

2 February 2021

## Emami Ltd. –BUY

**CMP** :Rs.475.0  
**Target Price** :Rs.570.0  
**Upside** : 20%+  
**Stop Loss** :Rs.416.0(Closingbasis)

### Investment Thesis

Recently, the stock price of Emami Ltd.(Emami) corrected by ~5% from 52-week high of Rs.504.00 despite reporting good set of numbers in the recent quarters after opening-up of the markets post lockdown.

Emami business was affected due to closure of shops and malls as well as manufacturing plants due to spread of Covid-19 from mid-March 2020. From the month of May 2020, the sales has partially resumed as shops for essential items started opening at some locations where the restrictions have been eased by various state governments and local authorities. Capacity utilization started improving and currently it is ~70% as the sales has also started improving from 2QFY21. Emami has also launched 20 new products largely in the health and hygiene space, which is aiding sales (4% in 2QFY21). We believe, rural demand will be strong given normal monsoons. Rural demand recovery is expected to be a key driver for Emami as it has 55-57% contribution from rural market.

Emami is one of the leading and fastest growing personal and healthcare company in India. Over the years, it has developed an enviable portfolio of household brand names such as Boroplus, Navratna, Fair and Handsome, Zandu balm, Mentho Plus balm and Fast Relief. Emami's revenue had grown at a CAGR of ~8.0% during FY13-20 largely aided by distribution expansion and its recent acquisitions. Emami gets ~60% of its revenue from relatively under penetrated segments such as cooling oil, talcum powder, fairness cream, antiseptic cream and cold cream which secures a long-term growth as there is still enough room left for the strong growth. Being an early entrant in these spaces, Emami commands the market leader position which translates into a higher growth. Generally, underpenetrated segment offers higher growth compared to the highly penetrated segment. We believe, Emami will achieve double-digit revenue growth in the power brands over the next 3-4 years.

### Financials

- During the past 5 years, revenue of Emami grew at a CAGR of 3.7% while PAT de-grew at a CAGR of 9.0% in the same period.

Consol. (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
Revenue	25,305	26,946	26,549	30,531	35,111
EBITDA	6,428	7,272	6,906	7,941	9,133
% growth	-8.3	13.1	-5.0	15.0	15.0
PAT	3,071	3,032	3,029	3,484	4,006
EPS (INR)	6.8	6.7	6.7	7.7	8.8
P/E (x)	70.2	71.1	71.1	61.8	53.7
RoE (%)	15.1%	14.6%	16.6%	17.4%	18.2%

- Emami has reported 11.3% YoY increase in revenue in Q2FY21 to Rs.7,348mn led by 10.0% YoY volume growth in domestic business.

### Stock Data

Market Cap (Rs. Mn)	2,12,126
Market Cap (\$ Mn)	2,886.1
Shares O/S (in Mn)	453.2
Avg. Volume (3 month)	635,000
52-Week Range (Rs.)	504.00/ 130.95

### Shareholding Pattern

Promoters	53.86%
FII's	9.62%
Institutions	27.36%
Others (incl. body corporate)	9.16%

Performance (%)	1M	6M	1Yr
Absolute	11.8%	97.4%	57.8%
BSE FMCG	-2.0%	8.7%	9.3%

### Key Ratios

Div Yield	0.8%
TTM PE	54.1x
ROE	17.9%
TTM EPS (Rs.)	8.7/-

- Emami has reported sales growth in most of its categories in Q2FY21, Healthcare (+53% YoY), Kesh King (+45% YoY), Pain Management(+31% YoY), Navratna (+14% YoY) and 7 Oils-in-One (+9% YoY).
- Emami's EBITDA improved by 33.2% YoY in Q2FY21 to Rs.2,571mn as manufacturing expenses declined by 16.3% YoY to Rs.728mn. As a result, EBITDA margin also gained by 580bps YoY to 35.0% in Q2FY21.

## Key Business Highlights

- Emami is a leading FMCG company with niche focus on relatively under penetrated segments such as antiseptic cream, fairness cream, talcum powder, cooling oil, pain balm and pain reliever.
- Emami's power brands are Navratna Oil, Boroplus Cream, Zandu & MenthoPlus Balm, Fair & Handsome, Boroplus Powder, Navratna Cool Talc, Fast Relief, SonaChandi & Zandu, accounts for 75% of its sales.
- With seven manufacturing locations in India and one in Bangladesh supported by a widespread distribution network, Emami is positioned to make its products available in every corner of the country.

## Valuation

- Emami is more dependence on the rural channel amongst top consumer companies in India as it gets ~55-57% revenue from rural market. With normal monsoon, rural growth has started exceeding urban growth for the first time in the last few years. We believe, rural market has substantial growth potential due to reduction in GST, investment in rural sector by the government, rising disposable income through various scheme like NREGA, higher MSPs for agriculture products, etc. Higher income level will result in high aspiration level and increasing brand consciousness among rural consumers. With large rural portfolio, Emami is well placed to capture growth momentum ahead of others on the back of ongoing revival in rural demand going forward.
- Emami is highly focused on the ayurvedic products and ~80% of its products have ayurvedic base as its margin being one of the best in the industry. Moreover, penetration level in most of these niche segments is low resulting in the strong revenue momentum for these segments thus offering operating leverage benefits. In Emami's portfolio, Zandu Healthcare products have highest gross margins in the range of 65-67%, which contributes ~5.6% in revenue followed by Boroplus and Zandu Balm, which has a gross margin of ~64%. We believe, with gain in market share of high yield product in the portfolio, EBITDA margin will be over 25% during FY20-22E.
- Emami's marketing spend is one of the highest in the industry as it spends ~18.0% of its sales on advertisement and promotion. Aggressive marketing spend has helped Emami in gaining market share across its power brands. Emami has guided that it will continue to spend 17-18% of its sales in advertisement and sales promotions, which, we believe, will help Emami to keep the growth momentum.
- With one of the leading and fastest growing personal and healthcare company, revival in rural demand on good monsoon and govt's initiatives, niche focus on the ayurvedic products and highest marketing spends, we value Emami at 64.5x FY22E EPS of Rs.8.80 to arrive at target price of Rs.570.00, an upside of ~20%.

## Risk & Concern

- Any delay in recovery in consumer demand post demonetization and GST implementation may negatively impact consumer companies.
- Any sharp rise in cost of key inputs, like Mentha and Crude oil will negatively impact on margin of Emami going ahead.
- Seasonal fluctuations that impact growth of brands such as Navratna and Boroplus may affect Emami's growth in the years to come.

## Graphs & Charts

Figure 1: Net Sales Trend

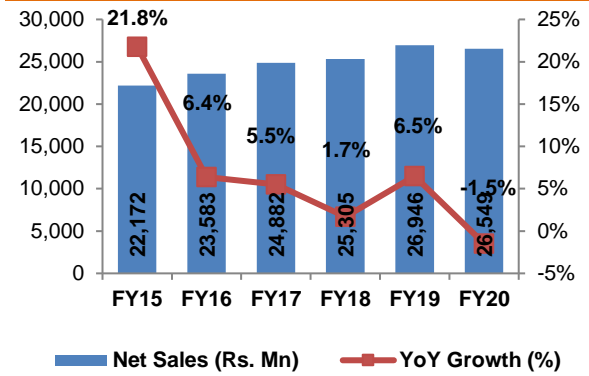


Figure 2: EBITDA & EBITDA Margin Trend

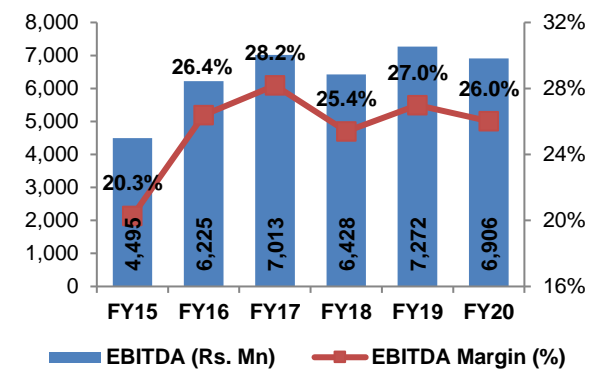


Figure 3: PAT Trend

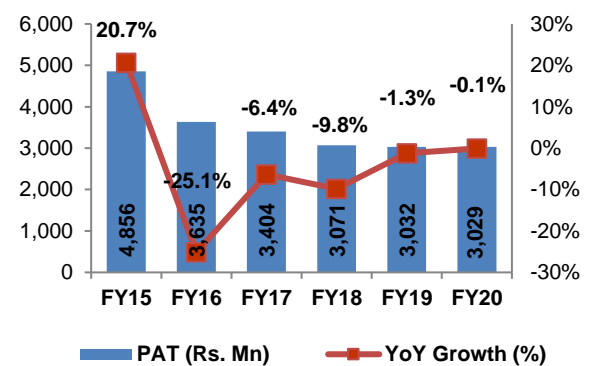
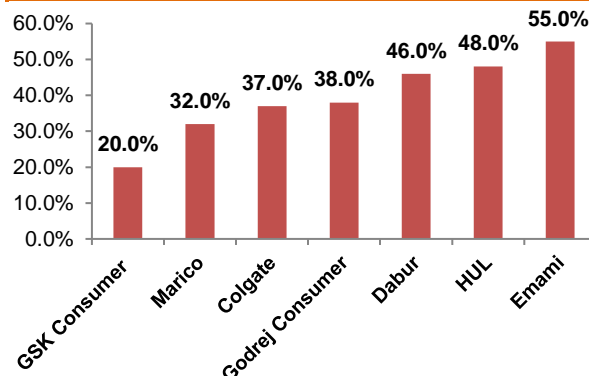


Figure 4: Revenue Share of Rural Sales (FY20)



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