

## Weener Empire Plastics Private Limited

February 21, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Working capital limits	45.50	15.00	[ICRA]BBB+&; reaffirmed
Term loans	19.21	11.62	[ICRA]BBB+&; reaffirmed
Bank Guarantee	0.50	2.50	[ICRA]A2+&; reaffirmed
Letter of credit		0.50	[ICRA]A2+&; reaffirmed
Forward contract		0.50	[ICRA]A2+&; reaffirmed
Proposed NCD		200	[ICRA]BBB+&; assigned
<b>Total</b>	<b>65.21</b>	<b>230.12</b>	

\*Instrument details are provided in Annexure 1  
& placed on rating watch with developing implication

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) outstanding on the Rs. 30.12 crore<sup>1</sup> (reduced from Rs. 64.71 crore) fund-based facilities and the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) outstanding on the Rs. 3.50-crore (enhanced from Rs. 0.50 crore) non-fund based bank facilities of Weener Empire Plastics Private Limited (WEPL/the company)<sup>2</sup>. ICRA has also assigned a long-term rating of [ICRA]BBB+ to the Rs. 200 crore proposed non-convertible debentures (NCD) of the company. The ratings continue to be on rating watch with developing implications.

### Rationale

The ratings continue to be on rating watch with developing implications, given that the company is looking to use the fresh proceeds from the proposed NCD for inorganic acquisition, and the actual valuation will finally determine the concrete funding requirement. Moreover, ICRA will also be evaluating the final terms of the structure as well as impact on the financials of WEPL, at a standalone as well as consolidated level.

The said acquisition is expected to fuel growth for the company, however, the large debt funded acquisition plans are likely to put stress on the capital structure and debt protection metrics in the near to medium term. Nevertheless, the indicative favourable repayment terms and low coupon rate is expected to provide some level of comfort. ICRA will hence continue to closely monitor developments in this regard and take an appropriate rating action after assessing the impact on the credit profile once further clarity emerges on these matters.

The reaffirmed/assigned ratings also continue to favourably consider WEPL's long operating track record in the plastic bottles and caps manufacturing industry, and its reputed customer base, especially in the cosmetics, pharmaceutical and confectionery industries. The ratings also continue to draw comfort from the presence of its strong parentage support of Weener Plastic Packaging Group (WPPG) of Germany, one of the established global players in the sector who renders technological and financial assistance to WEPL.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit strengths

**Presence of strong parentage of WPPG of Germany, one of the established global players in the business, to benefit WEPPL in terms of technical and financial assistance** – WEPPL is a 99.9% owned subsidiary of Weener Plastik GmbH, which is a stepdown subsidiary of WPPG, a full service global supplier of innovative plastic packaging solutions, with a strong focus on the functionalities dispensing, containing and closing. WEPPL has received extensive support from WPPG in terms of technical assistance to keep the machineries in tandem with the latest technology as well as financial assistance in terms of low interest rate loans being extended by the Group with a view to expand the scale of operations.

**Vast experience of the promoters in the field of manufacturing plastic bottles and caps** - The promoters of WEPPL have longstanding experience in the business of manufacturing plastic bottles and caps. Further, the company has a professionally qualified management with vast experience in the plastic packaging industry. In addition, the operations are overseen by its German parent, who has deployed representatives in India for the same.

**Reputed customer profile across diverse industry segments like cosmetics, confectionary and pharmaceuticals reduces sector specific risks** – WEPPL mainly caters to the domestic market and has established a reputed clientele, primarily in the pharmaceutical, cosmetics and confectionery sectors, which has been widening in the past few years. The contribution from the top five customers reduced to 19% in FY2017, as against 42% in FY2016 mainly on account of WEPPL's efforts to diversify its customer base and acquire new customers due to its association with WPPG.

### Credit weaknesses

**Large debt funded acquisition plans (NCD route) is likely to put stress on the capital structure and debt protection metrics in the near to medium term; however, indicative favourable repayment terms and low coupon is expected to provide some comfort** - WEPPL has proposed to issue listed NCDs of Rs. 213.40 crore in Rupee, which will be subscribed by WPPG at a coupon rate of 2.50%. The major portion of the said issue will be used to purchase equity shares of the target company and the balance to refinance the loans of the target company. Given the large debt funded acquisition, the company's capital structure and debt protection metrics are expected to be stretched in the near to medium term. Nevertheless, the favourable repayment terms (bullet repayment) and low coupon rate are expected to provide some level of comfort.

**Profitability exposed to volatility in raw material prices with key raw material being crude oil derivatives; however, company mitigates this risk to some extent by monthly and quarterly price revisions** - The margins of the company remain exposed to the movement in raw material prices, which have displayed volatility in the past, being crude oil derivatives. WEPPL, however, revises its pricing on a monthly or quarterly basis and thus is able to protect its margins to some extent. Further, the company has been able to limit the fluctuations in the operating profitability in the last three years by varying its sales commissions as well as its promotion expenses.

**Intense competition, given the highly fragmented nature of the industry** - The plastic bottles and caps manufacturing industry is characterised by limited entry barriers and a high degree of competition from a large number of small unorganised sector players, organised sector as well as competition from overseas. However, WEPPL's preferred supplier status among its reputed customers and the presence of the strong parentage of WPPG, Germany, who is a global player in this industry; provide a competitive advantage to the incumbents.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

## About the company:

Weener Empire Plastics Private Limited was set up in July 1995 as Empire Plastics Ltd., and was subsequently renamed as Weener Empire Plastics Limited with the merger of Empire Plastics Ltd. (EPL) and Zeena Plastics Ltd. (ZPL) with effect from April 1, 2007. In December 2013, Weener Plastic Packaging Group (WPPG) of Germany purchased the shares of the Indian promoters in WEPPL, thereby increasing its stake from 30.9% to 99.3%, which further increased to 100% in FY2015. The company was converted to a private limited entity in 2015.

WEPPL is involved in the manufacturing of plastic bottles and caps, mainly for cosmetic and pharmaceutical products. The company currently has two factories at Silvassa (Dadra and Nagar Haveli), one at Dehradun (Uttarakhand), and one each at Tarapur (Maharashtra), Baramati (Maharashtra), and Umbergaon (Gujarat).

In FY2017, the company reported a net profit after tax of Rs. 4.30 crore on an operating income of Rs. 202.60 crore, as compared to a net profit after tax of Rs. 5.21 crore on an operating income of Rs. 188.97 crore in the previous year.

## Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	188.97	202.60
PAT (Rs. crore)	5.21	4.30
OPBDIT/ OI (%)	12.85%	13.71%
RoCE (%)	10.68%	9.59%
Total Debt/ TNW (times)	0.81	0.86
Total Debt/ OPBDIT (times)	2.55	2.49
Interest coverage (times)	3.39	3.67
NWC/ OI (%)	23%	26%

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

		Current Rating (FY2018)				Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating		Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015		
				Feb 2018	Jan 2018	Feb 2017	Oct 2015	Jul 2014		
1	Cash credit	15.00	-	[ICRA]BBB+&	[ICRA]BBB+&	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)		
2	Term loan 1	5.84	5.03	[ICRA]BBB+&	[ICRA]BBB+&	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)		
3	Term loan 2	5.78	4.26	[ICRA]BBB+&	[ICRA]BBB+&	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)		
4	Non-fund based limits	3.50	-	[ICRA]A2+&	[ICRA]A2+&	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+		
5	Proposed NCD	200	-	[ICRA]BBB+&						

**& placed on rating watch with developing implication**

### 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](http://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	-	-	-	15.00	[ICRA]BBB+&
NA	Term loan 1	2016	11.10%	2021	5.84	[ICRA]BBB+&
NA	Term loan 2	2015	10.60%	2019	5.78	[ICRA]BBB+&
NA	Bank Guarantee	-	-	-	2.50	[ICRA]A2+&
NA	Letter of credit	-	-	-	0.50	[ICRA]A2+&
NA	Forward contract	-	-	-	0.50	[ICRA]A2+&
NA	Proposed NCD	-	-	-	200	[ICRA]BBB+&

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Source: WEPPL

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