

March 27, 2022

Event Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	607		624	
Sales (Rs. m)	35,948	39,934	35,695	39,906
% Chng.	0.7	0.1		
EBITDA (Rs. m)	10,414	12,010	10,785	11,960
% Chng.	(3.4)	0.4		
EPS (Rs.)	18.0	21.3	19.1	21.6
% Chng.	(5.9)	(1.3)		

Key Financials - Standalone

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	28,805	31,852	35,948	39,934
EBITDA (Rs. m)	8,826	9,597	10,414	12,010
Margin (%)	30.6	30.1	29.0	30.1
PAT (Rs. m)	4,543	7,417	7,942	9,411
EPS (Rs.)	10.2	16.8	18.0	21.3
Gr. (%)	52.9	64.5	7.1	18.5
DPS (Rs.)	8.0	8.0	10.0	13.0
Yield (%)	1.8	1.8	2.2	2.9
RoE (%)	25.3	41.6	39.6	39.8
RoCE (%)	26.5	33.3	38.5	41.6
EV/Sales (x)	6.8	6.2	5.3	4.7
EV/EBITDA (x)	22.2	20.5	18.4	15.7
PE (x)	44.0	26.7	25.0	21.1
P/BV (x)	11.3	11.0	9.0	7.9

Key Data

EMAM.BO | HMN IN

52-W High / Low	Rs.622 / Rs.445
Sensex / Nifty	57,362 / 17,153
Market Cap	Rs.200bn/ \$ 2,622m
Shares Outstanding	445m
3M Avg. Daily Value	Rs.204.93m

Shareholding Pattern (%)

Promoter's	53.86
Foreign	12.52
Domestic Institution	25.49
Public & Others	8.14
Promoter Pledge (Rs bn)	34.74

Stock Performance (%)

	1M	6M	12M
Absolute	(8.5)	(23.2)	(3.2)
Relative	(10.9)	(19.6)	(18.2)

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Dermicool Acquisition: positive, but not a game changer

Quick Pointers:

- Emami to emerge as a leader post Rs4.32bn acquisition of Dermicool in cool talc category, Net EPS accretion ex amortization not meaningful
- Input cost and demand headwinds a near term reality

Emami's Dermicool acquisition for Rs4.32bn funded by internal accruals will make it a market leader in cool talc category. Assuming mid-single digit growth and synergy benefits, we believe it will add Rs0.16 and Rs0.22 to EPS (net of Interest income loss and ex Amortization). We believe that the move is positive, but not a game changer as it does to change the seasonality impact in the company.

Near term growth remains a concern given slowdown in rural demand and sharp jump in input costs in past month. While we expect 2/3% price increase in April, poor demand and high inflation will impact profit growth in 1H23 on a high base. We cut EPS estimates of FY23/24 by 5.9/1.3% amidst near term uncertainty. We estimate 11.7% PAT CAGR over FY22-24 and value the stock at 30xDec23 EPS and assign a value of Rs607/share. We believe Rs1.6bn buyback, Dermicool acquisition and strong FCF limit downside at 21.6x FY24 EPS. Retain Accumulate.

- Emami to Acquire Dermicool:** Emami has announced acquisition of "Dermicool" a leading brand in Prickly Heat Powder and Cool Talc category from Reckitt Benckiser Healthcare (India) Pvt for Rs4.32bn. The acquisition will be funded from internal accruals and cash in the books.
- Emami to emerge as leader in Cool talc category:** Dermicool has ~20% share in Rs 7.5-8bn prickly heat powder and cool talc category. Dermicool was a low priority brand for Reckitt and will enable Emami to emerge as a market leader with 45-47% market share in prickly heat powder & cool talc category. As Dermicool competes mainly in prickly heat segment with Nycil and Shower to Shower, there will not be any cannibalization in Navratna cool talc and Boroplus prickly heat powder.
- Synergy in Distribution:** Dermicool will provide synergy in distribution with strong presence in E com, Modern trade and south India versus Emami's strength in rural and other regions. With Emami's strong rural footprint, direct coverage of 0.94mn retail outlets across 26k rural clusters, Emami will tap rural markets with the introduction of its small packs.
- Net EPS accretion ex Amortization not meaningful-** Dermicool had reported sales of Rs.1.1bn with gross margins of 55% and EBITDA of 36%. We factor in 7% CAGR in sales. Post netting off loss of interest income on surplus funds, we estimate that the acquisition will provide incremental PAT of Rs102mn and EPS of Rs0.22, excluding the amortization impact.

Exhibit 1: EPS accretion not significant

(Rs mn)	FY23E	FY24E	FY25E	FY26E
Sales	1100	1177	1259	1348
EBIDTA	396	430	460	492
Loss of Interest Income	302	302	302	302
PBT	94	127	157	189
PAT	75	102	126	152
EPS (Rs)	0.16	0.22	0.28	0.33

Source: Company, PL

Exhibit 2: Emami's Sales growth over past few quarters

Brand/segments	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Navratna	11	-12	-41	14	-12	28	21	-9	11
Boroplus	-12	-77	28	-25	21	5x	96	29	2
Pain Management	13	-5	15	31	12	38	70	6	7
7 Oils in one	66	5		9	32	39	93	NA	NA
Kesh King	18	-26	-33	45	16	45	53	15	0
Male Grooming	-39	-42	-70	-24	5	26	78	15	3
Health Care	4	-9	23	53	38	67	59	5	-6

Source: Company, PL

Exhibit 3: Emami to gain #1 spot with 45% market share in prickly heat powder and cool talc category


Source: Company

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	28,805	31,852	35,948	39,934
YoY gr. (%)	8.5	10.6	12.9	11.1
Cost of Goods Sold	9,297	10,702	12,510	13,449
Gross Profit	19,509	21,150	23,438	26,485
Margin (%)	67.7	66.4	65.2	66.3
Employee Cost	3,092	3,367	3,670	4,011
Other Expenses	991	1,202	1,340	1,470
EBITDA	8,826	9,597	10,414	12,010
YoY gr. (%)	27.8	8.7	8.5	15.3
Margin (%)	30.6	30.1	29.0	30.1
Depreciation and Amortization	3,670	3,338	2,311	1,763
EBIT	5,157	6,259	8,103	10,246
Margin (%)	17.9	19.7	22.5	25.7
Net Interest	133	67	75	80
Other Income	703	555	438	743
Profit Before Tax	5,727	6,747	8,466	10,909
Margin (%)	19.9	21.2	23.6	27.3
Total Tax	1,142	1,308	1,609	2,074
Effective tax rate (%)	19.9	19.4	19.0	19.0
Profit after tax	4,584	5,439	6,857	8,836
Minority interest	0	0	0	0
Share Profit from Associate	(42)	-	-	-
Adjusted PAT	4,543	7,417	7,942	9,411
YoY gr. (%)	49.9	63.3	7.1	18.5
Margin (%)	15.8	23.3	22.1	23.6
Extra Ord. Income / (Exp)	-	(1,977)	(1,085)	(575)
Reported PAT	4,543	5,439	6,857	8,836
YoY gr. (%)	44.8	19.7	26.1	28.9
Margin (%)	15.8	17.1	19.1	22.1
Other Comprehensive Income	614	-	-	-
Total Comprehensive Income	5,156	5,439	6,857	8,836
Equity Shares O/s (m)	445	441	441	441
EPS (Rs)	10.2	16.8	18.0	21.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	30,048	35,732	37,096	38,461
Tangibles	11,583	12,848	14,112	15,376
Intangibles	18,465	22,885	22,985	23,085
Acc: Dep / Amortization	18,836	22,174	24,485	26,249
Tangibles	3,910	4,776	5,732	6,776
Intangibles	14,926	17,398	18,754	19,473
Net fixed assets	11,212	13,558	12,611	12,212
Tangibles	7,673	8,071	8,380	8,601
Intangibles	3,538	5,487	4,231	3,612
Capital Work In Progress	64	64	64	64
Goodwill	-	-	-	-
Non-Current Investments	1,772	1,792	1,808	1,824
Net Deferred tax assets	(42)	(46)	(50)	(55)
Other Non-Current Assets	882	994	1,131	1,285
Current Assets				
Investments	4,272	2,392	7,262	10,012
Inventories	3,004	3,248	3,537	3,800
Trade receivables	2,318	2,356	2,561	2,735
Cash & Bank Balance	221	297	595	1,287
Other Current Assets	1,056	1,274	1,618	1,797
Total Assets	25,193	26,408	31,676	35,559
Equity				
Equity Share Capital	445	441	441	441
Other Equity	17,182	17,595	21,649	24,750
Total Networkth	17,627	18,036	22,090	25,191
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	230	253	278	306
Other non current liabilities	197	335	504	722
Current Liabilities				
ST Debt / Current of LT Debt	919	1,000	1,000	1,000
Trade payables	3,507	3,876	4,568	4,766
Other current liabilities	2,572	2,772	3,092	3,423
Total Equity & Liabilities	25,193	26,408	31,676	35,559

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	5,731	6,879	8,466	10,909
Add. Depreciation	3,694	3,338	2,311	1,763
Add. Interest	133	67	75	80
Less Financial Other Income	703	555	438	743
Add. Other	(563)	(600)	(347)	(647)
Op. profit before WC changes	8,995	9,684	10,505	12,105
Net Changes-WC	1,912	138	239	0
Direct tax	(1,142)	(1,308)	(1,609)	(2,074)
Net cash from Op. activities	9,765	8,515	9,135	10,032
Capital expenditures	(408)	(5,771)	(1,435)	(1,423)
Interest / Dividend Income	563	600	348	648
Others	(783)	-	-	-
Net Cash from Inv. activities	(628)	(5,171)	(1,088)	(775)
Issue of share cap. / premium	(1,645)	(1,633)	1,609	-
Debt changes	(1,183)	81	-	-
Dividend paid	(3,556)	(3,529)	(4,412)	(5,735)
Interest paid	(133)	(67)	(75)	(80)
Others	-	-	-	-
Net cash from Fin. activities	(6,517)	(5,148)	(2,878)	(5,815)
Net change in cash	2,620	(1,804)	5,169	3,442
Free Cash Flow	9,357	2,744	7,699	8,609

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	10.2	16.8	18.0	21.3
CEPS	18.5	24.4	23.2	25.3
BVPS	39.7	40.9	50.1	57.1
FCF	21.1	6.2	17.5	19.5
DPS	8.0	8.0	10.0	13.0
Return Ratio(%)				
RoCE	26.5	33.3	38.5	41.6
ROIC	24.9	26.4	34.0	42.2
RoE	25.3	41.6	39.6	39.8
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.1)	(0.3)	(0.4)
Net Working Capital (Days)	23	20	16	16
Valuation(x)				
PER	44.0	26.7	25.0	21.1
P/B	11.3	11.0	9.0	7.9
P/CEPS	24.3	18.4	19.3	17.7
EV/EBITDA	22.2	20.5	18.4	15.7
EV/Sales	6.8	6.2	5.3	4.7
Dividend Yield (%)	1.8	1.8	2.2	2.9

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Net Revenue	7,308	6,610	7,888	9,719
YoY gr. (%)	37.2	37.3	7.4	4.1
Raw Material Expenses	2,728	2,246	2,464	3,170
Gross Profit	4,580	4,363	5,425	6,549
Margin (%)	62.7	66.0	68.8	67.4
EBITDA	1,628	1,697	2,772	3,415
YoY gr. (%)	65.2	38.0	7.8	0.4
Margin (%)	22.3	25.7	35.1	35.1
Depreciation / Depletion	830	830	839	844
EBIT	798	867	1,933	2,571
Margin (%)	10.9	13.1	24.5	26.5
Net Interest	47	6	8	18
Other Income	464	107	376	166
Profit before Tax	1,216	968	2,301	2,719
Margin (%)	16.6	14.6	29.2	28.0
Total Tax	326	175	410	491
Effective tax rate (%)	26.8	18.1	17.8	18.1
Profit after Tax	891	793	1,891	2,228
Minority interest	-	-	-	-
Share Profit from Associates	(13)	(15)	(38)	(33)
Adjusted PAT	876	778	1,853	2,195
YoY gr. (%)	191.4	97.0	56.5	5.1
Margin (%)	12.0	11.8	23.5	22.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	877	778	1,853	2,195
YoY gr. (%)	133.4	96.5	56.4	5.1
Margin (%)	12.0	11.8	23.5	22.6
Other Comprehensive Income	165	270	72	-
Total Comprehensive Income	1,042	1,047	1,924	2,195
Avg. Shares O/s (m)	445	445	445	-
EPS (Rs)	2.0	1.8	4.2	-

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	03-Feb-22	Accumulate	624	498
2	06-Jan-22	Accumulate	624	511
3	29-Oct-21	Accumulate	624	536
4	06-Oct-21	Accumulate	624	545
5	02-Aug-21	Accumulate	624	573
6	05-Jul-21	BUY	579	564
7	25-May-21	BUY	579	500
8	07-Apr-21	BUY	568	507

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,762	3,306
2	Avenue Supermarts	Accumulate	5,345	4,731
3	Bajaj Electricals	Accumulate	1,303	1,221
4	Britannia Industries	BUY	4,139	3,535
5	Colgate Palmolive	Accumulate	1,733	1,394
6	Crompton Greaves Consumer Electricals	BUY	533	408
7	Dabur India	Accumulate	647	557
8	Emami	Accumulate	624	498
9	Havells India	Accumulate	1,381	1,309
10	Hindustan Unilever	BUY	2,356	2,051
11	ITC	BUY	284	234
12	Jubilant FoodWorks	Accumulate	3,600	3,302
13	Kansai Nerolac Paints	BUY	651	541
14	Marico	Accumulate	546	472
15	Mold-tek Packaging	BUY	793	706
16	Nestle India	Accumulate	19,120	18,126
17	Pidilite Industries	Hold	2,491	2,461
18	Titan Company	BUY	2,832	2,475
19	Voltas	Hold	1,200	1,169
20	Westlife Development	BUY	648	497

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

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