

# Emami (HMN IN)

## Kesh King growth back on track

INDIA | FMCG | Quarterly Update

3 August 2016

### Top takeaways from Q1FY17

- ✓ Revenue growth was above our/street estimates led by strong growth in organic businesses and better-than-expected growth in Kesh King
- ✓ Gross margins rose on lower input costs and EBITDA margin expanded further on lower operating expenses
- ⇔ High interest costs and goodwill amortisation led to decline in reported PAT

**Key highlights:** In Q1FY17, organic sales grew by 9.4% (6.4% volume growth). Strong growth was driven by *BoroPlus*/healthcare/cooling oils/cooling talc which grew by 38%/14%/8%/15% yoy. However, growth was lacklustre in *Fair & Handsome*/balms, which grew by 1%/6%. Domestic/international/CSD businesses grew 21%/14%/12%. Sales of Kesh King rose 23% qoq to Rs 740mn (IGAAP format) in Q1FY17 vs. Rs 630mn in Q4FY16.

### Conference call takeaways

- ✓ Expects normal monsoons to aid demand in rural areas, and 7<sup>th</sup> pay commission and One Rank One Pay to aid urban growth.
- ✓ Kesh King revenues (as per IGAAP) in 9MFY16/Q4FY16 were Rs 1.7bn/630mn; management is confident of sales of Rs 2.7-2.8bn for FY17 (as per IND AS) or Rs 3.0-3.1bn (as per IGAAP), indicating significant traction for the brand.
- ✓ Plans to retire the entire net debt of Rs 4.1bn over the next 5-6 quarters.
- ✓ Other expenditure was lower than expectations and declined by 120bps yoy and 110bps qoq (as % of sales) as the base quarter had certain strategic expenses.
- ✓ Lower input prices to expand gross margins by ~100bps yoy in FY17; however, company will use the benefit entirely to increase A&P spends.
- ⇔ Higher ad spends in FY17 will be due to focus on deodorants and new launches in forthcoming quarters.
- ⇔ While Boro Plus grew by 38% yoy, the quarter did not have any extraordinary promotions; Q1 is generally a small quarter for the category and the growth rates cannot be extrapolated for the forthcoming quarters.
- ⇔ Expect 7-8% yoy growth in Navratna Oil and 18-20% growth in healthcare in FY17.
- ⇔ Capex target for FY17 is Rs 1.75bn

**Maintain Neutral:** We have raised our estimates for FY17 by 5% incorporating revival in growth and fall in input prices, and maintained our estimates for FY18. The stock has historically traded at 10% discount to sector and we believe the discount will be maintained due to the seasonal nature of the business. We value the stock at Rs 1070 (34x our FY18 earnings) and maintain Neutral due to rich valuations.

## Neutral (Maintain)

CMP RS 1150 / TARGET RS 1070 (-7%)

### COMPANY DATA

O/S SHARES (MN) :	227
MARKET CAP (RSBN) :	258
MARKET CAP (USDBN) :	4
52 - WK HI/LO (RS) :	1368 / 901
LIQUIDITY 3M (USDMMN) :	4
PAR VALUE (RS) :	1

### SHARE HOLDING PATTERN, %

	Jun 16	Mar 16	Dec 15
PROMOTERS :	72.7	72.7	72.7
FII / NRI :	15.7	16.3	16.3
FI / MF :	1.6	1.2	1.1
NON PRO :	0.3	0.5	0.4
PUBLIC & OTHERS :	9.6	9.3	9.5

### Key Financials

Rs mn	FY16E	FY17E	FY18E
Net Sales	25,846	31,005	35,115
EBIDTA	6,446	8,389	9,503
Net Profit	3,194	5,978	7,141
EPS, Rs	14.1	26.3	31.5
PER, x	81.7	43.7	36.6
EV/EBIDTA, x	41.4	31.4	27.1
ROE, %	22.8	37.3	37.9
Debt/Equity (%)	48.9	41.2	20.7

### CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY17E	FY18E	FY17E	FY18E
Revenue	31,005	35,115	(0.0)	(2.0)
EBITDA	8,389	9,503	5.6	1.0
Core PAT	5,978	7,141	4.8	0.0
EPS (Rs)	26.3	31.5	4.9	(0.1)

Jubil Jain and Naveen Kulkarni

(Rs mn)	Q1FY17	Q4FY16	qoq growth %	Q1FY16	yoy vs. expectations growth %	Comments
Net Sales	6,444	6,026	7	5,372	20	Kesh King growth surprised positively
Gross Profits	4,157	3,833	8	3,258	28	
Gross Margin (%)	64.5	63.6	91 bps	60.6	386 bps	
Staff costs	598	472	27	507	18	
Ad spends	1,534	938	64	1,239	24	
Other operating expenses	552	582	(5)	526	5	Other operating expenses managed better
EBITDA	1,473	1,841	(20)	987	49	
EBITDA margin (%)	22.9	30.6	-770 bps	18.4	448 bps	
PBT	683	896	(24)	905	(24)	(74)
Tax rate (%)	17.1	9.7	739 bps	4.6	1250 bps	
Reported PAT	571	804	(29)	866	(34)	(77)
Adj. PAT	997	1,531	(35)	1,003	(1)	(28) Grew slower than EBITDA due to high interest costs

## Financials

### Income Statement

Y/E Mar, Rs mn	FY15	FY16e	FY17e	FY18e
<b>Net sales</b>	<b>22,172</b>	<b>25,846</b>	<b>31,005</b>	<b>35,115</b>
Growth, %	22	17	20	13
Total income	22,172	25,846	31,005	35,115
Raw material expenses	-7,800	-8,121	-9,325	-10,451
Employee expenses	-1,671	-2,085	-2,349	-2,634
Other Operating expenses	-7,301	-9,194	-10,942	-12,527
<b>EBITDA (Core)</b>	<b>5,401</b>	<b>6,446</b>	<b>8,389</b>	<b>9,503</b>
Growth, %	22.4	19.3	30.1	13.3
Margin, %	24.4	24.9	27.1	27.1
Depreciation	-343	-2,550	-588	-630
<b>EBIT</b>	<b>5,058</b>	<b>3,895</b>	<b>7,800</b>	<b>8,874</b>
Growth, %	24.5	(23.0)	100.3	13.8
Margin, %	22.8	15.1	25.2	25.3
Interest paid	-51	-540	-572	-446
Other Non-Operating Income	964	338	245	498
<b>Pre-tax profit</b>	<b>5,924</b>	<b>3,779</b>	<b>5,073</b>	<b>6,526</b>
Tax provided	-1,070	-585	-1,495	-1,785
<b>Profit after tax</b>	<b>4,854</b>	<b>3,194</b>	<b>3,578</b>	<b>4,741</b>
<b>Net Profit</b>	<b>4,854</b>	<b>3,194</b>	<b>3,578</b>	<b>4,741</b>
Growth, %	18.0	(34.2)	87.2	19.4
<b>Net Profit (adjusted)</b>	<b>4,854</b>	<b>3,194</b>	<b>5,978</b>	<b>7,141</b>
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	3,541	1,084	4,253	7,034
Debtors	1,027	1,301	1,247	1,447
Inventory	1,267	1,505	1,611	1,767
Loans & advances	1,099	2,133	2,133	2,133
Other current assets	0	0	0	0
Total current assets	6,934	6,024	9,244	12,381
Investments	5,013	185	1,000	1,000
Gross fixed assets	6,393	24,172	22,142	20,132
Less: Depreciation	-1,882	-4,409	-4,997	-5,627
Add: Capital WIP	265	616	616	616
Net fixed assets	4,776	20,379	17,761	15,121
Non-current assets	0	41	41	41
<b>Total assets</b>	<b>16,722</b>	<b>26,629</b>	<b>28,045</b>	<b>28,543</b>
Current liabilities	3,806	5,712	5,403	5,804
Total current liabilities	3,806	5,712	5,403	5,804
Non-current liabilities	541	6,845	6,584	3,884
Total liabilities	4,347	12,557	11,987	9,688
Paid-up capital	227	227	227	227
Reserves & surplus	12,103	13,804	15,792	18,592
Shareholders' equity	12,376	14,073	16,059	18,856
<b>Total equity &amp; liabilities</b>	<b>16,723</b>	<b>26,629</b>	<b>28,046</b>	<b>28,543</b>

\*Bonus shares issued in FY14

\*\* All nos. in IGAAP format

Source: Company, PhillipCapital India Research Estimates

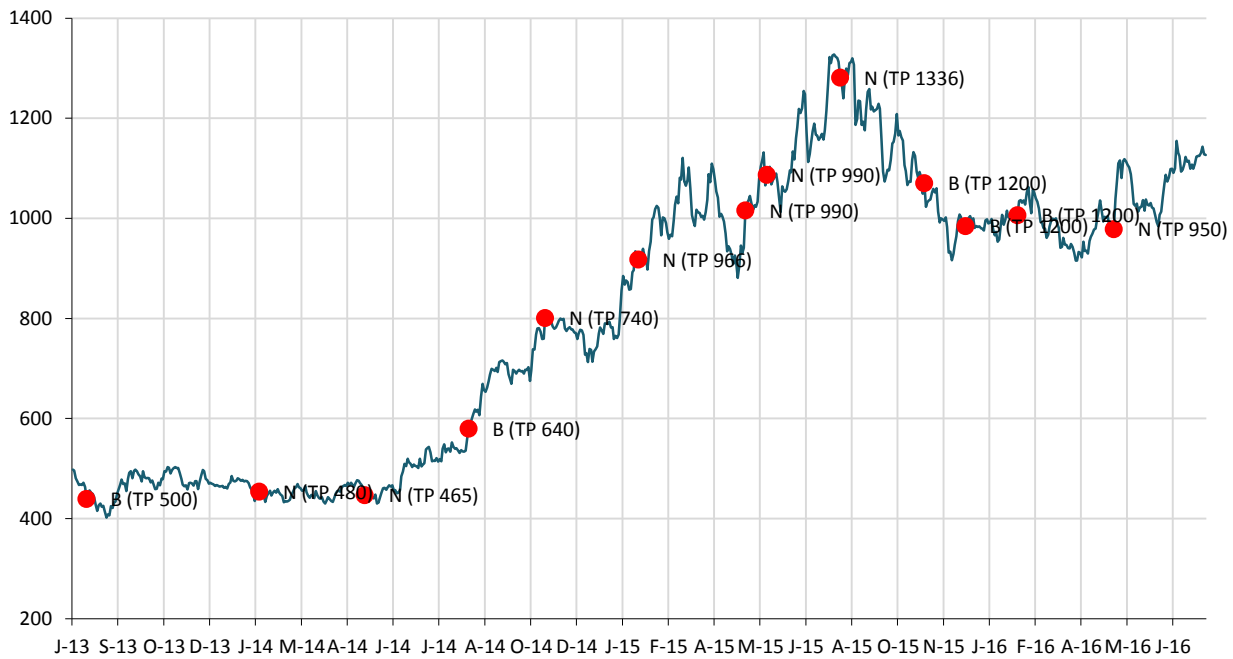
### Cash Flow

Y/E Mar, Rs mn	FY15	FY16e	FY17e	FY18e
Pre-tax profit	5,924	3,779	5,073	6,526
Depreciation	343	2,550	588	630
Chg in working capital	489	318	-360	44
Total tax paid	-997	-705	-1,495	-1,785
<b>Cash flow from operating activities</b>	<b>2,791</b>	<b>4,640</b>	<b>2,301</b>	<b>3,097</b>
Capital expenditure	-1,041	-18,154	2,030	2,010
Chg in investments	-2,054	4,827	-815	0
<b>Cash flow from investing activities</b>	<b>-3,095</b>	<b>-13,326</b>	<b>1,215</b>	<b>2,010</b>
Free cash flow	-305	-8,686	3,516	5,107
Equity raised/(repaid)	3,009	1,701	1,988	2,799
Debt raised/(repaid)	-27	6,445	-261	-2,700
Dividend (incl. tax)	-1,882	-1,912	-2,072	-2,423
<b>Cash flow from financing activities</b>	<b>1,146</b>	<b>6,230</b>	<b>-348</b>	<b>-2,326</b>
Net chg in cash	841	-2,457	3,168	2,781

### Valuation Ratios

	FY14	FY15e	FY16e	FY17e
<b>Per Share data</b>				
EPS (INR)	21.4	14.1	26.3	31.5
Growth, %	18.0	(34.2)	87.2	19.4
Book NAV/share (INR)	54.3	61.8	70.6	82.9
FDEPS (INR)	21.4	14.1	26.3	31.5
CEPS (INR)	22.9	25.3	39.5	44.8
CFPS (INR)	21.1	24.8	15.7	21.7
DPS (INR)	7.0	7.0	7.9	9.2
<b>Return ratios</b>				
Return on assets (%)	32.9	16.3	14.4	17.7
Return on equity (%)	39.4	22.8	37.3	37.9
Return on capital employed (%)	43.0	20.9	18.1	22.1
<b>Turnover ratios</b>				
Asset turnover (x)	5.2	2.2	1.7	2.2
Sales/Total assets (x)	1.5	1.2	1.1	1.2
Sales/Net FA (x)	5.0	2.1	1.6	2.1
Working capital/Sales (x)	(0.0)	(0.0)	(0.0)	(0.0)
Working capital days	(6.8)	(10.9)	(4.9)	(4.7)
<b>Liquidity ratios</b>				
Current ratio (x)	1.8	1.1	1.7	2.1
Quick ratio (x)	1.5	0.8	1.4	1.8
Interest cover (x)	98.4	7.2	13.6	19.9
Dividend cover (x)	3.1	2.0		
Total debt/Equity (%)	3.4	48.9	41.2	20.7
Net debt/Equity (%)	(25.3)	41.2	14.7	(16.7)
<b>Valuation</b>				
PER (x)	53.8	81.7	43.7	36.6
Price/Book (x)	21.2	18.6	16.3	13.9
Yield (%)	0.6	0.6		
EV/Net sales (x)	11.6	10.3	8.5	7.3
EV/EBITDA (x)	47.8	41.4	31.4	27.1
EV/EBIT (x)	51.0	68.5	33.8	29.1

### Stock Price, Price Target and Rating History



### Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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