

## Emami

### Weak 1QFY21 though recovery is in sight

Emami posted a weak 1QFY21 as revenue/EBITDA declined by 26/8% YoY (HSIE -19/-9%). The domestic revenue decline of 26% YoY (volume decline of 28%) was due to the Navratna range, Male Grooming and Kesh King declining by 41/70/33% YoY. However, Boroplus, Healthcare, and Pain management clocked a strong growth of 28/23/15% YoY. The company saw sequential improvement in revenue growth (+8% YoY in June and double-digit growth in July), led by healthcare and pain management. The pick-up is driven by (1) healthy growth in rural markets, (2) new launches (5% contribution), and (3) channel filling. At the same time, sharp cost control (A&P down by 54% YoY) led to 487bps YoY expansion in EBITDA margin. Despite strong growth in June/July, we expect core categories to improve gradually. However, we increase our EPS estimate by 5/3/3% for FY21/FY22/FY23 on account of the strong traction in healthcare and pain management along with benign raw material prices. We value Emami at 18x P/E on Jun-22E EPS and derive a target price of Rs 232. Maintain REDUCE.

- **Weak revenue:** Consolidated revenue declined by 26% YoY (+6% in 1QFY20 and -17% in 4QFY20) vs the HSIE estimate of 19% YoY dip. Domestic volume declined by 28% YoY. Domestic/International/CSD declined by 26/18/38% YoY. The Health & Hygiene portfolio (43% mix) saw a 29% YoY growth while other brands (57% mix) saw a 44% YoY decline. Brand extension in Boroplus (soap, sanitizer, and face wash) and Zandu (hand sanitizer and healthcare products) saw excellent traction.
- **Strong margin expansion:** GM expanded by 231bps YoY to 66.5%, driven by benign raw material prices. Employee expenses grew by 1% YoY while ASP/other expenses declined by 54/22% YoY. EBITDAM expanded by 487bps YoY (+58bps in 1QFY20 and -578bps in 4QFY20). EBITDA declined by 8% YoY. Lower tax rate led to APAT growth of 2% YoY.
- **Call takeaways:** (1) E-commerce revenue mix doubled in 1QFY21; (2) decline in secondary sales (15%) was lower than primary; (3) distributor inventory fell to 19 days in July vs. 29 days in March; (4) the company will launch a new home hygiene brand in the near term; (5) promoter pledge was reduced to 55%, and would further go down to 50% in the next few days.

#### Quarterly/Annual Financial summary

YE Mar (Rs mn)	1Q		YoY (%)	4Q		QoQ (%)	FY20	FY21E	FY22E	FY23E
	FY21	FY20		FY20	FY20					
Net Sales	4,813	6,486	(25.8)	5,327	(9.6)	26,540	26,054	28,154	30,112	
EBITDA	1,230	1,341	(8.3)	985	24.8	6,896	7,199	7,750	8,274	
APAT	845	830	1.9	702	20.4	4,966	5,165	5,648	6,012	
Diluted EPS (Rs)	1.90	1.83	3.8	1.55	22.4	11.0	11.6	12.7	13.5	
P/E (x)						21.5	20.4	18.6	17.5	
EV / EBITDA (x)						15.5	14.4	13.1	12.1	
RoCE (%)						22.5	26.2	32.1	37.1	

#### Change in Estimates

	FY21E			FY22E			FY23E		
	OLD	NEW	Chg (%)	OLD	NEW	Chg (%)	OLD	NEW	Chg (%)
Sales	25,181	26,054	3.5	27,602	28,154	2.0	29,521	30,112	2.0
EBITDA	6,856	7,199	5.0	7,598	7,750	2.0	8,112	8,274	2.0
APAT	4,997	5,165	3.4	5,567	5,648	1.5	5,948	6,012	1.1
EPS *	11.0	11.6	5.0	12.3	12.7	3.1	13.1	13.5	2.7

Source: Company, HSIE Research \*New equity after buyback

## REDUCE

CMP (as on 07 Aug 2020)	Rs 257
Target Price	Rs 232
NIFTY	11,214

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 225	Rs 232
EPS %	FY21E	FY22E
	5%	3%

#### KEY STOCK DATA

Bloomberg code	HMN IN
No. of Shares (mn)	445
MCap (Rs bn) / (\$ mn)	114/1,526
6m avg traded value (Rs mn)	233
52 Week high / low	Rs 358/131

#### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	45.4	(14.3)	(16.7)
Relative (%)	24.4	(6.8)	(20.4)

#### SHAREHOLDING PATTERN (%)

	Mar-20	July-20
Promoters	52.74	53.86
FIs & Local MFs	31.46	29.79
FPIs	7.00	6.90
Public & Others	8.80	9.45
Pledged Shares	47.07	48.73

Source : BSE

Pledged shares as % of total shares

#### Naveen Trivedi

naveen.trivedi@hdfcsec.com  
+91-22-6171-7324

#### Varun Lohchab

varun.lohchab@hdfcsec.com  
+91-22-6171-7334

#### Aditya Sane

aditya.sane@hdfcsec.com  
+91-22-6171-7336

**Disclosure:**

Authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

**Disclaimer:**

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

**HDFC securities****Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 [www.hdfcsec.com](http://www.hdfcsec.com)