



India

HOLD (previously ADD)

Consensus ratings*: Buy 21 Hold 4 Sell 1

Current price:	Rs384
Target price:	Rs410
Previous target:	Rs650
Up/downside:	6.8%
InCred Research / Consensus:	-13.8%
Reuters:	EMAM.NS
Bloomberg:	HMN IN
Market cap:	US\$2,041m
	Rs168,919m
Average daily turnover:	US\$1.6m
	Rs131.2m
Current shares o/s:	444.5m
Free float:	45.7%

*Source: Bloomberg

Key changes in this note

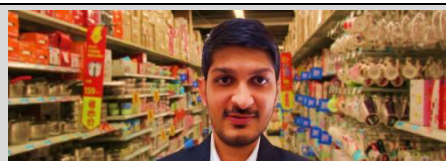
- Downgrade our rating from ADD to HOLD.
- Lower target price to Rs410 from Rs650.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	6.3	0.4	(4.9)
Relative (%)	3.6	(3.5)	(16.6)

Major shareholders	% held
Promoter	54.3
DSP Investment Managers	5.7
Mirae AMC	3.4

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Emami Ltd**Subdued 4Q performance across categories**

- Emami posted 4QFY23 domestic value/volume growth of 5%/2%, respectively. Acquisitions contributed 10%/6% to 4Q/FY23 sales. Ex-acquisitions (like-for-like) domestic sales declined by 5%/2% in 4Q/FY23, respectively.
- Unseasonal rains impacted the summer portfolio in 4Q and likely in 1QFY24 till date. Management expects domestic sales growth of 8-10% in FY24F.
- Volatility in revenue growth continues due to high seasonality of the portfolio. Downgrade our rating to HOLD (from ADD) with a lower target price of Rs410.

Seasonality affects sales growth

Emami's 4QFY23 domestic sales were weak due to 1) unseasonal rains impacting its summer portfolio, and 2) higher inflation affecting discretionary consumption, thereby translating to muted rural demand. However, barring the summer portfolio, Emami witnessed some positive momentum for other categories in Apr and May 2023 (till date) in rural markets. If the momentum continues for other categories, then management expects domestic sales growth to be in the range of 8-10% in FY24F. E-commerce and modern trade salience increased to 9.3% each for FY23 (up 400/220bp yoy, respectively), reducing the dependence on the wholesale channel. International business grew by 19%/20% in 4Q/FY23, respectively, with the momentum expected to sustain going ahead.

Performance subdued across categories

Performance was muted across most categories in 4QFY23. The Navratna range declined 3% yoy owing to unseasonal rains. BoroPlus declined by 25% in 4Q. The healthcare/pain management range declined by 13%/99% yoy in 4Q, respectively, owing to the high base. Kesh King grew by 1% in 4Q.

Margins likely to improve in FY24F

Emami registered 90/280bp yoy gross margin/EBITDA margin expansion to 63.1%/23.9%, respectively, in 4QFY23 while in FY23, gross margin/EBITDA margin contracted by 160bp/460bp yoy to 64.7%/25.3%, respectively. Management is expecting c.250bp gross margin expansion in FY24F and is targeting an EBITDA margin of 27%. Ad spending is expected in the range of 16.5-17% in FY24F, slightly higher than 16.4-16.5% in FY22/23.

Downgrade rating to HOLD with a lower target price of Rs410

Increased seasonality in the portfolio has further accentuated volatility in revenue/earnings growth. Besides, the company's distribution expansion initiatives under Project Khoj have also not yielded the desired results. We downgrade our rating on the stock to HOLD (ADD earlier) with a lower target price of Rs410 (21x Mar 2025F EPS), assigning a lower P/E multiple to factor in volatility in revenue/earnings growth. Key upside/downside risks: Faster/slower-than-expected sales growth. The ongoing buyback (via open market) should, in our view, support the share price in the near term.

Financial Summary

	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	28,805	31,872	34,057	36,846	40,391
Operating EBITDA (Rsm)	8,831	9,524	8,628	9,932	11,273
Net Profit (Rsm)	7,292	8,390	6,397	8,307	9,441
Core EPS (Rs)	11.0	19.1	14.5	17.1	19.8
Core EPS Growth	44.9%	74.0%	(23.9%)	18.2%	15.7%
FD Core P/E (x)	23.61	20.25	26.45	20.26	17.74
DPS (Rs)	7.5	8.0	8.0	9.0	11.0
Dividend Yield	2.20%	2.10%	2.12%	2.35%	2.87%
EV/EBITDA (x)	19.09	17.97	19.38	16.57	14.11
P/FCFE (x)	22.63	29.29	31.39	29.01	21.61
Net Gearing	(20.3%)	6.1%	(9.0%)	(15.2%)	(28.5%)
P/BV (x)	9.67	8.15	7.35	6.57	5.56
ROE	27.4%	44.0%	29.2%	31.0%	31.1%
% Change In Core EPS Estimates					(16.32%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Subdued 4Q performance across categories

Key takeaways from the earnings call

Highlights ▶

- **Demand:** Summer-related products were impacted. The summer season in the last two months has been weak owing to unseasonal rains. Barring summer products, other categories witnessed a positive momentum in Apr and May in rural markets. The summer season has been weak (so far in 1Q as well) but if other portfolios do well, then domestic sales growth should be in the range of 8-10% in FY24F.
- **Margin outlook:** The company expects a 250bp gross margin expansion in FY24F. Targeting EBITDA margin of 27%. Ad spending will be in the range of 16.5-17% in FY24F, slightly more than 16.4-16.5% in FY22/23.
- **Volume/value** domestic sales grew 2%/5% yoy, respectively, in 4QFY23. Dermicool and Helios Lifestyle (The Man Co.) contributed 10%/6% to 4Q/FY23 sales, respectively. Organic value sales (ex-Dermicool and The Man Co.) declined by 5% in 4Q.
- **Project Khoj:** Emami focused on high-potential villages rather than looking at population-based cohorts. Added 11k villages last year, reaching 52k villages in FY23. Will now focus on consolidation and increasing throughput. The company is expected to add 8k villages in FY24F.
- Added 31k chemists in FY23. No further chemist channel expansion is likely in FY24F, as the focus will be on consolidation.

Segment-wise commentary ▶

- **Navratna** declined by 3% in 4Q (up 6% in FY23) owing to an irregular summer season and the monsoon impact on summer offtake.
- **Kesh King** grew by 1% in 4Q. The company introduced a 30ml SKU at Rs49 to drive trials. If the momentum continues, management is confident of a 10% yoy growth in FY24F. No heightened competitive intensity is visible in Kesh King or cooling oils, as per management.
- The **pain management** segment declined by 9% in 4Q and by 14% in FY23. Undertaking initiatives like driving visibility in chemist channels, with 900+ chemists being reached out in core markets, SKU extensions, A&P spending on Ortho Vedic oil on e-commerce channels and brand building for Zandu fast relief balm.
- The **healthcare segment** was down 13% in 4Q. In FY23, it declined by 12%. The base effect in Chyawanprash was visible until the last quarter. During the Covid-19 pandemic, the immunity range had done well across medico and OTC segments, but this impacted growth this year owing to a high base.
- The **Boroplus** range declined 25% in 4Q but grew by 1% in FY23.
- The **male grooming range** grew by 29% in 4Q owing to a low base (up 3% yoy in FY23). The growth moderated to single digits post Mar 2023.
- **New launches:** Launched 20 products in FY23, with most of them being digital first on its own portal Zandu Care. Recent launches witnessed 7% sales in modern trade (MT) and 20% in e-commerce. Launched Zandu fast relief spray in 4Q. New launches will be more focused on the D2C segment.
- MT was up 18% at 9.3% of sales in FY23 and e-commerce was up 64% at 9.3% of sales in FY23, increasing the combined salience to 19% of domestic sales, up 500bp yoy.
- **International business** grew by 19% in 4Q (up 20% yoy in FY23). Management expects a 20% growth in FY24F.
- Power brands led growth in MENA, CIS and Bangladesh.

Other points ➤

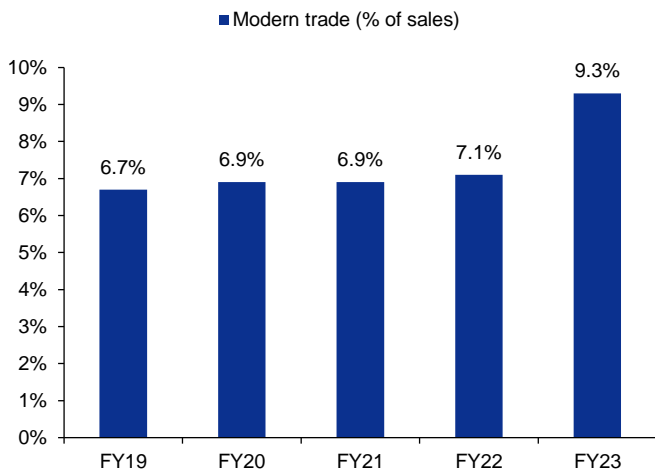
- With inflation moderating, the coming quarters look promising. Some price hikes (3.5% in 4QFY23) were also taken.
- **Other expenses and staff cost** saw consolidation of The Man Co. and hence, they were higher on a consolidated basis.
- **Outlook on acquisitions:** Management has set in place aggressive targets for the start-ups, at 50-60%. Management is more bullish on the Man Co., which grew 40% yoy in FY23, and is expected to be profitable in FY24F. Emami will invest in the male grooming range. Emami took an impairment on valuation of investment in Brillaire owing to lower-than-expected sales growth.
- **Dermicool:** Both Dermicool and Navratna brands don't compete in the same segment. Dermicool witnesses higher growth from 150gm packs while Navratna registers higher growth in smaller packs. Owing to the summer impact, the offtake has been slower than expectations.
- **Pledge reduction plan:** The proceeds from the sale of a hospital (expected to be completed in three-to-four weeks) will be used to lower share pledge.
- **Tax rate guidance:** FY24F tax rate is expected to be close to FY23 level (4-5%) as MAT credit will be utilized until FY27.

Figure 1: Quarterly summary - consolidated

Y/E, Mar (Rs. m)	4QFY22	3QFY23	4QFY23	YoY (%)	QoQ (%)	FY22	FY23	Gr (%)
Revenue	7,682	9,827	8,360	8.8	-14.9	31,881	34,057	6.8
Expenditure	6,065	6,885	6,361	4.9	-7.6	22,349	25,431	13.8
Consumption of RM	2,899	3,355	3,082	6.3	-8.2	10,731	12,015	12.0
as % of sales	37.7	34.1	36.9			33.7	35.3	
Employee Cost	789	934	921	16.8	-1.5	3,178	3,678	15.7
as % of sales	10.3	9.5	11.0			10.0	10.8	
Selling & Administrative Expenses	1,495	1,533	1,297	-13.3	-15.4	5,229	5,607	7.2
as % of sales	19.5	15.6	15.5			16.4	16.5	
Other expenditure	882	1,063	1,062	20.4	0.0	3,211	4,132	28.7
as % of sales	11.5	10.8	12.7			10.1	12.1	
EBITDA	1,617	2,943	1,998	23.5	-32.1	9,533	8,627	-9.5
Depreciation	835	472	640	-23.4	35.4	3,348	2,473	-26.1
EBIT	783	2,470	1,358	73.5	-45.0	6,185	6,154	-0.5
Other Income	303	69	138	-54.6	100.4	953	689	-27.6
Interest	18	18	14	-24.7	-22.6	51	74	45.8
PBT	1,068	2,521	1,482	38.8	-41.2	7,087	6,770	-4.5
Total Tax	-2,563	185	63	-102.4	-66.2	-1,487	421	-128.3
PAT (before minority)	3,630	2,336	1,420	-60.9	-39.2	8,573	6,348	-26.0
Minority Interest	41	-35	-25	-160.3	-30.5	123	-47	52.7
Reported PAT	3,589	2,371	1,444	-59.8	-39.1	8,451	6,395	-24.3
Extraordinary Items	-656	-286	-442	-32.6	54.3	-52	0	NA
Adjusted PAT	4,246	2,658	1,886	-55.6	-29.0	8,502	6,395	-24.8
EPS	8.1	5.3	3.2	-59.8	-39.1	19.0	14.4	-24.3
Margins (%)	4QFY22	3QFY23	4QFY23	YoY (bp)	QoQ (bp)	FY22	FY23	(bp)
Gross Margin	62.3	65.9	63.1	90	-270	66.3	64.7	-160
EBITDA	21.1	29.9	23.9	280	-600	29.9	25.3	-460
EBIT	10.2	25.1	16.2	610	-890	19.4	18.1	-130
EBT	13.9	25.7	17.7	380	-790	22.2	19.9	-240
PAT	55.3	27.0	22.6	-3,270	-450	26.7	18.8	-790
Effective Tax Rate	-240.1	7.3	4.2	24,430	-310	-21.0	6.2	2,720

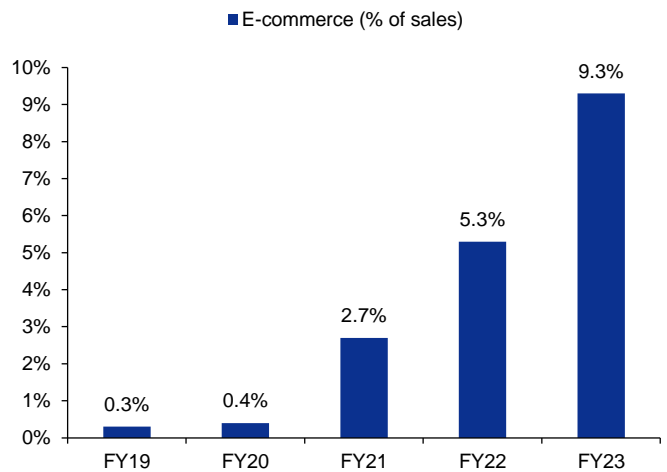
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Modern trade contributed to 9.3% of sales in FY23



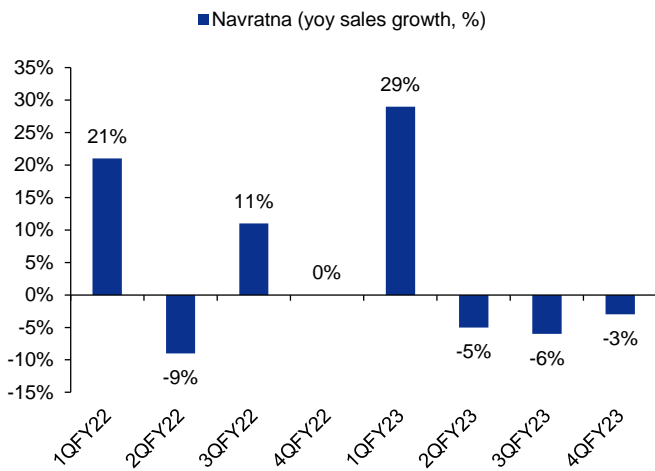
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: E-commerce contributed to 9.3% of sales in FY23



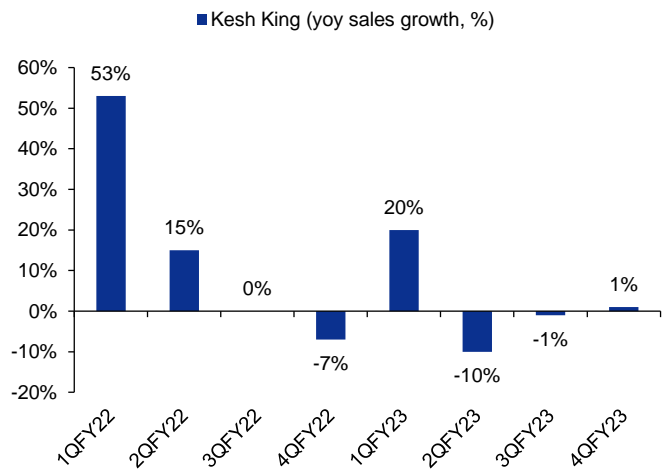
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Navratna range declined 3% yoy in 4QFY23



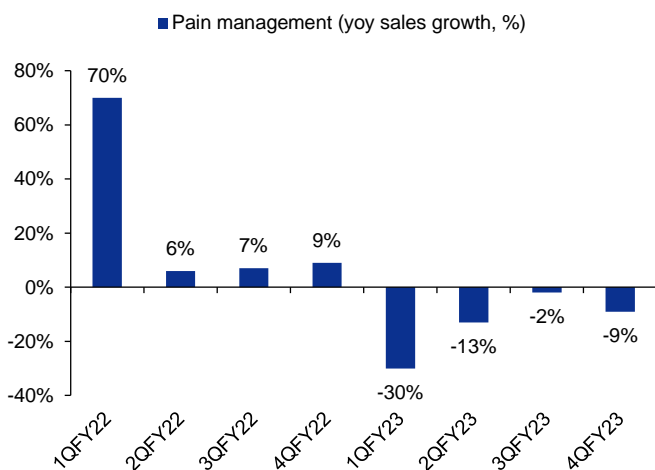
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Kesh King range posted marginal growth in 4QFY23

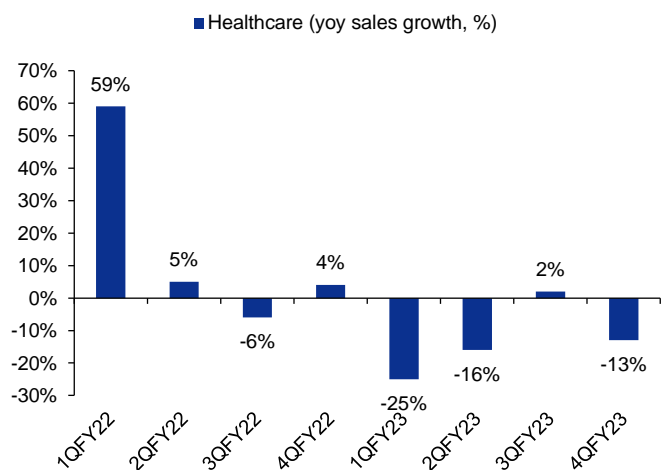


SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Pain management range declined 9% yoy on a high base Figure 7: Healthcare range declined 13% yoy in 4QFY23



SOURCES: INCRED RESEARCH, COMPANY REPORTS



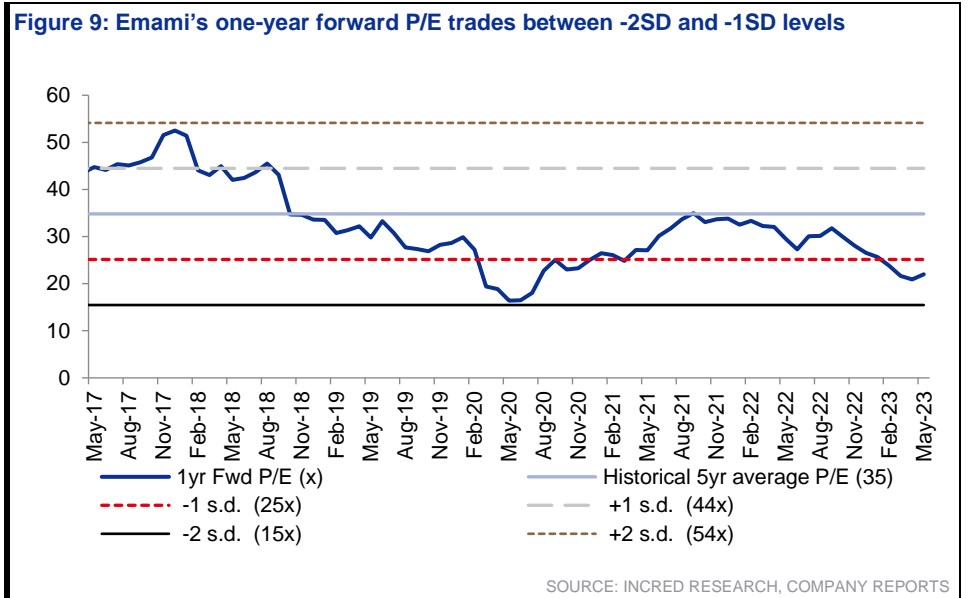
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Our revised earnings estimates

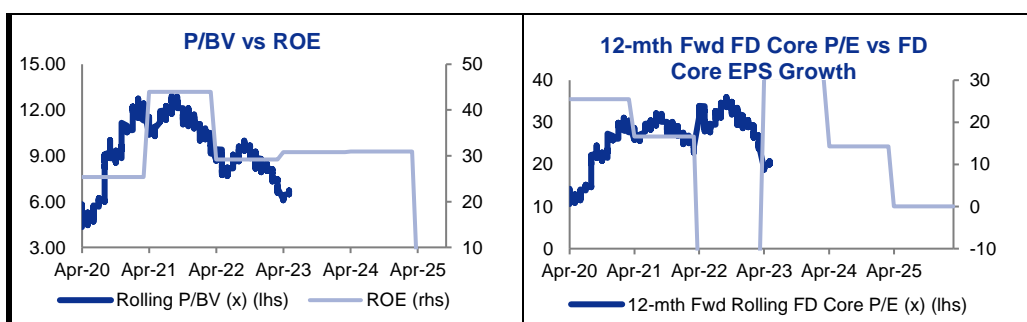
Rs. m	FY24F			FY25F
	Previous	Revised	% Change	Introduced
Revenue	37,610	36,846	-2.0	40,391
EBITDA	11,486	9,932	-13.5	11,273
EBITDA Margin (%)	30.5	27.0	-360 bps	27.9
Net Profit	8,263	8,307	-16.5	9,441
EPS (Rs.)	20.5	17.1	-16.5	21.6

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Emami's one-year forward P/E trades between -2SD and -1SD levels



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	28,805	31,872	34,057	36,846	40,391
Gross Profit	19,513	21,142	22,044	24,584	27,338
Operating EBITDA	8,831	9,524	8,628	9,932	11,273
Depreciation And Amortisation	(925)	(3,400)	(2,473)	(1,379)	(1,453)
Operating EBIT	7,906	6,124	6,155	8,553	9,820
Financial Income/(Expense)	570	902	615	401	408
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	5,731	7,078	6,771	8,114	9,388
Exceptional Items					
Pre-tax Profit	8,476	7,026	6,771	8,954	10,228
Taxation	(1,142)	1,487	(421)	(587)	(687)
Exceptional Income - post-tax					
Profit After Tax	7,334	8,512	6,349	8,367	9,541
Minority Interests	(42)	(123)	48	(60)	(100)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	7,292	8,390	6,397	8,307	9,441
Recurring Net Profit	4,917	8,442	6,397	7,522	8,657
Fully Diluted Recurring Net Profit	4,917	8,442	6,397	7,522	8,657

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	8,831	9,524	8,628	9,932	11,273
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,900	(2,100)	(94)	(1,368)	(805)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	703	953	689	481	493
Net Interest (Paid)/Received	(133)	(51)	(74)	(80)	(85)
Tax Paid	(1,142)	1,487	(421)	(587)	(687)
Cashflow From Operations	10,158	9,812	8,728	8,378	10,188
Capex	(380)	(5,435)	(1,519)	(2,440)	(2,440)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(989)	(474)	93		
Other Investing Cashflow					
Cash Flow From Investing	(1,369)	(5,909)	(1,426)	(2,440)	(2,440)
Debt Raised/(repaid)	(1,183)	1,896	(1,910)	(135)	
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,747)	(3,556)	(3,592)	(3,929)	(4,803)
Preferred Dividends					
Other Financing Cashflow	(1,446)	(4,687)	(1,112)	(193)	1,825
Cash Flow From Financing	(6,376)	(6,347)	(6,615)	(4,257)	(2,978)
Total Cash Generated	2,414	(2,444)	688	1,681	4,771
Free Cashflow To Equity	7,606	5,799	5,392	5,803	7,748
Free Cashflow To Firm	8,922	3,954	7,376	6,018	7,833

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	4,493	1,555	2,981	4,662	9,433
Total Debtors	2,318	3,209	4,146	4,041	4,423
Inventories	3,004	3,576	3,280	3,849	4,220
Total Other Current Assets	2,335	3,295	2,738	4,482	4,906
Total Current Assets	12,150	11,635	13,145	17,034	22,983
Fixed Assets	11,383	13,470	12,517	12,738	12,885
Total Investments	1,664	2,632	1,800	1,800	1,800
Intangible Assets					
Total Other Non-Current Assets		2,838	3,637	2,754	1,739
Total Non-current Assets	13,047	18,940	17,953	17,291	16,424
Short-term Debt	919	2,717	815	679	679
Current Portion of Long-Term Debt					
Total Creditors	3,507	4,087	4,163	4,220	4,593
Other Current Liabilities	1,454	1,258	1,470	1,493	1,493
Total Current Liabilities	5,879	8,062	6,448	6,393	6,765
Total Long-term Debt		99	91	91	91
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities		99	91	91	91
Total Provisions	1,700	1,671	1,433	2,193	2,193
Total Liabilities	7,579	9,832	7,971	8,676	9,049
Shareholders Equity	17,627	20,766	23,028	25,490	30,098
Minority Interests	(9)	(23)	100	160	260
Total Equity	17,618	20,743	23,128	25,650	30,358

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	8.5%	10.6%	6.9%	8.2%	9.6%
Operating EBITDA Growth	27.9%	7.8%	(9.4%)	15.1%	13.5%
Operating EBITDA Margin	30.7%	29.9%	25.3%	27.0%	27.9%
Net Cash Per Share (Rs)	8.04	(2.86)	4.71	8.92	19.84
BVPS (Rs)	39.65	47.07	52.19	58.38	68.94
Gross Interest Cover	38.89	121.74	83.29	96.54	105.78
Effective Tax Rate	13.5%		6.2%	6.6%	6.7%
Net Dividend Payout Ratio	82.4%	42.1%	56.2%	52.6%	55.8%
Accounts Receivables Days	34.20	31.65	39.41	40.55	38.24
Inventory Days	107.06	111.92	104.16	106.11	112.82
Accounts Payables Days	132.60	129.16	125.33	124.77	123.22
ROIC (%)	36.7%	29.3%	29.8%	34.8%	40.7%
ROCE (%)	27.7%	30.6%	26.6%	31.2%	31.8%
Return On Average Assets	15.5%	27.5%	18.6%	21.8%	22.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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