



## Press Release

March 28, 2012  
Mumbai

### CRISIL Research assigns fundamental grade '2/5' to Emmbi Polyarns Ltd

CRISIL Research has assigned a CRISIL IER fundamental grade of '2/5' (pronounced 'two on five') to Emmbi Polyarns Ltd (Emmbi). The grade indicates that the company's fundamentals are 'moderate' relative to other listed equity securities in India. CRISIL Research has assigned a valuation grade of '5/5', indicating that market price has 'strong upside' from the current levels. Our one-year fair value of the stock is Rs 23. The stock is currently trading at Rs 13 per share. The grades are not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

Emmbi operates in the highly competitive flexible intermediate bulk container (FIBC) segment, which contributed 86% to FY11 revenue. The assigned grade takes into consideration its expanded capacity, which has increased threefold to 18,200 MTPA in 2011 and will enable the company to grow its global footprint and the specialty products portfolio. However, we expect Emmbi to face challenges in marketing the incremental output from the expanded capacity given a slowdown in key export destinations, which contributed 36% of FY11 revenues. The company had faced challenges in the last round of capacity expansion in FY06 and was able to achieve optimum capacity utilisation only after five years. Additionally, since FIBC is an undifferentiated product and the market is very competitive, Emmbi has limited pricing power and is subjected to volatility in raw material prices.

The grade takes into account Emmbi's focus on increasing the revenue share of higher-margin specialty products, which contributed 14% to FY11 revenue. The revenue contribution from these products more than doubled to 13.5% in FY11 from 6.2% in FY08. This, coupled with lower contribution from trading activities, is expected to expand margin to ~10% from 9.3% in FY11.

The grade also factors in Emmbi's decade-old healthy relationship with some of the leading MNCs like Hindustan Unilever Ltd and ITC Ltd, which ensures repeat business. The top two clients contributed ~30% of revenues in FY11, which exposes the company to the client concentration risk. Further, Emmbi's working capital cycle is stretched due to its long cash conversion cycle and is expected to remain so as it has to aggressively market the incremental produce.

#### Financial outlook

Emmbi's revenue is expected to grow at a three-year CAGR of 28% to Rs 1,562 mn in FY14. EBITDA margin is expected to be ~10% over the next three years, up from 9.3% in FY11 on account of lower contribution from the low-margin trading business and increased contribution from high-margin specialty products. Adjusted PAT is expected to increase at a three-year CAGR of 37% to Rs 65.4 mn in FY14 and adjusted EPS is expected to increase to Rs 3.7 in FY14 from Rs 1.6 in FY11. We expect Emmbi's working capital cycle to remain stretched at ~170 days as the company will be required to aggressively market the incremental output from its new capacity.

#### Valuation (the current market price has 'strong upside')

CRISIL Research has used the discounted cash flow (DCF) method to value Emmbi and arrived at a fair value of Rs 23 per share. This fair value implies P/E multiples of 9.0x FY13E and 6.2x FY14E earnings.

#### About the company

Incorporated in 1994, Emmbi manufactures, sells and exports bulk packaging products like FIBCs and other woven polymer-based specialty products in India and abroad. The company initially started as a trading company and started manufacturing in 1997. Its manufacturing plants are located in Silvassa, Union Territory of Dadra & Nagarhaveli. It got listed on the NSE and the BSE in 2010.

#### About CRISIL Independent Equity Research

CRISIL IER (Independent Equity Research) is an independent, unbiased opinion on fundamentals and fair valuation of the company. CRISIL IER encompasses a comprehensive analysis of the four pillars of sustainable value creation, namely: Industry and business prospects, financial performance & outlook, management capabilities and corporate governance.

### About CRISIL Fundamental and Valuation (CFV) Matrix

The CFV matrix addresses two important aspects in investment making decision - analysis of fundamentals (addressed through fundamental grade) and analysis of returns (valuation grade). CRISIL's fundamental grade represents an overall assessment of the fundamentals of the company graded in relation to other listed equity securities in India. The grade facilitates easy comparison of fundamentals between companies, irrespective of the size or the industry they operate in. A CRISIL IER fundamental grade of '5/5' indicates 'excellent' fundamentals and a fundamental grade of '1/5' indicates 'poor' fundamentals relative to other listed equity securities in India. CRISIL's valuation grade represents an assessment of the fair value of the company's stock for an equity investor over a 12-month period. The 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). A CRISIL IER grading should not be construed as a recommendation to invest in the graded security, nor a comment on suitability of a particular investment for the reader.

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