Emami

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	HMN IN
Equity Shares (m)	454
M.Cap.(INRb)/(USDb)	253.3 / 3.4
52-Week Range (INR)	579 / 235
1, 6, 12 Rel. Per (%)	0/13/97
12M Avg Val (INR M)	352

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Sales	28.8	32.4	36.0
Sales Gr. (%)	8.5	12.4	11.2
EBITDA	8.8	9.9	11.0
EBIT Margin (%)	30.7	30.4	30.6
Adj. PAT	7.2	7.6	8.4
Adj. EPS (INR)	16.3	17.1	18.8
EPS Gr. (%)	31.1	5.5	9.7
BV/Sh.(INR)	39.7	45.1	46.0
Ratios			
RoE (%)	40.3	40.5	41.3
RoCE (%)	40.0	44.5	47.6
Payout (%)	49.2	67.1	69.1
Valuation			
P/E (x)	35.1	33.2	30.3
P/BV (x)	14.4	12.6	12.4
EV/EBITDA (x)	28.0	24.9	22.0
Div. Yield (%)	1.4	2.0	2.3

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	53.9	53.9	53.4
DII	24.5	26.4	31.4
FII	12.5	10.5	5.7
Others	9.2	9.2	9.6

FII Includes depository receipts

CMP: INR570 TP: INR660 (+16%) Buy

Margin outlook getting better; sales recovery key to re-rating

- Emami (HMN)'s 1QFY22 sales were in line with expectations. Domestic sales grew 5% v/s 1QFY20 levels. While Healthcare and Pain Management have nearly doubled over 1QFY20 levels, the impact of the second COVID wave led lockdown resulted in sharp decline over 1QFY20 in Navratna (in the crucial summer season) and Male Grooming.
- The outlook for the domestic business gradually improved in Jun'21 and Jul'21, after modest growth over a two-year period in 1QFY22. This was partly offset by slower growth in the International business (~12% of sales) due to COVID-related lockdowns, especially in the Middle East.
- Margin performance in 1QFY22 and the outlook were better than expected. The key to a further re-rating would depend on whether sales growth, after a period of extremely weak performance (3.7% CAGR over FY16–20), could revive to the double digits, followed by the mid-teen level on a sustainable basis. Maintain **Buy**.

Better-than-expected margins lead to earnings beat

- **Consolidated net sales grew 37.3% YoY to INR6.6b** (est. INR6.4b). EBITDA / PBT / adjusted PAT before amortization grew 38%/48.1%/44.4% YoY to INR1.7b/INR1.6b/INR1.4b (est. INR1.6b/INR1.4b/INR1.2b).
- Domestic volumes increased 38% YoY in 1QFY22.
- The gross margin contracted 50bp YoY to 66%.
- **The EBITDA margin expanded 10bp YoY to 25.7%** (est. 24.5%) on lower employee costs as a percentage of sales (-340bp YoY), other expenses (-140bp YoY), and higher ad spends (+420bp YoY).
- Absolute ad spends grew 84% YoY to INR1.1b.
- **The overall domestic business** grew 42% YoY, 5% v/s 1QFY20.
- **International sales** grew 17% YoY, but declined 9% v/s 1QFY20.
- **The Institutional business** (3% of sales) grew 34% YoY, but declined 17% v/s 1QFY20.
- **Within domestic**, HMN reported YoY sales growth in all categories in 1QFY22: Healthcare (+59% YoY), BoroPlus (+96%), Navratna (+21%), Kesh King (+53%), Pain Management (+70%), Male Grooming (+78%), and 7 Oils-in-One (+93%).

Highlights from management commentary

- Compared with a normal 1QFY20 (unlike 1QFY21, which was affected adversely by the sudden lockdowns), domestic sales growth was 5%. Healthcare and Pain Management nearly doubled over this period, while Navratna / Male Grooming declined 29%/47%. Both Navratna and Male Grooming are discretionary categories. Kesh King reported ~2% growth over 1QFY20 numbers and was affected by the slowdown in discretionary consumption. Jul'21 numbers seem to be much stronger. HMN has gained share from Patanjali and Indulekha over the last few months.

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- Over the last two months, the International business has, however, seen some slowdown due to lockdowns on account of the second COVID wave. The management is uncertain about when the International business (12% of consolidated sales in 1QFY22) would recover.
- After a 3.5% price increase YTD and stability now emerging in material costs, the management has stated that the company is likely to have better gross margins v/s the earlier guidance of 66.5–67% for FY22, perhaps even reaching the same levels as last year. However, it further hinted that higher advertising spends in 2HFY22 could check EBITDA margin expansion.
- E-commerce contributed 5% to domestic revenues from 1% a year ago. The management stated it would be very aggressive on this front, targeting 7–7.5% of sales over the next year.

Valuation and view

- There is no material change to our FY22/FY23E EPS forecasts.
- While it is too early to call out a structural recovery in sales, before the COVID-led blip on discretionary consumption in 1QFY22, the company had reported three successive quarters of two-year average sales of 7.5–10% – a level we believe HMN can go back to 2QFY22 onwards. This is far better than the 3.7% sales CAGR between FY16–20. If the path to sustainable and strong double-digit sales growth continues, a further re-rating is possible.
- We maintain our **Buy** rating, encouraged by the following factors: a) inexpensive valuations at 30.3x FY23E EPS, b) a sharp reduction in pledged shares (now at 30% levels), and c) potential tailwinds for HMN over the next few quarters (~50% of HMN's domestic sales comes from rural India) – just like other peers with higher rural salience.
- We arrive at our TP of INR660/share (valuing the company at 32x Sep'23E EPS, a 40% discount to peers).

Consol. Quarterly performance (INR m)

Y/E MARCH	FY21				FY22				FY21	FY22E	FY22	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Domestic volume growth (%)	-28.0	10.0	13.0	39.0	38.0	6.0	8.0	6.0	8.5	14.5	32.0	
Net Sales	**4,813**	**7,348**	**9,336**	**7,308**	**6,610**	**7,789**	**10,176**	**7,796**	**28,805**	**32,371**	**6,402**	**3.2%**
YoY change (%)	-25.8	11.3	14.9	37.2	37.3	6.0	9.0	6.7	8.5	12.4	33.0	
COGS	1,613	2,185	2,766	2,728	2,246	2,550	3,249	2,468	9,292	10,512	2,338	
Gross Profit	**3,200**	**5,163**	**6,570**	**4,580**	**4,363**	**5,240**	**6,927**	**5,329**	**19,513**	**21,859**	**4,064**	
Gross margin (%)	66.5	70.3	70.4	62.7	66.0	67.3	68.1	68.3	67.7	67.5	63.5	
EBITDA	**1,230**	**2,571**	**3,402**	**1,628**	**1,697**	**2,491**	**3,505**	**2,162**	**8,831**	**9,855**	**1,572**	**8.0%**
Margins (%)	25.5	35.0	36.4	22.3	25.7	32.0	34.4	27.7	30.7	30.4	24.5	
YoY change	-8.3	33.2	28.9	65.2	38.0	-3.1	3.0	32.8	27.9	11.6	27.8	
Depreciation	194	216	341	240	234	259	290	327	991	1,110	252	
Interest	47	25	14	47	6	10	5	9	133	31	14	
Other Income	67	79	92	465	107	107	124	132	703	469	90	
PBT	**1,056**	**2,409**	**3,139**	**1,806**	**1,564**	**2,329**	**3,333**	**1,957**	**8,410**	**9,183**	**1,396**	**12.0%**
Tax	95	284	438	326	175	396	567	424	1,142	1,561	237	
Rate (%)	9.0	11.8	13.9	18.0	11.2	17.0	17.0	21.7	13.6	17.0	17.0	
PAT before Amortization	**973**	**2,133**	**2,710**	**1,493**	**1,404**	**1,933**	**2,760**	**1,524**	**7,309**	**7,622**	**1,159**	**21.2%**
YoY change (%)	-6.4	31.6	26.3	52.4	44.4	-9.4	1.9	2.1	25.3	4.3	19.2	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY21				FY22
	1Q	2Q	3Q	4Q	1Q
2Y average growth %					
Volumes	-14.0	5.5	5.5	9.5	5.0
Sales	-10.1	8.2	7.5	10.2	5.8
EBITDA	1.5	18.1	14.5	14.3	14.8
PAT	5.9	22.1	14.6	16.2	19.0
% sales					
COGS	33.5	29.7	29.6	37.3	34.0
A&P	12.4	14.7	16.6	18.5	16.6
Other expenditure	40.9	35.3	33.9	40.4	40.3
Employee cost	16.2	10.7	8.2	10.4	12.8
Depreciation	4.0	2.9	3.7	3.3	3.5
YoY change %					
COGS	-30.6	9.3	7.1	47.0	39.2
Other expenditure	-30.2	-3.0	9.1	18.7	35.3
Other income	-41.7	-51.8	-41.1	220.9	60.0
EBIT	-8.9	34.4	26.2	81.2	41.2

Highlights from management commentary

Performance and outlook

- Demand in the initial weeks of Apr'21 was very good, but the second wave affected demand in the key summer season for HMN.
- For HMN, rural was also significantly affected in 1QFY22 (v/s 1QFY21). Demand is now improving.
- The Healthcare segment has fared well once again.
- The management is hopeful of achieving a steady performance going forward with the COVID cases declining.

Segments

- Compared with a normal 1QFY20 (unlike 1QFY21, which was affected adversely by the sudden lockdowns), domestic sales growth was 5%. Healthcare and Pain Management nearly doubled over this period, while Navratna / Male Grooming declined 29%/47%. Both Navratna and Male Grooming are discretionary categories. Kesh King reported ~2% growth over 1QFY20 numbers and was affected by the slowdown in discretionary consumption.
- Healthcare segment sales have not grown as strongly as they did after the first wave. The company is still looking to post a double-digit CAGR over the medium term in this segment.
- Kesh King reported ~2% growth over 1QFY20 numbers. It was also affected by the discretionary consumption slowdown. Jul'21 numbers seem to be much stronger. HMN has gained share from Patanjali and Indulekha over the last few months.
- Some recovery in momentum was seen in Jul'21 for the Male Grooming segment as well.
- Over the last two months, the International business has, however, seen some slowdown due to lockdowns on account of the second wave. The management is uncertain about when the International business (12% of sales in 1QFY22) would recover.

Costs and margins

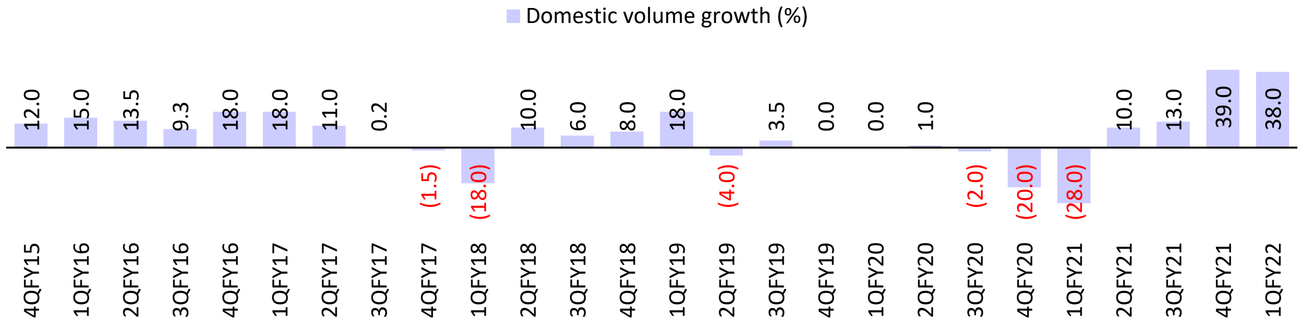
- It is unlikely to take more than the 3.5% price increase already taken YTD.
- Material cost inflation now seems to have stabilized.
- The management has stated that the company is likely to have better gross margins v/s the earlier guidance of 66.5–67% for FY22, perhaps even reaching the same levels as last year. However, it further hinted that higher advertising spends in 2HFY22 could check EBITDA margin expansion.
- Advertising spends would remain at 17–18% of sales on a steady-state basis.

Other points

- New launches contributed 3% to sales in 1QFY22.
- E-commerce contributed 5% to domestic revenues from 1% a year ago. The management stated it would be very aggressive on this front, targeting 7–7.5% of sales over the next year.
- The Zandu Portal is doing very well and is expected to be a strong channel for growth. 1% of the above-mentioned 5% e-commerce sales came from its own portal. It has hired a young team to expand the portal.
- For key brands, it is selling much larger packs exclusively via e-commerce.
- ~INR600m would be amortized on Kesh King for four more quarters.
- Project Khoj (a rural initiative) has been rolled out in four states. 1,300 sub-stockists have been added.
- 5% of the pledge is likely to reduce soon after approval from the Jodhpur High Court to free the 5% pledge created by the Nuvoco deal. Current pledge levels are ~30%. No timeline has been given on taking the pledge down to zero.

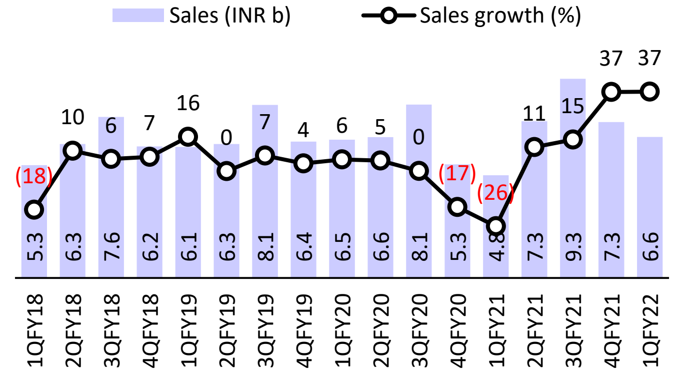
Key exhibits

Exhibit 1: Domestic volume growth at 38% YoY in 1QFY22



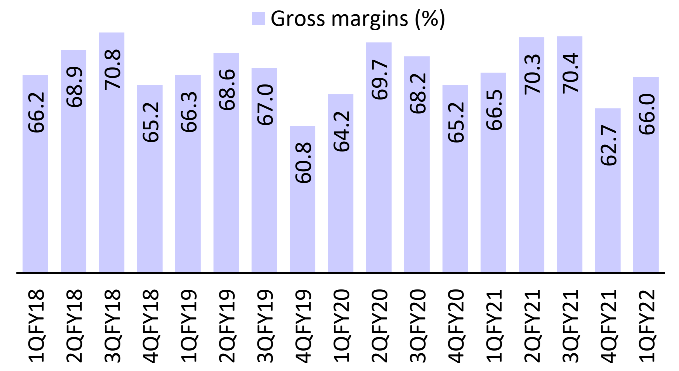
Source: Company, MOFSL

Exhibit 2: Consolidated net sales up 37.3% to INR6.6b



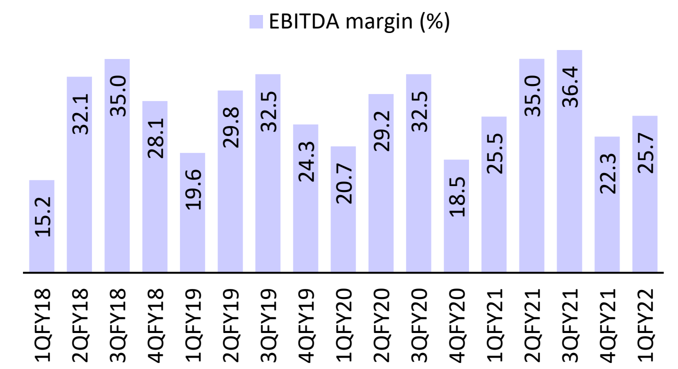
Source: Company, MOFSL

Exhibit 3: Gross margin contracts 50bp YoY to 66%



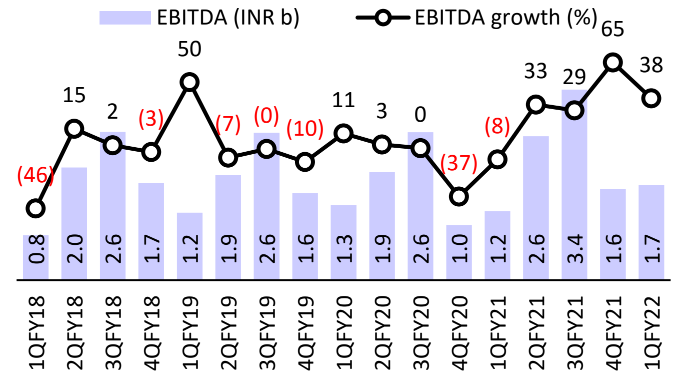
Source: Company, MOFSL

Exhibit 4: EBITDA margin expands 10bp YoY to 25.7%



Source: Company, MOFSL

Exhibit 5: EBITDA up 38% YoY to INR1.7b in 1QFY22



Source: Company, MOFSL

Domestic business (85% of sales) grows 42% YoY, 5% v/s 1QFY20

- The domestic segmental performance stood as follows:

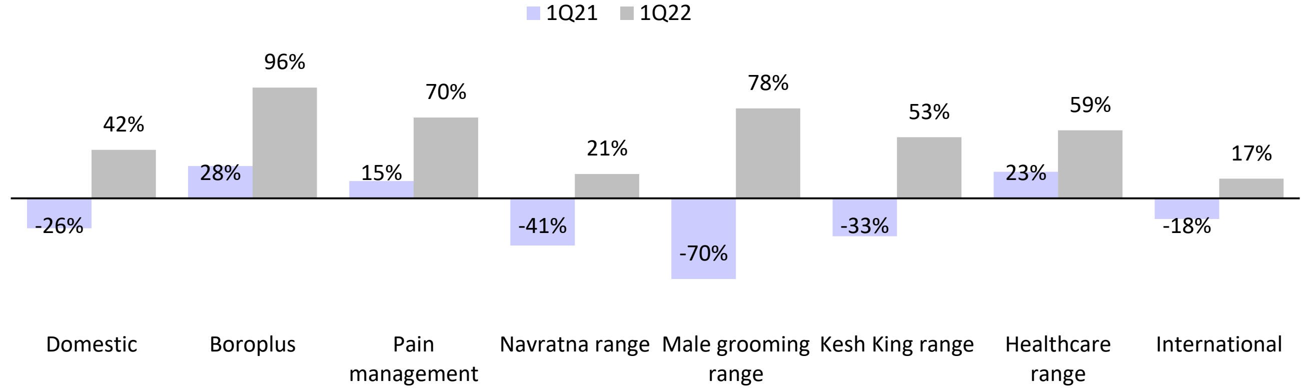
Exhibit 6: All segments post strong double-digit growth in1QFY22, albeit on a softer base

(% growth)	YoY	v/s 1QFY22
Healthcare	59	95
Pain Management	70	95
Navratna	21	-29
Kesh King	53	2
BoroPlus (excl. sanitizer)	96	32
Male Grooming	78	-47
7 Oils-in-One	93	17

Source: Company, MOFSL

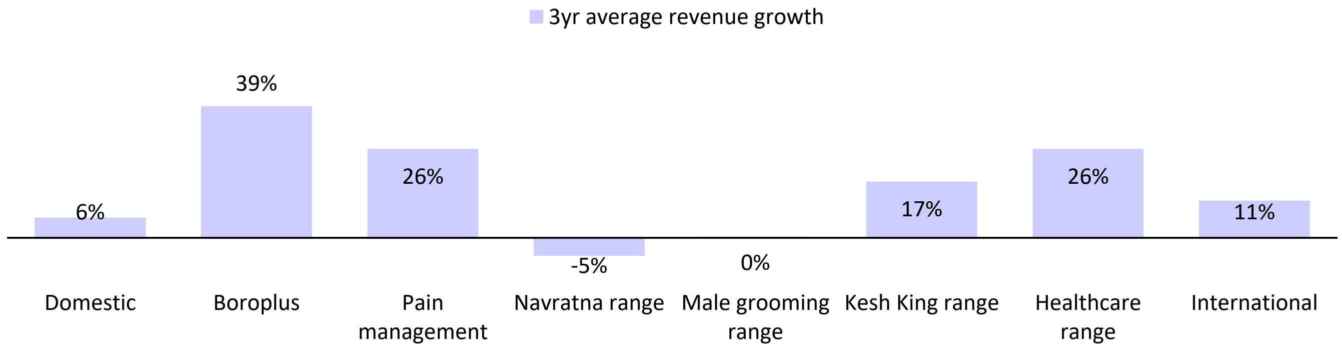
- **International sales (12% of total sales) grew 17% YoY, but declined 9% v/s 1QFY20**. SAARC & SEA, CIS, and Africa grew strongly.
- **The Institutional business contributed 3% to sales in 1QFY22.** It grew 34%, but declined 17% v/s 1QFY20.

Exhibit 7: All categories post strong growth in 1QFY22, led by BoroPlus (+96%), Male Grooming (+78%), and Pain Management (+70%)



Source: Company, MOFSL

Exhibit 8: On a three-year basis, BoroPlus, Healthcare, and Pain Management showing strong performance



Source: Company, MOFSL

Valuation and view

What has happened in the last 10 years?

- The company delivered a ~17% sales and EBITDA CAGR and ~22% PAT CAGR in the first half of the previous decade. However, in the past five years ended FY20, it reported a massive slowdown in key financial metrics (~4%/~5%/3% sales/EBITDA/PAT CAGR). This is attributable to the absence of sales growth in most key categories.

Key challenges

- The lack of significant traction in products launched in recent years and failed acquisitions, such as 'She', have contributed to the weak sales growth in recent years. Kesh King's scale-up thus far has certainly not lived up to expectations. The overseas business has also underperformed.
- Compared with peers, HMN has the largest exposure to rural and, even more crucially, to wholesale trade. While the management has expanded its direct reach in recent years, wholesale and rural dependence remains high – albeit still lower than that seen in the past.

Our view on the stock

- There is no material change to our FY22/FY23E EPS forecasts.
- While it is too early to call out a structural recovery in sales, before the COVID-led blip on discretionary consumption in 1QFY22, the company had reported three successive quarters of two-year average sales of 7.5–10% – a level we

believe HMN can go back to 2QFY22 onwards. This is far better than the 3.7% sales CAGR between FY16–20. If the path to sustainable and strong double-digit sales growth continues, a further re-rating is possible.

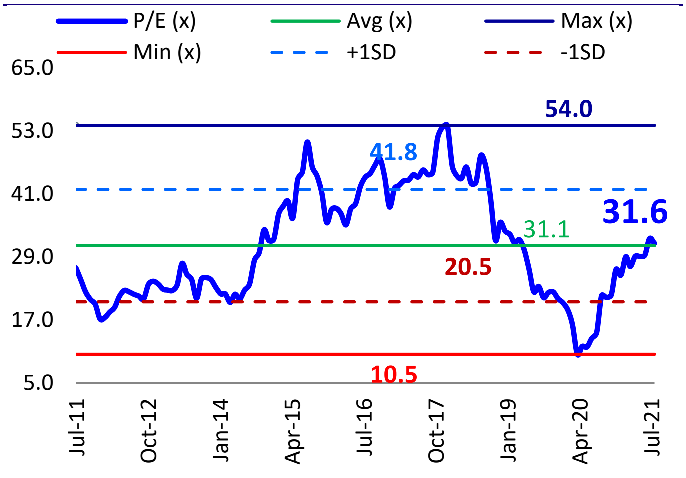
- We maintain our Buy rating, encouraged by the following factors: a) inexpensive valuations at 30.3x FY23E EPS, b) a sharp reduction in pledged shares (now at 30% levels), and c) potential tailwinds for HMN over the next few quarters (~50% of HMN's domestic sales comes from rural India) – just like other peers with higher rural salience.
- We arrive at our TP of INR660/share (valuing the company at 32x Sep'23E EPS, a 40% discount to peers).

Exhibit 9: We change our FY22E/FY23E EPS estimate by 2.3%/0.3%

	New		Old		Change (%)	
(INR m)	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Sales	32,371	35,992	32,371	35,992	0.0	0.0
EBITDA	9,855	11,028	9,725	10,992	1.3	0.3
PAT	7,622	8,364	7,452	8,335	2.3	0.3

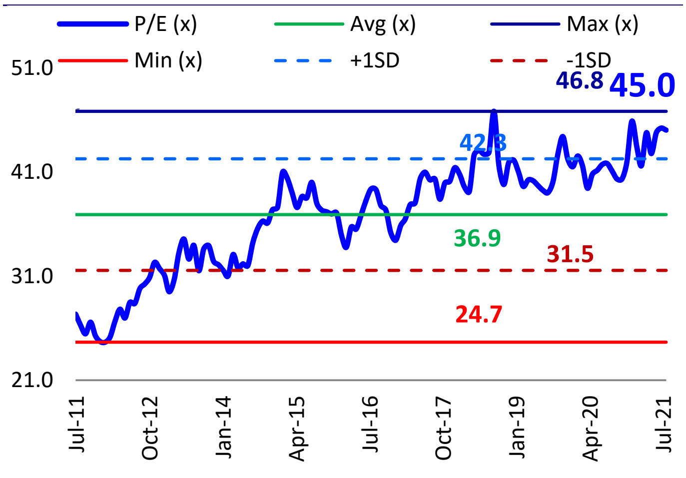
Source: Company, MOFSL

Exhibit 10: HMN's P/E (x)



Source: Company, MOFSL

Exhibit 11: Consumer sector P/E (x)



Source: Company, MOFSL

Financials and valuations

Income Statement (INR m)

Y/E March	2017	2018	2019	2020	2021	2022E	2023E
Net Sales	**24,882**	**25,305**	**26,946**	**26,549**	**28,805**	**32,371**	**35,992**
Change (%)	5.5	1.7	6.5	-1.5	8.5	12.4	11.2
COGS	7,910	8,098	9,230	8,761	9,292	10,512	11,708
Gross Profit	**16,972**	**17,207**	**17,716**	**17,788**	**19,513**	**21,859**	**24,284**
Gross Margin (%)	68.2	68.0	65.7	67.0	67.7	67.5	67.5
Operating expenses	9,380	10,013	10,444	10,882	10,682	12,004	13,257
EBITDA	**7,591**	**7,194**	**7,272**	**6,906**	**8,831**	**9,855**	**11,028**
Change (%)	10.5	-5.2	1.1	-5.0	27.9	11.6	11.9
Margin (%)	30.5	28.4	27.0	26.0	30.7	30.4	30.6
Depreciation	469	673	768	774	991	1,110	1,252
Int. and Fin. Charges	580	343	214	210	133	31	8
Financial Other Income	311	195	349	571	703	469	558
Profit before Taxes	**6,853**	**6,374**	**6,639**	**6,492**	**8,410**	**9,183**	**10,326**
Change (%)	7.9	-7.0	4.2	-2.2	29.5	9.2	12.4
Margin (%)	27.5	25.2	24.6	24.5	29.2	28.4	28.7
Tax	836	863	1,024	713	1,142	1,561	1,962
Deferred Tax	130	-5	37	-86	-5	0	0
Tax Rate (%)	14.1	13.5	16.0	9.7	13.5	17.0	19.0
Adjusted PAT	**6,021**	**5,507**	**5,517**	**5,618**	**7,226**	**7,622**	**8,364**
Change (%)	4.5	-8.5	0.2	1.8	28.6	5.5	9.7
Margin (%)	24.2	21.8	20.5	21.2	25.1	23.5	23.2
Amortization	2,617	2,436	2,485	2,589	2,679	2,500	1,000
Reported PAT	**3,404**	**3,071**	**3,032**	**3,029**	**4,547**	**5,122**	**7,364**

Balance Sheet (INR m)

Y/E March	2017	2018	2019	2020	2021	2022E	2023E
Share Capital	454	454	454	453	445	445	445
Reserves	17,093	19,682	20,307	17,784	17,182	19,591	19,989
Net Worth	**17,547**	**20,136**	**20,761**	**18,238**	**17,627**	**20,035**	**20,433**
Minority Interest	14	6	-2	-9	-9	-9	-9
Loans	4,846	3,343	1,168	2,257	1,028	528	0
Deferred Liability	282	118	122	35	42	42	42
Capital Employed	**22,689**	**23,602**	**22,048**	**20,520**	**18,687**	**20,596**	**20,466**
Goodwill on consolidation	41	41	41	0	0	0	0
Gross Block	25,600	26,825	28,738	29,933	27,108	28,108	29,108
Less: Accum. Depn.	5,616	8,767	11,967	15,329	16,320	17,430	18,682
Net Fixed Assets	**19,983**	**18,058**	**16,771**	**14,604**	**10,788**	**10,678**	**10,426**
Capital WIP	129	226	352	69	64	64	64
Investments	**1,277**	**3,136**	**1,870**	**1,564**	**3,084**	**3,084**	**3,084**
Curr. Assets, L&A	**4,602**	**6,517**	**9,151**	**10,548**	**11,261**	**13,748**	**14,672**
Inventory	1,792	1,940	2,217	2,446	3,005	2,440	2,699
Account Receivables	970	1,559	2,164	3,080	2,318	2,661	2,860
Cash and cash equivalents	501	795	2,034	1,191	3,604	5,421	7,065
Others	1,340	2,224	2,737	3,831	2,335	3,226	2,048
Curr. Liab. and Prov.	**3,343**	**4,376**	**6,137**	**6,265**	**6,510**	**6,978**	**7,780**
Account Payables	1,847	2,420	2,914	3,245	3,507	3,536	3,931
Other Liabilities	622	1,077	1,808	1,222	1,147	1,345	1,480
Provisions	873	879	1,416	1,798	1,856	2,097	2,369
Net Current Assets	**1,259**	**2,141**	**3,014**	**4,284**	**4,751**	**6,770**	**6,892**
Application of Funds	**22,689**	**23,602**	**22,048**	**20,520**	**18,687**	**20,596**	**20,466**

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2017	2018	2019	2020	2021	2022E	2023E
Basic (INR)							
EPS	**13.3**	**12.1**	**12.2**	**12.4**	**16.3**	**17.1**	**18.8**
Cash EPS	14.3	13.6	13.8	14.1	18.5	19.6	21.6
BV/Share	38.7	44.4	45.7	40.2	39.7	45.1	46.0
DPS	4.4	3.5	4.0	8.0	8.0	11.5	13.0
Payout %	33.0	28.8	32.9	64.6	49.2	67.1	69.1
Valuation (x)							
P/E	43.0	47.0	46.9	46.0	35.1	33.2	30.3
Cash P/E	39.9	41.9	41.2	40.4	30.8	29.0	26.3
EV/Sales	10.5	10.2	9.5	9.7	8.6	7.6	6.8
EV/EBITDA	34.5	35.9	35.2	37.3	28.0	24.9	22.0
P/BV	14.7	12.8	12.5	14.2	14.4	12.6	12.4
Dividend Yield (%)	0.8	0.6	0.7	1.4	1.4	2.0	2.3
Return Ratios (%)							
RoE	35.8	29.2	27.0	28.8	40.3	40.5	41.3
RoCE	31.1	28.2	28.5	28.8	40.0	44.5	47.6
RoIC	28.2	25.3	25.9	28.5	39.6	48.2	55.7
Working Capital Ratios							
Debtor (Days)	14	23	30	34	32	30	29
Asset Turnover (x)	1.1	1.1	1.2	1.2	1.5	1.6	1.8
Leverage Ratio							
Debt/Equity (x)	0.2	0.1	0.0	0.1	-0.1	-0.2	-0.3

Cash Flow Statement **(INR m)**

Y/E March	2017	2018	2019	2020	2021	2022E	2023E
OP/(loss) before Tax	4,236	3,926	4,034	3,736	5,689	6,683	9,326
Depreciation	3,086	3,109	3,253	3,363	3,670	3,610	2,252
Other non-operating income	-102	-51	-125	-192	-329	-469	-558
Interest Paid	558	316	42	-73	-38	31	8
Direct Taxes Paid	-707	-809	-927	-760	-865	-1,561	-1,962
(Incr)/Decr in WC	226	-612	-739	-800	1,088	-202	1,523
CF from Operations	**7,296**	**5,878**	**5,537**	**5,274**	**9,215**	**8,092**	**10,589**
(Incr)/Decr in FA	-2,814	-1,232	-1,329	-1,481	-320	-1,000	-1,000
Free Cash Flow	**4,482**	**4,646**	**4,208**	**3,793**	**8,895**	**7,092**	**9,589**
(Pur)/Sale of Investments	-763	-1,863	1,178	-568	-2,934	0	0
Others	655	750	129	-15	3,334	1,173	-688
CF from Invest.	**-2,922**	**-2,346**	**-22**	**-2,064**	**80**	**173**	**-1,688**
Change in Equity	0	0	0	-125	-2,256	0	0
(Incr)/Decr in Debt	7,099	4,847	803	1,004	-1,183	-500	-528
Dividend Paid	-1,985	-1,194	-1,589	-3,632	-3,556	-6,162	-6,966
Others	-10,072	-6,891	-3,491	-1,301	114	215	238
CF from Fin. Activity	**-4,958**	**-3,237**	**-4,277**	**-4,054**	**-6,882**	**-6,447**	**-7,256**
Incr/Decr of Cash	**-584**	**295**	**1,239**	**-844**	**2,413**	**1,818**	**1,644**
Add: Opening Balance	1,084	501	795	2,034	1,191	3,604	5,421
Closing Balance	**500**	**795**	**2,034**	**1,191**	**3,604**	**5,421**	**7,065**

E: MOSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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