



HIDDEN GEMS

UNEXPLORED MULTIBAGGER SMALL CAP STOCKS

EQUITY RESEARCH REPORT

EMMBI INDUSTRIES LTD.	BSE CODE: 533161 NSE CODE: EMMBI
Industry: Packaging	CMP: Rs. 109.50 (17/07/2016)
Market Cap: 192.30 (INR in Crore)	Target Price: Rs. 220
Date: July 17, 2016	Time Period: 12 – 24 months



Saral Gyan Capital Services

An Independent Equity Research Firm

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TABLE OF CONTENT

S.No	Content	Page No.
1.	Company Background	03
2.	Recent Developments	08
3.	Financial Performance	09
4.	Peer Group Comparison	11
5.	Key Concerns / Risks	11
6.	Saral Gyan Recommendation	12
7.	Disclaimer	14

1. Company Background



Emmbi Industries Limited (earlier known as Emmbi Polyarns Ltd.) is one of the well established company in the field of woven polyethylene and polypropylene product manufacturing. The company is engaged in the manufacture and sale of FIBC (Flexible Intermediate Bulk Containers) and Woven Sacks and various woven polymer based products like Container Liners, Protective Irrigation System, Canal Liners, Flexi Tanks, Car Covers etc. Emmbi is an ISO certified Company, it has a fully equipped manufacturing facility located at Silvassa in the Union Territory of Dadra and Nagar Haveli.

The company products are mainly used in packaging, infrastructure, housing, disaster management and Hazardous waste disposal industry.

The company supplies these products to various customers in domestic as well as international markets. The major customers in the domestic market include multinational companies in FMCG sector. Internationally, the customers are major automobile manufacturers, major glass manufacturers, major cement manufacturers, leading seed manufacturer, players in the petrochemical industry, and various other international customers. Exports contributed 49% of total revenue in FY16 with major contribution from Europe (32%) and American markets (31%).

Emmbi exports to over 52 countries and is aiming to establish its own distribution network for overseas business in coming years. All its products are polymer based with polypropylene as its major raw material. In synthetic packaging, it manufactures polymer based flexible intermediate bulk containers (FIBC) that are both generalised as well as embedded with specific properties.

Emmbi was incorporated in 1994 by first generation entrepreneurs i.e. Makrand Appalwar and Rinku Appalwar, with initial years confined to trading of FIBC with the company venturing into manufacturing of the same in 1997 with a plant in Silvassa. In 2005, Emmbi installed and commissioned the polypropylene based packaging unit with a capacity of 6000 metric tonne.

In 2010, Emmbi got listed on NSE and BSE. The IPO came in at a price of Rs. 45 per share and the company garnered 39 crore, mainly for expanding its manufacturing facilities domestically. Post IPO, Emmbi expanded its capacity from 6000 tonne to 18200 tonne in a phased manner. Capacity utilization in FY16 stood at 83% (up from 65% in the previous year), leading to better operational metrics.

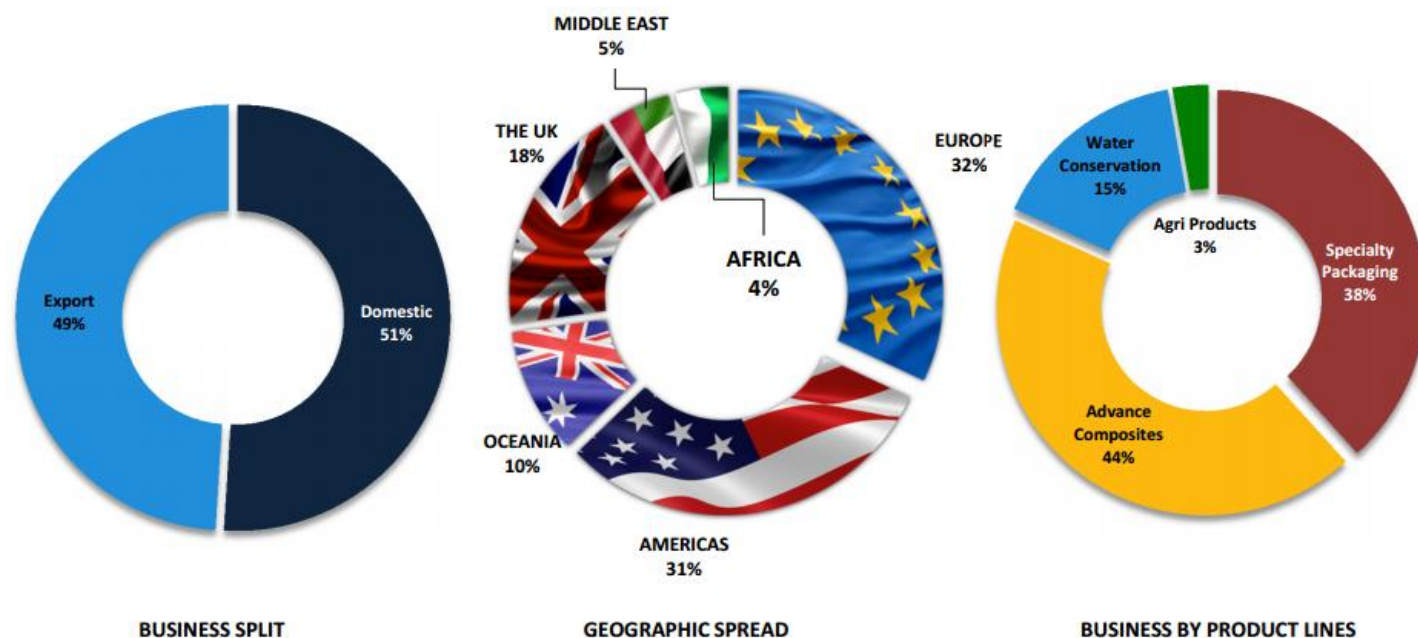
EMMBI PRODUCT RANGE

SPECIALITY FIBCS	STANDARD FIBCS	SPECIALITY FILMS AND FABRICS
• De-Watering FIBC	• Single & Two Loop Bags	• Film Liner Barrier & Moisture Proofing
• Q Baffle FIBC	• Circular Cross Corner	• Geo Textile
• Form Stable FIBC	• Tunnel Loop	• Ground Cover
• Conductive	• Builder Bag	• Silt Fence
• Palletless FIBC	• Slings	• Sandwich Fabric
• N Certified FIBC	• U+2 Panel	• Fire Retardant Scaffolding

CONTAINERS LINERS & BOX BAGS	ASBESTOS REMOVAL PRODUCTS	ANTI CORROSIVE VCI PACKAGING
• Container Liners	• Small Bags (PWS) For Asbestos	• Woven PE Sheets
• Garden Waste Bags	• FIBCs for Asbestos	• Blown PE Films
• Automobile Covers	• Container Liner For Asbestos	• VCI PE Bags
• Compressible Bale Wrap	• PE Bags For Asbestos	

SACKS	WATER CONSERVATION PRODUCTS
• BOPP Film Coated Sacks	• Flexible Water Tank
• Paper Replacement Coated PP Bags	• Canal Liner
• Valve Mouth Plastic Woven Sacks	• Pond Liner
• PP & PE Woven Sacks	

Revenue Contribution by Geography & Product Lines



Emmbi's product profile is classified into four main segments, out of which Advance Composites, Water Conservation Products and Agri products constitute the Value added products in product portfolio of Emmbi.

1. Specialty Packaging Products: General Purpose FIBC, Baffle Bag, and FIBC of Different Shape Container Liner, PWS & Films.



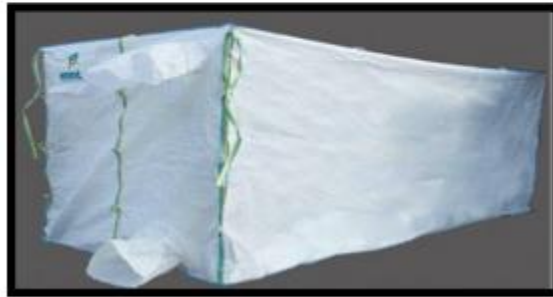
Construction FIBC



"Form Stable" Conductive



Paper Substitute Bag



Liquid & Solid Container Liner



Packaging Barrier Films

2. Advanced Composites Products: UN FIBCs, Anti Carcinogenic Packaging, Anti-Corrosive VCI Material, Water Sludge Separator, Fall Arrest, Geo Cell. Nuclear Plant Waste Disposal



UN Certified FIBC



Anti Carcinogenic Packaging



Water – Slug Separator

Anti-Corrosive VCI
MaterialNuclear Power Plant
Waste Disposal

Fall Arrest

3. Water Conservation Products: Canal Liners, Pond Liners, Check Dams, Flexi Tank.



1000 Ltr Flexi Tank



500 Liter Standing Tank



Open Flexi Tank

4. Agri Products: Crop Covers, Silage Incubator, Mulch Films, Shade Nets.



Mulch Film



Shade Net



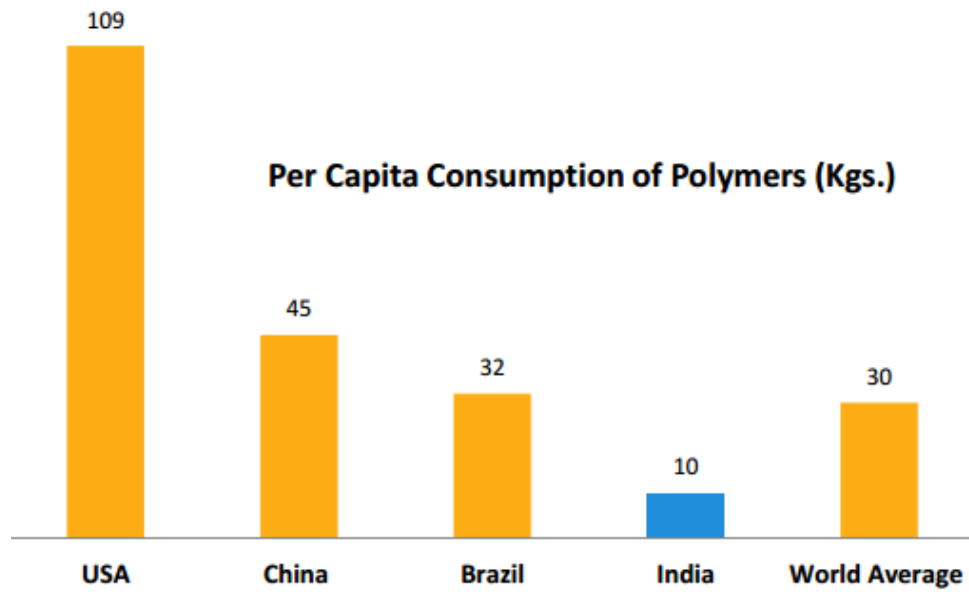
Silage Incubator



Crop Cover

Future Growth Outlook

Global polymer consumption is expected to grow close to 4 times in two decades from 2000. Production of Polymer is expected to reach 540 million TPA in 2020 from 365 million TPA in 2010. The completely man-made nature of polymers makes innovation and creation of new materials virtually limitless. Moreover, advances in material technology are creating new applications for polymers, further fueling this growth.



India's consumption of polymers is still a third of the global average and is significantly low compared to other countries like China and Brazil other than USA. As the country urbanizes and grows economically, we see a significant uptick in polymer consumption which is expected to augur well for Emmbi Industries.

With main thrust of Emmbi Industries on water conservation and agri products which are intended for domestic markets and are value added products, we expect significant increase in revenues from domestic sales compared to exports.



The company has set up the Emmbi Innovation Lab, an independent R&D Centre which has received approval for the Lab by the Department of Industrial Research, Science & Technology.

Emmbi focused efforts in product development has resulted in 11 patents, which gives Emmbi an edge over competitors in terms of product offerings and command better margins. Continuous innovation has helped company to increase its share of value added products in the product portfolio with shift in the product mix towards high margin contributors.

2. Recent Developments

i) Emmbi Industries gets recognition as R & D Centre by Ministry of Science & Technology – April 2016

The Department of Scientific and Industrial Research (DSIR), Government of India, issued Certificate of Registration on 19th April, 2016 w. e. f. 22nd March, 2016 recognizing Emmbi Innovation Lab an R & D Arm of Emmbi Industries Ltd as “In House R & D Unit”. The certificate is valid from 22/03/2016 to 31/03/2018 (3 financial years)

As per management, the recognition enables Emmbi Industries to avail number of fiscal incentives, the primary one being the ability to claim Weighted Deduction of 200% of the company’s total R&D expenditure subject to approval from Income tax department. Excise & Custom Duty Exemptions for the products patented by the company as per Govt. Notification No24 /2007 & 16 /2007 with the right terms & Conditions.

Emmbi Innovation Lab has filed Six Product Patents and Five process patents for various products & processes over the past 2 years.

ii) Emmbi wins “India SME 100 Awards, 2016” – April 2016

Emmbi Industries won the prestigious “India SME 100 Awards, 2016” presented by SME India Forum. Mrs. Rinku Appalwar, CFO of Emmbi Industries Ltd received the award from Shri. Kalraj Mishra, Hon’ble Union Minister of MSME, Shri. Suresh Prabhu, Hon’ble Union Minister of Railways, Govt. of India and Smt. Shika Sharma, MD & CEO, Axis Bank.

Emmbi Industries has won this award among total of 49023 nominations filed by SMEs from all over the country.

iii) Launch Of Positive Pressure Integrated Clean Room Facility for Food and Pharmaceutical Grade FIBC Packaging – March 2016

Emmbi Industries has started the construction of “Positive Pressure Clean Room facility for manufacturing of Food and Pharmaceutical Grade FIBC Packaging Material”

The project will take 10 to 12 months to complete and start the production. Total estimated cost of the project will be Rs. 10 Crores. Project will be funded by internal generation and debt from the banks. Company is constructing the building on the land which was already available with company.

This will help company to produce the Food & Pharma Grade products for the Export Market. This will enhance the value addition of the products, especially in USA as the New USFDA guidelines recommends the use of food grade material for packaging for the entire value-chain of Food and Pharma.

3. Financial Performance

Emmbi Industries standalone net profit rises 28.82% in the March 2016 quarter

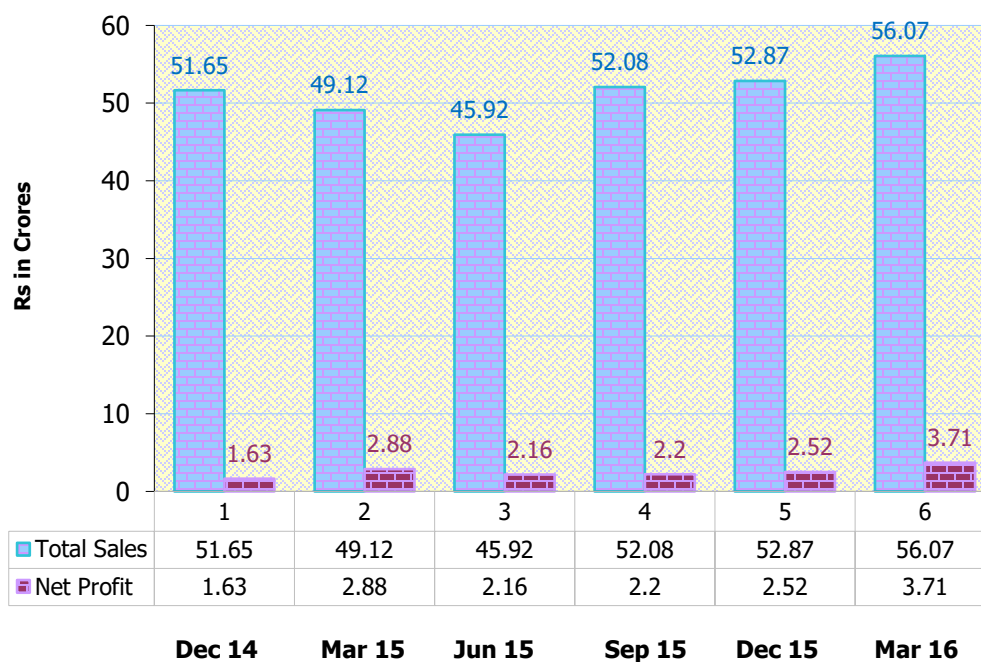
Net profit of Emmbi Industries rose 28.82% to Rs 3.71 crore in the quarter ended March 2016 as against Rs 2.88 crore during the previous quarter ended March 2015. Sales rose 14.15% to Rs 56.07 crore in the quarter ended March 2016 as against Rs 49.12 crore during the previous quarter ended March 2015.

For the full year, net profit rose 77.55% to Rs 10.60 crore in the year ended March 2016 as against Rs 5.97 crore during the previous year ended March 2015. Sales rose 13.32% to Rs 206.94 crore in the year ended March 2016 as against Rs 182.62 crore during the previous year ended March 2015.

Emmbi Industries standalone net profit rises 54.60% in the December 2015 quarter

Net profit of Emmbi Industries rose 54.60% to Rs 2.52 crore in the quarter ended December 2015 as against Rs 1.63 crore during the previous quarter ended December 2014. Sales rose 2.36% to Rs 52.87 crore in the quarter ended December 2015 as against Rs 51.65 crore during the previous quarter ended December 2014.

Last 6 Quarters Net Sales & Profit



Current & Expected Earnings

Quarterly Ended Profit & Loss Account (Standalone)

Particulars (Rs in Crores)	Jun 2015	Sep 2015	Dec 2015	Mar 2016	Jun 2016 E	Sep 2016 E
Audited / UnAudited	UA	UA	UA	UA	UA	UA
Net Sales	45.92	52.08	52.87	56.07	53.74	59.48
Other Operating Income	0.24	0.26	0.28	0.22	0.25	0.28
Total Income – Operations	46.16	52.33	53.15	56.29	53.99	59.76
Raw Materials Consumed	27.08	29.74	29.02	30.98	31.12	32.74
Purchase of Traded Goods	5.78	6.25	7.66	6.03	6.15	7.23
Increase/Decrease in Stocks	-2.36	-0.18	-0.72	0.47	-2.56	-0.36
Power & Fuel	--	--	--	--	--	--
Employees Cost	1.6	2.09	2.06	2.05	2.14	2.42
Depreciation	0.85	0.88	0.94	1.00	1.07	1.15
Provisions And Contingencies	--	--	--	--	--	--
Other Expenses	8.28	8.37	8.44	9.63	9.12	9.25
P/L Before Other Income	4.94	5.19	5.75	6.12	6.95	7.33
Other Income	0.53	0.63	0.06	0.09	0.11	0.12
P/L Before Int., E. Items & Tax	5.46	5.82	5.81	6.21	7.06	7.45
Interest	2.37	2.49	2.13	2.04	2.65	2.54
P/L Before E. Items & Tax	3.1	3.33	3.68	4.17	4.41	4.91
Exceptional Items	--	--	--	--	--	--
P/L Before Tax	3.1	3.33	3.68	4.17	4.41	4.91
Tax	0.94	1.13	1.16	0.47	1.24	1.29
P/L After Tax – Ord. Activities	2.16	2.2	2.52	3.71	3.17	3.62
Prior Year Adjustments	--	--	--	--	--	--
Extra Ordinary Items	--	--	--	--	--	--
Net Profit/(Loss)	2.16	2.2	2.52	3.71	3.17	3.62
Equity Share Capital	17.69	17.69	17.69	17.69	17.69	17.69
Calculated EPS	1.22	1.25	1.43	2.09	1.79	2.05
Calculated EPS (Annualised)	4.88	5.00	5.69	8.38	7.17	8.19
Public Shares Holding (Crores)	0.76	0.75	0.75	0.75	NA	NA
Public Share Holding (%)	42.92	42.61	42.27	42.14	NA	NA

Going forward on the back of robust growth in profitability over next 2 years, we expect further improvement in return ratios.

We expect company will deliver sales CAGR of 19% with EBITDA growth of 22% over next 2 years considering robust demand and increase in sales contribution from value added products.

4. Peer Group Comparison

PEER GROUP	EMMBI INDUSTRIES	FLEXITUFF INTERNATIONAL	KANPUR PLASTIPACKS	MEWAR POLYTEX
CMP	109.50	196.35	146.55	63.25
52 W L/H	29.00/124.30	153.10/254.45	77.50/219.00	24.20/76.10
Market Cap	192.29	506.37	116.64	20.43
Results (in Crores)	Mar-16	Mar-16	Mar-16	Mar-16
Net Sales	56.07	361.29	61.58	17.16
PAT	3.71	1.09	3.31	0.87
Equity	17.69	24.88	7.96	3.23
EPS (TTM)	5.99	1.94	20.68	8.93
P/E	18.15	104.90	7.09	7.08

5. Key Concerns / Risks

i) Rise in Raw Material Prices - The rise in raw material price can impact operating margins of the company for its non-specialty products.

ii) Intense Competition – There are many organized and unorganized players in the Industry offering similar products without any pricing power due to which it's a low margin business. Hence, it is important for the company to adapt new technologies, offer product innovation, identifying and meeting customer's expectations in term of high quality, product services and performance to remain ahead of the competition.

6. Saral Gyan Recommendation

- ✚ In last few years, Emmbi has acquired substantial share in the international market for various packaging needs for products like Construction Aggregates, Chemicals, Seeds, Fertilizers, and Cement & Food Grains etc. Some of the high value added products which company manufactures for the international market includes Car/Automobile Covers, Container Liners, Anti Corrosive Packaging, Electrically conductive polymer based packaging, etc. To drive domestic growth, Emmbi introduced value added products in water conservation and agriculture space and increased its focus on marketing efforts to develop distribution network in rural India.
- ✚ Emmbi Innovation Lab i.e R & D arm of the company has received Certificate of Registration from the Department of Scientific and Industrial Research (DSIR), Ministry of science & Technology, Government of India, which is valid till 31st March, 2018. Govt recognizes the innovation carried out by Emmbi, this recognition enables Emmbi to avail number of fiscal incentives and will results in tax benefits to the company during next 3 years.
- ✚ Emmbi has recently started the construction of Positive Pressure Clean Room facility for manufacturing of Food and Pharmaceutical Grade FIBC packaging material with estimated project cost of 10 crores. This facility is expected to start production by April 2017 and will help the company to enhance the value addition of the products, especially in USA as the new USFDA guidelines recommends the use of food grade material for packaging for the entire value-chain of Food and Pharma.
- ✚ The company is currently present in 52 countries and is planning to increase its geographical reach to more than 65 countries in near future with increase in its products offering. The company has already launched several innovative products in last financial year whose applications can be found in food, safety, water conservation, agriculture, infrastructure, e-commerce, crop protection, hazardous waste management and solid waste management.
- ✚ Company has registered sales CAGR of 28.81% and profit CAGR of 27.53% during last 5 years with significant improvement in ROE. The Company has been able to improve its working capital cycle from 170 days in FY15 to 130 days in FY16 owing to increased share of domestic business from 47% in FY15 to 51% in FY16, which resulted in efficient application of funds reducing interest burden & improving debt-equity ratio.

Key Financial Parameters	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016
Return on Equity (%)	6.80	6.19	7.45	9.40	14.52
ROCE (%)	6.45	6.62	9.82	11.92	17.13
Operating Profit Margin (%)	9.63	8.97	9.66	10.70	12.34
Net Profit Margin (%)	3.24	2.31	2.72	3.24	5.10
Debt to Equity (%)	0.93	1.09	1.19	1.27	0.86
Working Capital Days	192	175	182	170	130

- As of Mar'16, promoter's shareholding in the company is at 57.86%, promoters have increased their holding in the company by 5.49% during last two years. Increase in shareholding by promoters on every passing quarter indicates the confidence of management in robust growth outlook and business prospects, Company has not pledged any shares, Institution shareholding is nil in the company.
- Management has rewarded shareholders by paying regular dividend since last 5 years. The company paid dividend of Rs. 0.30 per share for FY15 and we expect management to declare dividend of Rs. 0.50 per share for FY16 considering significant increase in EPS during last financial year. As the company has recently initiated development of new facility with expected outgo of Rs. 10 crores, we find dividend policy suitable in terms of sharing profit with minority shareholders and retaining the balance for future growth.

YEAR	Mar'12	Mar'13	Mar'14	Mar'15	Mar'16
EPS	3.23	2.31	2.72	3.37	5.99
Dividend / Share (In Rs)	0.30	0.20	0.25	0.30	NA

- As per our estimates, Emmbi Industries can deliver PAT of 14.85 crores for full financial year 2016-17, annualized EPS of Rs 8.40 with forward P/E ratio of 13X for FY16-17. Company's valuation looks attractive considering improvement in financials, better return ratios and robust growth outlook in domestic as well as export market over next 2 years.
- On equity of Rs. 17.69 crore, the estimated annualized EPS for FY 16-17 works out to Rs. 8.40 and the Book Value per share is Rs. 41.84. At current market price of Rs. 109.50, stock price to book value is 2.62.

Considering increase in sales contribution from high margin value added product, better working capital control with increasing share of domestic sales, tax benefits to company's R & D facility during next 3 years and higher earning visibility in FY17-18 with upcoming food and pharmaceutical grade FIBC packaging facility, Saral Gyan team recommends **"Buy"** on **Emmbi Industries Ltd** at current market price of Rs. 109.50 for target of Rs. 220 over a period of 12 to 24 months.

Buying Strategy:

- 60% at current market price of 109.50
- 40% at price range of 87 - 92 (in case of correction in stock price in near term)

Portfolio Allocation: 3% of your equity portfolio.

7. Disclaimer

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- Hold recommendation:** This means that the investor could consider holding on to the shares of the company until further update and not buy more of the stock at current market price.
- Buy at lower price:** This means that the investor should wait for some correction in the market price so that the stock can be bought at more attractive valuations keeping in mind the tenure and the objective of the service.
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