

Industry	Consum. Staples
Bloomberg	HMN IN
BSE CODE	531162

Numbers better than our expectation, liquidity issue in wholesale channel impacted growth

RATING	BUY
CMP	317
Price Target	393
Potential Upside	24%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	586/246
Mkt Capital (Rs Cr)	14367
Free float (%)	27%
Avg. Vol 1M (,000)	773
No. of Shares (Crs)	45
Promoters Pledged %	47%

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1QFY20 Result update

- EMAMILTD reported results above our estimates; revenue grew by 5.6% YoY to Rs. 649 cr. (vs. expect. of Rs. 632 cr.), lowered on account of domestic business volume growth which remained flat while overall volume growth stood at 2% for the quarter.
- The Company's domestic business growth remained impacted due to adverse economic conditions such as channel liquidity issues, muted rural incomes along with high base in Q1FY19 while International business (IB) grew by 34% YoY in 1QFY20 driven by strong performance in SAARC and MENAP regions.
- Kesh King and 7 Oils performed strongly while Pain Management, Male Grooming, BoroPlus and Healthcare range de grew by 6%, 7%, 7% and 3% respectively due to higher base.
- The Company's direct reach stood at 9.5 lakh outlets; Wholesale contribution stood at 40-42% in 1QFY20.
- Gross margin declined by 209 bps to 64.17% YoY (vs. expect. of 64.2% YoY) led by increase in key input prices(mentha oil(higher cost inventory)) while EBITDA margin expanded by 58 bps to 20.68% YoY (vs. expect. of 17.5% YoY) led by reduction in Ad expenses(down by 332 bps YoY).
- PAT grew by 47.8% YoY to Rs. 39 cr. (vs. expect. Rs. 31 cr.) Led by higher other income; PAT margin expanded by 172 bps to 6%.

View and Valuation

EMAMILTD's Q1FY20 numbers are better than our expectation; sales were up by 6% YoY to Rs 649 cr (vs expec. Rs 632 cr) while EBITDA and PAT grew by 9% and 48% YoY to Rs 134 cr(expec. Rs 111 cr) and Rs 39 cr(vs expec. Rs31 cr) respectively led by keshking(up by 30% YoY), modern trade(up by 17%) and exports(up by 34%) while wholesale continue to remain sluggish due to tight liquidity. The company continues to gain market share in its key categories like Navratna(gained by 60 bps), Kesh King(by 190 bps) and Balms(by 130 bps YoY). Going forward, we expect gradual improvement(although subdued growth to remain at least for one quarter) in sales led by better traction from Keshking, modern trade, exports and benefit of distribution expansion(as company has already ramp up its direct reach to 9.5 lakh outlets (from 7.9 lakh in Q2FY18)). While, the company has tailwinds in terms of declining crude and Mentha oil which will help in improvement in margin from Q3FY20 onwards (as old inventory will run out). Considering all, we have kept our estimates for FY20 and FY21e largely the same and maintain our earlier target price of Rs 393 with the recommendation BUY.

Key Risks to our rating and target

- Further economic slowdown.
- Steep increase in crude and mentha oil prices.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	2533	2531	2693	3012	3334
EBITDA	759	719	726	857	969
EBIT	451	409	400	522	635
PAT	340	306	303	436	554
EPS (Rs)	7	7	7	10	12
EPS growth (%)	-6%	-10%	-1%	44%	27%
ROE (%)	19%	15%	15%	19%	23%
ROCE (%)	23%	17%	18%	22%	25%
BV	39	44	46	49	54
P/B (X)	14.5	11.8	7.5	6.3	5.8
P/E (x)	74.7	77.8	51.2	32.5	25.6

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1QFY20 Results**Result above expectation**

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	Fig in Rs Cr
										YoY %
Net Sales	614	628	811	640	649	5.6%	1.4%	2,531	2,693	6.4%
Other Income	2	3	6	17	11	486.2%	-33.4%	20	37	87.6%
COGS	207	197	268	251	232	12.1%	-7.3%	810	923	14.0%
Gross Margin	66%	69%	67%	61%	64%	-2.1%	3.4%	68%	66%	-2.3%
Adv. Expenses	143	100	129	99	129	-9.5%	30.4%	470	470	0.1%
Empl. Cost	70	71	70	68	77	9.8%	13.5%	255	280	9.8%
Other Exp.	71	71	78	67	76	7.3%	12.9%	277	295	6.3%
EBITDA	124	189	267	155	134	8.6%	-13.3%	719	726	0.8%
EBITDA Mar.	20%	30%	33%	24%	21%	0.6%	-3.5%	28%	27%	-1.5%
Depreciation	23	20	18	16	20	-11.2%	27.6%	311	325	4.7%
EBIT	40	108	187	74	50	26.6%	-31.5%	409	400	-2.0%
Interest	5	4	6	6	4	-5.0%	-30.0%	34	21	-37.6%
PBT	37	107	187	85	58	54.6%	-32.0%	394	415	5.5%
Excep. Item	-	-	10	-	-	-	-	-	-	-
Tax	10	24	39	28	18	71.6%	-36.8%	86	101	16.9%
PAT	26	82	138	56	39	47.8%	-30.3%	306	303	-1.2%
PAT Margin	4%	13%	17%	9%	6%	1.7%	-2.7%	12%	11%	-0.9%

Growth led by oil portfolio with continuous market share gains in key brands

Emami posted a sales growth of 5.6%YoY led by an overall volume growth of 2% YoY. Domestic business growth remained impacted due to adverse economic conditions and higher base prevailing in 1QFY19. Kesh King and 7 Oils continued their growth trajectory while Pain Management, Male Grooming, BoroPlus and Healthcare range posted muted growth with de growth of 6%, 7%, 7% and 3% respectively. However, the company's key brands Navratna, Zandu & Mentho Plus balms and BoroPlus continued to gain market shares to 66.8%, 54.7% and 76% respectively in 1QFY20 while Fair & Handsome continued to maintain its leadership position. In International business front, IB grew by 34% led by a strong performance in SAARC and MENAP regions.

Lower Ad exp. ensured EBITDA margin despite of decline in Gross margin

In 1QFY20, Emami posted a decline in gross margin to the extent of 209 bps to 64.17% YoY led by high cost inventory of key input. The Company expects same level of margin in 2QFY20 due to old inventory of crude & Mentha oil. EBITDA Margin improved by 58 bps to 20.68% YoY led by reduction in Advertising expense with a decline of 332 bps while employee and other expense increased by 46 bps and 19 bps. Going ahead, the company expects input cost pressure to ease in 2HFY20 led by favourable prices of crude and mentha oil thereby resulting into margin expansion.

Concall Highlights

- In Domestic market, for the company rural grew by 1% while urban growth stood 2.6% in 1QFY20.
- Navratna posted lower growth share due to slowdown in demand in rural area led by general election.
- Fair and handsome remained impacted due to economic slowdown and expect growth to come back led revival of economy.
- Kesh king witnessed good momentum post re-launch and expect an average growth in a range of 15-17% for FY20.
- Modern trade grew by 17% with contributing 9% to the Domestic business in 1QFY20.
- **Management Guidance:**
 - The Management expects the business to bounce back led by government initiatives to put rural growth on fast track, favourable monsoon and strategic decision made by the company.
 - The Company remains optimistic about its healthcare range led by growth in Pancharishta, distribution channel and the earlier launches.
 - Promoter pledge stood at 52% as of date and will reduce further in next 6-9 months.
 - The Management expects same level of margin in 2QFY20 due to old inventory of crude & Mentha oil and expects input cost pressure to ease in 2HFY20 led by favourable prices of crude and mentha oil.
 - Ad & promotion is expected to be at FY19 level and may vary as per market reaction.
 - The Company witnessed pressure in Balm category due to late Monsoon; expects to grow in a range of 6-7% for FY20 led by consumer initiative and trade push.
 - Tax rate Guidance for FY20-22%.

Exhibit: Domestic Volume growth

Domestic Vol. remained flat due to adverse economic conditions such as liquidity issues and muted rural income.

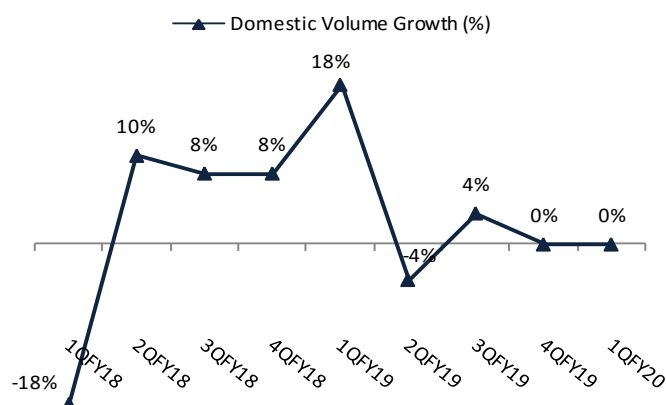


Exhibit: Sales and Sales Growth

Growth led by strong performance of Kesh king & 7 oil in domestic market; SAARC & MENAP region in IB market.

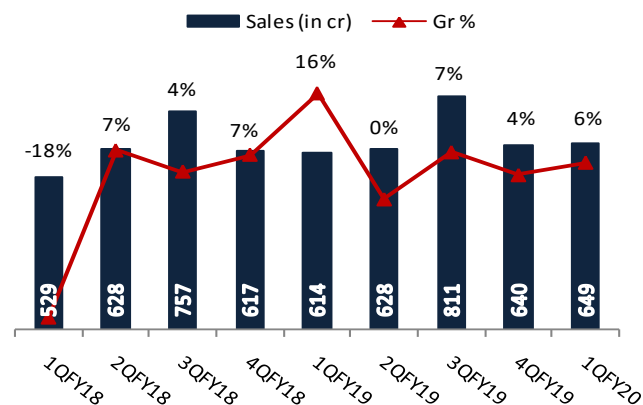


Exhibit: Gross and EBITDA Margin

Gross margin remained impacted by high cost inventory of raw material while EBITDA margin expanded by 58 bps YoY.

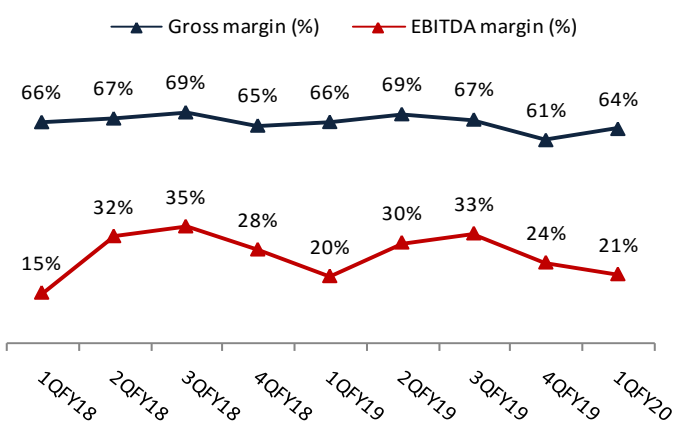


Exhibit: Ad Expenses

The company did lower Ad expenses (declined by 332 bps) considering slow down across market.

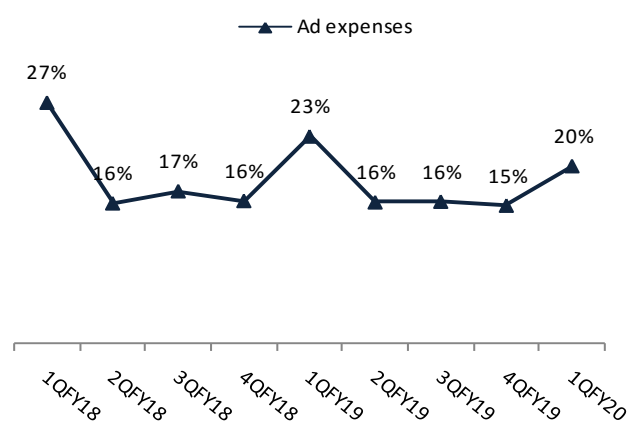


Exhibit: PAT and PAT Growth

PAT grew by 47.8% YoY to Rs. 39 cr. with PAT margin expansion of 172 bps to 6%.

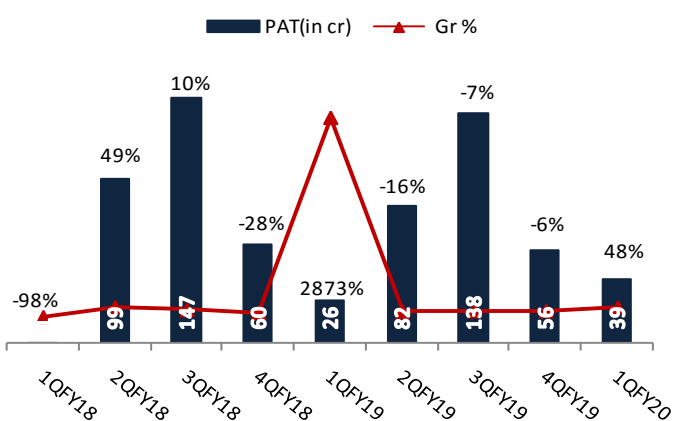
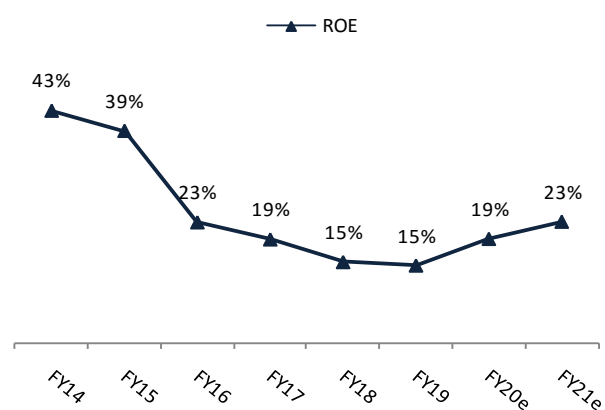


Exhibit: Return on equity

Return on Equity (ROE) is expected to be at 23% in FY21 (sequential improvement).



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	23	23	23	23	23	45	45	45
Reserves	909	1,208	1,589	1,732	1,991	2,031	2,192	2,397
Networth	932	1,231	1,612	1,755	2,014	2,076	2,237	2,442
Debt	22	19	671	173	326	110	110	110
Other Non Current Liab	22	41	46	80	73	66	66	66
Total Capital Employed	954	1,250	2,283	1,928	2,340	2,186	2,347	2,552
Net Fixed Assets (incl CWIP)	408	478	2,037	2,011	1,828	1,712	1,576	1,439
Non Current Investments	7	7	35	94	186	179	179	179
Other Non Current Assets	42	48	114	49	86	40	40	40
Non Current Assets	457	532	2,187	2,155	2,100	1,973	1,836	1,700
Inventory	141	127	151	179	194	222	248	274
Debtors	79	103	131	97	156	216	242	268
Cash & Bank	270	354	108	50	16	116	375	432
Other Current Assets	355	561	115	132	271	208	349	648
Current Assets	846	1,144	505	458	701	849	1,214	1,622
Creditors	143	193	249	185	242	291	326	361
Provisions	121	112	50	59	62	115	129	704
Other Current Liabilities	62	80	65	361	82	157	176	194
Curr Liabilities	326	385	363	605	388	570	637	704
Net Current Assets	519	759	142	(147)	313	279	577	918
Total Assets	1,302	1,676	2,692	2,613	2,801	2,822	3,050	3,322

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	1,821	2,217	2,398	2,533	2,531	2,693	3,012	3,334
Change (%)	0	22%	8%	6%	0%	6%	12%	11%
EBITDA	505	535	687	759	719	726	857	969
Change (%)		6%	28%	10%	-5%	1%	18%	13%
Margin (%)	28%	24%	29%	30%	28%	27%	28%	29%
Depr & Amor.	96	34	255	309	311	325	335	335
EBIT	409	501	432	451	409	400	522	635
Int. & other fin. Cost	5	5	54	58	34	21	19	19
Other Income	62	96	44	31	20	37	60	80
EBT	466	592	423	424	394	415	563	696
Exp Item	(9)	-	-	-	-	(10)	-	-
Tax	55	107	60	84	86	101	124	139
Minority Int & P/L share of Ass.	(0)	(0)	(0)	(0)	-	-	-	-
Reported PAT	402	486	364	340	306	303	436	554
Adjusted PAT	410	486	364	340	306	310	436	554
Change (%)	0	18%	-25%	-6%	-10%	1%	41%	27%
Margin(%)	23%	22%	15%	13%	12%	12%	14%	17%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	43%	39%	23%	19%	15%	15%	19%	23%
ROCE	43%	40%	19%	23%	17%	18%	22%	25%
Asset Turnover	1	1	1	1	1	1	1	1
Debtor Days	16	17	20	14	22	29	29	29
Inv Days	28	21	23	26	28	30	30	30
Payable Days	29	32	38	27	35	39	39	39
Int Coverage	76	98	8	8	12	19	28	34
P/E	25	47	64	75	78	51	32	26
Price / Book Value	11	18	15	14	12	7	6	6
EV/EBITDA	29	42	34	33	33	43	16	14
FCF per Share	8	9	9	10	10	4	6	8
Div Yield	1.6%	0.7%	0.3%	0.8%	0.5%	0.5%	1.6%	2.1%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	466	592	423	424	394	403	560	693
(inc)/Dec in Working Capital	60	73	(56)	23	(61)	(74)	(9)	(9)
Non Cash Op Exp	41	31	263	314	311	322	335	335
Int Paid (+)	(38)	(52)	43	56	34	21	19	19
Tax Paid	(77)	(96)	(96)	(71)	(81)	(93)	(124)	(139)
others	(24)	(15)	(15)	(16)	(9)	(29)	-	-
CF from Op. Activities	428	534	562	730	588	554	781	898
(inc)/Dec in FA & CWIP	(65)	(110)	(1,816)	(285)	(124)	(139)	(198)	(198)
Free Cashflow	363	424	(1,255)	444	464	415	583	700
(Pur)/Sale of Inv	(138)	(284)	429	(76)	(240)	84	(117)	(275)
others	61	160	81	64	84	24	-	-
CF from Inv. Activities	(142)	(234)	(1,306)	(297)	(279)	(23)	(315)	(473)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	75	2	636	(198)	(184)	(219)	(0)	-
Int. Paid	5	(5)	(52)	(58)	(34)	(21)	(19)	(19)
Div Paid (inc tax)	221	(212)	(82)	(235)	(142)	(190)	(275)	(349)
others	-	-	-	(4)	37	3	-	-
CF from Fin. Activities	301	(215)	502	(496)	(324)	(428)	(294)	(368)
Inc(Dec) in Cash	590	81	(249)	(72)	(12)	100	172	57
Add: Opening Balance	281	268	350	101	28	16	203	375
Closing Balance	871	350	101	28	16	116	375	432

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