



# Emami Ltd

## Q1FY18 Result Update

“Weak Performance; Positive Guidance”

Sector: FMCG

CMP: ₹ 1,134

Recommendation: BUY

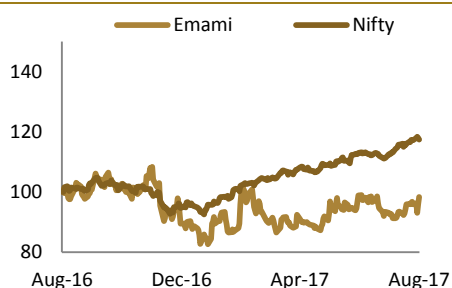
### Market Statistics

|                         |         |
|-------------------------|---------|
| Current stock price (₹) | 1,134   |
| Shares O/S (cr.)        | 22.7    |
| Mcap (₹ cr)             | 25,737  |
| 52W H/L (₹)             | 1,261   |
| 6m avg. volume          | 203,990 |
| Bloomberg               | HMN in  |

### Shareholding Pattern (%)

|                       |       |
|-----------------------|-------|
| Promoters             | 72.74 |
| Domestic Institution  | 3.47  |
| Foreign Institution   | 14.89 |
| Non-institution       | 8.90  |
| of which more than 1% |       |
| Matthews India Fund   | 1.17  |

### Emami vs Nifty



### Capital efficiency & valuations

| Particulars | FY17 | FY18E | FY19E |
|-------------|------|-------|-------|
| ROE (%)     | 27.4 | 29.5  | 35.3  |
| ROCE (%)    | 26.2 | 28.1  | 33.2  |
| P/B(x)      | 14.0 | 13.3  | 13.3  |
| P/E (x)     | 41.7 | 41.1  | 36.3  |
| EPS (₹)     | 26.0 | 27.6  | 31.3  |

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Emami, based on IND AS, reported sluggish Net Sales growth of -16.2% YoY to ₹5,411mn lower than our expectation of 5.8%YoY growth. Domestic business (85% of sales) declined by 16.0% led while International (11% of sales) & CSD reported decline of 19% & 20% YoY, respectively. In the domestic business barring Boroplus cream which grew by 41% all products decline in growth. Navratna oil, Balms, Navratna cool talc, Powder ,Fair & Handsome range & healthcare range declined by 15%, 21, 3%, 2%, 19% & 23% YoY. Kesh King Performance was also weak and contracted by 28% YOY. International business showed 19% declined resulting due to slowdown and pertaining geo-political tensions in Middle East and undertaken reduction in stock levels in key markets by company.

Gross Margin contracted by 92bps to 63.6% YoY. A&P spend declined by 7%(+262bps % of sales) while employee & other expenses was up by 244bps & 201bps(% of sales). Hence, EBITDA Margin contracted by 799bps YoY to 14.8%. EBITDA de-grew by 46% YoY to ₹802mn

There was ₹598mn on account of amortisation of "Kesh King" & "SHE" brand. Effective tax rate was higher at 20% as compared to 17% of last year. Hence, APAT on like to like comparison (adjusted for amortisation& other comprehensive income) declined by 60% to ₹479mn

**De-stocking hampers domestic; volume growth expectation of 15% for rest 9MFY18 is encouraging:** Domestic business suffered and declined by 16% due to de-stocking in particularly in wholesale, rural and CSD. Wholesale channel forms 50% of trade network. Kesh King got further impacted and de-grew by 28% due to its 70% dependence on wholesale channel. However, consumer offtakes are improving. Management stated that re-stocking happening at faster pace in July and showed double digit growth. We expect Emami would be able to re-store growth back in coming qtrs led by 1) Management focus on increasing direct distribution; targets 8 lac outlets by FY18 from 7.3 lac outlets currently 2) Aggressive new products launches and product extensions 3) Kesh King is expected regain growth 4)Expectation of double digit volume growth of 15% led by boroplus, balms and fair & handsome for rest 9Months FY18.

**Inventory correction & political uncertainty in Middle East led to International Biz decline:** International business declined by 20% due to weak demand & political instability in MENA region. Company took step of reducing the stock levels in key markets as there was large inventory pile up. However, Management expects MENAP (33% of International) to show positive growth from coming qtrs.

**EBITDA declined sharply by 46%:** Higher input costs have resulted into contraction of gross margins in Q1FY18. However, higher A&P spends & other expenses during the quarter have further suppressed the EBITDA margin to 14.8% while BEBITDA declined by 46%. 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 41x & 36x 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.**

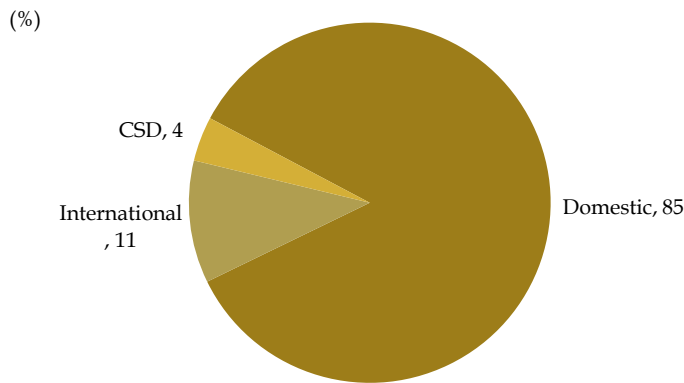


**Exhibit 1: Quarterly Performance**

| Particulars (₹ mn)                 | Q1FY17      | Q4FY17       | Q1FY18     | YoY change (%) |
|------------------------------------|-------------|--------------|------------|----------------|
| Net Sales                          | 6,454       | 5,777        | 5,411      | (16.2)         |
| Gross Profit                       | 4,167       | 3,594        | 3,444      | (17.4)         |
| Gross Margin (%)                   | 64.6        | 62.2         | 63.6       | -92bps         |
| Employee Expenses                  | 609         | 456          | 643        | 5.5            |
| % of sales                         | 9.4         | 7.9          | 11.9       | 244bps         |
| Advertisement & Sales Promotion    | 1534        | 759          | 1428       | (6.9)          |
| % of sales                         | 23.8        | 13.1         | 26.4       | 262bps         |
| Other Expenses                     | 552         | 598          | 572        | 3.5            |
| % of sales                         | 8.6         | 10.3         | 10.6       | 201bps         |
| EBITDA                             | 1,473       | 1,781        | 802        | (45.5)         |
| EBITDA Margin (%)                  | 22.8        | 30.8         | 14.8       | -799bps        |
| Other Income                       | 51          | 92           | 65         | 27.6           |
| Depreciation                       | 106.0       | 140.3        | 152.5      | 43.9           |
| Less Transfer from General Reserve | 609         | 623          | 598        | (1.9)          |
| EBIT                               | 808         | 1109         | 116        | (85.6)         |
| EBIT Margin (%)                    | 12.5        | 19.2         | 2.2        | -1,037bps      |
| Interest                           | 125         | 168          | 79         | (36.6)         |
| Reported PAT                       | 567         | 833          | 11         | (98.1)         |
| <b>Adjusted PAT</b>                | <b>1189</b> | <b>1,219</b> | <b>479</b> | <b>(59.7)</b>  |

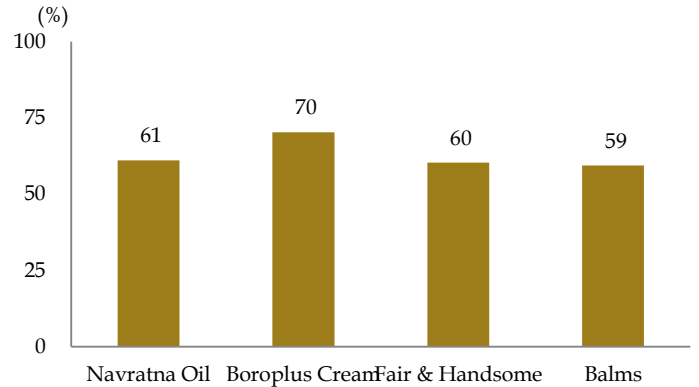
Source: Company, Trust

**Exhibit 2: Emami's Sales Mix (Q1FY18)**



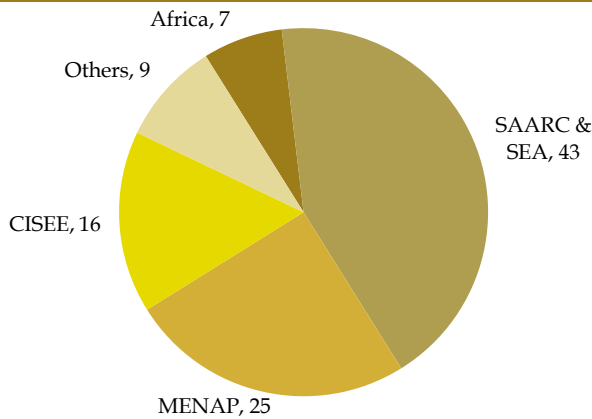
Source: Company, Trust

**Exhibit 3: Strong Market Leadership Continues**



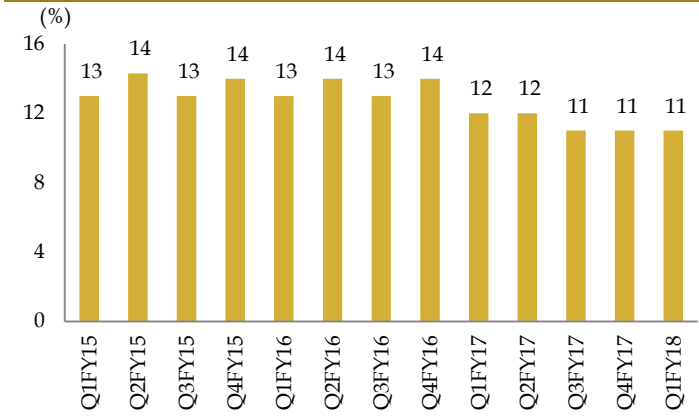
Source: Company, Trust

**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          | FY17          | FY18E         | FY19E         |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Net Revenues</b>               | <b>22,172</b> | <b>23,583</b> | <b>24,930</b> | <b>27,710</b> | <b>32,507</b> |
| % Growth                          | 21.8          | 6.4           | 5.7           | 11.1          | 17.3          |
| Raw Material                      | 7,800         | 8,121         | 8,336         | 9,421         | 11,215        |
| Staff                             | 1,671         | 2,078         | 2,335         | 2,569         | 2,982         |
| Selling and Distribution Expenses | 6,000         | 5,019         | 5,155         | 5,661         | 6,738         |
| Other Expenses                    | 1,346         | 1,493         | 1,513         | 1,682         | 1,883         |
| Total Expenditures                | 16,818        | 16,711        | 17,339        | 19,333        | 22,818        |
| <b>EBITDA</b>                     | <b>5,355</b>  | <b>6,872</b>  | <b>7,591</b>  | <b>8,377</b>  | <b>9,688</b>  |
| % Growth                          | 20.5          | 28.3          | 10.5          | 10.3          | 15.7          |
| <b>EBITDA Margins (%)</b>         | <b>24.2</b>   | <b>29.1</b>   | <b>30.5</b>   | <b>30.2</b>   | <b>29.8</b>   |
| Other Income                      | 964           | 445           | 311           | 502           | 527           |
| Interest                          | 51            | 540           | 580           | 256           | 340           |
| Depreciation & Amortisation       | 343           | 2,549         | 3,086         | 3,187         | 3,398         |
| <b>Profit Before Tax</b>          | <b>5,925</b>  | <b>4,227</b>  | <b>4,236</b>  | <b>5,436</b>  | <b>6,478</b>  |
| Provision for tax                 | 1,070         | 597           | 836           | 1,087         | 1,296         |
| Effective tax rate (%)            | 18.1          | 14.1          | 19.7          | 20.0          | 20.0          |
| <b>Reported PAT</b>               | <b>4,856</b>  | <b>3,611</b>  | <b>3,799</b>  | <b>4,349</b>  | <b>5,182</b>  |
| % Growth                          | 20.7          | (25.6)        | 5.2           | 14.5          | 19.2          |
| <b>Adjusted Net Profit</b>        | <b>4,900</b>  | <b>5,230</b>  | <b>5,908</b>  | <b>6,262</b>  | <b>7,095</b>  |
| % Growth                          | 22.5          | 6.7           | 13.0          | 6.0           | 13.3          |

### Balance Sheet

| ₹mn (Y/E Mar)              | FY15          | FY16          | FY17P         | FY18E         | FY19E         |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Equity Share Capital       | 227           | 227           | 227           | 227           | 227           |
| Reserves & surplus         | 12,079        | 15,889        | 17,320        | 19,091        | 19,091        |
| <b>Shareholders' funds</b> | <b>12,306</b> | <b>16,116</b> | <b>17,547</b> | <b>19,318</b> | <b>19,318</b> |
| Minorities interests       | 46            | 41            | 14            | 14            | 14            |
| Total Debt                 | 194           | 6,714         | 1,730         | 1,830         | 2,430         |
| <b>Capital Employed</b>    | <b>12,898</b> | <b>19,576</b> | <b>18,350</b> | <b>20,231</b> | <b>20,520</b> |
| Net fixed assets           | 4,817         | 20,411        | 20,153        | 22,280        | 25,045        |
| Cash & Cash Eq.            | 3,541         | 1,084         | 501           | 214           | 253           |
| Net Other current assets   | 7,578         | (2,294)       | (3,197)       | (2,914)       | (5,541)       |
| Investments                | 5,013         | 474           | 1,277         | 798           | 598           |
| Net Deferred tax Assets    | (120)         | (90)          | (422)         | (422)         | (600)         |
| <b>Total Assets</b>        | <b>12,898</b> | <b>19,576</b> | <b>18,350</b> | <b>20,231</b> | <b>20,520</b> |

**Cash flow**

| ₹ mn (Y/E Mar)                 | FY15           | FY16            | FY17P          | FY18E          | FY19E          |
|--------------------------------|----------------|-----------------|----------------|----------------|----------------|
| Pre-tax profit                 | 5,924          | 4,228           | 4,236          | 5,436          | 6,478          |
| Depreciation                   | 343            | 2,549           | 3,086          | 3,187          | 3,398          |
| Total Tax Paid                 | (956)          | (957)           | (707)          | (1,087)        | (1,296)        |
| Chg in working capital         | 735            | (565)           | 226            | (469)          | 2,366          |
| Other operating activities     | -              | -               | -              | -              | -              |
| <b>Cash flow from oper (a)</b> | <b>5,341</b>   | <b>5,616</b>    | <b>7,296</b>   | <b>10,511</b>  | <b>11,286</b>  |
| Capital Expenditure            | (1,085)        | (18,143)        | (2,814)        | 5,315          | 6,163          |
| Chg in investments             | (2,836)        | 4,290           | (763)          | 429            | 150            |
| Other investing activities     | 1,584          | 789             | 602            | -              | -              |
| <b>Cash flow from inv.(b)</b>  | <b>(2,337)</b> | <b>(13,064)</b> | <b>(2,975)</b> | <b>5,744</b>   | <b>6,313</b>   |
| <b>Free cash flow (a+b)</b>    | <b>3,004</b>   | <b>(7,448)</b>  | <b>4,321</b>   | <b>16,255</b>  | <b>17,599</b>  |
| Equity raised/(repaid)         | -              | -               | -              | -              | -              |
| Debt raised/(repaid)           | 19             | 6,356           | (1,985)        | 1,781          | 188            |
| Interest paid                  | (52)           | (519)           | (583)          | (256)          | (340)          |
| Dividend (incl. Tax)           | (2,120)        | (818)           | (2,353)        | (2,577)        | (3,072)        |
| Other financing activities     | -              | -               | (37)           | (100)          | (100)          |
| <b>Cash flow from fin. (c)</b> | <b>(2,154)</b> | <b>5,018</b>    | <b>(4,958)</b> | <b>(1,153)</b> | <b>(3,323)</b> |
| <b>Net chg in cash (a+b+c)</b> | <b>850</b>     | <b>(2,492)</b>  | <b>(721)</b>   | <b>15,102</b>  | <b>14,276</b>  |

**Key Ratios**

| Y/E Mar                          | FY15 | FY16 | FY17P | FY18E | FY19E |
|----------------------------------|------|------|-------|-------|-------|
| Raw Material Cost/Sales (%)      | 35.2 | 34.4 | 33.4  | 34.0  | 34.5  |
| Manpower Cost/Sales (%)          | 7.5  | 8.8  | 9.4   | 9.3   | 9.2   |
| Operating & Other Cost/Sales (%) | 0.9  | 1.0  | 1.3   | 1.3   | 1.2   |
| Revenue Growth (%)               | 21.8 | 6.4  | 5.7   | 11.1  | 17.3  |
| EBITDA Margins (%)               | 24.2 | 29.1 | 30.5  | 30.2  | 29.8  |
| Net Income Margins (%)           | 21.9 | 15.3 | 15.2  | 15.7  | 15.9  |
| ROCE (%)                         | 46.3 | 24.4 | 26.2  | 28.1  | 33.2  |
| ROE (%)                          | 48.6 | 29.6 | 27.4  | 29.5  | 35.3  |

**Valuation Parameters**

| Y/E Mar                         | FY15  | FY16 | FY17P | FY18E | FY19E |
|---------------------------------|-------|------|-------|-------|-------|
| EPS (₹.)                        | 21.6  | 23.0 | 26.0  | 27.6  | 31.3  |
| P/E (x)                         | 44.0  | 40.8 | 41.7  | 41.1  | 36.3  |
| BV (₹)                          | 54.2  | 71.0 | 77.3  | 85.1  | 85.1  |
| P/BV (x)                        | 17.5  | 13.2 | 14.0  | 13.3  | 13.3  |
| EV/EBITDA (x)                   | 39.6  | 31.9 | 32.6  | 30.9  | 26.8  |
| Fixed assets turnover ratio (x) | 4.6   | 1.2  | 1.2   | 1.2   | 1.3   |
| Net Debt/Equity (x)             | (0.3) | 0.1  | (0.0) | (0.0) | (0.0) |
| EV/Sales (x)                    | 9.6   | 9.3  | 9.9   | 9.3   | 8.0   |



## Institutional Equity Team

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| Hold           | 15% to -15%                                  |
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