

# Honasa Consumer BUY



## Portfolio & channel level initiatives underway; execution to sharpen

Honasa is undertaking several initiatives in terms of identifying focus categories (Eg: facewash, sunscreen, shampoos, baby care) & whitespaces within the same, ensuring disproportionate investments in these categories starting Q3FY25 and leverage its house of brands to create wider portfolio offerings in focus categories & its sub-segments (eg: In face-cleansers provide offerings in active ingredients naturals etc). This apart, Honasa is undertaking phase-wise restructuring of offline channel (enhancing direct reach & right size the inventory levels) which should improve the effectiveness of the channel and help fortify its position in core categories. We expect inventory right sizing to impact sales (especially Mamaearth) & profitability in Q2, post which recovery to normalised levels should follow from Q3FY25E. We believe, the initiatives around portfolio & distribution channel are step in right direction which should enable high single digit sales CAGR for Mamaearth over next 3 years. Moreover, execution on newer brands (led by The Derma Co (TDC)) has been better than expectation with enough headroom to scale up sales & profitability. We believe near term challenges are more transient in nature, corrective initiatives undertaken will sharpen overall execution. Sharp dips should be used as opportunity to add.

- Offline channel restructuring on track:** As a part of its Project NEEV, Honasa is currently undertaking several initiatives (transitioning to direct distribution (from super-stockists) in top 50 cities, DMS implementation, opening regional warehouses) to enhance effectiveness of its offline distribution channel. Overall execution on putting right distributors/inventory correction is expected to be largely completed in Q2 with some operational spill over to Q3. This should help reduce offline channel inventory to 30-45 days (vs 80-90 days at overall system level). Transition will have a bearing on primary sales (INR 450-500mn) in near term, due to stock returns/write-offs (c.60-70% of stock can be billed again), final settlements with super-stockists & some associated sub-stockists. However, with brand strength intact, portfolio level initiatives and benefit of enhanced direct distribution, the primary sales growth is expected to revert to 18-20% from Q3FY25E onwards.
- Portfolio and distribution channel interventions to drive growth for Mamaearth:** We believe Mamaearth as a brand can see high single digit sales CAGR over 3 years. Offline channel is expected to see higher growth (mid to high teens) led by distribution expansion (targeting to reach 400-500k outlets over next 3 years vs 200k currently) and uptick in throughput/store due to increased direct distribution (c.70k outlets part of DMS/100K likely by FY25 end). This apart, disproportionate investment on focus categories (face-cleansers, sunscreen, shampoos), filling whitespaces and rejuvenating baby care portfolio where Mamaearth has strong brand recall/proposition will help drive overall sales growth for the brand.
- Execution on newer brands remains healthy; levers in place for further scale up:** Execution on newer brands has been healthy led by TDC which is well on track to achieve INR 5 bn sales for FY25E. Faster scale up (increasing presence in offline channel) & better gross margins should also help TDC achieve margins similar to Mamaearth in next 2 years (vs low single digit currently). Also, successful launch of Skin Renew range, showcases the premiumisation potential within TDC. This apart, Honasa is also fortifying its position in actives space (through Dr Sheth) and increase its play in serums/moisturisation (through Aqualogica).

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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	530
Upside/(Downside)	10.9%
Previous Price Target	505
Change	5.0%

### Key Data – HONASA IN

Current Market Price	INR478
Market cap (bn)	INR155.1/US\$1.9
Free Float	46%
Shares in issue (mn)	136.3
Diluted share (mn)	324.2
3-mon avg daily val (mn)	INR1,284.7/US\$15.4
52-week range	547/256
Sensex/Nifty	84,544/25,791
INR/US\$	83.6

### Price Performance

%	1M	6M
Absolute	2.3	64.7
Relative*	1.4	45.4

\* To the BSE Sensex

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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	9,435	14,927	19,199	22,868	28,173
Sales growth (%)	105.1%	58.2%	28.6%	19.1%	23.2%
EBITDA	115	228	1,371	1,643	2,939
EBITDA (%)	1.2%	1.5%	7.1%	7.2%	10.4%
Adjusted net profit	157	119	1,118	1,306	2,144
EPS (INR)	0.5	-4.7	3.4	4.0	6.6
EPS growth (%)	NM	-1060.6%	NM	16.9%	64.1%
ROIC (%)	1.4%	-0.6%	21.9%	23.3%	39.6%
ROE (%)	3.5%	1.8%	13.1%	11.2%	16.4%
PE (x)	NA	NA	NA	NA	72.3
Price/Book Value (x)	22.0	25.6	14.2	12.6	11.2
EV/EBITDA (x)	NA	NA	NA	89.2	49.5
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.4%

Source: Company data, JM Financial. Note: Valuations as of 20/Sep/2024

## Exhibit 1. Our 12-month DCF based price target works out to INR 530/share

(INR mn)

(INR mn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E
Revenue	1,098	4,600	9,435	14,927	19,199	22,868	28,173	33,492	39,794	46,975	54,679	63,896	72,566	81,660	91,104	1,01,740
yoy growth		319.0%	105.1%	58.2%	28.6%	19.1%	23.2%	18.9%	18.8%	18.0%	16.4%	16.9%	13.6%	12.5%	11.6%	11.7%
EBITDA	-78	272	115	228	1,371	1,643	2,939	3,937	5,260	6,636	8,165	10,026	11,992	14,186	16,056	18,184
EBITDA margin %	-7.1%	5.9%	1.2%	1.5%	7.1%	7.2%	10.4%	11.8%	13.2%	14.1%	14.9%	15.7%	16.5%	17.4%	17.6%	17.9%
EBIT	-85	255	46	-22	1,065	1,248	2,433	3,343	4,568	5,830	7,246	8,957	10,753	12,786	14,448	16,344
EBIT margin %	-7.7%	5.5%	0.5%	-0.1%	5.5%	5.5%	8.6%	10.0%	11.5%	12.4%	13.3%	14.0%	14.8%	15.7%	15.9%	16.1%
Tax Rate	0.0%	-0.6%	35.6%	-7.0%	24.9%	25.3%	25.3%	25.3%	25.3%	25.3%	25.3%	25.3%	25.3%	25.3%	25.3%	25.3%
<b>NOPAT</b>	<b>-85</b>	<b>256</b>	<b>29</b>	<b>-24</b>	<b>800</b>	<b>932</b>	<b>1,817</b>	<b>2,497</b>	<b>3,412</b>	<b>4,355</b>	<b>5,413</b>	<b>6,691</b>	<b>8,033</b>	<b>9,551</b>	<b>10,793</b>	<b>12,209</b>
Depreciation	6	17	69	250	306	395	506	594	692	806	919	1,068	1,239	1,399	1,608	1,841
Capex	-4	-10	-1,176	-285	-123	-457	-563	-670	-796	-939	-1,094	-1,278	-1,451	-1,633	-1,822	-2,035
Net working capital investment	-42	-1	2	-1,187	-331	-185	-486	-297	-442	-435	-368	-557	-608	-458	-531	-587
<b>Free Cash Flow</b>	<b>-125</b>	<b>262</b>	<b>-1,075</b>	<b>-1,246</b>	<b>651</b>	<b>685</b>	<b>1,274</b>	<b>2,124</b>	<b>2,866</b>	<b>3,787</b>	<b>4,870</b>	<b>5,925</b>	<b>7,213</b>	<b>8,860</b>	<b>10,048</b>	<b>11,428</b>
YoY Growth - %							86.1%	66.7%	34.9%	32.1%	28.6%	21.7%	21.7%	22.8%	13.4%	13.7%
Discounting Factor							1.00	0.90	0.81	0.73	0.66	0.59	0.53	0.48	0.43	0.39
<b>Present Value of FCF</b>							<b>1,274</b>	<b>1,914</b>	<b>2,326</b>	<b>2,769</b>	<b>3,208</b>	<b>3,516</b>	<b>3,856</b>	<b>4,267</b>	<b>4,360</b>	<b>4,467</b>
<b>Fade period forecast</b>	<b>FY37E</b>	<b>FY38E</b>	<b>FY39E</b>	<b>FY40E</b>	<b>FY41E</b>	<b>FY42E</b>	<b>FY43E</b>	<b>FY44E</b>	<b>FY45E</b>	<b>FY36-45 CAGR</b>						
<b>FCF</b>	<b>14,520</b>	<b>16,220</b>	<b>18,011</b>	<b>19,878</b>	<b>21,804</b>	<b>23,771</b>	<b>25,755</b>	<b>27,731</b>	<b>29,672</b>	<b>9.7%</b>						
Discounting Factor	0.32	0.29	0.26	0.23	0.21	0.19	0.17	0.15	0.14							
Present Value of FCF	4,607	4,636	4,638	4,611	4,557	4,476	4,369	4,238	4,085							

12M Forward Equity Valuation	
PV of Cash Flow - Explicit Period	31,959
PV of Cash Flow - Fade Period	44,768
PV of Terminal Value	86,605
<b>Enterprise Value</b>	<b>1,63,332</b>
Debt	0
Cash	8,499
Net Debt	-8,499
<b>Equity value</b>	<b>1,71,831</b>
No of Shares (mn)	324
<b>Target price (INR per share)</b>	<b>530</b>

Source: Company, JM Financial

## Financial Tables (Consolidated)

Profit & Loss Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Sales</b>	<b>9,435</b>	<b>14,927</b>	<b>19,199</b>	<b>22,868</b>	<b>28,173</b>
Sales Growth	105.1%	58.2%	28.6%	19.1%	23.2%
Other Operating Income	0	0	0	0	0
<b>Total Revenue</b>	<b>9,435</b>	<b>14,927</b>	<b>19,199</b>	<b>22,868</b>	<b>28,173</b>
Cost of Goods Sold/Op. Exp.	2,834	4,467	5,807	6,888	8,401
Personnel cost	788	1,649	1,706	1,990	2,367
Other expenses	5,697	8,584	10,315	12,347	14,467
<b>EBITDA</b>	<b>115</b>	<b>228</b>	<b>1,371</b>	<b>1,643</b>	<b>2,939</b>
EBITDA (%)	1.2%	1.5%	7.1%	7.2%	10.4%
EBITDA Growth (%)	-57.9%	98.7%	502.2%	19.8%	78.9%
Depn & Amort	69	250	306	395	506
EBIT	46	-22	1,065	1,248	2,433
Other Income	209	225	497	626	607
Finance Cost	30	67	90	125	170
PBT before Excep & Forex	224	137	1,471	1,749	2,869
Excep & forex Inc/Loss(-)	0	-1,547	0	0	0
PBT	224	-1,410	1,471	1,749	2,869
Taxes	80	99	366	442	726
Extraordinary Inc/Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	13	82	12	0	0
Reported Net profit	157	-1,428	1,118	1,306	2,144
<b>Adjusted Net Profit</b>	<b>157</b>	<b>119</b>	<b>1,118</b>	<b>1,306</b>	<b>2,144</b>
Net Margin (%)	1.7%	0.8%	5.8%	5.7%	7.6%
Diluted share capital (mn)	324	324	324	324	324
<b>Diluted EPS (Rs)</b>	<b>0.5</b>	<b>(4.7)</b>	<b>3.4</b>	<b>4.0</b>	<b>6.6</b>
Diluted EPS Growth	NM	NM	NM	16.9%	64.1%
Total Dividend + Tax	0	0	0	0	643
Dividend Per Share (Rs)	0.0	0.0	0.0	0.0	2.0

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Shareholders' Fund	7,056	6,059	10,953	12,309	13,839
Share capital	0	1,363	3,242	3,242	3,242
Reserves & Surplus	-10,873	-13,234	7,710	9,066	10,597
Preference Share Capital	17,929	17,929	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	36	36	0	0	0
Def. Tax Liab / Assets (-)	86	14	13	53	119
<b>Total - Equity &amp; Liab</b>	<b>7,178</b>	<b>6,109</b>	<b>10,966</b>	<b>12,362</b>	<b>13,958</b>
Net Fixed Assets	2,874	1,639	1,682	2,174	2,338
Gross Fixed Assets	2,904	2,002	2,121	2,578	3,142
Intangible Assets					
Less: Depn. & Amort.	20	304	376	771	1,277
Capital WIP & Net lease asset:	-9	-60	-62	366	474
Investments	3,385	2,600	2,918	2,918	2,918
Current Assets	3,530	4,539	10,393	12,057	14,418
Inventories	659	1,139	1,228	1,432	1,725
Sundry Debtors	728	1,277	1,594	1,880	2,316
Cash & Bank Balances	877	681	4,857	5,582	6,563
Loans & Advances	941	1,096	2,410	2,814	3,396
Other Current Assets	326	347	304	351	418
Current Liab. & Prov.	2,612	2,669	4,027	4,786	5,716
Current Liabilities	2,553	2,529	3,841	4,573	5,437
Provisions & Others	59	140	186	213	279
Net Current Assets	918	1,870	6,366	7,271	8,702
<b>Application of Funds</b>	<b>7,178</b>	<b>6,109</b>	<b>10,966</b>	<b>12,362</b>	<b>13,958</b>

Source: Company, JM Financial

Cash Flow statement					(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profit before Tax	224	-1,410	1,471	1,749	2,869
Depn. & Amort.	69	250	306	395	506
Net Interest Exp. / Inc. (-)	-179	-159	-407	-501	-437
Inc (-) / Dec in WCcap.	213	-1,048	1,025	-185	-486
Others	212	1,977	282	40	66
Taxes Paid	-95	-125	-324	-438	-690
<b>Operating Cash Flow</b>	<b>446</b>	<b>-516</b>	<b>2,353</b>	<b>1,060</b>	<b>1,829</b>
Capex	-26	-117	-118	-782	-663
Free Cash Flow	420	-633	2,235	278	1,166
-Inc/dec in investments	-2,804	929	-4,482	0	0
Other current assets	-2,168	-383	-99	626	607
<b>Investing Cash Flow</b>	<b>-4,998</b>	<b>429</b>	<b>-4,698</b>	<b>-156</b>	<b>-56</b>
Inc/(dec) in capital	4,865	49	3,633	50	30
Dividend+Tax Thereon	0	0	0	0	-643
Inc/dec in loans	0	-25	0	0	0
Other assets	-57	-165	-265	-229	-178
<b>Financing Cash Flow</b>	<b>4,808</b>	<b>-141</b>	<b>3,369</b>	<b>-180</b>	<b>-791</b>
<b>Inc / Dec (-) in Cash</b>	<b>256</b>	<b>-227</b>	<b>1,024</b>	<b>725</b>	<b>982</b>
Opening cash balance	621	908	3,833	4,857	5,582
Closing cash balance	877	681	4,857	5,582	6,563

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Margin	1.7%	0.8%	5.8%	5.7%	7.6%
Asset Turnover (x)	2.1	2.2	2.2	2.0	2.1
Leverage Factor (x)	-0.9	1.0	1.0	1.0	1.0
RoE	-3.0%	1.8%	13.1%	11.2%	16.4%
Key Ratios					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
BV/Share (Rs)	21.8	18.7	33.8	38.0	42.7
ROIC (%)	1.4%	-0.6%	21.9%	23.3%	39.6%
ROCE (%)	3.3%	3.0%	12.2%	10.6%	15.1%
ROE (%)	3.5%	1.8%	13.1%	11.2%	16.4%
Net Debt-equity ratio (x)	1.9	2.4	-0.7	-0.7	-0.7
PER	NA	NA	NA	NA	72.3
PBV	22.0	25.6	14.2	12.6	11.2
EV/EBITDA	NA	NA	NA	89.2	49.5
EV/Net Sales	16.0	10.2	7.7	6.4	5.2
Debtor days	28	31	30	30	30
Inventory days	25	28	23	23	22
Creditor days	219	161	185	185	185

Source: Company, JM Financial

## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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\* REITs refers to Real Estate Investment Trusts.

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