

February 04, 2025

Epack Petrochem Solutions Private Limited: [ICRA]BBB- (Stable)/ [ICRA]A3; assigned

Summary of rating action

| Instrument [^] | Current rated amount (Rs. crore) | Rating action |
|---|-------------------------------------|---|
| Long Term – Fund Based – Cash Credit | 20.00 | [ICRA]BBB- (Stable); assigned |
| Long Term – Fund Based – Term Loans | 68.58 | [ICRA]BBB- (Stable); assigned |
| Short Term – Non Fund Based – Letter of Credit | 35.00 | [ICRA]A3; assigned |
| Short Term – Non Fund Based – Letter of Credit – Interchangeable* | (9.00) | [ICRA]A3; assigned |
| Long Term/Short Term – Unallocated | 16.06 | [ICRA]BBB- (Stable)/ [ICRA]A3; assigned |
| Total | 139.64 | |

[^]Instrument details are provided in Annexure; *sublimit of Cash Credit

Rationale

The ratings assigned to Epack Petrochem Solutions Private Limited (Epack Petrochem /the company) factor in its promoter's extensive experience of over two decades in the expanded polystyrene (EPS) packaging business and the company's backward integration into manufacturing EPS resin beads in Epack Petrochem. These beads serve as the key raw material for producing EPS thermocol packaging products. The ratings also take into account the offtake arrangement with Group companies Epack Prefab Technologies Limited (Epack Prefab¹) and East India Technologies Private Limited (East India²), which together have an established presence of more than two decades in the EPS packaging business.

Epack Prefab and East India, as principal off-takers, together account for 60-70% of Epack Petrochem's sales. ICRA expects the trend to continue, thereby largely mitigating offtake risk for Epack Petrochem. ICRA also notes that Epack Petrochem has reported a steady ramp-up in operations, with ~Rs. 41 crore in revenue in the three months up to December 2024. The company is expected to achieve Rs. 100-120 crore in revenue for FY2025, with a significant increase to ~Rs. 250 crore in FY2026 —the first full year of the company's operations — supported by a favourable demand outlook for the industry. This apart, there will be operational synergy among the Epack Group companies in terms of lead time optimisation to procure EPS resin beads, improving pricing efficiency pricing and saving on logistics expenses.

The ratings, however, are constrained by the modest financial profile during the initial phase of operations due to the recent large debt-funded capex for setting up the project and some minor delays in its commercialisation. The ratings also consider the company's limited track record operations and low profitability in the initial phase due to the high fixed overhead expenses. The entity's profitability is vulnerable to fluctuation in raw material prices, in case of any sharp movement in input prices over a short period, given the intensely competitive nature of the industry.

The Stable outlook on the long-term rating reflects ICRA's opinion that Epack Petrochem will report strong revenue growth and earnings over the near term, supported by a healthy demand outlook, steady offtake from key customers and the Group's established presence in the EPS packaging business.

¹ Rated at [ICRA]A (Stable)/ [ICRA]A2+

² Rated at [ICRA]BBB (Stable)/ [ICRA]A3+

Key rating drivers and their description

Credit strengths

Established operational track record of Group and extensive experience of promoters in EPS packing industry – The promoters and their families have been involved in the EPS packaging business for more than two decades. Epack Prefab and East India have established market and customer base in the business. The company has been supplying EPS packaging materials to reputed customers in the consumer durables industry.

Offtake arrangement with Group companies provides healthy revenue visibility – Epack Petrochem has ~ 48,000 metric tons (MT) of annual production capacity of EPS resin beads. Epack Prefab and East India have been procuring EPS resin beads from other domestic suppliers and are now procuring the same from Epack Petrochem. At optimal capacity utilisation, Epack Petrochem is expected to produce 40,000-45,000 MT, with 60-70% to be consumed by Epack Prefab and East India, ensuring healthy revenue visibility for the company.

Favourable demand outlook for EPS packaging industry – EPS packaging industry's demand outlook is favourable, which is closely linked with the growth of the consumer durable industry, which is the largest consumer of EPS packaging materials. Epack Prefab and East India have a strong clientele comprising all the key original equipment manufacturers (OEMs) in the consumer durable industry, including LG Electronics India Private Limited, Samsung India Electronics Private Limited, Daikin Airconditioning India Private Limited, Whirlpool India Private Limited, Havells India Limited, Haier Appliances India Private Limited and Panasonic India Private Limited, reflecting its ability to cater to large customers in the segment.

Credit challenges

Modest credit risk profile due to recent debt funded capex and high fixed overheads during initial phase – Epack Petrochem's credit risk profile is modest due to high debt-funded capex and elevated fixed expenses during the first year of operations. The project cost was ~Rs. 92 crore, out of which ~Rs. 69 crore was funded through term debt and the balance from equity infusion. Also, a delay in commercial production by 4-5 months further strained the company's operational and credit profile. However, there has been a healthy ramp-up of operations on account of large offtake by the Group companies, which will result in gradual improvement of its operational profile and debt protection metrics.

Profitability vulnerable to raw material price fluctuations – The profitability is vulnerable to fluctuation in raw material prices, in case of any sharp movement in input prices within a short period. Epack Petrochem passes on increased input costs to customers, although with a time lag. The selling price and raw material prices are closely monitored by customers.

Intense competition in industry – The EPS industry is intensely competitive due to various organised and numerous unorganised players in the field. However, the Group's strong position as a leading EPS supplier to many reputed OEMs acts as an entry barrier.

Liquidity position: Adequate

Epack Petrochem's liquidity position is adequate, supported by expected improvement in cash flows from operations and ~Rs. 10 crore in buffer in cash credit limit. While cash generation from the business is moderate during the initial phase of operations, support from promoters is expected to provide funding support for timely servicing of debt and interest payments and additional working capital requirements. Epack Prefab has extended Rs. 4 crore of interest-bearing unsecured loan, which will be repayable after six years, along with an additional Rs. 6 crore of funding support in the form of advance to suppliers. This apart, the promoters are resourceful and are expected to provide funding support in a timely manner if required. The company does not have any major large debt-funded capex plans over the next few years.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of a healthy ramp-up in revenues and earnings of the company, along with improvement of the liquidity position on a sustained basis. Specific credit metrics for ratings upgrade include interest coverage over 3.0 times on a sustained basis.

Negative factors – The ratings could witness downward revision in case there is a prolonged delay in the ramping up of operations, leading to pressure on the revenue growth, earnings, debt protection metrics and liquidity position.

Analytical approach

| Analytical approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | Corporate Credit Rating Methodology |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | Standalone |

About the company

Epack Petrochem is part of the Noida-based Epack Group and operates a manufacturing facility in Dahej, Gujarat, where it commenced commercial production in October 2024. The company manufactures EPS resin beads, a key raw material used in the production of EPS thermocol packaging products.

The company's promoters also have interests in Epack Durable Limited (EDL), which manufactures room air conditioners, induction cooktops, juicer-mixer-grinders, water coolers and water dispensers for leading brands, such as Voltas, Havells, Godrej, Whirlpool, Haier, Blue Star, Philips, and Bajaj. Epack Prefab is involved in the manufacturing of EPS thermocol products and prefabricated structures. Another Group company, East India also manufactures EPS and electronic parts for customers such as Samsung, Whirlpool, Schneider Electric, and Panasonic.

Key financial indicators (audited)

| Epac Petrochem - Standalone | FY2023 | FY2024 |
|--|--------|--------|
| Operating income | - | - |
| PAT | (0.0) | (0.1) |
| OPBDIT/OI | - | - |
| PAT/OI | - | - |
| Total outside liabilities/Tangible net worth (times) | 3.1 | 14.6 |
| Total debt/OPBDIT (times) | - | - |
| Interest coverage (times) | - | - |

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Current year (FY2025) | | | Chronology of rating history for the past 3 years | | | | | | | |
|------------------------------------|-----------------------|--------------------------|-----------------------------|---|--------|--------|--------|--------|--------|--------|--------|
| | Type | Amount rated (Rs. crore) | 4-Feb-2025 | FY2025 | | FY2024 | | FY2023 | | FY2022 | |
| | | | | Date | Rating | Date | Rating | Date | Rating | Date | Rating |
| Cash Credit | Long term | 20.00 | [ICRA]BBB-(Stable) | - | - | - | - | - | - | - | - |
| Term Loans | Long term | 68.58 | [ICRA]BBB-(Stable) | - | - | - | - | - | - | - | - |
| Letter of Credit | Short Term | 35.00 | [ICRA]A3 | - | - | - | - | - | - | - | - |
| Letter of Credit (Interchangeable) | Short Term | (9.00) | [ICRA]A3 | - | - | - | - | - | - | - | - |
| Unallocated | Long term/Short Term | 16.06 | [ICRA]BBB-(Stable)/[ICRA]A3 | - | - | - | - | - | - | - | - |

Complexity level of the rated instruments

| Instrument | Complexity indicator |
|--|----------------------|
| Long Term – Fund Based – Cash Credit | Simple |
| Long Term – Fund Based – Term Loans | Simple |
| Short Term – Non Fund Based – Letter of Credit | Very simple |
| Short Term – Non Fund Based – Letter of Credit – Interchangeable | Very simple |
| Long Term/Short Term – Unallocated | Not applicable |

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 | 20.00 | [ICRA]BBB- (Stable) |
| NA | Term Loans | Mar 2024 | 8.75% - 9.20% | Sep 2030 | 68.58 | [ICRA]BBB- (Stable) |
| NA | Letter of Credit | NA | NA | NA | 35.00 | [ICRA]A3 |
| NA | Letter of Credit (Interchangeable) | NA | NA | NA | (9.00) | [ICRA]A3 |
| NA | Unallocated | NA | NA | NA | 16.06 | [ICRA]BBB- (Stable)/ [ICRA]A3 |

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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