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5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

EMMBI INDUSTRIES LTD

WHAT WE LIKE

STRONG MARKET POSITIONING

The company has been a pioneer in the Flexible packaging polymers industry & has been successful in innovating several new product categories like Pond liners where it is the market leader as well as other environment-friendly products for agriculture & water conservation.

PARTICULARS	INTERNATIONAL BUSINESS	DOMESTIC BUSINESS	AVANA CONSUMER DURABLES	AVANA CONSUMER GOODS
MAJOR PRODUCTS	• Industrial Packaging • Advanced Composites • Container Liners • Pond Liners • Mulch Films	• Industrial Packaging	• Avana Jalsanchay Pond Liner • Avana Jalsanchay Super – Aquaculture Pond Lining • Crop Cover	• Avana Kapila Murughas Bag • Avana Anant Leno Bag • Avana Tank • Avana Rakshak Tarpaulin • Avana Prabal Thread

PROACTIVE R&D INITIATIVES

The company, despite its small scale, has consistently spent around **2-2.5%** of sales on R&D, & this has paid rich dividends in the form of the development of new product lines which have helped in negating the commoditized nature of its polymer biz as its contribution to the overall pie has reduced substantially. The result is- new products developed post-FY16, now form more than **20%** of the company's revenues & have higher margins as well & the company has **17 patented** products.

LOW GEOGRAPHICAL & CLIENTELE RISKS

The company has a presence in more than 70 countries & has started seeing strong growth in its India biz which earlier formed around **40-50%** of total revenues. Further, the company has a diversified client base with top 10 & Top 3 clients contributing less than **50%** & **20%** of total sales, thus ensuring less dependence on any particular client.

WIDE PRODUCT PORTFOLIO

The company's strategy of having 3-4 separate business segments namely- Industrial packaging, advanced composites, pond liners & the new consumer durables & consumer goods (B2C) biz ensures a lack of dependence on any particular product line.

RENEWED GROWTH PROSPECTS OF THE B2C BIZ

The B2C biz headed by the promoter's daughter (Maithali Appalwar) under the separate business Unit- 'Avana' has been gaining increased traction where the growth is projected to be upwards of **25%** & the company is targeting to reach **3000 touchpoints**. The company has been developing innovative products related to water conservation & sustainability under this segment & has started incurring high Advertisement expenditures recently which should bode well for creating the Avana brand. Further, the company's entry into several new states like Telangana should bode well.

Because of this, the company has given ambitious targets of revenues & operating profits to grow to **1000 crs & 150 Crs (15% & 21% CAGR)** by FY29 with B2C contributing 40% of overall mix.

PRUDENT CAPITAL ALLOCATION STRATEGY

The company has not only maintained comfortable debt levels & regularly paid out dividends to the shareholders, but they have also been very cautious in redeploying any extra capital in the form of capacity expansion & have instead opted for debottlenecking & automation route which has lead to higher production from the existing capacity without doing major capital outlay. Further, the company's plants are fungible which helps in reducing fixed costs during industry headwinds.

WHAT WE DON'T LIKE

LACK OF ANY EXTRAORDINARY GROWTH PROSPECTS FOR THE OVERALL BIZ

Other than the B2C business & the Pond liner biz, the legacy business doesn't have high growth prospects which will ultimately lead to lower overall growth. The company has also been very nimble & conservative in doing capacity expansions, which have also led to middling growth prospects. Although the company has recently announced a new unit expansion, it remains to be seen how much incremental revenue will that plant generate.

LACK OF ENTRY BARRIERS

The flexible intermediate bulk container (FIBC) industry is fragmented because of low entry barriers, such as limited capital and technology requirements, small gestation period, and easy availability of raw materials.. (Extract from credit rating report)

This the primary reason why ROCE% even in its heydays peaked at 17%, which is not bad by any standard but owing to the lack of any major competitive advantages in the business or the industry coupled with the high working capital requirements (around 150 days), it will be very difficult for the company to maintain extraordinary returns on capital employed which will ultimately translate to lower economic profits.

HIGH WORKING CAPITAL REQUIREMENTS

Although the company's working capital cycle has tapered from 225 days to around 150 days in the last decade, it is still very high owing to high inventory requirements as the company follows a batch manufacturing process & the major supplier to the entire industry closes its plants for repairs in March, leading to higher inventory buildup. Now, although the management believes that it can charge higher prices & improve manufacturing efficiency by doing this, further the working capital requirements are expected to reduce owing to higher B2C business & tie-ups with Banks for financing in pond-liner business, this remains a key point to track in future.

REGION CONCENTRATION RISK

Although the company has a wide geographical presence, it has a high concentration in USA & Europe, & given its recent economic turmoils, the company had a poor FY23 & thus unless its B2C division scales up quickly, its revenues will remain highly susceptible as exports contribute ~**60%** of sales.

REDFLAGS

~ Dividend payout out of Borrowings: The company has very rarely generated Free cashflows (i.e. Cashflow from operations less Capex), in the past several years. And despite that, it has regularly paid dividends, & since it has been borrowings money at the same time, it almost means that the company is using its borrowings to pay off dividends. Now although the dividend payout is less (around 5-10%), yet this can be considered a red flag.

~ Capitalization of expenses into Intangible assets leading to potentially inflated profits- The company has capitalized around **23 Crs** in the past 7 years under Intangible assets as - 'Knowledge development costs', which seems like a clear-cut case of aggressive accounting.