

Emami (HMN IN)

Kesh King sales recover

INDIA | FMCG | Quarterly Update

27 October 2016

Top takeaways from Q2FY17

- ✘ Revenue growth was below our/street estimates on weak growth in some organic businesses categories and international business despite strong 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 a decline in reported PAT

Key highlights: Consolidated volumes grew 10% in Q2FY17. Excluding Kesh King, sales grew 9% yoy. Strong growth was driven by Balms/*BoroPlus*/Kesh King which grew by 19%/50%/16% yoy. However, growth was lacklustre in *Fair & Handsome/Cooling Oil/Healthcare range*, at +1%/-3%/0%. Domestic/international/CSD businesses was +14%/-11%/+14%.

Conference call takeaways

- ↔ Overall demand in the rural market remained flat, expect normal monsoons to aid demand in rural areas; target double-digit volume growth in FY17
- ✓ Kesh King oil and Kesh King shampoo grew 73%/15% yoy; going forward, key focus will be on oil; no effect of seasonality seen on Kesh King oil
- ↔ Navratna cool oil impacted by monsoon and weak oil market; growth should revive to 10%+ once market improves; Navratna sachets now contribute 37% to cool oil sales
- ✘ Face creams declined by 2-3% and revival may be protracted for the category
- ✓ New product launches should contribute ~3% to the overall sales; two new product launched in October; more products to be launched in the next few months
- ✘ International business impacted by subdued demand in the Middle East; may take two quarters to revive
- ✘ Healthcare sales were impacted by 19% fall in Pancharishtha sales on a high base (109% growth in Q2FY16)
- ↔ Overall, raw material prices remained flat; however, there is some inflation in mentha but it is under control; have not taken price hikes in H1FY17 and will decide in Q4
- ↔ Debt went up by Rs 0.3bn in H1FY17 largely on due to capex in H1; net debt currently stands at Rs 5.6bn; on track to retire entire debt in five quarters
- ✓ Current direct reach is 650,000 outlets and the plan is to increase it to 800,000
- ↔ Capex estimate of Rs 2bn in FY17; FY17 tax rate will be ~20%

Maintain Neutral: We have maintained our estimates for FY17 and introduced our estimates for FY19. The stock has historically traded at a 10% discount to the sector and we believe this discount will be maintained due to the seasonal nature of the business. We value the stock at Rs 1100 at 35x our September 2018 earnings (Rs 1070 earlier) and maintain Neutral due to rich valuations.

(Rs mn)	Q2FY17	Q1FY16	qoq growth %	Q2FY16	yoy growth %	PC yoy growth expectations %	Comments
Net Sales	5,846	6,444	(9)	5,306	10	25	International growth, Healthcare and Face creams surprised negatively
Gross Profits	3,916	4,157	(6)	3,523	11	26	
Gross Margin (%)	67.0	64.5	249 bps	66.4	60 bps	58 bps	
Staff costs	628	598	5	541	16	21	
Ad spends	992	1,534	(35)	926	7	32	A&P spends at competitive levels
Other operating expenses	545	552	(1)	534	2	20	Operating costs controlled
EBITDA	1,752	1,473	19	1,523	15	26	
EBITDA margin (%)	30.0	22.9	712 bps	28.7	128 bps	28 bps	
PBT	889	683	30	741	20	51	
Tax rate (%)	25.9	17.1	874 bps	18.7	717 bps	30 bps	
Reported PAT	661	566	17	605	9		Impacted by high interest costs and goodwill amortisation
Adj. PAT	1,205	1,054	14	1,101	9	10	Grew slower than EBITDA due to high interest costs

Neutral (Maintain)

CMP RS 1175 / TARGET RS 1100 (-7%)

COMPANY DATA

O/S SHARES (MN) :	227
MARKET CAP (RSBN) :	265
MARKET CAP (USDBN) :	4
52 - WK HI/LO (RS) :	1248 / 901
LIQUIDITY 3M (USDMMN) :	2.5
PAR VALUE (RS) :	1

SHARE HOLDING PATTERN, %

	Sep 16	Jun 16	Mar 16
PROMOTERS :	72.7	72.7	72.7
FII / NRI :	16.7	15.7	16.3
FI / MF :	2.3	1.6	1.2
NON PRO :	-0.4	0.3	0.5
PUBLIC & OTHERS :	8.6	9.6	9.3

Key Financials

Rs mn	FY17E	FY18E	FY19E
Net Sales	31,005	35,115	39,502
EBIDTA	8,389	9,503	10,695
Net Profit	5,498	6,661	7,537
EPS, Rs	24.2	29.3	33.2
PER, x	48.5	40.0	35.4
EV/EBIDTA, x	32.1	27.7	24.1
ROE, %	34.3	35.4	33.7
Debt/Equity (%)	41.2	20.7	12.1

CHANGE IN ESTIMATES

Rs bn	Revised Est.	% Revision		
	FY17E	FY18E	FY17E	FY18E
Revenue	31,005	35,115	(0.0)	0.0
EBITDA	8,389	9,503	(0.0)	0.0
Core PAT	5,498	6,661	(0.0)	0.0
EPS (Rs)	24.2	29.3	(0.0)	0.0

Jubil Jain and Naveen Kulkarni

Financials

Income Statement

Y/E Mar, Rs mn	FY16	FY17e	FY18e	FY19e
Net sales	25,846	31,005	35,115	39,502
Growth, %	17	20	13	12
Total income	25,846	31,005	35,115	39,502
Raw material expenses	-8,121	-9,325	-10,451	-11,782
Employee expenses	-2,085	-2,349	-2,634	-2,979
Other Operating expenses	-9,194	-10,942	-12,527	-14,047
EBITDA (Core)	6,446	8,389	9,503	10,695
Growth, %	19.3	30.1	13.3	12.5
Margin, %	24.9	27.1	27.1	27.1
Depreciation	-2,550	-588	-630	-509
EBIT	3,895	7,800	8,874	10,186
Growth, %	(23.0)	100.3	13.8	14.8
Margin, %	15.1	25.2	25.3	25.8
Interest paid	-540	-572	-446	-165
Other Non-Operating Income	338	245	498	0
Pre-tax profit	3,779	5,073	6,526	7,621
Tax provided	-585	-1,495	-1,785	-2,004
Profit after tax	3,194	3,578	4,741	5,617
Net Profit	3,194	3,578	4,741	5,617
Growth, %	(34.2)	72.1	21.1	13.2
Net Profit (adjusted)	3,194	5,498	6,661	7,537
Unadj. shares (m)	227	227	227	227
Wtd avg shares (m)	227	227	227	227

Balance Sheet

Y/E Mar, Rs mn	FY16	FY17e	FY18e	FY19e
Cash & bank	1,084	4,253	7,034	11,669
Debtors	1,301	1,247	1,447	1,583
Inventory	1,505	1,611	1,767	2,041
Loans & advances	2,133	2,133	2,133	2,133
Other current assets	0	0	0	0
Total current assets	6,024	9,244	12,381	17,427
Investments	185	1,000	1,000	1,000
Gross fixed assets	24,172	22,142	20,132	18,122
Less: Depreciation	-4,409	-4,997	-5,627	-6,136
Add: Capital WIP	616	616	616	616
Net fixed assets	20,379	17,761	15,121	12,603
Non-current assets	41	41	41	41
Total assets	26,629	28,045	28,543	31,070
Current liabilities	5,712	5,403	5,804	5,981
Total current liabilities	5,712	5,403	5,804	5,981
Non-current liabilities	6,845	6,584	3,884	2,684
Total liabilities	12,557	11,987	9,688	8,665
Paid-up capital	227	227	227	227
Reserves & surplus	13,804	15,792	18,592	22,144
Shareholders' equity	14,073	16,059	18,856	22,406
Total equity & liabilities	26,629	28,046	28,543	31,071

*Bonus shares issued in FY14

** All nos. in IGAAP format

Source: Company, PhillipCapital India Research Estimates

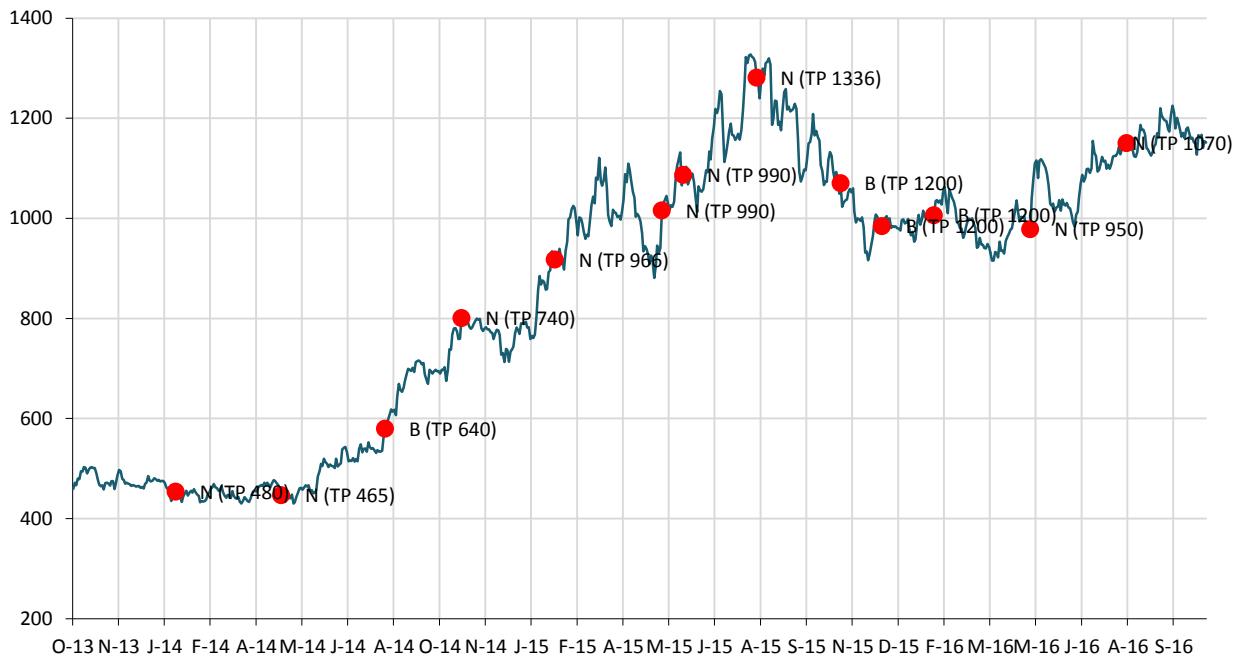
Cash Flow

Y/E Mar, Rs mn	FY16	FY17e	FY18e	FY19e
Pre-tax profit	3,779	5,073	6,526	7,621
Depreciation	2,550	588	630	509
Chg in working capital	298	-360	44	-233
Total tax paid	-705	-1,495	-1,785	-2,004
Cash flow from operating activities	4,620	2,301	3,097	2,823
Capital expenditure	-18,154	2,030	2,010	2,010
Chg in investments	4,827	-815	0	0
Cash flow from investing activities	-13,326	1,215	2,010	2,010
Free cash flow	-8,706	3,516	5,107	4,833
Equity raised/(repaid)	1,701	1,988	2,799	3,552
Debt raised/(repaid)	6,445	-261	-2,700	-1,200
Dividend (incl. tax)	-1,912	-2,072	-2,423	-2,547
Cash flow from financing activities	6,230	-348	-2,326	-197
Net chg in cash	-2,477	3,168	2,781	4,636

Valuation Ratios

	FY16	FY17e	FY18e	FY19e
Per Share data				
EPS (INR)	14.1	24.2	29.3	33.2
Growth, %	(34.2)	72.1	21.1	13.2
Book NAV/share (INR)	61.8	70.6	82.9	98.6
FDEPS (INR)	14.1	24.2	29.3	33.2
CEPS (INR)	25.3	37.4	42.7	46.0
CFPS (INR)	24.8	15.7	21.7	26.0
DPS (INR)	7.0	7.9	9.2	9.7
Return ratios				
Return on assets (%)	16.3	14.4	17.7	19.2
Return on equity (%)	22.8	34.3	35.4	33.7
Return on capital employed (%)	20.9	18.1	22.1	23.9
Turnover ratios				
Asset turnover (x)	2.2	1.7	2.2	2.9
Sales/Total assets (x)	1.2	1.1	1.2	1.3
Sales/Net FA (x)	2.1	1.6	2.1	2.8
Working capital/Sales (x)	(0.0)	(0.0)	(0.0)	(0.0)
Working capital days	(10.9)	(4.9)	(4.7)	(2.1)
Liquidity ratios				
Current ratio (x)	1.1	1.7	2.1	2.9
Quick ratio (x)	0.8	1.4	1.8	2.6
Interest cover (x)	7.2	13.6	19.9	61.7
Dividend cover (x)	2.0			
Total debt/Equity (%)	48.9	41.2	20.7	12.1
Net debt/Equity (%)	41.2	14.7	(16.7)	(40.1)
Valuation				
PER (x)	83.5	48.5	40.0	35.4
Price/Book (x)	19.0	16.6	14.2	11.9
Yield (%)	0.6			
EV/Net sales (x)	10.5	8.7	7.5	6.5
EV/EBITDA (x)	42.3	32.1	27.7	24.1
EV/EBIT (x)	69.9	34.5	29.7	25.3

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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