E-Pack Polymers Private Limited

January 03, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	37.50	50.53	[ICRA]BBB (Positive); Reaffirmed, Outlook revised from Stable
Non-fund Based Limits	16.50	13.00	[ICRA]A3+; Reaffirmed
Unallocated (Proposed Limits)	Nil	2.47	[ICRA]BBB (Positive); Reaffirmed , Outlook revised from Stable
Total	**54.00**	**66.00**	

Rating action:

ICRA has reaffirmed the long-term rating of [ICRA]BBB (pronounced ICRA triple B) to the Rs. 53.00-crore fund-based and proposed limits of E-Pack Polymers Pvt. Ltd. (EPPL) ICRA has also reaffirmed the short-term rating of [ICRA]A3+ (pronounced ICRA A three plus) to the Rs. 13.00-crore[1] non-fund based limits of EPPL [2]. The outlook on the long-term rating has been revised from Stable to Positive.

For arriving at the ratings, ICRA has combined the business and financial risk profiles of E-Vision (EV), E-Durables (ED) and EPPL. This is because all the three entities have common promoters and share operational synergies.

Rationale:

The ratings reaffirmation factors in the healthy capacity utilisation and improvement in the company's financial profile as reflected by healthy growth in operating income (OI) and cash accruals coupled with healthy return indicators. The Group has successfully reduced its customer concentration through addition of new customers. This, however, has been somewhat offset by deterioration in TOL/TNW and NCA/TD and low current ratio of the Group owing to high payable days. The rating is also constrained by the significant capex being undertaken by the Group over the last few years.

The rating continues to factor in the extensive experience of EPPL's promoters in expanded polystyrene (EPS) packaging, pre-fabricated structures and air conditioner assembling. The Group has a reputed client base and is one of the major suppliers to different clients such as LG Electronics India Private Limited, Voltas Ltd., Haier Appliances, Micromax, Onida, Intex etc. ICRA also notes that the Group has undertaken backward-integration initiatives like manufacturing of thermocol moulds, heat exchangers, copper tubing, sheet metals and plastic mouldings, which have resulted in marginal improvement in margins.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

The ratings, however, are constrained by the intensely competitive nature of the packaging industry owing to low entry barriers and the commoditized nature of the products, which restrict the pricing power of manufacturers. Further, in the air conditioner assembling segment, the profitability has been relatively low on account of moderate complexity of the assembling work by the firm. The ratings also factor in the susceptibility of the company's profitability to fluctuations in raw material prices in both the Prefabricated (Prefab) and EPS divisions. Further, given that sales are linked to demand and cyclicality of end-user industries, i.e. consumer durable industry, any slowdown in demand may adversely impact revenue growth and profitability. ICRA also takes note of the partnership constitution of EV and ED, which exposes it to risks of withdrawal of capital, risk of dissolution etc.

The ability of the Group to maintain its revenue growth and margins as well as maintain a strong capital structure and efficient working capital management will be the key rating sensitivities.

Outlook: Positive

ICRA believes that the topline of the Group will grow at a healthy rate owing to capacity expansion and addition of new clients. Further, the air conditioner market in India is expected to grow by 12-15% over the medium term. ICRA also notes that the company's customer diversification has reduced the risk for orders from a single client.

Key rating drivers:

Credit strengths

Experience of promoters in EPS and air conditioner assembling – The promoters and their families have been involved in manufacturing EPS and electronic-appliance assembling for more than a decade and have gained a thorough knowledge of the market. The Group has long and established relations with customers and suppliers. The major customers of the Group have also been dealing with it over the past several years.

Long relationships with reputed clientele - The Group has reputed clients, including LG Electronics India Pvt. Ltd., Voltas Ltd., Haier Appliances, Micromax, Onida, Intex Ltd. etc. As such, its counterparty credit risk remains minimal. Although the Group's revenue mainly comes from LG and Voltas, its dependence on these has reduced over the years.

Credit challenges

Higher outside liabilities result in high TOL/TNW - The gearing of the Group improved in FY2017 to 1.27 times from 1.33 times in FY2016. The net worth has increased to ~Rs. 114 crore and total debt stood at ~Rs. 145 crore. Further, TOL/TNW stood at 3.05 times as on March 31, 2017, while adjusted TOL/TNW stood at 2.95x, which was also high.

Risk in partnership constitution - The Group entities EV and ED have a partnership constitution, which exposes these to risks of capital withdrawal, dissolution etc.

Analytical approach: For arriving at the ratings, ICRA has combined the business and financial risk profiles of EPPL, EV and ED as these entities have common promoters and have operational linkages.

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

EPPL is a Noida-based company incorporated by the Bothra and Singhania families in 1999. It is an ISO 9001:2000 and ISO 14000 registered company and is mainly involved in manufacturing expanded polystyrene (EPS) thermocol products and pre-fabricated 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. Apart from this, it supplies EPS-based block thermocol to 300 dealers in different states like Delhi, Haryana, Punjab, Uttar Pradesh, Uttarakhand, Rajasthan, Himachal Pradesh and Jammu & Kashmir, from its manufacturing unit in Noida, Uttar Pradesh.

Under its Prefab division the company undertakes turnkey projects for pre-fabricated buildings, solar control rooms, cold storage rooms, pre-fabricated schools, cottages and other customised structures.

Group profile:

ED is a partnership firm incorporated in 2003. It is involved in assembling home appliances for leading consumer durables companies and also manufactures sheet metal components, induction cook tops, water dispensers and copper tubing. The firm at present has two manufacturing facilities at Dehradun (Uttrakhand).

EV is a partnership firm incorporated in 2010. It is involved in manufacturing air conditioners, plastic moulding and heat exchangers. Its manufacturing facilities are located in Dehradun.

EPPL reported a net profit of Rs. 6.53 crore on an OI of Rs. 195.65 crore in FY2017 compared with a net profit of Rs. 4.19 crore on an OI of Rs. 151.94 crore in the previous year.

On a consolidated level, the Group reported a net profit of Rs. 21.14 crore on an OI of Rs. 732.33 crore in FY2017 compared with a net profit of Rs. 15.04 crore on an OI of Rs. 665.68 crore in the previous year.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	468.68	732.33*
PAT (Rs. crore)	15.04	21.14
OPBDIT/ OI (%)	9.59%	7.61%
RoCE (%)	17.54%	20.13%
Total Debt/ TNW (times)	1.33	1.27
Total Debt/ OPBDIT (times)	2.82	2.60
Interest Coverage (times)	2.28	2.78
NWC/ OI (%)	12.81%	9.96%

***Adjusted for inter-company sales**

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
	Instrument	**Type**	**Amount Rated (Rs. crore)**	**Amount Outstanding (Rs. crore)**	**Date & Rating January 2018**	**Date & Rating in FY2017 December 2016**	**Date & Rating in FY2016 -**	**Date & Rating in FY2015 -**
1	Cash Credit	Long Term	19.00	-	**[ICRA]BBB (Positive)**	**[ICRA]BBB (Stable)**	-	-
2	Term Loans	Long Term	31.53	21.34	**[ICRA]BBB (Positive)**	**[ICRA]BBB (Stable)**	-	-
3	Letter of Credit	Short Term	13.00	-	**[ICRA]A3+**	**[ICRA]A3+**	-	-
4	Proposed Limits	Long Term	2.47	-	**[ICRA]BBB (Positive)**	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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	19.00	[ICRA]BBB (Positive)
NA	Term Loan 1	April 2015	NA	March 2020	4.20	[ICRA]BBB (Positive)
NA	Term Loan 2	April 2015	NA	March 2020	10.49	[ICRA]BBB (Positive)
NA	Term Loan 3	October 2016	NA	March 2020	6.84	[ICRA]BBB (Positive)
NA	Term Loan 4	September 2017	NA	March 2020	10.00	[ICRA]BBB (Positive)
NA	Letter of Credit	NA	NA	NA	13.00	[ICRA]A3+
NA	Proposed Limits	NA	NA	NA	2.47	[ICRA]BBB (Positive)

Source: E-Pack Polymers Pvt. Ltd.

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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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