

India

HOLD (no change)

Consensus ratings*: Buy 21 Hold 5 Sell 3

Current price:	Rs519
Target price: ▲	Rs542
Previous target:	Rs500
Up/downside:	4.4%
InCred Research / Consensus:	-1.3%
Reuters:	
Bloomberg:	HMN IN
Market cap:	US\$3,147m Rs228,484m
Average daily turnover:	US\$3.9m Rs280.9m
Current shares o/s:	444.5m
Free float:	45.2%

*Source: Bloomberg

Key changes in this note

- Raise target price to Rs542 from Rs500 earlier.
- Raise FY24F/25F EPS by 2%/1.9%.

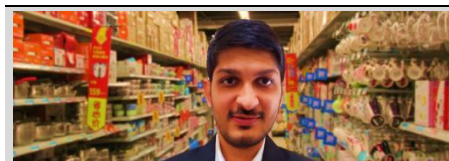


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.5)	15.2	7.4
Relative (%)	0.0	16.6	0.8

Major shareholders	% held
Promoter	54.8
DSP Investment Managers	5.8
HDFC AMC	3.0

Analyst(s)



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Emami Ltd

Margin outlook remains healthy

- Emami's 2QFY24 domestic/consolidated sales grew 4%/6% yoy, respectively, with a 2% volume growth. The IBD grew 12% yoy (16% on a CC basis).
- Consol. gross/EBITDA margins expanded by 350bp/300bp yoy to 70.1%/27%, respectively. Management expects a 200-250bp yoy expansion in FY24F.
- The progression of winter & recovery in rural markets remains a key monitorable. Retain HOLD rating with a higher target price of Rs542.

Urban markets led growth; alternate channels continued to scale

Emami's 2QFY24 domestic sales were up 4% yoy with a 2% volume growth. Rural markets remained weak while urban markets drove growth during the quarter. With rural expansion initiatives now achieved (Project Khoj; 1m outlets direct reach), the focus will shift to increasing the throughput per dealer, aided by trade schemes and promotions. During the quarter, alternate channels (25% of sales) posted strong growth, with modern trade (MT)/e-commerce channels growing 18%/50% yoy, respectively. Chemist channels (125k reach) grew 20% yoy in 2Q. The international business division (IBD) grew 12%/16% in reported/constant currency or CC terms, respectively. Management expects a steady double-digit growth for the IBD.

Non-summer range maintains its growth momentum

The Navratna and Dermicool range grew 12% yoy, aided by distribution gains. The pain management range grew by 1% while the healthcare range grew 4% driven by a high single-digit growth in the OTC range. Kesh King and male grooming businesses were down 5%/7% yoy, respectively, impacted by the slowdown in discretionary consumption. The Fair and Handsome range is likely to be relaunched soon. Kesh King and the male grooming range are likely to recover in 3QFY24F, aided by better consumer/trade promotions. BoroPlus declined 4%, but is likely to gradually pick up as the winter season sets in. Emami has been scaling up its innovation, with a higher focus on e-commerce (incl. own platform) and modern trade channels, in line with its goal of reducing the dependence on wholesale channels, and margins from these channels are likely to inch up gradually.

Margin outlook for FY24F remains healthy

Standalone gross/EBITDA margins expanded by 427bp/283bp yoy to 69.9%/29.6%, respectively. The advertising expenses were up 6.6% yoy (14.8% of sales, up 59bp yoy). Consolidated gross/EBITDA margins expanded by 350bp/300bp yoy to 70.1%/27%, respectively. Management maintains its outlook of c.200-250bp gross margin expansion in FY24F while advertising expenses are likely to be slightly higher than in FY23.

Maintain HOLD rating with a higher target price of Rs542

The progression of winter & recovery from rural markets remains a key monitorable. We retain a HOLD rating with a higher TP of Rs542 (25x Sep 2025F EPS) from Rs500 earlier. Key upside/downside risks: Faster/slower-than-expected sales growth, respectively.

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	10,075	11,566	13,236
Net Profit (Rsm)	10,869	6,397	7,996	9,223	10,657
Core EPS (Rs)	19.1	14.5	16.5	19.4	22.7
Core EPS Growth	74.0%	(23.9%)	13.7%	17.6%	17.0%
FD Core P/E (x)	21.14	35.78	28.48	24.56	21.25
DPS (Rs)	8.0	8.0	9.0	11.0	11.0
Dividend Yield	1.55%	1.57%	1.73%	2.12%	2.12%
EV/EBITDA (x)	24.25	26.30	22.27	18.94	16.13
P/FCFE (x)	39.62	42.45	41.41	30.34	25.29
Net Gearing	6.1%	(9.0%)	(13.6%)	(25.5%)	(37.4%)
P/BV (x)	11.02	9.94	8.94	7.62	6.37
ROE	44.0%	29.2%	29.9%	30.7%	30.3%
% Change In Core EPS Estimates			1.97%	1.87%	3.01%
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Margin outlook remains healthy

Key takeaways from the earnings call

Highlights

- Urban channels posted a robust performance. Rural markets are still muted for Emami, but its management expects the upcoming elections in India and higher infrastructure spending by the government to aid in recovery.
- Emami hasn't loaded as much inventory in the channel compared to last year, as management believes the markets are still weak. Loading has already been completed in Sep-Oct 2023 but post Diwali festival, management will keep a closer watch on growth across the secondary channels.
- MT channel (11% of sales) grew 18% while e-commerce channel sales were up 50% in 2QFY24 (13% of sales). Management expects similar growth from both these channels going ahead. Both the channels together account for 25% of sales but have slightly lower margins compared to GT channels. Management believes that margins from these channels will expand gradually.
- The chemist channel has been expanded to 1,25,000 outlets and is now growing 20% yoy.

Segment-wise commentary

- Navranta and Dermicool brands grew 12% yoy each.
- The pain management range grew 1% yoy.
- The healthcare range grew 4% yoy led by a high single-digit growth in the OTC range. The medico business saw a decline (typical to players in this industry in 2Q). The last few months have been stronger for the OTC business (high single-digit growth) and management expects the business to trend upwards in the coming quarters.
- The BoroPlus range declined by 4% yoy due to lower demand from price-sensitive consumers.
- Kesh King declined 5% yoy owing to lower demand. Management expects growth in 3QFY24F, as sales promotion will be higher, and it believes that sales were lower in 2Q because the promotion activities were rolled back.
- Male grooming products declined by 7% owing to lower demand. The Fair and Handsome brand is likely to be relaunched soon to drive growth.
- Acquired brands - The Man Company and Brillaire clocked 63% yoy growth each in 2Q, led by higher focus, premiumization, new launches as well as expansion into retail channels (MT, large GT stores). The Man Company has achieved breakeven, but Brillaire is marginally below the breakeven level. Both these brands together account for 5% of total sales.
- A 26% stake in Axiom Ayurveda has been acquired by Emami. The brand clocked Rs1290m in sales and an EBITDA margin of 10% in FY23.

International business division (IBD)

- **The SAARC business** was led by a double-digit growth (CC) in Nepal and Sri Lanka. Bangladesh grew in high single digits in CC terms.
- **Middle East and North Africa (MENA)** posted robust growth led by the GCC region and the strong performance of the Creme 21 range.
- **CIS markets** clocked a single digit decline on a CC basis largely due to an internal (execution) issue. Management expects a recovery in 3QFY24F/4QFY24F.

Input costs and margins

- Lower input costs and price hikes taken earlier aided in gross margin expansion.
- Margins in the second half of FY24F are likely to remain healthy as raw material prices are benign. Management awaits a good winter season and rural recovery to aid growth.

Outlook

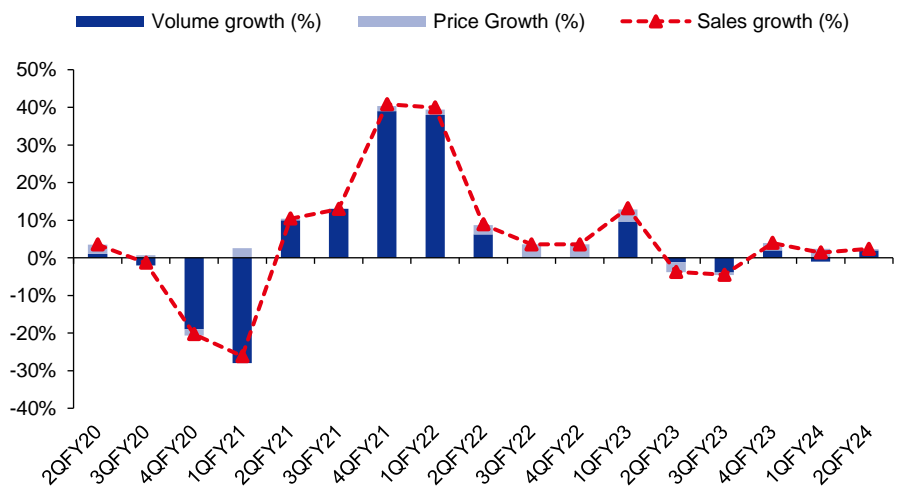
- Management is confident of at least a c.200-250bp expansion in margins and expects high single-digit (c.7-9%) growth in FY24F.

Figure 1: Quarterly results summary - consolidated

Y/E Mar (Rs. m)	2QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	1HFY23	1HFY24	Gr (%)
Revenue	8,138	8,257	8,649	6.3	4.7	15,871	16,905	6.5
Expenditure	6,185	6,357	6,312	2.1	-0.7	12,184	12,669	4.0
Consumption of Raw Materials	2,717	2,856	2,588	-4.7	-9.4	5,577	5,444	-2.4
as % of sales	33.4	34.6	29.9			35.1	32.2	
Employee Costs	935	1,014	1,017	8.8	0.2	1,823	2,031	11.4
as % of sales	11.5	12.3	11.8			11.5	12.0	
Selling & Administrative Expenses	1,415	1,519	1,544	9.1	1.7	2,778	3,063	10.3
as % of sales	17.4	18.4	17.9			17.5	18.1	
Other Expenditure	1,119	968	1,163	4.0	20.2	2,007	2,131	6.2
as % of sales	13.7	11.7	13.5			12.6	12.6	
EBITDA	1,953	1,900	2,337	19.7	23.0	3,687	4,237	14.9
Depreciation	479	460	461	-3.8	0.2	1,360	921	-32.3
EBIT	1,474	1,440	1,876	27.3	30.3	2,327	3,316	42.5
Other Income	420	83	111	-73.5	34.2	483	194	-59.9
Interest	18	21	23	27.8	5.1	43	44	3.3
PBT	1,876	1,502	1,964	4.7	30.8	2,767	3,466	25.2
Total Tax	54	129	158	193.7	22.7	174	287	65.3
PAT (Before Minority Interest)	1,822	1,373	1,806	-0.9	31.6	2,594	3,179	22.6
Minority Interest	-19	-5	21	-211.6	-548.9	13	16	-103.0
Reported PAT	1,841	1,377	1,785	-3.0	29.6	2,580	3,162	22.6
Extraordinary Items	0	0	0	NA	NA	0	0	NA
Adjusted PAT	1,841	1,377	1,785	-3.0	29.6	2,580	3,162	22.6
EPS	4.1	3.1	4.0	-3.0	29.6	5.8	7.1	22.6
Margins (%)	2QFY23	1QFY24	2QFY24	YoY (bp)	QoQ (bp)	1HFY23	1HFY24	(bp)
Gross Margins	66.6	65.4	70.1	350	470	64.9	67.8	290
EBITDA	24.0	23.0	27.0	300	400	23.2	25.1	180
EBIT	18.1	17.4	21.7	360	420	14.7	19.6	500
EBT	23.1	18.2	22.7	-30	450	17.4	20.5	310
PAT	22.6	16.7	20.6	-200	400	16.3	18.7	240
Effective Tax Rate	2.9	8.6	8.1	520	-50	6.3	8.3	200

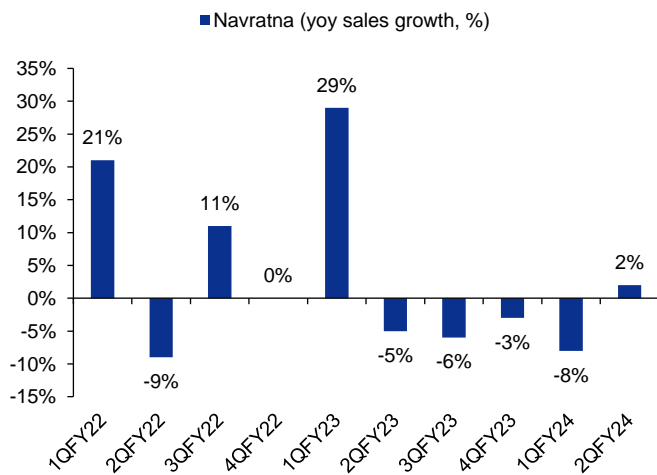
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Volume grew 2% yoy in 2QFY24



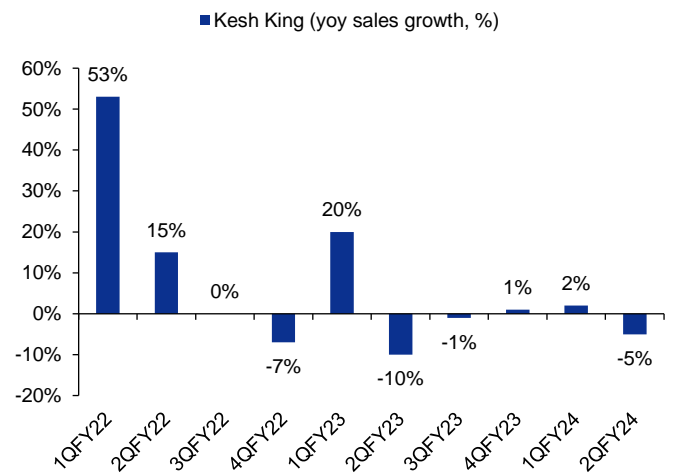
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: The Navratna range grew 2% yoy in 2QFY24



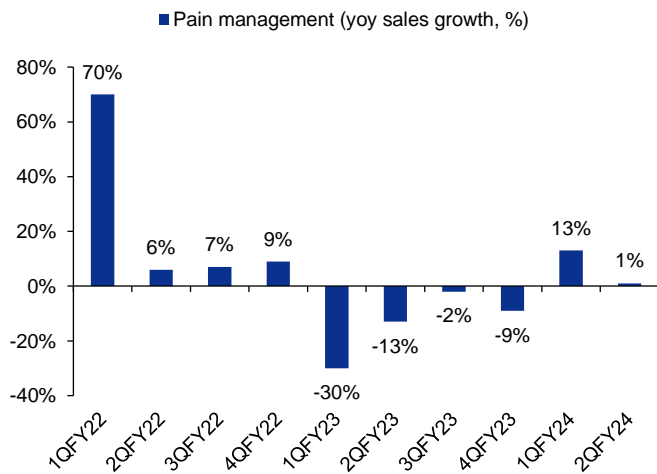
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: The Kesh King range declined by 5% yoy in 2QFY24



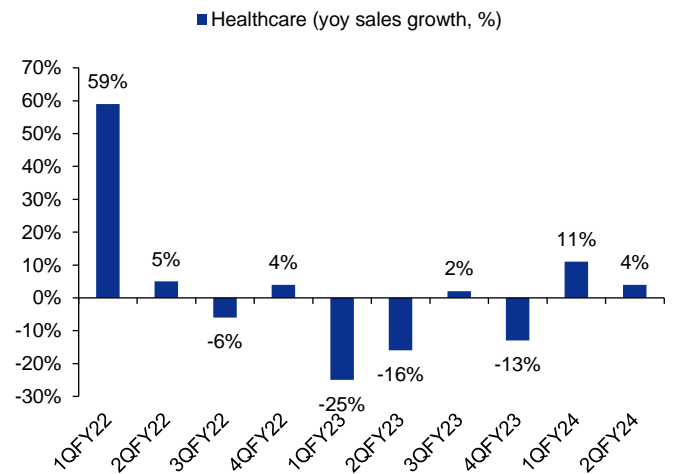
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: The pain management range grew by 1% yoy in 2QFY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: The healthcare range grew by 4% yoy in 2QFY24



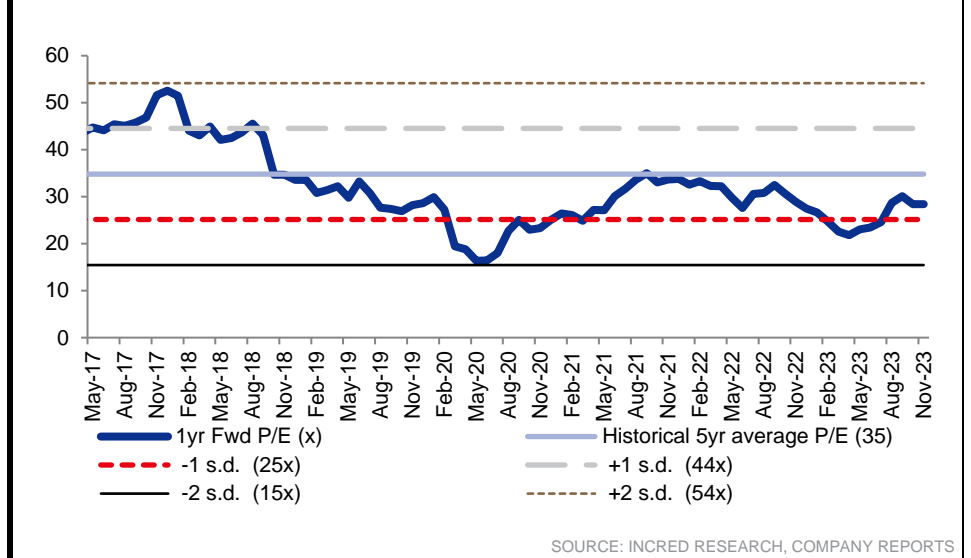
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Our revised earnings estimates

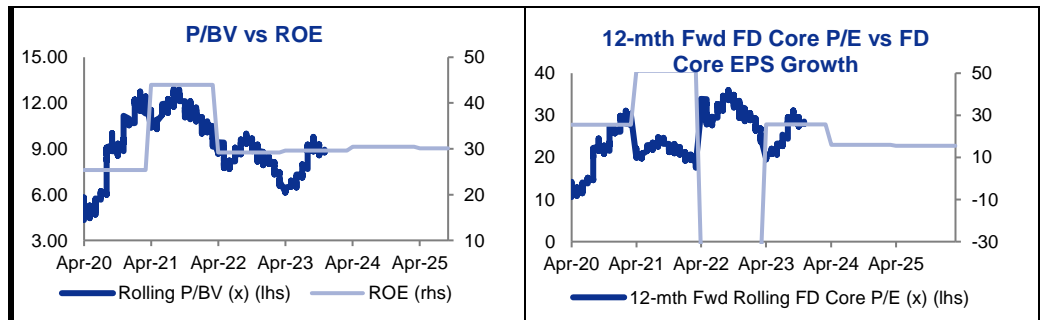
Rs. m	FY24F			FY25F			FY26F		
	Previous	Revised	% Change	Previous	Revised	% Change	Previous	Revised	% Change
Revenue	36,846	36,846	-	40,760	40,760	-	44,705	44,705	-
EBITDA	9,920	10,075	1.6	11,394	11,566	1.5	12,915	13,236	2.5
EBITDA Margin (%)	26.9	27.3	40 bp	28.0	28.4	40 bp	28.9	29.6	70 bp
Net Profit	7,856	7,996	2.0	9,068	9,223	1.9	10,367	10,657	3.0
EPS (Rs.)	16.1	16.4	2.0	18.8	19.2	1.9	21.8	22.5	3.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Emami's one-year forward P/E trades between its five-year average and -1SD



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	24,739	27,757	30,875
Operating EBITDA	9,524	8,628	10,075	11,566	13,236
Depreciation And Amortisation	(920)	(2,473)	(1,382)	(1,458)	(1,533)
Operating EBIT	8,604	6,155	8,693	10,108	11,703
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	8,072	9,499	11,112
Exceptional Items					
Pre-tax Profit	9,505	6,770	8,912	10,339	11,952
Taxation	1,487	(421)	(857)	(1,016)	(1,196)
Exceptional Income - post-tax					
Profit After Tax	10,992	6,349	8,056	9,323	10,757
Minority Interests	(123)	48	(60)	(100)	(100)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	10,869	6,397	7,996	9,223	10,657
Recurring Net Profit	8,442	6,397	7,236	8,466	9,901
Fully Diluted Recurring Net Profit	8,442	6,397	7,236	8,466	9,901

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	9,524	8,628	10,075	11,566	13,236
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)	(857)	(1,016)	(1,196)
Cashflow From Operations	9,812	8,728	8,074	9,907	11,397
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)	(308)	1,512	1,627
Cash Flow From Financing	(6,347)	(6,614)	(4,373)	(3,290)	(3,176)
Total Cash Generated	(2,444)	688	1,261	4,176	5,781
Free Cashflow To Equity	5,799	5,392	5,499	7,467	8,957
Free Cashflow To Firm	3,954	7,376	5,714	7,551	9,042

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	4,242	8,419	14,200
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	16,614	22,074	29,162
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	3,035	2,333	1,516
Total Non-current Assets	18,940	17,953	17,570	17,009	16,259
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	25,344	29,735	35,559
Minority Interests	(23)	100	160	260	360
Total Equity	20,743	23,128	25,504	29,994	35,919

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%)	16.8%	14.8%	14.4%
Operating EBITDA Margin	29.9%	25.3%	27.3%	28.4%	29.6%
Net Cash Per Share (Rs)	(2.86)	4.71	7.95	17.52	30.76
BVPS (Rs)	47.07	52.19	58.05	68.11	81.45
Gross Interest Cover	121.74	83.27	98.28	109.15	127.94
Effective Tax Rate		6.2%	9.6%	9.8%	10.0%
Net Dividend Payout Ratio	42.1%	56.2%	54.9%	57.3%	48.9%
Accounts Receivables Days	31.65	39.41	40.55	38.03	38.07
Inventory Days	111.92	104.16	107.47	113.81	117.87
Accounts Payables Days	129.16	125.33	126.44	124.32	127.73
ROIC (%)	29.3%	29.8%	35.0%	40.8%	47.5%
ROCE (%)	30.6%	26.2%	31.5%	32.8%	32.5%
Return On Average Assets	27.5%	18.6%	21.4%	22.5%	22.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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been engaged in market making activity for the subject company	NO	NO

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