

Emami

9 August 2019

Reuters: EMAM.NS; Bloomberg: HMN IN

Weak performance persists

The weakness in performance by Emami which was not entirely unexpected persists in 1QFY20. The topline growth of 5.6% was almost entirely driven by pricing as domestic volume remained flat for yet another quarter. The company is among the worst hit within the industry by the ongoing rural slowdown as around 55% of its business comes from rural areas. Further, liquidity constraints and higher dependency on wholesale channel have also had a severe impact on the growth in the last few quarters. Management has indicated that sluggishness persists in the traditional channel but modern trade has grown at 17% in 1QFY20, contributing 9% to the topline as against 7% earlier. International business grew by 10%, excluding the impact of Crème 21. The company is struggling with category growth concerns in pain management, male grooming and healthcare range. The performance in cool oils segment too was lower than expected due to missed sales during the peak summer season on account of general elections. Pressure from the increase in raw material costs continues to weigh on gross margins, resulting in a decline of about 200bps. Management however moderated A&P spends to protect EBITDA margin. We anticipate that the raw material related headwinds will start moderating from 2HFY20 onwards. Management intends to keep the A&P related costs under control to counter the increase in raw material costs. We expect operating growth to remain subdued given the concerns about category growth and lack of clarity on the innovation pipeline. Management seems reluctant in attempting to drive growth through innovation and is focussed on cost reduction to sustain margins. We anticipate revival in performance post a good monsoon and expect that the company would benefit from government's impetus on rural income growth. We have retained Accumulate rating on the stock due to concerns regarding limited category growth and the ongoing rural slowdown with a target P/E multiple of 25x (from 28.5X earlier), giving us a target price (TP) of Rs350, up 12% from CMP.

Modest pick-up in topline growth: The topline grew by ~6% YoY in 1QFY20, which was almost entirely driven by pricing as there was virtually no volume growth. The ongoing rural slowdown and limited category growth pose challenges for revenue growth. Higher dependence on the wholesale channel impacted sales growth because of liquidity concerns in the market.

Raw material inflation weighs on gross margins: EDITDA margin expanded by approx 60bps despite headwinds related to raw material cost as the company cut back on A&P spends. We anticipate gross margins to improve from 2HFY20 onwards once the raw material headwinds start to moderate. Management is focussed on sustaining operating margins through cost savings.

Outlook and valuation: Our fundamental concerns relating to the modest innovation pipeline and growth of key brands still remain. We anticipate revival in performance post a good monsoon and expect that the company would benefit from government's impetus on rural income growth. We have retained Accumulate rating on the stock due to concerns regarding category growth and the ongoing rural slowdown with a target P/E multiple of 25x (from 28.5X earlier), giving us a TP of Rs350, up 12% from CMP.

ACCUMULATE

Sector: FMCG

CMP: Rs312

Target Price: Rs350

Upside: 12%

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Key Data

Current Shares O/S (mn)	453.9
Mkt Cap (Rsbn/US\$bn)	141.7/2
52 Wk H / L (Rs)	588/246
Daily Vol. (3M NSE Avg.)	2,092,349

Price Performance (%)

	1 M	6 M	1 Yr
Emami	3.0	(18.6)	(46.2)
Nifty Index	(4.6)	0.8	(3.6)

Source: Bloomberg

Y/E March (Rsmn)	1QFY19	4QFY19	1QFY20	YoY (%)	QoQ (%)	FY18	FY19	YoY (%)
Net sales	6,144	6,396	6,486	5.6	1.4	25,412	26,929	6.0
COGS	2,073	2,508	2,324	12.1	(7.3)	8,263	9,230	11.7
% of sales	34	39	36	209.0	(337.1)	33	34	176.0
Gross margin %	66	61	64	(209bps)	337bps	67	66	(176bps)
Employee costs	704	681	773	9.8	13.5	2,563	2,797	9.1
% of sales	11.0	11.0	12.0	46bps	127bps	10.0	10.0	30bps
Advertising costs	1,426	990	1,291	(9.5)	30.4	4,696	4,702	0.1
% of sales	23.0	15.0	20.0	(332bps)	442bps	18.0	17.0	(102bps)
Other expenses	706	671	757	7.3	12.9	2,696	2,858	6.0
% of sales	11.0	10.0	12.0	19bps	119bps	11.0	11.0	50bps
EBITDA	1,235	1,547	1,341	8.6	(13.3)	7,194	7,343	2.1
EBITDA margin %	20.1	24.2	20.7	58bps	(351bps)	28.3	27.3	(105bps)
Depreciation	230	160	204	(11.2)	27.6	702	768	9.4
Amortisation	607	650	633	4.3	(2.7)	2,406	2,485	3.3
EBIT	399	737	505	26.6	(31.5)	4,086	4,089	0.1
EBIT margin %	6	12	8	129bps	(374bps)	16.0	15.0	(89bps)
Interest expense	46	62	44	(5.0)	(30.0)	343	214	(37.6)
Other income	20	173	115	486.2	(33.4)	195	279	42.9
Exceptional items	-	-	-	-	-	-	(98)	-
PBT	373	848	576	54.6	(32.0)	3,938	4,154	5.5
Tax	103	280	177	71.6	(36.8)	863	1,009	16.9
Effective tax rate %	28.0	33.0	31.0	304bps	(230bps)	22.0	24.0	238bps
PAT	270	568	399	48.1	(29.7)	3,075	3,145	2.3
Adjusted PAT	876	1,218	1,032	17.8	(15.3)	5,481	5,532	0.9
Adj. PAT margin %	14.0	19.0	16.0	142bps	(291bps)	21.0	20.0	(107bps)
Adj. EPS	2.0	3.0	2.0	17.8	(15.3)	12.0	12.0	0.9

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	24,930	25,412	26,929	29,064	31,322
YoY growth (%)	5.7	1.9	6.0	7.9	7.8
EBITDA	7,355	7,194	7,343	7,951	8,492
EBITDA margin (%)	29.5	28.3	27.3	27.4	27.1
Reported PAT	3,159	3,087	3,668	3,778	5,212
Adjusted PAT	5,781	5,481	6,141	6,192	6,434
EPS	12.7	12.0	13.5	13.6	14.2
YoY change (%)	0.4	(5.5)	12.1	0.8	4.3
RoCE (%)	30.5	28.4	31.7	30.0	28.3
RoE (%)	34.3	29.1	30.0	27.5	25.1
P/E (x)	45.0	46.3	25.3	22.9	28.5
P/B (x)	14.9	12.6	7.5	5.8	6.8
EV/EBITDA (x)	36.0	35.2	21.1	16.5	20.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Our estimates versus actual performance

Y/E (Rsmn)	1QFY19	4QFY19	1QFY20	YoY (%)	Q-o-Q (%)	NBIE Estimates	Deviation (%)
Net sales	6,144	6,396	6,486	5.6	1.4	6,574	(1.3)
EBITDA	1,235	1,547	1,341	8.6	(13.3)	1,374	(2.4)
EBITDA margin (%)	20	24	21	0.6	(3.5)	21	(0.2)
Adj. PAT	876	1,218	1,032	17.8	(15.3)	1,014	1.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Change in our estimates

Y/E March (Rsmn)	Old estimate		New estimate		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net sales	29,295	31,571	29,064	31,322	(0.8)	(0.8)
EBITDA	8,027	8,558	7,951	8,492	(0.9)	(0.8)
EBITDA (%)	27	27	27	27	(0.0)	0.0
Adj. PAT	6,276	6,487	6,192	6,434	(1.3)	(0.8)

Source: Company, Nirmal Bang Institutional Equities Research

Financials (consolidated)

Exhibit 4: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	24,930	25,412	26,929	29,064	31,322
% Growth	5.7	1.9	6.0	7.9	7.8
COGS	8,429	8,263	9,230	9,963	10,745
Staff costs	2,401	2,563	2,797	2,890	3,073
Advertising costs	4,428	4,696	4,702	5,320	5,937
Other expenses	2,318	2,696	2,858	2,939	3,074
Total expenses	17,575	18,218	19,587	21,113	22,830
EBITDA	7,355	7,194	7,343	7,951	8,492
% growth	7.0	(2.2)	2.1	8.3	6.8
EBITDA margin (%)	29.5	28.3	27.3	27.4	27.1
Other income	311	195	279	306	350
Interest costs	580	343	214	150	105
Depreciation	469	702	160	878	997
Amortisation	2,617	2,406	2,485	2,426	1,213
Profit before tax (before exceptional items)	4,000	3,938	4,763	4,803	6,527
Exceptional items	0	0	(98)	0	0
Tax	836	863	1,009	1,037	1,305
PAT-	3,164	3,075	3,754	3,766	5,221
Adjusted PAT	5,781	5,481	6,239	6,192	6,434
PAT margin (%)	22.9	21.4	22.9	21.1	20.3
% Growth	0.4	(5.2)	13.8	(0.8)	3.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Share capital	227	227	454	454	454
Reserves	17,320	19,909	20,307	23,840	26,540
Net worth	17,547	20,136	20,761	24,294	26,994
Total debt	1729.6	3259.1	1098.7	1000	750
Deferred tax liability	422	118	122	122	122
Total liabilities	18,337	20,839	21,386	25,156	27,890
Gross block	9,966	11,169	12,169	13,669	15,669
Depreciation	2,462	3,164	3,324	4,202	5,200
Net block	7,504	8,005	8,845	9,467	10,469
Capital work-in-progress	129	226	352	250	500
Intangible assets	12479	10095	8774	4981	3768
Investments	1277	3136	1870	1686	2426
Inventories	1,792	1,940	2,217	1,222	2,605
Debtors	970	1,559	2,164	225	2,521
Cash	501	2,170	1,165	10,903	8,649
Loans & advances	88	149	190	190	750
Other current assets	945	28	2822	959	1002
Total current assets	4,579	7,008	8,493	13,793	15,653
Creditors	1,847	2,420	2,914	2,546	3,224
Other current liabilities & provisions	4,172	1,460	2,787	1,781	1,826
Total current liabilities	7,749	7,139	6,799	5,327	5,800
Net current assets	-3,170	-132	1,694	8,466	9,853
Total assets	18,337	20,839	21,386	25,156	27,890

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Adjusted PAT	5,781	5,481	6,141	6,192	6,434
Depreciation	469	702	160	878	997
Other income	(311)	(195)	(279)	(306)	(350)
(Inc.)/dec. in working capital	(509)	1,050	(1,873)	3,423	(3,201)
Cash flow from operations	6,015	7,370	4,351	10,324	3,995
Capital expenditure (-)	(2,779)	(1,300)	(1,126)	(1,398)	(2,250)
Net cash after capex	3,236	6,070	3,224	8,927	1,745
Dividends paid (-)	(3,798)	(3,798)	(3,798)	(3,798)	(3,744)
Inc./(dec.) in total borrowings	(1,985)	1,530	(2,160)	(99)	(250)
Inc./(dec.) in investments	(492)	(1,664)	1,545	490	(390)
Cash from financial activities	(6,067)	(3,395)	(6,023)	(3,810)	(4,065)
Opening cash balance	1,084	501	2,170	1,165	10,903
Closing cash balance	501	2,170	1,165	10,903	8,649
Change in cash balance	(584)	1,670	(1,006)	9,739	(2,254)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Key ratios

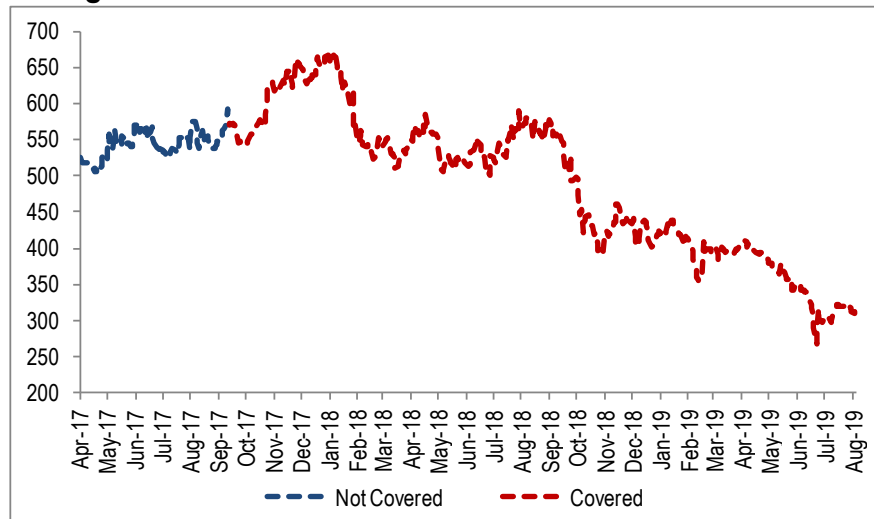
Y/E March	FY17	FY18	FY19	FY20E	FY21E
Per share (Rs)					
Adj. EPS	12.7	12.0	13.5	13.6	14.2
Adj. BVPS	38.6	44.4	45.7	53.5	59.5
Adj. DPS	7.0	7.0	7.0	7.0	6.9
Valuation (x)					
P/Sales	10.5	10.0	5.8	4.9	5.9
EV/sales	10.6	10.0	5.8	4.5	5.6
EV/EBITDA	36.0	35.2	21.1	16.5	20.6
P/E	45.0	46.3	25.3	22.9	28.5
P/BV	14.9	12.6	7.5	5.8	6.8
Return ratios (%)					
RoCE	30.5	28.4	31.7	30.0	28.3
RoE	34.3	29.1	30.0	27.5	25.1
Profitability ratios (%)					
Gross margin	66.2	67.5	65.7	65.7	65.7
EBITDA margin	29.5	28.3	27.3	27.4	27.1
EBIT margin	27.6	25.5	26.7	24.3	23.9
PAT margin	22.9	21.4	22.6	21.1	20.3
Liquidity ratios (%)					
Current ratio	0.6	1.0	1.2	2.6	2.7
Quick ratio	0.4	0.7	0.9	2.4	2.2
Solvency ratio (%)					
Debt-to-equity ratio	0.3	0.2	0.1	0.0	0.0
Turnover ratios					
Total asset turnover ratio (x)	1.0	0.9	1.0	1.0	0.9
Fixed asset turnover ratio (x)	3.3	3.2	3.4	3.1	3.0
Debtor days	17	18	25	15	16
Inventory days	71	82	82	63	65
Creditor days	94	94	105	100	98

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
29 September 2017	Sell	545	500
27 October 2017	Sell	606	540
31 January 2018	Sell	572	525
4 May 2018	Sell	541	510
3 August 2018	Sell	569	530
31 October 2018	Sell	404	380
1 February 2019	Accumulate	411	420
9 April 2019	Accumulate	410	410
28 May 2019	Accumulate	360	410
9 Aug 2019	Accumulate	312	350

Rating chart



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BUY > 15%

ACCUMULATE -5% to 15%

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