

Emami

Refer to important disclosures at the end of this report

Good recovery after disruption

CMP: Rs 257
as of (August 7, 2020)TP: Rs 270 (▲)
12 months

Rating: HOLD (■)

Upside: 4.9 %

We appreciate your support in the [Asiamoney Brokers Poll 2020](#)

- Emami's Q1FY21 performance came in above expectations, with revenue and EBITDA at Rs4.8bn and Rs1.2bn, respectively. Decline in domestic business stood at 26%, international portfolio at 18% and CSD at 38%.
- The domestic business was impacted by a 41%/33%/70% fall in Navratna/KeshKing/Male Grooming. Healthcare/Pain management/BoroPlus grew 23%/15%/28%. Secondary sales fell 15%. June/July saw a strong recovery at over 8%, pointing to a better Q2.
- Input prices remained soft, which should continue to drive the gross margin expansion. Management hopes to maintain profitability as high GM and cost savings (~Rs500mn in FY21) may offset the decline in sales.
- Valuations at 21x FY22E are cheaper than peers and have de-rated on account of growth challenges over the last five years. Recovery in June/July is positive but we await better visibility on growth initiatives. We maintain Hold with a revised TP of Rs270 (from Rs240).

Domestic revenue fall 26%; recovery strong in June/July: Emami's revenue fell 26%, dragged by a ~28% decline in volume and 26%/18% fall in domestic/international sales. Healthcare/Pain management/BoroPlus grew 23%/15%/28%. Navratna/Kesh King/Male Grooming declined 41%/33%/70%. Chyawanprash/Honey sales went up 7x/5x yoy and management indicated a 30% increase in Zandu's sales on a monthly basis. New products in BoroPlus and Zandu contributed 5% to overall sales. E-commerce grew 108%. June/July recovery has been strong with 8%/double digit growth, led by BoroPlus/Healthcare (92%/59% in June), which provides a better growth outlook for Q2. Management plans to step up new launches, with increased ad spends on the same.

Benign input prices and low ad spends drive margins: Gross margins expanded 230bps on low prices of menthol and other inputs. EBITDA margins expanded 490bps led by a 54%/22% decline in ad spends/other expenses and increased efforts to keep costs under control. Management expects ad spends to remain at 17-18% of net sales for the year and does not expect a huge jump, keeping margins under control. It expects cost saving of Rs500mn for the year.

Await more initiatives to improve growth outlook; maintain Hold: Valuations at 21x FY22E are cheaper than peers and have de-rated on account of growth challenges over the last five years. Recovery in June/July is positive but we await better visibility on growth initiatives. We increase FY21-23 estimates by ~4%. We maintain Hold with a revised TP of Rs270 (from Rs240), rolling forward to Sept-22E EPS.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Consumer Goods & Retail \(Page 8\)](#)

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	7,268	7,970	8,783
EBITDA Margin (%)	27.0	26.0	28.8	27.6	27.7
APAT	5,012	5,252	5,192	5,711	6,313
EPS (Rs)	10.8	11.3	11.4	12.6	13.9
EPS (% chg)	(1.2)	4.7	0.9	10.0	10.5
ROE (%)	24.5	24.6	22.4	21.8	21.0
P/E (x)	23.8	22.7	22.5	20.5	18.5
EV/EBITDA (x)	15.9	16.3	15.1	13.3	11.7
P/BV (x)	5.6	5.3	4.8	4.2	3.6

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	4.9/3.7
Target Price change (%)	12.5
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	11.4	12.6
Consensus	10.4	11.9
Mean Consensus TP (12M)	Rs 254	

Stock Details

Bloomberg Code	HMN IN
Face Value (Rs)	1
Shares outstanding (mn)	445
52 Week H/L	358 / 131
M Cap (Rs bn/USD bn)	114 / 1.53
Daily Avg Volume (nos.)	12,20,040
Daily Avg Turnover (US\$ mn)	3.6

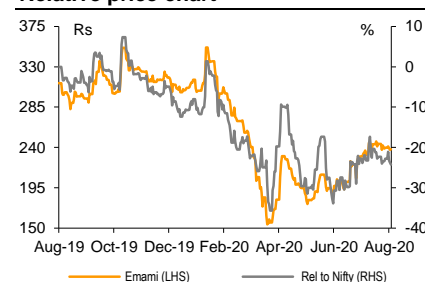
Shareholding Pattern Jul '20

Promoters	53.9%
FIIIs	6.9%
DIIIs	29.8%
Public and Others	9.4%

Price Performance

(%)	1M	3M	6M	12M
Absolute	10	45	(14)	(17)
Rel. to Nifty	6	19	(8)	(19)

Relative price chart



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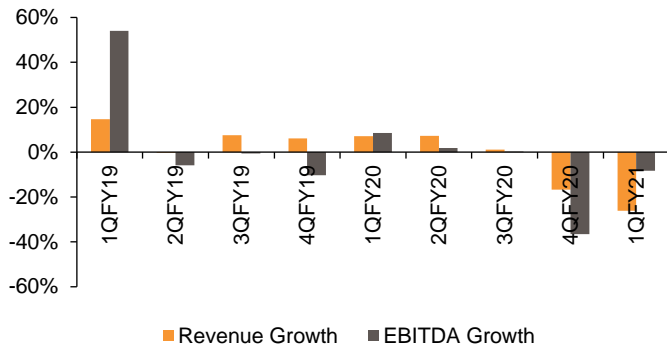
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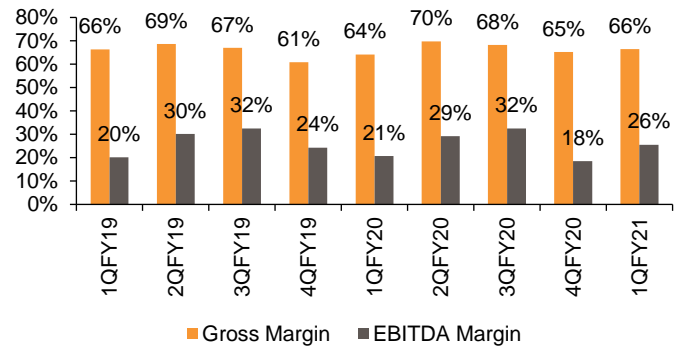
Story in Chart

Exhibit 1: Revenue decline led by lockdown



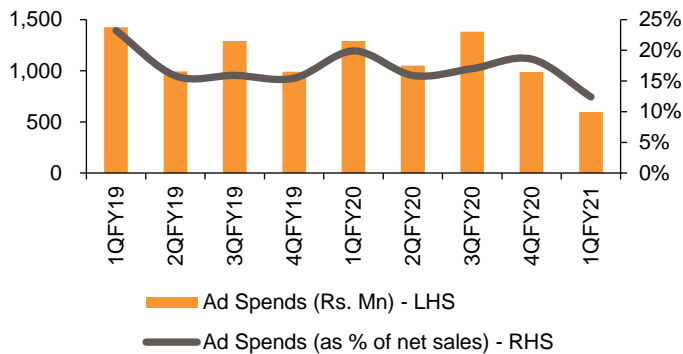
Source: Company, Emkay Research

Exhibit 2: Margins expand on lower input prices and decline in ad spends



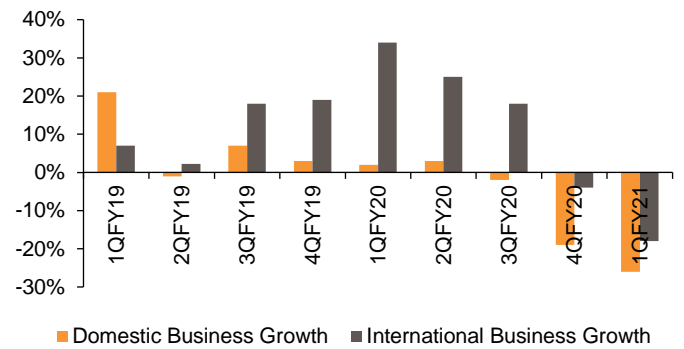
Source: Company, Emkay Research

Exhibit 3: Ad spends curtailed due to lockdown



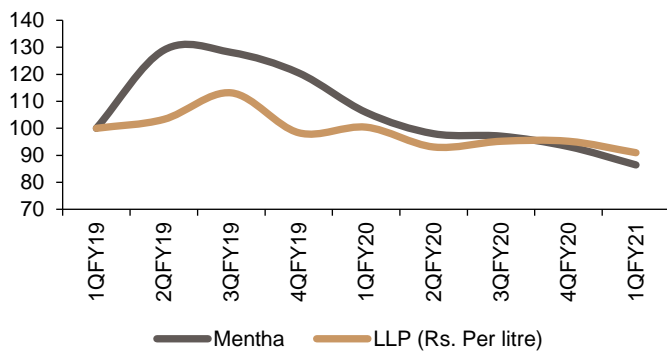
Source: Company, Emkay Research

Exhibit 4: Steeper decline in domestic business; on the recovery path now



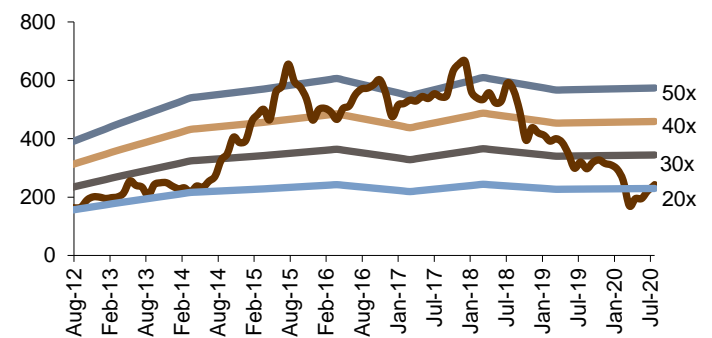
Source: Company, Emkay Research

Exhibit 5: Decline in Mentha/LLP prices by 18% yoy



Source: Company, Emkay Research

Exhibit 6: One-year forward P/E band chart



Source: Company, Emkay Research

Exhibit 7: Actual vs. Estimates (Q1FY21)

Rsmn.	Actual	Emkay estimate	Consensus estimate	% variation		Comment
				Emkay	Consensus	
Revenues	4,813	4,540	4,681	6.0%	2.83%	Revenue decline due to 26% decline in domestic business
EBITDA	1,230	589	879	108.9%	39.9%	
EBITDA Margin (%)	25.5%	13.0%	18.8%	1259	676	Margins expand due to lower ad and overhead spends
APAT	756	336	367	124.9%	105.9%	

Source: Company, Emkay Research

Exhibit 8: Quarterly Performance (Consolidated)

Y/E, Mar (Rs. mn)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY (%)	QoQ (%)
Revenue	6,486	6,601	8,126	5,327	4,813	-25.8	-9.6
Expenditure	5,145	4,671	5,486	4,342	3,584	-30.3	-17.5
Consumption of RM	2,324	1,999	2,582	1,856	1,613	-30.6	-13.1
as % of sales	35.8%	30.3%	31.8%	34.8%	33.5%		
Employee Cost	773	753	749	721	781	1.1	8.4
as % of sales	11.9%	11.4%	9.2%	13.5%	16.2%		
Advertising & SP	1,291	1,049	1,383	989	597	-53.7	-39.6
as % of sales	19.9%	15.9%	17.0%	18.6%	12.4%		
Other expenditure	757	870	773	776	592	-21.9	-23.7
as % of sales	11.7%	13.2%	9.5%	14.6%	12.3%		
EBITDA	1,341	1,930	2,640	985	1,230	-8.3	24.8
Depreciation	837	819	856	852	748	-10.6	-12.3
EBIT	505	1,111	1,785	133	482	-4.5	262.6
Other Income	115	164	156	145	67	-41.7	-53.8
Interest	44	93	49	24	47	8.0	95.0
PBT	576	1,182	1,891	254	502	-12.9	97.8
Total Tax	177	211	398	-74	95	-46.4	-228.6
PAT	399	970	1,493	327	407	2.0	24.3
(Profit)/loss from JV's/Ass/MI	9.4	11.1	16.0	19.6	11.1		
PAT after MI	390	959	1,477	308	396	1.6	28.7
Extra ordinary items	-304	-432	-396	-405	-360		
Adjusted PAT	694	1,391	1,873	713	756	8.9	6.0
Adjusted EPS	1.5	3.1	4.1	1.6	1.7	11.0	7.8
Margins (%)						(bps)	(bps)
Gross	64.2	69.7	68.2	65.2	66.5	230	130
EBIDTA	20.7	29.2	32.5	18.5	25.5	490	710
EBIT	7.8	16.8	22.0	2.5	10.0	220	750
EBT	8.9	17.9	23.3	4.8	10.4	150	570
PAT	10.7	21.1	23.0	13.4	15.7	500	230
Effective Tax rate	30.7	17.9	21.1	-29.1	18.9	-1,180	4,790

Source: Company, Emkay Research

Exhibit 9: Revision in earnings estimates

Y/E, Mar (Rs. mn)	FY21E			FY22E			FY23E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	25,245	25,245	0.0	28,891	28,891	0.0	31,687	31,687	0.0
EBITDA	6,966	7,268	4.3	7,716	7,970	3.3	8,475	8,783	3.6
EBITDA Margin (%)	27.6	28.8	120 bps	26.7	27.6	90 bps	26.7	27.7	100 bps
APAT	4,950	5,192	4.9	5,507	5,711	3.7	6,066	6,313	4.1
EPS (Rs)	10.9	11.4	4.9	12.1	12.6	3.7	13.4	13.9	4.1

Source: Company, Emkay Research

Exhibit 10: Relative Valuation

	Price (Rs)	Mcap (Rs bn)	Reco	Target Price (Rs)	EPS (Rs)			P/E (x)			EV / EBITDA (x)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Asian Paints	1,806	1,733	Hold	1,670	29.0	37.1	42.1	62.3	48.7	42.9	39.1	31.3	27.6
Berger Paints	555	539	Sell	430	7.6	9.5	11.1	73.1	58.3	50.1	45.3	36.9	31.7
Britannia	3,935	947	Buy	4,500	82.6	89.0	102.7	47.6	44.2	38.3	36.8	34.3	29.9
Colgate	1,458	397	Buy	1,590	31.9	36.3	40.7	45.7	40.1	35.9	29.4	26.1	23.4
Dabur	512	905	Hold	500	9.9	11.5	13.1	51.9	44.5	39.2	42.8	35.8	31.3
Emami	257	114	Hold	270	11.4	12.6	13.9	22.5	20.5	18.5	14.7	13.0	11.4
GCPL	689	705	Hold	645	15.6	17.6	19.9	44.1	39.1	34.6	30.5	27.2	24.2
HUL	2,211	5,190	Hold	2,300	36.3	44.5	51.8	60.9	49.6	42.6	42.9	35.0	30.2
ITC	196	2,412	Buy	255	10.6	13.2	14.6	18.6	14.9	13.4	13.8	10.9	9.8
Marico	370	478	Hold	350	8.8	9.9	11.0	41.9	37.4	33.7	29.4	26.2	23.6
Nestle	16,789	1,619	Sell	15,600	235.7	275.9	315.8	71.2	60.9	53.2	50.7	43.8	38.6
Pidilite	1,377	700	Sell	1,170	21.8	27.7	31.4	63.3	49.8	43.9	44.9	35.3	31.0
Radico Khaitan	386	52	Buy	500	18.7	22.7	26.5	20.7	17.0	14.6	12.8	10.7	9.1
United Breweries	966	255	Buy	1,160	11.8	22.8	27.9	81.7	42.4	34.7	34.0	22.1	18.7
United Spirits	587	427	Buy	640	9.0	14.7	17.2	65.1	40.0	34.2	36.4	25.0	21.8

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	17,976	20,921	22,903
EBITDA	7,272	6,905	7,268	7,970	8,783
Depreciation	768	774	1,049	1,160	1,283
EBIT	4,019	3,542	5,019	6,811	7,500
Other Income	349	571	571	628	691
Interest expenses	214	210	300	300	300
PBT	4,154	3,903	5,290	7,138	7,891
Tax	1,009	713	1,058	1,428	1,578
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	4,232	5,711	6,313
Adjusted PAT	5,012	5,252	5,192	5,711	6,313

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	23,936	27,604	31,647
Net worth	20,761	21,974	24,390	28,058	32,101
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	25,402	29,070	33,114
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	13,024	16,177	20,493
Cash & bank balance	2,034	5,288	7,924	11,291	15,007
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	8,981	12,309	16,135
Misc. exp	0	0	0	0	0
Total Assets	22,042	23,487	25,402	29,070	33,114

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	3,805	3,332	4,719	6,511	7,200
Other Non-Cash items	0	0	0	0	0
Chg in working cap	355	145	(30)	39	(110)
Operating Cashflow	6,855	6,747	6,751	7,210	7,786
Capital expenditure	(2,092)	(1,500)	(1,500)	(1,500)	(1,500)
Free Cash Flow	4,763	5,247	5,251	5,710	6,286
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	2,635	3,367	3,716
Opening cash position	795	2,034	5,288	7,924	11,291
Closing cash position	2,034	5,288	7,924	11,291	15,007

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	27.0	26.0	28.8	27.6	27.7
EBIT Margin	14.9	13.3	19.9	23.6	23.7
Effective Tax Rate	24.3	18.3	20.0	20.0	20.0
Net Margin	11.7	12.0	16.8	19.8	19.9
ROCE	19.2	18.1	22.9	27.3	26.3
ROE	24.5	24.6	22.4	21.8	21.0
RoIC	21.7	21.0	32.2	44.2	47.7

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	10.8	11.3	11.4	12.6	13.9
CEPS	18.2	19.0	16.4	15.1	16.7
BVPS	45.7	48.4	53.7	61.8	70.7
DPS	4.0	4.5	5.3	0.0	0.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	23.8	22.7	22.5	20.5	18.5
P/CEPS	14.1	13.6	15.7	17.0	15.4
P/BV	5.6	5.3	4.8	4.2	3.6
EV / Sales	4.3	4.2	4.3	3.7	3.2
EV / EBITDA	15.9	16.3	15.1	13.3	11.7
Dividend Yield (%)	1.6	1.7	2.0	0.0	0.0

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.0	(0.2)	(0.3)	(0.4)	(0.5)
Net Debt/EBITDA	(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)	5.3	9.7	10.2
EBIT	(1.6)	(11.9)	41.7	35.7	10.1
PAT	1.9	0.2	34.9	35.0	10.5

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Revenue	6,486	6,601	8,126	5,327	4,813
EBITDA	1,341	1,930	2,640	985	1,230
EBITDA Margin (%)	20.7	29.2	32.5	18.5	25.5
PAT	401	971	1,493	321	407
EPS (Rs)	0.9	2.1	3.3	0.7	0.9

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-19	Dec-19	Mar-20	Jun-20	Jul-20
Promoters	52.7	52.7	52.7	53.4	53.9
FIIIs	11.7	10.4	7.0	5.7	6.9
DIIIs	25.5	28.7	31.5	31.4	29.8
Public and Others	10.0	8.2	8.8	9.6	9.4

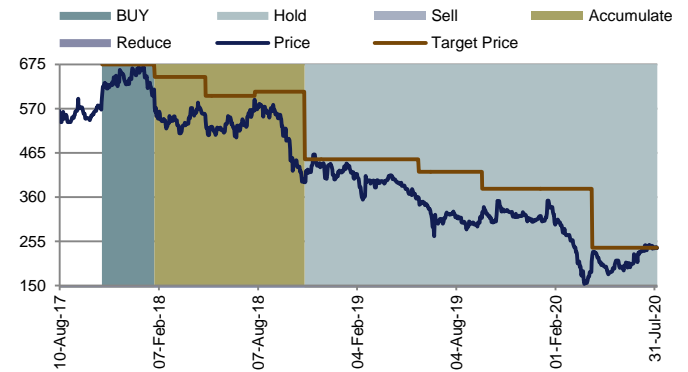
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
29-Jun-20	206	240	12m	Hold	Ashit Desai
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

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	12.75	12.75	0%	0	100.00
Asian Paints	1.29	0.70	-46%	-60	5.46
Berger Paints	0.21	0.00	-100%	-21	0.00
Britannia Industries	0.75	1.38	83%	62	10.80
Colgate-Palmolive	0.32	0.44	40%	13	3.48
Dabur India	0.47	0.42	-11%	-5	3.31
Emami	0.08	0.00	-100%	-8	0.00
Godrej Consumer Products	0.43	0.00	-100%	-43	0.00
Hindustan Unilever	3.29	2.72	-17%	-57	21.35
ITC	2.76	3.32	20%	55	26.01
Marico	0.32	0.28	-11%	-4	2.20
Nestle India	0.99	0.68	-31%	-30	5.37
Pidilite Industries	0.34	0.00	-100%	-34	0.00
Radico Khaitan	0.00	0.28	NA	28	2.21
United Breweries	0.11	0.44	305%	33	3.47
United Spirits	0.00	0.36	NA	36	2.86
Varun Beverages	0.11	0.28	147%	17	2.20
ABFRL	0.06	0.22	241%	16	1.74
Jubilant FoodWorks	0.23	0.27	16%	4	2.14
Page Industries	0.19	0.00	-100%	-19	0.00
Shoppers Stop	0.00	0.00	NA	0	0.00
Titan Company	0.78	0.94	22%	17	7.41
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

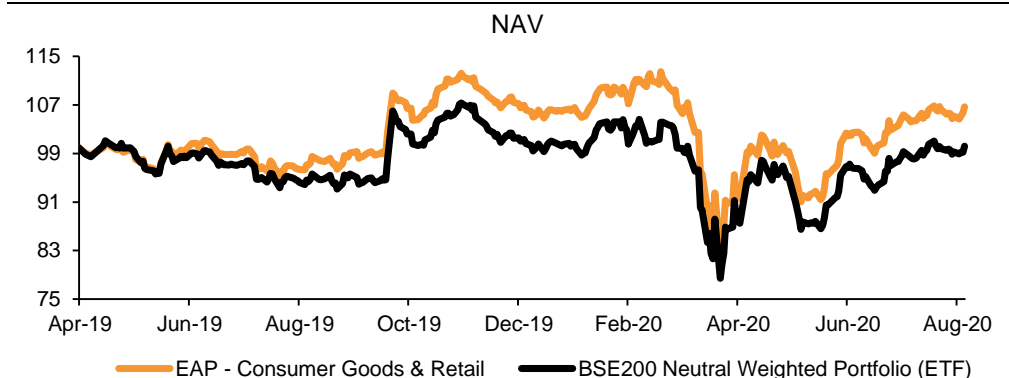
Sector portfolio NAV

	Base					Latest
	1-Apr-19	5-Nov-19	6-Feb-20	7-May-20	7-Jul-20	6-Aug-20
EAP - Consumer Goods & Retail	100.0	111.3	110.7	91.0	104.2	106.7
BSE200 Neutral Weighted Portfolio (ETF)	100.0	107.0	103.5	86.5	98.4	100.2

*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: 08 Aug 2020 21:40:42 (SGT)

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Sources for all charts and tables are Emkay Research unless otherwise specified.

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