

Refer to important disclosures at the end of this report

Steeper decline in domestic business

CMP: Rs 206
as of (June 29, 2020)

TP: Rs 240 (₹)
12 months

Rating: HOLD (₹)

Upside: 16.8 %



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- Emami's Q4FY20 revenue and EBITDA came in 5% and 31% below estimates at Rs5.3bn and Rs1bn, respectively. The domestic business remained weak as most core brands recorded a steep decline.
- Sales declined 17%, owing to a 19%/4% fall in the domestic/international business. Excluding 7 Oils in One, which grew 5%, the performance across brands was weak, with Boroplus/Male Grooming/Navratna/Healthcare/Kesh King declining 77%/42%/12%/9%/26%.
- Input prices remain soft, which should continue to drive the gross margin expansion. Management hopes to maintain profitability as higher GM and cost savings (~Rs500mn in FY21) may offset the decline in sales.
- Management indicated a healthy pace of recovery in June. However, given lacklustre growth over the last four years, we await overall growth visibility to improve. We maintain Hold with a TP of Rs240.

Steep revenue fall; international shows softer decline: Emami's revenue fell 17%, due to a 19% decline in the domestic and 4% in international business. While most brands showed a drop in sales, 7 Oils in One grew 5%. Pain management also showed a moderate decline of only 5%, while Boroplus/Male Grooming/Navratna/Healthcare/Kesh King fell steeply by 77%/42%/12%/9%/26%. Emami commenced operation from April 10 and is now operating at pre-Covid-19 levels. Though demand looks soft, management indicated several launches under the Creme 21 brand in the global markets and several immunity boosting products in the domestic markets under the Zandu brand. It will step up new launches in ecommerce that are expected to contribute ~4% to the overall sales. June sales are in line with June'19 numbers now so there is a pick-up in demand and after the obvious decline in Q1FY21, management expects to see improvement from Q2 onwards.

Low input prices to drive gross margins: Gross margins expanded by 430bps on low input prices, which are likely to stay soft in FY21. EBITDA margins, however, fell 580bps due to a 16% increase in other costs and 6% rise in employee spends. Management expects menthol and packaging material prices to remain benign and see a further 100bps expansion in gross margin for FY21. Emami expects a total benefit of ~Rs500mn from cost reduction in FY21.

Await improvement in growth visibility; maintain Hold: Management indicated a healthy pace of recovery, with June sales reaching pre-Covid-19 levels. Given lacklustre growth over the last four years, we await overall growth visibility to improve. We maintain Hold with a TP of Rs240, based on 20x Mar-22 EPS.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Consumer Goods & Retail \(page 7\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	26,946	26,549	25,245	28,891	31,687
EBITDA	7,272	6,905	6,966	7,716	8,475
EBITDA Margin (%)	27.0	26.0	27.6	26.7	26.7
APAT	5,012	5,252	4,950	5,507	6,066
EPS (Rs)	10.8	11.3	10.9	12.1	13.4
EPS (% chg)	(1.2)	4.7	(3.8)	11.3	10.1
ROE (%)	24.5	24.6	21.5	21.3	20.6
P/E (x)	19.0	18.1	18.9	16.9	15.4
EV/EBITDA (x)	12.7	12.9	12.4	10.8	9.4
P/BV (x)	4.5	4.2	3.9	3.4	3.0

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	(3.2)/1.9
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	10.9	12.1
Consensus	12.1	13.5
Mean Consensus TP (12M)	Rs 258	

Stock Details

Bloomberg Code	HMN IN
Face Value (Rs)	1
Shares outstanding (mn)	450
52 Week H/L	358 / 131
M Cap (Rs bn/USD bn)	93 / 1.22
Daily Avg Volume (nos.)	9,70,109
Daily Avg Turnover (US\$ mn)	2.5

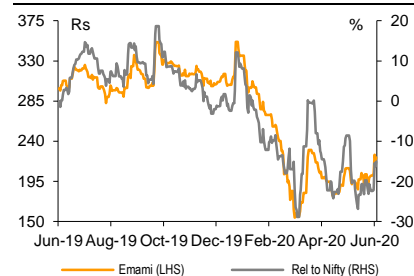
Shareholding Pattern Mar '20

Promoters	52.7%
FIIs	7.0%
DIIIs	31.5%
Public and Others	8.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	31	(33)	(31)
Rel. to Nifty	(2)	10	(20)	(21)

Relative price chart



Source: Bloomberg

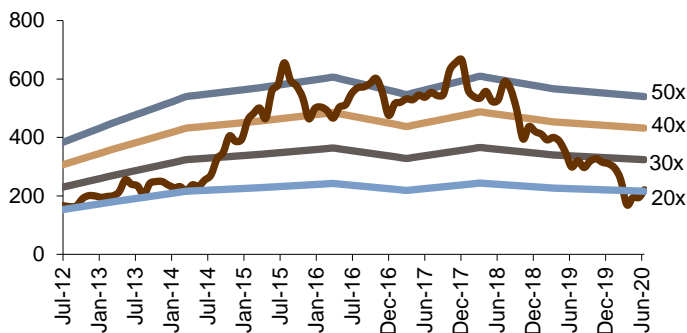
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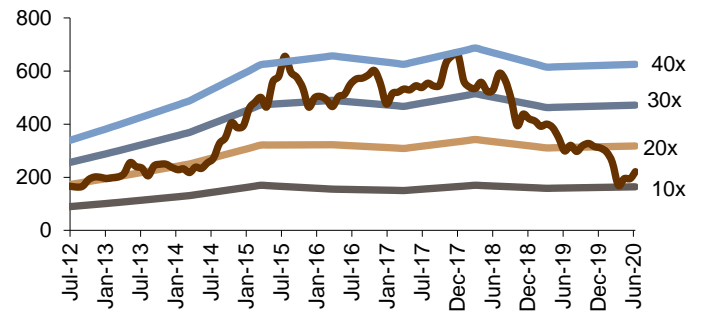
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Story in Charts

Exhibit 1: One-year forward P/E band chart


Source: Company, Emkay Research

Exhibit 2: One-year forward EV/EBITDA band chart


Source: Company, Emkay Research

Exhibit 3: Actual vs. Estimates (Q4FY20)

Rsmn	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenues	5,327	5,629	5,943	-5.4%	-10.4%	Revenue decline due to 19% decline in domestic business
EBITDA	985	1,417	1,416	-30.5%	-30.4%	
EBITDA Margin (%)	18.5%	25.2%	23.8%	-668	-533	Margins decline due to increase in overhead spends
APAT	760	903	744	-16%	2%	

Source: Company, Emkay Research

Exhibit 4: Quarterly Performance (Consolidated)

Y/E, Mar (Rs. m)	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Revenue	6,404	6,486	6,601	8,126	5,327	-16.8	-34.5	26,946	26,549	-1.5
Expenditure	4,849	5,145	4,671	5,486	4,342	-10.5	-20.9	19,674	19,643	-0.2
Consumption of RM	2,508	2,324	1,999	2,582	1,856	-26.0	-28.1	9,230	8,761	-5.1
as % of sales	39.2%	35.8%	30.3%	31.8%	34.8%			34.3%	33.0%	
Employee Cost	681	773	753	749	721	5.8	-3.7	2,797	2,995	7.1
as % of sales	10.6%	11.9%	11.4%	9.2%	13.5%			10.4%	11.3%	
Advertising & SP	990	1,291	1,049	1,383	989	-0.1	-28.5	4,702	4,711	0.2
as % of sales	15.5%	19.9%	15.9%	17.0%	18.6%			17.4%	17.7%	
Other expenditure	671	757	870	773	776	15.7	0.3	2,945	3,176	7.8
as % of sales	10.5%	11.7%	13.2%	9.5%	14.6%			10.9%	12.0%	
EBITDA	1,554	1,341	1,930	2,640	985	-36.6	-62.7	7,272	6,905	-5.0
Depreciation	810	837	819	856	852	5.2	-0.4	3,253	3,363	3.4
EBIT	744	505	1,111	1,785	133	-82.1	-92.6	4,019	3,542	-11.9
Other Income	166	115	164	156	145	-12.4	-7.0	349	571	63.5
Interest	62	44	93	49	24	-61.2	-51.1	214	210	-1.8
PBT	848	576	1,182	1,891	254	-70.1	-86.6	4,154	3,903	-6.0
Total Tax	280	177	211	398	-74	-126.3	-118.5	1,009	713	-29.4
PAT	568	399	970	1,493	327	-42.3	-78.1	3,145	3,190	1.4
(Profit)/loss from JV's/Ass/MI	6.4	9.4	11.1	16.0	19.6			-15	-54	
PAT after MI	561	390	959	1,477	234	-45.2	-79.2	3,130	3,136	0.2
Extra ordinary items	-291	-304	-432	-396	-506			-1,784	-2,009	
Adjusted PAT	852	694	1,391	1,873	760	-11.0	-59.3	4,914	5,145	4.7
Adjusted EPS	1.9	1.5	3.1	4.1	1.7	-11.0	-59.3	10.8	11.3	4.7
Margins (%)						(bps)	(bps)			(bps)
Gross	60.8	64.2	69.7	68.2	65.2	430	-310	65.7	67.0	130
EBIDTA	24.3	20.7	29.2	32.5	18.5	-580	-1,400	27.0	26.0	-100
EBIT	11.6	7.8	16.8	22.0	2.5	-910	-1,950	14.9	13.3	-160
EBT	13.2	8.9	17.9	23.3	4.8	-850	-1,850	15.4	14.7	-70
PAT	13.3	10.7	21.1	23.0	14.2	90	-880	18.2	19.4	110
Effective Tax rate	33.0	30.7	17.9	21.1	-29.1	-6,210	-5,010	24.3	18.3	-600

Source: Company, Emkay Research

Exhibit 5: Revision in Estimates

Y/E, Mar (Rs. mn)	FY21E			FY22E			FY23
	Earlier	Revised	% Change	Earlier	Revised	% Change	Introduced
Revenues	27,172	25,245	-7.1	29,874	28,891	-3.3	31,687
EBITDA	7,263	6,966	-4.1	7,690	7,716	0.3	8,475
EBITDA Margin (%)	26.7	27.6	90 bps	25.7	26.7	100 bps	26.7
APAT	5,111	4,950	-3.2	5,403	5,507	1.9	6,066
EPS	11.3	10.9	-3.2	11.9	12.1	1.9	13.4

Source: Company, Emkay Research

Exhibit 6: Relative Valuation

Companies	Price (Rs)	Mcap (Rs bn)	Reco	Target Price (Rs)	EPS (Rs)			P/E (x)			EV / EBITDA (x)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Asian Paints	1,692	1,623	Hold	1,625	28.3	28.9	37.0	59.9	58.5	45.7	38.8	36.6	29.3
Berger Paints	502	488	Sell	430	6.8	7.6	9.5	74.3	66.2	52.7	45.5	40.9	33.3
Britannia	3,519	847	Buy	3,960	58.8	70.5	80.1	59.9	49.9	44.0	45.8	37.2	33.0
Colgate	1,389	378	Buy	1,500	30.0	31.2	35.5	46.3	44.5	39.1	31.2	28.7	25.5
Dabur	464	819	Hold	465	8.7	9.8	11.2	53.0	47.3	41.6	45.2	39.0	33.4
Emami	206	93	Hold	240	11.3	10.9	12.1	18.1	18.9	16.9	12.8	12.3	10.7
GCPL	688	703	Hold	600	13.8	15.6	17.6	49.7	44.0	39.0	33.6	30.4	27.2
HUL	2,183	5,125	Hold	2,300	31.2	35.7	42.0	70.0	61.1	52.0	52.8	46.5	39.9
ITC	197	2,425	Hold	245	12.4	10.4	12.8	15.9	19.0	15.4	12.5	14.2	11.4
Marico	346	447	Hold	320	8.3	8.5	9.5	41.7	40.5	36.4	29.8	28.2	25.6
Nestle	16,725	1,613	Sell	15,000	206.8	235.7	275.9	80.9	71.0	60.6	56.3	50.5	43.6
Pidilite	1,385	704	Sell	1,170	23.1	23.6	27.4	60.1	58.6	50.6	43.6	41.6	35.9
Radico Khaitan	363	48	Buy	460	18.9	18.7	22.7	19.3	19.4	16.0	13.8	12.0	10.0
United Breweries	1,006	266	Buy	1,160	16.2	11.8	22.8	62.2	85.1	44.2	30.4	35.5	23.1
United Spirits	584	424	Buy	650	9.7	11.9	15.3	60.3	49.0	38.2	29.5	29.4	23.9

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	26,946	26,549	25,245	28,891	31,687
Expenditure	19,674	19,643	18,279	21,175	23,212
EBITDA	7,272	6,905	6,966	7,716	8,475
Depreciation	768	774	1,049	1,160	1,283
EBIT	4,019	3,542	4,716	6,556	7,192
Other Income	349	571	571	628	691
Interest expenses	214	210	300	300	300
PBT	4,154	3,903	4,987	6,884	7,583
Tax	1,009	713	997	1,377	1,517
Extraordinary Items	1,882	2,116	960	0	0
Minority Int./Income from Assoc.	(29)	(66)	0	0	0
Reported Net Income	3,130	3,136	3,990	5,507	6,066
Adjusted PAT	5,012	5,252	4,950	5,507	6,066

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	454	454	454	454	454
Reserves & surplus	20,307	21,520	23,694	27,159	30,955
Net worth	20,761	21,974	24,148	27,612	31,409
Minority Interest	(2)	(2)	(2)	(2)	(2)
Loan Funds	1,099	1,132	632	632	632
Net deferred tax liability	185	383	383	383	383
Total Liabilities	22,042	23,487	25,161	28,625	32,422
Net block	16,801	14,937	14,188	14,528	14,745
Investment	1,870	1,870	1,870	1,870	1,870
Current Assets	9,151	10,455	12,783	15,732	19,801
Cash & bank balance	2,034	5,288	7,682	10,845	14,315
Other Current Assets	1,758	1,411	1,394	1,341	1,491
Current liabilities & Provision	6,143	4,139	4,043	3,868	4,358
Net current assets	3,008	6,316	8,739	11,864	15,443
Misc. exp	0	0	0	0	0
Total Assets	22,042	23,487	25,161	28,625	32,422

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	3,805	3,332	4,416	6,256	6,892
Other Non-Cash items	0	0	0	0	0
Chg in working cap	355	145	(30)	39	(110)
Operating Cashflow	6,855	6,747	6,509	7,006	7,539
Capital expenditure	(2,092)	(1,500)	(1,500)	(1,500)	(1,500)
Free Cash Flow	4,763	5,247	5,009	5,506	6,039
Investments	1,266	0	0	0	0
Other Investing Cash Flow	(349)	(571)	(571)	(628)	(691)
Investing Cashflow	(826)	(1,500)	(1,500)	(1,500)	(1,500)
Equity Capital Raised	227	0	0	0	0
Loans Taken / (Repaid)	(2,160)	33	(500)	0	0
Dividend paid (incl tax)	(2,166)	(1,816)	(1,816)	(2,043)	(2,270)
Other Financing Cash Flow	(477)	0	0	0	0
Financing Cashflow	(4,790)	(1,993)	(2,616)	(2,343)	(2,570)
Net chg in cash	1,239	3,254	2,393	3,164	3,470
Opening cash position	795	2,034	5,288	7,682	10,845
Closing cash position	2,034	5,288	7,682	10,845	14,315

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	27.0	26.0	27.6	26.7	26.7
EBIT Margin	14.9	13.3	18.7	22.7	22.7
Effective Tax Rate	24.3	18.3	20.0	20.0	20.0
Net Margin	11.7	12.0	15.8	19.1	19.1
ROCE	19.2	18.1	21.7	26.7	25.8
ROE	24.5	24.6	21.5	21.3	20.6
RoIC	21.7	21.0	30.2	42.6	45.8

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	10.8	11.3	10.9	12.1	13.4
CEPS	18.2	19.0	15.9	14.7	16.2
BVPS	45.7	48.4	53.2	60.8	69.2
DPS	4.0	4.5	5.3	0.0	0.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	19.0	18.1	18.9	16.9	15.4
P/CEPS	11.3	10.8	13.0	14.0	12.7
P/BV	4.5	4.2	3.9	3.4	3.0
EV / Sales	3.4	3.4	3.4	2.9	2.5
EV / EBITDA	12.7	12.9	12.4	10.8	9.4
Dividend Yield (%)	1.9	2.2	2.6	0.0	0.0

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.0	(0.2)	(0.3)	(0.4)	(0.4)
Net Debt/EBIDTA	(0.1)	(0.6)	(1.0)	(1.3)	(1.6)
Working Cap Cycle (days)	13.2	14.1	15.3	12.9	13.0

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	6.5	(1.5)	(4.9)	14.4	9.7
EBITDA	1.1	(5.0)	0.9	10.8	9.8
EBIT	(1.6)	(11.9)	33.2	39.0	9.7
PAT	1.9	0.2	27.2	38.0	10.1

Quarterly (Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Revenue	6,404	6,486	6,601	8,126	5,327
EBITDA	1,554	1,341	1,930	2,640	985
EBITDA Margin (%)	24.3	20.7	29.2	32.5	18.5
PAT	567	401	971	1,493	321
EPS (Rs)	1.2	0.9	2.1	3.3	0.7

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoters	62.7	52.7	52.7	52.7	52.7
FIs	11.3	11.9	11.7	10.4	7.0
DIs	17.4	25.1	25.5	28.7	31.5
Public and Others	8.6	10.2	10.0	8.2	8.8

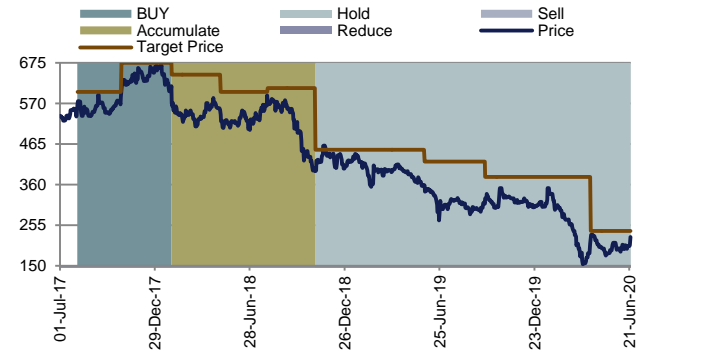
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
14-Apr-20	227	240	12m	Hold	Ashit Desai
08-Apr-20	222	240	12m	Hold	Ashit Desai
25-Dec-19	304	380	12m	Hold	Ashit Desai
06-Nov-19	327	380	12m	Hold	Ashit Desai
20-Sep-19	324	380	12m	Hold	Ashit Desai
27-May-19	358	420	12m	Hold	Ashit Desai
09-Apr-19	402	450	12m	Hold	Ashit Desai
31-Jan-19	411	450	12m	Hold	Ashit Desai
31-Oct-18	395	450	12m	Hold	Ashit Desai
01-Aug-18	568	610	12m	Accumulate	Ashit Desai
03-May-18	541	600	12m	Accumulate	Ashit Desai
30-Jan-18	571	645	12m	Accumulate	Amit Purohit
26-Oct-17	605	675	12m	Buy	Amit Purohit
03-Aug-17	570	600	12m	Buy	Amit Purohit

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Consumer Goods & Retail



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Sector

Consumer Goods & Retail

Analyst bio

Ashit Desai holds a PGDM and FRM (US GARP) with 12 years of research experience on the sell side. His team currently covers 24 stocks in the Indian Consumer and Retail space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Consumer Goods & Retail	13.24	13.24	0%	0	100.00
Asian Paints	1.35	0.59	-57%	-77	4.45
Berger Paints	0.22	0.00	-100%	-22	0.00
Britannia Industries	0.72	1.23	70%	50	9.28
Colgate-Palmolive	0.33	0.50	52%	17	3.78
Dabur India	0.46	0.38	-18%	-8	2.85
Emami	0.08	0.00	-100%	-8	0.00
Godrej Consumer Products	0.46	0.00	-100%	-46	0.00
Hindustan Unilever	3.42	2.82	-18%	-60	21.30
ITC	2.96	3.64	23%	68	27.50
Marico	0.32	0.27	-14%	-4	2.05
Nestle India	1.06	0.79	-25%	-26	6.00
Pidilite Industries	0.38	0.00	-100%	-38	0.00
Radico Khaitan	0.00	0.30	NA	30	2.26
United Breweries	0.12	0.53	325%	40	4.00
United Spirits	0.00	0.40	NA	40	3.03
Varun Beverages	0.11	0.36	240%	25	2.70
ABFRL	0.07	0.24	234%	17	1.84
Jubilant FoodWorks	0.24	0.27	16%	4	2.07
Page Industries	0.21	0.00	-100%	-21	0.00
Shoppers Stop	0.00	0.00	NA	0	0.00
Titan Company	0.72	0.91	27%	19	6.89
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

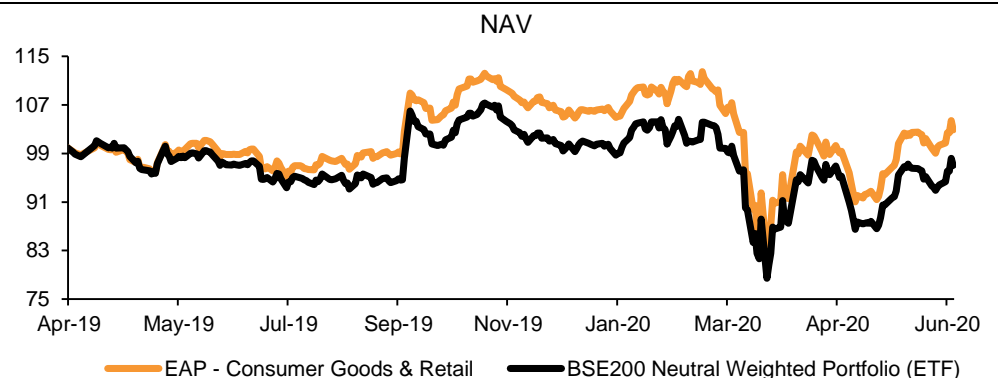
Sector portfolio NAV

	Base					Latest
	1-Apr-19	25-Sep-19	27-Dec-19	27-Mar-20	28-May-20	26-Jun-20
EAP - Consumer Goods & Retail	100.0	107.8	106.2	90.8	98.0	102.9
BSE200 Neutral Weighted Portfolio (ETF)	100.0	104.2	100.5	86.6	92.8	97.0

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 30 Jun 2020 02:05:11 (SGT)

Dissemination Date: 30 Jun 2020 02:06:11 (SGT)

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