

Emami Ltd (HMN)

FMCG | Management Meet Update

Sell

CMP: Rs743 | Target Price (TP): Rs685 | Downside: 8%

September 25, 2024

Favourable winter season critical for healthy FY25 sales growth

Key Points

- The company is expecting high single digit to double digit growth for FY25 if the winter season is favourable. This would largely be volume led with pricing growth expected in the range of 1.5-2%.
- While the management has plans to revive Kesh King (the company is working with BCG to carve out a strategy on KK) and Men's grooming, we believe that this is a tough task considering it needs the support of various other factors out of the company's control like improvement in the macro situation along with better execution in these segments by the company compared to the past.
- While we have assumed ~9.5% top-line growth in FY25, our numbers could be at risk if the winter season is not favourable. Even if the company reports high single digit/double digit sales growth in FY25, there is no evidence that the company has turned the corner from mid-single digit sales CAGR that it has reported over the last 5 years. Importantly, high single digit or double digit sales growth in FY25 is predicated on - good summer season (already realised), relative uptick in the rural demand and strong winter season – all of which may not be present in the subsequent years.
- In FY27, the tax rate is also likely to increase to 17-18%. Considering this, we are obtaining earnings CAGR (before amortisation) of only ~5% over FY24-FY27E. The stock is trading at ~34x FY26E Pre- Amortization EPS compared to the 5 year average of ~23x and 10 year average of ~31x. Maintain Sell.

View and valuation: We have not made material changes to our estimates post 1QFY25 result update. Segmental performance in 1QFY25, 4QFY24 and the full year FY24 was a mixed bag, as has been the case for most of the last decade. While summer season products did well in 1QFY25, weak growth in Kesh King and Men's Grooming segments continues to remain a cause of concern. An increase in tax rate from FY27 will limit earnings growth as well, going forward. In addition, we believe that after the recent rally in staples companies, the focus will be more on discretionary stocks that are showing incipient signs of a turnaround. The stock is currently trading at 34x FY26E Pre- Amortization EPS compared to the 5 year average of ~23x and 10 year average of ~31x. We assign a target multiple of 32x/35x pre-amortisation/post-amortisation EPS and arrive at a target price of Rs685 (Rs725 earlier) on Sept'26E EPS (June 26E EPS earlier) and maintain our Sell rating on the stock.

Est Change	No change
TP Change	Downward
Rating Change	No change

Company Data and Valuation Summary

Reuters	EMAM.BO
Bloomberg	HMN IN Equity
Market Cap (Rsbn / US\$bn)	332.2 / 4.0
52 Wk H / L (Rs)	860 / 417
ADTV-3M (mn) (Rs / US\$)	896.1 / 10.7
Stock performance (%) 1M/6M/1yr	(6.0) / 79.4 / 47.1
Nifty 50 performance (%) 1M/6M/1yr	4.5 / 7.9 / 31.9

Shareholding	3QFY24	4QFY24	1QFY25
Promoters	54.8	54.8	54.8
DII's	24.0	22.1	21.6
FII's	12.9	13.5	14.0
Others	8.3	9.6	9.5
Pro pledge	13.4	13.2	11.3

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24	FY25E	FY26E
Net Sales	34,057	35,781	39,166	40,331
Growth YoY%	6.9	5.1	9.5	3.0
Gross margin %	64.7	67.6	67.7	68.0
EBITDA	8,628	9,495	10,561	11,087
EBITDA margin %	25.3	26.5	27.0	27.5
Adj PAT (before amortization)	7,895	8,112	9,108	9,440
Growth YoY%	-27%	3%	12%	4%
Adj EPS	17.9	18.6	20.9	21.6
RoCE	38.6	40.5	40.2	36.6
RoE	36.1	34.2	34.3	31.7
RoIC	40.4	45.9	49.0	49.0
P/E	41.5	40.0	35.6	34.3
EV/EBITDA	37.5	33.5	29.8	28.2
P/BV	14.2	13.2	11.3	10.5

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links-

[1QFY25 Investor Presentation](#)

[FY24 Annual Report](#)

Please refer to the disclaimer towards the end of the document

Key highlights from our interaction with the company

- Winter season is forecasted to be good
- The company is expecting high single digit to double digit growth for FY25 assuming the winter season is favourable. This would largely be volume led with pricing growth expected in the range of 1.5-2%
- 50-100bps improvement in EBITDA margin expected in FY25
- Navratna range did well in 1QFY25 and the company is hoping for a good winter
- Kesh King and Male grooming likely to do well in 2HFY25
- **Kesh King (KK)**
 - The company is working with BCG to carve out a strategy on KK
 - Shampoo contributes ~1/3rd to the KK portfolio (value salience). Can increase to 50% in next 2-3 years
 - Competitive intensity in this category is reducing. Discretionary environment needs to be favourable for growth in this part of the portfolio
 - Shampoo should grow faster in the longer run
 - Sachets have a small salience
 - For Shampoo – the company has lower presence in the south market. North is a larger market for the company
 - Decline in FY24 was mostly volume led. Not much price increases were taken in FY24
- **Male grooming**
 - Beard trend and its acceptance has led to facial surface area coming down, impacting the fairness cream market
 - Face wash has ~20% salience in the male grooming portfolio
 - Pricing is similar to those of other players
 - The company expects a re-launch in October – November
 - The company in its FY24 annual report highlighted that penetration of men's fairness cream is low at 2.3% as 'Fair and Handsome' is a Mass brand and with the increase in beard culture, there has been some delay in adoption by consumers
- **Healthcare portfolio**
 - The company expects to deliver double digit growth in the healthcare portfolio
 - Zanducare products are doing well. It has done a lot of innovations on Zanducare
 - Digestion and constipation, cough syrup products also seeing good traction
 - In Chyavanprash, the leader is strong. For Emami – ~20% contribution comes from Chyavanprash and is likely to stay in this range going forward as well
- **Dermicool**
 - It was a Rs1.1bn brand at the time of acquisition. The company expects to close FY25 with Rs1.5bn revenue for Dermicool
 - Launched 'Dermicool for her' and the company recently announced Dermicool soap as well

▪ Rural

- The company has not realized any material benefit from distribution expansion yet, due to rural slowdown
- In FY22 and FY23, the company added ~20,000 villages to the distribution footprint taking the total village count to ~ 60,000 villages
- The company is also focusing on critical outlets i.e. 16,000 prime stores which includes marts

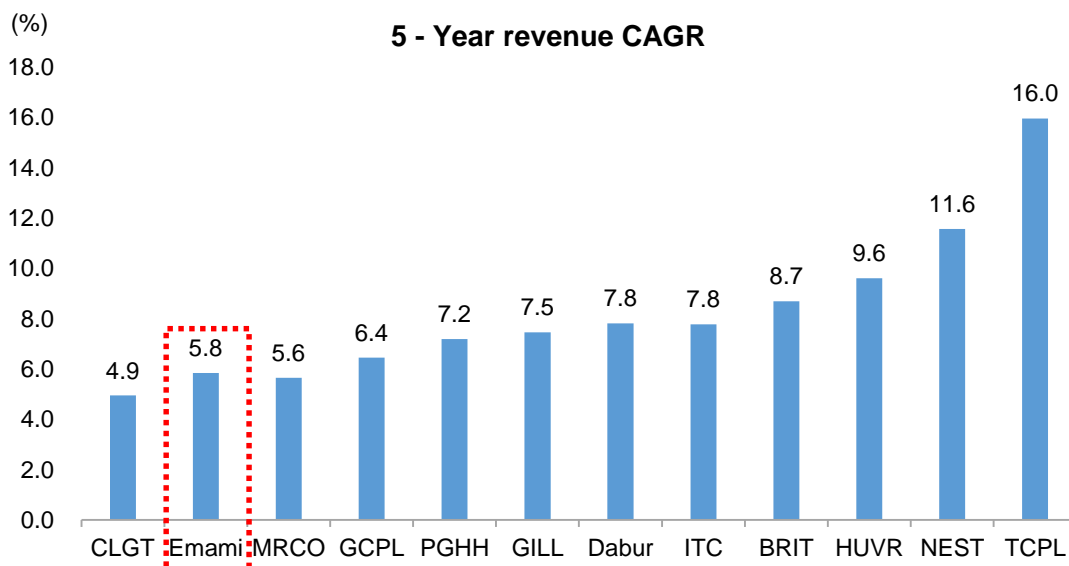
▪ Pledge

- Pledge is now at ~8.6%
- It is likely to come down gradually
- The company is looking to monetise a few assets like frank cross pharmacy, a few other land parcels, etc but at the right valuation

▪ Others

- It is not looking at foods as a category to enter into in the future. Focus will remain on personal care and healthcare
- Ad spends likely to see some increase as the company looks to invest in its brands – to remain in the range of 17-18%
- The company is likely to pay peak tax rate from FY27
- Rs900mn annual amortisation for 3-4 years to continue, largely for Dermicool and Crème 21
- The focus on overseas acquisition is lower compared domestic acquisitions
- 25-30% of the ATL spends are on digital mediums considering how they have picked up as a channel
- Revenue from Bangladesh is ~Rs1.5bn
- Capex is expected to be Rs700-800mn
- Niche acquisitions like pet care will continue

Exhibit 1: Emami's 5 year revenue CAGR ending FY24 is among the weakest in our staples coverage



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Category growth over the quarters

Category Performance	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2yr CAGR (%)
Domestic	13%	1%	1%	5%	7%	4%	0%	6%	10%	8.5
Boroplus	0%	17%	-3%	-25%	19%	-4%	-9%	33%	4%	11.2
Pain management	-30%	-13%	-2%	-9%	13%	1%	3%	9%	-7%	2.5
Navratna range	29%	-5%	-6%	-3%	-8%	12%	7%	1%	27%	8.1
Male grooming range	32%	2%	-1%	29%	0%	-7%	-6%	-2%	-5%	-2.5
Kesh King range	20%	-10%	-1%	1%	2%	-5%	-13%	-9%	-15%	-6.9
Healthcare range	-25%	-16%	2%	-13%	11%	4%	0%	10%	11%	11.0
7 Oils in One	45%	1%	5%	NA	2%	NA	-5%	20%	9%	5.4
International	45%	17%	7%	19%	8%	12%	8%	8%	10%	9.0
CSD	23%	NA	NA	NA	NA	NA	NA	NA	NA	-

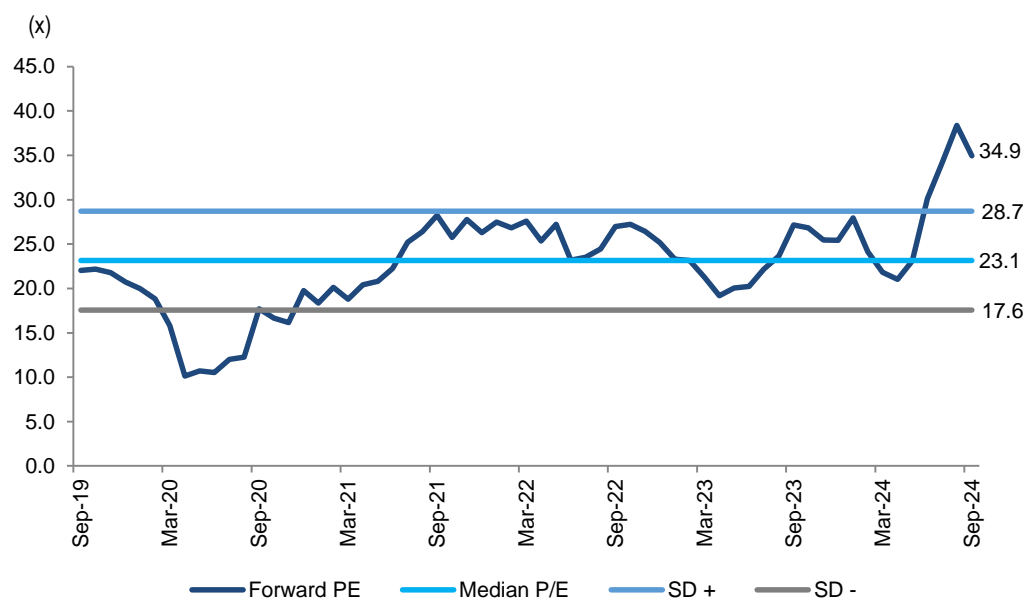
Source: Company, Nirmal Bang Institutional Equities Research;

Exhibit 3: Change in our estimates

Y/E March	Earlier Estimates			New Estimates			Change (%)		
(Rsmn)	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net Sales	39,166	41,267	-	39,166	40,331	42,437	0.0	-2.3	-
EBITDA	10,411	11,336	-	10,561	11,087	11,650	1.4	-2.2	-
EBITDA margin (%)	26.6	27.5	-	27.0	27.5	27.5	0.4	0.0	-
Adj. PAT	8,935	9,632	-	9,108	9,440	9,281	1.9	-2.0	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: One-year forward P/E



Source: Company, Nirmal Bang Institutional Equities Research

Financials (Consolidated)

Exhibit 5: Income statement

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	34,057	35,781	39,166	40,331	42,437
Growth YoY%	6.9%	5.1%	9.5%	3.0%	5.2%
Gross profit	22,044	24,176	26,534	27,408	28,846
Gross margin %	64.7%	67.6%	67.7%	68.0%	68.0%
Staff costs	3,678	3,956	4,257	4,589	4,938
% of sales	10.8%	11.1%	10.9%	11.4%	11.6%
Advertising costs	5,607	6,522	7,050	6,856	7,214
% of sales	16.5%	18.2%	18.0%	17.0%	17.0%
Other expenses	4,132	4,202	4,666	4,875	5,043
% of sales	12.1%	11.7%	11.9%	12.1%	11.9%
EBITDA	8,628	9,495	10,561	11,087	11,650
Growth YoY%	-9.4%	10.1%	11.2%	5.0%	5.1%
EBITDA margin (%)	25.3%	26.5%	27.0%	27.5%	27.5%
Depreciation	974	927	899	920	939
Amortisation	1,499	932	920	880	880
EBIT	6,155	7,636	8,742	9,287	9,831
Interest	74	100	103	76	61
Other income	689	468	666	686	721
PBT (bei)	6,770	8,005	9,305	9,897	10,491
ETR	5%	8%	11%	12%	18%
PAT	6,396	7,235	8,188	8,560	8,401
Adj PAT	7,895	8,112	9,108	9,440	9,281
Growth YoY%	-26.9%	2.8%	12.3%	3.6%	-1.7%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance sheet

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	441	437	437	437	437
Reserves	22,587	24,029	28,162	30,518	32,716
Net worth	23,028	24,466	28,598	30,955	33,152
Minority Interest	100	111	111	111	111
Total debt	736	657	557	457	357
Net debt	-2245	-2967	-6,394	-8,464	-10,628
Other non-current liabilities	-3502	-4271	-4271	-4271	-4271
Total Equity & Liabilities	20,361	20,963	24,996	27,253	29,350
Gross block	36,925	37,305	38,085	38,885	39,705
Accumulated depreciation	24,465	26,161	27,060	27,980	28,919
Net block	12,460	11,144	11,025	10,905	10,786
CWIP	58	67	67	67	67
Intangible and others	0	0	0	0	0
Investments	2,933	4,414	5,414	5,414	5,414
Trade receivables	4,146	4,942	5,043	5,525	5,813
Inventories	3,280	3,234	4,028	4,115	4,322
Cash & Cash Equivalents	1,847	2,014	4,341	6,311	8,375
Other current assets	2,738	2,602	3,082	3,220	3,390
Total current assets	12,011	12,792	16,494	19,172	21,900
Trade payables	4,072	4,546	4,882	4,950	5,209
Other current liabilities	3,029	2,908	3,123	3,356	3,609
Total current liabilities	7,100	7,454	8,004	8,306	8,818
Total assets	20,361	20,963	24,997	27,252	29,350

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Cash flow

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	6,696	7,908	9,305	9,897	10,491
Depreciation	2,473	1,859	1,819	1,800	1,819
Interest	-27	-26	103	76	61
Other adjustments	-369	-151	-666	-686	-721
(Inc.)/dec. in working capital	-112	-337	-826	-405	-153
Tax paid	-1,170	-1,463	-1,074	-1,293	-2,047
Operating cash flow	7,489	7,790	8,662	9,388	9,450
Capex	-301	-288	-780	-800	-820
Free cash flow	7,188	7,502	7,882	8,588	8,630
Other investing activities	-424	-1,706	-273	-709	-672
Investing cash flow	-725	-1,994	-1,053	-1,509	-1,492
Issuance of share capital	0	0	0	0	0
Movement of Debt	-2,022	-2,504	-100	-100	-100
Dividend paid	-3,529	-3,492	-5,544	-6,198	-6,198
Other financing activities	-525	366	362	389	404
Financing cash flow	-6,076	-5,630	-5,282	-5,909	-5,894
Net change in cash flow	688	166	2,327	1,970	2,065
Opening C&CE	1,160	1,847	2,014	4,341	6,311
Closing C&CE	1,847	2,014	4,341	6,311	8,375

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Key ratios

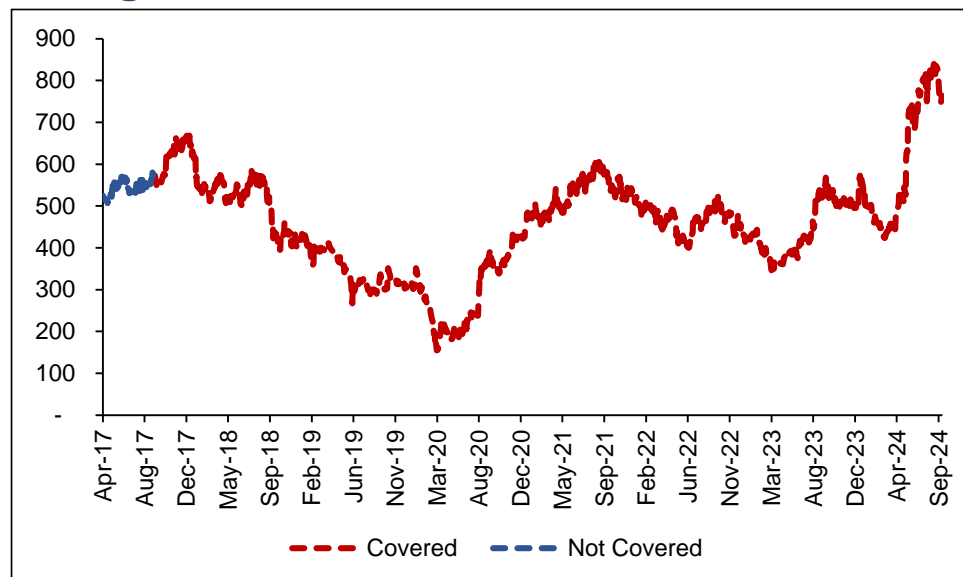
Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Per share (Rs)					
Adj EPS	17.9	18.6	20.9	21.6	21.3
Book value	52.2	56.1	65.5	70.9	76.0
DPS	8.0	8.0	12.7	14.2	14.2
Valuation (x)					
P/sales	9.6	9.1	8.3	8.0	7.6
EV/EBITDA	37.5	33.5	29.8	28.2	26.7
P/E	41.5	40.0	35.6	34.3	34.9
P/BV	14.2	13.2	11.3	10.5	9.8
Return ratios (%)					
RoCE	38.6	40.5	40.2	36.6	33.1
RoCE (pre-tax)	40.7	43.7	44.9	41.5	40.4
RoE	36.1	34.2	34.3	31.7	29.0
RoIC	40.4	45.9	49.0	49.0	51.3
Profitability ratios (%)					
Gross margin	64.7	67.6	67.7	68.0	68.0
EBITDA margin	25.3	26.5	27.0	27.5	27.5
PAT margin	23.2	22.7	23.3	23.4	21.9
Liquidity ratios (x)					
Current ratio	1.7	1.7	2.1	2.3	2.5
Quick ratio	1.2	1.3	1.6	1.8	2.0
Solvency ratio (x)					
Net Debt to Equity ratio	-0.1	-0.1	-0.2	-0.3	-0.3
Turnover ratios					
Fixed asset turnover ratio (x)	2.7	3.2	3.6	3.7	3.9
Debtor days	39	46	47	48	49
Inventory days	37	33	34	37	36
Creditor days	44	44	44	44	44
Net Working capital days	32	36	36	40	41

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
29 September 2017	Sell	545	500
27 October 2017	Sell	606	540
31 January 2018	Sell	572	525
4 May 2018	Sell	541	510
3 August 2018	Sell	569	530
31 October 2018	Sell	404	380
1 February 2019	Hold	411	420
9 April 2019	Hold	410	410
28 May 2019	Hold	360	410
9 Aug 2019	Hold	312	350
23 September 2019	Hold	325	360
7 November 2019	Hold	326	345
10 February 2020	Hold	300	330
30 March 2020	Hold	160	180
30 June 2020	Hold	205	215
8 August 2020	Hold	259	285
22 September 2020	Hold	365	400
6 November 2020	Hold	367	400
8 January 2021	Hold	452	480
28 January 2021	Buy	483	560
9 April 2021	Under Review	516	560
26 May 2021	Buy	500	580
3 August 2021	Buy	573	665
23 September 2021	Buy	585	685
30 October 2021	Buy	531	665
3 February 2022	Buy	498	615
21 February 2022	Buy	502	645
15 May 2022	Buy	428	555
31 July 2022	Buy	450	545
14 September 2022	Buy	515	600
13 November 2022	Buy	465	600
6 February 2023	Buy	420	545
22 March 2023	Buy	343	525
26 May 2023	Buy	384	490
7 August 2023	Buy	460	540
7 November 2023	Buy	519	595
9 February 2024	Hold	485	530
30 May 2024	Hold	524	525
10 July 2024	Hold	777	750
2 August 2024	Sell	824	725
25 September 2024	Sell	743	685

Rating chart



DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as “NBEPL”) for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I, Krishnan Sambamoorthy, research analyst and Sunny Bhadra, research associate, the author(s) of this report, hereby certify that the views expressed in this research report accurately reflects my/our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst is principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD -5% to 14%

SELL < -5%

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

*"Registration granted by SEBI and certification from NISM in no way guarantee the performance of the intermediary or provide any assurance of returns to investors."

Our reports are also available on our website www.nirmalbang.com

Access all our reports on Bloomberg, Thomson Reuters and Factset.

Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Krishnan Sambamoorthy	Head of Research	krishnan.s@nirmalbang.com	+91 22 6273 8210
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010