

# EMMBI Industries Ltd.



# Emmbi Industries Ltd.

**Soft quarter, long term story intact**

CMP <b>INR 91</b>	Target <b>INR 139</b>	Potential Upside <b>52.4%</b>	Market Cap (INR Mn) <b>1,610</b>	Recommendation <b>BUY</b>	Sector <b>Containers &amp; Packaging</b>
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## Result Highlights

- In Q1FY23, Emmbi's revenue grew 1.6% YoY to INR 1,058 mn. Though on QoQ basis revenues declined by 3.0%.
- EBITDA has seen a decline of 4.7% YoY/17.3% QoQ to INR 106 mn. The fall in EBITDA was due to higher other expenses, which increased 44.1% YoY to INR 251 mn for the quarter. EBITDA margin also contracted by 66 bps YoY and 173 bps QoQ to 10%.
- PAT has seen a de-growth of 32.3% YoY/34.0% QoQ to INR 30 mn. PAT margin contracted by 143 bps YoY/134 bps QoQ to 2.9%.
- Emmbi is embarking on the path to become a zero-waste company by FY23. The company is right on track for the same and is confident to reach the ambitious target.

## MARKET DATA

Shares outs (Mn)	17.7
Mkt Cap (INR Mn)	1610
52 Wk H/L (INR)	132/76
Volume Avg (3m K)	68
Face Value (INR)	10
Bloomberg Code	EMMB IN

## KEY FINANCIALS

Particulars (INR mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	3,041	2,742	4,356	4,436	4,621
EBITDA	374	285	491	594	642
PAT	146	77	190	354	392
EPS (INR)	8.3	4.3	10.8	20.0	22.2
EBITDA Margin (%)	12.3%	10.4%	11.3%	13.4%	13.9%
NPM (%)	4.8%	2.8%	4.4%	8.0%	8.5%

Source: Company, KRChoksey Research

### Muted revenue growth on account of subdued domestic market performance

In Q1FY23, Emmbi's revenue saw a muted growth of 1.6% YoY to INR 1,058 mn, on account of subdued performance in its domestic market. Sequentially revenues declined by 3.0% QoQ on a high base of last quarter. Emmbi is witnessing strong traction in its export market. The company has a robust export order book. Last year, Emmbi launched the Reclaim30 range products, to cater to the UK's new plastic packaging tax. Reclaim30 is Emmbi's range of sustainable plastic packaging, which uses 30%+ recycled polypropylene. The product which was launched last year is now a commercial success. New trials are now successful to produce some of the Avana Retail Range of products. This will be very pathbreaking innovation for the company. The company is now working on designing products with higher content of rPP.

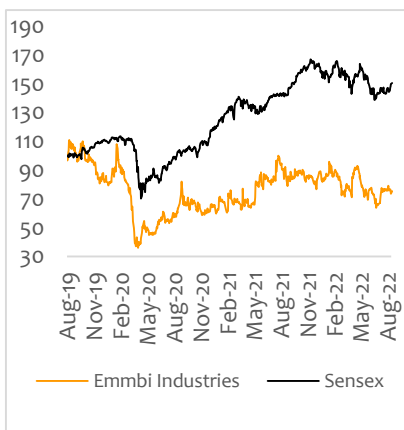
### Higher input costs impacted margin

EBITDA has seen a decline of 4.7% YoY/17.3% QoQ to INR 106 mn. The fall in EBITDA was due to higher other expenses, which increased 44.1% YoY to INR 251 mn for the quarter. Higher freight costs which were included in other expenses has jacked up the other expenses figure for the quarter. EBITDA margin also contracted by 66 bps YoY and 173 bps QoQ to 10%. PAT has seen a de-growth of 32.3% YoY/34.0% QoQ to INR 30 mn. Higher interest costs (+14.6% YoY) and depreciation expenses (+17.2% YoY) impacted PAT. PAT margin also suffered a contraction of 143 bps YoY/134 bps QoQ to 2.9%.

### Update on Avana and capacity expansion plans

Emmbi successfully launched Avana Mulch Film during the quarter. As far as capacity expansion plans for FY23 goes, a new building has been Identified & leased and machineries are finalized. Order finalization process will be completed by end of August 2022 and deliveries of the machineries will be completed in next 90 days.

## SHARE PRICE PERFORMANCE



## MARKET INFO

SENSEX	59,842
NIFTY	17,825

## SHARE HOLDING PATTERN (%)

Particulars	Jun-22 (%)	Mar-22 (%)	Dec-21 (%)
Promoters	58.3	58.3	58.3
FIIs	7.1	7.1	7.1
DIIIs	1.9	1.9	1.9
Others	32.7	32.7	32.7
Total	100	100	100

# 14.3%

EBITDA CAGR between FY22 and FY24E

# 43.6%

PAT CAGR between FY22 and FY24E

## Emmbi Industries Ltd.

INR Mn	Q1FY23	Q4FY22	Q1FY22	Q-o-Q	Y-o-Y
<b>Revenues</b>	<b>1,058</b>	<b>1,091</b>	<b>1,042</b>	<b>-3.0%</b>	<b>1.6%</b>
<b>Total Expenditure</b>	<b>952</b>	<b>963</b>	<b>930</b>	<b>-1.1%</b>	<b>2.3%</b>
COGS	658	665	715	-1.0%	-7.9%
Employee Costs	44	54	42	-19.1%	4.6%
Other Expenses	251	244	174	2.7%	44.1%
<b>EBITDA</b>	<b>106</b>	<b>128</b>	<b>111</b>	<b>-17.3%</b>	<b>-4.7%</b>
<b>EBITDA Margin</b>	<b>10.0%</b>	<b>11.7%</b>	<b>10.7%</b>	<b>-173bps</b>	<b>-66bps</b>
Depreciation & amortization	24.4	22.7	21	7.2%	17.2%
EBIT	82	105	90	-22.6%	-9.7%
Finance Cost	38.2	38.9	33	-1.8%	14.6%
Other Income	0.2	0.2	0.1	-33.3%	45.5%
<b>PBT</b>	<b>44</b>	<b>67</b>	<b>57</b>	<b>-34.8%</b>	<b>-23.8%</b>
Tax	13	21	12	-36.5%	6.7%
<b>PAT</b>	<b>30</b>	<b>46</b>	<b>45</b>	<b>-34.0%</b>	<b>-32.3%</b>
PAT Margin	2.9%	4.2%	4.3%	-134bps	-143bps
<b>EPS (INR)</b>	<b>1.7</b>	<b>2.6</b>	<b>2.5</b>	<b>-34.0%</b>	<b>-32.3%</b>

Source: Company, KRChoksey Research

### Future Growth Drivers

The growth of the packaging industry is directly correlated to GDP growth of the country. Emmbi has embarked on the path to debottlenecking its existing manufacturing facilities, which has helped the company to be able to produce higher quantities, with higher margins. Emmbi is keeping a strong focus on sustainable industry packaging and has applied for registering the Emmbi ReClaim trademark. The company is also working on new range of barrier packaging, which has high potential in the domestic packaging business.

For Avana, Emmbi follows an asset-light model with partner manufacturers. Going forward, the company expects good growth in Avana's brand loyalty. The company is focussed on consumer marketing through advertisements and YouTube collaborations. Emmbi has also adopted quicker Go-To-Market (GTM) strategies along with cross-selling and up-selling of its products.

### Outlook & Valuation

We continue to remain bullish on the company's growth story led by its unique offerings of innovative solutions and first-mover advantage in the agro-polymers market. With a continued focus on expansion by diversifying into different products and introducing new products, the company has laid a firm ground for its consumer product. The company has launched new products and the management expects to further work on newer products to cater to the market. Reclaim 30 range has been launched to cater to the new UK's plastic packaging tax. This move can give company a first mover advantage as more countries would adopt to these laws. The company has also applied for registering the Emmbi ReClaim trademark.

**At CMP of INR 91, shares of the company are trading at a P/E of 4.6x/4.1x its FY23E/FY24E EPS. We continue to value the stock at 6.25x on its FY24E EPS of INR 22.2/share, which yields a target price of INR 139 (unchanged) giving an upside potential of 52.4%. Accordingly, we maintain our 'BUY' rating on the stock.**

# Emmbi Industries Ltd.

## Financials:

### Income Statement:

Particulars (INR mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Revenue</b>	<b>3,041</b>	<b>2,742</b>	<b>4,356</b>	<b>4,436</b>	<b>4,621</b>
Cost of sales	1,997	1,721	2,767	2,794	2,865
<b>Gross profit</b>	<b>1,042</b>	<b>1,019</b>	<b>1,589</b>	<b>1,641</b>	<b>1,756</b>
Employees Benefit Expenses	169	179	197	271	282
Finance costs	119	114	147	105	100
Depreciation	70	72	87	19	20
Other expenses	500	555	901	776	832
<b>EBITDA</b>	<b>374</b>	<b>285</b>	<b>491</b>	<b>594</b>	<b>642</b>
Margin	12.3%	10.4%	11.3%	13.4%	13.9%
<b>EBIT</b>	<b>306</b>	<b>214</b>	<b>405</b>	<b>577</b>	<b>623</b>
Margin	10.1%	7.8%	9.3%	13.0%	13.5%
<b>PBT</b>	<b>187</b>	<b>100</b>	<b>258</b>	<b>472</b>	<b>523</b>
Income tax expense	40	24	68	118	131
<b>Net profit</b>	<b>146</b>	<b>77</b>	<b>190</b>	<b>354</b>	<b>392</b>
Margin	4.8%	2.8%	4.4%	8.0%	8.5%
<b>Diluted EPS (INR)</b>	<b>8.3</b>	<b>4.3</b>	<b>10.8</b>	<b>20.0</b>	<b>22.2</b>

Source: Company, KRChoksey Research

### Cashflow Statement:

Particulars (INR mn)	FY20	FY21	FY22	FY23E	FY24E
Cash from Operations	200	36	261	637	370
Cash from Investing	-187	-154	-198	-123	-157
Cash from Financing	-23	108	-63	-475	-199
<b>Net increase/(decrease) in cash and cash eq</b>	<b>-9</b>	<b>-10</b>	<b>0</b>	<b>38</b>	<b>13</b>
Cash and cash eq at the beginning of the year	28	19	9	10	48
<b>Cash and cash eq at the end of the year</b>	<b>19</b>	<b>9</b>	<b>10</b>	<b>48</b>	<b>61</b>

Source: Company, KRChoksey Research

# Emmbi Industries Ltd.

## Balance Sheet

Particulars (INR mn)	FY20	FY21	FY22	FY23E	FY24E
Inventories	787	902	977	967	932
Trade receivables	520	638	759	820	952
Cash and Cash equivalent	19	9	10	48	61
Bank balances other than cash and cash equivalent	18	6	0	0	0
Other current assets	161	138	158	99	103
<b>Total Current Assets</b>	<b>1,504</b>	<b>1,693</b>	<b>1,904</b>	<b>1,934</b>	<b>2,048</b>
Property, plant and equipment	1,150	1,242	1,369	1,426	1,534
Capital work in progress	61	39	0	0	0
Intangible assets	107	130	150	165	181
Financial assets	12	14	19	22	21
DTA	21	21	2	22	23
Income tax asset	130	147	102	112	123
<b>Total non-current assets</b>	<b>1,481</b>	<b>1,592</b>	<b>1,642</b>	<b>1,747</b>	<b>1,883</b>
<b>Total Assets</b>	<b>2,985</b>	<b>3,285</b>	<b>3,546</b>	<b>3,681</b>	<b>3,931</b>
<b>Liabilities and equity</b>					
Borrowings	716	676	940	760	775
Trade Payables	264	259	313	464	422
Other financial liabilities	106	158	22	93	93
Provisions	0	0	0	0	0
<b>Total current liabilities</b>	<b>1,086</b>	<b>1,092</b>	<b>1,275</b>	<b>1,316</b>	<b>1,289</b>
Non-current liabilities	616	841	737	485	383
<b>Total liabilities</b>	<b>1,701</b>	<b>1,933</b>	<b>2,012</b>	<b>1,802</b>	<b>1,672</b>
Share capital	177	177	177	177	177
Other Equity	1,107	1,175	1,357	1,702	2,082
<b>Total equity</b>	<b>1,284</b>	<b>1,352</b>	<b>1,534</b>	<b>1,879</b>	<b>2,259</b>
<b>Total liabilities and equity</b>	<b>2,985</b>	<b>3,285</b>	<b>3,546</b>	<b>3,681</b>	<b>3,931</b>

Source: Company, KRChoksey Research

Key Ratios	FY20	FY21	FY22	FY23E	FY24E
EBITDA Margin (%)	12.3%	10.4%	11.3%	13.4%	13.9%
Net Profit Margin (%)	4.8%	2.8%	4.4%	8.0%	8.5%
RoE (%)	12.0%	5.8%	13.2%	20.7%	19.0%
RoCE (%)	13.0%	8.3%	13.6%	20.1%	19.7%
Current Ratio (x)	1.4x	1.5x	1.5x	1.5x	1.6x
EPS (INR)	8.3	4.3	10.8	20.0	22.2

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
17-Aug-22	91	139	BUY	Buy	More than 15%
17-May-22	92	139	BUY		
15-Feb-22	101	139	BUY	Accumulate	5% – 15%
08-Nov-21	104	139	BUY		
13-Aug-21	109	139	BUY	Hold	0 – 5%
30-Jun-21	97	118	BUY		
28-Jun-21	96	118	BUY	Reduce	-5% – 0
17-Mar-21	80	92	ACCUMULATE		
15-Dec-20	78	92	BUY	Sell	Less than – 5%
24-Sep-20	79	96	BUY		
04-Sep-20	81	96	BUY		

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