

Estimate change	↔
TP change	↔
Rating change	↔



Bloomberg	HMN IN
Equity Shares (m)	454
M.Cap.(INRb)/(USDb)	203.4 / 2.5
52-Week Range (INR)	525 / 341
1, 6, 12 Rel. Per (%)	8/1/-12
12M Avg Val (INR M)	157

Financials & Valuations (INR b)

Y/E March	2023	2024E	2025E
Sales	34.1	37.7	41.5
Sales Gr. (%)	6.9	10.6	10.3
EBITDA	8.6	10.4	11.5
EBIT Margin (%)	25.3	27.6	27.8
Adj. PAT	7.8	9.2	10.2
Adj. EPS (INR)	17.6	21.1	23.3
EPS Gr. (%)	-8.2	19.6	10.5
BV/Sh.(INR)	52.2	56.2	64.5

Ratios

RoE (%)	35.5	38.7	38.6
RoCE (%)	37.4	43.7	43.3
Payout (%)	45.4	47.5	60.2

Valuation

P/E (x)	26.1	21.8	19.8
P/BV (x)	8.8	8.2	7.1
EV/EBITDA (x)	23.0	18.7	16.4
Div. Yield (%)	1.7	2.2	3.0

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	54.5	54.3	54.3
DII	26.2	26.9	26.5
FII	11.5	11.0	11.5
Others	7.8	7.8	7.8

FII Includes depository receipts

CMP: INR462 TP: INR560 (+21%) Buy

In-line performance; margin improving

- HMN reported in-line sales in 1QFY24 (up 6.8% YoY). Domestic business, excluding summer portfolio, grew 16% YoY in 1QFY24, contributing to overall 7% YoY growth. Pain Management, Healthcare, and BoroPlus led with strong double-digit growth, while Dermicool saw high single-digit growth. Seasonal factors affected Kesh King and Male grooming, and unexpected rains caused a 5% summer portfolio decline.
- The management has guided for 200-250bp expansion in EBITDA margin in FY24 and aggressive focus category advertising. It is anticipating double-digit growth in Male grooming from Q2FY24. International business is expected to continue its growth trajectory, anticipating improved results due to the benefit of softer raw material prices. The company is also forecasting a gross margin improvement in FY24.
- We reiterate our **BUY** rating, as 1) HMN with over 50% of sales from the rural segment could be a beneficiary of a gradual rural revival; 2) valuations are inexpensive at 24x FY25E EPS; 3) improving revenue performance and investments in terms of rural distribution expansion and ad-spends in recent times.

Sales in line; profitability below estimates

- **Consolidated net sales grew 6.8% YoY to INR8,257m (est. INR8,382m).** EBITDA/PBT grew 9.6%/7.4% YoY to INR1,900m (est. INR1,995m)/INR1,733m (est. INR1,833m). Adjusted PAT before amortization rises 17.0% YoY to INR1,599m (est. INR1,714m).
- Domestic business grew 7% YoY.
- Gross margin expanded 240bp YoY/230bp QoQ to 65.4%. (est. 64.7%). EBITDA margin too expanded by 60bp YoY, but contracted 90bp QoQ to 23.0% (est. 23.8%) due to other expenses (up 20bp), employee costs (up 80bp YoY), and ad-spends (up 80bp YoY).
- Absolute ad spends increased 11.4% YoY to INR1,519m.
- **International sales** grew 8% YoY with a constant currency growth of 11%, driven by SAARC, GCC & CIS.
- **Domestic segmental revenue performance YoY in 1QFY24:** Navratna (down 8%), Pain Management (up 13%), BoroPlus (up 19%), Kesh King (up 2%), Male Grooming (flat), Healthcare (up 11%).

Highlights from the management commentary

- In 1QFY24, the domestic volume grew 3%, but the summer portfolio's performance was affected by unexpected rains. On the other hand, Modern Trade and E-commerce achieved impressive growth of 45% and 47% respectively, mainly due to a lower base, with plans to stabilize at 15-20% growth.

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- Favorable raw material prices boosted GP margins, an anticipated EBITDA margin expansion of 200-250bp for FY24.
- International growth is driven by existing brands, with Navratna, Fair and Handsome, Creme 21, 7 Oils in One, Boroplus, and OTC products leading sales, while a 15% steady growth rate is targeted for the International Business.
- The company also aims to enhance allopathic doctor coverage gradually and increase store throughput through trade marketing efforts in its direct reach network.

Valuation and view

- There is no material change to FY24/FY25 EPS estimates.
- HMN's sales CAGR of 8.7% over FY20-23 was far better than the 3% sales CAGR over FY16-20. The potential for sustainable and robust double-digit sales growth, supported by potential rural advantages in FY24, combined with investments in new brands, could drive future growth.
- Valuations are inexpensive at 20x FY25 EPS and hence we reiterate our BUY rating with a TP of INR 560 (based on 24x FY25 P/E multiple).

Consol. Quarterly performance

Y/E MARCH	FY23				FY24				FY23	FY24E	FY24 1QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Domestic volume growth (%)	9.6	-1.0	-3.9	2.0	2.0	5.0	6.0	7.0	2.1	5.0	4.0	
Net Sales	7,733	8,138	9,827	8,360	8,257	8,870	10,898	9,634	34,057	37,659	8,382	-1.5
YoY change (%)	17.0	3.2	1.1	8.8	6.8	9.0	10.9	15.2	6.9	10.6	7.7	
Gross Profit	4,872	5,422	6,472	5,278	5,401	5,943	7,335	6,502	22,044	25,180	5,423	-0.4
Gross margin (%)	63.0	66.6	65.9	63.1	65.4	67.0	67.3	67.5	64.7	66.9	64.7	
EBITDA	1,733	1,954	2,943	1,998	1,900	2,351	3,291	2,869	8,628	10,411	1,995	-4.8
Margins (%)	22.4	24.0	29.9	23.9	23.0	26.5	30.2	29.8	25.3	27.6	23.8	
YoY change	2.1	-29.5	-13.8	21.9	9.6	20.3	11.9	43.6	-9.4	20.7	15.1	
Depreciation	242	245	238	250	228	285	288	389	974	1,190	266	
Interest	25	18	18	14	21	19	21	24	74	86	22	
Other Income	63	420	69	138	83	210	206	255	689	753	127	
PBT	1,530	2,111	2,756	1,872	1,733	2,256	3,188	2,711	8,269	9,888	1,833	-5.5
Tax	120	54	185	63	129	147	207	209	421	692	119	
Rate (%)	7.8	2.6	6.7	3.3	7.4	6.5	6.5	7.7	5.1	7.0	6.5	
PAT before Amortization	1,366	2,036	2,564	1,806	1,599	2,109	2,981	2,501	7,773	9,196	1,714	-6.7
YoY change (%)	-0.6	-17.1	-8.3	-4.6	17.0	3.6	16.2	38.5	-8.8	18.3	25.5	

Key Performance Indicators

Y/E March	FY23				FY24 1Q
	1Q	2Q	3Q	4Q	
2Y average growth %					
Volumes	23.8	2.6	-2.0	1.0	5.8
Sales	27.2	5.3	2.6	7.0	11.9
EBITDA	20.1	-10.8	-6.7	11.3	5.9
PAT	20.4	-1.0	-2.6	11.1	8.2
% sales					
COGS	37.0	33.4	34.1	36.9	34.6
A&P	17.6	17.4	15.6	15.5	16.4
Other expenditure	40.6	42.6	35.9	39.2	42.4
Employee cost	11.5	11.5	9.5	11.0	10.0
Depreciation	3.1	3.0	2.4	3.0	2.8
YoY change %					
COGS	27.4	10.2	5.8	7.1	-0.2
Other expenditure	17.7	30.7	12.6	3.6	11.5
Other income	-41.0	11.6	-58.7	-54.6	30.8
EBIT	1.9	-32.6	-14.8	24.1	12.1



Highlights from the management commentary

Performance and Outlook

- The domestic volume grew 3% YoY.
- The unexpected rains have adversely impacted the performance of the summer portfolio.
- In 1QFY24, Modern Trade (MT) achieved a remarkable 45% growth, while E-commerce saw a strong growth of 47%. This growth, attributed to the lower base, is expected to stabilize at 15-20% in the near term.
- Combined, MT and E-commerce accounted for 19.4% of total sales, with each holding a salience of 9.7%. The management plans to increase this contribution to 25-26% within the next two to three years.
- The rural market continues to pose challenges, and it is important to closely monitor inflation.
- NPDs made up 2.5% of sales in 1QFY24, with an anticipated increase to 3% in FY24.
- The summer portfolio has contributed 41% of the overall sales in 1QFY24. GT is flat due to higher contribution from summer portfolio.

Cost and Margins Analysis:

- Favorable trends in the prices of key raw materials have contributed to the expansion of GP margins.
- The "Depreciation and Amortization" category includes Kesh King in the base quarter, but not in 1QFY24.
- The Man Company has transitioned into a subsidiary in 2QFY24.
- The management indicates an expansion of EBITDA margin by 200-250bp for FY24.
- The margin gap between GT and MT is anticipated to narrow down over the course of the year.
- The recently acquired entity is expected to contribute around 4-5% to the overall revenue for FY24.

Segmental Performance:

- Despite the disruptive impact of unseasonal rains, Dermicool has shown improvement, primarily due to its extensive distribution network.
- If not for the impact of unseasonal rains, Dermicool would have achieved a growth rate of 18-20% YoY.
- Navaratna Cool Talc, in conjunction with Dermicool, reached sales of approximately INR 3b in 1QFY24, displaying a strong base.
- Cooling oil recorded a total sales figure of INR 50-60 million.
- Over the next two to three years, Kesh King is anticipated to achieve a growth rate of 7-8%. While oil sales are stable, shampoo sales are exhibiting strong growth.
- While Boroplus' contribution was relatively low in 1QFY24 sales, the major growth driver stemmed from the soap segment.
- The D2C channel experienced remarkable growth of 27% in 1QFY24 and is expected to contribute 4-5% to FY24 sales.

- Male grooming's growth has remained steady due to a high base effect, but the management expects double-digit growth starting from 2QFY24.
- Health care products currently contribute 10-12% to overall sales and are poised for double-digit growth.
- Both Helios and TMC companies have shown substantial growth in 1QFY24, with an impressive increase of nearly 27%. TMC has reached the breakeven point.

Other Points

- The growth in the the international market is being propelled by existing brands, with stability achieved through increased A&P expenditure.
- Among international brands, sales are led by Navratna, Fair and Handsome, Creme 21, 7 Oils in One, Boroplus, and OTC products.
- The International Business is expected to achieve a steady growth rate of 15% in the long term.
- Presently, 1/3 of doctors are allopathic practitioners. The management aims to enhance coverage both in terms of numbers and throughput. While there's no immediate plan to increase allopathic doctor numbers, this strategy will be pursued gradually.
- Direct reach encompasses ~1m outlets. The throughput per store is projected to increase through trade marketing efforts.
- The pledge percentage is expected to remain within ~18-20%; currently, the existing pledge stands at around 33%.

Key Exhibits

Exhibit 1: Domestic volumes grew 3% YoY in 1QFY24

■ Domestic volume growth (%)

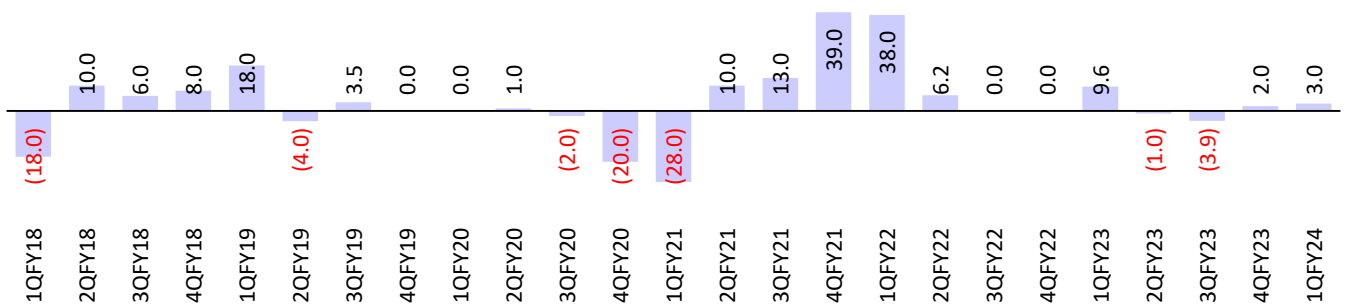
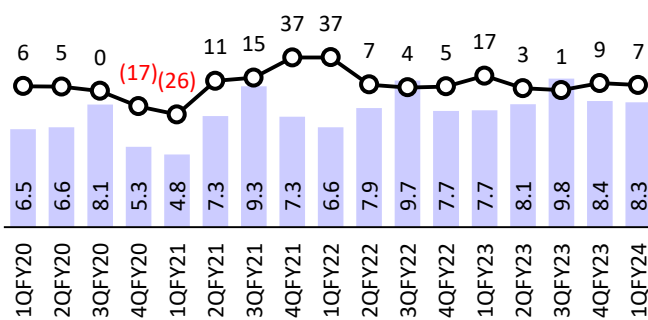


Exhibit 2: Consolidated net sales grew 6.8% YoY to INR8.3b

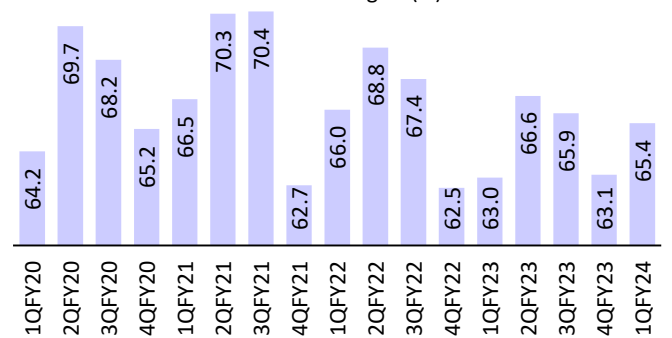
■ Sales (INR b) ● Sales growth (%)



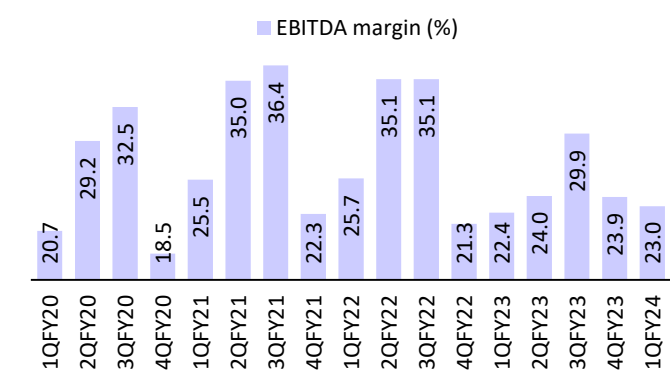
Source: Company, MOFSL

Exhibit 3: Gross margin expanded 240bp YoY to 65.4%

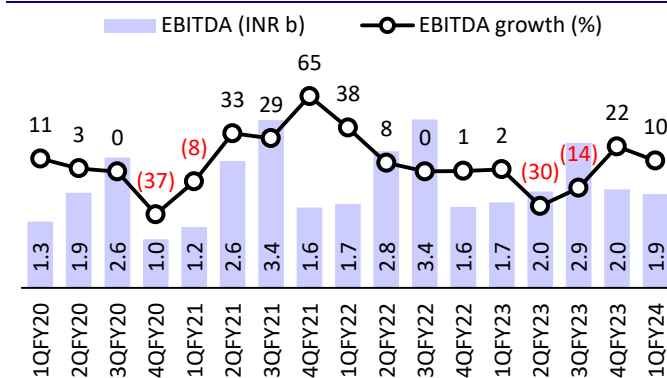
■ Gross margins (%)



Source: Company, MOFSL

Exhibit 4: EBITDA margin expanded 60bp YoY to 23.0%

Source: Company, MOFSL

Exhibit 5: EBITDA grew 10% YoY to INR1.9b in 1QFY24

Source: Company, MOFSL

Domestic business grew 7% YoY.

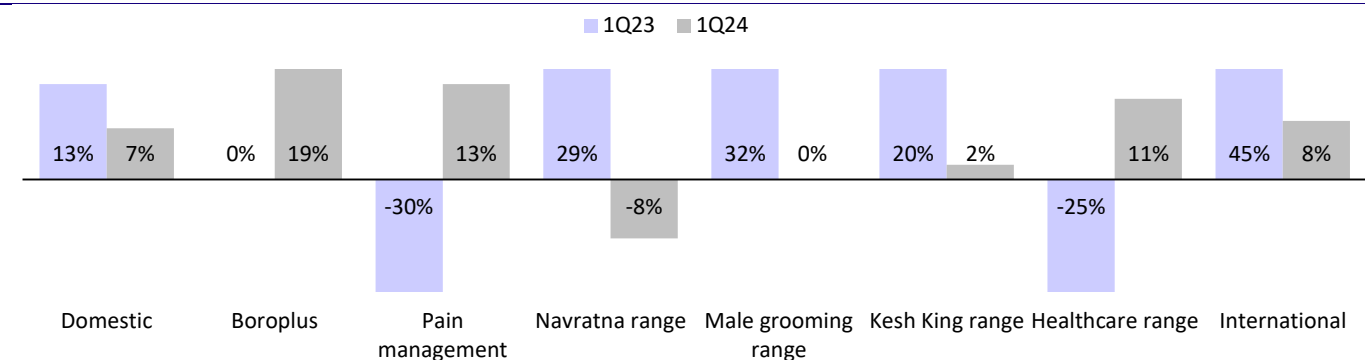
- Domestic segmental performance was as follows:

Exhibit 6: BoroPlus Soaps fueled strong growth in the Hygiene range in 1QFY24

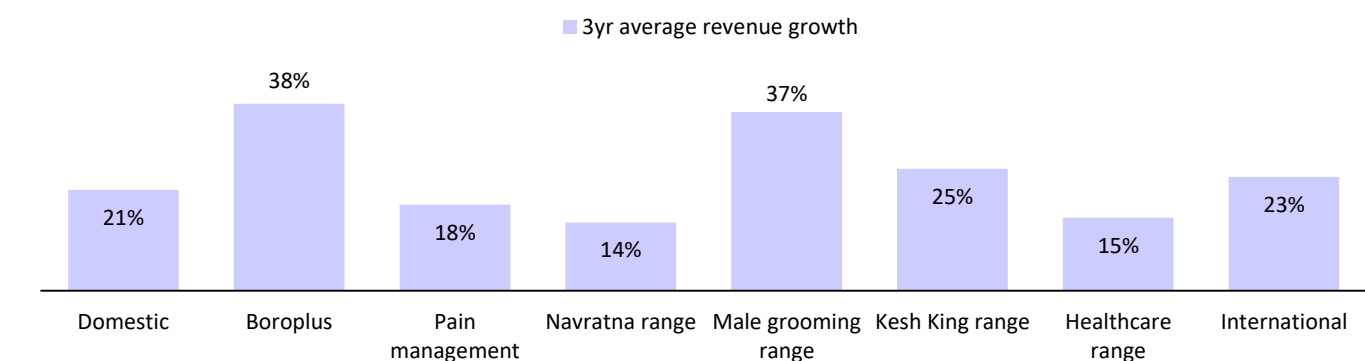
(% growth)	YoY
Healthcare	11%
Pain Management	13%
Navratna	(8)%
Kesh King	2%
Boro Plus	19%
Male Grooming	0%

Source: Company, MOFSL

- International sales grew 8% YoY with a constant currency growth of 11%.

Exhibit 7: In the domestic business, BoroPlus Soaps fueled strong growth in the Hygiene range in 1QFY24

Source: Company, MOFSL

Exhibit 8: On a three-year basis, the Boroplus and male grooming category registered strong performance

Source: Company, MOFSL

Valuation and view

What has happened over the last 10 years?

- The company delivered a CAGR of ~8.3%/16.1%/11.8% in sales/EBITDA/adj. PAT in the first half of the decade. However, over the past five years ended FY23, it reported a massive slowdown in key financial metrics, with a CAGR of ~6.1%/~3.7%/7.1% in sales/EBITDA/PAT. This was attributable to the absence of sales growth in most of its key categories.

Key challenges

- The lack of significant traction in products launched in recent years and failed acquisitions, such as 'She', have contributed to weak sales growth over the period. Kesh King's scale-up so far has certainly not lived up to our expectation. The overseas business has also underperformed.
- Compared to its peers, Emami has the largest exposure to rural markets and, even more crucially, to the wholesale trade. While the management has expanded its direct reach in recent years, dependence on wholesale and rural markets remains high, albeit still lower than in the past.

Our view on the stock

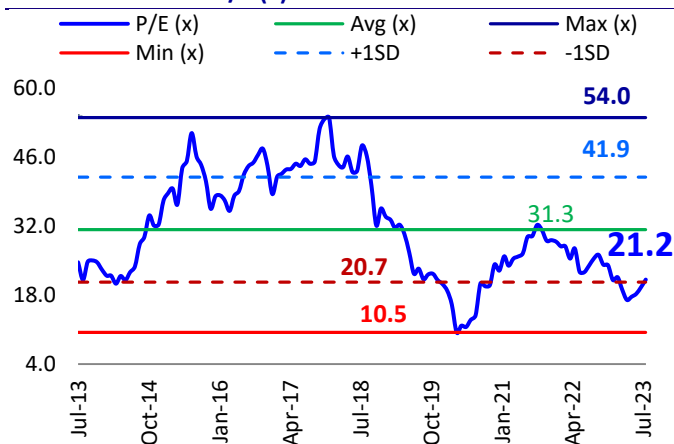
- There is no material change to FY24/FY25 EPS estimates.
- HMN's sales CAGR of 8.7% over FY20-23 was far better than the 3% sales CAGR over FY16-20. The potential for sustainable and robust double-digit sales growth, supported by potential rural advantages in FY24, combined with investments in new brands, could drive future growth.
- Valuations are inexpensive at 20x FY25 EPS and hence we reiterate our BUY rating with a TP of INR 560 (based on 24x FY25 P/E multiple).

Exhibit 9: : There are no material changes to our estimates

(INR m)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	37,659	41,543	37,600	41,569	0.2	-0.1
EBITDA	10,411	11,542	10,382	11,558	0.3	-0.1
PAT	9,196	10,160	9,168	10,251	0.3	-0.9

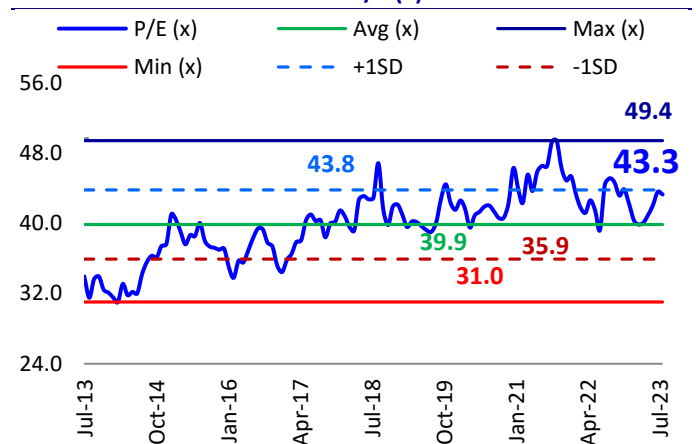
Source: Company, MOFSL

Exhibit 10: HMN's P/E (x)



Source: Company, MOFSL

Exhibit 11: Consumer sector's P/E (x)



Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)	
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
Net Sales	25,305	26,946	26,549	28,805	31,872	34,057	37,659	41,543
Change (%)	1.7	6.5	-1.5	8.5	10.6	6.9	10.6	10.3
COGS	8,098	9,230	8,761	9,292	10,731	12,014	12,479	13,523
Gross Profit	17,207	17,716	17,788	19,513	21,142	22,044	25,180	28,020
Gross Margin (%)	68.0	65.7	67.0	67.7	66.3	64.7	66.9	67.4
Operating expenses	10,013	10,444	10,882	10,682	11,618	13,416	14,769	16,478
EBITDA	7,194	7,272	6,906	8,830	9,524	8,628	10,411	11,542
Change (%)	-5.2	1.1	-5.0	27.9	7.9	-9.4	20.7	10.9
Margin (%)	28.4	27.0	26.0	30.7	29.9	25.3	27.6	27.8
Depreciation	673	768	774	991	942	974	1,190	1,296
Int. and Fin. Charges	343	214	210	133	51	74	86	94
Financial Other Income	195	349	571	703	953	689	753	831
Profit before Taxes	6,374	6,639	6,492	8,409	9,483	8,269	9,888	10,983
Change (%)	-7.0	4.2	-2.2	29.5	12.8	-12.8	19.6	11.1
Margin (%)	25.2	24.6	24.5	29.2	29.8	24.3	26.3	26.4
Tax	863	1,024	713	1,142	817	421	692	824
Deferred Tax	-5	37	-86	-5	40	9	0	0
Tax Rate (%)	13.5	16.0	9.7	13.5	9.0	5.2	7.0	7.5
Adjusted PAT	5,507	5,517	5,618	7,225	8,469	7,773	9,196	10,160
Change (%)	-8.5	0.2	1.8	28.6	17.2	-8.2	18.3	10.5
Margin (%)	21.8	20.5	21.2	25.1	26.6	22.8	24.4	24.5
Amortization	2,436	2,485	2,589	2,679	2,406	1,499	850	1,014
Reported PAT	3,071	3,032	3,029	4,547	6,063	6,274	8,346	9,145

Balance Sheet							(INR m)	
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
Share Capital	454	454	453	445	441	441	437	437
Reserves	19,682	20,307	17,784	17,182	20,325	22,587	24,087	27,721
Net Worth	20,136	20,761	18,238	17,626	20,766	23,028	24,523	28,158
Minority Interest	6	-2	-9	-9	-23	100	100	100
Loans	3,343	1,168	2,257	1,028	2,637	736	736	736
Deferred Liability	118	122	35	42	-2,763	-3,502	-3,502	-3,502
Capital Employed	23,602	22,048	20,520	18,687	20,617	20,361	21,857	25,491
Goodwill on consolidation	41	41	0	0	242	682	68	-547
Gross Block	26,825	28,738	29,933	29,729	34,817	34,369	34,995	35,995
Less: Accum. Depn.	8,767	11,967	15,329	18,941	22,158	23,132	24,321	25,617
Net Fixed Assets	18,058	16,771	14,604	10,788	12,659	11,238	10,674	10,378
Capital WIP	226	352	69	64	31	63	63	63
Investments	3,136	1,870	1,564	3,084	3,568	3,468	3,468	3,468
Curr. Assets, L&A	6,517	9,151	10,548	11,261	11,240	12,011	14,941	20,275
Inventory	1,940	2,217	2,446	3,004	3,576	3,280	4,124	3,842
Account Receivables	1,559	2,164	3,080	2,318	3,209	4,146	4,643	5,122
Cash and cash equivalents	795	2,034	1,191	3,604	1,160	1,848	3,351	8,376
Others	2,224	2,737	3,831	2,335	3,295	2,738	2,823	2,934
Curr. Liab. and Prov.	4,376	6,137	6,265	6,510	7,123	7,100	7,356	8,146
Account Payables	2,420	2,914	3,245	3,507	4,087	4,163	4,076	4,483
Other Liabilities	1,077	1,808	1,222	1,147	1,257	1,639	1,813	2,005
Provisions	879	1,416	1,798	1,856	1,778	1,298	1,467	1,658
Net Current Assets	2,141	3,014	4,284	4,751	4,117	4,911	7,585	12,129
Application of Funds	23,602	22,048	20,520	18,687	20,617	20,361	21,857	25,491

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
Basic (INR)								
EPS	12.1	12.2	12.4	16.3	19.2	17.6	21.1	23.3
Cash EPS	13.6	13.8	14.1	18.5	21.3	19.8	23.8	26.2
BV/Share	44.4	45.7	40.2	39.7	47.1	52.2	56.2	64.5
DPS	3.5	4.0	8.0	8.0	8.0	8.0	10.0	14.0
Payout %	28.8	32.9	64.6	49.2	42.0	45.4	47.5	60.2
Valuation (x)								
P/E	37.9	37.8	37.1	28.3	24.0	26.1	21.8	19.8
Cash P/E	33.8	33.2	32.6	24.9	21.6	23.2	19.3	17.5
EV/Sales	8.2	7.6	7.8	6.9	6.3	5.8	5.2	4.6
EV/EBITDA	28.9	28.3	30.1	22.5	21.1	23.0	18.7	16.4
P/BV	10.4	10.1	11.4	11.6	9.8	8.8	8.2	7.1
Dividend Yield (%)	0.8	0.9	1.7	1.7	1.7	1.7	2.2	3.0
Return Ratios (%)								
RoE	29.2	27.0	28.8	40.3	44.1	35.5	38.7	38.6
RoCE	28.2	28.5	28.8	40.0	43.7	37.4	43.7	43.3
RoIC	25.3	25.9	28.5	39.6	45.3	38.3	46.5	53.4
Working Capital Ratios								
Debtor (Days)	23	30	43	29	37	44	45	45
Asset Turnover (x)	1.1	1.2	1.2	1.5	1.6	1.7	1.8	1.8
Leverage Ratio								
Debt/Equity (x)	0.1	0.0	0.1	-0.1	0.1	0.0	-0.1	-0.3

Cash Flow Statement

(INR m)

Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
OP/(loss) before Tax	3,926	4,034	3,736	5,689	6,880	6,696	9,038	9,969
Depreciation	3,109	3,253	3,363	3,670	3,348	2,473	2,040	2,310
Other non operating income	-51	-125	-192	-329	-445	-370	-753	-831
Interest Paid	316	42	-73	-38	-227	-27	86	94
Direct Taxes Paid	-809	-927	-760	-865	-1,426	-1,170	-692	-824
(Incr)/Decr in WC	-612	-739	-800	1,088	-1,691	-112	-1,170	481
CF from Operations	5,878	5,537	5,274	9,215	6,439	7,489	8,548	11,200
(Incr)/Decr in FA	-1,232	-1,329	-1,481	-320	-4,802	-301	-626	-1,000
Free Cash Flow	4,646	4,208	3,793	8,895	1,636	7,188	7,922	10,200
(Pur)/Sale of Investments	-1,863	1,178	-568	-2,934	2,832	-890	0	0
Others	750	129	-15	3,334	-2,890	466	-1,387	1,607
CF from Invest.	-2,346	-22	-2,064	80	-4,861	-725	-2,013	607
Change in Equity	0	0	-125	-2,256	-2,001	-10	-5	0
(Incr)/Decr in Debt	4,847	803	1,004	-1,183	1,651	-1,901	0	0
Dividend Paid	-1,194	-1,589	-3,632	-3,556	-3,556	-3,529	-4,365	-6,111
Others	-6,891	-3,491	-1,301	114	-116	-636	-662	-671
CF from Fin. Activity	-3,237	-4,277	-4,054	-6,882	-4,021	-6,076	-5,032	-6,782
Incr/Decr of Cash	295	1,239	-844	2,413	-2,444	688	1,504	5,026
Add: Opening Balance	501	795	2,034	1,191	3,604	1,160	1,848	3,351
Closing Balance	795	2,034	1,191	3,604	1,160	1,848	3,351	8,377

E: MOFSL Estimates

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