Emami Limited

September 23, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term / Short-term (LT/ST) Bank Facilities	153.00	CARE AA+; Stable / CARE A1+ (Double A Plus; Outlook: Stable/ A One Plus)	Reaffirmed
Total Bank Facilities	**153.00 (Rs. One hundred fifty three crore only)**		
Commercial Paper	500.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-term Instruments	**500.00 (Rs. Five hundred crore only)**		

Details of facilities/instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities/instrument of Emami Ltd (EL) continue to derive strength from its long and satisfactory track record of operations and extensive experience of the promoters in the fast-moving consumer goods (FMCG) industry along with its professional management team. EL has established brands and a diversified product portfolio in the ayurvedic and herbal personal care/cosmetic product segment of the FMCG industry with strong market share in few of the product categories. 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 favorably factor in the robust financial performance of the company in FY21 (refers to the period April 1 to March 31) and Q1FY22 and improvement in its return indicators with growth witnessed in both total operating income (TOI) and profitability despite the Covid-19 pandemic. Furthermore, the capital structure and debt coverage indicators continued to remain strong with further improvement witnessed in FY21.

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

The ratings also factor in the relatively improved financial flexibility of the Emami group with decline in promoter level debt against pledge of the promoter's shares in EL to a moderate level. The promoters of the Emami group have also monetized their cement and power businesses to substantially reduce the group level debt. CARE Ratings notes that the group is in the process of further deleveraging by repaying its remaining promoter-level debt through various means (including envisaged monetizing of its group assets), which is likely to further 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) to nil, strengthens the overall credit profile.

The ratings, however, continue to be constrained by the susceptibility of its profitability to volatility in raw material prices and intense competition in the FMCG industry.

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) along with revenue diversification across various product categories and thereby gaining significant market share in the FMCG industry.
- Significant improvement in profitability while maintaining healthy 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 sustained basis.

Negative Factors – Factors that could lead to negative rating action/downgrade:

- Reduction in the scale of operations with TOI below Rs.2,000 crore or major reduction in 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.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

- 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.

Detailed description of the key rating drivers

Key Rating Strengths

Long and satisfactory 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 manufacturing and selling of cosmetic products. Over the years, EL has expanded its product portfolio by launch of new products and acquisition of brands such as Zandu, Kesh King, Crème 21, etc. In FY21, EL forayed into hygiene segment with the launch of hand sanitizers and antiseptic soap under Boroplus brand to tap the fast-growing hygiene care market. It also launched a new brand 'EMASOL' under home hygiene category in FY21 which offers a complete range of home hygiene products.

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 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. The next generation of both the promoter families are actively involved in the day-to-day activities of the group. EL is governed by a 15-member Board of Directors consisting of eight members from the promoter family and seven eminent professionals and businessmen from diverse fields as independent directors. 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 monetization 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 Rs.3,400 crore as on June 30, 2020 to Rs.1,496 crore as on August 18, 2021. The pledge of shares stands at 30.92% of the promoter shareholding as on June 30, 2021 (41.74% as on October 29, 2020). CARE Ratings also factors the promoter's stated intent to reduce their LAS to nil in the medium term. Furthermore, the company completed buy back of 94.2 lakh shares for about Rs.220 crore in FY21.

Established brands and diversified product portfolio 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 4.5 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. Recently, the company also forayed into the hygiene segment in line with the change in consumer behaviour due to outbreak of Covid-19 pandemic.

Navratna and male grooming segments witnessed de-growth in FY21 compared with FY20 due to consumption pattern leaning towards healthcare and away from discretionary items. On the contrary there was higher growth in healthcare, pain management, Boroplus and Kesh King range in FY21. During the last two quarters, i.e. Q4FY21 and Q1FY22, with improving demand across products, all the brand segments of the company witnessed double-digit growth y-o-y.

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. EL spends up to Rs.15 crore every year to engage new celebrities for its brand promotion.

In FY21, the company had temporarily rationalized its advertisement and sales promotion spends amidst economic slowdown induced by the pandemic. The aggregate expenditure on advertisement & sales promotion reduced from 17.78% in FY20 to 15.93% in FY21. During Q1FY22, EL has further increased its strategic stake in Helios Lifestyle, the owner of the male grooming brand The Man Company.

Wide marketing and distribution channel

EL has three distinct marketing channels, viz., retail, export and rural trade. Retail sales take place through more than 3,200 distributors and 8,000 sub-distributors. The company uses network of 392 super-stockists and 7,590 sub-stockists in rural areas in India to reach out to 26,000 villages (with population of 3,000 and above) and covers around 18,000 towns through van operations. The company has a direct coverage through 9.4 lakh retailers in FY21 and an indirect coverage via 45 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), Govt. of India. Exports are handled by agents located across the globe and overseas marketing subsidiaries of EL. The overseas operation revenue of the company increased from Rs.414 crore in FY20 to Rs.448 crore in FY21 (comprising of 16% 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 3% of sales in FY21.

Robust financial performance in FY21 and Q1FY22

The overall performance of the company witnessed improvement in FY21 compared to FY20, despite FY21 being a pandemic-hit year. TOI witnessed growth of 8.6% y-o-y in FY21 on account of growth in revenue from healthcare range, pain management range, Kesh King, Boroplus and 7 Oils in One range of the company. The male grooming segment, however, witnessed significant de-growth in FY21 on account of low rural demand, lower disposable income with public and liquidity crunch due to pandemic leading to lower demand for discretionary product. However, in H2FY21, the product witnessed a growth of 18%.

PBILDT margin also witnessed improvement from 25.89% in FY20 to 30.61% in FY21. 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 and better cost management across all functions. The company had also rationalized its advertisement cost and travelling expenses due to the pandemic which further added to the improved PBILDT margin in FY21 apart from lower raw material costs.

The ROCE and RONW, which were on a declining trend over the last two years ended FY20, have witnessed a significant growth in FY21 on account of increase in profit along with reduction in capital employed on account of buy back of shares and dividend payout. PBILDT interest coverage ratio also improved significantly in FY21 on account of both increase in PBILDT as well as decline in interest cost. The company earned healthy GCA of Rs.818 crore in FY21.

In Q1FY22, the total operating income witnessed a growth of 37% y-o-y to Rs.661 crore; albeit on a lower base. The increase in revenue was on account of growth in revenue from all the major brand segments of the company compared to Q1FY21 in which the impact of Covid-19 was higher. However, PBILDT margin remained stable at 25.68% in Q1FY22 compared to 25.55% in Q1FY21.

Robust capital structure

The capital structure of the company remained robust despite reduction in net worth due to payment of dividend (including tax) to the tune of Rs.356 crore along with buy-back of shares for a total consideration of Rs.221 crore. Furthermore, the working capital borrowings of the company witnessed a significant decline from Rs.206.46 crore as on March 31, 2020 to Rs.85.32 crore as on March 31, 2021 on account of increased cash flow from operations generated by the company which was subsequently utilised by the company to reduce its debt levels. As a result, the overall gearing ratio witnessed an improvement from 0.12x as on March 31, 2020 to 0.06x as on March 31, 2021. The company does not have any long-term debt apart from lease liabilities. Total debt/GCA of the company also improved and continued to remain strong at 0.12x as on March 31, 2021 vis-à-vis 0.36x as on March 31, 2020.

With no major capex/acquisition plans in the medium term and healthy liquidity, capital structure is expected to remain comfortable.

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-the-art 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 FY21 and Q1FY22 against nil long-term debt repayment obligations along with cash and bank balance of Rs.529 crore as on June 30, 2021 (consolidated). The average working capital utilisation also remained comfortable at 42% for the trailing 12 months ended June 30, 2021. The company's unutilized bank lines are adequate to meet its incremental working capital needs over the next one year. Its current ratio was healthy at 1.60x as on March 31, 2021 and its operating cycle continued to remain lean at around 43 days during 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 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 raw material prices on its profitability.

Intense competition in FMCG industry

The Indian FMCG industry is characterized by the presence of large number of organized and unorganized 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 organized sector consists of some very large players (including MNCs) which are much 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 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 steady long-term growth.

Analytical approach: Consolidated.

Earlier, CARE Ratings had adopted a standalone analytical approach for EL. However, the analytical view is now changed to consolidated considering that EL's subsidiaries are in similar line of business catering to different geographies and there also exist corporate guarantees/Letter of comfort extended by EL to some of these entities. List of entities being consolidated in EL is shown as 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 'Kesh King'.

EL's business is divided in two verticals with sales mix: Healthcare products (79%) and Home & Personal Care (21%) products.

In addition to strong domestic presence, EL's products are also sold in more than 60 countries, with substantial presence in SAARC 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 commenced production in 2012.

Brief Financials – Consolidated (Rs. Crore)	FY20 (A)	FY21 (A)
Total Operating Income	2649.79	2876.73
PBILDT	686.03	880.64
PAT	302.30	454.71
Adjusted Overall gearing (times)	0.12	0.06
Interest coverage (times)	32.65	66.36

A: Audited; Classified as per CARE Rating standards.

In Q1FY22, EL earned PAT of Rs.77.79 crore on a TOI of Rs.660.95 crore.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Available
Rating History (Last three years): Please refer Annexure-2
Covenants of rated instrument/facilities: 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
Bank Lender details: Annexure – 5

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	153.00	CARE AA+; Stable / CARE A1+
Commercial Paper-Commercial Paper (Standalone)	-	-	7-364 days	500.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based/Non-fund-based-LT/ST	LT/ST*	153.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (24-Sep-20)	1)CARE AA+; Negative / CARE A1+ (19-Aug-19)	1)CARE AA+; Stable / CARE A1+ (21-Sep-18)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (21-Sep-18)
3.	Commercial Paper-Commercial Paper (Standalone)	ST	500.00	CARE A1+	-	1)CARE A1+ (24-Sep-20) 2)CARE A1+ (18-Aug-20)	1)CARE A1+ (19-Aug-19)	1)CARE A1+ (21-Sep-18)

*LT/ST – Long-term/ Short-term

Annexure 3: Detailed explanation of covenants of the rated instruments: NA

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

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

Annexure 5: Bank Lender Details for this company
Click here to view Bank Lender Details

Annexure- 6: Details of entities consolidated

Name of the Subsidiary	Name of the Holding Company	% share-holding as on March 31, 2021
Emami Bangladesh Limited	Emami Limited	100.00%
Emami Indo Lanka (Pvt) Ltd	Emami Limited	100.00%
Emami International FZE	Emami Limited	100.00%
Emami Overseas FZE	Emami International FZE	100.00%
Pharmaderm Company S.A.E.	Emami Overseas FZE	90.60%
Emami Rus (LLC)	Emami International FZE	99.99%
Crème 21 GMBH	Emami International FZE	100.00%
Helios Lifestyle Pvt Ltd	-	*33.98%
Brillare Science Pvt Ltd	-	34.70%

Three entities (Fravin Pty Ltd, Diamond Bio-tech Laboratories Pty Ltd and Abache Pty Ltd) ceased to be subsidiaries from December 16, 2020.

*shareholding increased to 45.96% as on June 30, 2021.

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@careratings.com for any clarifications.*

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About CARE Ratings:
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