



Emami Ltd

Q3FY17 Result Update

“Margin Expansion positive, Expects International to pick up”

Sector: FMCG

CMP: ₹ 1,013

Recommendation: BUY

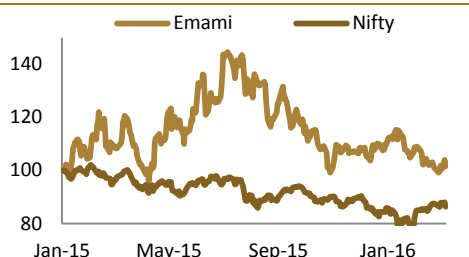
Market Statistics

Current stock price (₹)	1,013
Shares O/S (cr.)	22.7
Mcap (₹ cr)	22,999
52W H/L (₹)	1,261
6m avg. volume	143,031
Bloomberg	HMN in

Shareholding Pattern (%)

Promoters	72.74
Domestic Institution	2.31
Foreign Institution	16.73
Non-institution	8.22
of which more than 1%	
Avees Trading And Finance Private Limited	1.45
Matthews India Fund	1.33

Emami vs Nifty



Capital efficiency & valuations

Particulars	FY16	FY17E	FY19E
ROE (%)	32.4	33.9	33.9
ROCE (%)	28.3	31.6	33.5
P/B(x)	14.4	12.6	11.0
P/E (x)	38.3	32.4	28.7
EPS (₹)	26.3	31.1	35.1
EV/OCF (x)	46.0	36.6	32.0

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Emami, based on IND AS, reported strong Net Sales growth of 0.2% YoY to ₹7,260mn lower than our expectation of 2.5%YoY growth. Domestic business (85% of sales) grew slow by 3.0% led by 2% volume growth while International (11% of sales) & CSD reported decline of 16% & 12% YoY, respectively. In the domestic business, Boroplus Cream, Fair & handsome facewash, Navratna cool talc and 7 in 1 oils, Vasocare & Lotion grew by 13%, 38%, 32%, 35%, 21% & 10% while Navratna Oils, Balms, Fair & handsome cream & Pancharishta declined by 4.0%, 5.0%, 18% & 15%YoY. Kesh King got most impacted due to cash crunch & grew merely by 2% in Q3FY17. International business excluding MENA, growth was at 10% YoY led strong growth in Bangladesh & Nepal.

Gross Margin expanded by 123bps to 67.9% YoY. A&P spend & other expenses declined by 83bps & 29bps while other expenses up by 115bps (% of sales). Hence, EBITDA Margin expanded by 121bps YoY to 35.6%. EBITDA grew by 4% YoY to ₹2,585mn

There was ₹705mn on account of amortisation of "Kesh King" & "SHE" brand. Interest cost was at ₹127mn while Effective tax rate was higher at 22% as compared to 19% of last year. Hence, APAT on like to like comparison (adjusted for amortisation) grew healthy by 19% to ₹2,194mn

Slow domestic growth of 3%YoY: Emami's domestic business got impacted due to demonetization and wholesale channel disruption. Boroplus range has shown healthy growth while Kesh King & Health care segment was under pressure. Kesh King showed 2% growth while HCD segment continue to disappoint on back of decline in Pancharishta. We expect Emami would be re-store growth back in coming qtrs as the ground situation is improving. Company aims to improve its direct reach and targets 8lac outlets in next one year. Company's efforts on innovations and re-launching key brands would also support growth momentum in coming quarters. Management aims to garner double digit volume growth in coming qtrs.

Weak International business growth: International business declined by 16% due to weak demand & currency headwinds in MENA region. However, Management expects MENAP (33% of International) to show positive growth from next quarter. Ex-MENAP, International business grew by 10% led by 38% growth in SAARC on account of strong growth in Bangladesh & Nepal.

Benign input prices & soft A&P spends aid EBITDA Margin Expansion: Emami's EBITDA Margin expanded 121bps YoY to 35.6% YoY due lower input cost, price hike of 2.0% & lower A&P spends. We expect gross margin expansion would be at softer pace while A&P spend would be on higher side on back of new launches in coming qtrs.

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, and 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). Emami trades at 32.4x & 28.7x P/E of FY18 & FY19 estimated EPS, respectively. 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.**

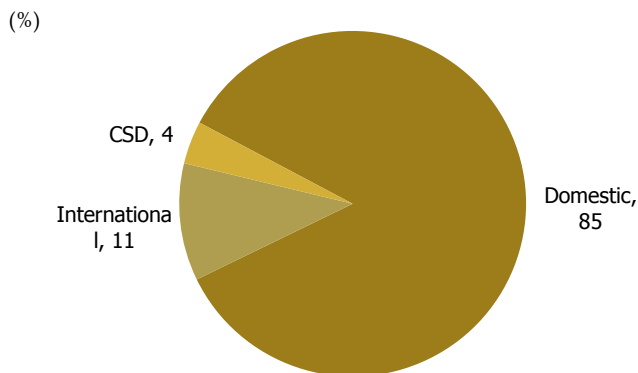


Exhibit 1: Quarterly Performance

Particulars (₹ mn)	Q3FY16	Q2FY16	Q3FY17	YoY change (%)
Net Sales	7,249	5,846	7,260	0.2
Gross Profit	4,831	3,916	4,928	2.0
Gross Margin (%)	66.7	67.0	67.9	123bps
Employee Expenses	569	628	654	14.9
% of sales	7.9	10.7	9.0	115bps
Advertisement & Sales Promotion	1202	992	1143	(4.9)
% of sales	16.6	17.0	15.7	-83bps
Other Expenses	566	545	546	(3.6)
% of sales	7.8	9.3	7.5	-29bps
EBITDA	2,494	1,752	2,585	3.7
EBITDA Margin (%)	34.4	30.0	35.6	121bps
Other Income	53	87	82	55.3
Depreciation	99.2	110.8	111.8	12.7
Less Transfer from General Reserve	617	680	705	14.3
EBIT	1831	1048	1851	1.1
EBIT Margin (%)	25.3	17.9	25.5	23bps
Interest	171	160	127	(25.5)
Reported PAT	1340	661	1343	0.2
Adjusted PAT	1841	1,304	2,195	19.3

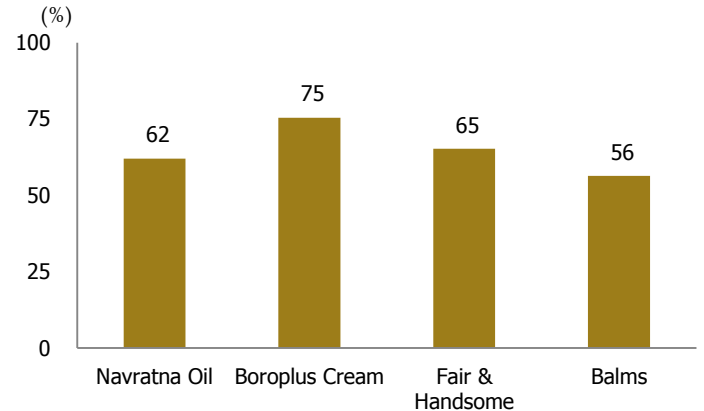
Source: Company, Trust

Exhibit 2: Emami's Sales Mix (Q3FY17)



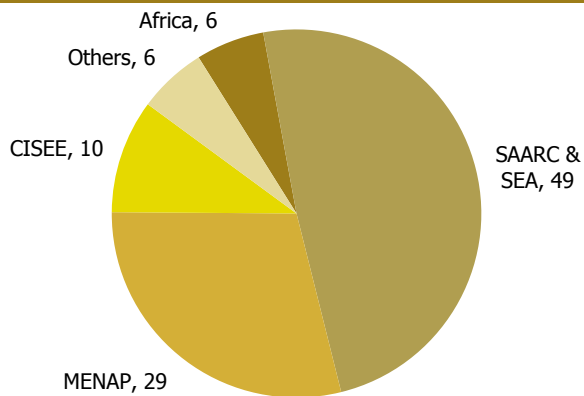
Source: Company, Trust

Exhibit 3: Strong Market Leadership Continues



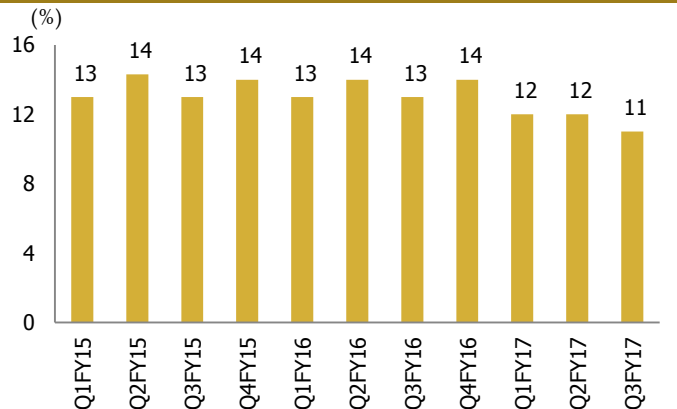
Source: Company, Trust

Exhibit 4: International Sales Breakup



Source: Company, Trust

Exhibit 5: International Sales Contribution



Source: Company, Trust



Financials

P&L Statement

Y/E Mar (₹ mn)	FY15	FY16	FY17E	FY18E	FY19E
Net Revenues	22,172	26,238	29,076	33,236	37,349
% Growth	21.8	18.3	10.8	14.3	12.4
Raw Material	7,800	8,121	8,810	10,237	11,503
Staff	1,671	2,085	2,407	2,768	3,183
Selling and Distribution Expenses	6,000	7,704	8,496	9,711	10,913
Other Expenses	1,346	1,404	1,708	1,945	2,211
Total Expenditures	16,818	19,314	21,421	24,660	27,810
EBITDA	5,355	6,924	7,655	8,576	9,539
% Growth	20.5	29.3	10.6	12.0	11.2
EBITDA Margins (%)	24.2	26.4	26.3	25.8	25.5
Other Income	964	338	365	502	527
Interest	51	540	321	121	(79)
Depreciation & Amortisation	343	2,550	2,893	2,948	3,007
Profit Before Tax	5,925	4,171	4,807	6,009	7,138
Provision for tax	1,070	585	961	1,202	1,428
Effective tax rate (%)	18.1	14.0	20.0	20.0	20.0
Reported PAT	4,856	3,591	3,845	4,807	5,710
% Growth	20.7	(26.1)	7.1	25.0	18.8
Adjusted Net Profit	4,812	5,188	5,967	7,063	7,966
% Growth	18.8	7.8	15.0	18.4	12.8

Balance Sheet

₹mn (Y/E Mar)	FY15	FY16	FY17E	FY18E	FY19E
Equity Share Capital	227	227	227	227	227
Reserves & surplus	12,079	13,804	15,616	17,882	20,573
Shareholders' funds	12,306	14,031	15,843	18,109	20,800
Minorities interests	46	41	41	41	41
Total Debt	194	6,714	4,014	1,514	(986)
Capital Employed	12,898	17,509	18,121	19,386	21,077
Net fixed assets	4,817	20,420	17,791	15,928	14,006
Cash & Cash Eq.	3,541	1,084	2,274	3,713	5,619
Net Other current assets	7,578	(4,088)	(849)	2,279	5,882
Investments	5,013	185	695	1,195	1,705
Net Deferred tax Assets	(120)	9	9	9	9
Total Assets	12,898	17,508	18,121	19,386	21,077

**Cash flow**

₹ mn (Y/E Mar)	FY15	FY16	FY17E	FY18E	FY19E
Pre-tax profit	5,924	4,171	4,807	6,009	7,138
Depreciation	343	2,550	2,893	2,948	3,007
Total Tax Paid	(956)	(957)	(961)	(1,202)	(1,428)
Chg in working capital	734	(542)	(2,049)	(1,690)	(1,697)
Other operating activities	-	-	-	-	-
Cash flow from oper (a)	5,340	5,435	5,011	6,187	6,941
Capital Expenditure	(1,085)	(18,153)	(264)	(1,085)	(1,085)
Chg in investments	(2,836)	4,260	(10)	(0)	(10)
Other investing activities	1,584	823	-	-	-
Cash flow from inv.(b)	(2,337)	(13,070)	(274)	(1,085)	(1,095)
Free cash flow (a+b)	3,003	(7,634)	4,737	5,102	5,846
Equity raised/(repaid)	-	3,000	-	-	-
Debt raised/(repaid)	19	3,357	(1,200)	(1,000)	(1,000)
Interest paid	(52)	(519)	(321)	(121)	79
Dividend (incl. Tax)	(2,120)	(818)	(2,033)	(2,542)	(3,019)
Other financing activities	-	13	-	-	-
Cash flow from fin. (c)	(2,154)	5,032	(3,554)	(3,663)	(3,940)
Net chg in cash (a+b+c)	850	(2,602)	1,182	1,439	1,906

Key Ratios

Y/E Mar	FY15	FY16	FY17E	FY18E	FY19E
Raw Material Cost/Sales (%)	35.2	31.0	30.3	30.8	30.8
Manpower Cost/Sales (%)	7.5	7.9	8.3	8.3	8.5
Operating & Other Cost/Sales (%)	0.9	0.9	0.9	0.9	0.9
Revenue Growth (%)	21.8	18.3	10.8	14.3	12.4
EBITDA Margins (%)	24.2	26.4	26.3	25.8	25.5
Net Income Margins (%)	21.9	13.7	13.2	14.5	15.3
ROCE (%)	46.3	26.9	28.3	31.6	33.5
ROE (%)	48.6	33.6	32.4	33.9	33.9

Valuation Parameters

Y/E Mar	FY15	FY16	FY17E	FY18E	FY19E
EPS (₹.)	21.2	22.9	26.3	31.1	35.1
P/E (x)	44.8	41.1	38.3	32.4	28.7
BV (₹)	54.2	61.8	69.8	79.8	91.6
P/BV (x)	17.5	15.2	14.4	12.6	11.0
EV/EBITDA (x)	39.6	31.6	30.1	26.4	23.3
Fixed assets turnover ratio (x)	4.6	1.3	1.6	2.1	2.7
Net Debt/Equity (x)	(0.3)	0.1	(0.0)	(0.2)	(0.3)
EV/Sales (x)	9.6	8.3	7.9	6.8	5.9



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