Ester Industries Limited

Instrument	Amount (In Rs Crore)	Rating Action
Term Loans	134.00 (reduced from Rs 162.71 crore)	Reaffirmed at [ICRA]BBB. Outlook revised from Negative to Stable
Long-term Fund based Limits	60.00 (enhanced from Rs 50.00 crore)	Reaffirmed at [ICRA]BBB. Outlook revised from Negative to Stable
Short-Term Fund-based Limits	90.00 (enhanced from Rs 85.00 crore)	Reaffirmed at [ICRA]A3+
Short-term Non-Fund based Limits	126.00 (enhanced from Rs 104.00 crore)	Reaffirmed at [ICRA]A3+
Long-term/ Short-term unallocated Limits	Nil* (reduced from Rs 8.29 crore)	Reaffirmed at [ICRA]BBB and [ICRA]A3+. Outlook on long term rating revised from Negative to Stable

** Long-term/Short term unallocated limits of Rs 8.29 Crore have been absorbed in current bank facilities*

ICRA has reaffirmed the rating assigned to the Rs. 410.0 Crore* bank limits of Ester Industries Limited (EIL) at long term rating of [ICRA]BBB (pronounced ICRA triple B)† and short-term rating of [ICRA]A3+ (pronounced ICRA A three plus). The Outlook on the long-term rating is revised from Negative to Stable.

The revision in outlook takes into account the significant scale up in the volumes of the high margin speciality polymer business which is expected to buffer the profitability from the vagaries of the highly fragmented PET films sector. Additionally the margins in the PET films business have improved significantly from the lows of FY12 and FY13 driven by healthy demand growth, though the domestic PET film market scenario is expected to remain modest owing to persistent surplus in the domestic PET film industry in the medium term. Any large capacity additions in the domestic industry could dent the recovery of margins as the operations of the company are domestically concentrated in comparison to some geographically diversified players in the industry. Besides the revision in outlook, the ratings reaffirmation factors in adequate liquidity position as reflected by low utilisation levels of fund-based limits despite low profitability in 2014-15. Lower than anticipated margins leading to pressure on its liquidity position will be a key rating sensitivity in this regard.

The ratings continue to be constrained by the cyclicality inherent in the domestic and global packaging film industry. The ratings, however, continue to factor in fairly long track record of EIL in the polyester film business; locational advantages like access to low cost grid power, use of alternative feedstock like rice husk, and proximity to major markets in northern India; and favourable demand outlook for PET films over the long-term driven by increasing consumerism, fast growing retail sector, changing lifestyle and rising demand from the rural sector.

Incorporated in 1985, Ester Industries Limited (EIL) is engaged in the manufacture of polyester films, polyester chips and engineering plastics. The manufacturing facilities of EIL are located in Khatima (Uttarakhand). Mr. Arvind Singhania, current Chairman of EIL, his family members and the promoter group companies hold 72.1% of the company's equity; while 0.1% is held by institutions including financial institutions (FIs) and 27.8% is held by the public. As on March 31, 2015, the company's manufacturing capacities stood at 107,000 metric tonnes per annum (MTPA) for Poly Ethylene

* 100 lakh = 1 crore = 10 million

† For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications

Terephthalate (PET or polyester) chips; 57,000 MTPA for polyester films; 13,200 MTPA for metalized films; and 16,500 MTPA for engineering plastics..

Production quantity of PET film for the company increased from 42846 MT in FY2014 to 43788 MT in FY2015 in line with healthy demand growth. Besides, the company focused on improving margins by manufacturing higher proportion of value added film in FY15. In line with increased in film sales, PET chips production also increased to 65,243 MT in FY15 from 62,732 MT in FY14. During FY15, Engineering Plastics business registered a material sales volume growth of approximately 21%, from 9509 MT in FY14 to 11510 MT in FY15. This growth was result of new products as well as increased customer base. The capacity of the engineering plastics division increased from 14400 MTPA to 16500 MTPA due to installation of new extruder.

The sales volumes of the speciality polymer business of the company were lower than FY14 resulting in lower than expected sales of speciality polymer division. The sales of speciality polymer resin were lower at 1237 MT in FY15 as against 2037 MT in FY14 due to the longer than expected approval time with customers for these polymers. However with approvals now in place, the sales in the first four months of FY16 were 1520 MT and the management expects sales of about 4000 MT in FY16. The realisation of speciality polymer chips is much higher than standard PET chips with lower incremental cost. The significant scale up in the volumes of the high margin speciality polymer business is expected to buffer the profitability from the vagaries of the highly fragmented PET films sector.

The sales of the company declined from Rs 919 Crore in FY14 to Rs 888 Crore in FY15. The decline in revenues was primarily due to decline in crude oil and petrochemical prices. The margins were stable at 8.1% in FY15 as against 8.0% in FY14. The other income of the company declined due to forex losses in FY15 as against forex gains in FY14. Additionally higher depreciation and interest expenses led to lower net profits of Rs 3.8 crore in FY15 as against Rs 8.4 crore in FY14. Due to lower profitability the return indicators also declined with RoCE declining from 8.77% in FY14 to 7.19% in FY15 and RoNW declining from 3.29% in FY14 to 1.46% in FY15. In Q1 FY16 the net sales of the company declined by 10% yoy to Rs 209 crore due to decline in the price of crude oil and its derivatives; however the operating profits increased by 26.3% owing to improved margins of PET films and scale up in the sales volumes of speciality polymers. Accordingly the net profits increased from Rs 1.8 crore in Q1 FY15 to Rs 3.8 crore in Q1 FY16. The debt of the company increased from Rs 301.9 Crore as on March 31, 2014 to Rs 327.3 Crore as on March 31, 2015 due to increase in working capital borrowings and long term debt. Total debt consists of Rs 168.1 Crore of term loan and Rs 159.2 Crore of working capital debt. The gearing remained stable at 1.22 times as on March 31, 2015 as against 1.17 times as on March 31, 2014. With lower profitability, the interest coverage of the company declined to 1.95 times in FY15 from 2.13 times in FY14 and NCA/TD of the company declined marginally from 12% in FY14 to 11% in FY15.

Going forward, realization levels and thus contribution margins of the company are expected to remain subdued due to surplus capacities in the domestic market. However increasing volumes of speciality polymer business are expected to aid the profitability. Notwithstanding near term loan repayments, the debt levels of EIL may not materially decrease due to increase in working capital borrowings and new term loans to be raised for the capex plans. However, the capital structure of the company is expected to remain at moderate level. Further, liquidity of the company is expected to remain comfortable with cushion available in the form of un-utilised fund based working capital limits. Lower than anticipated profitability levels leading to pressure on its liquidity position and debt protection metrics will be a key rating sensitivity.

September 2015

For further details, please contact:
<u>Analyst Contacts:</u>
Mr. K. Ravichandran, (Tel. No. +91-44-45964301)
ravichandran@icraindia.com

<u>Relationship Contacts:</u>
Mr. Vivek Mathur (Tel. No. +91-124-4545310)
vivek@icraindia.com

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: **9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: **9821086490** Email: shivakumar@icraindia.com 1802, 18th Floor, Tower 3, Indiabulls Finance Centre, Senapati Bapat Marg, Elphinstone, Mumbai 400013, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: **9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Bangalore** **Mr. Jayanta Chatterjee** Mobile: **9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: **989986490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: **989986490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 99, CTS 3909, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: **9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	