



Quick Insight

Emami Ltd



Industry	Personal Products
CMP	₹521
M Cap (₹ cr)	₹23,158
Buy Range	₹500-520
Target	₹620-640
Recommendation	Accumulate on Dips
Highlights	<ul style="list-style-type: none"> ➤ Strong and diversified product portfolio with strong market position in niche products. ➤ Lower penetration across portfolio indicating strong potential to drive growth ➤ Superior track record of launching new brands ➤ Pledged shares has fallen from 72% a year ago to 30% in Mar-21 & committed to bring back the level of pledged share to 0% ➤ Investment in emerging online opportunities ➤ Direct reach in rural markets and lower competitive risks makes Emami the top pick company to leverage on robust rural market growth ➤ Robust financial profile ➤ Valuations are at discount to its peers.

Emami Ltd.

Company Background

Emami Ltd is one of the leading players in the Indian personal and healthcare space. The company was incorporated in 1974 and operates in niche categories and differentiated products based on ayurvedic formulations. The company is promoted by Kolkata-based industrialists, Mr. R. S. Agarwal and Mr. R. S. Goenka. Over the years, Emami has innovated brands such as Navratna, Boroplus, and Fair and Handsome that hold strong market leadership positions. Emami products are available in +4.5 million retail outlets across India and its global footprint spans over 60 countries including Europe, Africa, CIS countries & the SAARC.

Power Brands



Investment Rationale

- **Established brands and diversified product portfolio with the strong market position in niche products** – Emami's product portfolio provides a play on Indian FMCG spending by its strong presence in less penetrated and high growth categories.

The company currently markets over 260 widely accepted ayurvedic, herbal, cosmetic, personal and health care products comprising oil, talc, cream, balm, medicine and cosmetics. These products are sold in India and more than 60 countries worldwide with a reach in 4.5mn retail outlets. Emami Ltd enjoys a significant market share in Boroplus Antiseptic Cream, Navratna Oil, Zandu Balm and Fair and Handsome and Kesh King. In FY19, the company acquired a new German Brand, 'Creme 21' at ₹1000mn. The brand offers skin care and body care products such as creams, lotions, shower gels, sun care range.

Power Brands with Market Share

Brands	Segment	Market Size (₹ bn)	Market Share
Navatna Oil	Cooling Oil	10.3	66%
Zandu & Mentho Plus	Balms	12.6	55%
BoroPlus Antiseptic Cream	Antiseptic Cream	6.5	74%
Fair and Handsome Fairness Cream	Men's Fairness Cream	4	65%
KeshKing Oil	Ayurvedic Medicinal Hair & Scalp Care	9.9	27%
NavratnaCool Talc	Cool Talc	7.6	26%
Fair and Handsome Face Wash	Men's Face Wash	4	12%

Source - Company, Way2Wealth

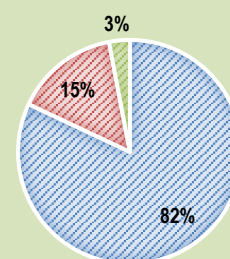
- **Lower Penetration across portfolio indicates considerable multi-year headroom, which could drive growth across the foreseeable future** – Being an early entrant in these spaces, Emami commands the market leader position which translates into higher growth.

Nifty	17,626
Sensex	59,183
Key Stock Data	
CMP	₹521
Market Cap (₹ cr)	₹23,158
52W High/Low	₹621/₹420
Shares o/s (cr)	44.45
Shareholding pattern (%) Dec'21	
Promoter	53.9
Institutions	36.9
Public & Others	9.2
Promoters share pledged	31%

Particulars	FY20	FY21	Growth
Sales	2,655	2,881	8.5%
Gross Profit	1,779	1,951	9.7%
Gross Margin	67.0%	67.7%	
EBITDA	691	883	27.8%
EBITDA Margin	26.0%	30.6%	
Reported PAT	303	455	50.1%
PAT Margin	11.4%	15.8%	
Reported EPS	6.8	10.2	

Source: Company, Way2Wealth

REVENUE MIX



■ Domestic
■ International Business
■ Institutional

Product	Strategy
Navratna	
Category Penetration (15%)	<ul style="list-style-type: none"> ➤ Engage Salman Khan to promote brand ➤ Investment in E-com, SKUs ➤ Launched campaign to tap young audience
Boro Plus	
Category Penetration (24%)	<ul style="list-style-type: none"> ➤ Highlight multi-purpose use ➤ Increase penetration by targeting other categories like petroleum jelly and cold creams
Zandu & Mentho Plus Balm	
Category Penetration (37%)	<ul style="list-style-type: none"> ➤ Highlight the side-effects of consuming painkillers also multipurpose use of Zandu Balm ➤ Differentiation as an ayurvedic pain expert for headache, cold and body aches ➤ Low-priced packs to drive penetration
Kesh King	
Category Penetration (9%)	<ul style="list-style-type: none"> ➤ Enhancing penetration by focusing on promotion through a rural van ➤ Revamped packaging with a special comb applicator ➤ Modern trade and e-commerce-specific SKU launch
Men's Fairness Cream	
Category Penetration (4%)	<ul style="list-style-type: none"> ➤ Strategic price reduction in select SKUs for price parity with competition ➤ Leveraging van operations for HE to penetrate rural markets ➤ Digital interventions to tap the online audience and leverage the e-commerce space.
Zandu Healthcare Range	
	<ul style="list-style-type: none"> ➤ Amitabh Bachchan as brand ambassador for Zandu Pancharishta ➤ Launched a unique and innovative ayurvedic cough syrup in a sachet.

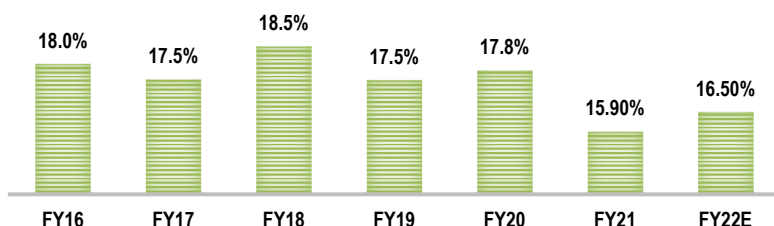
Source - Company, Way2Wealth

- **Superior track record of launching new brands and brand extension** – The company has fixed its under-performing brands with relaunches (packaging & communication). For example, the company re-launched Kesh King to improve the formulation, communication and packaging. The company also focused on enhancing the visibility of “Kesh King Medicinal Shampoo”, which grew strongly during the year. +40 new products were launched in FY21 contributing around 4% to domestic business in FY21.

New launches in Q2FY22:

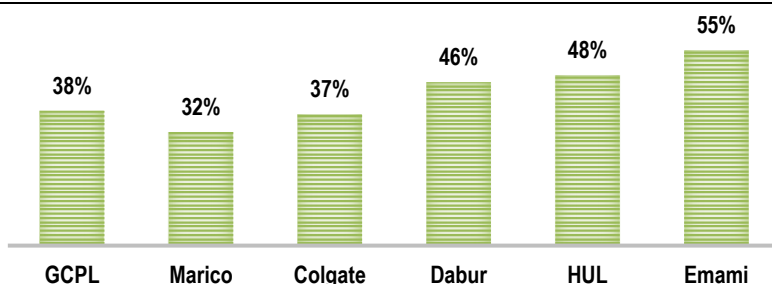
- Boroplus launched a new variant targeting women between 25-30 years of age with light and non-sticky Boroplus soft ayurvedic antiseptic cream.

- **Aggressive marketing spend to keep up the growth momentum** – Emami's marketing spend is one of the highest in the industry; the company spends avg ~17% of its sales on advertisement and promotion. Aggressive marketing spending has helped Emami in gaining market share across its power brands.

A&P SPEND AS % OF REVENUE

Source - Company, Way2Wealth

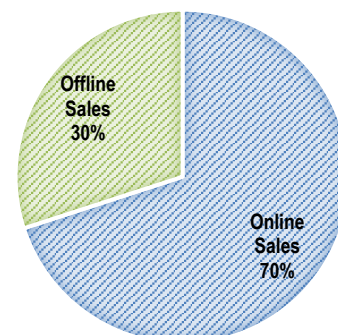
- **Direct reach in rural markets and lower competitive risks makes Emami the top pick company to leverage on robust rural market growth** – Emami responded well to the strong rural growth by aggressively expanding its rural distribution network through its various initiatives and deployed rural vans across ~30,000 villages across Madhya Pradesh, Maharashtra, Uttar Pradesh and Bihar. In 1HFY22, rural presence was increased in addition to 5200 towns through the Project Khoj. Currently, the company derives ~55% of its domestic sales from the rural market. Currently, products are available across 4.5 mn retail outlets. The company's direct reach increased by ~300k outlets to 940k retail outlets. Revenues from the wholesale channel declined from ~50% to 43%; Modern Trade revenues increased from 4% to 8% in FY21 and e-commerce contribution increased to 2.9% in FY21.

Rural contribution


Source - Company, Way2Wealth

- **Investment in emerging online opportunities to accelerate future growth:**

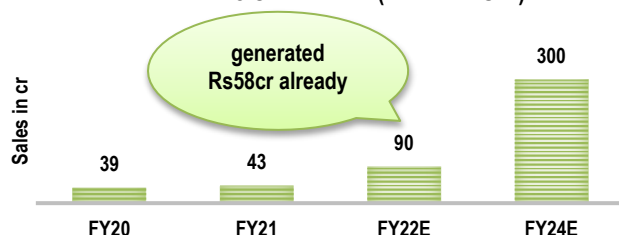
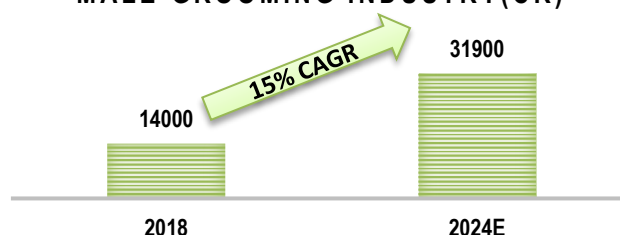
1. Emami has picked up ~12% additional stake in Helios Lifestyle-owned male grooming start-up, **"The Man Company"**, for an all-cash deal of ₹50cr. Emami had previously acquired a 33.09% equity stake in Helios Lifestyle, in two tranches—one in Dec'17 and another in Feb'19. Now it owns a 46% stake in the Man Company, making the Emami largest shareholder in Helios Lifestyle. This investment of Emami would help to accelerate the journey towards having a future-ready male grooming portfolio and to focus on strategic investments in start-ups to incubate new engines of growth.
2. **About The Man Company (TMC)** – founded by Hitesh Dhingra, Bhisham Bharti's and Parvesh Kumar, offers a range of premium men's grooming products across categories like bath & body, beard grooming, shaving and perfumes. It has a presence across e-commerce channels, modern trade stores and premium outlets.
3. **Strategy going ahead** – focused on expanding its base in Tier-II cities and beyond, which account for 50-55 % of its sales.

REVENUE MIX OF THE MAN COMPANY (TMC)


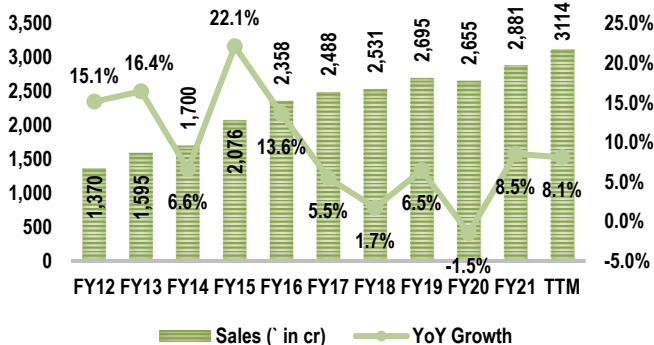
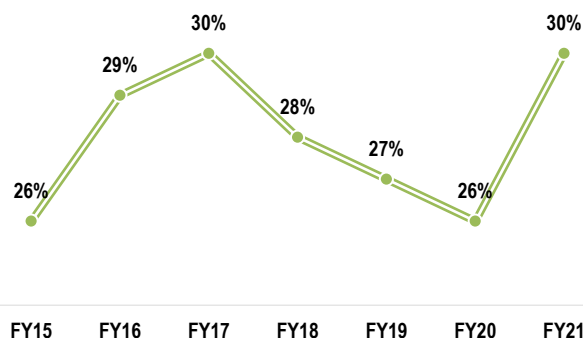
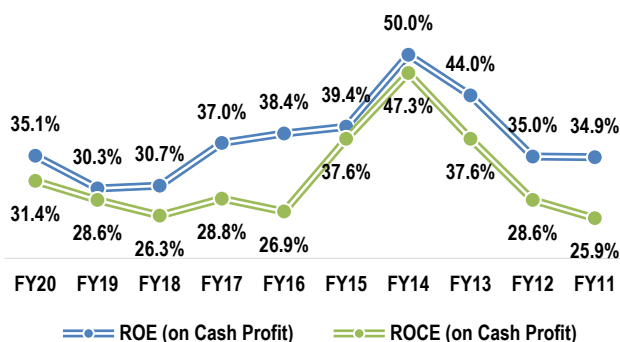
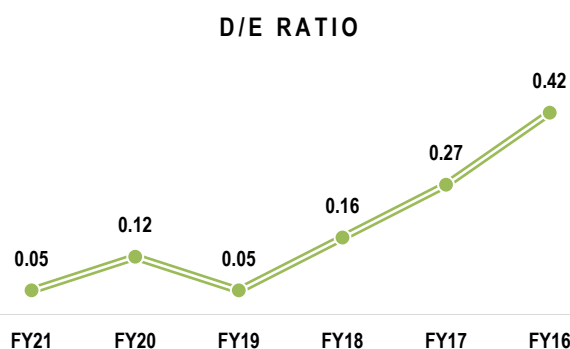
28 exclusive brands	
5-6	Top cities
21-22	Tier II & Smaller Towns

Multi-brand outlets	
FY21	FY23E
1,200	2,500

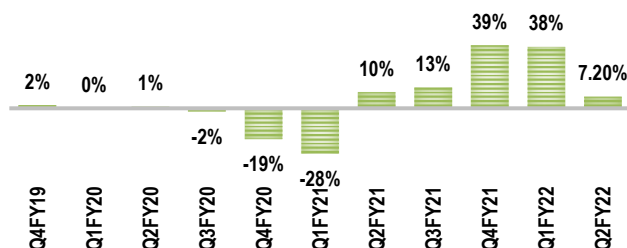
Source - Company, Way2Wealth

THE MAN COMPANY (REVENUE)

MALE-GROOMING INDUSTRY (CR)


Source - Company, Way2Wealth

Robust financial profile
10 year CAGR at 9%

Healthy EBITDA margin across the years

Return ratio remain attractive

D/E reducing from 0.42 in FY16 to 0.05 in FY21


Source - Company, Way2Wealth

Q2FY22 Brand Performance
DOMESTIC VOLUME


Revenue Growth (%)	Q1FY 21	Q2FY 21	Q3FY 21	Q4FY 21	Q1FY 22	Q2FY 22
Domestic	-26	11	13	44	42	9
International	-18	11	26	28	17	-6
CSD	-38	-2	-27	-3	34	29

Source - Company, Way2Wealth

Q2FY22 takeaways

- Project Khoj to further strengthen/ deepen its direct distribution capabilities in rural areas of 13 states
- Targets to achieve double-digit revenue growth in the medium term led by new product launches (2.5% of revenues), distribution expansion, market share gains.
- Price hike of 3.5% and a further price hike in the portfolio will help mitigate input cost inflation.
- Overall, gross margins will be lower by 80-100 bps in FY22. OPM will be managed through cost efficiencies and prudent ad-spends.

Key Risks

- **Poor Rural Demand** – Rural India contributes to ~50% of Emami's revenues. Weak rural demand on account of unfavorable seasons and govt. policies may affect a company's growth rate
- **Promoter Pledge** – The promoter pledge has come down significantly over the past one year. However, if the pledge issues were remained unsolved, the stock may face correction
- **Slowdown in the economy**
- **Inflationary raw material prices**

Outlook

Emami Ltd. is a market leader in several categories and with low penetration of key categories, there is room for double-digit growth across the power brands. Emami is focused on strengthening its direct reach (project Khoj) and reducing its dependence on the wholesale channel. A wider distribution, new product launches and sustained growth opportunity in the healthcare portfolio will be key growth drivers for the company.

Emami's investment in online business would help accelerate the journey towards having a future ready male grooming portfolio and to focus on strategic investments in start-ups to incubate new engines of growth.

The promoter pledge has reduced to 30% in Mar-21 from its peak in Mar-20, the management has guided to reduce it further in next couple of quarters.

Considering all the above factors, Emami Ltd is in a strong position to drive growth in the medium to longer term. The stock should see upside as it's available at a discount to peers.

At the current price of ₹521, it is trading at ~40.7 times P/E to its EPS(TTM) of ₹12.8, making it an attractive pick at the current valuation.

We recommend investors to *Accumulate* the stock on *Dips*.

Financial Performance

(₹ cr)

Particulars	Q2FY22	Q2FY21	VAR [%]	Q1FY22	VAR [%]	H1FY22	H1FY21	VAR [%]
Net Sales	788.8	734.8	7.4%	661.0	19.3%	1,449.8	1,216.2	19.2%
Other Income	37.6	7.9	376.7%	10.7	250.8%	48.3	14.6	231.3%
TOTAL INCOME	826.5	742.7	11.3%	671.7	23.0%	1,498.1	1,230.8	21.7%
Raw Material Consumed	247.9	202.4	22.5%	183.9	34.8%	431.9	300.2	43.9%
Purchase of stock in trade	27.5	50.4	-45.3%	43.3	-36.4%	70.9	93.9	-24.5%
Stock Adjustment	(29.1)	(34.3)	-15.2%	(2.6)	1006.1%	(31.7)	(14.2)	122.8%
Employee Expenses	82.1	78.4	4.7%	84.5	-2.9%	166.6	156.5	6.4%
EPC as a %age of sales	9.9%	10.6%		12.6%		11.1%	12.7%	
Advertisement & Publicity	105.3	108.1	-2.6%	109.9	-4.1%	215.2	167.8	28.2%
Advertisement as a %age of sales	13.4%	14.7%		16.6%		14.8%	13.8%	
Other Expenses	77.9	72.8	7.0%	72.3	7.8%	150.2	132.0	13.8%
Other Expenses as a %age of sales	9.4%	9.8%		10.8%		10.0%	10.7%	
TOTAL EXPENDITURE	511.7	477.7	7.1%	491.2	4.2%	1,002.9	836.1	20.0%
EBIDTA	277.2	257.1	7.8%	169.7	63.3%	446.9	380.1	17.6%
EBITDA Margins %	33.5%	34.6%		25.3%		29.8%	30.9%	
Interest	0.8	2.5	-68.5%	0.6	21.9%	1.4	7.2	-80.2%
PBDT	314.0	262.5	19.6%	179.8	74.7%	493.8	387.5	27.4%
Depreciation	83.9	114.8	-27.0%	83.0	1.1%	166.9	189.6	-12.0%
PBT before share of associates	230.1	147.7	55.8%	96.8	137.8%	326.9	197.9	65.2%
Share of (Loss) of associates	3.8	0.8		1.5		5.4	2.0	
PBT	226.3	146.9	54.1%	95.3	137.5%	321.6	195.9	64.1%
Tax	41.1	28.4	44.6%	17.5	134.9%	58.5	37.9	54.5%
Tax Rate	17.8%	19.2%		18.1%		17.9%	19.1%	
Reported Profit After Tax	185.3	118.5	56.4%	77.8	138.1%	263.0	158.0	66.4%
PATM %	22.4%	15.9%		11.6%		17.6%	12.8%	
Other Comprehensive Income	7.2	(6.3)		27.1		34.1	17.3	
Total Comprehensive Income	192.4	112.2	71.5%	104.9	83.4%	297.2	175.3	69.5%
EPS	4.17	2.66	56.4%	1.75		5.92	3.56	66.4%

Source : Company, Way2Wealth

Technical View

Looking at weekly chart, EMAMI has been in a protracted up trend since March, 2020 and in that optimism stock rallied till 617 during late August, 2021. Subsequently, stock witnessed bouts of profit booking as a result we saw correction in past few months. The selling pressure exhausted near 500 and we are seeing consolidation in stock since last few weeks. The weekly RSI (14) relieved from its overbought state and during November 18, 2021; weekly RSI (14) scaled near 43 which is lowest since June, 2020. Hence, said indicator suggests that the stock is oversold in an up trending scenario. On a monthly chart, we are seeing a formation of "Tweezer Bottom". Considering the above evidences, we expect stock to resume its primary trend hence we advocate to accumulate the stock in a range of 520 to 500 with an upside price target of 620 – 640 where multiple resistance placed. Lower side, 440 will be a strong support for stock.



Source: Falcon 7

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Name of the Security	Emami Ltd.
Name of the analyst	Ashwini Sonawane
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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