



SMERA RATINGS LIMITED

# Neo Essel Dispoware Private Limited (NEDPL)

## Rating Rationale

**April 21, 2015**

Facilities	Amount (Rs. Crore)	Ratings
Term Loans	39.60	SMERA BB/Stable (Assigned)
Cash Credit	6.40	SMERA BB/Stable (Assigned)
Letter of Credit	7.20	SMERA A4+ (Assigned)
Bank Guarantee	2.50	SMERA A4+ (Assigned)

SMERA has assigned a long-term rating of '**SMERA BB**' (read as **SMERA double B**) and a short-term rating of '**SMERA A4+**' (read as **SMERA A four plus**) to the abovementioned bank facilities of Neo Essel Dispoware Private Limited (NEDPL). The outlook is '**Stable**'. The ratings are supported by the company's experienced management, strong revenue growth, healthy operating profit margin and moderate financial risk profile. However, the ratings are constrained by the company's exposure to intense competition in the plastic industry. The ratings are also constrained by the susceptibility of the company's profit margins to volatility in raw material prices. The ratings note that the company is exposed to project implementation risk.

NEDPL, incorporated in 2009, is a Kolkata-based company engaged in manufacturing of plastic disposables. NEDPL benefits from its experienced management. Mr. Alok Goyal, promoter of NEDPL, has around more than decade of experience in the plastic industry.

NEDPL has registered strong revenue growth of ~38 per cent (compound annual growth rate) over the past two years on the back of capacity expansion. The company reported healthy operating profit margin of 20.69 per cent in FY2013-14. NEDPL's moderate financial profile is reflected in debt-equity ratio of 1.61 times as on March 31, 2014 and interest coverage ratio of 3.15 times in FY2013-14. The company's total debt of Rs.24.53 crore (as on March 31, 2014) includes unsecured loans of Rs.1.85 crore from related parties. SMERA has considered such unsecured loans as quasi-equity.

NEDPL faces intense competition from several players in the plastic industry. The company's profit margins are susceptible to volatility in raw material prices. NEDPL is undertaking capex of Rs.40.00 crore for expansion of installed capacity (from 2,200 MTPA to 4,600 MTPA). The project cost is funded through bank borrowings of Rs.26.50 crore, equity capital of Rs.6.50 crore and unsecured loans of Rs.7.00 crore. The company completed the first phase of the project in December 2014; however, the second phase of the project is at the nascent stage of implementation. NEDPL expects to complete the capacity expansion project by June 2015.

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**Outlook: Stable**

SMERA believes NEDPL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected profit margins while achieving sustained improvement in capital structure and liquidity position. The outlook may be revised to 'Negative' in case of decline in the company's revenue, or in case of deterioration in the company's financial risk profile on account of cost overruns in the ongoing project.

**About the company**

NEDPL, incorporated in 2009, is a Kolkata-based company promoted by Mr. Alok Goyal. NEDPL undertakes manufacturing of plastic disposables such as cups, glasses and plates.

For FY2013-14, NEDPL reported profit after tax (PAT) of Rs.0.55 crore on operating income of Rs.28.91 crore, as compared with PAT of Rs.0.46 crore on operating income of Rs.21.87 crore in FY2012-13. The company registered PAT of Rs.1.04 crore (provisional) on operating income of Rs.26.74 crore during April 2014 to December 2014. NEDPL's net worth stood at Rs.17.92 crore as on March 31, 2014, as compared with Rs.12.71 crore a year earlier.

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