

# Emami Limited

Industry Con. Staples  
Bloomberg HMN IN  
BSE CODE 531162

## Result mixed, higher crude and Mentha prices impacted margins

|                         |             |
|-------------------------|-------------|
| <b>RATING</b>           | <b>HOLD</b> |
| <b>CMP</b>              | <b>411</b>  |
| <b>Price Target</b>     | <b>447</b>  |
| <b>Potential Upside</b> | <b>9%</b>   |

|                        |   |
|------------------------|---|
| <b>Rating Change</b>   | ↔ |
| <b>Estimate Change</b> | ↔ |
| <b>Target Change</b>   | ↔ |

### Stock Info

|                     |         |
|---------------------|---------|
| 52wk Range H/L      | 602/386 |
| Mkt Capital (Rs Cr) | 18657   |
| Free float (%)      | 27%     |
| Avg. Vol 1M (,000)  | 242     |
| No. of Shares (Crs) | 45      |
| Promoters Pledged % | 48%     |

### Research Analyst

**RAJEEV ANAND**  
rajeev.anand@narnolia.com  
+91-22-62701229

### 3QFY19 Result update

- ❑ EMAMI has reported mixed set of numbers for Q3FY19; sales grew by 7% YoY to Rs.811 Crs (vs expec. Rs.830 Crs) with Domestic business growth of 7%, International Business (IB) growth of 18% & CSD growth of 2% on YoY basis.
- ❑ IB growth was led by better traction from SAARC & MENAP regions which grew by 40% & 26% respectively.
- ❑ Volume growth remained ~3.5%; impacted by subdued growth in BoroPlus range which got affected by delayed winters.
- ❑ Key positives for this quarter remained strong growth in segments like: KeshKing and Zandu Pancharishta which grew by 26% & 30% backed by Company's correctional steps taken for strengthening these brands.
- ❑ Gross margin contracted by 218 bps to 67.0% led by high Crude & Mentha oil prices while EBITDA margin declined 210 bps to 32.9%
- ❑ PAT de-grown by 6.6% YoY to Rs.138 Crs (vs expec. Rs.168 Crs) on account of exceptional cost of 9.8 Crs pertaining to VRS related to old unit of Kolkata, higher input prices and higher provisioning of taxes by 199 bps YoY.
- ❑ Company recently, acquired German brand Crème 21 which has strong presence in Middle East and focused markets. The brand offers skin care & body care products. It has 9-10% of EBITDA margins; Mgmt. is looking to increase it to 15-16% with bit of restructuring & pricing.

### View and Valuation

Emami's number for Q3FY19 remained mixed, sales were up by 7% YoY to Rs 811 cr(expec. Rs 830 cr) while PAT declined by 7% to Rs 138 cr(expec. Rs 168 cr). Gross margin and EBITDA margin deteriorated by 218 and 210 bps YoY largely on the back of higher crude and Mentha prices. Positive for this quarter remained strong growth from Kesh King and Zandu Pancharishta which grew by 26% and 30% respectively in Q3FY19 after many quarters of subdued growth. International business has also shown strong growth of 18% backed by better traction from SAARC and MENAP. Going forward, we expect better growth from Kesh King and Zandu Pancharishta led by expansion in direct coverage and recovery in rural demand while correction in crude (declined by ~25% from Oct18-Jan19) and Mentha(declined by ~12% from its peak) prices are expected to help in maintaining margin. Presently we remain cautiously optimistic on Emamilt and maintain our hold rating with our previous target price of 447(40x FY20e's eps).

### Key Risks to our rating and target

- ❑ Volatility in Crude & Mentha prices.
- ❑ Increase in competitive intensity.

| KEY FINANCIAL/VALUATIONS | FY16 | FY17 | FY18 | FY19E | FY20E |
|--------------------------|------|------|------|-------|-------|
| Net Sales                | 2398 | 2533 | 2531 | 2752  | 3151  |
| EBITDA                   | 687  | 759  | 719  | 776   | 927   |
| EBIT                     | 432  | 451  | 409  | 450   | 602   |
| PAT                      | 364  | 340  | 306  | 336   | 502   |
| EPS (Rs)                 | 8    | 7    | 7    | 7     | 11    |
| EPS growth (%)           | -25% | -6%  | -10% | 10%   | 49%   |
| ROE (%)                  | 23%  | 19%  | 15%  | 15%   | 21%   |
| ROCE (%)                 | 19%  | 23%  | 17%  | 19%   | 23%   |
| BV                       | 36   | 39   | 44   | 48    | 53    |
| P/B (X)                  | 14.5 | 14.5 | 11.8 | 8.6   | 7.8   |
| P/E (x)                  | 64.3 | 74.7 | 77.8 | 55.5  | 37.2  |

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## 3QFY19 Results

## Mixed

| Financials   | 3QFY18 | 4QFY18 | 1QFY19 | 2QFY19 | 3QFY19 | YoY %  | QoQ%  | FY17  | FY18  | YoY %  |
|--------------|--------|--------|--------|--------|--------|--------|-------|-------|-------|--------|
| Net Sales    | 757    | 617    | 614    | 628    | 811    | 7.2%   | 29.1% | 2,533 | 2,531 | -0.1%  |
| Other Income | 6      | 2      | 2      | 3      | 6      | 0.2%   | 77.8% | 31    | 20    | -37.3% |
| COGS         | 233    | 215    | 207    | 197    | 268    | 14.7%  | 35.8% | 873   | 810   | -7.2%  |
| Gross Margin | 69%    | 65%    | 66%    | 69%    | 67%    | -2.2%  | -1.6% | 66%   | 68%   | 2.5%   |
| Employee Ex. | 68     | 58     | 70     | 71     | 70     | 2.8%   | -2.1% | 234   | 255   | 9.0%   |
| Adv. Ex.     | 129    | 99     | 143    | 100    | 129    | -0.2%  | 29.7% | 443   | 470   | 6.1%   |
| Other Expen. | 61     | 72     | 71     | 71     | 78     | 26.5%  | 10.0% | 224   | 277   | 23.7%  |
| EBITDA       | 265    | 173    | 124    | 189    | 267    | 0.7%   | 40.8% | 759   | 719   | -5.2%  |
| EBITDA Mar.  | 35%    | 28%    | 20%    | 30%    | 33%    | -2.10% | 2.7%  | 30%   | 28%   | -1.5%  |
| Dep. & amor. | 80     | 81     | 84     | 81     | 79     | -1.0%  | -2.8% | 309   | 311   | 0.7%   |
| EBIT         | 185    | 92     | 40     | 108    | 187    | 1%     | 73.7% | 451   | 409   | -9.3%  |
| Interest     | 9      | 7      | 5      | 4      | 6      | -33%   | 42.2% | 58    | 34    | -40.9% |
| PBT          | 181    | 88     | 37     | 107    | 187    | 3.2%   | 75.1% | 424   | 394   | -7%    |
| Exceptional  | -      | -      | -      | -      | 10     | -      | -     | -     | -     | 0.0%   |
| Tax          | 34     | 27     | 10     | 24     | 39     | 14.2%  | 61.1% | 84    | 86    | 3%     |
| PAT          | 147    | 60     | 26     | 82     | 138    | -6.6%  | 66.8% | 340   | 306   | -10%   |
| PAT Margin   | 19%    | 10%    | 4%     | 13%    | 17%    | -2.5%  | 3.8%  | 13%   | 12%   | -1.3%  |

**Strategy for brand strengthening yielded better results**

KeshKing grew by 26% & Zandu Pancharishta grew by 30% in Q3 led by correctional steps taken for strengthening of KeshKing & Zandu Pancharishta yielded good results. Management was aggressive in launching the applicator for better hair growth. Company increased prices to maintain margin in applicator pack. KeshKing shampoo has done exceedingly well led by reduced prices; its growth was over 100% for this quarter.

**Gross Margin was impacted due to higher crude & Mentha Prices**

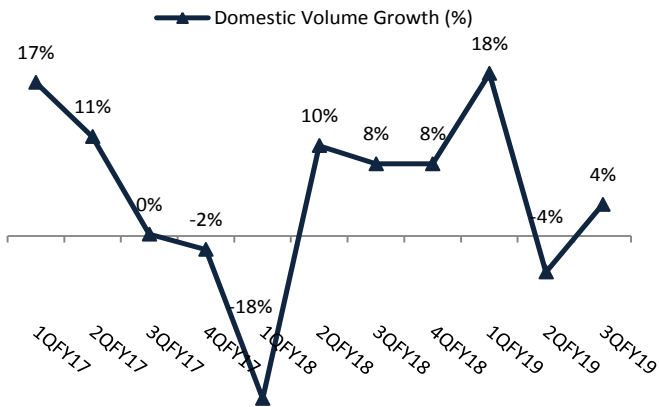
Gross margin deteriorated by 218 bps to 67.0% led by sharp increase in Crude & Menthol oil prices. Prices of raw material have softened incurrantly & company is hoping to maintain gross margins in Q4 on YoY basis. Similarly, EBITDA margin declined 210 bps to 32.9%. Company also reduced Employee Exp. & Adv. Exp. by 37 bps & 117 bps to 8.6% & 15.9% respectively while other expenses increased by 146 bps to 9.6%.

**Concall Highlights**

- Rural is doing slightly better than urban.
- Domestic business grew by 7% while volume growth remained 3-3.5% in Q3FY19.
- IB Sales grew by 18% led by good performance from SAARC & MENAP regions which grew by 40% & 26% respectively. MENA, SAARC & CIS are going to be the major part international business in upcoming quarters .
- For KeshKing - Amortization is expected to be 60 Crs till June 2020 & post that it would be 90 Crs per year for next 5 years.
- Company is still seeing opportunity for more growth in Pancharishta and is extensively focusing on it.
- Exceptional cost of 9.8 Crs came in this quarter pertaining to VRS related to old unit of Kolkata.
- Company would be maintaining Adv. Exp. depending on market scenario around 18-19%.
- EMAMI acquired German brand Crème 21 with strong presence in Middle East and focused markets. Mgmt. planned to leverage their distribution network to extend Crème 21 in countries like Middle Eastern countries & CIS.
- Crème growth was stagnant for last 3-4years as they haven't invested in it. It has 9-10% of EBITDA margins; Mgmt. is looking to increase it to 15-16% with bit of restructuring & pricing. It has high manufacturing cost as entire manufacturing in Germany, for now Emami would continue the same.
- Promoters Pledge increased to 47.5% due to share price correction, company maintained it to 30-40% previously. Company is working on reducing pledge soon.
- Boroplus, Fair & Handsome & Balms maintained their market leadership in with Market share of 72.7%, 63.7% and 54.4% respectively.
- KeshKing - Company engaged BCG and on their recommendation, Company implemented the new strategy of BCG which yielded good results. MGMT was aggressive for launching the applicator for better hair growth.

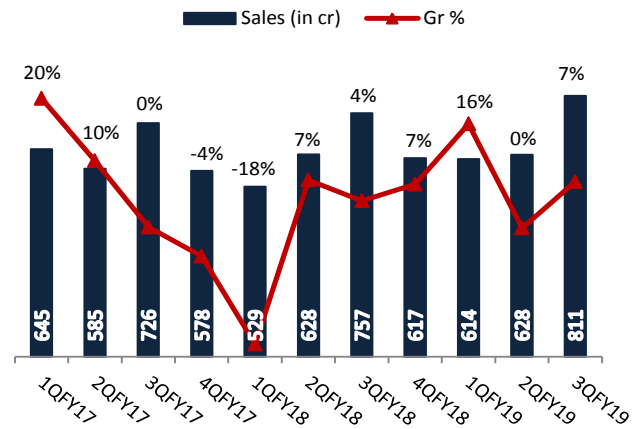
## Exhibit: Domestic Volume growth

Volume growth of 3.5% led revival of Kesh King & Pancharishta.



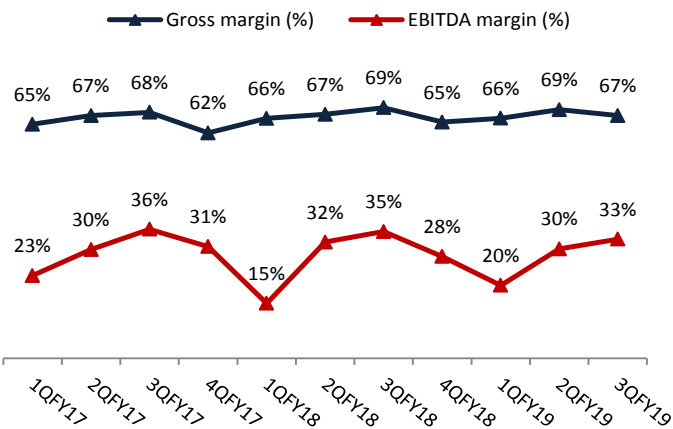
## Exhibit: Sales and Sales Growth

Sales for the quarter grew by 7% YoY to Rs.811 Crs (vs expect. of Rs.830 Crs).



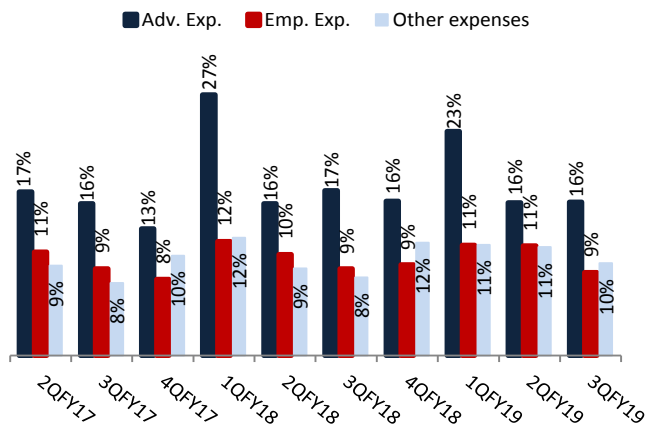
## Exhibit: Gross and EBITDA Margin

Gross margin contracted by 218 bps to 67.0% led by high oil prices & EBITDA margin declined 210 bps to 32.9%.



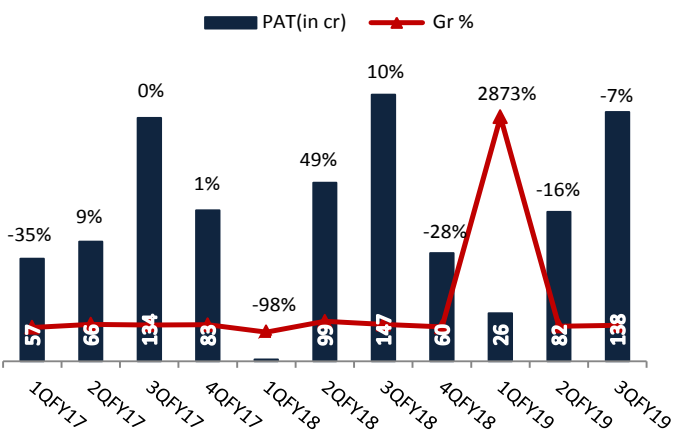
## Exhibit: Expenses

Emp. & Adv. ex. declined by 37 bps & 117 bps to 8.6% & 15.9% respectively while other ex was up by 146 bps.



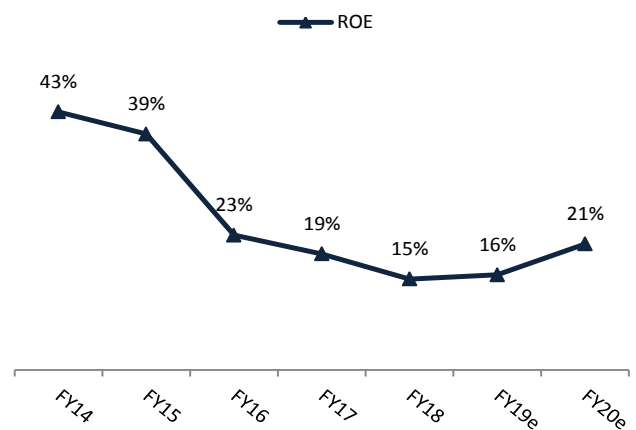
## Exhibit: PAT and PAT Growth

PAT de-grown by 6.6% YoY to Rs. 138 Crs (vs expect. Rs. 168 Crs).



## Exhibit: Return on equity

ROE is expected to improve by 28 bps and 543 bps in FY19 and FY20 respectively.



## Financial Details

## Balance Sheet

| Y/E March                     | FY13         | FY14         | FY15         | FY16         | FY17         | FY18         | FY19E        | FY20E        |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Share Capital                 | 15           | 23           | 23           | 23           | 23           | 23           | 45           | 45           |
| Reserves                      | 762          | 909          | 1,208        | 1,589        | 1,732        | 1,991        | 2,123        | 2,354        |
| <b>Networth</b>               | <b>777</b>   | <b>932</b>   | <b>1,231</b> | <b>1,612</b> | <b>1,755</b> | <b>2,014</b> | <b>2,168</b> | <b>2,399</b> |
| Debt                          | 86           | 22           | 19           | 671          | 173          | 326          | 253          | 178          |
| Other Non Current Liab        | 21           | 22           | 41           | 46           | 80           | 73           | 73           | 73           |
| <b>Total Capital Employed</b> | <b>863</b>   | <b>954</b>   | <b>1,250</b> | <b>2,283</b> | <b>1,928</b> | <b>2,340</b> | <b>2,421</b> | <b>2,577</b> |
| Net Fixed Assets (incl CWIP)  | 440          | 408          | 478          | 2,037        | 2,011        | 1,828        | 1,592        | 1,360        |
| Non Current Investments       | 7            | 7            | 7            | 35           | 94           | 186          | 186          | 186          |
| Other Non Current Assets      | 39           | 42           | 48           | 114          | 49           | 86           | 86           | 86           |
| <b>Non Current Assets</b>     | <b>485</b>   | <b>457</b>   | <b>532</b>   | <b>2,187</b> | <b>2,155</b> | <b>2,100</b> | <b>1,864</b> | <b>1,632</b> |
| Inventory                     | 114          | 141          | 127          | 151          | 179          | 194          | 211          | 241          |
| Debtors                       | 112          | 79           | 103          | 131          | 97           | 156          | 170          | 194          |
| Cash & Bank                   | 282          | 270          | 354          | 108          | 50           | 16           | 33           | 35           |
| Other Current Assets          | 223          | 355          | 561          | 115          | 132          | 271          | 670          | 996          |
| <b>Current Assets</b>         | <b>731</b>   | <b>846</b>   | <b>1,144</b> | <b>505</b>   | <b>458</b>   | <b>701</b>   | <b>1,084</b> | <b>1,467</b> |
| Creditors                     | 102          | 143          | 193          | 249          | 185          | 242          | 263          | 301          |
| Provisions                    | 165          | 121          | 112          | 50           | 59           | 62           | 68           | 77           |
| Other Current Liabilities     | 65           | 62           | 80           | 65           | 361          | 82           | 120          | 68           |
| <b>Curr Liabilities</b>       | <b>332</b>   | <b>326</b>   | <b>385</b>   | <b>363</b>   | <b>605</b>   | <b>388</b>   | <b>453</b>   | <b>448</b>   |
| <b>Net Current Assets</b>     | <b>399</b>   | <b>519</b>   | <b>759</b>   | <b>142</b>   | <b>(147)</b> | <b>313</b>   | <b>631</b>   | <b>1,018</b> |
| <b>Total Assets</b>           | <b>1,216</b> | <b>1,302</b> | <b>1,676</b> | <b>2,692</b> | <b>2,613</b> | <b>2,801</b> | <b>2,947</b> | <b>3,098</b> |

## Income Statement

| Y/E March                        | FY13       | FY14       | FY15       | FY16       | FY17       | FY18       | FY19E      | FY20E      |
|----------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Revenue from Operation           | 1,699      | 1,821      | 2,217      | 2,398      | 2,533      | 2,531      | 2,752      | 3,151      |
| Change (%)                       |            | 7%         | 22%        | 8%         | 6%         | 0%         | 9%         | 14%        |
| <b>EBITDA</b>                    | <b>444</b> | <b>505</b> | <b>535</b> | <b>687</b> | <b>759</b> | <b>719</b> | <b>776</b> | <b>927</b> |
| Change (%)                       |            |            | 6%         | 28%        | 10%        | -5%        | 8%         | 19%        |
| Margin (%)                       | 26%        | 28%        | 24%        | 29%        | 30%        | 28%        | 28%        | 29%        |
| Depr & Amor.                     | 124        | 96         | 34         | 255        | 309        | 311        | 326        | 325        |
| <b>EBIT</b>                      | <b>320</b> | <b>409</b> | <b>501</b> | <b>432</b> | <b>451</b> | <b>409</b> | <b>450</b> | <b>602</b> |
| Int. & other fin. Cost           | 7          | 5          | 5          | 54         | 58         | 34         | 22         | 16         |
| Other Income                     | 56         | 62         | 96         | 44         | 31         | 20         | 15         | 42         |
| <b>EBT</b>                       | <b>369</b> | <b>466</b> | <b>592</b> | <b>423</b> | <b>424</b> | <b>394</b> | <b>443</b> | <b>628</b> |
| Exp Item                         | -          | (9)        | -          | -          | -          | -          | (10)       | -          |
| Tax                              | 54         | 55         | 107        | 60         | 84         | 86         | 95         | 126        |
| Minority Int & P/L share of Ass. | (0)        | (0)        | (0)        | (0)        | (0)        | -          | -          | -          |
| Reported PAT                     | 315        | 402        | 486        | 364        | 340        | 306        | 336        | 502        |
| <b>Adjusted PAT</b>              | <b>315</b> | <b>410</b> | <b>486</b> | <b>364</b> | <b>340</b> | <b>306</b> | <b>344</b> | <b>502</b> |
| Change (%)                       |            | 30%        | 18%        | -25%       | -6%        | -10%       | 12%        | 46%        |
| Margin(%)                        | 19%        | 23%        | 22%        | 15%        | 13%        | 12%        | 12%        | 16%        |

## Financial Details

## Key Ratios

| Y/E March          | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|--------------------|------|------|------|------|------|------|-------|-------|
| ROE                | 40%  | 43%  | 39%  | 23%  | 19%  | 15%  | 15%   | 21%   |
| ROCE               | 37%  | 43%  | 40%  | 19%  | 23%  | 17%  | 19%   | 23%   |
| Asset Turnover     | 1    | 1    | 1    | 1    | 1    | 1    | 1     | 1     |
| Debtor Days        | 24   | 16   | 17   | 20   | 14   | 22   | 22    | 22    |
| Inv Days           | 24   | 28   | 21   | 23   | 26   | 28   | 28    | 28    |
| Payable Days       | 22   | 29   | 32   | 38   | 27   | 35   | 35    | 35    |
| Int Coverage       | 49   | 76   | 98   | 8    | 8    | 12   | 20    | 38    |
| P/E                | 29   | 25   | 47   | 64   | 75   | 78   | 56    | 37    |
| Price / Book Value | 12   | 11   | 18   | 15   | 14   | 12   | 9     | 8     |
| EV/EBITDA          | 20   | 29   | 42   | 34   | 33   | 33   | 24    | 20    |
| FCF per Share      | 5    | 8    | 9    | 9    | 10   | 10   | 14    | 15    |
| Div Yield          | 1%   | 2%   | 1%   | 0%   | 1%   | 1%   | 1%    | 1%    |

## Cash Flow Statement

| Y/E March                      | FY13         | FY14         | FY15         | FY16           | FY17         | FY18         | FY19E        | FY20E        |
|--------------------------------|--------------|--------------|--------------|----------------|--------------|--------------|--------------|--------------|
| PBT                            | 369          | 466          | 592          | 423            | 424          | 394          | 431          | 628          |
| (inc)/Dec in Working Capital   | 13           | 60           | 73           | (56)           | 23           | (61)         | 22           | (83)         |
| Non Cash Op Exp                | 28           | 41           | 31           | 263            | 314          | 311          | 326          | 325          |
| Int Paid (+)                   | (31)         | (38)         | (52)         | 43             | 56           | 34           | 22           | 16           |
| Tax Paid                       | (50)         | (77)         | (96)         | (96)           | (71)         | (81)         | (95)         | (126)        |
| others                         | (5)          | (24)         | (15)         | (15)           | (16)         | (9)          | -            | -            |
| <b>CF from Op. Activities</b>  | <b>323</b>   | <b>428</b>   | <b>534</b>   | <b>562</b>     | <b>730</b>   | <b>588</b>   | <b>706</b>   | <b>761</b>   |
| (inc)/Dec in FA & CWIP         | (85)         | (65)         | (110)        | (1,816)        | (285)        | (124)        | (90)         | (93)         |
| Free Cashflow                  | 238          | 363          | 424          | (1,255)        | 444          | 464          | 616          | 667          |
| (Pur)/Sale of Inv              | (78)         | (138)        | (284)        | 429            | (76)         | (240)        | (387)        | (303)        |
| others                         | 39           | 61           | 160          | 81             | 64           | 84           | -            | -            |
| <b>CF from Inv. Activities</b> | <b>(124)</b> | <b>(142)</b> | <b>(234)</b> | <b>(1,306)</b> | <b>(297)</b> | <b>(279)</b> | <b>(476)</b> | <b>(397)</b> |
| inc/(dec) in NW                | -            | -            | -            | -              | -            | -            | -            | -            |
| inc/(dec) in Debt              | 41           | 75           | 2            | 636            | (198)        | (184)        | (73)         | (75)         |
| Int. Paid                      | 7            | 5            | (5)          | (52)           | (58)         | (34)         | (22)         | (16)         |
| Div Paid (inc tax)             | 140          | 221          | (212)        | (82)           | (235)        | (142)        | (181)        | (271)        |
| others                         | -            | -            | -            | -              | (4)          | 37           | -            | -            |
| <b>CF from Fin. Activities</b> | <b>188</b>   | <b>301</b>   | <b>(215)</b> | <b>502</b>     | <b>(496)</b> | <b>(324)</b> | <b>(276)</b> | <b>(362)</b> |
| Inc(Dec) in Cash               | 388          | 588          | 85           | (243)          | (64)         | (15)         | (47)         | 2            |
| <b>Add: Opening Balance</b>    | <b>276</b>   | <b>281</b>   | <b>268</b>   | <b>350</b>     | <b>101</b>   | <b>28</b>    | <b>80</b>    | <b>33</b>    |
| Closing Balance                | 664          | 869          | 350          | 101            | 28           | 16           | 33           | 35           |

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Correspondence Office Address: Arch Waterfront, 5<sup>th</sup> Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; [www.narnolia.com](http://www.narnolia.com).

Registered Office Address: Marble Arch, Office 201, 2<sup>nd</sup> Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; [www.narnolia.com](http://www.narnolia.com)

Compliance Officer: Manish Kr Agarwal, Email Id: [mkagarwal@narnolia.com](mailto:mkagarwal@narnolia.com), Contact No.:033-40541700.

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