September 01, 2020

Epack Durables Solutions Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credits	44.00	54.00	[ICRA]BBB+ (Stable); reaffirmed
Fund-based – Term Loans	46.00	38.00	[ICRA]BBB+ (Stable); reaffirmed
Non-fund Based Limits	25.00	23.00	[ICRA]A2; reaffirmed
Total	**115.00**	**115.00**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of the business and financial risk profiles of E-Pack Polymers Private Limited (E-Pack Polymers), Epack Durables Solutions Private Limited (Epack Durables) and E-Durables Prefab Private Limited (E-Durbales), which are also referred to as the Group or the Epack Group. This is because all the three entities have common promoters and share operational synergies.

The rating reaffirmation factors in the healthy growth in the Group's operating income (OI) in FY2020 (P), primarily because of the strong demand, coupled with increased capacity in the air conditioning (AC) division. However, this was accompanied with a decline in the Group's operating profit margin due to expansion of customer profile in the AC division. The Group has offered competitive pricing to new customers, which would yield higher margins in the coming years.

ICRA continues to consider the extensive experience of the promoters and the Group's established position in the consumer durables industry, expanded polystyrene (EPS) packaging, and pre-fabricated structures. The Group manufactures consumer durable products such as ACs and their parts, induction cooktops, water dispenser and juicer-mixer-grinders for other original equipment manufacturers (OEMs). The Group has a reputed client base and is one of the major suppliers to entities such as LG Electronics, Airport Authority of India (AAI), L&T Limited, Voltas Ltd., Haier Appliances, Philips India, Whirlpool India, Bajaj, Godrej, Havells India, Blue Star, etc.

The ratings, however, continue to be constrained by the intensely competitive nature of the packaging industry owing to low entry barriers and the commoditised nature of the products, which restrict the pricing power of manufacturers. Further, in the air conditioner manufacturing segment, the profitability has been relatively low on account of moderate complexity of the manufacturing work by the Group. The ratings also factor in the susceptibility of the Group's profitability to fluctuations in raw material prices in the prefabricated 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 low cushion in fund-based limits and modest debt coverage indicators with interest coverage of 2.26 times and DSCR of 1.17 times in FY2020 (P) of the Group on account the working capital-intensive nature of operations and regular capex needed to upgrade the technology.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that Group will continue to benefit from the extensive experience of its promoters, reputed customer base and its established track record in the consumer durable industry.

Key rating drivers and their description

Credit strengths

Experience of promoters in EPS and air conditioner manufacturing - The promoters and their families have been involved in manufacturing EPS, pre-fabricated structures and in manufacturing consumer durable goods for more than a decade, and have gained a thorough knowledge of the market. 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, Voltas Ltd., Haier Appliances, Philips India, Godrej, Whirlpool India, Havells India, Blue Star, AAI, etc. The Group's revenues mainly came from LG and Voltas till FY2018. However, various customers have been added in portfolio in the last two financial years.

Diversified revenue streams among EPS, prefab structures, electronic appliance manufacturing segments - The revenues are diversified into EPS, prefabricated structures, consumer durable goods manufacturing segments. The consumer durables segment contributed ~75% of revenues of the Group in FY2020 (P), followed by 15% from EPS and 10% from the prefabricated division.

High operational efficiency - Integrated operations with in-house manufacturing of components (moulds for EPS, heat exchangers, sheet metal components, copper tubing, etc.) enhances the operating efficiency among Group entities. This is reflected in the healthy return on capital employed of ~14–17% in the past four to five years.

Healthy growth in revenue supported by increased capacity - The Group's revenues grew by 38% in FY2020 (P) compared to FY2019 due to the healthy growth in AC segment. Epack Durables grew by 58%; however, E-Pack Polymers' revenues remained flat in FY2020 (P) compared to FY2019. The Group has increased production capacity in the AC segment by 50% in FY2020 to cater the healthy demand in the segment.

Credit challenges

Modest interest and debt coverage indicators - The Group's interest cover and DSCR remained modest due to the high finance cost and sizeable repayment of the term loan owing to the debt-funded capital expenditure in the recent past. The Group's finance cost is relatively high due to the substantial sales invoicing funding availed by the Group.

Risk of technological obsolescence necessitates continuous upgrade of processes and products to sustain competitive advantage - The electronic products industry is characterised by continuous product and process innovation as well as rapid adoption of new technology. Given the risk of technological obsolescence, the industry players are required to undertake continuous upgrades to sustain competitive advantage.

High TOL/TNW due to working capital nature of operations - The operations of the Group are working capital intensive in nature, which is reflected in the high working capital limit utilisation in the last one year. This has also resulted in high TOL/TNW of the Group.

Liquidity position: Adequate

The Group's liquidity position is **adequate** due to the comfortable working capital intensity. This apart, the Group has Rs. 200 crore of sales invoicing discounting and purchase order funding facilities, which it utilises against orders and receivables from its major customers, i.e. Voltas Limited, Havells India Limited, and Godrej and Boyce Mfg. Co. Ltd.

Rating sensitivities

Positive triggers - A ratings upgrade would be driven by the sustained improvement in profitability coupled with improvement in liquidity position and debt coverage indicators.

Negative triggers: 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 2 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	For arriving at the ratings, ICRA has combined the business and financial risk profiles of E-Pack Polymers, Epack Durables and E-Durables; this is because all the three companies have common promoters and share operational synergies

About the company

The Noida-based Epack Group consists of E-Pack Polymers, Epack Durables (previously known as E Vision; partnership business) and E-Durables (previously E Durables; partnership business). All the three companies are held by the Bothra and Singhania families with a shareholding 50% each. E-Pack Polymers 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 AAI, Larson & Toubro, Tata Group, etc. Epack Durables manufactures AC, induction cooktops, juicer-mixer-grinders and water dispensers for customers, such as Voltas, Havells, Godrej, Whirlpool, Haier, Blue Star, Philips, Bajaj, etc. E-Durables is a captive manufacturing unit for Epack Durables.

East India Technologies Private Limited (ETPL), 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)

	FY2019	FY2020 (P)*
Operating Income (Rs. crore)	756.74	1,041.21
PAT (Rs. crore)	18.59	20.01
OPBDITA/ OI (%)	7.64%	6.69%
PAT (%)	2.46%	1.92%
Total Outside Liabilities/Tangible Net Worth (times)	1.46x	1.18x
Total Debt/ OPBDITA (times)	3.49x	2.69x
Interest Coverage (times)	2.32x	2.26x

*Source: Company data, *provisional financial statement consolidated by ICRA*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating September 01, 2020	Date & Rating in FY2020 March 29, 2019	Date & Rating in FY2019 -	Date & Rating in FY2018 -
1	Cash Credit	Long Term	54.00	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	-	-
2	Term Loans	Long Term	38.00	38.00	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	-	-
3	Letter of Credit	Short Term	23.00	-	**[ICRA]A2**	**[ICRA]A2**	-	-

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	-	-	-	54.00	[ICRA]BBB+(Stable)
NA	Term Loans	April 2019	NA	March 2024	38.00	[ICRA]BBB+(Stable)
NA	Letter of Credit	-	-	-	23.00	[ICRA]A2

Source: Epack Durables

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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.

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