1 August 2024
1QFY25 Results Update | Sector: Consumer

Emami

Estimate change	⟷
TP change	↑
Rating change	⟷

Bloomberg	HMN IN
Equity Shares (m)	437
M.Cap.(INRb)/(USDb)	361.8 / 4.3
52-Week Range (INR)	845 / 417
1, 6, 12 Rel. Per (%)	11/50/52
12M Avg Val (INR M)	575

Financials & Valuations (INR b)

Y/E March	2024	2025E	2026E
Sales	35.8	39.1	42.2
Sales Gr. (%)	5.1	9.4	7.9
EBITDA	9.5	10.8	12.0
EBIT Margin (%)	26.5	27.6	28.5
Adj. PAT	7.9	9.2	10.2
Adj. EPS (INR)	18.0	21.0	23.4
EPS Gr. (%)	17.0	16.3	11.7
BV/Sh.(INR)	56.1	64.1	73.4
Ratios			
RoE (%)	33.2	34.9	34.1
RoCE (%)	36.0	37.3	36.6
Payout (%)	52.6	52.4	53.3
Valuation			
P/E (x)	40.3	34.7	31.0
P/BV (x)	13.0	11.3	9.9
EV/EBITDA (x)	32.8	28.5	25.3
Div. Yield (%)	1.3	1.5	1.7

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	54.8	54.8	54.5
DII	21.6	22.1	26.2
FII	14.0	13.5	11.5
Others	9.5	9.6	7.8

FII Includes depository receipts

CMP: INR824 TP: INR950 (+15%) Buy

Operationally in line; volume improvement continues

- Emami reported 10% YoY sales growth in 1QFY25 (est. 8%). The domestic business grew 10% YoY, led by 9% volume growth. There was a sequential improvement in demand in the rural market.
- Harsh summer translated into strong demand for cooling products. The Navratna & Dermicool products posted robust 27% YoY growth. The healthcare segment reported 11% YoY growth led by new launches and strong traction on digital platform. 7 Oils in One, BoroPlus, and D2C portfolio reported 9%, 4%, and 23% YoY growth. Conversely, the severe summer hurt the pain management range (-7% YoY). Kesh King and male grooming dipped 15% and 5% YoY, respectively.
- The GM trajectory remained strong, with 230bp YoY expansion to 67.7% (est. 66.5%). Due to reinvestment in the business and higher ad spends which rose 21% YoY (up 188bp), EBITDA margin saw limited 90bp YoY expansion to 23.9% (in line). MT grew 25% YoY, and e-commerce rose 29% YoY. Both contributed 22% of revenue. The GT segment also improved.
- With improving rural recovery and Emami's own initiatives on distribution, new launches, and marketing spends, it is expected to sustain the revenue growth acceleration in FY25. **We reiterate our BUY rating on the stock with a TP of INR950 (premised on 40x P/E on Jun'26 EPS).**

Sustaining growth acceleration; overall, in-line performance

- **Strong domestic sales growth:** Consolidated net sales grew 10% YoY to INR9,061m (est. INR8,914m). Domestic business rose 10% YoY, with volume growth of 8.7% YoY (est. 7%, vs. 6.4% in 4QFY24). Major brands, such as Navratna and Dermicool range, BoroPlus, the Healthcare range, 7 Oils in One, The Man Company, and Brillare, performed well during the quarter.
- **Brand performance**: Navratna/Pain Management/Healthcare/Boroplus/ Kesh King/Male Grooming segments were +27%/-7%/+11%/+4%/-15%/-5% YoY in 1QFY25.
- **Margin expansion**: Gross margin expanded 230bp YoY to 67.7%. (est. 66.5%). As a % of sales, ad spending increased 190bp YoY to 20%, while other expenses dipped 50bp YoY to 11%. Employee expenses remained flat at 11%. EBITDA margin expanded 90bp YoY to 23.9% (est. 23.9%).
- **Double-digit growth:** EBITDA grew 14% YoY to INR2,165m (est. INR2,135m). PBT grew 20% YoY to INR1,805m (est. INR1,762m). Absolute ad spending increased 21% YoY to INR1,837m. Reported PAT grew 10% YoY to INR1,506m (est. INR1,563m).
- **Healthy international performance:** International business posted 10% YoY growth and 11% growth in CC terms, driven by double-digit growth in MENA and SAARC regions.

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Highlights from the management commentary

- In 1QFY25, demand improved sequentially, with an uptick seen in rural markets. Due to the severe summer, healthy performance was witnessed for the summer products, while sales of non-summer products and out-of-home consumption were hit during the quarter.
- GP margin expanded due to benign raw material prices and price action taken by the company.
- Emami introduced five new digital-first products: Dia-BTS tonic, DiaBTS tablets, Zandu Neelibhringar Hair Oil, Zandu Ashwagandha 66 (KSM-66) and Zandu Shilajit Gold Plus Resin capsules on the Zanducare portal.
- The tax rate was higher in 1QFY25, but will moderate in the subsequent quarters of FY25. Management maintained an effective tax rate guidance of ~10-11% for the next two years.

Valuation and view

- We broadly maintain our FY25/FY26 EPS estimates.
- Emami's core categories are niche, and they have been witnessing slow user addition over the last five years. Although it commands a high market share in core categories, the share gain is no longer a catalyst for volume growth.
- The management has initiated several steps (e.g., team additions, new launches, hiring consultants, marketing spending, etc.) over the last three to four years to revive volume growth; the results have started showing in numbers. We continue to expect volume growth acceleration in FY25, driven by rural pickup, seasonal tailwinds, aggressive marketing spends, and new launches.
- Emami is currently trading at 35x and 31x on FY25E and FY26E EPS. With a likely reduction in the promoters' pledge and consistent earnings growth going forward, we expect a re-rating in valuation. **We reiterate our BUY rating** with a revised TP of INR950, based on 40x Jun'26E EPS (earlier 35x P/E multiple)**.**

Consol. Quarterly performance **(INR m)**

Y/E MARCH	FY24				FY25E				FY24	FY25E	FY25	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Domestic volume growth (%)	3.0	2.0	-1.0	6.4	8.7	7.0	8.0	8.0	2.6	7.9	7.0	
Net Sales	**8,257**	**8,649**	**9,963**	**8,912**	**9,061**	**9,348**	**10,978**	**9,744**	**35,781**	**39,132**	**8,914**	1.6%
YoY change (%)	6.8	6.3	1.4	6.6	9.7	8.1	10.2	9.3	5.1	9.4	8.0	
Gross Profit	**5,401**	**6,061**	**6,851**	**5,863**	**6,131**	**6,590**	**7,630**	**6,454**	**24,176**	**26,805**	**5,928**	3.4%
Gross margin (%)	65.4	70.1	68.8	65.8	67.7	70.5	69.5	66.2	67.6	68.5	66.5	
EBITDA	**1,900**	**2,337**	**3,149**	**2,110**	**2,165**	**2,630**	**3,606**	**2,389**	**9,495**	**10,790**	**2,135**	1.4%
Margins (%)	23.0	27.0	31.6	23.7	23.9	28.1	32.8	24.5	26.5	27.6	23.9	
YoY change	9.6	19.6	7.0	5.6	13.9	12.6	14.5	13.2	10.1	13.6	12.4	
Depreciation	460	461	458	480	444	430	445	469	1,859	1,888	483	
Interest	21	23	27	29	21	25	25	29	100	100	25	
Other Income	83	111	167	107	105	125	150	124	468	503	135	
PBT	**1,502**	**1,964**	**2,831**	**1,708**	**1,805**	**2,300**	**3,286**	**2,014**	**8,005**	**9,306**	**1,762**	2.4%
Tax	129	158	155	225	278	207	296	150	667	931	194	
Rate (%)	8.6	8.1	5.5	13.2	15.4	9.0	9.0	7.4	8.3	10.0	11.0	
Adj. PAT	**1,413**	**1,967**	**2,828**	**1,669**	**1,702**	**2,269**	**3,162**	**2,034**	**7,876**	**9,160**	**1,770**	-3.8%
YoY change (%)	36.9	12.5	11.0	13.0	20.5	15.3	11.8	21.9	15.7	16.3	25.3	
Reported PAT	**1,368**	**1,800**	**2,607**	**1,468**	**1,506**	**2,087**	**2,980**	**1,849**	**7,241**	**8,322**	**1,563**	-3.7%
YoY change (%)	88.1	-0.1	11.9	3.6	10.1	15.9	14.3	26.0	15.4	14.9	14.3	

E: MOFSL Estimates

CONFERENCE CALL

Highlights from the management commentary

Performance and outlook

- In 1QFY25, sequential improvement was seen in rural demand.
- The increase in food inflation will hurt the discretionary consumption.
- Due to the severe summer, healthy performance was witnessed for the summer products, while sales of non-summer products and out-of-home consumption were hit during the quarter.
- Company is optimistic about future growth, supported by a favorable economic landscape, forecast of a normal monsoon, anticipated rural market recovery, and government initiatives.
- MT grew 25% and e-commerce rose 29% YoY in 1QFY25, contributing 11% each in revenue contribution.
- The general trade has rebounded in the positive territory.
- Domestic volume grew 8.7% in 1QFY25. Excluding the strategic investment (D2C portfolio), volume growth from core business is also more than 7%.
- The company will only take moderate price increase (1-2%) in FY25.
- Summer portfolio (Navratna and Dermicool range) contribution in revenue stood at 50%.
- The International market delivered 10% YoY growth (11% in CC terms) led by double-digit growth in MENA and SAARC regions, despite the currency fluctuations and geopolitical disturbances in key geographies.

Cost and margins

- GP margin is expanded due to benign raw material prices and price action taken by company.
- The A&P spending will remain in the range of 18-19% for the full year. Normally it is higher in first quarter (20% of sales in 1QFY25).

Segmental information

- Company launched two extensions for Dermicool: Dermicool Her and Dermicool Soap in the modern trade and e-Commerce channels.
- In the Kesh King brand, Organic Rosemary Oil & Rosemary Shampoo were launched in the ecommerce space.
- The premium hair fall oil market is seeing subdued demand.
- Kesh King is a more rural-salient portfolio. With green shoots in rural areas and strategic initiatives taken by Emami, recovery is expected in the range.
- Kesh King's annual revenue contribution is over INR3b vs INR2.3b at the time of acquisition. Kesh King shampoo is one-third of the Kesh Ling's overall portfolio.
- Emami introduced five new digital-first products: Dia-BTS tonic, DiaBTS tablets, Zandu Neelibhringar Hair Oil, Zandu Ashwagandha 66 (KSM-66) and Zandu Shilajit Gold Plus Resin capsules on the Zanducare portal.
- In healthcare, OTC & Medico range posted high single digit growth while Zanducare grew strongly led by Digital first portfolio
- In male grooming range, Fair and Handsome nature first range of cream and facewash performing well.
- Pain management range declined 9% in 1QFY25 hurt by extended summer.

- Google display ad-branding initiative undertaken in 7 oils in One to increase the awareness in metro cities.
- The D2C portfolio increased 23% in 1QFY25.
- In Zandu care, the focus is on the online sales. Therefore, pricing is premium than the products available on general trade, however, it is align with the competitors.
- Management guided double-digit growth in healthcare range going forward.
- The D2C portfolio (The Man company and Brillare) contributes ~ 5-6% in revenue in FY24.
- The overall oral care category is grew by 10% in 1QFY25.

Other points

- The tax rate was higher in 1QFY25, but will moderate in the subsequent quarters of FY25. Management maintained an effective tax rate guidance of ~10-11% for the next two years.
- The amortization will be ~INR920m in FY25 and will be ~INR800m in FY26.

Key Exhibits

Exhibit 1: Domestic volumes increased 8.7% YoY in 1QFY25

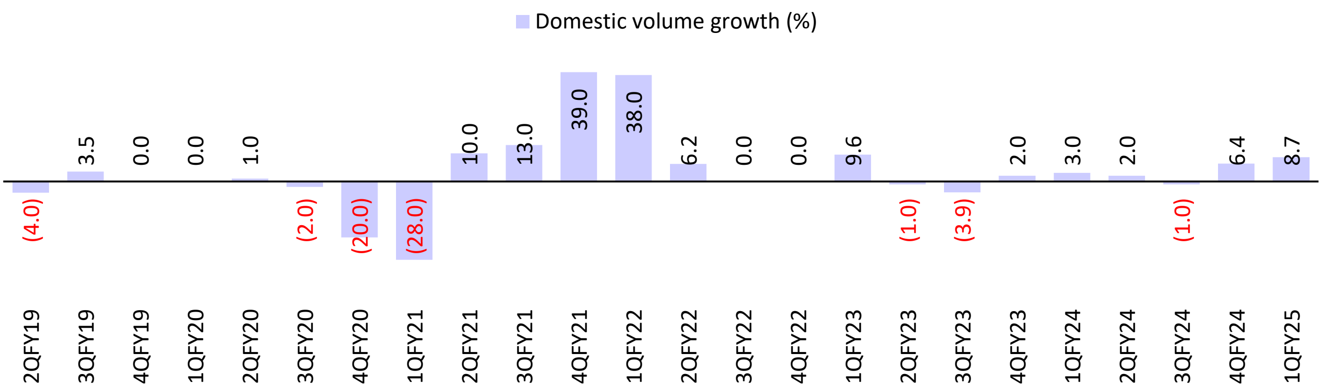


Exhibit 2: Consolidated net sales grew 10% YoY to INR9.1b

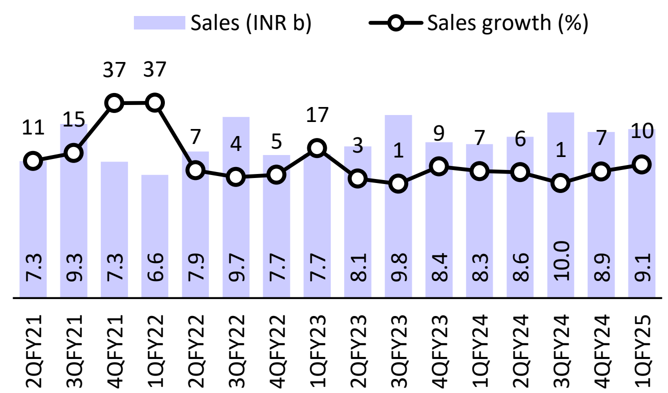


Exhibit 3: Gross margin expanded 230bp YoY to 67.7%

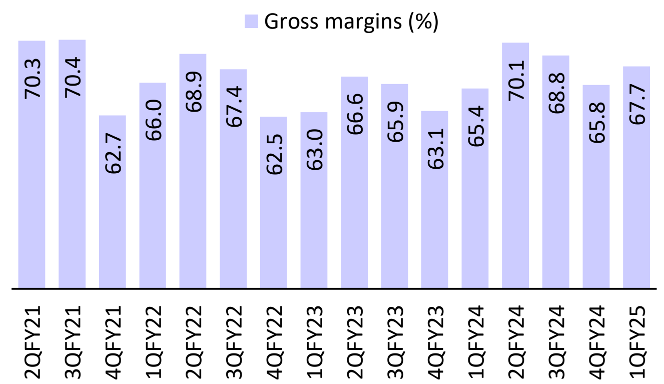


Exhibit 4: EBITDA margin expanded 90bp YoY to 23.9%

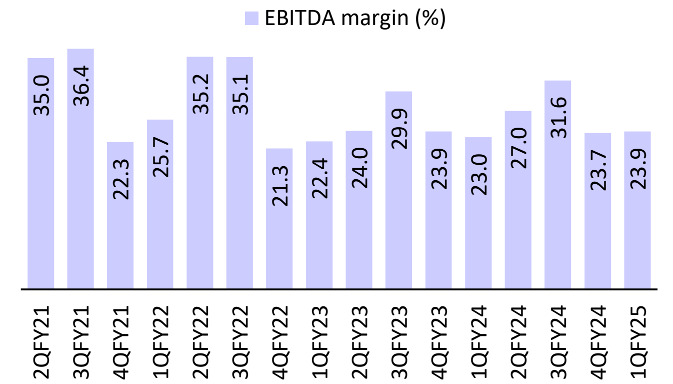


Exhibit 5: EBITDA grew 14% YoY to INR2.2b in 1QFY25

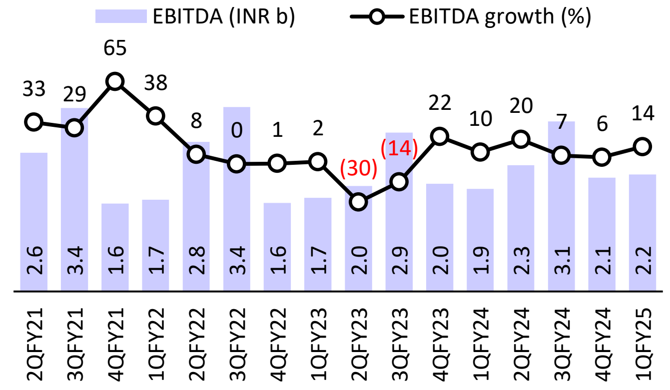
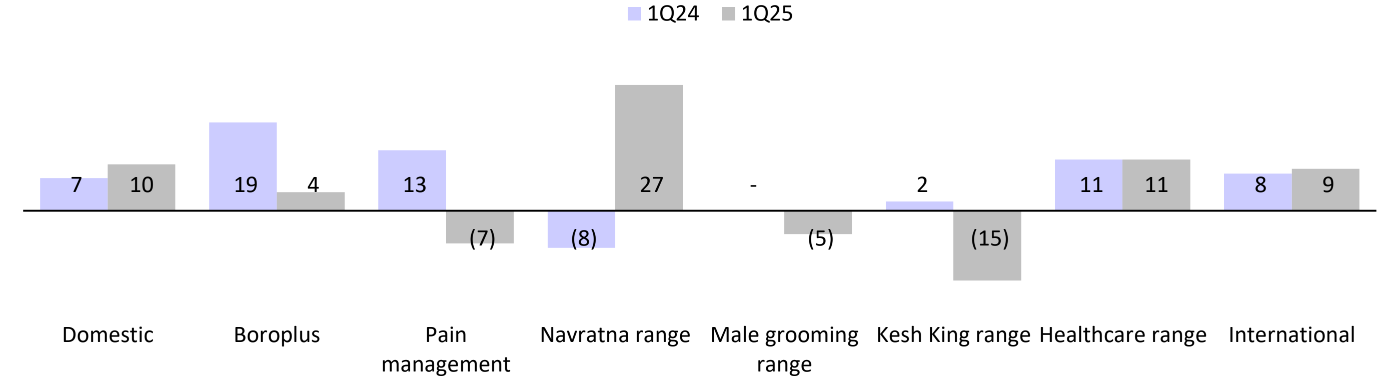


Exhibit 6: Segment wise revenue growth



Source: Company, MOFSL

Valuation and view

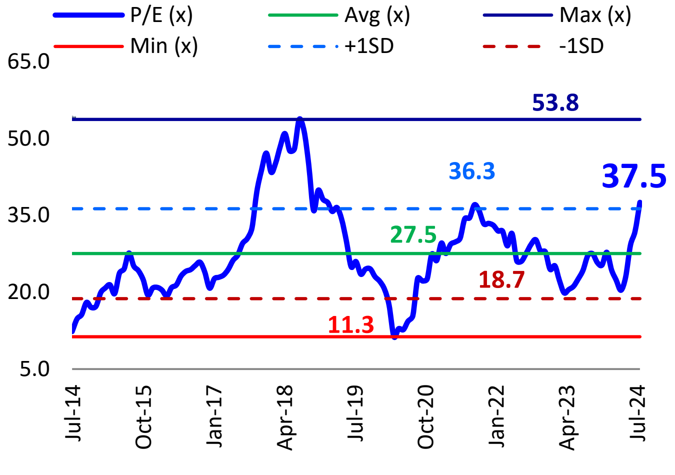
- We broadly maintain our FY25/FY26 EPS estimates.
- Emami's core categories are niche, and they have been witnessing slow user addition over the last five years. Although it commands a high market share in core categories, the share gain is no longer a catalyst for volume growth.
- The management has initiated several steps (e.g., team additions, new launches, hiring consultants, marketing spending, etc.) over the last three to four years to revive volume growth; the results have started showing in numbers. We continue to expect volume growth acceleration in FY25, driven by rural pickup, seasonal tailwinds, aggressive marketing spends, and new launches.
- Emami is currently trading at 35x and 31x on FY25E and FY26E EPS. With a likely reduction in the promoters' pledge and consistent earnings growth going forward, we expect a re-rating in valuation. **We reiterate our BUY rating** with a revised TP of INR950, based on 40x Jun'26E EPS (earlier 35x P/E multiple)**.**

Exhibit 7: There are no material changes to our EPS estimates for FY25 and FY26

	New		Old		Change (%)	
(INR m)	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	39,132	42,214	39,091	42,148	0.1	0.2
EBITDA	10,790	12,011	10,762	11,965	0.3	0.4
PAT	9,160	10,234	9,195	10,145	-0.4	0.9

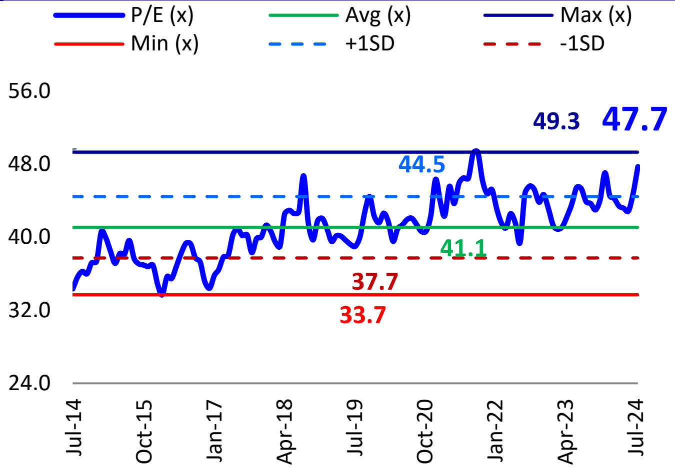
Source: Company, MOFSL

Exhibit 8: HMN's P/E (x)



Source: Company, MOFSL

Exhibit 9: Consumer sector's P/E (x)



Source: Company, MOFSL

Financials and valuations

Income Statement									(INR m)
Y/E March	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Net Sales	**26,938**	**26,540**	**28,805**	**31,881**	**34,057**	**35,781**	**39,132**	**42,214**	**45,471**
Change (%)	6.5	-1.5	8.5	10.7	6.8	5.1	9.4	7.9	7.7
COGS	9,230	8,761	9,292	10,739	12,014	11,605	12,326	13,213	14,141
Gross Profit	**17,708**	**17,779**	**19,513**	**21,142**	**22,044**	**24,176**	**26,805**	**29,001**	**31,329**
Gross Margin (%)	65.7	67.0	67.7	66.3	64.7	67.6	68.5	68.7	68.9
EBITDA	**7,295**	**6,896**	**8,831**	**9,525**	**8,627**	**9,495**	**10,790**	**12,011**	**13,232**
Change (%)	1.4	-5.5	28.1	7.9	-9.4	10.1	13.6	11.3	10.2
Margin (%)	27.1	26.0	30.7	29.9	25.3	26.5	27.6	28.5	29.1
Depreciation	3,253	3,363	3,669	3,348	2,473	1,859	1,888	1,832	1,908
Int. and Fin. Charges	214	210	133	51	74	100	100	90	80
Financial Other Income	324	579	703	953	689	468	503	778	865
Profit before Taxes	**4,152**	**3,903**	**5,731**	**7,079**	**6,770**	**8,005**	**9,306**	**10,867**	**12,109**
Change (%)	5.4	-6.0	46.9	23.5	-4.4	18.2	16.3	16.8	11.4
Margin (%)	15.4	14.7	19.9	22.2	19.9	22.4	23.8	25.7	26.6
Tax	1,009	713	1,142	-1,487	421	667	931	1,304	1,695
Tax Rate (%)	24.3	18.3	19.9	-21.0	6.2	8.3	10.0	12.0	14.0
Adjusted PAT	**5,002**	**4,966**	**6,680**	**7,338**	**6,805**	**7,876**	**9,160**	**10,234**	**11,076**
Change (%)	-2.5	-0.7	34.5	9.8	-7.3	15.7	16.3	11.7	8.2
Margin (%)	18.6	18.7	23.2	23.0	20.0	22.0	23.4	24.2	24.4
Non-rec. (Exp)/Income	-1,978	-1,944	-2,133	1,030	-531	-635	-839	-704	-688
Reported PAT	**3,023**	**3,023**	**4,547**	**8,368**	**6,274**	**7,241**	**8,322**	**9,530**	**10,388**

Balance Sheet									(INR m)
Y/E March	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
Share Capital	454	453	445	441	441	437	437	437	437
Reserves	20,307	17,784	17,182	20,325	22,587	24,029	27,550	31,624	35,901
Net Worth	**20,761**	**18,238**	**17,626**	**20,766**	**23,028**	**24,466**	**27,986**	**32,060**	**36,337**
Minority Interest	-2	-9	-9	-23	100	111	58	26	0
Loans	1,099	2,102	919	2,637	736	657	607	557	507
Deferred Liability	122	35	42	-2,763	-3,502	-4,271	-4,271	-4,271	-4,271
Capital Employed	**21,979**	**20,366**	**18,578**	**20,617**	**20,361**	**20,964**	**24,381**	**28,372**	**32,574**
Goodwill on consolidation	41	0	0	242	682	682	0	0	0
Gross Block	28,779	29,893	29,858	35,759	37,238	38,369	39,674	40,979	42,284
Less: Accum. Depn.	12,019	15,301	18,540	22,561	25,466	27,915	28,525	30,357	32,265
Net Fixed Assets	**16,760**	**14,592**	**11,318**	**13,198**	**11,772**	**10,455**	**11,149**	**10,622**	**10,019**
Capital WIP	363	81	64	31	63	75	0	0	0
Investments	**1,870**	**1,564**	**2,553**	**3,027**	**2,934**	**4,415**	**5,915**	**8,415**	**10,915**
Curr. Assets, L&A	**9,151**	**10,548**	**11,261**	**11,240**	**12,011**	**12,791**	**15,479**	**18,045**	**20,930**
Inventory	2,217	2,446	3,005	3,576	3,280	3,234	3,769	4,066	4,380
Account Receivables	2,164	3,080	2,318	3,209	4,146	4,942	4,657	4,965	5,286
Cash and cash equivalents	2,034	1,191	3,604	1,160	1,848	2,014	4,138	5,762	7,653
Others	2,737	3,831	2,335	3,295	2,738	2,601	2,915	3,251	3,611
Curr. Liab. and Prov.	**6,206**	**6,419**	**6,618**	**7,119**	**7,100**	**7,454**	**8,163**	**8,710**	**9,291**
Account Payables	2,914	3,245	3,507	4,087	4,072	4,546	4,828	5,176	5,539
Other Liabilities	1,940	1,489	1,453	1,316	1,470	1,652	1,769	1,898	2,041
Provisions	1,353	1,686	1,658	1,717	1,558	1,256	1,566	1,636	1,711
Net Current Assets	**2,946**	**4,129**	**4,643**	**4,120**	**4,912**	**5,336**	**7,316**	**9,335**	**11,639**
Application of Funds	**21,979**	**20,366**	**18,579**	**20,617**	**20,362**	**20,964**	**24,381**	**28,372**	**32,574**

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Basic (INR)									
EPS	**11.0**	**11.0**	**15.0**	**16.6**	**15.4**	**18.0**	**21.0**	**23.4**	**25.4**
Cash EPS	18.2	18.4	23.3	24.2	21.0	22.3	25.3	27.6	29.7
BV/Share	45.7	40.2	39.7	47.1	52.2	56.1	64.1	73.4	83.2
DPS	4.0	8.0	8.0	8.0	8.0	9.5	11.0	12.5	14.0
Payout %	43.6	87.7	53.2	48.1	51.9	52.6	52.4	53.3	55.2
Valuation (x)									
P/E	66.0	66.4	48.4	43.7	47.2	40.3	34.7	31.0	28.7
Cash P/E	40.0	39.6	31.2	30.0	34.6	32.6	28.7	26.3	24.4
EV/Sales	12.1	12.4	11.0	10.0	9.3	8.7	7.9	7.2	6.6
EV/EBITDA	44.9	47.7	36.0	33.5	36.7	32.8	28.5	25.3	22.6
P/BV	15.9	18.1	18.3	15.5	13.9	13.0	11.3	9.9	8.7
Dividend Yield (%)	0.6	1.1	1.1	1.1	1.1	1.3	1.5	1.7	1.9
Return Ratios (%)									
RoE	24.5	25.5	37.3	38.2	31.1	33.2	34.9	34.1	32.4
RoCE	14.5	15.9	24.1	44.0	31.3	36.0	37.3	36.6	34.4
RoIC	16.5	16.4	27.7	52.0	36.2	46.7	55.7	62.8	69.1
Working Capital Ratios									
Debtor (Days)	29	42	29	37	44	50	43.4	42.9	42.4
Asset Turnover (x)	1.2	1.3	1.6	1.5	1.7	1.7	1.6	1.5	1.4
Leverage Ratio									
Debt/Equity (x)	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement (INR m)

Y/E March	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
OP/(loss) before Tax	4,034	3,736	5,689	6,880	6,696	7,908	9,306	10,867	12,109
Depreciation	3,253	3,363	3,670	3,348	2,473	1,859	1,888	1,832	1,908
Other non operating income	-297	-442	-500	-1,321	-90	-277	0	0	0
Interest Paid	214	210	133	51	74	100	100	90	80
Direct Taxes Paid	-927	-760	-865	-1,426	-1,170	-1,463	-931	-1,304	-1,695
(Incr)/Decr in WC	-739	-800	1,088	-1,094	-493	-337	-1,129	-2,647	-2,642
CF from Operations	**5,537**	**5,307**	**9,215**	**6,439**	**7,489**	**7,790**	**9,233**	**8,837**	**9,760**
(Incr)/Decr in FA	-1,329	-1,481	-320	-4,802	-301	-288	-1,238	-1,305	-1,305
Free Cash Flow	**4,208**	**3,826**	**8,895**	**1,636**	**7,188**	**7,502**	**7,995**	**7,532**	**8,455**
(Pur)/Sale of Investments	920	-899	-2,268	2,226	-917	-1,896	-268	-268	-286
Others	411	316	2,668	-2,285	494	190	-640	-32	-26
CF from Invest.	**2**	**-2,064**	**80**	**-4,861**	**-725**	**-1,994**	**-2,146**	**-1,605**	**-1,617**
Change in Equity	0	0	0	-2,001	-10	0	0	0	0
(Incr)/Decr in Debt	-2,189	174	139	1,651	-1,901	-133	-50	-50	-50
Dividend Paid	-1,902	-4,191	-3,747	-3,556	-3,529	-3,492	-4,802	-5,456	-6,111
Others	-209	-69	-3,274	-116	-636	-2,005	-112	-102	-92
CF from Fin. Activity	**-4,301**	**-4,087**	**-6,882**	**-4,021**	**-6,076**	**-5,630**	**-4,963**	**-5,608**	**-6,253**
Incr/Decr of Cash	**1,239**	**-843**	**2,413**	**-2,444**	**688**	**166**	**2,124**	**1,624**	**1,891**
Add: Opening Balance	795	2,034	1,191	3,604	1,160	1,848	2,014	4,138	5,762
Closing Balance	**2,034**	**1,191**	**3,604**	**1,160**	**1,848**	**2,014**	**4,138**	**5,762**	**7,653**

E: MOFSL Estimates

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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