

Emmbi Industries Limited

January 7, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities	99.88	CARE BBB+; Positive (Triple B Plus; Outlook: Positive)	Reaffirmed
Short term Bank Facilities	21.00	CARE A2 (A Two)	Reaffirmed
Total Facilities	120.88 (Rs. One hundred twenty crore and eighty eight lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Emmbi Industries Ltd. (EIL) continue to derive strength from the promoter's significant experience and technical expertise in the flexible packaging industry, EIL's established market position backed with wide geographical reach, diversified product portfolio catering to broad clientele base and their continued focus on value added products. The rating reaffirmation continues to factor in EIL's consistent growth in revenue coupled with improvement in profit margins in FY18 (refers to the period from April 01 to March 31) and H1FY19.

The rating strengths are, however, tempered by EIL's moderate scale of operations, working capital intensive nature of operations resulting in elongated operating cycle, deterioration in capital structure albeit at moderate levels and profit margins susceptible to volatility in raw material prices, forex fluctuation and prevailing competition in the industry.

Going forward, ability of the company to scale up its operations, improve profit margins and capital structure along with efficient management of working capital cycle would remain the key rating sensitivities.

Outlook: Positive

The outlook continue to remain positive on account of EIL's continued focus on value added products thereby expected to result in overall growth in revenues, improvement in profit margins, gearing levels and operating cycle. The outlook may be revised to 'Stable' in case of declining profit margins, deterioration in gearing levels and any further stretch in the operating cycle.

Detailed description of the key rating drivers

Key Rating Strengths

Promoters' significant experience and technical expertise in flexible packaging industry

The company is co-founded by first-generation entrepreneurs, Mr. Makrand Appalwar and his wife, Mrs. Rinku Appalwar. The promoters are well qualified technocrats and have healthy experience of around three decades in the business. Besides, they are well supported by professionals with relevant experience. Under the present management, EIL has expanded into a multi-location multi-product company with six manufacturing facilities and one research centre.

Established market position, diversified product portfolio along with wide geographical presence catering to a broad clientele base

Incorporated in 1994, EIL has an established track record of more than two decades in the flexible packaging business and supplies to various parts of the globe. The company has an established market position owing to growth in business on the back of rising volumes and repeat orders from clients. The company derives around 58% (P.Y.~55%) of its overall revenues from domestic market and remaining 42% is derived from export market spread over 56 countries across globe.

The revenue profile of the company is well diversified with revenues from four different segments i.e. speciality packaging, advanced composite, water conservation and agro polymers. The company's clientele base is considered to be broad as EIL caters to different set of clients present across various segments and across various geographies.

Strong support from Research & Development Department

The company's policy of continuous innovation, and investing in home-grown research over the years, has translated to tangible benefits, but has importantly helped in getting an accreditation as a full-fledged R&D Development centre by the Government of India. This has thereby helped the company in getting tangible benefits like tax breaks, excise and

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

customs benefits, and preferred bidder for Government projects etc. Further the company also avails intangible benefits such as visibility in the international arena.

Growth in revenues coupled with improvement in profit margins

EIL has reported steady growth in its operating revenues with total operating income reported growth of around 12.23% in FY18 which is mainly on account of higher capacity utilization and sale of newly added high margin products. Further, the company has posted total income of Rs.138.70 crore (growth of 12.5% as compared to corresponding period) in H1FY19.

Along with growing operations, EIL has reported steady growth in its profitability. Thereby EIL has reported operating profitability margins of 13.70% in FY18 and 14.30% in H1FY19. Further the PAT margins improved to 5.92% in FY18 and 6.11% in H1FY19.

Key Rating Weaknesses

Moderate scale of operations

With total income from operations at Rs 257.66 crore in FY18 and at Rs.138.70 crore in H1FY19, EIL is considered to be a relatively moderate sized entity. Also the company's net worth as on March 31, 2018 stood at Rs 91.59 crore.

Working capital intensive nature of operations leading to elongated operating cycle

The operating cycle of the company though improved yet it is considered to remain elongated at 125 days in FY18 (132 days in FY17) driven by the high inventory of around 113 days (112 days in FY17) and receivable days of around 49 days (53 days in FY17). EIL's operations are working capital intensive as the company derives around 42% of its revenues from export market which entails a higher transit period as well as the company needs to maintain higher inventory across various products to service its domestic and overseas clients.

Deterioration in capital structure albeit at moderate levels

As on March 31, 2018, EIL's capital structure stood at 1.32x (vis-a-vis 1.19x as on March 31, 2017) which is on account of increased debt levels owing to term loan availed as well as increase in working capital borrowings to support its operations in FY18. Improved profitability along with increased debt levels has resulted in stable debt coverage indicators. The company's liquidity position is considered to be moderate with average working capital utilisation of around 86% in the past twelve months ended October 31, 2018. Ability of company to maintain adequate liquidity and improve capital structure in the backdrop of working capital intensive nature of operations constitutes one of the key rating monitorables

Profit margins susceptible to volatility raw material price and currency exchange rate

The company procures raw material simultaneously to order booking. The main raw material for the products is petro chemical based and hence the prices are linked with international crude prices. However relationship between crude prices and polymer prices is not entirely direct, as crude constitutes only a fraction of the overall price. Thus, crude-linked raw materials that go into the products are multi-stage derivatives of crude, and fluctuations in crude prices may impact the profit margins to an extent. Besides, EIL is net exporter and hedges its forex exposure partially. Thus, EIL is exposed to currency exchange rate fluctuation risk.

Prevailing competition in the flexible packaging segment

The industry is highly fragmented with presence of a large number of unorganized and organized regional manufacturers along with competition from rising imports mainly from South Asian market. Further, favourable government policies like interest rate subsidy under Technology Up-gradation Fund Scheme (TUFS), concession in custom duty, has also led to the entry of many new players in this industry, thus intensifying the competition. The intense competition is also driven by low entry barriers in terms of capital and technology requirements and limited product differentiation.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology-Manufacturing Companies](#)

About the Company

EIL (erstwhile known as Emmbi Polyarns Limited), incorporated in 1994, is engaged in the manufacturing of flexible intermediate bulk container (FIBC) / jumbo bags, woven sacks and various woven polymer-based packaging products. EIL's revenue base comprises of four segments namely specialty packaging, advance composites, water conservation and agri products which are primarily used in fast moving consumer goods (FMCG), heavy chemicals, poultry-feed, cement

and fertilizers industry. The company majorly procures its raw material from reputed players in the industry. Furthermore, it caters to a wide customer base spread across 56 countries with 42% of the total revenue derived from exports (majorly to USA and Europe).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	229.59	257.66
PBILDT	29.73	35.30
PAT	12.44	15.27
Overall gearing (times)	1.19	1.32
Interest coverage (times)	3.60	3.73

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. cr)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March-2020	12.63	CARE BBB+; Positive
Fund-based - LT-Cash Credit	-	-	-	37.25	CARE BBB+; Positive
Fund-based - LT-Cash Credit	-	-	-	25.00	CARE BBB+; Positive
Non-fund-based - ST-Bank Guarantees	-	-	-	21.00	CARE A2
Fund-based - LT-EPC/PSC	-	-	-	25.00	CARE BBB+; Positive

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	12.63	CARE BBB+; Positive	1)CARE BBB+; Positive (07-Apr-18)	-	1)CARE BBB+; Positive (15-Mar-17) 2)CARE BBB+ (15-Apr-16)	1)CARE BBB (22-Apr-15)
2.	Fund-based - LT-Cash Credit	LT	37.25	CARE BBB+; Positive	1)CARE BBB+; Positive (07-Apr-18)	-	1)CARE BBB+; Positive (15-Mar-17) 2)CARE BBB+ (15-Apr-16)	1)CARE BBB (22-Apr-15)
3.	Fund-based - LT-Cash Credit	LT	25.00	CARE BBB+; Positive	1)CARE BBB+; Positive (07-Apr-18)	-	1)CARE BBB+; Positive (15-Mar-17) 2)CARE BBB+ (15-Apr-16)	1)CARE BBB (22-Apr-15)
4.	Non-fund-based - ST-Bank Guarantees/Letter of Credit	ST	21.00	CARE A2	1)CARE A2 (07-Apr-18)	-	1)CARE A3+ (15-Mar-17) 2)CARE A3+ (15-Apr-16)	1)CARE A3 (22-Apr-15)
5.	Fund-based - LT-EPC/PSC	LT	25.00	CARE BBB+; Positive	1)CARE BBB+; Positive (07-Apr-18)	-	1)CARE BBB+; Positive (15-Mar-17) 2)CARE BBB+ (15-Apr-16)	1)CARE BBB (22-Apr-15)

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