

EMMBI Industries Ltd.



Emmbi Industries Ltd.

Quarter affected by COVID disruptions; volume down 25%

CMP INR 81	Target INR 96	Potential Upside 19.2%	Market Cap (INR Mn) INR 1,428	Recommendation BUY	Sector Containers & Packaging
---------------	------------------	---------------------------	----------------------------------	-----------------------	----------------------------------

Q1FY21 Result highlights:

- Emmbi Industries's Q1FY21 revenue from operations declined 24.1% YoY to INR 508 mn (-32.0% QoQ) due to decline in volume as well as realization owing to COVID-19.
- EBITDA declined 36.0% YoY (down 31.1% QoQ) to INR 59 mn while EBITDA margin contracted by 216bps YoY (+15bps QoQ) to 11.6%.
- Depreciation & finance cost stood at INR 17.5 mn/28.7 mn respectively for the quarter.
- Net Profit stood at INR 11 mn for the quarter; down 69.2% YoY (down 71.7% QoQ). Net Profit margin thus stood at 2.1% in Q1FY21 (vs 5.1%/5.0% in Q1FY20/Q4FY20), a contraction of 305bps YoY (-293bps QoQ).

MARKET DATA

Shares O/S (Mn)	17.69
Equity Cap (INR Mn)	1,284
Mkt Cap (INR Mn)	1,428
52 Wk H/L (INR)	140/40
Volume Avg (3m K)	14.5
Face Value (INR)	10.0
Bloomberg Code	EMMB IN

KEY FINANCIALS

INR Millions	FY 18	FY 19	FY 20	FY 21E	FY 22E
Revenue	2,546	2,891	3,041	3,221	3,568
EBITDA	352	410	374	394	466
PAT	154	179	148	160	213
EPS (INR)	8.7	10.1	8.3	9.1	12.0
EBITDA Margin	13.8%	14.2%	12.3%	12.2%	13.1%
NPM	6.0%	6.2%	4.9%	5.0%	6.0%

Source: Company, KRChoksey Research

Plant shut-downs & unavailability of daily wage laborers affects operations

Emmbi reported 25% YoY decline in volume in Q1FY21 on account of reduced operating days in the initial period of lockdown and the exodus of laborers to their native places at the end of the quarter. Due to lockdown Emmbi's plants were completely shut for first nine days of lockdown and then gradually started operating at 20%, which improved to 50% (from 24th April) and to 80% by 3rd May. Though performance of exports was better, domestic packaging was worst affected due to arrest of economic activity in the country (especially from FMCG segment).

Presently company is having an order book of around 12 to 16 weeks of exports and around 1 week for the domestic packaging which is around 50% of the regular time order book. The demand in the B2C rural agri distribution is stable and on expected lines. Pond run rate (number of ponds per day) was slightly higher at around 13 ponds a day during the quarter.

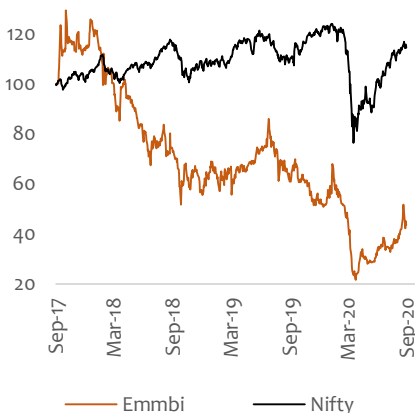
EBITDA contraction due to higher employee cost/other expenses with low revenue:

Gross Margin in Q1FY21 stood at 41.5% (+544bps/555bps YoY/QoQ) due to lower material cost & muted revenue base. Contraction in EBITDA margin to 11.6% in Q1FY21 (-216bps YoY) can be attributed to higher employee cost at 7.7% of revenue vs 5.2% in Q1FY20 (no salary cuts) & higher other expenses at 22.2% of revenue vs 17.1% in Q1FY20 due to expense incurred for COVID-19 related precautions. Company expects to end the full year with EBITDA margin of 13% as reduced R&D, travelling & admin expenses will improve EBITDA margin in coming quarters. Due to COVID-19 related safety precautions, Q1FY21 had higher other expenses. Depreciation & finance cost stood at INR 17.5 mn/28.7 mn for the quarter.

Capex on hold due to no immediate requirement:

Company wouldn't be doing additional capex in FY21 & putting it on hold as there is no immediate requirement. Depreciation expense to remain at same level going forward as company is holding back capex.

SHARE PRICE PERFORMANCE



MARKET INFO

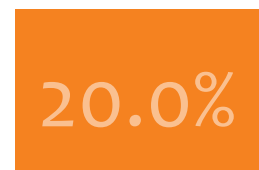
SENSEX	38,357
NIFTY	11,334

SHARE HOLDING PATTERN (%)

Particulars	Jun-20	Mar-20	Dec-19
Promoters	58.16	58.16	57.82
FIs	6.91	6.91	6.91
DIs	2.73	2.73	2.48
Others	32.2	32.2	32.79
Total	100	100	100



Revenue CAGR between FY20 and FY22E



PAT CAGR between FY20 and FY22E

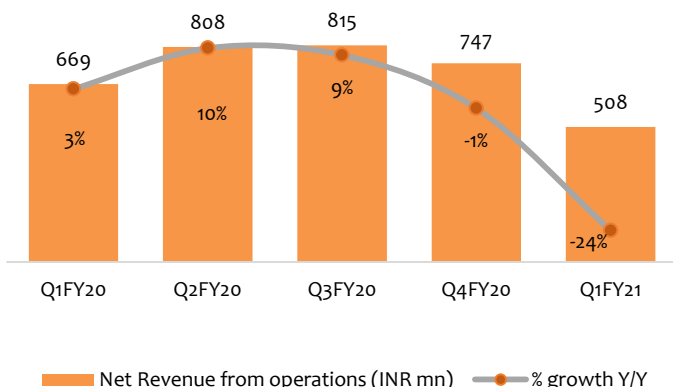
Emmbi Industries Ltd.

Key Concall Highlights: (i) Reiterated guidance for Avana at topline of ~INR 100 Cr in FY21 (INR 10 Cr from small products while INR 90 Cr from Jalasanchay) (ii) New incentive scheme will replace the existing one (iii) Social media presence to be seen from October onwards as company had increased spend on advertisement & promotional activities (iv) Retail business was affected as retailers were shut; were operating for restricted hours or preventing sales force. Hence, focus shifted more on cross selling to its existing customer base to get more out of its distribution reach (v) Avana division to see 50-60% growth (vi) Q2FY21 to see topline decline of 8-10% (as first 2 months were under lockdown), Q3FY21 to be flat while Q4FY21 to witness little growth.

Valuation and view

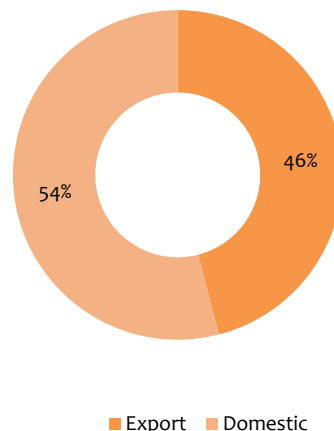
Company faced challenges due to COVID-19 in terms of reduced operating days (due to plant shut down), exodus of migrant workers, restricted movement of sales force & low demand from domestic packaging division; though exports performed well & have a strong orderbook. Despite this, company was able to post profit without reducing the staff salaries. Going forward, management expects improvement in EBITDA margin with reduced R&D cost, low travelling/admin expenses & increased efficiency. Avana which focuses on B2C segment is continuing to expand and is expected to clock in INR 100 Cr in FY21. In the light of management guidance we have revised our FY21 Revenue/PAT downward by 12.0%/21% and for FY22 downwards by 6.0%/5.0% and now expect the Revenue/PAT growth for the company at 8.3%/20.0%, respectively, over FY20-22E. **Shares of the company have rallied ~19% since our Q4FY20 earnings update and are currently trading at PE valuation of 9.0x/6.7x on FY21E/FY22E earnings. Expecting a recovery in upcoming quarters & fairly stable margins, we raise our P/E multiple to 8.0x (earlier 7.5x) on FY22E EPS of INR 12.0/share and maintain our target price of INR 96/share, an upside of 19.2% over the CMP. Accordingly, we reiterate a “BUY” rating on the shares of Emmbi Industries.**

Less operating days & reduced capacity utilization affected top line



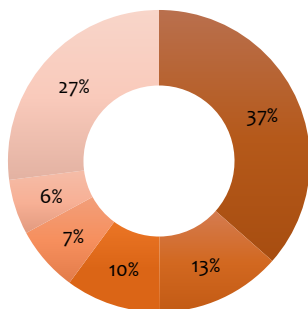
Source: Company, KRChoksey Research

Exports to grow further



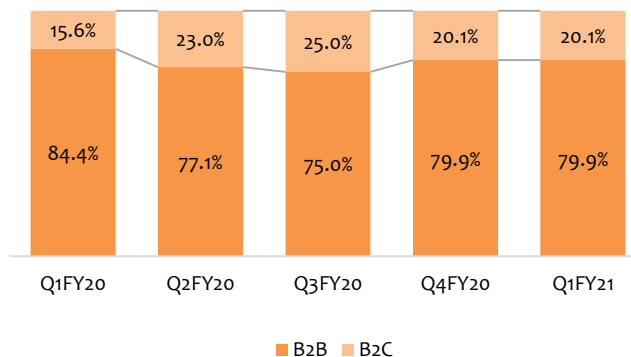
Source: Company, KRChoksey Research

Q1FY21 Geographic Breakup



Source: Company, KRChoksey Research

B2B - B2C mix (%) - There will be further expansion in B2C market with the help of Avana



Source: Company, KRChoksey Research

Emmbi Industries Ltd.

KEY FINANCIALS

Exhibit 1: Balance Sheet

INR Millions	FY 18	FY 19	FY 20	FY 21E	FY 22E
Inventories	697	729	787	823	1,092
Trade receivables	370	452	520	512	465
Cash and Cash eq	26	28	19	156	125
Bank balances other than cash and cash eq	11	10	18	18	18
Other current assets	181	155	161	202	231
Total Current Assets	1,285	1,373	1,504	1,711	1,931
Property, plant and equipment	1,002	1,082	1,150	1,158	1,193
Capital work in progress	36	37	61	61	61
Intangible assets	66	92	107	112	118
Financial assets	8	8	12	12	12
DTA	31	23	21	22	23
Income tax asset	55	110	130	137	144
Other non current assets	1	0	0	0	0
Total non-current assets	1,199	1,352	1,481	1,502	1,551
Total Assets	2,484	2,726	2,985	3,213	3,482
Liabilities and equity					
Borrowings	519	609	716	730	745
Trade Payables	241	273	264	306	339
Other financial liabilities	84	104	106	127	125
Total current liabilities	843	985	1,086	1,163	1,208
Non-current liabilities	658	591	616	613	634
Total liabilities	1,501	1,576	1,701	1,776	1,843
Share capital	177	177	177	177	177
Other Equity	805	973	1,107	1,260	1,462
Total equity	982	1,150	1,284	1,437	1,639
Total liabilities and equity	2,484	2,726	2,985	3,213	3,482

Source: Company, KRChoksey Research

Emmbi Industries Ltd.

KEY FINANCIALS

Exhibit 2: Profit & Loss Statement

INR Millions	FY 18	FY 19	FY 20	FY 21E	FY 22E
Revenue	2,546	2,891	3,041	3,221	3,568
Cost of sales	1,700	1,874	1,997	2,115	2,275
Gross profit	845	1,016	1,042	1,104	1,291
Employees Benefit Expenses	120	151	169	205	255
Finance costs	95	110	119	114	110
Depreciation	53	63	70	77	83
Other expenses	373	455	500	505	571
EBITDA	352	410	374	394	466
Margin	13.8%	14.2%	12.3%	12.2%	13.1%
EBIT	301	350	308	320	386
Margin	11.8%	12.1%	10.1%	9.9%	10.8%
Pretax Income	206	240	188	206	276
Income tax expense	53	61	40	45	64
Net profit	154	179	148	160	213
Margin	6.0%	6.2%	4.9%	5.0%	6.0%
Diluted EPS (INR)	8.69	10.06	8.27	9.06	12.03

Source: Company, KRChoksey Research

Exhibit 3: Free Cash Flow Analysis

INR Millions	FY 18	FY 19	FY 20	FY 21E	FY 22E
Cash from Ops.	301	261	200	323	187
Cash from Investing	-313	-166	-187	-99	-131
Cash from Financing	35	-91	-23	-88	-87
Net increase/(decrease) in cash and cash eq	23	3	-9	137	-31
Cash and cash eq at the beginning of the year	3	26	28	19	156
Cash and cash eq at the end of the year	26	28	19	156	125

Source: Company, KRChoksey Research

Exhibit 4: Ratio Analysis

Key Ratio	FY18	FY19	FY20	FY21E	FY22E
EBITDA Margin (%)	13.8%	14.2%	12.3%	12.2%	13.1%
Net Profit Margin (%)	6.0%	6.2%	4.9%	5.0%	6.0%
RoE (%)	16.8%	16.8%	12.2%	11.8%	13.8%
RoCE (%)	16.0%	16.6%	13.0%	13.0%	14.7%
Current Ratio (x)	1.5x	1.4x	1.4x	1.5x	1.6x
EPS (INR)	8.69	10.06	8.27	9.06	12.03

Source: Company, KRChoksey Research

Emmbi Industries Ltd.

Emmbi Industries Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
04-Sep-20	81	96	BUY	Buy	More than 15%
22-Jun-20	68	96	BUY	Accumulate	5% – 15%
14-Feb-20	100	174	BUY	Hold	0 – 5%
15-Nov-19	102	174	BUY	Reduce	-5% – 0
27-Sep-19	130	174	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

I, Parvati Rai (MBA-Finance, M.com), Head Research, 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.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd (hereinafter referred to as KRCSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSPL is a registered Research Entity vide SEBI Registration No. INH000001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

KRCSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers. The information and opinions in this report have been prepared by KRCSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSPL policies, in circumstances where KRCSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months.

KRCSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that, Parvati Rai (MBA-Finance, M.com), Head Research of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, Parvati Rai (MBA-Finance, M.com), Head Research do not serve as an officer, director or employee of the companies mentioned in the report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other Jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

Please send your feedback to research.insti@krchoksey.com

Visit us at www.krchoksey.com

KR Choksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

ANALYST

Parvati Rai, head-research@krchoksey.com, +91-22-6696 5413

KRChoksey Research

is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576

www.krchoksey.com