

August 8, 2019

## Q1FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	386		382	
Sales (Rs. m)	28,945	32,055	29,342	32,333
% Chng.	(1.4)	(0.9)		
EBITDA (Rs. m)	7,895	8,786	8,009	9,017
% Chng.	(1.4)	(2.6)		
EPS (Rs.)	11.9	13.4	12.0	13.6
% Chng.	(1.0)	(1.4)		

### Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	25,306	26,929	28,945	32,055
EBITDA (Rs. m)	7,194	7,446	7,895	8,786
Margin (%)	28.4	27.7	27.3	27.4
PAT (Rs. m)	4,986	4,974	5,406	6,103
EPS (Rs.)	43.9	11.0	11.9	13.4
Gr. (%)	81.2	(75.1)	8.7	12.9
DPS (Rs.)	10.5	3.5	4.0	4.7
Yield (%)	3.4	1.1	1.3	1.5
RoE (%)	26.5	24.3	25.2	26.6
RoCE (%)	17.9	18.5	20.0	22.1
EV/Sales (x)	1.4	5.2	4.7	4.1
EV/EBITDA (x)	5.1	18.8	17.3	15.1
PE (x)	7.1	28.3	26.0	23.1
P/BV (x)	1.7	6.8	6.4	5.9

### Key Data

EMAM.BO | HMN IN

52-W High / Low	Rs.588 / Rs.246
Sensex / Nifty	37,327 / 11,032
Market Cap	Rs.141bn/ \$ 1,993m
Shares Outstanding	454m
3M Avg. Daily Value	Rs.950.58m

### Shareholding Pattern (%)

Promoter's	52.74
Foreign	11.92
Domestic Institution	25.13
Public & Others	10.21
Promoter Pledge (Rs bn)	79.78

### Stock Performance (%)

	1M	6M	12M
Absolute	2.3	(19.1)	(46.5)
Relative	6.1	(20.8)	(45.7)

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## Challenges in business to stay for a while

We cut our EPS estimates of FY20-21 by 1-1.4% led by 1) muted revenue growth guidance of only 8-9% for the balance year and 4) Structural issues in F&H and Pancharishta which are likely to drag for another six months. 1Q performance remained muted due to 1) only 2% overall volume growth and flat Domestic volumes 2) only 4% sales growth in Navratna despite its peak season and 3) decline in gross margins on higher raw material costs.

We remain positive on Emami led by 1) sustained market share gains in core categories despite challenging environment, 2) increased traction in Kesh King post its relaunch and decrease in competitive intensity by Patanjali and 3) improved performance in 7 oils in one hair oil. Growth in International business was mainly led by acquisition of Crème 21. We believe margins to expand from the current level as Mentha prices have corrected by 22.3% since Mar'19. Seasonality remain a key challenge in the stock. We estimate 10.3% Adj. PAT CAGR over FY19-21 and value the stock at 28x June21 EPS to arrive at a price target of Rs 386. Retain Accumulate.

**Concall key takeaways:** 1) Rural sales is growing at 1% while urban sales is growing at 2.5% 2) 1Q performance remained subdued due to elections in April and May, weak rural demand and adverse liquidity scenario 3) Input costs pressures have softened in 1Q20 which is expected to improve margins in 2H 4) Male grooming segment is de-growing due to general slowdown and is likely to re-bounce only post implementation of revised strategy in consultation with BCG in 2HFY20 5) MT now contributes 9% of sales and is growing at 17% (earlier 40-45% growth rate on a lower base) 6) Kesh Kanti gained market share on weakening of kesh Kanti 7) Pancharishta declined 12% and is not expected to bounce back for the next 6 months 8) Ad-spends shall remain same as previous year and won't increase unless consumer sentiment revives 9) Balms should perform better in Q2 on good monsoons Emami may give some trade promotions or trade push to bring growth in Balms. 10) Emami has slowed down its new launches and spends behind them

**Domestic volume growth flat:** Consol Net Sales increased by 5.6% to Rs 6.5bn. IBD grew by 34% led by Crème 21 acquisition. Excluding that, IBD grew 10%. CSD sales declined by 4%. Domestic revenues increased by 2%. Overall volumes grew by 2% while domestic volumes remained flat. Gross margin declined 210bps to 64.2% on increase in input costs. EBITDA increased 11.4% to Rs 1.34bn. EBITDA margins increased 110bps as ad-spends and other expenses declined by 330bps and 30bps despite 50bps higher staff costs. Adj. PAT increased 48.1% to Rs399mn as other income increased by 128% on higher returns from surplus funds despite increase in tax rate by 300bps.

**Kesh King and 7 Oils in one perform:** Navratna grew by only 4% due to impact of elections with 60bps gain in volume market share gains. Pain Management declined by 6% and on a high base with increase in volume market share by 130bps to 54.7%. Male Grooming declined by 7% while 7 oils in One grew 31%. Boroplus declined by 7% while it increased volume market share by 80bps to 72.7%. Kesh King sales increased by 30% with 190bps share expansion to 26%. Healthcare declined by 3% on a high base. Nityam Range, Generics and Ethicals grew well.

**Exhibit 1: Adj. PAT increase 47.3% as ad-spends decline by 330bps**

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
<b>Net Sales</b>	6,486	6,144	5.6	6,396	28,945	26,929	7.5
Gross Profit	4,162	4,071	2.2	3,889	19,077	17,699	7.8
% of NS	64.2	66.3		60.8	65.9	65.7	
Other Expenses	2,821	2,866	-1.6	2,342	11,182	10,444	7.1
% of NS	43.5	46.7		36.6	38.6	38.8	
<b>EBITDA</b>	1,341	1,204	11.4	1,547	7,895	7,255	8.8
Margins (%)	20.7	19.6		24.2	27.3	26.9	
Depreciation	837	836	0.0	810	3,390	3,253	4.2
Interest	44	46	-5.0	62	189	214	-11.7
Other Income	115	50	128.0	173	474	366	29.6
<b>PBT</b>	576	373	54.6	848	4,790	4,154	15.3
Tax	177	103	71.6	280	1,241	1,009	23.0
Tax rate (%)	30.7	27.7		33.0	25.9	24.3	
<b>Adjusted PAT</b>	393	267	47.3	560	3,541	3,116	13.6

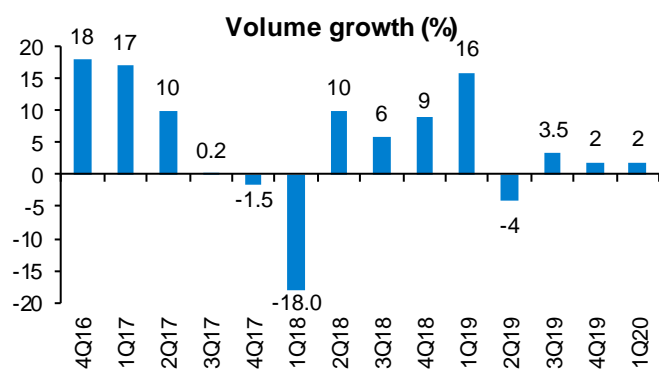
Source: Company, PL

**Exhibit 2: 7 oils in one and Kesh King grew in double digits**

Brand/segments	Q3FY18	Q4FY18	1QFY19	2QFY19	Q3FY19	Q4FY19	1QFY20
Navratna	15	14	19	3	10	1	4
Boroplus Cream	10	-2	-15	-7	4	17	-7
Zandu	17	13	39	-8	6	1	-6
7 Oils in one	~12	30	33	36	25	24	31
Kesh King	-19	6	10	2	26	15	30
Male Grooming	22	8	8	12	-2	-4	-7
Health Care	-3	-2	28	1	18	9	-3

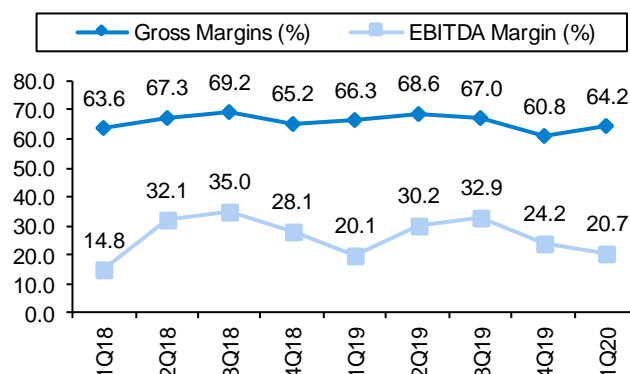
Source: Company Data, PL Research

**Exhibit 3: 1QFY20 Volumes up only 2%**



Source: Company, PL

**Exhibit 4: EBITDA margins up 110bps on lower ad-spends**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Net Revenues</b>	<b>25,306</b>	<b>26,929</b>	<b>28,945</b>	<b>32,055</b>
YoY gr. (%)	1.7	6.4	7.5	10.7
Cost of Goods Sold	8,098	9,025	9,868	10,781
Gross Profit	17,207	17,904	19,077	21,274
Margin (%)	68.0	66.5	65.9	66.4
Employee Cost	2,546	2,797	3,063	3,369
Other Expenses	978	1,018	1,087	1,176
<b>EBITDA</b>	<b>7,194</b>	<b>7,446</b>	<b>7,895</b>	<b>8,786</b>
YoY gr. (%)	(5.2)	3.5	6.0	11.3
Margin (%)	28.4	27.7	27.3	27.4
Depreciation and Amortization	3,109	3,253	3,390	3,501
<b>EBIT</b>	<b>4,086</b>	<b>4,193</b>	<b>4,505</b>	<b>5,285</b>
Margin (%)	16.1	15.6	15.6	16.5
Net Interest	343	214	189	180
Other Income	195	129	474	616
<b>Profit Before Tax</b>	<b>3,938</b>	<b>4,108</b>	<b>4,790</b>	<b>5,720</b>
Margin (%)	15.6	15.3	16.5	17.8
Total Tax	863	1,009	1,241	1,482
Effective tax rate (%)	21.9	24.6	25.9	25.9
<b>Profit after tax</b>	<b>3,075</b>	<b>3,100</b>	<b>3,550</b>	<b>4,239</b>
Minority interest	(8)	7	8	10
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>4,986</b>	<b>4,974</b>	<b>5,406</b>	<b>6,103</b>
YoY gr. (%)	(9.4)	(0.2)	8.7	12.9
Margin (%)	19.7	18.5	18.7	19.0
Extra Ord. Income / (Exp)	(1,902)	(1,882)	(1,865)	(1,875)
<b>Reported PAT</b>	<b>3,084</b>	<b>3,093</b>	<b>3,541</b>	<b>4,229</b>
YoY gr. (%)	(9.4)	0.3	14.5	19.4
Margin (%)	12.2	11.5	12.2	13.2
Other Comprehensive Income	939	(151)	-	-
Total Comprehensive Income	4,023	2,941	3,541	4,229
<b>Equity Shares O/s (m)</b>	<b>113</b>	<b>454</b>	<b>454</b>	<b>454</b>
<b>EPS (Rs)</b>	<b>43.9</b>	<b>11.0</b>	<b>11.9</b>	<b>13.4</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>28,488</b>	<b>30,521</b>	<b>32,034</b>	<b>33,584</b>
Tangibles	11,181	11,982	13,395	14,845
Intangibles	17,306	18,539	18,639	18,739
<b>Acc: Dep / Amortization</b>	<b>10,508</b>	<b>13,761</b>	<b>17,151</b>	<b>20,652</b>
Tangibles	3,177	3,945	4,819	5,790
Intangibles	7,331	9,816	12,333	14,862
<b>Net fixed assets</b>	<b>17,980</b>	<b>16,760</b>	<b>14,882</b>	<b>12,932</b>
Tangibles	8,005	8,038	8,576	9,055
Intangibles	9,975	8,722	6,306	3,876
Capital Work In Progress	305	363	350	350
Goodwill	41	41	41	41
Non-Current Investments	1,974	1,934	1,907	1,919
Net Deferred tax assets	(118)	(122)	(176)	(194)
Other Non-Current Assets	671	468	579	577
<b>Current Assets</b>				
Investments	1,281	79	3,379	6,723
Inventories	1,940	2,217	2,248	2,451
Trade receivables	1,559	2,164	2,141	2,108
Cash & Bank Balance	795	2,034	1,735	2,023
Other Current Assets	1,375	1,921	1,447	1,603
<b>Total Assets</b>	<b>28,007</b>	<b>28,098</b>	<b>28,794</b>	<b>30,820</b>
<b>Equity</b>				
Equity Share Capital	227	454	454	454
Other Equity	19,909	20,307	21,659	23,315
<b>Total Network</b>	<b>20,136</b>	<b>20,761</b>	<b>22,113</b>	<b>23,769</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	238	200	219	241
Other non current liabilities	258	237	260	287
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	3,259	1,099	1,000	1,000
Trade payables	2,420	2,914	3,024	3,231
Other current liabilities	1,460	2,661	1,932	2,027
<b>Total Equity &amp; Liabilities</b>	<b>28,008</b>	<b>28,098</b>	<b>28,794</b>	<b>30,819</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	3,938	4,154	4,790	5,720
Add. Depreciation	3,150	3,253	3,390	3,501
Add. Interest	343	214	189	180
Less Financial Other Income	195	129	474	616
Add. Other	(65)	(267)	(358)	(496)
Op. profit before WC changes	7,366	7,354	8,012	8,905
Net Changes-WC	(1,731)	1,557	(3,443)	(3,320)
Direct tax	(863)	(1,009)	(1,241)	(1,482)
<b>Net cash from Op. activities</b>	<b>4,772</b>	<b>7,902</b>	<b>3,328</b>	<b>4,104</b>
Capital expenditures	(1,323)	(2,141)	(1,450)	(1,550)
Interest / Dividend Income	91	260	349	486
Others	(912)	92	(49)	-
<b>Net Cash from Inv. activities</b>	<b>(2,143)</b>	<b>(1,789)</b>	<b>(1,150)</b>	<b>(1,064)</b>
Issue of share cap. / premium	913	(587)	-	-
Debt changes	(1,470)	(2,160)	(99)	-
Dividend paid	(1,434)	(1,912)	(2,189)	(2,572)
Interest paid	(343)	(214)	(189)	(180)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(2,334)</b>	<b>(4,874)</b>	<b>(2,477)</b>	<b>(2,752)</b>
<b>Net change in cash</b>	<b>294</b>	<b>1,239</b>	<b>(299)</b>	<b>288</b>
Free Cash Flow	3,449	5,761	1,878	2,554

Source: Company Data, PL Research

### Key Financial Metrics

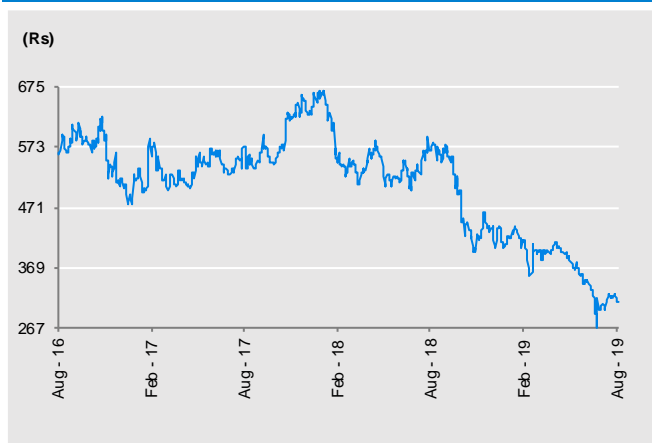
Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Per Share(Rs)</b>				
EPS	43.9	11.0	11.9	13.4
CEPS	71.3	18.1	19.4	21.2
BVPS	177.4	45.7	48.7	52.4
FCF	30.4	12.7	4.1	5.6
DPS	10.5	3.5	4.0	4.7
<b>Return Ratio(%)</b>				
RoCE	17.9	18.5	20.0	22.1
ROIC	15.8	16.1	19.0	23.9
RoE	26.5	24.3	25.2	26.6
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.1	0.0	(0.2)	(0.3)
Net Working Capital (Days)	16	20	17	15
<b>Valuation(x)</b>				
PER	7.1	28.3	26.0	23.1
P/B	1.7	6.8	6.4	5.9
P/CEPS	4.3	17.1	16.0	14.7
EV/EBITDA	5.1	18.8	17.3	15.1
EV/Sales	1.4	5.2	4.7	4.1
Dividend Yield (%)	3.4	1.1	1.3	1.5

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
<b>Net Revenue</b>	<b>6,280</b>	<b>8,109</b>	<b>6,396</b>	<b>6,486</b>
YoY gr. (%)	-	7.2	3.7	5.6
Raw Material Expenses	1,972	2,677	2,508	2,324
Gross Profit	4,308	5,432	3,889	4,162
Margin (%)	68.6	67.0	60.8	64.2
<b>EBITDA</b>	<b>1,893</b>	<b>2,665</b>	<b>1,546</b>	<b>1,340</b>
YoY gr. (%)	(6.0)	0.7	(10.8)	8.6
Margin (%)	30.1	32.9	24.2	20.7
Depreciation / Depletion	815	792	810	837
<b>EBIT</b>	<b>1,077</b>	<b>1,872</b>	<b>735</b>	<b>503</b>
Margin (%)	17.2	23.1	11.5	7.8
Net Interest	44	62	62	44
Other Income	33	57	175	117
<b>Profit before Tax</b>	<b>1,068</b>	<b>1,868</b>	<b>849</b>	<b>577</b>
Margin (%)	17.0	23.0	13.3	8.9
Total Tax	240	386	280	177
Effective tax rate (%)	22.5	20.7	33.0	30.7
<b>Profit after Tax</b>	<b>828</b>	<b>1,482</b>	<b>569</b>	<b>400</b>
Minority interest	(2)	(2)	1	(1)
Share Profit from Associates	(2)	(8)	(7)	(8)
<b>Adjusted PAT</b>	<b>827</b>	<b>1,476</b>	<b>560</b>	<b>393</b>
YoY gr. (%)	(16.2)	0.2	(6.3)	47.3
Margin (%)	13.2	18.2	8.7	6.1
Extra Ord. Income / (Exp)	-	98	-	-
<b>Reported PAT</b>	<b>828</b>	<b>1,575</b>	<b>561</b>	<b>394</b>
YoY gr. (%)	(16.1)	7.0	(6.1)	47.1
Margin (%)	13.2	19.4	8.8	6.1
Other Comprehensive Income	(5)	(196)	(27)	(525)
<b>Total Comprehensive Income</b>	<b>822</b>	<b>1,379</b>	<b>533</b>	<b>(131)</b>
Avg. Shares O/s (m)	454	454	454	454
<b>EPS (Rs)</b>	<b>1.8</b>	<b>3.3</b>	<b>1.2</b>	<b>0.9</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Jul-19	Accumulate	382	301
2	4-Jul-19	Accumulate	475	308
3	27-May-19	Accumulate	475	358
4	5-Apr-19	Accumulate	484	412
5	31-Jan-19	Accumulate	524	411
6	7-Jan-19	Accumulate	521	419
7	30-Oct-18	Accumulate	521	402
8	5-Oct-18	Accumulate	603	474

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,522	1,479
2	Avenue Supermarts	Hold	1,338	1,359
3	Britannia Industries	Accumulate	3,145	2,841
4	Colgate Palmolive	Hold	1,208	1,204
5	Crompton Greaves Consumer Electricals	BUY	297	225
6	Dabur India	Hold	437	420
7	Emami	Accumulate	382	301
8	Future Retail	BUY	512	412
9	GlaxoSmithKline Consumer Healthcare	Hold	7,972	7,473
10	Hindustan Unilever	Accumulate	1,816	1,690
11	ITC	BUY	367	265
12	Jubilant FoodWorks	BUY	1,459	1,153
13	Kansai Nerolac Paints	Accumulate	479	434
14	Marico	Hold	357	363
15	Nestle India	UR	-	11,412
16	Pidilite Industries	Accumulate	1,301	1,290
17	Titan Company	BUY	1,173	1,047
18	Voltas	Accumulate	584	635

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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