

## Essen Speciality Films Limited

January 03, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	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 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 albeit concentrated customer base along with comfortable solvency position and adequate liquidity.

The ratings, however, remain constrained by the company's moderate scale of operations, healthy albeit volatile profitability which is susceptible to fluctuation in raw material prices as well as foreign exchange rates and its presence in a competitive industry.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

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

#### Negative factors

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

#### Key strengths

##### Experienced and qualified management

ESFL is promoted by Doshi family which has presence in plastic industry for 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, the company's Executive Directors 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 of 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 exports market and complies to international standards which helps it in acquiring orders from reputed MNCs.

##### Reputed albeit concentrated customer base

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 this is expected to drive growth. ESFL has been catering IKEA

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

for more than a decade. Apart from IKEA, ESFL has added other customers such as Decolin Inc. (supplier for Walmart and Bath & Beyond), Shurtape Technologies LLP and others. IKEA is a major customer of ESFL, however, with new customer additions, its contribution to sales reduced from ~95% in FY20 to ~34% in FY24. Revenue concentration from top five customers decreased over the previous year, though remained high at ~62% in FY24 (PY: 75%).

### **Comfortable solvency position**

REL's capital structure remained comfortable owing to its low reliance on debt for working capital and capex purpose. Net worth base augmented on the back of healthy year-over-year (y-o-y) profit accretion in reserves as well as upon receipt of initial public offering (IPO) funds (of ₹41 crore) in FY24 to ₹143 crore as on March 31, 2024 (PY: 85 crore). Moreover, owing to healthy liquid funds available with the company, it remained net debt free as on March 31, 2024, as well as on September 30, 2024. Total outside liability to total net worth (TOL/TNW) also remained at comfortable level of 0.06x as on March 31, 2024 (0.93x as on September 30, 2024, due to increase in creditors).

With minimal reliance on debt, the company's debt coverage indicators remained comfortable as marked by profit before interest, lease rentals, depreciation, and taxation (PBILDT) interest coverage of 14x (H1FY25: 57x) and total debt to gross cash accruals (TD/GCA) of nil (H1FY25: 0.16x) in FY24. CARE Ratings expects ESFL's capital structure and debt coverage indicators to remain comfortable in absence of major debt funded capex planned in medium term.

### **Key weaknesses**

#### **Moderate scale of operations and healthy albeit volatile profitability**

ESFL's TOI grew by 19% y-o-y to ₹143 crore in FY24 (PY: ₹119 crore) on account of high demand from customers marked by 24% y-o-y increase in sales volume (in terms of number of articles sold), though sales realisation remained marginally lower. The company operates in a niche segment of otherwise fragmented plastic industry, where it manufactures plastic articles mainly for global furnishing companies and plastic articles made by the company are modified and tailor made per customer requirement. As a result, ESFL has consistently reported superior operating profitability which is impacted by raw material volatility.

PBILDT margin remained healthy and relatively stable at 17.06% in FY24 (PY: 17.23%), however, profit after tax (PAT) margin decreased by 191 bps y-o-y to 9.98% in FY24 (PY: 11.90%) owing to high depreciation expense during the year.

The company has been striving to add new reputed clients in its portfolio, where the profitability is generally lower in initial orders. Also, research and development cost increases towards new product development for new customers. As a result, the company's operating margin remains volatile in tandem with new customer addition.

In H1FY25, PBILDT margin, and subsequently, PAT margin stood at 15.98% and 9.54%, respectively (PY: 21.62% and 11.79%, respectively).

#### **Susceptibility of profitability to fluctuation in raw material prices and foreign exchange rates**

The primary raw materials required for ESFL are ethylene vinyl acetate (EVA), low-density polyethylene (LDPE) and Polypropylene (PP) granules, which are crude oil derivatives and hence exhibit inherent volatility. The volatility associated with raw material prices and timing difference arising in procurement of raw material and realisation of sales exposes the company's operating margin to price fluctuation. ESFL generated ~80% revenue through exports in the last five years ended FY24 with low reliance on imports; providing natural hedge only to a small extent. While the company does not have formal hedging policy, it hedges the balance forex exposure partially through forward contracts. The company registered forex gain of ₹0.66 crore in FY24 against ₹0.82 crore in FY23.

### **Presence in a competitive industry**

ESFL operates in plastic industry, which is highly fragmented, characterised 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, and K-Mart among others leading to stiff competition.

### **Liquidity: Adequate**

ESFL's liquidity remained adequate marked by sizable liquid funds coupled with low utilisation of working capital limits and moderate cash accruals against nil scheduled debt repayment obligations.

The company generated cash accruals of ₹19 crore in FY24 (₹11 crore in H1FY25) and it is expected to generate cash accruals of ₹21-28 crore in FY25-FY27 as against nil debt repayment obligations. The company had liquid funds to the tune of ₹39 crore as on March 31, 2024 (₹36 crore as on September 30, 2024) upon receipt of IPO funds. Cash flow from operations (CFO) of the company decreased from ₹24 crore in FY23 to ₹1 crore in FY24 owing to incremental working capital requirement (in tandem with growth in TOI) coupled with decrease in current liabilities (creditors funded through IPO funds) ESFL's operating cycle

elongated from 123 days in FY23 to 133 days in FY24 due to decrease in creditors (paid from IPO funds). Average utilisation of its fund-based working capital facilities remained at less than 1% per annum (pa) in the last 12 months ended September 2024.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

**Applicable criteria:**

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

## 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 (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	September 30, 2024 (UA)
Total operating income	119.44	142.68	82.30
PBILDT	20.58	24.34	13.15
PAT	14.21	14.24	7.85
Overall gearing (times)	0.08	0.00	0.02
Interest coverage (times)	8.28	14.43	57.17

A: Audited; UA: Unaudited; NA: Not available. Note: these are latest available financial results.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

### Annexure-1: Details of instruments/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 and 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 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 2024-2025	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
1	Fund-based - LT/ST-CC/PC/Bill Discounting	LT/ST	25.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (15-Dec-23)	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 (15-Dec-23)	1)CARE A2 (06-Dec-22)	-

ST: Short term; LT/ST: Long term/Short term.

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of 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 lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

### Contact us

<b>Media Contact</b> Name: Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a>  <b>Relationship Contact</b> Name: Ankur Sachdeva Senior Director <b>CARE Ratings Limited</b> Phone: 912267543444 E-mail: <a href="mailto:Ankur.sachdeva@careedge.in">Ankur.sachdeva@careedge.in</a>	<b>Analytical Contacts</b>  Name: Kalpesh Patel Director <b>CARE Ratings Limited</b> Phone: +91-79-4026 5611 E-mail: <a href="mailto:Kalpesh.patel@careedge.in">Kalpesh.patel@careedge.in</a>  Name: Anuja Parikh Associate Director <b>CARE Ratings Limited</b> Phone: +91-79-4026 5616 E-mail: <a href="mailto:anuja.parikh@careedge.in">anuja.parikh@careedge.in</a>  Name: Harsh Desai Assistant Director <b>CARE Ratings Limited</b> E-mail: <a href="mailto:harsh.desai@careedge.in">harsh.desai@careedge.in</a>
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### About us:

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