



Initiating Coverage | FMCG
Emami Ltd.

09 Jan 2019



Karan Agarwal - Assistant Research Analyst (karan.agarwal@jainam.biz); 0261-6725518

Investors are advised to refer through important disclosures made at the last page of the Research Report.

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Company Overview

About

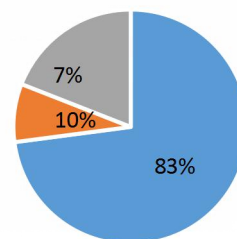


Emami Ltd.

- Emami Limited (EL), the flagship company of the Kolkata-based Emami group. It is one of the leading FMCG companies in India. It is engaged in manufacturing of herbal and ayurvedic products in personal, cosmetic and health care segments. Its products are sold under the brands, 'Emami' (Personal & Cosmetic), 'Himani' (Ayurvedic), 'Zandu' and Kesh King.
- It was set up in 1974 as Kemco Chemicals, a partnership firm, which manufactured cosmetic products and ayurvedic medicines and was marketing the same under the brand 'Emami'. In 1978, the promoters of EL took over Himani Limited, engaged in manufacturing and selling of cosmetic products. In 1995, Kemco Chemicals was renamed as EL and in 1998, Himani Ltd. was merged with EL.
- EL currently markets several widely accepted ayurvedic, herbal, cosmetic, personal and health care products comprising oil, talc, cream, balm, medicine and cosmetic. These products are sold in India and more than 60 countries worldwide. EL enjoys significant market share in Boroplus Antiseptic Cream, Navratna Oil, Zandu Balm and Fair and Handsome and Kesh King.

Latest Date	01-Jan-19
Latest Price (Rs)	420.00
52 Week High (Rs)	714.00
52 Week Low (Rs)	386.05
Face Value(Rs)	1.00
Industry PE	58.83
Price/BV(x)	10.08
EV/TTM EBIDTA(x)	25.37
EV/TTM Sales(x)	7.41
Dividend Yield%	0.83
MCap/TTM Sales(x)	7.31
Market Cap (Rs in Cr.)	19,063.80
EV (Rs)	19,310.00
Latest no. of shares (in Cr.)	45.39

Shareholding Pattern



■ Promoters ■ Others ■ FII & MFs

Exchange: BSE

BSE Code:531162

Current Market Price:420 .00

Date: 09-01-2019

Investment Rationale

- Rural play:

Rural FMCG market has substantial growth potential, due to reduced GST on staples, highest reservoir level in last 4 years, investment in rural sector by the government and more in line due to elections, rising disposable income levels through various Government schemes like NREGA, higher minimum support price (MSPs) for agricultural produce, loan waivers, etc. Higher income level has resulted in high aspiration levels and increasing brand consciousness among rural consumers.

To capture this market, the company has accelerated its direct rural household marketing through various innovative schemes and 'Project Dhanush' (whereby its field staff covered rural markets directly on vehicles).

Emami is one of the FMCG companies with highest rural mix at ~50%.

- Experienced “Drivers”:

The promoters of the group, Mr. R.S. Agarwal and Mr. R.S. Goenka, have an experience of business of over four decades. The next generation of both promoters is actively involved in day-to-day activities of the group. The company is run by a 16-member Board of Directors consisting of eight members from promoters' families and eight professionals and businessmen from diverse fields as independent directors.

- Market position:

The company's leading position in the niche ayurvedic segment (both personal and healthcare consumer items) is defined by the market leadership of its key products, Navratna (64% market share by volume in the cooling oil segment), Boroplus (74% share in antiseptic creams), Zandu and Mentho Plus (54% share in balms), Kesh King (28% in ayurvedic hair oil), and Fair and Handsome (66% share in men's fairness creams). Emami has 6 brands which generate more than Rs 100 crore revenue per annum.

- Healthy Financial position:

Financial risk profile is aided by strong and improving cash generation (Rs 208 crore for fiscal 2018), healthy debt metrics which is further reducing, and prudent capital spending. Debt undertaken in fiscal 2016 to acquire Kesh King is expected to be completely repaid in fiscal 2019 through internal cash accrual.

- Product Portfolio:

Most of the products are for the young generation and also, they are the ones with low market penetration which leaves a sound scope for them in the coming future.

● International Market:

International business has experienced a decline in business in last some years which is mainly due to worsening economic conditions of the customer countries. This is expected to turn around and recovery, though on a slow pace, can happen.

International Bus. Sales growth	44%	17%	10%	14%
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Source : Company Annual Report

Concerns and Risks

● Pledging shares to allocate capital:

The company has been using the strategy of keeping its shares in pledge to fund other companies of the group. Currently, around 40% of the promoter's shares are in pledge to fund 2 other companies of the group, namely, Emami Cement and Emami Edible oils. The loan is of around 6,158 cr, approx. 1/3rd of which has been employed in Emami Cement and the rest for edible oil. Emami Agrotech is a much larger company than Emami Ltd. with a turnover of around 10,000 but at the same time Emami Cement is incurring loss.

● Volatility in raw material prices:

The key raw material for EL is menthol, packaging material and vegetable oil. The price of polymers (used for packaging material) is linked to the price of crude, which is volatile in nature. Menthol/Mentha Oil (acts as a soothing product), LLP (crude derivative), Rice Bran Oil (RBO), Seshale wax, til oil are the key raw materials used in health care and personal care products.

● Intense competition:

Indian FMCG market is characterized by a large number of organized and unorganized sector players with duplicate products being rampant. The domestic organized sector comprises of some of the world's biggest giants in this business. As a result, they are better positioned to command a price as well as quality edge over the competitors. Overall, the FMCG market remains highly fragmented with widespread use of unbranded and unpacked homemade products in rural market. However, considering the low penetration levels of various products-segments, the FMCG industry is positioned for a long term growth.

● Distribution channels:

A major portion of the rural sales is through wholesale channels, which is directly related to rural growth and any downside to the rural economy affects this route heavily.

As it was noticed in last 2 years.

Emami has been working on expanding its direct reach which may put some pressure on margins.

- Margins:

Company is already enjoying high margins equivalent to Industry leaders, and being in an monopolistic market, it leaves the company with only some scope for commanding higher margins and premiums.

Also, investment in its direct distribution channels will put some pressure on its margins.

Overall, it appears to be more of a volume game than margins for the company.



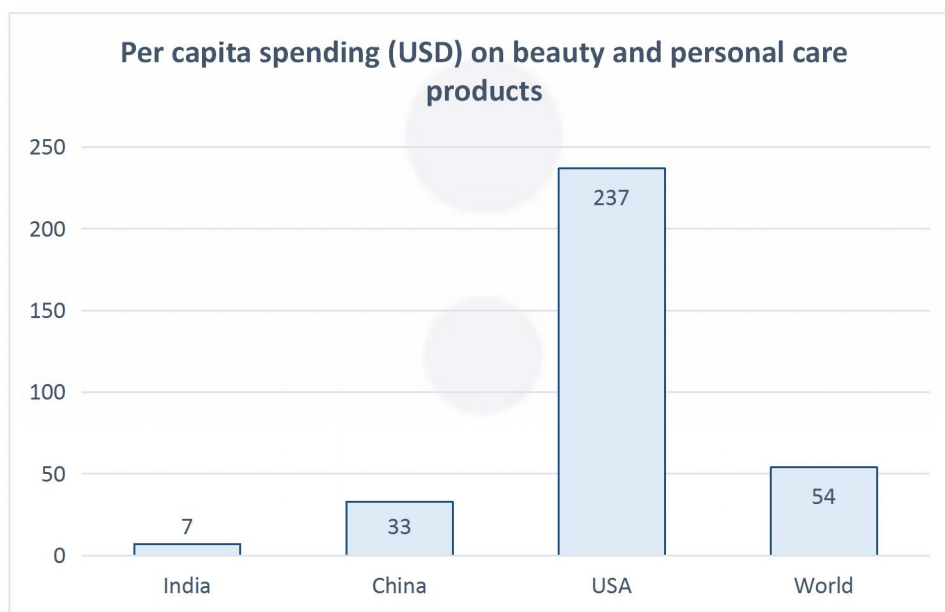
Industry Overview

FMCG Industry

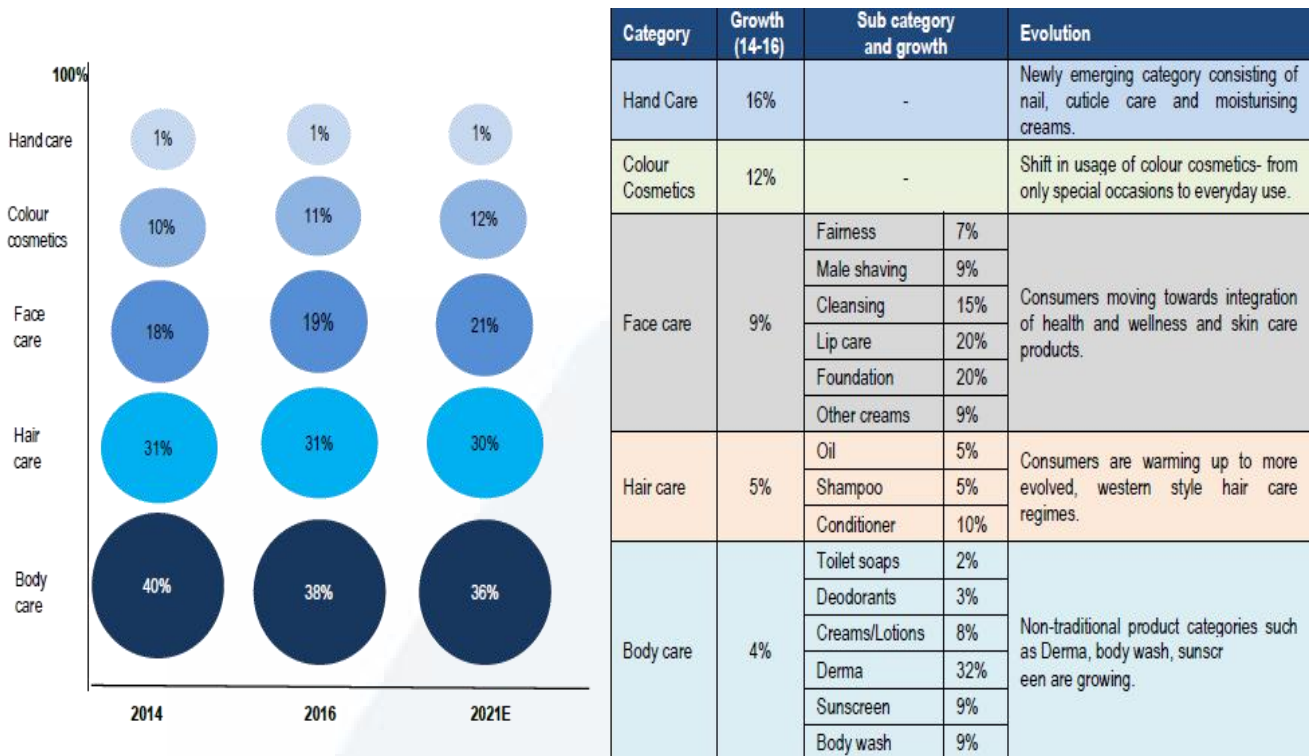
The past three years have been fairly challenging for almost all the segments of the FMCG Industry in India, but this is expected to change fairly significantly from 2HFY18 (especially HPC segment). Indian consumers' per capita spending on beauty and personal care products is fairly low (US\$7 as compared to global average of US\$54) and as the consumers have successfully managed to navigate most of the key economic challenges, increasingly the growth should be re aligned to per capita income and aggregate national income growth of 8%-12%, as has been the case in the past.

Steady growth in discretionary demand (6%- 8% in volume terms and about 10%-12% in value terms for consumer durables led by urban demand during the period FY14-FY17) also augurs well for revival of demand for non-discretionary goods such as home and personal care which had witnessed a meagre growth of 5% in the same period.

Categories like oral care and body wash could remain in mid single-digit whereas men's grooming, skin and hair care are likely to find their mojo back again and deliver growth in double digits. Both penetration and per capita spending in these categories are fairly low, product suite in these categories are increasingly aligned with consumer preferences and importantly, consumer intent and willingness to premiumise driven by multiple reasons is fairly high. Also from a category-perspective, globally per capita spending on skin care itself is north of US\$15 per annum and per capita spending by men, is estimated to be about 1/10th of what is spent by women in India similar to overseas countries.



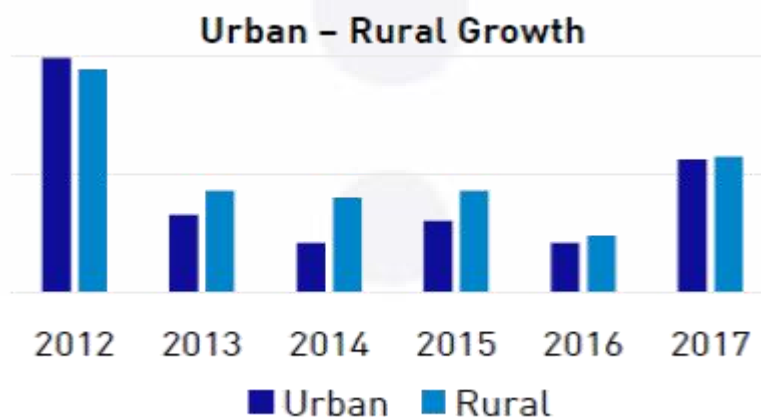
Source : AT Kearney Report



Source : AT Kearney Report

India's BPC market size by category (%)

In the past decade, companies invested substantially in strengthening their distribution infrastructure and improving their reach through several distribution and customer outreach programmes. Growth in modern trade and e-commerce will substantially outpace growth through other channels in the medium term. Rural markets, which have witnessed significant deceleration in recent years, will also see improvement, but the pace could be somewhat slow as the wholesale channel - which contributes substantially currently - will continue to remain in an adjustment phase.



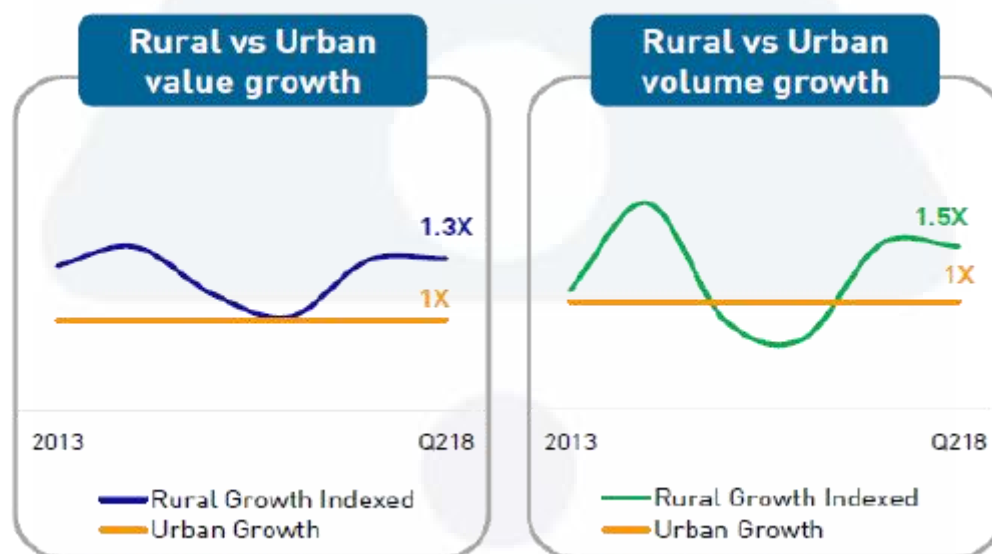
Source : AT Kearney Report

Rural growth on an upward trajectory after five years of subdued growth

Considering that distribution and customer outreach to a large extent has played its role, it will become increasingly imperative for companies to drive innovation not just in products but also in their whole organizational approach. Consumer behaviour in India is changing fairly fast and organizations which are able to respond to the fast-changing landscape in a more nimble-footed manner will really hold the key to retaining and winning the consumer mindset. Besides being sensitive to pricing, increasingly most consumers have gone natural/green in their preference across categories.

The long-held belief that natural products do not have any side effects coupled with high-intensity marketing from naturals-focused players such as Dabur India, Himalaya and finally Patanjali has also accelerated the trend. Besides naturals, a slew of products such as organic, antipollution, anti-fatigue and anti-ageing products - which focus on inner well being and health – also witnessed a major fillip.

Companies will also have to manage the digital and technology paradox which is both an opportunity and technology paradox. In order to maintain sector growth rate, companies will have to deliver about 3%-5% growth per annum from innovative products and about 20% in the five-year period from innovative and renovated products to maintain market share and/or leadership in their respective categories.



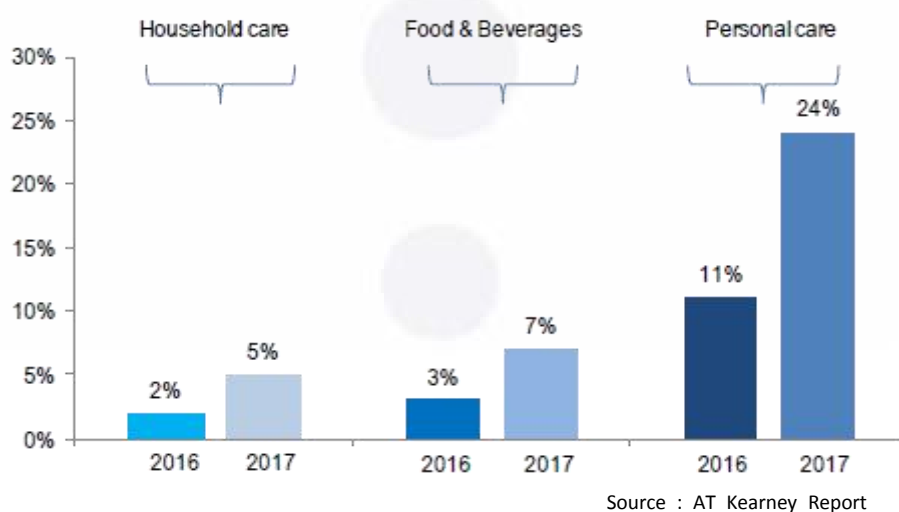
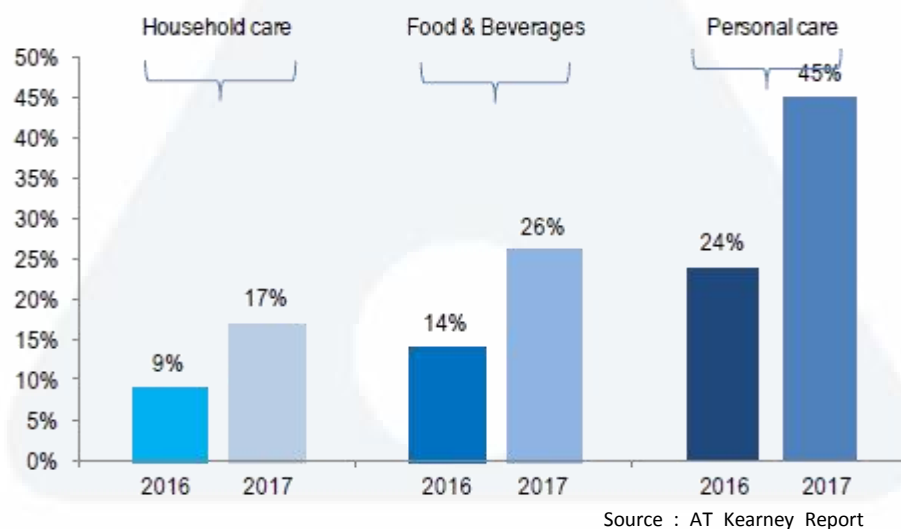
Source : AT Kearney Report

Rural volumes now growing at 1.5x of urban while value is at 1.3x of urban

Although pricing will be somewhat sluggish on account of benign inflation, it is expected that product innovation, fast growth in modern channels and importantly productivity gains to continue to support margin expansion by most HPC players. The share of affluent and elite households, which currently stands at about 24%, is expected to double to about 50% within a decade. The recent trend witnessed in categories like deodorants and skin cream, which has seen the share of premium category nearly double, is also another point to consider.

Considering the fact that India holds significant market potential in HPC categories, both MNC and Indian companies are expected to slug it out significantly to capture a larger share of the overall pie. FMCG remains the highest spender with a contribution of about 32% to traditional media i.e. television, print and radio.

Hindustan Unilever remains the highest spender with a share of nearly 25% of overall spending. In recent years, Patanjali has emerged as a large spender and ranks No.7 in the FMCG space and No.15 on overall basis. The disruptive challenges by Patanjali need to be watched closely. Currently, it has a very wide portfolio of products to offer and as it expands production capabilities it may follow a more vertical or depth strategy by offering more SKUs or segmentation within the category itself. This certainly will be a challenge to most players looking to defend their turf by launching green/ayurvedic products. The mentioned brand now reaches nearly 53% households in personal care and 26% in food products, up nearly 100% from a year ago. Even in rural households it has built a good reach by achieving nearly 24% market share in personal care and 7% in food and beverages. Importantly, the brand has a very good retention rate and is certainly a challenge for most personal product manufacturers.



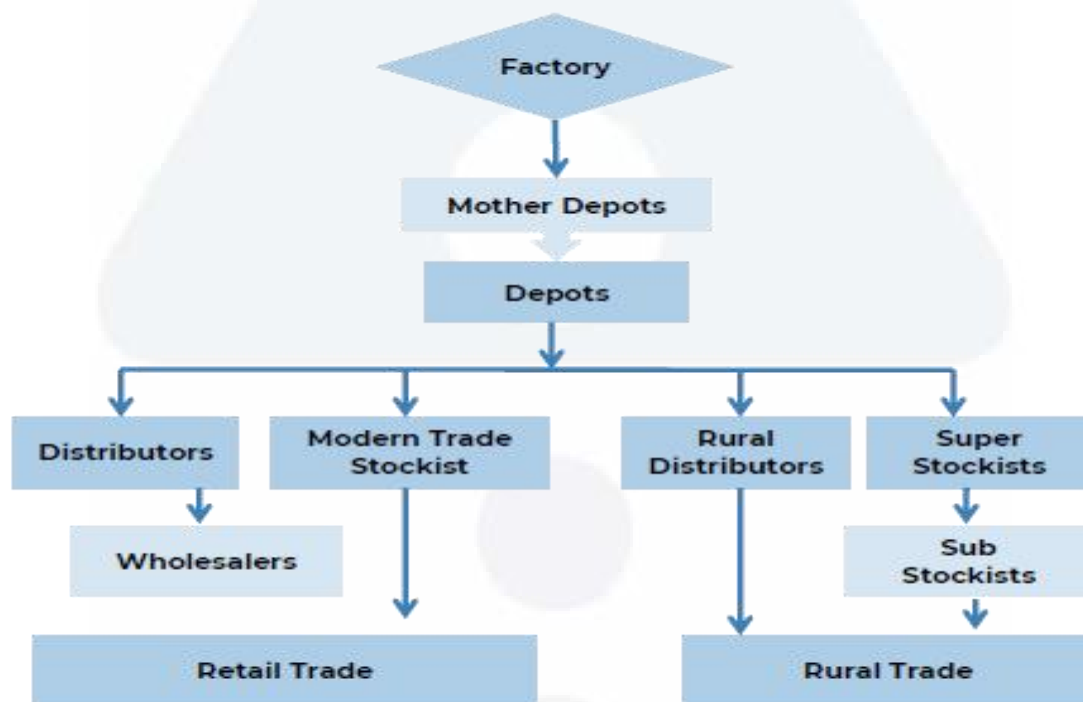
Patanjali reach rises sharply across India

Business of the Company

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Source : Company Annual Report

North, East, West, South region accounts for 32%, 19%, 29%, 20% of sales respectively.

Product Portfolio

Sr. no.	Brands	Products	Category	Characteristic	Penetration	Sales %		Market Share %	Competitors
						Domestic	International	Domestic	
1	Navratna	Cool oil	Hair oil	Seasonal	16%	23	24	66.2	Kailash Parbat
2		Extra Thanda oil	Hair oil	Seasonal	-	Negligible	NA	NA	-
3		Garam ayurvedic oil	Hair oil	Seasonal	-	Negligible	NA	NA	-
4		Almond cool oil	Hair oil	Non Seasonal	-	Negligible	NA	NA	-
5		Cool talc	Talc	Seasonal	41%	6	NA	27	Dermicool, Nycil
6		I-cool talc	Talc	Seasonal	-	Negligible	NA	NA	-
7		<u>I-cool talc Dynamite*</u>	Talc	Seasonal	-	Negligible	NA	NA	-
8	Boroplus	Antiseptic cream	Beauty	Seasonal	27%	15	16	74.3	Olay, Garnier, Boroline
9		Prickly heat powder	Talc	Seasonal	-	Negligible	NA	NA	-
10		Doodh Kesar badam lotion	Beauty	Seasonal	-	Negligible	NA	NA	-
11		Perfect touch	Beauty	Seasonal	-	Negligible	NA	NA	-
12		<u>Zero oil facewash*</u>	Beauty	Non Seasonal	-	Negligible			
13		<u>Healthy White Fairness cream*</u>	Beauty	Non Seasonal	-	Negligible	NA	NA	-
14	Zandu	Balm	Pain reliever	Non Seasonal	29%	23	NA	53.5	Amrutanjan
15		Balm ultra power	Pain reliever	Non Seasonal	-	Negligible	NA	NA	-
16		Sona chandi Chyawanprash plus	Healthcare	Seasonal	-	Negligible	NA	NA	-

17		<u>Kesari Jivan Chyawanprash*</u>	Healthcare	Seasonal	-	Negligible	NA	NA	-
18		<u>Panchrishta sugarfree*</u>	Healthcare	Non Seasonal	-	Negligible	NA	NA	-
19		<u>Kesari Jivan sugarfree*</u>	Healthcare	Non Seasonal	-	Negligible	NA	NA	-
20		<u>OTC, Classical, ethical*</u>	Healthcare	Non Seasonal	-	Negligible	NA	NA	-
21	Fair and Handsome	Fairness cream for male	Beauty	Non Seasonal	4%	9	28	64.9	Ponds, Nivea, Garnier
22		Instant fairness face wash	Beauty	Non Seasonal	-	Negligible	NA	14.4	-
23		<u>Laser 12*</u>	Beauty	Non Seasonal	-	Negligible	NA	NA	-
24		Complete winter solution	Winter care	Seasonal	-	Negligible	NA	NA	-
25	Mentho Plus	Balm	Pain reliever	Non Seasonal	-	Negligible	NA	NA	-
26	Fast relief	Pain relief ointment	Pain reliever	Non Seasonal	-	Negligible	NA	NA	-
27	Vasocare	Herbal Petroleum jelly	Winter care	Seasonal	-	Negligible	NA	NA	-
28	7 oils in one	Damage control hair oil	Hair oil	Non Seasonal	-	Negligible	NA	NA	-
29	Kesh King	Haircare	Medicinal Hair oil	Non Seasonal	9%	15	NA	28	Dabur
30	Diamond shine	Creme hair color	Beauty	Non Seasonal	-	Negligible	NA	NA	-
31		Natural black	Beauty	Non Seasonal	-	Negligible	NA	NA	-
32		Dark brown	Beauty	Non Seasonal	-	Negligible	NA	NA	-
33		Cherry red	Beauty	Non Seasonal	-	Negligible	NA	NA	-
34		Natural brown	Beauty	Non Seasonal	-	Negligible	NA	NA	-
35		<u>Luxury Creme*</u>	Beauty	Non Seasonal	-	Negligible	NA	NA	-

36		Burgundy	Beauty	Non Seasonal	-	Negligible	NA	NA	-
37	HE	Deodorant	Beauty	Non Seasonal	-	Negligible	NA	NA	-
38		Waterless facewash	Beauty	Non Seasonal	-	Negligible	NA	NA	-
39	Emami golden beauty	Talc	Talc	Non Seasonal	-	Negligible	NA	NA	-
40	Emami natural fair	Herbal fairness cream	Beauty	Non Seasonal	-	Negligible	NA	NA	-

* ***New products***

Core Products performance

Brand	Product	2014-15	2015-16	2016-17	2017-18
		<u>Market share</u>	<u>Market share</u>	<u>Market share</u>	<u>Market share</u>
Navratna	Cool oil	65%	60%	61%	64%
	Cool talc	27%	27%	26%	27%
Boroplus	Antiseptic cream	76%	72%	70%	74%
Zandu	Balm	61%	60%	59%	54%
Fair and Handsome	Cream	59%	59%	60%	66%
Kesh King	Haircare	Acq. in 2015	36%	34%	28%
International Bus. Sales growth		44%	17%	10%	14%

Source : Company Annual Report

Emami added prominent ayurvedic brand, Zandu, to its portfolio when it acquired around 70% stake in Zandu Pharmaceuticals Works Ltd in 2008 for Rs 710 crore.

In June 2015, Emami acquired the Kesh King brand of hair and scalp care products from SBS Biotech Pvt Ltd for Rs 1600 crore. The Kesh King portfolio includes hair oil, shampoo, and ayurvedic capsules along with the respective formulations

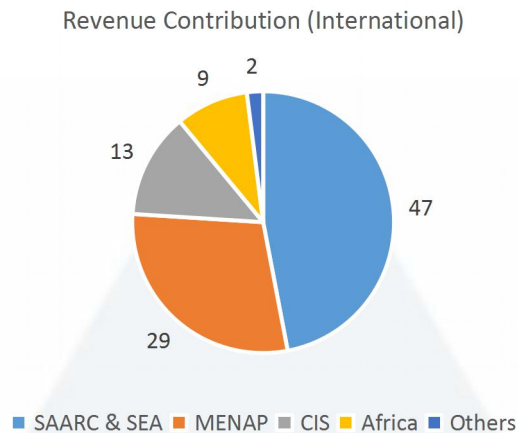
In addition to strong domestic presence, EL's products are also sold in more than 60 countries, with substantial presence in SAARC countries, MENAP (Middle East, North Africa and Pakistan) and Africa.

(SAARC South Asian Association for Regional Cooperation (Major countries – Bangladesh, Nepal, Sri Lanka etc.)

SEA South East Asia (Major countries – Malaysia, Myanmar & Singapore)

MENAP Middle East, North Africa & Pakistan (Major countries – UAE, Qatar, Oman, Kuwait, Bahrain etc.)

CIS Commonwealth of Independent States (Major Countries – Russia, Ukraine etc.)



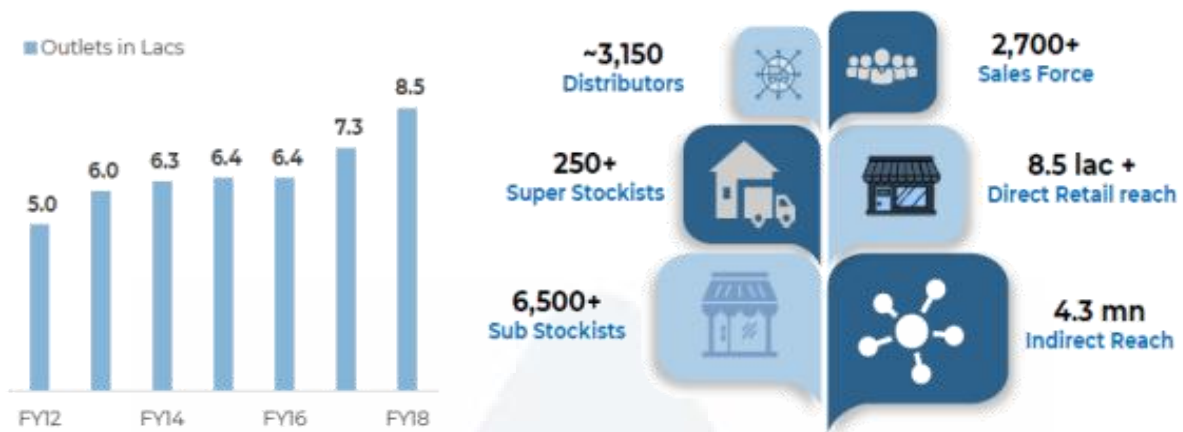
Source : Company Annual Report

Emami has manufacturing plants in Kolkata (West Bengal), Guwahati (Assam), Pantnagar (Uttarakhand), Vapi, Silvassa, and Talasari (Maharashtra). In fiscal 2014, Emami, through one of its subsidiaries - Emami Bangladesh, has set up a facility in Ghazipur, Bangladesh.

To deepen its footprint in a growing market, Emami commissioned a third-party manufacturing unit in Sri Lanka (operated through a Sri Lankan subsidiary) and marketed products like BoroPlus and Navratna.

During fiscal 2018, the company has acquired a strategic stake in Helios Lifestyle Pvt Ltd (20.45%) and Brillare Science Pvt Ltd (26%) in order to foray into professional salon and online male grooming segments. On June 22, 2018, Emami International FZE, a Dubai based wholly-owned subsidiary of the company, acquired 7.54% stake in M/s Loli Beauty Inc, a US based company dealing in natural and organic personal care products

EL has three distinct marketing channels, viz., retail, exports and rural trade. Retail sales take place through 3,150 distributors and wholesalers. The company uses network of 250 rural super-stockists and 6,500 sub-stockists in rural areas in India to reach out to 25,000 villages (with population of 5,000 and above) and cover around 13,000 towns through van operations. The company has a direct coverage through 8.5 lakh retailers and an indirect coverage via 43 lakh retailers.



Direct Reach

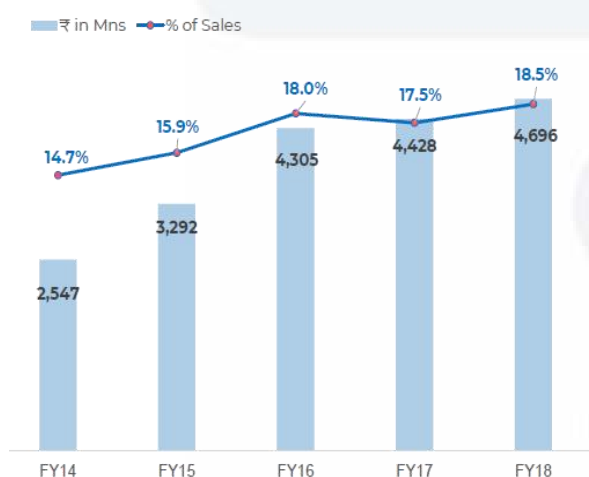
Source : Company Annual Report

Domestic Reach

Source : Company Annual Report

After witnessing healthy growth over the past few years, the operating income witnessed lower growth of 2% in FY18 (5% in FY17) due to implementation of GST in July 2017 (demonetization of currency in November 2016). EL's operating margin has remained healthy over the past few years on account of effective raw material sourcing through long term booking at competitive rates, rationalized advertising expenditure, cost management program across all functions. Financial performance of the company improved in Q1FY19 over Q1FY18 as performance in Q1FY18 was hit by destocking by dealers and distributors due to implementation of GST in July 2017.

Advertisement and Promotion Spends



Source : Company Annual Report

R&D Spends



Source : Company Annual Report

Company's strategy involves heavy expenditure on A&P part but lags behind in research and development spending from several of its competitors.

Financial Outlook

Balance Sheet

Report Date	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Equity Share Capital	22.7	22.7	22.7	22.7	22.7
Reserves	909.42	1207.94	1588.91	1732	1990.91
Borrowings	37.62	35.89	671.44	472.96	325.92
Other Liabilities	332.55	422.28	410.4	407.98	475.53
Total	1302.29	1688.81	2693.45	2635.64	2815.06
Net Block	395.86	452.9	1917.51	1993.78	1802.06
Capital Work in Progress	11.91	28.77	67.09	21.52	30.47
Investments	295.84	501.27	103.93	127.69	313.59
Other Assets	598.68	705.87	604.92	492.65	668.94
Total	1302.29	1688.81	2693.45	2635.64	2815.06
Receivables	79.29	101.77	130.88	97.01	155.89
Inventory	141.15	126.65	150.54	179.16	193.95
Cash & Bank	269.96	354.11	108.43	50.05	79.52
Face value	1	1	1	1	1

On 12th June, 15, Company acquired Hair & Scalp care business under the Kesh King and allied brands at Rs. 1684 cr. Intangible assets viz. Brands/Trademarks including Goodwill has been valued and has an estimated useful life of 5 to 10 years excluding Goodwill.

Cash Flow Statement

Report Date	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Cash from Operating Activity	428.22	534.05	561.62	729.63	587.81
Cash from Investing Activity	-139.74	-236.93	-1312.68	-305.92	-276.29
Cash from Financing Activity	-301.3	-215.39	501.82	-495.82	-323.74
Net Cash Flow	-12.82	81.72	-249.24	-72.12	-12.21

Profit & Loss

Report Date	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Sales	1820.78	2217.25	2358.35	2488.17	2530.55
Raw Material Cost	705.9	766.36	830.76	806.67	821.25
Change in Inventory	25.62	-13.6	18.63	15.67	11.4
Power and Fuel	9.79	12.48	12.18	15.19	18.32
Other Mfr. Exp	20.7	20.17	24.39	32.27	32.58
Employee Cost	143.3	167.13	207.8	233.55	254.65
Selling and admin	504.13	665.75	585.39	617.33	651.69
Other Expenses	20.2	-54.42	-26.26	-5.83	-33.05
Other Income	55.32	5.73	-10.99	-14.45	-57.56
Depreciation	35.17	34.31	254.93	308.58	310.86
Interest	5.38	5.14	54.03	58.01	34.31
Profit before tax	457.13	592.44	422.77	423.62	393.77
Tax	54.7	107	59.71	83.61	86.26
Net profit	402.47	485.61	363.06	340.42	307.14

Key Ratios

Report Date	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Operational & Financial Ratios					
Earnings Per Share (Rs)	17.73	21.4	16.02	15	13.53
CEPS(Rs)	9.64	11.45	13.61	14.29	13.62
Adjusted EPS (Rs.)	8.87	10.7	8.01	7.5	6.77
Book NAV/Share(Rs)	41.07	54.22	71.01	77.31	88.72
Adjusted Book Value (Rs)	20.53	27.11	35.5	38.66	44.36
Tax Rate(%)	11.97	18.06	14.12	19.74	21.91
Dividend Pay Out Ratio(%)	39.48	32.72	43.7	46.67	51.73

Report Date	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Margin Ratios					
Core EBITDA Margin(%)	23.38	19.92	25.97	27.74	25.3
EBIT Margin(%)	24.95	26.48	19.89	19.05	16.85
Pre Tax Margin(%)	24.66	26.25	17.63	16.76	15.5
PAT Margin (%)	21.71	21.51	15.14	13.45	12.1
Cash Profit Margin (%)	23.61	23.03	25.78	25.66	24.34

Report Date	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Performance Ratios					
ROA (%)	30.23	32.6	16.62	12.84	11.39
ROE (%)	47.08	44.89	25.55	20.2	16.32
ROCE (%)	49.68	53.44	26.87	21.36	18.75
Asset Turnover(x)	1.39	1.52	1.1	0.95	0.94
Inventory Turnover(x)	14.53	16.85	17.3	15.33	13.62
Debtors Turnover(x)	19.36	24.93	20.61	22.18	20.09
Sales/Fixed Asset(x)	1.87	2.69	1.6	1.04	0.99
Working Capital/Sales(x)	3.52	2.98	-10.45	-7.41	-192.77

Report Date	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Efficiency Ratios					
Fixed Capital/Sales(x)	0.53	0.37	0.62	0.96	1.01
Receivable days	18.85	14.64	17.71	16.45	18.17
Inventory Days	25.12	21.66	21.1	23.8	26.8
Payable days	32.52	38.14	43.84	41.21	39.14

Report Date	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Growth Ratio					
Net Sales Growth(%)	7.16	21.78	6.36	5.5	1.7
Core EBITDA Growth(%)	1.45	24.74	15.8	7.99	-6.49
EBIT Growth(%)	23.25	29.2	-20.21	1.01	-11.12
PAT Growth(%)	27.88	20.63	-25.21	-6.35	-9.56
EPS Growth(%)	-14.75	20.66	-25.14	-6.36	-9.77

Report Date	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Financial Stability Ratios					
Total Debt/Equity(x)	0.04	0.03	0.42	0.27	0.16
Current Ratio(x)	2.65	2.96	0.69	0.56	0.98
Quick Ratio(x)	2.21	2.63	0.48	0.33	0.71
Interest Cover(x)	85.93	116.24	8.82	8.3	12.48

Report Date	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Du Pont					
PATM (%)	26.5	28.41	18.02	18.33	16.54
Sales / Total Assets(x)	466.04	518.83	542.51	343.63	326.83
Assets to Equity (x)	33.32	27.52	923.1	130.66	61.06
ROE (%)	46.69	44.06	23.97	21.17	16.8

ANALYSIS

Peer Analysis

Companies	Business Strategy	Key Brands/Products
Emami	Next generation ayurvedic and personal care products with direct R&D spending of Rs230mn, which is about 1% of turnover.	Boroplus Perfect Touch, Navratna I Cool Talc, He Range of Perfumes and Deos
HUL	Focus largely on home and personal care products. Direct expenditure of about Rs300mn and the rest comes from technical collaboration with parent for which it currently pays a royalty of about 3%.	Lever Ayush, Citra, Baby Dove, Surf Liquid, Lakme Absolute Scuplt
Dabur	Contemporary ayurveda in personal and healthcare products. Employs about 126 scientists and incurs direct expenditure of Rs340 mn.	Honitus Hot Sip, Dabur Red Gel, Madhurakshak Activ, Dabur Baby Massage Oil with Olive
Colgate Palmolive (IN)	Benefit segments of oral care market and direct expenditure is about Rs203mn and pays royalty of about 5% to the parent for technical collaboration. Parent has R&D spending in the range of US\$300mn.	Cibaca Vedshakti, Colgate Sensitive Clove
Gillette India	No expenditure on R&D. Entirely dependent on parent for technical and branding support, ,paying about 1.5% as royalty. P&G annually spends about US\$2bn on R&D, which is about 3% of sales.	Gillette Body Razor, Gillette Fusion Pro, Glide, Gillette Fusion, Hydra Gel

Companies	Distribution Network	Distribution Programme	Rural contribution
Emami	Total reach estimated at about 4.5mn outlets supported by about 3,000 distributors and 7,000 stockists.	Project Race and Dhanush	50-52%
HUL	Widest reach, with 9 out of 10 households buying a HUL product. Estimated reach of 8mn outlets and direct reach of 3mn outlets and about 200,000 villages.	Project Shakti and WIMI	35%
Dabur India	Reach of about 6mn outlets through 3,000 plus distributors with direct reach in about 16%-17%.	Project Buniyad, Project Lead and Project Double	45-50%
Colgate Palmolive (IN)	Reach in about 6mn outlets and direct reach estimated at about 5mn-2.0mn outlets.	-	45-50%
Gillette India	Reach estimated at about 2mn outlets led by Gillette Guard.	-	20%

Companies/OPM	FY14	FY15	FY16	FY17	FY18
Emami	23.8	24.4	29.1	30.4	31
HUL	16	16.9	18.5	19	21
Dabur India	16.4	16.8	19.3	19.6	21
Colgate Palmolive (IN)	18.6	20.6	24.3	23.7	27
Gillette India	4.4	9.4	17.4	22	23

Scenario Analysis

Given the company belongs to an oligopoly market which is about earnings which further is mainly dependent on product differentiation, methods used for valuing the company are **PEG** (considering CFO earnings growth), **PE multiple**, **Discounted Cash Flow**, **Expected Returns Model**.

Method 1 - <u>PEG (CFO)</u>						
Scenarios	I			II		
	2019	2020	2021	2019	2020	2021
CFO growth rate	12	13	13	14	15	15
EPS	14.50	16.39	18.52	14.76	16.98	19.52
Avg PEG (3 years CAGR)	1.88	1.88	1.88	1.88	1.88	1.88
Estimated Price	326.50	399.69	451.65	387.72	477.73	549.38
(Remarks)	CFO growth rate calculated based on latest CFO 5 years CAGR growth. PEG multiple calculated based on earnings of past 3 years.			CFO growth rate calculated based on average of 5 years CAGR of 2017 and 2018. PEG multiple calculated based on earnings of past 3 years.		

Based on the mentioned method of Reverse PEG, current market price of 420 has already been discounted for the FY19 at ~16% growth rate on 2018 CFO EPS.

Hence, for FY19, growth in EPS of more than 16% only will appeal for a re-rating, given, the stock doesn't go south from the current price level.

CFO has given a YoY negative growth in FY18 and grew at CAGR of ~13% in last 5 years.

Method 2 - <u>PE</u>						
Scenarios	I			II		
	2019	2020	2021	2019	2020	2021
Sales forecast	2732.99	2951.63	3187.76	2732.99	2951.63	3187.76
PAT	327.96	354.20	382.53	327.96	354.20	382.53
P/E	55	55	55	60	60	60
No. of shares	45.39	45.39	45.39	45.39	45.39	45.39
Current Market Cap	19,200	19,200	19,200	19,200	19,200	19,200
Estimated Market Cap	180,37.76	194,80.78	210,39.24	196,77.56	212,51.76	229,51.90
Estimated Price	327.96	354.20	382.53	433.52	468.20	505.66
(Remarks)	Sales is calculated on the average of last 5 years. PE multiple is calculated on the basis of average of last 5 years.			Sales is calculated on the average of last 5 years. The current PE multiple is taken into account.		

Method 3 - <u>Discounted Cash Flow</u>		
Initial Cash Flow (Average CFO 3 years)	626.35	
No. of Shares	45.39 crore	
Net Debt	117 crore	
Discount Rate	12%	
Terminal Growth Rate	2%	
	Years	
	1 to 5	6 to 10
Cash Flow Growth Rate (Average of last 5 years)	16%	12%
Estimated Current Price	324	
<u>Reverse Discounted Cash Flow</u>		
Current Market Price	420	
Cash Flow Growth Rate (Required)	23%	
As per Reverse DCF method, current market price of 420 has discounted a CAGR growth rate for cash flow of ~23% for next 5 years.		

Method 4 - <u>Expected Returns Method (Exit Multiple)</u>				
	Current PAT	308		
	Exit PE multiple	40		
Scenario				
	CAGR Growth rate for next 10 years	PAT 2028	Market Cap.	CAGR
I	10%	798	31955	5%
II	13%	1045	41821	8%
	Current CFO	588		
	Exit PE multiple	40		
Scenario				
	CAGR Growth rate for next 10 years	CFO 2028	Market Cap.	CAGR
I	10%	1525	61005	12%
II	13%	1996	79840	15%
<p>This method can be applied to businesses having clear long term prospects derived from both business volume and realization growth, dominant market position.</p> <p>This method considers a long term view about the company (10 years here), growing at an uniform pace and the cost of Equity has not been taken into account.</p>				

Conclusion

Recommendation

The main aspect that is expected to hit the company positively is the ramp up of rural economy. Emami accounts for ~50% of rural mix and is expected to be a significant beneficiary on this front. Company's core products has not shown any major changes in the market share category and remained stable over the last 5 years. Though, company is engaging in inorganic growth strategy by taking stake and getting into joint ventures with new upcoming segments in the FMCG market and has also came up with several new products in several categories. Performance of Kesh King and its new products and JVs, direct distribution channels in rural market, turn around of overseas market are the key aspects to watch out for.

Valuation (CMP 420)

Method	2019		2020		2021	
PEG	I	II	I	II	I	II
Estimated Price	326.5	387.72	400	478	452	550
CAGR from CMP	Negative growth	Negative growth	Negative growth	6.68%	2.47%	9.40%
Method	2019		2020		2021	
PE	I	II	I	II	I	II
Estimated Price	328	434	354	468	382	505
CAGR from CMP	Negative growth	Negative growth	Negative growth	5.56%	Negative growth	6.33%

Given, its history of proven performance, focused management, huge product profile, significant market share among other factors does make Emami a premium FMCG brand in the industry. Although, the company appears overvalued and any further weak performance in the coming quarters can cause the stock to experience a significant correction.

Overall, the company is expected to be able to increase its sales in medium term but not at a significant rate. Financials may increase on the account of sales figures without getting much of an aid from the margins.

Sources

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Research Analyst Details:

Name	Designation	Email Id
Tejas Jariwala	Research Head	tejas.jariwala@jainam.in
Jimit Zaveri	Sr. Research Analyst	jimit.zaveri@jainam.biz
Vaishali Patel	Sr. Research Analyst	vaishali.patel@jainam.biz
Karan Agarwal	Assistant Research Analyst	karan.agarwal@jainam.biz
Vandana Pareek	Assistant Research Analyst	vandana.pareek@jainam.biz
Riva Patel	Assistant Research Analyst	riva.patel@jainam.biz
Radhika Modi	Assistant Research Analyst	radhika.modi@jainam.biz
Shahrukh Nalbandh	Sr. Research Executive	shahrukh.nalbandh@jainam.biz
Drashti Patel	Jr. Research Executive	drashti.patel@jainam.biz
Dhruvish Bakshi	Jr. Research Executive	dhruvish.bakshi@jainam.biz

Abbreviation	Full Form
El	Emami Ltd.
CAGR	Compound Annual Growth Rate
CAPEX	Capital Expenditure
COGS	Cost of Goods Sold
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, tax, depreciation and amortization
EPS	Earning Per Share
EV	Enterprise Value
FY	Financial Year
HY	Half Year
MCap	Market capitalization
NAV	Net Asset Value
NOI	Net Operating Income
NPV	Net Present Value
OCF	Operating Cash Flow
OI	Operating Income
P&L	Profit & Loss
P/E	Price/Earnings Ratio
PAT	Profit After Tax
PATM	Profit After Tax Margin
PBT	Profit Before Tax
QOQ	Quarter on Quarter
RE	Retained Earning
ROA	Return on Assets
ROCE	Return on Capital Employed
ROE	Return on Equity
ROI	Return on Investment
ROIC	Return on Invested Capital
TTM	Trailing Twelve Month
YOY	Year over Year

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Research Analyst Details

Name: Karan Agarwal

Email Id: karan.agarwal@jainam.biz

Ph: +91 0261-6725518

Analyst ownership of the stock: No

Details of Associates: Not Applicable

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