# Flexituff International Limited Revised

May 04, 2018

## Summary of Rated Instrument:

| Instrument | Previous Rated Amount(Rs. crore) | Current Rated Amount(Rs. crore) | Rating Action |
|---|---|---|---|
| Term loan | 37.00 | 37.00 | Downgraded to [ICRA]B+ (Negative) from [ICRA]BBB- (Negative) |
| Fund-based – Cash credit | 289.00 | 289.00 | Downgraded to [ICRA]B+ (Negative) from [ICRA]BBB- (Negative) |
| Non-fund based | 293.00 | 293.00 | Downgraded to [ICRA]A4 from [ICRA]A3 |
| **Total** | **619.00** | **619.00** | |

## Material Event

Flexituff International Limited (FIL) failed to meet its repayment obligations towards the US$24 million Foreign Currency Convertible Bonds (FCCB) which were due on April 26, 2018.

## Impact of the Material Event

The ratings have been downgraded to [ICRA]B+ (Negative)/[ICRA]A4 from [ICRA]BBB- (Negative)/[ICRA]A3 owing to the failure by the company in arranging for funds in a timely manner to meet the repayments of its FCCBs on the due date. Although FIL has obtained extension on the maturity of the FCCBs till June 30, 2018 from the FCCB investor, the approval for extension is still pending with the Reserve Bank of India. FIL is currently in discussions with several Private Equity (PE) investors for raising the required funds to meet the FCCB repayments. The above mentioned FCCBs were not rated by ICRA. Furthermore, ICRA considers it unlikely for the liquidity stress (due to inability to raise requisite funds for redemption of FCCBs) to extend to the ICRA-rated debt facilities.

## Rationale

The ratings are further constrained by the high working capital intensity in the operations arising out of relatively longer credit period offered to customers and inventory requirements. The ratings also take into account the slower-than-expected ramp-up of operations in the geo-textiles business due to delays in receipt of orders that has resulted in loss-making operations for this business segment. Further, the company's operations remain exposed to raw material fluctuation risk, although the same is mitigated due to short tenure of supply orders and revision of price levels on a rolling basis. The ratings also factor in the competitive pressures in other businesses of the company as well as the forex risk associated with the FIBC (Flexible Intermediate Bulk Container) business. ICRA notes that the company's ability to secure sizeable contracts and accordingly scale up the volumes in the geo-textiles business thereby, improving the profitability and return indicators from the current levels, remains important from a credit perspective. The ratings are further constrained by the high gearing levels of the company on account of the sizeable debt-funded capex undertaken towards the greenfield project at Kashipur apart from high reliance on working capital borrowings.

The ratings, however, favourably take into account the company's established market position in the FIBC industry, both domestically and in overseas markets. The FIBC operations have been operating at close to full capacity utilisation levels at both the facilities of FIL with healthy operating margins. The ratings further factor in the favourable demand outlook for the FIBC segment as well as the geo-textiles segment, the latter primarily driven by the domestic market with applications in the infrastructure segment. The company has seen healthy increase in the order book for geo-textiles supported by its first-mover advantage in the market thereby enabling it to bag major government projects across several states. The ratings also take into account the scale-up of operations with the commissioning of a new facility at Kashipur in FY2016 that is currently operating at optimum utilisation levels.

## Outlook: Negative

ICRA believes the delays in repayment of the FCCBs could have a bearing on the company's ability to raise additional funds even for its business operations. The outlook may be revised to 'Stable' if the company is able to arrange for the requisite private equity funds and thereby retire the FCCBs soon. The ratings may be downgraded if the company faces any liquidity pressures or funding issues in its business operations or faces significant delay in raising the required funds to meet the FCCB liability.

## Key rating drivers

## Credit strengths

**Established market position & long track record in FIBC industry** - The company has a leading position in the FIBC manufacturing segment in the domestic market with a market share of ~15-20%. Although the domestic demand is still in its growth stage and is mainly from industries like fertilizers, cement, petrochemicals and raw salt, the company's sales are mainly focused on exports to Europe, UK and USA. FIL is particularly strongly placed to meet export demand in FIBC applications for food & pharma user industries where quality parameters are stringent.

**Favourable business outlook for geo-textiles segment** - Geo-textiles have seen a rapid increase in demand in the Indian market owing to their varied applications in road construction, flood protection, protection from land sliding and soil erosion. Many state governments have also now opted for geo-textiles in order to tackle the situation of floods in their regions. FIL has been an early mover in this segment in the domestic market and is expected to benefit from the increase in demand.

**Scale of operations expected to improve with sales from capacity augmentation in geo-textiles -** The company is involved in the end-to-end EPC[1] solutions which comprise of procuring raw materials, manufacturing and installation of the geo-textiles at the project sites and also has been able to qualify for execution of such orders in few states. The scale of operations is being ramped up and the market demand is expected to remain strong with few players in the business.

## Credit challenges

**High gearing level with large working capital borrowings**- The company's long-term loans increased on account of the debt-funded greenfield project undertaken at Kashipur. The company's working capital requirements have also been increasing which have been largely met through external financing. As a result, the company's gearing remains high at 2.0 times as on March 31, 2017.

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[1] *EPC: Engineering, Procurement and Construction*

**High working capital intensity** - The credit period offered to customers (FIBC - exports) varies between 1-6 month period (about 50-60% of FIBC exports are with 180 days of credit period). The company mainly deals with civil construction contractors, who purchase geo-textiles for various government projects and provides credit period of 3-4 months to these contractors for geo-textile sales. The company, however, receives a credit period of 90 days on the purchases backed by LCs. Overall, the working capital intensity remains high in the business.

**Exposed to input price fluctuation as well as forex fluctuation risks -** Polypropylene (PP), which is the key raw material is purchased on spot basis and thus, FIL is exposed to any inventory loss on account of the volatility in PP prices. The supply risks are mitigated due to the proximity of the company's facility to the refineries and also due to the continuing relationship with the vendors and built-in price variation clause protects the company against price fluctuations during transit period. The company earns most of its revenues in USD terms owing to the export-oriented nature of business and is thus, exposed to the movement in the forex rates. FIL has been hedging about 25% of its net foreign exposure through forward contracts, apart from the natural hedge of approximately about 50% of its exposure, so as to reduce its overall forex exposure.

**The previous detailed rating rationale is available on the following link: Click here**

**Corrigendum:**

Document dated May 4, 2018 has been corrected with revision as detailed below:

- Few lines have been appended to the section ‘Impact of the Material Event’ on page 1.

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