

## Emami Limited

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings <sup>1</sup>	Remarks
Non-convertible Debenture	300.0	CARE AA+ (Double A Plus)	Reaffirmed
Commercial Paper (CP) issue*	100.0	CARE A1+ (A One Plus)	
Long/Short-term Bank Facilities	170.0	CARE AA+ (Double A Plus)/ CARE A1+(A One Plus)	
<b>Total Facilities</b>	<b>570.00</b> <b>(Rupees Five hundred and seventy crore)</b>		

\* carved out of working capital limits

### Rating Rationale

The rating of Emami Ltd. (EL) continue to draw strength from long and satisfactory track record, considerable experience of its promoters, established brands with high brand recall, diversified product portfolio having strong market share, wide distribution network, comfortable financial risk profile, focus on emerging rural market, robust capital structure and favorable industry outlook. The ratings are constrained by the increasing presence of the unorganized sector players and large number of multinational companies operating in the FMCG segment.

The company's ability to maintain profitability in light of intense competition in the FMCG sector and derive desired benefits from the acquisition of brand Kesh King shall remain the key rating sensitivity.

### Background

EL, the flagship company of the Kolkata-based Emami group, is one of the leading FMCG companies in India. It is engaged in the manufacturing of herbal and ayurvedic products in personal, cosmetic and health care segments. Its products are sold under the brands, 'Emami' (Personal & Cosmetic), 'Himani' (Ayurvedic) and 'Zandu'. In June 2015, EL also acquired 'Kesh King' and allied brands in the personal and healthcare segment at a consideration of Rs.1,684 crore, funded through debt of Rs.575 crore and balance from available cash surplus.

In addition to the strong domestic presence, EL's products are also sold in over 63 countries, with substantial presence in SAARC countries, MENAP (Middle East, North Africa and Pakistan) and Africa. EL has set up its first overseas manufacturing facility in Bangladesh (at Ghazipur in Greater Dhaka) through its wholly-owned subsidiary, Emami Bangladesh Ltd. The group has business interest in cosmetics, ayurvedic medicines, real estate, retail, hospitals, paper, cement, bio-diesel, pharmacy and edible oil. The promoters of the group, Mr. R S Agarwal and Mr. R S Goenka, are professionally qualified, with rich business experience of over three decades.

### Credit Risk Assessment

#### Long and satisfactory track record of the company

EL was set up in 1974 as Kemco Chemicals, a partnership firm, which manufactured cosmetic products and ayurvedic medicines and was marketing the same under the brand 'Emami'. In 1978, the promoters of EL took over Himani Limited, engaged in the manufacturing and selling of cosmetic products. In 1995, Kemco Chemicals was rechristened as EL and in 1998, Himani Ltd. was merged with EL.

EL has been looking for opportunities to grow inorganically over the years and the successful acquisition of Zandu Pharmaceutical Works Limited in FY09 (refer to the period April 1 to March 31) and recent acquisition of Kesh King brand are steps towards that direction.

#### Experienced promoters and management team

The promoters of the group, Mr. R. S. Agarwal and Mr. R. S. Goenka, are professionally qualified, with business experience of about four decades. They, along-with a team of professionals, established the Emami group as a reputed conglomerate based out of Eastern India. The next generation of both the promoters is actively involved in the day-to-day activities of the group. EL is governed by a 16 member Board of Directors consisting of eight members from the promoters' families and eight eminent professionals and businessmen from diverse fields as independent directors.

#### Established brands and diversified product portfolio with high market share in few brands

EL currently markets over 260 widely accepted ayurvedic, herbal, cosmetic, personal and health care products comprising oil, talc, cream, balm, medicine and cosmetic. These products are sold in India and 63 countries worldwide. Currently, its major products are Navratna Oil, Boroplus Antiseptic Cream, Zandu Balm, Mentho Plus Balm, Fair & Handsome cream, Navratna Cool Talc, Fast Relief, Sona Chandi Chyawanprash, Zandu Kesari Jevan, Malai Kesar Cold Cream and Vasocare, among others. EL

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

enjoys significant market share in Boroplus Antiseptic Cream, Navratna Oil, Zandu Balm and Fair and Handsome.

#### **Brand investment**

Advertisement is an integral part of EL's business promotion. The company's brand positioning has been consistent which the country's middle class can identify with. Leading film stars, sportspersons and celebrities continue to be associated with various brands of EL. To tap the rural market, EL launched an ad film which specially targeted rural consumers. 'Emami' and 'Zandu' brands are currently household names in India; thus, enabling the company to increase the market share in respect of the existing brands without significant investment. Over the years, the company rationalized its advertisement and promotion spends amidst economic slowdown to enhance its brand economies and retain its market position. Total ad-spending as a percentage of gross sales increased from 15.8% in FY15 to 18.5% in FY16.

#### **Wide marketing and distribution channel**

EL has three distinct marketing channels, viz., retail, exports and institutional sales. Retail sales (approximately 85%) are affected through a distribution network comprising 3,900 distributors, 6,750 sub-distributors, with direct reach to around 640,000 retailers and four million retail outlets with indirect reach.

Institutional sales are affected through direct liaison with Canteen Stores Department (CSD), Government of India. Exports (Rs.128 crore in FY16) are handled by agents located round the globe and overseas marketing subsidiaries of EL.

#### **Focus on the rural market**

Rural FMCG market has significant growth potential, powered by rising disposable income levels through various Government schemes like NREGA, higher minimum support price (MSPs) for agricultural produce, loan waivers, etc. Higher income level has resulted in high aspiration levels and increasing brand consciousness among the rural consumers. To tap this potential market, EL accelerated its direct rural household marketing through various innovative schemes and 'Project Swadesh' (whereby its field staff covered rural markets directly on vehicles). EL has direct coverage in around 10,500 villages (with population less than 50,000). Rural India accounts for around 50% of Emami's revenues.

#### **Comfortable financial performance and sound liquidity position**

Despite intense competition in the FMCG sector and slow-down in economy, EL's net sales grew by almost 17% in FY16 over FY15, on account of higher penetration of rural market, introduction of new products and brand extension of existing products.

EL's operating margin has remained healthy over the past few years on account of effective raw material sourcing through long term booking at competitive rates, rationalized advertising expenditure, cost management program across all functions. PAT margin, however, declined in FY16 from FY15 in view of high capital charge (interest and amortization of acquired brand/trade mark). GCA remained highly comfortable at Rs.567.5 crore vis-à-vis debt repayment obligations of Rs.15.6 crore in FY16. As envisaged, the acquisition of 'Kesh King' has resulted in moderation in PAT margin, overall gearing ratio as well as liquidity position in view of funding of the same through debt and surplus cash balance. However, with expected benefit from acquired brand, steady cashflow from existing portfolio and scheduled repayment of debt, the liquidity position and overall gearing ratio are expected to improve going forward.

#### **Partial insulation from intense competition by virtue of manufacturing ayurvedic products**

Ayurvedic products are considered to be safe, benign and free of side-effects. With increasing consumer awareness about the toxicity of chemical products, ayurvedic products are fast gaining popularity. EL blends traditional ayurveda and modern technology to offer effective and innovative products to consumers (like men's fairness cream, gold and silver elements in chyawanprash and perfume-added petroleum jelly), resulting in insulation from intense competition. While launching new products, EL creates a need and relevance of such products through effective marketing; thus, bringing the benefits of ayurveda to common people.

#### **Strong R&D capabilities for continuous product innovation and packaging development**

A team of experienced professionals including cosmetologists, science/pharma graduates, engineers and perfume evaluators, strengthens the company's ability to identify customers' unmet needs and develop completely new product segments accordingly. The company has set up a state of art Research and innovation (R&I) center spanning over 30,000 sq. ft. in Kolkata. The R&I centre encompasses product innovation, packaging development, competitive intelligence cell etc.

#### **Intense competition from organized and unorganized sector players**

Indian FMCG market is characterized by a large number of organized and unorganized sector players with duplicate products being rampant. The domestic organized sector comprises some of the world's biggest giants in this business. As a result, they are better positioned to command a price as well as quality edge over the competitors. Overall, the FMCG market remains highly fragmented with widespread use of unbranded and unpacked homemade products in the rural market.

#### **Expansion through acquisitions**

In June 2015, EL acquired an established national brand, Kesh King, in the personal and healthcare segment (hair oil) at a

consideration Rs.1,684 crore. The acquisition was funded by availing debt and utilizing available cash surplus and internal accruals.

On interaction, the management has stated that the net sales from the new acquisition in FY16 were Rs.194 crore and PBILDT was Rs.86 crore.

### Prospects

EL's long-term prospects depend on its ability to introduce value-added ayurvedic products (through strong R&D capabilities), extend brand, introduce innovative packaging, strengthen its distribution network, and cost-effective advertising.

### Financial performance

(Rs. Cr)

For the period ended / As on March 31,	2014	2015	2016
	12m, A	12m, A	12m, A
Working Results (Rs. cr)			
Income from Continuing Operations	1,661	2,074	2,334
PBILDT	494	681	741
Interest	4	5	54
Depreciation	94	31	252
PBT	403	569	382
PAT After Discontinuing Operations	337	472	328
Gross Cash Accruals	422	511	568
Financial Position (Rs. cr)			
Equity Share capital	23	23	23
Net Worth	921	1,180	1,323
Total Capital employed	965	1,249	2,011
Key Ratios			
Growth (%)			
Growth in Total Operating Income	5.22	24.86	12.54
Growth in PAT (after defd. Tax)	52.14	39.84	-30.52
Profitability (%)			
PBILDT margin	29.76	32.83	31.75
PAT (after defd. Tax) margin	20.3	22.74	14.04
ROCE (%)	43.18	52.58	26.72
Solvency			
Debt Equity Ratio (times)	0.03	0.01	0.23
Overall Gearing (times)	0.03	0.02	0.5
PBILDT Interest Coverage (times)	127.21	139.1	13.79
Total Debt/GCA (years)	0.07	0.05	1.16
Liquidity (times)			
Current ratio	2.13	3.62	0.47
Quick ratio	1.84	3.21	0.3
Turnover (days)			
Avg. Collection Period (days)	16	11	8
Avg. Inventory (days)	51	46	44
Avg. Creditors (days)	32	32	36
Operating Cycle (days)	36	25	16

**Details of Rated Facilities**  
**Long /Short-term Facilities**

(Rs. Cr)

Sr. No.	Name of Bank	Fund based Limits	Non fund based limits	Total
		Cash Credit/WCDL/ EPC/Buyers' credit	LC (upto one year)/ BG (upto two years)	
1	Canara Bank	25.0	7.0 **	25.0
2	ICICI Bank Ltd	35.0	5.0	40.0
3	HSBC Bank Ltd	25.0	15.0	40.0
4	HDFC Bank Ltd	50.0	8.0	58.0
5	Citi Bank NA	15.0	0.0	15.0
6	DBS	10.0	0.0	10.0
	<b>TOTAL</b>	<b>160.0</b>	<b>35.0</b>	<b>188.0 *</b>

LC=Letter of credit; BG=Bank guarantee; WCDL = Working capital demand loan; EPC=Export Packing Credit

\*\* Sub-limit of Fund based limits

\*Maximum permissible limit restricted to Rs.170.0 crore

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**(This follows our brief rationale for entity published on 16 August, 2016)**

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