# Emmbi Industries Limited (Revised)

April 07, 2018

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long term Bank Facilities | 100.01 | **CARE BBB+; Positive (Triple B Plus; Outlook: Positive)** | **Reaffirmed** |
| Short term Bank Facilities | 21.00 | **CARE A2 (A Two)** | **Revised from CARE A3+ (A Three Plus)** |
| **Total Facilities** | **121.01 (Rs. One hundred twenty one crore and one lakh only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The revision in the short term ratings assigned to the bank facilities of Emmbi Industries Ltd. (EIL) factors in the improvement in operating cycle and liquidity position towards the end of FY18.

The ratings further continues to derive strength from the long track record of the company coupled with extensive experience and technical expertise of the promoters in polymer-based packaging products with presence in global markets, having a diversified product portfolio catering to reputed clientele base and their continued focus on value added products, consistent growth in revenues coupled with improvement in profit margins, comfortable capital structure and debt coverage indicators in FY17 and 9MFY18 (refers to the period from April 1 to December 31)

The rating strengths are, however, tempered by EIL's moderate scale of operations, profit margins susceptible to volatility in raw material prices and forex fluctuations and working capital intensive nature of operations.

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

Outlook: Positive

The outlook continues 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 and operating cycle. The outlook may be revised to 'Stable' 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**

**Long track record of the company coupled with vast experience of the promoters in polymer-based packaging products**

Incorporated in 1994, EIL has an established track record of more than two decades in the polymer based packaging business and supplies to various parts of the globe. The company is promoted and controlled by first-generation entrepreneurs, Mr. Makrand Appalwar and his wife, Mrs. Rinku Appalwar. The promoters are well qualified technocrats and have rich experience in the business. Besides, they are well supported by professionals with relevant experience.

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

**Diversified product portfolio coupled with wide geographical presence**

EIL's has almost equal presence in the domestic and overseas markets. EIL has presence in around 51 countries with exports forming 45% of total revenue in FY17.

EIL has diversified revenue profile with revenues from four different segments ie. speciality packaging, advanced composite, water conservation and agro polymers with majority of revenues coming from speciality packaging and advanced composite.

**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 accredited 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 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 and improvement in profitability margins**

EIL has posted around 9.87% of top-line growth in FY17 on a y-o-y basis which is mainly on account of increase in revenues in domestic sales which formed 55% of net sales in FY17. Accordingly the company has further posted total income of Rs.189.82 crore (growth of 9% as compared to corresponding period) in 9MFY18. With the management strategy to focus on margin driven segments and products,

EIL has reported higher operating profitability margins of 13.06% in FY17 (vis-a-vis 12.88% in FY16) and 13.45% in 9MFY18 on account of higher proportion of sales derived from margin accretive products. Consequently, PAT margins improved to 5.54% in FY17 (vis-a-vis 5.06% in FY16) and 5.90% in 9MFY18.

**Improvement in operating cycle and liquidity position; albeit working capital intensive nature of operations**

EIL's the operating cycle has improved to 132 days as on March 31, 2017 from 152 days as on March 31, 2016; on account of higher credit availed from creditors. EIL's dependence on working capital borrowing reduced to an extent as reflected in its average utilisation levels in the month of February-18 (around 78%) and March-18 (around 71%). Thus showing improvement in overall liquidity position of company. However the operations of EIL still remain working capital intensive as the company inherently has to maintain higher inventory levels.

**Successful completion of capex is expected to support further operational growth**

Till FY17, EIL was operating with the capacity of 18,200 MTPA with the capacity utilisation of 93%. Further, with the additional capacity of 6,000 tonnes being ready, the company is expected to benefit with higher capacity utilisation leading to growth in revenues.

**Key Rating Weaknesses**

**Profit margins susceptible to raw material price**

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 a limited extent.

**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 requirement from Reliance Industries Ltd, GAIL India Ltd. and IOCL. Furthermore, it caters to a wide customer base spread across 51 countries with 45% of the total revenue derived from exports (majorly to USA and Europe).

| Brief Financials (Rs. crore) | FY16 (A) | FY17 (A) |
|---|---|---|
| Total operating income | 209.22 | 229.87 |
| PBILDT | 26.95 | 30.01 |
| PAT | 10.60 | 12.73 |
| Overall gearing (times) | 0.89 | 0.96 |
| Interest coverage (times) | 2.99 | 3.63 |

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

**About CARE Ratings:**

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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-Cash Credit | - | - | - | 37.25 | CARE BBB+; Positive |
| Fund-based - LT-Cash Credit | - | - | - | 25.00 | CARE BBB+; Positive |
| Fund-based - LT-Term Loan | - | - | March 2020 | 12.76 | CARE BBB+; Positive |
| Fund-based - LT-EPC/PSC | - | - | - | 25.00 | CARE BBB+; Positive |
| Non-fund-based - ST-Bank Guarantees | - | - | - | 21.00 | CARE A2 |

**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 | 12.76 | CARE BBB+; Positive | - | - | 1)CARE BBB+; Positive (15-Mar-17)<br>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 (15-Mar-17)<br>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 (15-Mar-17)<br>2)CARE BBB+ (15-Apr-16) | 1)CARE BBB (22-Apr-15) |
| 4. | Non-fund-based - ST-Bank Guarantees | ST | 21.00 | CARE A2 | - | - | 1)CARE A3+ (15-Mar-17)<br>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 (15-Mar-17)<br>2)CARE BBB+ (15-Apr-16) | 1)CARE BBB (22-Apr-15) |

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