

Industry
Bloomberg
BSE CODE

Consum. Staples
HMN IN
531162

RATING	HOLD
CMP	300
Price Target	330
Potential Upside	10%

Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	418/246
Mkt Capital (Rs Cr)	13636
Free float (%)	47%
Avg. Vol 1M (,000)	23
No. of Shares (Crs)	45
Promoters Pledged %	72%

RESEARCH ANALYST

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Numbers below estimates; growth was impacted by the seasonality.

3QFY20 Result update

- EMAMILTD's 3QFY20 numbers remained below our estimates; revenue growth remained flat to Rs. 813 cr. (vs. exp. of Rs. 870 cr.), impacted by underperformance of company's winters & male grooming portfolio in domestic market.
- Domestic business growth remained impacted with an overall volumes decline of 1% YoY due to adverse economic conditions such as liquidity issues, delayed winters and muted consumption in discretionary segment while International business (IB) grew by 18% YoY in 3QFY20 driven by strong performance of crème 21's business.
- Pain Management Range, Navratna Cool Oil, Kesh King Range, 7 Oils in One and Healthcare range grew by 13%/11%/18%/66% and 4% YoY respectively whereas Male Grooming and Boroplus de-grew by 39%/12% YoY respectively.
- Gross margin improved by 124 bps to 68.23% YoY (vs. expect. of 68.8% YoY) led by decline in key input prices while EBITDA margin declined by 39 bps to 32% YoY (vs. expect. of 34% YoY) driven by increase in Ad & P expense to the extent of 110 bps to 17% YoY on account of new launches and media spends.
- PAT grew by 5% YoY to Rs. 144 cr. (vs. expect. Rs. 190 cr.) With PAT margin at 17.8%. Tax as % of PBT stood at 21.1% YoY (vs 20.7% in 3QFY19) in 3QFY20 while other income grew by 181% to Rs. 16 cr.

View and Valuation

EMAMILTD's 3QFY20 numbers remained below our expectation; overall volume de-grew by 1% YoY majorly impacted by delayed winters and lower discretionary spends. However, the company's non-winter portfolio performed well and volumes for the same grew by 10% YoY. CSD and International business (IB) grew by 7% and 18% respectively. The Company's Healthcare Range has started turning up and grew by 4% YoY. Going forward, gradual improvement in demand led by government initiatives to push rural growth, better traction from IB, better performance from new launches & existing portfolio with higher penetration will drive sales however, taking account of near-term stress and delay in summer stocking, we have reduced FY20 sales estimates by 5% keeping FY21 sales estimates largely unchanged. Gross margin is expected to improve led by benign input prices while considering management's guidance on other expenses and new launches going ahead, we have increased our other expenses and advertising estimates for FY20 & FY21, which led to PAT decline of 12% and 6% respectively. Considering company's gradual recovery, we maintain our HOLD rating on Emamilttd with a target price of 330 (previous 346).

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	2809	3158
EBITDA	759	719	726	772	909
EBIT	451	409	400	435	566
PAT	340	306	303	365	491
EPS (Rs)	7	7	7	8	11
EPS growth (%)	-6%	-10%	-1%	21%	35%
ROE (%)	19%	15%	15%	17%	21%
ROCE (%)	23%	17%	18%	19%	23%
BV	39	44	46	49	53
P/B (X)	14.0	12.0	7.0	6.0	6.0
P/E (x)	75.0	78.0	51.0	37.0	28.0

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3QFY20 Results Below expectation

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	811	640	650	660	813	0.2%	23.1%	2,531	2,693	6.4%
Other Income	6	17	11	16	16	181.7%	-4.9%	20	37	87.6%
COGS	268	251	232	200	258	-3.6%	29.2%	810	923	14.0%
Gross Margin	67%	61%	64%	70%	68%	1.2%	-1.5%	68%	66%	-2.3%
Adv. Expenses	129	99	129	105	138	7.1%	31.8%	470	470	0.1%
Empl. Cost	70	68	77	75	75	7.1%	-0.6%	255	280	9.8%
Other Exp.	78	67	76	87	77	-0.4%	-11.1%	277	295	6.3%
EBITDA	267	155	135	193	264	-1.0%	36.8%	719	726	0.8%
EBITDA Mar.	33%	24%	21%	29%	32%	-0.4%	3.3%	28%	27%	-1.5%
Depreciation	18	16	20	18	21	20.5%	20.1%	311	325	4.7%
EBIT	187	74	51	111	178	-4.8%	60.6%	409	400	-2.0%
Interest	6	6	4	9	5	-20.9%	-47.1%	34	21	-37.6%
PBT	187	85	58	118	189	1.3%	60.0%	394	415	5.5%
Excep. Item	10	-	-	-	3	-	-	-	-	-
Tax	39	28	18	21	40	3.1%	88.5%	86	101	16.9%
PAT	138	56	39	96	144	5.0%	50.5%	306	303	-1.2%
PAT Margin	17%	9%	6%	15%	18%	0.8%	3.2%	12%	11%	-0.9%

Concall Highlights

Management Guidance

- Management expects demand scenario to stabilize in next 2-3 quarters driven by government spends in rural infrastructure and better GDP growth.
- About promoter's recent Cement deal: Enterprise value of the deal: Rs 5500 cr, after deducting business loan of Rs 2200 cr, promoters will get Rs3300 cr.
- Guidance about pledge: Promoter pledge will come down to ~20% from 70% post execution of Emami cement deal and then will further reduce to 0% by Mar-21. However, the promoter will have to pledge around 8% of promoter holding to the buyer of cement business toward some warranties.
- The Management expects 15% YoY growth in International business in coming quarters.
- The Management expects gross margin to remain in the existing range led by benign input prices in coming quarters.
- The Company has extended credit to the dealers by 12-13 days and may reduce it to 7-8 days post reversal of liquidity issues prevailing in the economy.
- Ad & P expense is expected to be in a range of 17.5%-18% for coming quarters.
- As per the Management the company is yet to see recovery at wholesale and retail level.
- Expected Tax rate for FY21 & FY22-20%

3QFY20 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.).

New Launches

- The Company launched Navratna Garam Ayurvedic Oil, launched across parts of north, east & west zone.
- The Company also launched 3 innovative products i.e. Zandu Ayurvedic Cough Syrup, Zandu SwasthyaVeda Revitalizer, Zandu Striveda Menso-Ease in 3QFY20 in Healthcare range.

Exhibit: Domestic Volume growth

Domestic vol. remained impacted due to underperformance of winter portfolio and lower discretionary spends.

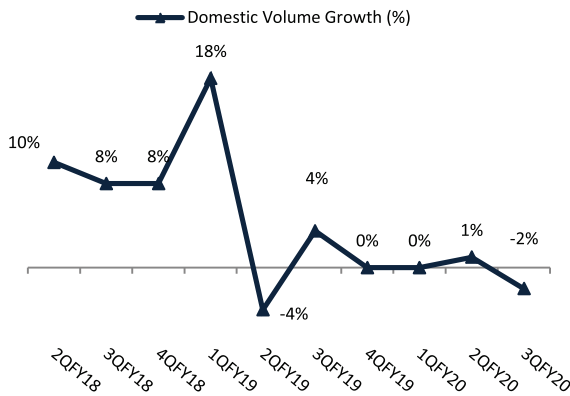


Exhibit: Sales and Sales Growth

Lower domestic volume growth impacted the sales growth of the company.

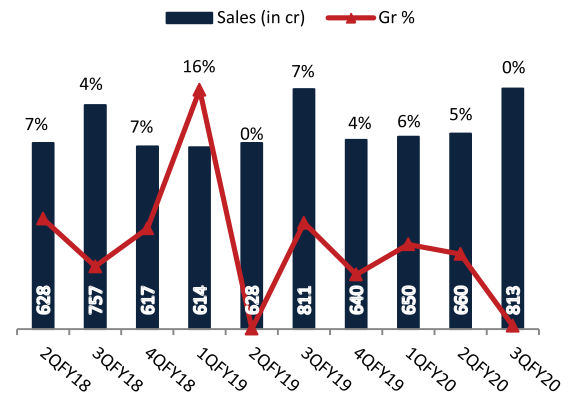


Exhibit: Gross and EBITDA Margin

Gross margin expansion led by lower input cost while EBITDA margin decline was driven by higher Ad & P expense.

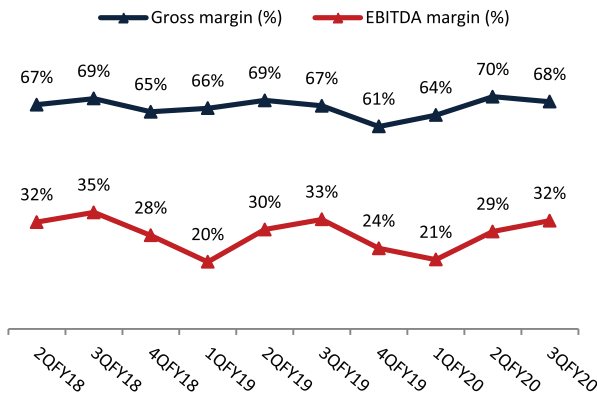


Exhibit: Other Expenses

Other expense declined by 5 bps to 9.5% YoY while Ad & P expense increased by 110 bps to 17% YoY.

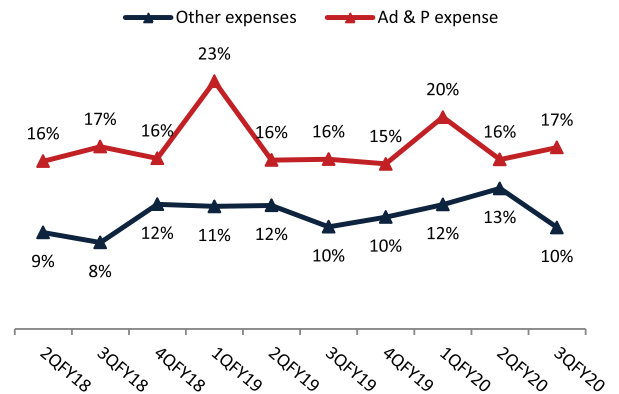


Exhibit: PAT and PAT Growth

PAT grew by 5% YoY to Rs. 144 cr. with PAT margin at 17.8% in 3QFY20.

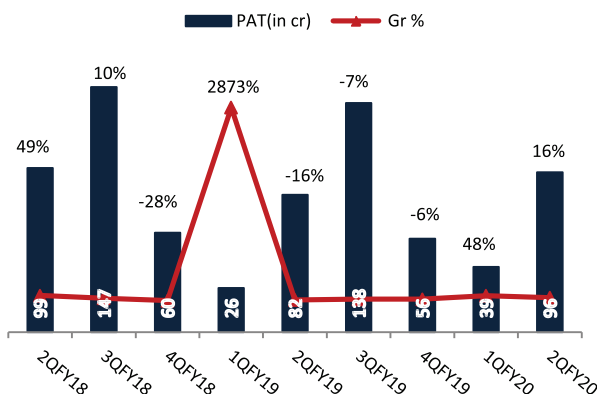
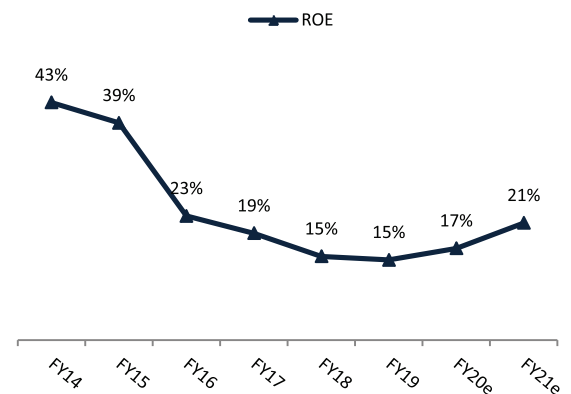


Exhibit: Return on Equity

Return on Equity for FY21 is expected to be at 21% YoY.



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	2,166	2,347
Networth	932	1,231	1,612	1,755	2,014	2,076	2,211	2,393
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	2,321	2,502
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	231	260
Debtors	79	103	131	97	156	216	226	254
Cash & Bank	270	354	108	50	16	116	354	388
Other Current Assets	355	561	115	132	271	208	334	635
Current Assets	846	1,144	505	458	701	849	1,145	1,536
Creditors	143	193	249	185	242	291	304	342
Provisions	121	112	50	59	62	115	120	667
Other Current Liabilities	62	80	65	361	82	157	164	184
Curr Liabilities	326	385	363	605	388	570	594	667
Net Current Assets	519	759	142	(147)	313	279	550	868
Total Assets	1,302	1,676	2,692	2,613	2,801	2,822	2,981	3,236

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	2,809	3,158
Change (%)	7%	22%	8%	6%	0%	6%	4%	12%
EBITDA	505	535	687	759	719	726	772	909
Change (%)	14%	6%	28%	10%	-5%	1%	6%	18%
Margin (%)	28%	24%	29%	30%	28%	27%	27%	29%
Depr & Amor.	96	34	255	309	311	325	337	342
EBIT	409	501	432	451	409	400	435	566
Int. & other fin. Cost	5	5	54	58	34	21	22	22
Other Income	62	96	44	31	20	37	59	77
EBT	466	592	423	424	394	415	472	622
Exp Item	(9)	-	-	-	-	(10)	3	-
Tax	55	107	60	84	86	101	99	124
Minority Int & P/L share of Ass.	(0)	(0)	(0)	(0)	-	-	-	-
Reported PAT	402	486	364	340	306	303	365	491
Adjusted PAT	410	486	364	340	306	310	362	491
Change (%)	30%	18%	-25%	-6%	-10%	1%	17%	36%
Margin(%)	23%	22%	15%	13%	12%	12%	13%	16%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	43%	39%	23%	19%	15%	15%	17%	21%
ROCE	43%	40%	19%	23%	17%	18%	19%	23%
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	20	26
P/E	25	47	64	75	78	51	37	28
Price / Book Value	11	18	15	14	12	7	6	6
EV/EBITDA	29	42	34	33	33	43	17	15
FCF per Share	8	9	9	10	10	4	6	7
Div Yield	1.6%	0.7%	0.3%	0.8%	0.5%	0.5%	1.4%	1.9%

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	464	615
(inc)/Dec in Working Capital	60	73	(56)	23	(61)	(74)	(3)	(10)
Non Cash Op Exp	41	31	263	314	311	322	337	342
Int Paid (+)	(38)	(52)	43	56	34	21	22	22
Tax Paid	(77)	(96)	(96)	(71)	(81)	(93)	(99)	(124)
others	(24)	(15)	(15)	(16)	(9)	(29)	-	-
CF from Op. Activities	428	534	562	730	588	554	720	846
(inc)/Dec in FA & CWIP	(65)	(110)	(1,816)	(285)	(124)	(139)	(200)	(206)
Free Cashflow	363	424	(1,255)	444	464	415	520	640
(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)	(317)	(481)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	75	2	636	(198)	(184)	(219)	-	-
Int. Paid	5	(5)	(52)	(58)	(34)	(21)	(22)	(22)
Div Paid (inc tax)	221	(212)	(82)	(235)	(142)	(190)	(230)	(309)
others	-	-	-	(4)	37	3	-	-
CF from Fin. Activities	301	(215)	502	(496)	(324)	(428)	(252)	(331)
Inc(Dec) in Cash	590	81	(249)	(72)	(12)	100	151	33
Add: Opening Balance	281	268	350	101	28	16	203	354
Closing Balance	871	350	101	28	16	116	354	388

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