

# EMAMI Ltd.

Industry Cons. Staples  
Bloomberg HMN IN  
BSE CODE 531162

## Muted sales on the back of negative volume growth

<b>RATING</b>	<b>NEUTRAL</b>
<b>CMP</b>	<b>404</b>
<b>Price Target</b>	<b>443</b>
<b>Potential Upside</b>	<b>10%</b>

<b>Rating Change</b>	↓
<b>Estimate Change</b>	↓
<b>Target Change</b>	↓

### Stock Info

52wk Range H/L	714/392
Mkt Capital (Rs Cr)	18337
Free float (%)	27%
Avg. Vol 1M (,000)	344
No. of Shares (Cr)	45
Promoters Pledged %	32%

### Research Analyst

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### Key Highlights -

- ❑ Emami's numbers were below than our estimates, sales remained flat for this quarter to Rs 628 cr( vs our expectation of Rs 706 cr) while PAT has de grown by 16% YoY to Rs 82 cr.
- ❑ Overall domestic volume for this quarter declined by ~4% while international business has shown growth of 4%.
- ❑ Contrary to our view, Kesh king and Pancharishta have shown muted growth. Kesh king grew by 2% YoY while Pancharishta's growth remained flat in this quarter.
- ❑ Gross margin improved by 128 bps YoY while Ebitda margin contracted by 190 bps on the back of higher other expenses by 219 bps YoY.
- ❑ Rural growth remained higher than urban. Wholesale channels have stabilized.

### 2Q FY19 Results-

Emami's sales growth remained flat for the quarter while PAT declined by 16%. Flat sales was due to decline in domestic volume by ~4%. Ebitda margin declined by 190 bps mainly led by higher other expenses by 219 bps YoY. Growth in CSD and International business remained muted with the growth of -3% and 4% respectively. Inventory and distributors issues impacted the International business and CSD was impacted by change in order pattern which lead to cancellation of order by the company. The company has enhanced its direct reach to above 9 lakh outlets, increasing by 65000 outlets in H1FY19. Modern Trade grew by 45%in H1FY19.

### View and Valuation

Sales growth in Q2FY19 remained flat while volume declined by ~4%. Contrary to our view of better growth which was based on management's previous commentary, Kesh king and Pancharishta have shown muted growth for the quarter. Compared to other FMCG player's volume growth, Emami's performance remained subdued. International business also did not perform well and grew by only 4%. Going forward, there may be gross margin pressure for the company considering higher mentha prices (up by ~37%since July) and Ebitda margin pressure due to elevated A&P expenses although management has given a guidance of stable Ebitda margin in 2HFY19. We,however believe that higher competitive intensity will not give room to company of cutting A&P for long. Considering subdued domestic & International growth, margin headwinds going forward and company's higher dependence on seasonality (~60-70% ), we have lowered our multiple from 49 to 40 and eps estimates by 12% and 9% for FY19e and FY20e and changed our rating from BUY to Neutral with the target price of Rs 443.

### Key Risks to our rating and target

- ❑ Sharp decline in mentha prices.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	2398	2533	2531	2768	3145
EBITDA	687	759	719	801	926
EBIT	432	451	409	472	601
PAT	364	340	306	363	502
EPS (Rs)	8	7	7	8	11
EPS growth (%)	-25%	-6%	-10%	18%	38%
ROE (%)	22%	19%	15%	17%	21%
ROCE (%)	23%	26%	20%	22%	25%
BV	36	39	44	48	53
P/B (X)	15	14	12	8	8
P/E (x)	64	75	78	51	37

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## 2Q FY 19 Results

### Below than our expectation

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	628	757	617	614	628	0.0%	2.2%	2,533	2,531	-0.1%
Other Income	5	6	2	2	3	-41.8%	58.7%	31	20	-37.3%
COGS	205	233	215	207	197	-3.9%	-4.9%	873	810	-7.2%
Gross Margin	67%	69%	65%	66%	69%	1.3%	2.3%	66%	68%	2.5%
Empl. Cost	66	68	58	70	71	8.4%	1.5%	234	255	9.0%
Other Expen.	57	61	72	71	71	24.2%	0.0%	224	277	23.7%
EBITDA	201	265	173	124	189	-5.9%	53.3%	759	719	-5.2%
EBITDA Mar.	32%	35%	28%	20%	30%	-1.9%	10.1%	30%	28%	-1.5%
Depreciation	15	20	21	23	20	38.0%	-12.2%	309	311	0.7%
EBIT	126	185	92	40	108	-14.6%	170.6%	451	409	-9.3%
Interest	10	9	7	5	4	-57.8%	-4.4%	58	34	-40.9%
PBT	121	181	88	37	107	-12.0%	186.2%	424	394	-7.0%
Exceptional	-	-	-	-	-	-	-	-	-	-
Tax	23	34	27	10	24	5.8%	132.5%	84	86	3.2%
PAT	99	147	60	26	82	-16.4%	211.6%	340	306	-10.0%
PAT Margin	16%	19%	10%	4%	13%	-2.6%	8.8%	13%	12%	-1%

### Flat sales growth on the back of decline in volume

Sales growth in Q2FY19 remained flat while volume declined by ~4%. Contrary to our view of better growth which was based on management's previous commentary, Kesh king and Pancharishta have shown muted growth for the quarter. Although management is taking steps like new packaging of Kesh king Shampoo and special comb applicator to bring growth back. As per management, these initiatives are showing better traction but we need to see how it pans out for coming quarters. On other hands, Pancharishta has also recorded flat growth in this quarter. The company has launched new communication and tied up with celebrity for rejuvenating Pancharishta. Pain management and Boroplus declined by 8% and 7% respectively on account of higher base in Q2FY19. Modern Trade grew by 45% in H1FY19, contributed 8% of the domestic revenue.

### Ebitda margin contracted due to higher other expenses

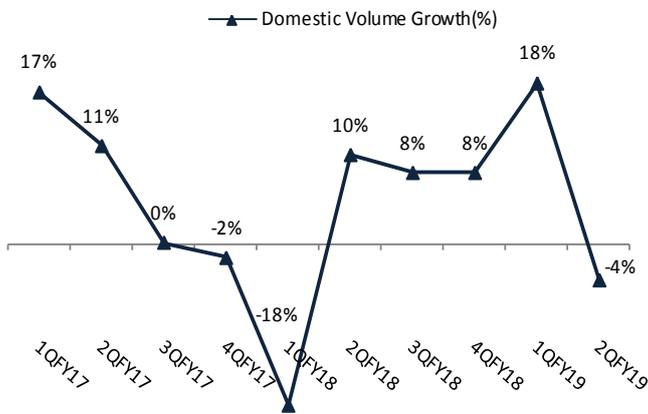
Gross margin improved by 128 bps YoY while Ebitda margin contracted by 190 bps on the back of higher other expenses by 219 bps YoY. Other expenses for this quarter increased by 219 bps YoY to 11.2%. Going forward we expect margin contraction to continue considering higher mentha prices although management has guided for stable margin going ahead but considering higher competitive intensity it would not be possible for long. As per the management, the company may witness gross margin compression in the range of 1-1.5% in 2HFY19 considering higher mentha price (up by 37% since July). But optimistic on maintaining margin at operating level by tinkering other and A&P expenses

### Concall Highlights

- ❑ New packaging of Kesh king Shampoo and special comb applicator has been received well by the market.
- ❑ The company took price hike in the range of 4%-4.5% for entire FY19.
- ❑ Management expects double digit growth from kesh king going forward. Since launch (last 45 days) the Kesh king is showing strong traction and also gained some market share from Patanjali.
- ❑ The company has taken ~8% price hike in new launched Kesh king.
- ❑ The company is confident of clocking double digit revenue growth for FY19.
- ❑ Double digit volume growth is still challenging but if winters remains strong than it is possible.
- ❑ The company has enhanced its direct reach to above 9 lakh outlets, increasing by 65000 outlets in H1FY19.
- ❑ The company may witness gross margin compression in the range of 1-1.5% in 2HFY19 considering higher mentha price (up by 37% since July). But optimistic on maintaining margin at operating level by tinkering other and A&P expenses.
- ❑ The company is expected to incur A&P expenses in the range of 18-19%.
- ❑ Other income is expected to be slightly better than 1HFY19.
- ❑ Tax rate : 20-21% for FY19.

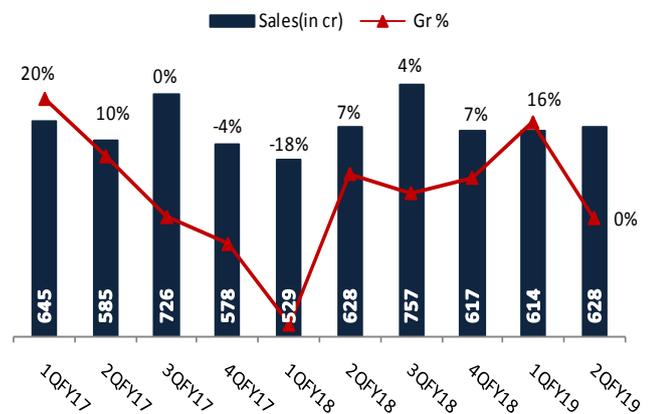
## Exhibit: Overall Volume Growth(%)

High base and muted growth in Kesh King & Pancharishta impacted the volume growth of the company.



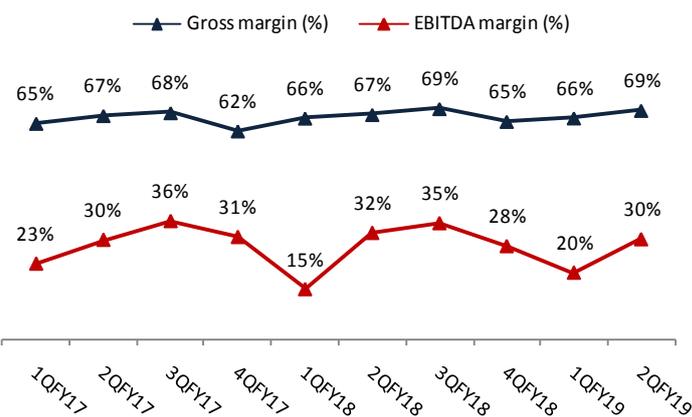
## Exhibit: Sales and Sales Growth

Sales for this quarter remained flat to Rs 628 cr( vs our expectation of Rs 706 cr).



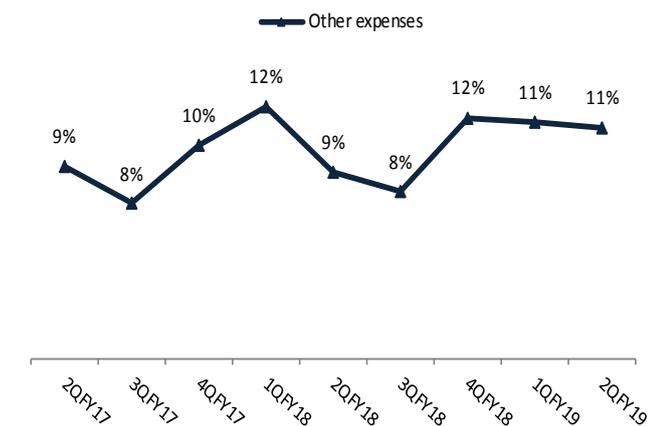
## Exhibit: Gross and EBITDA Margin

Gross margin improved by 128 bps YoY while Ebitda margin contracted by 190 bps on the back of higher other expenses.



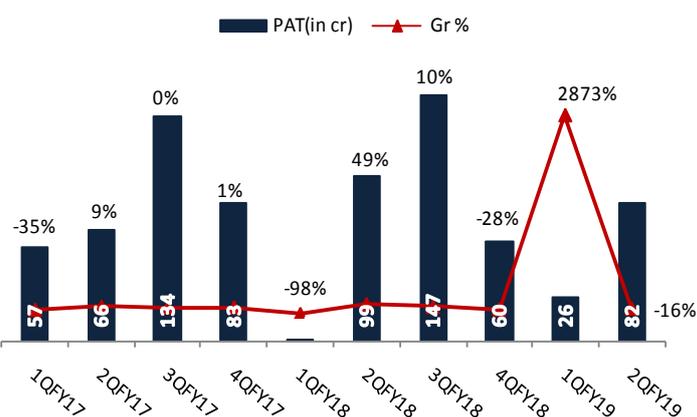
## Exhibit: Other Expenses

Ebitda margin declined by 190 bps mainly led by higher other expenses by 219 bps YoY.



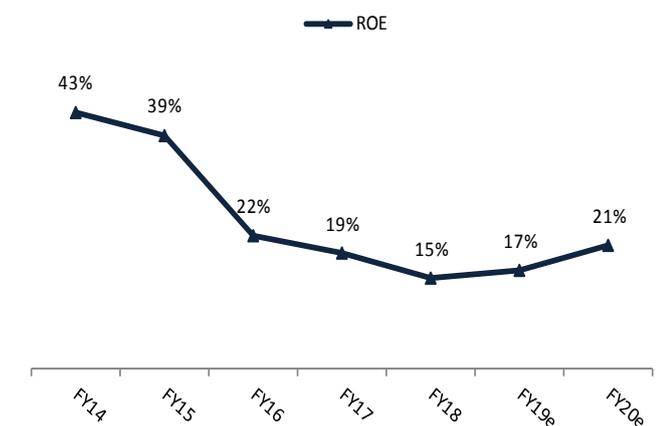
## Exhibit: PAT and PAT Growth

Volatility in earnings continues, PAT declined by 16% in this quarter.



## Exhibit: Return on Equity

We expect 143 bps and 418 bps improvement in ROE in FY19e and FY20e.



## Financial Details

## Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	15	23	23	23	23	23	45	45
Reserves	762	909	1,208	1,589	1,732	1,991	2,135	2,366
<b>Networth</b>	<b>777</b>	<b>932</b>	<b>1,231</b>	<b>1,612</b>	<b>1,755</b>	<b>2,014</b>	<b>2,181</b>	<b>2,411</b>
Debt	86	22	19	671	173	326	253	178
Other Non Current Liab	21	22	41	46	80	73	73	73
<b>Total Capital Employed</b>	<b>863</b>	<b>954</b>	<b>1,250</b>	<b>2,283</b>	<b>1,928</b>	<b>2,340</b>	<b>2,433</b>	<b>2,589</b>
Net Fixed Assets (incl CWIP)	440	408	478	2,037	2,011	1,828	1,592	1,360
Non Current Investments	7	7	7	35	94	186	186	186
Other Non Current Assets	39	42	48	114	49	86	86	86
<b>Non Current Assets</b>	<b>485</b>	<b>457</b>	<b>532</b>	<b>2,187</b>	<b>2,155</b>	<b>2,100</b>	<b>1,864</b>	<b>1,632</b>
Inventory	114	141	127	151	179	194	212	241
Debtors	112	79	103	131	97	156	171	194
Cash & Bank	282	270	354	108	50	16	45	47
Other Current Assets	223	355	561	115	132	271	671	996
<b>Current Assets</b>	<b>731</b>	<b>846</b>	<b>1,144</b>	<b>505</b>	<b>458</b>	<b>701</b>	<b>1,099</b>	<b>1,478</b>
Creditors	102	143	193	249	185	242	265	301
Provisions	165	121	112	50	59	62	68	77
Other Current Liabilities	65	62	80	65	361	82	121	67
<b>Curr Liabilities</b>	<b>332</b>	<b>326</b>	<b>385</b>	<b>363</b>	<b>605</b>	<b>388</b>	<b>456</b>	<b>447</b>
<b>Net Current Assets</b>	<b>399</b>	<b>519</b>	<b>759</b>	<b>142</b>	<b>(147)</b>	<b>313</b>	<b>643</b>	<b>1,031</b>
<b>Total Assets</b>	<b>1,216</b>	<b>1,302</b>	<b>1,676</b>	<b>2,692</b>	<b>2,613</b>	<b>2,801</b>	<b>2,962</b>	<b>3,110</b>

## Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	1,699	1,821	2,217	2,398	2,533	2,531	2,768	3,145
Change (%)		7%	22%	8%	6%	0%	9%	14%
<b>EBITDA</b>	<b>444</b>	<b>505</b>	<b>535</b>	<b>687</b>	<b>759</b>	<b>719</b>	<b>801</b>	<b>926</b>
Change (%)			6%	28%	10%	-5%	11%	16%
Margin (%)	26%	28%	24%	29%	30%	28%	29%	29%
Depr & Amor.	124	96	34	255	309	311	329	325
<b>EBIT</b>	<b>320</b>	<b>409</b>	<b>501</b>	<b>432</b>	<b>451</b>	<b>409</b>	<b>472</b>	<b>601</b>
Int. & other fin. Cost	7	5	5	54	58	34	25	16
Other Income	56	62	96	44	31	20	15	42
<b>EBT</b>	<b>369</b>	<b>466</b>	<b>592</b>	<b>423</b>	<b>424</b>	<b>394</b>	<b>462</b>	<b>627</b>
Exp Item	-	(9)	-	-	-	-	-	-
Tax	54	55	107	60	84	86	99	125
Minority Int & P/L share of Ass.	(0)	(0)	(0)	(0)	(0)	-	-	-
Reported PAT	315	402	486	364	340	306	363	502
<b>Adjusted PAT</b>	<b>315</b>	<b>410</b>	<b>486</b>	<b>364</b>	<b>340</b>	<b>306</b>	<b>363</b>	<b>502</b>
Change (%)		30%	18%	-25%	-6%	-10%	18%	38%
Margin(%)	19%	23%	22%	15%	13%	12%	13%	16%

## Financial Details

## Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	40%	43%	39%	23%	19%	15%	17%	21%
ROCE	37%	43%	40%	19%	23%	17%	19%	23%
Asset Turnover	1	1	1	1	1	1	1	1
Debtor Days	24	16	17	20	14	22	22	22
Inv Days	24	28	21	23	26	28	28	28
Payable Days	22	29	32	38	27	35	35	35
Int Coverage	49	76	98	8	8	12	19	38
P/E	29	25	47	64	75	78	51	37
Price / Book Value	12	11	18	15	14	12	8	8
EV/EBITDA	20	29	42	34	33	33	23	20
FCF per Share	5	8	9	9	10	10	14	15
Div Yield	1%	2%	1%	0%	1%	1%	1%	1%

## Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	369	466	592	423	424	394	462	627
(inc)/Dec in Working Capital	13	60	73	(56)	23	(61)	21	(82)
Non Cash Op Exp	28	41	31	263	314	311	329	325
Int Paid (+)	(31)	(38)	(52)	43	56	34	25	16
Tax Paid	(50)	(77)	(96)	(96)	(71)	(81)	(99)	(125)
others	(5)	(24)	(15)	(15)	(16)	(4)	-	-
<b>CF from Op. Activities</b>	<b>323</b>	<b>428</b>	<b>534</b>	<b>562</b>	<b>730</b>	<b>588</b>	<b>738</b>	<b>761</b>
(inc)/Dec in FA & CWIP	(85)	(65)	(110)	(1,816)	(285)	(124)	(92)	(93)
Free Cashflow	238	363	424	(1,255)	444	464	646	668
(Pur)/Sale of Inv	(78)	(138)	(284)	429	(76)	(186)	(387)	(303)
others	39	61	160	81	64	84	-	-
<b>CF from Inv. Activities</b>	<b>(124)</b>	<b>(142)</b>	<b>(234)</b>	<b>(1,306)</b>	<b>(297)</b>	<b>(279)</b>	<b>(479)</b>	<b>(397)</b>
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	41	75	2	636	(198)	(668)	(73)	(75)
Int. Paid	7	5	(5)	(52)	(58)	(34)	(25)	(16)
Div Paid (inc tax)	(140)	(221)	(212)	(82)	(235)	(142)	(196)	(271)
others	-	-	-	-	(4)	-	-	-
<b>CF from Fin. Activities</b>	<b>48</b>	<b>80</b>	<b>(215)</b>	<b>502</b>	<b>(496)</b>	<b>(324)</b>	<b>(294)</b>	<b>(362)</b>
Inc(Dec) in Cash	247	367	81	(249)	(72)	(12)	(35)	3
<b>Add: Opening Balance</b>	<b>276</b>	<b>281</b>	<b>268</b>	<b>350</b>	<b>101</b>	<b>28</b>	<b>80</b>	<b>45</b>
Closing Balance	523	647	350	101	28	16	45	47

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