Emami (HMN IN)

Rating: BUY | CMP: Rs483 | TP: Rs568

Rural Juggernaut continues; BUY

January 27, 2021

Q3FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	568		526	
Sales (Rs. m)	32,045	35,427	31,293	34,585
% Chng.	*2.4*	*2.4*		
EBITDA (Rs. m)	9,641	10,363	9,299	9,988
% Chng.	*3.7*	*3.8*		
EPS (Rs.)	17.4	19.6	16.7	18.8
% Chng.	*4.1*	*4.3*		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	26,549	28,513	32,045	35,427
EBITDA (Rs. m)	6,905	8,839	9,641	10,363
Margin (%)	*26.0*	*31.0*	*30.1*	*29.3*
PAT (Rs. m)	5,312	6,560	7,596	8,574
EPS (Rs.)	11.7	15.0	17.4	19.6
Gr. (%)	*5.7*	*28.2*	*15.8*	*12.9*
DPS (Rs.)	7.4	4.0	6.0	7.5
Yield (%)	*1.5*	*0.8*	*1.2*	*1.6*
RoE (%)	*27.2*	*35.5*	*35.6*	*32.7*
RoCE (%)	*16.8*	*25.5*	*26.8*	*30.7*
EV/Sales (x)	8.2	7.3	6.3	5.5
EV/EBITDA (x)	31.7	23.5	20.8	18.8
PE (x)	41.2	32.1	27.7	24.6
P/BV (x)	12.0	11.3	8.8	7.4

Key Data	EMAM.BO | HMN IN
52-W High / Low	Rs.505 / Rs.131
Sensex / Nifty	47,410 / 13,968
Market Cap	Rs.215bn/ $ 2,942m
Shares Outstanding	445m
3M Avg. Daily Value	Rs.715.39m

Shareholding Pattern (%)

Promoter's	53.86
Foreign	9.62
Domestic Institution	27.37
Public & Others	9.15
Promoter Pledge (Rs bn)	44.97

Stock Performance (%)

	1M	6M	12M
Absolute	12.7	103.3	48.7
Relative	11.7	63.5	30.6

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Quick Pointers:

- 3Q Volumes up 13%, growth outlook remains strong
- New launches (30 in 9M21) contributed 4% of domestic business

We are increasing FY21/22/23 EPS estimates by 2.3/4.1/4.3% following strong growth momentum in healthcare, hair care and gains from strong winter and higher rural salience for its products. Emami will build on its momentum led by 1) 3-4% increase in penetration 2) Increased investment to strengthen rural distribution 3) 25-30% growth expected in health care 4) positive momentum post re-launch of Fair and Handsome and 5) Hair oils led by kesh king posting strong growth on a high base. Emami is facing input cost headwinds in LLP, Mentha and Packaging, although it aims to maintain ~30% margins backed by cost efficiencies and strong growth momentum.

We believe success of new brands hold key to future growth and Emami expects to invest in 5-6 new launches which have surpassed initial targets. Highest rural salience at 55% of sales puts Emami in a sweetspot in the current scenario. Timely onset of summer season sales and gradual reduction in Promoter pledge (36%) can further re-rate the stock. We value the stock at 29x FY23 EPS and arrive at a target price of Rs568 (Rs526 based on 28xFY23 EPS earlier). Retain Buy.

Volumes increase 13%, Margins expand 390bps: Net Sales grew 14.9% to Rs9.34bn (Est Rs9.35bn). International business grew 26%, Domestic revenues increased by 16% driven by 13% volume growth. GRMs improved 210bps to 70.4% (Est 70%). EBIDTA rose 28.9% to Rs 3.40bn (Est Rs3.22bn). EBITDA margins expanded 390bps to 36.4% mainly due to GRM expansion and reduction in employee cost/Ad spends/other expenses by 100bps/40bps/40bps. Due to revision in useful life of intangible assets, depreciation is up by 10% to Rs 944mn. Adj. PAT rose 41.5% to Rs 2.09bn (Est Rs2bn). Interim dividend of Rs4/share

Concall key takeaways: 1) Rural continued to perform better however urban markets have also picked up. 2) Ecom grew 3.5x times contributing to 3.1% of sales whereas MT grew 51% with revenue contribution of 9%. 3) Witnessed 3-4% increase in penetration 4) Double digit volume growth sustainable, expect to end FY21 with high single digit value growth 4) Additional investment in manpower in top 4 states to increase rural distribution 5) Increased focus on hair oils on the back of strong domestic and international demand. 6) Expect health care to grow at 25-30% with Chawyanprash growing 24%, Honey 2.5x and pancharishta by 19% 7) New launches (30 in 9M21) contributed 4% of domestic business, will launch more products in the healthcare range. 8) Several new launches have met the desired targets, will invest further in 5-6 brands that have potential 9) Relaunch of Fair and Handsome and new campaign by Salman Khan has helped segment post robust growth. 10) No pricing action taken yet however there is room to increase price if RM price increase substantially.11) Pledge currently at 36% (can decline 2-3% based on CMP), promoters expect to liquidate assets in reasonable time (~6 months) to reduce pledge.

Exhibit 1: Revenues grew 14.9%, EBITDA margins expand 390bps, Adj PAT up 41.5%.

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
Net Sales	**9,336**	**8,126**	***14.9***	**7,348**	**21,498**	**21,222**	***1.3***
Gross Profit	6,570	5,545	*18.5*	5,163	14,934	14,317	*4.3*
% of NS	*70.4*	*68.2*	*2.1*	*70.3*	*69.5*	*67.5*	*2.0*
Other Expenses	**3,168**	**2,904**	***9.1***	**2,593**	**7,731**	**8,397**	***-7.9***
% of NS	*33.9*	*35.7*	*(1.8)*	*35.3*	*36.0*	*39.6*	*(3.6)*
EBITDA	**3,402**	**2,640**	***28.9***	**2,571**	**7,203**	**5,920**	***21.7***
Margins %	*36.4*	*32.5*	*3.9*	*35.0*	*33.5*	*27.9*	*5.6*
Depreciation	944	856	*10.3*	1,148	2,840	2,511	*13.1*
Interest	14	49	*-72.2*	25	86	186	*-54.0*
Other Income	92	156	*-41.1*	79	238	426	*-44.2*
PBT	**2,536**	**1,891**	***34.1***	**1,477**	**4,515**	**3,649**	***23.7***
Tax	438	398	*9.9*	284	817	786	*3.8*
Tax rate %	17.3	21.1	*-3.8*	19.2	18.1	21.6	*-3.5*
Adjusted PAT	**2,090**	**1,477**	***41.5***	**1,185**	**3,670**	**2,828**	***29.8***

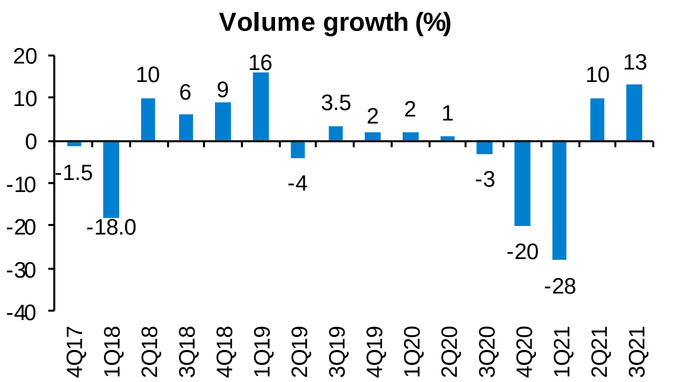
Source: Company, PL

Exhibit 2: Strong growth witnessed across all brands except Navratna, impacted by seasonality.

Brand/segments	Q4FY19	1QFY20	2QFY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Navratna	1	4	-3	11	-12	-41	14	-12
Boroplus	17	-7	39	-12	-77	28	-25	21
Pain Management	1	-6	4	13	-5	15	31	12
7 Oils in one	24	31	25	66	5	NA	9	32
Kesh King	15	30	-11	18	-26	-33	45	16
Male Grooming	-4	-7	-32	-39	-42	-70	-24	5
Health Care	9	-3	0	4	-9	23	53	38

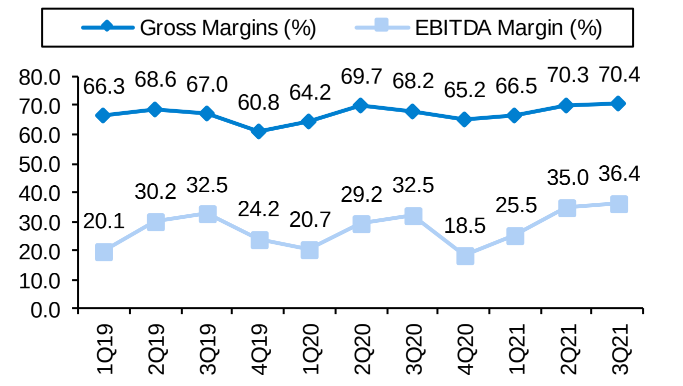
Source: Company, PL

Exhibit 3: 3QFY21 Volumes grow 13%



Source: Company, PL

Exhibit 4: EBITDA margins up 390bps YoY



Source: Company, PL

Exhibit 5: Launched 3 new products across Home Hygiene and Healthcare segments.

Source: Company, PL

Exhibit 6: Male grooming segment benefits from Fair and Handsome relaunch

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	**26,549**	**28,513**	**32,045**	**35,427**
YoY gr. (%)	*(1.5)*	*7.4*	*12.4*	*10.6*
Cost of Goods Sold	8,761	9,043	10,421	11,708
Gross Profit	17,788	19,470	21,625	23,719
Margin (%)	*67.0*	*68.3*	*67.5*	*67.0*
Employee Cost	2,995	3,160	3,460	3,806
Other Expenses	1,180	1,069	1,112	1,204
EBITDA	**6,905**	**8,839**	**9,641**	**10,363**
YoY gr. (%)	*(5.0)*	*28.0*	*9.1*	*7.5*
Margin (%)	*26.0*	*31.0*	*30.1*	*29.3*
Depreciation and Amortization	3,363	3,638	3,460	1,822
EBIT	**3,542**	**5,201**	**6,181**	**8,541**
Margin (%)	*13.3*	*18.2*	*19.3*	*24.1*
Net Interest	210	195	175	160
Other Income	571	452	922	1,472
Profit Before Tax	**3,902**	**5,458**	**6,927**	**9,853**
Margin (%)	*14.7*	*19.1*	*21.6*	*27.8*
Total Tax	713	1,038	1,317	1,873
Effective tax rate (%)	*18.3*	*19.0*	*19.0*	*19.0*
Profit after tax	**3,190**	**4,421**	**5,610**	**7,980**
Minority interest	(7)	(8)	(10)	(11)
Share Profit from Associate	-	-	-	1
Adjusted PAT	**5,312**	**6,560**	**7,596**	**8,574**
YoY gr. (%)	*5.5*	*23.5*	*15.8*	*12.9*
Margin (%)	*20.0*	*23.0*	*23.7*	*24.2*
Extra Ord. Income / (Exp)	(2,116)	(2,131)	(1,976)	(581)
Reported PAT	**3,196**	**4,429**	**5,620**	**7,993**
YoY gr. (%)	*1.4*	*38.6*	*26.9*	*42.2*
Margin (%)	*12.0*	*15.5*	*17.5*	*22.6*
Other Comprehensive Income	(1,010)	-	-	-
Total Comprehensive Income	2,186	4,429	5,620	7,993
Equity Shares O/s (m)	**453**	**437**	**437**	**437**
EPS (Rs)	**11.7**	**15.0**	**17.4**	**19.6**

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**	**20,623**	**24,083**	**25,905**
Tangibles	4,612	5,618	6,638	7,743
Intangibles	12,374	15,006	17,445	18,162
Net fixed assets	**14,420**	**12,691**	**10,612**	**10,170**
Tangibles	8,229	9,032	9,292	9,467
Intangibles	6,191	3,659	1,320	703
Capital Work In Progress	80	80	80	80
Goodwill	-	-	-	-
Non-Current Investments	998	995	1,009	1,023
Net Deferred tax assets	(35)	(38)	(42)	(46)
Other Non-Current Assets	819	818	950	1,069
Current Assets				
Investments	1,246	4,402	11,473	16,402
Inventories	2,446	2,222	2,519	2,795
Trade receivables	3,080	1,953	2,019	2,232
Cash & Bank Balance	626	564	684	646
Other Current Assets	1,484	1,711	1,923	2,126
Total Assets	**26,650**	**26,427**	**32,376**	**37,765**
Equity				
Equity Share Capital	453	437	437	437
Other Equity	17,784	18,293	23,450	28,139
Total Networth	**18,237**	**18,730**	**23,887**	**28,576**
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	231	254	280	307
Other non current liabilities	216	325	463	660
Current Liabilities				
ST Debt / Current of LT Debt	2,102	1,800	1,700	1,500
Trade payables	3,245	3,011	3,490	3,916
Other current liabilities	2,439	2,178	2,422	2,663
Total Equity & Liabilities	**26,650**	**26,427**	**32,376**	**37,765**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	3,902	5,458	6,927	9,853
Add. Depreciation	3,281	3,638	3,460	1,822
Add. Interest	210	195	175	160
Less Financial Other Income	571	452	922	1,472
Add. Other	(432)	(307)	(766)	(1,306)
Op. profit before WC changes	6,962	8,984	9,796	10,529
Net Changes-WC	(2,115)	1,250	117	11
Direct tax	(713)	(1,038)	(1,317)	(1,873)
Net cash from Op. activities	**4,134**	**9,196**	**8,596**	**8,667**
Capital expenditures	(789)	(1,984)	(1,443)	(1,431)
Interest / Dividend Income	437	315	776	1,317
Others	910	-	-	-
Net Cash from Invt. activities	**557**	**(1,670)**	**(667)**	**(114)**
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)**	**3,093**	**7,191**	**4,890**
Free Cash Flow	3,345	7,212	7,153	7,236

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	11.7	15.0	17.4	19.6
CEPS	19.1	23.4	25.3	23.8
BVPS	40.2	42.9	54.7	65.4
FCF	7.4	16.5	16.4	16.6
DPS	7.4	4.0	6.0	7.5
Return Ratio(%)				
RoCE	16.8	25.5	26.8	30.7
ROIC	14.3	24.2	30.6	41.2
RoE	27.2	35.5	35.6	32.7
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	41.2	32.1	27.7	24.6
P/B	12.0	11.3	8.8	7.4
P/CEPS	25.2	20.7	19.1	20.3
EV/EBITDA	31.7	23.5	20.8	18.8
EV/Sales	8.2	7.3	6.3	5.5
Dividend Yield (%)	1.5	0.8	1.2	1.6

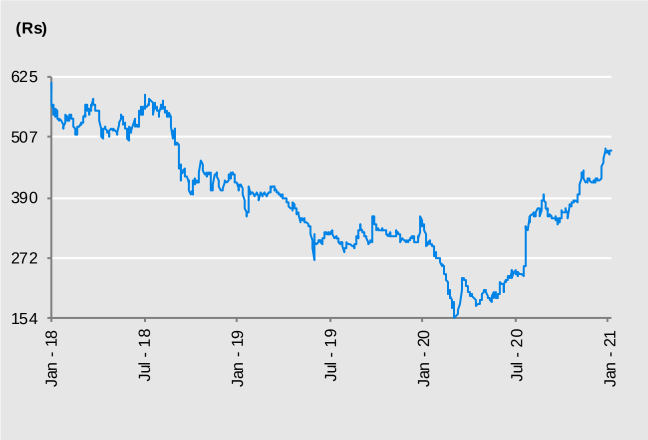
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	**5,327**	**4,813**	**7,348**	**9,336**
YoY gr. (%)	*(16.7)*	*(25.8)*	*11.3*	*14.9*
Raw Material Expenses	1,856	1,613	2,185	2,766
Gross Profit	3,471	3,200	5,163	6,570
Margin (%)	*65.2*	*66.5*	*70.3*	*70.4*
EBITDA	**985**	**1,230**	**2,571**	**3,402**
YoY gr. (%)	*(36.3)*	*(8.3)*	*33.3*	*28.9*
Margin (%)	*18.5*	*25.5*	*35.0*	*36.4*
Depreciation / Depletion	851	747	1,147	943
EBIT	**133**	**482**	**1,423**	**2,458**
Margin (%)	*2.5*	*10.0*	*19.4*	*26.3*
Net Interest	24	47	25	14
Other Income	144	66	78	91
Profit before Tax	**254**	**502**	**1,477**	**2,536**
Margin (%)	*4.8*	*10.4*	*20.1*	*27.2*
Total Tax	(74)	95	284	438
Effective tax rate (%)	*(29.1)*	*18.9*	*19.2*	*17.3*
Profit after Tax	**327**	**407**	**1,193**	**2,099**
Minority interest	-	-	-	-
Share Profit from Associates	(26)	(11)	(8)	(9)
Adjusted PAT	**301**	**395**	**1,184**	**2,089**
YoY gr. (%)	*(46.3)*	*0.6*	*23.3*	*41.4*
Margin (%)	*5.6*	*8.2*	*16.1*	*22.4*
Extra Ord. Income / (Exp)	74	-	-	-
Reported PAT	**376**	**396**	**1,185**	**2,090**
YoY gr. (%)	*(32.9)*	*0.6*	*23.3*	*38.3*
Margin (%)	*7.1*	*8.2*	*16.1*	*22.4*
Other Comprehensive Income	(212)	236	(63)	275
Total Comprehensive Income	**16**	**631**	**1,122**	**2,365**
Avg. Shares O/s (m)	454	454	445	454
EPS (Rs)	**0.7**	**0.9**	**2.7**	**4.6**

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jan-21	BUY	526	450
2	02-Dec-20	BUY	526	444
3	06-Nov-20	BUY	450	367
4	08-Oct-20	BUY	424	353
5	07-Aug-20	BUY	419	257
6	08-Jul-20	Hold	287	233
7	29-Jun-20	Hold	287	205
8	15-Apr-20	Hold	285	227
9	07-Feb-20	Accumulate	361	300

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	2,829	2,740
2	Avenue Supermarts	BUY	3,296	2,968
3	Bajaj Electricals	BUY	647	637
4	Britannia Industries	BUY	4,301	3,540
5	Colgate Palmolive	Hold	1,570	1,598
6	Crompton Greaves Consumer Electricals	BUY	447	412
7	Dabur India	Accumulate	539	534
8	Emami	BUY	526	450
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Hold	1,126	1,131
11	Hindustan Unilever	BUY	2,502	2,417
12	ITC	BUY	254	205
13	Jubilant FoodWorks	UR	-	2,789
14	Kansai Nerolac Paints	UR	-	613
15	Marico	Hold	410	419
16	Nestle India	Hold	17,640	18,515
17	Pidilite Industries	UR	-	1,795
18	Polycab India	BUY	1,247	1,278
19	Titan Company	UR	-	1,573
20	Voltas	UR	-	882

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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