

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	HMN IN
Equity Shares (m)	454
M.Cap.(INRb)/(USD\$)	235.2 / 3.1
52-Week Range (INR)	621 / 344
1, 6, 12 Rel. Per (%)	-9/-15/-4
12M Avg Val (INR M)	388

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Sales	28.8	32.4	36.0
Sales Gr. (%)	8.5	12.4	11.2
EBITDA	8.8	9.8	11.0
EBIT Margin (%)	30.7	30.3	30.6
Adj. PAT	7.2	7.9	8.3
Adj. EPS (INR)	16.3	17.8	18.7
EPS Gr. (%)	31.1	9.6	5.1
BV/Sh.(INR)	39.7	45.7	46.5

Ratios

RoE (%)	40.3	41.7	40.6
RoCE (%)	40.0	44.6	47.0
Payout (%)	49.2	64.6	69.5

Valuation

P/E (x)	32.7	29.8	28.4
P/BV (x)	13.4	11.6	11.4
EV/EBITDA (x)	26.1	23.2	20.5
Div. Yield (%)	1.5	2.2	2.4

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	53.9	53.9	53.9
DII	24.2	24.5	28.6
FII	12.7	12.5	9.0
Others	9.3	9.2	8.6

FII Includes depository receipts

CMP: INR531 TP: INR650 (+22%) Buy

Margin to come under pressure, but sales traction to continue

- HMN's 2QFY22 sales were in line with our expectations. Domestic sales/volumes grew 9%/6.2% YoY. With a pickup in the pace of vaccination and diminishing fears of a severe third COVID wave, Healthcare grew only 5% YoY. Nevertheless, the segment was still up 26% on a two-year CAGR basis. On a positive note, revival in mobility led to double-digit growth in discretionary categories – BoroPlus, Kesh King, and Male Grooming.
- While there has been some recent moderation in rural demand, its fundamentals are intact. The outlook for winter demand is positive.
- The International business (~15% of sales) declined by 6% YoY owing to the second COVID wave and a higher base of Personal Hygiene.
- Margin performance in 2QFY22 was better than expected due to price hikes, cost savings, and lower A&P spends. However, the management expects gross margin compression in 2HFY22, led by continued RM pressure. A&P spends are also expected to pick up, leading to a pressure on EBITDA margin in 2HFY22.
- The key to a further re-rating would be whether sales growth, after a period of extremely weak performance (3.7% CAGR over FY16-20), can revive to double-digit levels on a sustainable basis. We maintain our **Buy** rating.

Sales in line; margin outperforms

- **Consolidated net sales grew 7.4% YoY to INR7.9b** (in line). EBITDA/PBT/adjusted PAT before amortization grew 7.8%/20.1%/18.7% YoY to INR2.8b/INR2.9b/INR2.5b (est. INR2.5b/INR2.3b/INR1.9b).
- Domestic volumes grew 6.2% YoY in 2QFY22.
- Gross margin fell 150bp YoY to 68.8% (est. 67.3%).
- **EBITDA margin expanded by 20bp YoY to 35.1%** (est. 32%) due to lower employee costs (-30bp), ad-spends (-140bp), and flat other expenses as a percentage of sales.
- Absolute ad-spends declined by 2.6% YoY to INR1.1b.
- Sales/EBITDA/adjusted PAT before amortization grew 19.2%/17.6%/26.7% YoY in 1HFY22.
- **The domestic business** grew 9% YoY, with a two-year CAGR of 11%.
- **International sales** declined by 6% YoY, but clocked a two-year CAGR of 2%.
- **Institutional business** (3% of sales) grew 29% YoY, with a two-year CAGR of 12%.
- **Within domestic**, HMN reported a YoY sales growth in all categories – Healthcare (+5%), BoroPlus (+29%), Kesh King (+15%), Pain Management (+6%), and Male Grooming (+15%), except Navratna (-9%), in 2QFY22.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Highlights from the management commentary

- Kesh King is doing well and has a lot of headroom to grow. HMN is gaining share from Patanjali and Indulekha. Shampoo currently contributes 27% to Kesh King's sales from 20% earlier. With the launch of an Anti-Dandruff Shampoo, the management expects this proportion to be ~32% over the next 6-8 quarters.
- Price increases and cost savings have protected margin in 2QFY22. Emami has taken a 3.5% price increase in 1HFY22.
- Over the last 3-4 weeks, there has been a slight slowdown in rural demand. The management said there is no fundamental reason for the slowdown, and is hopeful about good sales during this winter season.

Valuation and view

- There is no material change to our FY22E/FY23E EPS forecasts.
- HMN's mid-single digit sales growth was in line with our expectation due to a high base and slowdown in immunity boosting categories, amid diminishing fears of the COVID-19 pandemic. With a revival of discretionary consumption, we believe HMN can go back to high single-digit/low double-digit sales growth on an annual basis going forward. This is far better than the 3.7% sales CAGR over FY16-20. If the path towards sustainable and strong double-digit sales growth continues, a further re-rating is possible.
- We maintain our **Buy** rating, encouraged by the following factors: a) inexpensive valuations at 28.4x FY23E EPS, and b) steep reduction in pledged shares (now at 30% levels).
- We arrive at our TP of INR650/share (valuing the company at 32x Dec'23E EPS, a 40% discount to its peers).

Consol. Quarterly performance**(INR m)**

Y/E MARCH	FY21				FY22				FY21	FY22E	FY22 2QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Domestic volume growth (%)	-28.0	10.0	13.0	39.0	38.0	6.2	8.0	6.0	8.5	14.6	6.0	
Net Sales	4,813	7,348	9,336	7,308	6,610	7,888	10,176	7,697	28,805	32,371	7,789	1.3%
YoY change (%)	-25.8	11.3	14.9	37.2	37.3	7.4	9.0	5.3	8.5	12.4	6.0	
COGS	1,613	2,185	2,766	2,728	2,246	2,464	3,320	2,612	9,292	10,642	2,550	
Gross Profit	3,200	5,163	6,570	4,580	4,363	5,425	6,856	5,086	19,513	21,730	5,240	
Gross margin (%)	66.5	70.3	70.4	62.7	66.0	68.8	67.4	66.1	67.7	67.1	67.3	
EBITDA	1,230	2,571	3,402	1,628	1,697	2,772	3,505	1,849	8,831	9,822	2,491	11.3%
Margins (%)	25.5	35.0	36.4	22.3	25.7	35.1	34.4	24.0	30.7	30.3	32.0	
YoY change	-8.3	33.2	28.9	65.2	38.0	7.8	3.0	13.6	27.9	11.2	-3.1	
Depreciation	194	216	341	240	234	236	256	272	991	998	259	
Interest	47	25	14	47	6	8	8	9	133	31	10	
Other Income	67	79	92	465	107	376	124	137	703	745	107	
PBT	1,056	2,409	3,139	1,806	1,564	2,904	3,365	1,706	8,410	9,538	2,329	24.7%
Tax	95	284	438	326	175	410	673	363	1,142	1,621	396	
Rate (%)	9.0	11.8	13.9	18.0	11.2	14.1	20.0	21.3	13.6	17.0	17.0	
PAT before Amortization	973	2,133	2,710	1,493	1,404	2,532	2,686	1,295	7,309	7,917	1,933	31.0%
YoY change (%)	-6.4	31.6	26.3	52.4	44.4	18.7	-0.9	-13.3	25.3	8.3	-9.4	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY21				FY22	
	1Q	2Q	3Q	4Q	1Q	2Q
2Y average growth %						
Volumes	-14.0	5.5	5.5	9.5	5.0	8.1
Sales	-10.1	8.2	7.5	10.2	5.8	9.3
EBITDA	1.5	18.1	14.5	14.3	14.8	20.5
PAT	5.9	22.1	14.6	16.2	19.0	25.1
% sales						
COGS	33.5	29.7	29.6	37.3	34.0	31.2
A&P	12.4	14.7	16.6	18.5	16.6	13.4
Other expenditure	40.9	35.3	33.9	40.4	40.3	33.6
Employee cost	16.2	10.7	8.2	10.4	12.8	10.4
Depreciation	4.0	2.9	3.7	3.3	3.5	3.0
YoY change %						
COGS	-30.6	9.3	7.1	47.0	39.2	12.8
Other expenditure	-30.2	-3.0	9.1	18.7	35.3	2.3
Other income	-41.7	-51.8	-41.1	220.9	60.0	376.7
EBIT	-8.9	34.4	26.2	81.2	41.2	7.7



Highlights from the management commentary

Environment and outlook

- Relevance of immunity boosting products has gone down relatively due to higher vaccination and lower fear of Covid compared to the preceding quarters. Healthcare sales are still up by with a 2 year CAGR of 26%. Pancharishta and Nityam doing well even as Chyawanprash has slowed down.
- Over the last 3-4 weeks there has been slight slowdown in rural demand. There is no fundamental reason for the slowdown. Management is still hopeful of good winter season sales.
- Excluding CSD, volume growth is 5.5% (6.2% overall reported domestic volume growth).
- MENA and SAARC market declined due to second wave impact. International business outlook is expected to perform better going forward.

Categories and brands

- Kesh King is doing well. It has a lot of headroom to grow. HMN is gaining share from Patanjali and Indulekha. Shampoo contributes 27% to Kesh King sales, up from 20% earlier. With the launch of anti-dandruff shampoo, management expects this proportion to be around 32% in the next 6-8 quarters.
- HMN will leverage Crème 21 brand in India.
- Among the new products launched last year, Aloe Vera gel and Boro Plus soap have attained some traction. On the other hand, Emasol hasn't done well and will be phased out from GT.
- New products contribute 2.5% of sales. Their performance for the full year is likely to be at similar levels as well.
- Fair and Handsome and Boro Plus will see new launches in the near term.
- Fair and Handsome national relaunch did not meet with expected success on account of slowdown in discretionary consumption.

Cost and margins

- Price increases and cost savings have protected margins in 2QFY22. HMN has taken 3.5% price increase in 1HFY22.

- A&P spends were lower YoY in 1HFY22. These will be higher in 2HFY22 v/s 2HFY21. Annual adspends will be around 16.5% of sales.
- Gross margins will be lower in 3QFY22. On a yearly basis, management expects gross margins to compress by 80-100bp YoY.

Other points

- One off mark-to-market gains of INR230-INR240m was the key reason for higher other income.
- Rural expansion project Khoj is doing well. The program planned for three years looks set to be completed in two years. HMN will expand its distribution network by adding around 8,000 towns and villages in India in FY22. This will add 45,000-50,000 stores.
- By the end of Jun'22, HMN will have almost fully amortized Kesh King goodwill. Crème 21 will be the only component after that.

Key exhibits

Exhibit 1: Domestic volume growth stood at 6.2% YoY in 2QFY22

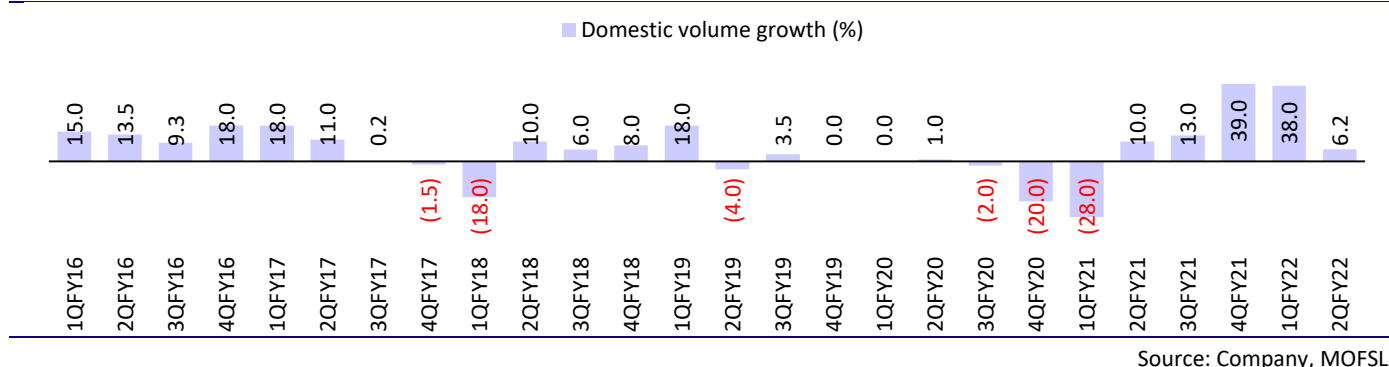


Exhibit 2: Consolidated net sales grew 7.4% YoY to INR7.9b

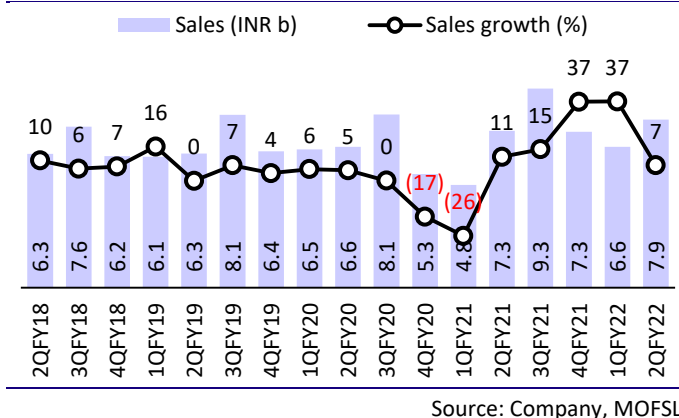


Exhibit 3: Gross margin contracts 150bp YoY to 68.8%

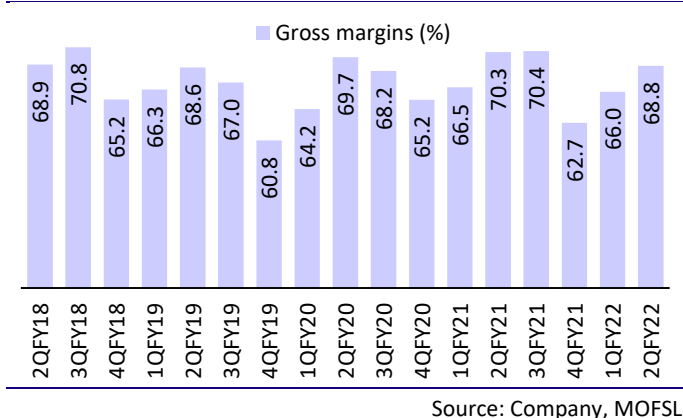


Exhibit 4: EBITDA margin expands 20bp YoY to 35.1%

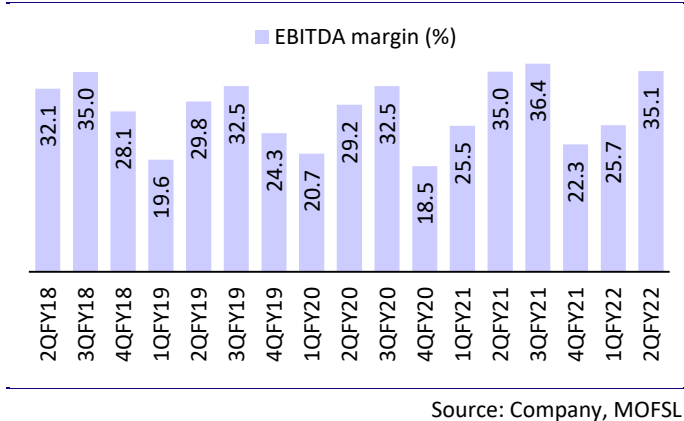
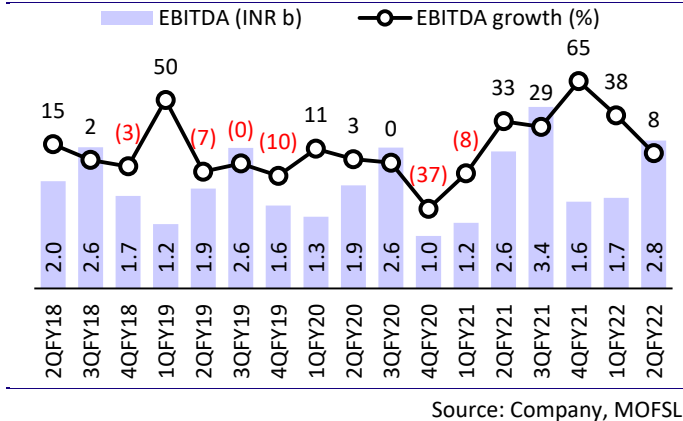


Exhibit 5: EBITDA rose 7.8% YoY to INR2.8b in 2QFY22



Domestic business (82% of sales) grew 9% YoY; 11% on 2 year CAGR basis

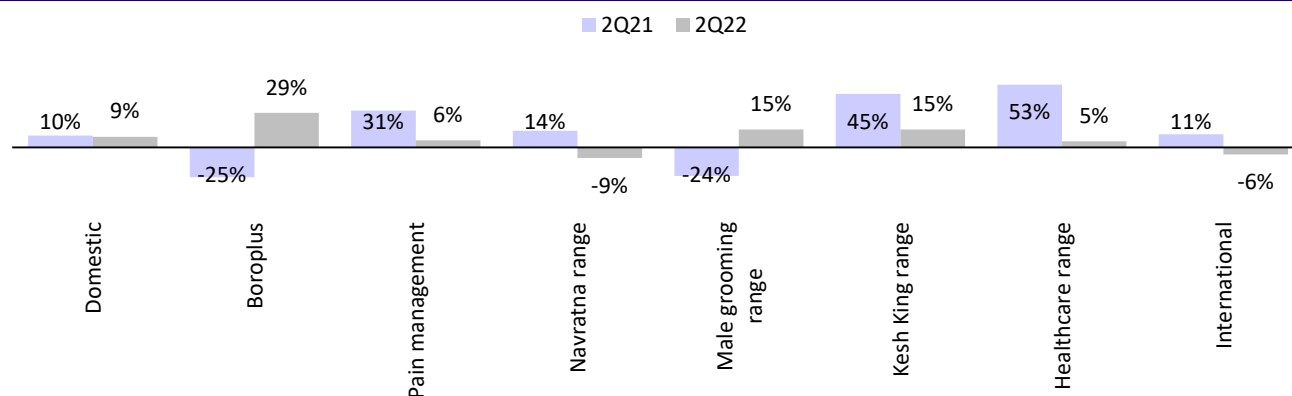
- Domestic segmental performance stood as follows:

Exhibit 6: All segments reported growth during 2QFY22, except for Navratna

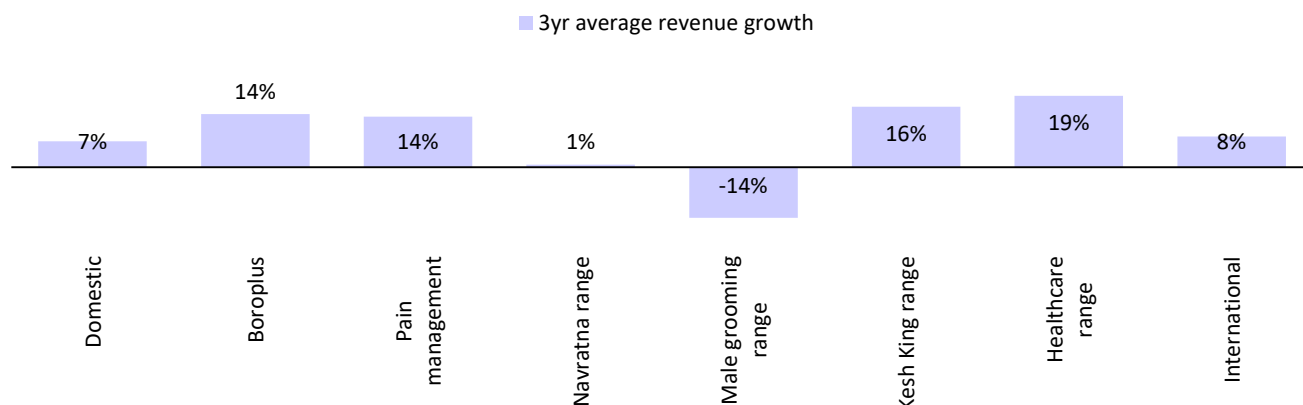
(% growth)	YoY	2 year CAGR	1HFY22
Healthcare	5	26	25
Pain Management	6	18	29
Navratna	-9	2	8
Kesh King	15	29	28
BoroPlus	29	-	22
Male Grooming	15	-	38

Source: Company, MOFSL

- International sales (15% of total sales) declined 6% YoY but grew 2% on a 2 year CAGR basis.** Sales declined in 2Q due to the impact of the 2nd wave of Covid-19 as well as high base of personal hygiene sales in the previous year.
- The Institutional business contributed 3% to sales in 2QFY22.** It grew 29% YoY and 12% on 2 year CAGR basis.

Exhibit 7: In domestic business, all categories (except Navratna) registered a growth in 2QFY22

Source: Company, MOFSL

Exhibit 8: On a three-year basis, BoroPlus, Healthcare, and Pain Management show strong performance

Source: Company, MOFSL

Valuation and view

What has happened in the last 10 years?

- The company delivered ~17% sales and EBITDA CAGR and ~22% PAT CAGR in the first half of the decade gone by. However, in the past five years ending FY20, it reported a massive slowdown in key financial metrics (~4%/~5%/3% sales/EBITDA/PAT CAGR). This is attributable to the absence of sales growth in most key categories.

Key challenges

- The lack of significant traction in products launched in recent years and failed acquisitions, such as 'She', have contributed to the weak sales growth in recent years. Kesh King's scale-up so far has certainly not lived up to our expectations. The overseas business has also underperformed.
- Compared with peers, HMN has the largest exposure to rural and, even more crucially, to the wholesale trade. While the management has expanded its direct reach in recent years, wholesale and rural dependence remains high – albeit still lower than that seen in the past.

Our view on the stock

- There is no material change to our FY22/FY23E EPS forecasts.
- HMN's mid-single digit sales growth was in-line with our expectations due to a high base and slowdown in immunity boosting categories amid diminishing fear of Covid. With the revival of discretionary consumption, we believe HMN can go back to high single digit/low double-digit sales growth on an annual basis going forward. This is far better than the 3.7% sales CAGR between FY16-20. If the path towards sustainable and strong double-digit sales growth continues, further re-rating is possible.
- We maintain our **Buy** rating, encouraged by the following factors: a) inexpensive valuations at 28.4x FY23E EPS, and b) steep reduction in pledged shares (now at 30% levels).
- We arrive at our TP of INR650/share (valuing the company at 32x Dec'23E EPS, a 40% discount to its peers).

Exhibit 9: Change our FY22E/FY23E EPS estimate by 3.9%/-0.5%

	New		Old		Change (%)	
(INR m)	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Sales	32,371	35,992	32,371	35,992	0.0	0.0
EBITDA	9,822	11,028	9,855	11,028	-0.3	0.0
PAT	7,917	8,320	7,622	8,364	3.9	-0.5

Source: Company, MOFSL

Exhibit 10: HMN's P/E (x)

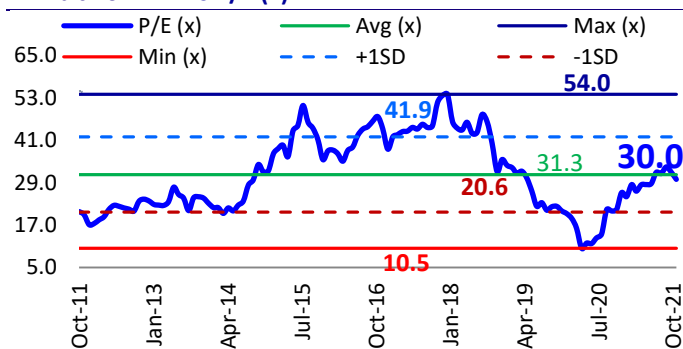
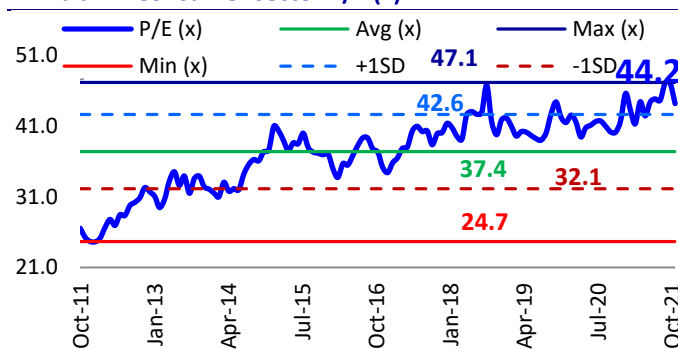


Exhibit 11: Consumer sector P/E (x)



Financials and valuations

Income Statement						(INR m)	
Y/E March	2017	2018	2019	2020	2021	2022E	2023E
Net Sales	24,882	25,305	26,946	26,549	28,805	32,371	35,992
Change (%)	5.5	1.7	6.5	-1.5	8.5	12.4	11.2
COGS	7,910	8,098	9,230	8,761	9,292	10,642	11,708
Gross Profit	16,972	17,207	17,716	17,788	19,513	21,730	24,284
Gross Margin (%)	68.2	68.0	65.7	67.0	67.7	67.1	67.5
Operating expenses	9,380	10,013	10,444	10,882	10,682	11,907	13,257
EBITDA	7,591	7,194	7,272	6,906	8,831	9,822	11,028
Change (%)	10.5	-5.2	1.1	-5.0	27.9	11.2	12.3
Margin (%)	30.5	28.4	27.0	26.0	30.7	30.3	30.6
Depreciation	469	673	768	774	991	998	1,252
Int. and Fin. Charges	580	343	214	210	133	31	8
Financial Other Income	311	195	349	571	703	745	504
Profit before Taxes	6,853	6,374	6,639	6,492	8,410	9,538	10,272
Change (%)	7.9	-7.0	4.2	-2.2	29.5	13.4	7.7
Margin (%)	27.5	25.2	24.6	24.5	29.2	29.5	28.5
Tax	836	863	1,024	713	1,142	1,621	1,952
Deferred Tax	130	-5	37	-86	-5	0	0
Tax Rate (%)	14.1	13.5	16.0	9.7	13.5	17.0	19.0
Adjusted PAT	6,021	5,507	5,517	5,618	7,226	7,917	8,320
Change (%)	4.5	-8.5	0.2	1.8	28.6	9.6	5.1
Margin (%)	24.2	21.8	20.5	21.2	25.1	24.5	23.1
Amortization	2,617	2,436	2,485	2,589	2,679	2,500	1,000
Reported PAT	3,404	3,071	3,032	3,029	4,547	5,417	7,320

Balance Sheet						(INR m)	
Y/E March	2017	2018	2019	2020	2021	2022E	2023E
Share Capital	454	454	454	453	445	445	445
Reserves	17,093	19,682	20,307	17,784	17,182	19,886	20,240
Net Worth	17,547	20,136	20,761	18,238	17,627	20,330	20,684
Minority Interest	14	6	-2	-9	-9	-9	-9
Loans	4,846	3,343	1,168	2,257	1,028	528	0
Deferred Liability	282	118	122	35	42	42	42
Capital Employed	22,689	23,602	22,048	20,520	18,687	20,891	20,717
Goodwill on consolidation	41	41	41	0	0	0	0
Gross Block	25,600	26,825	28,738	29,933	27,108	28,108	29,108
Less: Accum. Depn.	5,616	8,767	11,967	15,329	16,320	17,318	18,570
Net Fixed Assets	19,983	18,058	16,771	14,604	10,788	10,790	10,538
Capital WIP	129	226	352	69	64	64	64
Investments	1,277	3,136	1,870	1,564	3,084	3,084	3,084
Curr. Assets, L&A	4,602	6,517	9,151	10,548	11,261	13,973	14,811
Inventory	1,792	1,940	2,217	2,446	3,005	2,451	2,699
Account Receivables	970	1,559	2,164	3,080	2,318	2,661	2,860
Cash and cash equivalents	501	795	2,034	1,191	3,604	5,636	7,204
Others	1,340	2,224	2,737	3,831	2,335	3,226	2,048
Curr. Liab. and Prov.	3,343	4,376	6,137	6,265	6,510	7,021	7,780
Account Payables	1,847	2,420	2,914	3,245	3,507	3,579	3,931
Other Liabilities	622	1,077	1,808	1,222	1,147	1,345	1,480
Provisions	873	879	1,416	1,798	1,856	2,097	2,369
Net Current Assets	1,259	2,141	3,014	4,284	4,751	6,953	7,030
Application of Funds	22,689	23,602	22,048	20,520	18,687	20,891	20,717

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2017	2018	2019	2020	2021	2022E	2023E
Basic (INR)							
EPS	13.3	12.1	12.2	12.4	16.3	17.8	18.7
Cash EPS	14.3	13.6	13.8	14.1	18.5	20.1	21.5
BV/Share	38.7	44.4	45.7	40.2	39.7	45.7	46.5
DPS	4.4	3.5	4.0	8.0	8.0	11.5	13.0
Payout %	33.0	28.8	32.9	64.6	49.2	64.6	69.5
Valuation (x)							
P/E	40.0	43.7	43.7	42.8	32.7	29.8	28.4
Cash P/E	37.1	39.0	38.3	37.6	28.7	26.5	24.6
EV/Sales	9.8	9.5	8.8	9.0	8.0	7.0	6.3
EV/EBITDA	32.1	33.4	32.8	34.8	26.1	23.2	20.5
P/BV	13.7	12.0	11.6	13.2	13.4	11.6	11.4
Dividend Yield (%)	0.8	0.7	0.8	1.5	1.5	2.2	2.4
Return Ratios (%)							
RoE	35.8	29.2	27.0	28.8	40.3	41.7	40.6
RoCE	31.1	28.2	28.5	28.8	40.0	44.6	47.0
RoIC	28.2	25.3	25.9	28.5	39.6	48.5	55.3
Working Capital Ratios							
Debtor (Days)	14	23	30	34	32	30	29
Asset Turnover (x)	1.1	1.1	1.2	1.2	1.5	1.6	1.7
Leverage Ratio							
Debt/Equity (x)	0.2	0.1	0.0	0.1	-0.1	-0.3	-0.3

Cash Flow Statement

(INR m)

Y/E March	2017	2018	2019	2020	2021	2022E	2023E
OP/(loss) before Tax	4,236	3,926	4,034	3,736	5,689	7,038	9,272
Depreciation	3,086	3,109	3,253	3,363	3,670	3,498	2,252
Other non operating income	-102	-51	-125	-192	-329	-745	-504
Interest Paid	558	316	42	-73	-38	31	8
Direct Taxes Paid	-707	-809	-927	-760	-865	-1,621	-1,952
(Incr)/Decr in WC	226	-612	-739	-800	1,088	-169	1,491
CF from Operations	7,296	5,878	5,537	5,274	9,215	8,032	10,567
(Incr)/Decr in FA	-2,814	-1,232	-1,329	-1,481	-320	-1,000	-1,000
Free Cash Flow	4,482	4,646	4,208	3,793	8,895	7,032	9,567
(Pur)/Sale of Investments	-763	-1,863	1,178	-568	-2,934	0	0
Others	655	750	129	-15	3,334	1,448	-742
CF from Invest.	-2,922	-2,346	-22	-2,064	80	448	-1,742
Change in Equity	0	0	0	-125	-2,256	0	0
(Incr)/Decr in Debt	7,099	4,847	803	1,004	-1,183	-500	-528
Dividend Paid	-1,985	-1,194	-1,589	-3,632	-3,556	-6,162	-6,966
Others	-10,072	-6,891	-3,491	-1,301	114	215	238
CF from Fin. Activity	-4,958	-3,237	-4,277	-4,054	-6,882	-6,447	-7,256
Incr/Decr of Cash	-584	295	1,239	-844	2,413	2,032	1,568
Add: Opening Balance	1,084	501	795	2,034	1,191	3,604	5,636
Closing Balance	500	795	2,034	1,191	3,604	5,636	7,204

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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