



Press Release

Emperial Films LLP

Jan 07, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Bank Facilities	20.90	IVR BB+/ Stable Outlook (IVR Double B Plus with Stable Outlook)	Upgraded
2.	Short Term Bank Facilities	1.75	IVR A4+ (IVR A Four Plus)	Upgraded
3.	Proposed Long/Short Facilities	4.38	IVR BB+/ Stable Outlook(IVR Double B Plus with Stable Outlook) ; IVR A4+ (IVR A Four Plus)	Upgraded
	Total	27.03		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Emperial Films LLP (EFL) draws comfort from experienced promoters, modest capital structure with average financial risk profile. The ratings also positively consider improvement in capacity utilization. However, these rating strengths are partially offset by nascent stage of operations, exposure to government policies and intense competition with working capital intensive nature of operations. The rating also considers the small scale operations of company and profitability susceptible to fluctuation in the price of raw material and volatility in foreign exchange.

Key Rating Sensitivities:

Upward Factor:

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

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



Press Release

- Withdrawal of unsecured loan from promoter

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.

Improvement in capacity utilization:

EFL production commenced in August 2018 and in FY20, the firm recorded its first full year production, capacity utilization has increased to ~73 % FY20.

Modest Capital Structure with average financial risk profile

Capital structure of the company remained moderate as on March 31,2020 marked by its modest net worth base of Rs.23.54 crore as on March 31, 2020 (FY19 Rs 19.40 crore). Infomerics has considered Rs.1.56 crore of unsecured loans from the promoter and family as quasi-equity as the same is subordinated to the bank facilities. Over all gearing and debt equity ratio improved from 1.18x,0.94x as on March 31,2019 to 0.92, 0.68x as on March 31,2020 due to due to repayment of term loan and accretion of profits in reserves .Strong debt protection metrics with interest cover of 4.34x and Total Debt/GCA of 4.45x respectively.

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.



Press Release

Small scale of Operation

The firm started in operations since September, 2018 and achieved a total operating income of Rs.58.83 crore from first full year of production with a healthy EBITDA margin of 12.99% and gross cash accrual of Rs 4.85 crore in FY20. EFL in 8MFY20 the firm has recorder total operating income of Rs 47.38 with PBT of Rs.1.81 crore. The scale of operation of the company continued to remained small which restricts the financial flexibility of the company.

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 FY20) 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 ~3% of its revenue through sales in Abu Dhabi, Middle East countries and Dubai in FY20. 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

Company has working capital intensive nature of operations marked by operating cycle of 79 days due to stretch in collection period along and inventory held by the company. Further,



Press Release

the company's bank limits remained comfortable at ~45 per cent over the past twelve months ending in Nov 20 indicating liquidity buffer. Infomerics expects the operations of the company to remain working capital intensive due to stretched collection and inventory days maintained by the company.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Adequate

The liquidity profile of EFL in first full year of operations is adequate, has earned a cash accrual of Rs 4.85 crore against its debt repayment obligation of Rs .18 crore . Further the firm is expected to remain adequate marked by its expected satisfactory cash accrual in the range of ~Rs.4.44-4.50 crore as against its debt repayment obligation in the range of Rs.3.80-4.62 crore during FY21-23. The average cash credit utilisation of the company was at ~45% during the past 12 months ended Nov, 2020 maintaining moderate liquidity cushion

About the Company

Emperial Films LLP (EFL) was incorporate in 2017 by Mr. Rakesh Dadhaniya and Mr. Ashok Patel. The firm started it's manufacturing operation in August 2018 at Gujrat and sales commenced in 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):

For the year ended*/As on	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	27.05	58.83
EBITDA	4.07	7.64
PAT	0.01	0.50
Total Debt	22.98	21.61



Press Release

Tangible Net worth^	19.40	23.54
EBITDA Margin (%)	15.05	12.99
PAT Margin (%)	0.02	0.85
Overall Gearing Ratio (x)	1.18	0.92

^Unsecured loan from promoter is treated as Quasi Equity.

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Fund Based Limits	Long Term	20.90	IVR BB+/ Stable outlook	IVR BB/ Positive Outlook	-	-
2.	Non- Fund Based Limits	Short Term	1.75	IVR A4+	IVR A4	-	-
3.	Proposed Fund and Non Fund Based Limits	Long / Short Term	4.38	IVR BB+/ Stable outlook; IVR A4+	IVR BB/ Positive Outlook; IVR A4	-	-

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.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities



Press Release

and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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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	-	-	-	20.90	IVR BB+/Stable Outlook
Non- Fund Based Limits			-	1.75	IVR A4+
Proposed Fund and Non-Fund Limits				4.38	IVR BB+/Stable Outlook; IVR A4+