

Emami (HMN IN)

Acquired Kesh King will be EPS dilutive for next 2 years

INDIA | FMCG | Company Update

Marking its foray into the fast-growing ayurvedic hair-care segment, Emami is set to acquire Mr Sanjeev Juneja's hair and scalp care business 'Kesh King' and allied brands for Rs 16.5bn. The transaction includes (1) Kesh King's ayurvedic medicinal oil, herbal shampoo and conditioner, and ayurvedic capsules, and (2) respective formulations and all related assets, rights, and liabilities (including working capital). We estimate the acquisition to be funded by a debt of around Rs 8bn. Taking into account finance costs, we estimate earnings dilution of 9%/6.5% in FY16/FY17, as a result. We maintain our estimates, target price, and Neutral rating based on earnings dilution, higher debt, and very low visibility into synergies.

Kesh King is a fast growing business in a promising category with premium brands: Kesh King's products are present across 540,000 outlets across India and are priced at a considerable premium to those of other companies. A 120ml bottle of flagship brand, *Kesh King Ayurvedic Medicinal Oil*, is priced at Rs 135 vs. *Parachute Advanced Ayurvedic Oil* at Rs 72. In FY15, the company's turnover was ~Rs 3bn (US\$ 47mn) with a three-year CAGR of 61%. Most of this revenue growth was achieved in FY13 and FY14. In FY15, revenue was flattish due to sluggish demand and distribution network issues, which will soon be sorted out. We expect the company to grow at a higher pace in the next few years due to the increasing awareness of ayurveda and its benefits.

Management indicated Kesh King's profit margins are higher than Emami's: We estimate Kesh King's gross margins to be ~70%; the management said its FY15 EBITDA margins were 48.3% and we estimate its profit margin at ~25%. Due to synergy benefits, we foresee cost savings in raw material, selling and distribution, and administration. As a result, the profit margin of this business will gradually improve to 27% in FY18.

Acquisition will be funded by cash and debt: Currently, the company has around Rs 8.5bn of surplus cash in its balance sheet. We estimate that the acquisition will be funded partly through these funds (Rs 8.5bn) and partly by a debt of ~Rs 8bn.

Management says deal will not be EPS accretive in FY16/17 due to high finance costs: We estimate EPS accretion from FY18 with an increase in Kesh King's sales and profits; and realisation of synergies.

Emami has a history of successfully integrating newly acquired companies: With the spectacular growth of Zandu after Emami acquired it and the acquisition of other companies (such as Fravin and She Comfort), Emami has demonstrated its ability to successfully integrate newly acquired companies.

Maintain estimates and Neutral recommendation: We have maintained our estimates, considering we were already factoring a 17% yoy revenue growth for both FY16 and FY17 respectively. Once we get a better visibility into the earnings impact of the acquisition from the management, we will revise our estimates. Maintaining our valuation multiple at 32x FY17E earnings, we value the company at Rs 990/share (unchanged). Considering the current target price, we maintain our Neutral recommendation.

3 June 2015

Neutral (Maintain)

CMP RS 1066

TARGET RS 990 (-7%)

COMPANY DATA

O/S SHARES (MN) :	227
MARKET CAP (RSBN) :	242
MARKET CAP (USDBN) :	4
52 - WK HI/LO (RS) :	1160 / 448
LIQUIDITY 3M (USDMN) :	2.9
PAR VALUE (RS) :	1

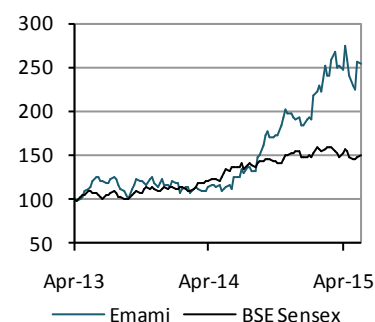
SHARE HOLDING PATTERN, %

PROMOTERS :	72.7
FII / NRI :	16.9
FI / MF :	1.3
NON PROMOTER CORP. HOLDINGS :	5.2
PUBLIC & OTHERS :	3.9

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	15.1	10.6	128.6
REL TO BSE	14.4	18.3	118.4

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY15	FY16E	FY17E
Net Sales	22,173	25,929	30,315
EBIDTA	5,401	6,733	8,070
Net Profit	4,855	5,929	7,018
EPS, Rs	21.4	26.1	30.9
PER, x	44.2	36.2	30.6
EV/EBIDTA, x	39.0	30.6	25.1
P/BV, x	15.7	12.4	12.1
ROE, %	35.4	34.3	39.5
Debt/Equity (%)	3.2	2.6	2.5

Source: PhillipCapital India Research Est.

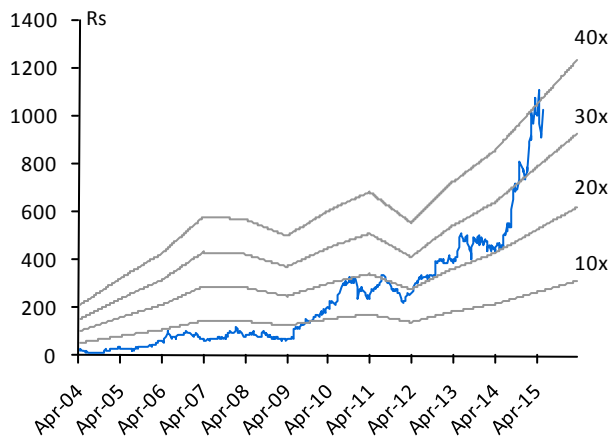
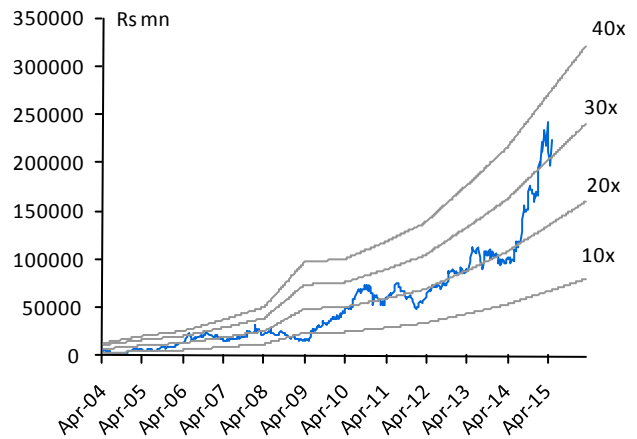
Jubil Jain (+ 9122 6667 9766)
jjain@phillipcapital.in

Naveen Kulkarni, CFA, FRM
(+ 9122 6667 9947)
nkulkarni@phillipcapital.in

Estimation of Kesh King performance post acquisition

Rs mn	FY2015e	FY2016e	FY2017e	FY2018e
Sales	3,000	3,600	4,500	5,625
Gross Profit	2,100	2,520	3,150	3,938
Gross Margin	70%	70%	70%	70%
EBITDA	1,450	1,764	2,250	2,813
EBITDA Margin	48.3%	49.0%	50.0%	50.0%
PBT	1,071	1,296	1,643	2,081
PBT Margin	35.7%	36.0%	36.5%	37.0%
PAT	750	936	1,193	1,519
PAT Margin	25.0%	26%	27%	27%
Interest cost		800	800	800
Other income lost		850	850	850
Impact on PAT of Emami		(536)	(458)	(131)
Impact on EPS of Emami (Rs)		(2.4)	(2.0)	(0.6)
Reduction in EPS of Emami		-9.0%	-6.5%	

Source: Company, PhillipCapital India Research

One-year forward P/E band

EV/EBITDA band


Source: PhillipCapital India Research Estimate

Financials

Income Statement

Y/E Mar, Rs mn	FY14	FY15e	FY16e	FY17e
Net sales	18,208	22,173	25,929	30,315
Growth, %	7	22	17	17
Total income	18,208	22,173	25,929	30,315
Raw material expenses	-6,803	-7,800	-8,960	-10,479
Employee expenses	-1,390	-1,671	-1,933	-2,217
Other Operating expenses	-5,602	-7,300	-8,304	-9,549
EBITDA (Core)	4,413	5,401	6,733	8,070
Growth, %	27.2	22.4	24.7	19.9
Margin, %	24.2	24.4	26.0	26.6
Depreciation	-352	-343	-415	-436
EBIT	4,061	5,058	6,317	7,634
Growth, %	25.0	24.5	24.9	20.8
Margin, %	22.3	22.8	24.4	25.2
Interest paid	-54	-51	-21	-22
Other Non-Operating Income	622	964	1,115	1,161
Pre-tax profit	4,571	5,925	7,411	8,773
Tax provided	-547	-1,070	-1,482	-1,755
Profit after tax	4,024	4,855	5,929	7,018
Net Profit	4,024	4,855	5,929	7,018
Growth, %	30.8	18.0	22.1	18.4
Net Profit (adjusted)	4,113	4,855	5,929	7,018
Unadj. shares (m)	227	227	227	227
Wtd avg shares (m)	227	227	227	227

Balance Sheet

Y/E Mar, Rs mn	FY14	FY15e	FY16e	FY17e
Cash & bank	2,700	4,405	9,057	12,336
Debtors	793	1,667	1,032	1,916
Inventory	1,411	747	1,585	999
Loans & advances	1,083	1,131	1,232	1,334
Other current assets	0	0	0	0
Total current assets	5,987	7,950	12,906	16,585
Investments	2,960	2,960	2,960	2,960
Gross fixed assets	10,341	6,551	7,551	7,921
Less: Depreciation	-6,382	-1,935	-2,350	-2,786
Add: Capital WIP	117	117	117	117
Net fixed assets	4,076	4,733	5,318	5,252
Non-current assets	639	1,466	1,466	1,466
Total assets	13,661	17,109	22,650	26,263
Current liabilities	2,477	2,835	4,785	4,229
Total current liabilities	2,477	2,835	4,785	4,229
Non-current liabilities	491	562	562	4,274
Total liabilities	2,968	3,397	5,347	8,503
Paid-up capital	227	227	227	0
Reserves & surplus	9,094	12,091	15,681	16,529
Shareholders' equity	10,694	13,713	17,303	17,759
Total equity & liabilities	13,661	17,109	22,650	26,263

*Bonus shares issued in FY14

Source: Company, PhillipCapital India Research Estimates

Cash Flow

Y/E Mar, Rs mn	FY14	FY15e	FY16e	FY17e
Pre-tax profit	4,571	5,925	7,411	8,773
Depreciation	352	343	415	436
Chg in working capital	-1,188	-656	1,646	2,804
Total tax paid	-636	-1,070	-1,482	-1,802
Cash flow from operating activities	612	1,788	4,482	9,994
Capital expenditure	-33	-1,000	-1,000	-370
Chg in investments	-1,330	0	0	0
Cash flow from investing activities	-1,364	-1,000	-1,000	-370
Free cash flow	-751	788	3,482	9,624
Equity raised/(repaid)	2,919	3,018	3,590	456
Debt raised/(repaid)	-751	0	0	0
Dividend (incl. tax)	-1,859	-1,858	-2,338	-2,849
Cash flow from financing activities	309	1,160	1,252	-2,393
Net chg in cash	-442	1,948	4,734	7,231

Valuation Ratios

	FY14	FY15e	FY16e	FY17e
Per Share data				
EPS (INR)	18.1	21.4	26.1	30.9
Growth, %	30.8	18.0	22.1	18.4
Book NAV/share (INR)	47.1	60.4	76.2	78.2
FDEPS (INR)	18.1	21.4	26.1	30.9
CEPS (INR)	20.1	22.9	28.0	32.8
CFPS (INR)	13.5	19.4	30.3	39.9
DPS (INR)	7.0	7.1	8.9	10.8
Return ratios				
Return on assets (%)	31.4	31.8	29.9	28.8
Return on equity (%)	38.5	35.4	34.3	39.5
Return on capital employed (%)	40.0	38.4	37.0	35.3
Turnover ratios				
Asset turnover (x)	3.8	4.3	5.4	10.5
Sales/Total assets (x)	1.4	1.4	1.3	1.2
Sales/Net FA (x)	4.3	5.0	5.2	5.7
Working capital/Sales (x)	0.0	0.0	(0.0)	0.0
Working capital days	16.2	11.7	(13.2)	0.2
Liquidity ratios				
Current ratio (x)	2.4	2.8	2.7	3.9
Quick ratio (x)	1.8	2.5	2.4	3.7
Interest cover (x)	75.5	98.4	300.3	344.8
Dividend cover (x)	2.6	3.0	2.9	2.9
Total debt/Equity (%)	4.1	3.2	2.6	2.5
Net debt/Equity (%)	(21.1)	(28.9)	(49.8)	(67.0)
Valuation				
PER (x)	52.2	44.2	36.2	30.6
Price/Book (x)	20.1	15.7	12.4	12.1
Yield (%)	0.7	0.7	0.9	1.1
EV/Net sales (x)	11.7	9.5	7.9	6.7
EV/EBITDA (x)	48.1	39.0	30.6	25.1
EV/EBIT (x)	52.3	41.7	32.6	26.6

Management

Vineet Bhatnagar (Managing Director)	(91 22) 2300 2999
Kinshuk Bharti Tiwari (Head – Institutional Equity)	(91 22) 6667 9946
Jignesh Shah (Head – Equity Derivatives)	(91 22) 6667 9735

Research

Automobiles	Economics	Retail, Real Estate
Dhawal Doshi (9122) 6667 9769	Anjali Verma (9122) 6667 9969	Abhishek Ranganathan, CFA (9122) 6667 9952
Banking, NBFCs	Infrastructure & IT Services	Portfolio Strategy
Manish Agarwalla (9122) 6667 9962	Vibhor Singhal (9122) 6667 9949	Anindya Bhowmik (9122) 6667 9764
Pradeep Agrawal (9122) 6667 9953	Deepan Kapadia (9122) 6667 9992	
Paresh Jain (9122) 6667 9948		
Consumer, Media, Telecom	Logistics, Transportation & Midcap	Technicals
Naveen Kulkarni, CFA, FRM (9122) 6667 9947	Vikram Suryavanshi (9122) 6667 9951	Subodh Gupta, CMT (9122) 6667 9762
Jubil Jain (9122) 6667 9766		
Manoj Behera (9122) 6667 9973	Metals	Production Manager
	Dhawal Doshi (9122) 6667 9769	Ganesh Deorukhkar (9122) 6667 9966
Cement	Oil&Gas, Agri Inputs	Database Manager
Vaibhav Agarwal (9122) 6667 9967	Gauri Anand (9122) 6667 9943	Deepak Agarwal (9122) 6667 9944
Engineering, Capital Goods	Pharma	Editor
Ankur Sharma (9122) 6667 9759	Surya Patra (9122) 6667 9768	Roshan Sony 98199 72726
Hrishikesh Bhagat (9122) 6667 9986	Mehul Sheth (9122) 6667 9996	Sr. Manager – Equities Support
		Rosie Ferns (9122) 6667 9971
Sales & Distribution	Sales Trader	Corporate Communications
Ashvin Patil (9122) 6667 9991	Dilesh Doshi (9122) 6667 9747	Zarine Damania (9122) 6667 9976
Shubhangi Agrawal (9122) 6667 9964	Suniil Pandit (9122) 6667 9745	
Kishor Binwal (9122) 6667 9989	Execution	
Sidharth Agrawal (9122) 6667 9934	Mayur Shah (9122) 6667 9945	
Bhavin Shah (9122) 6667 9974		

Contact Information (Regional Member Companies)
SINGAPORE

Phillip Securities Pte Ltd
250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101
Tel : (65) 6533 6001 Fax: (65) 6535 3834
www.phillip.com.sg

JAPAN

Phillip Securities Japan, Ltd
4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026
Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141
www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd.
15th Floor, Vorawat Building, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand
Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921
www.phillip.co.th

UNITED STATES

Phillip Futures Inc.
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur
Tel (60) 3 2162 8841 Fax (60) 3 2166 5099
www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia
Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809
www.phillip.co.id

FRANCE

King & Shaxson Capital Ltd.
3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France
Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017
www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 37, 530 Collins Street
Melbourne, Victoria 3000, Australia
Tel: (61) 3 9629 8380 Fax: (61) 3 9614 8309
www.phillipcapital.com.au

INDIA

PhillipCapital (India) Private Limited
No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg, Lower Parel West, Mumbai 400013
Tel: (9122) 2300 2999 Fax: (9122) 6667 9955 www.phillipcapital.in

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway Hong Kong
Tel (852) 2277 6600 Fax: (852) 2868 5307
www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd.
No 550 Yan An East Road, Ocean Tower Unit 2318
Shanghai 200 001
Tel (86) 21 5169 9200 Fax: (86) 21 6351 2940
www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Ltd.
6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS
Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835
www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited
Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka
Tel: (94) 11 2429 100 Fax: (94) 11 2429 199
www.ashaphillip.net/home.htm

Disclosures and Disclaimers

PhillipCapital (India) Pvt. Ltd. has three independent equity research groups: Institutional Equities, Institutional Equity Derivatives and Private Client Group. This report has been prepared by Institutional Equities Group. The views and opinions expressed in this document may or may not match or may be contrary at times with the views, estimates, rating, target price of the other equity research groups of PhillipCapital (India) Pvt. Ltd.

This report is issued by PhillipCapital (India) Pvt. Ltd. which is regulated by SEBI. PhillipCapital (India) Pvt. Ltd. is a subsidiary of Phillip (Mauritius) Pvt. Ltd. References to "PCIPL" in this report shall mean PhillipCapital (India) Pvt. Ltd. unless otherwise stated. This report is prepared and distributed by PCIPL for information purposes only and neither the information contained herein nor any opinion expressed should be construed or deemed to be construed as solicitation or as offering advice for the purposes of the purchase or sale of any security, investment or derivatives. The information and opinions contained in the Report were considered by PCIPL to be valid when published. The report also contains information provided to PCIPL by third parties. The source of such information will usually be disclosed in the report. Whilst PCIPL has taken all reasonable steps to ensure that this information is correct, PCIPL does not offer any warranty as to the accuracy or completeness of such information. Any person placing reliance on the report to undertake trading does so entirely at his or her own risk and PCIPL does not accept any liability as a result. Securities and Derivatives markets may be subject to rapid and unexpected price movements and past performance is not necessarily an indication to future performance.

This report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors must undertake independent analysis with their own legal, tax and financial advisors and reach their own regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. In no circumstances it be used or considered as an offer to sell or a solicitation of any offer to buy or sell the Securities mentioned in it. The information contained in the research reports may have been taken from trade and statistical services and other sources, which we believe are reliable. PhillipCapital (India) Pvt. Ltd. or any of its group/associate/affiliate companies do not guarantee that such information is accurate or complete and it should not be relied upon as such. Any opinions expressed reflect judgments at this date and are subject to change without notice.

Important: These disclosures and disclaimers must be read in conjunction with the research report of which it forms part. Receipt and use of the research report is subject to all aspects of these disclosures and disclaimers. Additional information about the issuers and securities discussed in this research report is available on request.

Certifications: The research analyst(s) who prepared this research report hereby certifies that the views expressed in this research report accurately reflect the research analyst's personal views about all of the subject issuers and/or securities, that the analyst have no known conflict of interest and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific views or recommendations contained in this research report. The Research Analyst certifies that he /she or his / her family members does not own the stock(s) covered in this research report.

Independence/Conflict: PhillipCapital (India) Pvt. Ltd. has not had an investment banking relationship with, and has not received any compensation for investment banking services from, the subject issuers in the past twelve (12) months, and PhillipCapital (India) Pvt. Ltd. does not anticipate receiving or intend to seek compensation for investment banking services from the subject issuers in the next three (3) months. PhillipCapital (India) Pvt. Ltd. is not a market maker in the securities mentioned in this research report, although it or its employees, directors, or affiliates may hold either long or short positions in such securities. PhillipCapital (India) Pvt. Ltd. may not hold more than 1% of the shares of the company(ies) covered in this report.

Suitability and Risks: This research report is for informational purposes only and is not tailored to the specific investment objectives, financial situation or particular requirements of any individual recipient hereof. Certain securities may give rise to substantial risks and may not be suitable for certain investors. Each investor must make its own determination as to the appropriateness of any securities referred to in this research report based upon the legal, tax and accounting considerations applicable to such investor and its own investment objectives or strategy, its financial situation and its investing experience. The value of any security may be positively or adversely affected by changes in foreign exchange or interest rates, as well as by other financial, economic or political factors. Past performance is not necessarily indicative of future performance or results.

Sources, Completeness and Accuracy: The material herein is based upon information obtained from sources that PCIPL and the research analyst believe to be reliable, but neither PCIPL nor the research analyst represents or guarantees that the information contained herein is accurate or complete and it should not be relied upon as such. Opinions expressed herein are current opinions as of the date appearing on this material and are subject to change without notice. Furthermore, PCIPL is under no obligation to update or keep the information current.

Copyright: The copyright in this research report belongs exclusively to PCIPL. All rights are reserved. Any unauthorized use or disclosure is prohibited. No reprinting or reproduction, in whole or in part, is permitted without the PCIPL's prior consent, except that a recipient may reprint it for internal circulation only and only if it is reprinted in its entirety.

Caution: Risk of loss in trading in can be substantial. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

For U.S. persons only: This research report is a product of PhillipCapital (India) Pvt Ltd. which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by PhillipCapital (India) Pvt Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, PhillipCapital (India) Pvt Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

PhillipCapital (India) Pvt. Ltd.

Registered office: No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg, Lower Parel West, Mumbai 400013