August 27, 2019

Flexituff Ventures International Limited: Ratings downgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	37.00	37.00	Downgraded to [ICRA]D from [ICRA]C
Fund-based – Cash credit	289.00	289.00	Downgraded to [ICRA]D from [ICRA]C
Non-fund based	293.00	293.00	Downgraded to [ICRA]D from [ICRA]A4
Total	**619.00**	**619.00**	

*Instrument details are provided in Annexure-1

Rationale

The ratings downgrade is on account of the devolvement of Letter of credit facility (LC) which has remained unpaid for more than 20 days beginning August 2019 and is continuing as on date. The devolvement of LCs is on account of discontinuation of interchangeability of facility from Bank Guarantee to LC facility by one of the lender coupled with stretched liquidity owing to longer credit period offered to customers and high level of receivables stuck with the Government, almost full utilization of working capital limits besides deterioration in profitability. The weak liquidity had earlier led to irregularities in servicing of term loans raised from IFCI Limited and IFCI Capital Venture Funds Limited. These loan facilities are not rated by ICRA. The company has also not been able to raise the envisaged equity funds so far that were to be utilised to retire its Foreign Currency Convertible Bonds (FCCB).

ICRA's last rating rationale can be accessed here

Outlook: Not Applicable

Key rating drivers

Credit strengths

Established market position and long track record in FIBC industry - The company has a long and established track record in the FIBC market and is one of the leading players in the domestic market. 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. FVIL is particularly strongly placed to meet export demand in FIBC applications for food and pharma user industries where quality parameters are stringent. The company is currently operating its FIBC capacities at healthy utilisation levels.

Credit challenges

Deterioration in company's financial profile – The company's profitability weakened in FY2019 owing to increase in its raw material costs due to supply side issues that were subsequently corrected in H2 FY2019. The company thus reported net losses during FY2019. The company's gearing levels remain high on account of debt-funded capex and subsequent inability to raise equity funds in a timely manner. The company's working capital requirements have also remained high and in absence of adequate working capital bank limits, the company has not been able to ramp up its geo-textiles division in the planned manner.

High working capital intensity - The credit period offered to customers (FIBC exports) varies between 1-6 month (about 50-60% of FIBC exports are with 180 days of credit period). In the geo-textile division, the company had undertaken various government projects where the credit period became significantly high besides which a significant amount is still pending. During FY2019, the company has strategically reduced the exposure in government projects owing to the tight liquidity position. The company 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 – The company's profitability is exposed to the movement in the prices of polypropylene, which is the key raw material and has displayed volatile price movements in the past. 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.

Liquidity Position:

The liquidity of the company remains stretched with elongated working capital cycle and almost complete utilisation of working capital bank limits during past one year. The company has also witnessed irregularities in servicing of its term loans to some lenders due to the weak liquidity profile. The debt repayments for the company would increase in the current year as it would also have to service its FCCB obligations and thus its ability to raise additional financing in a timely manner remains important.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Parent/Group Company: Not Applicable Not Applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Flexituff Ventures International Limited. As on March 31, 2018, the Company had 2 subsidiaries, 1 stepdown subsidiaries, 6 JVs and 5 partnership firms, that are enlisted in Annexure-2.

About the company:

Flexituff Ventures International Limited (FVIL) 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 the Indian Bourses in 2011. FVIL is engaged in the business of manufacturing Flexible Intermediate Bulk Container (FIBC), reverse printed Biaxially-Oriented Polypropylene (BOPP) 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 the USA. The manufacturing facility at Kashipur commenced operations in December 2015 and has a capacity of 22,000 metric tonne per annum (MTPA).

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	1,456.7	1,260.8
PAT (Rs. crore)	4.2	-4.3
OPBDIT/OI (%)	12.6%	12.4%
RoCE (%)	10.2%	9.6%
Total Debt/TNW (times)	2.0	1.9
Total Debt/OPBDIT (times)	4.3	4.7
Interest coverage (times)	1.7	1.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)					Chronology of Rating History for the Past 3 Years				
					Date & Rating		Date & Rating in FY2019		Date & Rating in FY2018		Date & Rating in FY2017
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Aug 2019	May 2019	May 2018	April 2018	Nov 2017	Aug 2017	Sep 2016
1	Term Loan	Long Term	37.00	4.52	[ICRA]D	[ICRA]C	[ICRA]B+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB+ &	[ICRA]BBB+ &	[ICRA]BBB+ (Stable)
2	Cash Credit	Long Term	289.00		[ICRA]D	[ICRA]C	[ICRA]B+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB+ &	[ICRA]BBB+ &	[ICRA]BBB+ (Stable)
3	Letter of Credit	Short Term	293.00		[ICRA]D	[ICRA]A4	[ICRA]A4	[ICRA]A3	[ICRA]A2&	[ICRA]A2&	[ICRA]A2

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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2013	-	FY2020	37.00	[ICRA]D
NA	Cash credit	-	-	-	289.00	[ICRA]D
NA	Letter of Credit	-	-	-	293.00	[ICRA]D

Source: Flexituff Ventures International Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Flexituff FIBC Limited,	100%	Full Consolidation
Flexiglobal Holdings Limited, Cyprus	100%	Full Consolidation
Flexiglobal (UK) Limited, UK	100%	Full Consolidation
Budheswar Das Flexituff International Limited	55%	Equity method
Sanyug Enterprises Flexituff International Limited	80%	Equity method
Vishnu Construction Flexituff International Limited	75%	Equity method
Mayur Kartick Barooah Flexituff International Limited	50%	Equity method
Flexituff Shailendra Kalita	80%	Equity method
Flexituff Pulin Borgohain	80%	Equity method
Flexituff Javed Ahmed LLP	80%	Equity method
Flexituff Hi-Tech LLP	80%	Equity method
Flexituff SA Enterprise LLP	75%	Equity method
Flexituff Sailendra Kalita LLP	80%	Equity method
Ujjivan LUIT LLP	51%	Equity method

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About ICRA Limited:

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