

Sector: Consumer Goods  
Result Update

	Change
Reco: Hold	↔
CMP: Rs. 326	
Price Target: Rs. 352	↔

↑ Upgrade ↔ No change ↓ Downgrade

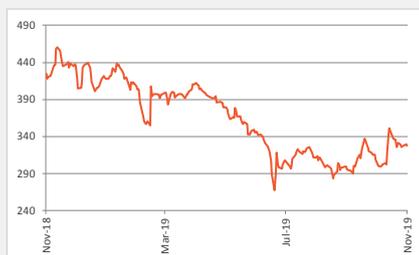
## Company details

Market cap:	Rs. 14,798 cr
52-week high/low:	Rs. 466/246
NSE volume: (No of shares)	8.6 lakh
BSE code:	531162
NSE code:	EMAMILTD
Sharekhan code:	EMAMILTD
Free float: (No of shares)	21.5 cr

## Shareholding (%)

Promoters	52.7
FII	12.1
DII	25.5
Others	9.7

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	6.0	5.8	-12.2	-21.7
Relative to Sensex	-0.9	-3.8	-15.8	-32.9

Sharekhan Research, Bloomberg

Emami's consolidated revenue grew by ~5% y-o-y in Q2FY2020, as international business grew by a strong ~20% (organic growth was 7%). Domestic business grew by just 3.4% with volumes remaining flat. Healthcare and male grooming range continued to underperform and Kesh King saw a dip in revenue due to weak demand. The Boroplus range and 7 oils in one saw strong double-digit growth in revenue led by company initiatives undertaken in the past 3-4 quarters. Sequential improvement in rural sales and higher winter sales might result in low-double-digit revenue growth in H2FY2020 (management expects it to be in the range of 10-12% in the backdrop of better winter season). Raw material costs are expected to remain benign, which along with improving product mix will result in operating margin expansion in the quarters ahead.

## Key positives

- The Boroplus range and 7 oils in one grew by 39% and 25%, respectively, as they gained market share.
- Despite muted sales performance, some brands such as Kesh King (140 BPS) and Fair & Handsome fairness cream (130 BPS) gained market share.
- GPM improved by 111 bps to 69.7% on account of lower input costs.

## Key negatives

- The domestic business grew by 3.4% as categories such as male grooming, healthcare products and Navratna range saw revenues decline.
- Zandu Pancharishta (65% of healthcare category) continues to post subdued performance affecting the category growth.
- Kesh King had a subdued quarter with revenue declining by 11% y-o-y.

## Our Call

**Valuation:** We have broadly maintained our earnings estimates for FY2020 and FY2021, respectively as the performance of Q2FY2020 was in-line with our expectation. The management expects H2FY2020 to be better against the backdrop of an expected good winter season. Also, rural sales growth (55% of Emami's domestic business) was in-line with urban sales growth, which is a positive sign of improving demand in the coming quarters. Operationally, performance is expected to improve going ahead. However, the promoter's pledge of ~63% of its holding remains a key overhang on the stock. Hence, we maintain our Hold recommendation with an unchanged price target (PT) of Rs. 352.

## Key Risks

Emami's product portfolio is seasonal in nature and hence any seasonal vagaries would affect the performance in the near to medium term.

## Valuation (Consolidated)

Particulars	Rs cr				
	FY17	FY18	FY19	FY20E	FY21E
Revenues	2,533	2,541	2,692.9	2,929.8	3,449.5
OPM (%)	30.0	28.3	26.9	27.5	28.2
Adjusted PAT	549	502	513.3	601.6	737.1
% YoY growth	3.0	-8.5	2.2	17.2	22.5
Adjusted EPS (Rs.)	12.1	11.1	11.3	13.3	16.2
P/E (x)	26.9	29.4	28.9	24.6	20.1
P/B (x)	4.2	3.7	7.1	6.7	6.2
EV/EBIDTA (x)	19.9	20.6	20.2	17.9	14.6
RoNW (%)	32.6	26.7	25.1	28.1	32.2
RoCE (%)	31.9	28.3	28.8	33.7	40.7

Source: Company, Sharekhan Estimates

**Revenue grows in single digits, domestic volumes stay flat:** In Q2FY2020, consolidated revenue grew by 5% y-o-y to Rs. 660.1 crore (in-line with our expectation), largely driven by 20% growth in the international market with significant contribution from the SAARC and MENAP regions and the recently-acquired German brand – Crème 21. Consolidated volume growth stood at 2.9%. Domestic revenue grew by 3.4% y-o-y, largely led by prices as volumes grew by just 1% due to weak rural sentiments and adverse liquidity conditions. Gross margins improved by 111 bps y-o-y to 69.7% due to benign raw material prices (including those of menthol and LLP). However, higher other expenses (up by 160 bps y-o-y as a percentage of sales) led to a 58 bps decline in OPM to 29.2%, which was ahead of our expectation of 28.1%. There was also a one-off expenditure of Rs. 5.5 crore related to provisioning of deferred tax. Excluding the one-off, OPM would have been 30.1%. Operating profit increased by 3% y-o-y to Rs. 193 crore. Other income jumped from Rs. 5.2 crore in Q2FY2019 to Rs. 16.4 crore in Q2FY2020, as a rise in cash balances drove up interest income. A substantial rise in other income and lower depreciation expenses led to an 8.5% growth profit before tax (PBT). Lower incidence of tax resulted in adjusted profit to grow by 12.6% y-o-y to Rs. 148.3 crore (ahead of ours as well as the street's expectation). Reported PAT came in at Rs. 96 crore due to exceptional items, which include a post-tax amortisation cost of Rs. 51.2 crore towards the Kesh King brand.

**Boroplus range grew strongly, other key categories reported muted performance; International business continues to grow in double digits:** The Boroplus range of antiseptics reported robust growth of 39% on the back of rebranding, with Boroplus Antiseptic Ayurvedic cream highlighting its naturals proposition. Its market share increased by 200 bps to 75.2%. The Navratna range of cooling oils declined by 3% y-o-y in Q2FY2020 but maintained its leadership position with volume market share 65.5%. Kesh King hair oil declined by 11% y-o-y due to slowdown in discretionary consumption. However, volume market share grew by 140 bps to 26.6%. The 7-oils-in-one brand grew by 25% supported by media campaigns. Revenue from the pain management range grew by 4% with 120 bps improvement in market share. The healthcare range posted flat growth; however, excluding Zandu Pancharishta, healthcare range grew by 13% driven by strong growth in Nityam range, Chyawanprash and honey. Revenue from the male grooming range declined by 32% y-o-y due to weak demand. However, Fair and Handsome cream grew by 4.6% and fairness creams gained market share by 130 bps to 66.2%. Revenue from canteen stores department (CSD) grew by 25% during the quarter. International business revenue grew by 20% y-o-y in Q2FY2020, largely on account of a strong performance in the SAARC and MENAP regions. Excluding the recently-acquired German brand – Crème 21 - growth stood at 7%. Emami continued to gain market share for the Navratna and Fair & Handsome brands in Bangladesh and UAE.

#### Other conference call highlights:

- ◆ Domestic volume growth stood at just 1%. However, excluding CSD, the domestic volume growth stood flat during the quarter. Kesh King sales will improve with overall improvement in the discretionary spending.
- ◆ The organic growth in the international business stood at 7%, which was largely driven by 30% growth in the Bangladesh region. The middle-east region witnessed a decline of 3% while Africa grew by 10% during the quarter. H2FY2020 is expected to be better for the international business due to higher sale of winter products.
- ◆ Other expenses include a cost of Rs. 5-6 crore for fees paid to consultants to improve the growth prospects of key categories. This cost element is expected to sustain in the coming quarter as well.
- ◆ The other income was higher by almost 3x mainly on account of higher interest income and one-time gain of Rs. 3 crore for sale of land parcel.

**Results (Consolidated)**

Particulars	Rs cr				
	Q2FY20	Q2FY19	Y-o-Y (%)	Q1FY20	Q-o-Q (%)
Net revenue	660.1	628.2	5.1	649.5	1.6
Raw materials	199.9	197.2	1.4	232.4	-14.0
Employee costs	75.3	71.4	5.5	77.3	-2.5
Ad promotions	104.9	99.5	5.4	129.1	-18.7
Other expenses	87.0	72.8	19.5	75.7	14.8
Total expenditure	467.1	440.9	5.9	514.5	-9.2
Operating profit	193.0	187.3	3.0	135.0	42.9
Other income	16.4	5.2	-	10.6	54.2
Finance costs	9.3	4.4	-	4.4	-
Depreciation	17.8	20.2	-11.6	16.3	9.3
Profit before tax	182.2	168.0	8.5	125.0	45.8
Tax	33.9	36.2	-6.3	31.2	8.9
Adjusted PAT	148.3	131.7	12.6	93.8	58.0
Minority interest	-1.1	-0.2	-	-0.8	-
Adjusted PAT after MI	147.2	131.5	12.0	93.0	58.3
Extra-ordinary items	51.2	49.1	4.5	53.9	-4.9
Reported PAT	96.0	82.4	16.4	39.1	-
Adjusted EPS (Rs.)	3.3	2.9	12.6	2.1	58.0
			<b>BPS</b>		<b>BPS</b>
GPM (%)	69.7	68.6	111	64.2	550
OPM (%)	29.2	29.8	-58	20.8	-

Source: Company; Sharekhan Research

**Result (Standalone)**

Particulars	Rs cr				
	Q2FY20	Q2FY19	Y-o-Y (%)	Q4FY19	Q-o-Q (%)
Net revenue	592.1	572.4	3.4	589.1	0.5
Operating profit	185.6	179.2	3.6	130.0	42.7
Adjusted PAT	146.8	127.6	15.0	133.2	10.3
Extra-ordinary items	51.2	49.0	4.4	50.6	1.1
Reported PAT	95.7	78.6	21.7	82.6	15.9
Adjusted EPS (Rs.)	3.2	2.8	15.0	2.9	10.3
			<b>BPS</b>		<b>BPS</b>
GPM (%)	69.0	68.0	101	63.3	570
OPM (%)	31.3	31.3	4	22.1	-

Source: Company; Sharekhan Research

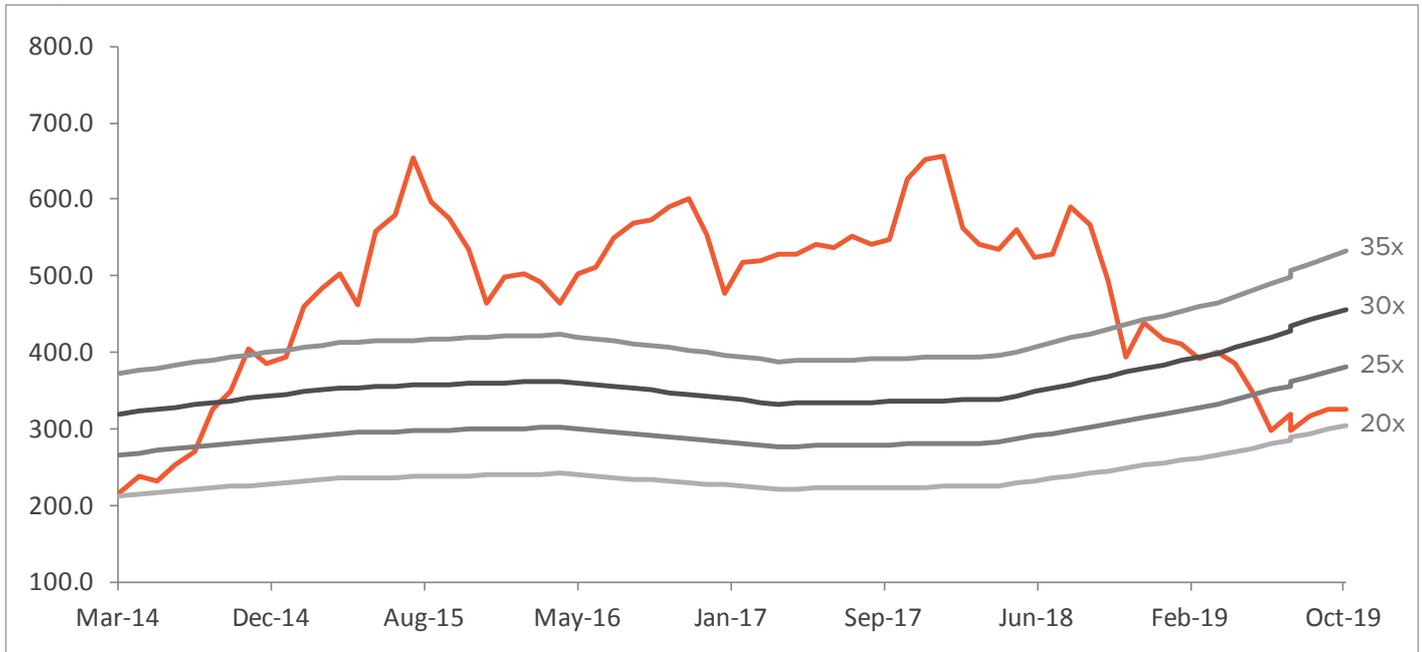
**Outlook**

Consolidated revenue and adjusted PAT grew by 5.4% and 17%, respectively in H1FY2020 with domestic revenue standing at just 2%. Though the international business performed well, key categories including male grooming and pain management products witnessed a subdued quarter. Sequential improvement in rural sales and higher winter sales might result in low-double-digit revenue growth in H2FY2020 (management expects it to be in the range of 10-12% in the backdrop of better winter season). Raw material costs are expected to remain benign, which along with improving product mix will result in operating margin expansion in the quarters ahead. We expect OPM to remain in the range of 28-29% in the near term.

**Valuation**

We have broadly maintained our earnings estimates for FY2020 and FY2021, respectively as the performance of Q2FY2020 was in-line with our expectation. The management expects H2FY2020 to be better against the backdrop of an expected good winter season. Also, rural sales growth (55% of Emami’s domestic business) was in-line with urban sales growth, which is a positive sign of improving demand in the coming quarters. Operationally, performance is expected to improve. However, the promoter’s pledge of ~63% of its holding remains a key overhang on the stock. Hence, we maintain our Hold recommendation with an unchanged price target (PT) of Rs. 352.

One year forward P/E (x) band



Source: Sharekhan Research

**Peer valuation**

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Dabur	56.3	50.8	42.4	47.1	41.8	34.9	28.1	29.4	30.0
Marico	50.1	41.7	35.1	36.6	30.6	25.4	40.9	42.2	43.7
Emami	28.9	24.6	20.1	20.2	17.9	14.6	28.8	33.7	40.7

Source: Company, Sharekhan estimates

## About company

Emami is one of the leading FMCG companies that manufactures and markets personal care and healthcare products. With over 300 diverse products, the company's portfolio includes brands such as Navratna, Boroplus, Fair & Handsome and Zandu Balm. With the acquisition of Kesh King, the company forayed into the ayurvedic hair care segment. Emami has a wide distribution reach in over 4.5 million retail outlets through 3,200 distributors. The company has a strong international presence in over 60 countries in Europe, Africa, Middle East and SAARC regions.

## Investment theme

Emami has a portfolio of strong brands 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 growth prospects. Ayurvedic hair oil brands Kesh King and 7-in-one oil have seen a revival in performance but the Zandu healthcare portfolio is yet to recover. Thus, in view of the near-term headwinds, Emami's revenue and PAT growth will be lower than some of its mid-cap peers.

## Key Risks

- ◆ Slowdown in the 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 performance.
- ◆ Promoters have pledged shares of ~25% of share capital.

## Additional Data

### Key management personnel

R S Agarwal	Chairman
Sushil K Goenka	Managing Director
R S Goenka	Executive Director
N H Bhansali	CEO-Finance, Strategy & Business Development and CFO
A K Joshi	Company Secretary

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Diwakar Viniyog Pvt Ltd	10.9
2	Suntrack Commerce Pvt Ltd	10.8
3	Bhanu Vyapaar Pvt Ltd	9.6
4	SBI Funds Management Pvt Ltd	7.3
5	Raviraj Viniyog Pvt Ltd	4.7
6	Prabhakar Viniyog Pvt Ltd	4.5
7	Suraj Viniyog Pvt Ltd	4.4
8	Aditya Birla Sun Life Asset Management	2.9
9	L&T Mutual Fund Trustee Ltd	2.9
10	Sureka Priti A	2.6

Source: Bloomberg

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by BNP PARIBAS

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