

India

HOLD (no change)

Consensus ratings*:	Buy 19	Hold 6	Sell 2
Current price:	Rs460		
Target price:	Rs500 ▲		
Previous target:	Rs410		
Up/downside:	8.7%		
InCred Research / Consensus:	3.5%		
Reuters:	EMAM.NS		
Bloomberg:	HMN IN		
Market cap:	US\$2,447m	Rs202,456m	
Average daily turnover:	US\$2.5m	Rs206.0m	
Current shares o/s:	444.5m		
Free float:	45.5%		

*Source: Bloomberg

Key changes in this note

- Raise target price to Rs500.

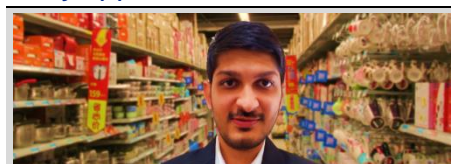


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9.2	21.0	1.0
Relative (%)	8.1	13.3	(9.9)

Major shareholders	% held
Promoter	54.5
DSP Investment Managers	5.9
Mirae AMC	3.6

Analyst(s)



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Emami Ltd

Steady recovery likely going ahead

- Emami's 1QFY24 organic domestic sales grew 1.4% yoy with a slight volume decline (reported volume up 3%). IBD was up 8% yoy (11% on CC basis).
- Consolidated EBITDA margin expansion was restricted to 60bp yoy (gross margin up 240bp yoy) due to higher expenses on consolidation of TMC.
- Increased seasonality has led to higher volatility in revenue/earnings growth. Maintain HOLD rating on the stock with a higher target price of Rs500.

Distribution expansion over; focus is now on improving throughput

Emami's 1QFY24 domestic sales were impacted due to weak performance in its summer range (-5% yoy; c.40% of 1Q sales) due to the impact of unseasonal rains and sluggish demand in rural markets. The non-summer range grew 16% yoy. E-commerce and modern trade salience increased to 9.7% each in 1QFY24 (up 260/250bp yoy, respectively), reducing the dependence on the wholesale channel. International business (IBD) grew 8%/11% in reported/CC terms, respectively. Management expects a steady double-digit growth in IBD. On the rural distribution expansion front, targets laid out under Project Khoj have been achieved (direct reach: 1m outlets) and the focus is now on improving throughput per dealer, led by trade schemes, to drive incremental growth.

Summer portfolio impacted; steady growth in non-summer portfolio

The Navratna range declined by 8% yoy owing to unseasonal rains but Dermicool was up 9% yoy led by distribution gains. Kesh King and male grooming businesses were up 2%/flat yoy, respectively, impacted by the slowdown in discretionary consumption. Emami has been focusing on shampoos and has launched various SKUs to drive incremental growth. Kesh King is expected to grow 7-8% over the next few years. Pain management range grew by 13% yoy led by a volume-led double-digit growth in balms. New products (or NPDs) contributed 2.5% to 1Q sales and are expected to contribute 3% to FY24F sales.

Margin improvement likely to continue

Standalone gross/EBITDA margins expanded by 440bp/260bp yoy to 65.4%/24.9%, respectively. Advertising expenses were up 16.2% yoy (17.6% of sales, up 220bp yoy). Consolidated gross/EBITDA margins expanded by 240bp/60bp yoy to 65.4%/23%, respectively. Consolidated margins had an impact of higher expenses on consolidation of Helios Lifestyle (TMC), resulting in lower (vs. standalone) EBITDA margin expansion. Management maintains its outlook of c.250bp gross margin expansion in FY24F while advertising expenses will be slightly higher than in FY23.

Maintain HOLD rating with a higher target price of Rs500

Higher seasonality in Emami's portfolio has increased the volatility in revenue/earnings growth. We retain HOLD rating on the stock with a higher target price of Rs500 (25x Jun 2025F EPS). Key upside/downside risks: Faster/slower-than-expected sales growth.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	31,872	34,057	36,846	40,760	44,705
Operating EBITDA (Rsm)	9,524	8,628	9,920	11,394	12,915
Net Profit (Rsm)	10,869	6,397	7,856	9,068	10,367
Core EPS (Rs)	19.1	14.5	16.2	19.0	22.0
Core EPS Growth	74.0%	(23.9%)	11.5%	17.7%	15.7%
FD Core P/E (x)	18.73	31.71	25.68	22.13	19.36
DPS (Rs)	8.0	8.0	9.0	11.0	11.0
Dividend Yield	1.75%	1.77%	1.96%	2.39%	2.39%
EV/EBITDA (x)	21.51	23.28	20.02	17.00	14.58
P/FCFE (x)	35.10	37.62	37.65	27.45	23.16
Net Gearing	6.1%	(9.0%)	(13.1%)	(24.7%)	(36.2%)
P/BV (x)	9.77	8.81	7.96	6.82	5.74
ROE	44.0%	29.2%	29.4%	30.4%	29.8%
% Change In Core EPS Estimates			(6.20%)	(5.00%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Steady recovery likely going ahead

Key takeaways from the earnings call

Highlights

- Volume was up 3% yoy in 1QFY24. The demand for non-summer products improved, led by moderation in inflation. The summer range (typically 40% of 1Q) was impacted.
- Modern trade (up 45% yoy; 9.7% of sales) and e-commerce (up 47% yoy; 9.7% of sales) channels contributed 19.4% to domestic sales in 1Q. Going ahead, these channels are expected to grow in the 15-20% range (targeting 25-26% of sales).
- Rural markets remained under pressure.
- Direct reach stood at 1m outlets. Project Khoj's targets have been achieved. The next challenge is to increase throughput from these outlets, led by trade marketing initiatives backed by analytics.
- NPDs (products launched in the last 24 months) contributed 2.5% to sales. Management is targeting 3% of FY24F sales from NPDs.

Segment-wise commentary

- Navratna was impacted by unseasonal rains, declining by 8%. Dermicool was up 9% led by distribution initiatives. Management believes that Dermicool could have clocked at least 18% if the summer range wasn't impacted. ATL & BTL support continued.
- Kesh King was up 2%, impacted by the slowdown in discretionary consumption and a high base. Launched Kesh King Organics range of shampoos and LUP of Kesh King Onion Shampoo at Rs2. Management expects more action from the shampoo and a newer range. It expects Kesh King to grow 7-8% over the next few years.
- Pain management grew by 13% led by a double-digit growth in balms (high single-digit volume). New launches have been scaled up as well.
- Healthcare grew by 11%. OTC and the Medico range posted high single-digit growth. The Zanducare portal continued to grow strongly and recent D2C launches continued to grow on a month-on-month basis. The focus is on strengthening positions in weak markets. Management expects double-digit growth from 2QFY24F.
- Boroplus grew 19%. The hygiene range clocked a strong growth led by soaps. Ex-hygiene, the portfolio grew in high single digits.
- The male grooming range was flat on a high base. Fair & Handsome facewash grew in double digits. Management expects double-digit growth from 2QFY24F.
- 7 Oils in One grew 2% yoy on a high base of 45% growth.

International business

- Sales grew 11% in constant currency or CC terms (8% in INR terms). Ex-Egypt, CC growth stood at 20% (+17% in INR terms).
- The SAARC region was up 20% while GCC/CIS were up 27%/20% yoy, respectively.
- Most of the growth came from existing markets and existing brands. Currency-related challenges continued in Russia (mostly non-Indian consumers).
- Navratna is the largest brand of Emami followed by F&H, then Creme 21 followed by 7 Oils in One and BoroPlus & the OTC portfolio (Zandu and Menthoplus) in international markets.

Outlook

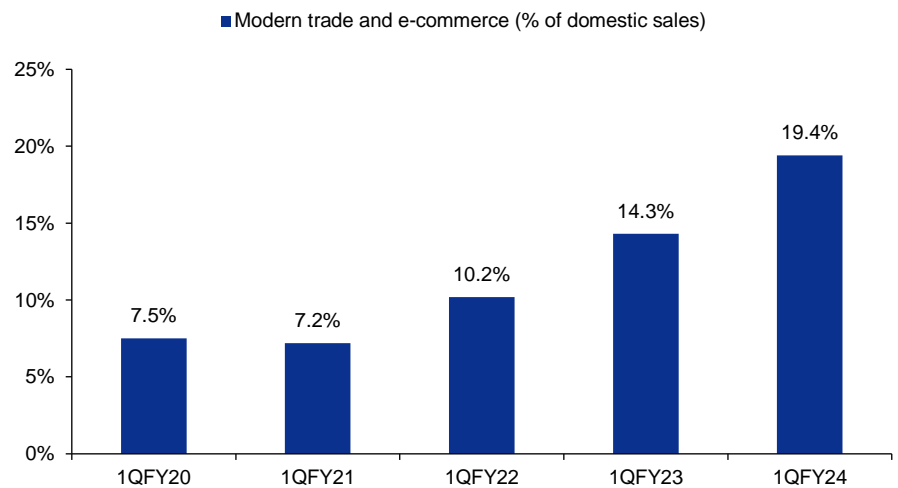
- Management expects better results in the next nine months. The focus will remain on brand building and driving A&P spending to aid growth.
- Most of the investments in project Khoj have been completed. Management will wait for the winter season before going for higher A&P spending.
- **On the competitive intensity in cooling oils:** The market size is very large. Emami hasn't lost any market share in cooling oils. If the season had been better, it would have grown better.
- **On allopathic doctor coverage in healthcare:** One-third of Emami's coverage comprises allopathic doctors. Management believes there is scope to drive throughput per doctor as well as coverage.
- The Helios and Brillaire brands have grown 27% yoy (target of 4-5% in FY24F sales). Helios has now achieved breakeven at the EBITDA level and is growing faster than the other acquired brands.
- **Hospital business:** The transaction should be completed by the end of Aug 2023F. The promoter pledge will be at 18-20% after the transaction, from 33% currently.
- **MAT credit:** To get it till FY26F. The tax rate will be around 10% till then.

Figure 1: Quarterly summary - Consolidated

Y/E, Mar (Rs. m)	1QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Revenue	7,733	8,360	8,257	6.8	-1.2
Expenditure	6,000	6,361	6,357	5.9	-0.1
Consumption of Raw Materials	2,861	3,082	2,856	-0.2	-7.3
as % of sales	37.0	36.9	34.6		
Employee Cost	888	921	1,014	14.2	10.1
as % of sales	11.5	11.0	12.3		
Selling & Administrative Expenses	1,363	1,297	1,519	11.4	17.1
as % of sales	17.6	15.5	18.4		
Other Expenditure	888	1,062	968	9.0	-8.9
as % of sales	11.5	12.7	11.7		
EBITDA	1,733	1,998	1,900	9.6	-4.9
Depreciation	881	640	460	-47.8	-28.1
EBIT	852	1,358	1,440	69.0	6.0
Other Income	63	138	83	30.8	-39.8
Interest	25	14	21	-14.1	56.2
PBT	891	1,482	1,502	68.6	1.3
Total Tax	120	63	129	7.6	106.4
PAT (before minority)	771	1,420	1,373	78.1	-3.3
Minority Interest	32	-25	-5	-114.6	-80.9
Reported PAT	738	1,444	1,377	86.5	-4.6
Extraordinary Items	-640	-390	-232	-63.8	-40.6
Adjusted PAT	1,378	1,835	1,609	16.8	-12.3
EPS	1.7	3.2	3.1	86.5	-4.6
Margins (%)	1QFY23	4QFY23	1QFY24	YoY (bp)	QoQ (bp)
Gross Margin	63.0	63.1	65.4	240	230
EBITDA	22.4	23.9	23.0	60	-90
EBIT	11.0	16.2	17.4	640	120
EBT	11.5	17.7	18.2	670	50
PAT	17.8	21.9	19.5	170	-250
Effective Tax Rate	13.5	4.2	8.6	-490	440

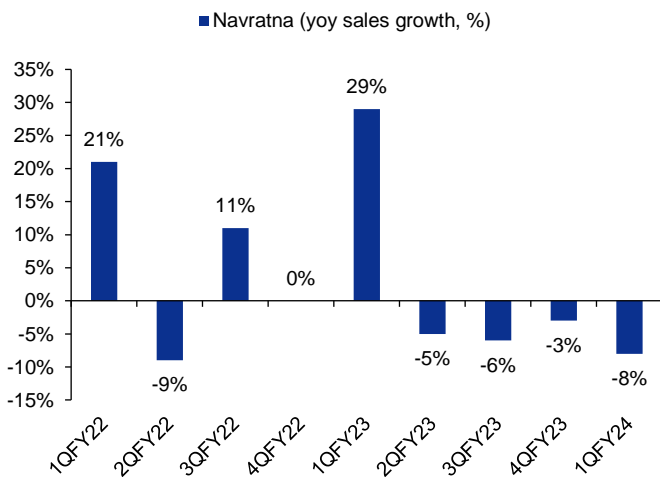
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Modern trade and e-commerce channels contributed 19.4% to 1QFY24 sales



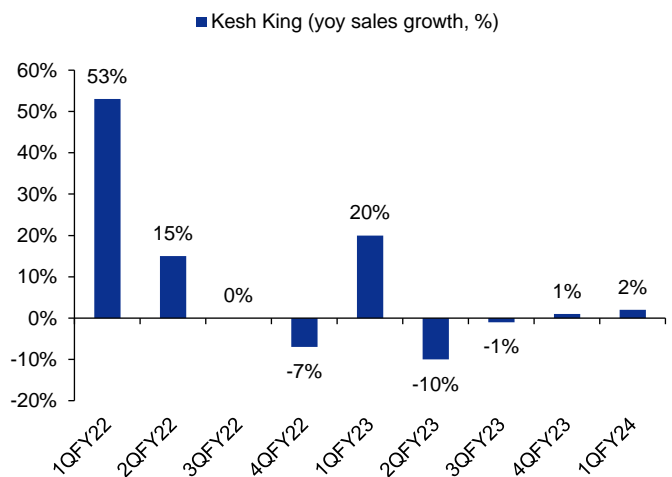
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: The Navratna range declined by 8% yoy due to unseasonal rains impacting summer demand



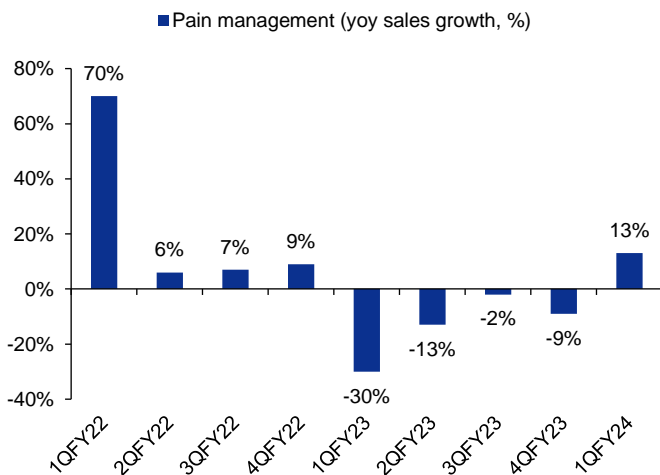
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: The Kesh King range grew 2% yoy in 1QFY24



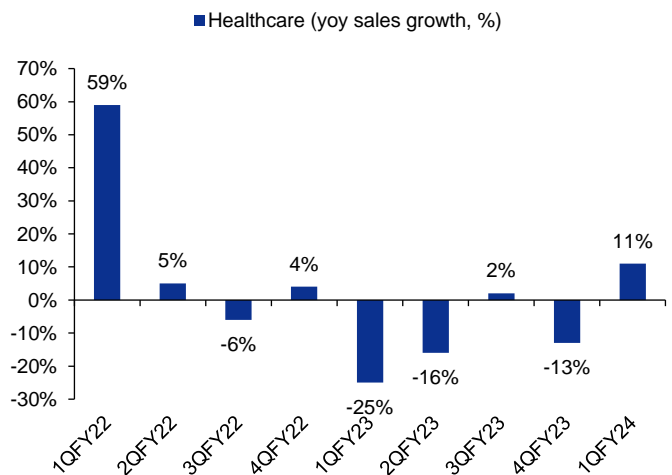
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: The pain management segment grew 13% yoy on a low base



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: The healthcare segment grew 11% yoy via the OTC and Medico range



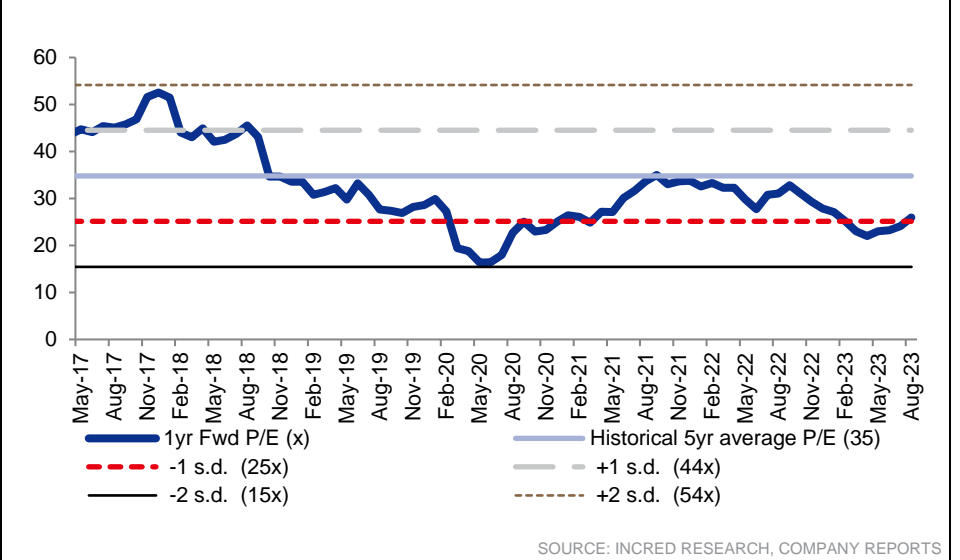
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Our revised earnings estimates

Rs. m	FY24F			FY25F			FY26F
	Previous	Revised	% Change	Previous	Revised	% Change	Introduced
Revenue	36,846	36,846	0.0	40,391	40,760	0.9	44,705
EBITDA	9,932	9,920	(0.1)	11,273	11,394	1.1	12,915
EBITDA Margin (%)	27.0	26.9	-10 bps	27.9	28.0	10 bps	28.9
Net Profit	8,367	7,856	(6.2)	9,541	9,068	(5.0)	10,367
EPS (Rs.)	17.1	16.1	(6.2)	19.8	18.8	(5.0)	21.8

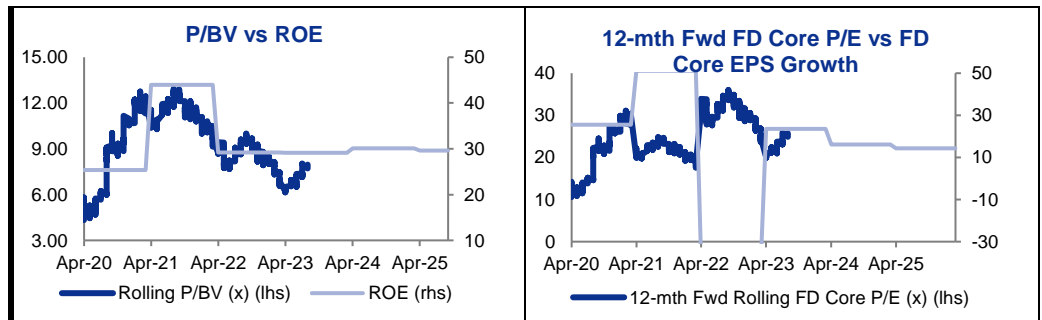
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Emami's one-year forward P/E trades at -1SD



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	31,872	34,057	36,846	40,760	44,705
Gross Profit	21,142	22,044	24,584	27,585	30,685
Operating EBITDA	9,524	8,628	9,920	11,394	12,915
Depreciation And Amortisation	(920)	(2,473)	(1,382)	(1,458)	(1,533)
Operating EBIT	8,604	6,155	8,538	9,935	11,382
Financial Income/(Expense)	902	615	219	231	249
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	7,078	6,770	7,917	9,326	10,791
Exceptional Items					
Pre-tax Profit	9,505	6,770	8,757	10,166	11,631
Taxation	1,487	(421)	(841)	(998)	(1,163)
Exceptional Income - post-tax					
Profit After Tax	10,992	6,349	7,916	9,168	10,467
Minority Interests	(123)	48	(60)	(100)	(100)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	10,869	6,397	7,856	9,068	10,367
Recurring Net Profit	8,442	6,397	7,096	8,310	9,611
Fully Diluted Recurring Net Profit	8,442	6,397	7,096	8,310	9,611

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	9,524	8,628	9,920	11,394	12,915
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,100)	(94)	(1,364)	(875)	(893)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	953	689	299	316	334
Net Interest (Paid)/Received	(51)	(74)	(80)	(85)	(85)
Tax Paid	1,487	(421)	(841)	(998)	(1,163)
Cashflow From Operations	9,812	8,728	7,934	9,751	11,108
Capex	(5,435)	(1,519)	(2,440)	(2,440)	(2,440)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(474)	93			
Other Investing Cashflow					
Cash Flow From Investing	(5,909)	(1,426)	(2,440)	(2,440)	(2,440)
Debt Raised/(repaid)	1,896	(1,910)	(135)		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,556)	(3,592)	(3,929)	(4,803)	(4,803)
Preferred Dividends					
Other Financing Cashflow	(4,687)	(1,112)	(321)	1,499	1,601
Cash Flow From Financing	(6,347)	(6,614)	(4,386)	(3,304)	(3,202)
Total Cash Generated	(2,444)	688	1,109	4,007	5,466
Free Cashflow To Equity	5,799	5,392	5,359	7,311	8,668
Free Cashflow To Firm	3,954	7,376	5,574	7,396	8,753

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	1,555	2,981	4,090	8,097	13,563
Total Debtors	3,209	4,146	4,041	4,452	4,874
Inventories	3,576	3,280	3,849	4,260	4,673
Total Other Current Assets	3,295	2,738	4,482	4,944	5,415
Total Current Assets	11,635	13,145	16,462	21,752	28,525
Fixed Assets	13,470	12,517	12,735	12,876	12,943
Total Investments	2,632	1,800	1,800	1,800	1,800
Intangible Assets					
Total Other Non-Current Assets	2,838	3,637	3,048	2,359	1,568
Total Non-current Assets	18,940	17,953	17,582	17,035	16,311
Short-term Debt	2,717	815	679	679	679
Current Portion of Long-Term Debt					
Total Creditors	4,087	4,163	4,224	4,633	5,047
Other Current Liabilities	1,258	1,470	1,493	1,493	1,493
Total Current Liabilities	8,062	6,448	6,397	6,805	7,219
Total Long-term Debt	99	91	91	91	91
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	99	91	91	91	91
Total Provisions	1,671	1,433	2,193	2,193	2,193
Total Liabilities	9,832	7,971	8,680	9,089	9,503
Shareholders Equity	20,766	23,028	25,204	29,440	34,974
Minority Interests	(23)	100	160	260	360
Total Equity	20,743	23,128	25,364	29,699	35,334

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	10.6%	6.9%	8.2%	10.6%	9.7%
Operating EBITDA Growth	7.8%	(9.4%)	15.0%	14.9%	13.4%
Operating EBITDA Margin	29.9%	25.3%	26.9%	28.0%	28.9%
Net Cash Per Share (Rs)	(2.86)	4.71	7.60	16.78	29.30
BVPS (Rs)	47.07	52.19	57.73	67.43	80.11
Gross Interest Cover	121.74	83.27	96.33	107.12	124.16
Effective Tax Rate		6.2%	9.6%	9.8%	10.0%
Net Dividend Payout Ratio	42.1%	56.2%	56.0%	58.4%	50.4%
Accounts Receivables Days	31.65	39.41	40.55	38.03	38.07
Inventory Days	111.92	104.16	106.11	112.32	116.27
Accounts Payables Days	129.16	125.33	124.83	122.69	126.00
ROIC (%)	29.3%	29.8%	34.3%	40.0%	46.0%
ROCE (%)	30.6%	26.2%	31.0%	32.4%	31.9%
Return On Average Assets	27.5%	18.6%	21.1%	22.2%	22.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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