

Emami Ltd

BUY

CMP Rs500

Target Rs603

Upside 20.7%

Re-rating to continue with improved growth trends

Result Highlights

- ✓ **Revenue growth** – 37% growth in consolidated sales with 44% value and 39% volume growth in domestic business, 28% growth in international business and 3% decline in institutional business with fastest growth in healthcare (67%), Kesh King (45%) and pain management (38%).
- ✓ **Margins** – Gross margins down 250bps to 62.7% due to commodity inflation especially in edible oils but EBITDA margins up 380bps to 22.3% given strong cost controls drove PAT growth of 276% yoy from a low base.
- ✓ **Innovation/other highlights** – 3 new launches in 4Q taking total launches to 40 in FY21 which contributed 3% to 4Q and 4% to FY21 revenue; strong response to Zanducare portal, MT grew 46%, eCom grew 3x.
- ✓ **Outlook** – Confident of maintaining double-digit growth with stable gross margins around 67% and EBITDA margins above 30% in FY22.

Valuation and view - Emami had a strong end to FY21 on the growth front led by its healthcare and pain management segments although input costs impacted margins. We believe the recovery in growth rates for the company should resume once the pandemic subsides led by continued aggression on new launches and distribution expansion. The core business seems to be picking up well with the company's initiatives like formulation and packaging changes coupled with differentiated launches. It is well placed to benefit from structural tailwinds in the healthcare/ayurveda space and a higher rural salience in addition to expectations of a gradual pick-up in discretionary FMCG categories. Margins should also sustain around current levels with a 4% price hike this year coupled with continued cost savings initiatives. Reduction of promoter pledge to 30%, improvement in dividend payout ratio, digitization initiatives and professionalization of senior management are further positives.

We expect the re-rating story for Emami to continue as the promoter issues seem to be behind us, valuation remains undemanding and growth momentum looks like sustaining for the next few quarters. We build in revenue/EBITDA/PAT growth of 11%/11%/12% respectively over FY21-23E for the company. We assume coverage on the stock with a BUY rating and a PT of Rs603 based on 32x FY23E earnings, which is a 20-25% discount to peers like Marico, Dabur and GCPL. Key risks to our call would be a prolonged COVID disruption, erratic season and unexpected group level issues.

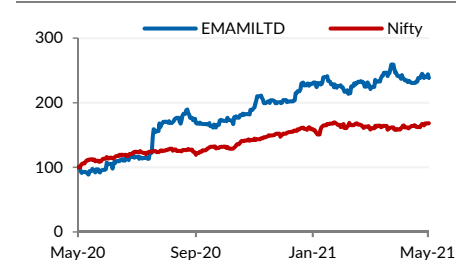
Exhibit 1: Result table

(Rs mn)	Q4FY21	Q4FY20	% yoy	Q3FY21	% qoq
Net sales	7,308	5,327	37.2%	9,336	-21.7%
EBITDA	1,628	985	65.2%	3,402	-52.1%
EBITDAM (%)	22.3%	18.5%		36.4%	
Depreciation	830	852	-2.7%	944	-12.1%
Interest	47	24	95.9%	14	244.5%
Other income	465	145	220.9%	92	406.5%
PBT	1,216	254	379.4%	2,536	-52.0%
Tax	326	(74)	-541.7%	438	-25.7%
Adjusted PAT	877	302	190.8%	2,090	-58.0%
Reported PAT	877	228	285.6%	2,090	-58.0%
PATM (%)	12.0%	5.7%		22.4%	
EPS (Rs)	2.0	0.7		4.7	

Stock data (as on May 25, 2021)

Nifty:	15,208
52 Week h/l (Rs)	547 / 184
Market cap (Rs/USD mn)	222190 / 3053
Outstanding Shares	445
6m Avg t/o (Rs mn):	331
Div yield (%):	1.6
Bloomberg code:	HMN IN
NSE code:	EMAMILTD

Stock performance



	1M	3M	1Y
Absolute return	-1.1%	7.9%	142.8%

Shareholding pattern (As of Mar'21 end)

Promoter	53.9%
FII+DII	37.0%
Others	9.1%

Financial Summary

(Rs mn)	FY21	FY22e	FY23e
Net Revenue	28,805	31,515	35,563
YoY Growth	8.5	9.4	12.8
EBIDTA	8,831	9,517	10,918
Margins (%)	30.7	30.2	30.7
PAT	6,690	7,239	8,380
YoY Growth	28.6	8.2	15.8
ROE	37.3	39.9	42.2
ROCE	30.2	36.1	47.9
EPS	15.1	16.3	18.9
P/E	33.2	30.7	26.5
EV/EBITDA	24.9	22.8	19.6

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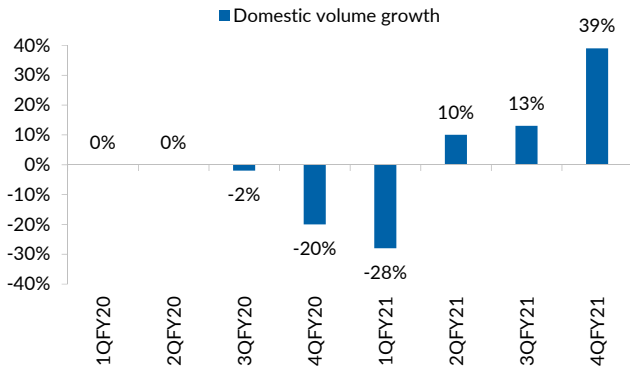
- ✓ **Resilient FY21 performance** – The company ended FY21 with a 8%/28%/50% growth in revenue/EBITDA/PAT respectively which would be considered good in the current environment.
- ✓ **Segmental growth** – Healthcare range saw strong momentum with growth of 67% to end FY21 with 45% growth, pain management range also did well with 38% growth to end FY21 with 23% growth, Navratna grew 28% to end a weak FY21 with a 8% decline, Kesh King staged a strong recovery with a 45% growth to end FY21 with a modest 15% growth, BoroPlus grew 5x to end FY21 with a 15% growth, male grooming ended a weak FY21 with 26% decline despite a 26% growth in 4Q while 7 Oils in One saw 39% growth to end FY21 with a 10% growth.
- ✓ **New launches** – Launch of Zandu Chyawanprash with jaggery and no added sugar, Kesh King Ayurvedic Onion Oil and Shampoo, Navratna Gold Ayurvedic Cool Oil; ended FY21 with more than 40 launches with contributed 4% to domestic FY21 revenue.
- ✓ **International business** – Sales growth of 28% in 4Q and 12% in FY21 led by MENAP which grew 53%, SAARC grew 14% and Africa grew 32%; strong performance from 7 Oils in One, Kesh King and Crème 21.
- ✓ **Current situation** - Momentum of recovery has been impacted by pandemic, but better prepared than last year to overcome roadblocks, summer portfolio might get impacted.
- ✓ **Key strategic initiatives** – Creation of separate teams to handle Modern Trade and eCommerce business, rural distribution expansion drive started in 4 out of 13 identified states, multiple exclusive launches lined up in healthcare especially on own Zanducare portal to fill product gaps in generic and ethical segments.

CONCALL TAKEAWAYS

- ✓ **Immunity portfolio (chyawanprash/honey)** – Given Emami is a very small player here, growth has to be led by the market leader, second wave not witnessing the demand momentum seen in the first wave, will take time to develop sustained consumption habits.
- ✓ **Kesh King outlook** – 2 yr growth muted at only 7%, second wave has started impacting demand post April halting a strong momentum, still confident of achieving double digit growth returning once the pandemic subsides given a significant addition of new customers and trials for the brand.
- ✓ **Healthcare portfolio outlook** – Ex-balms, confident of 20-22% growth in FY22 driven by new launches, distribution expansion, have seen strong success on many new launches, strong potential given size for Emami is still below Rs 200crs.
- ✓ **Pain management** – Demand much more stronger in the second wave compared to first wave.
- ✓ **Near term outlook** – Confident of a good growth in 1QFY22 in case unlock happens in beginning of June, else will do sales in-line with 1QFY20.
- ✓ **Margin outlook** – Have cut A&P spends in 1QFY22 and increased prices via a 4% overall price hike (including some planned hikes in June) to pass on RM inflation (strong inflation in edible oils, menthol prices stable); do not see any pressure on gross or EBITDA margins, confident of 66.5%-67% gross margins.
- ✓ **Male grooming update** – Strong sequential growth in Fair & Handsome, but category badly hit due to the lockdown conditions.
- ✓ **Zanducare eCom portal** – Monthly revenue run rate of Rs 2-2.5cr, have a database of 42 lac consumers over last 8 months, plan to launch multiple exclusive healthcare products on this portal, mainly selling OTC products, doctor consultations also provided, currently working with 2 distribution centres which will gradually be expanded.
- ✓ **Navratna portfolio** – Both Navratna cooling oil and cooling talc demand hit badly by the unexpected lockdown, hopeful of recovering some lost sales if markets open in early June.
- ✓ **International business** – Contribution in FY21 is 17%, target to reach 18% in FY22, Crème 21 is about 19% of international business, EBITDA margins still well below domestic margins given higher A&P and infrastructure costs.
- ✓ **Emasol range performance** – Toilet cleaners and dish wash segments showing some promise, currently concentrating on a few key markets.
- ✓ **Distribution footprint update** – Expansion plans for direct reach expansion got a little delayed; will keep reducing dependence on wholesale channel; strengthened eCommerce team, created independent team for Modern Trade, separate team to cover 20k high potential chemists, starting with 4 high potential states to expand rural reach.
- ✓ **One-offs in other income** – One-off valuation gains of Rs 11cr each on two investments.
- ✓ **Management professionalization** – Recent external professional hires like CEO of International business, Sales Head, Healthcare division Head and eCom Head - all have played a key role in growth.
- ✓ **Promoter pledge update** – Reduced further to 30%, fully committed to reduce it further, should see a significant reduction over next few quarters.
- ✓ **Dividend policy** – Expect to maintain dividend payouts at around 40-50% of cash profits

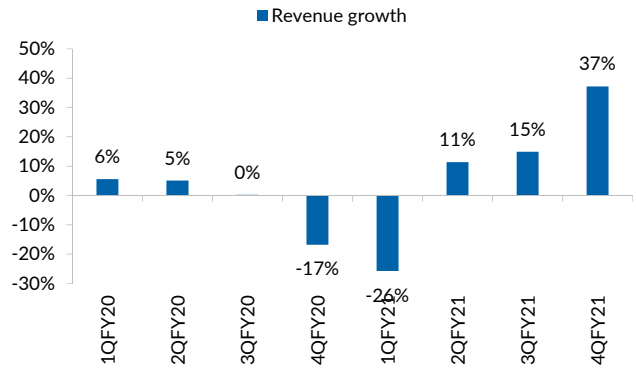
CHARTS

Exhibit 2: Strong volume growth aided by Healthcare and Pain Management range albeit on low base



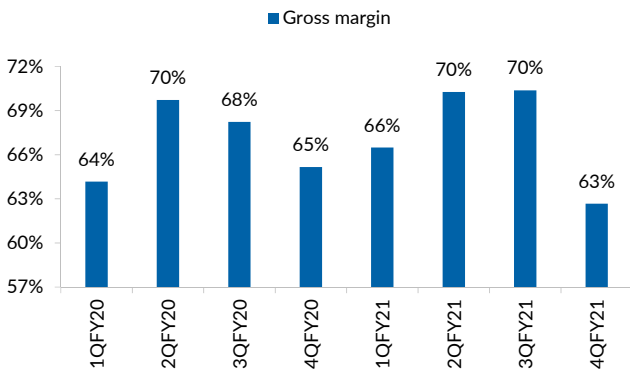
Source: Company, YES Sec - Research

Exhibit 3: Similar trends on revenue growth



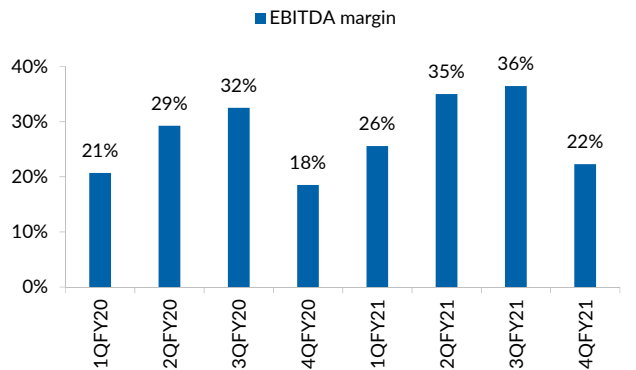
Source: Company, YES Sec - Research

Exhibit 4: Gross margin impacted by inflation in input costs



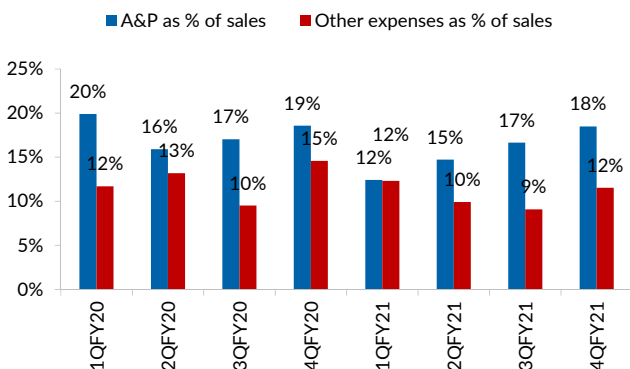
Source: Company, YES Sec - Research

Exhibit 5: ... However, EBITDA margin increased owing to lower other and employee expenses



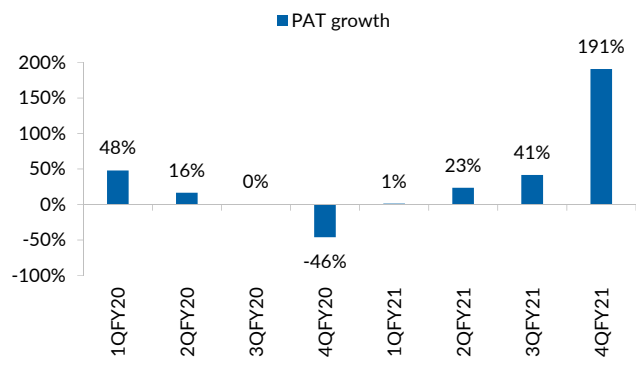
Source: Company, YES Sec - Research

Exhibit 6: A&P spends remain higher due to strong brand investments behind core and new launches



Source: Company, YES Sec - Research

Exhibit 7: Robust earnings growth driven by margin expansion and higher other income



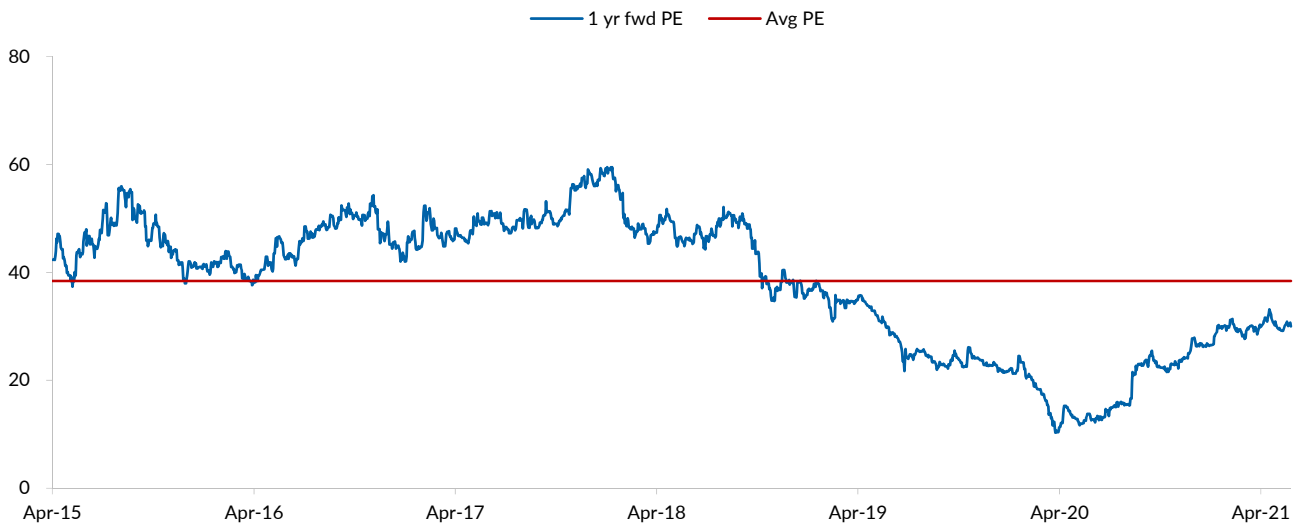
Source: Company, YES Sec - Research

Exhibit 8: Domestic brand wise growth performance

Y/E Mar (Rs mn)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Healthcare	-3%	0%	4%	-9%	23%	53%	38%	67%
Pain Management	-6%	4%	13%	-5%	15%	31%	12%	38%
Navratna	4%	-3%	11%	-12%	-41%	14%	-12%	28%
Kesh King	30%	-11%	18%	-26%	-33%	45%	16%	45%
BoroPlus	-7%	39%	-12%	-77%	28%	-25%	21%	500%
Male Grooming	-7%	-32%	-39%	-42%	-70%	-24%	5%	26%
7 Oils in One	31%	25%	66%	5%			32%	39%
CSD	-4%	25%	7%	0%	-38%	-2%	-27%	-3%

Source: Company, YES Sec – Research

Exhibit 9: Currently trading at 31x one-yr fwd earnings



Source: Company, YES Sec – Research

FINANCIALS

Exhibit 10: Balance sheet

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	454	453	445	445	445
Reserves	20,307	17,784	17,182	18,254	20,600
Net worth	20,759	18,229	17,618	18,690	21,036
Debt	1,099	2,102	919	919	919
Deferred tax liab (net)	160	35	42	42	42
Other non current liabilities	505	601	536	536	536
Total liabilities	22,523	20,967	19,114	20,186	22,532
Fixed Asset	16,616	14,128	10,852	8,327	7,887
Investments	2,418	2,109	3,084	3,584	4,084
Other Non-current Assets	649	764	878	891	905
Net Working Capital	806	2,776	696	744	382
Inventories	2,217	2,446	3,005	3,022	2,923
Sundry debtors	2,164	3,080	2,318	2,590	2,923
Loans and Advances	527	1,449	393	432	476
Sundry creditors	2,914	3,245	3,507	3,454	3,897
Other current liabilities	1,571	1,006	910	1,209	1,364
Cash & equivalents	2,034	1,191	3,604	6,641	9,275
Total Assets	22,523	20,967	19,114	20,186	22,532

Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	26,946	26,549	28,805	31,515	35,563
Operating profit	7,272	6,906	8,831	9,517	10,918
Depreciation	3,253	3,363	3,670	3,254	1,640
Interest expense	214	210	133	138	138
Other income	349	571	703	628	690
Profit before tax	4,154	3,903	5,731	6,753	9,830
Taxes	1,009	713	1,142	1,352	1,968
Minorities and other	22	60	42	42	42
Adj. profit	5,111	5,201	6,690	7,239	8,380
Exceptional items	98	107	-	-	-
Net profit	3,025	3,023	4,547	5,359	7,820

Exhibit 12: Cash flow statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
PBIT	4,368	4,113	5,864	6,891	9,968
Depreciation	3,253	3,363	3,670	3,254	1,640
Tax paid	(1,009)	(713)	(1,142)	(1,352)	(1,968)
Working capital Δ	372	(1,970)	2,080	(47)	362
Other operating items					
Operating cashflow	6,984	4,793	10,471	8,746	10,002
Capital expenditure	(2,103)	(875)	(394)	(729)	(1,200)
Free cash flow	4,881	3,918	10,077	8,017	8,802
Equity raised	(499)	(3,362)	(1,602)	(0)	-
Investments	1,277	309	(975)	(500)	(500)
Debt financing/disposal	(2,160)	1,004	(1,183)	-	-
Interest Paid	(214)	(210)	(133)	(138)	(138)
Dividends paid	(1,902)	(2,184)	(3,556)	(4,287)	(5,474)
Other items	(144)	(318)	(215)	(55)	(55)
Net Δ in cash	1,239	(843)	2,413	3,037	2,634

Exhibit 13: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Tax burden (x)	1.2	1.3	1.2	1.1	0.9
Interest burden (x)	1.0	0.9	1.0	1.0	1.0
EBIT margin (x)	0.2	0.2	0.2	0.2	0.3
Asset turnover (x)	1.0	1.0	1.1	1.2	1.3
Financial leverage (x)	1.4	1.4	1.4	1.4	1.4
RoE (%)	25.0	26.7	37.3	39.9	42.2

Exhibit 14: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Growth matrix (%)					
Revenue growth	6.5	(1.5)	8.5	9.4	12.8
Op profit growth	1.1	(5.0)	27.9	7.8	14.7
EBIT growth	2.0	(5.8)	42.6	17.5	44.7
Net profit growth	2.0	1.8	28.6	8.2	15.8
Profitability ratios (%)					
OPM	27.0	26.0	30.7	30.2	30.7
EBIT margin	16.2	15.5	20.4	21.9	28.0
Net profit margin	19.0	19.6	23.2	23.0	23.6
RoCE	19.3	19.5	30.2	36.1	47.9
RoNW	25.0	26.7	37.3	39.9	42.2
RoA	18.2	18.9	25.7	27.9	29.7
Per share ratios					
EPS	11.3	11.5	15.1	16.3	18.9
Dividend per share	4.2	4.8	8.0	9.6	12.3
Cash EPS	18.4	18.9	23.3	23.6	22.5
Book value per share	45.7	40.2	39.7	42.1	47.3
Valuation ratios					
P/E	44.4	43.6	33.2	30.7	26.5
P/CEPS	27.1	26.5	21.5	21.2	22.2
P/B	10.9	12.4	12.6	11.9	10.6
EV/EBIDTA	31.1	32.9	24.9	22.8	19.6

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Payout (%)					
Dividend payout	37.2	42.0	53.2	59.2	65.3
Tax payout	24.3	18.3	19.9	20.0	20.0
Liquidity ratios					
Debtor days	29	42	29	30	30
Inventory days	30	34	38	35	30
Creditor days	39	45	44	40	40

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BUY: Potential return >15% over 12 months

ADD: Potential return +5% to +15% over 12 months

REDUCE: Potential return -10% to +5% over 12 months

SELL: Potential return <-10% over 12 months

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