September 14, 2017

Ester Industries Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Term Loans	95.00 (reduced from127.32)	Reaffirmed at [ICRA]BBB-, Outlook revised to Negative from Stable
Long Term-Fund Based Limits	60.00	Reaffirmed at [ICRA]BBB-, Outlook revised to Negative from Stable
Short Term-Fund Based Limits	90.00	Reaffirmed at [ICRA]A3
Short Term-Non Fund Based Limits	126.00	Reaffirmed at [ICRA]A3
Long Term/Short Term Un-allocated Limits	Nil (reduced from 6.68)	-
Total	**371.00**	

**Instrument details are provided in Annexure-1*

Rating action

ICRA has reaffirmed the long term rating for Rs 371.0 crore bank line (reduced from Rs. 410 crore earlier) of Ester Industries Limited (EIL) at [ICRA]BBB- (pronounced ICRA triple B minus). The outlook on the long term rating has been revised to "Negative" from "Stable". ICRA has also reaffirmed the short term rating for the bank lines of EIL at [ICRA]A3 (pronounced ICRA A three).

Rationale

The revision in outlook factors in high repayment liabilities for the company in the medium term which along with modest profitability could put pressure on debt protection metrics. The revision in outlook also takes into account material deterioration in the profitability of EIL during FY2017 reducing its liquidity cushion for debt servicing. The profitability was adversely impacted in FY2017 owing to significant decline in the contribution from Polyethylene Terephthalate (PET) film business and contraction of the Specialty Polymer (SPM) segment during the year. The profitability from PET film segment is expected to remain modest owing to low realisation and contribution levels due to overcapacity in the domestic and export markets; however, domestic supply-demand scenario could moderately improve as no major capacity additions are expected in the near term. Nevertheless, the SPM segment could continue to face pressure on the profitability and is not expected to generate adequate returns for the company in the near term.

The ratings continue to take comfort from the established presence of the company in the PET film business and long experience of the management. The company is not expected to undertake any major capex in the near term. Besides, the company is taking various steps to improve liquidity position of the company through fresh long-term loans with moratorium and infusion of promoters' funds. The credit profile of the company may deteriorate in case of delays in raising such funds and would be a key rating sensitivity.

Key rating drivers

Credit strengths

- **Long track record and experience of the management in PET Films business**: Ester has been in the business of manufacturing PET films since 1988. EIL has increased its PET film capacity in a phase-wise manner and is also engaged in manufacturing of Engineering Plastics.
- **Location related advantages provide some support to the cost structure:** Ester's plant is located in Khatima which provides certain locational advantages like access to low cost power, access to alternative energy sources like rice husk and access to northern markets which are major demand centre for PET films.
- **Anticipated moderation in surplus capacity in domestic BOPET film capacity:** Domestic PET film industry is presently in a capacity surplus state due to significant capacity additions that have undertaken in last few years. However, no major capacity additions are expected for next one to two years in the domestic industry. Thus, the surplus capacity situation is expected to moderate over the near to medium term, which should support realisations and margins for the industry.

Credit weaknesses

- **Weakening financial profile characterized by weak profitability:** EIL's profitability has been under pressure as the profitability of the PET film segment has been under pressure due to surplus capacity in the industry while SPM segment has turned loss making due to less than anticipated volume offtake. Overall, the company reported a net loss of Rs.10.9 crore in FY2017 against modest net profit of Rs. 4.6 crore in FY2016.
- **Debt protection metrics under pressure; support from un-utilised bank limits and expected promoter loans:** Due to deterioration in profitability and material repayment burden, the credit protection metrics of the company deteriorated in FY2017. Going forward, EIL has to meet large repayment obligations in FY2018 and FY2019, which may lead to further pressure on debt protection metrics in view of anticipated moderate profitability in FY2018. However, the liquidity cushion from un-utilised bank limits, company's efforts to raise fresh long-term loans with moratorium and infusion of promoters' funds will provide support to the debt servicing capabilities of the company.
- **Weakness in Specialty polymer segment to continue in near term:** Specialty polymer segment has witnessed significant deterioration in its performance from H2 FY2017 onwards as there was less than expected off-take by the clients. The performance of the segment is expected to remain significantly inferior to earlier expectations and hence would not generate adequate returns.

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: Incorporated in 1985, Ester Industries Limited (EIL) is engaged in the manufacture of polyester films, polyester chips including speciality polymer and engineering plastics. The manufacturing facilities of EIL are located in Khatima (Uttarakhand). Mr. Arvind Singhania is the current Chairman of EIL. As on March 31, 2016, the company's manufacturing capacities stood at 107,000 metric tonnes per annum (MTPA) for Poly Ethylene Terephthalate (PET or polyester) chips; 57,000 MTPA for polyester/PET films; 13,200 MTPA for metalized films; and 16,500 MTPA for engineering plastics.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	770.8	706.9
PAT (Rs. crore)	4.6	-10.9
OPBDIT/ OI (%)	9.3%	6.0%
RoCE (%)	7.3%	2.9%
Total Debt/ TNW (times)	0.97	0.96
Total Debt/ OPBDIT (times)	3.9	6.3
Interest coverage (times)	2.0	1.3
NWC/ OI (%)	25%	25%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	**Instrument**	**Current Rating (FY2018)**			**Chronology of Rating History for the past 3 years**			
		Type	**Amount Rated (Rs. crore)**	**Date & Rating**	**Date & Rating in FY2017**		**Date & Rating in FY2016**	**Date & Rating in FY2015**
				September 2017	**November 2016**	**August 2016**	**October 2015**	**June 2014**
1	Term Loan	Long Term	95.0	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)
2	Long Term-Fund Based Limits	Long Term	60.0	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)
3	Short Term-Fund Based	Short Term	90.0	[ICRA]A3	[ICRA]A3	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
4	Short Term-Non Fund Based	Short Term	126.0	[ICRA]A3	[ICRA]A3	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
5	Long Term/Short Term-Unallocated	Long Term/Short Term	0.0	[ICRA]A3	[ICRA]A3	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+

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

Annexure-1

Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan 1	Jan-2010	12.30%	Mar-2019	6.5	[ICRA]BBB- (Negative)
-	Term Loan 2	Feb-2014	12.30%	Mar-2019	11.4	[ICRA]BBB- (Negative)
-	Term Loan 3	Mar-2015	12.30%	Dec-2019	10.0	[ICRA]BBB- (Negative)
-	Term Loan 4	Aug-2010	12.45%	Mar-2019	6.4	[ICRA]BBB- (Negative)
-	Term Loan 5	Mar-2015	12.45%	Mar-2020	5.0	[ICRA]BBB- (Negative)
-	Term Loan 6	Jun-2010	12.15%	Mar-2019	7.3	[ICRA]BBB- (Negative)
-	Term Loan 7	Aug-2010	12.30%	Mar-2019	6.5	[ICRA]BBB- (Negative)
-	Term Loan 8	Sep-2013	12.30%	Jun-2019	4.4	[ICRA]BBB- (Negative)
-	Term Loan 9	Aug-2013	12.30%	Jun-2018	1.9	[ICRA]BBB- (Negative)
-	Term Loan 10	Aug-2010	12.45%	Mar-2019	7.6	[ICRA]BBB- (Negative)
-	Term Loan 11	Sep-2016	12.30%	Aug-2021	8.1	[ICRA]BBB- (Negative)
-	Term Loan 12	Mar-2016	11.75%	Mar-2021	20.0	[ICRA]BBB- (Negative)
-	Cash Credit	-	-	-	60.0	[ICRA]BBB- (Negative)
-	Short Term Fund Based	-	-	-	90.0	[ICRA]A3
-	Short Term Non Fund Based	-	-	-	126.0	[ICRA]A3

Source: The company

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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