

## Downgrade to SELL; strategic reboot needed to revive growth ahead

Consumer Goods ▶ Result Update ▶ November 17, 2024

TARGET PRICE (Rs): 300

We downgrade Honasa to SELL from Buy, as we cut our Sep-25E TP to Rs300 from Rs600 earlier. Our thesis of accelerated growth with steady share gains in personal care got a beating from weak business commentary in Q2FY25. Mamaearth is likely to see decline in FY25E (where online growth slumped and general trade in 30% of Top-50 cities await distribution) and aims to recover base in FY26E. Limited offline presence and slower growth in core brand may pave the way for the competition, where recouping in the long term would be daunting. We cut topline estimates 9% for FY25 and 16% each over FY26-27. With margin revisions given a slower topline, our EPS reduced ~35% over FY25-27E. We cut EV/S valuation to 4x (50% discount to sector) from 6.5x. We await proof of execution as the management aims for a business turnaround.

### Honasa Consumer: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	14,927	19,199	20,138	23,785	28,515
EBITDA	228	1,371	927	1,853	2,777
Adj. PAT	119	1,105	842	1,568	2,152
Adj. EPS (Rs)	0.4	3.5	2.6	4.8	6.6
EBITDA margin (%)	1.5	7.1	4.6	7.8	9.7
EBITDA growth (%)	98.6	502.2	(32.4)	99.9	49.8
Adj. EPS growth (%)	(28.0)	810.1	(26.4)	86.2	37.3
RoE (%)	1.8	13.0	7.4	12.5	14.9
RoIC (%)	(0.2)	29.8	15.6	37.7	54.7
P/E (x)	958.5	105.3	143.1	76.8	56.0
EV/EBITDA (x)	490.0	80.2	123.2	61.5	40.7
P/B (x)	18.8	10.6	10.2	9.0	7.8
FCFF yield (%)	(0.6)	2.0	0.7	1.1	1.7

Source: Company, Emkay Research

### Q2 print weak; ride ahead bumpy

Honasa's Q2 delivery was weaker than our weak expectations. Topline declined 7% with: i) 6% like-to-like growth (with 7% volume growth), and ii) one-time inventory correction of Rs6.3bn. Weak seasonality and call to improve hygiene of offline business has taken a toll on like-to-like growth, which will see gradual recovery ahead. Inventory corrections drove operating losses in the business.

### Building Mamaearth brand health key ahead

Management noted growth pressure for the Mamaearth brand. As the natural trend waned, Mamaearth as a brand has seen growth slowdown. This was further accentuated by execution lapses in offline, leading to brand decline in Q2, which should persist in FY25 given distribution gaps in top-50 cities. Also, the online channel sales is under stress, where traction for actives has heightened. Given the brand size, there is a need for targeted investments. Going ahead, the management would look to course correct by addressing distribution gaps and enhancing A&P deployment. Young brands are sustaining healthy growth momentum with >30% growth. We see its 'House of Brands' approach in personal care as the key to counter competitive stress.

### Medium-term outlook stressed; downgrade to SELL

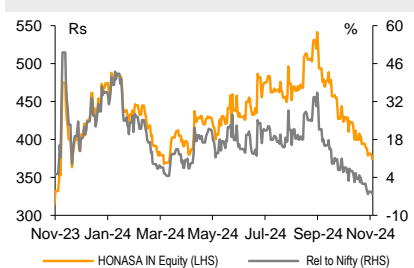
We have conservatively cut our earnings expectations ~35% over FY25-27E, where we have cut topline expectations by 9-16% and reduced margin expectations given reduced operating leverage benefits. Bunched-up corrective actions is a bold call from the management which risks medium-term growth but is a positive move to build the offline franchise. Amid recent correction in the FMCG sector and growth slowdown ahead, we now value Honasa at 4x EV/Sales, which is ~50% discount to sector average EV/Sales vs 6.5x earlier. We downgrade to SELL (from Buy) with new Sep-25E TP of Rs300 (from Rs600, earlier). We await proof of execution as the management aims for a business turnaround.

Target Price – 12M	Sep-25
Change in TP (%)	(50.0)
Current Reco.	SELL
Previous Reco.	BUY
Upside/(Downside) (%)	(19.3)
CMP (14-Nov-24) (Rs)	371.6

Stock Data	HONASA
52-week High (Rs)	547
52-week Low (Rs)	309
Shares outstanding (mn)	324.8
Market-cap (Rs bn)	121
Market-cap (USD mn)	1,430
Net-debt, FY25E (Rs mn)	-6,268
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	1,240.1
ADTV-3M (USD mn)	14.7
Free float (%)	49.5
Nifty-50	23,533
INR/USD	84.4
<b>Shareholding, Mar-24</b>	
Promoters (%)	35.1
FPIs/MFs (%)	12.2/15.9

Price Performance (%)	1M	3M	12M
Absolute	(12.6)	(21.0)	16.9
Rel. to Nifty	(6.6)	(18.9)	(3.4)

### 1-Year share price trend (Rs)



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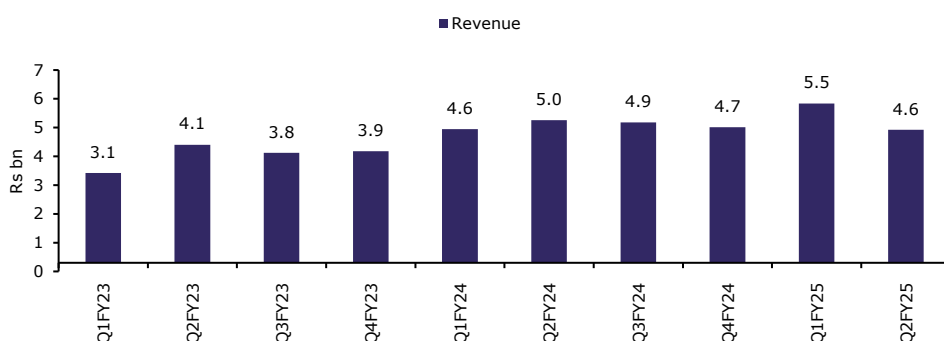
# Quarterly performance

Exhibit 1: Q2FY25 performance

(Rs mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	Emkay Est	Var (%)
<b>Total income</b>	<b>4,618</b>	<b>4,961</b>	<b>(6.9)</b>	<b>5,541</b>	<b>(16.6)</b>	<b>5,006</b>	<b>(7.7)</b>
Cost of goods	1,442	1,515	(4.8)	1,570	(8.2)	1,602	(10.0)
Employee expenses	515	371	38.6	494	4.1	500	2.9
A&P	1,830	1,740	5.2	2,000	(8.5)	1,852	(1.2)
Other expenses	1,139	933	22.0	1,015	12.2	1,101	3.4
<b>EBITDA</b>	<b>-307</b>	<b>402</b>	<b>(176.4)</b>	<b>461</b>	<b>(166.6)</b>	<b>-49</b>	<b>521.7</b>
EBITDA margin (%)	-6.6	8.1	-1,480bps	8.3	-1,500bps	-1.0	-570bps
Depreciation	106	63	67.9	94	12.2	95	11.2
EBIT	-413	339	(221.7)	367	(212.4)	-144	185.8
EBIT margin (%)	-8.9	6.8	-1,580bps	6.6	-1,560bps	-2.9	-610bps
Interest cost	31	18	75.5	30	3.6	35	(10.5)
Other income	200	71	182.9	187	7.0	180	11.2
PBT	-244	392	(162.2)	524	(146.5)	1	
Tax	-58	98	(159.4)	121	(147.8)	0	
Tax rate (%)	23.8	24.9	(4.5)	23.2	2.7	25.5	
<b>Adj Profit</b>	<b>-186</b>	<b>294</b>	<b>(163.1)</b>	<b>403</b>	<b>(146.1)</b>	<b>0</b>	
Net margin (%)	-4.0	5.9		7.3		0.0	
EPS (Rs)	-0.6	0.2	(364.8)	1.2	(146.1)	0.0	

Source: Company, Emkay Research

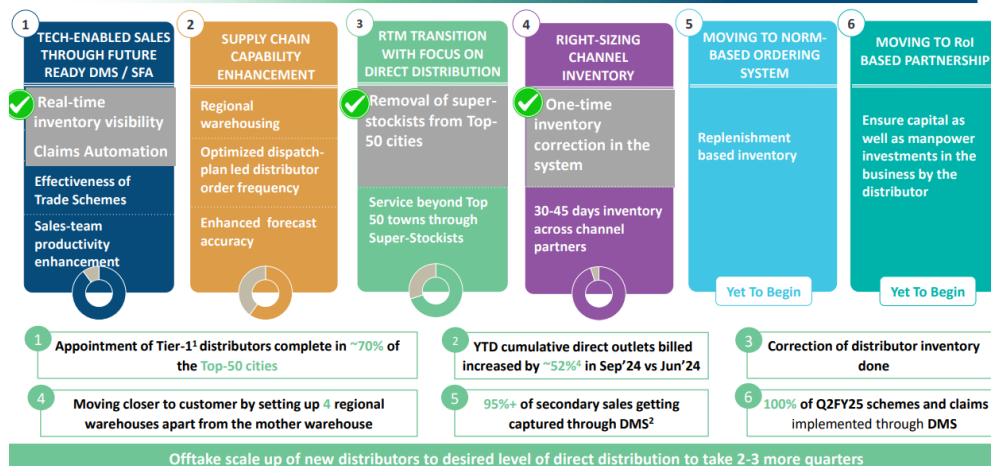
Exhibit 2: Quarterly revenue trend



Source: Company, Emkay Research

Exhibit 3: General trade transformation under project Neev

Project Neev has progressed, with one-time inventory correction done and super-stockist layer removed in top 50 cities




Source: Company, Emkay Research

**Exhibit 4: Mamaearth brand to see structural changes to revive growth**


Mamaearth is growing slower than our expectations and we are making identified structural changes to bring it back to its growth trajectory in a few quarters

*Factors impacting growth for Mamaearth*



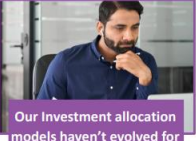
Distribution and Supply chain transition as part of Project Neev

1




'Wave' of consumer preference towards Active ingredient-based products in online channel

2



Our Investment allocation models haven't evolved for offline based brand

3



Need to refresh brand mix across product, price and communication

4

Bringing Mamaearth back to growth path is our highest priority and we are running pilots across identified structural levers. Post feedback from the pilots, the initiatives will be scaled up

1

Building category leadership through category focused innovation & marketing investments

2

Playing in identified consumer partitions with the right products

3

Addressing gaps in portfolio and pack-price architecture

4

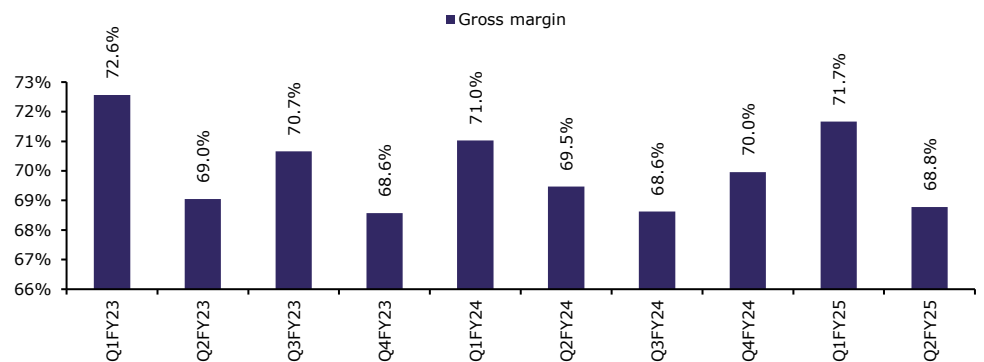
Strengthening offline distribution capability

5

R&D to improve product superiority and performance

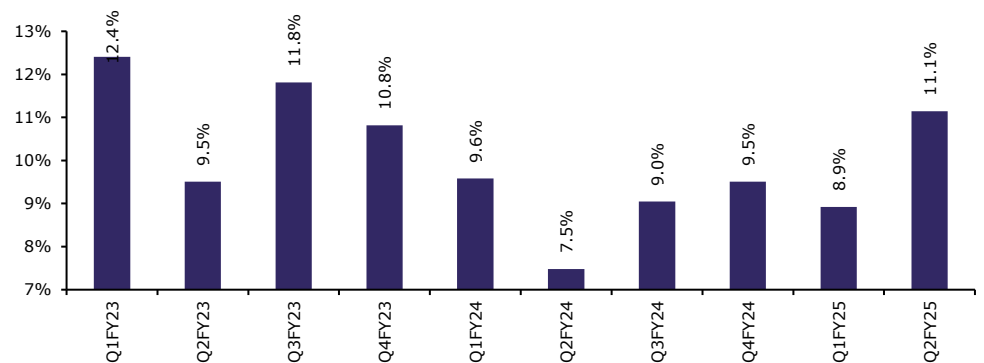
Source: Company, Emkay Research

**Exhibit 5: Gross margin trend**



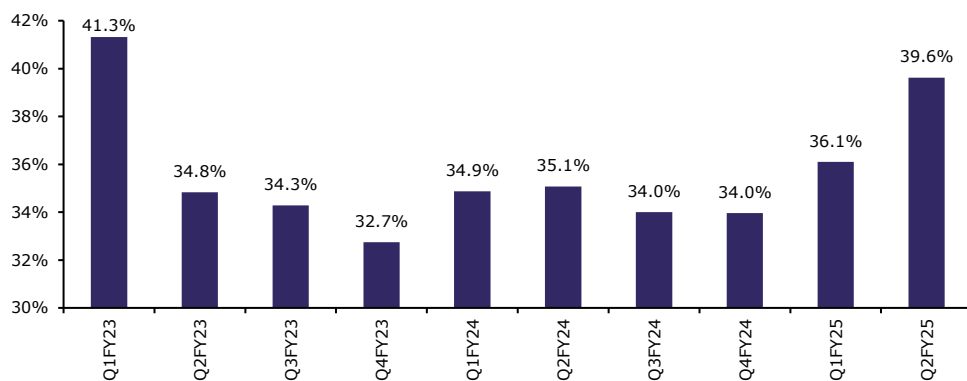
Source: Company, Emkay Research

**Exhibit 6: Staff costs trend**



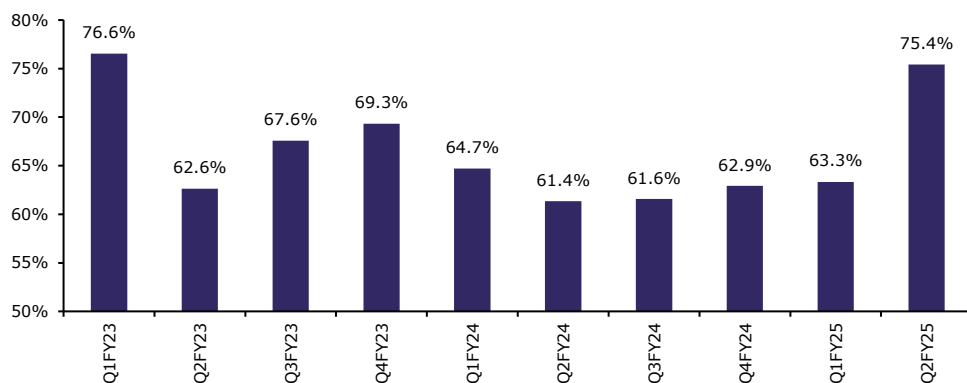
Source: Company, Emkay Research

**Exhibit 7: A&P spending trend**



Source: Company, Emkay Research

**Exhibit 8: Other operating expenses**



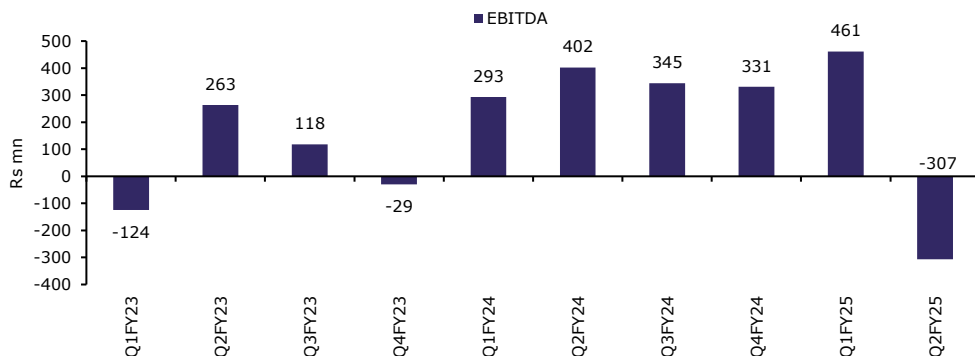
Source: Company, Emkay Research

**Exhibit 9: EBITDA margin trend**



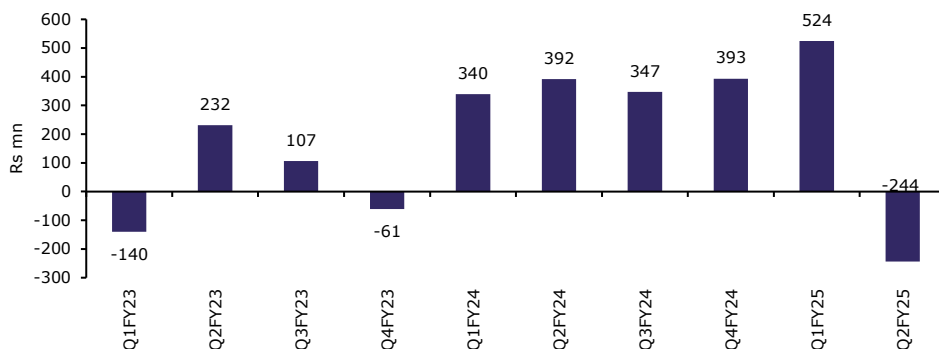
Source: Company, Emkay Research

**Exhibit 10: Quarterly EBITDA trend**



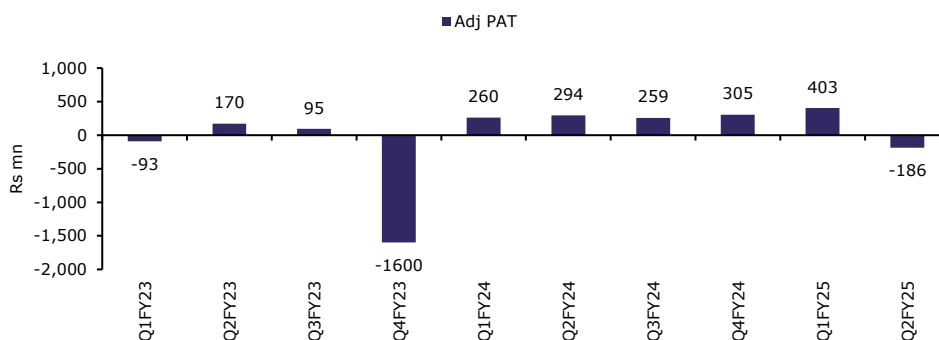
Source: Company, Emkay Research

**Exhibit 11: Profit before tax**



Source: Company, Emkay Research

**Exhibit 12: Adjusted PAT**



Source: Company, Emkay Research

**Exhibit 13: Changes to Emkay estimates**

(Rs mn)	New estimates			Old estimates			New vs old estimates		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
<b>Net sales</b>	<b>20,138</b>	<b>23,785</b>	<b>28,515</b>	<b>22,015</b>	<b>28,481</b>	<b>33,894</b>	<b>-9%</b>	<b>-16%</b>	<b>-16%</b>
growth	4.9%	18.1%	19.9%	14.7%	29.4%	19.0%			
<b>EBITDA</b>	<b>927</b>	<b>1,853</b>	<b>2,777</b>	<b>1,477</b>	<b>3,178</b>	<b>4,355</b>	<b>-37%</b>	<b>-42%</b>	<b>-36%</b>
growth	-32.4%	99.9%	49.8%	7.7%	115.2%	37.0%			
EBITDA margin	4.6%	7.8%	9.7%	6.7%	11.2%	12.8%			
<b>Adj PAT</b>	<b>842</b>	<b>1,568</b>	<b>2,152</b>	<b>1,273</b>	<b>2,416</b>	<b>3,272</b>	<b>-34%</b>	<b>-35%</b>	<b>-34%</b>
growth	-23.8%	86.2%	37.3%	15.2%	89.7%	35.4%			
EPS (Rs)	2.60	4.84	6.64	3.93	7.45	10.09			

Source: Emkay Research

## Exhibit 14: Key assumptions

	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>Income statement</b>						
Total income growth	105.1%	58.2%	28.6%	4.9%	18.1%	19.9%
Offline growth	214.3%	91.9%	20.1%	-28.0%	8.0%	20.2%
Online growth	67.8%	9.0%	-2.8%	-2.3%	-3.4%	0.0%
Mamaearth growth	96.2%	34.7%	7.4%	-15.0%	1.4%	9.0%
Other brands growth	258.0%	397.3%	320.7%	45.6%	38.1%	29.6%
Gross margin	70.0%	70.1%	69.8%	70.8%	71.0%	71.3%
Advertisement	41.5%	35.5%	34.4%	35.8%	34.2%	34.0%
EBITDA margin	3.2%	3.4%	7.8%	4.0%	7.4%	9.6%
Adj PAT growth	-101.1%	-74.2%	2,863.2%	-31.6%	98.2%	41.9%
EPS (Rs)	0.5	-4.7	3.5	2.3	4.6	6.6
<b>Balance Sheet</b>						
ROE	-3.0%	1.8%	13.0%	7.4%	12.5%	14.9%
ROCE	5.2%	2.8%	16.2%	9.8%	15.8%	19.0%
Inventory days (no. of)	26	29	24	25	25	25
Receivable days (no. of)	29	33	31	30	28	28
Payable days (no. of)	67	50	57	65	65	65

Source: Company, Emkay Research

## Honasa Consumer: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
<b>Revenue</b>	<b>14,927</b>	<b>19,199</b>	<b>20,138</b>	<b>23,785</b>	<b>28,515</b>
Revenue growth (%)	58.2	28.6	4.9	18.1	19.9
<b>EBITDA</b>	<b>228</b>	<b>1,371</b>	<b>927</b>	<b>1,853</b>	<b>2,777</b>
EBITDA growth (%)	98.6	502.2	(32.4)	99.9	49.8
Depreciation & Amortization	250	306	400	493	621
<b>EBIT</b>	<b>(22)</b>	<b>1,065</b>	<b>527</b>	<b>1,360</b>	<b>2,156</b>
EBIT growth (%)	(148.2)	0.0	(50.5)	158.1	58.5
Other operating income	0	0	0	0	0
Other income	225	497	731	894	932
Financial expense	67	90	135	150	200
<b>PBT</b>	<b>137</b>	<b>1,471</b>	<b>1,123</b>	<b>2,104</b>	<b>2,888</b>
Extraordinary items	(1,547)	0	0	0	0
Taxes	99	366	281	537	737
Minority interest	82	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>(1,428)</b>	<b>1,105</b>	<b>842</b>	<b>1,568</b>	<b>2,152</b>
PAT growth (%)	(1,008.7)	0.0	(23.8)	86.2	37.3
<b>Adjusted PAT</b>	<b>119</b>	<b>1,105</b>	<b>842</b>	<b>1,568</b>	<b>2,152</b>
<b>Diluted EPS (Rs)</b>	<b>0.4</b>	<b>3.5</b>	<b>2.6</b>	<b>4.8</b>	<b>6.6</b>
Diluted EPS growth (%)	(28.0)	810.1	(26.4)	86.2	37.3
<b>DPS (Rs)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Dividend payout (%)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
EBITDA margin (%)	1.5	7.1	4.6	7.8	9.7
EBIT margin (%)	(0.1)	5.5	2.6	5.7	7.6
Effective tax rate (%)	72.7	24.9	25.0	25.5	25.5
<b>NOPLAT (pre-IndAS)</b>	<b>(6)</b>	<b>800</b>	<b>395</b>	<b>1,013</b>	<b>1,606</b>
Shares outstanding (mn)	306.6	313.3	324.2	324.2	324.2

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	137	1,471	1,123	2,104	2,888
Others (non-cash items)	0	0	0	0	0
Taxes paid	(125)	(324)	(281)	(537)	(737)
Change in NWC	(969)	1,035	461	269	201
<b>Operating cash flow</b>	<b>(516)</b>	<b>2,353</b>	<b>1,108</b>	<b>1,586</b>	<b>2,241</b>
Capital expenditure	(117)	(118)	(260)	(300)	(325)
Acquisition of business	790	(4,482)	(2,500)	(2,500)	(2,500)
Interest & dividend income	0	0	0	0	0
<b>Investing cash flow</b>	<b>429</b>	<b>(4,698)</b>	<b>(2,691)</b>	<b>(2,612)</b>	<b>(2,643)</b>
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(130)	3,376	0	0	0
Payment of lease liabilities	0	0	0	0	0
Interest paid	(11)	(8)	(135)	(150)	(200)
Dividend paid (incl tax)	0	0	0	0	0
Others	0	0	288	122	151
<b>Financing cash flow</b>	<b>(141)</b>	<b>3,369</b>	<b>153</b>	<b>(28)</b>	<b>(49)</b>
Net chg in Cash	(227)	1,024	(1,431)	(1,053)	(451)
OCF	(516)	2,353	1,108	1,586	2,241
Adj. OCF (w/o NWC chg.)	453	1,319	647	1,317	2,040
FCFF	(633)	2,236	848	1,286	1,916
FCFE	(699)	2,145	713	1,136	1,716
OCF/EBITDA (%)	(226.5)	171.7	119.5	85.6	80.7
FCFE/PAT (%)	(588.3)	194.1	84.6	72.5	79.7
<b>FCFF/NOPLAT (%)</b>	<b>10,524.8</b>	<b>279.5</b>	<b>214.5</b>	<b>126.9</b>	<b>119.3</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	1,363	3,242	3,242	3,242	3,242
Reserves & Surplus	4,696	7,710	8,552	10,120	12,272
<b>Net worth</b>	<b>6,059</b>	<b>10,953</b>	<b>11,795</b>	<b>13,363</b>	<b>15,514</b>
Minority interests	0	0	0	0	0
Deferred tax liability (net)	14	31	57	22	0
<b>Total debt</b>	<b>922</b>	<b>1,310</b>	<b>1,572</b>	<b>1,729</b>	<b>1,902</b>
<b>Total liabilities &amp; equity</b>	<b>6,995</b>	<b>12,293</b>	<b>13,423</b>	<b>15,113</b>	<b>17,416</b>
Net tangible fixed assets	692	1,154	1,699	2,210	2,662
Net intangible assets	1,833	1,833	1,833	1,833	1,833
Net ROU assets	0	0	0	0	0
Capital WIP	0	5	5	5	5
Goodwill	528	528	528	528	528
Investments [JV/Associates]	790	2,008	3,008	4,008	5,008
<b>Cash &amp; equivalents</b>	<b>3,326</b>	<b>7,793</b>	<b>7,839</b>	<b>8,288</b>	<b>9,339</b>
Current assets (ex-cash)	3,023	3,527	3,757	4,252	5,021
Current Liab. & Prov.	2,669	4,027	4,719	5,483	6,452
<b>NWC (ex-cash)</b>	<b>354</b>	<b>(500)</b>	<b>(961)</b>	<b>(1,231)</b>	<b>(1,432)</b>
<b>Total assets</b>	<b>6,995</b>	<b>12,293</b>	<b>13,423</b>	<b>15,113</b>	<b>17,416</b>
Net debt	(2,404)	(6,483)	(6,268)	(6,559)	(7,438)
Capital employed	6,995	12,293	13,423	15,113	17,416
<b>Invested capital</b>	<b>2,879</b>	<b>2,487</b>	<b>2,571</b>	<b>2,812</b>	<b>3,064</b>
BVPS (Rs)	19.8	35.0	36.4	41.2	47.8
Net Debt/Equity (x)	(0.4)	(0.6)	(0.5)	(0.5)	(0.5)
Net Debt/EBITDA (x)	(10.6)	(4.7)	(6.8)	(3.5)	(2.7)
Interest coverage (x)	0.3	0.1	0.1	0.1	0.1
<b>RoCE (%)</b>	<b>2.8</b>	<b>16.2</b>	<b>9.8</b>	<b>15.8</b>	<b>19.0</b>

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	958.5	105.3	143.1	76.8	56.0
P/CE(x)	309.2	82.5	97.0	58.5	43.5
P/B (x)	18.8	10.6	10.2	9.0	7.8
EV/Sales (x)	7.5	5.7	5.7	4.8	4.0
EV/EBITDA (x)	490.0	80.2	123.2	61.5	40.7
EV/EBIT(x)	(5,067.2)	103.2	216.7	83.7	52.4
EV/IC (x)	38.7	44.2	44.4	40.5	36.9
FCFF yield (%)	(0.6)	2.0	0.7	1.1	1.7
FCFE yield (%)	(0.6)	1.8	0.6	0.9	1.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
<b>DuPont-RoE split</b>					
Net profit margin (%)	0.8	5.8	4.2	6.6	7.5
Total asset turnover (x)	2.0	2.0	1.6	1.7	1.8
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
<b>RoE (%)</b>	<b>1.8</b>	<b>13.0</b>	<b>7.4</b>	<b>12.5</b>	<b>14.9</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	0.0	4.2	2.0	4.3	5.6
IC turnover (x)	5.5	7.2	8.0	8.8	9.7
<b>RoIC (%)</b>	<b>(0.2)</b>	<b>29.8</b>	<b>15.6</b>	<b>37.7</b>	<b>54.7</b>
<b>Operating metrics</b>					
Core NWC days	(21.6)	(21.8)	(32.3)	(34.5)	(34.8)
<b>Total NWC days</b>	<b>8.7</b>	<b>(9.5)</b>	<b>(17.4)</b>	<b>(18.9)</b>	<b>(18.3)</b>
Fixed asset turnover	4.5	5.7	4.8	4.6	4.6
Opex-to-revenue (%)	68.5	62.6	66.2	63.2	61.5

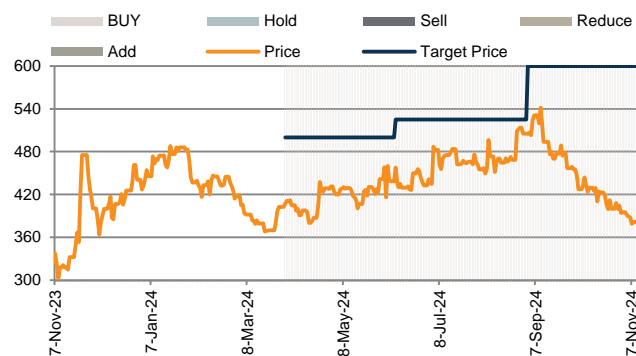
Source: Company, Emkay Research

**RECOMMENDATION HISTORY - DETAILS**

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
02-Oct-24	455	600	Buy	Nitin Gupta
24-Sep-24	474	600	Buy	Nitin Gupta
02-Sep-24	505	600	Buy	Nitin Gupta
11-Aug-24	474	525	Buy	Nitin Gupta
07-Jul-24	482	525	Buy	Nitin Gupta
04-Jul-24	487	525	Buy	Nitin Gupta
26-Jun-24	444	525	Buy	Nitin Gupta
10-Jun-24	458	525	Buy	Nitin Gupta
04-Jun-24	416	500	Buy	Nitin Gupta
24-May-24	431	500	Buy	Nitin Gupta
13-May-24	426	500	Buy	Nitin Gupta
08-May-24	430	500	Buy	Nitin Gupta
01-May-24	431	500	Buy	Nitin Gupta
22-Apr-24	405	500	Buy	Nitin Gupta
15-Apr-24	395	500	Buy	Nitin Gupta
07-Apr-24	405	500	Buy	Nitin Gupta
01-Apr-24	407	500	Buy	Nitin Gupta

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - TREND**



Source: Company, Bloomberg, Emkay Research



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<b>REDUCE</b>	5% upside to 15% downside
<b>SELL</b>	<15% downside

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