

November 23, 2021

E-Pack Polymers Private Limited: Ratings upgraded to [ICRA]A- (Stable)/ [ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Cash Credit	28.00	26.00	[ICRA]A- (Stable); upgraded [ICRA]BBB+ (Stable)
Fund based- Term Loan	19.28	18.00	[ICRA]A- (Stable); upgraded [ICRA]BBB+ (Stable)
Non-fund based	32.72	36.00	[ICRA]A2+; Upgraded from [ICRA]A2
Total	80.00	80.00	

*Instrument details are provided in Annexure-1

Rationale

The upgrade in the ratings factors the healthy growth in the company's revenues, which along with a strong order book in the prefabricated structure division is expected to drive the expansion in its scale and cash accruals in FY2022. The ratings consider the favourable demand outlook for both the business segments, namely, prefabricated structures and expanded polystyrene (EPS). The company continues to be a major player in the EPS segment supported by the long experience of its promoters and its established association with reputed customers in the prefabricated structure segment as well. The ratings also note its healthy financial risk profile as reflected by moderate leverage and healthy interest coverage.

The ratings, however, continue to be constrained by the intense competition particularly in the EPS/packaging division as well as the tender-based nature of the prefabricated structure industry resulting in a modest operating scale. The ratings also factor in the susceptibility of the company's profitability in the EPS division to fluctuations in raw material prices, which move in tandem with crude oil prices. However, it has raw material price escalation clause with major customers in both EPS and prefabricated divisions, which reduces the risk to a large extent.

Key rating drivers and their description

Credit strengths

Vast experience of promoters in EPS and prefabricated structures – The promoters have been involved in EPS and prefabricated structure manufacturing for more than two decades and have gained a thorough knowledge of the market. The company enjoys established relationships with its customers and suppliers, which ensures repeat orders. The company supplies primarily to LG in the EPS division with its plant located in close vicinity to its customer. It also has reputed customers from diversified industries in the prefabricated structure division, which include Airport Authority of India, JSW Group, Hero Motocorp, Siemens, Larson & Toubro, Tata Group etc.

Favourable demand outlook across business segments – E-Pack Polymers is one of the largest manufacturers of EPS products in the domestic markets and the favourable outlook for consumer durables industry augurs well for the EPS division. The company started getting healthy orders from the prefabricated structure division in FY2022 due to favourable demand from diverse industries in the domestic market. It has recorded Rs. 211-crore revenues in 6M FY2022 with a YoY growth of 154%, out of which the prefabricated division accounted for Rs. 153 crore compared to Rs. 116 crore in FY2021. The company reported more than Rs. 146 crore of orders in the prefabricated division as of September 2021, which will be executed in FY2022. It is also expanding the capacity in the prefabricated division with a project cost of Rs. 32 crore in FY2022, which will support revenue growth.

Healthy financial profile – The company has a healthy financial profile with moderate profitability, leverage and comfortable debt coverage. It reported a DSCR and interest coverage of 2.1 times and 4.7 times in FY2021, an improvement from 1.5 times and 4.4 times in FY2020. The cash accruals and debt coverage are further expected to improve in FY2022 with limited reliance on external debt going forward.

Credit challenges

Profitability vulnerable to raw material price fluctuations – The company is exposed to raw material price volatility as the key input (polystyrene) is derived from crude oil. Any volatility in petroleum prices adversely impacts its profit margins. However, there are price escalation clauses and it is able to pass on the rise in input cost to most of the customers, which reduces the risk to a large extent.

Intensely competitive industry and moderate scale – The packaging and prefabricated industries are intensely competitive due to the presence of various organised and unorganised players resulting in a moderate operating scale. However, strong position as a contract manufacturer for EPS acts as an entry barrier. Its revenues remained modest and stagnant during the last three years due to the limited capacity utilisation and the Covid-19 pandemic. The demand for EPS moves in tandem with growing consumer durable industry, which remained muted during the last two years. However, there has been a healthy demand in prefabricated division, which will support its revenue growth in FY2022. The company is likely to post more than Rs. 350-crore revenues in FY2022 compared to Rs. 240.8 crore in FY2021.

Liquidity position: Adequate

E-Pack Polymers' liquidity position is **adequate** due to the comfortable working capital utilisation of ~34% against the sanctioned limit during the 12-months period ending September 2021. The cash generation from business is sufficient to manage its working capital requirement and repayment if any. The interest-free advances from customers also lend liquidity support.

Rating sensitivities

Positive factors – A rating upgrade would be driven by the sustained improvement in revenue while maintaining the healthy profitability margins and strong financial profile.

Negative factors – A significant decline in sales turnover and profitability and deterioration in its working capital cycle, thereby diminishing its liquidity, would put downward pressure on the company's ratings. In terms of specific credit metrics, interest cover less than 4 times, on a sustained basis, will be a negative trigger for the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Fast Moving Consumer Goods Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

E-Pack Polymers, established in 1999, is involved in manufacturing EPS thermocol products and prefabricated structures. The company is the biggest supplier of moulded thermocol (used as a packaging material for consumer durable products) to LG Electronics India Private Limited. In the prefabricated structures division, the company has major customers, such as Airport Authority of India, JSW Group, Hero Motocorp, Siemens, Larson & Toubro, Tata Group, etc.

The promoters have interests in Epack Durable Private Limited (formally known as Epack Durables Solutions Private Limited) manufactures AC, induction cooktops, juicer-mixer-grinders and water dispensers for customers, such as Voltas, Havells, Godrej, Whirlpool, Haier, Blue Star, Philips, Bajaj, etc. Epack Components Private Limited (formally known as E-Durable Prefab Private Limited) has become a 100% subsidiary of Epack Durable. East India Technologies Private Limited, another company of the Group, is entirely held by the Bothra family. ETPL also undertakes EPS manufacturing and electronics parts manufacturing for customers such as Samsung, Whirlpool, Schneider Electric, Panasonic, etc.

Key financial indicators (audited)

East India - Standalone	FY2020	FY2021
Operating Income (Rs. crore)	245.1	240.8
PAT (Rs. crore)	11.1	8.0
OPBDIT/OI (%)	9.5%	8.9%
PAT/OI (%)	4.5%	3.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.2x	1.3x
Total Debt/OPBDIT (times)	1.5x	1.8x
Interest Coverage (times)	4.4x	4.7x

Source: Company

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2019	Date & Rating in FY2018
					Nov 23, 2021	Sep 1, 2020	Mar 25, 2019	Jan 3, 2018
1	Cash Credit	Long Term	26.00	-	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB (Positive)
2.	Term Loans	Long Term	18.00	18.00	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB (Positive)
3.	LC/BG	Short Term	36.00	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A3+
4.	Unallocated	Long Term	-	-	-	-	[ICRA]BBB+(Stable)	[ICRA]BBB (Positive)

Source: Company, as on October 31, 2021

Complexity level of the rated instrument

Instrument Name	Complexity Indicators
Long Term – Term Loan	Simple
Long Term – Cash Credit	Simple
Short Term – LC/BG	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or

complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	26.00	[ICRA]A- (Stable)
NA	Term Loans	April 2020	NA	March 2026	18.00	[ICRA]A- (Stable)
NA	LC/BG	NA	NA	NA	36.00	[ICRA]A2+

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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