Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Emami Ltd

Good Q2; promoters pledge reduced to 15%

Consumer Goods	Sharekhan code: EMAMILTD
Reco/View: Buy ↔	CMP: **Rs. 519**
	Price Target: **Rs. 655** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Emami's Q2FY2024 operating performance beat expectations due to a sharp 300 bps y-o-y rise in OPM to 27%. Revenue and adjusted PAT grew by 6.3% y-o-y and 8.0% y-o-y, respectively.
- Revenues grew by 6% in H1FY24. Management expects high single digit growth in H2 with expected good traction for winter portfolio. OPM to be higher by 200-250BPS in FY24.
- Promoters pledge has reduced to 15% from 30%+ post the AMRI hospital hive-off. Pledging to further reduce in the coming years.
- Stock trades at attractive valuations of 25x/22x its FY2024E/25E earnings. We maintain a Buy rating on the stock with an unchanged PT of Rs. 655.

Emami posted good performance amid a weak demand environment, especially in rural areas. Consolidated revenues grew by 6.3% y-o-y to Rs. 864.9 crore, with the domestic business growing by 4% y-o-y, while international business grew by 12% y-o-y. Domestic volumes rose by just 2%. Lower input costs led to a 345 bps y-o-y improvement in gross margin to 70.1% and 301 bps to 27.0%. Operating profit grew by ~20% y-o-y to Rs. 233.7 crore. However lower other income led to 8.0% y-o-y growth in the adjusted PAT to Rs. 213.2 crore. For H1FY2024, the company's revenues grew by 6.2% y-o-y to Rs. 1,690.5 crore, OPM expanded by 190 bps to 25.1% and adjusted PAT grew by 14% y-o-y to Rs. 367.7 crore. The board has declared an interim dividend of Rs. 4 per share for FY2024.

Key positives

- Promoters' pledging reduced to 15% from 30%+ earlier.
- Navratna and Dermicool products grew by 12% each.
- Modern trade and e-commerce channels grew by 18% y-o-y and 50% y-o-y, respectively.
- D2C brands – The Man Company and Brillare grew by 63% in Q2; together contribute 5% to revenues.

Key negatives

- Boroplus range, male grooming and Kesh King range clocked a decline of 4%, 7% and 5%, respectively.

Management Commentary

- Revenues grew by 6% in H1FY24. Management is confident of achieving high single-digit revenue growth in H2 on back of expected good winter season and good recovery in the rural demand.
- Boroplus range could see good recovery in H2, Healthcare range of products to grow in high single digit and international business to grow in double digits.
- Management has maintained its guidance of 200-250 bps OPM expansion in FY2024.
- Modern trade and e-Commerce channel EBIDTA margins are lower as compared to general trade. With strong growth in both the channels, the margins will be in line with the general trade channel.
- Strategic investments (The Man Company & Brillare) in D2C are growing strongly and together contribute 5% of consolidated revenues.

Revision in earnings estimates: We have broadly maintained our earning estimates for FY2024 and marginally reduced it for FY2025 and FY2026.

Our Call

View - Retain Buy with an unchanged 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 would improve in the coming years with raw-material prices stabilising. Key concerns hovering around promoters' pledging is reduced as the company brought down the promoters pledging to 15%. It targets the pledging to significantly reduce by FY2025. This should lead to re-rating in the stock and provide good support to valuations in the near term. The stock is currently trading at attractive valuations of 25x/22x/19x its FY2024E/25E/26E EPS. We maintain a Buy rating on the stock with an unchanged PT of Rs. 655.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Revenues	3,406	3,702	4,261	4,852
OPM (%)	25.3	27.3	27.7	28.2
Adjusted PAT	755	910	1,028	1,191
% YoY growth	-0.8	20.6	13.0	15.8
Adjusted EPS (Rs.)	16.9	20.6	23.3	27.0
P/E (x)	30.6	25.1	22.2	19.2
P/B (x)	9.9	8.5	7.3	6.2
EV/EBITDA (x)	26.0	21.7	18.4	15.5
RoNW (%)	34.5	36.4	35.4	35.0
RoCE (%)	34.9	38.1	38.4	38.0

Source: Company; Sharekhan estimates

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 Updated Aug 08, 2023	29.24

Medium Risk

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

Source: Morningstar

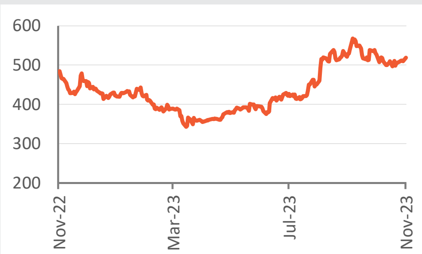
Company details

Market cap:	Rs. 22,646 cr
52-week high/low:	Rs. 582 / 341
NSE volume: (No of shares)	5.8 lakh
BSE code:	531162
NSE code:	EMAMILTD
Free float: (No of shares)	19.7 cr

Shareholding (%)

Promoters	54.8
FII	12.3
DII	25.2
Others	7.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.5	5.3	36.5	7.4
Relative to Sensex	0.6	7.2	31.9	1.4

Sharekhan Research, Bloomberg

Q2FY2024 – Good performance led by margin expansion

Emami posted 6.3% y-o-y revenues growth to Rs. 864.9 crore, driven by 4% y-o-y growth in the domestic market and 12% growth in the international market. Revenue was largely in-line with our expectation of Rs. 871.4 crore. Lower mentha prices helped gross margins expand by 345 bps y-o-y to 70.1%. OPM expanded by 301 bps y-o-y to 27.0%. OPM beat ours as well as the street's expectation of 25-26%. Operating profit increased by 20.0% y-o-y to Rs. 233.7 crore. However lower other income on y-o-y basis resulted in 8.0% growth in the adjusted PAT to Rs. 213.2 crore. Other income in the base quarter includes one-time expenditure of Rs. 34 crore related towards fair valuation of Helios Lifestyle. Excluding the same, adjusted PAT would have grown in-line with operating profit at 18-20%. Reported PAT grew by 9% y-o-y to Rs. 195.7 crore.

Domestic business registered a muted growth of 4%

Domestic business registered muted growth of 4% with volume growth of 2% in Q2. Navratna and Dermicool range of products grew 12% in Q2. Healthcare products revenues rose 4%, while OTC products grew in high single digits. The company launched 10 Digital-first products in Q2 on the Zanducare portal. Boroplus range of products registered a decline of 4% in Q2 due to seasonally weak quarter. Kesh King also saw a decline of 5% in Q2. However, the management is confident of growth bouncing back from Q3.

Broad-based growth in the international business

International business delivered CC y-o-y growth of 16% (reported growth at 12% y-o-y), led by strong double-digit growth in Nepal, Sri Lanka and MENAP. Double digit growth is despite currency depreciation in Russia and Bangladesh. The management expects CIS revenues to recover to double digit in the coming quarters and will provide good support to over International business growth.

Key conference call highlights

- **Revenues to grow by high single digits in FY24:** Emami's revenues grew by 6% in H1FY24. Management confident of achieving high single digit revenue growth led by an expected good winter season and good recovery in the rural demand. Recover in the rural demand is expected to on back of higher infra spends in the rural India and improved sentiments ahead of the festive season. The company has already loaded winter products, which will be available in the market post Diwali. With winter in North India started on a good note winter products are expected to post good traction in Q3.
- **Modern trade and e-Commerce to continue to perform well:** Modern trade and e-commerce channels are expected to grow in strong double digits in the coming years. The company has launched some of its D2C products on this platform. Both the channels together contributing ~25% of the domestic revenues. EBIDTA margins for both the channels together are less than general trade but same is expected to improve in the coming years/
- **Margins to be higher in FY2024:** In FY2024, management expects a 200-250 bps y-o-y expansion in gross margin, aided by a correction in raw-material prices.
- **Strategic investments are performing well:** Emami's two major strategic investments in D2C brands – The Man Company and Brillare are performing well and rose 63% in Q2. Both brands together contribute around 5% to the revenues. The Man Company has breakeven at the EBIDTA level, while Brillare has seen a minor margin erosion. Premiumisation, new product launches and availability of product on various channels will drive strong growth these companies. Emami has recently acquired 26% stake in Axiom Ayurveda, which has portfolio in the fruit based nectars category under the brand Alofruit.

Results (Consolidated) Rs cr

Particulars	Q2FY24	Q2FY23	Y-o-Y %	Q1FY24	Q-o-Q %
Net revenue	**864.9**	**813.8**	**6.3**	**825.7**	**4.7**
Total expenditure	631.2	618.4	2.1	635.7	-0.7
Operating profit	**233.7**	**195.4**	**19.6**	**190.0**	**23.0**
Other income	11.1	42.0	-73.5	8.3	34.2
Finance costs	2.3	1.8	27.8	2.1	5.1
Depreciation	19.5	24.5	-20.3	22.8	-14.5
Profit before tax	**223.0**	**211.1**	**5.6**	**173.3**	**28.7**
Tax	9.9	11.5	-14.6	18.8	-47.6
Adjusted PAT	**213.2**	**199.6**	**6.8**	**154.5**	**38.0**
Minority interest	0.0	-2.2	-	-0.5	-
Adjusted PAT after MI	**213.2**	**197.4**	**8.0**	**154.0**	**38.4**
Extra-ordinary items	17.4	17.5	-0.2	17.3	1.0
Reported PAT	**195.7**	**180.0**	**8.8**	**136.8**	**43.1**
Adjusted EPS (Rs.)	4.9	4.5	7.3	3.5	38.0
			bps		**bps**
GPM (%)	70.1	66.6	345	65.4	467
OPM (%)	27.0	24.0	301	23.0	400
NPM (%)	25.8	25.9	-16	21.0	479
Tax rate (%)	4.4	5.5	-105	10.9	-643

Source: Company; Sharekhan Research

Category/Brand-wise performance y-o-y basis

Key brands/category	Q2FY24	H1FY24
Healthcare range	4	7
Pain Management range	1	6
Navratna range	12	flat
Kesh King range	-5	-2
Boroplus range	-4	flat
Male Grooming range	-7	-3

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – 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 in the coming quarters. A drop in input prices will drive gross margins in going ahead. Despite higher media spends, OPM is expected to remain high on a y-o-y basis in the near term.

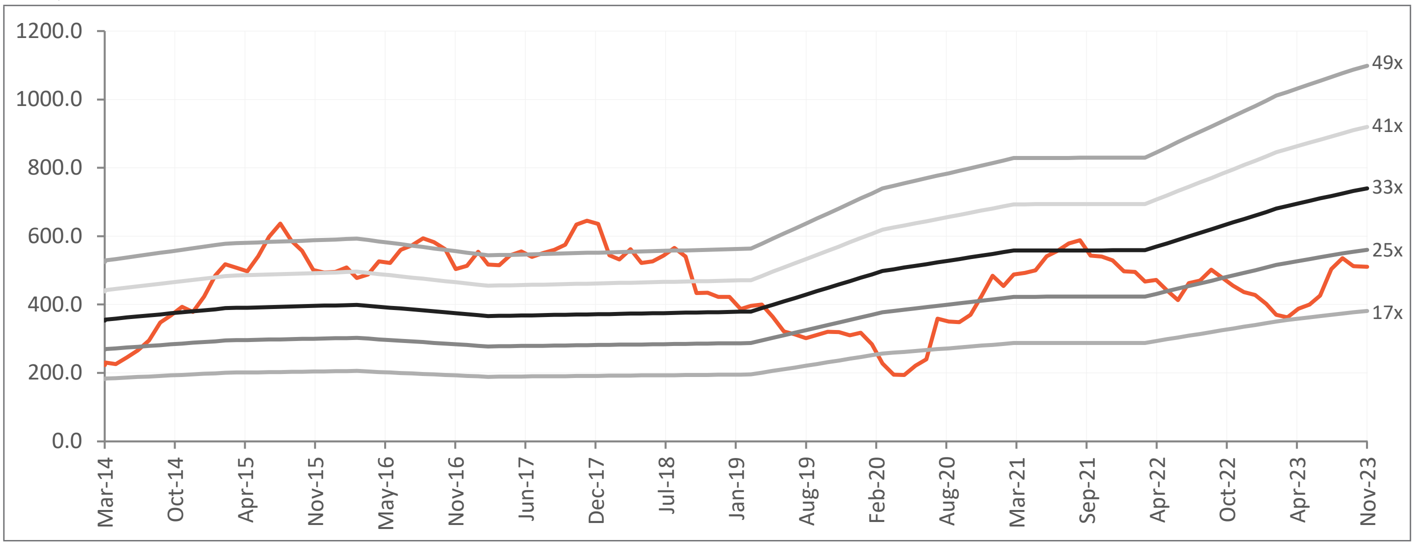
■ Company Outlook – Eyeing a better FY2024

Emami registered a steady performance in H1FY2024 with consolidated revenues and operating profit growing by 6.2% y-o-y and 14.9% y-o-y. OPM expanded by 190 bps y-o-y to 25.1%. Strong growth in newly-acquired businesses and steady performance by key categories would help the domestic business grow by 7-8% in FY2024. OPM is likely to rise y-o-y in FY2024, driven by expansion in gross margin 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 an unchanged 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 would improve in the coming years with raw-material prices stabilising. Key concerns hovering around promoters' pledging is reduced as the company brought down the promoters pledging to 15%. It targets the pledging to significantly reduce by FY2025. This should lead to re-rating in the stock and provide good support to valuations in the near term. The stock is currently trading at attractive valuations of 25x/22x/19x its FY2024E/25E/26E EPS. We maintain a Buy rating on the stock with an unchanged PT of Rs. 655.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Dabur	56.0	45.6	37.9	44.2	37.9	31.6	22.1	24.7	27.5
Marico	52.0	43.8	38.0	37.7	31.8	27.6	40.8	43.8	47.1
Emami	30.6	25.1	22.3	26.1	21.8	18.4	34.9	38.1	38.4

Source: Company, Sharekhan estimates

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, which gives us an indication 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 13% and 16% CAGR, respectively, over FY2023-FY2026E, 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	DSP investment managers Pvt Ltd	5.80
2	HDFC AMC	2.98
3	Mirae Asset Global Invesments	2.55
4	Avees Trading and Finance	2.11
5	Vanguard Group Inc	1.83
6	Franklin Resources	1.77
7	Aditya Birla Sun Life AMC	1.70
8	HDFC Life Insurance Co Ltd	1.43
9	Nippon Life India AMC	1.40
10	Kotak Mahindra AMC	1.40

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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