

Emmbi Industries Limited

March 15, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	101.85 (enhanced from Rs.100.98 crore)	CARE BBB+; Positive (Triple B Plus; Outlook: Positive)	Reaffirmed
Short-term Bank Facilities	21 (enhanced from Rs.1 crore)	CARE A3+ (A Three Plus)	Reaffirmed
Total Facilities	122.85 (Rs. One hundred twenty two crore and eighty five lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of Emmbi Industries Ltd. (EIL) takes cognizance of the consistent growth in operations with focus on value added products (VAP), improving profitability margins and debt protection metrics. Further the experience of the promoters in polymer-based packaging products with wide geographic presence continue to be perceived favourably.

The rating strengths are, however, tempered by modest scale of operations, fragmented nature of the polymer industry, working capital intensive nature of operations resulting in elongated operating cycle.

Going forward, the ability of the company to further scale up the operations along with improving profitability margin and working capital cycle would remain the key rating sensitivities. Any large debt funded capex would be key rating monitorable.

Outlook: Positive

The outlook has been assigned positive on account of the continuous product developments initiated by the company, focus on VAP resulting in continuous growth in scale of operations and improving profitability margins. Key debt protection ratios have further shown improvement in FY16 on Y-O-Y basis. The outlook may be revised in case of any huge debt funded capex, declining margins and any further stretch in the operating cycle.

Detailed description of the key rating drivers

Key Rating Strengths

Qualified & experienced management: The company is promoted by first-generation entrepreneurs Mr Makrand Appalwar (Bachelor of Engineering) and his wife, Mrs Rinku Appalwar (Masters in Business Administration). The promoters are well supported by experienced personnel and the company has been accredited as a full-fledged R&D Development centre by the Government of India.

Wide clientele base across geographies: The company's products are widely used by reputed FMCG, chemical and other companies. With strong presence in the overseas markets, the company also has presence in domestic markets. Export revenue form around 52% of total income. Europe & America contributed 63% of total revenue and the balance was generated from Oceania, UK, Middle east and Africa.

Growth in operations, focus on VAP along with improvement in profitability margins: EIL has posted 13.44% top-line growth in FY16 which is mainly on account of increase in revenues in both exports and domestic sales. With more focus more on VAP, the company posted growth in profitability margins as well. However despite the growth, the scale of operations at which the company operates continues to be modest.

Improvement in debt protection metrics: Declining debt levels and improving profitability has led to improvement in ratios like interest coverage ratio, total debt to gross cash accrual (GCA) in FY16

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

Key Rating Weaknesses

Modest scale of operations: Despite, continuous growth in operations scale of the company's scale remains modest with net sales of Rs.207 cr in FY16.

Continuous debt funded expansion resulted in moderate gearing levels: The company over the years has been incurring debt funded expansion in order to develop new products. High debt levels in comparison to the net worth base resulted in moderate gearing levels.

Working capital intensive nature of operations: EIL's maintains high inventory levels for smooth functioning of operations. Further the company indulges into cash purchases to avail discounts and allows credit period of around 60-90 days. The same has resulted in elongated working capital cycle of around 152 days in FY16.

Analytical approach: Standalone

Applicable Criteria

Rating Methodology-Manufacturing Companies

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Financial ratios – Non-Financial Sector

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 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 requirement from Reliance Industries Ltd, GAIL India Ltd. and Indian Oil Corporation Ltd. Furthermore, it caters to a wide customer base spread across 51 countries with 52% of the total revenue derived from exports (majorly to USA and Europe). The manufacturing facilities of the company are located at Silvassa and as on March 31, 2016, it had total installed capacity of 18,200 metric tonne per annum (MTPA). During FY16 (refers to the period April 01 to March 31), EIL posted total operating income of Rs.209.22 crore (vis-à-vis Rs.184.44 crore in FY15) and PAT of Rs.10.60 crore in FY16 (vis-à-vis Rs.5.96 crore in FY15). Further, the company posted total operating income of Rs.165.85 crore and PAT of Rs.8.64 crore in 9MFY17.

Status of non-cooperation with previous CRA: NA

Any other information: NA

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.

Analyst Contact:

Name: Divyesh Shah

Tel: 022-6754 3441

Email: divyesh.shah@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market

built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2020	14.60	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 A3+
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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	14.60	CARE BBB+; Positive	1)CARE BBB+ (15-Apr-16)	1)CARE BBB (22-Apr-15)	1)CARE BBB (22-Apr-14)	1)CARE BBB (19-Apr-13)
2.	Fund-based - LT-Cash Credit	LT	37.25	CARE BBB+; Positive	1)CARE BBB+ (15-Apr-16)	1)CARE BBB (22-Apr-15)	1)CARE BBB (22-Apr-14)	1)CARE BBB (19-Apr-13)
3.	Fund-based - LT-Cash Credit	LT	25.00	CARE BBB+; Positive	1)CARE BBB+ (15-Apr-16)	1)CARE BBB (22-Apr-15)	1)CARE BBB (22-Apr-14)	1)CARE BBB (19-Apr-13)
4.	Non-fund-based - ST-Bank Guarantees	ST	21.00	CARE A3+	1)CARE A3+ (15-Apr-16)	1)CARE A3 (22-Apr-15)	1)CARE A3 (22-Apr-14)	1)CARE A3 (19-Apr-13)
5.	Fund-based - LT-EPC/PSC	LT	25.00	CARE BBB+; Positive	1)CARE BBB+ (15-Apr-16)	1)CARE BBB (22-Apr-15)	1)CARE BBB (22-Apr-14)	1)CARE BBB (19-Apr-13)

CONTACT**Head Office Mumbai****Mr. Amod Khanorkar**

Mobile: + 91 98190 84000

E-mail: amod.khanorkar@careratings.com**Mr. Saikat Roy**

Mobile: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CREDIT ANALYSIS & RESEARCH LIMITED**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Mehul Pandya**

32, Titanium, Prahaladnagar Corporate Road,

Satellite, Ahmedabad - 380 015

Cell: +91-98242 56265

Tel: +91-79-4026 5656

E-mail: mehul.pandya@careratings.com**BENGALURU****Mr. Deepak Prajapati**

Unit No. 1101-1102, 11th Floor, Prestige Meridian II,

No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91-9099028864

Tel: +91-80-4115 0445, 4165 4529

E-mail: deepak.prajapati@careratings.com**CHANDIGARH****Mr. Sajan Goyal**

SCF No. 54-55,

First Floor, Phase 11,

Sector 65, Mohali - 160062

Chandigarh

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: sajan.goyal@careratings.com**CHENNAI****Mr. V Pradeep Kumar**

Unit No. O-509/C, Spencer Plaza, 5th Floor,

No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**

T-3, 3rd Floor, Manchester Square

Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**HYDERABAD****Mr. Ramesh Bob**

401, Ashoka Scintilla, 3-6-502, Himayat Nagar,

Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**JAIPUR****Mr. Nikhil Soni**

304, Pashupati Akshat Heights, Plot No. D-91,

Madho Singh Road, Near Collectorate Circle,

Bani Park, Jaipur - 302 016.

Cell: +91 - 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**KOLKATA****Ms. Priti Agarwal**

3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)

10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**NEW DELHI****Ms. Swati Agrawal**

13th Floor, E-1 Block, Videocon Tower,

Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**PUNE****Mr. Pratim Banerjee**

9th Floor, Pride Kumar Senate,

Plot No. 970, Bhamburda, Senapati Bapat Road,

Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691