

March 31, 2024

Epack Polymers Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	102.00	147.00	[ICRA]A- (Stable); reaffirmed, assigned for enhanced amount
Long-term – Fund-based – Term Loans	129.61	147.61	[ICRA]A- (Stable); reaffirmed, assigned for enhanced amount
Short-term – Non-fund Based – LC/BG	129.00	166.00	[ICRA]A2+; reaffirmed, assigned for enhanced amount
Total	360.61	460.61	

*Instrument details are provided in Annexure-I

Rationale

The ratings factor in ICRA's expectation of healthy earnings profile of Epack Polymers Private Limited (Epack Polymers) in FY2024 and FY2025 supported by strong order inflow in the prefabricated structure (prefab) division. The ratings consider the favourable demand outlook for both the business segments of the company, namely, prefab as well as expanded polystyrene (EPS) where the company has a long track record of supplying to a leading consumer durable manufacturer.

The ratings, however, continue to be constrained by the intense competition, given the tender-based nature of the prefab business. The ratings also factor in the susceptibility of the company's profitability to fluctuations in raw material prices, primarily in the prefab division. The company is in the process of adding capacities at its various plants, which has been partly debt funded resulting in moderate credit metrics. ICRA expects a gradual improvement in credit metrics in line with the generation of returns from these investments.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that Epack Polymers will be able to improve its accruals given the healthy demand outlook across its business segments and growing capacities in its prefab division.

Key rating drivers and their description

Credit strengths

Vast experience of promoters in EPS and prefab divisions – The promoters have been involved in the EPS packaging business for more than two decades and in the prefab division for more than a decade, gaining a thorough knowledge of the industry in the process. The company is a part of the Epack Group, Noida, which has interests in consumer durables, electronic manufacturing services and thermocol packaging. The company has been building capacities across both divisions, which has been supporting the company's growth.

Established client base; diversified clientele in prefab business – The company enjoys established relationships with its customers and suppliers, which ensures repeat orders. The company's EPS division supplies primarily to leading consumer durable player, LG Electronics India Private Limited (LG), from its plant located near that of the client. Customers in its prefab division come from diversified industries, including the public and private sectors. The company's prefab division has also been receiving repeat orders from its clients.

Favourable demand outlook across business segments – The company is expected to witness a healthy revenue growth in the prefab segment, given the continued strong order book position (~Rs. 689 crore as of January 2024) supported by a growing track record and average order size. The same has been led by favourable demand from diverse industries, supported by the time saving benefits of the prefab over traditional structures. The company is one of the leading organised players in the EPS segment in India. The favourable outlook for the consumer durables industry, its key end-user industry, augurs well for the company's prospects.

Healthy revenue growth in FY2023 and 11M FY2024; expected to continue in near to medium term – Epack Polymers has reported ~45% revenue growth in FY2023 on account strong growth of its prefab business. The company has reported further increase in revenue to Rs. 810.6 crore in 11M FY2024, which is a ~44% YoY growth over Rs. 561 crore in 11M FY2023. The prefab vertical has received healthy orders worth Rs. 689 crore, to be executed by July 2024; hence, the healthy growth trend is expected to continue into FY2025 as well. Consequently, the company's earnings growth has also been healthy even though margins have been range-bound.

Credit challenges

Debt-funded capex kept credit metrics at moderate levels – The company's operations are capital intensive in nature and requires continued technology upgrades. Moreover, given the favourable demand outlook, the company has been adding capacities in both its EPS and prefab divisions. Thus, it has been availing debt for its capex plans, and fund and non-fund based limits for its working capital needs. The company has planned substantial debt-funded capex for FY2024 and FY2025 mainly towards the new prefab manufacturing facility in Mambattu (Andhra Pradesh) and some upgradation in its EPS division at Greater Noida (Uttar Pradesh). The company's coverage metrics moderated in FY2023 with interest coverage and DSCR of 4.3 times and 1.6 times over 6.1 times and 2.7 times, respectively, in FY2022. Additional debt-funded capex will keep the credit metrics at moderate levels in the near-to-medium term (total debt/OPBIDTA of ~2.0–2.5 times and interest coverage of ~4.0–5.0 times in FY2024 and FY2025). TOL/TNW increased to 2.3 times in FY2023 from 1.9 times in FY2022 on account of increased term debt and creditors. The company's ability to ramp up its returns from the expanded integrated capacities in a timely manner will, thus remain crucial.

Profitability vulnerable to raw material price fluctuations – The prefab division's profitability is vulnerable to fluctuations in raw material prices as well as competitive intensity. While some contracts do have a price escalation clause; back-to-back arrangement for raw material (~50-60% of total requirements) procurement also mitigates the risk to an extent. The price of the key input for the EPS division is linked to crude oil. However, there are price escalation clauses, and the company can pass on the rise in input cost to most of its customers. Thus, fluctuations are witnessed in the company's operating margins and the same are expected to be range-bound, depending on the revenue mix.

Intensely competitive industry – The EPS and prefab industries are intensely competitive due to various organised and unorganised players in the field. However, Epack Polymers' strong position as a leading EPS supplier to LG acts as an entry barrier. The intense competition, particularly in the prefab industry, limits its pricing power and, thus, its profitability.

Liquidity position: Adequate

The company's liquidity position is **adequate** with sufficient limits sanctioned for the current scale of operations along with growing cash flow from operations. The company maintains a buffer of Rs. 10-15 crore in cash credit limit and Rs. 15-20 crore in the current account/free fixed deposit. The company also receives ~10-20% advance from customers, and as of January 2024, the company had ~Rs. 59 crore of interest free advances from customers. The promoters have infused a Rs. 28-crore unsecured loan in February 2024 to fund the ongoing capex and working capital requirement. The company also has term debt sanction ~Rs. 45 crore against the proposed capex of ~Rs. 60-65 crore in FY2025. The company has also been receiving enhancement in bank funding, as and when needed. The majority of working capital requirement is addressed through letter of credit (LC) backed creditors and bank guarantee (BG) offered for mobilisation advances in the prefab division, thus availability of this funding remains crucial.

Rating sensitivities

Positive factors – A rating upgrade would be driven by a sustained improvement in revenue while maintaining healthy profitability margins and strong financial profile.

Negative factors – 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 4.0 times, on a sustained basis, will be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Epack Polymers, a part of the Epack Group, established in 1999, 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. the company has major customers in its prefabricated structures division, such as Airport Authority of India, JSW Group, Hero Motocorp, Siemens, Larson & Toubro, and Tata Group, among others. The company's manufacturing facilities are in Greater Noida (Uttar Pradesh), Ghiloth (Rajasthan) and Mambattu (Andhra Pradesh).

The promoters have interests in Epack Durable Limited (EDL), manufactures room air conditioners, induction cooktops, juicer-mixer-grinders, water coolers and water dispensers for customers, such as Voltas, Havells, Godrej, Whirlpool, Haier, Blue Star, Philips, and Bajaj. Another company, East India Technologies Private Limited (EITPL) also manufactures EPS and electronic parts for customers such as Samsung, Whirlpool, Schneider Electric, and Panasonic. EITPL manufactures printed circuit boards (PCBs) from its electronic manufacturing services (EMS) division.

Key financial indicators (audited/provisional)

Epac Polymers standalone	FY2022	FY2023	9MFY2024*
Operating income	454.5	657.4	620.3
PAT	21.6	24.4	24.8
OPBDIT/OI	8.4%	7.8%	8.4%
PAT/OI	4.8%	3.7%	4.0%
Total outside liabilities/Tangible net worth (times)	1.9	2.3	-
Total debt/OPBDIT (times)	1.9	2.1	-
Interest coverage (times)	6.1	4.3	4.1

Source: Company, *provisional financials submitted by management

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
				Mar 31, 2024	Feb 15, 2023	Dec 16, 2021	Nov 23, 2021	Sep 01, 2020
1 Cash Credit	Long Term	147.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2 Term Loans	Long Term	147.61	105.01	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
3 Letter of Credit/Bank Guarantee	Short Term	166.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
4 Unallocated	Long Term	-	-	-	-	[ICRA]A- (Stable)	-	-

Source: Company, *as on Dec 31, 2023.

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/Bank Guarantee	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	147.00	[ICRA]A- (Stable)
NA	Term Loans	Apr 2023	NA	March 2029	147.61	[ICRA]A- (Stable)
NA	Letter of Credit/ Bank Guarantee	NA	NA	NA	166.00	[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 – Not applicable

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