

## Higher share of B2C to aid performance...

Despite a significant fall in polypropylene prices and thereby realisations, the company managed to post almost flat topline during the quarter, largely on account of better volume growth. Emmbi reported revenue of ₹ 74.7 crore (-1% YoY). Gross margins for the quarter improved 155 bps YoY to 36% due to a change in the product mix, which negated the impact of negative operating leverage to certain extent. EBITDA fell 19% YoY to ₹ 8.57 crore, impacted by higher employee (+25% YoY) and other cost (+16% YoY). OPM remained at 11.5% (-250 bps YoY). Poor operational performance led to a subdued bottomline at ₹ 3.75 crore (-22% YoY).

## Increase in oil prices, better monsoon to aid performance

Crude prices play a prominent role in the realisation of Emmbi Industries given that its end product prices are linked with polypropylene prices. With the recent increase in crude oil post unlocking across the globe, we expect the company to witness a rebound in realisation for the next fiscal. Additionally, better monsoon provides decent volume visibility for the pond liners. The company has an order book of around 10 to 11 weeks of export and around three to four weeks for the domestic market, which is around 25% higher than the regular time order backlog. Thus, this also bodes well for the traditional business growth, going ahead.

## B2C business likely to change business mix ahead

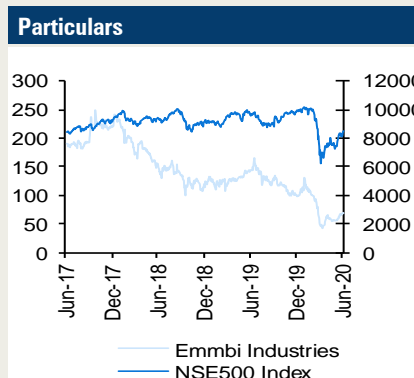
The company sells pond liners, Murghas bags, bioflocking tanks under the brand name Avana design to B2C customers. Going ahead, increasing distribution reach should likely aid B2C business mix, which comprises ~20% of overall revenue in FY20. The management anticipates around ₹ 100 crore sales (+40% YoY) from Avana Design in FY21, translating into increase in the mix towards B2C portfolio. Thus, this can aid gross margins, to some extent, going ahead.

## Valuation & Outlook

We believe negatives are already discounted in the price. Going ahead, with increase in trade likely to improve FIBC sales along with better monsoon in domestic market should aid pond liner sales. This should provide respite to vulnerability in gross margins and, thereby, operating margins. We expect with an increasing share of B2C towards high thirties, there should be an inch up in operating margins along with improvement in the cash conversion cycle. This should likely improve FCF for the company and can also expand return ratios for the company. In turn, this is likely to aid valuations for the overall group. We value the company at 7x PER FY22E and arrive a target price of ₹ 85. We have a **BUY** rating on the stock.



Particulars	
Stock Data	Amount
Market Capitalization	₹123.9 Crore
Total Debt (FY 20)	₹107.5 Crore
Cash and Inv (FY 20)	₹3.9 Crore
EV	₹227.5 Crore
52 week H/L	175 / 41
Equity Capital	₹17.7 Crore
Face Value	₹10



## Key Highlights

- Increase in oil prices along with better monsoon to aid performance
- B2C business likely to change business mix ahead
- Revise our rating from REDUCE to BUY with a target price of ₹ 85 per share

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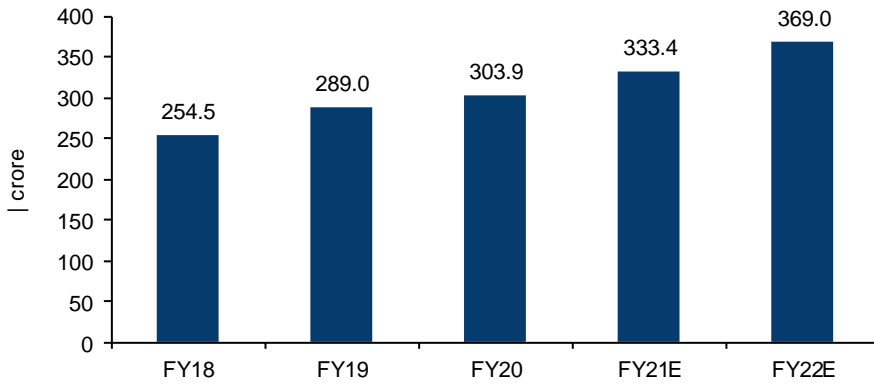
## Key Financial Summary

(₹crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Revenue	254.5	289.0	303.9	333.4	369.0	10.2
EBITDA	35.2	41.0	37.4	42.0	47.6	12.9
EBITDA margin (%)	13.8	14.2	12.3	12.6	12.9	
Net Profit	15.3	17.7	14.6	17.1	21.7	21.9
EPS (₹)	8.7	10.0	8.2	9.7	12.2	
P/E (x)	7.9	6.8	8.3	7.0	5.6	
EV/EBITDA (x)	5.9	5.2	6.0	5.0	4.2	
RoCE (%)	14.7	14.8	11.7	12.7	14.1	
RoE (%)	15.6	15.4	11.4	11.8	13.1	

Source: Company, ICICI Direct Research

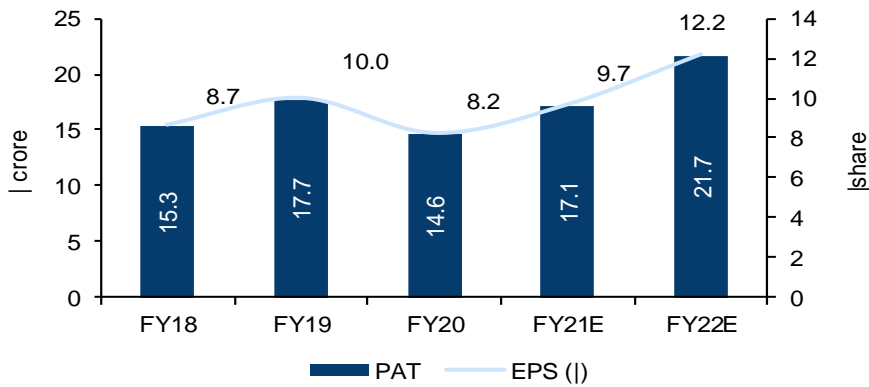
## Financial story in charts

Exhibit 1: Net sales



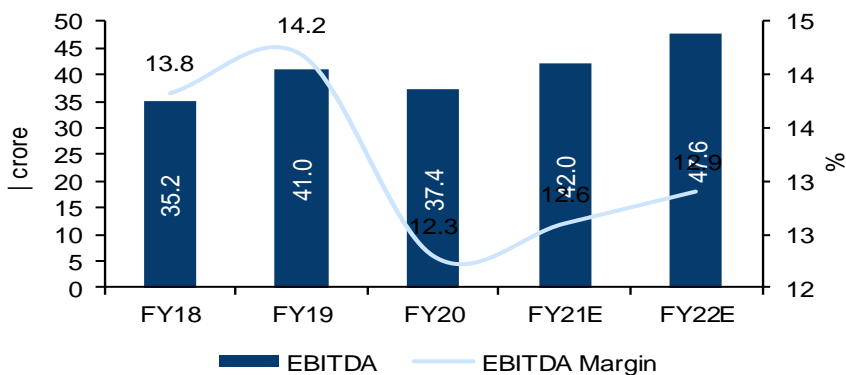
Source: Company, ICICI Direct Research

Exhibit 2: PAT & EPS trend



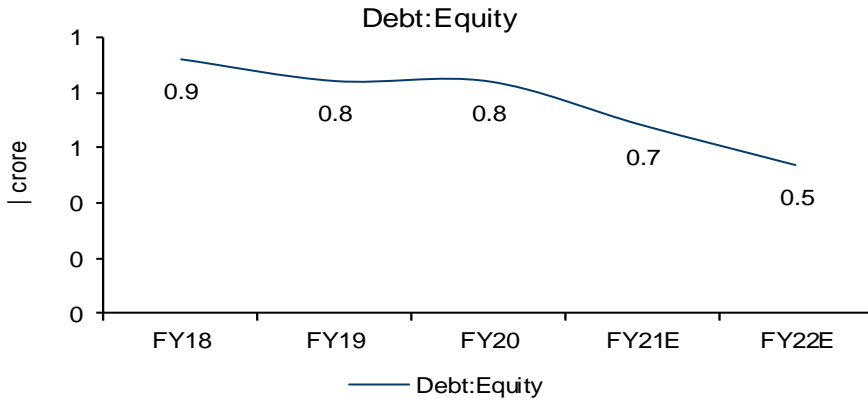
Source: Company, ICICI Direct Research

Exhibit 3: EBITDA level performance



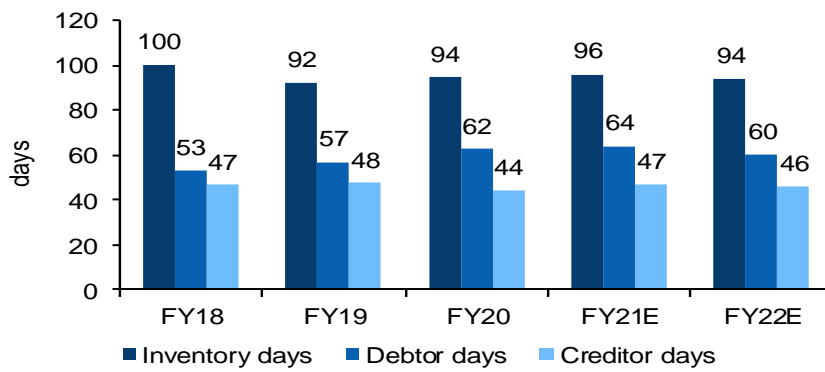
Source: Company, ICICI Direct Research

Exhibit 4: Debt equity ratio



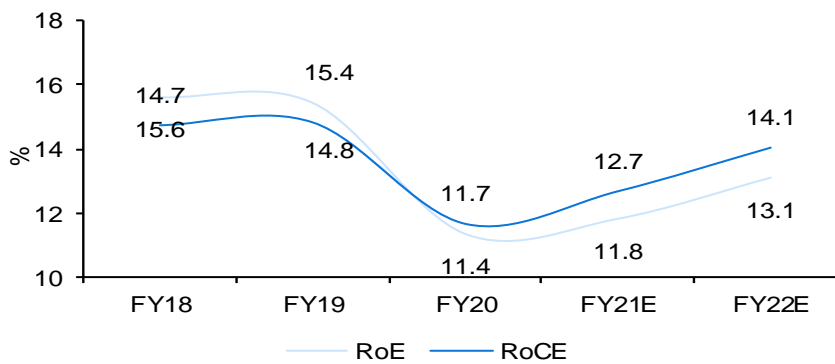
Source: Company, ICICI Direct Research

Exhibit 5: Working capital



Source: Company, ICICI Direct Research

Exhibit 6: Return ratios



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Net Sales</b>	<b>289.0</b>	<b>303.9</b>	<b>333.4</b>	<b>369.0</b>
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	289.0	303.9	333.4	369.0
Growth (%)	13.6	5.2	9.7	10.7
Raw Material Expenses	187.4	199.7	219.0	241.7
Employee Expenses	15.1	16.9	18.0	20.7
Other Operating Expense	45.5	50.0	54.3	59.0
Total Operating Expenditu	248.0	266.5	291.4	321.4
<b>EBITDA</b>	<b>41.0</b>	<b>37.4</b>	<b>42.0</b>	<b>47.6</b>
Growth (%)	16.5	-8.8	12.4	13.3
Depreciation	6.3	7.0	8.0	8.5
Interest	11.0	11.9	11.0	10.0
Other Income	0.1	0.2	0.2	0.2
PBT	23.9	18.6	23.2	29.3
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	6.2	4.0	6.0	7.6
<b>PAT</b>	<b>17.7</b>	<b>14.6</b>	<b>17.1</b>	<b>21.7</b>
Growth (%)	15.8	-17.8	17.6	26.4
EPS (₹)	10.0	8.2	9.7	12.2

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	17.7	14.6	17.1	21.7
Add: Depreciation	6.3	7.0	8.0	8.5
(Inc)/dec in Current Assets	-8.8	-13.2	-12.7	-11.0
Inc/(dec) in CL and Provisio	-6.7	-0.6	5.9	3.6
Others	11.0	11.9	11.0	10.0
<b>CF from Operations</b>	<b>19.4</b>	<b>19.7</b>	<b>29.3</b>	<b>32.8</b>
(Inc)/dec in Investments	-0.1	-0.3	0.0	0.0
(Inc)/dec in Fixed Assets	-17.6	-17.7	-5.1	-8.0
Others	3.9	0.3	0.0	0.0
<b>CF from Investing</b>	<b>-13.7</b>	<b>-17.7</b>	<b>-5.1</b>	<b>-8.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	6.4	11.1	-9.0	-10.0
Dividend paid & dividend ta	-1.1	-1.1	-1.2	-1.2
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	-10.9	-12.1	-10.3	-10.0
<b>CF from Financing</b>	<b>-5.6</b>	<b>-2.0</b>	<b>-20.5</b>	<b>-21.2</b>
Net Cash flow	0.2	0.0	3.7	3.5
Opening Cash	3.7	3.9	3.9	7.7
<b>Closing Cash</b>	<b>3.9</b>	<b>3.8</b>	<b>7.6</b>	<b>11.2</b>

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Liabilities</b>				
Equity Capital	17.7	17.7	17.7	17.7
Reserve and Surplus	97.3	110.7	127.3	147.7
Total Shareholders funds	115.0	128.4	145.0	165.4
<b>Total Debt</b>	<b>96.4</b>	<b>107.5</b>	<b>98.5</b>	<b>88.5</b>
Deferred Tax Liability	8.5	9.3	9.3	9.3
Total Liabilities	219.9	245.2	252.8	263.2
<b>Assets</b>				
Gross Block	151.0	166.2	177.4	185.4
Less: Acc Depreciation	33.7	40.6	48.6	57.1
Net Block	117.4	125.6	128.8	128.3
Capital WIP	3.7	6.1	0.0	0.0
Total Fixed Assets	121.0	131.7	128.8	128.3
Liquid Investments	0.0	0.0	0.0	0.0
Other Investments	0.9	1.2	1.2	1.2
Inventory	72.9	78.7	87.7	95.0
Debtors	45.2	52.0	58.5	60.7
Loans and Advances	15.5	16.1	13.3	14.8
Other Current Assets	0.0	0.0	0.0	0.0
Cash	3.9	3.9	7.7	11.2
Total Current Assets	137.4	150.6	167.2	181.7
Creditors	37.6	37.0	42.9	46.5
Provisions	0.0	0.0	0.0	0.0
Current Liabilities & Prov	37.6	37.0	42.9	46.5
Net Current Assets	99.8	113.6	124.2	135.2
Application of Funds	219.9	244.6	252.3	262.7

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Per share data (₹)</b>				
EPS	10.0	8.2	9.7	12.2
Cash EPS	13.6	12.2	14.2	17.0
BV	65.0	72.5	81.9	93.5
DPS	0.5	0.5	0.7	0.7
Cash Per Share (Incl Invst)	2.2	2.2	4.3	6.3
<b>Operating Ratios (%)</b>				
EBITDA Margin	14.2	12.3	12.6	12.9
PBT / Total Op. income	8.3	6.1	7.0	7.9
PAT Margin	6.1	4.8	5.1	5.9
Inventory days	92	94	96	94
Debtor days	57	62	64	60
Creditor days	48	44	47	46
<b>Return Ratios (%)</b>				
RoE	15.4	11.4	11.8	13.1
RoCE	14.8	11.7	12.7	14.1
RoIC	16.2	12.9	13.8	15.4
<b>Valuation Ratios (x)</b>				
P/E	6.8	8.3	7.0	5.6
EV / EBITDA	5.2	6.0	5.0	4.2
EV / Net Sales	0.7	0.7	0.6	0.5
Market Cap / Sales	0.4	0.4	0.4	0.3
Price to Book Value	1.0	0.9	0.8	0.7
<b>Solvency Ratios</b>				
Debt/EBITDA	2.4	2.9	2.3	1.9
Debt / Equity	0.8	0.8	0.7	0.5
Current Ratio	3.5	4.0	3.7	3.7
Quick Ratio	1.6	1.8	1.7	1.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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