

May 25, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	25.00	SMERA BBB-/Stable (Assigned)
Term Loan	9.30	SMERA BBB-/Stable (Assigned)
Letter of Credit	2.00	SMERA A3 (Assigned)

SMERA has assigned a long term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) to the above-mentioned bank facilities of Flex Art Foil Limited (FAFL). The outlook is '**Stable**'. The ratings are supported by established market position in pharmaceuticals packaging industry, reputed clientele, and strategic location of manufacturing plants, high degree of financial flexibility and company's experienced management. However, ratings are constrained on account of elongated working capital cycle, stretched liquidity and operating margins are vulnerable to volatility in raw material prices.

For arriving at the ratings, SMERA has taken a consolidated view on the business and financial risk profile of the holding company — ESS DEE Aluminium Limited (ESS DEE) and its wholly-owned subsidiaries — Flex Art Foil Limited (FAFL). The consolidation is in view of the group's similar business model and common management. FAFL 100 per cent procure its raw material (aluminium foil) from ESS DEE. Further, ESS DEE has given corporate guarantee to FAFL's bank borrowings.

FAFL, incorporated in 2005, is a Mumbai-based company promoted by Mr. Sudip Dutta. The company is engaged in manufacturing of packing products for pharmaceuticals and fast moving consumer goods industry. The group has established market position in pharmaceuticals packaging industry as reflected from turnover of Rs.721.92 crore for FY2013-14 (refers to financial year, April 01 to March 31). The company serves to the reputed pharmaceuticals customers like Cipla, Ranbaxy, Lupin Cadila etc. The group has ten manufacturing facilities which have spread across India and nearby to pharmaceuticals manufacturing hubs. The group has manufacturing unit in Goa, Daman, Vasai, Baddi, Sikkim, Bengaluru and Kolkata. The group has great financial flexibility as reflected from low gearing of 0.54 times as on March 31, 2014, net cash accruals (NCA) of Rs.94.24 crore as against the CPLTD of Rs.52.00 crore in FY2013-14. The group has healthy interest coverage ratio of 2.96 times and NCA/TD of 0.20 times for FY2013-14. The management of the group has extensive industry experience of more than two decades.

The group has elongated working capital cycle as reflected from working capital cycle of 204 days for FY2013-14. The long working capital cycle is on account of higher debtor days of 231 and inventory holding of 79 days as against the creditor days of 105. The group also has stretched liquidity; however, group has low gearing of 0.54 times as on March 31, 2014. The group's operating margins are exposed to volatility in aluminium prices as prices are linked to London metal exchange.

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Outlook: Stable

SMERA believes group will maintain a stable business risk profile over the medium term. The company will continue to benefit from its established position in pharmaceuticals packing industry and its experienced management. The outlook may be revised to 'Positive' in case the group reports significant improvement in working capital cycle while maintaining its profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration working capital management and unplanned capex plan.

About the group

Ess Dee Aluminium Limited (ESS DEE), incorporated in 2004, is engaged in the manufacturing of aluminium foils, high-end flexible packaging such as aluminium strip pack foil, lid foils, Poly Vinyledene Chloride, PVC blister films, coated PVC-based thermoforming solutions for pharmaceuticals and FMCG industry.

ESS DEE is currently headed by Mr. Sudip Dutta, Chairman and Mr. Ashis Bhattacharya, Managing Director of the company.

The company derives majority of its revenue from the domestic market. ESS DEE has aluminium rolling capacity of 37,000 TPA (including 19,000 TPA added with the acquisition of India Foils Limited (IFL) and 4,200 TPA of production capacity of PVC Films.) After the acquisition of IFL, ESS DEE has installed capacity of 11,000 TPA at Hoera, West Bengal, which will help the company in backward integration as it converts aluminium ingots into aluminium foil sheets which is a base raw materials for packaging.

For FY2013-14 (as per consolidated financials), ESS DEE reported PAT of Rs.50.86 crore on operating income of Rs.719.36 crore, as compared with PAT of Rs.73.41 crore on operating income of Rs.730.02 crore for FY2012-13. The group's consolidated net worth stood at Rs.870.72 crore as on March 31, 2014, as compared with Rs.816.55 crore a year earlier. As per unaudited six monthly FY2014-15 provisional, the company has reported PAT of 19.65 crore on operating income of 406.67 crore.

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