

Estimate changes

TP change

Rating change



Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We request your ballot.



Bloomberg	HMN IN
Equity Shares (m)	454
M.Cap.(INRb)/(USD\$b)	92.5 / 1.3
52-Week Range (INR)	357 / 141
1, 6, 12 Rel. Per (%)	-2/-17/-20
12M Avg Val (INR M)	181

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	26.5	25.2	29.0
Sales Gr. (%)	-1.5	-5.0	15.0
EBITDA	6.9	6.7	7.7
EBIT Margin (%)	26.0	26.5	26.5
Adj. PAT	5.6	5.0	5.8
Adj. EPS (INR)	12.4	11.0	12.9
EPS Gr. (%)	2.0	-11.2	16.9
BV/Sh.(INR)	40.2	48.5	47.7
Ratios			
RoE (%)	28.8	24.8	26.8
RoCE (%)	28.8	26.0	28.4
Payout (%)	44.4	68.1	69.9
Valuation			
P/E (x)	16.6	18.7	16.0
P/BV (x)	5.1	4.2	4.3
EV/EBITDA (x)	13.4	13.0	11.3
Div. Yield (%)	2.7	3.6	4.4

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	52.7	52.7	62.7
DII	31.5	28.7	17.4
FII	7.0	10.4	11.3
Others	8.8	8.2	8.5

FII Includes depository receipts

CMP: INR206 TP: INR245 (+19%)
Buy
Disappointing results; healthy rural outlook provides relief

- Emami (HMN) reported another quarter of disappointing earnings growth, along with guidance for a weak 1QFY21.
- However, the company also has the highest dependence on rural sales to domestic sales (around half) among peers. With the rural outlook likely to be positive over the next 12–18 months relative to urban, HMN has the opportunity to recover after a likely weaker 1QFY21 v/s peers. However, its high wholesale dependence and the relative discretionary nature of its portfolio may hamper sharp recovery.
- The impending conclusion of the group cement business transaction within the next fortnight is a positive. Valuations are inexpensive at 16.0x FY22 EPS.

Disappointing performance on all fronts

- **Consolidated net sales fell 16.8% YoY to INR5.3b** (est.: INR6.4b). EBITDA declined 36.6% YoY to INR985m (est.: INR1.5b), PBT was down 40.8% YoY to INR887m (est.: INR1.4b), and adj. PAT before amortization decreased 20% YoY to INR980m (est.: INR887m).
- **Gross margins were up 430bp YoY** to 65.2% in 4QFY20. The EBITDA margin declined 580bp YoY to 18.5% (est.: 23.8%) on high employee costs as a percentage of sales (+290bp YoY), increased ad spend (+310bp YoY), and higher other expenses (+410bp YoY).
- Absolute ad spend was flat YoY at INR989m.
- FY20 revenue / EBITDA / adj. PAT growth stood at -1.5%/-5%/+1.8% YoY.
- Domestic revenues (incl. CSD) and the International business declined 19% YoY and 4% YoY, respectively, in 4QFY20. We estimate volumes to have declined by 20% YoY in 4QFY20.
- **Within Domestic**, HMN recorded sales decline in most of the categories in 4QFY20: Kesh King (-26% YoY), Navratna (-12% YoY), Pain Management (-5% YoY), Healthcare (-9% YoY), Male Grooming (-42% YoY), and BoroPlus (-77%). The only category to register positive growth was 7 Oils in One (+5% YoY).

Highlights from management commentary

- Sales are now nearly back at pre-COVID-19 levels.
- HMN has taken cognizance of the new requirements related to fairness products and would come up with a fresh strategy likely involving a name change as well.
- HMN has worked on ~40 new products in the past 120 days, which would be launched over the next few quarters.
- The group's cement transaction is likely to be completed over the next fortnight, bringing down the pledge to 45% from 90%, with zero pledge targeted by the end of Mar'21.

Valuation and view

- 4QFY20 results were disappointing and concluded another underwhelming year for HMN. Changes to our model have resulted in an 11.6%/8.9% cut in FY21/FY22 EPS. Sales / EBITDA / Adj. PAT has witnessed a ~5% CAGR or lower for five years now, which is particularly disappointing given HMN's smaller size v/s peers.
- Maintain **Buy**, on account of: a) an improving rural outlook (HMN has the highest domestic sales proportion among peers at around 50%), b) the announcement on the call that the group cement business sale would be concluded within the next fortnight, thereby sharply removing the pledge, and c) inexpensive valuations of 16x FY22 EPS.

Consol. Quarterly performance

(INR m)

Y/E MARCH	FY19				FY20				FY19	FY20	FY20	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Domestic volume growth (%)	18.0	-4.0	3.5	0.0	0.0	1.0	-2.0	-20.0	4.4	-5.3	-4.0	
Net Sales	6,144	6,282	8,111	6,404	6,495	6,601	8,126	5,327	26,946	26,549	6,395	-16.7%
YoY change (%)	16.2	0.0	7.2	3.8	5.7	5.1	0.2	-16.8	6.5	-1.5	0.0	
Gross Profit	4,071	4,310	5,434	3,896	4,171	4,602	5,545	3,471	17,716	17,788	3,965	-12.5%
Gross margin (%)	66.3	68.6	67.0	60.8	64.2	69.7	68.2	65.2	65.7	67.0	62.0	
EBITDA	1,204	1,873	2,634	1,554	1,350	1,930	2,640	985	7,272	6,905	1,521	-35.2%
Margins (%)	19.6	29.8	32.5	24.3	20.8	29.2	32.5	18.5	27.0	26.0	23.8	
YoY change	50.2	-7.0	-0.5	-10.3	12.1	3.0	0.2	-36.6	1.1	-5.0	-1.7	
Depreciation	230	202	178	160	163	178	214	219	768	774	211	
Interest	46	44	62	62	44	93	49	24	214	210	73	
Other Income	50	52	87	166	106	164	156	145	349	571	113	
PBT	980	1,680	2,482	1,498	1,250	1,822	2,533	887	6,639	6,492	1,350	-34.3%
Tax	103	240	401	280	177	211	403	-74	1,060	713	461	
Rate (%)	10.5	14.3	16.2	18.7	14.2	11.6	15.9	-8.3	16.0	11.0	34.1	
PAT before Amortization	879	1,440	2,086	1,225	1,080	1,621	2,146	980	5,517	5,833	887	10.4%
YoY change (%)	45.3	-8.8	-0.9	1.3	22.8	12.6	2.8	-20.0	0.2	5.7	-27.5	
Reported PAT	267	827	1,378	562	393	960	1,444	234	3,032	3,029	475	-50.8%

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY19				FY20			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
2Y average growth %								
Volumes	0.0	3.0	4.8	4.0	9.0	-1.5	0.8	-10.0
Sales	-0.9	4.8	6.6	6.0	10.9	2.6	3.7	-6.5
EBITDA	2.3	4.0	0.9	-6.5	31.2	-2.0	-0.1	-23.4
PAT	-1.6	4.7	1.0	-7.1	34.0	1.9	1.0	-9.3
% sales								
COGS	33.7	31.4	33.0	39.2	35.8	30.3	31.8	34.8
A&P	23.2	15.8	15.9	15.5	19.9	15.9	17.0	18.6
Other expenditure	12.0	11.6	10.0	10.5	11.7	13.2	9.5	14.6
Employee cost	11.5	11.4	8.6	10.6	11.9	11.4	9.2	13.5
Depreciation	3.7	3.2	2.2	2.5	2.5	2.7	2.6	4.1
YoY change %								
COGS	16.0	1.1	21.1	16.7	12.1	1.4	-3.6	-26.0
Advertisement and Promotion	-0.1	0.7	-0.2	0.3	-9.5	5.4	7.1	-0.1
Other expenditure	9.2	5.9	5.3	-7.0	2.9	19.5	-4.5	15.7
Employee cost	12.5	8.1	2.8	17.4	9.8	5.5	7.1	5.8
Other income	-22.2	-3.4	58.3	666.2	110.7	217.4	78.3	-12.4
EBIT	50.2	-10.0	-0.9	-8.5	21.8	4.8	-1.2	-45.1



Highlights from management commentary

Key highlights

- HMN has ramped-up its production and capacity utilization is back at pre-COVID-19 levels. The supply chain is also nearly back to normal.
- With a heightened consumer focus on health and hygiene, HMN launched the BoroPlus hand sanitizer, the Zandu Ayush powder, a hand sanitizer for the southern region markets, and Zandu Ayurvedic Kadha in Apr'20. It also launched the BoroPlus soaps and handwash in June.
- HMN's summer portfolio was significantly affected due to the lockdown.
- Sales are now nearly back at pre-COVID-19 levels.
- HMN has taken cognizance of the new requirements related to fairness products and would come up with a fresh strategy likely involving a name change as well.
- Rural is expected to do very well, with Emami likely to benefit accordingly.
- HMN has worked on ~40 new products in the past 120 days, scheduled to be launched over the next few quarters. Expect 3.5–4% of sales from new launches in FY21.
- Expect 100bp gross margin improvement owing to lower raw material costs, including for mentha.

Channels, brands, and cost savings

- Modern trade contributes 9% to sales.
- E-Commerce contributed 1% to sales in FY20, which HMN intends to double in FY21. Good prices, dedicated SKUs (particularly larger packs), and separate teams managing e-commerce channels are factors driving growth in e-commerce.
- HMN is ready with a revival strategy in Fair & Handsome, which was to be implemented in 4QFY20 but was delayed.
- Navratna sales for the summer season were sharply affected due to the lockdown.
- HMN is targeting INR500–600m cost savings in FY21.
- The company has identified several products for launching under Zandu as demand is strong amid the pandemic. These would be more niche products and would be fulfilled by third-party manufacturers.

International business

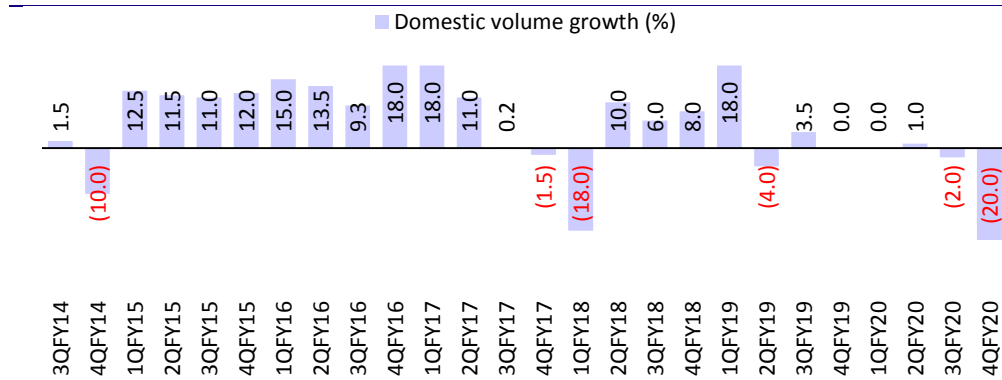
- The International business was affected more than the Domestic business in 1QFY21. However, it is seeing a pickup in June.
- HMN intends to launch various products under Creme 21 internationally.
- Management expects International to be flat YoY in FY21.

Pledge reduction

- CCI has approved the cement deal, which is expected to be completed within the next fortnight.
- Emami Group has also sold its Solar Power business to a Canadian company.
- Both the above-mentioned deals would help lower the pledge significantly.
- The pledge is expected to reduce to 45% from 90% post the cement deal.
- The pledge is expected to be at zero by March 2021.
- INR1.5b of the INR1.92b buyback amount has already been spent.

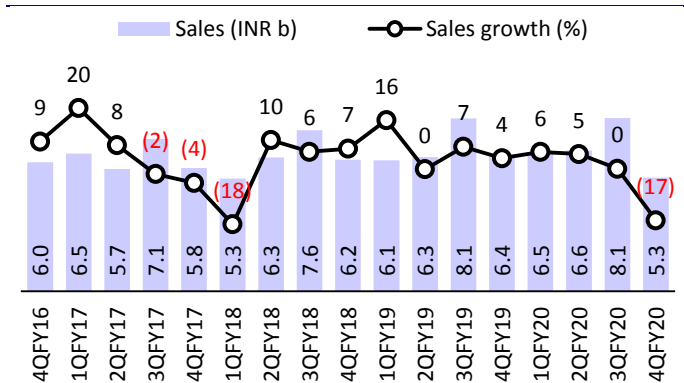
Key exhibits

Exhibit 1: Domestic volume decline estimated at 20% YoY in 4QFY20



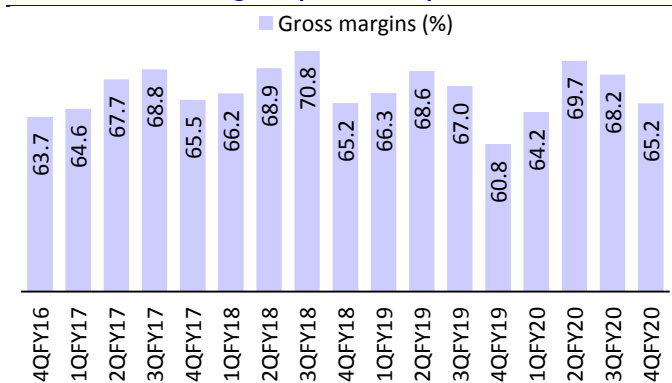
Source: Company, MOFSL

Exhibit 2: Consol. net sales decline 16.8% to INR5.3b



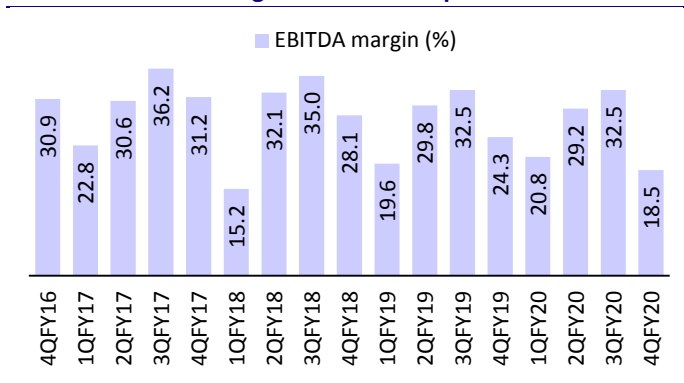
Source: Company, MOFSL

Exhibit 3: Gross margin expands 440bp YoY to 65.2%



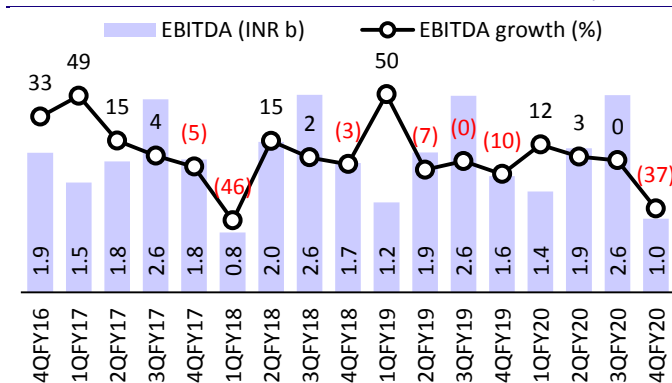
Source: Company, MOFSL

Exhibit 4: EBITDA margin declines 580bp YoY



Source: Company, MOFSL

Exhibit 5: EBITDA down 36.6% YoY to INR985m in 4QFY20



Source: Company, MOFSL

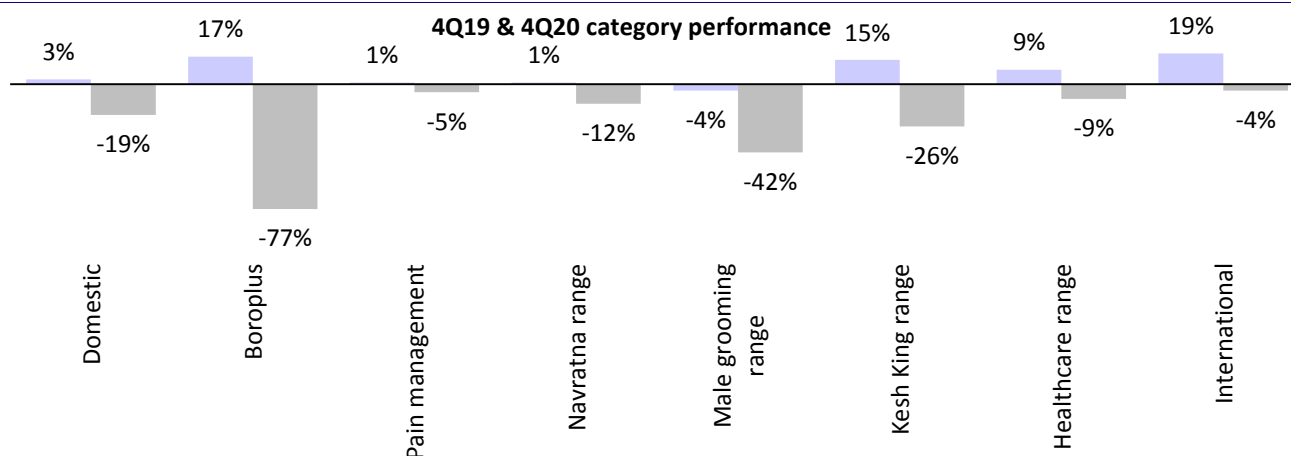
Domestic business (incl. CSD) de-grows 4% YoY in 4QFY20

Domestic performance (80% of sales in FY20)

- The BoroPlus range of products declined by 77% during the quarter and 7% in FY20. The BoroPlus Ayurvedic Antiseptic cream's volume market share expanded by 30bp to 74.1% as of MAT Dec'19.
- The Pain Management range declined 5% in 4QFY20, but grew by 3% in FY20. The Balms range maintained leadership with volume market share of 54.9% as of MAT Dec'19 (+130bp).

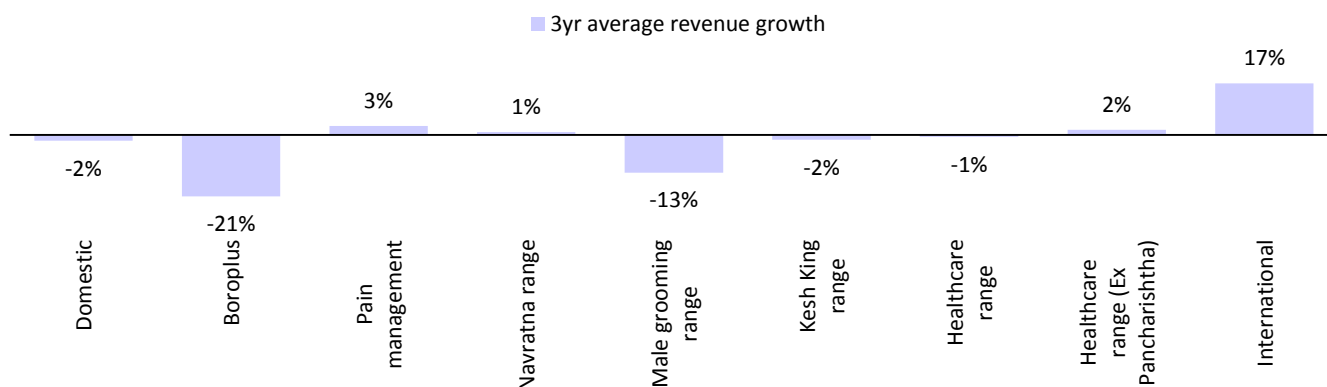
- The Navratna range declined 12% in 4QFY20 and 2% in FY20. The company maintained leadership with volume market share at 66.4% as of MAT Dec'19 (+10bp).
- The Male Grooming range declined 42% in 4QFY20 and 29% in FY20. Fair & Handsome creams had volume market share of 65.3% (-30bp) as of MAT Dec'19.
- The Kesh King range declined 26% in 4QFY20, while it grew 1% in FY20. Kesh King oil had volume market share of 26.6% (+140bp) as of MAT Dec'19.
- The Healthcare range declined 9% in 4QFY20 and 2% in FY20.
- 7 Oils in One grew 5% in 4QFY20 and 29% in FY20.
- **Revenues for International (which contributed 16% to sales in FY20) declined 4% YoY in 4QFY20, whereas revenues grew 16% in FY20.** SAARC, MENAP, and CIS grew in the double digits in FY20. Major brands posted market share gains across key geographies.
- **CSD contributed 4% to sales in FY20.**

Exhibit 6: Most categories decline in 4QFY20 due to lockdown



Source: Company, MOFSL

Exhibit 7: On 3Y basis, average growth muted in almost all categories due to poor performance in 4QFY20



Source: Company, MOFSL

Valuation and view

Developments in last 10 years

- After delivering an admirable CAGR of ~17% in both sales and EBITDA and ~22% in PAT in the first five years of the decade, the company has witnessed a massive slowdown in these key financial metrics in the past five years ending FY20 (CAGR of ~4% in sales, ~5% in EBITDA, and 3% in PAT). This is due to the absence of sales growth in many of its key categories.

Key challenges

- The lack of significant traction in products launched in recent years and failed acquisitions such as ‘She’ have contributed to weak sales growth in recent years. Kesh King’s scale-up has certainly not lived up to expectations thus far. The overseas business has also underperformed.
- Compared with peers, HMN has the largest exposure to rural and, more importantly, to wholesale trade. While the management has expanded its direct reach in recent years, wholesale and rural dependence, albeit lower than in the past, still remains high.

Our view on the stock

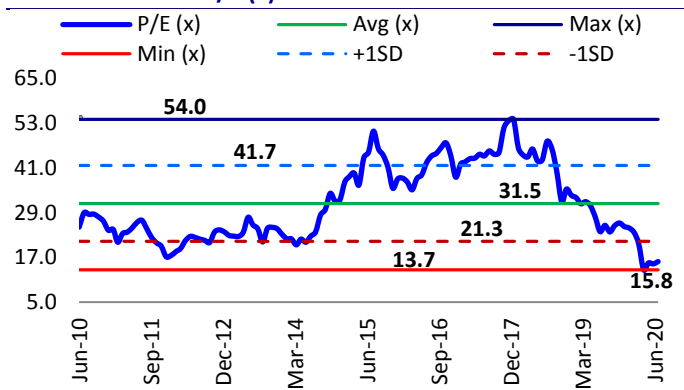
- 4QFY20 results were disappointing and concluded another underwhelming year for HMN. Changes to our model have resulted in an 11.6%/8.9% cut in FY21/FY22 EPS. Sales / EBITDA / Adj. PAT reported a ~5% CAGR or lower for five years now, which is particularly disappointing given HMN’s smaller size v/s peers.
- Maintain **Buy**, on account of: a) an improving rural outlook (HMN has the highest domestic sales proportion among peers at around 50%), b) the announcement on the call that the group cement business sale would be concluded within the next fortnight, thereby sharply removing the pledge, and c) inexpensive valuations of 16x FY22 EPS.
- Our TP of INR245 is set at 19x FY22 EPS, implying an upside of 19% on CMP.

Exhibit 8: We cut our FY21/21 EPS estimates by 11.6%/8.9%

	New		Old		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Sales	25,228	29,021	28,295	31,842	-10.8%	-8.9%
EBITDA	6,673	7,701	7,553	8,487	-11.6%	-9.3%
PAT	4,990	5,833	5,648	6,401	-11.6%	-8.9%

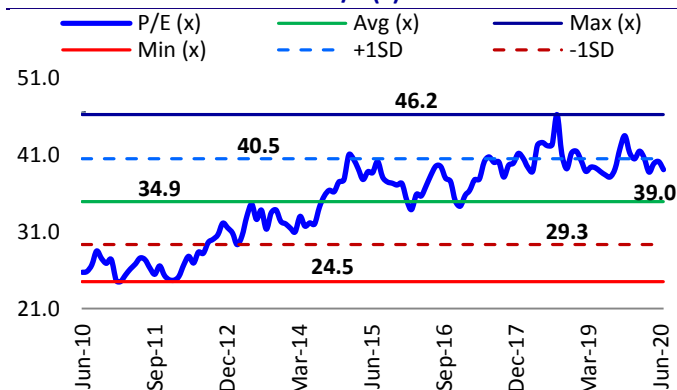
Source: Company, MOFSL

Exhibit 9: Emami P/E (x)



Source: Company, MOFSL

Exhibit 10: Consumer sector P/E (x)



Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Net Sales	22,172	23,583	24,882	25,305	26,946	26,549	25,228	29,021
Change (%)	21.8	6.4	5.5	1.7	6.5	-1.5	-5.0	15.0
COGS	7,800	8,121	7,910	8,098	9,230	8,761	8,066	9,283
Gross Profit	14,373	15,462	16,972	17,207	17,716	17,788	17,163	19,738
Gross Margin (%)	64.8	65.6	68.2	68.0	65.7	67.0	68.0	68.0
Operating expenses	9,018	8,589	9,380	10,013	10,444	10,882	10,489	12,037
EBITDA	5,355	6,873	7,591	7,194	7,272	6,905	6,673	7,701
Change (%)	20.5	28.3	10.5	-5.2	1.1	-5.0	-3.4	15.4
Margin (%)	24.2	29.1	30.5	28.4	27.0	26.0	26.5	26.5
Depreciation	343	423	469	673	768	774	841	871
Int. and Fin. Charges	51	540	580	343	214	210	226	181
Financial Other Income	964	445	311	195	349	571	479	464
Profit before Taxes	5,924	6,354	6,853	6,374	6,639	6,492	6,086	7,114
Change (%)	27.1	7.3	7.9	-7.0	4.2	-2.2	-6.3	16.9
Margin (%)	26.7	26.9	27.5	25.2	24.6	24.5	24.1	24.5
Tax	994	597	836	863	1,024	713	1,095	1,280
Deferred Tax	76	-125	130	-5	37	-86	0	0
Tax Rate (%)	18.1	7.4	14.1	13.5	16.0	9.7	18.0	18.0
Adjusted PAT	4,856	5,762	6,021	5,507	5,517	5,618	4,990	5,833
Change (%)	20.7	18.7	4.5	-8.5	0.2	1.8	-11.2	16.9
Margin (%)	21.9	24.4	24.2	21.8	20.5	21.2	19.8	20.1
Amortization	0.0	2,127	2,617	2,436	2,485	2,589	1,275	1,275
Reported PAT	4,856	3,635	3,404	3,071	3,032	3,029	3,715	4,558
Balance Sheet							(INR m)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Share Capital	454	454	454	454	454	453	453	453
Reserves	11,852	15,662	17,093	19,682	20,307	17,784	21,520	21,161
Net Worth	12,306	16,116	17,547	20,136	20,761	18,238	21,973	21,614
Minority Interest	46	41	14	6	-2	-9	-9	-9
Loans	470	6,838	4,846	3,343	1,168	2,257	2,257	2,257
Deferred Liability	120	90	282	118	122	35	35	35
Capital Employed	12,942	23,086	22,689	23,602	22,048	20,520	24,255	23,896
Goodwill on consolidation	41	41	41	41	41	0	0	0
Gross Block	6,393	24,162	25,600	26,825	28,738	27,333	28,048	29,048
Less: Accum. Depn.	1,882	4,408	5,616	8,767	11,967	12,741	13,583	14,454
Net Fixed Assets	4,511	19,754	19,983	18,058	16,771	14,592	14,465	14,594
Capital WIP	265	616	129	226	352	81	81	81
Investments	5,013	474	1,277	3,136	1,870	1,564	1,564	1,564
Curr. Assets, L&A	6,934	6,037	4,602	6,517	9,151	10,548	14,135	14,570
Inventory	1,267	1,505	1,792	1,940	2,217	2,447	1,888	2,184
Account Receivables	1,027	1,309	970	1,559	2,164	3,080	2,212	2,385
Cash and cash equivalents	3,541	1,084	501	795	2,034	1,191	6,781	6,722
Others	1,100	2,138	1,340	2,224	2,737	3,831	3,254	3,280
Curr. Liab. and Prov.	3,821	3,836	3,343	4,376	6,137	6,265	5,989	6,913
Account Payables	1,990	2,487	1,847	2,420	2,914	3,245	2,606	3,122
Other Liabilities	468	660	622	1,077	1,808	1,222	1,351	1,495
Provisions	1,363	689	873	879	1,416	1,798	2,032	2,296
Net Current Assets	3,113	2,200	1,259	2,141	3,014	4,284	8,146	7,658
Application of Funds	12,942	23,086	22,689	23,602	22,048	20,520	24,256	23,896

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2015	2016	2017	2018	2019	2020E	2021E	2022E
Basic (INR)								
EPS	10.7	12.7	13.3	12.1	12.2	12.4	11.0	12.9
Cash EPS	11.5	13.6	14.3	13.6	13.8	14.1	12.9	14.8
BV/Share	27.1	35.5	38.7	44.4	45.7	40.2	48.5	47.7
DPS	3.5	1.5	4.4	3.5	4.0	5.5	7.5	9.0
Payout %	32.7	11.8	33.0	28.8	32.9	44.4	68.1	69.9
Valuation (x)								
P/E	19.2	16.2	15.5	16.9	16.9	16.6	18.7	16.0
Cash P/E	17.9	15.1	14.4	15.1	14.8	14.6	16.0	13.9
EV/Sales	3.8	4.2	3.9	3.7	3.4	3.5	3.5	3.0
EV/EBITDA	15.9	14.3	12.7	12.9	12.5	13.4	13.0	11.3
P/BV	7.6	5.8	5.3	4.6	4.5	5.1	4.2	4.3
Dividend Yield (%)	1.7	0.7	2.1	1.7	1.9	2.7	3.6	4.4
Return Ratios (%)								
RoE	44.9	40.5	35.8	29.2	27.0	28.8	24.8	26.8
RoCE	44.0	35.8	31.1	28.2	28.5	28.8	26.0	28.4
RoIC	50.9	39.1	28.2	25.3	25.9	28.5	26.1	32.5
Working Capital Ratios								
Debtor (Days)	17	20	14	23	30	34	32	30
Asset Turnover (x)	1.9	1.3	1.1	1.1	1.2	1.2	1.1	1.2
Leverage Ratio								
Debt/Equity (x)	-0.3	0.3	0.2	0.1	0.0	0.1	-0.2	-0.2

Cash Flow Statement

(INR m)

Y/E March	2015	2016	2017	2018	2019	2020E	2021E	2022E
OP/(loss) before Tax	5,924	4,228	4,236	3,926	4,034	3,736	4,811	5,839
Depreciation	343	2,549	3,086	3,109	3,253	3,363	2,116	2,146
Other non-operating income	-182	-71	-102	-51	-125	-192	-479	-464
Interest Paid	-525	432	558	316	42	-73	226	181
Direct Taxes Paid	-956	-957	-707	-809	-927	-760	-1,095	-1,280
(Incr)/Decr in WC	735	-565	226	-612	-739	-800	1,728	429
CF from Operations	5,341	5,616	7,296	5,878	5,537	5,274	7,306	6,850
(Incr)/Decr in FA	-1,085	-1,320	-2,814	-1,232	-1,329	-1,481	-715	-1,000
Free Cash Flow	4,256	4,296	4,482	4,646	4,208	3,793	6,591	5,850
(Pur)/Sale of Investments	-2,836	4,290	-763	-1,863	1,178	-568	0	0
Others	1,576	-16,062	655	750	129	-15	4,416	282
CF from Invest.	-2,345	-13,091	-2,922	-2,346	-22	-2,064	3,701	-718
Change in Equity	0	0	0	0	0	-125	0	0
(Incr)/Decr in Debt	0	0	7,099	4,847	803	1,004	0	0
Dividend Paid	-1,812	-680	-1,985	-1,194	-1,589	-3,632	-4,098	-4,917
Others	-342	5,698	-10,072	-6,891	-3,491	-1,301	-1,319	-1,274
CF from Fin. Activity	-2,154	5,018	-4,958	-3,237	-4,277	-4,054	-5,417	-6,191
Incr/Decr of Cash	842	-2,457	-584	295	1,239	-844	5,590	-59
Add: Opening Balance	2,700	3,541	1,084	501	795	2,034	1,191	6,781
Closing Balance	3,541	1,084	500	795	2,034	1,191	6,781	6,722

E: MOFSL Estimates

Explanation of Investment Rating	
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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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