

December 31, 2015

Nano Nivesh



Key risks to investing in Nano stocks

- Nano stocks may not be in the limelight and inherently being micro cap in nature will have a high risk return profile
- We advise clients to be disciplined in investing at all times. Allocate only a small proportion of your investible income to these stocks and diversify well
- Try to diversify your exposure within the Nano stocks as well by investing equal proportions in several picks
- These stocks may have low volumes and trade infrequently
- Micro cap stocks the world over are, to a large extent, affected by the “Pump and Dump” phenomenon of inflated price buying and depressed price selling
- As explained above, the clients should be patient and trade only through limit orders on any side of the trade.
- The risk of volatility remains in such micro cap stocks as they can move up or down with large buy/sell orders
- The fair value of Nano stocks are subject to expected growth potential in the future. Though due diligence has been done to a fair extent, the actualisation of growth still has a degree of uncertainty attached to it

Nano stocks report tries to highlight companies with good and scaleable business models, dependable management and sound financials. However, these stocks may not be in the limelight and have a high risk high return potential. Please watch out for the following factors before investing in these stocks:

Allocate a small proportion of your investible income to these stocks and diversify well. If you choose to invest in these stocks, most of your assets allocated towards equity should remain in more stable investments like stocks of large companies. Moreover, try to diversify your exposure within the nano stocks as well by investing equal proportions in several picks. This will help you avoid losing too much of your total wealth if the investments do not turn out well. When you invest in micro-cap stocks there is a higher risk of impairment.

These stocks may have low volumes and trade infrequently. This can create a situation in which you may not be able to find any willing buyers for your stocks when you wish to sell. We advise our clients to be patient and trade only through limit orders to avoid volatile fluctuations, both while putting a buy and sell order in these stocks.

December 31, 2015

Emmbi Industries (EMMPOL)

Emmbi Industries (Emmbi) is a technical textile unit manufacturing synthetic packaging, flexi water tanks and agri products. In synthetic packaging, it manufactures polymer based flexible intermediate bulk containers (FIBC) that are both generalised as well as embedded with specific properties. With increasing demand for specialised, quality FIBCs and the government's focus on water conservation, Emmbi is on a firm footing with robust prospects, going forward. We expect sales, PAT to grow at a CAGR of 18.1%, 39.8%, respectively, in FY15-18E.

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Price

₹ 84

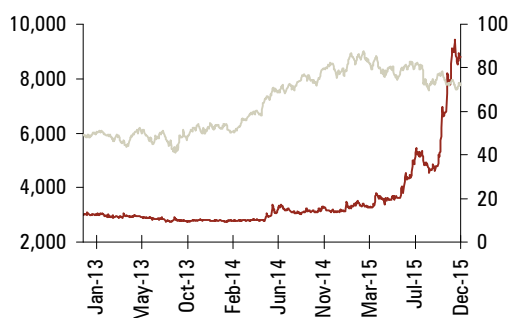
Recommendation

Buy

Fair value

₹ 105-115

Price performance



Highlights

- Product upgradation, innovation to the core:** Emmbi started its journey in 1997 with the manufacture of plain vanilla FIBCs with application in handling of bulk commodities. Thereafter, along its journey till date Emmbi has been innovating in its product profile to suit the changing market needs. In the FIBC range, it now manufactures FIBC which are anti corrosive, anti carcinogenic, etc. Emmbi has also launched polymer based flexible water tanks, which are an effective means of storage and transportation of water. The company also manufactures polymer based canal liners; agri products like crop covers, shade nets, etc. Thus, the DNA to innovate and adapt to changing market needs gives visibility over long term sales growth and profitability at Emmbi.
- Increasing share of value added products (VAP), margin accretive:** Emmbi's product profile can be classified into four main segments, i.e. speciality packaging (FIBC), advance composites (FIBC+ embedded property), water conservation products and agri products. In FY15, the company clocked net sales of ₹ 183 crore which comprised speciality packaging (48% of sales, 9.5% EBITDA margins), advance composites (36% of sales, 11% margins), water conservation products (15% of sales, 15% margins) and agri products (2.3% of sales, 16% margins). With focus on increasing share of high margin VAP, we expect margins at Emmbi to improve 180 bps over FY15-18E to 12.5 % in FY18E.
- Debt gearing to decline, return ratios set to improve:** An elongated working capital cycle (170 days) and ambitious capex programme resulted in high debt gearing with FY15 debt: equity at 1.3x. However, with major capex behind it and increasing share of high margin VAP along with improving working capital cycle; we expect the debt gearing to decline with FY18E debt: equity at 1.0x with return ratios at ~18%. We value Emmbi at ₹ 105-115, i.e. 13x-14x P/E on FY17E and FY18E average EPS of ₹ 8.2 /share.

Key risks-

Business specific

Regulatory intervention: The packaging solutions (FIBC etc) manufactured by Emmbi are bio-degradable but are composed of polymers, which are a derivate of crude. Therefore, there is a possibility their use or composition is altered by regulatory agencies, which wish to switch to more organic products. Though the size of the industry is huge and it serves the basic need for bulk transportation and storage, any regulatory intervention could alter their growth trajectory and profitability, going forward. In case of foodgrains, the government with the view of safeguarding the interests of jute manufacturers and associated farmers has already made it compulsory for a certain quantum of food grains to be supplied in jute bags only. Otherwise, this would have been a huge opportunity for polymer based sack manufacturers.

Company specific

Elongated working capital cycle: In FY15, gross sales were at ₹ 192 crore, which comprised export sales of ₹ 102 crore (share at 53%) and domestic sales of ₹ 90 crore (share at 47%). Thus, by virtue of having a higher share of export sales, the working capital cycle is a bit elongated with net working capital days at 171 days as of FY15. Emmbi also maintains a tad higher inventory levels due to batch method of manufacturing wherein a minimum quantity (batch size) of goods get manufactured irrespective of the order received, resulting in built-up of unsold goods inventory. The company also procures all its raw material by paying upfront amount to avail cash discount, resulting in muted creditor days. However, any further stretching of the working capital cycle will result in increased leveraging of balance sheet, a consequent drop in PAT margins and poor cash flow generation.

Description

Emmbi is a technical textile unit based out of Maharashtra, manufacturing synthetic packaging, flexi water tanks and agri products. All its products are polymer based with polypropylene as its major raw material. Revenues have grown at 21.3% CAGR in FY12-15 to ₹ 183 crore in FY15 (₹ 102 crore in FY12). Export sales in FY15 were at ₹ 102 crore while domestic sales in FY15 were at ₹ 90 crore. Manufactured goods sales in FY15 came in at ₹ 173 crore while traded goods sales in FY15 were at ₹ 18 crore. Emmbi realises steady ~11% EBITDA margins on its product profile with FY15 margins at 10.7%. PAT in FY15 was at ₹ 6.0 crore. Emmbi is listed on both NSE and BSE.

History and track record

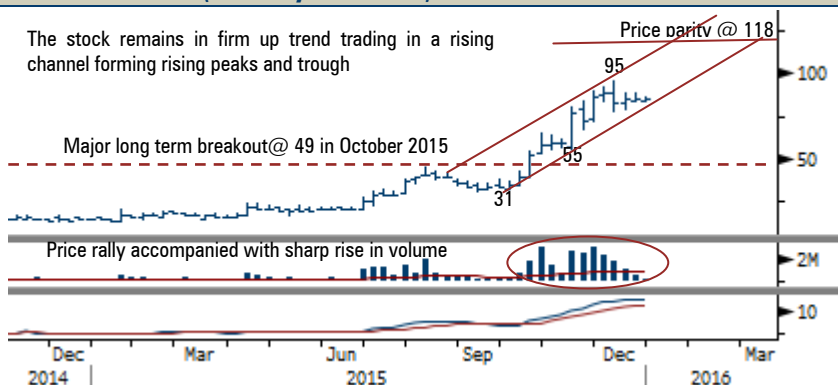
- Emmbi was incorporated in 1994 by first generation entrepreneurs i.e. Makrand Appalwar and Rinku Appalwar
- Emmbi's initial years were confined to trading FIBC with the company venturing into manufacturing of the same in 1997 with a plant in Silvassa
- In 2005, Emmbi installed and commissioned the 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 ₹ 45/share and the company garnered ₹ 39 crore, mainly for expanding its manufacturing facilities domestically
- In 2010, Emmbi launched "Emmbi flexible Tank" for which it has also received requisite patents. In the same year, Emmbi also launched India's first 'Green FIBC' with a single woven polymer
- Post IPO, Emmbi expanded its capacity from 6000 tonne to 18200 tonne in a phased manner. Capacity utilisation as of FY15 was at 68%. In FY15, for the first time ever, Emmbi clocked export sales of over ₹ 100 crore. In 2015, it launched the agri business for the crop protection system (one of the major import substitutes).
- Emmbi exports to over 50 countries and is aiming to establish its own distribution network for overseas business over FY15-18E.
- Emmbi is targeting 20%-25% sales growth over FY15-18E

Earning estimates

₹ crore	FY14	FY15	FY16E	FY17E	FY18E
Total Operating Income	159.0	183.8	219.0	257.0	301.8
EBITDA	15.3	19.7	25.7	32.1	37.7
EBITDA margin (%)	9.6	10.7	11.7	12.5	12.5
PAT	4.3	6.0	9.0	12.5	16.4
EPS	2.4	3.4	5.1	7.1	9.3

Source: Company, ICICIdirect.com Research

Technical Chart (Monthly Bar chart)



Source: Bloomberg, ICICIdirect.com Research

Stock data

Market Capitalization (₹ crore)	148.7
52 Week High / Low (₹)	96 \ 13
Promoter Holding (%)	57.4
FII Holding (%)	0.0
DII Holding (%)	0.0
Dividend Yield (%)	0.2
12M / 6M stock return (%)	500 / 235
Debt (₹ crore)	80.6
Cash and Cash Equivalent (₹ crore)	3.3
Enterprise Value (₹ crore)	226.0
5 Year Revenue CAGR (%) (FY10-15)	28.6
5 Year EBITDA CAGR (%) (FY10-15)	28.1
5 Year PAT CAGR (%) (FY10-15)	25.3

Valuation

	FY15	FY16E	FY17E	FY18E
P/E	24.8	16.4	11.9	9.1
Target P/E	32.5	21.6	15.6	11.9
EV / EBITDA	11.5	9.0	7.3	6.3
P/BV	2.3	2.1	1.8	1.5
RoNW	9.5	12.6	15.1	16.8
RoCE	11.5	14.2	15.7	17.1
ROIC	11.4	13.8	16.2	17.6

Source: ICICIdirect.com Research

Quarterly performance

(₹ crore)	Q3FY15	Q4FY15	Q1FY16	Q2FY16
Sales	51.6	49.1	45.9	52.1
EBITDA	5.7	7.0	5.8	6.1
EBITDA Margin (%)	11.0	14.2	12.5	11.6
Depreciation	0.8	0.8	0.8	0.9
Interest	2.7	2.6	2.4	2.5
Other Income	0.3	0.1	0.5	0.6
PAT	1.6	2.9	2.2	2.2
EPS (₹)	0.9	1.6	1.2	1.3

Source: ICICIdirect.com Research

Shareholding trend (%)

Key Shareholders	Q3FY15	Q4FY15	Q1FY16	Q2FY16
Promoter group	54.7	55.9	57.1	57.4
FII	0.0	0.0	0.0	0.0
DII	0.0	0.0	0.0	0.0
Non-institutional	45.3	44.1	42.9	42.6

Source: ICICIdirect.com Research

Technical View

A strong upsurge since October 2015 has signalled a long term reversal of fortunes for the price structure of Emmbi Industries. The recent strong rally has resulted in a resultant breakout from a six-year long rounding pattern, thus signalling a major reversal of trend and beginning of a structural bullish trend.

The current rally since October 2015 has occurred in a well defined rising channel as highlighted in the adjoining weekly chart. It indicates a well structured uptrend indicating sustained buying emerging at elevated levels and at regular intervals.

We expect the stock to head towards ₹ 118 over the medium-term as it is the price parity with the previous rally from ₹ 55 to ₹ 95 as projected from the recent trough of ₹ 78. This also coincides with the upper band of the rising channel

The recent rally is well supported by a rise in volume of more than four times the 50 weeks average volume of 5 lakh shares per week indicating larger participation in the direction of trend.

What's the story?

Indian technical textile industry on strong footing!

Technical textile essentially means textile products, which are meant for their technical performance and functional properties and are predominantly manmade fibre, which is manufactured for non-aesthetic and non-decorative purposes. Its sub segment includes Mobiltech (products used in automotive and automotive components), Packtech (products include flexible packaging material, synthetic bags), Indutech (products used in conveyor belts, cigarette filter rods, ropes and cordages), Sportech (products used in sports & leisure including sports footwear), Clothtech (products like sewing threads, shoe laces, labels) and Hometech (products like mattress and pillows) among others. As per industry sources, the global technical textile industry size is pegged at US\$127 billion as of CY10, growing at a CAGR of 3% in CY00-10 with the US being the largest consumer. The predominant segments globally are Mobiltech (23%), Indutech (17%) & Sportech (15%). In the Indian context, the domestic Indian technical textiles industry size is pegged at US\$13 billion as of FY13 and is expected to grow at a CAGR of 20% over FY14-17E. The predominant segments domestically are Packtech (36%), Clothtech (16%) & Hometech (12%). Key drivers for growth of the domestic technical textile industry are: 1) shift in global manufacturing base from China to India particularly in the space of chemicals and textiles, 2) India becoming a global auto export hub (small cars, hatchback), 3) huge investments envisaged in the infrastructure space – roads, ports, airports, etc, 4) government's thrust on augmenting marine exports from India, etc. Therefore, with demand drivers in place, growing consumer awareness, consumer shift towards branded products, the domestic technical textile industry is on a strong footing with robust prospects, going forward.

Interesting product profile, innovative products to adapt to dynamic market needs

Emmbi started its journey in 1997 with the manufacture of plain vanilla FIBCs with application in handling of bulk commodities. Thereafter, along its journey till date Emmbi has been innovating its product profile to suit changing market needs. In the FIBC range, it now manufactures FIBC, which is anti corrosive, anti carcinogenic, anti bacterial, tampered proof, etc. It can withstand loads in the range of 500-3500 kg. In the FIBC space, Emmbi's prominent clients include Hindustan Unilever (HUL), Godrej, Tata Chemicals and ITC among others. Emmbi also supplies to ecommerce players like Flipkart, Amazon and eBay. Emmbi also manufactures container liners, garden waste bags and automobile covers. Sensing the need for effective means of storage and transportation of water, Emmbi introduced polymer based flexible water tanks (Brand "Aqua Save") and has successfully registered the patent for the same in its name. The tank is available in the wide range of 250 litre to 2500 litre. The company also manufactures polymer based canal liners and pond liners to prevent seepage of water. In the agri space, it manufactures products like crop covers, shade nets, etc. Thus, the DNA to innovate and adapt to changing market needs, gives visibility over long term sales growth and profitability.

Increasing share of high margin value-added products to further aid EBITDA margins

Emmbi's product profile can be classified into four main segments, i.e. speciality packaging (FIBC), advance composites (FIBC+ embedded property), water conservation products and agri products. In FY15, EMMBI clocked net sales of ₹ 183 crore and comprising speciality packaging at ₹ 87.2 crore (48% of sales, 9.5% EBITDA margins), advance composites at ₹ 64.8 crore (36% of sales, 11% margins), water conservation products at ₹ 26.5 crore (15% of sales, 15% margins) and agri products at ₹ 4.1 crore (2.3% of sales, 16% margins). With good demand traction being witnessed in the water conservation products business and the government's focus on saving valuable natural resources, we expect this segment to be the main revenue driver for Emmbi, going forward. Therefore, the share of value-added products in the total product mix is expected to improve. This, in turn, will drive further expansion in EBITDA margins and consequent profitability. The company also intends to establish a direct distribution channel for overseas sales and is targeting indirect: direct sales at 50:50 by FY18E vs. 80:20 in FY15. We expect EBITDA margins to improve 180 bps over FY15-18E to 12.5 % in FY18E (10.7 % in FY15).

Leverage, return ratios to improve; poised to gain, warrants re-rating!

By virtue of executing an ambitious capacity expansion programme (capacity increased from 5000 metric tonne to 18200 tonne) and successful listing on stock exchanges (53% equity dilution), Emmbi, as of FY15 has debt of ₹ 80.6 crore (debt: equity 1.3x) with muted return ratios (RoE 9.5%, RoCE 11.5%). However, with major capex behind it (capacity utilisation in FY15 at 68%) and focus on increasing share of high margin value added products (margin accretive) along with improving working capital cycle, the debt gearing may eventually come down with FY18E debt: equity expected at 1.0x. Consequently, return ratios are also expected to improve with FY18E RoCE & RoE at 17.9% & 18.0% respectively. Thus, with good demand drivers in place and improving profitability, we expect sales, PAT to grow at a CAGR of 18.1% and 39.8%, respectively, in FY15-18E. We value Emmbi at ₹ 105-115, i.e. 13x-14x P/E on FY17E and FY18E average EPS of ₹ 8.2/share.

Exhibit 1: Product profile

Speciality Packaging

General Purpose FIBC, Baffle Bag, and FIBC of Different Shape Container Liner, PWS & Films.



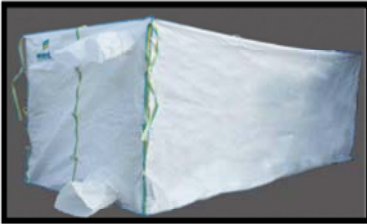
Construction FIBC



"Form Stable" Conductive



Paper Substitute Bag



Liquid & Solid Container Liner



Packaging Barrier Films

Advance Composites

UN FIBCs, Anti Carcinogenic Packaging, Anti-Corrosive VCI Material, Water Sludge Separator, Fall Arrest, Geo Cell. Nuclear Power Plant Waste Disposal



UN Certified FIBC



Anti Carcinogenic Packaging



Water - Slug Separator



Anti-Corrosive VCI Material



Nuclear Power Plant Waste Disposal



Fall Arrest

Water Conservation Products

Canal Liners, Pond Liners, Check Dams, Flexi Tank.



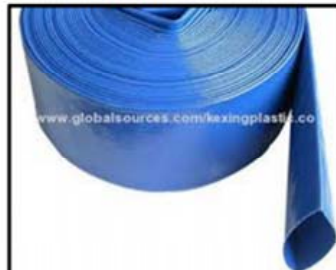
Canal Liner



Check Dam



Pond Liner



Collapsible Pipe

Water Conservation - Canal Liners, Pond Liners, Check Dams, Flexi Tank.



1000 Ltr Flexi Tank



500 Liter Standing Tank



Open Flexi Tank

Agri Products

Crop Covers, Silage Incubator, Mulch Films, Shade Nets.



Mulch Film



Shade Net



Silage Incubator



Crop Cover

Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY15	FY16E	FY17E	FY18E	
Net Sales	182.6	218.0	256.0	300.8	
Other Operating Income	1.2	1.0	1.0	1.0	
Total Operating Income	183.8	219.0	257.0	301.8	
Growth (%)	15.6	19.1	17.4	17.4	
Raw Material Expenses	130.3	148.2	172.2	202.2	
Employee Expenses	6.2	8.5	10.3	12.1	
Other Operating Expense	27.6	36.6	42.4	49.8	
Total Operating Expenditure	164.1	193.3	224.9	264.0	
EBITDA	19.7	25.7	32.1	37.7	
Growth (%)	28.4	30.3	25.2	17.4	
Depreciation	3.1	3.5	3.9	4.1	
Interest	8.9	9.9	10.0	9.6	
Other Income	0.6	1.2	0.5	0.5	
PBT	8.3	13.4	18.7	24.5	
Exceptional Item	0.0	0.0	0.0	0.0	
Total Tax	2.3	4.3	6.2	8.1	
PAT	6.0	9.0	12.5	16.4	
Growth (%)	39.5	50.8	38.5	30.9	
EPS (₹)	3.4	5.1	7.1	9.3	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY15	FY16E	FY17E	FY18E	
Liabilities					
Equity Capital	17.7	17.7	17.7	17.7	
Reserve and Surplus	45.7	53.9	65.2	79.9	
Total Shareholders funds	63.4	71.6	82.9	97.6	
Total Debt	80.6	87.6	95.1	97.1	
Deferred Tax Liability	5.0	5.0	5.0	5.0	
Total Liabilities	149.0	164.2	183.0	199.7	
Assets					
Gross Block	70.0	75.0	80.0	85.0	
Less: Acc Depreciation	14.6	18.1	21.9	26.1	
Net Block	55.5	56.9	58.1	58.9	
Capital WIP	0.0	0.0	0.0	0.0	
Total Fixed Assets	55.5	56.9	58.1	58.9	
Liquid Investments	0.0	0.0	0.0	0.0	
Other Investments	0.3	0.3	0.3	0.3	
Inventory	54.7	65.7	73.6	82.4	
Debtors	33.4	38.8	45.6	53.6	
Loans and Advances	9.2	9.8	10.2	10.5	
Other Current Assets	0.0	0.0	0.0	0.0	
Cash	3.3	4.0	8.5	8.8	
Total Current Assets	100.7	118.3	137.9	155.3	
Creditors	2.6	6.0	7.0	8.2	
Provisions	4.8	5.4	6.3	6.6	
Current Liabilities & Prov	7.4	11.3	13.3	14.8	
Net Current Assets	93.3	107.0	124.6	140.4	
Application of Funds	149.0	164.2	183.0	199.7	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY15	FY16E	FY17E	FY18E	
Profit after Tax	6.0	9.0	12.5	16.4	
Add: Depreciation	3.1	3.5	3.9	4.1	
(Inc)/dec in Current Assets	-8.9	-16.9	-15.2	-17.0	
Inc/(dec) in CL and Provisions	-1.7	3.9	2.0	1.5	
Others	8.9	9.9	10.0	9.6	
CF from operating activities	7.4	9.5	13.3	14.6	
(Inc)/dec in Investments	0.0	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-6.7	-5.0	-5.0	-5.0	
Others	0.7	0.0	0.0	0.0	
CF from investing activities	-6.0	-5.0	-5.0	-5.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	11.3	7.0	7.5	2.0	
Dividend paid & dividend tax	-0.6	-0.8	-1.3	-1.7	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	-9.0	-9.9	-10.0	-9.6	
CF from financing activities	1.7	-3.8	-3.8	-9.3	
Net Cash flow	3.1	0.7	4.5	0.3	
Opening Cash	0.2	3.3	4.0	8.5	
Closing Cash	3.3	4.0	8.5	8.8	

Source: Company, ICICIdirect.com Research

Key ratios					
(Year-end March)	FY15	FY16E	FY17E	FY18E	
Per share data (₹)					
EPS	3.4	5.1	7.1	9.3	
Cash EPS	5.1	7.1	9.3	11.6	
BV	35.8	40.5	46.8	55.1	
DPS	0.4	0.5	0.7	1.0	
Cash Per Share (Incl Invst)	1.9	2.3	4.8	5.0	
Operating Ratios (%)					
EBITDA Margin	10.7	11.7	12.5	12.5	
PBT / Total Op. income	4.5	6.1	7.3	8.1	
PAT Margin	3.3	4.1	4.9	5.4	
Inventory days	109	110	105	100	
Debtor days	67	65	65	65	
Creditor days	5	10	10	10	
Return Ratios (%)					
RoE	9.5	12.6	15.1	16.8	
RoCE	11.5	14.2	15.7	17.1	
RoIC	11.4	13.8	16.2	17.6	
Valuation Ratios (x)					
P/E	24.8	16.4	11.9	9.1	
EV / EBITDA	11.5	9.0	7.3	6.3	
EV / Net Sales	1.2	1.1	0.9	0.8	
Market Cap / Sales	0.8	0.7	0.6	0.5	
Price to Book Value	2.3	2.1	1.8	1.5	
Solvency Ratios					
Debt/EBITDA	4.1	3.4	3.0	2.6	
Debt / Equity	1.3	1.2	1.1	1.0	
Current Ratio	13.2	10.1	9.7	9.9	
Quick Ratio	5.8	4.3	4.2	4.3	

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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