Emami Limited

October 3, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	168.00	CARE AA+; Stable / CARE A1+	Reaffirmed
Commercial paper	200.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1

Rationale and key rating drivers

The ratings assigned to the bank facilities and instruments of Emami Limited (EL) continue to derive strength from its established presence in the fast-moving consumer goods (FMCG) industry aided by extensive experience of the promoters.

EL has established brands with major product portfolio in the ayurvedic and herbal personal care/cosmetic product segment of the FMCG industry with strong market share in some of its product ranges. Regular investment in brands through organic and inorganic route along with its wide marketing and distribution channels and strong research and development (R&D) capabilities has enabled the company to steadily grow its scale of operations over the years.

The ratings also favourably factor in the robust financial performance of the company in FY23 (refers to the period April 1 to March 31) and Q1FY24 with growth witnessed in total operating income (TOI) and continued healthy profitability margins and return indicators; though the same witnessed slight moderation. Furthermore, the capital structure, liquidity and debt coverage indicators remain strong.

CARE Ratings Limited (CARE Ratings) expects the profitability of EL to remain healthy on the back of strong brand positioning and stable demand prospects for its major products. Its liquidity and debt coverage indicators are also expected to remain strong on account of the envisaged healthy generation of cash flow from operations and no major capex plans in the medium term.

The ratings further take note of the pledge of the promoters' shares in EL (30% of promoters' shareholding as on September 06, 2023) to provide fund support to its group companies for creation of various assets. The recent completion of the sale of controlling stake in the group's hospital business is expected to result in substantial reduction in promoter level debt as well as release of plege on its shares.

The ratings further continue to remain constrained by the susceptibility of EL's profitability to volatility in the raw material prices and intense competition in the overall FMCG industry wherein EL has a moderate presence.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial growth in its scale of operations (TOI and tangible net worth [TNW]) along with revenue diversification across various product categories and thereby gaining significant market share in the overall FMCG industry.
- Significant improvement in profitability while maintaining healthy return on capital employed (ROCE) above 30% on a sustained basis.
- Maintaining significant free liquidity and a lean operating cycle on a sustained basis.
- Reducing pledge of the promoters' share in EL to nil and maintaining such position on a sustained basis.

Negative factors

- Reduction in the scale of operations with TOI below ₹2,000 crore or major reduction in the market share of its key product segments thereby adversely impacting its cash accruals on a sustained basis.
- Large debt-funded capex or acquisition leading to considerable weakening of its credit risk profile on a sustained basis.
- Moderation in its ROCE to below 15% on a sustained basis.
- Overall gearing and total debt/PBILDT of more than 0.50x on a sustained basis.
- Material increase in the percentage of pledge of the promoters' share in EL from the existing levels.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Analytical approach:

CARE Ratings has taken a consolidated view of EL and its subsidiaries, as they operate in similar line of business catering to different geographies and there also exists corporate guarantees/Letter of comfort extended by EL to some of these entities. The list of entities being consolidated with EL is provided in **Annexure-6**.

Outlook: Stable

The 'stable' outlook reflects that EL is expected to sustain its healthy business risk profile, supported by its established brands in various product segments of the FMCG industry with strong market share in some of its product ranges. Financial risk profile is also likely to remain healthy, aided by healthy profitability and return indicators along-with very low reliance on external debt leading to comfortable capital structure and debt coverage indicators.

Detailed description of the key rating drivers

Key strengths

Long and established track record of operations in the FMCG industry

EL was set up in 1974 as Kemco Chemicals, a partnership firm, for manufacturing cosmetic products and ayurvedic medicines, which were marketed under the brand 'Emami'. In 1978, the promoters of EL took over Himani Limited, engaged in the manufacturing and selling of cosmetic products. Over the years, EL has expanded its products portfolio by launching new products and acquisition of brands, such as Zandu, Keshking, Crème 21, Dermicool, etc. In FY21, EL forayed into the hygiene segment with the launch of hand sanitizers and antiseptic soap under Boroplus to tap the fast-growing hygiene care market.

Established brands in ayurvedic/herbal personal care segments with strong market share in few of them

EL currently markets over 450 widely accepted ayurvedic, herbal, cosmetic, personal and health care products comprising oil, talc, cream, balm, medicines, and cosmetics. These products are sold in India and more than 70 countries worldwide with a reach of 4.9 million retail outlets. EL's Boroplus Antiseptic Cream, Navratna Cool Oil, Zandu and Mentho plus Balm, Fair and Handsome and Kesh King Oil enjoy significant market share in their respective product categories and are expected to have healthy contribution to the company's revenue going forward as well. All the seven brand segments of EL recorded growth in FY23 compared with FY22; however, for healthcare and pain management. The decline in the healthcare and pain management was for obvious reasons as the COVID-19 pandemic receded and so did the demand for the healthcare products. The company has added 'Dermicool' in its product basket in March 2022.

Regular investment in brand strengthening

Advertisement is an integral part of EL's business promotion. The company's brand positioning has been consistent with which the country's middle-income population can identify. Leading film stars, sportspersons and celebrities continue to be associated with various brands of EL. Over 60 celebrities have been associated with its brand over the past many years.
To tap the rural market, EL launched ad films, which specially targeted rural consumers. Over the years, the company has rationalised its advertisement and sales promotion spends amidst economic slowdown to enhance its brand economies and retain its market position. The aggregate expenditure on advertisement and sales promotion as a percentage of its sales increased only marginally from 16.46% in FY22 to 16.50% in FY23. CARE Ratings notes that the company has also been making efforts to gradually increase its presence in the e-commerce channels.
In March 2022, the company acquired 'Dermicool', one of the leading brands in the prickly heat powder and cool talc category from Reckitt Benckiser Healthcare (India) Pvt Ltd (RBHIPL), for a total consideration of ₹432 crore excluding taxes and duties. In FY22 and FY23, EL further increased its strategic stake in Helios Lifestyle Pvt Ltd and Brillare Science Pvt Ltd, which cater to male grooming segment and skin/hair care segment, respectively.
In July 2022, the company acquired 30% stake in Cannis Lupus Services India Pvt Ltd, which is engaged in the pet care segment offering Ayurvedic/herbal remedies for pets under the brand "Fur Ball Story".

Wide marketing and distribution channel

EL has three distinct marketing channels, viz., retail, rural trade and export. The retail sales take place through 4,280 distributors (including 427 rural super-stockists) and 12,300 sub-stockists. The company had taken a target of doubling rural coverage from 32,000 towns to 60,000 towns by FY24 in FY21. The company has already achieved has already achieved 52,000 towns and will expand its reach to 60,000 by FY24. The company has direct coverage through 9.4 lakh retailers and

indirect coverage through 49 lakh retailers in FY23. EL also has presence in the overseas market (16.86% of consolidated sales in FY23) apart from established domestic presence. EL has 26 depots across India.
In addition, the products are also sold through organised retail chains and e-commerce platforms. Institutional sales are carried out through direct liaison with Canteen Stores Department (CSD), Government of India. The company also launched websites for Zandu, Kesh King and Boroplus, and the company's products are also available on prominent eB2B platforms like Udaan and Jio Mart as well. The extensive distribution network is likely to aid the company in growing its market presence further.
The exports are handled by agents located around the globe and through overseas marketing subsidiaries of EL. The overseas revenue of the company increased from ₹473 crore in FY22 to ₹567 crore in FY23 (comprising around 17% of the company's overall revenue) with more than 10 brands in its international portfolio and presence in more than 70 countries. E-commerce and Modern trade sales comprised about 18.6% of domestic business in FY23.

Robust financial performance in FY23 and Q1FY24 albeit moderation in the profitability margins
The overall performance of the company witnessed an improvement in FY23 compared with FY22 with revenue witnessing a growth of 7% y-o-y. The growth in the revenue was driven by growth in domestic business by 5%, international business by around 20% in FY23 compared with FY22.
The PBILDT margin, however, witnessed moderation from 29.51% in FY22 to 25.17% in FY23 on account of increase in the raw material prices which could not be fully passed on to the consumers. The same, however, remained higher than industry average. EL's operating margin has remained healthy over the past few years on account of better cost management across all functions. The ROCE and return on net worth (RONW) although declined to 30.13% and 27.13% in FY23 from 36.68% and 27.13% in FY22, remained very comfortable. CARE Ratings expects that with softening of commodity prices and expected improvement in demand from the rural economy, the revenue and profitability will improve going forward. Furthermore, the strong brand position in some of the product categories is also expected to drive the growth in sales going forward.

Robust capital structure
The capital structure of the company remained robust with decrease in the total debt. The overall gearing stood at 0.04x as on March 31, 2023, compared with 0.14x as on March 31, 2022.
Also, the company paid dividend of ₹353 crore for FY23. Working capital utilisation stood low at around 5% for the trailing 12 months June 2023, which led to decrease in the total debt in March 2023. The company does not have any long-term debt apart from lease liabilities.
With no major capex/acquisition plans in the medium term and healthy liquidity, CARE Ratings expects the capital structure to remain comfortable.

Experienced promoters and management team
The promoters of the Emami group, R. S. Agarwal and R. S. Goenka, are professionally qualified, with business experience of over four decades. They, along-with a team of professionals, established the Emami group as a reputed conglomerate based out of eastern India. Apart from EL, the promoters have business presence in edible oil, paper, real estate, retail, hospitals, bio-diesel and pharmacy. 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.
While R S Agarwal and R S Goenka have stepped down from their executive position w.e.f. April 01, 2022 and transitioned the business to their next generation, they continue to remain on the Board. Harsha Vardhan Agarwal has been appointed as Vice Chairman-cum-Managing Director and Mohan Goenka has been appointed as Vice Chairman-cum-Whole Time Director. Both H V Agarwal and Mohan Goenka have been the whole-time directors of the company since January 2005 and have been looking after various functions in the company.
Few years ago, the promoters had pledged significant part of their shareholding in EL to provide financial support to its group companies for various asset creation. However, subsequently, the promoters took several steps like sale of part of their stake in EL along with monetisation of the group's cement and power businesses to reduce the promoter-level debt and in turn the proportion of pledge of promoter shareholding in EL to a moderate level. The promoters have recently sold controlling stake in its hospital business which is expected to further reduce the share pledge and promoter-level debt. The outstanding loan against pledge of the promoter's shares reduced from ₹3,400 crore as on June 30, 2020 to ₹1,806 crore as on September 6, 2023, and expected to reduce further to ₹1,048 crore.

The ratings factor in the promoter's stated intent to reduce their loan against shares considerably going forward. Furthermore, the company completed buy back of shares for about ₹185.30 crore in H1FY24.

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 Research and Innovation (R&I) centre spanning over 30,000 sq. ft. in Kolkata. The centre encompasses product innovation development, product processing science, competitive intelligence cell, analytical development, perfumery science, quality assurance and packaging and development.

Liquidity: Strong

The liquidity of the company is marked by strong accruals in FY23 and Q1FY24 against nil debt repayment obligations and cash and bank balance of ₹308 crore as on June 30, 2023 (consolidated). The average working capital utilisation also remained low at 4.62% for the last 12 months ended June 2023. The company's unutilised bank lines are adequate to meet its incremental working capital needs over the next one year. The operating cycle of the company stood at 50 days in FY23 (46 days in FY22) on account of higher inventory days of 69 days in FY23 (76 days in FY22). The company does not have any major capex plans in the medium term apart from routine capex which can be comfortably funded out of internal generations.

Key weaknesses

Susceptibility of its profitability to volatility in raw material prices
The key raw materials for EL include menthol, packaging material and vegetable oil. The price of polymers (used for packaging material) is linked to the price of crude, which is volatile in nature. Menthol/Mentha oil (acts as a soothing product), LLP (crude derivative), rice bran oil (RBO), seshale wax and til oil are the key raw materials used in health care and personal care products. Most of the materials are procured domestically, and very few are imported.
Given the intense competition in the industry with price-sensitive consumers, the company may face difficulty in immediately passing on increase in the raw material prices. The company has been continuously investing in its technology and focusing on cost efficiencies, which has helped in mitigating the impact of volatility in the raw material prices on profitability.

Intense competition in FMCG industry
Indian FMCG market is characterised by the presence of large number of organised and unorganised sector players with significant similarity of product categories offering wide choice to the consumers. High level of competition calls for higher advertisement and sales promotion expenditure. The domestic organised sector consists of some very large players (including MNCs), which 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, wherein small and medium manufacturers are also a competition to established players.
However, considering the low penetration levels of various product segments, the FMCG industry is poised for a long-term growth.

Environment, social, and governance (ESG) risks

EL has formulated an environment protection policy, including energy optimisation cell, water management policy, waste water treatment and energy efficiency measures to ensure sustainability of operations given the impact of FMCG manufacturing on the environment.
It also meets its social responsibilities and undertakes various CSR initiatives which mainly comprises of education and skill development, health, water & sanitisation and social uplift. The company spent ₹10.59 crore on CSR activities during the year against obligation of ₹10.23 crore.
The Board of Directors of EL comprises 16 directors out of which 8 are independent directors (50%). Also, there have been no whistle blower complaints and penalties, no fines or strictures have been imposed on the company by any Stock Exchange or SEBI or any Statutory Authority on any matter related to capital markets during the last three financial years.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Diversified FMCG	Diversified FMCG

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 and Cosmetic), 'Himani' (Ayurvedic), 'Zandu' and 'Keshking'. EL's business is divided in two broad verticals: Healthcare products and Home & Personal Care products.
In addition to strong domestic presence, EL's products are also sold in more than 60 countries, with substantial presence in SAARC (South Asian Association for Regional Cooperation) countries, MENAP (Middle East, North Africa and Pakistan) and Africa. EL also has an overseas manufacturing facility in Bangladesh (at Ghazipur in Greater Dhaka) through its wholly-owned subsidiary, Emami Bangladesh Ltd., which is operational since 2012.
Apart from its seven own manufacturing facilities, the company also has 30 third-party manufacturing facilities in India and four third-party facilities overseas.

Brief consolidated financials (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	3,177.45	3,398.23	825.66
PBILDT	937.79	855.26	189.51
PAT	836.67	627.41	136.75
Overall gearing (times)	0.14	0.04	NA
Interest coverage (times)	184.86	115.71	88.56

A: Audited; UA: Unaudited; NA – Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Please refer Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial paper (Standalone)*	-	-	-	7-364 days	200.00	CARE A1+
Fund-based/Non-fund-based-LT/ST		-	-	-	168.00	CARE AA+; Stable / CARE A1+

*there was no amount outstanding against this commercial paper as on September 20, 2023

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	168.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (22-Sep-22)	1)CARE AA+; Stable / CARE A1+ (23-Sep-21)	1)CARE AA+; Stable / CARE A1+ (24-Sep-20)
2	Commercial paper (Standalone)	ST	200.00	CARE A1+	-	1)CARE A1+ (22-Sep-22)	1)CARE A1+ (23-Sep-21)	1)CARE A1+ (24-Sep-20) 2)CARE A1+ (18-Aug-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure 4: Complexity level of various instruments rated

Sr. No.	Name of Instrument	Complexity Level
1	Commercial paper-Commercial paper (Standalone)	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of entities consolidated with EL
Following entities have been considered for consolidation of EL:

Name of the Subsidiary	Name of the Holding Company	Country of origin	% holding as on March 31, 2022
Emami Bangladesh Limited	Emami Limited	Bangladesh	100.00%
Emami Lanka (Pvt) Ltd (formerly known as Emami Indo Lanka (Pvt) Ltd) (w.e.f. March 04, 2022)	Emami Limited	Sri Lanka	100.00%
Emami International FZE	Emami Limited	UAE	100.00%
Emami Overseas FZE*	Emami International FZE	UAE	100.00%
Pharmaderm Company S.A.E.*	Emami Overseas FZE	Egypt	90.60%
Emami Rus (LLC)	Emami International FZE	Russia	99.99%
Crème 21 GMBH	Emami International FZE	Germany	100.00%
Emami Personal Care Trading LLC (w.e.f. February 15, 2022)*	Emami International FZE	UAE	100.00%
Brillare Science Pvt Ltd	Emami Limited	India	82.92%^
Helios Lifestyle Pvt Ltd	-	India	50.40%@
Associates			
Cannis Lupus Services India Pvt Ltd	-		30.00%
Tru Native F&B Pvt Ltd (w.e.f. March 05, 2022)	-	India	20.65%

*The subsidiaries are yet to commence operations, ^stake increased to 77.53% in July 2022
@Stake increased to 50.40% and company has become subsidiary of EL w.e.f. July 01, 2022.

Note on complexity levels of the rated instrument: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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