Emami Limited

September 24, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term/Short term Bank Facilities	153.00 (reduced from 170.00) (Rupees One hundred and fifty three crore only)	CARE AA+; Stable/CARE A1+ (Double A Plus; Outlook: Stable/A One Plus)	Reaffirmed and Outlook revised from Negative
Commercial Paper Issue	500.00 (Rupees five hundred crore only)	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the instrument /bank facilities of Emami Ltd (EL) continue to draw strength from long and satisfactory track record of the company, extensive experience of the promoters and professional 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 as well as stable long-term industry outlook. The ratings also favorably factor in the robust financial risk profile given the conservative capital structure, and strong debt protection metrics and liquidity position of the company though return ratios witnessed moderation in FY20 (refers to the period April 01 to March 31) and Q1FY21 following the Covid-19 pandemic. Going forward, CARE expects the profitability of EL to remain healthy on the back of strong brand position and expected revival in the consumption and coverage indicators to remain strong on the back of conservative debt levels. 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

Positive Factors

- Substantial growth in sales of over Rs.3,000 crore and significant improvement in profitability thereby improving ROCE beyond 30% on a sustained basis
- Improvement in operating cycle below 30 days on a sustained basis

Negative Factors

- Reduction in the scale of operations with TOI below Rs.2,000 crore on a sustained basis
- Moderation in its ROCE to below 15% on sustained basis
- Overall gearing of over 0.4x and TD/GCA of more than 1x

Outlook: Stable

The outlook has been revised to Stable from Negative in view of improved financial flexibility of the group with decline in promoter level debt against pledge of promoter's shares in EL. The promoters have monetized its cement and power businesses, so as to substantially reduce the group level debt. Furthermore, CARE notes that the group is in the process of deleveraging by repaying its promoter level debt through monetizing its group assets, which is likely to further improve the group's financial flexibility, going forward. Moreover, the promoter's intent of maintaining a conservative financial policy, with promoter level LAS reducing to nil, strengthens the overall credit profile.

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 the 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.

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

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 the 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 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 September 15, 2020, loan against pledge of promoters' shares stood at Rs.950 crore and pledge of promoter's shareholding stood at 48%.
The next generation of both promoters is actively involved in the day-to-day activities of the group. 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.

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 cosmetics. These products are sold in India and more than 60 countries worldwide with a reach in 4.5 m retail outlets. 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. Recently, the company also forayed into the hygiene segment in line with the change in consumer behavior.

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-income population can identify with. Leading film stars, sportspersons and celebrities continue to be associated with various brands of EL. Over 60 celebrities have been associated with EL's brand over the past. EL spends up to Rs.15.00 crore every year to engage new celebrities. 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 aggregate expenditure on advertisement & sales promotion has reduced from 16% of sales in FY19 to 15.5% of sales in FY20.

Wide marketing and distribution channel
EL has three distinct marketing channels, viz., retail, exports and rural trade. Retail sales take place through more than 3,200 distributors and 8,000 sub-distributors. The company uses network of more than 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 13,000 towns through van operations. The company has a direct coverage through 9.4 lakh retailers in FY20 vis-à-vis 8.5 lakh retailers in FY18 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 round the globe and overseas marketing subsidiaries of EL. The overseas operation revenue of the company increased from Rs.359.81 crore in FY19 to Rs.414.00 crore in FY20.

Robust financial risk profile in FY20 & Q1FY21 though return ratios witnessed moderation
The overall performance in FY20 witnessed slight moderation from FY19 due to overall consumption slowdown as well as disruption in operations during latter part of March 2020 with nation-wide lockdown impacting supply chain infrastructure. The revenue witnessed de-growth of 4% with major impact in sales of navratna, boroplus and male grooming products, due to reduced discretionary spending, which was partly offset by growth in pain management and 7 oils in 1 portfolio.
Accordingly, PBILDT margin, though remained well above industry average, moderated slightly, to 27.01% in FY20 vis-à-vis 28.39% in FY19. 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 income from operations of the company declined by 26% (Y-o-Y) to Rs.434.59 crore in Q1FY21 vis-à-vis Rs.588.55 in Q1FY20. The de-growth was despite significant spurge in sales of newly launched sanitiser and soap products mainly on account of lockdown imposed by the government in the month of March'20 which adversely affected the sales in April'20 and May'20. However, PBILDT and PAT margins remained stable due to adoption of cost control measures and low raw material prices. The company earned a GCA of Rs.140 crore in Q1FY21 against nil long term debt repayment obligations during the period.
The ROCE and RONW of the company has been on a declining trend over the last two years, despite marginal decline in PAT, due to loss on FVTOCI of equity instruments of Rs.12 crore in FY19 and Rs.97 crore in FY20 (vis-à-vis gain of Rs.91 crore in

FY18). ROCE is expected to recover on the back of increased profitability and lower amortization of brand investment going forward.

Conservative capital structure

The capital structure of the company remained robust despite reduction in net worth due to payment of dividend (incl. tax) to the tune of Rs.438 crore along with buy back of 7,54,238 shares for a total consideration of Rs.16.47 crore. Further, adjustment of equity instrument through OCI was Rs.97 crore in FY20 which also affected the networth position. Networth further reduced as on June 30, 2020 due to buy-back of further shares of Rs.170 crore. Overall gearing ratio, however, remained comfortable at 0.09x as at March 31, 2020 vis-à-vis 0.03x as on March 31, 2019. Total debt/GCA of the company continued to remain strong at 0.26x as on March 31, 2020 vis-à-vis 0.09x as on March 31, 2019. CARE expects EL's capital structure to remain healthy in the medium term in absence of any major planned debt-funded capex in near future.

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. 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.

Key Rating Weaknesses

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, 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.

Due to softening of raw material prices in Q1FY21, the PBILDT margin remained stable despite the disruption in operations due to the lockdown. 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 consists 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 Q1-FY21, April was the worst-affected month due to multiple challenges faced by the FMCG sector such as deterioration in production levels, distortion in distribution, shortage of labourers and declining sales. This comes against the backdrop of pre-existing subdued environment. Impact of the on-going pandemic will be sharper, compared with earlier large macro-economic events such as demonetisation and GST implementation that acted as impediments to growth of Indian economy. However, in comparison with other sectors, FMCG sector is expected to perform much better as demand for products in the food, health and hygiene categories have an inelastic demand and are expected to continue their healthy growth trajectory. 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. 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 in FY20 and Q1FY21 against negligible repayment obligations along with cash and liquid investments to the tune of Rs.122 crore as on March 31, 2020. The average working capital limit utilisation also remained comfortable at 34% for 12 months ended June 30, 2020. Its unutilized bank lines are adequate to meet its incremental working capital needs over the next one year. The company did not apply for moratorium of interest and principal payments. However, the company had availed an adhoc limit of Rs.75 crore in March 2020 which has since been repaid. The operating cycle moderated to 42 days in FY20 as there was deterioration in collection period from 16 days in FY19 to 25 days and inventory holding period from 56 days to 65 days in FY20 which was partially offset by increase in creditors period from 41 days in FY19 to 48 days in FY20. However, working capital management remains prudent.

Analytical approach: Standalone. The company has 11 overseas subsidiary Companies and 2 associates. CARE had earlier taken a consolidated approach with its foreign subsidiaries and associates. However, considering that there is limited cash flow fungibility with the foreign subsidiaries, a standalone view has now been taken while factoring in the support to be extended to the subsidiary.

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
Consolidation and factoring linkages in rating
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 the 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, Kesh King brand in June 2015 and German personal care brand 'Crème 21' in FY19 are steps towards that direction. In Q1FY21, EL forayed into hygiene segment under Boroplus.
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 (A)
Total operating income	2488.70	2389.92
PBILDT	706.43	645.54
PAT	305.24	289.12
Overall gearing (times)	0.03	0.09
Interest coverage (times)	36.62	34.16

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

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 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	-	-	-	153.00	CARE AA+; Stable / CARE A1+
Commercial Paper (Standalone)	-	-	Currently not placed	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	153.00	CARE AA+; Stable / 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-Commercial Paper (Standalone)	ST	500.00	CARE A1+	1)CARE A1+ (18-Aug-20)	1)CARE A1+ (19-Aug-19)	1)CARE A1+ (21-Sep-18)	1)CARE A1+ (25-Oct-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

CC/WCDL/EF/LC/BG/BD	Detailed explanation
A. Financial covenants	NA
B. Non-financial covenants	
- **Standard reporting, affirmative and negative covenants.**	- Monthly stocks and book debts statements along with information on Sales, creditors, and balance outstanding with other banks to be received by the Bank within 15 days after month end in the format specified by the bank. - Quarterly performance statements within 45 days after quarter end. - Annual Financial statement to be received within 90 days after the Financial year-end.

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

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

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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