

Rating Rationale

December 07, 2022 | Mumbai

Emmbi Industries Limited

Rating outlook revised to 'Positive'; Ratings reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.194.29 Crore
Long Term Rating	CRISIL BBB+/Positive (Outlook revised from 'Stable'; rating Reaffirmed)
Short Term Rating	CRISIL A2 (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the long-term bank facilities of Emmbi Industries Limited to '**Positive**' from 'Stable' and has reaffirmed the rating at '**CRISIL BBB+**'. The short-term rating has been reaffirmed at 'CRISIL A2'.

Revision in outlook reflects expectation of improvement in both business as well as financial risk profile supported by improved revenue, enhanced operating profitability resulting in higher accruals. Sustenance of improved operating performance to remain key rating sensitivity factor.

Company's revenue substantially improved to RS 435 crore in fiscal 2022 against revenue of Rs 270-300 crore over past 3 years through fiscal 2021. The improvement seen in the scale of operations were because of higher demand not only in domestic market but also in international market. Revenue from B2C i.e., Avana Segment has also on an increasing trend. Company's operating margin is expected to remain above 11% over the medium term. Consequently, accruals were high at Rs 27 crore in fiscal 2022. With concerns regarding slowdown of economic situations especially in export segment, business risk profile and thus cash accruals generated will be key monitorable with repayments in range of Rs 16-18 crore over the medium term. For H1FY23 company has already achieved revenue of Rs 227.5 crore at an operating margin of around 10.5%. Company's new product range compliant with government policies will support the revenue profile of the company. Company's working capital cycle has improved during fiscal 2022 and financial risk profile continues to remain healthy with comfortable capital structure and debt protection metrics.

The rating continues to reflect extensive experience of promoters in flexible packaging industry, diversified business profile supported by a vast product profile presence across geographies and low customer concentration, and comfortable financial risk profile. These strengths are partially offset by working capital intensive nature of operations and exposure to competition leading to pressure on profit margins.

Key Rating Drivers & Detailed Description

Strengths:

Extensive experience of promoters in flexible packaging industry: The promoters Mr. Makrand Appalwar & Mrs. Rinku Appalwar have an experience of over three decade in flexible packaging industry. The promoters have developed a strong understanding of the industry dynamics, which has helped them to maintain healthy relationships with their suppliers and customers resulting in healthy growth in revenue.

Diversified business profile supported by a vast product profile, presence across various geographies and low customer concentration: EIL has a diversified product profile as is reflected by portfolio of more than 40 products with continuous product addition being supported by its R&D division. EIL markets its products in both B2B and B2C segments. B2C segment mainly retails products under Avana Brand. Company has been investing heavily into the B2C segment and the revenue share is also on an increasing trend. Due to the new UK's plastic packaging Tax, company has launched the Reclaim 30 range which is sustainable plastic packaging which uses more than 30% recycled polypropylene. Company for fiscal 2022 has recorded sales growth of more than 50% year on year. Revenue for fiscal 2022 was Rs 435 crore compared to Rs 274 crore for fiscal 2021. For H1FY23, company has achieved revenue of Rs 227.5 crore. EIL sells its products to more than 60 countries with contributes around 60% of the total revenue, with concerns regarding slowdown of economic situations business risk profile will be key monitorable.

Comfortable financial risk profile: The financial risk profile is supported by adequate network of over Rs 138 crore and gearing of 1.04 times as on March 31, 2022. Debt protection metrics were comfortable too as indicated by interest coverage and net cash accrual to adjusted debt ratio at 3.36 times and 0.19 time, respectively, in fiscal 2022. The scheduled repayment of term loan, accretion to reserve and absence of large debt-funded capex plan should help improve the financial risk profile over the medium term.

Weaknesses:

Working capital intensive nature of operations: Company's operations are working capital intensive in nature as reflected by gross current assets (GCA) days ranging between 151-210 days since last four years ending March 31, 2022. The intensive working capital operations is because of higher inventory of EIL. GCA days have improved from 206 days as on March 31, 2021 to 151 days as on March 31, 2022. The improvement in GCA days is because of lower inventory maintained in fiscal 2022 compared to fiscal 2021. As on March 31, 2022 the inventory days were 92 days and debtor's days were 54 days. The inventory requirements are high due to batch manufacturing process followed by EIL for all its products to achieve maximum efficiency. Also, company keeps raw material of around 30-45 days to support continuous production cycle. GCA days are expected to remain in the same range over medium term.

Exposure to competition leading to pressure on margins: The flexible intermediate bulk container (FIBC) industry is fragmented because of low entry barriers, such as limited capital and technology requirements, small gestation period, and easy availability of raw materials. Operating margins have been range bounded between 10-14% over past four years ending fiscal 2022. However, with expected improvement in sales performance, the margin is expected to improve.

Liquidity: Adequate

Bank limit utilisation is moderate at around 86.39 percent for the past twelve months ended August 2022. Cash accruals are expected to be over Rs 24 crore which are sufficient against term debt obligation of Rs 16-17 crore over the medium term. In addition, it will be act as cushion to the liquidity of the company. Current ratios are healthy at 1.54 times on March 31, 2022. Company has a cash and bank balance of Rs 0.99 crores as on March 31,2022. No major capex plans over medium term.

Outlook: Positive

CRISIL Ratings believes that EIL business risk profile will continue to benefit, over the medium term, from its longstanding relationships with suppliers & customers, and experience of the management.

Rating Sensitivity factors**Upward factors**

- Sustained healthy growth in revenue and improved operating margin resulting in net cash accruals of over Rs 30 crores on sustained basis
- Sustenance of improved working capital cycle
- Sustained improvement capital structure and liquidity position

Downward factors

- Lower than expected growth in revenue or operating margins remaining below 10.5% resulting in lower-than-expected net cash accruals, impacting liquidity position especially net cash accruals to repayment obligation ratio
- Increase in working capital requirements, larger-than-expected, debt-funded capital expenditure (capex) or acquisition or dividend payout, weakening the financial risk profile.

About the Company

EIL was incorporated in 1994 by Mr. Makrand Appalwar and Mrs. Rinku Appalwar. EIL is engaged in manufacturing and sale of FIBC, woven sacks and various polymer-based packaging products like Container Liners, Protective Irrigation System, Pond Liners, Canal Liners, Flexi Tanks, Car Covers, Mulch Film s, etc. EIL has 2 mother units which manufacture basic parts and 8 satellite units which manufacture the final product based on specific industry requirement

Key Financial Indicators

As on / for the period ended March 31		2022	2021
Operating income	Rs crore	435.62	273.99
Reported profit after tax	Rs crore	19.03	7.67
PAT margins	%	4.4	2.8
Adjusted Debt/Adjusted Net worth	Times	1.04	1.12
Interest coverage	Times	3.36	2.53

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisil.com/complexity-levels. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Letter of Credit & Bank Guarantee	NA	NA	NA	14.2	NA	CRISIL A2
NA	Cash Credit	NA	NA	NA	112	NA	CRISIL BBB+/Positive
NA	Corporate Loan	NA	NA	Jul-25	13.44	NA	CRISIL BBB+/Positive
NA	Letter of Credit	NA	NA	NA	17	NA	CRISIL A2
NA	Term Loan	NA	NA	Nov-26	21.67	NA	CRISIL BBB+/Positive
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	15.98	NA	CRISIL BBB+/Positive

Annexure - Rating History for last 3 Years

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	163.09	CRISIL BBB+/Positive		--	30-10-21	CRISIL BBB+/Stable	23-06-20	CRISIL BBB+/Stable	31-07-19	CRISIL BBB+/Stable	--
					--	27-09-21	CRISIL BBB+/Stable		--		--	--
Non-Fund Based Facilities	ST	31.2	CRISIL A2		--	30-10-21	CRISIL A2	23-06-20	CRISIL A2	31-07-19	CRISIL A2	--
					--	27-09-21	CRISIL A2		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	45	Axis Bank Limited	CRISIL BBB+/Positive
Cash Credit	25	Saraswat Bank	CRISIL BBB+/Positive
Cash Credit	25	ICICI Bank Limited	CRISIL BBB+/Positive
Cash Credit	17	DBS Bank India Limited	CRISIL BBB+/Positive
Corporate Loan	13.44	Saraswat Bank	CRISIL BBB+/Positive
Letter of Credit	10	ICICI Bank Limited	CRISIL A2
Letter of Credit	7	Saraswat Bank	CRISIL A2
Letter of credit & Bank Guarantee	11	DBS Bank India Limited	CRISIL A2
Letter of credit & Bank Guarantee	3.2	Axis Bank Limited	CRISIL A2
Proposed Long Term Bank Loan Facility	15.98	Not Applicable	CRISIL BBB+/Positive
Term Loan	1.6	ICICI Bank Limited	CRISIL BBB+/Positive
Term Loan	6.17	Axis Bank Limited	CRISIL BBB+/Positive
Term Loan	3.71	DBS Bank India Limited	CRISIL BBB+/Positive
Term Loan	10.19	Saraswat Bank	CRISIL BBB+/Positive

This Annexure has been updated on 07-Dec-2022 in line with the lender-wise facility details as on 29-Oct-2021 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Understanding CRISILs Ratings and Rating Scales
CRISILs Criteria for rating short term debt

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