

Estimate change

TP change

Rating change



Motilal Oswal values your support in the
Asiamoney Brokers Poll 2022 for India
Research, Sales, Corporate Access and
Trading team. We [request your ballot](#).



Bloomberg	HMN IN
Equity Shares (m)	454
M.Cap.(INRb)/(USDb)	199 / 2.5
52-Week Range (INR)	621 / 394
1, 6, 12 Rel. Per (%)	1/-9/-28
12M Avg Val (INR M)	278

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Sales	31.9	36.4	39.8
Sales Gr. (%)	10.8	14.2	9.2
EBITDA	9.5	10.1	12.2
EBIT Margin (%)	29.8	27.8	30.5
Adj. PAT	8.5	7.9	9.7
Adj. EPS (INR)	19.1	17.7	21.9
EPS Gr. (%)	17.2	-7.1	23.7
BV/Sh.(INR)	46.7	48.3	52.6

Ratios

RoE (%)	44.1	37.2	43.4
RoCE (%)	43.7	43.8	50.7
Payout (%)	42.0	67.8	59.4

Valuation

P/E (x)	23.6	25.4	20.5
P/BV (x)	9.6	9.3	8.5
EV/EBITDA (x)	20.8	19.1	15.8
Div. Yield (%)	1.8	2.7	2.9

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	54.3	54.3	53.9
DII	26.5	24.3	24.5
FII	11.5	12.7	12.5
Others	7.8	8.7	9.2

FII Includes depository receipts

CMP: INR450

TP: INR520 (+16%)

Buy

Subdued result trend continues...

...however, HMN is investing on growth

- Emami (HMN)'s overall volume growth in 1QFY23 stood at 9.6% YoY, while it was 2.4% ex-Dermicool (merged from this quarter). The base of healthcare business along with pain management weakened (v/s good growth in other segments) in 1Q. However, it is likely to be less challenging in subsequent quarters. According to the management, material cost pressures are likely to persist for some more time.
- It is heartening, though, that HMN is investing on growth. Its ad-spends-to-sales ratio is expected to increase by over 100bp in FY23 and investments in Project Khoj (to augment rural distribution) will also continue.
- While sales growth continued to be unimpressive for a company of its size (with a five-/three-/two-year CAGR of 5.1%/5.8%/9.7%, respectively), the trend is getting relatively better. HMN's valuations are also inexpensive. **Maintain BUY with a TP of INR520.**

Sales and gross profit in line; significant miss on EBITDA

- **Emami's consolidated net sales grew 17.8% YoY to INR7.8b (in line).** EBITDA/PBT remained flat YoY at INR1.7b (est. INR1.9b)/ INR1.5b (est. INR1.8b), respectively. Adj. PAT before amortization rose 3.5% YoY to INR1.5b (broadly in line with our estimate).
- Domestic volume rose 9.6% YoY. However, ex-Dermicool it stood at 2.4%.
- Gross margin contracted 340bp YoY to 62.6%. (est. 63%).
- EBITDA margin too contracted 340bp YoY to 22.3% (est. 25%) due to higher ad-spends (+90bp YoY) and other expenses (+50bp YoY) partly offset by lower employee costs as a percentage of sales (-140bp YoY).
- Absolute ad-spends grew 24.1% YoY to INR1.4b.
- **Overall domestic business** improved 13% YoY. Dermicool contributed 8% to domestic sales. Domestic business salience during 1QFY23 was at 85%.
- **International sales** grew 45% YoY, driven by MENA and SAARC. International business salience during 1QFY23 stood at 15%.
- **Domestic segmental performance YoY in 1QFY23:** Navratna (+29%), Pain Management (-30%), BoroPlus (flat), Kesh King (+20%), Male Grooming (+32%), Healthcare (-25%) and 7 Oils in One (+45%).

Highlights from the management commentary

- Rural demand was weak and Jun-Jul'22 did not see any incremental uptick. However, good monsoons can potentially perk up demand.
- International business (15% of sales) did very well with a double-digit growth projected in subsequent quarters.
- Margin pressure will be there in 2QFY23 due to high cost of materials purchased in 1QFY23. HMN has taken a 4.5% price increase cumulatively across the portfolio. The management expects margin recovery in 2HFY23.
- The full-year impact on gross margin will be around 200bp. Ad-spends will be 17-18% of sales for the year.

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Valuation and view

- The ongoing material cost pressure and near-term rural weakness led to a 7.6% cut in our FY23E EPS, while there is no major change to our FY24E EPS.
- HMN's sales CAGR of 9.7% over FY20-FY22 was far better than the 3.0% sales CAGR over FY16-20. If this trajectory leads to sustainable and strong double-digit sales growth, a further re-rating is on the cards.
- We maintain our BUY rating on the stock, driven by its: a) inexpensive valuations at 20.5x FY24E EPS (22.5x including amortization), and b) increase in ad-spends along with expansion in rural distribution reach.
- We arrive at our TP of INR520 (valuing the company at 23x Jun'24E EPS, at a 40% discount to its peers on a pre-amortization basis). **Maintain BUY.**

Consol. Quarterly performance

Y/E MARCH	FY22				FY23				FY22	FY23E	FY23	(INR m) Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	
Domestic volume growth (%)	38.0	6.2	0.0	0.0	9.6	7.0	8.0	8.0	11.1	2.1	8.0	
Net Sales	6,610	7,888	9,719	7,704	7,783	8,953	11,079	8,625	31,920	36,440	7,535	3.3%
YoY change (%)	37.3	7.4	4.1	5.4	17.8	13.5	14.0	12.0	10.8	14.2	14.0	
COGS	2,246	2,464	3,170	2,899	2,911	3,313	3,878	2,906	10,779	13,008	2,788	
Gross Profit	4,363	5,425	6,549	4,805	4,872	5,641	7,201	5,719	21,142	23,433	4,747	2.6%
Gross margin (%)	66.0	68.8	67.4	62.4	62.6	63.0	65.0	66.3	66.2	64.3	63.0	
Other expenditure	2,666	2,653	3,133	3,166	3,139	3,268	3,656	3,223	11,618	13,286	2,863	
% to sales	40.3	33.6	32.2	41.1	40.3	36.5	33.0	37.4	36.4	36.5	38.0	
EBITDA	1,697	2,772	3,415	1,639	1,733	2,373	3,545	2,496	9,524	10,147	1,884	-8.0%
Margins (%)	25.7	35.1	35.1	21.3	22.3	26.5	32.0	28.9	29.8	27.8	25.0	
YoY change	38.0	7.8	0.4	0.7	2.1	-14.4	3.8	52.2	7.9	6.5	11.0	
Depreciation	234	236	242	230	242	264	278	293	942	1,077	257	
Interest	6	8	18	18	25	9	16	16	51	66	7	
Other Income	107	376	166	303	63	226	208	232	953	729	166	
PBT	1,564	2,904	3,322	1,694	1,530	2,325	3,459	2,419	9,483	9,732	1,786	-14.3%
Tax	175	410	491	-259	120	407	605	571	817	1,703	312	
Rate (%)	11.2	14.1	14.8	-15.3	7.8	17.5	17.5	23.6	8.6	17.5	17.5	
Minority interest	-15	-38	-33	-59	-44	-40	-40	-36	-146	-160	-60	
PAT before Amortization	1,404	2,532	2,864	2,013	1,454	1,958	2,893	1,884	8,813	8,189	1,533	-5.2%
YoY change (%)	44.4	18.7	5.7	34.8	3.5	-22.7	1.0	-6.4	20.6	-7.1	9.2	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY22				FY22			
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE
2Y average growth %								
Volumes	5.0	8.1	6.5	19.5	23.8	6.6	4.0	4.0
Sales	5.8	9.3	9.5	21.3	27.5	10.4	9.0	8.7
EBITDA	14.8	20.5	14.6	33.0	20.1	-3.3	2.1	26.5
PAT	19.0	25.1	16.0	43.6	24.0	-2.0	3.4	14.2
% sales								
COGS	34.0	31.2	32.6	37.6	37.4	37.0	35.0	33.7
A&P	16.6	13.4	16.3	19.4	13.8	16.6	18.5	16.6
Other expenditure	40.3	33.6	32.2	41.1	40.3	36.5	33.0	37.4
Employee cost	12.8	10.4	7.4	10.2	12.9	8.2	10.4	12.8
Depreciation	3.5	3.0	2.5	3.0	3.1	3.0	2.5	3.4
YoY change %								
COGS	39.2	12.8	14.6	6.3	29.6	34.5	22.3	0.3
Other expenditure	35.3	2.3	-1.1	7.3	17.7	23.2	16.7	1.8
Other income	60.0	376.7	81.2	-34.9	-41.0	-40.0	25.0	-23.4
EBIT	41.2	7.7	3.7	1.5	1.9	-16.9	3.0	56.3



Highlights from the management commentary

Performance and outlook

- The current environment continues to remain challenging thereby affecting demand and margins.
- Rural demand was weak and Jun-Jul'22 did not see any incremental uptick. However, good monsoons can potentially perk up demand.
- Pain management and healthcare both declined by 25-30%
- International business (15% of sales) did very well with a double-digit growth projected in subsequent quarters.
- New acquisition i.e. Dermicool was 8% of sales for the quarter. Summer is the crucial quarter for Dermicool. 1Q and 4Q are ~90% of sales with negligible sales in 2Q and 10% of annual sales in 4Q.

Costs and margins

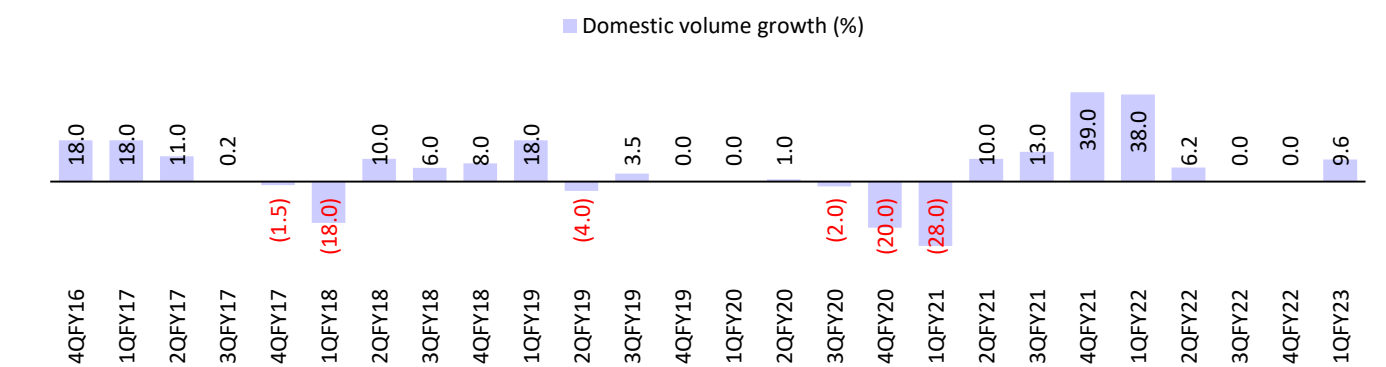
- Adverse mix (lower sales of pain management and healthcare) has also affected margins.
- Margin pressure will be there in 2QFY23 due to high cost of materials purchased in 1QFY23. HMN has taken a 4.5% price increase cumulatively across the portfolio. The management expects margin recovery in 2HFY23.
- The full-year impact on gross margin will be around 200bp. Ad-spends will be 17-18% of sales for the year.

Other points

- Amortization charge will be INR220m for the next three quarters.
- Tax rate in FY23 is likely to be ~18%.

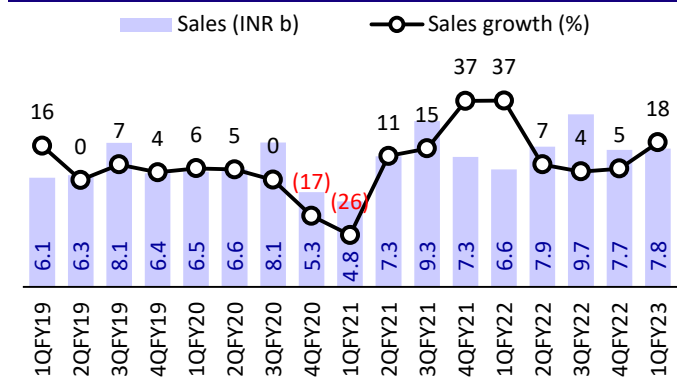
Key exhibits

Exhibit 1: Domestic volumes grew 9.6% YoY in 1QFY23



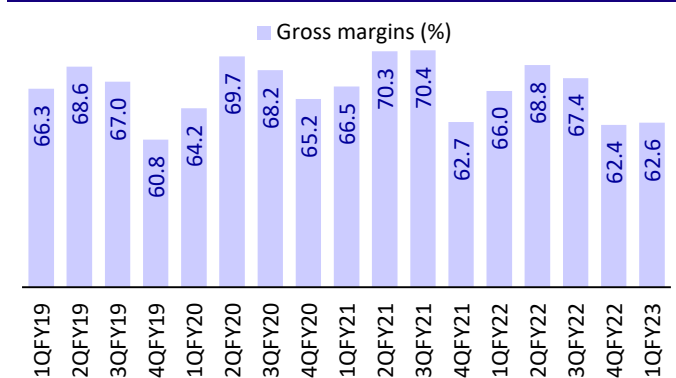
Source: Company, MOFSL

Exhibit 2: Consolidated net sales grew 17.8% YoY to INR7.8b



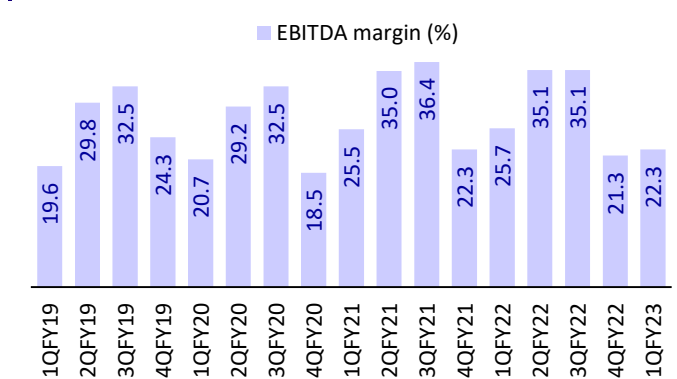
Source: Company, MOFSL

Exhibit 3: Gross margin contracted 340bp YoY to 62.6%



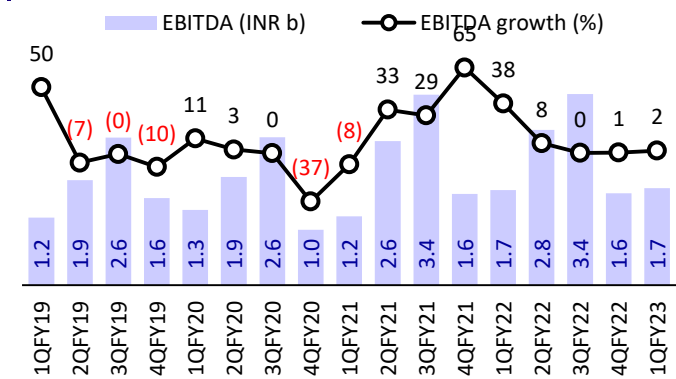
Source: Company, MOFSL

Exhibit 4: EBITDA margin contracted 340bp YoY to 22.3%



Source: Company, MOFSL

Exhibit 5: EBITDA was flat YoY at INR1.7b in 1QFY23



Source: Company, MOFSL

Domestic business (85% of sales in 1QFY23) grew 13% YoY; 28% on a two-year avg. basis

- Domestic segmental performance was as follows:

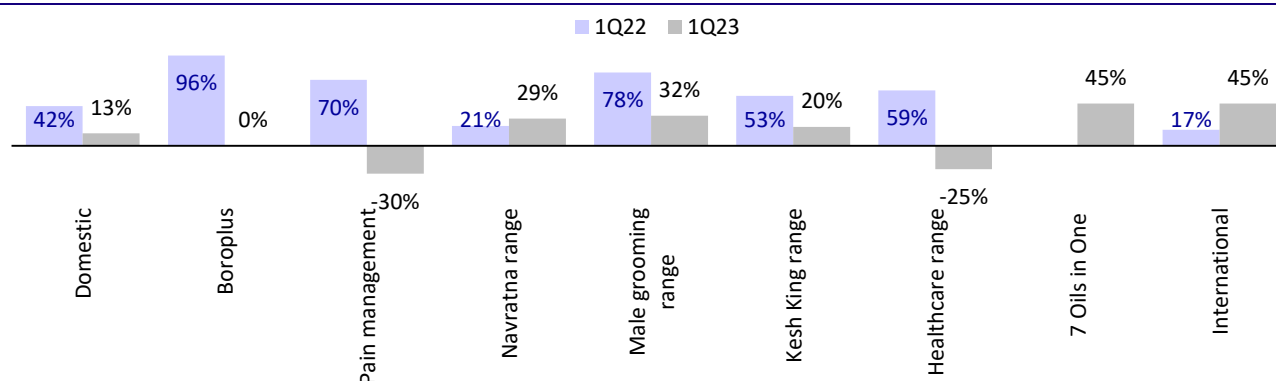
Exhibit 6: Navratna, Kesh King and Male Grooming posted YoY growth in 1QFY23; the Boro Plus portfolio was flat while Healthcare and Pain Management saw a YoY decline on high base

(% growth)	YoY	Two-year avg. volume
Healthcare	-25%	17%
Pain Management	-30%	20%
Navratna	29%	25%
Kesh King	20%	37%
Boro Plus	Flat	48%
Male Grooming	32%	55%

Source: Company, MOFSL

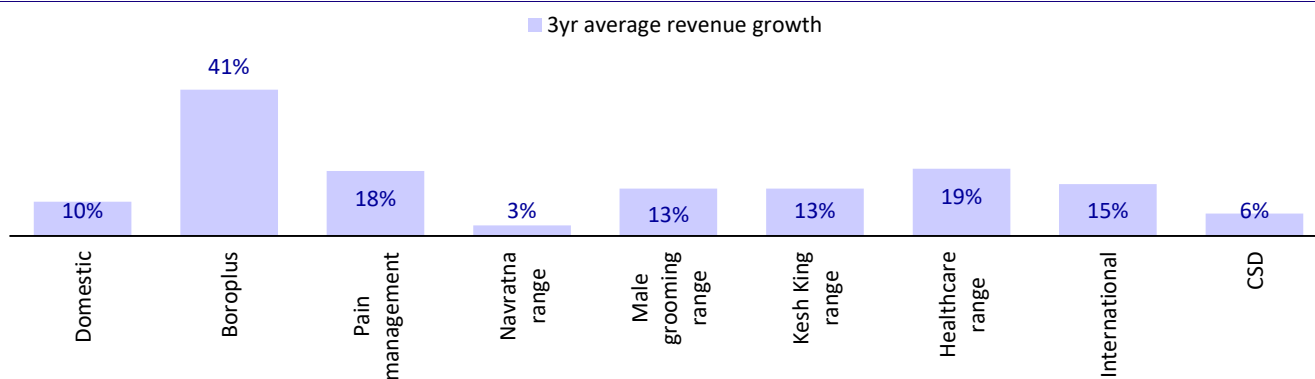
- International sales (15% of total sales) grew 45% YoY and 31% on a two-year average basis.

Exhibit 7: In the domestic business, the Navratna, Male Grooming, Kesh king and 7 oils in One portfolios saw YoY growth



Source: Company, MOFSL

Exhibit 8: On a three-year basis, the Boro Plus, Health Care, Pain management and International Business showed strong performance



Source: Company, MOFSL

Valuation and view

What has happened over the last 10 years?

- The company delivered ~17% sales and EBITDA CAGR each and ~22% PAT CAGR in the first half of the decade gone by. However, over the past five years ended FY20, it reported a massive slowdown in key financial metrics (~4%/~5%/3% sales/ EBITDA/PAT CAGR, respectively). This was attributable to the absence of sales growth in most of its key categories.

Key challenges

- The lack of significant traction in products launched in recent years and failed acquisitions, such as 'She', have contributed to the weak sales growth in recent years. Kesh King's scale-up so far has certainly not lived up to our expectation. The overseas business has also underperformed.
- Compared with peers, Emami has the largest exposure to rural and, even more crucially, to the wholesale trade. While the management has expanded its direct reach in recent years, wholesale and rural dependence remains high – albeit, still lower than that seen in the past.

Our view on the stock

- The ongoing material cost pressure and near-term rural weakness lead to a 7.6% cut in our FY23E EPS, while there is no major change to our FY24E EPS forecast.
- Emami's sales CAGR of 9.7% over FY20-FY22 was far better than the 3.0% sales CAGR over FY16-20. If this trajectory leads to sustainable and strong double-digit sales growth, a further re-rating is possible.
- We maintain our BUY rating on the stock, encouraged by its: a) inexpensive valuations at 20.5x FY24E EPS (22.5x including amortization), and b) increase in ad-spends along with expansion in rural distribution reach.
- We arrive at our TP of INR520 (valuing the company at 23x June 2024E EPS, at a 40% discount to its peers on a pre-amortization basis).

Exhibit 9: We change our FY23E EPS by -7.6% while maintaining our FY24E EPS

(INR m)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	36,440	39,778	36,090	39,392	1.0	1.0
EBITDA	10,147	12,151	10,814	12,294	-6.2	-1.2
PAT	7,869	9,736	8,519	9,877	-7.6	-1.4

Source: Company, MOFSL

Exhibit 10: HMN's P/E (x)

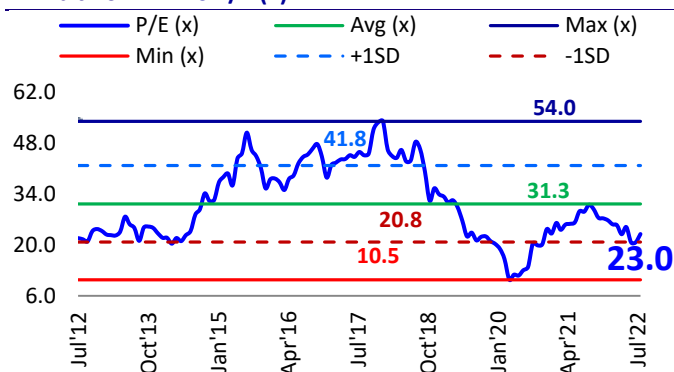
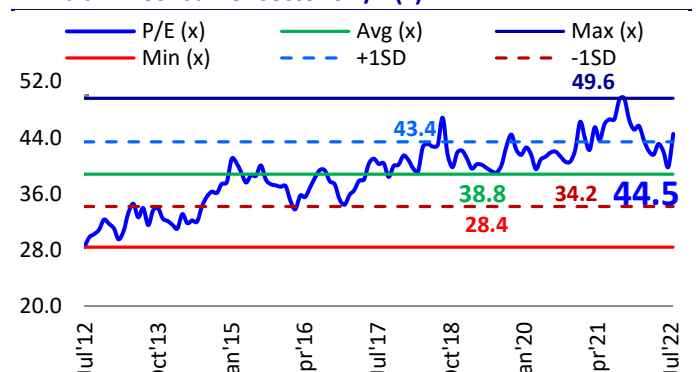


Exhibit 11: Consumer sector's P/E (x)



Financials and valuations

Income Statement							(INR m)	
Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E
Net Sales	24,882	25,305	26,946	26,549	28,805	31,920	36,440	39,778
Change (%)	5.5	1.7	6.5	-1.5	8.5	10.8	14.2	9.2
COGS	7,910	8,098	9,230	8,761	9,292	10,779	13,008	13,212
Gross Profit	16,972	17,207	17,716	17,788	19,513	21,142	23,433	26,566
Gross Margin (%)	68.2	68.0	65.7	67.0	67.7	66.2	64.3	66.8
Operating expenses	9,380	10,013	10,444	10,882	10,682	11,618	13,286	14,415
EBITDA	7,591	7,194	7,272	6,906	8,831	9,524	10,147	12,151
Change (%)	10.5	-5.2	1.1	-5.0	27.9	7.9	6.5	19.7
Margin (%)	30.5	28.4	27.0	26.0	30.7	29.8	27.8	30.5
Depreciation	469	673	768	774	991	942	1,077	1,114
Int. and Fin. Charges	580	343	214	210	133	51	66	59
Financial Other Income	311	195	349	571	703	953	729	895
Profit before Taxes	6,853	6,374	6,639	6,492	8,410	9,483	9,732	11,873
Change (%)	7.9	-7.0	4.2	-2.2	29.5	12.8	2.6	22.0
Margin (%)	27.5	25.2	24.6	24.5	29.2	29.7	26.7	29.8
Tax	836	863	1,024	713	1,142	817	1,703	2,137
Deferred Tax	130	-5	37	-86	-5	40	0	0
Tax Rate (%)	14.1	13.5	16.0	9.7	13.5	9.0	17.5	18.0
Adjusted PAT	6,021	5,507	5,517	5,618	7,226	8,469	7,869	9,736
Change (%)	4.5	-8.5	0.2	1.8	28.6	17.2	-7.1	23.7
Margin (%)	24.2	21.8	20.5	21.2	25.1	26.5	21.6	24.5
Amortization	2,617	2,436	2,485	2,589	2,679	2,406	1,200	850
Tax impact on amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-rec. (Exp)/Income	0	0	83	107	0	52	0	0
Reported PAT	3,404	3,071	3,032	3,029	4,547	6,063	6,669	8,886
Balance Sheet							(INR m)	
Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E
Share Capital	454	454	454	453	445	445	445	445
Reserves	17,093	19,682	20,307	17,784	17,182	20,325	21,038	22,957
Net Worth	17,547	20,136	20,761	18,238	17,627	20,769	21,483	23,402
Minority Interest	14	6	-2	-9	-9	-23	-23	-23
Loans	4,846	3,343	1,168	2,257	1,028	2,637	2,109	2,109
Deferred Liability	282	118	122	35	42	-2,763	-2,763	-2,763
Capital Employed	22,689	23,602	22,048	20,520	18,687	20,621	20,806	22,725
Goodwill on consolidation	41	41	41	0	0	242	-373	-987
Gross Block	25,600	26,825	28,738	29,933	27,108	29,921	29,108	30,108
Less: Accum. Depn.	5,616	8,767	11,967	15,329	16,320	17,262	18,339	19,453
Net Fixed Assets	19,983	18,058	16,771	14,604	10,788	12,659	10,769	10,655
Capital WIP	129	226	352	69	64	31	31	31
Investments	1,277	3,136	1,870	1,564	3,084	3,568	3,568	3,568
Curr. Assets, L&A	4,602	6,517	9,151	10,548	11,261	11,240	15,247	18,336
Inventory	1,792	1,940	2,217	2,446	3,005	3,576	4,170	4,334
Account Receivables	970	1,559	2,164	3,080	2,318	3,209	3,594	3,814
Cash and cash equivalents	501	795	2,034	1,191	3,604	1,160	4,497	7,190
Others	1,340	2,224	2,737	3,831	2,335	3,295	2,987	2,997
Curr. Liab. and Prov.	3,343	4,376	6,137	6,265	6,510	7,119	8,436	8,877
Account Payables	1,847	2,420	2,914	3,245	3,507	4,087	5,040	5,073
Other Liabilities	622	1,077	1,808	1,222	1,147	1,257	1,390	1,538
Provisions	873	879	1,416	1,798	1,856	1,775	2,006	2,266
Net Current Assets	1,259	2,141	3,014	4,284	4,751	4,121	6,811	9,459
Application of Funds	22,689	23,602	22,048	20,520	18,687	20,621	20,806	22,725

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E
Basic (INR)								
EPS	13.3	12.1	12.2	12.4	16.3	19.1	17.7	21.9
Cash EPS	14.3	13.6	13.8	14.1	18.5	21.2	20.1	24.4
BV/Share	38.7	44.4	45.7	40.2	39.7	46.7	48.3	52.6
DPS	4.4	3.5	4.0	8.0	8.0	8.0	12.0	13.0
Payout %	33.0	28.8	32.9	64.6	49.2	42.0	67.8	59.4
Valuation (x)								
P/E	33.9	37.1	37.0	36.3	27.7	23.6	25.4	20.5
Cash P/E	31.5	33.1	32.5	31.9	24.3	21.3	22.4	18.4
EV/Sales	8.3	8.0	7.5	7.7	6.7	6.2	5.3	4.8
EV/EBITDA	27.3	28.3	27.7	29.5	22.0	20.8	19.1	15.8
P/BV	11.6	10.1	9.8	11.2	11.3	9.6	9.3	8.5
Dividend Yield (%)	1.0	0.8	0.9	1.8	1.8	1.8	2.7	2.9
Return Ratios (%)								
RoE	35.8	29.2	27.0	28.8	40.3	44.1	37.2	43.4
RoCE	31.1	28.2	28.5	28.8	40.0	43.7	43.8	50.7
RoIC	28.2	25.3	25.9	28.5	39.6	45.3	41.9	56.9
Working Capital Ratios								
Debtor (Days)	14	23	30	34	32	30	36	35
Asset Turnover (x)	1.1	1.1	1.2	1.2	1.5	1.6	1.8	1.8
Leverage Ratio								
Debt/Equity (x)	0.2	0.1	0.0	0.1	-0.1	0.1	-0.1	-0.2

Cash Flow Statement

Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E
(INR m)								
OP/(loss) before Tax	4,236	3,926	4,034	3,736	5,689	6,880	8,532	11,023
Depreciation	3,086	3,109	3,253	3,363	3,670	3,348	2,277	1,964
Other non-operating income	-102	-51	-125	-192	-329	-445	-729	-895
Interest Paid	558	316	42	-73	-38	-227	66	59
Direct Taxes Paid	-707	-809	-927	-760	-865	-1,426	-1,703	-2,137
(Incr)/Decr in WC	226	-612	-739	-800	1,088	-1,691	646	46
CF from Operations	7,296	5,878	5,537	5,274	9,215	6,439	9,090	10,060
(Incr)/Decr in FA	-2,814	-1,232	-1,329	-1,481	-320	-4,802	813	-1,000
Free Cash Flow	4,482	4,646	4,208	3,793	8,895	1,636	9,904	9,060
(Pur)/Sale of Investments	-763	-1,863	1,178	-568	-2,934	2,832	0	0
Others	655	750	129	-15	3,334	-2,890	529	730
CF from Invest.	-2,922	-2,346	-22	-2,064	80	-4,861	1,342	-270
Change in Equity	0	0	0	-125	-2,256	-2,001	0	0
(Incr)/Decr in Debt	7,099	4,847	803	1,004	-1,183	1,651	-528	0
Dividend Paid	-1,985	-1,194	-1,589	-3,632	-3,556	-3,556	-6,430	-6,966
Others	-10,072	-6,891	-3,491	-1,301	114	-116	-138	-130
CF from Fin. Activity	-4,958	-3,237	-4,277	-4,054	-6,882	-4,021	-7,096	-7,097
Incr/Decr of Cash	-584	295	1,239	-844	2,413	-2,444	3,337	2,694
Add: Opening Balance	1,084	501	795	2,034	1,191	3,604	1,160	4,497
Closing Balance	500	795	2,034	1,191	3,604	1,160	4,497	7,190

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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