

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)/(USDb)	114.5 / 1.4
52-Week Range (INR)	357 / 141
1, 6, 12 Rel. Per (%)	7/-7/-20
12M Avg Val (INR M)	194

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	26.5	26.9	29.4
Sales Gr. (%)	-1.5	1.5	9.0
EBITDA	6.9	7.2	7.8
EBIT Margin (%)	26.0	26.6	26.4
Adj. PAT	5.6	5.4	5.8
Adj. EPS (INR)	12.4	12.2	13.2
EPS Gr. (%)	2.0	-1.3	7.5
BV/Sh.(INR)	40.2	50.6	50.0

Ratios

RoE (%)	28.8	26.7	26.1
RoCE (%)	28.8	28.0	28.0
Payout (%)	44.4	61.3	68.4

Valuation

P/E (x)	20.8	21.1	19.6
P/BV (x)	6.4	5.1	5.1
EV/EBITDA (x)	16.8	15.0	13.9
Div. Yield (%)	2.1	2.9	3.5

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	53.4	52.7	52.7
DII	31.4	31.5	25.1
FII	5.7	7.0	11.9
Others	9.6	8.8	10.2

FII Includes depository receipts

CMP: INR258
TP: INR310 (+20%)
Buy

Ad-spend cuts lead to EBITDA beat; Outlook improving

- Emami's (HMN) sales and gross profits were marginally (~5%) higher than our expectations. However, EBITDA beat was led by 53% YoY decline in ad-spend, the highest amongst FMCG peers so far.
- While sales decline of 25% in 1QFY21 was admittedly sharp, the outlook seems to be improving with sales growth in Jun'20, followed by reportedly double-digit YoY growth in Jul'20.
- While it is too early to call out recovery given the several years of underperformance, we maintain **Buy** as (a) valuations are inexpensive at 19.6x FY22E EPS, (b) sale of the cement business is leading to reduction in pledge, and (c) HMN has a tailwind in FY21 with half of its domestic sales coming from rural (same as other rural peers), where the prospects appear to be brighter than urban growth.

Sales down sharply but still better than expectations

- **Consolidated net sales declined 25.8% YoY to INR4.8b** (v/s est. INR4.5b). EBITDA declined 8.3% YoY to INR1.2b (v/s est. INR854m), PBT declined 12.6% YoY to INR1.1b (v/s est. INR715m) while adj. PAT before amortization declined 6.4% YoY to INR973m (v/s est. INR615m).
- **Gross margins expanded 230bp YoY** to 66.5% in 1QFY21. EBITDA margin expanded 490bp YoY to 25.5% (v/s est. 18.8%) aided by lower ad-spend (-750bp YoY) but offset by higher employee costs (+430bp YoY), and higher other expenses (+60bp YoY). Absolute ad-spend stood at INR597m (down 53.7% YoY) – the highest cut amongst FMCG peers so far, thereby supporting margins.
- **Domestic revenues** declined 26% YoY; Institutional business (CSD) declined 38% while the International business declined 18% YoY in 1QFY21.
- We estimate volumes to have declined by 28% YoY in 1QFY21.
- **Within domestic**, Kesh King/ Navratna/ Male Grooming range declined 33%/ 41%/ 70% while Pain Management/ Healthcare/ BoroPlus grew 15%/ 23%/ 28% YoY.

Highlights from management commentary

- Performance in Apr-May'20 was impacted due to the lockdown. Green-shoots were visible in Jun'20 (high-single digit growth). Double-digit growth was witnessed in Jul'20.
- Stocks at distributor level reduced to 19-20 days in Jul'20 (v/s 26 days in Jun'20 and 27-28 days in Mar'20). Secondary sales were higher in Jul'20.
- Credit in domestic business has declined to 4-5 days from 13-14 days in Mar'20.
- Rural has grown in double digits in 1QFY21. Wholesale channel is not under stress and is growing, but retail and MT on the other hand is declining.

Valuation and view

- HMN has disappointed over an elongated period of time with sales/EBITDA/adj. PAT CAGR of only ~4%/~5%/~3% over the past 5 years.
- Nevertheless, better-than-expected results have led to 6.4% upgrade in our FY21E EPS forecasts and marginal upgrade in FY22E EPS.
- While it is too early to call out recovery given several years of underperformance, **we maintain Buy** as (a) valuations are inexpensive at 19.6x FY22E EPS, (b) sale of the cement business has led to reduction in pledge, and (c) just like other rural peers, HMN has a tailwind in FY21 with half of its domestic sales coming from rural where prospects appear to be brighter than urban growth.

Consol. quarterly performance

(INR Million)

Y/E MARCH	FY20				FY21				FY20	FY21E	FY21	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Domestic volume growth (%)	0.0	1.0	-2.0	-20.0	-28.0	5.5	5.5	24.5	-5.3	1.9	-32.0	
Net Sales	6,486	6,601	8,126	5,327	4,813	6,931	8,533	6,661	26,549	26,938	4,547	5.9%
YoY change (%)	5.6	5.1	0.2	-16.8	-25.8	5.0	5.0	25.0	-1.5	1.5	-30.0	
Gross Profit	4,162	4,602	5,545	3,471	3,200	4,659	5,736	4,526	17,788	18,121	3,010	6.3%
Gross margin (%)	64.2	69.7	68.2	65.2	66.5	67.2	67.2	67.9	67.0	67.3	66.2	
EBITDA	1,341	1,930	2,640	985	1,230	2,026	2,772	1,150	6,905	7,178	854	44.0%
Margins (%)	20.7	29.2	32.5	18.5	25.5	29.2	32.5	17.3	26.0	26.6	18.8	
YoY change	11.4	3.0	0.2	-36.6	-8.3	5.0	5.0	16.7	-5.0	4.0	-36.7	
Depreciation	204	178	214	219	194	196	225	227	774	841	187	
Interest	44	93	49	24	47	65	59	54	210	226	37	
Other Income	115	164	156	145	67	74	101	119	571	361	85	
PBT	1,209	1,822	2,533	887	1,056	1,839	2,590	987	6,492	6,472	715	47.8%
Tax	177	211	403	-74	95	322	440	179	713	1,036	100	
Rate (%)	14.6	11.6	15.9	-8.3	9.0	17.5	17.0	18.1	11.0	16.0	14.0	
PAT before Amortization	1,039	1,621	2,146	980	973	1,517	2,149	798	5,833	5,437	615	58.2%
YoY change (%)	18.1	12.6	2.8	-20.0	-6.4	-6.4	0.2	-18.6	5.7	-6.8	-43.1	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY20				FY21			
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE
2Y average growth %								
Volumes	9.0	-1.5	0.8	-10.0	-14.0	3.3	1.8	2.3
Sales	10.9	2.6	3.7	-6.5	-10.1	5.0	2.6	4.1
EBITDA	30.8	-2.0	-0.1	-23.4	1.5	4.0	2.6	-9.9
PAT	31.7	1.9	1.0	-9.3	5.9	3.1	1.5	-19.3
% sales								
COGS	35.8	30.3	31.8	34.8	33.5	32.8	32.8	32.1
Other expenditure	43.5	40.5	35.7	46.7	40.9	38.0	34.7	50.7
Depreciation	3.1	2.7	2.6	4.1	4.0	2.8	2.6	3.4
YoY change %								
COGS	12.1	1.4	-3.6	-26.0	-30.6	13.7	8.3	15.0
Other expenditure	-1.6	9.7	3.7	6.1	-30.2	-1.5	2.1	35.8
Other income	128.0	217.4	78.3	-12.4	-41.7	-55.0	-35.0	-17.9
EBIT	16.7	4.8	-1.2	-45.1	-8.9	4.5	5.0	20.5



Highlights from management commentary

Demand environment

- Performance in Apr-May'20 was impacted due to the lockdown.
- Domestic secondary sales decline was lower at 15% in 1QFY21.
- Domestic business sales declined 26% YoY in 1QFY21, International business sales declined 18% and Institutional business sales declined 38%.
- Green-shoots visible in Jun'20 (high-single digit growth). Double-digit growth expected in Jul'20.
- Health and Hygiene portfolio (43% contribution) grew 29% YoY, while Other Brands (57%) declined 44%.
- New launches contributed 5% to domestic revenues in 1QFY21 (3% contribution from Sanitizers and 2% from other products).
- Overall, volumes declined 28% YoY in 1QFY21.

Buyback of shares

- The board has approved share buyback from the open market at a maximum price of INR300/ share up to INR1.92b as permitted by the Companies Act and SEBI on 19th Mar'20. Buyback was completed on 7th Jul'20 with 9.42m shares purchased at an average price of INR203.78.
- Share capital post buyback reduced from INR453.9m to INR444.5m.
- Consequently, promoter stake increased from 52.74% to 53.86%.

Material costs and EBITDA margin

- Margins increased despite lower sales due to stringent cost control measures and benign raw material prices.
- Material cost is likely to remain soft going forward.
- Expect INR500-600m worth of reduction in costs in FY21.
- Confident of achieving at least 26% margins but it could improve further if momentum of Jun-Jul'20 continues.

Guidance

- Expect NPD contribution to be at 5.5% of sales.
- Plans to introduce new products in the Home and Hygiene segment.
- Expect 20-30 new launches.
- Going ahead amortization should reduce to INR250m/quarter.
- Completed Cement stake sale – expect promoter pledge to decline to 50% by FY21 from 56% currently.
- Expect positive growth in FY21 (in-line with last year), provided the COVID crisis does not heighten.
- Effective tax rate to be at ~20% on consolidated basis.
- Ad-spends as % sales expected to be maintained at 17.5-18%.
- Capex plans of INR800m in FY21.
- Does not expect price increase of more than 1.5% in FY21.

Domestic business

- In Jul'20, growth was led mostly by **Zandu and the Pain Management portfolio**.
- Chyawanprash sales have increased 7x YoY. Honey sales have risen 5x.

- Expected focus to increase in the **Healthcare segment**.
- **Home and Hygiene segment** – Expect market to triple over the next three years, and hence, there exists a huge opportunity to grow.
- **Pancharishta** is growing in double digits.
- **BoroPlus growth** is led by new launches i.e. sanitizer in particular (inorganic growth).
- **Zandu** - Seeing 30% growth and plans to increase ad-spends here.
- **Pain management** – Good growth was driven by increase in consumption and consumers switching to Ayurveda products from painkillers.
- **Healthcare Range** – contribution to increase to 10% from 8% currently.

International

- Business performed well in Jul'20 with *Crème 21* showing significant growth.
- Hygiene products introduced in key geographies.
- Planned 3P manufacturing in the Middle East and Sri Lanka.

Other points

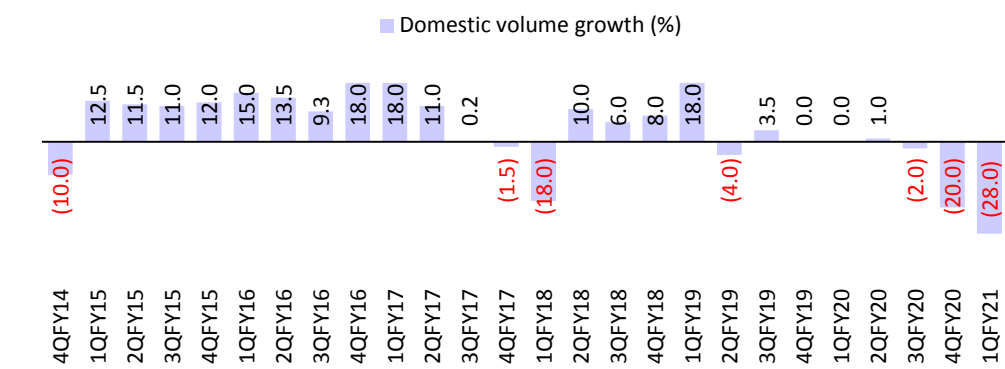
- E-commerce grew 108% but GT and MT got impacted.
- Stocks at distributor level reduced to 19-20 days in Jul'20 from 26 days in Jun'20 and 27-28 days in Mar'20.
- Secondary sales were higher in Jul'20.
- Credit in domestic business has declined to 4-5 days from 13-14 days in Mar'20.
- The company has taken price reduction in Honey.
- *Fair & Handsome* is still under stress.
- Rural has grown in double digits in 1QFY21. Wholesale channel was not in stress and is growing, but on the other hand, retail and MT are declining.
- Contribution of sachets is in the range of 32-33%.
- Margins in Healthcare are slightly better.

New Launches

- *BoroPlus Advanced Anti Germ Hand Sanitizer, BoroPlus Antiseptic Moisturizing Soap, BoroPlus Aloe Vera Gel, Zandu Ayurvedic Hand Sanitizer, Zandu Ayush Kwath Powder, Zandu Single Herb Range.*
- **E-comm specific launches:** *Zandu Pachan Vati (Digestive Stimulant), Zandu Sandhigata Pida har Vati (Joint pain reliever), Zandu Amla pitta harvati (Acidity Regulator), Zandu Draksha Pachan Churna, Zandu Papaya Leaf Extract.*
- **International business:** Launched hygiene products under *Crème 21 Gold Turmeric and BoroPlus brands.*

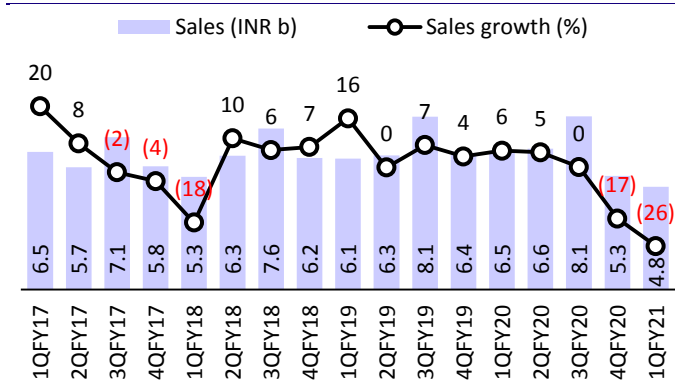
Key Exhibits

Exhibit 1: Domestic volume decline estimated at 28% YoY in 1QFY21



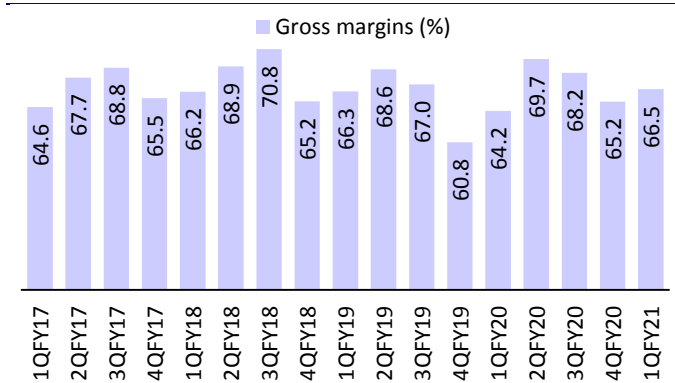
Source: Company, MOFSL

Exhibit 2: Consol. net sales declined 25.8% to INR4.8b



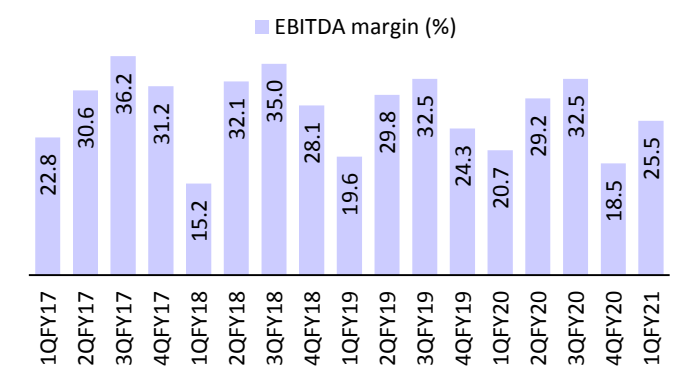
Source: Company, MOFSL

Exhibit 3: Gross margin expanded 230bp YoY to 66.5%



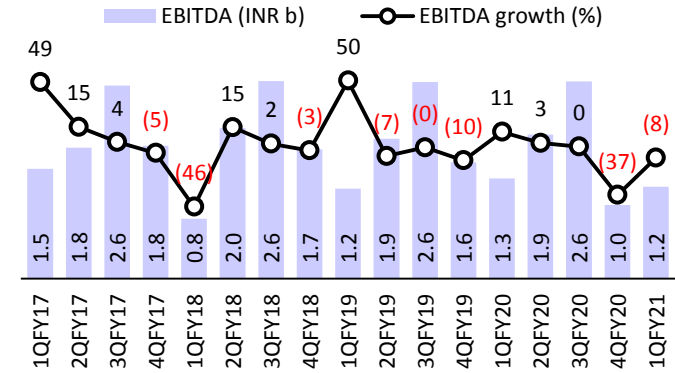
Source: Company, MOFSL

Exhibit 4: EBITDA margins expanded 490bp YoY



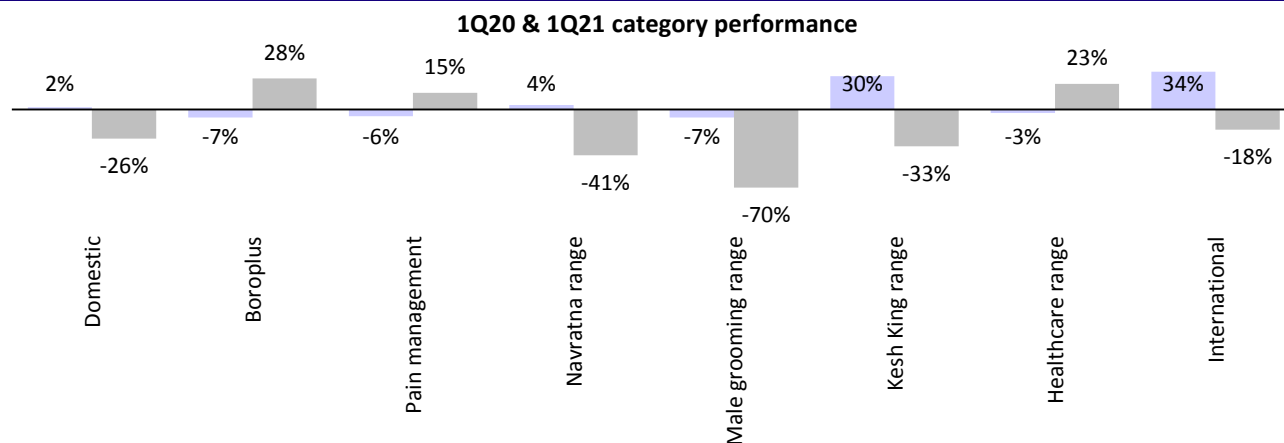
Source: Company, MOFSL

Exhibit 5: EBITDA down 8.3% YoY to INR1.2b in 1QFY21

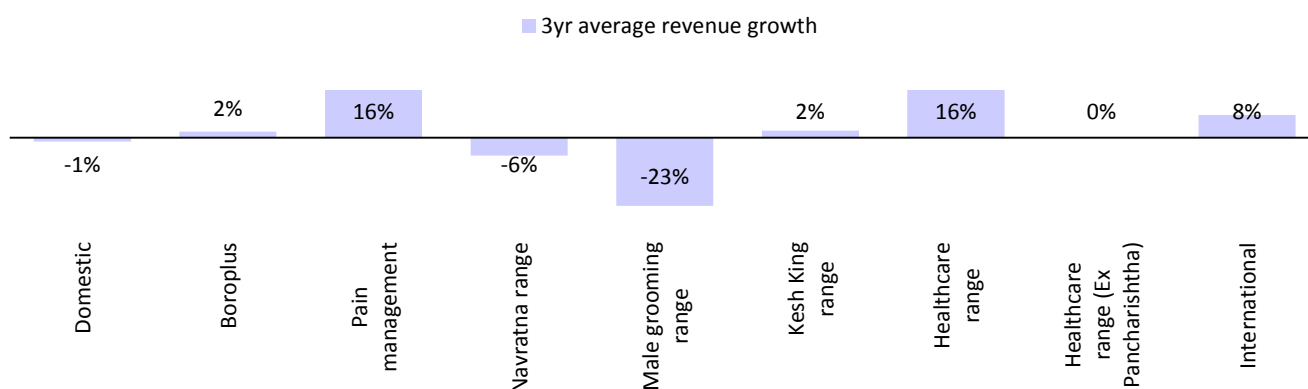


Source: Company, MOFSL

- **Domestic business declined 26% YoY in 1QFY21 (82% of sales in 1Q).** Kesh King/ Navratna/ Male Grooming range declined 33%/ 41%/ 70% while Pain Management/ Healthcare/ BoroPlus grew 15%/ 23%/ 28% YoY.
- **International revenues (15% of sales in 1QFY21)** declined 18% YoY. Hygiene products were introduced in key geographies.
- **CSD (contributed 3% of sales in 1QFY21)** declined 38% YoY in 1QFY21.

Exhibit 6: Health and Hygiene portfolio (43% contribution) grew YoY, while other brands (57%) declined

Source: Company, MOFSL

Exhibit 7: On 3-year basis, average growth of almost all categories except two were muted on poor performance in 1QFY21

Source: Company, MOFSL

Valuation view

What has happened in the 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 witnessed massive slowdown in these key financial metrics (CAGR of ~4% in sales, ~5% in EBITDA and 3% in PAT) in the past five years (ending FY20) due to absence of sales growth in many of its key categories.

The key challenges

- The lack of significant traction in products launched in recent years and the failed acquisitions like 'She' has also contributed to the weak sales growth in recent years. *Kesh King's* scale-up so far has certainly not lived up to expectations. Overseas business has also been an underperformer.
- Compared to peers, HMN has the largest exposure to rural and even more crucially to wholesale trade. While management has expanded direct reach in recent years, the wholesale and rural dependence – albeit lower than in the past – still remains high.

Our view on the stock

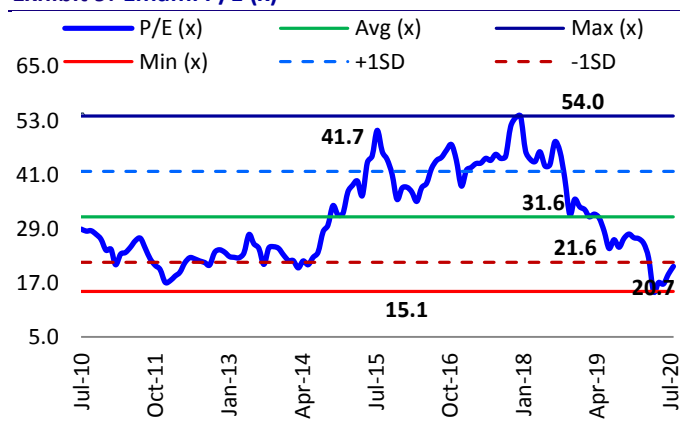
- HMN has disappointed over a long time period – sales/EBITDA/adj. PAT CAGR stood at only ~4%/~5%/~3% over the past 5 years.
- Nevertheless, better-than-expected results have led to 6.4% upgrade to our FY21E EPS forecasts and marginal upgrade in FY22E EPS.
- While it is too early to call out recovery given several years of underperformance, **we maintain Buy** as (a) valuations are inexpensive at 19.6x FY22E EPS, (b) sale of the cement business has led to reduction in pledge, and (c) just like other rural peers, HMN has a tailwind in FY21 with half of its domestic sales coming from rural, where the prospects appear to be brighter than urban growth.

Exhibit 8: We increase our FY21/22E EPS estimates by 6.4%/0.2%

	New		Old		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Sales	26,938	29,364	25,228	29,021	6.8%	1.2%
EBITDA	7,178	7,764	6,673	7,701	7.6%	0.8%
PAT	5,437	5,846	5,112	5,833	6.4%	0.2%

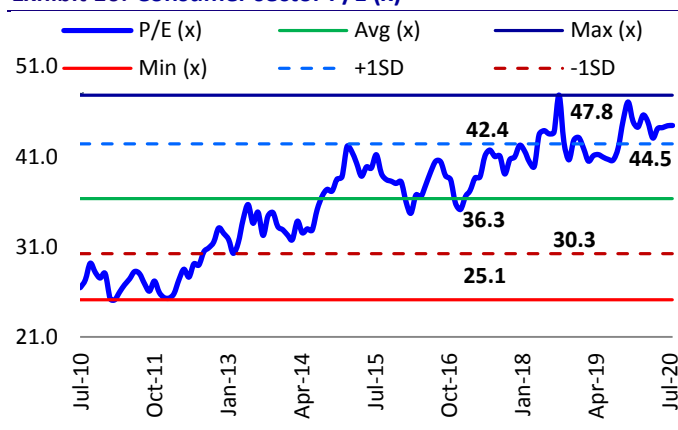
Source: Company, MOFSL

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	26,938	29,364
Change (%)	21.8	6.4	5.5	1.7	6.5	-1.5	1.5	9.0
COGS	7,800	8,121	7,910	8,098	9,230	8,761	8,817	9,691
Gross Profit	14,373	15,462	16,972	17,207	17,716	17,788	18,121	19,674
Gross Margin (%)	64.8	65.6	68.2	68.0	65.7	67.0	67.3	67.0
Operating expenses	9,018	8,589	9,380	10,013	10,444	10,882	10,943	11,910
EBITDA	5,355	6,873	7,591	7,194	7,272	6,905	7,178	7,764
Change (%)	20.5	28.3	10.5	-5.2	1.1	-5.0	4.0	8.2
Margin (%)	24.2	29.1	30.5	28.4	27.0	26.0	26.6	26.4
Depreciation	343	423	469	673	768	774	841	871
Int. and Fin. Charges	51	540	580	343	214	210	226	190
Financial Other Income	964	445	311	195	349	571	361	426
Profit before Taxes	5,924	6,354	6,853	6,374	6,639	6,492	6,472	7,129
Change (%)	27.1	7.3	7.9	-7.0	4.2	-2.2	-0.3	10.1
Margin (%)	26.7	26.9	27.5	25.2	24.6	24.5	24.0	24.3
Tax	994	597	836	863	1,024	713	1,036	1,283
Deferred Tax	76	-125	130	-5	37	-86	0	0
Tax Rate (%)	18.1	7.4	14.1	13.5	16.0	9.7	16.0	18.0
Adjusted PAT	4,856	5,762	6,021	5,507	5,517	5,618	5,437	5,846
Change (%)	20.7	18.7	4.5	-8.5	0.2	1.8	-3.2	7.5
Margin (%)	21.9	24.4	24.2	21.8	20.5	21.2	20.2	19.9
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	4,162	4,571

Balance Sheet							(INR m)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Share Capital	454	454	454	454	454	453	445	445
Reserves	11,852	15,662	17,093	19,682	20,307	17,784	22,044	21,801
Net Worth	12,306	16,116	17,547	20,136	20,761	18,238	22,489	22,246
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	24,771	24,528
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	14,924	15,337
Inventory	1,267	1,505	1,792	1,940	2,217	2,447	2,031	2,231
Account Receivables	1,027	1,309	970	1,559	2,164	3,080	2,362	2,414
Cash and cash equivalents	3,541	1,084	501	795	2,034	1,191	7,221	7,401
Others	1,100	2,138	1,340	2,224	2,737	3,831	3,311	3,291
Curr. Liab. and Prov.	3,821	3,836	3,343	4,376	6,137	6,265	6,264	7,047
Account Payables	1,990	2,487	1,847	2,420	2,914	3,245	2,880	3,256
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	8,661	8,290
Application of Funds	12,942	23,086	22,689	23,602	22,048	20,520	24,771	24,529

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	12.2	13.2
Cash EPS	11.5	13.6	14.3	13.6	13.8	14.1	14.1	15.1
BV/Share	27.1	35.5	38.7	44.4	45.7	40.2	50.6	50.0
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	61.3	68.4
Valuation (x)								
P/E	24.1	20.3	19.4	21.2	21.2	20.8	21.1	19.6
Cash P/E	22.5	18.9	18.0	18.9	18.6	18.3	18.2	17.1
EV/Sales	4.9	5.2	4.8	4.6	4.2	4.4	4.0	3.7
EV/EBITDA	20.3	17.8	15.8	16.2	15.7	16.8	15.0	13.9
P/BV	9.5	7.3	6.7	5.8	5.6	6.4	5.1	5.1
Dividend Yield (%)	1.4	0.6	1.7	1.4	1.6	2.1	2.9	3.5
Return Ratios (%)								
RoE	44.9	40.5	35.8	29.2	27.0	28.8	26.7	26.1
RoCE	44.0	35.8	31.1	28.2	28.5	28.8	28.0	28.0
RoIC	50.9	39.1	28.2	25.3	25.9	28.5	29.0	32.7
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	1.2	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

Y/E March	2015	2016	2017	2018	2019	2020E	2021E	2022E
(INR m)								
OP/(loss) before Tax	5,924	4,228	4,236	3,926	4,034	3,736	5,197	5,854
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	-361	-426
Interest Paid	-525	432	558	316	42	-73	226	190
Direct Taxes Paid	-956	-957	-707	-809	-927	-760	-1,036	-1,283
(Incr)/Decr in WC	735	-565	226	-612	-739	-800	1,653	551
CF from Operations	5,341	5,616	7,296	5,878	5,537	5,274	7,796	7,032
(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	7,081	6,032
(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	4,297	254
CF from Invest.	-2,345	-13,091	-2,922	-2,346	-22	-2,064	3,582	-746
Change in Equity	0	0	0	0	0	-125	-9	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	-4,019	-4,823
Others	-342	5,698	-10,072	-6,891	-3,491	-1,301	-1,319	-1,283
CF from Fin. Activity	-2,154	5,018	-4,958	-3,237	-4,277	-4,054	-5,347	-6,106
Incr/Decr of Cash	842	-2,457	-584	295	1,239	-844	6,030	179
Add: Opening Balance	2,700	3,541	1,084	501	795	2,034	1,191	7,221
Closing Balance	3,541	1,084	500	795	2,034	1,191	7,221	7,400

E: MOFSL Estimates

NOTES

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Investment Rating	Expected return (over 12-month)
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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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