

May 23, 2017

Rating matrix	
Rating	: Buy
Target Price	: ₹ 205
Target Period	: 12 months
Potential Upside	: 20%

What's changed?	
Target	Changed from ₹ 180 to ₹ 205
EPS FY18E	Changed from ₹ 8.9 to ₹ 9.0
EPS FY19E	Changed from ₹ 11.1 to ₹ 11.4
Rating	Unchanged

Key financials				
₹ crore	FY16	FY17	FY18E	FY19E
Net Sales	207.0	227.8	264.8	296.5
EBITDA	25.6	29.9	35.0	40.1
Net Profit	10.6	12.7	16.0	20.2
EPS	6.0	7.2	9.0	11.4

Valuation summary				
	FY16	FY17	FY18E	FY19E
P/E	28.7	23.9	19.1	15.1
Target P/E	34.2	28.5	22.7	18.0
EV / EBITDA	14.3	12.8	10.7	9.1
P/BV	4.2	3.6	3.1	2.6
RoNW	14.5	14.9	16.1	17.2
RoCE	16.5	15.1	17.0	18.7
ROIC	15.7	16.6	16.9	18.6

Stock data	
Stock Data	
Market Capitalization	₹ 304 crore
Total Debt (FY17)	₹ 78 crore
Cash and Cash Equivalent (FY17)	₹ 0.5 crore
EV	₹ 382 crore
52 week H/L	176 / 94
Equity Capital	17.7
Face Value	₹ 10
MF Holding (%)	1.4
FII Holding (%)	0.1

Stock data				
	1M	3M	6M	12M
Emmbi Ind	3.7	24.9	49.1	62.1
NeoCorp Int	(5.3)	(12.0)	(36.4)	(44.6)
Kanpur Plastipack	(7.0)	44.7	50.3	55.6

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Emmbi Industries (EMMIND)

₹ 172

New capacity at work; robust prospects...

- In Q4FY17, Emmbi Industries (Emmbi) reported a steady performance with sales growing 12.3% YoY to ₹ 63.2 crore, EBITDA at ₹ 9.0 crore (EBITDA margin 14.2%) and PAT at ₹ 4.1 crore
- For FY17, sales and PAT were at ₹ 229 crore and ₹ 12.7 crore respectively. EPS for FY17 was at ₹ 7.2/share, up 20% YoY
- Emmbi is all set to witness robust sales and profitability growth, going forward, post commissioning of its 3600 tonne pond liner facility in Q4FY17 and 2400 tonne food grade FIBC capacity that will be commissioned by Q1FY18 taking overall capacity to 24200 tonne

Product upgradation, innovation to the core

Emmbi started its journey in 1997 with the manufacture of plain vanilla FIBCs with application in handling of bulk commodities. Thereafter, along its journey till date, Emmbi has been making innovations in its product profile to suit changing market needs. In the FIBC range, it now manufactures FIBC, which are anti corrosive, anti carcinogenic, etc. Emmbi has also launched polymer based flexible water tanks, which are an effective means of storage and transportation of water. The company also manufactures polymer based canal liners, agri products like crop covers, shade nets, etc. In FY17, it launched an 'Aroma Lock' technology that used an aluminium liner to seal the aroma of products like coffee. Thus, the DNA to innovate and adapt to changing market needs gives visibility on long term sales growth and profitability.

Expansion to kick in, volume led growth to follow

Emmbi successfully commissioned its 3600 tonne pond liner facility in Q4FY17. This has been a strategic play by the company to add value at multiple levels such as a shift in its revenue mix from B2B to B2C in order to expand EBITDA margins, strengthen brand image and diversify the current product mix. Emmbi yearns to take its B2C business to 25% of sales from its current level of 3.1% by 2020 by expanding its retail distribution network and leveraging its two brands "Jalsanchay" and "Krushirakshak". The company is also set to commission its 2400 tonne food grade FIBC capacity by Q1FY18. At peak utilisation, this facility is expected to generate revenues of ~₹ 40 crore with 15%+ EBITDA margins thereby providing a thrust to export sales. Therefore, with capacity expansion in space (18200 to 24200 tonne) and robust product demand, we expect volume led growth to sustain with volume CAGR of 11.0% over FY17-9E.

Profitable growth momentum to sustain; retain BUY!

Emmbi is a technical textile player manufacturing polypropylene based FIBCs and other utility products viz. water conservation tanks & farm pond liners. On the back of an impressive capex commissioning, we expect sales, EBITDA and PAT to grow at a CAGR of 14.0%, 15.8% and 26.0%, respectively, in FY17-19E. It includes a conservative margin expansion of 50 bps in the aforesaid period, largely tracking increasing share of value added products. Emmbi has significantly improved its working capital cycle with net working capital days coming in at 126 days in FY17 (171 days in FY15). With limited capex in FY17-19E and sustainable CFO of ~₹ 22 crore, we expect, debt to decline with consequent debt/equity expected to decline to 0.5x by FY19E. Return ratios are also healthy with FY19 RoE and RoCE expected at ~18%. We value Emmbi at ₹ 205, i.e. 18x P/E (0.7x PEG) on FY19E EPS of ₹ 11.4. We maintain our **BUY** recommendation on the stock.

Emmbi exports to over 50 countries and is aiming to establish its own distribution network for overseas business in FY15-19E. All its products are polymer based with polypropylene as its major raw material. In synthetic packaging, it manufactures polymer based flexible intermediate bulk containers (FIBC) that are both generalised as well as embedded with specific properties

Capacity utilisation in FY16 was at 83% & in FY17 at 92%

In 2010, Emmbi got listed on NSE and BSE. The stock got listed at ₹ 45/share. The company garnered ₹ 39 crore, mainly for expanding its manufacturing facilities domestically

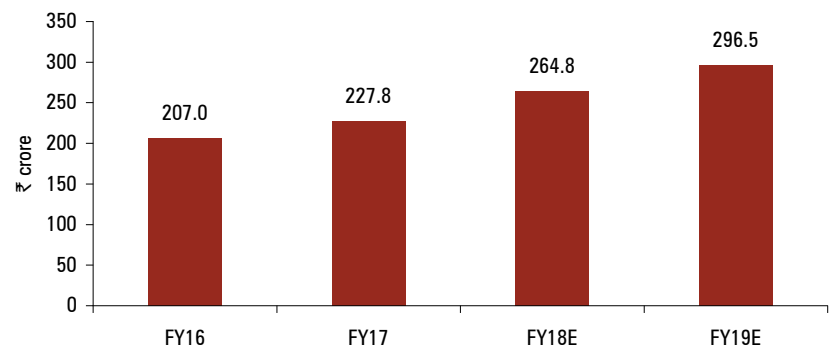
Company Analysis

Emmbi is a technical textile unit based out of Maharashtra, manufacturing synthetic packaging, flexi water tanks and agri products. Emmbi was incorporated in 1994 by first generation entrepreneurs i.e. Makrand Appalwar and Rinku Appalwar, with initial years confined to trading of FIBC with the company venturing into manufacturing of the same in 1997 with a plant in Silvassa. In 2005, Emmbi installed and commissioned the polypropylene based packaging unit with a capacity of 6000 tonne. In 2010, Emmbi launched "Emmbi flexible Tank" for which it has also received requisite patents. In the same year, Emmbi also launched India's first 'Green FIBC' with a single woven polymer. Post IPO, Emmbi expanded its capacity from 6000 tonne to 18200 tonne in phased manner.

Robust revenue growth with increasing share of value added products!

Revenue growth has been robust in the past, with sales increasing at a CAGR of 22.3% in FY12-17. Going forward, with adequate capacities, robust product demand outlook and increasing share of VAPs, we expect Emmbi to clock revenue growth of 14.1% CAGR in FY17-19E.

Exhibit 1: Sales trend

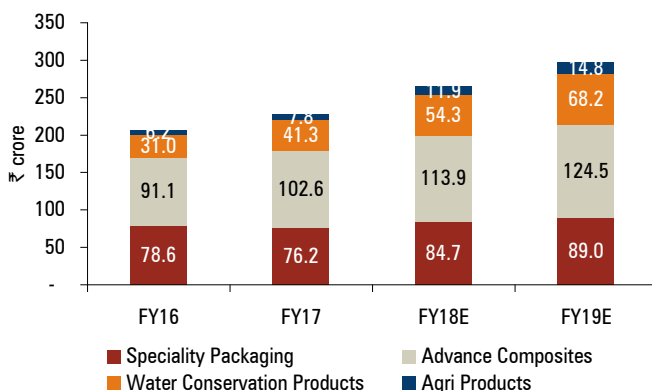


Source: Company, ICICIdirect.com Research

Advance composites, water conservation products and agri products comprise the value added products (VAP) profile

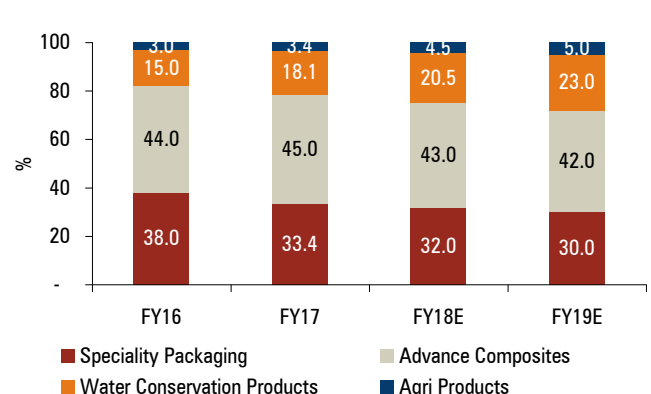
Sales can be broadly classified in four main segments namely speciality packaging (FIBC), advance composites (FIBC+ embedded property), water conservation products and agri products.

Exhibit 2: Revenue break-up (absolute numbers)



Source: Company, ICICIdirect.com Research

Exhibit 3: Revenue break-up (% share)



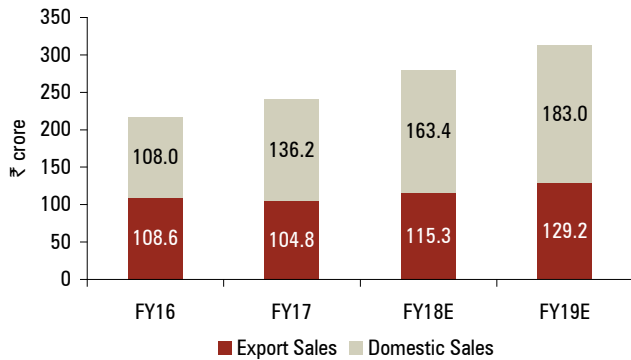
Source: Company, ICICIdirect.com Research

Share of value added products is on the rise with the percentage share of advance composites increasing from 36% in FY15 to 45% in FY17. Going forward, however, the main thrust area for Emmbi will be water conservation products segment, the share of which is expected to increase from 18.1% in FY17 to 23.0% in FY19E.

Share of revenue to be tilted more in favour of domestic sales

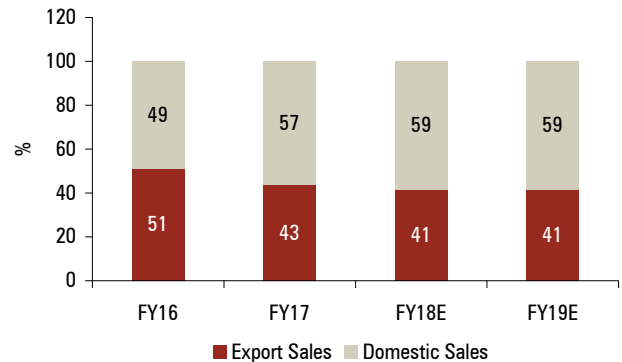
Revenues can also be bifurcated between domestic sales and exports. In FY16, domestic sales constituted 49% of sales while exports constituted 51% of sales. Speciality packaging and advance composites are part of both domestic as well as export sales.

Exhibit 4: Revenue break-up (absolute numbers)



Source: Company, ICICIdirect.com Research

Exhibit 5: Revenue break-up (% share)



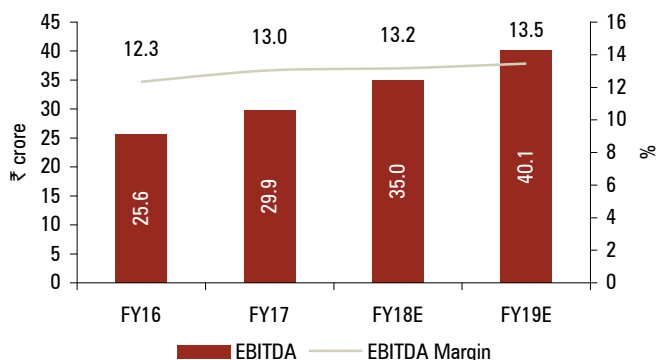
Source: Company, ICICIdirect.com Research

In FY17, domestic sales constituted 57% of total gross sales while export sales share was at 43%. Going forward, with the main thrust on water conservation and agri products, which are intended for domestic markets, the share of revenues will get inclined in favour of domestic sales, which will keep a check on working capital requirements. We expect the share of domestic sales to inch up to 59% by FY19E.

Margin expansion to drive EBITDA, PAT, going forward

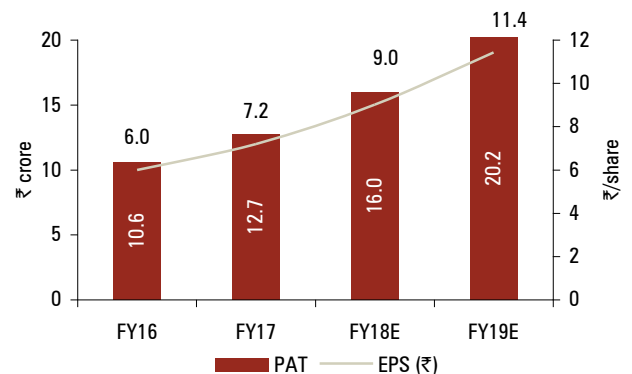
We expect EBITDA to grow at a healthy rate of 15.8% CAGR in FY17-19E on account of expansion in margins by 50 bps in FY17-19E. We expect Emmbi to clock EBITDA margins of 13.2% in FY18E and 13.5% in FY19E vs. 13.0% in FY17. The improvement in EBITDA margins is expected to be largely on the back of an improving product mix in favour of value added products and operating leverage benefits that kick in as capacity utilisation of the current asset base increases.

Exhibit 6: EBITDA & EBITDA margins trend



Source: Company, ICICIdirect.com Research

Exhibit 7: PAT & EPS trend



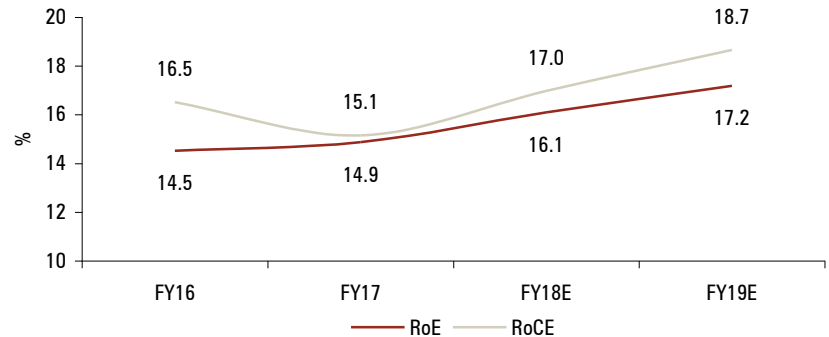
Source: Company, ICICIdirect.com Research

Robust sales growth i.e. 14.1% CAGR in FY17-19E coupled with growth in EBITDA to the tune of 15.8% CAGR in FY17-19E, are expected to drive robust PAT growth. We expect PAT to grow at 26.0% CAGR in FY17-19E to ₹ 20.2 crore in FY19E. EPS in FY18E is expected at ₹ 9.0/share while the same in FY19E is expected at ₹ 11.4/share.

Increasing profitability to result in improved return ratios profile

Return ratios were subdued in the past due to subdued profitability. However, with a robust performance in FY17, the same has improved with both RoE & RoCE coming in at 15%.

Exhibit 8: Return ratios profile

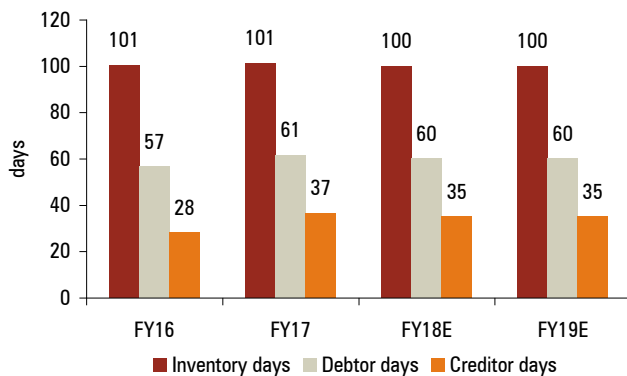


Source: Company, ICICIdirect.com Research

Working capital control; build in conservative estimates

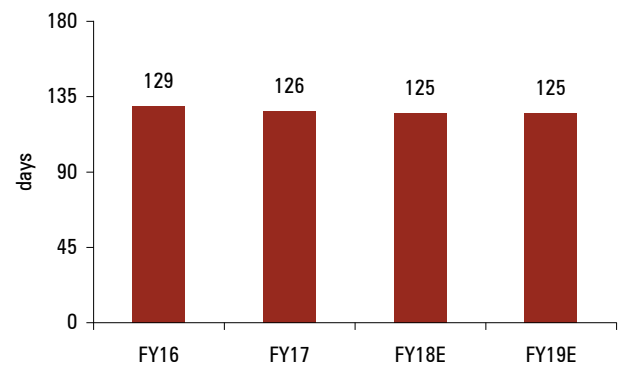
Working capital has been significantly controlled with net working capital (NWC) days coming in at 126 days in FY17 (129 days in FY16). This is on account of better inventory management and extension of creditor days. Going forward, we have build in conservative NWC days.

Exhibit 9: Working capital components (days) trend



Source: Company, ICICIdirect.com Research

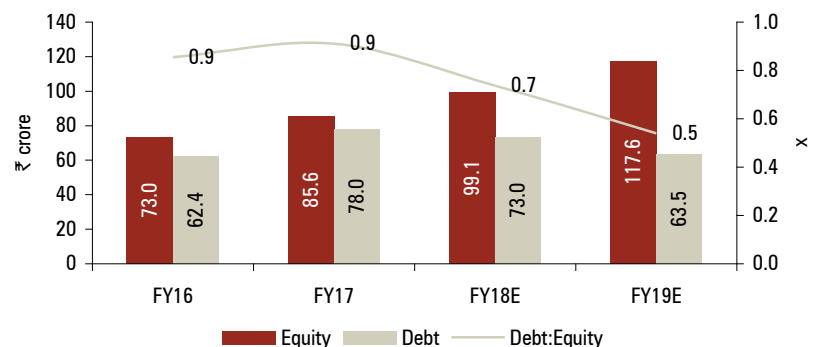
Exhibit 10: Net working capital days trend



Source: Company, ICICIdirect.com Research

Debt gearing on the decline!!

Exhibit 11: Debt: equity profile



Source: Company, ICICIdirect.com Research

In the past, debt gearing was high due to elongated working capital. In FY15, debt: equity was at 1.3x. However, with better working capital control and increasing share of domestic sales, debt gearing has improved. In FY17, debt: equity came in at 0.9x. Going forward, with expansion in place and minimal incremental capex, we expect debt to decline with gearing expected to decline to 0.5x levels by FY19E

Outlook and valuation

Emmbi successfully commissioned its 3600 tonne pond liner facility in Q4FY17. This has been a strategic play by the company to add value at multiple levels such as a shift its revenue mix from B2B to B2C to expand EBITDA margins, strengthen brand image and diversify the current product mix. Emmbi yearns to take its B2C business to 25% of sales from its current level of 3.1% by 2020 by expanding its retail distribution network and leveraging its two brands "Jalsanchay" and "Krushirakshak". The company is also set to commission its 2400 tonne food grade FIBC capacity by Q1FY18. Therefore, with capacity expansion in space and robust product demand, we expect volume led growth to sustain with volume CAGR of 11.0% in FY17-9E.

On the back of an impressive capex commissioning, we expect sales, EBITDA & PAT to grow at a CAGR of 14.0%, 15.8% and 26.0%, respectively, in FY17-19E. It includes a conservative margin expansion of 50 bps in the aforesaid period. With limited capex during FY17-19E and sustainable CFO of ~₹ 22 crore, we expect, debt to decline with consequent debt/equity expected to decline to 0.5x by FY19E. The return ratios are also healthy with FY19 RoE & RoCE expected at ~18%. We value Emmbi at ₹ 205, i.e. 18x P/E (0.7x PEG) on FY19E EPS of ₹ 11.4 and retain our **BUY** rating on the stock.

Exhibit 12: What's changed

Particulars	FY18E			FY19E		
	Old	New	% Change	Old	New	% Change
Revenue	264.0	266.0	0.8	294.8	297.8	1.0
EBITDA	33.9	35.0	3.2	38.5	40.1	4.0
EBITDA Margin %	12.8	13.2	31 bps	13.1	13.5	39 bps
PAT	15.8	16.0	1.0	19.6	20.2	3.1
EPS	8.9	9.0	1.0	11.1	11.4	3.1

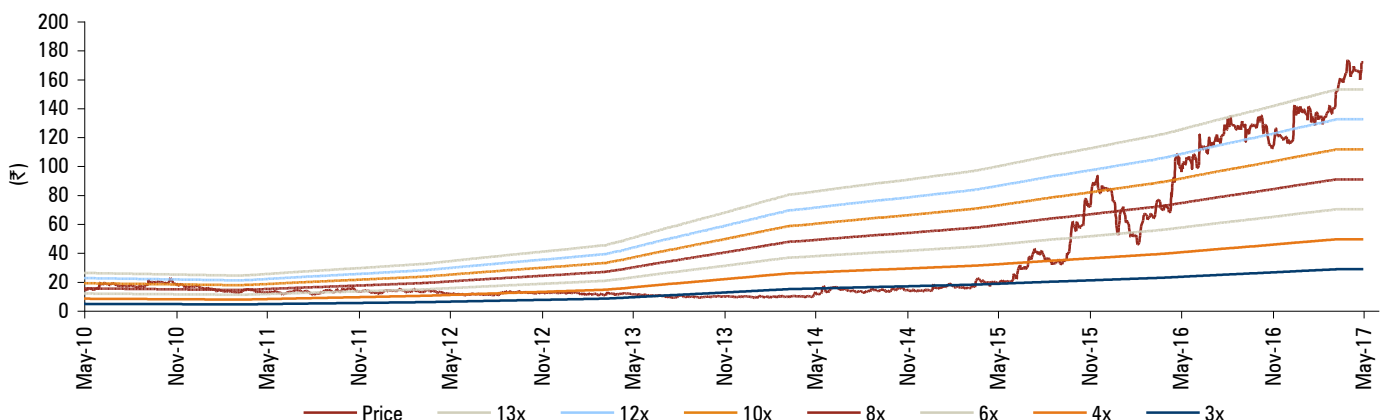
Source: Company, ICICIdirect.com Research

Exhibit 13: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	208.0	13.1	6.0	76.7	28.7	14.3	14.5	16.5
FY17	229.1	10.2	7.2	20.2	23.9	12.8	14.9	15.1
FY18E	266.0	16.1	9.0	25.2	19.1	10.7	16.1	17.0
FY19E	297.8	11.9	11.4	26.7	15.1	9.1	17.2	18.7

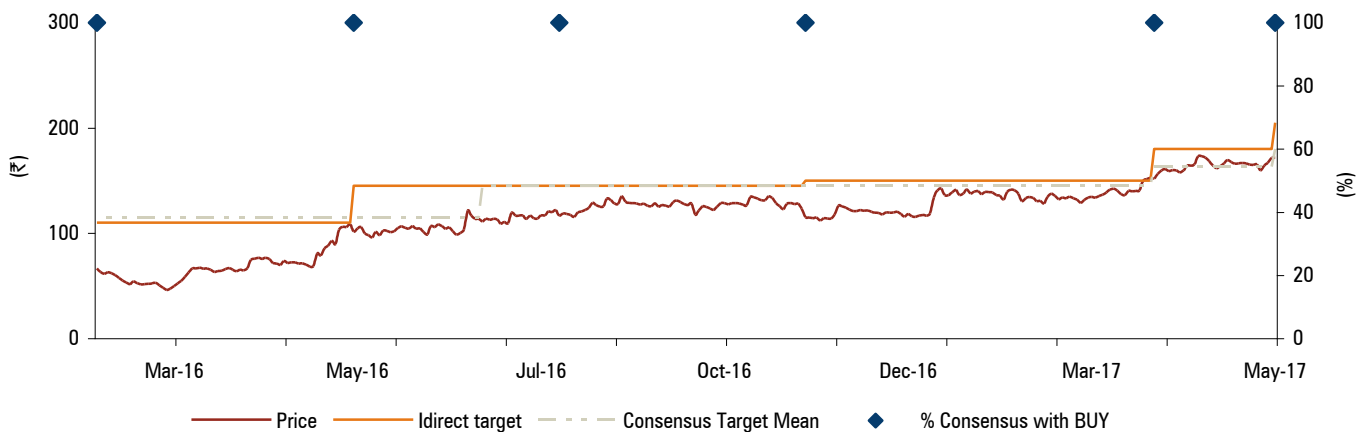
Source: Company, ICICIdirect.com Research

Exhibit 14: Two year forward P/E (Emmbi currently trading at 15.1x)



Source: Reuters, ICICIdirect.com Research

Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICIdirect.com Research; *I-direct coverage on Emmbi Industries Ltd was initiated on December 2015

Key events

Date/Year	Event
2010	Emmbi Polyarns made an Initial Public Offer (IPO) of 8657700 shares at ₹ 10 each at a premium of ₹ 35 aggregating to ₹ 38.9 crores . The company reports its first result after listing with robust performance in Q4FY10. Sales during the quarter came in at ₹ 51.8 crore growing 30% YoY. Net profit in Q4FY10 stood at ₹ 1.77 crore vs. ₹ 1.26 crore in Q4FY09. Emmbi launched "Emmbi flexible Tank" for which it has also received requisite patents. In the same year, Emmbi also launched India's first 'Green FIBC' with a single woven polymer.
2011	Emmbi Polyarns has issued and allotted 12 lac warrants at price of ₹ 17 on preferential basis to the Managing Director and promoter of the company, Mr. Makrand Appalwar. These warrants are convertible into equity shares after 18 months of allotment and completion of payment. This year the company also paid its maiden dividend of ₹ 0.20 per share.
2013	Emmbi Polyarns reports healthy performance in Q4FY13, Sales grew 33% YoY which stood at ₹ 41.1 crore . Sales in FY13 stood at ₹ 140.1 crore growing 39% over previous year. But on the bottom line PAT was flat at ₹ 3.2 crore due to higher finance cost as the long term borrowing increase by ₹ 3.8 crore in FY13. The name of the company was changed from Emmbi Polyarns to Emmbi Industries Ltd.
2014	Emmbi Industries in the process of expanding its capacity from 6000 tonne to 18200 tonne in a phased manner.
2015	Emmbi Industries reports sales at ₹ 183.8 crore in FY15 vs. ₹ 159 crore in FY14. EBITDA margin was at 10.8% expanding 120 bps YoY. PAT grew 34% in FY15 over previous year which stood at ₹ 4.3 crore. Capacity utilization as of FY15 stood at 68%. In FY15, Emmbi for the first time ever clocked export sales of over Rs. 100 crore. In 2015 it launched Agri Business for the crop protection system.
2016	Emmbi's innovation centre gets certification and recognition as R&D centre by Ministry of Science & Technology. The company embarks upon the ambitious capacity expansion of 6000 tonne (existing capacity of 18200 tonne) which it intends to complete by FY17E.
2017	The company successfully commissioned its 3600 tonne pond liner facility in Q4FY17 with the intention to increase its share of B2C revenues. The company launched a new product called 'Aroma Lock' technology that uses an aluminium liner to seal the aroma of products like coffee.

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Appalwar (Makrand Moreshwar)	31-Mar-17	21.6	3.8	0.0
2	Appalwar (Rinku Makrand)	31-Mar-17	13.0	2.3	0.0
3	Emmbi Laboratories Pvt. Ltd.	31-Mar-17	9.4	1.7	0.0
4	Appalwar (Maithili Makrand)	31-Mar-17	6.0	1.1	0.0
5	Maithili Agrotech Pvt. Ltd.	31-Mar-17	6.0	1.1	0.0
6	Appalwar (Mitravinda Moreshwar)	31-Mar-17	1.3	0.2	0.0

Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	57.9	57.9	57.7	57.8	57.8
FII	0.0	0.0	0.0	0.0	1.4
DII	0.0	0.0	0.1	0.1	0.1
Others	42.1	42.1	42.3	42.2	40.7

Source: Reuters, ICICIdirect.com Research

Recent Activity

Buys			Sells		
Investor name	Value (US\$M)	Shares(M)	Investor name	Value (US\$M)	Shares(M)
Emmbi Laboratories Pvt. Ltd.	0.01	0.00	NA		

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement ₹ Crore				
(Year-end March)	FY16	FY17	FY18E	FY19E
Net Sales	207.0	227.8	264.8	296.5
Other Operating Income	1.0	1.2	1.2	1.2
Total Operating Income	208.0	229.1	266.0	297.8
Growth (%)	13.1	10.2	16.1	11.9
Raw Material Expenses	139.7	156.0	180.9	202.5
Employee Expenses	7.8	7.4	8.6	9.7
Other Operating Expense	34.8	35.9	41.5	45.6
Total Operating Expenditure	182.3	199.2	231.0	257.7
EBITDA	25.6	29.9	35.0	40.1
Growth (%)	30.1	16.5	17.1	14.5
Depreciation	3.6	4.2	5.1	5.5
Interest	9.0	8.3	8.5	7.3
Other Income	1.3	0.1	0.5	0.5
PBT	14.3	17.5	21.9	27.7
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	3.7	4.8	5.9	7.5
PAT	10.6	12.7	16.0	20.2
Growth (%)	76.7	20.2	25.2	26.7
EPS (₹)	6.0	7.2	9.0	11.4

Source: Company, ICICIdirect.com Research

Cash flow statement ₹ Crore				
(Year-end March)	FY16	FY17	FY18E	FY19E
Profit after Tax	10.6	12.7	16.0	20.2
Add: Depreciation	3.6	4.2	5.1	5.5
(Inc)/dec in Current Assets	-3.7	-13.5	-12.0	-13.7
Inc/(dec) in CL and Provisions	16.6	6.8	4.7	4.3
Others	9.0	8.3	8.5	7.3
CF from operating activities	36.2	18.4	22.3	23.6
(Inc)/dec in Investments	-0.1	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-10.8	-27.2	-5.0	-5.0
Others	0.8	0.9	0.0	0.0
CF from investing activities	-10.1	-26.3	-5.0	-5.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-18.2	15.6	-5.0	-9.5
Dividend paid & dividend tax	-1.1	-1.1	-1.5	-1.7
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	-9.0	-7.3	-9.5	-7.3
CF from financing activities	-28.3	7.3	-16.0	-18.5
Net Cash flow	-2.2	-0.6	1.3	0.1
Opening Cash	3.3	1.1	0.5	1.8
Closing Cash	1.1	0.5	1.8	1.9

Source: Company, ICICIdirect.com Research

Balance sheet ₹ Crore				
(Year-end March)	FY16	FY17	FY18E	FY19E
Liabilities				
Equity Capital	17.7	17.7	17.7	17.7
Reserve and Surplus	55.3	67.9	81.4	99.9
Total Shareholders funds	73.0	85.6	99.1	117.6
Total Debt	62.4	78.0	73.0	63.5
Deferred Tax Liability	5.7	6.6	6.6	6.6
Total Liabilities	141.1	170.2	178.7	187.7
Assets				
Gross Block	80.5	92.7	112.7	117.7
Less: Acc Depreciation	17.9	22.1	27.2	32.8
Net Block	62.6	70.6	85.4	84.9
Capital WIP	0.0	15.0	0.0	0.0
Total Fixed Assets	62.6	85.6	85.4	84.9
Liquid Investments	0.0	0.0	0.0	0.0
Other Investments	0.4	0.4	0.4	0.4
Inventory	57.0	63.3	72.5	81.2
Debtors	32.1	38.4	43.5	48.7
Loans and Advances	12.0	13.0	10.6	10.4
Other Current Assets	0.0	0.0	0.0	0.0
Cash	1.1	0.5	1.8	1.9
Total Current Assets	102.2	115.1	128.5	142.3
Creditors	15.9	22.8	25.4	28.4
Provisions	8.1	8.0	10.2	11.4
Current Liabilities & Prov	24.0	30.8	35.5	39.8
Net Current Assets	78.1	84.3	92.9	102.5
Application of Funds	141.1	170.2	178.7	187.7

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17	FY18E	FY19E
Per share data (₹)				
EPS	6.0	7.2	9.0	11.4
Cash EPS	8.0	9.6	11.9	14.5
BV	41.2	48.4	56.0	66.5
DPS	0.6	0.6	0.8	1.0
Cash Per Share (Incl Invst)	0.6	0.3	1.0	1.1
Operating Ratios (%)				
EBITDA Margin	12.3	13.0	13.2	13.5
PBT / Total Op. income	6.9	7.7	8.2	9.3
PAT Margin	5.1	5.6	6.0	6.8
Inventory days	101	101	100	100
Debtor days	57	61	60	60
Creditor days	28	37	35	35
Return Ratios (%)				
RoE	14.5	14.9	16.1	17.2
RoCE	16.5	15.1	17.0	18.7
RoIC	15.7	16.6	16.9	18.6
Valuation Ratios (x)				
P/E	28.7	23.9	19.1	15.1
EV / EBITDA	14.3	12.8	10.7	9.1
EV / Net Sales	1.8	1.7	1.4	1.2
Market Cap / Sales	1.5	1.3	1.1	1.0
Price to Book Value	4.2	3.6	3.1	2.6
Solvency Ratios				
Debt/EBITDA	2.4	2.6	2.1	1.6
Debt / Equity	0.9	0.9	0.7	0.5
Current Ratio	4.2	3.7	3.6	3.5
Quick Ratio	1.8	1.7	1.5	1.5

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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