

BSE SENSEX	S&P CNX
33,147	10,344
Bloomberg	HMN IN
Equity Shares (m)	227.0
M.Cap.(INRb)/(USDb)	274.4 / 4.0
52-Week Range (INR)	1,261/937
1, 6, 12 Rel. Per (%)	6/3/-16
Avg Val, INR m	193
Free float (%)	27.3

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	24.9	26.6	31.5
EBITDA	7.6	8.0	9.6
PAT	6.0	6.0	7.5
EPS (INR)	26.5	26.6	33.2
Gr. (%)	4.5	0.2	25.0
BV/Sh (INR)	77.3	90.4	104.7
RoE (%)	35.8	31.7	34.0
RoCE (%)	31.0	32.1	37.7
P/E (x)	45.6	45.5	36.4
P/BV (x)	15.6	13.4	11.5

Estimate change



TP change



Rating change


CMP: INR1,209 TP: INR1,435(+19%)
Buy

EBITDA above estimate; recovery seen in wholesale channel

- **2QFY18 sales grew 9.7% YoY to INR6.3b.** Domestic revenue rose 14% YoY, with 10% volume growth. The quarter continued to see CSD and wholesale channel destocking, but there has been significant recovery compared to 1QFY18. HMN expects the wholesale channel to return to normalcy in 2HFY18. CSD (3% salience) declined by 20% YoY.
- **Gross margin shrank 40bp YoY to 67.3%.** Employee expenses were up 20bp YoY. Sharp cut in ad spends (-160bp YoY to 15.7%) and lower other expenses (-50bp YoY to 9%) led to EBITDA margin expansion of 150bp YoY to 32.1%. EBITDA grew 14.9% YoY to INR2b (our estimate: INR1.9b). Adjusted PAT before amortization grew 19% YoY to INR1.6b (our estimate: INR1.4b).
- **International (14% salience) sales grew 22% YoY.** SAARC and Africa did well. MENAP posted high-single-digit growth. Gained market share across portfolio.
- **Concall highlights:** (1) Expects 16-17% growth for the remaining year in the domestic business, with 13-14% volume growth. (2) Added 60k outlets in 1HFY18 to reach 780k outlets; targeting 830k by March 2018. (3) Wholesale sales proportion is 42%, down from 50% earlier; targeting 35% by March 2019.
- **Valuation and view:** We believe HMN remains a credible long-term play due to (a) healthy growth in existing product categories, where it has dominant market share, (b) best of breed R&D spend and A&P spend, innovative products, and ability to back up innovation with strong marketing, (c) much needed efforts to improve direct distribution. At 36.4x FY19E EPS, the stock is relatively inexpensive, particularly given healthy long-term earnings growth and mid-30s return ratios. We maintain our BUY rating, with a revised target price of INR 1,435 (40x September 2019E EPS, in line with 3-year average).

Quarterly performance

Y/E MARCH	FY17				FY18				(INR Million)		Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY17	FY18E	
Domestic volume Growth (%)	18.0	11.0	0.2	-1.5	-18.0	10.0	14.0	15.0	6.9	5.5	10.0
Net Sales	6,454	5,728	7,260	5,777	5,411	6,281	8,276	6,671	25,219	26,639	6,226
YoY Change (%)	20.1	8.0	0.2	-4.4	-16.2	9.7	14.0	15.5	5.2	5.6	6.5
COGS	2,287	1,848	2,331	2,184	1,967	2,053	2,658	2,446	8,650	9,124	2,024
Other Expenditure	2,695	2,128	2,343	1,812	2,642	2,215	2,571	2,073	8,978	9,501	2,320
% to sales	41.8	37.1	32.3	31.4	48.8	35.3	31.1	31.1	35.6	35.7	37.3
EBITDA	1,473	1,752	2,585	1,781	802	2,013	3,047	2,152	7,591	8,013	1,882
Margins (%)	22.8	30.6	35.6	30.8	14.8	32.1	36.8	32.3	30.1	30.1	30.2
YoY Change	49.2	15.1	3.7	-4.7	-45.6	14.9	17.8	20.8	10.5	5.6	7.4
Depreciation	106	111	112	140	153	146	117	103	469	519	122
Interest	125	160	127	168	79	104	89	98	580	370	50
Other Income	51	87	82	92	65	53	90	112	311	320	95
PBT	1,292	1,568	2,428	1,565	635	1,817	2,930	2,062	6,853	7,444	1,805
Tax	117	230	381	108	28	227	674	482	836	1,411	415
Rate (%)	9.1	14.7	15.7	6.9	4.4	12.5	23.0	23.4	12.2	19.0	23.0
PAT before Amortization	1,175	1,336	2,046	1,456	605	1,590	2,256	1,580	6,013	6,033	1,390
YoY Change (%)	18.0	9.6	4.8	-6.6	-48.5	19.0	10.3	8.5	5.0	0.3	4.0
Amortization	609	680	705	623	598	604	634	563	2,617	2,400	612
Reported PAT	567	661	1,343	833	10	987	1,622	1,016	3,404	3,633	778

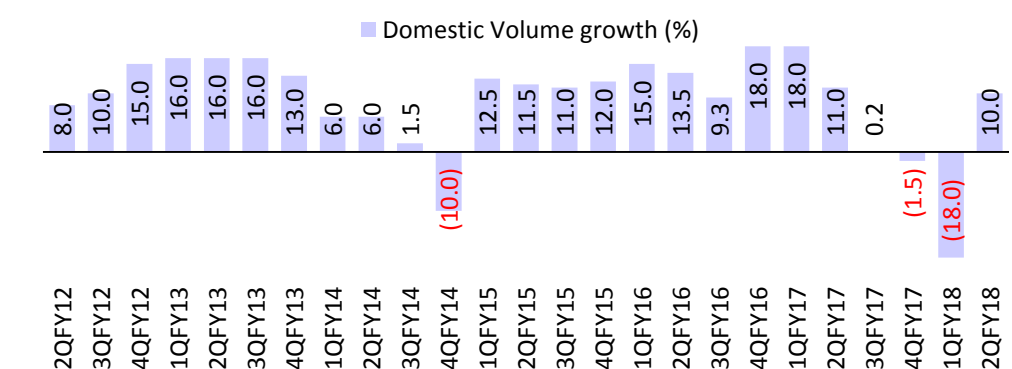
E: MOSL Estimates

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: Domestic volumes grew 10% in 2QFY18

Source: Company, MOSL

Domestic (83% of sales) segmental performance

- Boro Plus range grew by 38% YoY, led by antiseptic creams. Navratna range grew 16% YoY, with both cool oils and talc registering double-digit volume growth. Pain management range grew 15% YoY in 2QFY18, led by double-digit volume growth in balms. Male grooming range grew by 12%, led by healthy double-digit growth in Fair and Handsome cream and facewash. Kesh King range declined 16% YoY as worries in wholesale channel continued, along with subdued rural markets. Healthcare range grew by a meager 2%, impacted by the subdued performance of Pancharishtha. 7 Oils in One sales grew in double-digit.

Exhibit 2: Portfolio Performance

Category Performance	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
Boroplus Antiseptic Cream	16%	2%	41%	38%	16%	13%	2%	41%	38%
Balms	3%	10%	12%	6%	19%	-5%	1%	-21%	15%
Fair & Handsome Cream	10%	8%	0%	1%	1%	-18%	-5%	-21%	17%
Navratna Cool Oil	0%	-6%	4%	8%	-3%	-4%	5%	-15%	16%
Zandu HCD	45%	25%	30%	14%	0%	-6%	-11%	-23%	2%
International	12%	11%	17%	14%	-11%	-16%	-38%	-19%	22%
CSD	-1%	13%	12%	12%	14%	-12%	1%	-20%	-20%
Kesh King range					50%	2%	1%	-28%	-16%

Source: Company, MOSL

- New launches in 2QFY18:** Fair and Handsome Laser 12 Advanced Whitening and Multi Benefit Cream, Diamond Shine Luxury Crème Hair Colour and BoroPlus Zero Oil Zero Pimple Face Wash.

Exhibit 3: New launches continue in 2QFY18

Source: Company, MOSL

Concall highlights**Outlook and guidance**

- Management sees early signs of recovery in the demand environment. For HMN, wholesale recovery has been better in North India so far compared to South India, which is surprising. Some parts of North India are still weak.
- Winter has started on a good note; hence, good numbers from *Boro Plus* already.
- Management had stated at the end of 1QFY18 that remaining 9M sales will be up 16-17% YoY on like-to-like basis. It maintains the same guidance at the end of 2QFY18. New products will contribute 1-1.5% of incremental growth. This new product contribution is lower than usual levels or earlier levels of 3-4% because of postponement of some launches in the slowdown period.
- *Navratna*, *Boro Plus* and *Fair & Handsome* are seeing good retail offtake, and rural sentiment is recovering. This and weak base gives HMN confidence on strong growth in 2HFY18.
- Focus is primarily on double-digit volume growth. If high margin products like *Boro Plus* continue to do well and *Kesh King* recovers, then HMN can achieve strong volume growth with no impact on margins.
- HMN has already taken price hikes on the winter portfolio. While mentha prices are increasing, the growth in other commodity prices is moderate.
- HMN maintains that it is likely to be net cash by March 2018.
- Capex will be INR 1.5b in FY18, and subsequently, ~INR1b each year.

Reducing wholesale channel dependence

- Added 60,000 outlets in 1HFY18 to reach 780,000 outlets; targeting 830,000 by March 2018. Surprisingly, despite the problems on wholesale, the management has not revised upwards the target mentioned at the end of the previous year.
- Wholesale sales proportion is 42%, down from 50% earlier; targeting 35% by March 2019.
- Modern trade proportion has increased from 4% in the beginning of the year to 5-5.5% at the end of 2QFY18. Modern trade sales grew 40% YoY in 2QFY18.

Kesh King update

- There has been a new campaign on *Kesh King* to drive growth. But wholesale channel needs to recover for growth in this product, which has 75% wholesale dependence. Management expects that by the end of FY18, wholesale channel should be close to complete normalcy.
- The company believes it has actually gained market share on *Kesh King* despite the sales decline during the quarter.

New launches/ update on recent launches

- HMN targets new offerings in Healthcare with high decibel advertising to drive growth. These launches will be in OTC, and not prescription-based. It is piloting some products in 3QFY18 and will subsequently launch nationally.
- *He* is around 10% of the male grooming range in terms of sales with the remaining coming from *Fair & Handsome*.
- HMN believes that its recent nationally launched women's hair color product (*Diamond Shine*) is better than peers and pricing is also competitive.

Elaboration / Clarifications on results

- 2QFY18 saw 14% like-to-like sales growth.
- Domestic business grew 14% and international business grew 22% in 2QFY18 on a like-to-like basis.
- Like-to-like A&P is 10% higher, unlike reported flat growth, because of service tax component in the base.
- *Fair and Handsome* saw 4% volume growth and 10% value growth.
- *Boro Plus* saw 33% volume growth.
- *Navratna* saw 16% volume growth in 2QFY18.
- *Pancharisht* reported 13% volume decline in 2QFY18.
- Has factored only the central government component as refund in case of excise free zones.
- Sachets contribute 24-25% of sales for the company.

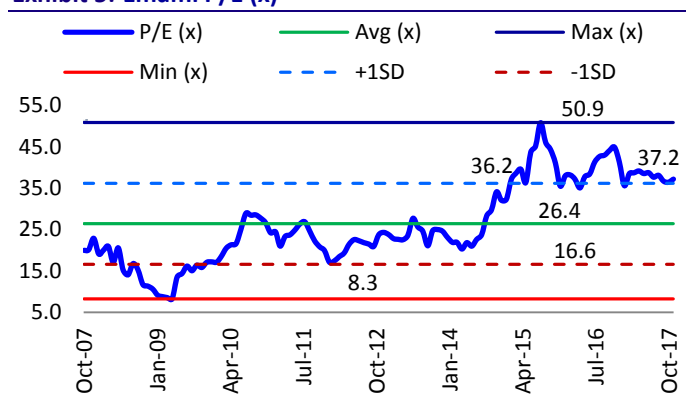
Valuation and view

- We believe that Emami remains a credible long term play due to (a) healthy growth likely in existing product categories where it has dominant market share; (b) best of breed R&D spend and A&P spend resulting innovative products as well as ability to back up innovation with strong marketing; (c) much needed efforts on improving direct distribution reach.
- Valuations at 36.4x FY19 EPS is inexpensive relative to peers, particularly given healthy long term earnings growth opportunity and return ratios in the mid-30s.
- We maintain BUY rating with a revised target price of INR 1,435 (40x Sep 2019 EPS, in line with 3 year average).

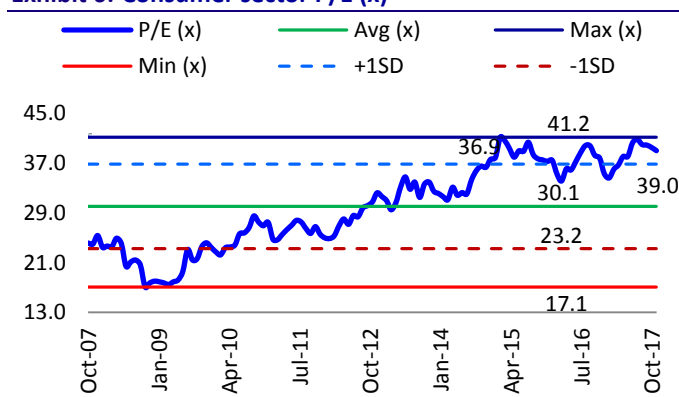
Exhibit 4: Changes in the model does not result in any meaningful change in our FY18/FY19/FY20 EPS

	New			Old			Change		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Sales	26,639	31,511	36,255	27,587	32,302	37,186	-3.4%	-2.4%	-2.5%
EBITDA	8,013	9,583	11,063	7,957	9,557	11,039	0.7%	0.3%	0.2%
PAT	6,033	7,539	8,753	6,108	7,520	8,729	-1.2%	0.3%	0.3%

Source: Company, MOSL

Exhibit 5: Emami P/E (x)

Source: Company, MOSL

Exhibit 6: Consumer sector P/E (x)

Source: Company, MOSL

Exhibit 7: Valuation Matrix

Company	Reco	CMP	Target Price		Mkt Cap		EPS Growth YoY (%)			P/E (x)			RoE (%)	Div. (%)
		(INR)	(INR)	Upside (%)	(INR B)	(USD B)	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY17
Consumer														
Asian Paints	Neutral	1,191	1,280	7	1,154	17.8	8.7	2.6	19.8	56.7	55.2	46.1	28.5	0.8
Britannia Inds.	Buy	4,611	5,165	12	556	8.6	7.3	15.8	22.6	62.6	54.0	44.1	36.9	0.0
Colgate-Palm.	Buy	1,055	1,328	26	282	4.4	-5.7	10.2	22.1	49.7	45.1	37.0	50.4	0.9
Dabur India	Neutral	322	330	3	568	8.8	1.9	6.7	18.3	44.4	41.6	35.2	28.4	0.8
Emami	Buy	1,209	1,435	19	266	4.1	4.5	0.2	25.0	45.6	45.5	36.4	35.8	0.7
Godrej Cons.	Neutral	924	1,005	9	628	9.7	12.4	14.0	14.6	48.9	42.9	37.4	24.6	0.6
GlaxoSmith C H L	Neutral	4,928	4,630	-6	207	3.2	0.9	1.3	15.2	31.6	31.2	27.1	22.2	1.1
Hind. Unilever	Buy	1,271	1,440	13	2,756	42.5	1.9	16.2	21.0	64.7	55.7	46.1	66.5	1.3
ITC	Neutral	269	290	8	3,272	50.5	9.4	10.4	11.4	32.0	29.0	26.0	23.5	2.1
Jyothy Lab.	Neutral	371	410	11	68	1.0	175.7	-12.6	13.2	33.0	37.7	33.3	21.1	1.6
Marico	Neutral	314	350	12	406	6.3	12.1	8.5	20.9	49.9	46.0	38.1	36.7	1.0
Nestle India	Neutral	7,137	6,160	-14	690	10.6	-1.6	-2.5	16.1	60.5	62.0	53.4	39.0	0.9
P & G Hygiene	Neutral	8,583	9,200	7	282	4.3	2.3	14.0	16.1	64.6	56.6	48.8	39.3	3.8
Page Industries	Buy	19,913	21,310	7	227	3.5	15.0	23.4	35.2	83.4	67.6	50.0	40.0	0.4
Parag Milk	Neutral	269	280	4	23	0.3	-46.4	152.6	37.0	74.7	29.6	21.6	6.0	0.0
Pidilite Inds.	Neutral	791	865	9	410	6.3	6.7	7.9	14.0	47.3	43.8	38.4	28.2	0.6
United Breweries	Buy	940	980	4	242	3.7	-23.0	13.9	41.5	108.3	95.1	67.2	10.2	0.1
United Spirits	Neutral	2,575	2,600	1	369	5.7	87.1	29.1	49.3	96.3	74.6	50.0	21.3	0.0
Retail														
Jubilant Food.	Sell	1,643	960	-42	105	1.6	-32.1	48.0	40.0	164.2	110.9	79.2	8.2	0.2
Titan Company	Neutral	586	590	1	524	8.1	18.5	15.8	20.0	64.9	56.0	46.7	20.6	0.5

Source: Company, MOSL

Financials and valuations

Income Statement						(INR Million)
Y/E March	2015	2016	2017	2018E	2019E	2020E
Net Sales	22,172	23,583	24,930	26,639	31,511	36,255
Change (%)	21.8	6.4	5.7	6.9	18.3	15.1
COGS	7,800	8,121	8,336	9,124	10,708	12,264
Gross Profit	14,373	15,462	16,595	17,515	20,803	23,991
Gross Margin (%)	64.8	65.6	66.6	65.7	66.0	66.2
Operating expenses	9,018	8,589	9,003	9,501	11,220	12,928
EBITDA	5,355	6,873	7,591	8,013	9,583	11,063
Change (%)	20.5	28.3	10.5	5.6	19.6	15.4
Margin (%)	24.2	29.1	30.5	30.1	30.4	30.5
Depreciation	343	423	469	519	537	555
Int. and Fin. Charges	51	540	580	370	0	0
Financial Other Income	964	445	311	320	378	435
Profit before Taxes	5,924	6,354	6,853	7,444	9,424	10,943
Change (%)	27.1	7.3	7.9	8.6	26.6	16.1
Margin (%)	26.7	26.9	27.5	27.9	29.9	30.2
Tax	994	597	836	1,411	1,885	2,190
Tax Rate (%)	18.1	7.4	14.1	19.0	20.0	20.0
Adjusted PAT	4,856	5,762	6,021	6,033	7,539	8,753
Change (%)	20.7	18.7	4.5	0.2	25.0	16.1
Margin (%)	21.9	24.4	24.2	22.6	23.9	24.1
Amortization	0.0	2,127	2,617	2,400	2,400	2,400
Reported PAT	4,856	3,635	3,404	3,633	5,139	6,353

Balance Sheet

Y/E March	2015	2016	2017	2018E	2019E	2020E
Share Capital	227	227	227	227	227	227
Reserves	12,079	15,889	17,320	20,292	23,544	24,352
Net Worth	12,306	16,116	17,547	20,519	23,771	24,579
Minority Interest	46	41	14	14	14	14
Loans	470	6,838	4,846	2,846	0	0
Deferred Liability	120	90	422	422	422	422
Capital Employed	12,942	23,086	22,829	23,801	24,206	25,015
Goodwill on consolidation	41	41	41	41	41	41
Gross Block	6,393	24,162	27,341	28,841	29,841	30,841
Less: Accum. Depn.	1,882	4,408	7,357	7,846	8,351	8,874
Net Fixed Assets	4,511	19,754	19,983	20,995	21,489	21,967
Capital WIP	265	616	129	129	129	129
Investments	5,013	474	1,277	849	764	688
Curr. Assets, L&A	6,934	6,037	4,687	5,905	5,992	7,074
Inventory	1,267	1,505	1,792	1,739	2,052	2,344
Account Receivables	1,027	1,309	970	1,408	1,578	1,715
Cash and cash equivalents	3,541	1,084	501	1,379	731	1,137
Others	1,100	2,138	1,425	1,379	1,632	1,878
Curr. Liab. and Prov.	3,821	3,836	3,288	4,118	4,209	4,883
Account Payables	1,990	2,487	1,847	2,566	2,508	2,989
Other Liabilities	468	660	622	569	522	479
Provisions	1,363	689	819	983	1,179	1,415
Net Current Assets	3,113	2,200	1,399	1,787	1,783	2,190
Application of Funds	12,942	23,086	22,829	23,801	24,206	25,015

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2015	2016	2017	2018E	2019E	2020E
Basic (INR)						
EPS	21.4	25.4	26.5	26.6	33.2	38.6
Cash EPS	22.9	27.2	28.6	28.9	35.6	41.0
BV/Share	54.2	71.0	77.3	90.4	104.7	108.3
DPS	7.0	3.0	8.7	9.0	9.0	9.0
Payout %	32.7	11.8	33.0	33.9	27.1	23.3
Valuation (x)						
P/E			45.6	45.5	36.4	31.4
Cash P/E			42.3	41.9	34.0	29.5
EV/Sales			11.1	10.3	8.7	7.5
EV/EBITDA			36.6	34.3	28.5	24.6
P/BV			15.6	13.4	11.5	11.2
Dividend Yield (%)			0.7	0.7	0.7	0.7
Return Ratios (%)						
RoE	44.9	40.5	35.8	31.7	34.0	36.2
RoCE	44.0	35.8	31.0	32.1	37.7	42.7
RoIC	50.9	39.1	28.1	27.3	31.7	35.7
Working Capital Ratios						
Debtor (Days)	17	20	22	19	18	17
Asset Turnover (x)	1.4	1.1	1.1	1.1	1.3	1.5
Leverage Ratio						
Debt/Equity (x)	-0.3	0.3	0.2	0.1	0.0	0.0

Cash Flow Statement

(INR Million)

Y/E March	2015	2016	2017	2018E	2019E	2020E
OP/(loss) before Tax	5,355	6,873	7,591	8,013	9,583	11,063
Int./Div. Received	1,012	705	721	0	0	0
Interest Paid	-51	-540	-580	-370	0	0
Direct Taxes Paid	-1,070	-472	-966	-1,411	-1,885	-2,190
(Incr)/Decr in WC	512	-1,544	218	491	-644	-1
CF from Operations	5,758	5,022	6,984	6,723	7,054	8,872
(Incr)/Decr in FA	3,802	-18,121	-2,691	-1,500	-1,000	-1,000
Free Cash Flow	9,560	-13,099	4,293	5,223	6,054	7,872
(Pur)/Sale of Investments	-2,054	4,539	-803	428	85	76
CF from Invest.	1,748	-13,582	-3,494	-1,072	-915	-924
(Incr)/Decr in Debt	19	6,369	-1,992	-2,000	-2,846	0
Dividend Paid	-1,727	-820	-2,354	-2,516	-2,516	-2,516
Others	-4,956	554	272	-256	-1,425	-5,025
CF from Fin. Activity	-6,664	6,103	-4,074	-4,772	-6,788	-7,541
Incr/Decr of Cash	842	-2,457	-584	879	-649	407
Add: Opening Balance	2,700	3,541	1,084	501	1,379	731
Closing Balance	3,541	1,084	500	1,379	730	1,137

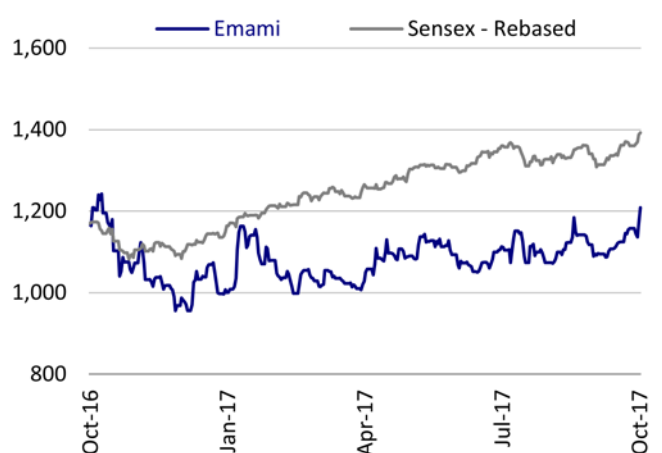
E: MOSL Estimates

Corporate profile

Company description

Emami Limited is the flagship company of the ~INR60b Emami Group. The two promoters, Mr RS Agarwal and Mr RS Goenka in 1978, they acquired Himani Limited, a cosmetics company based in eastern India, with a factory in Kolkata. Himani launched BoroPlus in 1982 and the Navratna cooling oil range in 1989. In 1998, the promoters merged the two entities, creating Emami. The company has since focused on expanding its portfolio in the Healthcare and Personal Care space. In 2008, it acquired Zandu, giving it a leadership position in the Balm category and access to a host of Ayurvedic and OTC products.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Sep-17	Jun-17	Sep-16
Promoter	72.7	72.7	72.7
DII	4.2	3.5	2.3
FII	14.4	14.9	16.7
Others	8.6	8.9	8.2

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Avees Trading And Finance Private Limited	2.6
Birla Sun Life Trustee Company Private Limited A/C Birla Sun Life Advantage Fund	1.3
Matthews India Fund	1.2
Nomura India Investment Fund Mother Fund	1.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
R S Agarwal	Chairman
Sushil K Goenka	Managing Director
A K Joshi	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Aditya Vardhan Agarwal	Amit Kiran Deb
K N Memani	M D Mallya
P K Khaitan	S B Ganguly
Sajjan Bhajanka	Y P Trivedi
Harsh Vardhan Agarwal	Mohan Goenka
Prashant Goenka	Priti A Sureka
R S Goenka	Rama Bijapurkar

*Independent

Exhibit 6: Auditors

Name	Type
MKB & Associates	Secretarial Audit
S K Agrawal & Co	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	26.6	26.0	2.2
FY19	33.2	31.7	4.6
FY20	38.6	37.9	1.8

Source: Bloomberg

NOTES

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