

# EMMBI Industries Ltd.



**POND LINER**



**FIBC FOR ASBESTOS**

# Emmbi Industries Ltd

**Improvement in operational efficiency to sustain!**

|                       |                          |                                |                                     |                              |                                             |
|-----------------------|--------------------------|--------------------------------|-------------------------------------|------------------------------|---------------------------------------------|
| CMP<br><b>INR 194</b> | Target<br><b>INR 281</b> | Potential Upside<br><b>45%</b> | Market Cap (INR Mn)<br><b>3,411</b> | Recommendation<br><b>BUY</b> | Sector<br><b>Containers &amp; Packaging</b> |
|-----------------------|--------------------------|--------------------------------|-------------------------------------|------------------------------|---------------------------------------------|

## Result highlights:

- The company's net sales stood at INR 665.7 Mn which grew by 10.53% q-o-q and 19.88% y-o-y, owing to strong demand scenario in domestic market. Revenue of the company was in line with our estimates of INR 667.8 Mn.
- EBIDTA stood at INR 92.6 Mn which reported a robust growth of 39.29% y-o-y and 11.16% q-o-q. Company reported EBIDTA margin of 13.9%, which improved by 194 bps y-o-y and was in line with the margins of Q2FY18. Increase in margins on y-o-y basis was majorly on account of reduction in other cost and favorable product mix.
- PAT came in at INR 39 Mn which increased by 62.74% y-o-y and 3.98% q-o-q. PAT Margin stood at 5.9% which improved by 154 bps y-o-y but declined marginally by 37 bps q-o-q. PAT of the company was below our estimates of INR 42.5Mn.

## MARKET DATA

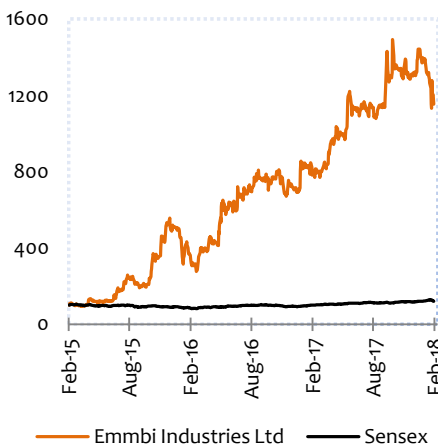
|                     |         |
|---------------------|---------|
| Shares outs (Mn)    | 17      |
| Equity Cap (INR Mn) | 177     |
| Mkt Cap (INR Mn)    | 3411    |
| 52 Wk H/L (INR)     | 264/124 |
| Volume Avg (3m K)   | 25      |
| Face Value (INR)    | 10      |
| Bloomberg Code      | EMMB IN |

## KEY FINANCIALS

| Particulars (INR Mn) | FY16   | FY17   | FY18E  | FY19E  | FY20E  |
|----------------------|--------|--------|--------|--------|--------|
| Net Sales            | 2176.7 | 2409.9 | 2776.3 | 3202.6 | 3521.1 |
| EBITDA               | 256.0  | 298.9  | 339.7  | 436.6  | 546.8  |
| APAT                 | 106.4  | 127.4  | 166.9  | 244.1  | 331.7  |
| EPS                  | 6.0    | 7.2    | 9.4    | 13.8   | 18.8   |
| OPM (%)              | 11.8%  | 12.4%  | 12.2%  | 13.6%  | 15.5%  |
| NPM (%)              | 4.9%   | 5.3%   | 6.0%   | 7.6%   | 9.4%   |
| PE (x)               | 37.4   | 31.2   | 20.6   | 14.1   | 10.3   |

Source: Company, KRChoksey Research

## SHARE PRICE PERFORMANCE



## MARKET INFO

|        |       |
|--------|-------|
| SENSEX | 34083 |
| NIFTY  | 10477 |

## Innovative products to fuel future growth:

The revenues of Emmbi Industries Ltd grew by 19.88% y-o-y in Q3FY18, majorly on the back of healthy demand scenario in the domestic markets coupled with growth of ~7% y-o-y in exports business (exports contribute ~45.42% of the total revenues). Further, increase in B2C contribution to 7.6% via strong brand building activities like village meetings and agro-exhibitions has aided higher top-line growth of the company. The company aims to achieve ~22% of its total revenues from B2C business by FY20-22 by increasing their distribution networks. EIL is setting up a wholly owned subsidiary “Emmbi Watcon” to create special focus on canal liners in-order to enhance the efficiency of large dams; flexi tanks for rural transportation and evaporation management for improving the storage efficiency. This should boost the water conservation segment of the company. Going forward, we expect company's top-line to witness 13.5% CAGR over FY17-FY20E scaling to INR 3,521.1 Mn. Speciality packaging segment of the company is expected to grow at 7% over FY17-FY20E, with contribution to the total revenue decreasing from ~33.43% in FY17 to ~28% by FY20E. Advance Composites' segment is expected to deliver 10% CAGR over FY17-FY20E and contribute ~41% to company's revenue by FY20 from 45% in FY17. Water conservation segment that contributes 18.11% to the total revenue in FY17 is expected to grow to 25% by FY20E with growth of 26.3% over the same period led by increase in use of micro irrigation. Likewise, Agri Products of EIL are expected to grow at 36.6% CAGR over FY17-FY20E on the back of various factors including Government of India's (GOI) mission to double farmers income by 2020.

## SHARE HOLDING PATTERN (%)

| Particulars | Dec 17 | Sep 17 | Jun 17 |
|-------------|--------|--------|--------|
| Promoters   | 57.78  | 57.78  | 57.78  |
| FIIIs       | 7.3    | 6.69   | 3.96   |
| DIIIs       | 0.08   | 0.08   | 0.16   |
| Others      | 34.84  | 35.45  | 38.09  |
| Total       | 100    | 100    | 100    |

13.5%

Revenue CAGR OVER FY 17 to FY 20E

37.6%

PAT CAGR over FY 17 to FY 20E

## ANALYST

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## Emmbi Industries Ltd

### **Favorable product mix coupled with financial de-leveraging to improve overall profitability:**

The company in last four years has been improving its EBITDA margin from 9% in FY13 to 13% in FY17 driven by cost optimization program and stable input cost. Further, shift in product mix towards margin lucrative segments and strong brand equity ("Emmbi KrishiRakshak" and "Emmbi Jalasanchay" aided to growth in margins. Going ahead, EIL's continuous efforts of cost rationalization along with improvement in capacity utilization and shift in company's product mix towards higher margin contributors should enable the company to improve their operating margins to 15.5%; growth of 250 bps over FY17-FY20E. This along with expected reduction in finance cost should boost PAT margins to 9.4% by FY20E from 5.6% in FY17.

### **Outlook and Valuation:**

We strongly believe in EIL'S growth story led by its unique offerings of innovative solutions, changing customer mix leading to superior profitability. We reckon company should largely benefit out of GOI's focus on water conservation, enhanced thrust on micro irrigation (potential of micro irrigation is 69mn hectares), mission to double farm income by 2020 and EIL's strong brand image. Consequently, we remain optimistic about company's growth and estimate revenue/EBITDA/PAT to grow by 13.5%/22.3%/37.6% respectively over FY17-FY20E

Further, we expect ROE/ROCE to increase from 14.6%/15.2% in FY16 to 21.4% /22.0% by FY20E respectively. At CMP of INR 194, EMI is currently trading at 20.6x on FY18 EPS of INR 9.4, 14.1x on FY19 EPS of INR 13.8 and 10.3x on FY20 EPS of INR 18.8. We assign a PE of 15X on FY20 EPS of INR 18.8 to arrive at a target price INR 281 indicating an upside of 45% from current CMP. We maintain our BUY rating on the stock.

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## Q3FY18 Result Snapshot

### Exhibit 1: Result Update (INR Mn)

| Particulars (Mn)                   | Q3FY18       | Q2FY18       | Q3FY17       | Q-o-Q           | Y-o-Y           |
|------------------------------------|--------------|--------------|--------------|-----------------|-----------------|
| <b>Net Sales</b>                   | <b>665.7</b> | <b>602.3</b> | <b>555.3</b> | <b>10.5%</b>    | <b>19.9%</b>    |
| Total Expenditure                  | 573.2        | 519.0        | 488.9        | 10.4%           | 17.2%           |
| (Increase) / Decrease In Stocks    | 12.3         | 0.5          | -13.5        | 2366.0%         | -103.7%         |
| Purchase of Finished Goods         | 46.6         | 47.8         | 75.6         | -2.5%           | -38.3%          |
| Cost of Raw Materials              | 388.3        | 354.3        | 311.5        | 9.6%            | 24.6%           |
| Other cost                         | 88.4         | 88.0         | 94.5         | 0.5%            | -6.4%           |
| Employee Cost                      | 37.5         | 28.5         | 20.7         | 31.8%           | 81.0%           |
| <b>PBIDT (Excl OI)</b>             | <b>92.6</b>  | <b>83.3</b>  | <b>66.5</b>  | <b>11.2%</b>    | <b>39.3%</b>    |
| <b>EBITDA Margins (%)</b>          | <b>13.9%</b> | <b>13.8%</b> | <b>12.0%</b> | <b>7.8bps</b>   | <b>193.7bps</b> |
| Depreciation                       | 14.1         | 12.8         | 10.7         | 10.2%           | 32.7%           |
| <b>EBIT &amp; Exceptional Item</b> | <b>78.4</b>  | <b>70.5</b>  | <b>55.8</b>  | <b>11.3%</b>    | <b>40.5%</b>    |
| Other Income                       | 0.1          | 0.4          | 0.1          | -83.7%          | -12.5%          |
| <b>EBIT</b>                        | <b>78.5</b>  | <b>70.9</b>  | <b>55.9</b>  | <b>10.7%</b>    | <b>40.5%</b>    |
| Interest                           | 26.0         | 21.7         | 22.5         | 20.1%           | 15.6%           |
| EBT                                | 52.5         | 49.2         | 33.4         | 6.6%            | 57.2%           |
| Tax                                | 13.5         | 11.7         | 9.4          | 15.2%           | 43.3%           |
| <b>PAT</b>                         | <b>39.0</b>  | <b>37.5</b>  | <b>23.9</b>  | <b>4.0%</b>     | <b>62.7%</b>    |
| <b>PAT Margin (%)</b>              | <b>5.9%</b>  | <b>6.2%</b>  | <b>4.3%</b>  | <b>-36.9bps</b> | <b>154.1bps</b> |
| <b>EPS</b>                         | <b>2.2</b>   | <b>2.1</b>   | <b>1.4</b>   | <b>3.8%</b>     | <b>63.0%</b>    |

Source: Company, KRChoksey Research

### Key Con-call Highlights:

- EIL has developed “Manufacturing 4.0”- A Step Forward with State of the Art IOT technology to enhance the efficiency of the machines. Currently, four machines are using this technology and the entire fleet of machines will be upgraded to “Manufacturing 4.0” by Q1FY19.
- Company aims to increase EBIDTA margins by 25 bps every quarter and have an EBIDTA margin of ~16% by FY20.
- Management of the company has directed a 15-18% growth in its top-line for FY18 achieving revenues of INR 4,000 Mn by FY20.
- Capacity of the company stands at 24,000 MTPA with no plans of capacity addition currently. EIL will incur capex of INR 30-50 Mn for R&D.
- Exports of EIL grew by 7% y-o-y on account of increase in demand from US markets.
- Currently EIL caters its products in the state of Maharashtra and Rajasthan. Going forward, the company plans to enter four additional states including the likes of Madhya Pradesh and Karnataka.

### ANALYST

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# Emmbi Industries Ltd

## Exhibit 2: Income Statement

| INR Mn                       | FY16          | FY17          | FY18E         | FY19E         | FY20E         |
|------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Total Sales</b>           | <b>2079.4</b> | <b>2290.7</b> | <b>2776.3</b> | <b>3202.6</b> | <b>3521.1</b> |
| Total Raw Materials          | 1397.6        | 1559.6        | 1923.0        | 2178.7        | 2328.5        |
| COGS                         | 1397.6        | 1559.6        | 1923.0        | 2178.7        | 2328.5        |
| Personnel Cost               | 78.0          | 73.7          | 97.2          | 106.9         | 117.6         |
| Other Cost                   | 347.8         | 358.5         | 416.4         | 480.4         | 528.2         |
| <b>EBITDA</b>                | <b>256.0</b>  | <b>298.9</b>  | <b>339.7</b>  | <b>436.6</b>  | <b>546.8</b>  |
| Depreciation                 | 35.7          | 41.7          | 50.7          | 55.7          | 60.6          |
| EBIT                         | 220.3         | 257.2         | 289.0         | 380.9         | 486.2         |
| Interest & Finance charges   | 90.2          | 82.7          | 80.6          | 73.6          | 58.9          |
| EBT (excluding other income) | 130.1         | 174.6         | 208.4         | 307.4         | 427.2         |
| Other Income                 | 13.1          | 0.9           | 8.3           | 9.6           | 3.5           |
| <b>EBT (as reported)</b>     | <b>143.2</b>  | <b>175.5</b>  | <b>216.7</b>  | <b>317.0</b>  | <b>430.8</b>  |
| Tax                          | 36.8          | 48.1          | 49.9          | 72.9          | 99.1          |
| <b>PAT</b>                   | <b>106.4</b>  | <b>127.4</b>  | <b>166.9</b>  | <b>244.1</b>  | <b>331.7</b>  |

Source: Company, KRChoksey Research

## Exhibit 3 : Balance Sheet

| INR Mn                    | FY16   | FY17   | FY18E  | FY19E  | FY20E  |
|---------------------------|--------|--------|--------|--------|--------|
| Equity Share Capital      | 176.9  | 176.9  | 176.9  | 176.9  | 176.9  |
| Reserves                  | 552.7  | 679.9  | 821.9  | 1041.1 | 1372.7 |
| Net worth                 | 729.6  | 856.8  | 998.8  | 1218.0 | 1549.6 |
| Total loans               | 590.9  | 746.7  | 805.9  | 735.9  | 535.9  |
| Capital Employed          | 1447.9 | 1748.1 | 1899.5 | 2063.2 | 2205.7 |
| Gross Block               | 805.4  | 1073.1 | 1173.1 | 1273.1 | 1373.1 |
| Depreciation              | 179.4  | 216.8  | 267.5  | 323.2  | 383.8  |
| Net block                 | 618.0  | 801.8  | 905.6  | 950.0  | 989.3  |
| Investments               | 3.5    | 3.5    | 3.5    | 3.5    | 3.5    |
| Inventories               | 570.0  | 632.9  | 732.9  | 816.0  | 902.0  |
| Sundry debtors            | 321.2  | 383.7  | 394.0  | 394.8  | 405.2  |
| Cash and bank             | 10.5   | 4.3    | 5.3    | 70.4   | 76.0   |
| Loans and advances        | 66.9   | 65.9   | 88.8   | 102.5  | 112.7  |
| Total Current assets      | 968.5  | 1086.8 | 1221.0 | 1383.7 | 1495.8 |
| Total Current liabilities | 203.2  | 262.4  | 300.5  | 354.1  | 370.9  |
| Net Current assets        | 765.4  | 824.4  | 920.5  | 1029.7 | 1124.9 |
| Capital Deployed          | 1447.9 | 1748.1 | 1899.5 | 2063.2 | 2205.7 |

Source: Company, KRChoksey Research

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## Exhibit 4 : Cash flow statement

| INR Mn                                   | FY16          | FY17          | FY18E         | FY19E         | FY20E         |
|------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Profit before tax</b>                 | <b>143.2</b>  | <b>175.5</b>  | <b>216.7</b>  | <b>317.0</b>  | <b>430.8</b>  |
| Depreciation & Amortization              | 36.7          | 41.7          | 50.7          | 55.7          | 60.6          |
| Finance cost                             | 90.2          | 82.7          | 80.6          | 73.6          | 58.9          |
| (Incr)/Decr in Working Capital           | 112.0         | -61.7         | -144.9        | -29.5         | -78.8         |
| <b>Cash Flow from Operating</b>          | <b>366.9</b>  | <b>201.8</b>  | <b>153.3</b>  | <b>343.9</b>  | <b>372.5</b>  |
|                                          |               |               |               |               |               |
| Changes In total Fixed Assets            | -66.6         | -108.0        | -100.0        | -100.0        | -100.0        |
| <b>Cash Flow from Investing</b>          | <b>-107.8</b> | <b>-273.2</b> | <b>-106.0</b> | <b>-110.2</b> | <b>-108.0</b> |
|                                          |               |               |               |               |               |
| (Decr)/Incr in Debt                      | -181.4        | 161.8         | 59.2          | -70.0         | -200.0        |
| Interest paid on Loan                    | -90.2         | -82.7         | -80.6         | -73.6         | -58.9         |
| <b>Cash Flow from Financing</b>          | <b>-281.2</b> | <b>65.6</b>   | <b>-46.3</b>  | <b>-168.5</b> | <b>-258.9</b> |
|                                          |               |               |               |               |               |
| <b>Incr/(Decr) in Balance Sheet Cash</b> | <b>-22.1</b>  | <b>-5.8</b>   | <b>0.9</b>    | <b>65.1</b>   | <b>5.6</b>    |
| <b>Cash at the Start of the Year</b>     | <b>32.9</b>   | <b>10.5</b>   | <b>4.6</b>    | <b>5.6</b>    | <b>70.7</b>   |
| <b>Cash at the End of the Year</b>       | <b>10.8</b>   | <b>4.6</b>    | <b>5.6</b>    | <b>70.7</b>   | <b>76.3</b>   |

Source: Company, KRChoksey Research

## Exhibit 5 : Ratio Analysis

| INR Mn                      | FY16  | FY17  | FY18E | FY19E | FY20E |
|-----------------------------|-------|-------|-------|-------|-------|
| <b>Growth (%)</b>           |       |       |       |       |       |
| Total Sales                 | 13.1  | 10.2  | 21.2  | 15.4  | 9.9   |
| EBITDA                      | 30.2  | 16.8  | 13.7  | 28.5  | 25.2  |
| APAT                        | 78.3  | 19.8  | 31.0  | 46.2  | 35.9  |
| <b>Profitability (%)</b>    |       |       |       |       |       |
| EBITDA Margin               | 12.3  | 13.0  | 12.2  | 13.6  | 15.5  |
| Adj. Net Profit Margin      | 5.1   | 5.6   | 6.0   | 7.6   | 9.4   |
| ROE                         | 14.6% | 14.9% | 16.7% | 20.0% | 21.4% |
| ROCE                        | 15.2% | 14.7% | 15.2% | 18.5% | 22.0% |
| <b>Per Share Data (Rs.)</b> |       |       |       |       |       |
| AEPS                        | 6.0   | 7.2   | 9.4   | 13.8  | 18.8  |
| BVPS                        | 41.2  | 48.4  | 56.5  | 68.8  | 87.6  |
| <b>Valuations (x)</b>       |       |       |       |       |       |
| PER (x)                     | 37.4  | 31.2  | 20.6  | 14.1  | 10.3  |
| P/BV (x)                    | 5.5   | 4.6   | 3.4   | 2.8   | 2.2   |
| <b>Turnover days</b>        |       |       |       |       |       |
| Debtor Days                 | 57.5  | 56.2  | 51.1  | 45.0  | 41.5  |
| Payable Days                | 35.9  | 54.5  | 53.4  | 54.8  | 56.8  |
| <b>Gearing Ratio</b>        |       |       |       |       |       |
| D/E                         | 0.8   | 0.9   | 0.8   | 0.6   | 0.3   |

Source: Company, KRChoksey Research

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| Emmbi Industries Ltd |           |          |                 | Rating Legend |                |
|----------------------|-----------|----------|-----------------|---------------|----------------|
| Date                 | CMP (INR) | TP (INR) | Recommendati on | Our Rating    | Upside         |
| 8-Feb-18             | 194       | 281      | BUY             | Buy           | More than 15%  |
| 15-Nov-17            | 225       | 265      | BUY             | Accumulate    | 5% – 15%       |
| 14-Aug-17            | 184       | 214      | BUY             | Hold          | 0 – 5%         |
| 23-May-17            | 171       | 208      | BUY             | Reduce        | -5% – 0        |
| 15-Feb-17            | 128       | 181      | BUY             | Sell          | Less than – 5% |
| 5-Jan-17             | 144       | 176      | BUY             |               |                |
| 9-Dec-16             | 120       | 176      | BUY             |               |                |
| 18-Nov-16            | 115       | 161      | BUY             |               |                |
| 12-Aug-16            | 119       | 169      | BUY             |               |                |

**ANALYST CERTIFICATION:**  
We, Kunal Shah (BE), research analyst and Udit Gajjiwala (B.Com), research associate, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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