



CONFIDENTIAL

Ref: A/RTG/2011-12/176  
September 12, 2011

**Mr. Prakash Parikh**  
Managing Director,  
Plastene India Limited  
H.B. Jirawala House  
13, Navbharat Society  
Opposite – Panchshil Bus Stop  
Usmanpura, Ahmedabad – 380 013

Dear Sir,

**Re: ICRA Grading of Initial Public Offer of 105,00,000 nos. Equity Shares of Rs. 10 each to be issued by Plastene India Limited to the Public ("IPO")**

Please refer to your mandate letter dated 18<sup>th</sup> January 2011 for grading of IPO of Plastene India Limited. The Rating Committee of ICRA, after due consideration, has assigned the "IPO Grade 3" (pronounced IPO grade three) grading to the captioned IPO programme. This grading indicates average fundamentals.

In any of your publicity material or other document wherever you are using the above grading, it should be stated as "IPO Grade 3". We would appreciate if you can sign on the duplicate copy of this letter and send it to us as a token of your confirmation about the use of this letter. The rationale for assigning the above grading will be sent to you in due course.

This grading is specific to the terms and conditions of the proposed IPO issue as was indicated to us by you and any change in the terms or size of the IPO would require the grading to be reviewed by us. If there is any change in the terms and conditions or size of the rated IPO, as above, the same must be brought to our notice before the issue of the IPO. If there is any such change after the grading is assigned by us, it would be subject to our review and may result in change in the grading assigned.

ICRA reserves the right to suspend, withdraw or revise the above grading at any time on the basis of new information or unavailability of information or such other circumstances, which ICRA believes, may have an impact on the aforesaid grading assigned to you.

The grading, as aforesaid, however, should not be treated as a recommendation to buy, sell or hold the Equity Shares to be issued by you. If the issue graded, as above, is not placed by you within a period of 6 months from date of this letter communicating the grading, the same would stand withdrawn unless revalidated before the expiry of 6 months.

You are required to keep us forthwith informed of any developments (including any default or delay in repayment of interest or principal amount of any debt instruments/ borrowing or proposal for re-schedulement or postponement of the repayment programmes of the dues/ debts) which may have a direct or indirect impact on the grading assigned to the aforesaid IPO programme.

In determining the grading, ICRA has relied on the information available/made available to it by your company and ICRA does not guarantee the completeness or accuracy of such information on which the rating is based

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We thank you for your kind cooperation extended during the course of the grading exercise. Should you require any clarification, please do not hesitate to get in touch with us.

With kind regards,

Yours sincerely,  
for ICRA Limited

A handwritten signature in black ink, appearing to read 'Anjan Ghosh', is positioned above the name and title.

**ANJAN GHOSH**  
Senior Group Vice President &  
Head-Corporate Sector Ratings

A handwritten signature in blue ink, appearing to read 'Subrata Ray', is positioned above the name and title.

**SUBRATA RAY**  
Senior Group Vice President &  
Head-Corporate Sector Ratings



CONFIDENTIAL

Ref: A/RTG/2011-12/493  
March 23, 2012

Mr. Prakash Parikh,  
Managing Director,  
Plastene India Limited  
H.B. Jirawala House  
13, Navbharat Society  
Opposite – Panchshil Bus Stop  
Usmanpura, Ahmedabad – 380 013

Dear Sir,

**Re: ICRA Grading of Initial Public Offer of 105,00,000 nos. Equity Shares of Rs. 10 each to be issued by Plastene India Limited to the Public ("IPO")**

Further to our letter dated September 12, 2011, the 'ICRA IPO Grade 3' assigned to your proposed Initial Public Offer is hereby revalidated. The "ICRA IPO Grade 3" indicates average fundamentals.

If the instrument rated, as above, is not issued by you within a period of 2 months from date of this letter communicating the grading, the same would stand withdrawn unless revalidated before the expiry of 2 months.

The other terms and conditions as mentioned in our earlier letter dated September 12, 2011, remain unchanged.

With kind regards,

Yours sincerely,  
for ICRA Limited

**ANJAN GHOSH**  
Senior Group Vice President &  
Head-Corporate Sector Ratings

**SUBRATA RAY**  
Senior Group Vice President &  
Head-Corporate Sector Ratings



## PLASTENE INDIA LIMITED

### Issue Details

Plastene India Limited (PIL) proposes to come out with an Initial Public Offering (IPO) of 92,55,290 shares, amounting to 25.89 % of the post issue paid capital of the company. Of the total issue, upto 5% of the issue is reserved for the employees of PIL, upto 50% of the net issue size is reserved for Qualified Institutional Buyers (QIBs), while not less than 15% of the net issue size is for non-institutional investors and the remaining 35% is for retail investors. Post the IPO, the shares will be listed on the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE).

### Proposed Use of IPO Proceeds

- i) Expansion of its existing manufacturing facilities and purchase of plant and machinery for new product- block bottom valve bag at NaniChirai, Gandhidam, Gujarat
- ii) Expansion of its existing manufacturing facilities at Rajpur, Gujarat
- iii) Funding general corporate purposes

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### IPO Grading

ICRA has assigned an IPO Grade 3, indicating average fundamentals, to the proposed Initial Public Offering (IPO) of Plastene India Limited (PIL). ICRA assigns IPO grading on a scale of IPO Grade 5 through IPO Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals.

An ICRA IPO Grade is a symbolic representation of ICRA's current assessment of the fundamentals of the issuer concerned. The fundamental factors assessed include, among others, business and competitive position; financial position and prospects; management quality; corporate governance and history of compliance and litigation.

**Disclaimer:** Notwithstanding anything to the contrary: An ICRA IPO grade is a statement of current opinion of ICRA and is not a statement of appropriateness of the graded security for any of the investors. Such grade is assigned with due care and caution on the basis of analysis of information and clarifications obtained from the issuer concerned and also other sources considered reliable by ICRA. However, ICRA makes no representation or warranty, express or implied as to the accuracy, authenticity, timeliness, or completeness of such information. An ICRA IPO grade is not (a) a comment on the present or future price of the security concerned (b) a certificate of statutory compliance and/or (c) a credit rating. Further, the ICRA IPO grade is not a recommendation of any kind including but not limited to recommendation to buy, sell, or deal in the securities of such issuer nor can it be considered as an authentication of any of the financial statements of the company, and ICRA shall not be liable for any losses incurred by users from any use of the grade in any manner. It is advisable that the professional assistance be taken by any prospective investor in the securities of the company including in the fields of investment banking, tax or law while making such investment. All services and information provided by ICRA are provided on an "as is" basis, without representations and warranties of any nature.

## Strengths

- Favourable market position in the polywoven sacks and Flexible Intermediate Bulk Containers (FIBC) industry; higher degree of diversification across packaging products relative to peers
- Steady demand outlook for domestic polywoven sacks industry from fertiliser and cement sectors; and export market for FIBCs due to shifting of sourcing to India as well as demand from substitution of other packing techniques
- Healthy growth in revenues over the last three years owing to capacity expansion; and significant increase in sales of FIBC and traded polymers
- Location advantage due to proximity to ports and raw material source leads to lower inward and outward freight (for imports as well as exports) in comparison to peers
- In-house production of key inputs such as masterbatches, fillers and multi filament yarn confers moderate cost advantage to the company's operations

## Concerns

- Highly competitive and fragmented nature of poly woven sacks industry due to low entry barriers and limited product differentiation; however, the entry barriers in FIBC are relatively higher
- Vulnerability of FIBC export demand to global slowdown, which is partly mitigated by diversified industry uses of these products and rising substitution demand
- Weak bargaining power with customers could exert pressure on margins in the domestic polywoven sack business, particularly for fertiliser bags
- Sub-optimal utilisation of expanded capacities in the recent past partly due to conscious efforts taken to reduce dependence on conventional poly woven sacks
- Vulnerability of profitability to fluctuations in the prices of polymers, although the company has been able to largely pass on input cost increases in the past. The company's increased exposure to trading could also affect its risk profile in light of any adverse price movement
- Exposure to project implementation risks, although largely mitigated by the fact that the projects only entail expansion of the existing product lines

## Grading Rationale

The IPO grade assigned by ICRA reflects the favourable market position of PIL in the polywoven sacks (PWS) and Flexible Intermediate Bulk Containers (FIBC) industry; higher product diversification relative to peers; steady demand outlook for the domestic PWS industry and export market for FIBCs due to increased sourcing from India and rising substitution demand. The grade also factors in the cost advantage available to PIL due to the proximity of its manufacturing facilities to ports; raw material source and customer base, leading to lower inward and outward freight as compared to peers; and captive production of inputs such as masterbatches (MB), fillers and multi filament yarn (MFY). However, the grading is constrained by the highly competitive and fragmented nature of the PWS industry and limited product differentiation in the industry; vulnerability of FIBC export demand to global slowdown; weak bargaining power with domestic customers of PWS; sub-optimal utilisation of expanded capacities and vulnerability of the profitability of PIL to fluctuations in the prices of polymers, particularly in light of increased exposure to trading of polymers.

## Entity Profile

Plastene India Limited (PIL), formerly known as Oswal Agroimpex Limited, is the flagship company of the Champalal Group promoted by Mr. Champalal G. Parekh and Mr. Prakash H. Parekh. PIL was incorporated in the year 2004 with a capacity of 21,000 tonnes per annum (tpa) for poly woven sacks and flexible packaging products at Gandhidham in Gujarat. The company's current production capacity now stands at 55,000 tpa across two locations: Gandhidham and Rajpur in Gujarat. PIL is engaged in the manufacture of Flexible Intermediate Bulk Containers (FIBC), conventional poly woven sacks, flexible packaging products (comprising printed laminates and preformed pouches), woven fabric, tarpaulin; masterbatches, fillers; multifilament yarn and webbings. PIL's wholly-owned subsidiary, Oswal Extrusion Limited (OEL), with its plants in Kandla SEZ and Rakanpur, Gujarat is engaged in the manufacture of FIBC/poly woven sacks and sources a major part of its fabric requirements from PIL.

## Promoters and Management

PIL's promoters are native residents of Gandhidham in the Kutch district of Gujarat and have a long history of over four decades in various businesses. The group's business activities have evolved over a period of

time from commodity trading (viz import and export of castor, sesame seeds and polymers) to manufacture of plastic and packaging products. All of these businesses have benefited from the advantage of proximity to ports. The company's overall management is headed by Mr Prakash Parekh, Managing Director, who is the grandson of Mr. Champal Parekh, Chairman and original founder of the Champalal group. PIL's management is well represented by promoters, family members as well as qualified professionals from the plastics & packaging industry. Nevertheless, ICRA takes note of the fact that there has been frequent turnover in the finance function of the company.

**Pre- and post- Issue shareholding structure:** Currently, promoters (28.39%) and promoter group companies (58.93%) together hold 87.32% shareholding of the company. The proposed public issue would lead to dilution of 25.89% of the post issue paid up capital of the company.

**Table 1: Pre- and post- Issue Shareholding Pattern of PIL**

Particulars	Pre-Issue	Post-Issue
	% Holding	% Holding
<b>A. Promoter and Promoter Group</b>		
Promoters	28.39%	21.05%
Promoter Group	58.93%	43.69%
<b>Sub-Total</b>	<b>87.32%</b>	<b>64.74%</b>
<b>B. Public Shareholding</b>		
Individual Shareholders – Relatives and Friends	12.68%	9.37%
Public Issue	0.00%	25.89%
<b>Sub-Total</b>	<b>12.68%</b>	<b>35.26%</b>
<b>Total (A+B)</b>	<b>100.00%</b>	<b>100.00%</b>

Source: DRHP

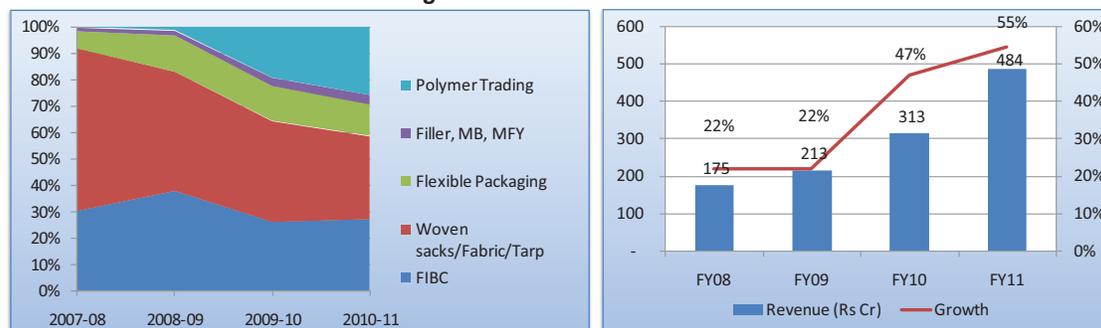
## Corporate Governance

The Board of Directors of PIL is constituted by two promoter directors and two independent directors. In order to meet the corporate governance requirements under Clause 49 of the Securities and Exchange Board of India (SEBI) for listed companies, PIL has constituted three committees: Audit, Remuneration and Shareholders' Investor Grievance committees.

## Business and competitive position

**Woven sacks and FIBC contribute to the bulk of turnover; recent turnover growth largely contributed by FIBC and polymer trading**

**Charts 1 & 2: Trend in Growth and Segment-wise Distribution of Consolidated Sales**



Source: DRHP, Company's Annual Reports

PIL has a diverse product portfolio in the plastic packaging sector, comprising products ranging from poly woven sacks (catering to the demand of cement, fertilizer and salt companies), Flexible Intermediate Bulk Containers (FIBC), multilayer films and tarpaulins. In addition, part of PIL's production of masterbatches and fillers comprises of merchant sales. Poly woven sacks and FIBC constitute about 60% of the consolidated sales of the company and the percentage has declined from over 90% over the last three

years primarily due to significant increase in polymer trading, besides increase in sales of intermediate products such as masterbatch, fillers & MFY. The company's sales have increased at a high compounded annual growth rate (CAGR) of 35% over 2007-11. The growth has been largely contributed by growth in FIBC sales (CAGR of 42% over the same period) and of late by trading of imported polymers. The company has adopted the strategy of increasing polymer trading in order to prepare for the distribution/stockist business of IOC (which commenced in 2010-11) and securing quantity discount for purchase of raw materials, besides acting in anticipation of price gains. Going forward, the management expects the trading volumes to decline in the near term, as the IOC distribution business gathers momentum and the focus shifts to manufacturing activities. The company's flexible packaging division benefits from the presence of a large salt market in the Kutch district of Gujarat.

**Sub-optimal utilisation of expanded capacities in the recent past partly due to conscious efforts to reduce dependence on conventional poly woven sacks:** PIL undertook a nearly two-fold capacity expansion across its product range in 2008-09, which was commissioned in February 2009. The capacity utilisation from the new capacities remained sub-optimal during 2009-10, although improving moderately in 2010-11. The low utilisation was partly led by a conscious decision of the company's management to shift focus from polywoven sacks to FIBC, in light of expiry of fiscal incentives (excise, sales tax and income tax-full exemption) enjoyed in Gandhidham until 2009-10 and higher margins available in the latter segment. It may be noted that capacities for PWS & FIBC allow flexibility for production of both varieties; as a result there has been some reallocation of capacities between these segments.

**Table 2: Trend in Capacity Utilisation of PIL (Standalone)**

		2007-08	2008-09*	2009-10	2010-11
<b>Poly woven sacks/fabric/Tarpaulins</b>					
Installed Capacity**	MT	21,200	34200	34,200	32,200
Production	MT	14,628	14,022	14,022	14,760
Capacity Utilisation	%	69%	41%	41%	46%
<b>FIBC</b>					
Installed Capacity**	MT	800	4,000	4,000	6,000
Production	MT	488	2,520	3,000	5,162
Capacity Utilisation	%	61%	63%	75%	86%
<b>Flexible Packaging</b>					
Capacity		3000	6000	6000	6000
Production		1,050	2,880	3,300	4,176
Capacity Utilisation		35%	48%	55%	70%
<b>Filler, Masterbatches, MFY</b>					
Capacity	MT	3000	10800	10800	10800
Production	MT	1,950	2,268	3,456	5,099
Capacity Utilisation	%	65%	21%	32%	47%

Note: \*: Capacity expanded in February 2009;

\*\* Capacities of PWS and FIBC are flexible for the production of both varieties

Source: DRHP, Company's Annual Reports

**Favourable market position in the domestic polywoven sacks industry and export market for FIBC, with a more diversified product portfolio:** PIL is one of the leading manufacturers of poly woven packaging products (mainly PWS and FIBC) in India, with the other major players being Veer Plastics (primarily domestic PWS), Flexituff International and Jaicorp (primarily FIBC). Unlike these major companies, the product portfolio of PIL is more distributed among PWS and FIBC, besides also including flexible packaging and tarpaulins. Despite being one of the late entrants in the industry, PIL has achieved this scale after going through a rapid phase of expansion since commencement of operations in 2004. The company has a well reputed customer profile, which includes several major fertiliser and cement companies. The FIBC production of PIL is almost entirely exported, where in Europe occupies the largest share of revenues. In the FIBC segment, the company commenced operations with more standardised versions but has gradually expanded its product portfolio to include higher value-added products (such as conductive bags; foodgrade bags; and geotextile products), whose industry/user applications have widened. The company is also undertaking product development activities for certain new types of FIBC products, which have ability to yield higher margins. With increasing sales in FIBC and addition of new customers, PIL has reduced its customer concentration. The top 10 customers of PIL accounted for around 36% of turnover in 2010-11 as opposed to 62% in 2007-08.

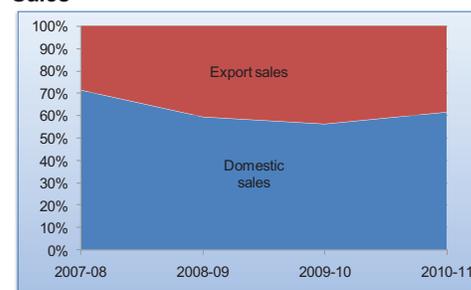
**Highly fragmented and competitive nature of polywoven sack industry, with limited product differentiation:** The Indian poly woven sacks industry is characterised by high fragmentation and competitive intensity, resulting from low capital intensity. The intense competition exerts pressure on margins, particularly in the tender driven contracts in the fertiliser segment. However, ICRA does note that the degree of fragmentation is relatively low in the FIBC segment due to export orientation, customer preference for quality and technical specifications. Besides, the competitive intensity in flexible packaging also remains due to high share of the unorganised sector.

**Steady demand outlook for domestic polywoven sacks industry from fertiliser and cement sectors:** The domestic demand for polywoven sacks is primarily dependent upon cement and fertiliser sectors, whose growth prospects remain steady. The steady growth in cement production due to ongoing capacity additions as well as rising demand for fertilisers offer healthy growth prospects in the near term. It is noted that the significant rise in fertiliser imports has augured well for the PWS industry, particularly for those units in proximity to ports (such as PIL) due to the fact that imported fertilisers are bagged at the ports. Historically the demand growth for the PWS industry has been constrained by the Jute Packaging Materials Act (JPMA), which provides for mandatory packaging of foodgrains and sugar in jute sacks. However, due to shortage of jute, the Director General of Supplies & Distribution (DGS&D) has contracted sporadic orders for poly woven sacks for this segment over the last two-to-three years. While the decision led to temporary spikes in demand, this may not be a sustainable source unless the current regulations are significantly modified.

**Export demand growth for FIBCs remains healthy due to shifting of sourcing to India as well as substitution demand; however, vulnerability of the same to global slowdown remains:** Flexible Intermediate Bulk Containers (FIBC) are large bags (with carrying capacity ranging from 500 kg to 5 tonnes each) made of woven polypropylene (PP) fabric that is usually extrusion coated to provide an additional barrier and leak-proofness. FIBCs are generally customised for each individual user and product in accordance with the bulk density of the product, handling, filling, discharge and storage infrastructure; and in general facilitate mechanised handling. Around 60% of the world's FIBC demand comes from Europe and North America, while the major production centres are India, China and Turkey. The global demand growth for FIBCs has remained at 5% in the last few years, which is higher than the demand growth for most of the end-user commodities. The higher demand growth is attributable to substitution of other packaging materials (such as smaller PWS, rigid containers and corrugated boxes) owing to its cost advantage and logistical efficiencies with increasing use of material handling equipment. The key user segments for the global FIBC market are chemicals/petrochemicals, minerals and food segments, with the latter witnessing the highest growth in recent times. The export demand for FIBCs for Indian manufacturers has witnessed a high growth of around 15% in recent times primarily because FIBC production is a labour-intensive process and there is an increasing preference among developed countries to outsource production from India on account of its cheaper labour costs. Around 75% of India's FIBC production is exported due to limited penetration of the product in the domestic market, although the same is witnessing high growth over a small base. While the export demand has witnessed healthy growth in the recent past, it is vulnerable to any global slowdown, particularly for PIL, which derives almost its entire FIBC sales from the export market.

**Location advantage due to proximity to ports, customers and raw material source; leads to low inward and outward freight (for exports as well as imports) in comparison to peers:** The main production capacities of PIL (PIL-Gandhidham and OEL-Kandla) are located in the Kutch district of Gujarat and enjoy proximity to two major ports, namely, Kandla and Mundra port. This provides the company with competitive position for both exports and imports, particularly relative to its peers located in the interiors. Exports comprised around 44% of the company's turnover in 2010 and are expected to increase further going forward. The location of the major domestic customers (IFFCO, cement & salt companies) of PIL in Gujarat also results in lower outward freight for domestic sales. Further, PIL is also located in close proximity to RIL, its main supplier.

**Chart 3: Break-up of PIL's Export & Domestic Sales**



Source: DRHP, Company's annual reports

**In-house production of key inputs such as masterbatches, fillers and multi-filament yarn confers moderate cost advantage:** One of the operating advantages of PIL is its presence in intermediates such as fillers, masterbatches and multi-filament yarn, which are important inputs in the woven sack manufacturing process. Most of the production of these three products is captively consumed, while part of it is sold to the plastics/packaging industry in Gujarat.

**Vulnerability of profitability to fluctuations in the prices of polymers, although largely mitigated by price escalation clauses; the company's increased exposure to trading also increases its vulnerability to any adverse price movement:** PIL remains exposed to volatility in the prices of raw materials such as polymers, which vary in line with crude oil prices. The company suffered inventory losses during 2008-09 due to volatility in polymer prices and high inventory position at the peak of the price cycle. In order to mitigate the price risks, the company follows cost escalation clauses with customers. The company's increased exposure to trading further increases the price risk, which has however remained in its favour over the last two years.

#### New Project: Risks and Prospects

**Capacity expansion for FIBC and entry into block bottom valve planned through IPO proceeds; moderate project implementation risks remain:** PIL plans to utilise the proceeds of the IPO for i) expansion of its existing manufacturing facilities for FIBC and flexible packaging at Gandhidham and ii) purchase of plant and machinery for new product - block bottom valve bag at Gandhidham and ii) expansion of manufacturing facilities at Rajpur, besides funding of general corporate expenses. With the expansion, the company's overall manufacturing capacity is expected to increase to 69,000 tpa from the current 56,200 tpa.

**Table 3: Breakdown of Future Investments and IPO Proceeds**

Particulars of Expenditure	Details	Capex (Rs. Crore)
Expansion of manufacturing facilities at NaniChirai, Gandhidham	<b>Existing products</b> (FIBC/Flexible Packaging) & <b>New product:</b> block bottom valve bags	49.35
Expansion of manufacturing facilities at Rajpur, Mehsana	<b>Existing products</b>	28.07
General corporate purposes*		
Issue related expenses*		

Note: \*: Pending finalisation of the issue size

Source: DRHP

It is noted that, out of the above the company has incurred capital expenditure of Rs 6.69 crore upto March 31, 2012, which has been funded out of its internal accruals.

The company plans to install plant & machinery for manufacturing block bottom valve bags (with a capacity of 5000 tpa), which are specialised cement bags, commonly referred to as "AD Star bags" at a project cost of Rs. 25 Crore. Block bottom valve bags are a widely accepted solution for packing cement and other bulk commodities worldwide. The bags offer higher tear resistance and moisture resistance, thereby increasing

the shelf life of the final product, besides providing a superior branding interface. Currently, non-laminated or uncoated bags are being used in India for bagging of cement. There is a 1% loss due to seepage, which has to be compensated by overfilling of bags. The replacement of conventional sacks by block bottom valve bags could help address the issue of seepage although these bags would be priced at a premium of Rs. 3 per bag. PIL has received encouraging response from its cement customers for this product, which highlight the favourable demand prospects for the product. Besides, the demand growth prospects for the existing product lines, FIBC & flexible packaging products, remain steady in line with user demand. Nevertheless, the company's ability to achieve optimal capacity utilisation remains critical, particularly in light of underachievement in the past.

Notwithstanding favourable demand prospects, PIL is exposed to project risks on account of the moderate size of its expansion in relation to its existing operations (Rs. 77.4 crore in relation to the current gross fixed asset base of Rs. 201.17 Crore as on 31 January 2012) and the dependence on IPO proceeds for financial closure. The project implementation risks are partly mitigated by the fact that the projects concern expansion of current product lines and the company's record of implementing higher capacities in the past.

## Financial Position

***Steady growth in consolidated turnover and profits; margins show decline on account of increased engagement in trading activities***

**Table 4: Key Profitability Metrics of PIL**

Particulars	2007-08	2008-09	2009-10	2010-11	10M 2011-12
Net Sales	174.96	213.26	313.30	484.43	382.51
Trading as % of Sales	5%	17%	34%	36%	20%
OI	187.50	220.89	315.61	485.53	385.41
OPBDITA	28.34	29.18	39.64	50.11	43.29
PAT	11.05	9.93	12.98	21.00	10.95
EPS	9.24	4.45	5.79	8.66	4.34
EPS Growth		-52%	30%	50%	
NCA	13.44	13.40	18.35	27.59	17.06
OPBDITA/OI	15.11%	13.21%	12.56%	10.32%	11.23%
PAT/OI	5.89%	4.50%	4.11%	4.32%	2.84%
ROCE	31.68%	18.40%	18.97%	19.71%	15.98%
RONW	33.79%	20.41%	17.39%	20.81%	11.48%

Source: DRHP, Company's Annual Reports

The topline of PIL has grown at a strong CAGR of 40% over 2007-11 driven initially by growth in the FIBC segment and over the last two years by a sharp growth in trading sales. The company's manufactured goods sales have shown a healthy CAGR of 23%, within which FIBC sales have exhibited a CAGR of 42% during the same period. Traded sales contributed to around 35% of the company's consolidated turnover out of which polymer trading contributed around 25%. However, higher trading sales have resulted in reduction of operating margins to 10.32% in 2010-11 from 15.11% in 2007-08. With the expiry of fiscal incentives in Gandhidham in March 2010, the company's profitability in the domestic PWS segment was also affected in 2010-11. Due to healthy growth in turnover and profits, the return indicators remain healthy, with RoCE at 19.71% and RoNW at 20.81% in 2010-11. Although, the company's operating margins remained steady in 10M 2011-12, its PAT and PAT margins declined due to significant marked to market foreign exchange loss on PCFC (Pre shipment credit in Foreign currency).

***Gearing levels improve from previously high levels owing to equity infusion and healthy accrual generation***

**Table 5: Key Capital Structure and Coverage Metrics of PIL**

Particulars	2007-08	2008-09	2009-10	2010-11	10M 2011-12
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Total Debt/Tangible Network	2.02	2.06	1.29	1.41	1.64
Long term Debt/Tangible Network	1.06	0.59	0.27	0.24	0.49
OPBDITA/Interest	2.75	2.46	2.62	3.26	2.04
Net Cash Accruals/Total Debt	17%	11%	15%	18%	10%

Source: DRHP, Company's Annual Reports

The consolidated gearing of PIL has declined to 1.41 times as on 31 March 2011 from 2.06 times as on 31 March 2009 due to significant equity infusion by promoters (Rs. 23.6 Crore in FY10); steady repayment of debt and internal accrual generation. The debt coverage indicators witnessed marginal improvement with NCA/Debt at 18% and OPBITDA/Int of 3.26 times in 2010-11. The gearing has however increased to 1.64 times as on 31 January 2012 on account of increased working capital borrowings as well as increase in long term loans.

#### **Liquidity requirements remain high for the business**

**Table 6: Key Working Capital Indicators of PIL**

Liquidity	2007-08	2008-09	2009-10	2010-11	10M 2011-12
Debtors Days	60	55	84	67	87
Days Inventory	78	100	114	87	89
Days Payables	132	109	132	98	104
NWC/OI	16%	31%	22%	22%	28%
NCA/OI	7%	6%	6%	6%	4%

Source: DRHP, Company's Annual Reports

The working capital intensity (as measured by NWC/OI) of PIL has moved in a band of 16-22%, barring increase in 2008-09 and in ten months of operations in 2011-12. The company's debtors and inventory remain high due to sales growth and higher proportion of imports in raw material consumption. Overall, the working capital intensity in the business remains high.

#### **Compliance and Litigation History**

**Litigation History:** The company is involved various litigations relating to the normal course of business. However, the amount involved is small in most cases, with the total value of litigation cases against the company standing at Rs. 0.72 crore (on a consolidated basis).

**Contingent Liabilities:** The contingent liabilities for PIL are primarily those that arise during the normal course of business, such as letters of credit for its import transactions. Besides, there are some claims from suppliers, which if devolved would not have any significant impact on its profitability or capitalisation.

**Table 7: Contingent Liabilities of PIL**

Contingent Liabilities (Rs. Crore)	As on March 31, 2011	As on Jan 31, 2012
Letter of Credit	97.78	55.06
Bank Guarantee	3.71	6.38
Claim by Suppliers	0.45	0.45
<b>Total</b>	<b>101.94</b>	<b>61.89</b>
<b>As a % of TNW</b>	<b>93%</b>	<b>52%</b>

Source: DRHP, Company's Annual Reports



## **ICRA Limited**

*An Associate of Moody's Investors Service*

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