



## CREDIT ANALYSIS & RESEARCH LTD.

4<sup>TH</sup> Floor, Godrej Coliseum,  
Somaiya Hospital Road,  
Off Eastern Express Highway,  
Sion (East), Mumbai - 400 022, INDIA.  
☎ : 67543456 Fax : (022) 67543457  
E-mail : care@careratings.com  
www.careratings.com

**Mr. Makrand Appalwar**  
**Managing Director**  
**Emmbi Polyarns Limited**  
309/310, Kuber Complex,  
Opp. Laxmi Industrial Estate,  
New Link Road, Andheri (W),  
Mumbai-400053

January 19,2010

Dear Sir,

### IPO Grading

Please refer to our letter dated January 15, 2010 on the above subject.

2. The rationale for the grading is attached as an **Annexure - I**. Kindly note that the rationale would be published in the forthcoming issue of our quarterly journal, 'CAREVIEW'.

3. A write-up on the above grading is proposed to be issued to the press shortly. A draft of the press release is enclosed for your perusal as **Annexure - II**.

4. We request you to peruse the Rationale and Press Release and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by January 25, 2010, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

[Pulkit Agarwal]  
Manager

Yours faithfully,

[Meenal Sikchi]  
Assistant General Manager

## Annexure I

### Grading Rationale

#### Emmbi Polyarns Limited

#### IPO Grading

#### CARE IPO Grade 2

CARE has assigned a 'CARE IPO Grade 2' to the proposed Initial Public Offer (IPO) of Emmbi Polyarns Limited (EPL). CARE IPO Grade 2 indicates below average fundamentals. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the relative assessment of the fundamentals of the issuer. EPL proposes an IPO of 95, 74,000 equity shares of face value of Rs.10.

*The grading is constrained by EPL's relatively small size of operations, highly competitive and fragmented nature of the industry limiting the pricing flexibility of the company and significantly large expansion project proposed by the company exposing it to attendant business risks*

*The grading factors in the experience of the promoters in the industry, well established relations with large corporate clients and locational advantage due to the proximity of its plant to raw material source and accessibility to JNPT port.*

#### Background

Emmbi Polyarns Limited (EPL) was incorporated in November, 1994. It has been promoted by first-generation entrepreneurs, Mr. Makrand Appalwar and his wife, Mrs. Rinku Appalwar. EPL is engaged in manufacture and sale of Flexible Intermediate Bulk Container (FIBC) and Woven Sacks and various woven polymer based products like Container Liners, Protective irrigation system, Canal Liners, Flexi Tanks, Car covers etc. The company has two plants located in Silvassa with installed capacity of 5,000 MT per annum. The location of the plant gives advantage to the company in terms of procurement of raw material i.e. polyester chips and easy accessibility to JNPT port through which the company's exports take place.

### **Management**

Mr. Makrand Appalwar, the Promoter, is the Chairman & Managing Director of the Company. He is an engineering graduate in Electronics & Telecommunication from Maharashtra Institute of Technology, Pune. Mrs. Rinku Appalwar, the Finance Director of the Company, is B.Sc. (Chemistry) and MBA (Marketing) from Mumbai University.

### **Corporate Governance**

The Board of EPL comprises six Directors including three independent Directors. The Chairman of the Board is an executive Director. The company has complied with SEBI guidelines in respect of Corporate Governance including appointment of independent Directors and constituting committees such as Audit Committee, Remuneration Committee and Share Holders'/Investors' Grievances Committee. Audit Committee and Shareholder grievance committee was constituted in August 2009 to comply with corporate governance requirement.

### **Operations**

The company is engaged in manufacture and sale of FIBC/Jumbo Bags and Woven Sacks and various woven polymer based products like Container Liners, Protective irrigation system, Canal Liners, Flexi Tanks, Car covers etc. EPL's manufacturing facility is located at Silvassa.

In addition to FIBC, the company manufactures various woven polypropylene products including Small bags, Box woven bags, Roofing underlayment fabric, Courier bags, Ground covers, Silt fence and Geotextiles. EPL offers woven bags and fabrics in both PP and HDPE. EPL's products are UV stabilized and pre-conditioned against shrinkage. The company also manufactures high strength, low GSM FIBC with high safety factor; it can manufacture FIBC for as high as 1500 Kg Safe Working Load.

Over a period of time, the manufacturing capacity has been increased gradually from 540 MTPA to 5,000 MTPA. The production has increased from 961 MT in 2000-01 to 3,857 MT in 2008-09. The company enjoys ISO9002 accreditation for its manufacturing facilities.

The products of the company are well accepted and in the domestic market and its products are largely sold to FMCG and large chemical companies. Notwithstanding this,

fragmented nature of the industry and clients being large companies limits pricing flexibility / bargaining power of the company.

Exports constituted 56% of the revenue in FY09 and have grown at Compounded Annual Growth Rate (CAGR) of 80% over last three years (FY07-FY09). Export markets are more remunerative compared to domestic markets and are a fairly well established market for value added products. In order to further strengthen the exports, the company has undertaken exclusive marketing tie ups/JVs for Benelux Region and also in Czech Republic for East European countries.

Further, the company has identified new Technical Textile applications like geotextile, rain water harvesting, pond liners, canal liners, flexi-tanks, corrosion protection products etc. as thrust areas and has initiated marketing initiatives in these areas. It has successfully implemented a woven PP canal liner project in Yavatmal District, Maharashtra.

#### **Purpose of the IPO/ IPO Issue Details**

The company proposes to make a public issue of 95,74,000 equity shares at a face value of Rs.10 each at a premium. The net issue to the public would constitute 54.72% of the fully diluted post-issue equity share capital of the company.

The proceeds from the issue of shares are intended to be deployed as follows:

The company has undertaken an ambitious expansion project to expand its capacities from 5,000 MTPA to 17,800 MTPA and has proposed an IPO largely to finance its expansion. Besides, financing the expansion, proceeds of the IPO is proposed to be utilized to meet the long term working capital requirements and issue expenses.

#### **Project Details**

The expansion has been planned to be executed in two phases and involves outlay of Rs.36.00 crore.

Phase I:- Involves expansion of the capacity from 5,000 MTPA to 8,600 MTPA. It has been proposed to be implemented at the existing premises wherein the company has spare land of 5,000 sq. meters and is proposed to be operational by May'10.

Phase II:- Involves further augmenting the capacities to 17,800 MTPA. The land requirement for phase II is estimated to be 15,000 sq. mt., which is yet to be procured by the company. Phase II is expected to be operational by Dec'10.

The techno-economic viability study for the expansion project has been carried out by PNB Investment Services Limited; an investment-banking subsidiary of Punjab National Bank (PNB).

The proposed project is substantially large both in terms of capacity addition and financial outlay as compared to present operations. Any significant cost overrun incurred due to delay in the project implementation would affect the viability of the project. Moreover, the existing operations are small and the internal accruals are limited. Therefore, it may not be possible to finance any significant cost overrun through internal accruals and the company may have to rely on borrowings. On implementation of the project, the manufacturing capacity of the company will increase 3.5x the existing capacity, exposing the company to attendant business risks.

#### **Industry overview**

Technical textiles are defined as textile materials and products used primarily for their technical performance and functional properties rather than their aesthetic or decorative characteristics. The market size of technical textile in India in 2007-08 was estimated to be around Rs.39,876 crore and is expected to grow at a CAGR of 11% and reach a market size of Rs.66,405 crore by the year 2012-13.(Source; Ministry of Textiles)

EPL operates in Packtech and Geotech segment of technical textiles.

Packtech includes several flexible packing material made of textile used for packing various goods for industrial, agricultural, consumer and other goods. There are several flexible packaging materials such as polyolefin woven sacks, leno bags, wrapping fabric, jute sacks, tea-bags filter paper and jumbo-sized bags etc used for packing industrial, agricultural, consumer and other goods. Usage of plastics/polymers has been growing for flexible packaging because of the protection it offers against environmental threats like moisture, heat and chemical reaction along with the convenience in handling the product and the cost benefits. The ongoing developments in organized retail formats, favorable demographics, urbanization and increasing disposable income are expected to propel double digit growth rates in flexible packaging industry. The packtech market is expected to grow at a CAGR of 12.83% between FY08-FY13 and reach Rs.26,753 crore. The market size of FIBC also known as jumbo bags used for transport of bulk material is

expected to increase at a CAGR of 25.47% between FY08-FY13 and reach Rs.5,441 crore on account of growing international trade. (Source; Ministry of Textiles)

Geotextiles are used extensively in roads, railway tracks, embankments, water works, soil erosion control, slope stabilization etc. The function of geo-textiles is to provide good separation, filtration, protection, drainage and reinforcement. Geotextiles may be woven, knitted or non-woven. Application areas include Civil Engineering (roads and pavements, slope stabilization and embankment protection, tunnels, rail-track bed stabilization, ground stabilization and drainage etc), Marine Engineering (Soil Erosion control and embankment protection, breakwaters) and Environmental Engineering (landfills and waste management). With the growth in infrastructure and Government efforts to promote water conservation, the geotextile market is expected to grow at a CAGR of 10.79% between FY08-FY13 and reach Rs.454 crore. (Source; Ministry of Textiles)

### Financials

(Rs in crore)

Y.E. / as on March 31 <sup>st</sup>	2007	2008	2009
<b>Working Results</b>			
Net Sales	22.89	29.56	38.33
Total Operating Income	24.85	30.90	40.23
PBILDT	2.61	3.55	4.76
Interest	1.34	1.82	2.38
Depreciation	0.61	0.70	0.79
PBT	0.64	1.03	1.73
PAT (After Deferred Tax)	0.52	0.63	1.27
Gross Cash Accruals	1.17	1.60	2.28
<b>Financial Position</b>			
Equity Share Capital	2.62	2.62	3.13
Net worth	6.14	7.05	8.55
Total Capital Employed	21.11	26.21	28.93
<b>Key Ratios</b>			
<b>Growth(%)</b>			
Growth in Total Income	68.44	24.38	30.17
Growth in PAT (after deferred tax)	(18.48)	22.47	100.69
<b>Profitability (%)</b>			
PBILDT / Total Operating Income	10.49	11.47	11.84
PAT / Total Income	2.08	2.05	3.15

Y.E. / as on March 31 <sup>st</sup>	2007	2008	2009
ROCE (%)	10.94	12.04	14.90
RONW (%)	9.21	9.60	16.29
Earnings Per Share (EPS)	19.74 <sup>^</sup>	24.18 <sup>^</sup>	4.06
<b>Solvency (times)</b>			
Long-term Debt-Equity Ratio (times)	1.31	1.28	0.97
Overall Gearing Ratio (times)	2.43	2.72	2.38
Interest Coverage (times)	1.49	1.56	1.67
Term Debt/Gross Cash Accruals	6.85	5.65	3.65
<b>Liquidity</b>			
Current Ratio (times)	1.02	1.03	1.01
Quick Ratio (times)	0.58	0.62	0.57
<b>Turnover</b>			
Average Collection Period (Days)	42	56	59
Average Creditors (Days)	25	17	10
Average Inventory (Days)	55	72	74

<sup>^</sup>Face Value of equity share was Rs.100 per share upto FY08 and was subdivided into face value of Rs.10 per share effective FY09.

Net sales of the company have increased at a CAGR of 29% during FY07-FY09 on account of company's increased thrust on export market. PBILDT increased at a CAGR of 35% on account of change the company's increased focus on export markets where the margins are higher than domestic market. PAT increased at a CAGR of 56% on account of increase in PBILDT and proportionately lower increase in interest and depreciation costs. Equity share capital has increased as on March 31<sup>st</sup> 2009 on account of subscription to shares by promoters. PBILDT and PAT margins have improved over the years on account of increase in sales and company's diversification in higher margin products. ROCE, RONW and EPS have increased gradually over the years on account of improvement in profitability. Long term debt equity ratio of EPL improved over the FY07 to FY09 period with repayment of debt and accretion to the net worth. However, overall gearing ratio remained high over 2x on account of higher working capital borrowings to support growth in operations as well as longer working capital cycle. Interest coverage ratio has remained at about 1.5x. Average working capital cycle of the company is long at 123 days and has continuously been increasing in last 3 years which has led to consistently high working capital utilization.

In H1FY10, EPL reported net sales of Rs.23.21 crore, PBILDT of Rs.3.28 crore and PAT of Rs.1.21 crore.

**Prospects**

EPL operates in the industry which is highly competitive and fragmented. Over the years, with the experience, the company has enhanced its product portfolio and has been increasingly focusing on value added products in order to enhance its competitive strength. Further, the company has identified new Technical Textile applications consisting of geotextile, pond liners, canal liners, flexi-tanks, etc. as thrust areas. The company enjoys credible relationship with reputed MNCs and large private sector companies.

The company's future growth prospects depend on timely completion of the expansion project and ability to market the enhanced production post implementation of the expansion.

*Agreed*

**DISCLAIMER:**

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE, does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.

## Annexure II

### Press Release

#### **CARE assigns 'CARE IPO Grade 2' to the Initial Public Offering (IPO) of Emmbi Polyarns Limited**

CARE has assigned a 'CARE IPO Grade 2' to the proposed IPO of Emmbi Polyarns Limited (EPL). CARE IPO Grade 2 indicates below average fundamentals. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the relative assessment of the fundamentals of the issuer. EPL proposes an IPO of 95, 74,000 equity shares of face value of Rs.10.

#### **Grading Rationale**

The grading is constrained by EPL's relatively small size of operations, highly competitive and fragmented nature of the industry limiting the pricing flexibility of the company and significantly large expansion project proposed by the company exposing it to attendant business risks.

The grading factors in the experience of the promoters in the industry, well established relations with large corporate clients and locational advantage due to the proximity of its plant to raw material source and accessibility to JNPT port.

#### **Company Profile**

Incorporated in 1994, EPL is engaged in manufacture and sale of Flexible Intermediate Bulk Container (FIBC) and Woven Sacks and various woven polymer based products. The company has two plants located in Silvassa with installed capacity of 5,000 MT per annum.

 In FY09 the company reported net sales of Rs.38.33 crore, PBILDT of Rs.4.76 crore and PAT of Rs.1.27 crore.

EPL operates in the industry which is highly competitive and fragmented. The company's future growth prospects depend on timely completion of the expansion project and ability to market the enhanced production post implementation of the expansion.

**Analyst Contact**

Name: Meenal Sikchi  
Tel # 67543455  
Mobile # 9819009839  
Email: meenal.sikchi@careratings.com

*CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.*

**DISCLAIMER:**

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE, does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.