



Emami Ltd.

Sector: FMCG

Q4FY16 Result Update

CMP: ₹ 978

"Healthy Sales; EBITDA exceeds expectation"

Recommendation: BUY

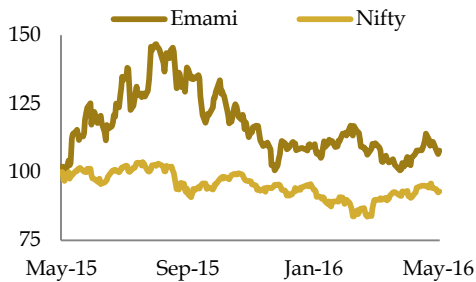
Market Statistics

Current stock price (₹)	978
Shares O/S (cr.)	22.7
Mcap (₹ cr)	22,202
52W H/L (₹)	1,368/870
6m avg. volume	185,043
Bloomberg	HMN IN

Shareholding Pattern (%)

Promoters	72.74
Domestic Institution	1.20
Foreign Institution	16.26
Non-institution	9.80
of which more than 1%	
Avees Trading & Finance Pvt Ltd	2.74
Smallcap World Fund Inc	2.56

Emami vs Nifty



Capital efficiency & valuations

Particulars	FY16P	FY17E	FY18E
ROE (%)	33.7	35.0	36.5
ROCE (%)	27.0	30.7	34.1
P/B(x)	15.2	13.7	11.8
P/E (x)	41.0	35.2	29.9
EPS (₹)	22.9	27.6	32.4
EV/OCF (x)	13.8	41.9	31.8

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Emami reported strong net sales growth of 21.2% YoY to ₹6,708mn vs. our expectation ₹6,420mn (+15.9%) driven by 17.6% volume growth. Organic sales grew by 10% in Q4FY16 & FY16. Domestic business (82% of sales) grew by 23% while International (14% of sales) & CSD reported 17% & 12% growth, respectively during Q4FY16. In the domestic business, Navratna Oil & Talc registered 4% & flat growth while Balm, Fair & Handsome, Boroplus Cream & HCD clocked 12%, flat, 41% & 30% growth, respectively. Kesh King contributed 9% of the domestic sales. In International, SAARC & MENAP performed strongly.

Gross Margin expanded significantly by 417bps to 68.5%, largely in-line with our expectation of 68%. A&P spend was up by 55% and stood at 19% of sales (up 410bps). EBITDA Margin expanded by 183bps YoY to 27.2% - higher than our anticipation of 26.8%. EBITDA grew by stellar 22% YoY to ₹1,823mn (our expectation ₹1,718mn). There was ₹727mn on account of amortisation of "Kesh King" brand. Interest cost was at ₹135mn - lower than our expectation of ₹150mn. Depreciation was significantly higher by 54% to ₹170mn (one off in Q4FY16). Effective tax rate was lower at 10% due to reversal of deferred tax liabilities & higher dividend income. APAT on like to like comparison (adjusted for amortisation) was down by 2% to ₹1,411mn (our adjusted PAT was ₹1,216mn).

Strong sales growth driven by pick up in Organic growth as well as Kesh King: It is highly encouraging that overall strong sales growth is resulted through combination of organic growth & healthy Kesh King Performance. This boosts our confidence that company is ramping up in its core products rather than just depending on Kesh King. Management is confident of achieving double digit of ~15-16% in FY17 on back of new launches on product extensions and by targeting ~₹3,000mn sales from Kesh King.

Healthy International business growth: International business registered healthy growth of 17% driven by strong performance in SAARC & MENAP Africa & Russia. CIS & Africa region de-grew due to economic crisis & currency devaluation. However, Management expects to deliver 20% growth in medium term in International Business driven by pickup in the weak markets and better traction in Africa.

Benign input prices & higher Kesh King Margins aid EBITDA Margin Expansion: Emami's EBITDA Margin expanded robust 183bps YoY to 31.6% YoY due to softening of input prices and Kesh King's high EBITDA Margin of ~45%. Overall Gross margin is expected to inch up by 50-60bps while EBITDA margins would be maintained in FY17

Outlook & Valuation: Emami has shown a stellar growth in FY15 & FY16 and we expect this to continue on the back of innovative product launches, acquisition, strong marketing and distribution capabilities. Emami's product portfolio is well balanced with strong presence in the hair care, skin care, health supplement and OTC categories with market leadership in 4 key products (~75% of sales). The company focuses on low penetration and high margin categories; therefore, it caters to one of the highest gross margins in the consumer sector.

Emami trades at 35.2x & 29.9x P/E of FY17 & FY18 estimated EPS, respectively. Correction in the stock in the last 3 months has given further cushion to valuation. We suggest investors to see long term potential of the business. Emami has shown stellar performance even in the lull environment when most of other consumer players struggled for growth. We expect robust earnings momentum would provide essential support to drive the stock.

We maintain our BUY rating on the stock.



Conference Call Highlight

- ❖ **Management expects 15-16% sales growth with healthy EBITDA margin in FY17:** Management mentioned that urban and rural have grown at same pace in FY16 but expects rural to grow faster in FY17. Company targeted 15-16% organic sales and full benefit of Kesh King can result into 16-17% sales growth in FY17. Gross Margins are expected to move up 50-60bps and EBITDA Margins would largely be at high level. They also iterated that A&P would inch up by 100 to 150 bps in FY17 owing to new launches. Price Growth for FY17 would be in 2-2.5% range, they also stated that price increase and new launches would contribute to 4% of sales while rest would be led by volume growth.
- ❖ **Targets to garner ₹3,000mn Sales from Kesh King Brand in FY17:** Kesh King contributed 9% of domestic sales in Q4FY16. Management guided ₹ 750mn run rate per quarter going ahead resulting ₹ 3,000mn for FY17. They also mentioned that they have re-launched Kesh King with new packaging, formula and better advertisement reach
- ❖ **Navratna Oil grew slow with 4% due to unfavorable season; expects double digit growth in FY17:** Navratna Oil category (45% of Sales) grew slow by 4% due to extended winters. However, Navratna oil continues to gain market share by 30bps in FY16. Management is hopeful to garner double digit growth in FY17 on back of re-launch done with change in packaging, formula and advertising.
- ❖ **7 in 1 oil, Fair & Handsome & Zandhu Pancharashtria & honey remain area of focus for growth:** Management mentioned these products are showing robust growth. 7 in 1 oils displayed +55% sales growth in FY16 and forms ₹ 150mn brand in FY16, management expects it to reach ₹ 250-300mn in FY17. Fair & Handsome facewash is gaining good traction while Zandhu Pancharishta grew by 20% in Q4FY16 in Q4FY16 and 56% in FY16. Newly launched Honey in premium range is getting fantastic response and management is focused to come out with various variants to tap consumers. Management foresees that these products will lead the growth in coming years.
- ❖ **Re-launched Deo under HE Brand; More new launches in FY17:** Management mentioned that they have re-launched HE deodorants with premium packaging and no-gas formula. They guided that there several new launches in pipeline under HE Brand in FY17
- ❖ **SHE growth is still challenging, prototyping done in one state:** SHE brand sanitary napkins are struggling. For SHE brand, management mentioned that they have initiated new strategy but are going slow on it. They have started test marketing in one state of south India and depending on initial response, it will be rolled out across India
- ❖ **Expects 20% growth in International in FY17:** International grew healthy by 23% in Q4FY16 led by good performance in SAARC-Bangladesh and MENA region. Management mentioned that they would be able to grow +20% in FY17 with revival in lean market and growth in Africa.



Exhibit 1: Quarterly Performance

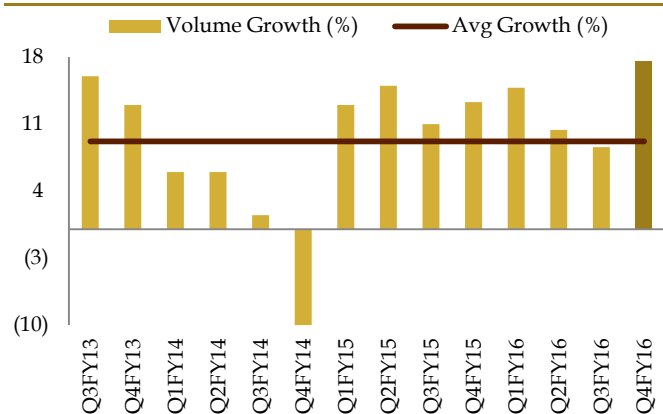
Particulars (₹mn)	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Net Sales	4,457	4,817	4,896	6,923	5,537	5,899	5,746	7,885	6,708
YoY Gr%	(1.2)	25.6	20.4	18.4	24.2	22.4	17.4	13.9	21.2
Gross Profit	2,773	2,959	3,241	4,656	3,564	3,883	4,056	5,581	4,597
YoY Gr%	13.3	31.0	26.0	22.5	28.5	31.2	25.1	19.9	29.0
Gross Margin (%)	62.2	61.4	66.2	67.3	64.4	65.8	70.6	70.8	68.5
YoY Change (bps)	792bps	255bps	297bps	224bps	216bps	439bps	439bps	351bps	417bps
A&P	495	1,028	901	1,193	825	1,421	1,115	1,497	1,274
A&P (% of sales)	11.1	21.3	18.4	17.2	14.9	24.1	19.4	19.0	19.0
EBITDA	1,180	750	1,132	2,115	1,403	997	1,523	2,495	1,823
YoY Gr%	18.0	26.7	29.6	19.7	18.9	32.9	34.5	18.0	29.9
EBITDA Margin (%)	26.5	15.6	23.1	30.6	25.3	16.9	26.5	31.6	27.2
Change YoY	430bps	14bps	165bps	32bps	-113bps	133bps	338bps	108bps	183bps
Reported PAT	1,111	708	928	1,837	1,384	878	613	1,338	759
YoY Gr%	18.2	16.7	16.0	21.9	24.5	23.9	(33.9)	(27.2)	(45.2)
Adjusted PAT	956	696	907	1,857	1,441	892	1,118	1,836	1,411
YoY Gr%	1.0	19.3	15.5	22.9	50.8	28.1	23.2	(1.1)	(2.1)

Source: Company, Trust

Exhibit 2: Product Wise Sales growth

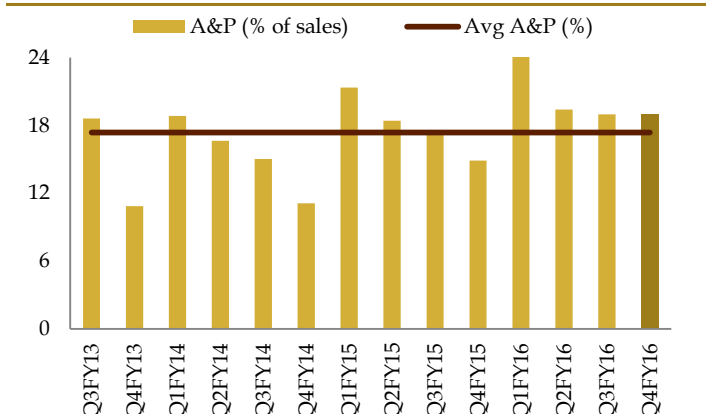
Particulars	Value Growth (%)			
	Q4FY15	Q4FY16	FY15	FY16
Domestic Market	21	23	19	20
Navratna Oil	14	4	18	6
Balm	10	12	16	12
Fair & Handsome Cream	9	Flat	15	9
BoroPlus Cream	43	41	11	8
HCD	24	30	25	34
International Market	48	17	44	15
CSD	11	12	13	9

Exhibit 3: FMCG Business Growth



Source: Company, Trust

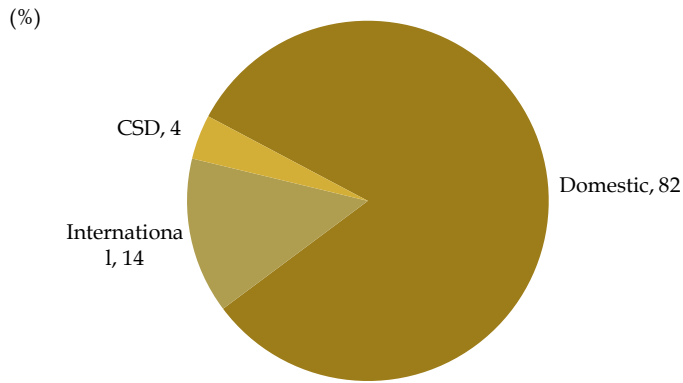
Exhibit 4: A&P Spend



Source: Company, Trust

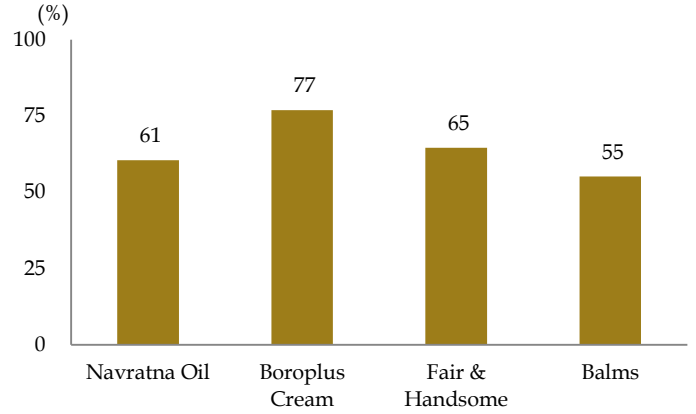


Exhibit 5: Emami's Sales Mix (Q4FY16)



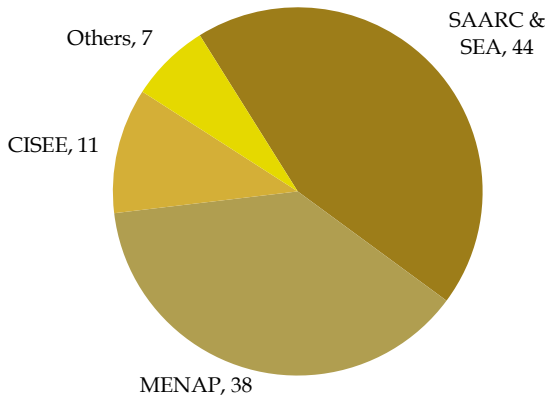
Source: Company, Trust

Exhibit 6: Strong Market Leadership Continues



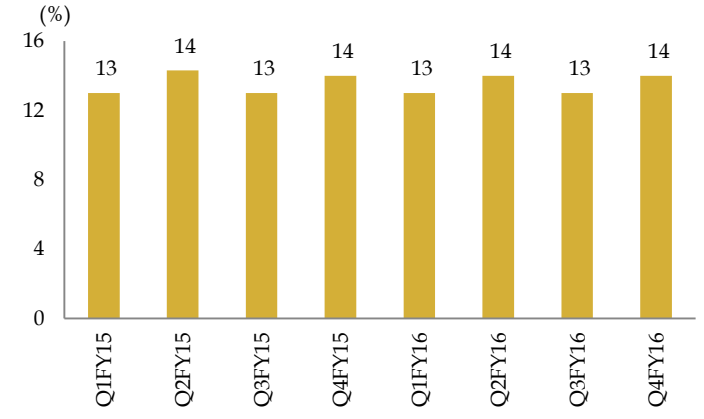
Source: Company, Trust

Exhibit 7: International Sales Breakup



Source: Company, Trust

Exhibit 8: International Sales Contribution



Source: Company, Trust



Financials

P&L Statement

Y/E Mar (₹ mn)	FY14	FY15	FY16P	FY17E	FY18E
Net Revenues	18,208	22,172	26,238	30,660	35,092
% Growth	7.2	21.8	18.3	16.9	14.5
Raw Material	6,803	7,800	8,131	9,290	10,808
Staff	1,390	1,671	2,088	2,443	2,810
Selling and Distribution Expenses	4,559	6,000	7,635	8,891	10,107
Other Expenses	1,012	1,346	1,537	1,772	2,018
Total Expenditures	13,764	16,818	19,392	22,396	25,743
EBITDA	4,444	5,355	6,847	8,264	9,349
% Growth	30.1	20.5	27.9	20.7	13.1
EBITDA Margins (%)	24.4	24.2	26.1	27.0	26.6
Other Income	622	964	424	358	494
Interest	54	51	540	306	106
Depreciation & Amortisation	352	343	2,542	2,995	3,056
Profit Before Tax	4,571	5,925	4,188	5,321	6,681
Provision for tax	547	1,070	585	1,038	1,303
Effective tax rate (%)	12.0	18.1	14.0	19.5	19.5
Reported PAT	4,025	4,856	3,602	4,283	5,379
% Growth	27.9	20.7	(25.8)	18.9	25.6
Adjusted Net Profit	4,049	4,812	5,201	6,258	7,353
% Growth	30.7	18.8	8.1	20.3	17.5

Balance Sheet

₹ mn (Y/E Mar)	FY14	FY15	FY16P	FY17E	FY18E
Equity Share Capital	227	227	227	227	227
Reserves & surplus	9,094	12,079	13,815	15,833	18,368
Shareholders' funds	9,321	12,306	14,042	16,060	18,595
Minorities interests	0	46	41	41	41
Total Debt	218	194	6,714	3,820	1,320
Capital Employed	9,834	12,898	17,528	18,347	19,881
Net fixed assets	4,078	4,817	20,436	18,376	16,405
Cash & Cash Eq.	2,700	3,541	1,080	1,681	3,498
Net Other current assets	5,268	7,578	(4,085)	(1,209)	2,297
Investments	2,958	5,013	185	695	1,195
Net Deferred tax Assets	(48)	(120)	-	-	-
Total Assets	9,834	12,898	17,528	18,347	19,881



Cash flow

₹ mn (Y/E Mar)	FY14	FY15	FY16P	FY17E	FY18E
Pre-tax profit	4,660	5,924	4,188	5,321	6,681
Depreciation	352	343	2,542	2,995	3,056
Total Tax Paid	(766)	(956)	(585)	(1,038)	(1,303)
Chg in working capital	553	734	9,202	(2,275)	(1,688)
Other operating activities	-	-	-	-	-
Cash flow from oper (a)	4,282	5,340	15,887	5,309	6,852
Capital Expenditure	(647)	(1,085)	(18,162)	(935)	(1,085)
Chg in investments	(1,380)	(2,836)	(0)	(10)	(0)
Other investing activities	608	1,584	-	-	-
Cash flow from inv.(b)	(1,419)	(2,337)	(18,162)	(945)	(1,085)
Free cash flow (a+b)	2,864	3,003	(2,275)	4,364	5,767
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	(751)	19	2,983	(1,200)	(1,000)
Interest paid	(51)	(52)	(540)	(306)	(106)
Dividend (incl. Tax)	(2,211)	(2,120)	(1,867)	(2,265)	(2,844)
Other financing activities	-	-	(16)	-	-
Cash flow from fin. (c)	(3,013)	(2,154)	560	(3,770)	(3,950)
Net chg in cash (a+b+c)	(149)	850	(1,715)	594	1,817

Key Ratios

Y/E Mar	FY14	FY15	FY16P	FY17E	FY18E
Raw Material Cost/Sales (%)	37.4	35.2	31.0	30.3	30.8
Manpower Cost/Sales (%)	7.6	7.5	8.0	8.0	8.0
Operating & Other Cost/Sales (%)	1.1	0.9	0.8	0.8	0.8
Revenue Growth (%)	7.2	21.8	18.3	16.9	14.5
EBITDA Margins (%)	24.4	24.2	26.1	27.0	26.6
Net Income Margins (%)	22.1	21.9	13.7	14.0	15.3
ROCE (%)	47.9	46.3	27.0	30.7	34.1
ROE (%)	50.6	48.6	33.7	35.0	36.5

Valuation Parameters

Y/E Mar	FY14	FY15	FY16P	FY17E	FY18E
EPS (₹.)	17.8	21.2	22.9	27.6	32.4
P/E (x)	24.4	44.8	41.0	35.2	29.9
BV (₹)	41.1	54.2	61.9	70.8	81.9
P/BV (x)	10.6	17.5	15.2	13.7	11.8
EV/EBITDA (x)	21.7	39.6	32.0	26.9	23.3
Fixed assets turnover ratio (x)	4.5	4.6	1.3	1.7	2.1
Net Debt/Equity (x)	(0.3)	(0.3)	0.1	0.0	(0.1)
EV/Sales (x)	5.3	9.6	8.3	7.3	6.2



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