Emami Limited

September 21, 2018

Ratings

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Non-Convertible Debenture (NCD) Issue	-	**-**	**Withdrawn**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and instrument of Emami Ltd (EL) continues 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, wide marketing and distribution channel, robust financial risk profile in FY18 with improvement in Q1FY19 vis-à-vis Q1FY18, strong R&D capabilities for continuous product innovation and packaging development and favorable industry outlook. The ratings are constrained by the volatility in raw material process and intense competition in the FMCG segment.

The company's ability to maintain profitability in light of intense competition in the FMCG sector, performance of newly acquired / launched brands and products shall remain crucial from growth perspective and stabilisation of the new manufacturing unit commissioned in Guwahati shall remain the key rating sensitivities.

CARE has withdrawn the rating assigned to the Non-Convertible Debenture (NCD) issue of EL, with immediate effect, as the company has repaid the aforesaid NCD issue and there is no amount out-standing under the facility as on date.

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.

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.

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. The company has been investing around 17%-18% of its gross sales in the last 3 years (FY16-FY18).

Wide marketing and distribution channel

EL has three distinct marketing channels, viz., retail, exports and rural trade. Retail sales take place through 3,150 distributors and wholesalers. The company uses network of 250 rural super-stockists and 6,500 sub-stockists in rural

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

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 8.5 lakh retailers and an indirect coverage via 43 lakh retailers.

Robust financial risk profile in FY18 with improvement in Q1FY19 vis-à-vis Q1FY18
After witnessing healthy growth over the past few years, the operating income witnessed lower growth of 2% in FY18 (5% in FY17) due to implementation of GST in July 2017 (demonetization of currency in November 2016). 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. However, the performance of newly acquired / launched Kesh King /Pancharishtha shall remain crucial from growth perspective.
GCA remained healthy at Rs.617 crore vis-à-vis repayment of NCD of Rs.300 crore. The liquidity position improved as evident from cash and bank balance (incl. liquid investments) of Rs.200 crore as on March 31, 2018. Furthermore, low utilisation of bank limits provides additional liquidity comfort. The liquidity position is expected to improve with healthy internal accruals and absence of any debt repayment obligation and no major capex requirement.
Overall gearing ratio improved as on March 31, 2018 vis-à-vis March 31, 2017 on account of repayment of NCD and accretion of profit to reserves. Hence, the capital structure and liquidity position is expected to remain robust going forward. However, any large debt-funded acquisition/capex in the medium-term shall remain crucial from credit perspective.
Financial performance of the company improved in Q1FY19 over Q1FY18 as performance in Q1FY18 was hit by de-stocking by dealers and distributors due to implementation of GST in July 2017. EL earned GCA of Rs.106 crore during Q1FY19 as against GCA of Rs.75.27 crore during Q1FY18.
Overall gearing and Total debt/GCA of the company continued to remain satisfactory and has improved as on June 30, 2018 vis-à-vis June 30, 2017 on the back of lower debt out-standing as on date.

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.
Despite variation in raw material prices in the past, the company has been able to maintain the operating profitability during the aforesaid period by passing the rising prices to its customers. 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.

Prospects
EL's long-term prospects depend on its ability to introduce value-added ayurvedic products (through strong R&D capabilities), extend brand, introduce innovative packaging, strengthen its distribution network, and cost-effective advertising.

Analytical approach:
Consolidated

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
Policy on Withdrawal of ratings

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 FY18, EL has also acquired 30% stake in Helios Lifestyle Pvt. Ltd., 26.02% stake in Brillare Science Pvt. Ltd. and in Q1FY19 (refers to the period April 01 to June 30), EL has acquired 7.54% stake in Loli Beauty Inc.
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.

Financial (Consolidated)

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	2,525.85	2,544.07
PBILDT	797.03	733.42
PAT	340.01	306.30
Overall gearing (times)	0.27	0.16
Interest coverage (times)	13.74	21.38

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

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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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+; Stable / CARE A1+
Debentures-Non Convertible Debentures	February 22, 2016	8.45%	November 22, 2017	0.00	Withdrawn
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)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	-	1)Withdrawn (29-Aug-16) 2)CARE A1+ (16-Aug-16)	1)CARE A1+ (03-Jun-15) 2)CARE A1+ (20-Apr-15)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	170.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (25-Oct-17)	1)CARE AA+ / CARE A1+ (16-Aug-16)	1)CARE AA+ / CARE A1+ (03-Jun-15) 2)CARE AA+ / CARE A1+ (20-Apr-15)
3.	Debt	LT	-	-	-	-	1)Withdrawn (03-Aug-16)	1)CARE AA+ (03-Jun-15) 2)CARE AA+ (20-Apr-15)
4.	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	-	1)Withdrawn (03-Aug-16)	1)CARE A1+ (12-Feb-16) 2)CARE A1+ (11-Dec-15) 3)CARE A1+ (03-Jun-15)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AA+; Stable (25-Oct-17)	1)CARE AA+ (16-Aug-16)	1)CARE AA+ (12-Feb-16) 2)CARE AA+ (11-Dec-15) 3)CARE AA+ (03-Jun-15)
6.	Commercial Paper	ST	500.00	CARE A1+	-	1)CARE A1+ (25-Oct-17)	-	-

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