

Emami (HMN IN)

Rating: BUY | CMP: Rs367 | TP: Rs450

November 6, 2020

Q2FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	450		424	
Sales (Rs. m)	31,293	34,585	30,154	33,586
% Chng.	3.8	3.0		
EBITDA (Rs. m)	9,299	9,988	8,618	9,375
% Chng.	7.9	6.5		
EPS (Rs.)	16.7	18.8	16.5	19.5
% Chng.	1.1	(3.6)		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	26,549	27,780	31,293	34,585
EBITDA (Rs. m)	6,905	8,594	9,299	9,988
Margin (%)	26.0	30.9	29.7	28.9
PAT (Rs. m)	5,312	6,412	7,295	8,223
EPS (Rs.)	11.7	14.7	16.7	18.8
Gr. (%)	5.7	25.3	13.8	12.7
DPS (Rs.)	7.4	4.0	6.0	7.5
Yield (%)	2.0	1.1	1.6	2.0
RoE (%)	27.2	34.7	34.6	32.0
RoCE (%)	16.8	25.2	25.6	29.9
EV/Sales (x)	6.3	5.7	4.8	4.2
EV/EBITDA (x)	24.1	18.3	16.2	14.6
PE (x)	31.3	25.0	22.0	19.5
P/BV (x)	9.1	8.6	6.8	5.8

Key Data

EMAM.BO | HMN IN

52-W High / Low	Rs.408 / Rs.131
Sensex / Nifty	41,893 / 12,264
Market Cap	Rs.163bn / \$ 2,199m
Shares Outstanding	445m
3M Avg. Daily Value	Rs.556.85m

Shareholding Pattern (%)

Promoter's	53.86
Foreign	8.95
Domestic Institution	28.61
Public & Others	8.58
Promoter Pledge (Rs bn)	46.50

Stock Performance (%)

	1M	6M	12M
Absolute	5.3	103.5	12.4
Relative	(0.5)	54.0	8.5

Amnish Aggarwal

amnishaggarwal@plindia.com | 91-22-66322233

Charmi Mehta

charmimehta@plindia.com | 91-22-66322256

Heet Vora

heetvora@plindia.com | 91-22-66322381

In a sweet Spot; BUY

Quick Pointers:

- 1Q Volumes up 10%. Domestic sales excl. winter portfolio grew 28%.
- Strong winter onset and low base augurs well for 2H21 growth.
- Investment behind new segments, E-com capability and higher dividend payout are positives.

We are changing FY21/22/23 EPS estimates by 9.3%, 1.1% and -3.6% and increase target price to Rs450 @26xSept21 EPS (Rs419 earlier, valuing at 25xJune22EPS). We believe Emami is in a sweet spot given 1) highest rural salience at 55% of sales 2) early onset of winter and low base for winter portfolio and Pain Balms in 2H 3) benign input costs and Ad rates 4) market share gains in Kesh King and 5) capability building in sales/ E-com.

We expect growth rates to further accelerate in 2H although we are not banking much on new launches as they are in highly competitive categories. We believe strong rural demand and favorable seasonal climate after several years is positive. Although promoter pledge at 40% remains a concern, indications of 40-50% dividend payout and net cash of Rs2.5bn in balance sheet will provide support. We estimate 9.3% CAGR in sales and 17.7% in PAT over FY20-23. Retain BUY

Volumes increase 10%, Margins expand 570bps: Net Sales grew 11.3% to Rs7.35bn (Est Rs7.03bn). International business up 11%, Domestic revenues increased by 13% driven by 10% volume growth. Domestic sales excl. winter portfolio grew 28%. GRMs improved 60bps to 70.3% (Est 67%). EBITDA rose 33.2% to Rs2.57bn (Est Rs2.12bn). EBITDA margins expanded 570bps to 35% mainly due to reduction in ad-spend and other expenses as % of sales by 120bps and 330bps respectively. Due to revision in useful life of intangible assets, depreciation is up by 40% to Rs1.15bn. Adj. PAT rose 22.9% to Rs1.19bn (Est 1.36bn). Dividend of Rs4/share, Net cash at Rs2.5bn after Buyback of Rs2.37bn

Concall key takeaways: 1) Rural sales grew by 20% while urban sales grew by 8%. Rural share increased by 2% from earlier 55% 2) Wholesale channel share increased from 38% to 44% as it grew 21% (higher rural demand) while retail channel declined 14%. E-com grew 3x, MT by 9%, CSD declined 2% 3) New launches (20 in 1H21) contributed 4% of domestic business. Will launch more products in Home and Hygiene segment post Diwali in phased manner. 4) Kesh King gained market share from Patanjali and Indulekha 5) Winter portfolio declined by 39% due to lack of trade stocking in Q2FY21, positive outlook on strong onset of winters 6) GRMs at 70% and EBITDA margins at 30% seem sustainable. 7) Ad-spends to increase 200bps in 2H21 (winter portfolio, kesh king and new launches), EBITDA margins will sustain due to cost saving measures and benign raw material prices. 10) Capacity utilization at ~70%, no capex plans for next 2-3 years 11) Dividend payout expected to stabilize at 40-50% 12) Fair and Handsome showing QoQ improvement on re-launch 13) Kesh king amortization accelerated, likely to be over by June22 14) Promoter pledge at 40% unlikely to come down by December.

Exhibit 1: Revenues grew 11.3%, EBITDA margins expand 570bps, Adj PAT up 23.4%.

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Sales	7,348	6,601	11.3	5,327	12,162	13,087	-7.1
Gross Profit	5,163	4,602	12.2	3,471	8,363	8,764	-4.6
% of NS	70.3	69.7		65.2	68.8	67.0	
Other Expenses	2,593	2,672	-3.0	2,486	4,563	5,493	-16.9
% of NS	35.3	40.5		46.7	37.5	42.0	
EBITDA	2,571	1,930	33.2	985	3,801	3,271	16.2
Margins %	35.0	29.2		18.5	31.3	25.0	
Depreciation	1,148	819	40.3	852	1,896	1,655	14.5
Interest	25	93	-73.4	24	72	137	-47.5
Other Income	79	164	-51.8	145	146	279	-47.6
PBT	1,477	1,182	25.0	254	1,979	1,758	12.6
Tax	284	211	34.4	-74	379	388	-2.4
Tax rate %	19.2	17.9		-29.1	19.1	22.1	
Adjusted PAT	1,185	960	23.4	302	1,580	1,353	16.8

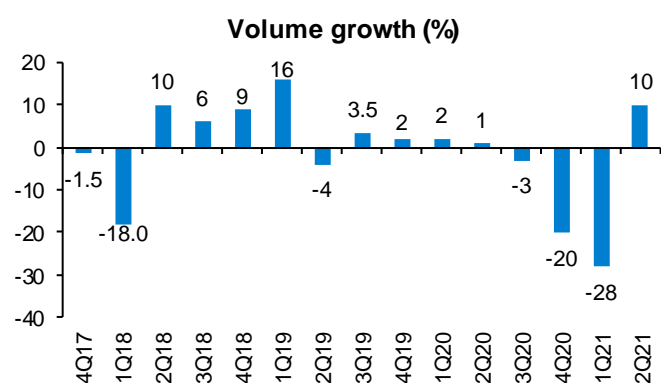
Source: Company, PL

Exhibit 2: Sharp growth momentum in Healthcare, Zandu and Kesh King, Male Grooming and Boroplus suffer

Brand/segments	Q3FY19	Q4FY19	1QFY20	2QFY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Navratna	10	1	4	-3	11	-12	-41	14
Boroplus	4	17	-7	39	-12	-77	28	-25
Zandu (Across Segments)	6	1	-6	4	13	-5	15	31
7 Oils in one	25	24	31	25	66	5	NA	9
Kesh King	26	15	30	-11	18	-26	-33	45
Male Grooming	-2	-4	-7	-32	-39	-42	-70	-24
Health Care	18	9	-3	0	4	-9	23	53

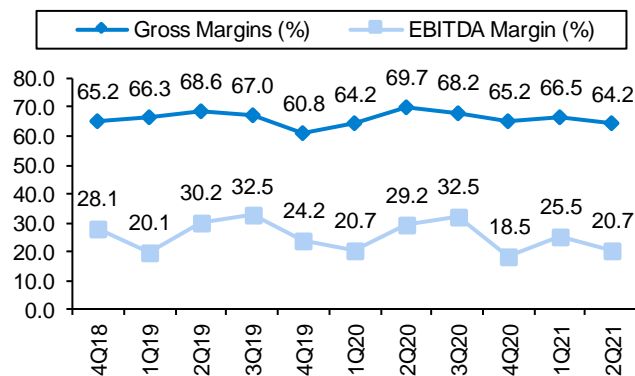
Source: Company, PL

Exhibit 3: 2QFY21 Volumes grow 10%



Source: Company, PL

Exhibit 4: EBITDA margins up 570bps YoY



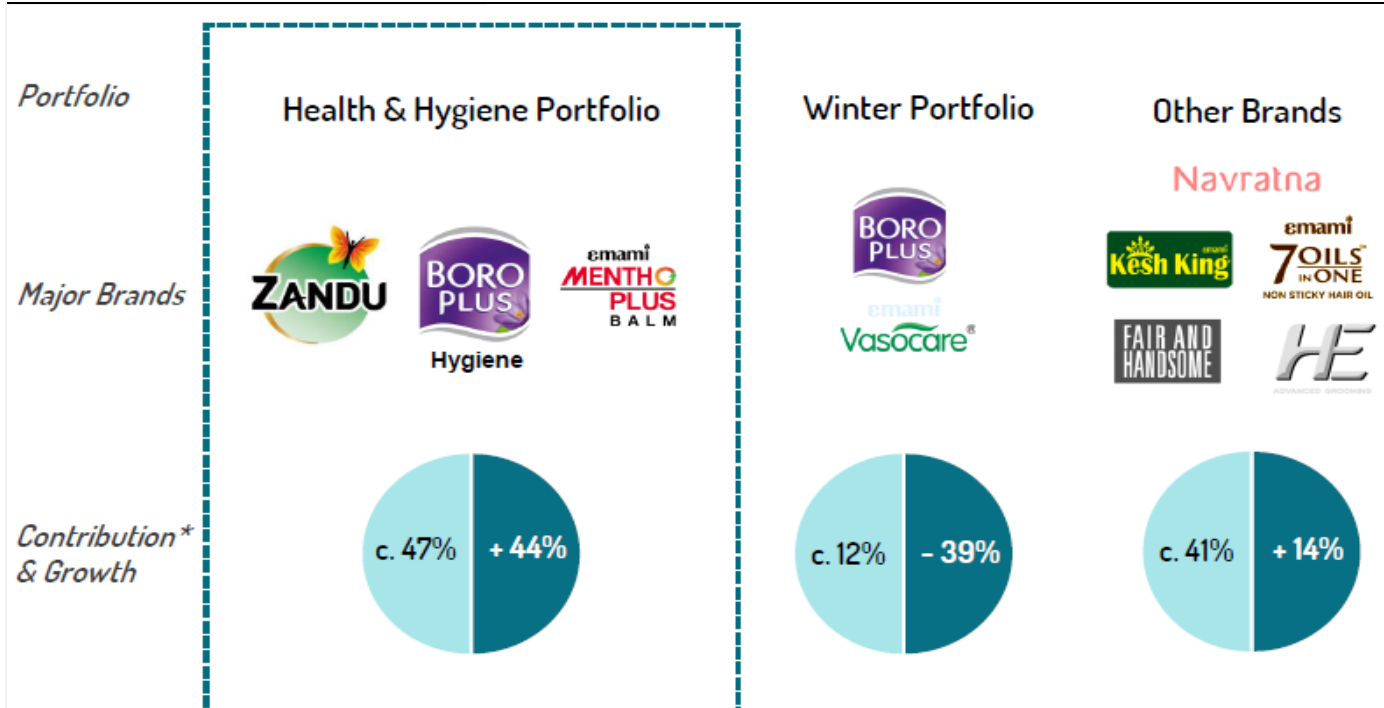
Source: Company, PL

Exhibit 5: Launched 8 new products across Health and Hygiene segment, contributed 4% to topline



Source: Company, PL

Exhibit 6: Health and hygiene portfolio witnessing robust growth



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	26,549	27,780	31,293	34,585
YoY gr. (%)	(1.5)	4.6	12.6	10.5
Cost of Goods Sold	8,761	8,706	10,173	11,430
Gross Profit	17,788	19,074	21,120	23,155
Margin (%)	67.0	68.7	67.5	67.0
Employee Cost	2,995	3,175	3,476	3,824
Other Expenses	1,180	1,055	1,095	1,184
EBITDA	6,905	8,594	9,299	9,988
YoY gr. (%)	(5.0)	24.5	8.2	7.4
Margin (%)	26.0	30.9	29.7	28.9
Depreciation and Amortization	3,363	3,456	3,460	1,822
EBIT	3,542	5,138	5,840	8,166
Margin (%)	13.3	18.5	18.7	23.6
Net Interest	210	195	175	160
Other Income	571	444	892	1,414
Profit Before Tax	3,902	5,387	6,556	9,419
Margin (%)	14.7	19.4	21.0	27.2
Total Tax	713	1,024	1,246	1,791
Effective tax rate (%)	18.3	19.0	19.0	19.0
Profit after tax	3,190	4,363	5,310	7,629
Minority interest	(7)	(8)	(10)	(11)
Share Profit from Associate	-	-	-	1
Adjusted PAT	5,312	6,412	7,295	8,223
YoY gr. (%)	5.5	20.7	13.8	12.7
Margin (%)	20.0	23.1	23.3	23.8
Extra Ord. Income / (Exp)	(2,116)	(2,041)	(1,976)	(581)
Reported PAT	3,196	4,371	5,320	7,642
YoY gr. (%)	1.4	36.8	21.7	43.7
Margin (%)	12.0	15.7	17.0	22.1
Other Comprehensive Income	(1,010)	-	-	-
Total Comprehensive Income	2,186	4,371	5,320	7,642
Equity Shares O/s (m)	453	437	437	437
EPS (Rs)	11.7	14.7	16.7	18.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	31,406	33,314	34,695	36,075
Tangibles	12,841	14,649	15,930	17,210
Intangibles	18,565	18,665	18,765	18,865
Acc: Dep / Amortization	16,986	20,441	23,901	25,723
Tangibles	4,612	5,548	6,568	7,673
Intangibles	12,374	14,894	17,333	18,050
Net fixed assets	14,420	12,873	10,794	10,352
Tangibles	8,229	9,102	9,362	9,537
Intangibles	6,191	3,771	1,432	815
Capital Work In Progress	80	80	80	80
Goodwill	-	-	-	-
Non-Current Investments	998	992	1,006	1,019
Net Deferred tax assets	(35)	(38)	(42)	(46)
Other Non-Current Assets	819	803	935	1,052
Current Assets				
Investments	1,246	4,210	11,004	15,581
Inventories	2,446	2,156	2,463	2,733
Trade receivables	3,080	1,903	1,972	2,179
Cash & Bank Balance	626	550	669	629
Other Current Assets	1,484	1,667	1,878	2,075
Total Assets	26,650	26,206	31,888	36,901
Equity				
Equity Share Capital	453	437	437	437
Other Equity	17,784	18,236	23,092	27,430
Total Network	18,237	18,672	23,529	27,867
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	231	254	280	307
Other non current liabilities	216	323	454	643
Current Liabilities				
ST Debt / Current of LT Debt	2,102	1,800	1,700	1,500
Trade payables	3,245	2,888	3,408	3,823
Other current liabilities	2,439	2,140	2,383	2,620
Total Equity & Liabilities	26,650	26,206	31,889	36,902

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	3,902	5,387	6,556	9,419
Add. Depreciation	3,281	3,456	3,460	1,822
Add. Interest	210	195	175	160
Less Financial Other Income	571	444	892	1,414
Add. Other	(432)	(298)	(737)	(1,248)
Op. profit before WC changes	6,962	8,740	9,455	10,154
Net Changes-WC	(2,115)	1,283	139	9
Direct tax	(713)	(1,024)	(1,246)	(1,791)
Net cash from Op. activities	4,134	8,999	8,347	8,372
Capital expenditures	(789)	(1,984)	(1,443)	(1,431)
Interest / Dividend Income	437	306	746	1,259
Others	910	-	-	-
Net Cash from Inv. activities	557	(1,678)	(696)	(172)
Issue of share cap. / premium	(1,801)	(2,189)	2,157	(28)
Debt changes	1,004	(302)	(100)	(200)
Dividend paid	(3,923)	(1,747)	(2,620)	(3,275)
Interest paid	(210)	(195)	(175)	(160)
Others	-	-	-	-
Net cash from Fin. activities	(4,931)	(4,433)	(738)	(3,662)
Net change in cash	(239)	2,887	6,913	4,537
Free Cash Flow	3,345	7,014	6,905	6,940

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	8,126	5,327	4,813	7,348
YoY gr. (%)	0.2	(16.7)	(25.8)	11.3
Raw Material Expenses	2,582	1,856	1,613	2,185
Gross Profit	5,545	3,471	3,200	5,163
Margin (%)	68.2	65.2	66.5	70.3
EBITDA	2,639	985	1,230	2,571
YoY gr. (%)	(1.0)	(36.3)	(8.3)	33.3
Margin (%)	32.5	18.5	25.5	35.0
Depreciation / Depletion	856	851	747	1,147
EBIT	1,783	133	482	1,423
Margin (%)	21.9	2.5	10.0	19.4
Net Interest	49	24	47	25
Other Income	158	144	66	78
Profit before Tax	1,892	254	502	1,477
Margin (%)	23.3	4.8	10.4	20.1
Total Tax	398	(74)	95	284
Effective tax rate (%)	21.0	(29.1)	18.9	19.2
Profit after Tax	1,494	327	407	1,193
Minority interest	-	-	-	-
Share Profit from Associates	(16)	(26)	(11)	(8)
Adjusted PAT	1,477	301	395	1,184
YoY gr. (%)	0.1	(46.3)	0.6	23.3
Margin (%)	18.2	5.6	8.2	16.1
Extra Ord. Income / (Exp)	33	74	-	-
Reported PAT	1,511	376	396	1,185
YoY gr. (%)	(4.1)	(32.9)	0.6	23.3
Margin (%)	18.6	7.1	8.2	16.1
Other Comprehensive Income	(216)	(212)	236	(63)
Total Comprehensive Income	1,294	16	631	1,122
Avg. Shares O/s (m)	454	454	454	445
EPS (Rs)	3.3	0.7	0.9	2.7

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	11.7	14.7	16.7	18.8
CEPS	19.1	22.6	24.6	23.0
BVPS	40.2	42.8	53.9	63.8
FCF	7.4	16.1	15.8	15.9
DPS	7.4	4.0	6.0	7.5
Return Ratio(%)				
RoCE	16.8	25.2	25.6	29.9
ROIC	14.3	24.0	28.9	39.5
RoE	27.2	34.7	34.6	32.0
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.2)	(0.4)	(0.5)
Net Working Capital (Days)	31	15	12	11
Valuation(x)				
PER	31.3	25.0	22.0	19.5
P/B	9.1	8.6	6.8	5.8
P/CEPS	19.2	16.2	14.9	16.0
EV/EBITDA	24.1	18.3	16.2	14.6
EV/Sales	6.3	5.7	4.8	4.2
Dividend Yield (%)	2.0	1.1	1.6	2.0

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Oct-20	BUY	424	353
2	07-Aug-20	BUY	419	257
3	08-Jul-20	Hold	287	233
4	29-Jun-20	Hold	287	205
5	15-Apr-20	Hold	285	227
6	07-Feb-20	Accumulate	361	300
7	03-Jan-20	Accumulate	359	316

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	2,000	2,100
2	Avenue Supermarts	BUY	2,316	1,988
3	Bajaj Electricals	BUY	605	505
4	Britannia Industries	BUY	4,301	3,553
5	Colgate Palmolive	Hold	1,445	1,427
6	Crompton Greaves Consumer Electricals	BUY	346	305
7	Dabur India	Accumulate	539	515
8	Emami	BUY	424	353
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Hold	700	725
11	Hindustan Unilever	BUY	2,502	2,173
12	ITC	BUY	244	167
13	Jubilant FoodWorks	Hold	2,255	2,330
14	Kansai Nerolac Paints	BUY	551	513
15	Marico	Hold	378	363
16	Nestle India	Hold	17,640	17,221
17	Pidilite Industries	Hold	1,415	1,487
18	Titan Company	Accumulate	1,352	1,217
19	Voltas	Accumulate	702	672

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Amnish Aggarwal- MBA, CFA, Ms. Charmi Mehta- CA, Mr. Heet Vora- CA Research Analysts, 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. 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.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

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

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Amnish Aggarwal- MBA, CFA, Ms. Charmi Mehta- CA, Mr. Heet Vora- CA Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, 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 subject company 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 subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com