

May 12, 2010

**CARE UPGRADES THE RATING ASSIGNED TO THE OUTSTANDING LT DEBT
(INCLUDING NCD) ISSUE OF EMAMI REALTY LTD.**

Ratings Assigned

Facilities/Instruments	Amount (Rs. crore)	Ratings¹	Remarks
Long-term debt (including Non-convertible debentures)	100.0	'CARE AA+ (SO)' [Double A plus (structured obligation)]	Revised from CARE AA (SO) [Double A (structured obligation)]

The aforesaid long-term debt has a bullet repayment falling due in June 2011. The rating is primarily based on credit enhancement in the form of unconditional and irrevocable guarantee of Emami Ltd. (EL) for the payment of interest and repayment of principal during the entire tenure of the long-term debt.

The rating revision follows revision in the rating of long-term bank facilities and debt programme of EL.

Rating Rationale

The revision in rating of EL takes into account successful completion of merger of FMCG business of Zandu Pharmaceutical Works Ltd (ZPWL) with EL, equity infusion through Qualified Institutional Placement (QIP) in FY10, substantial reduction in debt level by way of pre-payment and significant improvement in profitability in the nine months ended Dec.31, 2009 (9MFY10). The aforesaid ratings continue to draw strength from EL's long and satisfactory track record, considerable experience of its promoters, established brands, significant market share in some of its products, large distribution network and insulation from the intense competition in the price sensitive FMCG sector by virtue of manufacturing ayurvedic products. The ratings also factor in the impact of divestment of its entire stake in Emami Realty limited (ERL) and increasing presence of the unorganised sector players in the FMCG industry. Company's ability to maintain profitability in the context of intense competition in FMCG sector, successful integration of operations of ZPWL and reaping the benefits of the merger, shall remain the key rating sensitivities.

Background

ERL, incorporated in November, 2006, was promoted by the Emami group as the real estate vehicle of the group. Accordingly, EL invested a considerable amount in ERL by way of equity and interest bearing loans in FY08. However, in FY09, with the increasing volatility in the sector, EL divested its entire stake in ERL into an associate company, Emami Infrastructure Limited (EIL), w.e.f. Nov.5, 2008.

ERL is currently setting up quite a few real estate projects which include shopping malls, IT parks and residential buildings in southern and eastern parts of the country.

About Guarantor

EL, the flagship company of Emami group of Kolkata, is engaged in manufacturing of Ayurvedic, cosmetic and health care products which are sold under the brands, 'Emami' and 'Himani'. The company acquired controlling stake in ZPWL in FY09 to establish its presence in ayurvedic segment and merged the FMCG division of ZPWL with itself w.e.f. Nov.5, 2008. The company owns over 30 widely accepted products with significant market share. After the merger of the FMCG division of ZPWL, the product range of EL now includes ZPWL's portfolio of ayurvedic products.

¹Complete definition of the ratings assigned are available at www.careratings.com and in other CARE publications

In July, 2009, EL raised equity of Rs.305.5 crore (net of issue expenses), through Qualified Institutional Placement, for pre-payment of debts availed for part-funding the acquisition of ZPWL.

On a total income of Rs.700.8 crore, EL earned a PAT of Rs.77.6 crore in FY09. Overall gearing ratio was 1.5 as on Mar.31, 2009. As per EL's working results for 9MFY10, the company witnessed significant growth in net sales as well as PBILDT. PAT (after defd. tax) level and margin also improved.

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