

## Consumer Staples | Q2FY24 Result Update

## Mixed segmental performance; Maintain Reduce

- Emami's revenues came in line with our estimate but EBITDA and APAT were ahead of our expectation.
- Domestic business grew 4% with 2% volume growth while IB reported 12% YoY growth. On CC IB reported 16% increase.
- MT grew by ~17% while E-com jumped 50% YoY in Q2FY24. Emami is continuously improving its share in the new trade channels and is expected to accelerate sales (MT/E-com contribution at 11/13%).
- Though Q2 performance exceed our est, we have maintained our FY24/25E EPS est at Rs 18.1/19.1 considering high seasonality in the business. Going ahead, we believe that recent investments would mitigate negative impact of rural slowdown. We have introduced FY26E EPS at Rs 20.7. Valuing the stock at 27x FY26E EPS, arrive at a TP of Rs 560. Maintain Reduce.

## Revenues in line; profitability ahead

Net sales grew by 6.3% YoY to Rs 8.6bn in Q2FY24 – was in line with our estimates. Domestic business grew by 4% YoY, while IB reported 12% YoY growth (grew 16% in CC terms). GM expanded by 350bps YoY to 70.1%. A 350/30bps decline in RM cost/other exp was partially offset by 50/30bps increase in Ad spends/employee cost respectively. Consequently, EBITDA margin expanded by 300bps to 27.0%. EBITDA increase by 19.6% YoY to Rs 2.3bn – came ahead our estimate. APAT de-grew by 3.1% to Rs 1.8bn – exceed our estimate.

## Segmental performance remains a mixed bag

During Q2, The company launched multiple products across categories to accelerate segmental performance. New launches and brand investment helped Pain management/Healthcare range/Navratna & Dermicool report strong +1/4/12% growth during the quarter. However, KeshKing/BoroPlus/Male grooming range posted decline of 5/4/7% during the quarter. Recent investments ('Brillare' and 'The Man Company') registered 63% growth. We remain optimistic about the future growth prospects for Emami given the headroom for further expansion within the rural markets across categories. Further, we believe that the management aspiration of ~27% EBITDAM, going ahead is achievable considering strong brand portfolio and unique positioning in most categories.

## Q2FY24 Result (Rs Mn)

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Revenue	8,649	8,138	6.3	8,257	4.7
Total Expense	6,312	6,184	2.1	6,357	(0.7)
EBITDA	2,337	1,954	19.6	1,900	23.0
Depreciation	461	479	(3.8)	460	0.2
EBIT	1,876	1,475	27.2	1,440	30.3
Other Income	111	420	(73.5)	83	34.2
Interest	23	18	27.8	21	5.1
EBT	1,964	1,877	4.7	1,502	30.8
Tax	158	54	193.7	129	22.7
RPAT	1,786	1,842	(3.0)	1,378	29.6
APAT	1,786	1,842	(3.0)	1,378	29.6
			(bps)		(bps)
Gross Margin (%)	70.1	66.6	345	65.4	467
EBITDA Margin (%)	27.0	24.0	301	23.0	400
NPM (%)	20.7	22.6	(198)	16.7	396
Tax Rate (%)	8.1	2.9	519	8.6	(53)
EBIT Margin (%)	21.7	18.1	357	17.4	425

CMP	Rs 519
Target / Upside	Rs 560 / 8%
NIFTY	19,412

## Scrip Details

Equity / FV	Rs 439mn / Rs 1
Market Cap	Rs 228bn
	USD 2.8bn
52-week High/Low	Rs 583/ 341
Avg. Volume (no)	636,206
Bloom Code	HMN IN

Price Performance	1M	3M	12M
Absolute (%)	(2)	15	7
Rel to NIFTY (%)	(2)	14	(1)

## Shareholding Pattern

	Mar'23	Jun'23	Sep'23
Promoters	54.3	54.5	54.8
MF/Banks/FIs	26.9	26.2	25.2
FIs	11.0	11.5	11.9
Public / Others	7.8	7.8	8.1

## Valuation (x)

	FY24E	FY25E	FY26E
P/E	28.6	27.1	25.1
EV/EBITDA	22.3	20.5	18.7
ROE (%)	34.1	34.9	36.7
RoACE (%)	38.6	39.4	41.4

## Estimates (Rs bn)

	FY24E	FY25E	FY26E
Revenue	37.4	40.9	44.4
EBITDA	10.1	11.0	12.1
PAT	8.0	8.4	9.1
EPS (Rs.)	18.1	19.1	20.7

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**Exhibit 1: Actual V/s DART estimates**

Particulars (Rs mn)	Actual	Estimates	Variance (%)	Comment
Revenue	8,649	8,626	0.3	
EBITDA	2,337	2,166	7.9	Operational costs were lower than estimate
EBITDA margin %	27.0	25.1	190bps	
APAT	1,785	1,604	11.3	Cascading effect of higher EBITDA

Source: Company, DART

**Exhibit 2: Change in estimates**

Particulars (Rs mn)	FY24E			FY25E			FY26E
	New	Old	Chg. (%)	New	Old	Chg. (%)	New
Revenue	37,361	37,361	0.0	40,892	40,892	0.0	44,439
EBIDTA	10,076	10,076	0.0	11,028	11,028	0.0	12,118
EBIDTA margin (%)	27.0	27.0	0bps	27.0	27.0	0bps	27.3
PAT	7,957	7,957	0.0	8,394	8,395	(0.0)	9,094
EPS (Rs)	18.1	18.1	0.0	19.1	19.1	(0.0)	20.7

Source: Company DART

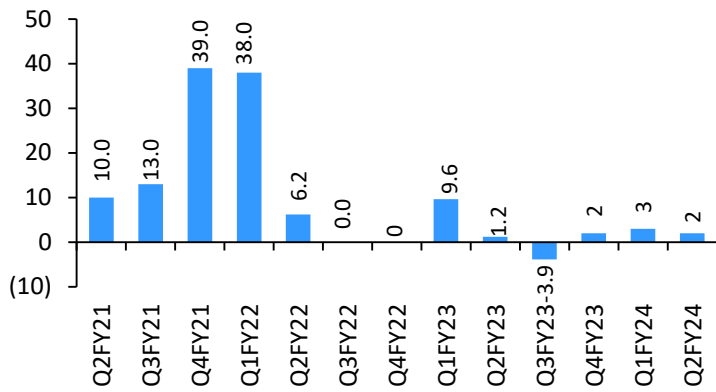
**Exhibit 3: Half-yearly performance**

Particulars (Rs.mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
<b>Net Sales</b>	<b>8,649</b>	<b>8,138</b>	<b>6.3</b>	<b>8,257</b>	<b>4.7</b>	<b>16,905</b>	<b>15,871</b>	<b>6.5</b>
<b>Total Expenditure</b>	<b>6,312</b>	<b>6,184</b>	<b>2.1</b>	<b>6,357</b>	<b>(0.7)</b>	<b>12,669</b>	<b>12,184</b>	<b>4.0</b>
RM Cost	2,588	2,716	(4.7)	2,856	(9.4)	5,444	5,577	(2.4)
Employee Exp	1,017	935	8.8	1,014	0.2	2,031	1,823	11.4
Ad spends	1,544	1,415	9.1	1,519	1.7	3,063	2,778	10.3
Other Exp	1,163	1,119	4.0	968	20.2	2,131	2,007	6.2
<b>PBIDT (Excl OI)</b>	<b>2,337</b>	<b>1,954</b>	<b>19.6</b>	<b>1,900</b>	<b>23.0</b>	<b>4,237</b>	<b>3,687</b>	<b>14.9</b>
Other Income	111	420	(73.5)	83	34.2	194	483	(59.9)
Depreciation	461	479	(3.8)	460	0.2	921	1,360	(32.3)
<b>EBIT</b>	<b>1,987</b>	<b>1,894</b>	<b>4.9</b>	<b>1,523</b>	<b>30.5</b>	<b>3,510</b>	<b>2,810</b>	<b>24.9</b>
Interest	23	18	27.8	21	5.1	44	43	3.3
<b>PBT</b>	<b>1,964</b>	<b>1,877</b>	<b>4.7</b>	<b>1,502</b>	<b>30.8</b>	<b>3,466</b>	<b>2,767</b>	<b>25.2</b>
Tax	158	54	193.7	129	22.7	287	174	65.3
<b>RPAT</b>	<b>1,806</b>	<b>1,823</b>	<b>(0.9)</b>	<b>1,373</b>	<b>31.6</b>	<b>3,179</b>	<b>2,594</b>	<b>22.6</b>
<b>APAT (After EI &amp; OCI)</b>	<b>1,785</b>	<b>1,842</b>	<b>(3.1)</b>	<b>1,377</b>	<b>29.6</b>	<b>3,162</b>	<b>2,580</b>	<b>22.6</b>
EPS (Rs)	4.1	4.2	(3.1)	3.1	29.6	7.2	5.9	22.6
			<b>bps</b>		<b>bps</b>			
Gross Profit (%)	70.1	66.6	350	65.4	470	67.8	64.9	290
Ad spends (%)	17.9	17.4	50	18.4	(50)	18.1	17.5	60
Employee Cost (%)	11.8	11.5	30	12.3	(50)	12.0	11.5	50
Other Exp (%)	13.5	13.7	(30)	11.7	170	12.6	12.6	0
EBITDA (%)	27.0	24.0	300	23.0	400	25.1	23.2	180
PAT (%) Adj	20.6	22.6	(200)	16.7	400	18.7	16.3	240

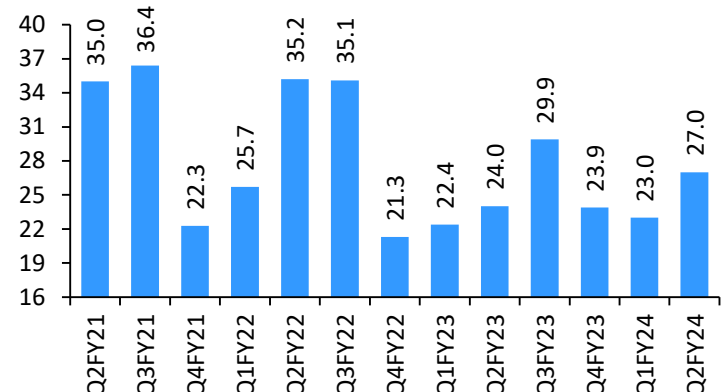
Source: DART, Company

### Earning call KTAs

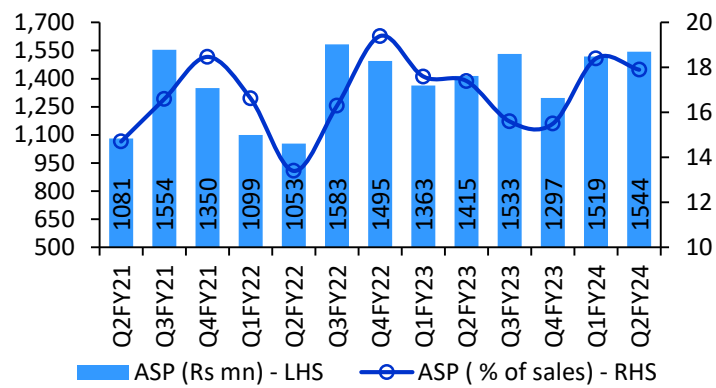
- During the quarter, domestic business revenue grew by a mere 4% YoY with ~2% YoY volume growth due to poor monsoon and subdued performance in Rural. The growth was supported by resilient performance of MT and E-com. Going ahead, we believe that Emami would deliver revenue growth in the range of ~7% in FY24E led by a recovery in rural demand, onset of festive season, new product launches and brand-building activities.
- GM expanded by 350bps to 70.1% YoY and EBITDA margin stood at 27% during the quarter, led by moderation in RM prices. Going ahead, we expect GM to improve and the EBITDA margin to improve by ~200-250 bps on back of the winter season and recovery in Rural demand.
- Despite currency headwinds, and macroeconomic crisis, IB delivered revenue growth of 12% YoY in Q2FY24 and remained buoyant, driven by robust performance in SAARC and MENAP. Moreover, SAARC/ GCC/ CIS reported 12/27/20% YoY revenue growth during the quarter. Further, IB expects to deliver double digit growth in the near term.
- During Q2FY24, Strategic Investments delivered robust sales growth of 63%. Moreover, the company entered into the juice category with “Alofrut”, acquiring 26% equity stake through strategic investment in Axiom Ayurveda Pvt Ltd and its subsidiaries. The company registered revenues of Rs 1.3bn and 10%+ EBITDA margin during FY23.
- Navratna portfolio grew by 12% YoY in Q2FY24 led by “Arctic Blossom ” - a new variant of Navratna Cool Talc. Further, Pain management/Healthcare/Dermicool grew by 1/4/12% YoY respectively, while Male grooming/ Boro plus de-grew 7/4% YoY during the quarter. The company expects Zandu portfolio to outperform in the coming quarters.
- Kesh King de-grew by 5% and is expected to end this financial year by delivering positive growth. Going ahead, we expect overall performance to improve led by recovery in rural demand.
- During the quarter, the Company introduced an Organic Onion hair mask under the Kesh King brand, as well as Glycerine bathing bars under Boroplus range, along with digital-first launches on the Zanducare portal and 3 new products under the Creme 21 brand in international markets.
- MT and E-commerce segments continued their strong performance, achieving growth rates of ~18% and 50% respectively during the quarter. Modern Trade and E-commerce contributed 11/13% each to the domestic business respectively. Further, the company expects margin expansion and similar kind of growth in both MT and E-com.
- The Company announced an interim dividend of Rs. 4 per share.

**Exhibit 4: Trend in Domestic Volume Growth (YoY%)**


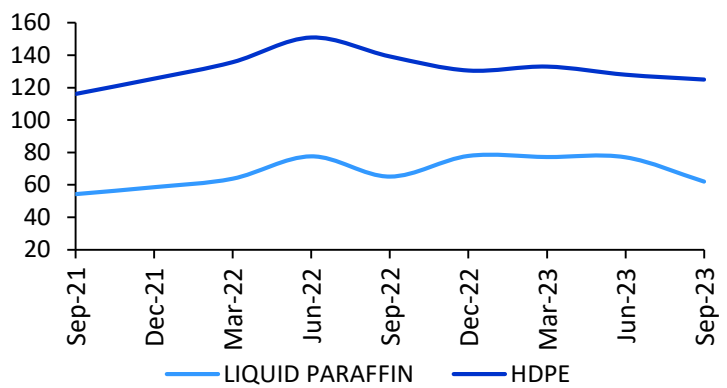
Source: DART, Company

**Exhibit 5: Trend in EBITDA Margins (%)**


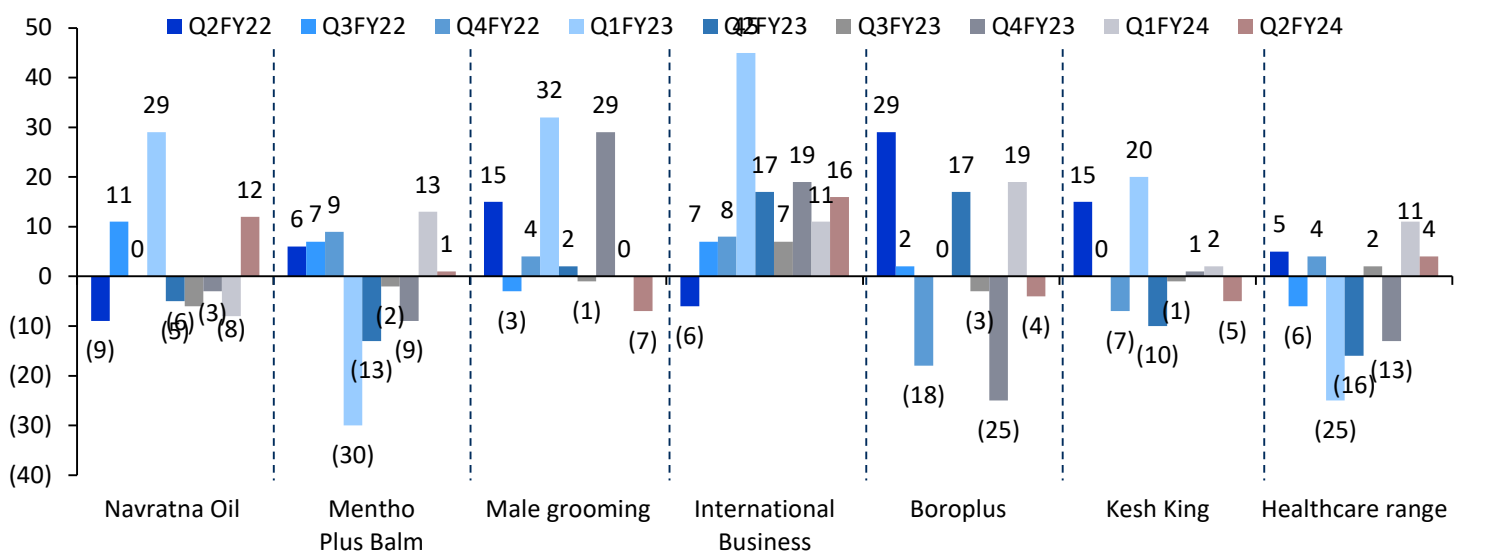
Source: DART, Company

**Exhibit 6: Trend in A&P Spends**


Source: DART, Company

**Exhibit 7: RM Cost of Liquid Paraffin (Rs/l) & HDPE (Rs /kg)**


Source: DART, Company

**Exhibit 8: Category-wise Growth Trend (YoY%)**


Source: DART, Company (Note in Q2FY24 Navratna oi numbers are inclusive of Dermicool range)

## Financial Performance

### Profit and Loss Account

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>34,057</b>	<b>37,361</b>	<b>40,892</b>	<b>44,439</b>
<b>Total Expense</b>	<b>25,430</b>	<b>27,285</b>	<b>29,864</b>	<b>32,321</b>
COGS	12,014	12,441	13,617	14,665
Employees Cost	3,678	4,184	4,498	4,977
Other expenses	9,739	10,660	11,749	12,679
<b>EBIDTA</b>	<b>8,628</b>	<b>10,076</b>	<b>11,028</b>	<b>12,118</b>
Depreciation	2,473	2,177	2,104	2,264
<b>EBIT</b>	<b>6,155</b>	<b>7,899</b>	<b>8,924</b>	<b>9,854</b>
Interest	74	74	70	70
Other Income	689	956	835	708
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>6,770</b>	<b>8,781</b>	<b>9,689</b>	<b>10,492</b>
Tax	421	878	1,356	1,469
RPAT	6,396	7,957	8,394	9,094
Minority Interest	(47)	(54)	(62)	(71)
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>6,396</b>	<b>7,957</b>	<b>8,394</b>	<b>9,094</b>

### Balance Sheet

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
<b>Sources of Funds</b>				
Equity Capital	441	439	439	439
Minority Interest	100	46	(16)	(86)
Reserves & Surplus	22,587	23,263	23,977	24,750
<b>Net Worth</b>	<b>23,028</b>	<b>23,702</b>	<b>24,416</b>	<b>25,190</b>
Total Debt	736	736	736	736
Net Deferred Tax Liability	(3,502)	(3,502)	(3,502)	(3,502)
<b>Total Capital Employed</b>	<b>20,361</b>	<b>20,982</b>	<b>21,635</b>	<b>22,337</b>

### Applications of Funds

Net Block	12,459	13,482	14,578	15,514
CWIP	58	70	70	70
Investments	1,800	800	800	800
<b>Current Assets, Loans &amp; Advances</b>	<b>13,145</b>	<b>13,858</b>	<b>13,842</b>	<b>14,040</b>
Inventories	3,280	3,652	3,885	4,101
Receivables	4,146	4,094	4,481	4,870
Cash and Bank Balances	1,848	2,574	1,938	1,532
Loans and Advances	2,461	2,461	2,461	2,461
Other Current Assets	277	277	277	277
<b>Less: Current Liabilities &amp; Provisions</b>	<b>7,100</b>	<b>7,228</b>	<b>7,656</b>	<b>8,087</b>
Payables	4,163	4,408	4,836	5,268
Other Current Liabilities	2,937	2,820	2,820	2,820
<i>sub total</i>				
Net Current Assets	6,045	6,630	6,187	5,953
<b>Total Assets</b>	<b>20,361</b>	<b>20,982</b>	<b>21,635</b>	<b>22,337</b>

E – Estimates

### Important Ratios

Particulars	FY23A	FY24E	FY25E	FY26E
<b>(A) Margins (%)</b>				
Gross Profit Margin	64.7	66.7	66.7	67.0
EBIDTA Margin	25.3	27.0	27.0	27.3
EBIT Margin	18.1	21.1	21.8	22.2
Tax rate	6.2	10.0	14.0	14.0
Net Profit Margin	18.8	21.3	20.5	20.5
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	35.3	33.3	33.3	33.0
Employee	10.8	11.2	11.0	11.2
Other	28.6	28.5	28.7	28.5
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	83.3	107.3	127.6	140.9
Inventory days	35	36	35	34
Debtors days	44	40	40	40
Average Cost of Debt	4.4	10.0	9.5	9.5
Payable days	45	43	43	43
Working Capital days	65	65	55	49
FA T/O	2.7	2.8	2.8	2.9
<b>(D) Measures of Investment</b>				
AEPS (Rs)	14.6	18.1	19.1	20.7
CEPS (Rs)	20.2	23.1	23.9	25.9
DPS (Rs)	8.0	16.6	17.5	18.9
Dividend Payout (%)	55.2	91.5	91.5	91.5
BVPS (Rs)	52.4	54.0	55.6	57.4
RoANW (%)	29.2	34.1	34.9	36.7
RoACE (%)	31.3	38.6	39.4	41.4
RoAIC (%)	32.4	42.8	46.8	48.7
<b>(E) Valuation Ratios</b>				
CMP (Rs)	519	519	519	519
P/E	35.6	28.6	27.1	25.1
Mcap (Rs Mn)	227,805	227,805	227,805	227,805
MCap/ Sales	6.7	6.1	5.6	5.1
EV	225,560	225,167	225,803	226,209
EV/Sales	6.6	6.0	5.5	5.1
EV/EBITDA	26.1	22.3	20.5	18.7
P/BV	9.9	9.6	9.3	9.0
Dividend Yield (%)	1.5	3.2	3.4	3.7
<b>(F) Growth Rate (%)</b>				
Revenue	6.9	9.7	9.5	8.7
EBITDA	(9.4)	16.8	9.5	9.9
EBIT	(0.3)	28.3	13.0	10.4
PBT	(3.6)	29.7	10.3	8.3
APAT	(24.2)	24.4	5.5	8.3
EPS	(24.2)	24.4	5.5	8.3

E – Estimates

## Cash Flow

Particulars	FY23A	FY24E	FY25E	FY26E
<b>Profit before tax</b>	<b>6,770</b>	<b>8,781</b>	<b>9,689</b>	<b>10,492</b>
Depreciation & w.o.	2,473	2,177	2,104	2,264
Net Interest Exp	74	74	70	70
Direct taxes paid	(1,170)	(878)	(1,356)	(1,469)
Change in Working Capital	(112)	(193)	(192)	(172)
Non Cash	(37)	0	0	0
<b>(A) CF from Operating Activities</b>	<b>7,997</b>	<b>9,961</b>	<b>10,314</b>	<b>11,184</b>
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(301)	(3,213)	(3,200)	(3,200)
<b>Free Cash Flow</b>	<b>7,696</b>	<b>6,749</b>	<b>7,114</b>	<b>7,984</b>
(Inc.)/ Dec. in Investments	(917)	1,334	0	0
Other	0	0	0	0
<b>(B) CF from Investing Activities</b>	<b>(1,218)</b>	<b>(1,879)</b>	<b>(3,200)</b>	<b>(3,200)</b>
Issue of Equity/ Preference	0	(2)	0	0
Inc./(Dec.) in Debt	(2,487)	0	0	0
Interest exp net	(74)	(74)	(70)	(70)
Dividend Paid (Incl. Tax)	(3,529)	(7,280)	(7,680)	(8,321)
Other	0	0	0	0
<b>(C) CF from Financing</b>	<b>(6,090)</b>	<b>(7,356)</b>	<b>(7,750)</b>	<b>(8,390)</b>
Net Change in Cash	689	727	(636)	(406)
<b>Opening Cash balances</b>	<b>1,159</b>	<b>1,848</b>	<b>2,574</b>	<b>1,938</b>
<b>Closing Cash balances</b>	<b>1,848</b>	<b>2,574</b>	<b>1,938</b>	<b>1,532</b>

E – Estimates

## Notes

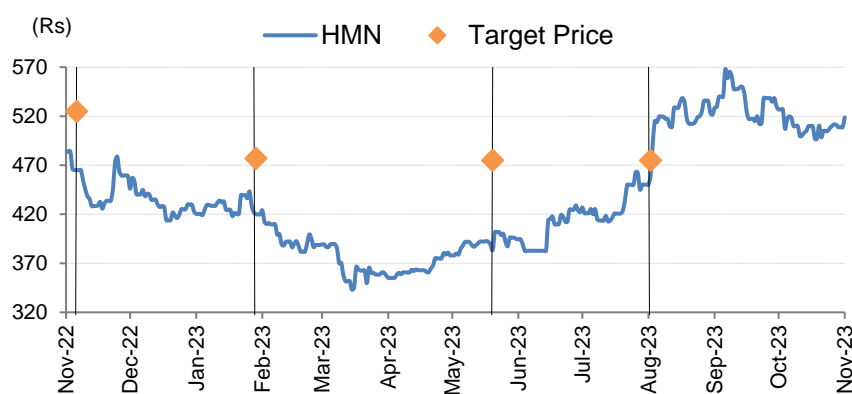


## DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

## Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-22	Accumulate	525	465
Feb-23	Accumulate	477	420
May-23	BUY	475	384
Aug-23	Reduce	475	460

\*Price as on recommendation date

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