

## Growth print to improve; comfort on valuation

We met with the top management of Emami, represented by Mr. Mohan Goenka – Vice Chairman & whole time director, to discuss the current demand trends, recovery in rural region, the company's growth outlook for business verticals, profitability goals, and other focus areas. Here are the key takeaways from the discussion:

Emami's management aims to create a consistent business model by expanding its reach in rural markets, improving distribution network and increasing its presence in modern trade and e-commerce. The company plans to strengthen its core portfolio by expanding its distribution model (alternate channel sales contribution reached to 25% vs. ~5% FY19) and focusing on brand investment and brand extensions. Besides, Emami is also looking to neutralize seasonal fluctuations by expanding its non-seasonal portfolio through acquisitions and brand extensions. We believe that the company's seasonal portfolio is expected to perform well, which, along with steady macro recovery, should improve its volume delivery in FY25. The company is looking to drive revenue growth mainly by volume, with a limited price hike (~2%) over the next two years. Rural growth is trending at healthy pace; the management is positive on the govt's initiatives to drive rural income and expects positive steps in the upcoming budget. Domestic business can deliver a revenue CAGR in high single digits during FY24-26E. International business is also expected to deliver healthy double-digit growth and its revenue contribution is expected to increase to over 20% from 17-18% over the next two to three years.

With a softening in RM prices, gross margin is expected to expand in FY25. The company plans to pass on some benefits by stepping up investments in branding. EBIDTA margin is expected to be in the range of 27-29% (barring any significant volatility in input prices) over the next two years. Promoters' pledge has reduced to 9-10% now from ~32-33% earlier and is expected to fall further to low single digits going forward. With growth dynamics improving along with consistent reduction in promoters' pledge, we expect a case of re-rating in Emami. We retain our BUY rating on the stock with a revised price target of **INR850, based on 35x Jun'26E EPS (earlier 28x P/E)**.

### Seasonal tailwinds along with gradual recovery in rural demand

The management highlighted that its summer portfolio (Navratna and Dermicool range) has benefitted from a severe summer season, clocking strong growth. Kesh King is witnessing demand issues due to increased competition from D2C brands. Balm portfolio is seeing subdued demand, but it should recover in the coming quarters. Emami expects that its healthcare portfolio will rebound as the penetration of nature-based supplements, OTC and Ayurveda products in India is lower, and with innovations in the category, the growth momentum can sustain. The company plans to actively expand its portfolio through strategic acquisitions, particularly focusing on D2C brands and innovative products. There is a strong innovation pipeline with several new launches expected in the coming quarters, which should drive aggressive growth. In FY24, Emami launched more than 35 products and variants in the domestic market. Its Healthcare, Boroplus and International businesses are also performing well. Its winter portfolio, which saw muted growth in FY24, is expected to improve growth delivery in FY25.

### Double-digit revenue growth in International business

International business continues to do well. In FY24, it delivered revenue growth of 12% in constant currency and 9% in INR, driven by the MENA region. Emami expects double-digit growth in the international markets, aided by strategic initiatives taken by the company. Emami continues to invest in brand building and marketing initiatives to enhance brand visibility and consumer engagement. It is also doing local innovation, manufacturing and

#### Emami



#### Mohan Goenka, Vice Chairman & Whole-time Director

Mr. Goenka is a promoter of Emami and has been serving the company for over two decades, spearheading multiple functions including overseeing marketing strategies, product development, brand management and growing the business successfully. He is honorary Consul of Poland in Kolkata and is the former Chairman of ASSOCHAM National Council for FMCG. He holds a degree in Commerce and has received advanced business training from reputed institutions

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procurement of raw material in many countries, along with strategic partnerships and collaborations to strengthen distribution networks and market presence. The contribution of its international business currently stands at ~17% and is expected to cross 20% in the next two to three years. International business margins are comparatively lower than India business margins due to its presence in multiple geographies, which require higher marketing investment.

### Margins expected to improve

Emami has seen margin expansion for the past 12-13 years, driven by successful acquisitions, cost efficiency, prudent pricing actions, and a better mix. The company has not seen inflation in input prices (in fact, metha prices came down sharply). Incremental savings in gross margins will be invested in advertising. As a result, EBITDA margins will improve gradually in FY25 (~100-150bp gain) and would remain stable at ~27-29% over the next two years.

### Focusing on distribution expansion

Emami has taken initiatives to improve its overall distribution network and has invested aggressively in chemists, Project Khoj and rural expansion. The company has improved its reach from 32,000 villages in FY21 to over 52,000 villages in FY24, with ~75k outlet addition through Project Khoj. It reaches ~1m direct outlets across rural and urban networks. Modern trade and e-commerce channels also have been showing steady growth. Currently, these channels contribute ~25% to revenue, up from ~5% before Covid. These channels should continue to grow in the coming years as online purchasing by consumers has surged, which is driving investment not only in D2C brands but also in existing brands like Navratna, Healthcare, Zandu care, etc. The company in 4QFY24 opened three EBOs for Zandu healthcare to assess the feasibility of leveraging malls and other physical spaces alongside online channels.

### Improving profitability of D2C portfolio

Emami's D2C portfolio, particularly with brands like The Man Company and Brillare, is poised for continued growth, with strategic initiatives focusing on both online and potential offline expansion, profitability improvement, and leveraging digital channels for product launches. In the last three years, it has launched several digital-first products, focusing on customized or specific health benefits that are well suited for the D2C market. The Man Company and Brillare together contributed INR2b to revenue in FY24 with 59% YoY growth. Their revenue jumped 5x in FY24 from FY20. With The Man Company being EBITDA positive in FY24, the focus will likely be on sustaining this profitability while reducing losses in Brillare and other D2C ventures. This will ensure that D2C channels not only grow in terms of revenue but also contribute to overall profitability.

### Other takeaways:

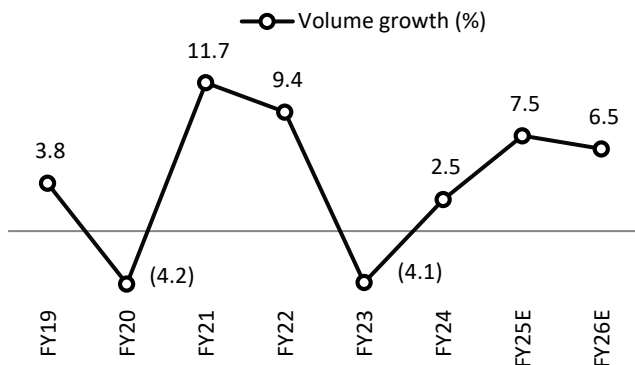
- Current pledge on Emami book stands at ~9-10% and will decline going forward.
- The effective tax rate will be 10-12% for FY25 and FY26.
- The company anticipates a moderate price increase of 2-2.5% in FY25.

### Valuation and view

- Emami's core categories are niche and they have been witnessing slow user addition over the last five years. Although it commands a high market share in core categories, the share gain is no longer a catalyst for volume growth.
- The management has initiated several steps (e.g., team additions, new launches, hiring consultants, marketing spending, etc.) over the last three to four years to revive volume growth; however, the desired result has not been achieved yet. However, we expect volume growth acceleration in FY25, driven by rural growth improvement and seasonal tailwinds.
- Emami is currently trading at 34x /31x FY25E/ FY26E EPS. With likely reduction in the promoters' pledge and consistent earnings growth going forward, we expect a re-rating in valuation. We retain our BUY rating on the stock with a **revised price target of INR850, based on 35x Jun'26E EPS (earlier 28x P/E multiple).**

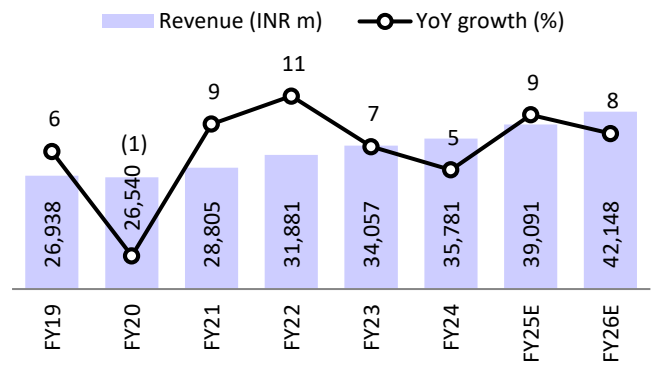
## STORY IN CHARTS

**Exhibit 1: Domestic volume to improve gradually**



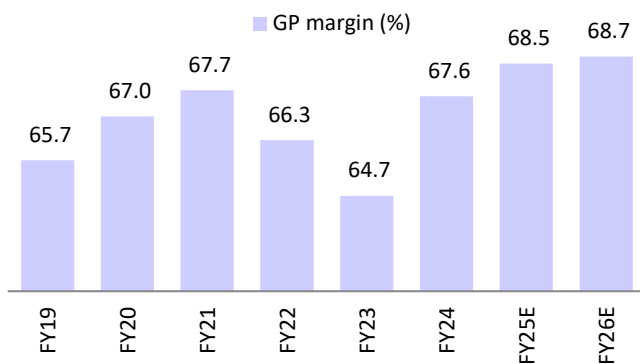
Source: MOFSL, Company

**Exhibit 2: Revenue growth expected in high single digits**



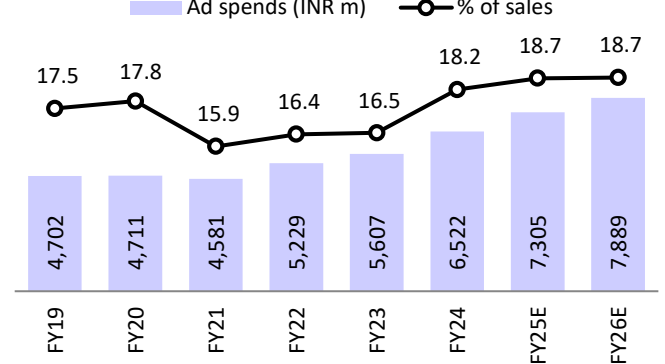
Source: MOFSL, Company

**Exhibit 3: GP margin to expand marginally in FY25**



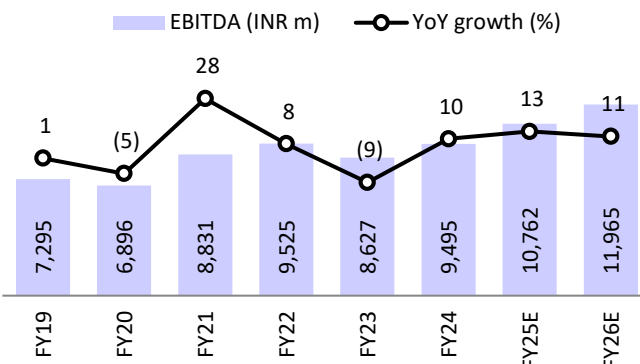
Source: MOFSL, Company

**Exhibit 4: Ad spending increased to 18-19% of sales**



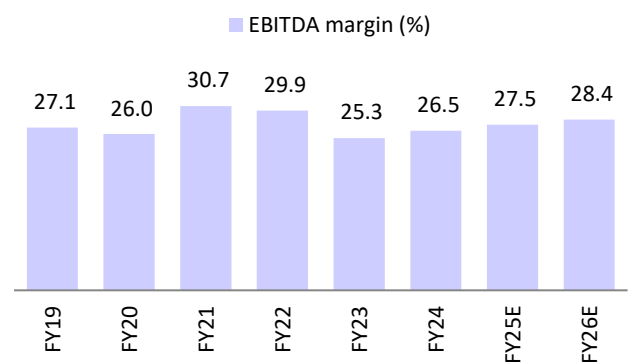
Source: MOFSL, Company

**Exhibit 5: Expect EBITDA CAGR of 12% over FY24-26E...**



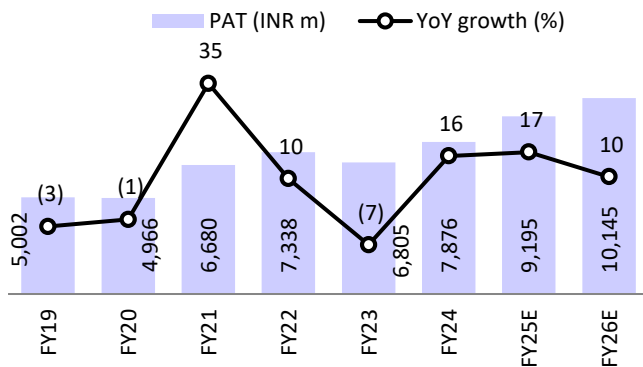
Source: MOFSL, Company

**Exhibit 6: ..with marginal improvement in EBITDA margin**



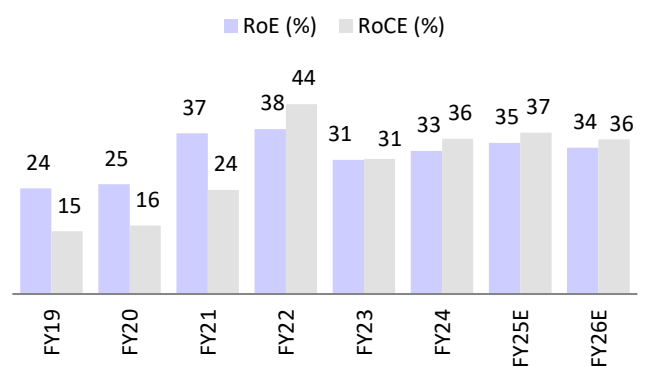
Source: MOFSL, Company

Exhibit 7: Expect PAT CAGR of 14% over FY24-26E



Source: MOFSL, Company

Exhibit 8: Return ratios

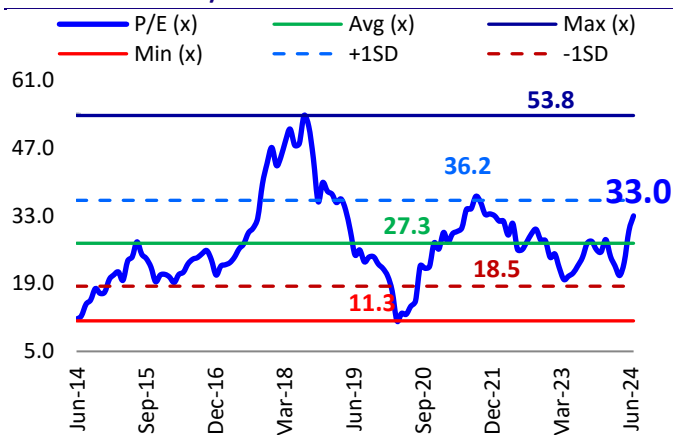


Source: MOFSL, Company

Exhibit 9: Cash conversion days

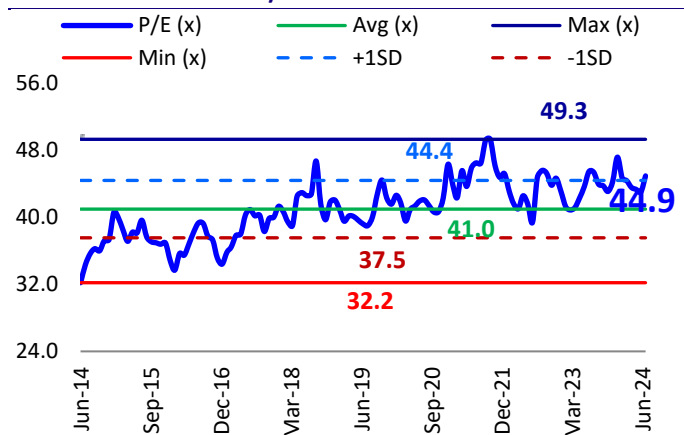
Cash conversion cycle (INR m)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Inventory	2,217	2,446	3,005	3,576	3,280	3,234	3,765	4,060
Account Receivables	2,164	3,080	2,318	3,209	4,146	4,942	4,652	4,958
Account Payables	2,914	3,245	3,507	4,087	4,072	4,546	4,823	5,167
<b>Days (on average basis)</b>								
Inventory days	28	32	35	38	37	33	33	34
Debtor days	25	36	34	32	39	46	45	42
Creditor days	36	42	43	43	44	44	44	43
<b>Cash conversion cycle (Days)</b>	<b>17</b>	<b>26</b>	<b>26</b>	<b>26</b>	<b>32</b>	<b>36</b>	<b>34</b>	<b>32</b>
<b>Days (on closing basis)</b>								
Inventory days	30	34	38	41	35	33	35	35
Debtor days	29	42	29	37	44	50	43	43
Creditor days	39	45	44	47	44	46	45	45
<b>Cash conversion cycle (Days)</b>	<b>20</b>	<b>31</b>	<b>23</b>	<b>31</b>	<b>36</b>	<b>37</b>	<b>34</b>	<b>33</b>

Exhibit 10: HMN P/E ratio



Source: MOFSL, Company

Exhibit 11: Consumer P/E ratio



Source: MOFSL, Company

## Financials and valuations

Income Statement								(INR m)	
Y/E March	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
<b>Net Sales</b>	<b>26,938</b>	<b>26,540</b>	<b>28,805</b>	<b>31,881</b>	<b>34,057</b>	<b>35,781</b>	<b>39,091</b>	<b>42,148</b>	<b>45,393</b>
Change (%)	6.5	-1.5	8.5	10.7	6.8	5.1	9.3	7.8	7.7
COGS	9,230	8,761	9,292	10,739	12,014	11,605	12,314	13,192	14,117
<b>Gross Profit</b>	<b>17,708</b>	<b>17,779</b>	<b>19,513</b>	<b>21,142</b>	<b>22,044</b>	<b>24,176</b>	<b>26,777</b>	<b>28,955</b>	<b>31,275</b>
Gross Margin (%)	65.7	67.0	67.7	66.3	64.7	67.6	68.5	68.7	68.9
<b>EBITDA</b>	<b>7,295</b>	<b>6,896</b>	<b>8,831</b>	<b>9,525</b>	<b>8,627</b>	<b>9,495</b>	<b>10,762</b>	<b>11,965</b>	<b>13,179</b>
Change (%)	1.4	-5.5	28.1	7.9	-9.4	10.1	13.3	11.2	10.1
Margin (%)	27.1	26.0	30.7	29.9	25.3	26.5	27.5	28.4	29.0
Depreciation	3,253	3,363	3,669	3,348	2,473	1,859	1,939	2,019	2,100
Int. and Fin. Charges	214	210	133	51	74	100	100	90	80
Financial Other Income	324	579	703	953	689	468	603	778	865
<b>Profit before Taxes</b>	<b>4,152</b>	<b>3,903</b>	<b>5,731</b>	<b>7,079</b>	<b>6,770</b>	<b>8,005</b>	<b>9,326</b>	<b>10,634</b>	<b>11,864</b>
Change (%)	5.4	-6.0	46.9	23.5	-4.4	18.2	16.5	14.0	11.6
Margin (%)	15.4	14.7	19.9	22.2	19.9	22.4	23.9	25.2	26.1
Tax	1,009	713	1,142	-1,487	421	667	933	1,276	1,661
Tax Rate (%)	24.3	18.3	19.9	-21.0	6.2	8.3	10.0	12.0	14.0
<b>Adjusted PAT</b>	<b>5,002</b>	<b>4,966</b>	<b>6,680</b>	<b>7,338</b>	<b>6,805</b>	<b>7,876</b>	<b>9,195</b>	<b>10,145</b>	<b>10,978</b>
Change (%)	-2.5	-0.7	34.5	9.8	-7.3	15.7	16.7	10.3	8.2
Margin (%)	18.6	18.7	23.2	23.0	20.0	22.0	23.5	24.1	24.2
Non-rec. (Exp)/Income	-1,978	-1,944	-2,133	1,030	-531	-635	-839	-820	-801
<b>Reported PAT</b>	<b>3,023</b>	<b>3,023</b>	<b>4,547</b>	<b>8,368</b>	<b>6,274</b>	<b>7,241</b>	<b>8,356</b>	<b>9,325</b>	<b>10,177</b>

Balance Sheet								(INR m)	
Y/E March	2019	2020	2021	2022	2023	2023	2025E	2026E	2027E
Share Capital	454	453	445	441	441	437	437	437	437
Reserves	20,307	17,784	17,182	20,325	22,587	24,029	27,584	31,453	35,519
<b>Net Worth</b>	<b>20,761</b>	<b>18,238</b>	<b>17,626</b>	<b>20,766</b>	<b>23,028</b>	<b>24,466</b>	<b>28,021</b>	<b>31,890</b>	<b>35,956</b>
Minority Interest	-2	-9	-9	-23	100	111	74	42	16
Loans	1,099	2,102	919	2,637	736	657	607	557	507
Deferred Liability	122	35	42	-2,763	-3,502	-4,271	-4,271	-4,271	-4,271
<b>Capital Employed</b>	<b>21,979</b>	<b>20,366</b>	<b>18,578</b>	<b>20,617</b>	<b>20,361</b>	<b>20,964</b>	<b>24,431</b>	<b>28,218</b>	<b>32,208</b>
Goodwill on consolidation	41	0	0	242	682	682	0	0	0
Gross Block	28,779	29,893	29,858	35,759	37,238	38,369	39,674	40,979	42,284
Less: Accum. Depn.	12,019	15,301	18,540	22,561	25,466	27,915	28,577	30,596	32,696
<b>Net Fixed Assets</b>	<b>16,760</b>	<b>14,592</b>	<b>11,318</b>	<b>13,198</b>	<b>11,772</b>	<b>10,455</b>	<b>11,097</b>	<b>10,383</b>	<b>9,588</b>
Capital WIP	363	81	64	31	63	75	0	0	0
<b>Investments</b>	<b>1,870</b>	<b>1,564</b>	<b>2,553</b>	<b>3,027</b>	<b>2,934</b>	<b>4,415</b>	<b>5,915</b>	<b>8,415</b>	<b>10,915</b>
<b>Curr. Assets, L&amp;A</b>	<b>9,151</b>	<b>10,548</b>	<b>11,261</b>	<b>11,240</b>	<b>12,011</b>	<b>12,791</b>	<b>15,576</b>	<b>18,121</b>	<b>20,986</b>
Inventory	2,217	2,446	3,005	3,576	3,280	3,234	3,765	4,060	4,372
Account Receivables	2,164	3,080	2,318	3,209	4,146	4,942	4,652	4,958	5,277
Cash and cash equivalents	2,034	1,191	3,604	1,160	1,848	2,014	4,244	5,853	7,726
Others	2,737	3,831	2,335	3,295	2,738	2,601	2,915	3,251	3,611
<b>Curr. Liab. and Prov.</b>	<b>6,206</b>	<b>6,419</b>	<b>6,618</b>	<b>7,119</b>	<b>7,100</b>	<b>7,454</b>	<b>8,158</b>	<b>8,702</b>	<b>9,282</b>
Account Payables	2,914	3,245	3,507	4,087	4,072	4,546	4,823	5,167	5,530
Other Liabilities	1,940	1,489	1,453	1,316	1,470	1,652	1,769	1,898	2,041
Provisions	1,353	1,686	1,658	1,717	1,558	1,256	1,566	1,636	1,711
<b>Net Current Assets</b>	<b>2,946</b>	<b>4,129</b>	<b>4,643</b>	<b>4,120</b>	<b>4,912</b>	<b>5,336</b>	<b>7,418</b>	<b>9,420</b>	<b>11,704</b>
<b>Application of Funds</b>	<b>21,979</b>	<b>20,366</b>	<b>18,579</b>	<b>20,617</b>	<b>20,362</b>	<b>20,964</b>	<b>24,431</b>	<b>28,218</b>	<b>32,208</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
<b>Basic (INR)</b>									
<b>EPS</b>	<b>11.0</b>	<b>11.0</b>	<b>15.0</b>	<b>16.6</b>	<b>15.4</b>	<b>18.0</b>	<b>21.1</b>	<b>23.2</b>	<b>25.2</b>
Cash EPS	18.2	18.4	23.3	24.2	21.0	22.3	25.5	27.9	30.0
BV/Share	45.7	40.2	39.7	47.1	52.2	56.1	64.2	73.1	82.4
DPS	4.0	8.0	8.0	8.0	8.0	9.5	11.0	12.5	14.0
Payout %	43.6	87.7	53.2	48.1	51.9	52.6	52.2	53.8	55.7
<b>Valuation (x)</b>									
P/E	66.0	66.4	48.4	43.7	47.2	40.3	34.5	31.3	28.9
Cash P/E	40.0	39.6	31.2	30.0	34.6	32.6	28.5	26.1	24.3
EV/Sales	12.1	12.4	11.0	10.0	9.3	8.7	7.9	7.2	6.6
EV/EBITDA	44.9	47.7	36.0	33.5	36.7	32.8	28.6	25.4	22.7
P/BV	15.9	18.1	18.3	15.5	13.9	13.0	11.3	10.0	8.8
Dividend Yield (%)	0.6	1.1	1.1	1.1	1.1	1.3	1.5	1.7	1.9
<b>Return Ratios (%)</b>									
RoE	24.5	25.5	37.3	38.2	31.1	33.2	35.0	33.9	32.4
RoCE	14.5	15.9	24.1	44.0	31.3	36.0	37.4	35.8	34.0
RoIC	16.5	16.4	27.7	52.0	36.2	46.7	55.3	62.0	69.3
<b>Working Capital Ratios</b>									
Debtor (Days)	29	42	29	37	44	50	43.4	42.9	42.4
Asset Turnover (x)	1.2	1.3	1.6	1.5	1.7	1.7	1.6	1.5	1.4
<b>Leverage Ratio</b>									
Debt/Equity (x)	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0

### Cash Flow Statement

Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E
<b>(INR m)</b>									
OP/(loss) before Tax	4,034	3,736	5,689	6,880	6,696	7,908	9,326	10,634	11,864
Depreciation	3,253	3,363	3,670	3,348	2,473	1,859	1,939	2,019	2,100
Other non operating income	-297	-442	-500	-1,321	-90	-277	0	0	0
Interest Paid	214	210	133	51	74	100	100	90	80
Direct Taxes Paid	-927	-760	-865	-1,426	-1,170	-1,463	-933	-1,276	-1,661
(Incr)/Decr in WC	-739	-800	1,088	-1,094	-493	-337	-1,126	-2,645	-2,641
<b>CF from Operations</b>	<b>5,537</b>	<b>5,307</b>	<b>9,215</b>	<b>6,439</b>	<b>7,489</b>	<b>7,790</b>	<b>9,307</b>	<b>8,822</b>	<b>9,742</b>
(Incr)/Decr in FA	-1,329	-1,481	-320	-4,802	-301	-288	-1,238	-1,305	-1,305
<b>Free Cash Flow</b>	<b>4,208</b>	<b>3,826</b>	<b>8,895</b>	<b>1,636</b>	<b>7,188</b>	<b>7,502</b>	<b>8,069</b>	<b>7,517</b>	<b>8,437</b>
(Pur)/Sale of Investments	920	-899	-2,268	2,226	-917	-1,896	-252	-268	-286
Others	411	316	2,668	-2,285	494	190	-624	-32	-26
<b>CF from Invest.</b>	<b>2</b>	<b>-2,064</b>	<b>80</b>	<b>-4,861</b>	<b>-725</b>	<b>-1,994</b>	<b>-2,114</b>	<b>-1,605</b>	<b>-1,617</b>
Change in Equity	0	0	0	-2,001	-10	0	0	0	0
(Incr)/Decr in Debt	-2,189	174	139	1,651	-1,901	-133	-50	-50	-50
Dividend Paid	-1,902	-4,191	-3,747	-3,556	-3,529	-3,492	-4,802	-5,456	-6,111
Others	-209	-69	-3,274	-116	-636	-2,005	-112	-102	-92
<b>CF from Fin. Activity</b>	<b>-4,301</b>	<b>-4,087</b>	<b>-6,882</b>	<b>-4,021</b>	<b>-6,076</b>	<b>-5,630</b>	<b>-4,963</b>	<b>-5,608</b>	<b>-6,253</b>
<b>Incr/Decr of Cash</b>	<b>1,239</b>	<b>-843</b>	<b>2,413</b>	<b>-2,444</b>	<b>688</b>	<b>166</b>	<b>2,230</b>	<b>1,609</b>	<b>1,873</b>
Add: Opening Balance	795	2,034	1,191	3,604	1,160	1,848	2,014	4,244	5,853
<b>Closing Balance</b>	<b>2,034</b>	<b>1,191</b>	<b>3,604</b>	<b>1,160</b>	<b>1,848</b>	<b>2,014</b>	<b>4,244</b>	<b>5,853</b>	<b>7,726</b>

E: MOFSL Estimates

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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