India Strategy

Pause in the bull run

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India Strategy | Market Update | June 14, 2024 | NIFTY 50: 23,466

The post-election rally has surprised us. We, though, see little near-term upside in the Nifty from current levels because of elevated valuations and lack of positive catalysts. This is, however, a pause in a multi-year bull run – we see very little chance of a meaningful correction. We are constructive on the manufacturing/investment cycle and prefer playing it through Durables (Auto) and Materials. We, however, also see counter-intuitive opportunities in FMCG and Tech on relative valuations. Industrials and Financials are better played through select SMIDs, in our view. We add JUBI, Honasa, Suprajit, and Metropolis to our SMID picks.

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Headline indices – Limited upside

The Nifty is trading at 20.1x one-year forward PER vs the 18.8x five-year average. This looks overcooked with the premia in the cheaper sectors like banking and industrials more at risk, oddly. We see no positive triggers for the next 2-3 quarters, either from policy (a positive budget is now factored in) or from earnings revisions. We will revisit our Jun-25 Nifty target of 22,000 (at a PER of 19x, -1sd below LTA) after the mid-July Union Budget, which is the next big event.

Macro trends intact

The BJP's dependence on coalition partners is unlikely to change the two broad pillars of the NDA's macro policy – fiscal-monetary conservatism and a preference of capex in state spending. Structural reform, especially in factor markets, will be challenging, as legislation will now require a consensus-building approach. Though the coalition government could bring more uncertainty in policymaking, we do not foresee any pivot towards large-scale welfare spending. The post-Covid cycle of manufacturing over services and investment over consumption remains undisturbed, in our view.

Mean reversion on sectors

Much of this however is in the price, and our sector positioning reflects this nuance. Our counter-intuitive calls are i) **OW on staples**, where we see earnings acceleration and valuation accompanied by a possible turnaround in mass spending; ii) **UW on Industrials**, where valuations are stretched and earnings growth, though robust, is decelerating; and iii) **OW on Technology**, where valuations are near LTA even if the growth recovery is 2-3 quarters away. Our other major calls are **OW on Durables** (strong cycle and cash flows) and **UW on Financials** (valuations out of sync with growth). This is a stock-pickers vs top-down market, so there are a few exceptions: e.g. opportunities in select SMID Industrials.

SMID picks

We add **JUBI**, **Honasa**, **Suprajit,** and **Metropolis** to our SMID picks and retain **Senco**. We have filtered the stocks on growth-adjusted valuations, ROE trends, and cash-flow ratios. We have not considered the stock-price momentum in our filters.

4QFY24 results – Uneventful

The 4QYF24 results season was uneventful, with the BSE-500 reporting 13% YoY PAT growth. Forecasts are stable as the Nifty EPS has moved by only 0.4% from 31-Mar-24. The deconstructed revision trends point to 67% of well-covered companies showing stable FY25 forecasts vs 38% during Apr-Dec 2024. Cash flows remained strong, with OCF growth of 26% and FCF growth of 48% for FY24, led by Discretionary and Energy. (Refer to Page 12 ahead for a detailed analysis).

Top SMID Picks

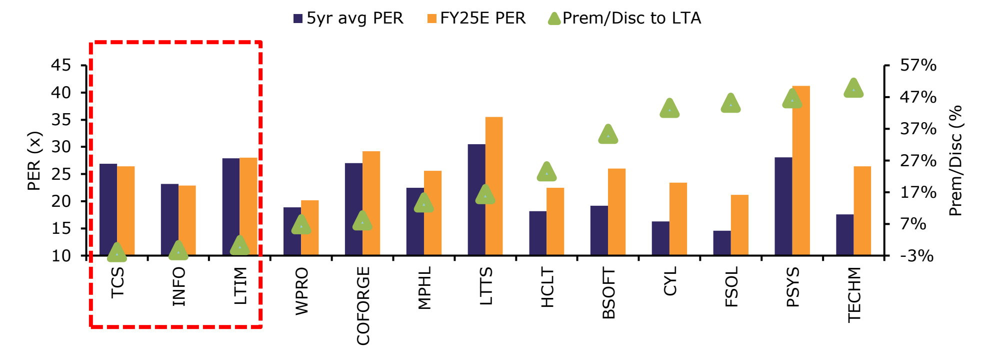
Stock	Reco	TP (Rs/sh)	Price (Rs/sh)	M Cap (Rs bn)	EPS growth (% YoY)			ROE (%)			P/E (x)		
					FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Suprajit Engineering	BUY	610	512	71	10.0	50.7	52.2	12.9	17.2	22.3	42.3	28.1	18.4
Jubilant FoodWorks	ADD	525	533	351	(39.0)	41.6	29.0	11.3	14.5	16.3	142.9	100.9	78.2
Honasa Consumer	BUY	525	435	141	779.4	43.0	47.5	13.0	13.5	17.0	127.6	89.2	60.5
Senco Gold	BUY	1,100	965	75	1.6	18.5	28.2	15.7	14.6	16.3	41.4	34.9	27.3
Metropolis Healthcare	BUY	2,200	1,990	102	(11.0)	34.7	31.5	12.3	14.8	17.2	79.8	59.2	45.0

Source: Company, Bloomberg, Emkay Research

OW on IT and Staples; UW on Industrials

Large-cap IT stocks are trading at 5-year average. There are no immediate catalysts, but a turnaround in demand could drive a rerating

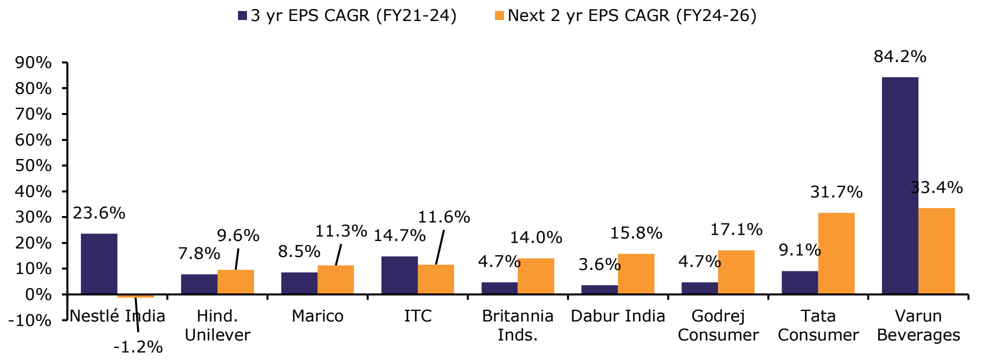
Exhibit 1: Large-IT names trading close to LTA on PER



Source: Company, Bloomberg, Emkay Research

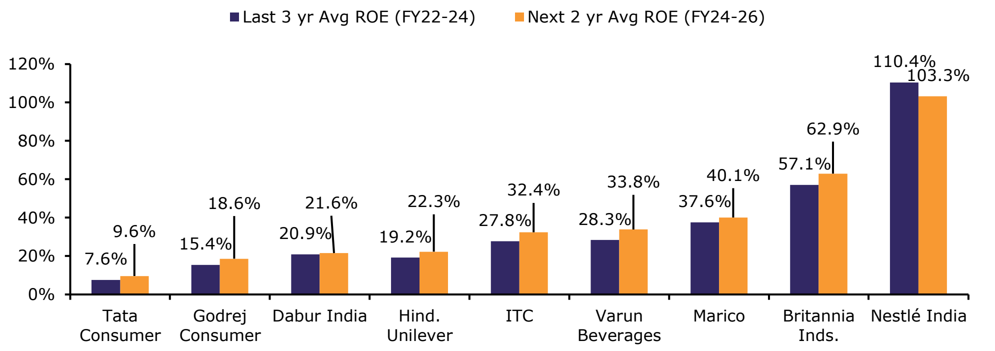
Turnaround in Staples: across-the-board improvement in EPSg and ROE could drive a tactical rerating in the sector. We focus on names that are trading at the lower end of LTA on PER

Exhibit 2: Earnings acceleration for Staples



Source: Company, Bloomberg, Emkay Research

Exhibit 3: ROE turnaround for staples companies



Source: Company, Bloomberg, Emkay Research

HUVR, Dabur are at significant discounts to the 5-year avg PER. A positive catalyst like accelerating earnings/rising ROEs could result in an upmove

Exhibit 4: Select FMCG names trading at a discount to LTA

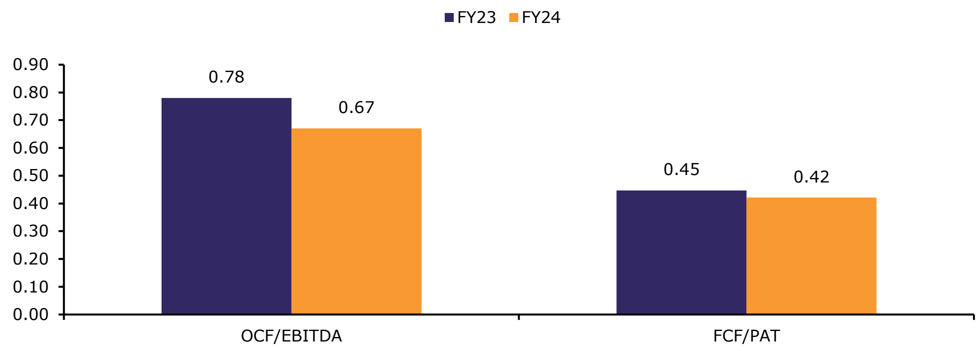
Company	FY26E PER vs	
	5Y avg P/E	10Y avg P/E
Bikaji Foods	NA	NA
Britannia Industries	-2%	4%
Colgate-Palmolive	17%	20%
Dabur India	-13%	-2%
Emami	18%	-1%
Godrej Consumer	17%	25%
Hindustan Unilever	-10%	0%
Honasa Consumer	NA	NA
ITC	6%	-8%
Marico	2%	8%
Nestlé India	-7%	8%

Source: Company, Bloomberg, Emkay Research

Industrials

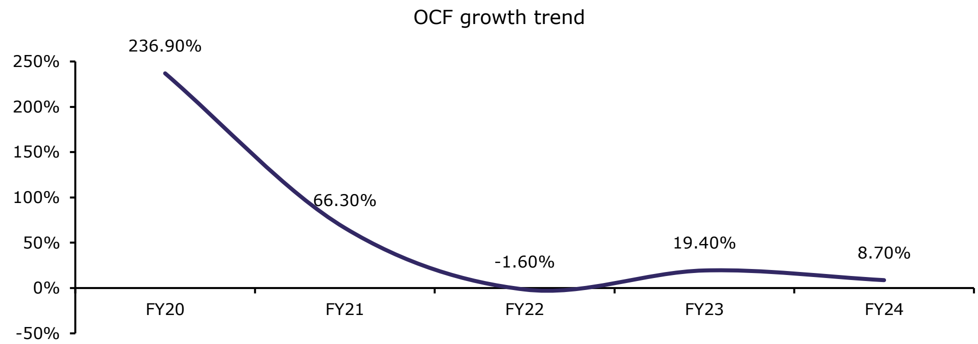
Industrials remains an attractive sector from a long-term perspective. However, ~40% of companies now trade at a valuation premium to history, while earnings upgrades are stalling. Moreover, there is some deterioration in cash flow ratios – this is understandable for manufacturing companies in a high growth phase but it does cause a temporary risk to valuations. We are cautious at this stage, even if the 2-3 year thesis sounds compelling. Bottom-up SMID opportunities will, however, continue to be attractive. We shall dive deeper when our coverage resumes on capital goods.

Exhibit 5: Slight deterioration in the cash flow ratio



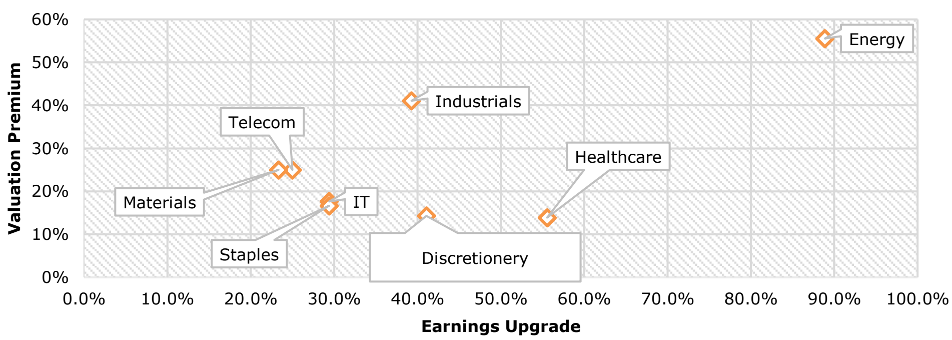
Source: Company, Bloomberg, Emkay Research

Exhibit 6: Industrials – Weak OCF growth



Source: Company, Bloomberg, Emkay Research

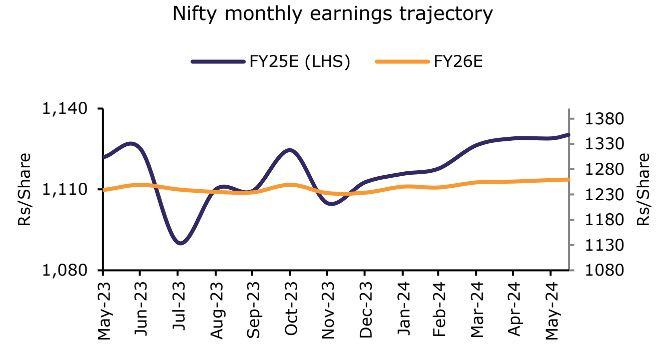
Exhibit 7: Industrials – Valuation premium, but upgrade cycle dying



Source: Company, Bloomberg, Emkay Research

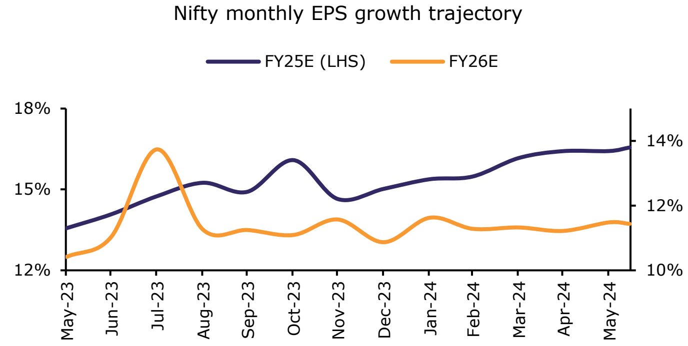
Earnings forecast resilient

Exhibit 8: Nifty earnings upgrades steady



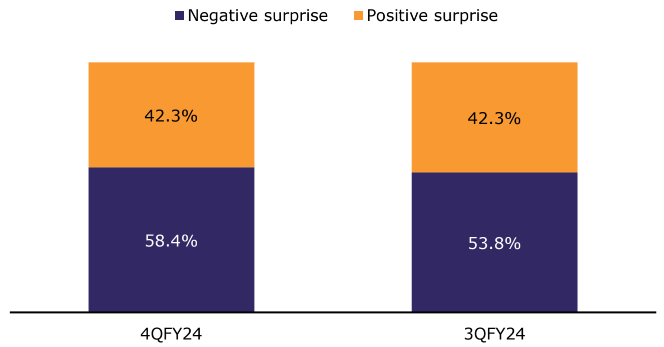
Source: Bloomberg, Emkay Research

Exhibit 9: Mid-teen EPS growth expected in FY25E



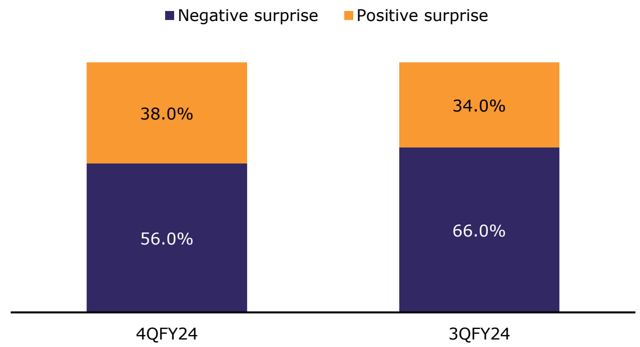
Source: Bloomberg, Emkay Research

Exhibit 10: No major shift in surprise ratio



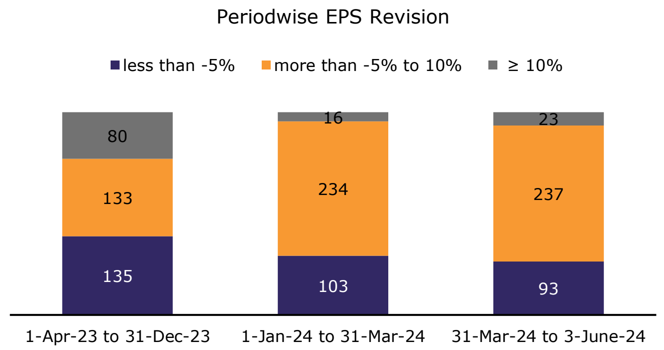
Source: Company, Bloomberg, Emkay Research

Exhibit 11: Nifty – Fewer surprises



Source: Company, Bloomberg, Emkay Research

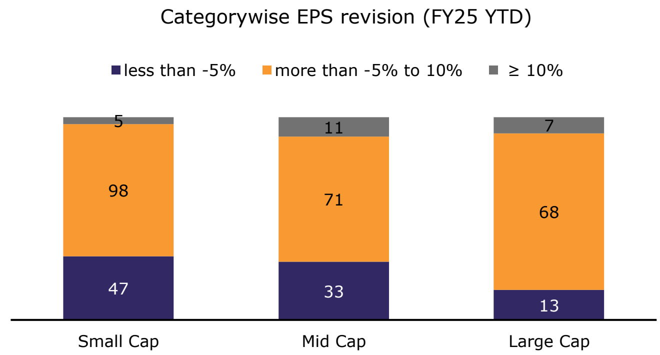
Exhibit 12: Upgrade/downgrade ratios now stable



Source: Company, Bloomberg, Emkay Research

**The number in the chart represents no. of companies*

Exhibit 13: Forecasts steady; downward pressure on small caps



Source: Company, Bloomberg, Emkay Research

**The number in the chart represents no. of companies*

Exhibit 14: Nifty sectoral earnings growth

Nifty - Sector wise EPS growth	FY24	FY25E	FY26E
Communication Services	33.6%	77.6%	49.4%
Consumer Discretionary	95.4%	18.3%	16.4%
Consumer Staples	6.4%	9.8%	10.5%
Energy	32.6%	1.2%	11.2%
Financials	26.5%	14.9%	15.3%
Health Care	18.6%	14.1%	13.6%
Industrials	32.0%	25.9%	22.3%
Information Technology	1.0%	10.5%	13.0%
Materials	5.2%	42.4%	22.0%
Utilities	7.8%	11.1%	7.9%
Nifty Index	**24.2%**	**14.5%**	**15.3%**
Nifty EPS (Rs)	**966**	**1106**	**1276**

Source: Company, Bloomberg, Emkay Research

Exhibit 15: Top SMID picks

Stock	Reco	TP (Rs/sh)	Price (Rs/sh)	M Cap (Rs bn)	EPS growth (% YoY)			ROE (%)			P/E (x)		
					FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26
Suprajit Engineering	BUY	610	512	71	10.0	50.7	52.2	12.9	17.2	22.3	42.3	28.1	18.4
Jubilant FoodWorks	Add	525	533	351	(39.0)	41.6	29.0	11.3	14.5	16.3	142.9	100.9	78.2
Honasa Consumer	BUY	525	435	141	779.4	43.0	47.5	13.0	13.5	17.0	127.6	89.2	60.5
Senco Gold	Buy	1,100	965	75	1.6	18.5	28.2	15.7	14.6	16.3	41.4	34.9	27.3
Metropolis Healthcare	BUY	2,200	1,990	102	(11.0)	34.7	31.5	12.3	14.8	17.2	79.8	59.2	45.0

Source: Company, Bloomberg, Emkay Research

Exhibit 16: Emkay Model Portfolio – Valuation Metrics

Stock	Weight in EMP	Reco	TP (Rs/sh)	Price (Rs/sh)	M Cap (Rs bn)	EPS growth (% YoY)			ROE (%)			P/E (x)		
						FY23	FY24	FY25	FY23	FY24	FY25	FY23	FY24	FY25
Bharti Airtel	6.00%	ADD	1,400	1,426	8,515	252.7	38.7	27.1	8.7	10.9	12.3	94.4	68.0	53.6
Tata Motors	5.00%	ADD	1,050	986	3,616	N/A	4,313.4	(25.2)	1.6	49.8	24.3	514.7	11.7	15.6
TVS Motor	3.00%	BUY	2,250	2,442	1,160	61.4	39.7	42.8	27.4	30.2	33.9	77.8	55.7	39.0
Hero MotoCorp	6.00%	BUY	6,000	5,816	1,163	17.7	53.1	10.1	17.9	25.7	26.1	39.9	26.1	23.7
Maruti Suzuki India	5.00%	REDUCE	11,200	12,847	4,039	113.7	57.6	7.8	14.1	18.3	16.1	48.2	30.6	28.4
Dabur India	3.00%	BUY	660	610	1,080	(6.0)	9.8	14.8	19.8	20.0	20.9	62.9	57.3	49.9
Hindustan Unilever	6.00%	BUY	2,900	2,487	5,844	11.4	2.7	8.9	19.6	19.7	21.3	60.1	58.5	53.7
Nestlé India	3.00%	ADD	2,600	2,552	2,460	3.3	30.0	9.7	107.2	109.2	100.1	101.0	77.7	70.9
Reliance Industries	10.00%	ADD	3,200	2,931	19,828	17.1	3.8	14.0	8.4	9.2	9.6	29.6	28.5	25.0
Shriram Finance	4.00%	ADD	2,850	2,684	1,009	45.3	14.0	23.4	15.5	15.9	17.3	16.0	14.0	11.4
IndusInd Bank	3.00%	BUY	2,000	1,507	1,174	62.3	60.0	21.1	10.2	14.5	15.4	25.3	15.8	13.1
Axis Bank	5.00%	BUY	1,400	1,175	3,629	69.0	12.3	15.2	12.0	18.0	17.3	16.4	14.6	12.7
ICICI Pru Life	3.00%	BUY	700	596	859	6.8	5.1	18.5	8.4	8.1	8.9	105.6	100.5	84.8
Infosys	5.00%	BUY	1,750	1,494	6,203	10.5	8.8	(1.6)	31.8	31.9	27.7	25.7	23.6	24.0
Wipro	5.00%	ADD	500	483	2,523	(7.2)	2.2	12.1	15.8	14.4	15.9	23.3	22.8	20.4
TCS	8.50%	REDUCE	3,950	3,878	14,031	10.0	10.2	11.5	45.9	49.6	50.2	33.7	30.6	27.4
Shree Cement	6.00%	ADD	29,500	27,491	992	(45.5)	88.5	(0.0)	7.0	12.2	11.1	78.1	41.4	41.4
UltraTech Cement	9.50%	BUY	11,200	11,174	3,226	(10.6)	39.8	12.0	9.7	12.3	12.3	63.7	45.6	40.7
Interglobe Aviation	4.00%	BUY	5,000	4,303	1,661	N/A	N/A	24.9	5.1	N/A	144.3	N/A	20.7	16.6
Wtd average	**100.00%**					**4.6**	**55.1**	**8.8**	**18.6**	**23.1**	**27.5**	**71.5**	**37.2**	**32.9**

Source: Company, Bloomberg, Emkay Research

Jubilant FoodWorks (JUBI)

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Financials summary

Exhibit 17: Jubilant FoodWorks – Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	50,960	53,409	60,376	68,318	77,134
EBITDA	11,592	10,941	13,266	15,389	17,521
Adj. PAT	4,028	2,459	3,482	4,492	5,236
Adj. EPS (Rs)	6.1	3.7	5.3	6.8	7.9
EBITDA margin (%)	22.7	20.5	22.0	22.5	22.7
EBITDA growth (%)	4.9	(5.6)	21.2	16.0	13.9
Adj. EPS growth (%)	(9.4)	(39.0)	41.6	29.0	16.6
RoE (%)	19.0	11.3	14.5	16.3	16.8
RoIC (%)	73.7	34.4	34.4	35.7	37.8
P/E (x)	87.7	143.7	101.5	78.7	67.5
EV/EBITDA (x)	30.2	32.3	26.6	22.9	19.9
P/B (x)	16.5	16.0	13.6	12.1	10.6
FCFF yield (%)	0.5	0.3	1.7	2.2	3.5

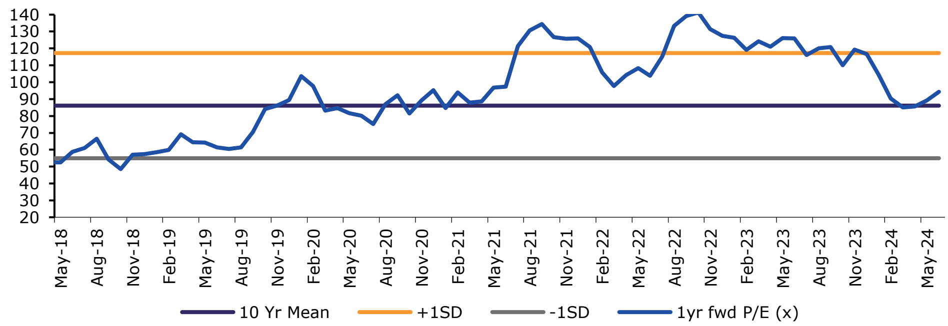
Source: Company, Emkay Research

Key investment argument

- **Channel checks suggest double-digit growth is very near:** After delivering a below-expectations single-digit growth performance for 5 straight quarters, JUBI is in all probability on its way to deliver double-digit growth in FY25 (most likely in Q1 itself). The unprecedented recovery is likely a result of delivery-charge waiver towards the end of the Mar-24 quarter and the strong marketing campaign during the IPL.
- **Sequential growth performance to be better vs. aggregators:** JUBI's delivery revenue saw a higher 2% sequential growth in Q4 vs. -0.6% decline in Zomato's GOV. We believe the outperformance should sustain, as we expect a 9% sequential growth for JUBI, based on our channel checks during the Apr-Mar 2024 period (combined). Such continued aggression from the leader should lead to market-share gains and potentially drive a consolidation in the Pizza category.
- **Near-term focus on growth vs. margins; sequential improvement in margin should be visible:** Despite the imminent gross-margin headwind due to delivery-waiver, the sequential EBITDA margin should remain on an improving trajectory, as the management has indicated a bottoming in Q4 (19%). Over the medium term, margins should stay on the path to improvement, with investments in commissaries and a potential reduction in competitive intensity.
- **DP Eurasia/new formats are potential upsides:** DP Eurasia is a potential upside, with the management expecting continued revenue growth and improvement in PAT margin given debt retirement in the company. Network expansion in Popeyes, Hong's, and Dunkin has also accelerated, and a faster expansion remains an upside.
- **Growth reversal to keep valuations elevated; potential optionality for addition of new formats with limited incremental investments:** JUBI is seeing growth reversal, and such trends sustaining should keep valuations at elevated levels. We like JUBI's multi-country, multi-format food-tech positioning, which is well supported by investments in the back-end commissaries/store network and technology platforms. Our current TP has limited upside, but consolidation of DP Eurasia and sustained strong trends should drive a re-rating for JUBI. We recommend ADD.

Jubilant FoodWorks – P/E

Exhibit 18: Jubilant FoodWorks – One-year forward P/E



Source: Company, Emkay Research

Metropolis Healthcare (MHL)

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Financials summary

Exhibit 19: Metropolis Healthcare – Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	12,283	11,482	12,077	13,422	15,341
EBITDA	3,428	2,883	2,826	3,390	4,028
Adj. PAT	1,983	1,434	1,278	1,721	2,264
Adj. EPS (Rs)	41.9	28.0	25.0	33.6	44.2
EBITDA margin (%)	27.9	25.1	23.4	25.3	26.3
EBITDA growth (%)	19.9	(15.9)	(2.0)	20.0	18.8
Adj. EPS growth (%)	15.8	(33.0)	(11.0)	34.7	31.5
RoE (%)	24.9	15.3	12.3	14.8	17.2
RoIC (%)	35.5	17.1	15.6	19.2	24.9
P/E (x)	50.4	69.7	78.4	58.2	44.3
EV/EBITDA (x)	29.4	34.6	35.2	29.0	23.8
P/B (x)	11.3	10.1	9.1	8.2	7.1
FCFF yield (%)	2.2	1.9	2.0	2.1	3.0

Source: Company, Emkay Research

Key investment argument

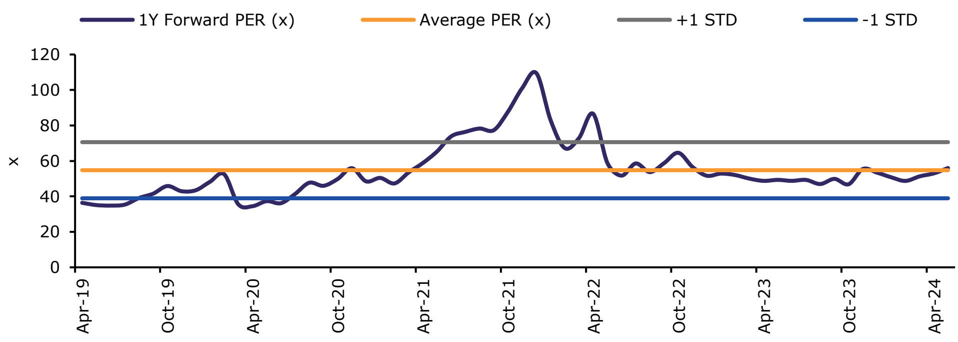
- Leveraging its specialized offerings (71% of revenue) and brand loyalty among influencers in the medical fraternity (80% volume from acute patients), Metropolis has been able to transition from a challenger regional operator to becoming the third-largest pan-India specialized diagnostics chain. Easing competitive intensity, focus on improving B2C and wellness share, and brand positioning as a premium operator, all augur well for margins (up ~400bps over FY24-26E), and have resulted in PAT CAGR of 37% over the same period.

- MHL's aggressive network expansion plans (set in FY21) have come to fruition, with an addition of 51 labs over the last two years (27% of its network). Such expansion allows MHL to offer wider test menus to Tier 2+ markets via its satellite labs and hub & spoke model; this in turn results in growth in non-focus cities leading to geographical diversification in addition to volume growth. Additionally, the company's tiered strategy and asset-light model drive focus on seeding and other cities (17% CAGR vs 12% CAGR for focus cities) which, in turn, expands the addressable market.

- With bulk of the network expansion behind (fully by FY25), MHL wields multiple levers to retrace margins from current levels; such levers are i) improving B2C mix by leveraging brand equity; ii) scope to increase wellness contribution (still behind DLPL by 600bps); iii) pricing levers, as it is easier to hike prices for specialized tests (71% of revenue); and iv) adding scale to its efficient infrastructure (highest cc/lab ratio, but trailing in the revenue/lab metric) and driving operating leverage. MHL's premium brand positioning and loyalty amid the medical fraternity have given it wings to improve realizations per patient ahead of peers.

Metropolis Healthcare – P/E

Exhibit 20: Metropolis Healthcare – One-year forward P/E



Source: Company, Emkay Research

Suprajit Engineering (SEL)

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Financials summary

Exhibit 21: Suprajit Engineering – Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	18,405	27,524	28,959	35,057	44,444
EBITDA	2,599	3,126	3,230	4,444	6,271
Adj. PAT	1,614	1,521	1,673	2,521	3,838
Adj. EPS (Rs)	11.7	11.0	12.1	18.2	27.7
EBITDA margin (%)	14.1	11.4	11.2	12.7	14.1
EBITDA growth (%)	9.8	20.3	3.3	37.6	41.1
Adj. EPS growth (%)	22.6	(12.1)	10.0	50.7	52.2
RoE (%)	15.6	13.2	12.9	17.2	22.3
RoIC (%)	15.0	12.8	11.7	16.3	21.9
P/E (x)	42.7	45.3	41.2	27.4	18.0
EV/EBITDA (x)	26.0	22.4	21.3	15.4	10.8
P/B (x)	6.4	5.6	5.1	4.4	3.7
FCFF yield (%)	1.9	2.1	2.3	1.7	2.9

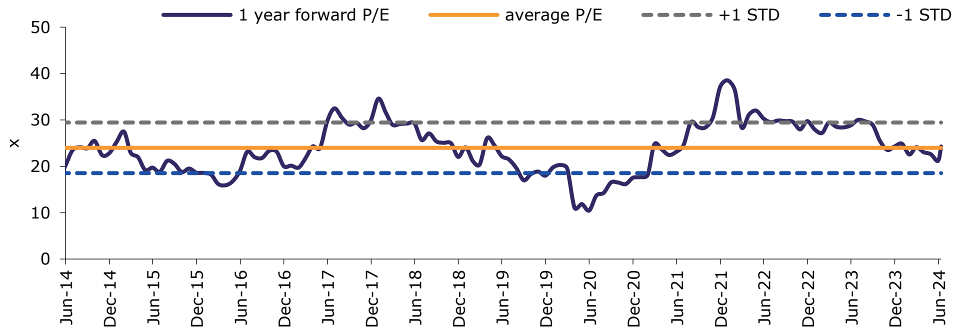
Source: Company, Emkay Research

Key investment arguments

- SEL is a strong market leader in India in its core products of control cables and halogen lamps, and is among the top-2/top-3 players globally (control cables/halogen lamps, respectively). It is continuing to add scale in its core products as part of its 'last man standing' strategy, as seen in the recent acquisition of German-based cable maker Stahlschmidt Cable Systems (SCS). This can potentially add ~15% to the top line on full integration, and would lead to the combined entity becoming the largest player in Europe.
- SEL's global business (forms ~47% of revenue) is witnessing stabilization and improvement in outlook (returned to growth in Q4FY24 after 2 quarters of decline, accompanied by sequential margin expansion), with company growth set to be faster than the industry, driven by order wins (incl. via China Plus One) in both – cables and 'beyond cables'.
- Outlook on the domestic front is also healthy, amid expected continued recovery in the 2W industry and growth in 'beyond cables' incl. via new product verticals like braking systems, sensors, actuators, instrument clusters, etc. SEL's in-house tech centre is leading the development of new products to help diversify its revenue base.
- Valuations are reasonable and in line with LTA on 1YF PER basis. We expect SEL to post ~24%/51% revenue/EPS CAGR, respectively, over FY24-26E on consolidation of SCS operations.
- Key Risk – Delay in recovery in global markets, continued sluggishness in the domestic aftermarket segment, adverse RM/FX movements.

Suprajit Engineering – P/E

Exhibit 22: Suprajit Engineering – P/E



Source: Company, Emkay Research

Senco Gold (SENCO)

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Financials summary

Exhibit 23: Senco Gold – Financial Snapshot (Consolidated)

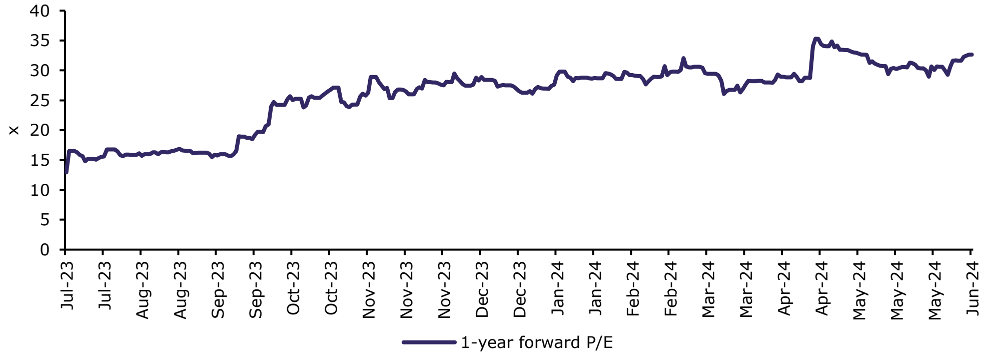
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	40,774	52,414	63,195	74,898	88,450
EBITDA	3,166	3,755	4,543	5,632	6,818
Adj. PAT	1,585	1,810	2,145	2,750	3,410
Adj. EPS (Rs)	22.9	23.3	27.6	35.4	43.9
EBITDA margin (%)	7.8	7.2	7.2	7.5	7.7
EBITDA growth (%)	14.2	18.6	21.0	24.0	21.1
Adj. EPS growth (%)	18.0	1.6	18.5	28.2	24.0
RoE (%)	19.0	15.7	14.6	16.3	17.2
RoIC (%)	15.5	13.6	13.8	15.4	16.8
P/E (x)	41.6	40.9	34.5	26.9	21.7
EV/EBITDA (x)	22.5	21.3	17.6	14.3	11.8
P/B (x)	7.0	5.4	4.7	4.1	3.5
FCFF yield (%)	(1.8)	(2.5)	1.5	1.8	2.9

Source: Company, Emkay Research

Key investment argument

- **Lightweight product offers strongest brand accessibility:** Leveraging its multi-decadal relationship with *karigars* to start off its basic offering at <10gm ensures a 15-20% lighter product with a similar heavy look – a key differentiator for Senco, aiding affordability. New formats—Everlite (GenZ), and D'Signia (Premium)—catering to a different target population make it more accessible and provide new levers of growth.
- **Deep penetration aids product availability to a wider set of consumers:** Growth headroom remains considerable, as the company's market share is still at a mid-single-digit in the East, and focused efforts are afoot to capitalize on non-East prospects (the UP/NCR market). Store-addition CAGR of 12% is expected over FY24-27, funded by internal accruals.
- **Unit metrics are better than/in line with those of peers; follows hygiene business practices:** COCO/FOFO stores clock 13-14%/40-50% ROE, respectively. We expect improvement, with a higher franchisee mix going ahead. Hygiene practices for sourcing/hedging gold (50% stated policy) reduce the commodity's volatility risk for Senco.
- **Upbeat franchisee interest and shift to Organized should drive strong revenue-led EPS CAGR of >20%**: Our >20% earnings growth is backed by near-equal contribution from new stores and healthy SSG on the back of shift to Organized, premiumization, and gold price increase. FY24 EPS growth was muted due to IPO dilution and margin normalization in the absence of diamond inventory gains.
- **Valuations at a major discount, despite similar growth prospects as peer Kalyan:** Senco has consistently delivered a mid-teen topline growth over a long period now. Senco's valuations at ~33x FY25E EPS are at a ~30% discount to Kalyan's. Senco offers a vast re-rating opportunity, as it delivers on our expectations. We recommend BUY on Senco with a TP of Rs1,100/share.

Exhibit 24: Senco Gold – One-year forward P/E



Source: Company, Emkay Research

Honasa Consumer (HONASA)

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Financials summary

Exhibit 25: Honasa Consumer – Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	14,927	19,199	23,549	28,481	33,894
EBITDA	228	1,371	2,217	3,275	4,496
Adj. PAT	119	1,105	1,581	2,332	3,189
Adj. EPS (Rs)	0.4	3.4	4.9	7.2	9.8
EBITDA margin (%)	1.5	7.1	9.4	11.5	13.3
EBITDA growth (%)	98.6	502.2	61.7	47.8	37.3
Adj. EPS growth (%)	(28.0)	779.4	43.0	47.5	36.8
RoE (%)	1.8	13.0	13.5	17.0	19.4
RoIC (%)	(0.2)	28.6	52.3	85.4	122.1
P/E (x)	1,131.2	128.6	89.9	61.0	44.6
EV/EBITDA (x)	580.1	99.0	60.9	40.8	29.2
P/B (x)	22.2	13.0	11.3	9.6	7.9
FCFF yield (%)	(0.5)	1.6	1.4	1.9	2.5

Source: Company, Emkay Research

Key investment argument

- **House of Brands strategy to address wider consumer needs:** Honasa has built its beauty and personal care portfolio (covering 70% of the Rs1.5trn TAM) based on its 'House of Brands' strategy, which positions it to remain relevant to diverse consumer cohorts. As the company charts its offline journey, we see a steady scale-up in its business; this will reflect in robust revenue growth (~21% CAGR over FY24-27E) and help deliver healthy margin-driven earnings as well as enhance its returns profile (FY27E RoE at ~19%).
- **Asset-light approach and focus on NPDs:** The management has an asset-light approach of leveraging third-party sourcing and instils energy into differentiated new-product development, new brands, and new categories. The company has created a separate team – Brand Factory – that works like a start-up and has been instrumental in incubating new brands. Ideation to commercialization takes ~3 months (the formulation stage takes ~30 days). Addressing the efficacy needs of cohorts, the company has created a new team to supervise >12M innovations.
- **New brands to leverage the Mamaearth playbook:** In the last three years, the company has incubated four organic brands as well as acquired a couple of brands. It now generates one-third of its revenue from other brands. As the brands are being nurtured online via connecting with relevant consumer cohorts, salience of the online channel has been high, at over 90%. In offline channels, the company would look to scale up brands as they reach their milestone.
- We have a **BUY** recommendation on Honasa Consumer, with Jun-25E TP of Rs525/share at 6x EV/sales. Our valuation multiple is at 15% discount to the market-cap weighted sector average EV/sales of 7.2x which we believe is justified, on growth prospects (~21% revenue CAGR over FY24-27E). Our bull case scenario fetches ~59% upside (~30% revenue growth), whereas our bear case implies 35% downside (~15% revenue growth).

Q4FY24 results review

Exhibit 26: Earnings – Ex-Financials

BSE500 (Ex-BFSI)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Net Sales Growth	18.7%	13.1%	6.1%	3.1%	6.3%	7.7%
EBITDA Growth	10.7%	17.4%	34.6%	39.5%	25.5%	13.9%
EBITDA Margins	17.2%	17.9%	21.3%	21.2%	20.3%	19.0%
Adjusted PAT Growth	4.9%	18.9%	51.7%	40.9%	26.7%	12.0%
PAT QoQ Growth	11.7%	28.5%	0.3%	-2.1%	0.5%	13.5%

NIFTY 50 (Ex-BFSI)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Net Sales Growth	18.3%	13.7%	6.6%	7.1%	9.0%	9.3%
EBITDA Growth	15.3%	18.2%	29.8%	32.3%	16.5%	13.3%
EBITDA Margins	20.3%	19.9%	23.9%	22.5%	21.7%	20.7%
Adjusted PAT Growth	8.9%	18.1%	39.4%	33.4%	18.5%	17.4%
PAT QoQ Growth	15.7%	15.8%	0.5%	-1.0%	2.8%	14.8%

Emkay Coverage Cos (Ex-BFSI)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Net Sales Growth	20.0%	13.9%	0.9%	-0.2%	4.3%	5.6%
EBITDA Growth	8.8%	13.3%	55.0%	53.3%	22.4%	10.4%
EBITDA Margins	13.6%	15.0%	17.3%	17.5%	15.9%	15.6%
Adjusted PAT Growth	4.6%	26.1%	100.4%	76.6%	31.8%	13.7%
PAT QoQ Growth	31.3%	29.9%	10.2%	-6.1%	-2.0%	12.1%

Source: Company, Bloomberg, Emkay Research

Exhibit 27: Sector-wise earnings growth summary

Sector	Adj PAT growth (BSE 500)			
	Q3FY24	Q4FY24	FY23	FY24
Communication Services				
Consumer Discretionary	20.1%	42.8%	98.4%	83.9%
Consumer Staples	4.2%	-1.6%	13.8%	13.1%
Energy	-20.6%	2.1%	-8.3%	58.8%
Financials	5.5%	14.2%	48.2%	31.1%
Health Care	0.7%	-16.4%	7.1%	21.3%
Industrials	28.3%	26.0%	50.0%	43.0%
Information Technology	4.4%	7.8%	7.8%	5.4%
Materials	14.6%	10.6%	-39.7%	-12.9%
BSE 500	**26.2%**	**12.5%**	**10.7%**	**30.4%**

Source: Company, Bloomberg, Emkay Research

Exhibit 28: Earnings growth (including BFSI)

Adjusted PAT growth (incl. BFSI)	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
BSE500	7.0%	18.8%	49.6%	40.4%	25.1%	13.3%
Nifty 50	10.3%	18.4%	39.2%	32.9%	18.4%	17.8%
Emkay Coverage Cos	24.4%	39.0%	91.3%	46.9%	26.3%	16.5%

Source: Company, Bloomberg, Emkay Research

Exhibit 29: Sector-wise details of non-financials (Emkay Coverage)

Sectors	Q4FY24 Review				
	Net Sales Growth	EBITDA growth	EBITDA Margin	Adjusted PAT Growth	Q3FY24 Adjusted PAT Growth
Communication Services (7)	5.6%	-2.7%	41.5%		
Consumer Discretionary (31)	15.8%	29.9%	14.8%	93.4%	58.2%
Consumer Staples (11)	3.8%	-10.3%	23.3%	4.2%	6.1%
Energy (8)	2.9%	11.0%	11.9%	-6.4%	37.1%
Health Care (3)	15.3%	22.5%	27.9%	31.3%	29.4%
Industrials (12)	12.1%	30.1%	18.8%	50.6%	85.9%
Information Technology (13)	2.5%	2.8%	22.4%	9.0%	-0.3%
Materials (21)	7.5%	21.3%	18.7%	9.1%	42.2%
Emkay Coverage Cos (154)	**10.5%**	**15.6%**	**20.3%**	**16.5%**	**26.3%**

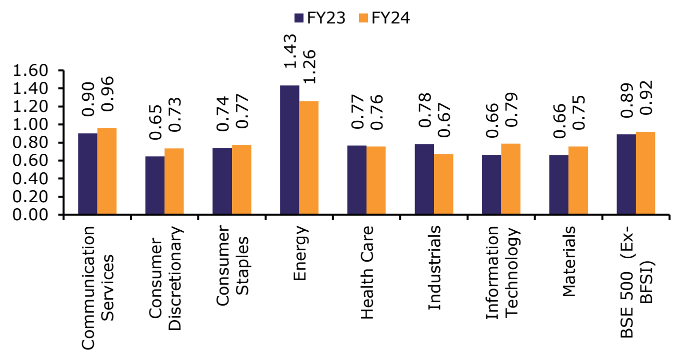
*Source: Company, Bloomberg, Emkay Research; Note: *Numbers in brackets represent companies under Emkay coverage*

Exhibit 30: Industrials, Materials, Healthcare, and Consumer Discretionary – The standout performers

Q4FY24 EBITDA margin trajectory (Emkay Coverage Cos)				
Sector	Sales growth (YoY)	EBITDA margin	Change in EBITDA margin QoQ	Change in EBITDA margin YoY
Communication Services (7)	5.6%	41.5%	-3.40%	-3.55%
Consumer Discretionary (31)	15.8%	14.8%	0.20%	1.60%
Consumer Staples (11)	3.8%	23.3%	-3.41%	-3.67%
Energy (8)	2.9%	11.9%	-0.06%	0.87%
Health Care (3)	15.3%	27.9%	1.34%	1.63%
Industrials (12)	12.1%	18.8%	-1.91%	2.59%
Information Technology (13)	2.5%	22.4%	0.62%	0.07%
Materials (21)	7.5%	18.7%	-1.07%	2.13%

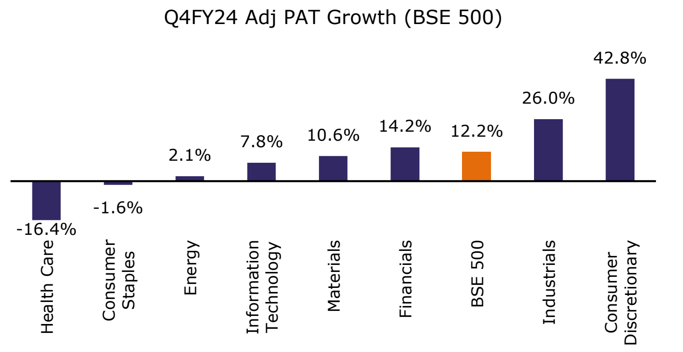
*Source: Company, Bloomberg, Emkay Research; Note: *Numbers in brackets represent companies under Emkay coverage*

Exhibit 31: Sector-wise OCF/EBITDA ratio (BSE 500)



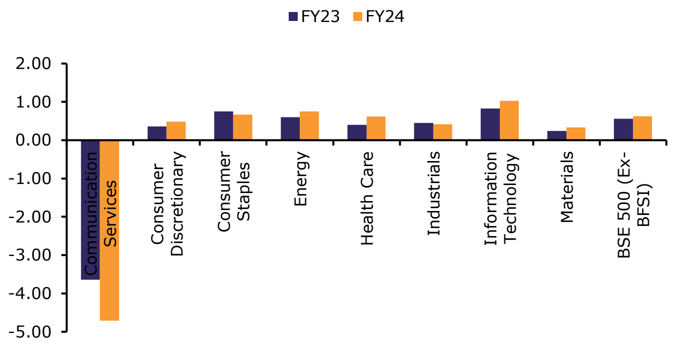
Source: Company, Bloomberg, Emkay Research

Exhibit 32: Consumer Discretionary and Industrials lead the growth



Source: Company, Bloomberg, Emkay Research

Exhibit 33: Sector-wise FCF/PAT ratio (BSE 500)



Source: Company, Bloomberg, Emkay Research

Exhibit 34: FY24 Sectoral FCF, OCF, APAT, and EBITDA growth YoY (BSE 500)

Sector (BSE 500)	FCF growth (YoY)	OCF growth (YoY)	APAT growth (YoY)	EBITDA growth (YoY)
Communication Services	-14.3%	13.0%		5.9%
Consumer Discretionary	149.3%	62.5%	83.9%	43.3%
Consumer Staples	1.5%	14.0%	13.1%	9.3%
Energy	98.3%	35.1%	58.8%	53.6%
Industrials	34.6%	11.8%	43.0%	30.0%
Information Technology	31.6%	22.7%	5.4%	3.6%
Materials	23.1%	15.6%	-12.9%	1.0%
BSE 500 (Ex-BFSI)	**47.6%**	**26.3%**	**30.0%**	**23.0%**

Source: Company, Bloomberg, Emkay Research

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REDUCE	5% upside to 15% downside
SELL	<15% downside

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