

# Emami Ltd

## 3Q investor call takeaways

### Strong momentum continues across segments and channels, margins reach record levels

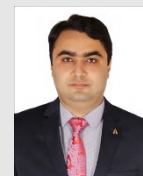
- ✓ **Our view** – As expected, growth momentum has continued for Emami with muted growth over the past couple of years forming a favorable base, most brand re-launches now delivering good results, aggression on new launches contributing, COVID tailwinds also helping and margins reaching new highs. As valuations are still undemanding compared to peers at about 30x FY23 earnings, we expect Emami to outperform the FMCG pack and continue its re-rating with expected release of promoter pledge another driver for the same.
- ✓ **Quarter highlights** – Growth momentum continued with broad-based growth coupled with margin improvement, 16% domestic sales growth and 13% volume growth led by 38% growth in healthcare, 21% in Boro Plus, 16% in Kesh King and 12% in pain management, Navratna declined by 12% due to strong winter; foray into home hygiene with Emasol; new launches contributed 3% to sales in 3Q and 4% in 9M; urban growth has also recovered with 3.5x growth in eCom (3.1% of sales now), 51% growth in MT (9% of sales now); international business grew 26%; GMs up 210bps and EBITDA margins grew 390bps 36.4% driving 45% PAT growth
- ✓ **Management commentary** - New launch momentum to remain strong; urban growth has recovered all across channels, focus on increasing direct rural coverage, increasing sales manpower in key focus states; confident of sustaining growth rate and ending FY21 with high single-digit growth rate.
- ✓ **Honey controversy** – Issue seems to have died down with overall market growing quite well; sales momentum for Emami remains strong albeit base is small, making it a mainstream product now.
- ✓ **Emasol strategy** – Category is challenging and competitive but initial response strong in channels like e-Commerce, MT, rural GT; believe pricing is a key determinant which will be used in initial phases.
- ✓ **Margin outlook** – Not witnessing much margin pressure as of now despite margins currently at all-time high which can cool-off somewhat (by 100-150bps in FY22); RM inflation has started but menthol remains benign; still see more room for cost reduction and some price hikes.
- ✓ **New launches** – 30 new launches (60 SKUs) so far in FY21 are contributing 4% to sales; see strong potential in 5-6 products; success seen in soaps, aloe vera gels and floor cleaners.
- ✓ **Healthcare segment outlook** – Target 25-30% growth in healthcare portfolio, many new launches in pipeline, ramping up retail reach for the segment.
- ✓ **Fair & Handsome** – Doing well since re-launch and change of celebrity from Shahrukh to Salman Khan, back to positive trajectory.
- ✓ **Hair oils outlook** – Increased focus on all hair oil brands like 7 Oils in One and Kesh King is driving strong growth; category is doing really well both in India and abroad even in month of January.
- ✓ **Pledge details** – Currently at 36%, promoters remain committed to bring it down to zero in 6-9 months depending on timing of asset monetization of promoters.
- ✓ **Rural coverage expansion** – Looking to expand coverage starting with 4 states in Phase 1 and 12 states in Phase 2, will be spending 7-8cr.
- ✓ **4Q outlook** - Confident of double-digit volume growth in 4Q as well with January going well, evaluating a few selective price increases.

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