

July 06, 2023

Epac Durable 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 – Cash Credit	104.00	175.00	[ICRA]A- (Stable); reaffirmed/assigned
Fund-Based – Working Capital Demand Loan (WC DL)	-	70.00	[ICRA]A2+; assigned
Fund-based – Cash Credit/ WC DL	-	232.00	[ICRA]A- (Stable)/ [ICRA]A2+; assigned
Fund-based – Term Loans	98.00	202.49	[ICRA]A- (Stable); reaffirmed/assigned
Non-fund Based	218.00	400.00	[ICRA]A2+; reaffirmed/assigned
Total	420.00	1079.49	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation factors ICRA's expectation that Epac Durable Limited (Epac Durable) will maintain its healthy operating profile aided by a healthy order book position amid favourable outlook for the domestic room AC (RAC) industry. The company is likely to achieve healthy business growth over the medium term supported by the implementation of its capacity enhancement programme including backward integration into components manufacturing. Further, the company's operating profit margins (OPM) are expected to remain stable in the medium term on account of backward integration and economies of scale. ICRA continues to consider the extensive experience of the promoters and the company's established position in the consumer durables industry as one of the leading contract manufacturers in the RAC segment, and its relationships with various reputed Original Equipment Manufacturers (OEMs).

The ratings, however, are constrained by ICRA's opinion that the company's credit metrics will only gradually improve owing to considerable ongoing capacity expansion, which is partly debt funded as well. Moreover, the company's operations are working-capital intensive, thus resulting in growing funding requirements amid healthy business volumes. Nevertheless, given the equity infusions in the past, the company's capital structure has remained moderate. ICRA also notes that the contract manufacturing space for consumer durables is characterised by intense competition and moderate exposure to raw material price fluctuation risk.

The Stable outlook on the rating reflects ICRA's opinion that the company's market position will benefit from its capacity addition and increase in value addition enabling it to cater to the healthy demand outlook for white goods, particularly RACs. The company's ability to ramp up its profitability metrics, especially RoCE from the expanded integrated capacities in a timely manner will be crucial for improvement in its debt protection metrics and will be a key rating sensitivity.

Key rating drivers and their description

Credit strengths

Steady growth in revenue led by revival of RAC demand, expected to continue – Epac Durable has reported strong revenue (~65-70%) growth in FY2023 on account of healthy demand for RACs in the domestic market. The current healthy order book poises the company well to continue its scale expansion for the current fiscal. The demand outlook is favourable for the consumer durables industry, driven by a growing urban population and rising disposable income. The penetration level is low

in the RAC segment in India and the industry is likely to witness healthy growth in the medium to long-term. Moreover, ICRA expects operating margins for the company to remain range-bound, supported by backward integration led initiatives with a growing scale.

Established relationships with reputed clientele – The company has reputed clients, including Voltas, Haier Appliances, Philips India, Godrej, Whirlpool India, Havells India, Blue Star, etc, with whom it has established strong relationships. Majority of its revenues come from the RAC segment, mainly from Voltas, Havells, and Blue Star. However, various customers have been added to its portfolio during the last two financial years. The company has also enhanced its finished goods capacity for the non-RAC segment such as induction cooktops and mixer grinders, which would gradually lead to product-wise revenue diversity.

Experience of promoters in consumer durables industry – The promoters have been involved in manufacturing consumer durables for more than one-and-a-half decades with extensive knowledge of the market. Over the years, the company has become one of the leading players in the RAC contract manufacturing segment. The completion of the ongoing capex will further strengthen its position as a preferred contract manufacturer in the domestic RAC industry.

Credit challenges

Modest debt coverage ratios due to highly capital-intensive nature of operations – The company's operations are working capital intensive owing to high debtors and inventory requirement. Moreover, continued technology upgrades and expansion requires capex. Amid a growing scale, the company has remained dependent on external debt as evidenced by high utilisation of working capital facilities, especially towards the end of a financial year. The company's debt levels have continued to grow in FY2023. Further, the company is undertaking substantial debt-funded capex for FY2023 and FY2024 mainly towards greenfield expansion in Sricity, Andhra Pradesh. The company, thus, has sizeable debt repayment obligations in the medium term and its coverage metrics are expected to be under pressure in the near to medium term. While the company's capital has remained moderate, supported by the equity infusions, its ability to ramp up its returns from the expanded integrated capacities in a timely manner will be crucial for improvement in its debt protection metrics.

Exposure to raw material fluctuation risk – The margins are volatile owing to exposure to fluctuation in the raw material prices. However, the key raw materials, such as copper and compressor, are covered under price escalation clauses with most of its customers, which mitigates the risk to a large extent.

Intense competition in industry – The consumer durables industry is intensely competitive because of various organised and unorganised players in the field. However, the company's strong position as a contract manufacturer acts as an entry barrier. About 80-85% of the company's revenues comes from the sale of RACs and its components, whose demand is seasonal and susceptible to changes in weather conditions.

Liquidity position: Adequate

The company's liquidity position is **adequate** with a buffer in cash credit limits (average utilisation over last 15 months is ~76% of drawing power and 37% of the sanctioned limit), adequate sales invoice discounting and purchase-order-funding facilities, which are utilised against orders and receivables from its major customers, as and when required. The company also has free cash of ~Rs. 45.0 crore as of May 2023. The cash generation from its business, bill discounting facility and the buffer in cash credit would be sufficient to meet its term loan repayment obligations and working capital requirements. The company has a repayment liability of ~Rs. 29 crore in FY2024 and Rs. 37 crore in FY2025 of the existing term loans. The company also has a planned capex of ~Rs. 70-80 crore for FY2024, which is being financed by private equity funds received earlier and by term debt tied-up with the banks.

Rating sensitivities

Positive factors – A ratings upgrade would be driven by the sustained improvement in the company's scale while maintaining its profitability margin, coupled with improvement in liquidity position and debt coverage indicators.

Negative factors – The rating could be revised downwards if the company is unable to register the estimated revenue growth or if there is any major delay in ramp-up of operations from the proposed manufacturing unit, which weakens its liquidity profile. DSCR lower than 1.6 times on a sustained basis could be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has combined the business and financial risk profiles of Epack Durable and its wholly owned subsidiary, Epack Components. The two entities share a common management and strong operational synergies.

About the company

Incorporated in 1999 and based out of Noida (Uttar Pradesh), Epack Durable is a contract manufacturer of consumer durables, such as RACs, induction cooktops, juicer-mixer grinders and water dispensers for OEMs such as Voltas, Havells, Godrej, Whirlpool, Haier, Blue Star, Philips, and Bajaj, among others. The company is setting up additional integrated capacities at Sricity (Andhra Pradesh), which is expected to become operational during H1 FY2024. The company has also added further capacity in its existing Bhiwadi (Rajasthan) unit. Epack Durable has received private equity investment of ~\$40 million (approximately Rs. 320 crore) from ICICI Ventures and Affirma Capital during FY2022 and FY2023, which were largely utilised in capital expenditure during FY2022-FY2024. ICRA has noted that the company will be applying for production linked incentive (PLI) incentives for components manufactured in FY2023.

The company's promoters, the Singhanian and Bothra families, also have interests in Epack Polymers Private Limited and East India Technologies Private Limited, which are involved in manufacturing of thermocol products, prefabricated structures, and PCBs.

Key financial indicators (audited)

Epac Durable consolidated	FY2021	FY2022
Operating income	746.8	924.2
PAT	7.9	23.5
OPBDIT/OI	6.5%	7.6%
PAT/OI	1.1%	2.5%
Total outside liabilities/Tangible net worth (times)	5.3x	2.8x
Total debt/OPBDIT (times)	6.0x	5.9x
Interest coverage (times)	1.7x	3.0x

Source: Company, 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 (FY2024)			Chronology of rating history for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & rating in FY2024	Date & rating in FY2023	Date & Rating in FY2022		Date & rating in FY2021
				July 6, 2023	Dec 21, 2022	Jan 10, 2022	Nov 26, 2021	Sep 1, 2020
1 Cash Credit	Long Term	175.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
2 WCDL	Short Term	70.00	-	[ICRA]A2+	-	-	-	-
3 Cash Credit/WCDL	Long Term Short Term	232.00	-	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	-	-
2 Term Loans	Long Term	202.49	138.80	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
3 Letter of Credit/BG/BC	Short Term	400.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2
4 Unallocated	Long term	-	-	-	-	[ICRA]BBB+ (Positive)	-	-

Source: Company, *outstanding as on May 31, 2023

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Cash Credit	Simple
Short Term – WCDL	Simple
Long Term and Short Term – Cash Credit/WCDL	Simple
Long Term – Term Loan	Simple
Short Term – Letter of Credit/BG/BC	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	175.00	[ICRA]A- (Stable)
NA	WCDL	NA	NA	NA	70.00	[ICRA]A2+
NA	Cash Credit/WCDL	NA	NA	NA	232.00	[ICRA]A- (Stable)/ [ICRA]A2+
NA	Term Loans	March 2022	NA	Sep 2028	202.49	[ICRA]A- (Stable)
NA	Letter of Credit/BG	NA	NA	NA	400.00	[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

Company Name	Ownership	Consolidation Approach
Epac Durable Private Limited	NA*	Full consolidation
Epac Components Private Limited	100%	Full consolidation

Source: Company; *parent company

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About ICRA Limited:

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Branches



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