

Industry	Consum. Staples
Bloomberg	HMN IN
BSE CODE	531162

Numbers below estimates; domestic growth remained dampener.

RATING	HOLD
CMP	326
Price Target	349
Potential Upside	7%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	466/246
Mkt Capital (Rs Cr)	14776
Free float (%)	47%
Avg. Vol 1M (,000)	323
No. of Shares (Cr)	45
Promoters Pledged %	69%

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2QFY20 Result update

- ❑ EMAMILTD's 2QFY20 numbers remained below our estimates; Revenue grew by 5.1% YoY to Rs. 660 cr. (vs. expect. of Rs. 691 cr.), impacted on account of lower domestic business volume growth of 1% YoY while overall volume growth stood at 2.9% for the quarter.
- ❑ The Company's domestic business growth remained impacted due to adverse economic conditions such as liquidity issues and muted consumption in discretionary segment while International business (IB) grew by 20% YoY in 2QFY20 driven by strong performance in Bangladesh and integration of crème 21's business.
- ❑ Boroplus and 7 Oils in One grew by 39%/25% YoY respectively whereas Male Grooming, Kesh king and Navratna cool oil de-grew by 32%/11%/3% YoY respectively.
- ❑ Gross margin improved by 111 bps to 69.72% YoY (vs. expect. of 68.8% YoY) led by decline in key input prices while EBITDA margin declined by 58 bps to 29.2% YoY (vs. expect. of 31% YoY) driven by increase in other expense to the extent of 159 bps to 13.2% YoY.
- ❑ PAT grew by 16.4% YoY to Rs. 96 cr. (vs. expect. Rs. 111 cr.) with PAT margin at 14.5%. Tax as % of PBT stood at 17.9% YoY lower by 459 bps in 2QFY20 while other income grew by 217% to Rs 16 cr.

View and Valuation

EMAMILTD's 2QFY20 numbers remained below than our expectation; Overall volume growth of 2.9% YoY was driven by CSD and International business while domestic volumes remained impacted on account of liquidity and lower discretionary spends. Going forward, gradual improvement in demand on the back of government initiatives and better growth from International Business to drive sales. While Margins are expected to improve led by benign input prices (Mentha oil & crude) and reduction in other expenses on the back of company's cost saving measures. Factoring recent result we have reduced PAT estimates for FY20 by 7% but considering recovery in demand and benign input prices outlook, we have kept FY21 sales and PAT estimates largely unchanged. We maintain Hold rating on EMAMILTD with the target price of Rs 349.

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	2906	3204
EBITDA	759	719	726	806	929
EBIT	451	409	400	477	602
PAT	340	306	303	404	520
EPS (Rs)	7	7	7	9	11
EPS growth (%)	-6%	-10%	-1%	34%	29%
ROE (%)	19%	15%	15%	18%	22%
ROCE (%)	23%	17%	18%	20%	24%
BV	39	44	46	49	53
P/B (X)	14.5	11.8	7.5	6.6	6.1
P/E (x)	74.7	77.8	51.2	36.6	28.4

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2QFY20 Results

Below expectation

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	628	811	640	650	660	5.1%	1.6%	2,531	2,693	6.4%
Other Income	5	6	17	11	16	217.4%	54.2%	20	37	87.6%
COGS	197	268	251	232	200	1.4%	-14.0%	810	923	14.0%
Gross Margin	69%	67%	61%	64%	70%	1.1%	5.5%	68%	66%	-2.3%
Adv. Expenses	100	129	99	129	105	5.4%	-18.7%	470	470	0.1%
Empl. Cost	71	70	68	77	75	5.5%	-2.5%	255	280	9.8%
Other Exp.	73	78	67	76	87	19.5%	14.8%	277	295	6.3%
EBITDA	187	267	155	135	193	3.0%	42.9%	719	726	0.8%
EBITDA Mar.	30%	33%	24%	21%	29%	-0.6%	8.5%	28%	27%	-1.5%
Depreciation	20	18	16	20	18	-11.6%	-12.6%	311	325	4.7%
EBIT	106	187	74	51	111	4.9%	116.4%	409	400	-2.0%
Interest	4	6	6	4	9	112.8%	114.3%	34	21	-37.6%
PBT	107	187	85	58	118	10.8%	105.1%	394	415	5.5%
Excep. Item	-	10	-	-	-	-	-	-	-	-
Tax	24	39	28	18	21	-11.8%	19.4%	86	101	16.9%
PAT	82	138	56	39	96	16.4%	145.4%	306	303	-1.2%
PAT Margin	13%	17%	9%	6%	15%	1.4%	8.5%	12%	11%	-0.9%

Concall Highlights

- The Company's domestic growth remained impacted due to channel liquidity issues and muted consumption in discretionary segment.
- The Management expects the business to grow in a range of 9-10% in remaining 6 months led by settling of winters in 2HFY20.
- **Management Guidance**
 - Management expects demand scenario to improve in 2HFY20 led by measures taken by RBI and government while margins are expected to improve led by declining input prices and cost saving measures undertaken by company.
 - The Management expects EBITDA margin expansion led by gross margin expansion, reduction in other administrative expense and is also emphasizing on reducing in Ad & P expense in coming quarters.
 - The Company will launch new brands in 4QFY20. (But will not increase Ad & P budget with new launches)
 - The Management expects international business to be better in 2HFY20.
 - Both urban and rural grew on a same pace in Domestic market, for the company in 2QFY20.
 - Effective tax rate for FY20-19% and 19%-20% for next 5 years on consolidated basis.
 - The Management expects to remain under MAT for more than at-least 5 years.
- **2QFY20 Result Update**
 - Kesh king and Fair & Handsome remained impacted due to lower spending in discretionary segment and expect the impact to be temporary.
 - For the Company, growth was driven by CSD and International business.
 - Healthcare range outlook-The Management expect Healthcare range revival to take time.
 - Wholesale contribution stood at 38-40% in 2QFY20.
 - In 2QFY20, for the company cash & carry channel is contributing in a range of 4-5% of sales.
 - Modern trade grew by 4% contributing to the extent of 9% to the Domestic business in 2QFY20.
 - Other income remained high on account of interest from investment and from sale of land (to the extent of Rs. 3 cr.).

Exhibit: Domestic Volume growth

Domestic vol. remained impacted due to adverse economic conditions such as liquidity issues & muted rural income.

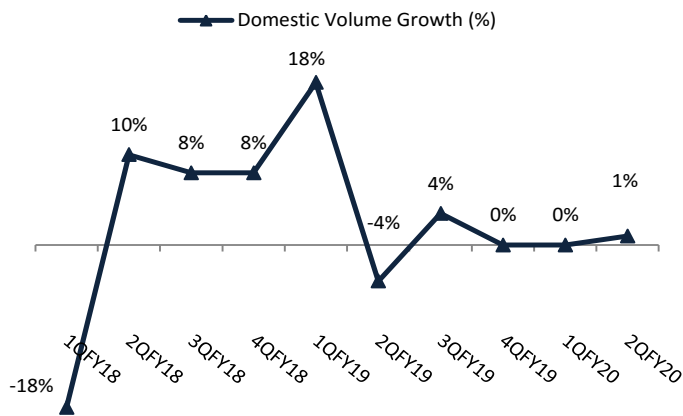


Exhibit: Sales and Sales Growth

Growth led by Boroplus & 7 oil in domestic market; SAARC & MENAP region in IB market.

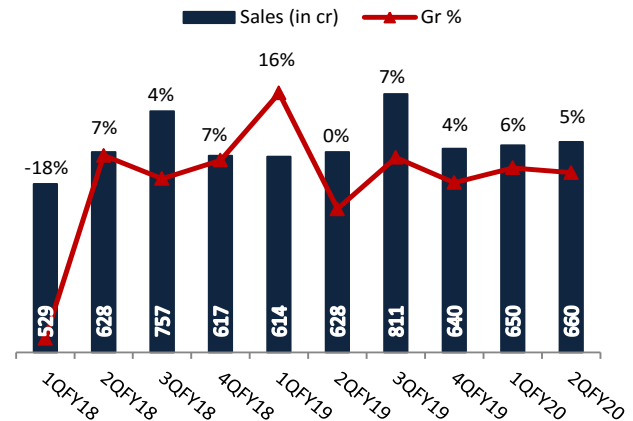


Exhibit: Gross and EBITDA Margin

Gross margin expansion led by lower input cost while EBITDA margin declined on account of increased other expenses.

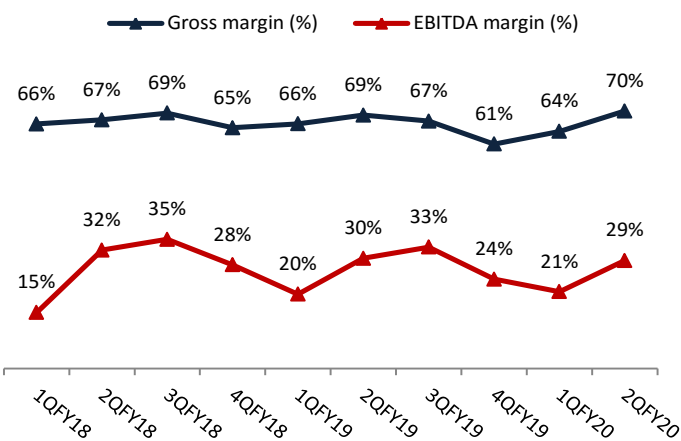


Exhibit: Other Expenses

Other expense increased by 159 bps to 13.2% YoY which include one-time expense to the extent Rs. 5.5 cr.

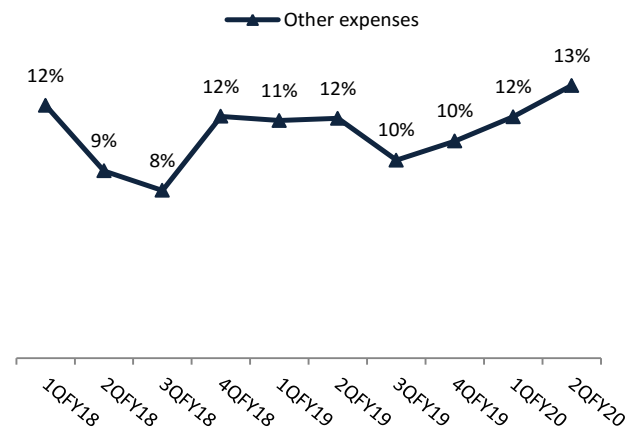
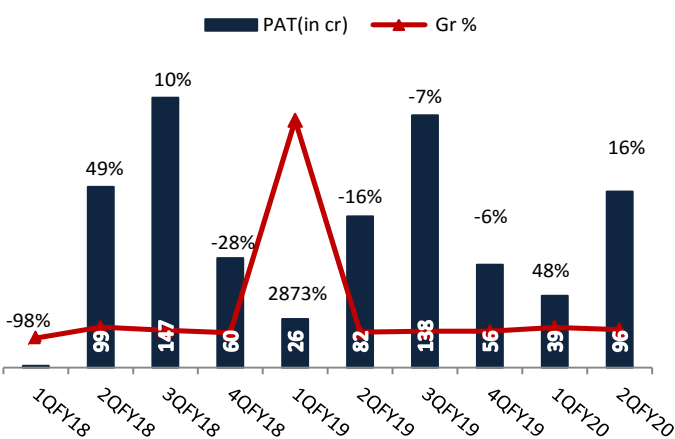


Exhibit: PAT and PAT Growth

PAT grew by 16.4% YoY to Rs. 96 cr. with PAT margin at 14.5%.



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	2,180	2,373
Networth	932	1,231	1,612	1,755	2,014	2,076	2,226	2,418
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	2,335	2,528
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	239	264
Debtors	79	103	131	97	156	216	234	257
Cash & Bank	270	354	108	50	16	116	366	412
Other Current Assets	355	561	115	132	271	208	341	638
Current Assets	846	1,144	505	458	701	849	1,180	1,571
Creditors	143	193	249	185	242	291	314	347
Provisions	121	112	50	59	62	115	124	677
Other Current Liabilities	62	80	65	361	82	157	170	187
Curr Liabilities	326	385	363	605	388	570	615	677
Net Current Assets	519	759	142	(147)	313	279	565	894
Total Assets	1,302	1,676	2,692	2,613	2,801	2,822	3,016	3,271

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	2,906	3,204
Change (%)	7%	22%	8%	6%	0%	6%	8%	10%
EBITDA	505	535	687	759	719	726	806	929
Change (%)	14%	6%	28%	10%	-5%	1%	11%	15%
Margin (%)	28%	24%	29%	30%	28%	27%	28%	29%
Depr & Amor.	96	34	255	309	311	325	329	327
EBIT	409	501	432	451	409	400	477	602
Int. & other fin. Cost	5	5	54	58	34	21	33	33
Other Income	62	96	44	31	20	37	60	79
EBT	466	592	423	424	394	415	504	647
Exp Item	(9)	-	-	-	-	(10)	-	-
Tax	55	107	60	84	86	101	96	123
Minority Int & P/L share of Ass.	(0)	(0)	(0)	(0)	-	-	-	-
Reported PAT	402	486	364	340	306	303	404	520
Adjusted PAT	410	486	364	340	306	310	404	520
Change (%)	30%	18%	-25%	-6%	-10%	1%	30%	29%
Margin(%)	23%	22%	15%	13%	12%	12%	14%	16%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	43%	39%	23%	19%	15%	15%	18%	22%
ROCE	43%	40%	19%	23%	17%	18%	20%	24%
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	15	18
P/E	25	47	64	75	78	51	37	28
Price / Book Value	11	18	15	14	12	7	7	6
EV/EBITDA	29	42	34	33	33	43	18	15
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%	1.4%	1.8%

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	500	643
(inc)/Dec in Working Capital	60	73	(56)	23	(61)	(74)	(6)	(8)
Non Cash Op Exp	41	31	263	314	311	322	329	327
Int Paid (+)	(38)	(52)	43	56	34	21	33	33
Tax Paid	(77)	(96)	(96)	(71)	(81)	(93)	(96)	(123)
others	(24)	(15)	(15)	(16)	(9)	(29)	-	-
CF from Op. Activities	428	534	562	730	588	554	760	872
(inc)/Dec in FA & CWIP	(65)	(110)	(1,816)	(285)	(124)	(139)	(193)	(191)
Free Cashflow	363	424	(1,255)	444	464	415	568	681
(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)	(310)	(466)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	75	2	636	(198)	(184)	(219)	(0)	-
Int. Paid	5	(5)	(52)	(58)	(34)	(21)	(33)	(33)
Div Paid (inc tax)	221	(212)	(82)	(235)	(142)	(190)	(255)	(328)
others	-	-	-	(4)	37	3	-	-
CF from Fin. Activities	301	(215)	502	(496)	(324)	(428)	(288)	(361)
Inc(Dec) in Cash	590	81	(249)	(72)	(12)	100	163	46
Add: Opening Balance	281	268	350	101	28	16	203	366
Closing Balance	871	350	101	28	16	116	366	412

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