

February 15, 2023

Epack Polymers Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working Capital	30.00	102.00	[ICRA]A- (Stable); reaffirmed, assigned for enhanced amount
Fund-based – Term Loans	51.12	129.61	[ICRA]A- (Stable); reaffirmed, assigned for enhanced amount
Non-fund Based	46.00	129.00	[ICRA]A2+; reaffirmed, assigned for enhanced amount
Unallocated	2.88	-	-
Total	130.00	360.61	

*Instrument details are provided in Annexure-I

Rationale

The ratings factor in ICRA's expectation of healthy scale up in Epack Polymers Private Limited's (Epack Polymers) revenues in FY2023 and FY2024 supported by strong order inflow in the prefabricated structure (prefab) division. The ratings consider the favourable demand outlook for both the business segments of the company, namely, prefab as well as expanded polystyrene (EPS) where the company has a long track record of supplying to a leading consumer durable manufacturer.

The ratings, however, continue to be constrained by the intense competition, particularly in the EPS division, as well as the tender-based nature of the prefab business. The ratings also factor in the susceptibility of the company's profitability to fluctuations in raw material prices, primarily in the prefab division. The company is in the process of adding capacities at its various plants. While there would be moderation of credit metrics, given the ongoing debt-funded capex, ICRA expects the company to maintain a comfortable financial risk profile. Thus, the company's ability to ramp up returns from the same in a timely manner will remain critical.

The Stable outlook on the [ICRA] A- rating reflects ICRA's opinion that Epack Polymers will be able to improve its accruals given the healthy demand outlook across its business segments and growing capacities in its prefab division.

Key rating drivers and their description

Credit strengths

Vast experience of promoters in EPS and prefab divisions – The promoters have been involved in the EPS packaging business for more than two decades and in the prefab division for more than a decade, gaining a thorough knowledge of the industry in the process. The company is a part of the Epack Group, Noida, which has interests in consumer durables, electronic manufacturing services and EPS packaging.

Established client base – The company enjoys established relationships with its customers and suppliers, which ensures repeat orders. The company supplies primarily to leading consumer durable player, LG Electronics India Private Limited (LG), in the EPS division with its plant located in close vicinity. Customers in its prefab division come from diversified industries, including Airport Authority of India and Gas Authority of India Limited from the public sector, and Hero Motocorp, Larson & Toubro, Tata Group, etc, from the private sector. The company's prefab division has been receiving repeat orders from its clients.

Favourable demand outlook across business segments – The company is expected to witness a healthy revenue growth in the prefab segment, given the continued strong order book position (~Rs. 385 crore as of January 2023) supported by a growing track record and average order size. The same has been led by favourable demand from diverse industries, supported by the

time saving benefits of the prefab over traditional structures. The company is one of the leading organised players in the EPS segment in India. The favourable outlook for the consumer durables industry, its key end-used industry, augurs well for the company's prospects.

Healthy revenue growth in FY2022 and H1 FY2023; expected to continue in near to medium term – Epack Polymers has recorded Rs. 424.7-crore revenues in 9M FY2023 with a YoY growth of ~31%, of which the prefabricated division accounted for Rs. 283.4 crore over Rs. 309.4 crore in FY2022. After adding capacities in its Rajasthan unit, the company is further expanding the capacity of its prefab division in Andhra Pradesh, which will support revenue growth. The company is expected to receive continued business from its clients in the EPS division.

Credit challenges

Moderation in credit metrics in near-to-medium term owing to debt-funded capex – The company's operations are capital intensive in nature and requires continued technology upgrades apart from moderate working capital requirements. Moreover, given the favourable demand outlook, the company has been adding capacities in both its EPS and prefab divisions. Thus, it has been availing debt for its capex plans. The company has planned substantial debt-funded capex for FY2023 and FY2024 mainly towards the new manufacturing facility in Andhra Pradesh and its existing manufacturing facilities at Ghiloth (Rajasthan) and Greater Noida (Uttar Pradesh). The company's coverage metrics stood healthy in FY2022 with interest coverage and DSCR of 6.1 times and 2.7 times, respectively. ICRA expects the company to maintain a comfortable financial profile even as the debt-funded capex will result in moderation of its credit metrics in the near-to-medium term (total debt/OPBIDTA of ~2.0–2.5 times and interest coverage of ~4.0–5.0 times in FY2023). The company's ability to ramp up its returns from the expanded integrated capacities in a timely manner will remain crucial.

Profitability vulnerable to raw material price fluctuations – In the prefab division, the company's profitability is vulnerable to fluctuations in raw material prices. While some contracts do have a price escalation clause; back-to-back arrangement for raw material (~50-60% of total requirements) procurement also mitigates the risk to an extent. The price of the key input for the EPS division is linked to crude oil. However, there are price escalation clauses, and the company can pass on the rise in input cost to most of its customers. Its OPM's has declined to 8.4% in FY2022 from 9.7% in FY2021 as the company has won new orders in the prefab division at a competitive price; however, OPM likely to stable in FY2023.

Intensely competitive industry – The EPS and prefab industries are intensely competitive due to various organised and unorganised players operating in the field. However, Epack Polymers' strong position as a leading EPS supplier to LG acts as an entry barrier in that region. The intense competition in the industry limits its pricing power and, thus, its profitability margins.

Liquidity position: Adequate

The company's liquidity position is **adequate** due to moderate buffer in working capital limits and availability of customer advances (~Rs. 32 crore as of January 2023). The company has average utilisation ~67% of the sanctioned fund-based limits during the 12-month period ending December 2022. The cash generation from business operations is expected to be sufficient to manage its working capital requirement and repayment, if any. The company has a substantial capex of ~Rs. 40-45 crore each in FY2023 and FY2024, for which debt has been tied-up with the banks.

Rating sensitivities

Positive factors – A rating upgrade would be driven by a sustained improvement in revenue while maintaining 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 4.0 times, on a sustained basis, will be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Epack 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. the company has major customers in its prefabricated structures division, such as Airport Authority of India, JSW Group, Hero Motocorp, Siemens, Larson & Toubro, and Tata Group, among others.

The promoters have interests in Epack Durable Private Limited, which manufactures ACs, induction cooktops, juicer-mixer-grinders and water dispensers for customers such as Voltas, Havells, Godrej, Whirlpool, Haier, Blue Star, and Bajaj. East India Technologies Private Limited, another Group company, also manufactures EPS and electronics parts for customers such as Samsung, Whirlpool, Schneider Electric and Panasonic, among others.

Key financial indicators (audited/provisional)

Epac Polymers standalone	FY2021	FY2022	9M FY2023*
Operating income	240.8	454.5	424.7
PAT	8.0	21.6	18.7
OPBDIT/OI	9.7%	8.4%	8.9%
PAT/OI	3.3%	4.8%	4.4%
Total outside liabilities/Tangible net worth (times)	1.2x	1.9x	-
Total debt/OPBDIT (times)	1.6x	1.9x	-
Interest coverage (times)	5.1x	6.1x	4.7x

Source: Company, *provisional financials submitted by management

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. Crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2023)			Chronology of rating history for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2019
				Feb 15, 2023	Dec 16, 2021	Nov 23, 2021	Sep 1, 2020	Mar 25, 2019
1 Cash Credit	Long Term	102.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)
2 Term Loans	Long Term	129.61	79.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)
3 Letter of Credit/Bank Guarantee	Short Term	129.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2
4 Unallocated	Long Term	-	-	-	[ICRA]A-(Stable)	-	-	[ICRA]BBB+(Stable)

Source: Company, *Rs. 49.61 crore is pending disbursement.

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Cash Credit	Simple
Long Term – Term Loans	Simple
Short Term – Letter of Credit/ Bank Guarantee	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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	102.00	[ICRA]A- (Stable)
NA	Term Loans	Apr 2020	NA	March 2027	129.61	[ICRA]A- (Stable)
NA	Letter of Credit/ Bank Guarantee	NA	NA	NA	129.00	[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not applicable

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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Branches



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