

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	HMN IN
Equity Shares (m)	454
M.Cap.(INRb)/(USDb)	228.5 / 2.7
52-Week Range (INR)	583 / 341
1, 6, 12 Rel. Per (%)	0/30/0
12M Avg Val (INR M)	210

Financials & Valuations (INR b)

Y/E March	2023	2024E	2025E
Sales	34.1	36.6	40.0
Sales Gr. (%)	6.9	7.5	9.3
EBITDA	8.6	9.9	11.1
EBIT Margin (%)	25.3	27.2	27.8
Adj. PAT	7.8	8.9	10.0
Adj. EPS (INR)	17.6	20.4	22.8
EPS Gr. (%)	-8.2	15.7	11.9
BV/Sh.(INR)	52.2	55.5	63.4

Ratios

RoE (%)	35.5	37.6	38.4
RoCE (%)	37.4	42.9	43.4
Payout (%)	45.4	49.1	61.4

Valuation

P/E (x)	29.4	25.5	22.7
P/BV (x)	9.9	9.3	8.2
EV/EBITDA (x)	26.0	22.2	19.5
Div. Yield (%)	1.5	1.9	2.7

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	54.8	54.5	54.3
DII	25.2	26.2	27.0
FII	11.9	11.5	11.3
Others	8.0	7.8	7.5

FII Includes depository receipts

CMP: INR519 TP: INR640 (+23%) Buy

Volume muted; rural recovery essential

- HMN reported 6.3% sales growth in 2QFY24 (broadly in line with our estimates), attributed to factors like poor monsoons, food inflation, and subdued demand in rural markets. Domestic business growth at 4% YoY led by 2% volume growth, which was mainly driven by channels catering to urban markets such as Modern Trade (MT) and E-commerce.
- The Navratna and Dermi Cool reported robust double-digit growth, while single-digit fall seen in BoroPlus/Kesh King/ Male grooming due to low demand from price-sensitive consumers.
- The management has guided for a 200-250bp expansion in EBITDA margin and high- single digit sales growth in FY24.
- We retain our **BUY** rating on HMN, considering a gradual rural revival (over 50% of sales), inexpensive valuations at 28x FY25E EPS, improving revenue performance, rural distribution expansion, and increased ad spending.

Sales in line; profitability below estimates

- **Consolidated net sales grew 6.3% YoY to INR8,649m (est. INR8,845m).** EBITDA grew 19.6% YoY to INR2,337m (est. INR2,468m). PBT increased by 4.1% YoY to INR2,199m (est. INR2,408m). Adjusted PAT before amortization remained flat YoY at INR2,034m (est. INR2,206m).
- Domestic business grew ~2% YoY.
- Gross margin expanded by 350bp YoY/470bp QoQ to 70.1%. (est. 67.2%). EBITDA margin expanded by 300bp YoY/400 bp QoQ to 27.0% (est. 27.9%) due to other expenses (down -30bp), employee costs (up 30bp YoY) and ad-spends (up 50bp YoY).
- Absolute ad spending increased by 9.1% YoY to INR1,544m.
- **International sales** grew 12% YoY (16% growth in constant currency), driven by SAARC, GCC and CIS.
- **Revenue performance of domestic segments YoY in 2QFY24:** Navratna (+12%), Pain Management (+1), BoroPlus (-4%), Kesh King (-5%), Male Grooming (-7), Healthcare (+4%).
- The board has declared the interim dividend of INR 4.

Highlights from the management commentary

- The market is witnessing a slowdown. A rural recovery is expected to be driven by the winter season and elections. In 2QFY24, E-commerce surged 50% and MT grew 17-18%, with an 13% and 11% contribution, respectively, to total sales.
- Margin in MT and E-commerce was lower than that in General Trade (GT), presenting an opportunity for improvement.
- The company has launched ten digital first products on Zanducare portal during the quarter to leverage the opportunity in the healthcare portfolio
- The company acquires a 26% stake in Axiom Ayurveda to enter the juice category. It is seeing competition in the cool oil segment from Dabur.
- Promoters' stake declined to 15% following the majority stake disinvestment in AMRI hospital.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

- There is no material change to our 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. We believe future growth will be driven by investments in new brands, double digit growth CAGR in international market, rural distribution expansion and recovery in the rural market (over 50% sales). There is also margin improvement scope in the E-commerce and MT channel.
- Valuations are inexpensive at 19.5x FY25 EPS; hence we reiterate our BUY rating with a TP of INR640 (based on 28x FY25 P/E multiple).

Consol. Quarterly performance

(INR m)

Y/E MARCH	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Domestic volume growth (%)	9.6	-1.0	-3.9	2.0	3.0	2.0	5.0	4.0	2.1	3.5	5.0	
Net Sales	7,733	8,138	9,827	8,360	8,257	8,649	10,736	8,976	34,057	36,618	8,845	-2.2%
YoY change (%)	17.0	3.2	1.1	8.8	6.8	6.3	9.3	7.4	6.9	7.5	8.7	
Gross Profit	4,872	5,422	6,472	5,278	5,401	6,061	7,183	5,823	22,044	24,467	5,944	2.0%
Gross margin (%)	63.0	66.6	65.9	63.1	65.4	70.1	66.9	64.9	64.7	66.8	67.2	
EBITDA	1,733	1,954	2,943	1,998	1,900	2,337	3,189	2,519	8,628	9,944	2,468	-5.3%
Margins (%)	22.4	24.0	29.9	23.9	23.0	27.0	29.7	28.1	25.3	27.2	27.9	
YoY change	2.1	-29.5	-13.8	21.9	9.6	19.6	8.4	26.1	-9.4	15.3	26.3	
Depreciation	242	245	238	250	228	227	243	247	974	945	250	
Interest	25	18	18	14	21	23	20	22	74	86	20	
Other Income	63	420	69	138	83	111	175	180	689	549	210	
PBT	1,530	2,111	2,756	1,872	1,733	2,199	3,101	2,430	8,269	9,463	2,408	-8.7%
Tax	120	54	185	63	129	158	140	141	421	568	202	
Rate (%)	7.8	2.6	6.7	3.3	7.4	7.2	4.5	5.8	5.1	6.0	8.4	
PAT before Amortization	1,366	2,036	2,564	1,806	1,599	2,034	2,961	2,289	7,773	8,895	2,206	-7.8%
YoY change (%)	-0.6	-17.1	-8.3	-4.6	17.0	-0.1	15.5	26.7	-8.8	14.4	8.3	

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY23				FY24	
	1Q	2Q	3Q	4Q	1Q	2Q
2Y average growth %						
Volumes	23.8	2.6	-2.0	1.0	6.3	0.5
Sales	27.2	5.3	2.6	7.0	11.9	4.7
EBITDA	20.1	-10.8	-6.7	11.3	5.9	-5.0
PAT	20.4	-1.0	-2.6	11.1	8.2	-8.6
% sales						
COGS	37.0	33.4	34.1	36.9	34.6	29.9
A&P	17.6	17.4	15.6	15.5	16.4	16.5
Other expenditure	40.6	42.6	35.9	39.2	42.4	43.1
Employee cost	11.5	11.5	9.5	11.0	10.0	10.8
Depreciation	3.1	3.0	2.4	3.0	2.8	2.6
YoY change %						
COGS	27.4	10.2	5.8	7.1	-0.2	-4.7
Other expenditure	17.7	30.7	12.6	3.6	11.5	7.4
Other income	-41.0	11.6	-58.7	-54.6	30.8	-73.5
EBIT	1.9	-32.6	-14.8	24.1	12.1	23.5



Highlights from the management commentary

Performance and Outlook

- There is a slowdown in the market. A recovery in the rural market is expected to be driven by the winter season and elections.
- In 2QFY24, E-commerce achieved a remarkable 50% growth, while MT grew 17-18%. MT/E-commerce contributed 11%/13% to total sales.
- Margin in Modern Trade and E-commerce was lower than GT margin, which provides a scope for margin improvement in these channels.
- The management expects high-single digit sales growth in FY24.

Cost and Margins

- GP margin expanded on lower input costs and a price hike.
- EBITDA margin is likely to expand by 200bp-250bp in FY24.

Segmental Information

- The company has forayed into the juice category by acquiring a 26% stake in Axiom Ayurveda.
- BoroPlus, Kesh King and the male grooming portfolio reported declines due to lower demand from price-sensitive customers.
- In the Zandu D2C care portfolio, ten new products were launched, which should help in leverage the opportunity in the healthcare portfolio.
- Kesh King saw muted sales growth but may bounce back in 3Q. Growth will be driven by consumer promotion spending.
- Competition from Dabur is seeing in cool oil.
- The Man Company and BRILLARE grew 63% YoY in 2QFY24, led by new product launches and premiumization; expanded to MT and GT in addition to E-commerce. The total contribution of both brands to total sales is 5%.
- The Man Company is now at a breakeven, but BRILLARE is seeing margin erosion.
- The OTC and medical business was stagnant in 2Q. The management expects high-single digit growth in 3Q.

Other Points

- The company has a good cash balance even after the buyback of INR2300m.
- The promoters' stake declined to 15% after the disinvestment of a majority stake in AMRI hospital.
- The international market delivered a good performance driven by the SAARC and MENAP despite the currency fluctuation in certain markets and import restrictions.
- 'Project Khoj' is completed and has reached to 60,000 villages. It reaches to the 1,25,000 chemist through new initiatives.

Key Exhibits

Exhibit 1: Domestic volumes grew 2% YoY in 2QFY24

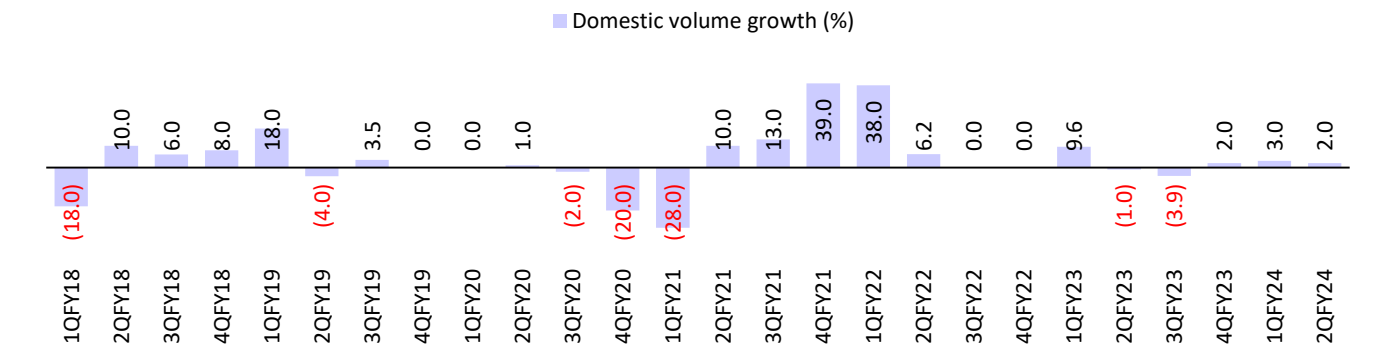
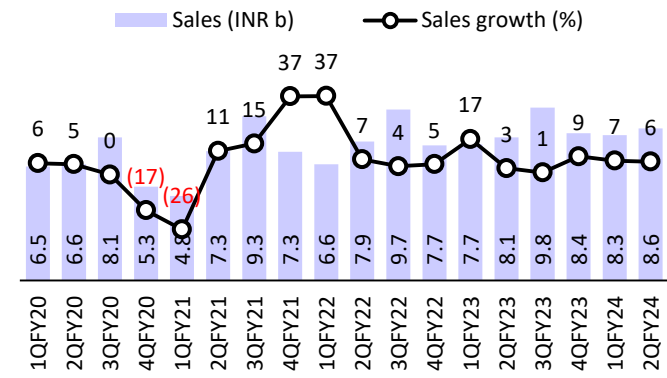
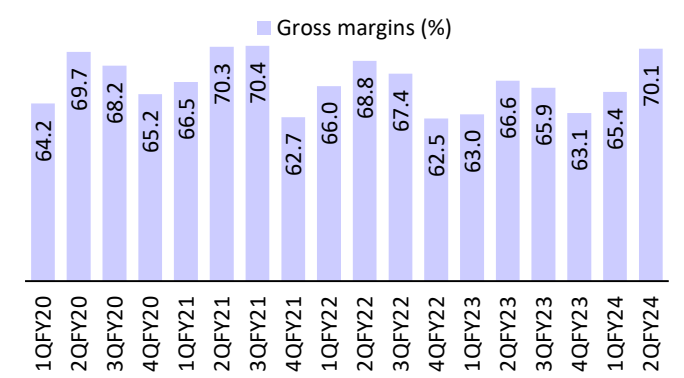


Exhibit 2: Consolidated net sales grew 6.3% YoY to INR8.6b



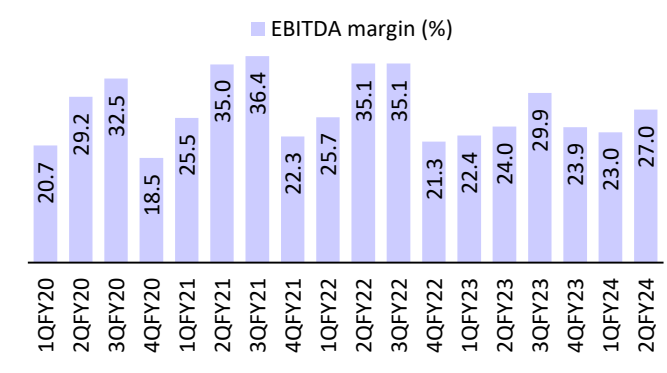
Source: Company, MOFSL

Exhibit 3: Gross margin expanded 345bp YoY to 70.1%



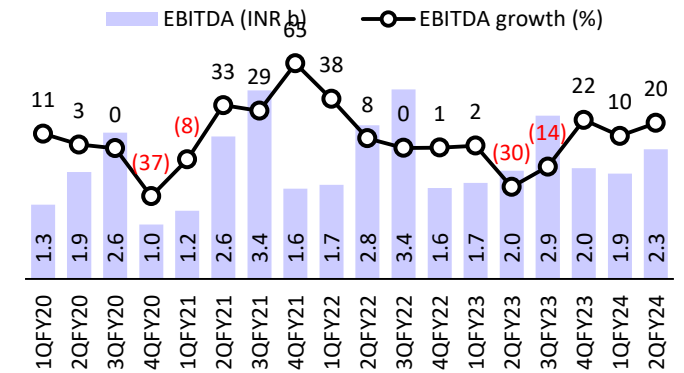
Source: Company, MOFSL

Exhibit 4: EBITDA margin expanded 300bp YoY to 27.0%



Source: Company, MOFSL

Exhibit 5: EBITDA grew 19.6% YoY to INR2.3b in 2QFY24



Source: Company, MOFSL

- The domestic business reported 4% YoY growth. Segment-wise performance as follows:

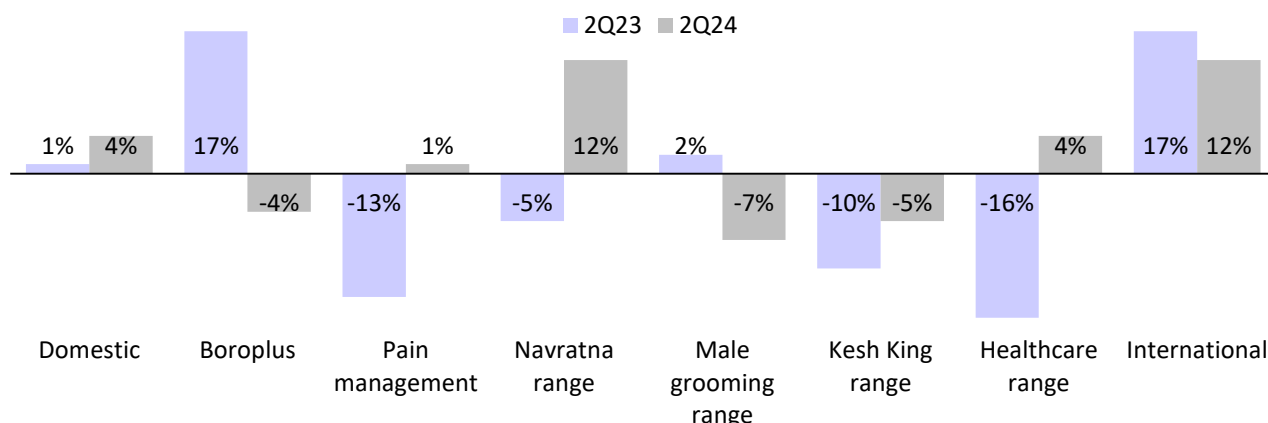
Exhibit 6: Navratna and Dermi cool range fueled strong growth in 2QFY24

(% growth)	2QFY4 (YoY)	1HFY4 (YoY)
Healthcare	4%	7%
Pain Management	1%	6%
Navratna	12%	0%
Kesh King	-5%	-2%
Boro Plus	-4%	0%
Male Grooming	-7%	-3%

Source: Company, MOFSL

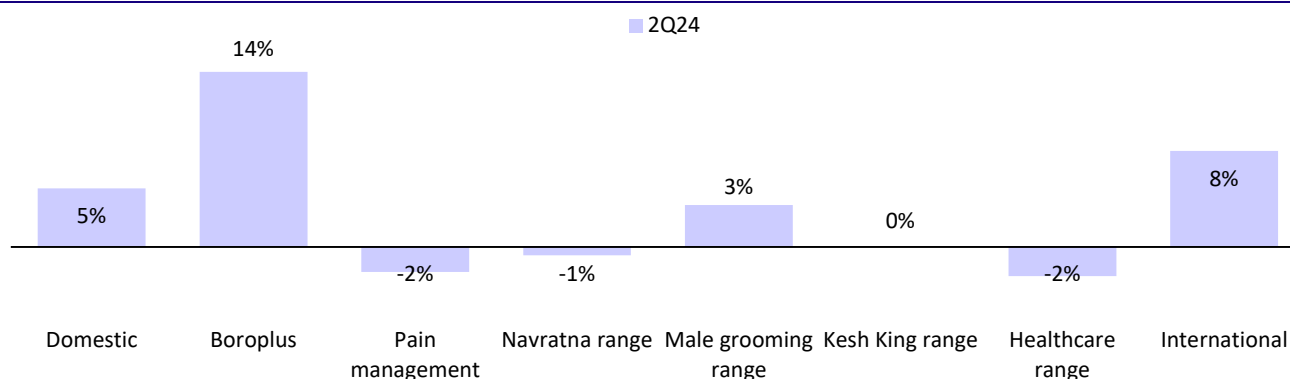
- International sales grew 12% YoY with a constant currency growth of 16%.

Exhibit 7: In the domestic business, growth was driven by Navratna and Dermi Cool brands



Source: Company, MOFSL

Exhibit 8: On a three-year basis, Boroplus 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, its 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 our 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. We believe future growth will be driven by investments in new

brands, double digit growth CAGR in international market, rural distribution expansion and recovery in the rural market (over 50% sales). There is also margin improvement scope in the E-commerce and MT channel.

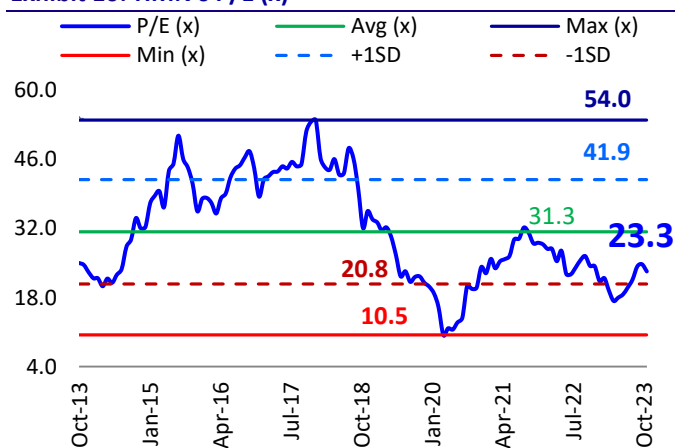
- Valuations are inexpensive at 19.5x FY25 EPS; hence we reiterate our BUY rating with a TP of INR640 (based on 28x FY25 P/E multiple).

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

(INR m)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	36,618	40,006	37,068	40,681	-1.2	-1.7
EBITDA	9,944	11,107	10,209	11,369	-2.6	-2.3
PAT	8,895	9,958	9,005	9,929	-1.2	0.3

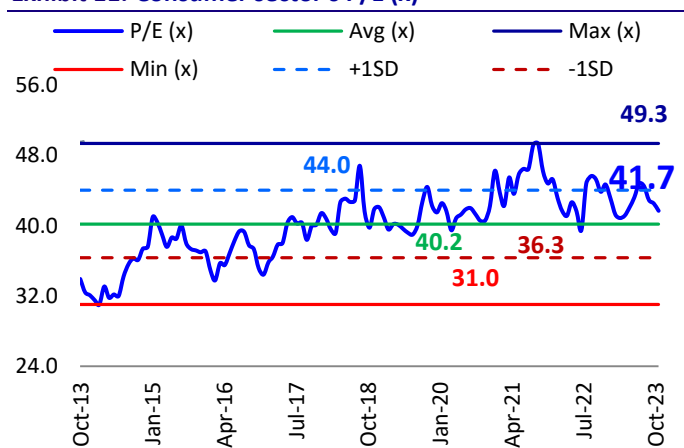
Source: Company, MOFSL

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



Source: Company, MOFSL

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



Source: Company, MOFSL

Financials and valuations

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	36,618	40,006
Change (%)	1.7	6.5	-1.5	8.5	10.6	6.9	7.5	9.3
COGS	8,098	9,230	8,761	9,292	10,731	12,014	12,151	13,039
Gross Profit	17,207	17,716	17,788	19,513	21,142	22,044	24,467	26,967
Gross Margin (%)	68.0	65.7	67.0	67.7	66.3	64.7	66.8	67.4
Operating expenses	10,013	10,444	10,882	10,682	11,618	13,416	14,523	15,860
EBITDA	7,194	7,272	6,906	8,830	9,524	8,628	9,944	11,107
Change (%)	-5.2	1.1	-5.0	27.9	7.9	-9.4	15.3	11.7
Margin (%)	28.4	27.0	26.0	30.7	29.9	25.3	27.2	27.8
Depreciation	673	768	774	991	942	974	945	1,008
Int. and Fin. Charges	343	214	210	133	51	74	86	94
Financial Other Income	195	349	571	703	953	689	549	760
Profit before Taxes	6,374	6,639	6,492	8,409	9,483	8,269	9,463	10,765
Change (%)	-7.0	4.2	-2.2	29.5	12.8	-12.8	14.4	13.8
Margin (%)	25.2	24.6	24.5	29.2	29.8	24.3	25.8	26.9
Tax	863	1,024	713	1,142	817	421	568	807
Deferred Tax	-5	37	-86	-5	40	9	0	0
Tax Rate (%)	13.5	16.0	9.7	13.5	9.0	5.2	6.0	7.5
Adjusted PAT	5,507	5,517	5,618	7,225	8,469	7,773	8,895	9,958
Change (%)	-8.5	0.2	1.8	28.6	17.2	-8.2	14.4	11.9
Margin (%)	21.8	20.5	21.2	25.1	26.6	22.8	24.3	24.9
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	8,045	8,943

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	23,787	27,220
Net Worth	20,136	20,761	18,238	17,626	20,766	23,028	24,223	27,656
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	21,557	24,990
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	24,077	25,084
Net Fixed Assets	18,058	16,771	14,604	10,788	12,659	11,238	10,919	10,911
Capital WIP	226	352	69	64	31	63	63	63
Investments	3,136	1,870	1,564	3,084	3,565	3,468	3,467	3,467
Current	1,281	79	683	889	395	1,134	1,134	1,134
Non-current	1,855	1,791	881	2,195	3,170	2,334	2,333	2,333
Curr. Assets, L&A	6,517	9,151	10,548	11,261	11,240	12,011	14,346	19,169
Inventory	1,940	2,217	2,446	3,004	3,576	3,280	4,008	3,705
Account Receivables	1,559	2,164	3,080	2,318	3,209	4,146	4,515	4,932
Cash and cash equivalents	795	2,034	1,191	3,604	1,160	1,847	3,035	7,651
Others	2,224	2,737	3,831	2,335	3,295	2,738	2,789	2,881
Curr. Liab. and Prov.	4,376	6,137	6,265	6,510	7,119	7,100	7,230	7,979
Account Payables	2,420	2,914	3,245	3,507	4,087	4,163	3,951	4,317
Other Liabilities	1,077	1,808	1,222	1,147	1,316	1,470	1,621	1,789
Provisions	879	1,416	1,798	1,856	1,717	1,467	1,658	1,873
Net Current Assets	2,141	3,014	4,284	4,751	4,120	4,911	7,116	11,190
Application of Funds	23,602	22,048	20,520	18,687	20,617	20,361	21,632	25,084

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	20.4	22.8
Cash EPS	13.6	13.8	14.1	18.5	21.3	19.8	22.5	25.1
BV/Share	44.4	45.7	40.2	39.7	47.1	52.2	55.5	63.4
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	49.1	61.4
Valuation (x)								
P/E	42.8	42.7	41.8	31.9	27.0	29.4	25.5	22.7
Cash P/E	38.1	37.5	36.8	28.1	24.3	26.2	23.0	20.7
EV/Sales	9.3	8.6	8.8	7.8	7.1	6.6	6.0	5.4
EV/EBITDA	32.7	32.0	34.0	25.5	23.8	26.0	22.2	19.5
P/BV	11.7	11.3	12.9	13.1	11.0	9.9	9.3	8.2
Dividend Yield (%)	0.7	0.8	1.5	1.5	1.5	1.5	1.9	2.7
Return Ratios (%)								
RoE	29.2	27.0	28.8	40.3	44.1	35.5	37.6	38.4
RoCE	28.2	28.5	28.8	40.0	43.7	37.4	42.9	43.4
RoIC	25.3	25.9	28.5	39.6	45.3	38.3	45.8	52.3
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	1.7	1.7
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	8,613	9,751
Depreciation	3,109	3,253	3,363	3,670	3,348	2,473	1,795	2,022
Other non operating income	-51	-125	-192	-329	-445	-370	-549	-760
Interest Paid	316	42	-73	-38	-227	-27	86	94
Direct Taxes Paid	-809	-927	-760	-865	-1,426	-1,170	-568	-807
(Incr)/Decr in WC	-612	-739	-800	1,088	-1,691	-112	-1,017	542
CF from Operations	5,878	5,537	5,274	9,215	6,439	7,489	8,359	10,842
(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	7,733	9,842
(Pur)/Sale of Investments	-1,863	1,178	-568	-2,934	2,832	-890	1	0
Others	750	129	-15	3,334	-2,890	466	-1,590	1,537
CF from Invest.	-2,346	-22	-2,064	80	-4,861	-725	-2,216	537
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	1,112	4,598
Add: Opening Balance	501	795	2,034	1,191	3,604	1,160	1,848	2,959
Closing Balance	795	2,034	1,191	3,604	1,160	1,848	2,959	7,557

E: MOFSL Estimates

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SELL	< - 10%
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UNDER REVIEW	Rating may undergo a change
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