

10 November 2024

Emami

Q2 dragged by TMC transition, Bangladesh, but H2 outlook bright; Buy

Rating: **Buy**

Target Price (12-mth): Rs.900

Share Price: Rs.670

With Rs8.9bn revenue (vs. the Street's Rs9.1bn estimate) and EBITDA at Rs2.5bn (Rs2.5bn), Emami's Q2 was broadly in line with estimates. Revenue growth could have been better but for the 9% y/y decline in TMC and Brillaire (D2C brand), owing to management transition, and Bangladesh's turmoil hurting international business, which grew just 6% y/y (up 12% excl. Bangladesh). Management guided to double-digit revenue growth in H2, aided by better winter demand and launches. The EBITDA margin is expected to be better. We are optimistic about steady revenue/earnings recovery, aided by innovations, distribution expansion and scaling of D2C brands. We introduce FY27e and slightly tweak our FY25e/26e EPS. We retain our Buy rating, with a 12-mth Rs900 TP (Rs930 earlier), 37x FY27e EPS (42x FY26e EPS).

Consolidated revenue rose just 3% y/y, aided by 3% y/y growth in domestic and 6% y/y growth in international business (6% in CC). Navratna (up 10% y/y) and the healthcare range (up 11% y/y) saw steady growth, while discretionary brands like F&H fell 13% y/y and Kesh King, 9% y/y. The Man Company, Brillare together declined 9% y/y due to management transition. Bangladesh's socio-political turmoil dragged international revenue, which grew just 6% y/y (up 12% excl. Bangladesh). We are building in 10% revenue CAGR over FY24-26, aided by innovations, distribution expansion and strong growth in the international business.

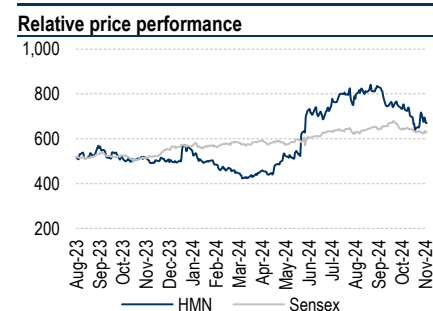
The EBITDA margin expanded 110bps y/y, aided by a 60bp y/y rise in the gross margin and a 150bp y/y decline in A&SP spends; employee expenses, meanwhile, rose 90bps y/y. Management is optimistic regarding continued margin gains due to favourable input prices, price hikes (~2% likely in FY25) and cost-saving measures. We build in a 185bp EBITDA-margin rise over FY24-27 to 28.4%, aided by gross-margin gains.

Valuations. The stock trades at 34x/30x/28x FY25e/26e/27e EPS of Rs19.5/Rs22/Rs24.3. **Key Risks:** Failure of launches, unwarranted or pricey acquisitions, intense competition.

Key data	HMN IN
52-week high / low	Rs860 / 417
Sensex / Nifty	79486 / 24148
3-m average volume	\$4.9m
Market cap	Rs294bn / \$3485.8m
Shares outstanding	439m

Shareholding pattern (%)	Sep'24	Jun'24	Mar'24
Promoters	54.8	54.8	54.8
- of which, Pledged	8.2	11.2	13.1
Free Float	45.2	45.2	45.2
- Foreign Institutions	14.4	14.0	13.5
- Domestic Institutions	21.5	21.6	22.1
- Public	9.3	9.5	9.6

Estimates revision (%)	FY25e	FY26e
Sales	(1.5)	(1.2)
EBITDA	(0.8)	(1.7)
PAT	0.3	(0.3)



Key financials (YE Mar)	FY23	FY24	FY25e	FY26e	FY27e
Sales (Rs m)	34,057	35,781	39,258	43,450	48,004
Net profit (Rs m)	6,471	7,331	8,492	9,624	10,587
EPS (Rs)	14.7	16.8	19.5	22.0	24.3
P/E (x)	45.7	39.9	34.4	30.4	27.6
EV / EBITDA (x)	33.6	30.5	26.6	23.4	20.6
P / BV (x)	12.8	12.0	10.2	8.7	7.5
RoE (%)	28.1	30.0	29.5	28.6	27.2
RoCE (%)	31.3	36.0	37.2	35.1	32.5
Dividend yield (%)	1.2	1.2	1.4	1.6	1.8
Net debt / equity (x)	-0.0	-0.1	-0.1	-0.2	-0.3

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Net revenues	34,057	35,781	39,258	43,450	48,004
Growth (%)	7	5	9.7	10.7	10.5
Direct costs	12,013.6	11,605.3	12,599.5	13,851.9	15,303.6
Gross profit	22,043.7	24,175.6	26,658.8	29,598.2	32,700.0
Gross margins %	64.7	67.6	67.9	68.1	68.1
Other expenses	13,416	14,680	15,856	17,454	19,070
EBITDA	8,628	9,495	10,803	12,144	13,630
EBITDA margins (%)	25.3	26.5	27.5	27.9	28.4
- Depreciation	2,472	1,859	1,879	1,931	2,103
Other income	689	468	650	850	1,050
Interest expenses	74	100	105	99	92
PBT	6,770	8,005	9,469	10,965	12,484
Effective tax rates (%)	6.2	8.3	10.0	12.0	15.0
+ Associates / (Minorities)	-122	6	30	25	25
Net Income	6,471	7,331	8,492	9,624	10,587
WANS	441	437	437	437	437
FDEPS (Rs)	14.7	16.8	19.5	22.0	24.3

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
PBT	6,695	7,908	9,469	10,965	12,484
+ Non-cash items	-2,076	-1,682	-1,334	-1,179	-1,145
Oper. prof. before WC	8,772	9,590	10,803	12,144	13,630
- Incr. / (decr.) in WC	-112	-337	-1,781	-365	-636
Others incl. taxes	1,170	1,463	947	1,316	1,873
Operating cash-flow	7,489	7,790	8,075	10,463	11,121
- Capex (tang. + intang.)	-301	-288	-2,555	-3,000	-3,350
Free cash-flow	7,188	7,502	5,520	7,463	7,771
Acquisitions					
- Div. (incl. buyback & taxes)	3,529	3,492	4,147	4,802	5,238
+ Equity raised	-10	-2,291	-	-	-
+ Debt raised	89	-133	-	-	-
- Fin investments	917	1,746	-	-	-
- Misc. (CFI + CFF)	2,536	-266	-545	-751	-958
Net cash-flow	284	106	1,918	3,413	3,491

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

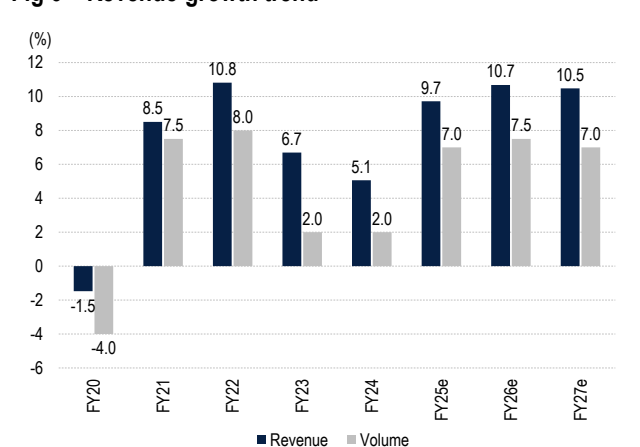
Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	441	437	437	437	437
Net worth	23,028	24,466	28,811	33,633	38,982
Debt	736	657	657	657	657
Minority interest	100	111	141	166	191
TL / (Assets)	-3,502	-4,270	-4,270	-4,270	-4,270
Lease liabilities	-	-	-	-	-
Capital employed	20,361	20,964	25,339	30,186	35,560
Net tangible assets	6,594	6,185	7,306	8,375	9,522
Net intangible assets	5,326	4,432	4,432	4,432	4,432
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	597	595	150	150	250
Investments (strategic)	1,762	2,769	2,769	2,769	2,769
Investments (financial)	1,172	1,647	1,647	1,647	1,647
Current assets (excl. cash)	10,164	10,777	12,920	13,981	15,436
Cash	1,847	2,014	3,932	7,345	10,837
Current liabilities	7,100	7,454	7,817	8,512	9,332
Working capital	3,064	3,323	5,104	5,469	6,104
Capital deployed	20,361	20,964	25,339	30,186	35,560

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
P/E (x)	45.7	39.9	34.4	30.4	27.6
EV / EBITDA (x)	33.6	30.5	26.6	23.4	20.6
EV / Sales (x)	8.5	8.1	7.3	6.5	5.8
P/B (x)	12.8	12.0	10.2	8.7	7.5
RoE (%)	28.1	30.0	29.5	28.6	27.2
RoCE (%) - after tax	31.3	36.0	37.2	35.1	32.5
RoIC (%) - after tax	35.3	42.9	46.5	47.5	48.3
DPS (Rs)	8.0	8.0	9.5	11.0	12.0
Dividend yield (%)	1.2	1.2	1.4	1.6	1.8
Dividend payout (%) - incl. DDT	54.5	47.6	48.8	49.9	49.5
Net debt / equity (x)	-0.0	-0.1	-0.1	-0.2	-0.3
Receivables (days)	44.4	50.4	47.4	45.0	45.0
Inventory (days)	35.2	33.0	33.1	32.8	32.7
Payables (days)	54.2	57.0	55.1	54.6	54.5
CFO : PAT %	115.7	106.3	95.1	108.7	105.1

Source: Company, Anand Rathi Research

Fig 6 – Revenue-growth trend



Source: Company

Results highlights

Fig 7 – Quarterly results

(Rs m)	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
Volume growth (%)	flat	flat	10	-1	-4	2	3	2	-1	6	9	2
Net sales	9,719	7,682	7,733	8,138	9,827	8,360	8,257	8,649	9,963	8,912	9,061	8,906
Y/Y, %	4.1	5.1	17.0	3.2	1.1	8.8	6.8	6.3	1.4	6.6	9.7	3.0
Gross profit	6,549	4,805	4,872	5,422	6,472	5,278	5,401	6,061	6,851	5,863	6,131	6,296
Gross margins, %	67.4	62.5	63.0	66.6	65.9	63.1	65.4	70.1	68.8	65.8	67.7	70.7
Staff expenses	724	789	888	935	934	921	1,014	1,017	1,021	905	1,111	1,129
Advertising spends	1,583	1,495	1,363	1,415	1,533	1,297	1,519	1,544	1,657	1,802	1,837	1,457
Other expenses	827	882	888	1,119	1,063	1,062	968	1,163	1,024	1,046	1,018	1,205
EBITDA	3,415	1,639	1,733	1,954	2,943	1,998	1,900	2,337	3,149	2,110	2,165	2,505
Y/Y, %	-31.1	-44.9	2.1	-29.5	-13.8	21.9	9.6	19.6	7.0	5.6	13.9	7.2
EBITDA margins, %	35.1	21.3	22.4	24.0	29.9	23.9	23.0	27.0	31.6	23.7	23.9	28.1
PBT	2,719	1,090	891	1,877	2,521	1,482	1,502	1,964	2,831	1,708	1,805	2,251
Y/Y, %	-33.5	-57.5	-8.0	-18.4	-7.3	36.0	68.6	4.7	12.3	15.2	20.2	14.6
Profit before expt.	2,228	3,652	771	1,823	2,336	1,420	1,373	1,806	2,676	1,483	1,527	2,156
Except. and Min.	(33)	(111)	(44)	(22)	(6)	(4)	(5)	(6)	(69)	(16)	(21)	(46)
Rep. PAT	2,195	3,541	727	1,801	2,330	1,416	1,368	1,800	2,607	1,468	1,506	2,110
Y/Y, %	-40.0	57.1	-6.6	-2.8	6.1	-60.0	88.1	-0.1	11.9	3.6	10.1	17.2
% to sales												
Staff cost	7.4	10.3	11.5	11.5	9.5	11.0	12.3	11.8	10.2	10.2	12.3	12.7
Advertising spends	16.3	19.5	17.6	17.4	15.6	15.5	18.4	17.9	16.6	20.2	20.3	16.4
Other expenses	8.5	11.5	11.5	13.7	10.8	12.7	11.7	13.5	10.3	11.7	11.2	13.5

Source: Company

Q2 earnings call highlights

Demand trend

- Consolidated revenue grew 3% y/y, with volumes up 2% y/y. Growth was impacted by weakness in general demand, extended rainfall and flooding in certain regions.
- Domestic revenue was aided by double-digit y/y growth in Navratna (10%), Dermicool (10%), the healthcare range (11%), and pain management (5%). However, male grooming and Kesh King dipped 13% y/y and 9% y/y, respectively.
- The decline in The Man Company (TMC) was mainly due to leadership transition following ownership change.
- International sales rose 6% y/y, with strong performance in MENA. Growth was 12% excl. Bangladesh, which faced challenges due to political instability and high inflation.

Product and brand initiatives

- Two products were launched under Dermicool, along with three new ones in the Zandu care portfolio. Boro Plus Soft, a light moisturizing cream, was relaunched.
- The company relaunched Fair and Handsome (F&H) with a new brand ambassador and packaging. Strategic work with BCG is expected to provide solutions for Kesh King's growth.
- Boro Plus continues to be a leading product line, with ~75% of its sales from antiseptic cream and 25% from other products like winter lotion, soap, aloe vera gel, and prickly heat powder.

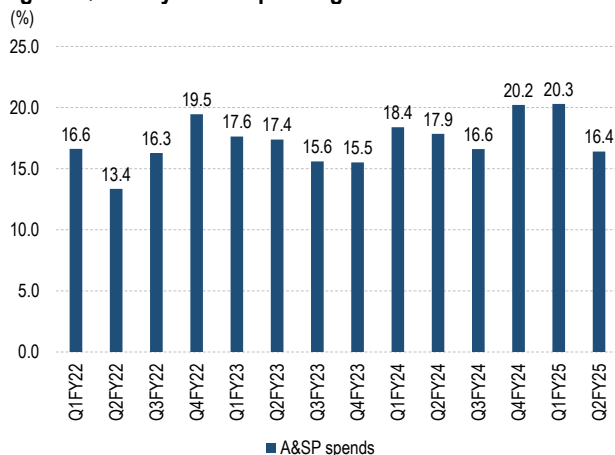
Channel strategy and distribution

- Sales contribution from modern trade, e-commerce grew to 26.6% of the domestic business, up 190bps y/y. E-commerce and quick commerce channels saw rapid growth; the channels are expected to grow 2x ahead.
- A strong rural distribution network is expected to benefit the company, driven by likely strong winter demand, boosting its Boro Plus brand.
- Modern trade, e-commerce and quick commerce now account for approximately 25% of Emami's domestic sales (predominantly urban), with expectations of continued channel growth.
- Urban demand is supported by a premiumization strategy, focusing on products suited to modern trade and e-commerce.

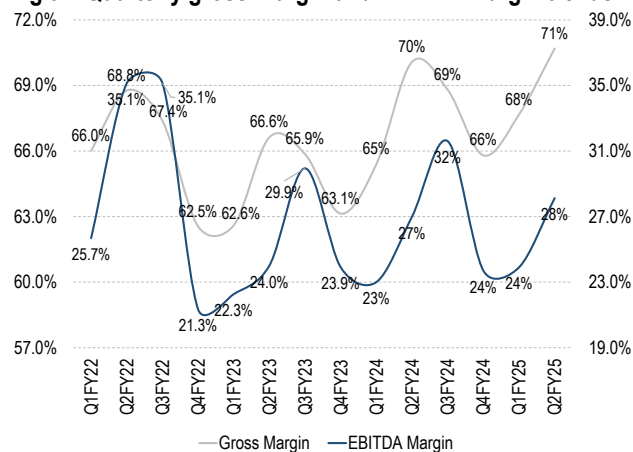
Outlook and other highlights

- There's cautious optimism for double-digit growth if winter demand is strong, though 7–8% growth is expected even with weaker winter conditions.

- Plans are set for further innovation and product launches in Q4 and early next year, specifically for male grooming and Kesh King segments.
- Kesh King faces competition but continues to address growing requirements. Future strategies may involve new product variants with different ingredients.
- The company is open to inorganic growth as part of its long-term strategy, backed by a strong balance sheet.

Fig 8 – Quarterly A&SP spending trend

Source: Company, Anand Rathi Research

Fig 9 – Quarterly gross-margin and EBITDA-margin trends

Source: Company, Anand Rathi Research

Valuation

Emami's niche portfolio and leading position afford it an enviable gross margin (~65%, one of the highest). Covid hurt mass personal-care products, but we expect a swift recovery aided by rural revival (50-55% of revenue). Further, the company's efforts in distribution, D2C brands, digital ventures and cost-savings should afford it steady 10%/13%, revenue/EBITDA CAGRs over FY24-27.

After a group company, AMRI Hospitals, was sold, promoter pledges have shrunk over the years to ~8% (~40% in FY23, ~90% in Q1 FY21) and are on the path to zero. Further, greater demand, a healthy earnings outlook and attractive valuations (just ~30x FY26e) make Emami a compelling stock among mid-cap FMCGs.

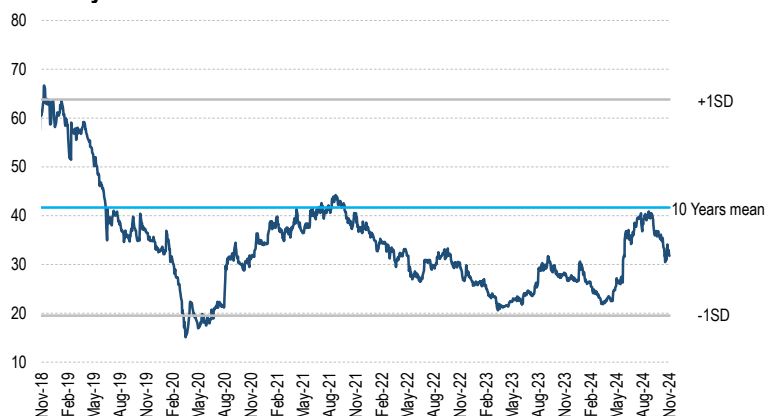
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Fig 10 – Change in estimates

(Rs m)	Old		Revised		Change (%)	
	FY25e	FY26e	FY25e	FY26e	FY25	FY26
Sales	39,875	43986	39,258	43,450	(1.5)	(1.2)
EBITDA	10,894	12353	10,803	12,144	(0.8)	(1.7)
PAT	8,468	9655	8,492	9,624	0.3	(0.3)

Source: Anand Rath Research

Fig 11 – One-year-forward PE



Source: Bloomberg, Anand Rath Research

Key risks

- Failure of brand launches.
- Unwarranted or overpriced acquisitions.
- Price-based competition in key products.
- Steep prices of key input materials.

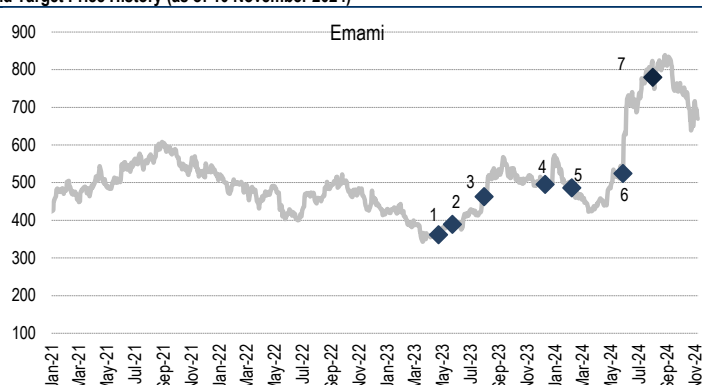
Appendix

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Rating and Target Price History (as of 10 November 2024)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	20-Apr-23	Buy	462	362
2	26-May-23	Buy	470	385
3	8-Aug-23	Buy	572	462
4	7-Dec-23	Buy	623	502
5	10-Feb-24	Buy	616	485
6	30-May-24	Buy	730	612
7	4-Aug-24	Buy	930	780

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