

November 02, 2017

Flexituff International Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Term loan	37.00	[ICRA]BBB+& reaffirmed
Fund-based – Cash credit	289.00	[ICRA]BBB+& reaffirmed
Non-fund based	293.00	[ICRA]A2& reaffirmed
Total	619.00	

*Instrument details are provided in Annexure-1

&: under rating watch with developing implications

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) and short-term rating of [ICRA]A2 (pronounced ICRA A two) outstanding on the term loan, fund based and non-fund based limits of Flexituff International Limited (FIL) ¹ aggregating to Rs. 619.00 crore². The ratings continue to be on ‘rating watch with developing implications’.

Rationale

The ratings take into account the company’s established market position in the FIBC (Flexible Intermediate Bulk Container) industry, both domestically and in overseas markets. The FIBC operations have been operating at close to full capacity utilisation levels at both the facilities of FIL with healthy operating margins. The ratings further factor in the favourable demand outlook for the FIBC segment as well as the geo-textiles segment, the latter primarily driven by the domestic market with applications in the infrastructure segment. The company has seen healthy increase in the order book for geo-textiles supported by its first-mover advantage in the market thereby enabling it to bag major government projects across several states. The ratings also take into account the scale-up of operations with the commissioning of a new facility at Kashipur in FY2016 that is currently operating at optimum utilisation levels.

The ratings are, however, constrained by the high working capital intensity in the operations arising out of relatively longer credit period offered to customers and inventory requirements. The ratings are further constrained by the slower-than-expected ramp-up of operations in the geo-textiles business due to delays in receipt of orders that has resulted in loss-making operations for this business segment. Further, the company’s operations remain exposed to raw material fluctuation risk, although the same is mitigated due to short tenure of supply orders and revision of price levels on a rolling basis. The ratings also factor in the competitive pressures in other businesses of the company as well as the forex risk associated with the FIBC business to be taken over by the company’s subsidiary. ICRA notes that the company’s ability to secure sizeable contracts and accordingly scale up the volumes in the geo-textiles business thereby, improving the profitability and return indicators from the current levels, remains important from a credit perspective. The ratings are further constrained by the high gearing levels of the company on account of the sizeable debt-funded capex undertaken towards the greenfield project at Kashipur apart from high reliance on working capital borrowings.

The ratings continue to remain under ‘rating watch with developing implications’ following the announcement made by the company in July 2017, to transfer its FIBC business segment of the Pithampur (Madhya Pradesh) manufacturing facility into a proposed wholly-owned subsidiary. The transfer of the

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

said business would be done through a slump sale to the subsidiary. The FIBC division of Pithampur facility represents around 44% of the company's total revenue and around 38% of its total net worth as on March 31, 2017. The aforesaid transfer is being undertaken in order to categorize the two major product businesses viz. FIBC and Geo-textiles, into two separate companies which will result in unlocking of business value. The company plans to raise additional funds in the subsidiary from private equity investors that would be paid to FIL as part of the slump sale proceeds. ICRA notes that timely conclusion of the proposed transaction remains important given the repayments on the Rs. 220 crore Foreign Currency Convertible Bonds (FCCBs) falling due for FIL over the next 6-month period. ICRA will continue to monitor the above developments and will evaluate the potential impact on the credit profile of FIL upon availability of further details and accordingly finalise its rating action.

Key rating drivers

Credit strengths

- **Established market position & long track record in FIBC industry** - The company has a leading position in the FIBC manufacturing segment in the domestic market with a market share of ~15-20%. Although the domestic demand is still in its growth stage and is mainly from industries like fertilizers, cement, petrochemicals and raw salt, the company's sales are mainly focused on exports to Europe, UK and USA. FIL is particularly strongly placed to meet export demand in FIBC applications for food & pharma user industries where quality parameters are stringent.
- **Favourable business outlook for geo-textiles segment** - Geo-textiles have seen a rapid increase in demand in the Indian market owing to their varied applications in road construction, flood protection, protection from land sliding and soil erosion. Many state governments have also now opted for geo-textiles in order to tackle the situation of floods in their regions. FIL has been an early mover in this segment in the domestic market and is expected to benefit from the increase in demand.
- **Scale of operations expected to improve with sales from capacity augmentation in Geo-textiles** - The company is involved in the end-to-end EPC³ solutions which comprise of procuring raw materials, manufacturing and installation of the geo-textiles at the project sites and also has been able to qualify for execution of such orders in few states. The scale of operations is being ramped up and the market demand is expected to remain strong with few players in the business.

Credit weaknesses

- **High gearing level with large working capital borrowings**- The company's long-term loans increased on account of the debt-funded greenfield project undertaken at Kashipur. The company's working capital requirements have also been increasing which have been largely met through external financing. As a result, the company's gearing remains high at 2.0 times as on March 31, 2017.
- **High working capital intensity** - The credit period offered to customers (FIBC - exports) varies between 1-6 month period (about 50-60% of FIBC exports are with 180 days of credit period). The company mainly deals with civil construction contractors, who purchase geo-textiles for various government projects and provides credit period of 3-4 months to these contractors for geo-textile sales. The company, however, receives a credit period of 90 days on the purchases backed by LCs. Overall, the working capital intensity remains high in the business.
- **Exposed to input price fluctuation as well as forex fluctuation risks** - Polypropylene (PP), which is the key raw material is purchased on spot basis and thus, FIL is exposed to any inventory loss on account of the volatility in PP prices. The supply risks are mitigated due to the proximity of the company's facility to the refineries and also due to the continuing relationship with the vendors and built-in price variation clause protects the company against price fluctuations during transit period. The company earns most of its revenues in USD terms owing to the export-oriented nature of business and is thus, exposed to the movement in the forex rates. FIL has been hedging about 25% of

³ EPC: Engineering, Procurement and Construction

its net foreign exposure through forward contracts, apart from the natural hedge of approximately about 50% of its exposure, so as to reduce its overall forex exposure.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

FIL was formed in 1966 as a partnership firm. Subsequently, the firm was converted into a private limited company in 1985 and the company got listed on Indian Bourses in 2011. FIL is engaged in the business of manufacturing FIBC, reverse printed BOPP (Biaxially Oriented Polypropylene) woven bags, Leno Bags (small packaging bags, primarily for domestic markets), geotextile fabrics and ground cover (used for prevention of landslides, control of soil erosion and river bank protection) and polymer compounds (used for wires and cables) and drippers. The main product of the company is FIBC, which is used in bulk packaging and transportation requirement for multiple industries like cement, chemical, pharmaceutical, food processing consumer goods, sugar and meat products. The company has two manufacturing facilities, located at Pithampur (Madhya Pradesh) and Kashipur (Uttarakhand), and two wholly owned subsidiaries in U.K. and USA. The manufacturing facility at Kashipur commenced operations in December 2015 and has a capacity of 22,000 MT. On July 24, 2017, the company's Board of Directors approved the separation of FIBC business segment of the Pithampur (Madhya Pradesh) manufacturing facility into a wholly-owned subsidiary company.

Key Financial Indicators

	FY2016	FY2017	Q1 FY2018 (P)
Operating Income (Rs. crore)	1,312.7	1,456.1	340.9
PAT (Rs. crore)	4.8	5.7	0.2
OPBDIT/ OI (%)	10.9%	12.7%	11.7%
RoCE (%)	9.1%	10.3%	
Total Debt/ TNW (times)	1.7	2.0	
Total Debt/ OPBDIT (times)	4.5	4.2	
Interest coverage (times)	1.5	1.7	1.4
NWC/ OI (%)	25%	33%	

Note: Financials of Q1 FY2018 are as per Ind AS; OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)	Chronology of Rating History for the past 3
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						years
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2017
				Oct 2017	July 2017	Sep 2016
1	Term Loan	Long Term	37.00	[ICRA]BBB+&	[ICRA]BBB+&	[ICRA]BBB+ (Stable)
2	Cash Credit	Long Term	289.00	[ICRA]BBB+&	[ICRA]BBB+&	[ICRA]BBB+ (Stable)
3	Letter of Credit	Short Term	293.00	[ICRA]A2&	[ICRA]A2&	[ICRA]A2

&: under rating watch with developing implications

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

ISIN No.	Instrument	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan	-	-	FY2020	37.00	[ICRA]BBB+&
-	Cash credit	-	-	-	289.00	[ICRA]BBB+&
-	Letter of Credit	-	-	-	293.00	[ICRA]A2&

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Source: Flexituff International Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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