

**Press Release****Emperial Films LLP****February 24, 2020****Ratings**

<b>Instrument/Facility</b>	<b>Amount (Rs. Crore)</b>	<b>Ratings Assigned</b>
Bank Facilities- Long Term	21.43	IVR BB/Positive Outlook (IVR Double B with Positive Outlook)
Bank Facilities- Short Term	1.75	IVR A4 (IVR A Four)
Proposed Fund based and Non Fund Based- Long Term/ Short Term	3.85	IVR BB/Positive Outlook (IVR Double B with Positive Outlook)/IVR A4 (IVR A Four)
<b>Total</b>	<b>27.03</b>	

**Details of Facilities are in Annexure 1****Detailed Rationale**

The rating assigned to the bank facilities of Emperial Films LLP (EFL) draws comfort from its established promoters and average financial risk profile. However the rating strengths are partially offset by its nascent stage and small scale operation with exposure to government policies and intense competition. The ratings also consider susceptibility of its profits to fluctuation in the price of raw materials, volatility in foreign exchange rates and working capital intensive nature of operations. The outlook remain positive due to its expected satisfactory financial performance with healthy operating profitability in FY20.

**Key Rating Sensitivities:****Upward Factor:**

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity



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### **Downward factor:**

- Dip in operating income or profitability impacting the debt coverage indicators, subdued industry scenario, deterioration in working capital management and moderation in overall gearing to more than 1.5 times could lead to a negative rating action.
- Elongation in the operating cycle adversely affecting the liquidity position

### **List of Key Rating Drivers with Detailed Description**

#### **Key Rating Strengths**

##### **Experienced promoters**

The promoter Mr. Ashok Patel and Mr. Rakeshbhai Dadhaniya are first-generation entrepreneurs having more than a decade of experience in the packaging Industry, looking after overall Management of the LLP. The extensive experience of the promoter has helped to establish healthy relationship with customers and suppliers.

##### **Average financial risk profile**

EFL has a moderate financial risk profile marked by a modest net worth of Rs.17.96 crore as on March 31, 2019. The overall gearing stood moderate at 1.36x as on March 31, 2019 along with a strong interest cover of 3.46x and moderate Total Debt/GCA of 5.62x respectively in FY19.

#### **Key Rating Weaknesses**

##### **Nascent stage of operation**

The company has firm its commercial operation since September, 2018, hence it is in its nascent stage of operations.

##### **Small scale of Operation**

The firm started in operations since September, 2018 and achieved a total operating income of Rs.27.05 crore with a healthy EBITDA margin of 15.05%. Further, the firm also earned a cash



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accrual of Rs.4.34 crore in FY19. In 9MFY20 the firm has achieved a PBT of Rs.0.90 crore on a total operating income of Rs.44.19 crore. Notwithstanding the growth in sales, the scale of operation of the firm continued to remained small which restricts its financial flexibility.

### **Profitability susceptible to fluctuation in the price of raw material and volatility in foreign exchange**

The critical inputs desired in packing production is Polypropylene. EFL purchases polypropylene granules from domestic as well as from overseas supplier. Prices of polypropylene granules is linked to crude prices and are determined by demand and supply scenarios in the crude oil market. The demands of PP plastic products are increasing but volatility in the price of the pp resin is inhibiting the growth of the market. The firm procure its raw material (mainly polypropylene) mainly through import (~90% of total purchase was through import in FY19) Abu Dhabi. High import expose the profitability of the firm to risks arising out of fluctuation in foreign exchange. On the other hand, EFL derived ~5% of its revenue through sales in Abu Dhabi, Middle East countries and Dubai in FY19. The firm use forward contract to cover its foreign exchange related risks however, remained vulnerable to volatility in foreign exchange.

### **Exposure to government policies and intense competition**

EFL, like other players in the packing industry, remains exposed to changes in the legal and regulatory environment such as revision of tax rates, changes in import duty, restriction on import of plastic etc. Given the environment hazards of plastics, the sector remains sensitive to the government regulations. Further, the packing industry in India is highly fragmented and competitive due to presence of a few big players and various small/mid-sized players. Intense competition in the operating spectrum restricts the pricing power of the company to a large extent.

### **Working capital intensive nature of operations**

EFL has working capital intensive nature of operations marked by its highly utilized working capital limits at ~90 per cent over the past twelve months ending in Dec-19. High working



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capital intensity was mainly due to stretch in its collection period along with high inventory holdings.

**Analytical Approach:** Standalone

**Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

### **Liquidity - Adequate**

In its first year of operations the firm has generated a cash accrual of Rs.4.34 crore. Further, the firm is expected to generate cash accrual in the range of Rs.4.37-4.45 crore during FY20-FY22 which is adequate to meet its debt repayment obligations during the aforesaid period. The firm's average bank limit utilisations are high at ~90 per cent during the trailing twelve months ended Dec-19 indicating a moderate liquidity buffer.

### **About the Firm**

Emperial Films LLP (EFL) was incorporated in 2017 by Mr. Rakesh Dadhaniya and Mr. Ashok Patel at Gujarat. The firm started its commercial operation from September, 2018. EFL expertise lies in manufacture of cast polypropylene (CPP) films which are mainly used for food packaging. The firm is part of Royal Group of Industries which is engaged in plastic industry since more than 7 years with various companies under its fold.

### **Financials (Standalone):**

(Rs. crore)

For the year ended*/As on	31-03-19
	Audited
Total Operating Income	27.05
EBITDA	4.07
PAT	0.01
Total Debt	24.43
Tangible Net worth	17.96
EBITDA Margin (%)	15.05
PAT Margin (%)	0.02
Overall Gearing Ratio (x)	1.36

\*Classification as per Infomerics' standards



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Status of non-cooperation with previous CRA: Nil

Any other information: Nil

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Fund Based Limits*	Long Term	21.43	IVR BB/Positive	-	-	-
2.	Non Fund Based Limits	Short Term	1.75	IVR A4			
3.	Proposed Fund and Non Fund Based Limits	Long/ Short Term	3.85	IVR BB/Positive and IVR A4			

*\*Sublimit of Raw Material Letter of Credit of 2.50 crore*

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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### About Infomerics:

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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit * & Term Loan	-	-	-	21.43	IVR BB/Positive
Short Term Bank Facilities- Inland Letter of Credit	-	-	-	1.75	IVR A4
Proposed Long Term and Short Term Bank Facilities				3.85	IVR BB/Positive and IVR A4

*\*Sublimit of Raw Material Letter of Credit of 2.50 crore*