

July 29, 2022

## Q1FY23 Result Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
<b>Rating</b>	ACCUMULATE		ACCUMULATE	
<b>Target Price</b>	611		611	
Sales (Rs. m)	35,948	39,934	35,948	39,934
% Chng.	-	-	-	-
EBITDA (Rs. m)	10,416	12,012	10,416	12,012
% Chng.	-	-	-	-
EPS (Rs.)	17.6	21.1	17.6	21.1
% Chng.	-	-	-	-

### Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	28,805	32,314	35,948	39,934
EBITDA (Rs. m)	8,826	12,450	10,416	12,012
Margin (%)	30.6	38.5	29.0	30.1
PAT (Rs. m)	4,543	10,151	7,777	9,296
EPS (Rs.)	10.2	23.0	17.6	21.1
Gr. (%)	52.9	125.1	(23.4)	19.5
DPS (Rs.)	8.0	8.0	10.0	13.0
Yield (%)	1.8	1.8	2.2	2.9
RoE (%)	25.3	52.9	36.5	39.8
RoCE (%)	26.5	43.4	35.0	42.1
EV/Sales (x)	6.9	6.2	5.4	4.8
EV/EBITDA (x)	22.4	16.1	18.6	15.9
PE (x)	44.2	19.6	25.6	21.5
P/BV (x)	11.4	9.6	9.1	8.0

### Key Data

EMAM.BO | HMN IN

52-W High / Low	Rs.622 / Rs.393
Sensex / Nifty	57,570 / 17,158
Market Cap	Rs.200bn/ \$ 2,522m
Shares Outstanding	442m
3M Avg. Daily Value	Rs.147.64m

### Shareholding Pattern (%)

Promoter's	54.27
Foreign	11.47
Domestic Institution	26.47
Public & Others	7.80
Promoter Pledge (Rs bn)	37.14

### Stock Performance (%)

	1M	6M	12M
Absolute	10.2	(7.8)	(18.1)
Relative	1.5	(8.4)	(25.1)

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## Rural revival and peaked out input costs limit downside

### Quick Pointers:

- Flat volumes ex-Dermicool despite high base in Pain Mgt and Healthcare
- Bridge Packs and new innovations key to incremental growth

**Emami 1Q results were a beat on revenues but miss on margins due to input cost inflation and adverse sales mix. Flat volumes ex-Dermicool were on expected lines as Pain Management & Health Care range saw 59%/70% growth in base quarter due to severe 2<sup>nd</sup> COVID wave. Margins will remain under pressure in 1H23 with easing expected only in 2H. Near term outlook remains intact due to lower base in 2Q22, peaked out commodity prices and favorable monsoon which should help revive rural demand in 2HFY23.**

**Medium term growth outlook remains positive with 1) management guidance of double digit revenue growth in IBD 2) improved reach in MT/e-com/quick com platforms in both D2C and e-B2B segments 3) increase in direct town coverage to 50k (from 41.5k) by FY23 4) increasing ad-spend to gain market share. HMN plans to build on digital first brands like Navratna therapy, Kesh King onion range and Crème 21 products, although it will not have any significant impact in near term. We estimate 11% PAT CAGR over FY22-24 and value the stock at 29x Mar24 EPS (unchanged) and assign a value of Rs611/share (unchanged). Retain Accumulate.**

**Domestic volume flat (ex Dermicool), Revenue up by 17.8%:** Revenues grew by 17.8% YoY to Rs7.8bn (PLe: Rs7.0bn). Domestic revenues increased by 13%, International business grew by 45%. Total volume growth stood at 9.6%, while volume growth excl Dermicool stood at 2.4%. Gross margins contracted by 341bps YoY to 62.6% (PLe: 64%). EBITDA grew by 2.1% YoY to Rs1.7bn (PLe: Rs1.7bn); Margins contracted by 341bps YoY to 22.3% (PLe:24.0%). Adj PAT declined by 6.6% YoY to Rs0.7bn (PLe:Rs 0.7bn). **Growth across segments:** 7 Oils in One: 45%, Male grooming: 32%, Navratna: 29%, Kesh King: 20%, Boroplus: flat, HealthCare: -25% and Pain Management: -30%. **Channels:** MT/E-commerce reported 42%/55% growth respectively. E-commerce contribution to domestic sales (ex – Dermicool) at 7.6% (+260bps).

**Concall key takeaways:** 1) Rural has grown 21% (ex-Pain Management & Health Care) due to increase in town coverage. 2) Bridge pack sales contribution at 2-3% which is expected to reduce down trading & LUP in rural & small towns. 3) 4.5% price hike taken in 1Q. Avg price increase in FY23 in the range of 4-4.5%. 4) 90%/10% of Dermicool sales occurs in Jan-Jun/Jul-Sept months. 5) Kesh King shampoo contributes 25% of brand sales (+600bps) led by strong brand & focused distribution. 6) Quarterly amortization rate for Dermicool & other brands will be Rs ~220 mn. 7) FY23 ad spends to be in 17-18% range. 8) FY23 tax rate would be ~18% including MAT entitlement.

**Exhibit 1: Revenues grew 17.8%, EBITDA margin declined by 341 bps**

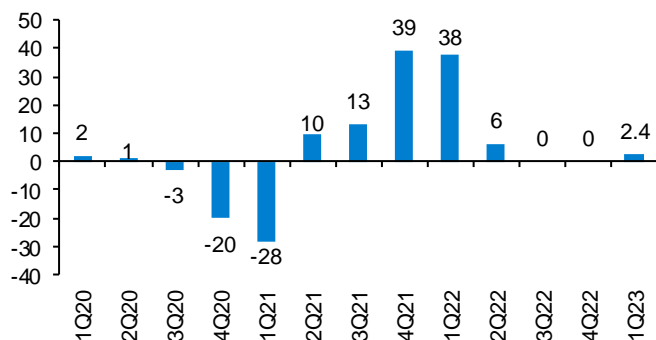
Y/e March	Q1FY23	Q1FY22	YoY %	Q4FY21	FY22	FY21	YoY gr. (%)
<b>Net Sales</b>	<b>7,783</b>	<b>6,610</b>	<b>17.8</b>	<b>7,704</b>	<b>31,920</b>	<b>28,805</b>	<b>10.8</b>
Gross Profit	4,872	4,363	11.7	4,805	21,142	19,513	8.3
% of NS	62.6	66.0	-3.4	62.4	66.2	67.7	-1.5
<b>Other Expenses</b>	<b>3,139</b>	<b>2,666</b>	<b>17.7</b>	<b>3,166</b>	<b>11,618</b>	<b>10,682</b>	<b>8.8</b>
% of NS	40.3	40.3	(0.0)	41.1	36.4	37.1	(0.7)
<b>EBITDA</b>	<b>1,733</b>	<b>1,697</b>	<b>2.1</b>	<b>1,639</b>	<b>9,524</b>	<b>8,831</b>	<b>7.8</b>
Margins %	22.3	25.7	-3.4	21.3	29.8	30.7	-0.8
Depreciation	881	830	6.2	835	3,348	3,670	-8.8
Interest	25	6	289.1	18	51	133	-61.8
Other Income	63	107	-41.0	303	953	703	35.5
<b>PBT</b>	<b>891</b>	<b>968</b>	<b>-8.0</b>	<b>1,090</b>	<b>7,078</b>	<b>5,731</b>	<b>23.5</b>
Tax	120	175	-31.4	318	1,394	1,142	22.1
Tax rate %	13.5	18.1		29.2	19.7	19.9	
<b>Adjusted PAT</b>	<b>727</b>	<b>778</b>	<b>-6.6</b>	<b>712</b>	<b>5,538</b>	<b>4,547</b>	<b>21.8</b>

Source: Company, PL

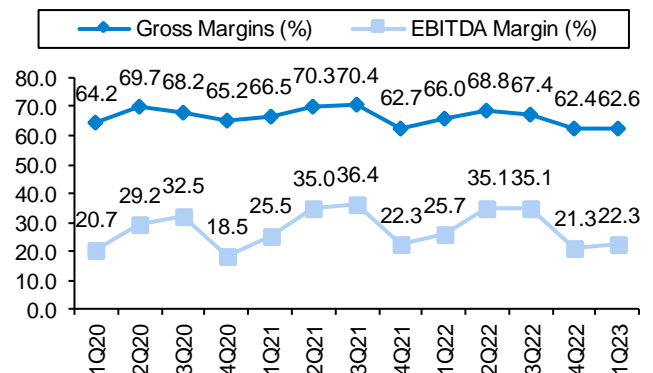
**Exhibit 2: Pain Management & Health Care sales declined 30% and 25% on high base**

Brand/segments	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Navratna	-41	14	-12	28	21	-9	11	0	29
Boroplus	28	-25	21	5x	96	29	2	-18	0
Pain Management	15	31	12	38	70	6	7	4	-30
7 Oils in one		9	32	39	93	NA	NA	NA	45
Kesh King	-33	45	16	45	53	15	0	-7	20
Male Grooming	-70	-24	5	26	78	15	3	4	32
Health Care	23	53	38	67	59	5	-6	4	-25

Source: Company, PL

**Exhibit 3: 1Q23 volumes flat ex Dermicool**


Source: Company, PL

**Exhibit 4: EBITDA margins declined by 341 bps YoY**


Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Net Revenues</b>	<b>28,805</b>	<b>32,314</b>	<b>35,948</b>	<b>39,934</b>
YoY gr. (%)	8.5	12.2	11.2	11.1
Cost of Goods Sold	9,297	10,779	12,510	13,449
Gross Profit	19,509	21,535	23,438	26,485
Margin (%)	67.7	66.6	65.2	66.3
Employee Cost	3,092	3,178	3,670	4,011
Other Expenses	991	1,201	1,338	1,468
<b>EBITDA</b>	<b>8,826</b>	<b>12,450</b>	<b>10,416</b>	<b>12,012</b>
YoY gr. (%)	27.8	41.1	(16.3)	15.3
Margin (%)	30.6	38.5	29.0	30.1
Depreciation and Amortization	3,670	3,338	2,309	1,758
<b>EBIT</b>	<b>5,157</b>	<b>9,112</b>	<b>8,107</b>	<b>10,253</b>
Margin (%)	17.9	28.2	22.6	25.7
Net Interest	133	127	139	80
Other Income	703	485	295	593
<b>Profit Before Tax</b>	<b>5,727</b>	<b>9,470</b>	<b>8,262</b>	<b>10,767</b>
Margin (%)	19.9	29.3	23.0	27.0
Total Tax	1,142	1,296	1,571	2,047
Effective tax rate (%)	19.9	13.7	19.0	19.0
<b>Profit after tax</b>	<b>4,584</b>	<b>8,173</b>	<b>6,691</b>	<b>8,720</b>
Minority interest	0	0	0	0
Share Profit from Associate	(42)	-	-	-
<b>Adjusted PAT</b>	<b>4,543</b>	<b>10,151</b>	<b>7,777</b>	<b>9,296</b>
YoY gr. (%)	49.9	123.4	(23.4)	19.5
Margin (%)	15.8	31.4	21.6	23.3
Extra Ord. Income / (Exp)	-	(1,977)	(1,085)	(575)
<b>Reported PAT</b>	<b>4,543</b>	<b>8,173</b>	<b>6,692</b>	<b>8,720</b>
YoY gr. (%)	44.8	79.9	(18.1)	30.3
Margin (%)	15.8	25.3	18.6	21.8
Other Comprehensive Income	614	-	-	-
Total Comprehensive Income	5,156	8,173	6,692	8,720
<b>Equity Shares O/s (m)</b>	<b>445</b>	<b>441</b>	<b>441</b>	<b>441</b>
<b>EPS (Rs)</b>	<b>10.2</b>	<b>23.0</b>	<b>17.6</b>	<b>21.1</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>30,048</b>	<b>35,732</b>	<b>37,063</b>	<b>38,393</b>
Tangibles	11,583	12,848	14,078	15,309
Intangibles	18,465	22,885	22,985	23,085
<b>Acc: Dep / Amortization</b>	<b>18,836</b>	<b>22,174</b>	<b>24,483</b>	<b>26,241</b>
Tangibles	3,910	4,776	5,729	6,769
Intangibles	14,926	17,398	18,754	19,473
<b>Net fixed assets</b>	<b>11,212</b>	<b>12,999</b>	<b>12,580</b>	<b>12,152</b>
Tangibles	7,673	7,398	8,349	8,540
Intangibles	3,538	5,601	4,231	3,612
Capital Work In Progress	64	31	31	31
Goodwill	-	242	242	242
Non-Current Investments	1,772	2,679	2,776	2,792
Net Deferred tax assets	(42)	2,763	(83)	(91)
Other Non-Current Assets	882	1,058	1,132	1,286
<b>Current Assets</b>				
Investments	4,272	395	5,265	8,015
Inventories	3,004	3,576	3,537	3,800
Trade receivables	2,318	3,209	2,561	2,735
Cash & Bank Balance	221	1,160	1,084	1,649
Other Current Assets	1,056	1,884	1,618	1,797
<b>Total Assets</b>	<b>25,193</b>	<b>30,566</b>	<b>31,313</b>	<b>35,041</b>
<b>Equity</b>				
Equity Share Capital	445	441	441	441
Other Equity	17,182	20,325	21,435	24,421
<b>Total Network</b>	<b>17,627</b>	<b>20,766</b>	<b>21,876</b>	<b>24,862</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	230	252	278	306
Other non current liabilities	197	179	499	714
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	919	2,717	1,000	1,000
Trade payables	3,507	4,087	4,568	4,766
Other current liabilities	2,572	2,345	2,930	3,220
<b>Total Equity &amp; Liabilities</b>	<b>25,193</b>	<b>30,566</b>	<b>31,313</b>	<b>35,040</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	5,731	6,819	8,262	10,767
Add. Depreciation	3,694	3,338	2,309	1,758
Add. Interest	133	127	139	80
Less Financial Other Income	703	485	295	593
Add. Other	(563)	(600)	(203)	(498)
Op. profit before WC changes	8,995	9,685	10,507	12,107
Net Changes-WC	1,912	(5,051)	5,052	(40)
Direct tax	(1,142)	(1,296)	(1,571)	(2,047)
<b>Net cash from Op. activities</b>	<b>9,765</b>	<b>3,337</b>	<b>13,988</b>	<b>10,021</b>
Capital expenditures	(408)	(5,421)	(1,960)	(1,389)
Interest / Dividend Income	563	600	204	498
Others	(783)	(968)	-	-
<b>Net Cash from Invt. activities</b>	<b>(628)</b>	<b>(5,789)</b>	<b>(1,756)</b>	<b>(891)</b>
Issue of share cap. / premium	(1,645)	1,132	(1,170)	-
Debt changes	(1,183)	1,798	(1,717)	-
Dividend paid	(3,556)	(3,529)	(4,412)	(5,735)
Interest paid	(133)	(127)	(139)	(80)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(6,517)</b>	<b>(727)</b>	<b>(7,437)</b>	<b>(5,815)</b>
<b>Net change in cash</b>	<b>2,620</b>	<b>(3,179)</b>	<b>4,794</b>	<b>3,315</b>
Free Cash Flow	9,357	(2,084)	12,028	8,632

Source: Company Data, PL Research

**Key Financial Metrics**

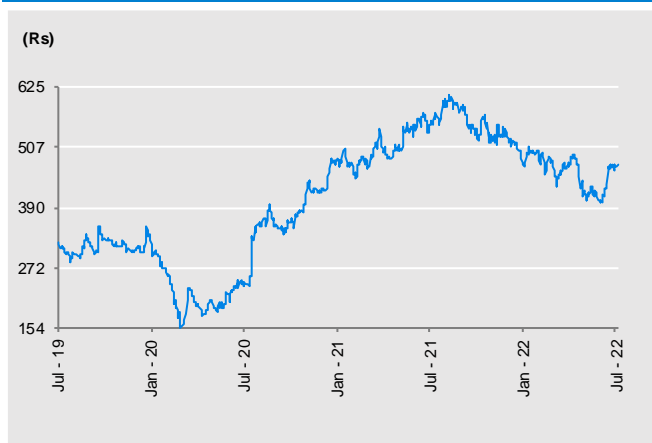
Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	10.2	23.0	17.6	21.1
CEPS	18.5	30.6	22.9	25.1
BVPS	39.7	47.1	49.6	56.4
FCF	21.1	(4.7)	27.3	19.6
DPS	8.0	8.0	10.0	13.0
<b>Return Ratio(%)</b>				
RoCE	26.5	43.4	35.0	42.1
ROIC	24.9	31.4	32.5	40.4
RoE	25.3	52.9	36.5	39.8
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.2)	0.1	(0.2)	(0.3)
Net Working Capital (Days)	23	30	16	16
<b>Valuation(x)</b>				
PER	44.2	19.6	25.6	21.5
P/B	11.4	9.6	9.1	8.0
P/CEPS	24.5	14.8	19.8	18.0
EV/EBITDA	22.4	16.1	18.6	15.9
EV/Sales	6.9	6.2	5.4	4.8
Dividend Yield (%)	1.8	1.8	2.2	2.9

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
<b>Net Revenue</b>	<b>7,888</b>	<b>9,719</b>	<b>7,704</b>	<b>7,783</b>
YoY gr. (%)	7.4	4.1	5.4	17.8
Raw Material Expenses	2,464	3,170	2,899	2,911
Gross Profit	5,425	6,549	4,805	4,872
Margin (%)	68.8	67.4	62.4	62.6
<b>EBITDA</b>	<b>2,772</b>	<b>3,415</b>	<b>1,639</b>	<b>1,733</b>
YoY gr. (%)	7.8	0.4	0.7	2.1
Margin (%)	35.1	35.1	21.3	22.3
Depreciation / Depletion	839	844	835	881
<b>EBIT</b>	<b>1,933</b>	<b>2,571</b>	<b>805</b>	<b>852</b>
Margin (%)	24.5	26.5	10.4	10.9
Net Interest	8	18	18	25
Other Income	376	166	303	63
<b>Profit before Tax</b>	<b>2,301</b>	<b>2,719</b>	<b>1,090</b>	<b>890</b>
Margin (%)	29.2	28.0	14.1	11.4
Total Tax	410	491	318	120
Effective tax rate (%)	17.8	18.1	29.2	13.5
<b>Profit after Tax</b>	<b>1,891</b>	<b>2,228</b>	<b>771</b>	<b>771</b>
Minority interest	-	-	-	44
Share Profit from Associates	(38)	(33)	(59)	-
<b>Adjusted PAT</b>	<b>1,853</b>	<b>2,195</b>	<b>712</b>	<b>727</b>
YoY gr. (%)	56.5	5.1	(18.7)	(6.6)
Margin (%)	23.5	22.6	9.2	9.3
Extra Ord. Income / (Exp)	-	-	52	-
<b>Reported PAT</b>	<b>1,853</b>	<b>2,195</b>	<b>764</b>	<b>727</b>
YoY gr. (%)	56.4	5.1	(12.9)	(6.6)
Margin (%)	23.5	22.6	9.9	9.3
Other Comprehensive Income	72	-	231	-
<b>Total Comprehensive Income</b>	<b>1,924</b>	<b>2,195</b>	<b>891</b>	<b>727</b>
Avg. Shares O/s (m)	445	-	441	445
<b>EPS (Rs)</b>	<b>4.2</b>	<b>-</b>	<b>1.6</b>	<b>1.6</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-22	Accumulate	611	470
2	13-May-22	Accumulate	611	428
3	08-Apr-22	Accumulate	607	464
4	27-Mar-22	Accumulate	607	449
5	03-Feb-22	Accumulate	624	498
6	06-Jan-22	Accumulate	624	511
7	29-Oct-21	Accumulate	624	536
8	06-Oct-21	Accumulate	624	545
9	02-Aug-21	Accumulate	624	573

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,363	3,109
2	Avenue Supermarts	BUY	4,636	3,942
3	Britannia Industries	UR	-	3,810
4	Colgate Palmolive	Accumulate	1,701	1,564
5	Dabur India	Accumulate	603	544
6	Emami	Accumulate	611	470
7	Hindustan Unilever	Accumulate	2,699	2,568
8	ITC	BUY	305	292
9	Jubilant FoodWorks	BUY	700	565
10	Kansai Nerolac Paints	BUY	513	396
11	Marico	Accumulate	544	499
12	Mold-tek Packaging	Accumulate	830	765
13	Nestle India	Accumulate	19,721	19,112
14	Pidilite Industries	Hold	2,389	2,237
15	Restaurant Brands Asia	UR	-	111
16	Titan Company	BUY	2,520	2,014
17	Titan Company	BUY	2,520	2,128
18	Westlife Development	BUY	653	524

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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