Emperial Films LLP

August 22, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	35.56	IVR BBB- / Stable Outlook (IVR Triple B Minus with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	1.75	IVR A3 (IVR A Three)	Reaffirmed	Simple
Total	**37.31 (Thirty-Seven Crore and Thirty One Lakh Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Emperial Films LLP continue to factor in experienced promoters, reputed clientele, continuous improvement in total operating income, moderate capital structure and financial risk profile and favorable demand outlook for packaging industry. The rating is however constrained by nascent stage of operation, susceptibility of profitability to volatility in raw material prices as well as foreign exchange rate, exposure to government policies, intense competition, working capital intensive nature of operations and risk related to partnership nature of constitution.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals.
- Sustained improvement in capital structure and debt coverage indicators
- Sustainable increase in market share

Downward Factors

- 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 on a sustained basis 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.
- **Reputed customer profile:**
  The company has built robust relationship with customers. Customers like Britannia Industries Limited (BIL), Parle Products, Balaji Wafers, Gopal Snacks are associated with the company since the beginning reflecting good product quality and strong management creditability. EFL’s customer profile also consists of some of very well-known clients such as ITC Limited, Hindustan Unilever Limited (HUL), Nestle, Uflex Industries, IDMC – Amul, Dhariwal Industries (Group Of Manikchand), Uma Group Of companies, etc. The firm has increased its exports significantly in FY22 and it has 27 foreign customers across 12 countries.
- **Continuous improvement in Total Operating Income:**
  The total operating income of the firm has witnessed an increasing trend over the years and the same has increased to Rs.110.73 crore in FY22 from Rs.77.33 crore in FY21 driven by increasing orders from the existing customers and new customers. The firm increased its installed capacity from 6000MT to 12000MT in

FY22. The capacity utilization for FY22 is 94%.EFL derives 53% of its total operating income from export sale which was 9% a year ago. The company has an order book of Rs 14.63 crore to be completed by August month. Further, following completion of its capacity expansion, the company expects increase in its scale of operations going forward.

- **Moderate capital Structure and financial risk profile**

  Capital structure of the company moderated with overall gearing ratio and debt equity ratio moderating to 1.58 times and 1.41 times respectively as on March 31, 2022 as against 1.09 times and 0.88 times respectively as on March 31, 2021 due to increase in term debt availed for capacity expansion. Total indebtedness of the company as reflected by TOL/TNW moderated from 1.35x as on March 31, 2021 to 2.27x as on March 31, 2022 due to increase in term debt as well as creditors. EBITDA margin has increased marginally from 6.44% in FY21 to 6.51% in FY22. However, PAT margin has decreased from 1.26% in FY21 to 0.98% in FY22 due to increase in depreciation and interest and finance charges. Gross cash accruals of the firm also increased to Rs 6.01 crore in FY22 from Rs.4.81 crore in FY21. Interest coverage improved from 4.35x in FY21 to 4.63x in FY22 due to higher operating profitability.

  Total Debt/GCA moderated to 5.96x as on March 31, 2022 as against 5.28x as on March 31, 2021 due to increase in long term debt.

- **Favorable demand outlook for packaging industry**

  The demand for the industry is favorable driven by a growing hygiene consciousness coupled with growing consumption in domestic market on account of increase in disposable income, consumerism, spending patterns and retail penetration.

Key Rating Weaknesses

- **Nascent stage of operation**

The company has started its operation since August 2018, hence it is in its nascent stage of operations. However, extensive knowledge of the promoters is expected to support the business risk profile of the firm in the long run.

- **Profitability susceptible to fluctuation in the price of raw material as well as foreign exchange rate**

  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 demand 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 (~78% of total purchase was through import in FY22) Abu Dhabi. High import exposes the profitability of the firm to risks arising out of fluctuation in foreign exchange. On the other hand, EFL derived ~53% of its revenue through export sales which includes countries like Jordan, Kenya, Saudi Arabia, Nepal, Sudan, UAE and Brazil. The firm does not hedges its foreign currency exposure and thus remains vulnerable to volatility in foreign exchange rate with respect to its unhedged portion.

- **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

Company has working capital intensive nature of operations marked by operating cycle of 56 days in FY22 which improved from 84 days due to decrease in debtor period and increase in creditor period with an increase in scale of operations. However, the company's bank limits remained moderately utilized at ~74per cent over the past twelve months ending in July 2022.

- Risks related to partnership nature of constitution

The firm's constitution as a 'Limited Liability Partnership' exposes it to the inherent risk of significant withdrawals by the partners, which can have an adverse impact on the capital structure.

Analytical Approach: Standalone

Applicable Criteria (Please add Hyperlink to the respective criteria):

Rating Methodology for Manufacturing Companies.

Financial Ratios & Interpretation (Non- Financial Sector)

Criteria of assigning Rating Outlook

Liquidity – Adequate

The liquidity profile of EFL is adequate marked by ~74% utilisation of fund-based limits during the past 12 months ended July,2022. The firm expects gross cash accruals in the range of Rs.9.46-13.18 crore as compared to debt obligations in the range of Rs.5.24- 6.64 crore during FY23-25. The current ratio remained moderate at 1.36x and quick ratio remained at 0.87x as on March 31, 2022. Further, the firm has unencumbered cash and bank balance of Rs.0.05 crore as on March 31, 2022.

About the Firm

Emperial Films LLP (EFL) was incorporated in 2017 by Mr. Rakesh Dadhaniya and Mr. Ashok Patel**.** The firm started it's manufacturing operations in August 2018 at Gujarat and sales commenced in September 2018. EFL's expertise lies in manufacture of cast polypropylene (CPP) films which are mainly used for food packaging. EFL has well diversified and reputed customer base in the domestic market and is also expanding its footprint in the export market. The manufacturing plant of the company is located at Survey No. 467 Paikee ,Lajai, Taluka, Tankara Morbi Rajkot Gujrat. The current annual installed capacity of the unit is 12000MT which has been increased from 6000MT in FY22.

The firm is part of Royal Group of Industries which is engaged in plastic industry for more than 8 years with various companies under its fold.

Financials (Standalone):

For the year ended* / As on	31/03/2021	31/03/2022
	(Audited)	(Provisional)
Total Operating Income	77.33	110.73
EBITDA	7.34	7.21
PAT	0.99	1.09
Total Debt	24.88	35.79
Tangible Net worth	23.80	22.68
EBIDTA Margin %	9.50	6.51
PAT Margin %	1.26	0.98
Overall Gearing ratio (times)	1.05	1.58

**Classification as per Infomerics' standards*.

Status of non-cooperation with previous CRA: Issuer not cooperating by CRISIL vide press release dated 30-Jan-2022 due to non-availability of information.

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Fund Based Limits	Long Term	35.56	IVR BBB-/ Stable Outlook	IVR BBB-/ Stable Outlook(July 28, 2021)	IVR BB+/ Stable Outlook (Jan 07, 2021)	IVR BB/ Positive Outlook (Feb 24, 2020)
2.	Non Fund Based Limits	Short Term	1.75	IVR A3	IVR A3 (July 28, 2021)	IVR A4+ (Jan 07, 2021)	IVR A4 (Feb 24, 2020)
3.	Proposed Fund Based and Non Fund Based Limits	Long/ Short Term	-	-	-	IVR BB+/ Stable Outlook; IVR A4+ (Jan 07, 2021)	IVR BB/ Positive outlook; IVR A4 (Feb 24, 2020)

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About Infomerics:

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Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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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
Fund Based Limits	-	-	-	35.56	IVR BBB-/Stable Outlook
Non Fund Based Limits	-	-	-	1.75	IVR A3

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Emperial-aug22.pdf

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.