

EMMBI Industries Ltd.



POND LINER



FIBC FOR ASBESTOS

Emmbi Industries Ltd

Innovative products to drive growth

CMP INR 184	Target INR 214	Potential Upside 16.7%	Market Cap (INR Mn) 3,206.3	Recommendation BUY	Sector Containers & Packaging
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Result highlights:

- Company's sales for Q1FY18 stood at INR 630Mn which was up 12.42% y-o-y but declined by 5.6% q-o-q. Company's sales were in-line with our estimate resulting out of renewal in demand from domestic market. However, deferment in sales on account of implementation of GST led to decline in revenues Q-o-Q.
- EBIDTA stood at INR 79.4 Mn which grew by 14.1% y-o-y but declined 11.2% q-o-q. Company reported EBIDTA margin of 12.6%, which improved 79bps y-o-y but improved 20bps q-o-q. Margins missed our internal estimate by 99bps, led by higher employee expenses (which grew 51.9% Y-o-Y and 34.6% Q-o-Q) resulting to drop in margins. Loss of productivity on account of lower employee engagement (marriage and holiday season) led aggravated cost pressure impacting the overall margins
- PAT came in at INR 35.6Mn which increased 20.7% y-o-y but declined 12.7% q-o-q. PAT Margin stood at 5.6% improved by 39bps y-o-y but declined 41bps Q-o-Q. Financing cost declined by 5.18% Y-o-Y and 8.4% Q-o-Q. Higher depreciation also led to dent in margins. We expected a PAT of INR 39.6Mn and a margin of 6.3%

MARKET DATA

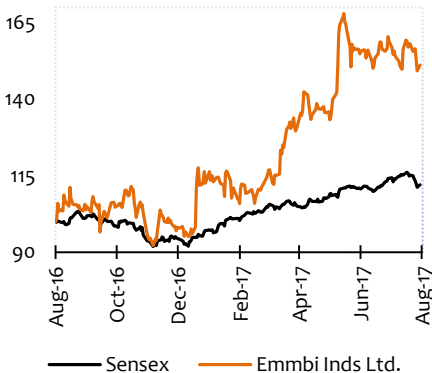
Shares outs (Mn)	18
Equity Cap (INR Mn)	177
Mkt Cap (INR Mn)	3206
52 Wk H/L (INR)	209/108
Volume Avg (3m K)	43.5
Face Value (INR)	10
Bloomberg Code	EMMB IN

KEY FINANCIALS

Particulars (INR Mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	1,838.20	2,079.40	2,290.70	2,767.50	3,192.40
EBITDA	196.6	256	298.9	355.4	448.8
APAT	59.6	106.4	127.6	177.2	253.2
EPS	3.4	6	7.2	10	14.3
OPM	10.7	12.3	13	12.8	14.1
NPM	3.2	5.1	5.6	6.4	7.9
PE (x)	4.7	21.3	25.2	18.2	12.7

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



“Innovative products” to weigh on commoditized business and boost growth:

Company's Management over the years has focused on building innovative products to focus on delivering high quality at a reasonable price and has remained ahead of the competition. Company's two new solution “Water” and “Agri” focused on domestic market, primarily a B2C one has added innovative feature to the largely commoditized woven sack business. Company's new products contributes ~22.5% business transforming business on all front. While company has focused on two new business line, focus on innovation on core portfolio also (Advance composite) has been a major contributor to the company's top-line.

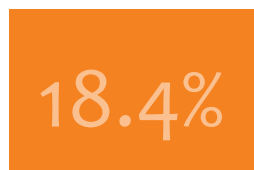
However, as two new business line are likely to mature and their respective contribution is also like to aid revenue and profitability. Currently, ~78% is derived from core business, however within 2 years of horizon core business is likely to fall to ~69% by FY20E. We believe, going forward company is likely to experience 18.4% CAGR growth by FY19E and post a revenue of INR 3,192Mn with “Water” and “Agri” business to be a growth driver (33.5% CAGR and 42.8% CAGR respectively) between FY17 to FY19E.

MARKET INFO

SENSEX	31449
NIFTY	9794

SHARE HOLDING PATTERN (%)

Particulars	Jun 17	Mar 17	Dec 16
Promoters	57.78	57.78	57.76
FIIIs	3.96	1.43	0
DIIIs	0.16	0.11	0.07
Others	38.09	40.68	42.18
Total	100	100	100



Revenue CAGR between FY 17 and FY 19E



PAT CAGR between FY 17 and FY 19E

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Improving product mix to boost operational efficiency, lower financing cost to improve overall profitability:

Company's change in product mix should help company derive better margins. Company's two new line (which fetches 14% to 18% EBITDA margin) is likely to boost the overall margin by next year to 14.1%. 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. Boost in EBITDA margins coupled with R&D benefit has helped EIL improve its PAT margin (2.3% in FY13 to 5.8% in FY17).

Going forward, we expect EIL to continue its cost rationalization programme. We believe improvement in capacity utilization from 83%(pre-capex) in FY16 to 90%by FY19E (post-capex) should help EIL in achieving economies of scale thereby leading to margin expansion from 12.3% in FY12 to 14.1% by FY19E. We believe this expansion in EBITDA margin will further drive improvement in PAT margins (5.6% in FY17 to 7.9% by FY19E) resulting in higher profit (from INR 127.6Mn in FY17 to 253 Mn by FY19E).

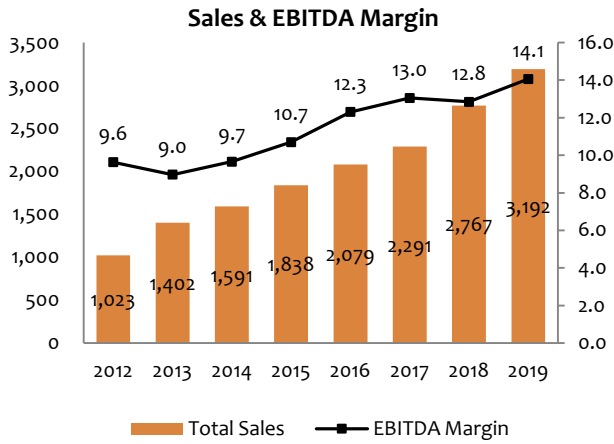
Outlook and Valuation:

We strongly believe in EMMBI's growth story led by its unique offerings of innovative solutions, changing customer mix leading to superior profitability. We expect EMMBI to deliver secular growth across domestic and export segment owing to its diversifying product mix (FIBC and Water Conservation). We expect the company to largely benefit out of government's focus on water conservation and change in irrigation techniques. Government's target of building 10 lakh ponds per year, out of which 1.1 lakh pond in Maharashtra and 60,000 artificial ponds in Rajasthan alone opens a big opportunity for EMMBI Industries.

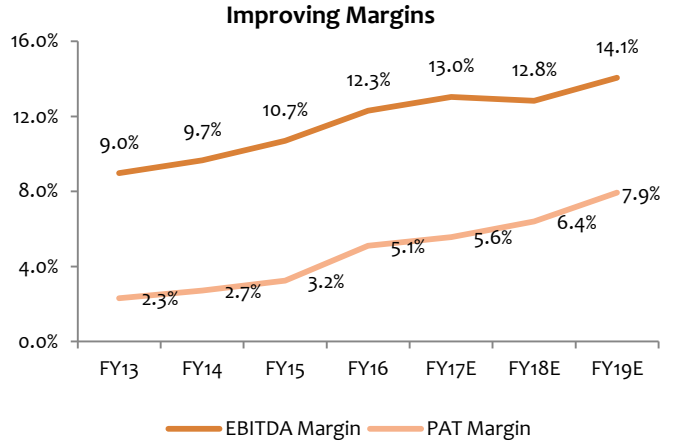
While we remain optimistic about company's growth, we have taken a conservative approach and factored 18.4% CAGR growth between FY17 to FY19E to register revenue of INR 3,192MN and expect EBITDA to grow by 22.5% CAGR for next two years by factoring 110bps improvement in margin resulting out of strong product mix. The resultant should lead a PAT growth of 38.8% over next two years to deliver a PAT of INR 253.2Mn by FY19E.

We believe this should result in strong financials with healthy return ratio (ROE 16.1% in FY17 to 22.5% in FY19E respectively). We recommend a **"BUY"** rating and assign a PE of 15X on FY19E of INR 14.3 to arrive at a target price **INR214**. At CMP of **INR 185**, EMMBI is currently trading at 25.2x FY17 EPS of INR 7.2, 18.2x on FY18 EPS of INR 10 and 14.1x on FY19 EPS of INR 14.3.

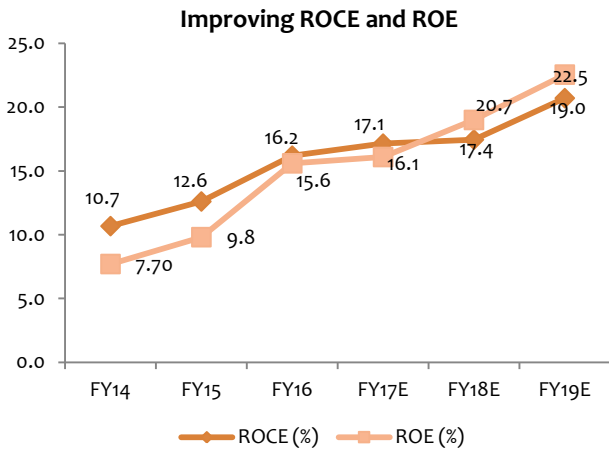
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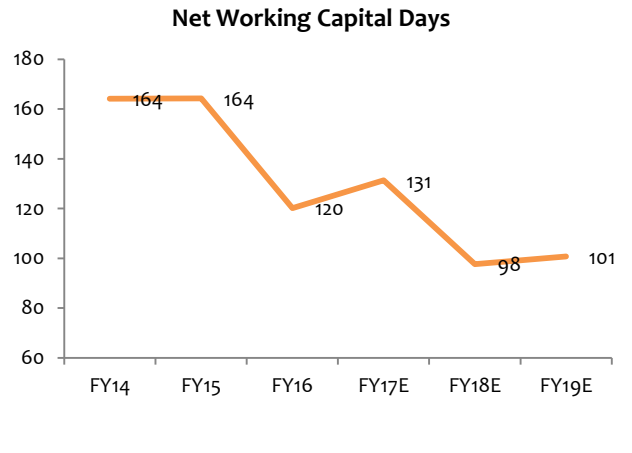
Source: Company, KRChoksey Research



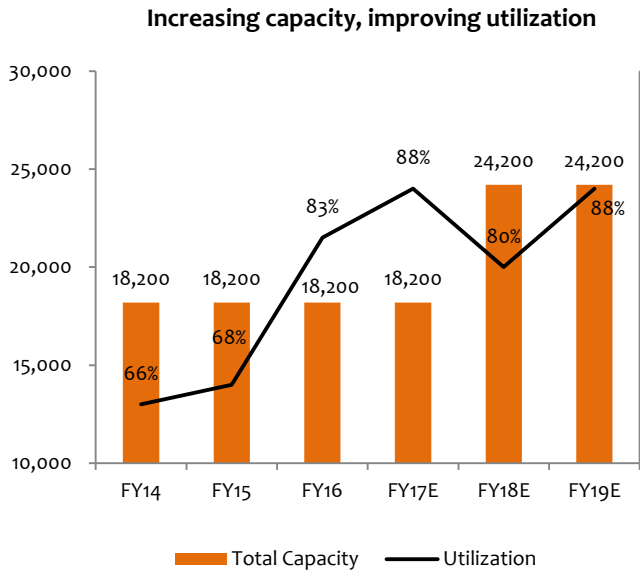
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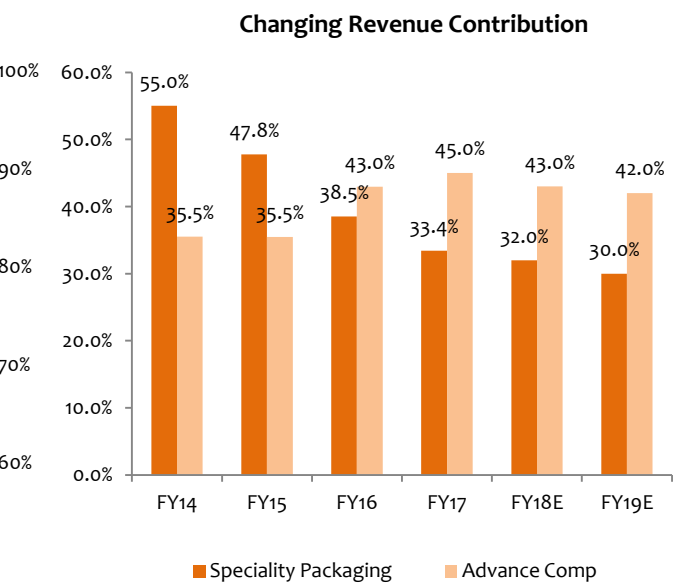
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Q1FY18 Result Snapshot

Exhibit 1 Result Update (INR Mn)

Particulars (Mn)	Q1FY18	Q4FY17	Q1FY17	Q-o-Q	Y-o-Y
Net Sales	630.2	668.0	560.5	-5.67%	12.42%
Net Sales & Other Operating Income	630	668.0	560.5	-5.67%	12.42%
Total Expenditure	630	668.0	560.5	-5.67%	12.42%
(Increase) / Decrease In Stocks	550.8	578.6	491.0	-4.81%	12.17%
Purchase of Finished Goods	-18.2	-3.0	-2.3	506.00%	30.43%
Cost of Raw Materials	57.5	75.6	74.5	-23.98%	-22.86%
Operating & Manufacturing Expenses	357.1	356.7	293.9	0.10%	21.49%
Employee Cost	91.5	94.8	82.3	-3.51%	11.14%
Excise duty	25.1	18.7	16.5	34.06%	51.94%
PBIDT (Excl OI)	37.9	35.8	26.1	5.78%	45.21%
EBITDA Margins (%)	79.4	89.4	69.5	-11.21%	14.19%
Depreciation	12.6%	13.4%	12.4%	-79bps	20bps
EBIT & Exceptional Item	11.7	10.9	10.1	7.43%	15.94%
Exceptional Items	67.7	78.5	59.4	-13.80%	13.90%
Other Income	0.1	0.1	0.2	10.00%	-45.00%
EBIT	67.8	78.6	59.6	-13.77%	13.70%
Interest	18.9	20.6	19.9	-8.40%	-5.18%
EBT	48.9	58.0	39.7	-15.68%	23.15%
Tax	13.4	17.6	10.3	-23.98%	29.90%
PAT	35.6	40.4	29.4	-12.07%	20.79%
PAT Margin (%)	5.6%	6.1%	5.3%	-41bps	39bps
EPS	2.01	2.30	1.60	-12.61%	25.63%

Source: Company, KRChoksey Research

Key Con-call Highlights:

- The company successfully accomplished its Capex plan of INR 220 Mn. (i) “Positive Pressure Clean Room” INR 150 Mn and (ii) “Water Conservation” INR 70 Mn

- In consumer market Emmbi industries has a market share of 7.2%. The company aims of capturing market share upto 8%-9% by end of FY18.

- The company will focus in building its brands (i) Emmbi Clean Tec a manufacturing system for “Contamination Free Production System” and (ii) Emmbi Innovation

- Emmbi Industries has developed a special blend of polymer “EMMBI WOOLPACK” which will be used for packaging of Raw Wool that costs 50% less than conventional woolpack. The company expects market size of the business to be around US \$ 360 Mn.

- The management stated that the performance in Q1 of every year has been challenging, however the company is confident of positive growth in coming quarters.

- Company’s “Pond-liner” business is back on track with a run rate of 4 pond/day and were negligibly impacted by Farmer agitation in Maharashtra.

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Exhibit 2: Income Statement

INR Mn	FY15	FY16	FY17A	FY18E	FY19E
Total Sales	1838.2	2079.4	2290.7	2767.5	3192.4
Total Raw Materials	1303.0	1397.6	1559.6	1889.0	2140.3
COGS	1303.0	1397.6	1559.6	1889.0	2140.3
EBITDA	196.6	256.0	298.9	355.4	448.8
Depreciation	30.6	35.7	41.7	50.7	55.7
Interest & Finance charges	88.9	90.2	82.6	80.1	73.6
Other Income	5.6	13.1	0.9	5.5	6.4
Extraordinary items	0.0	0.0	0.0	0.0	0.0
EBT (as reported)	82.7	143.2	175.5	230.1	325.9
Tax	23.1	36.8	47.9	52.9	72.7
PAT	59.6	106.4	127.6	177.2	253.2
RPAT	59.6	106.4	127.6	177.2	253.2
APAT	59.6	106.4	127.6	177.2	253.2
RPAT after pref. div.	59.6	106.4	127.6	177.2	253.2
APAT after pref. div.	59.6	106.4	127.6	177.2	253.2

Source: Company, KRChoksey Research

Exhibit 3 : Balance Sheet

INR Mn	FY15	FY16	FY17A	FY18E	FY19E
Equity Share Capital	176.9	176.9	176.9	176.9	176.9
Reserves	457.4	553.0	679.9	832.2	1060.5
Net worth	634.3	729.9	856.8	1009.1	1237.4
Total loans	766.4	590.9	746.7	800.9	750.9
Deferred tax liability (Net)	49.6	57.3	66.3	6.9	6.5
Capital Employed	1450.3	1378.1	1748.1	1816.9	1994.8
Gross Block	700.3	797.3	1077.4	1177.4	1277.4
Depreciation	145.5	179.4	221.0	271.8	327.4
Net block	554.8	617.9	856.4	905.6	950.0
CWIP	0.0	8.5	0.0	0.0	0.0
Investments	3.0	3.5	3.5	10.8	16.0
Inventories	546.8	570.0	632.9	662.2	717.2
Sundry debtors	334.3	321.2	383.7	354.8	367.3
Cash and bank	32.9	10.5	4.3	87.8	66.0
Loans and advances	58.5	66.9	65.9	103.5	127.7
Total Current assets	972.6	968.5	1086.8	1208.3	1278.2
Total Current liabilities	112.5	273.3	262.4	379.6	331.3
Net Current assets	860.1	695.3	824.4	828.6	946.9
Capital Deployed	1450.2	1378.1	1748.1	1814.6	1992.6

Source: Company, KRChoksey Research

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Exhibit 4 FY17: Cash flow statement

INR Mn	FY15	FY16	FY17A	FY18E	FY19E
PAT	59.6	106.4	127.6	177.2	253.2
Depreciation & Amortization	26.1	33.9	41.7	50.7	55.7
Incr/(Decr) in Deferred Tax Liability	6.6	7.7	9.0	-59.4	-0.4
(Incr)/Decr in Working Capital	-111.8	142.4	-135.3	79.2	-140.1
(Incr)/Decr in Mis. Expense not written off	0.0	0.0	0.0	0.0	0.0
Cash Flow from Operating	-19.5	290.4	43.0	247.7	168.4
(Incr)/ Decr in Gross PP&E	-61.1	-97.0	-280.1	-100.0	-100.0
(Incr)/Decr In Work in Progress	0.0	-8.5	8.5	0.0	0.0
(Incr)/Decr In Investments	0.0	-0.5	0.0	-7.3	-5.2
(Incr)/Decr in Other Non-Current Assets	5.6	-20.7	-10.8	-5.8	-10.2
Cash Flow from Investing	-55.5	-126.6	-282.5	-113.1	-115.4
(Decr)/Incr in Debt	113.7	-175.5	234.1	-24.1	-50.0
(Decr)/Incr in Other reserves	3.6	13.8	-382.7	-152.2	-228.3
Dividend	-10.9	-24.9	-24.9	-24.9	-24.9
Cash Flow from Financing	106.5	-186.2	233.4	-49.0	-74.9
Incr/(Decr) in Balance Sheet Cash	31.5	-22.5	-6.1	85.6	-21.9
Cash at the Start of the Year	1.5	32.9	10.5	4.3	87.8
Cash at the End of the Year	33.0	10.4	4.3	90.0	65.9

Source: Company, KRChoksey Research

Exhibit 5 FY17: Ratio Analysis

INR Mn	FY15	FY16	FY17A	FY18E	FY19E
Growth (%)					
Total Sales	15.6	13.1	10.2	20.8	15.4
EBITDA	28.0	30.2	16.8	18.9	26.3
APAT	37.6	78.3	20.0	38.8	42.9
Profitability (%)					
EBITDA Margin	10.7	12.3	13.0	12.8	14.1
Adj. Net Profit Margin	3.2	5.1	5.6	6.4	7.9
ROIC	9.1	12.0	12.5	13.4	16.1
ROE	9.8	15.6	16.1	19.0	22.5
Per Share Data (Rs.)					
AEPS	3.4	6.0	7.2	10.0	14.3
Reported CEPS	5.5	8.5	9.6	13.3	17.8
BVPS	35.9	41.3	48.4	57.0	69.9
Valuations (x)					
PER (x)	4.7	21.3	25.2	18.2	12.7
PEG (x)	0.1	0.3	1.3	0.5	0.0
P/BV (x)	0.4	3.1	3.8	3.2	2.6
EV/EBITDA (x)	5.3	11.2	13.3	11.3	8.8
EV/Net Sales (x)	0.6	1.4	1.7	1.5	1.2
Dividend Yield (%)	1.9	0.4	0.3	0.3	0.3
Turnover days					
Debtor Days	64.1	57.5	56.5	48.7	41.3
Payable Days	34.3	50.4	62.7	62.0	60.6
Gearing Ratio					
D/E	1.2	0.8	0.9	0.8	0.6

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Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
14-Aug-17	184	214	BUY	Buy	More than 15%
23-May-17	171	208	BUY	Accumulate	5% – 15%
15-Feb-17	128	181	BUY	Hold	0 – 5%
5-Jan-17	144	176	BUY	Reduce	-5% – 0
9-Dec-16	120	176	BUY	Sell	Less than – 5%
18-Nov-16	115	161	BUY		
12-Aug-16	119	169	BUY		

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