

Emmbi Polyarns Ltd

Riding on capacity expansion

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

Emmbi Polyarns Ltd (Emmbi) manufactures flexible intermediate bulk containers (FIBCs) and other woven polypropylene (PP) and polyethylene (PE) specialty packaging products. It serves both domestic and export markets (exports contributed 36% of revenues in FY11). Given Emmbi's relatively small scale of operations in a highly competitive flexible packaging industry, we assign the company a fundamental grade of **2/5**, indicating that its fundamentals are **moderate** relative to other listed securities in India.

Capacity expanded three fold

Emmbi expanded its capacity to 18,200 MTPA (metric tonne per annum) as of September 2011 from 5000 MTPA in FY10 largely to increase its export footprint and the share of specialty products (which comprised around 14% of revenues in FY11).

Share of value added products on the rise

Emmbi is diversifying into various high-margin woven polypropylene and polyethylene specialty products to expand beyond its woven sacks and FIBC manufacturing. Its target is to improve its operating profitability over the long term with increased sales contribution from these newer products.

Client concentration risk, offtake risks remain

Emmbi's top two clients account for ~30% of its overall revenues. While good client management has ensured repeat orders, it also exposes Emmbi to client concentration risk. Any change in clients' procurement policies can have a negative impact. Further, given its export concentration (over 90% to the US and Europe), we believe Emmbi will soon find it challenging to fully utilise its expanded capacity with the slowdown in key export destinations.

Working capital to be stretched

Emmbi has to pay in advance for a large portion of its raw material purchases, whereas its cash conversion cycles are long. Its working capital cycle is expected to be stretched further as it would be required to aggressively market its increased production.

Valuations – the current price has 'strong upside'

CRISIL Research has used the discounted cash flow method to value Emmbi and arrived at a fair value of Rs 23 per share. This fair value implies P/E multiples of 8.4 FY12E, 9.0 FY13E and 6.2x FY14E earnings. We initiate coverage on Emmbi with a valuation grade of **5/5**.

KEY FORECAST

(Rs mn)	FY10	FY11	FY12E	FY13E	FY14E
Operating income	515	753	1,005	1,223	1,562
EBITDA	57	70	98	123	163
Adj PAT	18	26	45	45	65
Adj EPS-Rs	1.1	1.6	2.7	2.6	3.7
EPS growth (%)	(73.7)	49.8	71.1	(5.9)	44.0
Dividend yield (%)	NM	1.5	5.1	4.8	7.0
RoCE (%)	11.1	8.9	9.8	10.8	13.2
RoE (%)	6.7	5.7	9.2	8.5	11.3
PE (x)	19.4	8.1	4.9	5.2	3.6
P/BV (x)	0.8	0.5	0.4	0.4	0.4
EV/EBITDA (x)	6.1	6.9	6.0	5.4	4.7

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimates

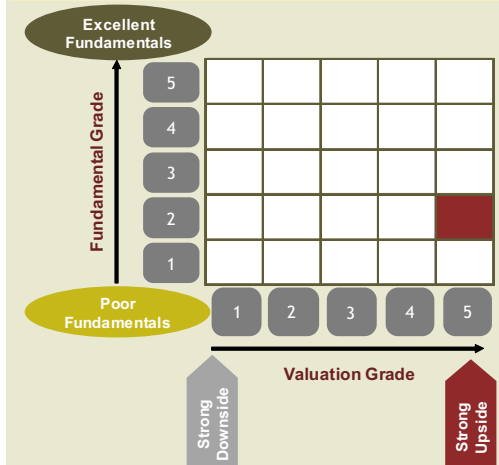


March 28, 2012

Fair Value Rs 23

CMP Rs 13

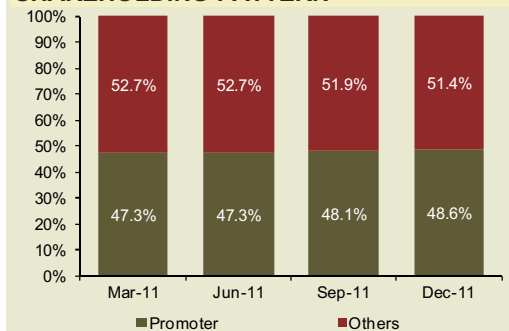
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	5243/17257
NSE/BSE ticker	EMMBI/EMMBIPOLY
Face value (Rs per share)	10
Shares outstanding (mn)	16
Market cap (Rs mn)/(US\$ mn)	218/4
Enterprise value (Rs mn)/(US\$ mn)	483/9
52-week range (Rs)/(HL)	17/10
Beta	0.94
Free float (%)	51.4%
Avg daily volumes (30-days)	13,350
Avg daily value (30-days) (Rs mn)	0.2

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Emmbi	1%	3%	-9%	3%
NIFTY	-1%	10%	5%	-7%

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