

**BSE SENSEX**  
 57,944

**S&P CNX**  
 17,325


Bloomberg	HMN IN
Equity Shares (m)	454
M.Cap.(INRb)/(USDb)	191.9 / 2.5
52-Week Range (INR)	621 / 430
1, 6, 12 Rel. Per (%)	-16/-24/-27
12M Avg Val (INR M)	337

**Financials & Valuations (INR b)**

Y/E March	2022E	2023E	2024E
Sales	31.7	36.1	39.4
Sales Gr. (%)	10.2	13.7	9.2
EBITDA	9.9	11.1	12.2
EBIT Margin (%)	31.1	30.8	31.0
Adj. PAT	8.2	9.1	9.9
Adj. EPS (INR)	18.6	20.7	22.4
EPS Gr. (%)	14.2	11.6	7.8
BV/Sh.(INR)	47.4	50.0	54.4

**Ratios**

RoE (%)	42.5	42.6	42.8
RoCE (%)	44.3	46.1	48.1
Payout (%)	43.1	57.9	58.1

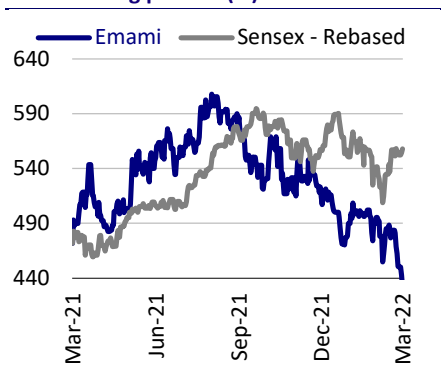
**Valuation**

P/E (x)	23.2	20.8	19.3
P/BV (x)	9.1	8.6	7.9
EV/EBITDA (x)	18.8	16.4	14.7
Div. Yield (%)	1.9	2.8	3.0

**Shareholding pattern (%)**

As On	Dec-21	Sep-21	Dec-20
Promoter	53.9	53.9	53.9
DII	25.5	24.2	27.4
FII	12.5	12.7	9.6
Others	8.1	9.3	9.2

FII Includes depository receipts

**Shareholding pattern (%)**

**CMP: INR432**
**TP: INR540 (+20%)**
**Buy**
**Dermicool acquisition: Fairly valued, but not significant**

- HMN recently announced the acquisition of the Dermicool brand from Reckitt Benckiser India for INR4.32b. We estimate ~INR1.4b in FY23 sales for Dermicool, with an EBITDA of INR475m, translating in an acquisition cost of ~3x sales and ~9x EBITDA.
- COVID-led restrictions affected summer season sales in the last two years, impacting overall category growth. Hence, its CY21 sales of INR1.13b are not representative. We believe CY19 sales of INR1.33b are a better representation. The deal will be funded through internal accruals.
- Dermicool is part of the INR7.6b 'Prickly Heat and Cool Talc' category, which registered a 12% CAGR over CY16-19 v/s ~5% CAGR for the broader Talc market (valued at INR25b).
- The acquisition of Dermicool, the third largest player in the 'Prickly Heat and Cool Talc' category, gives HMN market leadership in this category and a combined market share of ~45%, surpassing Nycil (Zyudus Wellness) which has ~34% market share. HMN's Navratna Cool Talc is the second largest player in the market.
- A) Driving penetration growth in the Prickly Heat and Cool Talc category (~11% penetration v/s ~45% for the broader Talcum Powder category), b) share gain from the broader Talcum Powder segment, and c) increasing geographical expansion of Dermicool are opportunities for HMN.
- The 38% EBITDA margin for the Dermicool business is margin accretive to HMN's (FY22E EBITDA margin of 30.4%) existing portfolio.
- While the brand acquisition is EPS accretive (+6.8%/+6.6% in FY23E/FY24E), its delta is small ~4% of FY23E sales and is unlikely to move the needle significantly, given the likely pace of category growth.
- The stock is currently trading at inexpensive valuations. We have a **Buy** rating. While sales growth over FY20-22E has been better (9.3% CAGR) than the extremely low 3.7% CAGR delivered in the preceding five years, HMN, with FY22E sales of INR32b, is much smaller than domestic peers like DABUR, MRCO, GCPL, and BRIT. The re-rating of its P/E multiple will depend on sales growth improving to 15-20%.

**Highlights from the management commentary**

- The management will ramp up ad spends for Dermicool, but it doesn't expect a significant impact on the brand's current EBITDA margin.
- Navratna Cool talc is a more of a mass market product, with smaller SKUs accounting for 45% of sales.
- Dermicool is a 'prickly heat' product, while Navratna is a cooling talc. In recent years, Navratna has been the fastest growing brand in its category.
- Both businesses have common distribution channels.
- Dermicool and Navratna are manufactured by the same third-party manufacturer and this arrangement will continue.

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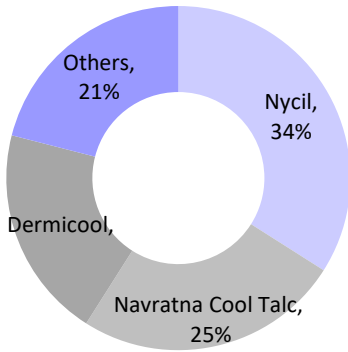
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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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

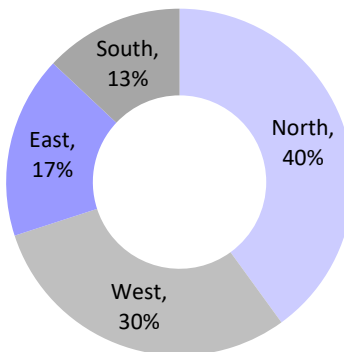
**Key exhibits**

**Exhibit 1: HMN emerges as market leader in the Prickly Heat and Cool Talc category after the Dermicool acquisition**



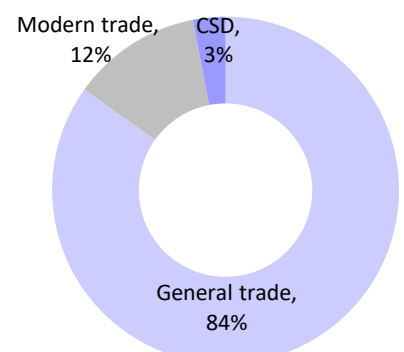
Source: Company, MOFSL

**Exhibit 2: Dermicool – Geographical saliency**



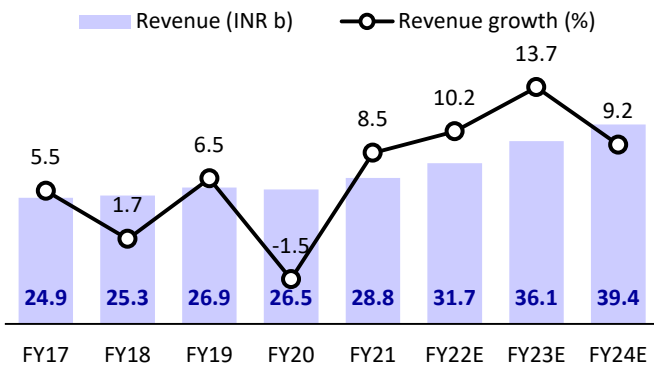
Source: Company, MOFSL

**Exhibit 3: Dermicool – Channel saliency**



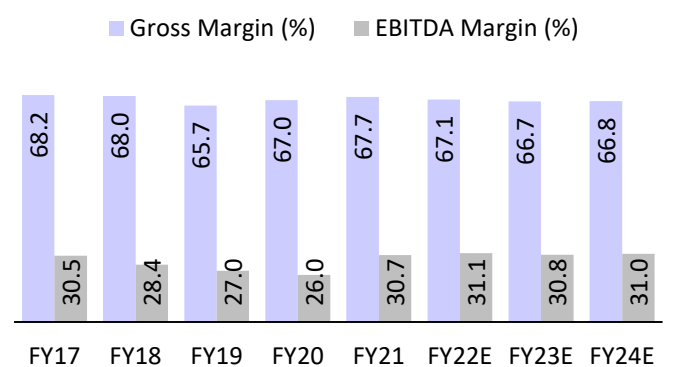
Source: Company, MOFSL

**Exhibit 4: Expect 11% revenue CAGR over FY21-24**



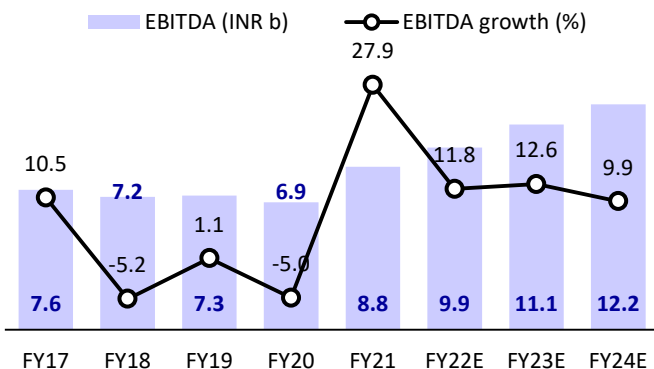
Source: Company, MOFSL

**Exhibit 5: Gross margin to contract 100bp over the same period with 30bp EBITDA margin expansion**



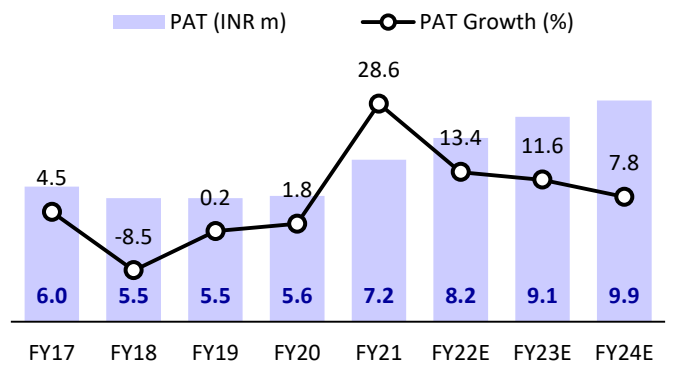
Source: Company, MOFSL

**Exhibit 6: Expect 11.4% EBITDA CAGR over FY21-24...**



Source: Company, MOFSL

**Exhibit 7: ...with adjusted PAT CAGR of 10.9%**



Source: Company, MOFSL



## Highlights from the management commentary

### Prickly Heat and Cool Talc category

- The 'Prickly Heat and Cool Talc' powder is an INR7.6b category, which posted a 12% CAGR prior to the COVID-19 outbreak (CY16-19).
- The broader Talcum Powder category, valued at INR25b, posted ~5% CAGR over the same period.
- 'Prickly Heat and Cool Talc' powder has a penetration of 11-12% v/s 45% for the broader Talcum Powder category.
- Rural accounts for 70% of category sales and ~77% of its consumers are from SEC C/D/E towns.
- Category penetration is 7-8%/13%/18% in West and South/North/East India.

### The deal, sales, and margin

- HMN acquired Dermicool from Reckitt. The latter had acquired it from Paras Pharma in CY11.
- The deal is at a consideration of INR4.32b, excluding taxes and duties. It will be funded through internal accruals.
- Dermicool clocked sales of INR1.13b in CY21. However, the overall category witnessed a decline in the last two years due to the COVID-19 pandemic. Dermicool sales stood at INR1.33b in CY19.
- Around 90% of sales for Dermicool occur annually between the months of February and May.
- As per HMN's management, Reckitt was not investing enough in the business as Dermicool was a non-core business.
- Dermicool has a direct reach of 125k outlets and an indirect reach of 1.8m.
- In CY21, the business had a 55%/38% gross/EBITDA margin, which was higher than that for HMN's Navratna Cool talc.
- While HMN's management will ramp up ad spends for Dermicool, it doesn't expect a significant impact on current EBITDA margin.
- McKinsey was in charge of commercial and business diligence.
- HMS will record revenue from Dermicool from 1<sup>st</sup> Apr'22 onwards.

### What is in it for HMN?

- HMN will emerge leader in the Prickly Heat and Cool Talc category post acquisition with ~45% market share, surpassing Nycil (Zyklus Wellness) which has ~34% market share.
- HMN's Navratna Cool talc is the second largest brand followed by Dermicool.
- Navratna Cool talc is a more of a mass market product, with smaller SKUs accounting for 45% of sales.
- Modern trade's channel salience for Dermicool is 13% higher than that of Navratna Cool talc.
- Dermicool is a 'prickly heat' product, while Navratna is a cooling talc. In recent years, Navratna has been the fastest growing brand in its category.
- Navratna banks on conversion from the broader Talcum Powder category. Its investment in Dermicool will significantly help grow the Prickly Heat sub-segment.
- Talcum Powder players are not investing for growth.
- The deal will be EPS accretive for HMN from the first year itself.

- North/West India account for 40%/30% of brand sales.
- Growth in penetration, gain from the broader Talcum Powder segment, and geographical expansion are opportunities for HMN.
- Both businesses have a common distribution channel.
- HMN has a direct reach of ~200k outlets, which can swiftly increase Dermicool's reach.
- The management feels the deal valuations are reasonable (3-3.5x sales and 9-10x EBITDA).
- Dermicool is also a problem-solution brand like the rest of HMN's portfolio.
- Both Dermicool and Navratna are manufactured by the same third-party manufacturer and this arrangement will continue.

#### Other takeaways

- The deal is only for the acquisition of the brand, with no transfer of tangible assets.
- The amortization will be over a seven-year period, which is HMN's usual practice.
- Surplus cash has been used for the buyback and acquisition.

#### Major changes to our model

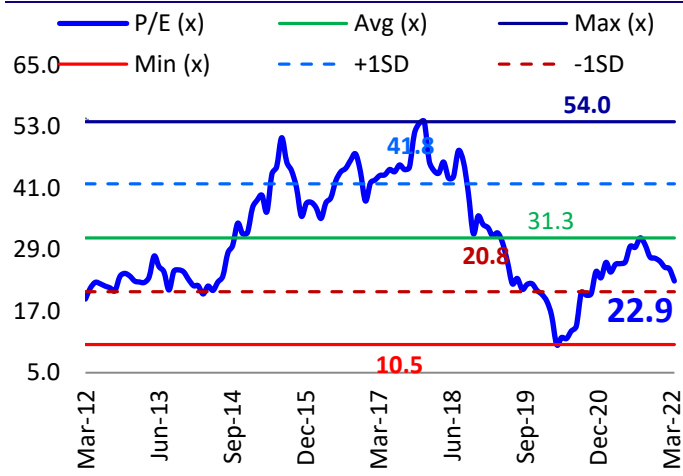
- We increase our FY23E/FY24E sales by INR1.4b/INR1.6b over our base numbers to account for additional revenue from Dermicool.
- We assign an EBITDA margin of 34% to the business, thereby increasing FY23/24E EBITDA by INR489m/INR528m.
- We factor in an additional amortization of INR614m each for FY23/FY24 as a result of the Dermicool acquisition.
- Tax shield provided by the amortization lowers FY23E/FY24E effective tax rate by 140bp/130bp.
- Since the acquisition only involves the Dermicool brand, goodwill worth INR4.3b is recognized on the Balance Sheet.
- **Share buyback:** HMN's outstanding shares have been reduced by 3.36m (a 0.76% reduction of the pre-buyback number of shares outstanding) to account for the recently extinguished shares following the buyback. Cash balance has been lowered by INR1.6b, with a proportionate decline in reserves.

#### Exhibit 8: Revise our FY22E/FY23E/FY24E EPS by 0.8%/+7.6%/+7.4%

(INR m)	New estimate			Old estimate			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Sales	31,742	36,090	39,392	31,742	34,830	37,981	0.0	3.6	3.7
EBITDA	9,872	11,112	12,212	9,872	10,623	11,684	0.0	4.6	4.5
PAT	8,192	9,146	9,863	8,192	8,564	9,254	0.0	6.8	6.6

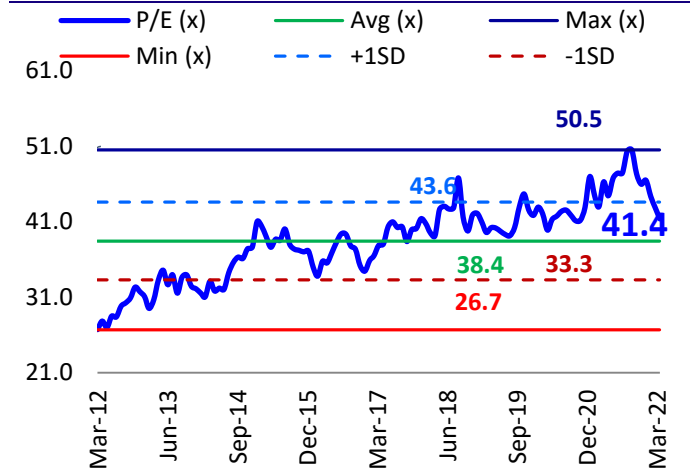
Source: Company, MOFSL

**Exhibit 9: HMN's P/E (x)**



Source: Company, MOFSL

**Exhibit 10: P/E (x) for the Consumer sector**



Source: Company, MOFSL

## Financials and valuations

Income Statement								(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Net Sales</b>	<b>24,882</b>	<b>25,305</b>	<b>26,946</b>	<b>26,549</b>	<b>28,805</b>	<b>31,742</b>	<b>36,090</b>	<b>39,392</b>
Change (%)	5.5	1.7	6.5	-1.5	8.5	10.2	13.7	9.2
COGS	7,910	8,098	9,230	8,761	9,292	10,435	12,024	13,084
<b>Gross Profit</b>	<b>16,972</b>	<b>17,207</b>	<b>17,716</b>	<b>17,788</b>	<b>19,513</b>	<b>21,307</b>	<b>24,066</b>	<b>26,308</b>
Gross Margin (%)	68.2	68.0	65.7	67.0	67.7	67.1	66.7	66.8
Operating expenses	9,380	10,013	10,444	10,882	10,682	11,435	12,954	14,096
<b>EBITDA</b>	<b>7,591</b>	<b>7,194</b>	<b>7,272</b>	<b>6,906</b>	<b>8,831</b>	<b>9,872</b>	<b>11,112</b>	<b>12,212</b>
Change (%)	10.5	-5.2	1.1	-5.0	27.9	11.8	12.6	9.9
Margin (%)	30.5	28.4	27.0	26.0	30.7	31.1	30.8	31.0
Depreciation	469	673	768	774	991	970	1,077	1,114
Int. and Fin. Charges	580	343	214	210	133	43	29	0
Financial Other Income	311	195	349	571	703	778	830	886
<b>Profit before Taxes</b>	<b>6,853</b>	<b>6,374</b>	<b>6,639</b>	<b>6,492</b>	<b>8,410</b>	<b>9,638</b>	<b>10,836</b>	<b>11,985</b>
Change (%)	7.9	-7.0	4.2	-2.2	29.5	14.6	12.4	10.6
Margin (%)	27.5	25.2	24.6	24.5	29.2	30.4	30.0	30.4
Tax	836	863	1,024	713	1,142	1,446	1,690	2,121
Deferred Tax	130	-5	37	-86	-5	0	0	0
Tax Rate (%)	14.1	13.5	16.0	9.7	13.5	15.0	15.6	17.7
<b>Adjusted PAT</b>	<b>6,021</b>	<b>5,507</b>	<b>5,517</b>	<b>5,618</b>	<b>7,226</b>	<b>8,192</b>	<b>9,146</b>	<b>9,863</b>
Change (%)	4.5	-8.5	0.2	1.8	28.6	13.4	11.6	7.8
Margin (%)	24.2	21.8	20.5	21.2	25.1	25.8	25.3	25.0
Amortization	2,617	2,436	2,485	2,589	2,679	2,500	1,614	1,014
<b>Reported PAT</b>	<b>3,404</b>	<b>3,071</b>	<b>3,032</b>	<b>3,029</b>	<b>4,547</b>	<b>5,692</b>	<b>7,531</b>	<b>8,849</b>
<b>Balance Sheet</b>								<b>(INR m)</b>
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	454	454	454	453	445	441	441	441
Reserves	17,093	19,682	20,307	17,784	17,182	20,460	21,613	23,549
<b>Net Worth</b>	<b>17,547</b>	<b>20,136</b>	<b>20,761</b>	<b>18,238</b>	<b>17,627</b>	<b>20,902</b>	<b>22,055</b>	<b>23,990</b>
Minority Interest	14	6	-2	-9	-9	-9	-9	-9
Loans	4,846	3,343	1,168	2,257	1,028	528	0	0
Deferred Liability	282	118	122	35	42	42	42	42
<b>Capital Employed</b>	<b>22,689</b>	<b>23,602</b>	<b>22,048</b>	<b>20,520</b>	<b>18,687</b>	<b>21,462</b>	<b>22,087</b>	<b>24,023</b>
Goodwill on consolidation	41	41	41	0	0	4,300	3,686	3,071
Gross Block	25,600	26,825	28,738	29,933	27,108	28,108	29,108	30,108
Less: Accum. Depn.	5,616	8,767	11,967	15,329	16,320	17,290	18,367	19,481
<b>Net Fixed Assets</b>	<b>19,983</b>	<b>18,058</b>	<b>16,771</b>	<b>14,604</b>	<b>10,788</b>	<b>10,818</b>	<b>10,741</b>	<b>10,627</b>
Capital WIP	129	226	352	69	64	64	64	64
<b>Investments</b>	<b>1,277</b>	<b>3,136</b>	<b>1,870</b>	<b>1,564</b>	<b>3,084</b>	<b>3,084</b>	<b>3,084</b>	<b>3,084</b>
<b>Curr. Assets, L&amp;A</b>	<b>4,602</b>	<b>6,517</b>	<b>9,151</b>	<b>10,548</b>	<b>11,261</b>	<b>10,137</b>	<b>12,411</b>	<b>15,733</b>
Inventory	1,792	1,940	2,217	2,446	3,005	2,403	2,732	2,929
Account Receivables	970	1,559	2,164	3,080	2,318	2,609	2,867	3,130
Cash and cash equivalents	501	795	2,034	1,191	3,604	1,943	4,760	7,613
Others	1,340	2,224	2,737	3,831	2,335	3,182	2,051	2,060
<b>Curr. Liab. and Prov.</b>	<b>3,343</b>	<b>4,376</b>	<b>6,137</b>	<b>6,265</b>	<b>6,510</b>	<b>6,941</b>	<b>7,898</b>	<b>8,557</b>
Account Payables	1,847	2,420	2,914	3,245	3,507	3,499	4,049	4,251
Other Liabilities	622	1,077	1,808	1,222	1,147	1,345	1,480	1,628
Provisions	873	879	1,416	1,798	1,856	2,097	2,369	2,677
<b>Net Current Assets</b>	<b>1,259</b>	<b>2,141</b>	<b>3,014</b>	<b>4,284</b>	<b>4,751</b>	<b>3,196</b>	<b>4,512</b>	<b>7,176</b>
<b>Application of Funds</b>	<b>22,689</b>	<b>23,602</b>	<b>22,048</b>	<b>20,520</b>	<b>18,687</b>	<b>21,462</b>	<b>22,087</b>	<b>24,023</b>

E: MOFSL estimates

## Financials and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>13.3</b>	<b>12.1</b>	<b>12.2</b>	<b>12.4</b>	<b>16.3</b>	<b>18.6</b>	<b>20.7</b>	<b>22.4</b>
Cash EPS	14.3	13.6	13.8	14.1	18.5	20.8	23.2	24.9
BV/Share	38.7	44.4	45.7	40.2	39.7	47.4	50.0	54.4
DPS	4.4	3.5	4.0	8.0	8.0	8.0	12.0	13.0
Payout (%)	33.0	28.8	32.9	64.6	49.2	43.1	57.9	58.1
<b>Valuation (x)</b>								
P/E	32.6	35.6	35.5	34.8	26.6	23.2	20.8	19.3
Cash P/E	30.2	31.7	31.2	30.6	23.4	20.8	18.6	17.4
EV/Sales	8.0	7.7	7.2	7.4	6.5	5.9	5.1	4.6
EV/EBITDA	26.2	27.2	26.6	28.3	21.1	18.8	16.4	14.7
P/BV	11.2	9.7	9.4	10.7	10.9	9.1	8.6	7.9
Dividend Yield (%)	1.0	0.8	0.9	1.9	1.9	1.9	2.8	3.0
<b>Return Ratios (%)</b>								
RoE	35.8	29.2	27.0	28.8	40.3	42.5	42.6	42.8
RoCE	31.1	28.2	28.5	28.8	40.0	44.3	46.1	48.1
RoIC	28.2	25.3	25.9	28.5	39.6	43.9	46.1	54.4
<b>Working Capital Ratios</b>								
Debtor (Days)	14	23	30	34	32	30	29	29
Asset Turnover (x)	1.1	1.1	1.2	1.2	1.5	1.6	1.7	1.7
<b>Leverage Ratio</b>								
Debt/Equity ratio (x)	0.2	0.1	0.0	0.1	-0.1	-0.1	-0.2	-0.3

### Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(loss) before Tax	4,236	3,926	4,034	3,736	5,689	7,138	9,222	10,970
Depreciation	3,086	3,109	3,253	3,363	3,670	3,470	2,691	2,128
Other non-operating income	-102	-51	-125	-192	-329	-778	-830	-886
Interest Paid	558	316	42	-73	-38	43	29	0
Direct Taxes Paid	-707	-809	-927	-760	-865	-1,446	-1,690	-2,121
(Incr.)/Decr. in WC	226	-612	-739	-800	1,088	-106	1,501	189
<b>CF from Operations</b>	<b>7,296</b>	<b>5,878</b>	<b>5,537</b>	<b>5,274</b>	<b>9,215</b>	<b>8,321</b>	<b>10,923</b>	<b>10,281</b>
(Incr.)/Decr. in FA	-2,814	-1,232	-1,329	-1,481	-320	-1,000	-1,000	-1,000
<b>Free Cash Flow</b>	<b>4,482</b>	<b>4,646</b>	<b>4,208</b>	<b>3,793</b>	<b>8,895</b>	<b>7,321</b>	<b>9,923</b>	<b>9,281</b>
(Pur.)/Sale of Investments	-763	-1,863	1,178	-568	-2,934	0	0	0
Others	655	750	129	-15	3,334	-4,428	-413	240
<b>CF from Invest.</b>	<b>-2,922</b>	<b>-2,346</b>	<b>-22</b>	<b>-2,064</b>	<b>80</b>	<b>-5,428</b>	<b>-1,413</b>	<b>-760</b>
Change in Equity	0	0	0	-125	-2,256	-3	0	0
(Incr.)/Decr. in Debt	7,099	4,847	803	1,004	-1,183	-500	-528	0
Dividend Paid	-1,985	-1,194	-1,589	-3,632	-3,556	-4,255	-6,382	-6,914
Others	-10,072	-6,891	-3,491	-1,301	114	203	217	246
<b>CF from Fin. Activity</b>	<b>-4,958</b>	<b>-3,237</b>	<b>-4,277</b>	<b>-4,054</b>	<b>-6,882</b>	<b>-4,554</b>	<b>-6,693</b>	<b>-6,667</b>
<b>Incr./Decr. in Cash</b>	<b>-584</b>	<b>295</b>	<b>1,239</b>	<b>-844</b>	<b>2,413</b>	<b>-1,661</b>	<b>2,817</b>	<b>2,853</b>
Add: Opening Balance	1,084	501	795	2,034	1,191	3,604	1,943	4,760
<b>Closing Balance</b>	<b>500</b>	<b>795</b>	<b>2,034</b>	<b>1,191</b>	<b>3,604</b>	<b>1,943</b>	<b>4,760</b>	<b>7,613</b>

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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