Emami Limited

August 18, 2020

Ratings

Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Commercial Paper Issue	500 (Rupees Five Hundred Crore only)	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the instrument of Emami Ltd (EL) continue to draw strength from long and satisfactory track record of the company, experienced promoters and management team, established brands and diversified product portfolio with high market share in few brands, regular investment in brands through organic and inorganic route, wide marketing and distribution channel, robust financial risk profile in FY20 (refers to the period April 01 to March 31) and Q1FY21, strong R&D capabilities for continuous product innovation, packaging development and stable long term industry outlook. The ratings continue to be constrained by the volatility in raw material prices, intense competition in the FMCG segment and slowdown in off-take in some of the discretionary products of EL.

Rating Sensitivities

Negative Factors

- Any prolonged weakening of liquidity position

Detailed description of the key rating drivers

Key Rating Strengths

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 manufacturing and selling of cosmetic products. In 1995, Kemco Chemicals was rechristened as EL and in 1998, Himani Ltd was merged with EL. Over the years the company has increased its product portfolio by launch of new products and acquisition of brands such as Zandu, KeshKing, Creme 21, etc. In Q1FY21, EL forayed into hygiene segment with the launch of hand sanitizers and antiseptic soap under Boroplus to tap the fast growing hygiene care market.

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 over four decades. They, along-with a team of professionals, established Emami group as a reputed conglomerate based out of Eastern India. The promoters have business presence in real estate, retail, hospitals, paper, bio-diesel, pharmacy, power and edible oil.

Recently, the company's promoters sold stake in one of its group entities, Emami Cement Ltd, to reduce the promoter level debt and the pledge of promoter shareholding. As on August 11, 2020, loan against pledge of promoters' shares stood at Rs.995 crore and pledge of promoter's shareholding stood at 54%.

The next generation of both promoters is actively involved in day-to-day activities of the group. EL is governed by a 16-member Board of Directors consisting of eight members from 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 more than 60 countries worldwide. EL enjoys significant market share in Boroplus Antiseptic Cream, Navratna Oil, Zandu Balm and Fair and Handsome and Kesh King. In FY19 the company acquired a new German Brand Creme 21 at Rs.100 crore. The brand offers skin care and body care products such as creams, lotions, shower gels, sun care range.

Regular investment in brands

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 ad film which specially targeted rural consumers. Over the years,

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

the company rationalized its advertisement and promotion spends amidst economic slowdown to enhance its brand economies and retain its market position.

Wide marketing and distribution channel
EL has three distinct marketing channels, viz., retail, exports and rural trade. Retail sales take place through 3,248 distributors and wholesalers. The company uses network of 397 rural super-stockists and 8,077 sub-stockists in rural areas in India to reach out to 25,000 villages (with population of 5,000 and above) and cover around 20,500 towns through van operations. The company has a direct coverage through 9.4 lakh retailers 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, e-commerce platforms. Institutional sales are done through direct liaison with Canteen Stores Department (CSD), Govt. of India. Exports are handled by agents located round the globe and overseas marketing subsidiaries of EL.

Robust financial risk profile in FY20 and Q1FY21
The FMCG segment improved in FY19 after recovering from the impacts of GST implementation and demonetization. EL's revenue from operations remained stable in FY20. The PBILDT margin slightly improved in FY20 and remained well above industry margin. The company earned a healthy GCA in FY20 vis-à-vis Rs.631.50 crore in FY19 against NIL repayment obligation in FY20 and in FY19. Overall gearing ratio moderated slightly to 0.12x as on March 31, 2020 vis-à-vis 0.05x on March 31, 2019 on account of on account of reduction in net worth due to payment of dividend along with buy back of shares, and higher working capital borrowings.
In Q1FY21 the revenue of the company declined by 26% on y-o-y basis to Rs.481.34 crore mainly on account of lockdown imposed by the government which adversely affected the supply chain and hence sales in April 2020 and May 2020. The PBILDT margin improved to 26.94% in Q1FY21 from 22.45% in Q1FY20 on the back of decrease in raw material price and reduction in advertisement expenses. PAT and GCA have remained stable in Q1FY21.

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 identity customers' unmet needs and develop completely new product segments accordingly.

Focus on 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 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).

Key Rating Weaknesses
Volatility in raw material prices
The key raw material for EL is 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, Seshale wax, til oil are the key raw materials used in health care and personal care products. The company has been continuously investing in its technology and focus on cost efficiencies which has helped in mitigating the impact of volatility in raw material prices on profitability.

Intense competition
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 of 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 rural market. However, considering the low penetration levels of various products-segments, the FMCG industry is poised for a long term growth.

Industry Outlook for FMCG segment
In the on-going Covid-19 pandemic scenario, FY21 is expected to witness soft consumption trends leading to modest volume and sales growth during the year. At the same time, as consumer's personal expenses on traveling, tourism and out-of-home entertainment shall remain minimal in FY21, which could lead to shift in such expenses on purchase of FMCG products.
Demand for certain products from 'household and personal care' category like body shower, moisturisers, face wash, hair gel, hair oil, etc. are expected to witness further downturn and may not recover until Q4-FY21 as these products are

discretionary in nature and consumers tend to delay their purchases in times when there are fears of job losses and falling disposable incomes.
Long term outlook for the FMCG sector remains positive 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.

Liquidity: Strong
Liquidity is marked by strong accruals against negligible repayment obligations along with cash and liquid investments to the tune of Rs.187 crore as on March 31, 2020 and Rs.131.90 crore as on July 31, 2020. The working capital utilisation also remained low & comfortable at 29% for 12 months ended June, 2020. Its unutilized bank lines are adequate to meet its incremental working capital needs over the next one year. Further, as per discussion with the management and banker, the company has not applied for moratorium of interest and principal payments.

Analytical approach: Consolidated. The following subsidiaries & associates have been consolidated:
1. Emami Bangladesh Ltd
2. Emami International FZE
3. Emami Indo Lanka Pvt Ltd
4. Emami Overseas FZE
5. Fravin PTY Ltd
6. Emami Rus LLC
7. Fentus113. GmbH
8. Pharmaderm Company SAE
9. Diamond Bio Tech Laboratories PTY Ltd
10. Greenlab Organics Ltd
11. Abache PTY Ltd
12. Helios Lifestyle Pvt Ltd (Associate company)
13. Brillare Science Private Ltd (Associate company)

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
CARE's methodology for manufacturing companies

About the Company
Emami Limited (EL), the flagship company of the Kolkata-based Emami group, is one of the leading FMCG companies in India. It is engaged in 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), 'Zandu' and Kesh King. 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), Kesh King brand in June 2015 and German personal care brand Crème 21 in FY19 are steps towards that direction.
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 has set up its first overseas manufacturing facility in Bangladesh (at Ghazipur in Greater Dhaka) through its wholly owned subsidiary, Emami Bangladesh Ltd.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (Abridged)
Total operating income	2690.89	2654.88
PBILDT	723.49	747.61
PAT	302.53	302.30
Overall gearing (times)	0.05	0.12
Interest coverage (times)	33.80	35.58

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper	-	-	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	170.00	CARE AA+; Negative / CARE A1+	-	1)CARE AA+; Negative / CARE A1+ (19-Aug-19)	1)CARE AA+; Stable / CARE A1+ (21-Sep-18)	1)CARE AA+; Stable / CARE A1+ (25-Oct-17)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (21-Sep-18)	1)CARE AA+; Stable (25-Oct-17)
3.	Commercial Paper	ST	500.00	CARE A1+	-	1)CARE A1+ (19-Aug-19)	1)CARE A1+ (21-Sep-18)	1)CARE A1+ (25-Oct-17)

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper	Simple

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.*

Contact us

Media Contact
Name: Mradul Mishra
Contact no. : 022-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Name: Richa Bagaria
Contact no. : 033-4018 1653
Email ID: richa.jain@careratings.com

Relationship Contact
Name - Lalit Sikaria
Contact no. : 033 – 4018 1607
Email ID: lalit.sikaria@careratings.com

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