

October 25, 2024

Epack Durable Limited: Long-term rating upgraded to [ICRA]A (Stable) and short-term rating reaffirmed; assigned for enhance amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund Based - Cash Credit	175.00	-	-
Long term & Short Term – Fund Based - Cash Credit/ Working Capital Demand loan (WCDL)	232.00	276.00	[ICRA]A (Stable)/ [ICRA]A2+; Long-Term Ratings Upgraded from [ICRA]A- (Stable) and Short-Term Ratings Reaffirmed; assigned for Enhance amount
Short Term –Fund Based - Working Bill Discounting/WCDL	70.00	290.00	[ICRA]A2+; Reaffirmed; assigned for enhance amount
Long Term - Fund Based - Term Loan	202.49	77.11	[ICRA]A (Stable); Ratings Upgraded from [ICRA]A- (Stable)
Short Term - Non-fund Based	400.00	600.00	[ICRA]A2+; Reaffirmed; assigned for enhance amount
Total	1,079.49	1,243.11	

*Instrument details are provided in Annexure-I

Rationale

ICRA's long-term rating upgrade for Epack Durable Limited (EDL) factors in its strengthening financial profile on account of an improvement in its capital structure and debt protection metrics following sizeable equity infusion with its successful initial public offer (IPO). This is further expected to help EDL implement its growth plans and address working capital needs, going forward. The rating upgrade also factors in ICRA's expectation that EDL will report strong revenue and earnings growth in FY2025 on the back of strong demand of room air conditioners (RAC) in the domestic market. EDL has already reported a ~77% revenue growth on a YoY basis in Q1 FY2025. ICRA expects the momentum to sustain over the rest of the fiscal. Moreover, implementation of its capacity enhancement programme, including backward integration into components manufacturing, is expected to support future growth and enable the company to largely sustain its operating profit margin (OPM). Additionally, the ratings continue to factor in the extensive experience of the promoters and the company's established position as one of the leading contract manufacturers in the RAC segment, and its relationships with various reputed consumer durable companies.

The ratings, however, are constrained by the capital-intensive nature of EDL's operations, resulting in higher funding requirements amid healthy business growth. Sizeable investments in recent years towards capacity expansion have led to some moderation in the company's return indicators. However, the same are expected to improve over the near-to-medium term, aided by expected scale-up of operations, while largely maintaining the profit margins. The ratings also factor in the intense competition of the industry, which coupled with contract manufacturing nature of operations led to moderate operating margins for EDL. Additionally, the company's margins remain susceptible to the volatility in raw material/component prices and foreign exchange risks. However, these risks are mitigated to an extent given the pass-through clauses available with key clients and adoption of selective hedging policies. As 80-85% of the revenue is generated from the RAC segment, EDL's operations remain exposed to the inherent seasonality in the business. Nonetheless, ICRA has noted the company's initiatives to enhance its non-RAC business revenues, which are expected to have a material impact on segment-wise diversity over the medium term. Given the equity infusions in the past along with the IPO proceeds, the company's capital structure has improved significantly in FY2024.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will benefit from its established market position, capacity addition and increase in value addition, enabling it to cater to the healthy demand for white goods, particularly RACs.

Key rating drivers and their description

Credit strengths

Established track record and healthy market share in domestic RAC industry – EDL, a part of the Noida based Epack Group, manufactures home appliances such as RACs, juicer mixer grinder, induction cook top, water dispenser etc., for various domestic and global original equipment manufacturers (OEM) and brands on a contract basis. The company has also expanded its product profile with the addition of room coolers in recent times. The promoters have been involved in manufacturing consumer durables for more than 15 years with extensive knowledge of the market. Over the years, the company has emerged as one of the leading players in the RAC contract manufacturing segment. Moreover, the completion of the ongoing capex will further strengthen its position as a preferred contract manufacturer in the domestic RAC industry.

Long relationships with key clients – EDL's client base include reputed consumer durable companies, including Voltas, Haier Appliances, Philips India, Godrej, Whirlpool India, Havells India, Blue Star, etc. The company has long relationships with its key clients, resulting in repeat business and supporting revenue growth over the years. While the major portion of its revenues comes from the RAC segment, mainly from Voltas, Havells, Godrej and Blue Star, EDL has added some new clients in the past year. Moreover, the company has enhanced its finished goods capacity for the non-RAC segment, which includes induction cooktops and mixer grinders. The same would gradually lead to higher product and client diversity.

Strengthening of the financial risk profile – EDL's financial profile has strengthened mainly on account of increasing earnings and equity infusion of ~Rs. 400 crore from its recently concluded IPO. The equity infusion has improved the capital structure significantly on account of a healthy increase in the net worth base and reduced its debt by prepaying them out of the IPO proceeds. The company has also ~Rs. 230 crore for undertaking capex, to be incurred in FY2025 and FY2026, out of the IPO proceeds. Hence, any term debt addition is unlikely in the near term. EDL's gearing and TOL/TNW improved to 0.4 times and 1.0 times, respectively in FY2024 against 2.2 times and 3.7 times, respectively in FY2023. Its Total debt/OPBDITA also improved significantly to 3.3 times in FY2024 from 6.5 times in FY2023. The debt protection metrics are expected to improve further with an increase in earnings and limited debt addition.

Favourable outlook for the Indian AC Industry supports long-term growth prospects – Structural drivers such as rising temperature levels, growing need for number of RACs per household, increasing urbanisation, higher disposable income and easier consumer financing options are set to drive the long-term industry growth prospects. Besides, replacement demand with rising preference for energy-efficient models, given the increasing usage and energy costs, continued to be a crucial factor. ICRA expects the Indian RAC industry volumes to grow by 20-25% YoY to reach the highest ever level of 12-12.5 million in FY2025. In line with the same, EDL has reported a ~77% YoY revenue growth in Q1 FY2025 and is expected to post strong revenue growth in FY2025.

Credit challenges

High capital intensive nature of operations – EDL's operations are working capital intensive owing to high debtors and inventory requirement. Moreover, continued technology upgrades and expansion require capex as well. Amid a growing scale, the company has remained dependent on working capital debt, especially towards the end of a financial year. However, the debt addition will be relatively limited, going forward, owing to healthy cash generation from business and quicker realisation from its customers. EDL has reported some reduction in its receivable cycle in FY2024, limiting the reliance on external borrowings to some extent. Additionally, the company has earmarked ~Rs. 230 crore out of the IPO proceeds, which would be sufficient to fund the planned capex for FY2025 and FY2026.

Moderate profit margins and return indicators due to contract nature of manufacturing and high competition in the industry – EDL's profit margins are moderate due to the contractual nature of work, wherein the contract manufactures have limited

pricing power. The company passes on the increase or decrease in raw material prices to most of the customers, as inherent in the contract manufacturing business. Industry participants, including EDL, require constant investment in product innovation and capacity addition, in line with the plans of OEMs, which generate returns only in a gradual manner, which keeps the return indicators at moderate level. Besides, the consumer durables industry is intensely competitive because of the presence of various organised and unorganised players. However, the company's strong position as a contract manufacturer acts as an entry barrier. Also, 80-85% of the company's revenues comes from the sale of RACs and its components, demand of which is seasonal and susceptible to changes in weather conditions. Nonetheless, the company is focused on widening its product portfolio to mitigate this risk to some extent.

Exposure to forex fluctuation risks and raw material volatility to an extent – EDL's margins remain susceptible to fluctuations in raw material prices. However, the key raw materials/components, such as copper and compressor, are covered under price escalation clauses with most of its clients, which largely mitigates the risk. Moreover, EDL is exposed to the forex risk because of sizeable import of raw materials/components. However, presence of a selective hedging policy mitigates the risk to an extent.

Exposed to inherent seasonality and intense competition in RAC business – The Indian RAC industry is seasonal wherein a large part of the revenue is derived during summer only. Conducive summer sales and performance of key markets like North India (which contributes 35-40% to industry sales) remain crucial for the industry. This apart, the RAC industry is marked by intense competition due to presence of many players.

Environmental and Social Risks

Environmental considerations – RACs manufacturers remain exposed to tightening Government regulations, because of the transition towards a low carbon economy and a consequent push towards energy-efficient products. This may require higher investments towards meeting the evolving and tighter regulatory standards. However, the company is actively working on improving energy efficiency.

Social considerations – EDL has healthy dependence on human capital with technological expertise. Thus, retaining human capital and maintaining healthy relationships with employees and suppliers remain essential for disruption-free operations for the entity. The social risk pertaining to demographics and consumer trend remains generally low, given the increasing demand for air conditioners. The company's ability to execute orders and onboard new clients also depend on its ability to attract, train, motivate and retain highly skilled professionals, particularly at the managerial levels.

Liquidity position: Adequate

EDL's liquidity position is **adequate** with average buffer Rs. 45-50 crore in cash credit limits while maintaining adequate sales invoice discounting facilities, which are utilised against orders and receivables from its major customers, as and when required. The company also maintains free cash of Rs. 20.0-25.0 crore. 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. EDL has a repayment liability of ~Rs. 32 crore in FY2025 and Rs. 29 crore in FY2026 of the existing term loans. The company also has a planned capex of Rs. 200-250 crore for FY2025 and FY2026, which will be largely funded by IPO proceeds of Rs. 230 crore, earmarked for this purpose.

Rating sensitivities

Positive factors – The ratings upgrade for the company would be driven by a sustained improvement in scale while maintaining its profit margin, coupled with strengthening of the liquidity position and debt coverage indicators.

Negative factors – The ratings could be downgraded if the company reports a significant decline in revenue and earnings, or if there is any major delay in ramp-up of operations from the Bhiwadi and Sricity manufacturing units, which weakens its liquidity profile. Specific credit metrics that could exert pressure on the ratings include TOL/TNW of more than 1.5 times on a sustained basis.

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 consolidated financial statement of EDL

About the company

Incorporated in 1999 and based out of Noida (Uttar Pradesh), EDL is a contract manufacturer of consumer durables such as RACs, induction cooktops, juicer mixer grinders, water dispensers, room coolers and washing machines for OEMs such as Voltas, Havells, Godrej, Whirlpool, Haier, Godrej, Blue Star, Philips, and Bajaj, among others. The company's first manufacturing facility is in Dehradun, Uttarakhand. It has recently set up an integrated manufacturing facility at Sricity (Andhra Pradesh), which has become operational in Q4 FY2024. Before this, the company established its second manufacturing facility in Bhiwadi (Rajasthan), which became operational in FY2023. EDL is also eligible for production-linked incentive (PLI) benefits. The company's equity shares have been listed on BSE and NSE since January 2024.

EDL'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 thermocol products, prefabricated structures, and printed circuit boards.

Key financial indicators

EDL – Consolidated	FY2023	FY2024	Q1 FY2025*
Operating income	1,538.8	1,419.6	773.7
PAT^	32.8	36.8	23.4
OPBDIT/OI	6.9%	8.2%	6.7%
PAT/OI	2.1%	2.6%	3.0%
Total outside liabilities/Tangible net worth (times)	3.7x	1.0x	-
Total debt/OPBDIT (times)	6.5x	3.3x	-
Interest coverage (times)	3.4x	3.0x	3.7x

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. Crore, ^limited unaudited results, ^before income/losses from joint ventures/associates, Note: All financial ratios as per ICRA's calculation

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years						
		Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long Term	-	-	-	06-Jul-2023	[ICRA]A-(Stable)	21-Dec-2022	[ICRA]A-(Stable)	10-Jan-2022	[ICRA]BBB+(Positive)
									26-Nov-2021	[ICRA]BBB+(Positive)
Term Loans	Long Term	77.11	25-Oct-2024	[ICRA]A (Stable)	06-Jul-2023	[ICRA]A-(Stable)	21-Dec-2022	[ICRA]A-(Stable)	10-Jan-2022	[ICRA]BBB+(Positive)
									26-Nov-2021	[ICRA]BBB+(Positive)
Cash Credit/WCDL	Long Term/Short Term	276.00	25-Oct-2024	[ICRA]A (Stable)/[ICRA]A2+	06-Jul-2023	[ICRA]A-(Stable)/[ICRA]A2+				
WCDL	Short Term	290.00	25-Oct-2024	[ICRA]A2+	06-Jul-2023	[ICRA]A2+				
Letter of Credit/BG/BC	Short Term	600.00	25-Oct-2024	[ICRA]A2+	06-Jul-2023	[ICRA]A2+	21-Dec-2022	[ICRA]A2+	10-Jan-2022	[ICRA]A2
									26-Nov-2021	[ICRA]A2
Unallocated	Long Term	-	-	-	-	-	-	-	10-Jan-2022	[ICRA]BBB+(Positive)

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund Based - Cash Credit	Simple
Long term & Short Term – Fund Based - Cash Credit/WCDL	Simple
Short Term –Fund Based - Working Capital Demand loan (WCDL)	Simple
Long Term - Fund Based - Term Loan	Simple
Short Term - Non-fund Based	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	Term Loans	Mar 2022	-	Sep 2028	77.11	[ICRA]A (Stable)
NA	Cash Credit/ WCDL	-	-	-	276.00	[ICRA]A (Stable)/ [ICRA]A2+
NA	WCDL				290.00	[ICRA]A2+
NA	Letter of Credit/BG				600.00	[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 Limited	NA*	Full consolidation
Epavo Electricals Private Limited	26%	Equity method

Source: Company, *parent company

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