

November 11, 2022

Q2FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	555		574	
Sales (Rs. m)	38,377	42,241	39,290	43,243
% Chng.	(2.3)	(2.3)		
EBITDA (Rs. m)	10,735	11,899	12,019	13,766
% Chng.	(10.7)	(13.6)		
EPS (Rs.)	19.0	21.3	19.7	23.8
% Chng.	(3.4)	(10.3)		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	32,265	34,859	38,377	42,241
EBITDA (Rs. m)	12,666	8,975	10,735	11,899
Margin (%)	39.3	25.7	28.0	28.2
PAT (Rs. m)	14,595	7,203	8,402	9,398
EPS (Rs.)	33.1	16.3	19.0	21.3
Gr. (%)	119.9	(50.6)	16.6	11.9
DPS (Rs.)	8.1	10.0	13.0	16.5
Yield (%)	1.7	2.1	2.8	3.5
RoE (%)	76.0	33.4	35.6	36.8
RoCE (%)	44.4	28.4	35.9	37.5
EV/Sales (x)	6.4	5.7	5.1	4.6
EV/EBITDA (x)	16.3	22.2	18.3	16.4
PE (x)	14.1	28.5	24.4	21.8
P/BV (x)	9.9	9.2	8.3	7.8

Key Data

EMAM.BO | HMN IN

52-W High / Low	Rs.568 / Rs.393
Sensex / Nifty	61,795 / 18,350
Market Cap	Rs.206bn/ \$ 2,546m
Shares Outstanding	442m
3M Avg. Daily Value	Rs.124.15m

Shareholding Pattern (%)

Promoter's	54.27
Foreign	11.25
Domestic Institution	27.03
Public & Others	7.45
Promoter Pledge (Rs bn)	33.37

Stock Performance (%)

	1M	6M	12M
Absolute	(2.1)	(1.9)	(14.2)
Relative	(9.5)	(14.1)	(16.8)

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Margins revert to mean, no visible triggers

Quick Pointers:

- Volumes decline 1.2% despite channel filling in Boroplus and winter products
- Rural demand remains tepid, new launches and brand building focus area

We cut EPS estimates of HMN by 5.6/3.4/10.3% for FY23/24/25 as we factor in lower margins due to heightened investments in brand building and distribution. 2Q results were a mixed bag with 1.2% decline in volumes but a sharp 11ppt margin contraction due to higher raw materials, A&P and investments in distribution. Although input cost pressures have peaked out, demand scenario looks uncertain due to tepid demand in rural India. We believe Covid related categories will continue to show demand pressure in coming quarters as well on a high base.

Emami is investing for the future by 1) new launches in existing categories like 7 in 1 organic hair oils, Zandu fast relief gels and new categories like Apple cider vinegar 2) Acquisition of Majority stake in "The Man company" 3) increase in direct town coverage to 50k (from 40k) by FY24 4) increasing ad-spend to gain market share. We estimate 14% PAT CAGR over FY23-25 we value the stock at 28x Sept24 EPS and assign a value of Rs555/share (Rs 574 earlier). Retain Accumulate.

Domestic volume decline 1.2%, Revenue up by 3.4%: Revenues grew by 3.4% YoY to Rs 8.1bn (PLe: Rs8.0bn). Domestic revenues increased by 1% while International business grew by 17%. Gross margins contracted by 229bps YoY but improved 362bps QoQ to 66.6% (PLe: 65%). EBITDA declined by 29.5% YoY to Rs2bn (PLe: Rs2.4bn); Margins contracted by 1120bps YoY but improved 160bps QoQ to 24% (PLe:30.0%). Adj PAT declined by 2.8% YoY to Rs1.8bn (PLe: Rs 1.6bn). Board declares interim dividend of Rs4/share. **Growth across segments:** Boroplus: 17%, Male grooming: 2%, 7 Oils in One: 1% Navratna: -5%, Kesh King: -10%, Pain Management: -13% and HealthCare: -16%. **Channels:** MT and E-commerce posted a 28% & 55% growth respectively. E-commerce contribution to domestic sales ex - Dermicool grew by 300 bps YoY to 7.8%.

Concall key takeaways: 1) Urban (GT/MT/E-com) has performed 2x vs rural markets. 2) MT/E-com Gross/EBITDA margins are comparable with GT. 3) International markets are expected to grow by 12-14% in 3Q; Western markets faring better vs East Asian markets. 4) Targets rural village coverage of 42k/50k in FY23/FY24.5) RM basket has eased with no margin pressure expected in 3Q. 6) RM savings to be reinvested in ad spends. 7) Digital launches such as Apple cider vinegar/7 Oils in one are sold at premium. 8) Boroplus saw channel stocking as winter sets in India. 9) Zandu care has a run rate of Rs20mn and is expected to increase MoM.10) EBITDA margins to normalise to 27% in FY23. 11) Amortization of Rs235mn is ex Kesh King. 12) NPD contributes 1-1.5% of sales. Innovation pipeline is strong in Zandu and other ranges.13) Tax rate of 10% for FY23/FY24.

Exhibit 1: Revenues grew 3.4%, EBITDA margin declined by 1120bps

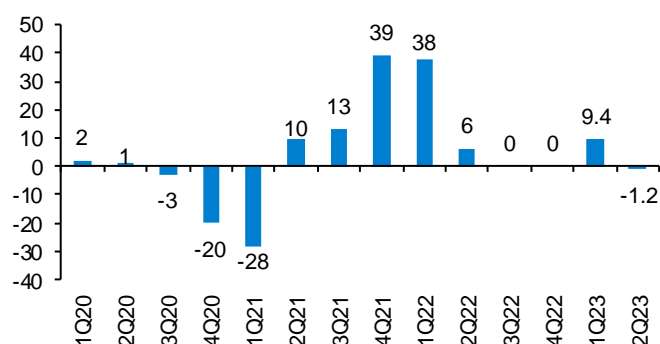
Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	1HFY23	1HFY22	YoY gr. (%)
Net Sales	8,138	7,871	3.4	7,733	15,871	14,481	9.6
Gross Profit	5,422	5,425	-0.1	4,872	10,294	9,788	5.2
% of NS	66.6	68.9	-2.3	63.0	64.9	67.6	-2.7
Other Expenses	3,468	2,653	30.7	3,139	6,607	5,319	24.2
% of NS	42.6	33.7	8.9	40.6	41.6	36.7	4.9
EBITDA	1,954	2,772	-29.5	1,733	3,687	4,469	-17.5
Margins %	24.0	35.2	-11.2	22.4	23.2	30.9	-7.6
Depreciation	479	839	-42.9	881	1,360	1,669	-18.5
Interest	18	8	125.6	25	43	14	199.3
Other Income	420	376	11.6	63	483	483	0.0
PBT	1,877	2,301	-18.4	891	2,767	3,269	-15.4
Tax	54	410	-86.9	120	174	585	-70.3
Tax rate %	2.9	17.8		13.5	6.3	17.9	
Adjusted PAT	1,801	1,853	-2.8	727	2,528	2,630	-3.9

Source: Company, PL

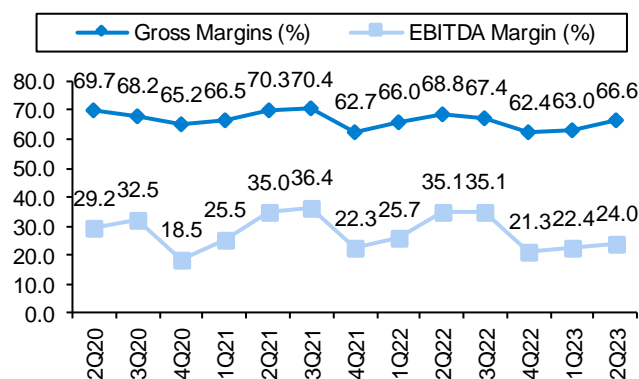
Exhibit 2: Mixed performance across divisions

Brand/segments	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Navratna	14	-12	28	21	-9	11	0	29	-5
Boroplus	-25	21	5x	96	29	2	-18	0	17
Pain Management	31	12	38	70	6	7	4	-30	-13
7 Oils in one	9	32	39	93	NA	NA	NA	45	1
Kesh King	45	16	45	53	15	0	-7	20	-10
Male Grooming	-24	5	26	78	15	3	4	32	2
Health Care	53	38	67	59	5	-6	4	-25	-16

Source: Company, PL

Exhibit 3: 2Q23 volumes declined by 1.2%


Source: Company, PL

Exhibit 4: EBITDA margins declined by 1120bps YoY


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	32,265	34,859	38,377	42,241
YoY gr. (%)	12.0	8.0	10.1	10.1
Cost of Goods Sold	10,779	11,945	13,053	14,281
Gross Profit	21,487	22,913	25,325	27,960
Margin (%)	66.6	65.7	66.0	66.2
Employee Cost	3,178	3,654	4,020	4,422
Other Expenses	937	1,323	1,188	1,314
EBITDA	12,666	8,975	10,735	11,899
YoY gr. (%)	43.5	(29.1)	19.6	10.8
Margin (%)	39.3	25.7	28.0	28.2
Depreciation and Amortization	3,348	2,253	1,729	1,780
EBIT	9,319	6,722	9,006	10,119
Margin (%)	28.9	19.3	23.5	24.0
Net Interest	51	124	105	105
Other Income	953	242	342	477
Profit Before Tax	10,220	6,840	9,243	10,490
Margin (%)	31.7	19.6	24.1	24.8
Total Tax	(1,487)	718	1,063	1,626
Effective tax rate (%)	(14.5)	10.5	11.5	15.5
Profit after tax	11,707	6,122	8,180	8,864
Minority interest	23	26	28	31
Share Profit from Associate	-	-	-	-
Adjusted PAT	14,595	7,203	8,402	9,398
YoY gr. (%)	118.3	(50.6)	16.6	11.9
Margin (%)	45.2	20.7	21.9	22.2
Extra Ord. Income / (Exp)	(2,911)	(1,107)	(250)	(564)
Reported PAT	11,684	6,096	8,152	8,833
YoY gr. (%)	157.2	(47.8)	33.7	8.4
Margin (%)	36.2	17.5	21.2	20.9
Other Comprehensive Income	306	-	-	-
Total Comprehensive Income	11,990	6,096	8,152	8,833
Equity Shares O/s (m)	441	441	441	441
EPS (Rs)	33.1	16.3	19.0	21.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	34,932	36,263	37,594	38,925
Tangibles	12,148	13,378	14,609	15,840
Intangibles	22,785	22,885	22,985	23,085
Acc: Dep / Amortization	21,933	24,186	25,915	27,695
Tangibles	4,749	5,652	6,641	7,716
Intangibles	17,184	18,534	19,274	19,979
Net fixed assets	12,999	12,077	11,679	11,230
Tangibles	7,398	7,726	7,968	8,124
Intangibles	5,601	4,351	3,711	3,106
Capital Work In Progress	31	31	31	31
Goodwill	242	242	242	242
Non-Current Investments	2,729	2,771	2,785	2,801
Net Deferred tax assets	2,763	(83)	(91)	(100)
Other Non-Current Assets	1,009	1,005	1,166	1,321
Current Assets				
Investments	1,257	2,514	3,771	5,657
Inventories	3,576	3,743	4,088	4,468
Trade receivables	3,209	2,483	2,629	2,893
Cash & Bank Balance	298	4,742	6,053	5,935
Other Current Assets	1,884	1,917	2,111	2,323
Total Assets	30,566	31,732	34,784	37,153
Equity				
Equity Share Capital	441	441	441	441
Other Equity	20,324	21,946	24,313	25,818
Total Networkth	20,766	22,388	24,754	26,259
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	252	278	305	336
Other non current liabilities	179	145	191	244
Current Liabilities				
ST Debt / Current of LT Debt	2,637	1,500	1,500	1,500
Trade payables	4,087	4,342	4,647	5,086
Other current liabilities	2,424	2,812	3,095	3,416
Total Equity & Liabilities	30,566	31,732	34,783	37,153

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	7,078	6,840	9,243	10,490
Add. Depreciation	3,245	2,253	1,729	1,780
Add. Interest	51	124	105	105
Less Financial Other Income	953	242	342	477
Add. Other	(869)	(167)	(264)	(396)
Op. profit before WC changes	9,504	9,050	10,812	11,979
Net Changes-WC	(4,726)	4,264	(120)	(123)
Direct tax	1,487	(718)	(1,063)	(1,626)
Net cash from Op. activities	6,265	12,596	9,630	10,230
Capital expenditures	(5,332)	(1,301)	(1,407)	(1,393)
Interest / Dividend Income	861	141	236	365
Others	(968)	-	-	-
Net Cash from Inv. activities	(5,439)	(1,159)	(1,171)	(1,028)
Issue of share cap. / premium	(1,875)	(63)	(50)	(50)
Debt changes	1,718	(1,137)	-	-
Dividend paid	(3,556)	(4,412)	(5,735)	(7,279)
Interest paid	(51)	(124)	(105)	(105)
Others	-	-	-	-
Net cash from Fin. activities	(3,764)	(5,736)	(5,890)	(7,434)
Net change in cash	(2,938)	5,701	2,569	1,768
Free Cash Flow	933	11,295	8,223	8,837

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	9,719	7,704	7,733	8,138
YoY gr. (%)	4.1	5.4	17.0	3.2
Raw Material Expenses	3,170	2,899	2,861	2,716
Gross Profit	6,549	4,805	4,872	5,422
Margin (%)	67.4	62.4	63.0	66.6
EBITDA	3,415	1,639	1,733	1,954
YoY gr. (%)	0.4	0.7	2.1	(29.5)
Margin (%)	35.1	21.3	22.4	24.0
Depreciation / Depletion	844	835	881	479
EBIT	2,571	805	852	1,475
Margin (%)	26.5	10.4	11.0	18.1
Net Interest	18	18	25	18
Other Income	166	303	63	420
Profit before Tax	2,719	1,090	891	1,877
Margin (%)	28.0	14.1	11.5	23.1
Total Tax	491	318	120	54
Effective tax rate (%)	18.1	29.2	13.5	2.9
Profit after Tax	2,228	771	771	1,823
Minority interest	-	-	44	-
Share Profit from Associates	(33)	(59)	-	(22)
Adjusted PAT	2,195	712	727	1,801
YoY gr. (%)	5.1	(18.7)	(6.6)	(2.8)
Margin (%)	22.6	9.2	9.4	22.1
Extra Ord. Income / (Exp)	-	52	-	-
Reported PAT	2,195	764	727	1,801
YoY gr. (%)	5.1	(12.9)	(6.6)	(2.8)
Margin (%)	22.6	9.9	9.4	22.1
Other Comprehensive Income	-	231	(212)	192
Total Comprehensive Income	2,195	891	515	1,993
Avg. Shares O/s (m)	-	441	445	445
EPS (Rs)	-	1.6	1.6	4.1

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	33.1	16.3	19.0	21.3
CEPS	40.7	21.4	23.0	25.3
BVPS	47.1	50.7	56.1	59.5
FCF	2.1	25.6	18.6	20.0
DPS	8.1	10.0	13.0	16.5
Return Ratio(%)				
RoCE	44.4	28.4	35.9	37.5
ROIC	32.1	27.5	36.1	39.6
RoE	76.0	33.4	35.6	36.8
Balance Sheet				
Net Debt : Equity (x)	0.1	(0.3)	(0.3)	(0.4)
Net Working Capital (Days)	31	20	20	20
Valuation(x)				
PER	14.1	28.5	24.4	21.8
P/B	9.9	9.2	8.3	7.8
P/CEPS	11.4	21.7	20.3	18.4
EV/EBITDA	16.3	22.2	18.3	16.4
EV/Sales	6.4	5.7	5.1	4.6
Dividend Yield (%)	1.7	2.1	2.8	3.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Oct-22	Accumulate	574	499
2	29-Jul-22	Accumulate	611	452
3	07-Jul-22	Accumulate	611	470
4	13-May-22	Accumulate	611	428
5	08-Apr-22	Accumulate	607	464
6	27-Mar-22	Accumulate	607	449
7	03-Feb-22	Accumulate	624	498
8	06-Jan-22	Accumulate	624	511

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	3,326	3,141
2	Avenue Supermarts	BUY	5,121	4,306
3	Britannia Industries	Hold	4,142	3,804
4	Colgate Palmolive	Accumulate	1,639	1,605
5	Dabur India	Accumulate	615	549
6	Emami	Accumulate	574	499
7	Hindustan Unilever	Accumulate	2,798	2,654
8	ITC	Accumulate	365	350
9	Jubilant FoodWorks	BUY	685	613
10	Kansai Nerolac Paints	Accumulate	563	465
11	Marico	Hold	543	539
12	Mold-tek Packaging	Hold	947	939
13	Nestle India	Accumulate	20,111	19,388
14	Pidilite Industries	Hold	2,737	2,656
15	Restaurant Brands Asia	Accumulate	156	132
16	Titan Company	Accumulate	2,875	2,770
17	Westlife Foodworld	BUY	847	781

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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