

February 7, 2020

## Q3FY20 Result Update

■ Change in Estimates |  Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	361		359	
Sales (Rs. m)	30,913	34,444	30,913	34,444
% Chng.	-	-	-	-
EBITDA (Rs. m)	8,321	9,435	8,321	9,435
% Chng.	-	-	-	-
EPS (Rs.)	13.8	15.7	13.8	15.7
% Chng.	-	-	-	-

### Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	26,929	27,906	30,913	34,444
EBITDA (Rs. m)	7,255	7,602	8,321	9,435
Margin (%)	26.9	27.2	26.9	27.4
PAT (Rs. m)	5,034	5,673	6,245	7,124
EPS (Rs.)	11.1	12.5	13.8	15.7
Gr. (%)	(74.8)	12.7	10.1	14.1
DPS (Rs.)	3.5	4.0	4.5	5.2
Yield (%)	1.2	1.3	1.5	1.7
RoE (%)	24.6	26.4	27.0	28.4
RoCE (%)	17.7	18.8	20.1	22.4
EV/Sales (x)	5.0	4.7	4.1	3.6
EV/EBITDA (x)	18.6	17.3	15.4	13.1
PE (x)	27.1	24.0	21.8	19.1
P/BV (x)	6.6	6.1	5.7	5.2

### Key Data

EMAM.BO | HMN IN

52-W High / Low	Rs.418 / Rs.246
Sensex / Nifty	41,142 / 12,098
Market Cap	Rs.136bn/ \$ 1,909m
Shares Outstanding	454m
3M Avg. Daily Value	Rs.275.83m

### Shareholding Pattern (%)

Promoter's	52.74
Foreign	10.38
Domestic Institution	28.68
Public & Others	8.21
Promoter Pledge (Rs bn)	51.47

### Stock Performance (%)

	1M	6M	12M
Absolute	(0.6)	(2.8)	(24.5)
Relative	(1.2)	(13.3)	(32.1)

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## Growth visibility remains elusive

### Quick Pointers:

- Delayed onset of winter and structural issues in male grooming drag 3Q sales even as trade push enabled double digit growth in non-winter portfolio
- Promoter pledge likely to decline to 25% by June and 5% in 1 year

**Emami's outlook remain muted given 1) tepid consumer demand 2) structural issues in Male grooming and Pancharishta 3) untimely inventory push for non-winter products. A lot depends upon the timely onset of summer and trade inventory buildup for Navratna in 4Q.**

**We remain cautious on Emami on 1) low growth in key categories like premium hair oil, male skin creams and Pancharishtha 2) slowdown in rural demand given high dependence (54-55%) and 3) limited success in categories beyond traditional strongholds. Benign input costs are likely to support margins in medium term and will enable 12.3% Adj. PAT CAGR over FY19-22. and value the stock at 23x FY22 EPS to arrive at a price target of Rs361 (Rs359 at 25x Sept 21 EPS earlier). Retain Accumulate. Reduction in promoter pledge and revival in growth holds key to re-rating of the stock.**

**Concall key takeaways:** 1) Promoter pledge will be reduced to 25% (including 8% for guarantees) of promoter shareholding by June funded by sale of Emami cement. Emami plans to reduce the same to just 10% in 12 months. 2) Kesh King grew by 18% led by hair oils on back of increased A&P spends. 3) Delayed onset of winter impacted the winter portfolio adversely 4) International business is expected to grow 15% going forward. 5) Gross margins are expected to increase 50bps over the near term with benign input costs 6) Dealers are being provided 12-13 days of credit given tight liquidity, with an intent to reduce the same to 7 days 7) Company registered a volume de-growth of 1% with domestic volumes down 2%. 8) F&H has adopted corrective measures to arrest the decline including price cuts, revival is expected by Q1FY21 only. 9) Barring crème 21, International business volumes grew 3.5% 10) Tax rates expected to stay around 20% for the coming few years 11) Traditional channel sales have been impacted, MT grew 15%, CSD grew 7%.

**Domestic volume growth at -2%:** Consol Net Sales remained flat at Rs 8.12bn. International business grew by 18%, CSD sales grew 7%. Domestic revenues declined by 2% in 3Q. Gross margin increased 120bps to 68.2% on benign input costs. EBIDTA increased by just 0.3% to Rs 2.64bn. EBITDA margins remained flat at 32.5% as staff cost and A&P spends increase were offset by lower admin expenses. Adj. PAT increased 5% to Rs1.47bn as other income increased by 78% while tax rate increased by 40bps to 21.1%, even as interest cost declined 21%.

**Kesh King and male grooming underperform:** Navratna range grew by 11% on a base of 10% with volume market share maintained at 66.5%. Pain Management grew by 13% with increase in volume market share by 60bps to 55.3% QOQ. Male Grooming declined by 39% while 7oils in One grew by 66%. Boroplus declined by 12% in peak quarter. Kesh King sales increased by 18% with oil growing by 15% and shampoo by 30%. Healthcare grew by 4%, Zandu Pancharishta grew by 3% as against de-growth of 6% in 1HFY20.

**Exhibit 1: Adj. PAT remains flat as gains in PBT are offset by marginal increase in taxes**

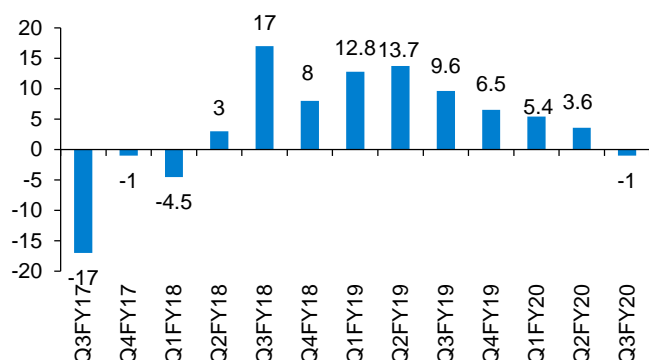
	Q3FY20	Q3FY19	YoY gr. (%)	Q2FY20	9MFY20	9MFY19	YoY gr. (%)
<b>Net Sales</b>	8,126	8,109	0.2	6,601	21,213	20,533	3.3
Gross Profit	5,545	5,432	2.1	4,602	14,308	13,811	3.6
<i>% of NS</i>	68.2	67.0		69.7	67.4	67.3	
<b>Other Expenses</b>	2,904	2,799	3.7	2,672	8,397	8,080	3.9
<i>% of NS</i>	35.7	34.5		40.5	39.6	39.4	
<b>EBITDA</b>	2,640	2,632	0.3	1,930	5,911	5,731	3.2
<i>Margins %</i>	32.5	32.5		29.2	27.9	27.9	
Depreciation	856	792	8.0	819	2,511	2,443	2.8
Interest	49	62	-20.9	93	186	152	22.4
Other Income	156	87	78.3	164	435	169	157.3
PBT	1,891	1,865	1.4	1,182	3,649	3,304	10.4
Tax	398	386	3.1	211	786	729	7.9
<i>Tax rate %</i>	21.1	20.7		17.9	21.6	22.1	
Adjusted PAT	1,477	1,474	0.2	960	2,830	2,567	10.2

Source: Company, PL

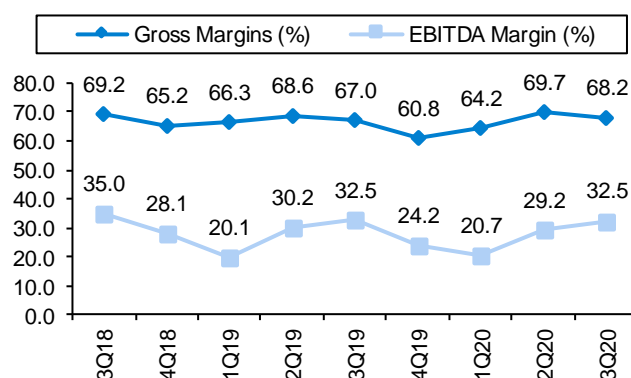
**Exhibit 2: Kesh king sales up 18%, male grooming down 39%; 7 oils in 1 sales up 66%**

Brand/segments	1QFY19	2QFY19	Q3FY19	Q4FY19	1QFY20	2QFY20	Q3FY20
Navratna	19	3	10	1	4	-3	11
Boroplus Cream	-15	-7	4	17	-7	39	-12
Zandu	39	-8	6	1	-6	4	13
7 Oils in one	33	36	25	24	31	25	66
Kesh King	10	2	26	15	30	-11	18
Male Grooming	8	12	-2	-4	-7	-32	-39
Health Care	28	1	18	9	-3	0	4

Source: Company Data, PL Research

**Exhibit 3: 3QFY20 Volumes down by 1%**


Source: Company, PL

**Exhibit 4: EBITDA margins remain flat YOY**


Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>26,929</b>	<b>27,906</b>	<b>30,913</b>	<b>34,444</b>
YoY gr. (%)	6.4	3.6	10.8	11.4
Cost of Goods Sold	9,230	9,435	10,356	11,350
Gross Profit	17,699	18,470	20,557	23,094
Margin (%)	65.7	66.2	66.5	67.0
Employee Cost	2,797	3,071	3,379	3,767
Other Expenses	1,034	1,101	1,204	1,323
<b>EBITDA</b>	<b>7,255</b>	<b>7,602</b>	<b>8,321</b>	<b>9,435</b>
YoY gr. (%)	0.8	4.8	9.5	13.4
Margin (%)	26.9	27.2	26.9	27.4
Depreciation and Amortization	3,253	3,367	3,476	3,592
<b>EBIT</b>	<b>4,002</b>	<b>4,235</b>	<b>4,844</b>	<b>5,843</b>
Margin (%)	14.9	15.2	15.7	17.0
Net Interest	214	210	200	200
Other Income	366	471	542	613
<b>Profit Before Tax</b>	<b>4,154</b>	<b>4,496</b>	<b>5,186</b>	<b>6,256</b>
Margin (%)	15.4	16.1	16.8	18.2
Total Tax	1,009	855	986	1,189
Effective tax rate (%)	24.3	19.0	19.0	19.0
<b>Profit after tax</b>	<b>3,145</b>	<b>3,641</b>	<b>4,200</b>	<b>5,066</b>
Minority interest	(8)	(9)	(11)	(13)
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>5,034</b>	<b>5,673</b>	<b>6,245</b>	<b>7,124</b>
YoY gr. (%)	1.0	12.7	10.1	14.1
Margin (%)	18.7	20.3	20.2	20.7
Extra Ord. Income / (Exp)	(1,881)	(2,023)	(2,034)	(2,044)
<b>Reported PAT</b>	<b>3,153</b>	<b>3,651</b>	<b>4,211</b>	<b>5,080</b>
YoY gr. (%)	2.2	15.8	15.4	20.6
Margin (%)	11.7	13.1	13.6	14.7
Other Comprehensive Income	(151)	-	-	-
Total Comprehensive Income	3,002	3,651	4,211	5,080
<b>Equity Shares O/s (m)</b>	<b>454</b>	<b>454</b>	<b>454</b>	<b>454</b>
<b>EPS (Rs)</b>	<b>11.1</b>	<b>12.5</b>	<b>13.8</b>	<b>15.7</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>30,464</b>	<b>32,034</b>	<b>33,584</b>	<b>35,234</b>
Tangibles	11,926	13,395	14,845	16,395
Intangibles	18,538	18,638	18,738	18,838
<b>Acc: Dep / Amortization</b>	<b>13,704</b>	<b>17,072</b>	<b>20,548</b>	<b>24,140</b>
Tangibles	3,888	4,758	5,723	6,791
Intangibles	9,816	12,314	14,825	17,349
<b>Net fixed assets</b>	<b>16,760</b>	<b>14,962</b>	<b>13,036</b>	<b>11,094</b>
Tangibles	8,038	8,638	9,122	9,605
Intangibles	8,722	6,325	3,914	1,489
Capital Work In Progress	363	350	350	350
Goodwill	41	41	41	41
Non-Current Investments	1,934	1,903	1,915	1,929
Net Deferred tax assets	(122)	(176)	(194)	(213)
Other Non-Current Assets	468	502	556	620
<b>Current Assets</b>				
Investments	1,642	4,985	8,700	12,812
Inventories	2,217	2,293	2,538	2,816
Trade receivables	2,164	2,064	2,117	2,170
Cash & Bank Balance	471	558	618	689
Other Current Assets	1,876	1,814	1,932	2,153
<b>Total Assets</b>	<b>28,098</b>	<b>29,605</b>	<b>31,949</b>	<b>34,835</b>
<b>Equity</b>				
Equity Share Capital	454	454	454	454
Other Equity	20,307	21,768	23,517	25,751
<b>Total Networkth</b>	<b>20,761</b>	<b>22,222</b>	<b>23,971</b>	<b>26,205</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	200	219	241	266
Other non current liabilities	237	327	430	556
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,099	1,000	1,000	1,000
Trade payables	2,914	2,855	3,172	3,513
Other current liabilities	2,661	2,708	2,841	2,980
<b>Total Equity &amp; Liabilities</b>	<b>28,098</b>	<b>29,605</b>	<b>31,949</b>	<b>34,835</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	4,154	4,496	5,186	6,256
Add. Depreciation	3,197	3,367	3,476	3,592
Add. Interest	214	210	200	200
Less Financial Other Income	366	471	542	613
Add. Other	(609)	(379)	(444)	(509)
Op. profit before WC changes	6,956	7,694	8,419	9,539
Net Changes-WC	355	257	100	7
Direct tax	(1,009)	(855)	(986)	(1,189)
<b>Net cash from Op. activities</b>	<b>6,302</b>	<b>7,096</b>	<b>7,532</b>	<b>8,357</b>
Capital expenditures	(2,035)	(1,556)	(1,550)	(1,650)
Interest / Dividend Income	290	388	455	522
Others	64	-	-	-
<b>Net Cash from Inv. activities</b>	<b>(1,681)</b>	<b>(1,168)</b>	<b>(1,095)</b>	<b>(1,128)</b>
Issue of share cap. / premium	(307)	-	-	-
Debt changes	(2,160)	(99)	-	-
Dividend paid	(1,902)	(2,189)	(2,463)	(2,846)
Interest paid	(214)	(210)	(200)	(200)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(4,584)</b>	<b>(2,498)</b>	<b>(2,663)</b>	<b>(3,046)</b>
<b>Net change in cash</b>	<b>37</b>	<b>3,431</b>	<b>3,775</b>	<b>4,183</b>
Free Cash Flow	4,267	5,540	5,982	6,707

Source: Company Data, PL Research

**Key Financial Metrics**

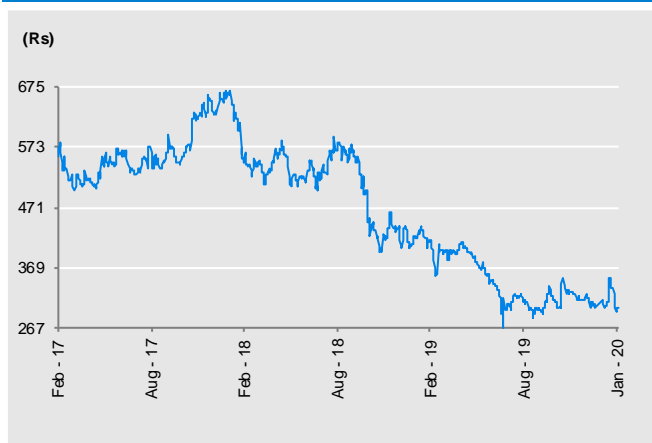
Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	11.1	12.5	13.8	15.7
CEPS	18.3	19.9	21.4	23.6
BVPS	45.7	49.0	52.8	57.7
FCF	9.4	12.2	13.2	14.8
DPS	3.5	4.0	4.5	5.2
<b>Return Ratio(%)</b>				
RoCE	17.7	18.8	20.1	22.4
ROIC	15.4	17.6	21.4	27.4
RoE	24.6	26.4	27.0	28.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.0	(0.2)	(0.3)	(0.5)
Net Working Capital (Days)	20	20	18	16
<b>Valuation(x)</b>				
PER	27.1	24.0	21.8	19.1
P/B	6.6	6.1	5.7	5.2
P/CEPS	16.4	15.1	14.0	12.7
EV/EBITDA	18.6	17.3	15.4	13.1
EV/Sales	5.0	4.7	4.1	3.6
Dividend Yield (%)	1.2	1.3	1.5	1.7

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
<b>Net Revenue</b>	<b>6,396</b>	<b>6,486</b>	<b>6,601</b>	<b>8,126</b>
YoY gr. (%)	3.7	5.6	5.1	0.2
Raw Material Expenses	2,508	2,324	1,999	2,582
Gross Profit	3,889	4,162	4,602	5,545
Margin (%)	60.8	64.2	69.7	68.2
<b>EBITDA</b>	<b>1,546</b>	<b>1,340</b>	<b>1,929</b>	<b>2,639</b>
YoY gr. (%)	(10.8)	8.6	1.9	(1.0)
Margin (%)	24.2	20.7	29.2	32.5
Depreciation / Depletion	810	837	819	856
<b>EBIT</b>	<b>735</b>	<b>503</b>	<b>1,109</b>	<b>1,783</b>
Margin (%)	11.5	7.8	16.8	21.9
Net Interest	62	44	93	49
Other Income	175	117	166	158
<b>Profit before Tax</b>	<b>849</b>	<b>577</b>	<b>1,183</b>	<b>1,892</b>
Margin (%)	13.3	8.9	17.9	23.3
Total Tax	280	177	211	398
Effective tax rate (%)	33.0	30.7	17.9	21.0
<b>Profit after Tax</b>	<b>569</b>	<b>400</b>	<b>971</b>	<b>1,494</b>
Minority interest	1	(1)	-	-
Share Profit from Associates	(7)	(8)	(11)	(16)
<b>Adjusted PAT</b>	<b>560</b>	<b>393</b>	<b>960</b>	<b>1,477</b>
YoY gr. (%)	(6.3)	47.3	16.1	0.1
Margin (%)	8.7	6.1	14.5	18.2
Extra Ord. Income / (Exp)	-	-	-	33
<b>Reported PAT</b>	<b>561</b>	<b>394</b>	<b>961</b>	<b>1,511</b>
YoY gr. (%)	(6.1)	47.1	16.1	(4.1)
Margin (%)	8.8	6.1	14.6	18.6
Other Comprehensive Income	(27)	(525)	(57)	(216)
<b>Total Comprehensive Income</b>	<b>533</b>	<b>(131)</b>	<b>904</b>	<b>1,294</b>
Avg. Shares O/s (m)	454	454	454	454
<b>EPS (Rs)</b>	<b>1.2</b>	<b>0.9</b>	<b>2.1</b>	<b>3.3</b>

Source: Company Data, PL Research

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


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Jan-20	Accumulate	359	316
2	6-Nov-19	Accumulate	373	327
3	3-Oct-19	Accumulate	373	317
4	8-Aug-19	Accumulate	386	310
5	12-Jul-19	Accumulate	382	301
6	4-Jul-19	Accumulate	475	308
7	27-May-19	Accumulate	475	358
8	5-Apr-19	Accumulate	484	412

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,815	1,779
2	Avenue Supermarts	Reduce	1,639	1,877
3	Britannia Industries	Accumulate	3,433	3,039
4	Colgate Palmolive	Reduce	1,270	1,391
5	Crompton Greaves Consumer Electricals	BUY	306	267
6	Dabur India	Hold	486	479
7	Emami	Accumulate	359	316
8	Future Retail	Under Review	-	332
9	GlaxoSmithKline Consumer Healthcare	Hold	9,144	8,355
10	Havells India	Reduce	567	601
11	Hindustan Unilever	Accumulate	2,136	2,034
12	ITC	BUY	310	235
13	Jubilant FoodWorks	BUY	1,913	1,749
14	Kansai Nerolac Paints	Accumulate	545	499
15	Marico	Accumulate	357	315
16	Nestle India	Reduce	12,093	14,594
17	Pidilite Industries	Hold	1,447	1,522
18	Titan Company	Hold	1,264	1,273
19	Voltas	Hold	662	664

**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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