Ananya Research
Facts Without Fiction

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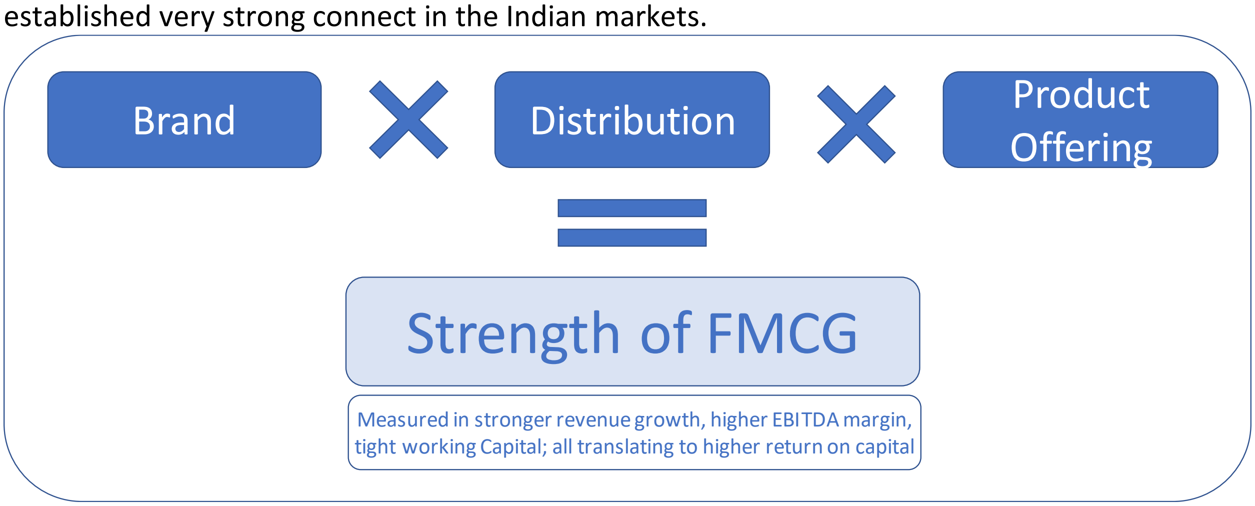
Company :	**Emami Ltd**		
CMP	462	Promoter holding	54.3%
Market Cap (cr)	20,416	P / E (FY24)	22.9x
Target Price	660	Upside	43%

About the company Emami Limited is one of the leading personal and healthcare businesses, with an enviable portfolio of brand such as BoroPlus, Navratna, Fair and Handsome, Zandu Balm, Mentho Plus Balm, Fast Relief, Kesh King and recently added Dermicool.

Established in 1974, Emami has a portfolio of over 300 products based on ayurvedic formulations and healthcare. Emami caters to more than 60 countries including SAARC, MENAP, SEA, Africa, Eastern Europe and the CIS countries. Company has a network of over 2800+ distributors with 7 manufacturing plants spread across India and 1 manufacturing unit in Bangladesh, 9 offices including 5 overseas offices.

Besides building inhouse brands, company has been always on lookout for acquisition to offer its customers wholesome portfolio. Emami acquired Zandu in 2008 based on huge business synergy between the two brand portfolios. Emami also acquired Ayurvedic Hair & Scalp business of "Kesh King" as a business strategy in 2015. In January 2019, the company also acquired Creme 21, a German brand with strong roots & brand recall. In 2022, the Company acquired ‘Dermicool’, one of the leading Prickly Heat and Cool Talc brands of India.

Strength of FMCG business FMCG business in India derive its strength from Brands, Distribution and product offering. Emami got a very strong hold of consumer in the rural market. It has very strong brand in pain relief and healthcare products. It ayurvedic products has established very strong connect in the Indian markets.



Emami has established its brand in the mind of consumer. On top of every brand it has launched multiple category of products just like other FMCG to leverage the brand appeal. This has helped a single brand to have multiple touch point with the customer. Some of the premium brands are also endorsed by celebrity which increases the brand appeal among the audience.

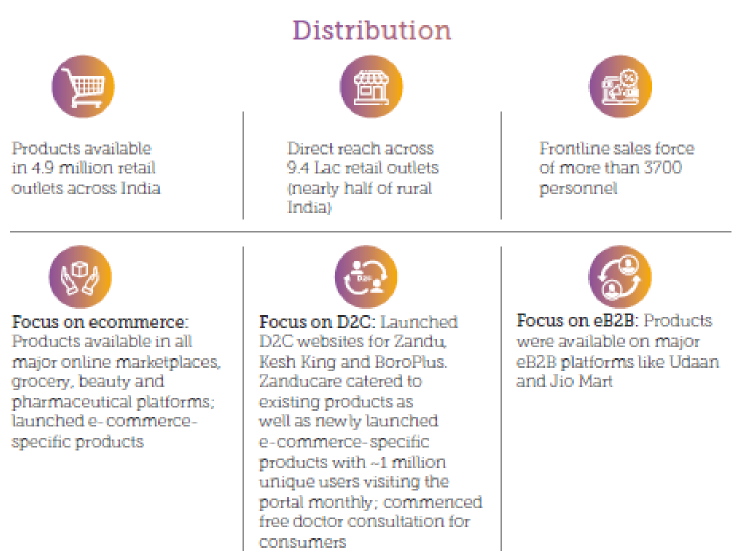
Premium Brands	Category 1	Category 2	Category 3	Category 4	Current Brand Ambassador
BORO PLUS	Body Lotion	Face Wash, Soap, Handwash, Sanitizer	Petroleum Jelly	Talc	Amitabh Bachchan
FAIR AND HANDSOME	Face Wash	Whitening Cream			Salman khan
Navratna	Ayurvedic Oil	Cool talc	Body Massage oil		Salmaan khan
Kesh King	Ayurvedic Oil	Shampoo			Shilpa Shetty
ZANDU	Pain relief	Pancharishta (immunity)	Health products		Sonu Sood
MENTHO PLUS BALM	Pain relief				
Dermi COOL	Cool talc				
7 OILS IN ONE	Hair oil				Katrina Kaif
HE	Deodorant				Tiger Shroff

Emami dominant market share Emami products are majorly positioned as ayurvedic and healthcare products. Among the major brands which house under Emami, most of them enjoys dominant market share as shown in table below. The 2^{nd} largest brand in category is way behind Emami in the respective category. Also, note that penetration in each of the category is fairly low which makes the addressable market large enough to garner future growth. Besides Kesh King where multiple other brands will be present, other categories are duopoly market where it will be impossible for any new brand to penetrate and capture market share. Combined market share of Emami and 2^{nd} largest players in Antiseptic Cream / Cool Oil / Men Fairness Cream / Pain Balm are 98 / 94 / 91 / 74 % which makes entry for any new players near impossible.

Brand	Year of Launch/ Acquisition	Category	Category penetration (HHP Dec'21)	Market share (MAT Dec'21)	Leadership position	Market share of the next highest competing brand
BoroPlus Antiseptic Cream	1982	Antiseptic (Boro) Cream	26%	68%	1	30%
Navratna Cool Oil	1989	Cool Oils	13%	66%	1	28%
Fair and Handsome Cream	2005	Men's Fairness Cream	2%	64%	1	27%
Zandu & MenthoPlus Balms	2008/ 1987	Balms	39%	55%	1	19%
Kesh King Ayurvedic Oil	2015	Ayurvedic Medicinal Oil	7%	29%	1	19%

Emami is aggressively expanding its distribution reach under Project Khoj

Emami started Project Khoj during FY22, an initiative marked by the addition of 8000 rural towns to direct distribution network, taking the total tally to 40,000 towns. This has helped in reducing turnaround time and simultaneously increased margin. Company intend to increase rural coverage to 60,000 towns in 13 States in three years, while target for FY23 remains at 50,000 towns.



Emami is working on multiple fronts to increase its distribution reach. With sales force of over 3700 people, it has made direct reach to near 1 million retail outlets, which is 50% of Rural India market. Emami products are available in 5million outlets in India.

Besides traditional distribution reach, company is equally focused on D2C marketing, bringing customers directly to their own website.

Aggressive growth strategy of Emami

Hunger of FMCG companies can be reflected from the launch of new brands in different product category or company can do acquisition of already established brands to garner faster growth. Kesh King and Dermicool are the large brand acquisition which Emami has done in past few years. Kesh king was acquired from SBS Biotech for INR 1650cr in June 2015 and Dermicool is acquired from Reckitt Benckiser for INR 432cr in March 2022.

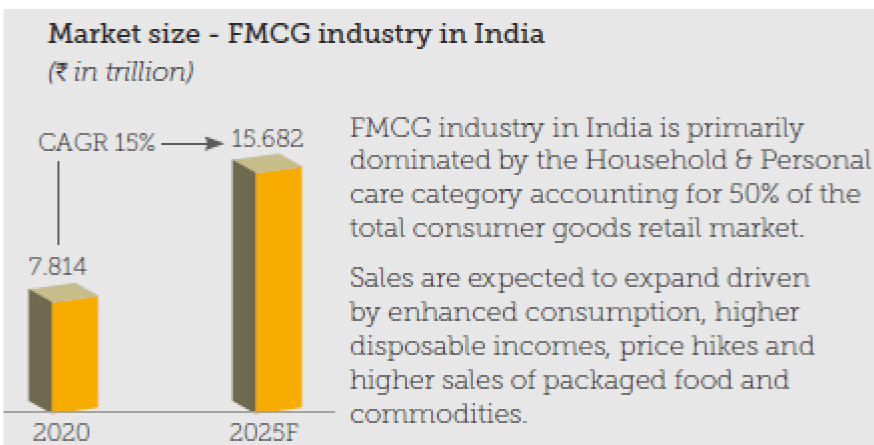
Below is the list of category/brand launched by Emami in past few years:

2014	2015	2018	2018	2019	2022
Deodrant	Hair oil	Beauty Care	DTC male grooming	Hair color	Talc
HE DEODORANTS	emami Kesh King AYURVEDIC OIL • SHAMPOO • CAPSULE	BRILLARE	THE MAN COMPANY	Creme 21	Dermi COOL

Category (FY22 Revenue)	Size (cr)
Antiseptic (Boro) Cream	681
Cool Oils	965
Men's Fairness Cream	256
Balms	1,515
Ayurvedic Medicinal Oil	922

Emami operates in niche segment of FMCG Emami operates in several niche personal care categories and is a market leader with substantial market share in most of these categories. At times, Emami also has been category creator creating under-addressed niches, for instance; Men's Fairness Creams. Some product needs heavy R&D investment as Emami is also creating new category around these brands bringing ayurvedic products offering as well. Emami has created huge brand in different category, as reflected in large revenue from each category.

Total Addressable Market



FMCG as sector is expected to clock mid teen growth in near future. Entire FMCG sector is expected to clock 15% growth rate for next three years, Emami addressable market is expected to grow at faster clip as they operate in niche segment and penetration in these segments are significantly lower than generic FMCG. Also, as we have noted earlier, most of the niche segment of Emami carries duopoly features, hence Emami being largest player in the segment will garner higher share of growth.

Emami will continue to look at inorganic growth opportunities Emami has rich history of acquisitions since inception, started with acquisition of Himani Ltd in 1978. Back then, antisepctic cream was Boroline monopoly. Emami launched boroplus under Himani, it went on become market leader in just three years. In 2008, Emami acquired Zandu Pharmaceuticals for

718cr, which marked company's entry in healthcare segment. Before Emami, almost all other FMCG companies in India has tried and failed to acquire Zandu. Further in 2015, Emami made its largest acquisition till date, it acquired Kesh King for INR 1650cr. In 2019 it has acquired German personal care brand, Crème 21. Lastly in 2022, Emami acquired Dermicool from Reckitt Benckiser for 432cr, adding another brand to talcum powder category. Nycil, another players in prickly heat powder has launched sanitizer, wipes, body mist leveraging and extending brand nycil, hopefully Emami will able to launch different Dermicool products in multiple category in future.

Emami EBITDA margin higher than other FMCG companies

Emami commands highest EBITDA margin among the food and non-food related FMCG companies. Unlike premium FMCG player like Nestle, Emami get more revenue from the rural market and still able to garner higher gross margin and operating margin.

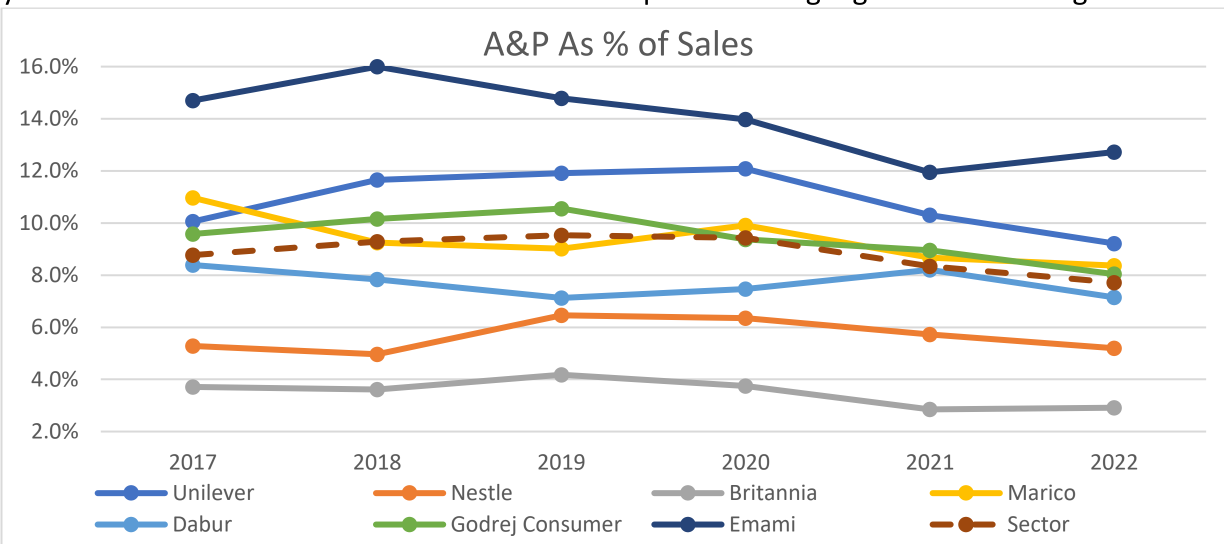
EBITDA margin	2014	2015	2016	2017	2018	2019	2020	2021	2022
Unilever	16%	17%	18%	19%	21%	23%	25%	25%	25%
Dabur	16%	17%	20%	20%	21%	20%	21%	21%	21%
Marico	16%	15%	17%	20%	18%	18%	20%	20%	18%
Godrej Consumer	15%	17%	20%	21%	21%	21%	22%	22%	20%
FMCG	16%	17%	19%	20%	20%	21%	22%	22%	21%
Nestle	21%	19%	20%	21%	23%	24%	24%	24%	
Britannia	9%	11%	15%	14%	15%	16%	16%	19%	16%
Food Based FMCG	15%	15%	18%	18%	19%	20%	20%	22%	
Emami	26%	26%	29%	31%	28%	27%	26%	31%	29%

Emami spending heavily on Advertisement & Promotion (A&P) Ensuring Next leg of Growth for the company

As we can observe from trend in last 10yrs, Emami has spent over INR 3700cr in A&P to grow its sales and brand appeal. For the period 2012-20, Avg A&P spend as % of sales stood was over 15% which is relatively high for FMCG companies and it makes a dent on the profitability of the companies. In FY21/22, Emami has spent near 12%/13% of sales this reduces pressure on margin for the company. As the revenue grow for Emami and A&P spend grow at slower pace, its operating margin will improve in future.

	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Sales	1,370	1,595	1,700	2,076	2,358	2,488	2,531	2,695	2,655	2,881	3,192
EBITDA	274	343	445	541	688	759	719	725	685	880	938
A&P	209	253	237	328	449	366	405	399	371	344	406
A&P / Sales	15.2%	15.9%	14.0%	15.8%	19.1%	14.7%	16.0%	14.8%	14.0%	11.9%	12.7%
A&P / EBITDA	76.2%	73.8%	53.3%	60.6%	65.3%	48.2%	56.3%	55.0%	54.2%	39.1%	43.3%

If we look at peer companies in the sector, Emami is spending highest in terms of Advertisement and promotion as % of sales. Emami case looks like that of Colgate who spend heavily on A&P and still gets one of the highest EBITDA margin. We have excluded Colgate from our analysis as it is single category focused while other companies in consideration operates in multiple categories in FMCG. Key takeaway in this, Emami A&P as % of sales is coming down in past few years as shown in table above and this should help in achieving higher EBITDA margin in future.



When compared with other peers in the sector, we see that peers A&P spent is lower than Emami, this should eventually help Emami in achieving highest sales growth among FMCG companies.

	FY21	FY22	YoY Growth
Marico	8,048	9,512	18.2%
Dabur	9,562	10,889	13.9%
Unilever	47,028	52,446	11.5%
Godrej Consumer	11,029	12,276	11.3%
Emami	2,881	3,192	10.8%
Nestle	13,350	14,709	10.2%
Brittania	13,136	14,136	7.6%

Any FMCG company remains attractive to investors as they are very assets light business. FMCG tend to get their production outsource, hence very little investment in fixed assets to garner huge sales. On top of that, FMCG will be very low on working capital as they try to squeeze their channel partner with their brand appeal. Emami is bit different in this regard. They have 8 manufacturing units (7 in India and 1 in Bangladesh) hence their net block will look higher compared to many larger FMCG companies. Also, since the rural share in Emami is significantly higher, good portion of working capital will be stuck in inventory channel as seen in table below.

However, we should remember that Emami gets highest gross margin and EBITDA margin in comparison to other FMCG companies in India and that helps the company to retain very high return ratios for the company.

	2019	2020	2021	2022
Trade receivables	29	42	29	37
Inventory	30	33	38	41
Trade payables	40	45	44	47
Other receivables	27	29	18	27
Net working capital	46	59	41	58
Net working capital ex Other Receivables	19	30	23	31
Adj RoCE (%)	28.4	31.4	38.9	40.3

^ Reported PAT – MAT Credit Entitlement of earlier years + Exceptional Items + Amortisation of Kesh King & other brand related intangible assets

What went wrong in Emami in 2018-2020 In past few years many promoters have lost control of their companies as they had huge amount of debt and promoter stakes were pledged. During downturn in 2018-20 market became ruthless where the debt and promoter pledge were high, we have also seen how Future Group companies, Zee group, ADAG group, Coffee Day Group Companies etc lost control over their companies. In many of above cases, promoter has to sell stake in their companies at distress value to reduce the pledge/debt.

Emami promoter sold 10% stake in 2019 for INR 1,230cr, this helped in reducing the pledge at promoter level. Further in 2020, promoter also sold Emami Cement to Nuvoco Vista for enterprise value of INR 5,500cr. As we can see from table below, Emami promoter stake has been reduced from peak of 72.7% in Mar17 to 52.7% when the pledge increased to 89%.

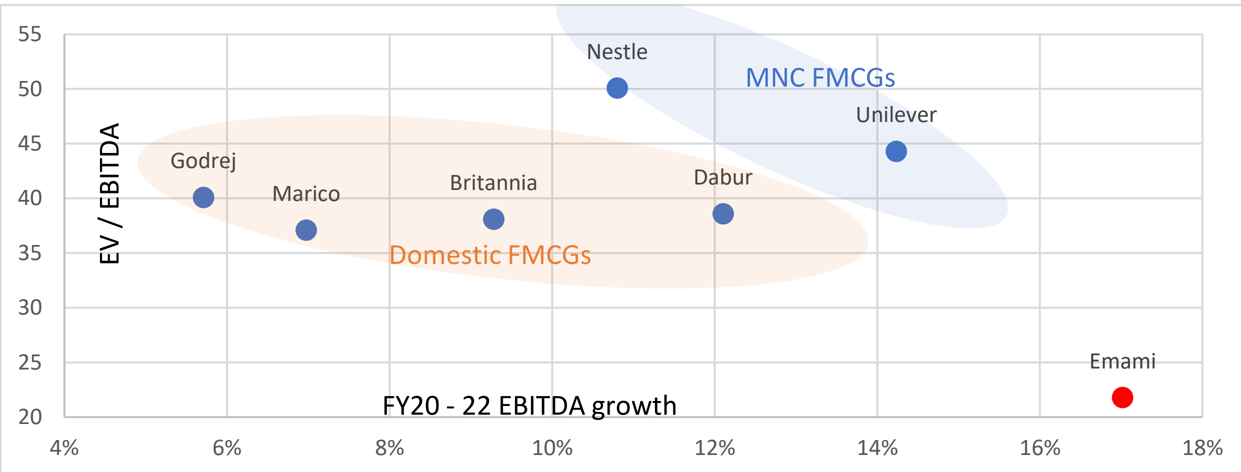
	Mar17	**Mar18**	**Mar19**	**Mar20**	**Mar21**	**Mar22**
Promoter stake	72.74	72.74	64.74	52.74	53.86	54.27
Pledge	29.61	39.7	47.68	89.24	32.89	35.21

Corrective steps to bring stakes up and pledge down Emami has concluded two open market buyback in 2020 / 2022. As promoter didn't participated in buyback, their holding has increased from 52.7% in Mar20 to 54.3% in Mar22. Further as been communicated to the market, promoter will sell stake in AMRI hospital (EV of INR 1800cr to Manipal Group) and various real estate spread across country for INR 700cr. Promoter has communicated that once the sale is fructified, pledge will be reduced to 10-15%.
https://economictimes.indiatimes.com/news/company/corporate-trends/emami-promoters-eye-sale-of-realty-hospital-assets/articleshow/93508586.cms

Going forward company should regularly announce buyback / dividend which promoter will use in clawing back its shareholding higher than current 54.3%.

Pledge is further reduced in Q2'FY23 (current quarter): We have compiled data that Emami promoter is releasing its pledge again. Pledge which has gone up from 32.9% in Mar21 to 35.21% in Mar22 is been again reduced to 33.4% as of Sep 2022.

Emami is cheapest of all large FMCG Emami is clocking one of the fastest growth in EBITDA and still their EV/EBITDA multiple has been lowest in the sector. We have used EBITDA instead of Net profit as bottom line is affected by lumpy amortization which Emami is undergoing due to Kesh King in past and will continue to amortize Dermicool in future. Besides, that Nestle also had negative other income in FY22, which makes its Net profit growth looks slower.

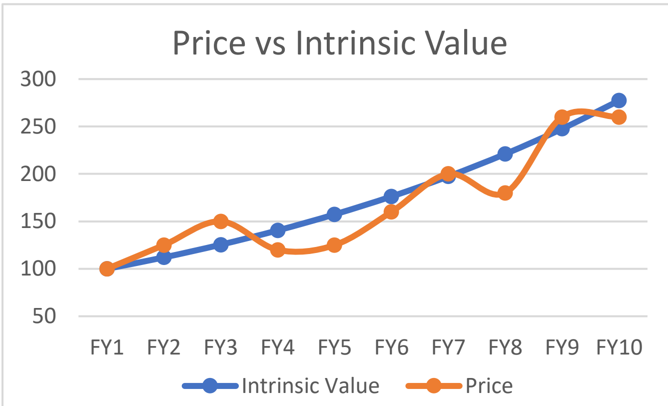


Key Risks Here are few key risks if materialize can materially change our investment thesis:

1. Raw material cost inflation: As we have seen in many FMCG companies in 2022, when palm oil and other raw material inflation impacted the profit margin of the companies and came as hindrance to growth. Emami uses menthol/eucalyptus as raw material, which is different raw material profile compared to its peers and hence carry different type of raw material risk.
2. Slowdown of rural economy: Emami gets significant portion of its sales from rural India. Any slowdown in rural economy will hurt Emami more than other FMCG players
3. Competition from existing brands and emerging players: There is heightened competition in FMCG space not only from existing large brands but also from upcoming consumer focused D2C brands. Now, more FMCGs are focused health related products, any significant push from large existing players will dent business for Emami
4. Stagnant market share in leading important brands in Emami, company market share is key category is so high that it is difficult to go up any further. Hence, Emami relies more on growth of entire category itself than growing its market share.

	2020	2021	2022
Antiseptic (Boro) Cream	74.1%	74.0%	68.0%
Cool Oils	66.4%	66.0%	66.0%
Men’s Fairness Cream	65.3%	65.0%	64.0%
Balms	54.9%	55.0%	55.0%
Ayurvedic Medicinal Oil	26.6%	27.0%	29.0%

5. Promoter pledge: Though promoter pledge has been moderate at 37%, any change in plan to reduce promoter pledge will hurt the positive momentum on reducing pledge.



6. **Risk of de-rating in FMCG companies or fast-growing companies**: Many times analyst extrapolate the higher growth phase and assign a higher multiple, assuming that high growth phase will continue for long period. However in real world, when sector is growing at faster rate, it will attract competition from other players in sector or new players will enter the sector. Hence as it is shown in intrinsic value, it grows linearly compared to expected exponential growth. Also within the linear growth in value, actual share price may move in narrow or broad range around intrinsic value. This volatility around intrinsic value will test patience of long term investors, as they need to stick around during bear market phase.

Recent changes in management and board: Company has made changes to be ready for next level of growth. Leadership has been passed to younger generation and new board members also been inducted who can guide company as it scale new height. Both RS Agarwal and RS Goenka has stepped down of their executive roles and will now mentor the next generation. Next generation from both founder friend has taken the lead and chalk course for future growth. The younger generation was already managing the business for sometime, now crystallizing the succession plan brings more clarity.

Besides, the changes in executive roles for younger generation, there has been induction of many independent directors, who brings distinct expertise to the board and enhance the governance structure.

Anand Rathi	Founder of the Anand Rathi Group. Former President of the Bombay Stock Exchange
Anjani Agrawa	Former Senior partner, EY and global Industry leader
Anjan Chatterjee	CMD of Specialty Group Chain of restaurants and Founder of “Situations Advertising”
Avani Davda	Founding CEO of Tata Starbucks, former MD of Nature’s basket & advisor to Bain & Co
Rajiv Khaitan	Senior Partner of Khaitan & Co. LLP

Forecast and Valuation: We expects revenue will clock growth of 14% in FY22-24 as the company expects strong growth in international business and growth coming from investment in distribution expansion in India. Emami always enjoy highest gross margin and EBITDA margin in the Industry. We expect slight dent in EBITDA margin as company will absorb sales from Dermicool in FY23, however margin will recover back to 30% in FY24, given operational leverage. Depreciation and Amortization will come down significantly as kesh king amortization is completed in Q1 FY23, however, Dermicool amortization will start in future as reflected in projected. Dermicool is expected to have amortization of INR 22 cr per quarter, hence total Depreciation and amortization has come down in FY24. We expect Emami to continue with tax rate of 20%. We expect Emami to deliver PAT of INR 970cr in FY24, which is broadly in the range of market expectations of INR 950 – 1000cr.

We think the brand and growth projection of Emami can fetch them valuation of 30x of FY24 PAT, which translates to target price of 660, 32% higher than current price and as we keep rolling the target price 14-15% higher as the profit increases. Also, promoter increasing stake and reducing pledge further makes a case for re-rating above 30x PE.

	FY20	FY21	FY22	FY23	FY24
Revenues	2,655	2,881	3,192	3,650	4,200
YoY growth		8%	11%	14%	15%
EBITDA	691	883	952	1,070	1,250
EBITDA margin	26.0%	30.7%	29.8%	29.3%	29.8%
Dep & Amort	336	367	335	223	172
EBIT	354	516	618	847	1,083
PBT	390	573	708	974	1,209
PAT	319	459	856	875	970
P/E	24.2	47.4	23.6	23.3	21.0

Quarterly Update:

	Jun-19	Jun-20	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Sales	649	481	661	789	972	770	778
Expenses	515	359	493	516	634	612	609
Operating Profit	133	122	168	273	338	158	169
EBIITDA Margin %	**21%**	**25%**	**25%**	**35%**	**35%**	**21%**	**22%**
Profit before tax	57	49	95	226	269	98	85
Tax %	0.31	0.19	0.18	0.18	0.18	-2.62	0.14
Net Profit	**39**	**40**	**78**	**185**	**220**	**354**	**73**
EPS in Rs	0.86	0.87	1.75	4.17	4.95	8.07	1.67

- Emami's net sales increased 18% YoY to INR7.8b, though operating profit remained flat with lower margin as compared to 1Q FY22.
- Domestic volume rose 9.6% YoY. However, ex-Dermicool it stood at 2.4%.
- Gross margin stands at 62.6%; it is one of highest gross margin among the FMCG companies
- EBITDA margin lowered to 22.3% due to higher ad-spends and other expenses, benefitted from lower employee costs

- Overall domestic business improved 13% YoY. Dermicool contributed 8% to domestic sales.
- International sales grew 45% YoY, driven by MENA and SAARC.
- Key growth driver in domestic market: Navratna (+29%), Pain Management (-30%), BoroPlus (flat), Kesh King (+20%), Male Grooming (+32%), Healthcare (-25%) and 7 Oils in One (+45%).

As we know from previous results of Emami, Sep & Dec are the best quarters for Emami given their products offering. During these quarters, sales and EBITDA margin are the highest. Emami is set to enter among the best quarters in their financial performance and entry right now is expected to deliver great return.

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