

Emami

Healthcare momentum sustains; beat in margins

Emami delivered a strong set of numbers with revenue/EBITDA growth of 15/29% YoY (HSIE 12/23%). The growth was driven by a broad-based pick-up in discretionary demand and strong performance of the winter portfolio. Healthcare and Boroplus led the revenue growth and the winter portfolio benefited from channel filling, following the weak performance in 2QFY21 (-39% YoY). Kesh King sustained its momentum with 16% YoY growth (base +18%). Strong performance in MT and e-comm also supported growth. International business performed well, led by SAARC and MENAP markets. EBITDA margin expansion was robust (400bps YoY) despite high RM inflation, as the company was able to execute its cost control initiatives. We expect Emami to sustain its growth, led by continued recovery in discretionary demand. While restoration of normal operations and RM inflation will bear down on margins, we expect EBITDA margin to remain healthy (but expansion may be muted in FY22). We increase EPS FY22/FY23 by ~4%. We value Emami at 25x P/E on Mar-23E EPS to derive a TP of Rs 425. Maintain REDUCE.

- Healthcare momentum sustains:** Revenue grew by 15% YoY (flat in 3QFY20 and +11% in 2QFY21) vs an expectation of 12% YoY growth. Domestic/International saw 16/26% YoY growth while CSD declined by 27% YoY. Domestic business saw 13% YoY volume growth. Healthcare/Boroplus/F&H/Pain Mgt/7 Oils grew by 38/21/5/12/32% YoY while Navratna declined by 12% YoY. Rural growth remained strong while urban markets saw an improvement. Growth was visible across channels as MT grew 51% YoY and e-comm grew 3.5x YoY. In 3QFY21, the company entered the home hygiene category with 'Emasol', which received an encouraging response. Emami continued to drive innovation with 60+ SKUs launched during the quarter, and new launches salience stood at 4% of domestic revenue.
- 11-year high EBITDA margin:** GM expanded by 214bps YoY (+124bps on 3QFY20 and +55bps on 2QFY21). Employee/Advertising/Other expenses grew by 2/12/10% YoY. EBITDA margin expanded by 395bps YoY (flat in 3QFY20 and +575bps in 2QFY21). EBITDA grew by 29% YoY (HSIE 23%). We expect the possibility of margin pressure in FY22, led by a sharp margin expansion in FY21 and many costs will be restored in FY22. However, EBITDA margin is expected to sustain around 30%. PBT grew by 36% YoY.
- Call takeaways:** (1) Penetration improved across brands by 2-4%; (2) Chyawanprash grew by 24% YoY while Honey grew >2x YoY; (3) E-comm/MT revenue contribution rose to 3.1/9%; (4) Emami does not intend to enter any new category where gross margin is <50%; (5) promoter pledge stands at 36%, out of which 8% is with Novoco.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	9,336	8,126	14.9	7,348	27.1	26,540	28,525	31,944	34,324
EBITDA	3,402	2,640	28.9	2,571	32.3	6,896	9,087	9,721	10,527
APAT	2,588	1,949	32.8	1,937	33.6	4,966	6,573	7,011	7,564
Diluted EPS (Rs)	5.82	4.29	35.7	4.36	33.6	11.0	14.7	15.7	17.0
P/E (x)						44.3	32.9	30.9	28.6
EV / EBITDA (x)						31.9	23.5	21.7	20.0
RoCE (%)						22.5	34.1	40.5	44.0

Source: Company, HSIE Research

REDUCE

CMP (as on 27 Jan 2021)	Rs 485
Target Price	Rs 425
NIFTY	13,968

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 405	Rs 425
	FY22E	FY23E
EPS %	4%	4%

KEY STOCK DATA

Bloomberg code	HMN IN
No. of Shares (mn)	445
MCap (Rs bn) / (\$ mn)	216/2,956
6m avg traded value (Rs mn)	323
52 Week high / low	Rs 505/131

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	31.0	104.3	49.5
Relative (%)	12.9	80.0	35.5

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	53.86	53.86
FIs & Local MFs	28.60	27.37
FPIs	8.95	9.61
Public & Others	8.59	9.16
Pledged Shares	25.05	20.97

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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