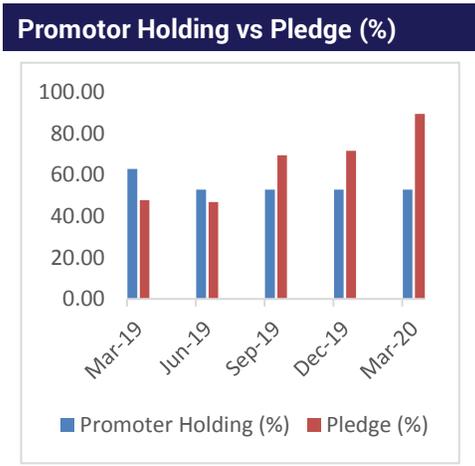


Sector	FMCG
Recommendation	BUY
Upside	18%

Stock Data	
Sensex	30,650
52 Week h/l (₹)	370/131
Market cap (₹Cr)	9,509
BSE code	531162
NSE code	EMAMILTD
FV (₹)	1
Div. yield (%)	1.91

Shareholding Pattern			
	Mar-20	Dec-19	Sep-19
Promoters	52.74	52.74	52.74
DII+FII	38.46	39.05	37.23
Individuals	8.8	8.21	10.03

Source: www.bseindia.com



Emami Limited is one of the leading Indian consumer goods companies, with presence in niche categories such as cooling oils, pain balms and antiseptic creams and also markets men's fairness creams and Ayurvedic OTC medicines. Notably, the company does not face any competition from MNCs. All segments contribute less than 25% to revenue, thus providing benefits of diversification. Hence, competition for Emami's brands has been relatively low, which has enabled superior margins for the business.

Nuvoco Vistas Corporations acquires Emami Cement

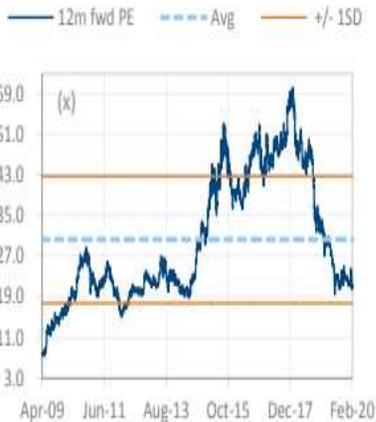
On May 21, 2020, CCI approved the acquisition of 100% of the total issued and paid up share capital of Emami Cement Ltd, on a fully diluted basis by Nuvoco Vistas Corporation Limited for an enterprise value of Rs5,500cr. Rising promoter pledge has been the major concern with pledge level rising to 90% of the holdings. Given the doubling of pledge level since March 2019, the stock price has halved during the same time. The Emami Cement deal will likely help the promoters to reduce pledge from current ~90% to ~25%. Monetisation of other promoter group assets will further aid in reducing this to nil by March 2021. Historically, a strong recovery in the stock price is witnessed once the issue of pledged shares gets resolved.

Impact of Covid-19 on the earnings

Given a largely discretionary portfolio coupled with higher wholesale dependence vs. peers will likely result in a disproportionately larger impact for Q4 performance. We forecast sales decline of 12% for 4QFY20. Gross margins to expand by 120bps, in-line with 3QFY20. However, negative operating leverage from lower sales to result in 23% fall in EBITDA, with margins contracting by 308bps during Q4. We expect higher PBT decline of 31%, due of Kesh King amortization; estimate lower PAT decline of 16%, owing to corporate tax rate cut.

As the business is mainly into the b2b segment, depressed ROI of the distributors would impact the revenue growth of Emami in the coming quarters. However, its market leadership in cooling oils, Ayurvedic hair oils, antiseptic creams, etc. will help in retaining cost tailwinds. Additionally, profit performance can find support if the company cuts its ad-spends, which is at ~17% of sales (higher vs. peers).

P/E



Price as on May 22, 2020

IIFL Research
research@iifl.com

May 26, 2019

Outlook & Valuation

The recent price correction in the stock price due to COVID-19 related impact offers an opportunity to invest in India's leading FMCG company at attractive valuations. Tracking the historical valuations, the PE ratio has contracted drastically since the start of 2018 and is currently quoting around its -1 Standard Deviation level. The PE ratio is trading below its mean and is back to the same levels seen in 2011-2012. Hence, given focus on implementation of the deleveraging plans and cheap valuations, we anticipate a strong recovery in the stock price going forward.

Financial Summary

Consolidated ₹ m	FY18	FY19	FY20E	FY21E	FY22E
Revenue	25,305	26,929	27,771	29,511	31,861
EBITDA %	28.4	26.9	27.6	27.9	28.2
Pre-exceptional PAT	4,974	4,914	5,704	6,354	7,230
Reported PAT	3,071	3,032	3,741	5,347	6,519
growth (%)	(9.6)	(1.2)	16.1	11.4	13.8
P/E (x)	27.4	27.8	23.9	21.5	18.9
EV/EBITDA (x)	19.1	18.7	17.3	15.6	13.9
ROE (%)	26.4	24.0	26.5	26.9	27.5
OCF/EBITDA (x)	0.8	0.9	1	1	1

Source: Company, IIFL Research

Technical View

Emami has posted a strong recovery from its recent lows by forming a bullish engulfing candlestick pattern on the weekly chart. Currently, the stock has managed to give a falling trendline price breakout, further accentuating our bullish stance. The stock has also indicated strong momentum by entering into a positive territory of MACD Histogram. Going forward, we project a continued upward momentum in the stock, **hence we recommend Buy on the stock with a Target Price of Rs241.**

Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%

Accumulate – Absolute return between 0% to +10%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

IIFL Group | IIFL Securities Ltd (CIN No.: L99999MH1996PLC132983) Office No 1, Gr Floor, Hubtown Solaris, NS Phadke Marg, Andheri, Vijay Nagar, Mumbai - 400069. Tel.: (91-22) 2580 6650 *Customer Service: 40071000 *Stock Broker SEBI Regn: INZ000164132 *NSE: 10975 *BSE: 0179 *MCX:55995 *NCDEX:378 *Depository: INDP185 2016 *MF Distributor ARN: 47791, *PMS SEBI Regn.: INP000002213, *Investment Adviser SEBI Regn. : INA000000623, *Research Analyst SEBI Regn:- INH000000248 | Kindly refer to www.indiainfoline.com for detailed disclaimer and risk factors.

For Research related queries, write at research@iifl.com

For Sales and Account related information, write to customer care: cs@iifl.com or call on 91-22 4007 1000