

BUY **Emami****Better margin aids earnings beat**Consumer Goods ▶ Result Update ▶ **November 6, 2023****TARGET PRICE (Rs): 625**

Our positive stance on Emami is underpinned by its enhanced focus, further to which Company has roped in professionals who are helping it get the right fit to address wider consumer needs. We continue to consider Emami's healthy margin profile as an enabler of its topline journey. In a muted demand setting, Emami posted better than expected Q2FY24 results, with revenue growth at 6% (domestic growth: 4%; volume growth: 2%), while the 300bps margin expansion aided a 20% growth in EBITDA and a 19% growth in earnings (6% above estimate). Capturing the better margin, we nudge up our FY24E earnings by 3%, with FY25-26E earnings remaining unchanged. We maintain BUY with Sep-24E TP of Rs625 (on 31x P/E). High rural revenue concentration provides an edge on demand recovery for Emami, while seasonality remains the key risk.

Emami: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	31,872	34,057	37,204	40,393	43,794
EBITDA	9,524	8,628	10,248	11,220	12,295
Adj. PAT	7,245	6,401	7,772	8,418	9,305
Adj. EPS (Rs)	16.4	14.5	17.8	19.3	21.3
EBITDA margin (%)	29.9	25.3	27.5	27.8	28.1
EBITDA growth (%)	7.9	(9.4)	18.8	9.5	9.6
Adj. EPS growth (%)	9.1	(11.7)	22.7	8.3	10.5
RoE (%)	37.7	29.2	30.3	28.0	27.5
RoIC (%)	43.9	35.4	44.7	50.8	57.6
P/E (x)	31.6	35.8	29.1	26.9	24.3
EV/EBITDA (x)	24.2	26.5	21.4	19.2	17.2
P/B (x)	11.0	9.9	8.0	7.1	6.3
FCFF yield (%)	0.7	3.1	3.8	4.0	4.5

Source: Company, Emkay Research

Decent domestic growth, at 4%; International sales grow 12%

Domestic sales grew 4%, with 2% volume growth. The *Navratna* & *Dermicool* range (+12% YoY) and Healthcare (~10% of domestic sales in Q2; grew 4% YoY) did well, while *Kesh King* hair oil (~10% of domestic sales; a 5% YoY drop), Male grooming (-7% YoY) and *Boroplus* (~20% of sales; fell 4% YoY) put up a muted show. Pain management comprised ~25% of domestic sales in Q2, with sales growing 1% YoY. Modern retail channels have seen healthy growth, wherein Modern trade (~11% of domestic sales) sales grew in the high teens, while ecommerce (~13% of domestic sales) sales grew 50% in Q2FY24. International revenue grew 12%, with 16% constant currency growth. The management maintains its high single-digit revenue guidance for FY24.

EBITDA margin expands by 300bps YoY (to 27%), above the guided range

Gross margin expanded by 345bps YoY to 70.1%, benefitting from the benign raw-material prices and better sales mix. EBITDA margin expanded by 300bps YoY to 27%, standing well above expectations and which aided a 20% EBITDA and a 19% earnings growth. Standalone business margin expanded by 285bps YoY to 29.6%, aided by the 425bps expansion in gross margin to 70%. In the domestic business, modern retail channels entail a relatively-lower margin and where the mgmt is looking to improve profitability. The mgmt maintains its guidance of >200bps margin expansion for FY24.

Guidance reasonable; external setting key to growth acceleration

Emami, with its professional management team, has been addressing business issues and is now ready to leverage the rural demand opportunity. Mgmt guidance on near-term growth/margin looks reasonable; we expect better-than-estimated delivery, if rural demand rebounds. Factoring-in the better margin delivery in Q2, we lift our FY24E earnings by 3%, while maintaining estimates over FY25-26. We retain BUY with Sep-24E TP of Rs625/sh, on 31x P/E. Promoters have now reduced the pledged position to 15%.

Target Price – 12M	Sep-24
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	20.5
CMP (06-Nov-23) (Rs)	518.8

Stock Data

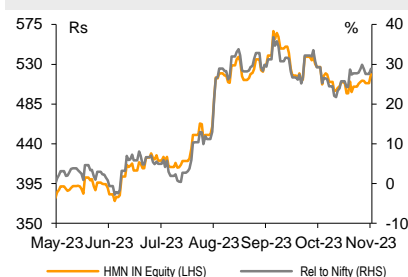
52-week High (Rs)	583
52-week Low (Rs)	341
Shares outstanding (mn)	440.4
Market-cap (Rs bn)	228
Market-cap (USD mn)	2,746
Net-debt, FY14E (Rs mn)	-2,034
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	346.5
ADTV-3M (USD mn)	4.2
Free float (%)	45.5
Nifty-50	19,412
INR/USD	83.2

Shareholding, Sep-23

Promoters (%)	54.8
FPIs/MFs (%)	11.9/25.2

Price Performance

(%)	1M	3M	12M
Absolute	(1.5)	15.2	7.4
Rel. to Nifty	(0.3)	15.9	0.3

1-Year share price trend (Rs)**Nitin Gupta**

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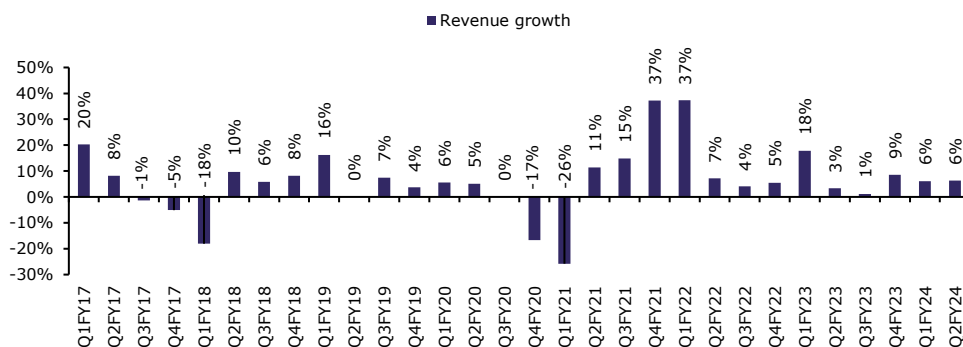
Quarterly performance

Exhibit 1: Q2FY24 performance

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	Q2FY24e	Var (%)	1HFY24	1HFY23	YoY (%)
Total income	8,649	8,138	6.3	8,257	4.7	8,561	1.0	16,905	15,871	6.5
Cost of goods	2,588	2,716	(4.7)	2,856	(9.4)	2,697	(4.0)	5,444	5,577	(2.4)
Employee expenses	1,017	935	8.8	1,014	0.2	950	7.0	2,031	1,823	11.4
A&P spends	1,544	1,415	9.1	1,519	1.7	1,550	(0.4)	3,063	2,778	10.3
Other expenses	1,163	1,119	4.0	968	20.2	1,150	1.2	2,131	2,007	6.2
EBITDA	2,337	1,954	19.6	1,900	23.0	2,214	5.5	4,237	3,687	14.9
EBITDA Margin (%)	27.0	24.0	300bps	23.0	400bps	25.9	120bps	25.1	23.2	180bps
Depreciation	227	245	(7.4)	228	(0.7)	250	(9.3)	455	486	(6.5)
EBIT	2,110	1,709	23.5	1,672	26.2	1,964	7.4	3,782	3,201	18.2
EBIT Margin (%)	24.4	21.0	340bps	20.2	410bps	22.9	150bps	22.4	20.2	220bps
Interest cost	23	18	27.8	21	5.1	25	(10.0)	44	43	3.3
Other income	111	81	36.5	83	34.2	100	11.1	194	145	34.0
PBT	2,199	1,773	24.0	1,733	26.8	2,039	7.8	3,932	3,303	19.0
Tax	419	315	33.1	290	44.3	408	2.7	709	699	1.5
Tax rate (%)	19.1	17.8	7.3	16.7	13.8	20.0	-90bps	18.0	21.2	(14.8)
Non-recurring items	26	365		(71)		0		(44)	(11)	
Minority Interest	-21	19	(211.6)	4.7	(548.9)	20		16	13	22.4
PAT	1,785	1,842	(3.1)	1,377	29.6	1,651	8.1	3,162	2,580	23
Adj Profit	1,759	1,477	19.1	1,448	21.5	1,651	6.5	3,206	2,591	23.8
Net profit margin (%)	20.3	18.2		17.5		19.3	100bps	19.0	16.3	
EPS (Rs)	4.0	3.3	20.3	3.3	22.2	3.8		5.3	4.6	17.4

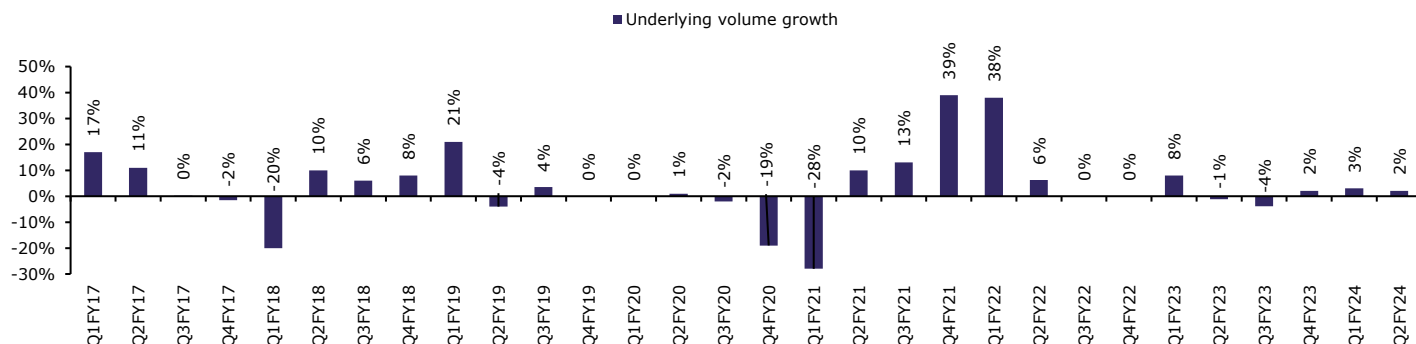
Source: Company, Emkay Research

Exhibit 2: Revenue growth (YoY)

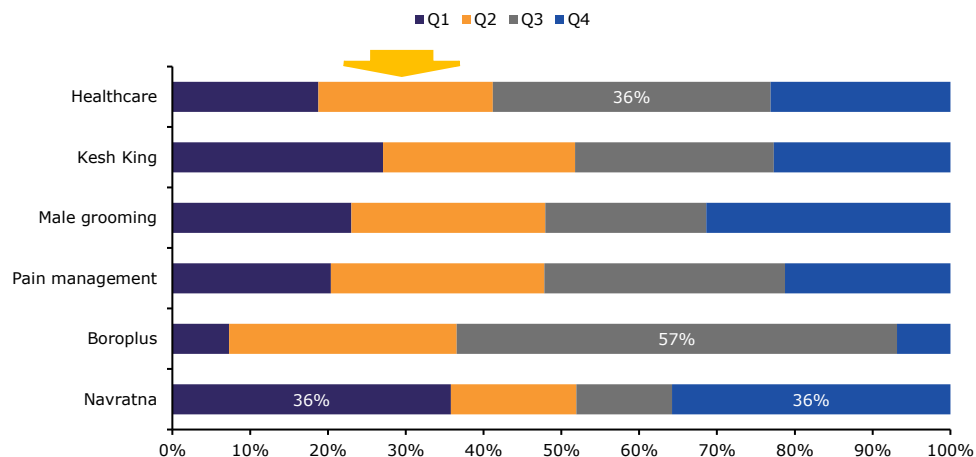


Source: Company, Emkay Research

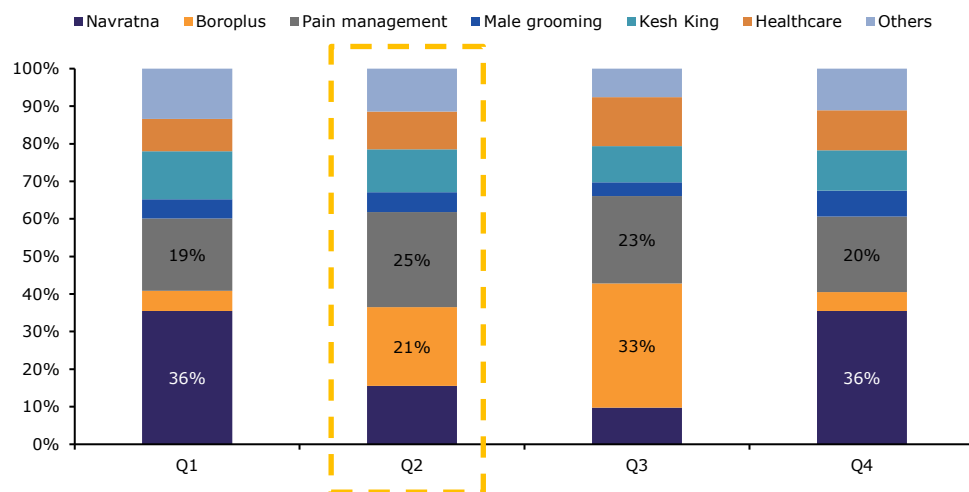
Exhibit 3: Volume growth trend (YoY)



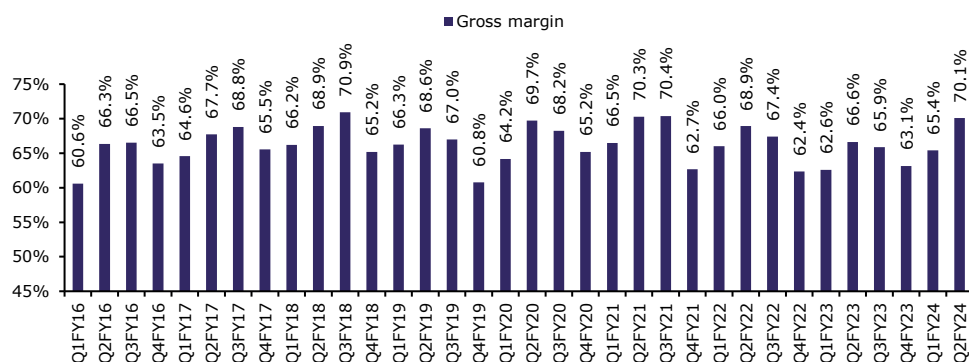
Source: Company, Emkay Research

Exhibit 4: Quarterly sales mix for key brand/category offerings (based on FY23 revenue)

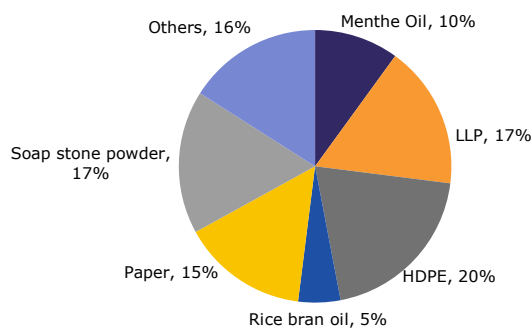
Source: Company, Emkay Research

Exhibit 5: Quarterly revenue contribution by brand / category (based on FY23 revenue)

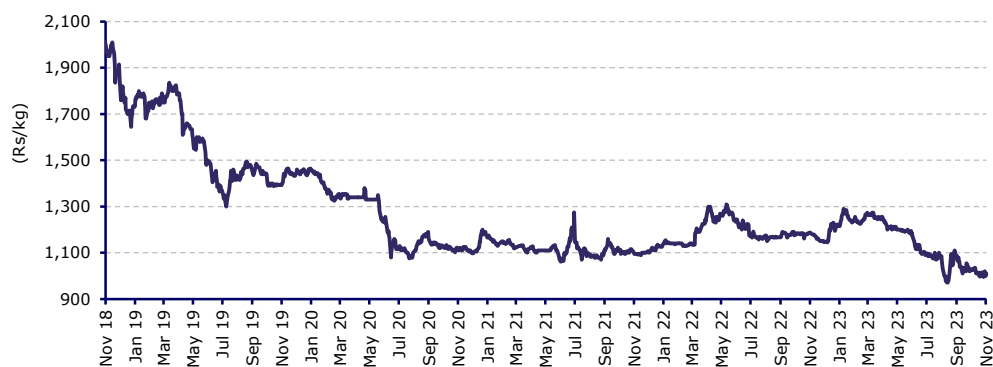
Source: Company, Emkay Research

Exhibit 6: Gross-margin trend

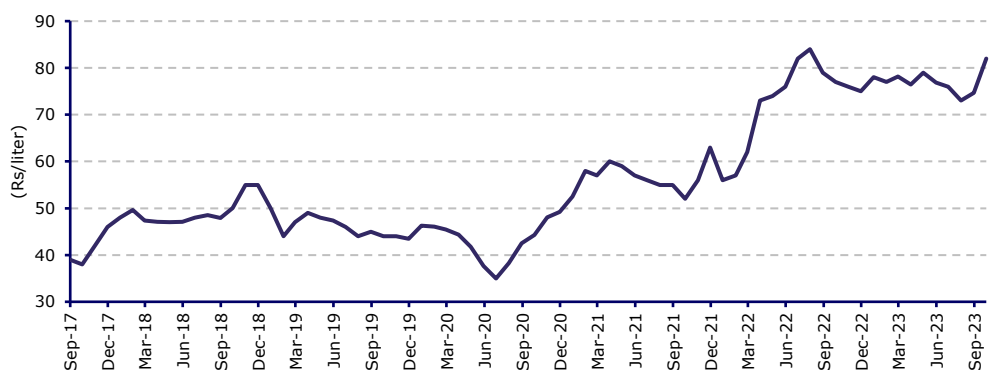
Source: Company, Emkay Research

Exhibit 7: Key raw material mix for Emami (domestic business)

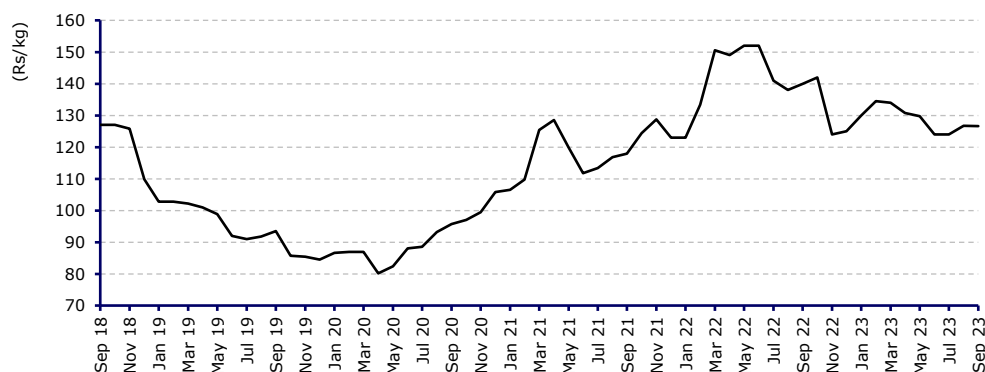
Source: Company, Emkay Research

Exhibit 8: Menthe oil prices

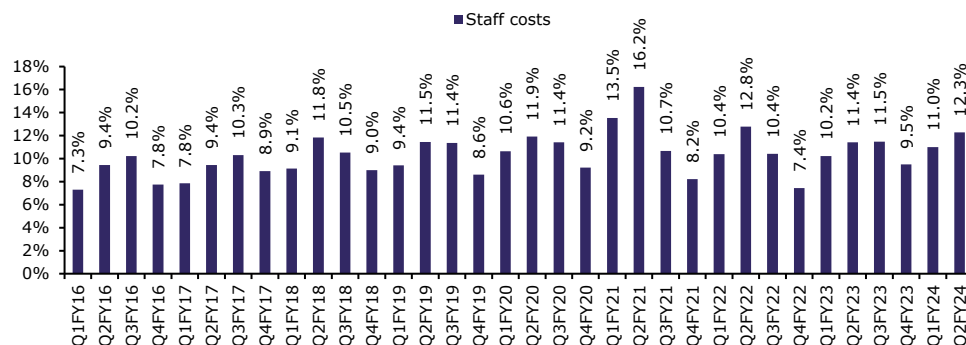
Source: Bloomberg, Emkay Research

Exhibit 9: Light liquid paraffin prices

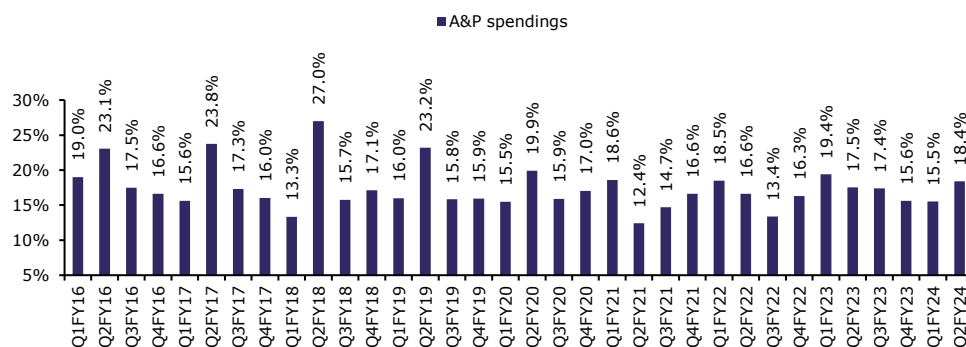
Source: Marico, Emkay Research

Exhibit 10: HDPE prices

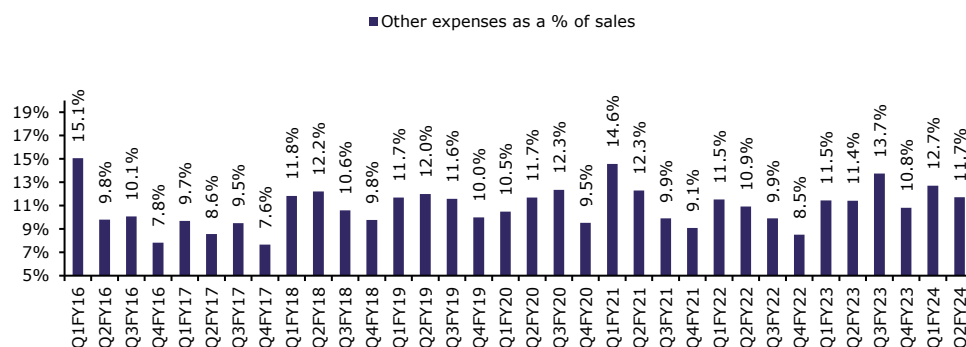
Source: Marico, Emkay Research

Exhibit 11: Staff costs, as a % of sales

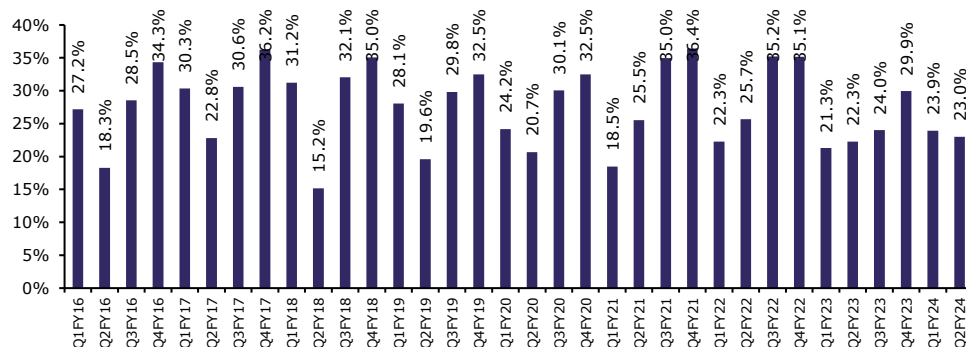
Source: Company, Emkay Research

Exhibit 12: A&P spends, as a % of sales

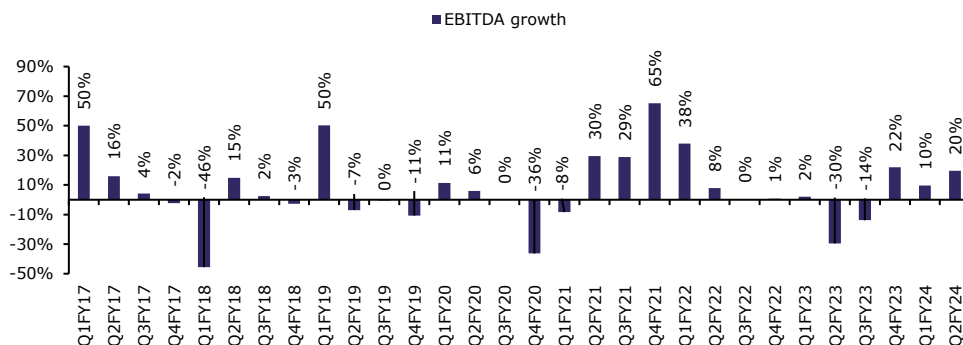
Source: Company, Emkay Research

Exhibit 13: Other expenses, as a % of sales

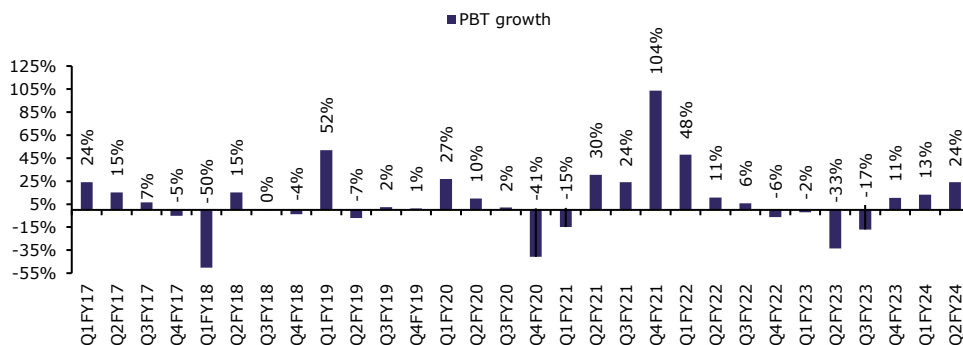
Source: Company, Emkay Research

Exhibit 14: EBITDA margin trend

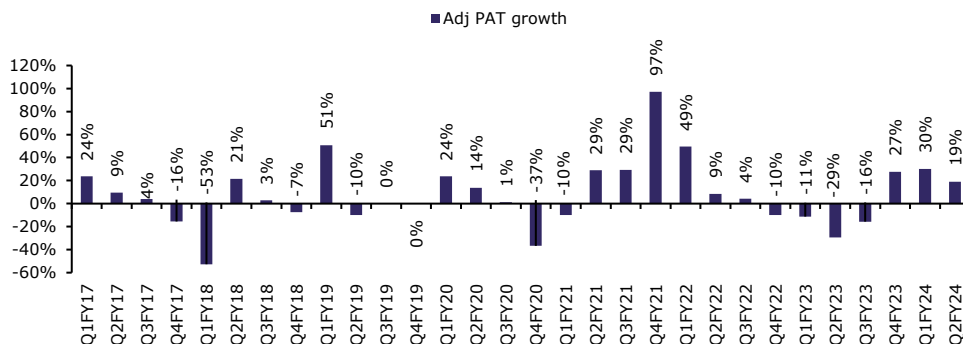
Source: Company, Emkay Research

Exhibit 15: EBITDA growth

Source: Company, Emkay Research

Exhibit 16: Profit before tax growth

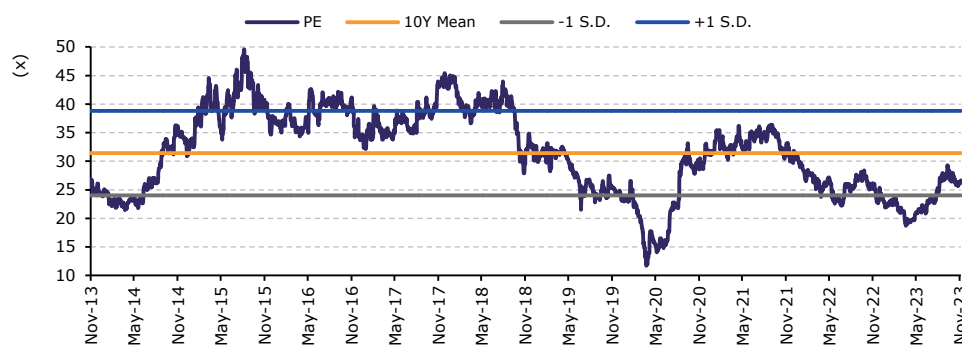
Source: Company, Emkay Research

Exhibit 17: Adjusted PAT growth

Source: Company, Emkay Research

Valuations

Exhibit 18: One-year forward P/E (on Consensus)



Source: Company, Emkay Research

Exhibit 19: Changes to our estimates

(Rs mn)	New estimates			Old estimates			Changes to estimate		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net sales	36,745	39,911	43,288	36,625	39,774	43,137	0%	0%	0%
growth	9.2%	8.6%	8.4%	8.9%	8.6%	8.5%			
EBITDA	10,248	11,220	12,295	10,001	11,188	12,255	2%	0%	0%
growth	18.8%	9.5%	9.6%	15.9%	11.9%	9.5%			
EBITDA margin	27.5%	27.8%	28.1%	27.0%	27.8%	28.1%	58bps	0bps	0bps
Adj PAT	7,772	8,418	9,305	7,570	8,392	9,273	3%	0%	0%
growth	21.4%	8.3%	10.5%	18.3%	10.9%	10.5%	0%	0%	0%

Source: Company, Emkay Research

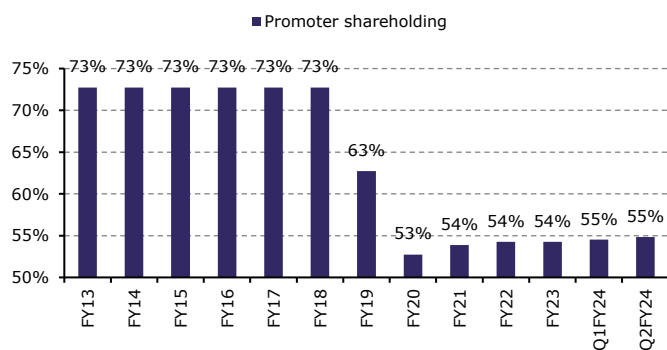
Exhibit 20: Emkay estimate vs consensus

(Rs mn)	Emkay estimates			Consensus estimates			Emkay estimate vs consensus		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net sales	36,745	39,911	43,288	37,071	40,500	43,802	-1%	-1%	-2%
growth	9.2%	8.6%	8.4%	8.8%	9.3%	8.2%			
EBITDA	10,248	11,220	12,295	10,017	11,185	12,183	2%	0%	1%
growth	18.8%	9.5%	9.6%	16.1%	11.7%	8.9%			
EBITDA margin	27.5%	27.8%	28.1%	27.0%	27.6%	27.8%			
Adj PAT	7,772	8,418	9,305	7,802	8,730	9,712	0%	-4%	-5%
growth	21.4%	8.3%	10.5%	21.9%	11.9%	11.2%			
Adj EPS (Rs)	36,745	39,911	43,288	18.3	20.4	22.6	-3%	-5%	-6%

Source: Bloomberg, Emkay Research

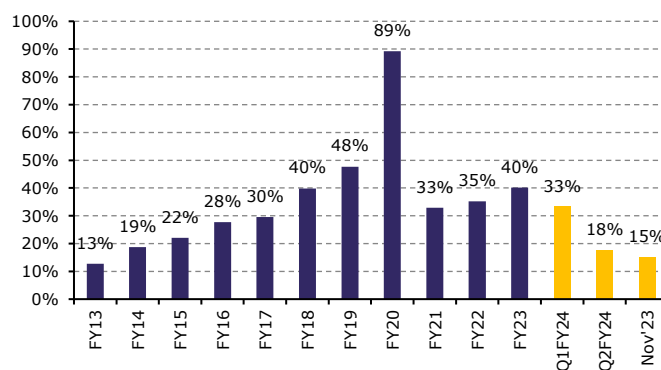
Note: Our adjusted earnings estimates add back an amortization amount that the company charges to the P&L, to account for the inorganic acquisition. This differs vs Consensus which led to a wider difference in the Consensus and our expectations

Exhibit 21: Promoter shareholding



Source: Company, Emkay Research

Exhibit 22: Promoter's pledged position



Source: Company, Emkay Research

Exhibit 23: Key assumptions

	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth						
Domestic sales growth	8.5%	7.0%	4.4%	9.2%	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%	4.0%	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%	17.0%	17.1%	17.1%
Consolidated revenue growth	9.2%	7.0%	6.6%	9.3%	8.6%	8.5%
Consolidated EBITDA growth	27.9%	7.9%	-9.4%	18.8%	9.5%	9.6%
Consolidated earnings growth	31.9%	8.3%	-11.7%	21.4%	8.3%	10.5%
As a % of sales						
Gross margin	67.7%	66.3%	64.7%	67.5%	67.5%	67.5%
Employee costs	10.7%	10.0%	10.8%	11.1%	11.0%	10.9%
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%	11.7%	11.6%
EBITDA margin	30.7%	29.9%	25.3%	27.5%	27.8%	28.1%
Per share data (Rs)						
EPS	15.1	16.4	14.5	17.8	19.3	21.3
DPS	8.0	8.0	8.0	9.0	10.0	11.0
Pay-out	53%	49%	55%	51%	52%	52%
Balance sheet assumptions						
Capex (Rs mn)	-337	-4,836	-405	-1,000	-1,200	-1,200
Receivable days (no. of days)	34	32	39	38	38	38
Inventory days (no. of days)	35	38	37	36	35	35
Payable days (no. of days)	43	43	44	45	45	45
Avg ROE	37%	38%	29%	30%	28%	27%
Avg ROCE	40%	41%	32%	35%	33%	32%
Avg ROIC	42%	43%	32%	41%	46%	52%

Source: Company, Emkay Research

Emami: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	31,872	34,057	37,204	40,393	43,794
Revenue growth (%)	10.6	6.9	9.2	8.6	8.4
EBITDA	9,524	8,628	10,248	11,220	12,295
EBITDA growth (%)	7.9	(9.4)	18.8	9.5	9.6
Depreciation & Amortization	942	974	1,024	1,124	1,224
EBIT	8,582	7,654	9,225	10,096	11,071
EBIT growth (%)	9.5	(10.8)	20.5	9.4	9.7
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	9,525	10,446	11,546
Extraordinary items	1,145	(5)	(494)	(494)	(494)
Taxes	1,875	1,577	1,810	2,089	2,309
Minority interest	(123)	47	57	61	68
Income from JV/Associates	0	0	0	0	0
Reported PAT	8,390	6,396	7,278	7,925	8,811
PAT growth (%)	84.5	(23.8)	13.8	8.9	11.2
Adjusted PAT	7,245	6,401	7,772	8,418	9,305
Diluted EPS (Rs)	16.4	14.5	17.8	19.3	21.3
Diluted EPS growth (%)	9.1	(11.7)	22.7	8.3	10.5
DPS (Rs)	8.1	8.0	9.0	10.0	11.0
Dividend payout (%)	42.4	55.2	54.0	55.1	54.5
EBITDA margin (%)	29.9	25.3	27.5	27.8	28.1
EBIT margin (%)	26.9	22.5	24.8	25.0	25.3
Effective tax rate (%)	20.3	19.9	19.0	20.0	20.0
NOPLAT (pre-IndAS)	6,841	6,132	7,472	8,077	8,857
Shares outstanding (mn)	441.2	441.2	436.5	436.5	436.5

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	9,243	7,931	9,525	10,446	11,546
Others (non-cash items)	(38)	(365)	0	0	0
Taxes paid	(1,426)	(1,170)	(1,810)	(2,089)	(2,309)
Change in NWC	(1,691)	(112)	541	115	22
Operating cash flow	6,439	7,489	9,448	9,763	10,652
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	6,390	4,098	4,551
OCF	6,439	7,489	9,448	9,763	10,652
Adj. OCF (w/o NWC chg.)	8,130	7,601	8,906	9,648	10,630
FCFF	1,636	7,188	8,448	8,563	9,452
FCFE	1,812	7,204	8,348	8,463	9,352
OCF/EBITDA (%)	67.6	86.8	92.2	87.0	86.6
FCFE/PAT (%)	25.0	112.5	107.4	100.5	100.5
FCFF/NOPLAT (%)	23.9	117.2	113.1	106.0	106.7

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	27,848	31,408	35,417
Net worth	20,784	23,028	28,285	31,844	35,854
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	26,280	29,839	33,849
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	8,238	12,336	16,887
Current assets (ex-cash)	9,633	11,038	11,253	11,892	12,680
Current Liab. & Prov.	8,237	7,801	8,561	9,324	10,150
NWC (ex-cash)	3,113	4,535	4,093	4,081	4,166
Total assets	21,235	20,959	26,280	29,839	33,849
Net debt	2,076	(514)	(6,840)	(10,939)	(15,489)
Capital employed	21,235	20,959	26,280	29,839	33,849
Invested capital	17,412	17,248	16,178	15,640	15,099
BVPS (Rs)	47.1	52.2	64.8	73.0	82.1
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)	(1.3)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	46.1	37.9	40.7	37.6	36.6

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	31.6	35.8	29.1	26.9	24.3
P/CE(x)	28.0	31.0	25.7	23.7	21.5
P/B (x)	11.0	9.9	8.0	7.1	6.3
EV/Sales (x)	7.3	6.8	6.0	5.4	4.9
EV/EBITDA (x)	24.2	26.5	21.4	19.2	17.2
EV/EBIT(x)	26.9	29.8	23.8	21.3	19.1
EV/IC (x)	13.3	13.2	13.6	13.8	14.0
FCFF yield (%)	0.7	3.1	3.8	4.0	4.5
FCFE yield (%)	0.8	3.1	3.7	3.7	4.1
Dividend yield (%)	1.6	1.5	1.7	1.9	2.1
DuPont-RoE split					
Net profit margin (%)	22.7	18.8	20.9	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	30.3	28.0	27.5
DuPont-RoIC					
NOPLAT margin (%)	21.5	18.0	20.1	20.0	20.2
IC turnover (x)	2.0	2.0	2.2	2.5	2.8
RoIC (%)	43.9	35.4	44.7	50.8	57.6
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	40.0	39.7	39.4

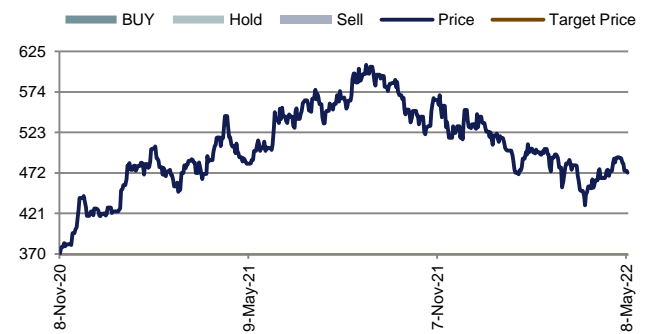
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
20-Oct-23	510	625	Buy	Nitin Gupta
20-Oct-23	510	625	Buy	Nitin Gupta
03-Oct-23	535	625	Buy	Nitin Gupta
03-Oct-23	535	625	Buy	Nitin Gupta
25-Sep-23	515	625	Buy	Nitin Gupta
25-Sep-23	515	625	Buy	Nitin Gupta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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