Emami Limited

August 19, 2019

Ratings

Facilities/ Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long/Short - term Bank Facilities	170.0 (Rupees One Hundred and Seventy crore only)	**CARE AA+; Negative/CARE A1+ (Double A Plus; Outlook: Negative/A One Plus)**	Reaffirmed and Outlook revised from Stable
Commercial Paper Issue	500.0 (Rupees Five Hundred Crore only)	**CARE A1+ (A One Plus)**	Reaffirmed

Details of facilities/Instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities 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 FY19 (refers to the period April 01 to March 31) and Q1FY20, strong R&D capabilities for continuous product innovation, packaging development and stable industry outlook. The ratings continue to be constrained by the volatility in raw material prices and intense competition in the FMCG segment. Furthermore, any slowdown in the economy can potentially impact the overall demand in the industry, given that spending on some of the products of EL are discretionary in nature.

The company's ability to maintain profitability in light of intense competition in the FMCG sector, and performance of newly acquired / launched brands and products shall remain crucial from rating perspective. The timeliness and adequacy of funds raised, subsequent reduction in promoter level debt and release of entire pledge of EL's shares shall be the key rating monitorable.

Outlook: Negative

The outlook has been revised from stable to negative due to significant decline in the market capitalization of the Company over the last one year and the high level of pledging of EL's shares held by the promoters' for creating other assets in the group. Over the last 6 months, the promoters sold 20% of their stake in the company resulting in promoters' shareholding reducing to 52.74% from 72.74%, in order to reduce the outstanding promoter level debt against pledge of promoters' shares in EL. The management has articulated that it is planning to raise funds through sale of other assets of the group which would lead to repayment of promoter level debt and release of entire pledge of EL's equity shares by the end of March 2020. However, the financial risk profile of EL continues to be robust.

The outlook shall be revised to stable upon timely reduction in promoter level debt and pledge of EL's shares.

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

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.

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 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, the company rationalized its advertisement and promotion spends amidst economic slowdown to enhance its brand economies and retain its market position. The company has also increased its presence on internet (i.e Netflix, amazon prime etc).

Wide marketing and distribution channel

EL has three distinct marketing channels, viz., retail, exports and rural trade. Retail sales take place through 3,200 distributors and wholesalers. The company uses network of 250 rural super-stockists and 6,500 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. As on March 31, 2019 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 FY19 and Q1FY20

The FMCG segment improved in FY19 after recovering from the impacts of GST implementation and demonetization. EL's revenue from operations has grown by 6% in FY19 after witnessing muted growth of 1% in FY18 over FY17.

The re-launch of Keshking product by change in its packaging and price point from Rs.100 to Rs.50 in Q2FY19 led to increase in sales and product acceptance in the market, thereby resulting in significant sales growth during Q3FY19-Q1FY20. Further, the sales of 7 in one oil is also growing at a healthy rate over the last 6 quarters.

The PBILDT margin though declined from 28.48% in FY18 to 26.89% in FY19 due to increase in cost of material consumed, remained well above industry margin. 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.

The company earned a healthy GCA of Rs.631.5 crore in FY19 vis-à-vis Rs.616.68 crore in FY18 against NIL repayment obligation in FY19 and Rs.300 crore in FY18.

Overall gearing ratio improved to 0.05x on March 31, 2019 vis-à-vis 0.016x as on March 31, 2018 on account of lower working capital borrowings. Further, the overall gearing stood at 0.11x as on June 30, 2019. The company doesn't have any other long-term debt. Hence, the capital structure and liquidity position is expected to remain robust going forward in the absence of any large debt-funded acquisition/capex in the medium-term.

In Q1FY20 the company earned revenue of Rs.648.6 crore vis-à-vis Rs.614.38 crore in Q1FY19 (revenue has grown by 5.28% on Y-O-Y basis) due to better performance of products Keshking and "7 Oils in One" despite low growth in rural market. The PBILDT margin improved to 20.56% in Q1FY20 from 19.52% in Q1FY19 because of decrease in raw material price and reduction in advertisement expenses. PAT and GCA has also improved in Q1FY20.

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 (RBO), Seshale wax, til oil are the key raw materials used in health care and personal care products.

Due to variation raw material prices in the past, there was decline in PBILDT margin in FY19 due to time lag in passing the prices to the customers. The mentha oil price has come down in Q1FY20 after witnessing increase in H2FY19. 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 characterised by a large number of organized and unorganised 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 for FY20

Given the possible headwinds in macro-environment linked with economic growth including monsoon prospects, we expect near-term moderation in growth, while medium term outlook remains positive for the FMCG industry. The industry is expected to grow by 11-13% in FY20. However government initiatives for boosting rural income and improving consumer sentiments, along with a good monsoon shall play a pivotal role for performance of FMCG industry during this year.

With rural markets contributing a significant portion of 45% of the industry's revenues, initiatives such as rise in Minimum Support Price (MSP), direct income distribution, etc. shall help boost demand of rural and semi-rural consumers.

India Meteorological Department's (IMD) forecast of near-normal monsoon at 96% of long period average is expected to bring better yield of crops for farmers and thereby improve their spending power (especially in H2-FY19) which will benefit sales of non-durable goods.

In addition to this, factors such as improvement in distribution network, increased presence of FMCG players in E-commerce space, robust advertising spends, affordable and smaller packaging, etc. shall help uplift sales of FMCG in the coming months.

Liquidity Analysis: Strong

The liquidity position is comfortable as evident from cash and bank balance (incl. liquid investments, fixed deposits) of Rs.208 crore in FY19 vis-à-vis Rs.199 crore in FY18. In FY19 the company earned GCA of Rs.631 crore which was utilized for payment of dividend of Rs.190 crore, repaid WC debt of Rs.221 crore and capex of around Rs.210 crore. The operating cycle was stable at 31 days in FY19 however there was deterioration in avg. receivable debtors from 18 days in FY18 to 25 days in FY19 due to increase in government debtors which was offset by increase in creditors period from 42 days in FY18 to 49 days in FY19.

The liquidity position is expected to improve with healthy internal accruals and absence of any long term debt repayment and no major capex requirement.

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 to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector

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) and Kesh King brand in June 2015 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.

(Rs. crore)

Brief Financials (Consolidated)	FY18 (A)	FY19 (A)
Total operating income	2,531.56	2,690.89
PBILDT	720.91	723.49
PAT	306.31	302.53
Overall gearing (times)	0.16	0.05
Interest coverage (times)	21.01	33.80

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/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	-	-	-	170.00	CARE AA+; Negative / CARE A1+
Commercial Paper	-	-	-	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)	Ratings	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Commercial Paper (Carved out)	ST	-	-	-	-	-	1)Withdrawn (29-Aug-16) 2)CARE A1+ (16-Aug-16)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	170.00	CARE AA+; Negative / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (21-Sep-18)	1)CARE AA+; Stable / CARE A1+ (25-Oct-17)	1)CARE AA+ / CARE A1+ (16-Aug-16)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (21-Sep-18)	1)CARE AA+; Stable (25-Oct-17)	1)CARE AA+ (16-Aug-16)
6.	Commercial Paper	ST	500.00	CARE A1+	-	1)CARE A1+ (21-Sep-18)	1)CARE A1+ (25-Oct-17)	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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