

CRISIL IER Independent Equity Research

Emmbi Polyarns Ltd

Q4FY12 First Cut

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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Last updated: 31 March, 2011

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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Emmbi Polyarns Ltd

Q4FY12 First Cut: Revenues in line, earnings below expectations

Fundamental Grade	2/5 (Moderate fundamentals)
Valuation Grade	5/5 (CMP has strong upside)
Industry	Containers & Packaging

Emmbi Polyarns Ltd's (Emmbi's) Q4FY12 revenue and EBITDA were in line with CRISIL Research's expectations. However, earnings were below expectations due to higher-than-expected interest costs and tax outgo. The company reported tax rate of 78% in Q4FY12, which was higher than expectations and came as a surprise as we expected the company to avail MAT credit in this quarter. We will revisit our earnings estimates post interaction with the management. We maintain the fundamental grade of **2/5**.

Q4FY12 result analysis

- Revenue increased by 40.3% y-o-y and 10.9% q-o-q to Rs 310 mn driven by increased volumes due to expanded capacity.
- EBITDA margin increased by 111 bps y-o-y (down 8 bps q-o-q) to 9.0% mainly due to lower raw material cost as a percentage of sales. We believe that this reduction is due to an increase in contribution of high-margin value-added products and will seek more clarity on this from the management. However, the reduction in raw material cost was partially offset by increase in other expenses.
- Interest cost increased disproportionately from Rs 7 mn in Q3FY12 to Rs 13 mn in Q4FY12 due to increase in debt levels. The tax rate for Q4FY12 stood at 78.2% compared to 26.6% in Q4FY11 (excluding tax adjustment for previous years) and 27.4% in Q3FY12. As a result, Q4FY12 adjusted PAT declined by 69% y-o-y (78% q-o-q) to Rs 2.3 mn. Adjusted EPS was Rs 0.1.
- The company has declared a dividend of Rs 0.3 per share.

Valuations: Current market price has strong upside

We continue to value Emmbi by the discounted cash flow method at Rs 23. We may revisit the fair value post interaction with the management. At the current market price of Rs 12, the valuation grade is **5/5**.

KEY FORECAST

(Rs mn)	FY10	FY11	FY12#	FY13E	FY14E
Operating income	515	753	1,023	1,223	1,562
EBITDA	57	70	99	123	163
Adj Net income	18	26	33	45	65
Adj EPS-Rs	1.1	1.6	2.0	2.6	3.7
EPS growth (%)	(73.7)	49.8	25.8	(5.9)	44.0
Dividend Yield (%)	NM	1.5	2.5	5.4	7.8
RoCE (%)	11.1	8.9	9.6	10.8	13.2
RoE (%)	6.7	5.7	6.8	8.5	11.3
PE (x)	19.4	8.1	5.9	4.6	3.2
P/BV (x)	0.8	0.5	0.4	0.4	0.3
EV/EBITDA (x)	6.1	6.9	6.2	5.2	4.6

NM: Not meaningful; CMP: Current market price

Based on abridged financials

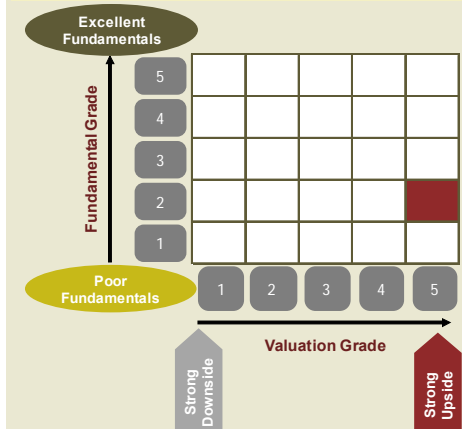
Source: Company, CRISIL Research estimates



May 30, 2012

Fair Value Rs 23
CMP Rs 12

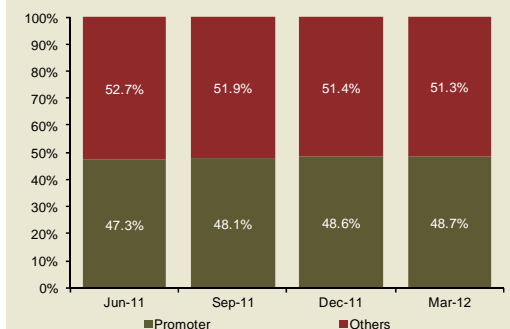
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	4951/16312
NSE/BSE ticker	EMMBI/EMMBIPOLY
Face value (Rs per share)	10
Shares outstanding (mn)	16
Market cap (Rs mn)/(US\$ mn)	195/4
Enterprise value (Rs mn)/(US\$ mn)	464/8
52-week range (Rs)/(H/L)	17/10
Beta	0.91
Free float (%)	51.3%
Avg daily volumes (30-days)	8,401
Avg daily value (30-days) (Rs mn)	0.1

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
EMMBI	-11%	-12%	-13%	-12%
NIFTY	-6%	-8%	2%	-10%

ANALYTICAL CONTACT

Mohit Modi (Director)	mohit.modi@crisil.com
Abhinaya S	abhinaya.s@crisil.com
Kamna Motwani	kamna.motwani@crisil.com
Bhaskar Bukrediwal	bhaskar.bukrediwal@crisil.com

Client servicing desk

+91 22 3342 3561 clientservicing@crisil.com

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Q4FY12 Result Summary

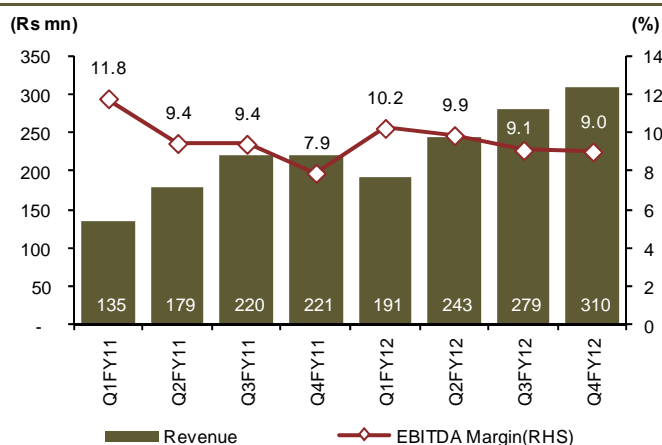
(Rs mn)	Q4FY12	Q3FY12	Q4FY11	q-o-q (%)	y-o-y (%)	FY12#	FY11	y-o-y (%)
Net sales	310	279	221	10.9	40.3	1,023	754	35.6
Raw materials cost	211	205	198	2.9	6.8	742	577	28.6
Raw materials cost (% of net sales)	68.3%	73.6%	89.7%	-528bps	-2139bps	72.6%	76.6%	-397bps
Change in Inventory	3	(9)	(28)	NM	NM	(36)	(52)	NM
Employees cost	15	20	15	(23.5)	(2.4)	59	34	74.4
Other expenses	52	38	18	36.6	186.5	159	123	29.6
EBITDA	28	25	17	9.9	60.0	99	72	36.8
EBITDA margin	9.0%	9.1%	7.9%	-8bps	111bps	9.6%	9.6%	8bps
Depreciation	6	4	3	30.3	84.0	17	10	63.1
EBIT	22	21	14	5.7	54.9	82	62	32.4
Interest and finance charges	13	7	6	77.4	113.4	32	20	58.3
Operating PBT	10	14	8	(30.6)	14.3	49	41	19.5
Other Income	1	0	2	3,160.0	(57.6)	1	4	(76.5)
Extraordinary Income/(expense)	-	-	(9)*	-	-	-	(10)*	NM
PBT	10	14	10	(26.0)	3.3	50	45	10.9
Tax	8	4	11	111.6	(28.6)	17	19	(8.3)
PAT(Reported)	2.3	10.2	(1.3)	(77.8)	NM	33	26	28.8
Adj PAT	2.3	10.2	7.4	(77.8)	(69.3)	33	35	(6.3)
Adj PAT margin	0.7%	3.6%	3.3%	-292bps	-261bps	3.2%	4.7%	-144bps
No of equity shares (mn)	16.5	16.5	16.5	-	-	16.5	16.5	-
Adj EPS (Rs)	0.1	0.6	0.4	(77.8)	(69.3)	2.0	2.1	(6.3)

Based on abridged financials

*Includes tax adjustments of previous years of Rs 8.7 mn

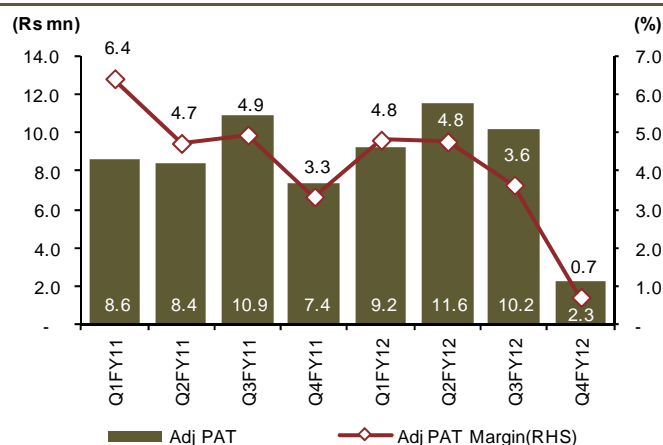
Source: Company, CRISIL Research

EBITDA margin remained flat



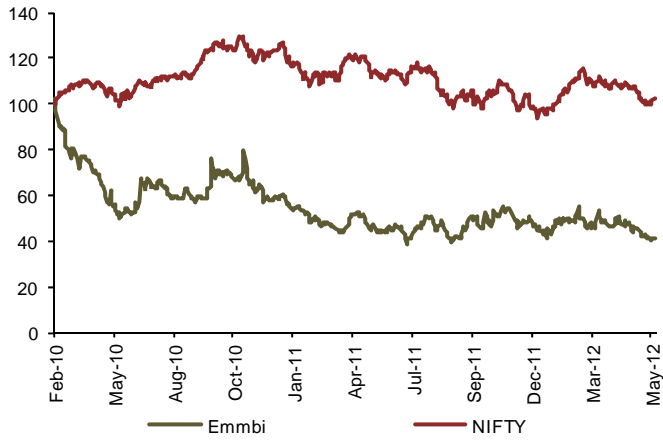
Source: Company, CRISIL Research

PAT margin declined due to higher interest and tax



Source: Company, CRISIL Research

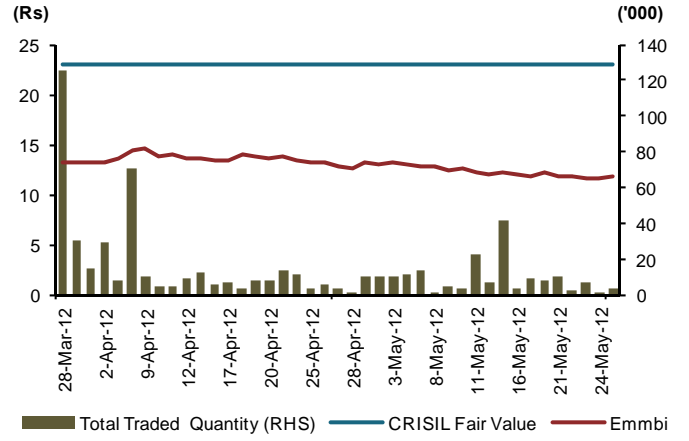
Share price movement



-indexed to 100

Source: NSE, CRISIL Research

Fair value movement since initiation



Source: NSE, BSE, CRISIL Research

Annexure: Financials

Income statement

(Rs mn)	FY10	FY11	FY12#
Operating income	515	753	1,023
EBITDA	57	70	99
EBITDA margin	11.0%	9.3%	9.6%
Depreciation	9	10	17
EBIT	48	60	82
Interest	20	18	32
Operating PBT	28	42	49
Other income	1	3	1
Exceptional inc/(exp)	(39)	(1)	-
PBT	(10)	44	50
Tax provision	11	19	17
Minority interest	-	-	-
PAT (Reported)	(21)	26	33
Less: Exceptionals	(39)	(1)	-
Adjusted PAT	18	26	33

Ratios

	FY10	FY11	FY12#
Growth			
Operating income (%)	29.2	46.2	35.7
EBITDA (%)	18.9	24.4	39.9
Adj PAT (%)	38.5	49.8	25.8
Adj EPS (%)	(73.7)	49.8	25.8
Profitability			
EBITDA margin (%)	11.0	9.3	9.6
Adj PAT Margin (%)	3.4	3.5	3.2
RoE (%)	6.7	5.7	6.8
RoCE (%)	11.1	8.9	9.6
RoC (%)	9.0	7.2	8.0
Valuations			
Price-earnings (x)	19.4	8.1	5.9
Price-book (x)	0.8	0.5	0.4
EV/EBITDA (x)	6.1	6.9	6.2
EV/Sales (x)	0.7	0.6	0.6
Dividend payout ratio (%)	-	12.8	15.0
Dividend yield (%)	NM	1.5	2.5
B/S ratios			
Inventory days	99	118	116
Creditors days	31	11	25
Debtor days	82	75	73
Working capital days	152	172	170
Gross asset turnover (x)	2.8	3.3	3.1
Net asset turnover (x)	3.5	4.0	3.3
Sales/operating assets (x)	3.4	3.1	2.7
Current ratio (x)	9.9	11.2	6.4
Debt-equity (x)	0.3	0.6	0.8
Net debt/equity (x)	0.0	0.6	0.8
Interest coverage	2.4	3.4	2.5

Per share

	FY10	FY11	FY12#
Adj EPS (Rs)	1.1	1.6	2.0
CEPS	1.6	2.2	3.0
Book value	27.1	28.4	30.6
Dividend (Rs)	-	0.2	0.3
Actual o/s shares (mn)	16.5	16.5	16.5

Balance Sheet*

(Rs mn)	FY10	FY11	FY12#
Liabilities			
Equity share capital	165	165	165
Reserves	282	304	339
Minorities	-	-	-
Net worth	447	469	504
Convertible debt	-	-	-
Other debt	140	296	428
Total debt	140	296	428
Deferred tax liability (net)	13	24	31
Total liabilities	600	788	963
Assets			
Net fixed assets	152	220	395
Capital WIP	10	109	36
Total fixed assets	162	329	431
Investments	0	4	3
Current assets			
Inventory	116	203	294
Sundry debtors	121	159	205
Loans and advances	117	110	122
Cash & bank balance	8	27	8
Marketable securities	125	-	-
Total current assets	487	499	628
Total current liabilities	49	44	99
Net current assets	438	455	529
Intangibles/Misc. expenditure	-	-	-
Total assets	600	788	963

Cash flow

(Rs mn)	FY10	FY11	FY12#
Pre-tax profit	28	45	50
Total tax paid	(5)	(8)	(10)
Depreciation	9	10	17
Working capital changes	(162)	(123)	(93)
Net cash from operations	(130)	(76)	(36)
Cash from investments			
Capital expenditure	(29)	(178)	(119)
Investments and others	(125)	122	1
Net cash from investments	(154)	(56)	(118)
Cash from financing			
Equity raised/(repaid)	398	0	(264)
Debt raised/(repaid)	(64)	156	132
Dividend (incl. tax)	-	(4)	(5)
Others (incl extraordinary)	(47)	(1)	272
Net cash from financing	287	151	135
Change in cash position	3	19	(19)
Closing cash	8	27	8

Quarterly financials

(Rs mn)	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12
Net Sales	221	191	243	279	310
Change (q-o-q)	0.4%	-13%	27%	15%	10.9%
EBITDA	17	20	24	25	28
Change (q-o-q)	-16%	15%	23%	5.7%	10%
EBITDA margin	8%	10%	10%	9%	9%
PAT	(1)	9	12	10	2
Adj PAT	7	9	12	10	2
Change (q-o-q)	-32%	25%	30%	-15%	-78%
Adj PAT margin	3%	5%	5%	4%	1%
Adj EPS	0.4	0.6	0.7	0.6	0.1

Based on abridged financials

* FY12 financials are not strictly comparable with the previous years due to the new format of disclosure under Schedule VI of the Companies Act

Source: CRISIL Research

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CRISIL Research Team

President

Mukesh Agarwal	CRISIL Research	+91 22 3342 3035	mukesh.agarwal@crisil.com
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Analytical Contacts

Tarun Bhatia	Senior Director, Capital Markets	+91 22 3342 3226	tarun.bhatia@crisil.com
Prasad Koparkar	Senior Director, Industry & Customised Research	+91 22 3342 3137	prasad.koparkar@crisil.com
Binaifer Jehani	Director, Customised Research	+91 22 3342 4091	binaifer.jehani@crisil.com
Manoj Mohta	Director, Customised Research	+91 22 3342 3554	manoj.mohta@crisil.com
Sudhir Nair	Director, Customised Research	+91 22 3342 3526	sudhir.nair@crisil.com
Mohit Modi	Director, Equity Research	+91 22 4254 2860	mohit.modi@crisil.com
Jiju Vidyadharan	Director, Funds & Fixed Income Research	+91 22 3342 8091	jiju.vidyadharan@crisil.com
Ajay D'Souza	Director, Industry Research	+91 22 3342 3567	ajay.dsouza@crisil.com
Ajay Srinivasan	Director, Industry Research	+91 22 3342 3530	ajay.srinivasan@crisil.com
Rahul Prithiani	Director, Industry Research	+91 22 3342 3574	rahul.prithiani@crisil.com

Business Development

Siddharth Arora	Director, Customised Research	+91 22 3342 4133	siddharth.arora@crisil.com
Vinaya Dongre	Director, Industry & Customised Research	+91 22 3342 8025	vinaya.dongre@crisil.com
Sagar Sawarkar	Associate Director, Equity Research	+91 22 3342 8012	sagar.sawarkar@crisil.com
Deepak Mittal	Associate Director, Funds & Fixed Income Research	+91 22 3342 8031	deepak.mittal@crisil.com
Prosenjit Ghosh	Associate Director, Industry & Customised Research	+91 22 3342 8008	prosenjit.ghosh@crisil.com

Business Development – Equity Research

Ahmedabad / Mumbai

Vishal Shah – Regional Manager, Business Development
 Email : vishal.shah@crisil.com | Phone : 9820598908

Bengaluru / Mumbai / Pune

Vivek Tandon – Regional Manager, Business Development
 Email : vivek.tandon@crisil.com | Phone : 9967714970

Chennai / Hyderabad

Urmil Shah – Regional Manager, Business Development
 Email : urmil.shah@crisil.com | Phone : 9819916595

Delhi

Arjun Gopalakrishnan – Regional Manager, Business Development
 Email : arjun.gopalakrishnan@crisil.com | Phone : 9833364422

Kolkata

Priyanka Murarka – Regional Manager, Business Development
 Email : priyanka.murarka@crisil.com | Phone : 9903060685

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Our Office

Ahmedabad

706, Venus Atlantis
Nr. Reliance Petrol Pump
Prahladnagar, Ahmedabad, India
Phone: +91 79 4024 4500
Fax: +91 79 2755 9863

Bengaluru

W-101, Sunrise Chambers,
22, Ulsoor Road,
Bengaluru - 560 042, India
Phone: +91 80 2558 0899
+91 80 2559 4802
Fax: +91 80 2559 4801

Chennai

Thapar House,
43/44, Montieth Road, Egmore,
Chennai - 600 008, India
Phone: +91 44 2854 6205/06
+91 44 2854 6093
Fax: +91 44 2854 7531

Hyderabad

3rd Floor, Uma Chambers
Plot No. 9&10, Nagarjuna Hills,
(Near Punjagutta Cross Road)
Hyderabad - 500 482, India
Phone: +91 40 2335 8103/05
Fax: +91 40 2335 7507

Kolkata

Horizon, Block 'B', 4th Floor
57 Chowringhee Road
Kolkata - 700 071, India
Phone: +91 33 2289 1949/50
Fax: +91 33 2283 0597

New Delhi

The Mira, G-1,
1st Floor, Plot No. 1 & 2
Ishwar Nagar, Mathura Road,
New Delhi - 110 065, India
Phone: +91 11 4250 5100
+91 11 2693 0117/121
Fax: +91 11 2684 2212

Pune

1187/17, Ghole Road,
Shivaji Nagar,
Pune - 411 005, India
Phone: +91 20 2553 9064/67
Fax: +91 20 4018 1930



CRISIL Limited
CRISIL House, Central Avenue,
Hiranandani Business Park, Powai, Mumbai – 400076. India
Phone: +91 22 3342 3000 | Fax: +91 22 3342 8088
www.crisil.com

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