

Emami

Unseasonal rains mar the domestic performance

Consolidated revenue grew by 7% (in-line) with domestic/international revenues growing by 7/8% YoY. Organic revenue/volume growth was c.4% and flat YoY. Emami's revenue performance was impacted by unseasonal rain as a 16% growth in the non-summer portfolio was offset by a 5% decline in the summer portfolio. Navratna fell 8% while pain management, healthcare and BoroPlus grew in double digits. GM expanded by 240bps YoY to 65.4% on soft input costs. However, higher A&P spends and employee costs limited EBITDAM expansion to 60bps, which came in at 23%. EBITDA grew by 10% YoY (HSIE 7%). Emami plans to reinvest a large part of GM expansion in brand building, while still expecting EBITDAM to expand by 200-250bps YoY in FY24. The company remains cautiously optimistic about demand recovery, given (1) softening inflation, which could aid rural demand; (2) brand investments; and (3) near-normal monsoon. We remain cautious about core business growth, given the limited scope to add new consumers in niche categories. We value the stock at 20x P/E on Jun-25E EPS to derive a TP of INR 400. Maintain REDUCE.

- **Disrupted summer impacts revenues:** Consolidated revenue grew by 7% YoY to INR 8.3bn with domestic/international revenue increasing 7/8% YoY. Excluding the sale of the summer portfolio (down 5% due to unseasonal rain), the domestic business grew by 16%. Domestic volume grew 3% YoY. Pain management, healthcare and BoroPlus (a low base) grew strongly in double digits. Despite a disrupted summer, Dermicool hosted 8% growth, led by distribution expansion. Kesh King and male grooming posted muted growth, given soft discretionary spending. MT and e-com continued to perform well growing by 45/47% YoY and now contribute 20% of domestic revenues. International business grew 8% YoY (11% CC), led by strong growth in SAARC, GCC and CIS regions. We model consolidated revenue to grow at a 7% CAGR over FY23-26.
- **Margin improvement to sustain:** GM expanded by 240bps YoY to 65.4% (HSIE 63.7%), aided by soft RM inflation. Employee/other expenses were up by 14/9% while A&P grew 11% YoY (18% of sales). This restricted EBITDAM expansion to 60bps YoY (to 23%); EBITDA grew 10% YoY. With GM expansion to sustain, we model EBITDA margin expansion in the coming quarters. We model an EBITDA margin of 27-27.5% for FY24-26.
- **Con call takeaways:** (1) Rural market is not out of the woods yet. Some challenges persist. Moderating inflation will enable long-term growth. (2) In Dermicool, the company is focused on plugging gaps. Would have grown by 18% if the summer season had been normal. (3) Navratna has maintained market share. (4) Direct outlet reach now stands at 1mn. Focus now is on increasing throughput per outlet. (5) Hospital sale is on track and is expected to be closed by the end of August. Will likely reduce promoter pledge from current 33% to 18-20%. (6) Innovation (products launched in the last 24 months) contributed 2.5% of revenue. (7) ETR till FY26 to be around 10-12%.

Quarterly/annual financial summary

(INR mn)	Q1 FY24	Q1 FY23	YoY (%)	Q4 FY23	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	8,257	7,733	6.8	8,360	(1.2)	31,881	34,057	36,746	39,106	41,652
EBITDA	1,900	1,733	9.6	1,998	(4.9)	9,525	8,627	10,003	10,679	11,431
APAT	1,413	1,032	36.9	1,477	(4.4)	7,338	6,814	8,322	8,687	9,262
EPS (INR)	3.22	2.32	38.6	3.35	(3.9)	16.6	15.4	18.9	19.7	21.0
P/E (x)						27.7	29.8	24.4	23.4	21.9
EV / EBITDA (x)						21.4	23.3	19.8	18.3	16.8
RoCE (%)						36.4	33.3	43.6	46.5	50.8

Source: Company, HSIE Research

REDUCE

CMP (as on 07 Aug 2023)	INR 460
Target Price	INR 400
NIFTY	19,597

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 400	INR 400
EPS %	FY24E	FY25E
	0%	+2%

KEY STOCK DATA

Bloomberg code	HMN IN
No. of Shares (mn)	440
MCap (INR bn) / (\$ mn)	202/2,476
6m avg traded value (INR mn)	199
52 Week high / low	INR 525/341

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	21.6	11.5	0.2
Relative (%)	13.6	2.1	(12.8)

SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	54.27	54.52
FIs & Local MFs	26.92	26.23
FPIs	11.01	11.45
Public & Others	7.80	7.80
Pledged Shares	21.77	18.15

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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