels. Going ahead, while we see topline growth at a high single digit, we expect double-digit earnings on the back of an improving margin.

Emami generates ~52% revenue from rural markets

Exhibit 7: Rural sales contribution of mainstream FMCG companies



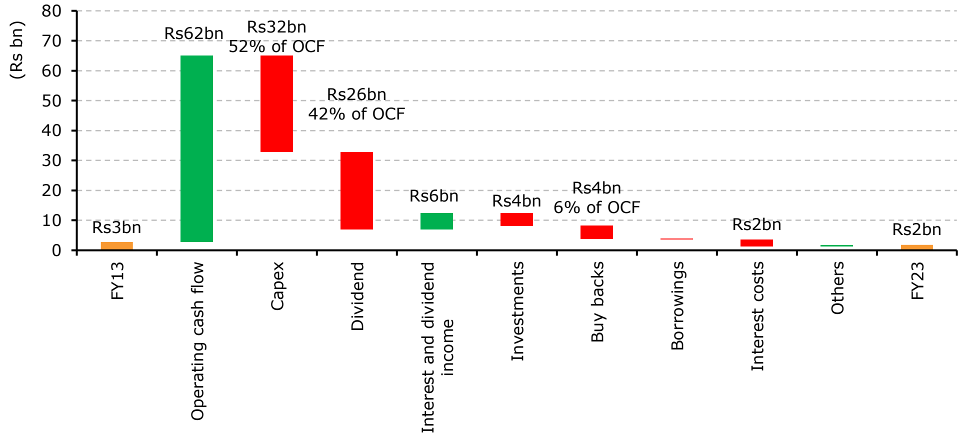
Source: Company, Emkay Research

Inorganic actions influence cash flow

A closer look at cash-flow in the last decade suggests earnings-to-free cash-flow conversion of ~74%. The relatively lower free cash-flow conversion has been a factor of inorganic actions in the past (*Kesh King* acquisition in FY16 and *Dermicool* acquisition in FY22). Overall capex in the last decade stood at ~Rs62bn, of which ~Rs22bn is being deployed for inorganic actions.

Overall in the last decade, the company has used 52% of the operating cash generation in the business to fund capex and 42% of the cash generation to pay shareholders in the form of dividend. The company has also seen buy-backs, with total outlay of Rs4bn in the last 10 years. To fund inorganic acquisitions, the company had to rely on borrowings, but with cash generation in the business, the company has relieved itself of most such borrowings. To this end, the company has paid out Rs2bn as interest costs in the last 10 years.

Exhibit 8: Assessing cash flow over the last decade



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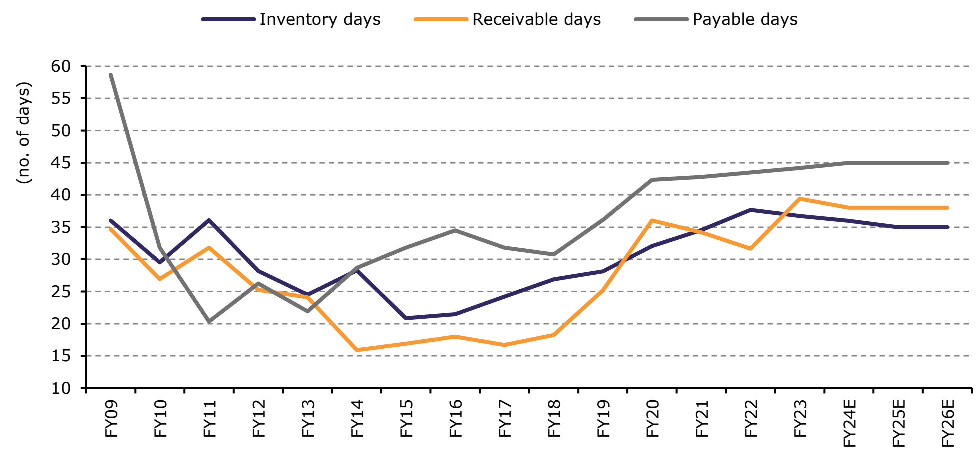
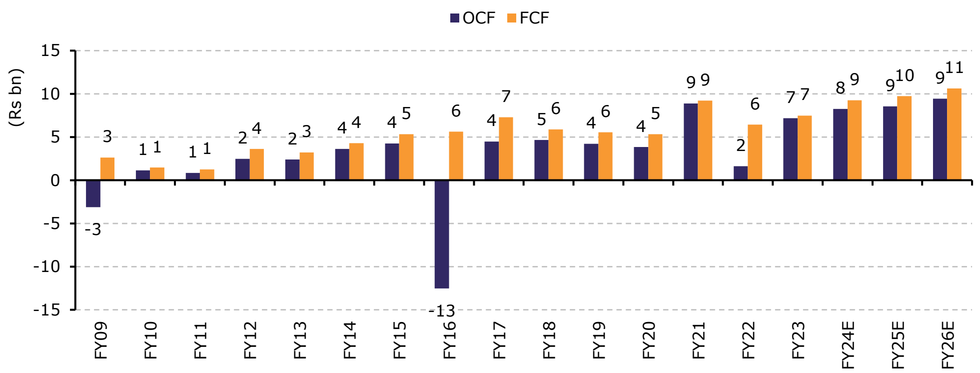
Receivable days on the rise, given: a) higher salience of modern retail channels, where need for credit is high and b) extension of credit in general trade amid liquidity stress

Exhibit 9: Working capital position



Source: Company, Emkay Research

Exhibit 10: Operating cash and free cash generation



Source: Company, Emkay Research

Exhibit 11: Earnings free cash conversion

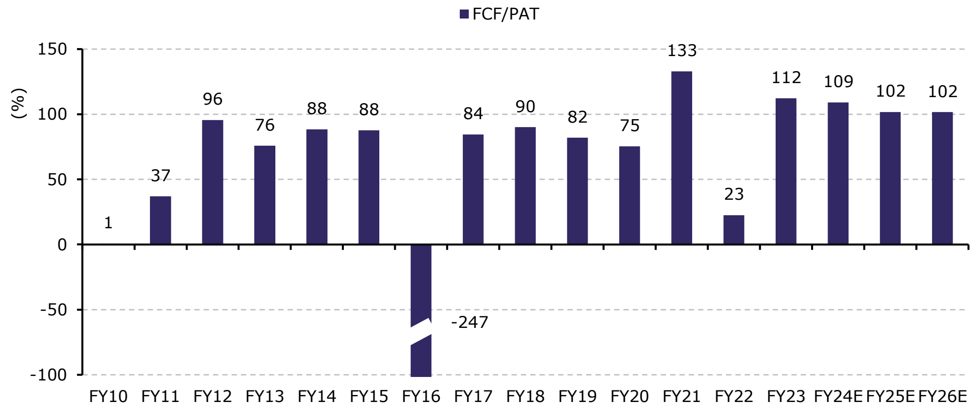


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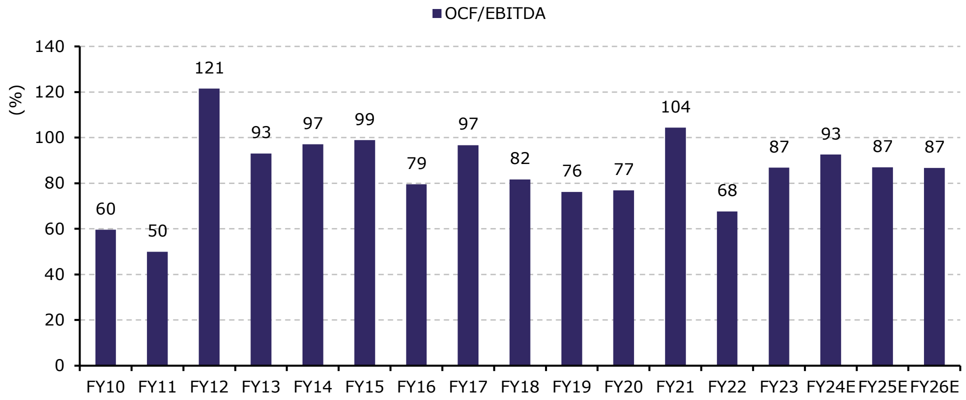
Exhibit 12: Operating cash flow-to-EBITDA

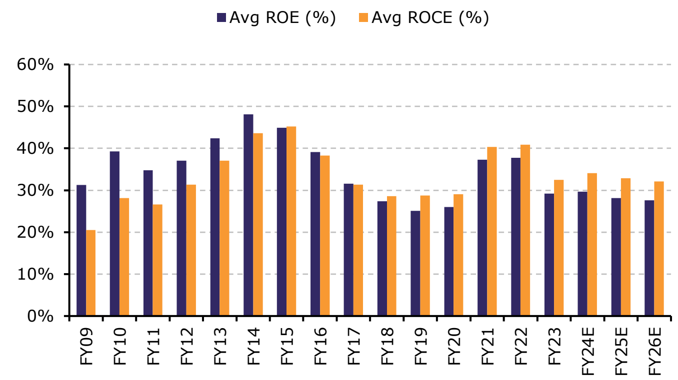


Source: Company, Emkay Research

Stable returns profile expected

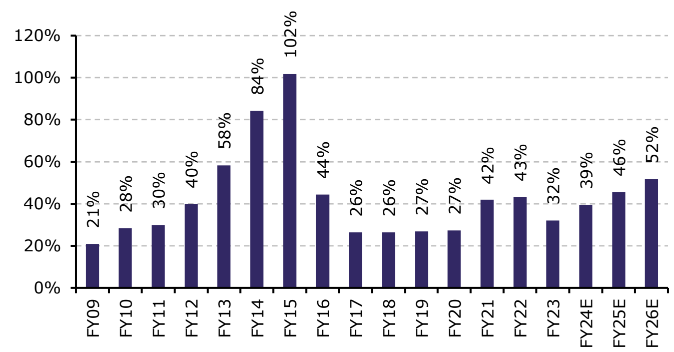
We believe that with intent to grow topline base, the company is likely to keep dividend payout at 50-60%, which will help it create an internal funding pool. The company has a dividend payout policy of 40-50% of cash earnings. We see dividend payout of cash earnings at ~47% over the medium term; on adjusted EPS, this is ~52%. In our view, the liquid asset base would expand to Rs18bn by Mar-26E from Rs3bn as of Mar-23.

Exhibit 13: Return on equity and on capital employed



Source: Company, Emkay Research

Exhibit 14: Return on invested capital



Source: Company, Emkay Research

Exhibit 15: DuPont analysis

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Fixed asset turn (x)	1.9	1.8	2.6	1.7	1.0	0.9	1.0	0.9	1.0	1.0	1.0	1.0	1.1	1.1
Net profit margin (%)	18.5	22.6	21.9	19.6	21.3	20.4	19.1	19.3	23.4	23.9	18.7	20.3	20.7	21.1
Fixed assets/equity (x)	1.2	1.2	0.8	1.2	1.5	1.4	1.4	1.5	1.7	1.7	1.6	1.4	1.2	1.1
RoE (%)	**42.4**	**48.1**	**44.9**	**39.1**	**31.5**	**27.4**	**25.2**	**26.3**	**37.5**	**39.6**	**29.0**	**29.4**	**27.9**	**27.4**

Source: Company, Emkay Research

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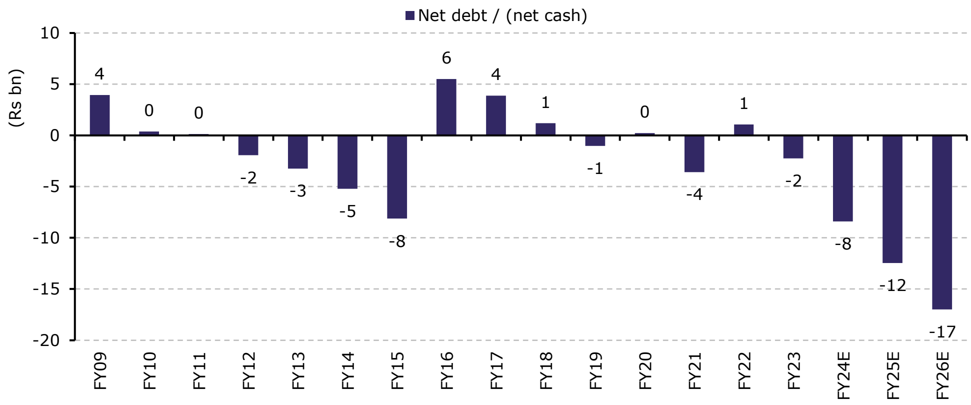
Expanding net cash position to aid buy-backs and inorganic prospects

The company was impelled to resort to borrowings for inorganic opportunities in the past which, with healthy cash generation in the business, is being pared. As of Mar-23, the company's net cash position is Rs2bn. With healthy cash generation and limited dividend payouts, we see steady expansion in liquid assets in the business.

The company has initiated buy-back of shares from CY2020 and is expected to sustain the streak ahead with healthy cash accumulation. Additionally, the company may look at inorganic opportunities to accelerate topline aspirations.

As the net cash position continues to strengthen, the company can look at inorganic routes to scale its business.

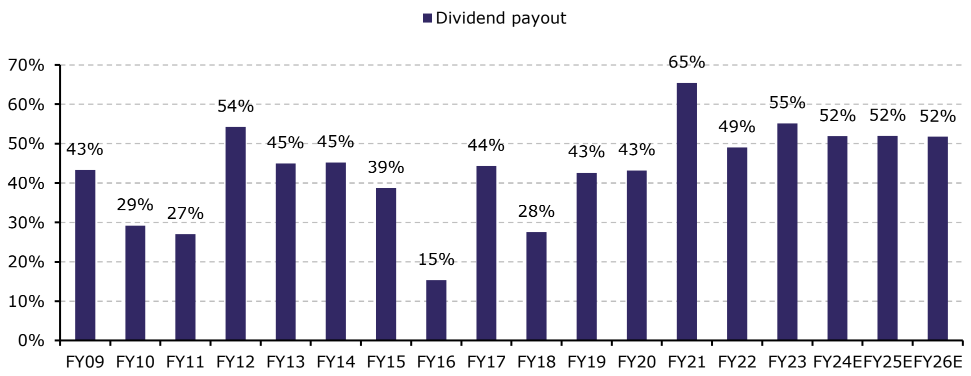
Exhibit 16: Net debt/(net cash) position



Source: Company, Emkay Research

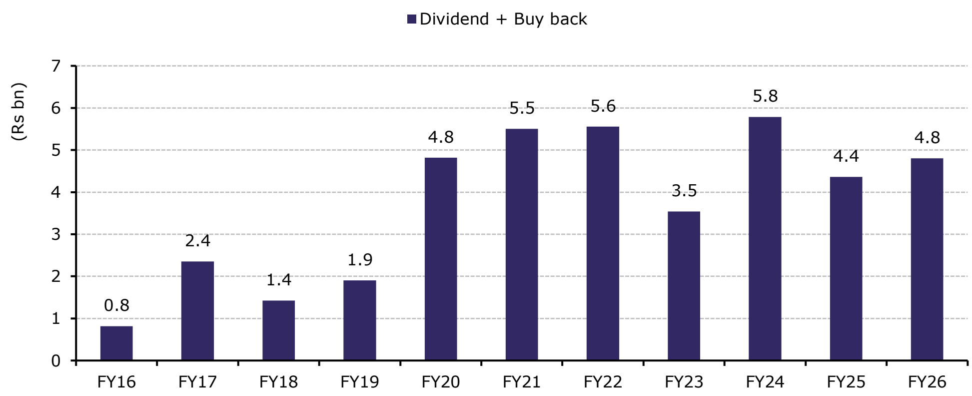
Dividend policy: 40-50% of cash earnings

Exhibit 17: Dividend payout trend



Source: Company, Emkay Research; Note: Based on adjusted PAT

Exhibit 18: Annual pay-out to shareholders in the form of buy-backs and dividend (incl. tax)



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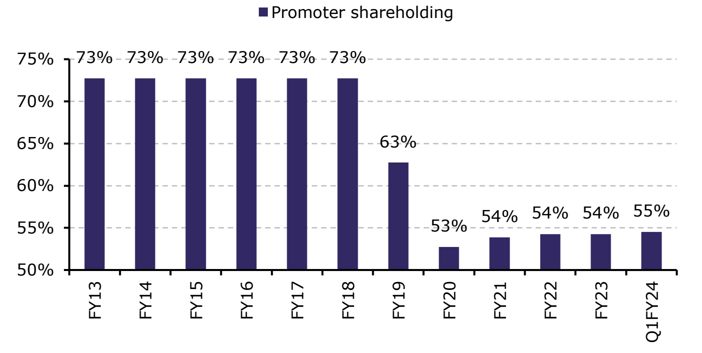
Promoter's asset monetization to address the pledge issue

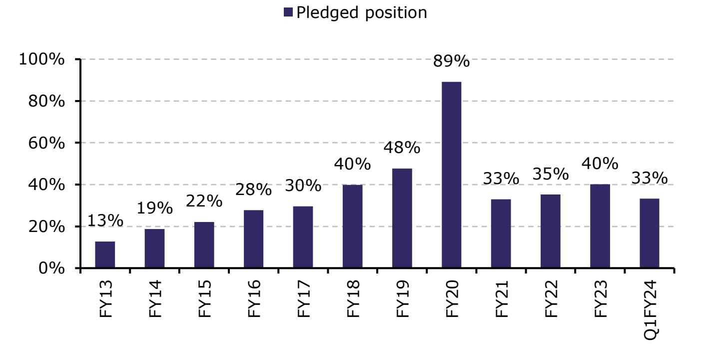
The Promoter group was under stress in FY18, amid sharp decline in share price that led to expansion in the pledged position. In quest of saving its crown jewel, the promoter group had to dilute 10% stake in Emami and monetize its assets. Over FY21-24, with three buy-backs, promoter stake in the company expanded by ~2.1%. Additionally, the pledge position is likely to reduce, from 33% now to a ~low-teen rate post the hospital asset (i.e. Kolkata-based AMRI Hospitals) monetization by promoters.

Exhibit 19: Promoter shareholding



Source: Company, Emkay Research

Exhibit 20: Promoter's pledged position



Source: Company, Emkay Research

With monetization of the hospital business, the promoter is looking to reduce its pledge position, from 33% to ~16-17% (on current price)

With monetization of the hospital asset, pledge position to go down

Promoter Group has entered into a deal with Manipal Group for the sale of the AMRI hospital business. Manipal Hospitals has acquired an 84% stake in AMRI Hospitals. Emami's promoter retains a 15% stake in the business, while the balance of 1% is with the West Bengal Government. Overall, the business is valued at Rs23bn, which, after adjusting for debt in the business and tax payout, would lead to a cash realization of ~Rs11.5bn. With this proceeding, Emami is looking to reduce the pledge position to 13%. With further land asset monetization, the endeavor is to reduce the pledge to ~10% by Q3FY24.

With share buy-backs, the company has re-acquired 3.84% equity over the last three years

Given share buy-backs, promoter holding inching up

Emami has initiated annual buy-backs; further to this, in the last three years, it has deployed Rs5.4bn (ex-tax, brokerage and transaction costs). With such buy-backs, overall share count has reduced, from 453.94mn as of Dec-19 to 436.5mn as of Jul-23 (equity reduction at 3.84%). With limited dividend payouts, we see cash accumulations in the business, which may pave the way for annual buybacks in the future (not factored in our estimates).

Exhibit 21: Emami — Buy-backs

	Buyback 2020	Buyback 2022	Buyback 2023
Board approval	Mar-20	Feb-22	Mar-23
Sanctioned outlay	Rs1.92bn	Rs1.62bn	Rs1.86bn
Shares bought back	9.42mn	3.36mn	4.65mn
Buy-back start date	27-Mar-20	9-Feb-22	13-Apr-23
Buy-back close date	9-Jul-20	21-Mar-22	5-Jul-23
Buy-back outflow	Rs1.92bn	Rs1.61bn	Rs1.85bn
Average buy-back price	Rs203.78	Rs479.27	Rs398.5
% shares bought-back	-2.1%	-0.8%	-1.1%
Shares pre-buyback	453.94mn	444.51mn	441.15mn
Shares post-buyback	444.51mn	441.15mn	436.50mn
Promoter holding pre-buyback	52.74%	53.86%	54.27%
Promoter holding post-buyback	53.86%	54.27%	54.84%

Source: Company, Emkay Research

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Rural recovery awaited; strategy aids Urban play

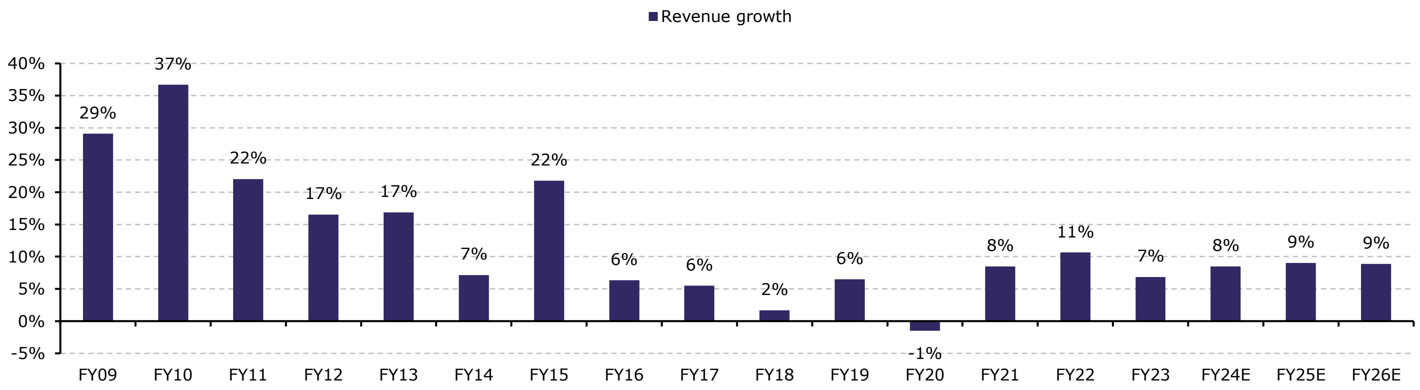
Emami has a high rural revenue concentration and a seasonal discretionary portfolio. Recovery in Rural would be key for growth acceleration

Emami generates nearly half of its revenue from the rural market which, in comparison, represents ~40% of the sector revenue. Emami's rural market portfolio is largely discretionary in nature, wherein the company enjoys healthy gross margin and relatively limited competition. The company has reduced its dependence on the wholesale channel (indirect route to retail outlets) from ~60% to ~35% now, with multiple initiatives on the ground. Additionally, post Covid-19, the company has enhanced its ecommerce play with a D2C website, strategic partnerships with platforms, and investments in digital-only brands.

Rural demand weakness hurts topline delivery

With its seasonal product offerings, Emami addresses rural consumer discretionary needs better. Topline growth data shows that the company has maintained strong topline growth momentum till FY15. With slowdown in Rural, Company's growth momentum slumped over FY16-20 (average 4% sales growth). But with Covid-19 providing acceleration for health and hygiene products, the company is seeing recovery in topline growth from FY21. We see high single-digit delivery over the medium term which may lead to acceleration in the recovery in rural demand.

Exhibit 22: Revenue growth trend (YoY)



Source: Company, Emkay Research

What has led to higher revenue growth for Emami in the past (till FY15)?

A. Emami has well-captured the aspirational needs of the rural consumer which saw an aspirational accessibility issue. A vital factor was faster growth in household income from improved central funding and rising employment.

What went wrong for Emami (over FY16-20)?

A. While growth for the company has clocked at a mid-single digit over 2016-2020, it has logged at a low single-digit when adjusted for the *Kesh King* acquisition. The macro setting has been weak for the rural consumer. Demonetization followed by GST implementation has affected the indirect route to market which was driven by wholesale channel partners. Emami has historically been highly contingent on the wholesale network — at ~60%, which has now reduced to ~35%. Also, Emami has seen attrition in the Sales Head/Healthcare Head positions.

How Emami addressed concerns (over FY21-23)?

A. The company has tied up multiple loose ends: a) reduced dependence on the wholesale channel by penetrating deep into Rural (*Project Khoj* aided village access); b) enhanced new-launch intensity; c) roped-in McKinsey for distribution and international business; d) addressed *Kesh King* business issues with help from BCG; e) AT Kearney helped in Company's cost reduction project; and f) covered portfolio gaps well, to address demand in modern retail channels. On the back of such actions, the company has revived revenue growth to a high single-digit.

How Emami is placed ahead (medium term)?

A. On a low base and with expectations of rural demand recovery, we are hopeful of a high single-digit growth in the business. We see the need for better execution on all-season offerings (seasonal products), where actions have been weak.

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Seasonal influence remains high

Contrary to market expectations of Emami focusing on reducing seasonality in the business, the company has been expanding its seasonal dependence with the *Dermicool* acquisition.

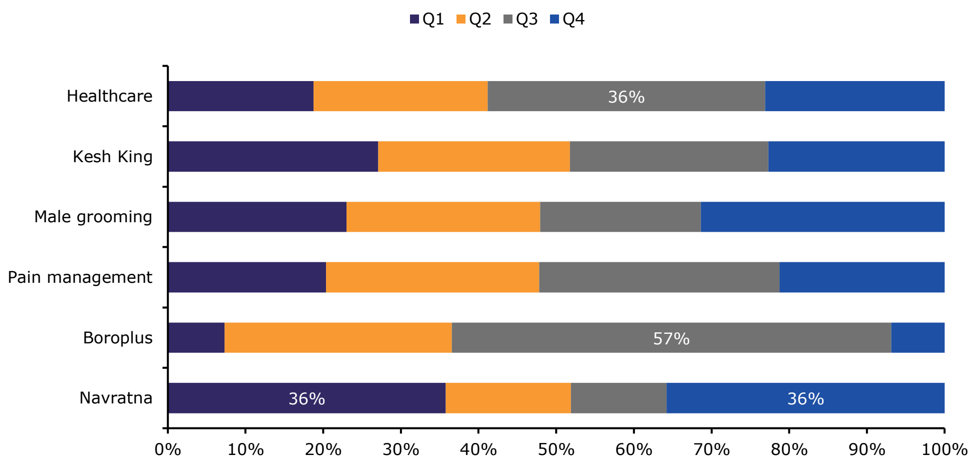
Exhibit 23: Revenue contribution by category

Category	Key brands	Key season	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Cooling oil	Navratna	Summer (Q4 and Q1)	19%	17%	17%	18%	18%	18%	15%	14%	14%
Antiseptic cream	BoroPlus	Winter (Q3)	12%	11%	14%	16%	15%	14%	15%	15%	14%
Balm	Zandu, Mentho Plus, Fast Relief	Monsoon (Q1 and Q2)	18%	17%	17%	18%	18%	19%	21%	23%	18%
Men fairness	Fair & Handsome	All season	8%	8%	7%	8%	8%	5%	4%	4%	4%
Ayurvedic hair oil and Shampoo	Kesh King	All season		7%	10%	8%	9%	9%	10%	10%	9%
Talc	Navratna, BoroPlus, Dermicool	Summer (Q4 and Q1)	6%	5%	4%	5%	6%	6%	5%	4%	8%
Digital brands											2%
Others	He, 7 Oils in 1, Diamond Shine, Others	All season	12%	11%	6%	2%	1%	1%	0%	0%	0%
OTC			7%	8%	9%	8%	8%	8%	11%	11%	9%
Domestic (ex CSD)			**81%**	**83%**	**84%**	**83%**	**83%**	**81%**	**81%**	**81%**	**80%**
CSD			4%	4%	4%	4%	4%	4%	3%	3%	3%
International			14%	13%	11%	12%	13%	15%	16%	15%	17%
Total			**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Company, Emkay Research

Emami's key offerings — Navratna (summer), BoroPlus (winter) and pain management (rains and winter) have high seasonal concentration

Exhibit 24: Quarterly sales mix for key brand/category offerings (based on FY23 revenue)

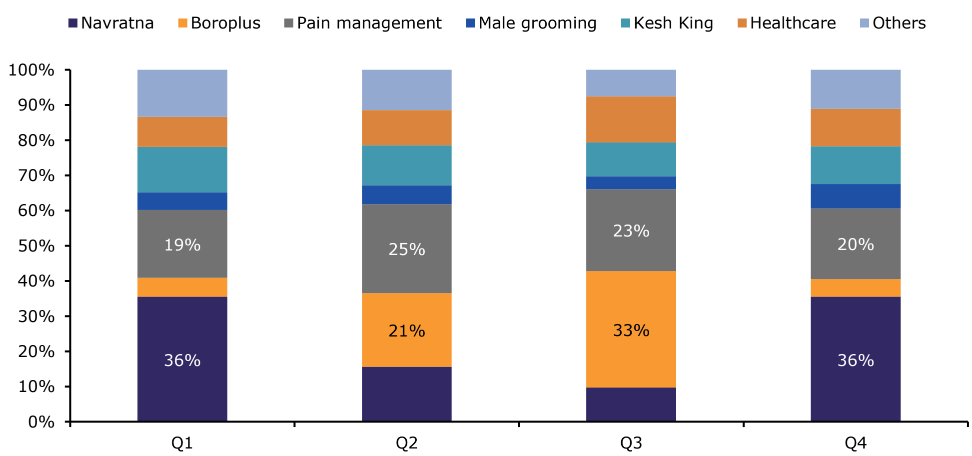


Source: Company, Emkay Research

Navratna — high revenue contribution in Q1 and Q4

BoroPlus — high contribution in Q2 and Q3

Exhibit 25: Quarterly revenue contribution by brand / category (based on FY23 revenue)



Source: Company, Emkay Research

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Exhibit 26: Growth trend across segments / categories

Category	FY16	FY17^	FY18	FY19	FY20#	FY21#	FY22	FY23
Cooling oil	6%	-5%	4%	8%	-2%	-8%	5%	5%
Antiseptic cream, Soap, Lotion	8%	22%	13%	2%	-7%	17%	9%	0%
Balm	13%	-6%	8%	5%	3%	23%	18%	-14%
Men fairness	9%	-6%	4%	4%	-30%	-24%	15%	15%
Ayurvedic hair oil and Shampoo		35%	-18%	13%	1%	14%	11%	2%
Talc	4%	-22%	23%	12%	-1%	-9%	5%	102%
Digital brands							82%	341%
OTC	34%	9%	-12%	13%	-1%	45%	9%	-12%
Domestic (ex CSD)	**21%**	**-4%**	**-2%**	**6%**	**-4%**	**10%**	**11%**	**5%**
CSD	9%	1%	-5%	5%	-10%	-24%	26%	-5%
International	**4%**	**-14%**	**8%**	**12%**	**15%**	**13%**	**5%**	**19%**
Total	**18%**	**-5%**	**-1%**	**6%**	**-2%**	**9%**	**10%**	**7%**

Source: Company, Emkay Research Note: ^Demonetisation in FY17 with rural demand weakness; # Covid-19 impact

Category penetration remains an opportunity

Going ahead, Company thrust is on expanding relevance, which will pave the way for penetration. The company now has a strategy in place for modernizing the portfolio by launching products that address cohort needs with enhanced packaging. Its investments in D2C brands have aided in assessing consumer psyche which helps the company tackle consumer needs better.

Exhibit 27: Category penetrations

Category	Key brands	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Cooling oil	Navratna	17%	16%	16%	16%	16%	15%	15%	13%	15%
Antiseptic cream	BoroPlus	26%	25%	25%	27%	27%	24%	24%	26%	25%
Balm	Zandu, Mentho Plus, Fast Relief	32%	35%	35%	29%	29%	37%	37%	39%	47%
Men fairness	Fair & Handsome	na	4%	4%	4%	4%	4%	4%	2%	2%
Ayurvedic hair oil	Kesh King	na	8%	8%	9%	9%	9%	9%	7%	8%
Deodorants	He	na	8%	8%	8%	8%	na	na	na	na
Face wash	Fair and Handsome and BoroPlus	9%	11%	11%	8%	8%	na	na	na	na

Source: Company, Emkay Research

Category growth muted, but still attractive

Exhibit 28 illustrates that the single-digit category growth is unattractive, but expectations of accelerated growth in the rural market bolster-up the prospects, given category relevance. The recent surge in competition showcases category expectations from incumbents and entrants.

Exhibit 28: Category size (Rs bn)

Category	FY12	FY13	FY14	FY15	FY16	FY18	FY21	FY22	10Y CAGR	5Y CAGR
Cooling oil	6.70	8.10	8.50	7.50	8.50	9.30	10.30	9.70	**4%**	**3%**
Cool talc	3.40	4.30	4.30	4.40	5.50	5.50	7.60	7.60	**8%**	**7%**
Balms	6.10	7.00	6.90	7.90	9.00	9.00	12.60	15.10	**9%**	**11%**
Antiseptic cream	3.10	3.60	4.30	4.40	4.60	5.60	6.50	6.80	**8%**	**8%**
Ayurvedic hair and scalp oil				7.50	7.20	7.10	9.90	9.20		**5%**
Men's fairness cream	2.90	3.30	3.40	3.80	3.90	3.90	4.00	2.60	**-1%**	**-8%**
Men's facewash				2.00		3.00	4.00	3.70		

Source: Company, Emkay Research

Leadership position across core categories

Emami enjoys volume leadership across most core categories. The company has generally entered categories with high margin and less competition, reflected in its better financial performance in the past.

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Exhibit 29: Emami's volume market-share across categories

Category	Key brands	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Cooling oil	Navratna	52%	54%	55%	61%	65%	60%	61%	64%	66%	66%	66%	66%
Antiseptic cream	BoroPlus	75%	75%	74%	77%	76%	72%	70%	74%	73%	74%	74%	68%
Balm	Zandu, Mentho Plus and Fast relief	56%	56%	58%	60%	57%	58%	59%	54%	54%	55%	55%	55%
Men fairness	Fair and Handsome	58%	57%	58%	64%	59%	59%	60%	66%	65%	65%	65%	64%
Talc	Navratna, Dermicool, BoroPlus	13%	17%	18%	26%	27%	27%	26%	26%	26%	26%	26%	45%
Face Wash	Fair and Handsome					12%	13%	14%	16%	14%	12%	12%	7%
Ayurvedic hair oil	Kesh King						36%	34%	28%	26%	27%	27%	29%
Deodorant	He								<2%	<1%	<1%		

Source: Company, Emkay Research

Exhibit 30 provides further perspective on Emami's competitive position. Limited MNC competition has been a boon for the company and has helped in maintaining healthy margins in the business over a long time-period.

Exhibit 30: Focus segments with their competitive positioning

Category	Brand	Market position	Market share	Competitions
Cooling oil	Navratna Oil	# 1	68%	Himgange, Dabur, Marico, Banphool and Rahat Rooh
Antiseptic cream	BoroPlus Cream	# 1	68%	Boroline, Borosoft
Balm	Zandu & Mentho Plus	# 1	57%	Amrutanjan balm, Tiger balm and Monison's balm
Men fairness	Fair & Handsome	# 1	64%	Glow and Handsome (HUL), Ponds Men (HUL), Nivea for Men, Whitening Cream (Beiersdorf)
Prickly heat and cooling Talc	Navratna and Dermicool	# 1	45%	Nycil (Zydus), Shower & Shower (ITC)
Face wash	Fair and Handsome	# 3	7%	Nivea (Beiersdorf), Glow and Handsome (HUL), Ponds men (HUL)
Ayurvedic hair oil	Kesh King	# 1	29%	Kesh Kanti (Patanjali), Indulekha (HUL)
Ointment	Fast Relief			Moov, Iodex, Volini
Chyawanprash	Sona Chandi and Zandu			Dabur, Patanjali, Baidynath

Source: Company, Emkay Research

Emami's power brands include Navratna, BoroPlus, Kesh King, Zandu, Mentho Plus and Fair & Handsome

Exhibit 31: Power-brand strategy

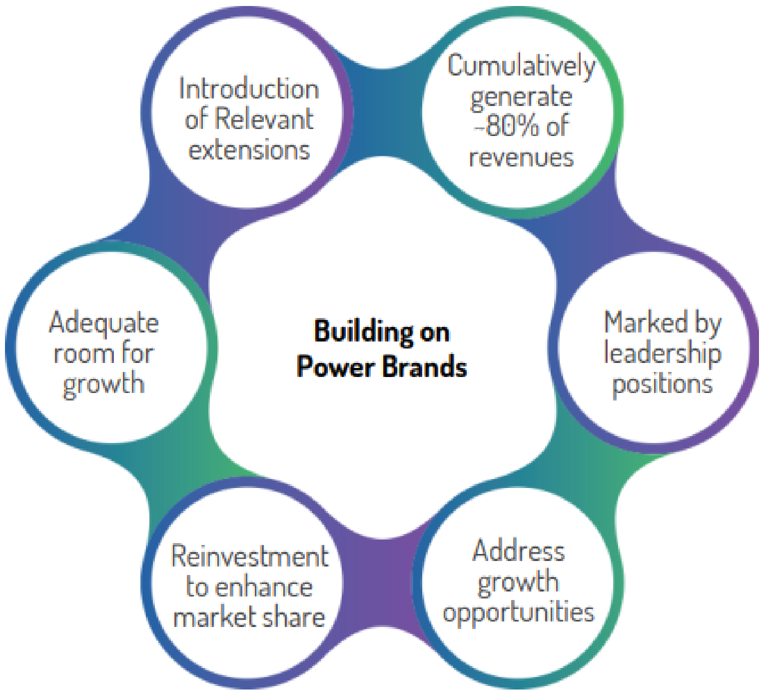

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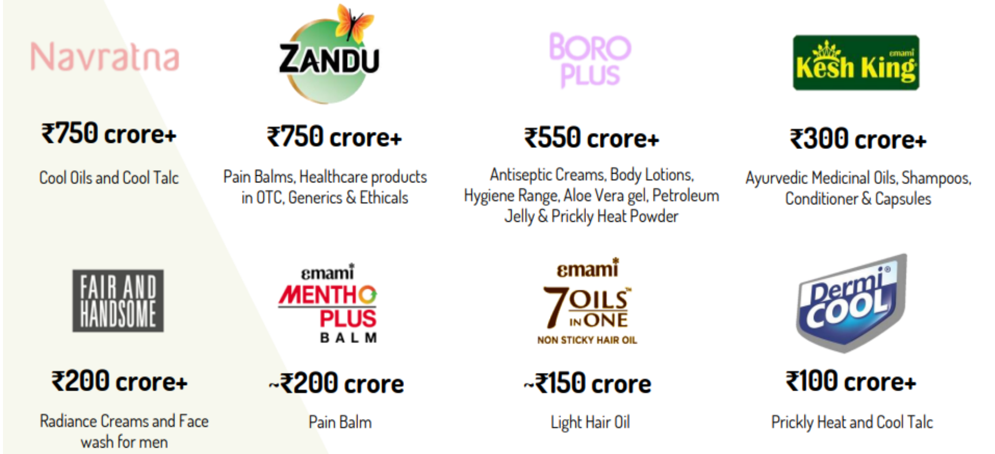
Exhibit 32: Brand size

(Rs bn)	FY20	FY22	FY23
Zandu	>5.5	>8	>7.5
Navratna	>7	>7	>7.5
BoroPlus	~4.5	>5	>5.5
Kesh King	~2.5	>3	>3
Fair and Handsome	>2	>2	>2
Mentho Plus	>1.5	>2	~2
7 Oils in one	~1	>1	~1.5
Dermicool		>1	>1

Source: Company, Emkay Research

Exhibit 33: Key brands, with revenue size



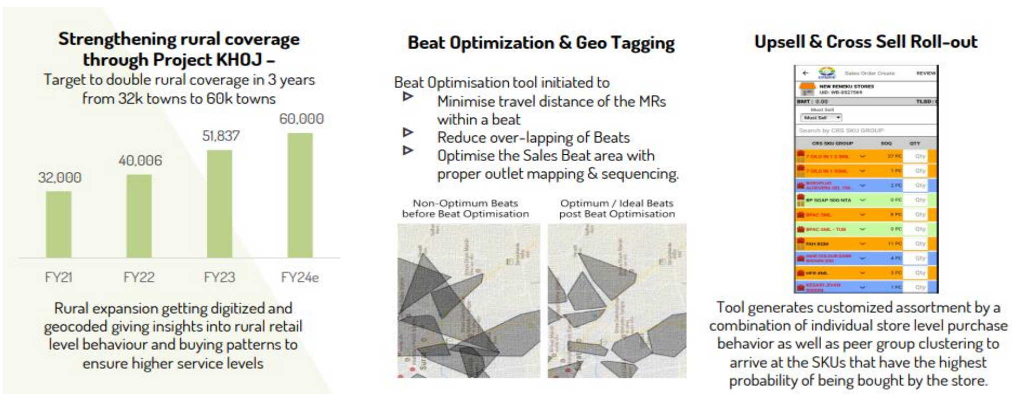
Source: Company; Note: Rs1crore = Rs10million

Distribution expansion initiative in place; focus now on throughput

The company has just concluded its rural-centric distribution initiative *Project Khoj*, which has a ~52k-town reach. Under *Project Khoj*, analytical tools are being employed to identify villages with the right potential, using external surrogate metrics like size, proximity to highways, number of *pucca* vs *kutcha* houses, etc, and map these using their coordinates to increase coverage. Overall intent is to establish direct reach to towns with >20k population.

With improved infrastructure, demand can be addressed directly (which is better), wherein Company sends its van to the rural areas under *Project Khoj*. As part of this initiative, the company has 'super stockists' in rural areas who distribute products to outlets. The company has hired consultants to pursue distribution under *Project Khoj* and has set targets such as sending vans to rural markets, for these 'Super Stockists'. Management is looking to expand reach to ~60k towns.

Exhibit 34: Sales and distribution initiatives



Source: Company

Healthcare channel thrust

As part of healthcare outlet expansion (focusing on Ayurvedic *bhandars* and *chikitsalayas*), the company has an overall reach of 109k outlets. It has also appointed a special team to focus on 20,000 prominent chemists (outlets). From the chemist channel perspective, the company now has a 103k chemist reach.

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Enhanced thrust on Urban has been rewarding

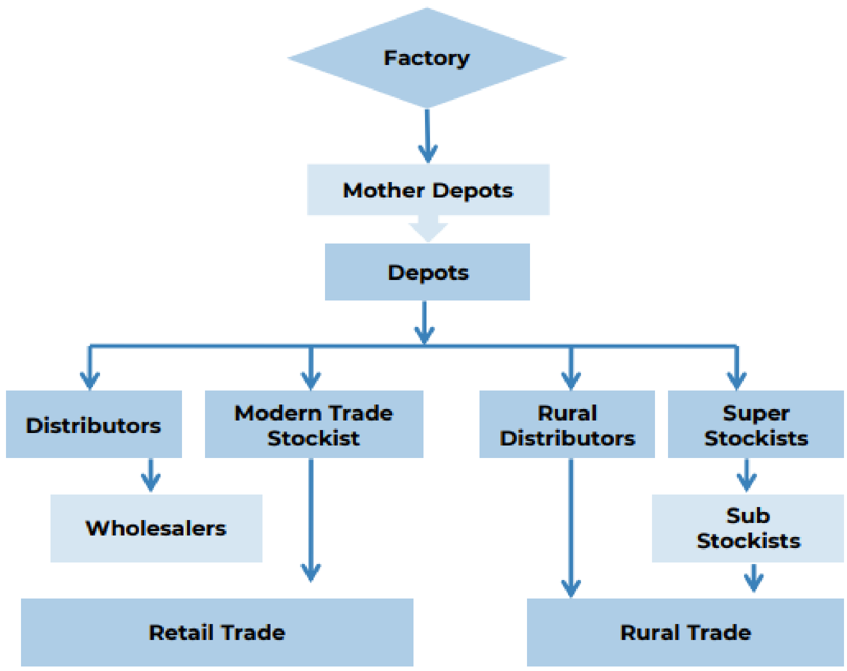
The company has enhanced thrust on its urban market positioning, where focus is to make the portfolio relevant with modernized offerings and addressing nascent consumer needs better. In the past few years, the company has expanded its modern retail sales dependence to ~19%, from ~6% pre-Covid (FY19).

Exhibit 35: Supply-chain dependence for FMCG companies

	Outlet reach (#)			Channel wise revenue break down					
	Overall GT	Direct GT	% direct	GT Direct	GT Wholesale	GT total	MT	E-com	Institutional
HUL	**9.0**	2.1	23%	45%	30%	**75%**	14%	9%	2%
Dabur	**7.9**	1.4	18%	50%	29%	**79%**	12%	9%	0%
ITC	**7.0**	2.5	36%	38%	33%	**71%**	18%	10%	1%
Godrej Consumer	**6.0**	1.0	17%	50%	32%	**82%**	12%	6%	0%
Colgate	**6.5**	1.7	26%	65%	35%	**85%**	9%	5%	1%
Britannia	**6.3**	2.6	42%	52%	33%	**85%**	10%	3%	2%
Marico	**5.6**	1.0	18%	38%	30%	**68%**	24%	8%	0%
Nestlé	**5.1**	1.5	29%	56%	27%	**83%**	10%	7%	1%
Emami	**4.9**	**0.9**	**19%**	**43%**	**35%**	**78%**	**9%**	**9%**	**3%**

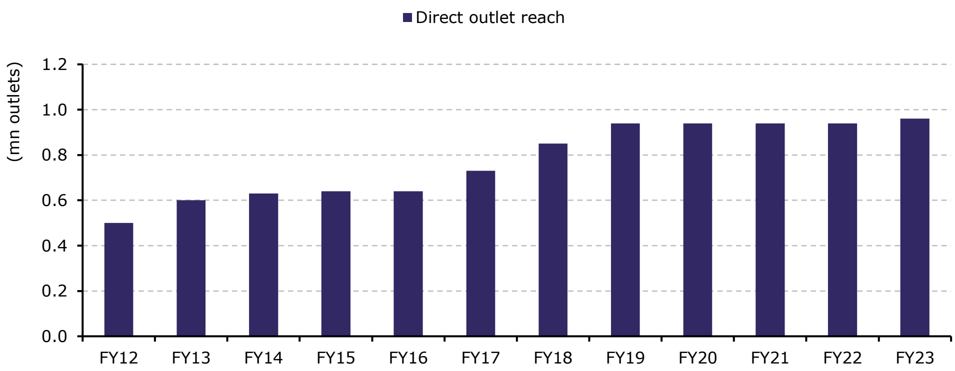
Source: Company, Emkay Research

Exhibit 36: Emami's supply chain network



Source: Company

Exhibit 37: Direct retail outlet reach



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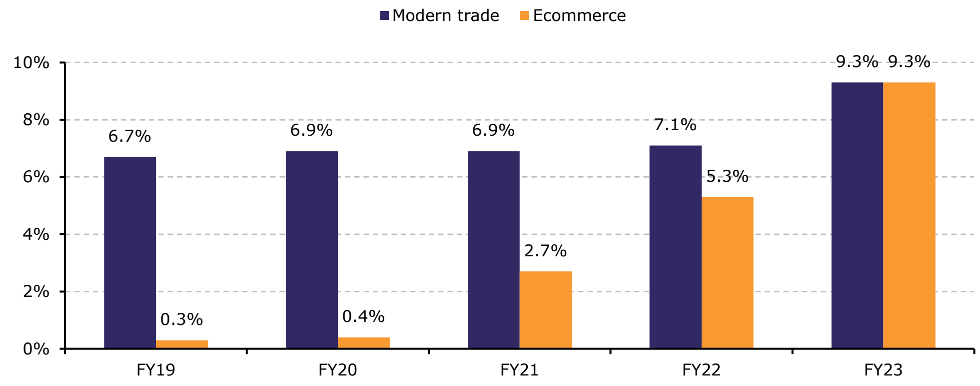
The company has roped-in Giriraj Bagri as its Chief Growth Officer, wef Jan-2023, to lead new brands, innovation, strategic investments and other growth opportunities. Mr Bagri has a healthy work experience with multiple consumer companies: Shonabh Management and Consulting (2 years), Raymond FMCG (4 years), ITC (4 years), Castrol (4 years), Colgate (7 years), and Heinz (2 years).

With scaled-up contribution, Management expects growth to be ~15-20% going forward

Exhibit 38: Modern retail channel salience for Emami



Source: Company, Emkay Research

From the modern trade perspective, the company is now using the latest tools to drive high fill rates on shelves within the store, by tracking in-store visibility, on-shelf inventory and store-level line extensions across all modern trade formats and outlets. Further, the company has enhanced its thrust on the 10-12k standalone modern trade outlets.

As regards ecommerce channels, the company has undertaken a six-stage approach:

- Products available in all major online marketplaces as well as on grocery, beauty and pharmaceutical platforms
- Focus on D2C: Launched websites for *Zandu*, *Kesh King* and *BoroPlus*
- Products widely available on major eB2B platforms like Udaan and Jio Mart
- Building advance analytical capabilities for understanding evolving consumer behavior on real-time basis
- Addressing >17,000 PIN codes (94% of the national universe)
- Launched 'Digital First' products under the *Zandu*, *Navratna* and *Kesh King* brands

The platform saw 11.4mn unique visitors in FY23, where AOV stood at Rs560. During the year, the company undertook 14 'digital first' innovations. This platform offers free doctor consultancy

Exhibit 39: The direct-to-consumer initiative for *Zandu* has been rewarding

Source: Company

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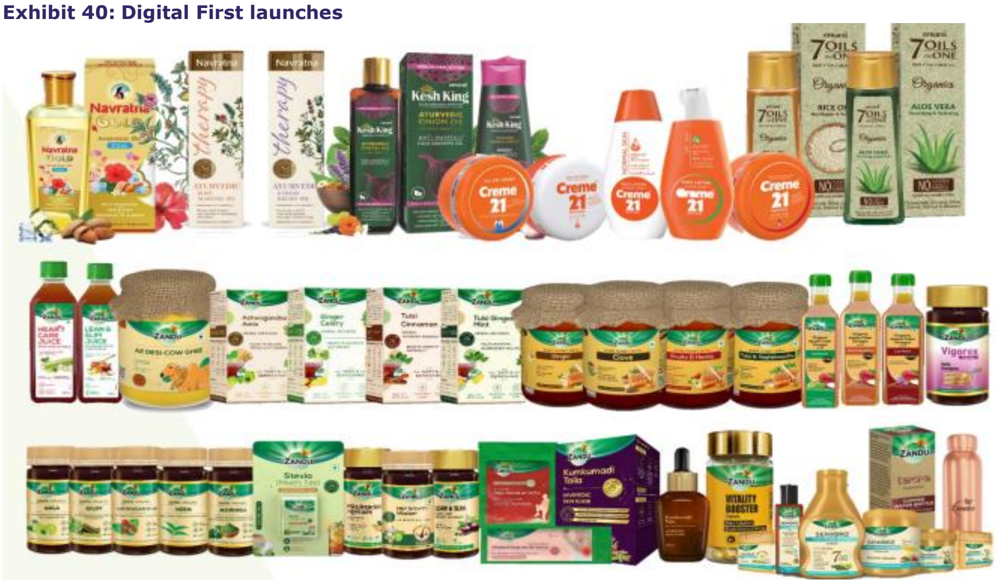
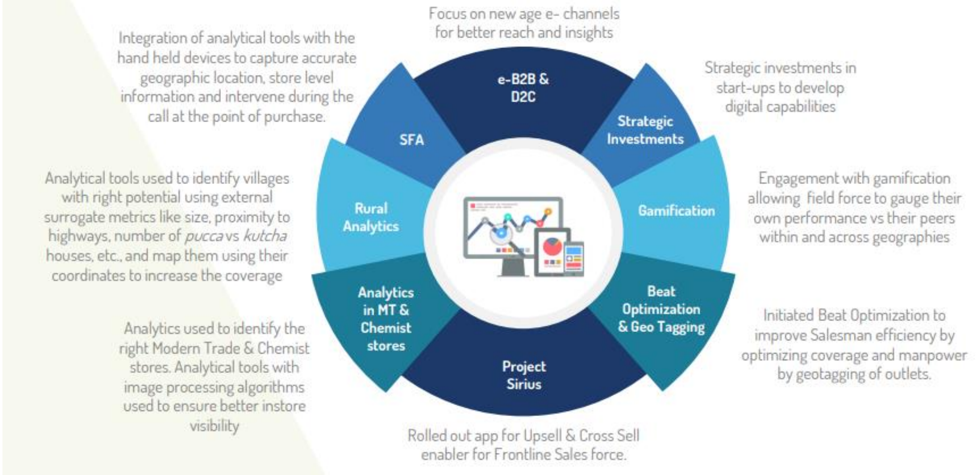
Exhibit 40: Digital First launches



Source: Company

Exhibit 41: Driving digital and analytical tools in the business



Source: Company

Portfolio extensions post Covid-19 align with the urban consumer and thrust on premium products

Part of the company's strategy entails brand extensions across the core portfolio which addresses gaps in the category vs direct to consumer brands. Extension of a product not only caters to consumer needs better, but is also margin-accretive.

Navratna Cool Oil used by 32mn households and Cool Talc used by 13mn households across India

Brand available at 4.9mn outlets

Exhibit 42: The *Navratna* product range

Source: Company

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Exhibit 43: The *BoroPlus* product range

BoroPlus Antiseptic Cream used by 65mn households across India

Source: Company

Exhibit 44: *Kesh King* brand offerings

Kesh King Ayurvedic Medicinal Oil used by 8.2mn households across India

Source: Company

Exhibit 45: 'Pain management' product offerings

Zandu Balm used by ~50mn and Mentho Plus Balm used by 31mn households across India

Source: Company

Start-up investments have helped inculcate new-age culture in the company

The company has historically been a laggard in aligning with evolved consumer needs. With Millennial and Gen Z consumers having diverse product needs, it is crucial to align products with consumer needs. Investments in 'digital first' brands have been the easiest way to learn, where the company has invested in four names (refer to Exhibit 46).

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Exhibit 46: Key start-up investments

Source: Company

- **Helios Lifestyle caters to the male grooming segment** in which Emami has 50.4% stake. Company acquired 20.45% stake in FY18 which gradually increased with the acquisition of additional stake (acquired 10.42% stake in FY19, 2.22% stake in FY20; in FY22, increased stake to 48.49%).
- **Brillare** is a skin care and hair care products company incorporated in 2015. The company provides professional beauty care with offerings targeted for salon and home usage. It has two brands — Brillare Science and Root Deep. Emami has built 95.36% stake in Brillare over the last five years (initial 26% stake acquired in Feb-18).
- **Tru Native F&B Pvt** is a smart nutrition company dedicated to empowering health and fitness enthusiasts with affordable and health nutrition options. Emami has 20.65% stake in Tru Native F&B.
- **Fur Ball Story:** On 21-Jul-2022, Emami acquired 30% stake in the pet care start-up 'Cannis Lupus Services India Private. The company sell products under the brand *Fur Ball Story*, which offers an ayurvedic range of solutions for common and recurrent ailments in pets, especially dogs.

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Exhibit 47: Income statement for Helios (The Man Company)

(Rs mn)	FY22	FY23
Revenue as per contracted price	802	1,209
Less Sales return	-4	0
Less discounts	-90	-87
Revenue from contracts with customers	**707**	**1,122**
Other operating income	29	28
Revenue from operations	**736**	**1,150**
COGS	316	478
Gross profit	**420**	**672**
Gross margin	57%	58%
Employee costs	163	212
A&P spends	284	238
Fright and forward	100	159
Commission on sales	65	137
Other operating costs	108	129
EBITDA	**-299**	**-205**
EBITDA margin	-41%	-18%
D&A	12	19
EBIT	**-311**	**-223**
Other income	8	7
Finance costs	10	8
PBT	**-313**	**-224**
Other income	8	7
Finance costs	10	8
PBT	**-313**	**-224**
Tax	-4	-4
PAT	**-309**	**-220**

Source: Company, Emkay Research

In Q1FY24, Emami's management noted EBITDA breakeven in the business

Exhibit 48: Income statement for Brillare Science

(Rs mn)	FY21	FY22	FY23
Sale of products	100	182	206
Less discounts	-3	-5	-10
Revenue from operations	**97**	**177**	**196**
COGS	38	80	106
Gross profit	**59**	**97**	**90**
gross margin	61%	55%	46%
Employee costs	15	23	45
as a % of revenue	16%	13%	23%
A&P	36	81	99
as a % of revenue	37%	46%	51%
Freight and forwarding	7	10	15
as a % of revenue	8%	6%	8%
Other expenses	13	26	34
as a % of revenue	13%	15%	17%
EBITDA	**-12**	**-43**	**-104**
EBITDA margin	-12%	-24%	-53%
D&A	1	2	4
EBIT	**-13**	**-44**	**-107**
Finance costs	8	6	8
Other income	0	1	1
PBT	**-21**	**-50**	**-114**
Tax	0	0	-1
PAT	**-20**	**-50**	**-113**

Source: Company, Emkay Research

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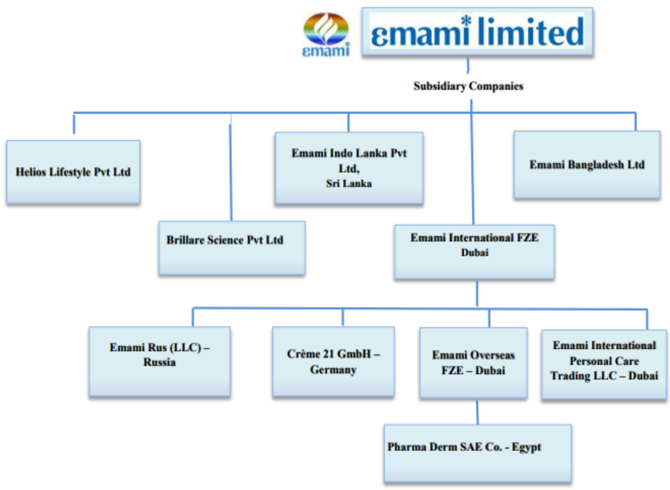
International growth view positive

Overall, Emami generates ~17% consolidated revenue from the international business, which stood at ~Rs5.7bn in FY23. From the international business perspective, Emami generates half of its revenue from the Middle East and adjoining markets, while the other half is concentrated in the SAARC and CIS regions. A closer look at the margin profile of subsidiaries suggests weaker margins across all regions except Bangladesh. Better margin in Bangladesh is owing to the country's own production capacity. Going ahead, Management focus is to drive growth in the business, which will pave the way for better margins.

Exhibit 49: Emami's subsidiaries — An overview



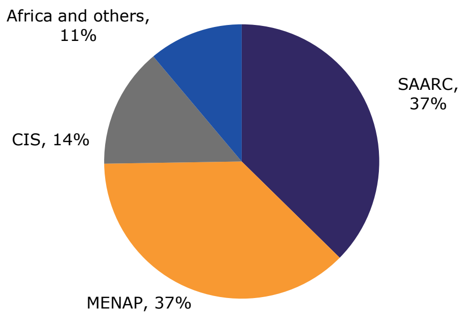
Source: Company

Significant insights

The Company has manufacturing capabilities in Bangladesh, Dubai, Thailand, Germany and Sri Lanka

- **Key brands** for the company in the international market are *Navratna*, *Fair & Handsome*, *Cream 21*, *7 Oils in 1*, *BoroPlus* and the OTC portfolio (*Zandu* and *Mentho plus*). *Navratna* and *Fair & Handsome* are huge brands. As regards the Middle East market, *Fair & Handsome* is a strong brand. In Russia and CIS, *BoroPlus* stands firm.
- **Consumer base:** With respect to the consumer base, Emami addresses local consumer needs in Russia, CIS and Myanmar, while the base in Africa (largely OTC sales) and GCC is a mix of local and Indian diaspora.
- **Product sourcing:** The Company has manufacturing capabilities in Bangladesh, Dubai, Thailand and Sri Lanka. *Crème 21* production takes place in Germany. Most supplies for the international market are routed from international geographies. Only Nepal imports company products from India.
- **Sales mix:** Emami's international revenue contribution: 25-30% from Bangladesh sales, 10-15% from Nepal sales, and ~11% from Russia and CIS (key markets are Russia, Ukraine and Tazakistan).

Exhibit 50: International business revenue split for Emami



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Emami International FZ contributes ~50% of Emami's international business; the company is hopeful of better growth in the market

Adjusted for some capacity in Russia, in the Emami International FZE subsidiary, the company largely exports products from India. Given that a good part of the profit is booked in India, we see muted margin in the subsidiary book

Thrust on India-like distribution

Historically, Emami has been operating with a single distributor partner (per geography) in international markets. In Bangladesh and Russia, it has been able to establish an India-like distribution infrastructure which has been rewarding. Thrust ahead is to have India-like distribution across other markets too.

Product portfolio now caters to local needs

From the products perspective, the company has been addressing needs of the Indian diaspora across 70 countries. Additionally over time, it has expanded the portfolio to address needs of the local consumer. The company has expanded the addressable consumer base with the acquisition of *Crème 21* in Q4FY19, for a consideration of Rs1bn (at EV/sales of 1.5x). Under Emami, *Crème 21* has seen geographic expansion from the 80% of revenue being concentrated in the Middle East market at the time of the acquisition.

Healthcare opportunity yet to be leveraged

From the healthcare business perspective, the company has not been exporting products, but has GMP certification, which is key for exports. Given the high entry costs, the company has maintained distance from international markets (unlike other healthcare companies from India such as Himalaya); rather, the company uses its GMP certification to push products in the domestic market, showcasing compliance with international requirements.

Exhibit 51: Income statement for Emami International FZE

(UAE Dirham mn)	FY19	FY20	FY21	FY22	FY23
Revenue	**89.80**	**92.03**	**114.28**	**106.16**	**107.24**
growth		2%	24%	-7%	1%
Cost of revenue	38.36	45.51	56.10	55.52	55.87
Gross profit	**51.44**	**46.53**	**58.18**	**50.64**	**51.37**
Gross margin	57%	51%	51%	48%	48%
Employee costs	16.61	14.40	10.94	11.32	10.50
as a % of revenue	18%	16%	10%	11%	10%
Advertisement	25.04	31.53	33.62	28.09	26.12
as a % of revenue	28%	34%	29%	26%	24%
Royalty	0.00	0.54	0.61	0.47	1.19
as a % of revenue	0%	1%	1%	0%	1%
Legal and professional charges	0.99	0.69	0.67	0.76	1.05
as a % of revenue	1%	1%	1%	1%	1%
Other operating costs	12.21	6.09	7.12	3.89	4.58
as a % of revenue	14%	7%	6%	4%	4%
EBITDA	**-3.41**	**-6.71**	**5.22**	**6.12**	**7.93**
growth		Nm	nm	17%	30%
EBITDA margin	-4%	-7%	5%	6%	7%
Depreciation	0.18	0.19	0.19	0.21	0.28
EBIT	**-3.59**	**-6.90**	**5.03**	**5.91**	**7.65**
growth		nm	nm	17%	29%
Other income	0.24	0.34	0.17	0.21	0.18
Finance costs	1.10	2.14	1.46	0.50	1.00
Finance income	0.35	0.46	0.06	0.04	0.11
Adj PBT	**-4.11**	**-8.24**	**3.80**	**5.65**	**6.94**
growth		nm	Nm	48%	23%
Exceptional		14.66	-0.24		
Reported PBT	**-4.11**	**-22.91**	**4.05**	**5.65**	**6.94**

Source: Company, Emkay Research; Note: 1 United Arab Emirates Dirham = INR22.63 as of 23-Sep-2023

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Amid International business, Bangladesh is relatively strong with healthy growth and margin profile

With local production and India-like distribution in the market, Emami generates healthy margin in its Bangladesh subsidiary

Exhibit 52: Income statement for Emami Bangladesh

(Taka mn)	FY19	FY20	FY21	FY22	FY23
Net sales	**1,477**	**1,788**	**1,468**	**1,835**	**2,259**
growth		21%	-18%	25%	23%
Cost of revenue	537	605	507	726	813
Gross profit	**940**	**1,183**	**960**	**1,109**	**1,446**
Gross margin	64%	66%	65%	60%	64%
Employee costs	118	173	165	69	174
as a % of revenue	8%	10%	11%	4%	8%
Sales, marketing and distribution expenses	351	398	309	437	408
as a % of revenue	24%	22%	21%	24%	18%
Royalty	14	20	28	25	36
as a % of revenue	1%	1%	2%	1%	2%
Other operating costs	84	97	98	108	143
as a % of revenue	6%	5%	7%	6%	6%
EBITDA	**373**	**495**	**361**	**470**	**685**
growth		33%	-27%	30%	46%
EBITDA margin	25%	28%	25%	26%	30%
Depreciation	58	50	44	45	46
EBIT	**315**	**445**	**318**	**425**	**639**
growth		41%	-29%	34%	50%
Other income	1	0	0	0	1
Finance costs	(0)		6	6	6
Finance income	52	44	30	24	27
PBT	**367**	**490**	**342**	**443**	**661**
growth		33%	-30%	30%	49%
Tax	126	182	155	146	183
Tax rate	34%	37%	45%	33%	28%
PAT	**241**	**307**	**187**	**298**	**478**
growth		27%	-39%	60%	60%

Source: Company, Emkay Research; Note: 1Bangladeshi Taka = INR0.76 as of 23-Sep-2023

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Exhibit 53: Income statement for Emami Indo Lanka (Private)

(Sri Lankan Rupee mn)	FY19	FY20	FY21	FY22	FY23
Revenue	**200**	**291**	**335**	**539**	**446**
growth		46%	15%	61%	-17%
Cost of sales	112	151	177	257	209
Gross profit	**88**	**140**	**158**	**282**	**237**
Gross margin	44%	48%	47%	52%	53%
Employee costs	14	17	19	23	28
as a % of revenue	7%	6%	6%	4%	6%
Trade scheme + Sales incentive + Promotions + Advertisement	53	80	90	144	83
as a % of revenue	26%	27%	27%	27%	19%
Royalty	-	5	6	9	8
as a % of revenue	0%	2%	2%	2%	2%
Other operating costs	9	13	10	63	97
as a % of revenue	5%	4%	3%	12%	22%
EBITDA	**12**	**25**	**33**	**42**	**22**
growth		102%	31%	30%	-48%
EBITDA margin	1%	1%	2%	2%	1%
Depreciation	0	1	1	1	3
EBIT	**12**	**24**	**32**	**42**	**19**
growth		104%	32%	29%	-54%
Other income		0	0	1	4
Finance costs	23	22	21	89	39
Finance income					
PBT	**(11)**	**2**	**11**	**(45)**	**(16)**
Growth		nm	398%	nm	nm
Tax	4	7	8	2	7
Tax rate	-35%	308%	72%	-5%	-43%
PAT	**(14)**	**(5)**	**3**	**(48)**	**(23)**

Source: Company, Emkay Research; Note: 1 Sri Lankan Rupee = INR0.26 as of 23-Sep-2023

Sri Lanka's economic turmoil has a bearing on Emami's financial performance. This business has been operating at EBITDA margin in a low single digit

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Healthy margin profile supports new initiatives

Better margin profile helps the company focus on growth needs

As discussed in the previous section, Emami has one of the best margin profiles in the sector, given its discretionary portfolio and low competitive intensity. The key reason for limited competition in the past has been its rural-centric portfolio with limited scale. But the scale of categories with penetration levels has been sub-par which continues to distance competition. However, in the last few years, competitive intensity in some core segments has heightened. With raw material prices seeing deflation, the company is looking at steady margin expansion ahead. Unlike in the past when its EBITDA margin peaked at ~30%, the company is now looking to expand margin to 26-27% and redeploy any further benefit towards category development initiatives. Interestingly, in Emami-focused categories, there is no need for affordable SKUs (as these are not essential products); rather with affluence, demand for the category goes up.

Gross margin profile, one of the best in the industry

Over the years, with strong category position and through the inorganic route, the company has strengthened its gross margin profile. Given the discretionary segment thrust, sacrificing margin is unlikely to drive demand. Emami's portfolio is aligned with affluence of consumers, wherein higher growth in household income helps in demand acceleration.

Exhibit 54: Gross margin trend for FMCG companies

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
HUL	49.9%	49.0%	46.9%	47.7%	48.8%	49.3%	52.1%	50.8%	53.0%	53.0%	54.1%	52.9%	50.9%	47.3%
Nestlé	52.5%	51.3%	52.3%	54.7%	54.7%	54.1%	57.6%	57.5%	56.8%	59.4%	57.8%	57.5%	57.0%	54.1%
Britannia	36.1%	34.3%	35.6%	37.6%	39.5%	40.2%	42.4%	38.2%	38.4%	40.6%	40.3%	41.9%	38.0%	41.2%
GCPL	53.7%	52.0%	52.4%	53.9%	53.2%	53.6%	57.1%	55.4%	56.6%	56.2%	57.0%	55.3%	50.5%	49.7%
Dabur	54.6%	53.6%	49.3%	50.9%	51.8%	52.3%	54.9%	50.7%	50.5%	49.6%	50.0%	50.0%	48.2%	45.6%
Marico	52.6%	48.3%	46.4%	51.9%	48.8%	45.6%	50.1%	52.2%	47.0%	45.2%	48.8%	46.9%	42.9%	45.2%
Colgate	61.5%	61.8%	61.0%	60.5%	60.8%	63.1%	64.1%	62.9%	64.4%	65.1%	65.2%	68.0%	67.3%	65.7%
Emami	**62.8%**	**58.0%**	**56.9%**	**57.9%**	**62.6%**	**64.8%**	**69.0%**	**66.5%**	**68.0%**	**65.7%**	**67.0%**	**67.7%**	**66.3%**	**64.7%**

Source: Company, Emkay Research

From the brand margin perspective, Company's healthcare offerings under brand *Zandu* and Ayurveda oil under brand *Kesh King* have high gross margin. Brands *BoroPlus*, *Fair and Handsome* and *Navratna* follow suit. In the new category, Soaps is a margin-dilutive endeavor, but remains key for distribution coverage/depth.

The company's FY23 gross margin clocked at 64.7% which, adjusted for 'digital first' businesses stood at 65%

Exhibit 55: Annual gross margin trend

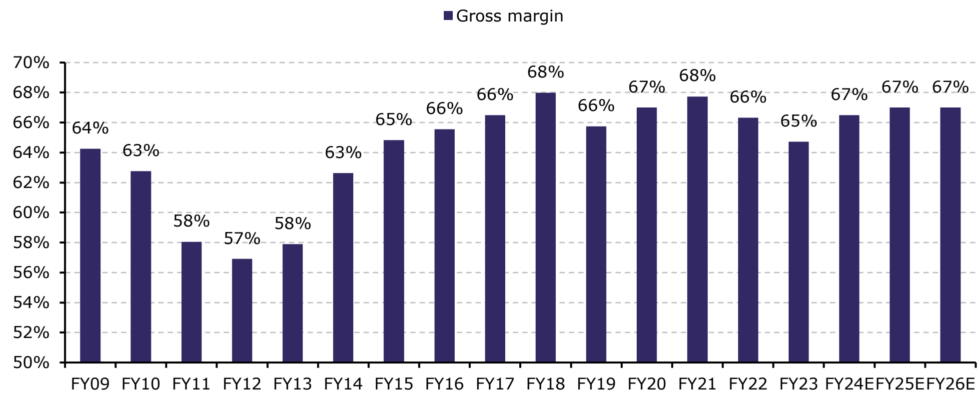

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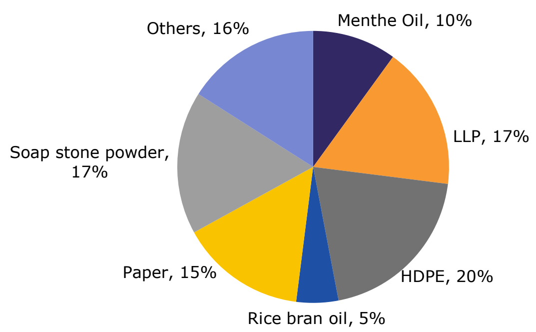
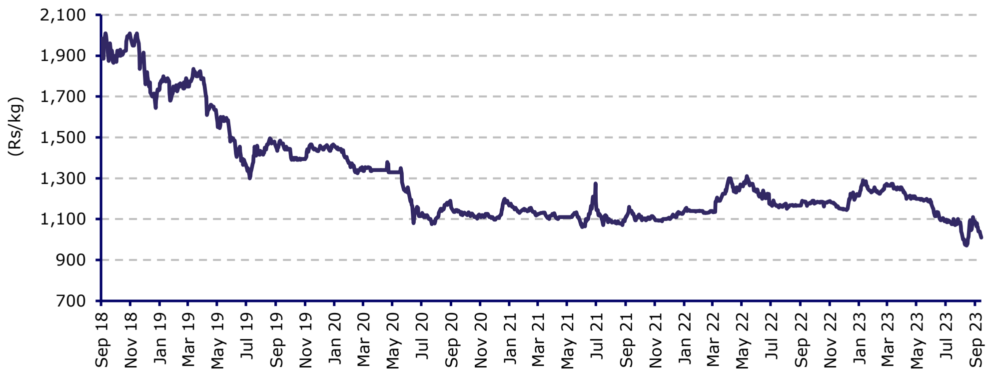
Exhibit 56: Key raw material mix for Emami (domestic business)



Source: Company, Emkay Research

Menthe oil prices have been stable over the last few years. With price power and leadership, Emami has capability to pass any upsurge in costs

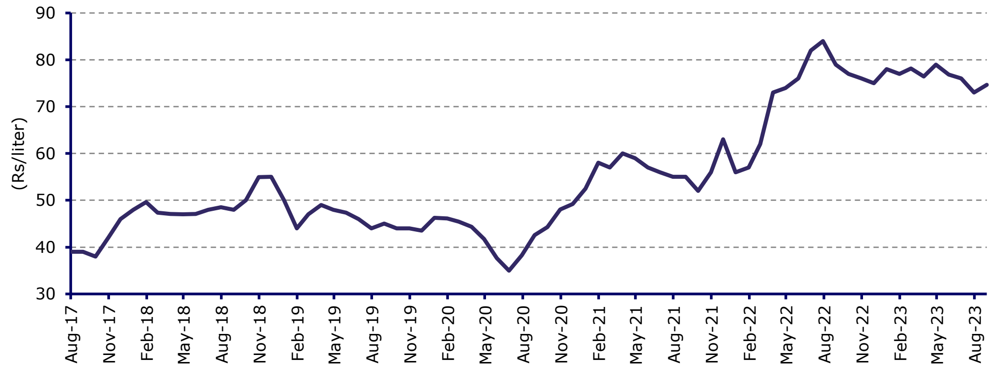
Exhibit 57: Menthe oil prices



Source: Bloomberg, Emkay Research

LLP prices have seen inflation and have stayed put at peak levels. Hair oil companies have effected price hikes to pass on the inflationary pressure

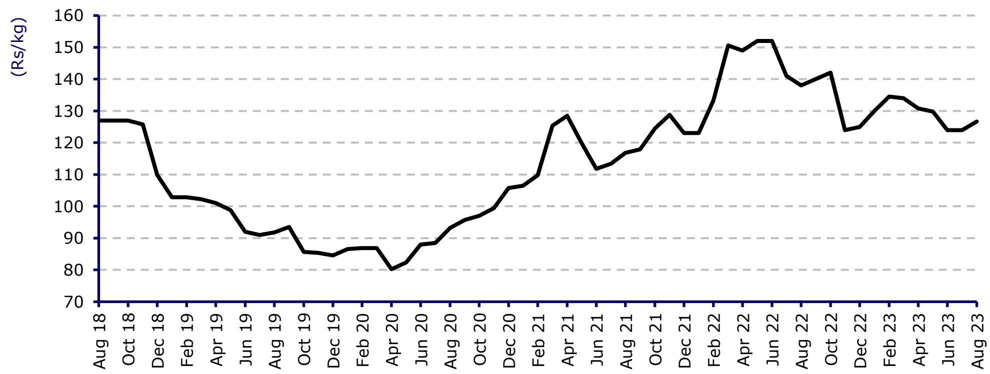
Exhibit 58: Light liquid paraffin prices



Source: Marico, Emkay Research

Packaging material prices have been moderating from the peak, but are still high

Exhibit 59: HDPE prices



Source: Marico, Emkay Research

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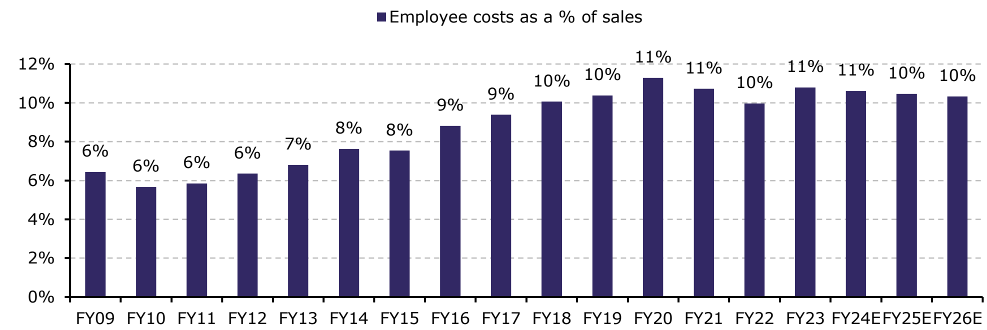
Surge in employee costs reflects hiring of skilled professionals

With professionals in the business and integration of direct to consumer inorganic financials, overall employee costs have seen a surge

As the company has hired professionals and started integrating financials of 'digital first' brands, its employee spends have expanded in the last eight years. We expect spends to be in low double-digits over the medium term.

Exhibit 60: Employee costs as a % of sales



Source: Company, Emkay Research

Exhibit 61: Employee costs-to-sales

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
HUL	5.3%	4.9%	5.0%	5.1%	5.1%	5.1%	5.0%	5.1%	5.1%	4.6%	4.4%	4.8%	4.7%	4.5%
Nestlé	8.4%	6.9%	7.3%	8.0%	8.1%	8.3%	11.2%	9.9%	10.2%	10.0%	10.2%	11.2%	10.3%	9.7%
Britannia	4.4%	3.9%	3.8%	3.7%	3.8%	3.6%	3.9%	3.9%	4.1%	4.0%	4.2%	4.0%	3.8%	4.0%
GCPL	7.4%	7.8%	8.1%	9.2%	9.9%	9.4%	10.7%	10.7%	10.7%	10.6%	10.3%	10.2%	9.0%	8.3%
Dabur	8.3%	7.9%	7.3%	7.7%	8.6%	8.8%	9.4%	10.4%	10.3%	11.0%	10.9%	10.8%	9.9%	9.9%
Marico	7.1%	7.4%	7.7%	8.3%	6.1%	5.7%	5.9%	6.8%	6.7%	6.4%	6.5%	7.1%	6.2%	6.7%
Colgate	7.9%	8.5%	7.7%	7.9%	5.9%	6.5%	6.5%	7.2%	7.3%	6.6%	7.3%	7.6%	7.6%	7.2%
Emami	**5.7%**	**5.8%**	**6.4%**	**6.8%**	**7.6%**	**7.5%**	**7.9%**	**9.4%**	**10.1%**	**10.4%**	**11.3%**	**10.7%**	**10.0%**	**10.8%**

Source: Company, Emkay Research

Management team

Exhibit 62: Emami's management team (FY23)

Source: Company

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Emami has strengthened its management team by hiring skilled professionals that have a wide experience in the Indian FMCG space

- **Rajiva Kumar Rai: Head R&D – Health Care Division.** As Chandra Kant Katiyar is moving to an advisory role, the company has appointed Rajiva Kumar Rai, effective 1-Sep-2023, as his replacement. Mr Rai has over 27 years of diverse experience in product ideation and development for healthcare, clinical research and regulatory affairs in healthcare, foods and personal care products. He did a ~19.5-year stint with Dabur India till Aug-2023.
- **Giriraj Bagri: Chief Growth Officer**. He is the new entrant at Emami since Jan-2023. At Emami, Mr Bagri is responsible for: a) turning around and growing startups, b) strategies to invest in new startups, c) driving M&As, d) collaborating to build global partnerships, e) evaluating and entering new categories, and f) mentoring talent to drive strategy, business planning, marketing efforts and scale-up. Prior to Emami, he was associated with other FMCG companies like ITC, Heinz, Colgate and Raymonds. Outside FMCG, he has ~4 years of work experience with Castrol and an 11-month stint with a consulting company.
- **Manish Gupta**: **President – Sales, Consumer Care Division** joined Emami in Sep-2023. Prior to Emami, he has >25 years of professional experience in FMCG Sales & Distribution.
- **Sayuj Jaganathan: Head eCommerce** joined Emami in Mar-2021. Prior to Emami, he was with CavinKare for 11 years.
- **Gul Raj Bhatia: President, Healthcare division,** joined Emami during Covid-19, in Jun-2020. Prior to Emami, Mr Bhatia worked with Dabur for ~2 years, Cadbury for 13 years and with Patanjali for 9 months. Outside FMCG, he has spent 11 years with Pfizer, 2 years with HP and 4 years with NIIT.
- **Vivek Dhir: Chief Executive Officer International Business**. He joined Emami in Jan-2018, prior to which he spent 23 years with Dabur India.

As regards the Healthcare segment, Emami has on-boarded varied talent from Dabur India

- **Ujjawal Galada**: **Head – Modern Trade**. He joined Emami in Jan-2018. Prior to this, he has ~15 years of work experience with FMCG companies like Colgate (10 years), Kellogg (2 years), Marico (1 year) and GSK Consumer Healthcare (2 years).
- **Sumitro Dutta: AVP - Supply chain management.** He has been associated with the company for the last 20 years. This is his second stint, after spending 16 years with Dabur India.
- **Chandra Kant Katiyar: CEO Health Care (Technical)**. He has been associated with Emami for the last 11 years. Prior to Emami, he has had 13.5 years of work experience at Dabur India and 5 years with Ranbaxy. He will be shifting to the advisory role effective 31-Dec-2023. Rajiva Kumar Rai has taken over the responsibility effective 1-Sep-2023.
- **Punita Kalra, CEO Research & Innovation, Corporate Quality Assurance for Consumer Care,** has been associated with Emami since the last 12 years. Prior to Emami, Ms Kalra has had 8 years of work experience with Unilever and 4 years with Marico.
- **Naresh H Bhansali**: **CEO – Finance, Strategy and Business Development**. He has been associated with Emami for the last 21 years. He was with Himani Limited for 9 years, before moving to Reliance, where he did a 10-month stint (post this, he joined Emami in Dec-01).

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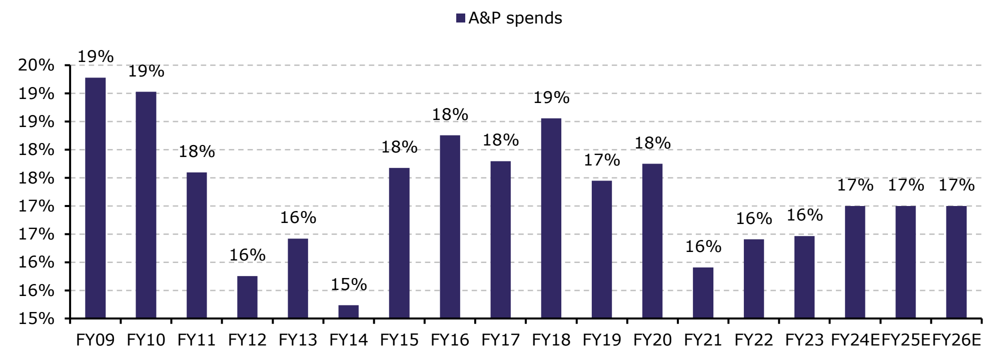
High brand investment key for the business

The company, historically, has had high brand investments in the business which is a factor of a healthy gross margin profile. Given the discretionary portfolio, we see spends remaining healthy and expanding over the medium term to ~17%.

Emami's product offerings are discretionary in nature which require continuous brand investment

The company now has ~25% advertisement spends on digital channels

Exhibit 63: Annual A&P spending



Source: Company, Emkay Research

Exhibit 64: Advertisement and promotion spends-to-sales

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
HUL	13.5%	14.0%	11.9%	12.5%	12.9%	12.6%	14.1%	10.9%	11.9%	11.9%	12.1%	10.3%	9.2%	8.2%
Nestlé	5.2%	4.8%	4.4%	4.3%	4.3%	4.5%	6.4%	5.5%	5.1%	6.5%	6.3%	5.7%	5.2%	4.1%
Britannia	8.0%	7.2%	7.6%	8.6%	8.8%	8.3%	8.5%	4.3%	4.1%	4.5%	4.1%	3.4%	3.0%	4.1%
GCPL	6.5%	9.7%	9.2%	15.0%	14.6%	14.6%	14.9%	7.7%	8.2%	8.1%	7.5%	6.6%	6.1%	7.4%
Dabur	14.5%	13.0%	12.5%	13.6%	14.2%	14.4%	14.8%	8.5%	7.9%	7.1%	7.5%	8.2%	7.1%	5.6%
Marico	13.2%	11.1%	10.7%	13.0%	12.0%	11.3%	12.8%	11.1%	9.3%	9.0%	10.0%	8.7%	8.4%	8.6%
Colgate	14.8%	9.9%	9.8%	11.2%	12.3%	10.5%	10.0%	12.9%	12.6%	12.7%	13.8%	12.9%	12.6%	12.1%
Emami	**19.0%**	**17.6%**	**15.8%**	**16.4%**	**15.2%**	**17.7%**	**20.2%**	**17.8%**	**18.6%**	**17.4%**	**17.7%**	**15.9%**	**16.4%**	**16.5%**

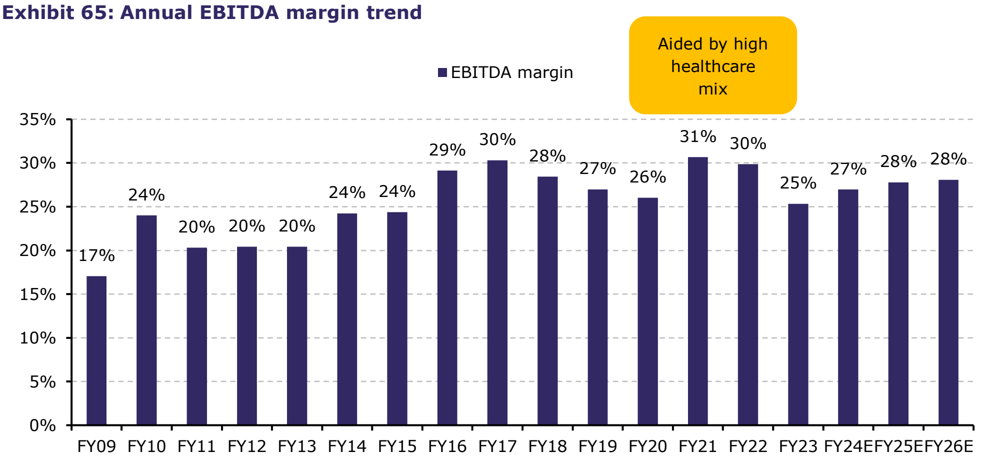
Source: Company, Emkay Research

Healthy gross margin flows to EBITDA

The company has a relatively-high EBITDA-margin business. In the past, barring the volatile period, margin has seen steady expansion to ~30%. With the raw material setting turning favorable, the company has been re-building its EBITDA margin. However, Management is looking at margin of 26-27%, wherein further gross margin benefits will be redeployed to fund growth in the business. We expect margin to see steady expansion, as the company should be able to deliver double-digit earnings.

For FY23, EBITDA margin stood at 25.3% which, adjusted for 'digital first' brands, stood at 26.9%

Exhibit 65: Annual EBITDA margin trend



Source: Company, Emkay Research

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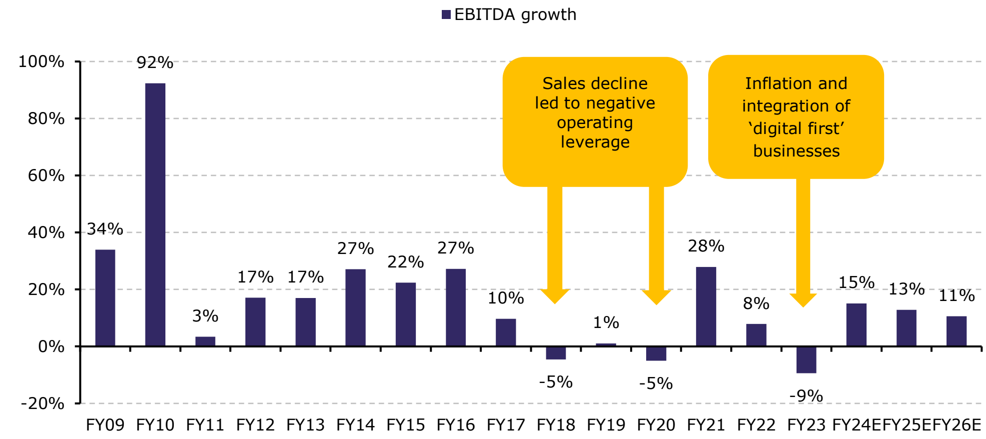
Exhibit 66: EBITDA margin of FMCG companies

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
HUL	15.5%	13.7%	14.9%	15.5%	16.0%	16.9%	17.9%	19.0%	21.1%	22.6%	24.8%	24.6%	24.4%	23.0%
Nestlé	20.6%	20.3%	21.0%	22.3%	22.2%	21.3%	20.3%	22.2%	22.2%	24.2%	23.4%	24.1%	24.3%	22.2%
Britannia	4.3%	5.1%	5.7%	6.8%	8.8%	10.8%	14.1%	14.1%	15.1%	15.7%	15.9%	19.1%	15.6%	17.4%
GCPL	20.1%	17.7%	17.6%	15.3%	15.1%	16.5%	18.1%	18.3%	21.0%	20.9%	21.6%	21.7%	19.5%	18.3%
Dabur	19.3%	19.2%	16.9%	16.8%	16.4%	16.9%	18.1%	19.8%	20.9%	20.4%	20.6%	21.0%	20.7%	18.8%
Marico	14.1%	13.1%	12.2%	13.6%	16.0%	15.2%	17.3%	19.6%	18.0%	18.1%	20.1%	19.8%	17.8%	18.5%
Colgate	23.8%	22.5%	21.8%	20.8%	18.6%	20.6%	22.4%	23.7%	26.6%	27.7%	26.6%	31.2%	30.7%	29.6%
Emami	**24.0%**	**20.3%**	**20.4%**	**20.4%**	**24.2%**	**24.4%**	**26.1%**	**30.3%**	**28.4%**	**27.0%**	**26.0%**	**30.7%**	**29.9%**	**25.3%**

Source: Company, Emkay Research

With expected recovery in margin, we see double-digit EBITDA growth in the business

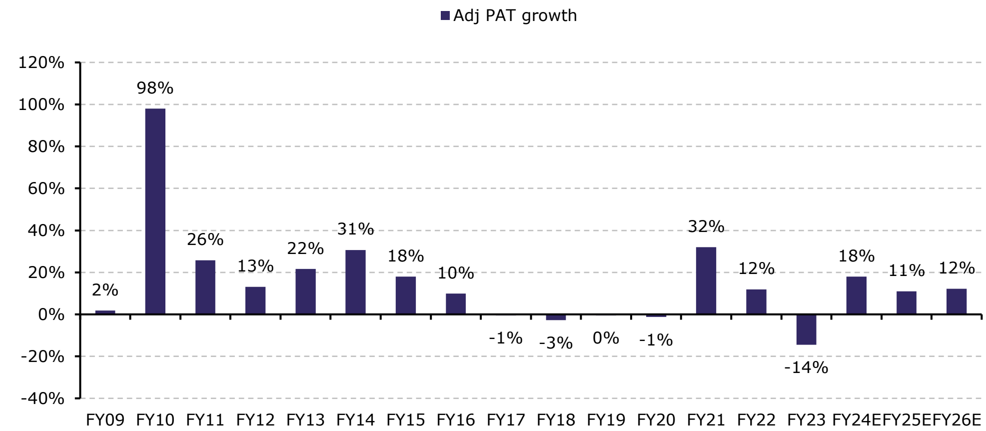
Exhibit 67: Annual EBITDA growth trend



Source: Company, Emkay Research

Recovery in EBITDA is likely to aid better earnings growth for the company

Exhibit 68: Annual adjusted earnings growth



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Emami : Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	**31,872**	**34,057**	**37,084**	**40,256**	**43,643**
Revenue growth (%)	10.6	6.9	8.9	8.6	8.4
EBITDA	**9,524**	**8,628**	**10,001**	**11,188**	**12,255**
EBITDA growth (%)	7.9	(9.4)	15.9	11.9	9.5
Depreciation & Amortization	942	974	1,024	1,124	1,224
EBIT	**8,582**	**7,654**	**8,977**	**10,064**	**11,031**
EBIT growth (%)	9.5	(10.8)	17.3	12.1	9.6
Other operating income	345	437	459	482	506
Other income	713	351	400	450	575
Financial expense	51	74	100	100	100
PBT	**9,243**	**7,931**	**9,277**	**10,414**	**11,506**
Extraordinary items	1,145	(5)	(494)	(494)	(494)
Taxes	1,875	1,577	1,763	2,083	2,301
Minority interest	(123)	47	55	61	68
Income from JV/Associates	0	0	0	0	0
Reported PAT	**8,390**	**6,396**	**7,076**	**7,899**	**8,779**
PAT growth (%)	84.5	(23.8)	10.6	11.6	11.1
Adjusted PAT	**7,245**	**6,401**	**7,570**	**8,392**	**9,273**
Diluted EPS (Rs)	**16.4**	**14.5**	**17.3**	**19.2**	**21.2**
Diluted EPS growth (%)	9.1	(11.7)	19.5	10.9	10.5
DPS (Rs)	**8.1**	**8.0**	**9.0**	**10.0**	**11.0**
Dividend payout (%)	**42.4**	**55.2**	**55.5**	**55.3**	**54.7**
EBITDA margin (%)	29.9	25.3	27.0	27.8	28.1
EBIT margin (%)	26.9	22.5	24.2	25.0	25.3
Effective tax rate (%)	20.3	19.9	19.0	20.0	20.0
NOPLAT (pre-IndAS)	**6,841**	**6,132**	**7,272**	**8,051**	**8,825**
Shares outstanding (mn)	441.2	441.2	436.5	436.5	436.5

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	441	441	437	437	437
Reserves & Surplus	20,343	22,587	27,646	31,180	35,157
Net worth	**20,784**	**23,028**	**28,083**	**31,616**	**35,594**
Minority interests	(23)	100	100	100	100
Deferred tax liability (net)	(2,763)	(3,502)	(3,502)	(3,502)	(3,502)
Total debt	**3,236**	**1,334**	**1,398**	**1,398**	**1,398**
Total liabilities & equity	**21,235**	**20,959**	**26,078**	**29,611**	**33,589**
Net tangible fixed assets	13,198	11,772	11,131	10,590	9,949
Net intangible assets	1,102	942	955	969	983
Net ROU assets	0	0	0	0	0
Capital WIP	31	63	63	63	63
Goodwill	242	682	682	682	682
Investments [JV/Associates]	2,632	1,800	1,800	1,800	1,800
Cash & equivalents	**1,160**	**1,848**	**8,046**	**12,119**	**16,638**
Current assets (ex-cash)	9,633	11,038	11,229	11,865	12,650
Current Liab. & Prov.	8,237	7,801	8,546	9,307	10,131
NWC (ex-cash)	**3,113**	**4,535**	**4,083**	**4,071**	**4,155**
Total assets	**21,235**	**20,959**	**26,078**	**29,611**	**33,589**
Net debt	2,076	(514)	(6,648)	(10,721)	(15,241)
Capital employed	21,235	20,959	26,078	29,611	33,589
Invested capital	**17,412**	**17,248**	**16,169**	**15,629**	**15,087**
BVPS (Rs)	47.1	52.2	64.3	72.4	81.5
Net Debt/Equity (x)	0.1	0.0	(0.2)	(0.3)	(0.4)
Net Debt/EBITDA (x)	0.2	(0.1)	(0.7)	(1.0)	(1.2)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	**46.1**	**37.9**	**39.9**	**37.8**	**36.7**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	9,243	7,931	9,277	10,414	11,506
Others (non-cash items)	(38)	(365)	0	0	0
Taxes paid	(1,426)	(1,170)	(1,763)	(2,083)	(2,301)
Change in NWC	(1,691)	(112)	551	116	23
Operating cash flow	**6,439**	**7,489**	**9,255**	**9,738**	**10,621**
Capital expenditure	(4,802)	(301)	(1,000)	(1,200)	(1,200)
Acquisition of business	0	0	0	0	0
Interest & dividend income	227	90	0	0	0
Investing cash flow	**(4,869)**	**(602)**	**(1,000)**	**(1,200)**	**(1,200)**
Equity raised/(repaid)	(2,001)	(10)	(1,858)	0	0
Debt raised/(repaid)	(300)	89	64	0	0
Payment of lease liabilities	0	0	0	0	0
Interest paid	(45)	(60)	(100)	(100)	(100)
Dividend paid (incl tax)	(3,556)	(3,529)	(3,929)	(4,365)	(4,802)
Others	1,880	(2,566)	3,765	0	0
Financing cash flow	**(4,021)**	**(6,076)**	**(2,057)**	**(4,465)**	**(4,902)**
Net chg in Cash	(2,444)	687	6,198	4,073	4,520
OCF	6,439	7,489	9,255	9,738	10,621
Adj. OCF (w/o NWC chg.)	8,130	7,601	8,705	9,622	10,598
FCFF	1,636	7,188	8,255	8,538	9,421
FCFE	1,812	7,204	8,155	8,438	9,321
OCF/EBITDA (%)	67.6	86.8	92.5	87.0	86.7
FCFE/PAT (%)	25.0	112.5	107.7	100.5	100.5
FCFF/NOPLAT (%)	**23.9**	**117.2**	**113.5**	**106.0**	**106.8**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	32.0	36.2	30.3	27.3	24.7
P/CE(x)	29.2	32.5	27.6	24.9	22.6
P/B (x)	11.1	10.1	8.2	7.2	6.4
EV/Sales (x)	7.4	6.9	6.1	5.5	5.0
EV/EBITDA (x)	24.5	26.8	22.2	19.5	17.5
EV/EBIT(x)	28.1	31.2	25.6	22.5	20.1
EV/IC (x)	13.9	13.9	14.2	14.5	14.7
FCFF yield (%)	0.7	3.0	3.6	3.8	4.3
FCFE yield (%)	0.8	3.0	3.4	3.6	3.9
Dividend yield (%)	1.5	1.5	1.7	1.9	2.1
DuPont-RoE split					
Net profit margin (%)	22.7	18.8	20.4	20.8	21.2
Total asset turnover (x)	1.6	1.6	1.6	1.4	1.4
Assets/Equity (x)	1.1	1.0	0.9	0.9	0.9
RoE (%)	**37.7**	**29.2**	**29.6**	**28.1**	**27.6**
DuPont-RoIC					
NOPLAT margin (%)	21.5	18.0	19.6	20.0	20.2
IC turnover (x)	2.0	2.0	2.2	2.5	2.8
RoIC (%)	**43.9**	**35.4**	**43.5**	**50.6**	**57.5**
Operating metrics					
Core NWC days	(7.9)	(6.6)	(6.9)	(6.6)	(6.7)
Total NWC days	**35.7**	**48.6**	**40.2**	**36.9**	**34.7**
Fixed asset turnover	1.0	0.9	1.0	1.1	1.1
Opex-to-revenue (%)	36.5	39.4	39.5	39.2	38.9

Source: Company, Emkay Research

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