Emami Limited

September 22, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term / Short-term (LT/ST) bank facilities	168 (Enhanced from 153)	CARE AA+; Stable / CARE A1+ (Double A Plus; Outlook: Stable/ A One Plus)	Reaffirmed
Total bank facilities	**168 (₹ One hundred sixty-eight crore only)**		
Commercial Paper	200 (Reduced from 500)	CARE A1+ (A One Plus)	Reaffirmed
Total Short-term Instruments	**200 (₹ Two hundred crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities/instrument 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 channel 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 FY22 (refers to the period April 1 to March 31) with growth witnessed in total operating income (TOI) and continued healthy profitability margins and return indicators. Furthermore, the capital structure, liquidity and debt coverage indicators remain strong.

EL witnessed moderation in its operating profitability (PBILDT) margin in Q1FY23 due to the significant increase in input prices which could not be passed on fully. Nevertheless, the profitability of EL is expected 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, however, take note of the continuing pledge of the promoter's shares in EL to provide fund support to its group companies for various asset creation. The pledge of promoters shares in EL increased marginally from 30.92% of the promoter shareholding as on June 30, 2021 to 32.22% as on August 12, 2022 due to increase in the borrowings against pledge of shares. The group is in the process of deleveraging by reducing its promoter-level debt through various means (including envisaged monetising of its group assets), which is likely to improve the group's financial flexibility, going forward. Moreover, the promoter's stated intent of maintaining a conservative financial policy and reduce the promoter-level 'Loans against Shares' (LAS) considerably, is likely to strengthen the overall credit profile. The promoter shareholding had increased to 54.27% as on March 31, 2022 from 53.86% as on December 31, 2021 on the back of buy back of shares by the company in Q4FY22.

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

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- 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- Factors that could lead to negative rating action/downgrade:

- Reduction in the scale of operations with TOI below ₹2,000 crore or major reduction in market share of its key product

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

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 percentage of pledge of the promoters' share in EL from existing levels.

Detailed description of the key rating drivers
Key Rating 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 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 300 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 60 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 FY22 compared with FY21. The company has also added 'Dermicool' in its product basket in March 2022.
However, the sales declined in Q1FY23 for pain management and healthcare segment as Q1FY22 was a COVID-19 pandemic-impacted quarter wherein the demand for pain management and healthcare segment products was much higher as compared with Q1FY23.

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 from 15.93% in FY21 to 16.46% in FY22. The company has also been making efforts to gradually increase its presence in the e-commerce channel.
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 Rs.432 crore excluding taxes and duties. The sales commenced from April 2022, and it contributed around 8% of EL's domestic sales in Q1FY23. In FY22 and Q1FY23, EL has 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.

Wide marketing and distribution channel: EL has three distinct marketing channels, viz., retail, rural trade and export. Retail sales take place through 4,687 distributors (including 427 rural super-stockists) and 11,939 sub-stockists. The company has further added 8,000 rural towns in FY22 taking its overall reach to around 40,000 villages in India. The company increased both its presence and revenues in standalone modern trade outlets with coverage expanding to 40 cities and more than 3,300 outlets. The company had a direct coverage through 9.4 lakh retailers in FY22 and an indirect coverage via 49 lakh retailers. EL has 26 depots across India.
In addition, the products are also sold through organized retail chains and e-commerce platforms. Institutional sales are done 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.
Exports are handled by agents located around the globe and through overseas marketing subsidiaries of EL. The overseas revenue of the company increased from ₹453 crore in FY21 to ₹483 crore in FY22 (comprising around 15% of the company's overall revenue) with more than 10 brands in its international portfolio and presence in more than 60 countries. E-commerce sales comprised about 5.5% of domestic business in FY22.

Robust financial performance in FY22 and Q1FY23: The overall performance of the company witnessed an improvement in FY22 compared with FY21 with revenue witnessing a growth of 10.5% y-o-y. The growth in revenue was driven by growth in domestic business by 11%, international business by 5% and institutional business by 26% in FY22 compared with FY21.
PBILDT margin continued to remain healthy at 29.51% in FY22 (30.60% in FY21). The Return on Capital Employed (ROCE) and Return on Networth (RONW), which were on a declining trend during FY19 and FY20, witnessed a significant growth in FY21 as well as FY22 on account of increase in profits. The PBILDT interest coverage ratio also improved significantly in FY22 on account of both increase in PBILDT as well as lower interest cost. The company earned healthy gross cash accruals (GCA) of ₹887 crore in FY22.
In Q1FY23, the TOI witnessed a growth of 18% y-o-y to Rs.778 crore. The growth in the revenue is on account of growth in domestic business by 13% (including 8% contribution of Dermicool) with a volume growth of 8% and international business by 45% in Q1FY23 compared with Q1FY22. The overall volume growth remained at 10%. However, the PBILDT margin witnessed a decline in Q1FY23 to 22.27% compared with 25.68% in Q1FY22 mainly on account of inflation, rise in raw material prices which could not be fully passed on and unfavourable product mix due to extraordinary high sales of pain management range in Q1FY22.
Going forward, with softening of commodity prices and expected improvement in demand from the rural economy, the revenue and profitability are expected to improve. 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 remains robust with overall gearing at 0.14x as on March 31, 2022 (0.06x as on March 31, 2021). The slight moderation in overall gearing was on account of increase in working capital utilisation of the company towards the year end.
The company acquired the brand 'Dermicool' for a consideration of ₹432 crore (excluding taxes) in March 2022 out of its internal generations. Also, the company paid interim dividend and undertook buy back of shares in Q4FY22. The funding of the same was done out of internal generations and available liquidity. Working capital requirement was met through borrowings which led to increase in total debt in March 2022. However, the working capital limit utilisation has again reduced as on June 30, 2022, and going forward, the company expects to rely largely on internal generations to fund working capital requirement. The company does not have any long-term debt apart from lease liabilities. Total debt/GCA of the company also stood healthy at 0.32x as on March 31, 2022 (0.12x as on March 31, 2021).
With no major capex/acquisition plans in the medium term and healthy liquidity, capital structure is expected to remain comfortable.

Experienced promoters and management team: The promoters of the Emami group, Mr R. S. Agarwal and Mr R. S. Goenka, are professionally qualified, with business experience of over four decades. They, along-with a team of professionals, established 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 Mr R S Agarwal and Mr 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. Mr Harsha Vardhan Agarwal has been appointed as Vice Chairman cum Managing Director and Mr Mohan Goenka has been appointed as Vice Chairman cum Whole Time Director. Both Mr H V Agarwal and Mr 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 back, 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. Consequently, the outstanding loan against pledge of the promoter's shares reduced from ₹3,400 crore as on June 30, 2020 to ₹1,496 crore as on August 18, 2021. The outstanding loan against pledge of promoter's share stood at ₹1,630 crore as on August 12, 2022, having increased marginally.
The pledge of shares stands at 32.22% as on August 12, 2022 as compared with 30.92% of the promoter shareholding as on June 30, 2021 (41.74% as on October 29, 2020).
The ratings factor in the promoter's stated intent to reduce their LAS considerably going forward. Furthermore, the company completed buy back of 94.2 lakh shares for about ₹220 crore in FY21 and around 29 lakh shares for about ₹162 crore in FY22. The buyback resulted in increase in promoter shareholding to 54.27% as on March 31, 2022 from 53.86% as on December 31, 2021.

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.

Stable demand outlook: Long-term demand outlook for the FMCG sector remains stable and consumer spending shall accelerate supported by favourable dynamics in the country such as rising young population, increasing affluence, increasing digital connectivity and distribution, young population entering workforce, growth in nuclear families, etc. In the last few years, the FMCG market has grown at a faster pace in rural India compared to urban India. Growing awareness, easier access and changing lifestyles have been the key growth drivers for the sector.

Liquidity: Strong

EL's liquidity is marked by strong accruals in FY22 and Q1FY23 against nil long-term debt repayment obligations along with cash and bank balance and liquid investments of Rs.214 crore as on June 30, 2022 (consolidated). The average working capital utilisation also remained comfortable at 23% for the trailing 12 months ended July 2022. The company's unutilised bank lines are more than adequate to meet its incremental working capital needs over the next one year. The operating cycle of the company stood at 46 days in FY22 (43 days in FY21) on account of higher inventory days of 76 days in FY22 (70 days in FY21). 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 rating 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.

Analytical approach: Consolidated

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**.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology: Consolidation
CARE's methodology for manufacturing companies

About the Company

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)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
TOI	2876.35	3177.45	778.29
PBILDT	880.26	937.79	173.32
PAT	454.71	836.67	72.69
Overall gearing (times)	0.06	0.14	NA
Interest coverage (times)	66.33	184.86	69.61

A: Audited; UA: Unaudited; NA: Not Available; Financials are classified as per CARE Rating standards

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 for this company: Annexure 4

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
Fund-based/Non-fund-based-LT/ST	-	-	-	-	168.00	CARE AA+; Stable / CARE A1+
Commercial Paper-Commercial Paper (Standalone)*	-	-	-	7 to 364 days	200.00	CARE A1+

**there was no amount outstanding against this Commercial Paper as on August 31, 2022*

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	168.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (23-Sep-21)	1)CARE AA+; Stable / CARE A1+ (24-Sep-20)	1)CARE AA+; Negative / CARE A1+ (19-Aug-19)
2	Commercial Paper-Commercial Paper (Standalone)	ST	200.00	CARE A1+	-	1)CARE A1+ (23-Sep-21)	1)CARE A1+ (24-Sep-20)	1)CARE A1+ (19-Aug-19)

							2)CARE A1+ (18-Aug-20)	

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities
Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

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: Bank 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	57.36%^
Associates			
Helios Lifestyle Pvt Ltd	-	India	49.53%@
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 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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