

Emami (HMN IN)

Rating: ACCUMULATE | CMP: Rs573 | TP: Rs624

August 2, 2021

Q1FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

Rating	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Target Price	ACCUMULATE	624	BUY	579
Sales (Rs. m)	32,187	35,869	32,187	35,869
% Chng.	-	-	-	-
EBITDA (Rs. m)	9,822	10,856	9,502	10,858
% Chng.	3.4	-	-	-
EPS (Rs.)	17.0	18.7	16.4	18.7
% Chng.	3.6	-	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	26,549	28,802	32,187	35,869
EBITDA (Rs. m)	6,905	8,827	9,822	10,856
Margin (%)	26.0	30.6	30.5	30.3
PAT (Rs. m)	5,252	6,689	7,538	8,308
EPS (Rs.)	11.6	15.0	17.0	18.7
Gr. (%)	5.0	29.8	12.7	10.2
DPS (Rs.)	7.4	8.0	8.0	9.0
Yield (%)	1.3	1.4	1.4	1.6
RoE (%)	26.9	37.3	38.2	35.0
RoCE (%)	16.8	26.5	30.2	35.7
EV/Sales (x)	9.8	8.7	7.6	6.7
EV/EBITDA (x)	37.7	28.5	25.1	22.3
PE (x)	49.5	38.1	33.8	30.7
P/BV (x)	14.2	14.5	11.7	10.0

Key Data	EMAM.BO HMN IN
52-W High / Low	Rs.579 / Rs.235
Sensex / Nifty	52,951 / 15,885
Market Cap	Rs.255bn/ \$ 3,427m
Shares Outstanding	445m
3M Avg. Daily Value	Rs.696.66m

Shareholding Pattern (%)

Promoter's	53.86
Foreign	12.49
Domestic Institution	24.48
Public & Others	9.17
Promoter Pledge (Rs bn)	42.18

Stock Performance (%)

	1M	6M	12M
Absolute	1.7	19.5	139.0
Relative	0.8	12.4	69.1

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Improved Visibility but high base quarters ahead

Quick Pointers:

- Domestic volumes up 38% led by health care and pain management
- New launches accounted for 3% of revenues.
- 4% price increase in April-21 in pain management and summer portfolio.

We are increasing FY22 EPS estimates by 3.6% on back of higher gross margins during 1Q22 and strong outlook with RM cost having peaked out. Strong growth continued across healthcare, pain management and Kesh King however Navratna was impacted due to second wave. Emami has embarked upon a distribution drive through project Khoj to focus on Standalone MT to increase direct rural distribution to 8K villages in 1yr and 32K villages in 3yrs.

We remain positive on Emami given 1) Increased rural penetration led by Project Khoj 2) Innovation led market penetration, 3) Double digit growth expected in health care and male grooming revival on a low base and 4) Increased focus on Zandu portal and E-com to create digital first brands through exclusive E-com launches. We believe medium term growth visibility in domestic business remains robust however IBD remains a near term drag. We expect measured returns post 125% surge in stock price in past 12 months. We value the stock at 33x June23 EPS (31xFY23 EPS earlier) and arrive at TP of Rs 624 (Rs579 earlier). probability of further decline in promoter pledge (5% from Nuvoco release, currently 30%), 40-50% dividend payout and 35% and 38% ROE and ROE limit downside. Downgrade to Accumulate

Domestic volume up 39%, Margins expand 380bps: Net Sales grew 37.31% to Rs 6.61bn (Est Rs 6.01bn). International business up 17%, Domestic revenues increased by 42% driven by 38% volume growth. GRMs almost steady at 66.0% (Est 65%) EBITDA rose 38.0% to Rs 1.69bn (Est Rs 1.56bn). EBITDA margins remained almost same at 25.7% (Est 26%) despite increase in ad spends by 84% as compared to the same quarter last year Adj. PAT grew ~2x to Rs 778mn (Est Rs 682mn) on back of increased sales and 60% higher other income.

Concall key takeaways: 1) Demand in rural markets subdued and lower than urban markets during the quarter 2) Plan to increase direct rural distribution to 8K villages in 1yr and 32K villages in 3yrs 3) Bullish on male grooming segment, have 10 products each to launch in Fair & Handsome, HE brands for online sales 4) Overall new products contributed 3% to total sales 5) Added 35-37 lac customers in pain management segment in North India; sustainability of same might be difficult 6) Ecommerce contributed 5% (last yr 1%) of sales, expect 7-7.5% by next year 7) International business under stress due to lockdowns 8) Received order from Jodhpur court which will reduce promoter pledge by 5% from current levels

Exhibit 1: Revenues grew 37.3%, EBITDA margins expanded 20bps

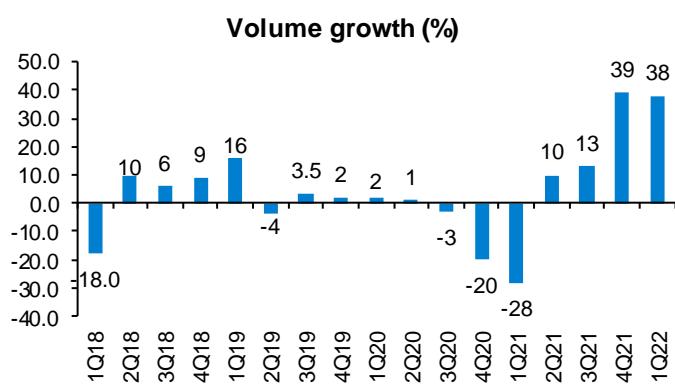
Y/e March	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	FY21	FY20	YoY gr. (%)
Net Sales	6,610	4,813	37.3	7,308	28,805	26,549	8.5
Gross Profit	4,363	3,200	36.4	4,580	19,513	17,788	9.7
% of NS	66.0	66.5	-0.5	62.7	67.7	67.0	0.7
Other Expenses	2,666	1,970	35.3	2,952	10,682	10,882	-1.8
% of NS	40.3	40.9	(0.6)	40.4	37.1	41.0	(3.9)
EBITDA	1,697	1,230	38.0	1,628	8,831	6,905	27.9
Margins %	25.7	25.5	0.1	22.3	30.7	26.0	4.6
Depreciation	830	748	11.0	830	3,670	3,363	9.1
Interest	6	47	-86.4	47	133	210	-36.8
Other Income	107	67	60.0	465	703	571	23.1
PBT	968	502	92.8	1,216	5,731	3,903	46.8
Tax	175	95	84.4	326	1,142	713	60.2
Tax rate %	18.1	18.9		26.8	19.9	18.3	
Adjusted PAT	778	396	96.5	877	4,547	3,130	45.3

Source: Company, PL

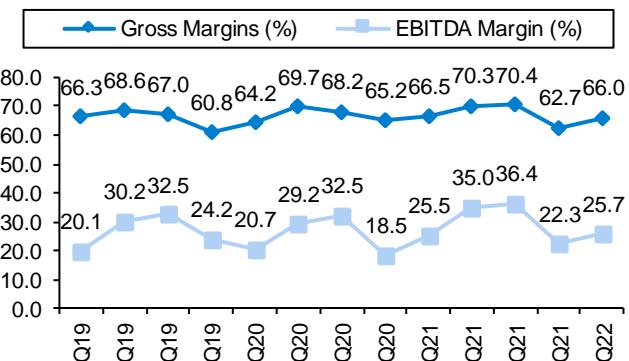
Exhibit 2: Strong growth witnessed across all brands, high base quarters ahead

Brand/segments	2QFY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Navratna	-3	11	-12	-41	14	-12	28	21
Boroplus	39	-12	-77	28	-25	21	5x	96
Pain Management	4	13	-5	15	31	12	38	70
7 Oils in one	25	66	5	NA	9	32	39	93
Kesh King	-11	18	-26	-33	45	16	45	53
Male Grooming	-32	-39	-42	-70	-24	5	26	78
Health Care	0	4	-9	23	53	38	67	59

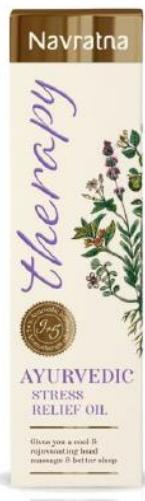
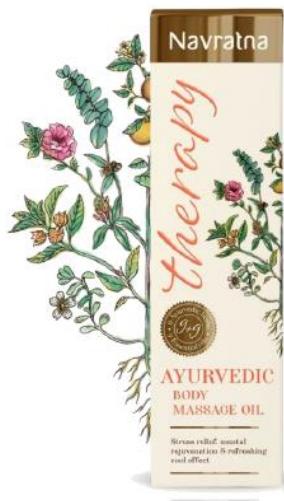
Source: Company, PL

Exhibit 3: 1QFY22 Volumes grow 38%


Source: Company, PL

Exhibit 4: EBITDA margins up 20bps YoY


Source: Company, PL

Exhibit 5: Launched Navratna Therapy range and HE Active range**Navratna Therapy Range**

Launched on e-commerce platforms
- Flipkart, Amazon & Nykaa

HE Active Range

With core claim - “*bacteria gone, odour gone*” Launched in MT;
e-commerce launch in July

Zandu Pancharishta

Introduced dosage cap for
convenience and driving
volume growth

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	26,549	28,802	32,187	35,869
YoY gr. (%)	(1.5)	8.5	11.8	11.4
Cost of Goods Sold	8,761	9,292	10,636	11,842
Gross Profit	17,788	19,510	21,551	24,027
Margin (%)	67.0	67.7	67.0	67.0
Employee Cost	2,995	3,092	3,385	3,724
Other Expenses	1,180	1,246	1,154	1,218
EBITDA	6,905	8,827	9,822	10,856
YoY gr. (%)	(5.0)	27.8	11.3	10.5
Margin (%)	26.0	30.6	30.5	30.3
Depreciation and Amortization	3,363	3,670	3,454	1,822
EBIT	3,542	5,158	6,368	9,034
Margin (%)	13.3	17.9	19.8	25.2
Net Interest	210	133	131	160
Other Income	571	703	670	675
Profit Before Tax	3,902	5,728	6,907	9,550
Margin (%)	14.7	19.9	21.5	26.6
Total Tax	713	1,142	1,313	1,815
Effective tax rate (%)	18.3	19.9	19.0	19.0
Profit after tax	3,190	4,586	5,594	7,734
Minority interest	(7)	0	0	0
Share Profit from Associate	(60)	(42)	-	1
Adjusted PAT	5,252	6,689	7,538	8,308
YoY gr. (%)	4.8	27.4	12.7	10.2
Margin (%)	19.8	23.2	23.4	23.2
Extra Ord. Income / (Exp)	(2,116)	(2,144)	(1,943)	(571)
Reported PAT	3,136	4,544	5,594	7,736
YoY gr. (%)	0.2	44.9	23.1	38.3
Margin (%)	11.8	15.8	17.4	21.6
Other Comprehensive Income	(1,010)	616	-	-
Total Comprehensive Income	2,126	5,160	5,594	7,736
Equity Shares O/s (m)	453	445	445	445
EPS (Rs)	11.6	15.0	17.0	18.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	31,406	31,796	34,679	36,043
Tangibles	12,841	13,209	15,992	17,256
Intangibles	18,565	18,587	18,687	18,787
Acc: Dep / Amortization	16,986	20,589	24,043	25,865
Tangibles	4,612	5,536	6,561	7,669
Intangibles	12,374	15,052	17,482	18,196
Net fixed assets	14,420	11,207	10,636	10,178
Tangibles	8,229	7,673	9,431	9,587
Intangibles	6,191	3,534	1,205	591
Capital Work In Progress	80	64	64	64
Goodwill	-	-	-	-
Non-Current Investments	998	1,772	1,793	1,808
Net Deferred tax assets	(35)	(42)	(46)	(50)
Other Non-Current Assets	819	881	841	986
Current Assets				
Investments	1,246	889	889	889
Inventories	2,446	3,005	2,543	2,828
Trade receivables	3,080	2,318	2,028	2,260
Cash & Bank Balance	626	3,604	9,573	13,604
Other Current Assets	1,484	1,060	1,931	2,152
Total Assets	26,650	25,193	30,639	35,145
Equity				
Equity Share Capital	453	445	445	445
Other Equity	17,784	17,182	21,427	25,161
Total Networth	18,237	17,627	21,871	25,605
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	231	230	280	307
Other non current liabilities	216	197	348	539
Current Liabilities				
ST Debt / Current of LT Debt	2,102	919	1,700	1,500
Trade payables	3,245	3,507	3,558	3,965
Other current liabilities	2,439	2,572	2,743	3,082
Total Equity & Liabilities	26,650	25,193	30,639	35,145

Source: Company Data, PL Research

Cash Flow (Rs m)					Key Financial Metrics				
Y/e Mar	FY20	FY21	FY22E	FY23E	Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	3,902	5,728	6,907	9,550	Per Share(Rs)				
Add. Depreciation	3,281	3,603	3,454	1,822	EPS	11.6	15.0	17.0	18.7
Add. Interest	210	133	131	160	CEPS	19.0	23.3	24.7	22.8
Less Financial Other Income	571	703	670	675	BVPS	40.2	39.7	49.2	57.6
Add. Other	(432)	(565)	(524)	(520)	FCF	7.4	21.0	13.8	17.7
Op. profit before WC changes	6,962	8,899	9,968	11,011	DPS	7.4	8.0	8.0	9.0
Net Changes-WC	(2,115)	1,908	459	111	Return Ratio(%)				
Direct tax	(713)	(1,142)	(1,313)	(1,815)	RoCE	16.8	26.5	30.2	35.7
Net cash from Op. activities	4,134	9,665	9,114	9,307	ROIC	14.3	24.9	31.6	43.7
Capital expenditures	(789)	(314)	(2,969)	(1,435)	RoE	26.9	37.3	38.2	35.0
Interest / Dividend Income	437	565	524	521	Balance Sheet				
Others	910	(783)	-	-	Net Debt : Equity (x)	0.0	(0.2)	(0.4)	(0.5)
Net Cash from Invt. activities	557	(532)	(2,445)	(915)	Net Working Capital (Days)	31	23	11	11
Issue of share cap. / premium	(1,801)	(1,641)	2,207	-	Valuation(x)				
Debt changes	1,004	(1,183)	781	(200)	PER	49.5	38.1	33.8	30.7
Dividend paid	(3,923)	(3,556)	(3,556)	(4,001)	P/B	14.2	14.5	11.7	10.0
Interest paid	(210)	(133)	(131)	(160)	P/CEPS	30.2	24.6	23.2	25.2
Others	-	-	-	-	EV/EBITDA	37.7	28.5	25.1	22.3
Net cash from Fin. activities	(4,931)	(6,513)	(699)	(4,361)	EV/Sales	9.8	8.7	7.6	6.7
Net change in cash	(239)	2,620	5,969	4,031	Dividend Yield (%)	1.3	1.4	1.4	1.6
Free Cash Flow	3,345	9,351	6,145	7,871					

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	7,348	9,336	7,308	6,610
YoY gr. (%)	11.3	14.9	37.2	37.3
Raw Material Expenses	2,185	2,766	2,728	2,246
Gross Profit	5,163	6,570	4,580	4,363
Margin (%)	70.3	70.4	62.7	66.0
EBITDA	2,571	3,402	1,628	1,697
YoY gr. (%)	33.3	28.9	65.2	38.0
Margin (%)	35.0	36.4	22.3	25.7
Depreciation / Depletion	1,147	943	830	830
EBIT	1,423	2,458	798	867
Margin (%)	19.4	26.3	10.9	13.1
Net Interest	25	14	47	6
Other Income	78	91	464	107
Profit before Tax	1,477	2,536	1,216	968
Margin (%)	20.1	27.2	16.6	14.6
Total Tax	284	438	326	175
Effective tax rate (%)	19.2	17.3	26.8	18.1
Profit after Tax	1,193	2,099	891	793
Minority interest	-	-	-	-
Share Profit from Associates	(8)	(9)	(13)	(15)
Adjusted PAT	1,184	2,089	876	778
YoY gr. (%)	23.3	41.4	191.4	97.0
Margin (%)	16.1	22.4	12.0	11.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,185	2,090	877	778
YoY gr. (%)	23.3	38.3	133.4	96.5
Margin (%)	16.1	22.4	12.0	11.8
Other Comprehensive Income	(63)	275	165	270
Total Comprehensive Income	1,122	2,365	1,042	1,047
Avg. Shares O/s (m)	445	454	445	445
EPS (Rs)	2.7	4.6	2.0	1.8

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jul-21	BUY	579	564
2	25-May-21	BUY	579	500
3	07-Apr-21	BUY	568	507
4	27-Jan-21	BUY	568	483
5	07-Jan-21	BUY	526	450
6	02-Dec-20	BUY	526	444
7	06-Nov-20	BUY	450	367
8	08-Oct-20	BUY	424	353
9	07-Aug-20	BUY	419	257

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,511	3,159
2	Avenue Supermarts	BUY	3,744	3,397
3	Bajaj Electricals	Hold	1,084	1,050
4	Britannia Industries	Accumulate	3,755	3,545
5	Burger King India	BUY	250	158
6	Colgate Palmolive	Accumulate	1,846	1,710
7	Crompton Greaves Consumer Electricals	BUY	518	468
8	Dabur India	UR	-	590
9	Emami	BUY	579	564
10	Havells India	Accumulate	1,226	1,151
11	Hindustan Unilever	Accumulate	2,535	2,378
12	ITC	BUY	258	212
13	Jubilant FoodWorks	Accumulate	3,404	3,065
14	Kansai Nerolac Paints	Accumulate	620	587
15	Marico	Hold	525	547
16	Mold-tek Packaging	BUY	598	510
17	Nestle India	Accumulate	19,290	18,023
18	Pidilite Industries	UR	-	2,179
19	Titan Company	Accumulate	1,869	1,763
20	Voltas	Hold	955	1,015
21	Westlife Development	BUY	572	496

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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