

To,  
Shri Ajay Mundra  
Chief Financial Officer,  
Flexituff International Limited,  
C41-50, SEZ Sector-3,  
Pithampur - 454 775.

Aug 05, 2011

**Confidential**

Dear Sir,

**IPO Grading**

Please refer to our IPO Grading letter dated June 1, 2011 and your subsequent letter dated July 27, 2011 requesting us to revalidate the grading assigned to Flexituff International Limited (FIL) Initial Public Offering (IPO) of equity shares of face value of Rs. 10 each, aggregating 6,750,000 Number of shares.


2. Our Rating Committee has reaffirmed the grading of '**CARE IPO Grade 3**' [**Grade Three**] to the proposed IPO issue of FIL. **CARE IPO Grade 3** indicates *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 fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer.
3. Please note that wherever '**CARE IPO Grade 3**' [**Grade Three**] appears, it should invariably be followed by the definition '**CARE IPO Grade 3** [Grade Three] indicates average fundamentals'.
4. The explanatory notes regarding the grading symbols of CARE for IPO grading are given in **Annexure 1**. The rationale for this grading will be communicated to you separately.
5. Please arrange to get the grading revalidated, in case the proposed IPO issue is not made within three months from the date of this letter.



6. Please note that the IPO grading is a one time exercise undertaken before an IPO issue and it does not have any ongoing validity.
7. Please note that as per the existing regulations, CARE is required to disclose all IPO gradings.
8. Please note that the disclaimer as given hereunder should be disclosed wherever the IPO grading assigned by CARE is mentioned, including offer document and issue prospectus.
9. If you need any clarification, you are welcome to approach us in this regard.

Thanking You,

Yours faithfully,



[Nishith Gandhi]  
Analyst



[Mukesh Chhatani]  
Manager

Encl : As above

**DISCLAIMER**

CARE's IPO grading is a onetime 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.

Shri Ajay Mundra  
Chief Financial Officer,  
Flexituff International Limited,  
C41-50, SEZ Sector-3,  
Pithampur - 454 775.

August 11, 2011

**Confidential**

Dear Sir,

**IPO Grading**

Please refer to our letter dated August 5, 2011 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 August 16, 2011 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,

Yours faithfully,



[Nishith Gandhi]  
Analyst



[Mukesh Chhatani]  
Manager

Encl: As above

## Annexure I

### Grading Rationale

#### Flexituff International Ltd.

#### **Grading Assigned**

Particulars	Number of equity shares	Grading <sup>1</sup>	Remarks
IPO Grade	6,750,000 Equity Shares of Rs. 10 each	'CARE IPO Grade 3' [Grade Three]	Revalidated

#### **Grading Rationale**

*The grading derives strength from the experienced promoters and management, growing operations, increased product portfolio and application of its products in the various industries, established track record in the exports markets, increasing presence in the domestic markets, high capacity utilization and integrated manufacturing facilities.*

*However, the grading is constrained by the working-capital intensive nature of operations, homogenous nature of products with no visible differentiators, volatile raw material prices; dependence on a few suppliers for the raw material and off-take risk of the new products such as injection moulding products and polymer compounding. Besides, the grading is constrained by the moderate capital structure and delay in the project execution in the past resulting in poor liquidity ratios.*

#### **Background**

FIL was formed in 1966 as a partnership firm. Subsequently, in 1993, the same was converted into private limited company and in 2003 it was converted into a public limited company. FIL has three subsidiaries –

- Satguru Polyfab Private Limited (SPPL): FIL acquired this company in FY09. SPPL is located in Kandla and is engaged in the business of recycled granules and agglomerates.
- Flexiglobal Holdings Limited: This is a holding and investment company and does not have any manufacturing activities.
- Nanofil Technologies Private Limited: This company is engaged in the research and development activities using various technologies namely nanotechnology, chemical technology, biochemical technology and polymer technology to use in polypropylene, polyethylene, PVC products, etc.



<sup>1</sup> Complete definition of the grading assigned is available at [www.careratings.com](http://www.careratings.com) and in other CARE Publications

Besides, FIL also has two step-down subsidiaries, one in UK and the other in USA, which primarily act as marketing and distribution platform for FIL's products.

### **Management**

The promoters of FIL have been involved in the business of packaging for over 15 years. The senior management has over two decades of experience in the varied industries and around seven to nine years of experience with FIL.

### **Corporate Governance**

FIL's board of directors comprises seven directors, of which the chairman Mr. Anirudh Sonpal is the non-executive and independent director. In compliance with the requirements of clause 49 of the listing agreement, FIL has one executive director and six non-executive directors of whom three are independent directors. Besides, the company has an audit committee, compensation committee and shareholders'/investor's grievance committee which were re-constituted in December 2010 and are headed by an independent director. In the recent past there were oversights by FIL in the timely filing of certain documents as per Foreign Exchange Management Act (FEMA) regulations and Companies Act. At present the impact of the above is not ascertainable.

### **Litigations against FIL**

FIL had certain litigations against it, though these are not significant and the financial impact of the same may be limited, however, such litigations may take-up the scarce management resources and may affect the day-to-day operations of the company.

### **Operations**

FIL is engaged into the manufacturing of FIBC (Jumbo bags), geo-textile fabric and ground cover (used for the prevention of landslides, control of soil erosion and river bank protection) - relatively high-value product, reverse-printed Biaxially Oriented Polypropylene (BOPP) woven bags (flexible packaging bags) and leno bags (small packaging bags). FIL's main product is FIBC bags (over 65% of revenue) which are used in bulk packaging and transporting requirements of a host of industries. The company's manufacturing facilities are located in Kashipur (Uttarakhand) (16,000 mtpa) and Pithampur (MP) (12,200 mtpa under SEZ and 10,800 mtpa under DTA). It has ISO certifications for the quality, environment management and food safety, the international certifications like Det Norske Veritas (DNV) for quality and British Retail Consortium (BRC) and American Institute of Baking (AIB) for the global food safety packaging standards.

A handwritten signature in black ink, appearing to be "Ch".

Over the years FIL had leveraged upon its core competency of manufacturing FIBC and recently extended the product lines which have common technology processes and similar input requirements, thereby diversifying its product portfolio. The company's products are sold in the domestic as well as the exports markets. FIL tries to maintain around 60-65% of sales from the exports market and balance from the domestic market.

The raw material required is High Density Polyethylene (HDPE) / Polypropylene (PP), price of which have been volatile in the recent past. Moreover, these are supplied by the limited number of manufacturers. To mitigate the raw material price volatility, FIL has lowered its order cycle as compared to its inventory holding period, enabling it to maintain flexibility in the pricing to protect margins. Moreover, due to its export-oriented operations, FIL is also exposed to the currency risk. However, the same is partially mitigated due to the raw material imports.

Although, FIL has an established track record and has built considerable size to mitigate competition from the unorganized sector, but due to the undifferentiated nature of products, the profit margins may be susceptible to the competition. Besides, its operations are working-capital intensive. With the expanded capacities and optimum utilization of assets, the working capital requirements are likely to remain high in the coming years and are primarily to be funded by IPO proceeds and internal accruals from the higher operations as the major expansion plans requiring internal accruals for funding are complete and operational.

In the recent past FIL has completed two projects in phases, primarily funded by debt. Under phase-I, major capacity addition of around 16,000 mtpa got completed in September 2009 (total installed capacity of 39,000 mtpa) and further capacity of 2,000 mtpa was added during FY11 (total installed capacity 41,000 mtpa). The commercial production from the first part in phase-I started in Q3FY10. Under phase II, the capacity added was around 18,000 mtpa and it was completed in December 2010 (total installed capacity of 59,500 mtpa). The commercial production from the phase II started in Q1FY12, thus the benefits for the same would be realised in the coming years. Both the projects got delayed due to the considerable size of the projects and delay in acquiring the requisite power supply.

Further, FIL has plans to foray into the polymer compounding (around 50% for the captive consumption) and injection moulding projects (Dripper Project), in which it has relatively a low experience. Thus, despite these products being polymer-based and comprising lower proportion of the total capacities, the off-take for the same remains to be seen. The polymer compounding project was part of the phase II and is completed and the dripper project is yet to be executed. The funding of the dripper project is primarily through IPO proceeds.

A handwritten signature in black ink, appearing to be "AN" or similar, located at the bottom left of the page.

## **IPO Details**

- Issue of Shares

FIL is proposing to make an IPO of 67,50,000 equity shares of face value of Rs.10 each. Out of the total equity shares, 45,00,000 equity shares would comprise of fresh issue. The proceeds of the same would be utilized as follows:

1. About Rs.18.93 crore to be used towards expansion of the manufacturing facilities at SEZ and DTA units at Pithampur
2. Rs.8.09 crore to be used towards setting-up of Dripper Project at Kashipur
3. Rs.25 crore to be used to meet the working-capital requirements
4. Balance amount to be used for the general corporate purposes

The above mentioned projects are not appraised by any financial institutions, and are entirely dependent on the IPO proceeds. However, these are the small projects as compared to the size of operations thus the company may have flexibility to fund the minor cost overruns. Besides, it has executed projects of considerable size in the recent past.

- Offer for sale

Besides, Clearwater Capital Partners (Cyprus) Limited (CCPL) an existing shareholder of the company has offered up to 22,50,000 equity shares as part of an offer for sale.

## **Standalone Financials**

FIL's total income increased at a compounded annual growth rate (CAGR) of 37% for the period FY09-FY11. This was on account of the higher capacities and increasing focus on the domestic markets. Further, as a result of slowdown in the export market, FIL gradually increased its focus on the domestic markets and revenues from the same increased at a CAGR of 106% for the period FY09-FY11. Income from the domestic sales formed around 26% of the total income for FY11.

PBILDT margins have shown varied trend in the past three years primarily due to the volatility in the raw material prices. Higher depreciation cost due to the increased capacities, higher interest cost due to the project-related debt and reliance on the higher bank borrowings to fund the working-capital needs resulted in the consistent decline in PAT margins during FY09 and FY10. However, with the availability of the increased capacities for the entire FY11, coupled with the improved economic environment in exports as well as the domestic markets resulted in the improved asset turnover and thus significant improvement in PAT margin during FY11.

A handwritten signature in black ink, appearing to be "OK" or similar initials.

Higher total debt for the funding of capacity expansion and working-capital requirements resulted in the increased gearing level in the past three years. ROCE and RONW had shown declining trend in FY09 and FY10 due to the suboptimum utilisation of capacities, however, with the improvement of capacity utilisations ROCE and RONW improved significantly during FY11.

The working-capital cycle has been increasing in past primarily due to the increased focus in the domestic markets, where FIL is a relatively new player and has to provide relatively higher credit period.

### **Consolidated financials**

Consolidated financials of FIL primarily reflect similar trend as at standalone level till FY09, During FY10, FIL's net profit was affected primarily due to the loss incurred by SPPL. SPPL executed a project in FY10 to manufacture recycled granules and agglomerates (7500 mtpa) which are partly used by FIL. Post-completion of the project, SPPL's operations took time to stabilize and thus during FY10 it reported a loss of Rs.3.84 crore on a total income of Rs.2.72 crore on account of the higher interest cost. During FY11, improvement in the financial performance at a consolidated level was primarily on account of the improvement in the performance of FIL and SPPL. SPPL reported sales of Rs.35.42 crore and PAT of Rs.0.04 crore in FY11 as compared to the sales of Rs.2.67 crore and loss of Rs.3.83 crore during FY10.

### **Industry**

FIBC manufacturing is a labour and power-intensive process. Low labour costs, ease in the procurement of the polymers and proximity to end markets give India a competitive edge over other countries. FIBCs are being increasingly used in the industries that require economical and reliable packaging at reduced logistical costs and are preferred to smaller packages (25 or 50 kg bags) and bulk carriages.

The global market size estimates of FIBCs range from US\$20 billion to US\$25 billion annually. China, India and Turkey are the three leading FIBC producing and exporting nations. Overall, the US demand for flexible bulk packaging is expected to increase 3.4% a year to US\$6.38 billion in 2011. Flexible packaging is the second-largest packaging type, garnering 18% of the US\$130 billion packaging market.

### **Indian Overview**

The Indian packaging industry can broadly be classified into rigid and flexible packaging.

A handwritten mark, possibly a signature or initials, located to the left of the text.

Rigid packing comprises injection-moulded plastic containers, metal containers, wooden



crates, paper board etc while the flexible packaging comprises paper, jute, cotton/plastic bags and pouches. The current demand for the flexible packaging in India stands at about 5, 00,000 tons. The largest market for the flexible packaging is food (retail and institutional), accounting for over 57% of shipments.

The Indian processed food industry stood at about US\$20.51 billion in FY07, accounting for about 13% of the country's exports and involving 6% of the total industrial investment in the country. Of this, the packaged food stood close to only about US\$0.85 billion. The food and agricultural markets dominate the sales of the converted flexible packaging in India and will continue to expand on account of the several factors, like, increasing consumption of the packaged food; the increasing presence of the multinational Food and Beverage (F&B) firms in India; the trend towards additional processing of the food grains and fresh produce and ongoing efforts to improve sanitation and food safety. Currently, a mere 2% of India's food production is being processed and there are plans in the place to increase the food processing level to 10% over a period of ten years thereby increasing the demand for the packaging equipment manifold.

Growth will be supported by a combination of the consumer spending and growth in the F&B production - the leading flexible bulk-packaging market. Moreover, the domestic FIBC industry is likely to witness a significant growth with increasing acceptance of FIBCs over other forms of packaging. Growth in the emerging sectors like the packaged foods and dried convenience foods, garments, horticulture and pharmaceutical sectors are the key drivers for flexible packaging. The slower recovery in the USA and EU economy has affected the growth across all sectors resulting in a lower demand for FIBC in the medium-term. However, the domestic demand for FIBC is expected to increase gradually due to the favourable demographics, economic growth and benefits arising on the bulk packaging.

09

**Financial Performance – Standalone<sup>#</sup>**
*(Rs. crore)*

<i>For the period ended / as at March 31,</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>(12m, A)</i>	<i>(12m, A)</i>	<i>(12m, A)</i>
<b>Working Results</b>			
Total Income	260.75	301.19	489.08
PBILDT	27.79	42.91	67.64
Interest and Finance Charges	12.93	20.29	24.49
Depreciation	5.12	11.15	13.13
Non-operating Income	0.51	0.71	1.29
PAT (After Deferred Tax)	8.15	6.91	26.99
Gross Cash Accruals	14.61	23.33	44.43
<b>Financial Position</b>			
Equity Share Capital	11.31	11.52	17.21
Tangible net worth	123.56	144.14	180.55
Total Capital Employed	274.16	366.55	469.69
<b>Ratios</b>			
<i>Growth (%)</i>			
Growth in Total income (%)	18.40	15.51	62.38
Growth in PAT [after D.Tax] (%)	6.92	(15.26)	290.67
<i>Profitability (%)</i>			
PBILDT / Total operating Income (%)	10.66	14.24	13.83
PAT / Total Income (%)	3.12	2.29	5.50
ROCE (%)	10.64	10.14	13.35
RONW (%)	6.93	5.16	16.62
EPS(Rs.)	7.21	6.00	15.68
<i>Solvency (times)</i>			
Long Term Debt Equity ratio	0.98	1.08	1.02
Overall Gearing Ratio	1.22	1.54	1.60
Interest Coverage	1.75	1.57	2.23
Total Debt / Gross Cash Accruals	10.31	9.53	6.51
<i>Liquidity</i>			
Current Ratio	1.03	0.96	0.98
Quick Ratio	0.64	0.59	0.63
<i>Turnover</i>			
Average Collection Period (Days)	41	43	62
Average Creditors (Days)	48	63	60
Average Inventory (Days)	52	73	73
Operating cycle (Days)	44	52	76



## Financial Performance – Consolidated<sup>#</sup>

(Rs. crore)

For the period ended / as at March 31,	2009 (12m, A)	2010 (12m, A)	2011 (12m, A)
<b>Working Results</b>			
Total Income	263.04	321.10	577.94
PBILDT	26.89	41.24	75.41
Interest and Finance Charges	12.98	21.57	27.74
Depreciation	5.21	11.74	14.43
Non-operating Income	1.66	0.99	1.45
PAT (After Deferred Tax)	8.18	3.14	29.34
Gross Cash Accruals	14.74	20.49	43.77
<b>Financial Position</b>			
Equity Share Capital	11.31	11.52	17.21
Tangible net worth	123.88	141.30	182.36
Total Capital Employed	274.54	378.68	485.64
<b>Ratios</b>			
<i>Growth (%)</i>			
Growth in Total income (%)	19.44	22.07	79.99
Growth in PAT [after D.Tax] (%)	7.35	(61.61)	833.72
<i>Profitability (%)</i>			
PBILDT / Total operating Income (%)	10.22	12.84	13.05
PAT / Total Income (%)	3.09	0.98	5.06
ROCE (%)	10.70	9.34	14.45
RONW (%)	6.95	2.37	18.13
EPS(Rs.)	7.23	2.73	17.04
<i>Solvency (times)</i>			
Long Term Debt Equity ratio	1.06	1.18	1.07
Overall Gearing Ratio	1.22	1.68	1.66
Interest Coverage	2.07	1.91	2.72
Total Debt / Gross Cash Accruals	10.22	11.58	6.93
<i>Liquidity</i>			
Current Ratio	1.03	0.93	1.00
Quick Ratio	0.62	0.55	0.61
<i>Turnover</i>			
Average Collection Period (Days)	42	49	66
Average Creditors (Days)	53	79	77
Average Inventory (Days)	53	77	76
Operating cycle (Days)	41	47	65

*# For our analysis purpose, zero percent fully convertible debentures issued to CCPL during FY08, are considered as part of networth. Loss on forward contracts is taken as a part of operating cost.*

**DISCLAIMER**

CARE's IPO grading is a onetime 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.

21

## Annexure II

### Press Release

#### CARE revalidates 'CARE IPO Grade 3' to the Proposed Initial Public Offering of Flexituff International Limited

**Grading Assigned**

Particulars	Number of equity shares	Grading <sup>1</sup>	Remarks
IPO Grade	6,750,000 Equity Shares of Rs. 10 each	'CARE IPO Grade 3' [Grade Three]	Revalidated

#### **Grading Rationale**

The grading derives strength from the experienced promoters and management, growing operations, increased product portfolio and application of its products in the various industries, established track record in the exports markets, increasing presence in the domestic markets, high capacity utilization and integrated manufacturing facilities.

However, the grading is constrained by the working-capital intensive nature of operations, homogenous nature of products with no visible differentiators, volatile raw material prices; dependence on a few suppliers for the raw material and off-take risk of the new products such as injection moulding products and polymer compounding. Besides, the grading is constrained by the moderate capital structure and delay in the project execution in the past resulting in poor liquidity ratios.

#### **Company Profile**

Flexituff International Limited (FIL) was formed in 1966 as a partnership firm. Subsequently, in 1993, the same was converted into a private limited company and in 2003 it was converted into a public limited company. FIL is engaged into the manufacturing of FIBC (Jumbo bags), geo-textile fabric and ground cover (used for the prevention of landslides, control of soil erosion and river bank protection) - relatively high-value and margin product, reverse-printed Biaxially Oriented Polypropylene (BOPP) woven bags (flexible packaging bags) and leno bags (small packaging bags). The company's manufacturing facilities are located in Kashipur (Uttarakhand) and Pithampur (MP). The company's products are sold in the domestic as well as the exports markets.

<sup>1</sup> Complete definition of the grading assigned is available at [www.careratings.com](http://www.careratings.com) and in other CARE Publications

At standalone level, FIL posted a PAT of Rs.27 crore on a total income of Rs.489 crore in FY11 as compared to a PAT of Rs.7 crore on a total income of Rs.301 crore in FY10. At consolidated level FIL posted a PAT of Rs.29 crore on a total income of Rs.578 crore in FY11 as compared to PAT of Rs.3 crore on a total income of Rs.321 crore in FY10.

**Analyst Contact**

Name: Mr Mukesh Chhatani

Tel # 022 6754 3436

Mobile # 9970473199

Email: mukesh.chhatani@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 onetime 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 III**

**CARE IPO grading Scale**

CARE IPO grade	Evaluation
CARE IPO Grade 5	Strong fundamentals
CARE IPO Grade 4	Above average fundamentals
CARE IPO Grade 3	Average fundamentals
CARE IPO Grade 2	Below average fundamentals
CARE IPO Grade 1	Poor fundamentals

OK