

Essen Speciality Films Limited

December 15, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	25.00	CARE BBB+; Stable / CARE A2	Reaffirmed
Short Term Bank Facilities	4.00	CARE A2	Reaffirmed

Details of facilities in Annexure -1

Rationale and key rating drivers

The ratings assigned to the bank facilities of Essen Speciality Films Limited (ESFL) continue to derive strength from its experienced and qualified management, established track record of its operations, reputed customer base albeit customer concentration, comfortable solvency position and adequate liquidity.

The ratings, however, remain constrained by its moderate scale of operations and healthy albeit volatile profitability, presence in competitive industry and susceptibility of profitability to fluctuations in raw material prices and foreign exchange rates.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in scale of operations with total operating income (TOI) to more than Rs.250 crore with diversification of product portfolio/customer base while maintaining its healthy profitability
- Improvement in operating cycle below 75 days on sustained basis.

Negative factors

- Decline in scale of operations with TOI below Rs.100 crore on sustained basis
- Deterioration in the capital structure as marked by overall gearing ratio above 1.00x on sustained basis.
- Elongation in operating cycle beyond 120 days on sustained basis.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings Limited's (CARE Ratings) expectation that the entity shall continue to benefit from its established presence in the industry and association with reputed clientele which shall enable the company to sustain its comfortable financial risk profile over the medium term.

Detailed description of the key rating drivers

Key strengths

Experienced and qualified management

ESFL is promoted by Doshi family which has presence in plastic industry since a long time through association with flagship group company, Rajoo Engineers Limited (REL; since 1986; CARE A-; Stable / CARE A2+) along with other group companies. Mr. Rajesh N. Doshi, Co-founder of the Rajoo group holds more than two decades of experience in plastic processing, machinery manufacturing, product development and project execution. Mr. Pallav Doshi, Chairman, Ms. Kruti Doshi and Ms. Karishma Doshi, Executive Directors of the company also hold healthy experience in plastic industry. ESFL shares common management with REL and also has qualified and experienced second tier management to manage day to day operations.

Established track record of operations

Started in 2002 as a manufacturer of plastic articles, ESFL has a long operational track record for more than two decades in this industry. With its long track record, it has developed good relationship with its customers as well as suppliers. It has wide product basket which includes bathroom, kitchen & dining, and home décor articles among others. The company mainly caters to exports market and complies to various international standards which helps it in acquiring orders from reputed MNCs.

Reputed customer base albeit customer concentration

ESFL has long-standing relationship with reputed global and domestic clients. Over the last few years, ESFL has added new customers and new products to diversify its customer base and the same is expected to drive growth. ESFL has been catering to

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

IKEA for more than a decade. Apart from IKEA, ESFL has added other customers viz. Decolin Inc. (i.e. supplier for Walmart and Bath & Beyond), Shurtape Technologies LLP and others. IKEA is a major customer of ESFL, however with new customer additions, its contributed to sales reduced from ~95% in FY20 to ~35% in FY23. Revenue concentration from top five customers decreased over the previous year, though remained high at ~75% in FY23.

Comfortable solvency position

ESFL has a comfortable solvency position on account of healthy year-on-year profit accretion into tangible net worth coupled with low reliance of debt for working capital and capex purpose. ESFL's overall gearing and TOL/TNW ratio remained comfortable at 0.08 times and 0.26 times respectively as on March 31, 2023.

As on September 30, 2023 (UA), capital structure of the company continued to remain comfortable as marked overall gearing ratio and TOL/TNW ratios of 0.04 times and 0.25 times respectively. Further, networth base of the company improved from Rs.85.34 crore in FY22 to Rs.136.57 crore as on September 30, 2023 (UA) on the back of funding of Rs.41.46 crore raised via initial public offering (IPO) in July 2023.

Debt coverage indicators of the company improved with improved profitability and decreased working capital borrowings and remained comfortable as marked by interest coverage ratio of 8.28 times [PY: 4.71 times] and total debt to GCA (TDGCA) of 0.43 times [PY: 2.78 times] in FY23. ESFL's debt coverage indicators continued to remain comfortable with interest coverage ratio and TDGCA of 12.42 times and 0.25 times respectively in H1FY24 (UA).

ESFL's capital structure and debt coverage indicators are expected to remain comfortable in absence of any planned major capex.

Key weaknesses

Moderate scale of operations and healthy albeit volatile profitability

ESFL's TOI remained stable at Rs.119.44 crore during FY23 (Rs.118.07 crore in FY22). During FY23, avg. sales realization was higher due to change in product mix as well as increase in raw material prices [i.e. crude oil derivatives], however, sales volume decreased by 14% which led to stable TOI. ESFL's TOI grew significantly by ~30% Y-o-Y to Rs.65.48 crore [PY: Rs.50.10 crore] with increased sales volume and sales realization during H1FY24 (UA).

ESFPL operates in a niche segment of otherwise fragmented plastic industry wherein it manufactures the plastic articles mainly for global furnishing companies. The plastic articles made by the company are modified and tailor made as per customer requirements. As a result, ESFPL has consistently reported superior operating profitability which however is impacted by raw material volatility. During FY23, PBILDT margin improved by 589 bps y-o-y to 17.23% with lower raw material cost incurred supported by improved bargaining power against its customers. In line with improvement in PBILDT margin, the company registered improvement in PAT margin by 998 bps Y-o-Y to 11.90% in FY23. During H1FY24 as well, PBILDT margin, and PAT margin increased significantly by 830 bps and 632 bps on Y-o-Y basis to 21.63% and 11.79% respectively.

Presence in a competitive industry

ESFL is in plastic industry which is highly fragmented, characterized by a large number of small players. The high degree of fragmentation also leads to stiff competition amongst the manufacturers. Furthermore, domestic manufacturers face stiff competition from Chinese counterparts for supplying to global retail giants such as IKEA, Walmart, K-Mart etc. leading to stiff competition.

Susceptibility of profitability to fluctuations in raw material prices and foreign exchange rates

The primary raw materials required for ESFL are ethylene vinyl acetate (EVA) and low-density polyethylene (LDPE) and Polypropylene (PP) granules, which are crude oil derivatives. Over the years, prices of crude oil have been volatile and so are the prices of polymers. Considering the volatility associated with raw material prices and timing difference arising in procurement of raw material and realization of sales, exposes the company's operating margins to price fluctuations. ESFL generated ~80% revenue through exports in last five years ended FY23 with low reliance on imports; providing natural hedge to that extent. While the company does not have any formal hedging policy, it hedges the balance forex exposure partially through forward contracts. The company registered forex gain of Rs.0.82 crore in FY23 as against Rs.0.66 crore in FY22.

Liquidity: Adequate

ESFL's liquidity remained adequate marked by low utilization of working capital limits coupled with moderate cash accruals and healthy cash flow from operations (CFO) against nil scheduled debt repayment obligations.

The company is expected to generate moderate cash accruals of Rs.17-21 crore in near term as against nil debt repayment obligations. Cash and bank balance increased significantly to Rs.37.08 crore as on September 30, 2023 upon receipt of IPO funds and the same is planned to be utilized for working capital requirement going forward. CFO of the company also increased significantly from negative Rs.6.97 crore in FY22 to positive Rs.24.14 crore in FY23 on the back of significant increase in operating

profitability coupled with better working capital management. Average utilization of fund-based working capital facilities remained at ~6% over last 12 months ended in October, 2023.

Operating cycle of ESFL elongated to 123 days in FY23 as against 86 days in FY22 due to increase in inventory level over the past two years with significant increase in number of products offered to newly added clients. Collection period also increased marginally from 45 days in FY22 to 48 days in FY23.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Furniture, Home Furnishing

About the company

Incorporated in 2002 by Doshi Family and led by Mr. Pallav Doshi, ESFL (CIN: U24224GJ2002PTC041119) is engaged in manufacturing of ethylene vinyl acetate (EVA) and low-density polyethylene (LDPE) based articles for various application in bathroom (i.e. shower curtain, mats, curtain rings, hookset etc.), kitchen & dining (i.e. shelf liners, coasters, chopping board etc.) and home decor (artificial plant, flower etc.). ESFL sells ~80% of its products in exports market to reputed customers including IKEA, Decolin Inc., Sarutape Technologies LLP and others. The company operates through its sole manufacturing facility at Shapar, Rajkot (Gujarat).

Brief Financials (Rs. crore)	FY22 (A)	FY23 (A)	H1FY24 (UA)
Total operating income	118.07	119.44	65.48
PBILDT	13.39	20.58	14.16
PAT	2.26	14.21	7.72
Overall gearing (times)	0.36	0.08	0.04
Interest coverage (times)	4.71	8.28	12.42

A: Audited; UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ST-CC/PC/Bill Discounting	-	-	-	-	25.00	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Letter of credit	-	-	-	-	4.00	CARE A2

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT/ST-CC/PC/Bill Discounting	LT/ST*	25.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (06-Dec-22)	-	-
2	Non-fund-based - ST-Letter of credit	ST	4.00	CARE A2	-	1)CARE A2 (06-Dec-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated facilities: Not Applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
2	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings Limited has classified instruments rated by it on the basis of complexity. This classification is available at www.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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